

Advanced Enzyme Tech

Refer to important disclosures at the end of this report

Steady performance; maintain Buy

CMP: Rs 209
as of (August 12, 2020)TP: Rs 238 (▲)
12 months

Rating: BUY (■)

Upside: 14.0 %

We appreciate your support in the [Asiamoney Brokers Poll 2020](#)

- Q1 revenues came in marginally above our estimates (flat yoy). Despite the challenges during the quarter, ADVENZY registered the highest quarterly sales in India (up 9.5%), whereas USA and European markets were flat. Asia & Other markets recorded de-growth.
- The Human Healthcare segment outperformed with 8% yoy growth (highest quarterly sales). Animal Healthcare/Industrial Processing segments faced headwinds. The aid received under the CARES Act (~Rs40mn) for US entities supported the bottom line.
- Management is optimistic about sustainable demand in nutrition and pharma businesses (up 10% in FY20; ~40% of revenue) and maintains its long-term revenue target, which shall be aided by both organic and inorganic opportunities.
- Amid economic uncertainty and headwinds in the USA region, ADVENZY's specialized and essential solutions consistently deliver impressive margins. We value the stock at Sept'22E EPS (15x) and maintain Buy/OW in EAP, with a TP of Rs238.

What we liked? Decent growth in the domestic business; Human Healthcare showcasing defensive characteristic in the current environment; US business showing resilient nature

What we did not like? Other geographies performed lower than expected.

Human Healthcare resilient: Q1FY21 sales were stable yoy at Rs1.1bn due to the inherent defensive nature of the Human Healthcare business, which helped in registering growth of 8% yoy amid the current environment. Animal Healthcare and Industrial Processing, however, reported a 20% and 22% decline yoy in revenue, respectively.

Domestic business sees uptick: Geographically, only the domestic business displayed growth in revenues (up 9.5%), whereas Europe and USA reported a stable performances on a yoy basis. Asia (Ex-India) and other markets fell sharply (down ~50% yoy), mainly due to reduced demand in the wake of Covid-19. Gross margins too tapered 211bps yoy. EBITDA fell marginally by 3.3% yoy to Rs517mn, with margin contracting 166bps to 46.8% on slightly higher input costs. Other income rose to Rs52mn from Rs11mn last year due to funds received by US subsidiaries under the CARES Act.

Outlook remains positive: It is commendable that the company is holding the ground in a difficult time. The strong balance sheet, positive sentiment in Pharma and Nutrition segments, greater penetration of its top product and EVOXX churning profits (Rs21mn in FY20), all together augur well for ADVENZY's long-term plans and enhance growth prospects, aided by both organic and inorganic opportunities. We value the stock at Sept'22E EPS (15x) and maintain Buy/OW in EAP, with a TP of Rs238. Key downside risks are a slowdown in the US economy and a muted offtake of the top-selling product.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Speciality Chemicals \(page 8\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	4,196	4,440	4,653	5,397	6,153
EBITDA	1,819	2,023	2,041	2,438	2,829
EBITDA Margin (%)	43.4	45.6	43.9	45.2	46.0
APAT	1,111	1,293	1,321	1,577	1,849
EPS (Rs)	9.9	11.6	11.6	14.1	16.6
EPS (% chg)	23.3	16.4	2.2	19.4	17.3
ROE (%)	17.9	17.0	14.6	15.2	15.3
P/E (x)	21.0	18.0	17.7	14.8	12.6
EV/EBITDA (x)	12.9	11.3	10.7	8.7	7.1
P/BV (x)	3.4	2.8	2.4	2.1	1.8

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	NA
Target Price change (%)	11.2
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	11.6	14.1
Consensus	12.1	14.1
Mean Consensus TP (12M)	Rs 214	

Stock Details

Bloomberg Code	ADVENZY IN
Face Value (Rs)	2
Shares outstanding (mn)	112
52 Week H/L	225 / 91
M Cap (Rs bn/USD bn)	23 / 0.31
Daily Avg Volume (nos.)	3,92,452
Daily Avg Turnover (US\$ mn)	1.0

