INSTITUTIONAL RESEARCH

Astral Poly Technik

An 'astr'onomical growth story

We initiate coverage on Astral Poly Technik Ltd (ASTRA) with an ADD rating and a target price of INR 2,210/sh. We like ASTRA for its leadership presence in the CPVC segment and continued traction in adhesive business. Aided by strong demand outlook in both businesses and ASTRA's new product launches (tanks and valves in plastic pipes, newer chemistries in adhesives), distribution strengthening in adhesives, and focus on asset sweating, ASTRA's revenue/EBITDA/APAT should grow at robust 24/29/35% during FY20-23E (ahead of 24/27/24% CAGR during FY10-20)!

- **Focus on niche - CPVC pipes:** ASTRA is India's fastest-growing (10-year revenue/EBITDA CAGR 22/24%) plastic pipes producer (in the listed space). While the company has grown to become the fourth largest overall, it is among the two largest players in the high-margin (and faster growing) CPVC pipes and fitting segments. Over the next three years, its growth visibility looks equally strong, driven by robust demand in piping segment and the company's expansion in plastic tanks and valves businesses (both high-growth opportunities). These should drive its plastic segment revenue/EBITDA CAGR of 22/27% during FY20-23E, in our view.
- **Adhesive business – another high growth segment:** ASTRA diversified into this business in 2010, and has mainly grown through inorganic acquisitions (during 2014-17), in India, the UK, and the US. Aided by ASTRA's continued new product launches, distribution rationalisation, and strong demand, we expect segmental revenue/EBITDA to grow at accelerated pace of 27/35% CAGR respectively.
- **Focus on asset sweating to accelerate FCF and bolster return ratios:** Over the past 10 years, ASTRA's capacity has grown at a strong pace – organically in the pipes business (23% CAGR) and inorganically in adhesives. The company has now trained focus on asset sweating, as it is operating below 60% utilisation across both business segments. Increased utilisation and slower pace of Capex at ~INR 1bn annually (vs INR 2bn in the preceding five years) should bolster return ratios to 20%+ and accelerate FCF generation from FY21-23E.
- **Initiate coverage with an ADD rating:** ASTRA's superior capital allocation has resulted in strong revenue and earnings growth, as well as high return ratios. While earnings growth outlook remains buoyant, ASTRA's stepping up asset sweating led FCF/return ratio acceleration should further bolster its valuations. We initiate coverage on ASTRA with an ADD rating and a TP of INR 2,210/share (34x its consolidated Mar'23E EBITDA). Despite valuing it at a 15% premium to its 3-year mean multiple, the upside is limited, owing to sharp rise in its share price over the past six months.

Consolidated Financial Summary

YE Mar (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	16,778	18,947	20,729	25,073	25,779	31,449	40,535	48,895
EBITDA	2,076	2,638	3,168	3,849	4,429	6,208	7,512	9,411
APAT	1,018	1,457	1,751	1,958	2,479	3,770	4,728	6,099
Diluted EPS (INR)	8.5	12.2	14.6	16.3	16.5	25.0	31.3	40.4
P/E (x)	301.8	210.9	175.4	156.9	123.9	81.5	65.0	50.4
EV / EBITDA (x)	148.7	117.3	97.4	80.3	69.5	48.9	40.0	31.3
RoE (%)	15.0	18.5	18.5	16.9	17.6	22.2	22.5	23.4
Net Sales	16,778	18,947	20,729	25,073	25,779	31,449	40,535	48,895

Source: Company, HSIE Research

ADD

CMP *(as on 19 Feb 2021)*	INR 2,034
Target Price	INR 2,210
NIFTY	14,982

KEY STOCK DATA	
Bloomberg code	ASTRA IN
No. of Shares (mn)	151
MCap (INR bn) / ($ mn)	306/4,209
6m avg traded value (INR mn)	361
52 Week high / low	INR 2,155/746

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	40.1	80.3	69.9
Relative (%)	23.2	48.3	46.5

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	55.74	55.74
FIs & Local MFs	11.39	10.27
FPIs	17.87	19.97
Public & Others	15.00	14.02
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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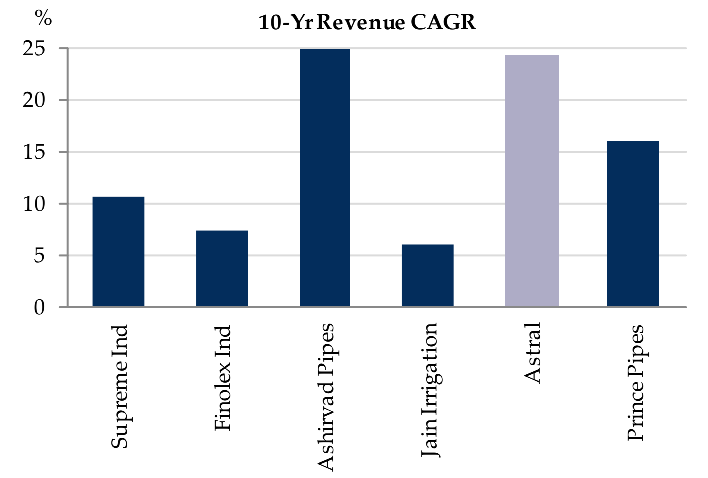
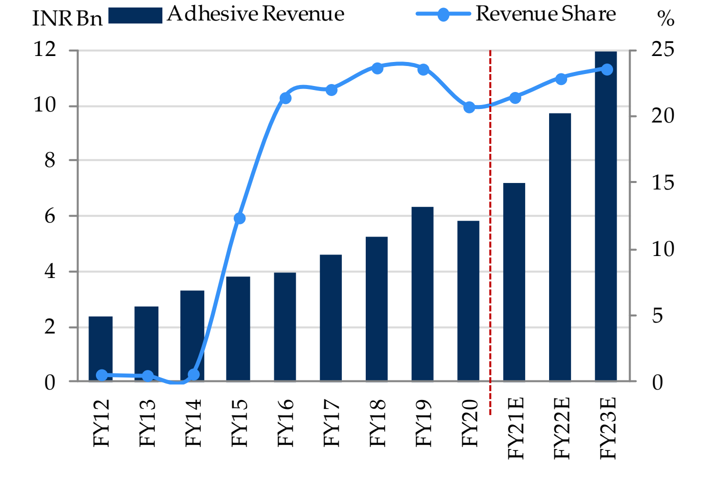
Focus Charts

ASTRA is among the fastest growing plastic pipe producer in India, and now market leader in CPVC



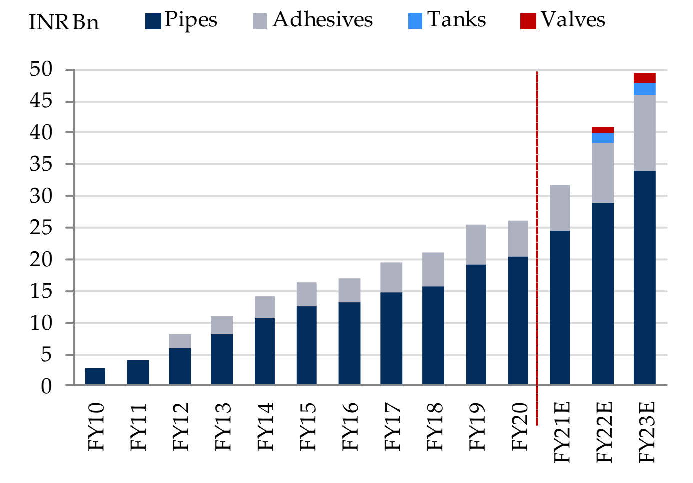
Source: Company, HSIE Research, Ashirvad CAGR is for FY09-19

ASTRA diversified into adhesive segment inorganically; It comprises 21% of its total revenues



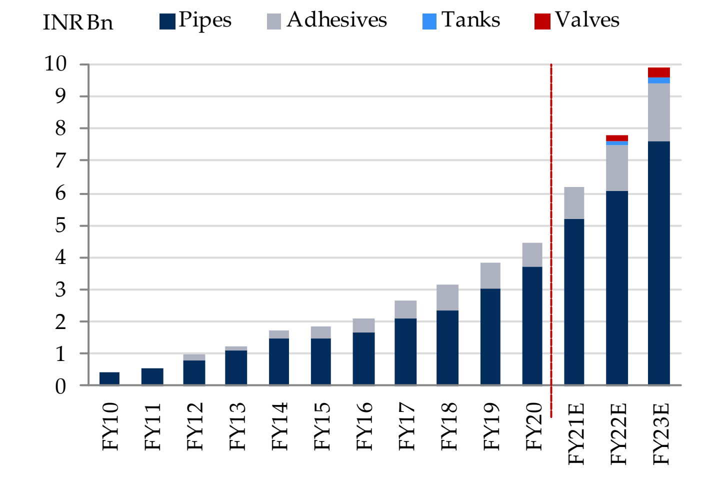
Source: Company, HSIE Research

We estimate ASTRA to sustain its stellar revenue growth momentum



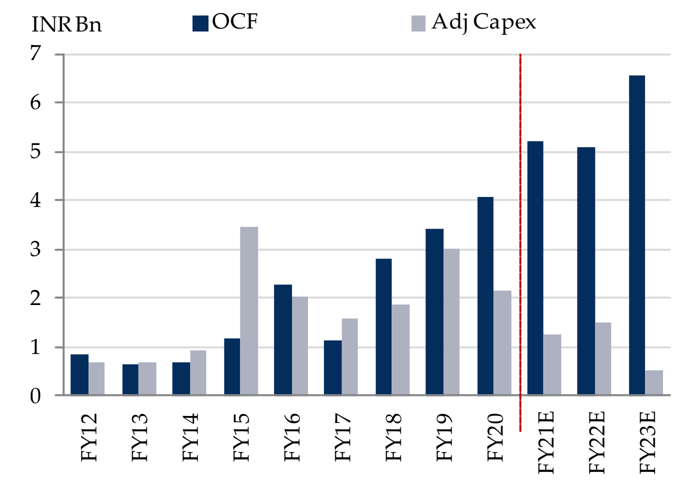
Source: Company, HSIE Research

Robust product positioning, strong distribution and cost controls to accelerate EBITDA growth



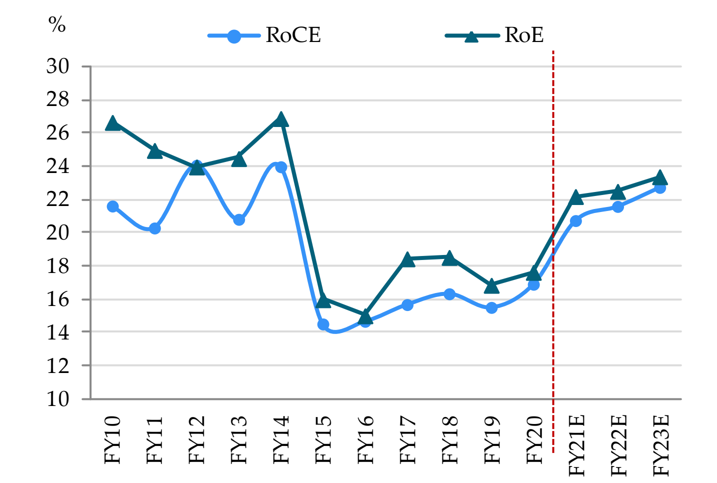
Source: Company, HSIE Research

Focus on asset sweating should accelerate FCF…



Source: Company, HSIE Research

… and further support firming up of return ratios



Source: Company, HSIE Research

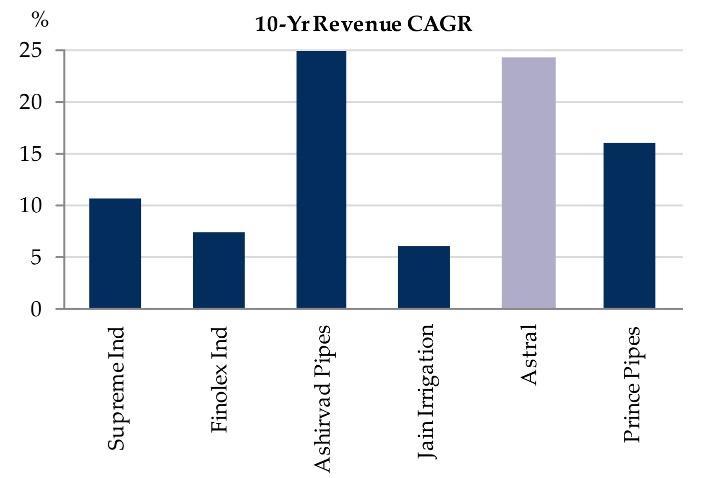
Contents

Strong growth story in the Indian plastic industry

Astral Poly Technik Ltd (ASTRA) is the fourth-largest plastic pipe producing company in India currently, with a total installed capacity of 247k MT, spread across the north, west and south markets. Over the past 10 years, ASTRA's pipes revenue has grown at 22% CAGR, much ahead of 8% industry growth. The company has registered the fastest growth among the major players in the plastic pipes industry.

