

Revenues upbeat; costs impacted due to deferrals...

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

Q1FY23 Results: Revenues were marginally above estimates while bottom line came in lower due to suppressed margins on back of some revenue deferrals

- Reported revenue growth of 43.2% YoY to ₹ 184.3 crore, driven by strong growth in export markets.
- Gross margins contracted by 550 bps YoY to ~33.5% while EBITDA margin were down 540 bps YoY to 13.8%
- EBITDA was up 3% YoY to ₹ 25.4 crore.
- Adjusted PAT was down 12% YoY to ₹ 11.4 crore due to high cost inventories and increase in fixed overheads related to herbicide plant.

What should investors do? The stock appreciated at 82% CAGR in last three years.

- Maintain **BUY** on the back of emerging CRAMs opportunities besides steady growth in Enterprise sales to be driven by new launches

Target Price and Valuation: We value Astec Lifesciences at 32x FY24E EPS of ₹ 69.3 to arrive at a revised target price of ₹ 2215/share (earlier ₹ 2285/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

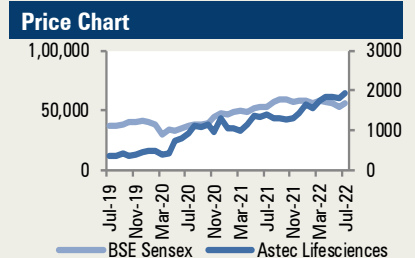
Alternate Stock Idea: Apart from Astec Lifesciences, in our chemical coverage we also like Neogen Chemical.

- For Neogen Chemical, future revenue growth is expected to be driven by increasing custom synthesis opportunity
- BUY with a target price of ₹ 1870.



Particulars	
Particular	Amount
Market cap (₹ Crore)	3,509
FY22 Total Debt (₹ Crore)	279
FY22 Cash & Inv (₹ Crore)	2
EV (₹ Crore)	3,786
52 Week H/L	2180/1113
Equity Capital (₹ Crore)	19.6
Face Value (₹)	10

Shareholding pattern				
in %	Sept-21	Dec-21	Mar-22	Jun-22
Promoter	65.2	65.2	65.3	65.3
DII	12.2	12.7	12.6	11.8
FII	0.2	0.3	0.3	0.5
Others	22.4	21.8	21.8	22.4



- Recent event & key risks**
- Export market witnessed strong growth for the quarter
 - Key Risk:** (i) Propiconazole ban by other countries could impact earnings (ii) pricing pressure in key molecules could 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	48.1x	42.1x	33.1x	24.6x		20.7x	16.5x	
P/E	98.0x	73.2x	53.9x	39.7x		32.7x	25.9x	
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

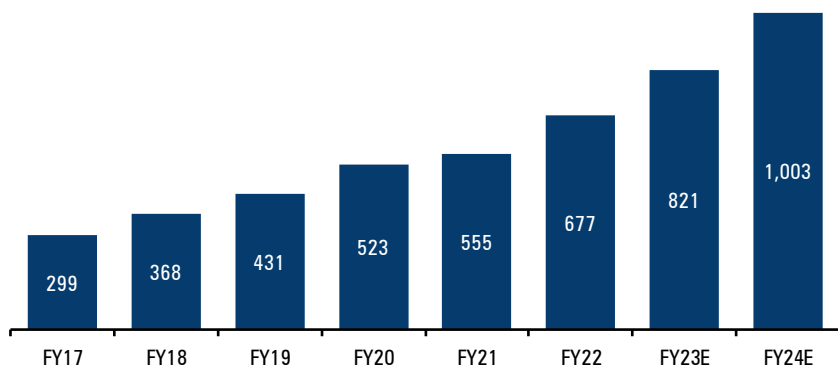
Key takeaways of recent quarter & conference call highlight

Q1FY23 Results: Higher growth from export businesses lead overall growth

- **Strong growth from exports led performance:** Revenues were up 43.2% YoY to ₹ 184.3 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 (~49% of overall revenue) was up 219% YoY to ₹ 90.3 crore while the same from the domestic market was down 6% YoY to ₹ 94 crore.
- **Gross margins remain subdued in quarter:** GPM declined 550 bps YoY to 33.5%, largely on the back of high cost inventory from previous year, which degraded overall operational performance for the quarter. Moreover, increase in fixed overheads related to herbicides plant has adversely impacted EBITDA margins (down by 540 bps) for the quarter which has also contributed to decrease in OPM for the quarter.

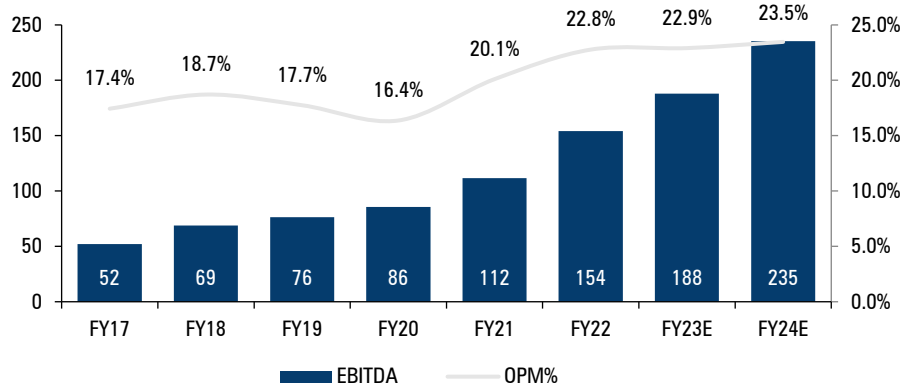
Financial story in charts....

