

## CMO to spearhead numbers as enterprise business continues to drag...

**About the stock:** Incorporated in 1994, Astec Lifesciences 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

**Q4FY23 Results:** Revenues remained subdued led by sluggish demand and lower realisation for triazole fungicides products in the domestic market.

- Revenue posted de-growth of 53.3% YoY to ₹ 127 crore, undone by volume headwinds in the domestic and international market along with lower realisations for major key products
- Gross margins contracted 730 bps YoY to ~32.1% while EBITDA margin was down 1981 bps YoY to 4.3%. Absolute EBITDA was down 92% YoY to ₹ 5.4 crore
- Adjusted PAT came in at negative ₹ 5 crore

**What should investors do?** The stock appreciated at 40% CAGR in last three years.

- We maintain **REDUCE** rating as fungicide situation in the domestic market is not favourable for many players. We continue to monitor success in 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 FY25E EPS of ₹ 41 to arrive at a revised target price of ₹ 1350/share (earlier ₹ 1300/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

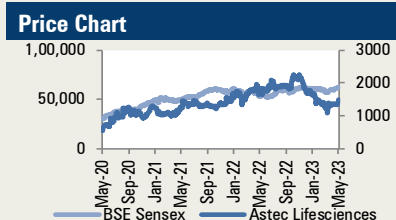
**Alternate Stock Idea:** Apart from Astec Lifesciences, in our chemical coverage we also like SRF.

- Trigger for SRF's future revenue growth would be strong specialty chemical business
- BUY with a target price of ₹ 3000.



| Particulars               |           |
|---------------------------|-----------|
| Particular                | Amount    |
| Market cap (₹ Crore)      | 2,963     |
| FY23 Total Debt (₹ Crore) | 341       |
| FY23 Cash & Inv (₹ Crore) | 2         |
| EV (₹ Crore)              | 3,302     |
| 52 Week H/L               | 2289/1045 |
| Equity Capital (₹ Crore)  | 19.6      |
| Face Value (₹)            | 10        |

| Shareholding pattern |        |        |        |        |
|----------------------|--------|--------|--------|--------|
| in %                 | Jun-22 | Sep-22 | Dec-22 | Mar-23 |
| Promoter             | 65.3   | 66.8   | 66.8   | 66.8   |
| DII                  | 11.8   | 9.8    | 9.6    | 10.6   |
| FII                  | 0.5    | 1.5    | 2.2    | 2.3    |
| Others               | 22.4   | 21.9   | 21.5   | 20.4   |



- ### Recent event & key risks
- Recently launched new advanced R&D centre in Maharashtra
  - Key Risk:** (i) Better than expected growth in domestic market. (ii) Better than expected CMO execution can improve overall performance further

### Research Analyst

Siddhant Khandekar  
siddhant.khandekar@icicisecurities.com

Karan Khona  
karan.khona@icicisecurities.com

### Key Financial Summary

| (₹ Crore)          | FY19  | FY20  | FY21  | FY22  | FY23   | 5 year CAGR (FY18-23) | FY24E | FY25E | 2 year CAGR (FY23-25E) |
|--------------------|-------|-------|-------|-------|--------|-----------------------|-------|-------|------------------------|
| Net Revenue        | 430.9 | 522.6 | 554.9 | 676.6 | 628.2  | 11.3%                 | 716.6 | 902.4 | 12.2%                  |
| EBITDA             | 76.5  | 85.6  | 111.6 | 154.1 | 76.3   | 2.1%                  | 122.0 | 161.1 | 14.9%                  |
| EBITDA Margins (%) | 17.7% | 16.4% | 20.1% | 22.8% | 12.1%  |                       | 17.0% | 17.8% |                        |
| Adj. PAT           | 35.7  | 47.9  | 65.0  | 88.4  | 24.0   | -7.2%                 | 58.1  | 80.6  | 17.8%                  |
| Adj. EPS (₹)       | 18.3  | 24.5  | 33.2  | 45.1  | 12.2   |                       | 29.7  | 41.1  |                        |
| EV/EBITDA          | 40.2x | 35.1x | 27.7x | 20.7x | 42.6x  |                       | 26.7x | 18.1x |                        |
| P/E                | 81.1x | 60.6x | 44.7x | 32.9x | 121.1x |                       | 50.0x | 36.1x |                        |
| ROE (%)            | 17.6  | 19.4  | 21.0  | 22.3  | 5.7    |                       | 12.4  | 14.9  |                        |
| ROCE (%)           | 18.1  | 21.5  | 18.9  | 19.3  | 7.3    |                       | 11.9  | 13.9  |                        |

