Astral Limited

October 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	805.00	CARE AA+; Stable/ CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Astral Limited (Astral) 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', which is aided by its sustained advertisement and sales promotion spending and complemented by its widespread distribution network and multi-location manufacturing facilities. 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 fuel its growth in the medium term. Ratings also factor a strong financial risk profile marked by continuous growth in its total operating income (TOI) and profitability over the years aided by capacity expansions, deeper market penetration, launch of new products and industry leading growth rate, and its strong debt coverage and return indicators. TOI and profitability are expected to grow further aided by improvement in capacity utilisation across existing business segments apart from contribution from recently commenced businesses. The financial risk profile is expected to remain strong in the medium term in the absence of any major debt-funded capex plan.

The long-term rating, however, continues to be constrained by the susceptibility of its profitability to fluctuations in 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: Factors likely to lead to rating actions

Positive factors

- Improvement in the capacity utilisation for pipes and adhesive segments along with significant increase in its TOI through greater geographical and product diversification leading to significant market leadership position across key businesses.
- Improvement in profit before interest, lease rentals, depreciation, and taxation (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 ~0.25x on a sustained basis.
- Significant diversification of its raw material supplier base and efficient working capital requirement.

Negative factors

- Decline in the scale of operations with TOI going below ₹3,500 crore and 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 over 0.75x and total debt/PBILDT to over 1.0x (net of cash and liquid investment) on a sustained basis, and significant dilution of liquidity.
- Elongation in operating cycle beyond 80 days having an adverse impact on its cash flow from operations and liquidity.
- Unrelated diversification having adverse impact on the company's credit profile.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has considered consolidated financials of Astral for its analytical approach considering 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 or complement its existing product portfolio, and due to their common management. Details of entities consolidated in Astral are listed under **Annexure-6**.

Outlook: Stable

CARE Ratings expects sustained improvement in Astral's operating performance, backed by its diversified revenue profile and healthy demand in end-user industries. The financial risk profile should also remain strong in the absence of long-term debt and lower reliance on working capital borrowings.

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

Detailed description of key rating drivers:

Key strengths

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 company's overall management. Astral is among 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 it 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 the acquisition of Seal IT Services Limited (UK), later acquired Resinova Chemie Limited (RCL) in November 2014 and thereafter acquired Gem paints in 2022. These acquisitions added a variety of paints and adhesives to Astral's product portfolio. Astral's product portfolio also includes water tank, faucets, sanitary ware and paints apart from plastic pipe and adhesive.

Wide product portfolio in plumbing 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, and plumbing system for industrial applications among others. In the pipes and fittings segment, Astral has significant presence in value-added CPVC products. Acquisition of Rex Polyextrusion Private Limited (Rex; amalgamated with Astral in FY20) further added products including corrugated pipes, cable protection systems for telecommunication lines and pipes for sub-surface drainage. Astral's product portfolio for the adhesive business include sealants and adhesives used across multiple applications such as, household, construction, furniture, engineering, automobile and insulation among others. Astral has continually expanded its product portfolio in piping and adhesive segments by introducing next-generation plumbing system for hot and cold water, low noise drainage and sewerage piping system, cyanoacrylate, surface drainage system, solvent cement, and rescue tape among others to its portfolio in the last few years. The company will continue to benefit from its wide range of products in the future as well.

Widespread dealer and distribution network leading to geographically diversified operations

Over the years, the company has built its 'Astral' brand with established and widespread network of dealers and distributors across India. Astral has 3,303+ distributors with 2,29,000+ dealers for its plumbing and adhesives segment. Astral's strong distribution network has enabled it to have pan-India presence in its piping and adhesive businesses. For the piping business, it has strong presence in West and South India while its presence in North and East India is expected to increase in the next few years with commissioning of new plants in Rajasthan, Odisha and Guwahati. Astral is also adding new distributors and dealers in this region. The company saw a strong demand prospect for plastic pipe in east India.

The adhesive business currently has strong presence in north India and Astral is leveraging its distribution network of pipe to increase its presence in south and west India. With Astral's entry into paints, faucets and sanitary ware segments, it is expected to expand its distributors and dealer network further.

Astral's share of revenue from outside India (overseas sales) in its total net sales stood at ~7%-10% in FY20-FY24.

