

## Strong recovery amid pent up demand...

Astral's Q3FY21 performance was better than our estimates on all front. This was led by strong pent demand in the piping segment from urban regions and a favourable base for adhesive segment. Consolidated revenue growth at 35% YoY was supported by ~33%, ~42% YoY growth in the piping and adhesive segments respectively. Standalone revenues (~77% of consolidated topline & mainly piping business) witnessed a notable growth of 33% led by ~15% volume growth. Besides, streamlining of distribution networks of adhesive business help drive consistent segment revenue growth (Q2FY21 was higher by 29%). This was also supported by launching of products along with dealer additions. The gross margin was down by ~154 basis mainly due to delay in price hikes and change in product mix. However, better operating leverage helped drive EBITDA margin up by ~360 bps YoY to ~21%. Management commentary suggests, a strong piping demand going forward supported by government thrust on Jal Jeevan Mission. That said, medium to long term piping segment volume growth for Astral is ~15%. This along with newly acquired water tank business would also start aiding to revenue growth from Q4FY21 onwards. The adhesive business revenue growth guidance at 20% would largely be supported by dealer expansion in new geographies. Company also sees long term EBITDA margin profile at 15%-16% Vs 9MFY21 EBITDA margin of 19%, with normalisation in input price and restoration of advertisement & other costs.

## Expansion on track, revenue contribution to start from FY22

For 9MFY21 the company has incurred a capex of ₹ 87 crore including ₹ 51 crore acquisition of water tank business in Nov'20. The other two plants in Orrisa and Dholka (for pipes & fittings and valve) will commence operation from H2FY22E, while brownfield expansion in Hosur will also be completed by H1FY22. Company's current piping capacity at ~2.4 lakh tonnes would increase to ~2.9 lakh tonnes by the end of FY22E.

## Operational performance back to pre-Covid level so far

For 9MFY21 company reported revenue growth of 5% YoY to ₹ 2049 crore supported by ~13% and ~3% growth in adhesive and piping business respectively. Better operating leverage help drive EBITDA margin up by ~200 bps at 19% and PAT were up by 17% YoY to ₹ 232 crore. According to management, the strong performance is likely to continue in Q4FY21 (Jan'21 sales were up by 35% YoY).

## Valuation & Outlook

We revise our earnings estimate up by 16%, 33% for FY23E considering improved growth guidance. However, with recent run in stock price we maintain our Hold rating on the stock with revised target price of ₹2225 (earlier TP ₹ 1260).

### Key Financial Summary

₹ crore	FY19	FY20	FY21E	FY22E	FY23E	(CAGR FY20-23E)
Net Sales	2507.3	2577.9	2903.3	3797.2	4528.6	20.7
EBITDA	384.9	442.9	566.8	725.4	862.7	24.9
EBITDA Margin (%)	15.4	17.2	19.5	19.1	19.0	
Net Profit	197.3	249.6	334.6	458.6	558.5	30.8
EPS (₹)	13.1	16.6	22.2	30.4	37.1	
P/E(x)	157.6	124.6	92.9	67.8	55.7	
Price/book value (x)	24.3	20.7	17.0	14.8	12.5	
Mcap/sales (x)	12.4	12.1	10.7	8.2	6.9	
RoE (%)	15.4	16.6	18.3	21.8	22.5	
RoCE (%)	20.7	20.5	23.9	28.1	29.3	

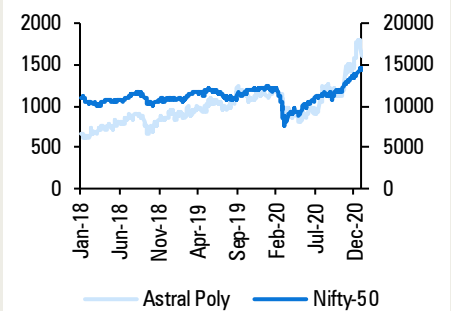
Source: Company, ICICI Direct Research



### Particulars

Particular	Amount
Market Cap (₹ Crore)	30,795.3
Debt (FY20) (₹ Crore)	129.1
Cash&Inv (FY20) (₹ Crore)	130.1
EV (₹ Crore)	30,794.3
52 week H/L	2099/ 748
Equity capital (₹ Crore)	12.0
Face value (₹)	1.0

### Price chart



### Key risk to our call

- Lower than expected volume growth in the piping segment (our estimate for volume growth in FY20-23E 15%).
- Better than estimated EBITDA margin going forward.

