

## Ami Organics Ltd

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Price Band: INR 603-610

#### ISSUE SUMMARY

Issue Opens	1-Sep-21
Issue Closes	3-Sep-21
Offer Price (INR per share)	603-610
Bid Lot	24 shares
Face Value (INR)	10.0
Pre Issue Shares o/s (mn)	33.2
Offer for Sale (No of sh. mn)	6.1
^Fresh Issue (No of sh. mn)	3.3
^Post Issue shares o/s (mn)	36.4
^*Issue Size (INR bn)	5.7
QIB	=>50%
Non-institutional	<15%
Retail	<35%
^ Issue Size (@INR610)	

#### POST ISSUE DETAILS

M.Cap @INR610/sh. (INR bn)	22.2
<b>Shareholding pattern</b>	
Promoters	41.1%
Non-Promoters	58.9%

Ami Organics Ltd (AOL), is focused towards manufacturing of advanced pharma intermediates (PI) for regulated/generic APIs and New Chemical Entities (NCE) and key starting material for agrochemical and fine chemicals.

**Strong and diversified portfolio of Pharma intermediates:** AOL has built a strong and diversified portfolio of 450+ PI (88% revenue share in FY21) across 17 therapeutic areas which are high-growth and high margin, and commands significant market share both in India and globally. It is one of the major manufacturers of PIs like Dolutegravir, Trazodone, Entacapone, Nintedanib and Rivaroxaban of which first two contributed ~44% of FY21 revenues. India's PI market is expected to grow at 10.6% CAGR over 2020-25F on the back of China+1 strategy of global players, further supported by Gol's PLI scheme. AOL stands to benefit with wide portfolio and strong market share.

**Acquisition of GOL in FY21 to expand its specialty chemical presence:** By FY21-end, AOL completed the acquisition of Gujarat Organics Ltd (GOL), which enhanced its capacity by 3,600 MTA to 6060MTA. The acquisition would add preservatives (parabens - end usage in cosmetics, animal food, personal care) and other specialty chemicals (end usage in cosmetics, dyes polymers, agrochemicals) into AOL's existing portfolio, which command significant market share globally. It will enable AOL to diversify its portfolio and de-risk its business model. In FY21 GOL did a revenue of ~INR1bn.

**Robust Financials:** Over FY19-21, AOL revenue/EBITDA/PAT grew at 20%/38%/ 52% CAGR, while EBITDA margins expanded from 17.6% to 23.5%, led by increasing presence in high margin products. Synergy benefits with GOL would start playing out from FY22 onwards and boost profitability. Post IPO, AOL will become debt free. It enjoys healthy return ratios of ~18%.

**Issue Size:** INR5.7bn IPO consists of INR2bn of fresh issue and OFS (by promoters/ investors) worth INR3.7bn which would result in promoter's stake reducing to 41.1% post-IPO from 47.2% earlier. The funds raised would be utilized to repay debt (INR1.4bn), fund working capital requirements (INR0.9bn) and balance for general corporate purpose. AOL also undertook a pre-IPO placement of INR1bn @ INR603/share.

**Valuation & View:** We like AOL given its wide product portfolio in PIs, diversification efforts into other specialty chemical space, strong clients' relation across geographies and robust financials. It is well placed to tap opportunity in the fast growing specialty chemical market by leveraging its strong R&D and expanding product portfolio. The issue is reasonably valued at 41.2x FY21 P/E on post issue basis (avg. peer FY21 P/E of 45x), while it enjoys higher growth. We believe that the market would like to give premium valuation to such niche stories. Recommend **Subscribe for Listing Gains**.

#### Exhibit 1: Financials & Valuations (INR mn)

Y/E March	FY19	FY20	FY21
Revenue	2,385	2,396	3,406
Growth (%)	NA	0.5	42.1
Adj PAT	233	275	540
Growth (%)	NA	17.9	96.6
EPS (INR)	6.4	7.5	14.8
RoE (%)	28.3	28.3	18.7
P/E	95.4	80.9	41.2

\*Calculated on post issue basis, at the upper price band of INR610; Source: RHP, MOFSL

