

# ASTRAL POLY TECHNIK LTD.

Industry	Metals
Bloomberg	ASTRA IN
BSE CODE	532830

## Decent performance considering disruptions led by lower volume and Rex Acquisition....

<b>RATING</b>	<b>NEUTRAL</b>
CMP	1044
Price Target	980
Potential Upside	-6%

Rating Change	
Estimate Change	
Target Change	

### Stock Info

52wk Range H/L	1189/731
Mkt Capital (Rs Cr)	12458
Free float (%)	40%
Avg. Vol 1M (,000)	86
No. of Shares (Cr.)	12
Promoters Pledged %	0%

### Key Highlights

- ❑ Astral is a manufacturer of plumbing and drainage systems with total installed capacity of 174801 MT and facilities at Santej & Dholka (Gujarat), Hosur (Tamil Nadu) and Ghiloth (Rajasthan). It is present in adhesive space through its subsidiaries Resinova and SEAL IT and recently acquired Rex Polyextrusion which is into the business of DWC pipes.
- ❑ Margins in 2QFY19 got impacted by lower pipe volume; write offs and inventory related adjustments in Rex and higher advertisement expense in adhesive business.
- ❑ Rex is expected to report lower margins in next quarter too; however it would be fully integrated with Astral by FY19 and its margins would see improvement from thereon.

### 2Q FY19 Result Update

Astral's (consol) 2QFY19 revenue came in at Rs.629 cr, pipe business revenue was at Rs.438 cr (up 10% YoY, 27% QoQ), adhesive revenue was at Rs.158 cr (up 25% YoY, 12% QoQ) and Rex revenue was at Rs.44 cr. Pipe business EBITDA came in at Rs.75 cr (up 27% YoY, 21% QoQ) and margins were at 17% (vs. 15% in 2QFY18 and 18% in 1QFY19), adhesive EBITDA came in at Rs.24 cr (up 28% YoY, 17% QoQ) and margins were at 15% (vs. 14% in 2QFY18 and 1QFY19) because of higher advertisement expenses. Rex's EBITDA for the quarter was at Rs.1 cr and margins were at 2%. Depreciation was higher at Rs.19 cr (vs. Rs.14 cr in 2QFY18 and Rs.16 cr in 1QFY19) on account of increase in capacity to 174801 MT (152101MT in 1QFY19). Interest cost for the quarter also increased to Rs.7 cr (vs. Rs.4 cr in 2QFY18 and 1QFY19) because of Rex Acquisition and overall increase in interest rate from 7.2% to 7.8%. PAT for the quarter came in at Rs.46 cr (up 17% YoY, 22% QoQ).

### View and Valuation

Astral (consol) registered strong revenue growth of 21% YoY to Rs.629 cr in 2QFY19. Though revenue from piping business grew by 10% YoY due to lower volume growth but it was compensated by 25% YoY growth in adhesive business. Going ahead we expect Astral to continue to deliver good set of numbers driven by continuous focus on launching product catering to Indian requirement, focus on expanding distribution network (currently has 750+ distributors and 28000+ dealers across the country), furthermore any uptick in construction activity would be a big positive for the company. Company's margin in next couple of quarters may remain under pressure due to integration of Rex (newly acquired business) into Astral. Considering 2QFY19 result our FY19/FY20 PAT estimates stand reduced by 1%/3% as we assume slightly lower volume growth and expect Revenue/EBITDA/PAT CAGR of 20%/25%/25% over FY18-20e. We are positive on Astral's long term perspective driven by its continuous thrust on launching advanced product, Judicious capital allocation (entering into adhesive business 3 years ago, and now into Double wall Corrugated pipe through Rex) and consistent margins (around 15%). However, we believe all the positive are factored in at current prices and maintain our **NEUTRAL stance on the stock with a target of Rs.980 (42x FY20e EPS).**

### Key Risks to our rating and target

- ❑ Lower than expected volume growth in piping business.
- ❑ Sharp movement in crude oil prices.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	1678	1889	2106	2546	3027
EBITDA	208	264	317	399	495
EBIT	166	214	260	323	411
PAT	102	145	176	210	279
EPS (Rs)	8	12	15	18	23
EPS growth (%)	32%	42%	24%	17%	33%
ROE (%)	14%	17%	17%	17%	19%
ROCE (%)	20%	22%	23%	24%	25%
BV	59	71	85	102	124
P/B (X)	7.1	7.7	9.9	10.3	8.4
P/E (x)	49.6	45.5	56.1	59.6	44.8

### Research Analyst

Sagar Sharma

sagar.sharma@narnolia.com

+91-22-62701234

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## 2QFY19 Results Consolidated Moderate performance in pipe business compensated by strong performance in adhesive business....

