Astral Poly Technik

Accumulate

DART
DOLAT ANALYSIS & RESEARCH THEMES
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Result Update

De-growth in pipes business due to washout of peak year end March quarter, adhesive business remains laggard. Story remains intact. Maintain Accumulate

- Astral Poly Technik (ASTRA) Q4FY20 numbers below estimates on revenue front as last 12-14 days of March was lost due to lockdown, there was a pile up of inventory at depots and sales was lost due to logistics constraints and weakness in adhesives business and in line with estimates on operating profitability parameters.
- Adhesive segment margins on a full year showed growth as structural changes of eliminating stockists was undertaken. Stockist margins of 6-8% was removed which directly benefited the Company.
- ASTRA has plans for expansion and have acquired adjacent land at most of their plants for expansion purposes. To have a pan India presence they acquired a land in East India. In FY21, they will not be heavily spending on branding activities. We believe that these are investment phases and ASTRA will reap long term benefits of these strategies for prolonged periods atleast for the next 5 years.
- With new product addition in the Adhesive segment as well as pipe segment, we feel that revenue growth along with margin profile should get better once the economy is on recovery track.
- With high growth trajectory and expansion activities in place, valuations will remain expensive. Maintain Accumulate with a target price of Rs 907. (49x FY22E).

Pipe Segment- High growth engine for long term

During Q4FY20, piping segment de-growth was 13% YoY on account of nationwide lockdown in March. Jan-Feb volumes were up 19%, however, March quarter which is a peak quarter was down 53%. ASTRA runs schemes for quarterly discount for its distributor and every distributors has target associated with annual turnover discounts. Usually first 15 days are collection days and then the company transfer's the inventory to the depots. And in the last 15 days, billing and distribution takes place. However, due to logistics collapsing, dispatch could not be completed in last 12-14 days of March, because of which finished goods was lying with company leading to higher inventory levels. Big chunk of CPVC was lost in last 10-12 days of March. With government push and new schemes this segment will grow manifold from H2FY21. Investments in the brand has enabled ASTRA to maintain premium pricing and protect margins.

Q4FY20 Result (Rs Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	6,289	7,747	(18.8)	6,641	(5.3)
Total Expense	5,163	6,558	(21.3)	5,459	(5.4)
EBITDA	1,126	1,190	(5.3)	1,182	(4.7)
Depreciation	289	224	29.1	274	5.5
EBIT	837	966	(13.3)	908	(7.8)
Other Income	1	38	(97.4)	22	(95.5)
Interest	181	59	205.7	51	254.9
EBT	657	945	(30.5)	879	(25.3)
Tax	135	292	(53.7)	194	(30.4)
RPAT	522	653	(20.1)	685	(23.8)
APAT	516	625	(17.4)	679	(24.0)
			(bps)		(bps)
Gross Margin (%)	38.0	33.6	439	39.6	(162)
EBITDA Margin (%)	17.9	15.4	255	17.8	11
NPM (%)	8.2	8.1	14	10.2	(202)
Tax Rate (%)	20.5	30.9	(1031)	22.1	(152)
EBIT Margin (%)	13.3	12.5	84	13.7	(36)

CMP	Rs 812
Target / Upside	Rs 907 / 12%
BSE Sensex	30,672
NSE Nifty	9,029

Scrip Details

Equity / FV	Rs 151mn / Rs 1
Market Cap	Rs 123bn
	USD 2bn
52-week High/Low	Rs 1,380/Rs 746
Avg. Volume (no)	107,015
NSE Symbol	ASTRAL
Bloomberg Code	ASTRA IN

Shareholding Pattern Mar'20(%)

Promoters	55.7
MF/Banks/FIs	7.6
FIIs	23.2
Public / Others	13.5

Valuation (x)

	FY20A	FY21E	FY22E
P/E	49.1	59.6	43.9
EV/EBITDA	27.7	31.4	23.8
ROE (%)	18.0	13.0	16.0
RoACE (%)	17.6	13.8	17.1

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	25,779	23,803	26,102
EBITDA	4,429	3,860	5,074
PAT	2,496	2,058	2,795
EPS (Rs.)	16.5	13.6	18.5

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DOLAT CAPITAL

Adhesive Segment

Full year margins for adhesives business grew due to structural changes undertaken by the company. By eliminating stockist they could save 6-8% of margins which in turn benefitted the company. This segment will be positive from coming quarters. Top management focus is on this segment, as this is the future growth engine for ASTRA. We believe that this is a cycle and ASTRA will reap long term benefits of this as this product has one of the best margins across all the product offerings. Adhesives business is expected to revert to normalised growth levels post H2FY21.

