

Advanced Enzyme Tech

Refer to important disclosures at the end of this report

SSPL acquisition augments growth trajectory; upgrade to Buy

- ADVENZY has completed the acquisition (on 11th Jan'20) of a controlling stake (51%) in SciTech Specialties Pvt Ltd. (SSPL) for a total cash consideration of ~Rs316mn. This was announced in late Dec'20. Such growth acquisition would enable management to focus on the high-margin B2C business, and presents potential cross-selling opportunities that would augment the core earnings potential of the business.
- SSPL, which is involved in contract manufacturing with niche technology specializing in effervescent granules and tablets, complements ADVENZY's existing business verticals like human health, animal nutrition and food, which in turn affords operational synergies.
- Transaction proceeds (~Rs300mn) is intended to be deployed for capacity expansion, debt reduction, R&D and other operational improvements. Management is confident of improving the margin profile of SSPL by realizing synergies in long term.
- We believe that SSPL acquisition is an opportunistic move and would be a net positive for the overall earnings momentum of the business in the long run. We raise our EPS estimates for FY22/23 by 7%/8% and raise our TP to Rs368 (+11%) at FY23E (at 20x) EPS, upgrading to Buy rating from Hold earlier (remain EW in EAP).

Seizing lucrative growth opportunities from time to time

ADVENZY's inorganic growth acquisition would allow the company to tap into new drug delivery capabilities for its existing products. It would also enhance the company's sales potential across different geographies, given strong presence of SSPL in export markets. Export sales account for over 50% of the total sales for SSPL and management believes that there is enormous potential yet to be realized in these markets. One of the many benefits of the effervescent technology is that it would allow ADVENZY to a number of health products in much smaller quantities/batches to existing customers, which will tremendously complement the overall product profile of the business, given better competitive products in the market.

SSPL fits well with the existing portfolio of ADVENZY and strengthen their control/position in all business verticals. Management plans to leverage the benefit of cross-selling opportunities (est. addtl sales growth of 3-5%) and expand its high-margin B2C business (>50%) going ahead, which is currently below 3% of total revenue. Also, given the numerous regulatory approvals SSPL has in place, ADVENZY can leverage the international presence to monetize opportunities in unrealized markets. We expect consolidated EBITDA margin to compress by 160/130bps to 44.9%/45.2% in FY22/23 due to relatively lower margin profile of SSPL although management is upbeat on the margin scope available in the acquired business.

ADVENZY has subscribed 4,92,630 equity shares of SSPL via preferential issue and purchased 27,778 from the few selling shareholders of SSPL, aggregating to 5,20,408 shares for a total consideration of ~Rs316mn.

Outlook: We remain positive on the long term story in enzymes industry and believe that ADVENZY is well poised to benefit from steady uptick that is underway. Incremental benefits shall accrue from SSPL's transaction over long term in domestic and international markets, through technology and operational synergies. We raise our EPS estimates for FY22/FY23 by 7%/8% and raise our TP to Rs368 (20x FY23E, from Rs332 earlier) upgrading to Buy from Hold rating earlier (remain EW in EAP). Key risk: Synergies fail to materialize as anticipated from such a deal.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Speciality Chemicals \(Page 9\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	4,196	4,440	4,824	6,127	7,037
EBITDA	1,819	2,034	2,229	2,751	3,181
EBITDA Margin (%)	43.4	45.8	46.2	44.9	45.2
APAT	1,111	1,293	1,442	1,779	2,056
EPS (Rs)	9.9	11.6	12.9	15.9	18.4
EPS (% chg)	23.3	16.4	11.5	23.4	15.6
ROE (%)	17.9	17.0	15.9	16.7	16.5
P/E (x)	32.7	28.1	25.2	20.4	17.7
EV/EBITDA (x)	20.0	17.6	15.8	12.4	10.4
P/BV (x)	5.3	4.3	3.7	3.2	2.7

Source: Company, Emkay Research

CMP	Target Price
Rs 324 as of (January 13, 2021)	Rs 368 (▲) 12 months
Rating	Upside
BUY (■)	13.4 %

