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Q4FY20 result review  
and reco change

## Plastic

Target price: Rs950

### Earnings revision

(%)	FY21E	FY22E
Sales	↓ 18.1	↓ 16.4
EBITDA	↓ 14.0	↓ 7.4
EPS	↓ 17.3	↓ 8.8

### Target price revision

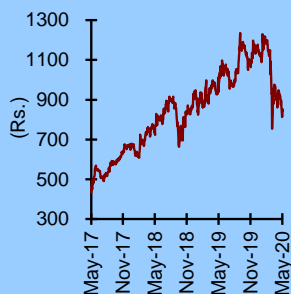
Rs950 from Rs1,096

### Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	55.7	55.7	55.7
Institutional investors	30.2	29.0	29.0
MFs and others	7.5	8.0	8.3
FIs/Banks	0.1	0.5	0.5
Insurance	-	-	-
FIIIs	22.6	20.5	20.2
Others	14.1	15.3	15.3

Source: NSE

### Price chart



### Research Analysts:

**Nehal Shah**

nehal.shah@icicisecurities.com  
+91 22 6637 7235

**Jigar Shah**

jigar.shah@icicisecurities.com  
+91 22 6637 7416

INDIA

**ICICI Securities**

# Astral Poly Technik

**BUY**

Upgrade from Add

**Rs812**

## Margin trajectory on rise

Despite a substantial volume loss witnessed in Mar'20 due to nationwide lockdown, Astral Poly Technik (ASTRA) is possibly witnessing a phase of meteoric rise in its margin trajectory. The all-time high Q4FY20 EBIDTA margin, which the management clarified was without any one-offs, is largely attributed to strong gross margin expansion in both the product segments – which were led by the company's backward integration drive, decentralisation efforts and increasing share of VAPs. Besides the rising margin trajectory, the sustained focus on strengthening the balance sheet and likelihood of the company being one of the biggest beneficiaries of market share gains in the plumbing pipe segment, ASTRA's recovery in earnings could be much earlier than anticipated. Upgrade to BUY.

- **Valuation and outlook:** Factoring-in the Q4FY20 numbers, we cut our revenue and PAT estimates by 18.1%/16.4% and 14%/7.4% respectively, for FY20E/FY21E. We expect the company to report consolidated revenue and PAT CAGRs of 8.5% and 23.2% respectively over FY20-FY22E. We **upgrade the stock to BUY** (from **Add**) with a revised target price of Rs950 (*earlier:* Rs1,096), valuing its pipe/adhesive business at 38x FY21E earnings (40x earlier).
- **Pipes report all-time high margins despite significant loss of volumes due to lockdown:** ASTRA reported sharp decline in its standalone revenues at Rs5.1bn, down 16.5% YoY, due to 13% YoY decline in volumes. Orders in hand amounting to Rs1.75bn, which could not get executed post nationwide lockdown, led to the sharp decline. Standalone EBITDA margin however remained at all-time high levels of 19.1%, up 340bps YoY, despite massive operating leverage in Mar'20. With May'20 showing significant improvement in despatches, the management remains hopeful of achieving normalcy (we however assume 10% volume decline – refer table 2) in FY21E itself. We estimate ASTRA's standalone revenues and PBT to grow at 4.7% and 17.6% CAGRs respectively over FY20-FY22E.
- **Adhesives business poised for promising start post Covid-19:** The adhesive business reported a sharp decline in revenues by 26.7% YoY in Q4FY20 leading to FY20 revenue decline of 8.1% YoY. With the systemic corrections (change in distribution model and team verticalisation) initiated in the previous fiscal and the lower base of last year likely to come into play, the management remains hopeful of achieving double-digit growth in adhesives in the current fiscal. Despite significant improvement in gross margins YoY, EBITDA margin was down 130bps YoY to 13.1%. We expect ASTRA's overall adhesives business to exhibit revenue and PBT CAGRs of 17% and 43% respectively over FY20-FY22E.
- **Higher forex loss impacts overall PBT:** Despite reporting better than expected EBIDTA margin, ASTRA's consolidated PBT was down 30.5% YoY to Rs657mn. This was largely attributed to loss of sales in Mar'20, lower other income and higher forex losses incurred in Q4FY20.

