

AMI ORGANICS LIMITED

IPO NOTE



OVERVIEW

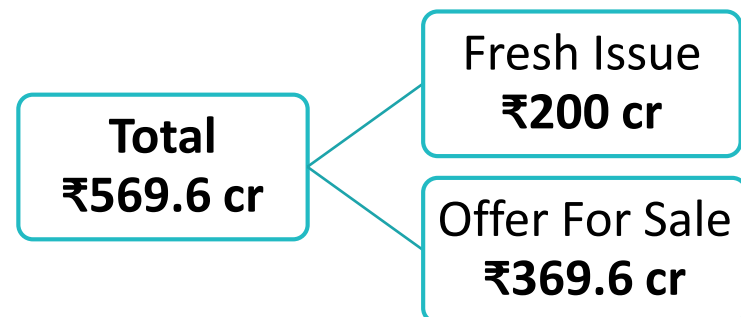
Ami Organics Limited, incorporated in 2004, is one of the leading research and development driven manufacturers of **specialty chemicals** with varied end usage, focused towards the development and manufacturing of **advanced pharmaceutical intermediates** for **regulated** and **generic active pharmaceutical ingredients (APIs)**, **new chemical entities (NCEs)** and **key starting material** for **agrochemical** and **fine chemicals**. With its recent acquisition of **Gujarat Organics Limited (GOL)**, its **specialty chemicals** portfolio has expanded to include capabilities to manufacture **preservatives** and other specialty chemicals which are used in the manufacturing of **cosmetics, dyes, polymers** and **agro-chemicals**. Pharma intermediates manufactured by it are used in certain **high-growth therapeutic areas**.

FINANCIAL HIGHLIGHTS

	FY19	FY20	FY21
Revenue from Operations	239	240	341
EBITDA	42	41	80
Net Profit	23	27	54

₹ crore

ISSUE SIZE



ISSUE DETAILS

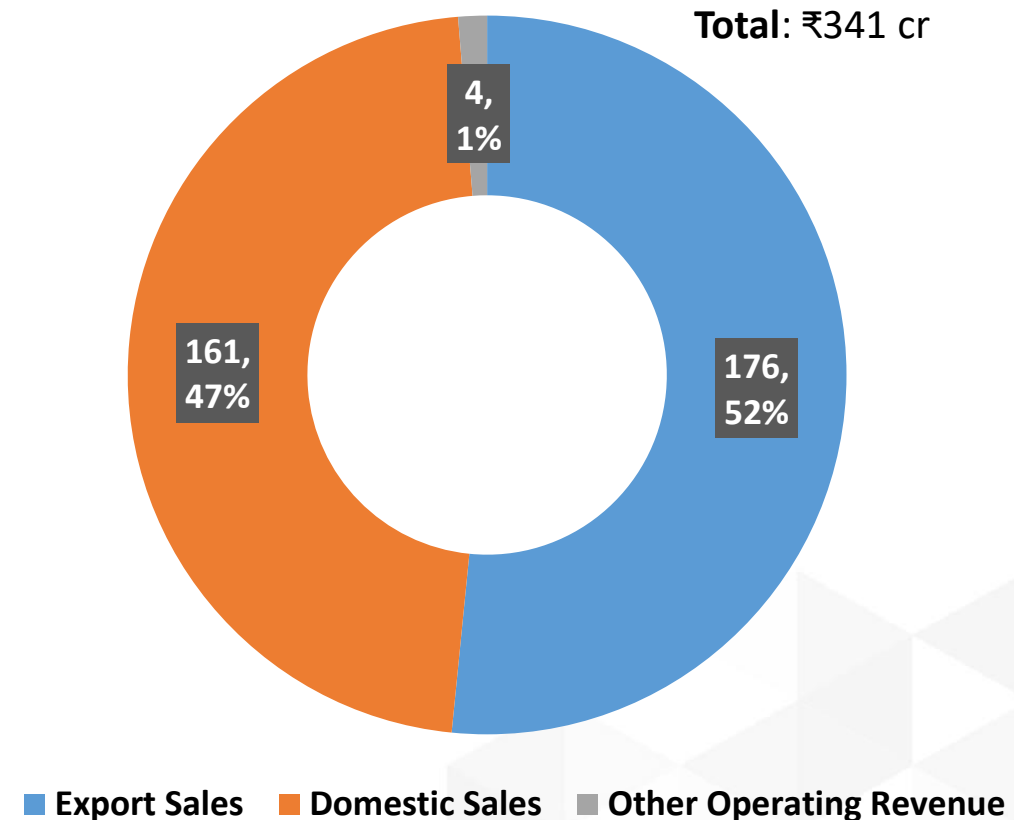
Issue Date	1 Sep'21 to 3 Sep'21
Price Band	₹603-₹610
Bid Lot	24
Issue Size	₹569.64 cr
No. of Shares (Post Issue)	3.64 cr
Post-Issue Implied Market Cap*	₹2,223 cr
Price to Earnings Ratio (FY21 earnings)*	~41.16x

