




Industry
Bloomberg
BSE CODE

Metals
ASTRA IN
532830

Strong growth continued in pipe business, adhesive to be back on track soon....

RATING	ACCUMULATE
CMP	1219
Price Target	1415
Potential Upside	16%
Rating Change	
Estimate Change	
Target Change	

STOCK INFO	
52wk Range H/L	1379/815
Mkt Capital (Rs Cr)	14695
Free float (%)	40%
Avg. Vol 1M (,000)	32
No. of Shares (Crs)	12
Promoters Pledged %	0%

1QFY20 Result Update

- Consolidated revenue for the quarter was at Rs.607cr (up 27.2% YoY), pipe revenue for the quarter was at Rs.473cr (up 37.25% YoY) and adhesive revenue was at Rs.145cr (up 2.3% YoY). Strong growth in pipe revenue is primarily on account of inclusion of Rex (amalgamated with company w.e.f 10th Jul'18).
- Pipe sales volume in 1QFY20 was at 31729MT (up 41.2% YoY); inclusion of Rex's volume has led to robust growth in volume. Excluding Rex, volume still posted strong growth of 27.9% YoY.
- Rex volume in 1QFY20 was at 2973MT and revenue was Rs.40cr.
- Pipe realization including Rex for the quarter was at Rs.148917/t (down 2.8% YoY and 4.4% QoQ).
- Revenue for adhesive business was at Rs.145cr (up 2.3% YoY), structural changes from three tier to two tier distribution system has led to muted growth. Resinova registered flat growth and UK business grew by 10%-12% in the quarter.
- Consolidated EBITDA for the quarter was at Rs.93cr (up 19.5% YoY) and EBITDA margin was at 15.3% (vs. 16.3% in 1QFY20). Higher raw material cost and increase in employee cost has led to lower EBITDA margin.
- Pipe business EBITDA including Rex Poly was at Rs.79cr (up 28.4% YoY), however, 1QFY19 numbers didn't include Rex. EBITDA margin was at 16.7% (vs.17.9% in 1QFY20 and 16.1% in 4QFY19).
- Adhesive business EBITDA for the quarter was at Rs.21cr (up 2% YoY), and margin was at 14.4% (vs.14.4% in 1QFY19 and 13.6% in 4QFY19).
- Employee cost was at Rs.43cr (up 41.2% YoY and 19.4% QoQ), it was higher on account of increase in staff strength in adhesive business and regular increments.
- Other income came in at Rs.6.8cr (vs. Rs.3.8cr in 1QFY19). PAT was at Rs.47cr (up 26.1% YoY).

View and Valuation

Astral delivered strong performance in 1QFY20 with 27.2% YoY revenue growth and 19.5% YoY EBITDA growth on the back growth in piping business led by plumbing products, strong pull in agri products and inclusion of Rex Poly as well. Structural changes in distribution system from three tier (stockiest, distributors and dealers) to two tier (distributors and dealers) led to flat YoY growth in Adhesive business. We continue to like Astral on the back of stable and consistent performance in pipe business, strong growth prospects in adhesive business and efforts to increase margins, and judicious capital allocation by way of well thought acquisitions. We maintain our FY20/FY21 estimates and continue to value the stock at **Rs.1415 (32x FY21e EV/EBITDA), however recent price correction has increase the upside thus we change our rating to ACCUMULATE (earlier HOLD).**

Key Risks to our rating and target

- Lower than expected volume growth in piping business.
- High volatility in raw material prices continued.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	1889	2106	2507	3010	3494
EBITDA	264	317	385	453	528
EBIT	214	260	304	366	436
PAT	145	175	196	246	300
EPS (Rs)	12	15	16	20	25
EPS growth (%)	42%	24%	10%	25%	23%
ROE (%)	17%	17%	15%	16%	17%
ROCE (%)	22%	23%	21%	22%	23%
BV	71	85	107	125	147
P/B (X)	7.7	9.9	10.9	9.7	8.3
P/E (x)	45.5	56.3	71.0	59.7	48.8

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Lower raw material cost QoQ was offset by higher employee cost....

