

Astec Lifesciences Ltd

Initiating Coverage

Prodigy in making



Astec Lifesciences

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CMP
Rs 1,240

Rating
LONG

Target Price
Rs 1,838
Sep 2021
Upside
48% (↑)

- Astec Lifesciences (ASTEL) is a niche chemical company focussed on triazole fungicides and on proprietary off-patent products in the CRAMS segment.
- The recent/ongoing shift in trade patterns from China to India is likely to benefit ASTEL while new products in herbicides segment should drive growth in the CRAMS space.
- We expect a c.20% revenue CAGR over FY20-FY23E. Revenue growth would drive a c.41% profit CAGR, more than doubling ASTEL's profit over FY20-FY23E.
- We initiate coverage on the stock with LONG and end-Sep'21 TP of Rs 1,838.

Leader in triazole fungicides: ASTEL is India's leading manufacturer of triazole fungicides and caters to both domestic and export markets. The global triazole fungicide market was at US\$ 3.2bn in 2018, and the India market at US\$ 91mn. While products in this segment are relatively old, the launch of *Mefenitrifluconazole* (est. peak sales US\$1.1bn) by BASF in 2019 is likely to drive segment growth. Tebuconazole and Propiconazole currently form a major part of ASTEL's enterprise business while it is capable of venturing into newer products given strong technical knowledge in triazole chemistry.

Newer mixtures/geographies to drive growth in Enterprise business: Triazole fungicides have been losing market share over the years as new products (SDHI fungicides) have proved to be a replacement. However, with a few SDHI (succinate dehydrogenase inhibitors) products facing resistance in some geographies and given strong forecasts for this segment, triazole fungicides are likely to benefit – albeit in a limited way – from their inclusion in mixture products (with some SDHIs). Another positive factor has been increasing usage in combination with Strobilurins (with Septoria developing resistance to this class). ASTEL has added a few new geographies in FY20, which is likely to support growth in this segment.

Venturing into herbicide segment in CRAMS: ASTEL currently focuses on smaller molecules in the CRAMS space mainly on proprietary off-patent products (c.US\$ 10bn opportunity). Various international clients form a major portion of the customer base here. Besides agrochemicals, the company also has one pharma product in this segment. ASTEL is setting up a new herbicide plant to diversify its product concentration from the triazole fungicide segment. We believe this plant should drive segment growth over FY20-FY23E.

New R&D Centre to aid diversification: ASTEL is setting up a new R&D centre - a potential game changer for the company, in our view. The centre would help develop new processes into various chemistries like fluorine, and while aiding diversification into new products post FY23E.

Initiate with LONG: Purity levels offered by ASTEL in Triazoles have not been matched by many players globally, who strive to do so (as end customers rely on higher purity) in order to improve yields. This, along with a strong outlook for agrochemicals ([see our sector note](#)), leads us to initiate coverage on the stock with LONG. We value ASTEL at a 30x 1-year fwd. P/E to arrive at a end-Sep'21 TP of Rs 1,838.

Financial Summary

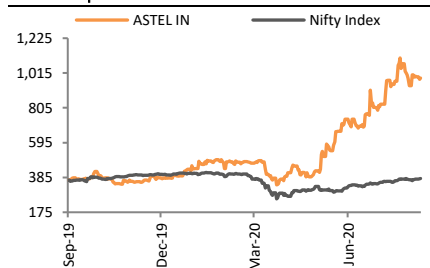
YE Mar Rs mn	Sales	EBITDA	Recurring PAT	EPS (Rs)	P/E (x)	P/B (x)	EV/ EBITDA (x)	ROE (%)	Core ROIC (%)	EBITDA Margin (%)
FY20A	5,226	914	537	24.3	51.1	9.8	27.6	21.2	29.5	17.5
FY21E	5,991	1,196	680	34.7	35.7	7.8	21.2	21.9	31.8	20.0
FY22E	7,387	1,767	1,074	54.9	22.6	5.9	14.4	26.1	37.4	23.9
FY23E	8,993	2,166	1,323	67.6	18.3	4.5	11.8	24.7	34.8	24.1

Source: Company, Equirus Securities

Stock Information	
Market Cap (Rs Mn)	24,270
52 Wk H/L (Rs)	1,367/306
Avg Daily Volume (1 yr)	180,070
Avg Daily Value (Rs Mn)	2.1
Equity Cap (Rs Mn)	959
Face Value (Rs)	10
Share Outstanding (Mn)	19.6
Bloomberg Code	ASTEL IN
Ind Benchmark	SPBSMIP

Ownership (%)	Recent	3M	12M
Promoters	71.3	1.8	3.7
DII	0.5	(1.7)	(1.6)
FII	0.8	0.1	(0.1)
Public	27.3	(0.2)	(2.1)

Relative price chart



Source: Bloomberg

Analysts

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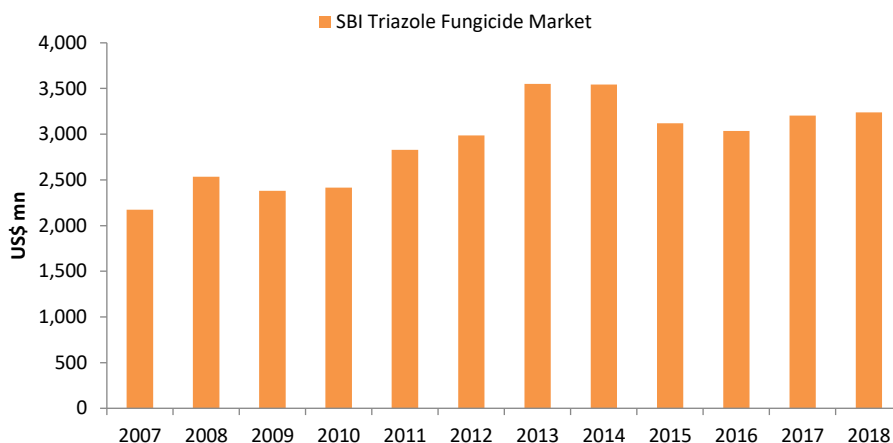
Prodigy in making

Investment Summary

Leader in triazole fungicides

ASTEL is India's leading manufacturer of triazole fungicides and caters to both domestic and export markets. The global triazole fungicide market stood at US\$ 3.2bn in 2018, of which the India market at US\$ 91mn. While triazole fungicides are relatively old, the launch of *Mefentrifluconazole* (estimated peak sales: US\$1.1bn) by BASF in 2019 is likely to drive growth in the segment. Tebuconazole and Propiconazole currently form a major part of ASTEL's enterprise business, while it is capable of venturing into newer products given its strong technical knowledge in triazole chemistry.

Exhibit 1: Global triazole fungicide market at US\$ 3.2bn in 2018

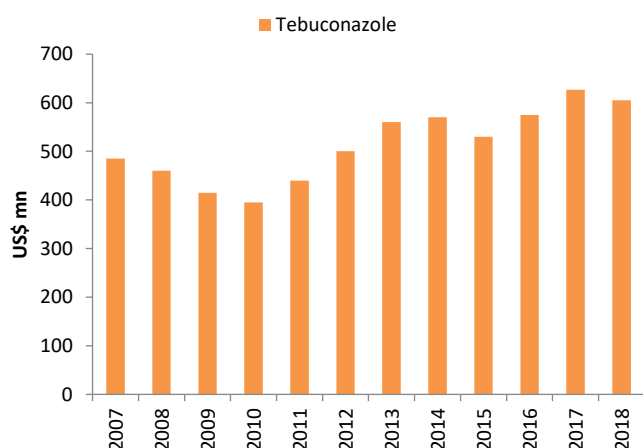


Source: Equirus, Phillips McDougall

Enterprise segment – Tebuconazole & Propiconazole, the key products

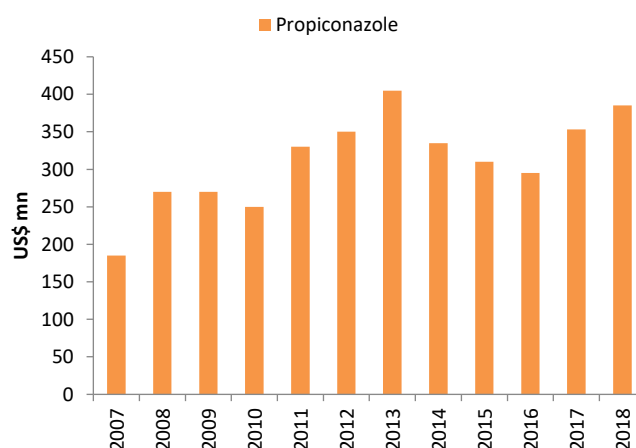
ASTEL major capacities are towards Tebuconazole and Propiconazole, and the company sells these active ingredients both in the domestic as well as export markets. In the export segment, ASTEL caters to leading generic and innovator agrochemical companies in the world while in the domestic segment ASTEL caters to various domestic agrochemical companies in India.

Exhibit 2: Global sales of Tebuconazole



Source: Equirus, Phillips McDougall

Exhibit 3: Global sales of Propiconazole

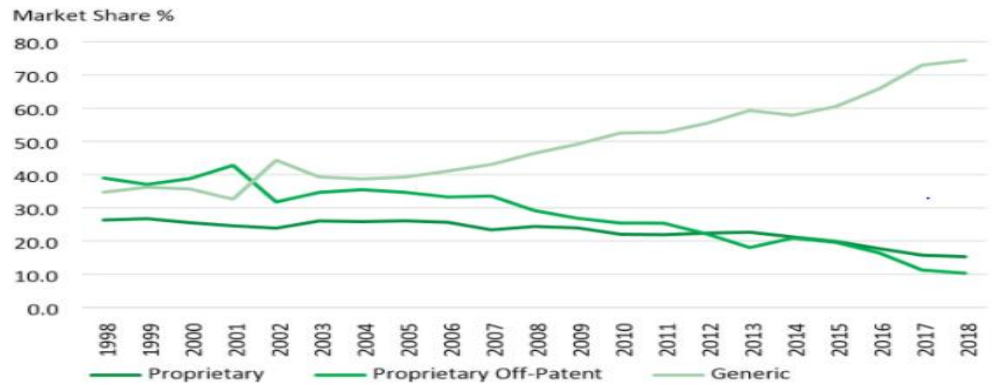


Source: Equirus, Phillips McDougall

CRAMS – Venturing into herbicide segment

ASTEL currently focuses on smaller molecules in the CRAMS space mainly on proprietary off-patent products (c.US\$ 10bn opportunity); while these products are off-patent, the company to first introduce the molecule still generates >90% of global sales. Various international clients form a major portion of the customer base here. Besides agrochemicals, the company also has one pharma product in this segment. ASTEL is setting up a new herbicide plant to diversify its product concentration from triazole fungicides. We believe the herbicide plant is likely to drive growth over FY20-FY23E.

Exhibit 4: Agrochemical market share, product-wise



Source: Equirus, Phillips McDougall

We forecast a c.20% revenue CAGR over FY20-FY23E

We forecast a c.20% revenue CAGR for ASTEL over the next three years driven by strong growth in the CRAMS segment (set for a c.25% CAGR). Growth is likely to be driven by the new herbicide plant set to commission in 4QFY21. The company is incurring capex of c. Rs 700mn-800mn on the plant, and expects a gross block turnover of 1.5-1.7x. We estimate a c.16% enterprise business revenue CAGR over FY20-FY23E led by strong domestic growth amid a shift in trading patterns from China to India.

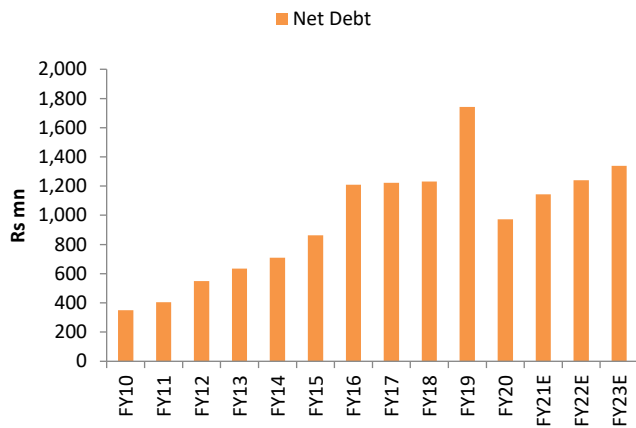
Exhibit 5: Key Assumptions

	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenue (Rs mn)									
Domestic Business	1,660	1,445	1,734	1,633	1,880	2,268	2,427	2,912	3,495
Exports Business	1,163	892	1,302	1,965	2,429	2,958	3,564	4,475	5,498
Total Revenue	2,660	2,197	2,889	3,565	4,309	5,226	5,991	7,387	8,993
Revenue Growth (%)									
Domestic Business	15	(13)	20	(6)	15	21	7	20	20
Exports Business	53	(23)	46	51	24	22	20	26	23
Total Revenue	29	(17)	32	23	21	21	15	23	22
Revenue Split (%)									
Domestic Business	62	66	60	46	44	43	41	39	39
Exports Business	44	41	45	55	56	57	59	61	61
Others (Rs mn)									
EBITDA	544	210	527	578	765	914	1,196	1,767	2,166
EBITDA Margin (%)	20.5	9.6	18.2	16.2	17.7	17.5	20.0	23.9	24.1
Net Profit	148	50	191	349	357	475	680	1,074	1,323
Net Profit Margin (%)	5.6	2.3	6.6	9.8	8.3	9.1	11.3	14.5	14.7

Source: Company Data, Equirus

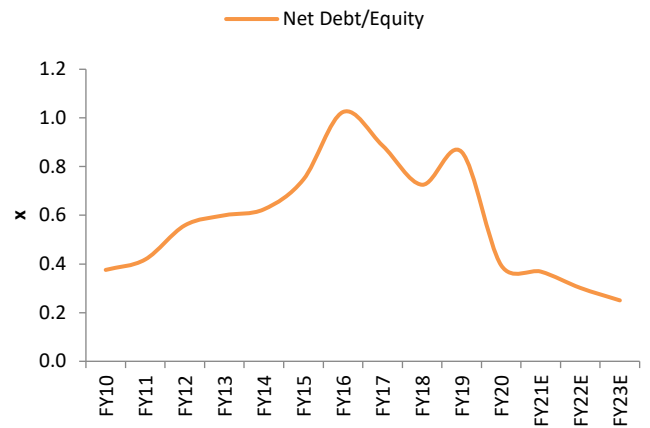
Balance sheet to remain strong despite high capex in FY20-23E

Exhibit 6: ASTEL has net debt of Rs 972mn as on end-FY20



Source: Company Data, Equirus

Exhibit 7: Net debt/equity has been improving



Source: Company Data, Equirus

Initiate coverage with LONG

We value ASTEL at 30x 1-year forward P/E to arrive at a Sep'21 TP of Rs1,838

We forecast EPS of Rs 61.3 for end-Sep'22E. ASTEL is currently trading at 42x Sep'21E P/E, higher than the eight-year average multiple of 30x. Since the enterprise business is more of commodity nature, earnings forecast is difficult if not impossible. However, given the company's massive investments in backward integration to reduce its China dependence, we expect margins to stabilize over the next two years. We value ASTEL at 30x 1-year forward P/E and arrive at a Sep'21 TP of Rs 1,838.

