

Numbers below-par despite CMO performance...

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 (CMO)
- Enterprise sales constitute ~80% of overall revenues while the rest comes from the CMO segment

Q3FY23 Results: Revenues were weak led by sluggish demand and lower realisation for fungicides products in the domestic market.

- Reported revenue de-growth of 32.4% YoY to ₹ 117.2 crore, undone by volume headwinds in domestic and international market along with lower realisations for major key products
- Gross margins contracted 599 bps YoY to ~40.5% while EBITDA margin was down 1438 bps YoY to 10.3%. Absolute EBITDA was down 72% YoY to ₹ 12.1 crore
- Adjusted PAT was down 97% YoY to ₹ 80 lakh

What should investors do? The stock appreciated at 43% CAGR in last three years.

- We downgrade the stock from HOLD to **REDUCE** as the core enterprise business continues to lag behind our expectations due to poor fungicide performance. We continue to monitor success on the CMO space in the backdrop of capex execution

Target Price and Valuation: We value Astec Lifesciences at 25x FY25E EPS of ₹ 52.1 to arrive at a revised target price of ₹ 1300/share (earlier ₹ 2185/share).

Key triggers for future price performance:

- Better utilisation of herbicide plant to aid revenue growth for CMO business, which is expected to grow in high thirties over FY22-25E
- 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 SRF.

- Trigger for SRF's future revenue growth would be strong specialty chemical business
- BUY with a target price of ₹ 2550



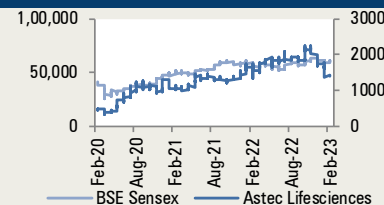
Particulars

| Particular | Amount |
|---------------------------|-----------|
| Market cap (₹ Crore) | 2,718 |
| FY22 Total Debt (₹ Crore) | 279 |
| FY22 Cash & Inv (₹ Crore) | 2 |
| EV (₹ Crore) | 2,995 |
| 52 Week H/L | 2289/1275 |
| Equity Capital (₹ Crore) | 19.6 |
| Face Value (₹) | 10 |

Shareholding pattern

| in % | Mar-22 | Jun-22 | Sep-22 | Dec-22 |
|----------|--------|--------|--------|--------|
| Promoter | 65.3 | 65.3 | 66.8 | 66.8 |
| DII | 12.6 | 11.8 | 9.8 | 9.6 |
| FII | 0.3 | 0.5 | 1.5 | 2.2 |
| Others | 21.8 | 22.4 | 21.9 | 21.5 |

Price Chart



Recent event & key risks

- CMO business witnessed strong growth for the quarter while domestic remained subdued
- Key Risk:** (i) Better than expected CMO execution can improve overall performance further, (ii) Persisting RM pressure and inability to pass on the same

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Key Financial Summary

| (₹ Crore) | FY19 | FY20 | FY21 | FY22 | 5 year CAGR (FY17-22) | FY23E | FY24E | FY25E | 3 year CAGR (FY22-24E) |
|--------------------|-------|-------|-------|-------|-----------------------|-------|-------|-------|------------------------|
| Net Revenue | 430.9 | 522.6 | 554.9 | 676.6 | 17.8% | 725.4 | 859.7 | 995.7 | 13.7% |
| EBITDA | 76.5 | 85.6 | 111.6 | 154.1 | 24.2% | 116.0 | 159.1 | 199.1 | 8.9% |
| EBITDA Margins (%) | 17.7% | 16.4% | 20.1% | 22.8% | | 16.0% | 18.5% | 20.0% | |
| Adj.PAT | 35.7 | 47.9 | 65.0 | 88.4 | 35.4% | 53.9 | 78.1 | 102.1 | 4.9% |
| Adj. EPS (₹) | 18.3 | 24.5 | 33.2 | 45.1 | | 27.5 | 39.9 | 52.1 | |
| EV/EBITDA | 37.7x | 32.9x | 26.0x | 19.4x | | 26.8x | 19.7x | 13.6x | |
| P/E | 75.9x | 56.7x | 41.8x | 30.8x | | 50.4x | 34.8x | 26.6x | |
| ROE (%) | 17.6 | 19.4 | 21.0 | 22.3 | | 12.0 | 14.8 | 16.2 | |
| ROCE (%) | 18.1 | 21.5 | 18.9 | 19.3 | | 10.1 | 12.6 | 14.5 | |

