

India

HOLD (previously ADD)

Consensus ratings*: Buy 9 Hold 10 Sell 5

Current price:	Rs1,974
Target price:	Rs2,002 ▲
Previous target:	Rs1,978
Up/downside:	1.4%
InCred Research / Consensus:	9.2%

Reuters:	
Bloomberg:	ASTRA IN
Market cap:	US\$7,303m
	Rs530,335m
Average daily turnover:	US\$13.8m
	Rs1003.8m
Current shares o/s:	268.6m
Free float:	44.2%
*Source: Bloomberg	

Key changes in this note

- FY24F/25F revenue raised/cut by 1.7%/0.7%.
- FY24F/25F EBITDA raised by 2%/3.3%.
- FY24F/25F PAT raised by 1.9%/1.2%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.3	25.5	32.6
Relative (%)	8.5	19.1	20.7

Major shareholders	% held
Promoters	55.9
Axis Long Term Equity Fund	3.9
Steadview Capital Mauritius	2.7

Analyst(s)



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Astral Ltd.

Good business momentum, but priced in

- Consol. 1Q EBITDA was 5-7.5% below estimates. Plumbing products' sales volume: +31% yoy and EBITDA: Rs38k/t. Adhesives business relatively weak.
- PVC pipe demand to sustain its strong momentum, adhesives to improve qoq while new businesses (bathware, paints) will have some gestation period.
- Stock trades at 74x FY25F EPS, +1SD to its 5-year mean P/E and can stay there as growth sustains. Need a lower entry price point. Downgrade to HOLD.

Margins a tad lower than estimates across four business segments

Astral's 1QFY24 revenue/EBITDA/PAT stood at Rs12.8bn/Rs2bn/Rs1.2bn, +6%/17%/35% yoy, respectively. Revenue in line but EBITDA/PAT missed our/Bloomberg consensus estimates by 5-8%. Consol. gross/EBITDA margins were at 37.3%/15.7%, +611bp/156bp yoy, respectively. The plumbing division's inventory loss, lower fixed-cost absorption for bathware & sub-par adhesive margin in the global business (UK/US) led to a lower consol. margin vs. our estimate. The plumbing segment's revenue was at Rs9.4bn, +7% yoy. Plumbing products' (ex-bathware) sales volume was at 47.9kt, +31% yoy, & EBITDA was at Rs1.7bn, implying Rs35.2k/t. Adj. for inventory loss (PVC price fall) of Rs150m, EBITDA was at Rs38.3k/t. Adhesives' (ex-paints) revenue/EBITDA stood at Rs3bn/Rs414m, +8%/+9% yoy, with the EBITDA margin at 13.6%, flat yoy. Bathware sales were at Rs139m, +13% qoq, & the EBITDA loss at Rs34m, flat qoq. GEM Paints' revenue/EBITDA were at Rs410m/Rs70m, down 26%/17% yoy respectively, due to the re-KYC exercise of dealers (Rs150-200m sales loss). Gross cash was at Rs4.7bn at the end of Jun 2023.

Robust demand to be well supported by lot of capacity expansions

Astral to continue its capacity expansion across plastic pipes, pipe fittings, value-added-products (water tanks, valves) and adhesives segments. It plans to expand plumbing products' capacity by 185kt (Guwahati 22k, Hyderabad 70k, Kanpur 50k, de-bottlenecking: 45k) over FY24F-26F, ~60% addition to the existing capacity of 290kt. The new Dahej plant added ~30% to its existing adhesives capacity of 100kt and the plant's production to reach optimum level by Sep 2023F. Nearly 100% of faucet output will move in-house at its Jamnagar unit by Mar 2024F. All capex to be funded from internal accruals. Management retains its guidance of a 15% sales CAGR for the plumbing/adhesive segments over the next three years. We expect FY23-25F revenue/EBITDA CAGR at 12%/20%, respectively.

