



India

REDUCE (previously HOLD)

Consensus ratings*: Buy 10 Hold 12 Sell 4

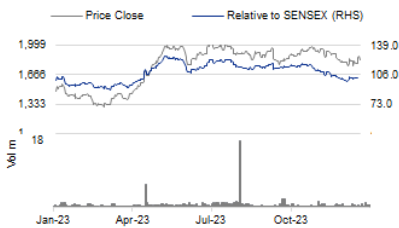
Current price:	Rs1,830
Target price:	Rs1,736
Previous target:	Rs1,936
Up/downside:	-5.1%
InCred Research / Consensus:	-13.2%

Reuters:	ASPT.BO
Bloomberg:	ASTRA IN
Market cap:	US\$5,921m
	Rs491,695m
Average daily turnover:	US\$17.2m
	Rs1425.5m
Current shares o/s:	268.6m
Free float:	45.9%

*Source: Bloomberg

Key changes in this note

- Largely retain FY24F estimates.
- Cut EBITDA by 8-9% for FY25F/26F.
- Cut PAT by 10-12% for FY25F-26F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(4.0)	(1.1)	18.9
Relative (%)	(3.3)	(12.3)	(1.1)

Major shareholders	% held
Promoters	54.1
Axis Mutual Fund	3.4
Steadview Capital Mauritius	2.4

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Astral Ltd.**Weak polymer prices impact margins again**

- Adjusted for inventory losses and one-time expenses, 3QFY24 EBITDA was in line. Plumbing sales volume: 52.7kt, +15% yoy. Adhesives sales: +11% yoy.
- 4Q to improve qoq. Management reiterated its medium-term sales CAGR and EBITDA margin guidance of 15%+ each for plumbing and adhesive segments.
- We expect a capacity CAGR of 16% but a lower EBITDA CAGR of 9% for plumbing products (FY24F-26F). Downgrade to REDUCE. Cut TP to Rs1,736.

Inventory losses and one-time expenses impact 3QFY24 margins

Astral's 3QFY24 revenue/EBITDA/PAT stood at Rs13.7bn/Rs2bn/Rs1.1bn, +8%/+10%/+22% yoy, respectively. Revenue was in line but EBITDA/PAT missed Incred/Bloomberg consensus estimates by 12-23% due to a) a fall in polymer prices (down 5-7% qoq) leading to inventory loss of ~Rs200m for plastic products, b) inventory loss of ~Rs60m (silicon prices fell ~70% qoq) in the UK adhesives business, and c) one-time expenses of Rs110m for the 25th anniversary celebrations. Consol. gross/EBITDA margins stood at 38.5%/15%, +600bp/30bp yoy, respectively. Ex-bathware, plastic products sales volume stood at 52.7kt, +15% yoy, while the revenue was at Rs9.8bn, +6% yoy, and EBITDA at Rs32k/t, flat yoy. Bathware sales stood at Rs205m, +112% yoy, with an EBITDA loss of Rs40m. Ex-paints, adhesives revenue stood at Rs3.3bn, +14.5% yoy, with the EBITDA margin at 11.7%, down 50bp yoy. Paints' revenue stood at Rs470m, down 10% yoy, while the EBITDA margin was at 18.5%. Gross cash balance stood at Rs3.3bn vs. Rs5.3bn qoq at the end of Dec 2023.

4Q to improve qoq; timely ramp-up of new plants critical for growth

A better sales mix, no one-offs and seasonality would lead to a better qoq performance in 4QFY24F in our view. However, due to a higher base, we expect revenue/EBITDA growth of 4%/8% yoy, respectively, and flat net profit yoy in 4QFY24F. New plants at Guwahati (22kt), Hyderabad (40kt) & Dahej (adhesives integrated complex) would start commercial operations between now and Jun 2024F, and timely production ramp-up is key to benefit from the healthy demand momentum and cost synergies. We expect plumbing and adhesives revenue/EBITDA CAGR at 15%/9% and 16%/24%, respectively, over FY24F-26F. We expect the plumbing segment's EBITDA margin at ~17% (~EBITDA/t: Rs32k) and adhesives business EBITDA margin at 15-16%.

