17 August 2022

Astral

Strong performance, outlook positive, cost tailwinds; retaining a Buy

Rating: **Buy**
Target Price: Rs.2,605
Share Price: Rs.2,014

Astral's Q1 performance was good. Revenue/EBITDA/PAT grew 73%/ 33%/28% y/y to Rs12.1bn/Rs1.7bn/Rs961m (ARe: Rs12.6bn/Rs1.8bn/ Rs1,088m. Continuing higher input costs shaved 714bps off the gross margin y/y to 31.1%. Economies of scale led to lower contraction in the EBITDA margin, 431bps y/y, to 14.2%. Gross profit and EBITDA, though, rose respectively 41% and 33% y/y on robust revenue growth.

Strong growth momentum continues, margin pressures persist. Plastics and paints & adhesive revenues grew 74% and 72% y/y respectively to Rs8.8bn and Rs3.4bn. Cost pressures persisted, resulting in a 520bp contraction in plastic pipes & fittings; in paints & adhesives it was broadly the same (13.8%). EBIT margins shrank 387bps and 383bps y/y respectively to 11.2% and 9.4%.

Retains revenue guidance. Management aims to double (consolidated) revenue in the next five years. Capex of ~Rs2bn is likely in FY23. Growth looks strong in plastic pipes & fittings, but margins would continue under pressure in Q2 FY23. Adhesives demand in the UK and US looks encouraging.

Paints potential factored in, awaiting clarity on faucets & sanitaryware. We expect 19% and 32% revenue and earnings CAGRs over FY22-24 respectively. We factor in the potential from paints (acquired in Q1 FY23). However, as the faucets & sanitaryware category is in a nascent stage, we await more clarity and guidance from management before incorporating it into our model.

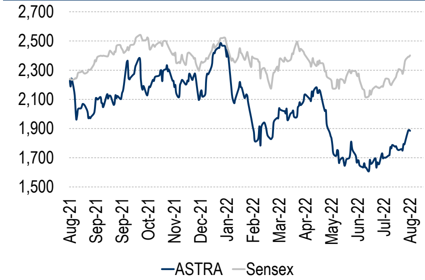
Retaining a Buy. We cut our FY23 and FY24 margins 180bps each. The healthy revenue growth momentum and margin tailwinds are comforting. Also its lean balance sheet and higher return ratios lead to the stock commanding a premium to its peers. We maintain our Buy on it with a higher TP of Rs2,605 (earlier Rs2,560) based on 62.5x (unchanged) FY24e earnings. Faucets and sanitaryware, when factored in, would increase the potential.

Key data	ASTRA IN / ASPT.BO
52-week high / low	Rs.2525 / 1582
Sensex / Nifty	60260 / 17944
3-m average volume	$6.7m
Market cap	Rs.405bn / $5068.2m
Shares outstanding	201m

Shareholding pattern (%)	Jun'22	Mar'22	Dec'21
Promoters	55.7	55.7	55.7
- of which, Pledged	-	-	-
Free float	44.3	44.3	44.3
- Foreign institutions	16.1	17.8	19.9
- Domestic institutions	13.6	12.7	11.6
- Public	14.6	13.8	12.8

Estimates revision (%)	FY23e	FY24e
Sales	6.4	8.6
EBITDA	(3.2)	(0.4)
PAT	(1.0)	(1.8)

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY20	FY21	FY22	FY23e	FY24e
Sales (Rs m)	25,779	31,763	43,940	53,227	62,238
Net profit (Rs m)	2,479	4,044	4,838	6,476	8,379
EPS (Rs)	12.3	20.1	24.1	32.2	41.7
P/E (x)	163.6	100.1	83.7	62.5	48.3
EV / EBITDA (x)	91.5	62.2	52.9	41.1	31.9
P/BV (x)	27.0	21.4	17.3	13.8	10.9
RoE (%)	17.8	23.8	22.9	24.6	25.2
RoCE (%) after tax	17.5	22.8	22.2	24.0	24.4
Dividend yield (%)	0.1	0.0	0.1	0.1	0.1
Net debt / equity (x)	(0.0)	(0.2)	(0.2)	(0.3)	(0.4)

Source: Company, Anand Rathi Research

Rishab Bothra
Research Analyst

Quick Glance – Financials and Valuations (consol.)