## Peer Comparison

### Exhibit 2: Financial Comparison

Company	M.Cap. INR Bn	Revenue CAGR FY19-21 (%)	EBITDA CAGR FY19-21 (%)	PAT CAGR FY19-21 (%)	EBITDA M FY21 (%)	ROE FY21 (%)
Aarti Industries	336	4.0	0.9	3.1	22.7	16.2
Atul	264	-3.9	9.4	23.1	18.9	15.2
Vinati Organics	183	-8.0	-8.8	-2.4	16.0	9.5
Hikal	80	4.0	4.4	13.6	27.0	26.2
Valiant	35	-2.7	-6.3	-2.5	36.9	19.1
Ami Organics	22	19.5	38.0	52.3	24.6	18.5
Neuland	22	18.5	59.2	125.0	23.5	18.7

### Exhibit 3: Valuation Comparison

Company	P/E FY21 (x)	EV/Sales FY21 (x)	EV/EBITDA FY21 (x)	P/BV FY21 (x)	D/E FY21 (%)
Aarti Industries	55.4	7.9	32.0	9.6	0.7
Atul	41.2	7.0	28.5	7.0	-0.1
Vinati Organics	68.3	19.2	51.9	11.9	0.0
Hikal	47.3	5.0	22.9	8.6	0.7
Valiant	30.0	6.3	20.3	7.0	0.3
Ami Organics	41.2	6.0	25.7	4.8	-0.4
Neuland	28.9	2.5	14.8	2.7	0.2

Source: Company RHP, Bloomberg, MOFSL

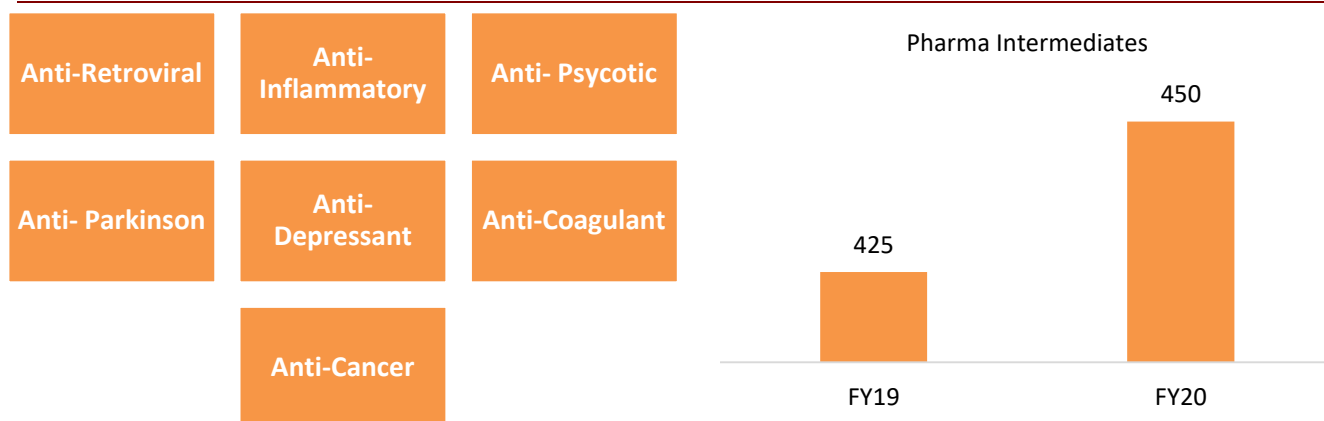
\*Price Data as on 27<sup>th</sup> August, 2021

^Calculated on fully diluted basis at upper price band of INR610

## About the Company

Incorporated in 2004, Ami Organics (AOL) is a research and development (R&D) driven manufacturer of specialty chemicals with varied end usage, focused towards (i) the development and manufacturing of advanced pharmaceutical intermediates for regulated and generic active pharmaceutical ingredients (APIs) and New Chemical Entities (NCE) and (ii) key starting material for agrochemical and fine chemicals. The company has recently acquired the business of Gujarat Organics Limited (GOL).

**Exhibit 4: Diversified Product Portfolio catering to key high-growth Therapeutic areas**



Source: RHP, MOFSL

The company has developed and commercialized over 450 Pharma Intermediates for APIs across 17 key therapeutic areas since inception and NCE. It has a strong focus on R&D across select high-growth high margin therapeutic areas such as anti-retroviral, anti-inflammatory, anti-psychotic, anti-cancer, anti-Parkinson, anti-depressant and anti-coagulant, commanding significant market share both in India and globally. As per the F&S Report, it is one of the major manufacturers of Pharma Intermediates for certain key APIs, including Dolutegravir, Trazodone, Entacapone, Nintedanib and Rivaroxaban. Its portfolio has expanded from over 425 products in FY19, to over 450 products in FY21. The focus on R&D and continuous process improvement has positioned itself as a preferred supplier.

