



India

HOLD (previously ADD)

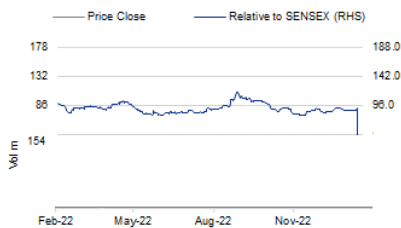
Consensus ratings*: Buy 12 Hold 6 Sell 5

Current price:	Rs2,075
Target price:	Rs2,143
Previous target:	Rs2,298
Up/downside:	3.3%
InCred Research / Consensus:	2.1%
Reuters:	
Bloomberg:	ASTRA IN
Market cap:	US\$5,756m
	Rs417,936m
Average daily turnover:	US\$14.9m
	Rs1079.0m
Current shares o/s:	201.5m
Free float:	44.2%

*Source: Bloomberg

Key changes in this note

- FY23F/24F revenue cut by 2.8%/4.1%
- FY23F/24F EBITDA cut by 4.4%/4.1%
- FY23F/24F PAT cut by 10.1%/6.8%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.7	(1.1)	(1.7)
Relative (%)	0.0	0.4	(5.7)

Major shareholders	% held
Promoters	55.9
Axis Long Term Equity Fund	3.8
Steadview Capital Mauritius	2.8

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Astral Ltd.**Exciting times, but most positives priced-in**

- 3Q revenue/EBITDA beat estimates owing to a strong recovery in pipe sales volume and margins qoq. Adhesives stayed soft. Forex loss led to PAT miss.
- New pipe/adhesive units are nearing completion. Full focus on bathware ramp-up. We see higher revenue growth/margins in all segments over FY24F-25F.
- After five years, Astral to be among Top 3 players in building materials. Excited over its structural story, but the medium term is priced-in. Downgrade to HOLD.

Plastic pipes lead to better-than-expected 3QFY23 performance

Astral reported 3QFY23 revenue/EBITDA/PAT of Rs12.7bn/Rs1.9bn/Rs930m, +15%/-6%/-27% yoy, respectively. Revenue/EBITDA were higher by 5-13% vs. our/Bloomberg consensus estimates. Plumbing revenue grew to Rs9.3bn, +11% yoy, and paints & adhesives revenue rose to Rs3.4bn, +29% yoy. Plastic products' sales volume stood at 45.8kt, +30% yoy, while realization declined to Rs201k/t down 18% yoy. Plastic products' sales jumped qoq owing to the rise in PVC prices from end-Nov 2022 driving channel restocking and higher end-consumer demand. Paints/adhesives demand stayed soft qoq. The plastic products segment's EBITDA stood at Rs32/kg, down 35% yoy and up 13% qoq. The plumbing segment's inventory losses fell qoq to Rs250m (2Q: Rs450m). Consolidated gross/EBITDA margins stood at 32.7%/14.7%, up 240bp qoq but down by 150bp/320bp yoy, respectively. The paint segment's revenue/EBITDA stood at Rs520m/Rs66m while the bathware segment's revenue/EBITDA stood at Rs97m/-Rs40m, respectively.

Most capex close to completion; expect better growth and margins

Astral is expected to complete its capex across segments by Mar 2023F. The plastic products plant at Bhubaneswar and adhesives plant at Dahej will fully start commercial operations by Jun 2023F. All SKUs for plastic valves will be rolled out by end-Mar 2023F and plastic tank production would be extended to more plants from five locations currently. FY23F budgeted capex to be ~Rs2.3bn (9M: Rs1.9bn). Around 231 bathware showrooms/display centres got completed and an additional 80 are under construction, being largely financed by channel partners. By Jun 2023F, 500 showrooms will be fully functional, as per management. We expect a significant pick-up in revenue growth across all segments with an improvement in EBITDA margin over FY23F-25F. We expect revenue/EBITDA/PAT CAGR of 14%/21%/33%, respectively, over FY23F-25F.

