

Lockdown weighs on overall performance...

Astral's performance in Q4FY20 was marred by lockdown in March 2020. The company reported a decline in consolidated revenue by ~19% YoY to ~₹ 629 crore owing to ~28% and ~16% YoY dip in revenue of adhesive segment (23% of revenue) and piping segment (~77% of revenue) respectively. The piping volume, value in March 2020 dipped 53%, 58%, respectively, mainly due to lockdown across the country. However, better gross margin (up 440 bps YoY due to benign raw material prices and price hikes in the CPVC pipes category) restricted the fall in absolute EBITDA at 5%, much lower than the pace of decline in sales. Resulting EBITDA margin for Q4FY20 was 255 bps higher YoY at 18% (vs. I-direct estimate of 16%). While all the company's plants are operational with prescribed government Covid-19 norms, utilisation level has been encouraging in the last two weeks of May 2020. However, the management refrained from giving any future volume growth guidance for FY21E owing to challenging macro conditions. We believe lower operating leverage will weigh on EBITDA margin in FY21E.

Strong volume gain in January-February wiped out in March

During the first two months of Q4FY20 (i.e. January-February before the lockdown) the piping segment reported strong growth in volume, value by 19%, 17% YoY, respectively. However, volume shortfall during March 2020 (down 53% YoY due to lockdown) led the overall piping segment volume to decline ~13% YoY in Q4FY20. On the other hand, ~28% drop in revenue of adhesive segment in Q4FY20 was mainly due to ~60% revenue decline in March 2020. While major urban areas are still under partial lockdown, the management has increased attention towards green and orange zone (largely suburban and rural India). However, we believe piping and adhesive segment being largely linked to construction activities, may witness a gradual recovery in demand from H2FY21 onwards.

Gross margin improves 440 bps YoY

Gross margins increased ~440 bps YoY due to price hikes and benign raw material prices. The management has reiterated price hikes (of ~4-5%) in CPVC segments to offset currently volatility. Further, after a sharp correction PVC prices witnessed a northward move. We believe better gross margin would be offset by lower operating leverage. Hence, the EBITDA margin is expected to remain range bound in FY20-22E.

Valuation & Outlook

We cut our revenue, earning estimate by 23%, 37% for FY21E, respectively. Though we maintain our positive stance on the stock, a delay in construction activities would lead to a slow recovery for Astral, going ahead. We revise our rating from BUY to **HOLD** considering its present valuation at 58x FY21E, 42x FY22E and cut target price to ₹ 900/share.



Particulars

| Particular | Amount |
|---------------------------|-----------|
| Market Cap (₹Crore) | 12,294.0 |
| Debt (FY 20) (₹Crore) | 129.1 |
| Cash&Inv (FY 20) (₹Crore) | 130.1 |
| EV (₹Crore) | 12,293.0 |
| 52 week H/L | 1265/ 748 |
| Equity capital (₹Crore) | 12.0 |
| Face value (₹) | 1.0 |

Key Highlights

- Piping segment volume, value grew 17.5%, 17.2% YoY during April-February 2020
- Adhesive segment topline down marginally by ~0.8% YoY in Apr-February 2020
- Plans to take price hike in CPVC products by 4%
- Challenging demand scenario in near term due to slowdown in the construction activities
- Cut rating from BUY to HOLD and revise target price from ₹ 1075/share to ₹ 900/share

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Key Financial Summary

| ₹ crore | FY18 | FY19 | FY20E | FY21E | FY22E | (CAGR FY20E-22E) |
|----------------------|--------|--------|--------|--------|--------|------------------|
| Net Sales | 2106.0 | 2507.3 | 2577.9 | 2425.7 | 3044.7 | 8.7 |
| EBITDA | 316.8 | 384.9 | 442.9 | 405.3 | 526.6 | 9.0 |
| EBITDA Margin (%) | 15.0 | 15.4 | 17.2 | 16.7 | 17.3 | |
| Net Profit | 175.7 | 197.3 | 249.6 | 214.6 | 301.7 | 9.9 |
| EPS (₹) | 11.7 | 13.1 | 16.6 | 14.2 | 20.0 | |
| P/E(x) | 70.0 | 62.3 | 49.3 | 57.3 | 40.8 | |
| Price/book value (x) | 12.1 | 9.6 | 8.2 | 7.2 | 6.3 | |
| Mcap/sales (x) | 5.8 | 4.9 | 4.8 | 5.1 | 4.0 | |
| RoE (%) | 17.3 | 15.4 | 16.6 | 12.6 | 15.4 | |
| RoCE (%) | 23.0 | 20.7 | 20.5 | 16.3 | 20.2 | |

