

India

HOLD (no change)

Consensus ratings*: Buy 8 Hold 13 Sell 5

Current price:	Rs1,843
Target price:	Rs1,936
Previous target:	Rs1,978
Up/downside:	5.0%
InCred Research / Consensus:	-2.0%
Reuters:	ASPT.BO
Bloomberg:	ASTRA IN
Market cap:	US\$5,955m
	Rs494,945m
Average daily turnover:	US\$18.1m
	Rs1506.8m
Current shares o/s:	268.6m
Free float:	44.2%

*Source: Bloomberg

Key changes in this note

- FY24F/25F revenue cut/raised by 0.7%/1.7%.
- FY24F/25F EBITDA cut by 2.2%/1.7%.
- FY24F/25F PAT cut by 2.3%/3.7%.

Astral Ltd.

Lower CPVC prices drag 2Q margins

- Astral's 2Q was almost in line with expectations, barring a fall in CPVC & PVC prices that led to inventory loss of Rs200m, hurting plumbing segment margins.
- Potential to add 200kt (existing 310kt) plastic products capacity in FY24F-26F. We expect ~160kt addition (plumbing segment's 19% sales volume CAGR).
- We expect all four segments to sustain the demand momentum and expand margins over FY23-26F. Need a lower entry price point. Retain HOLD rating.

Barring CPVC inventory loss, 2Q results in line with expectations

Astral's 2QFY24 revenue/EBITDA/PAT stood at Rs13.6bn/Rs2.2bn/Rs1.3bn, +16%/+53%/+86% yoy, respectively. Revenue was in line, but EBITDA/PAT missed Incred/Bloomberg consensus estimates by 4-10% due to the fall in CPVC prices, leading to an inventory loss of Rs200m in plastic products. Consol. gross/EBITDA margins stood at 38.9%/16.1%, +809bp/386bp yoy, respectively. Ex-bathware, plastic products' sales volume was at 52.1kt, +28% yoy, and revenue at Rs9.6bn, +15% yoy, while EBITDA stood at Rs34.7k/t, flat qoq. Bathware sales stood at Rs175m, +26% qoq, with the EBITDA loss at Rs 41m. Ex-paints, adhesives revenue stood at Rs3.4bn, +17.5% yoy, with the EBITDA margin at 14.7%, +230bp yoy. Paints' revenue stood at Rs470m, down 6% yoy, while the EBITDA margin was at 16%. Net working capital cycle stood at 23 days of TTM sales. 1HFY24 OCF/FCF stood at Rs2bn/(Rs897m). Net cash was at Rs4.6bn (Sep 2023-end).

Pan-India capacities being set up in plumbing & adhesives segments

Decentralization of manufacturing facilities continue, with pan-India plastic product and adhesive plants coming up at four new locations along with brownfield expansions. The estimated cumulative capex is ~Rs10bn over FY24F-26F, in our view. Astral plans to add ~200kt (~60%) of plastic product capacity over FY24F-26F. The new adhesives plant at Dahej has a peak annual revenue potential of Rs8bn+ and should be fully operational by Mar 2024F. The paints business has enough surplus capacity to sustain a 15-20% revenue CAGR over the next five years while bathware capacity to grow in sync with demand growth. We expect plastic product sales volume/revenue CAGR at 19%/11% and revenue CAGR at 18%/120%/12% for adhesives/bathware/paints, respectively, over FY23-26F.

New product development

Astral's 'Fire Pro', India's first automatic fire sprinkler system, has secured ISI certification for its CPVC pipes and fittings. The company has also secured the NSF certification for its water tank products. Astral is the only Indian company to secure these certifications.