Change in Estimates

EPS Chg FY21E/FY22E (%)	0/7.2
Target Price change (%)	10.8
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	12.9	15.9
Consensus	13.1	14.8
Mean Consensus TP (12M)	Rs 332	

Stock Details

Bloomberg Code	ADVENZY IN
Face Value (Rs)	2
Shares outstanding (mn)	112
52 Week H/L	385 / 91
M Cap (Rs bn/USD bn)	36 / 0.50
Daily Avg Volume (nos.)	3,05,401
Daily Avg Turnover (US\$ mn)	1.4

Shareholding Pattern Sep '20

Promoters	55.5%
FIIIs	16.0%
DIIIs	6.3%
Public and Others	22.2%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(4)	(4)	98	85
Rel. to Nifty (11)	(21)	47	57	

Relative price chart



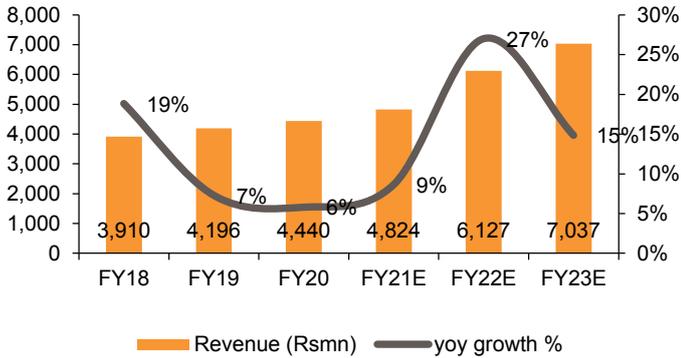
Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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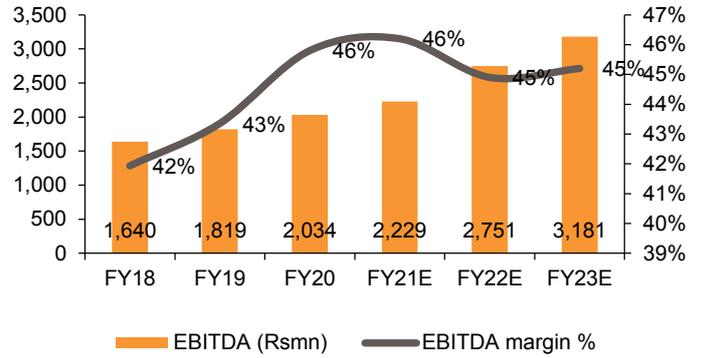
Story in Charts