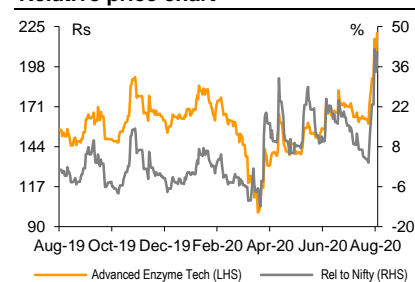
Shareholding Pattern Jun '20

Promoters	58.1%
FIIIs	11.0%
DIIIs	8.7%
Public and Others	22.2%

Price Performance

(%)	1M	3M	6M	12M
Absolute	27	49	23	34
Rel. to Nifty	21	21	33	32

Relative price chart



Source: Bloomberg

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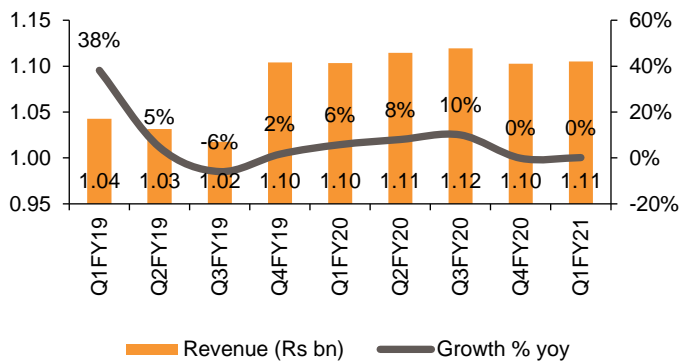
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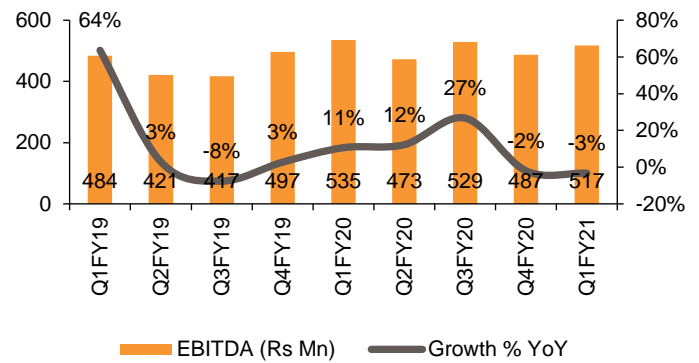
Story in Charts

Exhibit 1: Flat revenue yoy, supported by growth in Human Healthcare



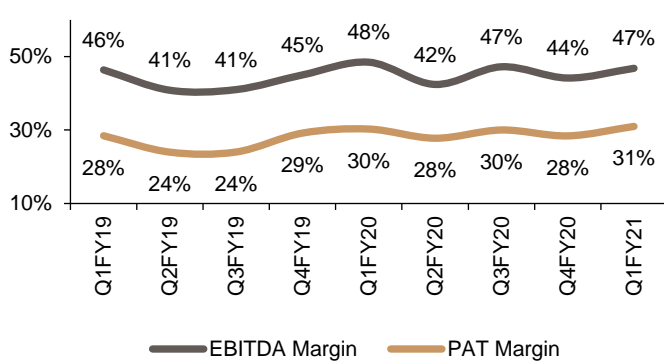
Source: Company, Emkay Research

Exhibit 2: EBITDA declined on lower gross margins (down 211bps)



