# Advanced Enzyme Technologies Ltd.

**BUY**

June 10, 2021

**Advanced Enzyme Technologies Ltd. (AETL)** is the largest Indian enzyme company and is engaged in the research & development, manufacturing and marketing of 400+ proprietary products developed from over 68 indigenous enzymes and probiotics. The company has manufacturing facilities and research & development centers in India, US and Germany. It exports its products to more than 45 countries across six continents.

Revenue in Q4 FY21 stood at Rs. 133.2cr, down 3.3% sequentially. EBITDA came in at Rs. 54.9cr with a margin of 41.2% (a sequential contraction of 700bps due to rise in raw material cost, high logistics cost and consolidation of accounts of SSPL). PAT margin contracted sequentially by 680 bps due to high depreciation on account of new acquisition.

In FY21 revenue came in at Rs. 501.8cr. Domestic business grew by 20% and international business grew by 12% YoY on the back of strong demand from the Human Nutrition segment. EBITDA margin expanded by 38 bps YoY and stood at 46.1%. PAT grew by 14% and came in at Rs. 151.2cr.

### New acquisition to bolster revenue growth:

In Q4 FY21, AETL acquired 51% stake in SciTech Specialties Pvt. Ltd. (SSPL) for a consideration of Rs. 31.6cr. SSPL is technology based contract manufacturing company specializing in effervescent granules and tablets. Its revenue from 11th Jan 2021 (date of acquisition) to 31st March 2021 stood at Rs. 7.9cr with EBITDA of Rs. 2.2cr and PAT Rs. 1.4cr. This acquisition synergized AETL with two manufacturing facilities and one R&D facility. As on 31st March 2021, AETL has nine manufacturing and seven R&D facilities. This acquisition is expected to contribute 10-12% to the topline of AETL in the coming years.

### Human nutrition segment- A major growth driver:

Consolidated revenue grew by 13% YoY in FY21 on the back of strong demand from the Human Nutrition segment which includes various anti-inflammatory solutions, digestion solutions, probiotics, etc. The Human Nutrition segment constituted ~77% of the total revenue in FY21. The company has approved the acquisition of additional stake of 15% in JC Biotech Private Ltd. (JCB) which is majorly producing anti- inflammatory products. This will increase its stake from 70% to 85% in JCB. Going forward, AETL is planning to make JCB a multi product company.

### Outlook & Valuation:

AETL's international sales grew by ~21% YoY and ~15% QoQ in Q4 FY21, led by expansion in baking and nutraceuticals. The nutraceutical industry is currently growing at a CAGR of 8.3% and the awareness of nutraceuticals has increased due to the pandemic. Growth in this segment is expected to aid the profitability of the company going ahead.

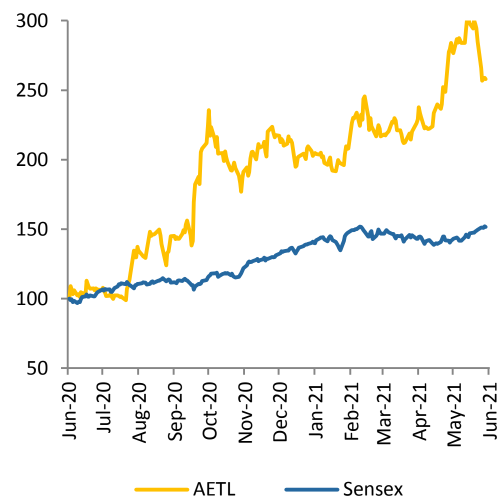
In Q4 FY21 EBITDA margin de-grew sequentially by 700 bps. However, margin expanded by 38 bps in FY21 on YoY basis. Going forward we expect the raw material cost pressure to continue in FY22. Despite this, with favorable product mix and better resource optimization, margins are likely to be maintained in the range of 43-46%. Keeping this in mind, we value AETL at a P/E multiple of 30x to its FY23E earnings and maintain **BUY** rating for the stock with a revised target price of **Rs. 486** (up from Rs.424).

| Rating Matrix | |
|---|---|
| CMP | Rs. 413.70 |
| Rating | BUY |
| Target Price | Rs. 486 |
| Upside Potential | 17.7% |
| 52 week H/L | Rs. 503/158 |
| Face value | Rs. 2 |
| Mar. Cap. | Rs. 4,622 cr |
| Category | Small- Cap |
| Sector | Chemicals |

