



India

ADD (previously HOLD)

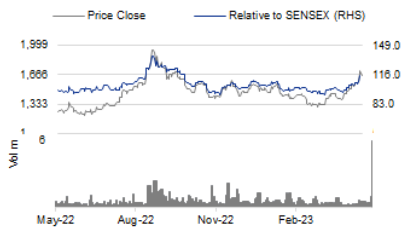
Consensus ratings*: Buy 13 Hold 8 Sell 5

Current price:	Rs1,652
Target price:	Rs1,978
Previous target:	Rs1,600
Up/downside:	19.7%
InCred Research / Consensus:	14.0%
Reuters:	
Bloomberg:	ASTRA IN
Market cap:	US\$6,112m
	Rs443,787m
Average daily turnover:	US\$11.8m
	Rs854.0m
Current shares o/s:	268.6m
Free float:	44.2%

*Source: Bloomberg

Key changes in this note

- FY24F/25F revenue cut by 2.4%/2.5%.
- FY24F/25F EBITDA raised by 3.4%/2.6%.
- FY24F/25F PAT increased/cut by 0.7%/(1.1%), respectively.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	15.3	15.1	32.3
Relative (%)	11.4	11.4	16.4

Major shareholders	% held
Promoters	55.9
Axis Long Term Equity Fund	3.8
Steadview Capital Mauritius	2.7

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Astral Ltd.**4Q beat: Better sales mix & freight savings**

- 4Q revenue was in line. Better plumbing/adhesives sale mix, stable PVC prices & freight savings due to new units close to customers led to sharp margin beat.
- New capacity, premium mix & margin expansion led by lower input prices and freight savings to drive growth. We expect the next 5-year sales CAGR at 15%.
- Stock price has been flat since Feb 2023. We like Astral's structural growth story. Roll forward to FY25F, raise TP to Rs1,978 and upgrade to ADD rating.

Better sales mix and stable resin prices drive sharp margin beat

Astral's 4QFY23 revenue/EBITDA/PAT stood at Rs15bn/Rs3.1bn/Rs2.1bn, +8.3%/+43%/+58% yoy and +19%/+66%/+123% qoq, respectively. Revenue was in line. EBITDA/PAT beat our/Bloomberg consensus estimates by 25-40%. Margin beat was led by a better sales mix, stable CPVC/PVC resin prices, some cheaper chemicals and freight savings due to new plants now being closer to end-customers. There were no inventory gains in 4Q. Gross/EBITDA margins improved to 38.4%/20.5%, +700bp yoy/+500bp yoy, respectively. The plumbing segment's revenue was at Rs11.2bn, +3.6% yoy/+20.6% qoq. PVC pipe sales volume was at 54,438kt, +15% yoy/18% qoq. The pipe segment's EBITDA/t stood at Rs47,687, +12.5% yoy. For FY23, pipe sales volume was at 178kt, +19% yoy & EBITDA/t was at Rs42k/t (ex-inventory loss of Rs5.3k/t). Adhesives (ex-paints) revenue grew to Rs3.2bn, +8% yoy/+14% qoq. Bathware revenue stood at Rs123m with the EBITDA loss at Rs35m. GEM Paints' revenue was at Rs587m with EBITDA at Rs85m.

Management confident of 15% revenue CAGR over next five years

Driven by new manufacturing plants (de-centralization of geographic concentration), higher revenue share of premium products (in plumbing/adhesive segments), faster sales growth of value-added products like water tanks, specialized valves, construction chemicals, etc., bathware and paint revenue/EBITDA contribution to rise meaningfully, cheaper input prices and freight savings due to plants getting near to end-customer locations, management is confident and aspires for a 15% revenue CAGR for plumbing and adhesive segments over the next five years. New plumbing units at Bhubaneswar, Guwahati and Hyderabad and the new adhesives plant at Dahej to aid revenue growth/margin expansion. We expect revenue/EBITDA CAGR of 12.5%/18%, respectively, over FY23-25F. Capex intensity to fall meaningfully (~Rs3bn), implying a cumulative FCF of Rs12bn+ over FY23-25F.

