June 1, 2016

RESULTS REVIEW

Astral Poly Technik Ltd.

Incremental capacity + Branding initiatives = Better volumes BUY

Nifty: 8,160; Sensex: 26,668

CMP	**Rs444**
Target Price	**Rs520**
Potential Upside/Downside	**+17%**

Key Stock Data

Sector	Plastic Building Material
Bloomberg / Reuters	ASTRA IN / ASPT.BO
Shares o/s (mn)	120
Market cap. (Rs mn)	53,286
Market cap. (US$ mn)	792
3-m daily average vol.	5,950

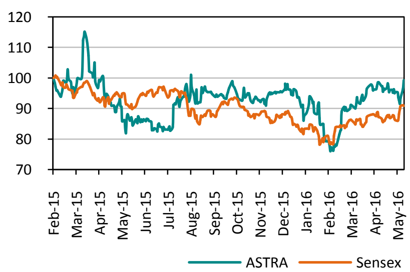
Price Performance

52-week high/low			Rs460/311
	-1m	-3m	-12m
Absolute (%)	1	30	16
Rel to Sensex (%)	(3)	14	20

Shareholding Pattern (%)

Promoters	59.3
FIIs/NRIs/OCBs/GDR	19.4
MFs/Banks/FIs	5.6
Non Promoter Corporate	2.2
Public & Others	13.5

Relative to Sensex



Source: Capitaline

Summary

Astral Poly Technik Ltd. (Astral) beats our expectations on earning front while EBITDA margin was in-line with our estimate. In Q4FY16, Consolidated revenue/EBITDA grew by 13%/19.5% YoY to Rs5,323 mn and Rs651 mn, respectively (below our estimates) while adjusted PAT (adjusting employee settlement of Rs68 mn) came at Rs492 mn, up by 88.9% YoY due to higher other income and lower tax rate. EBITDA/Adjusted PAT margin improved 60/370bps YoY. For FY16, Consolidate revenue/EBITDA/Adjusted PAT grew by 20%/21.9%/34.4%, respectively.

Though we tweaked down our revenue/EBITDA estimate moderately for FY17/FY18, we maintain our earnings estimate for FY18, due to the emerging benefit of margin improvement (local RM sourcing + uptick in PVC prices), reduction in working capital (benefit of SAP implementation) and tax benefit. We expect revenue/earning CAGR of 23%/34% in FY16-18E. The stock currently trades at a P/E of 34.9/25.6 its FY17E/FY18E earnings. Maintain BUY (TP unchanged to Rs520).

Result highlights and Investment rationale

- **Standalone : Plastic division - Q4 volumes up; Double-digit growth at all level**
  Plastic revenue grew by 14.4% YoY to Rs4,129 mn (18% volume growth). EBITDA margin was flattish (12.4%) but up 240bps QoQ. Adjusted PAT spurred 42.5% YoY to Rs307 mn, driven by lower tax rate (29.6% v/s 45.7% in Q4FY15). For FY16, volumes up by 11% YoY, partially offset by 5% decline in realization, led to a 6% revenue growth. EBITDA margin improved 40bps YoY and adjusted PAT by 11% YoY. The company has increased capacity by 25% to 1,27,762 MT in Q4 (capex Rs1100 mn). The PVC prices are showing uptick again and expected to stabiles, which would improve realisation.
- **Adhesive business : Margin improvement continues; New capacity in Q2FY17**
  During Q4FY16, the adhesive business reported Rs1,119 mn revenue with an EBITDA margin of 11.35%. PBT came at negative Rs267.1 mn (amortised assets of Rs367.8 mn in Q4). For FY16, revenue/EBITDA grew by 7%/20% YoY, respectively while EBITDA margin expanded 110bps YoY to 10.3%. During FY16, the company amalgamated the adhesive business and now expanding capacity (new plant in A'bad) in Resinova. Management has guided for 100bps EBITDA improvement in each year post new product launches, strong branding activities, price hiked (15% in April) and introduction of Seal IT products in India and vice-versa post expansion.
- **Incremental capacity to fuel volumes; 17% piping volumes CAGR in FY16-18E**
  The ongoing expansion in both plastics (Neemrana; Rajasthan) + Adhesive business (A'bad) would continue to support revenue growth. The improving demand outlook, strengthening product folio, strong traction in cross selling of piping and adhesive products through increasing dealers' network along with opportunity in few states (government orders) is likely to enhance revenue growth.
- **Benefit of RMC to fully accrue in FY17; Balance-sheet health to improve further**
  The local RM sourcing with better pricing (already procured 60% CPVC), tightening working capital cycle (post SAP implementation) and improving margins (Piping + Adhesives) would accelerate earning pace. We see EBITDA margin improvement of 50bps each in FY17/FY18 while cashflow to improve further and return ratios to see upward journey.
- **Maintain BUY; 34% earning CAGR in FY16-18E**
  Though we tweaked down our revenue/EBITDA estimate moderately for FY17/FY18, we maintain our earnings estimate for FY18. The benefit of steady margin improvement post consolidation, reduction in working capital, strong branding and restructuring product-mix (design+packing) and tax benefit would keep the earnings pace. The stock currently trades at a P/E of 34.9/25.6 its FY17E/FY18E earnings. Maintain **BUY** (TP unchanged Rs520).

