Astral Poly Technik (ASTPOL)

ICICI direct Research

CMP: ₹ 1158 | Target: ₹ 1260 (7%) | Target Period: 12 months | HOLD

November 9, 2020

Good recovery in challenging period…

Astral's Q2FY21 performance was better than our estimates led by strong recovery in both piping and adhesive segments. Piping demand (largely associated with construction activities) has started picking up from September onwards. Piping segment recorded ~30% YoY growth in September 2020 after ~90% recovery in July-August 2020. The adhesive business recorded sharp revenue growth of ~31% YoY led by pent up demand from tier II & III cities and streamlining of its distribution networks. EBITDA margin increased 168 bps YoY to 19.2% tracking a strong recovery in profitability of adhesive and piping segment. Finally, 7% increase in PAT at ₹ 88 crore was ahead our estimate of ~₹ 70 crore mainly tracking better sales growth and margin expansion. The management commentary suggests a strong demand outlook, going forward, supported by re-opening of metro and tier 1 cities with improved margin profile (as high margin CPVC segment performance start improving from September onwards and the profitability of adhesive segment likely to remain strong going forward). We introduce FY23 estimates with revenue CAGR of ~15% in FY20-23E led by ~14%, ~18% revenue CAGR of piping and adhesive segment, respectively.

Adhesive segment performs strongly

Adhesive segment demand recovery was impressive post easing of restrictions with ~30% sales growth in Q2FY21. Low base, completion of its distribution realignment strategy yielded a better-than-expected performance. On the piping front, strong demand recovery was seen from September 2020 onwards, which continued in October as segment sales growth for September, October was as high as 30%, 85% YoY, respectively.

Better operating leverage helps drive EBITDA margin

The change in product mix (low proportion of high margin CPVC business) was negated by inventory gains in PVC pipe segment, leading to almost flattish gross margin in Q2FY21. However, better operating leverage helped in margin expansion of ~168 bps YoY to 19%. We expect EBITDA margin to normalise with restoration of some operating costs, going forward.

Valuation & Outlook

We revise our earnings estimate up 11%, 39% for FY21E considering improved sales. We believe a sharp growth in demand in October 2020 is a one-off event and demand is likely to normalise, going forward. We introduce FY23 estimates with revenue, earning CAGR of 15%, 19%, respectively, with margin profile likely to normalise, going forward. We roll over our valuation to FY23 with revised target price of ₹ 1250/share (valuing 45xFY23E) and maintain **HOLD** rating on the stock.

ASTRAL PIPES

Particulars

Particular	Amount
Market Cap (₹ Crore)	17,446.7
Debt (FY20) (₹ Crore)	129.1
Cash&Inv (FY20) (₹ Crore)	130.1
EV (₹ Crore)	17,445.6
52 week H/L	1312/ 748
Equity capital (₹ Crore)	12.0
Face value (₹)	1.0

Key Highlights

- Standalone piping segment volume increased 2% YoY in Q2FY21. Sales recovery strong in September with segment sales growth of 30% YoY
- Adhesive segment topline increased 30% YoY in Q2FY21. Demand likely to remain robust led by dealer addition in new geographies
- Maintain HOLD rating with revised target price of ₹ 1250/share

