

CMP: ₹ 375

Target: ₹ 470(25%)

Target Period: 12 months

BUY

May 17, 2024

Good recovery in FY24; momentum likely to persist...

About the stock: Advanced Enzyme Technologies (AET) is a focused, research driven Indian enzymes company with a product basket of 400+ proprietary products developed from 68 indigenous enzymes and probiotics.

- The business is divided into - 1) Human nutrition, 2) Animal nutrition and 3) Industrial processing business 4) Specialised manufacturing
- It has nine manufacturing and seven R&D facilities, which consist of three integrated fermentations, recovery & formulation facilities, one extraction and recovery facility and one satellite blending, mixing & formulation facility

Investment Rationale:

- Q4FY24- Strong numbers propelled by Human nutrition and Bio processing- Revenues grew 14% YoY to Rs 158 crore on the back of ~18% growth in Human Nutrition and 34% growth in Bio processing. Other segments such as Animal Nutrition and Specialised manufacturing however witnessed a de-growth of 10% and 2%, respectively. EBITDA grew ~25% YoY to Rs 55.4 crore with 320 bps margin expansion to 35%.

Human Nutrition (65% of sales) grew 18% YoY to Rs 102.4 crore, driven by APIs and Probiotics. Bio processing (16% of sales) grew 34% to Rs 25.8 crore, driven by food business which grew 33%. Animal Nutrition (12% of sales) de-grew 10% to Rs 18.5 crore mainly on account of some kind of disease related disturbances in Malaysia.

- Getting the mojo back; steady state growth possible with good visibility – After back-to-back subdued years (FY22, FY23) the company has staged strong comeback in FY24 with ~15% revenues growth and 31% EBITDA growth, thanks to strong traction from Human Nutrition (~18% growth) and Bio processing (21% growth). The growth in Human Nutrition was driven by strong demand from Indian companies and some late recovery from the US nutraceuticals space. We believe the company is putting right efforts in terms of R&D and clients' engagement. The company is extra thrust on the R&D front with ~Rs 30-40 crore of capex to triple the existing R&D set-up. Human Nutrition and Bio processing are likely to remain main drivers in FY25 as well with product approvals received in FY24 besides recovery and growth in the US Nutraceuticals space. The management has guided for 13-16% revenues growth and gradual margins improvement for FY25. We believe most of the growth levers are in place to maintain the growth tempo.

Rating and Target price

- Our target price is ₹ 470 based on 25x FY26E EPS of ₹ 18.9.



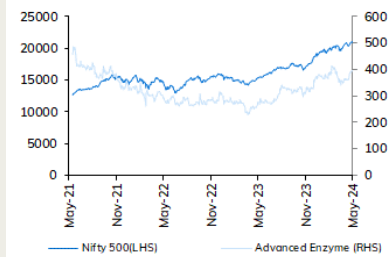
Particulars

Particular	Amount
Market Capitalisation	₹ 4200 crore
Debt (FY24)	₹ 41 crore
Cash (FY24)	₹ 114 crore
EV	₹ 4127 crore
52 week H/L (₹)	425/265
Equity capital	₹ 22 crore
Face value	₹ 2 crore

Shareholding pattern

(in %)	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	46.5	45.9	43.6	43.5
FIIIs	21.9	22.3	22.5	23.0
DIIIs	7.6	6.5	7.0	7.6
Others	24.0	25.3	26.9	25.9

Price Chart



Key risks

- Difficulty in modelling the granular growth due to B2B nature of the business.
- Unforeseen pressure on margins

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Key Financial Summary

Key Financials (₹ Crore)	FY20	FY21	FY22	FY23	3 year CAGR (FY20-23)	FY24	FY25E	FY26E	2 year CAGR (FY24-26E)
Net Sales	444.0	501.8	529.4	540.7	6.8	623.8	701.4	788.8	12.5
EBITDA	202.3	231.5	201.4	156.5	-8.2	204.4	236.8	274.2	15.8
EBITDA Margins (%)	45.6	46.1	38.0	28.9		32.8	33.8	34.8	
Adj. Profit	129.3	146.2	119.6	107.9	-5.8	152.1	179.7	211.4	17.9
Adj. EPS (₹)	11.5	13.1	10.7	9.6		13.6	16.0	18.9	
PE (x)	32.5	28.7	35.1	40.4		30.7	23.4	12.0	
RoE (%)	15.4	15.1	11.0	8.7		11.5	12.1	16.0	
RoCE (%)	19.6	19.4	14.3	10.9		14.2	15.2	30.4	