Purity levels offered by ASTEL in Triazoles have not been matched by many players globally, who strive to do so (as end customers rely on higher purity) in order to improve yields. This, along with a strong outlook for agrochemicals, leads us to initiate coverage on the stock with LONG. AT CMP, our TP implies an upside potential of 48% from current levels.

Exhibit 8: Target price methodology

Item	Unit	Valuation
FY22E EPS	Rs/Share	54.9
FY23E EPS	Rs/Share	67.6
Sep'22E EPS	Rs/Share	61.3
P/E Multiple	x	30
Target Price	Rs/Share	1,838

Source: Company Data, Equirus

Global crop protection market

Global crop protection market declines in 2019...

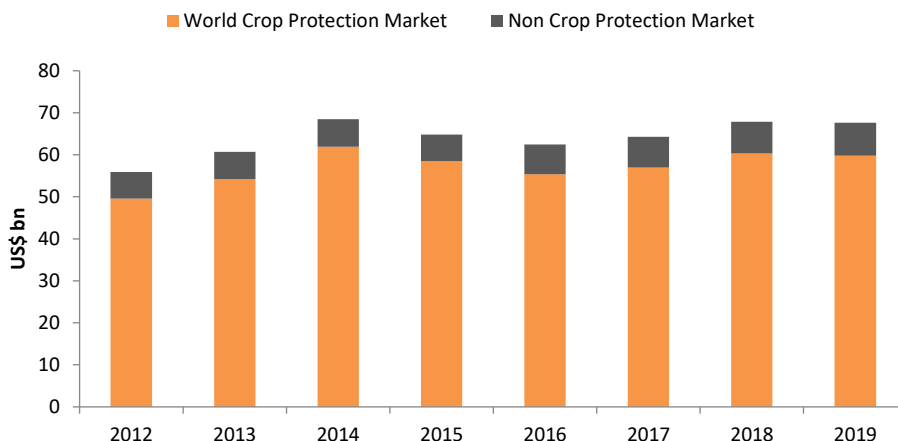
In 2019, weather played havoc – from severe floods in North America to dry conditions and drought in Europe and Asia Pacific – all these detrimental to demand for crop protection products

US-China tensions shifted global trade patterns, with China replacing US produce, mainly soybeans, with those from LATAM

Other factors limiting prospects: (a) Rising regulatory pressures in Europe leading to a ban of notable chemistries. (b) Strength in US dollar, limiting growth potential elsewhere

The global crop protection market posted an 0.8% decline in 2019. In the past 19 years, global agrochemical markets have grown at a slow pace (c. 3.9% CAGR).

Exhibit 9: Global agrochemical market stood at US\$ 67.6bn in 2019



Source: Equirus, Phillips McDougall

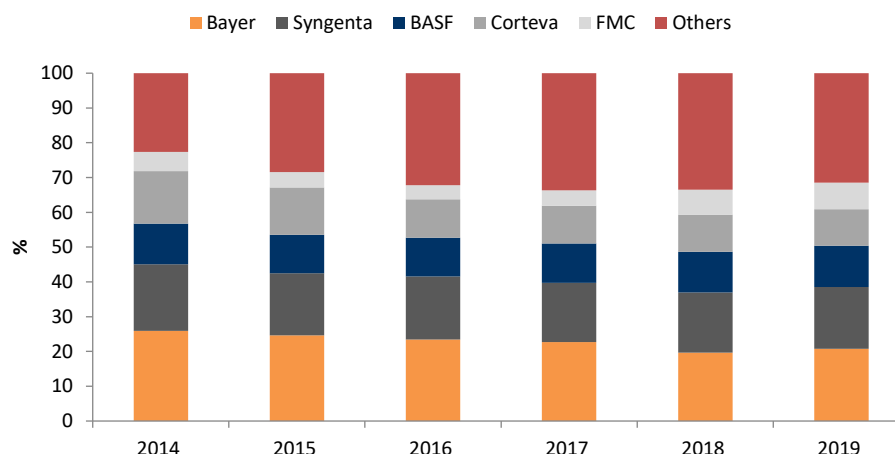
However, the decline in global crop protection market was somewhat offset due to

- 1) Continued high pricing for generic products, particularly those by Chinese manufacturers
- 2) Growth in LATAM in response to normalised inventory

...however, innovators continue to gain market share

Despite the decline in 2019, innovators continued to gain market share with the top-5 innovators controlling c.69% in 2019 vs 66% in 2018. Sales of top-5 innovators stood at US\$ 41bn in 2019 vs US\$ 40bn in 2018 i.e. c. 2.3% growth yoy. FMC saw the sharpest gain in market share in LATAM even as an explosion in a China industrial park during Mar'19 badly hit a plant operated by one of FMC's contract manufacturing tollers.

Exhibit 10: Top-5 innovators control about c.70% of the overall market



Source: Equirus, Phillips McDougall

While in 2019, Bayer was leading with sales of US\$ 12.4bn, UPL made its way up and now ranks 5th globally

M&A activity in the last 1-2 years severely hit the top two agrochemical players. While DowDuPont had to divest its chewing & R&D portfolio, FMC jumped at the sixth spot post acquisition of Rynaxypyr and Cyazypyr

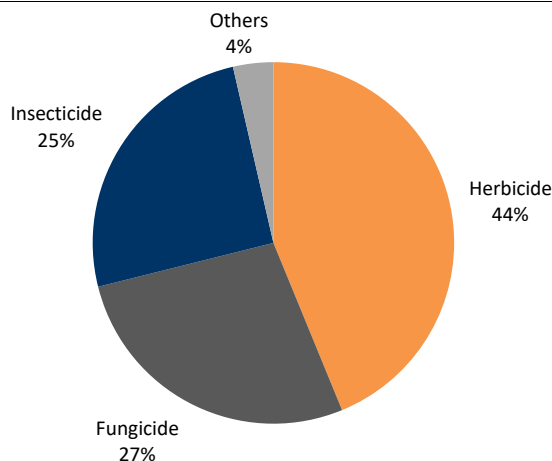
FMC gained highest market share in LATAM in 2019 (c.21% growth) led by the insecticide portfolio (up c.12%+)

Herbicides remain key focus area in crop protection

Exhibit 11: Herbicides continue to be the key focus area in crop protection (2019)

In 2019, herbicides held the highest market share (c.43.8%) in the global crop protection market, followed by fungicides (c.27.3%) and insecticides (c.25.3%)

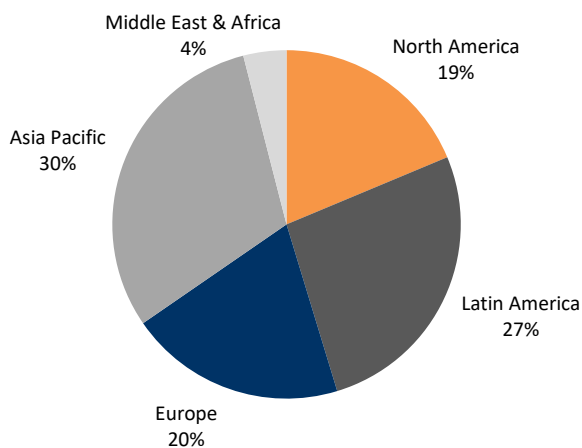
LATAM saw c.7.6% growth in agrochemical sales in 2019, albeit off a high base (2018: 10.6%). Other regions posted a 1-7% decline. Brazil and Argentina were the only markets to post high-single to low double-digit growth



Source: Equirus, Phillips McDougall

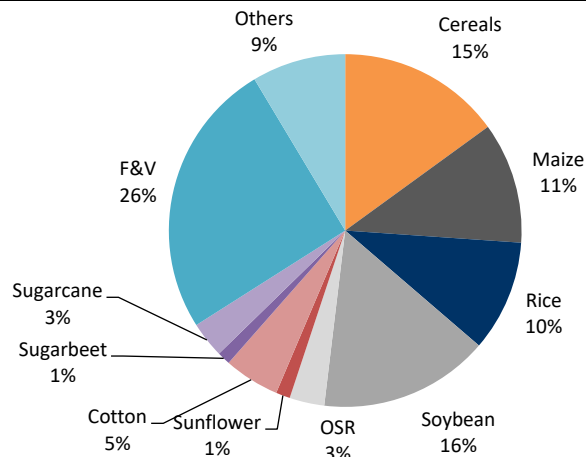
LATAM continues to be key growth market

Exhibit 12: Crop protection market by region (2019)



Source: Equirus, Phillips McDougall

Exhibit 13: Crop protection market by crop (2019)

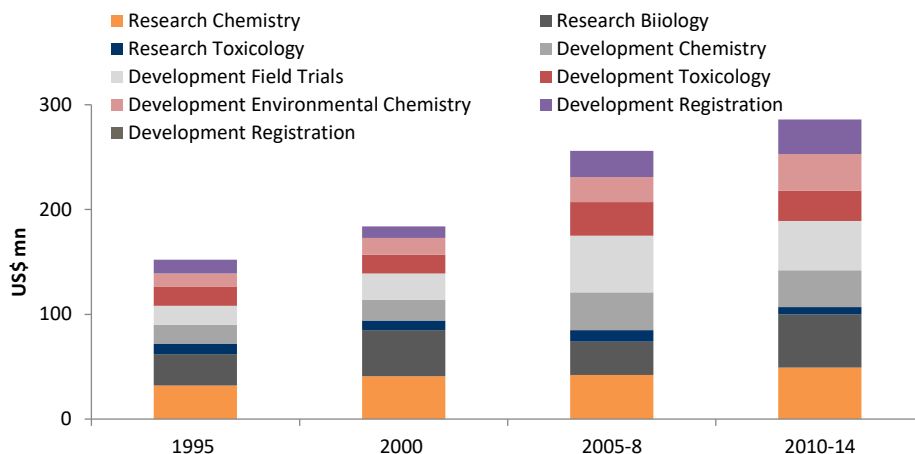


Source: Equirus, Phillips McDougall

Innovation cost of agrochemicals gets costlier

Exhibit 14: New molecule development cost

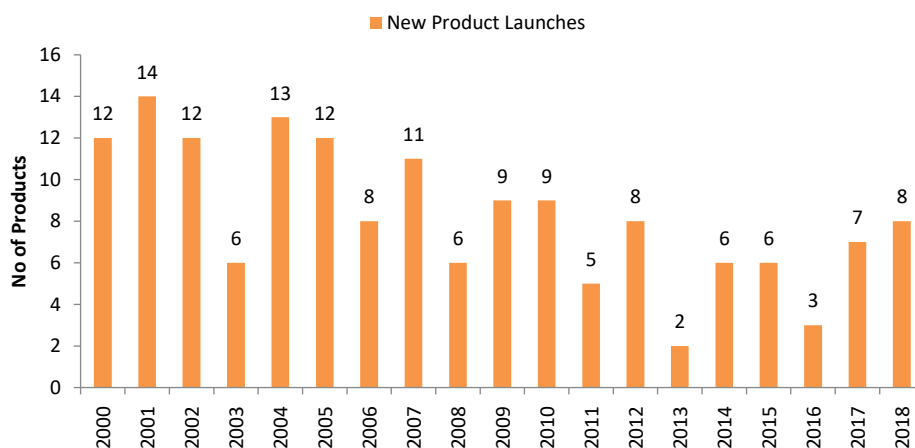
Over the past 20 years, R&D costs for new molecules has nearly doubled (US\$ 150mn in 1995 to ~US\$ 290mn in 2015) led by (1) rising R&D costs due to inflation and (2) time required for agrochemicals to reach farmer fields from labs (~9 years). While generic products currently rule the market, we believe their market share is only set to increase with many agrochemicals going off-patent



Source: Equirus, Phillips McDougall

Exhibit 15: No of new molecules launched in past 18 years

High cost and a long lead time have affected the number of new-molecule launches; also, first-year sales of these molecules are now sub-US\$ 10mn



