

MANAGEMENT DISCUSSION AND ANALYSIS

INDIAN ECONOMY

The Indian economy displayed positive growth trend over the past few years on the back of various Government initiatives and reforms. The growth outlook was optimistic prior to the unexpected Coronavirus (COVID-19) outbreak. However, owing to the massive impact of COVID-19, almost all the major economies of the world have gone through some form of lockdown or social distancing. The lockdown in India disrupted the economic activities in the fourth quarter of the financial year. Indian economy grew by 4.2% in the FY 2019-20 as compared to 6.8% in FY 2018-19.

However, to combat the impact of lockdown, the Government implemented various measures. These measures included, reduction in repo rate and reverse repo rate, moratorium on repayment of term loans among others. The Government also provided wage support, in-kind and cash transfers to lower-income households and deferral of tax payments. The Government along with the RBI, released a stimulus package of ₹ 20 trillion (mid-May 2020) which is approximately 10% of GDP. The package aims to boost private investments, increase liquidity support and infrastructure.

OUTLOOK

Significant monetary and liquidity measures taken by the RBI, and fiscal measures taken by the Government are expected to mitigate the adverse impact of COVID-19 and help reinvigorate the economic activities. The stimulus package is expected to foster long-term employment and opportunities that will strengthen the economy further. On a positive side, the agriculture and allied sector functioned smoothly despite the health crisis, displaying a growth rate of 3.7% during the 2019-20 fiscal.

INDIAN PIPING INDUSTRY OVERVIEW

Over the past five years, domestic plastic pipe industry has clocked a 10% CAGR and now its market size stands at ~₹ 30,000 crores (Source: Article published in the Money Control, May 28, 2020). Wherein, the 60-65% market share accounts to organised players and remaining to the unorganised ones (Source: Business India, 2019). The major driver behind the growth is Government infrastructural spending, increasing constructions, industrial production, irrigation sector, replacement of aging pipelines, among others. Besides, its superior properties and economical cost makes plastic pipes favourable over metal pipes. Amongst all plastic pipes, the 65% of the industry demand is for Unplasticised

Polyvinyl Chloride (UPVC), 15% for Chlorinated Polyvinyl Chloride (CPVC) and remaining constitute to others (Source: HDFC securities, December 2019). There has been growing adoption in PVC/CPVC pipes owing to its corrosion resistant, flame resistant, easy to install & handle, environmentally sound and durability features. Along with this, increased focused by the Government in the end user application will be the major contributor in the growth. Consequently, it is also creating upsurge in the demand for solvent cement used in the fitting and attaching of pipe.

OUTLOOK

Going forward, the Indian plastic pipe industry is estimated to register a 10% CAGR by 2024-25 to reach ₹ 500 billion (Source: Money Control, May 21, 2020). However, in the near term, especially in the Q1 of 2020-21, the corporate earnings of pipe manufacturers will be impacted to some extent owing to slowdown caused by the COVID-19. Relative to other sectors, it is still resilient as the Government gave boost to agriculture and housing sector through handsome stimulus package. Also, the relaxation in the lockdown norms will open doors for construction and plumbing activities. Besides, the industry has 35-40% unorganised players and around 60-65% organised players. Amid economic slowdown, several unorganised and organised players might face trouble owing to liquidity issues and weak balance sheet. As a result, organised players with robust financials are likely to gain sizeable market share.

OPPORTUNITIES AND GROWTH DRIVERS

Consolidation in the industry

Post GST era, the unorganised players in the plastic pipes industry were already finding it difficult to gain advantage on the price. Now with COVID-19 scenario, the companies with high debt and weak cash flow are bound to head towards consolidation. This will allow organised players with opportunities to acquire regional players at lower valuation.

