Astec Lifesciences-Compilation of discussions in GAVL conference calls

Q1fy21

Commentary:

Astec Lifesciences reported one of the strongest first quarter performances with revenue and EBITDA growth of 45% and 302%, respectively. Higher realization along with the volume uptick in 2 products contributed to this growth. Geographically, exports have grown faster than domestic sales.

Ashok Hiremath:

Well, the new R&D center is going to be a little bit of a game changer for Astec. I'll just elaborate a little bit on that. Currently, Astec is in a very enviable position where the demand for new products and new projects far outstrips its ability to execute the projects in terms of its ability to develop and scale it up and bring it online for production. We have no limitation in terms of the availability of infrastructure, and we are in a position to make investments. But we just don't have the bandwidth on the R&D facilities that we currently have to be able to do it. But having said that, we've still been growing at the rate that you've been seeing a compounded growth of 20% annually. But nevertheless, if we want to scale it up to the next level, we need to expand these capabilities. So there are 2 levels at which this R&D will benefit. One is in terms of bandwidth. The number of fume cupboards, which really defines the number of projects that you can handle, is going up by a factor of 5 from the current level. So our ability will be to handle multiple projects at a time, so that we can bring on many projects online in a given year. That is the one big benefit. And the other thing is that on the qualitative front, the new capabilities that we're building in would be to bring in new chemistries that we can practice, for example, fluorine chemistry. Anybody who's following the life sciences industry will know that fluorine chemistry is very, very core to the development of new molecules. So we will be building in a development capability of that in the R&D center. There is flow chemistry that involves the continuous flow chemistries, the ability to do things in microreactors and so on and so forth, there will be high-pressure reactor systems. There'll be hydrogenation systems. And there will be all the cutting-edge new chemistries that are out there will be -- we'll have labs that have the ability to develop that. So we'll have teams that will be developing these new chemistries. So essentially, in the contract manufacturing sector, you need to be able to offer these skill sets to your customers. And this is exactly what this R&D center will bring to the table for us.

Yes. I'll answer the question about the pharma intermediates. Well, pharma intermediates still constitutes, maybe, in the range of 5% of our sales. It's become relatively minor at the moment simply because our agro sales have gone up significantly. And the pharma sales have become a smaller percentage, not for lack of opportunity. But again, it came down to this bandwidth issue, which we talked about, our ability to develop so many molecules. There are many opportunities out there. We have, indeed, products in the pipeline for the Pharma segment, but we've not been able to bring them on the line because of the bandwidth constraints that I spoke about. So we definitely have it in our strategy plan, and we will take it up as soon as we are able to get this new R&D setup in place. But I will just add one more thing to this R&D piece that we spoke about is that the whole R&D piece is to do not only with what you develop in the lab, but how you have the scale-up team and the technology transfer team. So working on the entire chain of bandwidth capabilities, which is to develop things, to take it on pilot plant, scale it up and take it on a plant scale. So we are building that entire infrastructure over the next couple of years.

CRAMS growth has been 20% a year, in line with our overall growth. Obviously, we -- our strategy is to make this a larger proportion. Currently, it constitutes 20% of our business. We are -- our aim is to make CRAMS a much larger proportion, and eventually, 50% of CRAMS and 50% of what we call enterprise sales. And as far as the triazole fungicides are concerned, they're performing extremely well. We've increased capacity in our key triazole fungicides very significantly last year, and coupled with better realizations on the finished products, cost optimization on imports. Our margins have really improved. The domestic season has been very good for us. The season has started early, and we've seen good demand for our products. We were also able to restart our plants after the COVID shutdown. We were able to start on 10th of April. But because of the restrictions, we -- it took us about a month to completely scale up our production and bring it to the full capacity utilization. But in spite of that, there was very strong demand for our triazole fungicide. That has done well. And even the export market looks quite good. Climatically, we are seeing that things are good in Europe and things are good in North America. We are waiting and watching in South America, Brazil, we're seeing demand, but we're waiting to see the full impact of it. But nevertheless, since we are so geographically spread in terms of our triazole fungicide sales, we don't see any difficulty selling all the production we're going to have.

