Astral Limited

September 20, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term/Short-term bank facilities	805.00 (Reduced from ₹805.88 crore)	**CARE AA+; Stable/CARE A1+ (Double A Plus; Outlook: Stable/A One Plus)**	Revised from CARE AA; Stable/CARE A1+ (Double A; Outlook: Stable/ A One Plus)
Total bank facilities	**805.00 (₹ Eight hundred five crore only)**		

Details of facilities in Annexure-1.

CARE Ratings Limited (CARE Ratings) has withdrawn the rating on the non-fund-based bank facilities availed from Union Bank of India, as the same have been fully repaid.

Detailed rationale and key rating drivers

The revision in the long-term rating assigned to the bank facilities of Astral Limited (Astral) factors sustained growth in its total operating income (TOI) and profitability over a period of the last three years ended FY22 (refers to the period April 01 to March 31) aided by capacity expansions, deeper market penetration, launch of new products and industry leading growth rate. The TOI and profitability are expected to grow further aided by improvement in capacity utilisation across the existing business segments apart from contribution from the newly-commenced businesses. The revision in rating also factors the improved financial risk profile of the company as evidenced from its strong net worth base of over ₹2,000 crore, zero net debt status as on March 31, 2022, and its strong debt coverage and return indicators. The financial risk profile is expected to remain strong in the medium-term in the absence of any major debt-funded capex plan.

The ratings continue to derive strength from its strong business risk profile with an established track record of operations in the plastic pipes and fittings business with market leadership position in chlorinated polyvinyl chloride (CPVC) pipe segment in India, its strong brand franchise of 'Astral' with geographically diversified presence, which is aided by its sustained advertisement and sales promotion spending and complemented by its widespread distribution network and multi-location manufacturing facilities. The ratings also derive strength from its diversified product portfolio in the pipes, water tanks and adhesives segment with backward integration into CPVC compounding, apart from its recent foray into faucets, sanitary ware, and paint segments to further fuel its growth.

The long-term rating, however, continues to be constrained by the susceptibility of its profitability to fluctuations in the raw material prices and foreign exchange rates, supplier concentration risk and high competition in the plastic pipes industry due to low entry barriers.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in the capacity utilisation for pipes as well as adhesive segments along with significant increase in its TOI through greater geographical and product diversification leading to Astral attaining significant market leadership position across its key businesses.
- Sustained improvement in its PBILDT margin above 20% and return on capital employed (ROCE) above 30% while maintaining total outside liabilities to tangible net worth (TOL/TNW) ratio below 0.10x and total debt/ PBILDT of around 0.25x on a sustained basis.
- Significant diversification of its raw material supplier base along with efficient working capital requirement.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Decline in the scale of operations with TOI going below ₹3,500 crore along with PBILDT margin below 15% and ROCE below 18% on a sustained basis.
- Major debt-funded capex or acquisition leading to deterioration in TOL/TNW to more than 0.75x and total debt/PBILDT to more than 1.0x (net of cash and liquid investment) on a sustained basis, along with significant dilution of its liquidity.
- Elongation in its operating cycle beyond 80 days having an adverse impact on its cash flow from operations and liquidity.
- Any unrelated diversification having adverse impact on the credit profile of the company.

Detailed description of the key rating drivers

Key rating strengths

Sustained growth in TOI and profitability: The consolidated TOI and operating profit (PBILDT) of Astral grew at a compounded annual growth rate (CAGR) of around 18% and 23%, respectively, over FY18-FY22. The net sales of Astral consist of two operating segments, with pipes and water tank business contributing about 77% of consolidated net sales, while the remaining was contributed by adhesive business in FY22. Over FY18-FY22, the net sales from plastic pipe and water tank registered a CAGR of 19%, while net sales of adhesive segment grew at 16%. In terms of sales volume of pipe, it registered a

