

REDUCE

TP: Rs 975 | ▲ 3%

ASTRAL POLY TECHNIK

Plastic Products

05 August 2020

Lockdown-hit quarter

Astral Poly Technik’s (ASTRA) Q1FY21 consolidated revenue declined at a slower pace than expected, posting 33% YoY contraction as the lockdown induced a 31% drop in pipe volumes. Pipe/adhesive revenues fell 32%/37% YoY. EBITDA margins slipped 190bps YoY to 13.4%, resulting in EBITDA/PBT declines of 42%/64% YoY. Management refrained from guiding for FY21 due to Covid-19 but is hopeful of business normalisation by September. We raise FY21 earnings by 7% (FY22 unchanged) and roll to a new Sep’21 TP of Rs 975 (from Rs 850).

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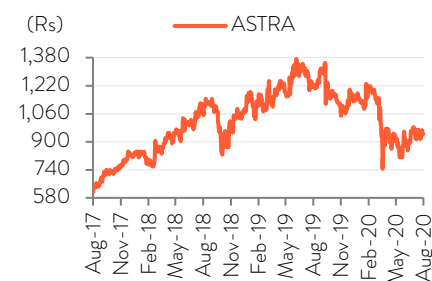
Lockdown hits volume growth: Pipe volumes decreased 31% YoY in Q1 due to the lockdown, prompting a 33% YoY decline in consolidated revenue to Rs 4bn (albeit bettering our estimate). Standalone PVC pipe/adhesive revenues decreased 32%/37% YoY. As per management, business in July has been better than June with a reduced 4% YoY volume decline in pipes and 26% YoY value growth in adhesives. Construction activity has picked up from July and management anticipates normalisation of business activity by September.

Ticker/Price	ASTRA IN/Rs 950
Market cap	US\$ 1.9bn
Shares o/s	151mn
3M ADV	US\$ 2.0mn
52wk high/low	Rs 1,369/Rs 746
Promoter/FPI/DII	56%/19%/25%

Source: NSE

Margins decline: ASTRA’s operating margins contracted 190bps YoY to 13.4% as lower gross margins (-165bps) and higher employee cost (+345bps) offset a reduction in other expense (-320bps YoY) – this drove an EBITDA/PBT fall of 42%/64% YoY. Pipe EBITDA margins decreased 65bps YoY to 14.8% whereas adhesive margins shrank 600bps to 8.4% due to negative operating leverage.

STOCK PERFORMANCE



Source: NSE

Maintain REDUCE on high valuations: We increase our FY21 PAT estimate by 7% due to the above-estimated Q1 but keep FY22 forecasts unchanged. Though we like ASTRA for its strong brand name, wide reach and robust pipe portfolio, valuations at 46.8x FY22E P/E remain rich. Maintain REDUCE as we roll forward to a revised Sep’21 TP of Rs 975 (from Rs 850), set at an unchanged 42x one-year forward P/E.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	25,073	25,779	24,376	30,543	36,554
EBITDA (Rs mn)	3,853	4,429	3,721	5,117	6,330
Adj. net profit (Rs mn)	1,992	2,479	1,979	3,057	3,916
Adj. EPS (Rs)	13.2	16.5	13.1	20.3	26.0
Adj. EPS growth (%)	17.4	24.4	(20.2)	54.5	28.1
Adj. ROAE (%)	17.4	17.8	12.5	17.3	19.4
Adj. P/E (x)	71.9	57.7	72.4	46.8	36.6
EV/EBITDA (x)	37.6	32.7	38.7	27.9	22.5

Source: Company, BOBCAPS Research

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

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FIG 1 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Total revenues	4,039	6,066	(33.4)	6,289	(35.8)
Total raw material consumed	2,649	3,879	(31.7)	3,902	(32.1)
% of sales	65.6	63.9	164bps	62.0	354bps
Employee expense	426	431	(1.2)	417	2.2
% of sales	10.5	7.1	344bps	6.6	392bps
Other expense	421	825	(49.0)	844	(50.1)
% of sales	10.4	13.6	(318bps)	13.4	(300bps)
Total expenditure	3,496	5,135	(31.9)	5,163	(32.3)
% of sales	86.6	84.7	190bps	82.1	446bps
EBITDA	543	931	(41.7)	1,126	(51.8)
% of sales	13.4	15.3	(190bps)	17.9	(446bps)
Depreciation	285	244	16.8	289	(1.4)
Other income	39	68	(42.6)	1	3800.0
Interest cost	48	63	(23.8)	37	29.7
PBT	249	692	(64.0)	801	(68.9)
Taxes	25	202	(87.6)	135	(81.5)
Effective tax rate (%)	10.0	29.2	(1,915bps)	16.9	(681bps)
RPAT before extraordinary	224	490	(54.3)	666	(66.4)
Less: forex loss/(gain)	11	10	10.0	144	(92.4)
Less: minority int	(4)	(7)	(42.9)	(5)	(20.0)
Less: Loss from JV	10	2	400.0	6	66.7
RPAT	199	471	(57.7)	511	(61.1)

