

Inventory loss, one-off expenses drag margin...

About the stock: Astral is the leader in the CPVC piping segment and expanding into the other building material business such as adhesive, paints and sanitary ware.

- Astral is the third largest piping company with a value market share of 9%. In FY22, Piping, adhesive contributed 77%, 23%, respectively, to its topline
- Healthy b/s reflected in strong return ratios (RoE: 21%, RoCE: ~27%)

Q1FY23 Results: Strong revenue growth; Inventory loss dragged EBITDA margins.

- Consolidated revenue up 73% YoY to ₹ 1213 crore on a favourable base and consolidation of paint business. Piping and adhesive & paints segments growth came in at 74% & 72% YoY to ₹ 876 core & ₹ 337 crore, respectively
- EBITDA margin declined 433 bps YoY to 14.2%, mainly due to inventory losses amid volatile PVC prices
- PAT up 25% YoY to ₹ 94 crore tracking sales growth in Q1

What should investors do? Astral's share price has grown by ~5x over the past five years (from ~₹ 392 in August 2017 to ~₹ 1986 levels in August 2022).

- We maintain our **HOLD** rating on the stock

Target Price and Valuation: We value Astral at ₹ 2100 i.e. 58x P/E on FY24E EPS.

Key triggers for future price performance:

- Pick-up in housing sales and construction activities will augment growth in both pipes and adhesives
- Capacity addition, launch of new products (water tank, valve) and diversification in the sanitary ware and paint business to drive overall revenue CAGR of 22% in FY22-24E
- Price hike, improved product mix (launch of high margin valve business) will help in recovery in EBITDA margin from FY24E onwards

Alternate Stock Idea: We like Supreme Industries in our coverage universe.

- Supreme is market leader in plastic piping segment with ~15% market share. Robust b/s with average RoE, RoCE of 24%, 27%, respectively
- BUY with a target price of ₹ 2175



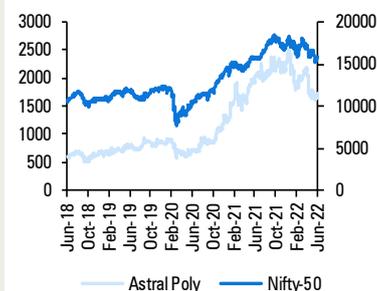
Particulars

Particular	Amount
Market Cap (₹ Crore)	39,895.3
Debt (FY22) (₹ Crore)	85.1
Cash&Inv (FY22) (₹ Crore)	641.8
EV (₹ Crore)	39,338.6
52 week H/L	2525/ 1582
Equity capital (₹ Crore)	20.1
Face value (₹)	1.0

Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	55.7	55.7	55.7	55.7	55.7
FII	22.8	21.3	19.9	17.8	16.1
DII	8.0	10.7	11.6	12.7	13.6
Others	13.5	12.3	12.8	13.8	14.6

Price Chart



Recent event & key risks

- **Key Risk:** (i) Better than expected growth in both piping and adhesive revenue (ii) Delay in passing on high input price

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Key Financial Summary

₹ crore	FY19	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Net Sales	2507.3	2577.9	3176.3	4394.0	18%	5625.2	6568.8	22%
EBITDA	384.9	442.9	644.5	755.3	23%	867.3	1138.4	23%
EBITDA Margin (%)	15.4	17.2	20.3	17.2		15.4	17.3	
Net Profit	197.3	249.6	408.2	490.4	28%	517.5	721.6	21%
EPS (₹)	13.1	16.6	20.3	24.4		25.8	35.9	
P/E(x)	151.6	119.9	97.7	81.4		77.1	55.3	
Price/book value (x)	23.4	19.9	21.0	17.1		15.1	12.8	
Mcap/sales (x)	15.9	15.5	12.6	9.1		7.1	6.1	
RoE (%)	15.4	16.6	21.5	21.0		19.6	23.1	
RoCE (%)	20.7	20.5	27.5	26.6		25.5	29.3	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Strong topline growth on favourable base; inventory losses & one off expenses drag margin

