

Advanced Enzyme Technologies

14 September, 2021

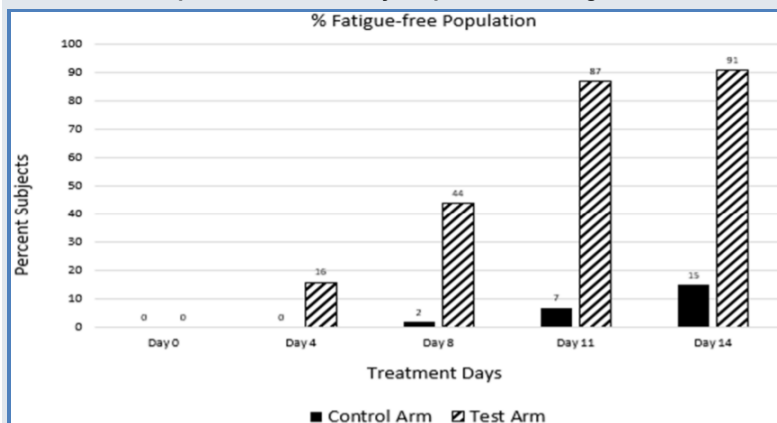
Reuters: ADEN.NS; Bloomberg: ADVENZY:IN

E-commerce foray through post-Covid immunity product

ADVENZY has recently launched Covid immunity management products after conducting clinical trials on 200 patients. The bundle of ImmunoSEB and Biome Ultra is available only on Amazon and priced at Rs2,490 (15 days pack). The outcome of these clinical trials was the resolution of post-Covid fatigue and reduced discharge time. The management claims that it is the only clinically approved product in India, which deals with the post-Covid fatigue. We believe that since this is an OTC product (not a doctor prescribed product), marketing strategy is very critical. The Health Supplements space is a crowded market on E-commerce platforms at attractive price points. The management has neither indicated any revenue potential of this product nor explained the marketing strategy to promote this aggressively. We don't see any material changes in our earnings estimates post this development. We maintain Accumulate on ADVENZY with an unchanged Target Price (TP) of Rs410. Overall, we are building in Revenue/EBITDA/APAT CAGR of 17%/15%/18% over FY21-23E. We value ADVENZY at 23x PE on FY23E earnings i.e., at a significant discount to Novozymes' valuation of 37x PE on FY23E (global leader in Industrial Enzymes), primarily on account of lower-than-expected growth delivery and rising competition. A significant acquisition(s) and/or strengthening of the leadership team are some of the key re-rating triggers, in our view.

Outcome of clinical trials: Randomised, multicentre, double blind and placebo-controlled clinical trials were conducted on 200 patients suffering from post-Covid fatigue symptoms. 100 patients (test arm) were administered with oral supplements for 14 days and rest 100 patients (control arm) were administered with placebo. Trials resulted in resolution of fatigue in a greater proportion (91%) on patients during the test as against control arm (15%).

Exhibit 1: A 200-patient clinical study on post Covid fatigue



Source: Company, Nirmal Bang Institutional Equities Research

Only clinically approved product in India: ADVENZY has bundled two of its existing products namely, ImmunoSEB (systemic enzyme) and Biome Ultra (probiotic supplement). The management claims that it is the only clinically approved product in India, which deals with the post-Covid fatigue. The bundle of ImmunoSEB and Biome Ultra is available only on Amazon and is priced at Rs1,250 (7-day pack) and Rs2,490(15-day pack). This is available in India and USA. The Health Supplements space is a crowded market even on E-commerce platforms at attractive price points, in our view. Since this product of ADVENZY comes under the Health Supplements category, approval from FSSAI is in place.

Do not see a material change in earnings because of this development: We believe that since this is an OTC product (not a doctor prescribed product), marketing strategy is very critical. The Health Supplements space is a crowded market even on E-commerce platforms at attractive price points. The management has neither indicated any revenue potential of this product nor explained the marketing strategy to promote this aggressively. We don't see any material changes in our earnings estimates post this development.

