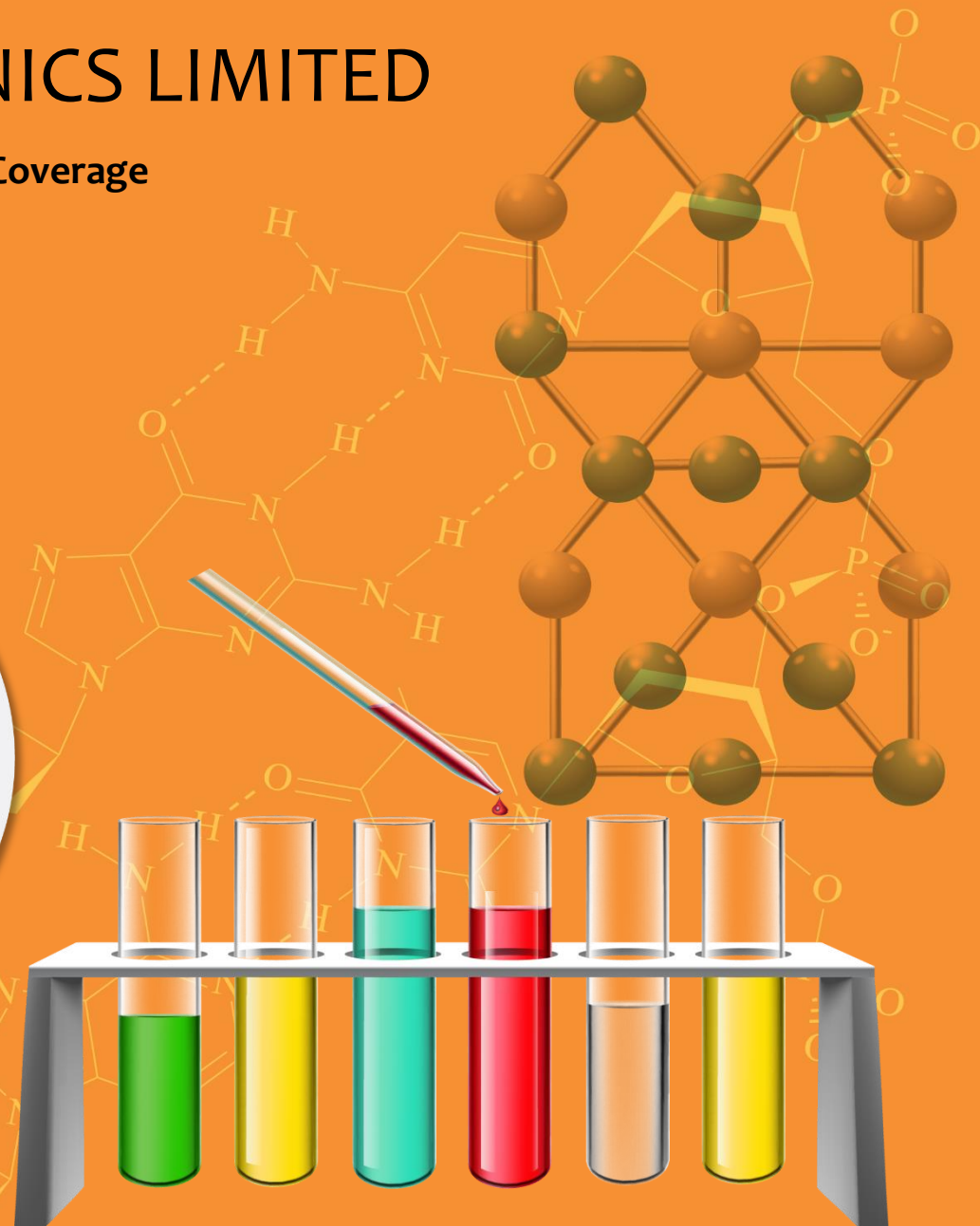


AMI ORGANICS LIMITED

Initiating Coverage



6th January, 2022

Ami Organics Limited

Fast moving intermediate towards becoming a midcap play

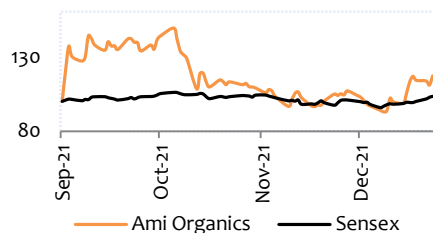
Recommendation

CMP (INR)	1,067
Target Price (INR)	1,229
Upside	15.20%
Rating	BUY
Sector	Pharma

Market Data

Shares outs (Mn)	36
Equity Cap (INR Mn)	365
Mkt Cap (INR Mn)	38,760
52 Wk H/L (INR)	1,438/841
Volume Avg (3m K)	312
Face Value (INR)	10
Bloomberg Code	AMIORG IN

Price Chart



SENSEX	59,602
NIFTY	17,746

Shareholding Pattern (%)

Particulars	Sept-21	Jun-21	Mar-21
Promoters	41.05	-	-
FIIIs	2.51	-	-
DIIIs	6.30	-	-
Others	50.14	-	-
Total	100	-	-

Company Snapshot

Ami Organics Ltd (AOL), established in 2004, is Surat based 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 150 customers (including international customers) directly in India and in 25 countries overseas.

Outlook

AOL has established itself as a trusted and major manufacturer of Pharma Intermediates & specialty chemicals through its strong capabilities. It is well placed to complement its long-term growth strategy with the support of experienced team, extensive geographical presence and higher entry barriers in the industry.

We believe pharma API sector has good traction and thus, AOL is set for newer growth opportunities on account of launch and commercialisation of import substitute products, cost efficiencies due to better utilisation levels and enhancement of its product offerings. AOL made a solid debut in Sept 2021 at INR 910, listing at a premium of 49% to the issue price. Currently it is trading at 50.80/36.13/26.91x on FY22E/23E/24E EPS. We initiate coverage on stock with "BUY" rating as all the above mentioned factors will provide greater scale to grow its business and profitability and recommend a target price of INR 1,229/share, applying PE multiple of 31x on FY24E EPS, indicating upside potential of 15.20% from CMP.

Key Financials

Particulars (INR Mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	2,385	2,396	3,406	4,768	6,199	8,059
EBITDA	421	410	801	1,144	1,503	1,995
PAT	233	275	540	765	1,075	1,443
EPS	7.39	8.72	17.14	21.00	29.53	39.65
EBITDA Margin (%)	17.64%	17.12%	23.53%	24.00%	24.25%	24.75%

Source: KRChoksey Research

Investment Rationale

Dominant market position in the pharma intermediate space:

AOL manufactures and markets advanced pharmaceutical intermediates used for manufacturing of APIs and NCEs in selected therapeutic areas. This segment contributes around 88% of the business mix. These intermediates find application in certain high-growth therapeutic areas such as anti-retroviral, anti-inflammatory, anti-psychotic, anti-cancer, anti-Parkinson, anti-depressant and anti-coagulant. The company has 8 process patents and 3 additional pending process patents for which applications were made recently, in March 2021. Over the last two years its API and NCE portfolio has expanded from over 425 products to over 450 products as of March 31, 2021. It has been successful in developing and commercialising these intermediates for APIs across 17 key therapeutic areas since inception. Along with the domestic market, it supplies Pharma Intermediates to various multi-national pharmaceutical companies which cater to the large and fast-growing markets of Europe, China, Japan, Israel, UK, Latin America and the USA.