Change in estimates, valuation and risks

We account for 1HFY24 and cut EBITDA/PAT estimates by 2-4% for FY24F-25F. We expect an EPS CAGR of 22% and cumulative FCF of Rs16bn over FY24F-26F. Given the limited upside, we retain HOLD rating with a lower target price of Rs1,936 (Rs1,978 earlier) based on a P/E of 75x FY25F EPS. Upside risk: Faster ramp-up of new business segments. Downside risks: Capex delay.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(2.6)	(2.4)	20.4
Relative (%)	(1.7)	(0.5)	9.2

Major shareholders	% held
Promoters	55.9
Axis Long Term Equity Fund	3.5
Steadview Capital Mauritius	2.6

Analyst(s)



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Financial Summary

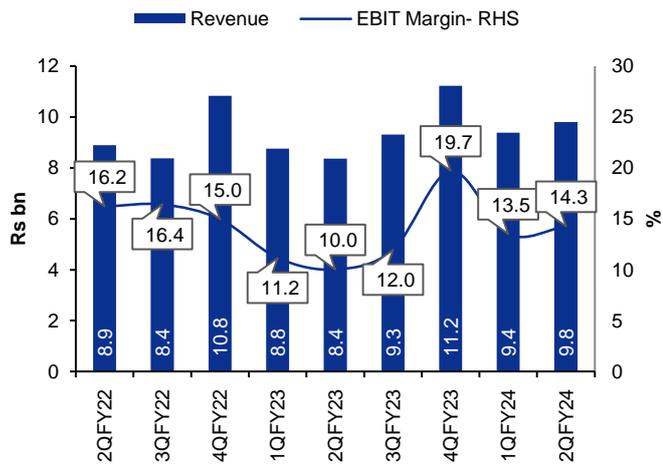
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	43,940	51,585	57,410	65,908	76,405
Operating EBITDA (Rsm)	7,553	8,099	9,588	11,435	13,638
Net Profit (Rsm)	4,838	4,725	5,766	6,932	8,598
Core EPS (Rs)	24.1	17.7	21.5	25.8	32.0
Core EPS Growth	19.6%	(26.7%)	21.6%	20.2%	24.0%
FD Core P/E (x)	76.51	104.74	85.83	71.39	57.57
DPS (Rs)	3.0	3.5	4.0	5.0	7.0
Dividend Yield	0.16%	0.19%	0.22%	0.27%	0.38%
EV/EBITDA (x)	48.31	60.67	51.40	42.70	35.29
P/FCFE (x)	58.28	(4,552.99)	(207.29)	166.14	93.86
Net Gearing	(23.5%)	(20.4%)	(13.5%)	(22.9%)	(34.7%)
P/BV (x)	15.84	18.25	15.56	13.24	11.22
ROE	22.9%	18.8%	19.6%	20.0%	21.1%
% Change In Core EPS Estimates			(2.32%)	(3.30%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

