IPO Note – Ami Organics Limited

30-August-2021

Issue Snapshot:
Issue Open: Sep 01 – Sep 03 2021

Price Band: Rs. 603 – 610

*Issue Size: 9,338,289 eq shares
(Fresh Issue of Rs.200 cr + Offer for sale of 6,059,600 eq sh)

Issue Size: Rs.563.1 – 569.6 cr

Reservation for:

QIB	Upto 50% eq sh
Non Institutional	atleast 15% eq sh
Retail	atleast 35% eq sh

Face Value: Rs 10

Book value: Rs 52.99 (Mar 31, 2021)

Bid size: - 24 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs. 33.16 cr
Post issue Equity:	Rs. 36.44 cr

Listing: BSE & NSE

Book Running Lead Managers: Intensive Fiscal Services Private Ltd, Ambit Private Ltd, Axis Capital Ltd

Registrar to issue: Link Intime India Private Ltd

Shareholding Pattern

Shareholding Pattern	**Pre issue %**	**Post issue %**
Promoter and Promoter Group	47.2	41.1
Public	52.8	58.9
Total	100.0	100.0

*=assuming issue subscribed at higher band
Source for this Note: RHP

Background & Operations:

Ami Organics Limited (AOL) is a research and development ("R&D") driven manufacturer of specialty chemicals with varied end usage, focussed towards the development and manufacturing of advanced pharmaceutical intermediates ("Pharma Intermediates") for regulated and generic active pharmaceutical ingredients ("APIs") and New Chemical Entities ("NCE") and key starting material for agrochemical and fine chemicals, especially from its recent acquisition of the business of Gujarat Organics Limited ("GOL")("Acquisition"). It is one of the major manufacturers of Pharma Intermediates for certain key APIs, including Dolutegravir, Trazodone, Entacapone, Nintedanib and Rivaroxaban. The Pharma Intermediates which it manufactures, find application in certain high-growth therapeutic areas including anti-retroviral, anti-inflammatory, anti-psychotic, anti-cancer, anti-Parkinson, anti-depressant and anti-coagulant, commanding significant market share both in India and globally.

AOL has developed and commercialised over 450 Pharma Intermediates for APIs across 17 key therapeutic areas since inception and NCE, with a strong focus on R&D across select high-growth high margin therapeutic areas such as anti-retroviral, anti-inflammatory, anti-psychotic, anti-cancer, anti-Parkinson, anti-depressant and anticoagulant, for use across the global pharmaceutical market. Its Pharma Intermediates used for manufacturing of APIs and NCEs portfolio has expanded from over 425 products as of March 31, 2019, to over 450 products as of March 31, 2021 and its focus on R&D and continuous process improvement has positioned it as a preferred supplier to its customers.

In addition, AOL recently completed the acquisition of two additional manufacturing facilities operated by GOL which has added preservatives (parabens and parabens formulations which has end usage in cosmetics, animal food and personal care industries) and other specialty chemicals (with end usage in inter alia the cosmetics, dyes polymers and agrochemicals industries) in its existing product portfolio, which command significant market share globally in the supply of certain paraben derivatives. The Company has eight process patent applications (in respect of intermediates used in the manufacture of Apixaban, Rivaroxaban, Nintedanib, Vortioxetine, Selexipag, Pimavanserin, Efinaconazole and Eliglustat) which has been published in the Official Journal of the Patent Office in India and three additional pending process patent applications for which applications were made recently, in March 2021. Along with the domestic market, it supplies Pharma Intermediates used for manufacturing of APIs and NCEs to various multi-national pharmaceutical companies which cater to the large and fast-growing markets of Europe, China, Japan, Israel, UK, Latin America and the USA.

AOL supply its products to more than 150 customers (including international customers) directly in India and in 25 countries overseas, using a distributorship network in certain cases. Some of its domestic customers include Laurus Labs Limited, Cadila Healthcare Limited and Cipla Limited and some of its key its export customers include Organike s.r.l.a Socio Unico, Fermion Oy, Fabbrica Italiana Sintetici S.p.A, Chori Co. Ltd., Medichem S.A. and Midas Pharma GmbH. It has established long standing relationships with some of its key customers. Thirteen of its customers have been customers since the past 10 years and fifty of its customers have been customers since the past five years. The speciality chemicals that it manufacture, find use in the agrochemicals and fine chemicals industry

AOL has three manufacturing units located at (i) GIDC, Sachin, Gujarat, spread over an aggregate land area of 8,250 sq. mtrs. with an installed capacity of 2,460.00 MTPA ("Sachin Facility"), (ii) GIDC, Ankleshwar Industrial Estate, Gujarat, spread over an aggregate land area of 10,644 sq. mtrs. with an installed capacity of 1,200.00 MTPA ("Ankleshwar Facility"), and (iii) GIDC Industrial Estate, Jhagadia, Gujarat, spread over an aggregate land area of 56,998.35 sq. mtrs. with an installed capacity of 2,400.00 MTPA ("Jhagadia Facility" and together with Sachin Facility and Ankleshwar Facility, the "Manufacturing Facilities"). It continually invests in R&D activities to stay ahead and create a differentiating factor and sustainability vis-àvis its competitors. In addition to the Manufacturing Facilities, it has a dedicated in-house R&D facility located in GIDC, Sachin ("R&D Facility") spread over an aggregate built-up area of 2,200 sq. mtrs and is also supported by its analytical development laboratory ("ADL") in relation to developmental activities, freezing specifications and developing the method of analysis for finished products, in process intermediates, key starting materials (KSMs) and raw materials.

Objects of Issue:

The Offer comprises of a Fresh Issue aggregating up to Rs. 2,000* million by AOL and an Offer for Sale of up to 6,059,600 Equity Shares, by the Selling Shareholders.

Offer for Sale

The proceeds of the Offer for Sale shall be received by the Selling Shareholders. AOL will not receive any proceeds from the Offer for Sale. The Selling Shareholders will be entitled to the proceeds from the Offer for Sale, net of their respective portion of the Offer related expenses and relevant taxes thereon.

Fresh Issue

The net proceeds of the Fresh Issue, i.e., Gross proceeds of the Fresh Issue less the Offer expenses apportioned to AOL ("Net Proceeds") and the proceeds from the Pre-IPO Placement are proposed to be utilised in the following manner:

- Repayment/prepayment of certain financial facilities availed by AOL (Rs.1400 mn);
- Funding working capital requirements of AOL (Rs.900 mn); and
- General corporate purposes.

In addition, AOL expect to achieve the benefit of listing of its Equity Shares on the Stock Exchanges, to enhance its visibility and brand image among existing and potential customers and creation of a public market for its Equity Shares in India.

Competitive Strengths

Strong and diversified product portfolio ably supported by strong R&D and process chemistry skills: AOL is a R&D driven manufacturer of specialty chemicals with varied end usage, focussed towards the development and manufacturing of Pharma Intermediates for regulated and generic APIs and NCE and key starting material for agrochemical and fine chemicals. Based on its existing business strategy of early identification of molecules for development and supply, It has developed and commercialised over 450 Pharma Intermediates for APIs including Dolutegravir, Trazodone, Entacapone, Nintedanib and Rivaroxaban and NCEs across 17 high growth therapeutic areas since inception, such as anti-retroviral, anti-inflammatory, anti-psychotic, anti-cancer, anti-Parkinson, anti-depressant and anti-coagulant.

The Company has a strong market research-based model wherein it focuses on development of Pharma Intermediates either for molecules which are under clinical trials; or for molecules which have been launched in the patented as well as generic space. It is focused on undertaking dedicated R&D in its existing product lines and in areas where there is significant growth potential. As a result of its R&D capabilities, it has been able to file eight process innovation patent applications in India applications (in respect of intermediates used in the manufacture of Apixaban, Rivaroxaban, Nintedanib, Vortioxetine, Selexipag, Pimavanserin, Efinaconazole and Eliglustat) which are presently published in the Official Journal of the Patent Office in India and three additional pending patent applications for which applications were made recently, in March 2021.

