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Astral Poly Technik Ltd.

BSE Code	:	**532830**
Time Duration	:	**18 months**
CMP	:	**₹1,705.00** (as on 28 January 2021)
Target Price	:	**₹2,132**

Large Rhino
Swiftest Performers Among Heavy Weights

Our Large Rhino pick for the month of January 2021 is Astral Poly Technik Limited, one of the leading manufacturers of chlorinated polyvinyl chloride (CPVC) and polyvinyl chloride (PVC) plumbing systems for both, residential as well as industrial applications. The company enjoys a dominant market share in the domestic CPVC and PVC pipe industry. It has a 25 per cent market share in the PVC pipes segment. It forayed into the adhesives segment a few years ago and started gaining market share. Piping contributes around 77 per cent of FY20 revenue with adhesives making up the remaining 23 per cent. Most recently, the company has ventured into the water storage tank market, which is fast-growing and largely unorganised, presenting it with increasing growth prospects.

Widespread dealer & distribution network leading to geographically diversified operations:

Astral Poly Technik has a strong diversified portfolio, which is backed by its wide network of dealers and distributors across the country. For pipes segment, it has more than 800 distributors and 31,000 dealers while for the adhesives segment, it has more than 1,300 distributors and 1,30,000 dealers. Astral Poly Technik's geographically diversified manufacturing facilities and a strong distribution network have enabled it to have a pan India presence in its pipes business with a strong presence in West, South, and North India, while its relatively low presence in East India is envisaged to increase over the next few years after the expected establishment of the new plant in Bhubaneswar (Odisha).

The adhesives business currently has a strong presence in North India while its foothold is expected to increase in West and South India over the next few years by leveraging on the strong distribution network of its pipes segment.

Ongoing expansion plans & product launches:

Astral Poly Technik has increased its pipe manufacturing capacity over the years, which has grown to 2,38,730 MTPA in FY20. The company further decided to undertake a Capex of around Rs 98 crore in FY21 to set up a valve manufacturing unit at Dholka (Gujarat) and a pipe manufacturing unit at Bhubaneswar (Odisha). These projects are to be entirely funded through internal accruals.

The new plant in Odisha has been operationalised in September 2020 and the company will see the onset of the revenue from this plant in Q3FY21. This will enable it to save on logistic costs and strengthen the market share in Eastern India. The total manufacturing capacity would then increase to around 2,50,000 metric tonnes. The value-added product like the valve expansion plant, which is currently going on at Dholka, is as per the schedule. Besides, the building is under construction and it will be ready by May 2021 while its production is likely to commence in Q2FY22. Additionally, in its recent conference call with the investors, the management has also stated that they are working on some new product launches in both the PVC as well as the adhesive segments, which will be announced in a few months.

Growth picking up in both segments:

Growth in the primary pipes segment has remained robust ever since the restart of the economic activity. In Q2FY21, sales grew by 4.1 per cent YoY, led by an approximately 2 per cent increase in volumes and a 1.9 per cent rise in the realisation. CPVC has started picking-up meaningfully only since October and registered healthy growth since then. The company has seen pent-up demand come through as the demand for the products in this category was postponed during the pandemic. This segment is likely to be on a positive growth trajectory, given that the resumption of construction activities is gaining traction.

Meanwhile, the adhesives business, which constitutes approximately 23 per cent of the sales had undergone a major overhaul in the distribution network thereby, resulting in the revenue fall throughout FY20. The company occupies a relatively smaller share in this market, which is only 3 per cent as of now. However, Astral has indicated that over the next three years, it has a target of reaching a four-digit revenue figure in this segment. With network stabilising, the adhesive segment exited Q1FY21 on a strong note and the traction continued in Q2FY21, with the segment delivering a growth of 31 per cent. Strong performance from these segments is expected to drive the topline growth, going forward.

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Foray into the water storage tank market:

Astral Poly Technik has announced its foray into the business of manufacturing/trading of plastic water storage tanks and adding new capacity with an investment of Rs 75 crore. This market is rapidly growing and is largely unorganised, with approximately 70 per cent being dominated by the unorganised players. The plastic storage water tank business has an opportunity of Rs 5,000 crore+ in India and according to an industry report, it is projected to grow to Rs 8,700 crore by FY22, growing at 13-15 per cent CAGR over FY17-FY22.

This provides for a large chunk of market share that can be captured by the branded and organised players. Organised players such as Sintex Plastics, the biggest organised player in the plastics water tank business are continuously losing market share, primarily due to balance sheet woes. This provides an opportunity for Astral Poly Technik to capture both, the unorganised side of the market as well as the one getting vacated by Sintex Plastics. Considering the company's history of successfully scaling up, the growth trajectory for Astral may become steeper, going ahead.