Exhibit 1: Revenue growth momentum through organic and inorganic opportunities



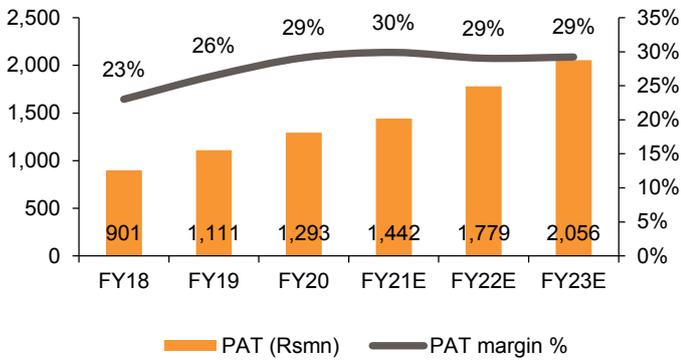
Source: Company, Emkay Research

Exhibit 2: EBITDA margins to stabilize in mid-40's region



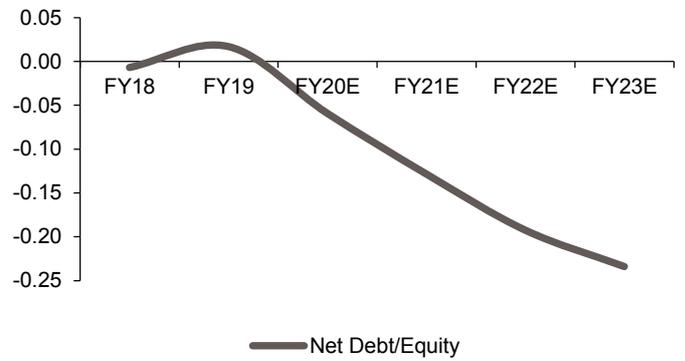
Source: Company, Emkay Research

Exhibit 3: PAT margins to remain in similar range for the medium term



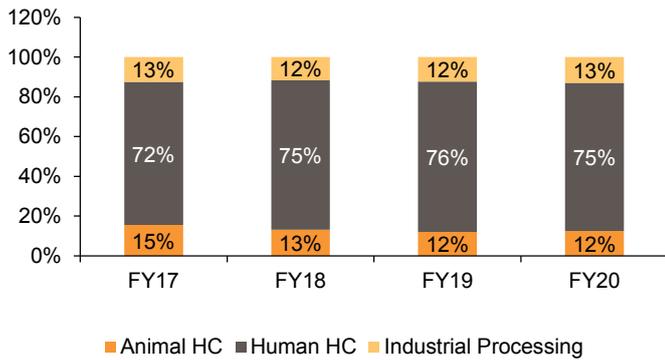
Source: Company, Emkay Research

Exhibit 4: Debt to be paid from internal accruals, leading to stronger balance sheet



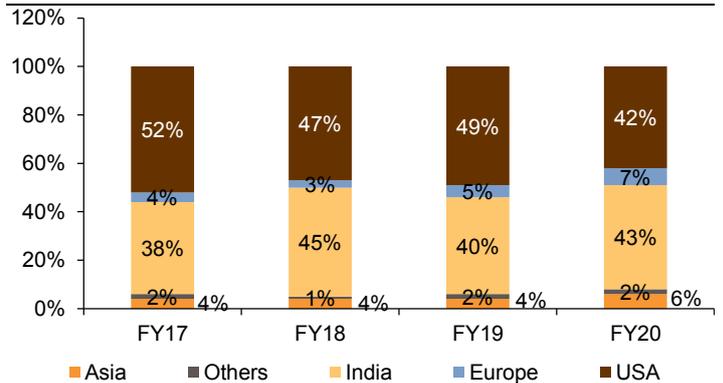
Source: Company, Emkay Research

Exhibit 5: Human Healthcare is the key business segment for the company...



Source: Company, Emkay Research

Exhibit 6: ...while India and USA remain key markets for the business



Source: Company, Emkay Research

Exhibit 7: SSPL derives more than 50% of its revenues from exports to 20+ countries



Source: Company, Emkay Research

Exhibit 8: SSPL’s existing product divisions and applications; Complements ADVENZY’s existing businesses such as Human health, Animal nutrition and food

1 Pharmaceuticals	Healthy Bones & Teeth Mucolytic / Antioxidant Osmotic Laxative NSAIDs For Bowel Cleaning prior to Colonoscopy Relief from Migraine Osteoporosis (Age-related & Steroid-induced) Erectile Dysfunction Anti-Anaemia Non Burning Mouthwash EffTabs
2 Nutraceuticals	Supplement for Vitamin C Deficiency For Healthy Bones, joints and Teeth Calcium & Folic acid Supplement Relieves Heart Burn, Gas & Indigestion Immunity Booster Iron tonic Nutrition for Post Bariatric Surgery Multivitamin & Multimineral Supplement Rehydration & Instant Energy Booster Potassium Supplement Healthy Sugar Control / Weight Management The after-effect Combater for Anti-Hangover Nutra Specialities Immunity Booster & Anti-Oxidant For Healthy Bones and Joints Skin Lightening, Anti-ageing, AntiOxidant and Immunity Booster Intestinal Health & Immunity Booster