Capacity Expansion – reducing freight cost

ASTRA has been expanding its capacity across plants to capitalize on the upcoming demand in the piping as well as Adhesive segment. To save on logistics cost they have set up a centralized warehouse in South, work for which is over and complete range of products are available. ASTRA now has plants across regions including East India. We believe that having plants across India will provide logistic advantage to ASTRA in the longer run. In the Adhesive segment, ASTRA will get all the products from SEAL IT and this will ensure higher revenue growth with higher margin profile. They also plan to manufacture PEX A Pro inhouse in India. Also plan to set up state of Art adhesive plant at Dahej which will be completed in next 2 years.

Exhibit 1: Actual V/s DART estimates

Particulars (Rs Mn)	Actual	DART Estimate	Deviation (%)	Comments
Revenue	6,289	7,869	(20.1)	Lower than expected volume from pipe segment. CPVC was a complete washout
EBITDA	1,126	1,152	(2.3)	
EBITDA Margin (%)	17.9	14.6	326.5	Inventory gain and increase in share of value added products
PAT	516.0	762.0	(32.3)	Decline in other income

Source: Company, DART

Exhibit 2: Change in estimates

Rs Mn	FY21E			FY22E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	23,803	35,772	(33.5)	26,102	38,986	(33.0)
EBITDA	3,860	5,547	(30.4)	5,074	5,850	(13.3)
EBITDA Margin (%)	16.2	15.5	71.1	19.4	18.0	144.0
PAT	2,058	3,340	(38.4)	2,795	3,543	(21.1)
EPS (Rs)	13.6	22.1	(38.4)	18.5	23.5	(21.1)

Source: Company, DART

Key Highlights (Standalone)

- Net sales decreased by 16.5% on a YoY basis and by 2.8% on QoQ basis to Rs 5,057 mn.
- Raw material cost decreased by 21% on a YoY basis and flat on a QoQ basis to Rs 3,221 mn.
- Other expenditure has decreased by 22.6% on a YoY basis and by 16% on a QoQ to Rs 648 mn.
- Depreciation increased by 6.1% sequentially to Rs 242 mn.
- Interest cost has increased on a YoY basis to Rs. 170 mn
- On a YoY basis, net profit has decreased by 16.3% to Rs. 393 mn. Sequentially it was a de-growth of 31.9%.

Key Highlights (Consolidated)

- Net sales decreased by 18.8% on a YoY basis and by 5.3% QoQ basis to to Rs 6,289 mn.
- Raw material cost decreased by 24.2% on a YoY basis and by 2.8% on a QoQ basis to Rs 3,902 mn.
- Other expenditure has decreased by 19.6% on a YoY basis and by 16.8% on a QoQ basis to Rs 844 mn.
- Depreciation increased sequentially by 5.5% to Rs 289 mn.
- Interest cost has increased to Rs. 181 mn.
- On a YoY basis, there was a de-growth in net profit by 17.4% to Rs 516 mn. It was a de-growth of 24% QoQ.

