

REDUCE

TP: Rs 850 | ▲ 5%

ASTRAL POLY TECHNIK

Plastic Products

26 May 2020

Volumes hit due to lockdown, maintain REDUCE

Astral Poly Technik's (ASTRA) Q4FY20 performance was disappointing, with consolidated revenue dropping 19% YoY and pipe volumes down 13%. Pipe/adhesive revenues declined 16%/28% YoY. EBITDA margins increased 255bps YoY to 17.9% led by the piping business, limiting the EBITDA/PBT decline to 5%/14% YoY. Management has not put out guidance for FY21 due to Covid-19. We trim our FY21/FY22 PAT estimates by ~8% each and maintain REDUCE with a revised Mar'21 TP of Rs 850 (earlier Rs 925).

Arun Baid

research@bobcaps.in

Lockdown hits volume growth: Pipe volumes decreased 13% YoY in Q4, prompting a 19% YoY decline in consolidated revenue to Rs 6.3bn. Standalone PVC pipe/adhesive revenues decreased 16%/28% YoY due to the nationwide lockdown. As per management, the company was on track for a healthy growth quarter until the lockdown was imposed (revenue loss pegged at ~Rs 1.75bn in the pipe segment and ~Rs 500mn in adhesives).

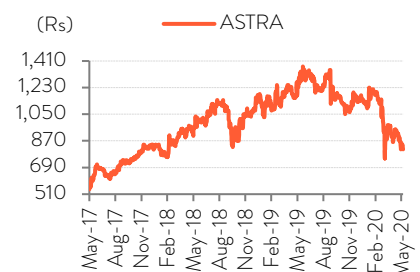
Piping business bolsters margins: ASTRA's operating margins swelled 255bps YoY to 17.9% aided by lower raw material cost in the piping segment. Consequently, despite the steep revenue decline, EBITDA/PBT fell at a slower 5%/14% YoY. Pipe margins increased 348bps YoY to 19.1% whereas adhesive margins fell 130bps to 12.3% due to ongoing channel corrections by the company.

Valuations high; maintain REDUCE: We cut our FY21/FY22 PAT estimates by ~8% each due to the below-expected Q4 performance and continued demand headwinds from Covid-19. Though we like ASTRA for its strong brand name, wide reach and robust pipe portfolio, valuations at 40x FY22E P/E are rich. Maintain REDUCE with a revised Mar'21 TP of Rs 850 (earlier Rs 925), set at 42x one-year forward P/E.

Ticker/Price	ASTRA IN/Rs 812
Market cap	US\$ 1.6bn
Shares o/s	151mn
3M ADV	US\$ 1.3mn
52wk high/low	Rs 1,380/Rs 746
Promoter/FPI/DII	56%/17%/27%

Source: NSE

STOCK PERFORMANCE



KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	21,060	25,073	25,779	22,323	30,555
EBITDA (Rs mn)	3,168	3,853	4,429	3,535	5,117
Adj. net profit (Rs mn)	1,697	1,992	2,479	1,843	3,057
Adj. EPS (Rs)	11.3	13.2	16.5	12.2	20.3
Adj. EPS growth (%)	19.9	17.4	24.4	(25.7)	65.9
Adj. ROAE (%)	18.2	17.4	17.8	11.7	17.4
Adj. P/E (x)	72.1	61.4	49.4	66.4	40.0
EV/EBITDA (x)	39.2	32.2	28.0	34.9	23.9

