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Metals
ASTRA IN
532830

Structural changes and lower raw material prices will expand margins going ahead

RATING	BUY
CMP	845
Price Target	1068
Potential Upside	26%

Rating Change	
Estimate Change	
Target Change	

STOCK INFO	
52wk Range H/L	1265/747
Mkt Capital (Rs Cr)	12733
Free float (%)	40%
Avg. Vol 1M (,000)	134
No. of Shares (Cr)	15
Promoters Pledged %	NA

RESEARCH ANALYST

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4QFY20 Result update

- Astral reported revenue of Rs. 629 Cr. (down 18.8% YoY, 5.3% QoQ) largely due to fall in volumes of both pipes as well as adhesive business particularly in march by more than 50% YoY.
- Fall in volumes in 4QFY20 due to COVID-19 impact, as due to lockdown all the logistics part were on hold and huge inventory is piled up and orders were cancelled by few dealers.
- Revenue mix for Pipes and Adhesive business stood at 77:23 for FY20. Structural changes were completed in adhesive business in 4QFY20.
- Gross margin expansion to 38% (up 4.4% YoY) largely due to structural changes removal of stockist layer will save around 7-8%. Lower cost of material available currently will also help to sustain margins in 2-3QFY20.
- EBITDA during the quarter is Rs. 113 Cr. with an EBITDA margin of 17.9% on the back of operating leverage benefits.
- PAT during the quarter stood at Rs. 52 Cr. on account of reduced tax rates in FY20.
- Debt equity ratio is 0.9 in FY20. Net debt is Rs. 55 Cr. in FY20 and management is focusing on reducing the debt in FY21 and will become a debt free company.
- Management has acquired the land at Bhubaneswar for catering in the North East Market. Construction will start in FY21 and plant is expected to be ready by Mar-21.

View and Valuation

Margin expansion on consecutive basis will help to sustain ASTRAL in this challenging environment. Structural changes in Adhesive business in FY20 will expand the margins going ahead. Removing of a complete stockist level from the hierarchy will save around 7-8% which will help in margin expansion. Lockdown impact on march volumes for both pipes as well as adhesive business hampered the robust 4QFY20 performance. Housing demand to remain sluggish in this current pandemic situation where whole economy is facing a tough time. Expansion through the nearby land acquisition at existing plant will help to save further on logistics and transportation cost. Becoming a debt free company in FY21 by repaying its debt will further save on interest cost and expand PAT in value terms. We value the company at 21 times FY 21 EV/EBITDA to arrive at target price of 1068 with a BUY stand.

Key Risks to our rating and target

- Revenue growth in adhesive business.
- Volatility in raw material prices continued.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20	FY21E
Net Sales	1,889	2,106	2,507	2,578	2,946
EBITDA	264	317	385	443	589
EBIT	214	260	304	335	475
PAT	145	175	196	249	328
EPS (Rs)	12	15	16	21	27
EPS growth (%)	42	24	10	27	32
ROE (%)	17	17	15	17	18
ROCE (%)	22	23	21	21	24
BV	71	85	107	125	149
P/B (X)	7.74	9.87	10.86	6.78	5.66
P/E (x)	45.50	56.31	70.95	40.87	31.07

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Revenue below estimates

4QFY20 Results Consolidated

Fig in Rs Cr

FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY %	QoQ%	FY19	FY20	YoY %
Net Sales	775	607	678	664	629	-18.8%	-5.3%	2,507	2,578	2.8%
Other Income	4	7	3	2	0	-97.4%	-95.5%	15	12	-22%
Total Income	779	613	681	666	629	-19.2%	-5.6%	2,523	2,590	2.7%
COGS	515	388	416	401	390	-24.2%	-2.8%	1,648	1,596	-3.2%
Employee Cost	36	43	47	43	42	15.5%	-3.2%	139	175	25.9%
Other Expenses	105	83	96	102	84	-19.6%	-16.8%	336	364	8.5%
Expenditure	656	514	559	546	516	-21.3%	-5.4%	2,122	2,135	0.6%
EBITDA	119	93	119	118	113	-5.3%	-4.7%	385	443	15.1%
EBITDAmargin	15.4%	15.3%	17.5%	17.8%	17.9%	16.6%	0.6%	15.4%	17.2%	11.9%
Depreciation	22	24	27	27	29	29.1%	5.5%	81	108	32.5%
EBIT	97	69	92	91	84	-13.3%	-7.8%	304	335	10.4%
Interest	6	7	9	5	18	205.7%	254.9%	26	21	-18.0%
PBT	94	68	86	88	66	-30.5%	-25.3%	287	308	7.2%
Exceptional Item	0	0	0	0	0	-	-	0	0	-
Tax	29	20	3	19	14	-53.7%	-30.4%	86	57	-34.4%
PAT	62	47	82	68	52	-17.0%	-24.0%	196	249	27.1%

