Building Materials - Plastic Products

India I Equities

Company Update

Change in Estimates ☑ Target ☑ Reco ☑

26 November 2024

# Astral

Rating: **Buy**
Target Price: Rs.2,666
Share Price: Rs.1,783

*Standing tall in tough times; robust outlook, upgrading to a Buy*

**In the extremely volatile PVC pricing context Astral's performance was decent though revenue was up only 0.5% to a muted Rs13.7bn. Despite the challenging situation, the gross margin held y/y at a stable 38.9%. Cost front-loading in certain businesses at early stages led to the EBITDA margin coming 82bps lower y/y to 15.3%. PAT fell a huge 16% y/y due to other income down 34% y/y and depreciation/interest expense up 23%/27% y/y.**

**Soft plumbing performance.** Plumbing revenue was slightly down (1.4%) y/y to Rs9.6bn, EBITDA slightly up (0.3%) y/y to Rs 1.8bn. Sales volumes were down 2.5% y/y to 50,754 tonnes while realisation/tonne rose 1.1% y/y to Rs190.

**Mixed performance in paints & adhesives.** Revenue stepped up 5.6% y/y; profitability was hit as the EBITDA margin contracted 455bps y/y to 10.3%.

**Continuing with capex plans; expand/enhance regions/reach in paint.** The Hyderabad plant began operations in Sep'24; commercial production of O-PVC at the Dholka plant and PTMT plastic taps will begin by end-Q3 FY25. This will broaden its geographical reach in paints to Rajasthan, Karnataka, Gujarat and Maharashtra.

**Outlook & Valuation.** The balance sheet continues to be lean (Rs 2.7bn cash surplus, down 50% due to capex). Management expects 10-15%/15% volume/revenue growth in plumbing/paints & adhesives in FY25. Adhesive margin guidance: India 15%, overseas 8-10%; overall capex guidance: Rs1bn. We expect strong 18%/22%/24% revenue/EBITDA/PAT CAGRs over FY24-27; hence, upgrade the stock to a Buy with a TP of Rs2,666, 68.75x FY27e EPS (earlier a Hold, at a Rs1,793 TP, 62.5x FY25e).

**Risks:** Keener competition, raw material availability and pricing.

| Key financials (YE Mar) | FY23 | FY24 | FY25e | FY26e | FY27e |
|---|---|---|---|---|---|
| Sales (Rs m) | 51,585 | 56,414 | 64,522 | 75,906 | 92,845 |
| Net profit (Rs m) | 4,714 | 5,461 | 6,291 | 7,906 | 10,432 |
| EPS (Rs) | 17.5 | 20.3 | 23.4 | 29.4 | 38.8 |
| P/E (x) | 101.7 | 87.8 | 76.2 | 60.7 | 46.0 |
| EV / EBITDA (x) | 58.5 | 51.7 | 44.6 | 35.8 | 27.5 |
| P/BV (x) | 17.7 | 15.0 | 12.8 | 10.7 | 8.8 |
| RoE (%) | 18.7 | 18.5 | 18.1 | 19.2 | 21.0 |
| RoCE (%) after tax | 17.6 | 17.4 | 17.6 | 18.6 | 20.4 |
| Dividend yield (%) | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Net debt / equity (x) | (0.2) | (0.2) | (0.2) | (0.3) | (0.4) |

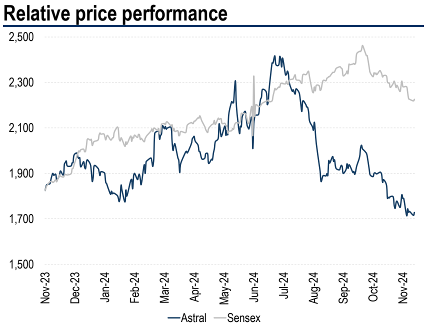
*Source: Company, Anand Rathi Research*

| Key data | ASTRA IN / ASPT.BO |
|---|---|
| 52-week high / low | Rs.2,454 / 1,696 |
| Sensex / Nifty | 80,109 / 24,222 |
| 3-m average volume | $12.4m |
| Market cap | Rs.479bn / $5,686m |
| Shares outstanding | 269m |

| Shareholding pattern (%) | Sep'24 | Jun'24 | Mar'24 |
|---|---|---|---|
| Promoters | 54.1 | 54.1 | 54.1 |
| *- of which, Pledged* | - | - | - |
| Free float | 45.9 | 45.9 | 45.9 |
| - Foreign institutions | 22.3 | 22.5 | 21.2 |
| - Domestic institutions | 12.5 | 12.4 | 12.9 |
| - Public | 11.1 | 11.0 | 11.8 |

| Estimates revision (%) | FY25e |
|---|---|
| Sales | (11.2) |
| EBITDA | (15.2) |
| PAT | (18.5) |

**Relative price performance**




*Source: Bloomberg*

**Rishab Bothra**
**Research Analyst**

# Quick Glance – Financials and Valuations (consol.)

### Fig 1 – Income statement (Rs m)

| Year-end: Mar | FY23 | FY24 | FY25e | FY26e | FY27e |
|---|---|---|---|---|---|
| Net revenues | 51,585 | 56,414 | 64,522 | 75,906 | 92,845 |
| *Growth (%)* | *17.4* | *9.4* | *14.4* | *17.6* | *22.3* |
| Direct costs | 34,347 | 34,590 | 40,326 | 48,628 | 60,930 |
| SG&A | 9,139 | 12,641 | 13,610 | 14,232 | 15,232 |
| **EBITDA** | **8,099** | **9,183** | **10,586** | **13,046** | **16,683** |
| *EBITDA margins (%)* | *15.7* | *16.3* | *16.4* | *17.2* | *18.0* |
| - Depreciation | 1,781 | 1,976 | 2,279 | 2,553 | 2,773 |
| Other income | 267 | 421 | 403 | 380 | 348 |
| Interest expenses | 400 | 291 | 323 | 332 | 348 |
| PBT | 6,203 | 7,337 | 8,387 | 10,541 | 13,910 |
| *Effective tax rate (%)* | *25.2* | *25.6* | *25.0* | *25.0* | *25.0* |
| + Associates / (Minorities) | 44 | -4 | - | - | - |
| Net income | 4,732 | 5,461 | 6,291 | 7,906 | 10,432 |
| Adj. income | 4,714 | 5,461 | 6,291 | 7,906 | 10,432 |
| WANS | 269 | 269 | 269 | 269 | 269 |
| FDEPS (Rs) | 17.5 | 20.3 | 23.4 | 29.4 | 38.8 |
| *FDEPS growth (%)* | *-2.9* | *15.8* | *15.2* | *25.7* | *32.0* |
| *Gross margins (%)* | *33.4* | *38.7* | *37.5* | *35.9* | *34.4* |