Table: Financial snapshot (Consolidated) **(Rs mn)**

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	P/E (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY15	14,299	1,683	11.8	864	7.2	61.6	32.3	18.5	21.6
FY16*	17,190	2,052	11.9	1,161	9.7	45.8	26.3	16.6	18.7
FY17E	21,156	2,620	12.4	1,525	12.7	34.9	20.5	17.9	21.3
FY18E	26,034	3,365	12.9	2,077	17.4	25.6	15.8	20.3	24.5

**YoY not comparable due to consolidation of adhesive business in FY15 for 5 months only*

Source: Company; IDBI Capital Research

Table: Quarterly snapshot (Consolidated) (Rs mn)

Year-end: March	Q4FY16	Q4FY15	YoY (%)	Q3FY16	QoQ (%)	FY16	FY15	YoY (%)
Revenues	**5,323**	**4,712**	***13.0***	**4,119**	***29.2***	**17,190**	**14,299**	***20.2***
Expenditure	**4,672**	**4,167**	***12.1***	**3,716**	***25.7***	**15,138**	**12,616**	***20.0***
EBITDA	**651**	**545**	***19.5***	**403**	***61.3***	**2,052**	**1,683**	***21.9***
Depreciation	113	89	*26.8*	110	*2.1*	424	364	*16.3*
Interest	44	42	*5.5*	40	*9.7*	159	150	*5.9*
Other Income	10	4	*153.8*	2	*518.8*	21	31	*(32.6)*
Extra-ordinary items	68	50		36		155	105	
PBT	**436**	**368**	***18.6***	**219**	***99.7***	**1,335**	**1,095**	***21.9***
Tax	31	145	*(78.7)*	35	*(12.7)*	319	313	*1.9*
Tax Rate(%)	*7*	*39*		*16*		*24*	*29*	
MI	(19)	13		5		10	23	
Reported PAT	424	210	*101.6*	178	*137.7*	1,006	759	*32.5*
Adjusted PAT	**492**	**260**	***88.9***	**215**	***129.2***	**1,161**	**864**	***34.4***
Adjusted EPS	**4.1**	**2.2**	***88.9***	**1.8**	***129.2***	**9.7**	**7.2**	***34.4***
Margins (%)								
EBITDA	12.2	11.6	*60bps*	9.8	*240bps*	11.9	11.8	*10bps*
PAT	9.2	5.5	*370bps*	4.3	*490bps*	6.8	6.0	*80bps*

Source: Company; IDBI Capital Research

Table: Segmental revenue performance **(Rs mn)**

Year-end: March	Q4FY16	Q4FY15	YoY (%)	Q3FY16	QoQ (%)	FY16	FY15	YoY (%)
Plastic piping	4,129	3,610	*14.4%*	3,083	*33.9%*	1,285	1,206	*6.6%*
Adhesives	1,191	1,101	*8.1%*	1,034	*15.1%*	433	223	*93.7%*

Source: Company; IDBI Capital Research

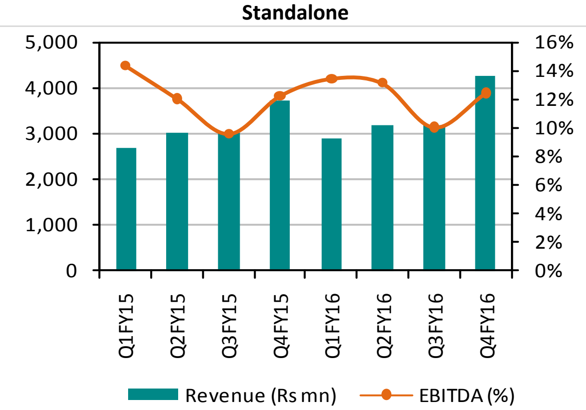
Table: Actual v/s Estimate **(Rs mn)**

Year-end: March	Q4FY16A	Q4FY16E	Var. %	FY16A	FY16E	Var. %
Revenue	5,323	5,754	*(7.5)*	17,190	17,766	*(3.2)*
EBITDA	651	695	*(6.4)*	2,052	2,126	*(3.5)*
Adj. PAT	492	376	*30.8*	1,161	1,063	*9.2*
Adj. EPS (Rs)	4.1	3.1	*30.8*	9.7	8.9	*9.2*
EBITDA (%)	12.2	12.1	*10bps*	9.8	9.8	*0bps*