Exhibit 1: Variance Analysis

| | Q4FY20 | Q4FY20E | Q4FY19 | YoY (%) | Q3FY20 | QoQ (%) | Comments |
|------------------------|--------|---------|--------|---------|--------|---------|---|
| Revenue | 628.9 | 804.9 | 774.7 | -18.8 | 664.1 | -5.3 | Revenue drop in piping and adhesive segment by 58% and 60% YoY, respectively, in March 2020 drags overall topline during Q4FY20 |
| Other Income | 0.1 | 5.1 | 3.8 | -97.4 | 2.2 | -95.5 | |
| Raw Material Exp | 386.1 | 507.1 | 502.7 | -23.2 | 396.2 | -2.5 | Benefit of higher realisation in CPVC segment helps in sharp gain in gross margin by ~440 bps YoY |
| Cost of traded goods | 4.1 | 8.0 | 12.0 | -65.9 | 5.1 | -19.6 | |
| Employee Exp | 41.7 | 48.3 | 36.1 | 15.5 | 43.1 | -3.2 | |
| Other expenditure | 84.4 | 112.7 | 105.0 | -19.6 | 101.5 | -16.8 | |
| EBITDA | 112.6 | 128.8 | 119.0 | -5.3 | 118.2 | -4.7 | |
| EBITDA Margin (%) | 17.9 | 16.0 | 15.4 | 255 bps | 17.8 | 11 bps | EBITDA margin expansion largely led by better gross margin |
| Depreciation | 28.9 | 28.2 | 22.4 | 29.1 | 27.4 | 5.5 | |
| Interest | 18.1 | 6.3 | 5.9 | 205.7 | 5.1 | 254.9 | |
| PBT | 65.7 | 99.3 | 94.5 | -30.5 | 87.9 | -25.3 | |
| Total Tax | 13.5 | 25.0 | 29.2 | -53.7 | 19.4 | -30.4 | Transition to new corporate tax rate leads to decline in tax outgo |
| Profit from associates | -0.6 | -2.9 | -2.9 | -79.0 | -0.6 | 0.0 | |
| PAT | 51.6 | 71.4 | 62.5 | -17.4 | 67.9 | -24.0 | Sharp decline in revenue coupled with higher depreciation and interest cost drags bottomline during Q4 |
| Key Metrics | | | | | | | |
| Plastic | 493.3 | 607.6 | 586.7 | -15.9 | 505.7 | -2.5 | Standalone piping volume de-grew ~13% YoY in Q4FY20 led by volume decline of ~53% in March 2020 owing to lockdown |
| Adhesive | 135.6 | 197.4 | 188.0 | -27.9 | 158.4 | -14.4 | Adhesive segment remains under pressure owing to re-alignment of distribution channel and lockdown in March |

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

| (₹ Crore) | FY21E | | | FY21E | | | Comments |
|-----------------|---------|--------|--------|---------|--------|--------|---|
| | Old | New | % Chg | Old | New | % Chg | |
| Revenue | 3,144.3 | 2425.7 | (22.9) | 3,830.0 | 3044.7 | (20.5) | Cut our revenue estimate for FY21E FY22E owing to slow recovery in demand |
| EBITDA | 526.9 | 405.3 | (23.1) | 628.8 | 526.6 | (16.3) | |
| EBITDA Margin % | 16.8 | 16.7 | -9bps | 16.4 | 17.3 | 89bps | |
| PAT | 338.7 | 214.6 | (36.6) | 376.6 | 301.7 | (19.9) | |
| EPS (₹) | 22.5 | 14.2 | (36.7) | 25.0 | 20.0 | (19.9) | |

