

## Strong performance of piping division...

Astral reported consolidated revenue growth of 9% YoY in Q2FY20 slightly lower than our estimate mainly on account of a decline in revenue of adhesive segment by ~10% YoY. However, piping segment (standalone) recorded strong revenue growth of 14% led by volume growth of ~17% YoY (including Rex, volume growth was higher at 27% YoY). The strong volume growth came on the back of strong demand of CPVC, PVC pipes along with ~8% YoY price hike in the CPVC pipe category. The management guided for strong volume growth in the piping segment (I-direct estimate: volume CAGR of 22%) for FY19-21E led by higher plant utilisation of Rex business and sustained demand of plumbing pipes. With EBITDA margin in the range of 15-16%, we believe Astral will record strong PAT CAGR of ~35% in FY19-21E.

## Strong volume growth, price hikes drive piping business

The company reported standalone revenue growth of 14% YoY led by 17% volume growth (~27% including Rex business) in Q2FY20. The company took a price hike of 8% in the CPVC products categories. Anti dumping duty by the Government of India on CPVC resin import from China and Korea impacted ~40% of total CPVC supplies, which resulted in higher CPVC resins prices during Q2FY20. The company's Rex business recorded revenue of ₹ 38 crore, slightly below our estimates mainly due to floods in Maharashtra. On the adhesive front, lower topline is attributable to change in distribution strategy (changing from three-tier to two-tier distribution strategy). According to the management, Rex, Resinova (adhesive business) business would get streamlined from H2FY20 onwards with improved utilisation. Hence, we model consolidated revenue CAGR of ~22% led by piping, adhesive segment revenue CAGR of 25%, ~15%, respectively.

## Price hikes drive gross margin during Q2

The gross margin of the company increased ~500 bps YoY mainly due to price hike in the CPVC segment and recovery in prices of PVC during Q2FY20. The management has reiterated that while CPVC resins prices are likely to remain firm in the near term, PVC prices witnessed some correction at the start of October 2019. We model increase in EBITDA margin by 100 bps in FY19-21E led by price hikes and operating leverage (with increase in plant utilisation in both piping and adhesive segments).

## Valuation & Outlook

We model revenue, earning CAGR of ~22%, ~35%, respectively, in FY19-21E led by volume growth, recovery in EBITDA margin. Though we believe in strong fundamentals of APTL coupled with intact demand outlook (led by government push on housing & infra sectors), the current price discounts all near term positives. We maintain **HOLD** rating on the stock.

### Key Financial Summary

₹ crore	FY17	FY18	FY19	FY20E	FY21E	(CAGR FY19-21E)
Net Sales	1894.7	2106.0	2507.3	2985.8	3743.7	22.2
EBITDA	263.8	316.8	384.9	487.8	620.6	27.0
EBITDA Margin (%)	13.9	15.0	15.4	16.3	16.6	
Net Profit	144.6	175.7	197.3	272.6	357.0	34.5
EPS (₹)	9.6	11.7	13.1	18.1	23.7	
P/E(x)	118.7	97.7	87.0	63.0	48.1	
Price/book value (x)	20.3	16.9	13.5	11.2	9.3	
Mcap/sales (x)	9.1	8.1	6.8	5.7	4.6	
RoE (%)	17.2	17.3	15.5	17.8	19.2	
RoCE (%)	21.3	23.0	20.8	22.2	25.4	

Source: Company, ICICI Direct Research



### Particulars

Particular	Amount
Market Cap (₹ Crore)	17,160.4
Debt (FY19) (₹ Crore)	193.5
Cash&Inv (FY19) (₹ Crore)	94.2
EV (₹ Crore)	17,259.7
52 week H/L	1265/ 683
Equity capital (₹ Crore)	12.0
Face value (₹)	1.0

### Key Highlights

- Pipe business reported 17% increase in volume, 27% including Rex business
- Resinova going through structural change from 3 Tier to 2 Tier distribution marketing system
- Adhesive business to register double digit growth from H2HY20 onwards
- Maintain target price of ₹ 1275 with HOLD rating on stock

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**Exhibit 1: Variance Analysis**

