Anupam Rasayan India Ltd.

5th April 2022 | CMP – ₹840.70/- | View – **Accumulate on Dips**

Company Overview

The company is engaged in custom synthesis & manufacturing of life sciences related specialty chemical & other specialty chemicals which involve multi step synthesis and complex technologies for Indian & Global customers. It focuses on developing innovative manufacturing processes.

Business segment: 1) Life science (90%) – this verticals comprises of specialty chemicals products related to agrochemicals (include crop protection), personal care and pharmaceuticals. **2) Other specialty chemical (10%)** – it comprises specialty pigment and dyes, and polymer additives.

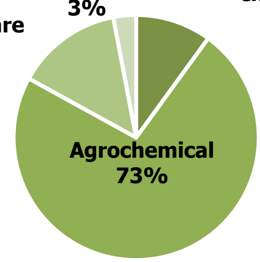
The company has 6 multi-purpose manufacturing facilities in Gujarat, 4 facilities located at Sachin, Surat and 2 located at Jhagadia, Bharuch in Gujarat and an aggregate installed capacity of 27000 MT.

Important Statistics

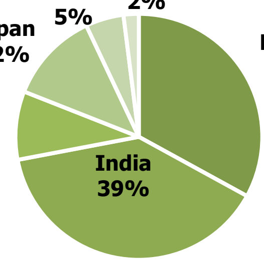
M.Cap (₹ cr)	8,436
52 Week H/L (₹)	1,107.55/474.00
NSE Code	ANURAS
BSE Code	543275

Shareholding pattern (%)	Dec'21
Promoter	65.4%
FII	5.73%
DII	3.75%
Public	25.12%

Business verticals



Revenue by geography



Source: Company Data, Way2Wealth

Investment thesis

- **Tanfac Industries acquisition will aid in expanding product portfolio under Fluorination chemistry:**
  - ARIL has completed the acquisition of 24.96% stake of Tanfac Industries limited from Birla Group for ₹148Cr and further, it propose open offer to acquire additional stake of 26% from public ~₹154Cr. Total consideration –₹302Cr which will be funded by debt. Post open offer, ARIL will hold 51% stake and management control along with Tamil Nadu Industrial Development Corporation (TIDCO).
  - This acquisition is valued at 1.03x/ 4.57x of TTM sales/EBITDA, ROCE- 57%, ROE 41% and debt free company. ARIL will be one of the few manufacturers in India to introduce niche & new molecules in fluorination chemistry.
  - Tanfac Industries is a specialty Fluoride chemical manufacturer, it is leading producer of Hydrochloric Acid (HF) and organic & inorganic fluorine based products such as aluminum fluoride, sodium silico fluoride and potassium fluoride (KF) and sulfuric acid.
  - ARIL will add new polymers intermediate mainly Fluoro Elastomers and Fluoro Electrolytes application in polymers, semiconductors as well as photo resist polymers. Also plan to add fluorination derivatives in the existing product portfolio. Expected spend ₹200-300Cr capex in the next 2 years.

Financials

(₹ Cr)

Particulars	FY19	FY20	FY21	9MFY 22
Net Sales	501	529	811	749
EBITDA	93	135	194	200
EBITDA Margin	19%	26%	24%	27%
PAT	50	53	70	106
EPS (₹)	6.60	6.94	8.56	10.61
P/E (₹)	123	117	95	55
EV/EBITDA	101	71	46	42
ROE	10%	10%	6%	9%
ROCE	11%	11%	11%	12%
D/E	1.22	1.28	0.25	0.20

Source: Company Data, Way2Wealth

- Over the last 5 years, ARIL is developing 14 products (8 products in pharma & 6 in agrochemical) in fluorination chemistry which is now to be commercialized. This acquisition will propel backward integration of fluorinating agents like KF (Potassium Fluoride) and HF (Hydrochloric Acid) which are the key RM in fluorination chemistry; it will scale up fluorinated product portfolio and also help to reduce import dependence from China.

