

## Advanced Enzyme Technologies Ltd.

**Buy**

Apr 15, 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 for 9M FY21 grew by 10.5% YoY and stood at Rs. 368.6Cr. EBITDA for the period was Rs. 176.6Cr as against Rs. 153.6Cr in the previous year and grew by 15% YoY. PAT grew by 17% YoY and came in at Rs. 114.5Cr. The company works in three segments and provides solutions to a wide variety of industries like human healthcare & nutrition, animal nutrition, baking, fruit & vegetable processing, brewing & malting, grain processing, protein modification, dairy processing, specialty applications, textile processing, leather processing, paper & pulp processing, biofuels, biomass processing and biocatalysis etc.

**Revenue likely to be doubled by 2026:** The company was able to maintain its international sales during the pandemic. For the nine month ended Dec. 2020, revenue grew by 10% YoY mainly due to human nutrition segment. AETL has very less competition as the enzyme industry is characterized by high entry barriers and continuous requirement of research & development. The company is constantly working on acquisitions and is planning to double its revenue in the next five years. Acquisitions in the area of biocatalyst, animal feed and probiotics are expected. Apart from this, growth in animal feed is expected with the ease of lockdown restrictions.

**Expansion in B2C segment:** The USA, Japan and Europe account for more than 90% of the total global nutraceutical market. The global market is estimated to grow upto USD 336bn by 2023. AETL has strong nutraceuticals business through its B2C sales in the US. Sales are mostly through online platforms like Amazon. It is planning to expand its B2C sales in India in nutraceuticals, baking areas etc. New acquisitions are likely to boost this segment. B2C sales are stable and comparatively more profitable, thus expansion in the B2C sales will bolster revenue growth for the company.

**Sustainable margins:** AETL has healthy gross margins, reflecting operational efficiency and strong manufacturing & distribution capabilities. In Q3 FY21, EBITDA grew by 25.6% YoY with around 100bps expansion in the margin. This was mainly on account of better product-mix whereas, reduction in finance cost led to the growth in PAT margin. Also, the new tax regime has been adopted by the company which will improve the earnings. Along with an increase in revenue, it is expected that AETL will be able to maintain its EBITDA and PAT margins in the range of 46-48% and 30-32%, respectively.

**Valuation:** At current market price of Rs. 355, AETL is trading at a TTM P/E multiple of 27.1x. We value AETL at a P/E multiple of 28x to its FY22 earnings to arrive at a target price of Rs. 424 per share. Thus we assign '**BUY**' rating to the stock.

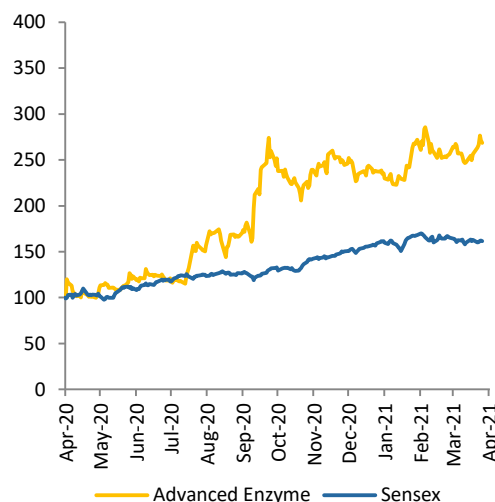
### Rating Matrix

CMP	Rs. 355
Rating	BUY
Target Price	Rs. 424
Upside Potential	19.5%
52 week H/L	Rs. 416/ 134
Face value	Rs. 2
Mar. Cap.	Rs. 3966Cr
Category	Small- Cap
Sector	Chemicals

### Shareholding Pattern

Particulars	Mar'20	Jun'20	Sept'20	Dec'20
Promoters	57.90%	58.10%	55.50%	55.40%
FPIs	11.10%	11.00%	16.00%	17.10%
DII's	8.90%	8.70%	6.30%	6.30%
Non. Inst.	22.10%	22.20%	22.20%	21.20%

