

REDUCE

TP: Rs 1,195 | ▼ 1%

ASTRAL POLY TECHNIK

Plastic Products

12 February 2020

Pipe segment continues to lead growth

Astral Poly Technik's (ASTRA) Q3FY20 consolidated revenue grew 5.4% YoY, aided by pipe segment volume growth of 15% (~6.5% ex-Rex). Pipe revenue grew 6.5% YoY whereas adhesive revenue was flat YoY. EBITDA margins expanded 290bps YoY to 17.8% led by the pipe business, resulting in EBITDA/PBT growth of 26%/30% YoY. We marginally raise FY20-FY22 earnings by 1-3% and roll to a Mar'21 TP of Rs 1,195 (from Rs 1,080). Maintain REDUCE as current valuations at 42.5x FY22E P/E offer limited upside.

Arun Baid

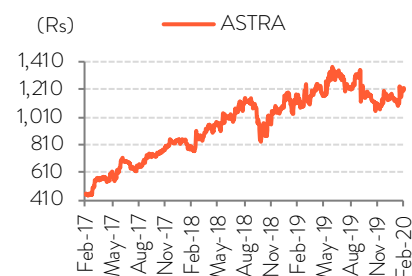
research@bobcaps.in

Decent volume growth: ASTRA's Q3 consolidated revenue grew 5.4% YoY to Rs 6.6bn, aided by growth in the pipe segment. PVC pipe standalone revenues increased 6.5% YoY, whereas the adhesives business was flat YoY due to a change in distribution model. Pipe volumes grew 15% YoY (~6.5% ex-Rex Poly). Management expects 10-15% volume growth in pipes and at least double-digit growth in adhesives in FY21.

Ticker/Price	ASTRA IN/Rs 1,211
Market cap	US\$ 2.6bn
Shares o/s	151mn
3M ADV	US\$ 1.9mn
52wk high/low	Rs 1,380/Rs 951
Promoter/FPI/DII	56%/18%/27%

Source: NSE

Pipe business bolsters margins: ASTRA's operating margins swelled 290bps YoY to 17.8% aided by a superior showing in the pipe segment, which fuelled EBITDA/PBT growth of 26%/30% YoY. Pipe margins expanded 315bps YoY (90bps QoQ) to 19.2% backed by a price hike taken in CPVC. Lower raw material cost aided a 120bps increase in adhesive margins to 12%. Management expects profit growth to remain higher than revenue growth in FY21 as well.

STOCK PERFORMANCE

Source: NSE

Valuations high; maintain REDUCE: ASTRA has a strong brand name, wide reach and robust pipe portfolio. But current valuations at 42.5x FY22E P/E offer little upside; we thus maintain REDUCE with a revised target price of Rs 1,195 set at 42x PER FY22E.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	21,060	25,073	29,005	33,921	39,561
EBITDA (Rs mn)	3,168	3,853	4,919	5,816	6,828
Adj. net profit (Rs mn)	1,697	1,992	2,796	3,578	4,317
Adj. EPS (Rs)	11.3	13.2	18.6	23.7	28.7
Adj. EPS growth (%)	19.9	17.4	40.3	28.0	20.7
Adj. ROAE (%)	18.2	17.4	20.1	21.8	22.2
Adj. P/E (x)	107.5	91.5	65.2	51.0	42.3
EV/EBITDA (x)	58.1	47.8	37.4	31.5	26.6

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 – STANDALONE QUARTERLY PERFORMANCE