Change in our estimates, valuation and risks

Our FY24F/25F revenue/EBITDA/PAT estimates largely remain unchanged but the EBITDA margin stands increased to 17-17.5% vs. 16-16.5% earlier. Astral offers more upside now, after remaining flat since Feb 2023. We roll the valuation forward by a year, raise target price to Rs1,978 (Rs1,600 earlier – adjusted for 1:3 bonus issue) based on a P/E of 75x FY25F EPS, 5-year mean+1SD. The risk-reward ratio is now favourable and hence we upgrade the rating on Astral to ADD (from HOLD earlier). Downside risks: Volatile resin prices, and delay in ramp-up of the bathware segment or the paint segment.

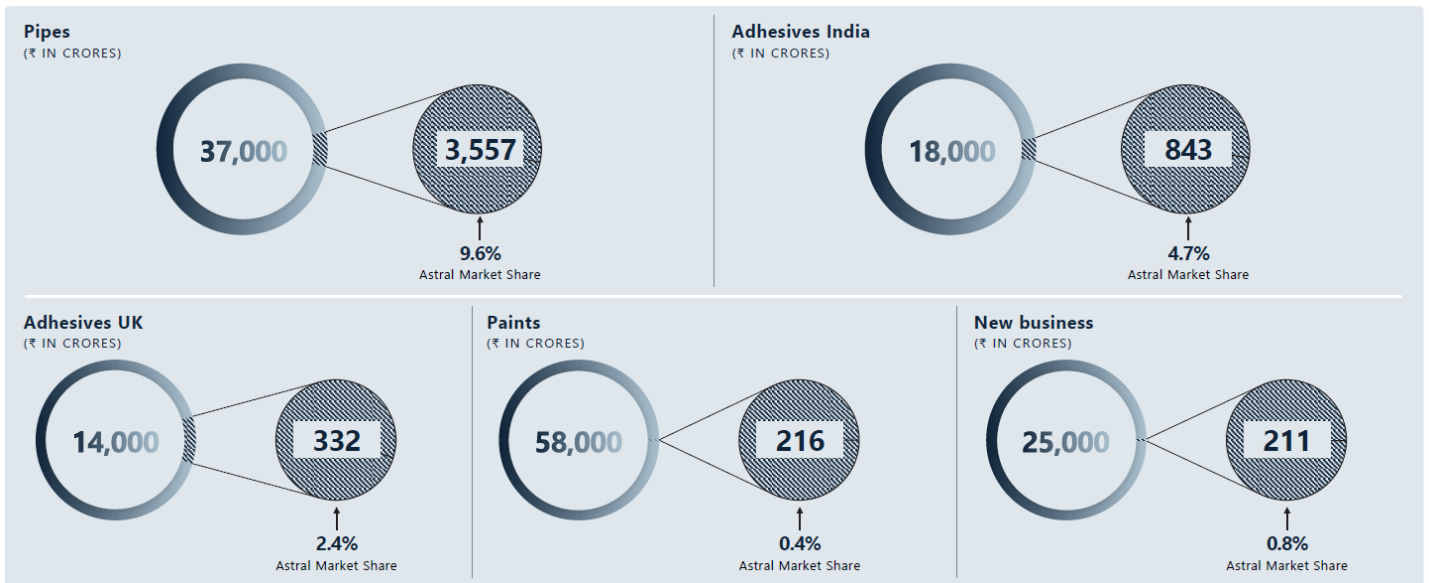
Financial Summary	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	31,763	43,940	51,585	56,871	65,242
Operating EBITDA (Rsm)	6,445	7,553	8,099	9,611	11,254
Net Profit (Rsm)	4,044	4,838	4,725	5,795	7,085
Core EPS (Rs)	20.1	24.1	17.7	21.6	26.4
Core EPS Growth	22.3%	19.6%	(26.7%)	22.2%	22.2%
FD Core P/E (x)	82.08	68.61	93.92	76.57	62.64
DPS (Rs)	1.8	3.0	2.3	3.5	4.5
Dividend Yield	0.11%	0.18%	0.14%	0.21%	0.27%
EV/EBITDA (x)	50.90	43.24	54.35	45.39	38.19
P/FCFE (x)	318.45	52.26	(4,082.51)	(170.71)	84.23
Net Gearing	(21.4%)	(23.5%)	(20.4%)	(29.0%)	(41.0%)
P/BV (x)	17.51	14.21	16.37	13.88	11.73
ROE	23.8%	22.9%	18.8%	19.6%	20.3%
% Change In Core EPS Estimates				(24.48%)	(25.85%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

