

Accumulate

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

- Astral Poly Technik (ASTRA) Q3FY21 numbers were above our estimates on revenue front and profitability front. Volume growth of 15.1% YoY and 4.3% QoQ in pipe segment with opening up of metro cities 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 and the growth story has continued with positive response. 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 and management has guided to achieve margins of 15-16%.
- With high growth trajectory and expansion activities in place, valuations will remain expensive. Maintain Accumulate with a target price of Rs 2,146. (78x FY23E).

Pipe Segment- High growth engine for long term

During Q3FY21, piping segment growth was 4.3% QoQ and 15.1% YoY. Realisations grew 17.2% sequentially and 15.8% YoY to Rs. 188/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. Pent up demand was seen and with opening of metro cities demand was good.

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	8,975	6,641	35.1	7,471	20.1
Total Expense	7,055	5,459	29.2	6,035	16.9
EBITDA	1,920	1,182	62.4	1,436	33.7
Depreciation	300	274	9.5	288	4.2
EBIT	1,620	908	78.4	1,148	41.1
Other Income	61	22	177.3	49	24.5
Interest	17	51	(66.7)	(9)	(288.9)
EBT	1,664	879	89.3	1,206	38.0
Tax	413	194	112.9	283	45.9
RPAT	1,239	679	82.5	879	41.0
APAT	1,239	679	82.5	879	41.0
			(bps)		(bps)
Gross Margin (%)	38.0	39.6	(154)	38.3	(28)
EBITDA Margin (%)	21.4	17.8	359	19.2	217
NPM (%)	13.8	10.2	358	11.8	204
Tax Rate (%)	24.8	22.1	275	23.5	135
EBIT Margin (%)	18.1	13.7	438	15.4	268

CMP	Rs 1,944
Target / Upside	Rs 2,146 / 10%
NIFTY	14,790

Scrip Details

Equity / FV	Rs 151mn / Rs 1
Market Cap	Rs 294bn
	USD 4bn
52-week High/Low	Rs 2,100/ 746
Avg. Volume (no)	288,471
Bloom Code	ASTRA IN

Price Performance	1M	3M	12M
Absolute (%)	8	72	64
Rel to NIFTY (%)	3	48	40

Shareholding Pattern

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

Valuation (x)

	FY21E	FY22E	FY23E
P/E	110.2	91.0	70.6
EV/EBITDA	67.2	51.7	40.7
ROE (%)	16.3	17.0	18.7
RoACE (%)	16.5	17.4	19.1

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	26,503	29,951	37,258
EBITDA	4,360	5,648	7,122
PAT	2,663	3,225	4,155
EPS (Rs.)	17.6	21.4	27.5

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However, such growth is not sustainable, but with construction activities picking up demand for CPVC products will pick pace. As the government projects are stalled, infrastructure segment did not pick up pace. Metro cities has now started contributing to the mix. With introduction of plastic tanks at 5 locations in next 6-8 months will be a good driver of growth. 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. Expansion in Adhesives is taking place as few new chemistries are undertaken at centralised plant in Dahej which will take place in a phase wise manner. 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 and will see better trajectory in next 3 years.

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.

Conference Call Key Highlights:

Pipe Segment:

- ASTRL's market share in India is 6%, so there is still more room to penetrate. Market share in CPVC is higher.
- They are expanding their value added products of valve manufacturing at Dholka plant which will go in production in Q2FY22.
- Production of fittings for PVC and CPVC at Hosur will start in Q1FY22.
- Volumes for pipes saw a growth of 15% YoY and in the coming months demand for plumbing products is estimated to be good. New product launches are planned for H1FY22.
- Plastic tank business acquisition is almost complete. Production of SARITA tank is now owned by Astral. Astral brand tanks will be supplied from Aurangabad and Santej plant in next one month, from Ghiloth by Q1FY22, from Hosur by Q2FY22 and from Orissa with the opening of the plant. Tanks in all sizes will be available in next 6-8 months from 5 locations.
- Infrastructure segment is slow as government projects are on a standstill. Once government starts allocating funds (positive from budget announcement) this segment will pick up pace next year.

