Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Astral Ltd

Healthy business outlook; Upgrade to Buy

Building Material	Sharekhan code: ASTRAL

Reco/View: Buy ↑	CMP: Rs. 1,843	Price Target: Rs. 2,170 ⇔

↑ Upgrade ⇔ Maintain ↓ Downgrade

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		⇔	

ESG Disclosure Score NEW

ESG RISK RATING 25.02

Updated Aug 08, 2023

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

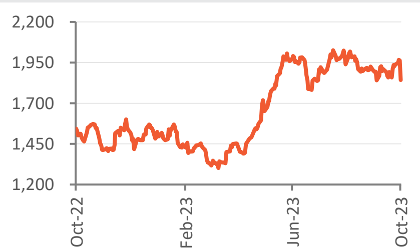
Company details

Market cap:	Rs. 49,513 cr
52-week high/low:	Rs. 2,058 / 1,298
NSE volume: (No of shares)	1.6 lakh
BSE code:	532830
NSE code:	ASTRAL
Free float: (No of shares)	11.86 cr

Shareholding (%)

Promoters	56
FII	13
DII	19
Others	12

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.6	-3.4	28.7	19.5
Relative to Sensex	-0.9	-1.2	18.5	8.4

Sharekhan Research, Bloomberg

Summary

- We upgrade Astral to Buy with an unchanged price target of Rs. 2,170, as recent correction in stock price provides a buying opportunity, considering healthy demand outlook for the next 2-3 years.
- Q2FY2024 consolidated revenues remained in-line, led by strong volume growth. OPMs marginally lagged led by inventory losses in CPVC and bathware segment's losses. Net earnings rise 91% y-o-y.
- Management upped piping volume growth guidance on strong demand and expected bottoming out of polymer prices. It remains committed on its earlier guidance of doubling in revenues in five years.
- Astral is putting up three new capacities which along with de-bottlenecking at existing capacities would increase piping capacity by more than 50% by FY2026.

Astral Limited (Astral) reported in-line consolidated revenues at Rs. 1363 crore (up 16.3% y-o-y) led by 17.3% y-o-y rise in plumbing revenues (aided by strong volume growth of 28% y-o-y) and 14% y-o-y growth in adhesives & paint revenues. Consolidated OPM at 16.1% (up 386 bps y-o-y) came in lower than our estimate of 16.9% owing to inventory losses in CPVC (~Rs. 20 crore, 7-8% correction in CPVC prices led by global price correction in PVC prices) and bathware losses (~4 crore). Strong volume growth and rise in OPMs led to consolidated operating profit and net profit growth of 53% y-o-y and 91%, y-o-y respectively (although were marginally lower than our estimate). Management upped volume growth guidance for FY2024 to 20% plus y-o-y from earlier 15-20% y-o-y led by strong demand expectations and bottoming out of polymer prices. It is putting up three new capacities (142,000 tonnes), which along with de-bottlenecking (20,000-30,000 tonnes) of existing capacities would increase plumbing capacity to 162,000 tonnes to 172,000 tonnes by FY2026.

Key positives

- Piping division reported 28% y-o-y volume growth led by strong demand and lower polymer prices;
- OPM stood at 18% despite inventory loss in CPVC and bathware segments.

Key negatives

- Blended piping realisations were 4% lower q-o-q on account of 7-8% price correction in CPVC prices which was passed on to end consumers.
- October saw price correction of Rs. 11 per kg over eleven days led by lower global prices. The management expects bottoming out of polymer prices with expected increase going ahead.

Management Commentary

- Company revised its piping volume growth guidance for FY2024 upwards to 20% plus y-o-y as against 15-20% earlier owing to strong demand and expected bottoming out of PVC/CPVC prices. Overall, it remains committed on its earlier guidance of doubling revenues over five year period.
- Management expects PVC and CPVC prices have bottomed out and is slated for little bit of upward revision which may lead to inventory gains in coming quarters.
- The company can generate Rs. 2000 crore plus revenues from the current adhesive capacity at full utilisation including Dahej (Rs. 800-1000 crore revenue potential).

Revision in estimates – We have fine-tuned our net earnings estimates for FY2024-FY2026.