In line with AOL's focus on R&D activities, it has also made an investment in its Joint Venture, Ami Onco- Theranostics, LLC, a Delaware, USA entity ("AOL"), which, by way of a transfer of patent usage rights by its JV Partner Photolitec LLC, is entitled to the worldwide usage (except China) of certain patents used in the development of new photosensitizing compounds used to identify and treat cancer through patent and patent applications and additional know-how regarding the same.

Extensive geographical presence and diversified customer base with long standing relationships: AOL caters to domestic and certain multi-national pharmaceutical companies which cater to the large and fast growing markets of Europe, China, Japan, Israel, UK, Latin America and the USA. In Fiscals 2021, 2020 and 2019, its revenue from exports contributed 51.57%, 45.89% and 49.61%, respectively of its revenue from operations. It supplies its products to 25 countries and has long standing relationships with numerous domestic and global pharmaceutical companies. Specifically, it caters extensively to the large geographies of Italy, Finland, France and China, which contributed to 35.47%, 17.67%, 10.55% and 9.45% respectively, of its total revenue from exports for Fiscal 2021.

Diversification of customer base across the domestic and global markets has limited its exposure to a risk of concentration, enabling it to further diversify and expand its business relationships. Some of its domestic customers includes Laurus Labs Limited and Cipla Limited and its export customers includes Organike s.r.l.a Socio Unico, Fermion Oy, Fabbrica Italiana Sintetici S.p.A, Chori Co. Ltd., Medichem S.A. and Midas Pharma GmbH. It has established long standing relationships with its key customers. Its top ten customers for Fiscal 2021 have been its customers for over 3 years and have contributed to 60.99% of its total revenue from operations. Further thirteen of its customers have been customers since the past 10 years and fifty of its customers have been customers since the past five years. Ability to address the varied and stringent client requirements over long periods enables the Company to obtain additional business from existing clients as well as new clients in an industry marked by high entry barriers.

High entry barriers in the chemicals manufacturing industry in which the Company operates*:* AOL manufacture and market advanced pharmaceutical intermediates used for manufacturing of APIs and NCEs in select therapeutic areas such as anti-retroviral, anti-inflammatory, anti-psychotic, anti-cancer, anti-Parkinson, anti-depressant and anti-coagulant. This pharmaceutical intermediates business has high entry barriers inter alia due to: (a) a long gestation period to be enlisted as a supplier with the customers, particularly with the customers in US and European countries, which requires suppliers to adhere to strict compliance requirements, leading to a high regulatory gestation period; and (b) the involvement of complex chemistries in the manufacturing process, which is difficult to commercialize on a large scale.

Further, post 2018, in order to import into, market and sell chemical drugs in the European Union, the drugs need to be registered under the Registration, Evaluation, Authorization and Restriction of Chemicals ("REACH") Regulations. A registration under REACH is primarily a comfort registration for the purposes of ensuring local support point on behalf of the non-EU manufacturer that does not have a local presence in the said country within the European Union. As a consequence of this measure, no new entrants can supply products into the European Union market unless such entrant holds a valid registration under the REACH Regulations. AOL secured REACH registration for some of its products for the purposes of selling and marketing these products in the European Union with an added advantage of being a 'preferred supplier' to its customers in the said territory. This is a significant entry barrier that works in favour of the Company and places it in a major advantageous position vis-à-vis its competitors in the critical European market wherein AOL intends to cater to the regulated players (i.e., the originators and not generic makers).

Strong sales and marketing capabilities: AOL has strong sales, marketing and distribution capabilities. Since the Company's incorporation in 2007, it has created a sales division, aligned with its key therapeutic areas and has focused on developing and growing its engagement with specialists and super specialists. Its marketing team utilizes a variety of sales and marketing techniques and programs to promote its products, including promotional materials, speaker programs, key pharmaceutical trade exhibitions such as CPHI and CHEMSPEC, industry publications, advertising and other media besides reliance on a strong market research-based model wherein it focus on development of advanced pharmaceutical intermediates either for molecules which are under clinical trials; or for molecules which have been launched and approved by pharmaceutical regulators worldwide, including the US-FDA. As a result of its continuous marketing efforts, AOL has received new product requirements from multiple innovators which shall help the Company remain relevant with respect to its reliability for servicing future product requirements.

Experienced and Dedicated Management Team: AOL is led by qualified and experienced Board of Directors and key managerial personnel, who have extensive knowledge and understanding of the global generic pharmaceutical business environment and have the expertise and vision to organically scale up its business. Its executive directors have a collective pharmaceutical industry experience of more than 5 decades and almost all of them have been associated with the Company since its formative years. Apart from the members on its Board, the knowledge and experience of senior and middle level management team members in the pharmaceutical business provides with a significant competitive advantage as it seeks to grow its business.

Consistent financial performance: AOL has a track record of operations of over a decade and has a strong balance sheet with stable cash flows. It has experienced sustained growth in various financial indicators including its revenue and PAT, as well as a consistent improvement in balance sheet position in the last three Fiscals, wherein it has seen an increase in net worth. It strives to maintain a robust financial position with emphasis on having a strong balance sheet and increased profitability. Its strong balance sheet and positive operating cash flows coupled with low levels of debt enable it to fund its strategic initiatives, pursue opportunities for growth and better manage unanticipated cash flow variations. Its financial strength provides a valuable competitive advantage over its competitors with access to financing, which are factors critical to the business.

Business Strategy:

Diversification of product portfolio by strengthening R&D capabilities: With the objective of early identification and attaining early development, AOL constantly seeks to introduce new product verticals and develop its R&D capabilities to distinguish itself from competitors particularly with a view to enhance its development of advanced pharmaceutical intermediates used for manufacturing of APIs and NCEs, either for molecules under clinical trial or those which have been launched. It has a state of art R&D centre which has been approved by DSIR for developing advanced pharmaceutical intermediates and has specialised team of over 60 people across various teams including R&D, regulatory affairs, quality control, quality assurance and analytical development laboratory. With a view to further strengthen its R&D capabilities, it continuously recruits and appoint scientists of varied experience and expertise at its R&D laboratory with an objective to successfully implement its strategy of early identification of development and manufacturing opportunities.

AOL intends to develop, test and manufacture new products meeting regulatory standards subsequent to receipt of requisite regulatory approvals from the relevant authorities in India and overseas and make investments on an ongoing basis in new product launches and research and development for future products. It also intends to invest in development of products which are used in manufacture of APIs being used in formulations whose patents are expiring, which would lead to increase in demand for the Pharma Intermediates for such APIs. Additionally, AOL recent acquisition of GOL's business has now enabled it to manufacture certain products which are manufactured by it in India like PHBA, Paraben derivatives and Cyano phenol.

Augmenting scale through organic and inorganic routes in the current geographic markets and expanding into new geographic markets: The Government of India's proposition to support local manufacturing of many possible raw materials and intermediates especially in the pharmaceutical space will enhance the growth in domestic market and reduce imports, especially from China. With shift in investments from regulated markets like Europe to developing countries like India, domestic production is expected to increase, reducing dependency on imports encouraging the current trend of exports of intermediates to grow substantially. With many global end users looking for alternative to China, India stands as an immediate alternate due to its significant years of experience in handling global regulatory requirements, strong process know how, strength in R&D and low cost. India has good number of well-trained chemists and R&D scientists to support the ever-evolving pharmaceuticals industry. AOL supplies advanced pharmaceutical intermediates used for manufacturing of APIs and NCEs to over 150 customers in India and 25 countries overseas and has established itself as a trusted and reliable supplier of advanced pharmaceutical intermediates used for manufacturing of APIs and NCEs, globally

As on March 31, 2021, the annual installed capacity of AOL's Manufacturing Facilities was 6,060 MTPA. Its Ankleshwar and Jhagadia Facilities (with annual installed capacities of 1,200 MTPA and 2,400 MTPA respectively) were acquired on March 31, 2021, and were accordingly not utilised in Fiscal 2021. The Company is well positioned to consolidate its existing capacity to capitalise upon future growth that is envisaged. It aims to strengthen its manufacturing capability and achieve better economies of scale by organic and inorganic growth. It has and continue to, expand its business through organic growth to increase its production capacities and product portfolio, including by way of its recent acquisitions significantly increases its production capabilities. Consistent with past practice, it will look to add capacity in a phased manner to ensure that it utilize its capacity at optimal levels.