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Net revenues	25,779	31,763	43,940	53,227	62,238
Growth (%)	*2.8*	*23.2*	*38.3*	*21.1*	*16.9*
Direct costs	15,957	19,689	29,280	34,930	39,910
SG&A	5,393	5,629	7,107	8,649	10,114
EBITDA	**4,429**	**6,445**	**7,553**	**9,647**	**12,214**
EBITDA margins (%)	*17.2*	*20.3*	*17.2*	*18.1*	*19.6*
- Depreciation	1,079	1,165	1,269	1,367	1,528
Other income	121	251	349	399	467
Interest expenses	394	131	129	133	122
PBT	**3,077**	**5,400**	**6,504**	**8,547**	**11,030**
Effective tax rate (%)	*18.4*	*23.1*	*24.3*	*22.0*	*22.4*
+ Associates / (Minorities)	33	108	85	188	181
Net income	**2,479**	**4,044**	**4,838**	**6,476**	**8,379**
Adjusted income	**2,479**	**4,044**	**4,838**	**6,476**	**8,379**
WANS	201	201	201	201	201
FDEPS (Rs / sh)	12.3	20.1	24.1	32.2	41.7
FDEPS growth (%)	*25.5*	*63.4*	*19.6*	*33.8*	*29.4*
Gross margins (%)	*38.1*	*38.0*	*33.4*	*34.4*	*35.9*

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Share capital	151	201	201	201	201
Net worth	15,029	18,958	23,366	29,339	37,215
Debt	1,270	667	851	1,181	1,398
Minority interest	168	212	278	313	375
DTL / (Assets)	429	400	398	398	398
Capital employed	**16,896**	**20,237**	**24,893**	**31,231**	**39,386**
Net tangible assets	9,236	9,682	11,572	14,072	15,635
Net intangible assets	760	893	821	821	821
Goodwill	2,553	2,570	2,567	2,567	2,567
CWIP (tang. & intang.)	444	566	1,232	625	375
Investments (strategic)	2	-	-	-	-
Investments (financial)	-	-	-	-	-
Current assets (excl. cash)	913	768	1,234	1,234	1,234
Cash	1,301	4,760	6,418	9,946	16,333
Current liabilities	1,241	1,318	1,492	1,680	1,841
Working capital	2,928	2,316	2,541	3,646	4,263
Capital deployed	**16,896**	**20,237**	**24,893**	**31,231**	**39,386**
Contingent liabilities	378	161	55	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
EBIT (before other income)	3,592	5,782	6,982	9,079	11,620
+ Non-cash items	1,079	1,165	1,269	1,367	1,528
Oper. prof. before WC	4,671	6,947	8,251	10,446	13,148
- Incr. / (decr.) in WC	(185)	819	(668)	(917)	(455)
Others incl. taxes	(828)	(1,441)	(1,876)	(2,283)	(2,937)
Operating cash-flow	3,658	6,325	5,707	7,246	9,755
- Capex (tang. + intang.)	(2,195)	(1,866)	(3,753)	(3,260)	(2,841)
Free cash-flow	1,464	4,459	1,954	3,986	6,914
Acquisitions					
- Div. (incl. buyback & taxes)	(211)	(201)	(452)	(503)	(503)
+ Equity raised	31	50	-	-	-
+ Debt raised	(665)	(603)	184	330	217
- Fin investments	(1)	2	-	-	-
- Misc. (CFI + CFF)	(299)	(248)	(28)	(286)	(241)
Net cash-flow	320	3,459	1,658	3,528	6,388

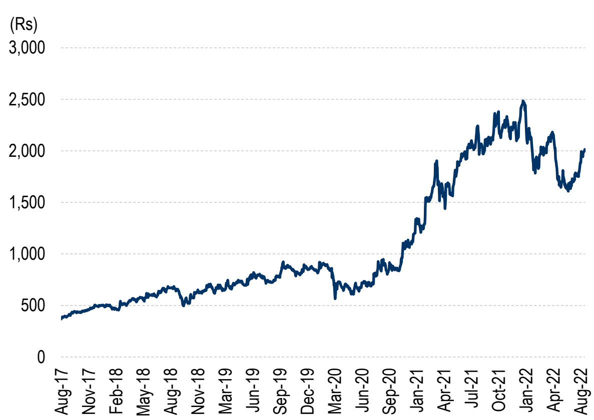
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	163.6	100.1	83.7	62.5	48.3
EV / EBITDA (x)	91.5	62.2	52.9	41.1	31.9
EV / Sales (x)	15.7	12.6	9.1	7.4	6.3
P/B (x)	27.0	21.4	17.3	13.8	10.9
RoE (%)	17.8	23.8	22.9	24.6	25.2
RoCE (%) - after tax	17.5	22.8	22.2	24.0	24.4
ROIC	22.7	32.6	34.6	38.9	43.9
DPS (Rs / sh)	1.1	1.0	2.3	2.5	2.5
Dividend yield (%)	0.1	0.0	0.1	0.1	0.1
Dividend payout (%) - incl. DDT	8.5	5.0	9.3	7.8	6.0
Net debt / equity (x)	(0.0)	(0.2)	(0.2)	(0.3)	(0.4)
Receivables (days)	32.3	31.8	22.4	25.0	25.0
Inventory (days)	76.5	54.3	60.9	62.5	62.5
Payables (days)	67.3	59.4	62.2	62.5	62.5
CFO : PAT %	147.6	156.4	118.0	111.9	116.4

