October 16, 2017

Astec LifeSciences Limited

Summary of rated instruments

Instrument*	Rated amount (in Rs. crore)	Rating action
Long-term, fund-based limits	229.00	[ICRA]A (stable); outstanding
Long-term, term loans	21.50	[ICRA]A (stable); outstanding
Short-term, non-fund based limits	46.00	[ICRA]A1; outstanding
Commercial paper programme	50.00	[ICRA]A1; assigned

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the short-term rating of [ICRA]A1 (pronounced ICRA A one) to the Rs. 50.00 crore[1] commercial paper programme of Astec LifeSciences Limited (Astec)[2]. ICRA has an outstanding long-term rating of [ICRA]A (pronounced ICRA A) for the Rs. 229.00 crore fund-based limits and Rs. 21.50 crore term loans of Astec. The outlook on the long-term rating is 'stable'. ICRA also has an outstanding short-term rating of [ICRA]A1 (pronounced ICRA A one) for the Rs. 46.00 crore non-fund based limits of Astec.

Rationale

The ratings take into account Astec's robust operating and financial performance in FY2017 characterised by healthy growth in revenues and margins as well as marked improvement in the capital structure and coverage indicators. The ratings continue 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 Astec, both in terms of managerial support and improved financial flexibility. The ratings also factor in Astec'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 contract manufacturing (CRAMS) portfolio, which has been boosted by way of new client additions since last two fiscals.

The ratings however, continue to remain constrained by the high concentration of fungicides in Astec'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 Astec 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.

---

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

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

Key rating drivers

Credit strengths

- **Synergies and financial flexibility from being associated with the Godrej Group –** Post GAVL's majority stake purchase in the company in late FY2016, Astec has benefitted both in terms of managerial support and improved financial flexibility thus resulting in an improved financial performance in FY2017. The acquisition has also led to numerous synergies with respect to clientele, sales channels, geographical reach, etc., for both the entities in their respective crop protection businesses.
- **Established track record in the manufacture of fungicides with reputed client profile –** Astec has been in operations for more than two decades. During this period, the company has established itself as one of the preferred suppliers of active ingredients, intermediates and formulations in the fungicides space to large and reputed MNCs.
- **Gradual scaling up of CRAMS business to offset seasonality associated with base business of agrochemicals –** The demand for agrochemicals business solely depends on the agriculture production and hence is seasonal in nature. In view of this, in the last few years, the proportion of CRAMS revenues in Astec's overall business has witnessed a steady increase thus helping the company to offset the seasonality associated with its base business.
- **Improved capital structure as well as coverage indicators –** During FY2017, Astec's capital structure (0.92x) as well as coverage indicators (interest coverage – 5.32x; TD/OPBDIT – 2.02x) witnessed an improvement on the back of healthy operating performance and relatively stable debt levels.

Credit weaknesses

- **Margins vulnerable to fluctuations in demand for crop protection –** The company's fungicides business faces stiff competition from incumbent players. Further, the business also faces demand fluctuations, leading to margin pressures. Nonetheless, going forward, the company's dominant position in the triazole fungicide manufacturing business is expected to keep the margins at healthy levels.
- **High product and client concentration risks –** In FY2017, majority of Astec's revenues were contributed by fungicide products leading to product concentration risks. Further, within the CRAMS portfolio, the company's client profile also remained concentrated towards a few select clients. Though this entails product as well as client concentration risks, Astec's long relationship with its reputed clientele mitigates these risks to a large extent.
- **High working capital intensity –** Despite improvement, the company's working capital intensity has remained on the higher side in FY2017 due to the inherent nature of the agrochemicals business. Nonetheless, Astec's concerted efforts in managing its working capital is expected to result in an improvement in key working capital indicators, going ahead.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:
[Rating Methodology for Agrochemical Industry]

About the company:
Astec LifeSciences Limited (Astec 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 CRAMS segment, by bagging contracts from two reputed global players. The third unit at Mahad commenced operations in Q1 FY2017.

In August 2015, the erstwhile promoters of the company 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 in the company, with a stake of 52.28%. The acquisition by GAVL was aimed at backward integration into its fast-growing agrochemicals division. As of June 30, 2017, GAVL holds 55.65% stake in Astec.

Subsequent to the acquisition, Astec Crop Care Private Limited (ACCPL) – an erstwhile 100% subsidiary of Astec – ceased to be a subsidiary of Astec, 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 Astec is engaged only in business to business (B2B) sales.

In Q1 FY2018, the company reported a profit after tax (PAT) of Rs. 4.0 crore on an operating income of Rs. 69.0 crore, as compared to a PAT of Rs. 3.8 crore on an operating income of Rs. 66.0 crore in the corresponding quarter of the previous year.

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	221.17	298.03
PAT (Rs. crore)	0.35	19.09
OPBDIT/ OI (%)	15.1%	21.0%
RoCE (%)	10.2%	16.9%
Total Debt/ TNW (times)	1.07	0.92
Total Debt/ OPBDIT (times)	3.79	2.02
Interest coverage (times)	2.20	5.32
NWC/ OI (%)	53.1%	50.9%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				October 2017	Septembe r 2017	June 2016	September 2015	February 2015
1	Cash Credit	Long Term	229.00	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]BBB (put on watch with developing implications)	[ICRA]BB B (Stable)
2	Term Loans	Long Term	21.50	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]BBB (put on watch with developing implications)	[ICRA]BB B (Stable)
3	Letter of Credit/Bank Guarantee	Short Term	46.00	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A3+ (put on watch with developing implications)	[ICRA]A3 +
4	Commercial Paper	Short Term	50.00	[ICRA]A1	-	-	-	-

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

Instrument Details

ISIN No	Instrument	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Cash Credit	-	-	Upto 1 year	229.00	[ICRA]A (Stable)
-	Term Loans^	-	-	-	21.50	[ICRA]A (Stable)
-	Letter of Credit/Bank Guarantee	-	-	-	46.00	[ICRA]A1
-	Commercial Paper	-	-	-	50.00	[ICRA]A1

Source: the company; ^ the above term loans have been fully repaid. The no dues certificates from the respective lenders are awaited.

Contact Details

Analyst Contacts

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Shreekiran Rao
+91 20 6114 3469
shreekiran.rao@icraindia.com

Gaurang Deshmukh
+91 22 6114 3421
gaurangd@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

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.
For more information, visit **www.icra.in**

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	