**Exhibit 5: Pharma intermediates manufactured for Key APIs**

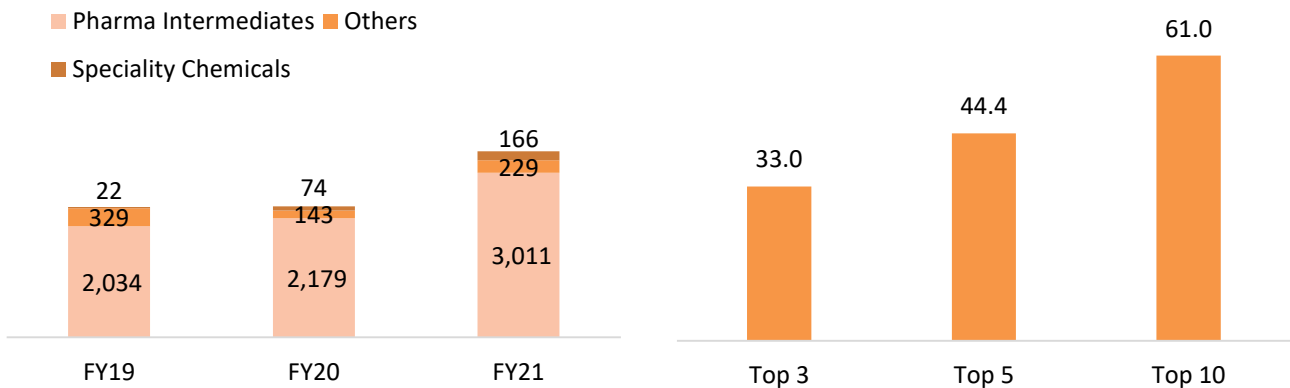
API	Therapy/Disease Targeted	Global Market Share	CAGR 20-25F (%)
Trazodone	Antidepressant	Key supplier of these intermediates with 80-90% share	6.3
Entacapone	Parkinson's Disease	80% Market Share in FY21	11.2
Pazopanib	Anticancer	86-88% global market share for intermediate 2, 4-Dichloropyrimidine in FY21	11.8
Darolutamide	Antiandrogen	Major Manufacturer of key intermediates	36.0
Dolutegravir	Antiretroviral	Leader for Amino Acetaldehyde Dimethyl Acetal intermediate with 70-75% market share in FY21	31.5
Apixaban	Anticoagulant	50-40% total market share in FY21 for the 2 key intermediates respectively	44.7
Nintedanib	Pulmonary Fibrosis (Anti-Cancer)	Supplier to the originator for key intermediates	23.7
Rivaroxaban	Anticoagulant	50-60% share globally for Glycidyl Phthalimide in FY20; 35-45% of market share for 4-(4-Aminophenyl) Morpholin-3-one in FY21	23.5

Source: RHP, MOFSL

AOL, recently completed the acquisition of two additional manufacturing facilities operated by GOL. This has added preservatives (parabens and parabens formulations which have end usage in cosmetics, animal food and personal care industries) and other specialty chemicals (with end usage in inter alia the cosmetics, dyes polymers and agrochemicals industries) into their existing product portfolio, which command significant market share globally in the supply of certain paraben derivatives, as per the F&S Report. The Acquisition is in line with their inorganic growth strategy of foraying further into the specialty chemicals sector and it will enable them to significantly diversify their existing product portfolio, with an objective of attaining inorganic expansion of the business. The revenue for FY21 (which is based on verification of form GSTR-1) of the 2 plants acquired stood at INR1,060 mn.