Exhibit 1: Revenue trend (₹ crore)



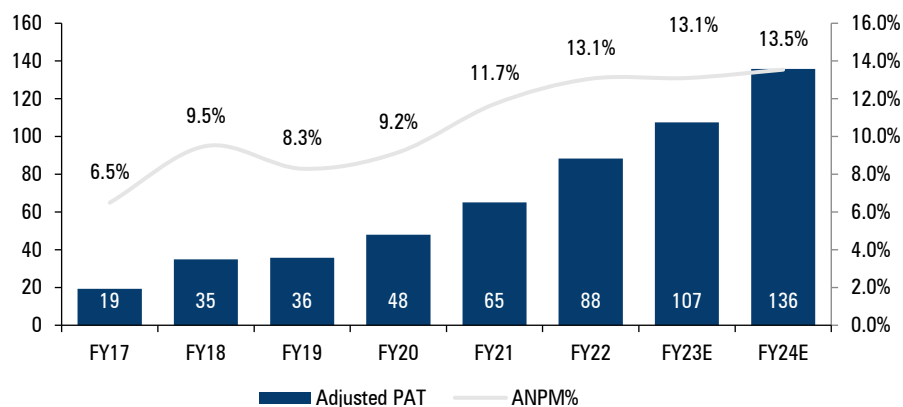
Source: Company, ICICI Direct Research

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	
Total Operating Income	522.6	554.9	676.6	820.5	1,002.7	
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	
EBITDA	85.6	111.6	154.1	188.0	235.3	
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	
PAT	47.9	65.1	89.9	107.5	135.8	
Adjusted PAT	47.9	65.0	88.4	107.5	135.8	
Growth (%)	34.0	35.8	35.9	21.6	26.3	
Adjusted EPS (₹)	24.5	33.2	45.1	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	
CF from operating activities	168.4	-8.1	23.6	98.6	159.5	
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	
CF from investing activities	-73.8	-73.2	-103.9	-191.3	-130.0	
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	
CF from financing activities	-94.5	81.3	80.5	97.0	-24.9	
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	
Closing cash	1.5	1.6	2.1	6.4	11.0	

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet						₹ crore
Year end March	FY20	FY21	FY22	FY23E	FY24E	
Liabilities						
Equity Capital	19.6	19.6	19.6	19.6	19.6	
Reserves & Surplus	227.0	289.6	376.9	484.4	620.1	
Total Shareholders Funds	246.6	309.2	396.5	504.0	639.7	
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	
Current Liabilities and Provisions						
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	
Total Liabilities	571.7	677.6	896.8	1,154.1	1,335.9	
Assets						
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	
Current Assets, Loans & Advances						
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	
Total Assets	571.7	677.6	896.8	1,154.1	1,335.9	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
Year end March	FY20	FY21	FY22	FY23E	FY24E
Per share data (₹)					
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
Operating Ratios (%)					
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
Return Ratios (%)					
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
Solvency					
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
Valuation Ratios (x)					
EV/EBITDA	42.1	33.1	24.6	20.7	16.5
P/E	73.2	53.9	39.7	32.7	25.9
P/B	14.2	11.3	8.9	7.0	5.5
EV/Sales	6.9	6.7	5.6	4.7	3.9

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	2340	2,735	Buy	69,466	63.5	68.9	82.7	36.1	33.2	27.7	22.4	20.6	17.0	23.8	21.6	22.5	22.1	20.3	20.4
PI Industries	2729	3,155	Buy	41,403	55.5	64.4	78.9	49.2	42.4	34.6	35.0	29.4	23.8	16.3	17.2	18.4	13.8	13.9	14.7
Aarti Industries	712	860	Hold	25,812	21.7	24.4	30.7	32.8	29.2	23.2	22.6	18.9	15.4	12.0	12.6	13.6	13.3	13.2	14.4
Tata Chemical	825	1,155	Buy	21,009	47.5	63.6	73.0	17.4	13.0	11.3	12.4	9.1	6.8	6.6	8.4	9.0	6.6	8.3	8.8
Vinati Organics	2018	2,320	Buy	20,745	33.7	40.1	51.5	59.8	50.3	39.2	44.7	37.0	28.3	24.3	23.2	23.9	19.0	19.1	20.5
Sumitomo Chemical	474	520	Buy	23,679	8.5	10.2	11.5	55.9	46.7	41.1	35.9	30.1	26.0	30.2	28.6	26.7	22.0	21.3	19.9
Navin Fluorine	4200	4,450	Hold	20,812	52.3	67.4	89.0	80.3	62.3	47.2	58.4	41.8	30.6	17.8	18.7	19.6	14.0	15.8	17.9
Rallis India	208	200	Hold	3,987	8.4	8.9	12.4	24.3	23.1	16.6	13.9	14.1	10.1	12.7	11.6	15.3	9.7	9.5	12.1
Sudarshan chemical	425	565	Buy	2,939	18.8	23.7	31.5	22.6	18.0	13.5	14.2	11.5	8.9	10.9	13.3	16.6	15.6	17.2	19.5
Neogen Chemicals	1348	1,870	Buy	3,362	17.9	30.1	37.4	75.3	44.8	36.0	43.5	30.0	24.3	12.0	15.7	17.1	10.2	14.8	15.7
Astec Lifesciences	1791	2,215	Buy	3,509	45.1	54.8	69.3	39.7	32.7	25.9	24.6	20.7	16.5	19.3	17.7	19.4	22.3	21.3	21.2

Source: Bloomberg, ICICI Direct Research

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Sell: <-15%



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