Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Astral Ltd

Weak Q2; Focus on growth revival

Building Material	Sharekhan code: ASTRAL
Reco/View: Buy ↔	CMP: Rs. 1,790
Price Target: Rs. 2,150 ↓	

↑ 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		↔	

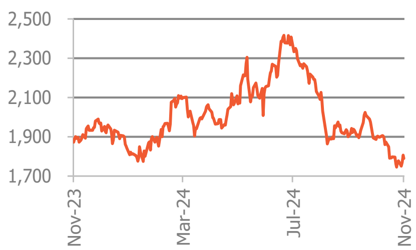
Company details

Market cap:	Rs. 48,073 cr
52-week high/low:	Rs. 2,454/1,729
NSE volume: (No of shares)	1.6 lakh
BSE code:	532830
NSE code:	ASTRAL
Free float: (No of shares)	12.33 cr

Shareholding (%)

Promoters	54
DII	12
FII	22
Others	11

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.1	-15.8	-13.4	-4.5
Relative to Sensex	-3.2	-15.9	-21.6	-26.9

Sharekhan Research, Bloomberg

Summary

- We retain BUY on Astral with a revised PT of Rs. 2,150, factoring downwardly revised estimates and valuation multiple owing to near-term demand sluggishness.
- In Q2FY2025, consolidated earnings lagged estimates owing to lower plumbing volumes, led by a sharp drop in polymer prices coupled with weak operational performance in the U.K. adhesives business. Plumbing OPM stayed strong.
- Management has trimmed its plumbing volume growth guidance to 10-15% y-o-y from >15% for FY2025, while it has retained its 16-18% OPM guidance.
- For FY2025, Indian adhesives are likely to grow at 15% y-o-y, while the U.K. adhesives business is likely to revert to growth from FY2026 with 10% y-o-y growth. Bathware guidance stays unchanged.

Astral Limited's consolidated revenue missed estimates at Rs. 1,370 crore (up 0.5% y-o-y), led by weak plumbing sales volumes (down 2.5% y-o-y), driven by 13.5% correction in PVC prices during Q2FY2025 along with extended monsoons, weak agri, and infra demand. However, consolidated OPM at 15.3% (down 82 bps y-o-y) stayed largely in-line owing to improvement in plumbing OPMs (up 32 bps y-o-y at 18.4%). Revenue of the adhesives business stayed in-line (up 6% y-o-y), led by India adhesives business, while OPM was weak at 10.3% (down 455 bps y-o-y) due to Rs. 2 crore operational loss in the U.K. business (led by U.S. plants initial costs). Overall, consolidated operating profit (down 4.5% y-o-y at Rs. 210 crore) and adjusted net profit (down 16% y-o-y at Rs. 110 crore) came in 11% and 20% lower than our estimate, respectively. Management has trimmed its plumbing volume growth guidance to 10-15% from >15% y-o-y for FY2025 (seeking clarity on the extent of channel destocking), while it has retained 16-18% OPM guidance. The paints business is expected to grow on a y-o-y basis. The Indian adhesives segment is expected to grow at 15% in FY2025, while the U.K. adhesives business is expected to revert to its growth trajectory from FY2026 with 10% y-o-y growth. Bathware revenue guidance stays intact at Rs. 100-125 crore.

Key positives

- Plumbing operating margins stayed firm at 18.4% as it focused on profitability versus volume push.
- Revenue of the Indian adhesive business grew by 9% y-o-y to Rs. 263 crore, maintaining EBITDA margin above 15% at 15.5%.

Key negatives

- Revenue of the U.K. adhesives business stayed flat y-o-y, while it reported EBITDA loss of Rs. 2 crore as against EBITDA of Rs. 9.1 crore in Q2FY2025.
- Plumbing volumes declined by 2.5% y-o-y, led by a sharp dip in PVC prices, extended monsoons, and weak agri and infra-led demand.