- Astral's consolidated revenue increased ~73% YoY to ₹ 1213 crore in Q1FY23 on a favourable base and ramp up of new product sales. Piping revenues were up 74% YoY led by volume growth of 49%. Adhesive & paint revenues were up 72% YoY to ₹ 337 crore supported by consolidation of paint business from Q1FY23. The company's newly acquired 'Gem Paints' reported revenue of ₹ 55 crore in Q1FY23
- On a three-year basis, pipe revenue grew at a CAGR of ~27% led by volume CAGR of ~5%. The adhesive segment grew at 23% CAGR supported by launches of new products and addition of dealer networks in new geographies
- The quarter witnessed significant volatility in the PVC prices, which led to inventory losses to the tune of ₹ 25 crore. As a result, gross margin declined sharply by 717 bps YoY (30 bps QoQ). Lower gross margins and higher employee costs (up 20% QoQ) led to fall in EBITDA margin by 433 bps YoY (143 bps QoQ) to 14.2%
- PAT up 25% YoY to ~₹ 94 crore tracking higher sales in Q1

Q1FY23 Earnings Conference Call highlights

- **Demand Outlook:**
 - To continue its growth trajectory, Astral is planning to focus on its expansion in the East region, increase its network in areas where it does not have a presence and adding more distributors and dealers. The company is also planning on opening more regional warehouses and depots and also adding more manufacturing locations and adding newer products in its portfolio
 - The management is aiming to double its topline in the next five years
 - The company has completed its expansion in the east region and rolled out products such as water tanks and PVC pipes in the region. The company is awaiting necessary approvals to launch the rest of its products in the east
 - Astral has acquired a plant in Jamnagar, Gujarat to produce faucets. The company has already started the process of appointing distributors and dealers for faucet, sanitary care and is expecting revenue to pick up from this division from Q3FY23 onwards
 - The company will be conducting trial productions in Q4FY23 for its adhesives plant
 - At the end of Q1FY23, the pipes capacity is at 2,82,338 MT and the management expects this capacity to grow by ~18,000 MT by the end of FY23
 - Astral has now defined its businesses in two segments viz. plumbing & paints and adhesives. Plumbing includes pipes, fittings, water tanks, faucets and sanitary ware
- **Margins:**
 - Astral's margins in the pipe segment have remained under pressure due to volatility in polymer prices and inventory losses. Polymer prices have been undergoing significant correction. In such a scenario, dealers and distributors keep low inventories
 - The company also saw various one-off expenditure in Q1FY23 such as inventory losses amounting to ~₹ 25 crore, forex loss of ~₹ 11.7 crore due to higher dependency on imports for CPVC. The company also witnessed higher employee expenses and higher costs of launching new products. The management expects inventory losses to continue in Q2FY23 as well
 - Margins in the adhesive segment also remained under pressure due to higher chemical prices

- EBITDA margin of Gem Paints in Q1FY23 came in at ~15%
- **Capex:**
 - The company has planned a capex of ~₹ 200 crore in FY23
 - For its UK subsidiary, the company is unable to fulfil the demand for some of its products and is working on some capex allocation at the plant in UK

Exhibit 1: Peer comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Supreme Ind	24,072	6357	7773	8593	9590	20	16	15	15	978	968	979	1105	33	26	24	25	31	25	24	24	25	25	25	22
Astral	39,895	3176	4394	5625	6569	20	17	15	17	408	490	517	722	28	27	25	29	22	21	20	23	98	81	77	55

Source: Bloomberg, ICICI Direct Research

We believe, on a three year CAGR basis, Astral’s piping segment volume CAGR of 5% is better than its peers mainly due to new product launches and strong demand from real estate industry. However, in Q1 dealer refrained from building up new inventory due to volatility in PVC prices. According to the management, inventory build-up is expected to gain momentum from Q3FY23 onwards with stability in PVC prices. On the margin front, the exit EBITDA margin at 14% is lower than its pre-Covid EBITDA margin of ~15%. This was mainly due to inventory losses and increased other operating costs owing to ramp up of new business segments. According to management, the EBITDA margin is expected to come back to its normal level of 16-17% with improved utilisation of new businesses and stability in PVC prices. We build in consolidated revenue CAGR 22% over FY22-24E factoring in 17% and 20% revenue CAGR of piping and adhesive business, respectively. We believe ramp up of sanitary ware & paints business will aid in revenue growth from H2FY23 onwards. We model flattish EBITDA margins over FY22-24E, considering higher advertisement expenses and low operating leverage from the new business. We maintain our HOLD rating on the stock with a revised target price of ₹ 2100/share (valuing 58x FY24E EPS). The key trigger for future re-rating would be margin improvement along with growth in newer categories.