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**Exhibit 1: Variance Analysis**

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Revenue	897.5	836.3	664.1	35.1	747.1	20.1	Revenue growth driven by fast recovery in the piping segment and a strong growth in the adhesive segment
Other Income	6.1	4.3	2.2	177.3	4.9	24.5	
Raw Material Exp	549.0	485.0	396.2	38.6	455.6	20.5	Gross margin was lower by ~154 bps YoY largely on account of dealy in price hike and product mix change
Cost of traded goods	7.2	5.9	5.1	41.2	5.3	35.8	
Employee Exp	52.4	56.9	43.1	21.6	48.5	8.0	
Other expenditure	96.9	130.5	101.5	-4.5	94.1	3.0	
EBITDA	192.0	158.0	118.2	62.4	143.6	33.7	
EBITDA Margin (%)	21.4	18.9	17.8	359 bps	19.2	217 bps	various cost optimisation measures along with improved operating leverage help drive margin up in Q3FY21
Depreciation	30.0	34.8	27.4	9.5	28.8	4.2	
Interest	1.7	3.7	5.1	-66.7	-0.9	-288.9	
PBT	166.4	123.8	87.9	89.3	120.6	38.0	
Total Tax	41.3	29.0	19.4	112.9	28.3	NM	
Profit from associates	-1.2	-0.6	-0.6	NM	-4.4	NM	
PAT	123.9	94.1	67.9	82.5	87.9	41.0	Better sales and sharp increase in EBITDA margin help drive PAT
<b>Key Metrics</b>							
Plastic	672.7	646.2	505.7	33.0	550.3	22.2	Strong pent up demand post opening up of metro regions help drive ~15% volume growth in the standalone piping business
Adhesive	224.8	190.1	158.4	41.9	196.8	14.2	Strong recovery in the adhesive segment led by low base and streamlining of its distribution network

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

₹ Crore)	FY21E			FY22E			FY23E			Comments
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg	
Revenue	2,771.3	2903.3	4.8	3,415.1	3797.2	11.2	3891.4	4528.6	16.4	We revise our FY22E-23E estimates upward on the back of new product launches and higher government expenditure on Nal se Jal scheme
EBITDA	529.8	566.8	7.0	618.3	725.4	17.3	664.9	862.7	29.7	
EBITDA Margin %	19.1	19.5	42bps	18.1	19.1	100bps	17.1	19.0	195bps	We believe EBITDA margin to normalise going forward with restoration of operating costs such as advertisement expenses
PAT	312.3	334.6	7.2	384.1	458.6	19.4	418.5	558.5	33.5	
EPS (₹)	20.7	22.2	7.3	25.5	30.4	19.4	27.8	37.1	33.3	

