

Superior in every respect; outlook strong

- The strong increase (15% YoY and 18.7% QoQ) in plumbing volume was the primary revenue contributor. Revenue rose 8% YoY to INR1,506cr and was 1%/4% higher than consensus/our estimate of INR1,489cr/INR1,444cr.
- Gross margin rose sharply (692bp YoY and 573bp QoQ) driven by inventory gains in the pipe business and a drop in raw material prices, resulting in normalised margin in the adhesives business.
- EBITDA surged 42% YoY to INR309cr on lower PVC and other raw material prices along with higher volumes, which was 25%/23% higher than consensus/our expectation of INR248cr/INR252cr.
- EBITDA margin expanded by 492bp YoY and 581bp QoQ to 20.5%, exceeding consensus/our estimate of 16.7%/17.5%.
- Due to strong operational performance, net income (up 39% YoY to INR201cr) was 35%/33% higher than consensus/our expectation of INR149cr/INR151cr.
- We remain positive on ASTRA given its: i) market share gains in the core plastic piping business; ii) strong brand recall; iii) product launches (it recently forayed into faucets and sanitaryware, tanks, infrastructure pipes, DWV piping system, valves, and paints to increase its addressable market); iv) strong cash flow and net debt-free Balance Sheet, with an improvement in working capital; and v) robust growth in the adhesives business. Maintain 'BUY'.

Strong volume growth in the plumbing business; demand improves on stable PVC prices

ASTRA's plumbing business posted a revenue of INR1,124cr (up 3.6% YoY versus a rise/fall of 2% each for Apollo Pipes/Supreme Industries), led by healthy volume growth (up 15% versus a rise of 14%/16% for APOLP/SI) on restocking by dealers and a positive demand momentum from end-customers. However, realisation remained weak (down ~10% YoY as against a fall of 11%/15% for APOLP/SI) due to lower PVC prices. As per the management, seasonal demand for CPVC/agri pipes remains strong in the fourth/first quarter. EBITDA margin improved by 475bp YoY to 22.8% due to an improvement in the sales mix and some inventory gains. Faucet and sanitaryware business incurred an EBITDA loss of INR3.5cr in Q4FY23 due to higher operating expenses on a smaller revenue base. In its second year of operations, the company is projected to achieve mid-teen margin (compared to a loss of INR16.5cr in FY23).

Healthy revenue growth in paints and adhesives with a recovery in margin

Revenue from the paints and adhesives segment stood at INR383cr (up 14% QoQ). Revenue from adhesives/paints grew 27%/20% YoY to INR323cr/INR60cr. The adhesives/paints business contributed ~21%/4% to sales. EBITDA margin for the paints and adhesives segment improved by 414bp YoY to 15.2% due to lower raw material cost and consumption of most high-cost inventory in Q3FY23. Margin from adhesives is expected to normalise to 15–16% in FY24. The adhesive business in the UK can grow at 15–20%, but India will grow more than 20% on a lower base and due to strong demand. The management targets a FY24 revenue growth/EBITDA margin of ~15% each. ASTRA's planned expansion of its adhesive plant in Dahej (Gujarat) is on track. The management intends to grow the paint business to INR600–700cr (from INR217cr in FY23) over the next three to five years (without additional capital expenditure).

Valuation and view — maintain 'BUY'

Given the management's track record of successfully scaling up new businesses, its guidance of double-digit volume growth in the pipes business, and more than 15% CAGR in the adhesive business over the next four-to-five years, we anticipate ASTRA's growth trajectory to steepen. In Q4FY23, the paints business saw healthy revenue growth. It has introduced a line of faucets and sanitaryware and expects this segment to generate INR500cr over the next three-to-four years (compared to INR22cr in FY23). The company remains a consistent quality performer and is a compounding story. We maintain 'BUY' with a revised TP of INR1,983, at 72x FY25E earnings (in line with its five-year average P/E ratio).