## Key takeaways of recent quarter & conference call highlight

### Q4FY23 Results: Lower domestic revenue leads overall degrowth

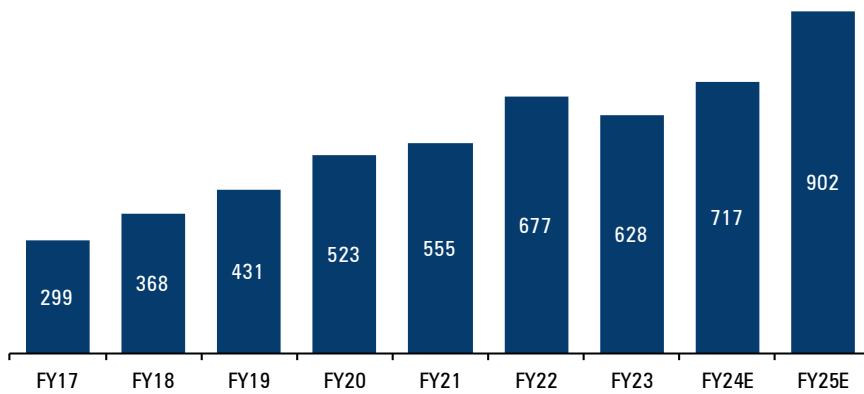
- **Decline in enterprise sales both in domestic and export markets:** Revenues were down 53% YoY to ₹ 127 crore, led by lower realisations across key molecules along with lower volumes. Revenue from exports market (~52% of overall Q4FY23 revenue) was down 66.1% YoY to ₹ 65.4 crore while domestic was down 21.9% YoY to ₹ 61.5 crore. Revenue from CMO business was up 11.9% YoY to ₹ 69.2 crore
- **Gross margins remain subdued in quarter:** GPM declined 750 bps YoY to 32.1%, 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 degraded the overall operational performance for the quarter. Moreover, increase in fixed overheads related to herbicides plant and increase in other expenses has adversely impacted EBITDA margins (down 1981 bps)

### Q4FY23 Earnings Conference Call highlights

- Astec Lifesciences, Q4 and full year topline was severely impacted by sluggish demand for key enterprise products, tebuconazole and propiconazole and a sharp drop in realisation
- For Q1FY24, the company is witnessing a wait-and-watch strategy from some customers in the backdrop of a continuous fall in fungicide prices. The expectation is that the price could fall further due to aggressive channelling by Chinese players post Covid
- The management on Tebuconazole and Propiconazole pricing scenario
  - In tebuconazole the price declines were as high as 69% from its peak few quarters back. On propiconazole, the price declines were in the range of 42% to 44%
- The herbicide plant is expected to get commissioned in October. The company has already made plans to make the first phase of MPP, which will cost ~₹ 500 crore
- The company is putting in a few opportunistic enterprise products within the fungicides as well as herbicide area to expand the portfolio keeping an eye on margins
- The company has witnessed CMO growth from new investment in herbicide 1 plant. Astec had used those assets to build on the CMO portfolio. The company continues to witness a decent pipeline of CMO projects in due course

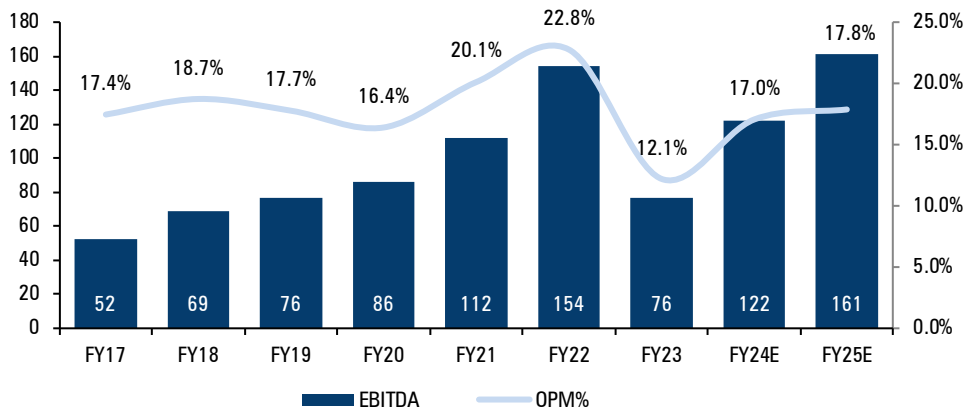
## Financial story in charts....

