Astral Poly Technik

Accumulate

Result Update

De-growth in pipes business due low demand from urban areas, adhesive business remains laggard for the quarter. Story remains intact. Maintain Accumulate

- Astral Poly Technik (ASTRA) Q1FY21 numbers were in line with estimates on revenue front. Volume de-growth of 31.3% YoY and 5.5% QoQ due to lockdown situation, major volumes lost in Tier 1 cities as construction activities were stalled. As adhesives business falls under non-essential category the plants started operations later in May affecting the business.
- Adhesive segment in the month of July showed a positive growth after a subdued previous quarter. 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. The structural changes are completely complete now.
- 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 1,058. (55x FY22E).

Pipe Segment- High growth engine for long term

During Q1FY21, piping segment de-growth was 35.5% QoQ, however realisations de-grew 2.9% sequentially. In the month of April there was a volume de-growth of 93%, in May de-growth was 19%, in June de-growth was 4% and in July de-growth was 4% YoY. They lost sizeable sales in April as the plants were also shut, however from May to July they have moved fast on recovery path and recovered more than 91% of sales. Their contribution in the agri segment is negligible, so the company was highest affected. (Cont.)

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	4,039	6,066	(33.4)	6,289	(35.8)
Total Expense	3,496	5,135	(31.9)	5,163	(32.3)
EBITDA	543	931	(41.7)	1,126	(51.8)
Depreciation	285	244	16.8	289	(1.4)
EBIT	258	687	(62.4)	837	(69.2)
Other Income	39	68	(42.6)	1	3800.0
Interest	59	73	(19.2)	181	(67.4)
EBT	238	682	(65.1)	657	(63.8)
Tax	25	202	(87.6)	135	(81.5)
RPAT	213	480	(55.6)	522	(59.2)
APAT	203	478	(57.5)	516	(60.7)
			(bps)		(bps)
Gross Margin (%)	34.4	36.1	(164)	38.0	(354)
EBITDA Margin (%)	13.4	15.3	(190)	17.9	(446)
NPM (%)	5.3	7.9	(264)	8.3	(303)
Tax Rate (%)	10.5	29.6	(1911)	20.5	(1004)
EBIT Margin (%)	6.4	11.3	(494)	13.3	(692)

CMP	Rs 950
Target / Upside	Rs 1,058 / 11%
BSE Sensex	37,710
NSE Nifty	11,102

Scrip Details

Equity / FV	Rs 151mn / Rs 1
Market Cap	Rs 143bn
	USD 2bn
52-week High/Low	Rs 1,369/Rs 746
Avg. Volume (no)	161,637
NSE Symbol	ASTRAL
Bloomberg Code	ASTRA IN

Shareholding Pattern Jun'20(%)

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

Valuation (x)

	FY20A	FY21E	FY22E
P/E	57.5	69.7	50.3
EV/EBITDA	32.4	37.0	27.6
ROE (%)	18.0	12.8	15.5
RoACE (%)	17.6	13.3	16.0

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	25,779	23,803	26,454
EBITDA	4,429	3,860	5,150
PAT	2,496	2,059	2,853
EPS (Rs.)	16.5	13.6	18.9

AVP Research: Nidhi Doshi
Tel: +91 22 40969795
E-mail: nidhid@dolatcapital.com

New construction activities are picking up pace slowly from July onwards. Astral's focus on rural India has got volumes. Tier 1 cities still continue to be a laggard. With government push and new schemes this segment is expected to grow manifold from H2FY21. Investments in the brand has enabled ASTRA to maintain premium pricing and protect margins.

Adhesive Segment

Since adhesive segment doesn't fall under essential services, the opening up of plants were delayed. However, there was a de-growth in monthly sales value in April by 68%, in May by 39% and in June by 13%. In July the adhesives segment was on a recovery mode and there was a growth in sales value by 26% YoY. They have recovered 91% of its sales in adhesives 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. The East plant will commercialise by Sep'21. We believe that having plants across India will provide logistic advantage to ASTRA in the longer run. Logistics cost is 8-14% of the product cost. 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. Plan to set up state of Art adhesive plant at Dahej is been delayed this year.

Exhibit 1: Actual V/s DART estimates

Particulars (Rs Mn)	Actual	DART Estimate	Deviation (%)	Comments
Revenue	4,039	4,021	0.4	
EBITDA	543	610	(11.0)	Margins recovered in a phased manner as prices recovered in a phased manner.
EBITDA Margin (%)	13.4	15.2	(173)	
PAT	203	275	(26.2)	Other income reduced significantly. Depreciation cost increased.

