

Astral Poly Technik Ltd.

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|-----------|----------|
| Industry | Metals |
| Bloomberg | ASTRA IN |
| BSE CODE | 532830 |

Strong revenue and volume growth in pipe business but margins down....

| | |
|-------------------------|-------------|
| RATING | HOLD |
| CMP | 1245 |
| Price Target | 1270 |
| Potential Upside | 2% |

| | |
|------------------------|---|
| Rating Change | ↔ |
| Estimate Change | ↔ |
| Target Change | ↔ |

Stock Info

| | |
|---------------------|----------|
| 52wk Range H/L | 1291/815 |
| Mkt Capital (Rs Cr) | 14916 |
| Free float (%) | 40% |
| Avg. Vol 1M (,000) | 34 |
| No. of Shares (Cr.) | 12 |
| Promoters Pledged % | 0% |

Research Analyst

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4QFY19 Result Update

- Consolidated revenue including Rex for 4QFY19 came in at Rs.775cr (up 19.1% YoY and 22.3% QoQ), Pipe business revenue came in at Rs.606cr (incl. Rex) (up 20.1% YoY and 36.5% QoQ) and adhesive revenue was at Rs.184cr (up 17.6% YoY and 20.9% QoQ).
- Consolidated EBITDA for the quarter came in at Rs.119cr (up 0.5% YoY and 27% QoQ), Pipe EBITDA was at Rs.98cr (up 9.7% YoY and 23.5% QoQ) and adhesive EBITDA was at Rs.25cr (down 21.9% YoY, up 52.4% QoQ).
- Consolidated EBITDA margin was at 15.4% (vs.18.2% in 4QFY18 and 14.8% in 3QFY19). Pipe EBITDA margin was at 16.1% (vs.17.7% in 4QFY18 and 17.9% in 3QFY19) and adhesive EBITDA was at 13.6% (vs.20.5% in 4QFY18 and 10.8% in 3QFY19).
- Pipe sales volume in 4QFY19 was at 38877MT (incl. Rex's volume) (up 23.0% YoY and 39.4% QoQ), sharp jump in volume growth in on account of inclusion of Rex's volume. FY19 pipe sales volume stood at 122988MT (up 18% YoY).
- Resinova sales came in at Rs.131cr (up 13.2% YoY and 24.9% QoQ), EBITDA came in at Rs.21cr (down 28.7% YoY, up 73.1% QoQ) and margin was at 15.7% (vs. 25% in 4QFY18 and 11.3% in 3QFY19). Resinova's performance in FY19 remained impacted by higher branding activity leading to decline in margins.
- Seal It sales was at Rs.53cr (up 30.1% YoY and 12.1% QoQ) and EBITDA came in at Rs.4cr (up 41.9% YoY, down 2.2% QoQ) and margin was at 8.3% (vs. 7.7% in 4QFY18 and 9.6% in 3QFY19).
- Rex revenue came in at Rs.54cr (vs. Rs.48cr in 3QFY19) and EBITDA came in at Rs.5cr (vs. Rs.3cr in 3QFY19).

View and Valuation

Astral posted healthy revenue and pipe volume growth in 4QFY19, however, consolidated EBITDA margin fell YoY to 15.4% (vs.18.2% in 4QFY19) on account of falling PVC prices, higher branding cost in adhesive business and inclusion of low margin Rex business. Though we are positive on Astral on the back of stable and consistent performance in pipe business, adhesive business with strong future prospects and well thought acquisitions by management but we believe all the positive are factored in at current prices. We maintain our FY20 estimates and recommend **HOLD with an unchanged target price of Rs.1270 (32x FY20e EV/EBITDA)**.

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 | FY19 | FY20E |
|--------------------------|------|------|------|------|-------|
| Net Sales | 1678 | 1889 | 2106 | 2507 | 2924 |
| EBITDA | 208 | 264 | 317 | 385 | 477 |
| EBIT | 166 | 214 | 260 | 304 | 389 |
| PAT | 102 | 145 | 175 | 196 | 262 |
| EPS (Rs) | 8 | 12 | 15 | 16 | 22 |
| EPS growth (%) | 32% | 42% | 24% | 10% | 34% |
| ROE (%) | 14% | 17% | 17% | 15% | 17% |
| ROCE (%) | 20% | 22% | 23% | 21% | 23% |
| BV | 59 | 71 | 85 | 107 | 128 |
| P/B (X) | 7.1 | 7.7 | 9.9 | 10.9 | 9.7 |
| P/E (x) | 49.6 | 45.5 | 56.3 | 71.0 | 57.0 |