Change in estimates; need a lower entry price; downgrade to HOLD

We have fine-tuned our estimates by 1-3% and expect an EPS CAGR of 23% over FY23-25F. The stock price is up 20% since our May 2023 upgrade and trades at a P/E of 74x FY25F EPS, +1SD to its 5-year mean P/E. The stock could maintain its existing P/E multiple due to sustained OCF/FCF growth but not expand further, in our view. Need a lower entry price point and hence, we have downgraded the stock's rating to HOLD (from ADD) with a higher target price of Rs2,002 (75x FY25F EPS). Upside risk: Higher-than-expected margins. Downside risks: Sharp PVC price volatility and capex delay.

Financial Summary

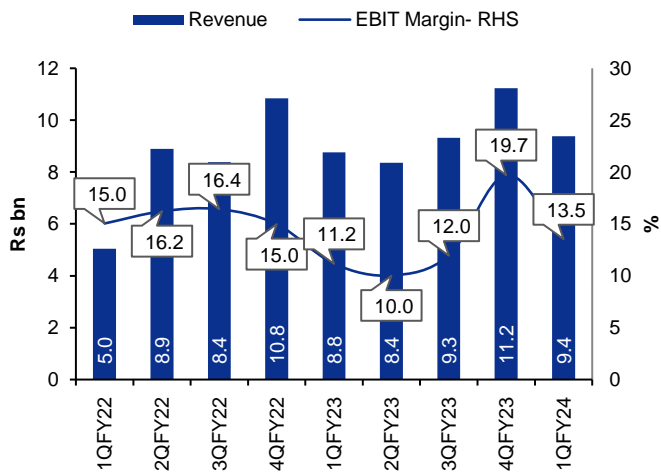
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	31,763	43,940	51,585	57,827	64,793
Operating EBITDA (Rsm)	6,445	7,553	8,099	9,802	11,630
Net Profit (Rsm)	4,044	4,838	4,725	5,903	7,169
Core EPS (Rs)	20.1	24.1	17.7	22.0	26.7
Core EPS Growth	22.3%	19.6%	(26.7%)	24.5%	21.4%
FD Core P/E (x)	98.08	81.98	112.23	89.84	73.97
DPS (Rs)	1.8	3.0	2.3	3.0	4.0
Dividend Yield	0.09%	0.15%	0.11%	0.15%	0.20%
EV/EBITDA (x)	60.94	51.81	65.03	53.66	44.75
P/FCFE (x)	380.54	62.45	(4,878.55)	(239.92)	153.51
Net Gearing	(21.4%)	(23.5%)	(20.4%)	(19.8%)	(30.8%)
P/BV (x)	20.92	16.97	19.56	16.46	13.85
ROE	23.8%	22.9%	18.8%	19.9%	20.3%
% Change In Core EPS Estimates				1.86%	1.19%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