* At upper price band

ABOUT THE COMPANY

- It has three **manufacturing units** namely **Sachin** facility, **Ankleshwar** facility and **Jhagadia** facility in **Gujarat, India**.
- Sachin** facility consists of 2 production blocks which includes 13 separate product lines and has an annual installed capacity of 2,460 MTPA (metric tonnes per annum). It also houses the R&D (research and development) wing of the company and is supported by an analytical development laboratory. Capacity utilisation from this unit as on 31st March, 2021 stood at 63% for FY21.
- Ankleshwar** and **Jhagadia** facilities had been acquired in March, 2021 from GOL pursuant to a business transfer agreement. They have installed capacity of 1,200 MTPA and 2,400 MTPA, respectively. Ankleshwar unit is equipped to provide custom synthesis and manufacturing services. Jhagadia is a multipurpose facility, equipped with fully automated lines for production of paraben, p-hydroxybenzoic acid (PHBA) and other specialty chemicals. Both the units have not been utilised by the company for any production in FY21.
- Along with the domestic market, it supplies **APIs** and **NCEs** to various multinational pharmaceutical companies which cater to the large and fast-growing markets of **Europe, China, Japan, Israel, UK, Latin America** and **the USA**. Its **export revenue** has grown at a CAGR of 21.8% between FY19 and FY21.

REVENUE MIX – GEOGRAPHY (FY21)



Note: Other operating revenue includes duty drawback and export incentives

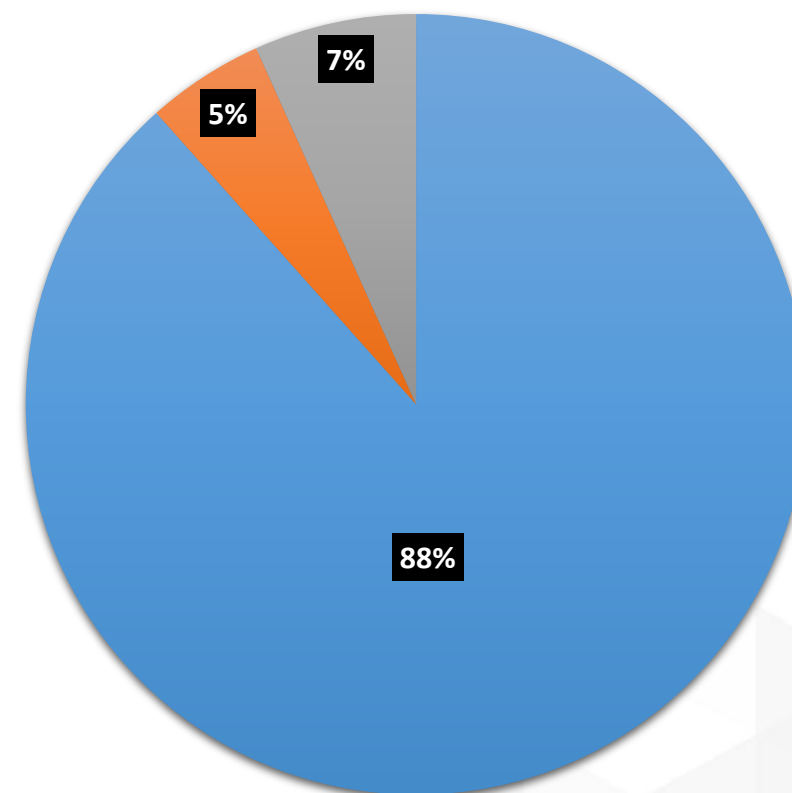
ABOUT THE COMPANY

The products of the company are broadly classified into the following segments:

- **Pharmaceutical Intermediates (PI)** which involves development and commercialisation of PI for APIs across key therapeutic areas and NCE, with a strong focus across select high-growth high margin areas such as **anti-retroviral, anti-inflammatory, anti-psychotic, anti-cancer, anti-Parkinson, anti-depressant** and **anti-coagulant**, for use across the global pharmaceutical market.
- **Speciality Chemicals** which are primarily chemical components that find use in **agrochemicals** and **fine chemicals**. Its products are sold to various domestic and multinational customers for diverse end-user segments including **preservatives, cosmetics** and **agrochemicals**.
- **Other products** which include **parabens** and **parabens formulations** which have end usage in cosmetics, animal food and personal care industries.

The company derives majority of its revenue from the sale of pharma intermediates, particularly **Trazodone** and **Dolutegravir**. In FY21, revenue from sale of Trazodone and Dolutegravir represented ~44% of total revenue from operations.