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlight

Q3FY23 Results: Lower domestic revenue lead overall de-growth

- Decline in enterprise sales both in domestic, export markets:** Revenues were down 32% YoY to ₹ 117.2 crore, led by lower realisations across key molecules along with lower volumes. Revenues from exports market (~76% of overall revenue) were down 20% YoY to ₹ 89.1 crore while the same from the domestic market was down 55% YoY to ₹ 28.1 crore. The only silver lining was CMO (this is part of exports), which was up 42% YoY to ₹ 49.2 crore
- Gross margins remain subdued in quarter:** GPM declined 599 bps YoY to 40.5%, largely on the back of a 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 led to a deterioration of the overall operational performance for the quarter. Moreover, increase in fixed overheads related to herbicides plant and increase in other expenses adversely impacted EBITDA margins (down 1438 bps)

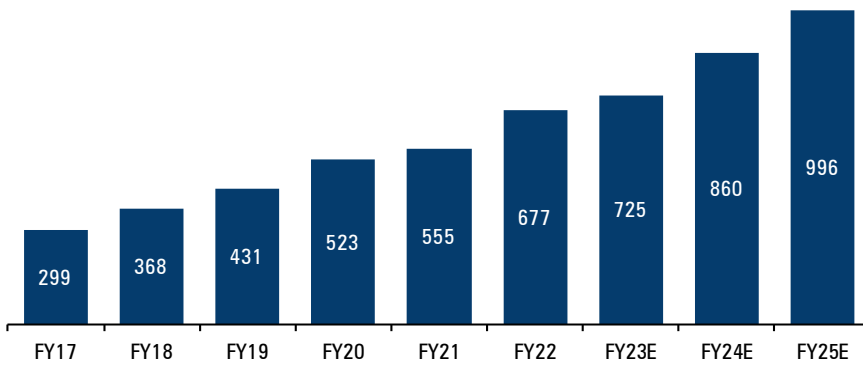
Astec - ESG Disclosure Score*

| Score | FY20 | FY21 | FY22 |
|--------------------------|-----------|-----------|-----------|
| Environmental | NA | NA | NA |
| Social | NA | NA | NA |
| Governance | NA | NA | NA |
| Overall ESG Score | NA | NA | NA |

*Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures*

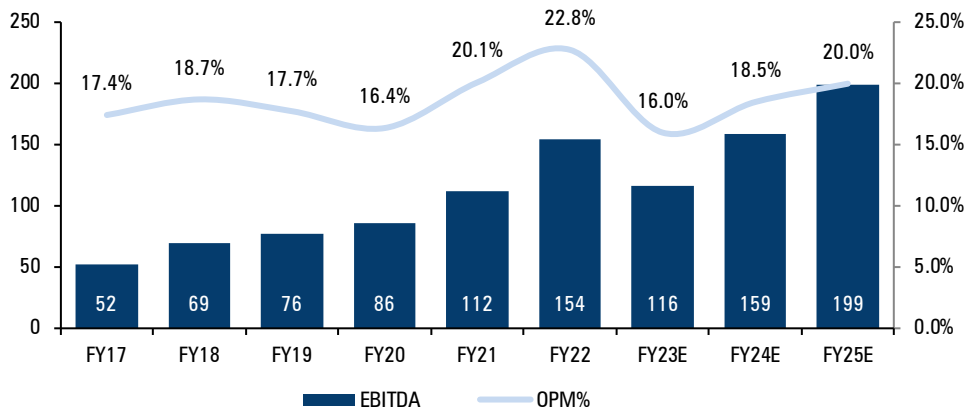
Financial story in charts....