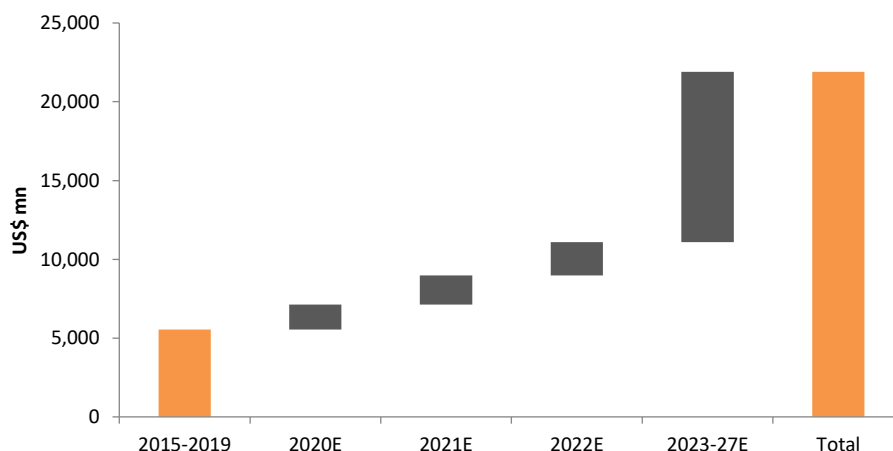
Source: Equirus, Phillips McDougall

US\$ 16bn worth of agrochemicals to go off-patent in next 8 years

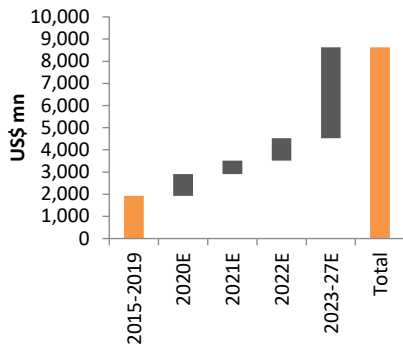
Exhibit 16: US\$ 16bn worth of molecules set to go off-patent in next 8 years

While there is up to 90% price erosion in pharmaceuticals when they go off-patent because of significant branding exercises, the erosion in agrochemicals is much lower

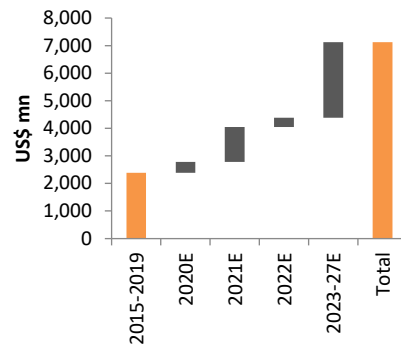
In the next 8 years, US\$ 16bn worth of agrochemicals are set to go off-patent, of which US\$ 6.7bn are fungicides



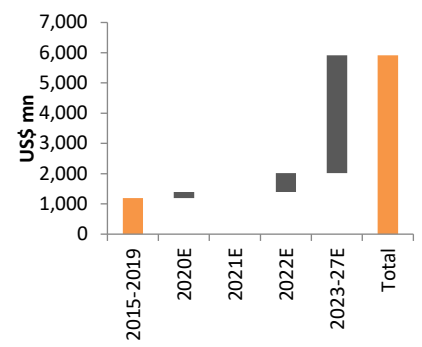
Source: Equirus, Phillips McDougall

Exhibit 17: US\$ 6.7bn fungicides going off patent in next 8 years

Source: Equirus, Phillips McDougall

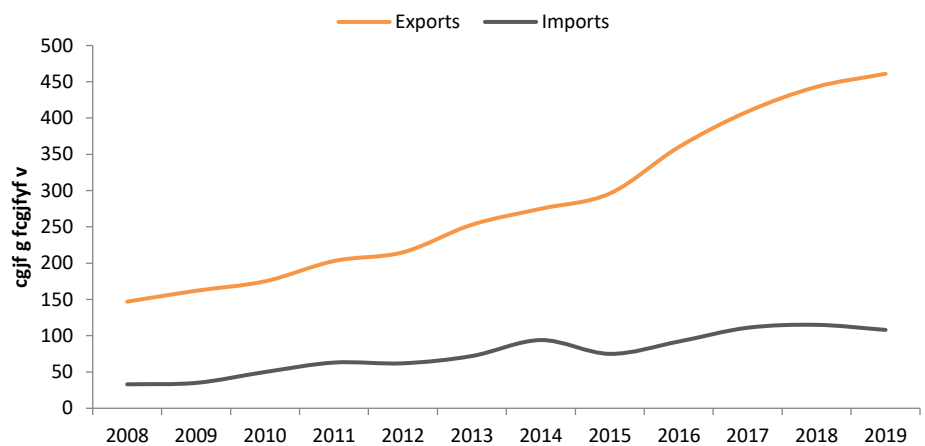
Exhibit 18: US\$ 4.7bn herbicides going off patent in next 8 years

Source: Equirus, Phillips McDougall

Exhibit 19: US\$ 4.7bn insecticides going off patent in next 8 years

Source: Equirus, Phillips McDougall

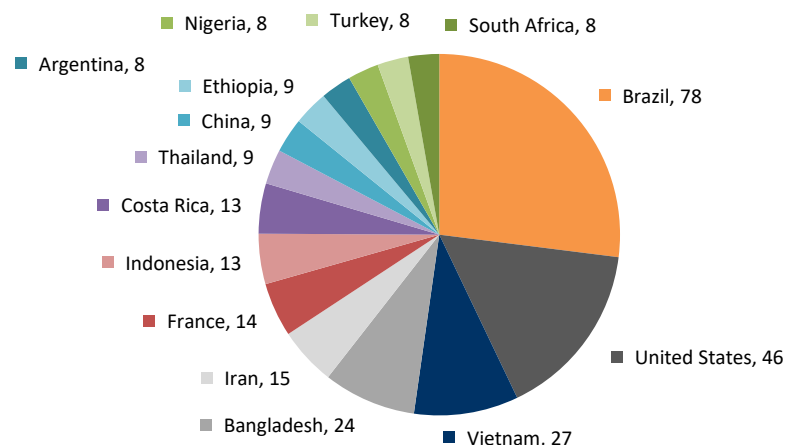
India a big player in the global pesticides market

Exhibit 20: Pesticide trade volume in India

Source: Equirus, Industry Data, Phillips McDougall

The Indian crop protection market was valued at US\$ 2,868mn in 2019, growing at a c.3.6% CAGR since 2014

India is the world's fifth largest market for crop protection, representing c.4.8% of the global market in 2019. Regulatory authorities have allowed registration of AIs manufactured exclusively for export, even those not approved for domestic use. This has stimulated increased overseas investments in India as a manufacturing base, and also recently as a R&D source for novel AIs

Exhibit 21: India's region-wise export volumes in 2019 (000T)

Source: Equirus, Industry Data, Phillips McDougall

India's pesticide exports increased from 147,000 tonnes in 2008 to 461,000 tonnes in 2019, a c.10.9% CAGR over the last 11 years; imports increased from 33,000 tonnes to 108,000 tonnes, implying an 11.4% CAGR over this period

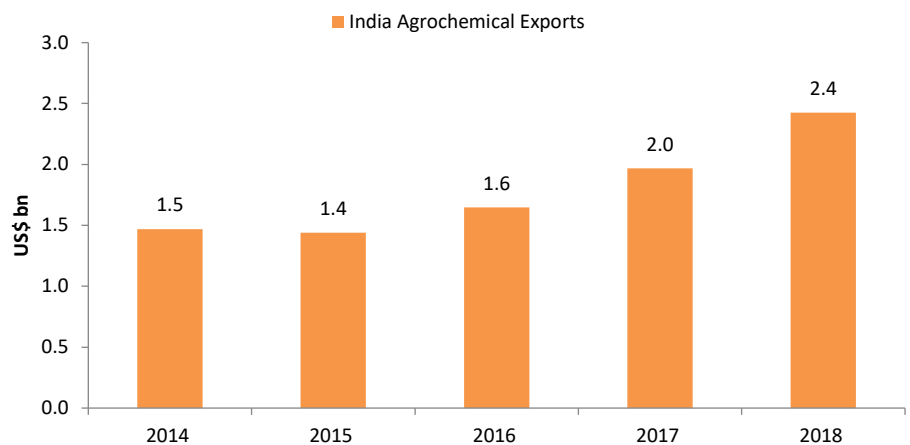
India is a significant trading partner for South East Asia, US, Latin America and Africa

India's agrochemical exports on the rise despite muted global conditions

Exhibit 22: India agrochemical exports been growing at c.13% in US\$ terms

While the global market has been range-bound, India's agrochemical exports have been rising from US\$ 1.5bn in 2014 to US\$ 2.4bn in 2018. As per industry checks, this market has grown by c.15-20%+ in 2019 as well

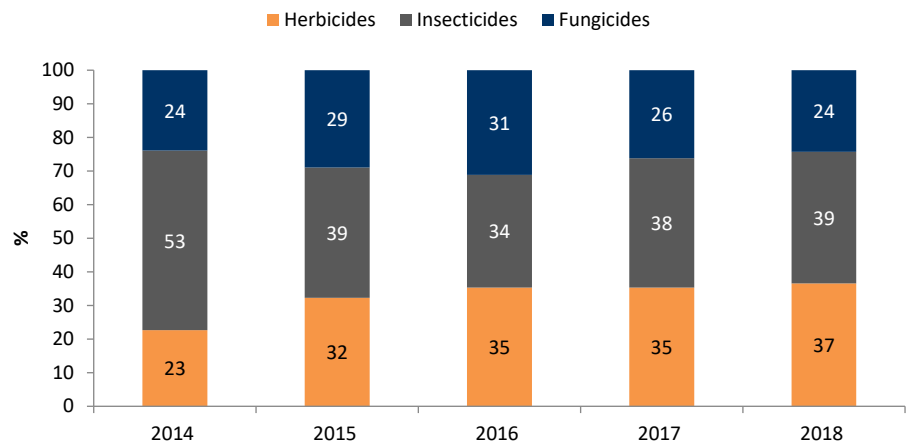
India agrochemical exports saw c.13% CAGR in US\$ terms and c.17% CAGR in Rs terms in last four years



Source: Equirus, Industry Data, Phillips McDougall

Exhibit 23: Herbicide exports have been growing at c.28% CAGR in the last 4 years

Exports of herbicides/fungicides/insecticides have grown at c.28%/c.14%/c.5% CAGR over 2014-2018



Source: Equirus, Industry Data, Phillips McDougall

Business overview

Triazole fungicides – key focus area

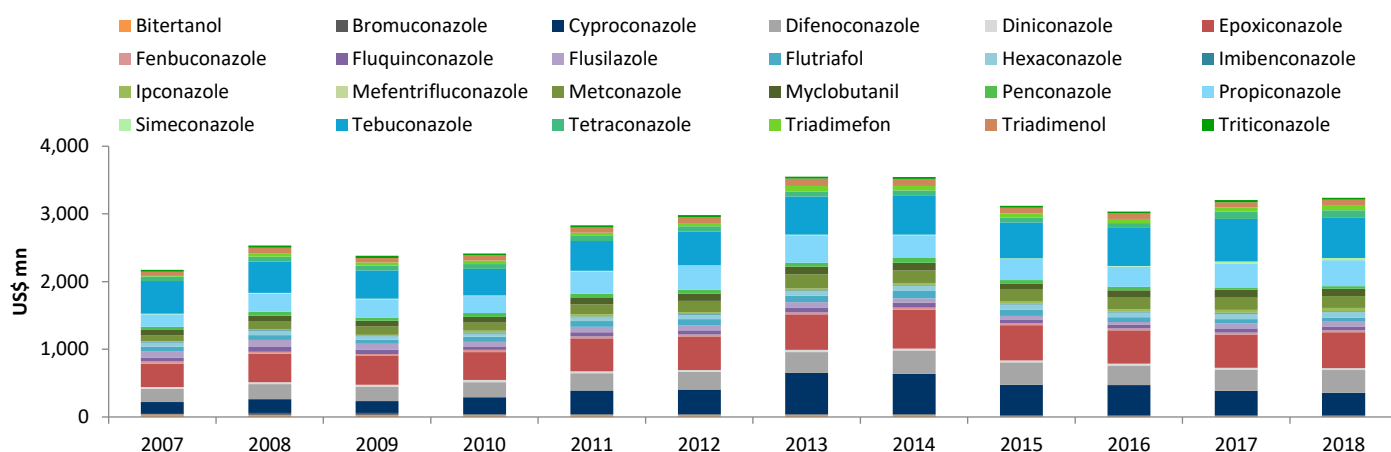
Since original introductions, activity of triazole products has been improved repeatedly, with 2nd/3rd/4th generation products being brought to the market

For many years, Propiconazole from Syngenta was the leading triazole product; but this has been superseded by more recent introductions

Triazole fungicides a US\$ 3.2bn global opportunity

Triazoles are active through inhibition of sterol biosynthesis at the C14 demethylase step, in similar fashion to other classes of fungicide chemistry. This single site activity has made the compounds subject to resistance development, particularly in the major crop sector of cereals in Western Europe. The wide usage of these initial product introductions led to resistance development occurring relatively quickly, particularly by powdery mildew (*Erysiphe graminis*) in cereals. Control of this disease becoming the major market for morpholine fungicides.