Source: Company, DART

Exhibit 2: Change in estimates

Rs Mn	FY21E			FY22E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	23,803	23,803	0.0	26,454	26,102	1.3
EBITDA	3,860	3,860	0.0	5,150	5,074	1.5
EBITDA Margin (%)	16.2	16.2	0.0	19.5	19.4	2.7
PAT	2,059	2,059	0.0	2,853	2,796	2.0
EPS (Rs)	13.6	13.6	0.0	18.9	18.5	2.0

Source: Company, DART

Key Highlights (Standalone)

- Net sales decreased by 33% on a YoY basis and by 37.4% on QoQ basis to Rs 3,165 mn.
- Raw material cost decreased by 31.5% on a YoY basis and by 33.4% on a QoQ basis to Rs 2,144 mn.
- Other expenditure has decreased by 50.5% on a YoY basis and by 53.1% on a QoQ to Rs 304 mn.
- Depreciation was flat sequentially to Rs 236 mn.
- Interest cost has reduced on a YoY basis to Rs. 44 mn
- On a YoY basis, net profit has decreased by 51.6% to Rs. 165 mn. Sequentially it was a de-growth of 58%.

Key Highlights (Consolidated)

- Net sales decreased by 33.4% on a YoY basis and by 35.8% QoQ basis to to Rs 4,039 mn.
- Raw material cost decreased by 31.7% on a YoY basis and by 32.1% on a QoQ basis to Rs 2,649 mn.
- Other expenditure has decreased by 49% on a YoY basis and by 50.1% on a QoQ basis to Rs 421 mn.
- Depreciation was flat sequentially at Rs 285 mn.
- Interest cost has decreased to Rs. 59 mn.
- On a YoY basis, there was a de-growth in net profit by 57.5% to Rs 203 mn. It was a de-growth of 60.7% QoQ.

Conference Call Key Highlights

- Started operations at all plants in a phase wise manner. As on today all plants are completely operational with full manpower. There were migrant labour issues at some plants which were solved.
- Astral's priority is to maintain cash cycle, maintaining profits and reduce inventory levels. All these initiatives have helped them get cash in system and become debt free.
- Tier 1 cities were not fully operational. Challenge to sales to Tier 1 cities still continue.
- Dealers and distributors are now holding very low inventory as pre Covid levels due to the economic slowdown.

Piping Segment

- Pipes plants started in April end- May first week. Hosur plant started operations from second week of May. Pipes operation were average 50-55 working days in the quarter.
- Capex for valve project is Rs. 500 mn, part of which is already done. Rs. 200-250 mn of the project cost is already incurred as machinery have already been booked.
- Industrial valves which were completely imported, will now start manufacturing in India.

- Plumbing moulds above 2 inches for both PVC and CPVC which were completely imported will now be manufactured in India.
- Piping segment margins will be maintained at 17%
- Usually, this trend has been observed that in Q1 more of PVC is been sold and from Q2 onwards CPVC starts picking up.
- In Q1FY21, rural has been a major contributor.

Adhesive Segment

- Adhesive plants took a little longer to start as they do not come under essential services. They started operations in second half of May. Average working days were less than 45 working days in the quarter.
- Adhesives structural correction is now complete. And margins will improve from coming quarters.
- There is no channel inventory in Adhesives segment. 50% of the distributors are cash and carry.
- Adhesives segment growth of 26% in July has come across all segments- wood, maintenance and construction chemicals.

Financials

- Receivables for the quarter were below 30 days. Inventories also came down.
- Finished goods at March end was at Rs. 600-630 mn which has further reduced. It is expected that working capital cycle will improve this year.
- ASTRAL Group is now debt free at net level. Loan outstanding as at June 30,2020 was Rs. 1,671 Mn and cash of hand Rs. 1,738 Mn, net cash Rs.67 Mn. Post June they have further repaid its loan to the tune of Rs. 289 Mn.

Capex:

- Capex for FY21 will be Rs. 650-700 mn. Adhesives no major capex will be undertaken.
- Total capex for Orissa plant will be Rs. 500 mn spread over 2 years. Out of which land is already acquired. Rs. 200-250 mn will be incurred this year as building will be ready. It will commercialise by Sep'21.

Exports:

- Astral has increased its focus on exports. They are working on few orders of exports.
- They received an export order of Rs. 120 mn, of which 60% sales will be done in July and rest in August. Margins for these orders are same as domestic markets.