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)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Total revenues	6,289	7,747	(18.8)	6,641	(5.3)	25,779	25,073	2.8
Total raw material consumed	3,902	5,147	(24.2)	4,013	(2.8)	15,957	16,477	(3.2)
% of sales	62.0	66.4	(439bps)	60.4	162bps	61.9	65.7	(382bps)
Employee expense	417	361	15.5	431	(3.2)	1,752	1,391	25.9
% of sales	6.6	4.7	197bps	6.5	14bps	6.8	5.5	125bps
Other exp	844	1,050	(19.6)	1,015	(16.8)	3,641	3,355	8.5
% of sales	13.4	13.6	(13bps)	15.3	(186bps)	14.1	13.4	74bps
Total expenditure	5,163	6,558	(21.3)	5,459	(5.4)	21,350	21,224	0.6
% of sales	82.1	84.6	(255bps)	82.2	(11bps)	82.8	84.6	(183bps)
EBITDA	1,126	1,190	(5.3)	1,182	(4.7)	4,429	3,849	15.1
% of sales	17.9	15.4	255bps	17.8	11bps	17.2	15.4	183bps
Depreciation	289	224	29.1	274	5.5	1,079	814	32.5
Other income	1	38	(97.4)	22	(95.5)	121	154	(21.6)
Interest cost	37	73	(49.2)	54	(31.5)	211	257	(18.0)
PBT	801	931	(14.0)	876	(8.6)	3,260	2,932	11.2
Taxes	135	292	(53.7)	194	(30.4)	565	861	(34.4)
Effective tax rate (%)	16.9	31.3	(1,446bps)	22.1	(529bps)	17.3	29.4	(1,203bps)
RPAT before extraordinaries	666	640	4.1	682	(2.3)	2,695	2,071	30.1
Less: forex loss/(gain)	144	(14)	(1,151.1)	(3)	(4,900.0)	183	62	194.2
Less: minority int	(5)	(3)	61.3	(3)	66.7	(17)	(15)	11.1
Less: Loss from JV	6	29	(79.0)	6	0.0	16	36	(55.2)
APAT	655	608	7.7	673	(2.7)	2,662	2,020	31.8
RPAT	511	622	(17.8)	676	(24.4)	2,479	1,958	26.6

Source: Company, BOBCAPS Research

FIG 2 – SEGMENTAL PERFORMANCE

Particulars (Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Net Sales								
Plastics	4,933	5,867	(15.9)	5,057	(2.5)	19,838	18,493	7.3
Adhesives	1,356	1,880	(27.9)	1,584	(14.4)	5,941	6,580	(9.7)
Total	6,289	7,747	(18.8)	6,641	(5.3)	25,779	25,073	2.8
EBIT								
Plastics	699	735	(4.9)	733	(4.6)	2,672	2,118	26.2
Adhesives	153	237	(35.6)	176	(13.1)	736	942	(21.9)
Total	852	973	(12.4)	909	(6.3)	3,408	3,060	11.4
EBIT Margin (%)								
Plastics	14.2	12.5	164bps	14.5	(32bps)	13.5	11.5	202bps
Adhesives	11.3	12.6	(135bps)	11.1	17bps	12.4	14.3	(193bps)