Market Cap	Rs122bn/US\$1.6bn	Year to Mar	FY19	FY20P	FY21E	FY22E
Reuters/Bloomberg	ASPT.BO/ASTRA IN	Revenue (Rs mn)	25,073	25,779	24,814	30,358
Shares Outstanding (mn)	150.7	Rec. Net Income (Rs mn)	1,958	2,479	2,641	3,765
52-week Range (Rs)	1235/754	EPS (Rs)	13.0	16.5	17.5	25.0
Free Float (%)	44.3	% Chg YoY	11.8	26.6	6.5	42.6
FII (%)	20.2	P/E (x)	62.5	49.3	46.3	32.5
Daily Volume (US\$/'000)	1,955	CEPS (Rs)	18.4	23.6	25.2	33.3
Absolute Return 3m (%)	(30.9)	EV/E (x)	32.2	27.6	28.1	20.9
Absolute Return 12m (%)	(17.6)	Dividend Yield (%)	0.7	0.8	0.8	0.8
Sensex Return 3m (%)	(23.1)	RoCE (%)	22.2	21.0	19.2	24.4
Sensex Return 12m (%)	(21.5)	RoE (%)	16.8	17.6	16.6	20.9

Please refer to important disclosures at the end of this report

**Table 1: Q4FY20 result review**

(Rs mn, year ending March 31)

Particulars	Q4FY20A	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
<b>Net Sales</b>	<b>6,289</b>	<b>7,056</b>	<b>7,747</b>	<b>(18.8)</b>	<b>6,641</b>	<b>(5.3)</b>	<b>25,779</b>	<b>25,073</b>	<b>2.8</b>
<b>Total Op. Income</b>	<b>6,289</b>	<b>7,056</b>	<b>7,747</b>	<b>(18.8)</b>	<b>6,641</b>	<b>(5.3)</b>	<b>25,779</b>	<b>25,073</b>	<b>2.8</b>
<b>Expenditure</b>	<b>5,163</b>	<b>5,908</b>	<b>6,558</b>	<b>(21.3)</b>	<b>5,459</b>	<b>(5.4)</b>	<b>21,350</b>	<b>21,224</b>	<b>0.6</b>
Raw Materials	3,861	4,303	5,027	(23.2)	3,962	(2.5)	15,730	16,080	(2.2)
Cost of traded goods	41	125	120	(65.9)	51	(19.6)	227	397	(42.9)
Staff Cost	417	460	361	15.5	431	(3.2)	1,752	1,391	25.9
Other Expenditure	844	1,020	1,050	(19.6)	1,015	(16.8)	3,641	3,355	8.5
<b>Operating Profit</b>	<b>1,126</b>	<b>1,148</b>	<b>1,190</b>	<b>(5.3)</b>	<b>1,182</b>	<b>(4.7)</b>	<b>4,429</b>	<b>3,849</b>	<b>15.1</b>
OPM (%)	17.9	16.3	15.4	250bps	17.8	10bps	17.2	15.4	180bps
Other Income	1	48	38	(97.4)	22	(95.5)	121	154	(21.6)
Interest	181	132	59	205.7	51	254.9	394	320	23.3
Depreciation	289	278	224	29.1	274	5.5	1,079	814	32.5
<b>PBT</b>	<b>657</b>	<b>785</b>	<b>945</b>	<b>(30.5)</b>	<b>879</b>	<b>(25.3)</b>	<b>3,077</b>	<b>2,870</b>	<b>7.2</b>
Tax	135	182	292	(53.7)	194	(30.4)	565	861	(34.4)
<b>PAT</b>	<b>522</b>	<b>603</b>	<b>653</b>	<b>(20.1)</b>	<b>685</b>	<b>(23.8)</b>	<b>2,512</b>	<b>2,009</b>	<b>25.0</b>
Minority Interest & Share of loss on JV	11	12	32	(65.3)	9	22.2	33	51	(35.3)
<b>Reported PAT</b>	<b>511</b>	<b>592</b>	<b>622</b>	<b>(17.8)</b>	<b>676</b>	<b>(24.4)</b>	<b>2,479</b>	<b>1,958</b>	<b>26.6</b>
NPM (%)	8.1	8.4	8.0	10bps	10.2	-210bps	9.6	7.8	180bps

