

KEY HIGHLIGHTS

RESULT OVERVIEW

Financial

- Like most chemical companies, Ami Organics's margins contracted in Q4, while this will be a headwind for the near term. Sequentially, sales improvement was lower than expected, reflecting the impact of logistic challenges, such as unavailability of containers and lack of timely supply of imported raw materials.
- Company commercialized 17 new products during FY22
- During the quarter, Company had successfully developed an electrolyte for cells used in energy storage devices. Samples of which are under approval with customers from pilot production.
- It also commercialized 2 products using continuous flow reactors. In addition, they have also successfully developed 3 more existing products which are under pilot scale now. The company has already ordered equipment and the products will commercialize using continuous flow reactors in the FY23.
- The company announced a Capex plan of INR 190cr to build a Brownfield plant in Ankleshwar, Gujarat, to support the future business growth in the company's advanced pharmaceutical intermediates segment

VALUATION

AMI Organics has crossed a milestone of 500cr sales in FY22. For the year, Company's operational revenue grew by 53% on a YoY basis to Rs. 520cr. The growth was driven by the impressive 32% YoY growth in the Pharma Intermediate business coupled with the multi-time expansion of the Specialty chemicals business due to the acquisition of facilities from Gujrat Organics (GOL).

The management remains committed to a 25 percent CAGR growth in top line for the medium term. Incremental demand of pharma intermediates for the next 12 months is well supported by its USFDA-approved plant in Sachin, which is running at 65 percent utilisation.

The management is also hopeful about more capacity getting freed (7-10 percent capacity addition) as the company shifts to continuous flow chemistry. Further, the Ankleshwar facility expansion would enhance the capacity of its pharma intermediates business.

For the chemicals business, the current utilization levels at the Jhagadia unit is still sub-optimal at 40 percent, which leaves scope for a ramp-up in coming years.

Currently, the stock is trading at a premium multiple of 28x FY24E, compared to the sector. This however is justified, given the higher-than-industry/molecule growth, which is largely contributed by new products.

RECOMMENDATION - BUY

CMP - 924
TARGET –1100 (19%)

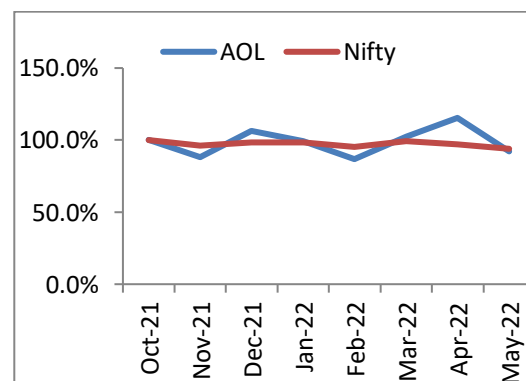
Industry	Pharmaceuticals & Drugs
NSE CODE	AMIORG
BSE CODE	543349
Market Cap (? Cr)	3368
Shares Outstanding (in Cr)	3.64
52 wk High/Low (?)	1438 / 764
P/E	46.7
P/BV	6.5
Face Value	10.00
Book Value	143.34
EPS (FY22)	21.03
Dividend Yield (%)	0.00
Total Debt / Equity	0.82

SHAREHOLDING PATTERN

	202203	202112	202109
Promoters	41.05	41.05	41.05
Mutual Funds	1.77	1.36	3.26
FII/FPI	2.23	1.34	3.64
DII's	51.08	53.80	45.81
Pledging	0.00	0.00	0.00