Operating Matrix

PIPE	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY %
Production (In M.T)	23288	26281	27563	35887	32752	35601	31637	35646	-0.7%
Sales (In M.T)	22476	27250	27882	38877	31729	34620	32053	33798	-13.1%
Sales (Rs.cr)	344	438	444	606	473	545	520	506	-16.4%
EBITDA (Rs.cr)	62	75	79	98	79	103	102	97	-0.7%
EBITDA margin (%)	18%	17%	18%	16%	17%	19%	20%	19%	17.8%
PAT (Rs.cr)	25	33	42	47	34	70	57.7	39.3	-16.2%

ADHESIVES	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY %
Adhesives Sales (Rs.cr)	141	158	152	184	145	148	156	135	-26.5%
Adhesives EBITDA (Rs.cr)	20	24	16	25	21	20	19	17	-32.0%
EBITDA margin (%)	14%	15%	11%	14%	14%	14%	12%	12%	-11.9%

Revenue decline of 18.8% YoY led by volume de-growth

Net Sales during the quarter is at Rs. 629 Cr. largely due to volume de-growth in Pipe segment business as well as adhesive business in the march due to COVID-19 impact by more than 50% YoY respectively. However, pipes volume (inclusive of REX volumes) grew by 17% YoY in Jan and Feb-20 on account of strong growth in 4Q every year. Meanwhile the fall in PVC prices dropped realization by 7.8% YoY.

Margin expansion on account of reduced cost of material per ton

Gross margins expansion to 38% (up 4.4% YoY) in 4QFY20 on the basis of reduced raw material prices, structural changes (contributed 400 BPS in Resinova business) etc . EBITDA margin expansion also stretched led by operating leverage benefits. EBITDA in 4QFY20 is Rs. 113 Cr. with an EBITDA margin of 17.9% (up 10 bps QoQ and 250 bps YoY).

Higher finance cost due to currency fluctuations reduced PAT

PAT during the quarter stood at Rs. 52 Cr. with a PAT de-growth of 17% YoY due to decline in topline. Higher depreciation, finance cost due to change in currency fluctuations and no other income further shrink PAT margin to 8.2% in 4QFY20.

