

Strong numbers but potential priced in...

About the stock: Incorporated in 1994, Astec Lifescience is primarily into production of active ingredients and intermediates for the agrochemicals segment.

- The company operates in the space of technical as well as bulk sales. It also has a contract manufacturing business
- Enterprise sales constitute ~80% of overall revenue while the rest comes from the CMO segment

Q2FY23 Results: Revenues were below estimates while bottomline came in line.

- Reported revenue growth of 94.7% YoY to ₹ 199.7 crore, driven by strong growth in export markets
- Gross margins contracted 1150 bps YoY to ~38.5% while EBITDA margin was down 390 bps YoY to 16.7%
- EBITDA was up 58% YoY to ₹ 33.3 crore
- Adjusted PAT was up 102% YoY to ₹ 18.3 crore

What should investors do? The stock appreciated at 80% CAGR in last three years.

- We downgrade the stock from BUY to **HOLD** as the recent run-up en-route to Q2 numbers has factored in most of the upside. We continue to monitor success on the CMO space in the backdrop of capex and the company's ability to manage cost escalation and other challenges

Target Price and Valuation: We value Astec Lifesciences at 33x FY24E EPS of ₹ 66.3 to arrive at a revised target price of ₹ 2185/share (earlier ₹ 2215/share).

Key triggers for future price performance:

- Better utilisation of herbicide plant to aid revenue growth for CRAMS business, which is expected to grow in high thirties over FY21-24E
- Change in the product mix towards value added products to aid gross margins and, thereby, OPM and return ratios over the coming period
- Control over working capital along with better operational performance to improve FCF generation. Prudent capital allocation towards high RoCE generating business to improve return ratios further

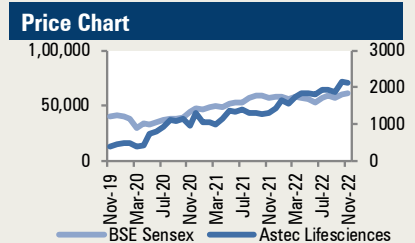
Alternate Stock Idea: Apart from Astec Lifesciences, in our chemical coverage we also like PI Industries.

- Trigger for PI Industries' future revenue growth would be strong order backlog in CSM and proposed foray into pharma CDMO
- BUY with a target price of ₹ 3710.



Particulars	
Particular	Amount
Market cap (₹ Crore)	4,184
FY22 Total Debt (₹ Crore)	279
FY22 Cash & Inv (₹ Crore)	2
EV (₹ Crore)	4,461
52 Week H/L	2275/1230
Equity Capital (₹ Crore)	19.6
Face Value (₹)	10

Shareholding pattern				
in %	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	65.2	65.3	65.3	66.8
DII	12.7	12.6	11.8	9.8
FII	0.3	0.3	0.5	1.5
Others	21.8	21.8	22.4	21.9



Recent event & key risks	
•	Export market witnessed strong growth for the quarter
•	Key Risk: (i) Propiconazole ban by other countries could impact earnings (ii) Better than expected CMO execution can improve overall performance further

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Revenue	430.9	522.6	554.9	676.6	17.8%	814.2	995.2	21.3%
EBITDA	76.5	85.6	111.6	154.1	24.2%	186.1	233.1	23.0%
EBITDA Margins (%)	17.7%	16.4%	20.1%	22.8%		22.9%	23.4%	
Adj. PAT	35.7	47.9	65.0	88.4	35.4%	103.9	129.8	21.2%
Adj. EPS (₹)	18.3	24.5	33.2	45.1		53.0	66.3	
EV/EBITDA	56.8x	50.0x	39.1x	28.9x		24.9x	19.8x	
P/E	116.8x	87.2x	64.3x	47.3x		40.2x	32.2x	
ROE (%)	17.6	19.4	21.0	22.3		20.8	20.6	
ROCE (%)	18.1	21.5	18.9	19.3		17.2	18.8	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlight

Q2FY23 Results: Higher growth from export businesses lead overall growth

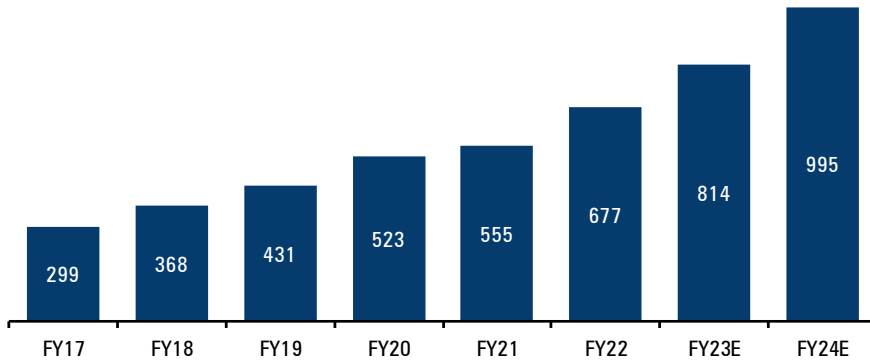
- **Strong growth from exports drives performance:** Revenues were up 94.7% YoY to ₹ 199.7 crore, led by better realisations across key molecules along with higher volumes in the CMO (**led by ramp up in the herbicide plant utilisation**). Revenue from exports market (~69% of overall revenue) was up 135% YoY to ₹ 137.8 crore while the same from the domestic market was up 41% YoY to ₹ 61.9 crore
- **Gross margins remain subdued in quarter:** GPM declined 1150 bps YoY to 38.5%, largely on the back of sharp increase in raw material prices, weak realisation due to high market inventories, unfavourable macros and inability to pass on full cost to customers, which degraded the overall operational performance for the quarter. Moreover, increase in fixed overheads related to herbicides plant has adversely impacted EBITDA margins (down 390 bps)

Q2FY23 Earnings Conference Call highlights

- The topline in Q2 was driven mainly by higher sales price realisations in both domestic as well as export markets compared to the same period last year. This was also supported by strong volume growth in export markets. Also, sales deferral of previous quarter, which was 15-20% of Q1 revenue was included in Q2 revenue
- CMO sales contributed 8% to total revenues in Q2FY23 compared to 4% in Q2FY22. It should be noted that the Q2FY22 performance was impacted by flooding in Mahad plant. Exports accounted for 69% of revenues in Q2FY23 and grew 136% YoY. Domestic sale also grew 41% YoY
- On the operational front, construction of new state-of the art facilities is in place. Also, two new products will get commercialised in H2FY23
- The management is aiming for ~20-25% CMO revenue in the short-term and will be heavily focusing on the segment in the mid to long term
- Herbicide plant capacity utilisation was 20-25% last year. The management is aiming at 55-60% capacity utilisation in the current year and full utilisation next year. Asset turnover is expected to be around 1.5-1.7x
- CMO sales contributed 11% to total revenues in H1FY23. CMO business performance and customer relationships are expected to be growth drivers for the management to expand into adjacent platform
- Currently, 52-55% raw material is imported on an annual basis. In H1, raw material imported was ~60-65%. The management will take steps in order to reduce its dependency on China
- One product facing challenges in the Europe market is on hold from customer end. The management sees a good pipeline on the CMO side due to China+1 and Europe+1 strategy
- On capex, there is sufficient funding in place and there is no intention for any right issue by the management. Capex spend is expected to be ~₹ 300-350 crore, of which ₹ 225-250 crore to be capitalised this year (₹ 100 crore for MPP plant, ₹ 110 crore for R&D centre). Rest will be utilised for acquisition of land. Further, debottlenecking of herbicide plant has been started and is in place with new projects. It will get commercialised in Q3FY24
- **Growth outlook** – The management's current focus is on herbicide area. Further, they have plans to enter in sulphonylurea and ultimately in florination chemistries

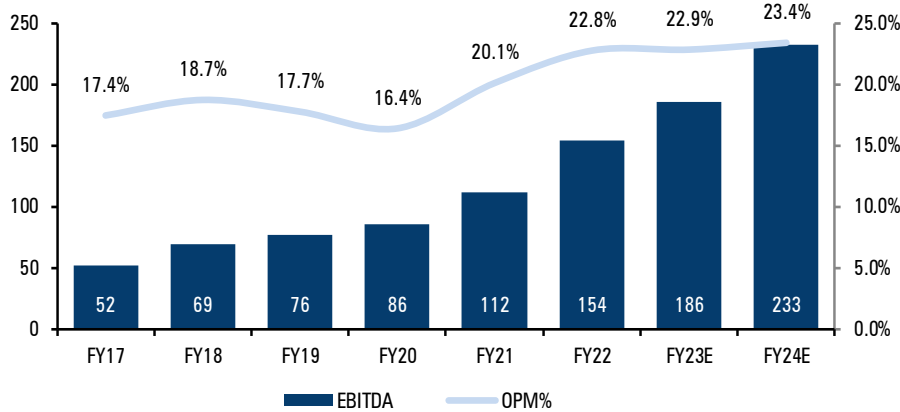
Financial story in charts....