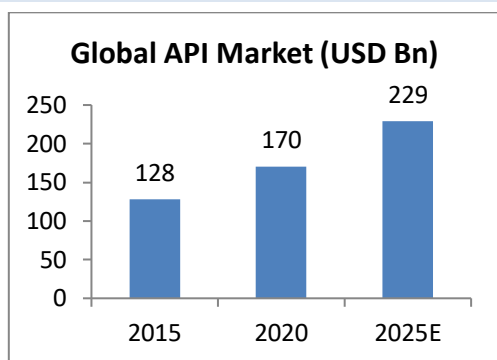
FINANCIAL SNAPSHOT

Y/E March	202203	2023E	2024E
Net Sales	520.1	613.76	761.06
Net Sales Growth (%)	52.70	18.01	24.00
EBITDA	105.2	129.47	168.04
EBITDA mrg. (%)	20.2	21	22
Adj. PAT	71.9	84.51	113.36
Adj. EPS	21.03	23.35	31.31
Adj. EPS Growth	22.70	11.01	34.14

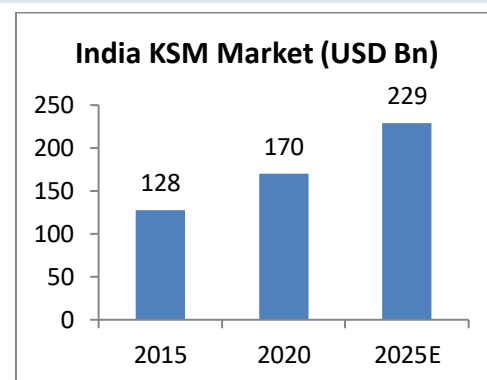


INDUSTRY OVERVIEW

Currently ~80% of its revenue comes from products used in Pharmaceutical industry specifically for manufacturing of APIs. Further, Global API industry is estimated to grow by 6% whereas Key APIs for which Intermediates are manufactured by AMI are expected to grow at much faster rate as they cater to Chronic disease market which is expected to grow at higher rate than the overall market.



Key API AMI caters to: CAGR 2020-2025E	
Trazodone	6.30%
Pazopanib	11.8%
Dolutegravir	31.5%
Nintedanib	23.7%
Entacapone	11.2%
Darolutamide	36.00%
Apixaban	44.70%
Rivaroxaban	23.50%



Chemicals segment supplies KSMs to Agrochemicals and Fine Chemicals company the expected CAGR of the same is 9.8% from 2015 to 2020 and expected to be 10.6% from 2020 to 2025E.

OTHER DEVELOPMENTS

Existing capacity and new additions

Company has three manufacturing sites in addition to a R&D centre. The Chemicals production from the Ankleshwar site is successfully transferred to the Jhagadia unit without any loss of revenue. Currently, the Ankleshwar site has been demolished. The new plant will be set up at Ankleshwar site to cater to growing demand of Advance Pharmaceutical Intermediates.

Unit	Available Land (sq Mts.)	Installed Capacity (MTPA)
Sachin Unit	8250	2460
Ankleshwar Unit	10644	-
Jhagadia Unit	56998	3600
Warehouse (Sachin)	2812	1050
Total Capacity	75892	6060

Long standing relationships with customers

13 of their customers have been customers since the past 10 years and 50 of their customers have been customers since the past 5 years. This justifies that AMI organics is a preferred supplier of choice.

Key domestic customers	lauras Labs, Cadila, Cipla
Key export customers	Organike, Fermion, Fabrica Italiana, Chori Co, Medichem, Mida pharma



SEGMENTAL ANALYSIS

Specialty chemical business: (18% revenue, FY22)

AOL provides Specialty chemical services to a range of multinational companies globally. The speciality chemicals that it manufactures, find use in the agrochemicals and fine chemicals industry. GOL's acquisition has helped it expand its existing product portfolio by adding preservatives, other specialty chemicals, which commands significant market share globally in the supply of certain paraben derivatives having application in the manufacturing of cosmetics, dyes, and polymers.

Pharma business: (82% revenue, FY22)

It is one of the major manufacturers of Pharma Intermediates for certain key APIs, including Dolutegravir,

SEGMENTAL ANALYSIS

psychotic, anti-cancer, anti-Parkinson, anti-depressant and anti-coagulant, commanding significant market share both in India and globally. AOL has developed and commercialised over 450 Pharma Intermediates for APIs across 17 key therapeutic areas since inception.

