



Company Name	: ASTRAL POLY TECHNIK
BSE Code	: 532830
Time Duration	: 1 year
CMP	: ₹490 (as on 09 March, 2017)
Target Price	: ₹620

The value pick for the month is Astral Poly Technik which enjoys leadership position in residential Chlorinated Poly Vinyl Chloride (CPVC) markets. Also, its diversification into adhesives for the construction material market is expected to yield benefits. The company has been increasing its capacity as it expects uptick in demand. We also believe it can be a key beneficiary of the government's "Housing for all" scheme and also emphasis on infrastructure development by the government. This along with company's effort to be self-reliant in compounding business will aid margin growth. Hence, we recommend BUY on the stock with an expected upside of 28% from the current levels.

The company's management has also noted that it was experiencing pricing pressure in CPVC prices for the last couple of months which is expected to stabilize now. There is competition for CPVC pipes and Astral has an edge due to the quality of its products and its brand name in the market. The PVC prices have risen and the company has been able to balance volumes and price rise.

Diversified portfolio

Astral has diversified itself from a pure play CPVC player to a player having presence in PVs and adhesives. The company is seeing volume growth due to which it is returning back to the margins seen in FY15. The margins in Q3FY17 was around 14.5% vs 12.5% in the earlier quarters. Also, the company used to sell Lubrizol earlier, which it has phased out and now it has only its own basket of products to sell.

It has been able to turnaround Resinova after acquiring the same and in Q3FY17 witnessed 21% growth and EBITDA margin of 16% in current quarter. We are seeing that margins have substantially expanded over a period of time.

New product launches

The company has been augmenting its portfolio and within piping has been expanding its products in PP and filed drainage. It has also launched Chempro for chemical industries and Fire Pro product line recently. The company has phased out Lubrizol brand which it use to sell in partnership and has launched its own product CPVC PRO which is being sold across the distribution channels. It also launched casing piping in the market, which

adds to the basket of offerings from Astral.

Capacity expansion to cater to demand uptick

CPVC contributes ~40% to the revenues. The current CPVC capacity is fully utilised and it has also increased its capacity. At Hosur, it currently has capacity of 14,000-15,000 MT and plans to double it by next year. The company is also planning backward integration by making fast moving fittings at the Hosur plant.

The company has also started work on the Rajasthan plant at Ghiloth. This plant will take about a year to be operational and will help to further enhance the production of CPVC and PVC products. It is also strategically located near Delhi and is accessible. Initially, it is targeting around 20,000 MT of capacity addition over a period of time.

In adhesives, it is also doubling its capacity for Resinova which has the potential to increase revenue to Rs 600cr from the current Rs 300cr. This will be largely in Ahmedabad plant in Gujarat and automation in Kanpur plant. This will help the company to cater to western and southern markets through Ahmedabad plant and east and north through its Kanpur plant which is expected to lead to savings in logistics costs.

Backward integration

The company has also started making its own compounds instead of buying compounds for CPVC. It has also got its substation of 66kva which is functional and will meet the power needs of plants in Ahmedabad - Dholka and Santej. For Hosur too it has a sub-station of 33kva. This means the company will be able to meet its power requirement internally, which had previously been a constraint on its growth.

Adding distributors

The company is endeavouring to grow its distribution network. It is looking for additional distributors having financial muscle. Also, for Resinova, it plans to expand in the south where it has less penetration. It is planning to have own distributor channel for Resinova, who will directly supply to institutions (builders/ government). This will be in addition to the retail channel of the company.

Financial Performance Q3FY17

Segment wise – Piping and adhesives grew by 12.5% and ~12% in sales value, respectively, to Rs.355cr and Rs.103cr. In piping, EBITDA was Rs51.6cr and margin was 14.5% which expanded by close to 400 bps. In the case of adhesives, Resinova saw 21% growth YoY with EBITDA margin of 16%.

On a consolidated basis, the company's overall revenue increased from Rs.402cr in Q3FY16 to Rs.450cr in Q3FY17. Its EBITDA grew by whopping 57% YoY to Rs63 crore which led to margin improvement by 400 bps to 14.1%.

The company's adhesives business however was down in the US due to loss of sale for a month on the back of shifting of plant from Miami to North Carolina. The company has order backlog of three months in the US and it is a high margin business for company. This is expected to generate revenue in

the coming quarters.

Going Forward and Valuation

Going forward, management expects 15–20% YoY growth in FY18E. The company is also very optimistic about its growth in adhesives segment and is seeing traction in its traditional CPVC market too. We see that company has been expanding its capacity and is expecting demand to seep in.

The company is trading at 42.3x TTM P/E which is near its 5-year median P/E of 42.3x. On FY18 expected basis, it is trading at P/E of 33.4x which leads to upside of 28% over the next one year.

Considering volatility in the market, we urge investor to buy on dips in three tranches and spread your investment over a period of time.

Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201603	201503	201403	201303	201203
Net Sales	1718.96	1429.91	1079.64	825.20	582.69
Total Income	1721.05	1433.01	1082.08	827.07	586.51
Total Expenditure	1513.82	1261.62	924.51	709.94	499.99
PBIDT	207.23	171.39	157.57	117.13	86.52
PAT	101.61	78.17	79.30	60.98	39.46
Dividend %	40.00	37.50	32.50	25.00	22.50
Adj. EPS(Rs)	8.40	6.41	7.02	5.39	3.51

