

India

**REDUCE** (no change)

Consensus ratings*:	Buy 1	Hold 0	Sell 3
Current price:	Rs1,155		
Target price:	Rs778		
Previous target:	Rs1,073		
Up/downside:	-32.6%		
InCred Research / Consensus:	-23.0%		
Reuters:	ASTE.NS		
Bloomberg:	ASTEL IN		
Market cap:	US\$272m		
	Rs22,656m		
Average daily turnover:	US\$0.4m		
	Rs33.2m		
Current shares o/s:	19.6m		
Free float:	33.2%		
*Source: Bloomberg			



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(9.2)	(17.8)	(42.0)
Relative (%)	(15.1)	(21.4)	(47.0)

Major shareholders	% held
Promoter & Promoter Group	66.8
ICICI Prudential Asset Mgt	5.2
Nippon Life India Asset Mgmt	3.7

# Astec Lifesciences Ltd

## No recovery in sight - reiterate REDUCE

- Channel destocking & structural headwinds in triazoles are leading to a fall in FY24F exports. The company to make a loss in FY24F & likely in FY25F too.
- The company is planning to incur capex in SBI-triazoles, which is a product on the decline. We believe that capex will result in a low single-digit RoCE.
- Debt level to rise. Stock trades at a higher value due to illiquidity premium. But non-fundamental reasons can't sustain the stock price. Retain REDUCE rating.

### Exports are falling; company will struggle to make profits in 3QFY24F

We had highlighted in our earlier report that agrochemicals supply chain has a higher inventory by at least 30% ([IN: Chemicals - Others - Agrochemicals - channel inventory too high](#)). While all companies are feeling the pinch of higher inventory, companies like Astec Lifesciences, whose generic product SBI triazoles are becoming obsolete, ([IN: Astec Lifesciences Ltd - Illiquidity premium in valuation; REDUCE \(REDUCE - Maintained\)](#)) will have bigger trouble as their sales will collapse. Please note that normally for a declining product, the inventory remains at a minimum level, but it appears that it was too overstocked and hence, there is a complete sales collapse. It will be a big surprise for us if the company makes a profit in 3QFY24F. Most likely FY25F and FY26F will be a washout as Astec Lifesciences will suffer losses in both these years.

### It's disappointing that Astec plans to incur capex in SBI-triazole

Almost 80% of the expansion is in generic agrochemicals for which the company may be planning to go for an outsourcing contract, with the remaining 20% meant for making specialized API intermediates for CNS and other specialized chemicals. Most agrochemicals are very small, in terms of market size, where full utilization of Astec Lifesciences' capacity will be a challenge (fentrazamide, mesosulfuron, pyridalyl, telutrin, imibenconazole, bifenazate, tribenuron imazethapyr etc.). Molecules that register significant sales (in tonnes, where the company can utilize its full capacity) are azoxystrobin, thiamethoxam, pyraclostrobin, etc. Apart from azoxystrobin, most of the other agrochemicals are stagnant and hence, are ripe for outsourcing but none of these molecules are growth molecules like 'pyroxasulfone' in the case of PI Industries (please see our detailed report [IN: Astec Lifesciences Ltd - What are we paying for?; REDUCE \(REDUCE - Downgrade\)](#)).

### We cut our EPS estimates and reiterate REDUCE rating on the stock

We believe that Astec Lifesciences will suffer losses in FY24F & FY25F. There may be a cyclical recovery in FY26F but given the product portfolio, we don't expect an EPS of more than Rs7.8. Given the high illiquidity, the stock is unlikely to derate big time and only reiterate (i.e., despite a falling EPS, lack of sellers can keep the stock price stagnant). We value the stock at 100x FY26F EPS to arrive at a lower target price of Rs778. Retain REDUCE rating. Upside risk: Globally, any big fungus attack (much higher than normal) on crops can lead to rapid channel-filling demand for SBI triazoles, which can lead to an EPS recovery.

