

**REDUCE**

TP: Rs 1,080 | ▼ 4%

**ASTRAL POLY TECHNIK**

Plastic Products

25 October 2019

## Operational performance in line

**Astral Poly Technik's (ASTRA) consolidated revenue grew 8.5% YoY in Q2FY20, aided by piping segment volume growth of 27% (~17% ex-Rex Poly). Pipe revenues grew 14.9% YoY, whereas adhesives declined 9.5%. EBITDA margins expanded 250bps YoY to 17.5% led by the piping business, resulting in EBITDA/PBT growth of 26% YoY each. We marginally raise FY20-FY22 earnings by ~2% each and roll over to a Sep'20 TP of Rs 1,080 (from Rs 1,005). Valuations remain rich at 48.6x FY21E P/E; retain REDUCE.**

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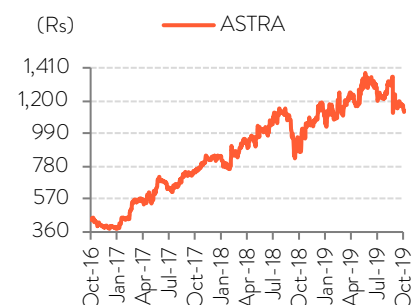
**Rex acquisition spurs volumes:** ASTRA's Q2 consolidated revenue grew 8.5% YoY to Rs 6.8bn, aided by growth in the piping segment. PVC pipe standalone revenues increased 14.1% YoY, but the adhesives business slipped 9.5% due to a change in distribution model that was completed during the quarter. Pipe volumes increased 27% YoY spurred by the Rex acquisition in Q2FY19 (~17% growth ex-Rex). Management retained its FY20 outlook of ~15% volume growth in pipes now with an upward bias, but reduced adhesive guidance to low single digits (from double digits earlier) citing the distribution transition.

Ticker/Price	ASTRA IN/Rs 1,124
Market cap	US\$ 2.4bn
Shares o/s	151mn
3M ADV	US\$ 2.5mn
52wk high/low	Rs 1,380/Rs 852
Promoter/FPI/DII	56%/20%/24%

Source: NSE

**Piping business bolsters margins:** ASTRA's operating margins swelled 250bps YoY to 17.5% aided by a superior showing in the piping segment, which fuelled EBITDA/PBT growth of 26% YoY each. Pipe margins increased ~300bps YoY to 18.3% backed by a price hike taken in CPVC during Q2; management expects profitability to remain robust. Adhesive margins fell ~130bps to 13.8% as some inventory sold earlier was repurchased as part of the distribution shift.

## STOCK PERFORMANCE



Source: NSE

**Valuations high; maintain REDUCE:** Though we like ASTRA for its strong brand name, wide reach and robust pipe portfolio, valuations at 48.6x FY21E P/E are rich. On rollover, our revised Sep'20 TP is Rs 1,080.

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	21,060	25,073	29,726	34,952	40,986
EBITDA (Rs mn)	3,168	3,853	4,851	5,757	6,796
Adj. net profit (Rs mn)	1,697	1,992	2,751	3,484	4,242
Adj. EPS (Rs)	11.3	13.2	18.3	23.1	28.2
Adj. EPS growth (%)	19.9	17.4	38.1	26.6	21.8
Adj. ROAE (%)	18.2	17.4	19.8	21.3	22.0
Adj. P/E (x)	99.8	85.0	61.5	48.6	39.9
EV/EBITDA (x)	54.1	44.3	35.3	29.5	24.8

