

12 March 2024

India | Equity Research | Company Update

Astral Ltd

Plastic

Pipes and adhesives – demand and margin trends remain healthy

We interacted with management of Astral Ltd. (Astral). Takeaways: 1) Pipe demand trend continues to be steady in Q4FY24-TD with 15%+ volume growth YoY driven largely by the plumbing segment. 2) Management expects operating margins to improve QoQ in Q4FY24 for both pipes (due to operating leverage in peak season and absence of any material inventory losses) and adhesives (due to continued benign raw material prices and no inventory losses from Seal IT). 3) Ramp-up in bathware segment (sanitaryware & faucetware) is as per schedule and the company targets ~INR 1bn revenues from this segment in FY25 with at least EBIDTA break-even. 4) Paint segment will likely start delivering better performance from FY25, as it will be launched in many new states. According to management, Astral is on track to achieve pipe volume growth of >20% and adhesive revenue growth of 15%-20% YoY in FY24. We maintain our estimates and **HOLD** rating with an unchanged Mar'25E target price of INR 1,949.

Demand trend remains healthy in both segments

Management indicated demand for pipes has remained steady in the ongoing busy season with 15%+ volume growth YoY in Q4FY24-TD driven largely by the plumbing segment. Demand for pipes from infrastructure segment too is strong, as many projects are achieving completion before general elections. Ramp-up at its Guwahati plant has started from Q4FY24 with pipes production starting in Jan'24; thus, shall aid growth going ahead. The East plant (Cuttack) too is witnessing good traction and is running at ~80%-90% utilisation. Management indicated that the company is on track to achieve its guidance of >20% volume growth in FY24. Demand for adhesives remains healthy in Q4-TD and the company expects to achieve its segmental revenue growth guidance of 15%-20% in FY24.

Margins in both pipe and adhesive segments to improve QoQ

Management envisages stronger pipe margins QoQ in Q4FY24 (due to operating leverage, as Q4 is the peak demand quarter topped with better product mix and absence of inventory losses as raw material prices have been stable in Q4FY24-TD). Management sees 16-18% as a sustainable margin range for the pipe segment over the medium term. Adhesive margins are likely to improve in Q4 QoQ with continued benign input prices and no inventory/forex losses from its subsidiary Seal IT (UK) as was the case in Q3FY24. Management expects sustainable adhesive segment margins to be ~15-16% over the medium term.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	51,585	56,972	66,802	75,450
EBITDA	8,112	9,879	12,314	13,906
EBITDA %	15.7	17.3	18.4	18.4
Net Profit	4,460	6,135	7,823	9,026
EPS (INR)	16.6	22.8	29.1	33.6
EPS % Chg YoY	(6.6)	37.6	27.5	15.4
P/E (x)	123.1	89.5	70.2	60.8
EV/EBITDA (x)	66.9	55.1	43.9	38.6
RoCE (%)	17.0	18.1	20.2	20.3
RoE (%)	17.7	21.0	22.9	22.9

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Market Data

Market Cap (INR)	549bn
Market Cap (USD)	6,634mn
Bloomberg Code	ASTRA IN
Reuters Code	ASTL BO
52-week Range (INR)	2,144 / 1,298
Free Float (%)	46.0
ADTV-3M (mn) (USD)	15.8

Price Performance (%)	3m	6m	12m
Absolute	6.0	7.3	43.1
Relative to Sensex	0.1	(2.3)	18.5

Previous Reports

31-01-2024: [Q3FY24 results review](#)

15-12-2023: [Company Update](#)