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4QFY19 Results
Adhesive operational performance still under pressure....
Consolidated

| Financials | 4QFY18 | 1QFY19 | 2QFY19 | 3QFY19 | 4QFY19 | YoY % | QoQ% | FY18 | FY19 | YoY % |
|----------------|--------|--------|--------|--------|--------|--------|--------|-------|-------|-------|
| Net Sales | 651 | 477 | 629 | 634 | 775 | 19.1% | 22.3% | 2,106 | 2,507 | 19.1% |
| Other Income | 2 | 4 | 5 | 3 | 4 | 69.9% | 20.8% | 13 | 15 | 22% |
| Total Income | 653 | 481 | 634 | 637 | 779 | 19.3% | 22.2% | 2,119 | 2,523 | 19.1% |
| COGS | 419 | 299 | 415 | 419 | 515 | 22.7% | 23.0% | 1,383 | 1,648 | 19.1% |
| Employee Cost | 29 | 31 | 34 | 39 | 36 | 23.4% | -6.5% | 106 | 139 | 30.7% |
| Other Expenses | 84 | 69 | 86 | 83 | 105 | 25.5% | 26.7% | 299 | 336 | 12.1% |
| Expenditure | 532 | 399 | 535 | 540 | 656 | 23.2% | 21.4% | 1,789 | 2,122 | 18.6% |
| EBITDA | 118 | 78 | 94 | 94 | 119 | 0.5% | 27.0% | 317 | 385 | 21.5% |
| EBITDAmargin | 18.2% | 16.3% | 15.0% | 14.8% | 15.4% | -15.6% | 3.9% | 15.0% | 15.4% | 2.1% |
| Depreciation | 15 | 16 | 19 | 20 | 22 | 47.3% | 10.8% | 57 | 81 | 42.5% |
| EBIT | 103 | 62 | 75 | 73 | 97 | -6.4% | 31.4% | 260 | 304 | 16.9% |
| Interest | 9 | 12 | 14 | 1 | 6 | -34.7% | 630.9% | 22 | 26 | 19.2% |
| PBT | 96 | 54 | 66 | 76 | 94 | -1.9% | 24.6% | 251 | 287 | 14.4% |
| Exceptional | - | - | - | - | - | - | - | - | - | - |
| Tax | 30 | 16 | 20 | 24 | 29 | -2.7% | 24.0% | 72 | 86 | 18.8% |
| PAT | 65 | 37 | 45 | 53 | 62 | -4.2% | 17.9% | 175 | 196 | 11.8% |

Operating Matrix

| Pipe | 1QFY18 | 2QFY18 | 3QFY18 | 4QFY18 | 1QFY19 | 2QFY19 | 3QFY19 | 4QFY19 | YoY % |
|------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Production (In M.T) | 24076 | 24893 | 27252 | 29532 | 23288 | 26281 | 27563 | 35887 | 21.5% |
| Sales (In M.T) | 19539 | 26070 | 26764 | 31618 | 22476 | 27250 | 27882 | 38877 | 23.0% |
| Sales (Rs.cr) | 299 | 399 | 399 | 504 | 344 | 438 | 444 | 606 | 20.1% |
| EBITDA (Rs.cr) | 41 | 59 | 59 | 89 | 62 | 75 | 79 | 98 | 9.7% |
| PAT (Rs.cr) | 17 | 27 | 31 | 44 | 25 | 33 | 42 | 47 | 7.1% |
| Adhesives | 1QFY18 | 2QFY18 | 3QFY18 | 4QFY18 | 1QFY19 | 2QFY19 | 3QFY19 | 4QFY19 | YoY % |
| Resinova Sales (Rs.cr) | 77 | 90 | 99 | 116 | 95 | 106 | 105 | 131 | 13.2% |
| EBITDA (Rs.cr) | 9 | 17 | 19 | 29 | 17 | 19 | 12 | 21 | -28.7% |
| SEAL IT Sales (Rs.cr) | 36 | 37 | 35 | 41 | 46 | 52 | 47 | 53 | 30.1% |
| EBITDA (Rs.cr) | 2 | 2 | 1 | 3 | 4 | 5 | 5 | 4 | 41.9% |
| Total Adhesives Sales | 113 | 126 | 134 | 156 | 141 | 158 | 152 | 184 | 17.6% |
| Total Adhesives EBITDA | 11 | 19 | 20 | 32 | 20 | 24 | 16 | 25 | -21.9% |