Well, I mean, for example, the first quarter, our volume growth was 20%, but our value growth was 45%. This was not only on triazole. We had contract manufacturing products and so on and so forth. So we sold more expensive products. So I don't have the exact breakup of the -- on the triazole segment by itself, what was the difference between the volume growth and the value growth. But I'm just telling you, for the first quarter, this was the difference between volume and value growth. So that was the blended average of all our products put together.

It was a little bit of everything that contributed to our good performance in the first quarter. More sales of triazoles, better realization, some CRAMS products.

Well, if overall growth is at 20% per annum that's doubling our sales every 3.5 years, but I'll put it in a slightly different way, in terms of our aspiration. The PR industry contract manufacturing business is maybe in the range of $300 million to $400 million, right? So -- and ours is significantly lower than that. We believe that a lot of -- once we have the capabilities, there's this trend of the big multinationals derisking, not only from China but also derisking from the people, who've already got a lot of the business in India, which is PI, so there's SRF and a handful of people. So I think a lot of that will come over here. Now it's for us to really take that business, to be prepared for it. And that's what this new R&D center will do. But for me to give a number that is very, kind of, forward looking, I would not like to do that. But this is the kind of size of pie that we're looking at, and this is the kind of opportunity size.

Some of our products, of course, we had some contract manufacturing products, which had a high-margin during this period. Some of our triazoles also had better realizations because of -- China was shutdown because of COVID during that time, and the demand was sustained in Q1 as well. And we had actually taken a very good position in terms of our raw material planning and everything. And therefore, we were able to sustain our production when other people were shut. So there's a combination of these factors, which gave us a higher EBITDA. But having said that, it was not a one-off kick. We believe that we can still maintain a 20-plus percent EBITDA going forward.

We've changed our methodology of working. When we do our export sales, we go in for a nonrecourse financing -- factoring. So when we do non-recourse factoring, the cost, to us, comes at about 4%. Our normal borrowing rate was 6.5%, now it's 5.7%, so it's cheaper, and it also reduces the amount of debt in our books. And when we get extended credit on our supplier side, that also comes in at about 4%, 4.5% per annum, which is lower than the cost of our own internal borrowings. So then we get extended credit from our customers, from our suppliers, and we factor our receivables. So this methodology of managing our working capital has worked well for us. So which is why you'll see our debt has come down to INR 98 crores as of last year and INR 82 crores at the end of quarter 1. And you will see that our net interest cost is hardly 2% of our sales.

(On asset turnover)
our asset turnover ratio is about 1.5 to 1.7. So that's the incremental revenue that we will get from additional assets that we create. But that's a rough number. It's very hard to say this particular investment is giving so much. But as we go forward and we make capital expenditures, you will see that our asset turnover ratio will be in that range.

I think that's about average for the industry. I mean it might come down to about 1.5, but that's about what it is for the industry, in general, and we will be in line with that.

Q4fy20

Commentary:

In our subsidiary, Astec Lifesciences, it was one of the best quarterly performance as revenue and EBITDA grew by 35% and 66%, respectively. Higher realization along with volume growth in key products contributed to this growth. For the full year also, revenue and EBITDA (excluding the nonrecurring expenditure of Rs.6.2 crore) grew by 21% and 18%, respectively. Geographically, both domestic sales and exports contributed to our growth.

Arijit Mukherjee:

Astec, we have to think the business like two parts. There is the generic businesses, i.e. there is the enterprise businesses. In the fourth quarter we had both advantages of one, entirely across the globe, there was a disruption from Chinese supply side because the Chinese problem with COVID started during December, which aggravated like by middle of January, which coincided with the New Year. So, that was one of the advantages. Because we re-positioned ourselves, major purchases shifted from China to us. We captured a lot of Southeast Asian market, Russia, CIS market opened up very strongly. That has been one of the good and that will be a permanent good, plus the US, Europe markets remain. These changes will be to some extent permanent because most of the multinationals will be now actively looking for de-risking. This one change in terms of enterprises will be there. Second changes which will happen is or which we are also experiencing is shifted to the CMO businesses because if you see most of the multinationals are working in asset sale. So they do not produce much actives within themselves. They just procure it either from China or India, and majority almost 70-75% is working from China only. So, that is a shift. Almost this year, we have launched two new products. So, that is actually a shift from China because they used to procure from China and it has shifted to Astec. So these two changes will more or less remain permanent. You will see more of Japanese projects coming to Astec as well as to other companies. And enterprise businesses derisking will go on. So, coming year also we think this type of growth, we will be able to maintain.