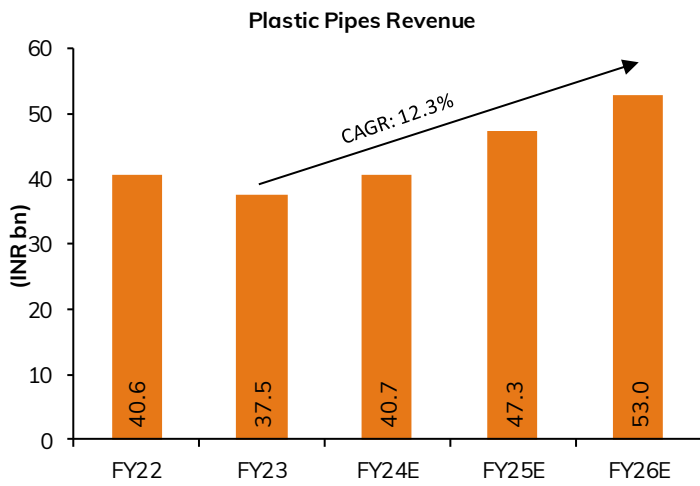
New businesses progressing well

The ramp-up in the bathware segment is on track – now seeing revenues of ~INR 70mn-80mn per month. The revenue trend is likely to improve and management targets revenues of INR 1bn and achieving break-even in FY25 at the least. Paint business is expected to witness significant scale-up in FY25, as it will be launched under the brand ASTRAL in Q1FY25. Also, it will be introduced in many more states in phases in FY25 and beyond the company’s current markets of south India, which shall help propel growth further.

Maintain HOLD

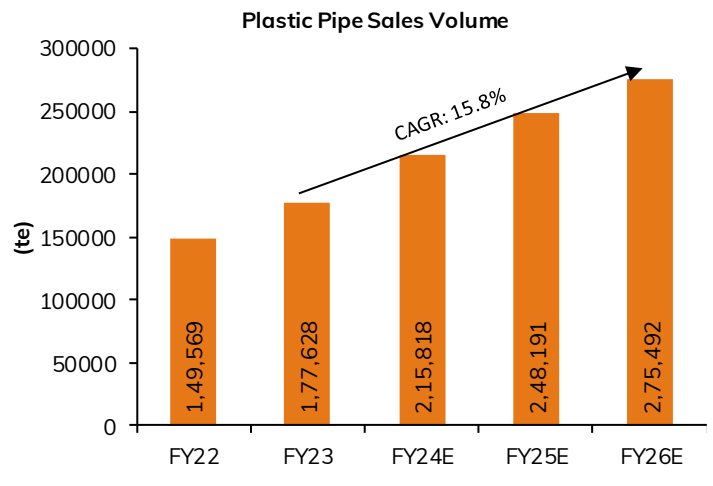
Astral has near-term demand and margin tailwinds in its major businesses of pipes and adhesive. We continue to like Astral for its strong brand, comprehensive product portfolio, wide distribution reach and robust balance sheet. Maintain **HOLD** with an unchanged Mar’25E target price of INR 1,949 and await a better entry point.