Year to March	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY22	FY23	FY24E	FY25E
Net Sales (INR cr)	1,268	1,103	15%	1,172	8%	4,394	5,159	6,239	7,212
% Growth (YoY)									
EBITDA (INR cr)	186.4	197.6	-6%	144	29%	755	810	1,028	1,226
% Growth (YoY)									
PAT (INR cr)	94.9	127.9	-26%	78.6	21%	490	423	597	740
Dil. EPS (INR)	4.7	6.4		3.9		24.4	21.1	29.7	36.8
Diluted P/E (x)						92	107	76	61
EV/EBITDA (x)						59	55	43	35
ROCE (%)						28	22	24	25

CMP: INR1,684

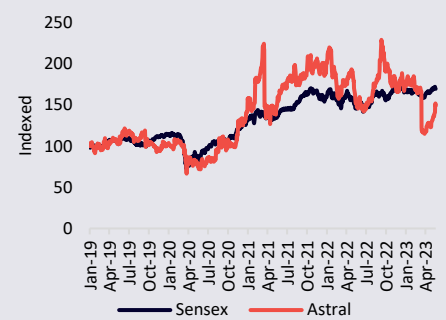
Rating: BUY

Target Price: INR1,983

Upside: 18%

Date: May 18, 2023

Bloomberg:	ASTRA:IN
52-week range (INR):	1,186 / 1,991
Shares in issue (cr):	20
M-cap (INR cr):	46,197
Promoter holding (%)	55.85



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Q4FY23 Result Highlights:

Particulars (INR cr)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Income from operations	1,506	1,391	8%	1,268	19%	5,159	4,394	17%
Cost of goods sold	928	953	-3%	854	9%	3,435	2,928	17%
Employee expenses	86	64	34%	80	8%	319	245	30%
Other expenses	183	157	17%	148	24%	594	711	-16%
Total operating expenses	1,197	1,174	2%	1,081	11%	4,348	3,884	12%
EBITDA	309	217	42%	186	66%	811	755	7%
Depreciation and amortisation	45	33	36%	46	-2%	178	127	40%
EBIT	264	184	44%	141	88%	633	628	1%
Interest expenses	3	5		9		41	13	
Other income	7	16	-60%	-2	-430%	30	35	-15%
Share of from JVs	-2	-2		-		-2	-2	
Profit before tax	266	193	38%	130	106%	620	649	-4%
Provision for tax	65	49	33%	35	89%	156	158	-2%
Core profit	201	144	39%	95	112%	464	490	-5%
Extraordinary items	2	-		-		-2	-	
Adjusted net profit	199	144	38%	95	110%	464	490	-5%
Equity capital (FV -INR 1)	27	27		27		27	27	
No. of shares (Cr)	27	27		27		27	27	
Diluted EPS (INR)	7.4	5.4	38%	3.5	110%	17.3	18.3	-5%

Segment details

Revenue (INR cr)	Q4FY23	Q4FY22	% change	Q3FY23	% change	FY23	FY22	% change
Plumbing	1,124	1,084	3.6%	932	20.6%	3,768	3,365	12.0%
Paints and Adhesives	383	307	24.9%	336	13.9%	1,391	1,028	35.3%
EBIT (INR cr)								
Plumbing	222	162	36.5%	111	98.8%	514	520	-1.1%
Paints and Adhesives	47	33	44.0%	33	44.5%	135	125	7.6%
EBIT Margin (%)								
Plumbing	19.7%	15.0%		12.0%		13.7%	15.5%	
Paints and Adhesives	12.3%	10.7%		9.7%		9.7%	12.2%	

Revised Estimates

(INR cr)	FY24E			FY25E		
	Old	Revised	Change (%)	Old	Revised	Change (%)
Net sales	5,743	6,239	9	6,475	7,212	11
Gross Profit	1,924	2,122		2,266	2,503	
Gross margin (%)	34	34		34	35	
EBITDA	930	1,028	11	1,120	1,226	9
EBITDA margin (%)	16	16		17	17	
PBT	779	812	4	958	999	4
PBT margin	14	13		15	14	
Net profit	583	600	3	718	740	3
Adj EPS (Rs)	22	22	2	27	28	3