Foraying further into specialty chemicals in the form of inorganic growth opportunities:

AOL aims to strengthen its manufacturing capabilities and achieve better economies of scale by organic and inorganic growth. It recently acquired Gujarat Organics td(GOL) in March 2021 on slump sale basis for INR 930 Mn. The acquisition is in line with the companies strategy to diversify their existing product portfolio and strengthen its product infrastructure and overall manufacturing capabilities in the specialty chemicals sector. GOL's facilities are located at Ankleshwar and Jhagadia with total capacity of 3,600 MTPA. We believe that this new and excess capacity will help it capitalize on the growth opportunities. Going forward, we also believe it may consider acquisition/ investment opportunities to selectively expand in other verticals as well. Thus expect such acquisitions to support its long-term strategy, strengthen its competitive position, particularly in acquiring technical expertise and provide greater scale to grow the earnings and increase shareholder value.

Launch of import substitute products to aid growth:

India stands as an immediate alternate with many global end user industries looking for alternative to China. It is poised to capitalise this opportunity due to its significant years of experience in handling global regulatory requirements, strong process know how, strength in R&D and low cost. AOL has identified 5 import substitute products out of which 2 products are introduced in the market in Q2FY22. This will be mainly catering to cure cardiovascular as well as diabetes disease. This being chronic in nature will bring long term growth in the topline and also help realise better margins. In Q2FY22 some trial quantities were provided for sampling to its customers in India which has received strong response and has proved successful. We expect these two products to start contributing to the revenue as Q3FY22 is going to be a main commercial supply period. Being one of the few manufacturers in India, with such first mover advantage and its continuous focus on developing such more import substitutes in the coming years should augur well for AOL.

S. No.	Particulars	Page No.
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Company Overview

AOL, established in 2004, is Surat based 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. The speciality chemicals that they manufacture, find use in the agrochemicals and fine chemicals industry. 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). Their speciality chemicals portfolio will further be enhanced with the Acquisition. The speciality chemicals manufactured by the facilities which they acquired as part of the Acquisition, find use in cosmetics, preservatives and agrochemicals.

AOL is promoted by Nareshkumar Ramjibhai Patel and Chetankumar Chhaganlal Vagharia who are associated with the company since incorporation having an experience of over two decades in the specialty chemicals manufacturing sector.

AOL conducts its operations through its three manufacturing facilities:

Its manufacturing facilities are located at Sachin, Ankleshwar and Jhagadia out of which 2 facilities i.e. Ankleshwar and Jhagadia facilities were acquired from GOL on 31st March 2021.

Sachin Facility	Ankleshwar Facility	Jhagadia Facility
<ul style="list-style-type: none"> • Manufactures and supplies advanced pharma intermediates for manufacturing of APIs and NCEs • Land Area - 8,250 sq mt • Installed capacity - 2,460 MTPA 	<ul style="list-style-type: none"> • Products manufactured: 5-Chloro Salicylic acid, electron donors, Anisic acid, Paracynophenol • Land Area - 10,644 sq mt • Installed capacity - 1,200 MTPA 	<ul style="list-style-type: none"> • Multipurpose facility for production of parabens, PHBA and other specialty chemicals. • Land Area - 56,998 sq mt • Installed capacity - 2,400 MTPA

Source: KRChoksey Research

Company Overview

Capacity & Capacity utilization:

Particulars	FY19	FY20	FY21
Installed capacity (MTPA)	2,706	2,109 ⁽²⁾	2,460 ⁽¹⁾
Available capacity (MTPA)	2,706	2,557 ⁽²⁾	2,255 ⁽¹⁾
Production (MT)	962	1,164	1,425
Capacity utilisation %	36%	46%	63%

Source: KRChoksey Research

Note: 1)In Fiscal 2021 one new unit with capacity of 351MTPA were installed on November 1, 2020.

2)In Fiscal 2020 one unit with capacity of 597 MTPA were demolished on December 31, 2019.

3)Production includes products manufactured at Company's plant and job work/contract manufacturing units.

4)Capacity utilization (%) has been calculated on the basis of production in the relevant period divided by the available capacity during the relevant Fiscal year

AOL has established **long standing relationships** with some of their key 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. It's focus on R&D and continuous process improvement has **positioned** them as a **preferred supplier** to their customers. It has a wide distribution network through which it caters to more than 150 customers (including international customers) directly in India and in 25 countries overseas.

Key Domestic Customers	Key Export Customers
Laurus Labs Ltd	Organike s.r.l.a Socio Unico
Cadila Healthcare Ltd	Fermion Oy
Cipla Ltd	Fabbrica Italiana Sintetici S.p.A
	Chori Co Ltd
	Medichem S.A
	Midas Pharma GmbH

Source: KRChoksey Research

Company Overview

Business segments:

Specialty chemical business:

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:

It is one of the major manufacturers of Pharma Intermediates for certain key APIs, including Dolutegravir, Trazodone, Entacapone, Nintedanib and Rivaroxaban. The Pharma Intermediates which it manufactures, find application in certain high-growth therapeutic areas including anti-retroviral, anti-inflammatory, anti-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.

Some of the leading APIs for which it supplies Pharma Intermediates are:-

API	Brief Description
Trazodone	Trazodone is one of the key API in Antidepressant drugs, and the API is manufactured using intermediates supplied by AOL. Further it is the major manufacturer of key intermediates for the APIs belonging to Atypical antidepressants drug class.
Dolutegravir	It is an antiretroviral medication used, together with other medication, to treat HIV/AIDS and may also be used, as part of post exposure prophylaxis, to prevent HIV infection following potential exposure. Dolutegravir, is one of the key API used for manufacturing ARV drugs.
Entacapone	It is a selective and reversible inhibitor of the enzyme catechol-O-methyltransferase (COMT) and is commonly used for treatment of Parkinson's disease. Entacapone is one of the key API in Parkinson treatment.

