PEE AAR SECURITIES LTD.

ASTRAL LTD.

RESEARCH REPORT AS ON 13-07-2022

MARKET CAPITALISATION : 15,194 Cr

CMP : 1760.95

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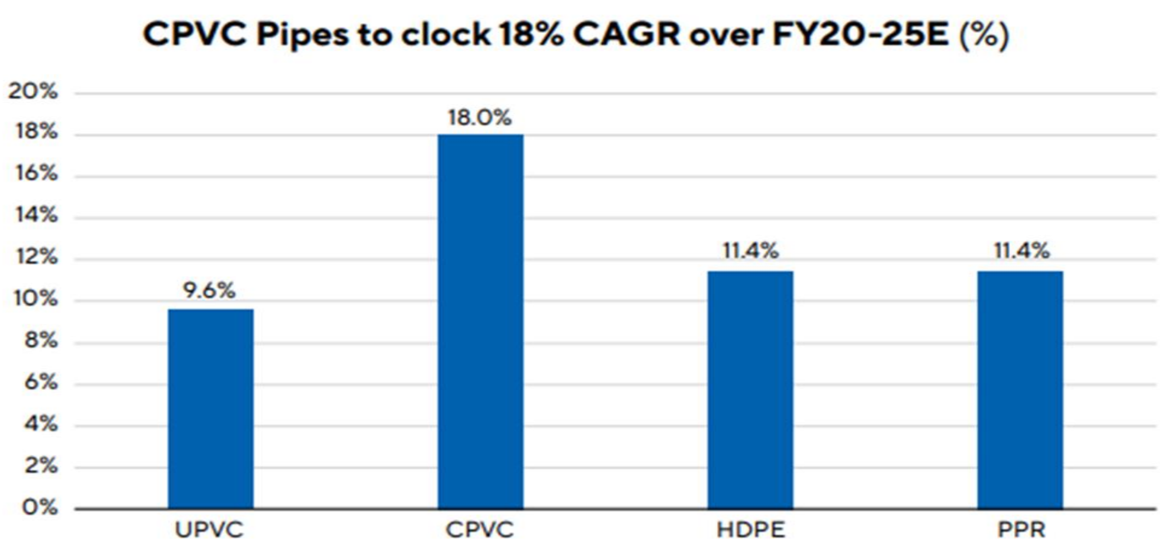
Astral Ltd. (formerly known as Astral Poly Technik Limited) is one of India's leading manufacturers of Chlorinated Poly Vinyl Chloride (CPVC) and Poly Vinyl Chloride (PVC) plumbing systems, for residential, commercial and industrial applications.

Currently, along with being a forerunner in the Piping segment, it has also diversified into the adhesives and sealants segment, infrastructure products and water tank.

The company has backward integrated manufacturing of CPVC compounds and ensures consistent cost savings and efficient raw material supply.



CPVC, which is the fastest growing segment in the pipe sector, is expected to clock 18% CAGR over FY20-25E

COMPANY HISTORY

In 1990s, the fascination of CPVC began in Sandeep Engineer's mind. Engineer observed that in the US, CPVC was the new solution to anti-corrosion for plastic pipes

which was replacing iron & copper pipes.

Astral got the license for CPVC resin from Lubrizol. This is how Astral Poly Technik was incorporated in 1996

Astral was selling pipes at a loss and still the product flopped, People preferred using GI pipes as it was so well established in the market.

Engineer realised that he cannot compete with the giants of the industry like Tata Steel, Jindal Steel etc. for industrial pipes and hence, he decided to shift to plumbing pipes.

Market leader in high-margin CPVC

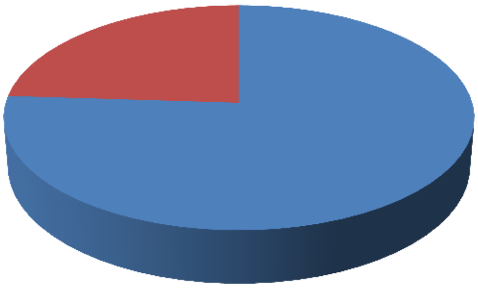
While ASTRA is the fourth-largest company in the overall piping sector in India, it is the largest player in the CPVC pipes & fitting segment (along with Ashirvad Pipes). It has been a pioneer of CPVC pipes in India and currently enjoys ~25% of the market share in this segment. The CPVC market is more organised (~80%) than the PVC pipes segment (~50%).

