

Inventory losses, higher A&P spend drag margin...

About the stock: Astral is the leader in the CPVC piping segment and expanding into other building material business like 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%)

Q2FY23 Results: Subdued demand, high cost inventories dent Q2 performance.

- Consolidated revenue declined 2.4% YoY to ₹ 1171.6 crore on an unfavourable base. Piping segment revenue declined 10.6% YoY to ₹ 836 crore due to subdued demand. Paints & adhesive segment revenue grew ~27% YoY to ₹ 335.5 crore on a favourable base
- EBITDA margin declined 534 bps YoY to 12.3%, dragged by higher inventory losses (of ₹ 45 crore) and A&P expenses (up 180 bps YoY)
- PAT declined ~48% to ₹ 74.6 crore, tracking weak operating performance

What should investors do? Astral's share price has grown by ~2.6x over the past five years (from ~₹ 776 in November 2017 to ~₹ 2000 levels in November 2022).

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

Target Price and Valuation: We value Astral at ₹ 2275 i.e. 60x 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 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 ₹ 2600



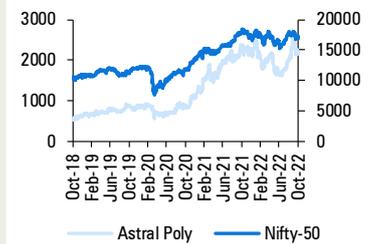
Particulars

Particular	Amount
Market Cap (₹ Crore)	40,176.5
Debt (FY22) (₹ Crore)	85.1
Cash&Inv (FY22) (₹ Crore)	641.8
EV (₹ Crore)	39,619.8
52 week H/L	2655/ 1582
Equity capital (₹ Crore)	20.1
Face value (₹)	1.0

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	55.7	55.7	55.7	55.7	55.9
FII	21.3	19.9	17.8	16.1	16.3
DII	10.7	11.6	12.7	13.6	14.4
Others	12.3	12.8	13.8	14.6	13.5

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%	5354.8	6584.3	22%
EBITDA	384.9	442.9	644.5	755.3	23%	799.7	1142.6	23%
EBITDA Margin (%)	15.4	17.2	20.3	17.2		14.9	17.4	
Net Profit	197.3	249.6	408.2	490.4	28%	464.7	746.0	23%
EPS (₹)	13.1	16.6	20.3	24.4		23.1	37.1	
P/E(x)	152.7	120.7	98.4	81.9		86.5	53.9	
Price/book value (x)	23.6	20.0	21.2	17.2		15.5	13.0	
Mcap/sales (x)	16.0	15.6	12.6	9.1		7.5	6.1	
RoE (%)	15.4	16.6	21.5	21.0		18.0	24.1	
RoCE (%)	20.7	20.5	27.5	26.6		24.2	30.4	

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Slower volume offtake, inventory losses impact Q2 performance

- Astral's consolidated revenue declined 2.4% YoY to ₹ 1171.6 crore in Q2FY23 on an unfavourable base. Piping revenues declined 10.6% YoY as a result of muted demand. Adhesive & paint revenues were up 27% YoY to ₹ 335.5 crore led by consolidation of paints business. Gem Paints reported revenue of ₹ 50 crore in Q2FY23. We believe adhesive business was up 8% YoY
- On a three-year basis, pipe revenue grew at ~17% CAGR led by volume CAGR of ~5.6%. The adhesive segment grew at ~24% CAGR supported by launches of new products and addition of dealer networks in new geographies
- The quarter witnessed significant volatility in PVC prices, which led to inventory losses to the tune of ₹ 45 crore. As a result, gross margin declined sharply by 174 bps YoY (94 bps QoQ). Lower gross margins coupled with higher A&P spends led to a fall in EBITDA margin by 534 bps YoY (187 bps QoQ) to 12.3%
- As a result of lower topline and EBITDA, PAT declined ~48% YoY to ~₹ 74.6 crore

