

**NOT
RATED**
AMI ORGANICS

| Pharmaceuticals

| 16 December 2021

Emerging pharma intermediate play; riding on Chinese import substitution

- Company benefits from the best of two domains in chemical industry: Pharma intermediates and specialty chemicals
- Judicious mix of volume and value driven intermediates results in stable growth and improving margin without complexity of IPR regime
- Large potential to lead the peer group with better product mix and robust return ratios

Surajit Pal | Saad Shaikh
 researchreport@bobcaps.in

We met with the management of Ami Organics (AMIORG) and visited their flagship plant and R&D center in Surat. Due to small base and vibrant pipeline, AMIORG is confident of maintaining its growth in key metrics (headline numbers, capital return ratios, operating cash flows) and keep risk-return ratio significantly lower than peers. Post successful IPO in Sept-FY21, its Balance sheet is deleveraged and currently is a net-cash company.

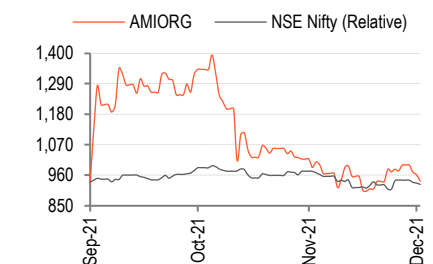
Ticker/Price	AMIORG IN/Rs 938
Market cap	US\$ 389.7mn
Free float	18%
3M ADV	US\$ 13.9mn
52wk high/low	Rs 1,434/Rs 841
Promoter/FPI/DII	41%/3%/6%

Source: NSE | Price as of 15 Dec 2021

Strategic focus on pharma intermediates: Given sensitive IPR regime of global pharma, AMIORG have a policy stance to focus only on intermediates or advanced intermediates of new-generation medicines in key therapeutic areas. It strategically ramps up its facilities for large volume / value driven molecules which are going to be off-patent in 2-3 years in global markets especially in US, EU and key EMs. This has resulted in gaining best of the two domains: attained more than 70% of its exports from EU followed by US while zero involvement in IPR complexities

Judicious way to distribute exposure client and geography-wise: Its revenues are contributed by India and exports at 48% and 52% respectively. Key exports contributors are: Italy (35%), Finland (18%), France (11%), China (9%), Spain (9%) and others (18%). Its top-10 clients contribute 61%, of which only 5% is to China.

Stock performance



Source: NSE

China contributions in RM remains low since inceptions: AMIORG sources 73% of its requirement of raw materials (RM) from India while Chinese companies supply currently stands only 18%. With acquisition of two plants in FY21, AMIORG expects to reduce import of Chinese RM to 12-14% by FY23E.

Balanced product profile: Focusing in the fastest growing segments, Chronic products contribute 91% of revenues. While ARVs, anti-inflammatory and anti-coagulants lead its revenues, its pipeline in oncology, anti-depression and CNS offer better clarity of its potential of large contributors in near future. Currently Trazadone, Dolutegravir (DTG) and Entacapone are large revenue drivers and expect Rivaroxaban and Apixaban to be key contributors from FY23E onwards as the molecules are to be off patent in US and EU. AMIORG is not in our coverage.

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Key Take Away (KTA):

- Higher utilization, acquired plants, brownfield expansion to support growth:**
 Management expects revenue to grow at 24% CAGR in FY21-23E with the support of spare capacity utilization of Surat plant and new revenues from the acquisition of GOL plants on slump-sale basis. Out of the two acquired plants from GOL, we expect AMIORG may plan for brownfield expansion in Ankleshwar facility, one of the oldest plants as it was set up in 70's. This shall support revenue growth with better margin profile in FY24E onwards.
- Chinese imports substitution of intermediates and KSMs supporting growth:**
 AMIORG's sales grew at a CAGR of 22% to Rs. 3.4bn in FY18-21. The new product introductions and higher domestic procurement were the key for higher growth despite the industry suffered on erratic Chinese imports and inflation in global price of raw materials. AMIORG is however not participated in PLI scheme of central government.
- Improvement in headline margins:** Its Better product mix and cost monitoring helped improve gross margin from 29.1% in FY19 to 34.3% in FY21. Margin improvement was also supported by change in procurement policy of ne key RM from Europe to India. This has resulted in improvement in EBITDA margin to 23.5% in FY21 from 17.7% in FY19.
- Capacity expansion for growth beyond FY23:** Company plans to invest Rs. 900mn to Rs. 1.2bn over FY22E-24E for new facility, maintenance / modification in the acquired plants as well as for maintenance of existing facility. The current capacities and utilization levels for AMIORG's three plants are as follow:

