



The Trick Is To  
**Spot Them** At The  
**Larval Stage**

## Advanced Enzyme Technologies Health is Wealth!

Our Tiny Treasure for the month of March is Advanced Enzyme Technologies Limited (AETL). AETL is India's largest enzyme company that has transformed business globally in the manufacturing of enzymes based on research and technology. It is engaged in the research & development, manufacturing & marketing of 400+ proprietary products, developed from over 68 indigenous enzymes and probiotics. It has state-of-the-art manufacturing facilities in India, US and Germany. AETL has the second-highest market share in the domestic market, next only to the world's largest enzyme company Novozymes.

It is committed to providing eco-safe solutions to a wide variety of industries like human healthcare & nutrition, animal nutrition, baking, fruit & vegetable processing, brewing & malting, grain processing, protein modification, dairy processing, speciality applications, textile processing, leather processing, paper & pulp processing, biofuels, biomass processing and biocatalysis etc. In FY19, human nutrition vertical comprising active ingredient for nutraceuticals and pharmaceuticals contributed 76 per cent of the revenue, followed by animal nutrition and bio-processing, contributing 12 per cent each. Also, in FY19, the geographical revenue mix included USA (50 per cent), India (41 per cent), Asia (four per cent), Europe (three per cent) and others (two per cent).

### Human Nutrition – Revenue driver

AETL provides proprietary enzyme products and customised enzyme solutions to various pharmaceutical and nutraceutical companies, which are used as active ingredients in their pharmaceutical and nutraceutical formulations in India, North America, Asia (except India), Europe and other countries globally. The company caters to leading companies like Sanofi India, Cipla, Ipca Lab, Torrent, Godrej Agrovet, Sugana Foods, Hindustan Unilever and SABMiller. Compared to pharmaceuticals, nutraceuticals are less regulated in US and has a huge market potential. Along with this, the company has developed probiotics, which have become an integral part of several therapies for the digestive disorders and newer applications for the treatment of several other diseases. India remains a key growth country for human nutrition segment in the upcoming quarters. The company is trying to strengthen its foothold in other regions too, other than US.

### Animal Nutrition – next growth driver

Enzymes increase the digestibility of modern animal feeds, which improves feed gain ratios for ruminants and monogastric animals alike. Such enzymes may benefit dogs and cats by improving the digestibility of pet foods and also, by strengthening their immune system. The ability of probiotic to produce enzymes, benefit metabolites and competitive exclusion of harmful microorganism has led to their widespread applications in animal healthcare as well, where they are used for growth promotion and also, as an antibiotic replacement tool. AETL continues to focus on new age applications, such as palm oil extraction and biodiesel. The animal feed sector globally is a promising market and could be the next growth driver for the company.

### Bioprocessing segment

Under its food processing segment, the company provides proprietary enzyme products and customised enzyme solutions for food processing industries like baking, dairy, cheese processing, fruit & vegetable processing, cereal extraction, brewing, grain processing, protein processing and oil & fat processing. Whereas, under its non-food processing segment, it offers eco-safe solutions to a variety of industries such as textiles, leather, detergent and pulp & paper, which are used in the manufacturing of wide range of products. As this segment caters to various industries, their demand is consistent but their risk gets diversified at times, when any specific industry faces a slowdown.

### Strong R&D

The R&D segment is the company's forte. Its R&D team comprises of scientists, microbiologists, engineers, food technologists and biotechnologists. The R&D efforts across seven centres have helped the company to develop more than 68 proprietary enzymes in house. The R&D capabilities include fermentation process development, applied microbiology, proteomics and application development. By the end of FY19, the company had been granted 22 patents and had 11 food enzymes dossiers filed with European Food Safety Authority (EFSA). Also, the company is planning to spend Rs 100 crore for R&D in the form of capital expenditure over the next three years.

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BSE Code	: 540025
Time Duration	: 1 year
CMP	: ₹106.15 (as on 26 March, 2020)
Target Price	: ₹138

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## Stake in Evoxx strengthen presence in Europe

In mid-FY17, AETL had acquired 100 per cent stake in Evoxx Technologies GmbH in Germany through its wholly-owned subsidiary-Advanced Enzymes Europe BV. This has helped AETL to expand its enzyme portfolio and business in biocatalysis and food applications. This has strengthened its presence in European market too. Also, the revenue contribution from Europe has increased post acquisition. During 9MFY20, the growth in revenue and EBITDA from Evoxx business grew substantially. This improvement is expected to provide stability to consolidate EBITDA margins going forward. The management expects Evoxx business to remain on growth trajectory going ahead.

## Financial Performance

AETL's consolidated revenue for the quarter Q3FY20 came in at Rs 111.94 crore as against Rs 101.74 crore in the corresponding quarter last year, registering 10 per cent YoY increase. EBITDA for the quarter grew by 26.7 per cent YoY to Rs 52.86 crore as against Rs 41.72 crore in the corresponding quarter last year, with a corresponding margin expansion of 622 bps. EBITDA margin for the quarter stood at 47.2 per cent. PAT for the quarter came in at Rs 34.55 crore as against Rs 25.34 crore in the corresponding quarter last year, with YoY increase of 36.3 per cent. Looking at nine-month numbers i.e. for 9MFY20, the revenue

jumped by eight per cent YoY to Rs 333.72 crore while, EBITDA grew by 16 per cent YoY to 153.62 crore. Further, the company reported a net profit of Rs 100.37 crore, up by 22 per cent, YoY.

