IDEA2WIN – Astec Lifesciences Ltd

CMP: ₹ 1290-1330; 1-Year Target: ₹ 1572

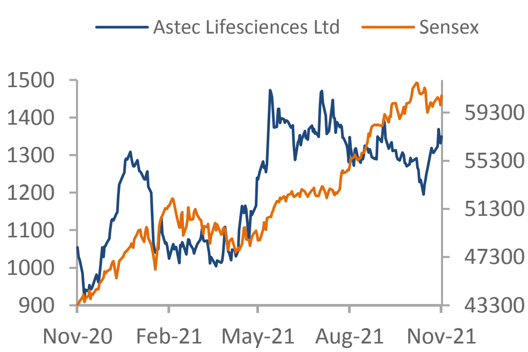
Sector	Chemical
Recommendation	BUY
Upside	20%

Stock Data	
Sensex	60,150
52 Week h/l (₹)	1530/908
Market cap (` Cr)	2,609
BSE code	533138
NSE code	ASTEC
FV (₹)	10
Div. yield (%)	0.11

Shareholding Pattern	Jun-21	Sept-21
Promoters	65.20	65.20
FII+DII	11.12	12.43
Public	23.68	22.37

Source: www.bseindia.com

Share Price Trend



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Profile

Astec is an Indian manufacturer of agrochemical active ingredients, formulations and intermediate products. The company started its manufacturing operations by acquiring a sick unit in Dombivili (Maharashtra), and has expanded over the years and presently carries out its manufacturing activities at 4 major locations, i.e. 3 in Mahad (Maharashtra) and 1 in Dombivili. Astec has a particular focus on fungicides. It pioneered the manufacture of triazole fungicides in India and continues to be a leader in this segment.

Investment Rationale

Revenue spillover from 2Q to 3Q

Export volumes grew 8% YoY in 2QFY22, whereas domestic volumes fell 28% YoY, as the company allotted the limited capacity available with it (in the context of the Mahad shutdown) to exports. Exports were also impacted by container shortages and higher freight costs. Almost 33% of 2Q export sales (including CRAMS) were deferred to 3Q: this translates into ~Rs215m of deferred sales that will be recorded in 3QFY22. Besides, another ~Rs80m worth of material could not be despatched due to logistical hurdles. Hence, overall, ~Rs300m of revenues has spilled over from 2Q to 3Q. Volume growth was 11% in 1HFY22. Exports accounted for 55% of company's revenues for 2QFY22.

CRAMS business to drive growth

The company's management has guided to very aggressive and high growth in the CRAMS business; specifically, management guided for ~50% CAGR in the CRAMS business for the next three years. Management expects to successfully achieve its FY22 profit growth target of 15-20%. Management also expects EBITDA margins to go up to ~24% in the next few years, from 20-22% at present. This year, management expects 20-25% growth in enterprise sales, of which 15pps should come from volume growth. Four new CRAMS products are expected to be launched in FY22, plus another one in enterprise sales. Thereafter, two large enterprise products should be commercialised by 4QFY23: these are triazole fungicides.

Expected jump in earnings

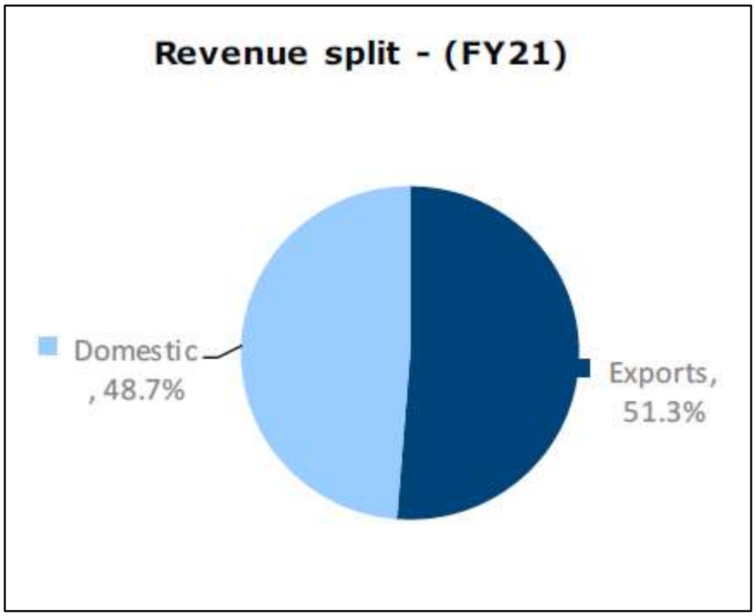
Management expects a sharp jump in earnings in 2HFY22, boosted by strong demand for key products, better realisations in 2H (prices of some products are recovering) and the deferral of revenues. Input costs are going up significantly, but the company expects to pass these on to customers, so margins should be protected. CRAMS sales are skewed towards 2H this year; these are higher-margin sales.