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

| | Current | | | | Earlier | | Comments |
|----------------|---------|-------|-------|-------|---------|-------|--|
| | FY19E | FY20E | FY21E | FY22E | FY21E | FY22E | |
| Plastic Piping | 17.6 | 7.3 | (4.8) | 27.1 | 12.8 | 21.5 | Piping segment revenue likely to normalise with gradual pick up in construction activities |
| Adhesive | 16.2 | (9.7) | (9.5) | 20.0 | 17.0 | 22.8 | While adhesive demand is likely to remain muted in FY21E (due to lockdown), realignment of distribution network is likely to benefit Astral from FY22E onwards |

Source: Company, ICICI Direct Research

Conference Call takeaway

Piping business

- The piping business growth was impacted by the lockdown in March 2020. Piping segment volume declined ~53% YoY to 822 MT while value declined ~58% YoY to ₹ 114 crore in March 2020
- Piping segment volume grew 17.5% YoY to 123978 MT during April-February 2020 while segment revenue was up 17% YoY to ₹ 1928 crore
- Astral is likely to benefit from its multiple manufacturing facilities and depots with efficient delivery in stipulated time frame with relaxation from lockdown
- On the pricing front, CPVC prices during the period remained firm due to anti-dumping duty by the government
- Most CPVC players have taken price hikes in CPVC products (to the tune of 4-5%) to offset losses from volatile currency movements. Astral is also planning to take same price hike in the coming quarter
- PVC prices saw a correction of ~11% in March-May 2020. However, the same started moving northward. The company has partially passed on the benefit of lower price to its customers
- Astral's new Odisha plant will be operationalised by the end of FY21 (plant capacity of ~30000 MT). The total manufacturing capacity would be ~2.5 lakh metric tonnes by FY21E
- The inventory level of piping products was significantly higher in March 2020. However, the same started getting normalised with improvement in dealer offtake
- They guided that gross margin will be sustainable in the near to medium term, mainly supported by benign raw material prices and price hikes in CPVC categories
- The management has guided for capex of ₹ 60 crore for FY21 (cut down from earlier guidance of ₹ 100 crore)

Adhesive business

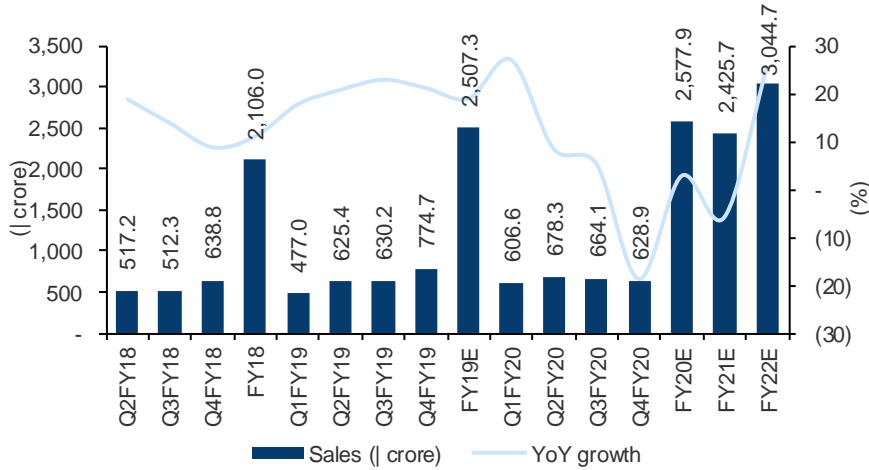
- The adhesive segment topline was down marginally by ~0.8% YoY for February-April 2020 (for 11 months). Resinova is undergoing parallel corrections & structural change from three-tier distribution to two-tier distribution.
- The revenue decline in the segment was much prominent at ~60% YoY in March 2020 to ₹ 32 crore due to lockdown
- The EBITDA margin marginally declined 40 bps YoY at 13.1% for FY20E. The management guided that EBITDA margins would be in line with the company's margins in coming years
- Structural changes would lead to increase in margins, which would be partly passed on to distributors, thus increasing sales and margins
- International business in the US and UK are moving towards stabilisation (reached ~70% of pre-Covid-19 level)