**Exhibit 6: Diversification of Revenue (INR m)**

**Exhibit 7: Share of top Customers – FY21 (%)**

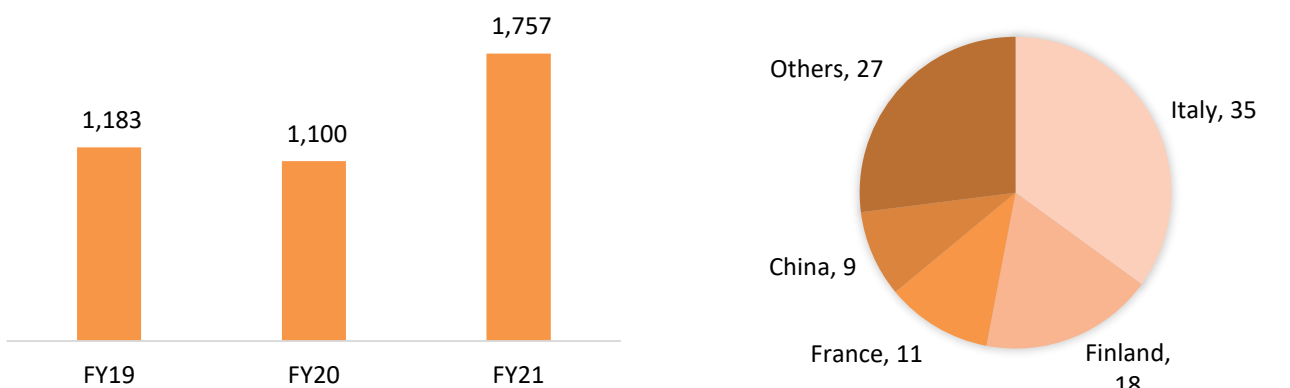


Source: RHP, MOFSL

Along with the domestic market, AOL supplies Pharma Intermediates used for manufacturing of APIs and NCEs 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. In FY21, revenue from exports contributed 51.6% of total revenue, growing at a CAGR of 21.8% between FY19-21. It supplies to more than 150 customers (including international customers) directly in India and in 25 countries overseas, using a distributorship network in certain cases. Some of the domestic customers include Laurus Labs Ltd, Cadila Healthcare Ltd and Cipla Ltd and while 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.

**Exhibit 8: Exports contribute >50% to revenue (INR m)**

**Exhibit 9: Key Export Destinations – FY21 (%)**

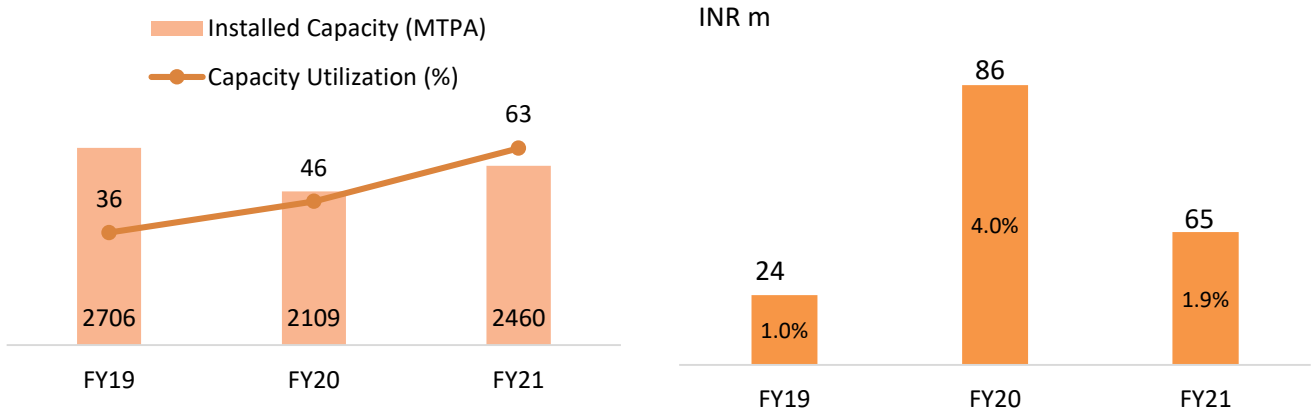


Source: RHP, MOFSL

AOL has three manufacturing units located at (i) GIDC, Sachin, Gujarat, with an installed capacity of 2,460 MTPA (Sachin Facility), (ii) GIDC, Ankleshwar Industrial Estate, Gujarat, with an installed capacity of 1,200 MTPA (Ankleshwar Facility), and (iii) GIDC Industrial Estate, Jhagadia, Gujarat, with an installed capacity of 2,400 MTPA. Of the above, the Ankleshwar Facility and Jhagadia Facility have been recently acquired from GOL. The Sachin Facility is inspected and approved (EIR issued) by US FDA for manufacture and supply of advanced pharmaceutical intermediates for manufacturing of APIs and NCEs since 2016.