Conference Call Key Highlights

- Acquired land in Odisha for Rs. 25 cr. Construction will start in current year, plant will be ready by March 2021.
- In plumbing industry March is a very peak month of the season, company runs schemes for quarterly discount for its distributor and every distributors has target associated with annual turnover discounts. But due to lockdown March volumes were washed out.
- Closing inventory level has gone up due to piling of inventories at depots & Receivables has come down as year-end sales dropped.
- It is expected that by year end Astral will be a debt free company. Current Debt in books in Rs. 55 cr and cash balance Rs. 130 cr
- Employee cost increased in FY20 due to addition of various people at higher levels.
- Controlling A&P and travelling costs will be used to control costs.
- Astral is very strong in Tier 1, Tier 2 and Tier 3 cities. They have also gained rural presence in last 2 years.
- In month of May, utilisation have not picked up yet. Astral is already sitting on good inventory and production of fast moving goods has picked up.
- Including all plants, Astral has fixed monthly overheads on Rs. 20 cr, which can be covered at 30-35% capacity utilisation.
- Extent of replacement demand to new demand in pipe segment is 50:50
- No guidance on margins and growth for next 2 quarters.
- Plants were operational from May 7.

Piping Business:

- Gross margins improved for Astral by 10% in last 5 years due to increase in share of value added products and backward integration of raw materials. Margins have also improved due to decentralisation of their plants which saves logistics cost.
- Big chunk of CPVC business was lost in last 10-15 days.
- CPVC industry volume growth in last 4-5 years is 7-8%. Post anti-dumping duty implied for 5 years bigger players will benefit and shift to organised players will continue.
- Demand in rural markets has risen in Q1FY21, leading to sales.
- Management does not see any significant pricing pressure in the pipe segment.
- Channel inventory is low but should return to normal as market stabilises

Adhesives Business:

- Margins for the adhesive business improved after getting structural changes in place and eliminating stockists who's margins of 6-8% was removed, which is the advantage available to the company.
- Also chemical prices have started falling, which will benefit in Q2FY21, Q3FY21 once new purchases on raw material start.
- For the Adhesive business, US market gave growth in April and UK market gave 70-80% growth in April.

- Adhesives segment production started one week back. There was Rs. 40 cr receivable outstanding out of which Rs. 12 cr is received by Astral.

Raw Material:

- PVC prices dropped by Rs.11/kg during the lockdown period, however company only passed on 50% of price cuts as good demand was seen in May. PVC prices improved by Rs. 4/kg thereafter.
- CPVC prices there was no much change. Competitors increased prices by 5% and before that had increased by 3%.

Capex:

- Capex of Rs. 30-35 cr has been done for solar rooftops which will start generating revenues from July 1, as last 10-15 days of work is pending due to lockdown. This will save Rs. 8-9 cr in power every year. Pay-back period of 3-3.5 years.
- FY21, will be light capex year for Astral. Adhesive no capex will be undertaken, it will be deferred.
- FY20 capex was high due to acquisition of land at Odisha and capex spent on solar rooftops.

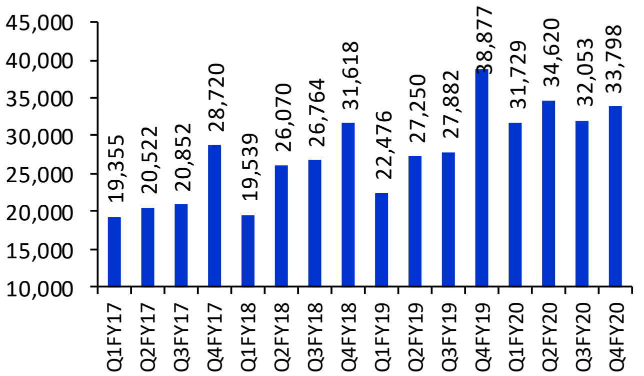
Branding:

- Ranveer Singh is the new brand ambassador for Astral. Branding cost will significantly reduce in FY21 as not much branding activities will be taken up.

Impact of Covid 19:

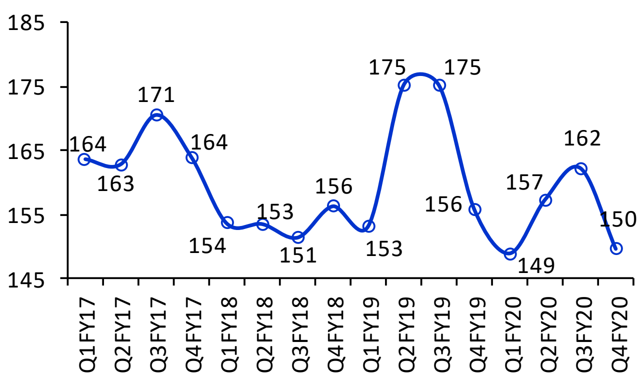
- They have introduced hand sanitiser with the name Resi shield for their dealers, distributors, employees and plumber fraternity. They got a very good response as the first lot was fully pre booked and made revenues of Rs. 35,000-Rs. 40,000 lakhs.

