

Accumulate

Demand picked up pace as end markets opened up. Margins showed growth. Story remains intact. Maintain Accumulate

- Astral Poly Technik (ASTRA) Q2FY21 numbers were above our estimates on revenue front and profitability front. Volume growth of 2.2% YoY and 62.4% QoQ in pipe segment as end markets opened up and company had inventory ready and robust distribution network. Pipes business showed a positive growth YoY from Sep'20 onwards.
- Adhesive segment from 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. Growth was seen in adhesives business as structural changes were completed which led to higher margins.
- 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 fully recovered.
- With high growth trajectory and expansion activities in place, valuations will remain expensive. Maintain Accumulate with a target price of Rs 1,303. (54x FY23E).

Pipe Segment- High growth engine for long term

During Q2FY21, piping segment growth was 62.4% QoQ and 2.2% YoY. Realisations grew 10.3% sequentially and 1.9% YoY to Rs. 160/kg as they have passed on all the price increases to the customers. Positive trends were seen in the pipe business from the month of Sep'20 as there was pent up demand with markets opening and in Oct'20 pipes business grew 85% in value terms YoY and 68-70% in volumes terms YoY.

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	7,471	6,783	10.1	4,039	85.0
Total Expense	6,035	5,593	7.9	3,496	72.6
EBITDA	1,436	1,190	20.7	543	164.5
Depreciation	288	272	5.9	285	1.1
EBIT	1,148	918	25.1	258	345.0
Other Income	49	30	63.3	39	25.6
Interest	(9)	89	(110.1)	59	(115.3)
EBT	1,206	859	40.4	238	406.7
Tax	283	34	732.4	25	1032.0
RPAT	879	823	6.8	203	333.0
APAT	879	823	6.8	203	333.0
			(bps)		(bps)
Gross Margin (%)	38.3	38.6	(32)	34.4	389
EBITDA Margin (%)	19.2	17.5	168	13.4	578
NPM (%)	11.8	12.1	(37)	5.0	674
Tax Rate (%)	23.5	4.0	1951	10.5	1296
EBIT Margin (%)	15.4	13.5	183	6.4	898

CMP	Rs 1,166
Target / Upside	Rs 1,303 / 12%
NIFTY	12,264

Scrip Details

Equity / FV	Rs 151mn / Rs 1
Market Cap	Rs 176bn
	USD 2bn
52-week High/Low	Rs 1,315/ 746
Avg. Volume (no)	1,45,709
Bloom Code	ASTRA IN

Price Performance	1M	3M	12M
Absolute (%)	0	11	7
Rel to NIFTY (%)	(5)	1	4

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	55.7	55.7	55.7
MF/Banks/FIs	7.6	7.6	8.9
FIIIs	23.2	23.2	21.0
Public / Others	13.5	13.5	14.4

Valuation (x)

	FY21E	FY22E	FY23E
P/E	80.9	61.6	48.3
EV/EBITDA	43.7	33.9	26.9
ROE (%)	13.5	15.4	17.1
RoACE (%)	13.9	16.0	17.6

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	24,647	27,553	33,923
EBITDA	4,017	5,157	6,438
PAT	2,176	2,858	3,644
EPS (Rs.)	14.4	18.9	24.1

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However, such growth is not sustainable, but with construction activities picking up demand for CPVC products will pick pace. Their contribution in the agri segment and infrastructure segment is negligible, so the company was affected. Metro cities will now start contributing to the mix. Gross margins have declined as the CPVC mix is reduced in the quarter. However, it will improve with demand coming from metro cities. 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

From July'20 onwards, the adhesives segment was on a recovery mode and there was a growth in sales value by 55% YoY in Oct'20. 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 with new product launched taking place.

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 Q2FY22. 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.

Exhibit 1: Actual V/s DART estimates

Particulars (Rs Mn)	Actual	DART Estimate	Deviation (%)	Comments
Revenue	7,471	5,420	37.8	Volume growth from pipe and adhesive business.
EBITDA	1,436	850	68.9	
EBITDA Margin (%)	19.2	15.7	354	PVC had shown an upward trend so there were some inventory gains on account of that.
PAT	879	430	104.4	Significant reduction in interest cost and increase of other income.

