HOLD (Maintained)

CMP: **INR 1,974** Target Price: **INR 1,909 (INR 1,805)** ▼ -3%

ICICI Securities

ICICI Securities Limited is the author and distributor of this report

12 August 2023

India | Equity research | Q1FY24 Result Review

Astral Ltd

Plastic

Demand environment healthy; margins to improve further

In Q1FY24, Astral reported pipes volume growth of 31.1% YoY (4-year CAGR of 10.9%). Consol revenue grew 5.8% YoY with pipes/adhesives segments growing ~6%/9% YoY. Consolidated EBITDA margin improved 165bps YoY (-480bps QoQ) to 15.7%, leading to EBITDA/APAT growth of 18.2%/26.4% YoY. Pipes EBITDA/kg declined 5.4% YoY to INR35.2 due to inventory losses of ~INR 150mn (adj. EBITDA/kg of ~INR38). Adhesives margin was flat YoY. Management stated demand for pipes was strong and has guided for pipes vol CAGR of 15% for next 5 years with EBITDA/kg of INR 35-40. It maintained its guidance for ~15-20% revenue growth in adhesives and margin of >15% in FY24. We tweak our PAT estimates by 1% for FY25E and maintain **HOLD** rating with a rolled-over Sep'24 TP of INR 1,909 (earlier: INR1,805).

Pipes volume growth of 31% YoY driven by plumbing segment

Astral reported pipes vol growth of 31.1% YoY (4-year CAGR of 10.9%) in Q1, driven by the plumbing sector. Pipes revenue grew 5.5% YoY while realisation fell ~20% YoY. Adhesives revenue grew ~9% YoY while paints revenue declined ~26% YoY (impacted by SAP implementation). Management stated demand was strong for pipes and is expected to remain so in the medium term. Thus, to cater to the strong demand, Astral has planned pipes capacity expansion of ~45% (142,000tpa) over FY24-FY26. It has guided for 15% YoY pipes volume CAGR for the next 5 years and ~15-20% YoY revenue growth in adhesives in FY24. We model pipes volume CAGR of 14.9% over FY23-FY26E.

Operating margins impacted by inventory losses

Astral's consolidated EBITDA margin increased 165bps YoY to 15.7% (-480bps QoQ) leading to EBITDA / APAT growth of 18.2% / 26.4% YoY. Pipes EBITDA/kg fell 26.2% QoQ to INR 35.2 due to inventory loss of ~INR 150mn (adj. EBITDA/kg of ~INR 38/kg; -20% QoQ). Management indicated that PVC/CPVC prices have largely stabilised and that profitability is expected to improve going forward, guiding for EBITDA/kg of INR 35-40 for FY24. Adhesives margin was flat YoY (-175bps QoQ due to lower profitability of UK operations), but management expects margins to improve going forward driven by lower RM costs. We have modelled pipe EBITDA/kg at ~INR 38 / 39, and adhesive margin at ~15.6% / 15.9% for FY24E/FY25E.

Financial summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	51,585	59,582	70,664	78,981
EBITDA	8,112	10,407	12,700	14,180
EBITDA %	15.7	17.5	18.0	18.0
Net Profit	4,460	6,668	8,283	9,398
EPS (Rs)	16.6	24.8	30.8	35.0
EPS % Chg YoY	(6.6)	49.5	24.2	13.5
P/E (x)	118.9	79.5	64.0	56.4
EV/EBITDA (x)	64.6	50.4	41.0	36.1
RoCE (%)	17.0	19.4	21.2	19.9
RoE (%)	17.7	22.6	24.0	22.4

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Market Data

Market Cap (INR)	530bn
Market Cap (USD)	6,408mn
Bloomberg Code	ASTRA IN
Reuters Code	ASTL BO
52-week Range (INR)	2,058 /1,298
Free Float (%)	44.0
ADTV-3M (mn) (USD)	15.9

Price Performance (%)	3m	6m	12m
Absolute	27.7	35.7	33.4
Relative to Sensex	6.5	8.7	11.6

ESG Disclosure	2021	2022	Change
ESG score	**47.5**	**51.3**	**3.8**
Environment	29.5	30.4	0.8
Social	28.0	38.6	10.6
Governance	84.9	84.9	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	(1.3)	(0.4)
EBITDA	0.1	1.1
EPS	0.1	(1.1)