QUARTERLY HIGHLIGHTS

Particulars (Rs. Mn)	Q1 FY23E	Q4FY22	Q4FY21	YoY	Q3FY22	Q3FY21	Q2FY22	Q2FY21
Revenue from Operations	150.6	143.5	92.9	54.50%	141	92	122.3	91
COGS	84.21	80.2	47.1	70.40%	71.4	46.6	56.9	48.6
Gross Profit	66.4	63.4	45.8	38.30%	69.8	45.4	65.4	42.7
Gross Margin	44.1%	44.20%	49.30%		49.40%	49.40%	53.50%	46.80%
Employee benefits expenses	11	11	5.5		10.8	5.4	10.6	5.8
Other expenses	27.93	26.6	17.1		29	18.3	27.5	15.1
Total Expenses	123.14	117.8	69.6	69.10%	39.8	23.7	38.1	20.9
EBITDA	27.5	25.8	23.2	11.00%	29.9	21.7	27.4	21.9
EBITDA Margin	18.3%	18.00%	25.00%		21.20%	23.60%	22.40%	24.00%
Depreciation and amortization	3.1	3.1	1.2		2.4	1	2.3	1.1
PBIT	24.4	22.7	22.1	2.80%	27.5	20.7	25.1	20.7
Finance costs	0.6	0.6	1.4		0.3	1.6	2.7	1.4
Other Income	0	0.2	0		1.4	0.2	0.2	1.1
PBT	23.835	22.3	20.6	7.90%	28.6	19.2	22.5	20.4
Tax Expense	6.00	1	5.2		9.1	4.8	5.1	5.2
PAT	17.8	21.3	15.4	38.20%	19.5	14.5	17.5	15.2
PAT Margin	11.8%	14.8	16.60%		13.80%	15.70%	14.30%	16.70%
EPS	0.52	0.62	0.57		0.57	0.46	0.51	0.44