### Research Analyst(s)

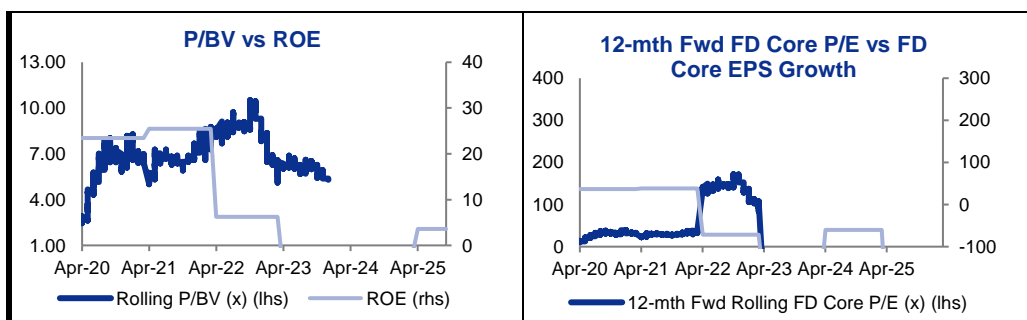
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Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	6,766	6,282	5,025	5,528	6,081
Operating EBITDA (Rsm)	1,541	763	85	57	(34)
Net Profit (Rsm)	899	256	(237)	(94)	153
Core EPS (Rs)	45.9	13.1	(12.1)	(4.8)	7.8
Core EPS Growth	38.0%	(71.6%)	(192.6%)	(60.3%)	(262.0%)
FD Core P/E (x)	25.17	88.49	(95.58)	(240.60)	148.48
DPS (Rs)	2.8	0.8	(0.7)	(0.3)	0.5
Dividend Yield	0.25%	0.07%	(0.06%)	(0.03%)	0.04%
EV/EBITDA (x)	16.49	34.15	293.75	452.64	(771.46)
P/FCFE (x)	187.54	99.34	16.26	16.58	(78.01)
Net Gearing	69.9%	80.8%	53.5%	73.1%	81.8%
P/BV (x)	5.71	5.40	5.30	5.42	5.24
ROE	25.5%	6.3%	(5.6%)	(2.2%)	3.6%
% Change In Core EPS Estimates			(3.05%)	(1.37%)	(0.71%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>6,766</b>	<b>6,282</b>	<b>5,025</b>	<b>5,528</b>	<b>6,081</b>
<b>Gross Profit</b>	<b>2,898</b>	<b>2,269</b>	<b>1,884</b>	<b>2,073</b>	<b>2,280</b>
<b>Operating EBITDA</b>	<b>1,541</b>	<b>763</b>	<b>85</b>	<b>57</b>	<b>(34)</b>
Depreciation And Amortisation	(344)	(337)	(442)	(535)	(622)
<b>Operating EBIT</b>	<b>1,197</b>	<b>426</b>	<b>(357)</b>	<b>(478)</b>	<b>(656)</b>
Financial Income/(Expense)	(91)	(207)	(113)	(147)	(180)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	105	131	154	499	1,040
<b>Profit Before Tax (pre-EI)</b>	<b>1,211</b>	<b>349</b>	<b>(317)</b>	<b>(126)</b>	<b>204</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>1,211</b>	<b>349</b>	<b>(317)</b>	<b>(126)</b>	<b>204</b>
Taxation	(312)	(94)	80	32	(51)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>899</b>	<b>256</b>	<b>(237)</b>	<b>(94)</b>	<b>153</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>899</b>	<b>256</b>	<b>(237)</b>	<b>(94)</b>	<b>153</b>
Recurring Net Profit	899	256	(237)	(94)	153
<b>Fully Diluted Recurring Net Profit</b>	<b>899</b>	<b>256</b>	<b>(237)</b>	<b>(94)</b>	<b>153</b>

