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Q1FY21 result review  
and reco change

## Plastic

Target price: Rs1,007

Target price revision

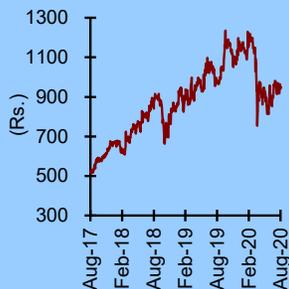
Rs1,007 from Rs950

### Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	55.7	55.7	55.7
Institutional investors	29.0	29.0	28.5
MFs and others	8.0	8.3	8.3
FIs/Banks	0.5	0.5	0.5
Insurance	-	-	-
FII	20.5	20.2	19.7
Others	15.3	15.3	15.8

Source: NSE

### Price chart



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INDIA

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# Astral Poly Technik

**ADD**

Upgrade from HOLD

**Rs950**

## Adhesive business regains growth momentum

While ASTRA Q1FY21 numbers were largely in line with our expectations, the silver linings from this operationally truncated quarter were: a) impressive EBIDTA margin at 18-19% in the standalone pipe business (adjusted for operating leverage in Apr'20 and inventory losses of Rs90mn-100mn in PVC pipe segment); and b) strong growth momentum in adhesive business post Q1 (with Jul'20 delivering 26% YoY growth). With the company showing faster growth recovery (>90%) in both the pipe and adhesive businesses (from May to Jul'20), we believe ASTRA is on course to meet our current year expectation of 10% decline in pipe volumes and 10% growth in adhesive revenues. Upgrade to ADD.

- **Valuation and outlook:** Considering the strong recovery witnessed in both the pipe and adhesive businesses, we maintain our estimates for FY21E/FY22E. We expect ASTRA to report overall revenue/PAT CAGRs of 8.5%/23.7% respectively over FY20-FY22E. We upgrade the stock to **ADD** with a revised SoTP-based target price of Rs1,007 (earlier Rs956), implying a P/E multiple of 40x FY22E earnings (38x earlier) – considering the improved earnings visibility and likely balance sheet strengthening in such testing times.
- **Pipe business reports healthy margins despite significant loss of volumes and inventory losses in Apr'20:** ASTRA reported sharp decline in its standalone revenues at Rs3.2bn, down 33% YoY, led by 31% YoY decline in its volumes. Despite operating leverage in Apr'20 and adverse product mix, standalone EBITDA margin remained firm at 14.8%. However, adjusting for higher operational overheads in Apr'20 and inventory loss of Rs90mn-100mn in PVC pipe segment, ASTRA reported EBIDTA margins in the 18-19% range. With gradually improving visibility (expectation of metros opening up post-Aug'20 and sustained market consolidation) plus expected improvement in margins ahead (driven by cost cutting initiatives and increasing trend in PVC prices), we estimate ASTRA's standalone revenues/PBT to grow at 4.7%/17.5% CAGRs respectively, over FY20-FY22E.
- **Adhesive business regains growth momentum:** The adhesive business reported lower than anticipated decline in revenue (down 37% YoY) with sharp recovery in volumes seen in Jun'20 and Jul'20. In fact, ASTRA managed to report impressive growth of 26% YoY in Jul'20 driven by recent systemic corrections initiated by the company and lower base of last year. With this sharp recovery, the management remains hopeful of achieving double-digit growth in adhesives in FY21. EBITDA margins too are likely to witness a sharp rebound post Q1 driven by operating leverage and benign input costs. We thus expect ASTRA's adhesive business to exhibit revenue/PBT CAGRs of 17%/43.2% respectively, over FY20-FY22E.
- **Strong working capital discipline drives debt-free status for the first time.** With stricter working capital management across both the product segments (receivables below 30 days and sharp reduction in finished goods inventory in Q1FY21), ASTRA has now proclaimed debt-free status for the first time since inception.