4QFY23 earnings-call takeaways

- **Growth and margin guidance:** Management expects consolidated revenue to grow at a CAGR of 15% over the next five years. This implies incremental market share gains as the industry revenue growth is expected at a 9-10% CAGR. The company has maintained its guidance of doubling plumbing and adhesive revenue by FY26F. For FY24F, management indicated revenue growth of 15-20% yoy and EBITDA margin of 17-18%, assuming that PVC prices remain range-bound at the current levels.
- **Industry size:** The market size of Astral's various products are as follows - pipes Rs370bn (market share of 9.6%); adhesives - India Rs180bn (market share of 4.7%); adhesives - UK Rs140bn (market share 2.4%); paints Rs580bn (market share 0.4%) and new business (tanks, valves, etc.) Rs250bn (market share 0.8%) at the end of FY23.
- **Sanitaryware and faucets:** Currently, Astral manufactures 40-50% of its bathware production in-house at the Jamnagar facility and expects to achieve 100% in-house manufacturing by Mar 2024F. Astral has 383 showrooms/display centres supported by its channel partners and 177 more such showrooms/display centres at various states in India are under construction currently.
- **Paints:** The peak revenue potential from the existing 36kt of manufacturing capacity at GEM Paints is Rs9-10bn, as per management's estimates. Astral aspires to utilize full capacity without any meaningful capex, given significant under-utilization of capacity in the paints business today. GEM Paints will undergo business and brand restructuring and the company will share its medium- to long-term growth plan for the paints business over the next 12 months. Currently, decorative and industrial paints account for 50% each of total revenue. The acquisition of GEM Paints is not complete due to pending legal approvals. The purchase consideration of Rs1.94bn for a 51% equity stake and incremental buyout of 29% equity stake for ~Rs1bn planned by the end of 2QFY24F, as a part of the buyout agreement, will be paid in 1HFY24F.
- **UK/US business:** The international business had a flat revenue yoy in FY23. Astral expects revenue growth in double digits with EBITDA margin expansion in FY24F yoy.
- **Capex update:** Astral's greenfield adhesive plant at Dahej is almost complete and will start commercial production by the end of 1QFY24F. Astral plans to take land on lease and set up a new plumbing product plant at Guwahati in Assam with a capacity of 15kt (capex of ~Rs200m on machinery only) and is expected to be operational by the end of Sep 2023F. The company will also set up a greenfield plumbing product plant at Hyderabad for a total planned capacity of 70kt, with phase-1 of 30kt capacity to start commercial production in 2HFY25F and phase-2 of 40kt capacity to start commercial production in 2HFY26F. The total capex outlay for 70kt capacity is estimated at Rs1bn (excluding Rs250m already incurred on land acquisition).
- **Cash flow:** The net working capital cycle stood at 16 days of TTM sales (vs. 19 days at the end of Mar 2022). Net cash (including equivalents) stood at Rs6bn at the end of Mar 2023 (vs. Rs5.6bn at the end of Mar 2022).