Previous Reports

26-05-2023: Company Update
18-05-2023: Q4FY23 results review

Bathware and paint segments to scale up

In Q1FY24, the newly entered bathware segment reported revenues of ~INR 139mn with EBITDA loss of INR 34mn. Company now has presence in over 500 showrooms / display centres / sales points across the country. As per management, the product is getting increasing acceptance and they are hopeful of higher traction in sales from Q3FY24. Paint segment revenues in Q1 declined ~26% to INR 410mn due to migration to SAP and re-KYC of all dealers. Management expects the paint business to see increased traction going ahead as they now have total control over the company. Paint segment had EBIDTA margin of ~17% in Q1 (aided primarily by lower RM costs) and the management expects margin of ~15%-16% to be sustainable in this segment over the medium term.

Valuations & view

Astral's Q1FY24 operational performance has been below expectations largely due to inventory losses. Going ahead, we believe the company will likely witness volume and margin tailwinds due to lower commodity prices and pick-up in real estate. We continue to like Astral for its comprehensive portfolio, wide distribution reach and strong brand presence, along with net-debt-free balance sheet and high return ratios. Maintain **HOLD** with a rolled-over Sep'24E target price of INR 1,909; set at unchanged 58x 1-year forward P/E.

Exhibit 1: Q1FY24 consolidated result review

INR mn	Q1FY24	Q1FY23	YoY(%)	Q4FY23	QoQ (%)
Total revenues	**12831**	**12129**	**5.8%**	**15062**	**-14.8%**
Raw Materials	8050	8351	-3.6%	9281	-13.3%
% of sales	*62.7%*	*68.9%*	*-611 bps*	*61.6%*	*112 bps*
Employee cost	996	768	29.7%	862	15.5%
% of sales	*7.8%*	*6.3%*	*143 bps*	*5.7%*	*204 bps*
Other expense	1769	1,304	35.7%	1830	-3.3%
% of sales	*13.8%*	*10.8%*	*304 bps*	*12.1%*	*164 bps*
Total expenditure	10815	10423	3.8%	11973	-9.7%
% of sales	*84.3%*	*85.9%*	*-165 bps*	*79.5%*	*480 bps*
EBITDA	**2016**	**1706**	**18.2%**	**3089**	**-34.7%**
EBITDA margin (%)	*15.7%*	*14.1%*	*165 bps*	*20.5%*	*-480 bps*
Depreciation	463	433	6.9%	445	4.0%
EBIT	**1553**	**1273**	**22.0%**	**2644**	**-41.3%**
EBIT margin (%)	*12.1%*	*10.5%*	*161 bps*	*17.6%*	*-545 bps*
Interest cost	64	27	137.0%	54	18.5%
Other income	121	112	8.0%	66	83.3%
PBT	**1610**	**1358**	**18.6%**	**2656**	**-39.4%**
Taxes	423	316	33.9%	654	-35.3%
PAT before MI/JVs	**1187**	**1042**	**13.9%**	**2002**	**-40.7%**
Less: forex loss/(gain)	-6	106	-105.7%	-21	nm
Less: minority int	-5	73	-106.8%	5	nm
Less: extraordinary items	0	0	nm	18	nm
PAT from discontinued operations	0	-25	nm	-72	nm
Loss from JV	0	0	nm	15	nm
RPAT	**1198**	**888**	**34.9%**	**2057**	**-41.8%**
APAT	**1194**	**944**	**26.4%**	**1994**	**-40.1%**

Source: I-Sec research, Company data

Exhibit 2: Q1FY24 consolidated segmental result review

INR mn	Q1FY24	Q1FY23	YoY(%)	Q4FY23	QoQ (%)
Revenue					
Plumbing	9,383	8,761	7.1%	11,235	-16.5%
Paints & Adhesives	3,448	3,368	2.4%	3,827	-9.9%
Net Sales	12,831	12,129	5.8%	15,062	-14.8%
EBIT					
Plumbing	1,268	977	29.8%	2,215	-42.8%
Paints & Adhesives	339	316	7.3%	471	-28.0%
Total	1,607	1,293	24.3%	2,686	-40.2%
EBIT Margin (%)					
Plumbing	13.5%	11.2%	*236 bps*	19.7%	*-620 bps*
Paints & Adhesives	9.8%	9.4%	*45 bps*	12.3%	*-248 bps*
Total	12.5%	10.7%	*186 bps*	17.8%	*-531 bps*

