

10 August 2024

India | Equity Research | Q1FY25 results review

Astral

Plastic

Pipe, adhesive margins disappoint; management guides for better times H2FY25 onwards

In Q1FY25, Astral reported pipe volume growth of 16.4% YoY (5-year CAGR of 12%). Consolidated revenue grew 7.8% YoY with pipe/adhesive segment growing ~7%/8% YoY. Consolidated OPM fell 22bps YoY (-244bps QoQ) to 15.5% (on low base) due to decline in profitability of both pipe and adhesive segments. Pipe EBITDA/kg declined 7.5% YoY to INR 32.6/kg (-14.2% QoQ) due to ramp-up cost and increased A&P; adhesive margin fell 130bps YoY (-42bps QoQ) due to lower profitability in UK operations. Management indicated profitability should improve going ahead driven by improved product mix and operating leverage. It has guided for 15% pipe volume growth with 16-18% OPM and adhesive revenue growth of 15-20% in India with OPM of 14-16% in FY25. We cut our EBITDA estimates by ~7%/5% for FY25-26E; maintain **HOLD** with a rolled over Jun'25E TP of INR 1,956.

Pipe vol grew 16.4% YoY; adhesive revenue up 8% YoY

In Q1FY25, Astral reported pipe volume growth of 16.4% YoY (5-year CAGR of 12%). Pipe revenue grew 6.8% YoY while realisation fell 8.3% YoY (-1.6% QoQ). Adhesive revenue grew 8.1% YoY (-5.6% QoQ) with India business revenue growing ~14% YoY whereas UK subsidiary (SEAL IT) declining ~5% YoY. UK operations faced demand challenges and the management expects growth to revive from H2FY25 led by launch of new products. For India adhesive business, management remains optimistic and guides for 15-20% revenue growth. Management has guided for 15% YoY pipe volume growth as real estate demand remains healthy. We have modelled pipe volume CAGR of 16% and adhesive revenue CAGR of 14.3% over FY24-27E.

Profitability declines in both pipe and adhesive segments

Consolidated OPM declined 22bps YoY to 15.5% (-244bps QoQ) on a low base due to lower profitability in both pipe and adhesive segments. Pipe EBITDA/kg declined 7.5% YoY to INR 32.6 due to higher A&P expenses and overheads (for new Hyderabad plant). Management expects pipe profitability to improve driven by higher share of CPVC in H2FY25 and better absorption of overheads. It has maintained guidance of 16-18% pipe OPM for FY25. Adhesive margin fell 130bps YoY (-42bps QoQ) due to lower profitability in UK operations. Management has guided for India adhesive OPM at 14-16% and UK adhesive OPM at 7-8% in FY25. We have modelled pipe EBITDA/kg at ~INR 35.2-35.5, and adhesive margin at ~14-15% for FY25-27E, respectively.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	56,414	66,844	77,762	89,302
EBITDA	9,247	11,473	13,557	15,645
EBITDA %	16.4	17.2	17.4	17.5
Net Profit	5,444	7,099	8,671	10,229
EPS (INR)	20.3	26.4	32.3	38.1
EPS % Chg YoY	22.1	30.4	22.1	18.0
P/E (x)	100.2	76.9	62.9	53.3
EV/EBITDA (x)	58.5	46.8	39.2	33.7
RoCE (%)	16.7	18.8	19.5	19.9
RoE (%)	18.5	20.4	21.2	21.8

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Market Data

Market Cap (INR)	546bn
Market Cap (USD)	6,500mn
Bloomberg Code	ASTRA IN
Reuters Code	ASTL BO
52-week Range (INR)	2,454 /1,739
Free Float (%)	46.0
ADTV-3M (mn) (USD)	16.8

Price Performance (%)	3m	6m	12m
Absolute	(1.9)	9.7	2.8
Relative to Sensex	(12.0)	(1.7)	(18.0)

Earnings Revisions (%)	FY25E	FY26E
Revenue	(1.6)	(0.9)
EBITDA	(7.0)	(4.9)
EPS	(9.2)	(6.8)

Previous Reports

22-05-2024: [Q4FY24 results review](#)

13-03-2024: [Company Update](#)

Bathware and paint segments continues to ramp-up

Bathware segment reported revenue of ~INR 262mn (+88.5% YoY / +8.3% QoQ) and management continues to focus on improving sales and distribution for this segment. It has guided for revenue of INR 1-1.25bn in FY25. Paint segment revenue in Q1 grew ~2.4% YoY (-19.2% QoQ) to INR 420mn and EBITDA margin declined 725bps YoY to ~9.8% (-375bps QoQ) due to higher A&P and addition of manpower as it plans to ramp up this segment. Astral has launched paints in newer geographies of Gujarat and Karnataka (in Jun'24) and plans to launch in Rajasthan and Maharashtra in the next phase. Management has guided for 15-20% YoY revenue growth in paints and double digit OPM in FY25.