Standalone margin down

Standalone business (piping business) performance in 4QFY19 at operational level got impacted by falling PVC prices, EBITDA for the quarter came in at Rs.95cr (up 9.3% YoY and 23.8% QoQ) and margin at 15.7% (vs.17.2% in 4QFY18 and 17.3% in 3QFY19). 4QFY19 margin was at the lowest in last 5 quarters, continuously falling PVC prices and inclusion of Rex Polyextrusion led to the fall in margin.

Margins still under pressure in adhesive

Operational performance of adhesive business remained impacted throughout FY19 due higher branding and advertising cost. Particularly Resinova's margins have been impacted the most, with 4QFY19 EBITDA at Rs.21cr (down 28.7% YoY, up 73.1% QoQ) and EBITDA margin at 15.7% (vs. 25% in 4QFY18 and 11.3% in 3QFY19) and FY19 revenue at Rs.437cr (up 14.5% YoY) and FY19 EBITDA at Rs.68cr (down 7.8% YoY). Company has spent significant amount on Varun Dhawan advertisement Campaign for Resiquick and other promotional activities led to contraction in margins in adhesive business.

Other updates :

- ❑ Rex's expansion is expected to get completed in July 2019.
- ❑ Hosur depot building is completed and operational, production building completed, machinery installation is going on, expected to be completed by July'19.
- ❑ In order to expand foot print in East India the company has purchased 100000 sq. yard of land to establish manufacturing facility in Bhubaneswar, Odisha. Construction is expected to start in FY20; plant will be ready by Sep'20.
- ❑ Company has started importing Rescue Tape from USA plant (Seal It) and response for the same is encouraging in Resinova channel.
- ❑ Installed Capacity of Astral is 176641MT and Rex is 28649MT.

Exhibit: Net Sales (consol) and Growth Trend

slowdown in sales growth rate on account of lower YoY PVC price....

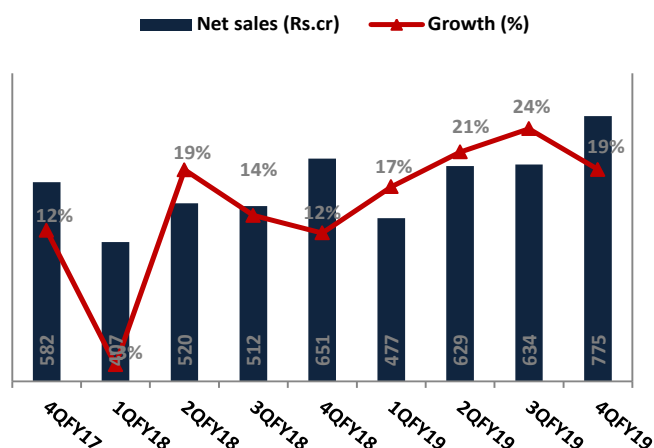


Exhibit: COGS (consol) and Gross Margin Trend

Gross margin stable around 34%....

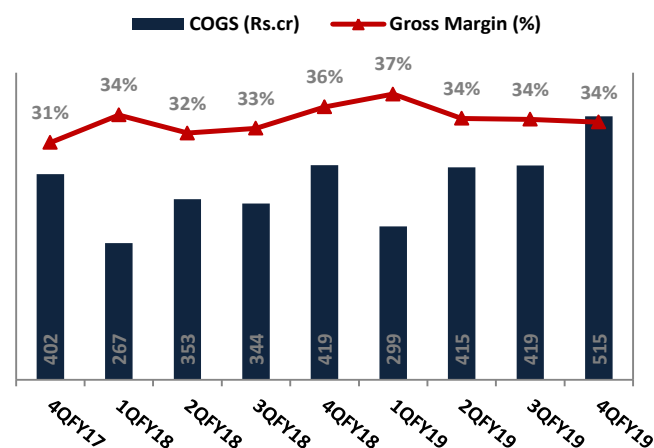


Exhibit: EBITDA (consol) and Margin Trend

Lower PVC price, higher branding cost in adhesive and inclusion of Rex led to YoY fall in margin....