Source: I-Sec research, Company data

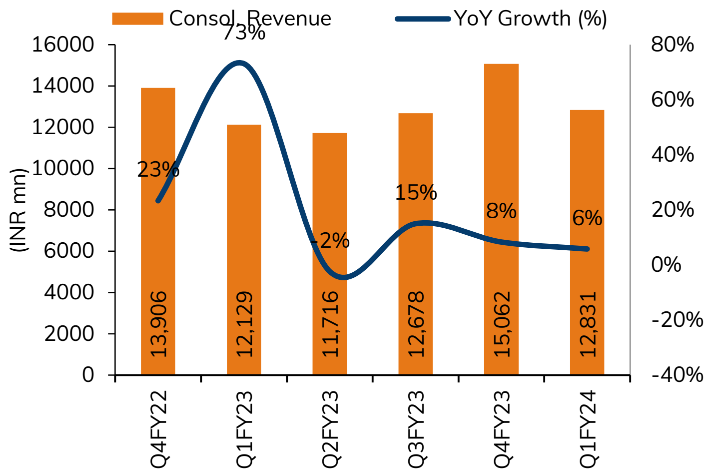
Key takeaways from Q1FY24 earnings conference call

- **Demand**: Management stated that demand conditions were robust during the quarter and it continues to see strong momentum going forward. It indicated that **Q2-TD volume growth is better than the monthly average run-rate in Q1FY24**.
- Management reported **inventory loss of INR 150mn during Q1**.
- **Adhesives segment** saw good demand for India operations with plants running at 65% utilisation and volumes growing 15-20% YoY. India adhesives operations reported margin of ~16% while UK operations margins were ~4%. Management expects margin to improve going forward, driven by improving demand situation and lower RM costs. It is also planning to launch new chemistries in waterproofing segment.
- **Paints segment** revenue declined ~26% YoY to INR 410mn as it was impacted by implementation of SAP, which led to sales loss of INR 150mn-200mn. Paints margin improved ~200bps YoY to 17% due to lower RM costs. Senior management staff has been hired for the paints division and the company plans to relaunch paints under the *Astral* brand soon.
- **Sanitaryware segment** reported revenue of INR 139mn and EBITDA loss of INR 34mn during Q1FY24. Astral has opened 500+ stores and, from Q3FY24 onwards, it will focus on enhancing sales for this segment. It plans to launch sanitaryware for the economy segment soon.
- **Guidance**: Management maintained its guidance of pipes revenue CAGR at 15% for the next 5 years. For FY24, management has guided for 15-20% YoY adhesives revenue growth, and >15% adhesives margin. It has guided for pipes EBITDA/kg of INR 35-40/kg in FY24.
- **RM prices**: Management indicated that CPVC prices softened during Q1 and further decline is expected going forward. It also indicated that PVC prices have bottomed out.
- **Capacity expansion:** Management has announced capacity expansion of 142,000mtpa over FY24-FY26. Guwahati unit (leased land model) with a capacity of 22,000mtpa is expected to be commissioned in Sep'23. Hyderabad unit with a phase-1 capacity of 30,000 mtpa is expected to be commissioned in Sep'24 and that for phase-2 capacity of 40,000 mtpa is expected in FY26. It has also planned

a capacity expansion of 50,000 mtpa in Kanpur (U.P.) where it has already purchased land. Phase-1 of the U.P. plant will be commissioned in FY25 and phase-2 in FY26. Dahej plant is undergoing trial production and commercial production is expected to commence in a few months.

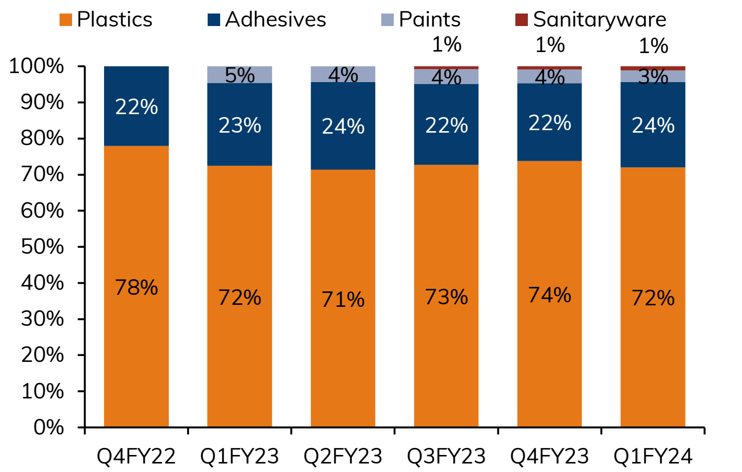
- **Capex**: Management has highlighted a capex outlay of INR 3.5bn in FY24 and INR 2.5bn in FY25.