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>EBITDA</b>	<b>1,541</b>	<b>763</b>	<b>85</b>	<b>57</b>	<b>(34)</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,101)	(59)	484	(217)	(247)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(17)	(39)	482	(4)	1
<b>Other Operating Cashflow</b>	<b>195</b>	<b>338</b>	<b>1,234</b>	<b>646</b>	<b>1,220</b>
Net Interest (Paid)/Received	(91)	(207)	(113)	(147)	(180)
Tax Paid	(291)	(49)	80	32	(51)
<b>Cashflow From Operations</b>	<b>236</b>	<b>747</b>	<b>2,251</b>	<b>366</b>	<b>710</b>
Capex	(1,040)	(1,173)	(858)	(1,000)	(1,000)
Disposals Of FAs/subsidiaries	1	8			
Acq. Of Subsidiaries/Investments	(3)	(1)			
Other Investing Cashflow	3	41			
<b>Cash Flow From Investing</b>	<b>(1,039)</b>	<b>(1,125)</b>	<b>(858)</b>	<b>(1,000)</b>	<b>(1,000)</b>
Debt Raised/(repaid)	923	606		2,000	
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(29)	(29)	15	6	(9)
Preferred Dividends					
Other Financing Cashflow	(89)	(199)	(113)	(147)	(180)
<b>Cash Flow From Financing</b>	<b>805</b>	<b>378</b>	<b>(99)</b>	<b>1,859</b>	<b>(189)</b>
Total Cash Generated	2	(1)	1,294	1,226	(480)
<b>Free Cashflow To Equity</b>	<b>121</b>	<b>228</b>	<b>1,393</b>	<b>1,366</b>	<b>(290)</b>
<b>Free Cashflow To Firm</b>	<b>(712)</b>	<b>(171)</b>	<b>1,506</b>	<b>(487)</b>	<b>(110)</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	21	22	1,127	2,352	1,873
Total Debtors	2,736	1,549	1,239	1,363	1,499
Inventories	1,869	2,948	2,359	2,595	2,854
Total Other Current Assets	530	469	533	545	557
<b>Total Current Assets</b>	<b>5,157</b>	<b>4,989</b>	<b>5,258</b>	<b>6,855</b>	<b>6,783</b>
Fixed Assets	3,628	4,134	4,549	5,014	5,392
Total Investments					
Intangible Assets					
Total Other Non-Current Assets	183	672	177	182	182
<b>Total Non-current Assets</b>	<b>3,811</b>	<b>4,806</b>	<b>4,727</b>	<b>5,196</b>	<b>5,574</b>
Short-term Debt	2,794	3,303	3,303	5,303	5,303
Current Portion of Long-Term Debt					
Total Creditors	1,898	1,772	1,417	1,559	1,715
Other Current Liabilities	214	187	189	202	207
<b>Total Current Liabilities</b>	<b>4,906</b>	<b>5,262</b>	<b>4,910</b>	<b>7,064</b>	<b>7,225</b>
Total Long-term Debt		109	109	109	109
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	10	13			
<b>Total Non-current Liabilities</b>	<b>10</b>	<b>122</b>	<b>109</b>	<b>109</b>	<b>109</b>
Total Provisions	85	214	215	216	217
<b>Total Liabilities</b>	<b>5,001</b>	<b>5,599</b>	<b>5,234</b>	<b>7,389</b>	<b>7,551</b>
Shareholders Equity	3,965	4,194	4,271	4,183	4,326
Minority Interests	2	2	2	2	2
<b>Total Equity</b>	<b>3,967</b>	<b>4,196</b>	<b>4,273</b>	<b>4,185</b>	<b>4,328</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	21.9%	(7.2%)	(20.0%)	10.0%	10.0%
Operating EBITDA Growth	38.1%	(50.5%)	(88.9%)	(33.1%)	(159.8%)
Operating EBITDA Margin	22.8%	12.1%	1.7%	1.0%	(0.6%)
Net Cash Per Share (Rs)	(141.47)	(172.92)	(116.55)	(156.05)	(180.52)
BVPS (Rs)	202.32	213.90	217.85	213.34	220.64
Gross Interest Cover	13.22	2.06	(3.15)	(3.26)	(3.65)
Effective Tax Rate	25.8%	26.8%			25.2%
Net Dividend Payout Ratio	6.2%	6.2%	6.2%	6.2%	6.2%
Accounts Receivables Days	124.29	124.50	101.26	85.91	85.91
Inventory Days	138.26	219.14	308.38	261.66	261.66
Accounts Payables Days	148.45	166.93	185.32	157.24	157.24
ROIC (%)	17.7%	4.7%	(3.4%)	(4.9%)	(6.2%)
ROCE (%)	20.2%	5.8%	(4.5%)	(5.4%)	(6.6%)
Return On Average Assets	12.3%	4.4%	(1.5%)	0.1%	2.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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