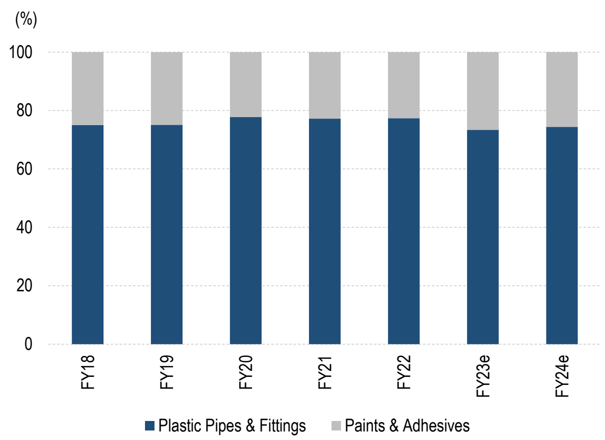
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Quarterly revenue-mix trend



Source: Company

Financial highlights

Fig 7 – Quarterly performance (consolidated)

(Rs m)	Q1 FY22	Q4 FY22	Q1 FY23	% Y/Y	% Q/Q	FY21	FY22	% Y/Y
Revenue	7,008	13,906	12,129	73.1	-12.8	31,763	43,940	38.3
Raw material costs	4,325	9,531	8,351	93.1	-12.4	19,689	29,280	48.7
Employee costs	581	641	768	32.2	19.8	1,910	2,453	28.4
Other expenses	808	1,566	1,293	60.0	-17.4	3,719	4,654	25.1
EBITDA	1,294	2,168	1,717	32.7	-20.8	6,445	7,553	17.2
Other income	43	164	114	165.1	-30.5	251	349	39.0
Depreciation	306	328	433	41.5	32.0	1,165	1,269	8.9
Finance costs	45	52	144	220.0	176.9	131	129	-1.5
PBT	986	1,952	1,254	27.2	-35.8	5,400	6,504	20.4
Share of Profit from Associates	0	46	-23	-	-150	108	85	-21.3
Tax	234	492	316	35.0	-35.8	1,248	1,581	26.7
PAT	752	1,414	961	27.8	-32.0	4,044	4,838	19.6
EPS (Rs)	3.7	7.0	4.8	27.8	-32.0	20.1	24.1	19.6
As % of income				bps y/y	bps q/q			bps y/y
Material costs	61.7	68.5	68.9	714	31	62.0	66.6	465
Gross margins	38.3	31.5	31.1	-714	-31	38.0	33.4	-465
Employee costs	8.3	4.6	6.3	-196	172	6.0	5.6	-43
Other expenses	11.5	11.3	10.7	-87	-60	11.7	10.6	-112
EBITDA margins	18.5	15.6	14.2	-431	-143	20.3	17.2	-310
Other income	0.6	1.2	0.9	33	-24	0.8	0.8	0
Depreciation	4.4	2.4	3.6	-80	121	3.7	2.9	-78
Finance costs	0.6	0.4	1.2	55	81	0.4	0.3	-12
PBT margins	14.1	14.0	10.3	-373	-370	17.0	14.8	-220
Effective tax rates	23.7	25.2	25.2	147	-1	23.1	24.3	120
PAT margin	10.7	10.2	7.9	-281	-225	12.7	11.0	-172
Segment revenues (Rs m)				% Y/Y	% Q/Q			% Y/Y
Plastic Pipes & Fittings	5,047	10,841	8,761	73.6	-19.2	24,187	33,658	39.2
Paints & Adhesives	1,961	3,065	3,368	71.7	9.9	7,576	10,282	35.7
Total revenue	7,008	13,906	12,129	73.1	-12.8	31,763	43,940	38.3
Segment EBIT (Rs m)								
Plastic Pipes & Fittings	758	1,623	977	28.9	-39.8	4,194	5,200	24.0
Paints & Adhesives	259	327	316	22.0	-3.4	1,145	1,254	9.5
Total EBIT	1,017	1,950	1,293	27.1	-33.7	5,339	6,454	20.9
Revenue mix (%)				bps y/y	bps q/q			bps y/y
Plastic Pipes & Fittings	72	78	72	21	-573	76	77	45
Paints & Adhesives	28	22	28	-21	573	24	23	-45
Total	100	100	100			100	100	
EBIT margin (%)								
Plastic Pipes & Fittings	15.0	15.0	11.2	-387	-382	17.3	15.4	-189
Paints & Adhesives	13.2	10.7	9.4	-383	-129	15.1	12.2	-292
Overall EBIT margin	14.5	14.0	10.7	-385	-336	16.8	14.7	-212
Plastic Pipes & Fittings								
Capacity (tpa)	2,58,580	2,74,822	2,82,338	9.2	2.7	2,57,946	2,74,822	6.5
Volumes sold (tons)	24,627	47,211	36,578	48.5	-22.5	1,36,593	1,49,569	9.5
Revenue	5,178	11,094	8,998	73.8	-18.9	24,863	34,433	38.5
Realisations (Rs / kg)	210	235	246	17.0	4.7	182	230	26.5
EBITDA	1,069	2,002	1,386	29.7	-30.8	5,552	6,624	19.3
EBITDA margin (%)	20.6	18.1	15.4	-520	-265	22.3	19.2	-309
EBITDA (Rs / kg)	43	42	38	-12.7	-10.6	41	44	9.0
Paints & Adhesive								
Revenue	1,919	3,004	3,338	73.9	11.1	7,345	10,091	37.4
EBITDA	265	330	462	74.3	40.0	1,137	1,287	13.2
EBITDA margin (%)	13.8	11.0	13.8	-	280	15.5	12.8	-270