**Exhibit 1: Revenue trend (₹ crore)**



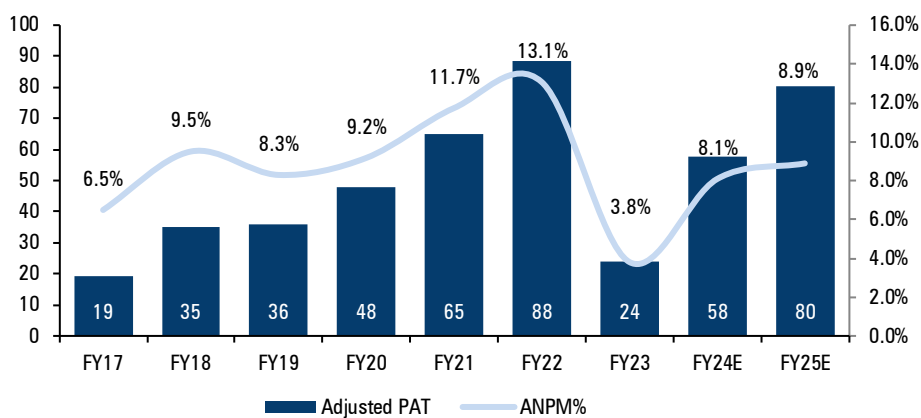
Source: Company, ICICI Direct Research

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



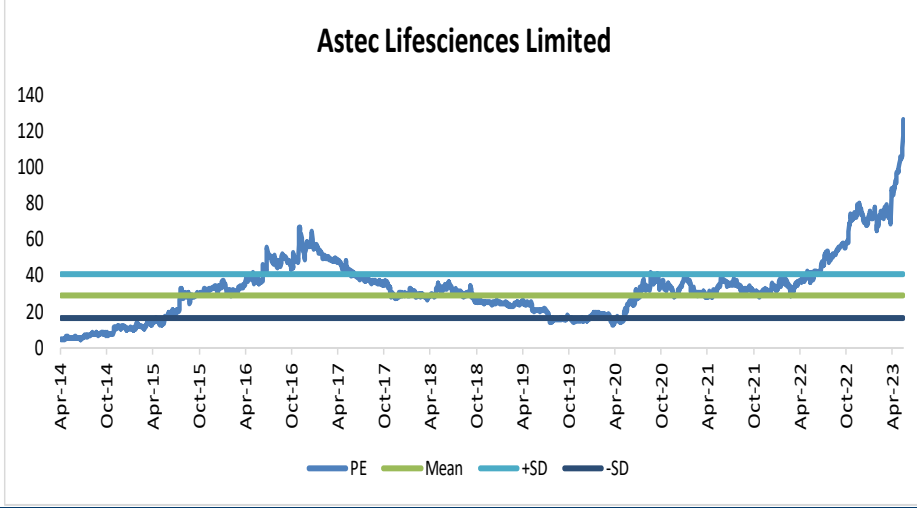
Source: Company, ICICI Direct Research

**Exhibit 3: PAT growth trend (₹ crore)**



Source: Company, ICICI Direct Research

Exhibit 4: PE Band



Source: ICICI Direct Research

## Financial summary

| Exhibit 5: Profit and loss statement |              |              |              |              | ₹ crore |
|--------------------------------------|--------------|--------------|--------------|--------------|---------|
| Year end March                       | FY22         | FY23         | FY24E        | FY25E        |         |
| <b>Total Operating Income</b>        | <b>676.6</b> | <b>628.2</b> | <b>716.6</b> | <b>902.4</b> |         |
| Growth (%)                           | 21.9         | -7.2         | 14.1         | 25.9         |         |
| Raw Material Expenses                | 386.8        | 401.2        | 430.0        | 523.4        |         |
| Employee Cost                        | 50.3         | 52.3         | 55.9         | 70.4         |         |
| Other Expenses                       | 85.4         | 98.4         | 108.7        | 147.5        |         |
| Total Operating Expenditure          | 522.5        | 551.9        | 594.6        | 741.3        |         |
| <b>EBITDA</b>                        | <b>154.1</b> | <b>76.3</b>  | <b>122.0</b> | <b>161.1</b> |         |
| Growth (%)                           | 38.1         | -50.5        | 60.0         | 32.0         |         |
| Other Income                         | 10.5         | 13.0         | 15.5         | 16.5         |         |
| Depreciation                         | 34.4         | 33.7         | 37.9         | 45.6         |         |
| Net Interest Exp.                    | 9.1          | 20.7         | 21.5         | 23.9         |         |
| Other exceptional items              | 0.0          | 0.0          | 0.0          | 0.0          |         |
| PBT                                  | 121.1        | 34.8         | 78.1         | 108.1        |         |
| Total Tax                            | 31.2         | 9.3          | 20.1         | 27.9         |         |
| <b>PAT</b>                           | <b>89.9</b>  | <b>25.5</b>  | <b>57.9</b>  | <b>80.2</b>  |         |
| Adjusted PAT                         | 88.4         | 24.0         | 57.9         | 80.2         |         |
| Growth (%)                           | 35.9         | -72.8        | 141.2        | 38.4         |         |
