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Q4FY21 result review and reco change

Plastic

Target price: Rs1,964

Earnings revision

(%)	FY22E	FY23E
Revenues	↑ 3.3	↑ 3.1
EBITDA	↑ 7.6	↑ 7.0
PAT	↑ 8.4	↑ 7.3

Target price revision

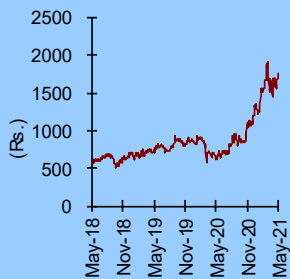
Rs1,964 from Rs1,665

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	55.7	55.7	55.7
Institutional investors	28.3	28.3	28.5
MFs and others	9.8	7.7	7.2
FIs/Banks	0.5	0.0	0.4
Insurance	-	-	-
FII	18.0	22.4	20.9
Others	16.0	14.0	15.8

Source: NSE

Price chart



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INDIA

Astral Ltd

ICICI Securities

ADD

Downgrade from BUY

Embedded optionality offers valuation comfort **Rs1,814**

While we downgrade Astral Ltd (ASTRA) to ADD from Buy on the recent surge in stock price, we remain highly optimistic on the growth prospects of the company over the next 3-5 years. Besides the inherent growth prospects of both its pipes and adhesive divisions (capable of delivering 15-20% revenue CAGR over next 5 years), the business model has embedded optionality which provides healthy comfort to otherwise seeming expensive valuations. These include - 1) huge cash on books (to exceed Rs10bn by FY23) which would likely open up substantial organic/inorganic growth opportunities, 2) low market share in pipes (7.5%) and adhesives (3%) to drive substantial scalability over the next 5 years, 3) recently launched DWC pipes and tanks to drive sound revenue visibility, 4) East India plant (to come on stream by Oct'21) to open up massive opportunity in the region where the leading player Supreme Industries (SI) was almost 10x the size of ASTRA in FY21, and 5) new product launches in pipes & adhesives to contribute meaningfully over the next 3-5 years. **Q4FY21 earnings key highlights:** A) Industry leading volume growth of ~26% YoY in pipes, b) adhesive revenue growth at 73% YoY, and c) all-time high EBITDA margins in both business segments despite cost inflation.

- **Valuation and outlook:** Considering the robust growth outlook and the expected improvement in margins in both pipe and adhesive businesses, we increase our revenue and PAT estimates by 3.3%/3.1% and 8.4%/7.3%, respectively, for FY22E/FY23E. We expect ASTRA to report overall revenue/PAT CAGRs of 24.9%/33.2%, respectively, over FY21-FY23E. With the recent surge in stock price, we downgrade it to **ADD** (from **Buy**) with a revised target price of Rs1,964 (earlier: Rs1,665), implying a P/E multiple of 55x FY23E earnings. Key risks: 1) Sharp decline in PVC prices and 2) lower than expected pick-up in adhesive business.
- **Pipe business reports industry leading 25.8% volume growth:** ASTRA reported 25.8% YoY industry leading volume growth in its piping segment led by robust growth in CPVC piping segment and market share gains. Standalone EBITDA margin at 23.5% (l-Sec: 20.5%), up 60bps QoQ, was led by inventory gains of Rs300mn, operating leverage and superior product mix. With robust growth outlook (Apr'21 witnessing 154% YoY revenue growth) amid likely industry consolidation, possible new product launches and expected improvement in margins led by better mix and decentralisation, we estimate ASTRA's standalone revenue/PBT to grow at 22%/27.2% CAGRs, respectively, over FY21-FY23E.
- **Adhesive business revenue grew 73% YoY; robust outlook ahead:** Adhesive business reported an impressive 73% YoY growth in revenues on the back of new product launches, sharp demand recovery and considerable pick-up in construction activity pan-India. EBITDA margin surprised at 17.7%, up 140bps QoQ (despite input cost cost inflation), largely driven by operating leverage and price hikes. With growth recovery expected to sustain, we expect adhesive business to register revenue and PBT CAGRs of 30.5% and 44.3%, respectively, over FY21-FY23E.