Valuations and view

Astral's Q1FY25 operational performance has been much lower than expectations with profitability in both adhesive and pipe segments being subpar. Going ahead, H2FY25 onwards, we believe the profitability in pipes segment may improve as volatility in PVC prices could subside by then. Also, for adhesive segment with UK subsidiary (SEAL IT) expected to stabilise in H2, profitability here should also normalise. We continue to like Astral for its comprehensive portfolio, wide distribution reach, strong brand presence, net-debt-free balance sheet, high return ratios and believe it has tailwinds going ahead led by the strong housing market. Maintain **HOLD** with a rolled over Jun'25E target price of INR 1,956, set at an unchanged 58x 1-year forward P/E and await a better entry point.

Exhibit 1: Q1FY25 consolidated result review

INR mn	Q1FY25	Q1FY24	YoY(%)	Q4FY24	QoQ (%)
Total revenues	13836	12831	7.8%	16251	-14.9%
Raw Materials	8226	8050	2.2%	9787	-15.9%
% of sales	59.5%	62.7%	-329 bps	60.2%	-77 bps
Employee cost	1267	996	27.2%	1194	6.1%
% of sales	9.2%	7.8%	139 bps	7.3%	181 bps
Other expense	2199	1,769	24.3%	2355	-6.6%
% of sales	15.9%	13.8%	211 bps	14.5%	140 bps
Total expenditure	11692	10815	8.1%	13336	-12.3%
% of sales	84.5%	84.3%	22 bps	82.1%	244 bps
EBITDA	2144	2016	6.3%	2915	-26.4%
EBITDA margin (%)	15.5%	15.7%	-22 bps	17.9%	-244 bps
Depreciation	556	463	20.1%	525	5.9%
EBIT	1588	1553	2.3%	2390	-33.6%
EBIT margin (%)	11.5%	12.1%	-63 bps	14.7%	-323 bps
Interest cost	77	64	20.3%	74	4.1%
Other income	119	121	-1.7%	102	16.7%
PBT	1630	1610	1.2%	2418	-32.6%
Taxes	436	423	3.1%	600	-27.3%
PAT before MI/JVs	1194	1187	0.6%	1818	-34.3%
Less: forex loss/(gain)	-1	-6	-83.3%	4	nm
Less: minority int	-9	-5	80.0%	-3	nm
Less: extraordinary items	0	0	nm	0	nm
Less: PAT from discontinued operations	0	0	nm	0	nm
Less: Loss from JV	0	0	nm	1	nm
RPAT	1204	1198	0.5%	1816	-33.7%
APAT	1203	1194	0.8%	1820	-33.9%

Source: I-Sec research, Company data

Exhibit 2: Q1FY25 segmental result review

INR mn	Q1FY25	Q1FY24	YoY(%)	Q4FY24	QoQ (%)
Revenue					
Plumbing (Incl. sanitaryware)	10,132	9,383	8.0%	12,252	-17.3%
Paints & Adhesives	3,704	3,448	7.4%	3,999	-7.4%
Net Sales	13,836	12,831	7.8%	16,251	-14.9%
EBIT					
Plumbing (Incl. sanitaryware)	1,400	1,268	10.4%	2,104	-33.5%
Paints & Adhesives	260	339	-23.3%	344	-24.4%
Total	1,660	1,607	3.3%	2,448	-32.2%
EBIT Margin (%)					
Plumbing (Incl. sanitaryware)	13.8%	13.5%	30 bps	17.2%	-336 bps
Paints & Adhesives	7.0%	9.8%	-281 bps	8.6%	-158 bps
Total	12.0%	12.5%	-53 bps	15.1%	-307 bps