Strong brand franchise of 'Astral' aided by sustained advertising and sales promotion spend

Astral is consistently investing in brand building with branding activities involving national television advertisement, in-film branding, on-ground cricket match branding, associate sponsor of Indian Premier League (IPL) Teams, train/bus/auto banners, advertisement hoardings, shop hoarding boards, plumber/architects/distributors meet, and digital marketing among others. Astral's branding strategy has always been to grow by commanding a strong brand recall in minds of customers. In FY21, Astral launched exclusive marketing campaign with new brand ambassador, Ranveer Singh (a Bollywood actor) for three years. Prior to Ranveer Singh, Astral worked with Salman Khan, another Bollywood actor. In 2022, Astral hired Allu Arjun as its brand ambassador for two years with the key focus on brand recall in South Indian market. On a consolidated level, on an average, Astral spends ~3% of net sales on advertisement and sales promotion. Increase in marketing expenses in FY24 and Q1FY25 was considering 25th anniversary celebration and launch of paint business. Higher spending in advertisement and sales promotion by Astral resulted into higher growth in sales volume compared to peers supported by a strong brand recall.

Multi-location manufacturing facilities, provide ease of market access and enable cost saving on logistic

At present, Astral has ten piping and water tank and bathware manufacturing facilities in India and eight paints and adhesives manufacturing facilities across the globe with six in 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 cost of logistic, Astral has set-up its manufacturing capacities across India targeting each region, North, West, South and East.

The company is setting up two new manufacturing facilities each at Hyderabad and Kanpur, Uttar Pradesh. These facilities will commence operation in two phases by the end of FY26, of which, Phase – I of the Hyderabad already started commercial production in Q2FY25. The company plans to spend annual capex of ~₹300-350 crore each in FY25 and FY26, which is planned to be funded through internal accruals. Incremental capacity should facilitate future growth in scale of operations.

Expected benefits of diversification from new businesses

In 2022, Astral forayed into paints, faucets, sanitary ware, uPVC and CPVC valves segments. In June 2022, Astral entered the paint segment through acquisition of operating paint business of Gem Paints Private Limited (now known as Astral Coatings Private Limited). Astral 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.

The paint business earned a revenue of ₹185 crore in FY24. Astral aims to achieve a revenue growth of 15-20% in the paint business in the next few years, driven by its strategic focus on quality and innovation. The company plans to expand its product offerings and strengthen its distribution network to capture a larger market share. The paint business operating profitability margin is expected to remain at ~12-13%. Astral's bathware business reported a revenue of ₹61 crore in FY24, while it had negative operating profitability in FY24, Astral expects to achieve break even or single-digit operating margin in FY25. The introduction of new product ranges and increased market acceptance were key drivers of growth in bathware segment. The company anticipates significant growth in the bathware segment, driven by the increasing demand for modern and aesthetically appealing bathroom solutions. Astral aims to gradually scale up new offerings by focusing on specific geographies and then eventually establishing its presence pan-India.

Growing scale of operations and steady profitability margins

Astral's consolidated TOI consists of two operating segments with pipes, water tank and sanitaryware including faucet ware referred as plumbing business which contributed ~73% of net sales in FY24 and remaining was contributed by adhesive business. In FY24, revenue from plumbing business reported growth of 10% supported by strong sales volume growth of 24% in plastic pipe business, which was partially off-set by decline in average sales realisation followed by declined in raw material prices. Growth in the plumbing business was supported by consistent increase in installed capacities, which increased from 2,38,730 MT in FY20 to 3,34,040 MT in FY24. Revenue from adhesive business grew by 8% in FY24 with steady demand of its products. CARE Ratings expects consolidated TOI of Astral to grow by 10-12% per annum in FY25 and FY26 considering healthy demand of its products apart from higher capacity utilisation.

With the decline in cost of raw material, Astral earned a gross margin of ~39% in FY24 (FY23: 33% in FY23). However, with the increase in employee cost and advertisement and sales promotion expenses, the improvement in PBILDT margin was restricted to 77 bps to 16.55% in FY24 (FY23: 15.78%). Astral has hired additional manpower for its new plants, new business segment and new geographies. These costs are expected to normalise in coming years as the sales volume from existing and new verticals start picking-up. On a long-term basis, Astral is envisaged to maintain PBILDT margin of ~16-17%.