Source: Company, Anand Rathi Research *Note: Paints business from Q1FY23*

Q1 FY23 Results Analysis

Good show despite headwinds

- Q1 FY23 figures are not comparable as the company acquired the paints business in Q1 FY23.
- Revenue, EBITDA and PAT grew respectively 73%, 33% and 28% y/y to Rs12.1bn, Rs1.7bn and Rs961m vs. ARe of Rs12.6bn, Rs1.8bn and Rs1088m.
- Continuing input costs cut the gross margin 714bps y/y to 31.1%, but strong revenue growth led to gross profit rising 41% y/y.
- Economies of scale led to lower employee and other operating cost (down 196bps and 87bps y/y respectively to 6.3% and 10.7%). This resulted in a lower contraction in the EBITDA margin (down 431bps y/y to 14.2%), but healthy revenue growth lifted the EBITDA 33% y/y.
- The operating margin was also under pressure owing to certain one-off items such as i) a Rs250m inventory loss; ii) a Rs117m forex loss on greater dependence on imports for CPVC raw materials; iii) manpower recruitment for faucets & sanitaryware, leading to higher employee costs; iv) higher ad spends to increase brand visibility in southern India and v) product launches for faucets and sanitaryware.

Growth momentum continues, margin pressure persists

- Plastics and paints & adhesives revenues grew 74% and 72% y/y to Rs8.8bn and Rs3.4bn respectively. Hence, the revenue mix was broadly the same y/y at 72:28.
- Adhesive revenue (Resinova + Seal IT) grew 45% y/y to Rs2.8bn, while paint revenues (Gem Paints) shot up 91% y/y to Rs553m.
- Plastic pipes & fittings' EBITDA margin contracted 520bps y/y to 15.4%; that of paints & adhesives was unchanged y/y at 13.8%. EBITDA grew 30% and 74% y/y respectively to Rs1.4bn and Rs462m.
- The adhesives EBITDA margin was 13.6% (13.8% a year ago); that of paints was 15% (14.5%).
- Both EBIT margins contracted 387bps and 383bps y/y respectively to 11.2% and 9.4%. However profitability increased 29% and 22% y/y respectively to Rs977m and Rs316m.
- Plastics capacity increased 9% y/y to 282,339 tons while volumes sold were up 48% y/y to 36,587 tons (the low-base effect).

Cash & equivalents of Rs5.4bn (Rs6.4bn the prior quarter)

- Good cash-flow generation kept the company net-debt-free despite significant capex for its present businesses and diversification to paints, faucets & sanitary-ware.

Faucets and sanitary-ware foray; front loading of costs

- **Inauguration of exclusive showroom.** Faucets and sanitary-ware in India is a ~Rs150bn market. The company opened its first display centre in Ahmedabad, Gujarat, for its bath-ware range. It intends to open similar exclusive showrooms in India. It also intends to set up many channel partnership-based showrooms in major cities across India.

- **Management changes stance, acquires faucets plant for in-house manufacturing; sanitaryware outsourcing plans unchanged.** Earlier management had hinted that finished faucets and sanitaryware would be outsourced. In Jul'22, however, it acquired a faucet plant in Jamnagar, Gujarat, for Rs280m-300m; sanitaryware will still be outsourced model. Faucet production has started and sales momentum is expected from Q3 FY23.
- **Front-loading of certain costs.** Employee costs and other operating expenses increased 32% and 60% y/y respectively on account of i) manpower added in faucets and sanitaryware (revenue expected from Q2 FY23), ii) expenses for its faucets and sanitaryware launches, iii) higher advertising spends (Shri Allu Arjun signed as company's brand ambassador) to strengthen the company's hold in the southern market.