Going forward, AOL may consider acquisition/ investment opportunities to selectively expand in other verticals. Such acquisitions will support its long-term strategy, strengthen competitive position, particularly in acquiring technical expertise and provide greater scale to grow its earnings and increase shareholder value.

Continue to focus on cost efficiency and improving productivity while employing environmentally friendly processes: AOL strongly believes in conducting its business operations in an environmentally responsible manner. It has set up a Zero Liquid Discharge based in-house effluent plant at its Sachin Unit. As it operates in a fiercely competitive industry wherein technology plays a critical role for being a relevant market player with no assurance that the technology developed or adopted by its peers and competitors shall not render its products less competitive or attractive, it continuously strives to keep its technology, facilities and machinery current and updated with the latest international standards. Further, it intends to position itself as a leading market player in its product verticals, both domestically and internationally by adopting the latest technological changes and be responsive to the constant technological upgradations and emerging standards to ensure cost efficiency and environmentally friendly processes in its business operations. It has also developed backward integration capabilities for key raw materials which has helped in minimising reliance on third party vendors. It also entered into contract manufacturing agreements with vendors to supply raw materials. This allows it to minimise supply failure risk and generate greater negotiating power over its suppliers.

Diversification of business by focusing on organic and inorganic growth opportunities: AOL intends to pursue strategic acquisitions and partnerships to complement its organic growth and internal expertise. It also intends to develop its internal capacities and production abilities to achieve intended levels of organic growth. By pursuing strategic acquisitions including the recently concluded acquisition of the business of GOL, AOL will add to its capabilities and technical expertise or enter into partnerships to strengthen its product infrastructure and overall manufacturing capabilities in the specialty chemicals sector. It is in the process of building its synergies and such inorganic expansion will help AOL building synergies going forward.

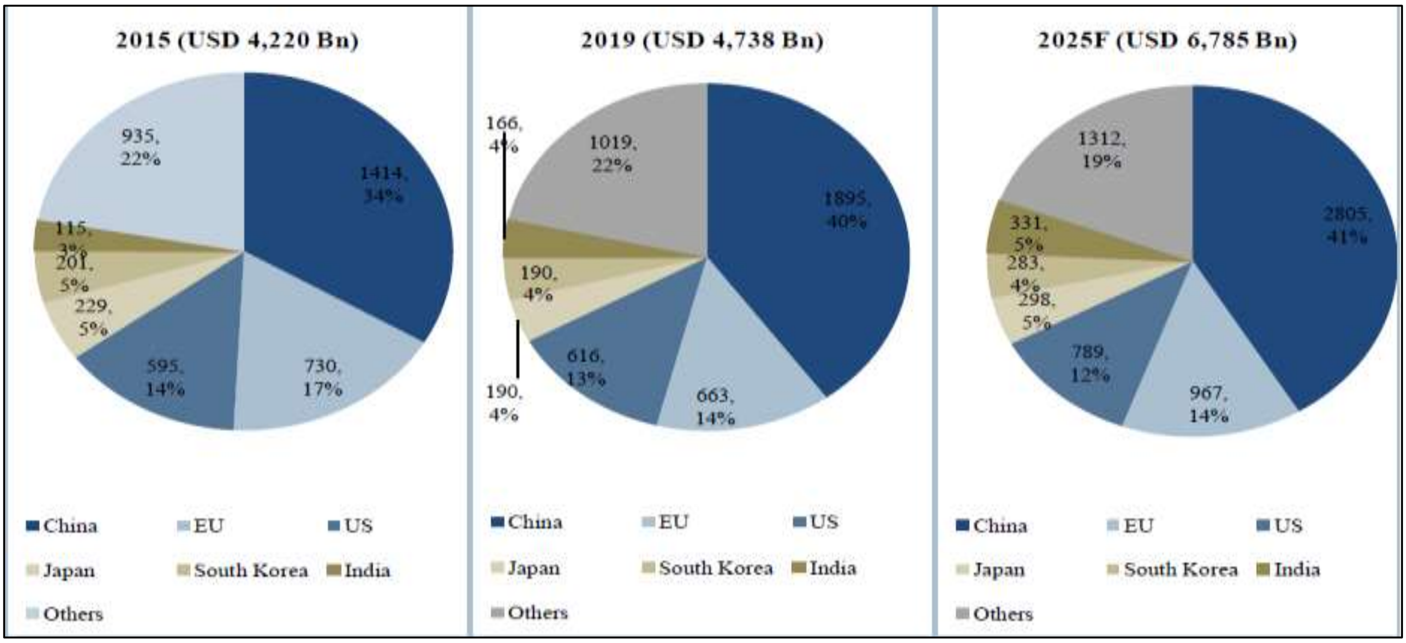
Industry

Global Chemical Industry Overview

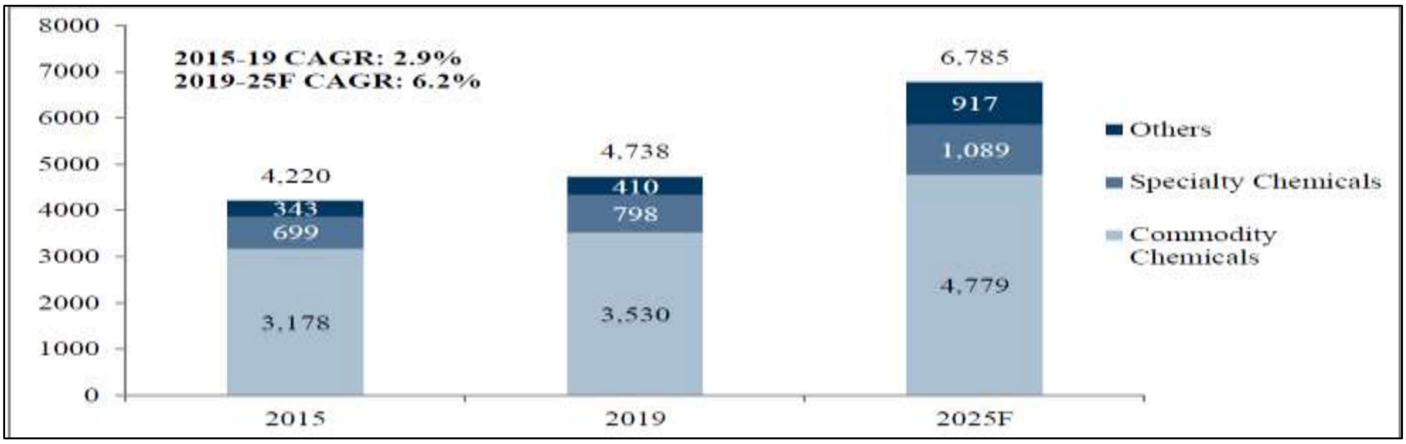
Global Chemicals Market

The global chemicals market is valued at around USD 4,738 Bn in 2019 with China accounting for major market share (40%) in the segment followed by European Union (14%) and United States (13%). India accounts for ~3.5% market share in the global chemicals market. The global chemicals market is expected to grow at 6.2% CAGR; reaching USD 6,785 Bn by 2025. Going forward the APAC is anticipated to grow at the fastest rate of 7- 8% during the forecast period (2019-25F). The chemicals markets in Western Europe, North America, and Japan are relatively mature and hence would record slow growth rates of around 3-4%.

