

## CRAMS likely to witness strong growth ahead...

**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 CRAMS segment

**Q3FY22 Results:** Numbers were above our estimates across all parameters.

- Reported revenue growth of 49% YoY to ₹ 173.4 crore, led by higher sales realisation and favourable product mix
- Gross margins expanded 1110 bps YoY to ~46.5% while EBITDA margin were up 1130 bps YoY to 24.7%
- EBITDA was up 175% YoY to ₹ 42.9 crore
- PAT was up 250% YoY to ₹ 24.8 crore due to strong operational performance and lower taxes (25% vs. 37% in Q3FY21)

**What should investors do?** The stock appreciated at 50% CAGR in last three years.

- We maintain **BUY** rating on the stock on the back of opportunity to play on the CRAMS business theme

**Target Price and Valuation:** We value Astec Lifesciences at 32x P/E FY24E EPS to arrive at a revised target price of ₹ 2120/share (earlier ₹ 1575/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

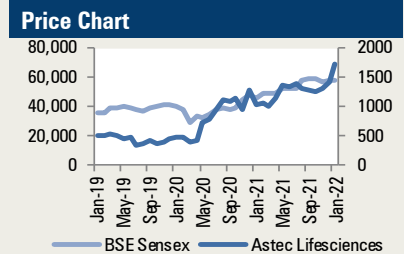
**Alternate Stock Idea:** Apart from Astec Lifesciences, in our chemical coverage we also like Neogen Chemical.

- For Neogen Chemical, future revenue growth is expected to be driven by increasing custom synthesis opportunity
- BUY with a target price of ₹ 2160



Particulars	
Particular	Amount
Market cap (₹ Crore)	3,386
FY21 Total Debt (₹ Crore)	187
FY21 Cash & Inv (₹ Crore)	2
EV (₹ Crore)	3,571
52 Week H/L	1825/987
Equity Capital (₹ Crore)	19.6
Face Value (₹)	10

Shareholding pattern				
in %	Mar-21	Jun-21	Sept-21	Dec-21
Promoter	65.2	65.2	65.2	65.2
DII	10.7	10.9	12.2	12.7
FII	0.3	0.2	0.2	0.3
Others	23.9	23.7	22.4	21.8



- Recent event & key risks**
- Both export and domestic market witnessed strong growth for the quarter
  - Key Risk:** (i) Propiconazole ban by other countries to impact earnings (ii) pricing pressure in key molecules to impact performance

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### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Net Revenue	430.9	522.6	554.9	17.6%	655.2	801.8	956.2	19.9%
EBITDA	76.5	85.6	111.6	31.5%	148.5	184.8	222.8	25.9%
EBITDA Margins (%)	17.7%	16.4%	20.1%		22.7%	23.1%	23.3%	
Adj. PAT	35.7	47.9	65.0	67.3%	84.3	107.7	129.9	25.9%
Adj. EPS (₹)	18.3	24.5	33.2		43.1	55.0	66.3	
EV/EBITDA	46.5x	40.7x	32.0x		23.9x	19.3x	15.6x	
P/E	94.7x	70.7x	52.1x		40.2x	31.5x	26.1x	
ROE (%)	17.6	19.4	21.0		21.6	21.9	21.1	
ROCE (%)	18.1	21.5	18.9		21.6	22.4	25.1	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlight

### Q3FY22 Results: Higher growth from both domestic, export businesses lead overall growth

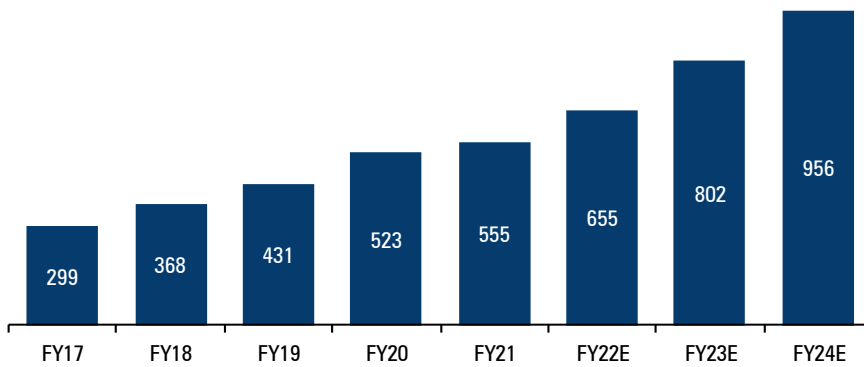
- **Strong growth from domestic & exports led performance:** Revenues were up 49% YoY to ₹ 173.4 crore, led by better realisations across key molecules along with changes in the product mix. The company had spillover sales of around ₹ 20-30 crore last quarter, which we believe has also lifted overall growth, to a certain extent. Revenue from exports market (~64% of overall revenue) was up 38.6% YoY while the same from the domestic market was up 73.4% YoY
- **Gross margins remain strong in quarter:** GPM improved 1110 bps YoY to 46.5%, largely on the back of better product mix, which lifted overall operational performance for the quarter. Moreover, the company was able to resort to price hike for key molecules, which has also contributed to an improvement in OPM for the quarter

