Twitter Thread by Vishnu Kapadia



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Thread on Astec Lifesciences Ltd ■

Market cap: 1996.7 crores.
Revenues: 522.61 crores.
P/E: 27.62
P/B: 7.0
ROCE: 20.44%
ROE: 21.24%

Here we go■

ASTEL is a niche chemical company focused on triazole fungicides & on proprietary off-patent products in the CRAMS segment;

1/25

New products in the herbicides segment should drive growth in the CRAMS space.

Leader in triazole fungicides:

Tebuconazole and Propiconazole currently form a major part of ASTEL's enterprise business while it is capable of venturing into newer products given strong

2/25

technical knowledge in triazole chemistry.

Newer mixtures/geographies to drive growth in Enterprise business:

Triazole fungicides have been losing market share over the years as new products (SDHI fungicides) have proved to be a

replacement;

3/25

However, with a few SDHI (succinate dehydrogenase inhibitors) products facing resistance in some geographies and given strong forecasts for this segment, triazole fungicides are likely to benefit–albeit in a limited way–from their inclusion in a

4/25

mixture of products (with some SDHIs).

ASTEL is setting up a new herbicide plant To diversify its product concentration from the triazole fungicide segment.

New R&D Centre to aid diversification:

Would help develop new processes into various chemistries like fluorine;

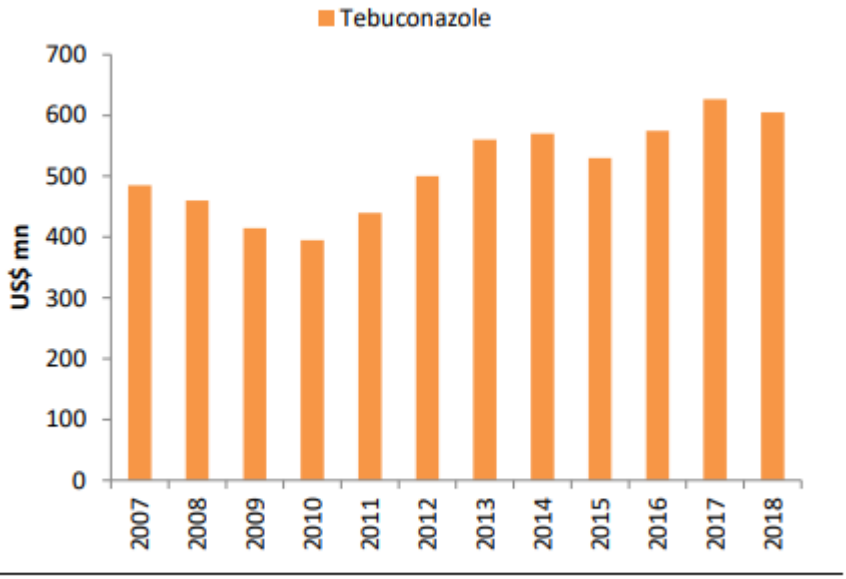
5/25

Purity levels offered by ASTEL in Triazoles have not been matched by Many players globally who strive to do so in order to improve yields.

Venturing into Herbicide segment:

ASTEL is setting up a new herbicide plant to diversify its product concentration from triazole fungicides