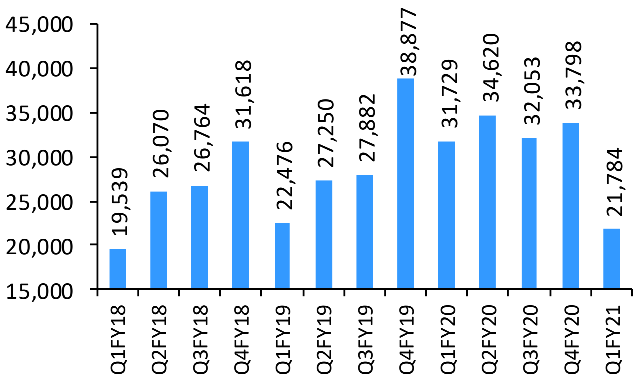
Branding:

- Usually, IPL spend is Rs. 100-120 mn which is spread across Q4 and Q1. This year the budget for IPL will not be more than 50-60% of last year's budget.

Raw Material:

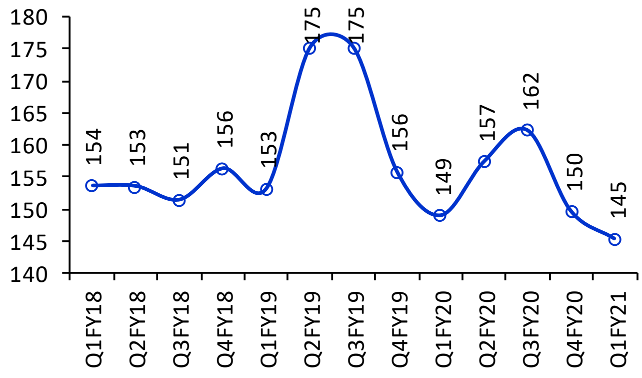
- PVC prices dropped in March by Rs. 13.5/kg which recovered by Rs. 4/kg in May, Rs. 7/kg in June and further recovered by Rs. 1.5/kg in Juy and by Rs. 2/kg in August.

Exhibit 3: Volume (MT)



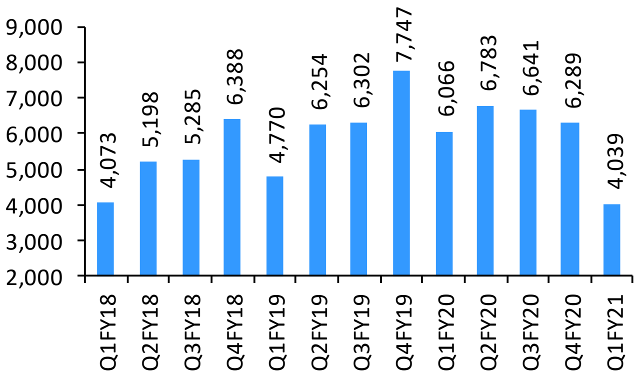
Source: Company, DART

Exhibit 4: Blended Realisation (Rs/kg)



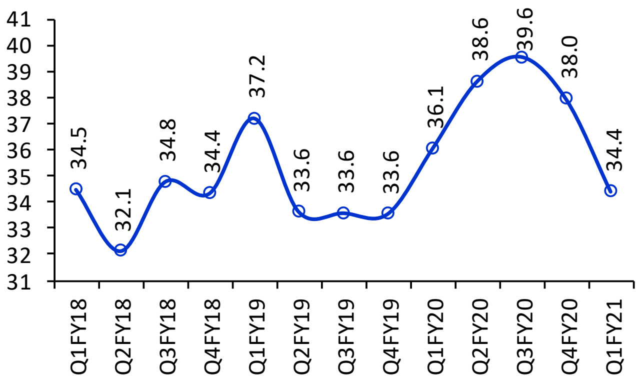
Source: Company, DART

Exhibit 5: Revenue (Rs Mn)



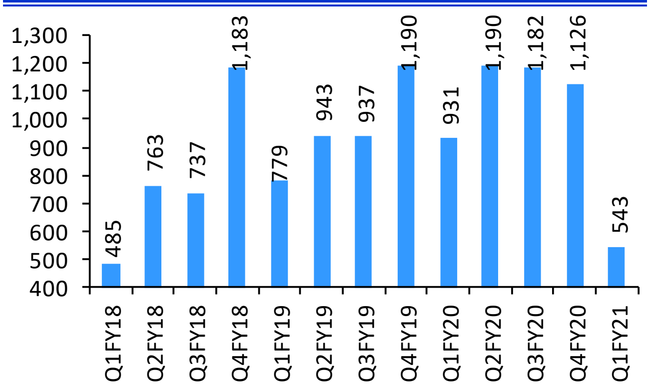
Source: Company, DART

Exhibit 6: Gross Margin (%)