AETL's revenue and PAT have grown at CAGR of 15.9 per cent and 22.3 per cent, respectively over FY15-19. Its balance sheet is strong with a negligible debt in books, taking debt-equity ratio to 0.02x by the end of December 2019.

## Valuation

The company is trading at TTM P/E of 8.5x with TTM EPS of Rs 11.66. In FY19, it delivered ROE and ROCE of 18.8 per cent and 24.9 per cent, respectively. Enzymes play a vital role in human and animal nutrition segments and for the pharmaceutical industry. With the changing lifestyle and growing health awareness, the demand for probiotic products is on the rise. Thus, in the upcoming years, the company's enzymes and probiotics products would witness higher growth. The recent rupee depreciation would help the company in terms of its international business. As it supplies enzymes to major pharma companies, in the current lockdown situation in India for the prevention of Coronavirus spread, the company is comparatively less riskier as compared to other companies. Considering these above factors, we see a potential upside of 30 per cent with a target price of Rs 138 for the period of one year.

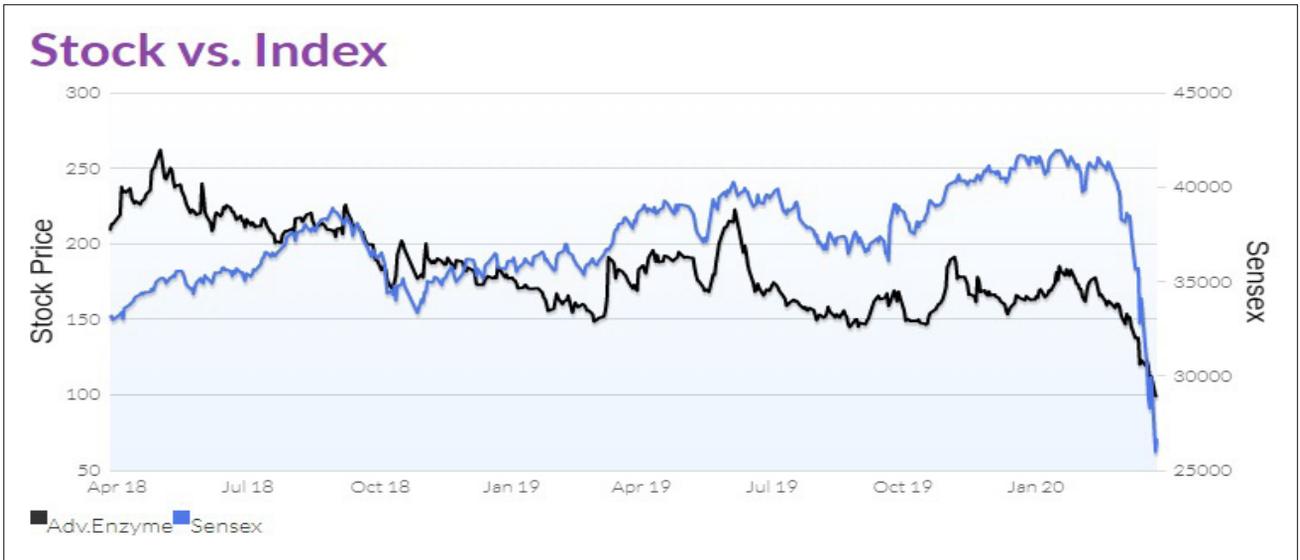
## Inc/Exp Statement (Consolidated) (Rs in Lakh)

Description	201903	201803	201703	201603	201503
Net Sales	41959.10	39101.50	32898.80	29376.20	22310.80
Total Income	42531.30	39380.40	33178.20	29505.10	22566.70
Total Expenditure	23703.10	22747.70	17753.60	15619.90	13258.60
PBIDT	18828.20	16632.70	15424.60	13885.20	9308.10
PAT	11590.30	9355.60	9294.40	7674.70	5181.30
Dividend %	30.00	25.00	20.00	10.00	5.00
Adj. EPS(Rs)	9.95	8.08	8.20	6.97	4.68

## Quarter On Quarter (Consolidated) (Rs in Lakh)

Particulars	201912	201909	Q on Q Var %	201812	Y on Y Var %
Net Sales	11194.40	11144.20	0.45	10174.10	10.03
Total Expenditure	5907.40	6417.40	-7.95	6001.40	-1.57
PBIDT (Excl OI)	5287.00	4726.80	11.85	4172.70	26.70
PAT	3455.80	3184.30	8.53	2534.70	36.34
PBIDTM% (Excl OI)	47.23	42.41	11.37	41.01	15.17
PBIDTM%	48.31	43.79	10.32	41.35	16.83
PATM%	30.87	28.57	8.05	24.91	23.93
Adj. EPS(Rs)	3.01	2.77	8.66	2.19	37.44

Continued On PG 3...



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