Exhibit 3: Consolidated quarterly revenue



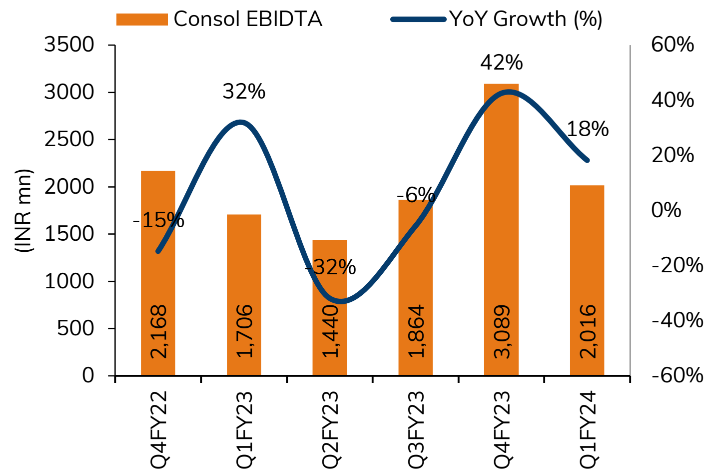
Source: I-Sec research, Company data

Exhibit 4: Consolidated quarterly revenue breakup



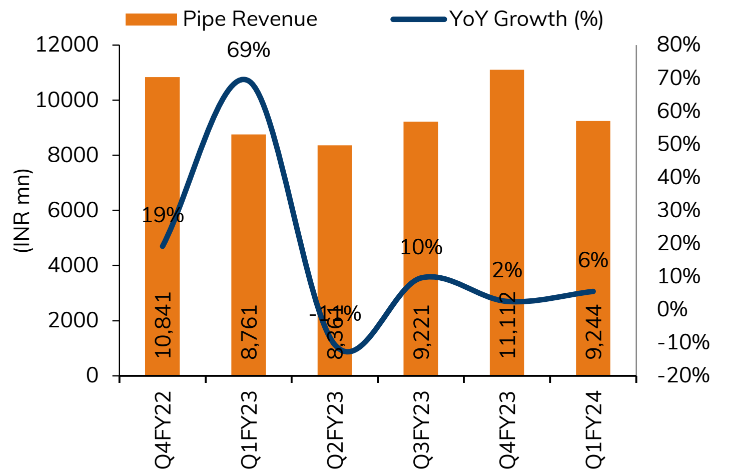
Source: I-Sec research, Company data

Exhibit 5: Consolidated quarterly EBITDA



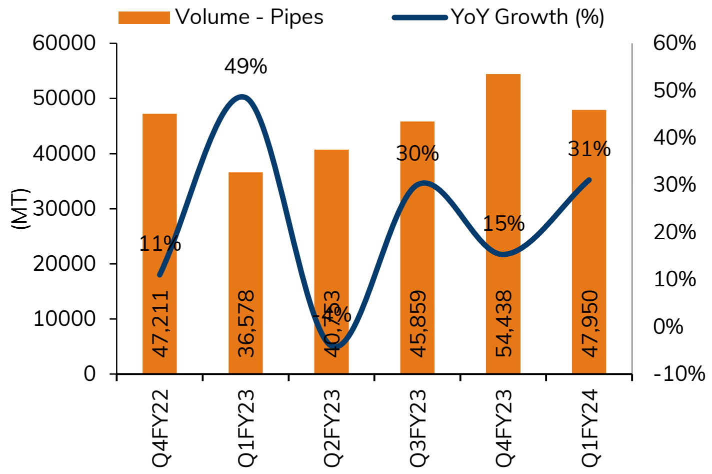
Source: I-Sec research, Company data

Exhibit 6: Quarterly pipes revenue



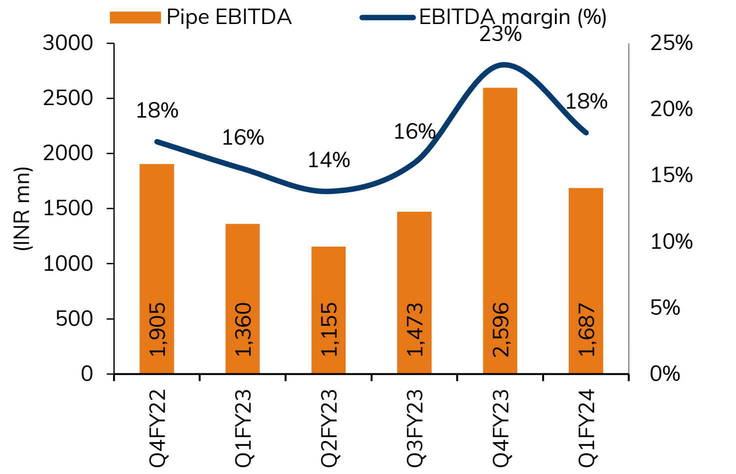
Source: I-Sec research, Company data

Exhibit 7: Quarterly pipes volume



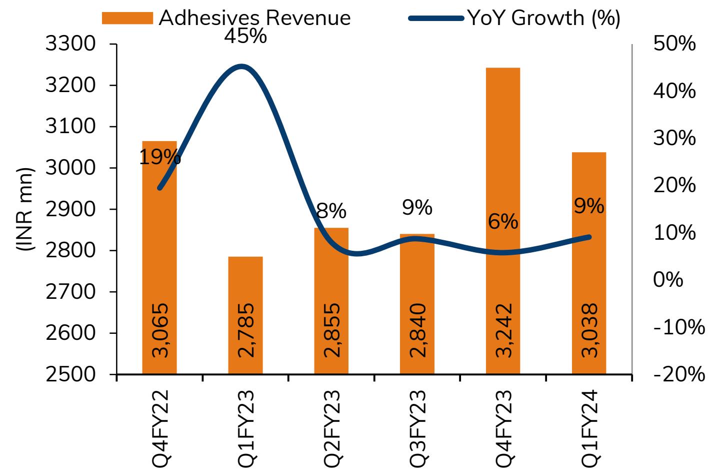
Source: I-Sec research, Company data

Exhibit 8: Quarterly pipes EBITDA and margin



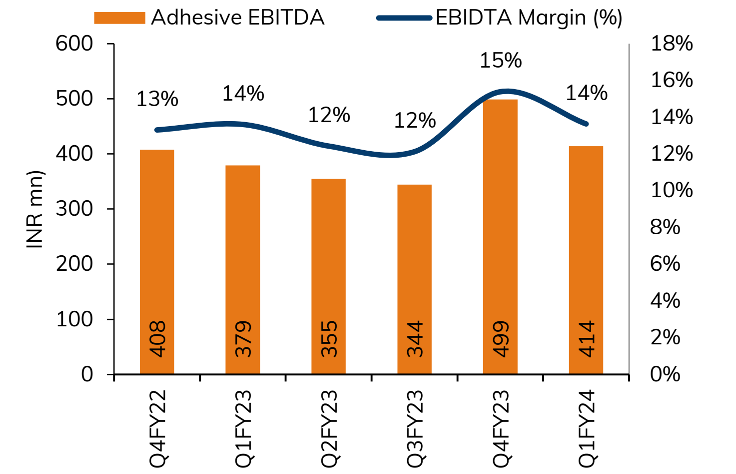
Source: I-Sec research, Company data

Exhibit 9: Quarterly adhesive revenue



Source: I-Sec research, Company data

Exhibit 10: Quarterly adhesive EBITDA and margin



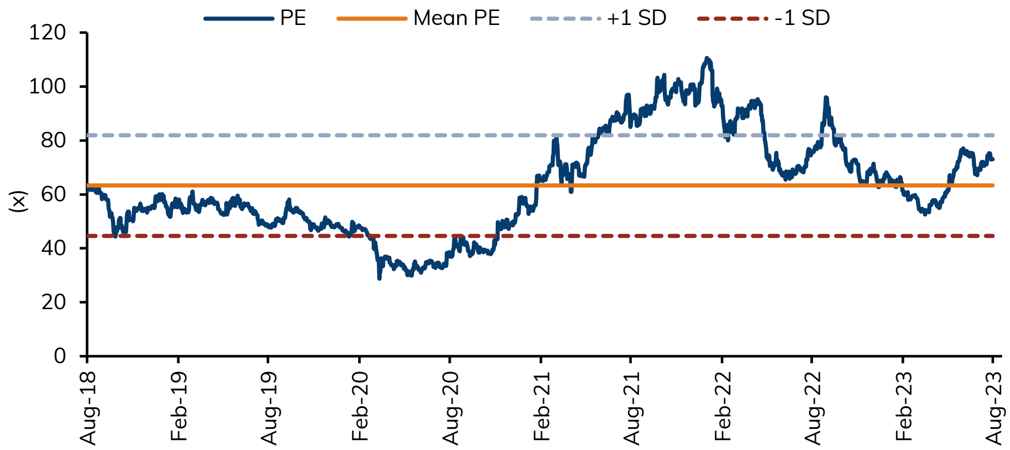
Source: I-Sec research, Company data

Valuation

Astral is among the leading players in India's CPVC/PVC plumbing pipes market. It has a wide-ranging product portfolio, robust brand and large distribution reach, which will likely enable it to benefit from the growing preference for organised players. Its adhesives business further boosts growth prospects.