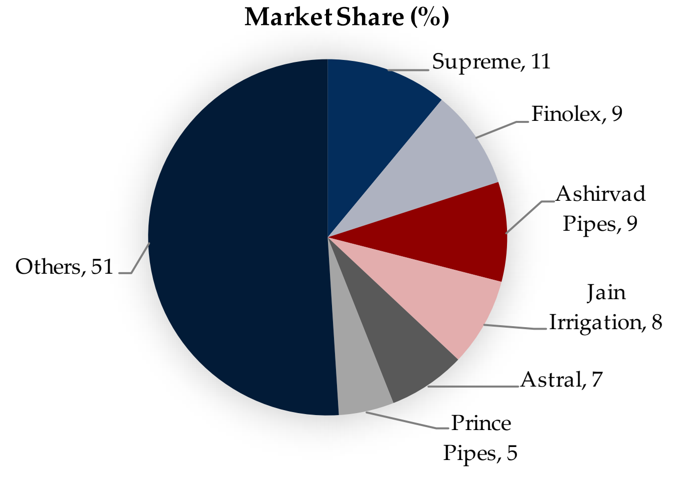
The pipes division accounts for 79% of ASTRA consolidated revenues. Adhesives and sealant business comprises the other 21% of ASTRA revenues, with factories present in UP and Gujarat in India and in the US and UK.

Astral is among the fastest growing plastic pipe companies in India



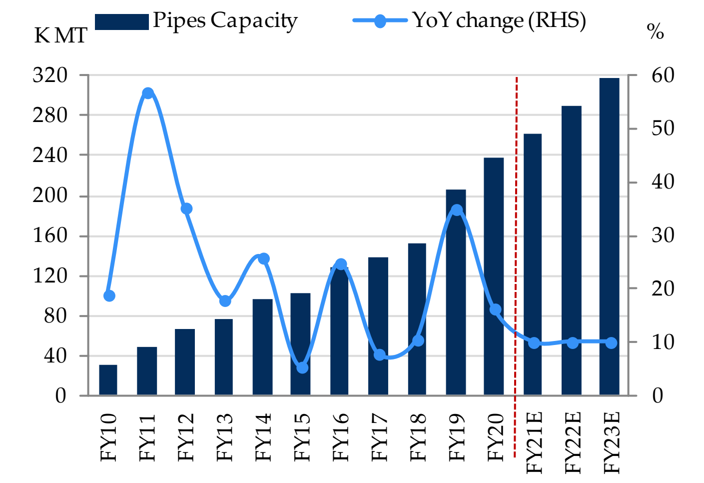
Source: Industry, HSIE Research

…thereby becoming the fourth largest pipe company currently



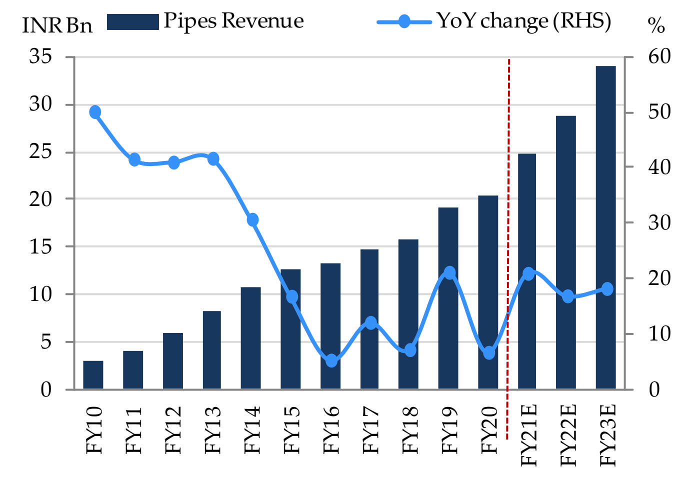
Source: Industry, HSIE Research

ASTRA has scaled up its capacity at a robust 23% CAGR during FY10-20…



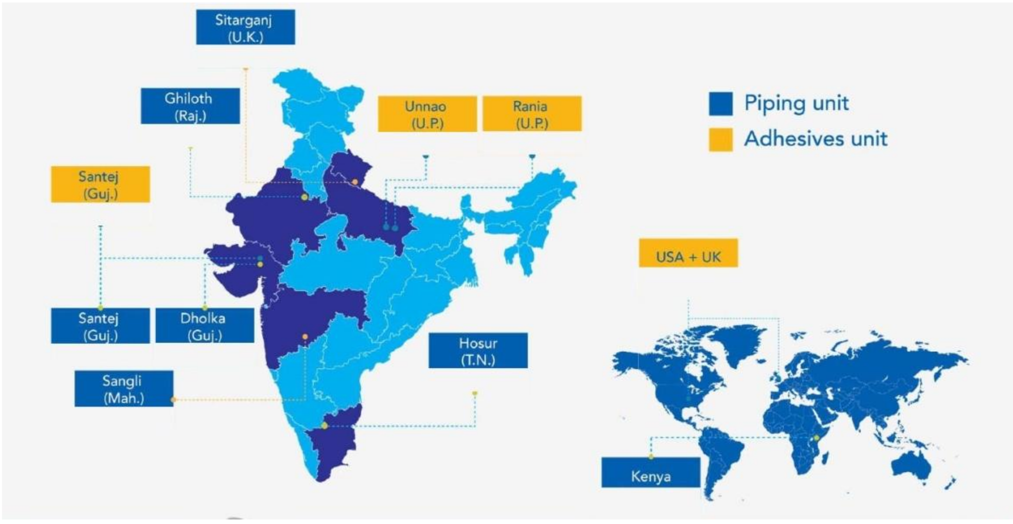
Source: Company, HSIE Research

… and has subsequently delivered 22% volume growth in the same period



Source: Company, HSIE Research

ASTRA's plants locations across both Pipes and Adhesives



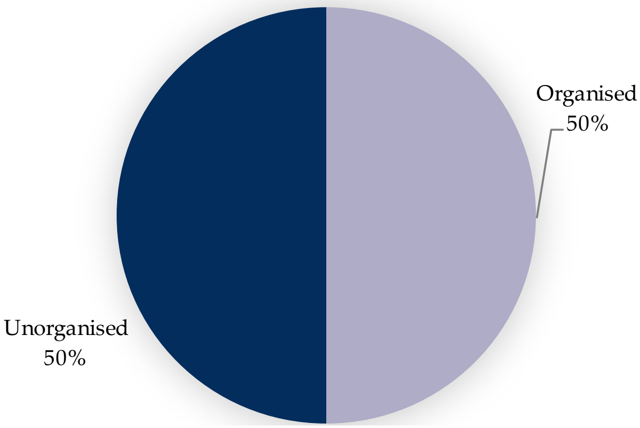
Source: Company, HSIE Research

Market leader in high-margin CPVC

While ASTRA is the fourth-largest company in the overall piping sector in India, it is the largest player in the CPVC pipes & fitting segment (along with Ashirvad Pipes). It has been a pioneer of CPVC pipes in India and currently enjoys ~25% of the market share in this segment. The CPVC market is more organised (~80%) than the PVC pipes segment (~50%).

While in PVC, there are lots of small players…

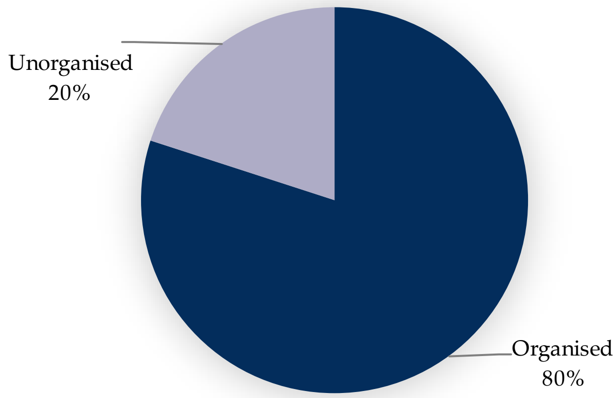
PVC: Share of unorganised vs organised (%)



Source: Industry, HSIE Research

…. Large players dominate the CPVC pipes market

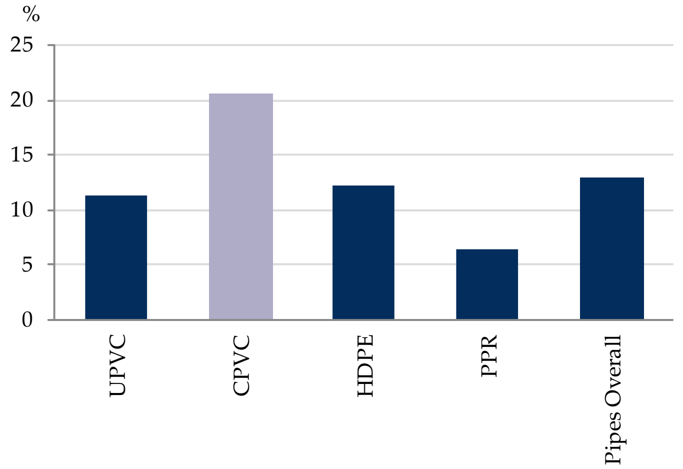
cPVC: Share of unorganised vs organised (%)



Source: Industry, HSIE Research

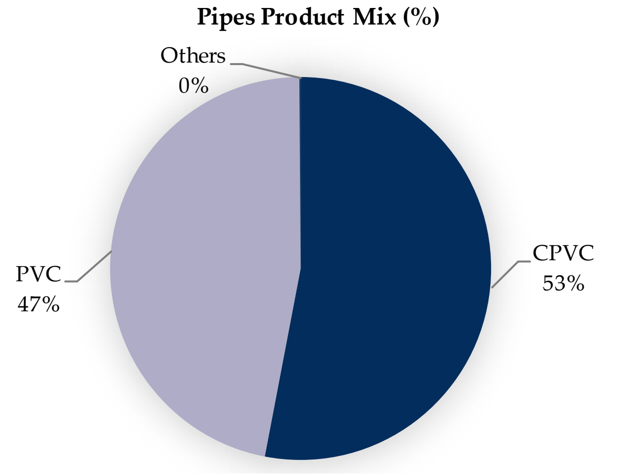
Over the past decade, the CPVC pipes segment has penetrated at a fast pace in India as it grew at almost double the rate of PVC piping growth. There has been a large-scale shift from metal pipes to CPVC pipes in case of plumbing, hot & cold-water distribution and construction industry. With the required technology posing a major barrier to entry (vs PVC pipes), the organised players (controlling 80% of the CPVC market currently), have grown at a much faster pace. With a large portfolio of CPVC pipes & fitting (~50-55% of its segmental sales), ASTRA has been able to clock very strong revenue growth (22% in the past 10 years).