Market Cap	Rs365bn/US\$5.0bn	Year to Mar	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	ASPT.BO/ASTRA IN	Revenue (Rs mn)	25,781	31,763	41,376	49,543
Shares Outstanding (mn)	200.9	Rec. Net Income (Rs mn)	2,481	4,044	5,697	7,173
52-week Range (Rs)	1906/609	EPS (Rs)	12.3	20.1	28.4	35.7
Free Float (%)	44.3	% Chg YoY	26.7	63.0	40.9	25.9
FII (%)	20.4	P/E (x)	147.1	90.2	64.0	50.9
Daily Volume (US\$/'000)	7,849	CEPS (Rs)	17.7	25.9	34.6	42.5
Absolute Return 3m (%)	19.2	EV/E (x)	82.6	55.9	42.9	34.4
Absolute Return 12m (%)	198.0	Dividend Yield (%)	0.4	0.1	0.2	0.2
Sensex Return 3m (%)	(1.8)	RoCE (%)	20.9	29.8	32.5	32.6
Sensex Return 12m (%)	67.1	RoE (%)	17.9	23.8	26.3	26.1

Please refer to important disclosures at the end of this report

Table 1: Q4FY21 result review*(Rs mn, year ending March 31)*

Particulars	Q4FY21A	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Net Sales	11,278	10,488	6,289	79.3	8,975	25.7	31,763	25,779	23.2
Total Op. Income	11,278	10,488	6,289	79.3	8,975	25.7	31,763	25,779	23.2
Expenditure	8,732	8,430	5,163	69.1	7,055	23.8	25,318	21,350	18.6
Raw Materials	6,812	6,395	3,861	76.4	5,490	24.1	19,473	15,730	23.8
Cost of traded goods	57	95	41	39.0	72	(20.8)	216	227	(4.8)
Staff Cost	475	650	417	13.9	524	(9.4)	1,910	1,752	9.0
Other Expenditure	1,388	1,290	844	64.5	969	43.2	3,719	3,641	2.1
Operating Profit	2,546	2,058	1,126	126.1	1,920	32.6	6,445	4,429	45.5
<i>OPM (%)</i>	<i>22.6</i>	<i>19.6</i>	<i>17.9</i>	<i>470bps</i>	<i>21.4</i>	<i>120bps</i>	<i>20.3</i>	<i>17.2</i>	<i>310bps</i>
Other Income	50	65	1	4,900.0	61	(18.0)	199	121	64.5
Interest	12	37	181	(93.4)	17	(29.4)	79	394	(79.9)
Depreciation	292	314	289	1.0	300	(2.7)	1,165	1,079	8.0
PBT	2,292	1,772	657	248.9	1,664	37.7	5,400	3,077	75.5
Tax	527	401	135	290.4	413	27.6	1,248	565	120.9
PAT	1,765	1,371	522	238.1	1,251	41.1	4,152	2,512	65.3
Minority Interest & Share of loss on JV	19	27	11	72.7	19	0.0	108	33	227.3
Reported PAT	1,746	1,345	511	241.7	1,232	41.7	4,044	2,479	63.1
<i>NPM (%)</i>	<i>15.5</i>	<i>12.8</i>	<i>8.1</i>	<i>740bps</i>	<i>13.7</i>	<i>180bps</i>	<i>12.7</i>	<i>9.6</i>	<i>310bps</i>

Source: Company data, I-Sec research

Table 2: Change in estimates*(Rs mn, year ending March 31)*

	Old		New		% change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	40,045.2	48,044.0	41,376.2	49,542.6	3.3%	3.1%
EBITDA	7,766.7	9,593.6	8,356.5	10,261.7	7.6%	7.0%
EBIDTA margins	19.4%	20.0%	20.2%	20.7%	80bps	70bps
PAT	5,256.9	6,682.2	5,696.7	7,172.6	8.4%	7.3%
EPS	26.2	33.3	28.4	35.7	8.2%	7.2%

Source: Company data, I-Sec research

Key highlights from Q4FY21 conference call

Pipe segment

- **Long-term guidance**
 - Company expects pipe segment to grow >15% in volumes over the next 3-5 years.
 - EBITDA margin in near term will be between 16-19%, while it will continue to be 15-16% in the long term.
 - **Recently launched products** (tanks / DWC pipes / multi pro / fire pro / silencio / agri etc.) are currently accounting for very low share of revenue which can be scaled up over the next 5 years.
 - Company is likely to launch **new products** in the next 12-18 months which can generate additional revenue of Rs3bn over the next 5 years.
 - Existing standalone pipes business (current market share of 7.50%) is likely to double its revenue over 5 years.
- Superior margin in Q4FY21 was driven by inventory gains of Rs300mn, operating leverage, higher CPVC sales.