Exhibit 1: Plastic pipe revenue CAGR of 12.3% expected over FY23-FY26E



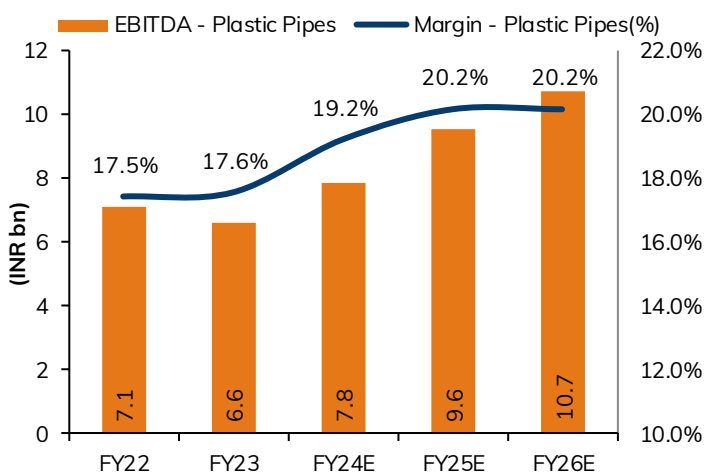
Source: I-Sec research, Company data

Exhibit 2: Plastic pipe volumes likely to witness 15.8% CAGR over FY23-FY26E



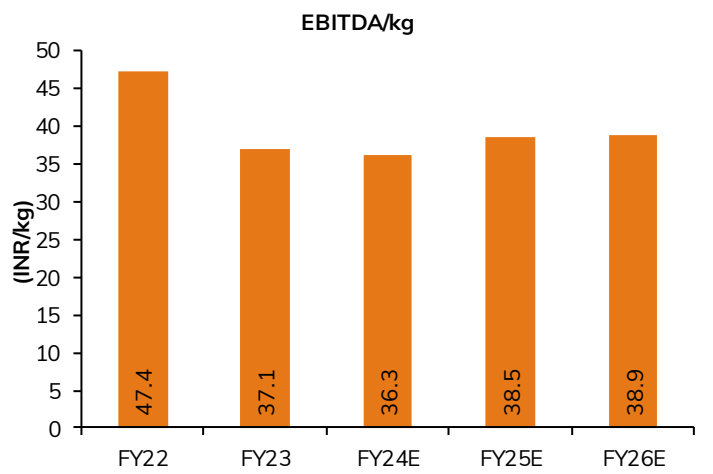
Source: I-Sec research, Company data

Exhibit 3: Plastic pipe EBITDA margin to improve by 262bps over FY23-FY26E



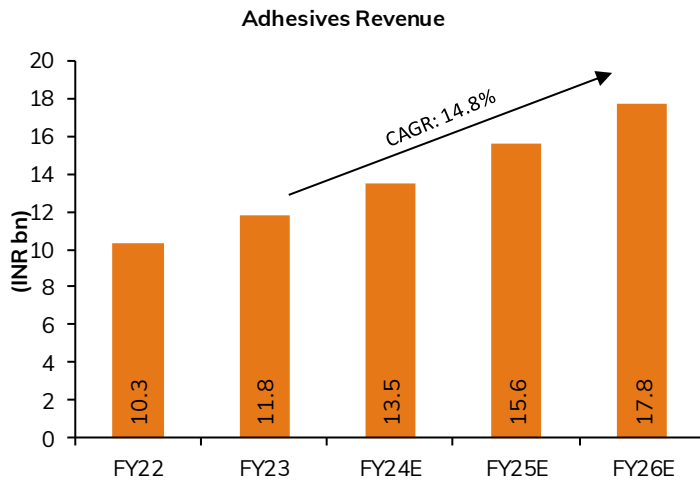
Source: I-Sec research, Company data

Exhibit 4: Plastic pipe EBITDA/kg to remain stable



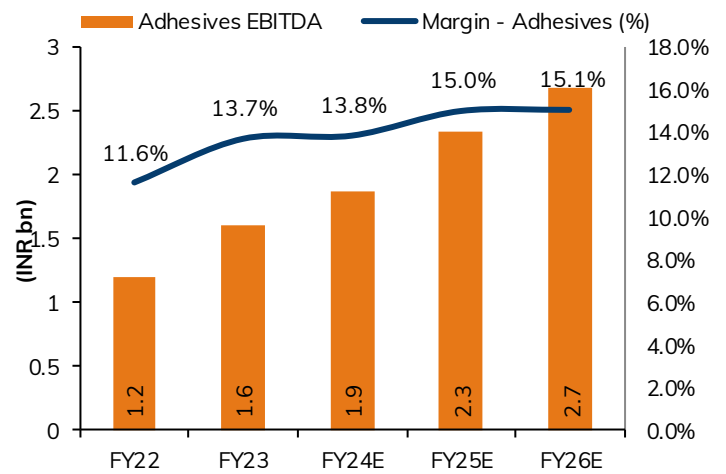
Source: I-Sec research, Company data

Exhibit 5: Adhesives to witness revenue CAGR of 14.8% during FY23-FY26E



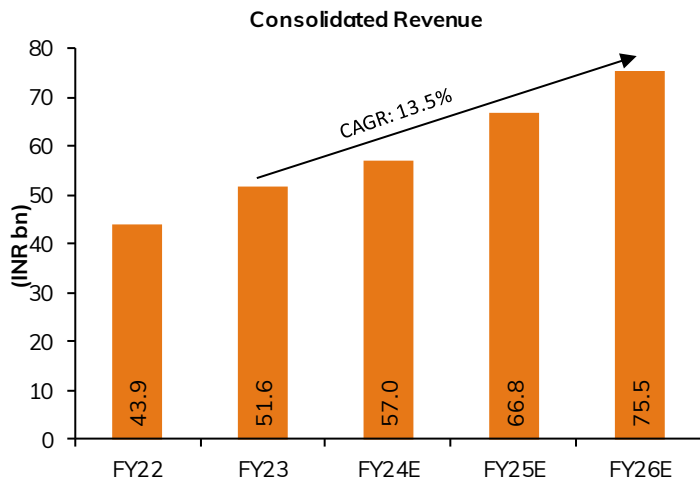
Source: I-Sec research, Company data

Exhibit 6: Adhesives EBITDA margin to improve 138bps over FY23-FY26E



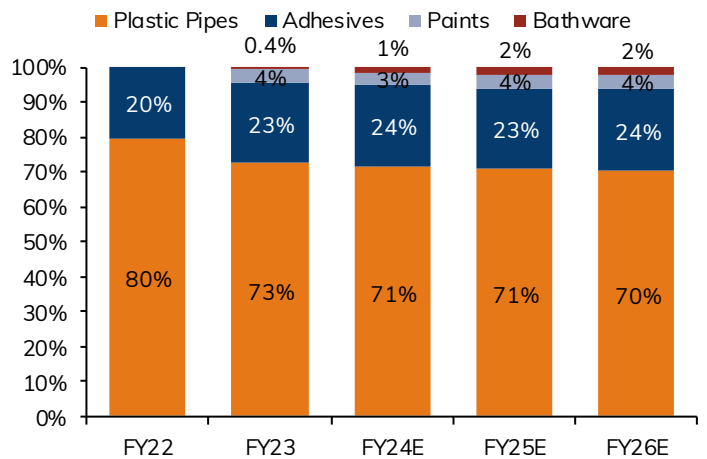