Exhibit 3: Volume (MT)



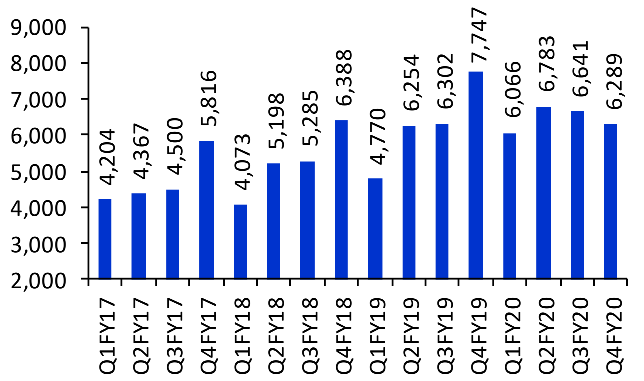
Source: Company, DART

Exhibit 4: Blended Realisation (Rs/kg)



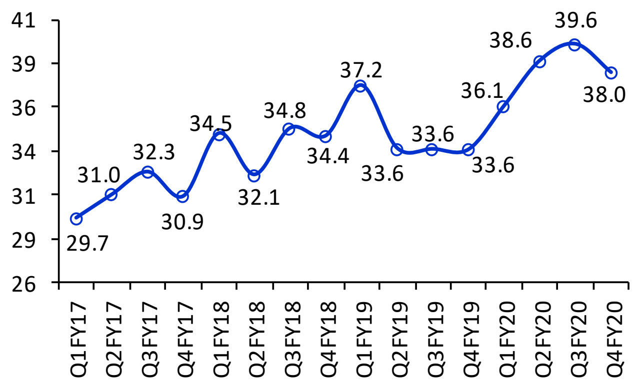
Source: Company, DART

Exhibit 5: Revenue (Rs Mn)



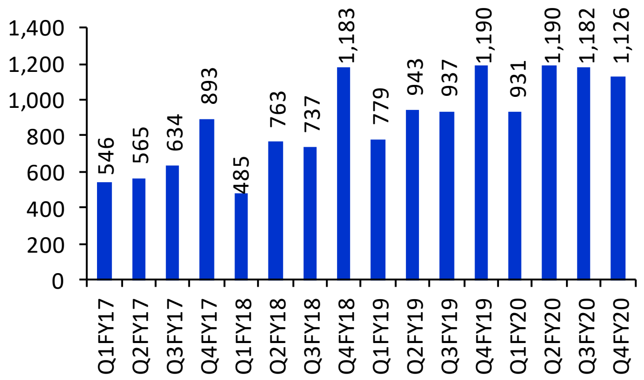
Source: Company, DART

Exhibit 6: Gross Margin (%)



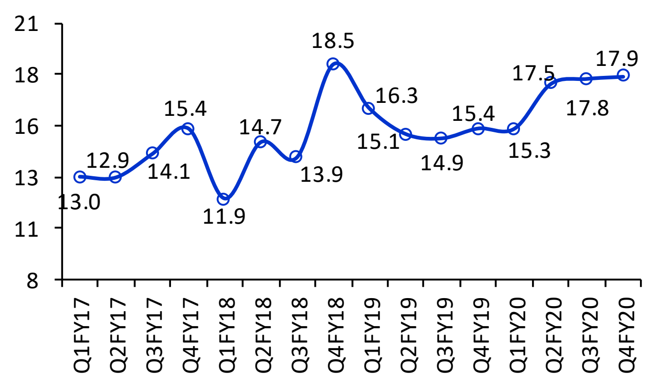
Source: Company, DART

Exhibit 7: Operating Profit (Rs Mn)