CVPC market is expected to continue to grow at a faster pace vs other plastic pipes



Source: Industry, HSIE Research

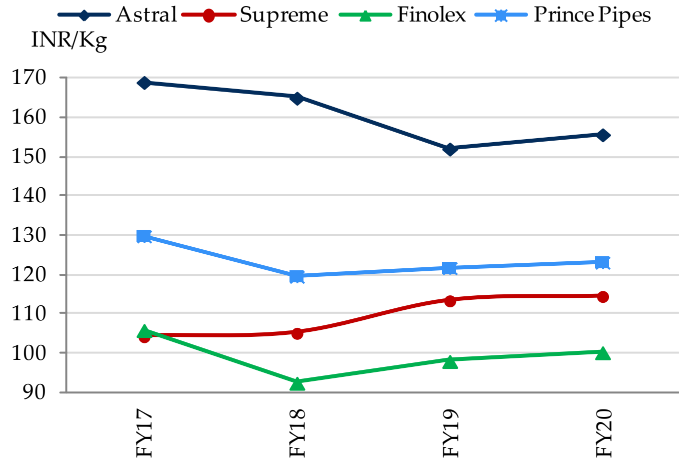
ASTRA leads the CPVC market (with ~25% market share) owing to its large CPVC product mix



Source: Industry, HSIE Research

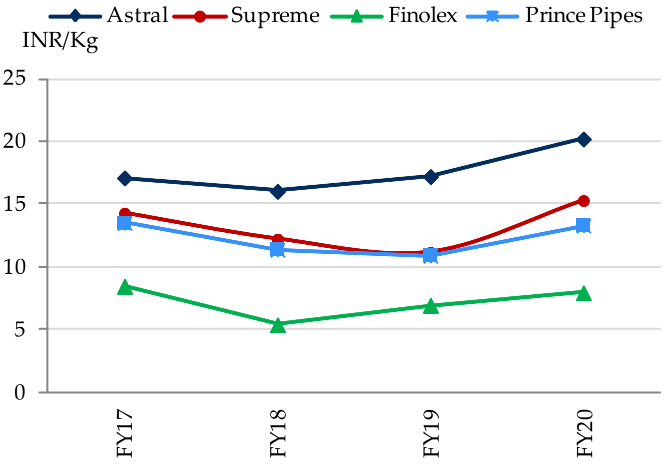
CPVC pipes sell at ~15-20% higher price vs PVC pipes, thereby generating higher margin by ~300-500bps vs the latter. Thus, ASTRA's blended pipes margin is also higher vs its peers.

ASTRA's pipes NSR exceeds others owing to larger share of high-value CPVC



Source: Company, HSIE Research

Similarly, larger share of high-margin CPVC has buoyed its EBIT margin vs peers



Source: Company, HSIE Research

Continued expansion of products in the pipes segment

ASTRA has a large portfolio of pipes & fitting products encompassing the whole spectrum of piping and cables. The plumbing pipes & fittings comprise about 70% of the company's pipes revenues. ASTRA launched CPVC pipes in 1999 and fittings in 2001, gaining market share from GI and metal pipes in the plumbing segment. In 2004, it launched lead-free PVC pressure pipes. Thereafter, over the next few years, it ventured into fire sprinkler systems, SWR pipes, underground pipes, etc. In 2013, ASTRA expanded into the agri-segment through the launch of PVC pipes. In 2016, it terminated its collaboration with Lubrizol for CPVC pipes and commenced its own CPVC compounding facility. Thereafter, it launched its own product portfolio for plumbing, fire systems and industrial applications, under the Astral PRO brand. Over the next two years, it launched premium CPVC pipes (Pex-a-Pro) and various products in surface drainage systems. In 2018, ASTRA acquired Rex Poly – a major player in the double-wall corrugated (DWC) plastic pipes, thereby expanding into the infrastructure segment. Thus, the company is well-diversified in various categories with a large exposure to the high-margin and fast-growing CPVC pipe segment.

Astral's pipes product list

Segment	Products
Plumbing Pipes & Fittings	CPVC PRO, Pex-a PRO, Aquarius
Sewerage Drainage Pipes & Fittings	Silencio, DrainMaster, Foamcore, DrainHulk, Underground, D-Rex
Agriculture Pipes & Fittings	Bore-Well, Case-Well, Aquasafe, Geo-Rex
Surface Drainage System	Hauraton
Insulation Tube	Insu PRO
Fire Sprinklers Pipes & Fittings	Fire PRO
Cable Protection	MultiRex, FireGuard, TeleRex
Urban Infrastructure	Plus+StiRex, Pre-StiRex
Industrial Pipes & Fittings	Chem PRO, Aquarius Plus
Ancillary Products	Clamps & Hangers

Source: Company, HSIE Research

Aggressive marketing efforts and rising distribution

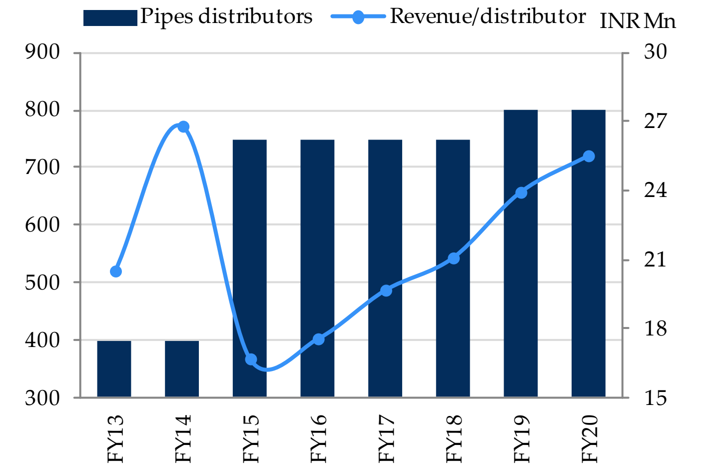
ASTRA has been consistently and aggressively investing in brand promotions through associations with film stars, in-film branding and IPL sponsorships, which along with its large product basket offerings helped it expand its retail distribution, bolstering its revenue growth.

After the company broke its tie-ups with Lubrizol (due to higher CPVC resin prices) in 2016, it set up an in-house compounding facility (backward integrated) and tied up with a Japanese resin supplier Sekisui. These moves helped the company to secure raw material as well as to expand its brand, leading to better margins.

In 2019, the Indian government imposed anti-dumping duty on CPVC resins originating from China and Korea, which were major suppliers to India. This hit the small unorganised players while helping bigger players like ASTRA, which have been sourcing the resins from Japan.

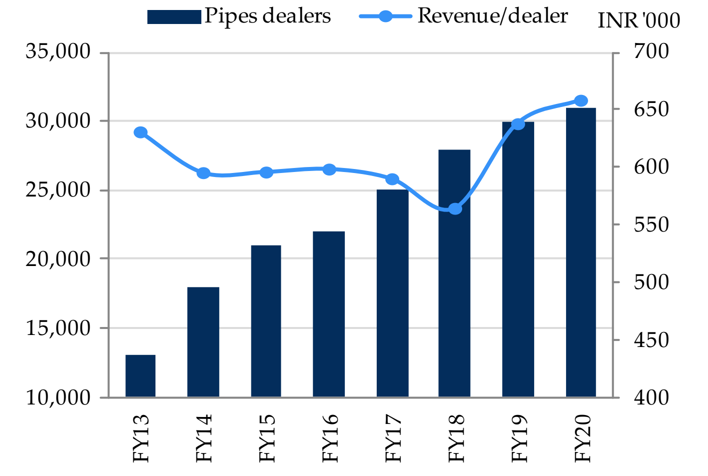
ASTRA has been increasing its distribution reach as well as distribution productivity over the past five years. As ASTRA expanded its capacity across multiple locations, its logistics cost has remained stable over the past several years.

ASTRA has been able to sweat up its distribution network



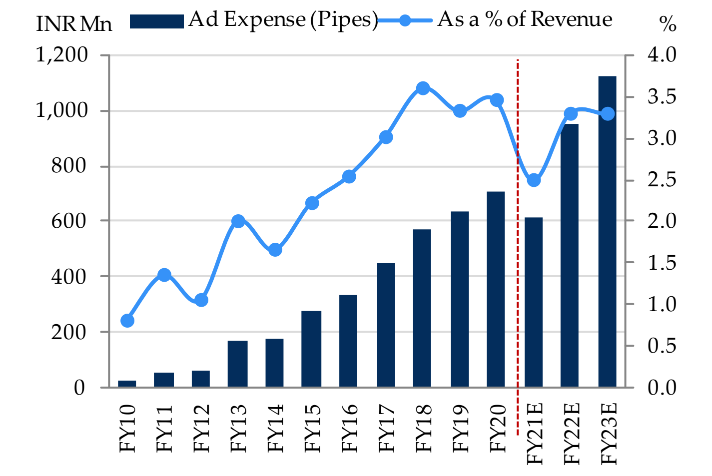
Source: Company, HSIE Research

With a greater focus on B2C, ASTRA has scaled up its retail presence as well as dealers productivity



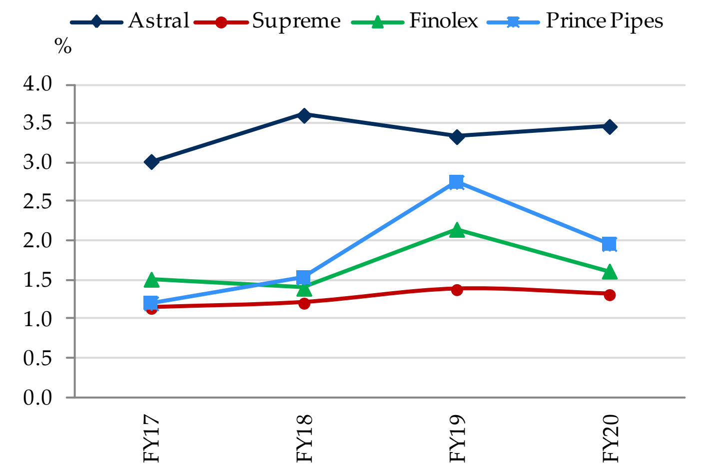
Source: Company, HSIE Research

As it has expanded its capacity at fast pace, it has also increased its ad spends to bolster sales



Source: Company, HSIE Research

ASTRA spends higher vs peers on advertisement



Source: Industry, HSIE Research

Business diversification in high growth adhesives business

While ASTRA is two decades old in the piping segment, it forayed into the adhesive business only about a decade back. The company started by importing solvent cement from a US-based company IPS Corp. In 2010, ASTRA acquired 85% stake in Advanced Adhesives Ltd, which entered into technical collaboration with IPS Corp to manufacture the product in India. Thus, ASTRA started manufacturing solvent cement 2012 onwards. Later, ASTRA acquired Resinova in India and Seal IT UK in FY15. In FY17, Seal IT UK acquired the Silicone Tape business of Rowe Industries in the US, under a step-down subsidiary Seal IT, US. These helped ASTRA expand its product offerings and geographical reach.

The adhesive and sealant industry in India is expected to grow at ~12% CAGR from 2019-2024. The current market size is pegged at ~INR 150bn. The industry is fairly consolidated with top-4 companies (Pidilite Industries, Henkel AG & Co, Sika, Arkema Group -Bostik India, and H.B. Fuller) controlling more than 80% of the market. India is one of the fastest growing markets for adhesives, led by growth in auto, packaging, and housing industries.