	Q2FY20	Q2FY20E	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	Comments
Revenue	678.3	700.5	625.4	8.5	606.6	11.8	Revenue growth in piping segment was partially offset by lower than expected performance in adhesive segment. As a result, overall revenue growth came in at ~9% YoY
Other Income	3.0	4.3	4.5	-33.9	6.8	-55.9	
Raw Material Exp	410.6	448.3	402.8	1.9	380.1	8.0	Benefit of higher realisation in the CPVC segment and recovery in the PVC prices helped sharp gain in gross margin by ~500 bps YoY
Cost of traded goods	5.7	7.0	12.2	-53.2	7.8	-26.9	
Employee Exp	47.3	37.8	33.9	39.4	43.1	9.7	
Other expenditure	95.7	99.5	82.2	16.4	82.5	16.0	
EBITDA	119.0	107.9	94.3	26.2	93.1	27.8	
EBITDA Margin (%)	17.5	15.4	15.1	246 bps	15.3	220 bps	EBITDA Margin expansion was largely led by better gross margin
Depreciation	27.2	24.8	20.9	30.1	24.4	11.5	
Interest	8.9	10.0	13.6	-34.4	7.3	21.9	
PBT	85.9	77.3	64.4	33.4	68.2	26.0	Better EBITDA margin coupled with saving in interest rate resulted strong growth in PBT
Total Tax	3.4	20.1	18.6	-81.7	20.2	-83.2	Transition to new corporate tax rate led decline in tax outgo
Profit from associates	-0.2	-0.7	-0.7	-72.2	-0.2	0.0	
PAT	82.3	56.5	45.1	82.6	47.8	72.2	
<b>Key Metrics</b>							
Plastic	528.4	529.9	459.8	14.9	456.4	15.8	Standalone volume (excl Rex) was higher at ~17% YoY largely on a low base of same period last year. The company has also taken cumulative price hike of 8% during Q2FY20
Adhesive	149.9	170.6	165.6	-9.5	150.2	-0.2	Change in distribution strategy (elimination of one layer of distribution) impacted sales growth of Adhesive segments

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	3,059.6	2985.8	(2.4)	3,698.2	3743.7	1.2	We have slightly cut our revenue growth estimate for adhesive segment from 18% to 15% in FY19-21E considering the recent performance. Hence consolidated revenue likely to grow at CAGR of 22% supported by piping segment which is likely to grow at CAGR of ~25% in FY19-21E
EBITDA	482.4	487.8	1.1	611.0	620.6	1.6	
EBITDA Margin %	15.8	16.3	54bps	16.5	16.6	8bps	Margin may remain elevated supported by higher utilisation of newly commenced plants, restructuring of distribution strategy and better gross margin through price hikes going forward
PAT	259.0	272.6	5.2	366.0	357.0	(2.5)	Tweaked PAT estimates due to higher depreciation charges and lower other income
EPS (₹)	17.2	18.1	5.2	24.3	23.7	(2.5)	

Source: Company, ICICI Direct Research

**Exhibit 3: Assumptions**

	Current				Earlier		Comments
	FY18	FY19E	FY20E	FY21E	FY20E	FY21E	
Plastic Piping	-0.8	17.6	23.8	25.7	26.1	24.6	Piping segment revenue CAGR of 25% in FY19-21E would be largely driven by ~22% volume growth during the same period (including Rex)
Adhesive	4.5	16.2	0.7	25.8	20.6	23.4	We have tweaked our estimate for FY20E considering decline in segment revenue by ~4% YoY during H1FY20. We model revenue CAGR of 13% in FY19-21E

Source: Company, ICICI Direct Research

## Conference Call takeaway

### Overall business

- Pipe business witnessed strong volume growth of 27% YoY (Inc Rex) while excluding Rex the piping business volume increased by 17% YoY
- On the pricing front, CPVC prices during the period remained firm during the period due to anti-dumping duty by the government. However, PVC prices have witnessed slight reduction in prices during the start of October 2019
- The management has taken price hike of 3% in August'19 and 5% in September 2019
- The management has given a guidance of a healthy volume growth above 15% for FY20. The H1FY20 volume growth (including Rex) were higher at 33% YoY
- The company is confident of sustaining EBIDTA margin of 15% for FY20
- The company has been receiving projects for Rex pipe. The business is growing slowly & steadily.
- Ghiloth plant is now settled & operating at 65% efficiency & is catering to the North & East India markets. The company is planning further expansion of the Ghiloth plant to manufacture various other piping products
- The company has added CPVC valve in the new product category which would start distributing from Q3FY20
- Company's new plant at Odisha likely to commence operation from FY21 onwards
- The Management has guided for CAPEX of ₹125-150 crore for FY20, out of which ₹ 100 crore would be capacity expansion and ~₹ 20 crore would be solar roof top project which would save power cost for the company