If you go by the dollar terms, more or less the export prices for India also is equivalent to Chinese. There has been a significant increase like if you say Tebuconazole, which is one of our major products. Q1 export is around 18.5, it increased to up to 24, now it is back to 22.5. So more or less these prices will be in parity to China because China produces almost 5x of what we produce. International prices will be driven by them. The advantages which India has is in terms of cost of production. So profitability for Indian companies with the same price band will be almost a little bit better than the Chinese. But price is nothing we will be realizing more in international markets. That will still be driven by the Chinese.

(GAVL funding Rs 22 cr CAPEX in Astec, includes investment for the herbicide plant and debottlenecking (Herbicide plant will commission in q3fy21)

One is a longterm agreement also we have made that is covering both CMO businesses as well as the normal generic businesses. Plus, as our output has increased, the spot market has also improved. So previously, we were mostly into the contractual businesses, but now we have almost 10-15% of the stocks we sell on the spot price basis. So that also has given us a little bit higher increment in terms of price realization.

Yes, current level (of pricing) will be sustainable because manufacturing, be it in India, be it in China is also a constraint. Chinese situation have improved a little bit, but still they are not on a 100% basis. There also productions are between 60%, 70%, 75%. And the cost of manufacturing across the globe has increased.

Q3fy20

Commentary:

In our subsidiary, Astec LifeSciences, we have moderate revenue and EBITDA growth of 4.5% and 1.9% respectively. For the quarter, however, the nine months performance was impacted due to lower realization, increase in input prices and deferral of export order.

Balram Yadav:

(On margin decline in the q)
This quarter is going to be much better than last quarter I can tell you. So the other thing was there is 6.5 (EBIDTA)crore reversal in Astec because we were getting some export benefit which past year we have taken a 3% but government does now rule it should have been taken at 2%, so we have taken a hit of about Rs.6.5 crore in the first nine months numbers.

(On China dependence for both GAVL and Astec)
In last two years we have commissioned two plants for backward integration and that was not thinking about coronavirus but the prices and costs were going up from China. We started getting into backward integration and one more backward integration plant will be commissioned in July which will be for backward integration and producing certain herbicides also in Astec LifeSciences. So, we are definitely worried because we still are dependent on China for import of certain products but we are happy also that our dependence is not as it was a few quarters ago. So, yes, we are worried but till now the supplies have not been affected, but I do not know what is going to happen in future.

S Varadaraj:

(On deferral of orders)
Here, we recognize sales only after it is received at the customer destination. So that is the reason why the deferral of sale happens in Astec unless it is FOB. Towards the end of the year, we try and ensure that we plan for the dispatches well ahead of time so that this deferral generally does not spill over in financial year. That is what if you take, but on a quarter-to-quarter basis this becomes a bit of difficulty in terms of spillover of the sales to the next quarter.

There is always this kind of spillover from Q2 to Q3 also. What is the net carry forward is what gets impacted. So the quantum will not be the same. And Q3 to Q4, the spillover will be higher as compared to Q2 to Q3.

(On RM price volatility)
They have been stable (for last 4-6 months). In fact, in Astec, what we have been trying to do is they have been sort of doing backward integration and hence our dependence on the import is reducing year-after-year. And the input cost are sort of stable as of now.

Q2fy20

Commentary:

In our subsidiary, Astec Life Sciences, we had strong growth of 24% in revenues for the quarter; however, operating profitability was adversely impacted during the quarter due to poor realization, increase in input prices and deferral of export orders.

