



Weak Performance & Declining Growth

Est. Vs. Actual for Q2FY25: Revenue – **MISS**; EBITDA Margin –**MISS**; PAT – **MISS**

Changes in Estimates post Q2FY25

FY25E/FY26E: Revenue -4.6%/-5.5%; EBITDA: -6.0%/-7.1%; PAT: -6.8%/-7.9%

Recommendation Rationale

- The Plumbing division reported a volume de-growth of 2.5% YoY, while realisations increased to Rs 190/kg.
- In Q2FY25, average realisations stood at Rs 190/kg (up 1.1% YoY) and EBITDA remained stable at Rs 35/kg (up 3% YoY). During the quarter, PVC/CPVC raw material prices decreased, leading to destocking.
- The reported PAT of Rs 109 Cr represents a 9% YoY decline, falling below our expectations.

Sector Outlook: Neutral

Company Outlook & Guidance: Lower commodity prices also encourage increased competition, which decreases profitability. To achieve growth above its peers, Astral's product mix is weighted towards lower-margin products, contributing to EBITDA deterioration. Additionally, the introduction of anti-dumping duties on PVC is expected to support growth moving forward. Therefore, we anticipate lower EBITDA in the upcoming quarters.

Current Valuation: PE 55x for H1FY26E earnings (Earlier Valuation: PE 60x FY26E)

Current TP: Rs 1,800/share (Earlier TP: Rs 2,000/share)

Recommendation: HOLD

Financial Performance: Astral Limited reported results that fell below expectations. The company's revenue of Rs 1,370 Cr grew by 0.5% YoY but was impacted by a volume de-growth of 2.5% YoY and lower PVC prices, resulting in destocking at the dealer and distributor levels. Additionally, heavy rain affected Q2FY25. Gross margins remained stable on a YoY basis. Reported EBITDA of Rs 210 Cr declined by 4.5%, though this was influenced by higher employee expenses. The EBITDA margin stood at 15.3%, down 82 bps YoY due to increased employee costs and sluggish growth in construction activities because of the monsoon. Reported PAT of Rs 109 Cr showed a 9% decline YoY.

Astral has maintained its overall EBITDA margin guidance of 16-18%. However, additional costs for new plants, new launches, and new verticals have led to increased expenses, which are expected to be streamlined once volumes rise. On the other hand, operations in the UK are facing difficulties, with revenue flat at Rs 92 Cr and a negative EBITDA of Rs 2 Cr. This highlights challenges due to competition and market conditions.

Key Financials (Consolidated)

(Rs Cr)	Q2Y25	QoQ (%)	YoY (%)	Axis Est.	Variance %
Net Sales	1,370	-1.0	0.5	1,473	-7.0%
EBITDA	210	-2.0	-4.5	228	-8.0%
EBITDA Margin	15.3%	-16	-82	15.5%	-
Net Profit	109	-9.0	-17.5	130	-16.3%
EPS (Rs)	4.0	-9.0	-17.5	4.8	-16.3%

Source: Company, Axis Securities Research

(CMP as 7th November 2024)

CMP (Rs)	1790
Upside /Downside (%)	0.5%
High/Low (Rs)	2,454/1,740
Market cap (Cr)	54,570
Avg. daily vol. (6m) Shrs.	1,10,000
No. of shares (Cr)	26.9

Shareholding (%)

	Mar-24	Jun-24	Sep-24
Promoter	54.1	54.1	54.1
FII's	21.2	22.5	22.3
MFs / UTI	7.9	8.0	8.0
Others	16.7	15.4	15.6

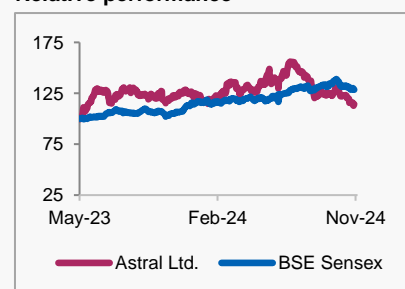
Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
Net Sales	6,390	7,375	8,608
EBITDA	1,054	1,239	1,481
Net Profit	670	800	965
EPS (Rs)	24.9	29.7	35.9
PER (x)	71.9	60.2	49.9
P/BV (x)	44.8	37.6	30.9
EV/EBITDA (x)	12.5	10.6	8.9
ROE (%)	17.5	17.6	17.9