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

₹ crore	FY19	FY20	FY21E	FY22E	FY23E	(CAGR FY20-23E)
Net Sales	2507.3	2577.9	2771.3	3415.1	3891.4	14.7
EBITDA	384.9	442.9	529.8	618.3	664.9	14.5
EBITDA Margin (%)	15.4	17.2	19.1	18.1	17.1	
Net Profit	197.3	249.6	312.3	384.1	418.5	18.8
EPS (₹)	13.1	16.6	20.7	25.5	27.8	
P/E(x)	88.4	69.9	55.9	45.4	41.7	
Price/book value (x)	13.7	11.6	9.7	8.7	7.8	
Mcap/sales (x)	7.0	6.8	6.3	5.1	4.5	
RoE (%)	15.4	16.6	17.3	19.1	18.6	
RoCE (%)	20.7	20.5	22.3	24.5	24.1	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Revenue	747.1	718.6	678.3	10.1	403.9	85.0	Revenue growth driven by fast recovery in piping segment, strong growth in adhesive segment
Other Income	4.9	4.4	3.0	63.3	3.9	25.6	
Raw Material Exp	455.6	427.6	410.6	11.0	261.5	74.2	Gross margin remains flat YoY mainly due to change in product mix
Cost of traded goods	5.3	7.2	5.7	-7.0	3.4	55.9	
Employee Exp	48.5	51.7	47.3	2.5	42.6	13.8	
Other expenditure	94.1	107.8	95.7	-1.7	42.1	123.5	
EBITDA	143.6	124.3	119.0	20.7	54.3	164.5	
EBITDA Margin (%)	19.2	17.3	17.5	168 bps	13.4	578 bps	Various cost optimisation measures along with improved operating leverage help drive margin up in Q2FY21
Depreciation	28.8	29.6	27.2	5.9	28.5	1.1	
Interest	-0.9	5.5	8.9	-110.1	5.9	-115.3	
PBT	120.6	93.6	85.9	40.4	23.8	406.7	
Total Tax	28.3	23.6	3.4	732.4	2.5	NM	
Profit from associates	-4.4	-0.2	-0.2	NM	-1.0	NM	
PAT	87.9	69.8	82.3	6.8	20.3	333.0	Better sales, sharp increase in EBITDA margin help drive PAT
Key Metrics							
Plastic	550.3	559.7	528.4	4.1	309.3	77.9	Standalone piping volume grew ~2% YoY in Q2FY21 mainly due to improved demand from semi-urban, rural regions
Adhesive	196.8	158.9	149.9	31.3	94.6	108.0	Strong recovery in 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	Introduced	
Revenue	2,500.6	2771.3	10.8	3,118.0	3415.1	9.5	3891.4	We revise our FY21E-22E estimates by factoring in current quarter performance and future outlook given by the company
EBITDA	407.1	529.8	30.1	571.3	618.3	8.2	664.9	
EBITDA Margin %	16.3	19.1	282bps	18.3	18.1	-19bps	17.1	We believe EBITDA margin would normalise, going forward, with restoration of operating costs such as advertisement expenses
PAT	225.3	312.3	38.6	350.6	384.1	9.6	418.5	
EPS (₹)	15.0	20.7	38.2	23.3	25.5	9.4	27.8	

Source: Company, ICICI Direct Research

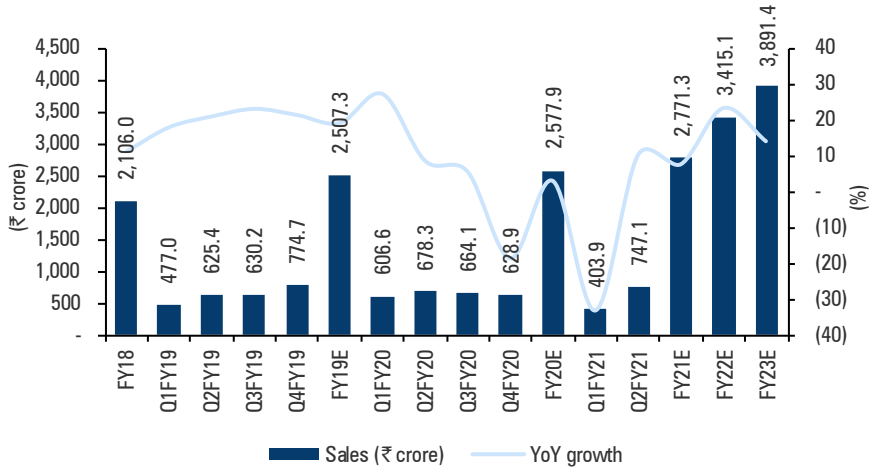
Exhibit 3: Assumptions

	Current			FY23E	Earlier		Comments
	FY20E	FY21E	FY22E	Introduced	FY21E	FY22E	
Plastic Piping	7.3	6.9	20.7	13.8	(1.7)	21.4	Piping segment revenue likley to normalise with gradaul pick-up in construction activities
Adhesive	(9.7)	9.4	31.6	14.2	(7.5)	36.4	Streamlining of distribution network, expansion into new geographies through dealer additions is likely to help drive demand in adhesive segment, going forward