Change in our estimates; valuation and risks; downgrade to HOLD

We incorporate 3QFY23 actuals and rationalize realization/volume/margin assumptions. We cut revenue/EBITDA/PAT by 3-4%/4-4.5%/6-10%, respectively, over FY23F-25F. We estimate plastic products segment's EBITDA at Rs35-35.5/kg and paints/adhesives segments' EBITDA margins at 14.5-15.5% over FY24F-25F. Downgrade Astral to HOLD rating (ADD earlier) with a lower target price of Rs2,143 (Rs2,298 earlier), valuing it at a P/E of 75x (5-year mean P/E+1SD). Downside risk: PVC price volatility. Upside risk: Faster bathware segment's growth.

Financial Summary

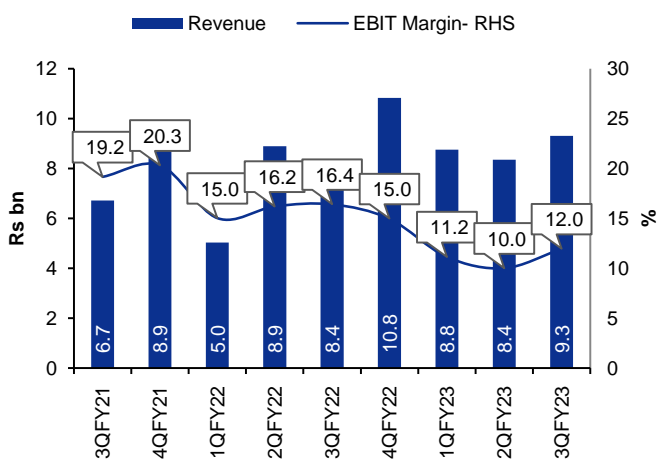
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	31,763	43,940	51,528	58,253	66,902
Operating EBITDA (Rsm)	6,445	7,553	7,472	9,291	10,972
Net Profit (Rsm)	4,044	4,838	4,052	5,756	7,167
Core EPS (Rs)	20.1	24.1	20.1	28.6	35.6
Core EPS Growth	22.3%	19.6%	(16.4%)	41.9%	24.5%
FD Core P/E (x)	103.06	86.15	103.00	72.61	58.32
DPS (Rs)	1.8	3.0	3.5	5.5	7.5
Dividend Yield	0.08%	0.14%	0.17%	0.27%	0.36%
EV/EBITDA (x)	64.06	54.48	55.24	43.94	36.67
P/FCFE (x)	399.86	65.62	185.05	62.30	51.96
Net Gearing	(21.4%)	(23.5%)	(22.6%)	(35.0%)	(45.3%)
P/BV (x)	21.98	17.84	15.62	13.33	11.29
ROE	23.8%	22.9%	16.2%	19.8%	21.0%
% Change In Core EPS Estimates			(10.12%)	(6.76%)	(6.41%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