Source: I-Sec research, Company data

Exhibit 3: Q1FY25 key operating highlights

INR mn	Q1FY25	Q1FY24	YoY(%)	Q4FY24	QoQ (%)
Pipes					
Revenue	9,870	9,244	6.8%	12,010	-17.8%
EBITDA	1,817	1,687	7.7%	2,537	-28.4%
Sales Volume (te)	55,810	47,950	16.4%	66,827	-16.5%
Realisation (INR/kg)	177	193	-8.3%	180	-1.6%
EBITDA-per-unit (INR/kg)	32.6	35.2	-7.5%	38.0	-14.2%
Adhesives					
Revenue	3,284	3,038	8.1%	3,479	-5.6%
EBITDA	405	414	-2.2%	444	-8.7%
EBITDA margin (%)	12.3%	13.6%	-130 bps	12.8%	-42 bps

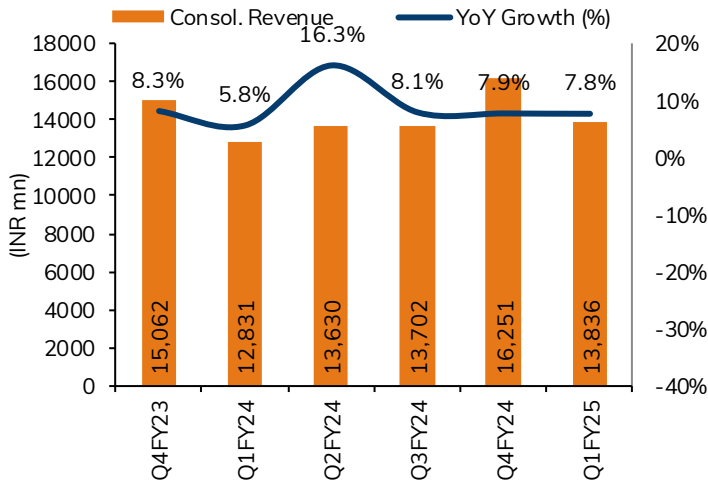
Source: I-Sec research, Company data

Takeaways from Q1FY25 earnings conference call

- Pipe segment:** Management stated demand was impacted by PVC price volatility in Jun-Jul'24 and it currently also remains slightly soft as PVC price is likely to soften further. Profitability was impacted by higher A&P expenses, higher overhead cost (due to ramping up of new Hyderabad plant capacity) and adverse product mix (lower share of CPVC in Q1). Going forward, management expects profitability to improve led by higher share of CPVC and VAP and lower overhead costs.
- Adhesive segment:** UK adhesive operations suffered due to slowdown in demand, but management is hopeful of recovery in the remaining 9MFY25. In Q1FY25, UK revenue declined ~5% YoY to INR 890mn with OPM of 2.5%, while India revenue grew ~14% YoY to INR 2.4bn with OPM of ~16%.
- Paints segment:** Revenue in Q1 stood at INR 420mn with OPM of 9.8%. The decline in profitability was due to ~INR 30mn of additional expenses incurred on setting up distribution in Gujarat and Karnataka and other branding expenses. Management is planning to launch this product in Rajasthan and Maharashtra in the next phase. This segment has 40 dealers in Gujarat currently and is likely to setup distribution in more cities in Gujarat by end-Aug'24.
- Guidance:** Management maintains guidance of 15% pipe volume growth, 16-18% pipe OPM in FY25. For India adhesive business, management guides for 15-20% revenue growth and 8-10% revenue growth for UK adhesive business in FY25. It has guided for India adhesive OPM at 14-16% and UK adhesive OPM at 7-8% in FY25. It has guided for 15-20% YoY revenue growth in paints and double-digit OPM in FY25. For bathware, it has guided for revenue of INR 1-1.25bn in FY25.

