

**REDUCE**

TP: Rs 1,195 | ▼ 2%

**ASTRAL POLY TECHNIK**

Plastic Products

02 August 2019

## Piping segment aided by Rex acquisition spurs growth

**Astral Poly Technik (ASTRA) reported marginally better consolidated revenue growth than expected at 27% YoY in Q1FY20. The piping segment grew 38% YoY aided by the acquisition of Rex Poly in Q2FY19, whereas adhesives grew just 2%. EBITDA margins contracted 100bps YoY to 15.3% due to lower margins in piping, which limited growth in EBITDA to 20%. We maintain our estimates and roll over to a Jun'20 TP of Rs 1,195 (from Rs 1,140). Valuations remain rich at 45.1x FY21E P/E and hence we retain our REDUCE rating.**

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**Rex Poly boosts revenue growth:** ASTRA's Q1 consolidated revenue grew 27% YoY to Rs 6.1bn, aided by the Rex Polyextrusion buyout (ex-Rex growth was ~18.8% YoY). PVC pipe standalone revenues grew 38% YoY but the adhesives business was up only 2.1% due to a shift in distribution model that will be completed by Q2. Pipe volumes increased 41% YoY spurred by the Rex acquisition in Q2FY19 (~28% growth ex-Rex). Management retained its FY20 outlook of ~15% volume growth in piping, but reduced adhesive guidance to double digits (earlier 20%) due to the distribution transition.

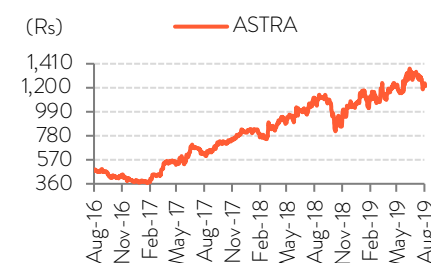
**Consolidated margins fall 100bps YoY:** ASTRA's operating margins contracted 100bps YoY to 15.3% due to lower piping margins. EBITDA grew 20% YoY but adj. PAT increased just 7% due to higher depreciation/interest cost of 52%/61% which countered a surge in other income (+75% YoY). Piping operating margins slid 126bps YoY to 15.5% due to inventory loss. Management continues to expect 15% margins in pipes and a better showing in adhesives for FY20.

**Maintain REDUCE:** Though we like ASTRA for its strong brand name, wide reach and robust pipes portfolio, valuations at 45x FY21E P/E are rich. Maintain REDUCE with a revised Jun'20 TP of Rs 1,195, set at 42x one-year forward P/E.

Ticker/Price	ASTRA IN/Rs 1,219
Market cap	US\$ 2.1bn
Shares o/s	121mn
3M ADV	US\$ 0.9mn
52wk high/low	Rs 1,380/Rs 816
Promoter/FPI/DII	58%/20%/22%

Source: NSE

### STOCK PERFORMANCE



Source: NSE

### KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19P	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	1,697	1,994	2,644	3,262	3,974
Adj. EPS (Rs)	14.1	16.5	21.9	27.1	33.0
Adj. EPS growth (%)	19.9	17.5	32.6	23.4	21.8
Adj. ROAE (%)	18.2	17.4	19.1	20.2	21.0
Adj. P/E (x)	86.6	73.7	55.6	45.1	37.0
EV/EBITDA (x)	47.1	38.6	31.6	26.6	22.4

Source: Company, BOBCAPS Research

**BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda**

Important disclosures, including any required research certifications, are provided at the end of this report.



