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## MANAGEMENT MEET UPDATE

## Astral Poly Technik Limited

## Fired up: New avenues to add to existing growth momentum

Astral Poly Technik has grown at an astounding CAGR of ~44% over FY08-13 backed by strong growth in CPVC pipes (pioneer in this segment) and increasing penetration in the PVC pipes segment. While demand continues to show traction in its existing product portfolio, introduction of new products over the last few quarters like CPVC bendable pipes, CPVC fire sprinkler systems, and column pipes would result in sustainability of the growth momentum over the next three-to-four years. Also, increased and innovative branding measures over the last 12 months are likely to increase retail penetration, which augurs well for the company. At the current market price, the stock trades at 25.9x FY13 earnings of INR12.7 (adjusted for forex losses). Though near-term valuations looks stretched, likely growth momentum, improving return ratios, strong balance sheet, and sound management may act as a positive catalyst for the stock over the medium- to long-term.

## Pioneer and strong player in the fastest growing CPVC pipe segment

ATPL has been the pioneer in launching chlorinated polyvinyl chloride pipes in 2000 in India through a licensing agreement with Lubrizol supplying CPVC compound to the former. Over the last decade, the company has remained the market leader, growing at five-year CAGR of 37% in CPVC pipes segment. With the company increasing its distribution network (particularly in the South, where Ashirvad Pipes is the leader) along with initiating niche brand-building measures, we expect growth momentum and leadership position to sustain over the next few years.

## New product launches to drive further growth and visibility

The company has, over the years, added niche products to its CPVC pipes portfolio, namely CPVC industrial pipes, CPVC bendable pipes, and CPVC Blaze Master fire sprinkler systems, thereby enabling it to grow at the fastest pace in the segment. Over the last three years, it has been increasing its product portfolio even in the PVC pipes segment by introducing SWR system, underground drainage, and column pipes to offer a complete bouquet of piping products to the end consumer. These product launches CPVC bendable, CPVC Blaze Master, and PVC column pipes are likely to drive further growth momentum over the next three-to-four years.

## Strong balance sheet, improving return ratios to support high valuations

Its balance sheet has remained strong and under-leveraged despite aggressively increasing capacities over the last decade. Sound working capital management, with increasing focus on the retail segment, has been the key to improving returns over the last few years. We expect working capital management to improve further on increasing distribution reach, particularly in the southern and eastern region, and further penetration into the retail segment. This is likely to further enhance RoE and RoCE going forward.

## Key financials

Year ended March (INRm)	2009	2010	2011	2012	2013
Revenues	1,927	2,904	4,113	5,827	8,254
EBITDA	219	417	553	827	1,153
EBITDA margin (%)	11.3	14.4	13.4	14.2	14.0
EBITDA growth (%)	5.7	90.7	32.6	49.6	39.4
PAT	140	277	328	395	610
PAT growth (%)	(18.0)	97.9	18.5	20.3	53.5
EPS (INR)	2.5	4.9	5.8	7.0	10.8
EPS growth (%)	(18.0)	97.9	18.5	20.3	53.5
P/E (x)	132.4	66.9	56.5	46.9	30.6
P/BV (x)	20.3	15.9	12.7	10.1	7.7
EV/EBITDA (x)	86.5	45.4	34.2	23.1	16.8
RoE (%)	16.2	26.4	24.8	23.8	28.5

## Market data

Sensex	:	21,141
Sector	:	Mid Cap
Market Cap (INRbn)	:	18.5
Market Cap (USDbn)	:	0.3
O/S Shares (m)	:	56.2
52-wk HI/LO (INR)	:	349/133
Avg Daily Vol ('000)	:	20
Bloomberg	:	ASTRA IN

Source: Bloomberg

## Valuation

	FY11	FY12	FY13
EPS (INR)	5.8	7.0	10.8
PE (x)	56.5	46.9	30.6
P/BV (x)	12.7	10.1	7.7
EV/EBITDA (x)	34.2	23.1	16.8
Dividend Yield (%)	0.3	0.3	0.4