- **Customer stickiness:**
  - Custom Synthesis industry has significant entry barriers. Any change in the manufacturers will require customer to expend significant time and resources which result in long process i.e. inquiry to commercialization of products. It takes almost 15-27 months depending on product complexity.
  - The company has established strong relationship with 66 clients including 23 MNC such as Syngenta Asia Pacific Pte. Ltd., Sumitomo chemical and UPL Limited across Europe, Japan, US and India. Revenue from top 10 customer accounts for 85-87% and top 10 customers contribute 24 products.
  - Over the years, the company has commercialized its product portfolio to 48 complex products as of Q2FY22 from 15 products in FY2015.
  - During 9MFY22, the company launched 4 new molecules, in Q4FY22 expected to launch 4 more new products. In additional to this launches, It is working on >70 products and expected to launch 5-7 products every year.

- **Focus on capacity optimization:**
  - Over the past 3-4 years, the company invested significant capex of ₹800Cr for setting up unit 5 at Jhagadia and unit 6 at Sachin which increased its manufacturing capacity by 2.21x to 27000 MT in 1HFY22 from 12178 MT in FY18.
  - The company has signed long term contract/ LOI with Japanese & European MNC, taking the total LOIs/contracts order book worth ₹2,620Cr in FY22.
  - Recent order book demonstrates Anupam's long term operational visibility.

Signing Quarter	Customer	LOI / Contract	Tenor (years)	Value (Rs Cr)
Q1FY22	Lifescience M NC	LOI	5	1100
Q1FY22	Two MNC companies	Contract	5	540
Q2FY22	European MNC	Contract	5	144
Q3FY22	Japanese MNC	Contract	4	135
Q4FY22	Crop protection MNC	LOI	5	700
Total				**2620**

- ARIL is working on electronic chemical (at present advance stage) i.e. developing polymer 5G technology which is expected to complete by March 2022, initial few batches will be dispatched from existing facilities, later will be investing ₹100-130Cr capex.
- Project pipeline includes 5-7 projects (size of ₹50Cr each project) but able to execute only 2-4 projects because of capacity constraints. The management is discussing and exploring the option of debottlenecking/ value engineering by replacing the low value products with high value products.
- Going ahead, company's long term contracts will enhance the visibility of operations and will help in CAPEX planning.

➢ **Sound fundamental & improving profitability & Return ratio:**

- The company reported revenue/ EBITDA/PAT CAGR growth of 33%/38%/20% over FY18-21 respectively, this growth is driven by commercialization of unit 5 & 6 and new product launched, consistently maintain its EBITDA margins to 24-26%.
- The company has repaid ₹564Cr pursuant fund raised through IPO which lead to significant interest cost saving and improved Net debt/ EBITDA to 0.47x in FY21 from 5.19x in FY18.
- The company is focusing on improving FA t/o to 1.04x in FY22, 1.30x in FY23 & 1.50x in FY24 from 0.71 in FY21.
- Return on Equity has improved to 8% in H1FY22 v/s 6% in FY21, it will further improve significantly as new capacity comes into play and also due to various cost reduction measures taken by the management.

➢ **Quarterly performance update:**

- During Q3FY22, the company reported revenue growth of 45% YoY, 7% QoQ to ₹266Cr, driven by healthy volume ramp up. Gross margin & EBITDA margins reported at 66% & 28% respectively. Current GM reported higher than usual because of better product mix. PAT increased by 75% YoY & 5% QoQ to ₹38Cr, PAT margins stood at 14% v/s 12% in Q3FY21.
- **Concall highlights:**
  - Long-term sustainable gross margin is expected at ~60-62% & EBITDA margin at 26-27%.
  - The company added 4 new molecules in 9MFY22 and further, it expected to add 4 products in 4QFY22.
  - On capacity utilization fronts, the company has reached 75% utilization for Unit 5 & 6. Further it is expected to scale up to 90% in FY23.
  - Revenue contribution from the recently launched products accounts for ₹20-26Cr in Q4FY22 and further it expected to increase to ₹30-40Cr.
  - ARIL's revenue is expected to grow at 34% CAGR over the next two years, excluding Tanfac.
  - Pharma division share is expected to increase to 7% in the next 2 years v/s 3% post Tanfac acquisition.

- On Working capital front, currently WC cycle is 220 days, the management plans to reduce it to 180-190 days by using semi-annual pricing mechanism. Improvement to be seen from FY23 onwards.
- Total capex of ₹120-125Cr in FY22, out of which, the company spent on Solar power (₹44Cr), unit 5 (₹30Cr), R&D (₹25Cr) and remaining will be spend in Q4FY22. The company guided ₹260Cr for next 2 year, out of which ₹60 will be spend on new LOI. 80% of capex will spend in FY23 and remaining in FY24.