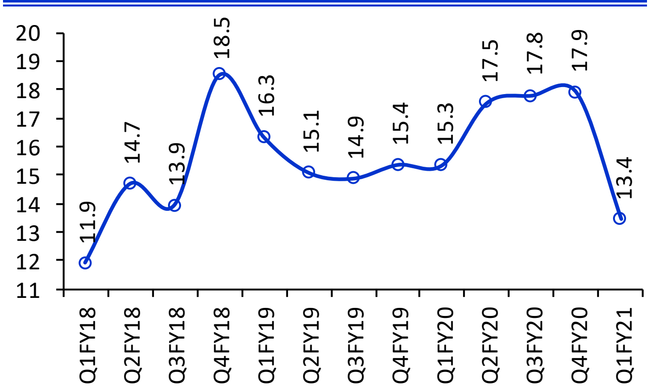
Source: Company, DART

Exhibit 7: Operating Profit (Rs Mn)



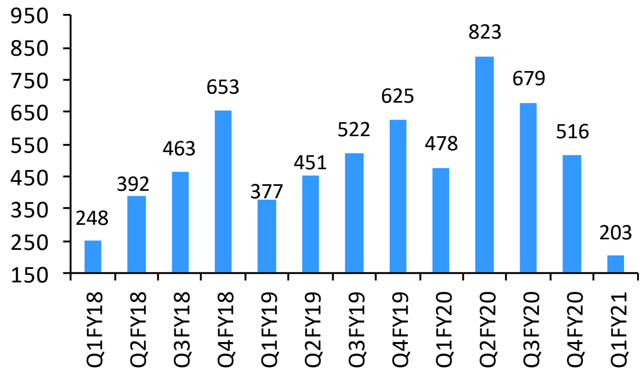
Source: Company, DART

Exhibit 8: OPM (%)



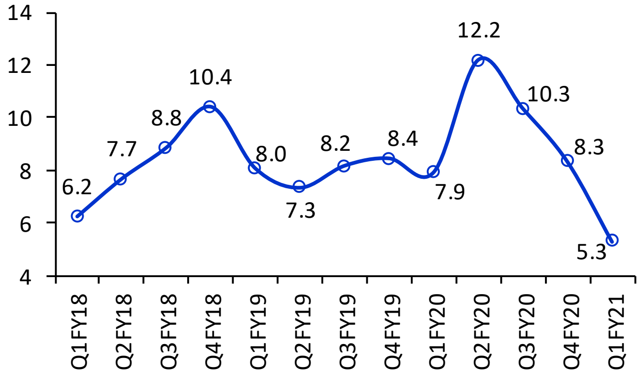
Source: Company, DART

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**	**26,454**
Total Expense	**21,224**	**21,350**	**19,942**	**21,304**
COGS	16,477	15,957	15,795	17,152
Employees Cost	1,391	1,752	911	1,067
Other expenses	3,355	3,641	3,237	3,085
EBIDTA	**3,849**	**4,429**	**3,860**	**5,150**
Depreciation	814	1,079	988	1,268
EBIT	**3,035**	**3,350**	**2,873**	**3,882**
Interest	320	394	326	401
Other Income	154	121	150	300
Exc. / E.O. items	0	0	0	0
EBT	**2,870**	**3,077**	**2,697**	**3,781**
Tax	861	565	618	908
RPAT	1,973	2,496	2,059	2,853
Minority Interest	0	0	0	0
Profit/Loss share of associates	**(36)**	**(16)**	**(20)**	**(20)**
APAT	**1,973**	**2,496**	**2,059**	**2,853**

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	17,054	19,470
Net Worth	**12,777**	**15,029**	**17,205**	**19,621**
Total Debt	2,753	1,270	1,300	1,300
Net Deferred Tax Liability	533	429	500	550
Total Capital Employed	**16,212**	**16,896**	**19,185**	**21,671**
Applications of Funds				
Net Block	**8,517**	**9,996**	**10,109**	**11,001**
CWIP	3,346	2,997	3,267	3,527
Investments	2	2	2	2
Current Assets, Loans & Advances	**9,130**	**9,898**	**9,401**	**11,349**
Inventories	3,958	5,404	4,107	5,164
Receivables	3,391	2,278	1,631	1,981
Cash and Bank Balances	981	1,301	2,088	2,723
Loans and Advances	515	465	1,252	1,159
Other Current Assets	283	448	320	321
Less: Current Liabilities & Provisions	**4,780**	**5,995**	**3,592**	**4,153**
Payables	3,897	4,754	3,660	3,660
Other Current Liabilities	882	1,241	(68)	493
sub total				
Net Current Assets	4,350	3,903	5,809	7,196
Total Assets	**16,212**	**16,896**	**19,185**	**21,671**