Q2FY23 Earnings Conference Call highlights

- **Demand Outlook:**
 - The management has reiterated 15%+ volume growth over the next two years
 - Pipes segment – According to the management, the demand scenario is healthy and there is low inventory in the system. Stocks carried by distributors and dealers are minimum, which is likely to result in strong demand. A revival in the real estate segment is also likely to boost demand further
 - Water tanks – Production of water tanks has been rolled out from the company's plant in east India. The plant is fully operational and is serving the East India market successfully. The management maintained its guidance of ₹ 100 crore revenue from tanks in FY23
 - Valves – Astral has launched a new product line of valves. The production of valves will be ramped up from Q3FY23 while the full benefit of revenue is likely to be seen from Q4FY23 onwards
 - Adhesives – The management guided for high double digit revenue growth for adhesives segment in FY23. The company has launched white glue under its flagship brand "Bondtite" and is planning to penetrate the market with its other white glue products under this brand name. The adhesives plant in Dahej is expected to be operational by March 2023, which will result in increased capacity and better product efficiency
 - Faucet & sanitaryware – According to the management, this business is progressing well. In these segments, Astral has already opened 34 showrooms while 97 more are planned for Q3FY23. By the end of FY23, Astral plans to have a minimum of 500 of these showrooms. In the sanitaryware segment, the company will be launching 136 SKUs and 411 SKUs in the faucet segment. In H2FY23, a minimal contribution to revenue is anticipated from these segments. This division is likely to contribute significantly to revenue in FY24
 - Paints – The company plans to rebrand paint products under the Astral brand name and launch the products pan-India post organisational changes

- **Margins:**
 - Astral's margins in the pipe segment have remained under pressure due to volatility in PVC prices and inventory losses. PVC prices have been undergoing significant correction. In Q2, PVC prices declined by ₹ 30 and by ₹ 60 in H1FY23
 - Inventory losses in Q2 were at ₹ 45 crore while they were ₹ 70 crore for H1FY23. The management expects inventory loss to continue to a smaller extent in Q3FY23 due to continuous softening of PVC prices
 - Margins in the adhesive segment also remained under pressure due to higher chemical prices. However, the management expects expansion of margins from Q3FY23
- **Capex:**
 - Astral will not be doing any additional capex in FY23 other than maintenance capex. The company's capex allocation for FY23 is ~₹ 200 crore

Exhibit 1: Peer comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Supreme Ind	30,753	6357	7773	9069	9732	20	16	13	15	978	968	802	1022	33	26	23	27	31	25	20	24	31	32	38	30
Astral	40,177	3176	4394	5355	6584	20	17	15	17	408	490	465	746	28	27	24	30	22	21	18	24	98	82	86	54

Source: Bloomberg, ICICI Direct Research

We believe Astral’s Q2FY23 performance was marred by 1) slow volume offtake in the residential piping segments amid volatility in the PVC prices 2) Unfavourable base of last year due to strong pent up demand, 2) sales loss for almost six days amid delay in system integration post amalgamation of its two subsidiaries into the company, 3) one-time inventory loss and 4) higher advertisement & promotional expenses to support its new product launches in sanitaryware & faucets and paint divisions in Q2. Going forward, the management has guided that piping inventory build-up is expected to gain momentum from Q3FY23 onwards (as channel inventory at its lowest currently) supported by a pick-up in construction activities and strong demand from the real estate segment.

On the paint & adhesive segment, we believe ramp up of sanitary ware and paints business will aid revenue growth from H2FY23 onwards. We build in consolidated revenue CAGR of 22% over FY22-24E factoring in 18% and 35% revenue CAGR of piping and adhesive & paint business, respectively. On the margin front, Q2 EBITDA margin at 12% is one of its lowest EIBTDA margin in the last 21 quarters. However, the management has reiterated EBITDA margin range of 15-17% in the coming period with stability in PVC prices and improved utilisation of new businesses. We cut our EBITDA margins estimate by 46 bps and 145 bps for FY23 and FY24E, respectively, considering higher advertisement expenses and low operating leverage from the new business. We build in EBITDA margin of ~15% and 17% for FY23 and FY24E respectively. We maintain our HOLD rating on the stock with a revised target price of ₹ 2275/share (valuing 60x FY24E EPS). The key trigger for future re-rating would be margin improvement along with growth in newer categories.