Source: Company, DART

Exhibit 2: Change in estimates

Rs Mn	FY21E			FY22E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	24,647	23,803	3.5	27,553	26,454	4.2
EBITDA	4,017	3,860	4.0	5,157	5,150	0.1
EBITDA Margin (%)	16.3	16.2	7.8	18.7	19.5	-75.2
PAT	2,176	2,059	5.7	2,858	2,853	0.2
EPS (Rs)	14.4	13.6	5.7	18.9	18.9	0.2

Source: Company, DART

Exhibit 3: Half year performance (Standalone)

Particulars (Rs.mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Net Sales	5,670	5,446	4.1	3,165	79.1	8,835	10,171	(13.1)
Total Income	5,670	5,446	4.1	3,165	79.1	8,835	10,171	(13.1)
Expenditure	4,517	4,448	1.6	2,695	67.6	7,212	8,441	(14.6)
Consumption of Raw Materials	3,522	3,429	2.7	2,144	64.3	5,666	6,558	(13.6)
Staff Cost	272	275	(1.1)	247	10.1	519	525	(1.1)
Other Expenditure	723	744	(2.8)	304	137.8	1,027	1,358	(24.4)
Operating Profit	1,153	998	15.5	470	145.3	1,623	1,730	(6.2)
Other Income	39	27	44.4	30	30.0	69	86	(19.8)
Interest	(23)	77	(129.9)	44	(152.3)	21	137	
Depreciation	239	225	6.2	236	1.3	475	429	10.7
Exceptional Items - Gain / (Loss)	70					70		
PBT	906	723	25.3	220	311.8	1,126	1,250	(9.9)
Tax	245	26	842.3	55	345.5	300	212	41.5
Net Profit	661	697	(5.2)	165	300.6	826	1,038	(20.4)
Other Comprehensive Income	0	(1)					(1)	
Total Comprehensive Income	661	696	(5.0)	165	300.6	826	1,037	(20.3)
Equity	151	151	-	151		151	151	-
EPS (in Rs.)	4.38	4.62	(5.2)	1.09	300.6	5.47	6.87	(20.4)
OPM (%)	20.3	18.3	-	14.8	-	18.4	17.0	-
NPM (%)	11.7	12.8	-	5.2	-	9.3	10.2	-
Sales Volumes (in MT)	35,373	34,620	2.2	21,784	62.4	57,157	66,349	(13.9)
Blended Realization (Rs per Kg)	160	157	1.9	145	10.3	155	153	0.8

Source: Company, DART

Key Highlights

Consolidated

- Net sales increased by 10% on a YoY basis and by 85% QoQ basis to Rs 7,471 mn.
- Raw material cost increased by 10.7% on a YoY basis and by 74% on a QoQ basis to Rs 4,609 mn.
- Other expenditure has decreased by 1.7% on a YoY basis and increased by 123% on a QoQ basis to Rs 941 mn.
- Depreciation was flat sequentially at Rs 288 mn.
- Interest cost has decreased substantially.
- On a YoY basis, there was a growth in net profit by 6.8% to Rs 879 mn. It was a growth of 333% QoQ.

Standalone

- Net sales increased by 4.1% on a YoY basis and by 79% on QoQ basis to Rs 5,670 mn.
- Raw material cost increased by 3% on a YoY basis and by 64.3% on a QoQ basis to Rs 3,522 mn.
- Other expenditure has decreased by 3% on a YoY basis and increased by 138% on a QoQ to Rs 723 mn.
- Depreciation was flat sequentially to Rs 239 mn.
- Interest cost has reduced substantially.