Our Call

Valuation – Upgrade to Buy with an unchanged price target of Rs. 2,170: Astral, like its industry peers, is expected to benefit from strong demand and bottoming out of PVC prices leading to an expected improvement in OPM. Aggressive expansion plans would aid to capture in the strong demand growth in the next few years. Scale-up of new businesses viz. plastic tanks, valves, paints, faucets and sanitaryware, would remain key focus areas for the company. We have introduced our FY2026E earnings in this note. We estimate its consolidated revenues/operating profit/net profit to grow at a CAGR of 17%/21%/25% over FY2023-FY2026E. Stock has corrected ~10% since its peak in little over two months and is currently trading at a P/E of 67x/56x its FY2025E/FY2026E earnings. We consider it as a buying opportunity and hence upgrade the stock to Buy with an unchanged price target of Rs. 2,170, considering healthy demand growth outlook for the next 2-3 years.

Key Risks

- Sharp rise in adhesives business growth run-rate and profitability of bathware business.
- Faster scale-up in revenues and profitability in new business verticals.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24E	FY25E	FY26E
Revenue	5,159	5,741	7,184	8,219
OPM (%)	15.7	16.4	17.3	17.6
Adjusted PAT	457	536	750	893
% Y-o-y growth	(5.6)	17.4	39.9	19.2
Adjusted EPS (Rs.)	17.0	19.9	27.9	33.2
P/E (x)	108.6	92.5	66.1	55.5
P/B (x)	18.3	15.4	12.6	10.3
EV/EBITDA (x)	60.5	52.0	39.2	33.3
RoNW (%)	18.1	18.1	20.9	20.4
RoCE (%)	23.6	22.7	26.1	25.6

Source: Company; Sharekhan estimates

OPM marginally misses mark

Astral reported consolidated net revenues growth of 16.3% y-o-y (up 6.2% q-o-q) at Rs. 1363 crore which was in-line with our estimate. The revenues from plumbing segment grew by 17.3% y-o-y (up 4.5% q-o-q) to Rs. 980 crore. The volumes in plumbing division grew by 28% y-o-y (+9% q-o-q) while realizations declined by 8% y-o-y (-4% q-o-q). The revenues from paints and adhesive business rose 14% y-o-y (+11 q-o-q) to Rs. 383 crore. The company reported consolidated OPM at 16.1% (+386bps y-o-y, +44bps q-o-q) which was marginally lower than our estimate of 16.9%. Plumbing business EBITDA margin stood at 18% (+458bps y-o-y, +42bps q-o-q) while paints and adhesives was at 14.8% (up 218 bps y-o-y, up 78 bps q-o-q). Consolidate operating profit rose by 52.8% y-o-y (+9.2% q-o-q) at Rs. 220 crore which was 4% lower than our estimate. Strong OPM expansion y-o-y led to consolidated adjusted net profit growth of 90.5% y-o-y (up 9.9% q-o-q) at Rs. 131.7 crore (6% lower than our estimate). The company recently started commercial production at its plant in Guwahati. Consolidated cash and bank balances as on September 30, 2023 was Rs. 533 crore.