Source: Company, ICICI Direct Research

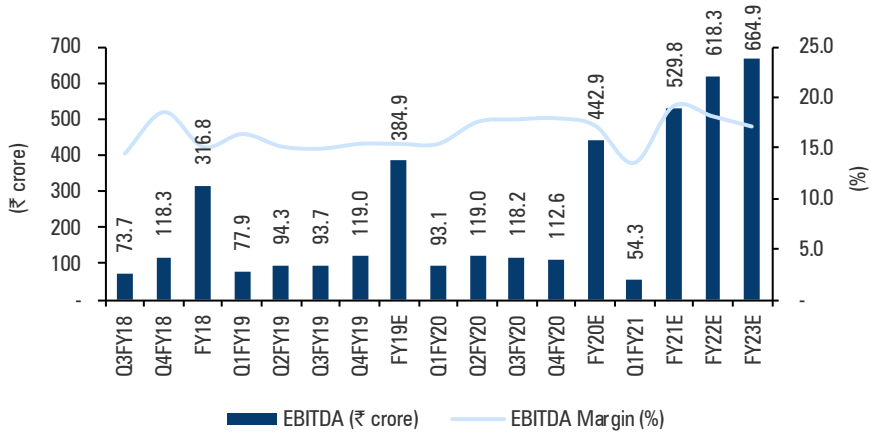
Financial story in charts

Exhibit 4: Gradual recovery in revenue from H2FY21E



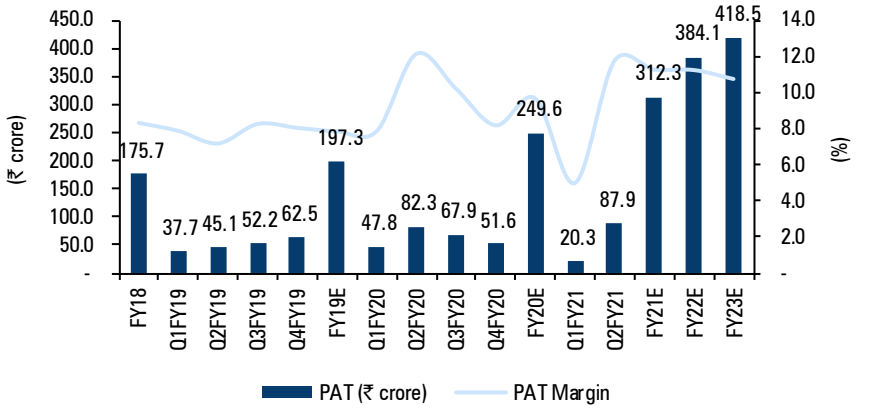
Source: Company, ICICI Direct Research

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



Source: Company, ICICI Direct Research

Exhibit 6: Strong PAT growth, going forward

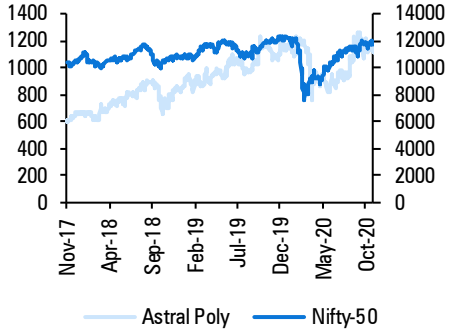


Source: Company, ICICI Direct Research

Conference call highlights

- For the piping segment, business was slow till August and started picking up from September
- There was strong demand from the agriculture sector during Q2FY21. However, demand for plumbing products for household use started picking up from September 2019 onwards
- The Odisha plant is expected to commence operation from Q2FY22 while revenue will start flowing from Q3FY22
- New plant at Dholka for manufacturing of valve (value added products) is likely to commence operation from Q2FY22
- Minor expansion work is going on at the Hosur plant, which was stopped due to pandemic
- It is working on new product launches and is likely to launch in the next few months
- There was strong growth in the adhesive segments. Structural changes (of distribution networks) in the adhesive segments is over and it is getting very positive response from distributors
- The subsidiaries in the US and UK have started performing well with improved margins
- Strong growth in the piping segment in September 2020 and October 2020 by ~30% and 85% YoY, respectively, showing strong demand revival in the plumbing product categories. Volume growth in October 2020 is about 68-70% YoY. The company expects minimum 10% volume growth in the medium to long term
- Adhesive segment also reported strong growth in September 2020 and October 2020 by 28% and 55% YoY, respectively. Future growth could be in the range of 20-25% in the adhesive segments
- The strong demand trend is likely to continue for the rest of the year supported by metro and tier 1 cities where demand was low due to lockdown restrictions
- Gross margin should move upwards from here on considering the pick-up in the demand of CPVC (that has higher contribution in topline) would help drive gross margin for the company. In addition, improved demand from the adhesive segment would also aid in margin expansion
- Hence, current EBITDA margin is likely to remain elevated considering better mix and various cost optimisation measures taken during pandemic periods
- Capex in the H1FY21 was ₹ 37 crore while full capex could be in the range of ₹ 70-80 crore for FY21. Net cash position by the end of H1FY20 was at ₹ 124 crore. Improved profitability, improved cash conversion cycle and no major capex, going forward, would help boost net cash position for the company. The company is looking to increase payout, going forward