Source: Company, Nuvama Wealth Research

Key takeaways from the management commentary

Pipes business

- With product additions and capacity enhancements, it expects volumes in the pipes business to grow at 15–20% CAGR over the next few years.
- The management expects consolidation in the industry to continue as volatility in polymer prices will be detrimental to both small, organised, and unorganised players.
- Capacity utilisation stood ~60% in FY23 and is expected to improve in coming years, with a healthy demand (peak utilisation in the pipe business stood at 75%).
- Margin in plastic pipes improved significantly in Q3FY23 due to higher contribution from superior margin products and inventory gains. It expects to maintain margin at 16–18% versus 23% in Q4FY23.
- ASTRA expects a good FY24, with the completion of all projects and an improvement in financial ratios.
- Due to higher realisation and margin, centralised CPVC facilities can manage, but PVC must be decentralised, or logistics costs will eat into profit.
- It saw increased growth from recently launched products such as special valves.
- Recruitment of new dealers, distributors, and plumbers continued.
- Seasonal demand for agri (PVC)/CPVC pipes is strong in the first/fourth quarter.
- Guwahati (15k MT) and Hyderabad (70k MT) — two new pipe locations — will help increase market share and accelerate growth over the next five years. It has leased a facility in Guwahati and expects it to turn operational soon (as only machines need to be added). This facility will cater to the needs of the north-eastern region.
- Over the next five years, its plant in East India represents a strong option value.
- Revenue from its existing standalone pipes business (current market share of 9.6%) is expected to double over the next five years.

Adhesives business

- In adhesives, 90–95% of the business is B2C.
- The management expects double-digit growth in the industry under normal circumstances, while companies like ASTRA will keep acquiring market share and grow faster.
- The adhesive business in the UK can grow at 15–20%, but India will grow more than 20% on a lower base.
- It expects margin to stabilise at 15%.
- It is adding a new adhesive plant in Dahej.
- ASTRA is seeing strong demand for adhesives in construction.
- The industry is pegged at INR18k cr and is growing at 15% CAGR. The company commands a market share of 4.7%.
- It is launching a few products in the adhesive and sealants segment under a different chemistry. This, along with existing products, will double revenue within the next five years.

Paints business

- Gem Paints is present in the entire paint chemistry (equal presence in industrial and decorative paints) and has a 10-year track record of consistent double-digit margin and no debt. It recently increased its capacity to 36,000kl, which can be raised to 60,000kl without incurring additional capital.
- In the adhesive and paint industry, 70-80% of distributors are common.
- ASTRA intends to grow the paint business to INR600–700cr over the next three-to-five years without additional capex.

Sanitaryware and faucets business

- The company is currently developing an outsourcing model and is looking at importing premium sanitaryware. To maintain quality, it is expected to manufacture faucets in-house.
- Products will largely be in the premium economy range.
- ASTRA expects this segment to generate a revenue of INR500cr over the next two-to-three years as against INR22cr in FY23.
- In its second year of operations, it is targeting mid-teen margin as compared to an INR16.5cr loss in FY23.
- The asset turnover ratio of the tap/sanitary ware business is 2x/1.5x.

Others

- ASTRA has incurred a capex of INR1,000cr over the last five years, with utilisation increasing going forward.
- The management expects the new businesses like tank, faucets, sanitary ware, paints, and valves to contribute INR1,500cr to revenue over the next five years.
- Huge cash on its book of INR682cr will help it grow organically and inorganically.
- The total addressable market size for all products is INR1.5lk cr.