Change in Estimates (%)

Y/E Mar (Rs Cr)	FY25E	FY26E
Net Sales	-4.6%	-5.5%
EBITDA	-6.0%	-7.1%
Net Profit	-6.8%	-7.9%

Relative performance



Source: Ace Equity

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Outlook

Astral experienced elevated EBITDA/kg post-COVID due to high commodity prices, which, combined with its pricing power, resulted in superior profitability. The higher prices also increased working capital demands, often driving smaller players out of the market, benefiting larger players like Astral. However, as commodity prices revert to the mean, EBITDA/kg has begun to decline. Lower commodity prices typically spur increased competition, which pressures margins. Astral's strategy of focusing on lower-margin products has contributed to the deterioration in EBITDA. Given these factors, we anticipate a decrease in EBITDA in the forthcoming quarters as the company faces the dual impact of mean reversion in commodity prices and intensified competition.

Valuations & Recommendation:

Continuous EBITDA deterioration due to low PVC Prices, and higher PEx multiples are not sustainable. Therefore, we **retain our HOLD rating with TP Rs 1,800/share.**

Key Highlights

- **Plastic Segment Performance:** Astral reported a 2.5% YoY volume de-growth in its plastic segment, as industry growth was hampered by the monsoon. The management indicates that Astral, which derives 95% of its revenue from plumbing, has effectively maintained its margins in this segment.
- **Capex and Capacity Utilization:** The company's capital expenditure (Capex) is under control. With current capacity utilization at 60%, Astral is well-positioned to meet future demand as it adds new capacity at its Hyderabad unit in Q4FY25.
- **Plumbing Market Position:** Astral has consistently maintained its market share in the plumbing business. This growth is attributed to its strong brand equity, high-quality products, and robust relationships with plumbers, which distinguish it from competitors.

Key Risks to Our Estimates and TP

- The slowdown in housing demand in the country
- An increase in Interest rates could impact housing demand in the longer term
- An increase in raw material prices could impact the profitability of the company

Change in Estimates

	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	6,390	7,375	6,701	7,804	-4.6%	-5.5%
EBITDA	1,054	1,239	1,122	1,334	-6.0%	-7.1%
PAT	670	800	719	868	-6.8%	-7.9%

Source: Company, Axis Securities Research

Results Review

Particulars (Rs Cr)	Q2FY24	Q3FY24	Q4FY24	Q1Y25	Q2Y25	YoY (%)	QoQ (%)
Net Sales	1,363	1,370	1,625	1,384	1,370	0.5	-1.0
Growth (YoY%)	16.3%	8.1%	7.9%	7.8%	0.5%		
Total Expenditure	1,143	1,165	1,334	1,169	1,160	1.5	-0.8
Raw Material Consumed	833	843	979	823	838	0.6	1.8
% of sales	61.1%	61.5%	60.2%	59.5%	61.1%		
Gross margins (%)	38.9%	38.5%	39.8%	40.5%	38.9%	-3	-168
Employee Expenses	105	114	119	127	128	21.8	1.3
% of sales	7.7%	8.3%	7.3%	9.2%	9.4%		
Other Expenses	205	209	236	220	194	-5.2	-11.7
% of sales	15.0%	15.2%	14.5%	15.9%	14.2%		
EBITDA	220	205	292	214	210	-4.5	-2.0
EBITDAM (%)	16.1%	15.0%	17.9%	15.5%	15.3%	-82	-16
Interest	8	8	8	8	10		
Depreciation	49	50	53	56	60	23.0	7.7
Other Income	13	6	10	12	9		
PBT	177	154	241	163	149	-15.8	-8.7
Tax	45	41	60	44	40		
Tax (%)	25.5%	26.4%	24.9%	26.7%	26.9%		
Reported PAT	132	113	181	119	109	-17.5	-9.0
Associate Profit	0	0	0	0	0		
PAT after EoI	132	113	182	120	109	-17.4	-9.0