Exhibit 1: Revenue trend (₹ crore)



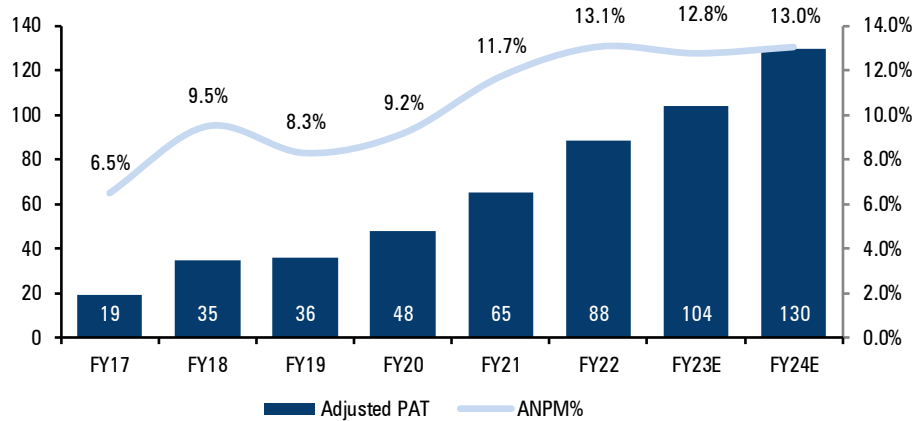
Source: Company, ICICI Direct Research

Exhibit 2: EBITDA (₹ crore) and OPM (%) trend



Source: Company, ICICI Direct Research

Exhibit 3: PAT growth trend (₹ crore)



Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement				
	₹ crore			
Year end March	FY21	FY22	FY23E	FY24E
Total Operating Income	554.9	676.6	814.2	995.2
Growth (%)	6.2	21.9	20.3	22.2
Raw Material Expenses	342.1	386.8	456.0	562.3
Employee Cost	38.4	50.3	61.1	77.6
Other Expenses	62.9	85.4	111.1	122.2
Total Operating Expenditure	443.3	522.5	628.1	762.1
EBITDA	111.6	154.1	186.1	233.1
Growth (%)	30.4	38.1	20.8	25.3
Other Income	7.9	10.5	13.4	15.5
Depreciation	25.7	34.4	46.4	58.6
Net Interest Exp.	4.8	9.1	13.0	14.9
Other exceptional items	0.0	0.0	0.0	0.0
PBT	89.1	121.1	140.1	175.0
Total Tax	24.0	31.2	36.1	45.1
PAT	65.1	89.9	104.0	129.9
Adjusted PAT	65.0	88.4	103.9	129.8
Growth (%)	35.8	35.9	17.6	24.9
Adjusted EPS (₹)	33.2	45.1	53.0	66.3

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
Year end March	FY21	FY22	FY23E	FY24E
PBT & Extraordinary	89.1	121.1	140.1	175.0
Add: Depreciation	25.7	34.4	46.4	58.6
After other adjustments				
(Inc) / Dec in Working Capital	-103.3	-110.1	-62.5	-43.9
Taxes	-23.0	-29.1	-36.1	-45.1
Others	3.5	7.4	13.0	14.9
CF from operating activities	-8.1	23.6	100.8	159.4
Purchase of Fixed Assets	-102.5	-104.0	-261.3	-130.0
Others	29.4	0.1	0.0	0.0
CF from investing activities	-73.2	-103.9	-261.3	-130.0
Issue/(Buy back) of Equity	0.7	0.3	0.0	0.0
Inc/(dec) in loan funds	88.4	92.0	110.0	-10.0
Dividend paid & dividend tax	-2.9	-2.9	0.0	0.0
Others	-4.8	-8.9	-13.0	-14.9
CF from financing activities	81.3	80.5	97.0	-24.9
Net cash flow	0.0	0.2	-63.5	4.5
Opening cash	1.5	1.6	2.1	-61.3
Closing cash	1.6	2.1	-61.3	-56.8

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet				
	₹ crore			
Year end March	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	19.6	19.6	19.6	19.6
Reserves & Surplus	289.6	376.9	480.8	610.7
Total Shareholders Funds	309.2	396.5	500.4	630.3
Minority Interest	0.1	0.2	0.2	0.2
Long Term Borrowings	40.0	0.0	60.0	100.0
Net Deferred Tax liability	5.5	8.1	8.1	8.1
Other long term liabilities	0.0	1.0	1.2	1.5
Long term provisions	0.5	0.4	0.5	0.6
Current Liabilities and Provisions				
Short term borrowings	147.0	279.4	329.4	279.4
Trade Payables	124.8	189.8	223.1	272.7
Other Current Liabilities	49.8	21.0	25.2	30.8
Short Term Provisions	0.6	0.4	0.5	0.6
Total Current Liabilities	322.3	490.6	578.2	583.5
Total Liabilities	677.6	896.8	1,148.6	1,324.2
Assets				
Net Block	212.7	339.9	498.6	540.0
Capital Work in Progress	111.7	13.7	70.0	100.0
Intangible assets under devel.	4.0	9.1	9.1	9.1
Goodwill on Consolidation	0.0	0.0	0.0	0.0
Non-current investments	0.0	0.0	0.0	0.0
Deferred tax assets	0.0	0.0	0.0	0.0
Long term loans and advances	3.3	2.9	3.5	4.3
Other Non Current Assets	15.4	15.4	18.6	22.7
Current Assets, Loans & Advances				
Current Investments	0.0	0.0	0.0	0.0
Inventories	106.1	186.9	223.1	245.4
Sundry Debtors	187.2	273.6	323.5	381.7
Cash and Bank	1.6	2.1	-61.3	-56.8
Loans and Advances	0.1	0.1	0.1	0.1
Other Current assets	35.5	52.8	63.6	77.7
Current Assets	330.4	515.7	548.9	648.1
Total Assets	677.6	896.8	1,148.6	1,324.2