Initiated CAPEX of 60 cr.

Balram Yadav:

Astec Life Sciences, the problem has been postponement of lot of our orders, so there is a spill over from Q2 to Q3 and we are also seeing some spill over from Q3 to Q4. So, that is one of the reasons why there is a decline in margin. The second reason was that the Propiconazole has been banned in EU countries and not only we were hit by lower margins because we had to dispose out that material elsewhere but because of high cost of raw material because we had manufactured for Europe in the last quarter of the earlier financial year. There are several things which have hit us in Astec Life Sciences, we also claimed some benefit over the last few years on account of exports which several agri companies including us have done that and now the government had disallowed that so that also has been provided for. Of course, we are still contesting that but almost 6.5 crore has been provided for this. These are the multiple reasons why Astec Life Sciences is suffering this year. The only thing I can say is that definitely the pipeline of order is strong, almost 90% of capacity in next 2 quarters including the current quarter is sold out.

Operating performance of the Astec Life Sciences definitely will increase in Q2 and Q3. We have the orders and the level at the cost level and the price level at which the material has been sold. We are very sure that expansion in our margin as compared to first half will happen. The only thing which can be a spoiler is postponement of orders. That is one of the things which is happening regularly for lot of our intermediates and technical supplies because this season in other country is also erratic and this will pick up 15-20 days later, we missed the quarter and sometimes we will miss the financial year also, but we are hopeful that if everything happened as plan which is not very aggressive, we should be able to show some marginal growth over last year after providing for whatever we had to return to the government.

I said that in all our sales the realization has suffered only in Propiconazole because of the ban in EU and that was one of our main products, so we had manufactured at very high cost and sold at very high prices in the last quarter of last year which was supposed to be dispatched in first quarter and we would have made significant margin on that but unfortunately because of EU ban, the prices fell and we were left with high cost Propiconazole which we disposed our lower margin to get rid of that stock, so that thing is over and unfortunately, the loss has been quite significant in that plus 6.5 crore provision we had made for some export benefit claim we had met in past several years, which has been disallowed by the government; however, we are still disputing that and the provision has been made.

The budgeted contribution was close to 12 crore (EBIDTA-after variables) which is almost half of contribution from Propiconazole.

In past, we have seen once one country starts banning (a molecule), definitely within 2 to 3 years other countries also start banning that molecule because this was also an indication that the originator of that molecule is not available. Having said that, we also are looking on some substitutes which can be introduced in next 2 to 3 years and we have also converted that capacity into Tebuconazole where we short of production and we are oversold as far as Tebuconazole is concerned, so I think that way one of the things which we have done in past is to make our plant a little more versatile.

(On disposal of propiconazole inventory)
I think that correction we took very early. Most of it has been already cleaned up, we don't have any stocks and now we are selling is there and why we have to reduce price because the raw material cost reduced after that.

(Propiconazole is being sold in India and other markets after the EU ban)

(On 60 cr CAPEX being undertaken under Astec)
I will just reply in a very short sentence that Astec Life Sciences was dependent only on Triazole, almost 90% of our turnover came from Triazole which is a very big risk and we had embarked on trying to figure out future strategy of Astec Life Sciences. We were advised by global consultants on that the project which was undertaken a few months ago, it was the project where we charted out this strategy for growth. This plant is not for fungicides or Triazole, it is part of our diversification into other genre of chemicals in the agri space.

S.Varadraj:

We are quite hopeful that in the balance 2 quarters, current quarter and the next quarter, we will be able to recover lot of lost ground and show a little bit of growth over last year.

Q1fy20

Commentary:

In our subsidiary Astec Life Sciences, we had strong growth in revenues of 18.4%. However, operating profitability was adversely impacted during the quarter due to poor realization, resulting in a lower EBITDA margin of 9.5%.

Balram Yadav:

Two things happened within Astec. One is that from the Q3 of last year a little bit of oversupply and lot of technical manufacture was absorbed throughout the world, mostly to the countries where we export our products. And if you remember, in the Q4 also we had lot of postponement of sale, which happened as far as exports are concerned. Now, this continued in the first quarter also. The second hit we got is, we have a product called Propiconazole which got banned in Europe and it was quite surprising, because it was most likely the ban was not to take effect this year, but unfortunately it happened. We were left with inventory which we had to sell at a lower price.