There has been a largescale shift from metal pipes to CPVC pipes in case of plumbing, hot & cold-water distribution and construction industry. With the required technology posing a major barrier to entry (vs PVC pipes), the organised players (controlling 80% of the CPVC market currently), have grown at a much faster pace. With a large portfolio of CPVC pipes & fitting (~50-55% of its segmental sales), ASTRAL has been able to clock very strong revenue growth (22% in the past 10 years).

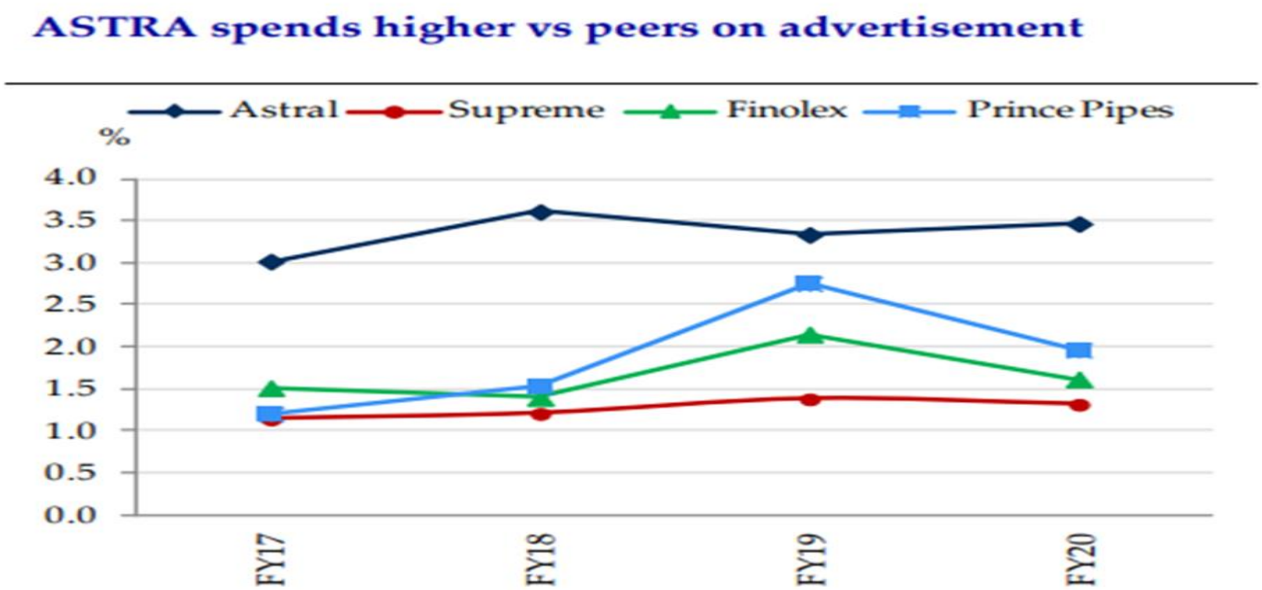
PAN INDIA PRESENCE LEADS TO 2% TO 3% SAVINGS ON LOGISTICS

ASTRA has been increasing its distribution reach as well as distribution productivity over the past five years. As ASTRA expanded its capacity across multiple locations, its logistics cost has remained stable over the past several years.

Revenue Mix (%)