Although ASTRA is a small player in the segment, it has been growing at a very fast pace. It has registered 15-20% revenue CAGR in the past 6-7 years. It has over 600 SKUs for use across homes, furniture, construction, automotive, engineering, insulation, etc. The company is currently operating its adhesive business at ~50% of its revenue potential, implying that its high growth should sustain, even on its existing capacity.

During FY15/16, ASTRA made three acquisitions in its adhesive business, thereby accelerating its presence in this segment and diversifying its business. It first acquired 76% stake in Kanpur-based adhesive company Resinova Chemie Ltd in FY15 and later, the remaining 24% in FY16 at an EV of INR 2.9bn (1.7/16x FY15 sales/EBITDA). Resinova came with a large portfolio (600+SKUs) of branded adhesives, construction chemicals, sealants and industrial maintenance products, along with two factories in UP (backward integrated).

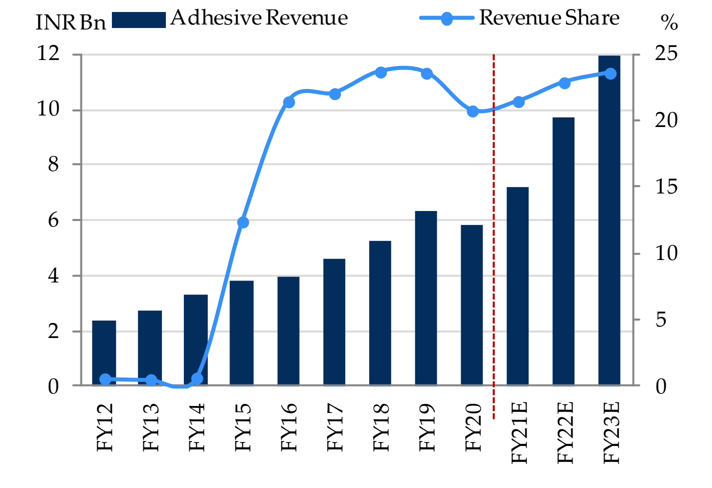
In Aug'14, ASTRA also made an overseas acquisition (80% stake) of Seal IT Services, UK for INR 0.69bn (0.5/8.7x FY14 sales/EBITDA). This company, later in FY17, fully acquired the silicone tape business of US-based Rowe Industries at an EV of INR 220mn, thereby increasing its product and geographical reach.

Adhesive product range

Source: Company, HSIE Research

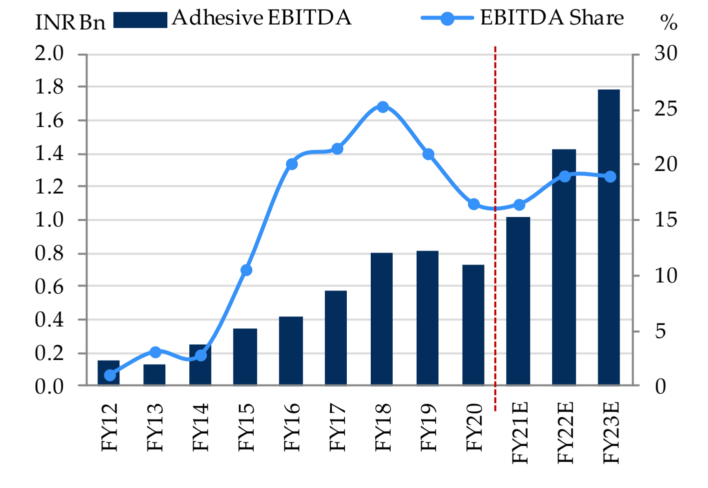
ASTRA has been successful in bolstering the Resinova business. While the latter continued to clock 20%+ revenue growth under the ASTRA brand, its EBITDA margin expanded to 15-18% during FY17-19 vs 6-8% during FY12-15 (pre-acquisition). The improvement happened at both gross margin level as well as overhead cost controls. During FY19-20, ASTRA further consolidated the distribution network from 3-tier structure to a 2-tier one. It cut down the dealers and distributors network across its adhesive business. While margin moderated to 14% during FY19-20, it has rebound to ~16% in FY21 (our estimate) and is expected to further expand, riding on strong demand and cost controls.

ASTRA has scaled up its adhesive business through inorganic acquisitions



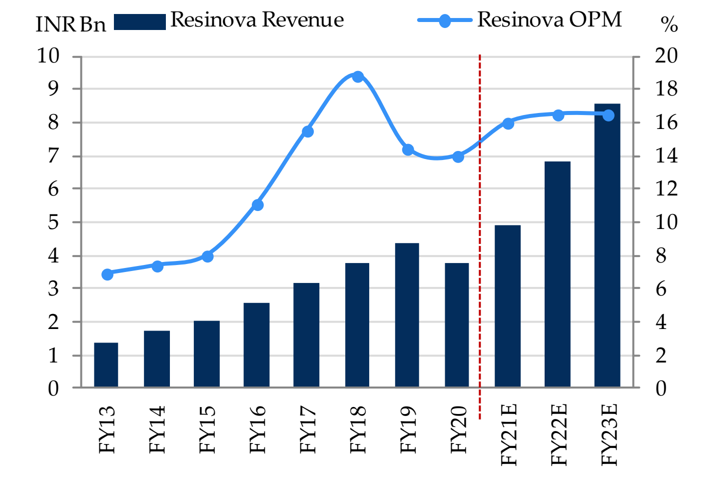
Source: Company, HSIE Research

Continued new product launches, recent distribution revamp and cost controls should bolster margin



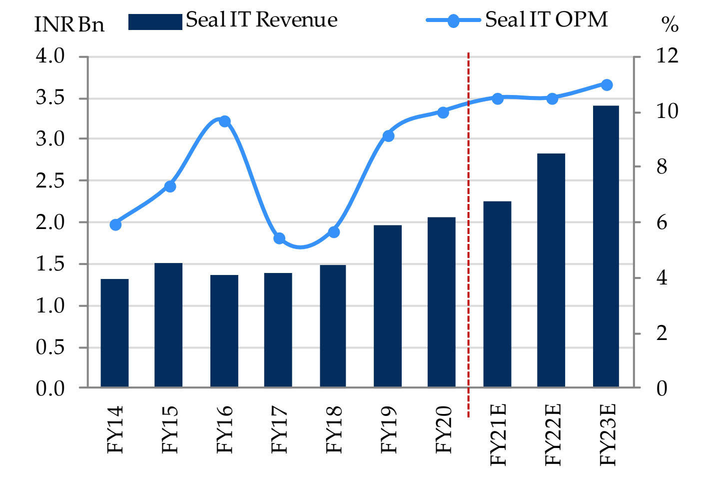
Source: Company, HSIE Research

ASTRA has been able to strengthen Resinova's performance post its acquisition in FY15



Source: Company, HSIE Research

Performance of even SEAL IT Services has improved under ASTRA



Source: Company, HSIE Research

New growth opportunities – tanks and valves

Plastic valves – a large business globally

While ASTRA continues to gain market share across its pipes and adhesive businesses, it is also entering into two other high business segments – plastic valves and plastic water tanks.

ASTRA is launching valves both for plumbing and industrial sectors. The industrial valve (automotive and machinery) is a huge market globally. While plastic valves are generally perceived to be a speciality product (for industrial segment), the versatility of plastic material (in the valve) has accorded greater acceptance of plastic valves across water distribution, wastewater treatment, metal and chemical processing, food and pharmaceuticals, power plants, oil refineries and more, as per industry reports. The properties of anti-rust, lead-free, light-weight (compared to metal) etc. make the plastic valve a growing choice across plumbing and industrial sectors.

Over the next two years, ASTRA is targeting to sell a vast range of products in both plumbing and industrial valves. For the plumbing segment, the company imported technology and moulds and launched a broad range of valves for CPVC pipes in 1HFY20. It is setting up a separate valve manufacturing unit at its Dholka plant in Gujarat, with a Capex of ~INR 500mn. This unit is expected to be operational by 1QFY22 and the company expects it to generate revenue 2QFY22 onwards. In the industrial segment, the company will focus on manufacturing large sized valves – 12 inches or more – which are value added products and also commands high margin. As per the management, globally, valve manufacturers generate up to 4-5x asset turn with operating margins between 20-30%. We expect ASTRA to deliver INR 1.5bn in revenue and 20% EBITDA margin in FY23E from the valve segment.

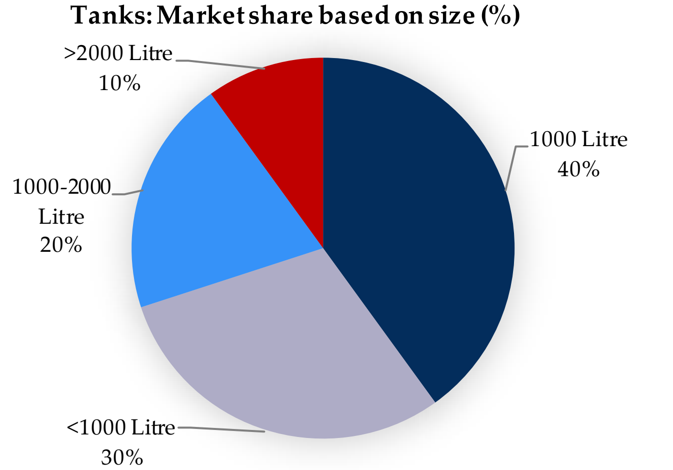
Entering the plastic tank business

The plastic tank industry in India has been growing at 10% CAGR from ~INR 26bn in FY12 to ~INR 60bn in FY20, as per industry estimates. The growth rate is expected to accelerate to 10-15% in the next five years, owing to its increased penetration and substitution of metal and concrete tanks. Plastic tanks are gaining market share owing to its light weight, rust-proof, economical as well as durable substitute to concrete and steel tanks.

While this segment is largely fragmented with regional players accounting for ~70% of the market, over the past 2-3 years, the large plastic pipe manufacturers have expanded into this business, capitalising on their strong distribution channel, which remains similar to the pipes business. Supreme Industries and Ashirvad Pipes have been in this business for the past few years. While Astral is a late entrant, it has acquired the plastic tank business (under SARITA brand) of Shree Prabhu Polymer for ~INR 510mn in Nov'20. It has ~13K MT of manufacturing capacity at Aurangabad (Maharashtra). It is also setting up a 4.8K MT water tank plant in Ahmadabad. The company has currently outlaid a total investment of INR 750mn towards this business. Over the next 12 months, ASTRA will incorporate tank manufacturing at 4-5 of its pipe manufacturing plants across Gujarat, Tamil Nadu and Odisha. It plans to launch Astral brand tanks in all sizes.

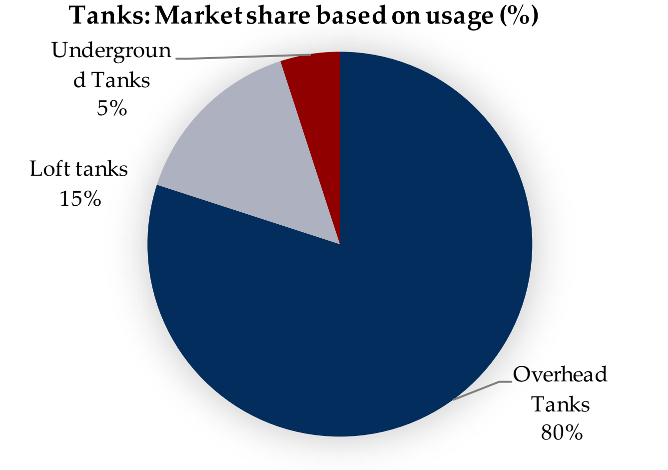
The tanks business has low capital intensity and the asset turn can reach as high as 4-5x. Owing to its strong demand, established players can command EBITDA margin of ~15% in this business. We have factored in INR 1.4/1.8bn of revenue from this segment during FY22/23E. Given ASTRA's strong retail distribution, we believe it should be able to generate 3x asset turn in FY24E.