(Rs mn)	Q3FY20	Q2FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Total revenues	5,200	4,884	6.5	5,446	(4.5)	15,371	13,101	17.3
Total raw material consumed	3,198	3,316	(3.6)	3,429	(6.7)	9,756	8,740	11.6
% of sales	61.5	67.9	(640bps)	63.0	(146bps)	63.5	66.7	(324bps)
Employee expense	232	217	6.9	275	(15.6)	757	561	34.9
% of sales	4.5	4.4	2bps	5.0	(59bps)	4.9	4.3	64bps
Other expense	771	566	36.2	744	3.6	2,129	1,709	24.6
% of sales	14.8	11.6	324bps	13.7	117bps	13.9	13.0	81bps
Total expenditure	4,201	4,099	2.5	4,448	(5.6)	12,642	11,010	14.8
% of sales	80.8	83.9	(314bps)	81.7	(89bps)	82.2	84.0	(179bps)
EBITDA	999	785	27.3	998	0.1	2,729	2,091	30.5
% of sales	19.2	16.1	314bps	18.3	89bps	17.8	16.0	179bps
Depreciation	228.0	184.0	23.9	225.0	1.3	657.0	486.0	35.2
Other income	23.0	24.0	(4.2)	27.0	(14.8)	109.0	86.0	26.7
Interest cost	40.0	65.0	(38.5)	43.0	(7.0)	135.0	157.0	(14.0)
PBT	754	560	34.6	757	(0.4)	2,046	1,534	33.4
Taxes	187.0	217.0	(13.8)	26.0	619.2	399.0	508.0	(21.5)
Effective tax rate (%)	24.8	38.8	(1,395bps)	3.4	2,137bps	19.5	33.1	(1,361bps)
APAT	567	343	65.3	731	(22.4)	1,647	1,026	60.5
Forex	10.0	52.5	(81.0)	(34.0)	(129.4)	(32.0)	(80.0)	(60.0)
RPAT	577	395.5	45.9	697	(17.2)	1,615	946	70.7

Source: Company, BOBCAPS Research

FIG 2 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Total revenues	6,641	6,302	5.4	6,783	(2.1)	19,490	17,326	12.5
Total raw material consumed	4,013	4,185	(4.1)	4,163	(3.6)	12,055	11,330	6.4
% of sales	60.4	66.4	(598bps)	61.4	(95bps)	61.9	65.4	(354bps)
Employee expense	431	387	11.4	473	(8.9)	1,335	1,031	29.5
% of sales	6.5	6.1	35bps	7.0	(48bps)	6.8	6.0	90bps
Other expense	1,015	793	28.0	957	6.1	2,797	2,305	21.3
% of sales	15.3	12.6	270bps	14.1	118bps	14.4	13.3	105bps
Total expenditure	5,459	5,365	1.8	5,593	(2.4)	16,187	14,666	10.4
% of sales	82.2	85.1	(293bps)	82.5	(25bps)	83.1	84.6	(159bps)
EBITDA	1,182	937	26.1	1190	(0.7)	3,303	2,660	24.2
% of sales	17.8	14.9	293bps	17.5	25bps	16.9	15.4	159bps
Depreciation	274.0	221.0	24.0	272.0	0.7	790.0	591.0	33.7
Other income	22.0	32.0	(31.3)	30.0	(26.7)	120.0	116.0	3.4
Interest cost	54.0	74.0	(27.0)	57.0	(5.3)	174.0	184.0	(5.4)
PBT	876	674	30.0	891	(1.7)	2,459	2,001	22.9
Taxes	194.0	226.0	(14.2)	34.0	470.6	430.0	569.0	(24.4)
Effective tax rate (%)	22.1	33.5	(1,139bps)	3.8	1,833bps	17.5	28.4	(1,095bps)
RPAT before extraordinary	682	448	52.2	857	(20.4)	2,029	1,432	41.7
Less: forex loss/(gain)	(3.0)	(66.0)	(95.5)	32.0	(109.4)	39.0	76.0	(48.7)
Less: minority int	(3.0)	(3.0)	0.0	(2.0)	50.0	(12.0)	(12.0)	0.0
Less: Loss from JV	6.0	(8.0)	(175.0)	2.0	200.0	10.0	7.0	42.9
APAT	673	453	48.6	853	(21.1)	2,007	1,413	42.0

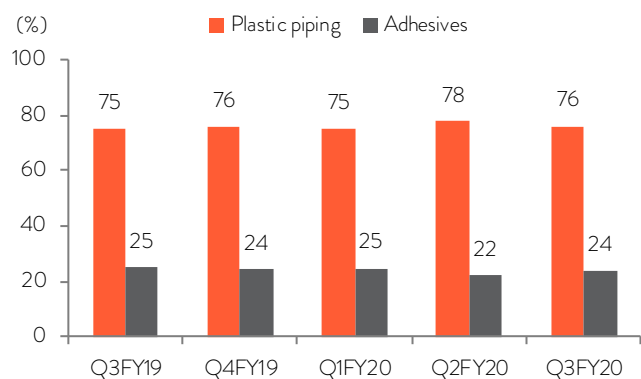
Source: Company, BOBCAPS Research

FIG 3 – CONSOLIDATED SEGMENTAL PERFORMANCE

Particulars	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)
Revenue					
Plastics	5,057	4,729	6.9	5,284	(4.3)
Adhesives	1,584	1,573	0.7	1,499	5.7
Total Net Sales	6,641	6,302	5.4	6,783	(2.1)
EBIT					
Plastics	733	495	48.1	774	(5.3)
Adhesives	176	190	(7.4)	186	(5.4)
Total	909	685	32.7	960	(5.3)
EBIT Margin (%)					
Plastics	14.5	10.5	403bps	14.6	(15bps)
Adhesives	11.1	12.1	(97bps)	12.4	(130bps)