Financials	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	520	529	651	477	629	21.1%	31.9%	1,889	2,106	11.5%
Other Income	2	6	2	4	5	142.8%	17.0%	9	13	39%
Total Income	522	534	653	481	634	21.5%	31.8%	1,898	2,119	11.6%
COGS	353	345	419	299	415	17.6%	38.6%	1,303	1,383	6.1%
Employee Cost	26	26	29	31	34	28.2%	11.1%	89	106	20.1%
Other Expenses	64	84	84	69	86	33.7%	24.4%	233	299	28.5%
Expenditure	443	455	532	399	535	20.6%	34.0%	1,625	1,789	10.1%
EBITDA	76	74	118	78	94	23.7%	21.2%	264	317	20.1%
Depreciation	14	14	15	16	19	35.8%	19.8%	50	57	13.8%
EBIT	62	60	103	62	75	20.9%	21.5%	214	260	21.6%
Interest	7	0	9	12	14	90.2%	16.3%	18	22	17.3%
PBT	57	65	96	54	66	16.3%	22.3%	204	251	22.7%
Exceptional	-	-	-	-	-	-	-	(1)	-	-
Tax	17	18	30	16	20	14.9%	24.9%	56	72	29.0%
PAT	40	47	66	38	47	16.8%	21.3%	176	210	19.4%

### Operating Matrix

Pipe	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY %
Production (In M.T)	21279	26304	24076	24893	27252	29532	23288	26281	5.6%
Sales (In M.T)	20852	28720	19539	26070	26764	31618	22476	27250	4.5%
Sales (Rs.cr)	356	468	299	399	405	504	344	438	9.8%
EBITDA (Rs.cr)	52	77	41	59	59	89	62	75	27.4%
PAT (Rs.cr)	25	44	17	27	31	44	25	33	24.4%
Adhesives	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY %
Resinova Sales (Rs.cr)	73	95	77	90	99	116	95	106	18.5%
EBITDA (Rs.cr)	12	15	9	17	19	29	17	19	11.4%
SEAL IT Sales (Rs.cr)	30	35	36	37	35	41	46	52	41.0%
EBITDA (Rs.cr)	0	3	2	2	1	3	4	5	165.0%
Total Adhesives Sales	103	129	113	126	103	156	141	158	25.0%
Total Adhesives EBITDA	12	18	11	19	20	32	20	24	28.0%

### Low YoY volume growth in standalone piping business

Standalone piping volume for the quarter was at 27250 MT (up 5% YoY, 27% QoQ). Volume growth in the quarter got impacted by 10-15 days if truck strike, flood in Kerala, monsoon and expected drop in PVC prices in Oct'18 also impacted sales this also led to inventory buildup in the quarter. However, prices of PVC did drop in Oct'18 and management has said that it has registered robust growth in volume in Oct'18 due to fall in PVC prices. Realization for the quarter came in at Rs.160587/t (up 5%QoQ, YoY). 5% volume growth and 5% realization growth led to 10% YoY revenue growth in standalone business to Rs.438 cr.

### Adhesive registered strong growth, offsetting lower growth from pipe business

Adhesive revenue grew by 25% YoY and 12% QoQ to Rs.158 cr and EBITDA came in at Rs.24 cr (up 28% YoY, 17% QoQ). Resinova's revenue for the quarter came in at Rs.106 cr (up 19% YoY, 12% QoQ), EBITDA was at Rs.19 cr (up 11% YoY, 12% QoQ) and EBITDA margin was lower by 2% YoY to 17% due to higher advertisement expenses. SEAL IT revenue for the quarter came in at Rs.52 cr (up 41% YoY, 11% QoQ) and EBITDA margin improved to 10% (vs.5% in 2QFY18 and 8% in 1QFY19), management said that US operations coming back on track is the reason for improvement in the margins, company also acquired Rescue Tape brand through SEAL IT USA and would be introducing it in Indian market in 5-6 months. Company is also planning to introducing lot of other products.