Source: Company, BOBCAPS Research

FIG 2 – CONSOLIDATED SEGMENTAL PERFORMANCE

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Net Sales					
Plastics	3,093	4,564	(32.2)	4,933	(37.3)
Adhesives	946	1,502	(37.0)	1,356	(30.2)
Total	4,039	6,066	(33.4)	6,289	(35.8)
EBIT					
Plastics	231	466	(50.4)	699	(67.0)
Adhesives	41	221	(81.4)	153	(73.2)
Total	272	687	(60.4)	852	(68.1)
EBIT Margin (%)					
Plastics	7.5	10.2	(274bps)	14.2	(670bps)
Adhesives	4.3	14.7	(1,038bps)	11.3	(695bps)

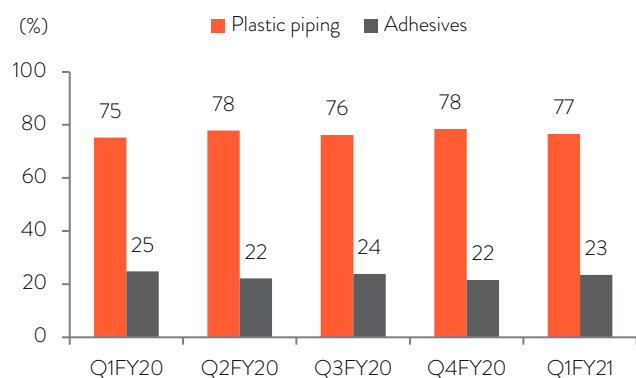
Source: Company, BOBCAPS Research

FIG 3 – STANDALONE QUARTERLY PERFORMANCE

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Total revenues	3,165	4,725	(33.0)	5,057	(37.4)
Total raw material consumed	2,144	3,129	(31.5)	3,221	(33.4)
% of sales	67.7	66.2	152bps	63.7	405bps
Employee expense	247	250	(1.2)	220	12.3
% of sales	7.8	5.3	251bps	4.4	345bps
Other expense	304	614	(50.5)	648	(53.1)
% of sales	9.6	13.0	(339bps)	12.8	(321bps)
Total expenditure	2,695	3,993	(32.5)	4,089	(34.1)
% of sales	85.2	84.5	64bps	80.9	429bps
EBITDA	470	732	(35.8)	968	(51.4)
% of sales	14.8	15.5	(64bps)	19.1	(429bps)
Depreciation	236	204	15.7	242	(2.5)
Other income	30	59	(49.2)	0	NA
Interest cost	36	52	(30.8)	35	2.9
PBT	228	535	(57.4)	691	(67.0)
Taxes	55	186	(70.4)	138	(60.1)
Effective tax rate (%)	24.1	34.8	(1,064bps)	20.0	415bps
APAT	173	349	(50.4)	553	(68.7)
Extraordinary items	0	0	NA	(25)	(100.0)
Forex	(8)	(8)	0.0	(135)	(94.1)
RPAT	165	341	(51.6)	393	(58.0)