Global chemicals market, 2015, 2019 and 2025F, USD 4,220, USD 4,738 Bn and 6,785 Bn



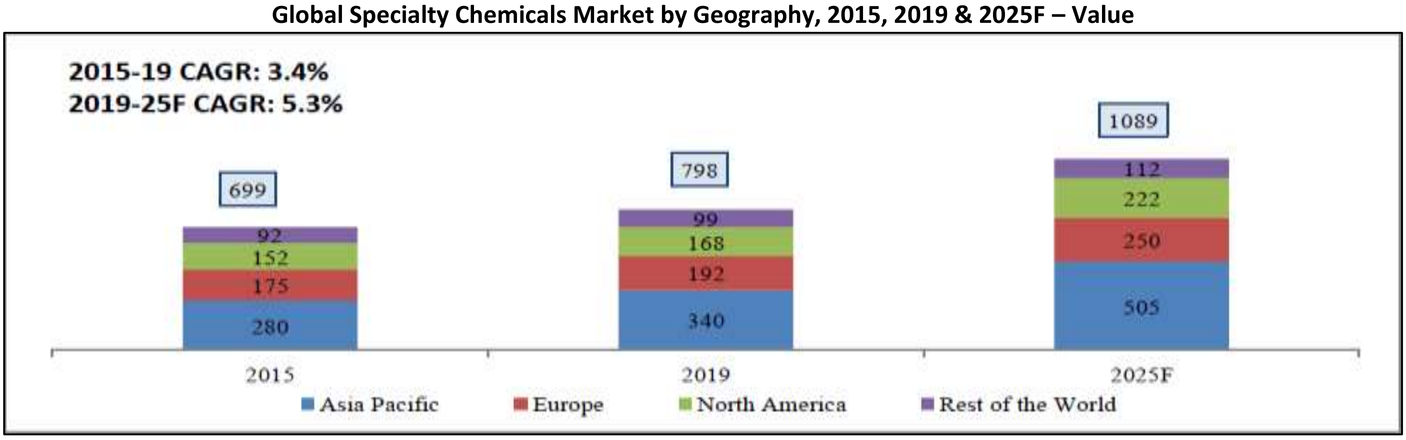
Global chemicals market, 2015, 2019 and 2025F



Global Specialty Chemicals Market

Specialty chemicals are low-volume and high-value products which are sold on the basis of their quality or utility, rather than composition. Thus, they may be used primarily as additives or to provide a specific attribute to the end product. Specialty chemicals are more likely to be prepared and processed in batches. The focus is on value addition to the end-product and the properties or technical specifications of the chemical. Rapid industrialisation in India and China is expected to drive demand for specialty chemicals. The Asia Pacific (APAC) dominates the market across the world, with a share of 42% in 2019, owing to the huge customer base, leading to high demand for specialty chemicals, increasing industrial production, and robust growth of the construction sector in the region.

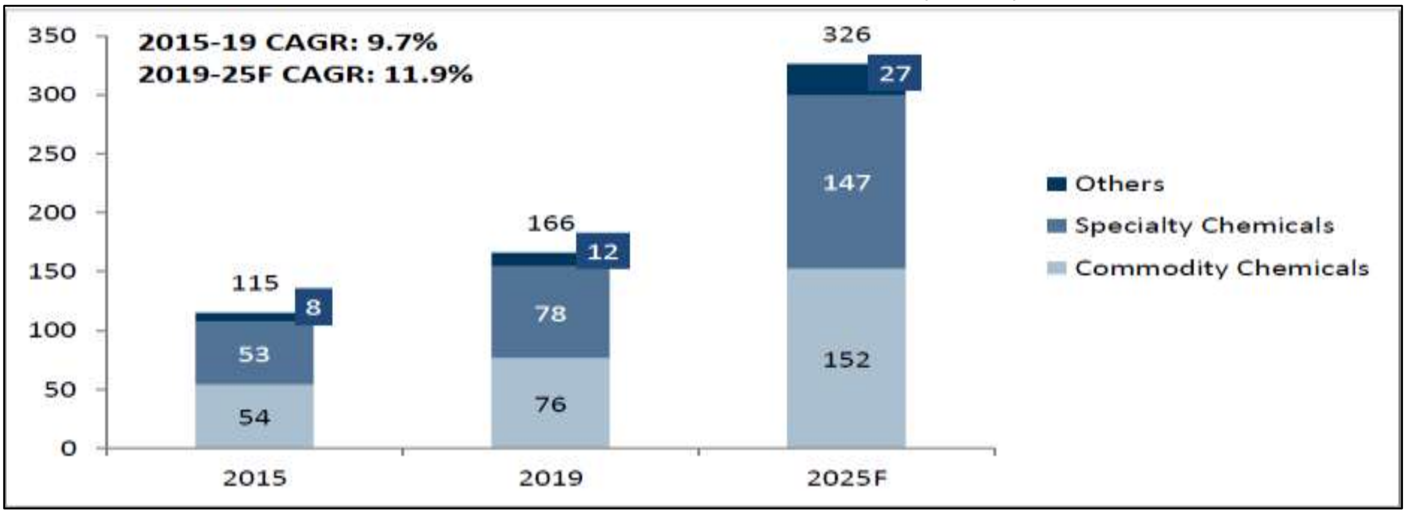
Global Specialty Chemicals Market by Geography, 2015, 2019 & 2025F – Value



India Chemical Industry Overview

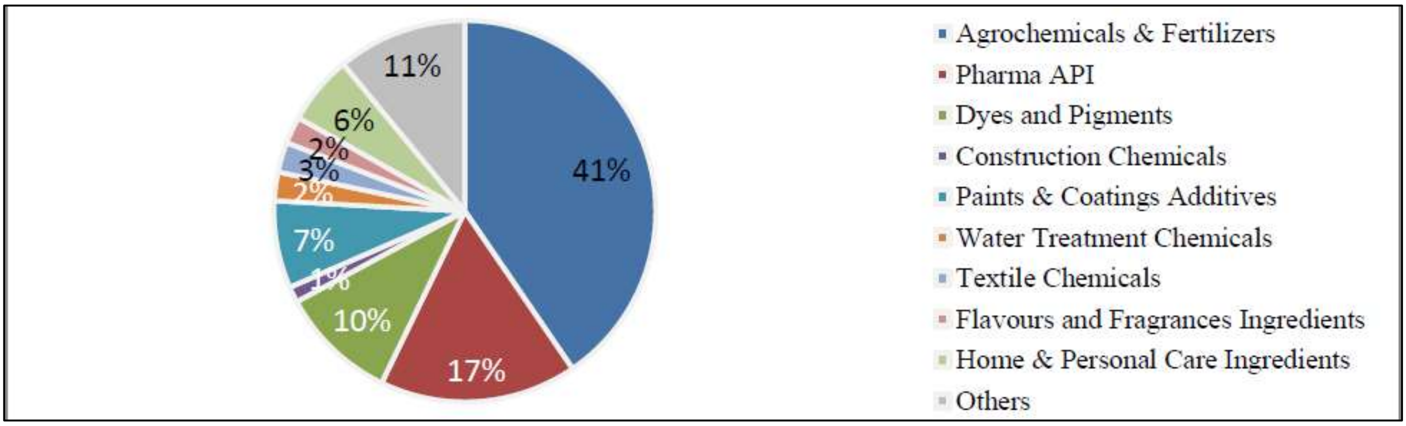
The Indian chemicals market is valued at USD 166 Bn (~4% share in the global chemical industry) in 2019. It is expected to reach ~USD 326 Bn by 2025, with an anticipated growth of ~12% CAGR. The specialty chemical industry forms ~47% of the domestic chemical market, which is expected to grow at a CAGR of around 11-12% over the same period.

Indian Chemicals Market, 2015, 2019 and 2025F (USD Bn)



The Specialty chemicals industry is driven by both domestic consumption and exports. India's specialty chemical companies are gaining favour with global MNCs because of the geopolitical shift after the outbreak of Covid-19 as the world looks to reduce its dependence on China. Currently China accounts for ~15-17% of the world's exportable specialty chemicals, whereas India accounts for merely 1-2% indicating that the country has large scope of improvement and widespread opportunity. It is anticipated that Specialty chemicals will be the next great export pillar for India.

Indian Specialty Chemicals Market by Industry and Applications, 2019, Value (USD 78 Bn)



Others include: Sealants and Adhesives, Polymer Additives etc.

Impact of Make in India

The chemical industry contributes approximately 6.6% of national gross domestic product and accounts for 15- 17% of India's manufacturing sector in FY19. The government permits 100% foreign direct investment (FDI) in this sector under the automatic approval route. The manufacturing of most chemical products inter-alia covering organic/inorganic, dyestuff and pesticides is de-licensed. The factors such as boost to specialty (as well as fine agrochemicals) chemicals due to rapid development in construction and agricultural sector, inadequate per capita consumption and strong demand from paints, textiles and diversified manufacturing base shall aid towards the development of Indian chemicals sector.