1QFY24 earnings-call highlights

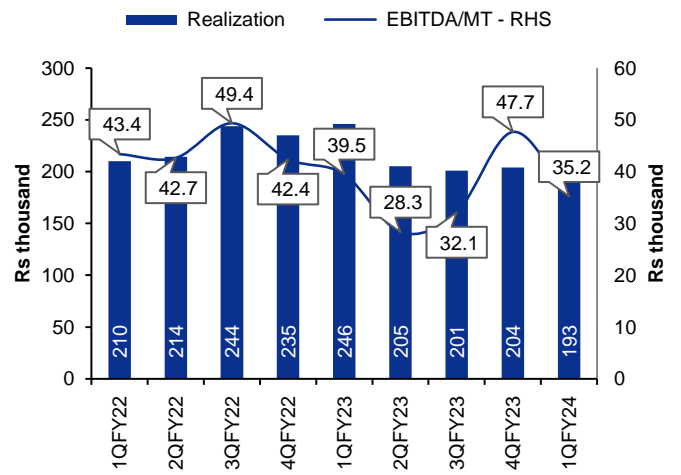
- **Growth and margin guidance:** Astral expects a revenue CAGR of 15% for the plumbing and adhesives segments over the next three years. Plumbing products' EBITDA margin is expected in the range of Rs35-40/kg while the adhesive products' margin is likely to be ~15% over the same period. The bathware segment is expected to achieve EBITDA breakeven by 4QFY24F.
- **25th anniversary:** Astral would be completing 25 years of operations in Oct 2023.
- **Adhesives business update:** Domestic revenue growth stood at 10% yoy in 1Q, as Astral passed on the benefit of cheaper input prices through price cuts in the domestic market. Domestic sales volume growth stood at 15-20% yoy, as per management. The UK business witnessed a subdued revenue growth of 4.5% yoy. The EBITDA margin stood at 16% and 8% for the Indian and international operations, respectively, in 1QFY24.
- **Bathware business update:** Astral has completed setting up more than 500 showrooms/display centres/sales points supported by channel partners at various states in India. The company will focus on sales throughput initially, tapping the institutional projects business in T-1/T-2 markets. The current revenue run-rate is Rs50m per month.
- **Paint business update:** Gem Paints will soon become an 80% subsidiary of Astral, once the regulatory procedures are completed by the end of Sep 2023F. The total purchase consideration is estimated at Rs2.8-3bn, which will be paid upon completing the regulatory formalities. The remaining 20% equity stake can be bought by Astral over the next five years at a pre-agreed EV/EBITDA multiple of 11x on a TTM basis. The SAP implementation was fully completed by the end of Mar 2023. From 1 Apr 2023, Astral has started the process of recollecting all documents for KYC from all its dealers that led to a disruption in sales at GEM Paints in 1Q. The integration and rebranding plan with the Astral brand will fructify over the next six months. Astral has strengthened the senior management team at GEM Paints and the disclosure regarding the new members will be made in due course.
- **Capex update:** Astral plans to put up three new plants for manufacturing plastic pipes. The first plant, with a capacity of 22kt, will be set up at Guwahati in East India, which will start trial production in Sep 2023F. The land has been taken on long-term lease and the capex may be restricted to ~Rs250m. The second plant, with a capacity of 70kt, will come up in two phases at Hyderabad, of which the first phase is expected to start trial production in Sep 2024F and the second phase in 1HFY26F. The third plant, with a capacity of 50kt, will also come in two phases at Kanpur in Uttar Pradesh over FY25F-26F. In addition to greenfield plants, the company will debottleneck its existing plants that have the potential to add ~15kt of capacity every year. We expect the total plumbing products' manufacturing capacity to surpass 450kt by Mar 2026F. Cumulatively, the company has a capex budget of Rs3bn and Rs2.5bn for FY24F and FY25F, respectively.
- **Cash flow:** Gross cash (including equivalents) stood at Rs4.6bn at the end of Jun 2023 (vs. Rs6bn at the end of Mar 2023).

Figure 1: Plumbing segment's revenue and margin



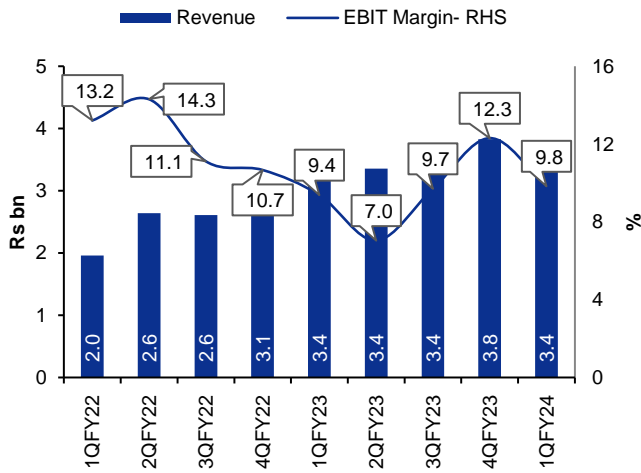
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Plumbing segment's realization and EBITDA/MT



