Astec Life Sciences Ltd.

EQUITY REPORT

December 5th, 2014

BSE Code: 533138 **NSE Code:** ASTEC **Reuters Code:** ASTE.BO **Bloomberg Code:** ASTEL:IN

Astec Life Sciences Ltd. (ASTEC), established in 1994, is a well-known producer of agrichemicals and pharmaceutical intermediates. The company manufactures a wide range of Agrochemical active ingredients and pharmaceutical intermediates. While operating in two major segments, namely, Agrochemicals and Pharmaceuticals, the company generates revenue through three revenue streams, namely, Enterprise Sales, Contract manufacturing and Branded formulations. As the operations are highly integrated both vertically and horizontally, Astec has a very efficient, low cost structure in the market place. Moreover, the company's strong R&D focus has enabled the company to introduce a number of unique products.

Investment Rationale

- **Well-positioned in the Indian agro-chemicals market:** ASTEC has great opportunity to capitalise on the improving Indian agro-chemicals market which has a great potential for growth (expected 9% annually) over the coming years. Being a leader in the Triazole segment, the company has a secure position in the fungicides product group making us positive about the revenue growth of ~25% by FY15E.

- **Eyeing a growth of ~402bps in EBITDA margins in FY15E:** We expect the company's EBITBA margin to improve to ~21% in FY15E from 16.8% in FY14, on the back of increased emphasis on backward integration translating into lower operational expenses.

- **Aggressive capacity expansion strategies augurs well for ASTEC:** Expansion of capacities bode well for the top-line. The company has earmarked ₹550 mn for expanding its capacities. ASTEC is carrying out aggressive expansion strategies in order to carry out research and increase production on complex molecules in the herbicides group as well as Triazole fungicides segment that will result in better order intake for the company.

- **Customer retention remains the key to growth for ASTEC:** As a strategic manufacturing partner to many global agrochemical companies, ASTEC delivers efficient, reliable and scalable manufacturing capabilities as an extension of the partners' business. A major part of the revenue pie is shared by a small group of clients. The largest client of the company accounts for ~19% of the total revenue making it prone to downside if the clientele is lost, in turn making client retention an integral exercise. Meanwhile, ASTEC has garnered exclusive product supply agreements with global customers during H1FY15 which provide committed volumes and high visibility on future revenue.

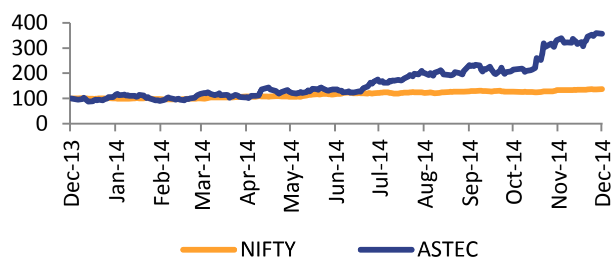
Market Data

Rating	**BUY**
CMP (₹)	114.0
Target (₹)	**139**
Potential Upside	~21.8%
Duration	Long Term
Face Value (₹)	10.0
52 week H/L (₹)	120.8/29.0
Adj. all time High (₹)	1,132.3
Decline from 52WH (%)	5.7
Rise from 52WL (%)	292.9
Beta	2.0
Mkt. Cap (₹bn)	2,111.4
Enterprise Value (₹bn)	2,746.0

Fiscal Year Ended

Y/E	FY13A	FY14A	FY15E	FY16E
Revenue (₹bn)	1.7	2.1	2.6	3.1
EBITDA (₹bn)	0.3	0.3	0.5	0.6
Adj. Net Profit (₹bn)	0.1	0.1	0.2	0.2
Adj EPS (₹)	3.3	4.7	9.9	12.6
P/E (x)	34.5	24.3	11.6	9.0
P/BV (x)	1.9	1.9	1.6	1.4
EV/EBITDA (x)	10.2	8.1	5.2	4.5
ROCE (%)	10.2	12.1	19.7	21.4
ROE (%)	5.6	7.6	14.1	15.5

One year Price Chart



Shareholding Pattern	Sep'14	Jun'14	Diff.
Promoters	58.1	58.1	0.0
DII	1.1	0.0	1.1
FII	0.1	0.0	0.1
Others	40.8	42.0	(1.2)

ASTEC manufactures a wide range of Agrochemical active ingredients and pharmaceutical intermediates.

