March 14, 2023

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

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Fund Based-Cash Credit	300.0	348.0	[ICRA]AA- reaffirmed / assigned; outlook revised to Stable from Positive
Long Term-Fund Based-Term Loan	150.0	208.0	[ICRA]AA- reaffirmed / assigned; outlook revised to Stable from Positive
Short Term-Non Fund Based-Others	389.0	425.0	[ICRA]A1+; reaffirmed / assigned
Commercial Paper	300.0	300.0	[ICRA]A1+; reaffirmed
Total	**1,139.0**	**1,281.0**	

**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) to Stable reflects ICRA's expectations that its near-term operating performance is likely to remain constrained on account of challenges faced in its key product segments of triazole fungicides. With higher than average channel inventory in these product segments in domestic and overseas markets on account of multiple reasons over the recent past (such as lower liquidation, unfavourable weather conditions and destocking strategies), the volume off-take as well as realisations have been muted over the past few months, and expected to remain so over the near-term till the situation normalises. Consequently, Astec's operating profit margin (OPM) has reduced from 23.9% (FY2022) to 14.1% (9M FY2023). Coupled with continued debt-funded capex, the credit metrics of the company are unlikely to materially improve over the near term. Nevertheless, ICRA notes that the company is commissioning a research and development (R&D) center in the coming months, and expanding its presence in the higher margin contract development and manufacturing (CDMO) segment so as to mitigate the risks related to product concentration and protect itself from the volatilities of the commoditised enterprise market.

ICRA continues to factor in the established track record of Astec in the agrochemicals business, and its reputed clientele comprising large multinational corporations (MNCs) in the domestic and exports market. Astec continued to show YoY revenue growth trend, with 23.9% growth reported in 9M FY2023. ICRA also notes the increasing share of exports in the revenue pie, and Astec's plans to attain higher business diversification going forward. The ratings also derive comfort from Astec's strong parentage as part of the Godrej Group, which imparts financial flexibility. ICRA notes that Godrej Agrovet Limited (GAVL, Astec's parent entity, rated [ICRA]AA (Stable)/[ICRA]A1+) has been gradually increasing its stake in Astec (64.77% as on December 31, 2022), which indicates the company's strategic importance to GAVL and the Godrej Group. GAVL has also been providing financial support to Astec by way of inter corporate deposits (ICDs) in case of a need, and ICRA expects GAVL to continue to do so, whenever needed.

In line with the industry trend, the company's revenues remain susceptible to the vagaries of monsoons and seasonality associated with business. However, these risks are partially mitigated by Astec's geographically diversified revenue profile, spanning across both domestic and exports market. Exports contributed 63% to Astec's revenues in 9M FY2023, highlighting the healthy geographic diversification. However, since Astec operates in the off-patent and commodity chemical markets, its revenues remain susceptible to global demand and supply dynamics and the resultant pricing pressures as visible in the current year performance. The ratings also consider the vulnerability of Astec's profit margins to the fluctuations in raw material prices and its ability to pass on the same to its customers in a timely manner. However, its backward-integrated operations mitigate this risk to a certain extent. While Astec currently has a concentrated portfolio of products in the triazole segment, ICRA notes the company's planned efforts towards diversification by expanding in the herbicide segment, with the new products likely to result in margin expansion and reduce product concentration risk going forward. The company has also made investments towards a new R&D facility, which would augment its new product development capabilities and thus benefit from the opportunities that the global demand shift from China may present for the Indian entities.

The Stable outlook on the long-term rating reflects ICRA's expectation that Astec will continue to benefit from its established position in the fungicides market, its strong parentage and association with the Godrej Group, and efforts to strengthen its business profile through entry into new products and segments.

Key rating drivers and their description

Credit strengths

Established track record in manufacturing fungicides, reputed clientele – Astec has an established track record in the agrochemicals business, spanning more than two decades. Supported by its technical competencies, the company has established itself as one of the preferred suppliers of technical grade fungicides to a reputed clientele, comprising large MNCs in the domestic and export markets. Furthermore, the company's investments in the new 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.

Efforts undertaken for higher business diversification expected to fructify over the medium term – As part of its efforts to strengthen its business profile by reducing its dependence on commoditised enterprise products, where revenues and margins are relatively volatile, the company has been focussing on increasing its revenue share from the higher-margin and predictable CDMO segment. Accordingly, the share of CDMO segment in Astec's revenues increased in 9M FY2023, and is expected to further increase going forward. To augment this, Astec also ventured into herbicide manufacturing in August 2021, and has seen steady ramp up in the volume offtake for its herbicide product offerings. Furthermore, the company continues to invest in expanding capacities in this space. Such efforts undertaken by the company are expected to strengthen its business profile over the medium term.