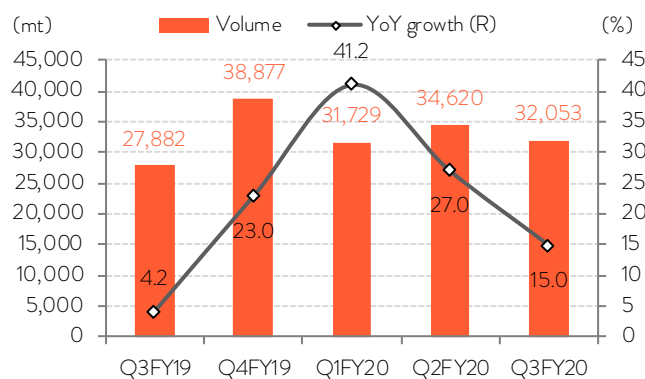
Source: Company, BOBCAPS Research

FIG 4 – CONSOLIDATED REVENUE MIX



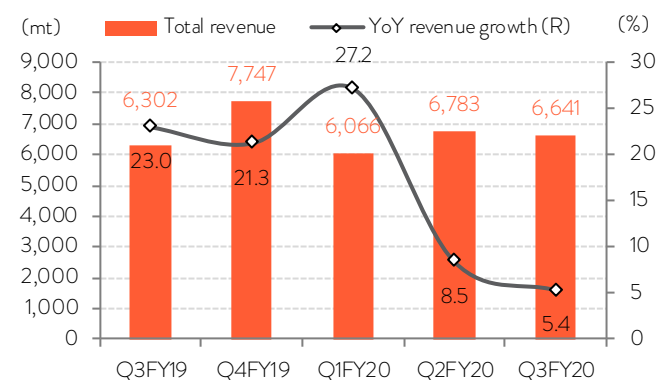
Source: Company, BOBCAPS Research

FIG 5 – PIPE VOLUME GROWTH



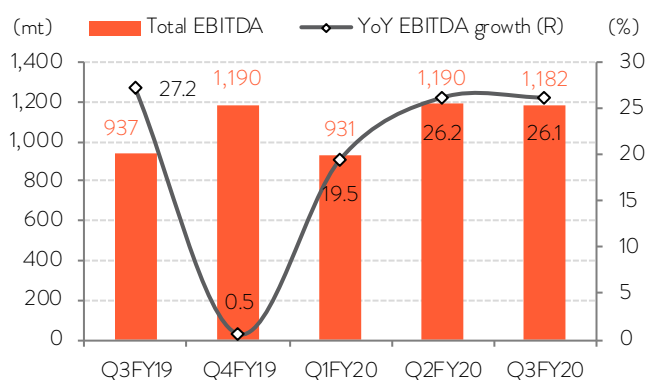
Source: Company, BOBCAPS Research | *Includes Rex volumes