**FIG 1 – CONSOLIDATED QUARTERLY PERFORMANCE**

(Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
<b>Total revenues</b>	<b>6,066</b>	<b>4,770</b>	<b>27.2</b>	<b>7,747</b>	<b>(21.7)</b>
Total raw material consumed	3,879	2,995	29.5	5,147	(24.6)
% of sales	63.9	62.8	117bps	66.4	(249bps)
Employee expenses	431	305	41.2	361	19.4
% of sales	7.1	6.4	70bps	4.7	245bps
Other expenses	825	691	19.4	1,050	(21.4)
% of sales	13.6	14.5	(89bps)	13.6	5bps
Total expenditure	5,135.0	3,991.0	28.7	6,557.5	(21.7)
% of sales	84.7	83.7	99bps	84.6	1bps
<b>EBITDA</b>	<b>931.0</b>	<b>779.1</b>	<b>19.5</b>	<b>1189.5</b>	<b>(21.7)</b>
% of sales	15.3	16.3	(99bps)	15.4	(1bps)
Depreciation	244.0	160.6	51.9	223.8	9.0
Other income	68.0	38.8	75.3	38.4	77.1
Interest cost	63.0	39.1	61.1	72.9	(13.6)
<b>PBT</b>	<b>692.0</b>	<b>618.2</b>	<b>11.9</b>	<b>931.2</b>	<b>(25.7)</b>
Taxes	202.0	156.8	28.8	291.6	(30.7)
Effective tax rate (%)	29.2	25.4	383bps	31.3	(212bps)
<b>RPAT before extraordinaries</b>	<b>490.0</b>	<b>461.4</b>	<b>6.2</b>	<b>639.6</b>	<b>(23.4)</b>
Less: Forex loss/(gain)	10.0	77.5	(87.1)	(13.7)	(173.0)
Less: Minority interest	(7.0)	(3.0)	133.3	(3.1)	125.8
Less: Loss from JV	2.0	7.3	(72.6)	28.6	(93.0)
<b>APAT</b>	<b>481.0</b>	<b>451.1</b>	<b>6.6</b>	<b>607.9</b>	<b>(20.9)</b>
<b>RPAT</b>	<b>471.0</b>	<b>373.6</b>	<b>26.1</b>	<b>621.6</b>	<b>(24.2)</b>

Source: Company, BOBCAPS Research

**FIG 2 – SEGMENTAL PERFORMANCE**

Particulars	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
<b>Net Sales (Rs mn)</b>					
Plastics	4,564	3,299	38.4	5,867	(22.2)
Adhesives	1,502	1,472	2.1	1,880	(20.1)
<b>Total</b>	<b>6,066</b>	<b>4,770</b>	<b>27.2</b>	<b>7,747</b>	<b>(21.7)</b>
<b>EBIT (Rs mn)</b>					
Plastics	466	389	19.9	735	(36.6)
Adhesives	221	247	(10.3)	237	(6.9)
<b>Total</b>	<b>687</b>	<b>635</b>	<b>8.2</b>	<b>973</b>	<b>(29.4)</b>
<b>EBIT margin (%)</b>					
Plastics	10.2	11.8	(157bps)	12.5	(232bps)
Adhesives	14.7	16.8	(204bps)	12.6	208bps

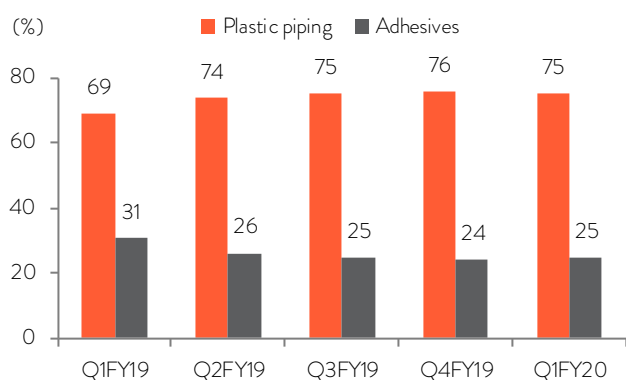
Source: Company, BOBCAPS Research

**FIG 3 – STANDALONE QUARTERLY PERFORMANCE**

(Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
<b>Total revenues</b>	<b>4,725</b>	<b>3,443</b>	<b>37.2</b>	<b>6,056</b>	<b>(22.0)</b>
Total raw material consumed	3,129	2,180	43.6	4,079	(23.3)
% of sales	66.2	63.3	291bps	67.3	(112bps)
Employee expenses	250	164	52.1	193	29.8
% of sales	5.3	4.8	52bps	3.2	211bps
Other expenses	614	522	17.6	837	(26.6)
% of sales	13.0	15.2	(217bps)	13.8	(82bps)
Total expenditure	3,993.0	28,66.1	39.3	5,107.8	(21.8)
% of sales	84.5	83.2	126bps	84.3	17bps
<b>EBITDA</b>	<b>732.0</b>	<b>576.7</b>	<b>26.9</b>	<b>948.3</b>	<b>(22.8)</b>
% of sales	15.5	16.8	(126bps)	15.7	(17bps)
Depreciation	204.0	127.2	60.4	185.8	9.8
Other income	59.0	39.5	49.4	29.0	103.4
Interest cost	60.0	109.3	(45.1)	61.0	(1.6)
<b>PBT</b>	<b>527.0</b>	<b>379.7</b>	<b>38.8</b>	<b>730.5</b>	<b>(27.9)</b>
Taxes	186.0	132.9	40.0	259.0	(28.2)
Effective tax rate (%)	35.3	35.0	29bps	35.5	(16bps)
<b>APAT</b>	<b>341.0</b>	<b>246.8</b>	<b>38.2</b>	<b>471.5</b>	<b>(27.7)</b>