Fig 1 – Detail of all plants including two plants acquired from GOL in FY21

Sr. No.	Facility	Capacity (MTPA)	Utilization (%)	Description
1	Sachin	2,400	65%	<p>Capability to carry out range of chemical reactions required for production of advance pharma intermediates including acetal formation, arylation, acylation, alkylation, de alkylation cleavage, condensation, de-carboxylation, esterification, cyclization, oxidation, Schiff base reaction, aldol condensation, pinner synthesis, among others.</p> <p>Sachin Facility has been approved by US FDA for manufacture and supply of advanced pharmaceutical intermediates for APIs since 2016.</p>
2	Ankleshwar (Acquired from GOL)	1,500	40%	<p>Equipped with 49 stainless steel and glass lined reactors with a dedicated line for carboxylation, esterification and etherification, this unit is equipped to provide custom synthesis and manufacturing services. The products manufactured at the Ankleshwar Facility include 5-Chloro Salicylic acid, electron donors, Anisic acid, Paracynophenol and other specialty chemicals.</p>
3	Jhagadia (Acquired from GOL)	2,600	30-40%	<p>The Jhagadia Facility is a multipurpose facility, consisting of 26 stainless steel and glass lined reactors and equipped with fully automated and dedicated lines for production of paraben, PHBA and other specialty chemicals. Further, the Jhagadia Facility has 15, 830 square meter free land available for future expansion.</p>

Source: Company

- Significant market share in intermediates for key APIs:** AMIORG holds significant global market share on key intermediates of APIs such as Entacapone, Dolutegravir, Trazodone, Nintedanib and Rivaroxaban. Following table highlights positioning of AMIORG in few of the intermediates/APIs.

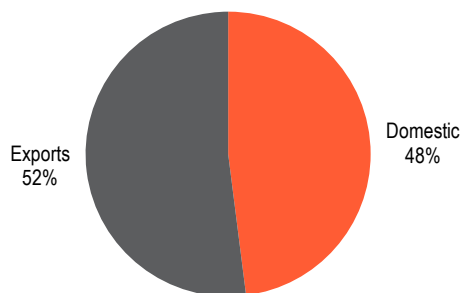
Fig 2 – Key intermediates continue to drive revenue growth