Source: Company, Emkay Research

Exhibit 9: SSPL’s existing product divisions and applications

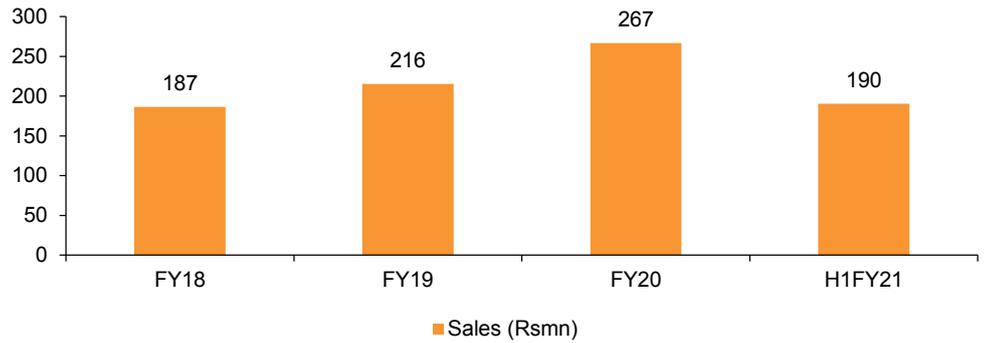
3 Herbals	Prevents Morning Sickness Immunity Booster/Cellular Health/Antioxidant Slimming & Weight Management Natural Constipation Reliever Anti-Oxidant Effervescent Tablets Super Green Booster Immunity Booster
4 Cosmeceuticals	Manicure & Pedicure EffTabs
5 Poultry	7 Probiotics + 7 Vitamins + 7 Minerals For Healthy Weight Gain & Immunity Poultry Vaccine Stabilizer Disinfectant and Sanitizer
6 Specialities	Probiotic speciality Vitamin B-Complex with Lactobacillus Probiotics Improves Digestion Relief from Migraine Dough Enhancement & Fortification Wine Stabilizer and Maturator

Source: Company, Emkay Research

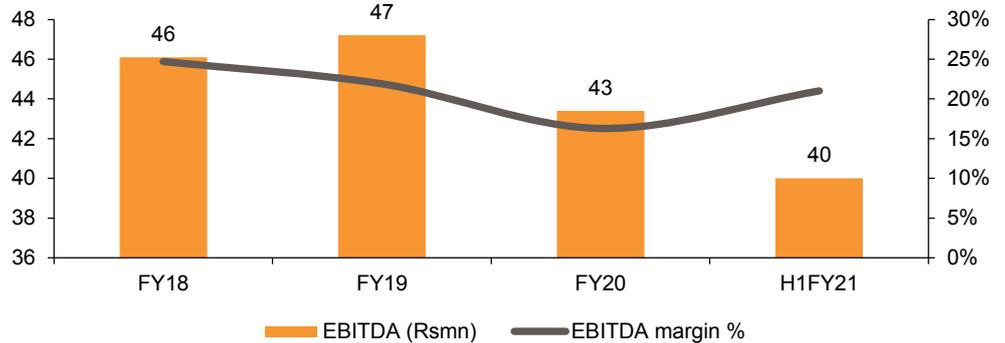
Exhibit 10: SSPL’s existing product portfolio



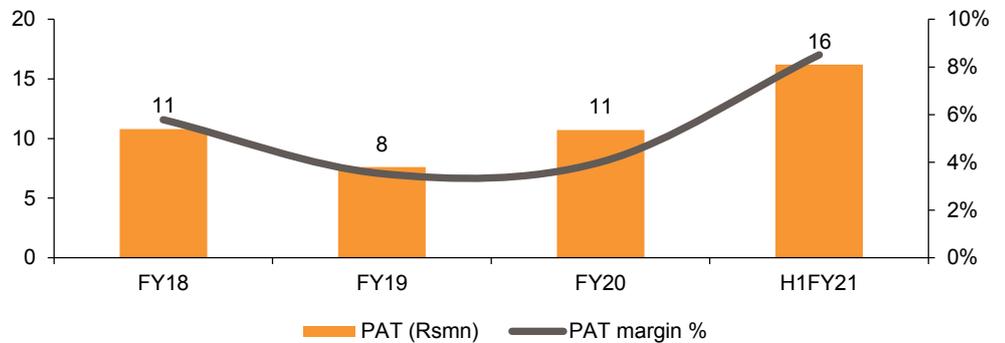
Source: Company, Emkay Research

Exhibit 11: SSPL's topline has grown at an annualized CAGR of ~27% (FY18-FY21E)

