March 23, 2017

Astec LifeSciences Limited

Instrument*	Rated Amount	Rating Action
Long-term - Fund Based Limits	Rs. 229.0 crore (enhanced from Rs. 59.0 crore)	[ICRA]A- (Stable) Assigned/Outstanding
Long Term - Term Loans	Rs. 21.5 crore	[ICRA]A- (Stable) Outstanding
Long Term - ECB Loans	USD 2.99 million	[ICRA]A- (Stable) Outstanding
Short Term - Non-Fund Based Limits	Rs. 46.0 crore (enhanced from Rs. 25.0 crore)	[ICRA]A2+ Assigned/Outstanding

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has assigned the long term rating of [ICRA]A- (pronounced ICRA A minus)[1] for the Rs. 229.0 crore[2] (enhanced from Rs. 59.0 crore) fund based limits and short term rating of [ICRA]A2+ (pronounced ICRA A two plus) for the Rs. 46.0 crore (enhanced from Rs. 25.0 crore) non fund based limits of Astec LifeSciences Limited (ALL). ICRA also has an outstanding rating of [ICRA]A- (pronounced ICRA A minus) on ALL's Rs. 21.5 crore term loans and USD 2.99 million ECB loans. The outlook on the long term rating is stable.

Rationale

The rating action continues to positively take into consideration Godrej Agrovet Limited's (GAVL) majority stake acquisition in the company in December 2015 which has triggered a flow of benefits to the operations of ALL, both in terms of managerial support and improved financial flexibility thus resulting in an improved financial performance in the current financial year. The ratings also factor in ALL's established position in the manufacture and sale of triazole fungicides. The seasonality inherent in the base business of agrochemicals has meanwhile, been offset to some extent by the expanding CRAMS portfolio, which has been boosted by way of new client additions since last two fiscals. The ratings also draw comfort from ALL's comfortable capital structure and healthy coverage indicators as of 9M FY2017.

The ratings however, continue to remain constrained by the high concentration of fungicides in ALL's sales portfolio as well as the high working capital intensity of operations owing to the seasonal nature of the agrochemicals business consequently leading to maintenance of sizeable inventory levels. Further, the CRAMS business is dominated by few select customers leading to customer concentration risks. Nonetheless, long term contracts with these customers provide some comfort. The association with the Godrej Group has permitted adequate financial flexibility to ALL post the aforementioned stake acquisition and its impact on the company's financial performance will be the key rating sensitivity, going forward, and would be monitored.

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[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.*

[2] *100 lakh = 1 crore = 10 million*

Key Rating Drivers

Credit Strengths
- Synergies and financial flexibility from being associated with the Godrej Group;
- Established market position in the manufacture of fungicides;
- Gradual scaling up of CRAMS business by way of expanding client base, thus offsetting seasonality associated with base business of agrochemicals;
- Comfortable capital structure and healthy coverage indicators as of 9M FY2017.

Credit Challenges
- Limited product diversification with high concentration of sales towards fungicides;
- Limited number of customers in the CRAMS portfolio leads to customer concentration risks;
- High working capital intensity owing to seasonal nature of demand, resulting in maintenance of sizeable inventory levels.

Sensitivities
- Managerial and operational support from Godrej Group and its impact on the company's financial performance

Description of key rating drivers highlighted above:
Following, GAVL's acquisition of majority stake in ALL in December 2015, the latter reported net loss for FY2016, following one-time expenses related to due diligence, provisions of old items carried forward, prior period/extra-ordinary expenses, etc., as a part of the revisions undertaken in the accounting practices in FY2016, in line with the policies followed by the Godrej Group. Nonetheless, during the current fiscal, ALL has reported healthy financial performance characterised by strong revenue growth, healthy margins and favourable capital structure as well as coverage indicators. This has been mainly on the back of strong operational, managerial and financial support from the parent – GAVL. The agrochemicals business is inherently competitive and seasonal in nature. In view of this, during 9M FY2017, the company's CRAMS division (contract manufacturing sales) reported a robust y-o-y growth of 82%, albeit on a lower base, thus underscoring company's efforts to hedge the business operations. Nonetheless, the Enterprise division (non-contract sales) revenues continue to dominate (FY2016: ~73%; 9M FY2017: 63.5%) the overall sales profile. Further, the CRAMS division sales are currently contributed by a select few clients leading to customer concentration risks.

Analytical Approach:
ICRA has taken into account the debt servicing track record of ALL, its consolidated business risk profile, financial risk drivers and management profile.

Links to applicable criteria:
Rating Methodology for Agrochemical Industry; Impact of Parent or Group Support on an Issuer's Credit Rating.

About the Company:
Astec LifeSciences Limited (ALL or 'the company') is engaged in the manufacture and sale of intermediates, active ingredients and formulations, with a focus of the agrochemical sector. The manufacturing activities are undertaken at four facilities in 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, the company also forayed into the Contract Research and

Manufacturing (CRAMS) segment, by bagging contracts from two reputed global players. The third unit at Mahad commenced operations in Q1 FY2017.

In August 2015, the company sold 45.29% of its paid-up equity shares to Godrej Agrovet Limited (GAVL; rated [ICRA]AA(stable)/[ICRA]A1+), pursuant to which, an open offer was announced for an additional 26.08% of the paid-up equity shares. By the closure date of December 2015, GAVL had subscribed to an additional 6.99% in ALL, thus becoming a majority shareholder in the company, with a stake of 52.28%. The acquisition by GAVL was aimed at backward integration into its fast-growing agrochemicals division.

Subsequent to the acquisition, Astec Crop Care Private Limited (ACCPL) – an erstwhile 100% subsidiary of ALL – ceased to be a subsidiary of ALL, following the sale of 100% of its total paid-up equity share capital to the promoter Mr. Ashok Hiremath (Managing Director) and Mr. Varun Hiremath. This also marked the exit of the company from the retail business; currently ALL is engaged only in (business to business) B2B sales.

For the 9 months ended December 31, 2016, at the consolidated level, ALL reported a profit after tax (PAT) of Rs. 15.7 crore on an Operating Income (OI) of Rs. 212.5 crore as against a net loss of Rs. 0.7 crore on an OI of Rs. 153.4 crore for the same period of the previous financial year.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2017	Month- year & Rating in FY2016	Month- year & Rating in FY2015
				March 2017	June 2016	September 2015	February 2015
1	Cash Credit	Long Term	229.0	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB (put on rating watch with developing implications)	[ICRA]BBB (Stable)
2	Term Loans	Long Term	21.5	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB (put on rating watch with developing implications)	[ICRA]BBB (Stable)
3	ECB Loans	Long Term	USD 2.99 Million	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB (put on rating watch with developing implications)	[ICRA]BBB (Stable)
4	Letter of Credit / Bank Guarantee	Short Term	46.0	[ICRA]A2+	[ICRA]A2+	[ICRA]A3+ (put on rating watch with developing implications)	[ICRA]A3+

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	229.0	[ICRA]A- (Stable)
Term Loans	-	12-13%	December 2017	21.5	[ICRA]A- (Stable)
ECB Loans	-	Libor + 300 bps	January 2017	USD 2.99 million	[ICRA]A- (Stable)
Letter of Credit/Bank Guarantee	-	-	-	46.0	[ICRA]A2+

Source: Astec LifeSciences Limited; Note: The above term loans and ECB loans have been fully repaid. The no dues certificates from the respective lenders are awaited.

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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