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	19.5
EBIT Margin	12.1	13.0	12.1	14.7
Tax rate	30.0	18.4	22.9	24.0
Net Profit Margin	7.9	9.7	8.7	10.8
(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	0.1	0.1
Interest Coverage	9.5	8.5	8.8	9.7
Inventory days	58	77	63	71
Debtors days	49	32	25	27
Average Cost of Debt	13.8	19.6	25.4	30.9
Payable days	57	67	56	50
Working Capital days	63	55	89	99
FA T/O	2.9	2.6	2.4	2.4
(D) Measures of Investment				
AEPS (Rs)	13.1	16.5	13.6	18.9
CEPS (Rs)	18.5	23.7	20.2	27.3
DPS (Rs)	0.6	1.0	3.5	4.5
Dividend Payout (%)	4.2	6.0	25.7	23.8
BVPS (Rs)	84.6	99.5	113.9	129.9
RoANW (%)	17.2	18.0	12.8	15.5
RoACE (%)	16.2	17.6	13.3	16.0
RoAIC (%)	22.3	21.7	17.6	21.5
(E) Valuation Ratios				
CMP (Rs)	950	950	950	950
P/E	72.7	57.5	69.7	50.3
Mcap (Rs Mn)	143,480	143,480	143,480	143,480
MCap/ Sales	5.7	5.6	6.0	5.4
EV	145,250	143,447	142,690	142,056
EV/Sales	5.8	5.6	6.0	5.4
EV/EBITDA	37.7	32.4	37.0	27.6
P/BV	11.2	9.5	8.3	7.3
Dividend Yield (%)	0.1	0.1	0.4	0.5
(F) Growth Rate (%)				
Revenue	19.1	2.8	(7.7)	11.1
EBITDA	21.5	15.1	(12.8)	33.4
EBIT	16.9	10.4	(14.2)	35.1
PBT	14.4	7.2	(12.4)	40.2
APAT	12.3	26.5	(17.5)	38.6
EPS	12.3	26.5	(17.5)	38.6

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	3,441	4,054	5,415	3,205
CFI	(2,934)	(3,177)	(1,806)	(2,008)
CFF	(49)	(1,630)	(1,659)	(616)
FCFF	1,245	1,921	3,002	786
Opening Cash	435	892	139	2,088
Closing Cash	892	139	2,088	2,723

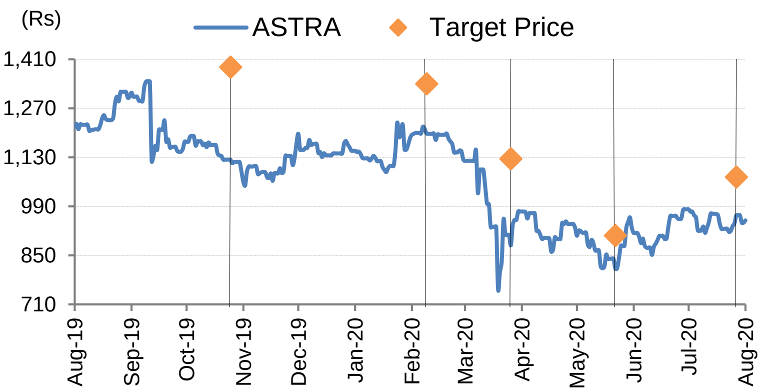
E – Estimates

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.)
Oct-19	BUY	1,388	1,123
Feb-20	BUY	1,340	1,198
Mar-20	Buy	1,126	879
May-20	Accumulate	907	812
Jul-20	Accumulate	1,074	965

*Price as on recommendation date

DART Team

Purvag Shah	**Managing Director**	**purvag@dolatcapital.com**	**+9122 4096 9747**
Amit Khurana, CFA	**Head of Equities**	**amit@dolatcapital.com**	**+9122 4096 9745**

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	**Designation**	**E-mail**	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)

II. Disclaimer:

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Dolat Capital Market Private Limited. and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

For U.S. Entity/ persons only: This research report is a product of Dolat Capital Market Private Limited., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Dolat Capital Market Private Limited. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Dolat Capital Market Private Limited. has entered into an agreement with a U.S. registered broker-dealer Ltd Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer/Entity as informed by Dolat Capital Market Private Limited. from time to time.

Dolat Capital Market Private Limited.

Corporate Identity Number: U65990DD1993PTC009797
Member: BSE Limited and National Stock Exchange of India Limited.
SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685
Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu
Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com