2QFY24 earnings-call highlights

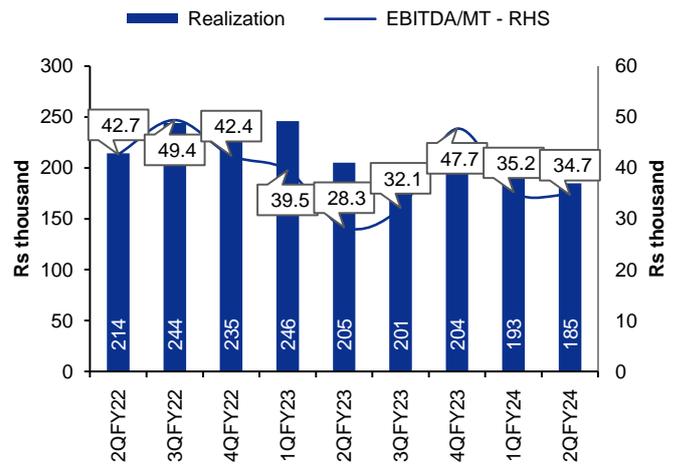
- **Growth and margin guidance:** Astral has revised its FY24F revenue growth guidance upwards to 20%+ yoy for the plumbing segment vs. previously stated guidance of 15% yoy. The company maintained its adhesives segment's revenue growth guidance of a 15-20% CAGR over the next three-to-five years.
- **Adhesives:** India adhesives business reported a revenue growth of 18% yoy with the EBITDA margin at 15.5% for the quarter. Seal IT, its UK adhesives business, grew its revenue by 17% yoy with the EBITDA margin at ~10%. The UK business margins had an impact of old high-cost inventory and management expects it to materially improve margins (~12%) over 2HFY24F. The UK business added two new customers that would aid revenue growth from FY25F.
- **Bathware:** Astral clocked a revenue of Rs175m in 2QFY24 and suffered an EBITDA loss of Rs41m in this vertical. The bathware segment exited Sep 2023 with a monthly revenue run-rate of Rs80m. The company expects to achieve EBITDA breakeven at a monthly revenue run-rate of Rs100-110m in 1HFY25F.
- **Paints:** Astral has completed the acquisition of an 80% equity stake in GEM Paints for a total consideration of Rs2.8bn in Oct 2023. The segment clocked a revenue of Rs470m, down 6% yoy and EBITDA margin of 16% for the quarter. The revenue decline in 1HFY24 yoy was due to various structural operational changes at GEM Paints along with ERP implementation (completed in Apr 2023). Management expects the revenue growth to bounce back in 2HFY24F.
- **New product revenue potential:** Astral expects the launch of new products such as drainpro, silencio, tanks, valves and bathware to have a revenue potential of Rs15bn over the next five years.
- **PVC and CPVC prices:** CPVC prices declined by 7-8% in 2Q, in line with the fall in global PVC prices. Astral incurred an inventory loss of Rs200m (Rs4/kg) in the plastic products division in 2QFY24. Indian PVC prices declined by Rs11/kg (14%) so far in Oct 2023, and management indicated that prices would stabilize at the current levels over 2HFY24F. The channel destocking took place at the end of Sep 2023 in anticipation of a price drop in Oct 2023 and hence, volume offtake by the channel has been stable in Oct 2023.
- **Capex update:** Astral's incurred a capex of Rs2.8bn in 1HFY24, out of the total Rs3.5bn guidance given in May 2023, that includes the brownfield expansion project of 20kt of plastic products capacity across its existing plants. Additionally, the company has spent Rs750m on land acquisition for a new corporate office (closer to its existing office in Ahmedabad) in 2Q. Astral expects a capex of Rs1.3bn in 2HFY24F. The three upcoming plants in Guwahati (22kt), Hyderabad (70kt) and Kanpur (50kt) will cumulatively add 140kt+ of plastic products capacity over FY24F-26F. Additionally, brownfield expansions could add ~50kt of capacity over the same period.
- **Cash conversion:** The net working capital cycle was stable at 23 days of TTM sales and net cash (including equivalents) stood at Rs4.6bn at the end of Sep 2023 (vs. Rs6bn at the end of Mar 2023). 1HFY24 OCF/FCF stood at Rs2bn/(Rs897m), respectively.

Figure 1: Plumbing segment's revenue and margin



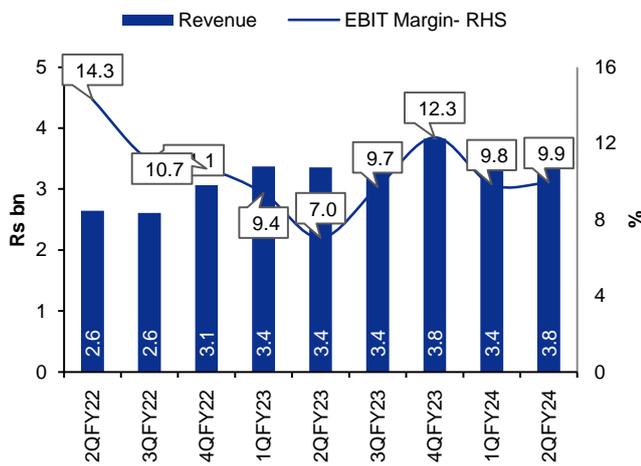
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