### Rex Polyextrusion

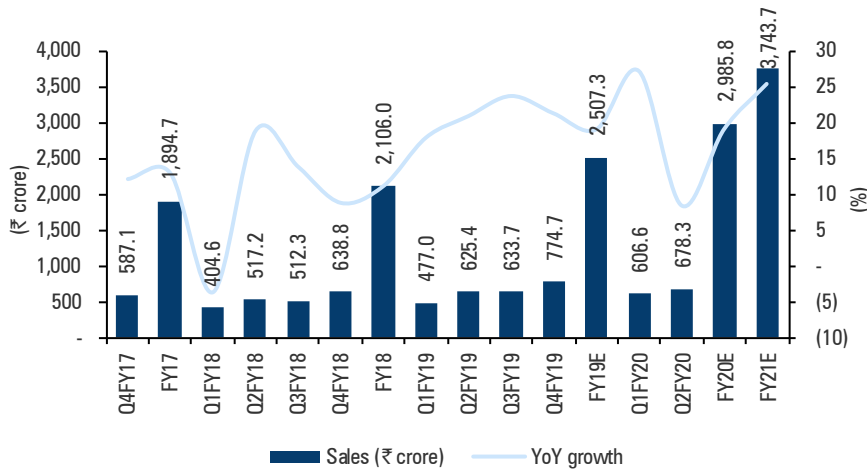
- Rex volume growth on a QoQ impacted due to floods in the various location of Maharashtra
- Topline revenue was at ~₹ 37 crore with a volume of 2823 MT
- Rex has acquired land at Sangli for expanding the capacity of corrugated pipes
- The present installed capacity of Rex is 30,000 MT

### Resinova Chemie Ltd

- Resinova undergoing parallel corrections & structural change from 3-tier distribution to 2-tier distribution. The company expects good growth from Q3FY20 onwards. Company is likely to attain revenue growth of ~15% in H2FY20
- Structural changes would lead to increase in margins, which would be partly passed on to distributors, thus increasing sales as well as margins

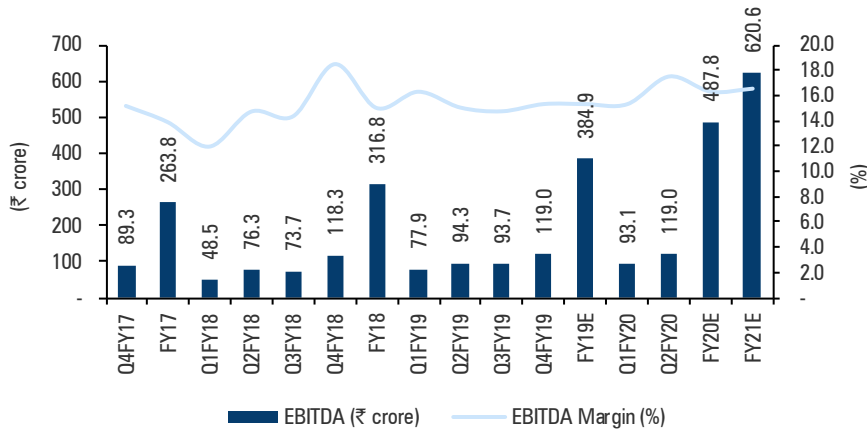
## Financial story in charts

Exhibit 4: Strong sales growth led by volume



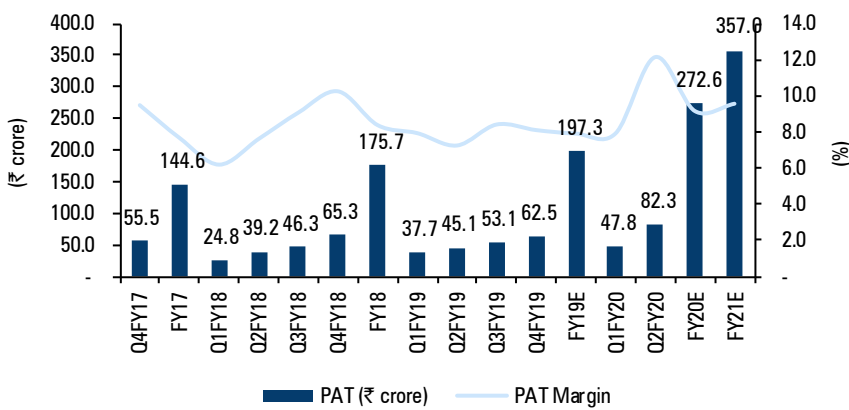
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin to remain at elevated level