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

CAGR of around 7% during FY19-FY22 compared with the 2%-3% de-growth registered by some of the other leading players in the industry during the same period. The growth in pipe and water tank business was supported by consistent increase in installed capacities which has more than doubled from 138,000 metric ton (MT) in FY17 to 282,338 MT in FY22. The incremental capacity shall facilitate the future growth in the scale of operations as well.
During FY22, net sales from pipes and water tank business reported growth of 39% over FY21 on the back of nearly 24% growth in average sales realisation due to higher raw material prices, while the sales volume of pipe and water tank grew by 9.5%. Furthermore, net sales from adhesive business segment grew by 36% in FY22. The consolidated TOI of Astral is expected to grow at a CAGR of 10%-12% till FY25 on the back of higher demand of its products apart from higher capacity utilisation.
The PBILDT and profit after tax (PAT) grew by 16% and 20% in FY22 over FY21, with PBILDT and PAT margins of around 17% and 11%, respectively. The PBILDT margin of Astral moderated in FY22 on y-o-y basis on account of base effect arising from increase in the cost of raw material consumption. On a sustainable basis, Astral is envisaged to earn PBILDT margin of around 16%-17%.

Strong financial risk profile: On a consolidated level, the overall gearing of Astral remained comfortable at 0.18x as on March 31, 2022, due to its strong capital base of over ₹2,000 crore and minimum reliance on debt. With cash and liquid investments of ₹642 crore, Astral is net debt free company as on March 31, 2022. Its debt coverage indicators remained healthy marked by PBILDT interest coverage of 59x and total debt to gross cash accruals (TD/GCA) and total debt/PBILDT of 0.61x and 0.49x, respectively, during FY22. Furthermore, the capital structure and debt coverage indicators are expected to remain comfortable in absence of any debt-funded capex plan in the medium term. Furthermore, the incremental working capital requirements are also expected to be met out of internal accruals and there would not be any substantial increase in the working capital borrowings going ahead. Moreover, ROCE and return on net worth (RONW) continued to remain strong at around 26% in FY22.

Established track record of operations in plastic pipes and fittings business: Established in 1996, Astral is promoted by Sandeep Engineer (Chairman and Managing Director), who is a Chemical Engineer by qualification and has over three decades of industry experience. He is supported by his two sons for the overall management of the company. Astral is amongst the leading players in the high margin CPVC pipes and fittings business in India. It was the first company to launch CPVC piping system and to get National Sanitation Foundation approval for the same in 1999 and 2007, respectively. It was also the first company to launch lead-free PVC pipes in 2004 and lead-free uPVC column pipes in 2012. Astral forayed into related adhesives business in 2014 with acquisition of Seal IT Services Limited (UK) and later acquired Resinova Chemie Limited (RCL) in November 2014. These acquisitions added a variety of adhesives and sealants to Astral's product portfolio. The product portfolio of Astral also includes water tank, faucets, sanitary ware and paints apart from plastic pipe and adhesive.

Wide product portfolio in pipes and adhesive business with market leadership position in CPVC pipe segment: Astral has a wide variety of products in PVC, CPVC and lead-free PVC plumbing systems and fittings, including drainage systems, agriculture systems, fire sprinkler systems, electrical conduit pipes, plumbing system for industrial applications, etc. In pipes and fittings segment, Astral has significant presence in value-added CPVC products. Following the acquisition of Rex Polyextrusion Private Limited (Rex; amalgamated with Astral in FY20), Astral has further added products like corrugated pipes, cable protection systems for telecommunication lines and pipes for sub-surface drainage to its product portfolio. Astral's product portfolio includes 35 different variants in its pipes and water tank segment, 23 variants in adhesive segment and two major variants in the water tank segment. Astral's product portfolio for the adhesive business includes various sealant and adhesives used across multiple applications, such as household, construction, furniture, engineering, automobile and insulation, etc. Astral has continually expanded its product portfolio in both piping as well as adhesive segment by introducing next generation plumbing system for hot and cold water, low noise drainage and sewerage piping system, cyanoacrylate, surface drainage system, solvent cement, rescue tape, etc.