Cut our estimates and downgrade to REDUCE rating

Despite a high capacity CAGR of 16%, we expect an EBITDA CAGR of 9% for the plumbing segment over FY24F-26F. We have largely retained FY24F estimates but cut EBITDA/PAT by 8-12% over FY25F-26F owing to lower plumbing EBITDA margin (8-10% cut). Astral stock price is down by 10% over the last six months. The stock trades at a P/E of 79x/65x its FY25F/26F EPS. We find the risk-reward ratio unfavourable at the current valuation. Downgrade to REDUCE (from HOLD) with a lower target price of Rs1,736 (from Rs1,936) based on a P/E of 75x FY25F EPS. Upside risk: Higher plumbing segment's margins.

Financial Summary

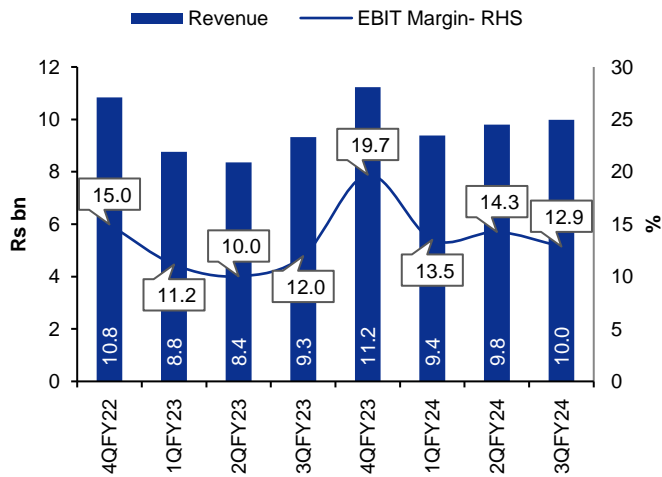
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	43,940	51,585	55,890	65,314	75,230
Operating EBITDA (Rsm)	7,553	8,099	9,613	10,450	12,375
Net Profit (Rsm)	4,838	4,725	5,718	6,217	7,611
Core EPS (Rs)	24.1	17.7	21.3	23.1	28.3
Core EPS Growth	19.6%	(26.7%)	20.5%	8.7%	22.4%
FD Core P/E (x)	76.01	104.05	85.99	79.09	64.60
DPS (Rs)	3.0	3.5	4.0	4.5	5.0
Dividend Yield	0.16%	0.19%	0.22%	0.25%	0.27%
EV/EBITDA (x)	47.99	60.26	50.97	46.68	38.91
P/FCFE (x)	57.90	(4,522.97)	(175.38)	228.24	121.56
Net Gearing	(23.5%)	(20.4%)	(12.2%)	(16.3%)	(27.8%)
P/BV (x)	15.74	18.13	15.48	13.38	11.43
ROE	22.9%	18.8%	19.4%	18.1%	19.1%
% Change In Core EPS Estimates			(0.84%)	(10.32%)	(11.48%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