Source: Company, ICICI Direct Research

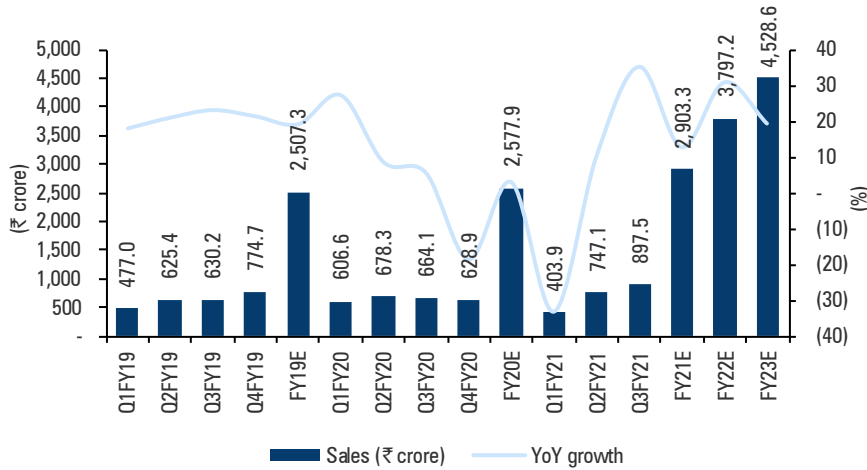
**Exhibit 3: Assumptions**

	Current				Earlier			Comments
	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	
Plastic Piping	7.3	9.3	31.0	17.3	6.9	20.7	13.8	We model piping segment volume, value CAGR of 15%, 19% respectively in FY20-23E
Adhesive	(9.7)	23.6	30.3	25.0	9.4	31.6	14.2	With streamlining of distribution networks and expansion new geographies through dealer additions is likely to help drive demand of Adhesive segment going forward. We model segment revenue CAGR of 25% in FY20-23E

Source: Company, ICICI Direct Research

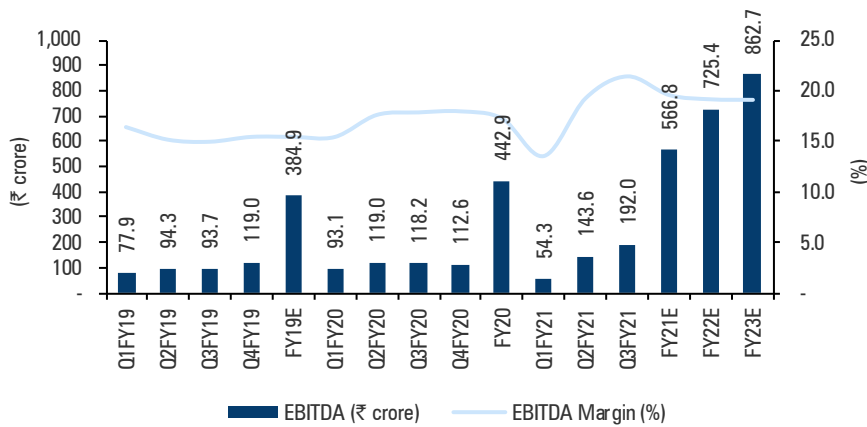
## Financial story in charts

Exhibit 4: Gradual recovery in revenue from H2FY21E



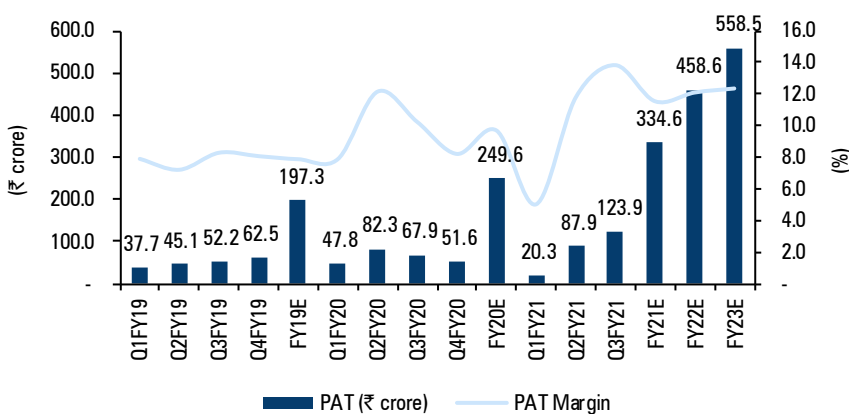
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin to normalize with restoration of some key cost elements



