

August 07, 2024<sup>(Revised)</sup>

## Astec LifeSciences Limited: Ratings reaffirmed; outlook revised to Negative from Stable

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Fund Based-Cash Credit	346.0	346.0	[ICRA]AA- (Negative); reaffirmed and outlook revised to Negative from Stable
Long Term-Fund Based-Term Loan	119.0	119.0	[ICRA]AA- (Negative); reaffirmed and outlook revised to Negative from Stable
Short Term-Non Fund Based-Others	425.0	425.0	[ICRA]A1+; reaffirmed
Commercial Paper	300.0	300.0	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>1,190.0</b>	<b>1,190.0</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The revision in the outlook for the ratings of Astec LifeSciences Limited (Astec) reflects a sustained weakening in the profitability and coverage indicators of the company, with the company incurring operating losses in Q1 FY2025, and expectations of the slowdown in operational performance to continue over a few more quarters. While the muted performance of Astec's enterprise segment continued in Q1 FY2025, deferment of a few contracts resulted in underperformance in the contract manufacturing segment as well. Sizeable capex incurred by the company in the past two years, coupled with suppressed profitability, is expected to exert pressure on the capital structure over the near to medium term.

The ratings continue to remain constrained by the high product concentration risks faced by Astec, due to its dependence on a few key generic molecules for the major proportion of its revenues, demand for which has been volatile in the recent past. ICRA notes that Astec's operating performance over the past few quarters has remained constrained on account of challenges faced in the global agrochemical industry, especially in its key product segments of triazole fungicides. With higher-than-average channel inventory in these product segments in domestic and overseas markets on account of multiple reasons such as lower liquidation, unfavourable weather conditions and destocking strategies, the volume off-take from its key customers as well as realisations have been muted over the past few quarters, and expected to remain so over the near-term till the situation normalises. Consequently, Astec's operating profit margin (OPM) reduced from 23.9% (FY2022) to 13.4% (FY2023) and further to -0.1% (FY2024) and sizeable operating losses reported in Q1 FY2025. The entity is facing unprecedented competition in the global market from the Chinese players, the continuous decline in the market prices has resulted in Astec to write down inventory of Rs. 18.5 crore in Q1 FY2025, and ICRA expects Q2 FY2025 to remain challenging due to the said competition in the global agrochemicals market.

Coupled with continued debt-funded capex, the credit metrics of the company are likely to remain suppressed over the near term. Nevertheless, ICRA notes that the company has commissioned a research and development (R&D) center at Rabale (Maharashtra) and expanding its presence in the higher margin contract development and manufacturing (CDMO) segment so as to mitigate the risks related to product concentration and protect itself from the volatilities of the commoditised enterprise market.

In line with the industry trend, the company's revenues remain susceptible to the vagaries of monsoons and seasonality associated with business. However, these risks are partially mitigated by Astec's geographically diversified revenue profile, spanning across both domestic and export markets. However, since Astec operates in the off-patent and commodity chemical

markets, its revenues remain susceptible to global demand and supply dynamics and the resultant pricing movements as visible in the performance over the past few quarters. The ratings also consider the vulnerability of Astec's profit margins to the fluctuations in raw material prices and its ability to pass on the same to its customers in a timely manner. However, its backward-integrated operations mitigate this risk to a certain extent. While Astec currently has a concentrated portfolio of products in the triazole segment, ICRA notes the company's planned efforts towards diversification by expanding in the herbicide segment, with the new products are likely to mitigate this going forward. The company has also made investments towards a new R&D facility, which would augment its new product development capabilities and thus benefit from the opportunities that the global demand shift from China may present for the Indian entities.

The ratings continue to factor in Astec's established track record in the agrochemicals business, and reputed clientele comprising large multinational corporations (MNCs) in the domestic and exports market. ICRA also notes the dominant share of exports in the revenue pie, and Astec's plans to attain higher business diversification going forward. The ratings also derive comfort from Astec's strong parentage as part of the Godrej Group, which imparts financial flexibility. ICRA notes that Godrej Agrovet Limited (GAVL, Astec's parent entity, rated [ICRA]AA (Stable)/[ICRA]A1+) has been gradually increasing its stake in Astec (64.76% as on June 30, 2024, from 52.28% as on December 31, 2015), which indicates the company's strategic importance to GAVL and the Godrej Group. GAVL has also been providing financial support to Astec by way of inter-corporate deposits (ICDs) as per its requirements, and ICRA expects GAVL to continue to do so, whenever needed. ICRA also notes the open offer made by the certain members of the Godrej Family to the public shareholders as part of the Family Settlement Agreement, for acquisition of up to 50,99,035 fully paid-up equity shares representing in the aggregate 26.00% of the expanded voting share capital. The said open offer is expected to be concluded by October 2024.