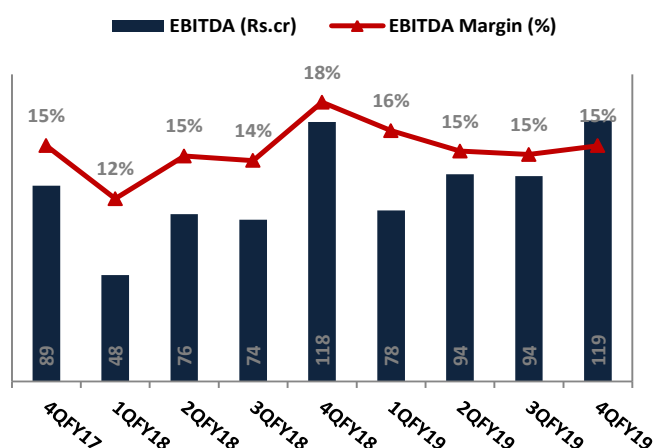


Exhibit: Pipe Business EBITDA and Margin Trend

Pipe margin at lowest level in last 5 quarters due to lower PVC price and inclusion of Rex business....

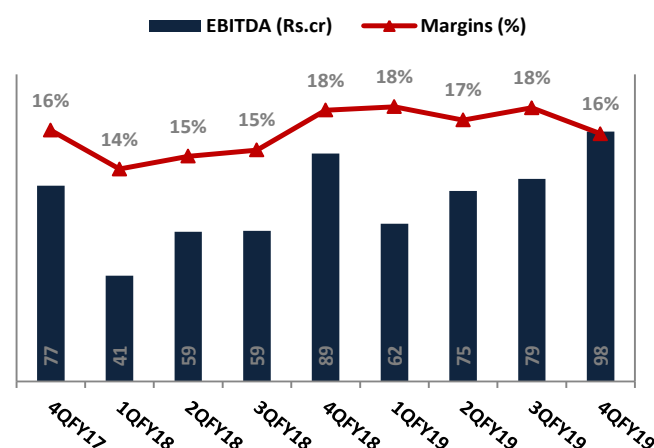


Exhibit: Adhesive Business EBITDA and Margin Trend

Adhesive business still under pressure on YoY basis....

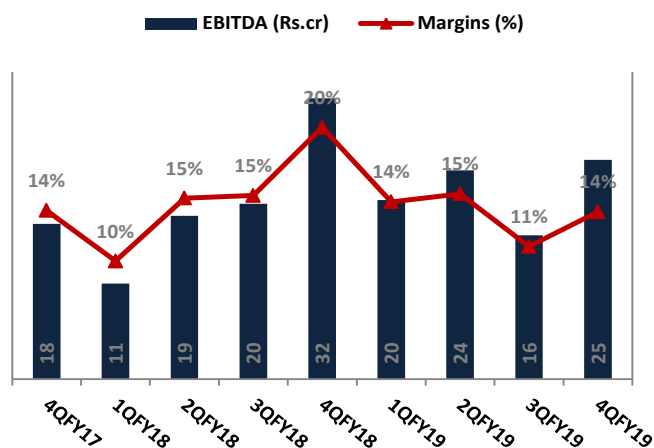
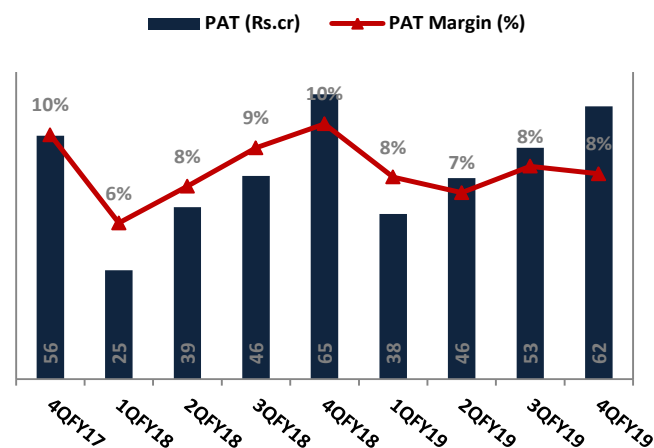


Exhibit: PAT (consol) and Margin Trend

PAT down 4.2% YoY....