Exhibit 24: Triazole fungicide market has been growing at c.3.7% CAGR in the past 11 years



Source: Equirus, Phillips McDougall

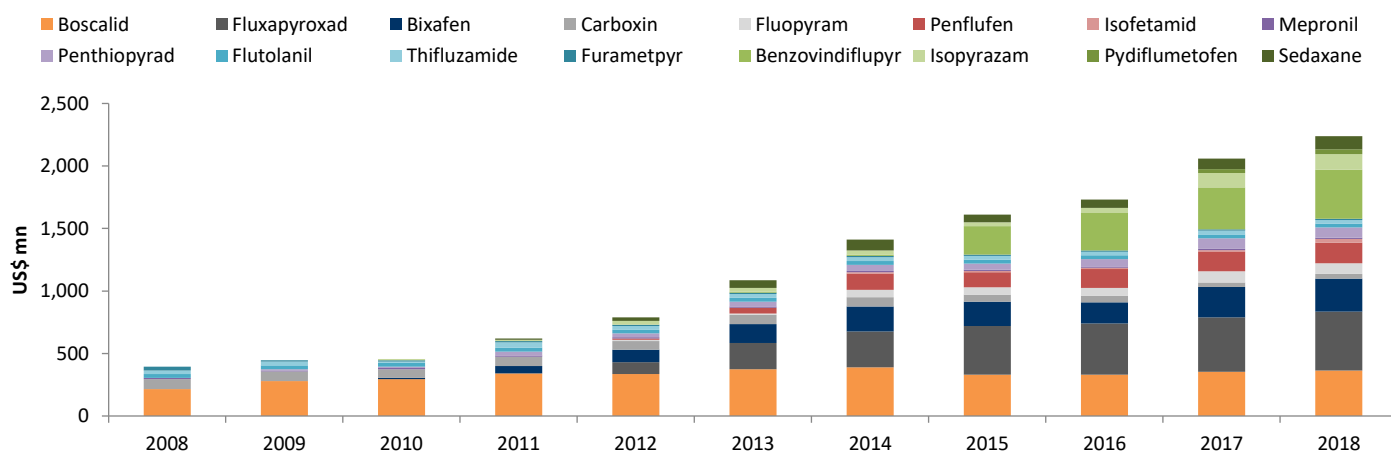
SDHI fungicides eating into share of triazole fungicides...

Many recent SDHI introductions benefit from excellent handling characteristics, low use rates and ease of tank mix with other activities

SDHI fungicides have grown at a c.19% CAGR in the past 10 years vs overall fungicide market (c.4% CAGR)

SDHI are active substances used in fungal products to control certain fungi and mould-affecting crops. SDHIs prevent their development by blocking an enzyme – succinate dehydrogenase (SDH) – involved in cell respiration. SDHI fungicide market has been growing at a c.19% CAGR in the past 10 years with more than 10 products launched post 2008. There is also continuing pressure on triazoles in Europe in terms of potential regulatory action that may be a constraining growth factor if renewals are not achieved. This is likely to benefit the competing SDHI segment as well as 'other' fungicide segment which contains many new modes of actions that may replace the triazole element in mixture formulations to some degree.

Exhibit 25: SDHI fungicide market has been growing at c.19% CAGR in the past 10 years

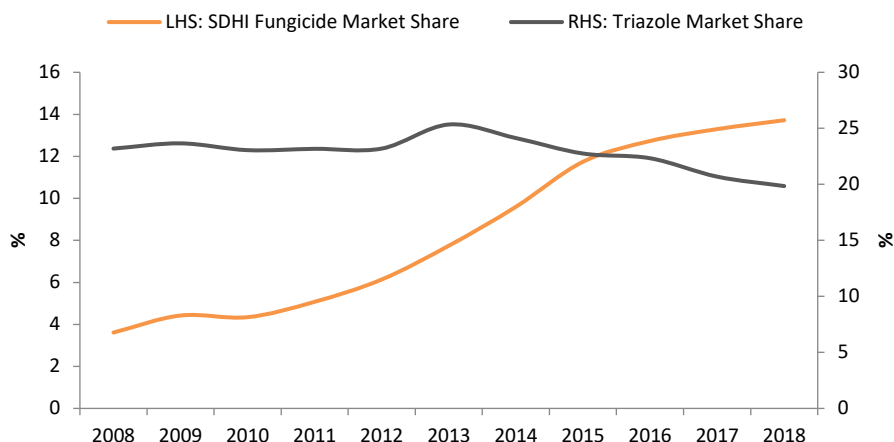


Source: Equirus, Phillips McDougall

...leading to a decline in the triazole fungicide market

Post introduction of SDHI fungicides, triazole fungicides have been losing market share due to the former's characteristics – excellent handling characteristics, low use rates and ease of tank mix with other activities.

Exhibit 26: Triazole share in fungicide market has come down to c.20% in 2018 vs c.23% in 2008

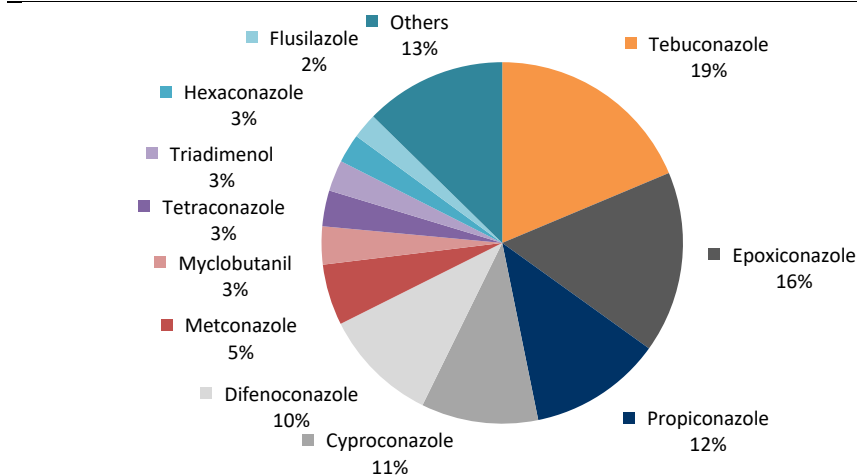


Source: Equirus, Phillips McDougall

However, downside in triazole fungicides limited in our view

A positive factor has been increasing usage in combination with Strobilurins (due to Septoria developing resistance to this class) and more recently with SDHI products. Given strong forecasts for the SDHI segment, the triazole segment is likely to benefit – albeit in a limited way – from their inclusion in mixture products with certain SDHIs. Another significant positive is strong growth within the Russian and eastern European cereal segments, as well as growth in other developing markets such as Southeast Asia.

Exhibit 27: Tebuconazole has been the key product in the Triazole Fungicide segment (2018)



Source: Equirus, Phillips McDougall

The triazole fungicide segment has seen a new product launch in 2019 by BASF i.e. **Mefentrifluconazole**. The AI is reportedly targeted at a range of crops including cotton, cereals, maize, soybeans, coffee, apples, potato, specialty crops, turf against a range of rusts and Septoria. Application is indicated as being via seed treatment and foliar routes. **BASF is targeting peak sales potential of over US\$1.1bn from this product.**

SDHI fungicides growing faster than other segments, eating into market share from triazoles as Septoria control has become problematic

Due to their spectrum of activity, triazoles often form the backbone of fungal control in cereals, being used in mixtures with contact fungicides and also with morpholines, strobilurins and most recently SDHI products

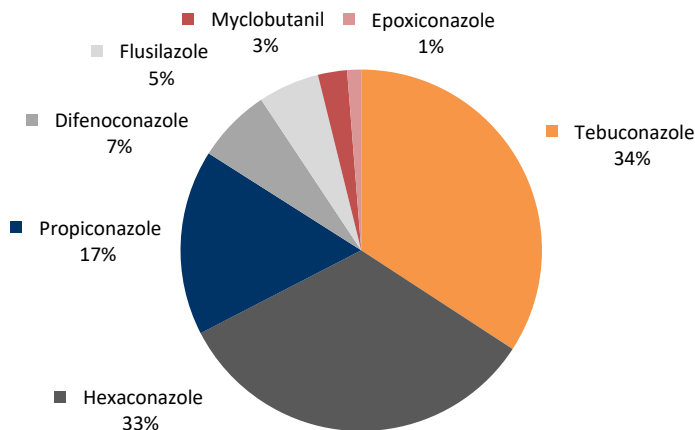
They are also of importance in the seed treatment sector. Their broad spectrum of activity provides entry into many crop sectors, notably the soybean, vine, fruit and vegetable markets

Triazole market opportunity size in India at Rs 6.2bn in 2018

India's agrochemical market stood at Rs 205bn in 2018, of which the triazole fungicide market at Rs 6.2bn (3% of domestic agrochemical market). ASTEL is the largest domestic manufacturer of triazoles in India; given the shift from China to India in recent months, ASTEL stands to benefit as few domestic players are still dependent on China for imports of triazoles.

Exhibit 28: India Triazole Fungicide market stood at Rs6.2bn in 2018

Tebuconazole is the largest product in the Indian market followed by Hexaconazole. Many domestic players use Tebuconazole and Hexaconazole as mixtures in various products

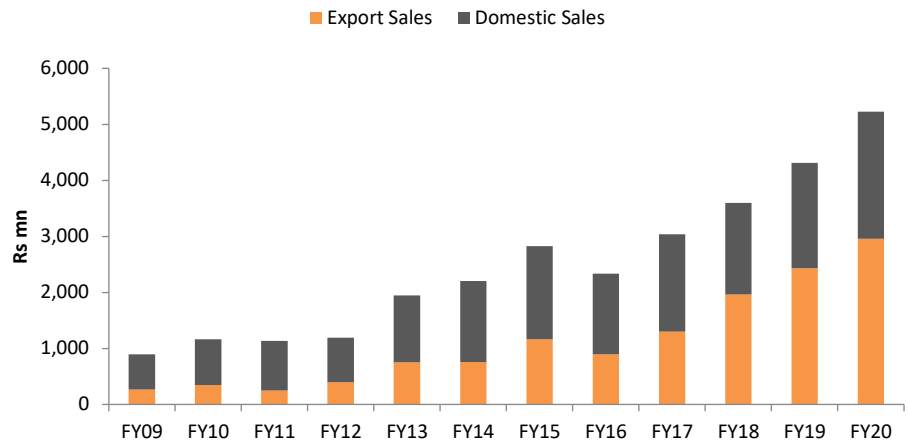


Source: Equirus, Phillips McDougall

Enterprise and CRAMS – ASTAL's key business verticals

Enterprise business mainly focuses on generic triazole fungicides

Exhibit 29: c.18% CAGR mainly driven by market share gains in triazole fungicides



Source: Company Data, Equirus

Exhibit 30: ASTEL's product portfolio

Agrochemicals	Intermediates
Tebuconazole	2,4 Dichloroacetophenone
Propiconazole	2-Chloro-4'-Fluoro Acetophenone
Hexaconazole	4-Methyl Phthalic Anhydride
Difenoconazole	Thio bis-4-Chloro Thymol
Epoxiconazole	
Cyproconazole	
Flutriafol	
Tricyclazole	
Metalaxyl	
Lambda Cyhalothrin	

Source: Company Data, Equirus

Tebuconazole is a leading triazole fungicide, but its global sales have been impacted by heightened generic competition. However, Tebuconazole has been actively used in mixtures in various products and has seen a significant amount of mixtures introduced in last two years namely:

- In 2017, Aviator Xpro launched in Australia for use on canola and chickpeas.
- In 2018, UPL launched Tridium (mancozeb, tebuconazole and azoxystrobin) for the control of Asian soybean rust (*Phakopsora pachyrhizi*) in Brazil.
- In 2018, the US EPA proposed the registration of FMC's F9651-2fungicide (bixafen + tebuconazole).
- In 2018, Adama group announced the launch of Cronnos (picoxystrobin + tebuconazole + mancozeb), for use on soybeans in Brazil.
- In Mar'18, Nufarm gained rights to the AI in EEA from Adama and Syngenta.
- In 2019, Nufarm launched its systemic fungicide, Tamiz (azoxystrobin + tebuconazole), in Brazil. The suspension emulsion formulation is a preventive fungicide for use on coffee, kidney beans, maize, and wheat, for the control of rust diseases, *Cercospora* spp such as leaf spot.
- In 2019, UPL launched its triple action fungicide, Tridium (azoxystrobin + mancozeb + tebuconazole), in Brazil. The waterdispersible granular formulation provides preventive control of Asian soybean rust (*Phakopsora pachyrhizi*) on soybeans

ASTEL is among the global leaders in the manufacturing and sale of triazole fungicides. At present, the company mainly focuses on Tebuconazole, Propiconazole, Hexaconazole, Metalaxyl and Difenoconazole

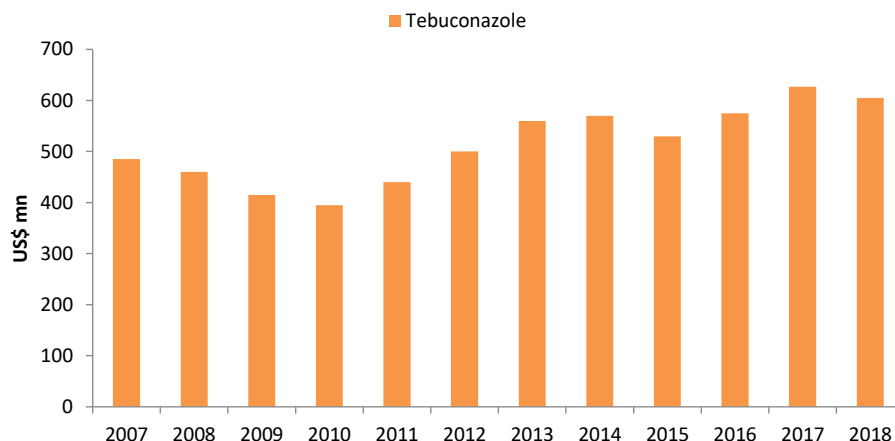
ASTEL has a wide range of products in the Enterprise biz which it sells to domestic and global agrochemical players. Tebuconazole/Propiconazole form a major part of Enterprise revenues

- In May'19, Bayer launched its insecticidal/fungicidal seed treatment, Chucaro (prothioconazole + clothianidin + fluoxastrobin + tebuconazole), for use on cereals in Argentina.
- In Sep'19, the Canadian PMRA approved FMC's F9651-2 (with bixafen), for the control of foliar diseases on wheat, barley, oats and soybeans.
- In 2019 Ukrainian company Alfa Smart Agro launched Artis Plus (myclobutanil + tebuconazole + thiophanate-methyl) in the country.
- In 2019, EU approval was extended until end-Aug'20 to account for delays in the EU approvals system.