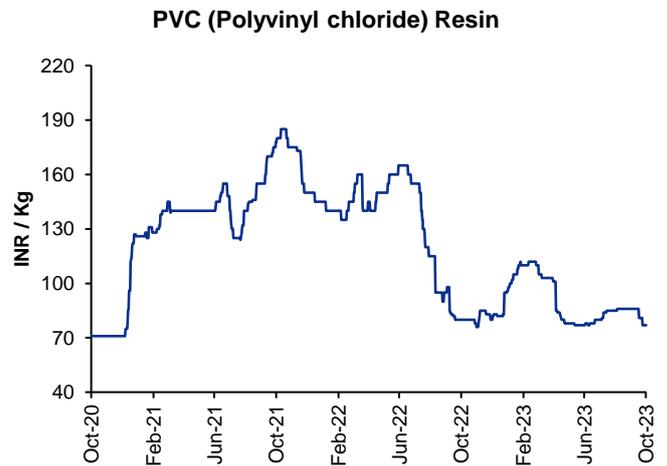
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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: 2QFY24 results snapshot

Y/E Mar (Rs m)	2QFY24	2QFY23	yoy (%)	1QFY24	qoq (%)	1HFY24	1HFY23	yoy (%)
Revenue	13,630	11,716	16.3	12,831	6.2	26,461	23,845	(9.9)
EBITDA	2,201	1,440	52.8	2,016	9.2	4,217	3,157	(25.1)
EBITDA margin (%)	16.1	12.3	386 bp	15.7	44 bp	15.9	13.2	-270 bp
Adj. PAT	1,312	704	86.4	1,198	9.5	2,510	1,593	(36.5)
Diluted EPS (Rs)	4.9	3.5		4.5		9.3	7.9	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: 2QFY24 segmental results snapshot

Y/E Mar (Rs m)	2QFY24	2QFY23	yoy (%)	1QFY24	qoq (%)	1HFY24	1HFY23	yoy (%)
Revenue								
Plumbing	9,804	8,361	17.3	9,383	4.5	19,187	17,122	12.1
Paints and Adhesives	3,826	3,355	14.0	3,448	11.0	7,274	6,723	8.2
Total	13,630	11,716	16.3	12,831	6.2	26,461	23,845	11.0
EBIT								
Plumbing	1,398	838	66.8	1,268	10.3	2,666	1,815	46.9
Paints and Adhesives	380	236	61.0	339	12.1	719	552	30.3
Total	1,778	1,074	65.5	1,607	10.6	3,385	2,367	43.0
EBIT margin (%)								
Plumbing	14.3	10.0	424 bp	13.5	75 bp	13.9	10.6	329 bp
Paints and Adhesives	9.9	7.0	290 bp	9.8	10 bp	9.9	8.2	167 bp
Total	13.0	9.2	388 bp	12.5	52 bp	12.8	9.9	287 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Segmental performance

Y/E Mar (Rs m)	2QFY24	2QFY23	yoy (%)	1QFY24	qoq (%)
Revenue					
Bathware	175	0	NA	139	25.9
Paints	470	500	-6.0	410	14.6
EBITDA					
Bathware	-41	-30	36.7	-34	20.6
Paints	75	95	-20.8	70	7.9
EBITDA margin (%)					
Bathware	-23.4	NA	NA	-24.5	103 bps
Paints	16.0	19.0	-300 bps	17.0	-100 bps

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 8: EBITDA/t

Y/E Mar (Rs)	2QFY24	2QFY23	yoy (%)	1QFY24	qoq (%)
EBITDA/t					
Plumbing	34,736	28,341	22.6	35,182	-1.3

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 9: Actuals vs. our estimates

Rs m	2QFY24	2QFY24F	Var (%)
Revenue	13,630	13,994	(2.6)
EBITDA	2,201	2,393	(8.0)
EBITDA margin (%)	16.1	17.1	-95 bp
Adj. PAT	1,312	1,452	(9.7)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: Actuals vs. Bloomberg consensus

Rs m	2QFY24	2QFY24C	Var (%)
Revenue	13,630	13,917	(2.1)
EBITDA	2,201	2,284	(3.6)
EBITDA margin (%)	16.1	16.4	-26 bp
Adj. PAT	1,312	1,404	(6.6)