Sr. No.	Intermediates	Used in API	Therapy Area	Global Market Share
1	<ul style="list-style-type: none"> 1-(3-Chloro Phenyl)4-(3-Chloro Propyl)Piperazine H 2H-[1,2,4] Triazolo [4,3-A] Pyridin-3-One 1-(3-Chloro Phenyl) Piperazine 	Trazodone	Antidepressant	<ul style="list-style-type: none"> Key supplier of these intermediates with 80-90% share
2	<ul style="list-style-type: none"> Amino Acetaldehyde Dimethyl Acetal N-N Dimethyl Formamide Dimethyl Acetal Methyl-4-Methoxy Acetoacetate 	Dolutegravir	Antiretroviral	<ul style="list-style-type: none"> Leader for Amino Acetaldehyde Dimethyl Acetal intermediate with 70-75% global market share in FY21
3	<ul style="list-style-type: none"> 1-Boc Piperazine Other Intermediates 	Mirtazapine / Vortioxetine / Vilazodone	Antidepressant	<ul style="list-style-type: none"> Major manufacturer of the key intermediates for the APIs belonging to atypical antidepressants drug class
4	<ul style="list-style-type: none"> Triethyl Ortho Benzoate Trimethyl Ortho Benzoate Other Intermediates 	Nintedanib	Pulmonary Fibrosis (Anti Cancer)	<ul style="list-style-type: none"> Supplier to the originator for key intermediates
5	<ul style="list-style-type: none"> 3,4-Di Hydroxy 5-Nitro Benzyl Dehyde 	Entacapone	Parkinson's disease	<ul style="list-style-type: none"> ~80% market share for the key Intermediate in FY21
6	<ul style="list-style-type: none"> Methyl-5-Acetal-1H-Pyrazole-3-Carboxylate 	Darolutamide	Antiandrogen	<ul style="list-style-type: none"> Major manufacturer of the key intermediates
7	<ul style="list-style-type: none"> 1-(2-(2-Hydroxy Ethoxy)Ethyl) Piperazine Dibenzo-(1,4)-Thazepine-11-(10h)-One 	Quetiapine	Antipsychotic	<ul style="list-style-type: none"> Major manufacturer of the key intermediates for this API
8	<ul style="list-style-type: none"> (S)-(+)-Glycidyl Phthalimide 4-(4-Aminophenyl) Morpholin-3-One 	Rivaroxaban	Anticoagulant	<ul style="list-style-type: none"> 50-60% share globally for Glycidyl Phthalimide in FY20 35-40% of market share for 4-(4-Aminophenyl) Morpholin-3-One in FY21
9	<ul style="list-style-type: none"> 2,4-Dichloropyrimidine 5-Amino-2-Methyl Benzene Sulphonamide 	Pazopanib	Anticancer	<ul style="list-style-type: none"> 86–88% global market share for intermediate 2,4-Dichloropyrimidine in FY21
10	<ul style="list-style-type: none"> 1-(4-Amino Phenyl)-5,6-Dihydro-3-(4-Monopholinyl)-2 Ethyl Chloro [(4-Methoxy Phenyl) Hydrazono] Acetate Other Intermediates 	Apixaban	Anticoagulant	<ul style="list-style-type: none"> ~50% and ~40% total market share in FY21 for the 2 key intermediates respectively
11	<ul style="list-style-type: none"> 1-(2,3-Dichloro Phenyl) Piperzine 	Aripiprazole	Antipsychotic	<ul style="list-style-type: none"> Major manufacturer of the key intermediates for this API with customers across the world
12	<ul style="list-style-type: none"> 3-(1-Piperazinyl)1,2-Benzisothiazole Hcl 	Ziprasidone/ Lurasidone	Antipsychotic	<ul style="list-style-type: none"> Major manufacturer of the key intermediates for this API

Source: Company

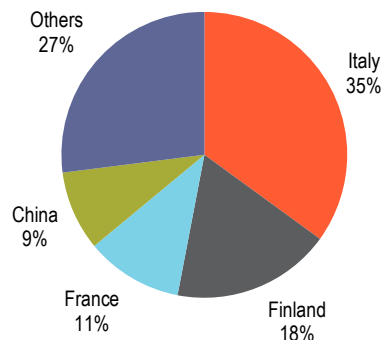
- No reliance on any product or customer:** AMIORG has a portfolio of 470 products and doesn't rely on single product or customer alone. Top 5 products of the company contribute 38-40% of the overall revenue. In terms of customer concentration, AMIORG draws 33%, 44%, 61% from top-3, top-5 and top-10 products, respectively. It continues to follow its policy of producing intermediates those have applications in multiple therapeutic areas.
- Supplies intermediates to generic as well as innovator companies:** Company has well established and long-term relations with diversified domestic and MNC companies across large and fast-growing markets globally. About 13 customers have been associated with AMIORG since last 10 years while 50 customers have been associated since last 5 years. Company draws 44% of its business from originator companies.
- Dedicated R&D team:** Company has an in-house R&D facility spread over 2,200 sq meters, approved by DSIR of India at Sachin supported by an ADL. Till now company has 8 Process Patents filed in India while 3 Process Patent applications are pending. ADL is fully supported by analytical instruments (LCMASS, GCMASS, UV spectrophotometer, ultrasonic bath, photo stability & stability chambers, etc.). R&D team consists of 7 Ph.Ds and 39 Masters' degrees holders.