Others

- All plants of the company have started operations with relaxations from lockdown
- Operations in major cities like Bangalore, Hyderabad, Delhi and Ahmedabad are getting normalised
- The company has ~₹ 20 crore of monthly fixed expense, which can achieve breakeven at 30-35% of plant utilisation
- April was a complete washout due to lockdown. However, a gradual recovery in demand started from May
- The company is working towards rationalisation of cost structure and planning to cut advertisement and promotional cost, which is currently ~3.5% of sales
- A sharp increase in employee cost during FY20 (increased 135 bps YoY) due to addition of new employees at senior level
- The company's solar power plant will be operationalised from July 2020. This would help in saving annual cost of ₹ 8 crore
- The inventory days shot up from 58 days in FY19 to 77 days in FY20 due to lockdown situation in March. However, this was partially offset by a reduction in debtors days, which declined by 49 days in FY19 to 32 days in FY20 (lower sales and improved collections)

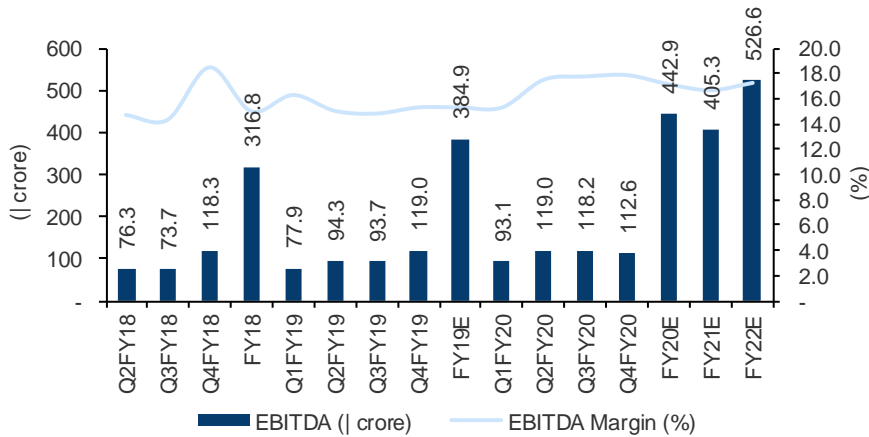
Financial story in charts

Exhibit 4: Gradual recovery in revenue from H2FY21E



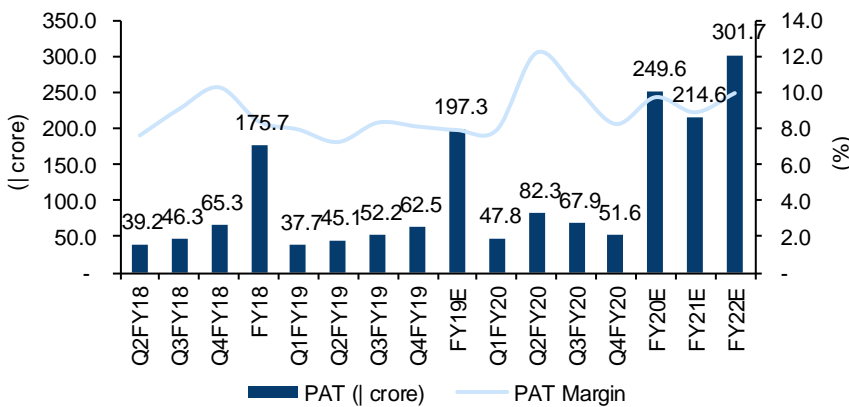
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin to remain at elevated level



