May 22, 2020

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 Limits	146.00	143.00	[ICRA]AA- (Stable); reaffirmed
Short-term, Non-fund Based Limits	49.00	391.00	[ICRA]A1+; reaffirmed
Long-term/Short-term, Fund-based/Non-fund Based Limits	260.00	0.00	-
Commercial Paper Programme	150.00	150.00	[ICRA]A1+; reaffirmed
Total	**605.00**	**684.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings factors in the established track record of Astec LifeSciences Limited (Astec) in the manufacture of Triazole fungicides (technical grade), its reputed clientele and backward-integrated operations. The ratings note Astec's strong parentage and financial flexibility that it enjoys as a part of the Godrej Group. ICRA expects Godrej Agrovet Limited (GAVL, Astec's parent entity, rated [ICRA]AA (Stable)/[ICRA]A1+), to continue to provide financial support (by way of intercorporate deposits (ICDs)), should there be a need. Astec has demonstrated a healthy performance during FY2017 to FY2020, as reflected by ~26% compounded annual growth rate in its revenues, which was primarily driven by exports. ICRA notes that the domestic agro-chemical industry has benefitted from the global supply-chain disruptions caused by the tightened environment regulations in China, which is one of the largest producers and exporters of agro-chemicals globally. Furthermore, the industry is likely to benefit from a further shift of input sourcing from China with the recent events related to the Covid-19 pandemic. With Astec's established track record and long-term relations with some of the established multi-national companies and the ongoing capital expenditure (capex) plans for augmenting its capacities, it is expected to benefit from such opportunities. The ratings factor in the company's healthy financial profile, as characterised by comfortable capitalisation (Total Debt/Net Worth or TD/TNW of 0.4 times and Total Outside Liabilities/Net Worth or TOL/TNW of 1.3 times as on March 31, 2020) and moderate coverage indicators (interest coverage of 7.7 times in FY2020).

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, which spans across Asia, Europe, the USA and Russia. 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.However, the company was able to generate a modest volume growth in Propiconazole in FY2020, driven by a robust volume growth in the domestic market. Nonetheless, due to a decline in its realisation levels, attributed to the pricing factors in the Chinese markets, Astec's operating profit margin was impacted in H1FY2020 . However, the impact on the company was mitigated by a robust improvement in the sales of its other products, primarily Tebuconazole. 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 category, product and client concentration risks. However, ICRA notes the company's planned efforts towards diversification with the ongoing capex towards setting up an herbicides manufacturing facility, which is expected to commence operations in FY2021. Furthermore, it is making investments for setting up a new R&D facility, which is expected to result in a significant boost to its R&D capabilities and will facilitate its new product development plans.

The Stable outlook reflects ICRA's expectations that Astec will continue to benefit from its established position in the fungicides market, its strong parentage and association with the Godrej Group, and continuous process improvements through its technical expertise.

Key rating drivers and their description

Credit strengths

Established track record in manufacturing fungicides, reputed clientele and backward-integrated operations – Astec has an extensive track record spanning more than two decades and it enjoys an established position in the manufacturing of technical grade fungicides. 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 provide a significant boost to 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, thus reducing the reliance on Chinese imports to some extent and aiding in profitability improvement.

Healthy financial risk profile characterised by comfortable capitalisation and moderate coverage metrics – Astec's total debt of ~Rs. 99 crore outstanding as on March 31, 2020 was lower than ~Rs. 176 crore as on March 31, 2019, primarily due to favourable credit terms availed by the company for its imports. Resultantly, its TD/TNW witnessed an improvement to 0.4 time as on March 31, 2020 from 0.9 time as on March 31, 2019. However, its TOL/TNW remained unchanged at 1.3 times as on March 31, 2020. Astec's operating profit margin (OPM), adjusted for one-time reversal of export incentives amounting to Rs. 6.2 crore, witnessed a marginal decline in FY2020 (18.5% compared to 19.4% in FY2019) due to lower export incentives, relatively lower realisation levels for one of its products (Propiconazole) and increase in raw material prices. However, its interest coverage improved to 7.8 times in FY2020 (adjusted for IND AS 116 impact; 7.7 times as per reported financials) from 6.9 times in FY2019, supported by healthy revenue growth and relatively low interest costs.

