Astec LifeSciences Limited

April 05, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based Limits	146.00	146.00	[ICRA]AA- (Stable); Upgraded from [ICRA]A+; rating watch with positive implications removed
Short-term, Non-fund Based Limits	49.00	49.00	[ICRA]A1+; Reaffirmed
Long-term / Short-term, Fund-based / Non-fund Based Limits	260.00	260.00	[ICRA]AA- (Stable); Upgraded from [ICRA]A+; rating watch with positive implications removed; [ICRA]A1+; Reaffirmed
Commercial Paper Programme	100.00	150.00	[ICRA]A1+; Reaffirmed
Total	**555.00**	**605.00**	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade takes into account the benefits that Astec Lifesciences Limited (Astec) continues to derive from the strong linkages with its parent company, Godrej Agrovet Limited (GAVL, rated [ICRA]AA (Stable) / [ICRA]A1+), in terms of expansion of operations and strengthening of its research and development (R&D) function. The rating upgrade also factors in Astec's healthy performance in 9M FY2019, characterised by healthy year-on-year growth of ~26% in revenues, largely driven by exports, and an improvement in its operating profit margin (OPM) to ~19%, as against ~16% in 9M FY2018. ICRA expects Astec to maintain its revenue growth trend and improve its OPM, aided by commercialisation of its plant for backward integration of operations, which are expected to reduce Astec's reliance on Chinese imports for its raw material requirements, to some extent.

The ratings continue to favourably factor in the company's strong parentage in the Godrej Group and Astec's established position in the manufacture and sale of Triazole fungicides (technical grade). During the past couple of years, the domestic agro-chemical industry has benefited from the supply disruption caused by tightened environmental regulations in China, which is one of the largest producers and exporters of agro-chemicals globally. However, the company operates in commodity chemicals and hence remains susceptible to demand cycles and pricing pressures. The ratings remain constrained by the vulnerability of Astec's profit margins to the fluctuations in prices of raw materials and its ability to pass it on to its customers in a timely manner; although the backward integration of operations is expected to mitigate this risk to a certain extent. ICRA also notes the high concentration of fungicides in Astec's sales portfolio and the high working capital intensity of its operations. Furthermore, the contract research and manufacturing services (CRAMS) business is dominated by a few select customers, leading to customer concentration risks. Nonetheless, the long-term contracts with such customers provide some comfort.

Outlook: Stable

ICRA expects Astec to continue to benefit from its established track record in the fungicides market, its association with the Godrej Group, and continuous process improvements through its technical expertise and established presence in the domestic as well as exports markets. The outlook may be revised to Positive if the backward integration and the on-going capacity expansion plans result in strong profitable growth, which along with improved working capital management further strengthens Astec's financial risk profile. The outlook may be revised to Negative if cash accruals and benefits from backward integration or the on-going capital expenditure are lower than expected or delayed, thereby, straining its profitability and weakening its liquidity position.

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 in terms of managerial support as well as improved financial flexibility, resulting in an improved financial performance since FY2017. Astec is expected to continue to benefit from strong linkages to the Godrej Group, which may aid in its future expansion plans and may enable it to attract high-quality talent for strengthening its R&D function.

Established track record in the manufacturing 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 market to large and reputed multi-national companies.

Benefits from backward integration – Astec's backward integration of operations, through its new plant at Mahad, which became fully operational in Q3 FY2019, is expected to provide a steady supply of raw material at cost effective rates, thus reducing the reliance on Chinese imports to some extent and aiding in profitability improvement in the medium term.

Capacity addition to bode well for growth, amid rising demand – Measures taken by the company for adding capacities by way of new manufacturing plants as well as de-bottlenecking existing capacities through process improvements augur well for the business amid growing demand in India due to supply disruptions in China and high utilisation of existing capacities.

Strong financial risk profile – Astec enjoys a strong financial risk profile characterised by low leverage and healthy debt coverage indicators. In H1 FY2019, Astec's capital structure (gearing of 0.8 time) and TD/OPBDITA (2.2 times) witnessed some improvement vis-à-vis the corresponding period in the previous fiscal (gearing of 0.9 time and TD/OPBDITA of 2.6 times in H1 FY2018), driven by healthy revenue growth and OPM.

Credit challenges

Moderate scale of operations – The company operates in commodity chemicals. Though it has displayed consistent growth in the past couple of years, its scale of operations is moderate in comparison to its industry peers, limiting its bargaining power and competitiveness in the market. Nonetheless, when considered on a product specific basis, Astec does have considerable market share in certain product segments that it specialises in.