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	1,171.6	1,310.2	1,199.9	-2.4	1,212.9	-3.4	Unfavourable base and low demand of piping products led to decline in consolidated revenue in Q2
Other Income	13.5	7.9	8.0	68.8	11.4	18.4	
Raw Material Exp	817.7	908.0	816.6	0.1	835.1	-2.1	Volatile PVC prices led to inventory loss of ₹ 45 crore in Q2, resulting in sharp fall in gross margin by 174 bps YoY
Employee Exp	76.2	77.3	61.5	23.9	76.8	-0.8	Employee addition into different product categories drove employee cost in Q2
Other expenditure	133.7	144.1	110.3	21.2	129.3	3.4	Higher advertisement expenses led to increase other expenditure
EBITDA	144.0	180.8	211.5	-31.9	171.7	-16.1	
EBITDA Margin (%)	12.3	13.8	17.6	-534 bps	14.2	-187 bps	Lower gross margin coupled with higher other operating costs dragged overall EBITDA margin
Depreciation	44.8	42.6	31.4	42.7	43.3	3.5	
Interest	14.0	14.4	1.1	1,172.7	14.4	-2.8	
PBT	98.7	131.7	187.0	-47.2	125.4	-21.3	
Total Tax	24.1	33.2	43.7	-44.9	31.6	-23.7	
PAT	74.6	98.5	143.3	-47.9	93.8	-20.5	Sharp decline in PAT is attributable to lower topline & EBITDA
Key Metrics							
Plastic Piping	836.1	917.9	935.5	-10.6	876.1	-4.6	Piping segment volume down 4% YoY on an unfavourable base and volatile PVC prices
Paints & Adhesive	335.5	366.3	264.4	26.9	281.5	19.2	Consolidation of paint revenues helped drive segment revenue in Q2. Adhesive segment revenue up 8%, impacted by muted demand amid inflationary pressure. Paint segment reported revenues of ₹ 50 crore in Q2

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	5625.2	5354.8	(4.8)	6,736	6584.3	(2.2)	We revise our revenue estimate downward for FY23E-24E factoring in lower revenue growth in Q2. 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 & paint segment revenue CAGR of 18% and 35%, respectively
EBITDA	867.3	799.7	(7.8)	1,265	1142.6	(9.7)	
EBITDA Margin %	15.4	14.9	-46bps	18.8	17.4	-145bps	We cut our FY23E EBITDA margin estimate factoring inventory losses and higher employee expenses
PAT	517.5	464.7	(10.2)	813.6	746.0	(8.3)	
EPS (₹)	25.8	23.1	(10.3)	40.5	37.1	(8.3)	

