

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

**About the stock:** Incorporated in 1994, Astec Lifescience is primarily in 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

**Q4FY22 Results:** Numbers were above our estimates across all parameters.

- Reported revenue growth of 58% YoY to ₹ 272 crore, led by higher sales realisation and better volumes growth in the CMO
- Gross margins expanded 81 bps YoY to ~39.6% while EBITDA margin were up 190 bps YoY to 24.1%
- EBITDA was up 71% YoY to ₹ 65.5 crore
- Adjusted PAT was up 74% YoY to ₹ 41.6 crore due to strong operational performance and higher forex gains.

**What should investors do?** The stock appreciated at 62% 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 ₹ 2215/share (earlier ₹ 2120/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



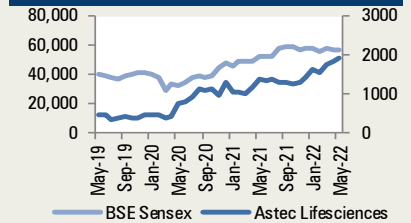
### Particulars

Particular	Amount
Market cap (₹ Crore)	3,669
FY22 Total Debt (₹ Crore)	279
FY22 Cash & Inv (₹ Crore)	2
EV (₹ Crore)	3,947
52 Week H/L	1989/1073
Equity Capital (₹ Crore)	19.6
Face Value (₹)	10

### Shareholding pattern

in %	Jun-21	Sept-21	Dec-21	Mar-22
Promoter	65.2	65.2	65.2	65.3
DII	10.9	12.2	12.7	12.6
FII	0.2	0.2	0.3	0.3
Others	23.7	22.4	21.8	21.8

### Price Chart



### Recent event & key risks

- Export 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	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%	820.5	1,002.7	21.7%
EBITDA	76.5	85.6	111.6	154.1	24.2%	188.0	235.3	23.6%
EBITDA Margins (%)	17.7%	16.4%	20.1%	22.8%		22.9%	23.5%	
Adj. PAT	35.7	47.9	65.0	88.4	35.4%	107.5	135.8	24.0%
Adj. EPS (₹)	18.3	24.5	33.2	45.1		54.8	69.3	
EV/EBITDA	50.2x	44.0x	34.6x	25.6x		21.6x	17.2x	
P/E	102.6x	76.6x	56.5x	41.6x		34.2x	27.1x	
ROE (%)	17.6	19.4	21.0	22.3		21.3	21.2	
ROCE (%)	18.1	21.5	18.9	19.3		17.7	19.4	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlight

### Q4FY22 Results: Higher growth from export businesses lead overall growth

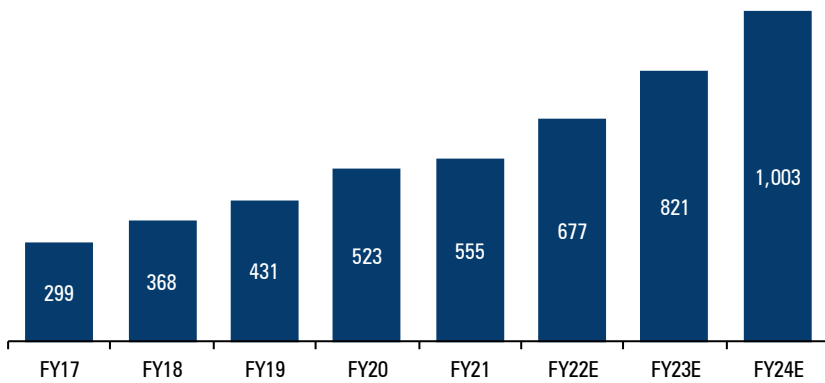
- **Strong growth from exports led performance:** Revenues were up 58% YoY to ₹ 272 crore, led by better realisations across key molecules along with higher volumes in the CMO (*led by ramp up in the herbicide plant utilisation*). Revenue from exports market (~71% of overall revenue) was up 127.3% YoY to ₹ 192.6 crore while the same from the domestic market was down 9% YoY to ₹ 79.4 crore
- **Gross margins remain decent in quarter:** GPM improved 81 bps YoY to 39.6%, largely on the back of better realisations vis-à-vis input price inflation, which lifted overall operational performance for the quarter. Moreover, better growth in the topline led operating leverage, which also supported OPM improvement (up 190bps) for the quarter. which has also contributed to an improvement in OPM for the quarter