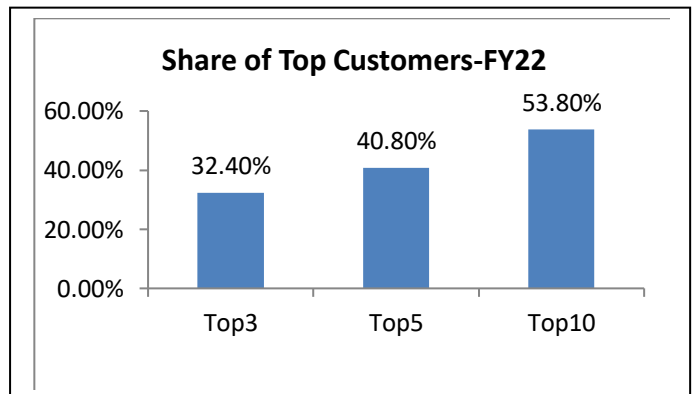
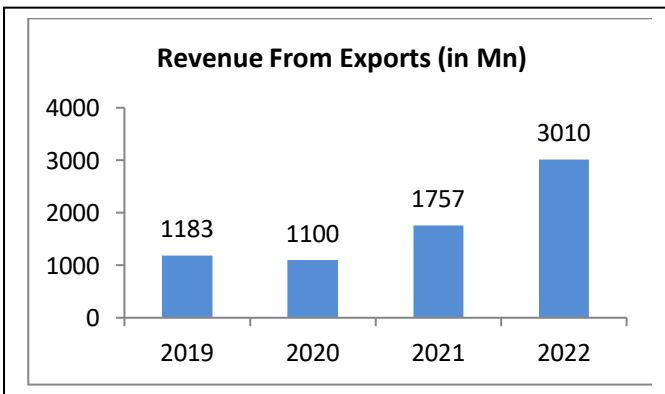
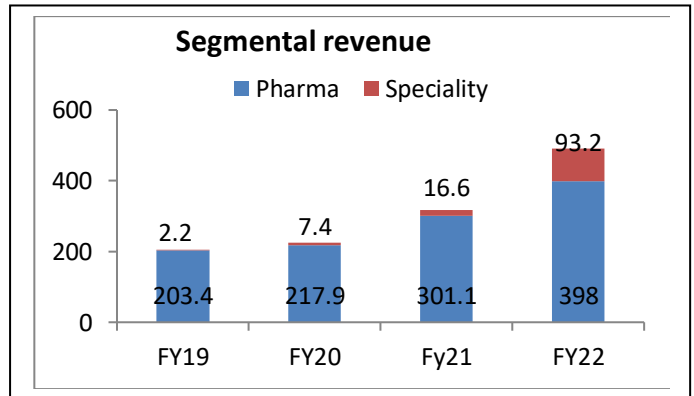
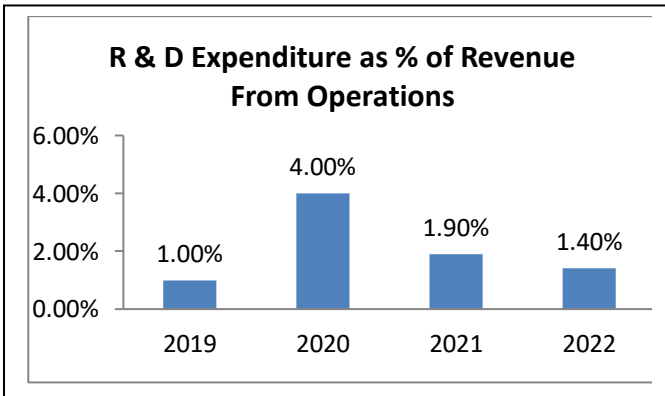
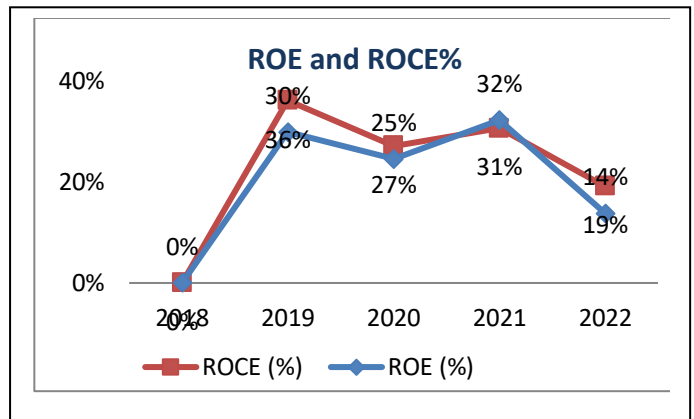
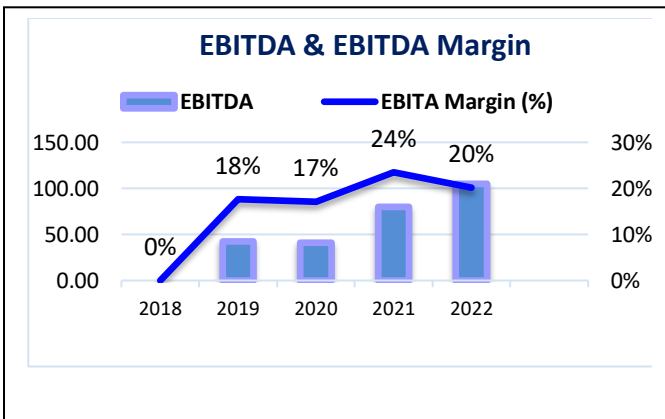
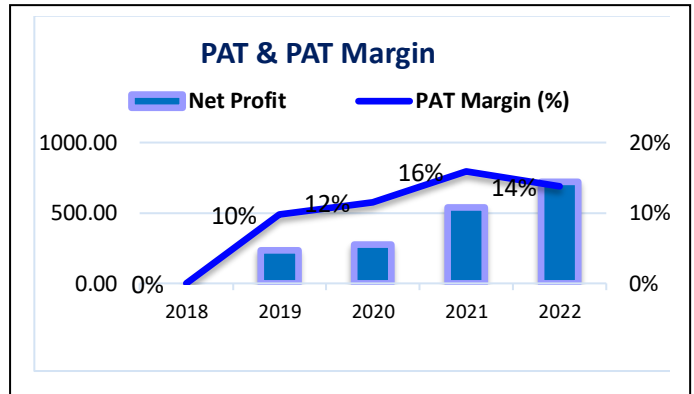
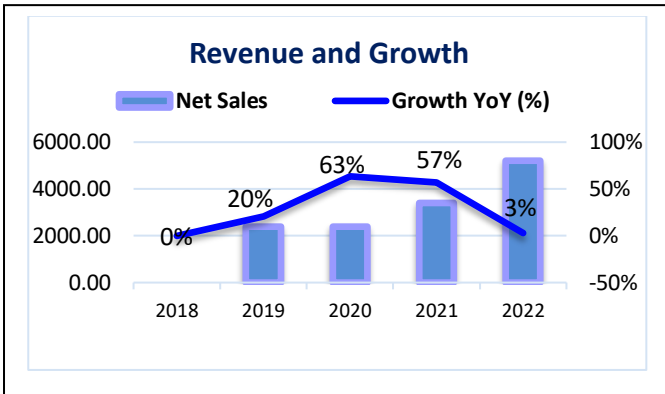