Financial Charts

Exhibit 1: Consolidated sales and growth

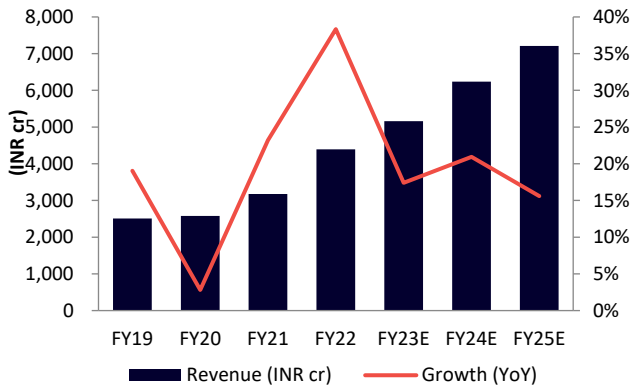


Exhibit 2: Consolidated EBITDA and margin

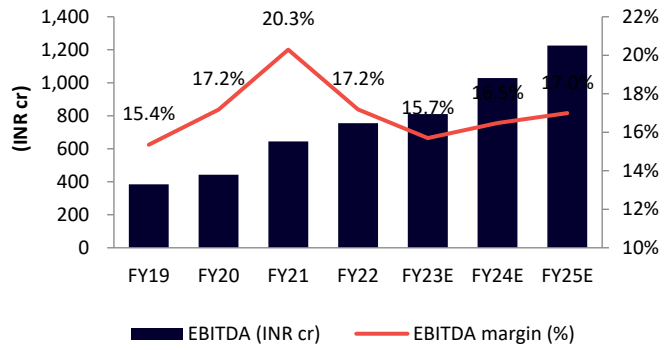


Exhibit 3: Pipes volumes and realisations

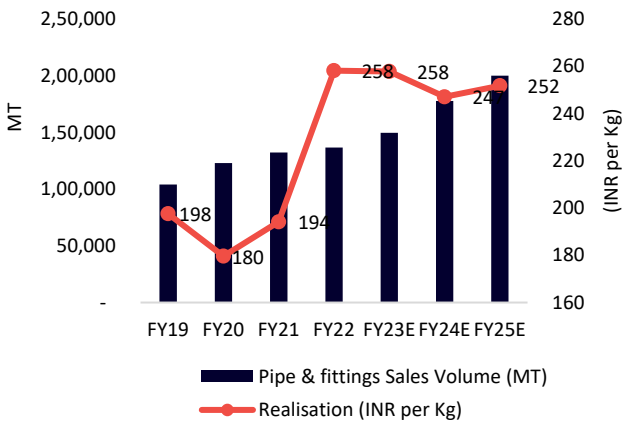


Exhibit 4: Pipe sales and EBITDA margin

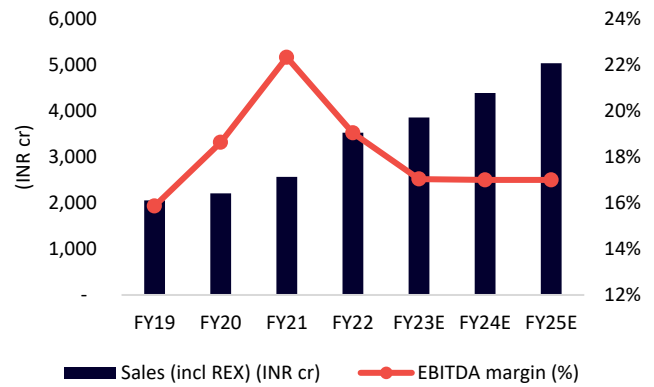


Exhibit 5: Adhesives – revenue and EBITDA margin

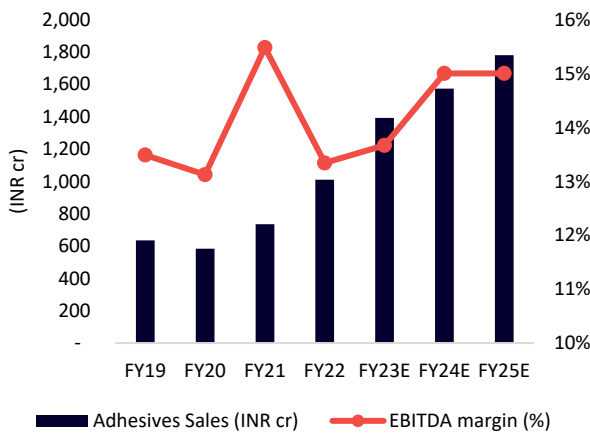
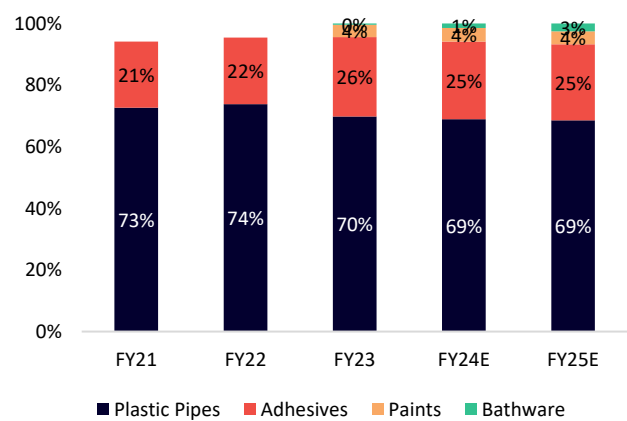