Source: Company, Emkay Research

Exhibit 12: SSPL's operating margins have ranged between 25% in FY18 to 16% in FY20, improving ~500bps to 21% as H1FY21; Annualized CAGR of ~20% (FY18-FY21E)

Source: Company, Emkay Research

Exhibit 13: SSPL's earnings have grown at an annualized CAGR of ~44% (FY18-FY21E), while profit margins have improved reasonably from 6% in FY18 to 9% as of H1FY21

Source: Company, Emkay Research

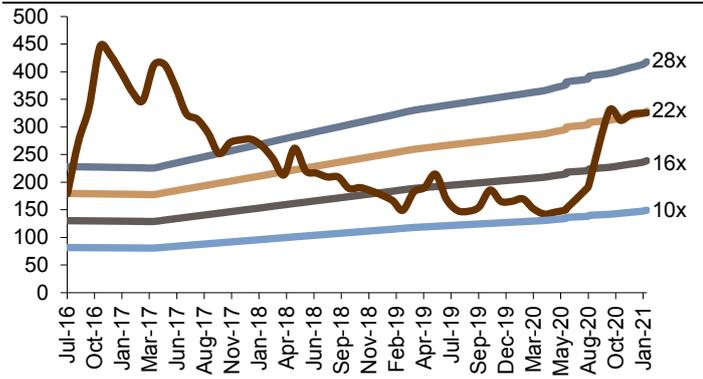
We are positive that ADVENZY can improve the topline and margin profile of SSPL in the medium to long term by realizing the scope of underlying synergies that will arise in due time. It will benefit from the inherent high-margin nature of the B2C business in the nutraceuticals/pharmaceuticals space and furthermore leverage prospective cross-selling opportunities in various sub-segments. Cumulatively, these factors should play out well for the core earnings potential and be net positive for overall performance of the company. We expect additional revenue/EBITDA growth of 6%/1% in FY22/23 from this acquisition and remain upbeat on the long term growth prospects for the combined business.

Exhibit 14: Revision in estimates

All fig in Rs mn	FY21E			FY22E			FY23E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenues	4,720	4,824	2.2	5,485	6,127	11.7	6,253	7,037	12.5
EBITDA	2,205	2,229	1.1	2,551	2,751	7.9	2,908	3,181	9.4
EBITDA margins %	46.7	46.2	-50bps	46.5	44.9	-160bps	46.5	45.2	-130bps
Net profits	1,442	1,442	0	1,660	1,779	7.2	1,901	2,056	8.2
EPS (Rs)	12.9	12.9	0	14.9	15.9	7.2	17.0	18.4	8.2