Widespread dealer and distribution network leading to geographically diversified operations: Astral's diversified product portfolio is well complemented by its established and widespread network of dealers and distributors across India. Astral has more than 2,535 distributors and more than 180,000 dealers for its pipe as well as adhesive business. Astral's strong distribution network has enabled it to have a pan-India presence in its pipe as well as adhesive business. For pipe business, it has strong presence in the west and south followed by north India, while its presence in east India is expected to increase with the commissioning of new plant in Bhubaneswar, Odisha. Astral is also adding new distributors and dealers in this region.
The adhesive business currently has strong presence in north India and its presence in west and south India is expected to increase by leveraging on the distribution network of Astral's pipe business. With Astral's entry into paints, faucets and sanitary ware segments, it is expected to expand its distributor and dealer network further.
Furthermore, the share of revenue of Astral from outside India (overseas sales) in its total net sales stood at around 9%-10% during FY20-FY22.

Strong brand franchise of 'Astral' aided by sustained advertising and sales promotion spend: Over the years, the company has built its 'Astral' brand through various branding initiatives. Astral is consistently investing in brand building through activities involving national television advertisement, in-film branding, on-ground cricket match branding, associate sponsor of three franchise teams of Indian Premier League (IPL), train/bus/auto banners, advertisement hoardings, shop hoarding boards, plumber/ architects/ distributors meet, digital marketing, etc. On a consolidated level, on an average, Astral spent nearly 3%-3.5% of its net sales towards advertisement and sales promotion, which is significantly higher than its peers, which has in-turn benefited the company to gain market share and to grow faster than its peers. Recently in 2022, Astral has hired Allu Arjun as its brand ambassador for a period of two years with the key focus on brand recall in the south Indian market.

Multi-location manufacturing facilities provides ease of market access and enables cost saving on logistic: Astral has eight pipe and five water tank manufacturing facilities in India and five adhesives and sealants manufacturing facilities across the globe, of which three are within India and one each in the USA and UK. Due to the bulky nature of pipe and water tank, they require a large storage capacity, and involves substantial freight/ logistic cost. To minimise the logistic cost, Astral has set-up manufacturing capacities across India targeting each region, i.e., North, West, South and East. For the first time, the company set-up its manufacturing facility in eastern India at Bhubaneshwar, Odisha. The plant shall serve east and north-east Indian markets. This would significantly save the logistic cost for the company and help in increasing its presence in eastern India. In the first phase, the company had installed 20,000 metric ton per annum (MTPA) capacity, which can be subsequently scaled-up to 60,000 MTPA. During FY23-FY24, Astral plans to spend around ₹200 crore to ₹250 crore per annum towards the debottlenecking and routine and maintenance capex on an aggregate, which are envisaged to be met out of the internal accruals.

Expected benefits of diversification from new businesses: In 2022, Astral forayed into paints, faucets, sanitary ware, uPVC and CPVC valves segments. Astral signed definitive agreement to acquire 51% equity stake, for a consideration of ₹194 crore, in an operating paint business (core business) of Gem Paints Private Limited (GPPL) with effect from April 01, 2022. GPPL was founded in 1980 and has been involved in the manufacturing of high-performance industrial and decorative coatings with market presence in south India. Astral has also acquired a ready facility on asset purchase basis at Jamnagar, Gujarat, to manufacture faucets. These new business segments have synergies with Astral's existing business segments. Astral plans to leverage its vast and deep entrenched pan-India distribution network to drive growth in new businesses. Astral aims to gradually scale up the new offerings by focusing on specific geographies and then eventually establishing its presence pan-India. As per the management, these new categories are expected to generate incremental revenue of ₹1,500 crore over the next five years till FY27 with no major additional capex.

Good growth prospect for the plastic pipe and plumbing industry: The demand for building materials, such as pipe, paint, sanitaryware and faucets, ceramic, plywood, and laminates are correlated to the real estate development. Historically, the plastic pipes industry has grown faster than GDP with a significant portion of pipe demand coming from irrigation, urban infrastructure, water supply and sanitation projects. In addition, replacement of metal pipes with plastic pipes, growth in the construction sector (house building), development in infrastructure (railways, road, airport and malls), and application in industries (oil and gas transport) along with government spending on Pradhan Mantri Krishi Sinchayee Yojana (PMKS), Nal se Jal scheme, a component of the Jal Jivan Mission, Pradhan Mantri Awas Yojana (PMAY), is expected to support the growth of the plastic pipe segment. Government's emphasis on cleanliness and sanitation, affordable home building, and replacement and substitution demand is also expected to benefit the sector.

