June 28, 2021 Revised

Astec LifeSciences Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based	143.00	250.00	[ICRA]AA-(Stable); reaffirmed
Long-term Fund-based – Term Loan	-	40.00	[ICRA]AA-(Stable); assigned
Short -term - Non-Fund Based	391.00	284.00	[ICRA]A1+; reaffirmed
Commercial Paper	150.00	200.00	[ICRA]A1+; reaffirmed
Total	**684.00**	**774.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings factors in the established track record of Astec LifeSciences Limited (Astec or the company) in the agrochemicals business, its reputed clientele comprising large MNCs in the domestic and exports market. Astec's operations are also supported by its backward-integrated operations, providing a steady supply of raw materials at cost effective rates. The rating also derives comfort from Astec's strong parentage as part of the Godrej Group, which imparts financial flexibility. ICRA notes that Godrej Agrovet Limited (GAVL, Astec's parent entity, rated [ICRA]AA (Stable)/[ICRA]A1+) has been gradually increasing its stake in Astec and ICRA expects GAVL to continue to provide financial support (by way of intercorporate deposits), should there be a need. The ratings factor in the company's healthy financial profile characterised by comfortable capitalisation and moderate coverage indicators as reflected from Total Debt/Net Worth or TD/TNW of 0.6 times and OPBDITA/Interest of 24.3 times as on March 31, 2021.

The company's revenues remain susceptible to the vagaries of monsoons and the regulatory risks associated with the ban of products by regulatory authorities upon review or change in regulations. However, these risks are partially mitigated by the geographical diversification of Astec's revenue profile, spanning across various geographies in the domestic and exports market. Furthermore, since it operates in the off-patent and commodity chemical markets, its revenues remain susceptible to global demand and supply dynamics and the resultant pricing pressures. One of Astec's key products, Propiconazole, was banned in the European markets from June 2019. Despite the impact of ban, the share of Propiconazole in company's total sales has increased again in FY2021 (against FY2020) as the demand for this product was strong in the other geographies. The ratings remain constrained by the vulnerability of Astec's profit margins to the fluctuations in raw material prices and its ability to pass it on to its customers in a timely manner. However, its backward-integrated operations mitigate this risk to a certain extent. Astec faces high product concentration risk with the revenues from top three products accounting for more than 75% of the total revenues in the past three years. However, ICRA notes the company's planned efforts towards diversification by setting up an herbicides manufacturing facility, which is expected to commence operations shortly. The new products are likely to result in margin expansion and reduce product concentration risk, going forward. Furthermore, it is making investments for setting up a new R&D facility, which is expected to enhance its R&D capabilities and will facilitate its new product development plans.

Key rating drivers and their description

Credit strengths

Established track record in manufacturing fungicides, reputed clientele and backward-integrated operations – Astec has an established track record in the agrochemicals business spanning more than two decades. Supported by its technical competency, the company has established itself as one of the preferred suppliers of technical grade fungicides to a reputed clientele, comprising large MNCs in the domestic and export markets. Furthermore, the company's investments in the new R&D lab are expected to enhance its R&D capabilities, enabling it to develop new products and also benefit from the opportunities that the global demand shift from China may present for the Indian entities. Astec's operations are supported by its backward-integrated operations, providing a steady supply of raw materials at cost effective rates. ICRA notes that the company has been continuously taking efforts to gradually reduce its reliance on Chinese imports to some extent through backward integration.

Healthy financial risk profile characterised by comfortable capitalisation and moderate coverage metrics – Although the total debt of the company has increased from Rs. 98.7 crore as on March 31, 2020 to Rs. 187 crore as on March 31, 2021, the gearing ratio continues to remain comfortable at 0.6 times as on March 31, 2021 on the back of healthy net worth position. The interest coverage ratio improved from 7.3 times in FY2020 to 24.3 times in FY2021 due to improved profitability and lower interest expenses.

Strong parentage and financial flexibility as a part of Godrej Group – Post GAVL's majority stake purchase in Astec in late FY2016, it has benefitted in terms of managerial as well as financial support from GAVL. ICRA expects GAVL to continue to provide financial support to Astec (by way of ICDs), should there be a need. GAVL has gradually increased its stake in Astec to 62.30% as on March 31, 2021 from 61.18% as on March 31, 2020, which indicates the company's strategic importance to GAVL and the Godrej Group. Furthermore, Astec continues to benefit from the strong financial flexibility arising on being a part of the Godrej Group as it helps it to provides access to capital markets and healthy relationships with the banks.

Credit challenges

Moderate scale of operations and susceptibility of revenues to seasonality risks; profitability exposed to fluctuations in input prices – Astec's scale of operations continue to remain moderate as reflected from a turnover of Rs. 558.7 crore in FY2021. The company's revenues remain susceptible to the vagaries of monsoons and the regulatory risks associated with the ban of products by regulatory authorities upon review or change in regulations. Moreover, its profit margins also remain exposed to the fluctuations in raw material prices, primarily those sourced from China. The seasonality risk is mitigated to an extent by its diversified geographical presence. Astec's backward-integrated operations and continuous investments towards the same mitigates its input price fluctuation risk to an extent.