Source: I-Sec research, Company data

Exhibit 7: Consolidated revenue CAGR of 13.5% estimated for FY23-FY26E



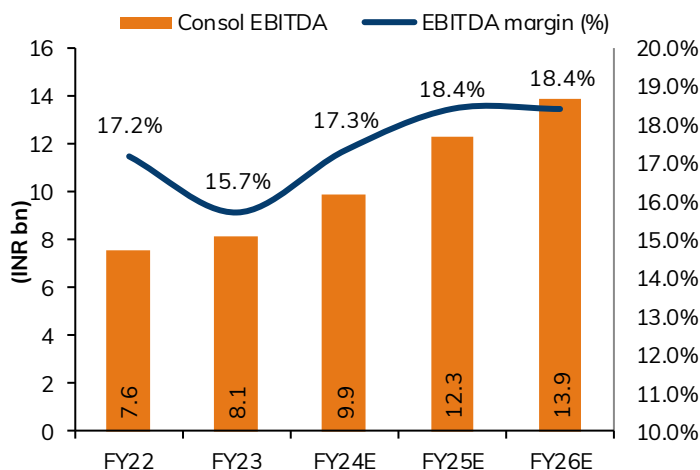
Source: I-Sec research, Company data

Exhibit 8: Pipes may continue to be the dominant contributor to revenues



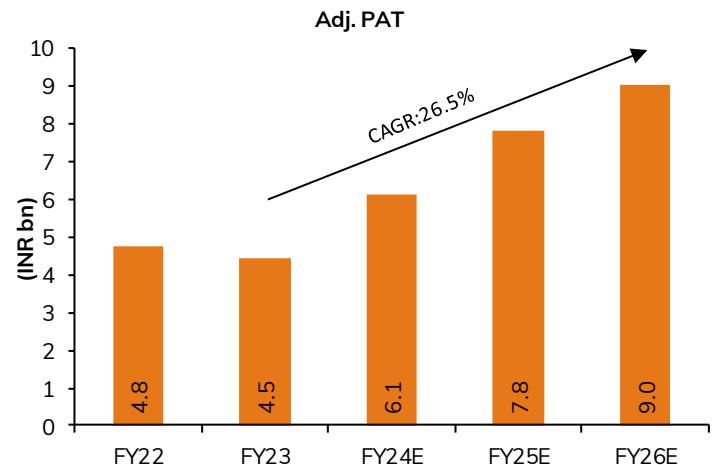
Source: I-Sec research, Company data

Exhibit 9: Consolidated EBITDA margin (%) to stay robust



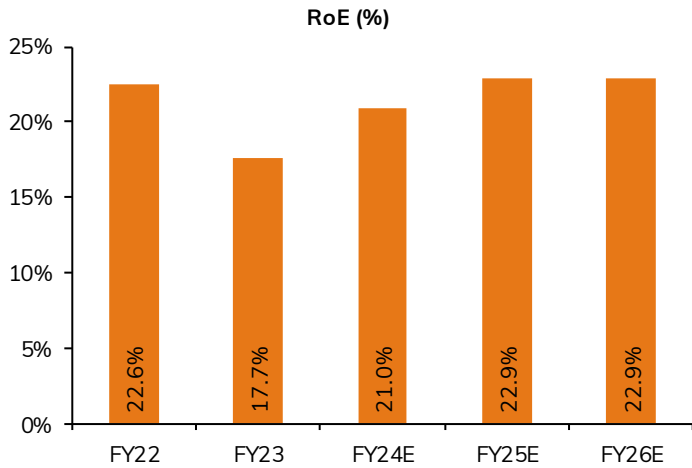
Source: I-Sec research, Company data

Exhibit 10: APAT CAGR of 26.5% expected over FY23-FY26E



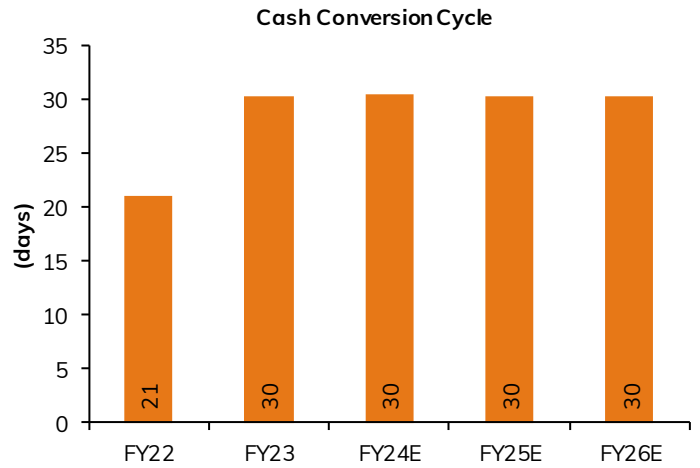
Source: I-Sec research, Company data

Exhibit 11: RoE is expected to stay robust



Source: I-Sec research, Company data

Exhibit 12: Cash conversion cycle likely to remain stable



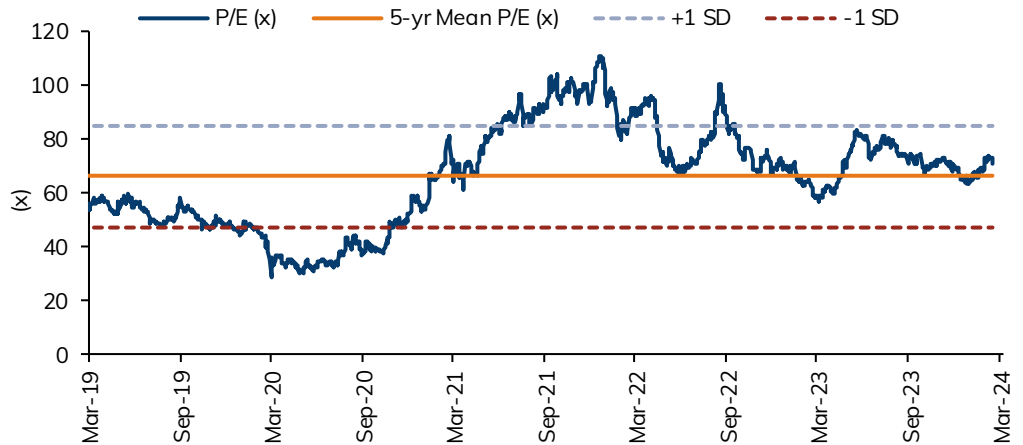
Source: I-Sec research, Company data

Valuation