Market Cap	Rs143bn/US\$1.9bn	Year to Mar	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	ASPT.BO/ASTRA IN	Revenue (Rs mn)	25,073	25,779	24,814	30,358
Shares Outstanding (mn)	150.7	Rec. Net Income (Rs mn)	1,958	2,479	2,666	3,790
52-week Range (Rs)	1235/754	EPS (Rs)	13.0	16.5	17.7	25.2
Free Float (%)	44.3	% Chg YoY	11.8	26.6	7.5	42.2
FII (%)	19.7	P/E (x)	73.1	57.7	53.7	37.8
Daily Volume (US\$/'000)	1,731	CEPS (Rs)	18.4	23.6	25.2	33.3
Absolute Return 3m (%)	4.8	EV/E (x)	37.6	32.3	32.9	24.6
Absolute Return 12m (%)	(2.4)	Dividend Yield (%)	0.6	0.7	0.7	0.7
Sensex Return 3m (%)	20.5	RoCE (%)	22.2	21.0	19.4	24.5
Sensex Return 12m (%)	3.8	RoE (%)	16.8	17.6	16.7	21.0

Please refer to important disclosures at the end of this report

**Table 1: Q1FY21 result review***(Rs mn, year ending March 31)*

Particulars	Q1FY21A	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
<b>Net Sales</b>	<b>4,039</b>	<b>4,073</b>	<b>6,066</b>	<b>(33.4)</b>	<b>6,289</b>	<b>(35.8)</b>
<b>Total Op. Income</b>	<b>4,039</b>	<b>4,073</b>	<b>6,066</b>	<b>(33.4)</b>	<b>6,289</b>	<b>(35.8)</b>
<b>Expenditure</b>	<b>3,496</b>	<b>3,530</b>	<b>5,135</b>	<b>(31.9)</b>	<b>5,163</b>	<b>(32.3)</b>
Raw Materials	2,615	2,510	3,801	(31.2)	3,861	(32.3)
Cost of traded goods	34	60	78	(56.4)	41	(17.1)
Staff Cost	426	360	431	(1.2)	417	2.2
Other Expenditure	421	600	825	(49.0)	844	(50.1)
<b>Operating Profit</b>	<b>543</b>	<b>543</b>	<b>931</b>	<b>(41.7)</b>	<b>1,126</b>	<b>(51.8)</b>
<i>OPM (%)</i>	<i>13.4</i>	<i>13.3</i>	<i>15.3</i>	<i>-190bps</i>	<i>17.9</i>	<i>-450bps</i>
Other Income	39	60	68	(42.6)	1	3,800.0
Interest	59	78	73	(19.2)	181	(67.4)
Depreciation	285	298	244	16.8	289	(1.4)
<b>PBT</b>	<b>238</b>	<b>227</b>	<b>682</b>	<b>(65.1)</b>	<b>657</b>	<b>(63.8)</b>
Tax	25	62	202	(87.6)	135	(81.5)
<b>PAT</b>	<b>213</b>	<b>165</b>	<b>480</b>	<b>(55.6)</b>	<b>522</b>	<b>(59.2)</b>
Minority Interest & Share of loss on JV	14	5	9	55.6	11	27.3
<b>Reported PAT</b>	<b>199</b>	<b>160</b>	<b>471</b>	<b>(57.7)</b>	<b>511</b>	<b>(61.1)</b>
<i>NPM (%)</i>	<i>4.9</i>	<i>3.9</i>	<i>7.8</i>	<i>-290bps</i>	<i>8.1</i>	<i>-320bps</i>

