

Astral Poly Technik Ltd.

Industry	Metals
Bloomberg	ASTRA IN
BSE CODE	532830

Margins fall in adhesive but stable at consolidate level, muted volume growth in piping...

3QFY19 Result Update

- Consolidated revenue came in at Rs.634cr (up 24% YoY, 1% QoQ) led by 4% volume growth and 9% realization growth and 24% growth in adhesive revenue.
- EBITDA came in at Rs.94cr (up 2% YoY, down 1% QoQ) and margin was at 14.8% (vs.14.4% in 3QFY18 and 15% in 2QFY19).
- Pipe production and sales volume came in at 27563 MT (up 1% YoY, 5% QoQ) and sales at 27882 MT (up 4% YoY and 2% QoQ). Pipe revenue was at Rs.444cr (up 14% YoY and 1%QoQ) and EBITDA stood at Rs.79cr (up 35% YoY and 6% QoQ) and margins at 17.8% (vs.15% in 3QFY18 and 17% in 2QFY19).
- Adhesive total revenue came in at Rs.152cr (up 14% YoY, down 4% QoQ) and EBITDA came in at Rs.16cr (down 18% YoY and 31% QoQ) and margins at 11% (vs.15% in 3QFY18 and 15% in 2QFY19) due to high branding cost at Resinova.
- Resinova revenue came in at Rs.105cr (up 6% YoY, down 1% QoQ) and EBITDA came in at Rs.12cr (down 37% YoY and 36% QoQ), margins declined to 11% (vs.19% in 3QFY19 and 17% in 2QFY19).
- Seal It sale was at Rs.47cr (up 36% YoY, down 9% QoQ) and EBITDA at Rs.5cr (up 4x 3QFY18 and down 15% QoQ) with stable EBITDA margins at 10% (vs.3% in 3QFY18 and 10% in 2QFY19).
- Rex Performance improved, revenue came in at Rs.48cr (vs.Rs.44cr in 2QFY19) and EBITDA was at Rs.3cr (vs.Rs.1cr in 2QFY19).

View and Valuation

Astral's consolidated revenue came in at Rs.634cr (up 24% YoY and 1% QoQ) led by 4% volume growth and 9% realization growth in piping business and 14% revenue growth in adhesive business. Furthermore, inclusion of Rex's (acquired recently) revenue of Rs.48cr (vs.Rs.44cr in 2QFY19) also increased topline. Consolidated EBITDA came in at Rs.94cr (up 27% YoY, down 1% QoQ) and margin stood at 14.8% (vs.14.4% in 3QFY18 and 15% in 2QFY19). Going ahead in 4QFY19 margins are expected to improve from current level led by volume pick up in piping business after muted growth in 2Q and 3QFY19 due to implementation of some corrective measure to improve credit and billing system, improvement in adhesive business margins and better performance at Rex. Our Revenue/PAT estimates stand reduced by 2%/1% for FY19 and by 2%/3% for FY20 respectively on account of lower than expected volume in piping business due to corrective measures implemented by company impacting FY19 volume and uncertainty in domestic market due to general election. However, We remain positive on Astral driven by its consistent performance in piping business, strong growth in adhesive business and Judicious capital allocation (entering into adhesive business 3 years ago, and now into Double wall Corrugated pipe through Rex). Revenue/PAT CAGR expected of 19%/26% over FY18-20e. We maintain our target multiple of **32x FY20e EV/EBITDA and value the stock at Rs.1327, however, recent uptick in price have reduced the upside and thus we change our recommendation from BUY to ACCUMULATE.**

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	2495	2965
EBITDA	208	264	317	391	500
EBIT	166	214	260	315	416
PAT	102	145	176	209	279
EPS (Rs)	8	12	15	17	23
EPS growth (%)	32%	42%	24%	17%	34%
ROE (%)	14%	17%	17%	17%	19%
ROCE (%)	20%	22%	23%	23%	25%
BV	59	71	85	102	124
P/B (X)	7.1	7.7	9.9	11.5	9.4
P/E (x)	49.6	45.5	56.1	66.8	50.1

RATING	ACCUMULATE
CMP	1165
Price Target	1327
Potential Upside	14%

Rating Change	↓
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	1210/742
Mkt Capital (Rs Cr)	13962
Free float (%)	40%
Avg. Vol 1M (,000)	84
No. of Shares (Cr.)	12
Promoters Pledged %	0%

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3QFY19 Results

Branding cost continues to impact adhesive margin....

