Sharekhan
by BNP PARIBAS

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Astral Poly Technik Limited

Acceleration in demand; Valuations stretched

Building material	Sharekhan code: ASTRAL	Result Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Hold**	↓
CMP: **Rs. 1,944**	
Price Target: **Rs. 2,100**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

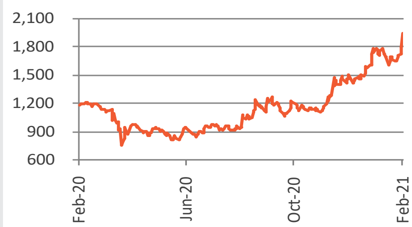
Company details

Market cap:	Rs. 29,292 cr
52-week high/low:	Rs. 2100/748
NSE volume: (No of shares)	1.6 lakh
BSE code:	532830
NSE code:	ASTRAL
Free float: (No of shares)	6.67 cr

Shareholding (%)

Promoters	56
DII	10
FII	20
Others	14

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.3	72.4	105.2	64.6
Relative to Sensex	4.0	48.7	71.9	41.4

Sharekhan Research, Bloomberg

Summary

- We downgrade Astral Poly Technik (Astral) to hold with a revised price target of Rs. 2,100 owing to unfavourable risk-reward ratio awaiting a better entry point.
- In Q3, the company reported better-than-expected performance along with sharp expansion in operating margins. Demand momentum accelerated in Q3 for both pipes and adhesives.
- Long term outlook for pipes and adhesives remains healthy. A sharp increase in PVC price a concern. Expansion plans on track to maintain growth.
- Board recommends bonus issue of 1:3.

Astral Poly Technik's (Astral) reported better-than-expected performance for Q3FY2021 aided by a strong rise in OPM. Its consolidated revenues grew 35.1% y-o-y to Rs. 898 crore led by growth in both pipes (revenues up 33% y-o-y) and adhesives (revenues up 42% y-o-y). Both pipes and adhesives business further gained momentum during Q3 from Q2. The pipes business saw a volume growth of 15.1% y-o-y and realization growth of 15.8% y-o-y (driven by product mix and strong rise in PVC prices). Further, it posted strong OPM surge of 359bps y-o-y (up 217bps q-o-q) to 21.4% which is attributed to higher value added products along with inventory gains arising from low cost PVC inventory. Hence, operating profit grew 62% y-o-y to Rs. 192 crore. Strong operational performance along with higher other income and lower interest expense led to 81% y-o-y rise in consolidated net profit to Rs. 122 crore which was much higher than our as well as street estimates. The management expects volume growth for both verticals to sustain in Q4 (January 2021 sales is up 35% y-o-y) while OPM too are expected to sustain owing to expectation of high PVC prices sustaining. Over the longer horizon, the management expects 15% per annum volume growth in pipes and 20-25% revenue growth in adhesives. The company's net cash position stood at Rs. 1169 crore as of December 31, 2020. On the expansion front, the company's Odisha piping units is expected to complete by Q2FY2022 and start generating revenues from Q3FY2022. The valve manufacturing unit at Dholka would be ready by Q2FY2022. It would be starting fitting operations at Hosur in Q1FY2022 for both PVC and CPVC. Post the acquisition of water tank business, the company is planning to launch tanks in Aurangabad and Ahmedabad within a month and in Ghiloth in Q1FY2022. Overall, it would be offering complete range of tanks in next 6-8 months from four to five locations. We have revised our estimates for FY2021-FY2023E factoring improved growth outlook along with better OPMs. The company's growth outlook is strong with both its divisions gaining traction and expected to do well going ahead. However the stock is currently trading at a P/E of 72.3x/55.4x its FY2022E/FY2023E earnings which we believe provides an unfavourable risk-reward ratio considering the uncertainties around PVC prices post steep rise from pre-COVID levels. Hence, we await a better entry point for fresh buying and downgrade the stock to Hold with revised price target of Rs. 2100.

Key positives

- Company posted outperformance across revenues, OPM and net earnings.
- Expect growth momentum to sustain with elevated OPM during Q4FY2021.
- Net cash of Rs. 1169 crore as on December 31, 2020.

Key negatives

- PVC prices remain elevated and may reverse post Q4FY2021.