Source: Company data, I-Sec research

## Key highlights from Q1FY21 conference call

### Pipe segment:

- The effective working days in pipe segment was almost 50-55 days for the quarter.
- ASTRA's pipe business was affected the most among the top players due to its negligible presence in agricultural pipe segment.
- The pipe business achieved over 95% volumes in last three preceding months (May, June and July) compared to a year ago. This was largely led by its intensified focus on rural markets.
- The Odisha pipe facility is likely to be operational in Q2FY22. Construction work has started and the company has already ordered the required moulds and machines. Capex is estimated at Rs500mn.
- The valve manufacturing facility in Dholka, Gujarat, is under construction and is likely to become operational by the end of the current fiscal. Capex here is pegged at Rs500mn largely towards machinery and moulds.
- Company plans to manufacture bigger size plumbing (PVC as well as CPVC) and industrial valves, which were earlier imported and sold.
- New variety of fittings is likely to be added in different manufacturing locations and across agricultural and plumbing piping systems over the next few quarters.
- First phase of roof top solar project was operational in July and the second phase would be operational partly in August and in September.
- EBIDTA margin of 18-19% in pipe business has been maintained if adjusted for additional fixed overheads (Rs80mn-90mn) and inventory loss (Rs90mn-100mn) incurred in PVC pipe segment in April.
- Product mix was more towards PVC pipes, which is normally the case in April-June quarter.

- ASTRA is currently working on executing a single export order (size: Rs120mn), of which 60% is already executed and the balance is likely to be executed in the current month.
- Rex business is currently impacted due to delay in government projects. However, inquiries have started to gain momentum.

### **Adhesive business**

- The effective working days in adhesive segment was less than 45 days for the quarter.
- The business achieved over 90% revenues in three preceding months (May, June and Jul'20) compared to a year ago.
- July saw an impressive revenue growth of 26% in adhesive business driven by recently initiated systemic corrections, increasing distribution network and new product launches.
- Growth appeared all inclusive – across its maintenance, construction chemical and white glue segments.
- ASTRA has added several SKUs in construction chemicals, rubber-based adhesives, white glue and epoxy adhesives, which has received encouraging response.
- The phase of removal of stockists is over, but enrolment process for appointing new distribution is still underway and may take couple of more quarters to complete.

### **Others**

- Business in tiers-1&2 cities are not fully operational and may take a quarter more to achieve normalcy.
- ASTRA expects metros and tier-1 cities to start opening up for business by the end of Aug'20.
- Dealers and distributors are currently holding much lower channel inventory compared to pre-Covid levels.
- ASTRA has not initiated any salary cuts across its pipe and adhesive verticals.

## Financial summary

Table 2: Profit &amp; loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Net Revenues</b>	<b>25,073</b>	<b>25,779</b>	<b>24,814</b>	<b>30,358</b>
<b>Operating Expenses</b>	<b>21,224</b>	<b>21,350</b>	<b>20,478</b>	<b>24,603</b>
<b>EBITDA</b>	<b>3,849</b>	<b>4,429</b>	<b>4,336</b>	<b>5,755</b>
% margins	15.4%	17.2%	17.5%	19.0%
Depreciation & Amortisation	814	1,079	1,126	1,222
Gross Interest	320	394	119	123
Other Income	154	121	190	275
<b>Recurring PBT</b>	<b>2,870</b>	<b>3,077</b>	<b>3,280</b>	<b>4,685</b>
Less: Taxes	861	565	608	878
Less: Minority Interest	51	33	7	17
Add: Share of Profit of Associates	-	-	-	-
<b>Net Income (Reported)</b>	<b>1,958</b>	<b>2,479</b>	<b>2,666</b>	<b>3,790</b>
Extraordinaries (Net)	-	-	-	-
<b>Recurring Net Income</b>	<b>1,958</b>	<b>2,479</b>	<b>2,666</b>	<b>3,790</b>

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Assets</b>				
Total Current Assets	9,128	9,896	10,665	14,610
of which cash & cash eqv.	981	1,301	1,677	2,961
Total Current Liabilities & Provisions	4,791	5,995	4,716	5,582
<b>Net Current Assets</b>	<b>4,337</b>	<b>3,901</b>	<b>5,949</b>	<b>9,028</b>
Investments	2	2	2	2
Net Fixed Assets	8,517	9,996	10,070	10,147
Capital Work-in-Progress	808	444	-	-
Goodwill	2,538	2,553	2,185	1,817
<b>Total Assets</b>	<b>16,201</b>	<b>16,896</b>	<b>18,206</b>	<b>20,995</b>
<b>Liabilities</b>				
Borrowings	2,741	1,270	1,081	1,200
Deferred Tax Liability	533	429	399	399
Minority Interest	150	168	193	234
Equity Share Capital	120	151	151	151
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	12,657	14,878	16,382	19,011
Less: Misc. Exp. n.w.o.	-	-	-	-
<b>Net Worth</b>	<b>12,777</b>	<b>15,029</b>	<b>16,533</b>	<b>19,162</b>
<b>Total Liabilities</b>	<b>16,201</b>	<b>16,896</b>	<b>18,206</b>	<b>20,995</b>

