

India

ADD (no change)

Consensus ratings*: Buy 10 Hold 9 Sell 4

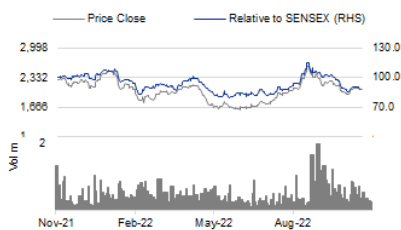
Current price:	Rs2,062
Target price: ▲	Rs2,298
Previous target:	Rs2,094
Up/downside:	11.4%
InCred Research / Consensus:	10.0%

Reuters:	
Bloomberg:	ASTRA IN
Market cap:	US\$5,721m
	Rs415,398m
Average daily turnover:	US\$12.2m
	Rs888.9m
Current shares o/s:	201.5m
Free float:	44.3%

*Source: Bloomberg

Key changes in this note

- EBITDA cut by 11%/7% for FY23F/24F.
- PAT cut by 18%/9.5% for FY23F/24F.
- Introduce FY25F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(4.2)	3.8	(10.2)
Relative (%)	(10.2)	(0.1)	(11.8)

Major shareholders	% held
Promoters	55.7
Axis Long Term Equity Fund	3.8
Steadview Capital Mauritius	2.9

Analyst(s)



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Astral Ltd.

Plastic pipe sales to sharply recover in 2H

- 2QFY23 results dismal due to sharp PVC price fall, high input cost, inventory loss (1H: Rs700m) and adverse forex. EBITDA/PAT 14-30% below estimates.
- 2H to see strong pipe demand, completion of adhesive capacity expansion & tank, valve and bathware business ramp-up along with higher EBITDA margin.
- Management maintains its guidance to double pipe and adhesive sales over FY21-FY26F. We raise our target price to Rs2,298 and retain ADD rating.

Weak quarter due to low selling price and higher input cost

Astral posted 2QFY23 revenue/EBITDA/PAT of Rs11.7bn/Rs1.4bn/Rs704m, +1.5%/-32%/-50% yoy, respectively, missing our/Bloomberg consensus EBITDA/PAT estimates by 14-30%. The weak performance was due to pass-through of low PVC prices to customers (low selling price of plastic pipes while old high-cost inventory got absorbed), inventory loss of Rs450m (1Q: Rs250m) and elevated input prices impacting adhesive margins. Plastic product segment's sales volume was 40.7kt (-4% yoy/+11% qoq), realization/t declined to Rs205k (-4% yoy/-17% qoq) and EBITDA/t was at Rs27.6k, down 35% yoy/27% qoq. Adhesive revenue was at Rs2.9bn, +10% yoy/+3% qoq. Consolidated gross/EBITDA margin was at 30.2%/12.3%, down 300bps/600bps yoy. Plastic products/adhesive segments' EBITDA margin was 13.5%/12.4%, down 650bp/260bp yoy, respectively. GEM Paints posted revenue/EBITDA of Rs1.1bn/Rs95m, respectively, in 2Q. Forex loss was at Rs100m (1H: Rs240m, unrealized: Rs150m) in 2Q.

2HFY23F to be much better across all four business segments

Given that PVC prices are near pre-Covid level (Rs78/kg) in Nov 2022, Astral expects plastic pipe demand to significantly pick up in plumbing/agriculture segments coupled with channel restocking in 2HFY23F. While 3QFY23F will suffer inventory loss (lower qoq), sales volume to pick up in 4QFY23F, in our view. Adhesive input prices have started easing and high-cost inventory got absorbed in 2Q. We expect EBITDA margin to fare better in 2HFY23F. Moreover, GEM Paints' capacity utilization to improve going ahead and bathware ramp-up is in full swing with 34 operational showrooms/display centres. Astral plans to roll out ~100 bathware product showrooms by Dec 2022F and over 500 by Mar 2023F. We expect 2HFY23F revenue/PAT to grow by +17%/+13% yoy, respectively.