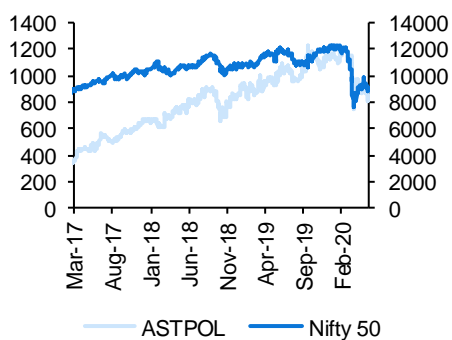
Source: Company, ICICI Direct Research

Exhibit 6: Strong PAT growth, going forward



Source: Company, ICICI Direct Research

Exhibit 7: Historical Price chart



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Shareholding Pattern

| (in %) | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 |
|----------|--------|--------|--------|--------|--------|
| Promoter | 49.7 | 49.7 | 49.7 | 49.7 | 49.9 |
| FII | 8.5 | 8.4 | 8.1 | 8.2 | 8.0 |
| DII | 12.2 | 13.6 | 14.2 | 14.5 | 8.8 |
| Others | 29.6 | 28.3 | 28.0 | 27.6 | 33.3 |

Source: Company, ICICI Direct Research

Financial Summary

| Profit and loss statement | | | | |
|---------------------------|---------------|---------------|---------------|---------------|
| ₹ crore | | | | |
| Year end March | FY19 | FY20E | FY21E | FY22E |
| Net Sales | 2507.3 | 2577.9 | 2425.7 | 3044.7 |
| YoY (%) | | 2.8 | -5.9 | 25.5 |
| Other income | 15.4 | 12.1 | 13.2 | 14.4 |
| Total Revenue | 2522.7 | 2590.0 | 2438.9 | 3059.0 |
| Expenditure | | | | |
| Cons of raw material | 1608.0 | 1573.0 | 1438.7 | 1831.9 |
| Pur. of traded goods | 39.7 | 22.7 | 23.3 | 19.9 |
| Employee cost | 139.1 | 175.2 | 186.6 | 206.6 |
| Other expenses | 335.5 | 364.1 | 371.8 | 459.7 |
| Total expenses | 2122.4 | 2135.0 | 2020.4 | 2518.1 |
| EBITDA | 384.9 | 442.9 | 405.3 | 526.6 |
| YoY (%) | | 15.1 | -8.5 | 29.9 |
| Interest | 32.0 | 39.4 | 15.6 | 8.9 |
| PBDT | 368.4 | 415.6 | 402.9 | 532.1 |
| Depreciation | 81.4 | 107.9 | 116.4 | 124.8 |
| Profit before tax | 287.0 | 307.7 | 286.5 | 407.2 |
| Total Tax | 86.1 | 56.5 | 70.2 | 104.0 |
| PAT before MI | 200.9 | 251.2 | 216.2 | 303.3 |
| Exc. Items | -3.6 | -1.6 | -1.6 | -1.6 |
| PAT | 197.3 | 249.6 | 214.6 | 301.7 |
| YoY (%) | | 26.5 | -14.0 | 40.5 |

Source: Company, ICICI Direct Research

| Exhibit 10: Balance sheet | | | | |
|---------------------------|---------------|---------------|---------------|---------------|
| ₹ crore | | | | |
| Year end March | FY19 | FY20E | FY21E | FY22E |
| Equity Capital | 12.0 | 15.1 | 15.1 | 15.1 |
| Reserve and Surplus | 1265.7 | 1487.8 | 1692.9 | 1940.1 |
| Total Shareholders fund | 1277.6 | 1502.9 | 1708.0 | 1955.2 |
| Total Debt | 193.5 | 129.1 | 79.1 | 39.1 |
| Other Non Current Liab | 136.7 | 119.6 | 121.6 | 123.6 |
| Total Liability | 1539.5 | 1691.8 | 1847.9 | 2056.1 |
| Fixed Assets | | | | |
| Gross Block | 1219.9 | 1475.8 | 1575.8 | 1755.8 |
| Accumulated Depreciat | 368.3 | 476.2 | 592.6 | 717.4 |
| Net Block | 851.7 | 999.6 | 983.2 | 1038.3 |
| Capital WIP | 80.8 | 44.4 | 44.4 | 44.4 |
| Total Fixed Assets | 932.4 | 1044.0 | 1027.6 | 1082.7 |
| Goodwill on Consolidati | 253.8 | 255.3 | 305.3 | 355.3 |
| Current Assets | | | | |
| Inventory | 395.8 | 540.4 | 531.7 | 617.3 |
| Debtors | 339.1 | 227.8 | 385.5 | 458.8 |
| Loans and Advances | 7.3 | 12.4 | 2.2 | 2.7 |
| Other Current Assets | 41.5 | 64.7 | 66.5 | 76.4 |
| Cash | 98.1 | 130.1 | 45.0 | 71.9 |
| Total Current Assets | 881.9 | 975.4 | 1030.8 | 1227.1 |
| Current Liabilities | | | | |
| Creditors | 389.7 | 475.4 | 418.7 | 483.8 |
| Provisions | 6.0 | 6.6 | 3.0 | 3.5 |
| Other current liabilities | 164.0 | 115.4 | 108.6 | 136.3 |
| Total Current Liabilities | 559.8 | 597.4 | 530.3 | 623.6 |
| Net Current Assets | 322.1 | 378.0 | 500.6 | 603.6 |
| Deferred Tax Assets | 0.1 | 0.1 | 0.1 | 0.1 |
| Total Asset | 1539.5 | 1691.8 | 1847.9 | 2056.1 |