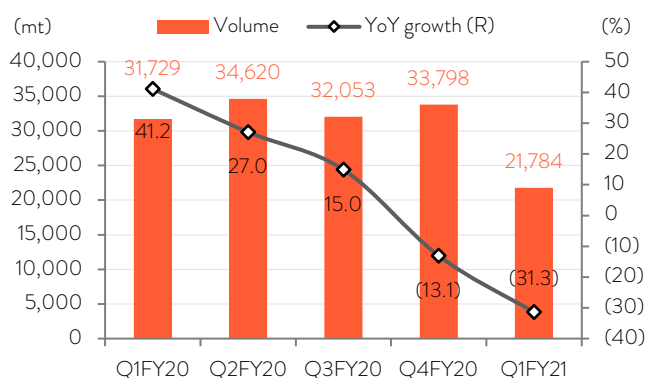
Source: Company, BOBCAPS Research

FIG 4 – CONSOLIDATED REVENUE MIX



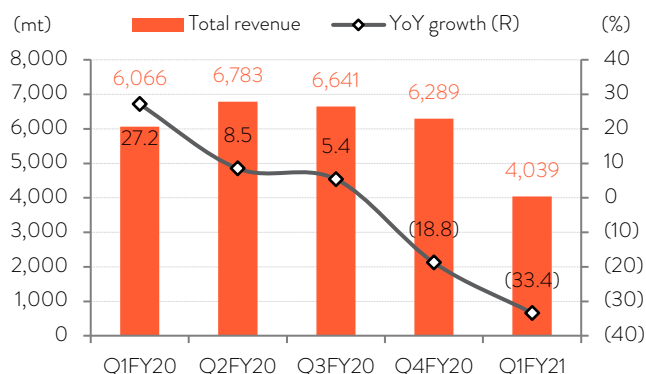
Source: Company, BOBCAPS Research

FIG 5 – PIPING VOLUME GROWTH



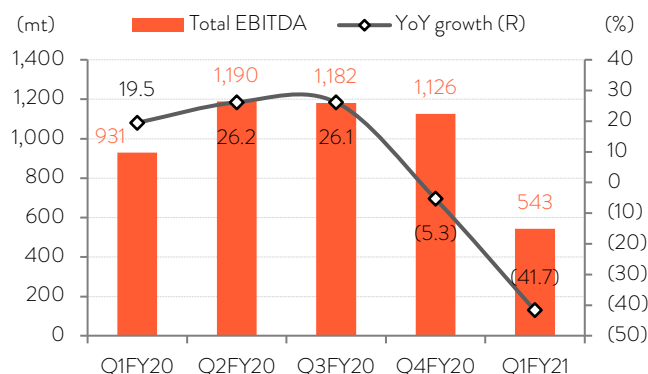
Source: Company, BOBCAPS Research | *Includes Rex volumes