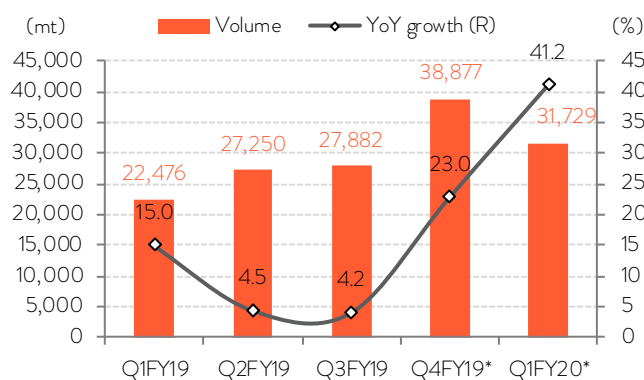
Source: Company, BOBCAPS Research

**FIG 4 – CONSOLIDATED REVENUE MIX**



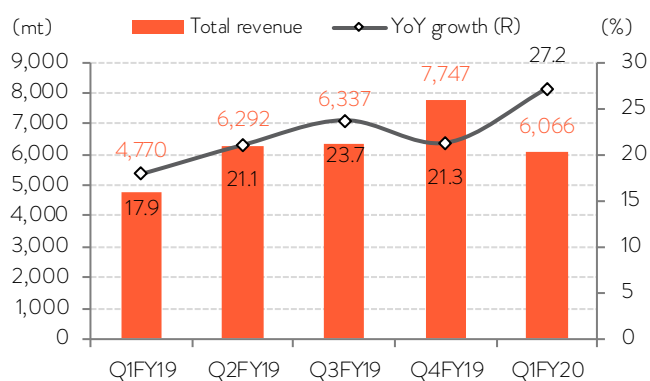
Source: Company, BOBCAPS Research

**FIG 5 – PIPING VOLUME GROWTH**



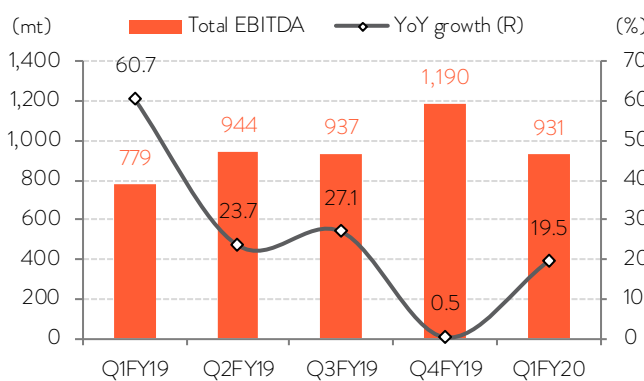
Source: Company, BOBCAPS Research | \*Includes Rex volumes