Change in our estimates; roll out FY25F

We incorporate 1H actuals and refine volume/realization/margin estimates across segments. We maintain our revenue estimates while EBITDA/PAT cut by 11%/18% for FY23F and by 7%/9.5% for FY24F. We expect revenue/EBITDA/PAT CAGR of 14%/21%/30%, respectively, and cumulative FCF at Rs15.5bn over FY23F-25F.

Valuation and risks

We retain ADD rating on Astral with a new target price of Rs2,298 (Rs2,204 earlier), valuing it at a five-year mean P/E +1 SD. Downside risk: PVC price volatility, and high competition.

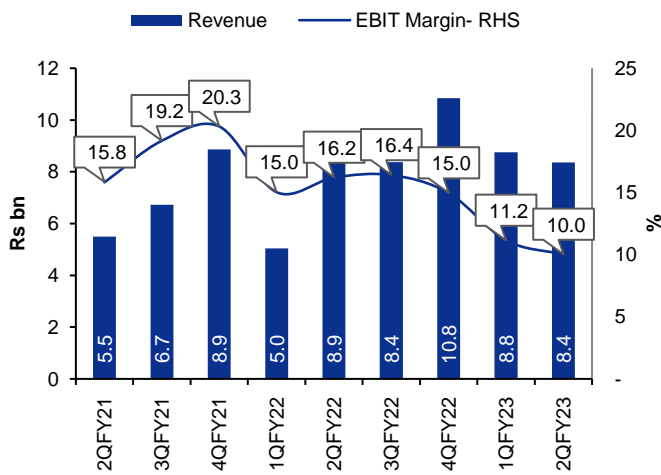
Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	31,763	43,940	52,991	60,720	69,228
Operating EBITDA (Rsm)	6,445	7,553	7,816	9,685	11,457
Net Profit (Rsm)	4,044	4,838	4,508	6,174	7,657
Core EPS (Rs)	20.1	24.1	22.4	30.6	38.0
Core EPS Growth	22.3%	19.6%	(6.9%)	36.8%	24.0%
FD Core P/E (x)	102.43	85.62	92.02	67.29	54.25
DPS (Rs)	1.8	3.0	3.5	4.0	6.0
Dividend Yield	0.08%	0.15%	0.17%	0.19%	0.29%
EV/EBITDA (x)	63.67	54.14	52.34	41.69	34.64
P/FCFE (x)	397.43	65.23	133.68	59.10	48.71
Net Gearing	(21.4%)	(23.5%)	(26.2%)	(39.5%)	(50.5%)
P/BV (x)	21.85	17.73	15.27	12.77	10.66
ROE	23.8%	22.9%	17.8%	20.7%	21.4%
% Change In Core EPS Estimates			(18.04%)	(4.86%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