Exhibit 2: Global sales of Tebuconazole



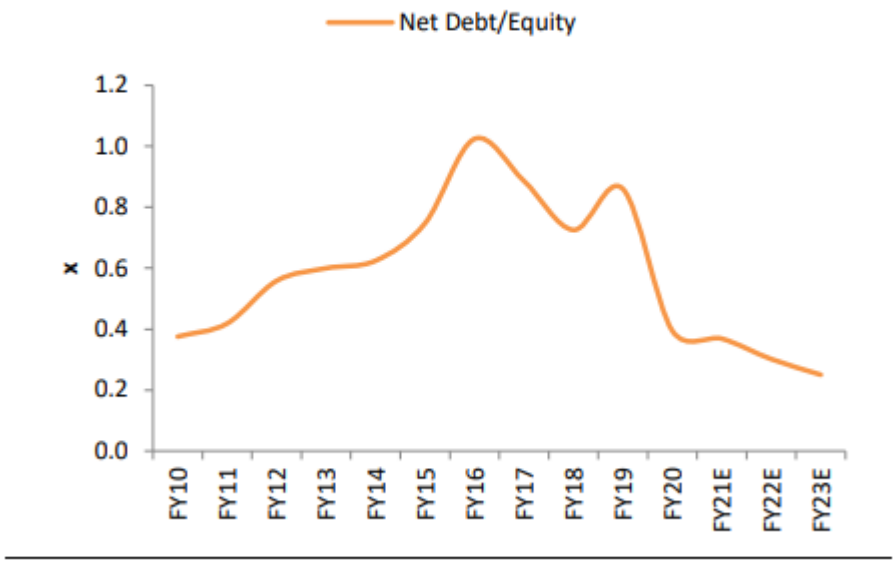
Source: Equirus, Phillips McDougall

The company is incurring a CAPEX of Rs 700mn-800mn on the plant, and expects a gross block turnover of 1.5-1.7x;

The company's enterprise business is more of a commodity nature, earnings forecast is difficult if not impossible.

7/25

Exhibit 7: Net debt/equity has been improving



Source: Company Data, Equirus

Global crop protection market- innovators continue to gain market share:

Despite the decline in 2019, innovators continued to gain market share with the top-5 innovators controlling c.69% in 2019 vs 66% in 2018;

Sales of top-5 innovators stood at US$ 41bn in 2019-

8/25

v/s US$ 40bn in 2018 i.e. c. 2.3% growth Y-o-Y;

FMC saw the sharpest gain in market share in LATAM even as an explosion in a China industrial park during Mar'19 badly hit a plant operated by one of FMC's contract manufacturing tollers.

9/25

While in 2019, Bayer was leading with sales of US$ 12.4bn, UPL made its way up and now ranks 5th globally;

M&A activity in the last 1-2 years severely hit the top two agrochemical players;

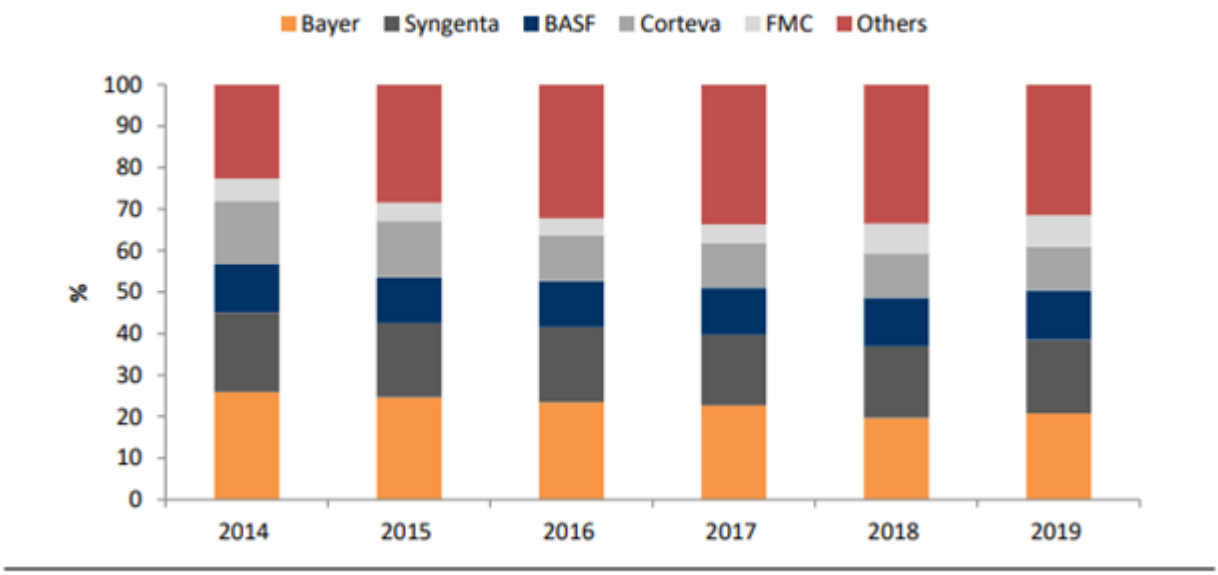
10/25

While DowDuPont had to divest its chewing & R&D portfolio, FMC jumped at the 6th spot post
Acquisition of Rynaxypyr and Cyazypyr;

FMC gained the highest market share in LATAM in 2019 (21% growth) led by the insecticide portfolio (up to 12%+).