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)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)
<b>Total revenues</b>	<b>6,783</b>	<b>6,254</b>	<b>8.5</b>	<b>6,066</b>	<b>11.8</b>
Total raw material consumed	4,163	4,150	0.3	3,879	7.3
% of sales	61.4	66.4	(498bps)	63.9	(257bps)
Employee expenses	473	339	39.4	431	9.7
% of sales	7.0	5.4	155bps	7.1	(13bps)
Other expenses	957	822	16.4	825	16.0
% of sales	14.1	13.1	97bps	13.6	51bps
Total expenditure	5,593	5,311	5.3	5,135	8.9
% of sales	82.5	84.9	(246bps)	84.7	(220bps)
<b>EBIDTA</b>	<b>1,190</b>	<b>943</b>	<b>26.2</b>	<b>931</b>	<b>27.8</b>
% of sales	17.5	15.1	246bps	15.3	220bps
Depreciation	272	209	30.1	244	11.5
Other income	30	45	(33.9)	68	(55.9)
Interest cost	57	71	(19.9)	63	(9.5)
<b>PBT</b>	<b>891</b>	<b>708</b>	<b>25.8</b>	<b>692</b>	<b>28.8</b>
Taxes	34	186	(81.7)	202	(83.2)
Effective tax rate (%)	3.8	26.3	(2,244bps)	29.2	(2,537bps)
<b>RPAT before extraordinaries</b>	<b>857</b>	<b>522</b>	<b>64.1</b>	<b>490</b>	<b>74.9</b>
Less: Forex loss/(gain)	32	64	(50.3)	10	220.0
Less: Minority int	(2)	(6)	(63.6)	(7)	(71.4)
Less: Loss from JV	2	7	(72.2)	2	0.0
<b>APAT</b>	<b>853</b>	<b>510</b>	<b>67.4</b>	<b>481</b>	<b>77.3</b>
<b>RPAT</b>	<b>821</b>	<b>445</b>	<b>84.4</b>	<b>471</b>	<b>74.3</b>

Source: Company, BOBCAPS Research

**FIG 2 – SEGMENTAL PERFORMANCE**

Particulars	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)
<b>Revenue (Rs mn)</b>					
Plastics	5,284	4,598	14.9	4,564	15.8
Adhesives	1,499	1,656	(9.5)	1,502	(0.2)
Net Sales	6,783	6,254	8.5	6,066	11.8
<b>EBIT (Rs mn)</b>					
Plastics	774	499	55.1	466	66.1
Adhesives	186	268	(30.6)	221	(15.8)
Total	960	767	25.2	687	39.7
<b>EBIT Margin (%)</b>					
Plastics	14.6	10.9	380bps	10.2	444bps
Adhesives	12.4	16.2	(378bps)	14.7	(231bps)

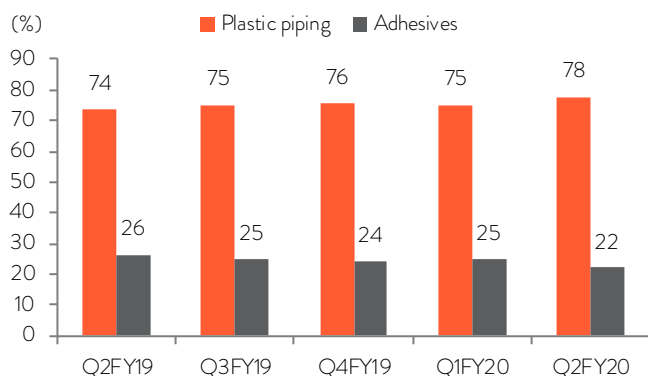
Source: Company, BOBCAPS Research

**FIG 3 – STANDALONE QUARTERLY PERFORMANCE**

(Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)
<b>Total revenues</b>	<b>5,446</b>	<b>4,774</b>	<b>14.1</b>	<b>4,725</b>	<b>15.3</b>
Total raw material consumed	3,429	3,244	5.7	3,129	9.6
% of sales	63.0	68.0	(499bps)	66.2	(326bps)
Employee expenses	275	180	52.8	250	10.0
% of sales	5.0	3.8	128bps	5.3	(24bps)
Other expenses	744	621	19.8	614	21.2
% of sales	13.7	13.0	65bps	13.0	67bps
Total expenditure	4,448	4,045	10.0	3,993	11.4
% of sales	81.7	84.7	(306bps)	84.5	(283bps)
<b>EBITDA</b>	<b>998</b>	<b>729</b>	<b>36.9</b>	<b>732</b>	<b>36.3</b>
% of sales	18.3	15.3	306bps	15.5	283bps
Depreciation	225	175	28.6	204	10.3
Other income	27	22	22.7	59	(54.2)
Interest cost	43	61	(29.5)	60	(28.3)
<b>PBT</b>	<b>757</b>	<b>515</b>	<b>47.0</b>	<b>527</b>	<b>43.6</b>
Taxes	26	159	(83.6)	186	(86.0)
Effective tax rate (%)	3.4	30.9	(2,744bps)	35.3	(3,186bps)
<b>APAT</b>	<b>731</b>	<b>356</b>	<b>105.3</b>	<b>341</b>	<b>114.4</b>
Forex	(34)	(53)	(35.8)	0	NA
<b>RPAT</b>	<b>697</b>	<b>303</b>	<b>130.0</b>	<b>341</b>	<b>104.4</b>