Strong parentage and financial flexibility as a part of Godrej Group – Post GAVL's majority stake purchase in Astec in late FY2016, it has benefitted in terms of managerial as well as financial support from GAVL. GAVL has also been providing financial support to Astec by way of ICDs in case of a need, and ICRA expects GAVL to continue to do so, should there be a need. GAVL has gradually increased its stake in Astec to 64.77% as on December 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

High product concentration risk – The company's agrochemicals product portfolio primarily comprises triazole fungicides. Until FY2022, Astec derived a large part of its revenues from few products within the above-mentioned category; thus, leading to product concentration risks. However, in order to diversify its product portfolio, Astec has ventured into herbicides manufacturing, which commenced operations from August 2021. With ramp up from the herbicide facility, and planned expansion of the same, the company's dependence on these triazole fungicides is expected to gradually reduce.

Moderate scale of operations and susceptibility of revenues to seasonality and agro-climatic risks; profitability exposed to fluctuations in input prices – Astec's scale of operations remains moderate as reflected in an operating income of Rs. 678.9 crore in FY2022. Furthermore, its revenues remain susceptible to the vagaries of monsoons and the seasonality associated with the agrochemicals sector; however, the latter is mitigated to an extent by its diversified geographical presence. Moreover, its profit margins also remain exposed to the fluctuations in raw material prices, primarily those sourced from China. Nevertheless, Astec's backward-integrated operations and continuous investments towards the same mitigates this risk also to an extent.

Sizeable capital expenditure plans which could impact debt indicators going forward – The company has planned a sizeable capital expenditure over FY2023-FY2024, which will be funded by a mix of debt and internal accruals. Given the capital expenditure and investment plans, Astec is exposed to inherent project execution risks and a moderation in the debt coverage indicators in the interim. However, over the medium to long term, new product additions should help the company in expanding its scale of operations and profitability indicators. The recently commissioned herbicides plant is also expected to provide business diversification benefits in addition to incremental revenues and profits going forward.

Environmental and Social Risks

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

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

Liquidity position: Adequate

Astec's liquidity profile is expected to remain **adequate**, supported by comfortable free cash and bank balances and liquid investments (Rs. 68.30 crore as on December 31, 2022) and buffer available in the form of undrawn working capital lines (buffer of ~Rs. 150 crore as on December 31, 2022). The liquidity profile is further supported by comfortable cash flow generation. As against these sources of funds, the company has annual debt long term repayments in line with cash flow generation over the near to medium term. While capex plans remain sizeable over FY2024-25, the same is expected to be funded from the available sources of liquidity, and incremental long-term borrowings, as required. Astec, as a part of the Godrej Group, enjoys access to capital markets and healthy relationships with the banks which adds to its financial flexibility and supports overall liquidity profile. 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 a comfortable 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 securing contracts from reputed global players. The company also started manufacturing herbicides from August 2021 onwards.

In August 2015, the company's erstwhile promoters sold 45.29% of its paid-up equity shares to GAVL (rated [ICRA]AA (Stable)/[ICRA]A1+), pursuant to which an open offer was announced for an additional 26.05% of the paid-up equity shares. By the closure date of December 2015, GAVL had subscribed to an additional 6.99% in Astec, thus becoming a majority shareholder with a stake of 52.28%. Over the years, GAVL has been consistently increasing the stake held in Astec by procuring shares from the open market, and held 64.77% stake in Astec as on December 31, 2022.

Key financial indicators

Astec (consolidated)*	FY2021 Audited	FY2022 Audited
Operating Income (Rs. crore)	561.8	686.1
PAT (Rs. crore)	65.1	89.9
OPBDIT/OI (%)	21.2%	23.9%
PAT/OI (%)	11.6%	13.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.3
Total Debt/OPBDIT (times)	1.6	1.7
Interest Coverage (times)	25.1	18.1

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

*Source: Astec, ICRA Research; * Forex gain is classified as a part of other operating income*