| Adjusted EPS (₹)                     | 45.1         | 12.2         | 29.5         | 40.9         |         |

Source: Company, ICICI Direct Research

| Exhibit 6: Cash flow statement      |               |               |               |               | ₹ crore |
|-------------------------------------|---------------|---------------|---------------|---------------|---------|
| Year end March                      | FY22          | FY23          | FY24E         | FY25E         |         |
| PBT & Extraordinary                 | 121.1         | 34.9          | 78.1          | 108.1         |         |
| Add: Depreciation                   | 34.4          | 33.7          | 37.9          | 45.6          |         |
| After other adjustments             |               |               |               |               |         |
| (Inc) / Dec in Working Capital      | -110.1        | -5.9          | 8.7           | -84.3         |         |
| Taxes                               | -29.1         | -4.9          | -20.1         | -27.9         |         |
| Others                              | 7.4           | 16.9          | 21.5          | 23.9          |         |
| <b>CF from operating activities</b> | <b>23.6</b>   | <b>74.7</b>   | <b>126.1</b>  | <b>65.4</b>   |         |
| Purchase of Fixed Assets            | -104.0        | -116.5        | -110.0        | -100.0        |         |
| Others                              | 0.1           | 4.0           | 0.0           | 0.0           |         |
| <b>CF from investing activities</b> | <b>-103.9</b> | <b>-112.5</b> | <b>-110.0</b> | <b>-100.0</b> |         |
| Issue/(Buy back) of Equity          | 0.3           | 0.0           | 0.0           | 0.0           |         |
| Inc/(dec) in loan funds             | 92.0          | 60.6          | 35.0          | 45.0          |         |
| Dividend paid & dividend tax        | -2.9          | -2.9          | -7.1          | -9.8          |         |
| Others                              | -8.9          | -19.9         | -21.5         | -23.9         |         |
| <b>CF from financing activities</b> | <b>80.5</b>   | <b>37.8</b>   | <b>6.4</b>    | <b>11.3</b>   |         |
| Net cash flow                       | 0.2           | -0.1          | 22.5          | -23.3         |         |
| Opening cash                        | 1.6           | 2.1           | 2.2           | 24.5          |         |
| <b>Closing cash</b>                 | <b>2.1</b>    | <b>2.2</b>    | <b>24.5</b>   | <b>1.2</b>    |         |