Astral is expected to deliver revenue and EBITDA CAGRs of 15.3% and 20.5% respectively, over FY23-FY26E with strong return ratios (RoE of 24% in FY25E). Maintain **HOLD** with a rolled-over Sep'24E target price of INR 1,909 (earlier: INR 1,805), set at an unchanged 58x 1-year forward P/E.

Exhibit 11: 1-year forward P/E band



Source: I-Sec research, Company data

Key downside risks

- Slowdown in housing market causing lower demand.
- Sharp fall in PVC prices, which may adversely impact profitability of pipes segment due to inventory losses.
- High increase in raw material prices for adhesives will impact segmental profitability and demand.
- Failure to scale-up new businesses of sanitaryware, faucetware and paints.
- Inability to properly merge the paint acquisition.

Key upside risks

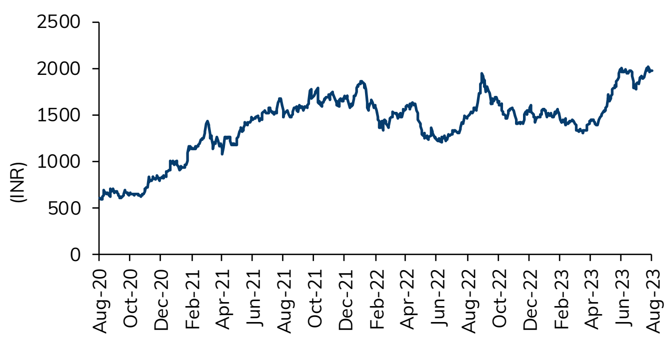
- Surge in PVC prices, which could result in better than expected profitability for plastic pipes.
- Better than expected pick-up in the demand scenario.

