Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Astral Ltd

Weak Q2; Focus on growth revival

Building Material	Sharekhan code: ASTRAL
Reco/View: Buy ↔	CMP: **Rs. 1,790**	Price Target: **Rs. 2,150** ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

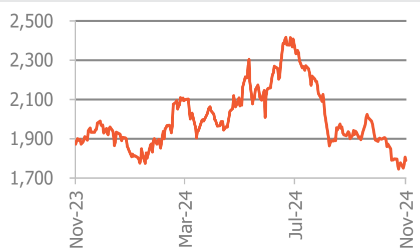
Company details

Market cap:	Rs. 48,073 cr
52-week high/low:	Rs. 2,454/1,729
NSE volume: (No of shares)	1.6 lakh
BSE code:	532830
NSE code:	ASTRAL
Free float: (No of shares)	12.33 cr

Shareholding (%)

Promoters	54
DII	12
FII	22
Others	11

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.1	-15.8	-13.4	-4.5
Relative to Sensex	-3.2	-15.9	-21.6	-26.9

Sharekhan Research, Bloomberg

Summary

- We retain BUY on Astral with a revised PT of Rs. 2,150, factoring downwardly revised estimates and valuation multiple owing to near-term demand sluggishness.
- In Q2FY2025, consolidated earnings lagged estimates owing to lower plumbing volumes, led by a sharp drop in polymer prices coupled with weak operational performance in the U.K. adhesives business. Plumbing OPM stayed strong.
- Management has trimmed its plumbing volume growth guidance to 10-15% y-o-y from >15% for FY2025, while it has retained its 16-18% OPM guidance.
- For FY2025, Indian adhesives are likely to grow at 15% y-o-y, while the U.K. adhesives business is likely to revert to growth from FY2026 with 10% y-o-y growth. Bathware guidance stays unchanged.

Astral Limited's consolidated revenue missed estimates at Rs. 1,370 crore (up 0.5% y-o-y), led by weak plumbing sales volumes (down 2.5% y-o-y), driven by 13.5% correction in PVC prices during Q2FY2025 along with extended monsoons, weak agri, and infra demand. However, consolidated OPM at 15.3% (down 82 bps y-o-y) stayed largely in-line owing to improvement in plumbing OPMs (up 32 bps y-o-y at 18.4%). Revenue of the adhesives business stayed in-line (up 6% y-o-y), led by India adhesives business, while OPM was weak at 10.3% (down 455 bps y-o-y) due to Rs. 2 crore operational loss in the U.K. business (led by U.S. plants initial costs). Overall, consolidated operating profit (down 4.5% y-o-y at Rs. 210 crore) and adjusted net profit (down 16% y-o-y at Rs. 110 crore) came in 11% and 20% lower than our estimate, respectively. Management has trimmed its plumbing volume growth guidance to 10-15% from >15% y-o-y for FY2025 (seeking clarity on the extent of channel destocking), while it has retained 16-18% OPM guidance. The paints business is expected to grow on a y-o-y basis. The Indian adhesives segment is expected to grow at 15% in FY2025, while the U.K. adhesives business is expected to revert to its growth trajectory from FY2026 with 10% y-o-y growth. Bathware revenue guidance stays intact at Rs. 100-125 crore.

Key positives

- Plumbing operating margins stayed firm at 18.4% as it focused on profitability versus volume push.
- Revenue of the Indian adhesive business grew by 9% y-o-y to Rs. 263 crore, maintaining EBITDA margin above 15% at 15.5%.

Key negatives

- Revenue of the U.K. adhesives business stayed flat y-o-y, while it reported EBITDA loss of Rs. 2 crore as against EBITDA of Rs. 9.1 crore in Q2FY2025.
- Plumbing volumes declined by 2.5% y-o-y, led by a sharp dip in PVC prices, extended monsoons, and weak agri and infra-led demand.

Management Commentary

- Management has trimmed down its piping volume growth guidance for FY2025 to 10-15% y-o-y versus earlier >15% y-o-y due to no clarity on the current channel inventory. The company maintained plumbing EBITDA margins at 16-18% and overall consolidated margin guidance of 15-16% for FY2025.
- Bathware revenue guidance is retained at Rs. 100-125 crore in FY2025. India adhesives business is expected to grow at 15% y-o-y in FY2025, while U.K. business is expected to grow at 10% y-o-y in FY2026.
- The government has recently implemented anti-dumping duty on the import of PVC, which has led to a Rs. 1 per kg increase in PVC prices on November 1, 2024, and Rs. 2 per kg on November 7, 2024. Management expects overall rise in PVC prices of Rs. 6-8 per kg on account of anti-dumping duty.

Revision in estimates – We have lowered our net earnings estimates for FY2025-FY2027, factoring in lower plumbing volumes and lower OPMs in the U.K. adhesives business.

Our Call

Valuation – Retain BUY with a revised PT of Rs. 2,150: Astral, like its industry peers, is expected to benefit from strong demand and bottoming out of PVC prices, aided by recently levied anti-dumping duty and expected implementation of BIS norms. Aggressive expansion plans would help Astral capture strong demand growth in the next few years. Scale-up of new businesses viz. plastic tanks, valves, paints, faucets, and sanitaryware would remain the key focus areas for the company. We estimate consolidated revenue/operating profit/net profit to report a CAGR of 17%/19%/21% over FY2024-FY2027E, respectively. The stock is currently trading at a P/E of 60x/49x its FY2026E/FY2027E earnings. We retain BUY on the stock with a revised PT of Rs. 2,150, factoring downwardly revised estimates and valuation multiple to factor in near-term demand sluggishness.

Key Risks

- A sharp rise in adhesives business growth run-rate and profitability of the bathware business.
- Faster scale-up in revenue and profitability in new business verticals.

Valuation (Consolidated) Rs cr

Particulars	FY24	FY25E	FY26E	FY27E
Revenue	5,641	6,302	7,586	9,005
OPM (%)	16.3	16.1	17.3	17.2
Adjusted PAT	546	590	804	974
y-o-y growth (%)	19.6	8.1	36.2	21.2
Adjusted EPS (Rs.)	20.3	21.9	29.9	36.2
P/E (x)	88.2	81.6	59.9	49.4
P/B (x)	15.1	12.8	10.6	8.8
EV/EBITDA (x)	51.9	46.6	35.6	29.7
RoNW (%)	18.5	17.0	19.4	19.5
RoCE (%)	23.4	22.2	25.4	25.6

Source: Company; Sharekhan estimates