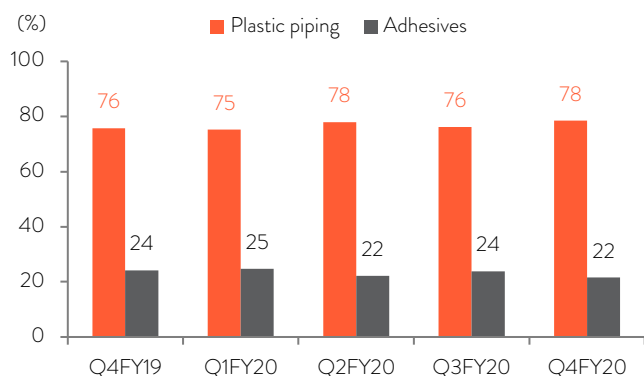
Source: Company, BOBCAPS Research

FIG 3 – STANDALONE QUARTERLY PERFORMANCE

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Total revenues	5,057	6,056	(16.5)	5,200	(2.8)	20,428	19,157	6.6
Total raw material consumed	3,221	4,079	(21.0)	3,198	0.7	12,977	12,818	1.2
% of sales	63.7	67.3	(365bps)	61.5	219bps	63.5	66.9	(339bps)
Employee exps	220	193	14.2	232	(5.2)	977	754	29.6
% of sales	4.4	3.2	117bps	4.5	(11bps)	4.8	3.9	85bps
Other exp	648	837	(22.6)	771	(16.0)	2,777	2,546	9.1
% of sales	12.8	13.8	(100bps)	14.8	(201bps)	13.6	13.3	31bps
Total expenditure	4,089	5,108	(19.9)	4,201	(2.7)	16,731	16,118	3.8
% of sales	80.9	84.3	(348bps)	80.8	7bps	81.9	84.1	(223bps)
EBITDA	968	948	2.1	999	(3.1)	3,697	3,039	21.7
% of sales	19.1	15.7	348bps	19.2	(7bps)	18.1	15.9	223bps
Depreciation	242	186	30.2	228	6.1	899	671	33.9
Other income	0	29	(100.0)	23	(100.0)	109	115	(5.0)
Interest cost	35	61	(42.6)	40	(12.5)	170	218	(22.1)
PBT	691	731	(5.4)	754	(8.4)	2,737	2,264	20.9
Taxes	138	259	(46.7)	187	(26.2)	537	767	(30.0)
Effective tax rate (%)	20.0	35.5	(1,548bps)	24.8	(483bps)	19.6	33.9	(1,428bps)
APAT	553	472	17.3	567	(2.5)	2,200	1,497	47.0
Extraordinary items	(25)	(20)	NM	0	NM	(25)	(20)	25.6
Forex	(135)	18	(858.4)	10	(1,450.0)	(167)	(62)	168.5
RPAT	393	469	(16.3)	577	(31.9)	2,008	1,415	42.0

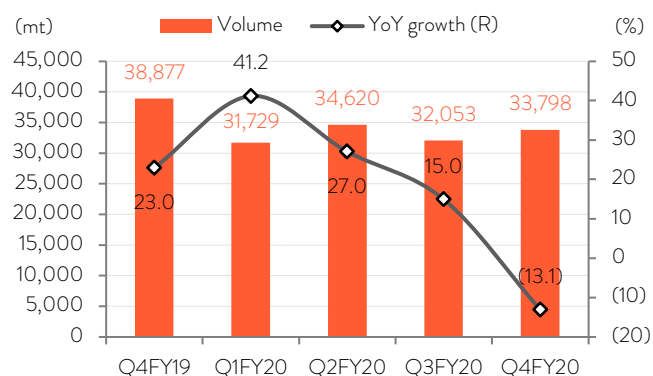
Source: Company, BOBCAPS Research

FIG 4 – CONSOLIDATED REVENUE MIX



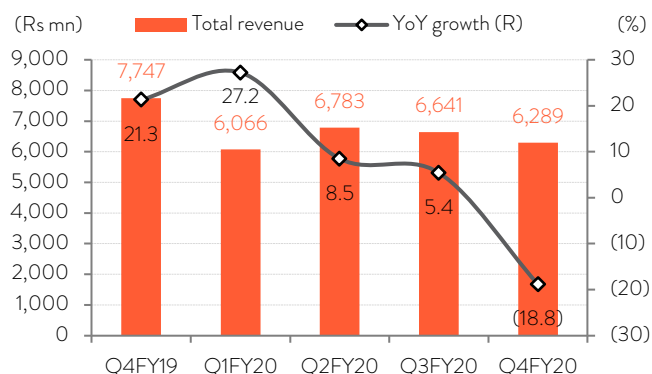
Source: Company, BOBCAPS Research

FIG 5 – PIPING VOLUME GROWTH



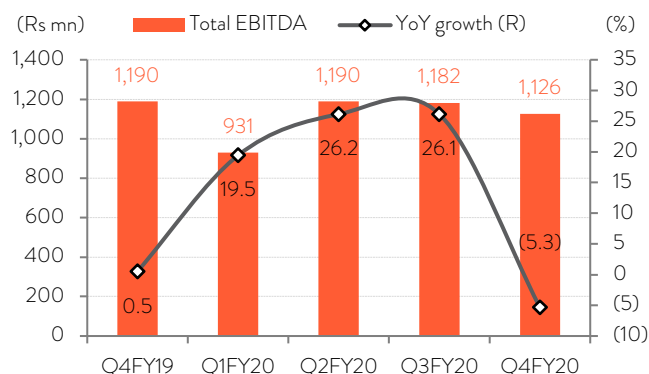
Source: Company, BOBCAPS Research | *Includes Rex volumes

