

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).

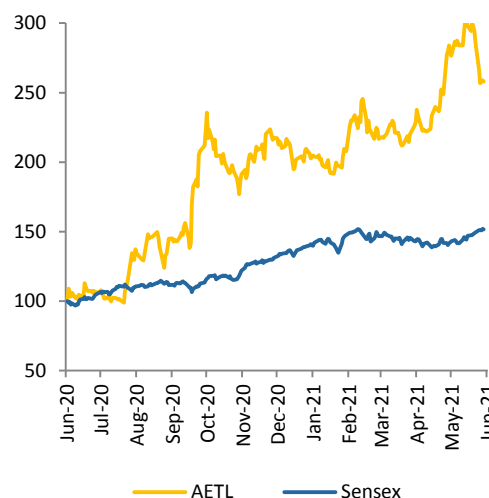
Rating Matrix

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%
DII's	8.7%	6.3%	6.3%	7.3%
Non. Inst.	22.2%	22.2%	21.2%	20.5%

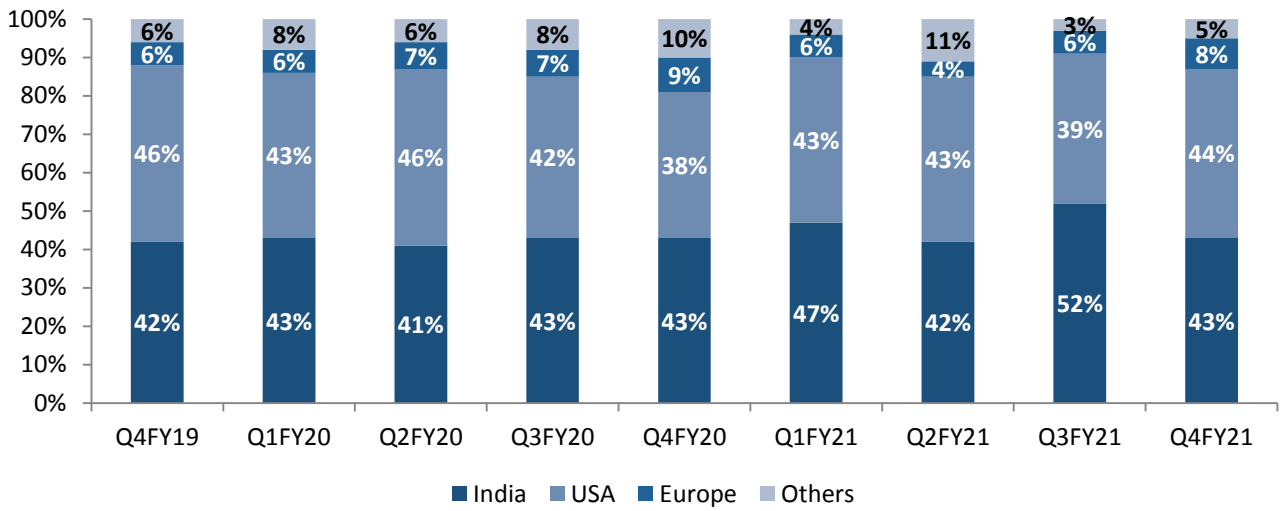
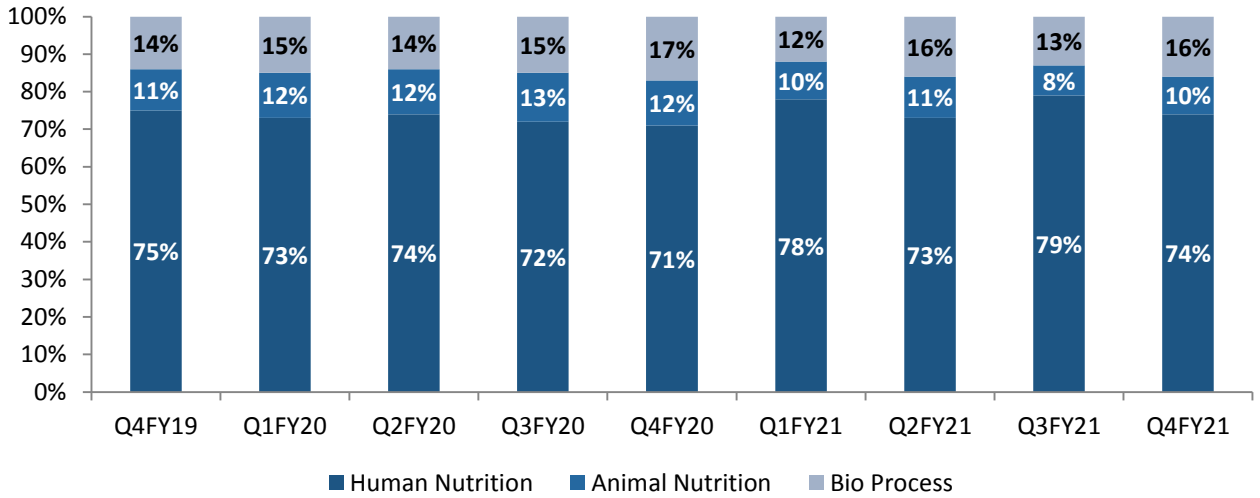
Relative Capital Market Strength



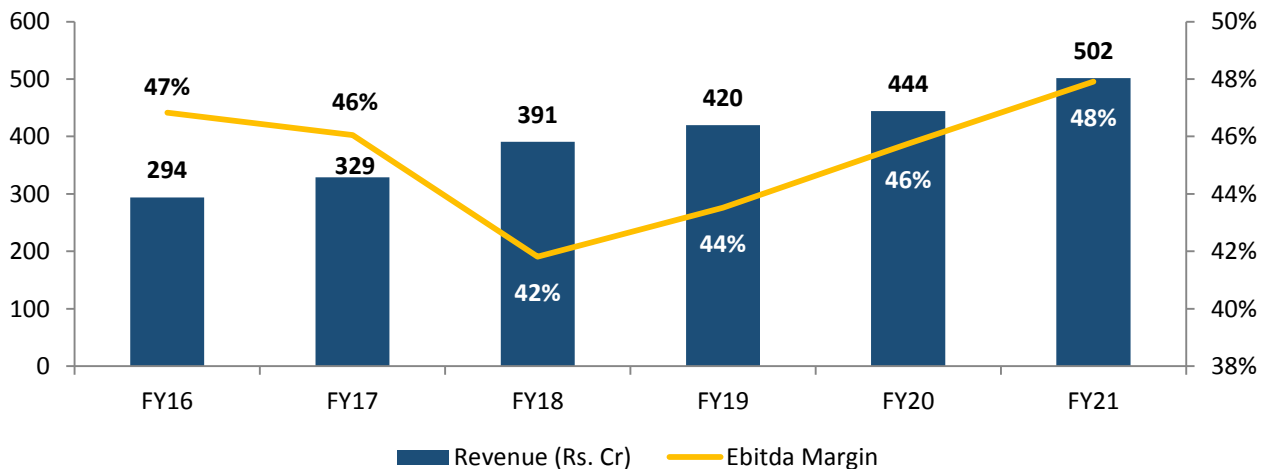
Key Financials Consolidated (Rs. Cr)

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

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 out 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 liabilities	13	27	28	40	44
Total Non Current Liability	32	47	35	44	54
Short Tem Borrowing	27	38	21	13	5
Trade Payables	11	17	10	10	15
Other Current Liabilities	28	44	34	37	48
Total Current Liabilities	65	99	65	60	68
Total Equity & Liabilities	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%

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