Webinar highlights

- Resi Shield hand sanitizer was the new product launched and was sold out in the first order in the pre booking which is Rs. 35-40 lacs in value terms. Resi Shield foot press sanitizer dispenser launched by the company.
- Revenue mix of Pipe and adhesive business stood at 77:23 in FY20.
- Pipe business: March month hampered the performance both in volume as well as value terms. In Jan-Feb it was growing at 17% YoY both in volume as well as value terms while march month it was reduced by more than 50%.
- Adhesive Business: Revenue remain flat till Feb-20 due to structural changes while in march it was reduced by 60% leads to fall in revenue by 8% YoY in FY20.
- Last quarter was robust in terms of volume for pipe business, impacted due to COVID-19 lockdown.
- Management invested around Rs. 25- 30 Cr. in the solar roof top in all the plants which will be generating revenue from July-20. Due to lockdown it was extended else it was about to start by April-20 due to delay in 10-15 days work.
- Saving of Rs. 8-10 Cr. in terms of power consumption due to this solar roof top in all the plants.
- Structural correction benefits in Adhesive business gross margin expansion to 40.9% from 35.7% in FY19 due to removal of one layer (stockist layer) which consist of 7-8% of margin.
- Fall in chemical prices will be benefited further in 2Q-3QFY21 which will sustain margins in this current crisis.
- Adhesive business EBITDA was growing at a CAGR of 16.2% over the last 5 consecutive years. Due to some structural changes made in current year impacted the growth in FY20 ; however it will benefit the company in a long run.
- Ranveer singh will be the next brand ambassador for Astral post lockdown.
- Adhesive business robust distribution network was set up where dealers and distributors are on regular track by management. Structural correction being done by the management with which there are 1300 plus distributors and 130000 plus dealers.
- Net-working capital no. of days reduced to 27 days in FY20 while inventory days were increased to 75 days from 57 days.
- Due to lockdown the logistics part was stop and the inventory was with management. Debtors days reduced drastically to 27 days as initial collections were done at the beginning of the quarter. Orders cancelled due to lockdown around Rs. 175 is the reason behind huge fall in debtor collection period which is targeted to be 37-38 days.
- Debt equity ratio is 0.9 in FY20. Net debt is Rs. 55 Cr. in FY20 and management is focusing on reducing the debt in FY21 and will become a debt free company.
- Management has acquired the land at Bhubaneshwar for catering in the North East Market. Construction will start in FY21 and plant is expected to be ready by Mar-21.
- Land near the existing plant location was acquired by the management located at Sangli, Hosur, Sentej and Odisha.
- Cash vouchers distributed by the management to the daily wage workers as a relief in this crisis.
- Ration kit to blind couples through NAVJOT trust, Distribution of hearing aid kits, donation of ambulance in this current pandemic, Donated Vehicles to Ranthambore Tiger reserves, Installation of solar pumps in various national Park and Sanctuaries etc are the CSR activities done by the management.

Exhibit: Net Sales (consol) and Growth Trend

Declining Piping and Adhesive business volume growth in March impacted the overall business growth in 4QFY20...

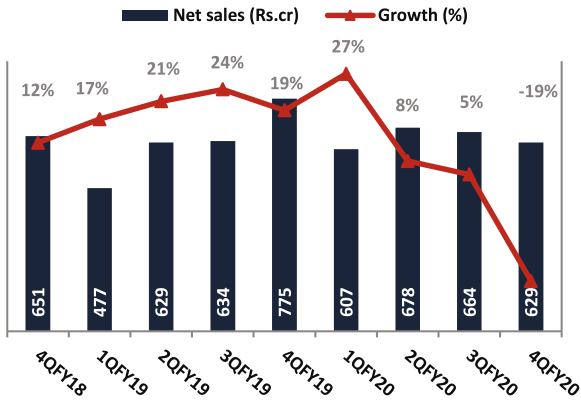
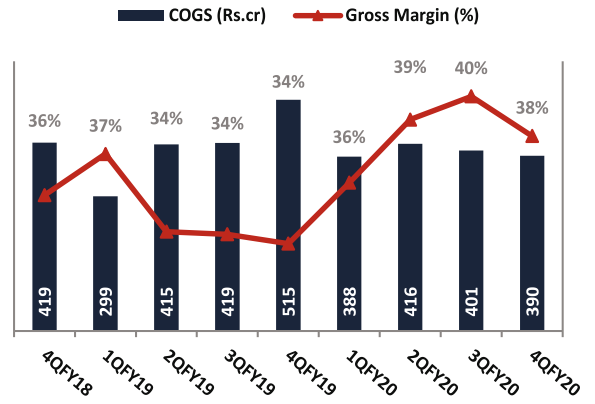


Exhibit: COGS (consol) and Gross Margin Trend

Structural Changes improved margins on YoY basis..



Structural Changes improved margins on YoY basis..

Operating leverage benefit improved margins...

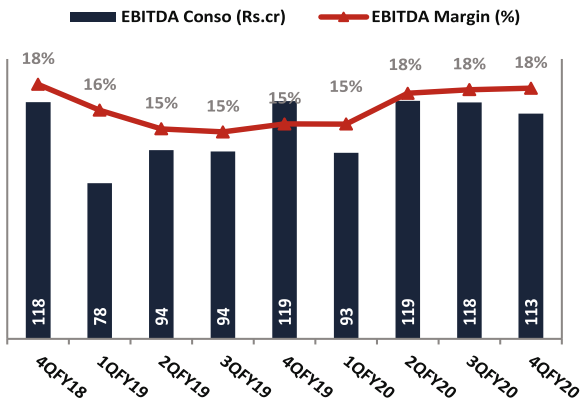


Exhibit: Pipe Business EBITDA and Margin Trend

Fall in realization off-set the reduced raw material prices in 4QFY20..