Exhibit 31: Global Sales of Tebuconazole

Key crops include: Cereals, Rape, F&V, Rice, Plantation crops, Soybean, Maize, Vine

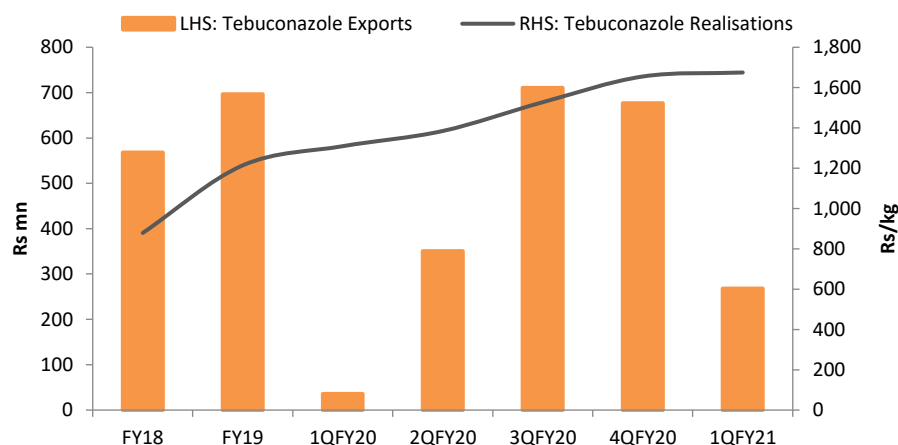
Key mixture partners include: Fenpropidin, Propiconazole, Tolyfluanid, Imidacloprid, Triazoxide, Triadimenol, Triadimefon, Spiroxamine, Prochloraz, Prothioconazole, Pyraclostrobin, Fluoxastrobin, Spiroxamine, Trifloxystrobin, Fluopyram, Kresoxim, Carbendazim



Source: Equirus, Phillips McDougall

ASTEL supplies Tebuconazole in domestic and export markets. It is fully backward integrated in manufacturing Tebuconazole with no dependence on China

Tebuconazole is currently the largest product in ASTEL's export basket; over the last 2-3 years, realisations have improved significantly

Exhibit 32: Tebuconazole realisations have been improving

Source: Equirus, Exports Data

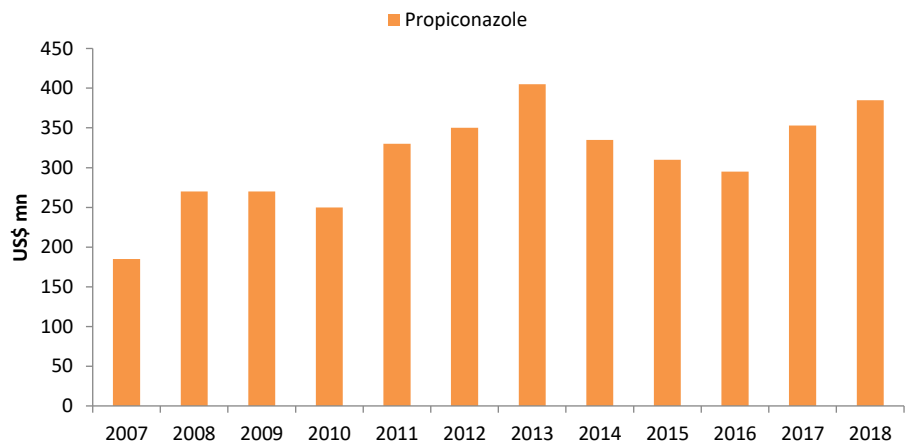
Propiconazole at one time the leading fungicide in the cereal sector, although now superseded by more recent introductions. Propiconazole has been banned in EU from Jan'18 and had set a phase-out schedule to withdraw the approval of propiconazole-based products from Jun'19. EU constituted c.30-35% of global demand for Propiconazole which has led to overcapacity in this product. However, Propiconazole mixtures has seen some new additions in the last 12-18 months namely:

- In 2018 Crystal Crop Protection completed the acquisition of Tilt from ChemChina-owned Syngenta.
- Syngenta received US and Canadian approvals in 2018 for mixtures with pydiflumetofen.
- In March 2018 Nufarm gained rights to the ai in the EEA from Adama and Syngenta as part of closing conditions for the ChemChina acquisition of Syngenta. This included associated formulations, and registrations.
- In 2019 Syngenta introduced Miravis Ace (pydiflumetofen + propiconazole), in the US for the control of Fusarium head blight (*Fusarium graminearum*) on wheat.
- In 2019, Syngenta launched Elatus Ace (benzovindiflupyr + propiconazole), in Argentina for foliar diseases of wheat.

Exhibit 33: Global sales of Propiconazole

Key crops include: Cereals, Rice, F&V, Plantation Crops, Maize and Soybean.

Key mixture partners include: Difenconazole, Trifloxystrobin, Fenpropidin, Tebuconazole, Picoxystrobin, Cyproconazole, Carbendazim, Prochloraz, Cyprodinil, Fenpropimorph, Azoxystrobin, Trifloxystrobin, Benzovindiflupyr

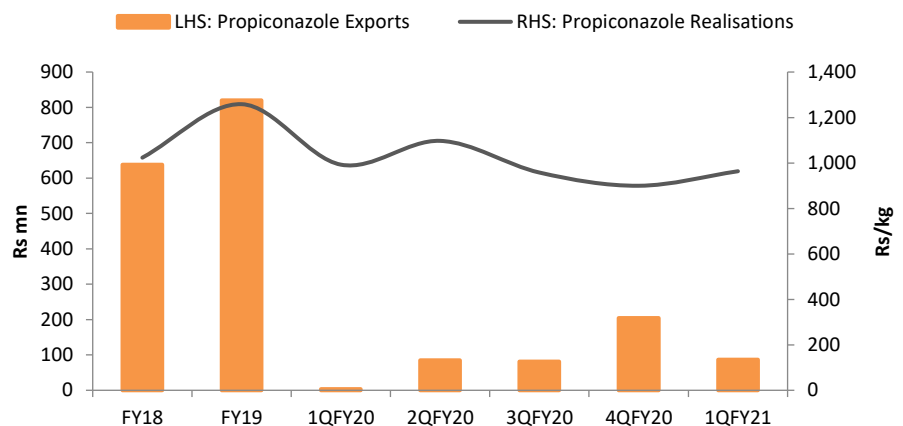


Source: Equirus, Phillips McDougall

Exhibit 34: Realisations have been impacted due to ban in EU

ASTEL supplies Propiconazole to domestic as well as export markets vs.

The EU ban has put pricing pressure on ASTAL as the region formed c.30-35% of overall global Propiconazole demand

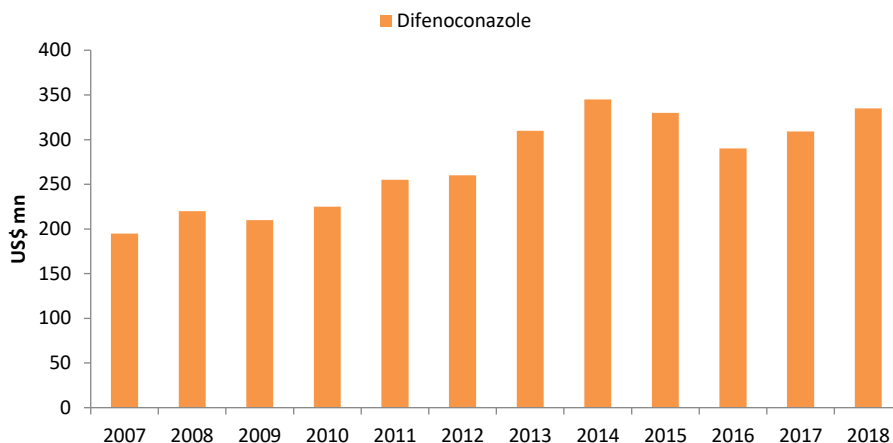


Source: Equirus, Exports Data

Exhibit 35: Global sales of Difenconazole

Key crops: F&V, cereals, plantation crops, rice, pome fruit, cotton, rape.

Key mixture partners include: Fenpropidin, Iminoctadine, Metalaxyl, Mandipropamid, Cyprodinil, Thiamethoxam, Sedaxane, Fludioxonil, Benzovindiflupyr

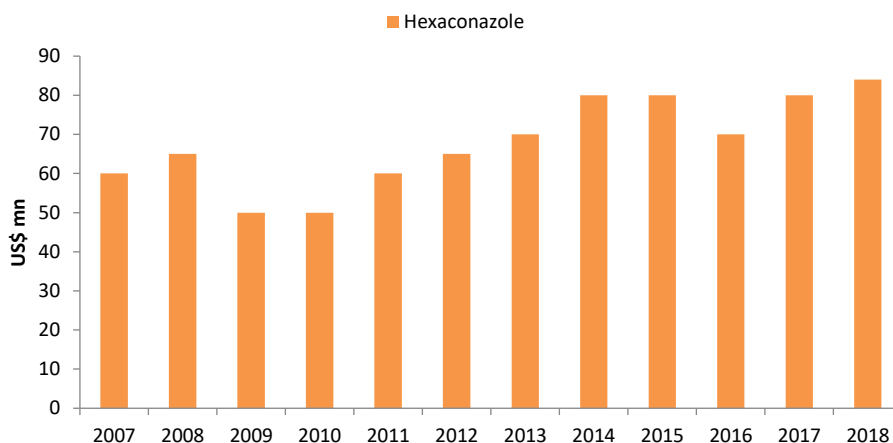


Source: Equirus, Phillips McDougall

Exhibit 36: Global Sales of Hexaconazole

Key crops: Rice, Cereals, F&V

Key mixture partners: Picoxystrobin

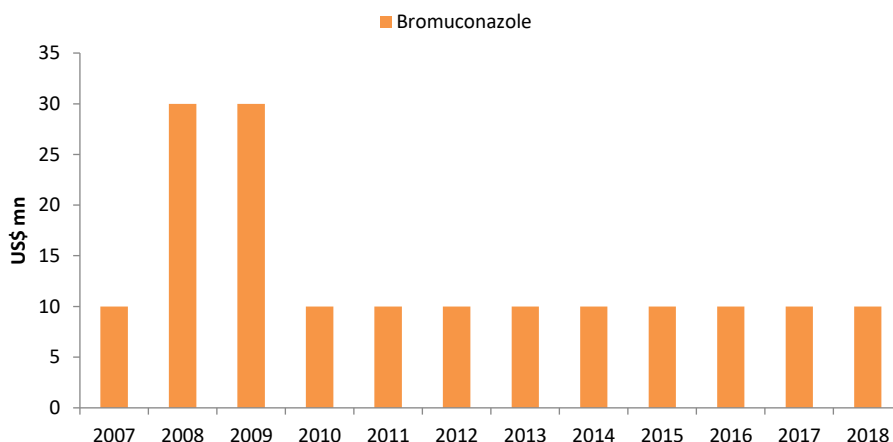


Source: Equirus, Phillips McDougall

Exhibit 37: Global Sales of Bromuconazole

Bromuconazole was launched by Sumitomo in 1992

Key crops: F&V. Key mixture partner: Tebuconazole.



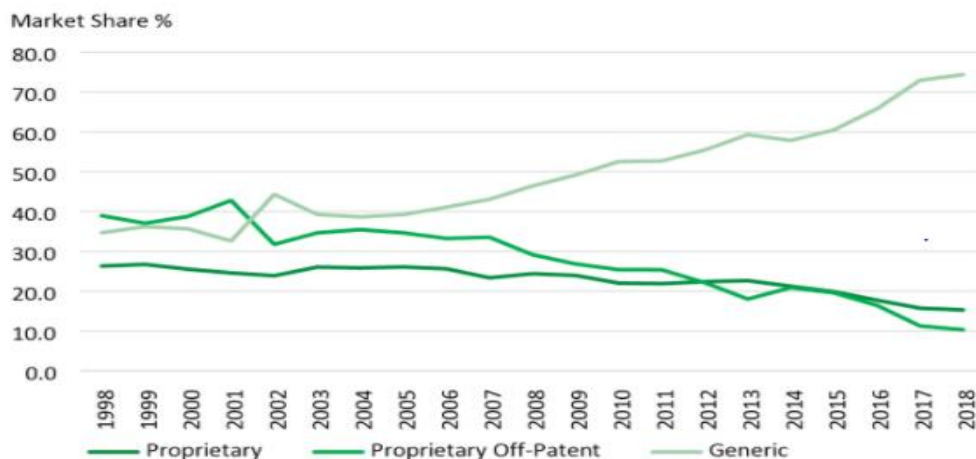
Source: Equirus, Phillips McDougall

CRAMS to drive growth over FY20-FY23E

A niche agrochemical player in the CRAMS segment

ASTEL currently focuses on smaller molecules in the CRAMS space, mainly on proprietary off-patent products (c.US\$ 10bn opportunity). These are off-patent products, but the company that first introduced the molecule still garners >90% of global sales. Besides agrochemicals, the company also has one pharma product in this segment.