Q1 FY23 Concall KTAs

- **Plastic pipes & fittings.** Management said that stocks of plastic pipes & fittings in the channel continue to be low owing to soft PVC prices in Q1 FY23, and thereafter. This resulted in lower off-take and inventory loss (Rs250m). Management expects the latter to continue in Q2 FY23. However price stability of key raw materials for CPVC would support realisations and margins to an extent. Re-stocking of the channel is likely once PVC prices inch up, likely by Q3 FY23.
- **Adhesives.** Higher prices of chemicals hurt the adhesives margins. Though softening has been seen since Jun'22, management expects margin pressure in Q2 FY23 (some high-cost stocks inventory still left). Margin trend to reverse from Q3 FY23.
- **Paints.** For synergies the company will integrate the paints business with itself, and benefit from cross-selling products. Besides it aims to offer paint products across India by levering its network and appointing dealers and distributors for paints in other regions.

Enhancing & strengthening distribution capability

- To strengthen its position in the east, the company will widen its distribution reach. This is likely to increase revenue from the region and help maintain the growth momentum.
- Also, for easy availability of products across India and reduce lead times and distances, the company has been building regional warehouses and depots.

Capacity expansions

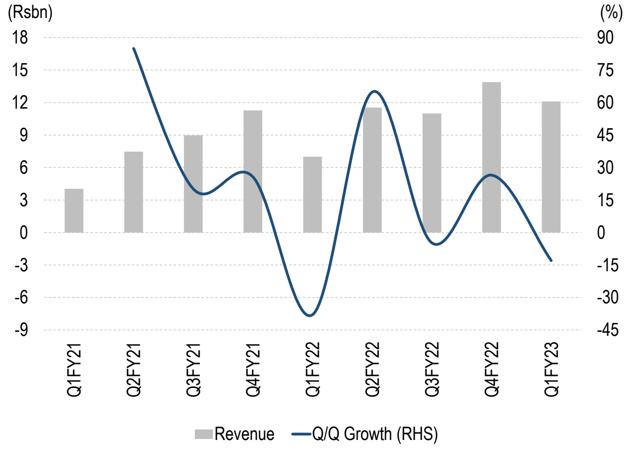
- It expanded plastic pipes & fittings capacity by ~7,500 tons to 282,338 tons in Q1 FY23. A further ~10,000 tons is expected by end-FY23.
- Products in water tanks, SWR and PVC pipes have been rolled out as the expansion project in eastern India is complete; other products will also be launched, on receipt of ISI approval.
- The valves project has been progressing well. A few products have been launched. Some are in a trial phase as moulds are being modified, likely to be completed by Q3 FY23.
- The adhesives expansion at Dahej, Gujarat, is expected to be completed by Q3 FY23; trial production by Q4 FY23 and commercial production by Q1 FY24.

Guidance

- To incur capex at its UK subsidiary to remove capacity constraints for a few products as demand seems to be encouraging. Consolidated capex likely to be ~Rs2bn in FY23.
- Management expects strong growth in its UK and US businesses, and aims at doubling consolidated revenue in the next five years.