\*Excluding revaluation reserves

Source: Company data, I-Sec research

Table 4: Quarterly trend (consolidated)

(Rs mn, year ending March 31)

	Sep-19	Dec-19	Mar-20	Jun-20
Net revenues	6,783	6,641	6,289	4,039
% growth (YoY)	8.5	5.4	(18.8)	(33.4)
EBITDA	1,190	1,182	1,126	543
Margin (%)	17.5	17.8	17.9	13.4
Other income	30	22	1	39
Extraordinaries (Net)	-	-	-	-
Net profit	821	676	511	199

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Operating Cashflow</b>	<b>4,446</b>	<b>4,481</b>	<b>3,772</b>	<b>4,993</b>
Working Capital Changes	(602)	758	(1,280)	(1,386)
Capital Commitments	(3,303)	(2,195)	(756)	(1,300)
<b>Free Cashflow</b>	<b>542</b>	<b>3,045</b>	<b>1,736</b>	<b>2,307</b>
<b>Cashflow from Investing Activities</b>	<b>(2)</b>	<b>10</b>	<b>20</b>	<b>20</b>
Issue of Share Capital	25	1	-	-
Inc (Dec) in Borrowings	866	(1,471)	(189)	119
Dividend paid	(1,089)	(1,162)	(1,162)	(1,162)
<b>Change in Deferred Tax Liability</b>	<b>203</b>	<b>(104)</b>	<b>(30)</b>	<b>-</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>545</b>	<b>320</b>	<b>376</b>	<b>1,284</b>

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Per Share Data (in Rs.)</b>				
EPS	13.0	16.5	17.7	25.2
Cash EPS	18.4	23.6	25.2	33.3
Dividend per share (DPS)	6.0	6.4	6.4	6.4
Book Value per share (BV)	84.8	99.8	109.8	127.2
<b>Growth (%)</b>				
Net Sales	19.1	2.8	-3.7	22.3
EBITDA	21.5	15.1	-2.1	32.8
PAT	11.8	26.6	7.5	42.2
Cash EPS	11.8	26.6	7.5	42.2
<b>Valuation Ratios (x)</b>				
P/E	73.1	57.7	53.7	37.8
P/CEPS	51.6	40.2	37.7	28.5
P/BV	11.2	9.5	8.7	7.5
EV / EBITDA	37.6	32.3	32.9	24.6
EV / Sales	5.8	5.5	5.7	4.7
<b>Operating Ratios</b>				
Raw Material / Sales (%)	65.8	63.7	62.9	62.9
Employee cost / Sales (%)	5.5	6.8	5.0	5.0
SG&A / Sales (%)	6.6	4.5	4.5	4.5
Other Income / PBT (%)	5.4	3.9	5.8	5.9
Effective Tax Rate (%)	30.0	18.4	18.5	18.7
Working Capital (days)	50.2	41.5	48.0	50.0
Inventory Turnover (days)	57.6	76.5	60.0	59.0
Receivables (days)	49.4	32.3	45.0	48.0
Payables (days)	56.7	67.3	57.0	57.0
Net D/E Ratio (x)	-0.1	-0.1	-0.1	-0.1
<b>Profitability Ratios (%)</b>				
Net Income Margins	7.8	9.6	10.7	12.5
RoACE	22.2	21.0	19.4	24.5
RoAE	16.8	17.6	16.7	21.0
Dividend Payout	55.6	46.9	43.6	30.6
Dividend Yield	0.6	0.7	0.7	0.7
EBITDA Margins	15.4	17.2	17.5	19.0

Source: Company data, I-Sec research

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