Source: Bloomberg

## Returns (%)

	1m	3m	6m	12m
Absolute	31	49	45	115
Relative	28	38	34	99

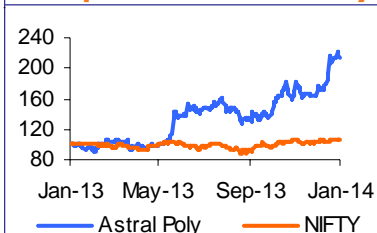
Source: Bloomberg

## Shareholding pattern

Promoters	:	64%
FII	:	15%
DII	:	1%
Others	:	20%

Source: Bloomberg

## Price performance vs Nifty



Source: Bloomberg

Source: Company, Antique

**Product portfolio, year of launch, brands and applications**

Portfolio	Year of launch	Brands	Applications
<b>A) CPVC pipes</b>			
Plumbing CPVC	FY00	Flowguard	Hot and cold water distribution
Industrial CPVC	FY00	Corzan	Pipes for industrial applications
Composite CPVC	FY13	Flowguard Bendable	Hot and cold water distribution
Fire Sprinkler CPVC	FY15e	Blaze Master	Pipes for fire sprinkler application
<b>B) PVC pipes</b>			
UPVC	FY06	Aquarius	Up-take and down-take lines
Drainage	FY08-10	UnderGround, DWV and Foamcore	Drainage application from building to city drain
SWR	FY11	UltraDrain, AquaSafe	Plumbing drainage
Low-noise SWR	FY11	Wavin	Low-noise plumbing drainage
Borewell	FY13	Column	Pipes for submersible pumps
<b>C) Accessories</b>			
	FY11	AlcaPlast	Wash-basin traps, shower drains, concealed tanks, flush plates, etc

Source: Company, Antique

**Capacity, production, and capacity utilisation**

Particulars	FY08	FY09	FY10	FY11	FY12	FY13
Capacity (mtpa)	11,800	25,968	30,867	48,432	66,596	77,212
Production (mtpa)	6,895	11,163	19,411	28,289	38,825	49,495
Capacity utilisation	58%	43%	63%	58%	58%	64%

Source: Company, Antique

**Consolidated revenue mix (product-wise)**

Net revenues (INRm)	FY08	FY09	FY10	FY11	FY12	FY13
PVC pipes	339.5	579.0	986.6	1,540.6	2,150.5	3,366.9
CPVC pipes	1,018.6	1,351.0	1,915.2	2,567.7	3,661.7	4,845.1
Advanced adhesives	-	(3.4)	1.8	4.3	14.7	41.6
<b>Total</b>	<b>1,358.2</b>	<b>1,926.6</b>	<b>2,903.7</b>	<b>4,112.5</b>	<b>5,826.9</b>	<b>8,253.6</b>

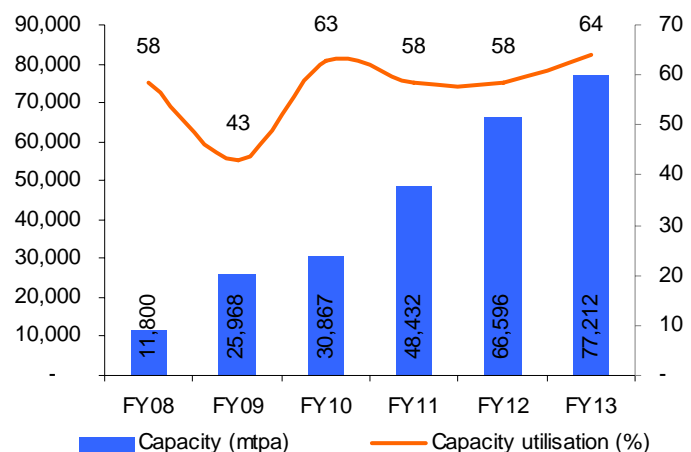
Source: Company, Antique

**Product mix (%)**

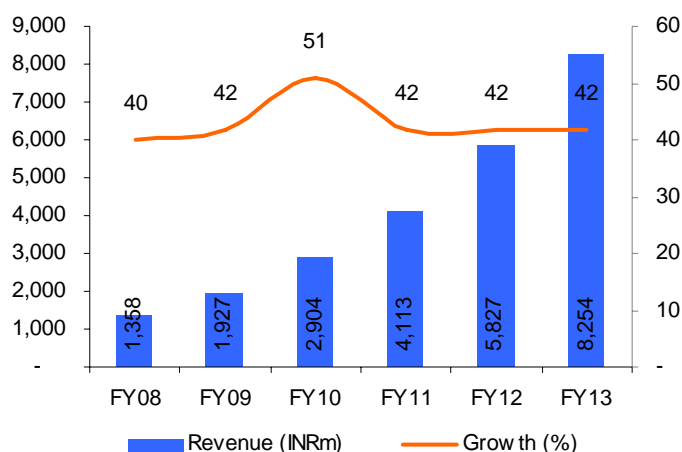
Break-up	FY08	FY09	FY10	FY11	FY12	FY13
PVC pipes	25	30	34	38	37	41
CPVC pipes	75	70	66	62	63	59