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	1,212.9	1,166.6	700.1	73.2	1,390.6	-12.8	Favourable base and consolidation of new business helped drive revenue growth for the company
Other Income	11.4	7.0	4.3	165.1	16.4	-30.5	
Raw Material Exp	825.2	781.6	426.5	93.5	943.2	-12.5	Volatile PVC prices led to inventory loss of ₹ 25 crore in Q1, resulting in sharp fall in gross margin by 717 bps YoY
Cost of traded goods	9.9	11.7	5.3	86.8	9.9	0.0	
Employee Exp	76.8	65.3	58.1	32.2	64.1	19.8	Employee addition into different product categories drove employee cost in Q1
Other expenditure	129.3	133.0	80.8	60.0	156.6	-17.4	
EBITDA	171.7	175.0	129.4	32.7	216.8	-20.8	
EBITDA Margin (%)	14.2	15.0	18.5	-433 bps	15.6	-143 bps	Decline in EBITDA margin is mainly due to lower gross margins and higher employee costs
Depreciation	43.3	32.7	30.6	41.5	32.8	32.0	
Interest	14.4	1.2	4.6	213.0	5.2	176.9	
PBT	125.4	148.1	98.5	27.3	195.2	-35.8	
Total Tax	31.6	36.5	23.4	35.0	49.2	-35.8	
Profit from associates	0.0	0.0	0.0	NM	-1.9	NM	
PAT	93.8	111.6	75.1	24.9	144.1	-34.9	Higher topline growth helped drive PAT in Q1
Key Metrics							
Plastic Piping	876.1	765.7	504.1	73.8	1,084.1	-19.2	Volumes were up by 49% YoY largely on a favourable base
Paints & Adhesive	336.8	323.4	196.0	71.8	306.5	9.9	Favourable base and additional revenues from the paint business drove revenue growth in Q1FY23

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore	FY23E			FY24E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	5456.7	5625.2	3.1	6,297	6568.8	4.3	We revise our revenue estimate upward FY23E-24E factoring in Q1FY23 revenue growth. We believe ramp up in paints and sanitaryware business will help drive consolidated revenue at a CAGR of 22% over FY22-24E. We model pipe and adhesive segment revenue CAGR of 17% and 20%, respectively
EBITDA	894.9	867.3	(3.1)	1,074	1138.4	6.0	
EBITDA Margin %	16.4	15.4	-98bps	17.1	17.3	28bps	We cut our FY23E EBITDA margin estimate factoring inventory losses and higher employee expenses
PAT	578.7	517.5	(10.6)	705	721.6	2.4	
EPS (₹)	28.8	25.8	(10.6)	35.1	35.9	2.4	

Source: ICICI Direct Research

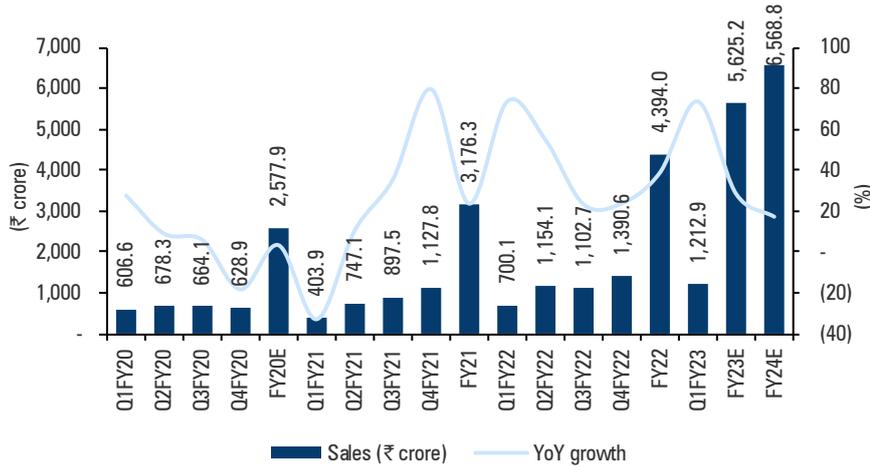
Exhibit 4: Assumptions

	Current				Earlier			Comments
	FY20	FY21	FY22E	FY23E	FY24E	FY23E	FY24E	
Plastic Piping	7.3	21.9	39.2	19.5	14.8	12.8	13.6	We model piping segment revenue CAGR of 17% led by similar level of volume growth over FY22-24E
Adhesive	(9.7)	27.5	35.7	23.4	17.3	27.5	17.3	Expansion in new geographies through dealer additions and new product launches to drive demand for adhesive segment, going forward. We model segment revenue CAGR of 20% in FY22-24E