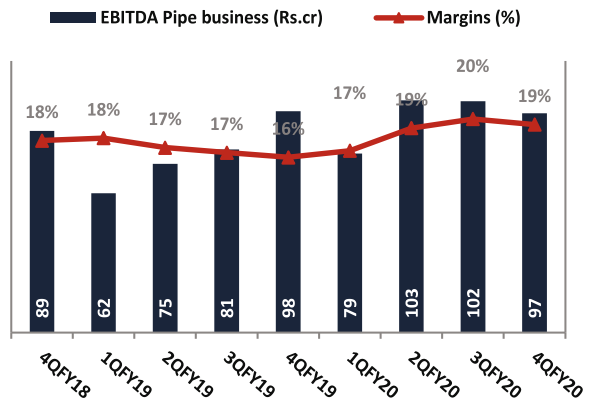


Exhibit: Adhesive Business EBITDA and Margin Trend

Margin declined due to structural changes yet it will drive higher margin going ahead....

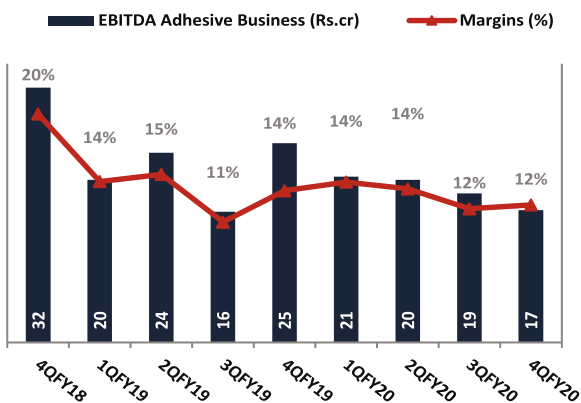
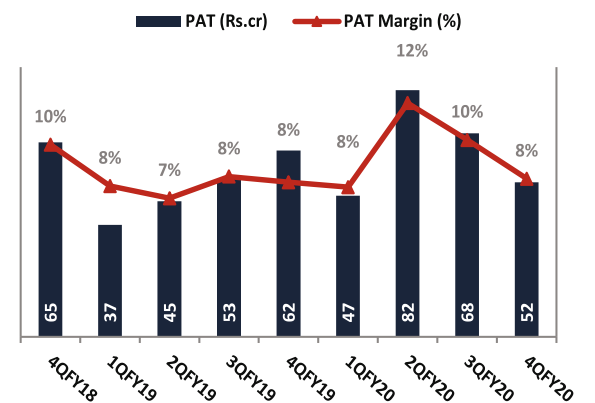


Exhibit: PAT (consol) and Margin Trend

Higher finance cost and no other income in 4QFY20 reduced sequential PAT Margins..



Financial Details (Consolidated)

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Share Capital	11	12	12	12	12	12	15	15
Reserves	304	607	696	835	1,006	1,266	1,488	1,784
Networth	315	619	708	847	1,018	1,278	1,503	1,799
Debt	98	139	131	157	123	193	127	225
Other Non Cur Liab	-	0	0	-	-	-	-	-
Total Capital Employed	414	758	839	1,004	1,141	1,471	1,630	2,024
Net Fixed Assets (incl CWIP)	297	369	446	534	681	932	1,004	917
Non Cur Investments	-	-	-	-	-	0	0	-
Other Non Cur Asst	-	-	16	10	6	27	14	27
Non Curr Assets	308	597	690	787	932	1,228	1,326	1,212
Inventory	195	266	277	272	357	396	540	465
Debtors	145	233	227	339	307	339	228	398
Cash & Bank	1	12	50	17	44	98	130	620
Other Curr Assets	0	2	46	35	25	28	45	33
Curr Assets	387	568	614	675	743	871	963	1,528
Creditors	185	266	316	293	349	390	475	458
Provisons (both)	7	9	2	2	3	6	7	6
Other Curr Liab	77	99	30	35	32	39	26	46
Curr Liabilities	268	372	427	417	486	557	595	654
Net Curr Assets	119	196	187	259	257	315	368	875
Total Assets	694	1,165	1,304	1,462	1,675	2,099	2,289	2,740