**FIG 6 – CONSOLIDATED REVENUE GROWTH**



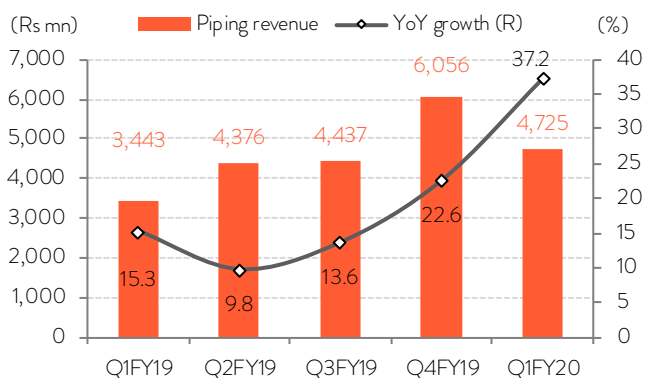
Source: Company, BOBCAPS Research

**FIG 7 – CONSOLIDATED EBITDA GROWTH**



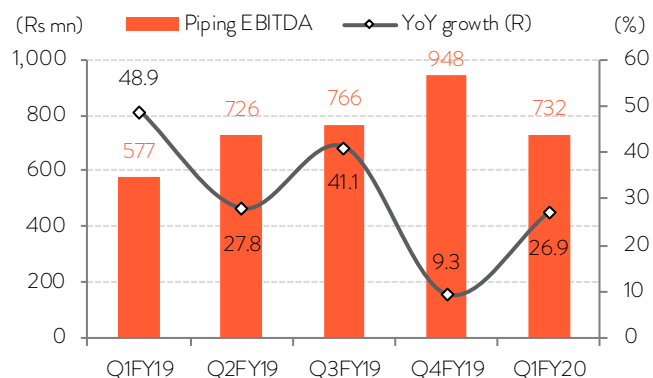
Source: Company, BOBCAPS Research

**FIG 8 – PIPING REVENUE GROWTH**



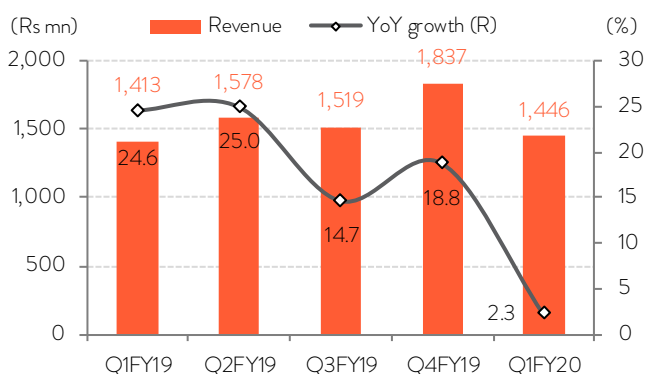
Source: Company, BOBCAPS Research

**FIG 9 – PIPING EBITDA GROWTH**



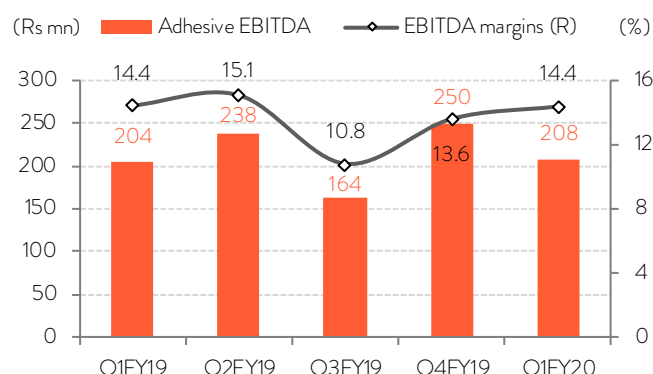
Source: Company, BOBCAPS Research

**FIG 10 – ADHESIVES REVENUE GROWTH**



Source: Company, BOBCAPS Research

**FIG 11 – ADHESIVES EBITDA MARGIN**



Source: Company, BOBCAPS Research

### Earnings call highlights

- ASTRA has been allotted land in Orissa to set up a piping plant that will cater to markets in east India – this is likely to be commissioned by end-FY20.
- Piping capacity will be expanded at the Sangli plant in Maharashtra over FY20/FY21 for which land has been acquired.
- Capex in FY20 would be Rs 1.25bn-1.5bn, largely in the piping segment.
- The company has declared a bonus of 1 share for every 4 held.

### Piping segment

- Piping segment volumes are guided to grow 15% in FY20. With the acquisition of Rex, ASTRA’s piping product portfolio is complete. Long-term sustainable margins in this segment are seen at ~15%.
- During Q1FY20, SAP was implemented at Rex which resulted in about a month’s loss of sales.

- PVC prices fell during the quarter causing an inventory loss of Rs 70mn-80mn.
- The company now has a presence through distributors pan-India across segments such as agriculture and corrugated pipes.
- Agriculture pipes posted good growth during the quarter but is still a small segment for ASTRA. Plumbing pipes continue to be a major category for the company and performed well during the quarter.