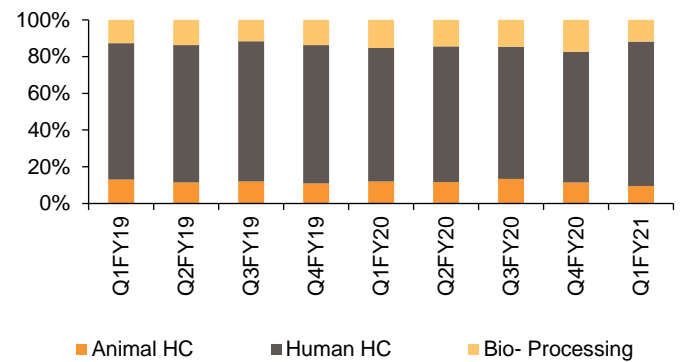
Source: Company, Emkay Research

Exhibit 3: Higher other income pushed up profitability



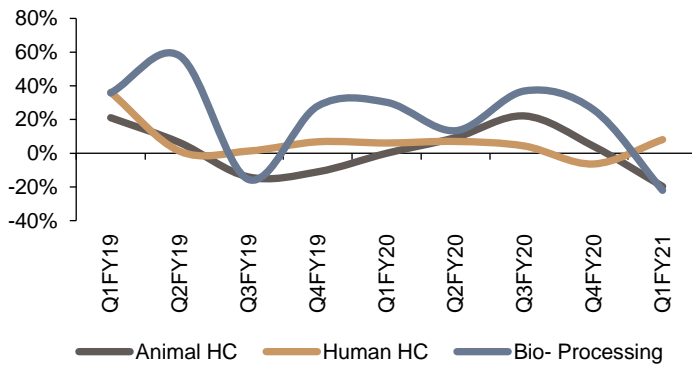
Source: Company, Emkay Research

Exhibit 4: Human Healthcare registers highest sales; revenue %



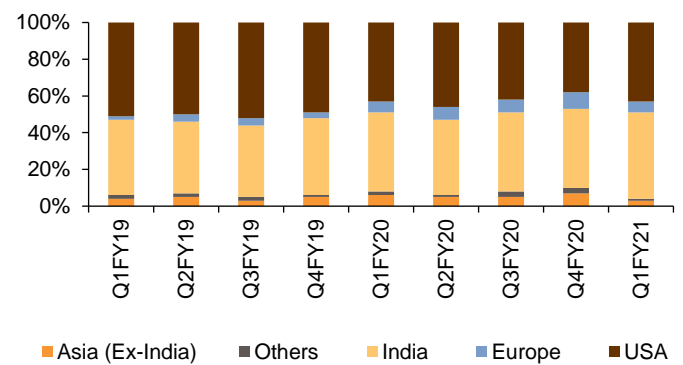
Source: Company, Emkay Research

Exhibit 5: Human Healthcare displays resilience



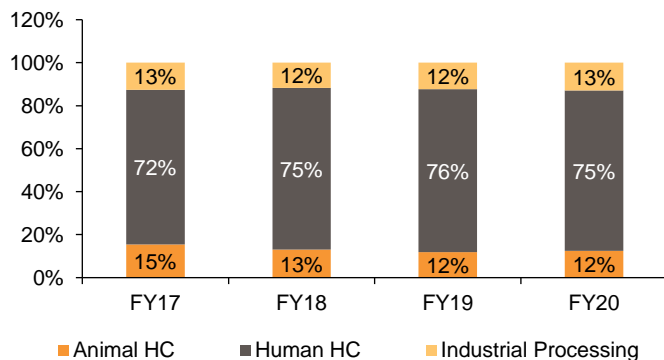
Source: Company, Emkay Research

Exhibit 6: India registers highest quarterly sales; revenue %



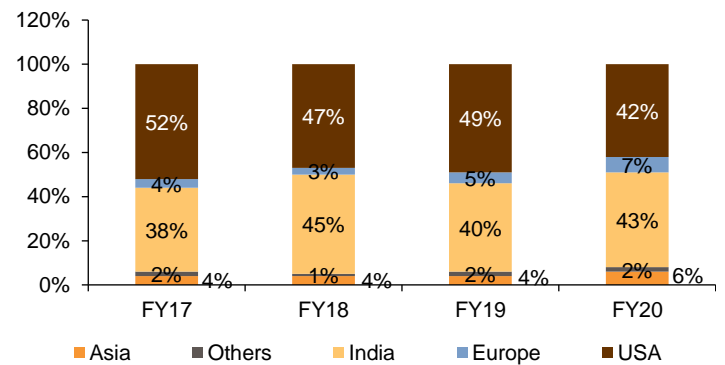
Source: Company, Emkay Research

Exhibit 7: Industrial Processing leads second, due to strong performance in Q2, Q3 and Q4 of FY20