FIG 6 – CONSOLIDATED REVENUE GROWTH



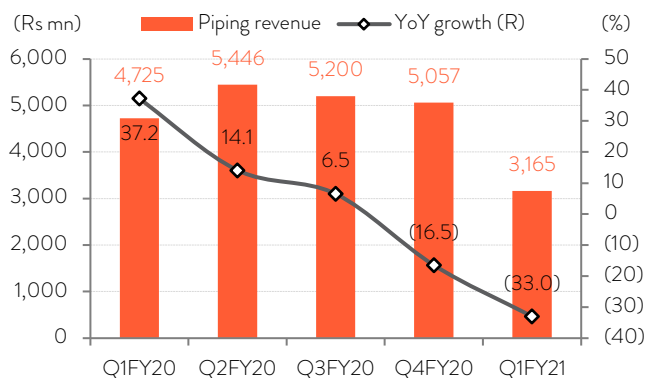
Source: Company, BOBCAPS Research

FIG 7 – CONSOLIDATED EBITDA GROWTH



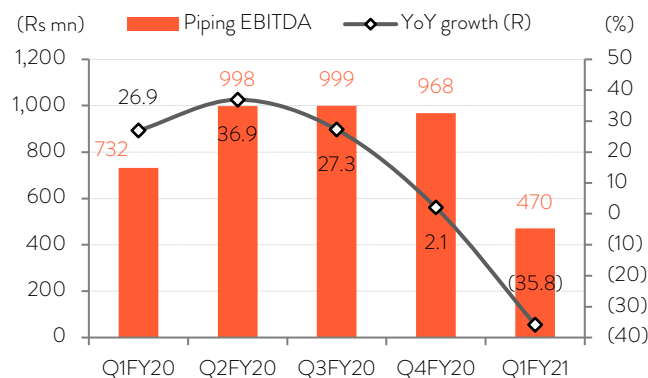
Source: Company, BOBCAPS Research

FIG 8 – STANDALONE PIPING REVENUE GROWTH



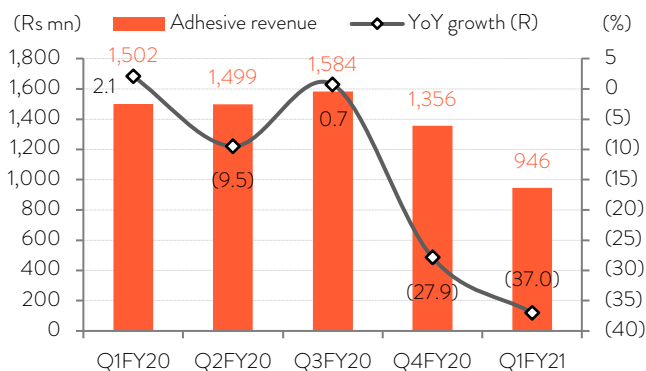
Source: Company, BOBCAPS Research

FIG 9 – STANDALONE PIPING EBITDA GROWTH



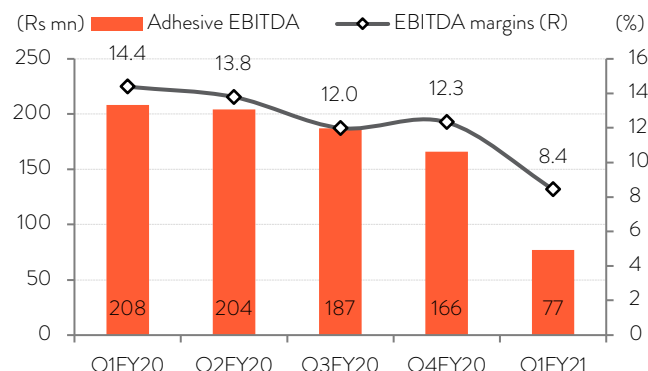
Source: Company, BOBCAPS Research

FIG 10 – STANDALONE ADHESIVES REVENUE GROWTH



Source: Company, BOBCAPS Research

FIG 11 – STANDALONE ADHESIVES EBITDA MARGIN



Source: Company, BOBCAPS Research

Earnings call highlights

- ASTRA's pipe factories restarted operations in end-April to early-May post lockdown-related approvals, whereas its adhesive factories reopened in late-May. All its plants are now open and running at full manpower.
- Demand perked up in the month of July – the decline in pipe volumes slowed to 4% YoY whereas the adhesive segment logged value growth of 26% YoY.
- Sporadic local lockdowns continue to hamper business activity. Management is hopeful that business will normalise by September.
- Construction activity has started to improve from July with many migrant workers returning.
- Management did not offer revenue and margin guidance for FY21 due to the uncertainty surrounding Covid-19.
- ASTRA expects the new pipe facility in Odisha to become operational by end-FY21. With this, the company will save significantly on transportation cost, raising its competitiveness in India's eastern markets.
- The company turned net-debt free as of Jun'20 with surplus cash of Rs 67mn.
- A focus on cash flows resulted in working capital improvement in Q1. Management expects the working capital cycle to improve YoY in FY21.

Piping segment

- Demand for the quarter primarily came from markets beyond metros and tier-I cities as these remained closed due to the pandemic.
- PVC prices began increasing in May and remain on an uptrend. However, the company had an inventory loss of Rs 90mn-100mn during the quarter due to carryover of high-cost inventory from FY20.
- Management does not see any pressure on PVC pipe margins going ahead.
- Export orders for Rs 120mn were bagged in Q1 and will be catered to in Q2.

Adhesive segment

- Channel correction was largely achieved in FY20. The company now has 50% of its dealers on cash-and-carry basis.
- Products have been added across several categories such as construction chemicals, white glue and epoxy.

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 gradual formalisation of the market post GST and e-way bill implementation. Its recent foray into adhesives further boosts growth prospects.