1QFY20 Results

Consolidated

Fig in Rs Cr

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	477	629	634	775	607	27.2%	-21.7%	2,106	2,507	19.1%
Other Income	4	5	3	4	7	75.3%	77.1%	13	15	22%
Total Income	481	634	637	779	613	27.6%	-21.2%	2,119	2,523	19.1%
COGS	299	415	419	515	388	29.5%	-24.6%	1,383	1,648	19.1%
Employee Cost	31	34	39	36	43	41.2%	19.4%	106	139	30.7%
Other Expenses	69	86	83	105	83	19.4%	-21.4%	299	336	12.1%
Expenditure	399	535	540	656	514	28.7%	-21.7%	1,789	2,122	18.6%
EBITDA	78	94	94	119	93	19.5%	-21.7%	317	385	21.5%
EBITDAmargin	16.3%	15.0%	14.8%	15.4%	15.3%	-6.0%	0.0%	15.0%	15.4%	2.1%
Depreciation	16	19	20	22	24	51.9%	9.0%	57	81	42.5%
EBIT	62	75	73	97	69	11.1%	-28.9%	260	304	16.9%
Interest	12	14	1	6	7	-37.4%	23.3%	22	26	19.2%
PBT	54	66	76	94	68	26.2%	-27.8%	251	287	14.4%
Exceptional Item	-	-	-	-	-	-	-	-	-	-
Tax	16	20	24	29	20	28.8%	-30.7%	72	86	18.8%
PAT	37	45	53	62	47	26.1%	-24.2%	175	196	11.8%

Operating Matrix

PIPE	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %
Production (In M.T)	24893	27252	29532	23288	26281	27563	35887	32752	40.6%
Sales (In M.T)	26070	26764	31618	22476	27250	27882	38877	31729	41.2%
Sales (Rs.cr)	399	399	504	344	438	444	606	473	37.2%
EBITDA (Rs.cr)	59	59	89	62	75	79	98	79	28.4%
EBITDA margin (%)	14.7%	14.7%	17.7%	17.9%	17.0%	17.8%	16.1%	16.7%	-6.4%
PAT (Rs.cr)	27	31	44	25	33	42	47	34	38.1%

ADHESIVES	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %
Adhesives Sales (Rs.cr)	126	134	156	141	158	152	184	145	2.3%
Adhesives EBITDA (Rs.cr)	19	20	32	20	24	16	25	21	2.0%
EBITDA margin (%)	14.7%	14.9%	20.5%	14.4%	15.1%	10.8%	13.6%	14.4%	-0.4%

Strong growth in piping business continued

Company's pipe business revenue including Rex Poly for the quarter came in at Rs.473cr (up 37.2% YoY), and volume was at 31729MT (up 41.2% YoY). Excluding Rex, volume grew by 27.9% YoY to 28756MT driven by growth in plumbing products and strong pull in agri products as well. EBITDA margin for the pipe business was at Rs.79cr (up 28.4% YoY) and EBITDA margin was at 16.7% (vs. 17.9% in 1QFY19 and 16.1% in 4QFY19), higher raw material cost and higher employee cost led to lower margin in the quarter. Rex volume for the quarter was at 2973MT and revenue was at Rs.40cr (vs. Rs.54cr in 4QFY19), close to one month of Rex Poly's sale got impacted by implementation of SAP and changing of earlier booked orders from Rex's name to Astral's name.

Structural changes to aid margin over long term in adhesive business

Adhesive business revenue was at Rs.145cr (up 2.3% YoY), structural changes in the distribution system from three tier (Stockiest, Distributors and Dealers) to two tier (Distributors and Dealers) have led to muted growth, adhesive business is expected to be back on track by 3QFY20 onwards. In Resinova company is eliminating the stockiest from the distribution layer and would be directly supplying to distributors, this will help in increasing the margin as the stockiest cut would be partly enjoyed by company and partly would be passed on forward. Resinova revenue in the quarter remained flat YoY and UK business registered growth of 10%-12% YoY.

Other updates :

- Expansion of Ghiloth plant got completed in 1QFY20 and is operating at 60% capacity utilization and has started dispatches to Northern and eastern region.
- Hosur plant expansion of 5000MT is operational and rest of the machineries are expected to get installed in 2QFY20 and would also be operation in 1QFY20. The warehouse at Hosur is also ready and would be feeding the entire Southern region.
- Company has acquired land in Odisha and plan for the plant is ready and construction activities would be starting form 2QFY20 and plant will be operational in FY21.