**Exhibit 10: Manufacturing Capacity (excluding GOL)**

**Exhibit 11: R&D as a % of sales**

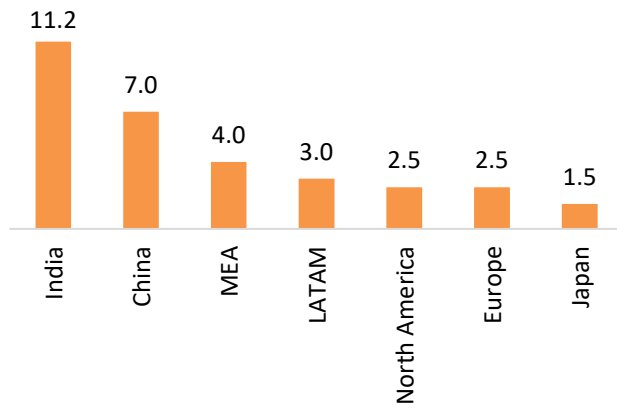


Source: RHP, MOFSL

In addition to the manufacturing facilities, It has dedicated in-house R&D facility located in GIDC, Sachin (R&D Facility) and is also supported by analytical development laboratory (ADL) in relation to developmental activities, freezing specifications and developing the method of analysis for finished products, in process intermediates, key starting materials (KSMs) and raw materials.