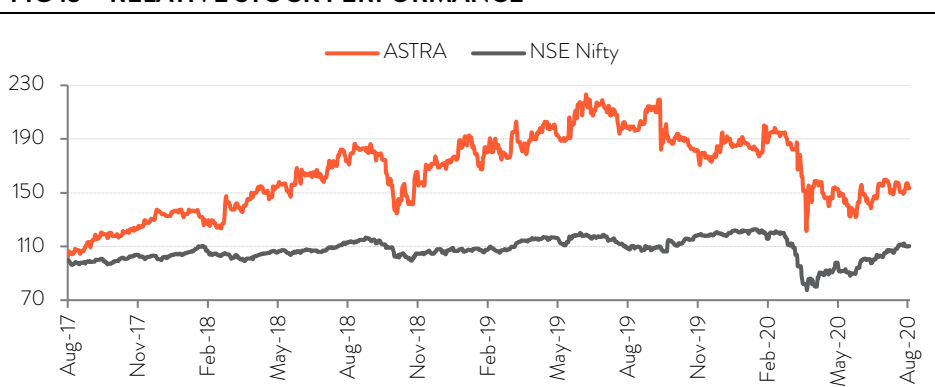
Though we like ASTRA for its strong balance sheet and comprehensive product portfolio, we find current valuations at 46.8x FY22E P/E expensive and thus maintain our REDUCE rating as we await a better entry point. In light of the above-expected Q1FY21 performance, we increase our FY21 earnings estimate by 7% but keep our FY22 forecasts unchanged. We continue to value the stock at 42x one-year forward P/E and roll forward to a revised Sep’21 target price of Rs 975 (earlier Rs 850).

FIG 12 – REVISED ESTIMATES

(Rs mn)	Old		New		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	22,323	30,555	24,376	30,543	9.2	0.0
EBITDA	3,535	5,117	3,721	5,117	5.3	0.0
PAT	1,843	3,057	1,979	3,057	7.4	0.0

Source: Company, BOBCAPS Research

FIG 13 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key upside risks to our estimates are:

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

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue	25,073	25,779	24,376	30,543	36,554
EBITDA	3,853	4,429	3,721	5,117	6,330
Depreciation	(814)	(1,079)	(1,160)	(1,265)	(1,370)
EBIT	3,039	3,350	2,562	3,852	4,960
Net interest income/(expenses)	(320)	(394)	(152)	(71)	(23)
Other income/(expenses)	97	121	165	183	200
Exceptional items	0	0	0	0	0
EBT	2,816	3,077	2,575	3,964	5,138
Income taxes	(808)	(565)	(567)	(872)	(1,182)
Extraordinary items	(34)	0	0	0	0
Min. int./Inc. from associates	(15)	(33)	(30)	(35)	(40)
Reported net profit	1,958	2,479	1,979	3,057	3,916
Adjustments	34	0	0	0	0
Adjusted net profit	1,992	2,479	1,979	3,057	3,916

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Accounts payables	3,897	4,754	3,740	4,602	5,508
Other current liabilities	758	1,149	935	1,172	1,302
Provisions	124	66	73	92	110
Debt funds	2,753	1,270	750	200	100
Equity capital	120	151	151	151	151
Reserves & surplus	12,657	14,878	16,378	18,695	21,426
Shareholders' fund	12,777	15,029	16,529	18,846	21,577
Total liabilities and equities	20,459	22,436	22,224	25,144	28,870
Cash and cash eq.	981	1,301	1,043	2,001	3,653
Accounts receivables	3,391	2,278	3,339	4,184	5,007
Inventories	3,958	5,404	4,141	4,853	5,809
Other current assets	798	759	668	837	1,001
Investments	2	2	2	2	2
Net fixed assets	10,634	12,194	12,534	12,769	12,899
CWIP	808	444	444	444	444
Intangible assets	421	355	355	355	355
Deferred tax assets, net	(533)	(301)	(301)	(301)	(301)
Total assets	20,459	22,436	22,224	25,144	28,870

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Net income + Depreciation	2,772	3,558	3,139	4,322	5,286
Interest expenses	320	394	152	71	23
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(421)	895	(927)	(609)	(889)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	2,671	4,847	2,363	3,784	4,419
Capital expenditures	(3,438)	(2,210)	(1,500)	(1,500)	(1,500)
Change in investments	(2)	0	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(3,440)	(2,210)	(1,500)	(1,500)	(1,500)
Equities issued/Others	25	1	0	0	0
Debt raised/repaid	862	(1,483)	(520)	(550)	(100)
Interest expenses	(320)	(394)	(152)	(71)	(23)
Dividends paid	(187)	(182)	(479)	(740)	(1,185)
Other financing cash flows	934	(260)	30	35	40
Cash flow from financing	1,314	(2,318)	(1,120)	(1,326)	(1,267)
Changes in cash and cash eq.	545	319	(258)	958	1,652
Closing cash and cash eq.	981	1,301	1,043	2,001	3,653