Source: Company, Antique

### Trend in capacity and capacity utilisation

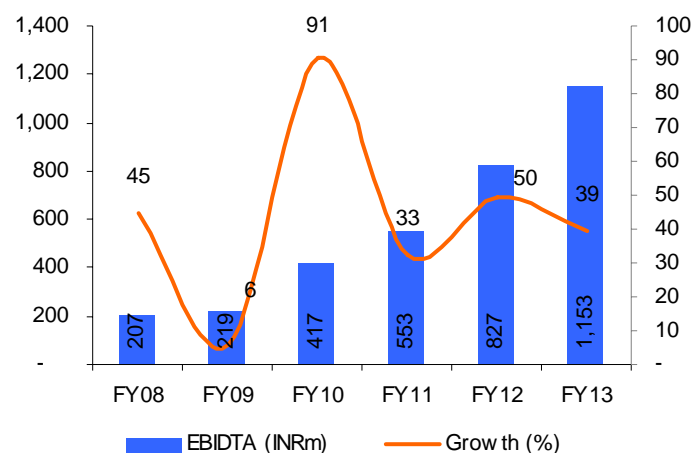


### Net revenue and revenue growth trend

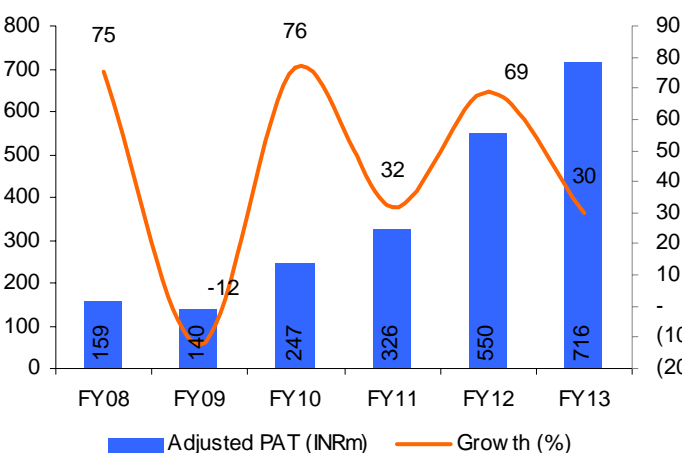


Source: Company, Antique

### EBIDTA and EBIDTA growth trend

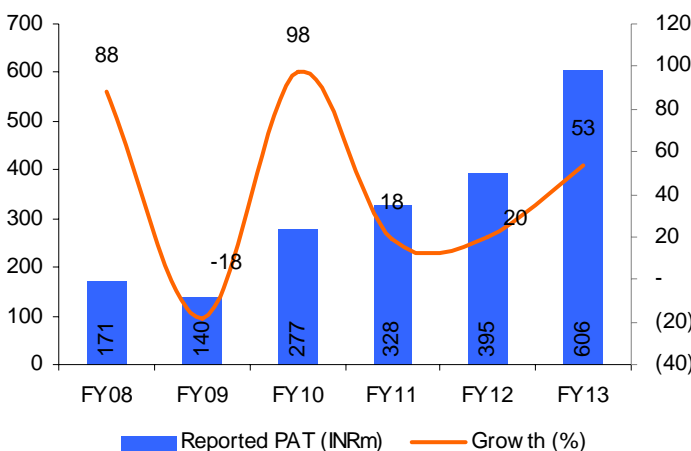