2QFY23 earnings call takeaways

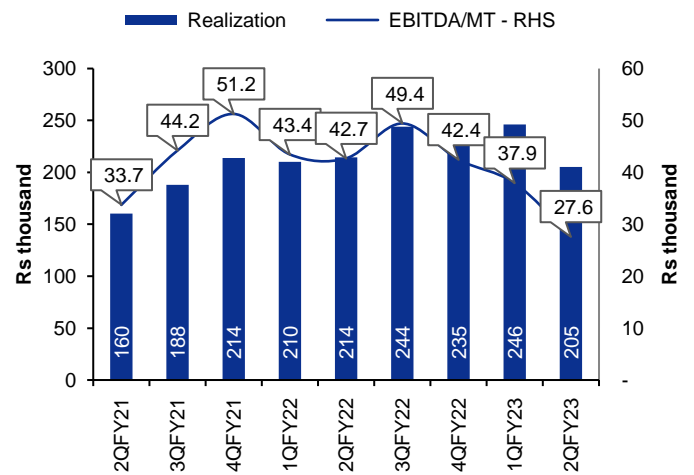
- **Guidance:** Management maintained its guidance of 15% revenue CAGR for pipes, 15-20% revenue CAGR for adhesives, and 15-20% revenue CAGR for paints.
- **Sales mix:** Given the meaningful rise in sales of composite pipes, tanks, valves and other products in the plastic products segment, CPVC revenue share remained at ~45% of total revenue in 1HFY23. CPVC sales volume grew at high double digits in 2QFY23, in line with other national brands.
- **PVC prices:** Resin prices declined sharply to Rs90/kg (by Rs30/kg and over Rs60/kg in 2Q/1HFY23). Moreover, PVC prices declined further to Rs78/kg in Oct/Nov 2022. Astral's management indicated that 3QFY23F will suffer inventory losses, though relatively lower qoq. Dumping of PVC resins from China slowed in 2Q while supplies from USA/Asia have risen considerably.
- **Plastic products (pipes, water tanks, valves):** The company has started manufacturing PVC, SWR and agri pipes along with water tanks at its Odisha plant (East India). Tank sales are expected to be over Rs1bn in FY23F. Around 12 stock-keeping units or SKUs were launched for plumbing and industrial valves in 1H, and 108 more SKUs will be launched during Oct-Dec 2022F.
- **Bathware (faucets and sanitaryware):** Astral plans to launch bathware products across all price ranges - from standard/economy to super-premium. Around 136 sanitaryware SKUs and 411 faucet SKUs have been made ready for sales ramp-up in 2HFY23F. The company would focus on retail and project sales. New order wins in the bathware segment for residential projects in Mumbai and Pune in Maharashtra, and in Gujarat have been above management's expectations.
- **Adhesives:** Astral shed Seal IT (UK adhesive subsidiary) topline by 8% in 1H yoy due to appreciation of INR vs. GBP. The constant currency revenue growth was +8% yoy. Adhesive segment's EBITDA margin, ex-paints, stood at 12.4%.
- **Paints:** Gem Paints' revenue was at Rs500m, +29% yoy/down 10% qoq. Gem Paints, being a large player in South India, its sales were impacted due to heavy rains in the region during the quarter. EBITDA margin was at 19%/17% in 2Q/1HFY23, respectively.
- **Ad spends:** Astral plans to maintain its annual advertisement budget at 2-2.5% of its sales over the next three years.
- **Capex update:** Including the Dahej adhesives facility (to start operations by Mar 2023F) and faucet plant takeover at Jamnagar (~Rs500m investment), total capex spending is estimated at Rs2-2.5bn in FY23F. After this is done, Astral would largely incur maintenance capex over FY24F-25F.
- **Cash flow:** OCF/FCF stood at Rs1.1bn/Rs-632m, respectively, in 1HFY23. Net cash and equivalents stood at Rs3.7bn as at end-Sep 2022.

Figure 1: Plumbing revenue and margin trend



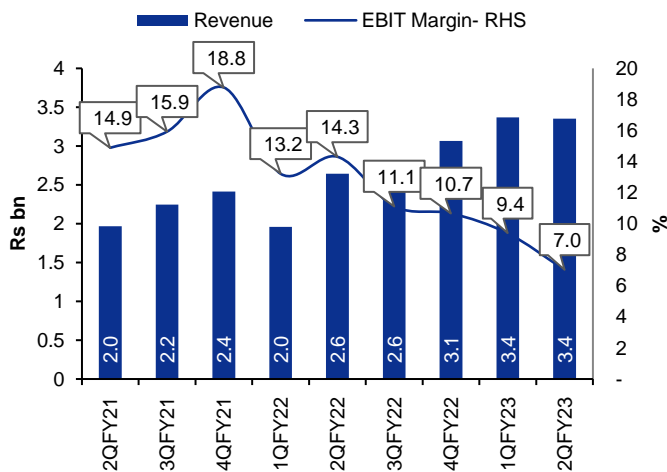
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Plastic products realization and EBITDA/t trend