FIG 6 – CONSOLIDATED REVENUE GROWTH



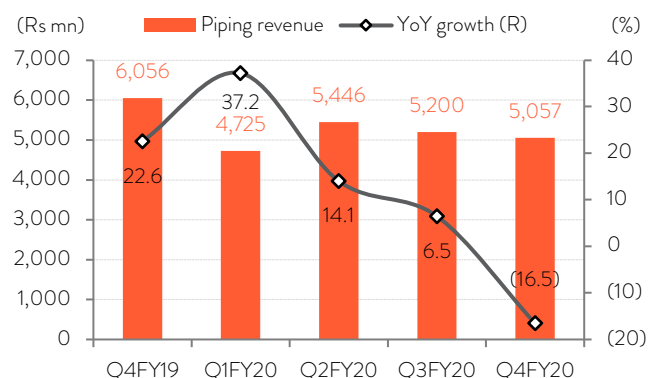
Source: Company, BOBCAPS Research

FIG 7 – CONSOLIDATED EBITDA GROWTH



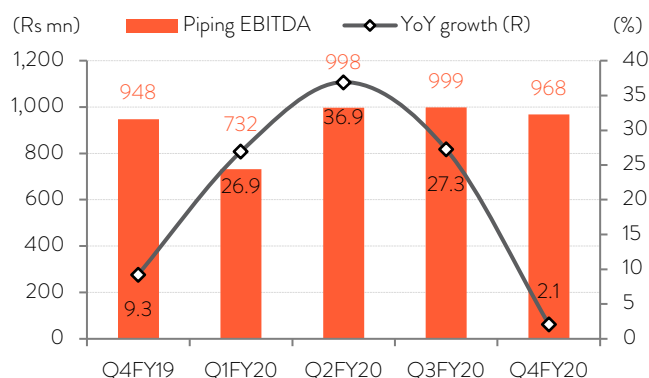
Source: Company, BOBCAPS Research

FIG 8 – STANDALONE PIPING REVENUE GROWTH



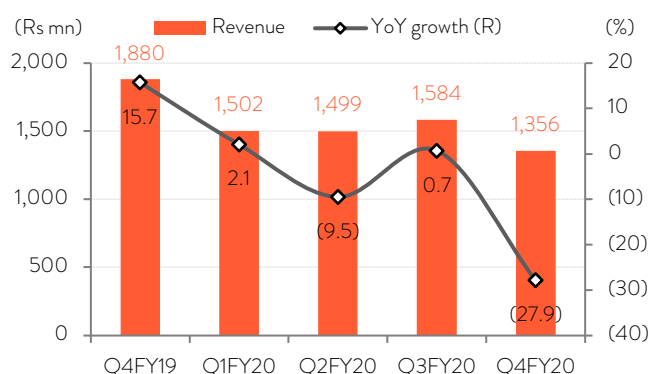
Source: Company, BOBCAPS Research

FIG 9 – STANDALONE PIPING EBITDA GROWTH



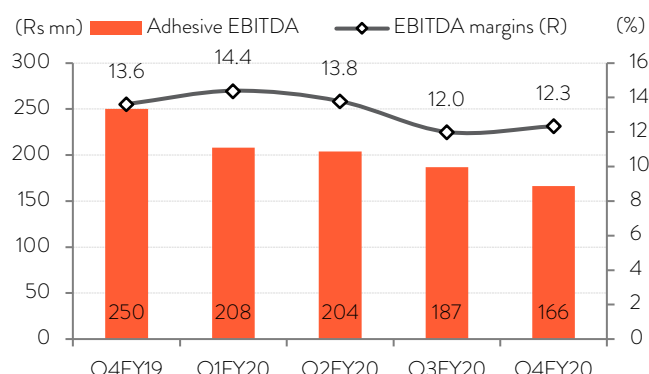
Source: Company, BOBCAPS Research

FIG 10 – ADHESIVES REVENUE GROWTH



Source: Company, BOBCAPS Research

FIG 11 – ADHESIVES EBITDA MARGIN



Source: Company, BOBCAPS Research

Earnings call highlights

- ASTRA has seen some pick-up in demand in the month of May following an easing of the nationwide lockdown in many areas.
- Management is not offering revenue growth and margin guidance for FY21 due to uncertainty surrounding Covid-19.
- ASTRA expects the new pipe facility in Orissa 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 debtor cycle reduced by 17 days to 32 days in FY20 due to higher collections in the first-half of March and inability to supply material in the second-half due to the lockdown. Management expects debtor days to normalise at higher levels in FY21.
- The inventory cycle increased by 19 days to 77 days in FY20 due to an inability to deliver in the second-half of March despite orders. As per management, ASTRA lost sales of ~Rs 1.75bn in the pipe segment and ~Rs 500mn in the adhesive segment due to the Covid-led shutdown.
- Employee cost increased in FY20 due to the addition of senior people at various levels. High-level recruiting is largely complete and hence this cost should normalise going ahead.
- The company has various levers such as A&P and travelling which can be used to control cost.
- Fixed overheads are at Rs 200mn/month and can be covered at just 30-35% plant utilisation.
- Net debt stands at Rs 555mn and the company intends to be debt-free in FY21. Excess cash will be used to raise dividend payout.