11/25

Exhibit 10: Top-5 innovators control about c.70% of the overall market

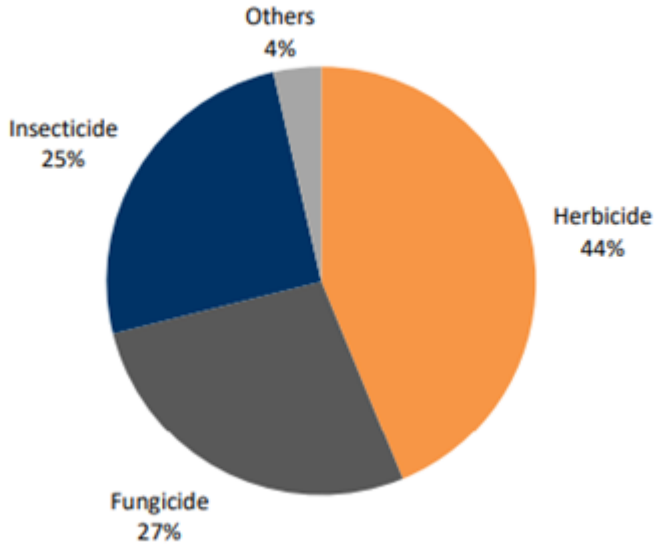


Source: Equirus, Phillips McDougall

In 2019, herbicides held the highest market share (c.43.8%) in the global crop protection market, followed by fungicides (c.27.3%) and insecticides (c.25.3%);

12/25

Exhibit 11: Herbicides continue to be the key focus area in crop protection (2019)



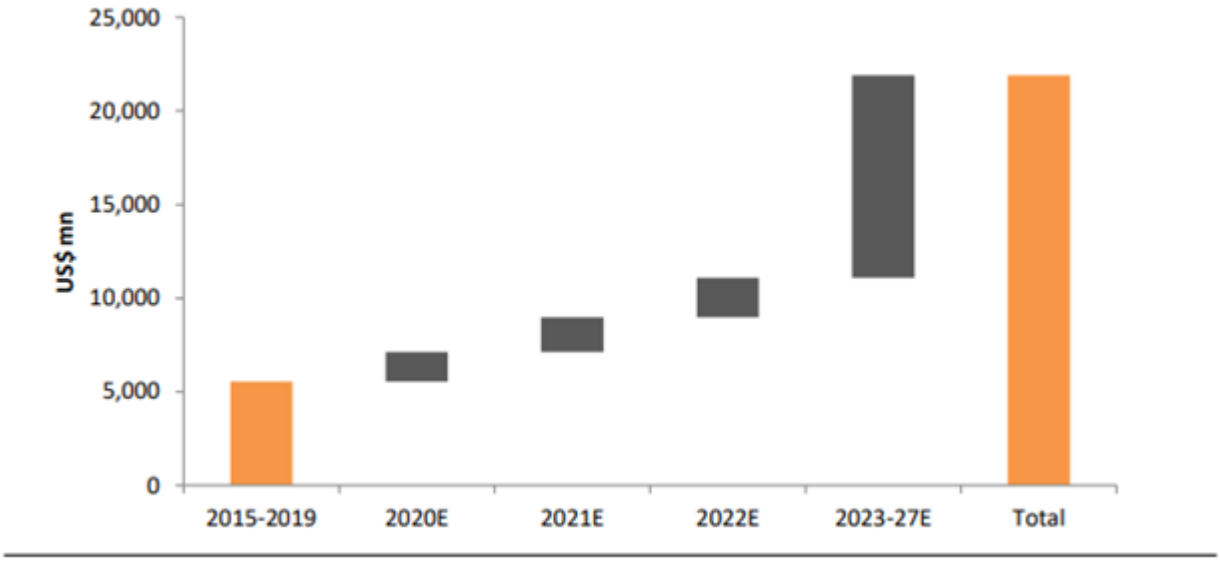
Source: Equirus, Phillips McDougall

There is up to 90% price erosion in pharmaceuticals when they go off-patent because of significant branding exercises, the erosion in agrochemicals is much lower;

The Indian crop protection market was valued at US$ 2,868mn in 2019, growing at a c.3.6% CAGR since 2014;

13/25

Exhibit 16: US$ 16bn worth of molecules set to go off-patent in next 8 years



Source: Equirus, Phillips McDougall

India is the world's 5th largest market for crop protection, representing c.4.8% of the global market in 2019;

India's pesticide exports increased from 147,000 tonnes in 2008 to 461,000 tonnes in 2019, a c.10.9% CAGR over the last 11 years;