REVENUE MIX – PRODUCTS (FY21)



■ Pharma Intermediates ■ Specialty Chemicals ■ Others

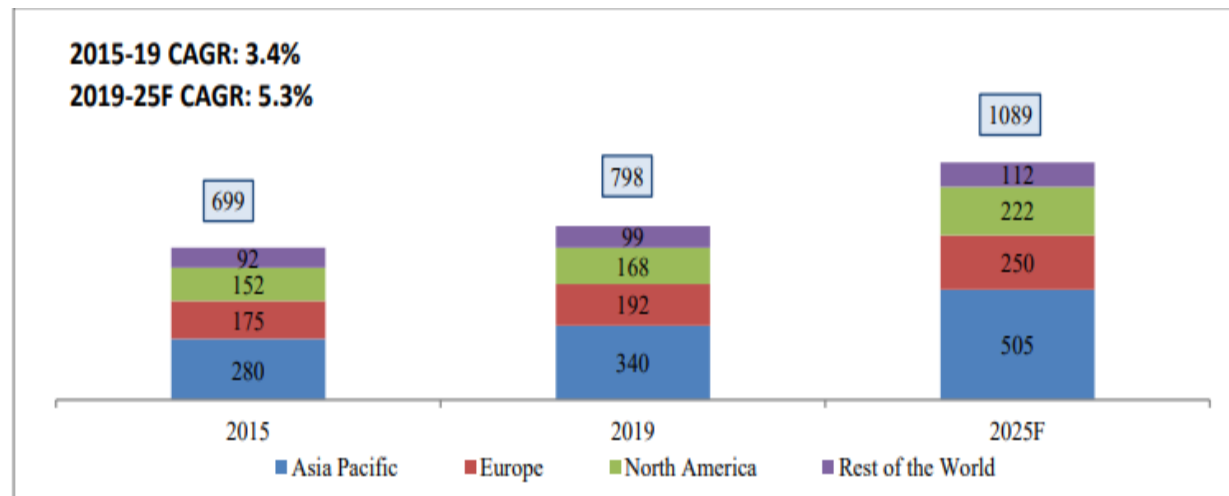
PRODUCT CLASSIFICATION

PRODUCT (API)	APPLICATION	MARKET SHARE
TRAZODONE	One of the key APIs in antidepressant drug	80-90% in FY21. Major manufacturer of atypical antidepressants drug class.
DOLUTEGRAVIR	Antiretroviral medication used to treat HIV/ AIDS	Global market share of 70-75% in FY21.
ENTACAPONE	Commonly used for treatment of Parkinson's disease	Key supplier with a share of ~80% in FY21.
APIXABAN	Anticoagulant medication used to treat blood clots and stroke	~50% of the total market in FY21.
RIVAROXABAN	Treatment of deep vein thrombosis and pulmonary emboli	One of India's largest producers.
NINTEDANIB	Treatment of idiopathic pulmonary fibrosis and Covid	Originator for key intermediates.
PAZOPANIB	It is a Tyrosine Kinase Inhibitors , used to treat kidney cancer	It holds 86–88% in the global market.
QUETIAPINE	An atypical antipsychotic used to treat schizophrenia	Major manufacturer of key intermediates.
ARIPIPRAZOLE	Used in treatment and maintenance therapy of schizophrenia	Major manufacturer of key intermediates.
DARULUTAMIDE	Antiandrogen medication used in treatment of non-metastatic castration-resistant prostate cancer in men	Major manufacturer of key intermediates.
ZIPRASIDONE/ LURASIDONE	Antipsychotic primarily used in the treatment of schizophrenia	Major manufacturer of key intermediates.
MIRTAZAPINE/ VORTIOXETINE/ VILOZODONE	It is an atypical antidepressant medicine	Major manufacturer of key intermediates.

GLOBAL SECTOR OUTLOOK

- The **global chemicals market** was valued at \$4,738 billion in 2019 with China accounting for 40% of the market share. It is expected to grow at a CAGR of 6.2% to \$6,785 billion from 2019 - 2025.
- 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. 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.
- Specialty chemicals industry can be categorised into a mix of end-use driven segments and application-driven segments. In terms of attractiveness, the various segments across specialty chemicals differ in competitive intensity, margin profiles, defensibility against raw material cost movements, and growth.