Source: ICICI Direct Research

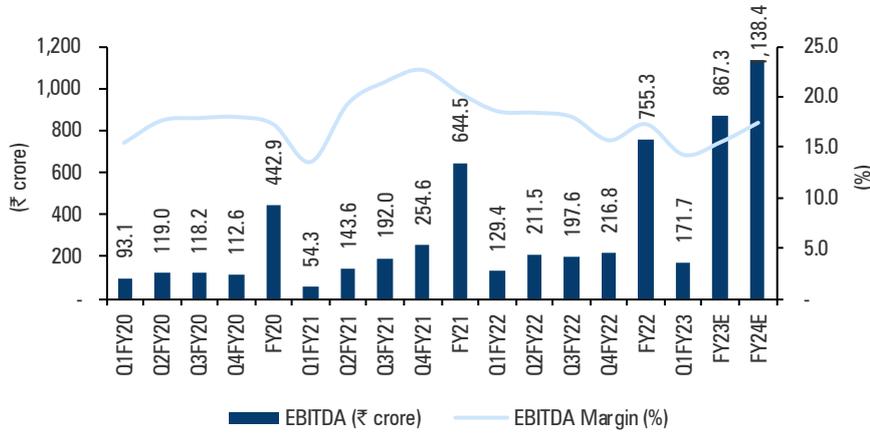
Financial story in charts

Exhibit 5: Revenue trend



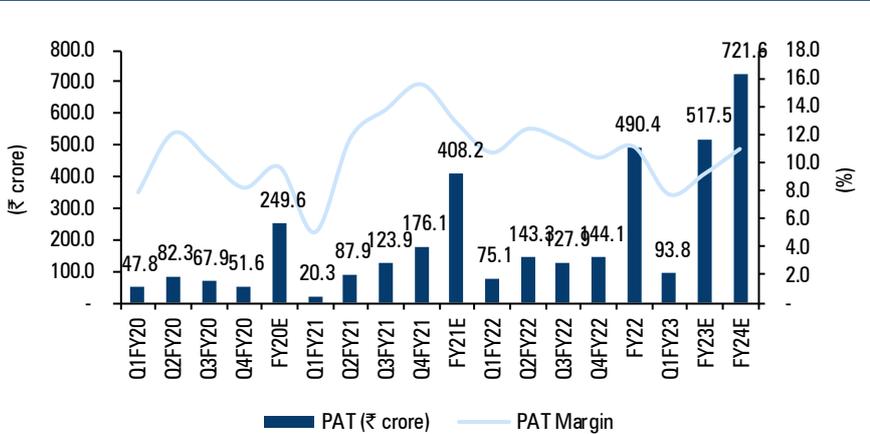
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA margin movement