Consolidated

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	529	651	477	629	634	19.9%	0.7%	1,889	2,106	11.5%
Other Income	6	2	4	5	3	-44.5%	-30.0%	9	13	39%
Total Income	534	653	481	634	637	19.2%	0.5%	1,898	2,119	11.6%
COGS	345	419	299	415	419	21.4%	0.9%	1,303	1,383	6.1%
Employee Cost	26	29	31	34	39	48.8%	13.7%	89	106	20.1%
Other Expenses	84	84	69	86	83	-1.7%	-3.6%	233	299	28.5%
Expenditure	455	532	399	535	540	18.7%	1.0%	1,625	1,789	10.1%
EBITDA	74	118	78	94	94	27.1%	-0.8%	264	317	20.1%
Depreciation	14	15	16	19	20	42.8%	4.9%	50	57	13.8%
EBIT	60	103	62	75	73	23.4%	-2.2%	214	260	21.6%
Interest	0	9	12	14	1	68.8%	-94.0%	18	22	17.3%
PBT	65	96	54	66	76	17.1%	14.7%	204	251	22.7%
Exceptional	-	-	-	-	-	-	-	(1)	-	-
Tax	18	30	16	20	24	30.2%	20.0%	56	72	29.0%
PAT	47	66	38	47	52	12.0%	12.4%	176	210	19.4%

Operating Matrix

Pipe	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %
Production (In M.T)	26304	24076	24893	27252	29532	23288	26281	27563	1.1%
Sales (In M.T)	28720	19539	26070	26764	31618	22476	27250	27882	4.2%
Sales (Rs.cr)	468	299	399	399	504	344	438	444	11.2%
EBITDA (Rs.cr)	77	41	59	59	89	62	75	79	34.5%
PAT (Rs.cr)	44	17	27	31	44	25	33	42	32.5%
Adhesives	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %
Resinova Sales (Rs.cr)	95	77	90	99	116	95	106	105	5.6%
EBITDA (Rs.cr)	15	9	17	19	29	17	19	12	-37.0%
SEAL IT Sales (Rs.cr)	35	36	37	35	41	46	52	47	36.2%
EBITDA (Rs.cr)	3	2	2	1	3	4	5	5	309.1%
Total Adhesives Sales	129	113	126	134	156	141	158	152	13.4%
Total Adhesives EBITDA	18	11	19	20	32	20	24	16	-18.0%

Low YoY volume growth in standalone piping business

Company's 3QFY19 pipe production and sales volume came in at 27563 MT (up 1% YoY and 5% QoQ) and 27882 MT (up 4% YoY, 2% QoQ). Volume remain impacted by certain corrective measures taken by company to improve credit and billing system and liquidity crunch due to NBFC crisis also impacted volume. Pipe EBITDA for the quarter came in at Rs.79cr (up 35% YoY, 6% QoQ) and margins were stable at 17.8% (vs.15.1% in 3QFY18 and 17% in 2QFY19) led by 9% increase in realisation.