If you ask me about backward integration, I think we decided to do that two years ago, we commissioned the plant last year in Q2. Plant is on stream and that saved us at least in several of our products where margin erosion had happened because of increased Chinese imports, prices have all gone up because of some disturbance in production facilities in China. Now, we still are not out of it, still we are dependent on Chinese imports for several of our raw material. But going forward, business model will also incorporate investing in backward integration one after the other so that are dependent and on Chinese imports reduces because costs are going to be high, considering the new environment laws in China, etc.

Astec, if you ask me, has a lot of opportunity, in the sense that we get lot of calls, exploratory calls and business queries on lot of molecules. The only thing which now is important is that how we maintain the profitability. And second is, we also need to continue investing every year in the plant, because we still have got a lot of business coming our way. To add to this, I must tell you that our order book is full for the next eight months, the only spoil sport can be cost.

Entire impact of Propiconazole ban has been taken and we realize that certain modifications in the plant had to be done to probably produce some other product, that also has been undertaken. So, that versatility we have built, but unfortunately the prices are not going up because of that last two quarters glut, and costs are going up. So, that I think will take some time to correct.

(On CAPEX)
Last year we did Rs. 40 crore and this year we have planned for Rs. 45 crore. We have almost finalized purchase of land near Bombay for R&D center, that is also included in this. But R&D center may cost a little more than what we have expected. So, this year we might go to about Rs. 55 crore to Rs. 60 crore investment in Astec.

I would say 70%, 80% of CAPEX is for new products, is for new genre of chemicals, and it is also for some R&D initiatives and rest for maintenance.

(On R&D Centre)
I think we have made sure that we get into a chemical zone etc. so that we don't have too much of regulatory issues. I think within 12 months this should be operational. And we are also in a hurry because there are a lot of projects which are not getting started because a lack of bandwidth, both in terms of infrastructure and people in Astec Life Sciences.

(On Margins)
My only worry is every year Q4 is a very, very important quarter for Astec Life Sciences, we should not have postponement of sales in quarter for Astec Life Sciences, because our profitability is quite skewed towards that.

(On guidance of 15% growth in revenues and 20% growth in EBIDTA)
So, top line, yes. Bottom line, depends in case the cost line for our products hold. So, right now if you ask me, I am very sceptical about a 20% EBITDA growth. It's not that it is not possible, but will require a lot of things to go right.

I think this is a quarter when we have to correct a lot of things in terms of backlog in sales. If that happens, I am saying that we might be in a better position next quarter to comment.

Triazole chemistry constitutes 80% of sales.

Nadir Godrej:

In Astec I will repeat myself, that the opportunity of increasing prices in next one quarter seem to be pretty low. We are still holding the cost, we have coverage in terms of raw material, but what will determine the profitability of this business because normally Q3 and Q4 are very good quarters for us, we make 60%, 70% of profits in these quarters. In case the costs don't go up and whatever spike in prices, we are trying to negotiate happens, then I think we will be back to our normal profit margins in Astec Life Sciences on a yearly basis, because these two quarters are very important for us.

Q4fy19

Commentary:

In our subsidiary Astec Lifesciences, we had strong growth in revenues and operating profitability during the year. The revenue and EBITDA for fiscal year 19 grew by 16.2% and 14% respectively.

Balram Yadav:

(On cancellation of Merger)
There is no change in the strategy of Astec Lifesciences. This year also, we have budgeted 80 plus crore investment which is in addition to almost 40 to 50 crore we invested in the backend production capability to reduce our dependence from China, so the focus remains, the aggression remains. Then we are scouting for more customers and more molecules, more aggressively than ever before. However, we engaged with lot of stakeholders of both the company and we felt that leaving Astec Lifesciences standalones to pursue these opportunities will be better for next few quarters. Having said that, we have not totally given up our thinking on merging Astec but not in this quarter or the next quarter, but a few quarters later we will definitely revisit it.