3QFY24 earnings-call highlights

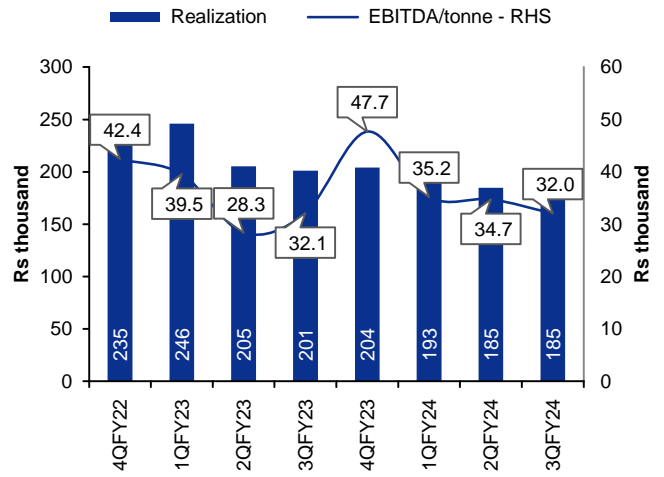
- **Growth and margin guidance:** Astral retained its FY24F revenue growth guidance upwards at 20%+ yoy (Jan 2024: +20% yoy) for the plumbing segment and sustain 15%+ sales volume growth over the next three-to-four years. The adhesives segment's revenue growth guidance was retained at 15% CAGR over the same period. The EBITDA margin is expected to sustain at 16-18% for the plumbing segment and 14-15% for the adhesives segment over the next three-to-four years.
- **Adhesives:** India adhesives business reported a revenue growth of 17% yoy with the EBITDA margin at 16.5% during the quarter. Seal IT, the UK adhesives business, grew its revenue by 9% yoy but suffered an EBITDA loss of Rs24m. The UK subsidiary suffered inventory loss to the tune of ~Rs60m (our estimate) due to a steep fall of ~70% in silicon prices and a marginal forex loss due to adverse movement in foreign exchange rates (INR vs. US\$/GBP). Silicon prices have stabilized now and the business is expected to be profitable from 4QFY24F. The Dahej plant is now fully operational, and the company expects meaningful benefits to flow through the segment's margins in 2HFY25F.
- **Bathware:** Astral clocked a revenue of Rs205m, +112% yoy, in 3QFY24 and incurred EBITDA loss of Rs 40m (flat yoy/qoq) in this vertical. Management expects Astral to clock Rs1bn+ in sales in FY25F and achieve EBITDA breakeven.
- **Paints:** Astral has completed the acquisition of a 80% equity stake in GEM Paints for a total consideration of Rs2.8bn in Oct 2023. The segment clocked a revenue of Rs470m, down 10% yoy, and the EBITDA margin was at 18.5% during the quarter. The company is realigning its operations and plans a relaunch in new markets with new branding initiatives from Jun 2024F. The revenue growth is expected to pick up from FY25F while the operating margin would decline initially, as margins are reinvested in strengthening management teams and branding initiatives.
- **PVC and CPVC prices:** CPVC and PVC prices declined by 5% and 7% qoq, respectively, in 3QFY24. Astral incurred an inventory loss of Rs200m (~Rs4/kg) in the plastic products division in 3QFY24. Management expects stable prices going ahead, barring the risks associated with the ongoing Houthis' attacks in the Red Sea that could disrupt vessel traffic movement.
- **One-time expense:** The company incurred a one-time non-recurring expense of Rs110m (0.8% of total sales) on account of the 25th anniversary celebrations relating to incorporation of the company booked as other expenses in 3QFY24.
- **Capex update:** The Dahej adhesives plant is now complete and the total capex incurred is ~Rs2bn for this new facility. The company has created manufacturing capacity for paints and solvent cement as well at the same location. The plumbing product plant at Guwahati, with an annual production capacity of 22kt, is now fully commercialized for manufacturing pipes and water tanks. The Phase-1 of the Telangana plant, with an annual capacity of 40kt, is expected to start commercial production in 2QFY25F. Phase-2 is planned with an annual capacity of 30kt and will be completed within the next two-to-three years. Phase-1 capex outlay is expected at Rs1.3-1.5bn, including the cost of land and common infrastructure, for both phases. Phase-1 of the plant at Kanpur will have an annual capacity of 25-30kt and is expected to start production in 1QFY26F. The planned capex for the project is Rs1-1.25bn. Phase-2 is planned for a capacity of 20-25kt that would start after Mar 2026F.
- **Cash flow:** After the payment for 80% equity stake acquisition in GEM Paints, net cash stood at Rs3.2bn at the end of Dec 2023.

Figure 1: Plumbing segment's revenue and margins



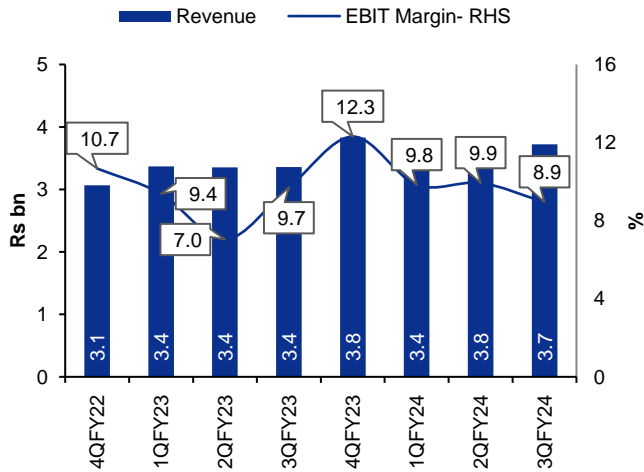
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Plumbing realization and EBITDA/t