Tanks market share based on size



Source: Company, HSIE Research

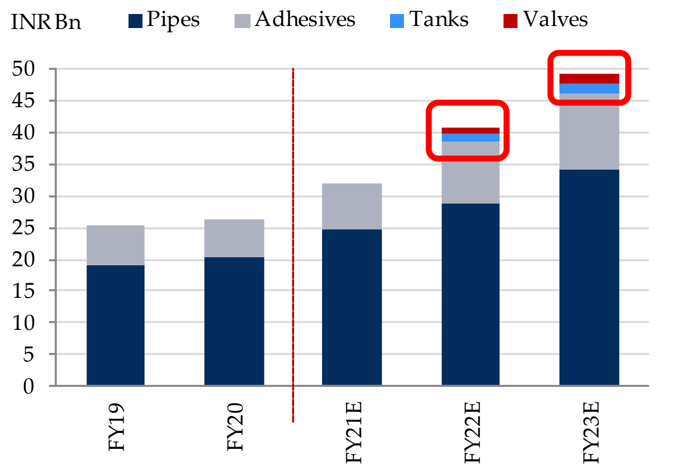
Tanks market share based on usage



Source: Company, HSIE Research

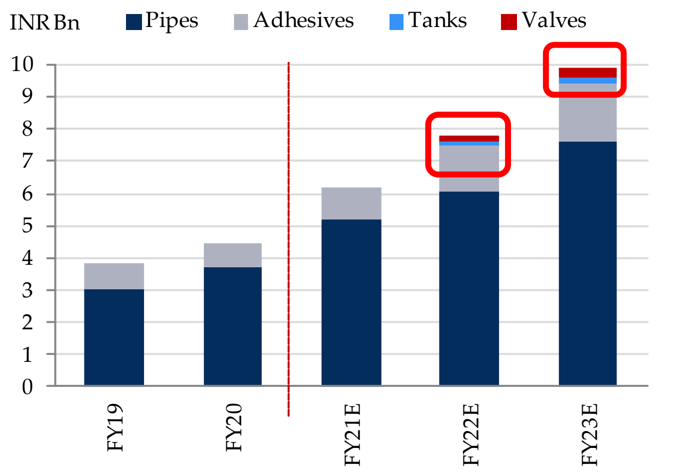
While we believe ASTRA will continue to grow at strong pace in its pipes and adhesives business during FY20-23E, contribution from new products – plastic tanks and valves will accelerate revenue and EBITDA growth FY22E onwards.

Increasing share of valves and tanks FY22 onwards



Source: Company, HSIE Research

EBITDA share of pipes and tanks

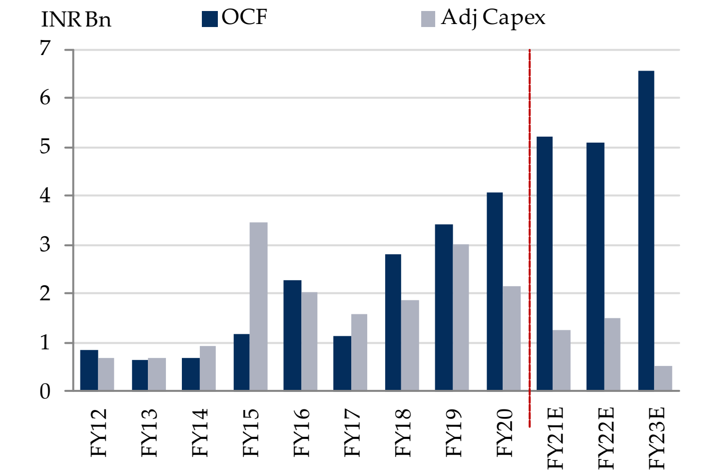


Source: Company, HSIE Research

Asset sweating on the cards

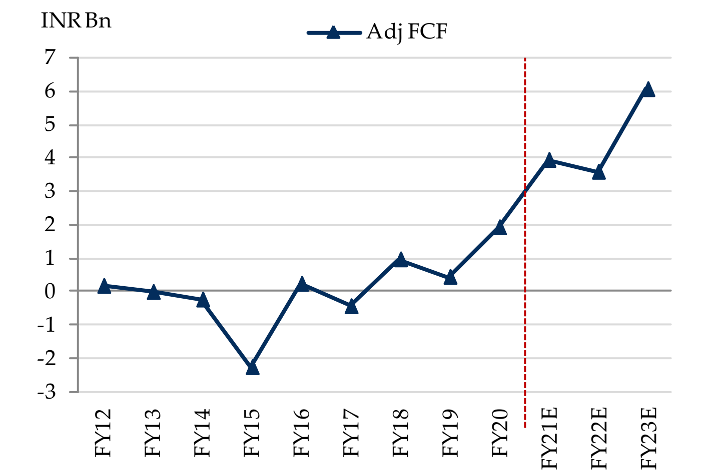
Over the past 10 years (FY10-20), ASTRA's Capex spends have been on the rise, as it expanded its pipes capacity at 22% CAGR and as it entered and acquired various companies under its adhesive business, which currently accounts for ~20% of its consolidated revenues (from 0% in FY10). During this period, the company has been able to clock impressive consolidated revenue/EBITDA CAGRs of 24/27%. ASTRA has managed to fund most of its expansions (organic and inorganic) through its operating cash flows, while it also diluted its equity during FY15/16 to fund its acquisitions then (to meet the shortfall in its free cash flows). Over the past three years, its FCF generation has accelerated owing to robust operating cash generation. The management guided that its Capex intensity will significantly reduce, going ahead, as the company will ramp up utilisation across all its business segments. Thus, as against the average Capex run rate of ~INR 2bn per annum in the past five years, the run rate could fall to ~INR 1bn per annum during FY21-23 period. This should significantly increase its FCF generation. ASTRA has already turned net cash during FY21 and we expect it to remain so, going ahead.

ASTRA's capex spends (organic + inorganic) has overshot its OCF until FY17



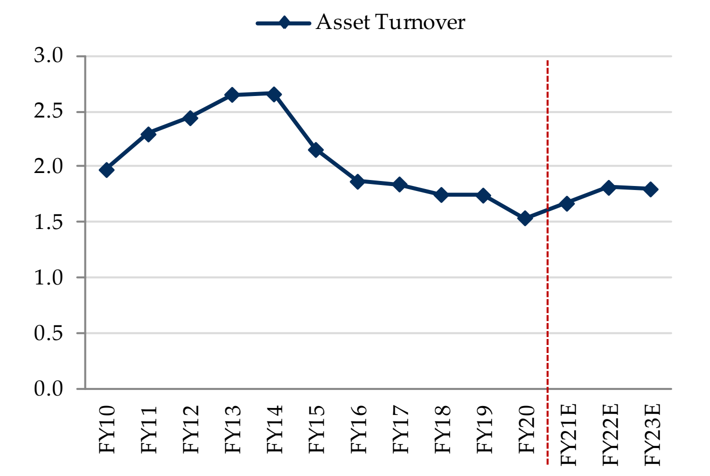
Source: Company, HSIE Research

However, its Adj FCF (OCF minus organic capex and inorganic acquisition) is expected to accelerate



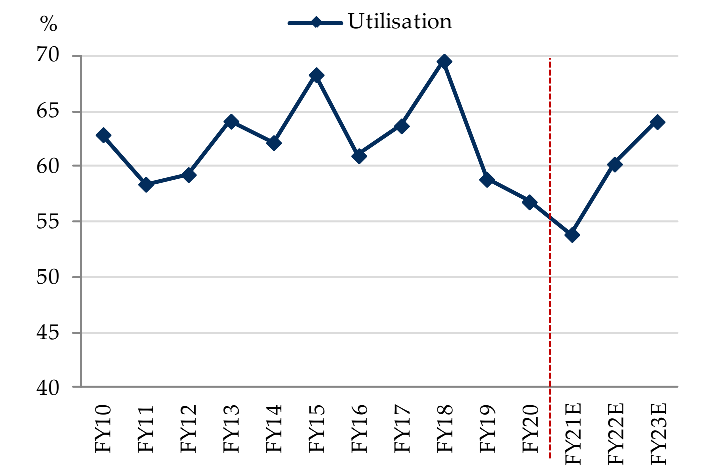
Source: Company, HSIE Research

Asset turnover is also expected to recover during FY21-23E



Source: Company, HSIE Research

Despite strong volume growth, accelerated capex has resulted in utilisation below 60% currently



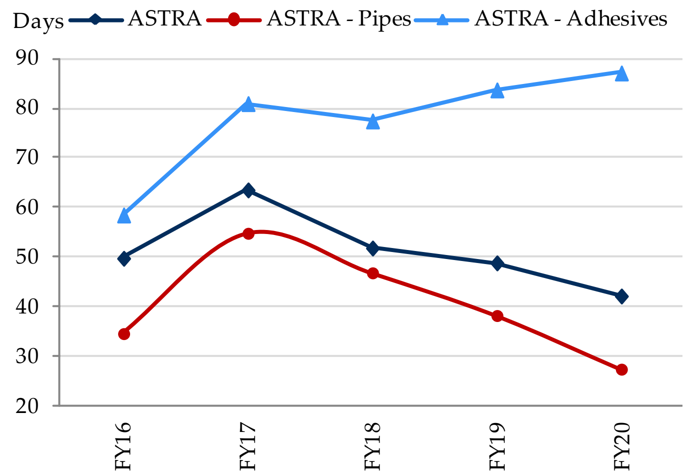
Source: Company, HSIE Research

Working capital profile strengthening

ASTRA has an extremely strong control on its working capital in the pipes business. It lowered its debtor days to 25 days in FY20 (closer to the market leader – Supreme's ~25 days) vs its average of 53 days in the preceding five years. Its inventory days have largely hovered around 60 days (about 5 days higher vs Supreme Ind) but increased to 75 days in FY20, impacted by the sudden lockdown in the last fortnight of FY20. ASTRA has high payable days of ~65days (almost double of Supreme Ind), which offsets the liquidly requirements on account of its large inventory holdings. Thus, on overall basis, ASTRA's piping business has a healthy cash conversion cycle of ~30days.

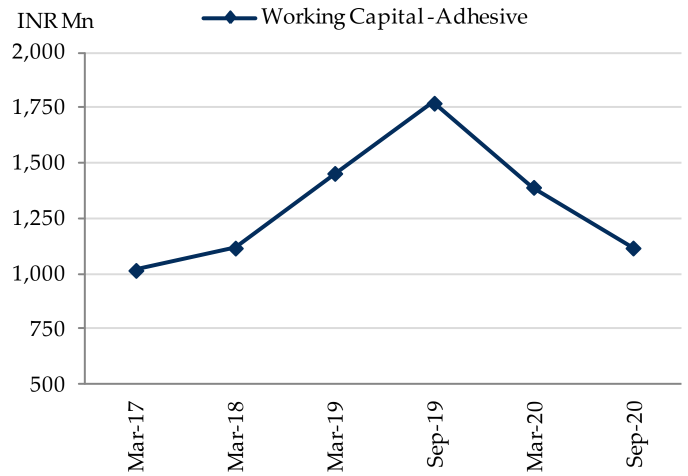
ASTRA's consolidated cash conversion cycle is slightly higher at 41 days, mainly on account of higher working capital in the adhesive business - ~about 80days vs 30 days in the pipes. Both inventory and debtor days in the business hover around 60days each while payables are lower at 40 days. During FY19-20, ASTRA has worked on revamping its distribution channel to streamline operations and to tighten its working capital. On an absolute basis, its working capital had soared to INR 1.8bn in Sep'19 from INR 1.1bn in Mar'17/Mar'18. The company has tried to bring down the same to INR 1.4bn in Mar'20 and further to INR 1.1bn in Sep'20, despite achieving an all-time high quarterly revenue in 2QFY21.