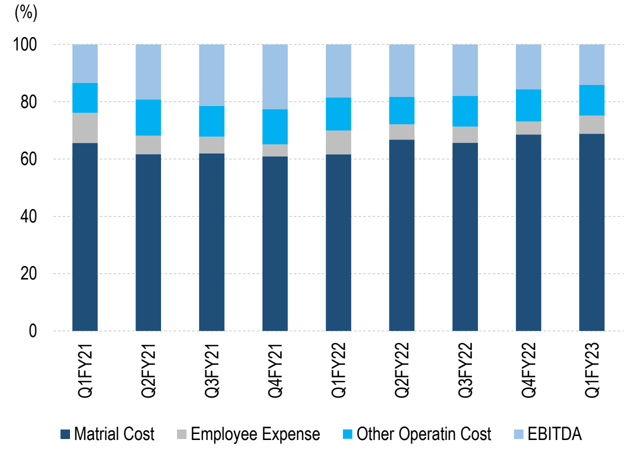
Story in charts

Fig 8 – Revenue and growth trend



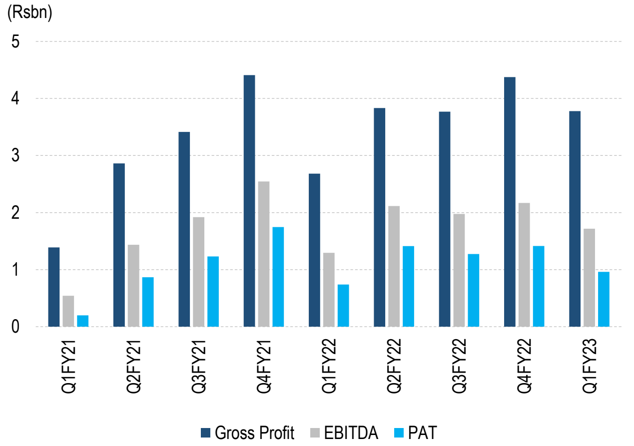
Source; Company, Anand Rathi Research

Fig 9 – Revenue split between expense and profitability



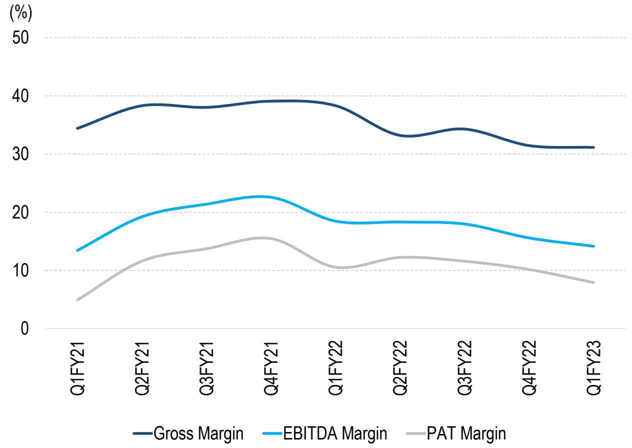
Source; Company, Anand Rathi Research

Fig 10 – Profitability



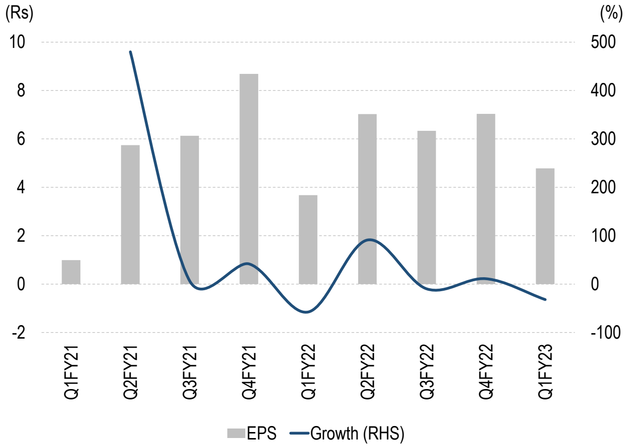
Source; Company, Anand Rathi Research

Fig 11 – Margins



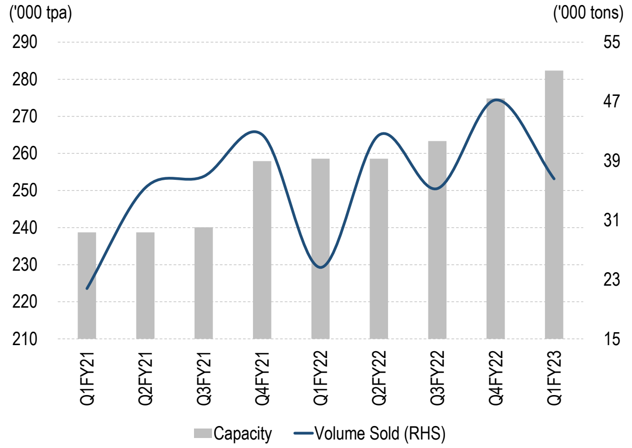
Source; Company, Anand Rathi Research

Fig 12 – EPS and growth trend



Source; Company, Anand Rathi Research

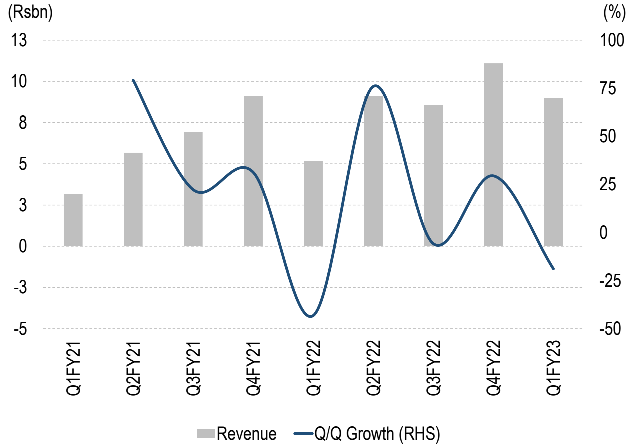
Fig 13 – Capacity & quantity sold: plastic pipes & fittings