Synergy benefits for Astec are actually housed in GAVL. So, for lot of synergy benefits in terms of staff functions, etc., we could do without merging it. So we provide HR support, legal support, accounting support, secretarial support, but it is very easy because it is only marginal cost for us in Godrej Agrovet. Having said that, Astec has few challenges in the export market, you know that our exports have slowed down because of postponement of some of the orders in quarter 4 last year. It is likely to pick up in this quarter and the next quarter largely because of a glut in agrochemicals in Latin America and American markets plus they are pursuing several new opportunities where we feel that keeping Astec as a standalone company is better in terms of pursuing and getting those opportunities going for them. So there is no change in thinking. Definitely we will back Astec to whatever extent required, but we think that merger can be postponed by a few quarters.

So there are 2 to 3 initiatives on in Astec Lifesciences, one is the world class R&D centre, the second is we have to invest in one herbicide plants and some more debottlenecking we have to do very quickly and I think that is something which will take about year to year and a half. We are also pursuing some more opportunities on contract manufacturing side. So I think I am very sure that at least for next 4 to 5 quarters we will allow all this to play out and then think about merging this company.

So one of the reasons for decline in margin in Q4 is that as I already told you that there was lot of postponement of export orders and some of the products were very highly profitable products for us. Even though there is overall growth of upwards of 20% in exports in Astec Lifesciences, but quarter 4 which is definitely a big quarter, was a little subdued. Going forward, definitely we have planned and we will see expansion in margins because of this backward integration. According to me, 0.75 to 1% expansion of EBITDA margin will happen in the coming year because of our backward integration investment.

(On CAPEX of 80 cr)
Let me just tell you that what all is likely to be done in Astec Lifesciences. The two big investment will get completed probably in 12 to 15 months' time from today. One is R&D centre and one herbicide plant which will be almost 70% of the investment. Apart from that there will be some debottlenecking in the existing plants just to increase capacity plus some changes in the plant in our response to change in the product portfolio. So I think these are ongoing investment, but the big one which will be close to about 50 crore will be one herbicide plant and one R&D facility and the R&D facility will also have a pilot plant to quickly conduct scale production trial, so that go-to-market can be expedited.

(Exports grew by 20% in fy19)
The growth in export sales was 23.6% in FY19 compared to FY18 and if I have to tell you, FY17 our exports was 130 crore, FY18 was 196 crore, FY19 is 243 crore.

(On guidance for growth)
For Astec, I think barring some distortion we saw particularly last quarter and in case, the correction happens in Latin America and America where this slowdown tookplace and lot of postponement of orders were there, we should be able to maintain 15% plus growth in topline and 20% plus growth in EBITDA.

(Herbicides being introduced to reduce dependence on Fungicides)

One thing which we are very sure is that investment is critical for growth of Astec Lifesciences. There is lot of opportunity, but investment is mandatory in this business every year. This is a seasonal and cyclical business.

We get asset turns of 1 to 1.25, even though profitability is high, so I am saying for a company like Astec to keep on putting 60, 70, 80 crore every year may be feasible for some more time, but the ticket size considering the agrochemical opportunity which is there, the ticket size will become bigger and bigger. If you see three years ago, we used to invest Rs. 10, Rs. 20 crore a year, now we have gone to Rs. 60, Rs. 70 crore a year, so eventually it will be best served once it becomes part of Godrej Agrovet where we can make big bets in Astec Lifesciences.

So we have been fair and reasonable. The ratio was decided on lot of data which was generated. We took the help of bankers and followed the process to ensure that fairness and transparency is maintained. And I think whenever it comes in future, we will follow the same process. I have been in the company for last 30 years, we have never short-changed anybody and we will maintain our good reputation in this area.

Nadir Godrej:

I would like to add that to get this kind of growth, we have to do a lot of investment in R&D. It takes several years to go from starting an R&D product to having the product in the market because approvals to themselves take about 2 years. Plus any new factory also starts giving returns after a couple of years because the returns arenot very good till it is fully utilized. Though Astec is very good at quickly utilizing any new investment, but these investments are a bit of a drag on the performance, but they have also guarantee long-term steady growth.