ACCUMULATE

Sector: Chemicals

CMP: Rs412

Target Price: Rs410

Upside: Nil

Abhishek Navalgund

Research Analyst

abhishek.navgund@nirmalbang.com

+91-22-6273-8013

Key Data

Current Shares O/S (mn)	111.8
Mkt Cap (Rsbn/US\$m)	46.1/625.5
52 Wk H / L (Rs)	504/217
Daily Vol. (3M NSE Avg.)	557,819

Price Performance (%)

	1 M	6 M	1 Yr
Advanced Enzyme	6.1	16.4	74.9
Nifty Index	5.0	15.5	51.7

Source: Bloomberg

Financials (Consolidated)
Exhibit 2: Income statement

Y/E March (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	4,196	4,440	5,018	5,941	6,881
Growth YoY%	7.3	5.8	13.0	18.4	15.8
COGS	772	809	990	1,210	1,457
Gross margin %	81.6	81.8	80.3	79.6	78.8
Staff costs	780	802	871	1,067	1,240
Other expenses	817	798	842	986	1,126
EBITDA	1,826	2,031	2,315	2,678	3,058
Growth YoY%	11.6	11.3	14.0	15.7	14.2
EBITDA margin %	43.5	45.8	46.1	45.1	44.4
Depreciation	211	258	284	297	310
EBIT	1,614	1,774	2,031	2,381	2,749
Interest	52	41	16	20	20
Other income	57	59	88	150	190
PBT (bei)	1,620	1,792	2,104	2,511	2,919
PBT	1,620	1,792	2,104	2,511	2,919
ETR %	28	26	28	27	27
PAT	1,111	1,293	1,462	1,767	2,044
Adj PAT	1,111	1,293	1,462	1,767	2,044
Growth YoY%	23.2	16.4	13.1	20.9	15.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Balance sheet

Y/E March (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
Share Capital	223	223	223	223	223
Reserves & Surplus	6,565	8,173	9,483	11,162	13,103
Net worth	6,788	8,397	9,706	11,385	13,327
MI	260	278	601	669	759
Long term debt	70	42	99	-	-
Short term debt	213	127	47	47	47
Total debt	284	169	146	47	47
Other non-current liabilities	282	400	445	445	445
Total Equity & Liabilities	7,614	9,244	10,898	12,546	14,577
Gross block	3,198	3,864	4,519	4,639	4,759
Accumulated depreciation	910	1,128	1,412	1,709	2,018
Net Block	2,288	2,736	3,107	2,930	2,741
CWIP	48	48	50	20	20
Intangible and others	57	54	54	54	54
Goodwill on consolidation	2,715	2,941	2,901	2,901	2,901
Other non-current assets	123	177	254	493	714
Investments	1,110	1,236	1,214	1,820	2,730
Trade receivables	587	747	863	941	1,085
Inventories	769	800	939	1,067	1,228
Cash & Cash equivalents	234	830	1,978	2,668	3,439
Other current assets	120	143	168	193	193
Total current assets	2,821	3,756	5,161	6,689	8,675
Trade payables	97	96	152	86	94
Other current liabilities	341	372	476	455	434
Total current liabilities	438	468	629	541	528
Total Assets	7,614	9,244	10,898	12,546	14,577

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Cash flow

Y/E March (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
PBT	1,620	1,792	2,104	2,511	2,919
Depreciation	211	258	284	297	310
Interest	39	26	16	20	20
Other adjustments	10	(1)	(57)	(150)	(190)
Change in Working capital	(121)	(156)	(150)	(320)	(318)
Tax paid	(124)	(127)	(268)	(257)	(302)
Operating cash flow	1,286	1,409	1,629	1,682	1,955
Capex	(124)	(507)	(194)	(89)	(120)
Free cash flow	1,162	902	1,435	1,593	1,835
Other investing activities	(1,123)	62	(66)	(637)	(941)
Investing cash flow	(1,247)	(445)	(260)	(726)	(1,061)
Issuance of share capital	1	2	3	-	-
Movement of Debt	(313)	(223)	(157)	(99)	-
Dividend paid (incl DDT)	(80)	(105)	(80)	(88)	(102)
Other financing activities	(39)	(59)	(30)	(20)	(20)
Financing cash flow	(431)	(386)	(263)	(207)	(122)
Net change in cash flow	(392)	578	1,106	749	771
Opening C&CE	611	231	827	1,919	2,668
Closing C&CE	231	827	1,919	2,668	3,439

