

RESEARCH
AMI Organics | NOT RATED

Emerging pharma intermediate play; riding on Chinese import substitution

Technology & Internet

Significant jump in FY22 growth guidance

SUMMARY
AMI Organics

- 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

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- Accenture (ACN; Y/E Aug) reported record YoY growth of 27% CC. Deal wins stood at record USD16.8bn.
- Outsourcing growth strong at 21.1% YoY USD; bodes well for Indian IT counterparts.
- FY22 guidance raised by 7pps from Q4FY21 to 19%-22%. The significant guidance jump indicates robust demand environment

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Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.46	2bps	(10bps)	54bps
India 10Y yield (%)	6.36	1bps	0bps	47bps
USD/INR	76.23	(0.5)	(2.4)	(3.6)
Brent Crude (US\$/bbl)	73.88	0.2	(10.1)	44.6
Dow	35,927	1.1	(0.5)	19.1
Shanghai	3,648	(0.4)	3.1	8.3
Sensex	57,788	(0.6)	(4.8)	23.8
India FII (US\$ mn)	14-Dec	MTD	CYTD	FYTD
FII-D	(95.4)	(415.4)	(332.1)	1,695.2
FII-E	(4.1)	(681.0)	4,821.5	(2,504.8)

Source: Bloomberg

BOBCAPS Research

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AMI ORGANICS

| Pharmaceuticals

| 16 December 2021

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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

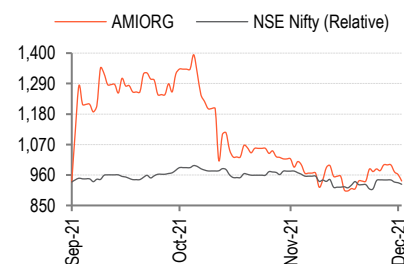
Strategic focus on pharma intermediates: Given sensitive IPR regime of global pharma, AMIORG have a policy stance to focus only on intermediates or advanced intermediates of new-generation medicines in key therapeutic areas. It strategically ramps up its facilities for large volume / value driven molecules 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.

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.

Stock performance



Source: NSE



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Broadbased growth acceleration: ACN reported 27% YoY growth in local currency, its highest ever YoY growth in a quarter and marked a significant beat on its guidance range of 18-22%. Outsourcing and consulting grew by 21.1% and 32.5% YoY respectively. This was ACN's strongest ever outsourcing growth which heralds positive news for Indian IT peers.

Among verticals, growth was led by superior traction in communication-hi-tech and products which were up by 32.2%/ 33.6% YoY USD. Financial services vertical was up 24.4%. Growth was broad-based across verticals with all geographies registering 26-28% YoY USD growth. ACN invested USD1.7bn in acquisitions in Q1 and plans to invest USD4bn in FY22.

Robust demand environment: All clients are going for core digital transformation and selecting strategic technology partners. Technology is the single biggest driver of change, with companies now adopting compressed transformation (the transformation is also getting sped up) enabled by cloud and SaaS platform. This has also helped in improved pricing in recent deal wins.

FY22 guidance raised: ACN raised its FY22 revenue growth guidance from 12%-15% USD in Q4FY21 to 19%-22%, which is a big jump. This was on the back of record deal wins of USD16.78bn, up 30.1% YoY. Q2FY22 revenue guidance was pegged at USD14.3-14.7bn. ACN saw 20 clients with >USD100mn in booking in Q1FY22. TTM bookings were up outsourcing and consulting bookings were up by 42.3% and 17.3% YoY. Pipeline continues to be robust after record deal bookings.

Attrition cools down: Supply pressure continued as Accenture added 160,037 employees YoY. However, attrition tapered down for the first time in last six quarters and declined 2pps QoQ to 17%. ACN's senior management attrition is also low vs. peers. Utilization was flat QoQ at 92%. ACN completed its recent promotion cycle wherein it promoted ~90,000 employees across the world and chartered satisfying career paths for employees to control attrition. This indicates a positive readthrough for supply crunched Indian peers.

Recommendation snapshot

Ticker	Price	Target	Rating
AFFLE IN	1,086	1,390	BUY
COFORGE IN	5,355	6,680	BUY
ECLX IN	2,244	2,880	BUY
HCLT IN	1,160	1,440	BUY
INFO IN	1,772	2,000	BUY
INFOE IN	5,512	7,700	BUY
INMART IN	7,130	8,430	BUY
JUST IN	812	1,190	BUY
LTI IN	6,840	7,980	BUY
MPHL IN	3,210	3,510	HOLD
MTCL IN	4,591	3,390	SELL
PSYS IN	4,504	4,170	HOLD
TCS IN	3,582	4,630	BUY
TECHM IN	1,653	1,890	BUY
WPRO IN	644	840	BUY

Price & Target in Rupees | Price as of 16 Dec 2021



Disclaimer

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

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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