Our Call

Valuation –Downgrade to Hold with revised price target of Rs. 2100: Astral has more than doubled over the trailing six months led by strong uptick in PVC prices and faster than expected demand recovery post domestic lockdown led by the pandemic. Both pipes and adhesives businesses of the company are expected to fare well over long term with pipes volumes expected to grow at 15% per annum while adhesives are expected to grow at 20-25% per annum. Further, the company would be scaling up its tank business complementing its pipe business. The company's board recommended a bonus issue of 1:3. The stock is currently trading at a P/E of 72.3x/55.4x its FY2022E/FY2023E earnings which we believe provides unfavourable risk-reward ratio considering the uncertainties around PVC prices post a steep rise from the pre-COVID levels. Hence, we await a better entry point for fresh buying and downgrade the stock to Hold with a revised price target of Rs. 2100.

Key Risks

- Lower demand due to the economic slowdown, a delay in the completion of expansion projects, and heightened competitive intensity might affect revenue growth momentum.
- Higher raw-material prices and a delay in the ability to pass on price hikes adequately, adverse forex fluctuations, and interest rate movements might affect margins

Valuation (Consolidated) Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	2,507	2,578	2,938	3,503	4,199
OPM (%)	15.4	17.2	19.2	18.1	18.7
Adjusted PAT	196	248	355	406	529
% YoY growth	11.9	26.6	43.1	14.5	30.4
Adjusted EPS (Rs.)	13.1	16.4	23.5	26.9	35.1
P/E (x)	148.7	118.4	82.7	72.3	55.4
P/B (x)	22.8	19.5	15.9	13.1	10.7
EV/EBITDA (x)	75.9	66.3	51.7	45.7	36.4
RoNW (%)	17.1	17.8	21.2	19.9	21.2
RoCE (%)	23.3	21.4	25.2	24.4	26.4

Source: Company; Sharekhan estimates

Demand acceleration coupled with margin expansion boosts net earnings: Astral Poly Technik's (Astral) reported better-than-expected performance for Q3FY2021 aided by strong rise in OPM. Its consolidated revenues grew 35.1% y-o-y to Rs. 898 crore led by growth in both Pipes (revenues up 33% y-o-y) and adhesives (revenues up 42% y-o-y). Both pipes and adhesives business further gained momentum during Q3 from Q2. Thepipes business saw a volume growth of 15.1% y-o-y and realization growth of 15.8% y-o-y (driven by product mix and strong rise in PVC prices). Further, it posted strong OPM surge of 359bps y-o-y (up 217bps q-o-q) to 21.4% which is attributed to higher value added products along with inventory gains arising from low cost PVC inventory. Hence, operating profit grew 62% y-o-y to Rs. 192 crore. Strong operational performance along with higher other income and lower interest expense led to 81% y-o-y rise in consolidated net profit to Rs. 122 crore which was much higher than our as well as street estimates.

Capex to maintain growth momentum: The management expects volume growth for both verticals to sustain in Q4 (January 2021 sales is up 35% y-o-y) while OPM too are expected to sustain owing to expectation of high PVC prices sustaining. Over the longer horizon, the management expects 15% per annum volume growth in Pipes and 20-25% revenue growth in adhesives. The company's net cash position stood at Rs. 1169 crore as of December 31, 2020. On the expansion front, the company's odisha piping units is expected to complete by Q2FY2022 and start generating revenues from Q3FY2022. The valve manufacturing unit at Dholka would be ready by Q2FY2022. It would be starting fitting operations at Hosur in Q1FY2022 for both PVC and CPVC. Post the acquisition of water tank business, the company is planning to launch tanks in Aurangabad and Ahmedabad within a month and in Ghiloth in Q1FY2022. Overall, it would be offering complete range of tanks in next 6-8 months from four to five locations.

Key Conference Call Takeaways

- **Name change:** The company is planning to change its name from Astral Poly Technik to Astral Ltd due to its foray into different segments like Adhesives, Infrastructure and some other products.
- **Bonus issue:** The company's board recommended issue of bonus shares in the ratio of 1:3.
- **Demand acceleration:** The company saw demand momentum in Q3 gathering pace in both pipes and adhesives. The company expects the demand environment to remain strong in Q4. January 2021 saw 35% y-o-y rise in sales for the company.
- **Higher OPM:** The high OPM is attributed to higher value added product share and inventory gains arising from low cost PVC. The management expects OPM to sustain at elevated levels in Q4FY2021.
- **Capacity expansion:** the company's Odisha piping units is expected to complete by Q2FY2022 and start generating revenues from Q3FY2022. The valve manufacturing unit at Dholka would be ready by Q2FY2022. It would be starting fitting operations at Hosur in Q1FY2022 for both PVC and CPVC. Post the acquisition of water tank business, the company is planning to launch tanks in Aurangabad and Ahmedabad within a month and in Ghiloth in Q1FY2022.
- **Long term guidance:** Over the longer horizon, the management expects 15% per annum volume growth in Pipes and 20-25% revenue growth in adhesives.
- **Working capital and debt:** The company's debtors reduced to Rs. 237 crores from Rs. 281 crores a year ago. Inventory reduced to Rs. 478 crores from Rs. 505 crores. It has net cash surplus of Rs. 116 crores.
- **Capex:** The company incurred Rs. 116 crore capex during 9MFY2021 which includes purchase of tank business.