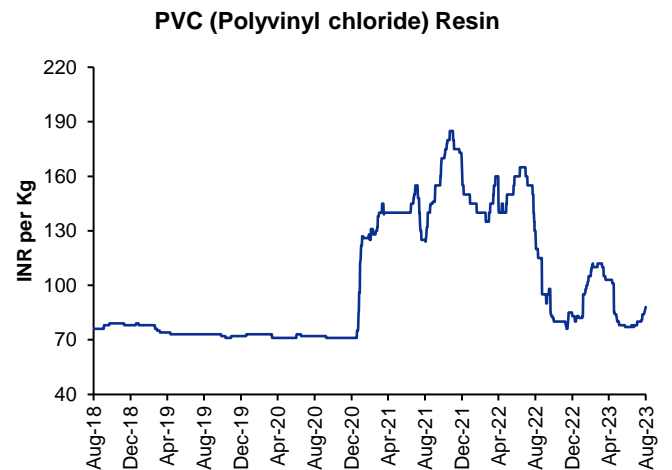
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Adhesives segment's revenue and margin



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: PVC price trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: 1QFY24 results snapshot

YE Mar (Rs m)	1QFY24	1QFY23	yoy (%)	4QFY23	qoq (%)
Revenue	12,831	12,129	5.8	15,062	(14.8)
EBITDA	2,016	1,717	17.4	3,089	(34.7)
EBITDA margin (%)	15.7	14.2	156 bp	20.5	-480 bp
Adj. PAT	1,198	889	34.8	2,075	(42.3)
Diluted EPS (Rs)	4.5	4.4		7.7	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: 1QFY24 segmental results snapshot

YE Mar (Rs m)	1QFY24	1QFY23	yoy (%)	4QFY23	qoq (%)
Revenue					
Plumbing	9,383	8,761	7.1	11,235	(16.5)
Paints and Adhesives	3,448	3,368	2.4	3,827	(9.9)
Total	12,831	12,129	5.8	15,062	(14.8)
EBIT					
Plumbing	1,268	977	29.8	2,215	(42.8)
Paints and Adhesives	339	316	7.3	471	(28.0)
Total	1,607	1,293	24.3	2,686	(40.2)
EBIT margin (%)					
Plumbing	13.5	11.2	236 bp	19.7	-620 bp
Paints and Adhesives	9.8	9.4	45 bp	12.3	-248 bp
Total	12.5	10.7	186 bp	17.8	-531 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Segmental performance

YE Mar Rs m	1QFY24	1QFY23	yoy (%)	4QFY23	qoq (%)
Revenue					
Bathware	139	0	NA	123	12.8
Paints	410	553	(25.9)	587	(30.2)
EBITDA					
Bathware	-34	-60	(43.3)	-35	(2.9)
Paints	70	83	(16.0)	85	(18.1)
EBITDA margin (%)					
Bathware	-24.5	NA	NA	-28.4	395 bps
Paints	17.0	15.0	200 bps	14.5	250 bps

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 8: Actuals vs. our estimates

Rs m	1QFY24	4QFY23F	Var (%)
Revenue	12,831	12,822	0.1
EBITDA	2,016	2,180	(7.5)
EBITDA margin (%)	15.7	17.0	-129 bp
Adj. PAT	1,198	1,276	(6.1)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 9: Actuals vs. Bloomberg consensus

Rs m	1QFY24	1QFY24C	Var (%)
Revenue	12,831	12,896	(0.5)
EBITDA	2,016	2,140	(5.8)
EBITDA margin (%)	15.7	16.6	-88 bp
Adj. PAT	1,198	1,267	(5.4)