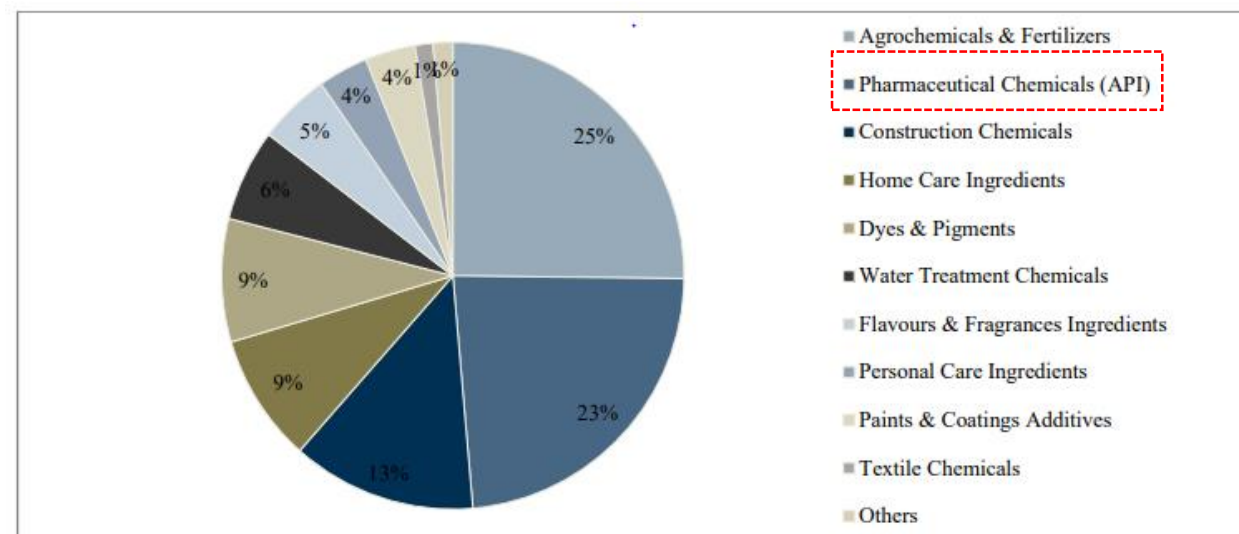
Value of Global Specialty Chemicals Market by Geography



Source: Frost & Sullivan

(in USD billion)

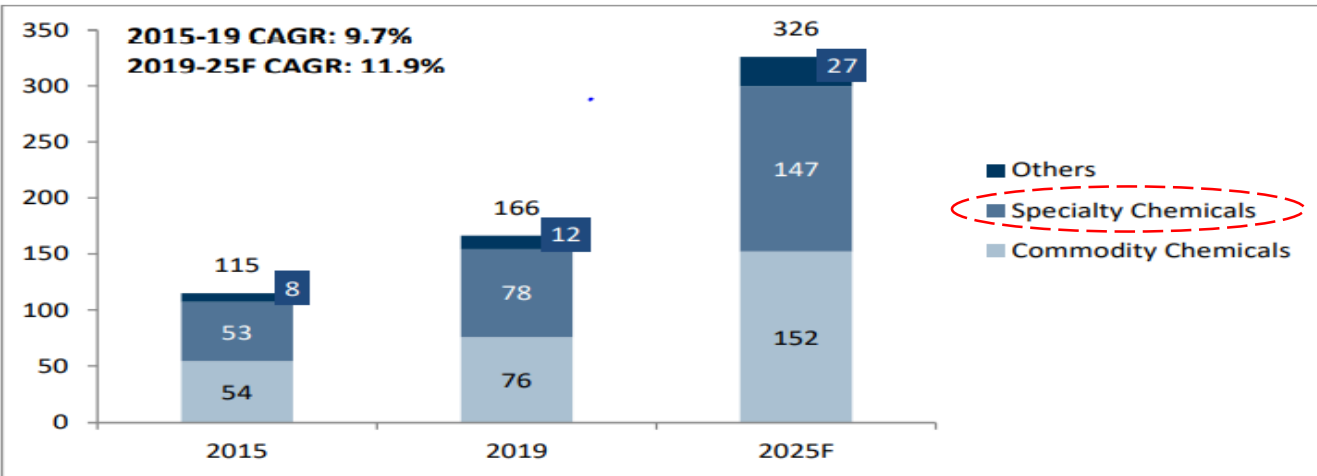
Global Specialty Chemicals Market, Industries & Applications