Results (Consolidated) Rs cr

Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Revenue	898	664	35.1	747	20.1
EBITDA	192	118	62.4	144	33.7
Other Income	6	2	177.3	5	24.5
Depreciation	30	27	9.5	29	4.2
Finance Cost	2	5	(66.7)	(1)	(288.9)
PBT	165	87	89.2	116	42.2
Tax Expenses	41	19	112.9	28	45.9
PAT	123	68	81.5	87	42.1
Adj PAT	122	68	80.8	83	47.6
REPS (Rs)	8.2	4.5	81.5	5.7	42.1
%			BPS		BPS
EBITDA Margin	21.4	17.8	359	19.2	217
PAT Margin	13.7	10.2	351	11.6	212

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view - Expect faster recovery in operations

The building materials industry was severely affected by COVID-19 led lockdown during Q1FY2021, which had affected its peak sales period of the year. Additionally, its high fixed cost structure had affected OPM, draggingdown its net earnings. However, from June, the sector has been one of the fastest in recovery with easing oflockdowns domestically. The sector witnessed resumption of dealer and distribution networks and a sharp improvement in capacity utilisationlevels. Most players have begun to see demand and revenue run-rate reaching 80-90% compared to pre-COVID levels. Scaling up of revenue is also expected to lead to better absorption of fixed costs going ahead, aiding net earnings recovery. The industry is expected to rebound with strong growth in FY2022.

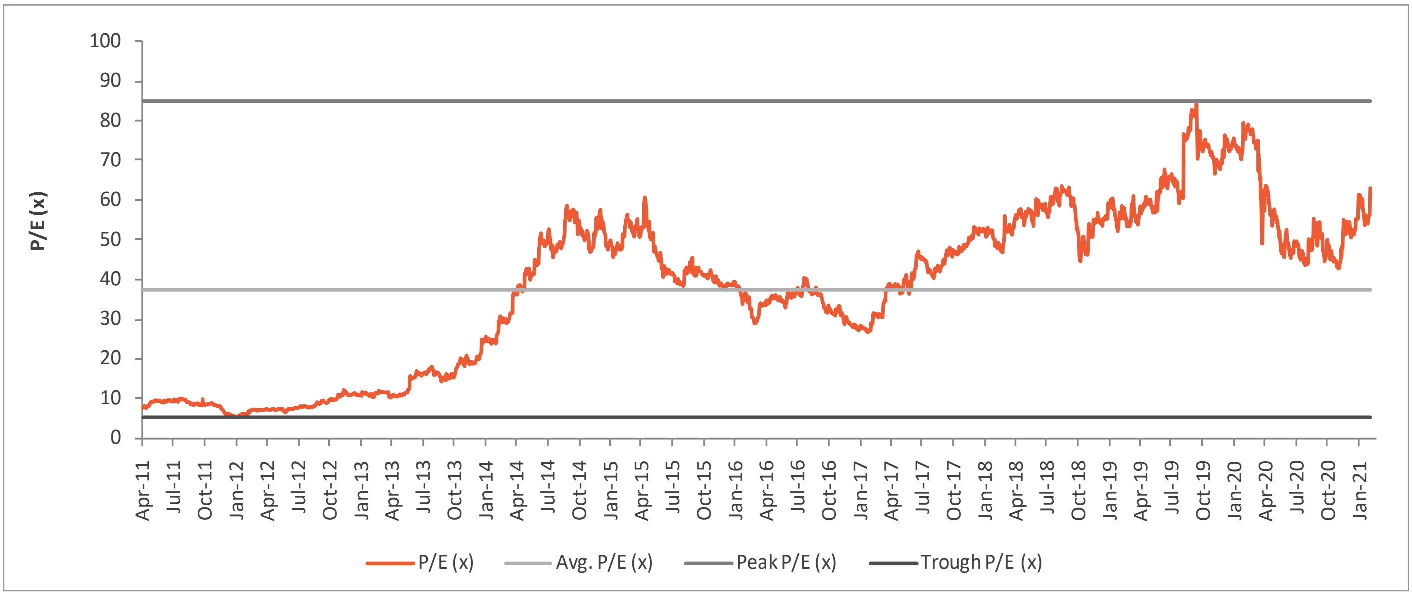
■ Company outlook - Expect healthy growth in both Pipes and adhesives