Source: Company, ICICI Direct Research

| Exhibit 7: Balance sheet                    |              |              |                |                | ₹ crore |
|---|--------------|--------------|----------------|----------------|---------|
| Year end March                              | FY22         | FY23         | FY24E          | FY25E          |         |
| <b>Liabilities</b>                          |              |              |                |                |         |
| Equity Capital                              | 19.6         | 19.6         | 19.6           | 19.6           |         |
| Reserves & Surplus                          | 376.9        | 399.8        | 450.6          | 520.9          |         |
| <b>Total Shareholders Funds</b>             | <b>396.5</b> | <b>419.4</b> | <b>470.2</b>   | <b>540.5</b>   |         |
| Minority Interest                           | 0.2          | 0.2          | 0.2            | 0.2            |         |
| Long Term Borrowings                        | 0.0          | 10.9         | 10.9           | 30.9           |         |
| Net Deferred Tax liability                  | 8.1          | 21.0         | 21.0           | 21.0           |         |
| Other long term liabilities                 | 1.0          | 1.3          | 1.5            | 1.9            |         |
| Long term provisions                        | 0.4          | 0.5          | 0.5            | 0.7            |         |
| <b>Current Liabilities and Provisions</b>   |              |              |                |                |         |
| Short term borrowings                       | 279.4        | 330.3        | 365.3          | 390.3          |         |
| Trade Payables                              | 189.8        | 177.2        | 196.3          | 247.2          |         |
| Other Current Liabilities                   | 21.0         | 17.9         | 20.5           | 25.8           |         |
| Short Term Provisions                       | 0.4          | 0.7          | 0.9            | 1.1            |         |
| Total Current Liabilities                   | 490.6        | 526.2        | 583.0          | 664.4          |         |
| <b>Total Liabilities</b>                    | <b>896.8</b> | <b>979.4</b> | <b>1,087.3</b> | <b>1,259.6</b> |         |
| <b>Assets</b>                               |              |              |                |                |         |
| Net Block                                   | 339.9        | 318.5        | 402.9          | 457.3          |         |
| Capital Work in Progress                    | 13.7         | 112.4        | 100.0          | 100.0          |         |
| Intangible assets under devl.               | 9.1          | 14.2         | 14.2           | 14.2           |         |
| 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                | 2.9          | 3.4          | 3.8            | 4.8            |         |
| Other Non Current Assets                    | 15.4         | 32.1         | 36.6           | 46.1           |         |
| <b>Current Assets, Loans &amp; Advances</b> |              |              |                |                |         |
| Current Investments                         | 0.0          | 0.0          | 0.0            | 0.0            |         |
| Inventories                                 | 186.9        | 294.8        | 176.7          | 222.5          |         |
| Sundry Debtors                              | 273.6        | 154.9        | 274.9          | 346.1          |         |
| Cash and Bank                               | 2.1          | 2.2          | 24.5           | 1.2            |         |
| Loans and Advances                          | 0.1          | 0.6          | 0.6            | 0.6            |         |
| Other Current assets                        | 52.8         | 46.3         | 52.9           | 66.6           |         |
| Current Assets                              | 515.7        | 498.8        | 529.5          | 637.0          |         |
| <b>Total Assets</b>                         | <b>896.8</b> | <b>979.4</b> | <b>1,087.2</b> | <b>1,259.5</b> |         |

Source: Company, ICICI Direct Research

| Exhibit 8: Key ratios       |       |       |       |       |
|-----------------------------|-------|-------|-------|-------|
| Year end March              | FY22  | FY23  | FY24E | FY25E |
| <b>Per share data (₹)</b>   |       |       |       |       |
| Adj. EPS                    | 45.1  | 12.2  | 29.5  | 40.9  |
| Adj. Cash EPS               | 62.6  | 29.4  | 48.9  | 64.1  |
| BV                          | 202.3 | 213.9 | 239.8 | 275.7 |
| DPS                         | 1.5   | 1.5   | 3.6   | 5.0   |
| <b>Operating Ratios (%)</b> |       |       |       |       |
| Gross Margin (%)            | 42.8  | 36.1  | 40.0  | 42.0  |
| EBITDA Margin (%)           | 22.8  | 12.1  | 17.0  | 17.8  |
| PAT Margin (%)              | 13.1  | 3.8   | 8.1   | 8.9   |
| Debtor Days                 | 148   | 90    | 140   | 140   |
| Inventory Days              | 101   | 171   | 90    | 90    |
| Creditor Days               | 102   | 103   | 100   | 100   |
| Cash Conversion Cycle       | 146   | 158   | 130   | 130   |
| <b>Return Ratios (%)</b>    |       |       |       |       |
| Return on Assets (%)        | 9.9   | 2.5   | 5.3   | 6.4   |
| RoCE (%)                    | 19.3  | 7.3   | 11.8  | 13.7  |
| RoE (%)                     | 22.3  | 5.7   | 12.3  | 14.8  |
| <b>Solvency</b>             |       |       |       |       |
| Total Debt / Equity         | 0.7   | 0.8   | 0.8   | 0.8   |
| Interest Coverage           | 14.4  | 2.7   | 4.6   | 5.5   |
| Current Ratio               | 1.1   | 0.9   | 0.9   | 1.0   |
| Quick Ratio                 | 0.7   | 0.4   | 0.6   | 0.6   |
| <b>Valuation Ratios (x)</b> |       |       |       |       |
| EV/EBITDA                   | 20.7  | 42.6  | 26.7  | 18.1  |
| P/E                         | 32.9  | 121.1 | 50.2  | 36.3  |
| P/B                         | 7.3   | 6.9   | 6.2   | 5.4   |
| EV/Sales                    | 4.7   | 5.2   | 4.5   | 3.2   |