### Q3FY22 Key Takeaways from press release

- The robust growth in Q3 was driven mainly by higher sales price realisations and favourable product mix. Consequently, gross margins and EBITDA margins witnessed a strong improvement for the quarter
- Commercial production at the new herbicide plant started in August 2021. The plant is operating satisfactorily. The company expects to see a good pick-up in the CRAMS business in Q4FY22
- Astec is on track to introduce four new products in CMO and one in enterprise segment in the current financial year
- Work on the new R&D centre had commenced in Q3FY22 and is expected to be operational by Q3FY23
- **9MFY22 Performance:** Exports segment sales recorded 6.6% growth while domestic segment recorded 4.8% sales growth compared to the same period last year. The share of exports in total income remained largely unchanged at 48.9% in 9MFY22 compared to last year

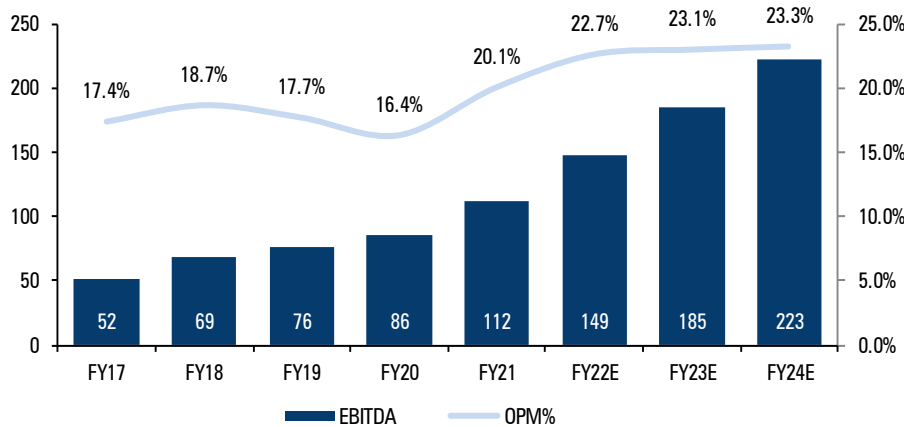
Financial story in charts....

Exhibit 1: Revenue trend (₹ crore)