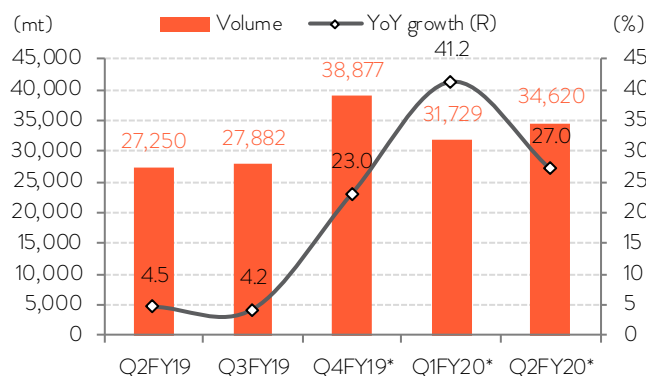
Source: Company, BOBCAPS Research

**FIG 4 – CONSOLIDATED REVENUE MIX**



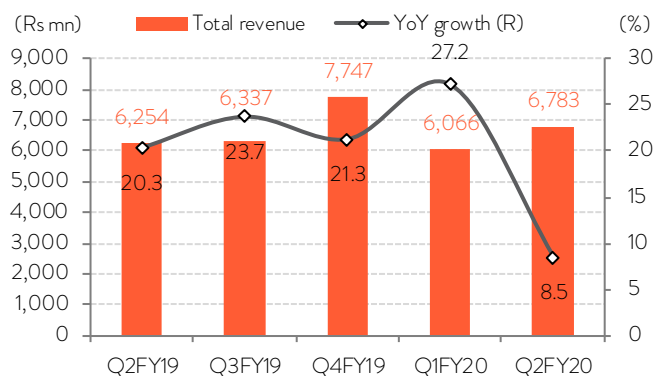
Source: Company, BOBCAPS Research

**FIG 5 – PIPING VOLUME GROWTH**



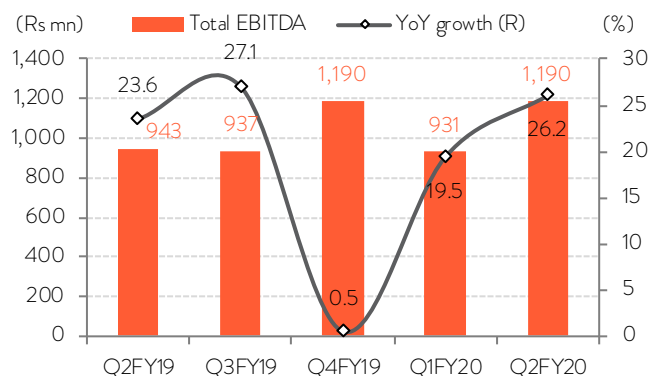
Source: Company, BOBCAPS Research | \*Includes Rex volumes