Exhibit 38: Agrochemical market share, product-wise



Source: Equirus, Phillips McDougall

Venturing into Herbicide segment

ASTEL is setting up a new herbicide plant to diversify its product concentration from the triazole fungicide Segment. The company is spending c.Rs 700mn-800mn on the herbicide plant and expects 1.5-1.7x gross block turnover. ASTEL expects to commission the plant in 4QFY21 and already has 30-35% orders in place. We believe the next leg of growth for ASTEL is likely to come from CRAMS wherein revenues are expected to double over the next 3 years.

New R&D Centre to aid diversification

ASTEL is spending c.Rs 800mn-1000mn on a R&D centre

ASTEL is setting up a new R&D centre - a potential game changer for the company, in our view. The centre would help develop new processes into various chemistries like fluorine, and while aiding diversification into new products post FY23E.

Excerpts from 1QFY21 Con-call

"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. 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."

Order volumes in off-patent products relatively small but ASTEL enjoys high margins on such products

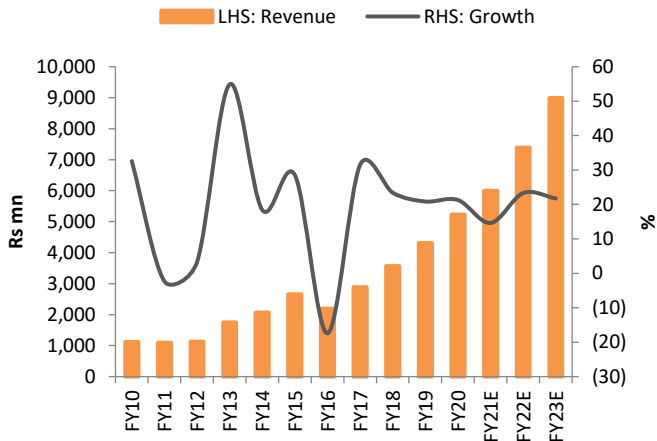
In process of setting up a new herbicide plant to diversify product concentration from triazole fungicides. We believe the herbicide plant is likely to drive growth over FY20-FY23E

Improving financial profile

We forecast a c.20% revenue CAGR over FY20-FY23E

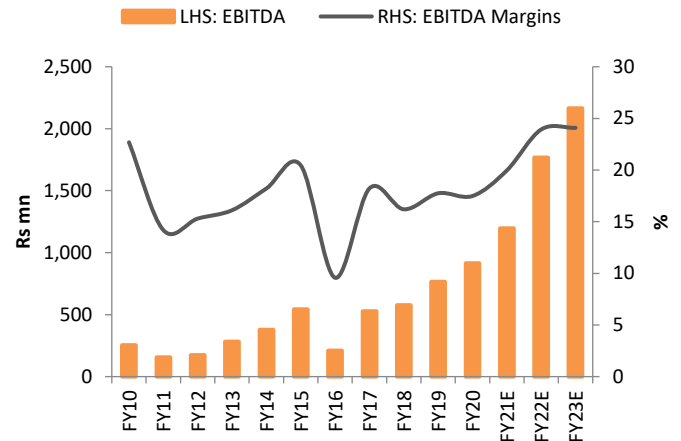
We forecast a c.20% revenue CAGR for ASTEL over the next three years driven by strong growth in the CRAMS segment (set for a c.25% CAGR). Growth is likely to be driven by the new herbicide plant set to commission in 4QFY21. The company is incurring capex of c. Rs 700mn-800mn on the plant, and expects a gross block turnover of 1.5-1.7x. We estimate a c.16% enterprise business revenue CAGR over FY20-FY23E led by strong domestic growth amid a shift in trading patterns from China to India.

Exhibit 39: We expect c.20% revenue CAGR over FY20-23E



Source: Company Data, Equirus

Exhibit 40: We expect c.33% EBITDA CAGR over FY20-23E

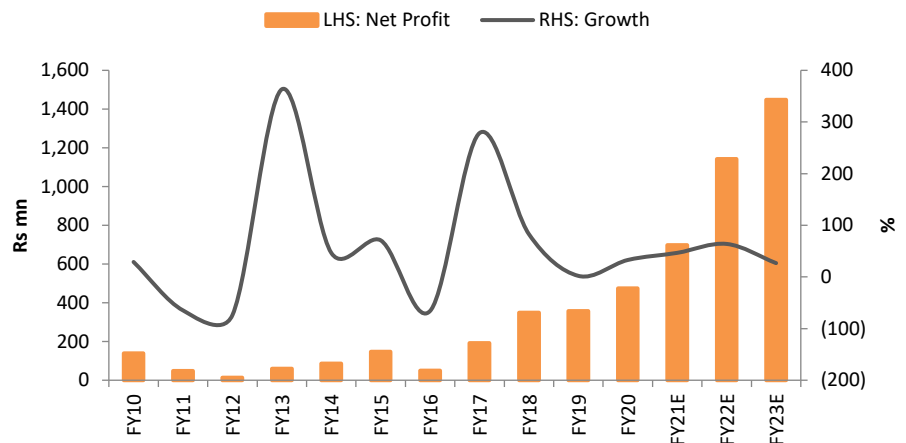


Source: Company Data, Equirus

Consistent earnings growth over FY15-FY20

ASTEL has delivered a c.26% earnings CAGR over FY14-FY20 on strong revenue growth driven by both Enterprise and CRAMS business and an improving margin profile. We expect EPS to improve from Rs 24.3 in FY20 to Rs 67.6 in FY23E, implying a c.41% CAGR over FY20-FY23E.

Exhibit 41: We expect EPS CAGR of c.41% over FY20-23E



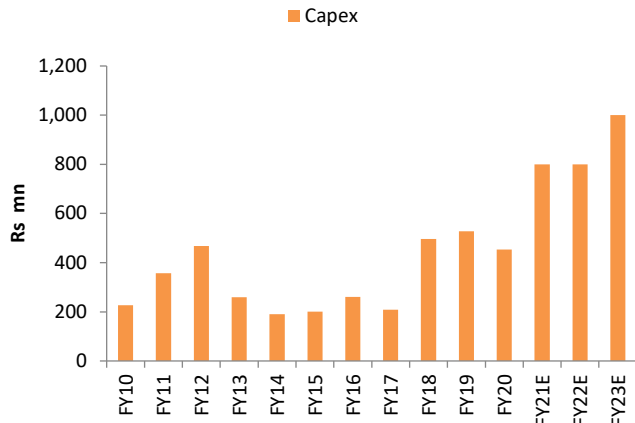
Source: Company Data, Equirus

EPS to improve from Rs 24.3 in FY20 to Rs 67.6 in FY23E

Capex

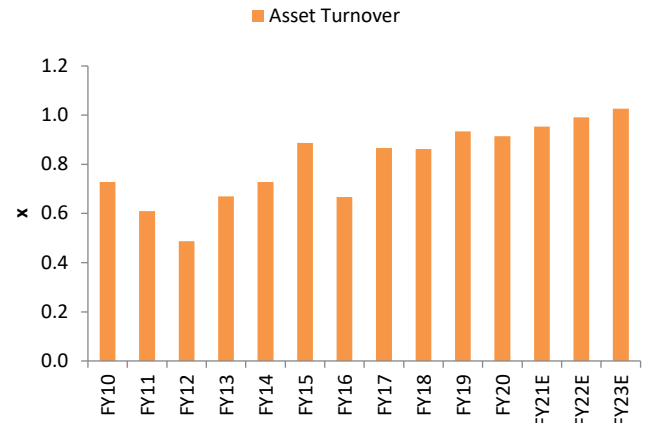
ASTEL has been prudent with its capex, and never over-committed in capacities without revenue visibility; this is evident from its Rs 3.1bn capex program over FY12-FY20. Going ahead, the company intends to spend Rs2.6bn over FY21-23E mainly on a herbicide plant which is set to commission in 4QFY21 and a new R&D centre where the company will focus on new processes and chemistries.

Exhibit 42: Capex outflow during FY21-FY23E at Rs2.6bn



Source: Company Data, Equirus

Exhibit 43: Asset turnover set to improve in the next three years

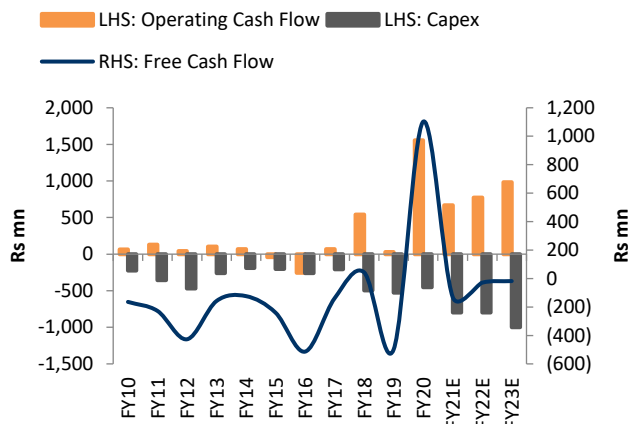


Source: Company Data, Equirus

Rising profitability to strengthen balance sheet further

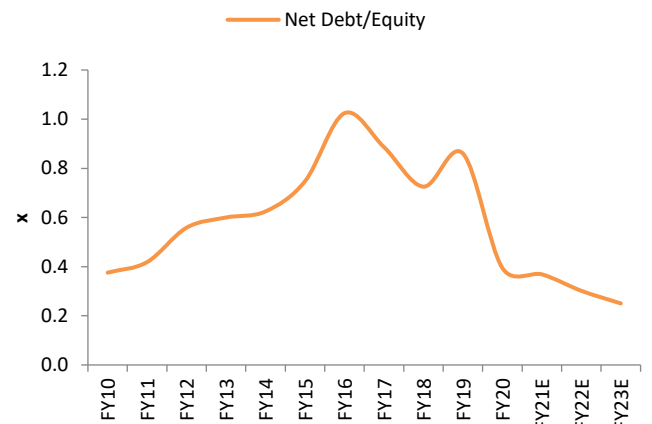
However, despite generating OCF of Rs2.7bn during FY21-23E, FCF is likely to be muted as company is in capex mode and expects to spend Rs2.6bn over FY21-23E.

Exhibit 44: Higher capex likely to lead to muted FCF



Source: Company Data, Equirus

Exhibit 45: Net debt to equity has been improving

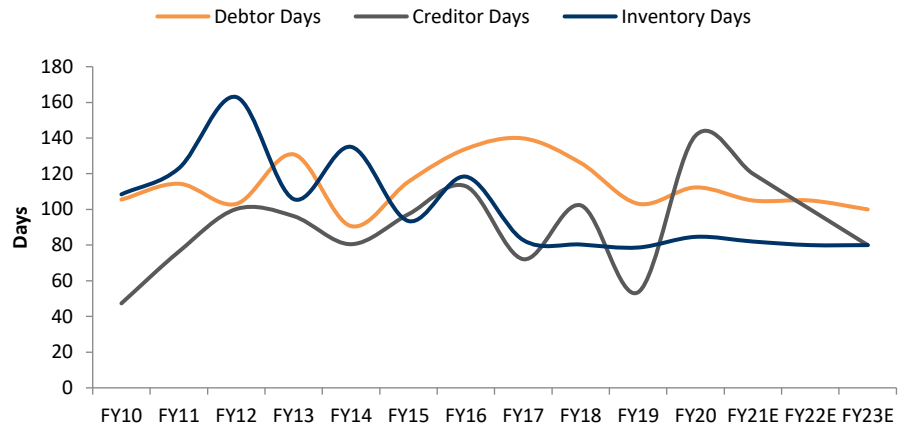


Source: Company Data, Equirus

Working capital to remain elevated and move to pre-COVID levels

Typically, in the agrochemicals business, customers make payments only after 90 days and up to 180 days; not surprisingly, debtor days have always remained elevated. In FY20, due to COVID-19, working capital days reduced to 56 days as creditor days increased to 141 days from 80-100 days average over the last 9-10 years. We expect debtor days and inventory days to stay elevated as export revenues are increasing, and creditor days to moderate to pre-COVID levels.

Exhibit 46: Working capital cycle

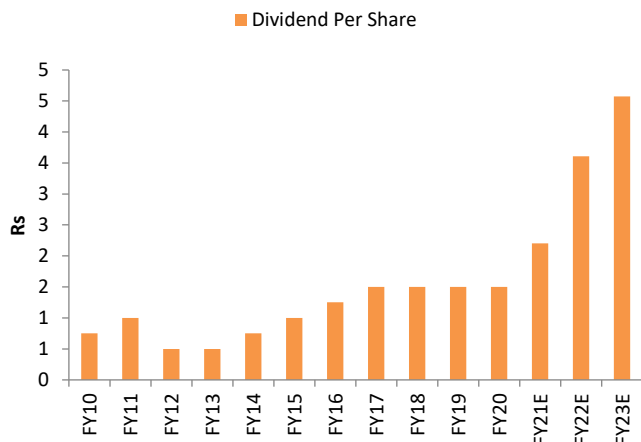


Source: Company Data, Equirus

Set to maintain dividend payout

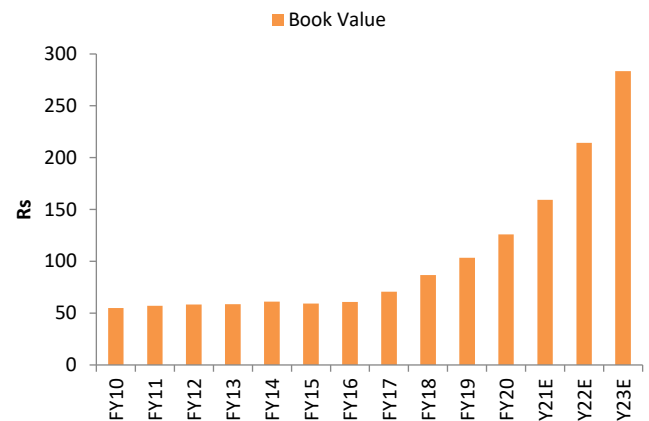
We expect the company to maintain dividend payout ratio of 6-8% over FY21-23E.

