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DEMOCRATIZING WEALTH CREATION

Vriddhi Growth

March 2020

Astral Poly Technik Limited

CMP : ₹1020 | Target price: ₹1570 | HP* : **Upto 3 years**

Our Vriddhi pick for the month of March is Astral Poly Technik Limited (APTL). It is one of the leading manufacturers of Chlorinated Poly Vinyl Chloride (CPVC) and Poly Vinyl Chloride (PVC) plumbing systems, for both residential and industrial applications. The company enjoys a dominant market share in the domestic CPVC and PVC pipe industry. It forayed into adhesives segment few years ago and started gaining market share. During H1FY20, the company's revenue mix stood at piping-77 per cent and Adhesives-23 per cent.

Investment Rationale -

Brand building & strong network distribution : APTL believes in brand building and over the years, it has focussed on promotional activities, which have led it gain additional market share. It has stepped up the branding through shop-branding, exhibitions, spots branding and distributors meet as well as its recent sponsorship for the teams in Indian Premier League (IPL) has further helped in marketing the brand to a larger audience. It has endorsed Ranveer Singh and Varun Dhawan for pipes and adhesives products, respectively. Ranveer Singh would be the brand ambassador for the next three years. APTL has been consistently adding new distributors to widen its market presence. At present, it has more than 800+ distributors and 30,000+ dealers in piping segment and 1,800+ distributors and approximately 4,00,000+ dealers in adhesive segment across India.

Extensive expansion plans : In the pipe segment, the company has commenced the production at newly-constructed plant at Ghilot in Rajasthan (22,700 MT capacity) while, the additional capacity at Hosur in Tamil Nadu (22,000 MT capacity) is on the verge of completion. These capacities have presence in West, South and North India. APTL becomes one of the very few companies in the industry to do so. Further, it is on a track to begin the construction of another greenfield facility in Odisha, where it has already acquired a land of 100,000 square yards. This new plant in Odisha will be operationalised by September 2020. This will enable it to save on logistic costs and strengthen the market share in Eastern India. The total manufacturing capacity would be ~2.5 L metric tonnes by FY21E. Its Silencio brand has been getting good export orders and hence, the company is planning to double the capacity in a year from now. The management has given a guidance of healthy volume growth in the piping segment above 15 per cent for FY21.

In FY19, the company had acquired 100 per cent stake in Rex Polyextrusion Private Limited (Rex) situated at Sangli in Maharashtra, having a vast product range such as Double Wall Corrugated (DWC), Telerex, Georex, Acqurex, Multirex, Plus Stirex etc. The demand is shifting from DI & RCC pipes to double-wall corrugated pipes which are REX's forte. Thus, with

*HP : Holding Period

Company Details	
Industry	Plastic Products
Chairman	K R Shenoy
Managing Director	Sandeep P Engineer
Company Secretary	Krunal Bhatt
ISIN	INE006I01046
Bloomberg Code	ASTRA IN
BSE Code	532830
Key Market Indicators (Consolidated)	
Latest Date	12-Mar-2020
Latest Price (Rs)	1020.00
Previous Close (Rs)	1,146.45
1 Day Price Var%	-0.16
1 Year Price Var%	15.36
52 Week High (Rs)	1265.20
52 Week Low (Rs)	854.44
Beta	0.55
Face Value (Rs)	1.00
Industry PE	9.44
Industry PBV	1.59
TTM Period	201912
TTM EPS(Rs)	17.19
TTM CEPS(Rs)	24.27
Price/TTM CEPS(x)	46.20
TTM PE (x)	65.25
Price/BV(x)	11.52
EV/TTM EBIDTA(x)	36.68
EV/TTM Sales(x)	6.27
Dividend Yield%	0.06
MCap/TTM Sales(x)	6.20
Latest Book Value (Rs)	97.38
Market Cap (Rs. In Crores)	16896.01
EV (Rs. In Crores)	17073.13
Latest no. of shares (In Crores)	15.07
Share Holding Pattern as on 201912	
Promoter No of shares (In Crores)	8.40
Promoter %	55.74
FII No of Shares (In Crores)	3.07
FII %	20.37
Total No of Shares (In Crores)	15.07
Free Float %	44.26

this brand recognition and capacity utilisation of Rex, growth is expected to speed up in the upcoming years.

