June 23, 2022

Astec LifeSciences Limited: Ratings reaffirmed; outlook revised to Positive from Stable; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based Facilities	250.00	300.00	[ICRA]AA- reaffirmed / assigned; outlook revised to Positive from Stable
Long-term, Fund-based – Term Loan	40.00	150.00	[ICRA]AA- reaffirmed / assigned; outlook revised to Positive from Stable
Short-term, Non-Fund Based Facilities	284.00	389.00	[ICRA]A1+ reaffirmed / assigned
Commercial Paper Programme	300.00	300.00	[ICRA]A1+ reaffirmed
Total	**874.0**	**1,139.0**	

Instrument details are provided in Annexure-1

Rationale

The revision in the outlook on the long-term rating of Astec LifeSciences Limited (Astec or the Company) factors in the continued improvement in its business performance as demonstrated in FY2022. While healthy demand scenario, especially in the overseas markets, provided a fillip to the company's revenues, cost optimisation measures such as backward integration, steady supply of raw material at cost effective rates supported the improvement in operating profit margins (OPM). ICRA also notes the increasing share of exports in the revenue pie, and Astec's plans to attain higher business diversification going forward. The company commercialised its herbicides plant in August 2021. Incremental revenue contribution from this new business division is expected to provide higher diversification to the company over the medium term.

The ratings continue to factor in the established track record of Astec in the agrochemicals business, and its reputed clientele comprising largemultinational corporations (MNCs) in the domestic and exports market. 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 (63.29% as on March 31, 2022), which indicates the company's strategic importance to GAVL and the Godrej Group. ICRA expects GAVL to provide financial support to Astec, should there be a need. Given the strong linkages between Astec and GAVL, the movement in the credit profile of GAVL would be a key rating monitorable for Astec. The ratings factor in the company's healthy financial profile characterised by comfortable capitalisation and moderate coverage indicators as reflected in Total Debt/Net Worth or TD/TNW of 0.7 times, Total Debt/ OPBDITA[1] of 1.8 times and interest coverage of 17.3 times as on March 31, 2022. While there might be some interim weakening of debt metrics over the near term due to the ongoing and planned sizeable capital expenditure, expected cash flows from the same once operations commence would strengthen the financial profile of the company.

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 Astec's geographically diversified revenue profile, spanning across both domestic and exports market. Exports contributed ~58% to Astec's revenues in FY2022, highlighting the healthy geographic diversification. However, since

[1] *Operating profit before depreciation, interest, tax and amortisation*

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 over the last two fiscals as the demand for this product remained strong in other geographies. The ratings 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. Astec currently has concentrated portfolio of products in the triazole segment. However, ICRA notes the company's planned efforts towards diversification by setting up the 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 research and development (R&D) facility, which is expected to significantly enhance its R&D capabilities and will facilitate its new product development plans and thus benefit from the opportunities that the global demand shift from China may present for the Indian entities.

Key rating drivers and their description

Credit strengths

Established track record in manufacturing fungicides, reputed clientele; efforts undertaken for higher business diversification – 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 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 may present for the 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.

Steady revenue growth along with improvement in OPM in the last two fiscals aided by healthy share of exports and backward integrated operations – Astec has demonstrated a steady revenue growth over the years, aided by healthy demand scenario in the domestic and overseas markets. Furthermore, the company showed an improvement in its OPM to 20.7% in FY2021 and further to 23.0% in FY2022, from 17.3% in FY2020, aided by healthy share of exports, increase in realisations supported by increased demand and backward-integrated operations, steady supply of raw material at cost effective rates. ICRA notes that the company has been continuously taking efforts to gradually reduce its reliance on imports from China for its raw material requirement through backward integration.