Margin contracted in adhesive business on account of higher branding cost

Total adhesive sale stood at Rs.152cr (up 14% YoY, down 4%QoQ) and EBITDA came in at Rs.16cr (down 18% YoY and 31% QoQ), margins contracted to 11% (vs.15% in 3QFY18 and 15% in 2QFY19). Fall in EBITDA and contraction in margin was primarily on account of higher branding cost at Resinova, company has spent Rs.7.2cr in branding in 3QFY19 vs. Rs.2.53cr in 3QFY18. Resinova's revenue came in at Rs.105cr (up 6% YoY, down 1% QoQ), however EBITDA fell down to Rs.12cr (down 37% YoY and 36% QoQ) and margin contracted to 11% (vs.19% in 3QFY19 and 17% in 2QFY19). Higher branding cost and liquidity crunch in domestic business is impacting Resinova's performance.

Improvement in Rex Performance

Rex Performance in the current quarter improved with revenue of Rs.48cr (vs. Rs.44cr in 2QFY19) and EBITDA improved to Rs.3cr (vs. Rs.1cr in 2QFY19). Management stated that EBITDA margin in 4QFY19 is expected to be in double digit. Furthermore one corrugator out of the three corrugator have arrived and is getting installed at Sitarganj plant and the rest two are expected to arrive by Mar-Apr'19, out of which one will be installed at Hosur plant and another one at Sangli Kolhapur. One more corrugator will be put up at Jaipur plant in FY20. SAP implementation is going on at Rex and merger is expected to get complete by the end of FY19.

Conference call highlights

- In piping business value growth gross of 15%, volume growth of 7-8%. Company has been continuously working on lot of systemic correction in piping business especially in credit system, billing system and collection has been much more control and regularized.
- Challenges in the market are more on the liquidity front however with the system corrections company is secured.
- Jaipur plant has started, company has started dispatching all the products of PVC pipes and CPVC to the north market and utilization is growing gradually on MoM basis.
- Construction work completed at Hosur plant, Hosur depot is completely operational and company has shut down all the other depot of in South region. Hosur additional plant machines acquisition has been deferred as company is putting money behind Rex Poly. However, the capacity will be added in 1QFY20 at the Hosur plant.
- In Ahmedabad company has almost finished the expansion at Santej, company have made some changes and now have brought in all the CPVC products under Santej plant which was till last quarter was at both Santej and Dholka plant. Santej plant will now manufacture all the new products, technical products, PVC, CPVC products which are used for clean water application.
- Company has completed trials for launching valves for both industrial and plumbing, and company would be launching these products in 1QFY20.
- Company had launched Pex in last quarter and is getting very good response. Company has completed 5 big projects and is expecting good number of projects in 4QFY19.
- Company is increasing the capacity of CPVC in southern and the northern plant, so the dependency on the pipe business in Ahmedabad will decline.
- Company is increasing capacity in CPVC and PVC for higher size fittings and would be able to make fittings up to 12 inch to 16 inch in Ahmedabad plant.
- Company is getting very good demand for underground drainage system, so its capacity is also being increased and would be completed in 4QFY19 at Ahmedabad plant.
- Management expects much better margin in Rex Business by the end of FY19. One corrugator have already arrived and is getting installed at Sitarganj plant and another two corrugator which are set to arrive in Mar-Apr'19, one of the two would be set up in Hosur plant and one will be placed at Sangli, Kolhapur. One more corrugator will be put up in FY20 at Jaipur plant. SAP implementation is going on, merger application is with NCLT and management expects to finish the merger before the end of FY19.
- Company is looking at land acquisition prospects in East region and expects to start capex plan in eastern region in FY20.
- Resinova facing some challenges, primary being the liquidity crunch, company has now done systematic corrects like billing software's with dealers , channel finance compulsion with distributors, company have also introduced interest for late payments.
- UK adhesive business is performing well with topline growing at 35% and EBITDA growing at 160% in 9MFY19. US business has started contribution to topline and the bottom-line. Company has acquired the rights of Rescue tape, earlier it was with a trading company now it is under US adhesive business.
- Pipe volume have been impacted by liquidity crunch and systematic correction to improve the receivable cycle have also impacted the volume , however, management have guided that the pain in terms of volume growth is over now as the system in piping business is well placed.