FIG 6 – CONSOLIDATED REVENUE GROWTH



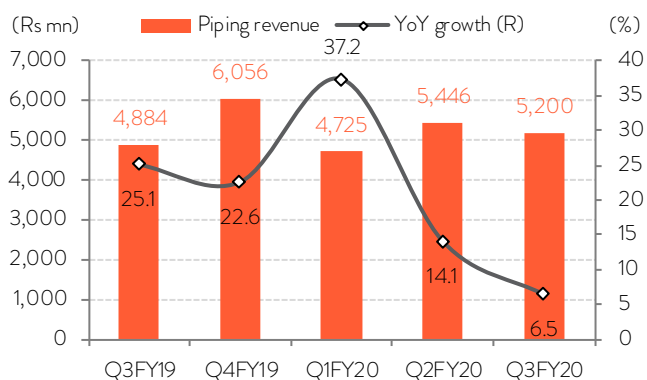
Source: Company, BOBCAPS Research

FIG 7 – CONSOLIDATED EBITDA GROWTH



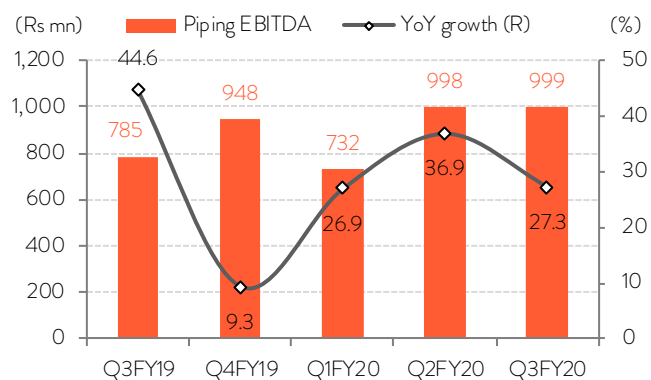
Source: Company, BOBCAPS Research

FIG 8 – STANDALONE PIPE REVENUE GROWTH



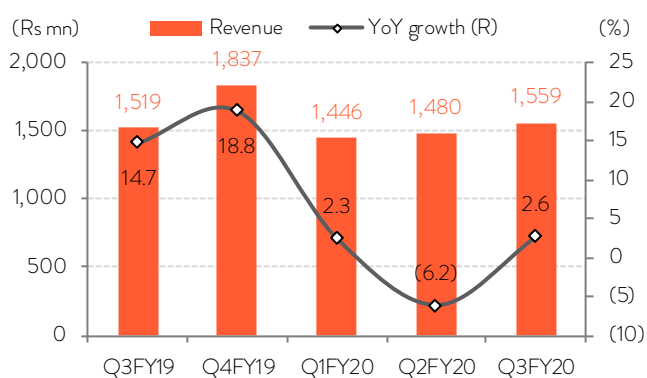
Source: Company, BOBCAPS Research

FIG 9 – STANDALONE PIPE EBITDA GROWTH



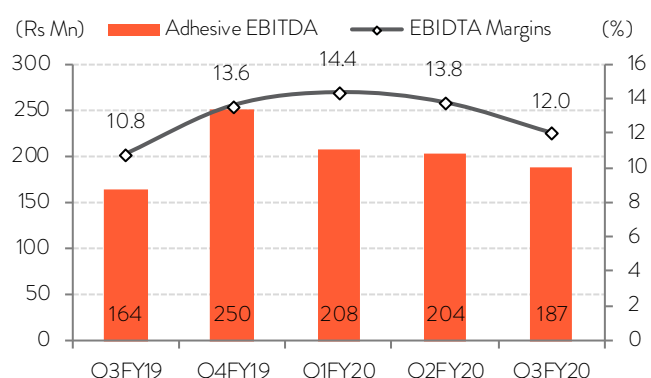
Source: Company, BOBCAPS Research

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 Odisha to become operational by Q3FY21. Expansion at the Hosur (Tamil Nadu) plant is complete while that at Gehlot, Rajasthan, will conclude by end-FY20.
- Capex is pegged at Rs 1.8bn in FY20 and ~Rs 1bn in FY21.
- The company is keeping a tight lid on working capital days. It has reduced debtor days from 31 to 26 days and plans to bring this down further to 20 days in FY21.
- Debt totals ~Rs 1.4bn currently which ASTRA plans to repay in FY21.
- Bollywood actor Ranveer Singh has come onboard as the new brand ambassador for three years starting FY21. Nonetheless, management expects A&P spend to remain in the historical range.
- Profit growth is guided to remain higher than revenue growth in FY21 as well.

Pipe segment

- ASTRA believes extension of the anti-dumping duty (ADD) on CPVC will be formalised soon and expects the prevailing rates to continue. ADD imposed on markets such as China and Korea has benefited the company and management expects sustained growth momentum in this segment.
- Pipe volumes are guided to grow 10-15% in FY21.
- Subsidiary Rex has posted lower revenues in 9MFY20 due to the reduced infrastructure spend and also some working capital corrections. As the government's spend on infrastructure gathers pace, management expects Rex to see better growth momentum ahead.