Source: Company, Axis Securities Research

Revenue Breakup

(Rs Cr)	Q2FY24	Q3FY24	Q4FY24	Q1Y25	Q2Y25	YoY (%)	QoQ (%)
Plastic	980	998	1,252	1,013	966	-1.4	-4.6
Adhesives	383	372	400	370	404	5.6	9.1

Source: Company, Axis Securities Research

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
Net Sales	5,641	6,390	7,375	8,608
Growth (%)	9.4%	13.3%	15.4%	16.7%
Total Expenditure	4,723	5,336	6,136	7,127
Raw Material Consumed	3,477	3,866	4,440	5,165
Gross margins (%)	38.7%	39.5%	39.8%	40.0%
Employee Expenses	438	575	664	757
% of sales	7.6%	9.0%	9.0%	8.8%
Other Expenses	826	895	1,033	1,205
% of sales	14.2%	14.0%	14.0%	14.0%
EBIDTA	918	1,054	1,239	1,481
EBITDAM (%)	16.3%	16.5%	16.8%	17.2%
Depreciation	198	205	226	247
% of GB	7.5%	7.0%	7.0%	7.0%
EBIT	721	849	1,013	1,233
EBITM (%)	12.8%	13.3%	13.7%	14.3%
Interest	29	26	26	26
Other Income	42	61	67	66
Share of P/L of Associates	-0	9	12	13
PBT	734	894	1,066	1,287
Tax Rate (%)	25.6%	25.0%	25.0%	25.0%
Tax	188	223	267	322
Reported PAT	546	670	800	965

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
Share Capital	27	27	27	27
Reserves & Surplus	3,242	3,811	4,510	5,374
Net Worth	3,269	3,838	4,537	5,401
Total Loan funds	119	107	107	107
Deferred Tax Liability	46	46	46	46
Long Term Provisions	5	5	5	5
Other Long Term Liability	0	0	0	0
Capital Employed	4,498	5,168	6,048	7,138
Gross Block	2,632	2,932	3,232	3,532
Less: Depreciation	867	1,072	1,299	1,546
Net Block	1,765	1,859	1,933	1,986
Investments	0	0	0	0
Sundry Debtors	366	438	505	590
Cash & Bank Bal	610	1,031	1,661	2,440
Loans & Advances	0	0	0	0
Inventory	913	1,050	1,212	1,415
Other Current Assets	97	128	148	172
Total Current Assets	1,121	1,222	1,403	1,629
Current Liab & Prov	1,986	2,647	3,527	4,617
Net Current Assets	865	1,425	2,124	2,988
Total Assets	4,498	5,169	6,048	7,139

Source: Company, Axis Securities Research

Cash Flow
(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
PBT	734	894	1,066	1,287
Add: Depreciation	198	205	226	247
Add: Interest	29	26	26	26
Cash flow from operations	960	1,124	1,318	1,560
Change in working capital	47	41	(5)	33
Taxes	188	223	267	322
Net cash from operations	726	860	1,057	1,205
Capital expenditure	(571)	(300)	(300)	(300)
Net cash from investing	(571)	(300)	(300)	(300)
Increase/Decrease in debt	32	(13)	0	0
Dividends	(101)	(101)	(101)	(101)
Proceedings from equity	0	0	0	0
Interest	(29)	(26)	(26)	(26)
Others	(130)	0	(0)	(0)
Net cash from financing	(228)	(139)	(126)	(126)
Net Inc./(Dec.) in Cash	(73)	421	631	779
Opening cash balance	682	610	1,031	1,661
Closing cash balance	609	1,031	1,661	2,440