Frost & Sullivan's analysis indicates that the major indicators like success of Make in India and governments' permit for 100% FDI is positively impacting specialty chemicals segment; pertaining to competitive manufacturing costs, higher investments in R&D, cheaper raw material availability/transport, strong demand from end-use segments, overall supportive ecosystem, etc. Within the specialty chemicals, manufacturing of fine chemicals (pesticide ingredients as well active pharmaceutical ingredients), flavour & fragrance ingredients, surfactants and colorants will be most attractive segments in the next half decade. This is due to their strong growth potential, highly differentiated products folio and high penetration levels predominantly. On the pharmaceutical industry front, realigned government policies to reduce the manufacturing facility approval time with a less than two weeks timeline for receiving NOC for export licenses will support the leading players such as Dr Reddy's Laboratories Ltd, Cadila Pharmaceuticals Ltd, Cipla Ltd etc. to continue to dominate the API manufacturing in India. Furthermore, with a cost advantage of almost 40-50% as compared to regulated markets and the availability of sufficient R&D infrastructure, India is expected to continue to enjoy a competitive advantage in the region there by assuring a strong CRAMS (Contract Research & Manufacturing Services) industry growth.

The Government of India is committed to ensuring the delivery of affordable healthcare in the country as well as ensuring that there is a steady supply of critical drugs. This has resulted in the launch of the Production Linked Incentive Scheme (PLI) for APIs, KSMs and DIs as well as the Scheme for Promotion of Bulk Drug Parks. These schemes have been constructed to incentivize large-scale manufacturing of critical bulk drugs and to build the required infrastructure for developing manufacturing clusters for across India. This aligns with the Government's mission for self-reliance (atmanirbharta).

In addition to the production linked incentive (PLI) scheme, the Department of Pharmaceuticals (DoP) is planning to allow the industry to import a maximum of 30% of the total value of chemicals/ intermediates. Having categorised Pharmaceuticals as a 'priority sector', the government is aggressively working on creating a singlewindow clearance to expedite FDI and domestic investment in the Pharmaceuticals sector. The government is also expected to introduce a production-linked incentive scheme for the agro-chemicals sector with incentives of 10- 20% output and creating an end-to-end manufacturing ecosystem through cluster development. The government has taken initiative to promote and facilitate 'Aatmanirbhar Bharat' (self-reliance India) in the chemicals and petrochemicals sector.

India – Racing Ahead of China

China's specialty chemicals market has seen a downturn in recent years due to various factors. Most prominent amongst these are the recent environmental norms introduced by the Chinese government, which have led to shutdown of a number of chemical plants. The Chinese government started implementing stricter environmental protection norms from January 2015. With the focus on controlling pollution, the Chinese Ministry of Environmental Protection enforced strict penalties on polluting industries, including chemicals. Some of the major steps taken were:

- Shift towards gas-based power plants from coal-based ones
- Implementation of strict penalties for noncompliance
- Construction of compulsory effluent treatment plants
- Mandatory for all polluting industries to operate from industrial clusters away from habitat
- Small to mid-size chemicals plants to relocate by the end of 2020
- All larger plants must relocate by the end of 2025 and start the process by no later than 2020
- Taxes to be levied on polluting industries based on pollution type, location and severity

As a result of all of the above, the Chinese chemical companies are witnessing a rise in capex and opex costs, making them less competitive in the export market. In 2017, an estimated 40% of the chemical manufacturing capacity in China was temporarily shut down for safety inspections, with over 80,000 manufacturing units charged and fined for breaching emission limits.

Chemicals Exports Trend – India vs China (2015-24F), USD Bn

There is an ample replaceable export market for India to capitalize on, and weave a strong growth story for chemicals – led by Specialty chemicals.

Several global players prefer a "China + 1 offshore strategy", with capacities shifting to cost efficient markets with strong technology capabilities like India. Stringent environmental regulations and increased cost of labor have already stifled growth in China, which contributes 35-40% to the global chemical industry. The pandemic has compounded the situation further as companies across the world are looking for alternate supply solutions. Japan's announcement to offer incentives to companies shifting base from China to India further proves the desperation engulfing countries to reduce dependence on China and develop local supply chains. JVs/ Technology transfers will drive the knowledge wave for the Indian industry, given stronger IP protection rights. The spillover impact of China's declining competitiveness has set the stage for India to intensify its effort to capture larger market share. Currently Indian companies are experiencing wave of bigger orders from Global companies who previously used to purchase from Chinese counterparts. Many customers have been dependent on China for a long time and they are looking for an alternative and India is their preferred choice. Many small and large companies are experiencing surge in demand form global companies who are shifting their source from China to India.

With new regulations in place and the Chinese companies adhering to new norms, they are expected to bounce back with certain level of reforms in the way of operations. Whenever the Chinese companies make a comeback, it would be at a significantly higher cost of production given the significant investment in environmentally compliant equipment and manufacturing practices. India, in the meantime, would have significantly strengthened its position in the global supply chain and would be a very viable alternative for global players looking to de-risk their supply chain, while retaining their sourcing costs. Pharmaceuticals and agrochemicals are some of the key sectors that are particularly set to benefit from this shift in dynamics, wherein the Chinese manufacturers continue to operate at lower capacity levels, given the increased monitoring of safety standards and compliance norms. The powering trend of de-risking of input procurement from China by global chemical leaders offers great export as well as domestic sales opportunity for Indian specialty chemical industry.

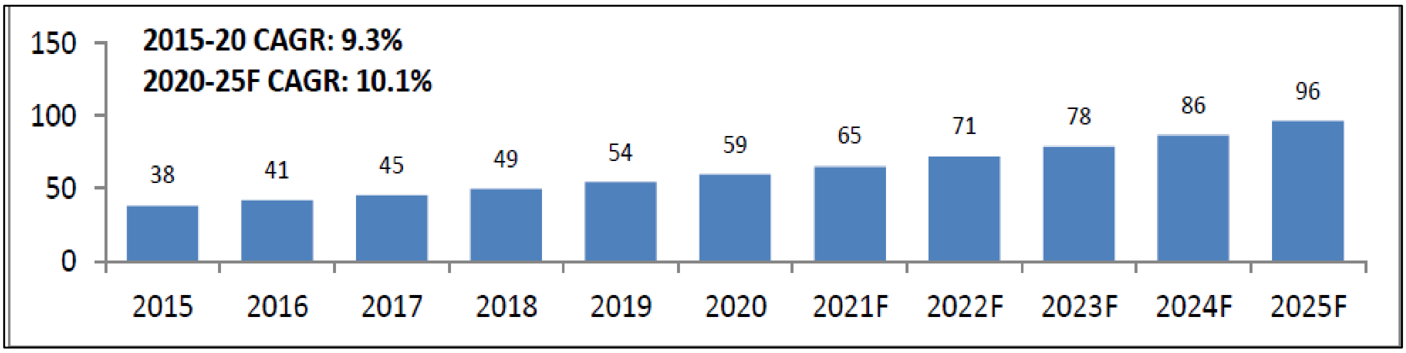
Global Pharmaceutical Market

The Global Pharmaceutical market was valued at USD ~1.3 Trillion in 2020 with a steady growth rate in past of CAGR 4% since 2015. Going forward it is expected to grow at 4.5% from 2020 till 2025. The industry is driven by increasing convergence of technology & health and new models for the treatment of diseases based on advanced therapies. Moreover, the increasing number of regulatory approvals is supporting a 6.9% CAGR expected growth of the prescription drugs market for the same forecast period.

India Pharmaceutical Market

The Indian Pharmaceuticals market was valued at USD 59 Bn in 2020, contributing to around 4% of the Global market. The Indian market is expected to grow at around CAGR of ~10% between 2020 and 2025 fuelled by substantial increase in Indian API domestic consumption.

India Pharmaceuticals, Industry size (USD Bn), 2015-2025F



Pharmaceuticals Domestic & Exports Market

Indian pharmaceutical industry exported medicines and other goods worth over USD 25 billion in 2020, up from USD 20.7 billion in 2019. In the year of 2019 exports of formulations accounted for 65-68% of the total exports and the share of the same increased in 2020 owing to high exports of drug formulations from India to cure Covid.