**FIG 6 – CONSOLIDATED REVENUE GROWTH**



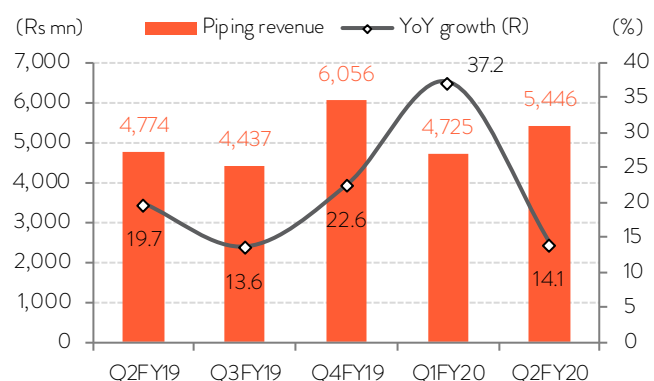
Source: Company, BOBCAPS Research

**FIG 7 – CONSOLIDATED EBITDA GROWTH**



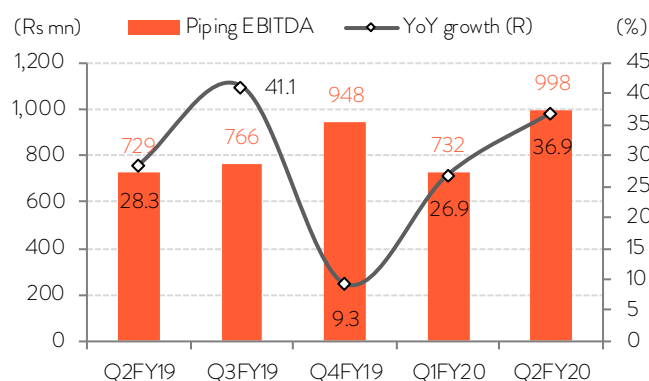
Source: Company, BOBCAPS Research

**FIG 8 – STANDALONE PIPING REVENUE GROWTH**



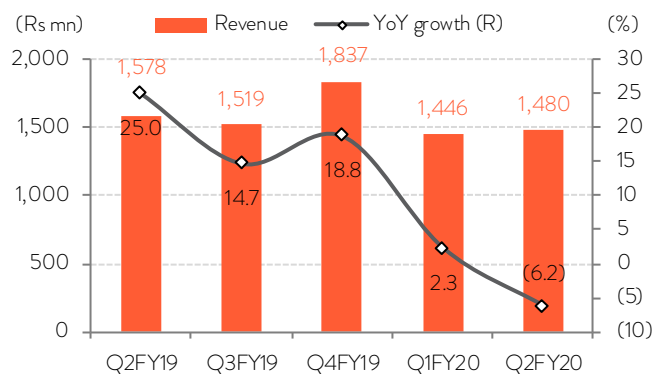
Source: Company, BOBCAPS Research

**FIG 9 – STANDALONE PIPING EBITDA GROWTH**



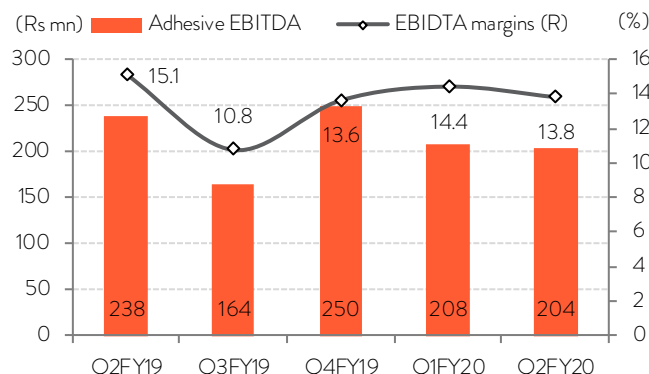
Source: Company, BOBCAPS Research

**FIG 10 – ADHESIVES REVENUE GROWTH**



Source: Company, BOBCAPS Research

**FIG 11 – ADHESIVES EBITDA MARGIN**



Source: Company, BOBCAPS Research

## Earnings call highlights

- ASTRA expects the new pipe facility in Orissa to be operational by end-FY21.
- Capex in FY20 will total Rs 1.25bn-1.5bn, largely in the piping segment.
- As per management, the promoters do not intend to sell any more shares in the next 6-12 months.

## Piping segment

- Piping volumes are guided to grow 15% in FY20, but with an added upward bias given the strong growth in H1 (~22% YoY).
- Plumbing pipes remain a major category for the company and performed well during the quarter.
- The imposition of anti-dumping duty on CPVC from markets such as China and Korea has benefited the company, and management expects to see sustained growth momentum in this segment.
- The anti-dumping duty is for six months till end FY20 but may continue well beyond that.
- ASTRA has taken price increases of 3%/5% in Aug/Sep'19 for the CPVC segment; full benefits will be visible in Q3FY20.