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Key ratios

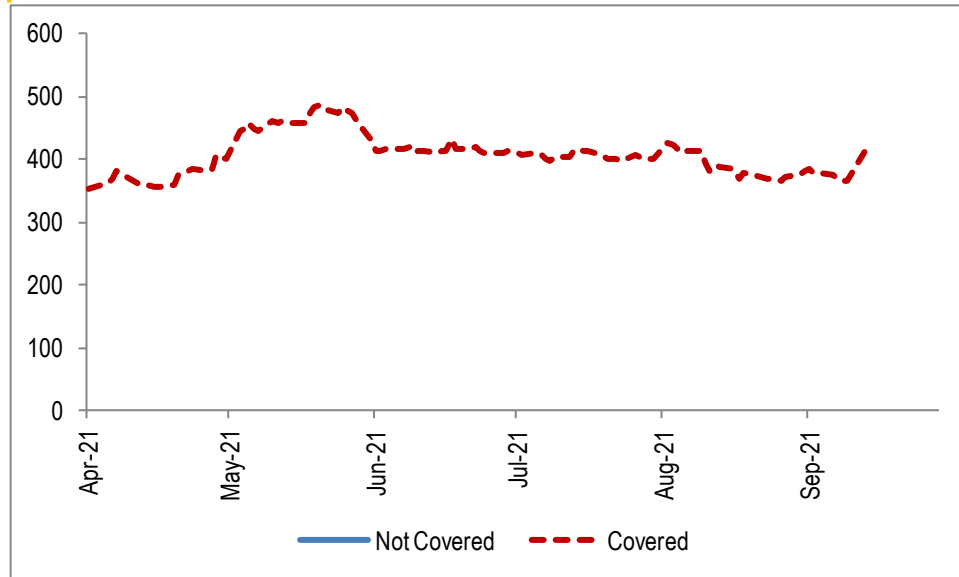
Y/E March (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
Per share (Rs)					
Adj EPS	9.9	11.6	13.1	15.8	18.3
Book value	60.8	75.2	86.9	101.9	119.3
DPS	0.6	0.6	0.9	0.8	0.9
Valuation (x)					
P/Sales	11.0	10.4	9.2	7.7	6.7
EV/sales	11.0	10.2	8.8	7.3	6.2
EV/EBITDA	25.2	22.3	19.1	16.2	13.9
P/E	41.4	35.6	31.5	26.0	22.5
P/BV	6.8	5.5	4.7	4.0	3.5
Return ratios (%)					
RoCE	24.4	22.7	22.1	22.4	22.2
RoE	17.9	17.0	16.2	16.8	16.5
Profitability ratios (%)					
Gross margin	81.6	81.8	80.3	79.6	78.8
EBITDA margin	43.5	45.8	46.1	45.1	44.4
PAT margin	26.1	28.7	28.6	29.0	28.9
Liquidity ratios (%)					
Current ratio	4.3	6.3	7.6	11.4	15.1
Quick ratio	3.2	5.0	6.2	9.6	13.0
Solvency ratio (%)					
Debt to Equity ratio	0.0	0.0	0.0	0.0	0.0
Turnover ratios					
Fixed asset turnover ratio (x)	1.8	1.8	1.7	2.0	2.4
Debtor days	51	55	59	55	54
Inventory days	66	65	63	62	61
Creditor days	12	8	9	7	5

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
1 April 2021	ACCUMULATE	353	400
31 May 2021	ACCUMULATE	428	410
11 August 2021	ACCUMULATE	383	410
14 September 2021	ACCUMULATE	412	410

Rating Chart



DISCLOSURES

This Report is published by Nirmal Bang Equities Private Limited (hereinafter referred to as “NBEPL”) for private circulation. NBEPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001436. NBEPL is also a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments.

NBEPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBEPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBEPL, its associates or analyst or his relatives do not hold any financial interest in the subject company. NBEPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBEPL or its associates or Analyst or his relatives do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBEPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBEPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and NBEPL / analyst has not been engaged in market making activity of the subject company.

Analyst Certification: I/We, Abhishek Navalgund the Research Analyst, are the authors of this report, hereby certify that the views expressed in this research report accurately reflects my/our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s) principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. NBEPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBEPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBEPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBEPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBEPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBEPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBEPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBEPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBEPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBEPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Copyright of this document vests exclusively with NBEPL.

Our reports are also available on our website

Access all our reports on Bloomberg, Thomson Reuters and Factset.

Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park,
 Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010