Adhesives segment

- The India adhesives business saw tepid growth in Q3 as ASTRA was transiting from a three-tier distribution setup to a two-tier framework. This shift has now been completed and the company expects the business to grow in Q4.
- Management has guided for double-digit growth in adhesives in FY21 and further improvement in margins.
- A new adhesives facility is being planned in Dahej (Gujarat) which will take two years to complete.

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.

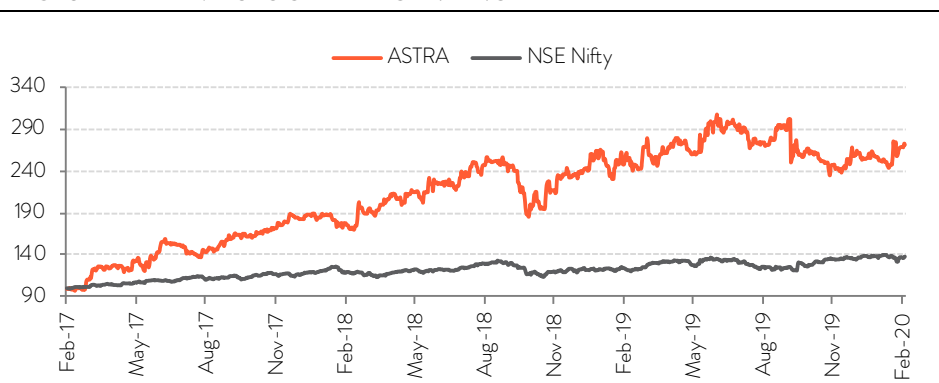
We marginally raise FY20-FY22 earnings estimates by 1-3% to bake in the Q3FY20 results, and expect ASTRA to clock a healthy revenue/PAT CAGR of 16%/29% over FY19-FY22. Though we like the company for its growth prospects, we find current valuations at 42.5x FY22E P/E offer limited upside and thus maintain our REDUCE rating. We continue to value the stock at 42x one-year forward P/E and roll forward to a revised Mar’21 target price of Rs 1,195 (from Rs 1,080).

FIG 12 – REVISED ESTIMATES

(Rs mn)	Old			New			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	29,726	34,952	40,986	29,005	33,921	39,561	(2.4)	(2.9)	(3.5)
EBITDA	4,851	5,757	6,796	4,919	5,816	6,828	1.4	1.0	0.5
PAT	2,751	3,484	4,242	2,796	3,547	4,317	1.6	2.7	1.8

Source: BOBCAPS Research, Company

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
Total revenue	21,060	25,073	29,005	33,921	39,561
EBITDA	3,168	3,853	4,919	5,816	6,828
Depreciation	(571)	(814)	(1,078)	(1,131)	(1,241)
EBIT	2,597	3,039	3,841	4,685	5,587
Net interest income/(expenses)	(216)	(320)	(253)	(128)	(47)
Other income/(expenses)	40	97	177	260	279
Exceptional items	0	0	0	0	0
EBT	2,421	2,816	3,764	4,817	5,819
Income taxes	(724)	(808)	(949)	(1,214)	(1,466)
Extraordinary items	59	(34)	0	0	0
Min. int./Inc. from associates	0	(15)	(20)	(25)	(35)
Reported net profit	1,757	1,958	2,796	3,578	4,317
Adjustments	(59)	34	0	0	0
Adjusted net profit	1,697	1,992	2,796	3,578	4,317

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	3,491	3,897	4,450	5,204	6,070
Other current liabilities	688	758	954	929	1,084
Provisions	34	124	29	34	40
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	14,915	17,627	20,899
Shareholders' fund	10,182	12,777	15,066	17,778	21,050
Total liabilities and equities	16,420	20,459	21,969	24,890	28,474
Cash and cash eq.	437	983	999	1,990	3,738
Accounts receivables	3,067	3,391	3,894	4,554	5,203
Inventories	3,572	3,958	4,530	5,297	6,070
Other current assets	519	798	795	929	1,084
Investments	0	0	0	0	0
Net fixed assets	8,402	10,634	11,477	11,845	12,105
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
Total assets	16,420	20,459	21,969	24,890	28,474

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	2,328	2,772	3,873	4,709	5,558
Interest expenses	216	320	253	128	47
Non-cash adjustments	0	0	0	0	0
Changes in working capital	356	(421)	(418)	(827)	(550)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	2,899	2,671	3,709	4,010	5,055
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
Cash flow from investing	(2,078)	(3,440)	(1,499)	(1,500)	(1,500)
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)	(507)	(866)	(1,045)
Other financing cash flows	127	934	20	25	35
Cash flow from financing	(567)	1,314	(2,193)	(1,519)	(1,807)
Changes in cash and cash eq.	255	545	18	991	1,748
Closing cash and cash eq.	437	981	999	1,990	3,738