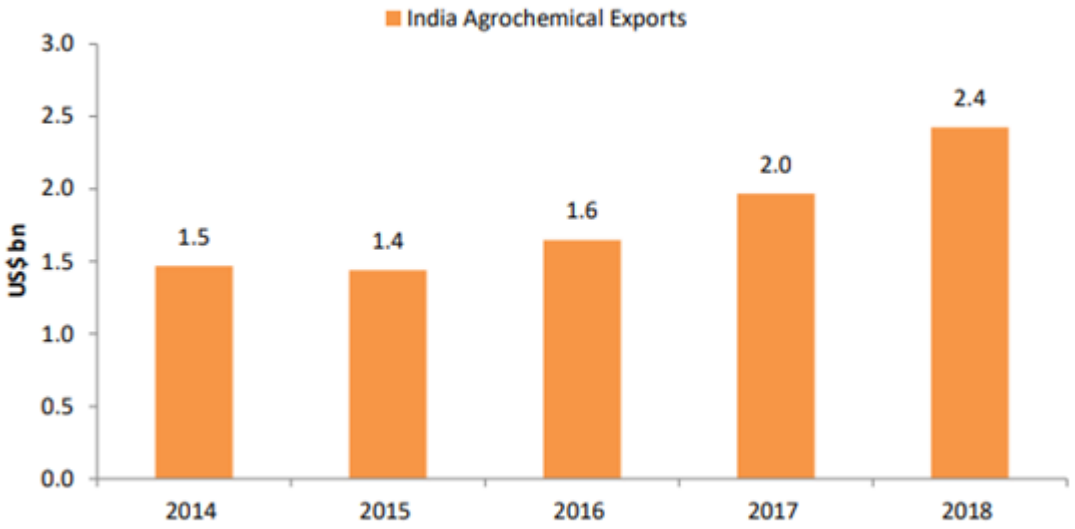
14/25

Imports increased from 33,000 tonnes to 108,000 tonnes, implying an 11.4% CAGR over this period.

While the global market has been range-bound, India's agrochemical exports have been rising from US$ 1.5bn in 2014 to US$ 2.4bn in 2018;

15/25

Exhibit 22: India agrochemical exports been growing at c.13% in US$ terms



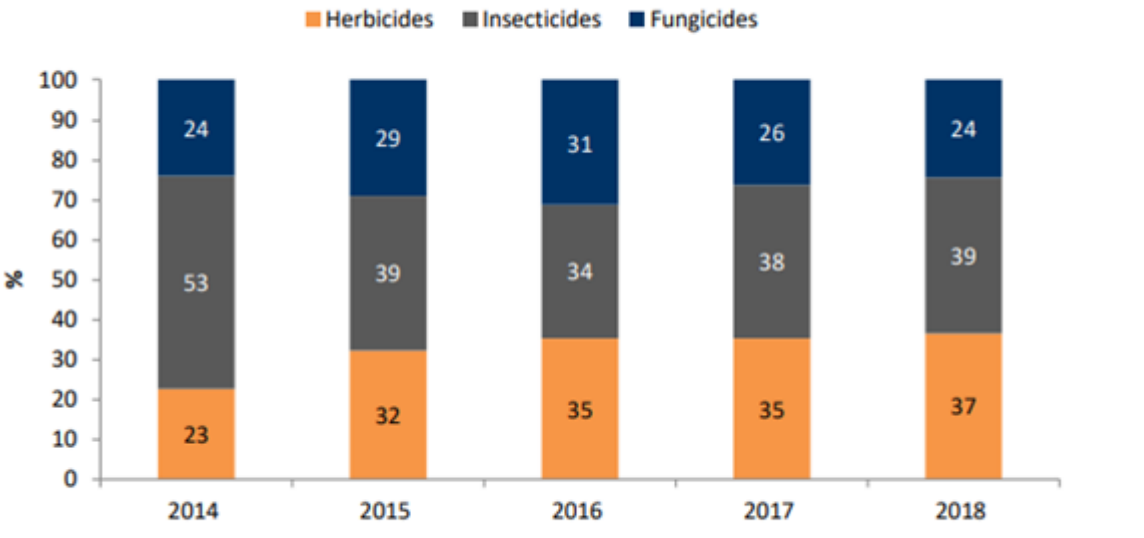
Source: Equirus, Industry Data, Phillips McDougall

As per industry checks, this market has grown by c.15-20%+ in 2019 as well;

India agrochemical exports saw c.13% CAGR in US$ terms & c.17% CAGR in Rs terms in the last four years

The activity of triazole products has been improved repeatedly, with 2nd/3rd/4th generation

Exhibit 23: Herbicide exports have been growing at c.28% CAGR in the last 4 years



Source: Equirus, Industry Data, Phillips McDougall

products being brought to the market for many years;

Propiconazole from Syngenta was the leading triazole product, but this has been superseded by more recent introductions.