### **Adhesives segment**

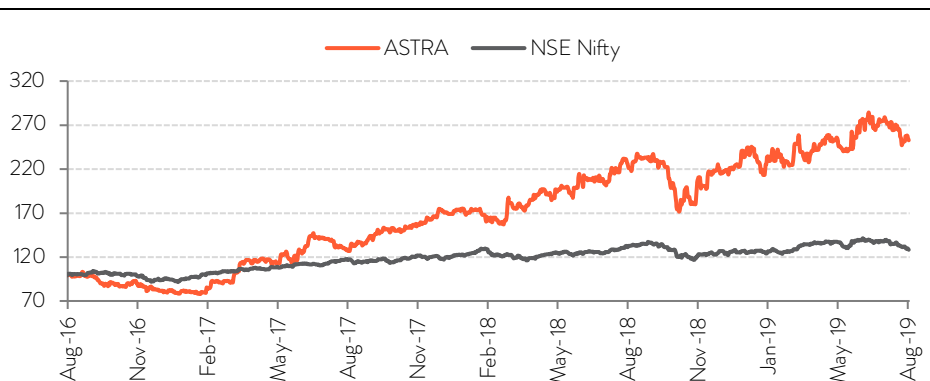
- The India adhesives business saw tepid growth in Q1 due to a change in distribution model wherein ASTRA is moving from a three-tier distribution setup to a two-tier framework. This shift will be completed by Q2FY20 after which growth should revive.
- Management does not expect any incremental working capital requirement due to the change in distribution model.
- The UK adhesives subsidiary registered double-digit topline growth for the quarter with expansion in margins.
- Adhesive plant utilisation was 37% in Q1FY20.
- The company is making its adhesive portfolio comprehensive by adding various chemistries.

## Valuation methodology

ASTRA is among the leading players in India’s CPVC/PVC plumbing pipe market. The company has a wide-ranging product portfolio, robust brand name and large distribution reach that will enable it to benefit from the gradual formalisation of the market post GST and e-way bill implementation. Its recent foray into the adhesives market further boosts growth prospects.

We maintain our FY20/FY21 estimates and expect ASTRA to clock a healthy revenue/PAT CAGR of 19%/28% over FY19-FY21 aided by the recent acquisition of Rex Poly. Though we like the company for its growth prospects, we find current valuations at 45x FY21E P/E expensive and thus maintain our REDUCE rating. We continue to value the stock at 42x one-year forward P/E and roll over to a revised Jun’20 target price of Rs 1,195 (vs. Rs 1,140).

**FIG 12 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

Key upside risks to our estimates are:

- better-than-expected growth in the housing market, and
- lower raw material prices, leading to better profitability.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19P	FY20E	FY21E	FY22E
<b>Total revenue</b>	<b>21,060</b>	<b>25,073</b>	<b>30,337</b>	<b>35,700</b>	<b>41,902</b>
EBITDA	3,168	3,849	4,685	5,538	6,511
EBIT	2,597	3,035	3,814	4,599	5,512
Net interest income/(expenses)	(216)	(257)	(194)	(123)	(45)
Other income/(expenses)	40	154	186	220	260
Exceptional items	0	0	0	0	0
EBT	2,421	2,932	3,806	4,696	5,727
Income taxes	(724)	(861)	(1,142)	(1,409)	(1,718)
Extraordinary items	59	(124)	0	0	0
Min. int./Inc. from associates	0	(15)	(20)	(25)	(35)
<b>Reported net profit</b>	<b>1,757</b>	<b>1,932</b>	<b>2,644</b>	<b>3,262</b>	<b>3,974</b>
Adjustments	(59)	62	0	0	0
<b>Adjusted net profit</b>	<b>1,697</b>	<b>1,994</b>	<b>2,644</b>	<b>3,262</b>	<b>3,974</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19P	FY20E	FY21E	FY22E
Accounts payables	3,491	3,897	4,654	5,477	6,429
Other current liabilities	688	1,576	997	978	1,148
Provisions	34	124	30	36	42
Debt funds	1,891	1,935	1,300	750	0
Other liabilities	0	0	0	0	0
Equity capital	120	120	121	121	121
Reserves & surplus	10,063	12,657	14,825	17,304	20,324
Shareholders' fund	10,182	12,777	14,946	17,425	20,445
<b>Total liabilities and equities</b>	<b>16,420</b>	<b>20,459</b>	<b>22,098</b>	<b>24,861</b>	<b>28,294</b>
Cash and cash eq.	437	983	1,000	1,998	3,888
Accounts receivables	3,067	3,391	4,073	4,793	5,510
Inventories	3,572	3,958	4,738	5,575	6,429
Other current assets	519	799	831	978	1,148
Investments	0	0	0	0	0
Net fixed assets	8,402	11,055	11,183	11,244	11,044
CWIP	731	808	808	808	808
Intangible assets	23	0	0	0	0
Deferred tax assets, net	(331)	(534)	(534)	(534)	(534)
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>16,420</b>	<b>20,459</b>	<b>22,098</b>	<b>24,861</b>	<b>28,294</b>

