ICRA

Astec LifeSciences Limited

May 24, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based Limits	229.0	146.0	[ICRA]A+ (Stable); Upgraded from [ICRA]A (Stable)
Short-term, Non-fund based Limits	46.0	49.0	[ICRA]A1+; Upgraded from [ICRA]A1
Long-term/Short-term, Fund-based/Non-fund based Limits	NA	260.0	[ICRA]A+(Stable)/[ICRA]A1+; Upgraded from [ICRA]A (Stable)/[ICRA]A1
Long-term Loans	21.5	0.0	-
Commercial Paper Programme	50.0	100.0	[ICRA]A1+; Upgraded from [ICRA]A1
Total	**346.5**	**555.0**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating assigned to the Rs. 146.0-crore[1] (revised from Rs. 229.0 crore) fund-based facilities of Astec LifeSciences Limited ('Astec' or 'the company')[2] to [ICRA]A+ (pronounced ICRA A plus) from [ICRA]A (pronounced ICRA A). ICRA has also upgraded the short-term rating assigned to the Rs. 49.0-crore (enhanced from Rs. 46.0 crore) non-fund based facilities of Astec to [ICRA]A1+ (pronounced ICRA A one plus) from [ICRA]A1 (pronounced ICRA A one). ICRA has upgraded the long-term rating to [ICRA]A+ and short-term rating to [ICRA]A1+ of the Rs. 260.0-crore (earlier NIL) fund-based / non-fund based limits of Astec. ICRA has further upgraded the short-term rating assigned to the Rs. 100.0-crore (enhanced from Rs. 50.0 crore) Commercial Paper programme of Astec to [ICRA]A1+ from [ICRA]A1. The outlook on the long-term rating is Stable.

Rationale

The rating upgrade takes into account Astec's healthy operating and financial performance in FY2018, characterised by healthy growth in revenues as well as improvement in the capital structure and coverage indicators. The industry has benefited from the supply disruption caused by tightened environmental regulations in China, which is one of the largest producer and exporter of agro-chemicals globally. ICRA expects Astec to maintain its revenue growth trend and improve its margins, aided by the investment towards setting up an integrated manufacturing plant at Mahad (Maharashtra). The backward integration of operations and the process improvements are expected to result in capacity expansion and steady supply of raw material for captive consumption. The backward integration of operations is also expected to mitigate the risk of uncertainty in raw material prices, which are primarily imported from China.

The ratings continue to favourably factor in the firm's strong parentage in the Godrej Group. With Godrej Agrovet Limited (GAVL) acquiring majority stake in the company in December 2015, Astec has begun to benefit in terms of managerial support and improved financial flexibility. Astec is exploring business synergies across Group companies as well. The ratings also factor in Astec's established position in the manufacture and sale of Triazole fungicides (technical

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

grade). The seasonality inherent in the base business of agro-chemicals has, however, been offset to some extent by the expanding contract manufacturing (CRAMS) portfolio.

The company operates in commodity chemicals and hence remains susceptible to demand cycles and pricing pressures. The ratings remain constrained by the vulnerability of Astec's margins to the fluctuations in prices of raw materials and its ability to pass it on to its customers in a timely manner; although the backward integration of operations is expected to mitigate this risk to a certain extent. ICRA also notes the high concentration of fungicides in Astec's sales portfolio and the high working capital intensity of its operations. Further, the CRAMS business is dominated by a few select customers, leading to customer concentration risks. Nonetheless, long-term contracts with such customers provide some comfort.

Outlook: Stable

ICRA expects Astec LifeSciences Limited to continue to benefit from its established track record in the fungicide market, its association with the Godrej Group, and continuous process improvements through its technical expertise and established presence in the domestic as well as exports markets. The outlook may be revised to Positive if the on-going capacity expansion plans result in strong profitable growth, which along with improved working capital management further strengthen Astec's financial risk profile. The outlook may be revised to Negative if cash accrual and benefits from the on-going capital expenditure is lower than expected or delayed, thereby, straining the profitability and weakening its liquidity position.