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Revenue from Operation	1,080	1,429	1,678	1,889	2,106	2,507	2,578	2,946
Change (%)	31%	32%	17%	13%	11%	19%	3%	14%
Other Income	2	4	2	9	13	15	12	0
EBITDA	155	168	208	264	317	385	443	589
Change (%)	35%	8%	24%	27%	20%	22%	15%	33%
Margin (%)	14%	12%	12%	14%	15%	15%	17%	20%
Depr & Amor.	22	36	42	50	57	81	108	114
EBIT	133	131	166	214	260	304	335	475
Int. & other fin. Cost	31	25	30	18	22	26	21	29
EBT	105	110	138	204	251	287	308	438
Exp Item	0	0	-1	-1	0	0	0	0
Tax	25	31	30	56	72	86	57	110
Minority Int & P/L share of Ass.	0	2	-6	-3	-2	-2	-1	0
Reported PAT	79	76	102	145	175	196	249	328
Adjusted PAT	79	76	103	146	175	196	249	328
Change (%)	30%	-4%	33%	42%	21%	12%	27%	32%
Margin(%)	7%	5%	6%	8%	8%	8%	10%	11%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
ROE	25.03%	12.27%	14.30%	17.02%	17.53%	15.31%	16.58%	18.22%
ROCE	33.65%	17.75%	19.76%	22.05%	22.87%	21.07%	20.81%	24.18%
Asset Turnover	1.55	1.23	1.29	1.29	1.26	1.19	1.13	1.08
Debtor Days	49	59	49	65	53	49	32	49
Inv Days	66	68	60	53	62	58	77	58
Payable Days	63	68	69	57	61	57	67	57
Int Coverage	4.28	5.16	5.48	11.61	12.03	11.80	15.88	16.24
P/E	33.13	69.11	49.59	45.50	56.31	70.95	40.87	31.07
Price / Book Value	8.29	8.48	7.09	7.74	9.87	10.86	6.78	5.66
EV/EBITDA	17.37	31.92	24.59	25.25	31.96	36.22	22.94	16.51
Div Yield	0.4%	0.1%	0.1%	0.0%	0.1%	0.1%	0.2%	0.3%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
PBT	105	110	131	201	248	283	307	438
(inc)/Dec in Working Capital	-66	-31	43	-106	16	31	-20	-28
Non Cash Op Exp	52	65	81	64	81	103	129	144
Int Paid (+)	31	25	30	18	22	32	21	29
Tax Paid	-23	-26	-29	-44	-63	-77	-57	-110
others	-	-	-	-	-	-	-	-
CF from Op. Activities	67	117	226	114	282	342	359	444
(inc)/Dec in FA & CWIP	-92	-85	-134	-160	-184	-220	-179	-28
Free Cashflow	-25	32	91	-45	98	122	180	416
(Pur)/Sale of Inv	1	0	1	1	1	1	0	0
others	-	-	-	-	-	-	-	-
CF from Inv. Activities	-91	-343	-203	-158	-185	-293	-220	13
inc/(dec) in NW	0	236	59	0	0	0	0	0
inc/(dec) in Debt	48	31	-4	32	-99	-94	-66	98
Int. Paid	-31	-25	-30	-19	-21	-31	-21	-29
Div Paid (inc tax)	-4	-5	-9	-3	-8	-9	-22	-36
others	-	-	-	-	-	0	0	0
CF from Fin. Activities	13	237	16	10	-71	-5	-109	33
Inc(Dec) in Cash	-11	11	38	-33	25	44	31	489
Add: Opening Balance	12	1	11	50	18	43	98	130
Closing Balance	1	12	50	16	43	89	129	619

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