### Adjusted PAT and PAT growth trend (adjusted for forex)

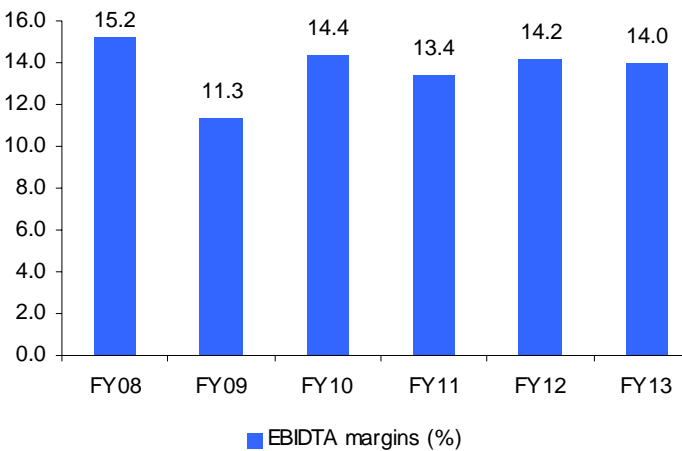


Source: Company, Antique

### Reported PAT and PAT growth trend

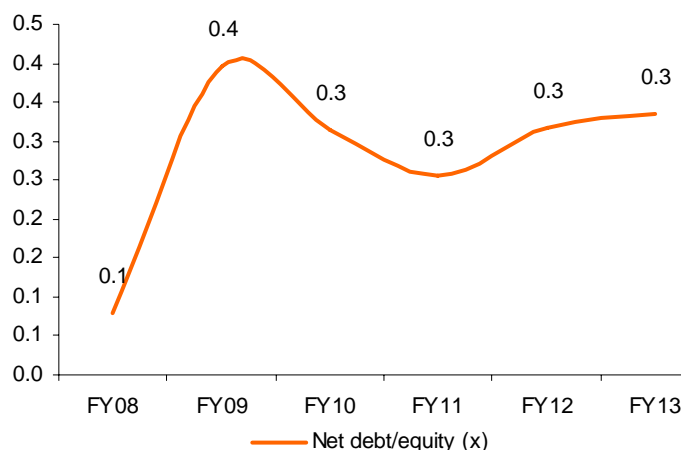


### Trend in EBIDTA margins (%)

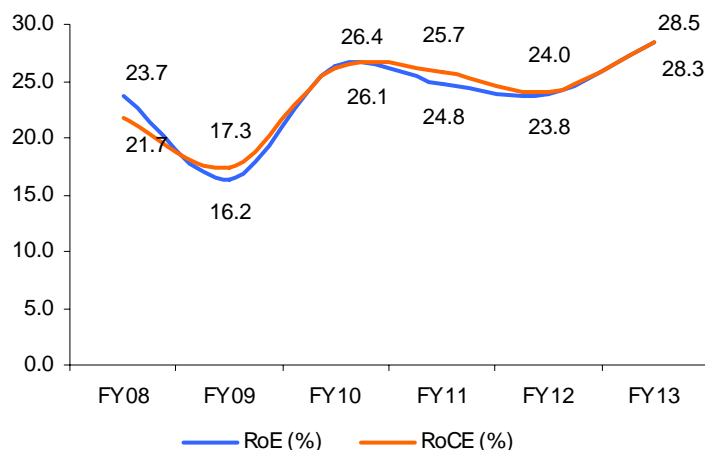


Source: Company, Antique

Trend in net debt-to-equity



Trend in RoE (%) and RoCE (%)



