April 07, 2022

Astec LifeSciences Limited: Rating reaffirmed for Commercial Paper, rated amount enhanced; [ICRA]A1+ assigned to the enhanced Commercial Paper limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based	250.00	250.00	[ICRA]AA-(Stable); outstanding
Long-term Fund-based – Term Loan	40.00	40.00	[ICRA]AA-(Stable); outstanding
Short -term - Non-Fund Based	284.00	284.00	[ICRA]A1+; outstanding
Commercial Paper	200.00	300.00	[ICRA]A1+; Reaffirmed / assigned
Total	**774.00**	**874.00**	

**Instrument details are provided in Annexure-1*

Rationale

The outstanding ratings along with reaffirmation for existing CP limits and assignment of [ICRA]A1+ rating for the enhanced CP limits factor in the established track record of Astec LifeSciences Limited (Astec or the company) in the agrochemicals business, and its reputed clientele comprising large multinational corporations (MNCs) in the domestic and exports market. Astec's operations are also supported by its backward-integrated nature of operations, providing a steady supply of raw materials at cost-effective rates. The ratings also derive comfort from Astec's strong parentage as part of the Godrej Group, which imparts financial flexibility. ICRA notes that GodrejAgrovet Limited (GAVL, Astec's parent entity, rated [ICRA]AA (Stable)/[ICRA]A1+) has been gradually increasing its stake in Astec (63.31% as on December 31, 2021), and ICRA expects GAVL to continue to provide financial support (by way of intercorporate deposits), should there be a need. The ratings factor in the company's healthy financial profile characterised by comfortable capitalisation and moderate coverage indicators as reflected from Total Debt/Net Worth or TD/TNW of 0.6 timesand OPBDITA/Interest of 14.4 times as on September 30, 2021.

In line with the industry trend, 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, spanning across various geographies in the domestic and exports market. Exports contributed ~50% to Astec's revenue in FY2021 as well as 9M FY2022, highlighting the healthy geographic diversification. 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 pressures. One of Astec's key products, Propiconazole, was banned in the European markets in June 2019. Despite the impact of ban, the share of Propiconazole in company's total sales has increased again in FY 2021 against FY2020 and further in 9M FY2022 as the demand for this product continued to remain strong in the other geographies. The ratings remain constrained bythe vulnerability of Astec's profit margins to the fluctuations in raw material prices and its ability to pass it on to its customersin a timely manner. However, its backward-integrated operations mitigate this risk to a certain extent. Astec currently has concentrated portfolio of products in trizole segment. However, ICRA notes the company's planned efforts towards diversification by setting up an herbicides manufacturing facility, which commenced operations in August 2021. The new products are likely to result in margin expansion and reduce product concentration risk, going forward. Furthermore, it is making investments for setting up a new R&D facility, which is expected to significantly enhance its R&D capabilities and will facilitate its new product development plans.

Key rating drivers and their description

Credit strengths

Established track record in manufacturing fungicides, reputed clientele and backward-integrated operations – Astec has an established track record in the agrochemicals business spanning more than two decades. 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 state of art R&D center which is 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 (i.e. China+1 strategy) 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. ICRA notes that the company has been continuously taking efforts to gradually reduce its reliance on Chinese imports to some extent through backward integration.

Healthy financial risk profile characterised by comfortable capitalisation and moderate coverage metrics – Although the total debt has increased moderately to Rs. 187 crore as on March 31, 2021 and remained at similar level as on September 30,2021, the gearing ratio continues to remain comfortable at 0.6 times as on March 31, 2021 as well as September 30, 2021, onthe back of healthy net worth position. The interest coverage ratio improved from 7.3 times in FY2020 to 24.3 times in FY2021due to improved profitability and lower interest expenses. Although the interest coverage moderated to an extent to 14.4 times in 9M FY2022 following higher finance costs incurred on account of increased working capital requirement during the period, the interest coverage is expected to remain in the comfortable bracket over the medium term.

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. 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 63.31% as on December 31, 2021, from 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 derived from being a part of the Godrej Group, which provides access to capital markets and healthy relationships with the banks.

