

COMPANY BACKGROUND:

Established in 1989, Advanced Enzyme is India's largest enzyme company and is engaged in the research and development, manufacturing and marketing of 400+ proprietary products developed from 60 indigenous enzymes. The company claims to be a fully integrated enzyme manufacturing company and ranks among the top 15 global companies in terms of enzyme sales. In the domestic market, it has the second highest market share after Novozymes which is the global leader in the business. Advanced Enzyme operates in two primary business verticals – Healthcare & Nutrition (87.6% of total revenues in FY 2016) and Bio-Processing (12.4% of total revenues in FY2016). The company offers these products to its global clientele of more than 700 customers spanning presence across 50 countries worldwide.

Advanced Enzyme's financial performance is underlined by an expanding top line and improving margins. Between FY2012 and FY2016, Advanced Enzyme's top line grew at a compounded average growth rate (CAGR) of 14.4% while profit after tax (PAT) expanded at an average rate of 23.9%. In fact, the company has consistently made profits and paid dividends since the last 20 years. The company's net margin is also pretty solid at 26.6% in FY2016, increasing for the third year straight. Except in FY2014 when its financial performance was impacted due to a product recall in the US, net margins have been strong in the last five years. This has been possible as the global enzymes market is highly concentrated among few players due to high entry barriers and required specialized knowledge.

In addition to the limited competition, Advanced Enzyme's profitability was aided by growing revenues and declining leverage. Between FY2012 and FY2016, Advanced Enzyme's long term borrowings declined from INR1.39 billion (INR139.3 crore) to INR387.5 million (INR38.7 crore). As on 31 March 2016, Advanced Enzyme's long term debt/equity ratio stood at just 0.26.

Advanced Enzyme's consolidated financial performance (in INR crore)

	FY2012	FY2013	FY2014	FY2015	FY2016
Total revenue	174.8	224.1	240.5	224.3	294.6
Total expenses	127.2	147.9	158.7	150.5	172.1
EBITDA		89.5	103.7	90.86	138.2
EBITDA margin (%)		40.6%	43.3%	40.7%	47.1%
Profit after tax	33.3	49.2	20.1	50.1	78.4
Net profit margin (%)	19.1%	22.0%	8.4%	22.3%	26.6%

ISSUE HIGHLIGHTS:

Promoted by Vasant Laxminarayan Rathi and Chandrakant Laxminarayan Rathi, AETL started as a family-owned firm and has continued this way. Although Kotak Private Equity (Kotak PE) owns nearly 4.75% in the company, promoters and promoter group hold 63.11% equity stake in the company. Kotak's investment in Advanced Enzyme is not very old and the private equity house invested in 2012

through its three entities – Kotak Employees Investment Trust, Kotak India Venture Fund I and Kotak India Venture (Offshore) Fund. Although the IPO is largely an OFS, we like the fact that Kotak will continue to hold half of its shareholding in the company post the offer.

IPO dates	20 – 22 July 2016
Price Band	INR880 – 896 per share
Issue Size	INR411.5 crore
Fresh Issue	INR50 crore
Offer for share (OFS)	4,034,470 shares (INR361.5 crore)
Minimum Bid	16 shares
Retail allocation	35%

The IPO is largely an exit route for existing investors and the company will only raise INR50 crore by issuing new shares. Out of this, INR40 crore will be used for repayment / pre-payment of certain loans availed by its fully-owned subsidiary Advanced Enzymes USA.

IN FAVOUR OF THE IPO:

- **Solid Foot Print:** Established in 1989, Advanced Enzyme Technologies is a fully integrated company operating into research, development, manufacturing and marketing of enzyme products. The company has a portfolio of 400 proprietary products developed from 60 indigenous enzymes.
- **Leader in The Sector:** Globally, AETL ranks among the top 15 companies in sales rankings. In the domestic market, it is second only to global leader Novozymes. Competitors include players like Biocon, Novozymes (Denmark), DSM Nutritional Products, DuPont Danisco, Amano Enzymes (Japan), AB Enzymes (UK), and BASF.
- **Entry Barrier:** The enzyme industry is highly concentrated because 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.
- **Profitable growth** – AETL has consistently made profits and paid dividends since 1997. As indicated in the table below, the company's top line has grown at a compounded average growth rate (CAGR) of 14.4% in the last four years. Profit after tax (PAT) CAGR in the last four years – 23.9%.
- **Diversified client base** – Top 10 customers accounted for 41.4% of its consolidated revenues in FY2016. Main customers include **Sanofi India, Cipla, Ipca Laboratories, Alkem Laboratories, and Emcure Pharmaceuticals.**
- **Business segments/verticals** – Healthcare & Nutrition (87.6% of total revenues in FY 2016) and Bio-Processing (12.4% of total revenues in FY2016).

- **Geographical presence** – Advanced Enzyme got 54.94% of its revenue from USA, 36.44% from India, 3.84% from Europe, 3.63% from Rest of Asia, and 1.15% from other geographies in FY2016.
- **Debt** – On a consolidated basis, Advanced Enzyme’s leverage is declining. From INR1.39 billion (INR139.3 crore) in FY2012, Advanced Enzyme’s long term borrowings have declined every year and reduced to INR387.5 million (INR38.7 crore) in FY2016. As a result, its interest expense has fallen in each of the last four years.

OUR VIEW:

Global leader Novozymes is listed on Copenhagen Stock Exchange while ADRs are also traded actively in the US. The Denmark-based enzymes giant trades at a trailing 12-months PE ratio of 35.5. In the year ended 2015, Novozymes has EBIT and EBITDA margins of 27.7% and 35.8% (link to PDF), respectively. Although both figures are up from previous year, Advanced Enzyme beats its larger peer hands down with an EBITDA margin of 47.1% in the year ended 31 March 2016. Advanced Enzyme’s EBIT margin or operating margin was 44.1% for the same period. Advanced Enzyme registered consolidated earnings per share (EPS) of INR36.03 in FY2016. Consequently, the IPO price band of INR880 – 896 per share values Advanced Enzyme in the range of 24.9 – 24.4 times its earnings. While it has no listed peer in India, it helps to know that global enzymes leader Novozymes trades at a PE ratio of 35.5. Koninklijke DSM NV – parent of DSM Nutritional Products – trades at a PE ratio of 46. **We like the valuations with global peers. Thus one can subscribe for the IPO with a long-term investment purpose and also there may be chances of listing gain.**