The company has technologically sophisticated facilities for process development work and has demonstrated its ability to synthesize complex molecules rapidly.

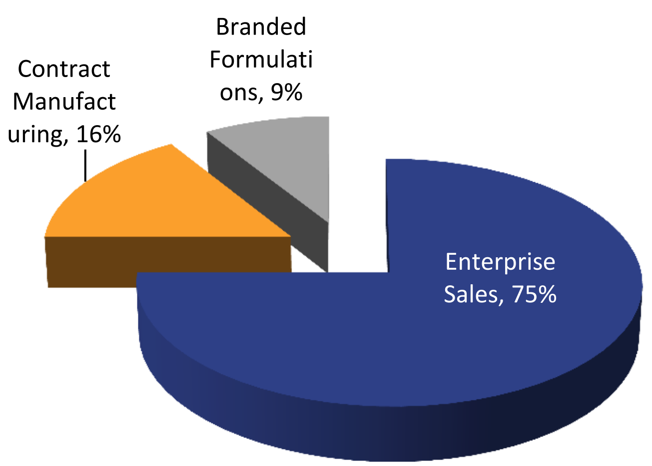
Astec Life Sciences Ltd. – a major producer of agrochemicals

Incorporated in 1994, ASTEC is engaged in the production of active ingredients and intermediates for agrochemicals and pharmaceuticals in India and internationally. The company operates in two segments, Agrochemicals and Pharmaceuticals. The Agrochemical segment manufactures active ingredients, intermediates, and formulations. Its product line includes Hexaconazole, Tebuconazole, Metalaxyl, and Propiconazole. This segment offers active ingredients to the crop protection formulators; intermediates to the technical grade product manufacturers; and formulations to the companies engaged in retail marketing. The Pharmaceutical segment produces intermediates and supplies them to active pharma ingredient manufacturers. This segment primarily offers Dicap, a primary pharmaceutical intermediate used in the manufacture of antifungal agents. Astec Life Sciences also provides various byproducts, such as hydrochloric acid, aluminum chloride solution, and sodium/potassium bromide.

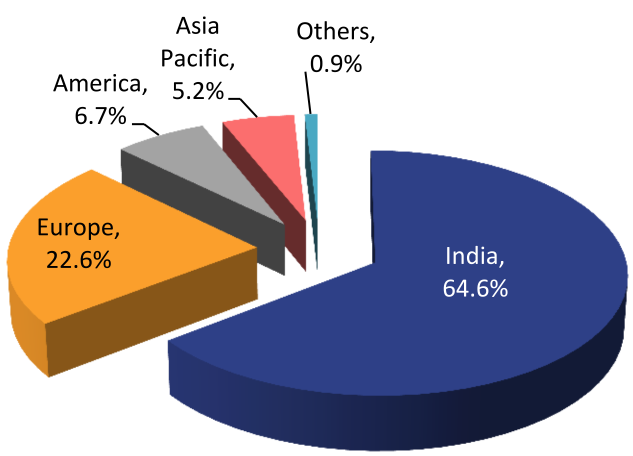
ASTEC's revenue stream is divided into three major categories viz; Enterprise Sales, Contract manufacturing and Branded formulations whereby it caters to five different geographies with Europe and America being the largest overseas market. The company has technologically sophisticated facilities for process development work and has demonstrated its ability to synthesize complex molecules rapidly. All its laboratories are equipped to carry out reactions from gram scale (gm-scale) to kilo-scale {up to 20 litres}. Scales up to multikilo level are undertaken at its versatile 50 litres (lts) - 500 lts capacity pilot plant.