### Q4FY22 Earnings Conference Call highlights

- No impact of war. Margins are expected to sustain. Launched two new product
- Herbicide Plant – Expecting 70% utilisation in FY23 and 90% utilisation in third year
- Other income includes – Insurance claim of ~₹ 2 crore and forex gain through hedging policy of ~₹ 3 crore
- FY23 – CMO/CDMO growth drivers –
  - Three to four projects to get commercialised
  - Herbicide plant – Expecting good margin from plant (part of growth strategy)
  - Looking forward – Focus institutional capacities
  - Continue to work on efficiency of plant
- Percentage dependence on China – Key raw material – 65-67% reliance on Chinese products. The management said risk has been reduced by entering contract for raw material with Indian vendors
- Capex of ₹ 350–400 crore has been committed. The company will not hesitate to invest more
  - R&D – ₹ 110–120 crore
  - Herbicide Plant (for Expansion) – ₹ 35-50 crore
  - Mahad location – ₹ 70–80 crore. Improvement purposes. Digitise facilities at global standard level
  - Greenfield multipurpose plant – ₹ 150 crore (will take three to four years), which includes mix of fungicides plant and other products
- CMO revenue drew Q4 – 23% & full year – 13% of total revenue
- Revenue potential of herbicide plant - @ full utilisation – 1.5x – 1.7x. ₹ 230–270 crore revenue targeting
- Merger with Godrej Agrovet – No plans

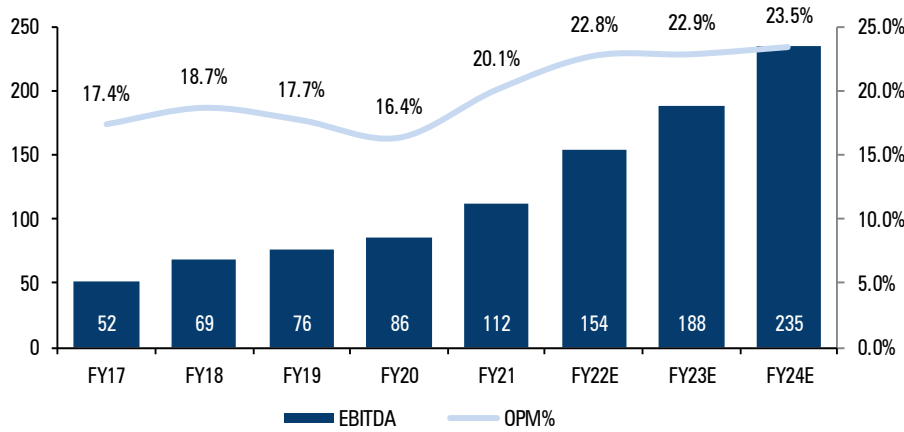
Financial story in charts....

Exhibit 1: Revenue trend (₹ crore)