Concall highlights

- Company has registered strong growth in pipe business. Growth is primarily driven by plumbing segment products supplied to Infrastructure sector; however, agri pipe volume has also registered strong growth. Furthermore shift from unorganized to organize is also contributing to growth. Management expects growth in piping business to continue going ahead.
- Rex Poly saw some challenges in the quarter due to SAP implementation and changing of earlier booked order from Rex's name to Astral's name. Close to one month of effective sale got impacted by it. Rex business is growing slowly but steadily. Rex Revenue in the quarter was at Rs.40cr and sales volume was at 2973MT. Rex currently has capacity of 28000MT.
- Raw material price remained volatile in the quarter and there was inventory loss of around Rs.7-8cr in pipe business.
- In adhesive side Resinova registered flat growth, UK business registered 10%-12% revenue growth.
- In adhesive business structural change has led to flat YoY growth in the quarter. In Resinova company is implementing a structural change by shifting from a three tier to two tier distribution system. Company will be removing the stockiest layer from the chain and would only keep distributors and then dealers. It will have to improve margin going ahead as product would get cheaper. Most of the corrections were done in 1QFY20 but some are still to be done and would get completed in 2QFY20. Management expects that adhesive business will be back on tract from 3QFY20 onwards.
- Employee cost in the quarter has increased due to increase in staff strength in adhesive business and regular increments.
- Bond It US and UK is doing well and registering double digit growth. US operations are now well settled. Three containers of rescue tape have been sold in India and more are on its way.
- Kenya operation is also doing great, it is registering growth and margins are also expanding. It is expected to come out of losses in FY20.
- Fire sprinkler is still evolving, but management expects the product line to grow strongly after one or two years from now due to increasing fire accidents.
- Low noise products are growing and gaining market.
- Expansion of Ghiloth plant got completed in 1QFY20 and is operating at 60% capacity utilization and has started dispatches to Northern and eastern region.
- Hosur plant expansion of 5000MT is operational and rest of the machineries are expected to get installed in 2QFY20 and would also be operation in 1QFY20.
- The warehouse at Hosur is also ready and would be feeding the entire Southern region.
- Company has acquired land in Odisha and plan for the plant is ready and construction activities would be starting form 2QFY20 and plant will be operational in FY21.
- At Sitarganj plant the production of corrugated pipe has started.
- Company has acquired land at Sangli for further expanding the capacity for corrugated pipe.
- All the new schemes related to water supply such as Har Ghar Jal are definitely positive for Astral. And company is focusing on developing new product which will be required for such water projects. These products will be economical and would get installed quickly (faster to lay).
- In pipe business 15% of EBITDA is expected to be maintained over longer term.
- Adhesive business is expected to grow in double digit in FY20.

Exhibit: Net Sales (consol) and Growth Trend

strong growth continued driven by piping business....

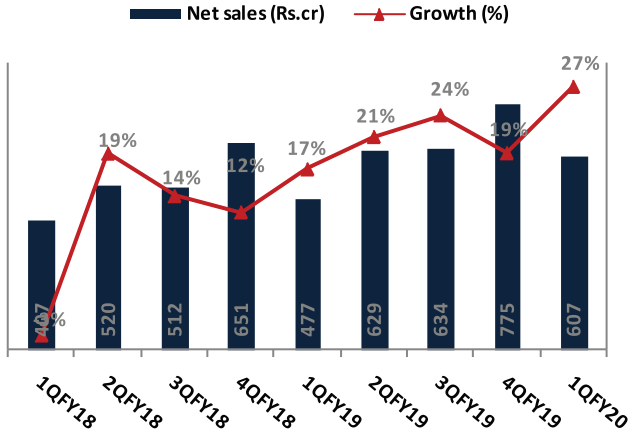


Exhibit: COGS (consol) and Gross Margin Trend

raw material prices remained volatile; margins improved QoQ but were lower YoY....

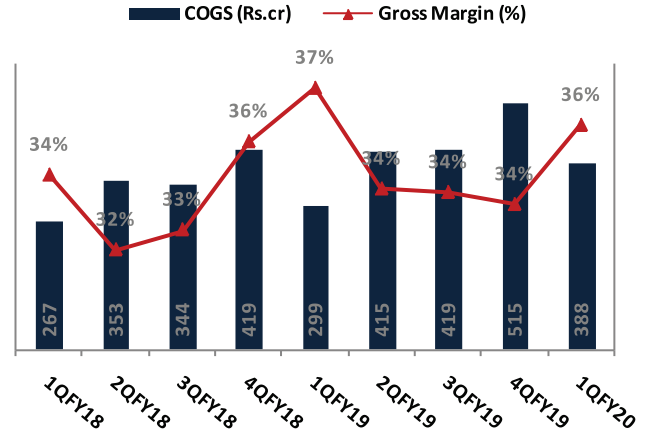


Exhibit: EBITDA (consol) and Margin Trend

lower raw material prices QoQ was offset by higher employee cost leading to flat EBITDA margin QoQ....

