

FIRST LIGHT

RESEARCH

BOB Economics Research | Weekly Wrap

Global data shows world economy improving

Astral Poly Technik | Target: Rs 850 | +5% | REDUCE

Volumes hit due to lockdown, maintain REDUCE

SUMMARY

India Economics: Weekly Wrap

Global economy is showing signs of pick-up with flash PMIs showing MoM improvement. US yields fell as Fed Chair expressed concerns over economic outlook and housing starts disappointed. EU is mulling a € 500bn recovery fund. RBI delivered another emergency rate cut of 40bps and extended moratorium by 3-months. We expect GDP to contract by 4.7% and inflation to cool down to 3.5% in FY21. This will give RBI room to cut rates by another 25bps. Q4FY20 GDP will be released this week. Our estimate is 1.6%.

[Click here for the full report.](#)

Astral Poly Technik

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).

[Click here for the full report.](#)

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	3,000
Cipla	Buy	690
Eicher Motors	Buy	18,100
GAIL	Buy	140
Petronet LNG	Buy	330

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,870
Greenply Industries	Buy	145
Laurus Labs	Buy	630
Muthoot Finance	Buy	950
Transport Corp	Buy	255

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.66	(1bps)	6bps	(166bps)
India 10Y yield (%)	5.96	(7bps)	(21bps)	(121bps)
USD/INR	75.96	(0.5)	0.6	(9.3)
Brent Crude (US\$/bbl)	35.53	1.1	65.7	(49.3)
Dow	24,465	0	2.9	(3.5)
Shanghai	2,818	0.1	0.3	(2.6)
Sensex	30,673	(0.8)	(2.1)	(22.7)
India FII (US\$ mn)	21 May	MTD	CYTD	FYTD
FII-D	21.4	(2,328.8)	(13,672.5)	(3,913.0)
FII-E	(27.2)	835.4	(5,798.1)	804.8

Source: Bank of Baroda Economics Research

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WEEKLY WRAP

26 May 2020

Global data shows world economy improving

Global economy is showing signs of pick-up with flash PMIs showing MoM improvement. US yields fell as Fed Chair expressed concerns over economic outlook and housing starts disappointed. EU is mulling a € 500bn recovery fund. RBI delivered another emergency rate cut of 40bps and extended moratorium by 3-months. We expect GDP to contract by 4.7% and inflation to cool down to 3.5% in FY21. This will give RBI room to cut rates by another 25bps. Q4FY20 GDP will be released this week. Our estimate is 1.6%.

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Markets

- **Bonds:** Global 10Y yields broadly closed lower amidst US-China conflict and weaker US housing data. US 10Y yield fell by 7bps (0.66%) as Fed Chair expressed concerns over economic outlook. UK 2Y yield went negative. Oil prices rose by 2.1% (US\$ 36/bbl) as lockdown restrictions were eased. India's 10Y yield fell by 12bps (5.96%) supported by RBI's emergency rate cut of 40bps. System liquidity surplus was at Rs 4.6tn as on 22 May 2020 compared with Rs 5.2tn in the previous week.
- **Currency:** Global currencies closed mixed this week. DXY rose by 0.2% as US-China dispute escalated. After rallying for much of the week, EUR ended lower by 0.1% as EU mulls the details of the € 500bn COVID-19 recovery fund. AUD rose by 0.3% in the week as Chinese economic activity picked up. INR ended the week lower by 0.1% as RBI cut policy rates by another 40bps. FII outflows were US\$ 1bn.
- **Equity:** Global indices ended mixed on the back of escalation of US-China dispute. Dax and Nikkei rose by 3% each as Europe and Japan ease lockdown restrictions. Flash PMIs show improvement in activity. Sensex rose by 2.1% supported by a rate cut by RBI. Auto and tech stocks advanced the most. Financials fell as moratorium benefits were extended.
- **Upcoming key events:** In the current week, markets await GDP prints of US, France and Singapore. In addition, US durable goods orders, new home sales, consumer confidence, and China's industrial profit growth will also be watched closely. On the domestic front, Q4FY20 GDP print and fiscal data for FY20 are scheduled for release this week. Markets also await the decision on extension of lockdown.



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).

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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

Source: NSE

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



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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)

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