Financial and other updates:

- Improvement in pipe business realization is on account of higher realization in CPVC.
- Rex EBITDA expected to be in double digit in 4QFY19 and around 13-14% in FY20.
- Drop in Resinova margin mainly on account of branding activities, company has spent Rs.7.2cr in branding in 3QFY19 vs. Rs.2.53cr in 3QFY18.
- Sustainable Revenue growth in pipe business (including Rex) would be around 15% ,pipe margins will continue at 14-15% (including Rex), and sustainable margin in total adhesive business would be around 13-14%.
- Current capacity is around 174801MT and is expected to be higher by 70-75000MT by end of FY20 led by Hosur and Eastern region expansion and if eastern expansion gets delayed than it would be higher by 50-55000MT over FY19.Current capacity of Rex is close to 24-25000MT.
- Pipe capacity utilization at around 60% and Resinova is around 30%.
- Management maintained 20% growth in Resinova in FY19.
- Sustainable Revenue growth in pipe business (including Rex) would be around 15%, pipe margins will continue at 14-15% (including Rex).sustainable margin in total adhesive business would be around 13-14%.

Exhibit: Net Sales (consol) and Growth Trend

growth continued led by higher realisation in piping, strong revenue growth in adhesive and inclusion of Rex's topline....

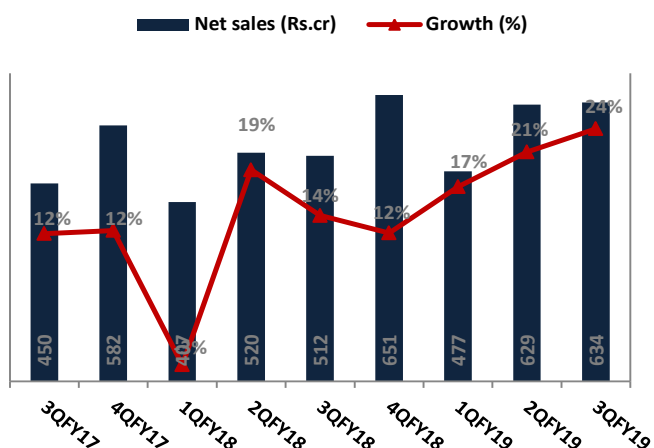


Exhibit: COGS (consol) and Gross Margin Trend

gross margin flat YoY as well as QoQ....

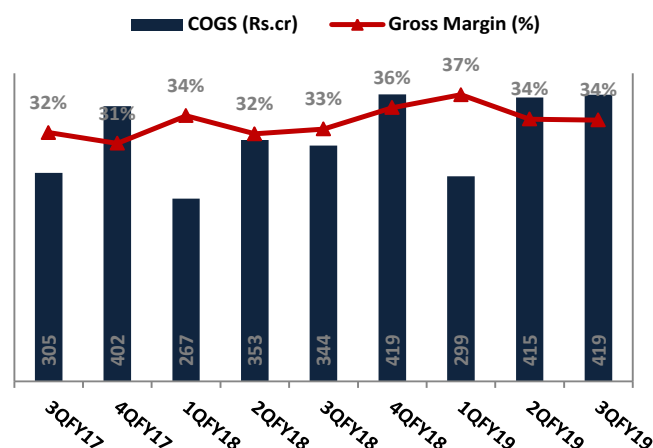


Exhibit: EBITDA (consol) and Margin Trend

lower margin in adhesive business were compensated by stable or slightly higher margins in piping business....