Government initiatives

The Government schemes such as Housing for All" by 2022, "Nal se Jal" by 2024, project AMRUT & Swachh Bharat Mission, National Rural Drinking Water Programme, among others augurs well for the plastic pipe industry. These schemes aims at cleanliness, providing basic services, such as Water Supply and Sanitation (WSS), and ensuring that every household has access to a tap with assured water supply and a sewerage connection.

Replacement of ageing pipes

Traditional pipe material like iron, steel and concrete used in the cities and buildings are getting older and corroded, reducing its stability. PVC/CPVC pipes are highly recommended as replacement by the plumbers owing to its lower cost and ease of installations.

Rising aspirations of the middle-class population

The demand for pipes is influenced by rising disposable income of the middle class population. Presently, there is a shift in terms of lifestyle changes, wherein people prefer branded and quality tiles/faucet/ceramic to renovate their homes and enhance the aesthetic appeal of bathrooms. This will in turn create demand for pipes as well.

Hydroponic PVC system

Aspiring urban and conscious farmers are adopting the effective way of doing farming in a minimalistic space. One of which is hydroponic method, wherein usage of PVC pipe is very popular. With times, increasing number of companies will enter into the space to develop readymade Hydroponic system.

CHALLENGES

Cost of raw material

The higher raw material prices can increase the production cost of the players operating in the industry. However, the increase in raw material prices does not impact pipe manufacturing players as the higher cost is passed down to the downstream industry users.

Stagnation in the construction industry

Slow pace of construction activities can hamper the margins of the pipe industry players. However, the industry is less likely to be impacted owing to sustained demand for replacement of traditional pipes and shift from unorganised to organised players.

Slowdown in the capex of the downstream industry

The downstream industry's cautious approach towards capital expenditure in the projects can affect the order books of the plastic pipe players. Also, the COVID-19 situation has made this quite apparent and probably, it would take couple more quarters before the things starts falling in place.

Indian Adhesive Industry Overview

Adhesives are widely used across numerous end user industries such as packaging, construction, furniture, automotive, assembly operations among others. The major demand for adhesive comes from the packaging and automotive industry in the country.

Increase in disposable income levels and booming retail markets are propelling growth in packaging industry

which is conducive for driving demand for adhesives. Rapid urbanisation coupled with growing infrastructure and real estate construction projects is further projected to fuel the demand. An increasing number of global as well as domestic adhesive companies have set up facilities to address the growing demand for adhesives from various end user industries. The India Adhesives & Sealants market is expected to record a CAGR of 11.17% during the forecast period of 2019-2024.

(Source: <https://www.reportlinker.com/p05786704/India-Adhesives-Sealants-Market-Growth-Trends-and-Forecast.html>)

COMPANY OVERVIEW

Astral Poly Technik Limited (Astral) commenced its operations about 21 years ago with a strong vision of manufacturing CPVC plumbing systems in India. Today, Astral is one of India's largest manufacturer of Chlorinated Poly Vinyl Chloride (CPVC) and Poly Vinyl Chloride (PVC) plumbing systems used across various industries. It is now making robust progress into the adhesives segment and infrastructure products as well. The Company has six pipe manufacturing facilities in India and one in Kenya. It has three adhesive and sealant manufacturing facilities in India and another two in USA and U.K, respectively. Further, by adopting innovative technologies and extensive R&D, it continues to set trends with the introduction of new products line. While it has continuously expanded boundaries by setting up plants across India to meet requirement of customers from different locations.

During the year, the Company continuously invested in expanding capacities at various plants. The new manufacturing facility in Bhubaneswar, Odisha will be operational by June 2021. The plant in Odisha will also help the Company to cater to the North-East market and improve its margin.

In the previous financial year, Astral ventured into the manufacture and supply of double wall corrugated pipes via acquisition of Rex Polyextrusion Private Limited ("Rex"). The Company has completed process streamlining in Rex and is looking forward to gain significant benefits through the acquisition.