Crude Oil & Anti Dumping Duty : Crude oil is one of the essential raw materials required for the company. The recent steep dip in the global crude oil prices due to the price war, will give an advantage to the company in lowering its input prices. Due to this, the operating margins of the company will get a big boost. Also, the government has imposed Anti-Dumping Duty in India on imported CPVC resin from China and Korea. This has placed APTL in a sweet spot to further capture and expand its market share.

Getting stronger in Adhesives segment : APTL forayed in the adhesives segment by acquiring Resinova and Seal IT in FY15. By now, it has become the second-largest adhesives chemical franchise in India. It is gradually increasing its market share through the expansion of product portfolio and new launches. The company is planning to expand its product portfolio to 20-22 from 7-8 currently. It is also focussing on advertising and promotion thereby, creating higher visibility for its products. Additionally, the rise in utilisation of domestic capacity is riding deep in its distribution network. A surge in construction and infrastructure development in metros as well as tier-II & III cities accompanied by various government initiatives would boost the demand for adhesives. The company expects good growth from Q4FY20 onwards. The company is likely to attain double digit revenue growth in the adhesives segment from H2FY21.

Industry prospects : Indian plastic pipes market is growing at a robust rate on the account of tremendous government spending on commercial, agricultural, residential and sanitation, potable water, municipal applications, industrial applications like transportation of chemicals, oil and gas distribution, heavy electric wires, solar power. Indian Polyvinyl Chloride (PVC) pipe market is expected to register a compound annual growth rate of 10-11 per cent while the Chlorinated Polyvinyl Chloride (CPVC) segment is expected to grow 20 per cent annually till 2021. Replacement market is one of the growth drivers as a shift of demand from GI pipes to plastic alternatives like PVC/CPVC is robust. The government's thrust on cleanliness, sanitation and constructing affordable houses are expected to drive a strong demand for PVC/CPVC pipes.

Financial Performance

Astral Poly Technik's consolidated revenue for the quarter Q3FY20 came in at Rs 664.1 crore as against Rs 630.2 crore in the corresponding quarter last year, registering 5.4 per cent YoY increase. EBITDA for the quarter grew by 18.1 per cent YoY to Rs 118.5 crore as against Rs 100.3 crore in the corresponding quarter last year, with a corresponding margin expansion of 193 bps. EBITDA margin for the quarter stood at 17.8 per cent. PAT for the quarter came in at Rs 67.9 crore as against Rs 50.7 crore in the corresponding quarter last year, YoY increase of 33.9 per cent.

Looking at nine-month numbers i.e. for 9MFY20, the revenue jumped by 12 per cent YoY to Rs 1,949 crore while, EBITDA grew by 26 per cent YoY to Rs 326.4 crore. Further, the company reported a net profit of Rs 198 crore, up by 47 per cent YoY. The company's balance sheet is strong with no debt on books. It has been paying consistent dividend to its shareholders over the years.

Stepped up branding through shop-branding, exhibitions, spots branding and distributors meet

Management has given a guidance of healthy volume growth in the piping segment above 15 per cent for FY21

Anti-Dumping Duty on imported CPVC resin from China and Korea to be beneficial

Inc/Exp Statement(Consolidated) (Rs in Crore)					
Description	201903	201803	201703	201603	201503
Net Sales	2507.29	2072.92	1894.67	1677.81	1429.91
Total Income	2522.73	2085.60	1903.80	1680.14	1433.01
Total Expenditure	2122.36	1756.11	1630.86	1470.23	1261.62
PBIDT	400.37	329.48	272.94	209.91	171.39
PAT	200.91	178.32	147.19	107.49	78.17
Dividend %	70.00	60.00	50.00	40.00	37.50
Adj. EPS(Rs)	13.07	11.70	9.66	6.74	5.13