Exhibit 1: Revenue trend (₹ crore)



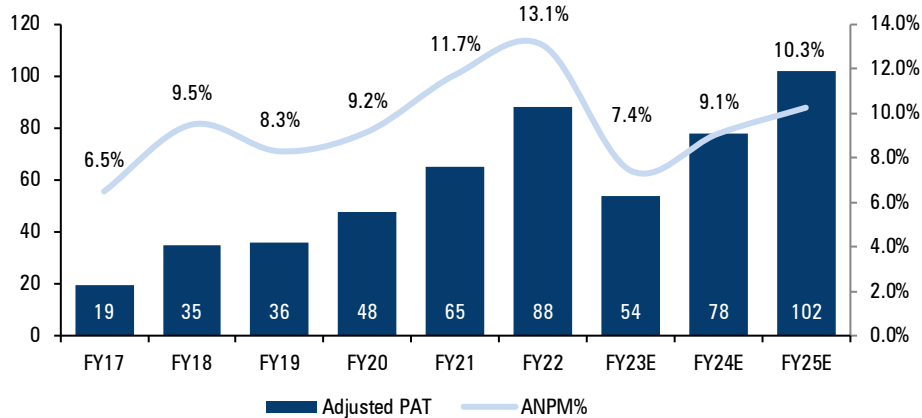
Source: Company, ICICI Direct Research

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 | FY25E | |
| Total Operating Income | 554.9 | 676.6 | 725.4 | 859.7 | 995.7 | |
| Growth (%) | 6.2 | 21.9 | 7.2 | 18.5 | 15.8 | |
| Raw Material Expenses | 342.1 | 386.8 | 406.2 | 485.7 | 562.6 | |
| Employee Cost | 38.4 | 50.3 | 54.4 | 67.1 | 77.7 | |
| Other Expenses | 62.9 | 85.4 | 148.7 | 147.9 | 156.3 | |
| Total Operating Expenditure | 443.3 | 522.5 | 609.3 | 700.7 | 796.6 | |
| EBITDA | 111.6 | 154.1 | 116.0 | 159.1 | 199.1 | |
| Growth (%) | 30.4 | 38.1 | -24.7 | 37.1 | 25.2 | |
| Other Income | 7.9 | 10.5 | 13.4 | 15.5 | 16.5 | |
| Depreciation | 25.7 | 34.4 | 43.6 | 53.0 | 61.0 | |
| Net Interest Exp. | 4.8 | 9.1 | 13.2 | 16.3 | 17.1 | |
| Other exceptional items | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| PBT | 89.1 | 121.1 | 72.7 | 105.3 | 137.6 | |
| Total Tax | 24.0 | 31.2 | 18.7 | 27.2 | 35.5 | |
| PAT | 65.1 | 89.9 | 53.9 | 78.1 | 102.1 | |
| Adjusted PAT | 65.0 | 88.4 | 53.9 | 78.1 | 102.1 | |
| Growth (%) | 35.8 | 35.9 | -39.0 | 44.9 | 30.7 | |
| Adjusted EPS (₹) | 33.2 | 45.1 | 27.5 | 39.9 | 52.1 | |

Source: Company, ICICI Direct Research

| Exhibit 5: Cash flow statement | | | | | | ₹ crore |
|-------------------------------------|--------------|---------------|---------------|---------------|---------------|---------|
| Year end March | FY21 | FY22 | FY23E | FY24E | FY25E | |
| PBT & Extraordinary | 89.1 | 121.1 | 72.7 | 105.3 | 137.6 | |
| Add: Depreciation | 25.7 | 34.4 | 43.6 | 53.0 | 61.0 | |
| After other adjustments | | | | | | |
| (Inc) / Dec in Working Capital | -103.3 | -110.1 | -20.9 | -27.6 | -58.2 | |
| Taxes | -23.0 | -29.1 | -18.7 | -27.2 | -35.5 | |
| Others | 3.5 | 7.4 | 13.2 | 16.3 | 17.1 | |
| CF from operating activities | -8.1 | 23.6 | 89.8 | 119.8 | 122.0 | |
| Purchase of Fixed Assets | -102.5 | -104.0 | -191.3 | -130.0 | -100.0 | |
| Others | 29.4 | 0.1 | 0.0 | 0.0 | 0.0 | |
| CF from investing activities | -73.2 | -103.9 | -191.3 | -130.0 | -100.0 | |
| Issue/(Buy back) of Equity | 0.7 | 0.3 | 0.0 | 0.0 | 0.0 | |
| Inc/(dec) in loan funds | 88.4 | 92.0 | 120.0 | 40.0 | 0.0 | |
| Dividend paid & dividend tax | -2.9 | -2.9 | 0.0 | 0.0 | 0.0 | |
| Others | -4.8 | -8.9 | -13.2 | -16.3 | -17.1 | |
| CF from financing activities | 81.3 | 80.5 | 106.8 | 23.7 | -17.1 | |
| Net cash flow | 0.0 | 0.2 | 5.3 | 13.5 | 4.9 | |
| Opening cash | 1.5 | 1.6 | 2.1 | 7.5 | 20.9 | |
| Closing cash | 1.6 | 2.1 | 7.5 | 20.9 | 25.9 | |