Source: Company data, I-Sec research

**Table 2: Predicting revenue decline for ASTRA's standalone pipe segment in FY21E**

Particulars	Q1FY21	Q2FY21	Q3FY21	Q4FY21	FY21	Comments
Pipe's quarter-wise annual sales mix	18.0%	24.9%	25.5%	31.6%	100.0%	Based on FY19 quarterly revenue trend. Q4 tends to be the best quarter historically
Projected Sales disruption quarter wise (%)	-50.0%	-30.0%	-18.0%	35.0%		Disruption in sales likely to recover on gradual basis
% Decline expected in FY21	-9.0%	-7.5%	-4.6%	11.1%	-10.0%	Overall sales decline for FY21E in pipes segment

Source: Company data, I-Sec research

**Table 3: Assessing ASTRA's standalone EBIDTA margins in FY21E/FY22E**

Expenditure heads	FY20 spends (Rs mn)	Projected savings in FY21E (Rsmn)	Comments
Employee costs	977	90	Includes reduction of factory labour, lower incentive to employees and reduction in promoter remuneration
Branding costs	700	350	50% curtailment in advertising and sales promotion costs
Power costs	600	100	Energy savings due to roof top solar project and purchase of power from exchange vs grid
Admin costs	300	100	Cost rationalization in travelling, cafeteria and other factory expenses
Other expenses (excluding above)	1177	60	~5% savings in other fixed costs like rent and rates, legal and professional fees, repairs, etc
<b>Total</b>	<b>3754</b>	<b>700</b>	<b>~20% savings in fixed costs</b>

Source: Company data, I-Sec research

The above cost saving of ~Rs700mn is expected to improve FY21E margins by 3.9%. Based on these cost savings and taking Q4FY20 margins as the base, we expect ASTRA's standalone EBIDTA margins to further improve over the next two years (Refer table 4).

**Table 4: Margin assumption for next two years for ASTRA's standalone pipe business**

Key parameters	FY21E	FY22E
Base margins as reported in Q4FY20 (without any one-offs)	19.1%	19.1%
Add: margin accretion due to savings in employee and other fixed costs	3.9%	1.0%
Add: Product mix change	-1.0%	1.0%
Likely EBIDTA margins	<b>22.0%</b>	<b>21.0%</b>
<b>EBIDTA margin conservatively factored in</b>	<b>18.7%</b>	<b>20.0%</b>

Source: Company data, I-Sec research

**Table 5: Earnings revision***(Rs mn, year ending March 31)*

	Old		New		% change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	30,301.7	36292.8	24,813.9	30,358.2	-18.1%	-16.4%
EBITDA	5,043.9	6214.5	4,335.5	5,755.5	-14.0%	-7.4%
PAT	3,192.8	4126.7	2,641.0	3,765.0	-17.3%	-8.8%
EPS (Rs)	21.2	27.4	17.5	25.0	-17.3%	-8.8%

