

**HOLD**  
 TP: Rs 2,000 | ▲ 12%

**ASTRAL**

| Building Materials

| 07 November 2024

**Weak quarter; guidance downgrade yet again**

- Misses estimates on weak pipe volumes (-2.5% YoY) and continued subdued performance of SEAL IT & paints business
- Guidance again downgraded for FY25 based on weak H1FY25 performance, but positive medium-term outlook remains intact
- Maintain HOLD on expensive valuations; TP cut by 9% to Rs 2,000 per share

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**Weak quarter:** ASTRA's Q2FY25 result came below our estimates across parameters (Revenue: -11%; EBITDA: -13%; APAT: -21%) due to lower-than-expected pipe volume (-2.5% YoY vs 15.0% estimated) and continued subdued performance of overseas adhesives (i.e. SEAL IT) and paints business. Overall, ASTRA's consolidated revenue was relatively flat (+0.5% YoY), but EBITDA/APAT de-grew by 4.5%/15.4% YoY in Q2FY25.

**Key highlights:** ASTRA posted inferior pipe volume growth compared to Supreme Industries (SI: -0.7%; ASTRA: -2.5%) for the past 11 consecutive quarters, but pipe EBITDA margin was flat YoY (at 17.6%) in Q2FY25 even after booking MTM inventory loss of Rs 100mn-150mn. Resinova's EBITDA grew by 9.1% YoY in Q2FY25 driven by higher revenue (+8.5%) along with flattish EBITDAM (+9bps YoY to 15.9%). SEAL IT and paints division posted weak performance for the seventh consecutive quarter. Net cash position was down from Rs 5.1bn in Mar'24 to Rs 2.65bn in Sep'24 due to a sharp increase in inventories and higher capex outlay.

**Guidance downgrade:** ASTRA observed flattish pipe volume in the month of Oct'24, but expects demand to improve in the near future in anticipation of restocking of inventories in the channel due to rising PVC resin prices. The company has revised down its pipe volume growth guidance to 10-15% (15%+ earlier) with EBITDA margin of 16-18% for FY25. Resinova revenue to grow at 15% YoY (15-20% earlier) with EBITDA margin of 15-16%; the company expects the performance of SEAL IT and paint division to improve over the next 3-4 quarters. Capex guidance has been slightly revised to Rs 3.8bn (Rs 3.5bn earlier) for FY25.

**Maintain HOLD; TP cut by 9% to Rs 2,000:** We expect ASTRA's EPS to grow at a strong 16% CAGR over FY24-FY27E. However, we maintain our HOLD rating on the stock due to expensive valuations (trades at 72.2x on 1Y forward P/E vs 5Y average of 73.9x). We have cut our target price to Rs 2,000 (Rs 2,200 earlier) due to the downward revision of our EPS estimates (-10%/-12%/-14% for FY25E/FY26E/FY27E) based on the weak Q2FY25 result. Our target P/E remains unchanged at 70x on Sep'26 (Jun'26 earlier).

**Key changes**

Target	Rating
▼	◀ ▶

Ticker/Price	ASTRA IN/Rs 1,790
Market cap	US\$ 5.7bn
Free float	46%
3M ADV	US\$ 12.8mn
52wk high/low	Rs 2,454/Rs 1,729
Promoter/FPI/DII	54%/22%/12%

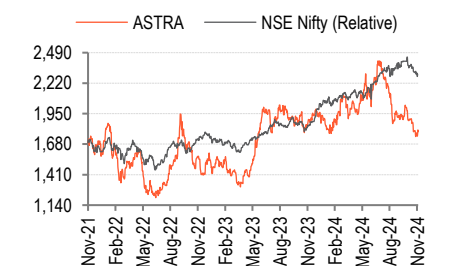
Source: NSE | Price as of 7 Nov 2024

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	56,414	62,163	73,112
EBITDA (Rs mn)	9,247	10,264	12,117
Adj. net profit (Rs mn)	5,509	5,868	7,068
Adj. EPS (Rs)	20.5	21.8	26.3
Consensus EPS (Rs)	20.5	25.4	33.2
Adj. ROAE (%)	17.7	16.7	17.5
Adj. P/E (x)	87.4	82.1	68.1
EV/EBITDA (x)	52.7	47.5	40.2
Adj. EPS growth (%)	16.7	6.5	20.5

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Quarterly performance – Consolidated**