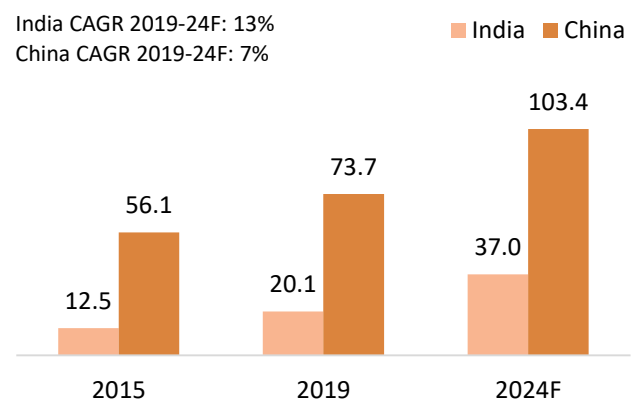
## Industry Landscape

**Exhibit 12: Region-wise Specialty Chemicals Growth, 2019-24F, (%)**



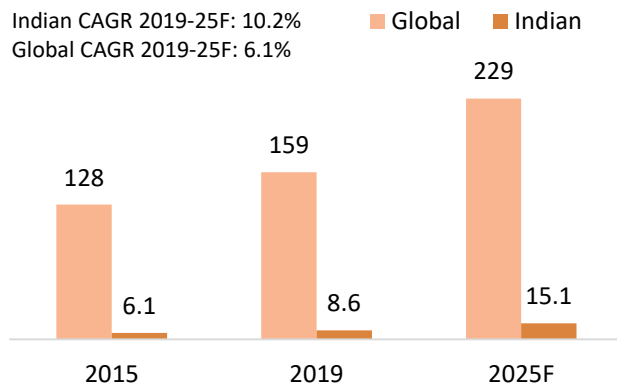
Source: RHP, MOFSL

**Exhibit 13: Chemical Export Trend – India Vs China, (USD b)**



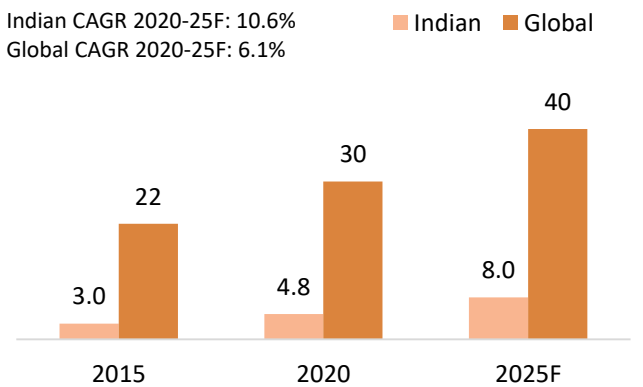
Source: RHP, MOFSL

**Exhibit 14: Global & Indian Active Pharmaceutical (API) Market Size (USD b)**



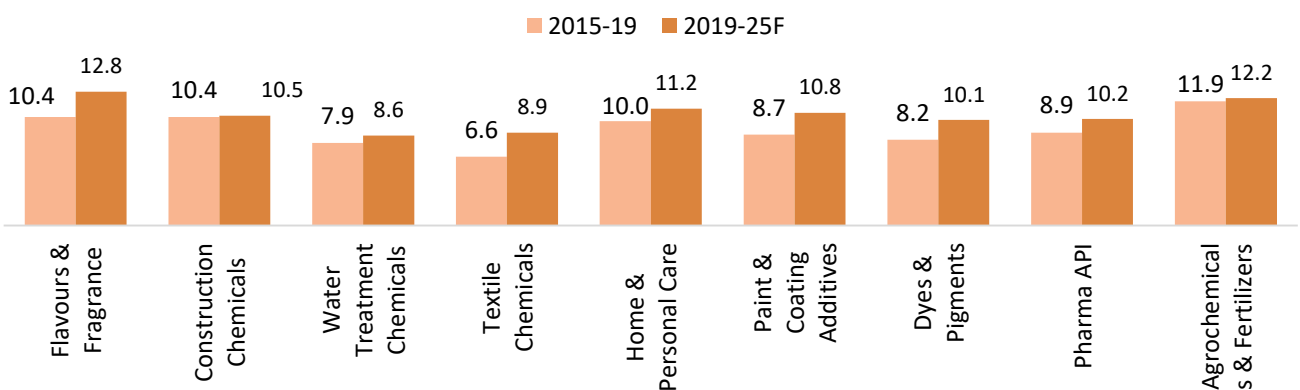
Source: RHP, MOFSL

**Exhibit 15: Global & Indian API – RM/KSM Market Size (USD b)**



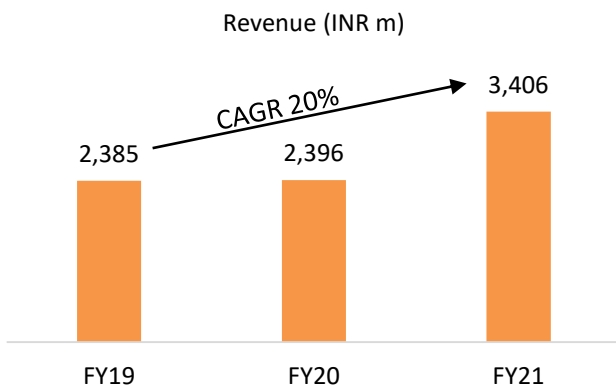
Source: RHP, MOFSL

**Exhibit 16: Industry Growth of other Indian Speciality Chemical Market, (%)**



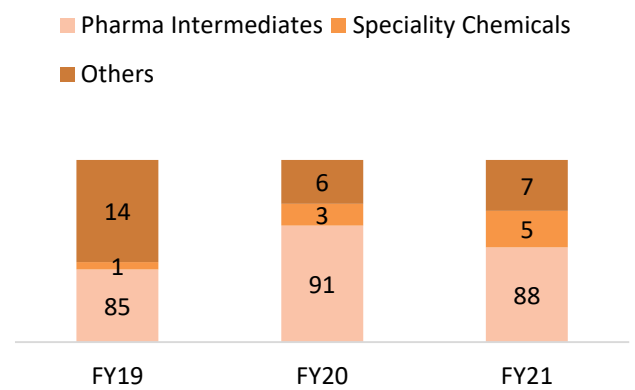
## Story in Charts

**Exhibit 17: Revenue grew at 20% CAGR (FY19-21)**



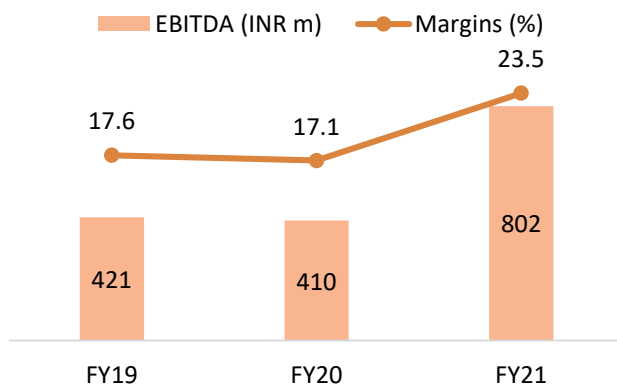
Source: RHP, MOFSL

**Exhibit 18: GOL acquisition to derisk revenue from FY22 onwards**



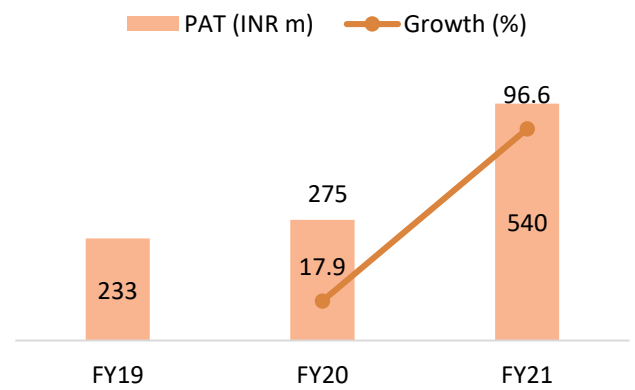
Source: RHP, MOFSL

**Exhibit 19: EBITDA grew at 38% CAGR over FY19-21**



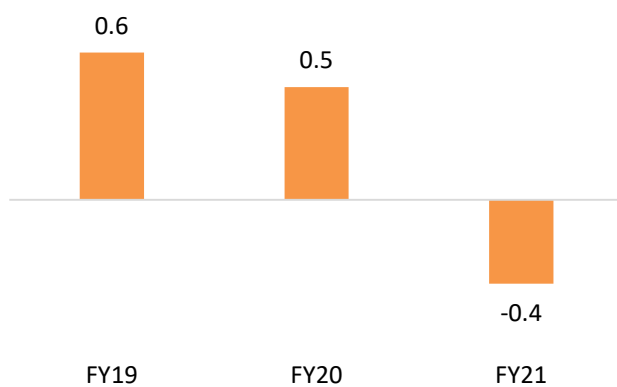
Source: RHP, MOFSL

**Exhibit 20: PAT grew at a 52% CAGR over FY19-21**



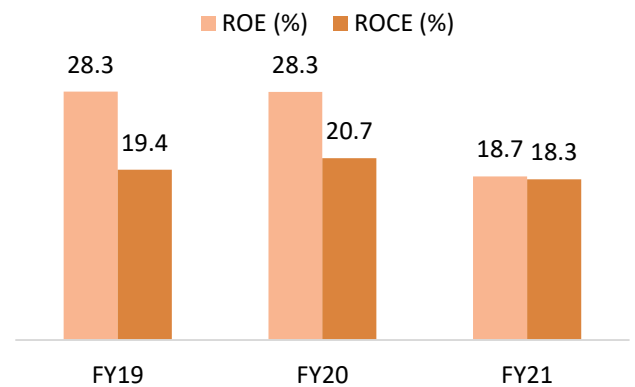
Source: RHP, MOFSL

**Exhibit 21: AOL to become debt free post debt repayment from IPO proceeds**



Source: RHP, MOFSL

**Exhibit 22: Healthy Return Ratios**



Source: RHP, MOFSL