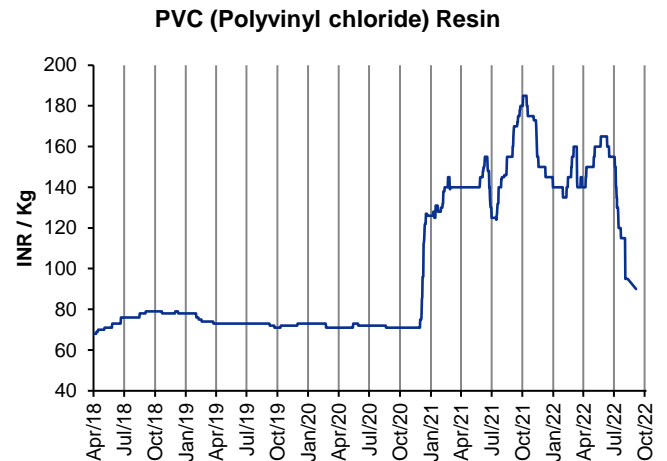
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Paints and adhesive segment's revenue and margin trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: PVC price trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: 2QFY23 results snapshot

YE Mar (Rs m)	2QFY23	2QFY22	yoy (%)	1QFY23	qoq (%)	1HFY23	1HFY22	yoy (%)
Revenue	11,716	11,541	1.5	12,129	(3.4)	23,845	18,542	28.6
EBITDA	1,440	2,115	(31.9)	1,717	(16.1)	3,157	3,409	(7.4)
EBITDA margin (%)	12.3	18.3	-604 bp	14.2	-187 bp	13.2	18.4	-515 bp
Adj. PAT	704	1,412	(50.1)	889	(20.8)	1,593	2,151	(25.9)
Diluted EPS (Rs)	3.5	7.0		4.4		7.9	10.7	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: 2QFY23 segmental results snapshot

YE Mar (Rs m)	2QFY23	2QFY22	yoy (%)	1QFY23	qoq (%)
Revenue					
Plastic Products	8,361	8,899	(6.0)	8,761	(4.6)
Adhesives	3,355	2,642	27.0	3,368	(0.4)
Total	11,716	11,541	1.5	12,129	(3.4)
EBIT					
Plastic Products	838	1,443	(41.9)	977	(14.2)
Adhesives	236	378	(37.6)	316	(25.3)
Total	1,074	1,821	(41.0)	1,293	(16.9)
EBIT margin (%)					
Plastic Products	10.0	16.2	-619 bp	11.2	-113 bp
Adhesives	7.0	14.3	-727 bp	9.4	-235 bp
Total	9.2	15.8	-661 bp	10.7	-149 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Actuals vs. our estimates

Rs m	2QFY23A	2QFY23F	Var (%)
Revenue	11,716	12,682	(7.6)
EBITDA	1,440	1,669	(13.7)
EBITDA margin (%)	12.3	13.2	-87 bp
Adj. PAT	704	915	(23.1)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 8: Actuals vs. Bloomberg consensus

Rs m	2QFY23A	2QFY23C	Var (%)
Revenue	11,716	12,173	(3.8)
EBITDA	1,440	1,746	(17.5)
EBITDA margin (%)	12	14.3	-205 bp
Adj. PAT	704	997	(29.4)

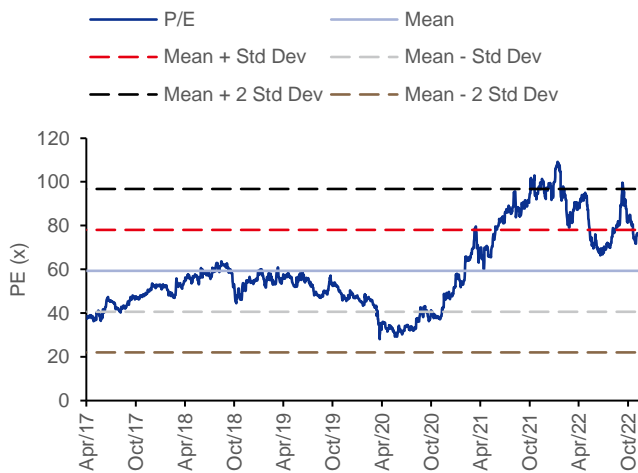
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 9: Revision in our estimates