Source: Company, ICICI Direct Research

Exhibit 6: Strong PAT growth, going forward



Source: Company, ICICI Direct Research

## Conference call highlights

- Strong festive demand along with opening up of metro regions help drive piping demand during Q3FY21
- Government thrust on infra spending such as Nal Se Jal scheme for rural and urban population is likely to drive demand of Pipe and Fittings going forward.
- The company has planned new product launches in H2FY22
- Company to start water tank production (through newly acquired business of Shree Prabhu Petrochemicals) in its Aurangabad plant from Apr'21. The water tank business generally operates with asset turnover of ~4-4.5 x and command EBITDA margin of ~14%-15%.
- The Orrisa plant is expected to commence operation from Q3FY22. New plant at Dholka for the manufacturing of valve (value added products) is likely to commence operation from Q2FY22. Expansion in Hosur Plant will also over by 1HFY22. This will take the total pipe capacity to ~2.9 lakh tonnes from current 2.4 lakh tonnes by FY22E.
- PVC pipe prices likely to remain firm in Q4FY21 also considering sharp increase in PVC price (up by ~80% from its recent low). However, CPVC compound prices were stable.
- The sharp increase in PVC prices has reduced price gap between CPVC and PVC. Company expects this will help drive demand of CPVC (which is considered to be better quality than PVC pipes)
- For the piping segment, company expects volume growth to be in the range of ~15% in long term with target EBITDA margin of about ~15%-16%.
- Strong growth in the adhesive segments. Structural changes (of distribution networks) in the adhesive segments changes is over and company is getting very positive response from the distributors.
- Performance of subsidiaries in the US and UK was strong with improved margins
- The company expects ~20% revenue growth from short to medium term in the adhesive segment. The margin is also likely to increase going forward with improved plant utilisation
- Overall 35% revenue growth in the month of January'21. The company expects strong growth in Q4 on strong demand and favourable base
- Capex in the H1FY21 was ₹87 crore (incl. acquisition of Water tank business). net cash position by the end of 9MFY21 stood at ₹ 117 crore.
- **corporate announcements**
  - Board has declared issue of bonus shares in the proportion of 1:3, subject to shareholder approval of the Company
  - The board of directors has approved change of name of the Company from '**Astral Poly Technik Ltd**' to '**Astral Limited**'.

## Financial Summary

Profit and loss statement				
	₹ crore			
Year end March	FY20	FY21E	FY22E	FY23E
Net Sales	2577.9	2903.3	3797.2	4528.6
YoY (%)		12.6	30.8	19.3
Other income	12.1	21.8	22.8	27.2
<b>Total Revenue</b>	<b>2590.0</b>	<b>2925.0</b>	<b>3820.0</b>	<b>4555.7</b>
Expenditure				
Cons of raw material	1573.0	1779.0	2346.4	2807.7
Pur. of traded goods	22.7	22.0	21.1	20.4
Employee cost	175.2	201.6	248.7	271.7
Other expenses	364.1	333.9	455.7	566.1
Total expenses	2135.0	2336.4	3071.8	3665.9
<b>EBITDA</b>	<b>442.9</b>	<b>566.8</b>	<b>725.4</b>	<b>862.7</b>
YoY (%)		28.0	28.0	18.9
Interest	39.4	18.3	3.8	2.3
PBDT	415.6	570.3	744.3	887.5
Depreciation	107.9	119.0	125.3	135.9
Profit before tax	307.7	451.3	619.0	751.7
Total Tax	56.5	109.5	155.8	189.2
PAT before MI	251.2	341.8	463.2	562.5
Exc. Items	-1.6	-7.2	-4.6	-4.0
<b>PAT</b>	<b>249.6</b>	<b>334.6</b>	<b>458.6</b>	<b>558.5</b>