Source: Company, Emkay Research

Exhibit 8: USA loses top spot, Europe and Others gain; revenue %



Source: Company, Emkay Research

Exhibit 9: Actual vs Estimates

(in Rs Mn)	Actual	Estimate (Emkay)	% Variation Emkay	Comment
Sales	1105	1060	4.2	Slightly ahead of estimates on better than expected performance in Human Healthcare
EBITDA	517	477	8.4	Slightly ahead of estimates on higher revenue base
EBITDA margin %	46.8	45.0	180bps	
APAT	342	295.0	16.1	Slightly ahead of estimates on higher other income

Source: Company, Emkay Research

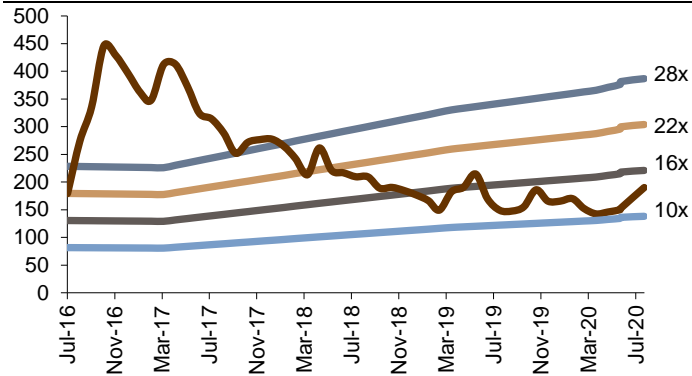
Exhibit 10: Quarterly performance

Rs Mn	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)
Revenue	1,103	1,114	1,119	1,103	1,105	0.1	0.2
Operating Expenditure	187	242	200	180	211	12.6	17.2
Gross Profit	916	872	920	923	894	(2.4)	(3.1)
as % of sales	83.0	78.3	82.2	83.7	80.9		
SG&A expenses	381	400	391	436	377	(1.1)	(13.5)
as % of sales	34.5	35.9	34.9	39.5	34.1		
EBITDA	535	473	529	487	517	(3.3)	6.2
Depreciation	63	65	64	67	67	7.4	1.0
EBIT	472	408	465	420	450	(4.7)	7.0
Other Income	11	15	12	18	52	393.8	184.0
Interest Expenses	8	7	8	7	5	(43.9)	(34.1)
PBT	475	416	469	432	498	4.9	15.2
Total Tax	135	98	123	105	150	10.9	42.4
Adjusted PAT	340	318	346	327	348	2.5	6.5
(Profit)/Loss from JV/Ass/MI	6	9	10	13	6	(1.6)	(58.7)
Reported PAT	334	310	336	313	342	2.5	9.3
Reported EPS	3.0	2.8	3.0	2.8	3.1	2.5	9.3
Margins (%)						(bps)	(bps)
EBITDA	48.5	42.4	47.2	44.2	46.8	-166	265
EBIT	42.8	36.6	41.5	38.1	40.7	-207	260
EBT	43.0	37.3	41.9	39.2	45.1	203	588
PAT	30.3	27.8	30.0	28.4	31.0	72	258
Effective Tax Rate	28.4	23.5	26.3	24.3	30.1	164	574

Segmental Revenue Mix	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)
Animal HC	132	129	149	126	106	(19.7)	(15.9)
Human HC	803	824	807	779	868	8.1	11.4
Bio (Industrial) Processing	168	161	163	190	131	(22.0)	(31.1)
Geographical Revenue Mix	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)
Asia (Ex-India)	66	56	56	77	33	(49.9)	(57.1)
Others	22	11	34	33	11	(49.9)	(66.6)
India	474	457	481	474	519	9.5	9.5
Europe	66	78	78	99	66	0.1	(33.2)
USA	474	513	470	419	475	0.1	13.4