Key Conference Call Takeaways

- **Guidance:** The company revised its piping volume growth guidance for FY2024 upwards to 20% plus y-o-y as against 15-20% earlier owing to strong demand and expected bottoming out of PVC/CPVC prices. It has added two new large customers in Adhesives business which would reflect in earnings next year. It has a revenue target of Rs. 1500 crore from newly launched products. Overall, it remains committed on its earlier guidance of doubling in revenues over five year period.
- **Polymer prices:** CPVC prices corrected by 7-8% in Q2FY2024 because of drop in global prices (US, Japan). The same is in sync with bottoming out of PVC prices globally to $750 per tonne. PVC prices witnessed three cuts aggregating to Rs. 11 per kg over eleven days in October because of lower international offers leading to price reductions by Reliance and local traders. The management expects PVC and CPVC prices have bottomed out and is slated for little bit of upward revision which may lead to inventory gains in coming quarters.
- **Q2FY2024 performance:** The Piping business (including Bathware) grew by 17.3% y-o-y in value terms and 28% y-o-y in volume terms with EBITDA margins of 18%, which includes CPVC inventory loss of Rs. 20 crore and Bathware segment losses of Rs. 4 crore. Adhesives India business grew by 18% y-o-y in value with 15.5% EBITDA margin. The UK Adhesives business grew by 17% y-o-y in value with 9.7% EBITDA margins. Paints de-grew by 6% y-o-y with EBITDA margin of 16%.
- **Expansion:** The company added 20,000 tonnes capacity within existing plants taking its overall piping capacity to 3.10 lakh tonne from 2.90 lakh tonnes. It is putting up three new piping plants. The Guwahati plant has started production of tanks and will start production of pipes (22,000 tonnes). The second unit in Hyderabad (70,000 tonnes) is expected to start first phase production in September 2024 and second phase in FY2026 (June 2025). The third unit in Kanpur (50,000 tonnes) is expected to complete first phase by FY2025 end and second in FY2026. Additionally, it has further room for adding 20,000-30,000 tonnes through de-bottlenecking.
- **Adhesives:** The company can generate Rs. 2000 crore plus revenues from the current adhesive capacity at full utilisation including Dahej (Rs. 800-1000 crore revenue potential).
- **Bathware:** The company achieved first milestone of 500 stores in Sanitaryware and faucets. It did on an average Rs. 6 crore monthly revenues in Q2FY2024 (Rs. 18 crore) with September month clocking Rs. 8 crore monthly run-rate. It expects to cross breakeven monthly revenue run-rate of over Rs. 10 crore over the next two quarters.
- **Capex:** The company spent an incremental Rs. 70 crore towards land acquisition for its corporate office near its existing premises which is over and above Rs. 350 crore capex planned for FY2024 earlier. The company would be spending Rs. 275-280 crore towards acquisition of balance stake in GEM Paints acquisition in this month. The capex for FY2025 is estimated at Rs. 250-300 crore.
- **Other expense:** Higher other expenses during the quarter was on account of higher spends incurred on branding and dealer meets. It would incur 1.5-2% of sales towards advertising.

Results (Consolidated) — **Rs cr**

Particulars	Q2FY2024	Q2FY2023	Y-o-Y %	Q1FY2024	Q-o-Q %
Revenue	**1,363.0**	**1,171.6**	**16.3**	**1,283.1**	**6.2**
EBITDA	**220.1**	**144.0**	**52.8**	**201.6**	**9.2**
Other Income	13.4	10.9	22.9	12.1	10.7
Depreciation	48.7	44.8	8.7	46.3	5.2
Finance Cost	8.0	14.0	(42.9)	5.8	37.9
PBT	**176.8**	**96.1**	**84.0**	**161.6**	**9.4**
Tax Expenses	45.1	24.1	87.1	42.3	6.6
PAT	131.7	72.0	82.9	119.3	10.4
Adj PAT	**131.7**	**69.1**	**90.5**	**119.8**	**9.9**
EPS (Rs)	**4.9**	**2.6**	**90.5**	**4.5**	**9.9**
Margin			**BPS**		**BPS**
EBITDA Margin	16.1	12.3	386	15.7	44
PAT Margin	9.7	6.1	352	9.3	36
Tax rate	25.5	25.1	43	26.2	(67)

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Strong recovery in business operations

The building materials industry has been severely affected by COVID-19-led lockdowns during Q1FY2021, affecting its peak sales period. Additionally, its high fixed-cost structure had affected OPM, dragging down net earnings. However, since June, the sector has been one of the fastest in recovery with the easing of the lockdown domestically. The sector witnessed a resumption of dealer & distribution networks and a sharp improvement in capacity utilisation. Most players have begun to see strong demand growth compared to pre-COVID levels. Scaling up of revenues is also expected to lead to better absorption of fixed costs going ahead, aiding net earnings recovery. The industry is expected to show strong growth in FY2022-FY2023.