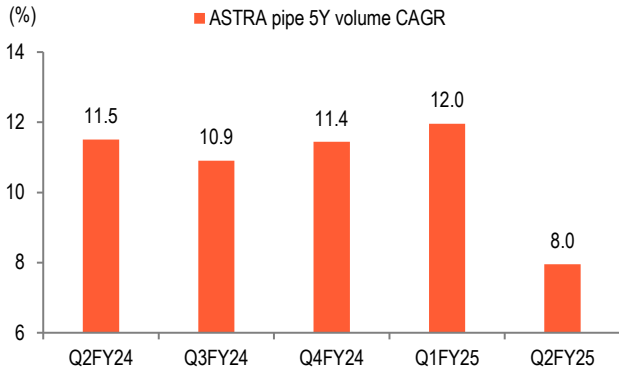
(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)	BOBCAPS Q2FY25E	Variance (%)
<b>Total operating income</b>	<b>13,704</b>	<b>13,630</b>	<b>0.5</b>	<b>13,836</b>	<b>(1.0)</b>	<b>27,540</b>	<b>26,461</b>	<b>4.1</b>	<b>15,333</b>	<b>(10.6)</b>
Raw-Material expense	8,378	8,328	0.6	8,226	1.8	16,604	16,378	1.4		
Gross Profit	5,326	5,302	0.5	5,610	(5.1)	10,936	10,083	8.5		
Employee expense	1,283	1,053	21.8	1,267	1.3	2,550	2,049	24.5		
Other expense	1,942	2,048	(5.2)	2,199	(11.7)	4,141	3,817	8.5		
<b>EBITDA</b>	<b>2,101</b>	<b>2,201</b>	<b>(4.5)</b>	<b>2,144</b>	<b>(2.0)</b>	<b>4,245</b>	<b>4,217</b>	<b>0.7</b>	<b>2,418</b>	<b>(13.1)</b>
D&A	599	487	23.0	556	7.7	1,155	950	21.6		
EBIT	1,502	1,714	(12.4)	1,588	(5.4)	3,090	3,267	(5.4)		
Interest cost	88	80	10.0	77	14.3	165	138	19.6		
Interest income & others	74	134	(44.8)	120	(38.3)	194	255	(23.9)		
PBT	1,488	1,768	(15.8)	1,631	(8.8)	3,119	3,384	(7.8)		
Tax	401	451	(11.1)	436	(8.0)	837	874	(4.2)		
Reported PAT	1,087	1,317	(17.5)	1,195	(9.0)	2,282	2,510	(9.1)		
<b>Adjusted PAT</b>	<b>1,110</b>	<b>1,312</b>	<b>(15.4)</b>	<b>1,203</b>	<b>(7.7)</b>	<b>2,313</b>	<b>2,510</b>	<b>(7.8)</b>	<b>1,410</b>	<b>(21.3)</b>
<b>As % of net revenues</b>			<b>(bps)</b>		<b>(bps)</b>			<b>(bps)</b>		
Gross margin	38.9	38.9	(3)	40.5	(168)	39.7	38.1	160		
Employee cost	9.4	7.7	164	9.2	20	9.3	7.7	152		
Other cost	14.2	15.0	(85)	15.9	(172)	15.0	14.4	61		
EBITDA margin	15.3	16.1	(82)	15.5	(16)	15.4	15.9	(52)		
Tax rate	26.9	25.5	144	26.7	22	26.8	25.8	101		
APAT margin	8.1	9.6	(152)	8.7	(60)	8.4	9.5	(109)		
<b>Pipe Segment</b>			<b>YoY (%)</b>		<b>QoQ (%)</b>			<b>YoY (%)</b>		
Sales Volume (kt)	50.8	52.1	(2.5)	55.8	(9.1)	107	100	6.5		
Realization (Rs/kg)	184.7	184.9	(0.1)	176.9	4.4	181	189	(4.3)		
EBITDA (Rs/kg)	33.0	33.3	(0.8)	31.0	6.7	32	33	(2.8)		
<b>Paints &amp; Adhesives</b>			<b>YoY (%)</b>		<b>QoQ (%)</b>			<b>YoY (%)</b>		
Revenue (Rs mn)	4040	3826	5.6	3704	9.1	7,744	7,274	6.5		
EBITDA (Rs mn)	455	508	(10.4)	446	2.0	901	1,005	(10.3)		
EBITDA margin (%)	11.3	13.3	(202)	12.0	(78)	11.6	13.8	(218)		