Management Commentary

- Management has trimmed down its piping volume growth guidance for FY2025 to 10-15% y-o-y versus earlier >15% y-o-y due to no clarity on the current channel inventory. The company maintained plumbing EBITDA margins at 16-18% and overall consolidated margin guidance of 15-16% for FY2025.
- Bathware revenue guidance is retained at Rs. 100-125 crore in FY2025. India adhesives business is expected to grow at 15% y-o-y in FY2025, while U.K. business is expected to grow at 10% y-o-y in FY2026.
- The government has recently implemented anti-dumping duty on the import of PVC, which has led to a Rs. 1 per kg increase in PVC prices on November 1, 2024, and Rs. 2 per kg on November 7, 2024. Management expects overall rise in PVC prices of Rs. 6-8 per kg on account of anti-dumping duty.

Revision in estimates – We have lowered our net earnings estimates for FY2025-FY2027, factoring in lower plumbing volumes and lower OPMs in the U.K. adhesives business.

Our Call

Valuation – Retain BUY with a revised PT of Rs. 2,150: Astral, like its industry peers, is expected to benefit from strong demand and bottoming out of PVC prices, aided by recently levied anti-dumping duty and expected implementation of BIS norms. Aggressive expansion plans would help Astral capture strong demand growth in the next few years. Scale-up of new businesses viz. plastic tanks, valves, paints, faucets, and sanitaryware would remain the key focus areas for the company. We estimate consolidated revenue/operating profit/net profit to report a CAGR of 17%/19%/21% over FY2024-FY2027E, respectively. The stock is currently trading at a P/E of 60x/49x its FY2026E/FY2027E earnings. We retain BUY on the stock with a revised PT of Rs. 2,150, factoring downwardly revised estimates and valuation multiple to factor in near-term demand sluggishness.

Key Risks

- A sharp rise in adhesives business growth run-rate and profitability of the bathware business.
- Faster scale-up in revenue and profitability in new business verticals.

Valuation (Consolidated) Rs cr

Particulars	FY24	FY25E	FY26E	FY27E
Revenue	5,641	6,302	7,586	9,005
OPM (%)	16.3	16.1	17.3	17.2
Adjusted PAT	546	590	804	974
y-o-y growth (%)	19.6	8.1	36.2	21.2
Adjusted EPS (Rs.)	20.3	21.9	29.9	36.2
P/E (x)	88.2	81.6	59.9	49.4
P/B (x)	15.1	12.8	10.6	8.8
EV/EBITDA (x)	51.9	46.6	35.6	29.7
RoNW (%)	18.5	17.0	19.4	19.5
RoCE (%)	23.4	22.2	25.4	25.6

Source: Company; Sharekhan estimates

Key conference call takeaways

- **Guidance:** Management has trimmed down its piping volume growth guidance for FY2025 to 10-15% y-o-y versus earlier >15% y-o-y due to no clarity on the current channel inventory. It has maintained plumbing EBITDA margins at 16-18% and overall consolidated margin guidance of 15-16% for FY2025. Bathware revenue guidance remains at Rs. 100-125 crore in FY2025. India adhesives business is expected to grow at 15% y-o-y in FY2025, while the U.K. business is expected to grow at 10% y-o-y in FY2026.
- **Post Q2FY2025 outlook:** October month was flat y-o-y for Astral owing to the lack of clarity on anti-dumping duty. However, November month has started at better levels.
- **Anti-dumping duties:** The government has recently implemented anti-dumping duty on the import of PVC, which has led to Rs. 1 per kg increase in PVC prices on November 1, 2024, and Rs. 2 per kg on November 7, 2024. Management expects overall rise in PVC prices of Rs. 6-8 per kg on account of anti-dumping duty.
- **Q2FY2025 highlights:** Polymer prices declined by 13.5% during Q2FY2025, which led to huge destocking at the dealer/distributor level. Additionally, extended monsoons and weak agri and infra demand impacted overall plumbing demand. Bathware reported 63% y-o-y growth in revenue to Rs. 29 crore. India adhesive business grew by 8.7% y-o-y in Q2FY2025 and 11.5% in H1FY2025 with EBITDA margin of 15.5% and 15.75%, respectively. U.K. business stayed flat y-o-y with 2% negative EBITDA margin owing to higher initial costs for its U.S. plant. Paints saw 4.5% y-o-y growth. Overall, plumbing business revenue declined by 1.4% y-o-y to Rs. 966 crore, while EBITDA stayed flat y-o-y at Rs. 177 crore. Paints revenue stood at Rs. 49 crore versus Rs. 46 crore in Q2FY2024, EBITDA stood at Rs. 2.6 crore versus Rs. 10.3 crore. Indian adhesives revenue grew 9% y-o-y to Rs. 263 crore versus Rs. 242 crore in Q2FY2024, EBITDA stood at Rs. 41 crore versus Rs. 37 crore. Revenue of the U.K. adhesives business stood at Rs. 92 crore versus Rs. 93 crore in Q2FY2024, EBITDA loss was Rs. 2 crore compared to EBITDA of Rs. 9.1 crore.
- **Expansions:** Hyderabad 21,000 tonne plant is in place, where it is likely to add further capacities in Q4FY2025. It has placed 22 machines at Ghelot plant, which is expected to commence production from November 2024 with 4,000-tonne capacity. In O-PVC, two machines would commence production in Q3FY2025. The trial production at its Kanpur water tank plant is expected to start from Q4FY2025 end. It is going to launch 150 SKUs in PTMT plastic tap product in Q3FY2025. It would be commissioning 5,000-tonne double-walled corrugated pipes by Q4FY2025 spread across all locations. In valves, it would commence production for half inch to four-inch PVC and CPVC valves with 50 SKUs in Q4FY2025.
- **BIS norms:** Implementation of BIS norms would help demand shift from the unorganised to organised sector. It can be implemented in two ways: 1) resin qualification and 2) certain products using resins.
- **CPVC:** CPVC volumes grew in double digits in H1FY2025. Prices remained stable. It maintained 18% EBITDA margin in CPVC in Q2FY2025.
- **O-PVC:** The application is used for water transportation and is a replacement of ductile iron pipes and not a concern for PVC and CPVC pipes. It may generate Rs. 100 crore revenue on the first year of its operations. It is putting up three machines at three different locations to cater to pan-India demand.
- **Capex:** Capex for FY2025 remain broadly unchanged at Rs. 350 crore.