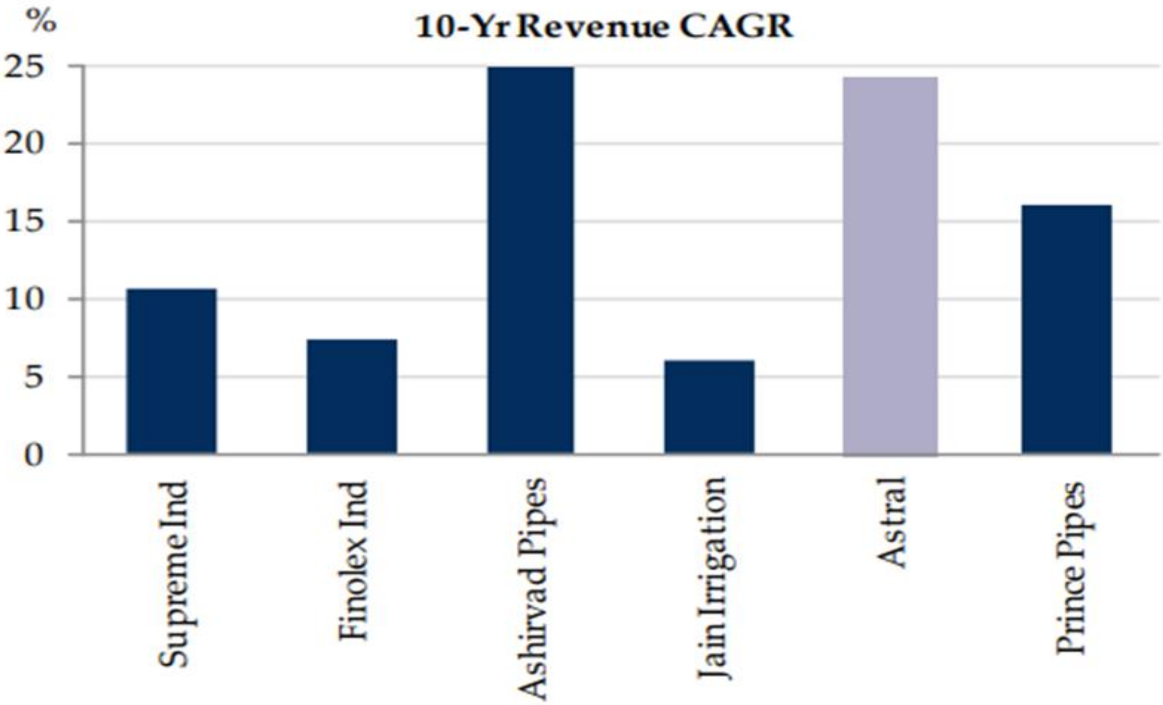


Piping : 76%
Adhesive : 24%

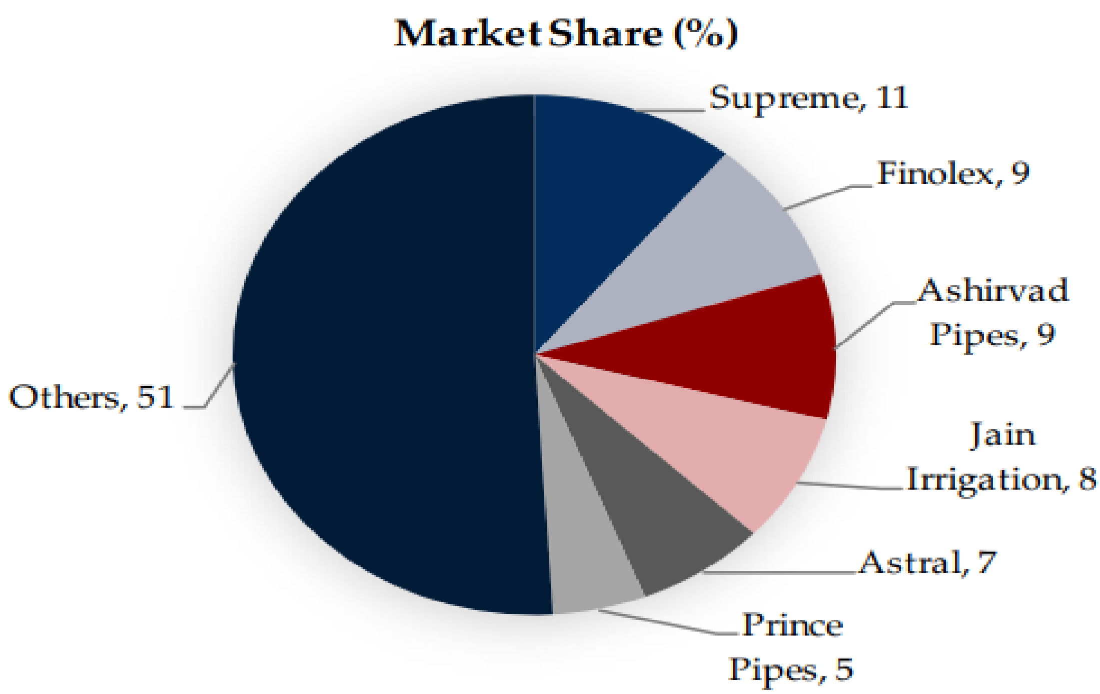


ASTRA has been consistently and aggressively investing in brand promotions through associations with film stars, in-film branding and IPL sponsorships, which along with its large product basket offerings helped it expand its retail distribution, bolstering its revenue growth. After the company broke its tie-ups with Lubrizol (due to higher CPVC resin prices). **In 2016, it set up an in-house compounding facility (backward integrated) and tied up with a Japanese resin supplier Sekisui.** These moves helped the company to secure raw material as well as to expand its brand, leading to better margins.