Source: Company; IDBI Capital Research

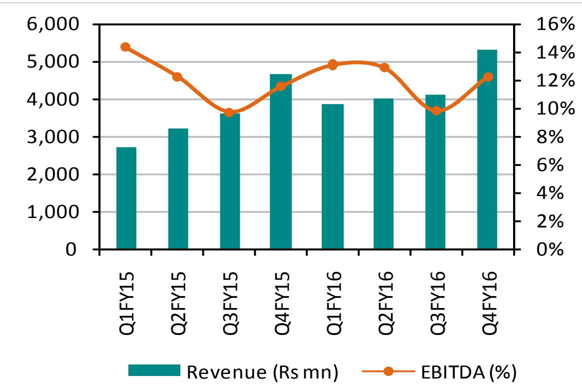
Figure: Quarterly Revenue & EBITDA Performance

Standalone



Source: Company; IDBI Capital Research

Consolidated



Source: Company; IDBI Capital Research

Table: Financial matrix **(Rs mn)**

Particulars	FY15	FY16	FY17E	FY18E
Plastic division				
Volumes (MT)	69,925	77,909	90,683	106,322
Revenues (Rs mn)	12,521	13,323	15,981	19,673
EBITDA	1,505	1,651	2,046	2,637
EBITDA margin (%)	*12.0*	*12.4*	*12.8*	*13.4*
Adhesive business				
Revenues (Rs mn)	3,847	4,103	5,168	6,353
EBITDA	350	420	573	727
EBITDA margin (%)	*9.1*	*10.2*	*11.1*	*11.4*
Consolidated				
Revenues (Rs mn)	14,299	17,183	21,148	26,026
EBITDA	1,683	2,052	2,620	3,365
EBITDA margin (%)	*11.8*	*11.9*	*12.4*	*12.9*

Source: Company; IDBI Capital Research

Analyst meet takeaways

- **Plastic division:** The revenue mix for PVC: CPVC: Adhesives was 33%:41%:26%. It reported 18% piping volume growth in Q4FY16 and 11% in FY16. CPVC prices came down by 15% in the H2FY16, impacted EBITDA performance (inventory losses). However, the improving prices of both CPVC/PVC have gained the confidence in the plastic processing players to improve the realisation after one year of pain.
- It closed Baddi plant, impacted contribution of fittings (resulted into lower margin expansion) and paid one-off employee settlement payment of Rs367 mn in Q4. The machinery has been shifted to Dholka and Dahej plant.
- The company has introduced agri-pipes which have seen strong tractions. The new government initiatives (schemes) and new product launches would continue to support revenue growth. It is centralising warehouse in Hosur, Tamil Nadu for southern market and efficient supply-chain (adding dealers and distributors as well).
- The company has started channel financing for its distributors from bank, which helped a company in getting payments within 30 days from bank without intimating distributors. It has then distributors' responsibility either to pay the dues or continue with outstanding, which attracts the interest as well. The interesting part is that the company is not responsible/liable for any shortfall or default in payment by distributors to banks.
- The company started getting RM from Lubrizol, Dahej plant in Q4, due to which the benefit of cheaper RMC and lower inventory days would reflect in earnings. Further, implementation of SAP and modernization of system would help to reduce the overall working capital cycle to a great extent.
- **Adhesive business:** *Resinova:* The capacity expansion in Ahmedabad and availability of all adhesive product ranges in Gujarat would make easy to offer better product-mix in the market. Resinova currently have 2000+distributors and 4,50,000 dealers (targeting to add 1,00,000 in FY17). The revenue potential post expansion would be doubled. New construction chemical products and other variants will start manufacturing through new plant.
- During April 2016, it has increased prices by 15% (first time in many years) and also changed packaging and product branding. EBITDA margins are likely to improve further with the focus on product-mix and promotional activities.
- *Seal IT, UK:* It acquired silicon tape manufacturer in US to extend the product folio and increase the presence in high growth market (to avail expertise and advance technology of it). It recently got 3 orders (worth of Pound 12,50,000) from big companies. EBITDA margin also stood at 12.58% in FY16 but revenue was muted due to subdued environment.
- 85% of products are in-house manufacturing and here are total 500 products (including hybrid products). The company has rebranded, designed the existing products and started aggressive marketing.