## Adhesives segment

- The India adhesives business saw tepid growth in Q2 as ASTRA was transiting from a three-tier distribution setup to a two-tier framework. This shift has been completed in Q2 and hence growth is guided to revive in coming quarters.
- H2FY20 is guided to clock double-digit revenue growth from the segment with some margin improvement as compared to H1.
- Management has reduced adhesive volume growth guidance for FY20 to low single digits (from double digits earlier) citing the distribution transition.
- The UK adhesives subsidiary registered 5-6% YoY revenue growth for the quarter with double-digit operating margins.

### 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.

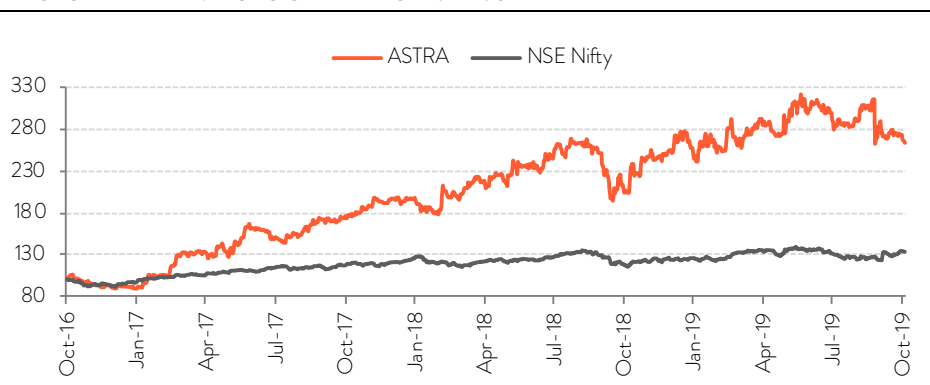
We marginally raise FY20-FY22 earnings estimates by ~2% each to bake in the Q2FY20 results and expect ASTRA to clock a healthy revenue/PAT CAGR of 18%/32% over FY19-FY21, aided by the recent acquisition of Rex Poly. Though we like the company for its growth prospects, we find current valuations at 48.6x 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 Sep’20 target price of Rs 1,080 (from Rs 1,005).

**FIG 12 – REVISED ESTIMATES**

(Rs mn)	Old			New			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	30,337	35,700	41,902	29,726	34,952	40,986	(2.0)	(2.1)	(2.2)
EBITDA	4,685	5,538	6,511	4,851	5,757	6,796	3.5	4.0	4.4
PAT	2,709	3,407	4,158	2,751	3,484	4,242	1.5	2.2	2.0

Source: Company, BOBCAPS Research

**FIG 13 – 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	FY19A	FY20E	FY21E	FY22E
<b>Total revenue</b>	<b>21,060</b>	<b>25,073</b>	<b>29,726</b>	<b>34,952</b>	<b>40,986</b>
EBITDA	3,168	3,853	4,851	5,757	6,796
Depreciation	(571)	(814)	(1,050)	(1,131)	(1,241)
EBIT	2,597	3,039	3,801	4,626	5,555
Net interest income/(expenses)	(216)	(320)	(253)	(128)	(47)
Other income/(expenses)	40	97	177	219	240
Exceptional items	0	0	0	0	0
EBT	2,421	2,816	3,725	4,716	5,748
Income taxes	(724)	(808)	(954)	(1,207)	(1,472)
Extraordinary items	59	(34)	0	0	0
Min. int./Inc. from associates	0	(15)	(20)	(25)	(35)
<b>Reported net profit</b>	<b>1,757</b>	<b>1,958</b>	<b>2,751</b>	<b>3,484</b>	<b>4,242</b>
Adjustments	(59)	34	0	0	0
<b>Adjusted net profit</b>	<b>1,697</b>	<b>1,992</b>	<b>2,751</b>	<b>3,484</b>	<b>4,242</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	3,491	3,897	4,561	5,362	6,288
Other current liabilities	688	758	977	958	1,123
Provisions	34	124	30	35	41
Debt funds	1,891	2,753	1,300	750	0
Other liabilities	0	0	0	0	0
Equity capital	120	120	151	151	151
Reserves & surplus	10,063	12,657	14,879	17,519	20,735
Shareholders' fund	10,182	12,777	15,029	17,670	20,885
<b>Total liabilities and equities</b>	<b>16,420</b>	<b>20,459</b>	<b>22,067</b>	<b>24,970</b>	<b>28,568</b>
Cash and cash eq.	437	983	840	1,714	3,359
Accounts receivables	3,067	3,391	3,991	4,692	5,390
Inventories	3,572	3,958	4,642	5,458	6,288
Other current assets	519	798	814	958	1,123
Investments	0	0	0	0	0
Net fixed assets	8,402	10,634	11,505	11,873	12,133
CWIP	731	808	808	808	808
Intangible assets	23	421	0	0	0
Deferred tax assets, net	(331)	(533)	(533)	(533)	(533)
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>16,420</b>	<b>20,459</b>	<b>22,067</b>	<b>24,970</b>	<b>28,568</b>