Source: ICICI Direct Research

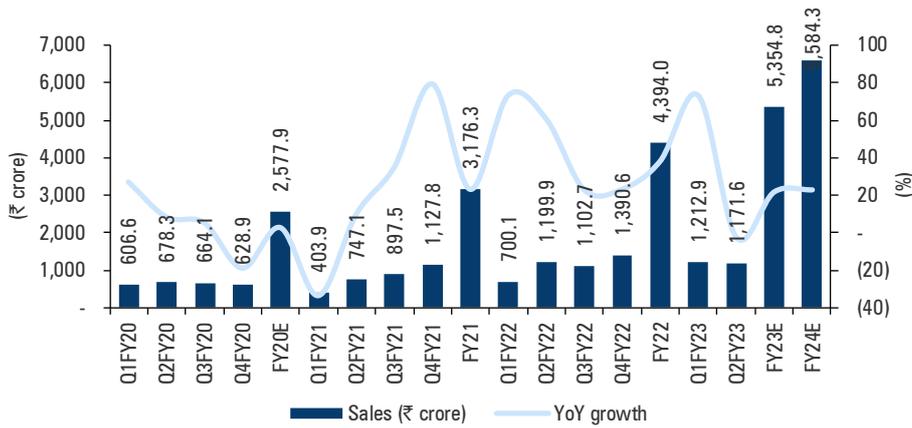
Exhibit 4: Assumptions

	Current					Earlier		Comments
	FY20	FY21	FY22E	FY23E	FY24E	FY23E	FY24E	
Plastic Piping	7.3	21.9	39.2	13.7	23.1	19.5	14.8	We model piping segment revenue CAGR of 18% led by similar level of volume growth over FY22-24E
Paints & Adhesive	(9.7)	27.5	35.7	18.6	19.1	23.4	17.3	We believe incremental revenues from new segments (paints, sanitaryware and faucets) and new product launches in the adhesive business will drive segment revenue at CAGR of 35% in FY22-24E

Source: ICICI Direct Research

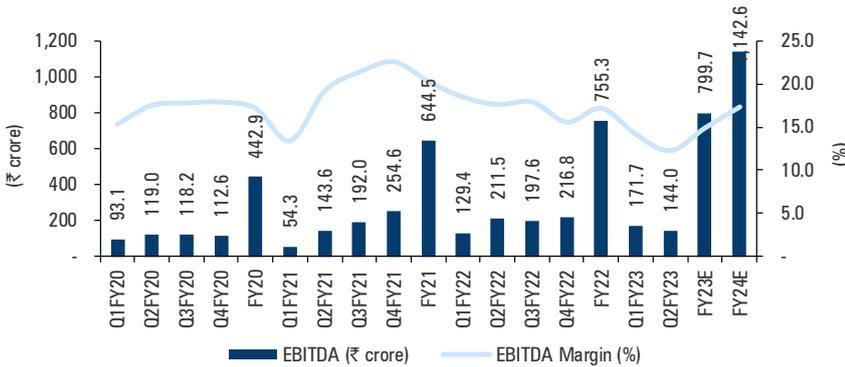
Financial story in charts

Exhibit 5: Revenue trend



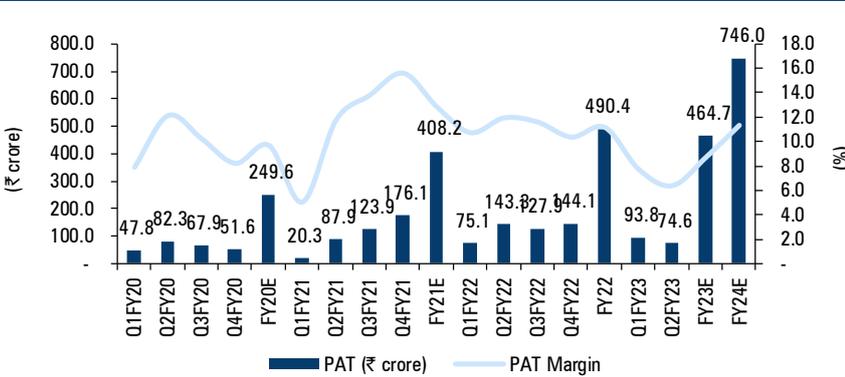
Source: Company, ICICI Direct Research

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	5354.8	6584.3
YoY (%)	23.2	38.3	21.9	23.0
Other income	25.1	34.9	53.5	65.8
Total Revenue	3201.4	4428.9	5408.4	6650.2
Expenditure				
Cons of raw material	1947.3	2896.6	3601.0	4279.8
Pur. of traded goods	21.6	31.4	55.4	69.0
Employee cost	191.0	245.3	309.6	368.7
Other expenses	371.9	465.4	589.0	724.3
Total expenses	2531.8	3638.7	4555.1	5441.8
EBITDA	644.5	755.3	799.7	1142.6
YoY (%)	45.5	17.2	5.9	42.9
Interest	13.1	12.9	56.0	13.5
PBDT	656.5	777.3	797.3	1194.9
Depreciation	116.5	126.9	176.7	197.5
Profit before tax	540.0	650.4	620.6	997.3
Total Tax	124.8	158.1	155.9	251.3
PAT before MI	415.2	492.3	464.7	746.0
Exc. Items	-7.0	-1.9	0.0	0.0
PAT	408.2	490.4	464.7	746.0