Exhibit 47: We expect dividend payout in the range of 6-8%



Source: Company Data, Equirus

Exhibit 48: Book value per share rising steadily



Source: Company Data, Equirus

Our Du-Pont analysis (Exhibit 49) suggests that profitability should be the main driver of ROE in the next 2-3 years.

Exhibit 49: DuPont Analysis

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Profitability (%)	12.37	4.46	1.13	3.38	4.40	13.04	2.89	9.09	9.09	8.30	10.01	11.35	14.54	14.72
Asset turnover (x)	0.73	0.61	0.49	0.67	0.73	0.89	0.67	0.87	0.86	0.93	0.91	0.91	0.96	0.99
Financial leverage (x)	1.66	1.85	2.35	2.47	2.51	2.60	2.79	2.42	2.44	2.28	2.32	2.12	1.88	1.69
ROE (%)	14.90	5.04	1.29	5.58	8.02	30.04	5.38	19.02	19.11	17.66	21.22	21.91	26.12	24.72

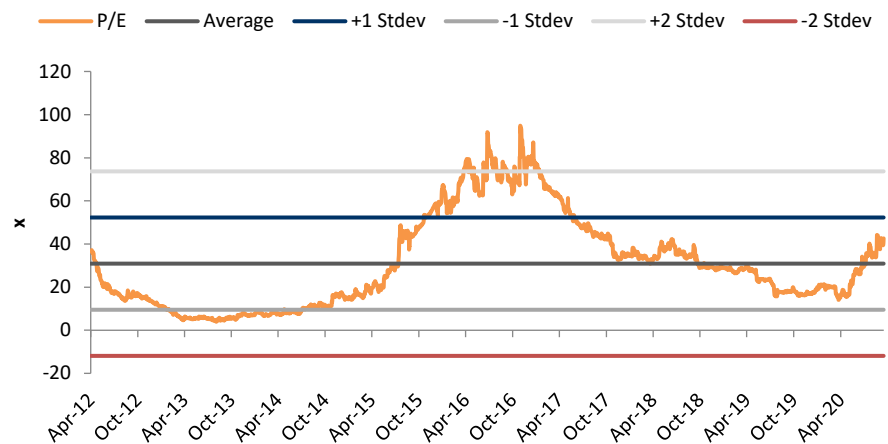
Source: Company Data, Equirus

Valuation & recommendation

Prefer P/E for valuation of agrochemical companies

We value ASTEL on P/E basis as we consider it as a more appropriate valuation method for agrochemical companies over DCF or EV/EBITDA. In our view, DCF is not a suitable valuation method because the earnings of chemical companies are highly cyclical and forecasting long-term earnings is practically impossible. We think a balance sheet-based valuation is also inappropriate as short-term debt may rise because of inventory cycles, distorting the balance sheet for a short period (in many cases, only for one quarter).

Exhibit 50: Stock is trading at 42x Sep'21E earnings



Source: Bloomberg, Company Data, Equirus

Initiate with LONG

In the current uncertain environment, we think ASTEL offers a predictable volume-driven earnings growth opportunity based on new products in its pipeline. While the stock is trading at 42x Sep'21E earnings (higher than eight-year average multiple of 30x), we expect this valuation premium to sustain. With high confidence in its volume-driven earnings growth, we don't expect the stock to de-rate (barring severe market risk-off) in the near term.

We forecast EPS of Rs 61.3 for end-Sep'22E. Since the enterprise business is commoditized in nature, earnings forecast is difficult if not impossible. However, given that the company has been spending a lot on backward integration to reduce its China dependence, we expect margins to stabilize over the next two years. We value ASTEL at 30x 1-year forward P/E and arrive at a Sep'21 TP of Rs1,838.

Purity levels offered by ASTEL have not been matched by many players globally, who strive to do so (as end customers rely on higher purity) in order to improve yields. This, along with a strong outlook for agrochemicals, leads us to initiate coverage on the stock with LONG. AT CMP, our TP implies an upside potential of 48% from current levels.

Exhibit 51: Target price methodology

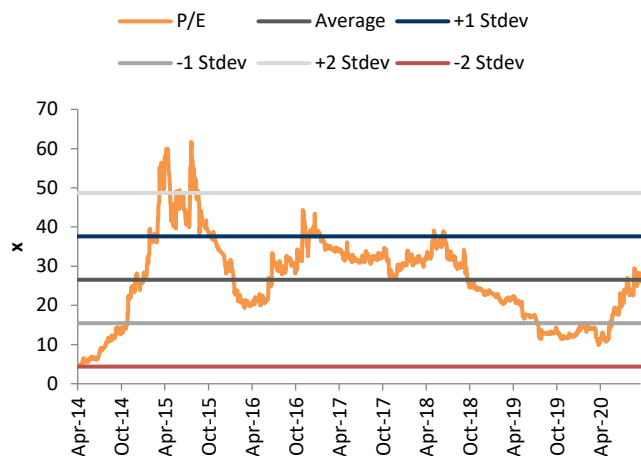
Item	Unit	Valuation
FY22E EPS	Rs/Share	54.9
FY23E EPS	Rs/Share	67.6
Sep'22E EPS	Rs/Share	61.3
P/E Multiple	x	30
Target Price	Rs/Share	1,838

Source: Company Data, Equirus

DCF and balance sheet-based valuation methods not as appropriate as P/E based valuation

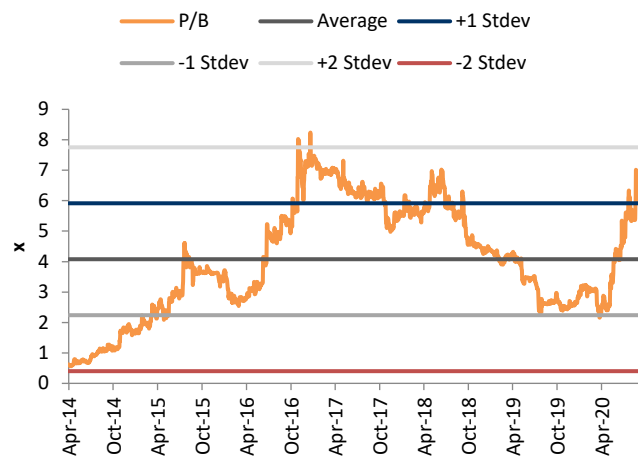
We value the stock at 30x to arrive at our end-Sep'21 TP of Rs1,838

Exhibit 52: Stock is trading 28x Sep'22E earnings



Source: Bloomberg, Company Data, Equirus

Exhibit 53: Astec is trading at 6.8x Sep'22E book value



Source: Bloomberg, Company Data, Equirus

Exhibit 54: Global Snapshot

Company Name	Market Price	Mkt Cap	Net Debt	P/E (x)		EV/EBITDA (x)		P/BV (x)		ROE (%)	
	(Local Cur)			(US\$ mn)	1 Year Frwd	2 Year Frwd	1 Year Frwd	2 Year Frwd	1 Year Frwd	2 Year Frwd	1 Year Frwd
Innovator Companies											
BASF	55	60,201	20,138	27.5	16.3	10.1	8.0	1.3	1.3	3.0	6.5
Bayer Crop Science	57	66,298	39,937	9.5	7.7	9.6	7.3	1.3	1.2	(0.1)	12.2
Corteva	29	21,684	(1,081)	21.2	17.6	10.6	9.2	0.9	0.9	3.7	4.7
FMC	111	14,321	3,114	17.0	15.1	13.5	12.1	4.8	4.6	30.3	30.4
Sumitomo Chemical	378	5,929	10,190	23.3	10.6	7.8	6.6	0.7	0.6	3.5	7.6
Average				19.7	13.5	10.3	8.6	1.8	1.7	8.1	12.3
Generic Companies											
Adama	9	3,008	1,233	27.6	18.0	7.1	4.5	1.0	0.9	3.4	5.0
Jiangsu Yangnong	90	4,103	29	21.4	17.7	12.8	10.1	4.5	3.8	21.4	21.4
Nufarm	4	1,212	843	N/A	25.3	10.1	6.1	0.7	0.7	(1.2)	2.8
UPL	530	5,495	3,077	13.9	11.4	7.9	6.9	2.0	1.7	15.4	16.4
Average				20.9	18.1	9.5	6.9	2.0	1.8	9.8	11.4
Domestic Agrochemical											
Bayer Crop Science	6,089	3,716	(144)	36.8	31.3	30.1	26.2	9.4	7.7	26.2	23.6
Dhanuka Agritech	770	497	(731)	21.0	18.4	15.7	14.0	4.6	4.0	22.8	23.1
Godrej Agrovet	528	1,378	5,887	34.3	28.4	19.0	16.2	4.9	4.4	14.8	16.1
Rallis India	314	829	(2,516)	26.0	22.3	17.3	14.8	3.9	3.5	15.3	16.3
Sumitomo Chemical	282	1,914	(59)	47.3	38.5	32.7	27.4	9.7	8.1	21.8	22.5
Average				33.1	27.8	23.0	19.7	6.5	5.5	20.2	20.3
Global Speciality Chemical											
Arkema	98	8,978	1,941	18.5	14.2	7.8	6.6	1.4	1.3	7.0	8.5
Chemours	22	3,556	3,528	13.7	9.5	8.5	6.8	5.1	4.3	38.0	44.5
Clariant	19	7,076	1,123	29.9	22.8	12.3	11.2	2.5	2.3	9.4	7.9
Evonik Industries	24	13,240	2,521	16.7	13.5	7.0	6.6	1.2	1.2	6.6	8.3
Lanxess	52	5,364	2,093	18.0	13.4	7.5	6.3	1.3	1.3	12.1	8.1
Lonza	556	45,698	3,622	40.3	35.5	26.2	23.3	6.1	5.4	13.8	13.5
Solvay	79	9,999	4,408	14.7	13.1	6.6	5.9	1.0	1.0	(2.5)	7.6
Umicore	39	11,574	1,717	34.6	26.5	15.7	12.8	3.5	3.3	9.5	12.4
Average				23.3	18.6	11.4	9.9	2.8	2.5	11.7	13.8
India Speciality Chemical											
Aarti Industries	1,083	2,561	279	34.8	25.8	20.2	16.1	5.5	4.6	15.9	18.7
Atul Ltd	6,820	2,747	(77)	34.3	28.4	22.7	19.0	5.5	4.7	17.1	17.4
Navin Fluorine	2,182	1,465	(44)	48.8	39.7	36.1	28.8	7.0	6.2	14.9	16.3
Neogen	701	222	18	52.0	35.8	27.3	20.3	9.1	7.5	18.2	22.4
PI Industries	2,012	4,145	41	46.2	35.9	32.5	24.8	6.3	5.5	17.5	16.8
SRF Ltd	4,316	3,369	412	29.1	22.7	16.6	13.8	4.4	3.8	15.9	17.8
Vinati Organics	1,193	1,665	(38)	30.7	33.3	32.2	25.2	8.2	6.8	21.0	23.4
Average				39.4	31.7	26.8	21.2	6.6	5.6	17.2	19.0

Source: Bloomberg, Company Data, Equirus

Note: Based on Bloomberg Estimates as on 15th Sep'20

Company Snapshot

Our Key Investment arguments:

- Focusing on niche products
- Working with various innovators
- Entering herbicide segment in CRAMS

Risks to Our View

- In the longer term the trend of increasing generics share may start to reverse as nations further develop their agricultural industries and economy as a whole. Increasing pest resistance and loss of older chemistries likely to favour newer product launches that have improved environmental profiles, lower use rates and novel modes of action.
- Continued loss of many existing crop protection products, especially in European Union. The requirement to re-register active ingredients had been in place since 1991 (Council Directive 91/414/EC). However, this directive was replaced by stricter regulation in 2009 which instructed that any ingredient deemed to be mutagenic or carcinogenic at any level is withdrawn. Another important factor is efficacy. Whether the UK will diverge will depend on the type of Brexit deal with the EU and US that eventually emerges.
- There is also likely to be an increasing usage of novel discovery technologies such as artificial intelligence, and computational biology leading to faster development and application of gene-editing and CRISPR technology. There is likely to be some acceleration in the Chinese adoption of biotech, again already underway with the Syngenta acquisition by ChemChina acting as a stimulus, plus recent GM approvals.
- Gene-editing will become mainstream in developing improved crop varieties, especially for qualitative traits, to increase the consumption of fruits and vegetables, and plant-based food in people's diet.

Company Description

Astec Lifesciences is a manufacturer of agrochemical active ingredients (technical), formulations and intermediate products. Astec also engages in contract manufacturing with a focus on the triazole group of fungicides. Astec is a leader in manufacturing Triazole Fungicides and caters to both domestic and export markets. It has four manufacturing facilities, Three at Mahad, Maharashtra and one at Dombivili. It has long-standing customer relationships with Indian and global agrochemical majors. Godrej Agrovet acquired controlling stake in Astec in 2017, post the acquisition the company is focusing on expanding its enterprise business via manufacturing opportunities for selling products through Godrej Agrovet Crop Protection Platform.

Corporate governance

Following are key highlights of our preliminary assessment of the level of corporate governance as per Astec's FY20 Annual Report:

Mr. Nadir Godrej is the Chairman and Mr. Ashok Hiremath is MD of the company. Godrej Agrovet holds 58% of the company while Mr. Ashok Hiremath held ~10% of the total shares. The board includes individuals that are well experienced with an optimum combination of Executive and Non-Executive Directors with a total of ten Directors of which one is a woman director. There are eight Non-Executive Directors out of which three are Non-Independent Directors and 5 are Independent Directors.