**Shareholding Pattern**

| Particulars | Jun'20 | Sept'20 | Dec'20 | Mar'21 |
|---|---|---|---|---|
| Promoters | 58.1% | 55.5% | 55.4% | 55.4% |
| *FPIs* | 11.0% | 16.0% | 17.1% | 16.8% |
| *DIIs* | 8.7% | 6.3% | 6.3% | 7.3% |
| Non. Inst. | 22.2% | 22.2% | 21.2% | 20.5% |

**Relative Capital Market Strength**




**Key Financials Consolidated (Rs. Cr)**

| Particulars | FY20 | FY21 | FY22E | FY23E |
|---|---|---|---|---|
| **Operating income** | **444.0** | **501.8** | **565.5** | **633.1** |
| EBITDA | 203.1 | 231.4 | 248.0 | 285.7 |
| EBITDA Margin | 45.8% | 46.1% | 43.8% | 45.1% |
| PAT | 133.0 | 151.2 | 156.9 | 181.3 |
| NPM (%) | 30.0% | 30.1% | 27.7% | 28.6% |
| EPS (Rs) | 11.9 | 13.5 | 14.0 | 16.2 |
| P/E (x) | - | - | 29.5 | 25.5 |
| P/BV (x) | - | - | 4.0 | 3.5 |
| P/S(x) | - | - | 8.2 | 7.3 |

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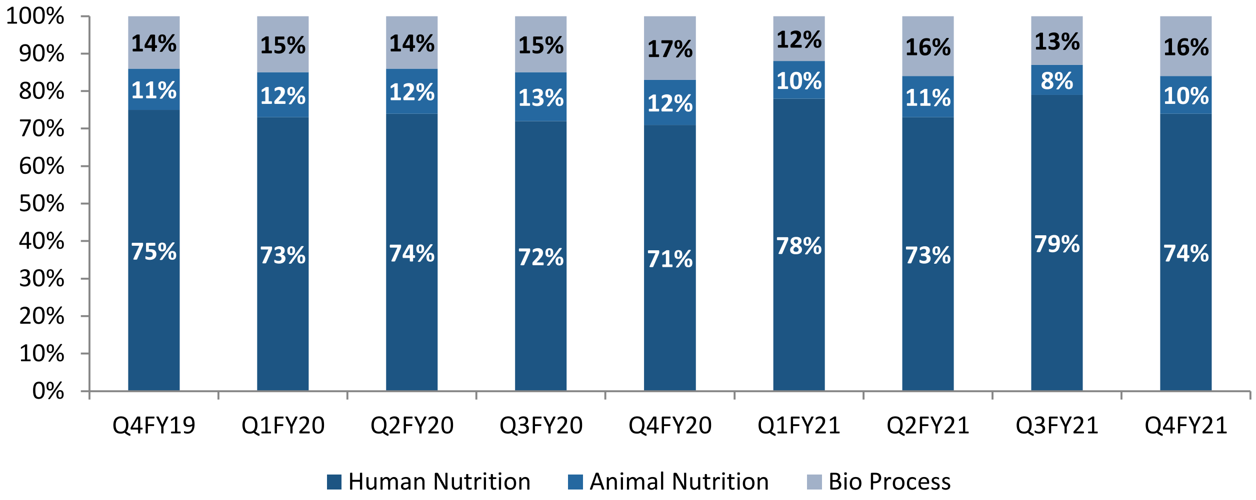
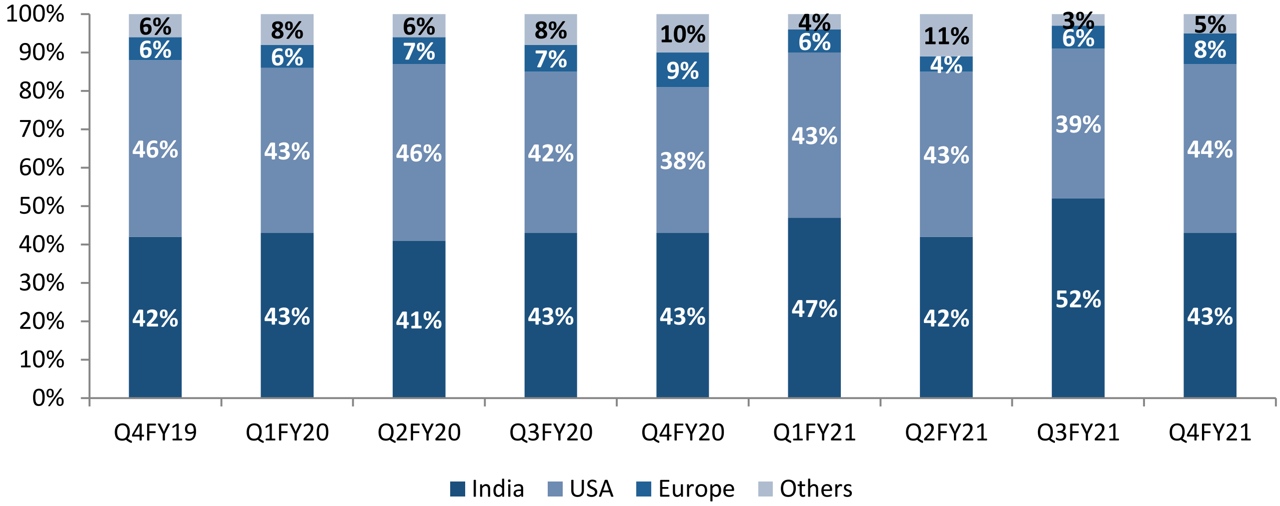
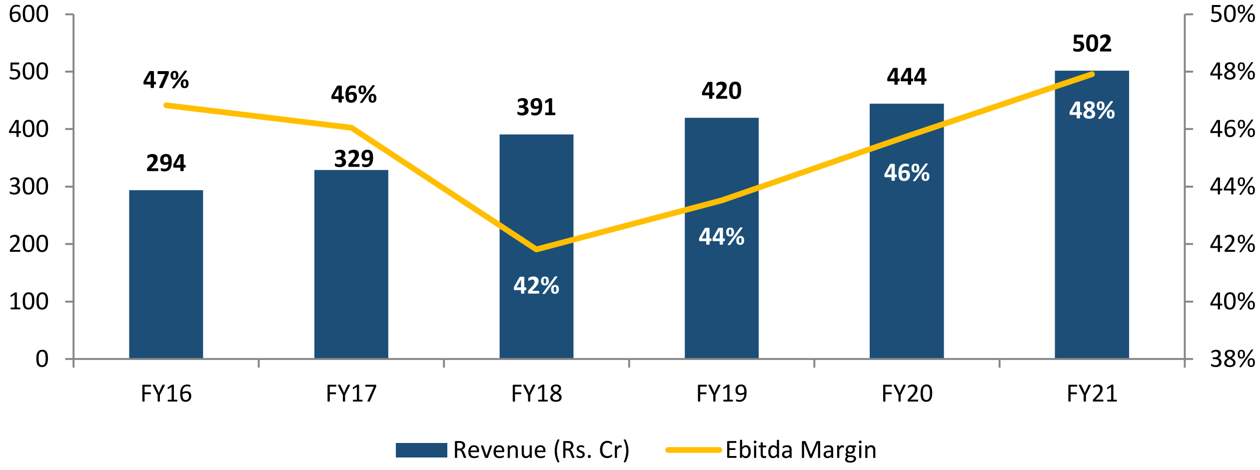
**Revenue breakup:**