3QFY23 earnings-call takeaways

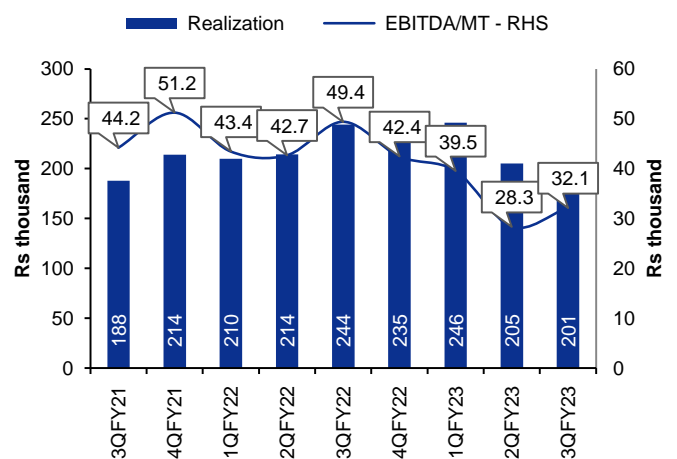
- Strengthening the company’s board:** Astral’s board has inducted two new members - Mr. Chetas Desai and Mr. Dhinal Shah as independent directors. The company said both these new members have a rich experience across functions and will strengthen the decision-making and compliance standards.
- Growth guidance:** Management maintained its earlier guidance of 12-15% revenue CAGR across both revenue segments. Astral targets to double its revenue over FY21-26F.
- Demand trend:** Plastic products saw a sharp demand revival owing to PVC prices rising from end-Nov 2022. Adhesives and paints witnessed muted demand across markets, especially in rural regions. The UK adhesives business also was sub-optimal. Management indicated a strong start to 4QFY23 in Jan 2023 and expects the demand trend to improve across segments in India as well as overseas.
- PVC price trend:** PVC prices declined for a major part in Oct and Nov 2022 by almost 12% to Rs76/kg in India, resulting in inventory losses of ~Rs250m in the plastic products segment. Since then, PVC prices rose in Dec 2022 to Rs95/kg, an increase of 18%. Prices remained steady in Jan 2023 in India. In case PVC prices hold at current levels, management indicated potential inventory gains in 4QFY23F leading to higher-than-normal margins for the plastic products segment.
- Plastic products roll-out:** The Bhubaneswar plant has started manufacturing PVC products and water tanks. The CPVC products are in the process of certification and will be rolled out soon. The company has started manufacturing pipes at Aurangabad and Sangli plants to meet rising pipe demand in the region. Tanks’ revenue is expected to surpass management’s guidance of ~Rs1bn for FY23F. Few valve SKUs were rolled out in 3Q, and the company expects to launch the entire range of 120 SKUs from 4QFY23F.
- Forex loss:** The UK business (Seal IT) incurred a forex loss of Rs55m while Astral’s standalone operations had a forex gain of Rs30m during the quarter. Given the accounting standard norms, these losses were accounted as a part of other income line item - as other loss of Rs20m in 3QFY23.
- Bonus share issue:** Astral completed 25 years of its operations. The company’s board has approved the issue of 1:3 bonus equity shares to the shareholders and fixed the record date as 14 Mar 2023.
- Cash conversion cycle:** Net working capital stood at 34 days of TTM sales (vs. 31 days at the end of Sep 2022). Net cash (including equivalents) stood at Rs4.8bn at the end of Dec 2022.

Figure 1: Plumbing revenue and margin trend



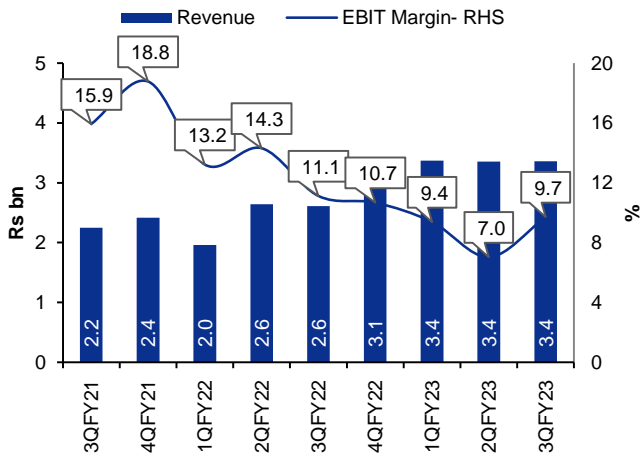
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Plastic products realization and EBITDA/t trend