- CPVC demand was good in Q3 and will accelerate in Q4. Mix will be in favour of CPVC in Q4.
- Not expecting any PVC price reduction in Q4. Any reduction if will take place will happen in Q1FY22.
- Jan'21 has seen a growth of 35% in value terms. Adhesives was little higher than pipes.
- They expect double digit volume growth for next 3 years in pipes and tank business.
- Inventory gain on PVC side is there. However, ASTRL has more presence in CPVC side so inventory gains is for them is lesser than other PVC players.

Adhesive Segment:

- Structural correction is all complete and addition to the network of distributors and retailers in going on. Alignment of retailers and distributors is done.
- However, business sentiment is positive for Adhesives business and outlook is good. Resinova is ready to take the growth challenge.
- New chemistries will be launched very soon.
- SEAL IT- UK has done really good as demand and margins have grown.
- US business is doing well and numbers are positive and margins are encouraging. Products from UK sold in the US market is getting good response.

Financials:

- Net cash surplus of Rs. 116 cr
- 9M FY21 capex is Rs. 87 cr, including purchase of water tank business assets.
- Receivable in 9MFY21 was Rs. 237 cr as against Rs. 281 cr YoY.
- Inventory in 9MFY21 was Rs. 478 cr as against Rs. 505 cr YoY. Inventory is under control inspite of rise in raw material prices.
- They are continuously trying to improve their Working capital cycle.

Exhibit 1: Actual V/s DART estimates

Particulars (Rs Mn)	Actual	DART Estimate	Deviation (%)	Comments
Revenue	8,975	6,752	32.9	Volume growth from pipe and adhesive business
EBITDA	1,920	1,172	63.8	Better product mix and sale of value added products
EBITDA Margin (%)	21.4	17.4	403	PVC had shown an upward trend so there were some inventory gains on account of that
PAT	1,239	650	90.6	Significant reduction in interest cost and increase of other income

Source: Company, DART

Exhibit 2: Change in estimates

Rs Mn	FY22E			FY23E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	29,951	27,553	8.7	37,258	33,923	9.8
EBITDA	5,648	5,157	9.5	7,122	6,438	10.6
EBITDA Margin (%)	18.9	18.7	14.3	19.1	19.0	13.6
PAT	3,225	2,858	12.9	4,155	3,644	14.0
EPS (Rs)	21.4	18.9	12.9	27.5	24.1	14.0

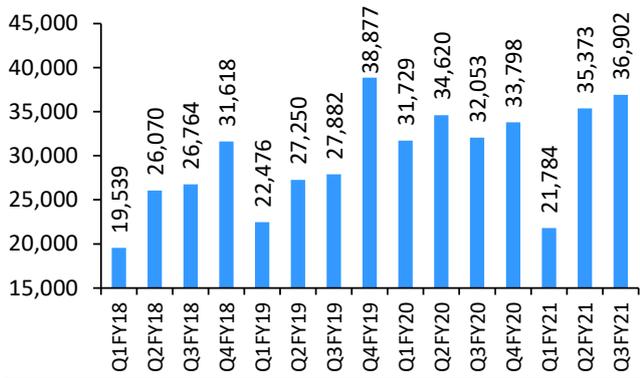
Source: Company, DART

Exhibit 3: Half year performance (Standalone)