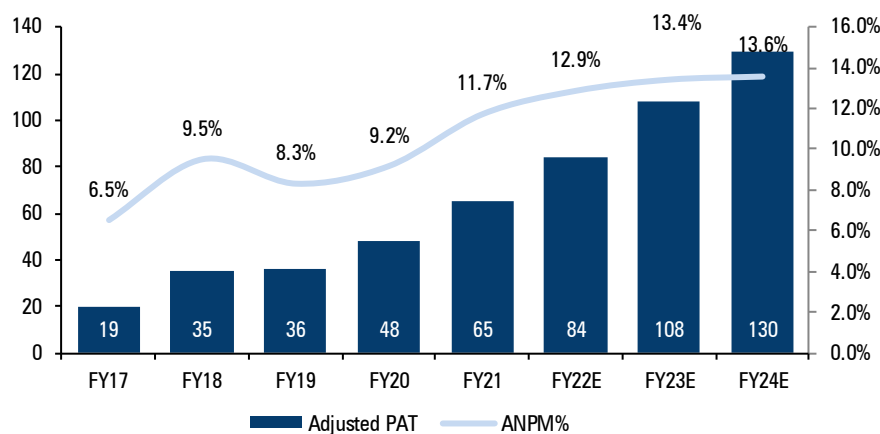
Source: Company, ICICI Direct Research

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	FY20	FY21	FY22E	FY23E	FY24E
<b>Total Operating Income</b>	<b>522.6</b>	<b>554.9</b>	<b>655.2</b>	<b>801.8</b>	<b>956.2</b>
Growth (%)	21.3	6.2	18.1	22.4	19.3
Raw Material Expenses	338.2	342.1	360.3	441.0	525.9
Employee Cost	29.9	38.4	46.5	54.5	62.2
Other Expenses	69.0	62.9	99.8	121.4	145.3
Total Operating Expenditure	437.1	443.3	506.6	616.9	733.4
<b>EBITDA</b>	<b>85.6</b>	<b>111.6</b>	<b>148.5</b>	<b>184.8</b>	<b>222.8</b>
Growth (%)	11.9	30.4	33.2	24.4	20.6
Other Income	11.9	7.9	5.9	7.1	7.8
Depreciation	23.2	25.7	32.9	39.4	50.2
Net Interest Exp.	12.6	4.8	9.0	9.0	7.2
Other exceptional items	0.0	0.0	0.0	0.0	0.0
PBT	61.7	89.1	112.5	143.6	173.2
Total Tax	13.8	24.0	28.1	35.9	43.3
<b>PAT</b>	<b>47.9</b>	<b>65.1</b>	<b>84.4</b>	<b>107.7</b>	<b>129.9</b>
Adjusted PAT	47.9	65.0	84.3	107.7	129.9
Growth (%)	34.0	35.8	29.7	27.6	20.6
Adjusted EPS (₹)	24.5	33.2	43.1	55.0	66.3

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					
	₹ crore				
Year end March	FY20	FY21	FY22E	FY23E	FY24E
PBT & Extraordinary	61.4	89.1	112.5	143.6	173.2
Add: Depreciation	23.2	25.7	32.9	39.4	50.2
After other adjustments					
(Inc) / Dec in Working Capital	87.8	-103.3	-29.6	-45.1	-47.5
Taxes	-18.2	-23.0	-28.1	-35.9	-43.3
Others	14.3	3.5	9.0	9.0	7.2
<b>CF from operating activities</b>	<b>168.4</b>	<b>-8.1</b>	<b>96.7</b>	<b>111.0</b>	<b>139.8</b>
Purchase of Fixed Assets	-45.3	-102.5	-60.0	-105.0	-35.0
Others	-28.5	29.4	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>-73.8</b>	<b>-73.2</b>	<b>-60.0</b>	<b>-105.0</b>	<b>-35.0</b>
Issue/(Buy back) of Equity	0.2	0.7	0.0	0.0	0.0
Inc/(dec) in loan funds	-78.3	88.4	-15.0	15.0	-85.0
Dividend paid & dividend tax	-2.9	-2.9	-3.8	-4.9	-5.9
Others	-13.5	-4.8	-9.0	-9.0	-7.2
<b>CF from financing activities</b>	<b>-94.5</b>	<b>81.3</b>	<b>-27.8</b>	<b>1.2</b>	<b>-98.1</b>
Net cash flow	0.1	0.0	8.9	7.1	6.7
Opening cash	1.5	1.5	1.6	10.4	17.6
<b>Closing cash</b>	<b>1.5</b>	<b>1.6</b>	<b>10.4</b>	<b>17.6</b>	<b>24.3</b>

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet					
	₹ crore				
Year end March	FY20	FY21	FY22E	FY23E	FY24E
<b>Liabilities</b>					
Equity Capital	19.6	19.6	19.6	19.6	19.6
Reserves & Surplus	227.0	289.6	370.1	472.9	596.9
<b>Total Shareholders Funds</b>	<b>246.6</b>	<b>309.2</b>	<b>389.7</b>	<b>492.5</b>	<b>616.5</b>
Minority Interest	0.3	0.1	0.2	0.2	0.2
Long Term Borrowings	0.0	40.0	40.0	40.0	0.0
Net Deferred Tax liability	6.1	5.5	5.5	5.5	5.5
Other long term liabilities	0.0	0.0	0.0	0.0	0.0
Long term provisions	0.3	0.5	0.6	0.8	0.9
<b>Current Liabilities and Provisions</b>					
Short term borrowings	98.7	147.0	132.0	147.0	102.0
Trade Payables	202.4	124.8	152.6	186.7	222.7
Other Current Liabilities	16.7	49.8	58.8	72.0	85.8
Short Term Provisions	0.5	0.6	0.7	0.9	1.1
Total Current Liabilities	318.4	322.3	344.1	406.6	411.6
<b>Total Liabilities</b>	<b>571.7</b>	<b>677.6</b>	<b>780.1</b>	<b>945.5</b>	<b>1,034.7</b>
<b>Assets</b>					
Net Block	193.6	212.7	321.4	317.1	401.9
Capital Work in Progress	22.1	111.7	30.0	100.0	0.0
Intangible assets under devl.	2.0	4.0	4.0	4.0	4.0
Goodwill on Consolidation	0.0	0.0	0.0	0.0	0.0
Non-current investments	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	0.0	0.0	0.0	0.0	0.0
Long term loans and advances	2.5	3.3	3.9	4.8	5.8
Other Non Current Assets	19.7	15.4	18.2	22.3	26.6
<b>Current Assets, Loans &amp; Advances</b>					
Current Investments	0.0	0.0	0.0	0.0	0.0
Inventories	121.2	106.1	134.6	164.7	196.5
Sundry Debtors	160.8	187.2	215.4	263.6	314.4
Cash and Bank	1.5	1.6	10.4	17.6	24.3
Loans and Advances	28.9	0.1	0.1	0.1	0.1
Other Current assets	19.3	35.5	42.0	51.4	61.2
Current Assets	331.8	330.4	402.5	497.3	596.5
<b>Total Assets</b>	<b>571.7</b>	<b>677.6</b>	<b>780.1</b>	<b>945.5</b>	<b>1,034.7</b>