Source: Company, BOBCAPS Research

## Earnings call highlights

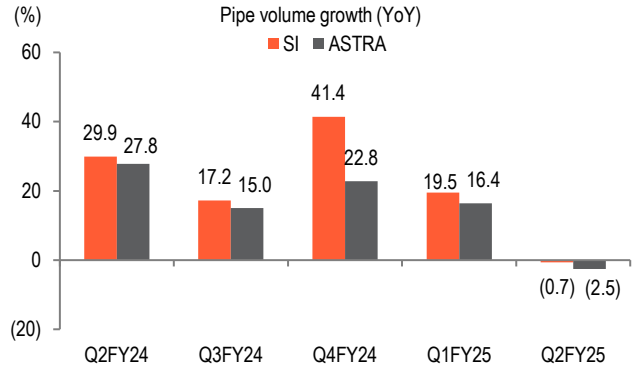
- **Pipes:** EBITDA fell by 2.8% YoY in Q2FY25 due to weak pipe volume (-2.5% YoY on the back of channel destocking in a falling resin price environment). However, ASTRA's pipe EBITDA margin remained relatively flat at 17.6% in Q2FY25 due to an improved product mix. The company has commenced its OPVC pipe business and is awaiting ISI approval for commercial production and sales (which is expected to come in Q3FY25). The company started production in the Hyderabad plant (with 21,000 MTPA capacity) in the month of Sep'24. The company is planning to increase its infra pipe capacity by 5,000 MTPA by Q4FY25. Management believes the channel inventory to be quite low at the moment, which is expected to be filled over the next one month. The company expects its pipes volume to grow at 10-15% (15%+ earlier) with EBITDA margin of 16-18% for FY25.
- **Resinova:** EBITDA grew by 9.1% YoY in Q2FY25, driven by higher revenue (+8.5%) along with flattish EBITDA margin (+9bps YoY to 15.9%). The company expects the division revenue to grow at 15% YoY (+15-20% earlier) with EBITDA margin of 15-16% for FY25.
- **SEAL IT:** EBITDA de-grew sharply by 80% YoY in Q2FY25, driven by lower revenue (-1.5%) as well as margin contraction (-418bps YoY to 1.1%). The company recently launched several new products in the US, which will help improve the performance of this division over the next 3-4 quarters. Over the medium term, the company expects the division revenue to grow at 10% rate with EBITDA margin of 8-10%.
- **Paints:** Revenue grew by 4.5% YoY in Q2FY25 even on a low base (-6.0% in Q2FY24). However, the division's EBITDA de-grew by 65% YoY in Q2FY25 due to sharp margin contraction (-1070bps YoY to 5.3%) due to high operational costs of launching its products in the Gujarat, Karnataka and Maharashtra markets. The company expects this division to start clocking healthy growth over the next 3-4 quarters.
- **Bathware:** The division's revenue grew by 63% YoY in Q2FY25 on a low base. For FY25, the company expects the division's revenue to be around Rs 1.0bn-1.25 bn.
- **Capex:** Guidance has been slightly revised to Rs 3.8bn (Rs 3.5bn earlier) for FY25.

**Fig 2 – ASTRA pipe volume de-grew by 2.5% YoY (5Y CAGR: +8.0%) in Q2FY25**



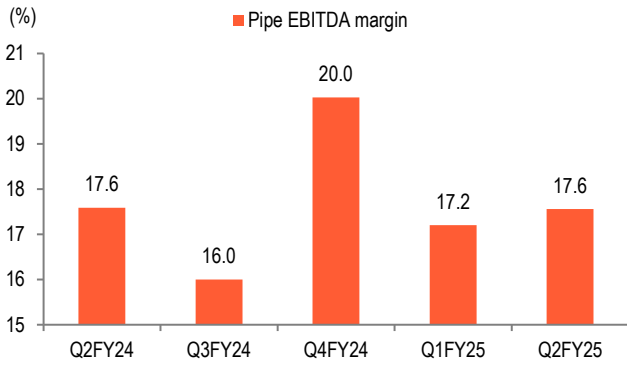
Source: Company, BOBCAPS Research

**Fig 3 – ASTRA pipe volume growth lagged its major listed peer SI on YoY basis for the 11<sup>th</sup> consecutive quarter**