Source: KRChoksey Research

Company Overview

API	Brief Description
Apixaban	Apixaban is an anticoagulant medication used to treat and prevent blood clots and to prevent stroke in people with non-valvular atrial fibrillation.
Rivaroxaban	Rivaroxaban is an anticoagulant medication (blood thinner) used to treat and prevent blood clots. Specifically, it is used to treat deep vein thrombosis and pulmonary emboli and prevent blood clots in atrial fibrillation and following hip or knee surgery.
Nintedanib	It used to treat idiopathic pulmonary fibrosis, also Nintedanib is being used to treat Covid in many countries. It has the potential to block the development of lung fibrosis. AOL is a supplier to the originator for key intermediates for producing Nintedanib.
Pazopanib	Pazopanib is a Tyrosine Kinase Inhibitors, used to treat kidney cancer, AOL is the major manufacturer of one of the key intermediates for Pazopanib API.
Quetiapine	It is an atypical antipsychotic used for the treatment of schizophrenia.
Aripiprazole	Aripiprazole is indicated for the treatment of schizophrenia and is also used as maintenance therapy for this disease. AOL has customers across the world for this.
Darolutamide	It is a second-or third-generation nonsteroidal antiandrogen (NSAA). It is an antiandrogen medication which is used in the treatment of non-metastatic castration-resistant prostate cancer in men.
Ziprasidone/Lurasidone	These are an atypical antipsychotic primarily used for the treatment of schizophrenia.
Mirtazapine/Vortioxetine/Vilazodone	It is an atypical antidepressant medicine. AOL is the major manufacturer of key intermediates for the APIs belonging to Atypical antidepressant medicine.

Source: KRChoksey Research

Company Overview

Products and its Market share

API	Therapy / Disease	Key Pharma Intermediate(s)	Global Market Share
Trazodone	Antidepressant	1-(3-Chloro Phenyl)4-(3-Chloro Propyl)Piperazine H	80-90% share
		2H-[1,2,4] Triazolo [4,3-A] Pyridin-3-One	
		1-(3-Chloro Phenyl) Piperazine	
Mirtazapine / Vortioxetine / Vilazodone	Antidepressant	1-Boc Piperazine & Other Intermediates	Major manufacturer of the key intermediates
Aripiprazole	Antipsychotic	1-(2,3-Dichloro Phenyl) Piperzine	Major manufacturer of the key intermediates across the world
Ziprasidone/ Lurasidone	Antipsychotic	3-(1-Piperazinyl)1,2-Benzisothiazole Hcl	Major manufacturer of the key intermediates for this API
Quetiapin	Antipsychotic	1-(2-(2-Hydroxy Ethoxy)Ethyl Piperazine	Major manufacturer of the key intermediates for this API
		Dibenzo-(1,4)-Thazepine-11-(10h)-One	
Apixaban	Anticoagulant	1-(4-Amino Phenyl)-5,6-Dihydro-3-(4-Monopholinyl)-2	~50% and ~40% total market share in FY21 for the 2 key intermediates respectively
		Ethyl Chloro [(4-Methoxy Phenyl) Hydrazono] Acetate	
		Other Intermediates	
Rivaroxaban	Anticoagulant	(S)-(+)-Glycidyl Phthalimide	50-60% share globally for Glycidyl Phthalimide in FY20 and 35-40% of market share for 4-(4-Aminophenyl) Morpholin-3-One in FY21
		4-(4-Aminophenyl) Morpholin-3-One	
Pazopanib	Anticancer	2,4-Dichloropyrimidine	86–88% global market share for intermediate 2,4-Dichloropyrimidine in FY21
		5-Amino-2-Methyl Benzene Sulphonamide	
Nintedanib	Pulmonary Fibrosis (Anti Cancer)	Triethyl Ortho Benzoate	Supplier to the originator for key intermediates
		Trimethyl Ortho Benzoate	
		Other Intermediates	
Entacapone	Parkinson's disease	3,4-Di Hydroxy 5-Nitro Benzyl Dehyde	~80% market share for the key Intermediate in FY21
Darolutamide	Antiandrogen	Methyl-5-Acetal-1H-Pyrazole-3-Carboxylate	Major manufacturer of the key intermediates
Dolutegravir	Antiretroviral	Amino Acetaldehyde Dimethyl Acetal	Leader for Amino Acetaldehyde Dimethyl Acetal intermediate with 70-75% global share in FY21
		N-N Dimethyl Formamide Dimethyl Acetal	
		Methyl-4-Methoxy Acetoacetate	

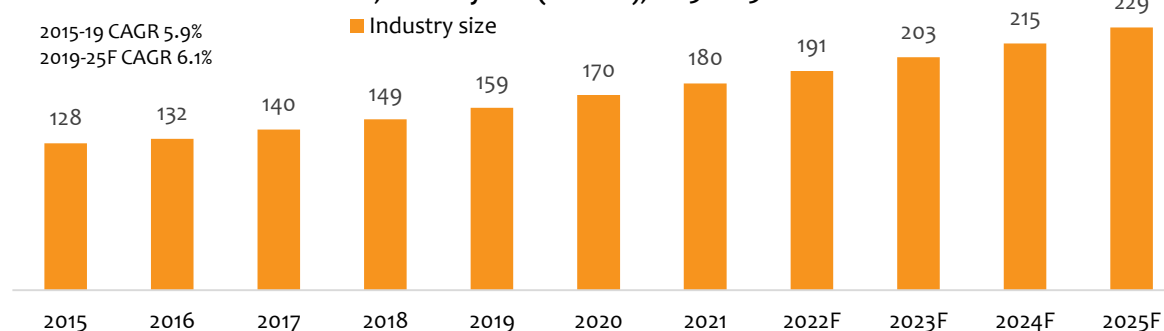
Source: KRChoksey Research

Industry Overview

Global API Market Overview:

The Global API market has shown steady growth of 5.9% since 2015 and is expected to further expand at 6.1% due to an increased focus on developing geographies.

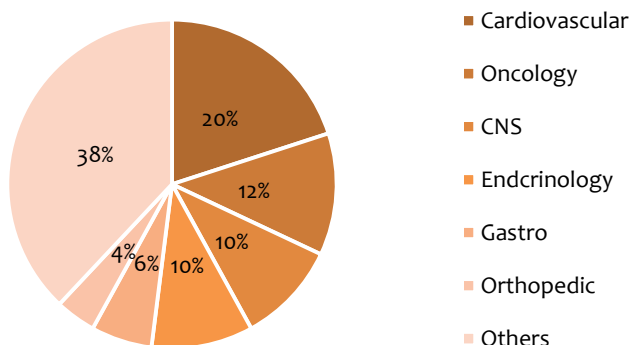
Global API, Industry size (USD Bn), 2015-2025F