Fig 3 – Revenue mix of Domestic and Export (FY21)



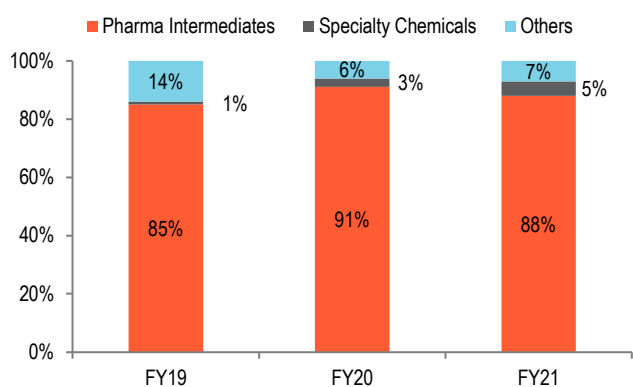
Source: Company, BOBCAPS Research

Fig 4 – Exports revenue break-up (FY21)



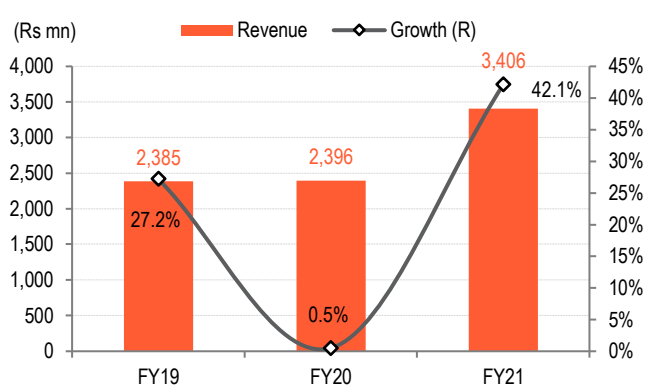
Source: Company, BOBCAPS Research

Fig 5 – Pharma to remain lead contributors in revenues



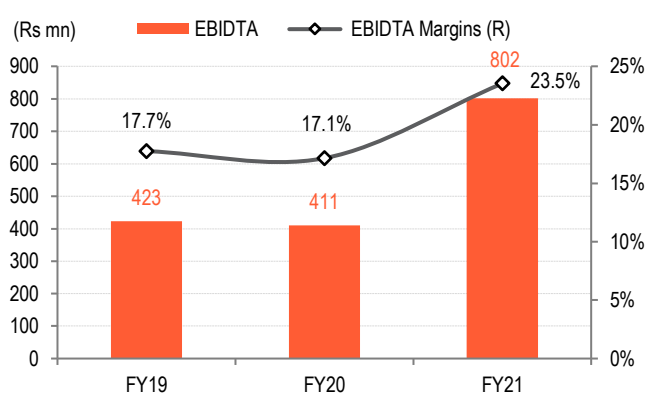
Source: Company, BOBCAPS Research

Fig 6 – Revenue CAGR of 22% in FY19-21



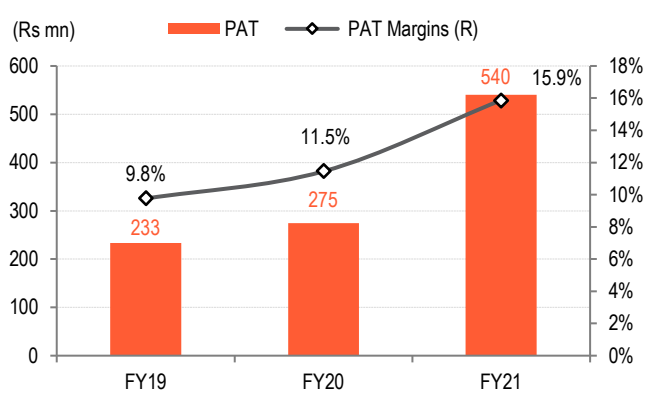
Source: Company, BOBCAPS Research

Fig 7 – EBITDA margin expanded 580bps over FY19-21



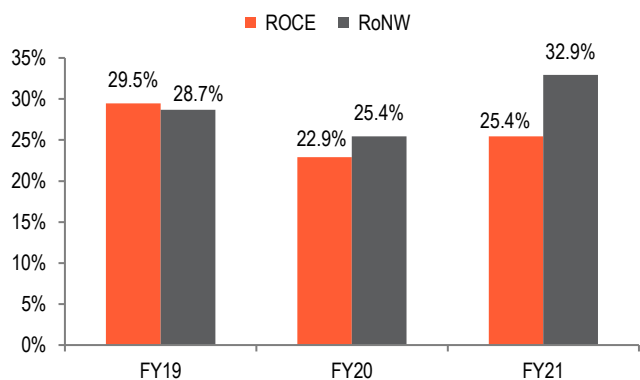
Source: Company, BOBCAPS Research

Fig 8 – PAT margin expansion of 610bps over FY19-21



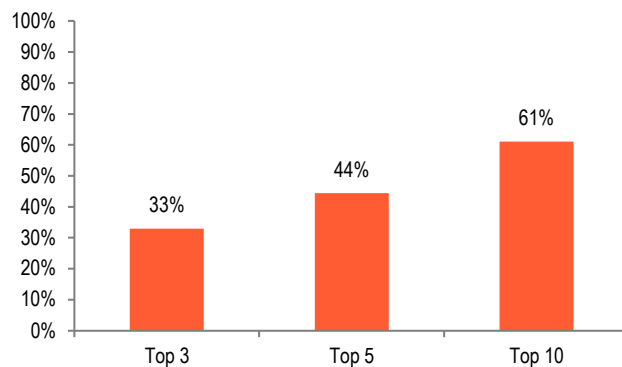
Source: Company, BOBCAPS Research

Fig 9 – ROCE>22%, ROE>25% over last three years



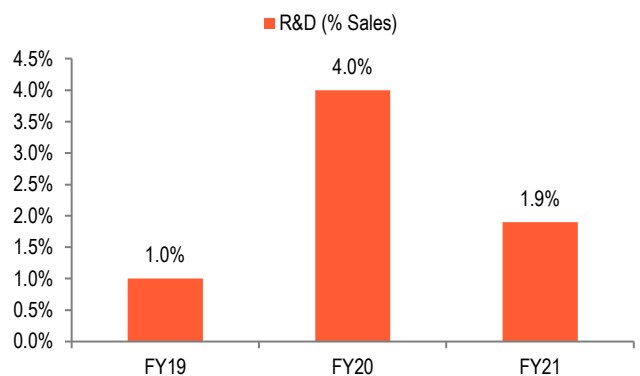