### Fig 2 – Balance sheet (Rs m)

| Year-end: Mar | FY23 | FY24 | FY25e | FY26e | FY27e |
|---|---|---|---|---|---|
| Share capital | 269 | 269 | 269 | 269 | 269 |
| Net worth | 27,112 | 31,881 | 37,499 | 44,732 | 54,492 |
| Debt | 773 | 964 | 1,192 | 1,423 | 1,704 |
| Minority interest | 2,477 | 804 | 750 | 625 | 500 |
| DTL / (Assets) | 299 | 439 | 439 | 439 | 439 |
| **Capital employed** | **30,661** | **34,088** | **39,880** | **47,220** | **57,136** |
| Net tangible assets | 13,923 | 17,646 | 20,146 | 21,709 | 22,709 |
| Net intangible assets | 2,457 | 2,215 | 2,215 | 2,215 | 2,215 |
| Goodwill | 3,125 | 3,133 | 3,133 | 3,133 | 3,133 |
| CWIP (tang. & intang.) | 1,261 | 1,506 | 1,250 | 875 | 375 |
| Investments (strategic) | - | - | - | - | - |
| Investments (financial) | - | - | - | - | - |
| Current assets (excl. cash) | 3,743 | 1,470 | 1,470 | 1,470 | 1,470 |
| Cash | 6,821 | 6,096 | 8,338 | 13,793 | 22,201 |
| Current liabilities | 4,960 | 2,151 | 2,196 | 2,474 | 2,916 |
| Working capital | 4,291 | 4,173 | 5,524 | 6,499 | 7,949 |
| **Capital deployed** | **30,661** | **34,088** | **39,880** | **47,220** | **57,136** |
| Contingent liabilities | 94 | 27 | - | - | - |

### Fig 3 – Cash-flow statement (Rs m)

| Year-end: Mar | FY23 | FY24 | FY25e | FY26e | FY27e |
|---|---|---|---|---|---|
| EBIT (before other income) | 6,852 | 8,049 | 9,113 | 11,253 | 14,606 |
| + Non-cash items | 1,781 | 1,976 | 2,279 | 2,553 | 2,773 |
| Oper. prof. before WC | 8,633 | 10,025 | 11,392 | 13,805 | 17,379 |
| - Incr. / (decr.) in WC | (542) | (245) | (1,306) | (697) | (1,008) |
| Others incl. taxes | (2,012) | (2,180) | (2,500) | (3,015) | (3,826) |
| Operating cash-flow | 6,079 | 7,600 | 7,586 | 10,094 | 12,546 |
| - Capex (tang.+ intang.) | (5,797) | (5,702) | (4,523) | (3,740) | (3,273) |
| Free cash-flow | 282 | 1,898 | 3,063 | 6,353 | 9,273 |
| Acquisitions | - | - | - | - | - |
| - Div. (incl. buyback & taxes) | (605) | (673) | (673) | (673) | (673) |
| + Equity raised | 68 | - | - | - | - |
| + Debt raised | (78) | 191 | 228 | 231 | 281 |
| - Fin investments | - | - | - | - | - |
| - Misc. (CFI + CFF) | 718 | (2,142) | (377) | (457) | (473) |
| Net cash-flow | 385 | (725) | 2,242 | 5,455 | 8,408 |

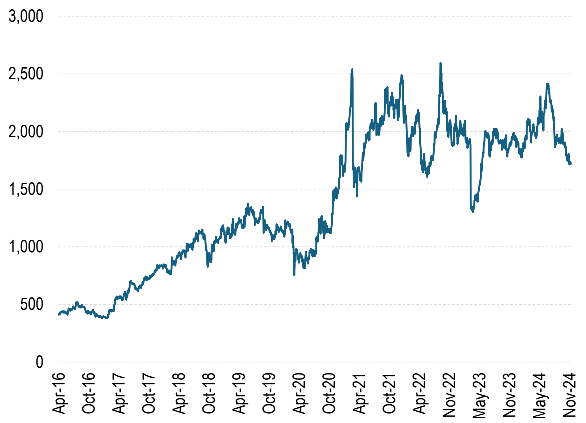
*Source: Company, Anand Rathi Research*

### Fig 4 – Ratio analysis

| Year-end: Mar | FY23 | FY24 | FY25e | FY26e | FY27e |
|---|---|---|---|---|---|
| P/E (x) | 101.7 | 87.8 | 76.2 | 60.7 | 46.0 |
| EV / EBITDA (x) | 58.5 | 51.7 | 44.6 | 35.8 | 27.5 |
| EV / Sales (x) | 9.2 | 8.4 | 7.3 | 6.2 | 4.9 |
| P/B (x) | 17.7 | 15.0 | 12.8 | 10.7 | 8.8 |
| RoE (%) | 18.7 | 18.5 | 18.1 | 19.2 | 21.0 |
| RoCE (%) - after tax | 17.6 | 17.4 | 17.6 | 18.6 | 20.4 |
| RoIC (%) | 26.7 | 24.7 | 24.3 | 27.6 | 34.2 |
| DPS (Rs) | 2.3 | 2.5 | 2.5 | 2.5 | 2.5 |
| Dividend yield (%) | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Dividend payout (%) - incl. DDT | 12.8 | 12.3 | 10.7 | 8.5 | 6.4 |
| Net debt / equity (x) | (0.2) | (0.2) | (0.2) | (0.3) | (0.4) |
| Receivables (days) | 25.1 | 24.3 | 25.0 | 25.0 | 25.0 |
| Inventory (days) | 61.9 | 59.1 | 62.5 | 62.5 | 62.5 |
| Payables (days) | 56.6 | 56.4 | 56.3 | 56.3 | 56.3 |
| CFO : PAT % | 129.3 | 139.2 | 120.6 | 127.7 | 120.3 |