Source: Company data, I-Sec research

## Key highlights from Q4FY20 conference call

### Pipes segment:

- Mar'20 sales witnessed 53%/58% of volume/value decline, respectively. The first 11 months of the fiscal however reported an impressive 17% growth in volume as well as in revenues.
- Orders in hand at the start of lockdown in Mar'20 amounted to Rs1.75bn, which could not get executed in the last fiscal.
- Its standalone pipes business has witnessed a strong gross margin expansion of 340bps in FY20 led by backward integration, higher share of VAPs and its decentralization efforts resulting in logistics cost savings.
- There is no element of one-offs in the (19.1%) EBIDTA margins recorded by ASTRA in its pipes business in Q4FY20.
- Company has only passed on 50% of PVC price drop in the current quarter. Recent increase of 5% in PVC pipes would help it cover large part of the price reduction.
- Company is planning to increase the CPVC pipe prices by 4-5% largely led by INR depreciation (Most of its peers have already taken the price increase).
- EBIDTA margin of Rex Poly has recovered back to 15% levels.
- Company was expecting a record 21% EBITDA margin in Plastic piping segment if not for lockdown.
- Odisha plant likely to commence operations by Mar-21. Land has already been acquired.
- Inventory is staggered across plants and multiple locations give advantage to cater to the demand from every location.

- Month of May'20 is seeing decent pick up in supplies from all the plants. High inventory is currently helping in supplies in May'20. Capacity utilisation is not significant as company has to work with limited labour.
- ASTRA has significantly expanded its distribution in rural areas in last couple of years.
- Debtors days would have been around 37-38 vs 25 days reported at the end of Mar'20 had company not lost its year-end sales of Rs1.75bn. Inventory days too showed a bump up due to the same reason.
- Break up between replacement and new sales in the pipes segment estimated at 50-50.
- CPVC pipes industry is growing at 7-8% CAGR over the last 3-4 years. However, company has been consistently gaining market share from unorganized/smaller organised players over the years and is likely to gain in near term as well led by recent imposition of anti-dumping duty in CPVC pipes.
- Instant hand sanitizer '*Resi Shield*' was launched few weeks back. The company has already sold Rs3.5-4mn worth instant hand sanitizers till date. ASTRA has also launched foot press sanitizer dispenser few days back.
- ASTRA's distribution network: 800 distributors and 31,000+ dealers.
- Company has extended channel financing to its distributors over the last few years but with no recourse.
- ASTRA sees a big opportunity of market share gains driven by major challenges faced by small and medium piping units post Covid-19.

### **Adhesives business**

- Mar'20 witnessed a 60% decline in revenues. The first 11 months of the fiscal however reported mere -0.8% decline in revenues.
- ASTRA is largely done with its systemic corrections (w.r.t. to its change in distribution model and verticalisation of teams) initiated in the last year.
- The company expects to clock double-digit growth this fiscal driven by lower base of last year and systemic corrections initiated in the last year.
- The gross margin expansion of over 500bps in adhesives segment was largely driven by structural change in its distribution model (removal of stockiest layer)
- Orders in hand at the start of lockdown in Mar'20 amounted to Rs500mn-600mn which could not get executed in the last fiscal.
- Lower chemicals cost will start benefiting from Q2FY21 onwards in adhesives segment as currently it has old inventory still lying.
- Resinova is strong in rural markets which would help company in reporting better performance in FY21
- International market showed decent performance in Apr'20. In fact, US-based step down subsidiary has shown YoY growth while UK based subsidiary has operated at 80% utilisation.

- Exports in adhesives likely to start within next 2 quarters. ASTRA plans to export Cyanoacrylate and other products to US/UK subsidiaries in the 1<sup>st</sup> phase.
- ASTRA's distribution network: 1,300 distributors and 13,000+ dealers.