The Negative outlook on the long-term rating reflects ICRA's expectation that Astec will continue to see muted operational performance over the near term, with material recovery anticipated to occur only gradually over the medium term.

## Key rating drivers and their description

### Credit strengths

**Strong parentage and financial flexibility as a part of Godrej Group** – Post GAVL's majority stake purchase in Astec in late FY2016, it has benefitted in terms of managerial as well as financial support from GAVL. GAVL has also been providing financial support to Astec by way of ICDs as per requirements, and ICRA expects GAVL to continue to do so, should there be a need. GAVL has gradually increased its stake in Astec to 64.76% as on June 30, 2024, from 52.28% as on December 31, 2015, which indicates the company's strategic importance to GAVL and the Godrej Group. Furthermore, Astec continues to benefit from the strong financial flexibility derived from being a part of the Godrej Group, which provides access to capital markets and healthy relationships with the banks.

**Established track record in manufacturing fungicides, reputed clientele** – Astec has an established track record in the agrochemicals business, spanning more than two decades. Supported by its technical competencies, 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 R&D center (launched in April 2023) are expected to significantly enhance its R&D capabilities, enabling it to develop new products and also benefit from the opportunities that the global demand shift from China presents for Indian entities. Further, the efforts undertaken by Astec to attain higher business diversification by entering herbicides manufacturing, are expected to provide incremental revenue growth over the medium term.

**Efforts undertaken for higher business diversification expected to fructify over the medium term** – As part of its efforts to strengthen its business profile by reducing its dependence on commoditised enterprise products, where revenues and margins are relatively volatile, the company has been focussing on increasing its revenue share from the higher-margin and predictable CDMO segment. Accordingly, the share of CDMO segment in Astec's revenues demonstrated a robust YoY growth of 67% in FY2024. Although deferment of certain contracts resulted in a decline in revenues from this segment during Q1 FY2025, a gradual recovery is anticipated over the near to medium term. To further augment this, Astec also ventured into herbicide manufacturing in August 2021, and has seen ramp up in the volume offtake for its herbicide product offerings. Furthermore,

the company continues to invest in expanding capacities in this space. Such efforts undertaken by the company are expected to strengthen its business profile over the medium term, and provide it with better revenue and margin visibility.

### Credit challenges

**Decline in operating profitability in FY2024 and Q1 FY2025** – Given the sustained slowdown seen in the enterprise segment on account of overstocking situation across the global supply chain, and a steep decline in the realization levels on account of intense competition from Chinese players, in the segment, Astec reported a decline in its operating profitability in FY2024 and Q1 FY2025, as reflected by the moderation in its operating profit margin (OPM), from 13.4% (FY2023) to -0.1% (FY2024) and further to -64.5% in Q1 FY2025 (unaudited results). Consequently, Astec posted a net loss of Rs. 46.9 crore in FY2024, and a net loss of Rs. 39.7 crore in Q1 FY2025. As a material recovery in demand for the enterprise segment is expected to kick in only gradually over the medium term, Astec's profitability is expected to remain pressurized over the near to medium term.

**High product concentration risk** – The company's agrochemicals product portfolio primarily comprises triazole fungicides. Until FY2022, Astec derived a large part of its revenues from few products within the above-mentioned category; thus, leading to product concentration risks. However, in order to diversify its product portfolio, Astec has ventured into herbicides manufacturing, which commenced operations from August 2021. With ramp up from the herbicide facility, and planned expansion of the same, the company's dependence on the triazole fungicides is expected to reduce gradually over the medium term. The recently commissioned R&D facility is also expected to aid Astec in new product development, auguring well for reducing its exposure towards a few key enterprise products.

**Moderate scale of operations and susceptibility of revenues to seasonality and agro-climatic risks; profitability exposed to fluctuations in input prices, market volatilities and limited pricing power** – Astec's scale of operations remains moderate as reflected in an operating income of Rs. 463.6 crore in FY2024. Furthermore, its revenues remain susceptible to the vagaries of monsoons and the seasonality associated with the agrochemicals sector; however, the latter is mitigated to an extent by its diversified geographical presence. Moreover, its profit margins also remain exposed to the fluctuations in raw material prices, primarily those sourced from China. Market volatilities in the commoditised agrochemicals market coupled with limited pricing power have led to a steep decline in margins over the past few quarters, and this would continue to be a phenomenon in the enterprise product segment, which accounted for 40% of its revenues in FY2024 (58% in Q1 FY2025). Nevertheless, Astec's backward-integrated operations and continuous investments towards the same, and efforts to diversify into higher-margin and relatively stable CDMO segment, are expected to mitigate these risks over the medium term.