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20P	FY21E	FY22E	FY23E
Reported EPS	13.0	16.5	13.1	20.3	26.0
Adjusted EPS	13.2	16.5	13.1	20.3	26.0
Dividend per share	1.0	1.0	2.6	4.1	6.5
Book value per share	84.8	99.8	109.7	125.1	143.2

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20P	FY21E	FY22E	FY23E
EV/Sales	5.8	5.6	5.9	4.7	3.9
EV/EBITDA	37.6	32.7	38.7	27.9	22.5
Adjusted P/E	71.9	57.7	72.4	46.8	36.6
P/BV	11.2	9.5	8.7	7.6	6.6

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20P	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	70.7	80.6	76.8	77.1	76.2
Interest burden (PBT/EBIT)	92.7	91.9	100.5	102.9	103.6
EBIT margin (EBIT/Revenue)	12.1	13.0	10.5	12.6	13.6
Asset turnover (Revenue/Avg TA)	136.0	120.2	109.2	129.0	135.4
Leverage (Avg TA/Avg Equity)	1.6	1.5	1.4	1.3	1.3
Adjusted ROAE	17.4	17.8	12.5	17.3	19.4

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	19.1	2.8	(5.4)	25.3	19.7
EBITDA	21.6	15.0	(16.0)	37.5	23.7
Adjusted EPS	17.4	24.4	(20.2)	54.5	28.1
Profitability & Return ratios (%)					
EBITDA margin	15.4	17.2	15.3	16.8	17.3
EBIT margin	12.1	13.0	10.5	12.6	13.6
Adjusted profit margin	7.9	9.6	8.1	10.0	10.7
Adjusted ROAE	17.4	17.8	12.5	17.3	19.4
ROCE	15.5	17.0	11.8	16.4	18.5
Working capital days (days)					
Receivables	47	40	42	45	46
Inventory	83	107	110	83	82
Payables	64	74	75	60	61
Ratios (x)					
Gross asset turnover	2.2	1.8	1.5	1.7	1.9
Current ratio	1.5	1.6	1.8	2.0	2.2
Net interest coverage ratio	9.5	8.5	16.9	54.1	220.4
Adjusted debt/equity	0.1	0.0	0.0	(0.1)	(0.2)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

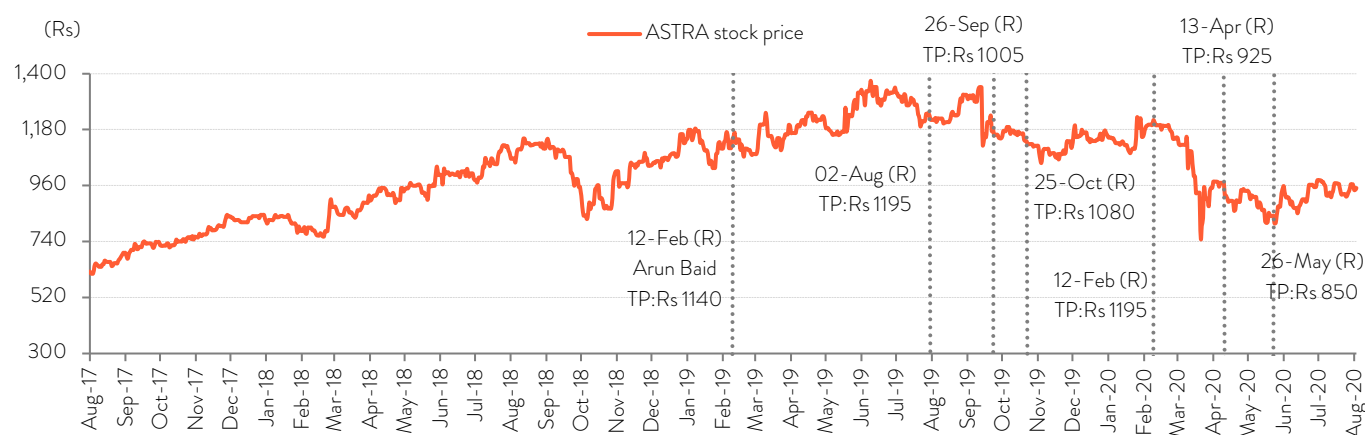
ADD – Expected return from >+5% to +15%

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)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): ASTRAL POLY TECHNIK (ASTRA IN)



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

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