Q3fy19

Commentary:

In our subsidiary, Astec Lifesciences, we have strong revenue and profitability growth during the third quarter, especially in exports. Further, our new plant which was being set up for backward integration has become fully operational.

Balram Yadav:

(On the proposed merger of Astec with GAVL)
the matter is with NCLT and we are sort of waiting for hearing at NCLT whereby they give us directions to call for a general body meeting of the shareholders. Now, having said that in terms of timelines, given the various procedures involved, especially with various agencies being involved in this, slightly difficult to give a timeline to it. We are hoping that may be next 3 to 6 months is what we should see some progress happening on this.

Once the NCLT hearing happens, then NCLT will direct us to call for a general body meeting of the shareholders for both the companies and then accordingly we will go ahead with the process involved in that.

(On R&D spend)
Similarly, in agrochemical also, we spend close to 10 crore both in Astec and our own agrochemical business and today, we have so much of work at our hand, particularly in Astec that we have run out our lab facility, so we are temporarily expanding our lab in Astec at Dombivli, but already plans are underway to put $5 to $6 million GLP lab somewhere near Mumbai of the scale where we can really do all the technology work we want to do particularly in agrochemicals.

(On ability of Godrej to attract talent w.r.t. Astec)
We could recruit a new R&D head, Dr. Anuj Mittal who joined about a month and a half ago. He has got more than quarter century experience in agrochemical and

pharma and he is in Godrej Agrovet and will also oversee Astec Lifesciences. We are selecting a team, several people are Ph. D's from IIT and some foreign university in Godrej Agrovet who will be available for Astec Lifesciences also.

Nadir Godrej:

(On R&D spend)
I would like to stress that the return on capital and R&D investments is very good. In agrochemicals, it takes a little bit longer to get the returns because the approval process is quite long.

Q2fy19

Commentary:

In our subsidiary Astec Lifesciences we had a strong revenue and profitably growth during this second quarter of the year, especially in exports. Further scheme of amalgamating Astec Lifesciences with Godrej Agrovet has been approved by the board of directors of both the companies in September 2018 and necessary formalities of the process are expected to be completed as stipulated.

Balram Yadav:

(On benefits of the proposed merger)
Cost synergy is not very significant the very purpose of this merger is to support rapid expansion of the Astec LifeSciences. One of the key points of Astec LifeSciences which is very different from our rest of the business is that for every rupee growth we need about 75 paisa investment in fixed and working capital because exports happen at 180 to 210 days LC and asset turns of a plant is about 1.4 to 1.5 times. So, we set up a plant for about Rs. 50 crore the sales goes up by about 60-65 crore unlike other business where sales is 5, 6, 7 times the CAPEX. So, there is a limitation which we are seeing in terms of expansion of Astec that is why we want to bring it in. The second thing is that for the kind of opportunity Astec has, it requires lot of high-quality talent. Now that talent unfortunately we are not able to attract in Astec LifeSciences but we will be attracting in Godrej Agrovet.

(Expectation of 15-20% growth in revenues for 2-3 years once merger is complete)

Q1fy19

Commentary:

In our subsidiary, Astec LifeSciences, revenues were lower at Rs. 65.5 crore during the quarter compared to Rs. 75.2 crore in the first quarter of last year. Consequently, the profit was also impacted and was lower than last year. This was mainly because export revenues of around Rs. 25 crore of goods shipped before June 30th could not be recognized. This will be recorded in the second quarter of the year.

Balram Yadav:

(On rising prices of KSM)

In Astec LifeSciences what we did is that we invested almost Rs. 45 crore in backward integration plant which has started production. So in future our dependence, as far as China is concerned in Astec LifeSciences will come down. And similarly, in our Agro Chemical business, we are also exploring same backward integration opportunities with Astec and we are also exploring opportunities to source those raw materials from outside. The problem is not only the price from China, but also availability.