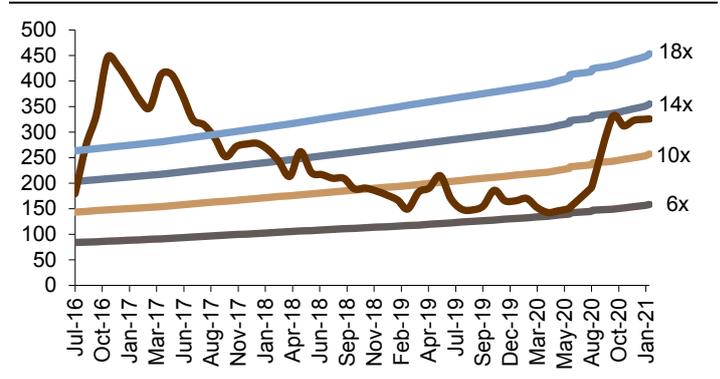
Source: Company, Emkay Research

Exhibit 15: P/E band chart



Source: Company, Emkay Research

Exhibit 16: EV/EBITDA band chart



Source: Company, Emkay Research

Exhibit 17: 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	324	37	Buy	368	28.1	25.2	20.4	4.3	3.7	3.2	17.6	15.8	12.4
Apcotex Industries	174	9	Hold	140	54.4	53.8	29.4	3.6	3.5	3.2	28.2	24.5	16.0
BASF India	1691	73	Buy	1630	395.4	52.9	37.6	5.3	3.8	3.5	33.8	20.4	17.5
Camlin Fine Sciences	122	15	Buy	140	48.6	26.6	16.3	3.7	2.9	2.5	14.4	12.9	9.8
GHCL	213	20	Buy	186	5.1	6.6	4.9	0.9	0.8	0.7	4.4	4.4	3.3
Navin Fluorine	2662	132	Buy	2742	71.2	58.3	47.9	9.3	8.3	7.3	49.1	40.4	34.4
SRF	5929	351	Buy	5466	37.9	31.1	23.5	7.0	5.3	4.4	26.1	18.5	14.3
Tata Chemicals	523	133	Hold	324	1.9	24.4	17.6	1.0	1.0	1.0	10.7	12.0	10.0
Vinati Organics	1302	134	Buy	1330	40.0	47.7	34.5	10.4	9.0	7.4	32.2	35.7	25.6

Source: Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	4,196	4,440	4,824	6,127	7,037
Expenditure	2,377	2,406	2,595	3,376	3,856
EBITDA	1,819	2,034	2,229	2,751	3,181
Depreciation	211	258	280	324	354
EBIT	1,608	1,776	1,949	2,428	2,827
Other Income	50	56	85	70	70
Interest expenses	39	41	20	18	16
PBT	1,620	1,792	2,014	2,480	2,881
Tax	461	461	518	638	741
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	(48)	(38)	(54)	(62)	(84)
Reported Net Income	1,111	1,293	1,442	1,779	2,056
Adjusted PAT	1,111	1,293	1,442	1,779	2,056

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	9,548	11,260	13,248
Net worth	6,788	8,397	9,771	11,483	13,472
Minority Interest	260	278	332	394	478
Loan Funds	410	402	322	272	222
Net deferred tax liability	0	0	0	0	0
Total Liabilities	7,458	9,076	10,424	12,148	14,171
Net block	5,060	5,730	5,850	6,326	7,172
Investment	1,281	1,461	1,777	1,777	1,777
Current Assets	1,711	2,521	3,484	4,839	6,091
Cash & bank balance	234	830	1,507	2,412	3,303
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	594	636	687	794	869
Net current assets	1,117	1,885	2,797	4,045	5,221
Misc. exp	0	0	0	0	0
Total Assets	7,458	9,076	10,424	12,148	14,171

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	1,569	1,735	1,929	2,410	2,811
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(227)	(172)	(235)	(343)	(286)
Operating Cashflow	1,297	1,798	1,540	1,822	2,208
Capital expenditure	(252)	(928)	(400)	(800)	(1,200)
Free Cash Flow	1,045	869	1,140	1,022	1,008
Investments	(1,136)	(180)	(316)	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(1,388)	(1,108)	(716)	(800)	(1,200)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(208)	(8)	(80)	(50)	(50)
Dividend paid (incl tax)	67	67	67	67	67
Other Financing Cash Flow	(356)	(161)	(214)	(184)	(184)
Financing Cashflow	(289)	(94)	(147)	(117)	(117)
Net chg in cash	(380)	595	677	905	891
Opening cash position	614	234	830	1,507	2,412
Closing cash position	234	830	1,507	2,412	3,303

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	43.4	45.8	46.2	44.9	45.2
EBIT Margin	38.3	40.0	40.4	39.6	40.2
Effective Tax Rate	28.4	25.7	25.7	25.7	25.7
Net Margin	27.6	30.0	31.0	30.1	30.4
ROCE	23.9	22.2	20.9	22.1	22.0
ROE	17.9	17.0	15.9	16.7	16.5
RoIC	27.7	27.9	28.0	32.2	33.2

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	9.9	11.6	12.9	15.9	18.4
CEPS	11.8	13.9	15.4	18.8	21.6
BVPS	60.8	75.2	87.5	102.8	120.6
DPS	0.6	0.6	0.6	0.6	0.6