- ASTRA is focusing on a loyalty programme for dealers and plumbers which shall enable it to grow in future.
- Efforts are underway to commence exports in both piping and adhesives.

Piping segment

- Demand from rural markets has risen in Q1FY21, aiding sales.
- PVC prices had fallen till April but have now started to increase with relaxation of the lockdown.
- The anti-dumping duty on CPVC is expected to continue for five years which should aid growth for organised players.

- About 40% of the pipe industry is unorganised and thus provides opportunities for the formal sector.
- Management does not foresee any significant pricing pressure in the pipe segment.
- Channel inventory is low but should normalise as market stability returns.
- The company has 800+ distributors and 31,000 dealers in pipes.

Adhesives segment

- The India adhesives business saw tepid growth in FY20 as ASTRA was transiting from a three-tier distribution setup to a two-tier framework. This shift has been completed and growth is guided to revive in coming quarters.
- Management believes the adhesive business will grow in double-digits once the pandemic-led crisis abates. Margins are also expected to improve over a period of time.
- Resinova has a strong presence in rural markets and is now striving to build a similar position in urban markets.
- The company has 1,300+ distributors and 130,000 dealers in the adhesives segment.

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.

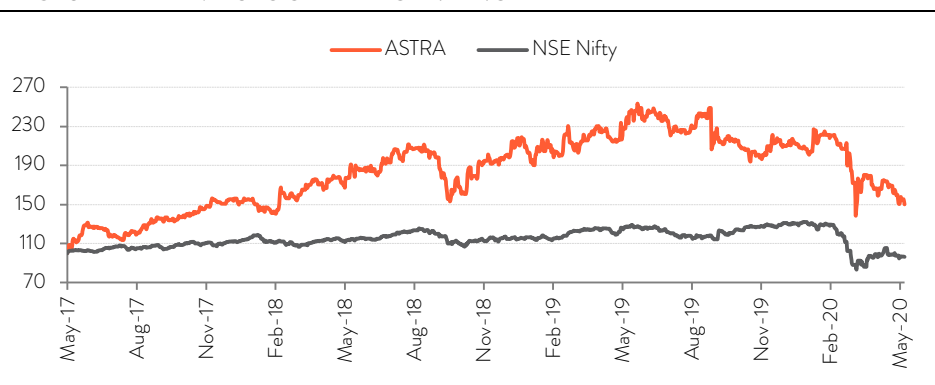
Though we like the company for its strong balance sheet and comprehensive product portfolio, we find current valuations at 40x FY22E P/E expensive and thus maintain our REDUCE rating. In light of the below-expected Q4FY20 performance and continued tepid environment due to Covid-19, we trim our FY21-FY22 earnings estimates by ~8% each. We continue to value the stock at 42x one-year forward P/E while resetting our Mar’21 target price down to Rs 850 (from Rs 925).