**Revenue and EBITDA Margin:**



## Quarterly Analysis:

| Particulars (Rs. Cr) | Q4FY21 | Q4FY20 | Change (YoY) | Q3FY21 | Change (QoQ) |
|---|---|---|---|---|---|
| Operating Income | 133.20 | 110.30 | 20.76% | 137.70 | -3.27% |
| EBITDA | 54.90 | 48.70 | 12.73% | 66.4 | -17.32% |
| EBITDA Margin (%) | 41.22% | 44.15% | -294 bps | 48.22% | -700 bps |
| PAT | 33.8 | 32.7 | 3.36% | 44.3 | -23.70% |
| PAT Margin (%) | 25.38% | 29.65% | -427 bps | 32.17% | -680 bps |

- Revenue increased by 20.7% YoY and stood at Rs. 133.2cr in Q4 FY21. However sequential revenue fell by 3.27%
- EBITDA for the current quarter stood at Rs. 54.9cr as compared to Rs. 66.4cr in Q3 FY21. Margins contracted sequentially due to high logistic cost and increased cost of raw materials like soya flour, soya oil, corn,etc.
- AETL undertook the new tax regime due to which ~Rs. 2.7 cr MAT credit was lost. PAT margins contracted sequentially by 680 bps in Q4 FY21.