### Others

- The company's focus was on cash collection in the first fortnight of Mar'20. Due to sudden outbreak of Covid-19 and subsequent nationwide lockdown, its planned dispatches in the 2<sup>nd</sup> fortnight of Mar'20 got severely impacted which led to significant loss of sales in both its product segments.
- FY20 revenue mix: Pipes (77%) and adhesives (23%)
- Company has fixed overheads to the tune of Rs200mn per month at consolidated level. Company estimates its break-even levels at 35% capacity utilization.
- The company is likely to initiate several cost cutting measures this year with focus largely on costs like admin, transportation, travelling and branding.
- Branding cost is equivalent to 3.5-4% of sales and company is likely to substantially cut this spend in FY21.
- Company has guided to be debt free by FY21 end.
- FY21 capex likely at Rs650mn. Pipes - East India plant capex at Rs350-400mn and maintenance capex at Rs250-300mn while capex in adhesives is likely to be negligible. Part capex on industrial valves was already done in FY20 while the balance is likely to be spent over the next two quarters.
- Commissioning of Solar rooftop panel project has got deferred to 1<sup>st</sup> Jul'20 (earlier planned for 1<sup>st</sup> Apr). The resultant electricity cost savings/annum is estimated to be at Rs80-90mn.
- ASTRA has managed to reduce its debt in FY20 largely driven by its working capital correction (led by loss of year-end sales in pipes segment to the tune of Rs1.75bn resulting in sharp decline in its receivable days).
- With the company likely to become debt-free next year, it is likely to deploy incremental cash surplus by way of higher dividend payouts

## Financial summary

Table 6: Profit &amp; loss statement

(Rs mn, year ending March 31)

	FY19	FY20P	FY21E	FY22E
<b>Net Revenues</b>	<b>25,073</b>	<b>25,779</b>	<b>24,814</b>	<b>30,358</b>
<b>Operating Expenses</b>	<b>21,224</b>	<b>21,350</b>	<b>20,478</b>	<b>24,603</b>
<b>EBITDA</b>	<b>3,849</b>	<b>4,429</b>	<b>4,336</b>	<b>5,755</b>
% margins	15.4%	17.2%	17.5%	19.0%
Depreciation & Amortisation	814	1,079	1,158	1,255
Gross Interest	320	394	119	123
Other Income	154	121	190	275
<b>Recurring PBT</b>	<b>2,870</b>	<b>3,077</b>	<b>3,249</b>	<b>4,652</b>
Less: Taxes	861	565	601	871
Less: Minority Interest	51	33	7	17
Add: Share of Profit of Associates	-	-	-	-
<b>Net Income (Reported)</b>	<b>1,958</b>	<b>2,479</b>	<b>2,641</b>	<b>3,765</b>
Extraordinaries (Net)	-	-	-	-
<b>Recurring Net Income</b>	<b>1,958</b>	<b>2,479</b>	<b>2,641</b>	<b>3,765</b>

Source: Company data, I-Sec research

Table 7: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20P	FY21E	FY22E
<b>Assets</b>				
Total Current Assets	9,128	9,896	10,672	14,624
of which cash & cash eqv.	981	1,301	1,684	2,975
Total Current Liabilities & Provisions	4,791	5,995	4,716	5,582
<b>Net Current Assets</b>	<b>4,337</b>	<b>3,901</b>	<b>5,956</b>	<b>9,043</b>
Investments	2	2	2	2
Net Fixed Assets	8,517	9,996	10,038	10,083
Capital Work-in-Progress	808	444	-	-
Goodwill	2,538	2,553	2,185	1,817
<b>Total Assets</b>	<b>16,201</b>	<b>16,896</b>	<b>18,181</b>	<b>20,945</b>
<b>Liabilities</b>				
Borrowings	2,741	1,270	1,081	1,200
Deferred Tax Liability	533	429	399	399
Minority Interest	150	168	193	234
Equity Share Capital	120	151	151	151
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	12,657	14,878	16,358	18,961
Less: Misc. Exp. n.w.o.	-	-	-	-
<b>Net Worth</b>	<b>12,777</b>	<b>15,029</b>	<b>16,508</b>	<b>19,112</b>
<b>Total Liabilities</b>	<b>16,201</b>	<b>16,896</b>	<b>18,181</b>	<b>20,945</b>