FINANCIAL PERFORMANCE

2019-20 was the tremendous year for Astral as it showed an increased product realisation and steady numbers even amid turbulent times. The Group's revenues in 2019-20 stood at ₹ 25,779 million. The EBITDA improved by 14.3% to ₹ 4,534 million in 2019-20 from ₹ 3,967 million in 2018-19. The Company achieved a profit after tax of ₹ 2,496 million in 2019-20 as against ₹ 1,973 million in 2018-19, an increase of 26.5%.

Owing to the unexpected COVID-19 attack and subsequent lock down in country, the Company witnessed weakened sales in piping and adhesive segments in the month of March 2020. Consequently, in the Q4 of FY 2019-20, the closing inventory level increased with reduced receivables.

However, with strong brand equity, healthy balance sheet and multi-location presence, the Company expects to gain significant market share from unorganised and organised players in the near future. In addition, anticipated correction in polymer prices and recent imposition of anti-dumping duty in CPVC pipes will also be conducive for the Company's growth.

KEY FINANCIAL HIGHLIGHTS

(₹ in million)

Particulars	Standalone			Consolidated		
	2019-20	2018-19	Y-o-Y growth	2019-20	2018-19	Y-o-Y growth
Revenue from operation	20,428	19,157	6.63%	25,779	25,073	2.82%
EBITDA	3,806	3,154	20.67%	4,534	3,967	14.29%
Profit after Tax (PAT)	2,008	1,414	42.01%	2,496	1,973	26.51%
Basic/Diluted Earnings per share (₹)	13.33	9.40	41.81%	16.45	13.01	26.44%

Key Financial Ratios

Standalone

Ratios	2019-20	2018-19	Variance (%)
Debtors turnover (in days)	25 days	43 days	(42)
Inventory turnover (in days)*	75 days	57 days	32
Interest coverage Ratio**	15.97	10.96	45.71
Current Ratio	1.42	1.34	5.97
Long term Debt Equity Ratio	0.09	0.15	(40.00)
EBIDTA Margin	18.63%	16.46%	13.16
PAT Margin	9.83%	7.38%	33.17
Return on Net worth	16.17%	13.46%	20.11

* Note: Change in Inventory Turnover Ratio is mainly due to loss of year-end sales because of lockdown for covid-19 pandemic.

**Interest = Finance cost less Exchange differences regarded as an adjustments to borrowing costs.

Consolidated

Ratios	2019-20	2018-19	Variance (%)
Debtors turnover (in days)	32 days	50 days	(38.00)
Inventory turnover (in days)*	77 days	58 days	32.76
Interest coverage Ratio**	15.51	12.03	28.93
Current Ratio	1.57	1.48	5.55
Long term Debt Equity Ratio	0.11	0.19	(41.79)
EBIDTA Margin	17.59%	15.82%	11.13
PAT Margin	9.68%	7.87%	23.04
Return on Net worth	17.77%	17.00%	4.52

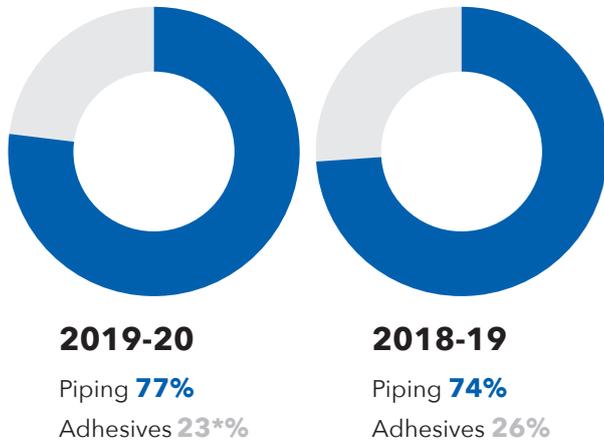
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BUSINESS SEGMENT PERFORMANCE

Contribution to the Total Revenue (%)

BUSINESS



Business	2019-20	2018-19
Piping	77	74
Adhesives	23*	26

* Reduction in Adhesives is mainly because company was doing structured corrections from 3 tier sales structure to 2 tier sales structure.