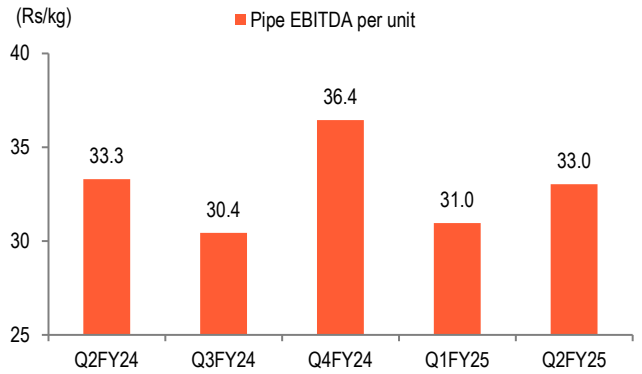
Source: Company, BOBCAPS Research

**Fig 4 – Pipe EBITDA margin was flat on YoY basis at 17.6% in Q2FY25, despite weak resin price environment**



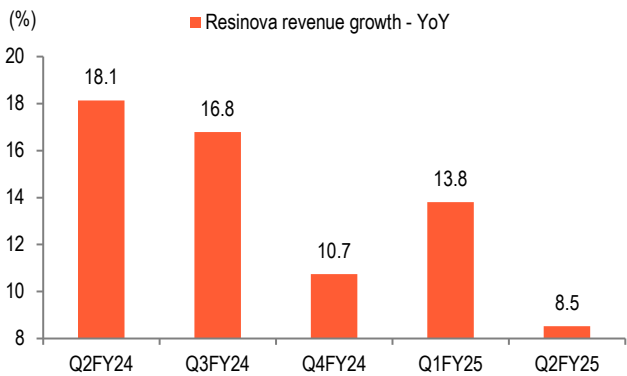
Source: Company, BOBCAPS Research

**Fig 5 – ASTRA pipe EBITDA per unit was also relatively flat on YoY basis at Rs 33/kg in Q2FY25**



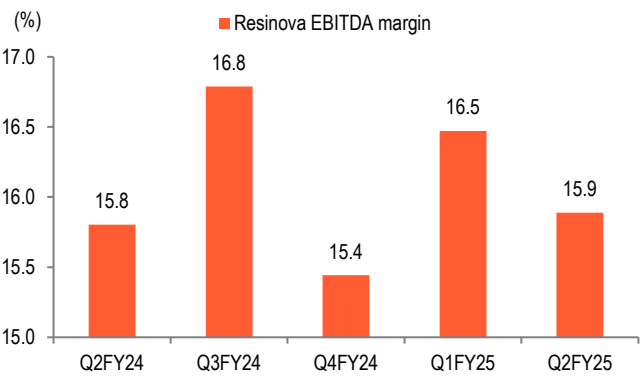
Source: Company, BOBCAPS Research

**Fig 6 – Resinova revenue grew by 8.5% YoY in Q2FY25**



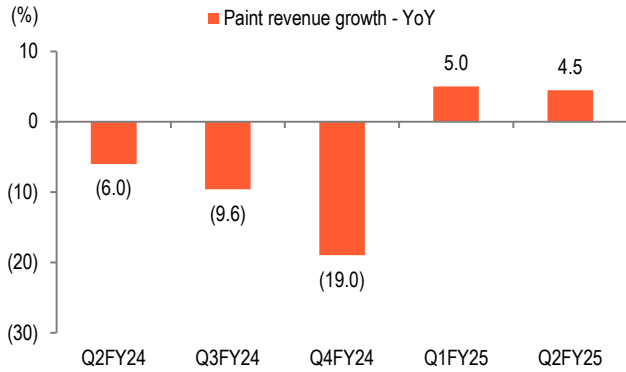
Source: Company, BOBCAPS Research

**Fig 7 – Resinova EBITDAM was flat on YoY in Q2FY25**



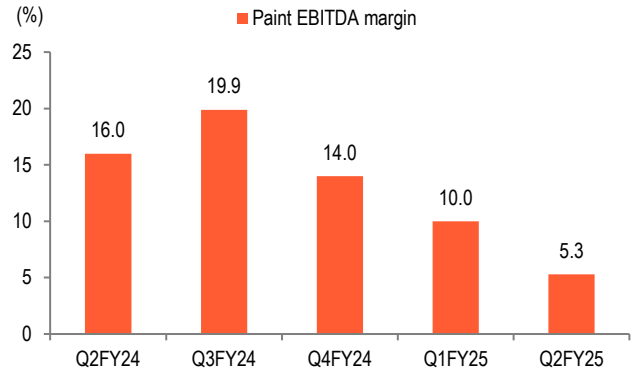
Source: Company, BOBCAPS Research

**Fig 8 – Paint division revenue grew at a muted pace of 4.5% YoY in Q2FY25 even over a low base...**



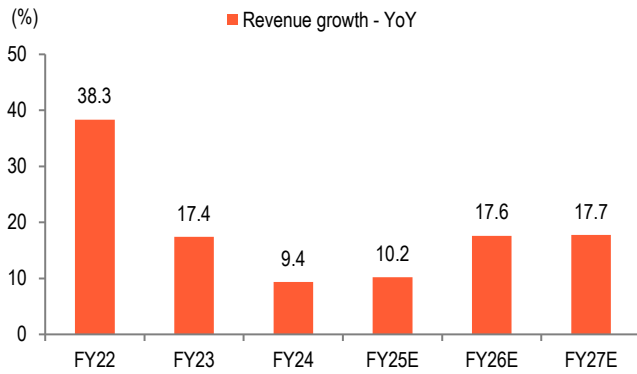
Source: Company, BOBCAPS Research

**Fig 9 – ... and division EBITDA margin also remained under pressure in Q2FY25**



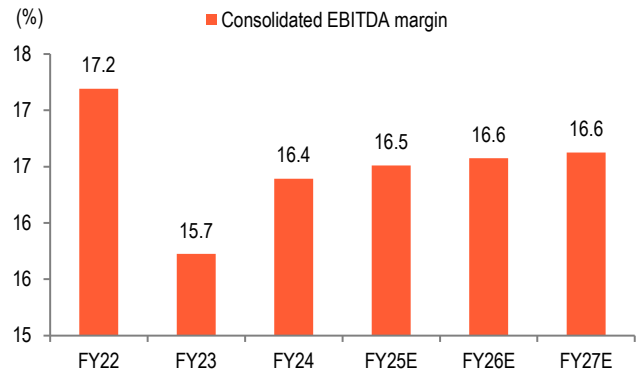
Source: Company, BOBCAPS Research