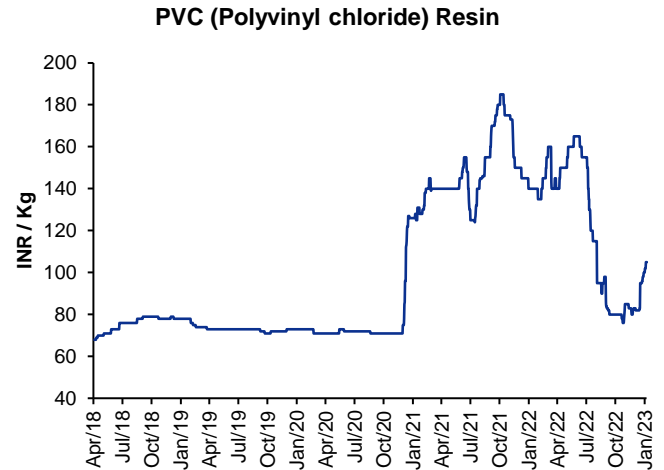
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Paints and adhesives revenue and margin trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: PVC price trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: 3QFY23 results snapshot

YE Mar (Rs m)	3QFY23	3QFY22	yoy (%)	2QFY23	qoq (%)	9MFY23	9MFY22	yoy (%)
Revenue	12,678	11,027	15.0	11,716	8.2	36,523	29,569	23.5
EBITDA	1,864	1,976	(5.7)	1,440	29.4	5,021	5,385	(6.8)
EBITDA margin (%)	14.7	17.9	-322 bp	12.3	241 bp	13.7	18.2	-446 bp
Adj. PAT	930	1,273	(26.9)	704	32.1	2,523	3,424	(26.3)
Diluted EPS (Rs)	4.6	6.3		3.5		12.6	17.0	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: 3QFY23 segmental results snapshot

YE Mar (Rs m)	3QFY23	3QFY22	yoy (%)	2QFY23	qoq (%)	9MFY23	9MFY22	yoy (%)
Revenue								
Plumbing	9,318	8,380	11.2	8,361	11.4	26,440	22,320	18.5
Paints and adhesives	3,360	2,609	28.8	3,355	0.1	10,083	7,211	39.8
Total	12,678	10,989	15.4	11,716	8.2	36,523	29,531	23.7
EBIT								
Plumbing	1,114	1,376	(19.0)	838	32.9	2,929	3,577	(18.1)
Paints and adhesives	326	290	12.4	236	38.1	878	927	(5.3)
Total	1,440	1,666	(13.6)	1,074	34.1	3,807	4,504	(15.5)
EBIT margin (%)								
Plumbing	12.0	16.4	-446 bp	10.0	193 bp	11.1	16.0	-495 bp
Paints and adhesives	9.7	11.1	-141 bp	7.0	267 bp	8.7	12.9	-415 bp
Total	11.4	15.2	-380 bp	9.2	219 bp	10.4	15.3	-483 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Segment-wise performance

YE Mar (Rs m)	3QFY23	2QFY23	1QFY23
Revenue			
Bathware	97	0	0
Paints	520	500	553
EBITDA			
Bathware	-40	-30	-60
Paints	66	95	83
EBITDA margin (%)			
Bathware	-41.3	NA	NA
Paints	12.6	19.0	15.0

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 8: Actuals vs. our estimates

Rs m	3QFY23	3QFY23F	Var(%)
Revenue	12,678	11,210	13.1
EBITDA	1,864	1,745	6.8
EBITDA margin (%)	14.7	15.6	-86 bp
Adj. PAT	930	998	(6.9)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 9: Actuals vs. Bloomberg consensus

Rs m	3QFY23	3QFY23C	Var(%)
Revenue	12,678	11,657	8.8
EBITDA	1,864	1,770	5.3
EBITDA margin (%)	15	15.2	-48 bp
Adj. PAT	930	1,040	(10.5)