Exhibit 12: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	55.9	55.9	55.9
Institutional investors	30.1	30.4	31.5
MFs and others	8.7	8.7	8.8
FIs/Banks	0.1	0.1	0.1
Insurance	5.0	5.1	4.8
FIIs	16.3	16.5	17.9
Others	14.0	13.8	12.6

Source: Bloomberg

Exhibit 13: Price chart



Source: Bloomberg

Financial summary

Exhibit 14: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	**51,585**	**59,582**	**70,664**	**78,981**
Operating Expenses	43,473	49,175	57,964	64,801
EBITDA	**8,112**	**10,407**	**12,700**	**14,180**
EBITDA Margin (%)	15.7	17.5	18.0	18.0
Depreciation & Amortization	1,781	2,019	2,213	2,475
EBIT	**6,331**	**8,389**	**10,487**	**11,705**
Interest expenditure	400	127	65	20
Other Non-operating Income	209	546	516	723
Recurring PBT	**6,140**	**8,807**	**10,939**	**12,408**
Less: Taxes	(1,557)	(2,114)	(2,625)	(2,978)
PAT	4,583	6,693	8,313	9,430
Profit / (Loss) from Associates	-	-	-	-
Less: Minority Interest	(159)	(25)	(30)	(32)
Extraordinaries (Net)	142	-	-	-
Net Income (Reported)	**4,566**	**6,668**	**8,283**	**9,398**
Net Income (Adjusted)	**4,460**	**6,668**	**8,283**	**9,398**