Source: Company, ICICI Direct Research

**Exhibit 9: ICICI Direct coverage universe (Chemicals)**

| Company            | CMP  |       |        | M Cap<br>(₹ 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                | 2570 | 3,000 | Buy    | 76,218          | 63.5    | 72.7  | 79.4  | 34.4    | 30.0  | 27.5  | 21.3          | 19.3  | 17.8  | 23.8     | 21.9  | 20.6  | 22.1    | 20.9  | 19.4  |
| PI Industries      | 3030 | 3,615 | Buy    | 45,971          | 55.5    | 76.9  | 91.8  | 56.1    | 40.5  | 33.9  | 39.7          | 31.1  | 25.3  | 16.3     | 18.8  | 19.5  | 13.8    | 16.2  | 16.3  |
| Aarti Industries   | 502  | 515   | Hold   | 18,373          | 32.7    | 15.0  | 18.0  | 25.1    | 54.4  | 45.4  | 28.9          | 29.7  | 24.6  | 11.8     | 9.7   | 10.4  | 14.6    | 11.1  | 11.9  |
| Tata Chemical      | 978  | 1,130 | Buy    | 24,807          | 47.5    | 89.5  | 109.3 | 20.6    | 10.9  | 8.9   | 12.7          | 7.7   | 5.2   | 6.6      | 10.4  | 10.8  | 6.6     | 11.6  | 12.5  |
| Vinati Organics    | 2027 | 2,055 | Hold   | 20,829          | 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  | 425  | 525   | Buy    | 21,236          | 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     | 4748 | 5,160 | Hold   | 23,539          | 52.3    | 75.7  | 91.1  | 90.8    | 62.7  | 52.1  | 66.0          | 44.2  | 35.4  | 17.8     | 17.2  | 17.5  | 14.0    | 17.2  | 17.7  |
| Rallis India       | 206  | 223   | Hold   | 4,000           | 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 | 417  | 370   | Hold   | 2,885           | 18.8    | 4.4   | 18.1  | 19.2    | 81.8  | 19.9  | 11.9          | 16.9  | 9.7   | 10.9     | 4.7   | 12.3  | 15.6    | 3.6   | 13.2  |
| Neogen Chemicals   | 1480 | 1,424 | Hold   | 3,688           | 17.9    | 20.0  | 24.8  | 82.7    | 74.0  | 59.6  | 43.5          | 35.4  | 28.5  | 12.0     | 11.8  | 11.6  | 10.2    | 10.3  | 11.5  |
| Astec Lifesciences | 1483 | 1,350 | Reduce | 2,963           | 45.1    | 12.2  | 29.5  | 32.9    | 121.1 | 50.2  | 20.7          | 42.6  | 26.7  | 19.3     | 7.3   | 11.8  | 22.3    | 5.7   | 12.3  |

Source: Bloomberg, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

**ICICI Direct Research Desk,  
ICICI Securities Limited,  
Third Floor, Brillanto House,  
Road No 13, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com**

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Name of the Compliance officer (Research Analyst): Mr. Anoop Goyal  
Contact number: 022-40701000 E-mail Address: [complianceofficer@icicisecurities.com](mailto:complianceofficer@icicisecurities.com)

For any queries or grievances: Mr. Prabodh Avadhoot Email address: [headsservicequality@icicidirect.com](mailto:headsservicequality@icicidirect.com) Contact Number: 18601231122

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