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	11.7	13.0	18.6	23.7	28.7
Adjusted EPS	11.3	13.2	18.6	23.7	28.7
Dividend per share	0.5	1.0	2.8	4.7	5.7
Book value per share	67.6	84.8	100.0	118.0	139.7

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	8.7	7.3	6.3	5.4	4.6
EV/EBITDA	58.1	47.8	37.4	31.5	26.6
Adjusted P/E	107.5	91.5	65.2	51.0	42.3
P/BV	17.9	14.3	12.1	10.3	8.7

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	70.1	70.7	74.3	74.3	74.2
Interest burden (PBT/EBIT)	93.2	92.7	98.0	102.8	104.1
EBIT margin (EBIT/Revenue)	12.3	12.1	13.2	13.8	14.1
Asset turnover (Revenue/Avg TA)	136.9	136.0	136.7	144.8	148.3
Leverage (Avg TA/Avg Equity)	1.6	1.6	1.5	1.4	1.4
Adjusted ROAE	18.2	17.4	20.1	21.8	22.2

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	11.2	19.1	15.7	16.9	16.6
EBITDA	20.0	21.6	27.7	18.2	17.4
Adjusted EPS	19.9	17.4	40.3	28.0	20.7
Profitability & Return ratios (%)					
EBITDA margin	15.0	15.4	17.0	17.1	17.3
EBIT margin	12.3	12.1	13.2	13.8	14.1
Adjusted profit margin	8.1	7.9	9.6	10.5	10.9
Adjusted ROAE	18.2	17.4	20.1	21.8	22.2
ROCE	15.8	15.5	17.8	19.9	20.9
Working capital days (days)					
Receivables	56	47	46	45	45
Inventory	83	83	83	82	83
Payables	65	64	63	63	63
Ratios (x)					
Gross asset turnover	2.3	2.2	2.1	2.2	2.3
Current ratio	1.5	1.5	1.7	2.0	2.2
Net interest coverage ratio	12.0	9.5	15.2	36.6	119.2
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%

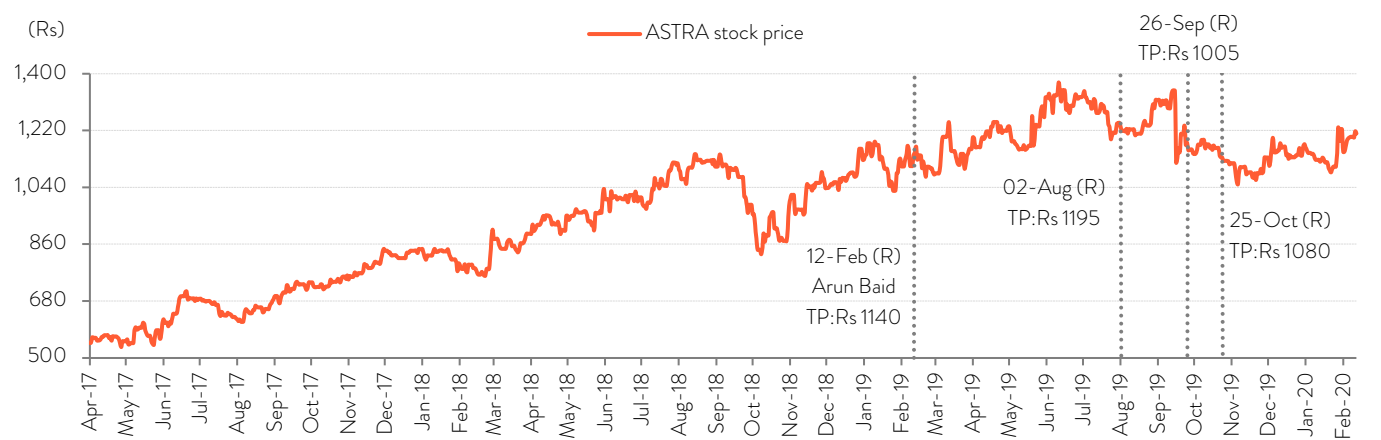
ADD – Expected return from >+5% to +15%

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

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