Source: Company, ICICI Direct Research

Exhibit 7: PAT movement



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement					₹ crore
Year end March	FY21	FY22	FY23E	FY24E	
Net Sales	3176.3	4394.0	5625.2	6568.8	
YoY (%)	23.2	38.3	28.0	16.8	
Other income	25.1	34.9	33.8	39.4	
Total Revenue	3201.4	4428.9	5658.9	6608.2	
Expenditure					
Cons of raw material	1947.3	2896.6	3779.7	4299.8	
Pur. of traded goods	21.6	31.4	51.1	59.9	
Employee cost	191.0	245.3	308.3	367.9	
Other expenses	371.9	465.4	618.8	702.9	
Total expenses	2531.8	3638.7	4757.9	5430.4	
EBITDA	644.5	755.3	867.3	1138.4	
YoY (%)	45.5	17.2	14.8	31.3	
Interest	13.1	12.9	30.9	13.5	
PBDT	656.5	777.3	870.1	1164.3	
Depreciation	116.5	126.9	174.4	197.1	
Profit before tax	540.0	650.4	695.8	967.2	
Total Tax	124.8	158.1	176.4	243.7	
PAT before MI	415.2	492.3	519.4	723.5	
Exc. Items	-7.0	-1.9	-1.9	-1.9	
PAT	408.2	490.4	517.5	721.6	
YoY (%)	63.5	20.1	5.5	39.4	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement					₹ crore
Year end March	FY21	FY22	FY23E	FY24E	
Profit/(Loss) after taxation	408.2	490.4	517.5	721.6	
Add: Depreciation & Amortization	116.5	126.9	174.4	197.1	
Add: Interest Paid	13.1	12.9	30.9	13.5	
C/F bef working capital chg.	537.8	630.2	722.8	932.2	
Net Increase in Current Assets	44.4	-302.5	-938.4	-468.5	
Net Increase in Current Liabilities	65.1	227.8	261.7	138.9	
Net CF from operating act	647.3	555.5	46.1	602.5	
(Inc)/Dec in Goodwill on Cons	-1.7	0.3	-50.0	-50.0	
(Purchase)/Sale of Fixed Assets	-186.6	-375.3	-250.0	-250.0	
Others	1.5	6.6	1.0	1.0	
Net Cf from Investing Act	-197.3	-358.8	-299.0	-299.0	
Pro/(Rept) of/from Loan	-75.9	31.9	50.0	20.0	
(Payment) of Div & Div Tax	-24.2	-42.4	-242.2	-242.2	
Others	-4.2	-20.1	-4.4	-13.5	
Net Cf from Financing Act	-104.3	-30.6	-196.6	-235.7	
Net Cash flow	345.7	166.1	-449.5	67.8	
Cash and Cash Equi at the beg	130.0	475.7	641.8	192.3	
Cash and Cash Equi at the end	475.7	641.8	192.3	260.1	

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet					₹ crore
Year end March	FY21	FY22	FY23E	FY24E	
Equity Capital	20.1	20.1	20.1	20.1	
Reserve and Surplus	1875.7	2316.5	2618.3	3097.7	
Total Shareholders funds	1895.7	2336.6	2638.4	3117.8	
Total Debt	53.2	85.1	135.1	155.1	
Other Non Current Liabilitie	122.6	143.4	145.4	147.4	
Total Liability	2010.2	2497.2	2850.0	3350.4	
Fixed Assets					
Gross Block	1650.2	1958.9	2208.9	2458.9	
Accumulated Depreciation	592.7	719.6	893.9	1091.0	
Net Block	1057.5	1239.3	1314.9	1367.9	
Capital WIP	56.6	123.2	123.2	123.2	
Total Fixed Assets	1114.1	1362.5	1438.1	1491.1	
Goodwill on Consolidation	257.0	256.7	306.7	356.7	
Current Assets					
Inventory	472.1	733.4	1078.8	1349.8	
Debtors	276.7	269.1	816.8	989.8	
Loans and Advances	8.2	0.5	5.1	5.9	
Other Current Assets	43.9	100.4	141.2	164.9	
Cash	475.7	641.8	192.3	260.1	
Total Current Assets	1276.6	1745.2	2234.2	2770.5	
Current Liabilities					
Creditors	517.2	748.4	893.9	989.8	
Provisions	6.9	3.5	6.4	7.1	
Other current liabilities	138.4	138.4	251.8	294.1	
Total Current Liabilities	662.5	890.3	1152.0	1290.9	
Net Current Assets	614.1	854.9	1082.1	1479.6	
Deferred Tax Assets	0.1	0.3	0.3	0.3	
Total Asset	2010.2	2497.2	2850.0	3350.4	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
Year end March	FY21	FY22	FY23E	FY24E
Per share Data				
EPS	20.3	24.4	25.8	35.9
Cash EPS	26.1	30.7	34.4	45.7
Dividend per share	1.2	2.1	12.1	12.1
BV per share	94.4	116.3	131.3	155.2
Profitability Ratio				
EBITDA margin	20.3	17.2	15.4	17.3
PAT margin	12.9	11.2	9.2	11.0
Return Ratios				
RoCE	27.5	26.6	25.5	29.3
RoNW	21.5	21.0	19.6	23.1
RoIC	39.6	39.5	28.2	32.7
Valuation Ratios				
P/E	97.7	81.4	77.1	55.3
EV / EBITDA	61.2	52.1	45.9	35.0
Market Cap / Sales	12.6	9.1	7.1	6.1
Price to Book Value	21.0	17.1	15.1	12.8
Activity Ratios				
Inventory Days	54.3	60.9	70.0	75.0
Debtor Days	31.8	22.4	53.0	55.0
Creditor Days	59.4	62.2	58.0	55.0
Gross Block Turnover	1.9	2.2	2.5	2.7
Solvency Ratio				
Debt / Equity	0.0	0.0	0.1	0.0
Debt / EBITDA	0.1	0.1	0.2	0.1
Current Ratio	1.5	1.5	2.3	2.5
Quick Ratio	0.6	0.5	1.1	1.2