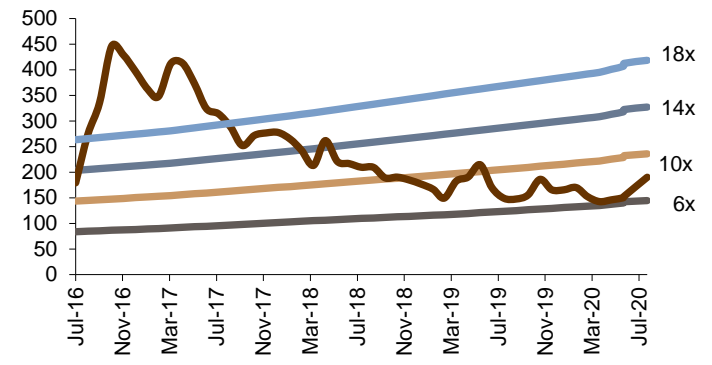
Source: Company, Emkay Research

Exhibit 11: P/E band chart



Source: Company, Emkay Research

Exhibit 12: EV/EBITDA band chart



Source: Company, Emkay Research

Exhibit 13: Peer comparison

Company Name	Price (Rs)	Mkt Cap (Rs bn)	Reco	TP (Rs)	PE			PB (x)			EV/EBITDA		
					FY20	FY21e	FY22e	FY20	FY21e	FY22e	FY20	FY21e	FY22e
Advanced Enzyme Tech	209	23	Buy	238	18.0	17.7	14.8	2.8	2.4	2.1	11.3	10.7	8.7
Apcotex Industries	121	6	Hold	115	37.7	43.2	20.1	2.5	2.5	2.3	19.8	19.6	11.8
BASF India	1313	57	Hold	1185	111.5	40.1	27.7	4.1	3.8	3.3	23.1	16.3	13.3
Camlin Fine Sciences	93	11	Buy	115	37.0	21.3	14.5	2.8	2.2	2.0	11.9	10.6	8.3
GHCL	149	14	Buy	170	3.6	5.8	3.6	0.7	0.6	0.5	3.3	3.6	2.6
Navin Fluorine	2017	100	Buy	1925	24.4	47.2	37.3	7.1	6.4	5.6	36.9	33.1	26.7
SRF	4149	238	Buy	4156	26.0	28.5	19.9	4.8	4.2	3.5	18.6	15.9	11.7
Tata Chemicals	296	75	Hold	302	1.1	10.9	8.4	0.6	0.6	0.5	6.6	7.1	5.9
Vinati Organics	968	99	Hold	1110	29.7	31.6	26.6	7.8	6.5	5.4	23.9	23.4	19.4

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	4,196	4,440	4,653	5,397	6,153
Expenditure	2,377	2,417	2,612	2,959	3,324
EBITDA	1,819	2,023	2,041	2,438	2,829
Depreciation	211	258	276	305	339
EBIT	1,608	1,766	1,765	2,133	2,490
Other Income	50	56	85	60	70
Interest expenses	39	30	20	18	16
PBT	1,620	1,792	1,830	2,175	2,544
Tax	461	461	471	560	655
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	(48)	(38)	(38)	(39)	(40)
Reported Net Income	1,111	1,293	1,321	1,577	1,849
Adjusted PAT	1,111	1,293	1,321	1,577	1,849

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	223	223	223	223	223
Reserves & surplus	6,565	8,173	9,427	10,937	12,719
Net worth	6,788	8,397	9,650	11,160	12,942
Minority Interest	260	278	316	355	395
Loan Funds	338	302	302	252	202
Net deferred tax liability	0	0	0	0	0
Total Liabilities	7,386	8,976	10,268	11,767	13,539
Net block	5,060	5,730	5,853	6,749	7,210
Investment	1,285	1,439	1,439	1,439	1,439
Current Assets	1,707	2,543	3,735	4,397	5,780
Cash & bank balance	234	830	1,828	2,332	3,427
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	666	735	759	817	890
Net current assets	1,041	1,808	2,976	3,579	4,890
Misc. exp	0	0	0	0	0
Total Assets	7,386	8,976	10,268	11,767	13,539