ASTRA's has strong cash conversion in the pipes segment, while it is higher in the adhesives



Source: Company, HSIE Research

ASTRA has been working hard to tighten its working capital in the adhesive segment



Source: Company, HSIE Research

Du-Pont analysis – return ratios firming up

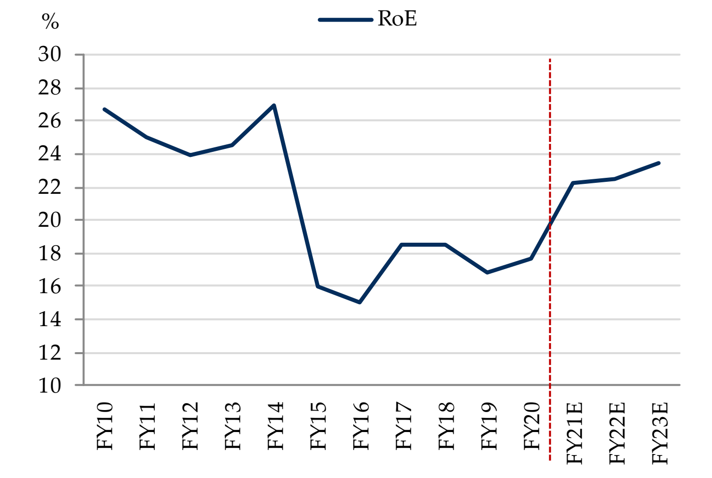
ASTRA's net profit margin scaled up to a decade-high of 9.6% in FY20. However, the lower utilisation-led falling asset turn prevented it from delivering 20%+ RoE, which the company had been clocking from FY10-14. Its RoE has fallen sharply from the 25% level during FY10-14 to 15-16% during FY15-16, owing to its large acquisition in the adhesive business and subsequent equity dilution (to keep the balance sheet under check). Thereafter, while ASTRA continued to deliver strong earnings growth, RoE expanded modestly to only 18% during FY17-20, as asset turn continued to remain low (amidst continued capacity expansions). We have already discussed the Capex intensity earlier in this note. Management has guided that, FY21 onwards, its Capex run rate will fall sharply as it will focus on increasing utilisation across all business segments. Thus, with the dual tailwinds of strong net margin and rising asset turn, RoE should expand to ~22-23% during FY21-23E. This is despite the contraction in leverage as ASTRA's net cash balance should continue to rise. Similarly, we expect RoCE to scale up to 23% in FY23E from 17% in FY20, riding on the strong pick-up in its operating margin and slower rise in depreciation expenses.

Du Pont Analysis

Particulars	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net margin (%)	6.1	7.7	8.4	7.8	9.6	12.0	11.7	12.5
Asset turnover (x)	1.9	1.8	1.8	1.7	1.5	1.7	1.8	1.8
Leverage factor (x)	1.3	1.3	1.3	1.2	1.2	1.1	1.1	1.0
RoE (%)	**15.0**	**18.5**	**18.5**	**16.9**	**17.6**	**22.2**	**22.5**	**23.4**

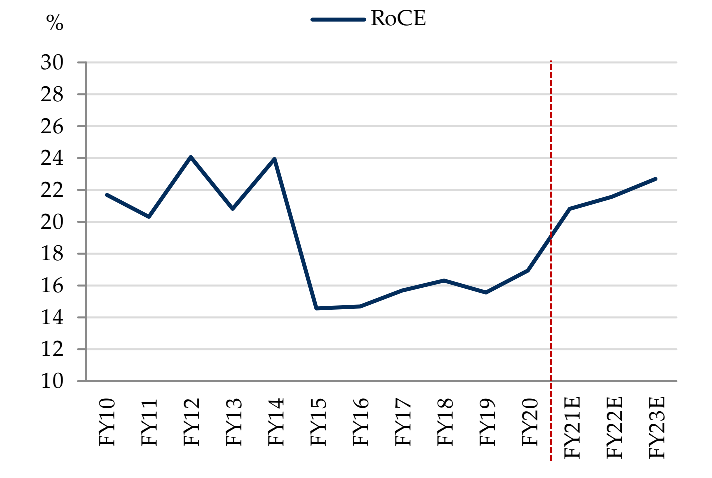
Source: Company, HSIE Research

We expect RoE to rebound to >20% on robust earnings outlook and rising utilisation



Source: Company, HSIE Research

Even RoCE should firm up to ~20% as core profitability is on a rise



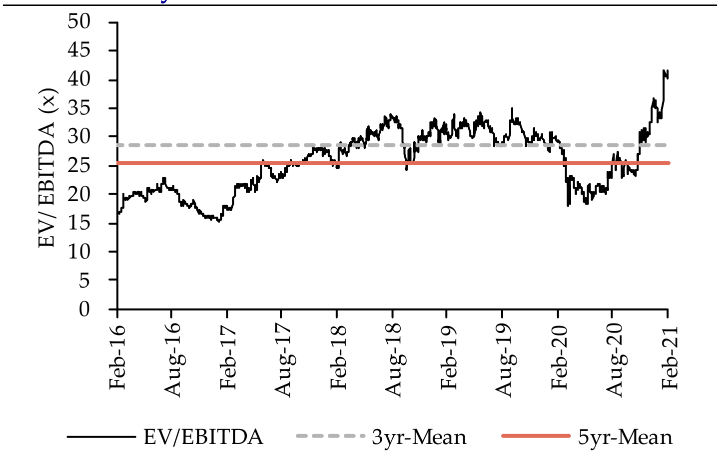
Source: Company, HSIE Research

Valuations and recommendation

ASTRA has generated huge shareholder returns, with the stock price having grown at 50% CAGR during 10 years until 31st Mar'20. Over the past 11 months, it has further soared by 1.3x. This feat has been achieved on the back of ASTRA's strong revenue and earnings growth (revenue/EBITDA/APAT/net worth CAGRs of 24/27/24/29% respectively during FY10-20) and the subsequent sharp rerating in its valuation. ASTRA's 10/5/3 years mean EV/EBITDA valuation multiples stand at 18/25/29x respectively. Similarly, its 10/5/3 years mean P/E valuation multiples stand at 32/45/51x respectively.

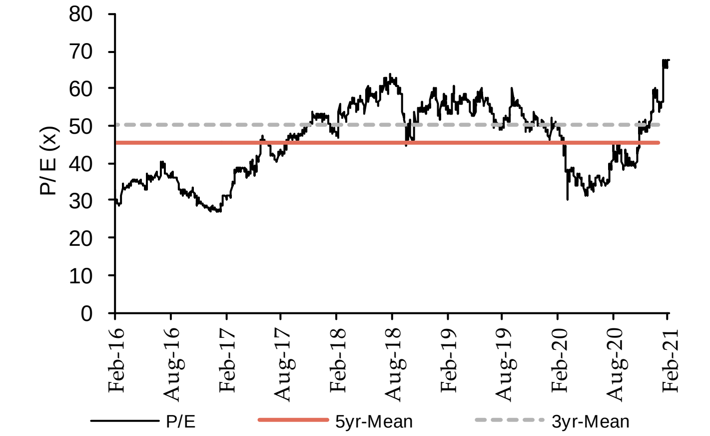
In our view, the rerating has been supported by ASTRA's superior capital allocation (thereby maintaining margin along with growth) and its positioning as a strong brand in the B2C segment (across India), which supports its high growth outlook. We initiate coverage on the stock with an ADD rating and a TP of INR 2,210/sh. We value ASTRA at 34x its consolidated Mar'23E EBITDA (15% premium to its 3-year mean EV/EBITDA multiple).

ASTRA's 1-yr forward EV/EBITDA valuation trend



Source: Company, HSIE Research

ASTRA's 1-yr forward P/E valuation trend



Source: Company, HSIE Research

Key risks:

Slump in recent demand trends: Lower-than-expected demand across all its business segments will slow down its revenue momentum and impact profits.

A sharp rise in resin prices has already moderated demand from the agri-segment. If prices continue to firm up further, it will hit volume growth and profits.

Delays in the upcoming valves and tanks business ramp-up: We have modelled in revenue contribution across both these businesses from FY22E onwards. Delays in ramp-up will impact total profit growth.

3QFY21 performance

During 3QFY21, ASTRA reported strong numbers, led by a strong show in both its business segments.

The pipe segment revenues soared 33% YoY, aided by 15% rise in pipes volumes and a sharp 16% YoY NSR surge (mainly in the PVC segment). Despite lower gross margin YoY, EBITDA margin expanded 370bps YoY to 23%, riding on inventory gains, higher utilisation led op-lev and strong fixed cost controls. Thus, segmental EBITDA rose 59% YoY.

The adhesive business also reported bumper numbers, led by strong demand in metros and recovery in construction activities – revenue/EBITDA surged 41/91% YoY respectively. Increased cost controls and benefits of distribution rationalisation aided robust margin expansion.

Management guided that PVC prices may remain elevated throughout 4QFY21. Pipes demand from the plumbing segment continues to remain strong in 4Q. CPVC demand was healthy in 3Q and this trend is expected to sustain in 4Q. The greenfield Odisha plant (20K MT) is expected to be operational by 2QFY22. The company expects to increase its pipe capacity by ~17% over the next two years to 280K in FY22E.
In the adhesive business, ASTRA is confident of margin expansion, owing to better utilisation and cost rationalisation. Launches of new chemistries in FY22 should also aid growth and margin expansion. In addition to Resinova, the US and UK subsidiaries are doing well too.