Financial summary

Profit & Loss Account (Rs mn)

Year-end: March	FY15	FY16*	FY17E	FY18E
Net sales	**14,299**	**17,190**	**21,156**	**26,034**
Growth (%)	*33.2*	*20.2*	*23.1*	*23.1*
Operating expenses	(12,616)	(15,138)	(18,536)	(22,670)
EBITDA	**1,683**	**2,052**	**2,620**	**3,365**
Growth (%)	*8.1*	*21.9*	*27.7*	*28.4*
Depreciation	(364)	(424)	(447)	(483)
EBIT	**1,319**	**1,628**	**2,173**	**2,881**
Interest paid	(150)	(159)	(138)	(104)
Other income	31	21	23	23
Pre-tax profit	**1,095**	**1,335**	**2,059**	**2,801**
Tax	(313)	(319)	(515)	(700)
Effective tax rate (%)	*28.6*	*23.9*	*25.0*	*25.0*
Net profit	**759**	**1,006**	**1,525**	**2,077**
Adjusted net profit	**864**	**1,161**	**1,525**	**2,077**
Growth (%)	*(17.0)*	*34.4*	*31.3*	*36.2*
Shares o/s (mn nos)	*120*	*120*	*120*	*120*

Cash Flow Statement (Rs mn)

Year-end: March	FY15	FY16*	FY17E	FY18E
Pre-tax profit	1,095	1,335	2,059	2,801
Depreciation	364	424	447	483
Tax paid	(264)	(319)	(515)	(700)
Chg in working capital	(306)	469	(615)	(766)
Other operating activities	284	(110)	-	-
CF from operations (a)	**1,173**	**1,798**	**1,376**	**1,818**
Capital expenditure	(855)	(1,255)	(1,058)	(1,302)
Chg in investments	(2,591)	-	-	-
Other investing activities	7	-	-	-
CF from investing (b)	**(3,438)**	**(1,255)**	**(1,058)**	**(1,302)**
Equity raised/(repaid)	2,359	1	-	-
Debt raised/(repaid)	314	(60)	(111)	(250)
Dividend (incl. tax)	(47)	(58)	(76)	(104)
Chg in minorities	-	-	-	-
Other financing activities	(255)	-	-	-
CF from financing (c)	**2,371**	**(117)**	**(187)**	**(354)**
Net chg in cash (a+b+c)	**106**	**427**	**131**	**163**

Balance Sheet (Rs mn)

Year-end: March	FY15	FY16*	FY17E	FY18E
Net fixed assets	3,693	4,529	5,140	5,958
Investments	-	-	-	-
Other non-curr assets	2,163	2,896	2,896	2,896
Current assets	**5,816**	**6,437**	**7,669**	**9,228**
Inventories	2,656	2,804	3,301	3,851
Sundry Debtors	2,327	2,308	2,782	3,424
Cash and Bank	115	542	673	835
Loans and advances	701	759	889	1,093
Total assets	**11,672**	**13,863**	**15,706**	**18,083**
Shareholders' funds	**6,188**	**7,816**	**9,265**	**11,238**
Share capital	118	120	120	120
Reserves & surplus	6,069	7,696	9,145	11,119
Total Debt	**1,387**	**1,327**	**1,217**	**967**
Secured loans	1,213	1,288	1,177	927
Unsecured loans	174	39	39	39
Other liabilities	199	239	216	265
Curr Liab & prov	**3,733**	**4,348**	**4,856**	**5,438**
Current liabilities	3,639	4,319	4,816	5,395
Provisions	93	29	41	43
Total liabilities	**5,319**	**5,914**	**6,289**	**6,670**
Total equity & liabilities	**11,672**	**13,863**	**15,706**	**18,083**
Book Value (Rs)	**52**	**65**	**77**	**94**

Financial Ratios

Year-end: March	FY15	FY16*	FY17E	FY18E
Adj EPS (Rs)	7.2	9.7	12.7	17.4
Adj EPS growth (%)	(17.0)	34.4	31.3	36.2
EBITDA margin (%)	11.8	11.9	12.4	12.9
Pre-tax margin (%)	7.7	7.8	9.7	10.8
RoE (%)	18.5	16.6	17.9	20.3
RoCE (%)	21.6	18.7	21.3	24.5
Turnover & Leverage ratios (x)				
Asset turnover	1.5	1.3	1.4	1.5
Leverage factor	2.0	1.8	1.7	1.6
Net margin (%)	6.0	6.8	7.2	8.0
Net Debt/Equity	0.2	0.1	0.1	0.0
Working Capital & Liquidity ratios				
Inventory days	68	60	57	54
Receivable days	59	49	48	48
Payable days	77	77	74	68

Valuations

Year-end: March	FY15	FY16*	FY17E	FY18E
PER (x)	61.6	45.8	34.9	25.6
Price/Book value (x)	8.6	6.8	5.7	4.7
PCE (x)	43.3	33.6	27.0	20.8
EV/Net sales (x)	3.8	3.1	2.5	2.0
EV/EBITDA (x)	32.3	26.3	20.5	15.8
Dividend Yield (%)	0.1	0.1	0.1	0.2

**YoY not comparable due to consolidation of adhesive business in FY15 for 5 months only*

Source: Company; IDBI Capital Research

Notes

Dealing	(91-22) 6637 1150	dealing@idbicapital.com

Key to Ratings

Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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