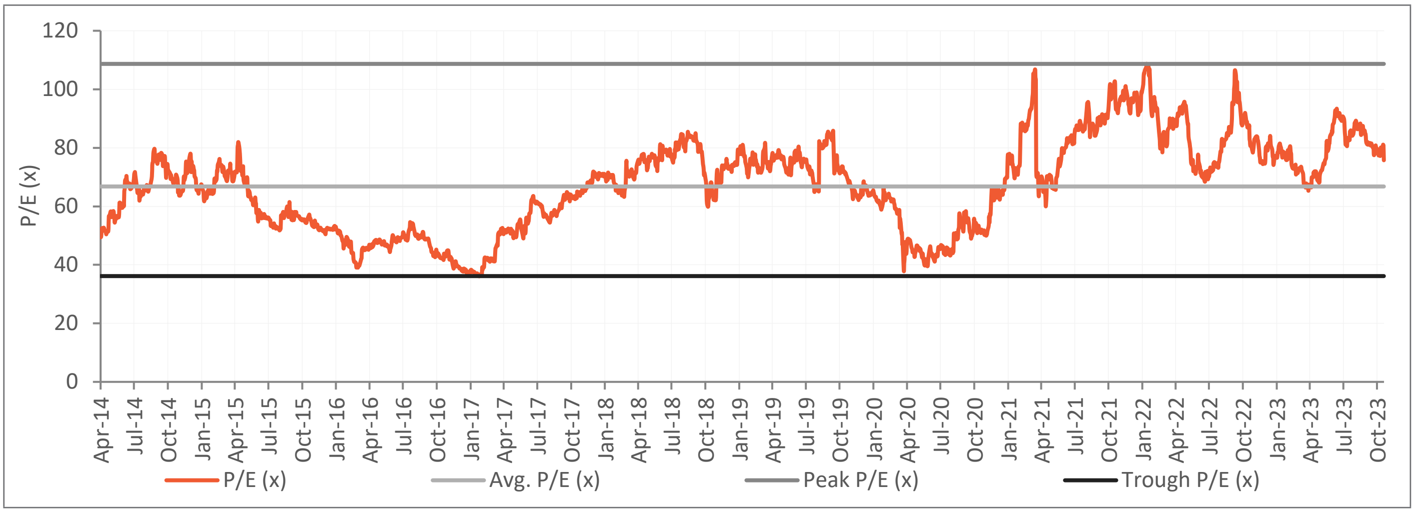
■ Company Outlook – Expect healthy growth in both Pipes and adhesives.

Astral is well-positioned to capture the 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 by 2024, Nal se Jal by 2024, and PMKSY. Capacity expansion and improved utilisation of expanded capacity to drive volume growth in the pipes business. Strategic steps taken during the last year in the adhesive business have now expected to show favourable results in a normal environment. Both pipes & adhesives businesses are expected to fare well over the long term, with pipe volumes expected to grow at 15% per annum, while adhesive is expected to grow at 20-25% per annum. Further, the company would be scaling up its new products.

■ Valuation – Upgrade to Buy with an unchanged price target of Rs. 2170

Astral, like its industry peers, is expected to benefit from strong demand and bottoming out of PVC prices leading to an expected improvement in OPM. Aggressive expansion plans would aid to capture in the strong demand growth in the next few years. Scale-up of new businesses viz. plastic tanks, valves, paints, faucets and sanitaryware, would remain key focus areas for the company. We have introduced our FY2026E earnings in this note. We estimate its consolidated revenues/operating profit/net profit to grow at a CAGR of 17%/21%/25% over FY2023-FY2026E. Stock has corrected ~10% since its peak in little over two months and is currently trading at a P/E of 67x/56x its FY2025E/FY2026E earnings. We consider it as a buying opportunity and hence upgrade the stock to Buy with an unchanged price target of Rs. 2,170, considering healthy demand growth outlook for the next 2-3 years.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Astral Ltd	92.5	66.1	52.0	39.2	15.4	12.6	18.1	20.9
Pidilite Industries	63.3	53.3	41.6	35.2	14.0	11.6	24.1	23.9

Source: Sharekhan Research

About company

Established in 1996, Astral is among the country's leading manufacturers of plastic pipes used across industries. The company is now making strong inroads into the adhesives segment and infrastructure products. Astral currently operates in four countries with manufacturing facilities at 12 locations spread across India, the UK, the US, and Kenya, having over 4,000 employees. The company has over 800 and 1,800 distributors in the plastic and adhesive segments. 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 over the past year in the adhesive business have now expected to show favourable results in a normalised environment. The company's pipes and adhesives businesses are expected to fare well over the 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.

Key Risks

- Sharp improvement in adhesives business growth run-rate along with the profitability of bathware business.
- Faster scale-up in revenues and profitability in new business verticals.

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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Engineer Sandeep Pravinbhai	31.58
2	SAUMYA POLYMERS	9.83
3	Engineer Jagruti Sandeep	7.56
4	Kairav Chemicals Ltd	6.88
5	Axis Asset Management Co Ltd/India	3.81
6	Steadview Capital Mauritius Ltd	2.76
7	UTI Asset Management Co Ltd	2.22
8	Life Insurance Corp of India	2.11
9	Tree Line Asia Master Fund	1.50
10	Vanguard Group Inc/The	1.45

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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