### Rex Revenue growth strong but margins under pressure

Rex's revenue for the quarter came in at Rs.44 cr and EBITDA was at Rs.1 cr. Rex's margins are impacted by write offs, inventory related adjustments as management is trying to bring Rex in to Astral's system in terms of Accounting, warehouse, quality control etc. Margins are expected to remain under pressure for next quarter as well due to reasons discussed above; however management expects Rex's operations would be fully integrated in to Astral by the end of FY19 and margins are expected to be back to normal level in 4QFY19.

**Conference call highlights****Pipe Business**

- ❑ Registered double digit growth in value and volume growth little less than double digit due to truck strike of 10-15 days, flood in Kerala, monsoon and drop in PVC prices which was expected in Oct'18 also hampered sales.
- ❑ Payment discipline corrected 100% in 2QFY19 and all the distributors were given an option to move to channel finance or upfront and most of the small distributors were converted into cash and carry model.
- ❑ Astral was the first one in taking price revision in CPVC in Sep'18 to account for depreciating INR which also impacted volume growth.
- ❑ New product launches such as drainage system, fire sprinkler system are doing well in market.
- ❑ CPVC also performing well and new plants in north near Jaipur is fully operational, expansion at Hosur is also underway and will be completed in FY19.
- ❑ Capacity will also be added at Ahmadabad operations relating to injection molding which will produce products agri PVC and other sectors.

**Update on REX:**

- ❑ Company is currently working on establishing same system in Rex as in Astral in terms of Accounting, warehouse, inventory, quality control etc and is trying to implement all the policies of Astral to Rex which also led write offs ,inventory related adjustments leading to EBITDA of Rs.1cr and margin of 2%.
- ❑ Rex product is also growing at robust pace but management would be able to have a clear view on it after couple of quarters.
- ❑ After stabilized operations and integration with Astral towards FY19 end Rex EBITDA margins are expected to be in range of 14-15%.
- ❑ Rex would be completely integrated with Astral before end of FY19.

**Resinova:** Growing at 20% and good response in across different product line is witnessed, brand awareness initiative are helping to register good growth.

**SEAL IT:** operations are coming back on track again with revenue growing at 40% and EBITDA in double digit after many quarters. It also acquired Rescue Tape brand in US and is expected to launch other products in next 5-6 months. Rescue Tape is also been launched in India.

**Financial updates:**

- ❑ Inventory increased as all the distributors stopped taking orders in Sep'18 as PVC prices were expected to correct in Oct'18.
- ❑ Interest cost increased due to acquisition of Rex and overall interest rate gone up from 7.2% to 7.8%. Management expects significant reduction in debt in 2HFY19.
- ❑ Rs.14 crore of loss in 1HFY19 due to sharp depreciation in INR out of which Rs.7 crore was MTM.

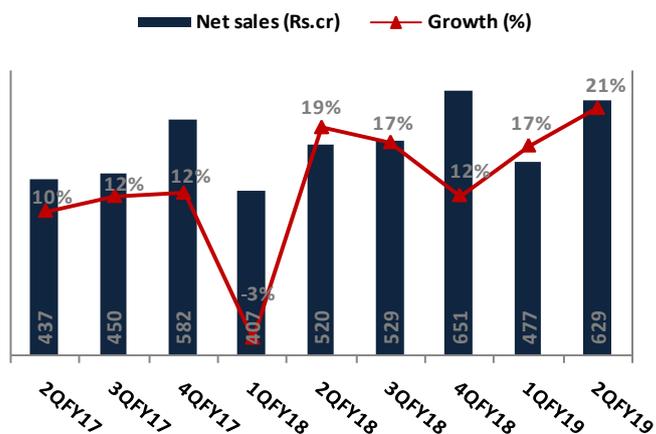
**Capex:** - FY19 and FY20 combine capex at Rs.150 crore and very low capex for couple of years after FY20. Major amount of capex to be done in FY19 with 1HFY19 capex spend being around Rs.50-60 crore.

**Guidance:**

- ❑ Pipe- 15% minimum growth in volume and revenue and EBITDA margins minimum of 15% on yearly basis.
- ❑ Adhesive- As a whole 20% plus growth and EBITDA margins in range of 15-17%.