Astral is among the leading players in India’s CPVC/PVC plumbing pipe 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 EBITDA and PAT CAGRs of 19.7% and 26.5%, respectively over FY23-FY26E, with strong return ratios (RoE of 22.9% in FY26E). Retain **HOLD** with an unchanged Mar’25E target price of INR 1,949, set at 58x one-year forward P/E.

Exhibit 13: One-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 pipe segment due to inventory losses.
- High increase in prices of raw materials for adhesives could impact segmental profitability and demand.
- Failure to scale-up the new businesses of sanitaryware, faucetware and paints.
- Inability to properly merge the paint company 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 14: Shareholding pattern

%	Jun'23	Sep'23	Dec'23
Promoters	55.9	55.9	54.1
Institutional investors	31.5	31.7	33.5
MFs and others	8.8	7.9	8.4
FIs/Banks	0.1	0.9	0.1
Insurance	4.8	3.5	3.4
FIIIs	17.9	19.4	21.6
Others	12.6	12.4	12.4

Source: Bloomberg

Exhibit 15: Price chart



Source: Bloomberg

Financial Summary

Exhibit 16: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	51,585	56,972	66,802	75,450
Operating Expenses	43,473	47,092	54,487	61,545
EBITDA	8,112	9,879	12,314	13,906
EBITDA Margin (%)	15.7	17.3	18.4	18.4
Depreciation & Amortization	1,781	1,963	2,232	2,446
EBIT	6,331	7,916	10,083	11,460
Interest expenditure	400	223	65	20
Other Non-operating Income	209	512	447	636
Recurring PBT	6,140	8,205	10,465	12,076
Less: Taxes	(1,557)	(2,068)	(2,637)	(3,043)
PAT	4,583	6,137	7,828	9,033
Profit / (Loss) from Associates	-	-	-	-
Less: Minority Interest	(159)	(2)	(5)	(7)
Extraordinaries (Net)	142	-	-	-
Net Income (Reported)	4,566	6,135	7,823	9,026
Net Income (Adjusted)	4,460	6,135	7,823	9,026