INDIAN SPECIALTY CHEMICALS MARKET

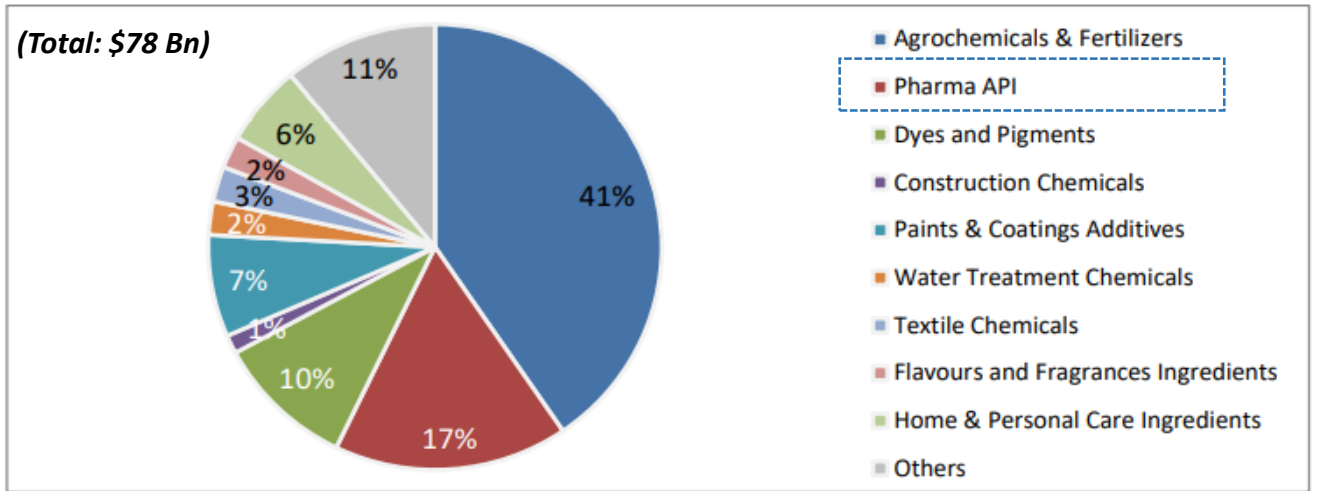
- The **Indian** chemicals market is valued at \$166 Bn (~4% share in the global chemical industry) in 2019. It is expected to reach ~\$326 Bn by 2025, with an anticipated growth of ~12% CAGR. The **specialty chemical** industry forms ~47% of the domestic chemical market, which is expected to grow at a CAGR of around 11-12% over the same period.
- Indian API** sector is growing at a promising rate (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 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.
- Currently, **Indian companies** are experiencing wave of bigger orders from global companies who previously used to purchase from Chinese counterparts.

INDIAN CHEMICALS MARKET (in USD billion)



Source: Frost & Sullivan

INDIAN SPECIALTY CHEMICALS MARKET

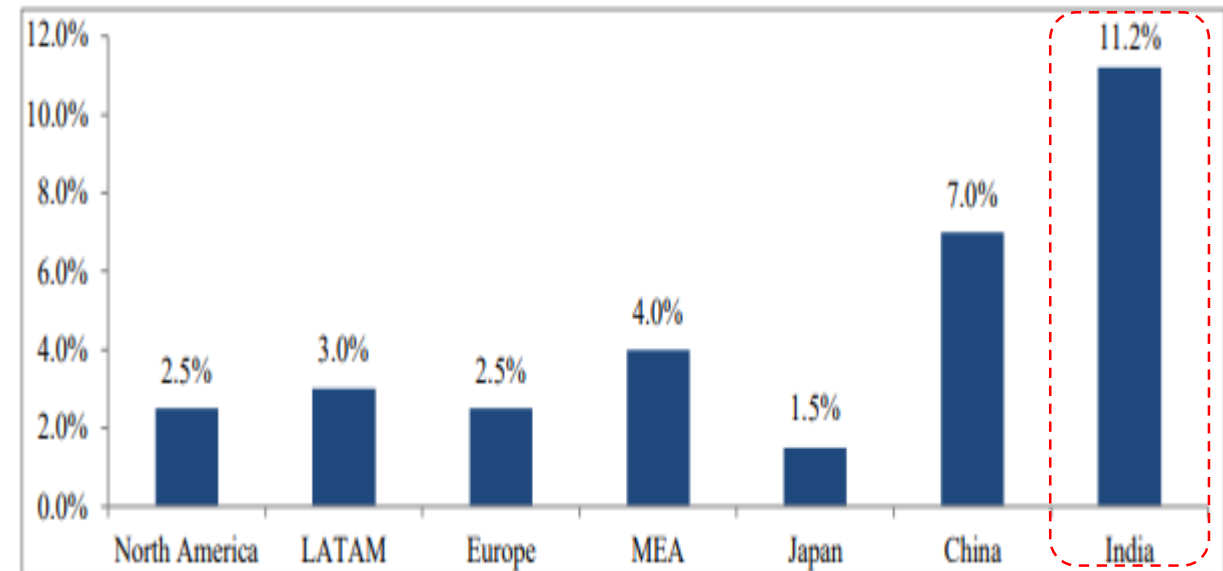


Others: Sealants & Adhesives, Polymer Additives etc

SECTOR OUTLOOK

- Going forward, **Global Pharmaceutical market** 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, there is an increasing number of regulatory approvals and growth of the prescription drugs market.
- Within the **specialty chemicals**, manufacturing of **fine chemicals** (pesticide ingredients as well as **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 product folio and high penetration levels predominantly.
- In terms of region-wise demand, **India's specialty chemicals** industry is expected to witness the maximum growth of 11-12% CAGR over the next five years compared with other markets, due to rising demand from end-user industries, coupled with tight global supply on account of stringent environmental norms in China. Markets like Americas, Europe and Japan are expected to clock less than 4% CAGR over the next five years, due to industry saturation in these regions.
- The **Government of India** announced a ₹99.4 billion package to boost the **domestic API manufacturing industry**. The package is divided into two parts; (i) ₹69.4 billion has been allocated for the **PLI Scheme** and (ii) ₹30 billion will be spent on setting up **three bulk drug parks**.