Source: Company, BOBCAPS Research

Fig 10 – Profile of customer concentration (FY21)



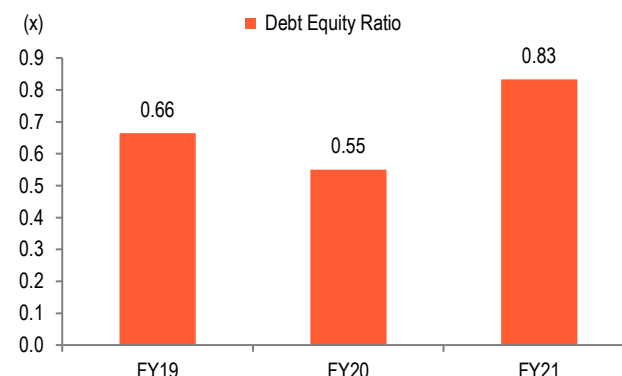
Source: Company, BOBCAPS Research

Fig 11 – R&D spend of the company



Source: Company, BOBCAPS Research

Fig 12 – Debt to equity ratio



Source: Company, BOBCAPS Research

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21A
Revenue from Operations	2,385	2,396	3,406
Cost of Materials consumed	1,521	1,379	1,747
Changes in inventories of FGs/ TGs and WIP	(36)	(90)	48
Gross Profit	900	1,107	1,611
GPM (%)	37.7	46.2	47.3
Employee benefits expenses	117	178	210
Other expenses	363	519	599
EBITDA	420	410	802
EBITDAM (%)	17.6	17.1	23.5
Depreciation and amortization	26	35	42
EBIT	394	375	760
Finance costs	48	56	56
Other Income	4	28	14
PBT	350	347	718
Tax Expense	118	73	177
ETR	34	21	25
PAT	232	274	541
NPM (%)	9.7	11.4	15.9
EPS	7.4	8.7	17.2