During the year ended 31 Mar'20, six board meetings were held and well attended by directors.

Distribution of power: The company has constituted seven committees (Audit, Stakeholder relationship, CSR, Nomination & Remuneration, Risk Management, Managing committee, Compensation Committee). The Audit, CSR, Compensation and Nomination & remuneration committees are chaired by Independent directors.

Disclosure Norms: Our preliminary study reveals that Astec follows disclosure norms as stipulated by listing agreements of exchanges and declares its quarterly results and other disclosures in a timely manner. Management hold earnings call after every quarterly result.

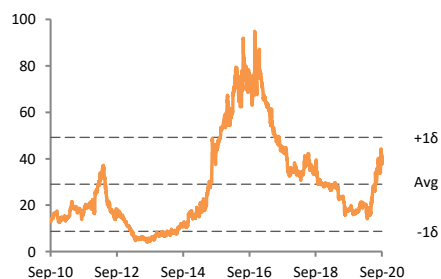
Key management profile

Name	Designation	Description
Mr. Nadir B. Godrej	Chairman	He has a Bachelor's degree in Science from the Department of Chemical Engineering, Massachusetts Institute of Technology, and a Master's degree in Business Administration from Harvard University. He has been associated with GAVL since November 25, 1991.
Mr Ashok Hiremath	Managing Director	He has a Masters degree in Engineering from University of Oxford and a Post Graduate Diploma in Chemical Engineering from University College, University of London. He founded Astec LifeSciences Limited in 1994. He has been actively involved in the affairs of the Company and has played a key role in the growth of the Company.
Mr. Balram Singh Yadav	Director	He has completed his BSc (Hons) in Agricultural Science at Haryana Agricultural University. He earned his MBA from IIM-Ahmedabad. Balram began his career with Godrej in 1990 and over the years he has handled roles of increasing responsibility across businesses and regions in the company.
Mr. Rakesh Dogra	Director	He is a graduate in Agriculture with a specialisation in Entomology from the Himachal Pradesh Agricultural University, Palampur. He has over two decades of experience in the Agri Business industry across diverse functions including Sales, Marketing and Business Development.
Mr. Arijit Mukherjee	Whole time director	He is a graduate in Agriculture and holds a Post Graduate Diploma in Agri Business Management from Indian Institute of Management, Ahmedabad. He is looking after Pan-India Marketing operation of Agri Input Business, Godrej Agrovet Limited.
Mr. Rishinaradamangalam Ramakrishna Govindan	Director	He is a Commerce graduate and a Member of the Institute of Chartered Accountants of India (ICAI). He has more than 35 years of corporate work experience in Finance, M & A, Green Field projects, independent management of JV relationship and management of Agri Verticals.
Dr. Vinod Malshe	Director	He has a Bachelor of Science (Chemical Technology) degree from Kanpur University and a Master's of Science (Technology) degree from University of Mumbai. He has also been awarded a PhD in Technology. He brings with him 40 years experience in the chemical industry.
Dr. Leena Raje	Director	She has M.Phil & PhD from S.N.D.T. University, Mumbai. She has been working as an associate professor, teaching food science & nutrition for last 28years in P.N.Doshi College,Mumbai.
Mr. Vijay Kashinath Khot	Director	He is a Science Graduate from the University of Mumbai and was associated with Godrej Group from September 1973 till 2011. He has worked in Animal Feeds for 26 years in the State of Gujarat and was also instrumental in introducing Godrej agri products in the said State in the year 1986.
Dr. Brahma Nand Vyas	Director	He holds B.Sc. Agriculture from the University of Rajasthan and post graduation M.Sc. Agriculture in Soil Science and Agricultural Chemistry from the University of Udaipur. He worked with Bhabha Atomic Research Centre (BARC) Trombay, since 1974 till 1987, and then joined Godrej Soaps Limited where he led R&D for nearly two decades.

Comparable valuation

Company	Reco.	CMP	Mkt Cap Rs. Bn.	Price Target	Target Date	P/E			EV/EBITDA			P/B			RoE			Div Yield
						FY20A	FY21E	FY22E	FY20A	FY21E	FY22E	FY20A	FY21E	FY22E	FY20A	FY21E	FY22E	
Aarti Industries	Add	1,083	189	1,020	Dec/21	35.2	42.3	33.1	21.2	22.7	17.9	6.3	5.5	4.4	18.0	13.0	13.3	0.6
Astec	Long	1,240	24	1,838	Sep/21	51.1	35.7	22.6	27.6	21.3	14.4	9.8	7.8	5.9	21.2	21.9	26.1	0.1
Navin Fluorine	Long	2,182	108	2,552	Sep/21	55.7	55.1	38.6	39.6	35.5	27.0	7.6	6.9	6.1	13.7	12.5	15.8	0.5
PI Industries	Long	2,012	305	2,362	Mar/22	60.8	44.8	34.4	42.9	29.9	22.6	10.6	5.8	5.1	17.4	13.1	14.8	0.2
Rallis India	Short	314	61	226	Sep/21	33.0	23.4	22.5	21.3	14.8	13.8	4.3	3.8	3.3	12.4	16.1	14.7	0.8
SRF Ltd	Long	4,316	248	4,432	Sep/21	27.1	30.0	24.3	19.6	17.4	14.7	5.0	4.4	3.7	18.6	14.5	15.4	0.3
UPL Ltd	Long	530	405	559	Sep/21	11.8	17.3	14.8	8.8	8.0	7.2	2.1	1.8	1.6	13.0	11.1	11.0	1.1

Price to earning chart



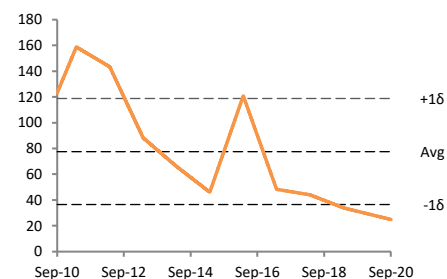
Source: Company, Equirus Research

Price to book chart



Source: Company, Equirus Research

EV-EBITDA chart



Source: Company, Equirus Research

Key Financials (Consolidated)

Income Statement

Y/E Mar (Rs mn)	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	2,889	3,565	4,309	5,226	5,991	7,387	8,993
COGS	1,799	2,350	2,795	3,385	3,671	4,490	5,421
Employee Cost	204	217	251	299	359	424	487
Other Expenses	360	420	498	628	765	706	919
EBITDA	527	578	765	914	1,196	1,767	2,166
Depreciation	137	147	193	232	266	315	391
EBIT	390	431	571	682	929	1,452	1,775
Interest Exp.	122	107	124	126	76	87	94
Other Income	126	191	112	119	55	70	87
Profit before Tax	393	516	559	676	909	1,435	1,768
Tax Expenses	96	207	201	138	229	361	445
Profit After Tax	298	309	358	537	680	1,074	1,323
Minority Interest	(1)	(1)	0	0	0	0	0
Profit/(Loss) from Associates	0	0	0	0	0	0	0
Recurring PAT	297	308	357	537	680	1,074	1,323
Exceptional Items	(106)	42	0	(62)	0	0	0
Reported PAT	191	349	357	475	680	1,074	1,323
Other comprehensive income.	0	0	0	0	0	0	0
PAT after comp. income.	191	349	357	475	680	1,074	1,323
FDEPS	9.8	17.9	18.3	24.3	34.7	54.9	67.6
DPS	2	2	2	2	2	3	4
BVPS	71	87	104	126	159	210	274

YoY Growth (%)	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Sales	31.5	23.4	20.9	21.3	14.6	23.3	21.7
EBITDA	150.5	9.7	32.4	19.5	30.9	47.8	22.5
EBIT	266.9	10.5	32.6	19.4	36.2	56.2	22.3
PAT	284.9	82.6	2.4	32.9	43.1	58.0	23.2

Key Ratios

Profitability (%)	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Gross Margin	37.7	34.1	35.1	35.2	38.7	39.2	39.7
EBITDA Margin	18.2	16.2	17.7	17.5	20.0	23.9	24.1
PAT Margin	6.6	9.8	8.3	9.1	11.3	14.5	14.7
ROE	19.0	19.1	17.7	21.2	21.9	26.1	24.7
ROIC	28.2	27.4	29.5	29.3	31.5	37.0	34.5
Core ROIC	29.2	27.9	29.7	29.5	31.8	37.4	34.8
Dividend Payout	15.3	8.4	8.2	6.2	6.2	6.2	6.2

CAGR (%)	1 year	2 years	3 years	5 years	7 years	10 years
Revenue	21.3	21.1	21.8	14.5	16.9	16.7
EBITDA	19.5	25.8	20.2	10.9	18.3	13.7
PAT	32.9	16.7	35.5	26.3	34.5	13.1

Valuation (x)	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
P/E	126.5	69.4	67.8	51.1	35.7	22.6	18.3
P/B	17.5	14.3	12.0	9.8	7.8	5.9	4.5
P/FCFF	224.2	109.4	(82.6)	23.1	7,976.9	198.3	166.3
EV/EBITDA	48.3	44.0	33.9	27.6	21.2	14.4	11.8
EV/Sales	8.8	7.1	6.0	4.8	4.2	3.4	2.8
Dividend Yield (%)	0.4	0.5	0.6	0.7	0.8	1.0	1.2

Balance Sheet

Y/E Mar (Rs mn)	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Equity Capital	195	195	196	196	196	196	196
Reserves	1,185	1,501	1,829	2,270	2,908	3,915	5,157
Net Worth	1,380	1,697	2,025	2,466	3,103	4,111	5,353
Total Debt	1,266	1,246	1,757	987	1,187	1,287	1,387
Other long term liabilities	0	0	0	0	0	0	0
Minority Interest	2	3	3	3	3	3	3
Account Payables	571	999	633	2,024	1,969	2,024	1,971
Other Current Liabilities	106	143	101	176	242	244	284
Total Liabilities	3,336	4,132	4,611	5,717	6,567	7,731	9,059
Gross Fixed Assets	1,244	1,501	2,214	2,710	2,951	3,751	4,551
Acc. Depreciation	(215)	(351)	(544)	(774)	(1,040)	(1,355)	(1,746)
Net Fixed Assets	1,029	1,151	1,670	1,936	1,911	2,396	2,805
Capital WIP	76	419	190	241	800	800	1,000
long term investments	0	0	0	0	0	0	0
Others	247	251	267	222	257	257	277
Inventory	656	785	928	1,212	1,346	1,619	1,971
Receivables	1,107	1,231	1,218	1,608	1,723	2,125	2,464
Loans and advances	0	0	0	0	0	0	0
Other current assets	179	281	323	482	487	487	495
Cash & Cash Equivalents.	42	15	15	15	43	47	47
Total Assets	3,336	4,132	4,611	5,717	6,567	7,731	9,059
Non-Cash WC	1,265	1,155	1,736	1,103	1,344	1,963	2,675
Cash Conv. Cycle	150.5	104.1	128.2	55.6	67.0	85.0	100.0
WC Turnover	2.3	3.1	2.5	4.7	4.5	3.8	3.4
Gross Asset Turnover	2.3	2.4	1.9	1.9	2.0	2.0	2.0
Net Asset Turnover	2.6	2.3	2.3	2.4	2.2	2.3	2.4
Net D/E	0.9	0.7	0.9	0.4	0.4	0.3	0.3

Days (x)	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Receivable Days	140	126	103	112	105	105	100
Inventory Days	83	80	79	85	82	80	80
Payable Days	72	102	54	141	120	100	80
Non-cash WC days	160	118	147	77	82	97	109

Cash Flow

Y/E Mar (Rs mn)	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Profit Before Tax	287	557	559	614	909	1,435	1,768
Depreciation	137	147	193	232	266	315	391
Others	93	(69)	(10)	20	(34)	1	(19)
Tax paid	(67)	(154)	(164)	(182)	(229)	(361)	(445)
Change in WC	(377)	64	(545)	878	(242)	(619)	(713)
Operating Cashflow	192	647	153	1,684	746	857	1,076
Capex	(209)	(497)	(528)	(453)	(800)	(800)	(1,000)
Change in Invest.	0	0	0	0	0	0	0
Others	32	8	3	(285)	0	0	0
Investing Cashflow	(177)	(489)	(525)	(738)	(800)	(800)	(1,000)
Change in Debt	111	(43)	527	(783)	200	100	100
Change in Equity	2	2	3	2	0	0	0
Others	(122)	(107)	(124)	(129)	(76)	(87)	(94)
Financing Cashflow	(9)	(182)	371	(945)	82	(53)	(75)
Net Change in Cash	6	(25)	(1)	1	28	4	0

Source: Company, Equirus Research

Rating & Coverage Definitions:**Absolute Rating**

- LONG : Over the investment horizon, ATR >= Ke for companies with Free Float market cap >Rs 5 billion and ATR >= 20% for rest of the companies
- ADD: ATR >= 5% but less than Ke over investment horizon
- REDUCE: ATR >= negative 10% but <5% over investment horizon
- SHORT: ATR < negative 10% over investment horizon

Relative Rating

- OVERWEIGHT: Likely to outperform the benchmark by at least 5% over investment horizon
- BENCHMARK: likely to perform in line with the benchmark
- UNDERWEIGHT: likely to under-perform the benchmark by at least 5% over investment horizon

Investment Horizon

Investment Horizon is set at a minimum 3 months to maximum 18 months with target date falling on last day of a calendar quarter.

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Research Analyst' or Relatives' financial interest	No	
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Research Analyst' or Relatives' material conflict of interest	No	

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