

**Advanced Enzyme Technologies Ltd. (AEL) : Robust play in Indian Enzymes market "SUBSCRIBE" 20th July, 2016**

Advanced Enzymes is the largest Indian fully integrated enzyme company, 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, the Company ranks 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. Competitors include players like Biocon, Novozymes (Denmark), DSM Nutritional Products, DuPont Danisco, Amano Enzymes (Japan), AB Enzymes (UK), and BASF. The Company operates in two primary business verticals namely Healthcare & Nutrition (human and animal) and Bio-Processing (food and non-food). By following critical industry trends, AEL focus on ensuring that our enzyme products are relevant, helping customers to meet the evolving market demands. The Company supplies these value-added and eco-safe enzyme products to diverse end-user industries like human healthcare and nutrition, animal nutrition, food processing, baking, dairy and cheese processing, fruit and vegetable processing, cereal extraction, brewing, grain processing, protein processing, oil and fat processing, biomass processing, textile processing, leather processing, paper & pulp processing, bio-fuels, bio-catalysis etc. Although it has the capability to manufacture enzymes using all the four natural origins viz. plant, animal, bacterial and fungal, its major focus is on developing enzymes through microbial fermentation.

AEL has six geographically-spread and accredited manufacturing facilities that enables to produce a wide range of products and help cater to a diverse set of industries globally. These facilities are flexible and multi-purpose in nature, capable of developing quality enzyme products and solutions with varying batch sizes, customised to meet its clients' requirements, while adhering to strict controlled processes and allowing for complete traceability of our products. Four of these are located in India which consist of two integrated fermentation, recovery & formulation facilities at Sinnar (Nashik, Maharashtra, India) and Pithampur (Dhar, Madhya Pradesh, India), one extraction and recovery facility at Satpur (Nashik, Maharashtra, India), and one blending, mixing and formulation facility at Vashind (Thane, Maharashtra, India). Two blending, mixing and formulation facilities are located outside of India at Chino (California, United States). AEL's domestic and international facilities have been approved / certified by various regulators / certifying agencies.

AEL has received "Indian FDA" approval for several of its products as well as other global standard certifications such as "HALAL", "Kosher", "NPOP", "GOTS" etc. Most of its key clients have audited and approved the facilities and manufacturing processes, which has helped AEL to establish its reputation and reliability as a supplier of quality enzyme products and customized enzyme solutions, and enabled it to receive repeat business as well as attract new customers. AEL offers these products to its global clientele of more than 700 customers spanning presence across 50 countries worldwide. AEL has always had a very healthy growth rate, 20-25 percent on the topline and 30-35 percent on the bottomline for its entire history of 27 years. AEL has been profit making and dividend paying company since 1999. During FY16, FY15 and FY14, AEL reported EBITDA of Rs. 1,382.32 mn, Rs. 908.60 mn and Rs. 1,037.77 mn, respectively. EBITDA has grown at a CAGR of 22.06% from FY 12 to FY16 2016. Further, as on March 31, 2016, its long term borrowings / equity ratio was 0.26. During the fiscal years ended 2016, 2015 and 2014, AEL reported Return on Net worth (RONW) of 28.14%, 23.85% and 12.07%, respectively.

Issue date	July 20 - July 22, 2016		
Issue size	Rs. 4110.9 mn at upper end of the price band		
Type of issue	Fresh Issue: Rs. 500 mn Offer for sale: Rs.3,615mn Bookbuilding		
Face Value	Rs. 10		
Price Band	Rs. 880 – Rs. 896 per share		
Lot size	16 equity Shares & multiple of 16 equity shares thereafter		
Equity shares post issue	22.32 mn		
Issue structure	QIB: 50% Retail: 35% Non – Institutional: 15%		
Post issue market cap	Rs. 19,999 mn at upper price band		
Book Running Lead Managers	ICICI Securities, Axis Capital		
Registrar to the issue	Link Intime		
Major Shareholders	Promoters & Kotak group		
Y/e 31 Mar (Rs. mn)	FY16	FY15	FY14
Revenue from operat.	2,938	2,231	2,395
EBITDA	1382	909	1038
OPM (%)	47	40.7	43.3
PAT	784	501	201
PAT (%)	26.7	22.4	8.39
Equity Capital	217.66	217.66	217.66
Post issue EPS (Rs.)	35.13	22.45	8.96
Networth (Rs. mn)	2787	2100	1664
P/E (x)	25.5	39.9	100
RoE (%)	28	23.8	12.0