Source: Company, ICICI Direct Research

| Exhibit 9: Cash flow statement | | | | |
|----------------------------------|---------------|---------------|---------------|---------------|
| ₹ crore | | | | |
| Year end March | FY19 | FY20E | FY21E | FY22E |
| Profit/(Loss) after taxation | 197.3 | 249.6 | 214.6 | 301.7 |
| Add: Depreciation & Amortiza | 81.4 | 107.9 | 116.4 | 124.8 |
| Add: Interest Paid | 32.0 | 39.4 | 15.6 | 8.9 |
| C/F bef working capital chg. | 310.7 | 396.9 | 346.7 | 435.4 |
| Net Increase in Current Asset | -84.4 | -61.6 | -140.5 | -169.4 |
| Net Increase in Current Liabili | 72.5 | 37.6 | -67.1 | 93.3 |
| Net CF from operating act | 298.7 | 373.0 | 139.1 | 359.2 |
| (Inc)/Dec in Goodwill on Cons | | | | |
| | -19.1 | -1.5 | -50.0 | -50.0 |
| (Purchase)/Sale of Fixed Ass | | | | |
| | -333.0 | -219.5 | -100.0 | -180.0 |
| Others | | | | |
| | 21.8 | -8.6 | 1.0 | 1.0 |
| Net Cf from Investing Act | -344.9 | -212.8 | -149.0 | -229.0 |
| Pro/(Rept) of/from Loan | | | | |
| | 70.5 | -64.4 | -50.0 | -40.0 |
| (Payment) of Div & Div Tax | | | | |
| | -7.3 | 0.0 | -32.7 | -54.5 |
| Others | | | | |
| | 39.7 | -63.8 | 7.6 | -8.9 |
| Net Cf from Financing Act | 103.0 | -128.1 | -75.1 | -103.4 |
| Net Cash flow | | | | |
| | 56.8 | 32.0 | -85.1 | 26.9 |
| Cash and Cash Equi at the be | | | | |
| | 41.3 | 98.1 | 130.1 | 45.0 |
| Cash and Cash Equi at the | 98.1 | 130.1 | 45.0 | 71.9 |