Astral is among the fastest growing plastic pipe companies in India



…thereby becoming the fourth largest pipe company currently



OPPORTUNITIES

Low per-capita consumption of plastic

Globally the average per-capita consumption of plastic is around 30 kg while that of India is only about 11kg which is very low. Traditional materials dominate the applications of plastic. However, over the past three to four Fiscal years, low crude oil prices and superior properties of plastic have increased the usage of plastic in India. Hence, it is expected that the per-capita consumption will move up towards to the global average.

Healthy growth in government investments towards Water Supply & Sanitation (WSS)

WSS and plumbing are the second largest segments for plastic pipes, accounting for 35-40% share of the plastic pipes market. In the past five Fiscal years (i.e., from April 1, 2014, to March 31, 2019), government expenditure on the sector rose at 22% CAGR.

The Government has also proposed “Nal se Jal” scheme, a component of the Jal Jivan Mission, which promises to provide piped drinking water to every household in the country by the year 2024.

KEY CONCERNS

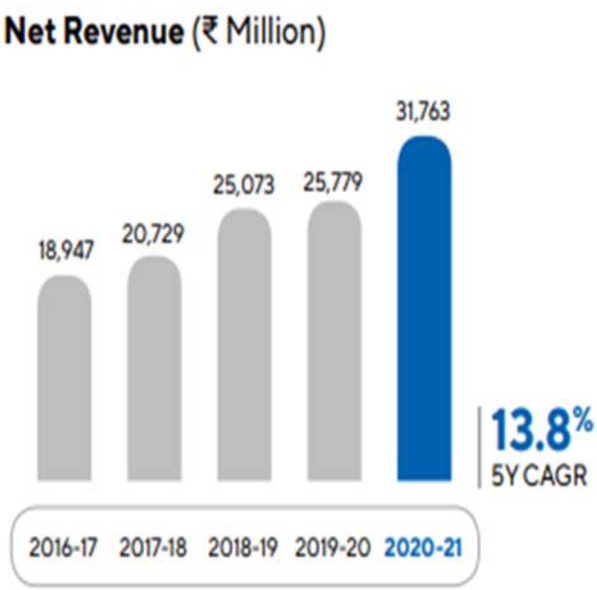
Anti-Dumping Duty

In 2019, the Indian government had imposed anti-dumping duty on CPVC resins originating from China and South Korea, who were major suppliers to India. This hit the players who depend on their raw material sourcing from the said countries. This hit the small unorganised players while helping bigger players like ASTRAL, which have been sourcing the resins from Japan.

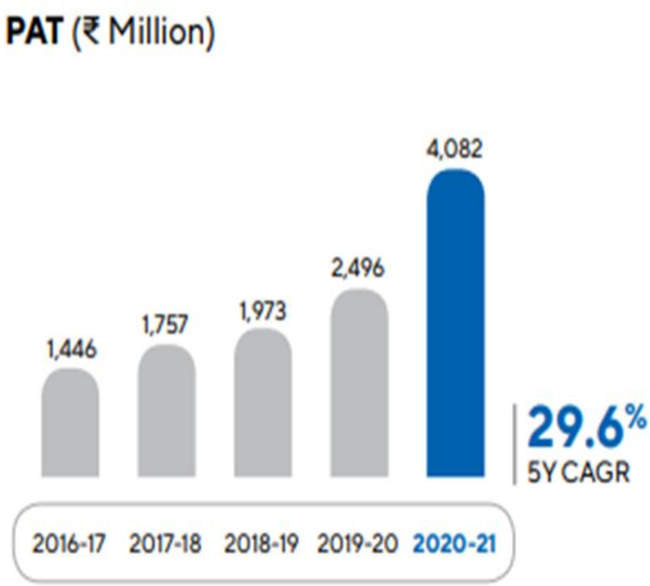
Volatility in Raw material prices

The primary raw materials comprise of UPVC, CPVC, PPR and HDPE resins, which are derived from crude oil by-products. Crude oil prices are volatile and any fluctuations in the prices of crude oil would lead to fluctuations in the prices of the raw materials required to manufacture its products. India is a net importer of PVC and PE as demand growth has outpaced capacity addition. Although capacity expansion plans are in action by major domestic manufacturers but the growth in domestic output won't be seen in the near term. Thus, we are vulnerable to exchange rate, and demand supply mismatch are the key risks faced by players in the pipes and fittings industry.