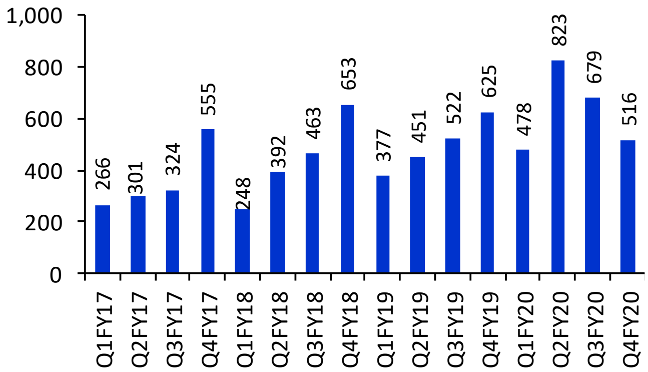
Source: Company, DART

Exhibit 8: OPM (%)



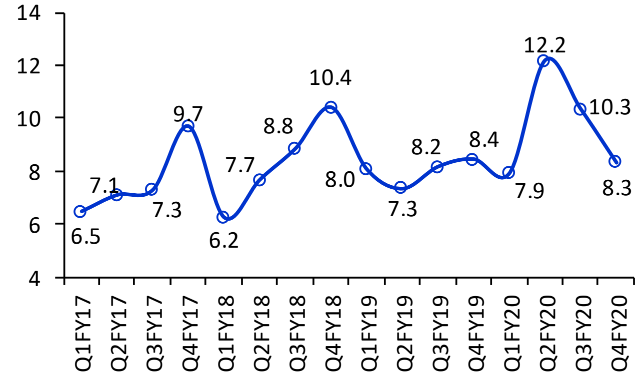
Source: Company, DART

Exhibit 9: Net Profit (Rs Mn)



Source: Company, DART

Exhibit 10: NPM (%)



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	**25,073**	**25,779**	**23,803**	**26,102**
Total Expense	**21,224**	**21,350**	**19,942**	**21,028**
COGS	16,477	15,957	15,795	16,927
Employees Cost	1,391	1,752	911	1,054
Other expenses	3,355	3,641	3,237	3,046
EBIDTA	**3,849**	**4,429**	**3,860**	**5,074**
Depreciation	814	1,079	989	1,269
EBIT	**3,035**	**3,350**	**2,872**	**3,805**
Interest	320	394	326	401
Other Income	154	121	150	300
Exc. / E.O. items	0	0	0	0
EBT	**2,870**	**3,077**	**2,695**	**3,704**
Tax	861	565	617	889
RPAT	1,973	2,496	2,058	2,795
Minority Interest	0	0	0	0
Profit/Loss share of associates	**(36)**	**(16)**	**(20)**	**(20)**
APAT	**1,973**	**2,496**	**2,058**	**2,795**

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	120	151	151	151
Minority Interest	150	168	180	200
Reserves & Surplus	12,657	14,878	16,470	18,170
Net Worth	**12,777**	**15,029**	**16,621**	**18,321**
Total Debt	2,753	1,270	700	500
Net Deferred Tax Liability	533	429	500	550
Total Capital Employed	**16,212**	**16,896**	**18,001**	**19,571**
Applications of Funds				
Net Block	**8,517**	**9,996**	**10,108**	**10,999**
CWIP	3,346	2,997	3,268	3,528
Investments	2	2	2	2
Current Assets, Loans & Advances	**9,130**	**9,898**	**9,522**	**10,784**
Inventories	3,958	5,404	4,080	5,056
Receivables	3,391	2,278	1,671	2,008
Cash and Bank Balances	981	1,301	2,197	2,237
Loans and Advances	515	465	1,252	1,159
Other Current Assets	283	448	320	321
Less: Current Liabilities & Provisions	**4,780**	**5,995**	**4,897**	**5,739**
Payables	3,897	4,754	3,660	3,660
Other Current Liabilities	882	1,241	1,237	2,079
Net Current Assets	4,350	3,903	4,625	5,045
Total Assets	**16,214**	**16,898**	**18,001**	**19,571**