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet				
	₹ crore			
Year end March	FY20	FY21E	FY22E	FY23E
Equity Capital	15.1	15.1	15.1	15.1
Reserve and Surplus	1487.8	1812.9	2089.9	2466.8
Total Shareholders funds	1502.9	1828.0	2105.0	2481.9
Total Debt	129.1	79.1	49.1	29.1
Other Non Current Liabilitie:	119.6	121.6	123.6	125.6
<b>Total Liability</b>	<b>1691.8</b>	<b>1967.9</b>	<b>2215.9</b>	<b>2573.8</b>
Fixed Assets				
Gross Block	1475.8	1555.8	1755.8	2005.8
Accumulated Depreciation	476.2	595.2	720.5	856.4
Net Block	999.6	960.6	1035.3	1149.4
Capital WIP	44.4	44.4	44.4	44.4
Total Fixed Assets	1044.0	1005.0	1079.7	1193.8
Goodwill on Consolidation	255.3	305.3	355.3	405.3
Current Assets				
Inventory	540.4	636.3	769.8	905.7
Debtors	227.8	461.3	572.2	670.0
Loans and Advances	12.4	2.6	3.4	4.1
Other Current Assets	64.7	79.6	95.3	113.7
Cash	130.1	98.0	103.4	194.2
Total Current Assets	975.4	1277.8	1544.2	1887.7
Current Liabilities				
Creditors	475.4	501.1	603.4	719.6
Provisions	6.6	3.6	4.3	5.1
Other current liabilities	115.4	130.0	170.0	202.7
Total Current Liabilities	597.4	634.6	777.7	927.5
Net Current Assets	378.0	643.2	766.5	960.2
Deferred Tax Assets	0.1	0.1	0.1	0.1
<b>Total Asset</b>	<b>1691.8</b>	<b>1967.9</b>	<b>2215.9</b>	<b>2573.8</b>

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
Year end March	FY20	FY21E	FY22E	FY23E
Profit/(Loss) after taxation	249.6	334.6	458.6	558.5
Add: Depreciation & Amortization	107.9	119.0	125.3	135.9
Add: Interest Paid	39.4	18.3	3.8	2.3
C/F bef working capital chg.	396.9	472.0	587.8	696.7
Net Increase in Current Assets	-61.6	-334.6	-260.9	-252.7
Net Increase in Current Liabilities	37.6	37.2	143.0	149.8
<b>Net CF from operating act</b>	<b>373.0</b>	<b>174.7</b>	<b>469.9</b>	<b>593.8</b>
(Inc)/Dec in Goodwill on Cons				
	-1.5	-50.0	-50.0	-50.0
(Purchase)/Sale of Fixed Assets				
	-219.5	-80.0	-200.0	-250.0
Others				
	-8.6	1.0	1.0	1.0
<b>Net Cf from Investing Act</b>	<b>-212.8</b>	<b>-129.0</b>	<b>-249.0</b>	<b>-299.0</b>
Pro/(Rept) of/from Loan				
	-64.4	-50.0	-30.0	-20.0
(Payment) of Div & Div Tax				
	0.0	-32.7	-181.6	-181.6
Others				
	-63.8	4.9	-3.8	-2.3
<b>Net Cf from Financing Act</b>	<b>-128.1</b>	<b>-77.8</b>	<b>-215.5</b>	<b>-204.0</b>
Net Cash flow				
	32.0	-32.2	5.5	90.8
Cash and Cash Equi at the beg				
	98.1	130.1	98.0	103.4
<b>Cash and Cash Equi at the end</b>	<b>130.1</b>	<b>98.0</b>	<b>103.4</b>	<b>194.2</b>

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
	₹ crore			
Year end March	FY20	FY21E	FY22E	FY23E
<b>Per share Data</b>				
EPS	16.6	22.2	30.4	37.1
Cash EPS	23.7	30.1	38.8	46.1
Dividend per share	0.0	2.2	12.1	12.1
BV per share	99.8	121.3	139.7	164.7
<b>Profitability Ratio</b>				
EBITDA margin	17.2	19.5	19.1	19.0
PAT margin	9.7	11.5	12.1	12.3
Return Ratios				
RoCE	20.5	23.9	28.1	29.3
RoNW	16.6	18.3	21.8	22.5
RoIC	24.6	27.4	32.1	34.3
<b>Valuation Ratios</b>				
P/E	124.6	92.9	67.8	55.7
EV / EBITDA	70.2	54.8	42.8	35.9
Market Cap / Sales	12.1	10.7	8.2	6.9
Price to Book Value	20.7	17.0	14.8	12.5
<b>Activity Ratios</b>				
Inventory Days	76.5	80.0	74.0	73.0
Debtor Days	32.3	58.0	55.0	54.0
Creditor Days	67.3	63.0	58.0	58.0
Gross Block Turnover	1.7	1.9	2.2	2.3
<b>Solvency Ratio</b>				
Debt / Equity	0.1	0.0	0.0	0.0
Debt / EBITDA	0.3	0.1	0.1	0.0
Current Ratio	1.8	2.3	2.4	2.3
Quick Ratio	0.6	1.1	1.1	1.1