	New estimates			Old estimates			Change (%)		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Revenue	52,991	60,720	69,228	53,039	60,869	NA	-0.1	-0.2	NA
EBITDA	7,816	9,685	11,457	8,761	10,450	NA	-10.8	-7.3	NA
Adjusted consol. PAT	4,508	6,174	7,657	5,495	6,812	NA	-18.0	-9.4	NA
EPS	22.4	30.6	38.0	27.4	33.9	NA	-18.1	-9.6	NA
EBITDA margin (%)	14.8	16.0	16.6	16.5	17.2	NA	-177 bp	-122 bp	NA

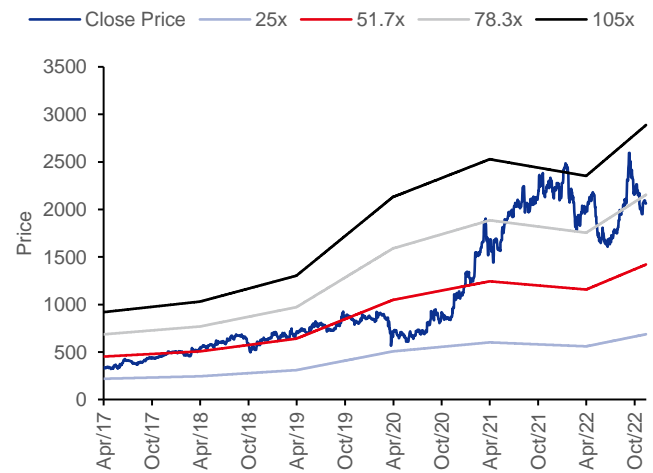
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: P/E standard deviation (five-year mean P/E)



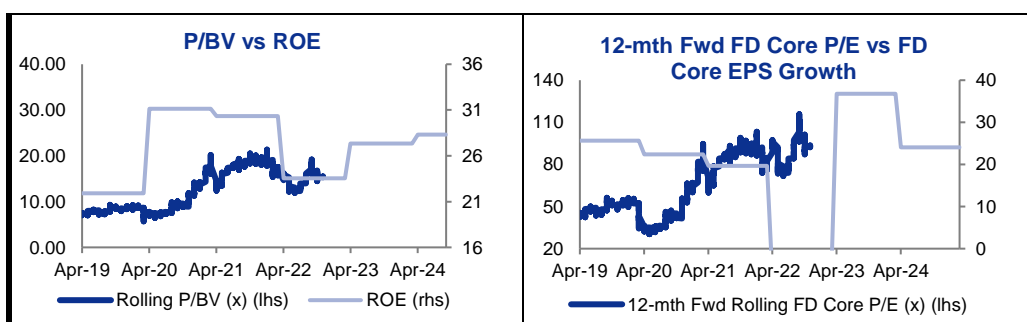
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 11: 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-23F	Mar-24F	Mar-25F
Total Net Revenues	31,763	43,940	52,991	60,720	69,228
Gross Profit	12,074	14,660	16,692	19,734	22,845
Operating EBITDA	6,445	7,553	7,816	9,685	11,457
Depreciation And Amortisation	(1,165)	(1,269)	(1,852)	(1,980)	(2,070)
Operating EBIT	5,280	6,284	5,964	7,705	9,388
Financial Income/(Expense)	(93)	(83)	(112)	377	671
Pretax Income/(Loss) from Assoc.	(70)	(19)	(19)	(19)	(19)
Non-Operating Income/(Expense)	213	303	300	315	331
Profit Before Tax (pre-EI)	5,330	6,485	6,133	8,378	10,371
Exceptional Items					
Pre-tax Profit	5,330	6,485	6,133	8,378	10,371
Taxation	(1,248)	(1,581)	(1,442)	(1,985)	(2,472)
Exceptional Income - post-tax					
Profit After Tax	4,082	4,904	4,691	6,393	7,899
Minority Interests	(38)	(66)	(183)	(220)	(242)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	4,044	4,838	4,508	6,174	7,657
Recurring Net Profit	4,044	4,838	4,508	6,174	7,657
Fully Diluted Recurring Net Profit	4,044	4,838	4,508	6,174	7,657