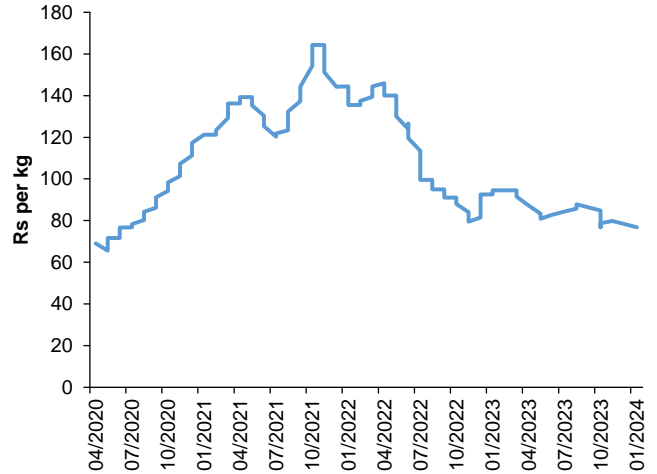
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Adhesives segment's revenue and margins



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Reliance Industries' PVC price quote trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: 3QFY24 EBITDA reconciliation – adjusted EBITDA in line with our estimates

	Rs m	Comments
Reported EBITDA	2,051	
Plumbing segment inventory loss	200	PVC and CPVC resin prices fell by 7% and 5% qoq in 3QFY24.
UK adhesives business loss	60	Inventory loss suffered as silicon prices fell by 70% qoq + forex loss (INR vs. US\$/GBP).
One-time cost	110	Corporate celebration expenses for completing 25 years of incorporation.
Adjusted EBITDA	2,421	
Adjusted EBITDA margin (%)	17.7	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: dr3QFY24 results snapshot

Y/E Mar (Rs m)	3QFY24	3QFY23	yoy (%)	2QFY24	qoq (%)	9MFY24	9MFY23	yoy (%)
Revenue	13,702	12,678	8.1	13,630	0.5	40,163	36,523	10.0
EBITDA	2,051	1,864	10.0	2,201	(6.8)	6,268	5,021	24.8
EBITDA margin (%)	15.0	14.7	27 bp	16.1	-118 bp	15.6	13.7	186 bp
Adj. PAT	1,135	930	22.0	1,312	(13.5)	3,645	2,523	44.5
Diluted EPS (Rs)	4.2	4.6		4.9		18.1	12.6	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: 3QFY24 segmental results snapshot

Y/E Mar (Rs m)	3QFY24	3QFY23	yoy (%)	2QFY24	qoq (%)	9MFY24	9MFY23	yoy (%)
Revenue								
Plumbing	9,981	9,318	7.1	9,804	1.8	29,168	26,440	10.3
Paints and Adhesives	3,721	3,360	10.7	3,826	(2.7)	10,995	10,083	9.0
Total	13,702	12,678	8.1	13,630	0.5	40,163	36,523	10.0
EBIT								
Plumbing	1,284	1,114	15.3	1,398	(8.2)	3,950	2,929	34.9
Paints and Adhesives	333	326	2.1	380	(12.4)	1,052	878	19.8
Total	1,617	1,440	12.3	1,778	(9.1)	5,002	3,807	31.4
EBIT margin (%)								
Plumbing	12.9	12.0	91 bp	14.3	-140 bp	13.5	11.1	246 bp
Paints and Adhesives	8.9	9.7	-75 bp	9.9	-98 bp	9.6	8.7	86 bp
Total	11.8	11.4	44 bp	13.0	-124 bp	12.5	10.4	203 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: New business segment financials

Rs m	3QFY24	3QFY23	yoy (%)	2QFY24	qoq (%)
Revenue					
Bathware	205	97	111.8	175	17.1
Paints	470	520	-9.6	470	-
EBITDA					
Bathware	-40	-40	-	-41	-2.4
Paints	87	66	32.7	75	15.6
EBITDA margin (%)					
Bathware	-19.5	-41.3	2181 bps	-23.4	392 bps
Paints	18.5	12.6	590 bps	16.0	250 bps

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 9: Plumbing segment margin/t