India Pharmaceutical Market - Industry Drivers

Rising Healthcare Expenditure

The Indian healthcare industry is expected to be among the top-3 healthcare industries globally in terms of incremental growth by 2020. The growing prevalence of chronic diseases due to an increasing aged population in India and globally, coupled with government initiatives for manufacturing under 'Make in India' and the global need for lower cost therapies at high quality has led to health investments from pharmaceutical players, fostering development of the healthcare industry

Increasing Income

In India, domestic consumption has increased 3.5 times over the past decade from about 31 trillion to about 110 trillion. BCG forecasts that by 2028 this will exceed approximately 335 trillion. Consumers are increasing their discretionary spending on healthcare, with several APIs expected to grow exponentially owing to this trend of increased per capita consumption. Also, ~73Mn households expected to shift to middle class over next 10 years

Growth in Application segment for Intermediates

Indian API sector is growing at a promising rate (The Indian API market has shown steady growth of 9% since 2015 and is expected to further expand at nearly 8% going forward till 2025.) due to its research based processes, low-cost operations and availability of skilled manpower. Many of the companies are also investing to have a strong backward integration and source intermediates locally. To meet the global demand, many international players are now integrating with Indian companies.

Growing Geriatric Population

India is seeing an ageing population increase. The percentage of old people (60 years or over) in India will increase from 8.9% in 2015 to 12.5% in 2030, according to UN projections. In addition, 19.4% of the total population of India will be over 60 years of age by 2050. The nation would also see an improvement in the ratio of old age dependence from 13% in 2000 to 32.8% in 2050.

Cardiovascular Diseases

Cardiovascular disorders are among the world's deadliest disorders, with India being a victim of them as well. Of the total deaths in India, these diseases account for 26% (2.5 million). In addition, the cumulative economic burden of non-communicable diseases (including mental health conditions) is expected to cross US$ 4.58 trillion in India between 2012 and 2030.

Diabetes

India is one of the world's fastest-growing markets for diabetes. There were 69.18 million individuals with diabetes in India in 2015. This number is expected to grow to 79.4 million individuals 2030 and around 123.5 million by 2040. *(Source: National Centre for Biotechnology Information – NCBI)*

Domestic Consumption vs. Exports

Of the total domestic API demand, about 32–35% was imported in 2019. India imported USD 3.48 Bn worth of bulk drugs in FY19. Of the overall imports, 57-60% of the imported APIs originate from China alone.

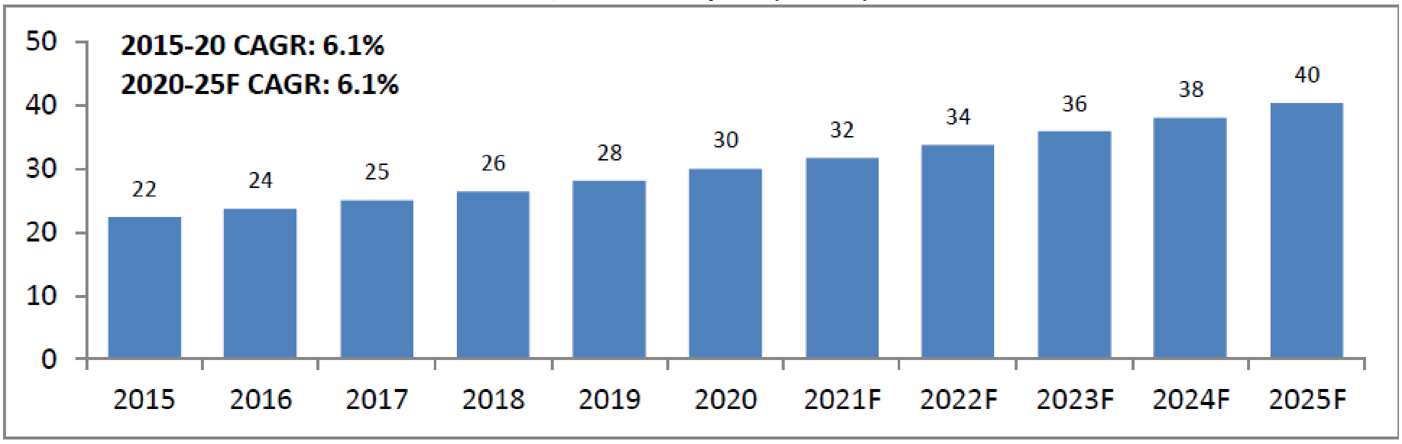
Imports: Bulk Drugs & API

While India is one of the world's leading exporters of formulated drugs, its pharmaceutical industry relies heavily on bulk drug imports. The Indian pharma industry is highly dependent on imports from China for some of the key APIs: penicillin G, levodopa, streptomycin, meropenem, carbidopa, vancomycin, gentamicin and progesterone. Domestically produced APIs account for 60 – 70% of the total quantity; however, key starting material (KSMs) for some key APIs like caffeine, chloramphenicol, azithromycin, sulfadoxine, ciprofloxacin, metformin, ciprofloxacin, levofloxacin, ofloxacin, ampicillin, amoxicillin and cephalosporins are sourced from China. All fermentation based products like penicillin G, amoxicillin and tetracycline, which are used as base chemicals for most antibiotics, have a very high dependence on China.

Global API-RM/KSM Market

The Global market for speciality intermediates that go into pharmaceutical application was valued at USD 30 Bn for 2020. Key Starting Material (KSM) term is used for intermediates in pharmaceutical industry. These are building blocks of drug industry

Global API-RM/KSM, Industry size (USD Bn), 2015-2025F



Government Initiatives

India has plans to give impetus to domestic API production. The report released in 2015 by the committee made recommendations as follows: Setting up of six large API manufacturing clusters or mega parks in five to six states. These clusters would be equipped with facilities such as common effluent plants, testing facilities, assured power supply, and IPR management

- Provision of financial benefits to producers: -A 15-year tax holiday for developers / participants of clusters
- The government is also considering exempting producers from the Drug Price Control Order (DPCO) if a drug is made from a locally produced API577.
- Land and other infrastructure installations at concessional rates, interest subsidies on bank loans (up to 7.5% interest subsidy)
- Single-window environmental clearance of all drugs to API manufacturers until the plant is authorised by the Ministry of the Environment
- Income tax advantages for an initial duration of 10 years from the date of launch of the product for each product
- A plan to provide a corpus of about INR5 billion in venture capital funding to support pharmaceutical SMEs was also submitted
- Liberalize FDI policies with 100% FDI in the pharmaceutical industry-74% under the automatic route for brownfield projects and 100% under the automatic route for greenfield projects. The government has adopted this

Overview of Therapeutics

Global Antidepressants Market

Antidepressants are medications that can help relieve depression symptoms. The objective is to correct the chemical imbalances of neurotransmitters in the brain that are believed to be responsible for changes in behavior and mood. They can also be used to treat several other conditions, including generalized anxiety disorder, obsessive-compulsive disorder (OCD), post-traumatic stress disorder (PTSD), and are sometimes used when treating people with chronic pains. Although antidepressants can treat the symptoms of depression, they don't address the causes, hence are typically used in combination with other therapies.

The Antidepressants market is primarily driven by the increase in the prevalence of depression, raising awareness regarding depression, and required clinical needs. According to WHO, depression affects 300 million people worldwide and is a common illness. Depression can become a severe health condition when long-lasting with moderate or severe intensity and can even lead to suicide. Moreover, the rising number of people suffering from stress, the emergence of novel drugs with lesser side-effects and growing elderly population, who are prone to suffer from subsyndromal depression, are expected to drive the market further. The global demand for antidepressants has grown as mental health issues have surged due to the effect of the Covid-19 pandemic making an impact on the global economy. Isolation and anxiety triggered by the coronavirus have heightened demand for mental-health medication. In USA, prescriptions for the antidepressant drug grew 12% in March versus the same month last year. Across the globe there was shortage of antidepressants and its generics. A number of drugmakers are having trouble keeping up with higher demand as they are not able to adequate supply of active pharmaceutical ingredients (APIs) to make the medicines. North America accounts for the largest share in the global antidepressant drugs market. This can be mainly attributed to factors the increasing prevalence of depression and government incentives to promote awareness regarding depression.