Exhibit 7: Historical price chart



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	55.7	55.7	55.7	55.7	55.7
FII	20.1	17.7	17.4	16.8	17.9
DII	10.1	11.3	11.5	11.7	11.4
Others	14.1	15.3	15.4	15.8	15.0

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 9: Profit and loss statement ₹ crore

Year end March	FY20	FY21E	FY22E	FY23E
Net Sales	2577.9	2771.3	3415.1	3891.4
YoY (%)		7.5	23.2	13.9
Other income	12.1	20.8	30.7	35.0
Total Revenue	**2590.0**	**2792.1**	**3445.9**	**3926.4**
Expenditure				
Cons of raw material	1573.0	1673.1	2056.3	2314.0
Pur. of traded goods	22.7	20.2	18.9	17.4
Employee cost	175.2	190.8	243.5	291.9
Other expenses	364.1	357.5	478.1	603.2
Total expenses	2135.0	2241.5	2796.8	3226.4
EBITDA	**442.9**	**529.8**	**618.3**	**664.9**
YoY (%)		19.6	16.7	7.5
Interest	39.4	18.3	3.8	2.3
PBDT	415.6	532.3	645.2	697.6
Depreciation	107.9	116.4	129.8	136.2
Profit before tax	307.7	415.9	515.5	561.4
Total Tax	56.5	102.0	129.7	141.3
PAT before MI	251.2	313.9	385.7	420.1
Exc. Items	-1.6	-1.6	-1.6	-1.6
PAT	**249.6**	**312.3**	**384.1**	**418.5**

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement ₹ crore

Year end March	FY20	FY21E	FY22E	FY23E
Profit/(Loss) after taxation	249.6	312.3	384.1	418.5
Add: Depreciation & Amortization	107.9	116.4	129.8	136.2
Add: Interest Paid	39.4	18.3	3.8	2.3
C/F bef working capital chg.	396.9	447.0	517.7	557.0
Net Increase in Current Assets	-61.6	-280.9	-169.6	-106.1
Net Increase in Current Liabilities	37.6	8.4	93.6	97.5
Net CF from operating act	**373.0**	**174.4**	**441.8**	**548.5**
(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	-200.0
Others	-8.6	1.0	1.0	1.0
Net Cf from Investing Act	**-212.8**	**-129.0**	**-249.0**	**-249.0**
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
Net Cf from Financing Act	**-128.1**	**-77.8**	**-215.5**	**-204.0**
Net Cash flow	32.0	-32.4	-22.7	95.5
Cash and Cash Equi at the beg	98.1	130.1	97.7	75.1
Cash and Cash Equi at the end	**130.1**	**97.7**	**75.1**	**170.6**

Source: Company, ICICI Direct Research

Exhibit 11: 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	1790.6	1993.0	2229.9
Total Shareholders funds	1502.9	1805.6	2008.1	2245.0
Total Debt	129.1	79.1	49.1	29.1
Other Non Current Liabilitie	119.6	121.6	123.6	125.6
Total Liability	**1691.8**	**1945.5**	**2119.0**	**2336.9**
Fixed Assets				
Gross Block	1475.8	1555.8	1755.8	1955.8
Accumulated Depreciation	476.2	592.6	722.3	858.5
Net Block	999.6	963.2	1033.4	1097.2
Capital WIP	44.4	44.4	44.4	44.4
Total Fixed Assets	1044.0	1007.6	1077.8	1141.6
Goodwill on Consolidation	255.3	305.3	355.3	405.3
Current Assets				
Inventory	540.4	607.4	692.4	746.3
Debtors	227.8	440.4	514.6	554.4
Loans and Advances	12.4	2.5	3.1	3.5
Other Current Assets	64.7	76.0	85.7	97.7
Cash	130.1	97.7	75.1	170.6
Total Current Assets	975.4	1224.0	1370.9	1572.4
Current Liabilities				
Creditors	475.4	478.3	542.7	618.4
Provisions	6.6	3.4	3.9	4.4
Other current liabilities	115.4	124.1	152.9	174.2
Total Current Liabilities	597.4	605.8	699.4	797.0
Net Current Assets	378.0	618.2	671.4	775.5
Deferred Tax Assets	0.1	0.1	0.1	0.1
Total Asset	**1691.8**	**1945.6**	**2119.1**	**2336.9**