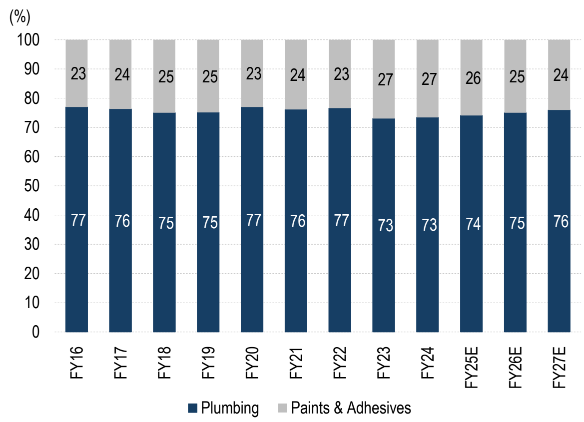
*Source: Company, Anand Rathi Research*

### Fig 5 – Price movement




*Source: Bloomberg*

### Fig 6 – Revenue-mix trend




*Source: Company*

# Financial highlights

**Fig 7 – Quarterly performance (consolidated)**

| (Rs m) | Q2 FY24 | Q1 FY25 | Q2 FY25 | % Y/Y | % Q/Q | H1 FY24 | H1 FY25 | % Y/Y | FY23 | FY24 | % Y/Y |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Income** | **13,630** | **13,836** | **13,704** | ***0.5*** | ***(1.0)*** | **26,461** | **27,540** | ***4.1*** | **51,585** | **56,414** | ***9.4*** |
| Raw material costs | 8,328 | 8,226 | 8,378 | *0.6* | *1.8* | 16,378 | 16,604 | *1.4* | 34,347 | 34,590 | *0.7* |
| Employee costs | 1,053 | 1,267 | 1,283 | *21.8* | *1.3* | 2,049 | 2,550 | *24.5* | 3,193 | 4,384 | *37.3* |
| Other expenses | 2,048 | 2,199 | 1,942 | *(5.2)* | *(11.7)* | 3,817 | 4,141 | *8.5* | 5,946 | 8,257 | *38.9* |
| **EBITDA** | **2,335** | **2,263** | **2,189** | ***(6.3)*** | ***(3.3)*** | **4,472** | **4,452** | ***(0.4)*** | **8,351** | **9,603** | ***15.0*** |
| Other income | 134 | 119 | 88 | *(34.3)* | *(26.1)* | 255 | 207 | *(18.8)* | 267 | 421 | *57.7* |
| Depreciation | 487 | 556 | 599 | *23.0* | *7.7* | 950 | 1,155 | *21.6* | 1,781 | 1,976 | *10.9* |
| Finance costs | 80 | 76 | 102 | *27.5* | *34.2* | 138 | 178 | *29.0* | 400 | 291 | *(27.3)* |
| **PBT** | **1,768** | **1,631** | **1,488** | ***(15.8)*** | ***(8.8)*** | **3,384** | **3,119** | ***(7.8)*** | **6,152** | **7,336** | ***19.2*** |
| Tax | 451 | 436 | 401 | *(11.1)* | *(8.0)* | 874 | 837 | *(4.2)* | 1,557 | 1,880 | *20.7* |
| **PAT** | **1,312** | **1,204** | **1,100** | ***(16.2)*** | ***(8.6)*** | **2,505** | **2,304** | ***(8.0)*** | **4,566** | **5,461** | ***19.6*** |
| EPS (Rs) | 4.9 | 4.5 | 4.1 | *(16.2)* | *(8.6)* | 9.3 | 8.6 | *(8.0)* | 17.0 | 20.3 | *19.6* |
| **As % of income** | | | | **bps y/y** | **bps q/q** | | | **bps y/y** | | | **bps y/y** |
| Material costs | 61.1 | 59.5 | 61.1 | *3* | *168* | 61.9 | 60.3 | *(160)* | 66.6 | 61.3 | *(527)* |
| **Gross margin** | 38.9 | 40.5 | 38.9 | *(3)* | *(168)* | 38.1 | 39.7 | *160* | 33.4 | 38.7 | *527* |
| Employee costs | 7.7 | 9.2 | 9.4 | *164* | *20* | 7.7 | 9.3 | *152* | 6.2 | 7.8 | *158* |
| Other expenses | 15.0 | 15.9 | 14.2 | *(85)* | *(172)* | 14.4 | 15.0 | *61* | 11.5 | 14.6 | *311* |
| **EBITDA margin** | 16.1 | 15.5 | 15.3 | *(82)* | *(16)* | 15.9 | 15.4 | *(52)* | 15.7 | 16.3 | *58* |
| Other income | 1.0 | 0.9 | 0.6 | *(34)* | *(22)* | 1.0 | 0.8 | *(21)* | 0.5 | 0.7 | *23* |
| Depreciation | 3.6 | 4.0 | 4.4 | *80* | *35* | 3.6 | 4.2 | *60* | 3.5 | 3.5 | *5* |
| Finance costs | 0.6 | 0.5 | 0.7 | *16* | *20* | 0.5 | 0.6 | *12* | 0.8 | 0.5 | *(26)* |
| **PBT margin** | 13.0 | 11.8 | 10.9 | *(211)* | *(93)* | 12.8 | 11.3 | *(146)* | 11.9 | 13.0 | *108* |
| Effective tax rate | 25.5 | 26.7 | 26.9 | *144* | *22* | 25.8 | 26.8 | *101* | 25.3 | 25.6 | *32* |
| **PAT margin** | 9.7 | 8.6 | 7.9 | *(173)* | *(70)* | 9.5 | 8.3 | *(118)* | 9.2 | 9.7 | *51* |
| **Segment revenues (Rs m)** | | | | **% Y/Y** | **% Q/Q** | | | **% Y/Y** | | | **% Y/Y** |
| Plumbing | 9,804 | 12,252 | 9,664 | *(1.4)* | *(21.1)* | 19,187 | 19,796 | *3.2* | 37,675 | 41,420 | *9.9* |
| Paints & Adhesives | 3,826 | 3,704 | 4,040 | *5.6* | *9.1* | 7,274 | 7,744 | *6.5* | 13,910 | 14,994 | *7.8* |
| **Total Revenue** | **13,630** | **15,956** | **13,704** | *0.5* | *(14.1)* | **26,461** | **27,540** | *4.1* | **51,585** | **56,414** | *9.4* |
| **Segment EBIT (Rs m)** | | | | | | | | | | | |
| Plumbing | 1,398 | 1,400 | 1,323 | *(5.4)* | *(5.5)* | 2,666 | 2,723 | *2.1* | 5,144 | 6,054 | *17.7* |
| Paints & Adhesives | 380 | 260 | 241 | *(36.6)* | *(7.3)* | 719 | 501 | *(30.3)* | 1,349 | 1,395 | *3.4* |
| Total EBIT | **1,778** | **1,660** | **1,564** | *(12.0)* | *(5.8)* | **3,385** | **3,224** | *(4.8)* | **6,493** | **7,449** | *14.7* |
| **Revenue mix (%)** | | | | **bps y/y** | **bps q/q** | | | **bps y/y** | | | **bps y/y** |
| Plumbing | 71.9 | 76.8 | 70.5 | *(14)* | *(627)* | 72.5 | 71.9 | *(63)* | 73.0 | 73.4 | *39* |
| Paints & Adhesives | 28.1 | 23.2 | 29.5 | *14* | *627* | 27.5 | 28.1 | *63* | 27.0 | 26.6 | *(39)* |
| **Total** | 100 | 100 | 100 | - | - | 100 | 100 | - | 100 | 100 | - |
| **EBIT margin (%)** | | | | | | | | | | | |
| Plumbing | 14.3 | 11.4 | 13.7 | *(57)* | *226* | 13.9 | 13.8 | *(14)* | 13.7 | 14.6 | *96* |
| Paints & Adhesives | 9.9 | 7.0 | 6.0 | *(397)* | *(105)* | 9.9 | 6.5 | *(341)* | 9.7 | 9.3 | *(39)* |
| **Overall EBIT margin** | **13.0** | **10.4** | **11.4** | ***(163)*** | ***101*** | **12.8** | **11.7** | ***(109)*** | **12.6** | **13.2** | ***62*** |