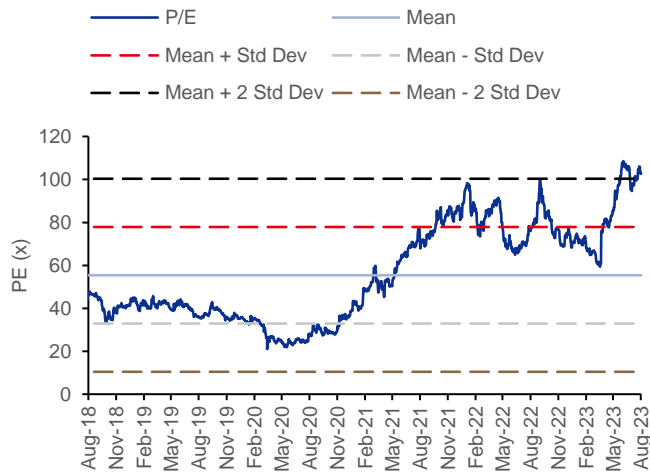
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 10: Our revised earnings estimates

	New estimates		Old estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	57,827	64,793	56,871	65,242	1.7	-0.7
EBITDA	9,802	11,630	9,611	11,254	2.0	3.3
Adjusted consol. PAT	5,903	7,169	5,795	7,085	1.9	1.2
EPS	22.0	26.7	21.6	26.4	1.9	1.2
EBITDA margin (%)	17.0	18.0	16.9	17.3	5 bp	70 bp

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 11: P/E standard deviation (five-year mean)



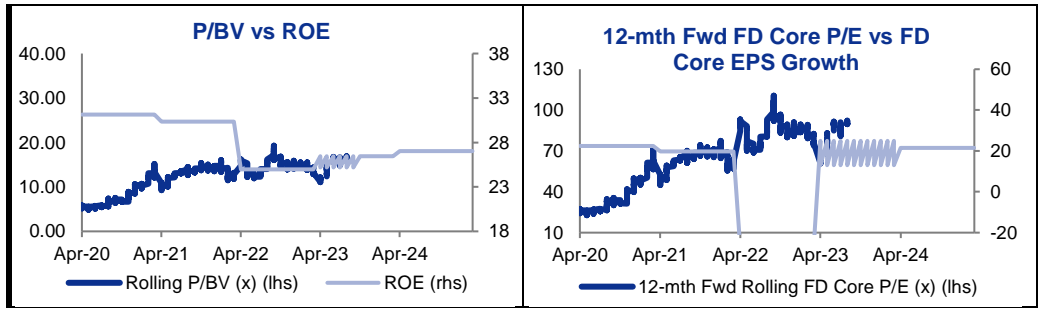
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 12: P/E band (one-year forward EPS)



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	31,763	43,940	51,585	57,827	64,793
Gross Profit	12,074	14,660	17,238	21,540	24,459
Operating EBITDA	6,445	7,553	8,099	9,802	11,630
Depreciation And Amortisation	(1,165)	(1,269)	(1,781)	(1,998)	(2,298)
Operating EBIT	5,280	6,284	6,318	7,804	9,333
Financial Income/(Expense)	(93)	(83)	(368)	16	194
Pretax Income/(Loss) from Assoc.	(70)	(19)	(15)	(5)	(5)
Non-Operating Income/(Expense)	213	303	235	150	158
Profit Before Tax (pre-EI)	5,330	6,485	6,170	7,965	9,679
Exceptional Items					
Pre-tax Profit	5,330	6,485	6,170	7,965	9,679
Taxation	(1,248)	(1,581)	(1,557)	(1,947)	(2,361)
Exceptional Income - post-tax			(18)		
Profit After Tax	4,082	4,904	4,595	6,018	7,319
Minority Interests	(38)	(66)	130	(115)	(150)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	4,044	4,838	4,725	5,903	7,169
Recurring Net Profit	4,044	4,838	4,743	5,903	7,169
Fully Diluted Recurring Net Profit	4,044	4,838	4,743	5,903	7,169