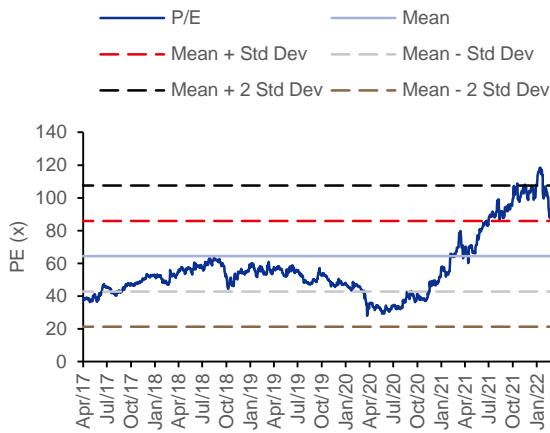
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 10: Our revised estimates

	New estimates			Old estimates			Change (%)		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Revenues	51,528	58,253	66,902	52,991	60,720	69,228	-2.8	-4.1	-3.4
EBITDA	7,472	9,291	10,972	7,816	9,685	11,457	-4.4	-4.1	-4.2
Adjusted consol. PAT	4,052	5,756	7,167	4,508	6,174	7,657	-10.1	-6.8	-6.4
EPS	20.1	28.6	35.6	22.4	30.6	38.0	-10.1	-6.8	-6.4
EBITDA margin (%)	14.5	16.0	16.4	14.8	16.0	16.6	-25 bp	0 bp	-15 bp

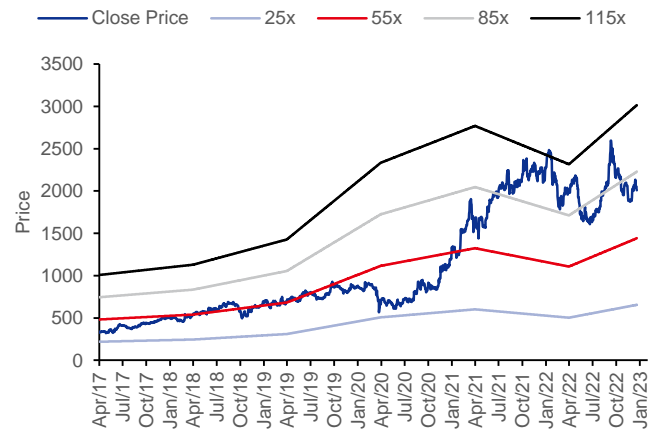
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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



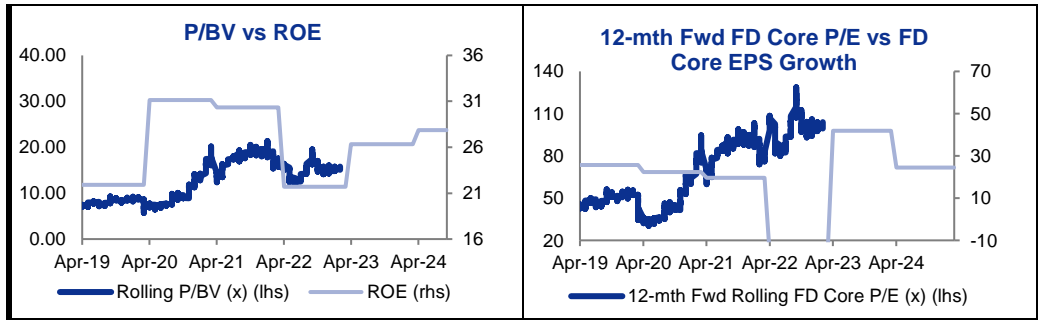
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