Results (Consolidated) **Rs cr**

Particulars	Q2FY2025	Q2FY2024	y-o-y (%)	Q1FY2025	q-o-q (%)
Revenue	**1,370.4**	**1,363.0**	**0.5**	**1,383.6**	**(1.0)**
EBITDA	**210.1**	**220.1**	**(4.5)**	**214.4**	**(2.0)**
Other Income	8.8	13.4	(34.3)	11.9	(26.1)
Depreciation	59.9	48.7	23.0	55.6	7.7
Finance Cost	10.2	8.0	27.5	7.6	34.2
PBT	**148.8**	**176.8**	**(15.8)**	**163.1**	**(8.8)**
Tax Expenses	40.1	45.1	(11.1)	43.6	(8.0)
PAT	108.7	131.7	(17.5)	119.5	(9.0)
Adj PAT	**110.0**	**131.2**	**(16.2)**	**120.4**	**(8.6)**
EPS (Rs.)	**4.1**	**4.9**	**(16.2)**	**4.5**	**(8.6)**
Margin			**BPS**		**BPS**
EBITDA Margin	15.3	16.1	(82)	15.5	(16)
PAT Margin	7.9	9.7	(173)	8.6	(70)
Tax rate	26.9	25.5	144	26.7	22

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Strong recovery in business operations

The building materials industry has been severely affected by COVID-19-led lockdowns during Q1FY2021, affecting the 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 to recover with the easing of the lockdown domestically. The sector witnessed a resumption of dealer and 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 revenue 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.