**Sizeable capital expenditure plans likely to impact debt indicators going forward** – The company has been undertaking sizeable capital expenditure over the recent past, which have been largely funded through bank borrowings. Given the capital expenditure and investment plans, Astec is exposed to inherent project execution risks and a moderation in the debt coverage indicators in the interim. However, over the medium to long term, new product additions should help the company in expanding its scale of operations and profitability indicators. Astec's entry into herbicide manufacturing is also expected to provide business diversification benefits in addition to incremental revenues and profits going forward.

### Environmental and Social Risks

**Environmental considerations:** Astec, being primarily engaged into the agrochemical space, remains exposed to the risk of tightening regulation for production, handling and transport of chemical products with regards to safety and environmental impact; remedial measures for pollution and effluent treatment. Additionally, some products can face restrictions/substitution over time due to hazardous nature and availability of more environment-friendly products. Also, in the event of accidents the liability could be high for certain products. However, comfort can be drawn from Astec's efforts to diversify its revenue sources with entry into herbicide business along with the rising share of exports in the total revenues. Astec is also a signatory to "Responsible Care" wherein it has committed to meeting environmental protection, occupational safety and health protection, and plant safety standards.

**Social considerations:** The company’s exposure to social risks mainly pertains to safe operations and remaining compliant with various regulations to ensure the safety of employees and the community in the vicinity of its manufacturing units. Additionally, retention of skilled employees remains important from a business continuity point of view. For this, Astec undertakes various initiatives towards employee engagement, training and development, awards and recognition, welfare, etc., periodically.

### Liquidity position: Adequate

Astec’s liquidity profile is expected to remain **adequate**, supported by a buffer available in the form of undrawn working capital lines (the buffer stood at ~Rs. 205 crore as of June 30, 2024) and cash and liquid investment balance (which stood at ~Rs. 2 crore as of March 31, 2024). The quantum of long-term debt repayment for FY2025 remains moderate at ~Rs. 12 crore, whereas capex outlay for the fiscal would be ~Rs. 70-80 crore. Astec’s CP repayment typically stands at ~Rs. 100-150 crore every month, with buffer in the form of undrawn working capital lines and availability of ICDs from parent providing comfort towards short-term debt repayment obligations. Additionally, Astec enjoys favourable rates in the commercial paper market, indicating a strong refinancing capacity. While the cash flow from operations are currently impacted by the industry-wide challenges, ICRA notes that Astec, as part of the Godrej Group, enjoys access to capital markets and enjoys healthy relationships with the banks which adds to the financial flexibility and supports overall liquidity profile of the company. Further, ICRA expects GAVL to provide financial support to Astec, should there be a need. GAVL extended financial support to Astec in the form of ICDs of Rs. 50 crore in February 2024, thus establishing a precedence for financial support in case of exigencies.

### Rating sensitivities

**Positive factors** – The outlook will be revised to Stable in case of sustained improvement in the operating performance of the company, thereby resulting in an improvement in the overall credit metrics. The ratings can be upgraded if there is a sustained profitable scale up of operations along with diversification of revenue profile, while maintaining a comfortable credit profile. Improvement in the credit profile of the parent entity would also be a credit positive.

**Negative factors** – Downward pressure on the ratings could if the company continues to witness sustained pressure on earnings, thereby resulting in a further deterioration in the credit metrics of the company. Deterioration in the credit profile of the parent entity and/or weakening in the linkage between Astec and the parent entity could also lead to a downward rating pressure.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Agrochemicals Industry</a>
Parent/Group Support	Parent/Group Company: Godrej Agrovet Limited (GAVL, rated [ICRA]AA (Stable)/[ICRA]A1+) ICRA expects GAVL to be willing to extend financial support to Astec, should there be a need.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Astec. The details are given in Annexure-2.

### 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 five manufacturing plants in Mahad (Maharashtra) and two R&D centres in Dombivali and Rabale (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, Astec forayed into the contract manufacturing segment by securing contracts from reputed global players. The company also started manufacturing herbicides from August 2021 onwards.