Financial Details (Consolidated)
Balance Sheet

| Y/E March | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20E |
|-------------------------------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Share Capital | 11 | 11 | 12 | 12 | 12 | 12 | 12 | 12 |
| <i>Reserves</i> | 230 | 304 | 607 | 696 | 835 | 1,006 | 1,266 | 1,518 |
| Networth | 241 | 315 | 619 | 708 | 847 | 1,018 | 1,278 | 1,530 |
| <i>Debt</i> | 66 | 98 | 139 | 131 | 157 | 123 | 193 | 150 |
| <i>Other Non Cur Liab</i> | - | - | 0 | 0 | - | - | - | - |
| Total Capital Employed | 307 | 414 | 758 | 839 | 1,004 | 1,141 | 1,471 | 1,680 |
| <i>Net Fixed Assets (incl CWIP)</i> | 227 | 297 | 369 | 446 | 534 | 681 | 932 | 975 |
| <i>Non Cur Investments</i> | - | - | - | - | - | - | 0 | - |
| <i>Other Non Cur Asst</i> | - | - | - | 16 | 10 | 6 | 27 | 16 |
| <i>Non Curr Assets</i> | 230 | 308 | 597 | 690 | 787 | 932 | 1,228 | 1,260 |
| Inventory | 150 | 195 | 266 | 277 | 272 | 357 | 396 | 481 |
| Debtors | 106 | 145 | 233 | 227 | 339 | 307 | 339 | 441 |
| Cash & Bank | 12 | 1 | 12 | 50 | 17 | 44 | 98 | 89 |
| <i>Other Curr Assets</i> | 0 | 0 | 2 | 46 | 35 | 25 | 28 | 34 |
| <i>Curr Assets</i> | 316 | 387 | 568 | 614 | 675 | 743 | 871 | 1,059 |
| <i>Creditors</i> | 172 | 185 | 266 | 316 | 293 | 349 | 390 | 401 |
| <i>Provisions (both)</i> | 8 | 7 | 9 | 2 | 2 | 3 | 6 | 3 |
| <i>Other Curr Liab</i> | 50 | 77 | 99 | 30 | 35 | 32 | 39 | 45 |
| <i>Curr Liabilities</i> | 230 | 268 | 372 | 427 | 417 | 486 | 557 | 590 |
| Net Curr Assets | 86 | 119 | 196 | 187 | 259 | 257 | 315 | 470 |
| Total Assets | 546 | 694 | 1,165 | 1,304 | 1,462 | 1,675 | 2,099 | 2,319 |

Income Statement

| Y/E March | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20E |
|---|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Revenue from Operation | 825 | 1,080 | 1,429 | 1,678 | 1,889 | 2,106 | 2,507 | 2,924 |
| <i>Change (%)</i> | 42% | 31% | 32% | 17% | 13% | 11% | 19% | 17% |
| <i>Other Income</i> | 2 | 2 | 4 | 2 | 9 | 13 | 15 | 15 |
| EBITDA | 115 | 155 | 168 | 208 | 264 | 317 | 385 | 477 |
| <i>Change (%)</i> | 39% | 35% | 8% | 24% | 27% | 20% | 22% | 24% |
| <i>Margin (%)</i> | 14% | 14% | 12% | 12% | 14% | 15% | 15% | 16% |
| <i>Depr & Amor.</i> | 18 | 22 | 36 | 42 | 50 | 57 | 81 | 87 |
| EBIT | 97 | 133 | 131 | 166 | 214 | 260 | 304 | 389 |
| <i>Int. & other fin. Cost</i> | 19 | 31 | 25 | 30 | 18 | 22 | 26 | 20 |
| EBT | 80 | 105 | 110 | 138 | 204 | 251 | 287 | 368 |
| <i>Exp Item</i> | - | - | - | (1) | (1) | - | - | - |
| <i>Tax</i> | 19 | 25 | 31 | 30 | 56 | 72 | 86 | 107 |
| <i>Minority Int & P/L share of Ass.</i> | 0 | 0 | 2 | (6) | (3) | (2) | (2) | - |
| Reported PAT | 61 | 79 | 76 | 102 | 145 | 175 | 196 | 262 |
| Adjusted PAT | 61 | 79 | 76 | 103 | 146 | 175 | 196 | 262 |
| <i>Change (%)</i> | 53% | 30% | -4% | 33% | 42% | 21% | 12% | 34% |
| <i>Margin(%)</i> | 7% | 7% | 5% | 6% | 8% | 8% | 8% | 9% |