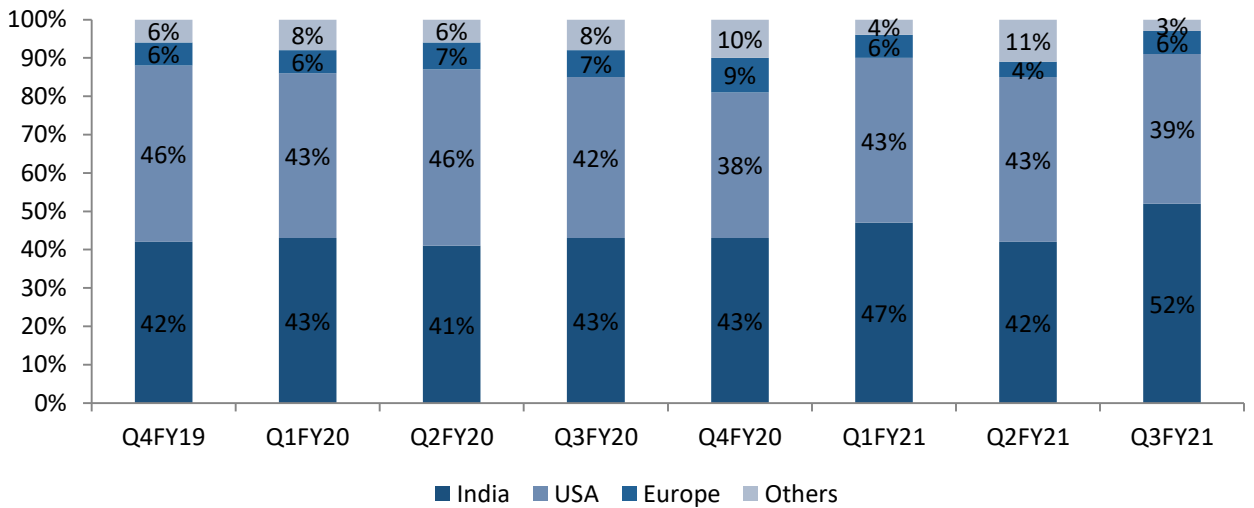
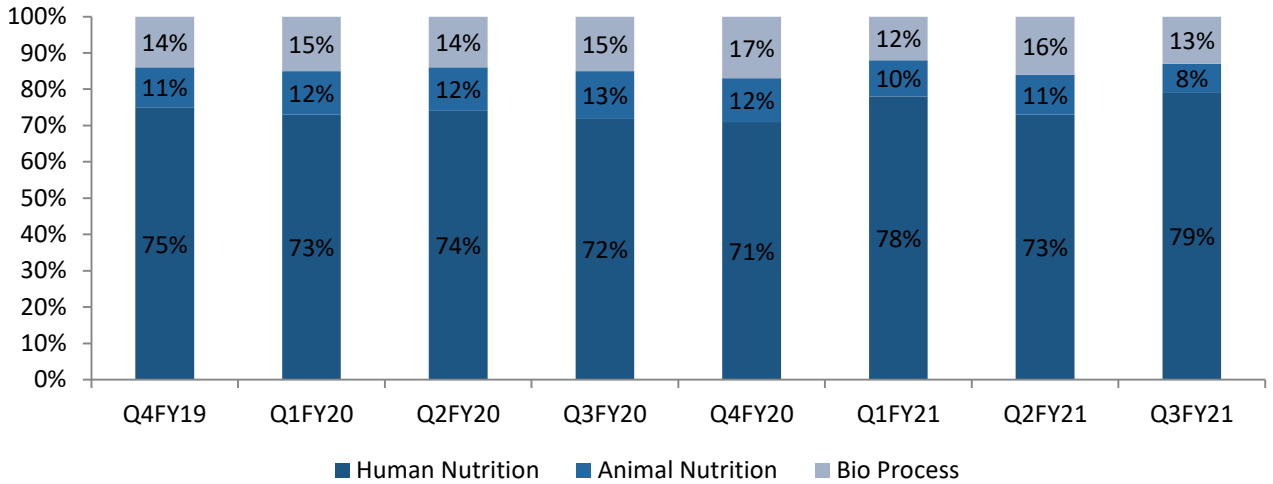
### Relative Capital Market Strength