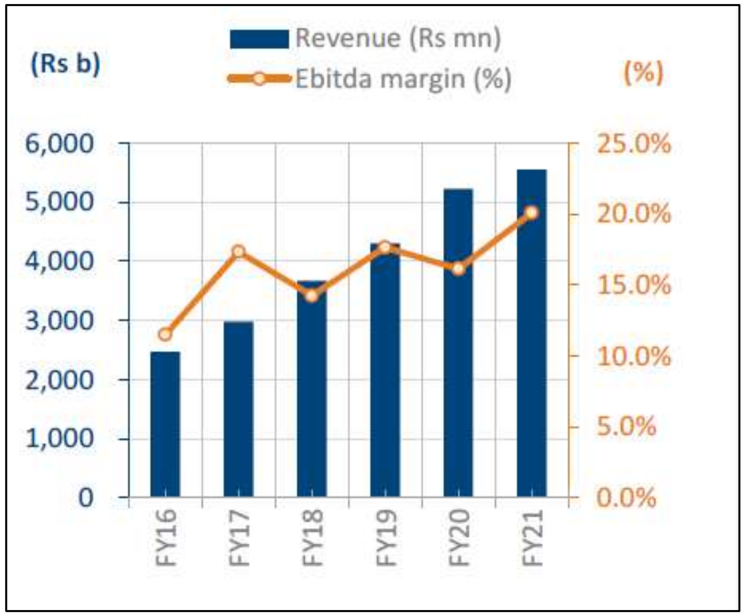
Capex to be revised upwards

Capex is seen at ~Rs1.5bn in FY22, although management indicated that capex plans may need to be revised upwards. Projects that have been under implementation include the herbicide unit (now commissioned), the new R&D centre (expected to be ready by FY23- end), and the new fungicide plant (details on capex for this unit to be shared by the next investor call).

Business environment favorable for the company

With regard to 'China+1' tailwinds, management said they are seeing some customers make India the primary supply source, and China the secondary source. 65% of Astec's imports are from China, but about half of these comprise one raw material that the company makes in-house in limited quantities; Astec can make more of it in-house if Chinese prices rise. Also, another three backward integration projects are to be taken up this year and next. On the raw material sourcing front, Astec is making early payments to suppliers, in order to benefit from better pricing as well as more assured supplies. Recent explosions in a competitor's plant are also expected to benefit Astec. Prices of propiconazole are rising, and will benefit Astec's bottom-line.





Risks

Covid-19 third wave: If there is a third wave of covid-19 in India, the company would see slowdown in production which could affect their normal course of business. This would also have an impact on their new product pipeline and slower capex.

Outlook & Valuation:

Ramp-up of capacity utilisation at the new herbicide unit, to be followed by commercialisation of two new triazole fungicides by 4QFY23, should drive strong growth. Besides, higher prices of propiconazole should boost margins, and visibility is strong. Hence, we raise FY22ii EPS by 8% to Rs39.3, to reflect a likely jump in earnings in 2H on revenue deferrals, rising prices and strong demand; we tweak up FY23-24ii EPS by 3% each. Our TP, rolled over to Dec-22, rises to Rs1,572. We keep our target 1YF P/E unchanged at 30x, and believe it is justified by promising growth prospects, healthy financial metrics and strong parentage.

Financial Summary

Consolidated (INR in mn)	FY20	FY21	FY22ii	FY23ii	FY24ii
Total Income	5,226	5,549	6238	7,635	9,238
YoY growth (%)	21.3	6.2	12.4	22.4	21.0
EBITDA margin (%)	16.3	20.1	21.5	22.5	23.0
PAT	475	651	771	983	1,262
ROE (%)	21.4	23.3	22.2	22.8	23.3
P/B (x)	9.9	7.9	6.4	5.1	4.1
EV/EBITDA (x)	29.9	23.6	20.2	15.6	12.4
Net Debt/Equity (x)	0.4	0.6	0.7	0.5	0.3

Click here to watch the video.

DISCLAIMER

Recommendation Parameters for Fundamental/Technical Reports:

Buy – Absolute return of over +10%
Accumulate – Absolute return between 0% to +10%
Reduce – Absolute return between 0% to -10%
Sell – Absolute return below -10%

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