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	34.3	38.1	33.6	35.2
EBIDTA Margin	15.4	17.2	16.2	19.4
EBIT Margin	12.1	13.0	12.1	14.6
Tax rate	30.0	18.4	22.9	24.0
Net Profit Margin	7.9	9.7	8.6	10.7
(B) As Percentage of Net Sales (%)				
COGS	65.7	61.9	66.4	64.8
Employee	5.5	6.8	3.8	4.0
Other	13.4	14.1	13.6	11.7
(C) Measure of Financial Status				
Gross Debt / Equity	0.2	0.1	0.0	0.0
Interest Coverage	9.5	8.5	8.8	9.5
Inventory days	58	77	63	71
Debtors days	49	32	26	28
Average Cost of Debt	13.8	19.6	33.1	66.9
Payable days	57	67	56	51
Working Capital days	63	55	71	71
FA T/O	2.9	2.6	2.4	2.4
(D) Measures of Investment				
AEPS (Rs)	13.1	16.5	13.6	18.5
CEPS (Rs)	18.5	23.7	20.2	26.9
DPS (Rs)	0.6	1.0	3.5	4.5
Dividend Payout (%)	4.2	6.0	25.7	24.3
BVPS (Rs)	84.6	99.5	110.1	121.3
RoANW (%)	17.2	18.0	13.0	16.0
RoACE (%)	16.2	17.6	13.8	17.1
RoAIC (%)	22.3	21.7	18.3	23.0
(E) Valuation Ratios				
CMP (Rs)	812	812	812	812
P/E	62.1	49.1	59.6	43.9
Mcap (Rs Mn)	122,642	122,642	122,642	122,642
MCap/ Sales	4.9	4.8	5.2	4.7
EV	124,412	122,609	121,143	120,903
EV/Sales	5.0	4.8	5.1	4.6
EV/EBITDA	32.3	27.7	31.4	23.8
P/BV	9.6	8.2	7.4	6.7
Dividend Yield (%)	0.1	0.1	0.4	0.6
(F) Growth Rate (%)				
Revenue	19.1	2.8	(7.7)	9.7
EBITDA	21.5	15.1	(12.8)	31.4
EBIT	16.9	10.4	(14.3)	32.5
PBT	14.4	7.2	(12.4)	37.4
APAT	12.3	26.5	(17.5)	35.8
EPS	12.3	26.5	(17.5)	35.8

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	3,441	4,054	4,230	3,445
CFI	(2,934)	(3,177)	(1,819)	(2,008)
CFF	(49)	(1,630)	(1,514)	(1,396)
FCFF	1,245	1,921	2,966	1,025
Opening Cash	435	892	1,301	2,197
Closing Cash	892	139	2,197	2,237

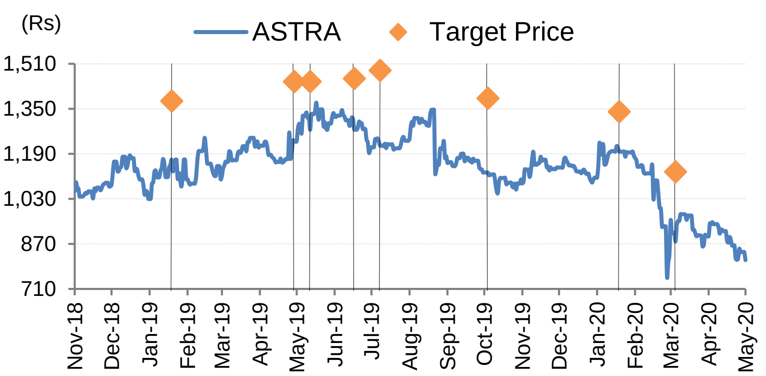
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Feb-19	Accumulate	1,378	1,169
May-19	Buy	1,447	1,234
Jun-19	Buy	1,447	1,276
Jul-19	Buy	1,458	1,276
Aug-19	Accumulate	1,487	1,219
Oct-19	BUY	1,388	1,123
Feb-20	BUY	1,340	1,198
Mar-20	Buy	1,126	879

*Price as on recommendation date

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