Source: Company, ICICI Direct Research

Exhibit 1: Quarterly Summary

₹ Crore	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
Revenues	133.2	137.0	127.1	133.6	131.7	121.1	138.7	142.1	138.8	147.3	157.8	160.9	157.8	13.7	-1.9
Raw Material Expense	30.4	22.4	24.6	31.0	31.6	27.2	33.6	37.5	33.6	37.0	37.0	35.1	35.5	5.8	1.3
% of Revenues	22.8	16.4	19.4	23.2	24.0	22.4	24.2	26.4	24.2	25.1	23.4	21.8	22.5	-167 bps	72 bps
Gross Profit	102.8	114.6	102.4	102.5	100.1	93.9	105.1	104.6	105.2	110.3	120.8	125.8	122.3	16.2	-2.8
Gross Profit Margin (%)	77.2	83.6	80.6	76.8	76.0	77.6	75.8	73.6	75.8	74.9	76.6	78.2	77.5	167 bps	-72 bps
Employee Expenses	23.2	26.9	25.7	25.4	25.9	28.1	27.7	29.0	30.0	32.1	31.7	32.1	32.5	8.4	1.1
% of Revenues	17.4	19.7	20.2	19.0	19.7	23.2	20.0	20.4	21.6	21.8	20.1	20.0	20.6	-100 bps	62 bps
Other Expenses	24.7	24.9	27.5	28.1	33.8	34.9	37.7	33.9	31.0	34.2	37.8	40.0	34.5	11.0	-13.8
% of Revenues	18.6	18.2	21.6	21.0	25.7	28.8	27.2	23.9	22.4	23.2	24.0	24.9	21.8	-52 bps	-302 bps
Total Expenditure	78.3	74.3	77.8	84.5	91.4	90.2	99.0	100.4	94.6	103.3	106.5	107.2	102.4	8.3	-4.4
% of Revenues	58.8	54.2	61.2	63.3	69.4	74.5	71.4	70.7	68.1	70.1	67.5	66.6	64.9	-320 bps	-169 bps
EBITDA	54.9	62.8	49.3	49.1	40.3	30.9	39.7	41.7	44.2	44.0	51.3	53.7	55.4	25.1	3.0
EBITDA Margins(%)	41.2	45.8	38.8	36.7	30.6	25.5	28.6	29.3	31.9	29.9	32.5	33.4	35.1	320 bps	169 bps
Depreciation	8.4	8.5	8.6	8.8	9.1	8.6	8.8	9.1	8.5	8.6	8.7	8.6	9.3	9.8	7.8
Interest	0.4	0.5	0.3	0.3	0.7	0.6	0.6	0.6	0.6	0.6	0.8	0.7	0.8	38.7	25.6
Other income	1.7	0.9	0.9	1.2	3.4	2.0	3.7	8.5	11.1	6.7	6.1	14.4	9.5	-14.3	-34.0
Less: Exceptional Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.0	0.0	0.0	0.0	15.1		
PBT	47.8	54.7	41.2	41.1	33.9	23.7	33.9	40.4	42.3	41.4	47.9	58.8	39.6	-6.3	-32.7
Total Tax	14.0	15.0	11.0	12.6	8.7	6.1	7.8	12.5	10.0	12.0	12.7	16.4	9.7	-2.5	-40.5
Tax rate (%)	29.3	27.4	26.6	30.6	25.6	25.8	23.0	31.0	23.6	29.0	26.6	27.8	24.6		
PAT before MI	33.8	39.7	30.3	28.6	25.3	17.6	26.1	27.9	32.3	29.4	35.2	42.5	29.9	-7.5	-29.7
PAT Margin (%)	25.4	29.0	23.8	21.4	19.2	14.5	18.8	19.6	23.3	20.0	22.3	26.4	18.9	-433 bps	-747 bps
Minority Interest	2.1	1.8	0.6	1.1	0.8	-0.3	0.1	0.1	0.1	0.0	0.0	0.0	0.0		
PAT after MI	31.7	38.0	29.7	27.5	24.4	17.9	26.1	27.8	32.2	29.4	35.2	42.5	29.9	-7.2	-29.7
Adj PAT	31.7	38.0	29.7	27.5	24.4	17.9	26.1	27.8	36.2	29.4	35.2	42.5	45.0	24.4	5.9
EPS (₹)	2.8	3.4	2.7	2.5	2.2	1.6	2.3	2.5	3.2	2.6	3.1	3.8	4.0		