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%. Over the years, GAVL has been consistently increasing the stake held in Astec by procuring shares from the open market, and held 64.76% stake in Astec as on June 30, 2024.

#### Key financial indicators

Astec (consolidated)	FY2023	FY2024	Q1 FY2025*
Operating Income (Rs. crore)	637.0	463.6	70.3
PAT (Rs. crore)	25.6	- 46.9	- 39.7
OPBDIT/OI (%)	13.4%	- 0.1%	- 64.5%
PAT/OI (%)	4.0%	- 10.1%	- 56.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.6	NA
Total Debt/OPBDIT (times)	4.0	NA^	NA^
Interest Coverage (times)	4.1	NA^	NA^

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Astec, ICRA Research; \*Unaudited results; Forex gain is classified as a part of other operating income; ^as OPBDIT is negative

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

	Instrument	Current Rating (FY2025)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Date & Rating on		Date & Rating in FY2024	Date & Rating in FY2023			Date & Rating in FY2022
				7-Aug-2024	10-May-2024 30-Jul-2024		7-Nov-23	14-Mar-23	23-Jun-22	
1	Fund-based Working Capital Facilities	Long-term	346.0	[ICRA]AA-(Negative)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Positive)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
2	Term Loan	Long-term	119.0	[ICRA]AA-(Negative)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Positive)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
3	Non-fund Based Facilities	Short-term	425.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Commercial Paper Programme	Short-term	300.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Source: Company

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term, Fund-based Working Capital Facilities	Simple
Term Loan	Simple
Non-fund based limits	Very Simple
Commercial Paper Programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: [Click Here](#)

### 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 Working Capital Facilities	NA	NA	NA	346.0	[ICRA]AA- (Stable)
NA	Term Loan -1	Apr-2022	NA	Sep-2024 <sup>^</sup>	10.0	[ICRA]AA- (Stable)
NA	Term Loan -2	Jun-2023	NA	Apr-2028	101.0	[ICRA]AA- (Stable)
NA	Term Loan*	NA	NA	NA	8.0	[ICRA]AA- (Stable)
NA	Non-fund Based Limits	NA	NA	NA	425.0	[ICRA]A1+
INE563J14BR5	Commercial Paper	6-May-24	NA	6-Aug-24	25.0	[ICRA]A1+
INE563J14BS3	Commercial Paper	16-May-24	NA	14-Aug-24	25.0	[ICRA]A1+
INE563J14BT1	Commercial Paper	22-May-24	NA	21-Aug-24	25.0	[ICRA]A1+
INE563J14BU9	Commercial Paper	24-May-24	NA	19-Aug-24	25.0	[ICRA]A1+
INE563J14BV7	Commercial Paper	11-Jun-24	NA	10-Sep-24	25.0	[ICRA]A1+
INE563J14BW5	Commercial Paper	18-Jun-24	NA	17-Sep-24	25.0	[ICRA]A1+
INE563J14BX3	Commercial Paper	3-Jul-24	NA	3-Oct-24	25.0	[ICRA]A1+
INE563J14BY1	Commercial Paper	11-Jul-24	NA	7-Jan-25	25.0	[ICRA]A1+
INE563J14BZ8	Commercial Paper	19-Jul-24	NA	17-Oct-24	25.0	[ICRA]A1+
INE563J14CA9	Commercial Paper	22-Jul-24	NA	18-Oct-24	25.0	[ICRA]A1+
INE563J14CB7	Commercial Paper	25-Jul-24	NA	21-Oct-24	25.0	[ICRA]A1+
Not placed	Commercial Paper Program	NA	NA	7-365 days	25.0	[ICRA]A1+

Source: Company; \*proposed; <sup>^</sup>maturity date for the disbursement of final tranche of the term loan

[Please click here to view details of lender-wise facilities rated by ICRA](#)

### Annexure-2: List of entities considered for consolidated analysis

Company Name	Astec Ownership (March 31, 2023)	Consolidation Approach
Behram Chemicals Pvt Ltd	65.63%	Full Consolidation
Comercializadora Agricola Agroastrachem Cia Ltda	100.00%	Full Consolidation

Source: Company

### Corrigendum

Rating rationale dated August 7, 2024, has been corrected with revision as detailed below:

Page 5: Key financial indicators table - Financial figures corresponding to FY2024 which were earlier derived from the annual results published for quarter and year ended March 31, 2024, have now been updated, based on detailed financial statements published in the annual report FY2024 of the entity.

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