Liquidity: Strong

The liquidity of Astral remained strong marked by healthy cash flow generation from operations and very low fixed debt repayment obligation. On a consolidated level, Astral had free cash and liquid investments of ₹642 crore on March 31, 2022, resulting in lower dependency on working capital borrowings. The average utilisation of its fund-based (majorly buyer's credit) working capital limits stood low at around 45% during the trailing 12 months ended June 2022. Its unencumbered cash and liquid investment and available unutilised bank lines are more than adequate to meet its incremental working capital and capex requirement over the next one year. With low overall gearing ratio, Astral has sufficient gearing headroom to raise additional debt for its capex, if any. Astral's current ratio stood at 1.86x as on March 31, 2022, and it had a controlled operating cycle of 42 days on a consolidated level in FY22.

Key rating weaknesses

Profitability susceptible to volatility in raw material prices and foreign exchange rates: The raw materials for Astral majorly consist of CPVC resin (comprises around 30%-35% of the total raw material requirement which is majorly imported) and PVC resin. Being a crude oil derivative, PVC prices are correlated with crude prices. The raw material required for adhesives is also a crude oil derivative product. Thus, Astral is exposed to the fluctuation in raw material prices. During 2021 and 2022, the prices of PVC resin have remained highly volatile with price surging to nearly ₹160/kg from pre-COVID-19 levels of about ₹75-80/kg. The same has again declined to ₹90/kg by end of August 2022. Substantial rise in the raw material cost also led to increased working capital requirement for industry players. Although the players with strong brand recall were able to pass on the higher cost to its customers, however, the ability to consistently maintain the gross margin on its products amidst volatility in the raw material remains crucial for the success of plastic pipe manufactures, including Astral. During Q1FY23, Astral incurred inventory loss of approximately ₹25 crore due to fall in the raw material prices. Moreover, the prices of PVC resin continued to decline in Q2FY23, which may also result in some inventory loss and in turn put pressure on profitability in the near term.
Astral is also exposed to the fluctuations in foreign exchange rates since it imports around 30% of its total raw material requirement against which exports are minimal. Astral uses foreign currency buyer's credit of 180 days and does not hedge its open forex cover beyond 60 days, thus exposing it to the fluctuations in foreign exchange rate.

Supplier concentration risk: Astral procures CPVC resin largely from two to three suppliers, and hence, is exposed to the supplier concentration risk, which results in limited bargaining power with them. Astral normally procures CPVC resin from Seikisui Chemical Co Limited, Japan (Sekisui), a major supplier of CPVC resin. The PVC industry in India has five major producers, viz., Reliance Industries Ltd, Finolex Industries Ltd, Chemplast Sanmar Ltd, DCW Ltd and DCM Sriram Ltd. Astral majorly procures its PVC requirement domestically from some of these domestic suppliers while some portion of its requirement is also met through imports. For Astral, the top-five suppliers comprised 50% of the total raw material purchased during FY22 thus exposing it to moderate degree of supplier concentration risk. However, over the years, the company has been diversifying its supplier base gradually and it is expected to reduce its supplier concentration going forward with availability of additional CPVC and PVC resin supply domestically.

Low entry barriers in a highly competitive plastic pipes industry: The Indian plastic pipes industry is highly competitive with the market share of unorganised players comprising around 35%-40% of the industry. A significant portion of the industry comprises unorganised segment on account of the low entry barriers in the plastic pipes industry and commoditised nature of the product leading to low product differentiation and pricing pressure. The Indian plastic pipe industry primarily derives its demand from infrastructure/construction and agriculture sector along with replacement/substitution of metal pipes by cost-effective plastic pipes. However, amidst economic slowdown exacerbated by COVID-19 followed by GST implementation, many unorganised players are experiencing liquidity stress. As a result, organised players with robust credit profile, wide product portfolio, strong brand and distribution network are likely to gain sizeable market share.