Cashflow Statement

Particulars (Rs mn)	FY19A	FY20A	FY21A
Operating Profit before working capital changes	426	449	797
Working Capital changes	(140)	(94)	(384)
Net Cashflow from Operating Activities	148	271	271
Cash generated/ (used) in Investing activities	(209)	(239)	(1,004)
Cash generated/ (used) in Financing activities	56	2	721
Net increase/ (decrease) in cash and cash equivalents	(4)	33	(11)
Cash and cash equivalents in the beginning of the year	9	5	38
Cash and cash equivalents at the end of the year	5	38	27

Balance Sheet

Particulars (Rs mn)	FY19A	FY20A	FY21A
ASSETS			
NON-CURRENT ASSETS			
Property, Plant and Equipment	577	622	1,606
Capital Work-In-Progress	20	117	2
Other Non-Current Assets	294	370	362
Total Non-Current Assets	891	1,109	1,970
CURRENT ASSETS			
Inventories	387	523	604
Trade Receivables	761	564	1,207
Cash and Cash Equivalents	5	38	27
Other Current Assets	89	85	325
Total Current Assets	1,242	1,210	2,163
Total Assets	2,133	2,319	4,133
EQUITY AND LIABILITIES			
EQUITY			
Equity share Capital	105	105	315
Other Equity	717	1,013	1,354
Total Equity	822	1,118	1,669
NON-CURRENT LIABILITIES			
Borrowings	221	199	726
Other Non-Current Liabilities	32	55	77
Total Non-Current Liabilities	253	254	803
CURRENT LIABILITIES			
Current Borrowings	261	339	445
Trade Payables	684	514	844
Other Current Liabilities	113	94	372
Total Current Liabilities	1,058	947	1,661
Total Liabilities	1,311	1,201	2,464
Total Equity and Liabilities	2,133	2,319	4,133

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21A
Reported EPS	7.4	8.7	17.2
Adjusted EPS	7.4	8.7	17.2
Dividend per share	0.0	0.0	0.0
Book value per share	26.1	35.5	53.0

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21A
EV/Sales	12.0	12.0	8.4
EV/EBITDA	68.2	69.9	35.7
Adjusted P/E	127.4	107.9	54.6
P/BV	36.0	26.4	17.7

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21A
Tax burden (Net profit/PBT)	0.7	0.8	0.8
Interest burden (PBT/EBIT)	0.9	0.9	0.9
EBIT margin (EBIT/Revenue)	16.5	15.7	22.3
Asset turnover (Rev./TA)	1.1	1.0	0.8
Leverage (TA/Equity)	2.6	2.1	2.5
Adjusted ROE	28.2	24.5	32.4

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21A
YoY growth (%)			
Revenue	27.2	0.5	42.1
EBITDA	26.4	-2.9	95.2
Adjusted EPS	-	18.1	97.4
Profitability & Return ratios (%)			
EBITDA margin	17.6	17.1	23.5
EBIT margin	16.5	15.7	22.3
Adjusted profit margin	9.7	11.4	15.9
Adjusted ROAE	33.5	29.1	39.7
ROCE	30.2	22.6	26.8
Working capital days (days)			
Receivables	115	85	128
Inventory	58	79	64
Payables	103	77	89
Ratios (x)			
Gross asset turnover	3.4	3.2	3.6
Current ratio	1.2	1.3	1.3
Net interest coverage ratio	8.2	6.7	13.6
Adjusted debt/equity	0.6	0.5	0.7

Source: Company, BOBCAPS Research

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

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Note: Recommendation structure changed with effect from 21 June 2021

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