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	464.7	746.0
Add: Depreciation & Amortization	116.5	126.9	176.7	197.5
Add: Interest Paid	13.1	12.9	56.0	13.5
C/F bef working capital chg.	537.8	630.2	697.4	957.1
Net Increase in Current Assets	44.4	-302.5	-840.3	-572.6
Net Increase in Current Liabilities	65.1	227.8	206.4	197.3
Net CF from operating act	647.3	555.5	63.5	581.8
(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	-29.5	-13.5
Net Cf from Financing Act	-104.3	-30.6	-221.7	-235.7
Net Cash flow	345.7	166.1	-457.2	47.1
Cash and Cash Equi at the beg	130.0	475.7	641.8	184.6
Cash and Cash Equi at the end	475.7	641.8	184.6	231.7

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	2565.5	3069.3
Total Shareholders funds	1895.7	2336.6	2585.6	3089.4
Total Debt	53.2	85.1	135.1	155.1
Other Non Current Liabilities	122.6	143.4	145.4	147.4
Total Liability	2010.2	2497.2	2797.2	3322.0
Fixed Assets				
Gross Block	1650.2	1958.9	2208.9	2458.9
Accumulated Depreciation	592.7	719.6	896.3	1093.8
Net Block	1057.5	1239.3	1312.6	1365.1
Capital WIP	56.6	123.2	123.2	123.2
Total Fixed Assets	1114.1	1362.5	1435.8	1488.3
Goodwill on Consolidation	257.0	256.7	306.7	356.7
Current Assets				
Inventory	472.1	733.4	1027.0	1352.9
Debtors	276.7	269.1	777.6	992.2
Loans and Advances	8.2	0.5	4.8	5.9
Other Current Assets	43.9	100.4	134.4	165.3
Cash	475.7	641.8	184.6	231.7
Total Current Assets	1276.6	1745.2	2128.3	2748.0
Current Liabilities				
Creditors	517.2	748.4	850.9	992.2
Provisions	6.9	3.5	6.1	7.1
Other current liabilities	138.4	138.4	239.7	294.7
Total Current Liabilities	662.5	890.3	1096.7	1294.0
Net Current Assets	614.1	854.9	1031.7	1454.0
Deferred Tax Assets	0.1	0.3	0.3	0.3
Total Asset	2010.2	2497.2	2797.2	3322.0