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3Q/9MFY21 Financial snapshot (consolidated)

	Dec-20	Dec-19	YoY %	Sep-20	QoQ %	9M FY21	9M FY20	YoY %
Net Sales	**8,975**	**6,641**	***35.1***	**7,471**	***20.1***	**20,485**	**19,490**	***5.1***
Raw Materials	5,490	3,962	*38.6*	4,556	*20.5*	12,661	11,869	*6.7*
Employee	524	431	*21.6*	485	*8.0*	1,435	1,335	*7.5*
Others	969	1,015	*(4.5)*	941	*3.0*	2,331	2,797	*(16.7)*
EBITDA	**1,920**	**1,182**	***62.4***	**1,436**	***33.7***	**3,899**	**3,303**	***18.0***
EBITDA margins (%)	***21.4***	***17.8***		***19.2***		***19.0***	***16.9***	
Depreciation	300	274	*9.5*	288	*4.2*	873	790	*10.5*
EBIT	1,620	908	*78.4*	1,148	*41.1*	3,026	2,513	*20.4*
EBIT margins (%)	***18.1***	***13.7***		***15.4***		***14.8***	***12.9***	
Other Income	61	22	*177.3*	49	*24.5*	149	120	*24.2*
Interest	17	51	*(66.7)*	-9	*(288.9)*	67	213	*(68.5)*
PBT	**1,664**	**879**	***89.3***	**1,206**	***38.0***	**3,108**	**2,420**	***28.4***
Taxes	413	194	*112.9*	283	*45.9*	721	430	*67.7*
Minority+ Associates	(19)	(9)		(56)		(89)	(22)	
Adjusted PAT	**1,232**	**676**	***82.2***	**867**		**2,298**	**1,968**	***16.8***
Exceptional exp/ (Inc)	-	-		-		-	-	
Reported PAT	1,232	676	*82.2*	867	*42.1*	2,298	1,968	*16.8*
APAT margins (%)	***13.7***	***10.2***		***11.6***	***18.3***	***11.2***	***10.1***	
Adj EPS (INR)	8.2	4.5	82.2	5.7	*42.1*	15.2	13.0	*16.8*

Source: Company, HSIE Research

3Q/9MFY21 Segmental performance

	Dec-20	Dec-19	YoY %	Sep-20	QoQ %	9M FY21	9M FY20	YoY %
Plastic piping and fittings								
Sales Vols (MT)	36.9	32.1	*15.1*	35.4	*4.3*	94.1	98.4	*(4.4)*
NSR (INR/Kg)	187.8	162.2	*15.8*	160.3	*17.2*	167.6	156.2	*7.3*
Opex (INR/Kg)	144.9	131.1	*10.5*	127.7	*13.4*	133.5	128.5	*3.9*
EBITDA (INR/Kg)	43.0	31.2	*37.8*	32.6	*31.8*	34.1	27.7	*23.0*
Revenue (INR mn)	6,931	5,200	*33.3*	5,670	*22.2*	15,766	15,371	*2.6*
EBITDA (INR mn)	1,585	999	*58.7*	1,153	*37.5*	3,208	2,729	*17.6*
OPM %	*22.9*	*19.2*		*20.3*		*20.3*	*17.8*	
Adhesives								
Revenue (INR mn)	2,196	1,559	*40.9*	1,904	*15.3*	5,012	4,485	*11.8*
EBITDA (INR mn)	358	187	*91.4*	288	*24.3*	723	599	*20.7*
OPM %	*16.3*	*12.0*		*15.1*		*14.4*	*13.4*	

Source: Company, HSIE Research

Operational assumptions and summary

In the piping segment, we model in 15/19/25% segmental volume/revenue/EBITDA CAGR during FY20-23E, factoring in ASTRA's strong presence in CPVC and its accelerated market share gains amidst decent demand outlook.

Additionally, during FY22/23E, we estimate contributions from the valves and tanks business to gain pace, thereby boosting total plastic segment revenue/EBITDA CAGR during FY20-23E to 22/27% respectively.

In the adhesives segment, the launches of new chemistries, distribution rationalisation and performance improvement in the overseas Seal IT business should drive segmental revenue/EBITDA CAGR of 27/35% respectively.

Operational Trends and Assumptions

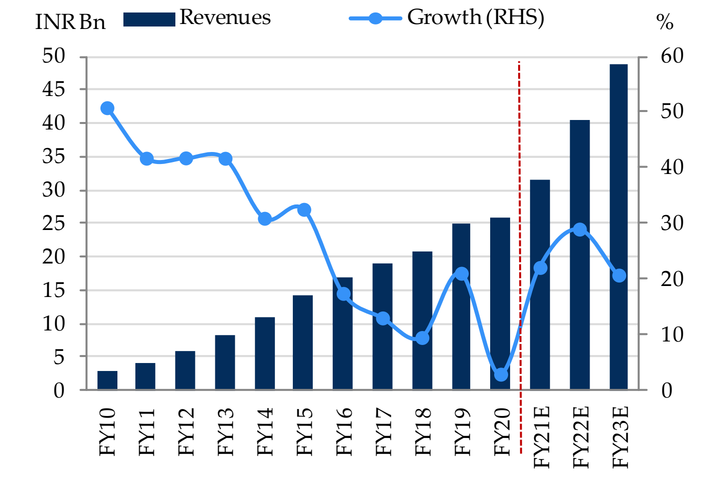
	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Plastic division (Pipes, Fittings, Valves, Tanks)									
Pipes Sales Volumes (K MT)	70	78	89	104	123	132	141	174	204
YoY (%)	*15.8*	*11.5*	*14.8*	*16.3*	*18.3*	*7.5*	*7.0*	*23.0*	*17.0*
Revenue (INR Mn)	12,526	13,180	14,767	15,819	19,157	20,428	24,699	31,261	37,355
YoY (%)	*16.8*	*5.2*	*12.0*	*7.1*	*21.1*	*6.6*	*20.9*	*26.6*	*19.5*
EBITDAM %	*12.0*	*12.6*	*14.0*	*15.0*	*15.9*	*18.1*	*21.0*	*19.5*	*20.4*
Adhesives									
Revenue (INR Mn)	3,790	3,940	4,584	5,265	6,347	5,830	7,167	9,694	11,976
YoY (%)	*15.6*	*4.0*	*16.3*	*14.9*	*20.5*	*-8.1*	*22.9*	*35.3*	*23.5*
EBITDAM %	*9.1*	*10.6*	*12.5*	*15.1*	*12.8*	*12.6*	*14.3*	*14.7*	*14.9*

Source: Company, HSIE Research

Financial summary

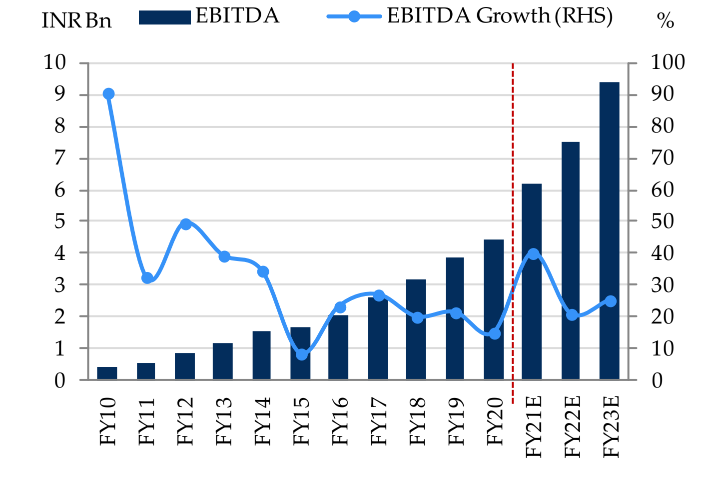
During FY20-23E, we estimate that ASTRA's consolidated revenue would grow at 24% CAGR, driven by continued traction in the piping segment (19% CAGR), accelerated growth in adhesive segment (27% CAGR) and contribution from the upcoming tanks and valves businesses. We estimate consolidated EBITDA to firm up at 29% CAGR, driven by robust profitability across all business segments.

We expect consolidated revenue CAGR of 24% during FY20-23E



Source: Company, HSIE Research

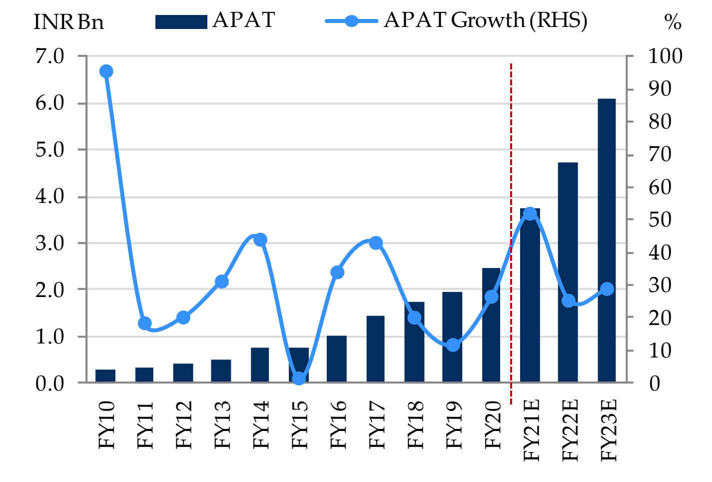
And consolidated EBITDA CAGR of 29%



Source: Company, HSIE Research

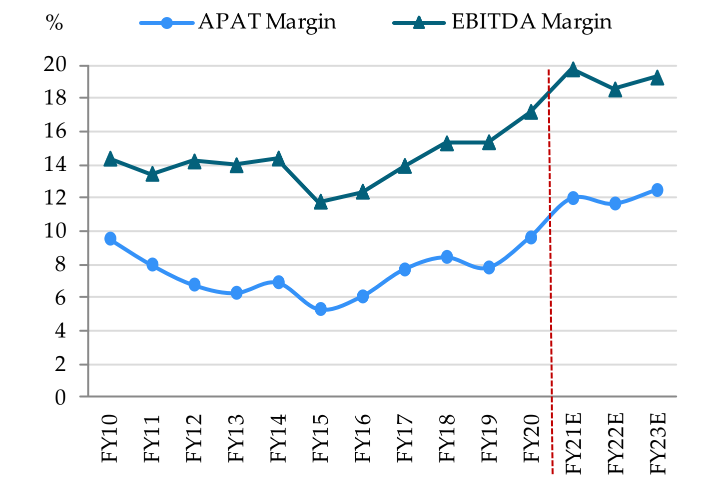
We estimate EBITDAM would firm up to 20% in FY21E on strong demand and pricing tailwinds and thereafter marginally cool off to ~18.5-19% during FY22-23E, as some the pricing tailwinds to cool down. We expect APAT to grow at 35% CAGR, buoyed by healthy op profit gains and on asset sweating.

We expect APAT CAGR at 35%



Source: Company, HSIE Research

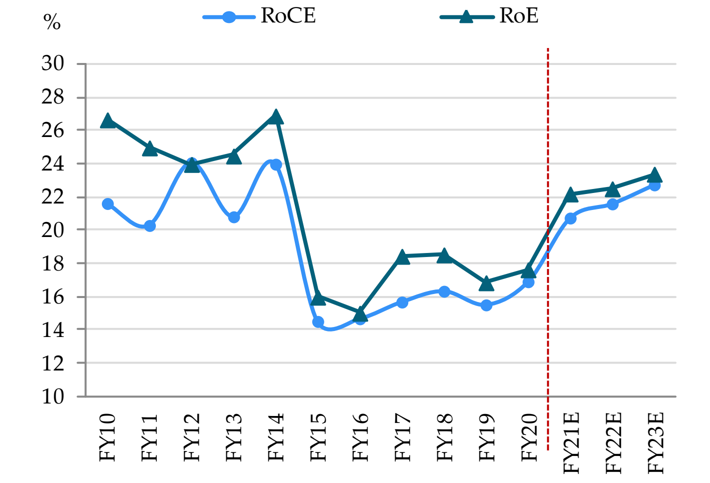
EBITDAM, NPM trends



Source: Company, HSIE Research

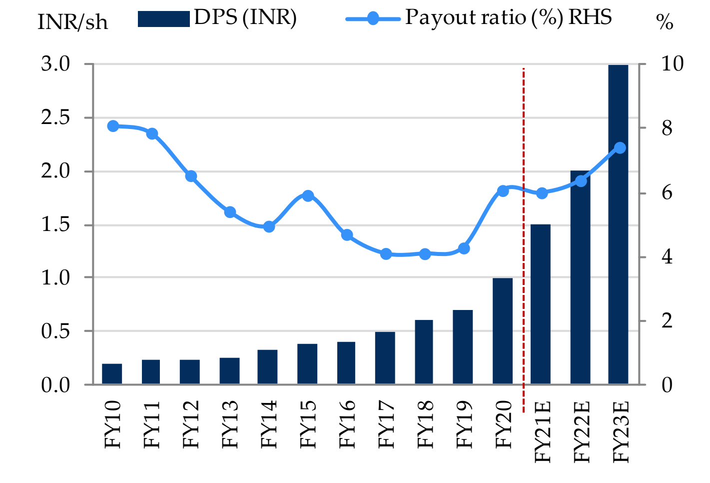
Strong operating profit coupled with rising asset turn should buoy return ratios to 20% and above during FY21-23E.