Margins vulnerable to fluctuations in demand for crop protection – The company's fungicides business faces demand fluctuations as a result of cyclicality in agro-climatic conditions. Furthermore, it faces stiff competition from incumbent players leading to margin pressures. Nonetheless, going forward, the company's dominant position in the Triazole fungicide manufacturing business and its backward integration of operations is expected to keep the margins at healthy levels.

High product and client concentration risks – In 9M FY2019, most of Astec's revenues were generated by fungicide products, leading to product concentration risks. Furthermore, the company's client profile in the CRAMS portfolio also remained concentrated on a few select clients. Though this entails product as well as client concentration risks, Astec's established relationships with its reputed clientele mitigates these risks to a large extent.

High working capital intensity – The company's working capital intensity remains moderately high due to the inherent nature of the agro-chemicals business, which involves high receivable and inventory days. Nonetheless, Astec's concerted efforts—supported by the Godrej Group—in managing its working capital is expected to result in an improvement in key working capital indicators, going ahead.

Liquidity position

Astec's fund flow from operations continues to remain healthy in 9M FY2019, driven by healthy revenue growth and improvement in OPM. Astec does not have any long-term loans (besides a minor car loan of ~Rs. 0.2 crore as on September 30, 2018) and consequently does not have any repayments due. The company has adequate cushion available in the form of moderately utilised working capital limits (~37% average utilisation for the February 2018–January 2019 period). However, given that the company has considerable capital expenditure plans (~Rs. 130 crore) over FY2020 to FY2022, meeting the funding requirements entirely from its internal accruals will depend on its operating performance. Nonetheless, the company also enjoys financial flexibility as a part of the Godrej Group.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for entities in the Agrochemical Industry
Parent / Group Support	Not applicable
Consolidation / Standalone	The ratings are based on the standalone financial profile of the company.

About the company

Astec is engaged in the manufacturing and sale of intermediates, active ingredients and formulations, with a focus on the agro-chemical sector. The manufacturing is 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 CRAMS segment by bagging contracts from 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 with a stake of 52.28%. The acquisition by GAVL was aimed at backward integrating into its fast-growing agro-chemicals division. As of December 31, 2018, GAVL held 57.38% stake in Astec.

On September 14, 2018, Astec announced the approval of its board of directors for the scheme of amalgamation of the company with GAVL in an all-stock transaction. The proposed amalgamation is aimed at simplifying the Group and management structure as well as to optimise the use of resources. The scheme is subject to the National Company Law Tribunal (NCLT) and other approvals. As per the scheme, Astec's shareholders will receive 11 shares of GAVL for every 10 shares held in Astec.

Key financial indicators (audited; standalone)

	FY2017	FY2018
Operating Income (Rs. crore)	298.0	367.6
PAT (Rs. crore)	19.1	35.0
OPBDITA/OI (%)	21.0%	18.7%
RoCE (%)	17.1%	26.4%
Total Debt/TNW (times)	0.9	0.7
Total Debt/OPBDITA (times)	2.0	1.8
Interest coverage (times)	5.1	6.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amt. Rated (Rs. crore)	Amt. O/s. (Rs. crore) December 2018	Date & Rating March 2019	September 2018	May 2018	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2018 October 2017	September 2017	Date & Rating in FY2017 March 2017	July 2016	Date & Rating in FY2016 September 2015
1	Fund-based Limits	Long-term	146.0	-	[ICRA]AA- (Stable)	[ICRA]A+ (on watch with positive implications)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB (on watch with developing implications)
2	Non-fund based Limits	Short-term	49.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A3+ (on watch with developing implications)
3	Fund-based/Non-fund Based Limits	Long-term / Short-term	260.0	-	[ICRA]AA- (Stable) / [ICRA]A1+	[ICRA]A+ (on watch with positive implications) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+	-	-	-	-	-
4	Term Loans	Long-term	21.5	0.0	-	-	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB (on watch with developing implications)
5	Commercial Paper Programme	Short-term	150.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term, Fund-based Limits	NA	NA	NA	146.0	[ICRA]AA- (Stable)
NA	Short-term, Non-fund based Limits	NA	NA	NA	49.0	[ICRA]A1+
NA	Long-term / Short-term, Fund-based / Non-fund based Limits	NA	NA	NA	260.0	[ICRA]AA- (Stable) / [ICRA]A1+
NA	Commercial Paper Programme	NA	NA	7-365 days	150.0	[ICRA]A1+

Source: Astec LifeSciences Limited

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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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