Piping Business

The Company's piping business has consistently outperformed the industry growth. The spectacular growth momentum is led by capacity expansion, spurring volume growth, reputed brand name and large distribution network. The recently introduced product PEX-A-PRO has seen positive response from the market, with consistent business. The piping segment's revenues in 2019-20 stood at ₹ 20,428 million. The EBIDTA improved by 20.7% to ₹ 3,806 million in 2019-20 from ₹ 3,154 million in 2018-19. Profit after tax stood at ₹ 2,008 million in 2019-20 as against ₹ 1,414 million in 2018-19, showing an increase of 42.0%.

Adhesives Business

Over the past few years, the Company has leveraged its geographical strength and existing distribution network along with its own cross-selling opportunities to grow in the adhesive segment. Combined Revenue of Resinova and Seal IT stood at ₹ 5,830 million, while EBIDTA was recorded at ₹ 765 million in the FY 2019-20. With right structural changes and strategies, Resinova is expected to capture higher market share in the adhesive and sealant segment. The Company recently launched an instant hand sanitizer 'Resi Shield' to help curb the COVID-19 pandemic.

Robust Distribution Network

Astral has a large distribution network across India with strong reach in West and South India. The Company is planning to increase its reach in the North-East as well by setting a manufacturing plant in Bhubaneswar, Odisha.

**PIPING
800+**

Distributors
31,000+

Dealers

**ADHESIVES
1300+**

Distributors
130,000+

Dealers

Branding Initiatives

Astral has continuously invested in brand & promotional activities through Bollywood movies, associate sponsor of Indian Premier League teams among others. This has helped the Company gain exceptional visibility and market share. The Company has its new brand ambassador **Ranveer Singh** on board for next three years from now.

RISK MANAGEMENT

The Company has an effective risk management framework in place to primarily control business and operational risks. The major risk areas are periodically and systematically reviewed by the senior management and risk-management committee. Comprehensive policies and procedures help identify, mitigate and monitor risks at various levels. By taking such proactive measures, the Company ensures that strategic business objectives are achieved seamlessly.

HUMAN RESOURCE

The Human Resource division of the company plays a vital role in hiring, training, managing and retaining employees to build a group of talented workforces. So that they can reach their full potential and work diligently towards the growth of the organization. The Company has created a level playing field space, whereon equal opportunities to all employees is provided. With this belief, it has enhanced employee morale, boosted productivity and reduced people absenteeism. The Company industrial relations continues to be friendly throughout the year by adhering

to the best safety standards at manufacturing units. The Company had also set up seminars and workshops for its work force for their development and to equip them to adapt to the fast-changing environment. As of March 31, 2020, the Company had 1639 employees on its payroll.

INTERNAL CONTROL SYSTEMS AND ITS ADEQUACY

Astral has in place an adequate system of internal control procedures. It is committed to good corporate governance practices and has well-defined systems and processes covering all the corporate functions and units. The internal Audit processes ensures all the assets are safeguarded and protected against loss. Furthermore, all the transactions are authorised, recorded and reported correctly. The internal control systems of the Company are monitored and evaluated by internal auditors and their audit reports are periodically reviewed by the Audit Committee.

CAUTIONARY STATEMENT

Some of the statements in this Management Discussion and Analysis, describing the company's objectives, projections, estimates and expectations may be 'forward looking statements' within the meaning of applicable Laws and Regulations. Actual results might differ substantially from those expressed or implied. Important developments that could affect the company's operations include changes in economic conditions affecting demand, supply and price movements in the domestic and overseas markets in which your company operates, changes in the Government regulations, Tax Laws and other Statutes or other incidental factors. The company assumes no responsibility in respect of forward-looking statements, which may be amended or modified in future.