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	1,569	1,735	1,745	2,115	2,474
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(152)	(170)	(171)	(99)	(217)
Operating Cashflow	1,372	1,799	1,465	1,822	2,011
Capital expenditure	(252)	(928)	(400)	(1,200)	(800)
Free Cash Flow	1,120	871	1,065	622	1,211
Investments	(1,139)	(154)	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(1,391)	(1,082)	(400)	(1,200)	(800)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(279)	(36)	0	(50)	(50)
Dividend paid (incl tax)	67	67	67	67	67
Other Financing Cash Flow	(428)	(189)	(134)	(184)	(184)
Financing Cashflow	(361)	(122)	(67)	(117)	(117)
Net chg in cash	(380)	596	998	505	1,094
Opening cash position	614	234	830	1,828	2,332
Closing cash position	234	830	1,828	2,332	3,427

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	43.4	45.6	43.9	45.2	46.0
EBIT Margin	38.3	39.8	37.9	39.5	40.5
Effective Tax Rate	28.4	25.7	25.7	25.7	25.7
Net Margin	27.6	30.0	29.2	29.9	30.7
ROCE	24.0	22.3	19.2	19.9	20.2
ROE	17.9	17.0	14.6	15.2	15.3
RoIC	27.9	28.1	25.8	28.5	29.9

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	9.9	11.6	11.8	14.1	16.6
CEPS	11.8	13.9	14.3	16.8	19.6
BVPS	60.8	75.2	86.4	99.9	115.9
DPS	0.6	0.6	0.6	0.6	0.6

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	21.0	18.0	17.7	14.8	12.6
P/CEPS	17.7	15.1	14.6	12.4	10.7
P/BV	3.4	2.8	2.4	2.1	1.8
EV / Sales	5.6	5.1	4.7	3.9	3.3
EV / EBITDA	12.9	11.3	10.7	8.7	7.1
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.3

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	0.0	(0.1)	(0.2)	(0.2)	(0.2)
Net Debt/EBIDTA	0.1	(0.3)	(0.7)	(0.9)	(1.1)
Working Cap Cycle (days)	70.2	80.4	90.1	84.3	86.8

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	7.3	5.8	4.8	16.0	14.0
EBITDA	11.0	11.2	0.9	19.4	16.0
EBIT	10.4	9.8	0.0	20.9	16.7
PAT	23.3	16.4	2.2	19.4	17.3

Quarterly (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Revenue	1,103	1,114	1,119	1,103	1,105
EBITDA	535	473	529	487	517
EBITDA Margin (%)	48.5	42.4	47.2	44.2	46.8
PAT	328	301	327	300	337
EPS (Rs)	2.9	2.7	2.9	2.7	3.0

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoters	57.3	57.9	57.9	57.9	58.1
FII	11.2	11.2	11.0	11.1	11.0
DII	8.1	8.4	8.7	8.9	8.7
Public and Others	23.4	22.6	22.5	22.1	22.2