REGION-WISE SPECIALTY CHEMICALS GROWTH



COMPETITIVE LANDSCAPE



AARTI INDUSTRIES LIMITED

- Market Cap: ₹33,586 cr
- Revenue: ₹4,506 cr
- Net Profit: ₹535 cr
- RoNW: 14.9%
- EBITDA Margin: 21.8%
- TTM P/E: 55.4x



ATUL LIMITED

- Market Cap: ₹26,583 cr
- Revenue: ₹3,732 cr
- Net Profit: ₹653 cr
- RoNW: 17.1%
- EBITDA Margin: 24.6%
- TTM P/E: 37.8x



VINATI ORGANICS LIMITED

- Market Cap: ₹18,388 cr
- Revenue: ₹954 cr
- Net Profit: ₹269 cr
- RoNW: 17.5%
- EBITDA Margin: 36.9%
- TTM P/E: 66.2x



AMI ORGANICS LIMITED

- Market Cap: ₹2,223 cr
- Revenue: ₹341 cr
- Net Profit: ₹54 cr
- RoNW: 32.4%
- EBITDA Margin: 23.5%
- P/E: 41.2x

COMPETITIVE LANDSCAPE

HIKAL LIMITED



- Market Cap: ₹7,983 cr
- Revenue: ₹1,720 cr
- Net Profit: ₹133 cr
- RoNW: 14.3%
- EBITDA Margin: 18.8%
- TTM P/E: 47.3x

VALIANT ORGANICS LIMITED



- Market Cap: ₹3,494 cr
- Revenue: ₹755 cr
- Net Profit: ₹131 cr
- RoNW: 22.8%
- EBITDA Margin: 27.2%
- TTM P/E: 30.0x

NEULAND LABORATORIES LIMITED



- Market Cap: ₹2,141 cr
- Revenue: ₹937 cr
- Net Profit: ₹81 cr
- RoNW: 10.3%
- EBITDA Margin: 15.7%
- P/E: 28.9x

AMI ORGANICS LIMITED



- Market Cap: ₹2,223 cr
- Revenue: ₹341 cr
- Net Profit: ₹54 cr
- RoNW: 32.4%
- EBITDA Margin: 23.5%
- P/E: 41.2x

Figures are for FY21

PROMOTER BACKGROUND AND SHAREHOLDING

The promoters of the company hold 49.7% and their shareholding are as follows:

- **Naresh kumar Ramjibhai Patel (12.7%)**
- **Shital Nareshbhai Patel (12.5%)**
- **Parul Chetankumar Vaghasia (12.5%)**
- **Chetankumar Chhaganlal Vaghasia (9.8%)**
- **Promoter Group (2.2%)**

Apart from this, **Girishkumar Limbabbhai Chovatia** and **Kiranben Girishkumar Chovatia** together hold 32.3% of the total shareholding. Pursuant to the business separation agreement dated 31st March, 2021, Girishkumar Chovatia ceased to be a promoter of the company w.e.f. 31st March, 2021.

Shareholding	Pre IPO	Post IPO
Promoter	47.2%	41.1%
Public	52.8%	58.9%
Total	100%	100%

Buyers	Share in Issue (₹ crore)*	% of Issue
Qualified Institutional	285	50%
Non Institutional	85	15%
Retail Individual	199	35%
Total	570	100%

Selling Shareholder	Pre-IPO Holding %	Post-IPO Holding %	Share in Issue (₹ crore)*	% of OFS Sold
Kiranben Girishkumar Chovatia	18.4%	8.3%	186	50%
Girishkumar Limbabbhai Chovatia	13.9%	8.5%	92	25%
Parul Chetankumar Vaghasia	11.9%	8.9%	43	12%
Other Selling Shareholders	5.8%	3.0%	49	13%

* At upper price band

RISK FACTORS

- It derives a significant portion of its **revenue** from the sale of products in certain therapeutic areas, particularly from **Trazodone** and **Dolutegravir**, which are used as one of the key APIs in anti-depressant drug and as a antiretroviral medication, respectively, which represented ~44% of total revenue from operations in FY21. 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 its business.
- Revenue generated from its **top 5 customers** represented 44.4% of its revenue from operations in FY21. Moreover, revenue generated from its **largest customer** represented 16.2% of its total revenue from operations in FY21.
- It is engaged in **import of raw materials** to the tune of 19.4% of revenue in FY21 from **China**. Adverse geo-political conditions may lead to countries imposing restrictions on the import or export of products or raw materials, thereby impacting the business operations.
- It does not have any **long-term fixed contract** with majority of its customers and suppliers of raw materials. It is yet to receive certain registrations in connection with the **protection of intellectual property** (IP) rights, especially with regards to patents relating to its products. Any failure to protect its IP may affect its competitive position in the industry.
- It is subject to increasingly stringent **environmental, health and safety** (EHS) laws, regulations and standards. Non-compliance and adverse changes may adversely affect its business, results of operations and financial condition. All of its operations are operated on industrial land allotted to the company by **GIDC** (Gujarat Industrial Development Corporation) on a **leasehold basis**. Failure to comply with the conditions of use of such land could result in an adverse impact on its business and financial condition.
- All of its **manufacturing** facilities, including its **warehouses** and **R&D centre** are located in **Gujarat**. Any adverse development affecting such region may have an adverse effect on its business, prospects, financial condition and results of operations.