Source Company data, I-Sec research

Exhibit 17: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Assets				
Inventories	8,746	8,386	9,703	10,960
Cash & cash eqv.	6,821	5,384	8,484	12,619
Sundry Debtors	3,545	3,434	4,026	4,548
Other Current Assets	1,790	1,717	2,013	2,274
Trade payables	8,000	7,068	8,183	9,232
Other Current Liabilities	4,862	2,076	2,405	2,713
Net Current Assets	8,040	9,777	13,639	18,456
Investments	-	-	-	-
Net Fixed Assets	17,137	19,424	20,692	20,746
Other Non Current Assets	5,582	5,582	5,582	5,582
Total Assets	30,759	34,783	39,913	44,785
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	31,138	36,613	41,578
Total Net Worth	27,112	31,407	36,882	41,847
Minority Interest	2,477	2,479	2,484	2,491
Total Liabilities & Net Worth	30,759	34,783	39,913	44,785

Source Company data, I-Sec research

Exhibit 18: Quarterly trend

(INR mn, year ending March)

	Mar-23	Jun-23	Sep-23	Dec-23
Net Sales	15,062	12,831	13,630	13,702
% growth (YOY)	8.3	5.8	16.3	8.1
EBITDA	3,089	2,016	2,201	2,051
Margin %	20.5	15.7	16.1	15.0
Other Income	66	121	134	64
Extraordinaries	3	6	-21	-6
Adjusted Net Profit	1,994	1,194	1,328	1,139

Source Company data, I-Sec research

Exhibit 19: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	9,802	4,928	9,302	10,804
Working Capital Changes	1,196	(3,174)	(762)	(681)
Capital Commitments	(8,252)	(4,250)	(3,500)	(2,500)
Free Cashflow	1,550	678	5,802	8,304
Other investing cashflow	-	-	-	-
Cashflow from Investing Activities	(8,252)	(4,250)	(3,500)	(2,500)
Issue of Share Capital	68	-	-	-
Inc (Dec) in Borrowings	(78)	(273)	(350)	(100)
Dividend paid	(825)	(1,841)	(2,347)	(4,062)
Others	(312)	(2)	(5)	(7)
Cash flow from Financing Activities	(1,147)	(2,116)	(2,702)	(4,169)
Chg. in Cash & Bank balance	403	(1,437)	3,100	4,136
Closing cash & balance	6,821	5,384	8,484	12,619

Source Company data, I-Sec research

Exhibit 20: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	17.0	22.8	29.1	33.6
Adjusted EPS (Diluted)	16.6	22.8	29.1	33.6
Cash EPS	23.2	30.1	37.4	42.7
Dividend per share (DPS)	3.0	6.9	8.7	15.1
Book Value per share (BV)	100.9	116.9	137.3	155.8
Dividend Payout (%)	18.1	30.0	30.0	45.0
Growth (%)				
Net Sales	17.4	10.4	17.3	12.9
EBITDA	7.4	21.8	24.6	12.9
EPS (INR)	(6.6)	37.6	27.5	15.4
Valuation Ratios (x)				
P/E	123.1	89.5	70.2	60.8
P/CEPS	88.0	67.8	54.6	47.9
P/BV	20.3	17.5	14.9	13.1
EV / EBITDA	66.9	55.1	43.9	38.6
EV / Sales	10.5	9.6	8.1	7.1
Dividend Yield (%)	0.1	0.3	0.4	0.7
Operating Ratios				
Gross Profit Margins (%)	33.4	35.3	36.1	36.2
EBITDA Margins (%)	15.7	17.3	18.4	18.4
Effective Tax Rate (%)	25.4	25.2	25.2	25.2
Net Profit Margins (%)	8.6	10.8	11.7	12.0
NWC / Total Assets (%)	2.8	10.0	10.2	10.3
Net Debt / Equity (x)	(0.2)	(0.2)	(0.2)	(0.3)
Net Debt / EBITDA (x)	(0.7)	(0.5)	(0.7)	(0.9)
Profitability Ratios				
RoCE (%) (post-tax)	17.0	18.1	20.2	20.3
RoE (%)	17.7	21.0	22.9	22.9
Cash Conversion Cycle (on net sales)				
Inventory Days	62	54	53	53
Receivables Days	25	22	22	22
Payables Days	57	45	45	45

Source Company data, I-Sec research

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