Strong industry prospects:

The pipe sector is expected to report healthy growth in profit in Q3FY21. The government's strong focus is to improve piped water coverage (from 33 per cent in 2020 to 100 per cent by 2024) and double-farm income by 2022 to boost the demand for both plumbing and Agri pipe in the future. The forthcoming Budget 2021 announcements are likely to focus on improving piped water coverage in various villages.

The plastic pipe sector is also likely to see good demand from the current government flagship project of 'Nal se Jal', where the government targets to improve piped water coverage from 17 per cent in 2019 to 100 per cent in 2024 (currently at 33 per cent). The total outlay for the program is estimated to be at Rs 3,60,000 crore, of which, Rs 2,80,000 crore will come from the central government and the remaining Rs 80,000 crore from the state government. Such projects by the government will benefit the company, going forward.

Financials

On a quarterly consolidated front, Astral Poly Technik posted net sales of Rs 747.1 crore in Q2FY21, up by 10.14 per cent YoY and 84.97 per cent on a sequential basis. The piping segment recorded around 30 per cent YoY growth in September 2020 after a strong recovery in July-August 2020. Piping demand (largely associated with construction activities) has started picking up from September 2020 onwards. The adhesive business recorded sharp revenue growth of approximately 31 per cent YoY, led by pent-up demand from tier 2 & 3 cities and streamlining of its distribution networks.

Astral Poly Technik reported PBIDT (Ex OI) of Rs 143.6 crore, up by 20.67 per cent YoY and 53.2 per cent QoQ. The corresponding margin grew by 189 bps to 19.88 per cent during the quarter. PAT grew by 11.88 per cent YoY to Rs 92.3 crore, mainly tracking better sales growth and margin expansion whereas PAT margin saw an expansion of 19 bps. Astral Poly Technik has set their sights to grow the bottom-line and PBIDT higher than the top line, which has been again repeated in Q2. The management has stated that this focus will continue until they reach an internal ballpark figure.

In the last five years, the company's consolidated net sales have recorded 12.51 per cent CAGR to reach Rs 2,577.9 crore in FY20. Similarly, PBIDT and PAT have grown at a CAGR of 21.56 per cent and 26.30 per cent, respectively, between FY15 and FY20.

Valuation & Outlook

At CMP, the company is trading at a high PE TTM multiple of 110x, while the EV/TTM EBITDA is 58.69x. These valuation multiples are inflated, given that the company's earnings were affected during the first two quarters of the fiscal year and the investors are factoring in a strong recovery, given by the history of the company's performance. The stock has delivered returns of 38.57 per cent CAGR in the last 5 years. The 5-year Average ROCE and ROE stand at 22.05 per cent and 18.20 per cent, respectively. Promoters hold a 55.74 per cent stake in the company, a holding which remains unpledged. Moreover, the company carries negligible debt on its books with a debt-to-equity ratio of 0.12x. Given the improving business sentiments in the real estate sector with the opening up of the economy, the future prospects of the company led by leadership in CPVC piping & fitting, steep targets for market share in adhesives business & foray into the newly related category of the water storage tank, we are positive on this scrip. Considering all these factors, we recommend a BUY on this stock with a target of Rs 2,132, representing a 25 per cent potential upside.

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Inc/Exp Statement (Consolidated) (in Rs Crore)					
Description	202003	201903	201803	201703	201603
Net Sales	2577.90	2507.30	2072.92	1894.67	1677.81
Total Income	2590.00	2522.70	2085.60	1903.80	1680.14
Total Expenditure	2135.00	2122.40	1756.11	1630.86	1470.23
PBIDT	455.00	400.30	329.48	272.94	209.91
PAT	251.20	200.90	178.32	147.19	107.49
Dividend %	100.00	70.00	60.00	50.00	40.00
Adj. EPS(Rs)	16.42	13.05	11.70	9.66	6.74

Quarter On Quarter (Consolidated) (in Rs Crore)					
Particulars	202009	202006	Q on Q Var %	201909	Y on Y Var %
Net Sales	747.10	403.90	84.97	678.30	10.14
Total Expenditure	603.50	350.70	72.08	559.30	7.90
PBIDT (Excl OI)	143.60	53.20	169.92	119.00	20.67
PAT	92.30	21.30	333.33	82.50	11.88
PBIDTM% (Excl OI)	19.22	13.17	45.94	17.54	9.58
PBIDTM%	19.88	14.14	40.59	17.99	10.51
PATM%	12.35	5.27	134.35	12.16	1.56
Adj. EPS(Rs)	5.74	1.32	334.85	5.44	5.51

Stock vs. Index

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