Source: Frost & Sullivan Research & Analysis

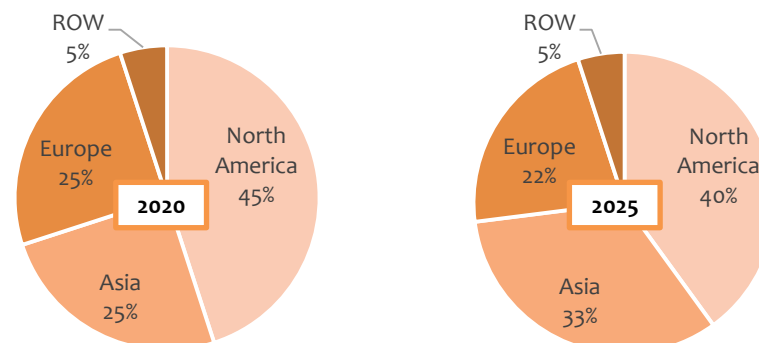
Growth in the Active Pharmaceutical Ingredients market will be primarily driven by government initiatives, regional penetration, increasing aged population and patent expiration of prominent drugs. Investments in R&D coupled with patent expirations of drugs will make Asia Pacific the fastest growing API market. Cardiology/ cardiovascular was the largest therapy segment in API for the year. Oncology, HIV, Central Nervous System (CNS) and Cardiovascular (CVS) are likely to be the fastest growing during the forecast period. Moreover with the growing prominence of Covid-19, there have been growing cases of people across the world undergoing depression phase. Owing to this the Antipsychotic and Antidepressants drug are highly sought and the therefore these markets are expected to grow with a decent CAGR.

Global API market split by Therapy Segment, 2020 – USD 170 Bn



Source: Frost & Sullivan Research & Analysis

Global API market segmentation by geography, 2020 & 2025

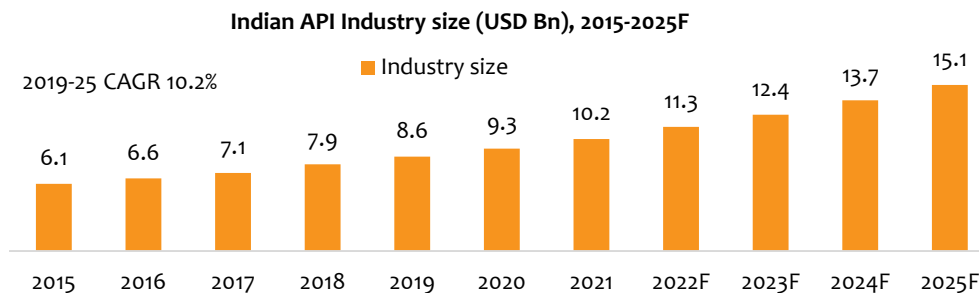


Source: Frost & Sullivan Research & Analysis

Industry Overview

Indian API Market Overview:

Cardiovascular is one of the growing segments associated with growth in lifestyle diseases. Cardiovascular diseases (CVDs) became the leading cause of mortality in India. The anticoagulants market is anticipated to show significant market growth during the forecast period, owing to increase in prevalence of ischemic heart disease and venous thromboembolism (VTE) and awareness of novel oral anticoagulants (NOACs).

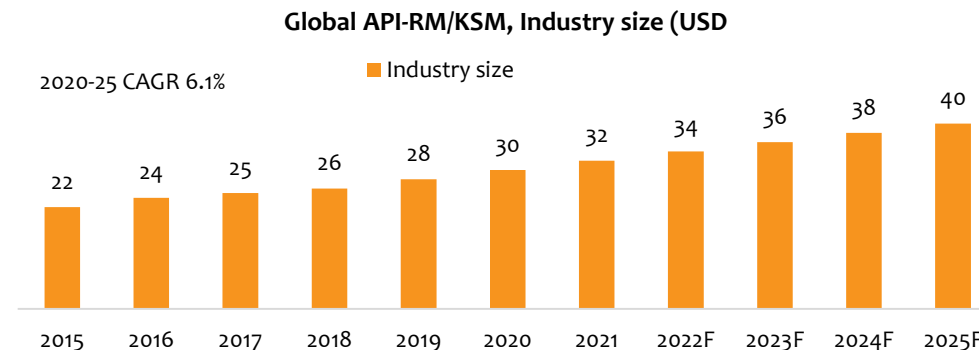


Source: Frost & Sullivan Research & Analysis

Some of the other API classes which are experiencing good market growth are Antipsychotic, Antidepressants, Parkinson's, Anticoagulants, ARVs among others. Outbreak of Covid-19 in 2020 and second-wave peaking in 2021 has led to growing cases of people across the world undergoing depression phase. Owing to this the Antipsychotic and Antidepressants drug are highly sought and the therefore these markets are expected to grow with a decent CAGR.

Global API-RM/KSM Market:

The Global market for speciality intermediates that go into pharmaceutical application was valued at USD 30 Bn for 2020. Key Starting Material (KSM) term is used for intermediates in pharmaceutical industry. These are building blocks of drug industry.

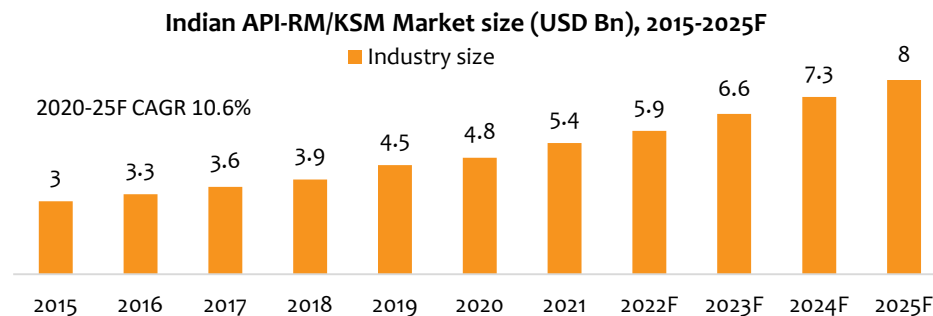


Source: Frost & Sullivan Research & Analysis

Industry Overview

India API-RM/KSM Market:

The market for Pharmaceutical intermediates in India for the year 2020 was estimated to be around USD 4.8 Bn, growing at a CAGR of 9.8% over 2015-20.



Source: Frost & Sullivan Research & Analysis

Key Strategies for Indian Market players:

The key strategy of the Indian manufacturers till date has been to do a higher value addition to the products and then explore markets across the globe for better realization. As such most companies focused on producing speciality products and started importing the basis key starting materials and intermediates. Many of the key starting materials and intermediates thus have been imported to large extent from over a decade from China, which has been an economical sourcing option. Almost 80% of the intermediates as of 2019 were imported.