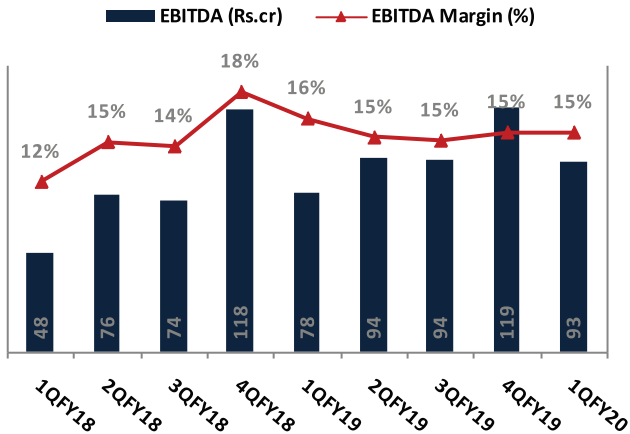


Exhibit: Pipe Business EBITDA and Margin Trend

pipe EBITDA margin continues to remain in the range of 16%-18%....

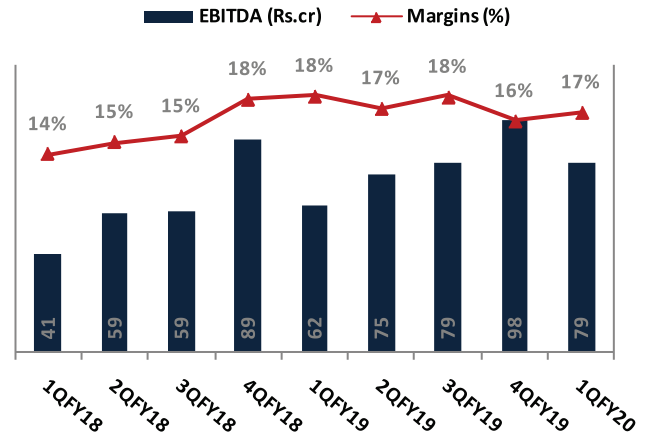


Exhibit: Adhesive Business EBITDA and Margin Trend

margin remained flat but structural changes will drive higher margin going ahead....

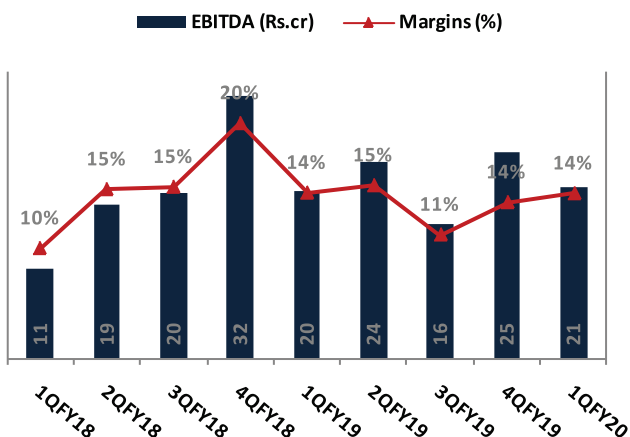
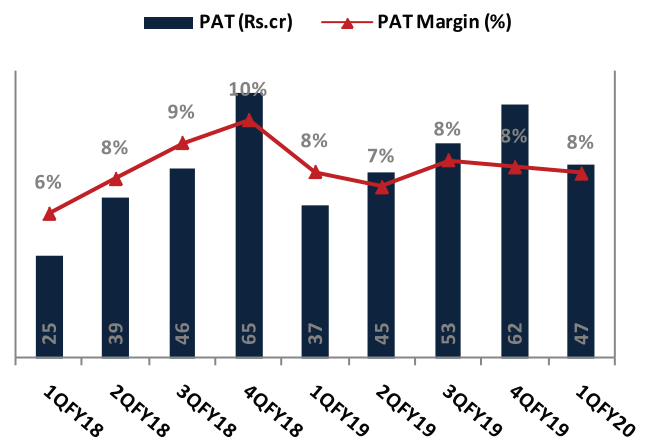


Exhibit: PAT (consol) and Margin Trend

PAT margin maintained stable trend....