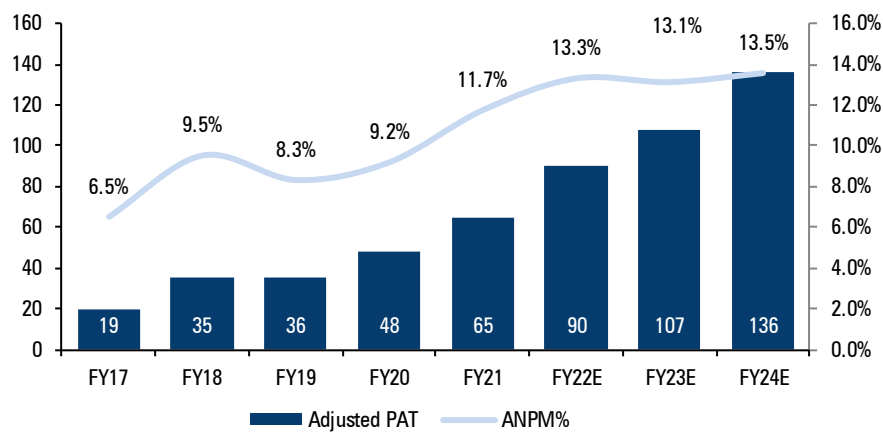
Source: Company, ICICI Direct Research

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	FY22	FY23E	FY24E
<b>Total Operating Income</b>	<b>522.6</b>	<b>554.9</b>	<b>676.6</b>	<b>820.5</b>	<b>1,002.7</b>
Growth (%)	21.3	6.2	21.9	21.3	22.2
Raw Material Expenses	338.2	342.1	386.8	467.7	566.5
Employee Cost	29.9	38.4	50.3	61.5	78.2
Other Expenses	69.0	62.9	85.4	103.3	122.7
Total Operating Expenditure	437.1	443.3	522.5	632.6	767.4
<b>EBITDA</b>	<b>85.6</b>	<b>111.6</b>	<b>154.1</b>	<b>188.0</b>	<b>235.3</b>
Growth (%)	11.9	30.4	38.1	22.0	25.2
Other Income	11.9	7.9	10.5	13.5	15.6
Depreciation	23.2	25.7	34.4	43.6	53.0
Net Interest Exp.	12.6	4.8	9.1	13.0	14.9
Other exceptional items	0.0	0.0	0.0	0.0	0.0
PBT	61.7	89.1	121.1	144.9	183.0
Total Tax	13.8	24.0	31.2	37.4	47.2
<b>PAT</b>	<b>47.9</b>	<b>65.1</b>	<b>89.9</b>	<b>107.5</b>	<b>135.8</b>
Adjusted PAT	47.9	65.0	89.9	107.5	135.8
Growth (%)	34.0	35.8	38.2	19.6	26.3
Adjusted EPS (₹)	24.5	33.2	45.9	54.8	69.3

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					
	₹ crore				
Year end March	FY20	FY21	FY22	FY23E	FY24E
PBT & Extraordinary	61.4	89.1	121.1	144.9	183.0
Add: Depreciation	23.2	25.7	34.4	43.6	53.0
After other adjustments					
(Inc) / Dec in Working Capital	87.8	-103.3	-110.1	-65.5	-44.2
Taxes	-18.2	-23.0	-29.1	-37.4	-47.2
Others	14.3	3.5	7.4	13.0	14.9
<b>CF from operating activities</b>	<b>168.4</b>	<b>-8.1</b>	<b>23.6</b>	<b>98.6</b>	<b>159.5</b>
Purchase of Fixed Assets	-45.3	-102.5	-104.0	-191.3	-130.0
Others	-28.5	29.4	0.1	0.0	0.0
<b>CF from investing activities</b>	<b>-73.8</b>	<b>-73.2</b>	<b>-103.9</b>	<b>-191.3</b>	<b>-130.0</b>
Issue/(Buy back) of Equity	0.2	0.7	0.3	0.0	0.0
Inc/(dec) in loan funds	-78.3	88.4	92.0	110.0	-10.0
Dividend paid & dividend tax	-2.9	-2.9	-2.9	0.0	0.0
Others	-13.5	-4.8	-8.9	-13.0	-14.9
<b>CF from financing activities</b>	<b>-94.5</b>	<b>81.3</b>	<b>80.5</b>	<b>97.0</b>	<b>-24.9</b>
Net cash flow	0.1	0.0	0.2	4.3	4.6
Opening cash	1.5	1.5	1.6	2.1	6.4
<b>Closing cash</b>	<b>1.5</b>	<b>1.6</b>	<b>2.1</b>	<b>6.4</b>	<b>11.0</b>

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet					
	₹ crore				
Year end March	FY20	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>					
Equity Capital	19.6	19.6	19.6	19.6	19.6
Reserves & Surplus	227.0	289.6	376.9	484.4	620.1
<b>Total Shareholders Funds</b>	<b>246.6</b>	<b>309.2</b>	<b>396.5</b>	<b>504.0</b>	<b>639.7</b>
Minority Interest	0.3	0.1	0.2	0.2	0.2
Long Term Borrowings	0.0	40.0	0.0	60.0	100.0
Net Deferred Tax liability	6.1	5.5	8.1	8.1	8.1
Other long term liabilities	0.0	0.0	1.0	1.2	1.5
Long term provisions	0.3	0.5	0.4	0.5	0.6
<b>Current Liabilities and Provisions</b>					
Short term borrowings	98.7	147.0	279.4	329.4	279.4
Trade Payables	202.4	124.8	189.8	224.8	274.7
Other Current Liabilities	16.7	49.8	21.0	25.4	31.1
Short Term Provisions	0.5	0.6	0.4	0.5	0.6
Total Current Liabilities	318.4	322.3	490.6	580.1	585.8
<b>Total Liabilities</b>	<b>571.7</b>	<b>677.6</b>	<b>896.8</b>	<b>1,154.1</b>	<b>1,335.9</b>
<b>Assets</b>					
Net Block	193.6	212.7	339.9	431.4	478.4
Capital Work in Progress	22.1	111.7	13.7	70.0	100.0
Intangible assets under devl.	2.0	4.0	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	2.5	3.3	2.9	3.5	4.3
Other Non Current Assets	19.7	15.4	15.4	18.7	22.8
<b>Current Assets, Loans &amp; Advances</b>					
Current Investments	0.0	0.0	0.0	0.0	0.0
Inventories	121.2	106.1	186.9	224.8	247.3
Sundry Debtors	160.8	187.2	273.6	326.0	384.6
Cash and Bank	1.5	1.6	2.1	6.4	11.0
Loans and Advances	28.9	0.1	0.1	0.1	0.1
Other Current assets	19.3	35.5	52.8	64.1	78.3
Current Assets	331.8	330.4	515.7	621.4	721.3
<b>Total Assets</b>	<b>571.7</b>	<b>677.6</b>	<b>896.8</b>	<b>1,154.1</b>	<b>1,335.9</b>