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	32.7	28.1	25.2	20.4	17.7
P/CEPS	27.5	23.4	21.1	17.3	15.1
P/BV	5.3	4.3	3.7	3.2	2.7
EV / Sales	8.7	8.1	7.3	5.6	4.7
EV / EBITDA	20.0	17.6	15.8	12.4	10.4
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	0.0	(0.1)	(0.1)	(0.2)	(0.2)
Net Debt/EBIDTA	0.1	(0.2)	(0.5)	(0.8)	(1.0)
Working Cap Cycle (days)	76.8	86.7	97.6	97.3	99.5

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	7.3	5.8	8.6	27.0	14.9
EBITDA	11.0	11.8	9.6	23.4	15.6
EBIT	10.4	10.4	9.7	24.6	16.5
PAT	23.3	16.4	11.5	23.4	15.6

Quarterly (Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Revenue	1,114	1,119	1,103	1,105	1,204
EBITDA	473	529	487	517	585
EBITDA Margin (%)	42.4	47.2	44.2	46.8	48.6
PAT	301	327	300	337	358
EPS (Rs)	2.7	2.9	2.7	3.0	3.2

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoters	57.9	57.9	57.9	58.1	55.5
FIIIs	11.2	11.0	11.1	11.0	16.0
DIIs	8.4	8.7	8.9	8.7	6.3
Public and Others	22.6	22.5	22.1	22.2	22.2

Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
13-Nov-20	331	332	12m	Hold	Rohit Sinha
13-Aug-20	208	238	12m	Buy	Rohit Sinha
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Speciality Chemicals



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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	0.21	0.21	-1%	0	100.00
Advanced Enzyme Tech	0.00	0.00	NA	0	1.88
ApcoTex Industries	0.00	0.00	NA	0	1.02
BASF India	0.00	0.00	NA	0	0.84
Camlin Fine Sciences	0.00	0.02	NA	2	8.07
GHCL	0.00	0.01	NA	1	4.75
Navin Fluorine	0.00	0.05	NA	5	22.59
Orient Refractories	0.00	0.01	NA	1	3.64
SRF	0.21	0.10	-51%	-11	49.41
Tata Chemicals	0.00	0.01	NA	1	4.19
Vinati Organics	0.00	0.01	NA	1	3.07
Cash	0.00	0.00	NA	0	0.54

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	15-Jan-20	15-Jul-20	14-Oct-20	14-Dec-20	13-Jan-21
EAP - Speciality Chemicals	100.0	133.5	134.6	162.8	196.5	213.0
BSE200 Neutral Weighted Portfolio (ETF)	100.0	135.4	134.7	155.5	188.7	213.7

*Performance measurement base date 1st April 2019

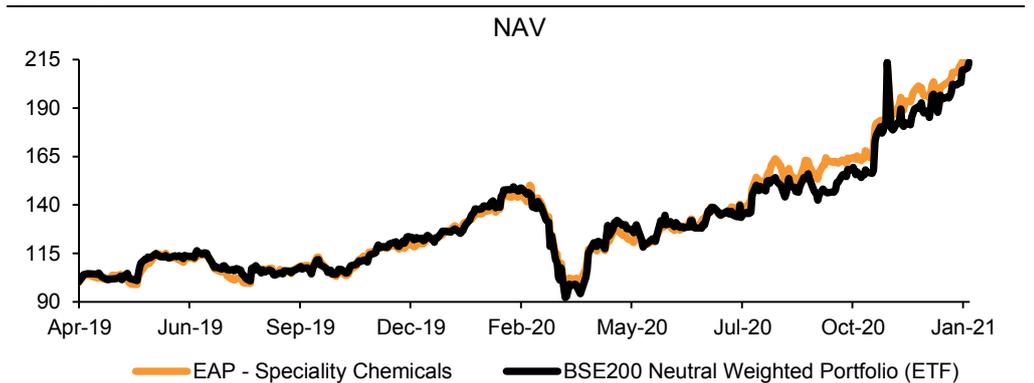
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Speciality Chemicals	8.4%	30.9%	58.2%	59.6%
BSE200 Neutral Weighted Portfolio (ETF)	13.3%	37.5%	58.7%	57.8%

Source: Emkay Research

NAV chart



Source: Emkay Research

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

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

“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: 14 Jan 2021 14:19:50 (SGT)

Dissemination Date: 14 Jan 2021 14:20:50 (SGT)

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

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