INVESTMENT RATIONALE

- Dominant market position in the pharma intermediate space
It is one of the major manufacturers of Pharma Intermediates for certain key APIs, including Dolutegravir, Trazodone, Entacapone, Nintedanib and Rivaroxaban with market share as high as 90% in some products.
- Divergence into new product vertical
Ami acquired 2 manufacturing units operated by GOL in March 2021 on slump sale basis. Both of these are multipurpose backward integrated facilities, that has enabled it to expand its product portfolio into Parabens and its formulations along with other specialty chemicals.
Further, on a longer time frame from last four quarters since integration, operations have improved. Consequently, the share of sales from chemicals is now 17 percent, compared to 4 percent last year. EBITDA margins for the acquired facilities have increased to 11 percent from 5 percent in the last four quarters.
- Launch of import substitute products to aid growth
Company has identified 5 import substitute products out of which 2 products were introduced in the market in Q2FY22. These products will mainly cater to cure cardiovascular as well as diabetes disease. This being chronic in nature will bring long term growth in the topline and also help realize better margins. Management expects these two products to start contributing to the revenue as Q3FY22 is going to be a main commercial supply period.
- Forayed into Electrolyte for cells
AMI Organics successfully developed a core electrolyte for cells used in energy storage devices. It is the first Indian and global company outside China to develop this product. Further, samples are under approval with customers from pilot production.
- Focus on in house R&D facilities to manufacture newer molecules
Company has an in-house R&D facility spread over 2,200 sq meters, approved by DSIR of India at Sachin. Till now company has 8 Process Patents filed in India while 3 Process Patent applications are pending. Further, company is First to Market in most of its products
- Capacity expansion for growth beyond FY23
Company embarked on a new CAPEX journey of Rs.190cr to support the future growth of the Advanced Intermediate business. Management expects the CAPEX to get completed by end of the financial year 2024.
- No reliance on any product or customer
Company has a portfolio of 450+ products and doesn't rely on single product or customer alone. Top 10 products of the company contribute 54% of the overall revenue. Further, in last financial year Dolutegravir was second largest product of the company and this year it is not performing even in top 9 products of the company. This is a classic example that company doesn't have dependence on any particular product.
- Robust cost management
Continuous focus on process optimization and improvement has led to cost leadership in the industry with high quality products. Further, Approx 64% of company's raw material is outsourced from domestic vendors with products developed by AMI and outsourced to toll manufacturer leading to better management of input cost