Source: Company, BOBCAPS Research

### Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19P	FY20E	FY21E	FY22E
Net income + Depreciation	2,328	2,746	3,516	4,201	4,973
Interest expenses	216	257	194	123	45
Non-cash adjustments	0	0	0	0	0
Changes in working capital	356	396	(1,409)	(896)	(614)
Other operating cash flows	0	0	0	0	0
<b>Cash flow from operations</b>	<b>2,899</b>	<b>3,400</b>	<b>2,301</b>	<b>3,429</b>	<b>4,404</b>
Capital expenditures	(2,078)	(2,706)	(1,000)	(1,000)	(800)
Change in investments	0	(2)	2	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(2,078)</b>	<b>(2,708)</b>	<b>(999)</b>	<b>(1,000)</b>	<b>(800)</b>
Equities issued/Others	0	0	1	0	0
Debt raised/repaid	(399)	44	(635)	(550)	(750)
Interest expenses	(216)	(257)	(194)	(123)	(45)
Dividends paid	(79)	(56)	(476)	(783)	(954)
Other financing cash flows	127	122	20	25	35
<b>Cash flow from financing</b>	<b>(567)</b>	<b>(147)</b>	<b>(1,284)</b>	<b>(1,431)</b>	<b>(1,714)</b>
<b>Changes in cash and cash eq.</b>	<b>255</b>	<b>545</b>	<b>19</b>	<b>998</b>	<b>1,890</b>
<b>Closing cash and cash eq.</b>	<b>437</b>	<b>981</b>	<b>1,000</b>	<b>1,998</b>	<b>3,888</b>

### Per Share

Y/E 31 Mar (Rs)	FY18A	FY19P	FY20E	FY21E	FY22E
Reported EPS	14.6	16.0	21.9	27.1	33.0
Adjusted EPS	14.1	16.5	21.9	27.1	33.0
Dividend per share	0.6	0.4	3.3	5.4	6.6
Book value per share	84.5	106.0	124.0	144.6	169.6

### Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19P	FY20E	FY21E	FY22E
EV/Sales	7.1	5.9	4.9	4.1	3.5
EV/EBITDA	47.1	38.6	31.6	26.6	22.4
Adjusted P/E	86.6	73.7	55.6	45.1	37.0
P/BV	14.4	11.5	9.8	8.4	7.2

### DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19P	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	70.1	68.0	69.5	69.5	69.4
Interest burden (PBT/EBIT)	93.2	96.6	99.8	102.1	103.9
EBIT margin (EBIT/Revenue)	12.3	12.1	12.6	12.9	13.2
Asset turnover (Revenue/Avg TA)	136.9	136.0	142.6	152.0	157.7
Leverage (Avg TA/Avg Equity)	1.6	1.6	1.5	1.5	1.4
Adjusted ROAE	18.2	17.4	19.1	20.2	21.0

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



**Ratio Analysis**

Y/E 31 Mar	FY18A	FY19P	FY20E	FY21E	FY22E
<b>YoY growth (%)</b>					
Revenue	11.2	19.1	21.0	17.7	17.4
EBITDA	20.0	21.5	21.7	18.2	17.6
Adjusted EPS	19.9	17.5	32.6	23.4	21.8
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	15.0	15.4	15.4	15.5	15.5
EBIT margin	12.3	12.1	12.6	12.9	13.2
Adjusted profit margin	8.1	8.0	8.7	9.1	9.5
Adjusted ROAE	18.2	17.4	19.1	20.2	21.0
ROCE	15.8	15.8	17.1	18.5	19.8
<b>Working capital days (days)</b>					
Receivables	56	47	45	45	45
Inventory	83	83	79	80	80
Payables	65	64	61	61	61
<b>Ratios (x)</b>					
Gross asset turnover	2.3	2.2	2.3	2.5	2.8
Current ratio	1.5	1.5	1.7	2.0	2.2
Net interest coverage ratio	12.0	11.8	19.6	37.4	122.5
Adjusted debt/equity	0.1	0.1	0.0	(0.1)	(0.2)

Source: Company, BOBCAPS Research

## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

### HISTORICAL RATINGS AND TARGET PRICE: ASTRAL POLY TECHNIK (ASTRA IN)



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

### Rating distribution

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