Figure 1: Market opportunity vs. Astral's market Share



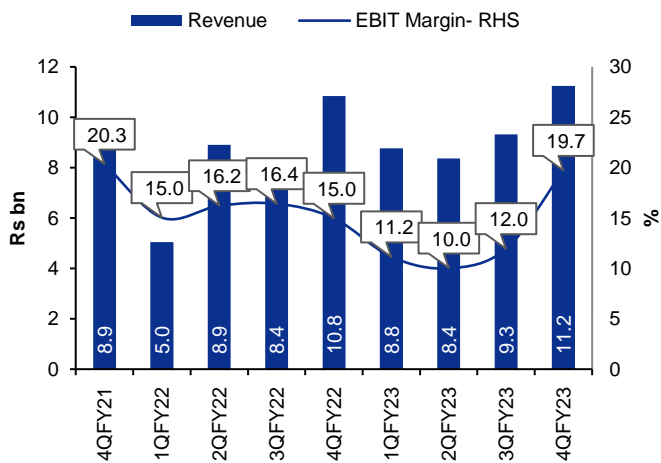
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: High growth categories



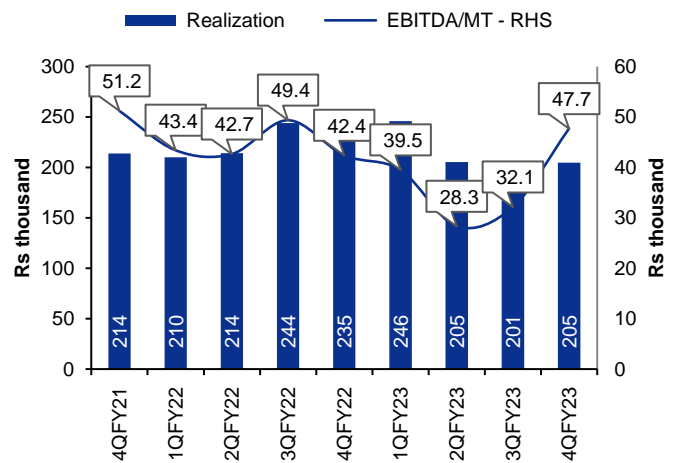
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Plumbing - revenue and margin trend



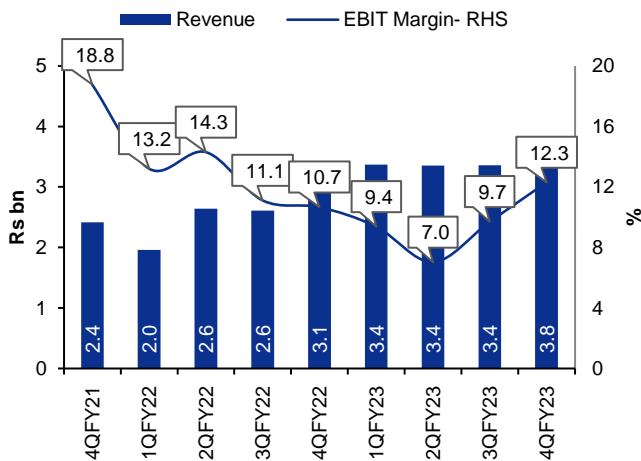
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Plastic products - realization and EBITDA/t trend



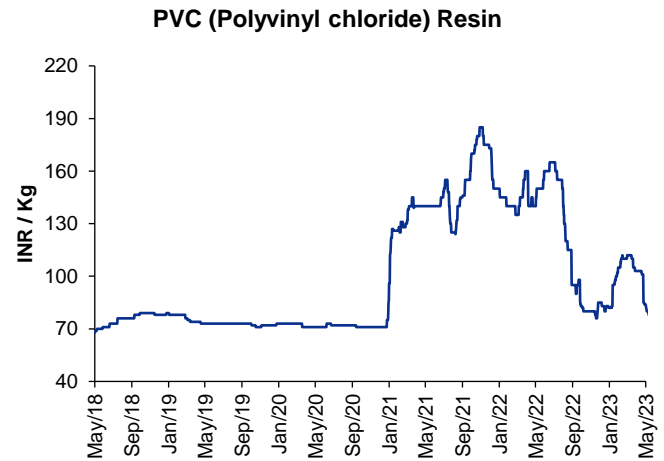
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Paints and adhesives - revenue and margin trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: PVC - price trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS.