OBJECTS OF THE OFFER

The company plans to utilise the proceeds received from the issue of fresh shares, ie., ₹100 crore from pre-placement of shares prior to the IPO and ₹200 crores from the IPO for:

- **Repayment/prepayment** of certain financial facilities availed by the company
- Funding the **working capital** requirements
- **General corporate** purposes

PROPOSED SCHEDULE OF UTILIZATION OF NET PROCEEDS AND THE PRE-IPO PLACEMENT

Particulars	Utilization of Net Proceeds from pre-IPO placement & Issue (₹ cr)	Estimated utilisation of Net Proceeds (₹ cr)	
		Fiscal 2022	Fiscal 2023
Repayment of certain financial facilities	140	140	-
Funding working capital requirements of the company	90	50	40

STATEMENT OF PROFIT AND LOSS

Particulars	Data as on 31 st March (₹ crore)		
	2019	2020	2021
Revenue From Operations	238.5	239.6	340.6
Other Income	0.4	2.8	1.4
Total Income (I)	238.9	242.5	342.0
Cost of Materials Consumed	152.1	137.9	174.7
Changes in inventories of finished goods and WIP	(3.6)	(9.0)	4.8
Employee Benefit Expenses	11.7	17.8	21.0
Finance Costs	4.8	5.6	5.6
Depreciation and Amortization Expense	2.6	3.5	4.2
Other Expenses	36.3	51.9	59.9
Total Expenses (II)	203.8	207.7	270.3
Profit Before Tax (III) = (I-II)	35.1	34.8	71.7
Total Tax Expense (IV)	11.8	7.3	17.7
Net Profit for the Period (III-IV)	23.3	27.5	54.0

STATEMENT OF ASSETS AND LIABILITIES

Particulars	Data as on 31 st March (₹ crore)		
	2019	2020	2021
Property, plant and equipment	57.7	62.2	160.6
Other Intangible Assets	21.1	23.0	25.7
Other Non-Current Assets	10.3	25.7	10.7
Inventories	38.7	52.3	60.4
Trade Receivables	76.1	56.4	120.7
Cash & Cash Equivalents	0.5	3.8	2.7
Other Current Assets	8.8	8.5	32.5
Total Assets	213.2	231.9	413.3
Total Equity	82.2	111.8	166.9
Borrowings (Current and Non-Current)	48.2	53.8	117.2
Other Non-Current Liabilities	3.3	5.6	7.6
Trade Payables	68.4	51.4	84.4
Other Current Liabilities	11.0	9.2	37.1
Total Liabilities and Equity	213.2	231.9	413.3

STATEMENT OF CASH FLOW

Particulars	Data as on 31 st March (₹ crore)		
	2019	2020	2021
Net cash generated from / (used in) operating activities (A)	14.8	27.1	27.1
Net cash generated from / (used in) investing activities (B)	(20.9)	(23.9)	(100.4)
Net cash generated from / (used in) financing activities (C)	5.6	0.2	72.1
Net increase / (decrease) in cash and cash equivalents (A+B+C)	(0.4)	3.3	(1.1)

KEY METRICS

Particulars	Data as on 31 st March		
	2019	2020	2021
EPS (Basic/Diluted) (₹)	7.40	8.72	17.14
Net Worth (₹ crore)	82	112	167
Return on Net Worth (%)	28.3	24.6	32.4
Net Asset Value per Equity Share (₹)	26.1	35.5	53
Debt to Equity Ratio	0.66x	0.53x	0.82x
EBITDA (₹ crore)	42	41	80
EBITDA Margin (%)	17.6	17.1	23.5
PAT Margin (%)	9.8	11.5	15.9
Return on Equity (%)	28.3	24.6	32.4
Return on Capital Employed (%)	29.1	22.4	25.3
Interest Coverage Ratio	8.31x	6.71x	13.52x

KEY TAKEAWAYS

- During FY21, the company completed the acquisition of GOL, which provided it access to 2 additional plants and an additional capacity of 3,600 MTA which it plans to start using from FY22 onwards.
- Most of its borrowings comprise of term loan and loan for working capital facilities and export packaging credit.
- The company has undertaken a pre-IPO placement of equity shares aggregating to ₹100 crore by issuing 16,58,374 shares at ₹603 a piece.
- Trade receivables of the company as on 31st March, 2021 constituted 29.2% of the total assets of the company indicating high build-up of receivable. Receivables include ₹14.6 crore transferred from GOL in FY21.
- It has eight process patent applications (in respect of intermediates used in the manufacture of Apixaban, Rivaroxaban, Nintedanib, Vortioxetine, Selexipag, Pimavanserin, Efinaconazole and Eliglustat).
- It currently supplies its products to well-known 150 plus Indian customers and in 25 overseas countries. It has three manufacturing facilities in the state of Gujarat.