Key rating drivers

Credit strengths

Synergies and financial flexibility from being associated with the Godrej Group – Post GAVL's majority stake purchase in the company in late FY2016, Astec has benefitted in terms of managerial support as well as improved financial flexibility, resulting in an improved financial performance in FY2017 and FY2018. The acquisition has also led to numerous synergies with respect to its clientele, sales channels, geographical reach, etc, for both entities in their respective crop protection businesses, while presenting further opportunities in other related business segments of the Group.

Established track record in the manufacturing of fungicides with reputed client profile – Astec has been in operations for more than two decades. During this period, the company has established itself as one of the preferred suppliers of active ingredients, intermediates and formulations in the fungicide space to large and reputed multi-national companies.

Commissioning of integrated plant at Mahad in July 2018 will result in capacity expansion and ensure stable supply of raw materials – Astec's backward integration of operations, through its new plant to be commissioned by Q2 FY2019, is expected to provide cost efficiencies. It will also reduce Astec's dependence on imports and mitigate the raw material price uncertainty related risks to a great extent. The new plant will expand Astec's capacity significantly as well, driving its revenue and profit growth.

Capacity addition to bode well for the top line, amid rising demand – Measures taken by the company for adding capacities by way of new manufacturing plants as well as de-bottlenecking existing capacities through process improvements augur well for the business amid growing demand in India due to supply disruption in China.

Gradual scaling up of CRAMS business to offset seasonality associated with base business of agro-chemicals – Demand for the agro-chemicals business solely depends on agriculture production, and is hence, seasonal in nature. In view of this, over the last few years, the proportion of CRAMS revenues to Astec's overall business pie has witnessed a steady increase, helping it to offset the seasonality associated with its base business.

Comfortable financial risk profile – Astec enjoys a comfortable financial risk profile characterised by low leverage and healthy debt coverage indicators. During FY2018, Astec's capital structure (leverage of 0.7 time) as well as coverage indicators (interest coverage – 6.5 times; TD/OPBDITA – 1.8 times) witnessed an improvement on the back of a healthy operating performance and relatively stable debt levels.

Credit challenges

Moderate scale of operations and business – The company operates in commodity chemicals. Though it has displayed consistent growth in the past couple of years, its scale of operations is moderate in comparison to its industry peers, limiting its bargaining power and competitiveness in the market. Nonetheless, when considered on a product specific basis, Astec does have considerable market share in certain product segments that it specialises in.

Margins vulnerable to fluctuations in demand for crop protection – The company's fungicides business faces demand fluctuations as a result of cyclicality in agro-climatic conditions. Furthermore, it also faces stiff competition from incumbent players leading to margin pressures. Nonetheless, going forward, the company's dominant position in the Triazole fungicide manufacturing business and its backward integration of operations is expected to keep the margins at healthy levels.

High product and client concentration risks – In FY2018, majority of Astec's revenues were generated by fungicide products, leading to product concentration risks. Further, the company's client profile in the CRAMS portfolio also remained concentrated towards a few select clients. Though this entails product as well as client concentration risks, Astec's established relationships with its reputed clientele mitigates these risks to a large extent.

High working capital intensity – Despite improvement in FY2018, the company's working capital intensity is high due to the inherent nature of the agro-chemicals business, which involves high receivable and inventory days. Nonetheless, Astec's concerted efforts—supported by the Godrej Group—in managing its working capital is expected to result in an improvement in key working capital indicators, going ahead.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Rating Methodology for entities in the Agrochemical Industry

About the company:

Astec LifeSciences Limited (Astec) is engaged in the manufacture and sale of intermediates, active ingredients and formulations, with a focus on the agrochemical sector. The manufacturing activities are undertaken at four facilities in 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, the company also forayed into CRAMS segment, by bagging contracts from reputed global players. The third unit at Mahad commenced operations in Q1 FY2017.

In August 2015, the erstwhile promoters of the company 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%. The acquisition by GAVL was aimed at backward integrating into its fast-growing agro-chemicals division. As of March 31, 2018, GAVL held 57.45% stake in Astec.