Figure 7: 4QFY23 results snapshot

Y/E Mar (Rs m)	4QFY23	4QFY22	yoy (%)	3QFY23	qoq (%)	FY23	FY22	yoy (%)
Revenue	15,062	13,906	8.3	12,678	18.8	51,585	43,940	17.4
EBITDA	3,089	2,168	42.5	1,864	65.7	8,099	7,553	7.2
EBITDA margin (%)	20.5	15.6	492 bp	14.7	581 bp	15.7	17.2	-149 bp
Adj. PAT	2,075	1,312	58.2	930	123.1	4,743	4,838	(2.0)
Diluted EPS (Rs)	7.7	6.5		4.6		20.2	24.1	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: 4QFY23 segmental results snapshot

Y/E Mar (Rs m)	4QFY23	4QFY22	yoy (%)	3QFY23	qoq (%)	FY23	FY22	yoy (%)
Revenue								
Plumbing	11,235	10,841	3.6	9,318	20.6	37,675	33,658	11.9
Paints and adhesives	3,827	3,065	24.9	3,360	13.9	13,910	10,282	35.3
Total	15,062	13,906	8.3	12,678	18.8	51,585	43,940	17.4
EBIT								
Plumbing	2,215	1,623	36.5	1,114	98.8	5,144	5,200	(1.1)
Paints and adhesives	471	327	44.0	326	44.5	1,349	1,254	7.6
Total	2,686	1,950	37.7	1,440	86.5	51,585	43,940	17.4
EBIT margin (%)								
Plumbing	19.7	15.0	474 bp	12.0	776 bp	13.7	15.4	-180 bp
Paints and adhesives	12.3	10.7	164 bp	9.7	260 bp	9.7	12.2	-250 bp
Total	17.8	14.0	381 bp	11.4	647 bp	11.9	14.7	-283 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Segmental performance

Y/E Mar (Rs m)	1QFY23	2QFY23	3QFY23	4QFY23
Revenue				
Bathware	0	0	97	123
Paints	553	500	520	587
EBITDA				
Bathware	-60	-30	-40	-35
Paints	83	95	66	85
EBITDA margin (%)				
Bathware	NA	NA	-41.3	-28.4
Paints	15.0	19.0	12.6	14.5

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: Actuals vs. our estimates

Rs m	4QFY23	4QFY23F	Var(%)
Revenue	15,062	15,005	0.4
EBITDA	3,089	2,451	26.1
EBITDA margin (%)	20.5	16.3	418 bp
Adj. PAT	2,075	1,529	35.7

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 11: Actuals vs. Bloomberg consensus estimates

Rs m	4QFY23	4QFY23C	Var(%)
Revenue	15,062	14,899	1.1
EBITDA	3,089	2,480	24.6
EBITDA margin (%)	20.5	16.6	387 bp
Adj. PAT	2,075	1,491	39.2

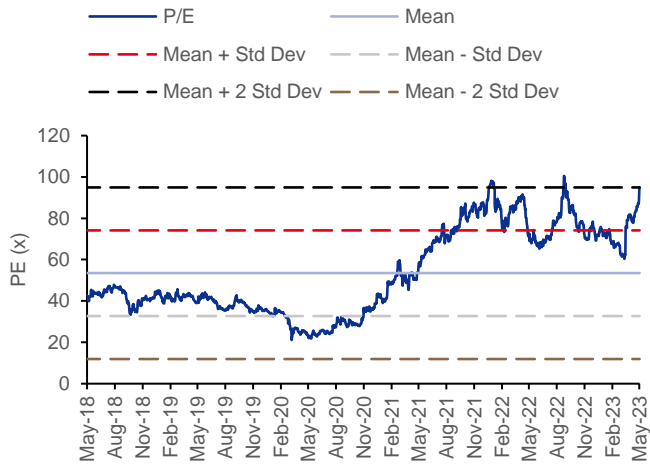
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 12: Our revised earnings estimates