Source: Company, ICICI Direct Research

| Exhibit 11: Key ratios | | | | |
|----------------------------|------|-------|-------|-------|
| ₹ crore | | | | |
| Year end March | FY19 | FY20E | FY21E | FY22E |
| Per share Data | | | | |
| EPS | 13.1 | 16.6 | 14.2 | 20.0 |
| Cash EPS | 18.5 | 23.7 | 22.0 | 28.3 |
| Dividend per share | 0.5 | 0.0 | 2.2 | 3.6 |
| BV per share | 84.8 | 99.8 | 113.4 | 129.8 |
| Profitability Ratio | | | | |
| EBITDA margin | 15.4 | 17.2 | 16.7 | 17.3 |
| PAT margin | 7.9 | 9.7 | 8.8 | 9.9 |
| Return Ratios | | | | |
| RoCE | 20.7 | 20.5 | 16.3 | 20.2 |
| RoNW | 15.4 | 16.6 | 12.6 | 15.4 |
| RoIC | 24.5 | 24.6 | 18.7 | 23.5 |
| Valuation Ratios | | | | |
| P/E | 62.3 | 49.3 | 57.3 | 40.8 |
| EV / EBITDA | 32.2 | 27.8 | 30.4 | 23.3 |
| Market Cap / Sales | 4.9 | 4.8 | 5.1 | 4.0 |
| Price to Book Value | 9.6 | 8.2 | 7.2 | 6.3 |
| Activity Ratios | | | | |
| Inventory Days | 57.6 | 76.5 | 80.0 | 74.0 |
| Debtor Days | 49.4 | 32.3 | 58.0 | 55.0 |
| Creditor Days | 56.7 | 67.3 | 63.0 | 58.0 |
| Gross Block Turnover | 2.1 | 1.7 | 1.5 | 1.7 |
| Solvency Ratio | | | | |
| Debt / Equity | 0.2 | 0.1 | 0.0 | 0.0 |
| Debt / EBITDA | 0.5 | 0.3 | 0.2 | 0.1 |
| Current Ratio | 2.0 | 1.8 | 2.3 | 2.4 |
| Quick Ratio | 1.0 | 0.6 | 1.1 | 1.1 |

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct Coverage Universe (Consumer Discretionary)

| Sector / Company | CMP | | | M Cap (₹Cr) | EPS (₹) | | | P/E (x) | | | EV/EBITDA (x) | | | RoCE (%) | | | RoE (%) | | |
|------------------------------|-------|-------|--------|----------------|---------|-------|-------|---------|-------|-------|---------------|-------|-------|----------|-------|-------|---------|-------|-------|
| | (₹) | TP(₹) | Rating | | FY20E | FY21E | FY22E | FY20E | FY21E | FY22E | FY20E | FY21E | FY22E | FY20E | FY21E | FY22E | FY20E | FY21E | FY22E |
| Asian Paints (ASIPAI) | 1,621 | 1,900 | Buy | 1,55,454 | 29.9 | 32.5 | 38.6 | 54.2 | 49.9 | 42.0 | 36.3 | 33.1 | 27.9 | 30.7 | 31.5 | 33.5 | 26.6 | 26.3 | 27.8 |
| Astral Polytechnik (ASTP) | 816 | 900 | Hold | 12,294 | 16.6 | 14.2 | 20.0 | 49.3 | 57.3 | 40.8 | 27.8 | 30.4 | 23.3 | 20.5 | 16.3 | 20.2 | 16.6 | 12.6 | 15.4 |
| Havells India (HAVIND) | 459 | 575 | Buy | 28,637 | 11.7 | 7.8 | 13.2 | 39.1 | 58.6 | 34.7 | 29.0 | 36.8 | 23.3 | 19.6 | 14.0 | 21.2 | 17.0 | 11.2 | 17.1 |
| Kansai Nerolac (KANNE) | 348 | 415 | Buy | 18,754 | 9.9 | 7.8 | 10.4 | 35.0 | 44.5 | 33.4 | 26.6 | 31.2 | 24.1 | 17.6 | 14.5 | 17.9 | 14.1 | 11.1 | 13.7 |
| Pidilite Industries (PIDINI) | 1,415 | 1,485 | Buy | 72,544 | 25.0 | 26.7 | 31.3 | 56.6 | 53.0 | 45.2 | 37.9 | 35.8 | 30.5 | 32.7 | 30.6 | 30.9 | 26.6 | 24.5 | 24.6 |
| Supreme Indus (SUPINC) | 978 | 1,040 | Hold | 12,423 | 38.5 | 36.8 | 27.6 | 39.7 | 26.6 | 35.4 | 15.1 | 18.3 | 13.9 | 22.5 | 15.7 | 21.1 | 20.7 | 15.0 | 19.5 |
| Voltas Ltd (VOLTAS) | 456 | 535 | Hold | 15,081 | 16.6 | 17.6 | 21.4 | 27.5 | 25.9 | 21.3 | 21.1 | 21.0 | 16.9 | 21.1 | 19.6 | 21.7 | 14.8 | 14.1 | 15.9 |

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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