Financial Details (Consolidated)
Key Ratios

| Y/E March | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20E |
|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
| <i>ROE</i> | 25% | 25% | 12% | 14% | 17% | 18% | 15% | 17% |
| <i>ROCE</i> | 32% | 34% | 18% | 20% | 22% | 23% | 21% | 23% |
| <i>Asset Turnover</i> | 1.51 | 1.55 | 1.23 | 1.29 | 1.29 | 1.26 | 1.19 | 1.26 |
| <i>Debtor Days</i> | 47 | 49 | 59 | 49 | 65 | 53 | 49 | 55 |
| <i>Inv Days</i> | 67 | 66 | 68 | 60 | 53 | 62 | 58 | 60 |
| <i>Payable Days</i> | 76 | 63 | 68 | 69 | 57 | 61 | 57 | 50 |
| <i>Int Coverage</i> | 5.1 | 4.3 | 5.2 | 5.5 | 11.6 | 12.0 | 11.8 | 19.3 |
| <i>P/E</i> | 13.4 | 33.1 | 69.1 | 49.6 | 45.5 | 56.3 | 71.0 | 57.0 |
| <i>Price / Book Value</i> | 3.4 | 8.3 | 8.5 | 7.1 | 7.7 | 9.9 | 10.9 | 9.7 |
| <i>EV/EBITDA</i> | 7.5 | 17.4 | 31.9 | 24.6 | 25.3 | 32.0 | 36.2 | 31.4 |
| <i>Div Yield</i> | 1.57% | 0.43% | 0.12% | 0.15% | 0.04% | 0.07% | 0.06% | 0.05% |

Cash Flow Statement

| Y/E March | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E |
|-------------------------------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|
| PBT | 80 | 105 | 110 | 131 | 201 | 248 | 287 | 368 |
| <i>(inc)/Dec in Working Capital</i> | (44) | (66) | (31) | 43 | (106) | 16 | (25) | (175) |
| <i>Non Cash Op Exp</i> | 38 | 52 | 65 | 81 | 64 | 81 | 113 | 108 |
| <i>Int Paid (+)</i> | 15 | 31 | 25 | 30 | 18 | 22 | 32 | 20 |
| <i>Tax Paid</i> | (9) | (23) | (26) | (29) | (44) | (63) | (86) | (107) |
| <i>others</i> | | | | | | | | |
| CF from Op. Activities | 65 | 67 | 117 | 226 | 114 | 282 | 289 | 194 |
| <i>(inc)/Dec in FA & CWIP</i> | (68) | (92) | (85) | (134) | (160) | (184) | (333) | (130) |
| <i>Free Cashflow</i> | (3) | (25) | 32 | 91 | (45) | 98 | (44) | 64 |
| <i>(Pur)/Sale of Inv</i> | 1 | 1 | 0 | 1 | 1 | 1 | (0) | 0 |
| <i>others</i> | | | | | | | | |
| CF from Inv. Activities | (67) | (91) | (343) | (203) | (158) | (185) | (333) | (130) |
| <i>inc/(dec) in NW</i> | - | - | 236 | 59 | 0 | - | - | - |
| <i>inc/(dec) in Debt</i> | (5) | 48 | 31 | (4) | 32 | (99) | 70 | (43) |
| <i>Int. Paid</i> | (15) | (31) | (25) | (30) | (19) | (21) | (32) | (20) |
| <i>Div Paid (inc tax)</i> | (3) | (4) | (5) | (9) | (3) | (8) | (9) | (9) |
| <i>others</i> | | | | | | | 69 | - |
| CF from Fin. Activities | (22) | 13 | 237 | 16 | 10 | (71) | 99 | (73) |
| <i>Inc(Dec) in Cash</i> | (24) | (11) | 11 | 38 | (33) | 25 | 54 | (9) |
| <i>Add: Opening Balance</i> | 35 | 12 | 1 | 11 | 50 | 18 | 44 | 98 |
| Closing Balance | 12 | 1 | 12 | 50 | 16 | 43 | 98 | 89 |

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|---|-----|
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|---|-----|

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