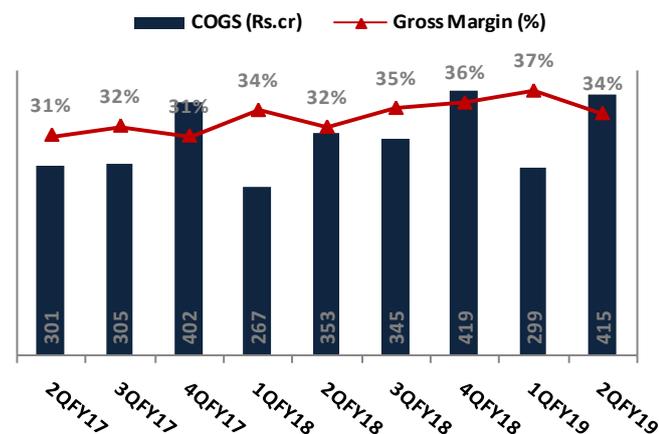
## Exhibit: Net Sales (consol.) and Growth Trend

strong revenue growth continued.....



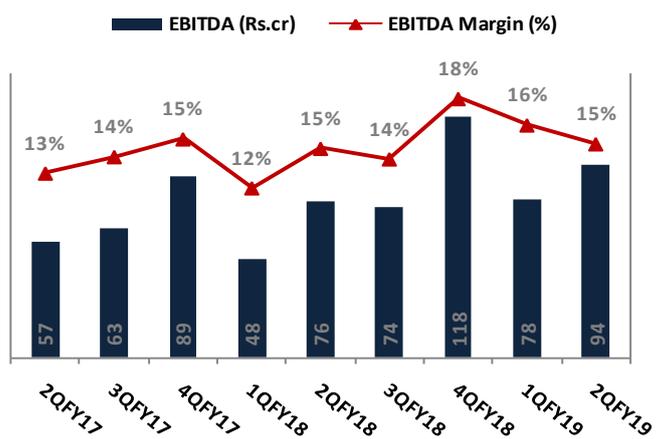
## Exhibit: COGS (consol.) and Gross Margin Trend

gross margin increased by 2% YoY due to backward integration initiatives....



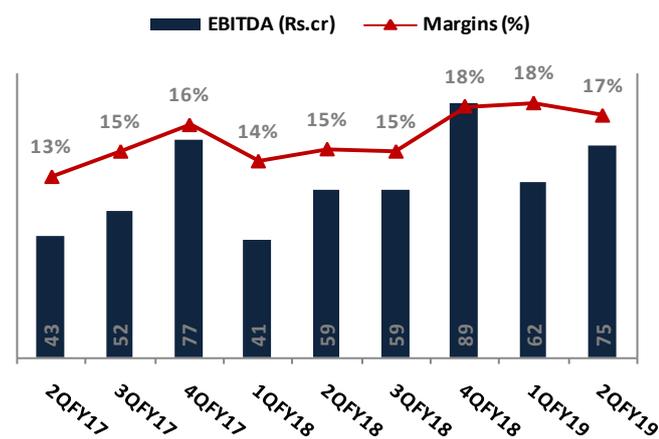
## Exhibit: EBITDA (consol.) and Margin Trend

higher expense due to Rex Acquisition and advertisement cost in adhesive business putting pressure on margins....



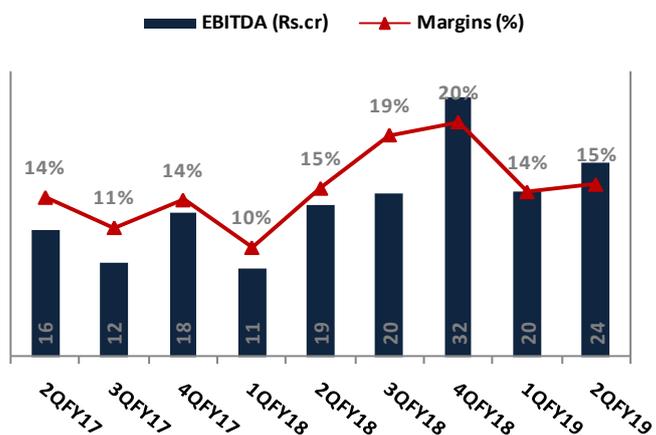
## Exhibit: Pipe Business EBITDA and Margin Trend

stable margins in pipe business....