FIG 12 – REVISED ESTIMATES

(Rs mn)	Old		New		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	24,430	32,705	22,323	30,555	(8.6)	(6.6)
EBITDA	3,710	5,505	3,535	5,117	(4.7)	(7.0)
PAT	2,012	3,331	1,843	3,057	(8.4)	(8.2)

Source: 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	FY20P	FY21E	FY22E
Total revenue	21,060	25,073	25,779	22,323	30,555
EBITDA	3,168	3,853	4,429	3,535	5,117
Depreciation	(571)	(814)	(1,079)	(1,160)	(1,265)
EBIT	2,597	3,039	3,350	2,375	3,852
Net interest income/(expenses)	(216)	(320)	(394)	(152)	(71)
Other income/(expenses)	40	97	121	165	183
Exceptional items	0	0	0	0	0
EBT	2,421	2,816	3,077	2,389	3,964
Income taxes	(724)	(808)	(565)	(525)	(872)
Extraordinary items	59	(34)	0	0	0
Min. int./Inc. from associates	0	(15)	(33)	(20)	(35)
Reported net profit	1,757	1,958	2,479	1,843	3,057
Adjustments	(59)	34	0	0	0
Adjusted net profit	1,697	1,992	2,479	1,843	3,057

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	3,491	3,897	4,754	3,425	4,604
Other current liabilities	688	758	1,149	856	1,172
Provisions	34	124	66	67	92
Debt funds	1,891	2,753	1,270	750	200
Other liabilities	0	0	0	0	0
Equity capital	120	120	151	151	151
Reserves & surplus	10,063	12,657	14,878	16,275	18,592
Shareholders' fund	10,182	12,777	15,029	16,426	18,743
Total liabilities and equities	16,420	20,459	22,436	21,712	25,034
Cash and cash eq.	437	983	1,303	1,218	1,888
Accounts receivables	3,067	3,391	2,278	3,058	4,186
Inventories	3,572	3,958	5,404	3,792	4,855
Other current assets	519	798	759	612	837
Investments	0	0	0	0	0
Net fixed assets	8,402	10,634	12,549	12,889	13,124
CWIP	731	808	444	444	444
Intangible assets	23	421	0	0	0
Deferred tax assets, net	(331)	(533)	(301)	(301)	(301)
Other assets	0	0	0	0	0
Total assets	16,420	20,459	22,436	21,712	25,034

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net income + Depreciation	2,328	2,772	3,558	3,003	4,322
Interest expenses	216	320	394	152	71
Non-cash adjustments	0	0	0	0	0
Changes in working capital	356	(421)	895	(641)	(897)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	2,899	2,671	4,847	2,513	3,496
Capital expenditures	(2,078)	(3,438)	(2,210)	(1,500)	(1,500)
Change in investments	0	(2)	0	2	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(2,078)	(3,440)	(2,210)	(1,499)	(1,500)
Equities issued/Others	0	25	1	0	0
Debt raised/repaid	(399)	862	(1,483)	(520)	(550)
Interest expenses	(216)	(320)	(394)	(152)	(71)
Dividends paid	(79)	(187)	(182)	(446)	(740)
Other financing cash flows	127	934	(260)	20	35
Cash flow from financing	(567)	1,314	(2,318)	(1,098)	(1,326)
Changes in cash and cash eq.	255	545	319	(83)	670
Closing cash and cash eq.	437	981	1,301	1,218	1,888

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	11.7	13.0	16.5	12.2	20.3
Adjusted EPS	11.3	13.2	16.5	12.2	20.3
Dividend per share	0.5	1.0	1.0	2.4	4.1
Book value per share	67.6	84.8	99.8	109.0	124.4