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



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenue	31,763	43,940	51,528	58,253	66,902
Gross Profit	12,074	14,660	16,540	19,660	22,579
Operating EBITDA	6,445	7,553	7,472	9,291	10,972
Depreciation And Amortisation	(1,165)	(1,269)	(1,804)	(1,938)	(1,980)
Operating EBIT	5,280	6,284	5,667	7,354	8,992
Financial Income/(Expense)	(93)	(83)	(158)	294	545
Pretax Income/(Loss) from Assoc.	(70)	(19)			
Non-Operating Income/(Expense)	213	303	50	150	158
Profit Before Tax (pre-EI)	5,330	6,485	5,559	7,798	9,694
Exceptional Items					
Pre-tax Profit	5,330	6,485	5,559	7,798	9,694
Taxation	(1,248)	(1,581)	(1,378)	(1,887)	(2,357)
Exceptional Income - post-tax					
Profit After Tax	4,082	4,904	4,181	5,911	7,337
Minority Interests	(38)	(66)	(129)	(155)	(170)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	4,044	4,838	4,052	5,756	7,167
Recurring Net Profit	4,044	4,838	4,052	5,756	7,167
Fully Diluted Recurring Net Profit	4,044	4,838	4,052	5,756	7,167

Cash Flow

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	6,445	7,553	7,472	9,291	10,972
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,142	(705)	(1,327)	(461)	(592)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	123	178	(14)	673	983
Net Interest (Paid)/Received	93	83	158	(294)	(545)
Tax Paid	(1,162)	(1,678)	(1,378)	(1,887)	(2,357)
Cashflow From Operations	6,641	5,431	4,909	7,323	8,461
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	275	446	701
Cash Flow From Investing	(4,541)	715	(2,655)	(619)	(417)
Debt Raised/(repaid)	(1,188)	205			
Proceeds From Issue Of Shares	1				
Shares Repurchased					
Dividends Paid	(151)	(451)	(705)	(1,108)	(1,511)
Preferred Dividends					
Other Financing Cashflow	(140)	(123)	(432)	(152)	(156)
Cash Flow From Financing	(1,478)	(369)	(1,137)	(1,260)	(1,667)
Total Cash Generated	622	5,777	1,117	5,444	6,376
Free Cashflow To Equity	912	6,351	2,254	6,704	8,044
Free Cashflow To Firm	1,969	6,017	1,822	6,552	7,887

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	4,760	6,418	7,312	12,527	18,622
Total Debtors	2,767	2,691	3,529	3,990	4,582
Inventories	4,721	7,334	9,176	10,374	11,914
Total Other Current Assets	442	1,008	1,416	1,600	1,837
Total Current Assets	12,690	17,451	21,434	28,491	36,956
Fixed Assets	9,977	11,805	15,283	14,460	13,598
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	19,116	18,243	17,381
Short-term Debt	229	523	523	523	523
Current Portion of Long-Term Debt					
Total Creditors	5,172	7,484	8,470	9,576	10,998
Other Current Liabilities	1,157	1,343	2,118	2,394	2,749
Total Current Liabilities	6,558	9,350	11,111	12,493	14,270
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	11,986	13,368	15,145
Shareholders' Equity	18,958	23,366	26,713	31,361	37,017
Minority Interests	212	278	1,850	2,005	2,175
Total Equity	19,170	23,644	28,563	33,366	39,192

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	23.2%	38.3%	17.3%	13.1%	14.8%
Operating EBITDA Growth	45.5%	17.2%	(1.1%)	24.4%	18.1%
Operating EBITDA Margin	20.3%	17.2%	14.5%	16.0%	16.4%
Net Cash Per Share (Rs)	20.38	27.71	32.12	57.96	88.21
BVPS (Rs)	94.37	116.31	132.78	155.67	183.74
Gross Interest Cover	40.31	48.71	13.11	48.27	57.52
Effective Tax Rate	23.4%	24.4%	24.8%	24.2%	24.3%
Net Dividend Payout Ratio	6.7%	9.4%	13.0%	14.5%	15.9%
Accounts Receivables Days	28.99	22.67	22.03	23.56	23.38
Inventory Days	93.85	75.14	86.12	92.45	91.77
Accounts Payables Days	92.01	78.88	83.22	85.34	84.71
ROIC (%)	33.8%	40.2%	30.4%	32.5%	40.4%
ROCE (%)	28.6%	28.1%	21.7%	24.2%	25.8%
Return On Average Assets	21.9%	21.7%	15.4%	17.2%	18.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
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