Astec has multipurpose production facilities at 2 locations at Dombivli (50 km from Mumbai) and Mahad - 2 plants (180 kms from Mumbai). They are multi-purpose plants based on 3,000 litres to 20,000 litres glasslined and stainless steel reactors. Typical reactors sizes are 10,000 lts. These enable Astec to produce quantities ranging from a few kilograms to hundreds of tonnes as required for providing the benefits of customised production as well as economies of scale.

Product-wise revenue stream FY14



Geographical revenue stream FY14



Posted impressive numbers in Q2FY15

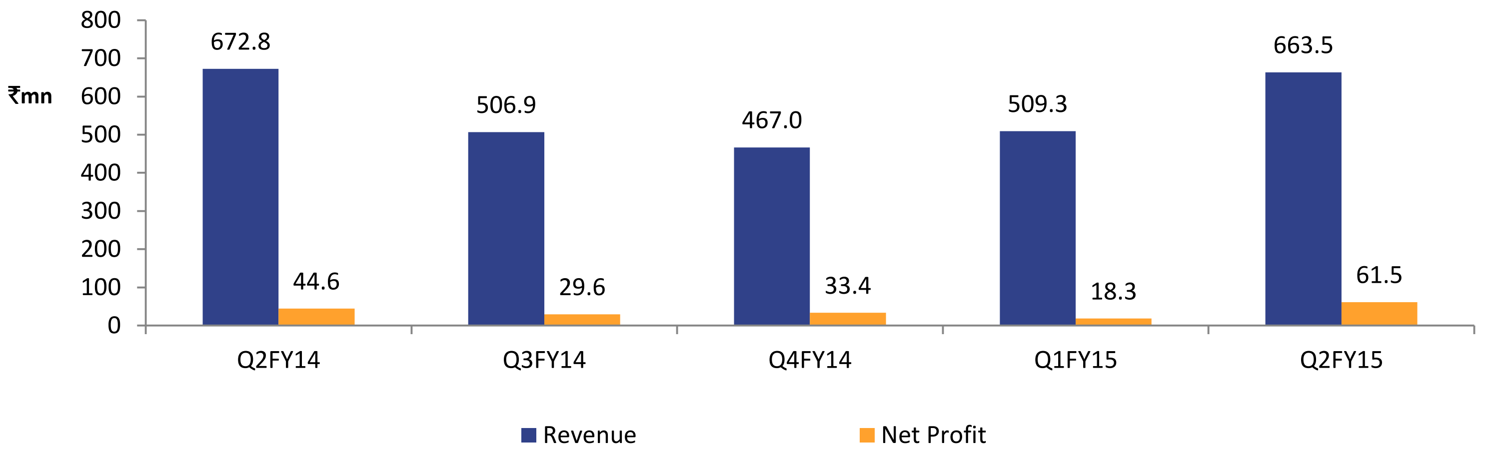
During Q2F15, ASTEC essentially focused on higher margin products leading to a 3% YoY decline in the top-line.

We expect the company to maintain its growth trajectory propelled by facts like the company's European subsidiary will start generating revenues and its newest facility at Mahad will undergo expansion with investment in utilities and support infrastructure already in place.

ASTEC achieved an impressive 37.7% YoY growth in its net profit to ₹61.5 mn in Q2FY15 on consolidated basis despite subdued top-line growth mainly due to the effect of backward integration, better product mix and result of cost reduction measures taken by the company. During Q2F15, ASTEC essentially focused on higher margin products leading to a 3% YoY decline in the top-line from ₹672.8 mn in Q2FY14 to ₹663.5 mn in Q2FY15. However, the company reported ~30% YoY growth in its EBITDA at ₹152.2 mn in Q2FY15 as the company managed to contain its operational costs that de-grew by ~10% YoY to ₹504.5 mn. As a result, EBTIDA margins soared to ~23% from ~17% in the corresponding quarter of the previous year.

Meanwhile, the company's management has guided a topline growth of 20-25% in this fiscal and aims to maintain EBITDA margin in the range of 23-25%. We expect the company to maintain its growth trajectory propelled by facts like the company's European subsidiary will start generating revenues and its newest facility at Mahad will undergo expansion with investment in utilities and support infrastructure already in place. Apart from this, ASTEC also introduced two new products where the margins were considerably better, but the full effect of the new products is yet to be fully captured. The company is engaged in working on many more new products which will further improve its performance.