Strong financial risk profile

Astral's overall gearing on a consolidated level remained comfortable at 0.14x as on March 31, 2024, due to its strong net worth base of ~₹2,800 crore and minimum reliance on debt. With cash and liquid investments of ₹610 crore, Astral is net debt free company as on March 31, 2024. Astral's debt coverage indicators remained healthy marked by PBILDT interest coverage of 32x and total debt to gross cash accruals (TD/GCA) and TD/PBILDT of 0.53x and 0.43x respectively in FY24. Capital structure and debt coverage indicators are expected to remain comfortable in the absence of any large debt-funded capex plan. Incremental working capital requirements are also expected to be met from internal accruals and there would not be substantial increase in working capital borrowings going ahead. ROCE continue to remain strong over 20% in FY24, which is likely to remain at levels of above 20% for FY25 and FY26.

Good growth prospect for plastic pipe and plumbing industry

Demand for building materials such as pipe, paint, sanitaryware and faucets, ceramic, plywood, and laminates are correlated to the real estate development. A significant portion of pipe demand comes from irrigation, urban infrastructure, and sanitation projects, allowing for faster growth than in other building material sectors. Because of increased end-use sector investments such as irrigation, water supply and sanitation (WSS) projects, the plastic pipes industry has historically grown faster than the GDP. Increased awareness, adoption, and replacement of metal pipes with plastic pipes also continue to aid growth of the plastic pipe segment. With growth in the construction sector (house building), development in infrastructure (railways, road, airport and malls), and application in industries (oil and gas transport), the demand for plastic pipe is expected to increase going forward. 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) are also expected to support the growth of plastic pipe demand.

Liquidity: Strong

Astral's liquidity has remained strong marked by strong cash generation from operations and minimum reliance on external debt. On a consolidated basis, Astral had free cash & liquid investment of ₹610 crore and ₹553 crore as on March 31, 2024, and as on June 30, 2024, respectively. The strong cash generation results into lower dependency on working capital borrowings. Average utilisation of its fund-based (majorly buyer's credit) working capital limits stood low at ~42% in 12-months ended July 2024. Its unencumbered cash and liquid investment and available unutilised bank lines are more than adequate to meet its incremental working capital and capex requirement in 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 1.77x as on March 31, 2024, and it has a controlled operating cycle of 55 days in FY24 at consolidated level, due to tight receivable management.

Key weaknesses

Profitability susceptible to raw material price volatility and foreign exchange rates

Astral's raw materials majorly constitute CPVC resin (comprises ~30-35% of total raw material requirement and majorly imported) and PVC resin (majorly procured domestically). PVC is a synthetic resin manufactured from polymerisation of vinyl chloride. Being a crude derivative, PVC prices are correlated with crude prices. Raw materials required for adhesives are also crude derivative products. Thus, Astral is exposed to raw material price fluctuation. In 2021 and 2022, PVC resin prices remained highly volatile with price surging to nearly ₹160/kg from ~₹75-80/kg, which now again trades at ~₹80-85/kg in September 2024.
Substantial and sharp fall in raw material cost leads to inventory losses. The ability to consistently maintain gross margin amidst raw material volatility remains crucial for the success of plastic pipe manufactures including Astral.
Astral is exposed to fluctuations in foreign exchange rates since it imports ~25% 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, exposing it to fluctuations in foreign exchange rate.

Competitive plastic pipes industry and supplier concentration risk

The Indian plastic pipes industry is highly competitive with the market share of unorganised players comprising ~30-35% of the industry. A significant portion of the industry comprises the unorganised segment considering low entry barriers in the plastic pipes industry and commoditised nature of product leading to low product differentiation and pricing pressure. The Indian plastic pipe industry primarily derives its demand from infrastructure/construction and agriculture sector and 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 continue to gain sizeable market share.
Astral majorly imports CPVC resin from Sekisui Chemical Co Limited and procures domestically from Epigral Limited. It relies on Reliance Industries Limited (RIL), DCW Limited and Chemplast Sanmar Limited for PVC resins. Astral also imports PVC resins depending on pricing differential between RIL and landed cost of imported PVC resin.