*Source: Company, Anand Rathi Research*

# Q2 FY25 – Results Analysis

**Decent show in a challenging context, front-loading certain costs cuts margins, brighter days ahead, seems like all engines to fire at the same time**

- Muted revenue: up 0.5% y/y to Rs13.7bn.
- The heavy monsoon and low government infra spending led to soft demand; hence, lower industry offtake. Yet, the company delivered minor growth.
- Vast distributor and dealer de-stocking; raw material (PVC) prices were highly volatile, trending downward (polymer prices, 13.5% lower q/q).
- Despite the challenging context, the gross margin was unchanged y/y at 38.9%, leading to the gross profit inching up 0.5% y/y to Rs5.3bn.
- Cost front-loading in certain businesses at early stages led to the EBITDA margin contracting 82bps y/y to 15.3%, resulting in EBITDA being 4.5% lower y/y to Rs2.1bn.
- PAT was down 16.2% y/y to Rs1.1bn on Other income down 34% y/y and depreciation/interest expense up 23%/27% y/y, resulting in a 160bp y/y contraction in the margin to 8%.

## Segment-wise details

#### Plumbing (pipes, fittings, tanks, bathware)

- Plumbing revenue was down 1.4% y/y to Rs 9.6bn, EBITDA was up 0.3% y/y to Rs 1.8bn, while EBIT was 5.4% lower y/y to Rs 1.3bn leading to 57bp y/y contraction in the margin to 13.7%.
- Sales volumes 2.5% down y/y to 50,754 tonnes; realisation/tonne rose 1.1% y/y to Rs190.
- The Hyderabad plant began commercial production in Sep'24; utilisation will be raised in H2 leading to more offtake in the south.
- Commercial production of O-PVC at the Dholka plant will commence in Q3 FY25 post ISI approval as trial production is on after delivery and installation of the first set of machinery. Management said delivery of two additional machines will take place soon.
- The company has completed trail runs for its PTMT plastic tap range (150 SKUs) and has received encouraging responses. Commercial production will commence in Q3 FY25.
- Q2 /H1 bathware revenue grew 63.3/74.9% y/y to Rs289m/551m.

#### Paints (Astral Coatings, erstwhile Gem Paints) and Adhesives (erstwhile Resinova + Seal It)

- Though paints & adhesive revenue rose 5.6% y/y to Rs4bn, EBITDA/ EBIT were 27%/37% lower y/y to Rs415m/241m, resulting in a 455/397bp contraction in the margins to 10.3%/6%.
- In paints, the company made a foray into Gujarat and Karnataka toward end-Jun'24, in Maharashtra in Q2 FY25, and into Rajasthan shortly. Products launched in these regions are under the **Astral Paints** brand.

## Other details

- Working capital was broadly the same as in Mar'24 as greater stocks (24%) were offset by increase in debtors (41%) compared to Mar'24.
- Working capital days were 43, broadly unchanged; however, there were changes in between; inventory 16 days more to 75 and debtors, 16 days fewer to 24.
- Gross debt was Rs1.1bn; net cash, Rs2.7bn. However, this reduced significantly, almost halved from Rs5.1bn

# Q2 FY25 - Concall KTAs

- Polymer prices stabilised in Oct'24 and started inching up in Nov'24, on international pricing parity (due to higher freight costs) and anti-dumping duties on PVC.
- PVC products' performance was not encouraging; CPVC growth was healthy and contributed to margins.
- Inventory loss of Rs100m-150m in the quarter.
- Increase in working capital mainly due greater inventories, anticipating huge demand; however, the situation turned out otherwise.
- Employee costs rose 20% y/y, driven by hiring personnel for initiatives like Adhesive Bharat, launches of 12 products in the US, and establishing several plants in India.

## Segment details

**Plumbing (pipes, fittings, water tanks, bathware)**

- Business momentum subdued owing to i) volatile PVC and polymer prices with a downward bias, ii) prolonged monsoon, curbing construction and agriculture and iii) low infra spending by the government.
- Management does not foresee concerns regarding PVC/CPVC w.r.t application of OPVC, a product providing solutions for water transportation and replacing ductile iron, with enormous growth potential.
- CPVC prices are now stable, and the company is growing and gaining market share.