**Fig 10 – ASTRA’s revenue is projected to grow at a healthy 15% CAGR over FY24-FY27E**



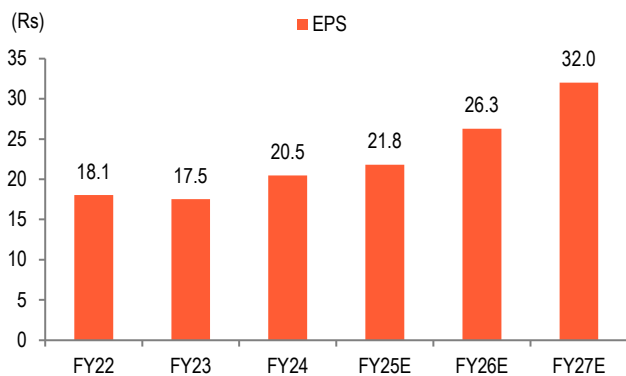
Source: Company, BOBCAPS Research

**Fig 11 – Consolidated EBITDA margin is forecast to remain stable at around 16.5% over FY25E-FY27E**



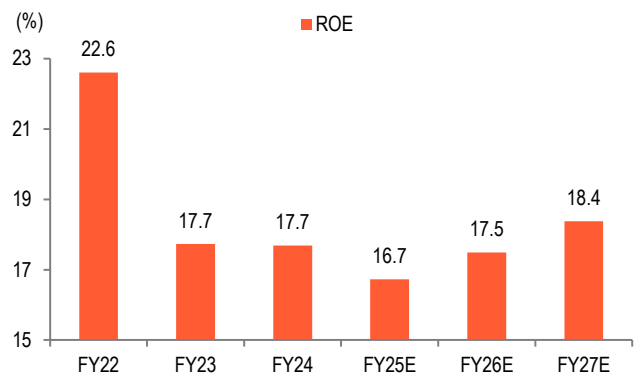
Source: Company, BOBCAPS Research

**Fig 12 – EPS projected to grow at 16% CAGR over FY24-FY27E**



Source: Company, BOBCAPS Research

**Fig 13 – ROE also likely to remain healthy over the medium term**



Source: Company, BOBCAPS Research

### Valuation methodology

We expect ASTRA's EPS to grow at a strong 16% CAGR over FY24-FY27E. However, we maintain our HOLD rating on the stock due to expensive valuations (trades at 72.2x on 1Y forward P/E vs 5Y average of 73.9x). The company stock valuation has got de-rated over the past few quarters due to (a) inferior pipe volume growth compared to SI for the 11<sup>th</sup> consecutive quarter; and (b) weak performance of overseas adhesives and paints business for 7<sup>th</sup> straight quarter.