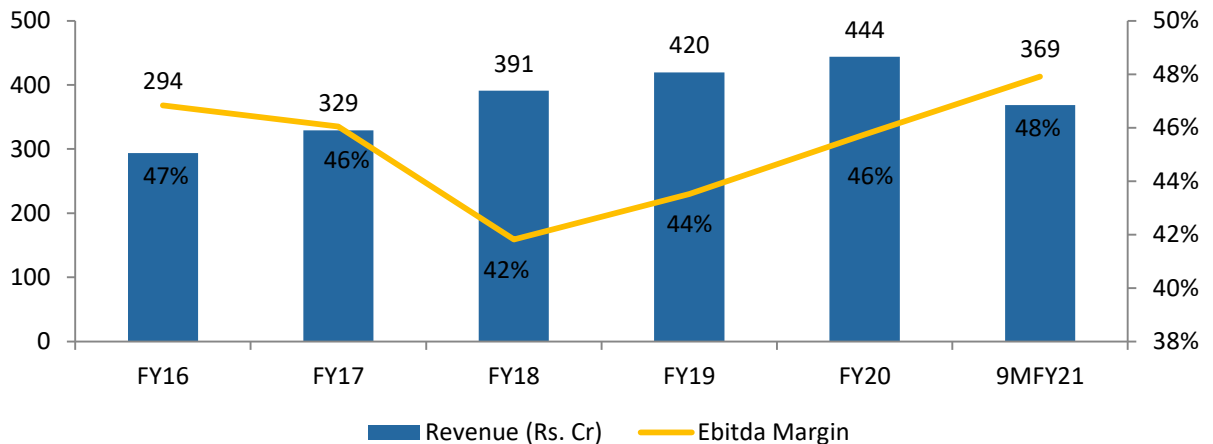
### Key Financials Consolidated (Rs. Cr)

Particulars	FY19	FY20	FY21E	FY22E
Operating income	419.5	443.9	509.7	569.5
EBITDA	182.5	203.1	245.3	263.7
EBITDA Margin	44%	46%	48%	46%
PAT	115.8	133.0	163.2	169.3
NPM (%)	28%	30%	32%	30%
EPS (Rs)	10.3	11.9	14.6	15.1
P/E (x)	-	-	24.4	23.6
P/BV (x)	-	-	3.9	3.4
P/S(x)	-	-	7.8	7.0

**Revenue breakup:**



**Revenue and EBITDA Margin:**



### Quarterly Analysis:

Particulars (Rs. Cr)	Q3FY21	Q3FY20	Change (YoY)	Q2FY21	Change (QoQ)
Operating Income	137.7	111.9	23.05%	120.4	14.41%
EBITDA	66.3	52.9	25.57%	58.5	13.47%
EBITDA Margin (%)	48.20%	47.23%	97bps	48.60%	-40bps
PAT	43.1	33.6	28.21%	37.2	15.86%
PAT Margin (%)	31.28%	30.03%	125bps	30.89%	39bps

- On the back of strong growth in the business from the human nutrition segment, consolidated revenue increased by 23.05% YoY to Rs. 137.74Cr in Q3 FY21. Demand from pharma companies for Biocatalysts and Nutraceuticals were also the growth drivers.
- Strong sequential sales growth was seen from the pharma industry, which seems to be unsustainable in the near future.
- Reduction in animal nutrition revenue was seen during the quarter due to the lockdown restrictions. However, this segment is expected to grow in the coming quarters with ease in restrictions.
- The top-10 customers of the company constituted to 47% of the total revenue during the quarter.
- EBITDA grew by 25.57% YoY to Rs. 66.39Cr with around 100bps expansion in the margin, which stood at 48.2%. Operational efficiency and good product-mix led to sustainable gross margins.
- Some of the term loans were repaid by the subsidiary company which led to reduction in the finance cost.
- With a reduction in interest cost, PAT came at Rs. 43.09Cr, a growth of 28.21% YoY.
- Cash balance stood at Rs. 279Cr at the end of Q3 FY21.

### Con-call highlights:

- Supply chain and logistics were affected due to the lockdown, as a result freight cost went up by 3-4 times.
- Other income went up by ~90% in 9M FY21, mainly due to the grant received by the US subsidiary from the US government.
- Europe sales were affected due to the second wave of COVID- 19.
- R&D cost was 4.5% of the sales during 9M FY21.
- B2B and B2C sales both have grown in the US. Expansion of B2C sales in India in Nutraceuticals, baking, detergents, etc. is in process.
- The company has adopted the new tax regime which will bring down the effective tax rate to ~25%.
- New capacity expansion will be planned once utilization reaches 80%.
- With the acquisition of Scitech, the company is working on new types of delivery systems.
- *Q2 FY21 update:* During the quarter, one of the promoters sold its partial stake in the company. As a result, the promoter stake has declined from 58.1% (as of Jun. 2020) to 55.5% (as of Sept. 2020).