## Risk and concerns

- Top 10 customers accounted for 61% of FY21 revenue. Moreover, AOL does not enter into any long term contract with them. Thus loss of any customer could impact its business.
- ~44% of FY21 revenue came from two intermediate products i.e. Trazodone and Dolutegravir. Any reduction in demand for them could impact its business.
- High exposure to foreign currency risk as exports form ~50% of revenue
- AOL does not have long-term agreements with suppliers for its raw materials. Any shortfall in the supply of raw materials or an increase in raw material cost, may adversely affect the pricing and supply of its products and could impact its business.
- Failure to successfully integrate GOL with itself could impact its business.



## Financials

### Income Statement

(INR m)

Y/E March	FY19	FY20	FY21
<b>Net Sales</b>	<b>2,385</b>	<b>2,396</b>	<b>3,406</b>
Change (%)	NA	0.5	42.1
<b>Total Expenditure</b>	<b>1,964</b>	<b>1,986</b>	<b>2,605</b>
% of Sales	82.4	82.9	76.5
<b>EBITDA</b>	<b>421</b>	<b>410</b>	<b>802</b>
Margin (%)	17.6	17.1	23.5
Depreciation	26	35	42
<b>EBIT</b>	<b>395</b>	<b>375</b>	<b>760</b>
Int. and Finance Charges	48	56	56
Other Income	4	28	14
<b>PBT</b>	<b>351</b>	<b>348</b>	<b>717</b>
Tax	118	73	177
Tax Rate (%)	33.7	21.0	24.7
<b>Reported PAT</b>	<b>233</b>	<b>275</b>	<b>540</b>
<b>Adjusted PAT</b>	<b>233</b>	<b>275</b>	<b>540</b>
Change (%)	NA	17.9	96.6
Margin (%)	9.8	11.5	15.9