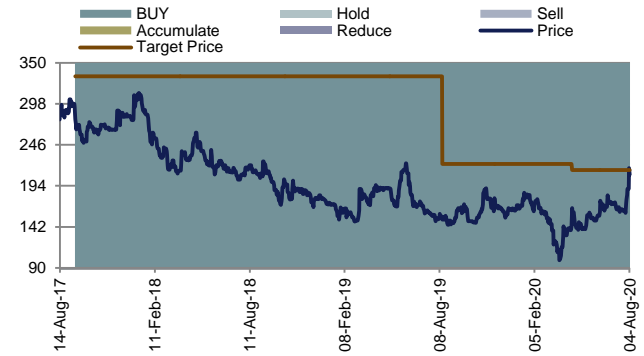
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
02-Jun-20	153	214	12m	Buy	Rohit Sinha
16-Apr-20	166	214	12m	Buy	Rohit Sinha
07-Feb-20	175	222	12m	Buy	Rohit Sinha
07-Feb-20	175	222	12m	Buy	Rohit Sinha
06-Jan-20	165	222	12m	Buy	Rohit Sinha
05-Nov-19	187	222	12m	Buy	Rohit Sinha
13-Aug-19	151	222	12m	Buy	Rohit Sinha
28-May-19	212	333	12m	Buy	Amar Mourya
03-Oct-18	187	333	12m	Buy	Amar Mourya
13-Aug-18	220	333	12m	Buy	Amar Mourya
09-Jul-18	211	333	12m	Buy	Amar Mourya
21-May-18	221	333	12m	Buy	Amar Mourya
06-Feb-18	256	333	12m	Buy	Amar Mourya
14-Nov-17	268	333	12m	Buy	Amar Mourya
12-Sep-17	279	333	12m	Buy	Amar Mourya

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Speciality Chemicals



Analyst: Rohit Sinha

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Sector

Speciality Chemicals

Analyst bio

Rohit Sinha holds a CFA degree and comes with total four years of experience in the Specialty Chemicals sector. He currently covers nine stocks in the Specialty Chemicals space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Speciality Chemicals	0.19	0.19	-1%	0	100.00
Advanced Enzyme Tech	0.00	0.01	NA	1	3.14
Apcotex Industries	0.00	0.00	NA	0	1.70
BASF India	0.00	0.00	NA	0	2.60
Camlin Fine Sciences	0.00	0.01	NA	1	5.71
GHCL	0.00	0.01	NA	1	3.91
Navin Fluorine	0.00	0.05	NA	5	26.79
Orient Refractories	0.00	0.01	NA	1	3.35
SRF	0.19	0.08	-55%	-10	45.04
Tata Chemicals	0.00	0.01	NA	1	4.88
Vinati Organics	0.00	0.00	NA	0	1.71
Cash	0.00	0.00	NA	0	1.2

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

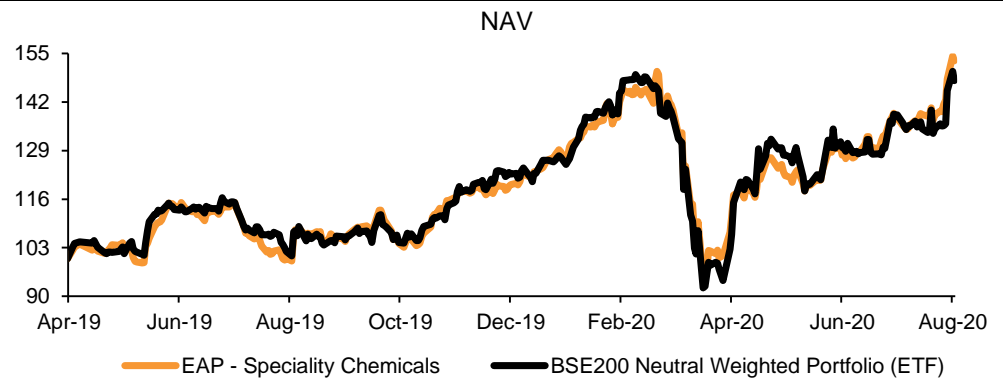
Sector portfolio NAV

	Base					Latest
	1-Apr-19	8-Nov-19	11-Feb-20	12-May-20	10-Jul-20	11-Aug-20
EAP - Speciality Chemicals	100.0	117.9	144.9	120.5	137.6	153.0
BSE200 Neutral Weighted Portfolio (ETF)	100.0	117.8	148.0	125.7	138.6	147.8

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 13 Aug 2020 02:36:19 (SGT)

Dissemination Date: 13 Aug 2020 02:37:19 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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