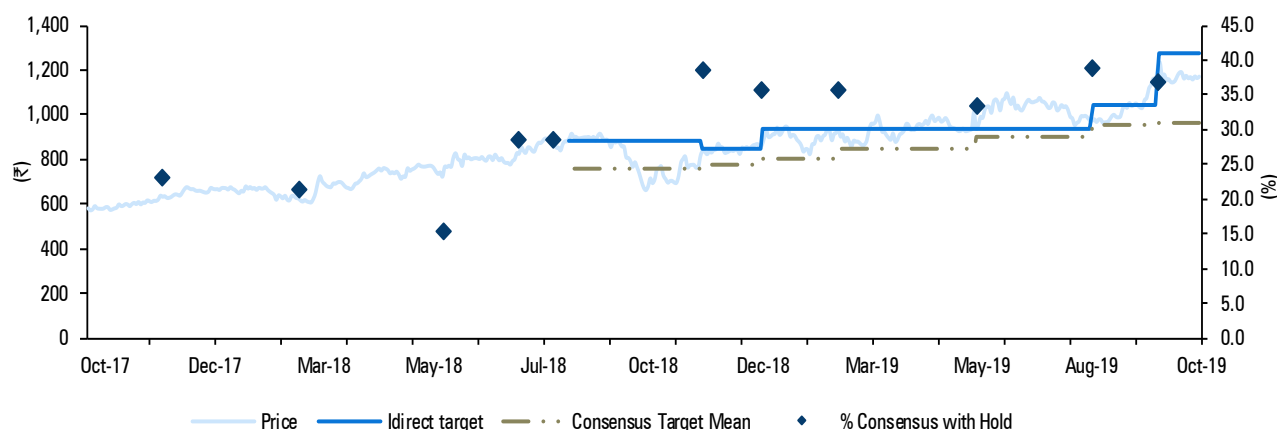
Source: Company, ICICI Direct Research

Exhibit 6: Strong PAT growth, going forward



Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S Position (m)	Change (m)
1	Engineer (Sandeep Pravinbhai)	19-Sep-19	31.4	47.3
2	Saumya Polymers, L.L.P.	20-Sep-19	9.9	14.8
3	IIFL Inc	19-Sep-19	9.1	13.7
4	Engineer (Jagruti Sandeep)	19-Sep-19	7.6	11.4
5	Specialty Process, L.L.C.	19-Sep-19	4.9	7.4
6	Axis Asset Management Company Limited	19-Sep-19	3.2	4.8
7	UTI Asset Management Co. Ltd.	30-Sep-19	2.9	4.4
8	DF International Partners	19-Sep-19	2.3	3.4
9	Tree Line Advisors (Hong Kong) Ltd	19-Sep-19	2.2	3.3
10	Kairav Chemical Pvt. Ltd.	19-Sep-19	2.0	3.0

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

Buys			Sells		
Investor name	Value(m)	Shares(m)	Investor name	Value(m)	Shares(m)
HDFC Asset Management Co., Ltd.	10.4	0.6	Saumya Polymers, L.L.P.	-61.3	-3.6
Reliance Nippon Life Asset Management Limited	4.1	0.2	Parikh (Vijay)	-5.8	-0.4
UTI Asset Management Co. Ltd.	3.6	0.2	Dandekar (Chandrashekhar)	-2.6	-0.2
The Vanguard Group, Inc.	2.1	0.1	Calamos Advisors LLC	-1.2	-0.1
BNP Paribas Asset Management India Pvt. Ltd.	1.4	0.1	Axis Asset Management Company Limited	-1.2	-0.1

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Promoter	58.5	58.5	58.5	58.1	55.7
FII	20.8	21.1	21.9	19.6	22.6
DII	6.4	6.0	5.7	6.1	7.5
Others	14.3	14.4	13.9	16.2	14.2