Source: Company, ICICI Direct Research

**Exhibit 10: ICICI Direct Coverage Universe (Consumer Discretionary)**

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	2,453	3,010	Hold	2,35,243	32.8	39.9	46.3	74.7	61.4	53.0	52.7	43.8	37.5	26.7	28.6	28.5	31.1	33.4	34.0
Astral Polytechnik (ASTPOL)	2,064	2,225	Hold	31,097	22.2	30.4	37.1	92.9	67.8	55.7	54.8	42.8	35.7	23.9	28.1	29.3	18.3	21.8	22.5
Amber Enterprises (AMBEN)	2,745	3,015	Buy	8,632	29.8	68.2	97.6	92.0	40.3	28.1	35.9	18.7	14.0	8.4	15.3	18.7	6.5	13.0	15.8
Bajaj Electricals (BAJELE)	736	585	Buy	8,368	11.8	17.1	23.0	NM	43.1	31.9	26.3	20.2	15.9	10.8	14.7	18.6	8.3	13.0	15.4
Berger Paints (BERPAI)	729	675	Hold	70,800	7.8	9.7	11.7	93.7	75.5	62.1	60.3	50.8	43.0	26.9	30.3	34.0	23.8	25.7	27.9
Crompton Greaves(CROGR)	411	480	Buy	25,770	7.9	9.5	12.0	51.7	43.2	34.1	37.6	31.9	25.8	31.1	34.8	41.1	27.4	28.4	32.1
EPL (ESSPRO)	226	250	Hold	7,130	7.8	8.9	10.8	28.8	25.4	21.0	11.6	10.8	9.2	18.3	19.0	21.3	15.6	15.6	17.0
Havells India (HAVIND)	1,115	1,255	Hold	69,565	16.1	17.8	22.9	69.3	62.6	48.6	45.8	41.2	32.5	23.7	25.5	30.8	20.6	21.2	25.7
Kansai Nerolac (KANNER)	575	675	Buy	30,988	9.7	12.7	15.0	59.0	45.2	38.4	37.9	30.4	25.9	17.9	20.7	21.6	13.7	15.9	16.6
Pidilite Industries (PIDIND)	1,739	1,920	Buy	88,306	22.1	28.2	32.9	78.5	61.7	52.9	50.0	39.9	34.7	28.4	31.5	32.4	22.8	25.3	25.9
Polycab India (POLI)	1,296	1,385	Buy	19,295	57.9	67.2	79.7	22.4	19.3	16.3	15.3	11.9	9.8	21.2	24.4	26.2	18.1	19.0	20.1
Supreme Indus (SUPIND)	1,915	2,010	Buy	24,326	62.2	50.0	58.0	30.8	38.3	33.0	19.5	21.4	18.6	27.3	21.7	23.2	28.4	20.4	20.9
Symphony (SYMLIM)	1,017	1,090	Hold	7,115	13.1	29.8	40.0	77.4	34.1	25.4	61.3	26.7	19.7	16.7	35.7	41.8	17.1	34.1	38.7
Time Techno (TIMTEC)	53	43	Hold	1,199	7.5	4.0	9.1	7.1	13.3	5.8	3.1	4.3	2.8	12.5	8.0	13.2	9.3	5.0	10.7
V-Guard Ind (VGUARD)	241	210	Buy	10,322	3.7	5.3	6.2	65.4	45.3	38.8	34.5	25.4	21.6	20.1	25.3	26.9	15.1	19.5	20.8
Voltas Ltd (VOLTAS)	1,004	845	Hold	33,206	12.3	22.6	29.8	81.6	44.4	33.7	57.7	31.1	25.2	12.8	20.1	21.9	9.1	15.3	17.5

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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