Cost Head	China Advantage
Raw Material	Cheaper by 25-30% as compared to India
Electricity	Lower by 20% compared to India
Labour	1.8 times higher than India
Other costs	Cheaper by 30%

Source: Frost & Sullivan Research & Analysis

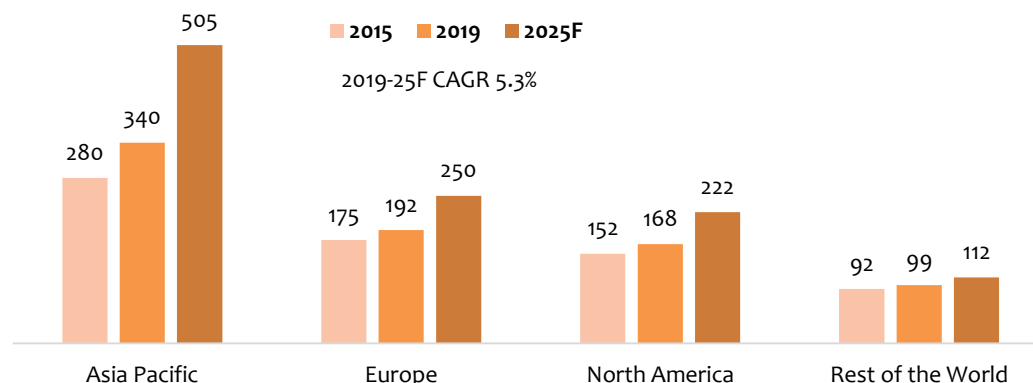
The Government of India's proposition to support local manufacturing of many possible raw materials and intermediates especially in the Pharmaceutical space will enhance the growth in domestic market and reduce imports, especially from China. With shift in investments from regulated markets like Europe to developing countries like India, domestic production is expected to increase, reducing dependency on imports encouraging the current trend of exports of intermediates to grow substantially.

Industry Overview

Global Specialty Chemicals Market:

Specialty chemicals are low-volume and high-value products which are sold on the basis of their quality or utility, rather than composition. Thus, they may be used primarily as additives or to provide a specific attribute to the end product. Specialty chemicals are more likely to be prepared and processed in batches. The focus is on value addition to the end-product and the properties or technical specifications of the chemical. Rapid industrialisation in India and China is expected to drive demand for specialty chemicals. The Asia Pacific (APAC) dominates the market across the world, with a share of 42% in 2019, owing to the huge customer base, leading to high demand for specialty chemicals, increasing industrial production, and robust growth of the construction sector in the region.

Global Specialty Chemicals Market by geography, 2015, 2019, & 2025F



India Chemical Industry Overview:

The Indian chemicals market is valued at USD 166 Bn (~4% share in the global chemical industry) in 2019. It is expected to reach ~USD 326 Bn by 2025, with an anticipated growth of ~12% CAGR. The specialty chemical industry forms ~47% of the domestic chemical market, which is expected to grow at a CAGR of around 11-12% over the same period.

Year	Commodity Chemicals	Specialty Chemicals	Other Chemicals
2015-2019	8.90%	10.20%	11.40%
2019-2025F	12.20%	11.20%	14.30%

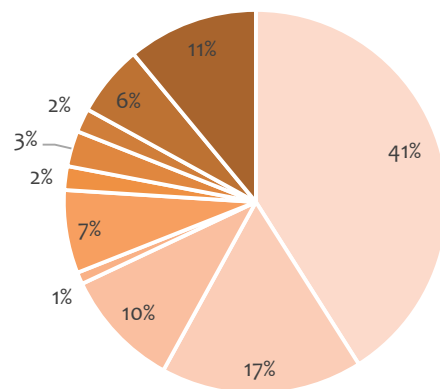
Source: Frost & Sullivan Research & Analysis

Industry Overview

The Specialty chemicals industry is driven by both domestic consumption and exports. India's specialty chemical companies are gaining favour with global MNCs because of the geopolitical shift after the outbreak of Covid-19 as the world looks to reduce its dependence on China. Currently China accounts for ~15-17% of the world's exportable specialty chemicals, whereas India accounts for merely 1-2% indicating that the country has large scope of improvement and widespread opportunity. It is anticipated that Specialty chemicals will be the next great export pillar for India.

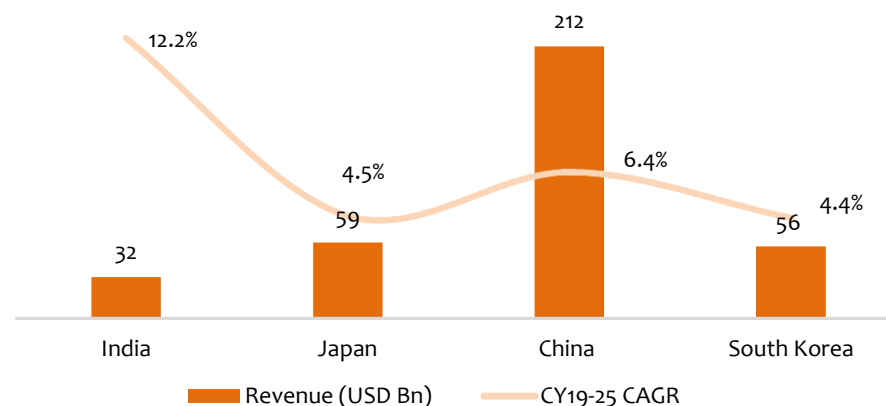
**Indian Specialty Chemicals Market by Industry & Applications 2019,
Value (USD 78 Bn)**

- Agrochemicals & Fertilisers
- Pharma API
- Dyes & Pigments
- Construction chemicals
- Paints & Coatings Additives
- Water treatment chemicals
- Textile chemicals
- Flavors & fragrance chemicals
- Home & personal care ingredients
- Others



Source: Frost & Sullivan Research & Analysis

India's specialty market is expected to grow at the fastest pace



Source: FICCI, CRISIL, KRChoksey Research

India – Racing Ahead of China:

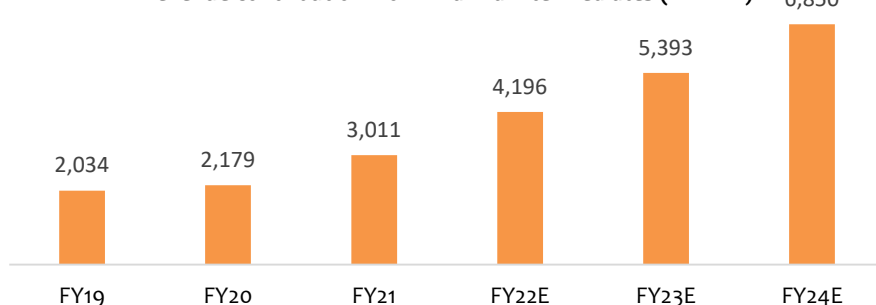
China's specialty chemicals market has seen a downturn in recent years due to various factors. Most prominent amongst these are the recent environmental norms introduced by the Chinese government, which have led to shutdown of a number of chemical plants. The Chinese government started implementing stricter environmental protection norms from January 2015. With the focus on controlling pollution, the Chinese Ministry of Environmental Protection enforced strict penalties on polluting industries, including chemicals. Some of the major steps taken were:

- Shift towards gas-based power plants from coal-based ones
- Implementation of strict penalties for noncompliance
- Construction of compulsory effluent treatment plants
- Mandatory for all polluting industries to operate from industrial clusters away from habitat
- All larger plants must relocate by the end of 2025 and start the process by no later than 2020
- Taxes to be levied on polluting industries based on pollution type, location and severity