**Peer Comparison:**

Companies	CMP	ROE	12MR(%)	M. Cap (Rs. Cr)	EPS	BVPS	EBIDTA Margin (%)	NPM (%)
Advanced Enzymes	355	16.3%	160%	3966	13.1	80.2	47.1%	30.5%
Zydus Wellness	2087	1.2%	46%	13279	8.6	696.4	17.4%	3.1%
Nestle	16872	103.1%	3%	162672	216.0	209.4	23.2%	15.1%
Aarti Industries	1366	15.5%	53%	23807	28.6	184.3	20.2%	10.7%
Cipla	914	13.1%	49%	73727	27.7	211.7	21.9%	12.0%

Companies	P/E (x)	P/Bv (x)	P/Sales (x)	EV/EBIDTA (x)	D/E	PAT (Rs. Cr)	EBIDTA(Rs. Cr)	Sales (Rs. Cr)
Advanced Enzymes	27.2	4.4	8.3	17.0	0.0	145.9	225.3	478.9
Zydus Wellness	242.8	3.0	7.6	44.7	0.3	54.7	303.6	1742.0
Nestle	78.1	80.6	11.8	50.3	0.0	2082.4	3196.6	13752.8
Aarti Industries	47.8	7.4	5.1	27.4	0.7	497.7	940.2	4654.8
Cipla	33.0	4.3	3.9	18.5	0.2	2237.4	4089.7	18705.2

Note: There are no listed peers for the company in the domestic market having the same business. The above companies can be considered as proxy peers. International peers namely, Novozymes, CHR Hansen and DSM are trading at an average TTM PE of 49x.

<b>Profit and Loss Statement (Rs.Cr)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>
<b>Revenue from operations</b>	<b>294</b>	<b>329</b>	<b>391</b>	<b>420</b>	<b>444</b>
Raw Materials	70	70	80	66	91
Employee Benefits Expense	45	51	69	78	80
Selling and Distribution Expenses	7	8	10	10	11
General Administration Expenses	16	18	28	32	26
Other Expenses	19	31	41	52	33
<b>EBIDTA</b>	<b>138</b>	<b>151</b>	<b>164</b>	<b>183</b>	<b>203</b>
Dep & Amort exp	9	13	18	21	26
<b>EBIT</b>	<b>129</b>	<b>139</b>	<b>145</b>	<b>161</b>	<b>177</b>
Other Income	1	3	3	6	6
Finance Cost	8	4	9	5	4
Exceptional items	-4	0	0	0	0
<b>Profit before Tax</b>	<b>122</b>	<b>137</b>	<b>139</b>	<b>162</b>	<b>179</b>
Tax Expenses	41	44	45	46	46
<b>PAT</b>	<b>77</b>	<b>93</b>	<b>94</b>	<b>116</b>	<b>133</b>

<b>Balance Sheet (Rs.Cr)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>
<b>Share Holder funds</b>	<b>283</b>	<b>485</b>	<b>582</b>	<b>705</b>	<b>867</b>
Long term borrowing	39	19	20	7	4
Other Non current liabilities	17	13	27	28	40
Total Non Current Liability	56	32	47	35	44
Short Tem Borrowing	30	27	38	21	13
Trade Payables	12	11	17	10	10
Other Current Liabilities	70	28	44	34	37
Total Current Liabilities	111	65	99	65	60
<b>Total Equity &amp; Liabilities</b>	<b>450</b>	<b>583</b>	<b>727</b>	<b>805</b>	<b>971</b>
Net block	285	421	496	500	568
Other Non Current Assets	25	18	21	23	28
Total Non Current Assets	311	440	517	523	596
Inventories	60	68	76	77	80
Trade Receivables	42	50	59	59	75
Cash	26	8	61	23	83
Other Current Assets	11	17	15	123	138
Total Current Assets	140	143	211	282	376
<b>Total Assets</b>	<b>450</b>	<b>583</b>	<b>727</b>	<b>805</b>	<b>971</b>

<b>Cash Flow Statement (Rs.Cr)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>
Cash flow from Operations	93	107	116	129	141
Cash flow from Investing Activities	-5	-60	-78	-125	-44
Cash flow from Financing Activities	-63	-65	-2	-43	-39
<b>Net Cash flow</b>	<b>26</b>	<b>-18</b>	<b>36</b>	<b>-39</b>	<b>58</b>
Opening cash balance	4	25	8	61	23
Closing cash balance	25	8	61	23	83

### 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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