November 05, 2019

Astec LifeSciences Limited - Update on Material Event

Summary of rating action

Instrument	Rated Amount (Rs. crore)	Rating Outstanding
Long-term, Fund-based Limits	146.00	[ICRA]AA- (Stable); outstanding
Short-term, Non-fund Based Limits	49.00	[ICRA]A1+; outstanding
Long-term / Short-term, Fund-based / Non-fund Based Limits	260.00	[ICRA]AA- (Stable)/ [ICRA]A1+; outstanding
Commercial Paper Programme	150.00	[ICRA]A1+; outstanding
Total	**605.00**	

Material Event

Astec LifeSciences Limited (Astec) announced its Q2 and H1 FY2020 results on October 25, 2019. The company reported an operating income (OI) of Rs. 217.2 crore with an operating profit before depreciation, interest and tax (OPBDITA) of Rs. 21.7 crore and a profit after tax (PAT) of Rs. 4.1 crore in H1 FY2020, against an OI of Rs. 177.7 crore with an OPBDITA of Rs. 32.1 crore and a PAT of Rs. 13.0 crore in H1 FY2019. The revenue growth of ~22% in H1 FY2020 was driven by a year-on-year (YoY) volume growth of ~22%. The YoY dip in operating profit margin (OPM) in H1 FY2020 to 10.0% from 18.1% in H1 FY2019 (19.1% in FY2019) was attributable to a one-time provision of ~Rs. 6.5 crore in Q2 FY2020, towards a classification dispute of export incentives claimed in earlier years. Furthermore, the YoY dip in OPM was also on account of exceptionally higher realisation levels and consequently profitability in the base period i.e. H1 FY2019 in respect of one of its key products, and cost pressure because of elevated prices of raw material imports from China.

Impact of the Material Event

The ratings remain unchanged at the earlier ratings of [ICRA]AA- (Stable) and [ICRA]A1+. Coupled with an increase in total debt as on September 30, 2019, the dip in OPM resulted in a moderation in coverage indicators, as reflected in interest coverage of 3.1 times in H1 FY2020 vis-a-vis 5.7 times in H1 FY2019 (6.8 times in FY2019). Adjusting Astec's OPBDITA for the one-time provision of ~Rs. 6.5 crore in Q2 FY2020, the adjusted interest coverage for H1 FY2020 is 4.0 times. Astec's total debt/OPBDITA stood at 4.8 times as on September 30, 2019 vis-a-vis 2.1 times as on March 31, 2019. The company's management expects Astec's OPM to improve in H2 FY2020 vis-a-vis H1 FY2020. ICRA will continue to monitor the impact of volatility in raw material prices on Astec's OPM and consequently its coverage indicators.

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). However, since Astec operates in commodity chemicals, it 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 does mitigate this risk to some extent. ICRA 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. ICRA also notes the company's aggressive investments in research and development to diversify and expand its product portfolio to drive future business growth. Going forward, Astec's ability to improve its OPM from the current level, scale up its business in a calibrated manner, while improving its debt protection metrics, would remain key rating sensitivities.

The previous detailed rating rationale is available on the following link: Click here

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