Investment Rationale - Dominant market position in the pharma intermediate space:

- AOL manufactures and markets advanced pharmaceutical intermediates used for manufacturing of APIs and NCEs in selected therapeutic areas.
- The Pharma Intermediates which it manufactures (88% of the revenue), **finds application in certain high-growth therapeutic areas** including anti-retroviral, anti-inflammatory, anti-psychotic, anti-cancer, anti-Parkinson, anti-depressant and anti-coagulant, **commanding significant market share** both in India and globally.
- It is one of the major manufacturer of Pharma Intermediates for certain key APIs, including Dolutegravir, Trazodone, Entacapone, Nintedanib and Rivaroxaban with market share as high as 90% in some products.
- The Company has **eight process patent** applications (in respect of intermediates used in the manufacture of Apixaban, Rivaroxaban, Nintedanib, Vortioxetine, Selexipag, Pimavanserin, Efinaconazole and Eliglustat) and **three additional pending process patent** applications for which applications were made recently, in March 2021.
- Majority of its products **cater to chronic disease** market which is the fastest growing segment of pharmaceutical industry.
- Over the last two years its API and NCE portfolio has expanded from over 425 products to over **450 products** as of March 31, 2021. It has been successful in developing and commercialising these intermediates for APIs across 17 key therapeutic areas since inception.

Revenue contribution from Pharma Intermediates (INR Mn)



Source: Company, KRChoksey Research



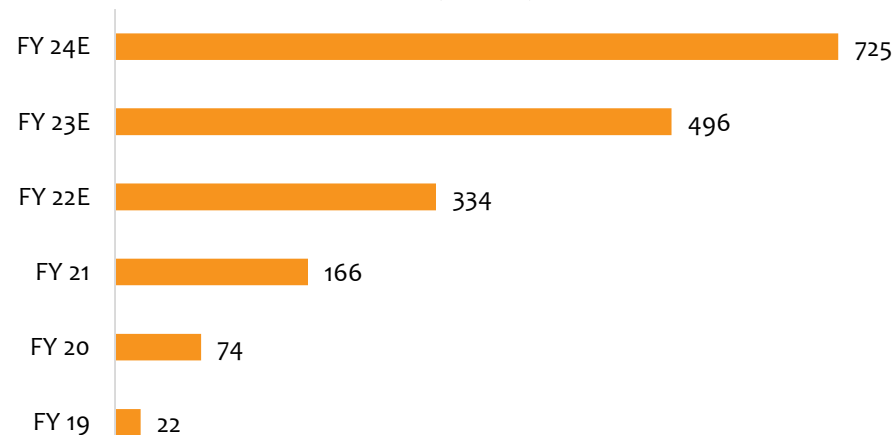
Source: Company, KRChoksey Research

- The pharmaceutical intermediates business **has high entry barriers** due to: (a) long gestation period to be enlisted as a supplier with the customers, particularly with the customers in US and European countries, which requires suppliers to adhere to strict compliance requirements, leading to a high regulatory gestation period (b) the involvement of complex chemistries in the manufacturing process, which is difficult to commercialize on a large scale.
- Hence, customer acquisition involves a long gestation period, resulting in a **very few players** and thus helping AOL enjoy dominant position.
- Along with the domestic market, it **supplies** Pharma Intermediates to various **multi-national** pharmaceutical companies which cater to the large and fast-growing markets of Europe, China, Japan, Israel, UK, Latin America and the USA.
- As present they supply to more than 150 customers (including international customers) in India and in 25 countries globally using a distributorship network in certain cases.
- Revenue from exports** have increased over the years with a CAGR of 21.84% between Fiscals 2019 and 2021.
- Some of its **domestic customers** include Laurus Labs Limited, Cadila Healthcare Limited and Cipla Limited and some of its key export customers include Organike s.r.l.a Socio Unico, Fermion Oy, Fabbrica Italiana Sintetici S.p.A, Chori Co. Ltd., Medichem S.A. and Midas Pharma GmbH.
- We believe** its long standing relationships with some of its key customers, investments in development of products whose patents are expiring would lead to increase in demand for the pharma Intermediates for such APIs materials.

Investment Rationale - Foraying further into specialty chemicals in the form of inorganic growth opportunities:

- AOL's **existing portfolio** includes manufacturing Key Starting Material for Fine chemicals/ Specialty chemicals.
- It aims to strengthen its manufacturing capabilities and achieve better economies of scale by organic and inorganic growth.
- It **acquired 2 manufacturing units** operated by GOL in March 2021 on slump sale basis for INR 930 Mn.
- These facilities are located at Ankleshwar and Jhagadia with total capacity of 3,600 MTPA.
- In addition, both these are multipurpose backward integrated facilities, that has enabled it to expand its product portfolio.
- Through this acquisition it is able to manufacture speciality chemicals such as Ortho Anisic Acid, Para Anisic Acid, Para Cyano Phenol, Para Ethoxy Ethyl Benzoate, Para Iso Propoxy Ethyl Benzoate, 5-Chloro Salicylic Acid, 2-Ethoxy Benzoic Acid, and many more and also paraben and paraben formations including Propyl Paraben Sodium, Methyl Paraben Sodium, Methyl Paraben, Ethyl Paraben and Propyl Paraben. We expect this to help AOL **minimise its reliance** on third party vendors.
- Preservatives:** (parabens and parabens formulations) has end usage in cosmetics, animal food and personal care industries) while **Other specialty chemicals acquired** has end usage in the cosmetics, dyes polymers and agrochemicals industries.
- The acquisition is in line with the companies **strategy to diversify** their existing product portfolio and strengthen its product infrastructure and overall manufacturing capabilities in the specialty chemicals sector.
- This has significantly increased its production capabilities. Consistent with its past practice, it also has plans to add capacity in a phased manner to ensure that it utilizes its capacity at optimal levels. We believe that this new and excess capacity will help it capitalize on the growth opportunities.

Increasing contribution from Specialty Chemical segment (INR Mn)



Source: Company, KRChoksey Research

- GOL due to lack of operational efficiency and lower utilisation levels was delivering lower single digit margins but post acquisition with correct approach and **improved technical capabilities**, AOL has achieved higher single digit margins and are confident of achieving mid teen margins in near future.
- We believe it is **well positioned** to consolidate its existing capacity to capitalise upon future growth that is envisaged and by pursuing strategic acquisitions including the recently concluded acquisition of the business of GOL, AOL is in the process of building its synergies and such inorganic expansion will help it in building more synergies going forward.

Investment Rationale - Launch of import substitute products to aid growth:

- India stands as an **immediate alternate** with many global end user industries looking for alternative to China.
- AOL is **poised to capitalise** this opportunity due to its significant years of experience in handling global regulatory requirements, strong process know how, strength in R&D and low cost.
- It has identified 5 **import substitute** products out of which 2 products were introduced in the market in Q2FY22.
- This will be mainly catering to cure cardiovascular as well as diabetes disease . This being chronic in nature will bring long term growth in the topline and also help realise better margins.
- In Q2FY22 some trial quantities were provided for sampling to its customers in India which has received **strong response** and has proved successful.
- We expect these two products to start contributing to the revenue as Q3FY22 is going to be a main **commercial** supply period.
- Being one of the few manufacturers in India, with such first mover advantage and its continuous focus on developing such more import substitutes in the coming years should **augur well** for AOL.
- We also feel the Government of India's proposition to support local manufacturing of many possible raw materials and intermediates especially in the pharmaceutical space will enhance the growth in domestic market and reduce imports, especially from China. Thus we believe that AOL is well positioned to consolidate its existing capacity to capitalise upon future growth that is envisaged.

Management

Nareshkumar Ramjibhai Patel, Executive Chairman & MD

He has been associated with the Company since incorporation. He holds a Bachelor of Engineering degree from the Gujarat University and has 18 years of experience in the specialty chemicals manufacturing sector. Prior to founding Ami Organics he set up a partnership firm in Surat, CNR Intermediates, for manufacturing, purchasing and selling all kinds of chemicals, with Girishkumar Limbabbhai Chovatia and Chetankumar Chhaganlal Vaghasia in 2004. He is currently also a designated partner at Globe Bio Care.

Abhishek Haribhai Patel, Chief Financial Officer

Abhishek Haribhai Patel is the Chief Financial Officer of the Company and has been associated with the Company since June 2018. He holds a Bachelor of Engineering degree from the Sardar Patel University and a Master of Business Administration degree from the ICFAI University. He was previously associated with Abhiket Financial Services Private Limited as the Managing Director, Adventity Global Services Private Limited as an Analyst, Business Research, with Kemrock Industries and Exports Limited as Assistant Manager – Finance and with Anil Limited as Manager– Finance.

Chetankumar Chhaganlal Vaghasia, Whole-time Director

He holds a Diploma in Man-Made Textile Processing from the Mantra. Education Institute, Surat. He has 19 years of experience in the specialty chemicals manufacturing sector. He has been associated with the Ami Organics since incorporation and is currently also a designated partner at Globe Bio Care.

Virendra Nath Mishra, Whole-time Director

He holds a Bachelor of Science degree from the Veer Bahadur Singh Purvanchal University, Jaunpur and holds a Master of Science (Chemistry) degree from the Poorvanchal University, Jaunpur. He was over 25 years of experience in the research and operations management specialty chemicals manufacturing sector. He was initially appointed as production manager and has been associated with our Company since 2005.

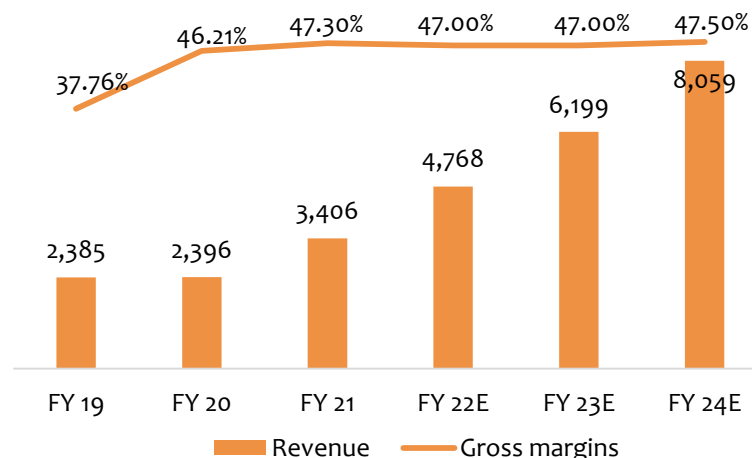
Ajit Kumar Choubey, Head of Research & Development

Dr. Ajit Choubey is the president Technical in the company. He has been associated with the company since 2009. He holds a Ph.D. in Chemistry and was previously working with IPCA Laboratories Limited.

Financial Projections

Revenue

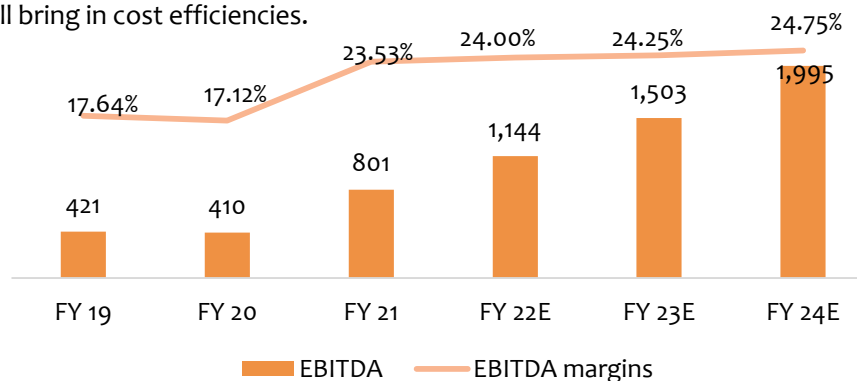
We expect AOL to clock a healthy 33.25% Revenue CAGR over FY21-FY24E, and expect revenue to touch INR 8,059 Mn in FY24E from INR 3,406 Mn in FY21. We believe its increasing penetration into pharma intermediate space and divergence into new product vertical with the help of newly acquired facilities to aid growth in topline.



Source: KRChoksey Research

EBITDA and EBITDA margin

We expect AOL to report 35.52% EBITDA CAGR over FY21-FY24E and EBITDA margins to expand from 23.53% in FY21 to 24.75% in FY24E. EBITDA in absolute terms is expected to reach INR 1,995 Mn in FY24E from INR 801 Mn. in FY21. The improvement in margin is largely driven by cost rationalization and increase in the manufacturing facilities capacity utilisation that will bring in cost efficiencies.



Source: KRChoksey Research

Peer Comparison

We have tried to compare AOL's business with some of the similar size companies conducting business in same area, namely Valiant Organics Ltd, Hikal Ltd and Neuland Lab Ltd. AOL's revenue grew at a CAGR of 19% from FY19 to FY21 while Valiant Organic's revenue grew at a CAGR of 4% whereas Hikal and Neuland Lab's revenue grew at a CAGR of 10% and 21% respectively during same period. On operational front AOL's EBIDTA grew at a CAGR of 38% from FY19 to FY21 while Valiant Organic's EBIDTA de-grew at a CAGR of 6% whereas Hikal and Neuland Labs EBITDA grew at a CAGR of 4% and 59% respectively during same period. Till FY21, AOL had EBIDTA Margin of 23.5% while Valiant Organic's/Hikal's/Neuland Lab came at 28%/18%/15.6%. AOL did manage to improve on operational front from 17% in FY19 to 23.5% in FY21.

If we look at PAT, AOL registered a CAGR of 52% from FY19 to FY21 while Valiant Organic's PAT de-grew at a CAGR of 2.5% whereas Hikal's PAT grew at a CAGR of 20% and Neuland Labs PAT grew at 125% during same period.

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.

Outlook and Valuation

AOL has established itself as a trusted and major manufacturers of Pharma Intermediates & specialty chemicals through its strong capabilities. It is well placed to complement its long-term growth strategy with the support of experienced team, extensive geographical presence and higher entry barriers in the industry.

Key business growth drivers:

- AOL's strategy of early identification of molecules for development and supply.
- Increase in the manufacturing facilities capacity utilisation will bring in cost efficiencies.
- Divergence into new product vertical with the help of newly acquired facilities to aid growth.
- Its focus on in house R&D facilities to manufacture newer molecules should augur well in the coming years.
- Long standing relationship with some of its key customers.

Valuation

Currently it is trading at 50.80/36.13/26.91x on FY22E/23E/24E EPS. We believe pharma API sector has good traction and thus, AOL is set for newer growth opportunities on account of launch and commercialisation of import substitute products, cost efficiencies due to better utilisation levels and enhancement of its product offerings. AOL made a solid debut in Sept 2021 at INR 910, listing at a premium of 49% to the issue price. We initiate coverage on stock with "BUY" rating as all the above mentioned factors will provide greater scale to grow its business and profitability and recommend a target price of INR 1,229/share, applying PE multiple of 31x on FY24E EPS, indicating upside potential of 15.20% from CMP.

Key Risks and concerns:

- The company being exposed to the price risk associated with purchasing our raw materials, which form the highest component of its expenses, increase in such costs and its availability may affect its business, cash flows and results of operations.
- 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.
- The company's lack in Research & Development to identify, develop and commercialise newer products could decrease the demand for company's products.
- 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.
- Failure in meeting required quality standards would impact the operations as well reputation of the company.

Financial Summary

Income Statement (INR Mn)	FY19	FY20	FY 21	FY 22E	FY23E	FY 24E
Revenues	2,385	2,396	3,406	4,768	6,199	8,059
COGS	1,484	1,289	1,795	2,527	3,285	4,231
Gross profit	901	1,107	1,611	2,241	2,913	3,828
Employee cost	117	178	210	310	403	524
Other expenses	363	519	599	787	1,007	1,310
EBITDA	421	410	801	1,144	1,503	1,995
Depreciation & amortization	26	35	42	90	90	90
EBIT	395	375	760	1,054	1,413	1,905
Interest expense	48	56	55	55	0	0
Other income	4	28	14	20	20	20
PBT	351	348	717	1,019	1,433	1,925
Tax	118	73	117	255	358	481
Minority interest	0	0	0	0	0	0
PAT	233	275	540	765	1,075	1,443
EPS (INR)	7.39	8.72	17.14	21	29.53	39.65

Cash Flow Statement (INR Mn)	FY19	FY20	FY21	FY22E	FY23E	FY 24E
Operating Cash Flow	148	271	271	149	346	210
Investing Cash Flow	(209)	(239)	(1004)	(402)	(120)	(66)
Financing Cash Flow	56	2	721	1,504	0	0
Net Inc/Dec in cash equivalents	(4)	33	(11)	1,251	226	144
Opening Balance	9	5	38	27	1,278	1,503
Adjustments	0	0	0	0	0	0
Closing Balance Cash & Cash Equiv.	5	38	27	1,278	1,503	1,647

Key Ratio	FY19	FY20	FY21	FY22E	FY23E	FY24E
EBITDA Margins (%)	17.64%	17.12%	23.53%	24%	24.25%	24.75%
Net Profit Margin (%)	9.76%	11.46%	15.85%	16.03%	17.34%	17.91%
RoE^ (%)	28.32%	24.57%	32.35%	14.07%	16.52%	18.15%
RoCE^ (%)	29.70%	22.42%	25.38%	19.01%	21.30%	23.46%
RoA (%)	10.92%	11.85%	13.06%	11.12%	13.14%	14.25%
Debt/Equity	0.27x	0.18x	0.44x	0.00x	0.00x	0.00x

*ROE & ROCE has been adjusted with latest post issue equity for FY22E/23E/24E.

*Accordingly if we adjust ROE for FY19/20/21 with latest post issue equity it stands at 5.78%/6.35%/11.57% respectively.

If we adjust ROCE for FY19/20/21 with latest post issue equity it stands at 5.13%/5.63%/9.01% respectively.

Balance Sheet (INR Mn)	FY19	FY20	FY21	FY22E	FY23E	FY 24E
Property, plant and equipment	577	622	1,606	1,641	1,656	1,669
Capital work in progress	20	117	2	136	557	1050
Other intangible assets	211	230	257	263	352	502
Financial assets						
Investments	16	17	14	250	184	300
other financial assets	23	30	27	132	62	81
other non current assets	44	93	64	121	157	204
Total non current assets	891	1,109	1,970	2,542	2,967	3,806
Current assets						
Inventories	386	523	604	849	1,104	1,435
Financial assets						
Trade receivables	761	564	1,207	1,372	1,783	2,318
Cash and cash equivalents	5	38	27	1,278	1,503	1,647
Loans	2	3	3	5	0	0
Current tax assets (net)	0	22	0	21	100	100
Other current assets	87	60	322	409	322	419
Other financial assets	0	0	0	400	400	400
Total current assets	1,241	1,210	2,162	4,333	5,213	6,319
TOTAL ASSETS	2,131	2,319	4,133	6,876	8,180	10,125
EQUITY AND LIABILITIES						
Equity						
Equity share capital	105	105	315	364	364	364
Other equity	717	1,013	1,354	5,069	6,143	7,587
Total equity	822	1,118	1,669	5,433	6,508	7,951
Liabilities						
Non-current liabilities						
Financial liabilities						
Borrowings	221	199	726	5	0	0
Provisions	11	24	44	46	0	0
Deferred tax liabilities (Net)	21	31	33	47	0	0
Total non-current liabilities	254	255	803	96	0	0
Current liabilities						
Financial liabilities						
Borrowings	261	339	445	10	0	0
Trade payables	684	514	844	1,189	1,545	2,009
Other financial liabilities	81	72	198	4	0	0
Other current liabilities	24	16	152	98	127	165
Provisions	4	4	10	46	0	0
Current tax liabilities (Net)	1	0	12	0	0	0
Total current liabilities	1,056	946	1,660	1,347	1,673	2,174
Total liabilities	1,309	1,201	2,463	1,443	1,673	2,174
TOTAL EQUITY AND LIABILITIES	2,131	2,319	4,133	6,876	8,180	10,125

Source: KRChoksey Research, Company Research

KRChoksey Research

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Phone: +91-22-6696 5555, Fax: +91-22-6691 9576
www.krchoksey.com

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Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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KRChoksey Shares and Securities Pvt. Ltd.

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.