Source Company data, I-Sec research

Exhibit 15: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Assets				
Inventories	8,746	8,757	10,322	11,540
Cash & cash eqv.	6,821	6,455	9,387	18,037
Sundry Debtors	3,545	3,591	4,259	4,760
Other Current Assets	1,790	1,796	2,130	2,380
Trade payables	8,000	7,436	8,767	9,783
Other Current Liabilities	4,862	2,184	2,576	2,874
Net Current Assets	**8,040**	**10,979**	**14,756**	**24,061**
Investments	-	-	-	-
Net Fixed Assets	17,137	18,618	19,905	19,930
Other Non Current Assets	5,582	5,582	5,582	5,582
Total Assets	**30,759**	**35,179**	**40,243**	**49,573**
Liabilities				
Borrowings	773	500	150	50
Other Non Current Liabilities	397	397	397	397
Total Liabilities	**1,170**	**897**	**547**	**447**
Equity Share Capital	269	269	269	269
Reserves & Surplus	26,843	31,511	36,895	46,293
Total Net Worth	**27,112**	**31,780**	**37,164**	**46,562**
Minority Interest	2,477	2,502	2,532	2,564
Total Liabilities & Net Worth	**30,759**	**35,179**	**40,243**	**49,573**

Source Company data, I-Sec research

Exhibit 16: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	11,716	12,678	15,062	12,831
% growth (YoY)	-2.4	15.0	8.3	5.8
EBITDA	1,440	1,864	3,089	2,016
Margin %	12.3	14.7	20.5	15.7
Other Income	109	-20	66	121
Extraordinaries	-70	-41	3	6
Adjusted Net Profit	745	960	1,994	1,194

Source Company data, I-Sec research

Exhibit 17: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	**9,802**	**5,433**	**9,711**	**11,281**
Working Capital Changes	1,196	(3,304)	(845)	(655)
Capital Commitments	(8,252)	(3,500)	(3,500)	(2,500)
Free Cashflow	**1,550**	**1,933**	**6,211**	**8,781**
Other investing cashflow	-	-	-	-
Cashflow from Investing Activities	**(8,252)**	**(3,500)**	**(3,500)**	**(2,500)**
Issue of Share Capital	68	-	-	-
Inc (Dec) in Borrowings	(78)	(273)	(350)	(100)
Dividend paid	(825)	(2,001)	(2,899)	-
Others	(312)	(25)	(30)	(32)
Cash flow from Financing Activities	**(1,147)**	**(2,299)**	**(3,279)**	**(132)**
Chg. in Cash & Bank balance	403	(366)	2,932	8,649
Closing cash & balance	**6,821**	**6,455**	**9,387**	**18,037**

Source Company data, I-Sec research

Exhibit 18: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	17.0	24.8	30.8	35.0
Adjusted EPS (Diluted)	16.6	24.8	30.8	35.0
Cash EPS	23.2	32.3	39.1	44.2
Dividend per share (DPS)	3.0	7.4	10.8	15.7
Book Value per share (BV)	100.9	118.3	138.4	173.3
Dividend Payout (%)	18.1	30.0	35.0	45.0
Growth (%)				
Net Sales	17.4	15.5	18.6	11.8
EBITDA	7.4	28.3	22.0	11.6
EPS (INR)	(6.6)	49.5	24.2	13.5
Valuation Ratios (x)				
P/E	118.9	79.5	64.0	56.4
P/CEPS	85.0	61.0	50.5	44.7
P/BV	19.6	16.7	14.3	11.4
EV / EBITDA	64.6	50.4	41.0	36.1
EV / Sales	10.2	8.8	7.4	6.5
Dividend Yield (%)	0.2	0.4	0.5	0.8
Operating Ratios				
Gross Profit Margins (%)	33.4	34.9	35.3	35.4
EBITDA Margins (%)	15.7	17.5	18.0	18.0
Effective Tax Rate (%)	25.4	24.0	24.0	24.0
Net Profit Margins (%)	8.6	11.2	11.7	11.9
NWC / Total Assets (%)	2.8	10.1	10.4	9.7
Net Debt / Equity (x)	(0.2)	(0.2)	(0.2)	(0.4)
Net Debt / EBITDA (x)	(0.7)	(0.6)	(0.7)	(1.3)
Profitability Ratios				
RoCE (%) (post-tax)	17.0	19.4	21.2	19.9
RoE (%)	17.7	22.6	24.0	22.4
Cash Conversion Cycle (on net sales)				
Inventory Days	62	54	53	53
Receivables Days	25	22	22	22
Payables Days	57	46	45	45

Source Company data, I-Sec research

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