- On a YoY basis, net profit has decreased by 5.2% to Rs. 661 mn. Sequentially it was a growth of 301%

Q2FY21 Concall Key Highlights

Pipe Business:

- Pipe Business was slow till August but has now picked up pace from Sep'20. In Oct'20 it showed a growth of 85% YoY in value terms and 68-70% in volume terms, which can be mainly attributed to pent up demand as this can be termed as deferred demand and also with end market opening up and organized company having inventory ready and robust network.
- Growth has started late for ASTRA than its peers as their focus is more on the plumbing side than agri segment. However, they expect growth to continue for plumbing products.
- Planning new product launches which will be announced next month as they are in the last leg of production.
- Demand from metro cities was low. Now metro cities have started picking up pace and will contribute to healthy demand in coming months.
- ASTRL have taken a price cut of 3% in Oct'20 in fast moving CPVC products.

Adhesive Business:

- Business is picking up July and in Oct'20 it showed a growth of 55% YoY in value terms.
- Structural changes were completed in Q4FY20 and few more changes had taken place in H1FY21 whose positive results were seen in quarter in way of margin expansion.
- Further structural changes, network changes and application changes are happening which will be positive for adhesive segment.
- Planning few new product launches in this segment which is at R&D and trial stage.
- UK facility is showing excellent growth and margins are getting better. US business is also getting positive.

Infrastructure Business:

- Demand from infrastructure business is slow as there was a slowdown in government projects.
- In Oct'20, double digit growth is seen. OPM of 15% level.

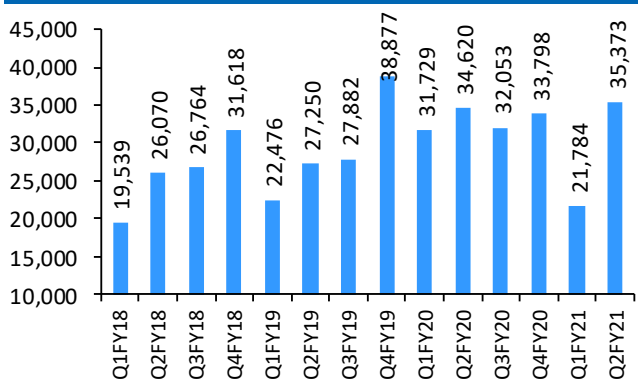
Expansion Projects:

- Construction activities at Orissa plant has just commenced (delayed due to Pandemic) and machinery will be ordered in Q4FY21. Production is expected to start from Q2FY22 and revenues will start clocking from Q3FY22.
- Valves expansion plans is as per schedule and production will start from Q2FY22.
- Minor expansion work is taking place at Santej, Hosur and Ghiloth plants.
- Have installed rooftop solar panels at all plants.

Financials:

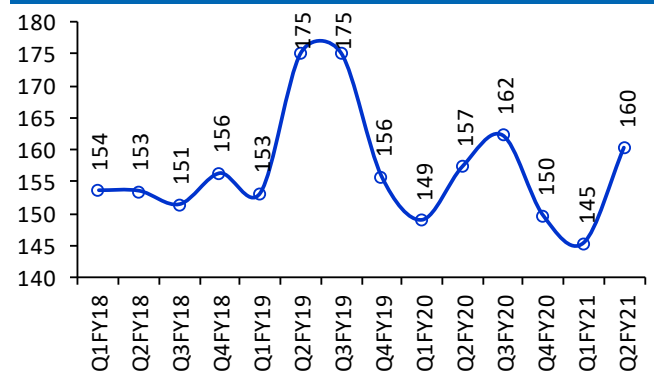
- Operating margins were higher in Q2FY21, as PVC had shown an upward trend so there were some inventory gains on account of that. However, PVC portion for Astral is lesser as compared to CPVC. And most of the PVC is acquired from Reliance. Now, CPVC demand will start.
- Normally, pipes business OPM is 15%-16%.
- They keep their overhead in control, so margins will be maintained.
- Adhesives business OPM were better and there is scope for further improvement.
- Cash position as on Sep'20 is Rs. 2,600 mn.
- They are improving their dividend payout. Declared interim dividend of Re. 1 per share (100%)
- H1FY21 capex was Rs. 370 mn. FY 21 capex plans will be more than their anticipated Rs. 700-800 mn as they plan to launch new products.
- Receivables dropped from Rs. 2,750 mn in Sep'19 to Rs. 2,110 mn in Sep'20 despite of a 10% YoY growth.
- Inventory levels were down from Rs. 4,850 mn in Sep'19 to Rs. 4,410 mn in Sep'20 despite of substantial price rise in PVC segment and 10% growth.
- Payable days were down from Rs. 4,070 mn to Rs. 3,700 mn as there was sizeable gain from currency position.
- In Q2FY21 foreign currency gain was Rs. 39 mn.
- Gross margin was low due to product mix as CPVC was low than PVC in the quarter, which will be corrected in next quarter.
- Gross margin for adhesives business was down as some of the raw material was near expiry and few finished goods expired, which was taken back in the system and destroyed.