Source: Company, ICICI Direct Research

## Financial Summary

Profit and loss statement				
₹ crore				
Year end March	FY18	FY19	FY20E	FY21E
Net Sales	2106.0	2507.3	2985.8	3743.7
YoY (%)		19.1	19.1	25.4
Other income	12.7	15.4	18.5	21.3
<b>Total Revenue</b>	<b>2118.7</b>	<b>2522.7</b>	<b>3004.3</b>	<b>3765.0</b>
Expenditure				
Cons of raw material	1338.0	1608.0	1862.3	2321.1
Pur. of traded goods	45.4	39.7	30.5	37.4
Employee cost	106.5	139.1	190.5	240.4
Other expenses	299.4	335.5	414.7	524.1
Total expenses	1789.2	2122.4	2498.0	3123.1
<b>EBITDA</b>	<b>316.8</b>	<b>384.9</b>	<b>487.8</b>	<b>620.6</b>
YoY (%)		21.5	26.7	27.2
Interest	21.6	32.0	47.4	43.4
PBDT	307.9	368.4	458.9	598.6
Depreciation	57.1	81.4	104.5	119.8
Profit before tax	250.8	287.0	354.4	478.8
Total Tax	72.5	86.1	78.3	118.2
PAT before MI	178.3	200.9	276.2	360.5
Exc. Items	-2.7	-3.6	-3.6	-3.6
<b>PAT</b>	<b>175.7</b>	<b>197.3</b>	<b>272.6</b>	<b>357.0</b>
YoY (%)		12.3	38.1	31.0

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
₹ crore				
Year end March	FY18	FY19	FY20E	FY21E
Equity Capital	12.0	12.0	15.1	15.1
Reserve and Surplus	1006.3	1265.7	1519.7	1844.0
Total Shareholders funds	1018.3	1277.7	1534.8	1859.1
Total Debt	123.0	193.5	213.5	133.5
Other Non Current Liabilitie	93.1	136.7	138.7	140.7
<b>Total Liability</b>	<b>1187.9</b>	<b>1539.5</b>	<b>1817.6</b>	<b>2062.9</b>
Fixed Assets				
Gross Block	894.6	1219.9	1319.9	1419.9
Accumulated Depreciation	286.8	368.3	472.8	592.6
Net Block	607.8	851.7	847.2	827.4
Capital WIP	73.1	80.8	80.8	80.8
Total Fixed Assets	680.9	932.4	927.9	908.1
Goodwill on Consolidation	234.7	253.8	303.8	353.8
Current Assets				
Inventory	357.2	395.8	531.7	666.7
Debtors	306.7	339.1	458.1	615.4
Loans and Advances	0.3	7.3	2.7	3.4
Other Current Assets	35.1	68.7	81.8	102.6
Cash	43.7	98.1	114.9	170.4
Total Current Assets	743.0	909.1	1189.2	1558.4
Current Liabilities				
Creditors	349.1	389.7	409.0	512.8
Provisions	3.4	6.0	2.9	3.7
Other current liabilities	134.9	164.0	195.3	244.9
Total Current Liabilities	487.3	559.8	607.3	761.4
Net Current Assets	255.7	349.3	581.9	797.0
Deferred Tax Assets	0.1	0.1	0.1	0.1
<b>Total Asset</b>	<b>1187.9</b>	<b>1539.5</b>	<b>1817.6</b>	<b>2062.9</b>

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
₹ crore				
Year end March	FY18	FY19	FY20E	FY21E
Profit/(Loss) after taxation	175.7	197.3	272.6	357.0
Add: Depreciation & Amortization	57.1	81.4	104.5	119.8
Add: Interest Paid	21.6	32.0	47.4	43.4
C/F bef working capital chg.	254.4	310.7	424.5	520.1
Net Increase in Current Assets	-45.7	-111.7	-263.4	-313.7
Net Increase in Current Liabilities	73.5	72.5	47.5	154.2
<b>Net CF from operating act</b>	<b>282.2</b>	<b>271.5</b>	<b>208.6</b>	<b>360.5</b>
(Inc)/Dec in Goodwill on Cons				
	-2.6	-19.1	-50.0	-50.0
(Purchase)/Sale of Fixed Assets				
	-203.9	-333.0	-100.0	-100.0
Others				
	7.8	21.8	1.0	1.0
<b>Net Cf from Investing Act</b>	<b>-191.4</b>	<b>-317.7</b>	<b>-149.0</b>	<b>-149.0</b>
Pro/(Rept) of/from Loan				
	-39.4	70.5	20.0	-80.0
(Payment) of Div & Div Tax				
	-5.1	-5.8	-18.2	-32.7
Others				
	-20.7	35.8	-44.7	-43.4
<b>Net Cf from Financing Act</b>	<b>-65.2</b>	<b>100.5</b>	<b>-42.8</b>	<b>-156.1</b>
Net Cash flow				
	25.6	54.4	16.7	55.5
Cash and Cash Equi at the beg				
	18.1	43.7	98.1	114.9
<b>Cash and Cash Equi at the end</b>	<b>43.7</b>	<b>98.1</b>	<b>114.9</b>	<b>170.4</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
₹ crore				
Year end March	FY18	FY19	FY20E	FY21E
<b>Per share Data</b>				
EPS	11.7	13.1	18.1	23.7
Cash EPS	15.5	18.5	25.0	31.6
Dividend per share	0.4	0.5	1.2	2.2
BV per share	67.4	84.5	101.6	123.1
<b>Profitability Ratio</b>				
EBITDA margin	15.0	15.4	16.3	16.6
PAT margin	8.3	7.9	9.1	9.5
Return Ratios				
RoCE	23.0	20.8	22.2	25.4
RoNW	17.3	15.5	17.8	19.2
RoIC	27.2	24.0	25.4	29.5
<b>Valuation Ratios</b>				
P/E	97.7	87.0	63.0	48.1
EV / EBITDA	54.4	44.8	35.4	27.6
Market Cap / Sales	8.1	6.8	5.7	4.6
Price to Book Value	16.9	13.5	11.2	9.3
<b>Activity Ratios</b>				
Inventory Days	61.9	57.6	65.0	65.0
Debtor Days	53.2	49.4	56.0	60.0
Creditor Days	60.5	56.7	50.0	50.0
Gross Block Turnover	2.4	2.1	2.3	2.6
<b>Solvency Ratio</b>				
Debt / Equity	0.1	0.2	0.1	0.1
Debt / EBITDA	0.4	0.5	0.4	0.2
Current Ratio	2.0	2.0	2.6	2.7
Quick Ratio	1.0	1.0	1.3	1.4