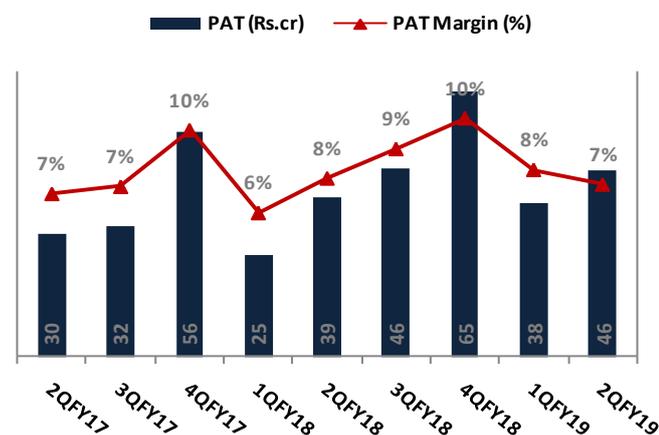
## Exhibit: Adhesive Business EBITDA and Margin Trend

margins under pressure primarily on account of higher advertisement expense....



## Exhibit: PAT (consol.) and Margin Trend

fall in PAT margin in line with fall in EBITDA margins....



## Financial Details

### Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Share Capital</b>	11	11	12	12	12	12	12	12
Reserves	230	304	607	696	835	1,006	1,207	1,476
<b>Networth</b>	<b>241</b>	<b>315</b>	<b>619</b>	<b>708</b>	<b>847</b>	<b>1,018</b>	<b>1,219</b>	<b>1,488</b>
Debt	66	98	139	131	157	123	150	150
Other Non Cur Liab	-	-	0	0	-	-	-	-
<b>Total Capital Employed</b>	<b>307</b>	<b>414</b>	<b>758</b>	<b>839</b>	<b>1,004</b>	<b>1,141</b>	<b>1,369</b>	<b>1,638</b>
Net Fixed Assets (incl CWIP)	227	297	369	446	534	681	699	740
Non Cur Investments	-	-	-	-	-	-	-	-
Other Non Cur Asst	-	-	-	16	10	6	27	18
Non Curr Assets	230	308	597	690	787	932	970	1,002
<b>Inventory</b>	<b>150</b>	<b>195</b>	<b>266</b>	<b>277</b>	<b>272</b>	<b>357</b>	<b>432</b>	<b>514</b>
<b>Debtors</b>	<b>106</b>	<b>145</b>	<b>233</b>	<b>227</b>	<b>339</b>	<b>307</b>	<b>419</b>	<b>514</b>
<b>Cash &amp; Bank</b>	<b>12</b>	<b>1</b>	<b>12</b>	<b>50</b>	<b>17</b>	<b>44</b>	<b>62</b>	<b>59</b>
Other Curr Assets	0	0	2	46	35	25	30	35
Curr Assets	316	387	568	614	675	743	960	1,295
Creditors	172	185	266	316	293	349	349	415
Provisions (both)	8	7	9	2	2	3	3	3
Other Curr Liab	50	77	99	30	35	32	39	47
Curr Liabilities	230	268	372	427	417	486	513	610
<b>Net Curr Assets</b>	<b>86</b>	<b>119</b>	<b>196</b>	<b>187</b>	<b>259</b>	<b>257</b>	<b>446</b>	<b>685</b>
<b>Total Assets</b>	<b>546</b>	<b>694</b>	<b>1,165</b>	<b>1,304</b>	<b>1,462</b>	<b>1,675</b>	<b>1,930</b>	<b>2,296</b>

### Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Revenue from Operation</b>	<b>825</b>	<b>1,080</b>	<b>1,429</b>	<b>1,678</b>	<b>1,889</b>	<b>2,106</b>	<b>2,546</b>	<b>3,027</b>
Change (%)	42%	31%	32%	17%	13%	11%	21%	19%
Other Income	2	2	4	2	9	13	18	18
<b>EBITDA</b>	<b>115</b>	<b>155</b>	<b>168</b>	<b>208</b>	<b>264</b>	<b>317</b>	<b>399</b>	<b>495</b>
Change (%)	39%	35%	8%	24%	27%	20%	26%	24%
Margin (%)	14%	14%	12%	12%	14%	15%	16%	16%
Depr & Amor.	18	22	36	42	50	57	76	84
<b>EBIT</b>	<b>97</b>	<b>133</b>	<b>131</b>	<b>166</b>	<b>214</b>	<b>260</b>	<b>323</b>	<b>411</b>
Int. & other fin. Cost	19	31	25	30	18	22	20	20
<b>EBT</b>	<b>80</b>	<b>105</b>	<b>110</b>	<b>138</b>	<b>204</b>	<b>251</b>	<b>298</b>	<b>393</b>
Exp Item	-	-	-	(1)	(1)	-	-	-
Tax	19	25	31	30	56	72	87	114
Minority Int & P/L share of Ass.	0	0	2	(6)	(3)	(3)	(1)	-
<b>Reported PAT</b>	<b>61</b>	<b>79</b>	<b>76</b>	<b>102</b>	<b>145</b>	<b>176</b>	<b>210</b>	<b>279</b>
<b>Adjusted PAT</b>	<b>61</b>	<b>79</b>	<b>76</b>	<b>101</b>	<b>144</b>	<b>179</b>	<b>210</b>	<b>279</b>
Change (%)	53%	30%	-4%	33%	42%	21%	19%	33%
Margin(%)	7%	7%	5%	6%	8%	8%	8%	9%