The company is incurring sizable capex of over Rs 300-350 crore over FY2022-FY2024 period, which will be funded by mix of debt and internal accruals. Given the large capex & investment plans, company is exposed to inherent project execution risks and it will also result in moderation in debt coverage indicators in the interim. However, over medium to long term, improved scale of operations and new product addition should help company in expanding its scale of operations and profitability indicators.

High product concentration risk – The company's agrochemical product portfolio primarily comprises triazole fungicides. Astec derived more than 75% of its revenues from propiconazole, bromuconazole and tebuconazole; thus, leading to product concentration risks. In order to diversify its product portfolio, Astec had undertaken a capex in CY2020 for setting up an herbicides manufacturing facility, which is expected to commence operations shortly.

Liquidity position: Adequate

The company plans to incur a capex of Rs. 300-350 crore during FY2022 to FY2024, which will be partially funded through a term loan of Rs. 55 crore. While the company does not have any major debt repayment obligations for FY2022, the repayment obligation for FY2023 stands at Rs. 40 crore. The liquidity position of the company is adequate with undrawn working capital limits of Rs. 41 crore as on March 31, 2021. ICRA notes that the company enjoys Rs. 80 crore of unsecured limits from various banks, which supports the liquidity position. Astec as part of the Godrej Group, enjoys access to capital markets and enjoys healthy relationships with the banks which adds to the financial flexibility and supports overall liquidity profile of the company.

Rating sensitivities

Positive factors – Sustained and profitable scale up of operations along with diversification of revenue profile, while maintaining the current credit profile, will be the key for a higher rating.

Negative factors – Downward pressure on the ratings could emerge if lower-than-expected ramp up in its revenue base, especially when the company is setting up additional capacities to augment and diversify its revenue base, results in return on capital employed (RoCE) lower than 20% on a sustained basis. Furthermore, interest coverage of less than 7.0 times on a sustained basis, will also be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Agrochemicals Industry Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Astec. The details are given in Annexure-2.

About the company

Astec is involved in manufacturing and sale of intermediates, active ingredients and formulations, with a focus on the agro-chemicals sector. The company has four manufacturing plants in Mahad (Maharashtra) and one R&D centre in Dombivali (Maharashtra). While the Dombivali unit was acquired by the company in 1994, one of the three units of Mahad was procured from Behram Chemicals Private Limited in 2002. In FY2012, it forayed into the contract manufacturing segment by bagging contracts from reputed global players.

In August 2015, the company's erstwhile promoters sold 45.29% of its paid-up equity shares to GAVL (rated [ICRA]AA (Stable)/[ICRA]A1+), pursuant to which an open offer was announced for an additional 26.05% of the paid-up equity shares. By the closure date of December 2015, GAVL had subscribed to an additional 6.99% in Astec, thus becoming a majority shareholder with a stake of 52.28%. GAVL held 62.30% stake in Astec as on March 31, 2021.

Key financial indicators (audited)

Astec Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	528.96	558.71
PAT (Rs. crore)	47.53	65.06
OPBDIT/OI (%)	17.34%	20.65%
PAT/OI (%)	8.98%	11.65%
Total Outside Liabilities/Tangible Net Worth (times)	1.32	1.19
Total Debt/OPBDIT (times)	1.08	1.62
Interest Coverage (times)	7.28	24.29

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020			Date & Rating in FY2019	
					28-Jun-21	22-May-20	5-Nov-2019	10-May-2019	5-Apr-2019	19-Sep-2018	24-May-2018
1	Fund-based Working Capital Facilities	Long-term	250.00	NA	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+%	[ICRA]A+ (Stable)
2	Term Loan	Long-term	40.00	40.00	[ICRA]AA-(Stable)	-	-	-	-	-	-
3	Non-fund Based Facilities	Short-term	284.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Fund-based/Non-fund Based Limits	Long-term/ Short –term	-	NA	-	-	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]A+%/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+
5	Commercial Paper Programme	Short-term	200.00	75.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term, Fund-based Working Capital Facilities	Simple
Term Loan	Simple
Non-fund based limits	Very Simple
Commercial Paper Programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Long-term, Fund-based Working Capital Facilities	NA	NA	NA	250.00	[ICRA]AA-(Stable)
NA	Term Loan	December 2020	3M T-Bill+1.75%	April 2022	40.00	[ICRA]AA-(Stable)
NA	Non-fund based limits	NA	NA	NA	284.00	[ICRA]A1+
NA	Commercial Paper Programme	NA	NA	7-365 days	200.00*	[ICRA]A1+

Source: *Company*

**entire amount not yet placed*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Behram Chemicals Pvt Ltd	65.63%	Full Consolidation
Astec Europe Sprl*	-	Full Consolidation
Comercializadora Agricola Agroastrachem Cia Ltda	100.00%	Full Consolidation

stake sold in FY2021* ***Source:* *Company*

Corrigendum:

Rating rationale dated June 28, 2021 has been revised with updated applicable rating methodologies.

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About ICRA Limited:

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