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
Year end March	FY20	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>					
Adj. EPS	24.5	33.2	45.1	54.8	69.3
Adj. Cash EPS	36.3	46.3	62.6	77.1	96.3
BV	126.0	157.8	202.3	257.2	326.4
DPS	1.5	1.5	0.0	0.0	0.0
<b>Operating Ratios (%)</b>					
Gross Margin (%)	35.3	38.4	42.8	43.0	43.5
EBITDA Margin (%)	16.4	20.1	22.8	22.9	23.5
PAT Margin (%)	9.2	11.7	13.1	13.1	13.5
Debtor Days	112	123	148	145	140
Inventory Days	85	70	101	100	90
Creditor Days	141	82	102	100	100
Cash Conversion Cycle	56	111	146	145	130
<b>Return Ratios (%)</b>					
Return on Assets (%)	8.4	9.6	9.9	9.3	10.2
RoCE (%)	21.5	18.9	19.3	17.7	19.4
RoE (%)	19.4	21.0	22.3	21.3	21.2
<b>Solvency</b>					
Total Debt / Equity	0.4	0.6	0.7	0.8	0.6
Interest Coverage	5.9	19.7	14.4	12.2	13.3
Current Ratio	1.0	1.0	1.1	1.1	1.2
Quick Ratio	0.7	0.7	0.7	0.7	0.8
<b>Valuation Ratios (x)</b>					
EV/EBITDA	44.0	34.6	25.6	21.6	17.2
P/E	76.6	56.5	41.6	34.2	27.1
P/B	14.9	11.9	9.3	7.3	5.7
EV/Sales	7.2	7.0	5.8	4.9	4.0

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
SRF	2513	3,065	Buy	81,517	40.4	63.7	73.4	62.2	39.4	34.2	37.2	25.9	22.5	18.7	24.3	24.0	17.5	23.5	22.9
PI Industries	2848	3,375	Buy	44,358	48.6	55.4	70.1	58.6	51.4	40.7	39.3	34.4	27.6	17.2	17.2	18.8	13.8	13.8	15.0
Aarti Industries	888	1,175	Buy	35,154	14.5	37.1	35.1	61.2	23.9	25.3	39.6	19.3	18.8	10.7	17.7	16.0	15.0	22.8	18.0
Tata Chemical	960	1,155	Buy	24,463	10.1	47.5	63.6	95.4	20.2	15.1	18.9	12.5	9.2	1.8	6.6	8.3	4.1	6.6	8.4
Vinati Organics	2099	2,320	Buy	20,493	26.2	31.5	41.8	80.1	66.7	50.2	56.3	49.4	35.2	21.7	23.3	26.0	17.4	18.0	20.0
Sumitomo Chemical	429	520	Buy	21,254	6.9	8.7	10.3	62.0	49.1	41.7	41.8	33.4	28.0	29.8	30.0	28.5	22.4	22.6	21.4
Navin Fluorine	3932	4,520	Hold	20,306	45.0	53.6	76.8	87.3	73.4	51.2	60.8	51.6	34.4	21.0	19.2	23.6	13.6	14.4	17.7
Rallis India	235	235	Reduce	4,937	11.4	8.4	8.9	20.6	27.8	26.5	14.5	17.4	17.3	18.0	12.7	11.6	13.9	9.7	9.5
Sudarshan chemical	523	695	Buy	3,723	20.4	19.7	25.7	25.7	26.6	20.4	15.7	15.9	12.7	19.0	16.1	18.2	15.2	13.6	16.2
Neogen Chemicals	1549	2,160	Buy	4,142	13.4	16.5	33.5	115.4	93.8	46.3	63.3	47.4	30.6	15.1	11.2	16.9	17.1	9.3	16.0
Astec Lifesciences	1875	2,215	Buy	3,675	33.2	45.1	54.8	56.5	41.6	34.2	34.6	25.6	21.6	18.9	19.3	17.7	21.0	22.3	21.3

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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