**Paints (Astral Coatings, erstwhile Gem Paints) and Adhesives (erstwhile Resinova + Seal It)**

**Adhesives**

**India business**

- Capacity utilisation: 55-60%.
- The India business grew 8.7%/11.5% in Q2/H1 FY25 and retained 15% EBITDA margin.
- Heavy rains kept the business slightly lower in Q2, but management expects to make up the loss with business expected to pick up in H2.

**Overseas business**

- Growth in the UK business was flat, the EBITDA 2% lower y/y. The business was faced with challenges in H1 on the launch of 12 products, with employee (manpower) costs rising. Margins, too, were hit, by peers' de-stocking. However, management is confident of double-digit growth with normal EBITDA margins in H2 FY25.
- The company has developed adhesives with advanced technology in the UK; initial responses have been encouraging. The products will be launched in the coming two quarters; the company is exploring making similar products in India.
- Losses in the US business are accounted for through the UK. While the UK business operates at low margins, it was profitable.

#### Paints

- The company was faced with margin pressures in paints on under-absorption of fixed overheads. Its paints business has expanded to regions such as Gujarat, Maharashtra and Rajasthan and the company aims to go all-India. Also branding expenses are being incurred as the company wants to introduce paints to other regions (other than southern India, Gem Paints' home territory) as **Astral Paints.**

#### Manufacturing plants, capex plans

- The Giloth plant expansion for fittings with 22 machines is ready and production will commence from Nov with 4,000-tonne capacity.
- Construction of a plant at Kanpur is going as planned and management expects trial production of water tanks and other products in Q4 FY25.
- On commissioning the water tank plant at Hyderabad, the company has started producing pipes (initial capacity: 21,000 tonnes); machines will be added in Q4 FY25.
- The company is getting a very good response to infra pipes, double-walled corrugated pipes; hence, management is amping capacity by 5,000 tonnes scheduled to come up by Q4 FY25.
- Commercial production of 50 SKUs of ball valves will start from Q4.

### Other highlights

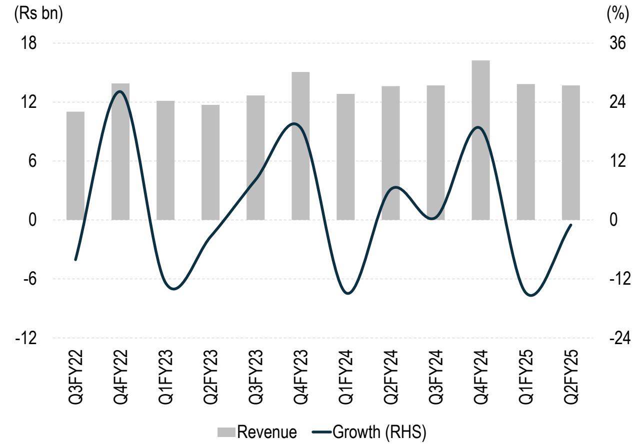
- BIS implementation will lead to price hikes of Rs6-8/tonne (incl. the current increase of Rs3). This will not have a substantial effect on pricing because of the anti-dumping duty. There will, however, be a shift from the grey to the formal segment.

### Outlook, Guidance

- Management expects 10-15% volume growth in plumbing in FY25. In OPVC, it expects Rs1bn revenue in the first year of operation.
- It expects its India adhesives business to grow 15% in FY25 and capture market share because it will grow 3-5% more than the industry. Management expects double-digit growth in its UK business.
- Margin guidance for its adhesive business in India/UK: 15/8-10%.
- Paints to deliver Rs2bn added revenue owing to the launch of the Astral brand and expansion to other regions.
- Capex guidance: Rs1bn.