Financial Details (Consolidated)

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	11	12	12	12	12	12	12	12
Reserves	304	607	696	835	1,006	1,266	1,491	1,754
Networth	315	619	708	847	1,018	1,278	1,503	1,766
Debt	98	139	131	157	123	193	200	160
Other Non Cur Liab	-	0	0	-	-	-	-	-
Total Capital Employed	414	758	839	1,004	1,141	1,471	1,703	1,926
Net Fixed Assets (incl CWIP)	297	369	446	534	681	932	975	983
Non Cur Investments	-	-	-	-	-	0	-	-
Other Non Cur Asst	-	-	16	10	6	27	27	27
Non Curr Assets	308	597	690	787	932	1,228	1,279	1,395
Inventory	195	266	277	272	357	396	495	574
Debtors	145	233	227	339	307	339	454	527
Cash & Bank	1	12	50	17	44	98	104	149
Other Curr Assets	0	2	46	35	25	28	35	41
Curr Assets	387	568	614	675	743	871	1,102	1,308
Creditors	185	266	316	293	349	390	412	479
Provisons (both)	7	9	2	2	3	6	5	6
Other Curr Liab	77	99	30	35	32	39	46	54
Curr Liabilities	268	372	427	417	486	557	607	705
Net Curr Assets	119	196	187	259	257	315	496	603
Total Assets	694	1,165	1,304	1,462	1,675	2,099	2,381	2,703

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	1,080	1,429	1,678	1,889	2,106	2,507	3,010	3,494
Change (%)	31%	32%	17%	13%	11%	19%	20%	16%
Other Income	2	4	2	9	13	15	18	15
EBITDA	155	168	208	264	317	385	453	528
Change (%)	35%	8%	24%	27%	20%	22%	18%	17%
Margin (%)	14%	12%	12%	14%	15%	15%	15%	15%
Depr & Amor.	22	36	42	50	57	81	87	92
EBIT	133	131	166	214	260	304	366	436
Int. & other fin. Cost	31	25	30	18	22	26	27	22
EBT	105	110	138	204	251	287	348	422
Exp Item	-	-	(1)	(1)	-	-	-	-
Tax	25	31	30	56	72	86	101	122
Minority Int & P/L share of Ass.	0	2	(6)	(3)	(2)	(2)	1	-
Reported PAT	79	76	102	145	175	196	246	300
Adjusted PAT	79	76	103	146	175	196	246	300
Change (%)	30%	-4%	33%	42%	21%	12%	26%	22%
Margin(%)	7%	5%	6%	8%	8%	8%	8%	9%

Financial Details (Consolidated)

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	25%	12%	14%	17%	18%	15%	16%	17%
ROCE	34%	18%	20%	22%	23%	21%	22%	23%
Asset Turnover	1.55	1.23	1.29	1.29	1.26	1.19	1.26	1.29
Debtor Days	49	59	49	65	53	49	55	55
Inv Days	66	68	60	53	62	58	60	60
Payable Days	63	68	69	57	61	57	50	50
Int Coverage	4.3	5.2	5.5	11.6	12.0	11.8	13.6	20.2
P/E	33.1	69.1	49.6	45.5	56.3	71.0	60.1	49.1
Price / Book Value	8.3	8.5	7.1	7.7	9.9	10.9	9.8	8.3
EV/EBITDA	17.4	31.9	24.6	25.3	32.0	36.2	32.5	27.8
Div Yield	0.43%	0.12%	0.15%	0.04%	0.07%	0.06%	0.12%	0.21%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	105	110	131	201	248	283	348	422
(inc)/Dec in Working Capital	(66)	(31)	43	(106)	16	31	(184)	(170)
Non Cash Op Exp	52	65	81	64	81	103	114	114
Int Paid (+)	31	25	30	18	22	32	27	22
Tax Paid	(23)	(26)	(29)	(44)	(63)	(77)	(101)	(122)
others								
CF from Op. Activities	67	117	226	114	282	342	177	243
(inc)/Dec in FA & CWIP	(92)	(85)	(134)	(160)	(184)	(220)	(130)	(100)
Free Cashflow	(25)	32	91	(45)	98	122	47	143
(Pur)/Sale of Inv	1	0	1	1	1	1	0	-
others								
CF from Inv. Activities	(91)	(343)	(203)	(158)	(185)	(293)	(130)	(100)
inc/(dec) in NW	-	236	59	0	-	0	-	-
inc/(dec) in Debt	48	31	(4)	32	(99)	(94)	7	(40)
Int. Paid	(31)	(25)	(30)	(19)	(21)	(31)	(27)	(22)
Div Paid (inc tax)	(4)	(5)	(9)	(3)	(8)	(9)	(22)	(36)
others						-	-	-
CF from Fin. Activities	13	237	16	10	(71)	(5)	(42)	(98)
Inc(Dec) in Cash	(11)	11	38	(33)	25	44	6	45
Add: Opening Balance	12	1	11	50	18	43	98	104
Closing Balance	1	12	50	16	43	89	104	149

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