Source: Company, ICICI Direct Research

**Exhibit 14: ICICI Direct Coverage Universe (Consumer Discretionary)**

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Asian Paints (ASIPAI)	1,797	2,050	Buy	172,332	23.0	32.1	38.5	78.0	55.9	46.7	45.2	38.4	31.8	30.4	32.1	33.6	23.2	28.1	28.2
Astral Polytechnik (ASTPOL)	1,139	1,275	Hold	17,160	13.1	18.1	23.7	87.0	63.0	48.1	44.3	34.9	27.2	20.8	22.2	25.4	15.5	17.8	19.2
Bajaj Electricals (BAJELE)	375	320	Reduce	3,827	16.3	14.2	17.7	23.0	26.4	21.1	15.2	14.2	11.8	13.8	13.4	15.2	15.5	13.1	14.5
Havells India (HAVIND)	664	720	Hold	41,427	12.7	13.3	18.0	52.3	50.0	36.9	34.5	35.4	26.5	25.3	23.7	27.5	18.7	19.0	22.0
Kansai Nerolac (KANNNER)	545	620	Buy	29,371	8.7	10.1	12.6	62.8	54.0	43.4	35.0	33.2	26.6	20.2	19.9	21.8	13.6	15.1	16.6
Pidilite Industries (PIDIND)	1,338	1,625	Buy	68,597	18.8	19.2	22.4	71.1	69.8	59.7	50.4	39.5	33.7	29.6	33.6	34.5	22.7	26.9	27.3
Essel Propack (ESSPRO)	108	95	Reduce	3,393	6.2	7.1	8.0	17.4	15.1	13.5	7.5	6.8	5.9	16.9	16.6	18.5	13.9	13.9	14.9
Supreme Indus (SUPIND)	1,173	1,420	Buy	14,900	35.3	43.3	52.0	33.2	27.1	22.6	19.9	17.1	14.3	25.0	27.2	28.4	18.7	23.2	23.7
Symphony (SYMLIM)	1,205	1,295	Hold	8,430	13.0	23.0	34.1	92.6	52.5	35.4	39.2	65.9	32.4	41.3	18.7	34.0	31.5	16.2	29.2
V-Guard Ind (VGUARD)	237	230	Hold	10,089	3.9	5.0	5.7	60.8	47.4	41.6	53.2	45.0	33.9	23.7	23.7	29.1	17.7	18.4	22.1
Voltas Ltd (VOLTAS)	699	700	Hold	23,118	15.5	27.2	23.8	45.0	25.7	29.4	28.1	29.4	14.9	19.8	17.3	27.4	14.8	12.7	21.0
Time Techno (TIMTEC)	57	70	Hold	1,289	9.0	9.3	10.9	6.4	6.1	5.2	4.5	4.2	4.0	14.9	15.0	14.3	12.2	12.1	11.5

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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