Rs/t	3QFY24	3QFY23	yoy (%)	2QFY24	qoq (%)	9MFY24	9MFY23	yoy (%)
EBITDA/t	32,029	32,142	-0.4	34,736	-7.8	33,941	32,523	4.4
EBIT/t	24,349	24,292	0.2	26,844	-9.3	25,857	23,377	10.6

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: Actuals vs. our estimates

Rs m	3QFY24	3QFY24F	Var(%)
Revenue	13,702	13,889	(1.3)
EBITDA	2,051	2,458	(16.6)
EBITDA margin (%)	15.0	17.7	-273 bp
Adj. PAT	1,135	1,481	(23.3)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 11: Actuals vs. Bloomberg consensus

Rs m	3QFY24	3QFY24C	Var(%)
Revenue	13,702	13,790	(0.6)
EBITDA	2,051	2,340	(12.3)
EBITDA margin (%)	15.0	17.0	-200 bp
Adj. PAT	1,135	1,453	(21.9)

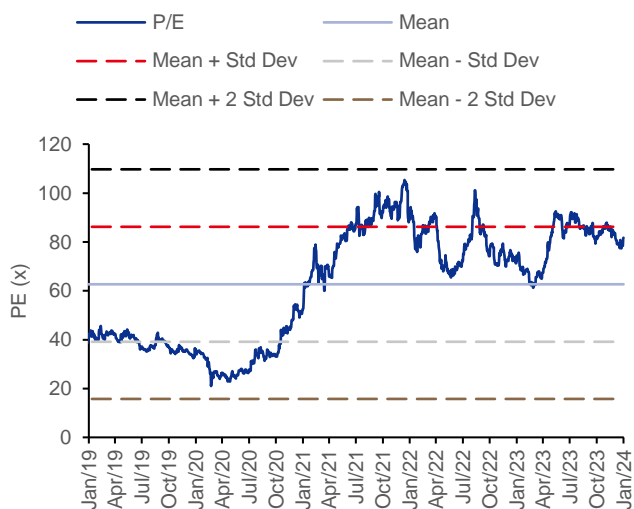
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 12: Our revised earnings estimates

	New estimates			Old estimates			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	55,890	65,314	75,230	57,410	65,908	76,405	-2.6	-0.9	-1.5
EBITDA	9,613	10,450	12,375	9,588	11,435	13,638	0.3	-8.6	-9.3
Adjusted consol. PAT	5,718	6,217	7,611	5,766	6,932	8,598	-0.8	-10.3	-11.5
EPS	21.3	23.1	28.3	21.5	25.8	32.0	-0.8	-10.3	-11.5
EBITDA margin (%)	17.2	16.0	16.5	16.7	17.4	17.9	50 bp	-135 bp	-140 bp

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 13: P/E standard deviation (five-year mean)



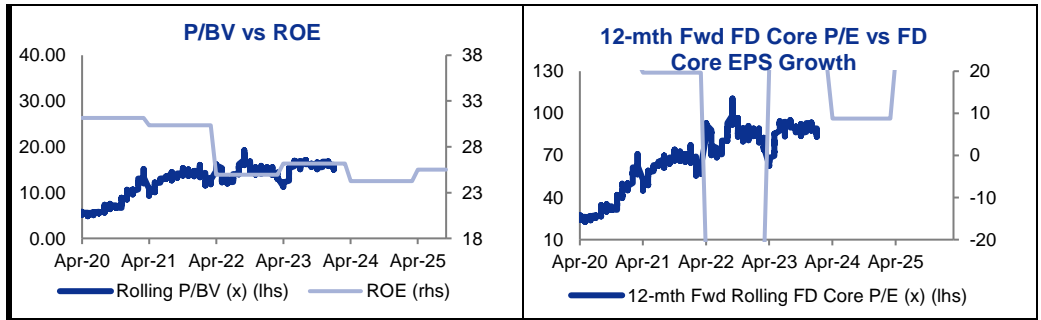
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 14: P/E band (one-year forward)