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios

Year end March	FY21	FY22	FY23E	FY24E
Per share Data				
EPS	20.3	24.4	23.1	37.1
Cash EPS	26.1	30.7	31.9	47.0
Dividend per share	1.2	2.1	12.1	12.1
BV per share	94.4	116.3	128.7	153.8
Profitability Ratio				
EBITDA margin	20.3	17.2	14.9	17.4
PAT margin	12.9	11.2	8.7	11.3
Return Ratios				
RoCE	27.5	26.6	24.2	30.4
RoNW	21.5	21.0	18.0	24.1
RoC	39.6	39.5	26.0	32.8
Valuation Ratios				
P/E	98.4	81.9	86.5	53.9
EV / EBITDA	61.7	52.5	50.2	35.1
Market Cap / Sales	12.6	9.1	7.5	6.1
Price to Book Value	21.2	17.2	15.5	13.0
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	2.4	2.7
Solvency Ratio				
Debt / Equity	0.0	0.0	0.1	0.1
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 (₹ Cr)	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)			RoE (%)				
			FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Asian Paints (ASIPAI)	Buy	2,92,975	33.4	32.2	40.8	54.2	91.4	95.0	74.8	56.4	59.4	60.4	49.8	38.3	29.6	27.1	32.5	38.7	25.0	23.0	27.3	32.1
Berger Paints (BERPAI)	Hold	58,084	7.4	8.6	10.3	12.2	80.7	69.7	58.1	49.0	48.7	43.8	36.6	31.6	24.9	23.3	28.8	30.9	21.3	21.2	26.0	27.3
Kansai Nerolac (KANNER)	Hold	24,144	9.8	6.9	10.1	12.9	45.5	64.5	44.3	34.7	28.6	37.2	26.9	21.4	17.2	12.1	17.0	19.9	13.2	9.2	13.1	15.1
Pidilite Industries (PIDIND)	Hold	1,35,126	22.2	23.8	28.6	41.2	120.0	112.0	92.9	64.6	80.2	73.0	61.8	43.9	23.8	22.2	24.6	30.8	20.2	18.8	20.6	25.4
Sheela Foam (SHEFOA)	Buy	13,668	48.7	44.5	54.1	68.2	57.5	62.9	51.8	41.1	37.8	44.1	35.8	28.4	24.3	18.0	20.5	23.5	20.1	15.6	17.1	19.2
Bajaj Electricals (BAJELE)	Hold	13,300	16.5	10.8	23.2	36.4	70.2	106.9	49.8	31.8	44.7	52.8	32.8	23.4	15.1	13.5	22.1	27.3	10.7	7.8	15.7	20.2
Crompton Greaves(CROGR)	Hold	22,251	9.8	9.2	8.9	11.1	36.1	38.5	39.8	31.9	29.4	29.0	25.7	21.3	34.4	16.2	16.6	20.5	31.9	24.0	21.7	23.4
Havells India (HAVIND)	Buy	77,411	16.7	19.1	17.6	27.1	74.2	64.8	70.0	45.7	48.7	42.8	46.7	31.8	24.9	23.7	23.0	33.8	20.1	20.0	19.4	28.7
Polycab India (POLI)	Buy	40,439	59.3	61.4	76.3	86.8	45.6	44.1	35.4	31.2	35.6	31.1	22.7	20.1	20.6	20.2	24.7	23.8	17.9	15.6	18.4	18.0
Symphony (SYMLIM)	Hold	5,883	15.3	17.3	26.1	34.8	55.0	48.6	32.2	24.2	41.0	35.4	24.7	18.6	15.2	15.9	24.5	29.0	14.9	14.4	23.6	27.4
V-Guard Ind (VGUARD)	Hold	11,350	4.7	5.3	5.3	7.1	56.2	49.7	49.9	37.3	35.5	33.4	32.2	24.3	23.9	21.2	23.4	27.8	16.7	16.2	17.7	21.2
Voltas Ltd (VOLTAS)	Hold	27,418	16.0	15.3	16.1	23.0	51.9	54.2	51.3	36.0	42.0	39.3	38.5	27.4	15.0	14.0	16.3	20.1	10.6	9.2	11.0	14.1
Amber Enterprises (AMBEN)	Hold	6,863	24.7	33.0	45.7	73.7	82.4	61.7	44.6	27.6	30.9	26.2	20.6	15.2	7.7	6.8	10.2	13.2	5.2	6.4	8.7	12.3
Dixon Technologies (DIXTEC)	Buy	26,933	27.3	32.1	57.9	85.4	166.4	141.5	78.4	53.2	94.0	71.4	44.1	32.1	23.5	17.7	27.8	31.5	21.7	19.1	31.8	34.2
Supreme Indus (SUPIND)	Buy	30,753	77.0	76.2	63.1	80.4	31.4	31.8	38.4	30.1	23.4	24.3	26.5	20.5	33.1	25.9	22.6	27.1	30.9	25.2	20.5	23.6
Astral Ltd (ASTPOL)	Hold	40,177	20.3	24.4	23.1	37.1	98.4	81.9	86.5	53.9	61.7	52.5	50.2	35.1	27.5	26.6	24.2	30.4	21.5	21.0	18.0	24.1
Time Techno (TIMTEC)	BUY	2,329	4.8	8.5	10.1	13.1	21.6	12.1	10.2	7.9	7.5	6.1	5.2	4.4	8.7	11.3	12.8	14.6	5.7	9.3	10.7	12.5
Moldtek Packaging (MOLPLA)	Hold	2,890	17.2	20.4	26.7	34.4	50.6	42.7	32.6	25.3	31.6	24.2	19.4	15.4	20.1	18.6	27.6	27.9	18.7	13.9	24.3	24.3

Source: ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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