Key APIs by Drug Class

- Selective serotonin reuptake inhibitors (SSRIs) include fluoxetine (Prozac), paroxetine (Paxil, Pexeva), sertraline (Zoloft), citalopram (Celexa) and escitalopram (Lexapro)
- Serotonin and norepinephrine reuptake inhibitors (SNRIs) include duloxetine (Cymbalta), venlafaxine (Effexor XR), desvenlafaxine (Pristiq) and levomilnacipran (Fetzima).
- Atypical antidepressants include trazodone, mirtazapine (Remeron), vortioxetine (Trintellix), vilazodone (Viibryd) and bupropion (Wellbutrin SR, Wellbutrin XL, others). These medications don't fit neatly into any of the other antidepressant categories. Ami Organics is the major manufacturer of key intermediates for the APIs belonging to Atypical antidepressants drug class
- Tricyclic antidepressants such as imipramine (Tofranil), nortriptyline (Pamelor), amitriptyline, doxepin and desipramine (Norpramin)
- Monoamine oxidase inhibitors (MAOIs) such as tranylcypromine (Parnate), phenelzine (Nardil) and isocarboxazid (Marplan)

Global Antipsychotic Drugs Market

Psychosis is a disorder where the person may face serious distortion of behavior, thought, perception and recognition of reality. The patients may experience hallucinations and delusions along with having wrong evaluation and misperception of other people, facts or situations. Psychosis is not a condition but rather gets triggered due to other conditions such as stress, traumatic experiences or physical conditions namely brain tumor, Parkinson's disease or due to alcohol or drug misuse. The Global Antipsychotic Drugs Market was valued at USD 13.9 Bn in 2020 and is expected to grow at 4.3% over the forecast period till 2025.

Global estimates suggest that over 1.25% of the global population suffers from psychosis and related disorders. This translates into a potential market of about 7.5 mn people as target consumers for antipsychotic drugs. Although the potential consumer base for the market is relatively much smaller than that for diseases such as cancer and diabetes, the high costs of antipsychotic drugs make the market one with promising returns. The market holds immense growth promise for future years as the patient pool of psychotic conditions rises at an alarming rate across the globe. The introduction of newer antipsychotic compounds and the vast funds poured in for research and development activities are also expected to have a significant positive impact on the overall development of the market in the near future.

Notable companies operating in the Parkinson's Disease Treatment include Companies such as UCB S.A, F. Hoffmann-La Roche Ltd, and Acadia Pharmaceuticals Inc. These companies cover more than half of the share in the global market. Of these, UCB S.A and F. Hoffmann-La

Roche Ltd lead the market on account of their respective sales of Neupro and Madopar. After these two companies, Acadia Pharmaceuticals Inc. is the third most leading company in the market. This is attributable to the rising demand for Nuplazid drug. With the commercial launch of INBRIJ, Acadia Pharmaceuticals share is likely to increase in the forecast years.

Global Parkinson's Disease Treatment Market – By Geography

Among regions, Europe witnesses the highest prevalence of Parkinson's and is expected to foresee considerable growth in the forecast years. On the other hand, the market in North America is anticipated to render the maximum share during the forecast period. This is attributable to the rising spending on research and development (R&D) activities and FDA approvals on new pipeline drugs. Improving distribution network among pharma companies is expected to drive the Parkinson's disease market growth in Asia Pacific. The market in this region is likely to report higher CAGR owing to the rising demand for Parkinson's disease drugs from India and China.

Global Parkinson's Disease Treatment Market – By Drug Class

Based on Drug Class the Global Parkinson's Disease Drugs Market is segmented into Decarboxylase Inhibitors, Dopamine Agonists, Monoamine Oxidase Type B (MAO-B) Inhibitor, Catechol-O-Methyltransferase (COMT) Inhibitors. Ami Organics is the major manufacturer of one of the key intermediates for Nintedanib API

Global Anti-Retroviral (ARV) Market Overview

Scale-up of antiretroviral therapy is on a fast-track trajectory. In December 2018, the number of people living with HIV receiving antiretroviral therapy (ARTs) has increased to about 23.3 million with the global coverage of ARTs reaching to about 62%. The drugs used to treat HIV are called antiretroviral drugs (ARVs). The global ARV market was valued at about USD 23.5 billion in 2020 and expected to grow at 3.8%

Competitive Scenario

Gilead Sciences leads the HIV market with leading drugs like Atripila, Complera, Emtriva and Truvada along with strong pipeline candidates. GSK closely follows the market leader by competing with Atripila through its latest market addition Triumeq. GSK and Pfizer's HIV specific joint venture ViiV Healthcare contributes extensively towards the HIV drug market. Bristol-Myers, due to discontinuation of its 'Sustiva', lost a small per cent of market share. It is expected to revive, with pipeline candidates being developed in the maturation inhibitor and attachment inhibitor types of ARV drugs. Roche, Abbott and Boehringer Ingelheim make small contributions through their existing and new drugs. Others include candidates developed by market participants like Janssen Cilag, Pfizer, Tibotec (Janssen Research and Development) and Merck.

Overview of the Parabens Market

Parabens are esters of p-hydroxybenzoic acid. Parabens refers to a group of preservative ingredients that are utilized for various purposes, such as pharmaceuticals, food products, personal hygiene products, and cosmetics. These products are extremely efficacious in the prevention of growth of yeast, bacteria, and fungi, which result in the wastage of products. As such, they directly enhance the quality of products through extension of shelf life making them hygienic and keep them safe for consumption. The future of the paraben market looks promising with opportunities in the personal care products, cosmetics, healthcare, and others.

Parabens – Geographic Analysis

Asia Pacific is likely to present lucrative growth opportunities to the players in the global parabens market. Regional dominance of Asia Pacific is mainly due to the rising disposable income of the people in the region. Countries like China, India, and South Korea are likely to generate immense demand for cosmetic and personal care products. North America is likely to emerge as another prominent region in the market. However, Europe has banned parabens for use in cosmetics and personal care industry.

Competition Scenario:

The global Parabens market is highly fragmented, characterized by a small number of manufacturers with varied pricing patterns by end-use application. Gujarat Organics (Business now acquired by Ami Organics Limited) specializes in Methylparaben and Propylparaben.

Key Concerns:

- The continuing impact of the COVID-19 pandemic on AOL's business and operations is uncertain and it may be significant and continues to have an adverse effect on the business, operations and its future financial performance.

- AOL is subject to strict quality requirements, regular inspections and audits, and the success and wide acceptability of its products is largely dependent upon its quality controls and standards.

- AOL is subject to increasingly stringent environmental, health and safety ("EHS") laws, regulations and standards. Non-compliance with and adverse changes in health, safety, labour, and environmental laws and other similar regulations applicable to its manufacturing operations may adversely affect the business, results of operations and financial condition.

- Derives a significant portion of the revenue from the sale of products in certain therapeutic areas and any reduction in demand for these products, or if such products become obsolete due to a breakthrough in the development of alternate drugs, could have an adverse effect on the business.

- Inability to meet obligations, including financial and other covenants under debt financing arrangements could adversely affect the business, results of operations and cash flows.

- Operations are dependent on continuous R&D to develop and commercialise new products and AOL's inability to identify and understand evolving industry trends, technological advancements, customer preferences and develop new products to meet its customers' demands may adversely affect the business.

- Business is working capital intensive. If AOL experiences insufficient cash flows from its operations or are unable to borrow to meet working capital requirements, it may materially and adversely affect the business and results of operations.

- Depends on the success of AOL's relationships with customers and suppliers. Any adverse developments or inability to enter into or maintain such relationships could have an adverse effect on the business, results of operations and financial condition.

- If its products or other products containing AOL's intermediates cause, or are perceived to cause, severe side effects, the sale of such products may decrease or may be banned, which may have an adverse effect on its revenues and profitability.

- Inability to fulfil export obligation under the DEEC scheme could subject AOL to payment of customs duties together with interest thereby adversely impacting its financial condition.

- Business is dependent on Manufacturing Facilities and AOL is subject to certain risks in its manufacturing process. Any unscheduled, unplanned or prolonged disruption of its manufacturing operations could materially and adversely affect the business, financial condition and results of operations.