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
Year end March	FY20	FY21	FY22E	FY23E	FY24E
<b>Per share data (₹)</b>					
Adj. EPS	24.5	33.2	43.1	55.0	66.3
Adj. Cash EPS	36.3	46.3	59.9	75.1	91.9
BV	126.0	157.8	198.9	251.4	314.7
DPS	1.5	1.5	1.9	2.5	3.0
<b>Operating Ratios (%)</b>					
Gross Margin (%)	35.3	38.4	45.0	45.0	45.0
EBITDA Margin (%)	16.4	20.1	22.7	23.1	23.3
PAT Margin (%)	9.2	11.7	12.9	13.4	13.6
Debtor Days	112	123	120	120	120
Inventory Days	85	70	75	75	75
Creditor Days	141	82	85	85	85
Cash Conversion Cycle	56	111	110	110	110
<b>Return Ratios (%)</b>					
Return on Assets (%)	8.4	9.6	10.8	11.4	12.5
RoCE (%)	21.5	18.9	21.6	22.4	25.1
RoE (%)	19.4	21.0	21.6	21.9	21.1
<b>Solvency</b>					
Total Debt / Equity	0.4	0.6	0.4	0.4	0.2
Interest Coverage	5.9	19.7	13.5	17.0	25.0
Current Ratio	1.0	1.0	1.2	1.2	1.4
Quick Ratio	0.7	0.7	0.8	0.8	1.0
<b>Valuation Ratios (x)</b>					
EV/EBITDA	40.7	32.0	23.9	19.3	15.6
P/E	70.7	52.1	40.2	31.5	26.1
P/B	13.7	11.0	8.7	6.9	5.5
EV/Sales	6.7	6.4	5.4	4.4	3.6

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		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
PI Industries	2428	3,340	Buy	36,836	48.6	53.8	66.8	56.4	50.9	41.0	39.1	34.5	28.6	17.2	17.2	18.3	13.8	13.4	14.5
Aarti Industries	982	1,120	Buy	35,591	14.5	18.8	32.0	66.5	51.3	30.1	38.3	29.0	19.2	10.7	11.0	16.1	15.0	12.8	18.3
Tata Chemical	919	1,035	Buy	23,419	10.1	39.9	49.3	88.5	22.3	18.0	16.9	11.2	8.9	4.1	6.6	7.7	1.8	6.8	7.9
Vinati Organics	1964	2,270	Buy	20,188	26.2	33.0	45.4	75.5	60.0	43.6	57.2	46.6	33.0	21.7	24.9	28.4	17.4	18.7	21.3
Sumitomo Chemical	376	505	Buy	18,793	6.9	8.5	10.1	54.6	44.4	37.4	37.7	30.6	25.3	29.8	29.3	28.1	22.4	22.1	21.2
Navin Fluorine	3824	3,710	Hold	18,946	45.0	53.0	73.1	77.8	66.0	47.9	54.0	46.7	31.9	21.0	19.0	22.6	13.6	14.2	17.0
Rallis India	277	305	Hold	5,388	11.4	9.7	13.8	24.3	28.7	20.1	15.9	18.5	12.8	18.0	13.9	18.2	13.9	10.9	13.9
Sudarshan chemical	579	695	Buy	4,011	20.4	19.7	25.7	28.4	29.4	22.6	15.7	15.9	12.7	19.0	16.1	18.2	15.2	13.6	16.2
Neogen Chemicals	1652	2,160	Buy	4,120	13.4	17.9	32.3	128.2	96.1	53.3	65.5	49.4	36.1	15.1	11.3	15.7	17.1	10.0	15.4
Astec Lifesciences	1730	2,120	Buy	3,389	33.2	43.1	55.0	52.1	40.2	31.5	32.0	23.9	19.3	18.9	21.6	22.4	21.0	21.6	21.9

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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