Quarter On Quarter (Consolidated) (Rs in Crore)					
Particulars	201912	201909	Q on Q Var%	201812	Y on Y Var%
Net Sales	664.10	678.30	-2.09	630.20	5.38
Total Expenditure	545.90	559.30	-2.40	536.50	1.75
PBIDT (Excl OI)	118.20	119.00	-0.67	93.70	26.15
PAT	68.50	82.50	-16.97	51.40	33.27
PBIDTM% (Excl OI)	17.80	17.54	1.48	14.87	19.70
PBIDTM%	18.13	17.99	0.78	15.38	17.88
PATM%	10.31	12.16	-15.21	8.16	26.35
Adj. EPS(Rs)	4.48	5.44	-17.65	3.46	29.48

Valuation

The company is trading at TTM P/E of 65.2x with TTM EPS of Rs 17.19. In FY19, it delivered ROE and ROCE of 18.1 per cent and 23.1 per cent, respectively. The company's market share is rising as its brand is getting stronger through extensive promotional activities. The recent new plants which got operationalised are helping company strengthen its foot in various parts of India. Also, its new plant at Odisha will trigger its top-line from H2FY21. The adhesives segment is also getting stronger and gradually gaining market share. Some macro factors are also set to support the company like the decreasing crude oil prices, which will boost its operating margins. The overall growth expected across both the segments would justify the current high valuation going forward.Considering all these factors, we see a potential upside of 54 per cent with a target price of Rs 1,570 for a period of three years.

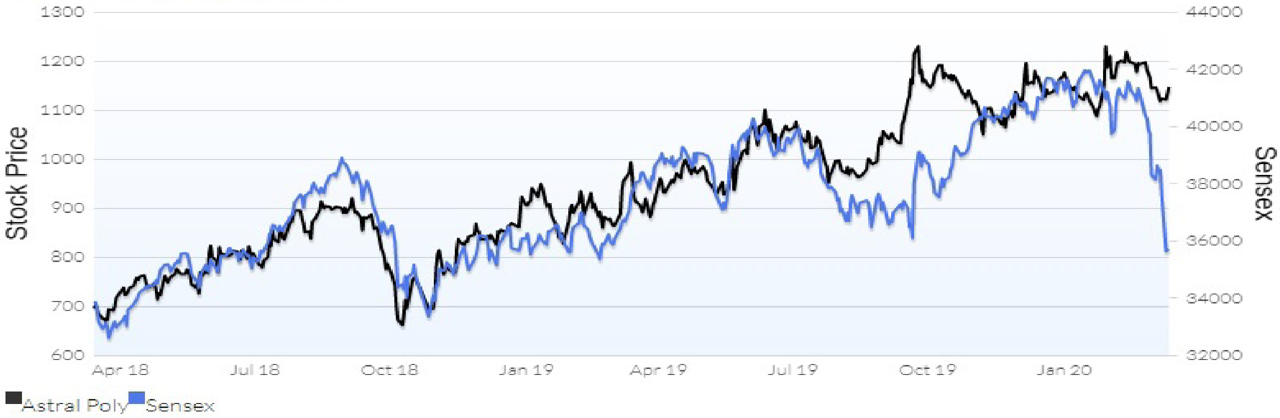
About the Company

The company has its pipe manufacturing facilities at Santej and Dholka (both in Gujarat), Hosur (Tamil Nadu), Ghilot (Rajasthan), Sangli (Maharashtra), Sitarganj (Uttarakhand) as well as in Nairobi (Kenya) for manufacturing plumbing systems, drainage systems, agricultural pipes, industrial pipes, fire protection pipes, electrical conduit pipes and infrastructure products. It has its adhesive and sealant manufacturing facilities at Santej (Gujarat), Rania (Haryana) Unnao (UP) as well as in Elland (UK) and Stanford (USA).

> ***APTL is likely to attain double digit revenue growth in the adhesives segment from H2FY21***

> ***Replacement market is one of the growth drivers as a shift of demand to PVC/CPVC is robust***

Stock vs. Index



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