STORY IN CHARTS





RISK FACTORS

- Volatility in cost and availability of raw materials as it forms the highest component of its expenses. Though some of the headwinds should be mitigated through operating leverage, and pass-through in long-term contracts.
- Reduction in demand for AOL's products from certain therapeutic areas will bring slowdown in company's operations
- Development of alternate drug for treatment of particular disease might adversely impact the future growth prospect of the company.
- The company operates internationally and the major portion of its business is transacted in USD & EURO, it is exposed to foreign exchange risk.
- Deferment in receiving approvals for patents, licences and registrations can have a material adverse effect on company's business, results of operations and financial condition.

COMPANY RECAP

Ami Organics Ltd (AOL), is one of the leading company focused towards the development and manufacturing of different types of Pharma Intermediates, New Chemical Entities (NCE) and Key Starting Material for agrochemicals and fine chemicals. Majority of company's products cater to API related to Chronic diseases which is high growth area. It recently acquired the business of Gujarat Organics Ltd (GOL), diversifying its portfolio towards specialty chemical space. It has a wide distribution network through which it caters to more than 160 customers in India and overseas.

PEER COMPARISON

While comparing AOL's business with some of the similar size companies conducting business in same area, namely Valiant Organics Ltd and Hikal Ltd, following was observed. AOL's revenue grew at a CAGR of 19% from FY19 to FY21 while Valiant Organic's revenue grew at a CAGR of 4% and Hikal's revenue grew at a CAGR of 4% during same period. On operational front AOL's operating profit grew at a CAGR of 38% from FY19 to FY21 while Valiant Organic's and hikal was 64.% and 4% respectively. Till FY21, AOL had EBIDTA Margin of 24% while Valiant Organic's/Hikal's came at 27%/19%. We believe AOL's dominant position in the pharma intermediate space with focus towards chronic disease, reduction of debt and improving operating efficiency will help the company to grow better than historical growth rate and also the company will be able to maintain and improve its EBIDTA Margins going forward.

	AOL	Hikal Ltd	Neuland Labs
Market Cap	3467.33	4732.88	1307.67
CMP	951.6	383.85	1019.25
ROCE	23.68	16.14	9.33
Face Value	10	2	10
Sales	520.14	1972.83	951.08
OPM	20.22	19.71	15
Market Cap	3467.33	4732.88	1307.67
Debt/ equity	0	0.62	0.29
Promoter %	41.05	68.77	36.22

ANNUAL PERFORMANCE

Y/E March	201803	201903	202003	202103	202203	202303E	202403E
Net Sales	188.22	238.51	239.64	340.61	520.1	613.76	761.06
Growth YoY (%)	17.45	26.72	0.47	42.13	52.70	18.01	24.00
Total Expenditure	157.7	196.43	198.63	260.46	415	484.29	593.02
(%) of sales	83.79	82.36	82.88	76.47	79.79	78.91	77.92
EBITDA	30.52	42.08	41.02	80.15	105.2	129.47	168.04
EBITA Growth (%)	43.4	26.85	3.29	85.9	31.25	23.07	29.79
EBITA Margin (%)	17.79	17.8	18.3	23.94	20.2	21	22
Depreciation	1.91	2.6	3.52	4.19	10.1	10.08	10.08
EBIT	30.25	37.71	38.27	75.91	95.1	119.39	157.96
EBIT Growth (%)	43.65	26.26	1.2	91.73	25.28	25.54	32.31
Interest Expenses	3.23	4.75	5.59	5.62	5.6	5.6	5.6
Other Income	2.96	0.38	2.84	1.38	2.8	1	1
Exceptional Items	0	0	0	0	0	0	0
EBT	28.35	35.11	34.75	71.73	91.5	112.98	151.55
Pre Tax Margin(%)	15.06	14.72	14.5	21.06	17.59277	18.41	19.91
Tax-Total	9.85	11.82	7.28	17.73	19.5	28.47	38.19
Tax Rate(%)	34.75	33.65	20.96	24.71	21.31148	25.20	25.20
Net Profit	18.5	23.3	27.47	54	71.9	84.51	113.36
PAT Growth (%)	53.51	25.95	17.92	96.57	33.15	17.54	34.14
PAT Margin (%)	9.83	9.77	11.46	15.85	13.8	13.7	14.8
Minority Interest	0	0	0	0	0	0	0
Adjusted PAT	18.5	23.3	27.47	54	71.9	84.51	113.36
EPS	123.3	22.19	26.16	17.14	21.03	23.35	31.31
EPS Growth (%)	0	-82.00	17.89	-34.48	22.70	11.01	34.14