## Concall highlights:

- Despite losing one of the top customers from US which constituted ~9% of the total revenue in FY20, business from US registered a growth of 12% YoY in FY21.
- Top 10 customers contributed ~38% of the total revenue in FY21 as compared to 35% last year
- Bio-processing and probiotics business will continue to grow, while animal nutrition business will be muted due to the second wave of the pandemic.
- Current capacity utilization is 55-60%.
- Currently JCB is majorly into anti- inflammatory products. AETL is planning to make it a multi product company.
- Nutraceutical B2C sales in FY21 grew up to Rs. 0.53cr from Rs. 0.38cr in FY20.
- The company is working on expanding its baking business in the US & European markets.
- R&D cost increased by 19% YoY and stood at Rs. 17.9cr which was 3.5% of the sales during FY21.
- The bio- processing segment constituted ~14% of the total revenue our of which, 9% was from food processing and 5% was from non- food processing segment in FY21.
- Capex for FY21 was around Rs. 5.4cr as compared to Rs. 2.9cr in FY20.

## Consolidated Financial Statement:

| Profit and Loss Statement (Rs.Cr) | FY17 | FY18 | FY19 | FY20 | FY21 |
|---|---|---|---|---|---|
| **Revenue from operations** | **329.0** | **391.0** | **419.6** | **444.0** | **501.8** |
| Raw Materials | 70.1 | 80.3 | 65.9 | 90.8 | 100.2 |
| Employee Benefits Expense | 50.7 | 68.6 | 78.0 | 80.2 | 87.1 |
| Other Expenses | 56.7 | 78.6 | 93.0 | 69.8 | 83.0 |
| **EBIDTA** | **151.5** | **163.5** | **182.6** | **203.1** | **231.5** |
| Dep & Amort exp | 12.8 | 18.3 | 21.1 | 25.8 | 28.4 |
| **EBIT** | **138.7** | **145.2** | **161.4** | **177.4** | **203.1** |
| Other Income | 2.8 | 2.8 | 5.7 | 5.9 | 8.8 |
| Finance Cost | 4.4 | 9.1 | 5.2 | 4.1 | 1.6 |
| Exceptional items | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Profit before Tax** | **137.1** | **139.0** | **162.0** | **179.2** | **210.4** |
| Tax Expenses | 44.1 | 45.4 | 46.1 | 46.1 | 58.9 |
| **PAT** | **92.9** | **93.6** | **115.9** | **133.0** | **151.5** |

| Balance Sheet (Rs.Cr) | FY17 | FY18 | FY19 | FY20 | FY21 |
|---|---|---|---|---|---|
| **Share Holder funds** | **485** | **582** | **705** | **867** | **1031** |
| Long term borrowing | 19 | 20 | 7 | 4 | 10 |
| Other Non current liablities | 13 | 27 | 28 | 40 | 44 |
| Total Non Current Liablity | 32 | 47 | 35 | 44 | 54 |
| Short Tem Borrowing | 27 | 38 | 21 | 13 | 5 |
| Trade Payables | 11 | 17 | 10 | 10 | 15 |
| Other Current Liablities | 28 | 44 | 34 | 37 | 48 |
| Total Current Liablities | 65 | 99 | 65 | 60 | 68 |
| **Total Equity & Liablities** | **583** | **727** | **805** | **971** | **1153** |
| Net block | 421 | 496 | 500 | 568 | 606 |
| Other Non Current Assets | 18 | 21 | 23 | 28 | 30 |
| Total Non Current Assets | 440 | 517 | 523 | 596 | 636 |
| Inventories | 68 | 76 | 77 | 80 | 94 |
| Trade Receivables | 50 | 59 | 59 | 75 | 86 |
| Cash | 8 | 61 | 23 | 83 | 198 |
| Other Current Assets | 17 | 15 | 123 | 138 | 139 |
| Total Current Assets | 143 | 211 | 282 | 376 | 517 |
| **Total Assets** | **583** | **727** | **805** | **971** | **1153** |

| Cash Flow Statement (Rs.Cr) | FY17 | FY18 | FY19 | FY20 | FY21 |
|---|---|---|---|---|---|
| Cash flow from Operations | 107 | 116 | 129 | 141 | 163 |
| Cash flow from Investing Activities | -60 | -78 | -125 | -44 | -26 |
| Cash flow from Financing Activities | -65 | -2 | -43 | -39 | -26 |
| **Net Cash flow** | **-18** | **36** | **-39** | **58** | **111** |
| Opening cash balance | 25 | 8 | 61 | 23 | 83 |
| Closing cash balance | 8 | 61 | 23 | 83 | 192 |

## Choice's Rating Rationale

The price target for a large cap stock represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as Outperform (Buy), the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as Underperform (Reduce, Sell), the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as Neutral (Hold).

| | |
|---|---|
| BUY | Absolute Return >15% |
| Hold | Absolute Return Between 0-15% |
| Reduce | Absolute Return 0 To Negative 10% |
| Sell | Absolute Return > Negative 10% |

## Disclaimer



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