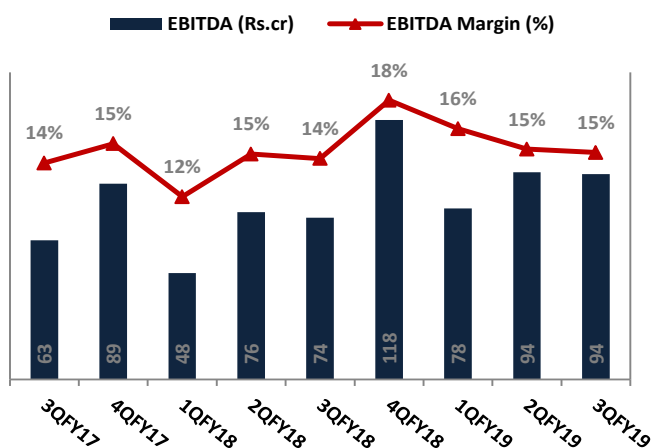


Exhibit: Pipe Business EBITDA and Margin Trend

margins improved on account of better realisation in CPVC and higher overall realisation as well....

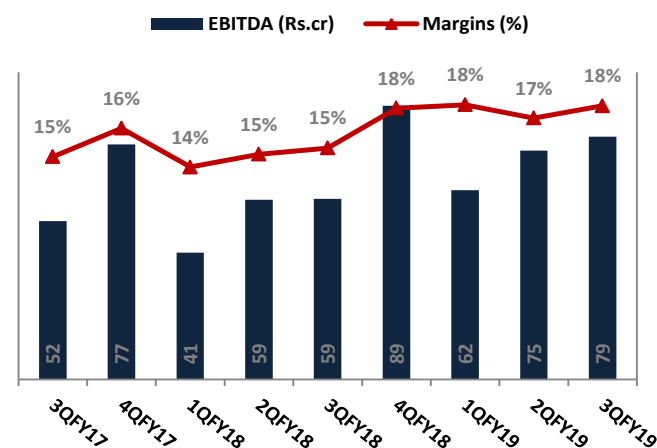


Exhibit: Adhesive Business EBITDA and Margin Trend

significant contraction in adhesive business due to higher branding and advertisement realisation at Resinova....

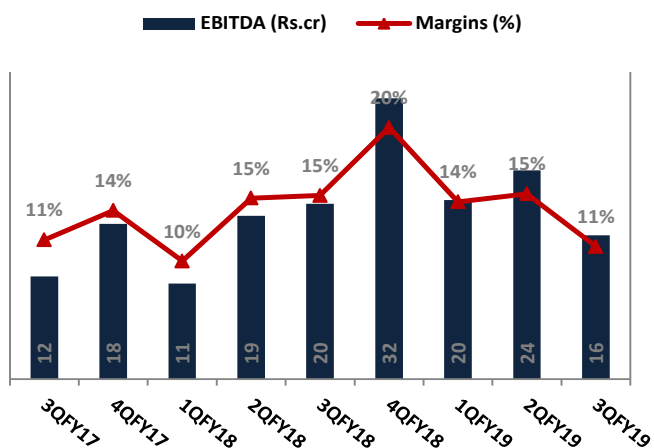
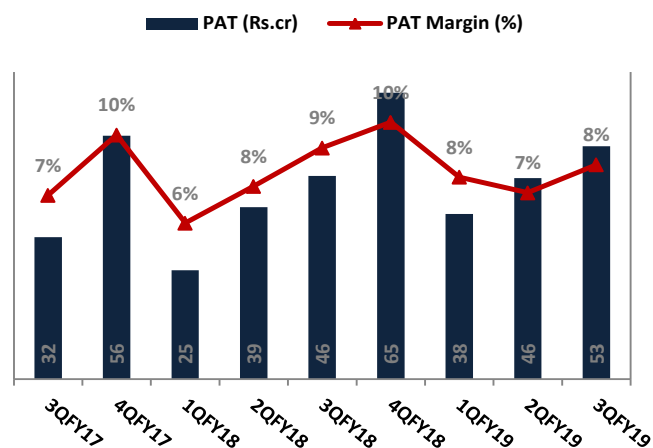


Exhibit: PAT (consol) and Margin Trend

PAT margin improved QoQ due to exchange fluctuation gain of Rs.6.6cr....