Exhibit 6: Segmental revenue contribution trend



Source: Company, Nuvama Wealth Research

Previous Outlook

Q2FY23: We believe ASTRAL gained market share in the pipe business with a strong franchise, reflected in its 3-year volume CAGR of 6% over Q2FY20–23 (vs. majority peers recording decline in volumes). Considering the company's history of successfully scaling up new businesses, management guidance of double-digit volume growth in the pipe business and over 15% CAGR in the adhesive business for the next 4–5 years, we expect ASTRAL's growth trajectory to get steeper. Moreover, paints business posted strong revenue growth with improvement in margins, while faucets and sanitaryware business commenced operations and is expected to contribute to revenue from Q3FY23. ASTRAL is a consistent quality performer, and we believe it is a compounding story. We maintain our 'BUY' rating on the stock with a target price of INR2,377 per share.

Q3FY23: Given the company's track record of successfully scaling up new businesses, as well as management's guidance of double-digit volume growth in the pipes business and over 15% CAGR in the adhesive business over the next four to five years, we anticipate ASTRA's growth trajectory to steepen. In Q3FY23, the paints business saw healthy revenue growth. It has introduced a line of faucets and sanitaryware, and a significant revenue contribution is expected in FY24. The company remains a consistent quality performer and is a compounding story. We maintain our 'BUY' recommendation with a revised TP of INR 2,427. At our TP, the stock is valued at 75x average EPS for FY24E and FY25E.



Financials

Income statement					(INR cr)
Year to March	FY21	FY22	FY23	FY24E	FY25E
Income from operations	3,176	4,394	5,159	6,239	7,212
<i>Direct costs</i>	<i>1,969</i>	<i>2,928</i>	<i>3,435</i>	<i>4,117</i>	<i>4,710</i>
Employee costs	191	245	319	374	433
<i>Other expenses</i>	<i>563</i>	<i>711</i>	<i>914</i>	<i>1,094</i>	<i>1,277</i>
Total operating expenses	2,532	3,639	4,349	5,211	5,986
<i>EBITDA</i>	<i>645</i>	<i>755</i>	<i>810</i>	<i>1,028</i>	<i>1,226</i>
Depreciation and amortisation	117	127	206	236	247
<i>EBIT</i>	<i>528</i>	<i>628</i>	<i>604</i>	<i>792</i>	<i>979</i>
Interest expenses	13	13	52	10	10
<i>Other income</i>	<i>25</i>	<i>35</i>	<i>27</i>	<i>30</i>	<i>30</i>
Share from associates	-7	-2	-2	-	-
<i>Profit before tax</i>	<i>533</i>	<i>649</i>	<i>578</i>	<i>812</i>	<i>999</i>
Provision for tax	125	158	156	212	260
<i>Core profit</i>	<i>408</i>	<i>490</i>	<i>422</i>	<i>600</i>	<i>740</i>
Extraordinary items	-	-	-	-	-
<i>Profit after tax</i>	<i>408</i>	<i>490</i>	<i>422</i>	<i>600</i>	<i>740</i>
Minority Interest	-	-	1	-3	-
<i>Adjusted net profit</i>	<i>408</i>	<i>490</i>	<i>423</i>	<i>597</i>	<i>740</i>
Equity shares outstanding (mn)	27	27	27	27	27
<i>EPS (INR) basic</i>	<i>15</i>	<i>18</i>	<i>16</i>	<i>22</i>	<i>28</i>
Diluted shares (Cr)	27	27	27	27	27
<i>EPS (INR) fully diluted</i>	<i>15</i>	<i>18</i>	<i>16</i>	<i>22</i>	<i>28</i>
Dividend per share	1	1	2	2	2
<i>Dividend payout (%)</i>	<i>5</i>	<i>7</i>	<i>14</i>	<i>10</i>	<i>8</i>

Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23	FY24E	FY25E
Operating expenses	80	83	84	84	83
<i>Depreciation</i>	<i>4</i>	<i>3</i>	<i>4</i>	<i>4</i>	<i>3</i>
Interest expenditure	0	0	1	0	0
<i>EBITDA margins</i>	<i>20</i>	<i>17</i>	<i>16</i>	<i>16</i>	<i>17</i>
Net profit margins	13	11	8	10	10

Growth metrics (%)