Quarterly revenue and net profit trend



Witnessed decent performance in H1FY15

The top-line growth in H1FY15 was affected by suspended operations at the Dombivli plant following a closure notice issued by Maharashtra Pollution Control Board (MPCB).

For the half year ended Sep'14, the company reported net sales of ₹1,172.8 mn compared to ₹1,095.4 mn reported a year ago registering a 7.1% YoY growth. The top-line growth was affected by suspended operations at the Dombivli plant following a closure notice issued by Maharashtra Pollution Control Board (MPCB). EBITDA was reported at ₹164.9 mn as compared to ₹111.0 mn increasing by 21.2% YoY. The expansion in the EBITDA was a result of decreased expenses as the company focused on backward integration in order to improve cost-efficiency. Resultantly, the EBITDA Margin increased from 18% to 20% YoY. In line with strong operational performance, the net profit swelled to ₹79.4 mn or ₹3.2 per basic and diluted share in H1FY15 compared to net profit of ₹47.5 mn or ₹1.7 per basic and diluted share reported a year ago.

Expansion in CRAMs business to drive growth

Astec plans to expand its existing manufacturing facilities at Mahad at an estimated cost of ₹325.6 mn. The proposed expansion will enable the company to carry out research on more complex molecules and to undertake contract research activities.

ASTEC's concerted effort to identify contract manufacturing (which currently contributes 16% to the top-line) as one of the options to maintain growth and profitability and also to undertake contract research and manufacturing (CRAMS) business will enable a predictable pattern of demand going ahead.

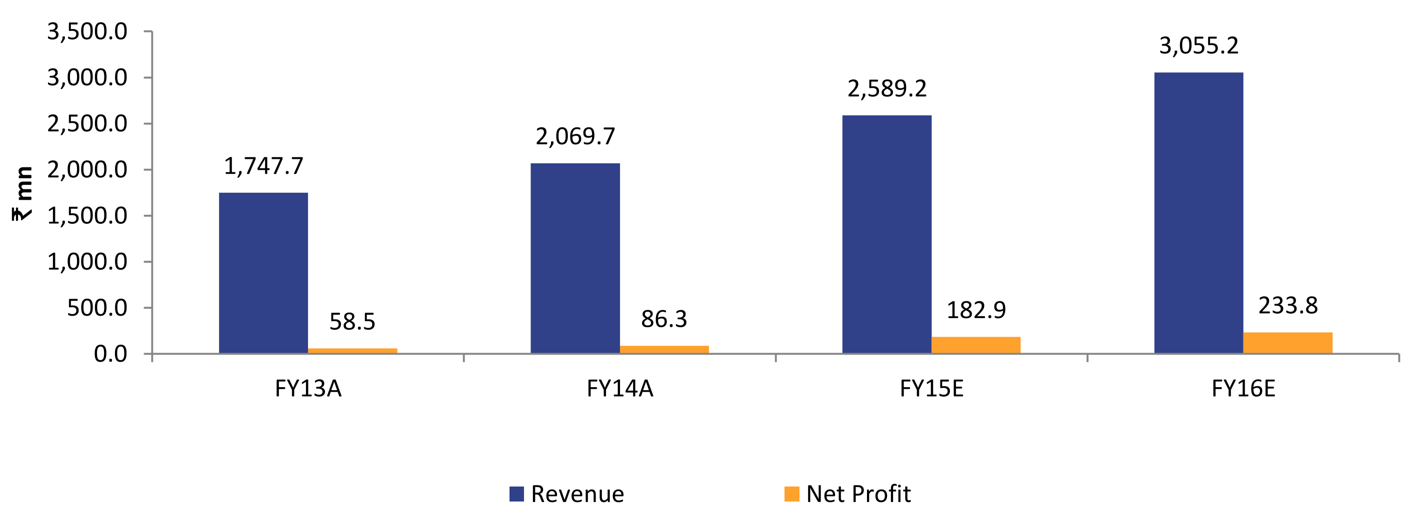
To further diversify and widen the product range besides increasing the existing capacity, Astec plans to expand its existing manufacturing facilities for herbicides at Mahad II plant at an estimated cost of ₹325.6 mn. The company plans to add nearly 1,150 tonnes of agrochemicals and pharma intermediates to its existing capacity of 2,800 metric tonnes given that it has nearly 70% of the Mahad facility available for expansion. The company further plans to expand its research & development centre at Dombivli plant at an estimated cost of ₹25.5 mn by expanding its bench scale capabilities, improving analytical capabilities and expanding its pilot plant. The proposed expansion will enable the company to carry out research on more complex molecules translating into increased order intake under contract research activities.