Exhibit 4: Volume (MT)

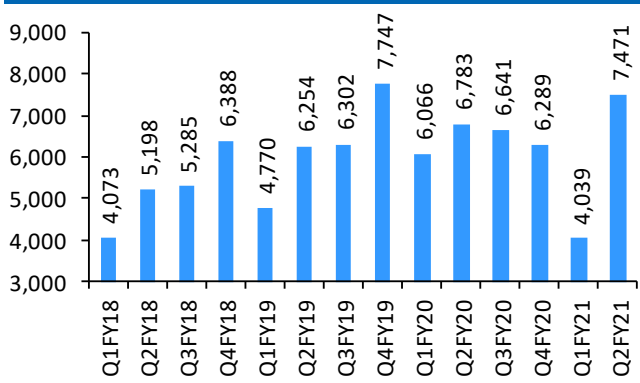


Source: Company, DART

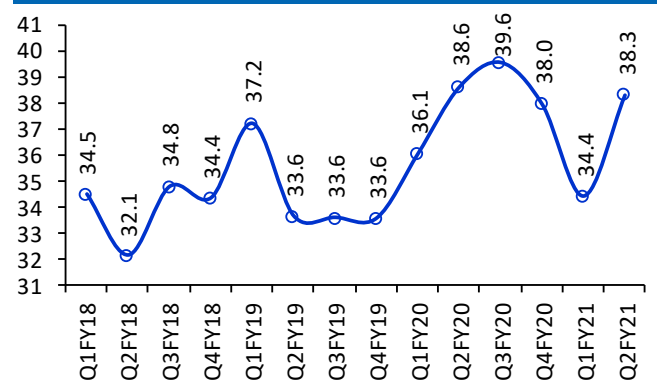
Exhibit 5: Blended Realisation (Rs/kg)



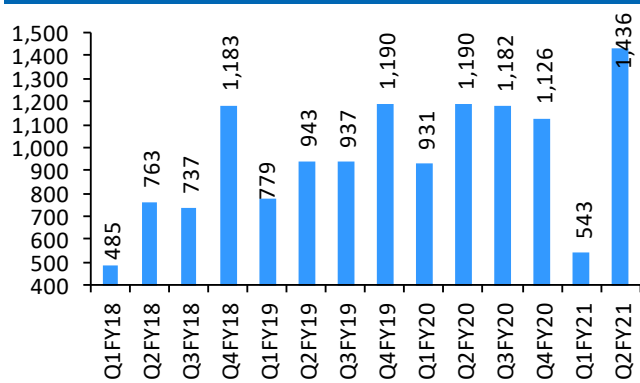
Source: Company, DART

Exhibit 6: Revenue (Rs Mn)


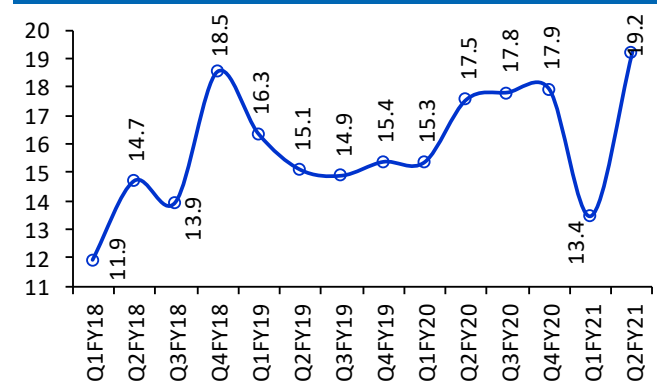
Source: Company, DART

Exhibit 7: Gross Margin (%)