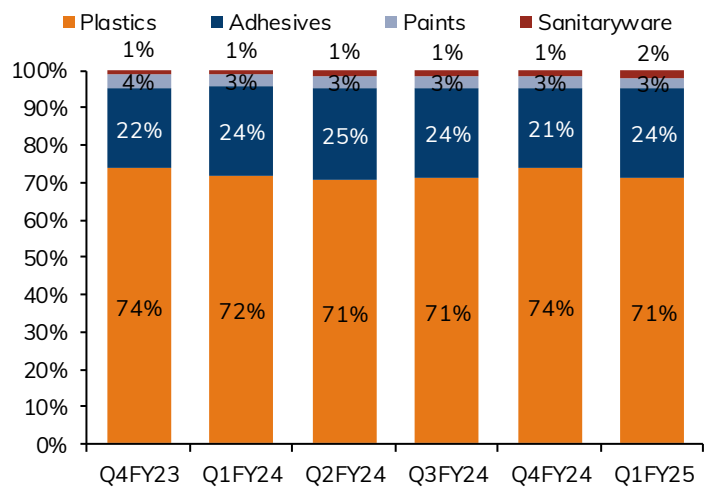
- **Capacity expansion:** Guwahati plant is fully operational and Hyderabad plant is currently running trial operations and may commercialise by eng-Aug'24. The construction of Kanpur plant is likely to commence soon. The company has ordered three lines of machines to manufacture O-PVC pipes. The lines together constitute capacity of ~8,000te and may commence trial runs by end-Q3FY25 and commercial operations in Q4FY25.
- **Capex:** Management indicated capex of INR 3.5bn for FY25.
- **Branding** expense was higher in Q1 by INR 200mn due to IPL, exhibitions and trade promotions, which are not expected going forward. Thus, branding expense will normalise for the full year (FY25).