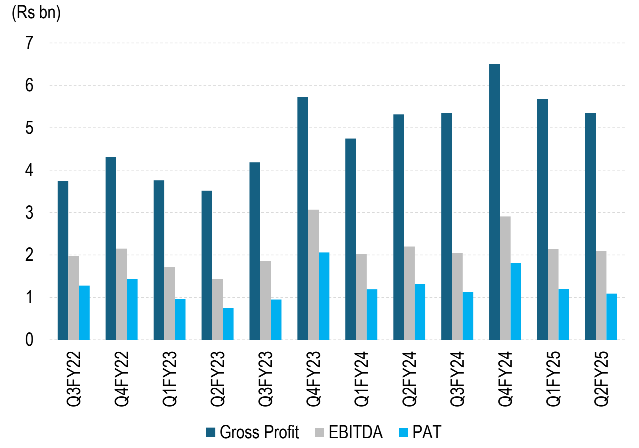
# Story in charts

### Fig 8 – Revenue and growth



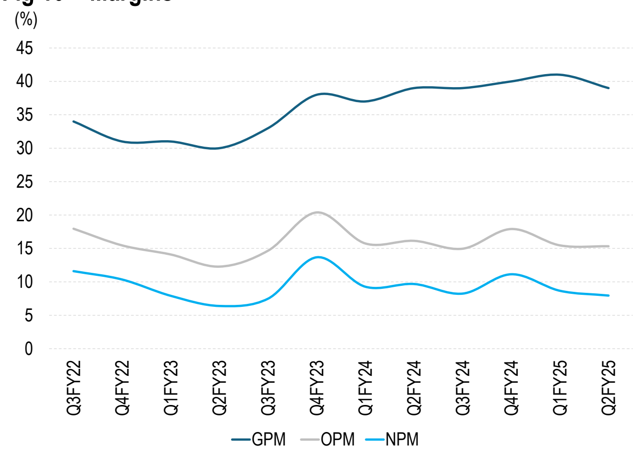

*Source:; Company, Anand Rathi Research*

### Fig 9 – Profitability



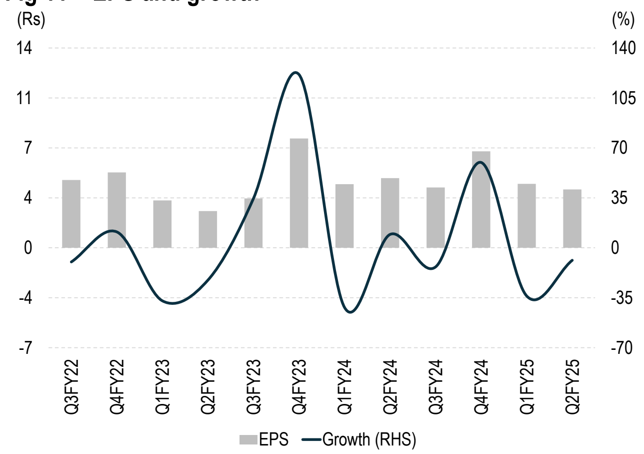

*Source: Company, Anand Rathi Research*

### Fig 10 – Margins



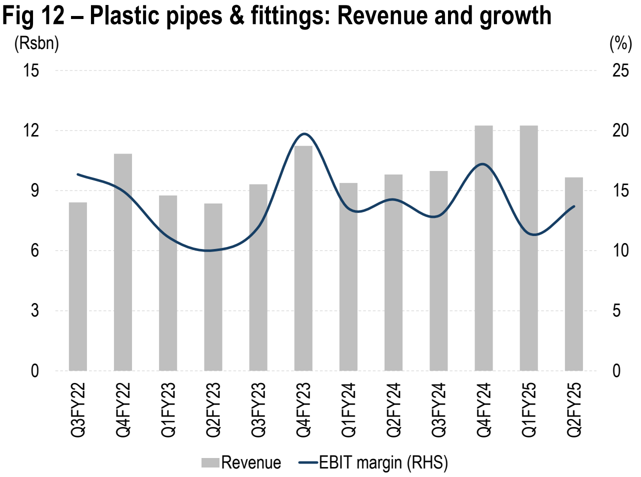

*Source: Company, Anand Rathi Research*

### Fig 11 – EPS and growth



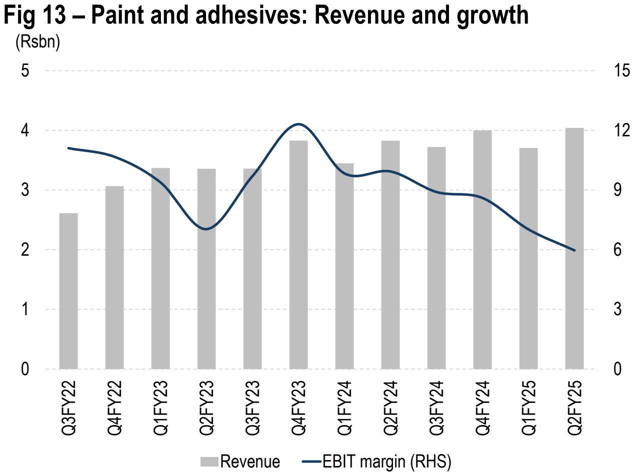

*Source: Company, Anand Rathi Research*

### Fig 12 – Plastic pipes & fittings: Revenue and growth




*Source: Company, Anand Rathi Research*

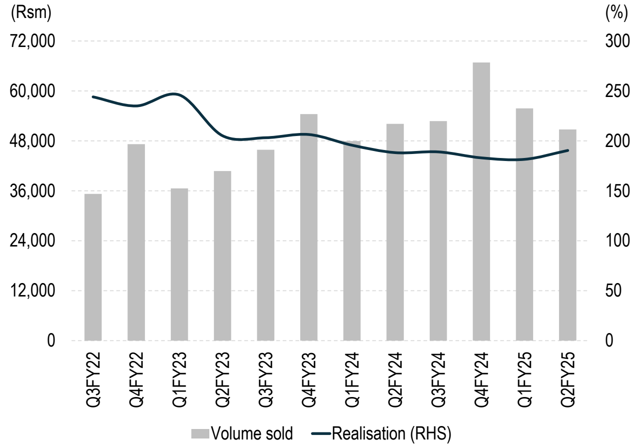
### Fig 13 – Paint and adhesives: Revenue and growth