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	11	11	12	12	12	12	12	12
Reserves	230	304	607	696	835	1,006	1,206	1,475
Networth	241	315	619	708	847	1,018	1,218	1,487
Debt	66	98	139	131	157	123	150	150
Other Non Cur Liab	-	-	0	0	-	-	-	-
Total Capital Employed	307	414	758	839	1,004	1,141	1,368	1,637
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
Inventory	150	195	266	277	272	357	423	504
Debtors	106	145	233	227	339	307	410	504
Cash & Bank	12	1	12	50	17	44	69	57
Other Curr Assets	0	0	2	46	35	25	29	35
Curr Assets	316	387	568	614	675	743	948	1,282
Creditors	172	185	266	316	293	349	342	406
Provisions (both)	8	7	9	2	2	3	3	3
Other Curr Liab	50	77	99	30	35	32	38	46
Curr Liabilities	230	268	372	427	417	486	503	598
Net Curr Assets	86	119	196	187	259	257	445	684
Total Assets	546	694	1,165	1,304	1,462	1,675	1,919	2,283

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	825	1,080	1,429	1,678	1,889	2,106	2,495	2,965
Change (%)	42%	31%	32%	17%	13%	11%	18%	19%
Other Income	2	2	4	2	9	13	15	13
EBITDA	115	155	168	208	264	317	391	500
Change (%)	39%	35%	8%	24%	27%	20%	23%	28%
Margin (%)	14%	14%	12%	12%	14%	15%	16%	17%
Depr & Amor.	18	22	36	42	50	57	76	84
EBIT	97	133	131	166	214	260	315	416
Int. & other fin. Cost	19	31	25	30	18	22	20	20
EBT	80	105	110	138	204	251	298	393
Exp Item	-	-	-	(1)	(1)	-	-	-
Tax	19	25	31	30	56	72	88	114
Minority Int & P/L share of Ass.	0	0	2	(6)	(3)	(3)	(1)	-
Reported PAT	61	79	76	102	145	176	209	279
Adjusted PAT	61	79	76	101	144	179	209	279
Change (%)	53%	30%	-4%	33%	42%	21%	19%	34%
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%	23%	25%
Asset Turnover	1.51	1.55	1.23	1.29	1.29	1.26	1.30	1.30
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	15.6	20.6
P/E	13.4	33.1	69.1	49.6	45.5	56.1	66.8	50.1
Price / Book Value	3.4	8.3	8.5	7.1	7.7	9.9	11.5	9.4
EV/EBITDA	7.5	17.4	31.9	24.6	25.3	32.0	35.9	28.1
Div Yield	2%	0.43%	0.12%	0.15%	0.04%	0.07%	0.06%	0.06%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	80	105	110	131	201	251	298	393
<i>(inc)/Dec in Working Capital</i>	(44)	(66)	(31)	43	(106)	35	(183)	(78)
<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)	(88)	(114)
<i>others</i>								
CF from Op. Activities	65	67	117	226	114	293	123	305
<i>(inc)/Dec in FA & CWIP</i>	(68)	(92)	(85)	(134)	(160)	(204)	(94)	(125)
<i>Free Cashflow</i>	(3)	(25)	32	91	(45)	89	28	180
<i>(Pur)/Sale of Inv</i>	1	1	0	1	1	-	-	(163)
<i>others</i>								
CF from Inv. Activities	(67)	(91)	(343)	(203)	(158)	(204)	(94)	(288)
<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>								
CF from Fin. Activities	(22)	13	237	16	10	(63)	(3)	(30)
<i>Inc(Dec) in Cash</i>	(24)	(11)	11	38	(33)	26	26	(12)
<i>Add: Opening Balance</i>	35	12	1	11	50	17	44	69
Closing Balance	12	1	12	50	16	43	70	57

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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: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVeloX Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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