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 Dec 31, 2022 (Rs. crore)	Date & Rating in			Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					14-Mar-23	23-Jun-22	7-Apr-22	28-Jun-21	22-May-20	5-Apr-19 10-May-19 5-Nov-19
1	Fund-based Working Capital Facilities	Long-term	348.0	95.6	[ICRA]AA-(Stable)	[ICRA]AA-(Positive)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
2	Term Loan	Long-term	208.0	42.7	[ICRA]AA-(Stable)	[ICRA]AA-(Positive)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-	-
3	Non-fund Based Facilities	Short-term	425.0	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Fund- based/ Non-fund Based Limits	Long-term/ Short-Term	-	NA	-	-	-	-	-	[ICRA]AA-(Stable)/ [ICRA]A1+
5	Commercial Paper Programme	Short-term	300.0	0.0*	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

*Source: Company; *not yet placed*

Complexity level of the rated instruments

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

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

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Long-term, Fund-based Working Capital Facilities	NA	NA	NA	348.0	[ICRA]AA-(Stable)
NA	Term Loan -1	Apr-2022	NA	Jul-2024^	88.0	[ICRA]AA-(Stable)
NA	Term Loan*	NA	NA	NA	120.0	[ICRA]AA-(Stable)
NA	Non-fund Based Limits	NA	NA	NA	425.0	[ICRA]A1+
Not placed	Commercial Paper Programme	NA	NA	7-365 days	300.0	[ICRA]A1+

Source: *Company; *proposed; ^maturity date for the disbursement of final tranche of the term loan*

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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Astec Ownership (March 31, 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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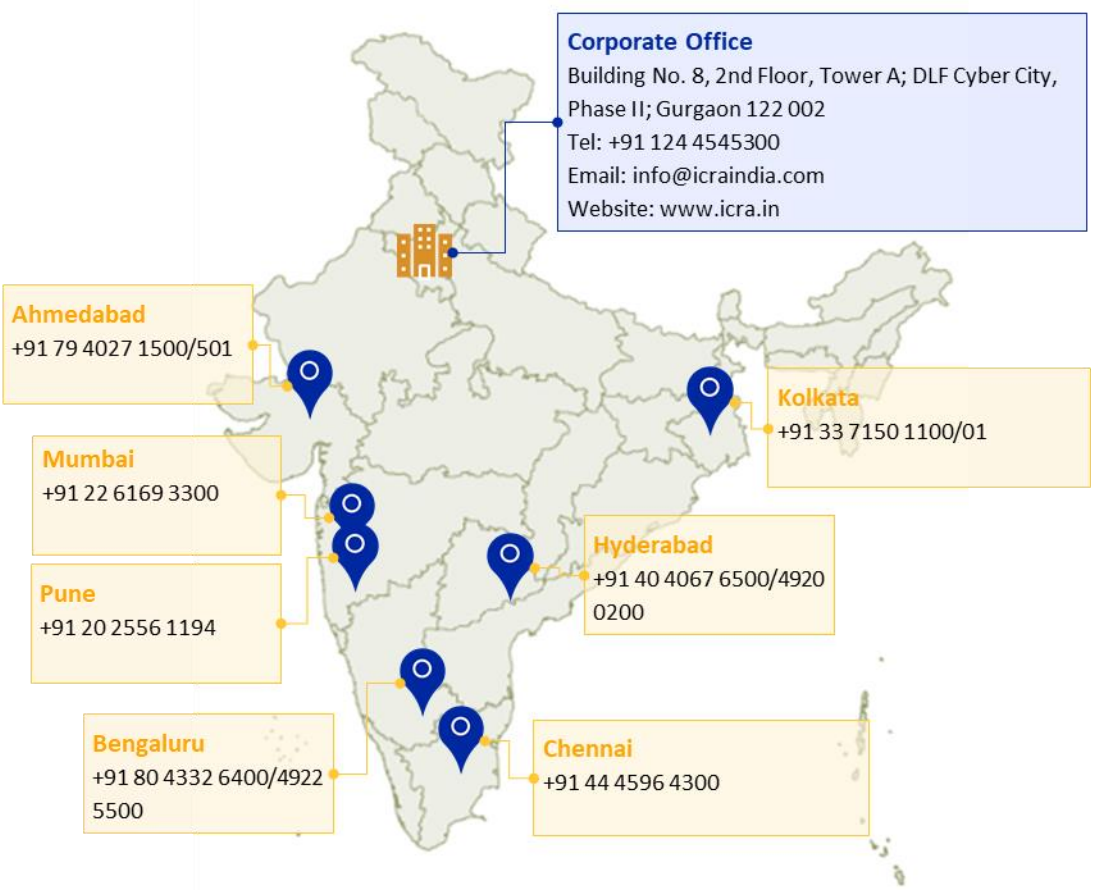

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