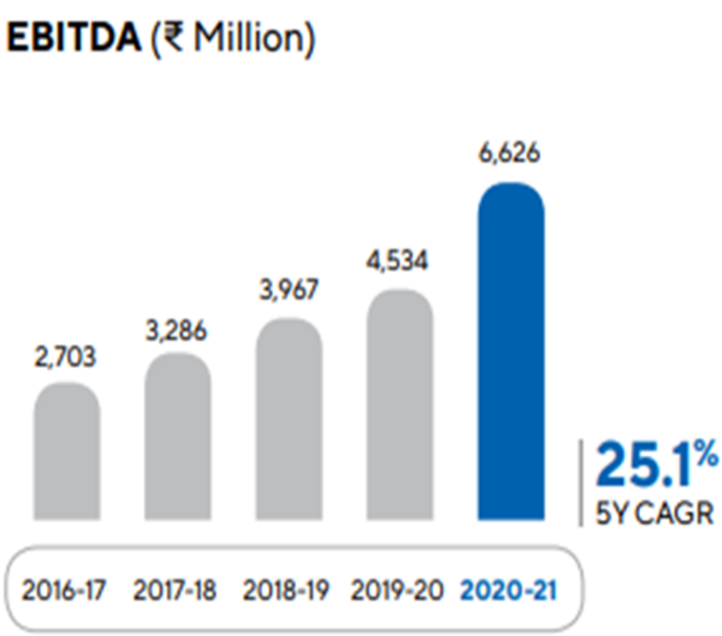
FINANCIALS



Net Revenue (₹ Million)
31,763
18,947
20,729
25,073
25,779
13.8%
5Y CAGR
2016-17
2017-18
2018-19
2019-20
2020-21



PAT (₹ Million)
4,082
2,496
1,446
1,757
1,973
29.6%
5Y CAGR
2016-17
2017-18
2018-19
2019-20
2020-21



EBITDA (₹ Million)
6,626
4,534
3,967
3,286
2,703
25.1%
5Y CAGR
2016-17
2017-18
2018-19
2019-20
2020-21

Gross Profit Margin (%)
38.1
38.0
34.3
33.3
31.2
2016-17
2017-18
2018-19
2019-20
2020-21

KEY RATIOS

Ratios	2020-21	2019-20	Variance (%)
Debtors turnover (in days)	32	32	-
Inventory turnover (in days)	54	77	(29.87)
Interest coverage Ratio*	46.95	15.51	202.71
Current Ratio	1.84	1.57	17.20
Long term Debt Equity Ratio	0.03	0.11	(72.73)
EBIDTA Margin	20.86%	17.59%	18.59
PAT Margin	12.85%	9.68%	32.75
Return on Net Worth	23.77%	17.77%	33.76

ASTRA has an extremely strong control on its working capital in the pipes business. It lowered its debtor days to 32 days in FY20 (closer to the market leader – Supreme's ~25 days) vs its average of 53 days in the preceding five years.

ASTRA's dividend payout has been low in the past as it focused on utilizing cash for growth

ASTRA has high payable days of ~65days (almost double of Supreme Ind), which offsets the liquidly requirements on account of its large inventory holdings. Thus, on overall basis, ASTRA's piping business has a healthy cash conversion cycle of ~30days.

Return on Equity	
10 Years:	**20%**
5 Years:	**21%**
3 Years:	**22%**
Last Year:	**23%**

ASTRA's net profit margin scaled up to a decade-high of 9.6% in FY20. However, the lower utilisation-led falling asset turn prevented it from delivering 20%+ RoE, which the company had been clocking from FY10-14. Its RoE has fallen sharply from the 25% level during FY10-14 to 15-16% during FY15-16, owing to its large acquisition in the adhesive business and subsequent equity dilution (to keep the balance sheet under check). Management has guided that, FY21 onwards, its Capex run rate will fall sharply as it will focus on increasing utilisation across all business segments. Thus, with the dual tailwinds of strong net margin and rising asset turn, RoE should expand to ~22-23% during FY22-23E. Similarly, we expect RoCE to scale up to 23% in FY23E from 17% in FY20, riding on the strong pick-up in its operating margin.

CONCLUSION

“ WE MAY BUY “

The pipe industry is likely to consolidate following the second wave of the COVID-19 pandemic as unorganized regional players seem to be highly affected amid the pandemic. Also, the government is expected to increase its spending on pipe installations under several schemes such as Nal-Se-Jal, a low-cost housing scheme, among others. Also, polymer price volatility will support cash-rich companies because they can manage the additional working capital requirement. The company as an industry leader is well-positioned to benefit from the favorable pricing in the CPVC pipe segment in the coming years. Moreover, higher PVC pricing will lead to market cannibalization toward CPVC products

The major drivers of the industry such as rising disposable incomes, increasing population, growing urbanisation, growing demand for larger and cost-effective sewage lines, infrastructural developments, and the growing demand from the chemical, oil and natural gas industry and the rising construction activities worldwide are expected to aid the market growth.