	New estimates		Old estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	56,871	65,242	58,253	66,902	-2.4	-2.5
EBITDA	9,611	11,254	9,291	10,972	3.4	2.6
Adjusted consol. PAT	5,795	7,085	5,756	7,167	0.7	-1.1
EPS	21.6	26.4	21.4	26.7	0.7	-1.1
EBITDA margin (%)	16.9	17.3	16.0	16.4	95 bp	85 bp

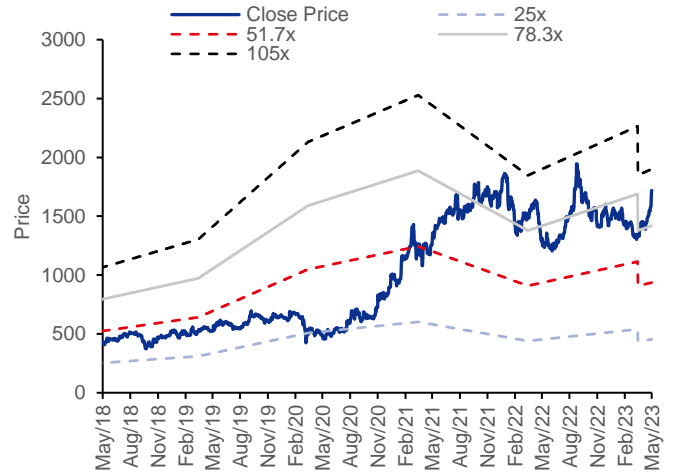
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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



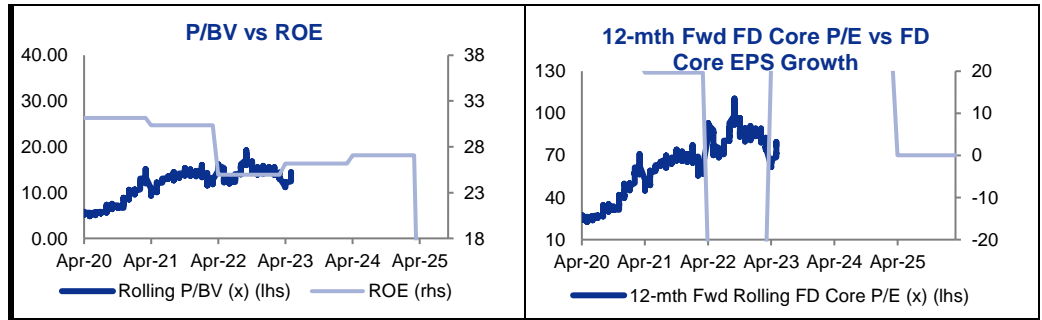
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

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



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	31,763	43,940	51,585	56,871	65,242
Gross Profit	12,074	14,660	17,238	20,189	23,324
Operating EBITDA	6,445	7,553	8,099	9,611	11,254
Depreciation And Amortisation	(1,165)	(1,269)	(1,781)	(2,024)	(2,145)
Operating EBIT	5,280	6,284	6,318	7,587	9,109
Financial Income/(Expense)	(93)	(83)	(368)	51	247
Pretax Income/(Loss) from Assoc.	(70)	(19)	(15)	(10)	(10)
Non-Operating Income/(Expense)	213	303	235	150	158
Profit Before Tax (pre-EI)	5,330	6,485	6,170	7,778	9,504
Exceptional Items					
Pre-tax Profit	5,330	6,485	6,170	7,778	9,504
Taxation	(1,248)	(1,581)	(1,557)	(1,932)	(2,364)
Exceptional Income - post-tax			(18)		
Profit After Tax	4,082	4,904	4,595	5,845	7,140
Minority Interests	(38)	(66)	130	(50)	(55)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	4,044	4,838	4,725	5,795	7,085
Recurring Net Profit	4,044	4,838	4,743	5,795	7,085
Fully Diluted Recurring Net Profit	4,044	4,838	4,743	5,795	7,085