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	6,445	7,553	8,099	9,802	11,630
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,142	(705)	(1,026)	197	(250)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	123	178	(194)	233	486
Net Interest (Paid)/Received	93	83	344	(16)	(194)
Tax Paid	(1,162)	(1,678)	(1,654)	(1,947)	(2,361)
Cashflow From Operations	6,641	5,431	5,569	8,269	9,312
Capex	(1,717)	(3,460)	(3,110)	(3,550)	(2,565)
Disposals Of FAs/subsidiaries		14	11		
Acq. Of Subsidiaries/investments	(2,856)	4,126	(1,730)	(7,000)	(3,500)
Other Investing Cashflow	32	35	32	321	457
Cash Flow From Investing	(4,541)	715	(4,797)	(10,229)	(5,608)
Debt Raised/(repaid)	(1,188)	205	(867)	(250)	(250)
Proceeds From Issue Of Shares	1				
Shares Repurchased					
Dividends Paid	(151)	(451)	(603)	(807)	(1,076)
Preferred Dividends					
Other Financing Cashflow	(140)	(123)	(366)	(305)	(263)
Cash Flow From Financing	(1,478)	(369)	(1,836)	(1,362)	(1,589)
Total Cash Generated	622	5,777	(1,064)	(3,322)	2,115
Free Cashflow To Equity	912	6,351	(95)	(2,210)	3,454
Free Cashflow To Firm	1,969	6,017	372	(2,265)	3,441

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	4,760	6,418	6,821	7,427	12,903
Total Debtors	2,767	2,691	3,545	3,974	4,453
Inventories	4,721	7,334	8,746	9,189	10,296
Total Other Current Assets	442	1,008	1,427	792	888
Total Current Assets	12,690	17,451	20,539	21,382	28,539
Fixed Assets	9,977	11,805	15,736	16,049	17,066
Total Investments				3,000	3,000
Intangible Assets	2,570	2,567	3,125	3,125	3,125
Total Other Non-Current Assets	1,490	2,046	4,221	5,460	4,710
Total Non-current Assets	14,037	16,418	23,082	27,634	27,901
Short-term Debt	229	523	457	309	161
Current Portion of Long-Term Debt					
Total Creditors	5,172	7,484	8,000	9,506	10,651
Other Current Liabilities	1,157	1,343	3,448	2,376	2,663
Total Current Liabilities	6,558	9,350	11,905	12,191	13,475
Total Long-term Debt	437	328	316	214	112
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	162	149	1,512	1,512	1,512
Total Non-current Liabilities	599	477	1,828	1,726	1,624
Total Provisions	400	398	299	299	299
Total Liabilities	7,557	10,225	14,032	14,216	15,398
Shareholders Equity	18,958	23,366	27,112	32,208	38,301
Minority Interests	212	278	2,477	2,592	2,742
Total Equity	19,170	23,644	29,589	34,800	41,043

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	23.2%	38.3%	17.4%	12.1%	12.0%
Operating EBITDA Growth	45.5%	17.2%	7.2%	21.0%	18.7%
Operating EBITDA Margin	20.3%	17.2%	15.7%	16.9%	17.9%
Net Cash Per Share (Rs)	20.38	27.71	22.52	25.70	47.02
BVPS (Rs)	94.37	116.31	100.94	119.91	142.60
Gross Interest Cover	40.31	48.71	15.80	25.62	35.44
Effective Tax Rate	23.4%	24.4%	25.2%	24.4%	24.4%
Net Dividend Payout Ratio	6.7%	9.4%	9.6%	10.3%	11.3%
Accounts Receivables Days	28.99	22.67	22.06	23.73	23.73
Inventory Days	93.85	75.14	85.44	90.20	88.16
Accounts Payables Days	92.01	78.88	82.27	88.04	91.20
ROIC (%)	33.8%	40.2%	33.9%	30.8%	34.9%
ROCE (%)	28.6%	28.1%	22.9%	24.5%	25.4%
Return On Average Assets	21.9%	21.7%	16.9%	17.2%	18.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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	Analyst/ Relative	Entity/ Associates
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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
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