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	5.9	5.0	4.8	5.5	4.0
EV/EBITDA	39.2	32.2	28.0	34.9	23.9
Adjusted P/E	72.1	61.4	49.4	66.4	40.0
P/BV	12.0	9.6	8.1	7.4	6.5

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	70.1	70.7	80.6	77.2	77.1
Interest burden (PBT/EBIT)	93.2	92.7	91.9	100.6	102.9
EBIT margin (EBIT/Revenue)	12.3	12.1	13.0	10.6	12.6
Asset turnover (Revenue/Avg TA)	136.9	136.0	120.2	101.1	130.7
Leverage (Avg TA/Avg Equity)	1.6	1.6	1.5	1.4	1.3
Adjusted ROAE	18.2	17.4	17.8	11.7	17.4

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
YoY growth (%)					
Revenue	11.2	19.1	2.8	(13.4)	36.9
EBITDA	20.0	21.6	15.0	(20.2)	44.8
Adjusted EPS	19.9	17.4	24.4	(25.7)	65.9
Profitability & Return ratios (%)					
EBITDA margin	15.0	15.4	17.2	15.8	16.7
EBIT margin	12.3	12.1	13.0	10.6	12.6
Adjusted profit margin	8.1	7.9	9.6	8.3	10.0
Adjusted ROAE	18.2	17.4	17.8	11.7	17.4
ROCE	15.8	15.5	17.0	11.0	16.5
Working capital days (days)					
Receivables	56	47	40	44	43
Inventory	83	83	107	117	80
Payables	65	64	74	79	58
Ratios (x)					
Gross asset turnover	2.3	2.2	1.8	1.3	1.7
Current ratio	1.5	1.5	1.6	1.8	1.9
Net interest coverage ratio	12.0	9.5	8.5	15.7	54.1
Adjusted debt/equity	0.1	0.1	0.0	0.0	(0.1)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

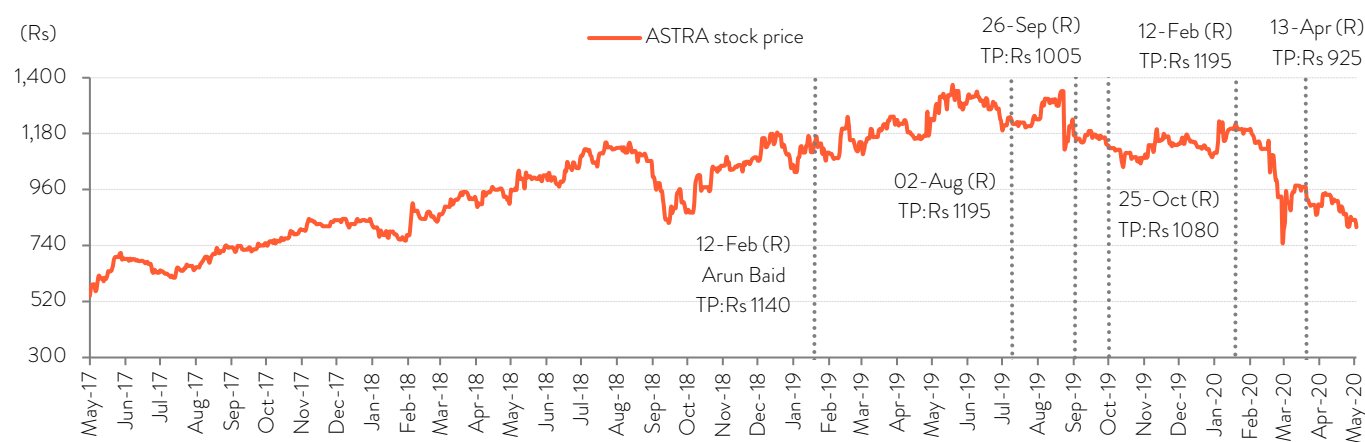
ADD – Expected return from >+5% to +15%

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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