FINANCIAL RATIOS

Y/E March (Basic (INR))	201703	201803	201903	202003	202103	202203
Profitability and return ratios						
Net profit margin (%)	7.52	9.83	9.77	11.46	15.85	13.8
EBITDA margin (%)	14.57	17.79	17.80	18.30	23.94	20.20
ROE (%)	36.44	39.03	33.73	28.31	38.74	20.9
ROCE (%)	35.91	38.24	33.80	26.25	32.58	23.7
Valuations Ratios						
EV/sales (x)	0.15	0.23	0.27	0.28	0.49	0.57
EV/EBITDA (x)	1.05	1.32	1.51	1.51	2.03	2.86
Dividend Yield (%)	0.00	0.00	0.00	0.00	0.00	0.00
Return on Assets (%)	12.04	13.99	12.64	12.34	16.74	13.4
Debt/Equity (x)	0.68	0.78	0.66	0.53	0.82	0.84



BALANCE SHEET

Y/E March	201703	201803	201903	202003	202103	202203
Equity Share Capital	2	2	11	11	32	36
Reserves & Surplus	37	56	72	101	135	486
Total Shareholder's Funds (A)	39	58	82	112	167	522
Long Term Borrowings	0	0	0	0	0	0
Deferred Tax Liabilities	0	0	2	3	3	6
Total Non Current Liabilities (B)	15	33	25	25	80	7
Short Term Borrowings	2	4	1	0	2	.25
Trade Payables	38	48	68	51	84	118
Other Financial Liabilities	5	3	11	9	35	11
Total Current Liabilities (C)	55	65	106	95	166	129
Total Equity and Liabilities (A+B+C)						
Net Block	28	32	79	85	186	205
Capital Work in progress	11	30	2	12	0	3
Total Non Current Assets (A)	42	66	89	111	197	230
Inventory	20	27	39	52	60	112
Debtors	36	50	76	56	121	164
Cash and Bank Balance	4	1	0	4	3	103
Short Term Loans and Advances	6	9	9	8	21	21
Other Current Assets	0	0	0	0	12	27
Total Current Assets (B)	66	87	124	121	216	429
Total Assets(A+B)	109	155	213	232	413	658

CASH FLOW STATEMENT

Y/E March	201703	201803	201903	202003	202103	202203
Profit Before Tax	19	28	35	35	72	91
Adjustments	4	4	7	10	8	11
Changes In working Capital	13	-17	-14	-9	-38	-89
CF from Operating activities (A)	29	8	15	27	27	-9
CF from Investing Activities (B)	-19	-25	-21	-24	-100.39	-124
CF from Financing Activities (C)	-7	15	6	0	72	140
Net Cash Inflow / Outflow	2.819	-2.233	-0.409	3.328	-1	8
Add: Opening Bal.	0	3	1	0	4	1
Closing Balance	3	1	0	4	1	9



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
2-JUNE-2022	BUY	1100

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Name of the Research Analyst: Tanvi Bhandari

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3.	Research Analyst or his/her relative or HSL has any other material conflict of interest at the time of publication of the Research Report	No
4.	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
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10.	Research Analyst or HSL has been engaged in market making activity for the subject company(ies)	No

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