Robust product pipeline enhances revenue visibility

ASTEC's strategic steps in order to revive its product pipeline have a huge potential to drive earnings growth in the coming years with the agrochemicals industry's expected to grow at 9% annually.

Astec pioneered Triazole fungicides in India and continues to be the pre-eminent source of these products in the country. It intends to continue concentrating on this product group, and seeks to be the supplier of choice for Triazole products to leading Indian and global players. ASTEC has earmarked an investment of ₹550 mn over the next 3 years on expanding capacity to support its fast growing business. As of Q2FY15, ASTEC has a strong pipeline of products under development and intends to launch 2–3 new products annually with an emphasis on process innovation and IP generation to create a sustainable advantage and deliver strong revenue growth. Its product selection strategy is geared towards new generation, high growth fungicides molecules which present a large market opportunity in India and overseas territories. It recently launched two new products in the Triazole segment. Though not substantial at present but we believe, ASTEC's strategic steps in order to revive its product pipeline have a huge potential to drive earnings growth in the coming years with the agrochemicals industry's expected to grow at 9% annually.

Revenue is expected to grow at a CAGR of ~21% during FY14-FY16E



Branded Formulations bode well for improving product portfolio

Astec Crop Care – the company's branded products business is rapidly building a reputation for high quality agrochemical products with a focus on fungicides.

To harness the fast growing domestic agrochemicals market and to expand margins through integration across the value chain, Astec has entered the branded formulations segment in India in 2010. Currently, branded formulations constitute ~9% of the entire top-line. Astec Crop Care – the Company's branded products business is rapidly building a reputation for high quality agrochemical products with a focus on fungicides. Astec seeks to introduce new products and create brand leadership in select segments. The Company's products are presently retailed in the states of Gujarat, Maharashtra, Karnataka, Himachal, Punjab and Haryana. Besides, the company is mulling to expand its geographical reach and has identified the states of Andhra Pradesh, Telangana, Uttar Pradesh and Madhya Pradesh for the next phase of growth. We believe the downstream integration into branded formulations will aid in capitalizing on strong product capabilities.

Prospects for domestic and exports business remains favourable

The strategy to consolidate presence through a few key products and access customers across the globe to ensure sustained growth every quarter in an otherwise seasonal industry accounts for ASTEC's firm presence in the domestic as well as overseas space.

Domestic operations accounted for ~80% of the company's top-line in Q2FY15. ASTEC operates in three states viz; Karnataka, Gujarat, and Maharashtra. The company recently rolled out in Punjab, Haryana and Madhya Pradesh as the agro-chemicals market in these states is growing at the rate of 15% per year. At present, the agro-chemicals market size is US$2 bn which is expected to be US$15 bn by 2020. Considering the huge growth prospects prevailing in the domestic agro-chemicals industry and to en-cash benefits, the company is phasing out strategy to consolidate presence through a few key products and access customers across the globe to ensure sustained growth every quarter in an otherwise seasonal industry. The company's strategies are specifically focused to succeed in this market leading to forward integration of co-products which they manufacture.

Besides enjoying a good pie of the domestic market, ASTEC has been able to successfully venture into the international markets like South Africa, Europe, USA, West Asia, East Asia, Japan and South America. The company plans to enter into long-term supply contracts with the buyers in these countries in order to scale up exports. Europe and the Americas remain key markets. It has also incorporated subsidiary companies in Belgium and Colombia for managing the product registrations in these territories.