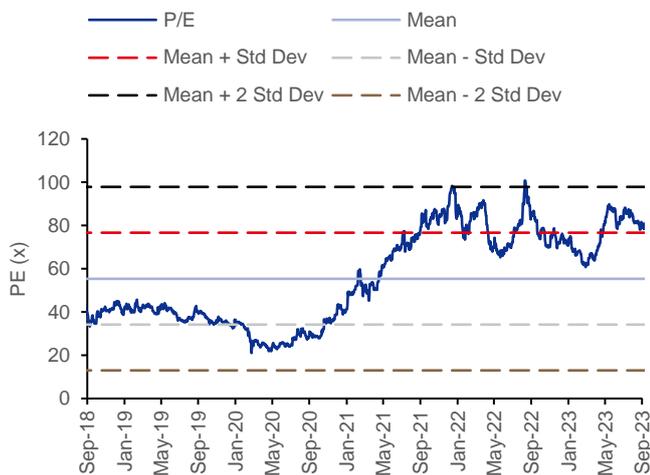
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 11: Our revised earnings estimates

	New estimates			Old estimates			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	57,410	65,908	76,405	57,827	64,793	NA	-0.7	1.7	NA
EBITDA	9,588	11,435	13,638	9,802	11,630	NA	-2.2	-1.7	NA
Adjusted consol. PAT	5,766	6,932	8,598	5,903	7,200	NA	-2.3	-3.7	NA
EPS	21.5	25.8	32.0	22.0	26.8	NA	-2.3	-3.7	NA
EBITDA margin (%)	16.7	17.4	17.9	17.0	18.0	NA	-25 bp	-60 bp	NA

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 12: P/E SD (five-year mean P/E)



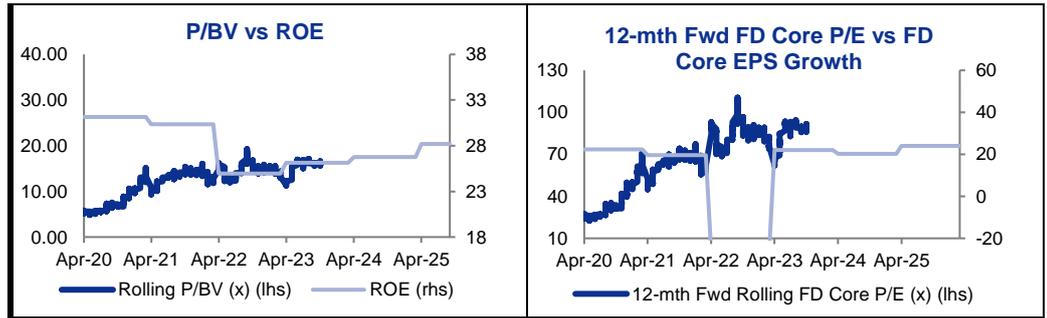
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 13: P/E band (one-year forward EPS)



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	43,940	51,585	57,410	65,908	76,405
Gross Profit	14,660	17,238	22,218	26,001	30,333
Operating EBITDA	7,553	8,099	9,588	11,435	13,638
Depreciation And Amortisation	(1,269)	(1,781)	(2,009)	(2,377)	(2,644)
Operating EBIT	6,284	6,318	7,578	9,058	10,995
Financial Income/(Expense)	(83)	(368)	(16)	55	337
Pretax Income/(Loss) from Assoc.	(19)	(15)			
Non-Operating Income/(Expense)	303	235	150	158	165
Profit Before Tax (pre-EI)	6,485	6,170	7,712	9,270	11,497
Exceptional Items					
Pre-tax Profit	6,485	6,170	7,712	9,270	11,497
Taxation	(1,581)	(1,557)	(1,936)	(2,328)	(2,888)
Exceptional Income - post-tax		(18)			
Profit After Tax	4,904	4,595	5,776	6,942	8,609
Minority Interests	(66)	130	(10)	(10)	(11)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	4,838	4,725	5,766	6,932	8,598
Recurring Net Profit	4,838	4,743	5,766	6,932	8,598
Fully Diluted Recurring Net Profit	4,838	4,743	5,766	6,932	8,598