- Manufacturing facilities are concentrated in a single state and the inability to operate and grow business in this particular region may have an adverse effect on the business, financial condition, results of operations, cash flows and future business prospects.

- AOL exports products to over twenty-five (25) countries and are subject to risks associated with doing business internationally, including international market conditions and regulatory risks.

- AOL operates in a hazardous industry and are subject to certain business and operational risks consequent to its operations, such as, the manufacture, usage and storage of various hazardous substances.

- AOL does not have long-term agreements with suppliers for raw materials. Any shortfall in the supply of raw materials or an increase in raw material cost, may adversely affect the pricing and supply of the products and have an adverse effect on the business, results of operations and financial condition.

- AOL recently acquired two new manufacturing facilities from Gujarat Organics Limited and its efforts at integrating acquired businesses may not yield timely or effective results, which may affect its financial condition and results of operations.

- Any sales return of products could adversely affect AOL's business, prospects, results of operations, financial condition and reputation.

- Faces foreign exchange risks that could adversely affect the results of operations and cash flows.

- Under-utilization of manufacturing capacities and an inability to effectively utilize expanded manufacturing capacities could have an adverse effect on the business, future prospects and future financial performance.

- AOL currently avails benefits under certain export promotion schemes and are entitled to certain incentives. Any change in these benefits and incentives applicable to it or a delay in disbursement of benefits under such schemes may affect its results of operations.

- AOL facilities are subject to client inspections and quality audits and any failure on its part to meet their expectations or to comply with the quality standards set out in its contractual arrangements, could result in rejection of product lot(s) and/or the termination of contracts which may adversely affect the business, results of operations, financial condition and cash flows.

- Delay or failure in the implementation of sales orders, on the part of its contract manufacturer may adversely affect the business, financial condition and results of operations.

- AOL's technical agreements with various customers have various quality assurance compliances to be met by AOL. There can be no assurance that AOL shall be in compliance with the covenants under the technical agreements to the satisfaction of its customers or at all.

- Some of distributorship agreements restrict from selling and marketing its products through other agencies in a particular geography. Further, such contractual arrangements are governed under the applicable laws of overseas jurisdictions.

- Inability to accurately forecast demand for products and manage inventory may have an adverse effect on the business, results of operations, financial condition and cash flows.

- The industry in which AOL operates, provides for significant entry barriers. Its inability to compete effectively in overcoming such entry barriers to remain competitive, could result in the loss of customers and accordingly its market share, which could have an adverse effect on the business, results of operations, financial condition and future prospects.

- A significant disruption to AOL's distribution network or any disruption of civil infrastructure, transport or logistic services, may create delays in deliveries of products distributed by it.

- AOL is yet to receive certain registrations in connection with the protection of its intellectual property rights, especially with regards to patents relating to its products.

- Insurance coverage may not adequately protect it against all material hazards, which may adversely affect the business, results of operations and financial condition.

- Inability to collect receivables and default in payment from its customers could result in the reduction of its profits and affect the cash flows.

- A shortage or non-availability of essential utilities such as electricity and water could affect AOL's manufacturing operations and have an adverse effect on the business, results of operations and financial condition.

- Although its Group Company Ami Lifesciences Pvt Ltd. is undertaking different businesses in the pharma sector, the charter documents of Group Company have objects similar to the objects of AOL, which may be a potential source of conflict of interest for it and which may have an adverse effect on the business, financial conditions and results of operations.

- AOL may face liability if it inappropriately discloses confidential customer information which could adversely affect the financial condition and results of operations.

- AOL is involved in certain outstanding tax proceedings, any adverse developments related to which could materially and adversely affect the business, reputation and cash flows.

- Requires a number of approvals, licences, registrations and permits to operate business and the failure to obtain or renew these licences in a timely manner, or at all, may have an adverse effect on its business, results of operations and financial condition.

- The industry AOL operates in is intensely competitive and its inability to compete effectively may adversely affect the business, results of operations and financial condition and cash flows.

- AOL's operations are labour intensive and its manufacturing operations may be materially adversely affected by strikes, work stoppages or increased wage demands by its employees or those of its suppliers.

- The industry in which AOL operates is capital intensive, and it may need to seek additional financing in the future to support growth strategies. Any failure to raise additional financing and in a timely manner could have an adverse effect on the business, results of operations, financial condition and cash flows.

- Significant disruptions of information technology systems or breaches of data security could adversely affect the business.

- AOL may not be able to implement business strategies or sustain and manage growth, which may adversely affect the business, results of operations and financial condition.
- Restrictions on import of raw materials and an increase in shipment cost may adversely impact the business and results of operations
- Political, economic or other factors that are beyond AOL's control may have an adverse effect on the business and results of operations.
- Adverse geopolitical conditions such as increased tensions between India and China, could adversely affect AOL's business, results of operations and financial condition.
- Financial instability in other countries may cause increased volatility in Indian financial markets.

Profit & Loss

Particulars (Rs in million)	FY21	FY20	FY19
Revenue from Operations	3406.1	2396.4	2385.1
Other Income	13.8	28.4	3.8
Total Income	**3419.9**	**2424.9**	**2389.0**
Total Expenditure	**2604.6**	**1986.3**	**1964.3**
Cost of materials consumed	1746.9	1379.0	1520.5
Changes in inventories of finished goods, work- in-progress	48.1	-89.9	-36.2
Employee benefits expense	210.1	178.1	117.5
Other expenses	599.5	519.0	362.5
PBIDT	**815.3**	**438.6**	**424.6**
Interest	56.2	55.9	47.5
PBDT	**759.1**	**382.7**	**377.1**
Depreciation and amortization	41.9	35.2	26.0
PBT	**717.3**	**347.6**	**351.1**
Tax (incl. DT & FBT)	**177.3**	**72.8**	**118.2**
Current tax	175.6	68.0	96.9
Deferred Tax	1.6	4.9	21.2
PAT	**540.0**	**274.7**	**233.0**
EPS (Rs.)	17.14	8.72	7.40
Face Value	10	10	10
OPM (%)	23.5	17.1	17.6
PATM (%)	15.9	11.5	9.8

(Source: RHP)

Balance Sheet

Particulars (Rs in million) As at	FY21	FY20	FY19
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	1606.1	621.8	576.7
Capital work-in-progress	2.0	117.1	19.6
Other intangible assets	257.0	230.1	211.1
Financial assets			
Investments	14.3	17.3	16.4
Other financial assets	27.1	29.6	23.0
Other Non-Current Assets	64.0	92.7	43.7
	1970.4	**1108.6**	**890.6**
CURRENT ASSETS			
Inventories	603.6	523.4	386.7
Financial assets			
Investments			
Trade receivables	1206.9	564.0	760.9
Cash and cash equivalents	26.9	38.2	4.9

Loans	3.3	2.8	1.8
Current Tax Assets(Net)	0.0	22.4	0.0
Other current assets	321.6	59.6	86.7
	2162.3	**1210.4**	**1241.0**
TOTAL ASSETS	**4132.7**	**2318.9**	**2131.5**
EQUITY AND LIABILITIES			
EQUITY			
Equity share capital	315.0	105.0	105.0
Other equity	1354.3	1013.1	717.2
Equity attributable to owners of the Company	**1669.3**	**1118.1**	**822.2**
	1669.3	**1118.1**	**822.2**
LIABILITIES			
NON-CURRENT LIABILITIES			
Financial liabilities			
Borrowings	726.4	199.0	221.0
Provisions	43.7	24.4	11.4
Deferred Tax Liabilities (Net)	32.8	31.3	21.4
	802.9	**254.6**	**253.7**
CURRENT LIABILITIES			
Financial liabilities			
Borrowings	445.3	339.2	261.5
Trade payables			
-Total outstanding dues of micro enterprises and small enterprises	3.9	0.8	52.8
-Total outstanding dues of other than micro enterprises and small enterprises	840.6	513.7	631.1
Other financial liabilities	197.9	72.0	80.8
Other Current Liabilities	151.6	16.4	24.4
Provisions	9.7	4.1	4.2
Current Tax Liability (Net)	11.5	0.0	0.9
	1660.4	**946.2**	**1055.6**
TOTAL EQUITY AND LIABILITIES	**4132.7**	**2318.9**	**2131.5**

(Source: RHP)

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