Astral is well positioned to capture the growth opportunitiesunveiled by the government through its various schemes such as Housing for All by 2022, PMAY, Smart Cities Mission, AMRUT, HRIDAY, Har Ghar Jal by 2024, Nal se Jal by 2024, and PMKSY.Capacity expansion andimproved utilisation of expanded capacity to drive volume growth in the pipe business.Strategic steps takenduring the last one year in the adhesive business has now expected to show favourable results in a normalized environment. Both pipes and adhesives businesses are expected to fare well over long term with pipes volumes expected to grow at 15% per annum while adhesives expected to grow at 20-25% per annum. Further, the company would be scaling up its tank business complementing its pipe business.

■ Valuation - Downgrade to Hold with revised price target of Rs. 2100

Astral has more than doubled over the trailing six months led by strong uptick in PVC prices and faster than expected demand recovery post domestic lockdown led by the pandemic. The company's pipes and adhesives businesses are expected to fare well over long term with pipes volumes expected to grow at 15% per annum while adhesives expected to grow at 20-25% per annum. Further, the company would be scaling up its tank business complementing its pipe business. The company's board recommended bonus issue of 1:3. The stock is currently trading at a P/E of 72.3x/55.4x its FY2022E/FY2023E earnings which we believe provides an unfavourable risk-reward ratio considering the uncertainties around PVC prices post steep rise from pre-covid levels. Hence, we await a better entry point for fresh buying and downgrade the stock to Hold with revised price target of Rs. 2100.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Supreme Industries	32.0	27.4	20.1	17.4	7.1	6.1	22.3	22.2
Astral Poly Technik	72.3	55.4	45.7	36.4	13.1	10.7	19.9	21.2
Pidilite Industries	65.6	54.5	42.7	35.7	14.4	12.0	23.8	24.0

Source: Company, Sharekhan estimates

About company

Established in 1996, Astral is among the country's leading manufacturers of plastic pipes usedacross industries.The company is now making strong inroads into theadhesives segment and infrastructure products. Astralcurrently operates in four countries with manufacturing facilities at 12 locations spread across India, the UK, US, and Kenya, having over 4,000 employees. T he company has over 800 and 1,800 distributors in theplastic and adhesive segments, respectively. Astral is present across India through more than 30,000 and 4lakh dealers in the plastic and adhesive segments.

Investment theme

Currently, Astral has a market share of 25% in CVPC pipes and 5% in PVC pipes and is well placed to grab the significant growth opportunities unveiled by the government through its various schemes such as Housing for All by 2022, PMAY, Smart Cities Mission, AMRUT, HRIDAY, Har Ghar Jal by2024, Nal se Jal by 2024, and PMKSY. Strategic steps takenduring the last one year in the adhesive business has now expected to show favourable results in a normalized environment.The company's both pipes and adhesives businesses are expected to fare well over long term with pipes volumes expected to grow at 15% per annum while adhesives expected to grow at 20-25% per annum. Further, the company would be scaling up its tank business complementing its pipe business.

Key Risks

- Lower demand offtake due to the economic slowdown and delay in completion of expansion projects coupled with increased competitive intensity might affect revenue growth momentum.
- Higher raw-material prices and delay in the ability to pass on price hikes adequately, adverse forex fluctuations, and interest rate movement might affect margins.

Additional Data

Key management personnel

Sandeep Pravinbhai Engineer	Chairman cum Managing Director
Jagruti Sandeep Engineer	Executive Director
Hiranand A Savlani	Chief Financial Officer
Krunal Bhatt	Company Secretary and Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Engineer Sandip Pravinbhai	31.39
2	Saumya Polymers	9.85
3	Steadview Capital Mauritius Ltd	7.90
4	Engineer Jagruti Sandeep	7.59
5	Kairav Chemicals Pvt Ltd	6.90
6	Axis Asset Management Co Ltd	3.89
7	UTI Asset Management Co Ltd	2.54
8	Tree Line Asia Master Fund	2.24
9	ICICI Prudential Life Insurance Co Ltd	1.11
10	Parikh Vijay Suresh	0.91

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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