*Source: Company, Anand Rathi Research*

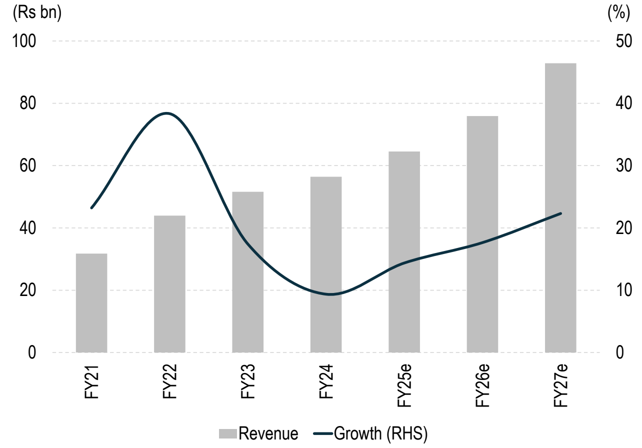
# Story in charts continues

### Fig 14 – Plastic – Sales volumes, realisation - quarterly



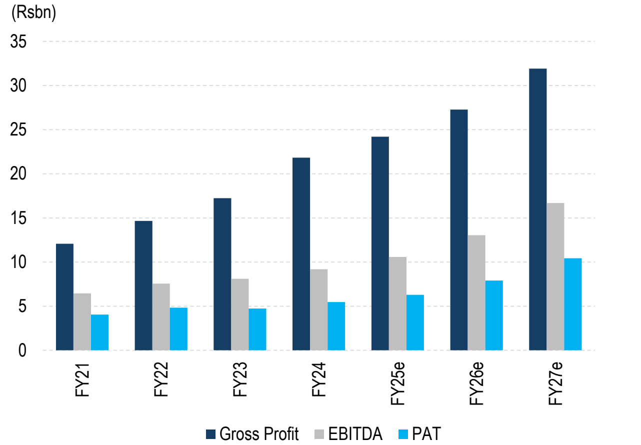

*Source; Company, Anand Rathi Research*

### Fig 15 – Revenue and growth - annual



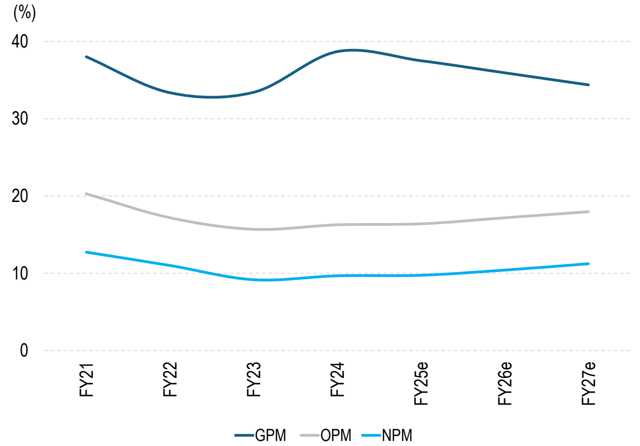

*Source; Company, Anand Rathi Research*

### Fig 16 – Profitability



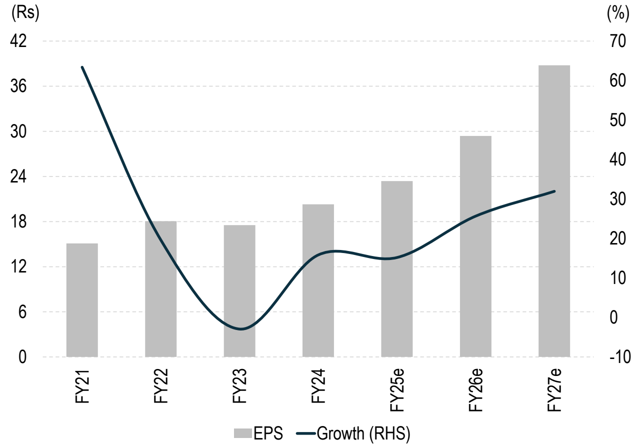

*Source; Company, Anand Rathi Research*

### Fig 17 – Margin



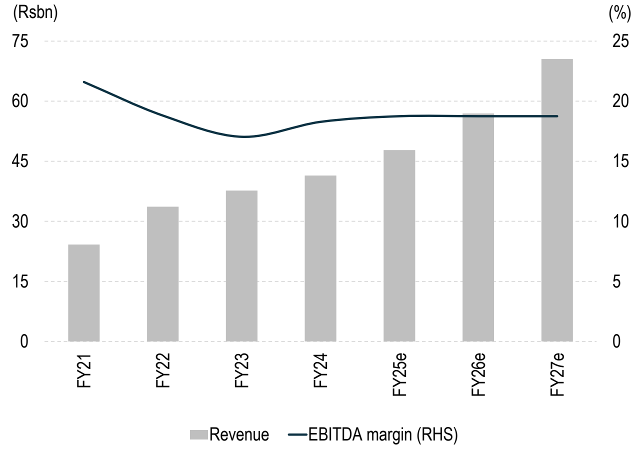

*Source; Company, Anand Rathi Research*

### Fig 18 – EPS and growth




*Source; Company, Anand Rathi Research*

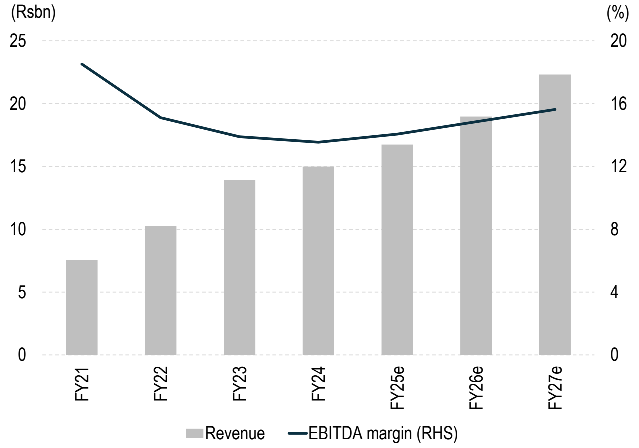
### Fig 19 – Plumbing – revenue, EBIT - %




*Source; Company, Anand Rathi Research*

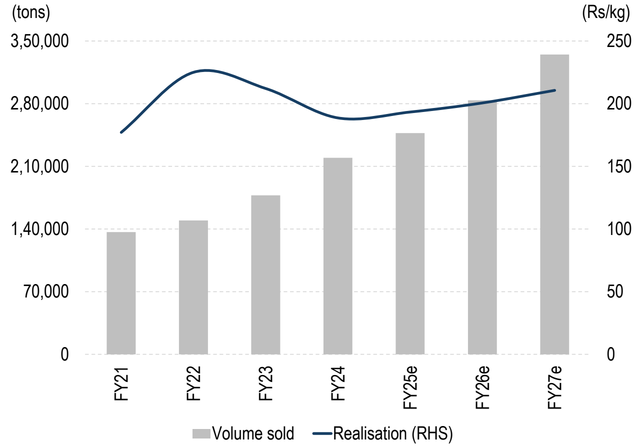
# Story in charts continues

**Fig 20 – Paint & adhesives – revenue, EBIT - %**




*Source; Company, Anand Rathi Research*

**Fig 21 – Plastic – Sales volumes, realisation**




*Source; Company, Anand Rathi Research*

# Outlook & Valuation

We find Astral appealing for its consistent focus on growth and profitability, supported by innovative launches, vigorous brand-building and product diversification. On establishing its leading position in plumbing, the company has been expanding relentlessly in adhesives. Its foray into adjacent categories (organically or inorganically) to lever its brand and distribution network has worked well for its fast-paced growth and to capture growth opportunities.

Its consistent focus on the right allocation of capital has been its chief strength. Capacity addition ahead of demand has been its key strategy. Now, it has plants and depots in prime regions, shortening supply timelines and saving on logistics costs. For its strong brand image, regular launches of innovative products, plants close to key markets and wide distribution network, we believe in its long-term growth prospects.

It has a lean balance sheet (Rs 2.7bn cash surplus, down 50% due to capex). Management expects 10-15%/15% volume/revenue growth in plumbing/ paints & adhesives in FY25. Adhesive margin guidance: India 15%, overseas 8-10%; overall capex guidance: Rs1bn.