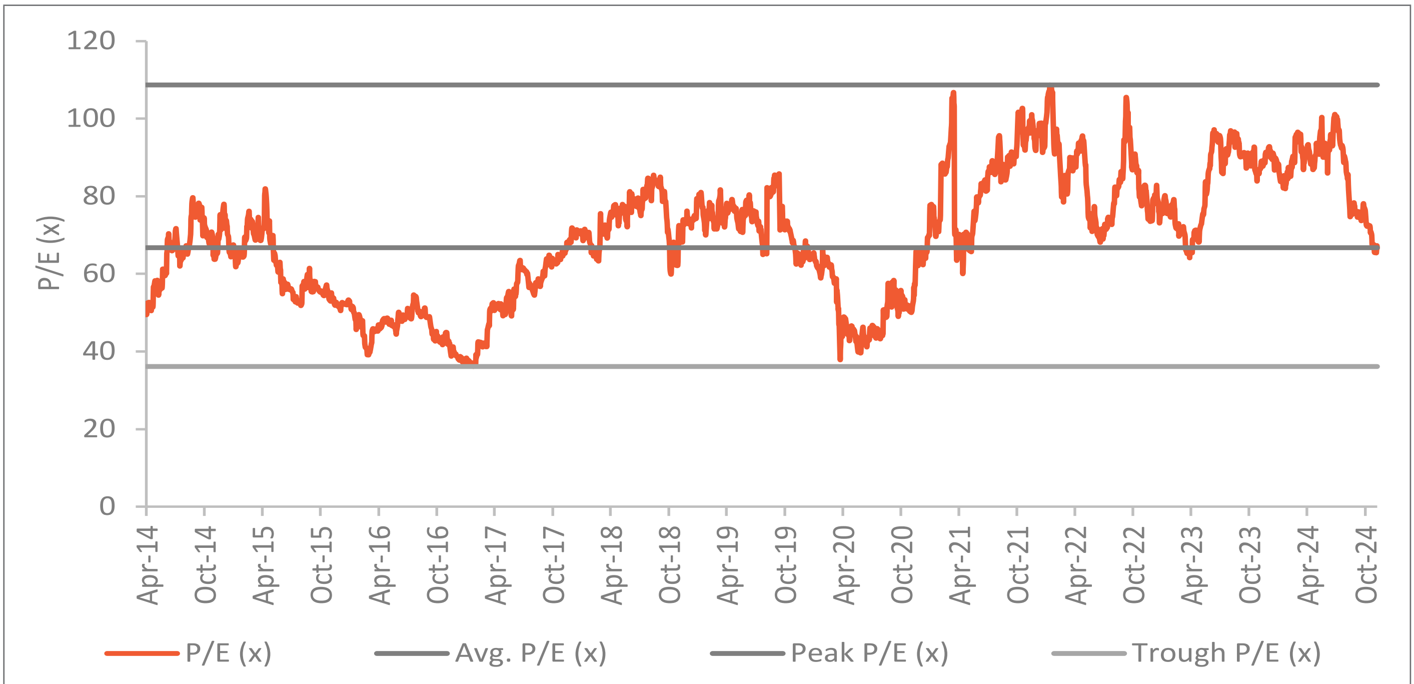
■ Company Outlook – Expect healthy growth in both pipes and adhesives

Astral is well-positioned to capture 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 are expected to drive volume growth in the pipes business. Strategic steps taken during the last year in the adhesive business are now expected to show favourable results in a normal environment. Both pipes and adhesives businesses are expected to fare well over the long term, with pipe volumes expected to grow at over 15% per annum, while the adhesive business is expected to grow at 15-20% per annum. Further, the company would be scaling up its new businesses.

■ Valuation – Retain BUY with a revised PT of Rs. 2,150

Retain BUY with a revised PT of Rs. 2,150: Astral, like its industry peers, is expected to benefit from strong demand and bottoming out of PVC prices, aided by recently levied anti-dumping duty and expected implementation of BIS norms. Aggressive expansion plans would help Astral capture strong demand growth in the next few years. Scale-up of new businesses viz. plastic tanks, valves, paints, faucets, and sanitaryware would remain the key focus areas for the company. We estimate consolidated revenue/operating profit/net profit to report a CAGR of 17%/19%/21% over FY2024-FY2027E, respectively. The stock is currently trading at a P/E of 60x/49x its FY2026E/FY2027E earnings. We retain BUY on the stock with a revised PT of Rs. 2,150, factoring downwardly revised estimates and valuation multiple to factor in near-term demand sluggishness.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Astral Limited	81.6	59.9	46.6	35.6	12.8	10.6	17.0	19.4
Pidilite Industries	77.2	65.9	49.1	42.1	16.1	13.5	22.6	22.2

Source: Sharekhan Research

About the 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 U.K., the U.S., and Kenya, having over 4,000 employees. The company has over 800 and 1,800 distributors in the plastic and adhesive segments, respectively. Astral is present across India through more than 30,000 and 4 lakh 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 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 are 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 the adhesives business's growth run-rate along with the profitability of the bathware business.
- Faster scale-up in revenue 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	The Vanguard Group Inc.	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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