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	55,890	65,314	75,230
Gross Profit	14,660	17,238	22,216	25,309	28,963
Operating EBITDA	7,553	8,099	9,613	10,450	12,375
Depreciation And Amortisation	(1,269)	(1,781)	(1,972)	(2,264)	(2,530)
Operating EBIT	6,284	6,318	7,641	8,187	9,845
Financial Income/(Expense)	(83)	(368)	(63)	(6)	192
Pretax Income/(Loss) from Assoc.	(19)	(15)			
Non-Operating Income/(Expense)	303	235	125	131	138
Profit Before Tax (pre-EI)	6,485	6,170	7,704	8,312	10,175
Exceptional Items					
Pre-tax Profit	6,485	6,170	7,704	8,312	10,175
Taxation	(1,581)	(1,557)	(1,981)	(2,089)	(2,558)
Exceptional Income - post-tax		(18)			
Profit After Tax	4,904	4,595	5,723	6,223	7,617
Minority Interests	(66)	130	(5)	(6)	(6)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	4,838	4,725	5,718	6,217	7,611
Recurring Net Profit	4,838	4,743	5,718	6,217	7,611
Fully Diluted Recurring Net Profit	4,838	4,743	5,718	6,217	7,611

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	7,553	8,099	9,613	10,450	12,375
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(705)	(1,026)	(946)	(1,974)	(788)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	178	(194)	233	486	731
Net Interest (Paid)/Received	83	344	63	6	(192)
Tax Paid	(1,678)	(1,654)	(1,981)	(2,089)	(2,558)
Cashflow From Operations	5,431	5,569	6,982	6,880	9,568
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)	(2,000)	(3,500)
Other Investing Cashflow	35	32	265	334	545
Cash Flow From Investing	715	(4,797)	(9,785)	(4,725)	(5,523)
Debt Raised/(repaid)	205	(867)			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(451)	(603)	(1,076)	(1,211)	(1,345)
Preferred Dividends					
Other Financing Cashflow	(123)	(366)	(327)	(340)	(353)
Cash Flow From Financing	(369)	(1,836)	(1,403)	(1,550)	(1,698)
Total Cash Generated	5,777	(1,064)	(4,207)	604	2,347
Free Cashflow To Equity	6,351	(95)	(2,803)	2,154	4,045
Free Cashflow To Firm	6,017	372	(3,131)	1,814	3,692

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	4,944	7,187	12,633
Total Debtors	2,691	3,545	4,287	5,010	5,771
Inventories	7,334	8,746	9,187	10,737	12,367
Total Other Current Assets	1,008	1,427	919	1,074	1,237
Total Current Assets	17,451	20,539	19,337	24,007	32,007
Fixed Assets	11,805	15,736	17,875	18,933	19,879
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	4,398	3,490
Total Non-current Assets	16,418	23,082	28,660	29,456	29,494
Short-term Debt	523	457	457	457	
Current Portion of Long-Term Debt					
Total Creditors	7,484	8,000	8,422	9,842	11,336
Other Current Liabilities	1,343	3,448	2,756	1,789	2,061
Total Current Liabilities	9,350	11,905	11,635	12,088	13,397
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	13,762	14,215	15,208
Shareholders Equity	23,366	27,112	31,754	36,760	43,026
Minority Interests	278	2,477	2,482	2,488	2,494
Total Equity	23,644	29,589	34,236	39,248	45,520

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	38.3%	17.4%	8.3%	16.9%	15.2%
Operating EBITDA Growth	17.2%	7.2%	18.7%	8.7%	18.4%
Operating EBITDA Margin	17.2%	15.7%	17.2%	16.0%	16.4%
Net Cash Per Share (Rs)	27.71	22.52	15.53	23.88	47.03
BVPS (Rs)	116.31	100.94	118.21	136.84	160.17
Gross Interest Cover	48.71	15.80	23.35	24.09	27.90
Effective Tax Rate	24.4%	25.2%	25.7%	25.1%	25.1%
Net Dividend Payout Ratio	9.4%	14.9%	14.0%	14.6%	13.2%
Accounts Receivables Days	22.67	22.06	25.58	25.98	26.15
Inventory Days	75.14	85.44	97.19	90.89	91.13
Accounts Payables Days	78.88	82.27	89.00	83.32	83.54
ROIC (%)	40.2%	33.9%	30.1%	28.4%	31.1%
ROCE (%)	28.1%	22.9%	24.0%	22.5%	24.1%
Return On Average Assets	21.7%	16.9%	17.0%	16.4%	17.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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