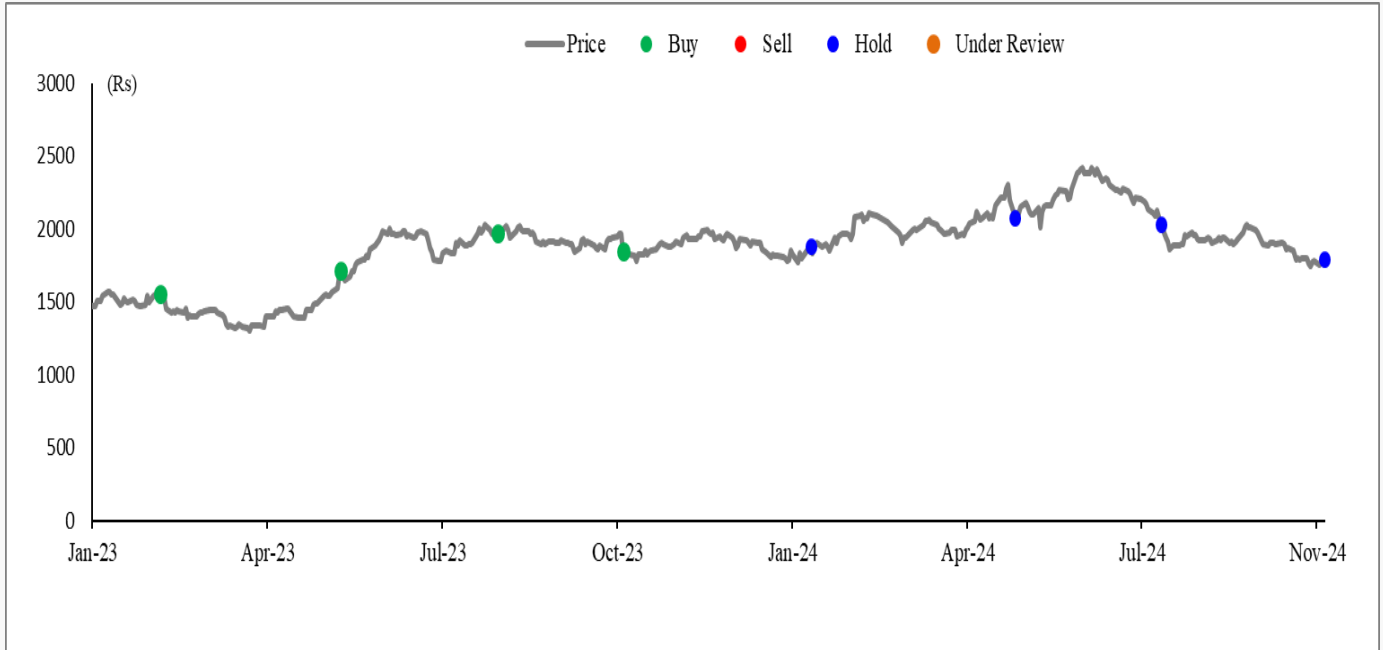
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY24	FY25E	FY26E	FY27E
Sales growth	9.4	13.3	15.4	16.7
OPM	16.3	16.5	16.8	17.2
Op. profit growth	13.4	14.8	17.5	19.5
COGS / Net sales	61.3	60.5	60.2	60.0
Overheads/Net sales	22.4	23.0	23.0	22.8
Depreciation / G. block	7.5	7.0	7.0	7.0
Effective interest rate	25.6	25.0	25.0	25.0
Net working capital / Net sales	0.1	0.1	0.1	0.1
Net sales / Gr block (x)	2.1	2.2	2.3	2.4
RoCE	25.2	27.8	31.6	36.8
Debt/equity (x)	0.0	0.0	0.0	0.0
Effective tax rate	25.6	25.0	25.0	25.0
RoE	16.7	17.5	17.6	17.9
Payout ratio (Div/NP)	374.3	374.3	374.3	374.3
EPS (Rs.)	20.3	24.9	29.7	35.9
EPS Growth	15.5	22.8	19.3	20.7
CEPS (Rs.)	27.6	32.5	38.1	45.1
DPS (Rs.)	3.7	3.7	3.7	3.7

Source: Company, Axis Securities Research

Astral Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
07-Feb-23	BUY	1,725	Result Update
17-May-23	BUY	1,870	Result Update
14-Aug-23	BUY	2,165	Result Update
20-Oct-23	BUY	2,150	Result Update
31-Jan-24	HOLD	2,000	Result Update
22-May-24	HOLD	2,000	Result Update
12-Aug-24	HOLD	2,000	Result Update
08-Nov-24	HOLD	1,800	Result Update

Source: Axis Securities Research

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