Better focus on R&D to enhance product efficiency

Ability to capitalise on the customers' value addition due to its strong R&D capabilities enables ASTEC to remain competitive.

ASTEC is able to provide its customers' value addition due to its strong R&D capabilities. The Company has made substantial investments to bring its Enterprise Sales (EHS) and CRAMs standards to international levels. In FY14, the company expended ~1.72% of its total turnover towards R&D as compared to 1.37% in last fiscal. ASTEC is foreseeing exponential expansion in the branded formulations and the CRAMs segment, the potential for which can put pressure on margins. In order to safeguard against this, the company has a strong focus on R&D that enables it to remain competitive. The R&D is focused on developing new products for overseas markets notably Europe and America as these territories share a major pie of the overseas revenue. Moreover, the company plans to carry out research in order to further improve the customer synthesis projects.

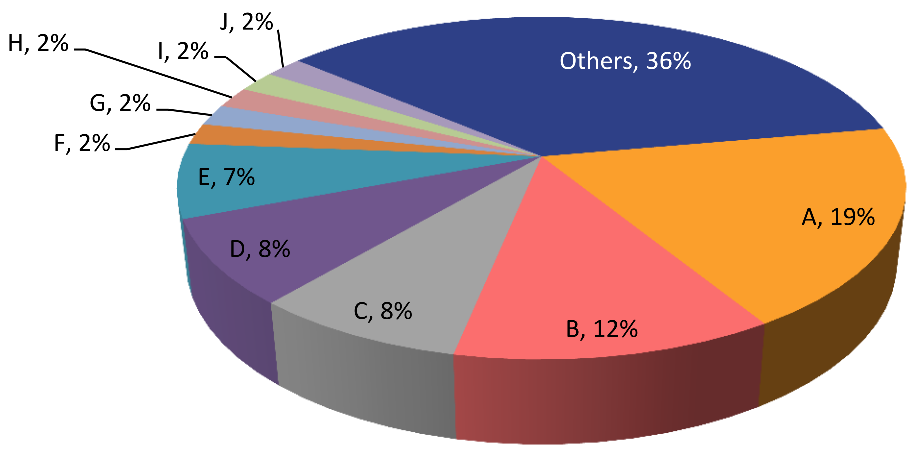
We expect the company's focus towards leveraging its strong R&D capabilities in developing new products would aid cost efficiencies and prepare the company for the next phase of growth.

ASTEC delivers efficient, reliable and scalable manufacturing capabilities as an extension of the partners' business.

Customer retention ensures sturdy revenue

ASTEC has successfully built strong relationships with its clients, resulting in significant new customer addition and revenue growth across customer accounts. The Company has a track record of 100% customer retention since inception. The largest customer accounted for approximately 19% of revenue in FY14. However, the company witnessed a decline in total revenue contribution from the top 10 customers from 68% in FY13 to 64% in FY14. Meanwhile, the company's global clientele account for 35% of its top-line. As a strategic manufacturing partner to many global agrochemical companies, ASTEC delivers efficient, reliable and scalable manufacturing capabilities as an extension of the partners' business. ASTEC has garnered exclusive product supply agreements with global customers during H1FY15 which provide committed volumes and high visibility on future revenue.

Top 10 clients contributes 64% of the total revenue in FY14



Appreciating rupee and reliability on monsoon make the company vulnerable to risks on the revenue front.

Key Concerns:

- A considerable increase in the overseas business in the revenue pie has made Astec more prone to any appreciation in the rupee value in the coming years. We remain cautious that this will adversely affect the financial position of the company.
- Continuous capital expenditure over the last two years has resulted in a stress to the otherwise comfortable coverage indicators of Astec. The growth is constrained by the highly fragmented and competitive nature of the industry which limits the pricing power of the company.
- ASTEC's operations remain heavily dependent on the monsoons, with limited diversification in the product profile. ASTEC's ability to scale up revenues of its CRAMs segment as well as sustain the growth momentum will hold key.