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct universe (Consumer Discretionary)

Sector / Company	Rating	M Cap		EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
		(₹ Cr)	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	
Asian Paints (ASIPAI)	Buy	3,26,540	33.4	32.2	47.1	56.6	101.8	105.9	72.2	60.1	66.3	67.4	48.1	40.6	29.6	27.1	36.4	39.1	25.0	23.0	30.2	31.9	
Berger Paints (BERPAI)	Hold	65,757	7.4	8.6	9.9	12.3	91.4	78.9	68.3	55.0	55.1	49.6	43.5	35.9	24.9	23.3	27.6	31.0	21.3	21.2	25.2	27.7	
Kansai Nerolac (KANNER)	Hold	26,946	9.8	6.9	11.6	13.4	50.8	72.0	43.2	37.3	32.0	41.5	26.9	23.0	17.2	12.1	19.5	21.1	13.2	9.2	14.7	15.6	
Pidilite Industries (PIDIND)	Hold	1,34,110	22.2	23.8	26.8	35.5	119.1	111.1	98.7	74.3	79.6	72.5	65.7	50.3	23.8	22.2	23.2	27.6	20.2	18.8	19.6	23.0	
Bajaj Electricals (BAJELE)	Hold	13,277	16.5	10.8	22.0	29.5	70.1	106.7	52.6	39.2	44.6	52.7	39.3	29.8	15.1	13.5	19.1	22.1	10.7	7.8	14.9	17.2	
Crompton Greaves(CROGR)	Hold	23,380	9.8	9.2	8.4	10.5	37.9	40.4	44.6	35.5	31.0	30.5	27.2	22.5	34.4	16.2	16.0	19.7	31.9	24.0	20.5	22.6	
Havells India (HAVIND)	Hold	81,606	16.7	19.1	19.4	25.1	78.5	68.3	67.3	52.0	51.4	45.2	45.4	35.9	24.9	23.7	24.6	31.4	20.1	19.9	20.9	26.6	
Polycab India (POLI)	Buy	36,135	59.3	61.4	67.1	77.6	40.8	39.4	36.0	31.2	31.7	27.7	23.7	20.4	20.6	20.2	21.8	22.1	17.9	15.6	16.5	16.7	
Symphony (SYMLIM)	Hold	6,373	15.3	17.3	26.1	34.8	59.6	52.7	34.9	26.2	44.6	38.5	26.8	20.2	15.2	15.9	24.5	29.0	14.9	14.4	23.6	27.4	
V-Guard Ind (VGUARD)	Hold	10,271	4.7	5.3	5.4	6.8	50.5	44.6	44.1	35.2	32.0	30.2	28.8	23.0	23.9	21.2	23.7	26.6	16.7	16.2	17.9	20.3	
Voltas Ltd (VOLTAS)	Hold	32,743	16.0	15.3	18.8	25.1	61.9	64.7	52.5	39.5	50.3	47.1	39.0	29.7	15.0	14.0	17.5	20.3	10.6	9.2	12.6	14.9	
Amber Enterprises (AMBE)	Hold	7,652	24.7	33.0	50.2	80.0	91.9	68.7	45.2	28.4	34.5	29.1	21.1	15.6	7.7	6.8	10.6	13.9	5.2	6.4	9.5	13.1	
Dixon Technologies (DIXTE)	Buy	23,028	27.3	32.1	55.4	83.6	142.3	121.0	70.0	46.4	80.3	61.1	39.6	28.3	23.5	17.7	27.0	31.4	21.7	19.1	30.9	34.1	
Supreme Indus (SUPIND)	Buy	24,072	77.0	76.2	77.1	87.0	24.6	24.9	24.6	21.8	18.2	19.0	19.1	16.4	33.1	25.9	24.2	24.9	30.9	25.2	23.9	24.1	
Astral Ltd (ASTPOL)	Hold	39,895	20.3	24.4	25.8	35.9	97.7	81.4	77.1	55.3	61.2	52.1	45.9	35.0	27.5	26.6	25.5	29.3	21.5	21.0	19.6	23.1	

Source: ICICI Direct Research

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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