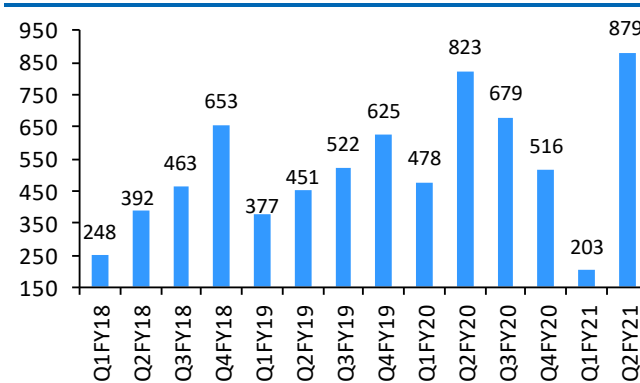
Source: Company, DART

Exhibit 8: Operating Profit (Rs Mn)


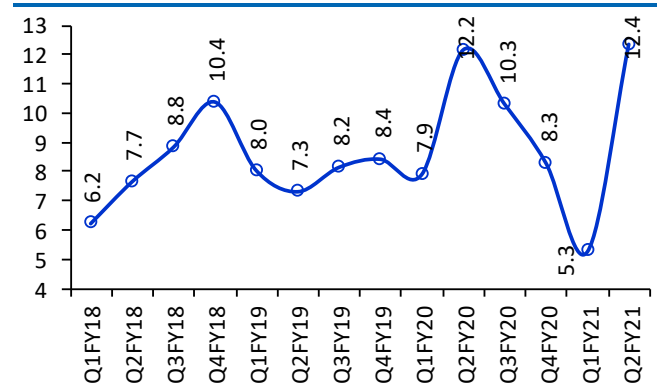
Source: Company, DART

Exhibit 9: OPM (%)


Source: Company, DART

Exhibit 10: Net Profit (Rs Mn)


Source: Company, DART

Exhibit 11: NPM (%)


Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	25,779	24,647	27,553	33,923
Total Expense	21,350	20,631	22,396	27,485
COGS	15,957	16,336	18,085	21,944
Employees Cost	1,752	932	1,105	1,335
Other expenses	3,641	3,363	3,206	4,206
EBIDTA	4,429	4,017	5,157	6,438
Depreciation	1,079	988	1,268	1,436
EBIT	3,350	3,029	3,889	5,002
Interest	394	326	401	460
Other Income	121	150	300	300
Exc. / E.O. items	0	0	0	0
EBT	3,077	2,853	3,788	4,842
Tax	565	657	910	1,179
RPAT	2,496	2,176	2,858	3,644
Minority Interest	0	0	0	0
Profit/Loss share of associates	(16)	(20)	(20)	(20)
APAT	2,496	2,176	2,858	3,644

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	151	151	151	151
Minority Interest	168	180	200	200
Reserves & Surplus	14,878	17,171	19,594	22,763
Net Worth	15,029	17,322	19,745	22,914
Total Debt	1,270	1,300	1,300	1,300
Net Deferred Tax Liability	429	500	550	550
Total Capital Employed	16,896	19,302	21,795	24,964

Applications of Funds

Net Block	9,996	10,109	11,001	11,726
CWIP	2,997	3,267	3,527	3,658
Investments	2	2	2	3
Current Assets, Loans & Advances	9,896	9,251	11,597	15,022
Inventories	5,404	4,283	5,393	6,703
Receivables	2,278	1,687	2,054	2,484
Cash and Bank Balances	1,301	1,710	2,548	4,194
Loans and Advances	465	1,252	1,282	1,319
Other Current Assets	448	320	321	322
Less: Current Liabilities & Provisions	5,995	3,328	4,332	5,445
Payables	4,754	2,000	2,500	3,000
Other Current Liabilities	1,241	1,328	1,832	2,445
		<i>sub total</i>		
Net Current Assets	3,901	5,923	7,265	9,577
Total Assets	16,896	19,302	21,795	24,964