Particulars (Rs.mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY20	QoQ (%)	9MFY21	9MFY20	YoY (%)	FY20
Net Sales	6,931	5,200	33.3	5,670	22.2	15,766	15,371	2.6	20,428
Total Income	6,931	5,200	33.3	5,670	22.2	15,766	15,371	2.6	20,428
Expenditure	5,346	4,201	27.3	4,517	18.4	12,558	12,642	(0.7)	16,731
Consumption of Raw Materials	4,321	3,198	35.1	3,522	22.7	9,987	9,756	2.4	12,977
Staff Cost	280	232	20.7	272	2.9	799	757	5.5	977
Other Expenditure	745	771	(3.4)	723	3.0	1,772	2,129	(16.8)	2,777
Operating Profit	1,585	999	58.7	1,153	37.5	3,208	2,729	17.6	3,697
Other Income	45	23	95.7	39	15.4	114	109	4.6	109
Interest	(3)	30	(110.0)	(23)	(87.0)	18	167		337
Depreciation	242	228	6.1	239	1.3	717	657	9.1	899
Exceptional Items - Gain / (Loss)				70		70			25
PBT	1,391	764	82.1	906	53.5	2,517	2,014	25.0	2,545
Tax	351	187	87.7	245	43.3	651	399	63.2	537
Net Profit	1,040	577	80.2	661	57.3	1,866	1,615	15.5	2,008
Other Comprehensive Income		0		0			(1)		(2)
Total Comprehensive Income	1,040	577	80.2	661	57.3	1,866	1,614	15.6	2,006
Equity	151	151	-	151		151	151	-	151
EPS (in Rs.)	6.89	3.82	80.2	4.38	57.3	12.36	10.70	15.5	13.30
OPM (%)	22.9	19.2	-	20.3	-	20.3	17.8	-	18.1
NPM (%)	15.0	11.1	-	11.7	-	11.8	10.5	-	9.8
Sales Volumes (in MT)	36,902	32,053	15.1	35,373	4.3	94,059	98,402	(4.4)	132,200
Blended Realization (in Rs per Kg)	188	162	15.8	160	17.2	168	156	7.3	155

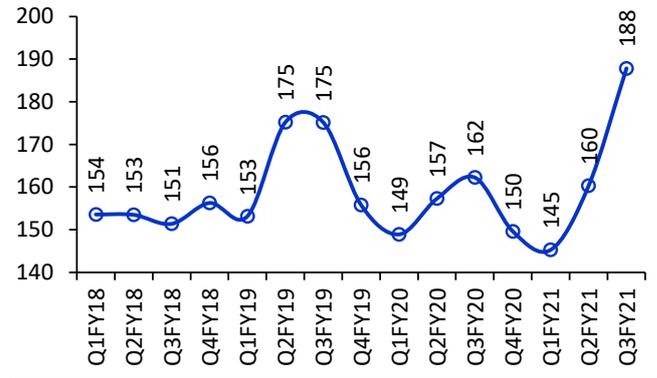
Source: Company, DART

Exhibit 4: Volume (MT)



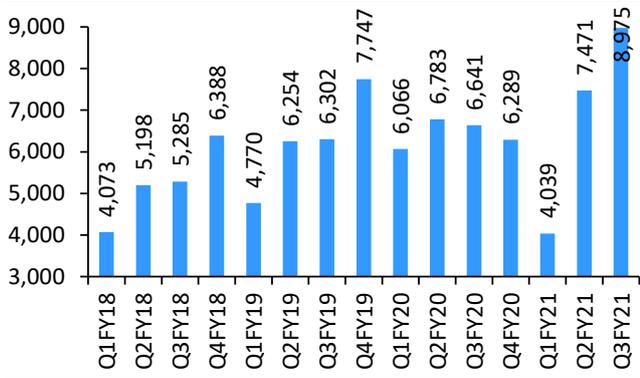
Source: Company, DART

Exhibit 5: Blended Realisation (Rs/kg)



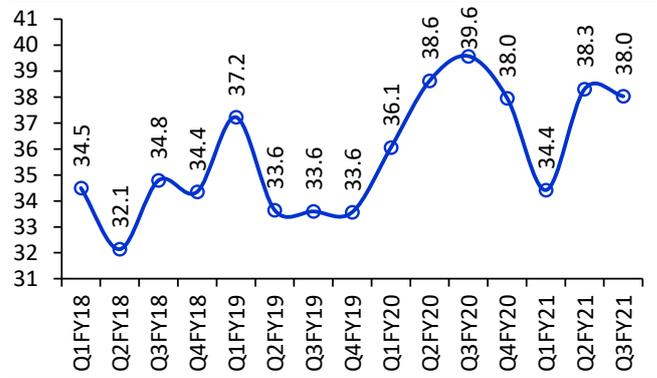
Source: Company, DART

Exhibit 6: Revenue (Rs Mn)



