

India

March 13, 2023 - 9:42 PM

HOLD (no change)

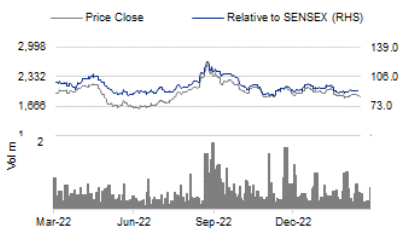
Consensus ratings*: Buy 13 Hold 8 Sell 5

Current price:	Rs1,884
Target price:	Rs2,143
Previous target:	Rs2,143
Up/downside:	13.7%
InCred Research / Consensus:	2.2%
Reuters:	ASPT.BO
Bloomberg:	ASTRA IN
Market cap:	US\$4,621m
	Rs379,488m
Average daily turnover:	US\$12.2m
	Rs1002.3m
Current shares o/s:	201.5m
Free float:	44.2%

*Source: Bloomberg

Key financial forecast

	Mar-23F	Mar-24F	Mar-25F
Net Profit (Rsm)	4,052	5,756	7,167
Core EPS (Rs)	20.14	28.57	35.57
Core EPS Growth	(16.4%)	41.9%	24.5%
FD Core P/E	93.46	65.89	52.95
Recurring ROE	16.2%	19.8%	21.0%
P/BV (x)	14.19	12.10	10.25
DPS (Rs)	3.50	5.50	7.50
Dividend Yield	0.19%	0.29%	0.40%



SOURCE: BLOOMBERG

Price performance	1M	3M	12M
Absolute (%)	(1.4)	(11.8)	(4.5)
Relative (%)	3.3	(5.1)	(7.4)

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

Analyst(s)

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Astral Ltd.

Management meet update

- No extraordinary strength in pipe & adhesive demand in Jan-Feb 2023. Trade channel schemes have increased across brands. March month is key in 4Q.
- Peak revenue/EBITDA potential of Rs85bn+/Rs14bn+ at full utilization of pipe, adhesive and paint manufacturing capacity, excluding bathware.
- Adequate spare land to add capacity at multiple plant locations. Avg. capex to be ~Rs1.5bn/year over the next five years, in our view. Retain HOLD rating.

March is key month to meet 4QFY23F volume growth guidance

- We had a meeting with Astral's management in Ahmedabad recently to understand the current demand-supply trend, strategy to achieve its 2026 goals and associated risks.
- Jan/feb 2023 saw an average start for pipe and adhesive sales. 4Q is typically the strongest quarter for sales of plumbing products every year, heavily lopsided towards primary sales in the month of March.
- Astral extended higher trade channel incentives and schemes in Jan-Feb 2023 for pipes & adhesives. Most other brands started offering similar discounts from Feb 2023-end.
- Astral sees huge competition in selling plumbing pipes in the current month across brands. 4Q volume guidance is highly dependent on Mar 2023F sales across brands.
- We expect 4QFY23F plastic product sales volume at ~55kt, +16% yoy.

Capacity expansion in plastic products & adhesives almost complete

- The Bhubaneswar plastic product complex is nearing completion with the rollout of entire products expected by Apr/May 2023F. Total capacity addition is 60kt, which will be added in phases over the next two years.
- Total plastic product manufacturing capacity will be ~340kt at Bhubaneswar plant. Peak utilization could touch 80% over the next two-to-three years.
- The Dahej adhesive plant's expansion is also close to completion, and it is likely to start commercial sales in Apr/May 2023F. Peak adhesive revenue potential is estimated at ~Rs18bn, including existing capacity, post expansion.
- GEM Paints has substantial spare capacity and the peak revenue potential for the business is Rs9bn+ at peak utilization, as per management.
- Total capex will be Rs2.3bn+ in FY23F. Future capacity addition to take place at existing locations having adequate spare land at a minimal capex. We expect the average annual capex at Rs1.5bn over FY23F-25F.

Peak EBITDA potential of Rs14bn+ over the next five years

- Based on cumulative capacity across products, we expect peak consolidated revenue potential of Rs85bn+ over the next five years (refer Fig. 1).
- Assuming long-term sustainable EBITDA margin range of 15-17% for pipes & paints and 16-18% for adhesives, peak consolidated EBITDA potential, in our view, is Rs14bn+.
- Better sales mix, higher-than-expected sales of industrial pipe products and cost savings relating to freight owing to a wide geographical reach post expansions are key parameters to achieve peak performance going ahead.