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios ₹ crore

Year end March	FY20	FY21E	FY22E	FY23E
Per share Data				
EPS	16.6	20.7	25.5	27.8
Cash EPS	23.7	28.5	34.1	36.8
Dividend per share	0.0	2.2	12.1	12.1
BV per share	99.8	119.8	133.3	149.0
Profitability Ratio				
EBITDA margin	17.2	19.1	18.1	17.1
PAT margin	9.7	11.3	11.2	10.8
Return Ratios				
RoCE	20.5	22.3	24.5	24.1
RoNW	16.6	17.3	19.1	18.6
RoIC	24.6	25.7	27.4	28.2
Valuation Ratios				
P/E	69.9	55.9	45.4	41.7
EV / EBITDA	39.4	32.9	28.2	26.0
Market Cap / Sales	6.8	6.3	5.1	4.5
Price to Book Value	11.6	9.7	8.7	7.8
Activity Ratios				
Inventory Days	76.5	80.0	74.0	70.0
Debtor Days	32.3	58.0	55.0	52.0
Creditor Days	67.3	63.0	58.0	58.0
Gross Block Turnover	1.7	1.8	1.9	2.0
Solvency Ratio				
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 13: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Asian Paints (ASIPAI)	2,225	2,440	Buy	2,13,378	29.0	28.9	35.9	76.8	77.1	62.0	47.9	45.8	37.4	27.4	24.2	27.3	30.5	28.1	31.7
Astral Polytecnik (ASTPOL)	1,158	1,120	Hold	17,447	16.6	15.0	23.3	69.9	77.4	49.8	36.1	39.3	27.8	20.5	17.0	23.1	16.6	13.1	17.9
Amber Enterprises (AMBEN	2,187	2,600	Buy	6,877	52.2	19.0	70.6	41.9	115.1	31.0	22.8	33.1	15.2	14.3	6.3	16.2	14.5	4.2	13.7
Bajaj Electricals (BAJELE)	496	585	Buy	5,639	-0.9	11.8	17.1	NM	41.9	29.1	31.4	22.1	16.9	8.0	10.8	14.7	-0.8	8.3	13.0
Berger Paints (BERPAI)	653	580	Hold	63,419	6.8	6.1	9.7	96.7	106.6	67.1	51.7	55.0	37.8	26.6	22.0	31.3	24.7	19.7	27.1
EPL (ESSPRO)	252	270	Buy	7,951	6.7	7.0	9.5	37.6	35.9	26.6	13.6	12.4	10.5	15.6	16.5	19.4	14.3	13.9	16.3
Havells India (HAVIND)	824	835	Buy	51,409	11.7	14.1	16.4	70.2	58.4	50.2	42.5	32.7	28.4	19.6	21.5	24.4	17.0	18.5	20.0
Kansai Nerolac (KANNER)	527	605	Buy	28,401	9.9	10.3	12.0	53.0	51.3	43.8	35.6	33.2	29.3	17.6	18.4	19.6	14.1	14.3	15.1
Pidilite Industries (PIDIND)	1,595	1,850	Buy	80,994	22.1	22.7	27.8	72.2	70.4	57.4	50.6	49.7	40.9	31.0	28.2	30.9	26.1	23.2	24.9
Polycab India (POLI)	928	1,040	Buy	13,816	51.4	58.4	62.9	18.0	15.9	14.8	11.4	11.2	9.5	26.5	21.4	23.2	20.0	18.2	18.0
Supreme Indus (SUPIND)	1,436	1,695	Buy	18,241	36.8	44.9	47.8	39.0	32.0	30.0	22.5	20.1	19.4	22.5	23.3	22.5	20.7	22.3	21.2
Symphony (SYMLIM)	846	960	Buy	5,918	26.0	20.5	32.0	32.5	41.2	26.4	26.7	33.9	21.0	28.8	23.5	37.0	29.0	23.0	35.1
Time Techno (TIMTEC)	39	47	Hold	882	7.5	3.4	9.4	5.2	11.5	4.2	3.3	4.5	3.0	12.5	7.4	13.5	9.3	4.3	11.0
V-Guard Ind (VGUARD)	169	210	Buy	7,238	4.3	3.7	5.3	39.1	45.7	31.9	28.2	31.0	22.9	24.8	20.1	25.2	18.6	15.1	19.4
Voltas Ltd (VOLTAS)	790	725	Buy	26,128	15.8	10.7	22.7	50.1	73.9	34.8	29.4	51.3	23.6	19.5	11.5	20.4	13.0	8.0	15.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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