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	6,445	7,553	7,816	9,685	11,457
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,142	(705)	(702)	(424)	(466)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	123	178	(14)	673	983
Net Interest (Paid)/Received	93	83	112	(377)	(671)
Tax Paid	(1,162)	(1,678)	(1,442)	(1,985)	(2,472)
Cashflow From Operations	6,641	5,431	5,771	7,573	8,831
Capex	(1,717)	(3,460)	(4,502)	(1,065)	(1,118)
Disposals Of FAs/subsidiaries		14			
Acq. Of Subsidiaries/investments	(2,856)	4,126	1,572		
Other Investing Cashflow	32	35	260	517	815
Cash Flow From Investing	(4,541)	715	(2,670)	(548)	(303)
Debt Raised/(repaid)	(1,188)	205			
Proceeds From Issue Of Shares	1				
Shares Repurchased					
Dividends Paid	(151)	(451)	(705)	(806)	(1,209)
Preferred Dividends					
Other Financing Cashflow	(140)	(123)	(372)	(140)	(144)
Cash Flow From Financing	(1,478)	(369)	(1,077)	(945)	(1,352)
Total Cash Generated	622	5,777	2,024	6,079	7,175
Free Cashflow To Equity	912	6,351	3,101	7,024	8,528
Free Cashflow To Firm	1,969	6,017	2,729	6,885	8,384

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	4,760	6,418	8,442	14,521	21,696
Total Debtors	2,767	2,691	3,630	4,159	4,742
Inventories	4,721	7,334	9,437	10,813	12,328
Total Other Current Assets	442	1,008	1,456	1,668	1,901
Total Current Assets	12,690	17,451	22,964	31,161	40,667
Fixed Assets	9,977	11,805	15,235	14,370	13,419
Total Investments					
Intangible Assets	2,570	2,567	2,769	2,769	2,769
Total Other Non-Current Assets	1,490	2,046	1,064	1,014	1,014
Total Non-current Assets	14,037	16,418	19,068	18,153	17,202
Short-term Debt	229	523	523	523	523
Current Portion of Long-Term Debt					
Total Creditors	5,172	7,484	8,711	9,981	11,380
Other Current Liabilities	1,157	1,343	2,904	3,327	3,793
Total Current Liabilities	6,558	9,350	12,137	13,832	15,696
Total Long-term Debt	437	328	328	328	328
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	162	149	149	149	149
Total Non-current Liabilities	599	477	477	477	477
Total Provisions	400	398	398	398	398
Total Liabilities	7,557	10,225	13,012	14,707	16,571
Shareholders Equity	18,958	23,366	27,170	32,537	38,986
Minority Interests	212	278	1,850	2,070	2,311
Total Equity	19,170	23,644	29,020	34,607	41,297

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	23.2%	38.3%	20.6%	14.6%	14.0%
Operating EBITDA Growth	45.5%	17.2%	3.5%	23.9%	18.3%
Operating EBITDA Margin	20.3%	17.2%	14.7%	16.0%	16.6%
Net Cash Per Share (Rs)	20.38	27.71	37.73	67.85	103.47
BVPS (Rs)	94.37	116.31	135.05	161.51	193.52
Gross Interest Cover	40.31	48.71	16.02	55.20	65.39
Effective Tax Rate	23.4%	24.4%	23.5%	23.7%	23.8%
Net Dividend Payout Ratio	6.7%	9.4%	11.9%	9.9%	11.9%
Accounts Receivables Days	28.99	22.67	21.77	23.41	23.46
Inventory Days	93.85	75.14	84.32	90.17	91.05
Accounts Payables Days	92.01	78.88	81.42	83.23	84.05
ROIC (%)	33.8%	40.2%	32.0%	35.1%	43.7%
ROCE (%)	28.6%	28.1%	22.6%	24.9%	26.0%
Return On Average Assets	21.9%	21.7%	16.5%	17.5%	18.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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been engaged in market making activity for the subject company	NO	NO

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