Other relevant updates

- The adhesives segment saw severe downward pricing pressure amid falling raw material cost. Competitive brands cut prices and passed lower raw material cost to their consumers, thereby restricting operating margin expansion in the near term.
- India Premier League or IPL cricket sponsorship and advertising expenses fell owing to lower marketing budgets of startups across segments like fintech, med-tech, food-tech, etc. Astral to continue its branding efforts in the 2023 IPL cricket season.
- Consolidated staff cost rose at a 21% CAGR over FY20-23F because of capacity expansion, acquisitions and new product initiatives. Astral expects staff cost to rise further going ahead as its bathware division ramps up, but at a slower pace.
- Distribution reach expansion in Tier-3/Tier-4 towns across India is a key focus area.
- Adhesive manufacturing at its Unnao plant will shift to Dahej soon. Existing adhesive revenue from the Unnao plant is Rs1.3-1.5bn.
- Astral to buy an additional 29% equity stake in GEM Paints in FY24F, as agreed earlier.

Figure 1: Peak Consolidated revenue potential

Peak plastic product capacity ('000t) - Existing 300kt + Odisha 40kt (to be added in phases over the next two years)	340.0
Peak capacity utilization (%)	80.0
Peak sales volume possible ('000t)	272.0
Peak realization (Rs'000/t) - including tanks, valves and all value-added products	220.0
Peak revenue potential (plastic products) - Rsbn	59.8
Peak adhesive revenue potential (Rsbn)	18.0
Peak paint revenue potential (Rsbn) - GEM Paints	9.0
Total peak revenue potential (excluding bathware)	86.8
Peak EBITDA potential	Rsbn
Plastic products	10.2
Adhesives	2.9
Paints	1.4
Total peak EBITDA	14.5
Implied consolidated EBITDA margin (%)	16.7

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Profit & Loss

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

Balance Sheet

(Rs mn)	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	6,418	7,312	12,527	18,622
Total Debtors	2,691	3,529	3,990	4,582
Inventories	7,334	9,176	10,374	11,914
Total Other Current Assets	1,008	1,416	1,600	1,837
Total Current Assets	17,451	21,434	28,491	36,956
Fixed Assets	11,805	15,283	14,460	13,598
Total Investments	2,567	2,769	2,769	2,769
Total Other Non-Current Assets	2,046	1,064	1,014	1,014
Total Non-current Assets	16,418	19,116	18,243	17,381
Short-term Debt	523	523	523	523
Current Portion of Long-Term Debt	7,484	8,470	9,576	10,998
Total Creditors	1,343	2,118	2,394	2,749
Total Current Liabilities	9,350	11,111	12,493	14,270
Total Long-term Debt	328	328	328	328
Hybrid Debt - Debt Component	149	149	149	149
Total Other Non-Current Liabilities	477	477	477	477
Total Non-current Liabilities	398	398	398	398
Total Liabilities	10,225	11,986	13,368	15,145
Shareholders Equity	23,366	26,713	31,361	37,017
Minority Interests	278	1,850	2,005	2,175
Total Equity	23,644	28,563	33,366	39,192

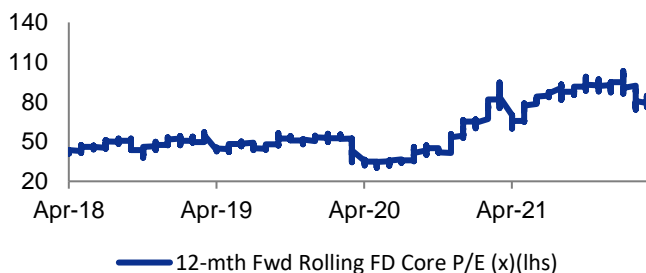
Cash Flow

(Rs mn)	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	7,553	7,472	9,291	10,972
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(705)	(1,327)	(461)	(592)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	178	(14)	673	983
Net Interest (Paid)/Received	83	158	(294)	(545)
Tax Paid	(1,678)	(1,378)	(1,887)	(2,357)
Cashflow From Operations	5,431	4,909	7,323	8,461
Capex	(3,460)	(4,502)	(1,065)	(1,118)
Disposals Of FAs/subsidiaries	14			
Acq. Of Subsidiaries/investments	4,126	1,572		
Other Investing Cashflow	35	275	446	701
Cash Flow From Investing	715	(2,655)	(619)	(417)
Debt Raised/(repaid)	205			
Proceeds From Issue Of Shares				
Shares Repurchased				
Dividends Paid	(451)	(705)	(1,108)	(1,511)
Preferred Dividends				
Other Financing Cashflow	(123)	(432)	(152)	(156)
Cash Flow From Financing	(369)	(1,137)	(1,260)	(1,667)
Total Cash Generated	5,777	1,117	5,444	6,376
Free Cashflow To Equity	6,351	2,254	6,704	8,044
Free Cashflow To Firm	6,017	1,822	6,552	7,887

Key Ratios

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

12-mth Fwd Rolling FD Core P/E (x)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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