Source: RHP, Ajcon Research

**Investment Rationale and Recommendation**

At the upper end of the price band of Rs. 896, the IPO is valued at 25.5x at FY16 Post issue P/E which is cheap as compared to its immediate global peer Novozymes (P/E of 35.5x). With due consideration to factors like a) largest Indian enzyme company, b) specialized business model with high entry barriers, c) diversified product portfolio and wide customer base, served by a strong sales, marketing and distribution network, d) established long – term relationships with its clients, e) financial stability and stable cash flows, f) lean balance sheet with virtually no debt, i) robust OPM at 47% and decent ROE of 38%, j) first player in Indian enzymes market tapping equity markets, we recommend investors to "SUBSCRIBE" the issue.



## Objects of the issue

- a) The issue is mainly to provide exit to its PE investors (offer for sale (OFS) for up to 4,034,470 shares by promoter group shareholders, along with Kotak Employees Investment Trust, Kotak India Venture Fund I and Kotak India Venture (Offshore) Fund) while fresh issue is smaller in size (fresh issue of equity shares worth Rs 50 crore).
- b) AEL has already raised Rs 123 crore from as many as 15 anchor investors. Little over 13.71 lakh shares were allotted to the anchor investors at Rs 896 apiece, the upper end of the price band for the Rs 411 crore IPO.

## Global Enzymes market

The global enzyme market stood at US\$5.1 bn in 2012 of which industrial enzymes constituted ~US\$3.6 billion, or ~71% of world demand, with the rest ~29% being contributed by specialty enzymes.

Going forward, the global enzyme demand is expected to experience broad-based growth led by strong demand across all enzyme types, with market growing by 6.3% every year to US\$7.0 bn in 2017 from US\$5.1 bn in 2012. The market is further expected to grow at a 5-year CAGR of 6.5% after 2017, reaching a size of US\$9.5 bn by 2022. Through this period, the growth in the global enzyme demand is expected to be led by specialty enzymes, including diagnostic and research and biotechnology enzymes, as well as biocatalysts and increasing penetration of enzymes into their potential applications in developing countries.

## Indian Enzymes market

Though, the market for enzymes in India is relatively small US\$ 105 Million in 2012, but will be the fastest growing in the world through 2017. Advances will average more than 10% per year through 2017, driving demand to \$173 Million. As with most other markets in the Asia / Pacific region, demand is concentrated in industrial enzymes. However, the rapid development of India's pharmaceutical and chemical industry is starting to change this, and specialty enzyme demand will outpace industrial enzyme demand going forward.

Enzyme demand in India is concentrated in industrial enzymes, particularly the cleaning product (detergent), food and beverage, and textile and leather markets. However, even within these industries, enzyme usage rates are significantly below the developed economies of Japan, North America and Western Europe. To a large extent, this can be traced to the government policies that have made it disadvantageous for companies to grow above a certain size, and restricted access to foreign capital for modernization and productivity enhancements. Consequently, smaller companies have lacked the assets and financial resources to modernize their operations with the newer, more efficient technologies that make greater use of enzymes. As the economy is slowly opened to increased foreign direct investment, enzyme usage rates should continue to improve.

In specialty enzymes, around half the demand is in the Research and Biotechnology space. Strong growth will also be seen in research and biotechnology as the government seeks to promote development of the biotechnology sector to showcase the country's technological prowess, and Indian pharmaceutical and biotechnology companies increasingly seek to make inroads into the developed markets of the United States, the European Union and Japan by investing in advanced technologies. This same trend will also benefit the biocatalysts market.

**AEL has dedicated approach to this sunrise industry of enzymes which has huge potential for growth. It is a sunrise industry, very niche industry, very few players globally.**

**AEL is among top 15 players in the globe. However, it is the largest Indian company but among top 15 players in the world with large battery of enzymes, more than 60 enzymes are developed indigenously by AEL. Hence its focus being human nutrition, human healthcare or nutrition per se which trickles down to animal nutrition followed by food industry where it has good presence globally.**



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