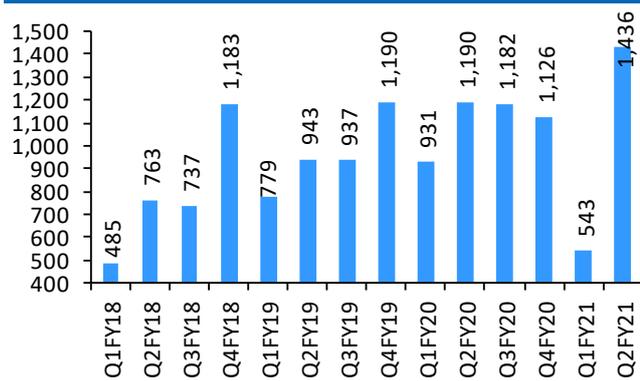
Source: Company, DART

Exhibit 7: Gross Margin (%)



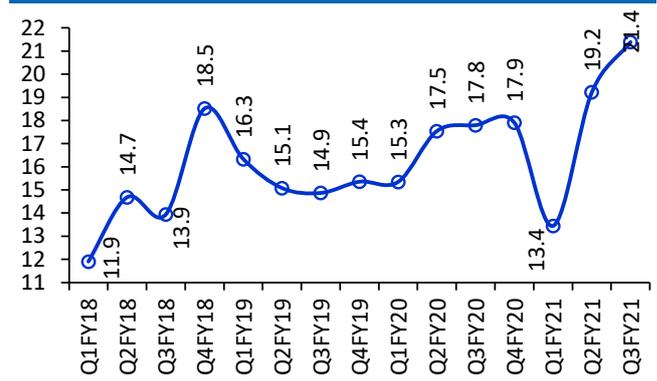
Source: Company, DART

Exhibit 8: Operating Profit (Rs Mn)



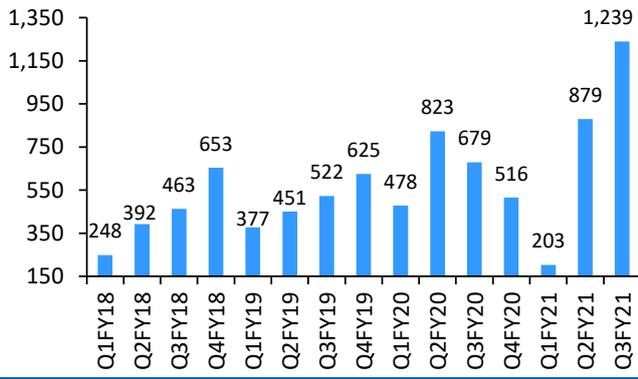
Source: Company, DART

Exhibit 9: OPM (%)



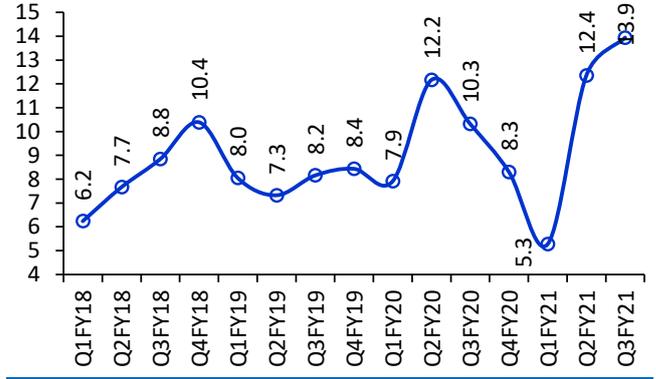
Source: Company, DART

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	26,503	29,951	37,258
Total Expense	21,350	22,143	24,303	30,137
COGS	15,957	17,523	19,644	24,078
Employees Cost	1,752	978	1,189	1,452
Other expenses	3,641	3,642	3,470	4,607
EBIDTA	4,429	4,360	5,648	7,122
Depreciation	1,079	908	1,268	1,436
EBIT	3,350	3,452	4,381	5,686
Interest	394	326	401	460
Other Income	121	300	300	300
Exc. / E.O. items	0	0	0	0
EBT	3,077	3,426	4,279	5,526
Tax	565	743	1,034	1,351
RPAT	2,496	2,663	3,225	4,155
Minority Interest	0	0	0	0
Profit/Loss share of associates	(16)	(20)	(20)	(20)
APAT	2,496	2,663	3,225	4,155