Source: Company RHP, MOFSL

### Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21
Share Capital	105	105	315
Reserves	717	1,013	1,354
<b>Net Worth</b>	<b>822</b>	<b>1,118</b>	<b>1,669</b>
Debt	539	594	1,366
Deferred Tax (Net)	21	31	33
<b>Total Capital Employed</b>	<b>1,383</b>	<b>1,744</b>	<b>3,068</b>
<b>Net Fixed Assets</b>	<b>788</b>	<b>852</b>	<b>1,863</b>
Capital WIP	20	117	2
Investments	16	17	14
<b>Current Assets</b>	<b>1,308</b>	<b>1,333</b>	<b>2,253</b>
Inventory	387	523	604
Debtors	761	564	1,207
Cash and Bank Balance	5	38	27
Loans and Advances & OCA	155	207	416
<b>Curr. Liability &amp; Provisions</b>	<b>749</b>	<b>575</b>	<b>1,064</b>
Account Payables	684	514	844
Current Liabilities	49	32	166
Other Long Term Liab. & Provs.	16	28	53
<b>Net Current Assets</b>	<b>559</b>	<b>757</b>	<b>1,189</b>
Misc Expenditure	-	-	-
<b>Appl. of Funds</b>	<b>1,383</b>	<b>1,744</b>	<b>3,068</b>

Source: Company RHP, MOFSL

**Key Ratios**

Y/E March	FY19	FY20	FY21
<b>Basic (INR)</b>			
<b>EPS</b>	<b>6.4</b>	<b>7.5</b>	<b>14.8</b>
Cash EPS	7.1	8.5	16.0
BV/Share	22.6	30.7	128.1
DPS	0.0	0.0	0.0
<b>Valuation (x)</b>			
P/E	95.4	80.9	41.2
Cash P/E	85.8	71.7	38.2
P/BV	27.0	19.9	4.8
EV/Sales	9.5	9.5	6.0
EV/EBITDA	54.1	55.5	25.7
<b>Return Ratios (%)</b>			
RoE	28.3	28.3	18.7
RoCE	19.4	20.7	18.3
<b>Working Capital Ratios</b>			
Asset Turnover (x)	3.0	2.8	1.8
Inventory (Days)	1.7	1.4	0.7
Debtor (Days)	59	80	65
Creditor (Days)	116	86	129
<b>Leverage Ratio (x)</b>			
Net Debt/Equity	105	78	90
			103.5

Source: Company RHP, MOFSL

\*All ratios calculated on fully diluted basis at the upper price band of INR610

**Cash Flow Statement****(INR m)**

Y/E March	FY19	FY20	FY21
OP/(Loss) before Tax	351	348	717
Depreciation	26	35	42
Finance Cost	48	56	56
Income Taxes paid	-138	-84	-142
(Inc)/Dec in WC	-140	-94	-384
<b>CF from Operations</b>	<b>147</b>	<b>260</b>	<b>289</b>
Others	1	11	-18
<b>CF from Operating (Net)</b>	<b>148</b>	<b>271</b>	<b>271</b>
(Pur)/Sale of FA	-214	-213	-1,040
(Pur)/Sale of Investments	2	-27	35
Interest/Dividend received	1	1	2
Bank Deposits	3	-	-
<b>CF from Investments</b>	<b>-209</b>	<b>-239</b>	<b>-1,004</b>
Proceeds from borrowings	101	55	772
Issue of equity shares	-	-	-
Interest Paid	-44	-53	-51
Dividend Paid	-	-	-
Others	-0	0	-
<b>CF from Fin. Activity</b>	<b>56</b>	<b>2</b>	<b>721</b>
<b>Net Inc/Dec of Cash</b>	<b>-4</b>	<b>33</b>	<b>-11</b>
Opening Balance	9	5	40
<b>Closing Balance</b>	<b>5</b>	<b>40</b>	<b>31</b>

Source: Company RHP, MOFSL

Explanation of Investment Rating	Expected return (over 12-month)
Investment Rating	
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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