Analytical approach: Consolidated

CARE Ratings has considered consolidated financials of Astral for its analytical approach on account of business synergies with its subsidiaries which have been set-up/acquired in different geographies to cater to a wider market or are related to diversification to complement its existing product portfolio, and due to their common management. The details of entities getting consolidated in Astral are shown at **Annexure-6**.

Applicable criteria

Policy on Withdrawal of ratings
Criteria on assigning 'outlook' and 'credit watch' to credit ratings
CARE's policy on default recognition
Financial ratios – non-financial sector
Criteria for short-term instruments
Rating Methodology: Consolidation
Rating methodology - Manufacturing Companies
Liquidity analysis of non-financial sector entities

About the company

Astral was established in 1996 as a private limited company by Sandeep Engineer. In 2007, the company was reconstituted as a public limited company with its initial public offering. Furthermore, the name of the company has been changed from Astral Poly Technik Limited to the present one in April 2021. Astral manufactures PVC and CPVC-based plastic pipe and plumbing systems, and adhesives. As on March 31, 2022, Astral had combined pipe and water tanks manufacturing capacity of 282,338 MTPA at its plants spread across Gujarat, Tamil Nadu, Rajasthan, Maharashtra, Uttarakhand and Odisha. Moreover, Astral had total adhesive manufacturing capacity of 95,980 MTPA at its plants located in Santej, (Gujarat) Unnao and Rania (Uttar Pradesh), USA and UK as on March 31, 2022. It has also ventured into paint, faucet and sanitaryware businesses recently.
The IT department had conducted a search at the office premises of Astral and residence of company officials during November 2021. According to the company management, there have been no material findings by the IT department till now.

Brief Financials – Consolidated (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23 (UA)
Total operating income	3,191	4,405	1,224
PBILDT	660	766	183
PAT	408	490	94
Overall gearing (times)	0.16	0.18	NA
PBILDT Interest coverage (times)	50.34	59.37	12.72

A: Audited, UA: Unaudited; NA: Not available; Financials have been classified as per CARE Ratings' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated facilities: Not applicable

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	-	170.00	CARE AA+; Stable/ CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	-	635.00	CARE AA+; Stable/ CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	-	Withdrawn

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based/Non-fund-based-LT/ST	LT/ST	170.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA; Stable/ CARE A1+ (22-Sep-21)	1)CARE AA; Stable/ CARE A1+ (06-Oct-20)	1)CARE AA; Stable/ CARE A1+ (26-Sep-19)
2	Fund-based/Non-fund-based-LT/ST	LT/ST	635.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA; Stable/ CARE A1+ (22-Sep-21)	1)CARE AA; Stable/ CARE A1+ (06-Oct-20)	-
3	Non-fund-based - LT/ ST-BG/LC	LT/ST	-	Withdrawn	-	1)CARE AA; Stable/ CARE A1+ (22-Sep-21)	1)CARE AA; Stable/ CARE A1+ (06-Oct-20)	-
4	Fund-based - LT-Term loan	LT	-	-	-	1)Withdrawn (22-Sep-21)	1)CARE AA; Stable (06-Oct-20)	1)CARE AA; Stable (26-Sep-19)

LT/ST=Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable.

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based/Non-fund-based-LT/ST	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Name of Subsidiary	% of holding by Astral Limited
Seal It Services Limited, UK	80.00%
Seal It Services Inc., USA	80.00%
Astral Biochem Private Limited #	100.00%
Resinova Chemie Limited #	97.45%
Astral Pipes Limited, Kenya	50.00%
Gem Paints Private Limited (GPPL) @	Board control
Esha Paints Private Limited (w.e.f. April 20, 2022)	These entities are a part of recently acquired GPPL and are a non-core business operation of Astral. Due to control on board of GPPL, these entities have been consolidated in Astral during Q1FY23.
Enterprise Software and Technology Services Private Limited @	
Womenova Agro Food Park Private Limited @	
Samwin Consolidation LLP @	
Cyphysignals India Private Limited @	

Ceases to exist subsequent to the merger of these subsidiaries into Astral with effect from September 2022.
@ w.e.f. April 01, 2022

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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