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	17,428	20,219	23,899
Net Worth	15,029	17,579	20,370	24,050
Total Debt	1,270	1,300	1,300	1,300
Net Deferred Tax Liability	429	500	550	550
Total Capital Employed	16,896	19,559	22,420	26,100

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	9,791	12,594	16,667
Inventories	5,404	4,670	5,892	7,397
Receivables	2,278	1,809	2,211	2,704
Cash and Bank Balances	1,301	1,741	2,887	4,925
Loans and Advances	465	1,252	1,282	1,319
Other Current Assets	448	320	321	322
Less: Current Liabilities & Provisions	5,995	3,611	4,703	5,954
Payables	4,754	2,000	2,500	3,000
Other Current Liabilities	1,241	1,611	2,203	2,954
		<i>sub total</i>		
Net Current Assets	3,901	6,180	7,891	10,713
Total Assets	16,896	19,559	22,420	26,100

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	38.1	33.9	34.4	35.4
EBIDTA Margin	17.2	16.5	18.9	19.1
EBIT Margin	13.0	13.0	14.6	15.3
Tax rate	18.4	21.7	24.2	24.4
Net Profit Margin	9.7	10.0	10.8	11.2
(B) As Percentage of Net Sales (%)				
COGS	61.9	66.1	65.6	64.6
Employee	6.8	3.7	4.0	3.9
Other	14.1	13.7	11.6	12.4
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage	8.5	10.6	10.9	12.4
Inventory days	77	64	72	72
Debtors days	32	25	27	26
Average Cost of Debt	19.6	25.4	30.9	35.4
Payable days	67	28	30	29
Working Capital days	55	85	96	105
FA T/O	2.6	2.6	2.7	3.2
(D) Measures of Investment				
AEPS (Rs)	16.5	17.6	21.4	27.5
CEPS (Rs)	23.7	23.6	29.8	37.0
DPS (Rs)	1.0	3.5	4.5	5.5
Dividend Payout (%)	6.0	19.8	21.1	20.0
BVPS (Rs)	99.5	116.4	134.9	159.3
RoANW (%)	18.0	16.3	17.0	18.7
RoACE (%)	17.6	16.5	17.4	19.1
RoAIC (%)	21.7	20.7	23.5	27.9
(E) Valuation Ratios				
CMP (Rs)	1944	1944	1944	1944
P/E	117.6	110.2	91.0	70.6
Mcap (Rs Mn)	293,544	293,544	293,544	293,544
MCap/ Sales	11.4	11.1	9.8	7.9
EV	293,513	293,103	291,957	289,919
EV/Sales	11.4	11.1	9.7	7.8
EV/EBITDA	66.3	67.2	51.7	40.7
P/BV	19.5	16.7	14.4	12.2
Dividend Yield (%)	0.1	0.2	0.2	0.3
(F) Growth Rate (%)				
Revenue	2.8	2.8	13.0	24.4
EBITDA	15.1	(1.6)	29.5	26.1
EBIT	10.4	3.1	26.9	29.8
PBT	7.2	11.3	24.9	29.1
APAT	26.5	6.7	21.1	28.8
EPS	26.5	6.7	21.1	28.8

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	4,054	3,773	3,682	4,633
CFI	(3,177)	(1,806)	(2,008)	(1,880)
CFF	(1,630)	(1,526)	(528)	(714)
FCFF	1,921	2,522	1,263	2,341
Opening Cash	892	1,301	1,741	2,887
Closing Cash	139	1,741	2,887	4,925

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
Nov-20	Accumulate	1,303	1,166

*Price as on recommendation date

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