Year to March	FY21	FY22	FY23	FY24E	FY25E
Revenues	23	38	17	21	16
<i>EBITDA</i>	<i>46</i>	<i>17</i>	<i>7</i>	<i>27</i>	<i>19</i>
PBT	74	22	-11	41	23
<i>Net profit</i>	<i>64</i>	<i>20</i>	<i>-14</i>	<i>42</i>	<i>23</i>
EPS	-8	20	-13	41	24

Balance sheet					(INR cr)
As on 31st March	FY21	FY22	FY23	FY24E	FY25E
Equity share capital	20	20	27	27	27
<i>Preference Share Capital</i>	-	-	-	-	-
Reserves & surplus	1,876	2,317	2,684	3,249	3,957
<i>Shareholders funds</i>	1,896	2,337	2,711	3,276	3,984
Secured loans	25	70	37	37	37
<i>Unsecured loans</i>	29	29	46	46	46
Borrowings	53	98	82	82	82
<i>Minority interest</i>	21	28	248	248	248
Sources of funds	1,970	2,463	3,041	3,606	4,314
<i>Gross block</i>	1,768	2,077	2,745	2,977	3,127
Depreciation	454	581	759	967	1,186
<i>Net block</i>	1,315	1,496	1,987	2,010	1,941
Capital work in progress	57	123	126	45	45
<i>Total fixed assets</i>	1,371	1,619	2,113	2,055	1,986
Unrealised profit	0	0	0	0	0
<i>Investments</i>	-	-	-	-	-
Inventories	472	733	875	940	1,087
<i>Sundry debtors</i>	277	269	355	513	593
Cash and equivalents	476	642	682	1,194	1,901
<i>Loans and advances</i>	6	19	21	5	5
Other current assets	39	82	317	384	444
<i>Total current assets</i>	1,269	1,745	2,249	3,036	4,029
Sundry creditors and others	656	881	1,223	1,387	1,603
<i>Provisions</i>	4	4	65	65	65
Total CL & provisions	660	884	1,288	1,451	1,668
<i>Net current assets</i>	609	861	961	1,585	2,361
Net Deferred tax	-40	-40	-30	-30	-30
<i>Misc expenditure</i>	30	23	- 3	- 3	- 3
Uses of funds	1,970	2,463	3,041	3,606	4,314
<i>Book value per share (INR)</i>	71	87	101	122	148

Cash flow statement					(INR cr)
Year to March	FY21	FY22	FY23	FY24E	FY25E
Net profit	408	490	422	600	740
<i>Add: Depreciation</i>	117	127	206	236	247
Add: Misc expenses written off	-6	7	26	-	-
<i>Add: Deferred tax</i>	-3	-0	-10	-	-
Add: Others	-	-	3	-3	-
Gross cash flow	516	625	646	833	987
Less: Changes in W. C.	-109	86	60	111	70
Operating cash flow	624	539	586	722	916
Less: Capex	188	375	700	178	178
Free cash flow	436	164	-113	544	738

Ratios

Year to March	FY21	FY22	FY23	FY24E	FY25E
ROAE (%)	24.0	23.2	16.8	19.9	20.4
ROACE (%)	28.5	27.9	21.7	23.6	24.5
Debtors (days)	32	22	30	30	30
Current ratio	1.9	2.0	1.7	2.1	2.4
Debt/Equity	0.0	0.0	0.0	0.0	0.0
Inventory (days)	54	61	55	55	55
Payable (days)	59	62	65	65	65
Cash conversion cycle (days)	27	21	20	20	20
Debt/EBITDA	0.1	0.1	0.1	0.1	0.1
Adjusted debt/Equity	-0.2	-0.2	-0.2	-0.3	-0.5

Valuation parameters

Year to March	FY21	FY22	FY23	FY24E	FY25E
Diluted EPS (INR)	15.2	18.3	15.8	22.2	27.5
Y-o-Y growth (%)	-8.1	20.1	-13.4	40.6	23.9
CEPS (INR)	20	23	23	31	37
Diluted P/E (x)	110.8	92.2	106.5	75.8	61.2
Price/BV(x)	23.9	19.4	16.7	13.8	11.4
EV/Sales (x)	14	10	9	7	6
EV/EBITDA (x)	69.5	59.2	55.1	42.9	35.4
Diluted shares O/S	27	27	27	27	27
Basic EPS	15.2	18.3	15.8	22.2	27.5
Basic PE (x)	111	92	107	76	61
Dividend yield (%)	0.0	0.1	0.1	0.1	0.1

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