Source: Company, BOBCAPS Research

### Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	2,328	2,772	3,801	4,615	5,483
Interest expenses	216	320	253	128	47
Non-cash adjustments	0	0	0	0	0
Changes in working capital	356	(421)	(512)	(874)	(596)
Other operating cash flows	0	0	0	0	0
<b>Cash flow from operations</b>	<b>2,899</b>	<b>2,671</b>	<b>3,542</b>	<b>3,870</b>	<b>4,933</b>
Capital expenditures	(2,078)	(3,438)	(1,500)	(1,500)	(1,500)
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>(3,440)</b>	<b>(1,499)</b>	<b>(1,500)</b>	<b>(1,500)</b>
Equities issued/Others	0	25	1	0	0
Debt raised/repaid	(399)	862	(1,453)	(550)	(750)
Interest expenses	(216)	(320)	(253)	(128)	(47)
Dividends paid	(79)	(187)	(499)	(843)	(1,027)
Other financing cash flows	127	934	20	25	35
<b>Cash flow from financing</b>	<b>(567)</b>	<b>1,314</b>	<b>(2,184)</b>	<b>(1,496)</b>	<b>(1,788)</b>
<b>Changes in cash and cash eq.</b>	<b>255</b>	<b>545</b>	<b>(141)</b>	<b>873</b>	<b>1,645</b>
<b>Closing cash and cash eq.</b>	<b>437</b>	<b>981</b>	<b>840</b>	<b>1,714</b>	<b>3,359</b>

### Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	11.7	13.0	18.3	23.1	28.2
Adjusted EPS	11.3	13.2	18.3	23.1	28.2
Dividend per share	0.5	1.0	2.7	4.6	5.6
Book value per share	67.6	84.8	99.8	117.3	138.6

### Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	8.1	6.8	5.8	4.9	4.1
EV/EBITDA	54.1	44.3	35.3	29.5	24.8
Adjusted P/E	99.8	85.0	61.5	48.6	39.9
P/BV	16.6	13.3	11.3	9.6	8.1

### DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	70.1	70.7	73.9	73.9	73.8
Interest burden (PBT/EBIT)	93.2	92.7	98.0	102.0	103.5
EBIT margin (EBIT/Revenue)	12.3	12.1	12.8	13.2	13.6
Asset turnover (Revenue/Avg TA)	136.9	136.0	139.8	148.6	153.1
Leverage (Avg TA/Avg Equity)	1.6	1.6	1.5	1.4	1.4
Adjusted ROAE	18.2	17.4	19.8	21.3	22.0

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



### Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
<b>YoY growth (%)</b>					
Revenue	11.2	19.1	18.6	17.6	17.3
EBITDA	20.0	21.6	25.9	18.7	18.0
Adjusted EPS	19.9	17.4	38.1	26.6	21.8
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	15.0	15.4	16.3	16.5	16.6
EBIT margin	12.3	12.1	12.8	13.2	13.6
Adjusted profit margin	8.1	7.9	9.3	10.0	10.3
Adjusted ROAE	18.2	17.4	19.8	21.3	22.0
ROCE	15.8	15.5	17.6	19.6	20.8
<b>Working capital days (days)</b>					
Receivables	56	47	45	45	45
Inventory	83	83	81	81	81
Payables	65	64	62	62	62
<b>Ratios (x)</b>					
Gross asset turnover	2.3	2.2	2.2	2.3	2.4
Current ratio	1.5	1.5	1.7	1.9	2.2
Net interest coverage ratio	12.0	9.5	15.0	36.1	118.5
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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