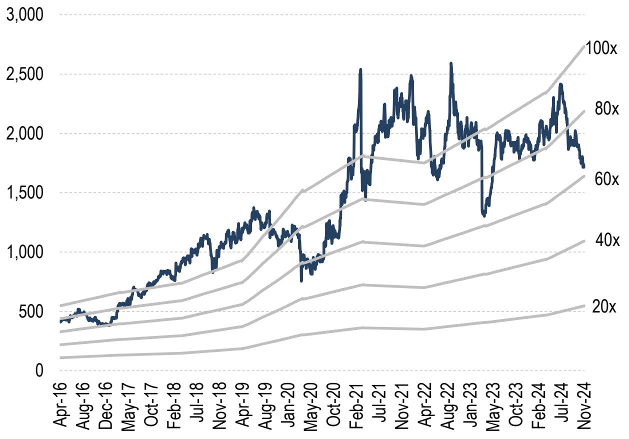
We expect strong 18%/22%/24% revenue/EBITDA/PAT CAGRs over FY24-27 and upgrade the stock to a Buy with a Rs2,666 TP, 68.75x FY27 earnings (earlier a Hold, with a Rs1,793 TP, 62.5x FY25e earnings).

**Fig 22 – Change in estimates**

| | Old | | | New | | | % Var | | |
|---|---|---|---|---|---|---|---|---|---|
| (Rs m) | FY25e | FY26e | FY27e | FY25e | FY26e | FY27e | FY25 | FY26 | FY27 |
| Income | 75,650 | - | - | 64,522 | 75,906 | 92,845 | (11.2) | - | - |
| EBITDA | 12,487 | - | - | 10,586 | 13,046 | 16,683 | (15.2) | - | - |
| *EBITDA margins, %* | *17.2* | - | - | 16.4 | 17.2 | 18.0 | (78) | - | - |
| PAT | *7,716* | - | - | 6,291 | 7,906 | 10,432 | (18.5) | - | - |
| EPS | 28.7 | - | - | 23.4 | 29.4 | 38.8 | (18.5) | - | - |

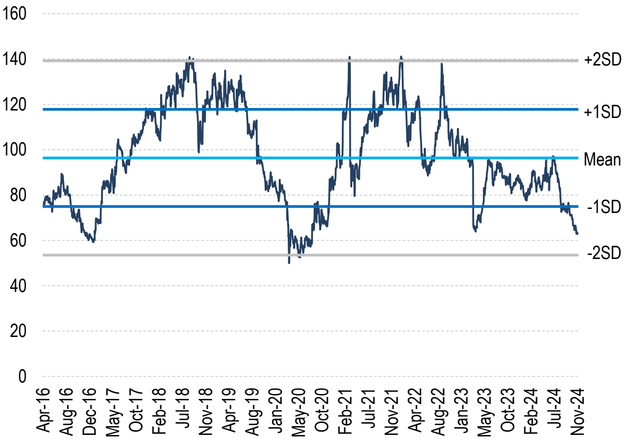
*Source: Anand Rathi Research*

**Fig 23 – One-year-forward - PE band**




*Source; Company, Anand Rathi Research*

**Fig 24 – Mean and Standard deviation**




*Source; Company, Anand Rathi Research*

## Key risks

- Slowdown in end-user demand would crimp the performance.
- Raw-material price volatility and assured availability are key challenges.
- Delay in commissioning the expansions would jeopardise the growth momentum.

## Appendix

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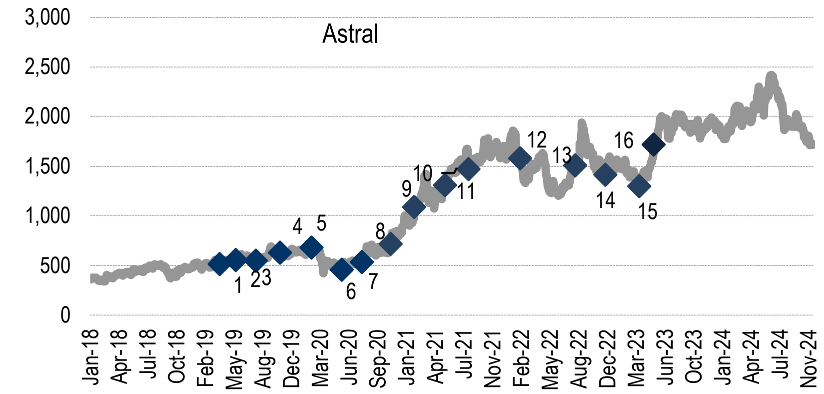


| | Date | Rating | TP (Rs) | Share Price (Rs) |
|---|---|---|---|---|
| 3 | 3-Aug-19 | Buy | 861 | 731 |
| 4 | 25-Oct-19 | Buy | 976 | 855 |
| 5 | 12-Feb-20 | Buy | 1,065 | 906 |
| 6 | 26-May-20 | Hold | 683 | 615 |
| 7 | 5-Aug-20 | Hold | 747 | 709 |
| 8 | 7-Nov-20 | Hold | 1,002 | 873 |
| 9 | 3-Feb-21 | Sell | 1,352 | 1,458 |
| 10 | 19-May-21 | Sell | 1,647 | 1,816 |
| 11 | 9-Aug-21 | Sell | 2,039 | 2,150 |
| 12 | 7-Feb-22 | Buy | 2,560 | 2,112 |
| 13 | 17-Aug-22 | Buy | 2,605 | 2,014 |
| 14 | 16-Nov-22 | Buy | 2,488 | 1,923 |
| 15 | 28-Mar-23 | Buy | 1,810 | 1,334 |
| 16 | 19-May-23 | Hold | 1,793 | 1,651 |

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|---|---|---|---|
| Large Caps (Top 100 companies) | >15% | 0-15% | <0% |
| Mid Caps (101st-250th company) | >20% | 0-20% | <0% |
| Small Caps (251st company onwards) | >25% | 0-25% | <0% |

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Compliance officer-Deepak Kedia, email id - deepakkedia@rathi.com, Contact no. +91 22 6281 7000

Grievance officer-Madhu Jain-email id- grievance@rathi.com, Contact no. +91 22 6281 7191

ARSSBL registered address: Express Zone, A Wing, 9th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097.
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