Source: Company, ICICI Direct Research

Q4FY24 Results / Conference call highlights

- The company received approval of two food enzyme dossiers from EFSA. It also received a no-question letter for two GRAS filings with the USFDA. All of these enzymes will be used as a food processing aid for different food products.
- US back-ended growth was driven by the introduction of couple of segments, 1) weight management and other areas, and 2) sugar management. These two divisions are likely to do well in FY25 as well.
- These products are meant for OTC products.
- The company is putting lot of R&D efforts towards Industrial Bio-processing to introduce new products.
- The company does not work on order-book basis but more on contract-to-contract basis.
- US growth guidance for FY25 is +10%.
- Top customer accounts for 4-5% of sales while Top 10 customers accounted for 26% of sales.
- US EBITDA margins were 37% while India EBITDA margins stood at 29%.
- Current capacity utilisation is ~65%. Company might look for capacity expansion once the existing utilisation reaches ~80%.

Exhibit 2: Segment Breakup

Segments(₹ Crore)	FY23	FY24	FY25E	FY26E	CAGR % (FY23-26)
Human Nutrition	355.7	418.4	472.8	534.3	14.5
Animal Nutrition	70.9	67.8	73.2	80.5	4.3
Bio-Processing	79.4	96.1	107.6	120.5	14.9
Specialised Manu. (SSPL)	34.7	41.5	47.7	53.5	15.5
Total	540.7	623.8	701.4	788.8	13.4

Source: Company, ICICI Direct Research

Financial Tables

Exhibit 3: Profit and loss statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Revenues	540.7	623.8	701.4	788.8
Growth (%)	2.1	15.4	12.4	12.5
Raw Material Expenses	131.8	144.6	157.8	175.5
Employee Expenses	114.8	128.4	147.3	159.7
Other Manufacturing Expenses	137.6	146.5	159.5	179.4
Total Operating Expenditure	384.2	419.4	464.6	514.6
EBITDA	156.5	204.4	236.8	274.2
Growth (%)	-22.3	30.6	15.8	15.8
Interest	2.4	2.9	2.2	1.5
Depreciation	35.0	35.2	36.4	37.5
Other Income	25.3	36.7	41.2	46.4
PBT before Exceptional Items	144.3	202.9	239.4	281.6
Less: Forex & Exceptional Item:	4.0	15.1	0.0	0.0
PBT	140.3	187.8	239.4	281.6
Total Tax	36.5	50.9	59.8	70.4
PAT before MI	103.8	136.9	179.5	211.2
Minority Interest	-0.1	-0.1	-0.2	-0.2
PAT	103.9	137.0	179.7	211.4
Adjusted PAT	107.9	152.1	179.7	211.4
Growth (%)	-9.7	41.0	18.1	17.6
EPS	9.3	12.2	16.0	18.9
EPS (Adjusted)	9.6	13.6	16.0	18.9
Growth (%)	-9.7	41.0	18.1	17.6