Source; Company, Anand Rathi Research

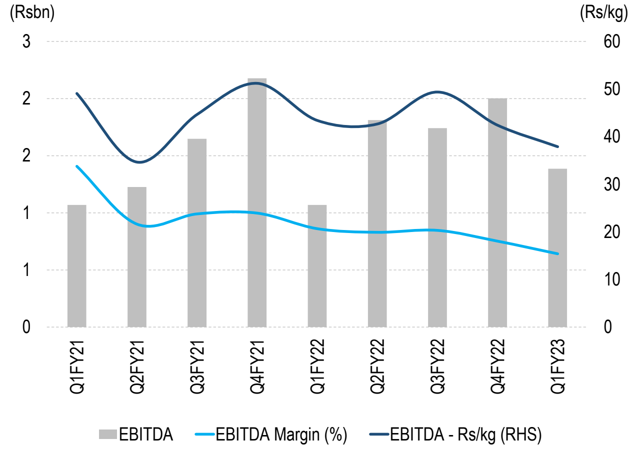
Story in charts continues

Fig 14 – Plastic pipes & fittings: revenue and growth trend



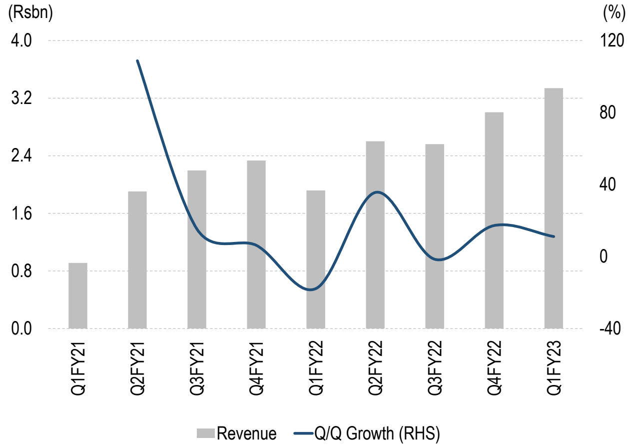
Source; Company, Anand Rathi Research

Fig 15 – Plastic pipes & fittings; profitability



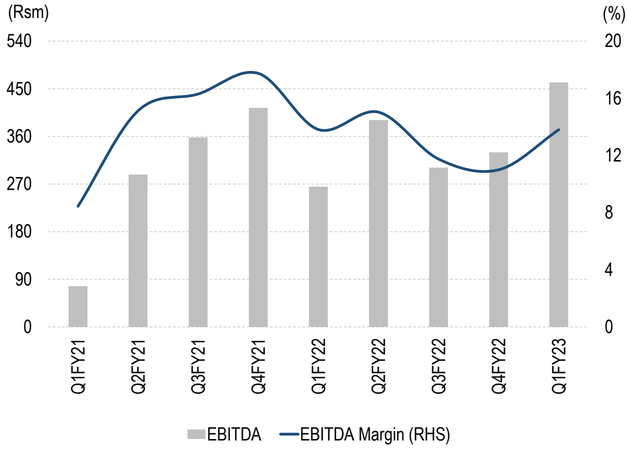
Source; Company, Anand Rathi Research

Fig 16 – Paints and adhesives: revenue and growth trend



Source; Company, Anand Rathi Research Note: Paints business from Q1FY23

Fig 17 – Paints and adhesives: profitability trend



Source; Company, Anand Rathi Research Note: Paints business from Q1FY23

Valuation

We find Astral appealing for its consistent focus on growth and profitability, supported by innovative product launches, vigorous brand-building and successful product diversification. On establishing its leading position in plumbing pipes, it has been expanding relentlessly in adhesives. Its foray into adjacent segments (organically or inorganically) to lever its brand and distribution network has worked well for fast-paced growth and to capture growth opportunities.

Its consistent focus on the right allocation of capital has been its chief strength. Capacity addition ahead of demand has been its key strategy. Now, it has plants and depots across prime regions, helping it shorten supply timelines and save on logistic costs.

For its strong brand image, regular launch of innovative products, facilities close to key markets and wide distribution network, we believe in its long-term growth prospects.

CAGRs of 18% and 26% in revenue and earnings respectively are expected over FY22-24. In this, we have factored in the potential of the paints business (acquired in Q1 FY23). As the faucets & sanitaryware business is in a nascent stage, we await clarity and guidance from management before incorporating its potential into our model.