Source: Company, Antique

### Key takeaways of the meeting are as under:

- The size of CPVC pipe industry is close to INR15bn and is growing at 20-25% and 30-35% in volume and value terms
- Demand for these hot and cold water distribution pipes continues to remain strong, driven by new construction and huge replacement demand
- PVC pipes currently constitute 42% while CPVC pipes account for 58% of overall revenues
- ATPL's new facility at Hosur, Tamil Nadu, with a capacity of 8,000mtpa is likely to start commercial production by middle of Jan-14. Capacity is likely to increase to 25,000-30,000mtpa within next two-to-three years
- With Hosur facility expected to commercialise soon, ATPL would not only reduce its servicing lead time but also cut logistic costs. As a result, it expects its South India market share to increase, where Ashirvad Pipes continues to dominate in the CPVC pipes segment
- With capacity expansion in Hosur along with Dholka (Gujarat), capacities are likely to increase from the current 77,212mtpa to 117,212mtpa over FY13-16e. The company is also planning to double its solvent cement capacity by FY15. Total capex is likely to be in the INR1.5-1.75bn range, which would be funded through internal accruals
- ATPL has 37.5% stake in its Kenya joint-venture: Astral Technologies. The entity recently doubled its capacity to 6,000mtpa and manufactures both PVC as well as CPVC pipes while it imports fittings from Gujarat-based ATPL factories
- Its 85% subsidiary Advanced Adhesives based at Santej, Gujarat manufactures solvent cement for PVC as well CPVC pipes. It is expected to double capacity by FY15. The company has a tie-up with IPS Corporation for this product and pays 4-5% of total revenues as royalty to IPS
- New product launches over the last two years in the PVC pipes segment include column pipes and agricultural pipes. The same in CPVC pipes segment include bendable composite pipes and fire sprinkler pipes. The latter is yet to be commercially launched as it is yet to receive approval from the fire department
- ATPL sees significant opportunity for its product Blaze Master which is CPVC fire sprinkler pipe. These pipes are currently under testing and the fire department's approval is likely to come by FY15. They are likely to replace galvanised iron pipes used in fire fighting systems
- Market mix for ATPL in FY13 stood at projects (60%) and retail (40%)

- In CPVC piping systems, pipes constitute 60% of value with the balance from fittings. In PVC, piping systems contribute 70% with the remainder from pipes and fittings
- Advertisement and promotion spends are in the 1-1.5% range. We expect it to remain in that range for the next two-to-three years
- ATPL has a strong distribution reach with more than 400 distributors and 13,000 retail outlets. There is further scope for widening this reach going forward, particularly in the southern and eastern region
- It hedges 25-30% of its foreign currency payables while the balance portion remains unhedged
- With a depreciating INR, ATPL is likely to make forex losses for the third year in a row. It expects sizeable forex gain to come as and when the INR starts appreciating
- Average corporate taxation is expected to be at 24-25% till FY16 due to tax benefits enjoyed by its Baddi facility

## Financials

### Profit and loss account (INRm)

Year ended 31 Mar	2009	2010	2011	2012	2013
<b>Revenues</b>	<b>1,927</b>	<b>2,904</b>	<b>4,113</b>	<b>5,827</b>	<b>8,254</b>
Expenses	1,708	2,487	3,559	5,000	7,101
<b>Operating Profit</b>	<b>219</b>	<b>417</b>	<b>553</b>	<b>827</b>	<b>1,153</b>
Other income	57	22	13	38	19
<b>EBIDT</b>	<b>276</b>	<b>439</b>	<b>566</b>	<b>865</b>	<b>1,171</b>
Depreciation	62	86	108	138	181
Interest expense	53	49	47	72	82
<b>Profit before tax</b>	<b>161</b>	<b>304</b>	<b>411</b>	<b>655</b>	<b>908</b>
Taxes incl deferred taxation	21	57	86	105	189
PAT before MI & EO Items	140	247	326	550	719
Extra ordinary Items	-	(30)	(2)	155	110
Profit after tax	140	277	328	395	610
<b>Diluted EPS (INR)</b>	<b>2.5</b>	<b>4.9</b>	<b>5.8</b>	<b>7.0</b>	<b>10.8</b>

### Balance sheet (INRm)

Year ended 31 Mar	2009	2010	2011	2012	2013
Share Capital	112	112	112	112	112
Reserves & Surplus	813	1,064	1,364	1,728	2,301
<b>Networth</b>	<b>926</b>	<b>1,177</b>	<b>1,476</b>	<b>1,841</b>	<b>2,414</b>
Minority Interest	-	-	0	(0)	3
Debt	390	413	481	938	923
Deferred Tax Liability	17	17	16	15	82
<b>Capital Employed</b>	<b>1,333</b>	<b>1,606</b>	<b>1,974</b>	<b>2,793</b>	<b>3,422</b>
Gross Fixed Assets	981	1,156	1,426	2,119	2,808
Accumulated Depreciation	149	234	340	478	658
<b>Net Assets</b>	<b>832</b>	<b>923</b>	<b>1,085</b>	<b>1,640</b>	<b>2,150</b>
Capital work in progress	63	65	127	130	120
<b>Current Assets</b>					
Inventory	498	703	869	1,271	1,505
Debtors	409	676	779	1,032	1,063
Cash & Bank balance	23	43	102	355	115
Loans & advances and others	142	204	337	376	507
<b>Current Liabilities &amp; Prov</b>					
Creditors	512	830	1,145	1,710	1,724
Other liabilities & provisions	122	177	181	300	314
<b>Net Current Assets</b>	<b>438</b>	<b>619</b>	<b>761</b>	<b>1,023</b>	<b>1,152</b>
Misc. Expenses	0	0	-	-	-
<b>Application of Funds</b>	<b>1,333</b>	<b>1,606</b>	<b>1,974</b>	<b>2,793</b>	<b>3,422</b>