Subsequent to the acquisition, Astec Crop Care Private Limited (ACCPL), an erstwhile 100% subsidiary of Astec, ceased to be a subsidiary of Astec, following the sale of 100% of its total paid-up equity share capital to the promoter, Mr. Ashok Hiremath (managing director) and Mr. Varun Hiremath. This also marked the exit of the company from the retail business. At present, Astec is engaged only in business-to-business (B2B) sales.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	298.0	367.6
PAT (Rs. crore)	19.1	35.0
OPBDITA/OI (%)	21.0%	18.7%
RoCE (%)	17.1%	26.4%
Total Debt/TNW (times)	0.9	0.7
Total Debt/OPBDITA (times)	2.0	1.8
Interest coverage (times)	5.1	6.5

Source: Astec LifeSciences Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Type	Current Rating (FY2019) Amt. Rated (Rs. crore)	Amt. O/s. (Rs. crore) March 2018	Date & Rating May 2018	Chronology of Rating History for the past 3 years: Date & Rating in FY2018 October 2017	Date & Rating in FY2018 September 2017	Date & Rating in FY2017 March 2017	Date & Rating in FY2017 July 2016	Date & Rating in FY2016 September 2015
1	Fund-based Limits	Long-term	146.0	-	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB (rating on watch with developing implication)
2	Non-fund based Limits	Short-term	49.00	-	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A3+ (rating on watch with developing implication)
3	Fund-based/Non-fund based Limits	Long-term/ Short-term	260.00	-	[ICRA]A+ (Stable)/ [ICRA]A1+	-	-	-	-	-
4	Term Loans	Long-term	0.00	0.0	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB (rating on watch with developing implication)
5	Commercial Paper Programme	Short-term	100.00	-	[ICRA]A1+	[ICRA]A1	-	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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 Limits	NA	NA	NA	146.0	[ICRA]A+ (Stable)
NA	Short-term, Non-fund based Limits	NA	NA	NA	49.0	[ICRA]A1+
NA	Long-term/Short-term, Fund-based/Non-fund based Limits	NA	NA	NA	260.0	[ICRA]A+ (Stable)/ [ICRA]A1+
NA	Commercial Paper Programme	NA	NA	7-365 days	100.0	[ICRA]A1+

Source: Astec LifeSciences Limited

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For more information, visit www.icra.in

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Astec LifeSciences Limited

September 19, 2018

Summary of Rated Instrument:

Instrument	Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based limits	146.00	[ICRA]A+%; Placed on rating watch with positive implications
Short-term, Non-fund based limits	49.00	[ICRA]A1+; Re-affirmed
Long-term/Short-term, Fund-based/Non-fund based limits	260.00	[ICRA]A+%; Placed on rating watch with positive implications [ICRA]A1+; Re-affirmed
Commercial Paper Programme	100.00	[ICRA]A1+; Re-affirmed
Total	**555.00**	

Material Event

On September 14, 2018, Astec LifeSciences Limited (Astec) announced the approval of its Board of Directors for the scheme of amalgamation of the company with Godrej Agrovet Limited (GAVL) in an all-stock transaction. The proposed amalgamation is aimed at simplifying the Group and management structure as well as to optimise the use of resources. The scheme is subject to further approvals from the shareholders and other regulatory authorities. As per the scheme, the shareholders of Astec will receive 11 shares of GAVL for every 10 shares held in Astec. As on June 30, 2018, GAVL held a 57.39% equity stake in Astec.

Impact of the Material Event

ICRA has taken note of the above event and believes that the transfer of Astec's debt to GAVL (rated [ICRA]AA (Stable) / [ICRA]A1+), post successful conclusion of the proposed amalgamation, will have a positive impact on the debt servicing capabilities with respect to Astec's rated debt. Hence, ICRA has placed the long-term rating of [ICRA]A+ (pronounced ICRA A plus) on 'watch with positive implications' and re-affirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus). ICRA will continue to monitor the developments with respect to the approvals for the amalgamation.

The previous detailed rating rationale is available on the following link: Click here

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