- Higher other expenses were led by one-off branding expenses in the form of Ranveer Singh's fees as brand ambassador, new campaign fees and India-England sponsorship fees, which will not sustain going forward.
- CPVC industry took a price hike of 5-8% over Mar'21 and Apr'21.
- **PVC resin prices** are expected to fall over next 4-6 months. Till that time, due to higher PVC prices, the company expects cannibalisation to CPVC pipes due to narrow price difference and expected higher CPVC prices.
- **Plumbing demand** visibility has improved and is likely to remain firm going forward with higher real estate sales and better demand recovery post covid barring a small hiccup in the form of second covid wave.
- Three **new addition of locations in pipe** will decentralise manufacturing operations (Sangli, Aurangabad and Bhubaneswar). East India will be a good growth driver where its competitors already have a sizeable market share.
- Company will set up pipes machinery in **Sangli and Aurangabad** over the next one year to start selling all piping systems from these two plants.
- **Odisha plant** is likely to commence work Oct'21 onwards with the capacity of 20,000 MTPA. It can go up to 60,000MTPA.
- Infrastructure (DWC) pipe business is likely to do better in FY22 with the economy turning around and government's impetus on infra-related projects.
- Company has exited Kenya operations which were making losses every year since past 5 years.
- Company has received **approval from UL for its fire sprinkler piping system** and it is the first company in India to have received this approval.
- Company has **recently launched CPVC multi pro** with multiple layers and aluminium coating in between with extensive usage, cost effectiveness and expects it to be a successful product.
- **Valves** has started its operations in Dholka plant. Currently, it sells Rs30-40mn per month to industry. Q3FY22 onwards it plans to sell value-added valves with higher margin post receiving new moulds.
- Company will be **setting up a new R&D and training facilities** in Santej, Gujarat in next 1.5 years.

Tanks business

- Company purchased assets of water storage tank business in November 2020 at Aurangabad, the installed capacity of said plant is 13,404 M.T. The transaction was fully completed in March 2021.
- Company has recently started developing tanks with the brand name of Astral from its Santej plant.
- In the next 3-4 months, it will start producing tanks from Giloth (Rajasthan) and Hosur (Tamil Nadu) plants.
- Plastic storage tank opportunity is worth Rs50bn in India. Astral is just starting its journey with existing 33,000+ dealers. It expects revenue of Rs1.5bn by FY23 from tanks.

Adhesive business

- **Long-term guidance: 1)** Recently launched products (solvent cements PVC-CPVC / construction chemicals / PVA / epoxy etc.) are currently accounting for very low share of revenue which can be scaled up over the next 5 years.
2) To launch a few new products in adhesive & sealants segments under different chemistry which together with the recently launched products and existing products will double the business from the current level in the next 4-5 years.
- ASTRA has done very well in the adhesive segment with 73% YoY growth in Q4FY21 on a low base and strong recovery in segment.
- Resinova grew by 93% YoY while Seal IT UK grew by 16% YoY and reported double digit EBITDA margin.
- **Adhesive EBITDA margin** is expected to improve to 16% plus in next 3 years on the back of economies of scale and introduction of niche products.
- Seal IT **US subsidiary** has also done well with strong sales growth due to amid margin improvement.
- Company will **expand in Dahej in next 1.5 years** for Resinova and it is likely to be state-of-the-art plant with special designers from outside India for plant designs.
- The **new R&D facility in adhesives segment** is also likely to open up in next 2-3 months.
- Seal IT has launched new products in roofing segment both in the US and UK markets, and has been receiving encouraging response along with better sales from rescue tape.

Others

- **Capex** will be Rs1.5-Rs1.6bn in FY22 and Rs1bn in FY23.
- Company reported net cash of Rs4.1bn by the end of FY21. It guided to generate net cash of Rs10bn by FY23E.
- Company reduced working capital days from 41 days to 27 days.