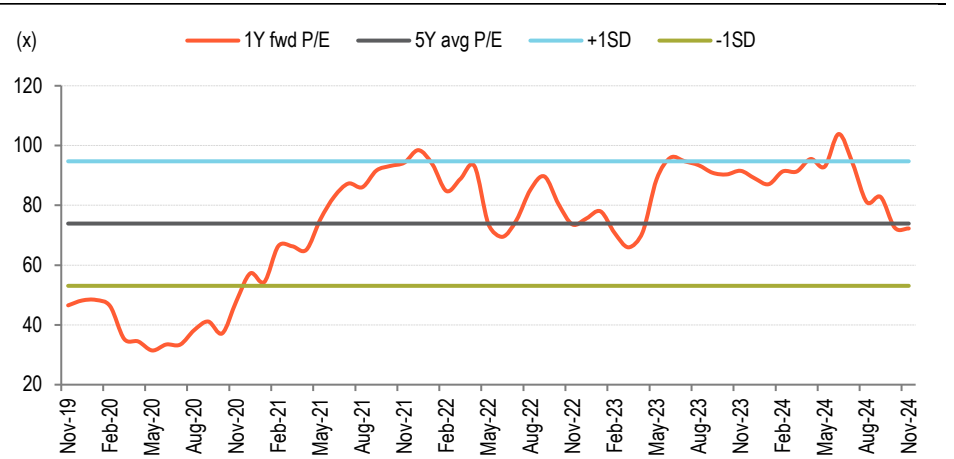
We have cut our target price to Rs 2,000 (Rs 2,200 earlier) due to the downward revision of our EPS estimates (-10%/-12%/-14% for FY25E/FY26E/FY27E) based on the weak Q2FY25 result. Our target P/E remains unchanged at 70x on Sep'26 estimates.

**Fig 14 – Revised estimates**

Consolidated (Rs bn)	New			Old			Change %		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	62.2	73.1	86.1	65.0	78.1	95.1	(4.4)	(6.4)	(9.5)
EBITDA	10.3	12.1	14.3	11.0	13.4	16.4	(6.7)	(9.5)	(12.8)
EBITDA margin	16.5	16.6	16.6	16.9	17.2	17.3	(41bps)	(58bps)	(63bps)
Adjusted PAT	5.9	7.1	8.6	6.5	8.1	10.0	(10.2)	(12.3)	(14.0)
EPS (Rs)	21.8	26.3	32.0	24.3	29.9	37.2	(10.2)	(12.3)	(14.0)

Source: BOBCAPS Research

**Fig 15 – Trading at 72.2x on 1Y forward P/E vs 5Y average of 73.9x**



Source: Bloomberg, BOBCAPS Research

**Fig 16 – Key assumptions**

(%)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Revenue Mix</b>						
Pipe	77	76	73	71	71	71
Adhesives	23	24	23	23	23	22
Paints	-	4	3	3	3	4
Bathware	-	0	1	2	3	3
<b>Operating Metrics</b>						
Pipe volume growth	9	19	24	10	15	15
Adhesive revenue growth	36	14	12	10	14	14
Paints revenue growth	-	-	(14)	13	21	20
Bathware revenue growth	-	-	177	110	61	39
<b>EBITDA Margin</b>						
Pipe	18.6	16.7	17.7	17.7	17.7	17.7
Adhesives	12.5	14.1	12.9	13.4	14.5	14.6
Paints	-	13.3	14.4	11.7	15.0	15.0

Source: Company, BOBCAPS Research

### Key risks

- Better-than-expected recovery in India's real estate sector and a sharp turnaround in the company's new paint and sanitaryware ventures would be key upside risks to our estimates.
- Market share loss in the pipe business would be a key downside risk.