SWOT ANALYSIS

Strengths

Reasonable growth in financials
High market share in certain key products

Opportunities

Government's launch of PLI scheme and China + 1 offshore strategy of global players

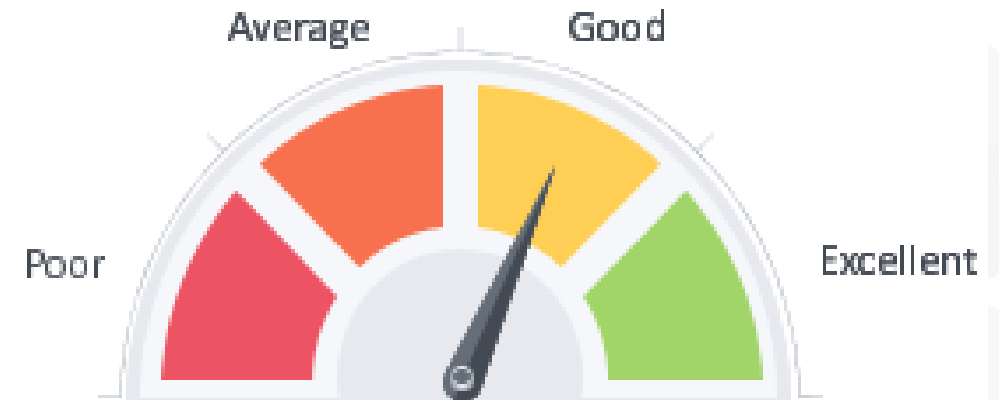
Threats

Environmental Health & Safety law and regulation changes

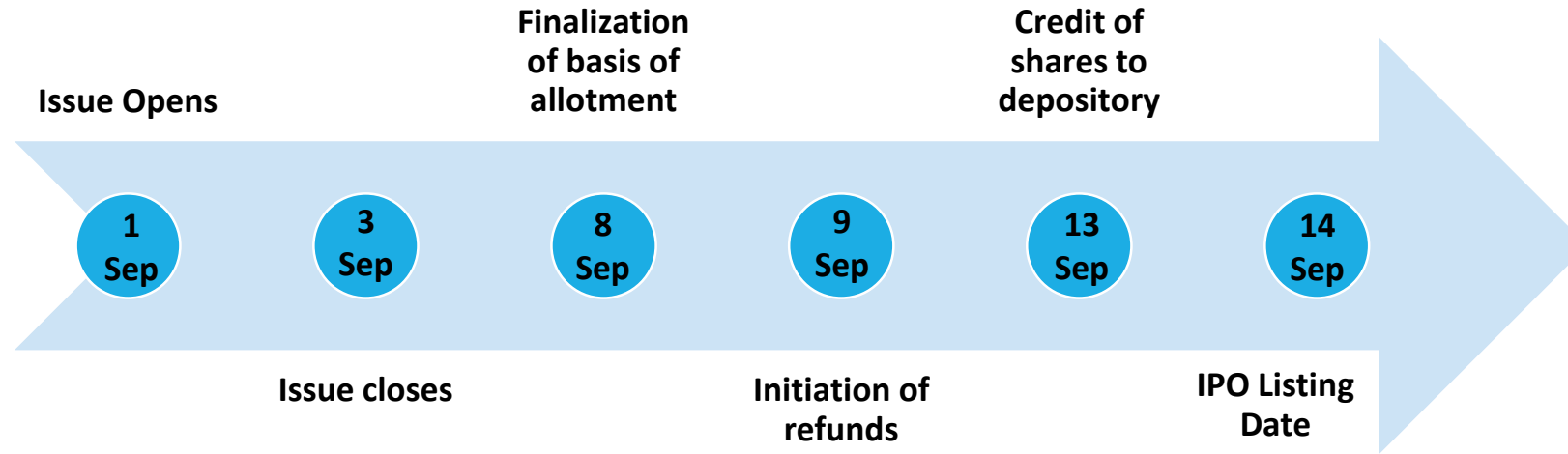
Weakness

Concentration of revenue from select products
No long-term contracts with customers & suppliers

- **Revenue from operations** have grown at a CAGR of 19.5% between FY19 to FY21. Moreover, the company witnessed good profitability margins over the years, with PAT growing at a CAGR of 52.3% of between FY19 and FY21.
- It has a strong and diversified portfolio with 450+ **pharma intermediates** across 17 therapeutic areas coupled with continuous focus on R&D activities.
- The pharmaceutical intermediates business is marked by **high entry barriers** due to long gestation period and involvement of complex chemistries in the manufacturing process, which is difficult to commercialize on a large scale.



TIMELINES



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