Exhibit 4: Consolidated quarterly revenue



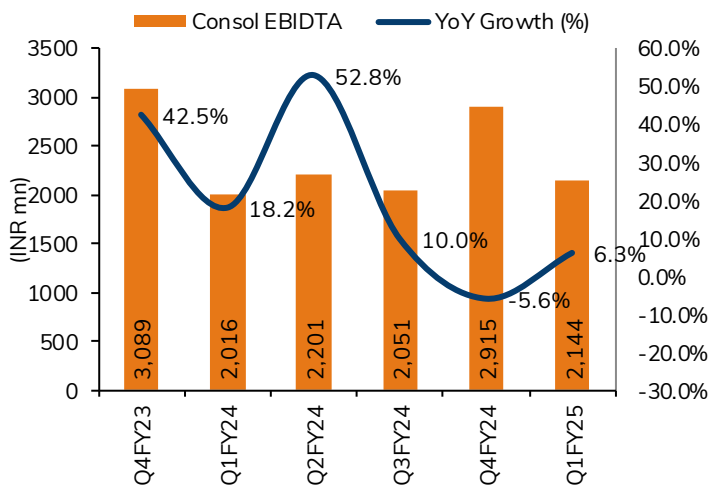
Source: I-Sec research, Company data

Exhibit 5: Consolidated quarterly revenue breakup



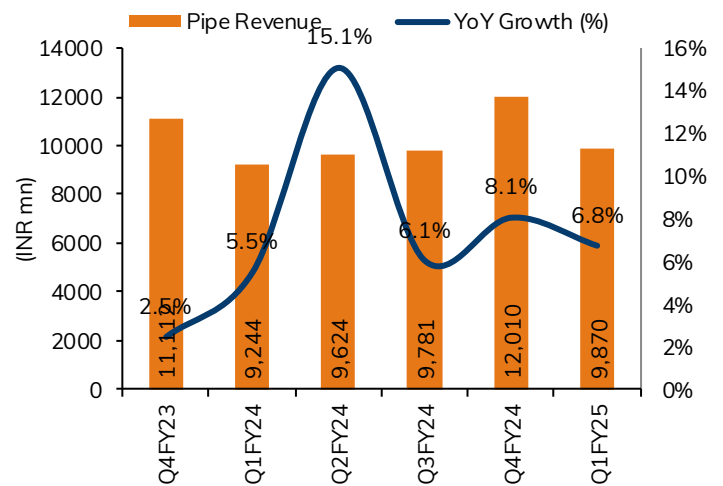
Source: I-Sec research, Company data

Exhibit 6: Consolidated quarterly EBITDA



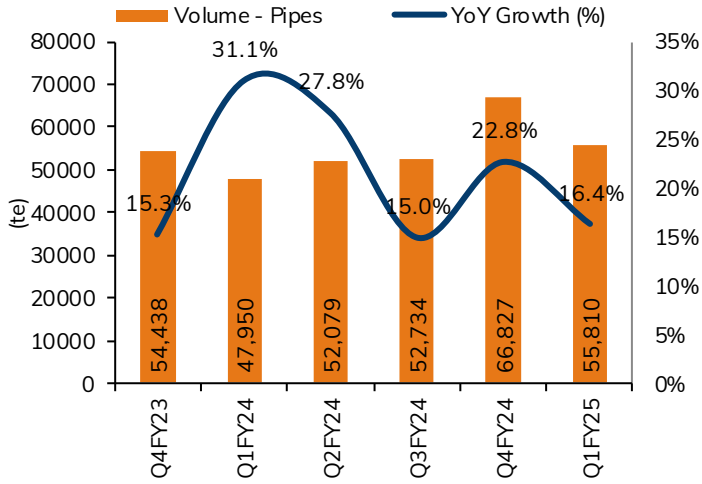
Source: I-Sec research, Company data

Exhibit 7: Quarterly pipe revenue



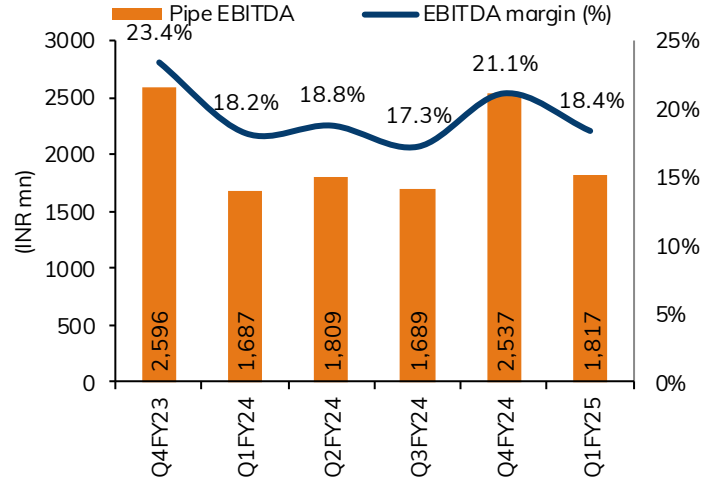
Source: I-Sec research, Company data

Exhibit 8: Quarterly pipe volume



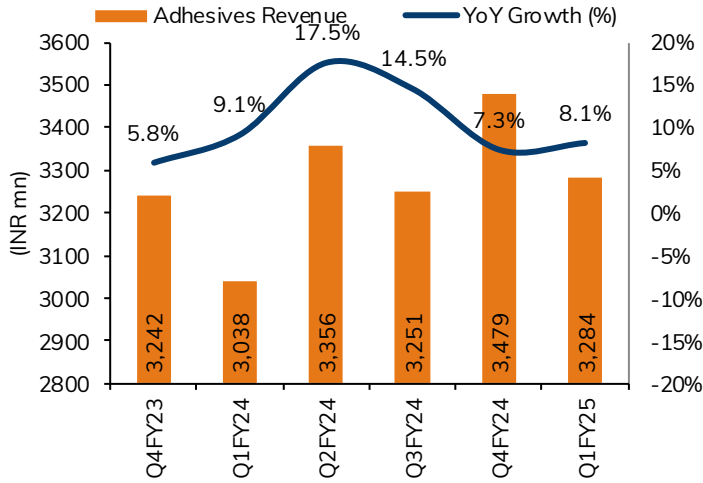
Source: I-Sec research, Company data

Exhibit 9: Quarterly pipe EBITDA and margin



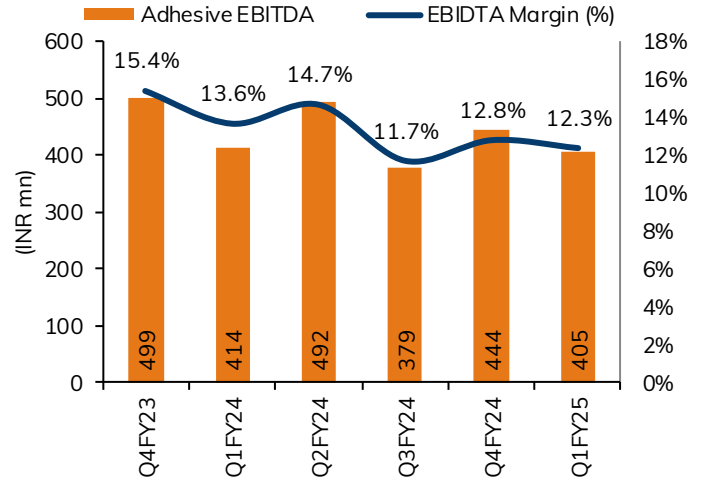
Source: I-Sec research, Company data

Exhibit 10: Quarterly adhesive revenue



Source: I-Sec research, Company data

Exhibit 11: Quarterly adhesive EBITDA and margin



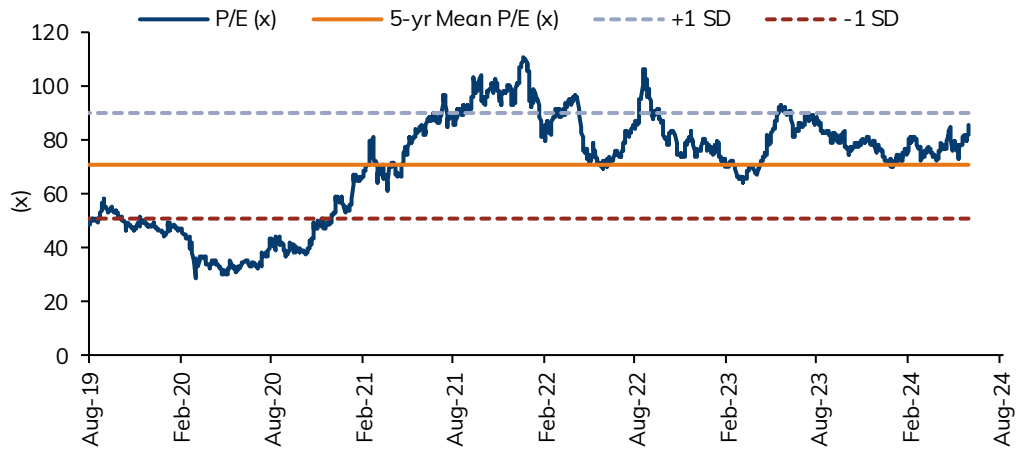
Source: I-Sec research, Company data

Valuation

Astral is among the leading players in India’s CPVC/PVC plumbing pipes market. It has a wide-ranging product portfolio, robust brand and large distribution reach, which will enable it to benefit from the growing preference for organised players. Its adhesive business further boosts growth prospects.

Astral is likely to deliver revenue and EBITDA CAGRs of 19.2% and 23.4% respectively, over FY24-27E with strong return ratios (RoE of 21.2% in FY26E). Maintain **HOLD** with a rolled over Jun’25E target price of INR 1,956 (earlier: INR 2,008), set at an unchanged 58x 1-year forward P/E.

Exhibit 12: 1-year forward P/E band