\*Excluding revaluation reserves

Source: Company data, I-Sec research

Table 8: Quarterly trend (consolidated)

(Rs mn, year ending March 31)

	Jun-19	Sep-19	Dec-19	Mar-20
Net revenues	6,066	6,783	6,641	6,289
% growth (YoY)	27.2	8.5	5.4	(18.8)
EBITDA	931	1,190	1,182	1,126
Margin (%)	15.3	17.5	17.8	17.9
Other income	68	30	22	1
Extraordinaries (Net)	-	-	-	-
Net profit	471	821	676	511

Source: Company data, I-Sec research

Table 9: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20P	FY21E	FY22E
<b>Operating Cashflow</b>	<b>4,446</b>	<b>4,481</b>	<b>3,779</b>	<b>5,000</b>
Working Capital Changes	(602)	758	(1,280)	(1,386)
Capital Commitments	(3,303)	(2,195)	(756)	(1,300)
<b>Free Cashflow</b>	<b>542</b>	<b>3,045</b>	<b>1,743</b>	<b>2,314</b>
<b>Cashflow from Investing Activities</b>	<b>(2)</b>	<b>10</b>	<b>20</b>	<b>20</b>
Issue of Share Capital	25	1	-	-
Inc (Dec) in Borrowings	866	(1,471)	(189)	119
Dividend paid	(1,089)	(1,162)	(1,162)	(1,162)
<b>Change in Deferred Tax Liability</b>	<b>203</b>	<b>(104)</b>	<b>(30)</b>	<b>-</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>545</b>	<b>320</b>	<b>383</b>	<b>1,291</b>

Source: Company data, I-Sec research

Table 10: Key ratios

(Year ending March 31)

	FY19	FY20P	FY21E	FY22E
<b>Per Share Data (in Rs.)</b>				
EPS	13.0	16.5	17.5	25.0
Cash EPS	18.4	23.6	25.2	33.3
Dividend per share (DPS)	6.0	6.4	6.4	6.4
Book Value per share (BV)	84.8	99.8	109.6	126.9
<b>Growth (%)</b>				
Net Sales	19.1	2.8	-3.7	22.3
EBITDA	21.5	15.1	-2.1	32.8
PAT	11.8	26.6	6.5	42.6
Cash EPS	11.8	26.6	6.5	42.6
<b>Valuation Ratios (x)</b>				
P/E	62.5	49.3	46.3	32.5
P/CEPS	44.1	34.4	32.2	24.4
P/BV	9.6	8.1	7.4	6.4
EV / EBITDA	32.2	27.6	28.1	20.9
EV / Sales	4.9	4.7	4.9	4.0
<b>Operating Ratios</b>				
Raw Material / Sales (%)	65.8	63.7	62.9	62.9
Employee cost / Sales (%)	5.5	6.8	5.0	5.0
SG&A / Sales (%)	6.6	4.5	4.5	4.5
Other Income / PBT (%)	5.4	3.9	5.8	5.9
Effective Tax Rate (%)	30.0	18.4	18.5	18.7
Working Capital (days)	50.2	41.5	48.0	50.0
Inventory Turnover (days)	57.6	76.5	60.0	59.0
Receivables (days)	49.4	32.3	45.0	48.0
Payables (days)	56.7	67.3	57.0	57.0
Net D/E Ratio (x)	-0.1	-0.1	-0.1	-0.1
<b>Profitability Ratios (%)</b>				
Net Income Margins	7.8	9.6	10.6	12.4
RoACE	22.2	21.0	19.2	24.4
RoAE	16.8	17.6	16.6	20.9
Dividend Payout	55.6	46.9	44.0	30.9
Dividend Yield	0.7	0.8	0.8	0.8
EBITDA Margins	15.4	17.2	17.5	19.0

Source: Company data, I-Sec research

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