## Financial Details

### Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	25%	25%	12%	0.14	17%	18%	17%	19%
ROCE	32%	34%	18%	20%	22%	23%	24%	25%
Asset Turnover	1.51	1.55	1.23	1.29	1.29	1.26	1.32	1.32
Debtor Days	47	49	59	49	65	53	60	62
Inv Days	67	66	68	60	53	62	62	62
Payable Days	76	63	68	69	57	61	50	50
Int Coverage	5.1	4.3	5.2	5.5	11.6	12.0	16.0	20.3
P/E	13.4	33.1	69.1	49.6	45.5	56.1	59.6	44.8
Price / Book Value	3.4	8.3	8.5	7.1	7.7	9.9	10.3	8.4
EV/EBITDA	7.5	17.4	31.9	24.6	25.3	32.0	31.6	25.5
Div Yield	2%	0%	0%	0%	0%	0%	0%	0%

### Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>PBT</b>	<b>80</b>	<b>105</b>	<b>110</b>	<b>131</b>	<b>201</b>	<b>251</b>	<b>298</b>	<b>393</b>
<i>(inc)/Dec in Working Capital</i>	(44)	(66)	(31)	43	(106)	35	(191)	(80)
<i>Non Cash Op Exp</i>	38	52	65	81	64	80	96	104
<i>Int Paid (+)</i>	15	31	25	30	18	22	20	20
<i>Tax Paid</i>	(9)	(23)	(26)	(29)	(44)	(72)	(87)	(114)
<i>others</i>								
<b>CF from Op. Activities</b>	<b>65</b>	<b>67</b>	<b>117</b>	<b>226</b>	<b>114</b>	<b>293</b>	<b>116</b>	<b>303</b>
<i>(inc)/Dec in FA &amp; CWIP</i>	(68)	(92)	(85)	(134)	(160)	(204)	(94)	(125)
<i>Free Cashflow</i>	(3)	(25)	32	91	(45)	89	22	178
<i>(Pur)/Sale of Inv</i>	1	1	0	1	1	-	-	(152)
<i>others</i>								
<b>CF from Inv. Activities</b>	<b>(67)</b>	<b>(91)</b>	<b>(343)</b>	<b>(203)</b>	<b>(158)</b>	<b>(204)</b>	<b>(94)</b>	<b>(277)</b>
<i>inc/(dec) in NW</i>	-	-	236	59	0	-	-	-
<i>inc/(dec) in Debt</i>	(5)	48	31	(4)	32	(34)	27	-
<i>Int. Paid</i>	(15)	(31)	(25)	(30)	(19)	(22)	(20)	(20)
<i>Div Paid (inc tax)</i>	(3)	(4)	(5)	(9)	(3)	(8)	(9)	(9)
<i>others</i>								
<b>CF from Fin. Activities</b>	<b>(22)</b>	<b>13</b>	<b>237</b>	<b>16</b>	<b>10</b>	<b>(63)</b>	<b>(3)</b>	<b>(30)</b>
<i>Inc(Dec) in Cash</i>	(24)	(11)	11	38	(33)	26	20	(3)
<i>Add: Opening Balance</i>	35	12	1	11	50	17	44	62
<b>Closing Balance</b>	<b>12</b>	<b>1</b>	<b>12</b>	<b>50</b>	<b>16</b>	<b>43</b>	<b>63</b>	<b>59</b>

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Correspondence Office Address: Arch Waterfront, 5<sup>th</sup> Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; [www.narnolia.com](http://www.narnolia.com).

Registered Office Address: Marble Arch, Office 201, 2<sup>nd</sup> Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; [www.narnolia.com](http://www.narnolia.com)

Compliance Officer: Manish Kr Agarwal, Email Id: [mkagarwal@narnolia.com](mailto:mkagarwal@narnolia.com), Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300002407, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

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