Source: I-Sec research, Company data

Key downside risks

- Slowdown in housing market causing lower demand.
- Sharp fall in PVC prices, which may adversely impact profitability of pipe segment due to inventory losses.
- High increase in raw material prices for adhesives may impact segmental profitability and demand.
- Failure to scale-up new businesses of sanitaryware, faucetware and paints.
- Inability to properly merge the paint acquisition.

Key upside risks

- Surge in PVC prices, which could result in better-than-expected profitability for plastic pipes.
- Better-than-expected pick up in the demand scenario.

Exhibit 13: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	54.1	54.1	54.1
Institutional investors	33.5	34.1	33.9
MFs and others	8.4	7.9	8.0
FIs/Banks	0.1	0.0	0.5
Insurance	3.4	3.1	2.9
FIIIs	21.6	23.1	22.5
Others	12.4	11.8	12.0

Source: Bloomberg

Exhibit 14: Price chart



Source: Bloomberg

Financial Summary

Exhibit 15: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	56,414	66,844	77,762	89,302
Operating Expenses	47,167	55,371	64,205	73,657
EBITDA	9,247	11,473	13,557	15,645
EBITDA Margin (%)	16.4	17.2	17.4	17.5
Depreciation & Amortization	1,976	2,242	2,488	2,754
EBIT	7,271	9,232	11,070	12,891
Interest expenditure	291	223	70	45
Other Non-operating Income	333	524	644	890
Recurring PBT	7,313	9,533	11,643	13,736
Less: Taxes	(1,880)	(2,440)	(2,981)	(3,516)
PAT	5,433	7,093	8,663	10,220
Profit / (Loss) from Associates	-	-	-	-
Less: Minority Interest	5	7	8	9
Extraordinaries (Net)	23	-	-	-
Net Income (Reported)	5,461	7,099	8,671	10,229
Net Income (Adjusted)	5,444	7,099	8,671	10,229