Financial summary

Table 3: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Net Revenues	25,781	31,763	41,376	49,543
Operating Expenses	21,350	25,318	33,020	39,281
EBITDA	4,431	6,445	8,357	10,262
% margins	17.2%	20.3%	20.2%	20.7%
Depreciation & Amortisation	1,079	1,165	1,264	1,356
Gross Interest	394	131	57	52
Other Income	121	251	280	394
Recurring PBT	3,079	5,400	7,316	9,247
Less: Taxes	565	1,248	1,531	1,954
Less: Minority Interest	33	108	89	120
Add: Share of Profit of Associates	-	-	-	-
Net Income (Reported)	2,481	4,044	5,697	7,173
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	2,481	4,044	5,697	7,173

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	9,508	13,016	19,204	27,399
of which cash & cash eqv.	913	4,760	6,878	12,655
Total Current Liabilities & Provisions	5,423	6,660	7,305	8,581
Net Current Assets	4,085	6,356	11,899	18,818
Investments	2	-	-	-
Net Fixed Assets	9,996	10,575	11,177	11,121
Capital Work-in-Progress	444	566	-	-
Goodwill	2,553	2,570	2,202	1,834
Total Assets	17,080	20,067	25,278	31,774
Liabilities				
Borrowings	1,842	497	650	700
Deferred Tax Liability	429	400	399	399
Minority Interest	168	212	301	421
Equity Share Capital	151	201	201	201
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	14,491	18,757	23,727	30,053
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	14,641	18,958	23,928	30,254
Total Liabilities	17,080	20,067	25,278	31,774

*Excluding revaluation reserves

Source: Company data, I-Sec research

Table 5: Quarterly trend (consolidated)

(Rs mn, year ending March 31)

	Jun-19	Sep-20	Dec-20	Mar-21
Net revenues	4,039	7,471	8,975	11,278
% growth (YoY)	(33.4)	10.1	35.1	79.3
EBITDA	543	1,436	1,920	2,546
Margin (%)	13.4	19.2	21.4	22.6
Other income	39	49	61	50
Extraordinaries (Net)	-	-	-	-
Net profit	199	867	1,232	1,746

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Cashflow	4,481	6,069	6,940	8,509
Working Capital Changes	186	1,603	(2,967)	(656)
Capital Commitments	(2,195)	(1,866)	(1,300)	(1,300)
Free Cashflow	2,473	5,806	2,673	6,553
Cashflow from Investing Activities	10	20	20	20
Issue of Share Capital	1	(0)	-	-
Inc (Dec) in Borrowings	(899)	(1,345)	153	50
Dividend paid	(1,549)	(605)	(726)	(847)
Change in Deferred Tax Liability	(104)	(29)	(1)	-
Chg. in Cash & Bank balance	(68)	3,847	2,118	5,776

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (in Rs.)				
EPS	12.3	20.1	28.4	35.7
Cash EPS	17.7	25.9	34.6	42.5
Dividend per share (DPS)	6.4	2.5	3.0	3.5
Book Value per share (BV)	72.9	94.4	119.1	150.6
Growth (%)				
Net Sales	2.8	23.2	30.3	19.7
EBITDA	15.1	45.5	29.7	22.8
PAT	26.7	63.0	40.9	25.9
Cash EPS	26.7	63.0	40.9	25.9
Valuation Ratios (x)				
P/E	147.1	90.2	64.0	50.9
P/CEPS	102.5	70.0	52.4	42.8
P/BV	24.9	19.2	15.2	12.1
EV / EBITDA	82.6	55.9	42.9	34.4
EV / Sales	14.2	11.4	8.7	7.1
Operating Ratios				
Raw Material / Sales (%)	63.7	62.9	62.9	62.9
Employee cost / Sales (%)	6.8	5.0	5.0	5.0
SG&A / Sales (%)	4.5	4.5	4.5	4.5
Other Income / PBT (%)	3.9	4.6	3.8	4.3
Effective Tax Rate (%)	18.4	23.1	20.9	21.1
Working Capital (days)	41.5	26.6	31.0	31.0
Inventory Turnover (days)	76.5	54.3	56.0	56.0
Receivables (days)	32.3	31.8	32.0	32.0
Payables (days)	67.3	59.4	57.0	57.0
Net D/E Ratio (x)	0.0	-0.1	-0.1	-0.1
Profitability Ratios (%)				
Net Income Margins	9.6	12.7	13.8	14.5
RoACE	20.9	29.8	32.5	32.6
RoAE	17.9	23.8	26.3	26.1
Dividend Payout	62.5	15.0	12.7	11.8
Dividend Yield	0.4	0.1	0.2	0.2
EBITDA Margins	17.2	20.3	20.2	20.7

Source: Company data, I-Sec research

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