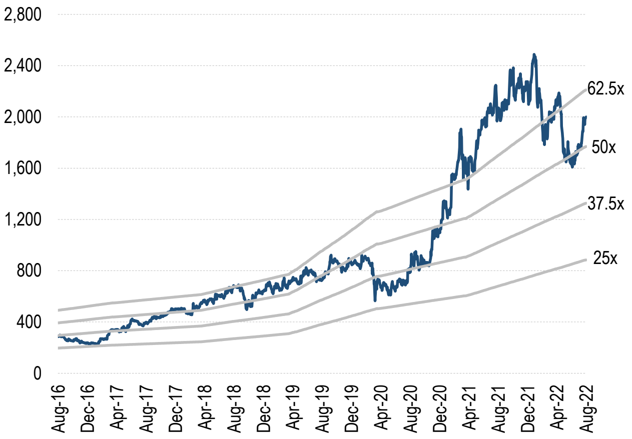
These, and the lean balance sheet, healthy margins and ability to generate higher return ratios lead to it commanding a valuation premium to its peers. Hence, we maintain our Buy on the stock with a higher target price of Rs2,605 (earlier Rs2,560) based on 62.5x (unchanged) FY24e earnings.

Fig 18 – Change in estimates

	Old estimates		New estimates		% Var	
(Rs m)	FY23	FY24	FY23	FY24	FY23	FY24
Income	50,010	57,296	53,227	62,238	6.4	8.6
EBITDA	9,965	12,268	9,647	12,214	(3.2)	(0.4)
EBITDA margins (%)	19.9	21.4	18.1	19.6	(180)	(179)
PAT	6,540	8,234	6,476	8,379	(1.0)	1.8
EPS (Rs)	32.5	41.0	32.2	41.7	(0.9)	1.7

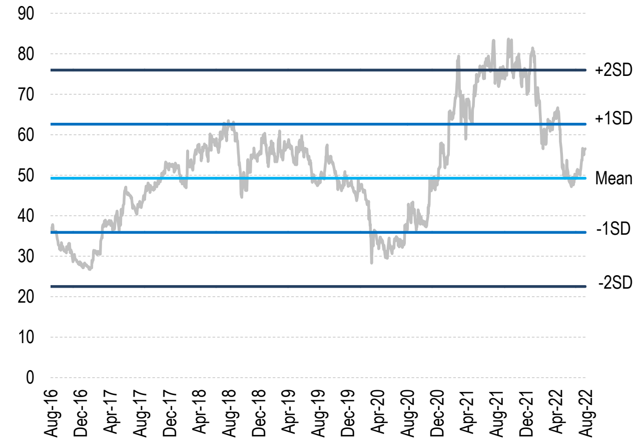
Source: Anand Rathi Research

Fig 19 – PE Band



Source: Company, Anand Rathi Research

Fig 20 – PE mean and standard deviation



Source: Company, Anand Rathi Research

Key risks

- Slowdown in end user demand would hamper the performance.
- Raw-material price volatility and assured availability are key challenges.
- Delay in commissioning the expansion projects would jeopardise the growth momentum.

Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

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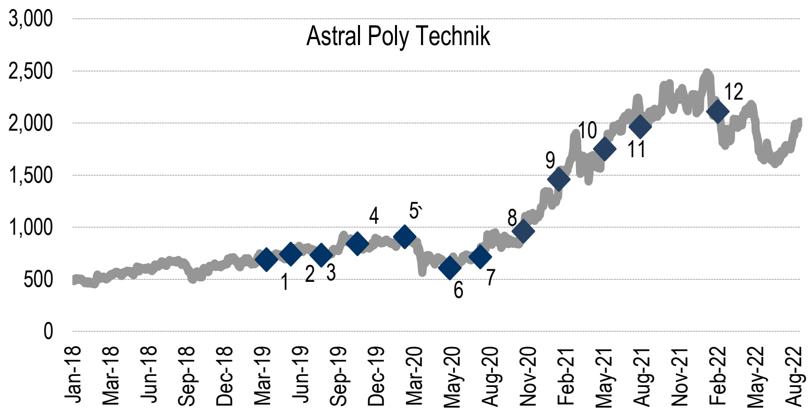
Rating and Target Price History (as of 17 August 2022)



	Date	Rating	TP (Rs)	Share Price (Rs)
1	28-Mar-19	**Buy**	759	688
2	23-May-19	**Buy**	857	742
3	3-Aug-19	**Buy**	861	731
4	25-Oct-19	**Buy**	976	855
5	12-Feb-20	**Buy**	1,065	906
6	26-May-20	**Hold**	683	615
7	5-Aug-20	**Hold**	747	709
8	7-Nov-20	**Hold**	1,002	873
9	3-Feb-21	**Sell**	1,352	1,458
10	19-May-21	**Sell**	1,647	1,816
11	9-Aug-21	**Sell**	2,039	2,150
12	7-Feb-22	**Buy**	2,560	2,112

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Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>US$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

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ARSSBL registered address: Express Zone, A Wing, 9th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097.
Tel No: +91 22 6281 7000 | Fax No: +91 22 4001 3770 | CIN: U67120MH1991PLC064106.