Credit challenges

Moderate scale of operations and susceptibility of revenues to seasonality risks; profitability exposed to fluctuations in input prices – Astec's scale of operations remain moderate as reflected from a turnover of Rs. 558.7 crore in FY2021 (Rs. 404.6 crore in 9M FY2022). 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 also remain exposed to the fluctuations in raw material prices, primarily those sourced from China. The seasonality risk is mitigated to an extent by its diversified geographical presence. Astec's backward-integrated operations andcontinuous investments towards the same mitigates its input price fluctuation risk to an extent.

The company is incurring sizable capex of ~Rs. 100 crore in the present fiscal (FY2022) and further capex of ~Rs. 300 crore over FY2023-FY2024, which will be funded by mix of debt and internal accruals. Given the large capex & investment plans, Astec is exposed to inherent project execution risks and it will also result in moderation in debt coverage indicators in the interim. However, over medium to long term, improved scale of operations and new product addition should help company in expanding its scale of operations and profitability indicators. The recently commissioned herbicides plant is expected to provide incremental revenue as well as segmental diversification to the company going forward.

High product concentration risk – The company's agrochemical product portfolio primarily comprises triazole fungicides. Astec derived large part of its revenues from few products with in the above mentioned category ; thus, leading to product concentration risks. In order to diversify its product portfolio, Astec had undertaken a capex for setting up an herbicides manufacturing facility, which commenced operations from August 2021.

Liquidity position: Adequate

The company plans to incur a capex of ~Rs. 300-350 crore during FY2022 to FY2024, which will be partially funded through a term loan of Rs. 55 crore. While the company does not have any repayment obligations for FY2022, the repayment obligation for FY2023 stands at Rs. 40 crore. The liquidity position of the company is adequate with undrawn working capital limits (fund-based + non fund-based) of ~Rs. 350+ crore as on December 31, 2021. ICRA notes that the company enjoys Rs. 135 crore of unsecured fund based limits from various banks, which further supports the liquidity position. 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.

Rating sensitivities

Positive factors – 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 factors – 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 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 Issuer's Credit Rating
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 (by way of intercorporate deposits) 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 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%. GAVL held 63.31% stake in Astec as on December 31, 2021.

Key financial indicators (audited)

Astec Consolidated	FY2020	FY2021	H1 FY2022*
Operating Income (Rs. crore)	529.0	558.7	231.2
PAT (Rs. crore)	47.5	65.1	22.1
OPBDIT/OI (%)	17.3%	20.7%	19.8%
PAT/OI (%)	9.0%	11.6%	9.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.2	1.2
Total Debt/OPBDIT (times)	1.1	1.6	2.1
Interest Coverage (times)	7.3	24.3	14.4

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

Status of non-cooperation with previous CRA: Not applicableAny

other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020		
					7-Apr-22	28-Jun-21	22-May-20	5-Nov-19	10-May-19	5-Apr-19
1	Fund-based Working Capital Facilities	Long-term	250	NA	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Term Loan	Long-term	40	40	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	-	-	-
3	Non-fund Based Facilities	Short-term	284	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Fund- based/Non-fund Based Limits	Long-term/ Short – term	-	NA	-	-	-	[ICRA]AA- (Stable)/[ICRA]A1+	[ICRA]AA- (Stable)/[ICRA]A1+	[ICRA]AA- (Stable)/[ICRA]A1+
5	Commercial Paper Programme	Short-term	300	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

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 analyzing an entity's financial, business, industry risks orcomplexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's 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 Working Capital Facilities	NA	NA	NA	250.00	[ICRA]AA-(Stable)
NA	Term Loan	December 2020	3M T-Bill+1.75%	April 2022	40.00	[ICRA]AA-(Stable)
NA	Non-fund based limits	NA	NA	NA	284.00	[ICRA]A1+
Not placed	Commercial Paper Programme	NA	NA	7-365 days	300.00	[ICRA]A1+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Behram Chemicals Pvt Ltd	65.63%	Full Consolidation
Astec Europe Sprl*	-	Full Consolidation
Comercializadora Agricola Agroastrachem Cia Ltda	100.00%	Full Consolidation

stake sold in FY2021* ***Source:* *Company*

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

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

Mythri Macherla
+91 80 4332 6407
mythri.macherla@icraindia.com

Yashowardhan Swami
+91 20 6606 9923
ashowardhan.swami@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
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:

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches