

Advanced Enzyme Technologies Ltd

16th July, 2016

Rating:



Issue Summary:

Price band (Rs)	880-896
Face Value (Rs)	10
Opens	20 th July, 2016
Closes	22 nd July, 2016
Issue Size (Rs)	412 Cr
Listing	BSE, NSE

Issue Break Up:

QIB portion	50%
NIB portion	15%
Retail portion	35%

Book Running Lead Managers:

➤ Axis Capital Limited
➤ ICICI Securities Limited

Registrar

➤ Link Intime India Pvt. Ltd.

Company & Business Profile

Advanced Enzyme Technologies Ltd. is among top 15 companies in enzyme sales in the world and second largest in India. Company is engaged in the Research and Development, Manufacturing and marketing of 400+ proprietary products developed from 60 indigenous enzymes. Having more than two decades of fermentation experience in the production of enzymes, Rank among the top 15 global companies in terms of enzyme sales, and have the second highest market share domestically, next only to the world's largest enzyme company Novozymes. It has six geographically spread and accredited manufacturing facilities to produce a wide range of products and help cater to a diverse set of industries globally. It operates in two primary business verticals namely Healthcare & Nutrition (human and animals) and Bio-Processing (food and non-food).

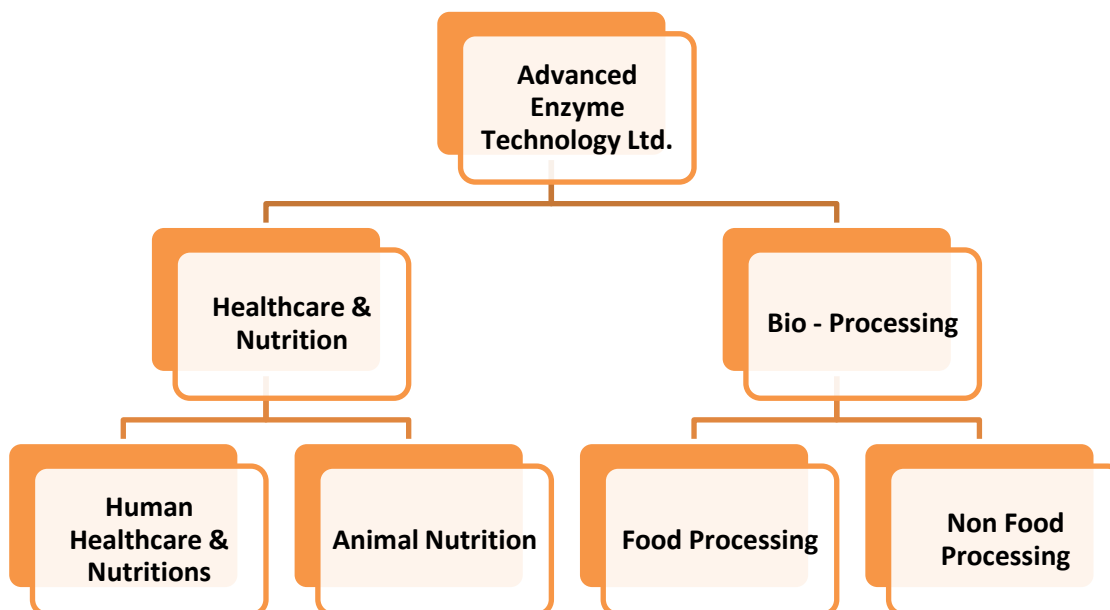
Industry Overview:

Industrial enzymes constitute the larger portion of the world enzyme demand accounting for \$3.6 billion in FY12. The global demand for industrial enzymes is expected to grow at a 5-year CAGR of 5.6% to reach \$4.8 billion in FY17 and 10-year CAGR of 5.7% to reach a size of \$6.3 billion by 2022. The strongest demand for industrial enzymes shall be experienced in the sub segments of food and beverages and animal feed.

The following table represents the key sub-segments across Industrial Enzymes and their expected growth rates across various geographies over the next few years.

WORLD INDUSTRIAL ENZYME DEMAND BY MARKET & REGION (in USD Million)					
Item/ Year	2002	2007	2012	2017	2022
By Market					
i) Food & Beverage	570	940	1320	1865	2555
II) Cleaning Product	530	740	920	1245	1690
III) Bio fuel Production	90	290	515	555	640
IV) Animal Feed	168	310	395	540	745
V) Other Markets	362	420	480	555	670
By Region:					
North America	720	1095	1440	1670	1955
Western Europe	473	655	725	875	1010
Asia/Pacific	291	520	840	1320	2100
Other Regions:	236	430	625	895	1235
Central & South America	92	172	267	385	540
Eastern Europe	85	143	193	270	360
Africa/Mideast	59	115	165	240	335
World Industrial Enzyme Demand	1720	2700	3630	4760	6300
World Enzyme Demand	2400	3700	5130	6950	9500
Industrial Enzymes%	71.7%	73.0%	70.8%	68.5%	66.3%

Company's Business Model:



Healthcare and Nutrition:

- **Human Healthcare and Nutrition:** Company provides proprietary enzyme products and customized enzyme solutions to various pharmaceutical and nutraceutical companies in India, North America, Asia, Europe and other countries globally. Key customers in this business vertical include Sanofi India, Cipla, Ipca Laboratories, Alkem Laboratories, and Emcure Pharmaceuticals.
- **Animal Nutrition:** Company provides enzyme based feed additives for the animal nutrition industry, mainly catering to poultry and swine. Many feed ingredients are not fully digested by livestock. However, by adding enzymes to feed, the digestibility of the components can be enhanced.

Bio-Processing:

- **Food Processing:** Enzymes play an essential role in bringing more nutritious and appealing food and beverage products to the modern world. By following critical food and beverage industry trends, Company provides proprietary enzyme products and customized enzyme solutions for food processing industries like baking, dairy and cheese processing, fruit and vegetable processing, cereal extraction, brewing, grain processing, protein processing, and oils and fats processing.
- **Non Food Processing:** Enzymes are considered as potent biocatalysts for a large number of reactions. It provides solutions to various industries such as textile, leather, detergent and pulp and paper, which are used in wide range of products.

Objects of the Issue:

The objects of the Offer are to achieve the benefits of listing the equity shares on the stock exchanges and to carry out the Offer for Sale by the selling shareholders.

- The money from IPO will be use for repayment/pre-payment of certain loans, Incremental Working capital, towards debt repayments and Capital expenditure.

Investment Positives:

- **Specialized business model with high entry barriers:**

The enzyme industry is very concentrated and consists of very few players with the likes of domestic players like Biocon and foreign MNCs like Novozymes, DSM Nutritional Products and Dupont Danisco. The manufacturing of enzymes, enzyme products and enzyme solutions requires specialized knowledge of enzyme fermentation and also the diverse end-user industries in which these products and solutions are utilized.

- **Diversified product portfolio and wide customer base, served by a strong sales, marketing and distribution network:**

Company has diversified product portfolio catering to various verticals and end-user industries with more than 400 proprietary enzyme products developed from 60 enzymes, company has wide presence in the Healthcare and Nutrition and the Bio-Processing verticals and cater to some of the leading and reputed companies such as Sanofi India, Cipla, etc.

- **Financial stability and stable cash flows:**

Company has robust financial position illustrates not only the growth of operations over the years. Financial Stability and steady operational cash flows enable to meet the present and future product needs of clientele.

Concern:

- On historical revenues it shows that company has been significantly dependent on sale of top five product groups. Any reduction in demand for these products or permanent or temporary discontinuation in manufacturing of these products could have a material adverse effect on business, prospects, financial condition and result of operations.
- Significant portion of revenues are generating from exports which leads to exposed to foreign currency fluctuations and it may adversely affect to business, financial condition and result of operations.
- Company operates in a competitive environment, both globally and domestically. Competition from existing players and new entrants and consequent pricing pressures may adversely affect to business, financial condition and result of operations.

**Valuation:**

The issue has been offered in a price band of Rs 880-896 per equity share. At the upper price band the stock is available at P/E of 25 (x) based on FY16 financials. We have “**3 star**” rating for the issue.

Financials (Rs. In Crores):

Description	Mar-16	Mar-15	Mar-13	Mar-13	Mar-12
Total Income	295	224	240	224	175
PBIDT	139	92	105	93	65
PBIT	130	83	95	86	60
PBT	123	74	82	76	48
PAT	78	50	20	49	33
EPS	36	23	9	23	16
Share capital	22	22	22	22	21
Net Worth	279	210	166	162	96
Total Debt	39	54	88	117	139
Cash and Bank balance	26	43	26	37	53
RONW(%)	28%	24%	12%	30%	35%
PBIDTM(%)	47%	41%	44%	42%	37%
PATM(%)	27%	22%	8%	22%	19%
PBTM(%)	42%	33%	34%	34%	27%



Arihant Research Desk

E. research@arihantcapital.com
T. 022-42254800

Head Office

#1011, Solitaire Corporate park,
Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road
Chakala, Andheri (E)
Mumbai – 400093
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

Arihant House
E-5 Ratlam Kothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Research Analyst Registration No.

INH000002764

Contact

SMS: 'Arihant' to 56677

Website

www.arihantcapital.com

Email Id

research@arihantcapital.com

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