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	7,553	8,099	9,588	11,435	13,638
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(705)	(1,026)	(574)	(421)	(520)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	178	(194)	233	486	731
Net Interest (Paid)/Received	83	344	16	(55)	(337)
Tax Paid	(1,678)	(1,654)	(1,936)	(2,328)	(2,888)
Cashflow From Operations	5,431	5,569	7,326	9,117	10,624
Capex	(3,460)	(3,110)	(4,550)	(3,059)	(2,568)
Disposals Of FAs/subsidiaries	14	11			
Acq. Of Subsidiaries/Investments	4,126	(1,730)	(5,500)	(3,500)	(3,500)
Other Investing Cashflow	35	32	336	421	717
Cash Flow From Investing	715	(4,797)	(9,714)	(6,138)	(5,351)
Debt Raised/(repaid)	205	(867)			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(451)	(603)	(1,076)	(1,345)	(1,883)
Preferred Dividends					
Other Financing Cashflow	(123)	(366)	(352)	(366)	(380)
Cash Flow From Financing	(369)	(1,836)	(1,428)	(1,711)	(2,263)
Total Cash Generated	5,777	(1,064)	(3,816)	1,268	3,010
Free Cashflow To Equity	6,351	(95)	(2,387)	2,979	5,273
Free Cashflow To Firm	6,017	372	(2,740)	2,613	4,893

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	6,418	6,821	5,406	9,901	16,182
Total Debtors	2,691	3,545	3,945	4,529	5,251
Inventories	7,334	8,746	9,437	10,834	12,560
Total Other Current Assets	1,008	1,427	944	1,083	1,256
Total Current Assets	17,451	20,539	19,733	26,348	35,248
Fixed Assets	11,805	15,736	17,838	18,737	19,284
Total Investments			3,000	3,000	3,000
Intangible Assets	2,567	3,125	3,125	3,125	3,125
Total Other Non-Current Assets	2,046	4,221	4,660	4,442	3,820
Total Non-current Assets	16,418	23,082	28,623	29,304	29,229
Short-term Debt	523	457	457	457	
Current Portion of Long-Term Debt					
Total Creditors	7,484	8,000	8,651	9,931	11,513
Other Current Liabilities	1,343	3,448	2,831	3,250	3,768
Total Current Liabilities	9,350	11,905	11,939	13,639	15,281
Total Long-term Debt	328	316	316	316	
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	149	1,512	1,512	1,512	1,512
Total Non-current Liabilities	477	1,828	1,828	1,828	1,512
Total Provisions	398	299	299	299	299
Total Liabilities	10,225	14,032	14,066	15,766	17,092
Shareholders Equity	23,366	27,112	31,802	37,389	44,104
Minority Interests	278	2,477	2,487	2,497	2,508
Total Equity	23,644	29,589	34,289	39,886	46,612

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	38.3%	17.4%	11.3%	14.8%	15.9%
Operating EBITDA Growth	17.2%	7.2%	18.4%	19.3%	19.3%
Operating EBITDA Margin	17.2%	15.7%	16.7%	17.4%	17.8%
Net Cash Per Share (Rs)	27.71	22.52	17.25	33.98	60.24
BVPS (Rs)	116.31	100.94	118.40	139.20	164.19
Gross Interest Cover	48.71	15.80	21.51	24.75	28.90
Effective Tax Rate	24.4%	25.2%	25.1%	25.1%	25.1%
Net Dividend Payout Ratio	9.4%	14.9%	14.0%	14.5%	16.4%
Accounts Receivables Days	22.67	22.06	23.81	23.47	23.36
Inventory Days	75.14	85.44	94.29	92.70	92.67
Accounts Payables Days	78.88	82.27	86.35	84.98	84.95
ROIC (%)	40.2%	33.9%	29.9%	31.8%	37.2%
ROCE (%)	28.1%	22.9%	24.0%	24.8%	26.7%
Return On Average Assets	21.7%	16.9%	16.8%	17.7%	18.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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