Strong parentage and financial flexibility as a part of Godrej Group – Post GAVL's majority stake purchase in the company in late FY2016, Astec 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 61.18% as on March 31, 2020 (53.64% as on March 31, 2016), 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.

Credit challenges

Moderate scale of operations and susceptibility of revenues to seasonality risks; profitability exposed to fluctuations in input prices – Though Astec has registered a consistent double-digit growth in revenues over the past few years, its scale of operations remains moderate. Furthermore, 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 remain exposed to the fluctuations in raw material prices, primarily those sourced from China. While the seasonality risk is mitigated, to an extent, by its diversified geographical presence, its backward-integrated operations and continuous investments towards the same mitigate its input price fluctuation risk, to an extent.

High product and client concentration risks – Astec derives a large part of its revenues from a few products within the Triazole fungicide category, thus, leading to product concentration risks. Furthermore, while it has a reputed clientele, revenues, especially in the contract manufacturing segment, remain concentrated from a few select clients. Though this entails product as well as client concentration risks, Astec's long-term relationships with its clients mitigate these risks to an extent. Furthermore, in order to diversify and augment its revenue base, the company has been increasing its geographical spread and has added new exports customers. Also, Astec had initiated capex projects for setting up an herbicides manufacturing facility, which is expected to commence operations in FY2021.

Liquidity position: Adequate

Astec had only working capital borrowings of ~Rs. 99 crore as on March 31, 2020. Supported by revenue growth and low working capital intensity of operations, its cash flow from operations is expected to remain healthy. The company's high capex plans of ~Rs. 225 crore over FY2021 to FY2023, to be funded mainly from its internal accruals, are expected to restrict its free cash flows in the near to medium term. Astec reported cash and bank balance of ~Rs. 0.3 crore and undrawn fund-based limits of ~Rs. 15 crore as on March 31, 2020. In addition, it had short-term inter-corporate deposits amounting to ~Rs. 29 crore advanced to Group companies. Furthermore, the company enjoys strong parentage and financial flexibility as a part of the Godrej Group. ICRA expects GAVL to continue to provide financial support to Astec (by way of ICDs), should there be a need.

Rating sensitivities

Positive triggers – 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 triggers – 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 (excluding the impact of IND AS 116), 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	Parent Company: Godrej Agrovet Limited We expect Astec's parent, GAVL, to continue provide financial support to Astec (by way of ICDs), should there be a need, given the high strategic importance that Astec holds for GAVL.
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

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%. As on March 31, 2020, GAVL held 61.18% stake in Astec.

Key financial indicators (audited)

	FY2019	FY2020*
Operating Income (Rs. crore)	439.9	528.3
PAT (Rs. crore)	35.7	47.5
OPBDIT/OI (%)	19.4%	18.5%
RoCE (%)	22.5%	21.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.3
Total Debt/OPBDIT (times)	2.1	1.0
Interest Coverage (times)	6.9	7.7
DSCR*	5.7	0.7

**DSCR = (Net Profit After Tax + Gross Interest + Depreciation) / (Gross Interest + Repayment (excluding working capital debt) + Dividend on Preference Shares)*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years						
		Type	Amount Rated	Amount Outstanding*	Rating	FY2020			FY2019		FY2018	
					22-May-2020	5-Nov-2019	10-May-2019	5-Apr-2019	19-Sep-2018	24-May-2018	16-Oct-2017	11-Sep-2017
1	Fund-based Limits	Long-term	143.0	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+%	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Non-fund Based Limits	Short-term	391.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1
3	Fund-based/Non-fund Based Limits	Long-term/ Short –term	-	-	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]A+%/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	-	-
4	Term Loan	Long-term	-	-	-	-	-	-	-	-	[ICRA]A (Stable)	[ICRA]A (Stable)
5	Commercial Paper Programme	Short-term	150.0	0.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	-

*Amount in Rs. crore; *as on March 31, 2020*

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	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	143.00	[ICRA]AA- (Stable)
NA	Short-term, Non-fund Based Limits	NA	NA	NA	391.00	[ICRA]A1+
NA	Commercial Paper Programme	NA	NA	7-365 days	150.00	[ICRA]A1+

Source: Astec LifeSciences Limited

Analyst Contacts

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

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Rushit Doshi
+91 22 6114 3422
rushit.doshi@icraindia.com

Relationship Contact

L. Shivakumar
+91 2261143406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

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

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
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