Triazole fungicides have been losing market share due to the former’s characteristics –

17/25

excellent handling characteristics, low use rates, and ease of tank mix with other activities;

Given the shift from China to India in recent months, ASTEL stands to benefit as few domestic players are still dependent on China for imports of triazoles;

18/25

At present, the company mainly focuses on Tebuconazole, Propiconazole, Hexaconazole, Metalaxyl and Difenoconazole;

Tebuconazole is a leading triazole fungicide, But its global sales have been impacted by heightened generic competition;

19/25

Tebuconazole has been actively used in mixtures in various products, & is currently the largest product in ASTEL’s export basket;

Over the last 2-3 years, realizations have improved significantly

The EU ban has put pricing pressure on ASTAL as the region formed c.30-35%

20/25

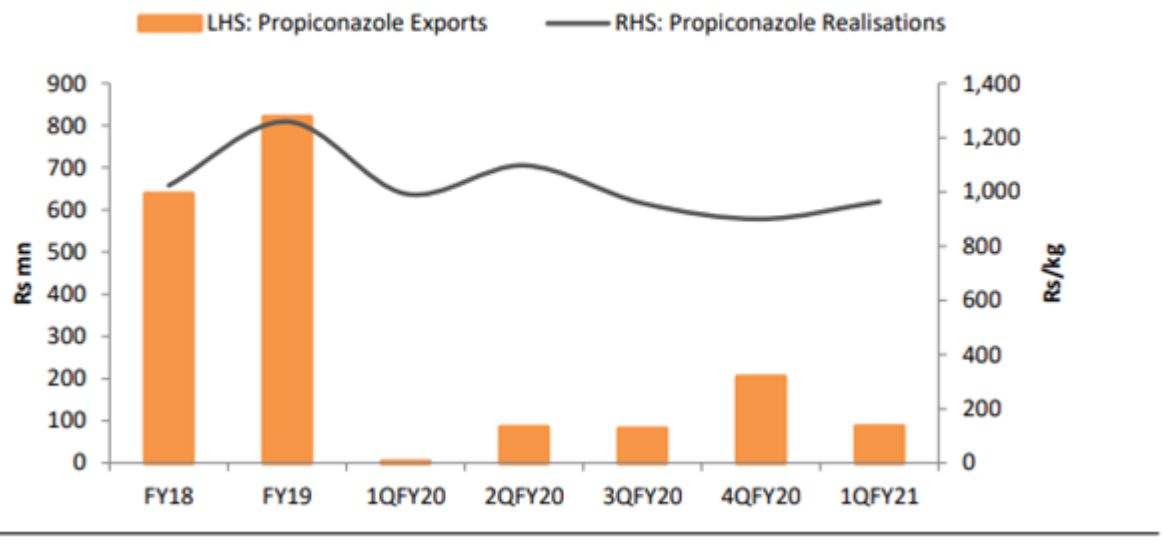
of overall global Propiconazole demand;

Excerpts from 1QFY21 Con-call:

“And the other thing is that on the qualitative front, the new capabilities that we're building in would be To bring in new chemistries that we can practice, for example, fluorine chemistry;

21/25

Exhibit 34: Realisations have been impacted due to ban in EU



Source: Equirus, Exports Data

Anybody who's following the life sciences industry will know that fluorine chemistry is very, very core to the development of new molecules;

So we will be building in a development capability of that in the R&D center;

22/25

There is flow chemistry that involves continuous flow chemistries, the ability to do things in micro reactors, and so on and so forth, there will be high-pressure reactor systems;

There'll be hydrogenation systems. There will be all the cutting-edge new chemistries

23/25

that are out there will be we'll have labs that have the ability to develop that;

So we'll have teams that will be developing these new chemistries."

On CAPEX:

ASTEL has been prudent with its CAPEX, and never over-committed in capacities without revenue visibility,

24/25

this is evident from its Rs 3.1bn CAPEX program over FY12-FY20;

Company intends to spend Rs2.6bn over FY21-23 mainly on a herbicide plant, to commission in 4QFY21, and a new R&D center where the company will focus on new processes and chemistries.

End of Thread ■