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
Year end March	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Adj. EPS	33.2	45.1	53.0	66.3
Adj. Cash EPS	46.3	62.6	76.7	96.1
BV	157.8	202.3	255.4	321.6
DPS	1.5	0.0	0.0	0.0
Operating Ratios (%)				
Gross Margin (%)	38.4	42.8	44.0	43.5
EBITDA Margin (%)	20.1	22.8	22.9	23.4
PAT Margin (%)	11.7	13.1	12.8	13.0
Debtor Days	123	148	145	140
Inventory Days	70	101	100	90
Creditor Days	82	102	100	100
Cash Conversion Cycle	111	146	145	130
Return Ratios (%)				
Return on Assets (%)	9.6	9.9	9.0	9.8
RoCE (%)	18.9	19.3	17.2	18.8
RoE (%)	21.0	22.3	20.8	20.6
Solvency				
Total Debt / Equity	0.6	0.7	0.8	0.6
Interest Coverage	19.7	14.4	11.8	12.7
Current Ratio	1.0	1.1	0.9	1.1
Quick Ratio	0.7	0.7	0.6	0.7
Valuation Ratios (x)				
EV/EBITDA	39.1	28.9	24.9	19.8
P/E	64.3	47.3	40.2	32.2
P/B	13.5	10.5	8.4	6.6
EV/Sales	7.9	6.6	5.7	4.6

Source: Company, ICICI Direct Research

Exhibit 8: ICICI Direct coverage universe (Chemicals)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
SRF	2520	2,735	Buy	74,699	63.5	68.9	82.7	36.1	33.2	27.7	22.4	20.6	17.0	23.8	21.6	22.5	22.1	20.3	20.4
PI Industries	2987	3,710	Buy	45,324	55.5	67.2	82.4	57.6	47.6	38.8	40.8	34.2	27.8	16.3	17.1	18.2	13.8	14.5	15.2
Aarti Industries	768	885	Hold	27,822	36.1	25.1	31.6	22.7	32.7	25.9	24.0	19.6	16.0	12.0	13.0	13.9	13.3	13.5	14.8
Tata Chemical	1134	1,345	Buy	28,832	47.5	61.2	70.7	23.9	18.5	16.0	14.4	11.1	8.5	6.6	8.1	8.8	6.6	8.0	8.6
Vinati Organics	2016	2,320	Hold	20,717	33.7	40.1	51.5	56.0	47.1	36.7	44.7	37.0	28.3	24.3	23.2	23.9	19.0	19.1	20.5
Sumitomo Chemical	493	570	Buy	24,735	8.5	11.2	12.9	58.1	44.1	38.3	40.3	31.0	26.6	30.2	30.9	28.7	22.0	23.0	21.4
Navin Fluorine	4400	4,570	Hold	21,738	52.3	64.4	91.4	84.2	68.3	48.1	61.2	45.5	31.3	17.8	18.0	20.1	14.0	15.2	18.4
Rallis India	227	250	Hold	4,420	8.4	8.9	12.4	26.9	25.6	18.3	15.5	15.6	11.1	12.7	11.6	15.3	9.7	9.5	12.1
Sudarshan chemical	416	515	Hold	2,882	18.8	19.3	28.5	24.0	23.3	15.8	14.2	12.8	9.6	10.9	11.3	15.4	15.6	14.3	18.3
Neogen Chemicals	1513	1,645	Buy	3,773	17.9	27.2	32.9	79.5	52.2	43.2	41.8	30.2	25.0	12.0	15.0	16.2	10.2	13.6	14.3
Astec Lifesciences	2134	2,186	Hold	4,184	45.1	53.0	66.3	47.3	40.2	32.2	28.9	24.9	19.8	19.3	17.2	18.8	22.3	20.8	20.6

Source: Bloomberg, ICICI Direct Research

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