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	6,445	7,553	8,099	9,611	11,254
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,142	(705)	(1,026)	(1,171)	(506)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	123	178	(194)	233	486
Net Interest (Paid)/Received	93	83	344	(51)	(247)
Tax Paid	(1,162)	(1,678)	(1,654)	(1,932)	(2,364)
Cashflow From Operations	6,641	5,431	5,569	6,690	8,623
Capex	(1,717)	(3,460)	(3,110)	(1,800)	(1,015)
Disposals Of FAs/subsidiaries		14	11		
Acq. Of Subsidiaries/investments	(2,856)	4,126	(1,730)	(7,500)	(2,500)
Other Investing Cashflow	32	35	32	260	410
Cash Flow From Investing	(4,541)	715	(4,797)	(9,040)	(3,105)
Debt Raised/(repaid)	(1,188)	205	(867)	(250)	(250)
Proceeds From Issue Of Shares	1				
Shares Repurchased					
Dividends Paid	(151)	(451)	(603)	(942)	(1,211)
Preferred Dividends					
Other Financing Cashflow	(140)	(123)	(366)	(210)	(164)
Cash Flow From Financing	(1,478)	(369)	(1,836)	(1,401)	(1,624)
Total Cash Generated	622	5,777	(1,064)	(3,751)	3,894
Free Cashflow To Equity	912	6,351	(95)	(2,599)	5,268
Free Cashflow To Firm	1,969	6,017	372	(2,559)	5,355

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	4,760	6,418	6,821	10,528	16,831
Total Debtors	2,767	2,691	3,545	3,908	4,484
Inventories	4,721	7,334	8,746	9,349	10,725
Total Other Current Assets	442	1,008	1,427	1,091	1,251
Total Current Assets	12,690	17,451	20,539	24,876	33,290
Fixed Assets	9,977	11,805	15,736	16,623	15,493
Total Investments					
Intangible Assets	2,570	2,567	3,125	3,125	3,125
Total Other Non-Current Assets	1,490	2,046	4,221	3,110	3,110
Total Non-current Assets	14,037	16,418	23,082	22,858	21,728
Short-term Debt	229	523	457	309	161
Current Portion of Long-Term Debt					
Total Creditors	5,172	7,484	8,000	9,349	10,725
Other Current Liabilities	1,157	1,343	3,448	1,558	1,787
Total Current Liabilities	6,558	9,350	11,905	11,216	12,674
Total Long-term Debt	437	328	316	214	112
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	162	149	1,512	1,512	1,512
Total Non-current Liabilities	599	477	1,828	1,726	1,624
Total Provisions	400	398	299	299	299
Total Liabilities	7,557	10,225	14,032	13,241	14,596
Shareholders Equity	18,958	23,366	27,112	31,966	37,840
Minority Interests	212	278	2,477	2,527	2,582
Total Equity	19,170	23,644	29,589	34,493	40,422

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	23.2%	38.3%	17.4%	10.2%	14.7%
Operating EBITDA Growth	45.5%	17.2%	7.2%	18.7%	17.1%
Operating EBITDA Margin	20.3%	17.2%	15.7%	16.9%	17.2%
Net Cash Per Share (Rs)	20.38	27.71	22.52	37.25	61.64
BVPS (Rs)	94.37	116.31	100.94	119.01	140.88
Gross Interest Cover	40.31	48.71	15.80	36.20	55.68
Effective Tax Rate	23.4%	24.4%	25.2%	24.8%	24.9%
Net Dividend Payout Ratio	6.7%	9.4%	9.6%	12.2%	12.8%
Accounts Receivables Days	28.99	22.67	22.06	23.92	23.47
Inventory Days	93.85	75.14	85.44	90.02	87.39
Accounts Payables Days	92.01	78.88	82.27	86.31	87.39
ROIC (%)	33.8%	40.2%	33.9%	29.9%	34.6%
ROCE (%)	28.6%	28.1%	22.9%	23.8%	25.0%
Return On Average Assets	21.9%	21.7%	16.9%	16.9%	18.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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