So, I am saying that it is not possible for us to start producing everything we import from China, that will happen at a probably higher price because the bigger players in China have stared expanding, the smaller players are the ones which are facing the heat of new environmental laws. But the supplies will ease but at a higher price, I am very sure about that.

For agro chemicals which were China dependent, the prices have gone up. But overall the industry prices remain same because for chemicals which are being synthesized in India, the prices have come down at the farmer level and the trade level.

(On lower margins in the quarter)
I am very sure that as we go along things will keep on improving. Because of accounting issues we could not account for some sales in the June quarter, which will be accounted this month. Normally, second, third and fourth quarter are the best quarters for Astec LifeSciences, and that is unlikely to change. Order requests are full, today we are juggling capacities right now to complete those orders. So I do not see any reason why we will not grow upwards of 15% in top-line and 15% in bottomline.

(On scope for margin improvement due to backward integration) So, this capacity was not built for margin enhancement, it was more for surety of supplies and self-reliance. I am very sure that what is happening in China will benefit in margins also, but we cannot quantify it right now.

(On plans to merge Astec with GAVL)
No plans, we have not thought on this right now. Of course, Astec has huge growth plans, I think that is what we are busier with.

(On tepid growth in AgroChem business)
So, Astec LifeSciences, I think we are not worried at all because the order pipeline is full, we are just juggling capacities to probably cater to that and we are just margin plants for another capacity expansion, we may need it by October or November next year. So, Astec LifeSciences is no issues. New product pipeline is also good, we know what we will do in 2020 and 2021 also.

(On future of Triazole chemistry)
Yes, so I am saying that triazole will continue to grow, if not alone, in combination, because that is the future for fungicide. So we are not too worried on that and more and more people are more and more volumes actually.

(On CAPEX)
We just commissioned one backward integration facility which costs Rs. 45 crore – Rs. 47 crore and this one I think is still in the drawing stage, in configuration stage. But I have a feeling that none of the capacities are costing less than Rs. 50 crore – Rs. 60 crore right now. So I think that will be the kind of CAPEX which will be there.

Q4fy18

Commentary:

Astec LifeSciences Limited, a subsidiary of GAVL, continued to show strong performance. In fiscal 2018, the company reported revenue growth of 18.6% which was driven by growth in export sales, which saw a revenue jump of 55.8%. The EBITDA margin was also at a healthy 20.7% for fiscal year 2018.

Balram Yadav:

(On seasonality of sales)
So Astec, now we have also understood the business because the cropping season and weather do not go by our quarter on quarter requirement. So there is always preponement and postponement of sales because the export is growing very rapidly for Astec Life Sciences. If I'm right, these exports are upwards of 40- 45% growth last year. So that I think we will always see something being preponed and something being postponed. Having said that, you must always remember that as per IndAS, we only record sales once it reaches the destination it is not that we just dispatch and record sales. So those kind of time lags on high preponement, postponement will remain there as one of the characteristics of the business. Having said that was it one-off, the answers is no. If it is a sustainable growth, the answer is a very big Yes.

(On new product introduction)
Coming to Astec, definitely, we have developed some more products for the export market. I think they are going to commission another plant. One thing I want to tell about Astec is that they did something very visionary and smart thing a year and a half ago. They invested almost Rs. 45 crore in a backward integration plant so that they can produce their own intermediate rather than importing from China and you know the Chinese situation today. They are very well placed in capturing more margins and more volume this year because of that plant.

To maintain the same growth trajectory of past 2-3 years, there is enough things in the pipeline, and enough relationships also, that is point number one. But let me tell you point number two, that we would like to do a strategy deep dive in this particular area of business in next few quarters, because with molecules going off patent and China being less attractive source of chemicals, we will explore if there is a possibility of investing and growing this business exponentially.

(Directionally, margins will trend up as a result of backward integration, the extent is variable)

(On asset turnover)
Astec plant will do 1.3x to 1.5x asset turnover but margins are good, so it is okay.

(Astec has introduced products under the Loxy category of Fungicides. Azole category of products constitute the majority of portfolio)