### Per share data

Year ended 31 Mar	2009	2010	2011	2012	2013
No. of shares (m)	56	56	56	56	56
BVPS (INR)	16.5	20.9	26.3	32.8	43.0
CEPS (INR)	3.6	6.5	7.8	9.5	14.1
DPS (INR)	1.0	2.0	1.1	1.1	1.2

Source: Company, Antique

### Cash flow statement (INRm)

Year ended 31 Mar	2009	2010	2011	2012	2013
<b>EBT</b>	<b>161</b>	<b>334</b>	<b>414</b>	<b>499</b>	<b>802</b>
Depreciation & amortisation	62	86	108	138	181
Interest expense	53	49	47	72	82
Interest / Dividend received	(10)	(3)	(3)	(9)	(3)
Other Adjustments	98	56	(0)	(0)	(9)
(Inc)/Dec in working capital	(220)	(218)	(83)	(11)	(302)
Tax paid	(21)	(57)	(86)	(105)	(189)
<b>CF from operating activities</b>	<b>122</b>	<b>247</b>	<b>396</b>	<b>585</b>	<b>563</b>
Capital expenditure	(372)	(177)	(332)	(695)	(679)
Net Investments	-	-	-	0	-
Income from investments	10	3	3	9	3
<b>CF from investing activities</b>	<b>(361)</b>	<b>(173)</b>	<b>(329)</b>	<b>(687)</b>	<b>(676)</b>
Inc/(Dec) in share capital	-	-	-	-	-
Inc/(Dec) in debt	69	22	69	457	(16)
Dividends & Interest paid	(66)	(75)	(76)	(102)	(115)
Other Adjustments	-	-	0	(0)	4
<b>CF from financing activities</b>	<b>3</b>	<b>(53)</b>	<b>(8)</b>	<b>355</b>	<b>(127)</b>
<b>Net cash flow</b>	<b>(236)</b>	<b>20</b>	<b>59</b>	<b>253</b>	<b>(240)</b>
Opening balance	259	23	43	102	355
<b>Closing balance</b>	<b>23</b>	<b>43</b>	<b>102</b>	<b>355</b>	<b>115</b>

### Growth indicators (%)

Year ended 31 Mar	2009	2010	2011	2012	2013
Revenue	41.9	50.7	41.6	41.7	41.6
EBITDA	5.7	90.7	32.6	49.6	39.4
PAT	(18.0)	97.9	18.5	20.3	53.5
EPS	(18.0)	97.9	18.5	20.3	53.5

### Valuation (x)

Year ended 31 Mar	2009	2010	2011	2012	2013
PE	132.4	66.9	56.5	46.9	30.6
P/BV	20.3	15.9	12.7	10.1	7.7
EV/EBITDA	86.5	45.4	34.2	23.1	16.8
EV/Sales	9.8	6.5	4.6	3.3	2.3
Dividend Yield (%)	0.3	0.6	0.3	0.3	0.4

### Financial ratios

Year ended 31 Mar	2009	2010	2011	2012	2013
RoE (%)	16.2	26.4	24.8	23.8	28.5
RoCE (%)	17.3	26.1	25.7	24.0	28.3
Debt/Equity (x)	0.4	0.4	0.3	0.5	0.4
EBIT/Interest (x)	4.0	7.2	9.8	10.0	12.0

### Margins (%)

Year ended 31 Mar	2009	2010	2011	2012	2013
EBITDA	11.3	14.4	13.4	14.2	14.0
EBIT	11.1	12.2	11.1	12.5	12.0
PAT	7.3	8.5	7.9	9.4	8.7

Source: Company Antique