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Profit/(Loss) after taxation	103.7	138.6	179.7	211.4
Add: Depreciation & Amortization	35.0	35.2	36.4	37.5
Net Increase in Current Assets	-6.9	-25.8	95.8	-15.6
Net Increase in Current Liabilities	7.5	-0.5	5.1	5.7
Others	0.9	-6.2	2.2	1.5
CF from operating activities	140.3	141.4	319.2	240.5
(Inc)/dec in Fixed Assets	-38.0	-42.3	-30.0	-30.0
(Inc)/dec in Investments	-268.0	-30.4	-100.0	-100.0
Others	7.9	8.1	-4.1	-3.9
CF from investing activities	-298.1	-64.6	-134.1	-133.9
Inc / (Dec) in Equity Capital	0.1	0.0	0.0	0.0
Inc / (Dec) in Debt	-3.9	6.7	-10.0	-10.0
Dividend & Dividend Tax	-12.5	-56.7	-22.4	-22.4
Others	-3.1	-9.2	-2.2	-1.5
CF from financing activities	-19.4	-59.2	-34.6	-33.9
Net Cash flow	-177.2	17.5	150.4	72.7
Opening Cash	273.6	96.4	113.7	264.1
Closing Cash	96.4	113.9	264.1	336.9
Free Cash Flow	102.3	99.1	289.2	210.5
EBITDA conversion	90%	69%	135%	88%
FCF Yield	2%	2%	7%	5%

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Equity Capital	22.4	22.4	22.4	22.4
Reserve and Surplus	1,212.7	1,324.7	1,482.0	1,671.0
Total Shareholders funds	1,235.1	1,347.0	1,504.3	1,693.3
Total Debt	27.8	41.0	31.0	21.0
Deferred Tax Liability	37.2	34.3	30.9	27.8
Minority Interest	49.1	47.0	47.9	48.8
Long term Provisions	0.1	0.9	0.9	1.0
Other Non Current Liabilities	0.0	0.0	0.0	0.0
Source of Funds	1,349.2	1,470.2	1,615.0	1,791.9
Gross Block - Fixed Assets	585.3	616.8	636.8	656.8
Accumulated Depreciation	257.1	292.4	328.7	366.3
Net Block	328.2	324.5	308.1	290.5
Capital WIP	17.8	30.7	40.7	50.7
Net Fixed Assets	346.0	355.2	348.8	341.3
Goodwill on Consolidation	320.8	325.3	325.3	325.3
Investments	359.6	403.0	503.0	603.0
Inventory	124.0	148.5	43.2	43.3
Cash	96.4	113.8	264.1	336.9
Debtors	100.3	98.6	105.7	118.9
Loans & Advances & Other CA	41.7	46.1	48.4	50.8
Total Current Assets	362.4	406.9	461.5	549.8
Creditors	24.2	15.8	17.2	19.1
Provisions & Other CL	72.1	88.2	93.3	99.0
Total Current Liabilities	72.1	88.2	93.3	99.0
Net Current Assets	290.3	318.7	368.2	450.8
LT L&A, Other Assets	21.2	20.4	21.4	22.5
Deferred Tax Assets	11.3	14.3	15.0	15.7
Application of Funds	1,349.2	1,470.2	1,615.0	1,791.9

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY23	FY24	FY25E	FY26E
Per share data (₹)				
EPS	9.6	13.6	16.0	18.9
Cash EPS	11.8	12.7	17.3	20.2
BV	110.3	118.2	132.3	149.1
DPS	1.0	4.0	2.0	2.0
Cash Per Share	8.6	10.2	23.6	30.1
Operating Ratios (%)				
Gross Profit Margins	75.6	76.8	77.5	77.8
EBITDA margins	28.9	32.8	33.8	34.8
PAT Margins	20.0	24.4	25.6	26.8
Inventory days	84	87	100	90
Debtor days	68	58	55	55
Creditor days	67	40	40	40
Asset Turnover (x)	0.9	1.0	1.1	1.2
Return Ratios (%)				
RoE	8.7	11.5	12.1	16.0
RoCE	10.9	14.2	15.2	30.4
RoIC	13.9	18.8	25.5	30.4
Valuation Ratios (x)				
P/E	40.4	30.7	23.4	12.0
EV / EBITDA	24.1	18.2	14.6	4.2
EV / Revenues	7.0	6.0	4.9	5.3
Market Cap / Revenues	7.8	6.7	6.0	2.5
Price to Book Value	3.4	3.2	2.8	2.5
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	0.1
Debt/EBITDA	0.2	0.2	0.1	2.2
Current Ratio	3.7	3.3	2.1	0.4
Working Capital Cycle	84	105	115	105

Source: Company, ICICI Direct Research

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