Source Company data, I-Sec research

Exhibit 16: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Assets				
Inventories	9,134	10,771	12,489	14,328
Cash & cash eqv.	6,096	8,940	13,905	17,909
Sundry Debtors	3,758	4,395	5,113	5,872
Other Current Assets	1,470	1,831	2,130	2,447
Trade payables	8,719	9,697	11,139	12,786
Other Current Liabilities	1,921	2,322	2,699	3,098
Net Current Assets	9,818	13,918	19,801	24,671
Investments	-	-	-	-
Net Fixed Assets	19,152	19,910	20,423	21,169
Other Non Current Assets	5,348	5,348	5,348	5,348
Total Assets	34,318	39,177	45,572	51,188
Liabilities				
Borrowings	964	150	50	50
Other Non Current Liabilities	669	669	669	669
Total Liabilities	1,633	819	719	719
Equity Share Capital	269	269	269	269
Reserves & Surplus	31,612	37,291	43,794	49,420
Total Net Worth	31,881	37,560	44,063	49,689
Minority Interest	804	797	790	780
Total Liabilities & Net Worth	34,318	39,177	45,572	51,188

Source Company data, I-Sec research

Exhibit 17: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	13,630	13,702	16,251	13,836
% growth (YOY)	16.3	8.1	7.9	7.8
EBITDA	2,201	2,051	2,915	2,144
Margin %	16.1	15.0	17.9	15.5
Other Income	134	64	102	119
Extraordinaries	-21	-6	-4	1
Adjusted Net Profit	1,328	1,139	1,820	1,203

Source Company data, I-Sec research

Exhibit 18: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	3,396	8,071	10,225	12,097
Working Capital Changes	(2,503)	(1,257)	(917)	(867)
Capital Commitments	(3,701)	(3,000)	(3,000)	(3,500)
Free Cashflow	(305)	5,071	7,225	8,597
Other investing cashflow	-	-	-	-
Cashflow from Investing Activities	(3,701)	(3,000)	(3,000)	(3,500)
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	191	(814)	(100)	-
Dividend paid	(1,011)	(1,420)	(2,168)	(4,603)
Others	400	7	8	9
Cash flow from Financing Activities	(420)	(2,227)	(2,260)	(4,594)
Chg. in Cash & Bank balance	(725)	2,844	4,966	4,004
Closing cash & balance	6,096	8,940	13,905	17,909

Source Company data, I-Sec research

Exhibit 19: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	20.3	26.4	32.3	38.1
Adjusted EPS (Diluted)	20.3	26.4	32.3	38.1
Cash EPS	27.6	34.8	41.5	48.3
Dividend per share (DPS)	3.8	5.3	8.1	17.1
Book Value per share (BV)	118.7	139.8	164.0	185.0
Dividend Payout (%)	18.5	20.0	25.0	45.0
Growth (%)				
Net Sales	9.4	18.5	16.3	14.8
EBITDA	14.0	24.1	18.2	15.4
EPS (INR)	22.1	30.4	22.1	18.0
Valuation Ratios (x)				
P/E	100.2	76.9	62.9	53.3
P/CEPS	73.6	58.4	48.9	42.0
P/BV	17.1	14.5	12.4	11.0
EV / EBITDA	58.5	46.8	39.2	33.7
EV / Sales	9.6	8.0	6.8	5.9
Dividend Yield (%)	0.2	0.3	0.4	0.8
Operating Ratios				
Gross Profit Margins (%)	38.7	38.4	38.5	38.5
EBITDA Margins (%)	16.4	17.2	17.4	17.5
Effective Tax Rate (%)	25.7	25.6	25.6	25.6
Net Profit Margins (%)	9.6	10.6	11.2	11.5
NWC / Total Assets (%)	8.3	9.7	9.9	10.1
Net Debt / Equity (x)	(0.2)	(0.2)	(0.3)	(0.4)
Net Debt / EBITDA (x)	(0.6)	(0.8)	(1.0)	(1.1)
Profitability Ratios				
RoCE (%) (post-tax)	16.7	18.8	19.5	19.9
RoE (%)	18.5	20.4	21.2	21.8
Cash Conversion Cycle (on net sales)				
Inventory Days	59	59	59	59
Receivables Days	24	24	24	24
Payables Days	56	53	52	52

Source Company data, I-Sec research

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