Source: Company, ICICI Direct Research

| Exhibit 6: Balance sheet | | | | | | ₹ crore |
|---|--------------|--------------|----------------|----------------|----------------|---------|
| Year end March | FY21 | FY22 | FY23E | FY24E | FY25E | |
| Liabilities | | | | | | |
| Equity Capital | 19.6 | 19.6 | 19.6 | 19.6 | 19.6 | |
| Reserves & Surplus | 289.6 | 376.9 | 430.8 | 508.9 | 611.0 | |
| Total Shareholders Funds | 309.2 | 396.5 | 450.4 | 528.5 | 630.6 | |
| Minority Interest | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | |
| Long Term Borrowings | 40.0 | 0.0 | 70.0 | 110.0 | 110.0 | |
| Net Deferred Tax liability | 5.5 | 8.1 | 8.1 | 8.1 | 8.1 | |
| Other long term liabilities | 0.0 | 1.0 | 1.1 | 1.3 | 1.5 | |
| Long term provisions | 0.5 | 0.4 | 0.5 | 0.5 | 0.6 | |
| Current Liabilities and Provisions | | | | | | |
| Short term borrowings | 147.0 | 279.4 | 329.4 | 329.4 | 329.4 | |
| Trade Payables | 124.8 | 189.8 | 198.7 | 235.5 | 272.8 | |
| Other Current Liabilities | 49.8 | 21.0 | 22.5 | 26.6 | 30.8 | |
| Short Term Provisions | 0.6 | 0.4 | 0.5 | 0.5 | 0.6 | |
| Total Current Liabilities | 322.3 | 490.6 | 551.0 | 592.1 | 633.7 | |
| Total Liabilities | 677.6 | 896.8 | 1,081.2 | 1,240.7 | 1,384.7 | |
| Assets | | | | | | |
| Net Block | 212.7 | 339.9 | 431.4 | 478.4 | 517.4 | |
| Capital Work in Progress | 111.7 | 13.7 | 70.0 | 100.0 | 100.0 | |
| Intangible assets under devl. | 4.0 | 9.1 | 9.1 | 9.1 | 9.1 | |
| 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 | 3.3 | 2.9 | 3.1 | 3.7 | 4.3 | |
| Other Non Current Assets | 15.4 | 15.4 | 16.5 | 19.6 | 22.7 | |
| Current Assets, Loans & Advances | | | | | | |
| Current Investments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Inventories | 106.1 | 186.9 | 198.7 | 212.0 | 245.5 | |
| Sundry Debtors | 187.2 | 273.6 | 288.2 | 329.8 | 381.9 | |
| Cash and Bank | 1.6 | 2.1 | 7.5 | 20.9 | 25.9 | |
| Loans and Advances | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | |
| Other Current assets | 35.5 | 52.8 | 56.6 | 67.1 | 77.7 | |
| Current Assets | 330.4 | 515.7 | 551.2 | 630.0 | 731.2 | |
| Total Assets | 677.6 | 896.8 | 1,081.2 | 1,240.7 | 1,384.7 | |