Healthy financial risk profile characterised by comfortable capitalisation and moderate coverage metrics – Although the total debt increased moderately to Rs. 279 crore as on March 31, 2022 from Rs. 187 crore as on March 31, 2021, the gearing remained comfortable at 0.7 times as on March 31, 2022, on the back of healthy net worth position. ICRA notes that Astec's total debt/ OPBDITA moderated to 1.8 times as on March 31, 2022 from 1.6 times as on March 31, 2021. Furthermore, although the interest coverage moderated to 17.3 times in FY2022 from 24.3 times in FY2021 following higher finance costs on account of increased working capital requirement, the same is expected to remain comfortable over the medium term. While there might be some interim weakening of debt metrics over the near term due to the ongoing and planned sizeable capital expenditure, the cash flows from the same once operations commercialise would strengthen the financial profile of the company.

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 provide financial support to Astec, should there be a need. GAVL has gradually increased its stake in Astec to 63.29% as on March 31, 2022, 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 remains moderate as reflected from an operating income of Rs. 678.9 crore in 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 and continuous investments towards the same mitigates its input price fluctuation risk to an extent.

Sizeable capital expenditure plans which could impact debt indicators going forward – The company has planned a sizeable capital expenditure of ~Rs. 300 crore in FY2023, which will be funded by mix of debt and internal accruals. Given the large 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. The recently commissioned herbicides plant is also expected to provide business diversification benefits in addition to incremental revenues and profits going forward.

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.

Liquidity position: Adequate

Astec is expected to demonstrate healthy cash accrual position over the near to medium term, aided by steady business performance and increasing segmental diversification. The company plans to incur a capital expenditure of ~Rs. 300 crore in FY 2023, which will be partially funded through debt. Subsequently, the debt repayment obligations over the medium term are expected to remain moderate. The liquidity position of the company is adequate with undrawn working capital and term loan limits (fund-based + non-fund-based+ term loan) in excess of Rs. 400 crore as on April 30, 2022, which 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. Further, ICRA expects GAVL to provide financial support to Astec, should there be a need

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 key for a higher rating.

Negative factors – Downward pressure on the ratings could emerge if lower-than-expected ramp up in its revenues on a sustained basis, especially when the company is setting up additional capacities to augment and diversify its revenues, results in a deterioration of liquidity profile. 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 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 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. 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%. GAVL held 63.29% stake in Astec as on March 31, 2022.

Key financial indicators (audited)

Astec Consolidated	FY2021	FY2022
Operating Income (Rs. crore)	558.7	678.9
PAT (Rs. crore)	65.1	89.9
OPBDIT/OI (%)	20.7%	23.0%
PAT/OI (%)	11.6%	13.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.3
Total Debt/OPBDIT (times)	1.6	1.8
Interest Coverage (times)	24.3	17.3

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)					Chronology of Rating Historyfor the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					23-Jun-22	7-Apr-22	28-Jun-21	22-May-20	5-Nov-2019 10-May-2019 5-Apr-2019
1	Fund-based Working Capital Facilities	Long-term	300.0	NA	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Term Loan	Long-term	150.0	40.0	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	-
3	Non-fund Based Facilities	Short-term	389.0	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Fund- based/ Non-fundBased Limits	Long- term/ Short – Term	-	NA	-	-	-	-	[ICRA]AA- (Stable)/ [ICRA]A1+
5	Commercial Paper Programme	Short-term	300.0	-	[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	300.0	[ICRA]AA- (Positive)
NA	Term Loan*	NA	NA	NA	150.0	[ICRA]AA- (Positive)
NA	Non-fund Based Limits	NA	NA	NA	389.0	[ICRA]A1+
Not placed	Commercial Paper Programme	NA	NA	7-365 days	300.0	[ICRA]A1+

Source: *Company; *proposed*

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 (March 31, 2022)	Consolidation Approach
Behram Chemicals Pvt Ltd	65.63%	Full Consolidation
Comercializadora Agricola Agroastrachem Cia Ltda	100.00%	Full Consolidation

Source: *Company*

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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.

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