Balance Sheet (Consolidated)

Y/E (₹mn)	FY13A	FY14A	FY15E	FY16E
Share Capital	180.4	185.3	185.3	185.3
Money against warrants	4.1	0.0	0.0	0.0
Reserve and surplus	872.9	949.6	1,108.6	1,320.7
Net Worth	**1,057.5**	**1,134.9**	**1,293.9**	**1,506.0**
Minority Interest	1.3	0.4	0.5	0.5
Loans	686.0	765.6	828.9	911.8
Deferred tax liabilities	38.9	41.3	45.5	45.5
Other long term liabilities	263.6	307.3	338.0	338.0
Provisions	39.9	56.1	79.5	107.1
Current Liabilities	523.7	543.7	780.2	940.9
Total Equity and Liabilities	**2,610.8**	**2,849.4**	**3,366.4**	**3,849.7**
Fixed assets	1,338.0	1,380.7	1,477.3	1,669.4
Deferred Tax assets	0.0	4.8	4.8	4.8
Loans & advances	87.3	138.6	176.5	226.9
Investments	1.0	0.8	1.1	1.1
Other current assets	1,184.5	1,324.5	1,706.8	1,947.6
Total Assets	**2,610.8**	**2,849.4**	**3,366.4**	**3,849.7**

Profit & Loss Account (Consolidated)

Y/E (₹mn)	FY13A	FY14A	FY15E	FY16E
Total Income	**1,747.7**	**2,069.7**	**2,589.2**	**3,055.2**
Operating Expenses	1,477.7	1,721.7	2,050.3	2,413.6
EBITDA	**270.1**	**348.0**	**538.9**	**641.6**
Other Income	10.6	3.7	3.7	3.7
Depreciation	118.7	147.7	177.3	200.3
EBIT	161.9	204.0	365.3	444.9
Interest	74.8	92.5	128.5	141.3
PBT	**87.1**	**111.5**	**236.8**	**303.6**
Exceptional Items	0.0	0.0	2.1	0.0
Tax	28.1	25.0	54.0	69.8
Minority Interest	(0.5)	(0.20	-	-
Net Profit	**59.5**	**86.8**	**180.7**	**233.7**
Adj Net Profit	**59.5**	**86.8**	**182.8**	**233.7**

Key Ratios (Consolidated)

Y/E	FY13A	FY14A	FY15E	FY16E
EBITDA Margin (%)	15.5	16.8	20.8	21.0
EBIT Margin (%)	9.3	9.9	14.1	14.6
NPM (%)	3.4	4.2	7.0	7.7
Adj. NPM (%)	3.4	4.2	7.1	7.7
ROCE (%)	10.20	12.1	19.7	21.4
ROE (%)	5.63	7.6	14.1	15.5
Adj. EPS (₹)	3.3	4.7	9.9	12.6
P/E (x)	34.5	24.3	11.6	9.0
BVPS (₹)	58.6	61.2	69.8	81.3
P/BVPS (x)	1.9	1.9	1.6	1.4
EV/Operating Income (x)	9.8	8.1	5.2	4.5
EV/EBITDA (x)	10.2	8.1	5.2	4.5

Valuation and view

Over the years, a strong R&D focus has translated into introduction of a number of unique products for ASTEC. Operations have been integrated vertical and horizontal, resulting in efficiency and low cost. As of now, contract manufacturing and research will be a platform for future growth. ASTEC has already entered into retail segment with its own brand which will help it improve the composition of sales. Taking into consideration these facts, we can say that ASTEC is well placed vis-à-vis the Indian agrochemicals market as it is well positioned to capitalize on its dominant position as multinationals are moving manufacturing from high-cost western countries to emerging economies.

At the CMP of ₹114.0, the stock is trading at a P/E of 11.6x for FY15E and 9.0x for FY16E. Given the high revenue visibility and better expected EBITDA growth, we recommend 'BUY' with a target price of ₹139 signifying an upside of 21.8% from a long term perspective.

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