Source: Company, ICICI Direct Research

| Exhibit 7: Key ratios | | | | | |
|-----------------------------|-------|-------|-------|-------|-------|
| Year end March | FY21 | FY22 | FY23E | FY24E | FY25E |
| Per share data (₹) | | | | | |
| Adj. EPS | 33.2 | 45.1 | 27.5 | 39.9 | 52.1 |
| Adj. Cash EPS | 46.3 | 62.6 | 49.7 | 66.9 | 83.2 |
| BV | 157.8 | 202.3 | 229.8 | 269.7 | 321.8 |
| DPS | 1.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Operating Ratios (%) | | | | | |
| Gross Margin (%) | 38.4 | 42.8 | 44.0 | 43.5 | 43.5 |
| EBITDA Margin (%) | 20.1 | 22.8 | 16.0 | 18.5 | 20.0 |
| PAT Margin (%) | 11.7 | 13.1 | 7.4 | 9.1 | 10.3 |
| Debtor Days | 123 | 148 | 145 | 140 | 140 |
| Inventory Days | 70 | 101 | 100 | 90 | 90 |
| Creditor Days | 82 | 102 | 100 | 100 | 100 |
| Cash Conversion Cycle | 111 | 146 | 145 | 130 | 130 |
| Return Ratios (%) | | | | | |
| Return on Assets (%) | 9.6 | 9.9 | 5.0 | 6.3 | 7.4 |
| RoCE (%) | 18.9 | 19.3 | 10.1 | 12.6 | 14.5 |
| RoE (%) | 21.0 | 22.3 | 12.0 | 14.8 | 16.2 |
| Solvency | | | | | |
| Total Debt / Equity | 0.6 | 0.7 | 0.9 | 0.8 | 0.7 |
| Interest Coverage | 19.7 | 14.4 | 6.5 | 7.5 | 9.1 |
| Current Ratio | 1.0 | 1.1 | 1.0 | 1.1 | 1.2 |
| Quick Ratio | 0.7 | 0.7 | 0.6 | 0.7 | 0.8 |
| Valuation Ratios (x) | | | | | |
| EV/EBITDA | 26.0 | 19.4 | 26.8 | 19.7 | 13.6 |
| P/E | 41.8 | 30.8 | 50.4 | 34.8 | 26.6 |
| P/B | 8.8 | 6.9 | 6.0 | 5.1 | 4.3 |
| EV/Sales | 5.2 | 4.4 | 4.3 | 3.6 | 2.7 |

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 | 2182 | 2,550 | Buy | 64,894 | 63.5 | 58.3 | 73.6 | 34.4 | 37.4 | 29.7 | 21.3 | 22.4 | 17.9 | 23.8 | 18.9 | 21.0 | 22.1 | 17.7 | 19.0 |
| PI Industries | 3620 | 3,930 | Hold | 50,572 | 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 |
| Tata Chemical | 965 | 1,170 | Buy | 24,642 | 93.0 | 97.3 | 110.6 | 10.4 | 9.9 | 8.7 | 6.6 | 5.5 | 5.4 | 11.8 | 11.3 | 11.7 | 11.6 | 11.0 | 11.2 |
| Vinati Organics | 1888 | 2,055 | Hold | 19,405 | 33.7 | 41.6 | 48.0 | 56.0 | 45.4 | 39.4 | 44.7 | 35.6 | 30.3 | 24.3 | 23.9 | 22.4 | 19.0 | 19.7 | 19.2 |
| Sumitomo Chemical | 438 | 525 | Buy | 21,860 | 8.5 | 10.8 | 12.4 | 51.6 | 40.5 | 35.2 | 35.7 | 28.4 | 24.2 | 30.2 | 30.1 | 28.1 | 22.0 | 22.4 | 20.9 |
| Navin Fluorine | 4162 | 4,285 | Hold | 20,668 | 52.3 | 65.7 | 86.0 | 79.6 | 63.4 | 48.4 | 57.9 | 42.3 | 31.2 | 17.8 | 18.3 | 19.1 | 14.0 | 15.5 | 17.4 |
| Rallis India | 224 | 223 | Hold | 4,353 | 8.4 | 8.7 | 11.8 | 26.5 | 25.7 | 18.9 | 15.2 | 15.5 | 11.4 | 12.7 | 11.4 | 14.7 | 9.7 | 9.4 | 11.6 |
| Sudarshan chemical | 391 | 385 | Hold | 2,621 | 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 | 1245 | 1,645 | Buy | 3,109 | 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 | 1387 | 1,307 | Reduce | 2,718 | 45.1 | 27.5 | 39.9 | 30.8 | 50.4 | 34.8 | 19.4 | 26.8 | 19.7 | 19.3 | 10.1 | 12.6 | 22.3 | 12.0 | 14.8 |

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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