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	38.1	33.7	34.4	35.3
EBIDTA Margin	17.2	16.3	18.7	19.0
EBIT Margin	13.0	12.3	14.1	14.7
Tax rate	18.4	23.0	24.0	24.3
Net Profit Margin	9.7	8.8	10.4	10.7
(B) As Percentage of Net Sales (%)				
COGS	61.9	66.3	65.6	64.7
Employee	6.8	3.8	4.0	3.9
Other	14.1	13.6	11.6	12.4
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage	8.5	9.3	9.7	10.9
Inventory days	77	63	71	72
Debtors days	32	25	27	27
Average Cost of Debt	19.6	25.4	30.9	35.4
Payable days	67	30	33	32
Working Capital days	55	88	96	103
FA T/O	2.6	2.4	2.5	2.9
(D) Measures of Investment				
AEPS (Rs)	16.5	14.4	18.9	24.1
CEPS (Rs)	23.7	21.0	27.3	33.6
DPS (Rs)	1.0	3.5	4.5	5.5
Dividend Payout (%)	6.0	24.3	23.8	22.8
BVPS (Rs)	99.5	114.7	130.8	151.7
RoANW (%)	18.0	13.5	15.4	17.1
RoACE (%)	17.6	13.9	16.0	17.6
RoAIC (%)	21.7	18.3	21.1	25.0
(E) Valuation Ratios				
CMP (Rs)	1166	1166	1166	1166
P/E	70.5	80.9	61.6	48.3
Mcap (Rs Mn)	1,76,066	1,76,066	1,76,066	1,76,066
MCap/ Sales	6.8	7.1	6.4	5.2
EV	1,76,035	1,75,656	1,74,818	1,73,172
EV/Sales	6.8	7.1	6.3	5.1
EV/EBITDA	39.7	43.7	33.9	26.9
P/BV	11.7	10.2	8.9	7.7
Dividend Yield (%)	0.1	0.3	0.4	0.5
(F) Growth Rate (%)				
Revenue	2.8	(4.4)	11.8	23.1
EBITDA	15.1	(9.3)	28.4	24.8
EBIT	10.4	(9.6)	28.4	28.6
PBT	7.2	(7.3)	32.8	27.8
APAT	26.5	(12.8)	31.3	27.5
EPS	26.5	(12.8)	31.3	27.5
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	4,054	3,874	3,463	4,378
CFI	(3,177)	(1,806)	(2,008)	(1,880)
CFF	(1,630)	(1,659)	(616)	(851)
FCFF	1,921	2,623	1,043	2,086
Opening Cash	892	1,301	1,710	2,548
Closing Cash	139	1,710	2,548	4,194

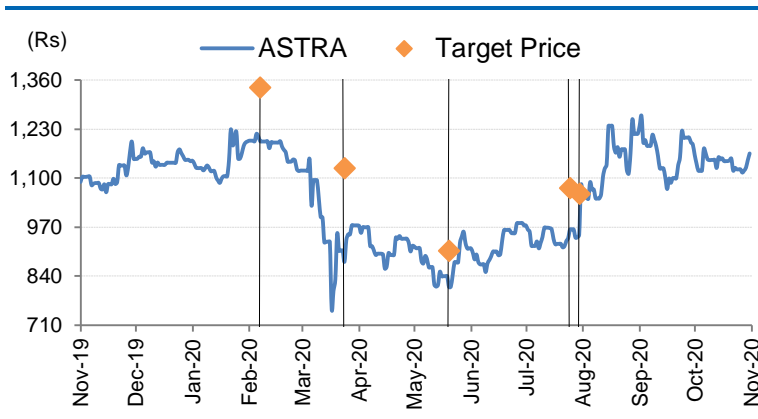
E – Estimates

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-20	BUY	1,340	1,198
Mar-20	Buy	1,126	879
May-20	Accumulate	907	812
Jul-20	Accumulate	1,074	965
Aug-20	Accumulate	1,058	950

*Price as on recommendation date

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