Return ratios expected to firm up



Source: Company, HSIE Research

ASTRA's dividend payout has been low in the past as it focused on utilizing cash for growth



Source: Company, HSIE Research

Financials

Consolidated Income Statement

YE Mar (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenues	**16,778**	**18,947**	**20,729**	**25,073**	**25,779**	**31,449**	**40,535**	**48,895**
Growth %	*17.3*	*12.9*	*9.4*	*21.0*	*2.8*	*22.0*	*28.9*	*20.6*
Raw Material	12,052	13,035	13,834	16,477	15,957	19,011	25,161	30,386
Power & Fuel	360	435	532	653	703	858	1,105	1,333
Freight Expense	336	476	463	561	638	778	1,003	1,210
Employee cost	750	887	1,065	1,391	1,752	1,980	2,376	2,851
Other Expenses	1,204	1,476	1,667	2,142	2,300	2,614	3,378	3,703
EBITDA	**2,076**	**2,638**	**3,168**	**3,849**	**4,429**	**6,208**	**7,512**	**9,411**
EBIDTA Margin (%)	*12.4*	*13.9*	*15.3*	*15.4*	*17.2*	*19.7*	*18.5*	*19.2*
EBITDA Growth %	*23.3*	*27.1*	*20.1*	*21.5*	*15.1*	*40.2*	*21.0*	*25.3*
Depreciation	418	502	571	814	1,079	1,189	1,288	1,360
EBIT	**1,658**	**2,136**	**2,597**	**3,035**	**3,350**	**5,019**	**6,224**	**8,051**
Other Income	23	91	127	154	121	260	300	300
Interest	302	184	216	319	394	140	90	65
PBT	**1,379**	**2,043**	**2,508**	**2,870**	**3,077**	**5,139**	**6,434**	**8,286**
Tax	296	562	724	861	565	1,336	1,673	2,154
Minority Int	65	25	32	51	33	33	33	33
RPAT	**1,018**	**1,457**	**1,751**	**1,958**	**2,479**	**3,770**	**4,728**	**6,099**
EO (Loss) / Profit (Net Of Tax)	(8)	(10)	-	-	-	-	-	-
APAT	**1,018**	**1,457**	**1,751**	**1,958**	**2,479**	**3,770**	**4,728**	**6,099**
APAT Growth (%)	*34.1*	*43.1*	*20.2*	*11.8*	*26.6*	*52.1*	*25.4*	*29.0*
AEPS	**8.5**	**12.2**	**14.6**	**16.3**	**16.5**	**25.0**	**31.3**	**40.4**
AEPS Growth %	*32.6*	*43.1*	*20.2*	*11.8*	*0.7*	*51.7*	*25.4*	*29.0*

Source: Company, HSIE Research

Consolidated Balance Sheet

YE Mar (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS								
Share Capital	120	120	120	120	151	151	151	151
Reserves And Surplus	6,964	8,349	10,063	12,657	14,878	18,455	22,914	28,592
Total Equity	**7,084**	**8,468**	**10,182**	**12,777**	**15,029**	**18,606**	**23,065**	**28,743**
Minority Int	**132**	**123**	**135**	**150**	**168**	**168**	**168**	**168**
Long-term Debt	1,966	1,885	1,835	2,439	1,449	949	449	449
Short-term Debt	-	405	56	304	201	201	201	201
Total Debt	**1,966**	**2,290**	**1,891**	**2,743**	**1,650**	**1,150**	**650**	**650**
Deferred Tax Liability	207	263	330	532	429	429	429	429
Long-term Liab+ Provisions	-	-	-	-	-	-	-	-
TOTAL SOURCES OF FUNDS	**9,388**	**11,144**	**12,538**	**16,202**	**17,276**	**20,353**	**24,312**	**29,990**
APPLICATION OF FUNDS								
Net Block	6,451	7,412	8,425	11,054	12,549	12,610	12,822	11,962
Capital WIP	149	250	731	808	444	444	444	444
Goodwill	-	-	-	-	-	-	-	-
Other Non-current Assets	-	-	-	-	-	-	-	-
Total Non-current Investments	-	-	-	2	2	2	2	2
Total Non-current Assets	**6,600**	**7,662**	**9,156**	**11,864**	**12,995**	**13,056**	**13,268**	**12,408**
Inventories	2,773	2,721	3,572	3,970	5,404	4,717	6,080	7,334
Debtors	2,271	3,385	3,067	3,391	2,278	2,610	3,364	4,058
Cash and Cash Equivalents	499	182	437	981	1,301	4,635	7,629	13,475
Other Current Assets (& Loans/adv)	871	666	518	785	913	913	913	913
Total Current Assets	**6,414**	**6,954**	**7,594**	**9,127**	**9,896**	**12,876**	**17,987**	**25,781**
Creditors	3,163	2,871	3,491	3,897	4,754	4,717	6,080	7,334
Other Current Liabilities & Provns	463	602	721	892	861	862	863	864
Total Current Liabilities	**3,626**	**3,472**	**4,212**	**4,789**	**5,615**	**5,579**	**6,943**	**8,199**
Net Current Assets	**2,788**	**3,482**	**3,382**	**4,338**	**4,281**	**7,297**	**11,044**	**17,582**
TOTAL APPLICATION OF FUNDS	**9,388**	**11,144**	**12,538**	**16,202**	**17,276**	**20,353**	**24,312**	**29,990**

Source: Company, HSIE Research

Consolidated Cash Flow

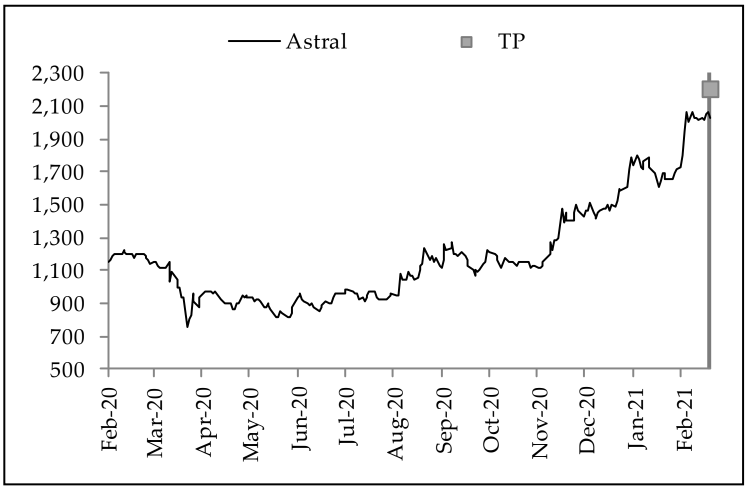
YE Mar (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	1,315	2,007	2,507	2,834	3,061	5,139	6,434	8,286
Non-operating & EO Items	87	(47)	(7)	(87)	147	(260)	(300)	(300)
Interest Expenses	302	184	216	319	394	140	90	65
Depreciation	418	502	571	814	1,079	1,189	1,288	1,360
Working Capital Change	428	(1,068)	161	308	188	319	(753)	(693)
Tax Paid	(292)	(437)	(629)	(768)	(815)	(1,336)	(1,673)	(2,154)
OPERATING CASH FLOW (a)	**2,258**	**1,142**	**2,818**	**3,420**	**4,054**	**5,191**	**5,086**	**6,564**
Capex	(1,344)	(1,597)	(1,839)	(2,196)	(2,133)	(1,250)	(1,500)	(500)
Free Cash Flow (FCF)	914	(455)	980	1,224	1,921	3,941	3,586	6,064
Investments	(688)	9	(21)	(792)	(1,055)	-	-	-
Non-operating Income	2	8	7	54	11	260	300	300
Others								
INVESTING CASH FLOW (b)	**(2,029)**	**(1,580)**	**(1,853)**	**(2,934)**	**(3,177)**	**(990)**	**(1,200)**	**(200)**
Debt Issuance/(Repaid)	(39)	337	(421)	354	(936)	(500)	(500)	-
Interest Expenses	(305)	(188)	(211)	(312)	(409)	(140)	(90)	(65)
FCFE	570	(306)	348	1,266	576	3,301	2,996	5,999
Share Capital Issuance	590	1	-	2	-	-	-	-
Dividend	(90)	(29)	(79)	(94)	(240)	(227)	(302)	(453)
FINANCING CASH FLOW (c)	**156**	**121**	**(711)**	**(50)**	**(1,585)**	**(867)**	**(892)**	**(518)**
NET CASH FLOW (a+b+c)	**385**	**(317)**	**255**	**436**	**(708)**	**3,334**	**2,994**	**5,846**
EO Items, Others								
Closing Cash & Equivalents	**500**	**182**	**437**	**873**	**273**	**4,635**	**7,629**	**13,475**

Key Ratios

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
PROFITABILITY %								
EBITDA Margin	12.4	13.9	15.3	15.4	17.2	19.7	18.5	19.2
EBIT Margin	9.9	11.3	12.5	12.1	13.0	16.0	15.4	16.5
APAT Margin	6.1	7.7	8.4	7.8	9.6	12.0	11.7	12.5
RoE	15.0	18.5	18.5	16.9	17.6	22.2	22.5	23.4
RoIC	15.0	15.6	16.0	15.6	17.5	23.4	28.4	35.9
RoCE	14.7	15.7	16.4	15.5	16.9	20.8	21.6	22.8
EFFICIENCY								
Tax Rate %	21.4	27.5	28.9	30.0	18.4	26.0	26.0	26.0
Fixed Asset Turnover (x)	2.4	2.5	2.3	2.2	1.8	1.9	2.3	2.6
Inventory (days)	60	52	63	58	77	55	55	55
Debtors (days)	49	65	54	49	32	30	30	30
Other Current Assets (days)	19	13	9	11	13	11	8	7
Payables (days)	69	55	61	57	67	55	55	55
Other Current Liab & Provns (days)	10	12	13	13	12	10	8	6
Cash Conversion Cycle (days)	50	64	52	49	42	31	31	31
Net Debt/EBITDA (x)	0.7	0.8	0.5	0.5	0.1	(0.6)	(0.9)	(1.4)
Net D/E	0.2	0.2	0.1	0.1	0.0	(0.2)	(0.3)	(0.4)
Interest Coverage	5.5	11.6	12.0	9.5	8.5	35.9	69.2	123.9
PER SHARE DATA (INR)								
EPS	8.5	12.2	14.6	16.3	16.5	25.0	31.3	40.4
CEPS	12.0	16.4	19.4	23.1	23.6	32.8	39.8	49.4
Dividend	0.4	0.5	0.6	0.7	1.0	1.5	2.0	3.0
Book Value	60.2	71.6	86.0	107.8	100.8	124.2	153.8	191.4
VALUATION								
P/E (x)	301.8	210.9	175.4	156.9	123.9	81.5	65.0	50.4
P/Cash EPS (x)	213.9	156.8	132.3	110.8	86.3	61.9	51.1	41.2
P/BV (x)	43.4	36.3	30.2	24.0	20.4	16.5	13.3	10.7
EV/EBITDA (x)	148.7	117.3	97.4	80.3	69.5	48.9	40.0	31.3
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
OCF/EV (%)	0.7	0.4	0.9	1.1	1.3	1.7	1.7	2.2
FCFF/EV (%)	0.3	(0.1)	0.3	0.4	0.6	1.3	1.2	2.1
FCFE/M Cap (%)	0.2	(0.1)	0.1	0.4	0.2	1.1	1.0	2.0

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
22-Feb-21	2,034	ADD	2,210

Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: >10% Downside return potential

Disclosure:

We, **Rajesh Ravi, MBA & Saurabh Dugar, MBA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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Any holding in stock –No

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