### Bullet Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Pipes	APOLP IN	0.2	521	550	HOLD
Astral	ASTRA IN	5.7	1,790	2,000	HOLD
Century Plyboards	CPBI IN	2.2	850	725	HOLD
Finolex Industries	FNXP IN	2.2	296	300	HOLD
Greenlam Industries	GRLM IN	0.9	564	530	HOLD
Greenpanel Industries	GREENP IN	0.6	385	365	HOLD
Greenply Industries	MTLM IN	0.5	361	380	HOLD
Hindware Home Innovation	HINDWARE IN	0.2	291	500	BUY
Kajaria Ceramics	KJC IN	2.3	1,223	1,450	HOLD
Prince Pipes & Fittings	PRINCEPIP IN	0.6	477	750	BUY
Somany Ceramics	SOMC IN	0.3	677	850	BUY
Supreme Industries	SI IN	7.0	4,677	5,250	BUY

Source: BOBCAPS Research, NSE | Price as of 7 Nov 2024

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>51,585</b>	<b>56,414</b>	<b>62,163</b>	<b>73,112</b>	<b>86,083</b>
EBITDA	8,112	9,247	10,264	12,117	14,312
Depreciation	1,781	1,976	2,399	2,671	2,810
EBIT	6,331	7,271	7,865	9,446	11,501
Net interest inc./(exp.)	(400)	(291)	(341)	(352)	(352)
Other inc./(exp.)	267	421	383	352	352
Exceptional items	13	64	0	0	0
EBT	6,185	7,337	7,907	9,446	11,501
Income taxes	1,557	1,880	2,039	2,378	2,895
Extraordinary items	(112)	0	0	0	0
Min. int./Inc. from assoc.	(44)	4	0	0	0
<b>Reported net profit</b>	<b>4,696</b>	<b>5,461</b>	<b>5,868</b>	<b>7,068</b>	<b>8,606</b>
Adjustments	23	48	0	0	0
<b>Adjusted net profit</b>	<b>4,719</b>	<b>5,509</b>	<b>5,868</b>	<b>7,068</b>	<b>8,606</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	8,000	8,719	9,629	11,325	13,334
Other current liabilities	4,854	1,956	1,956	1,956	1,956
Provisions	26	8	9	10	12
Debt funds	773	964	0	0	0
Other liabilities	489	647	647	647	647
Equity capital	269	269	269	269	269
Reserves & surplus	26,843	31,612	36,404	42,262	49,254
Shareholders' fund	29,589	32,685	37,477	43,335	50,327
<b>Total liab. and equities</b>	<b>43,731</b>	<b>44,979</b>	<b>49,718</b>	<b>57,273</b>	<b>66,277</b>
Cash and cash eq.	6,821	6,096	7,005	9,261	12,597
Accounts receivables	3,545	3,758	4,141	4,870	5,734
Inventories	8,746	9,134	9,889	11,962	14,375
Other current assets	3,380	868	959	1,127	1,327
Investments	0	0	0	0	0
Net fixed assets	13,923	17,646	20,247	22,576	24,766
CWIP	1,261	1,506	1,506	1,506	1,506
Intangible assets	5,582	5,348	5,348	5,348	5,348
Deferred tax assets, net	110	131	131	131	131
Other assets	363	492	492	492	492
<b>Total assets</b>	<b>43,731</b>	<b>44,979</b>	<b>49,718</b>	<b>57,273</b>	<b>66,277</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>5,780</b>	<b>7,167</b>	<b>7,907</b>	<b>8,466</b>	<b>9,950</b>
Capital expenditures	(6,355)	(5,789)	(5,000)	(5,000)	(5,000)
Change in investments	0	0	0	0	0
Other investing cash flows	236	357	383	352	352
<b>Cash flow from investing</b>	<b>(6,119)</b>	<b>(5,432)</b>	<b>(4,617)</b>	<b>(4,648)</b>	<b>(4,648)</b>
Equities issued/Others	13	0	0	0	0
Debt raised/repaid	(78)	191	(964)	0	0
Interest expenses	(400)	(291)	(341)	(352)	(352)
Dividends paid	(942)	(1,009)	(1,076)	(1,211)	(1,614)
Other financing cash flows	2,149	(1,351)	0	0	0
<b>Cash flow from financing</b>	<b>742</b>	<b>(2,460)</b>	<b>(2,381)</b>	<b>(1,563)</b>	<b>(1,966)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>403</b>	<b>(725)</b>	<b>909</b>	<b>2,256</b>	<b>3,336</b>
<b>Closing cash &amp; cash eq.</b>	<b>6,821</b>	<b>6,096</b>	<b>7,005</b>	<b>9,261</b>	<b>12,597</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	17.5	20.3	21.8	26.3	32.0
Adjusted EPS	17.5	20.5	21.8	26.3	32.0
Dividend per share	3.5	3.8	4.0	4.5	6.0
Book value per share	100.8	118.5	136.3	158.1	184.1