Environment, social, and governance (ESG) risks

Parameter	Compliance and action by the company
Environment	▪ Plumbing and Adhesive manufacturing is an energy-intensive process requiring substantial quantities of chemicals, resulting in greenhouse gas emissions, waste generation and pollution. As such, the industry's (and Astral's) exposure to litigation/penalties arising from issues related to waste and pollution management remains relatively high. ▪ Astral is fully compliant with all environmental rules and regulations with dedicated environment managers, handling compliance at respective units. Monitoring mechanisms are in place to ensure effective compliance. Astral has never paid environmental compensation against show cause or closure notices. ▪ All plants are zero liquid discharge plants. Hence, there is no discharge of water outside plant premises and wastewater generated is used within the plant. ▪ Most of the waste generated is recycled and reused in processes and rest is disposed through authorised vendors. ▪ Increase in use of solar energy by 31% in FY24. Energy consumption through renewable source was 16% and 17% respectively in Santej and Dholka plant. ▪ Astral is certified with ISO 14001:2015 (environmental management systems), ISO 9001:2015 for quality management system and ISO 45001:2018 (occupational health and safety management systems) for integrated management system implementation.
Social	▪ Social risks in the industry stem from the health and safety concerns of employees involved in operations, among other things such as fire safety measures among others. ▪ Astral make conscious efforts to ensure that its suppliers adhere to the highest sustainability standards. Its supplier code of conduct embodies its commitment to internationally recognised standards, Universal Declaration of Human Rights, prevalent industry standards, and all other relevant and applicable statutory requirements. Astral has continuously involved in helping poor in healthcare, education, and infrastructure

Parameter	Compliance and action by the company
	development initiatives. Constant training is provided to employees for safety, hygiene and lifestyle. There was substantial increase in training hours to 23,107 hours in FY24.
Governance	▪ Astral's board of directors consists of 50% independent directors (5 of 10). There are separate Code of Conducts for Board Members and senior management personnel. Policy on whistle blower and vigil mechanism is in place. Transparency in sharing of required information and consistency in adoption of accounting policies in preparation of financial statements also indicates fair governance practices.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macro economic indicator	Sector	Industry	Basic industry
Industrials	Capital goods	Industrial products	Plastic products - industrial

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. The company's name changed from Astral Poly Technik Limited to its present one in April 2021. Astral manufactures PVC and CPVC-based plastic pipes, plumbing systems, and adhesives. As on March 31, 2024, Astral had combined pipe and water tanks manufacturing capacity of 3,33,704 MTPA at its plants spread across Gujarat, Tamil Nadu, Rajasthan, Maharashtra, Uttarakhand and Odisha. Astral had total adhesive manufacturing capacity of 1,42,541 MTPA at its plants located in Santej, (Gujarat) Unnao and Rania (Uttar Pradesh), the USA and the UK as on March 31, 2024. It has also ventured into paint, faucet and sanitaryware businesses.

Brief Financials (₹ crore) Consolidated	FY23 (A)	FY24 (A)	Q1FY25 (UA)
Total operating income	5,164	5,650	1,384
PBILDT	815	933	226
PAT	460	546	120
Overall gearing (times)	0.16	0.14	NA
PBILDT Interest coverage (times)	20.38	32.08	29.40

A: Audited UA: Un-audited; NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and 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+

Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based/Non-fund-based-LT/ST	LT/ ST	170.00	CARE AA+; Stable/ CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (04-Oct-23)	1)CARE AA+; Stable / CARE A1+ (20-Sep-22)	1)CARE AA; Stable / CARE A1+ (22-Sep-21)
2	Fund-based/Non-fund-based-LT/ST	LT/ ST	635.00	CARE AA+; Stable/ CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (04-Oct-23)	1)CARE AA+; Stable / CARE A1+ (20-Sep-22)	1)CARE AA; Stable / CARE A1+ (22-Sep-21)
3	Non-fund-based - LT/ ST-BG/LC	LT/ ST	-	-	-	-	1)Withdrawn (20-Sep-22)	1)CARE AA; Stable / CARE A1+ (22-Sep-21)
4	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (22-Sep-21)

LT: Long term; Long term/Short term

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

Annexure-4: Complexity level of instruments rated

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

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated as on March 31, 2024

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Seal It Services Limited, UK	Full consolidation	Subsidiary
2	Seal It Services Inc., USA		
3	SISL (Bond IT) Ireland Limited, Ireland		
4	Astral Coatings Private Limited		
5	Astral Pipes Limited, Kenya	Equity method	Joint venture

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

Contact us

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Name: Ranjan Sharma Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3453 E-mail: Ranjan.sharma@careedge.in Name: Krunal Pankajkumar Modi Director **CARE Ratings Limited** Phone: +91-79-4026 5614 E-mail: krunal.modi@careedge.in Akshay Dilipbhai Morbiya Assistant Director **CARE Ratings Limited** Phone: 079-4026 5619 E-mail: akshay.morbiya@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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