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	9.4	8.6	7.8	6.7	5.7
EV/EBITDA	60.0	52.7	47.5	40.2	34.2
Adjusted P/E	102.1	87.4	82.1	68.1	56.0
P/BV	17.8	15.1	13.1	11.3	9.7

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	76.3	75.1	74.2	74.8	74.8
Interest burden (PBT/EBIT)	97.7	100.9	100.5	100.0	100.0
EBIT margin (EBIT/Revenue)	12.3	12.9	12.7	12.9	13.4
Asset turnover (Rev./Avg TA)	118.0	125.4	125.0	127.7	129.9
Leverage (Avg TA/Avg Equity)	1.6	1.4	1.4	1.4	1.4
<b>Adjusted ROAE</b>	<b>17.7</b>	<b>17.7</b>	<b>16.7</b>	<b>17.5</b>	<b>18.4</b>

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	17.4	9.4	10.2	17.6	17.7
EBITDA	7.4	14.0	11.0	18.1	18.1
Adjusted EPS	(2.8)	16.7	6.5	20.5	21.8
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	15.7	16.4	16.5	16.6	16.6
EBIT margin	12.3	12.9	12.7	12.9	13.4
Adjusted profit margin	9.1	9.8	9.4	9.7	10.0
Adjusted ROAE	17.7	17.7	16.7	17.5	18.4
ROCE	21.7	22.9	22.0	22.6	23.6
<b>Working capital days (days)</b>					
Receivables	25	24	24	24	24
Inventory	62	59	58	60	61
Payables	57	56	57	57	57
<b>Ratios (x)</b>					
Gross asset turnover	2.6	2.3	2.1	2.1	2.1
Current ratio	1.7	1.8	1.9	2.0	2.2
Net interest coverage ratio	15.8	25.0	23.1	26.8	32.7
<b>Adjusted debt/equity</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.3)</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets



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**BUY** – Expected return >+15%

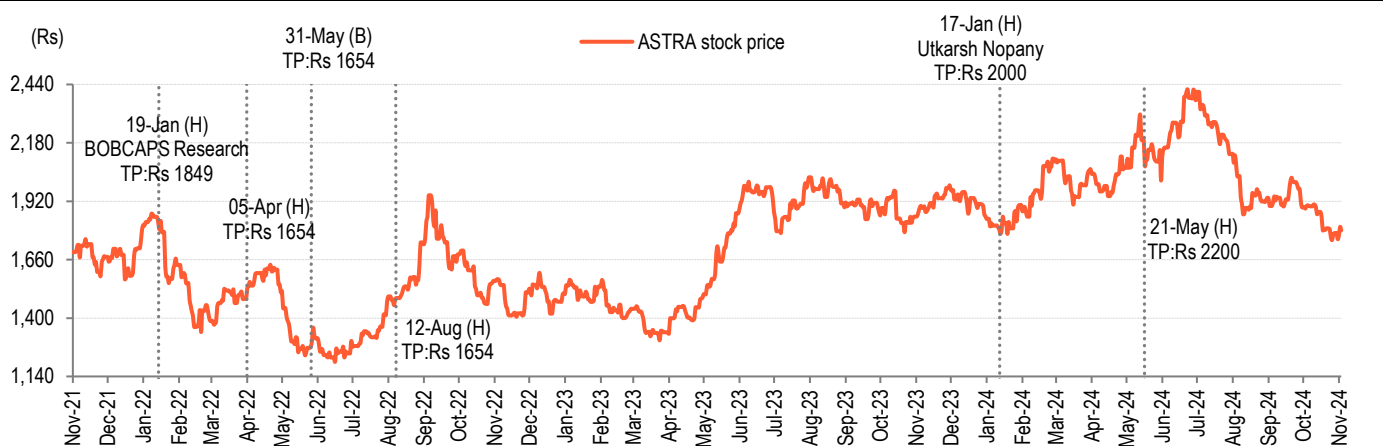
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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