Risk

- ARL faces customer concentration risk as it derived 85-87% of its revenues from its top 10 customers.
- Working capital days are high at >200 days due to high inventory which impacted its cash flows so far.
- Risk to CSM industry: Cancellation or deferral of contract orders; regulatory issues can hamper execution of contracts, flow of new orders, inability to recover increase in input costs and opex in contracts.

Outlook

Going ahead, the company will maintain its growth momentum with revenue likely to grow at 33% CAGR over FY21-23E, this growth will be driven by launch of new molecules, signing new LOIs, conversion of LOIs into long term contracts and improvement in FA t/o. We estimate CAGR of 41%/84% in EBITDA/PAT over FY21-23E and sustain EBITDA/ PAT margins at 26-27%/16-17% respectively.

At CMP ₹840.70, the stock is trading at PE 35x FY23E EPS of ₹24 & EV/EBITDA is trading at 23x on FY23E. Hence, we recommend Accumulate on dips rating on stock.

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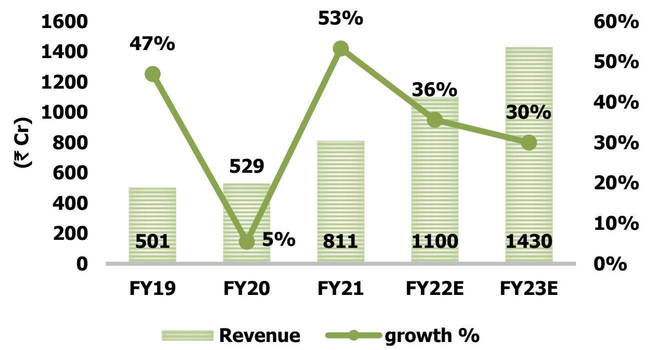
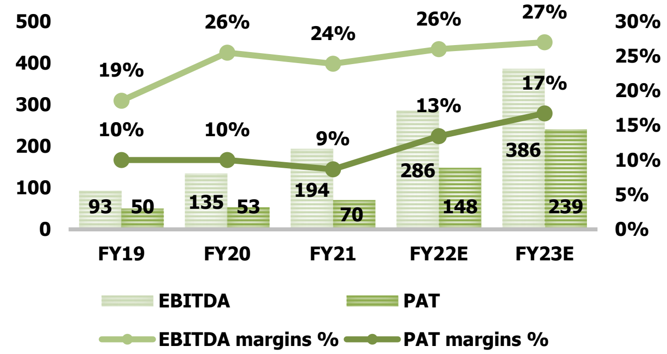
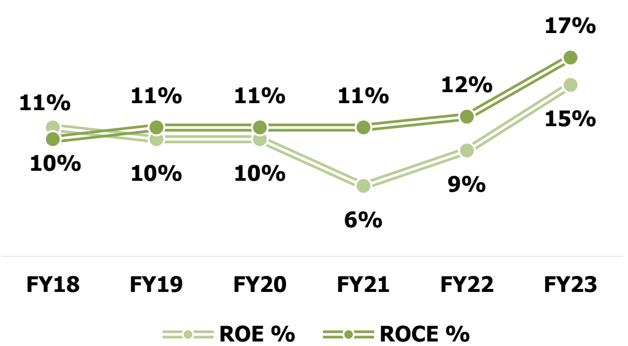
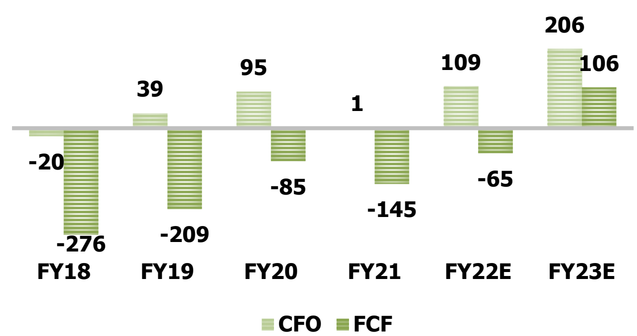
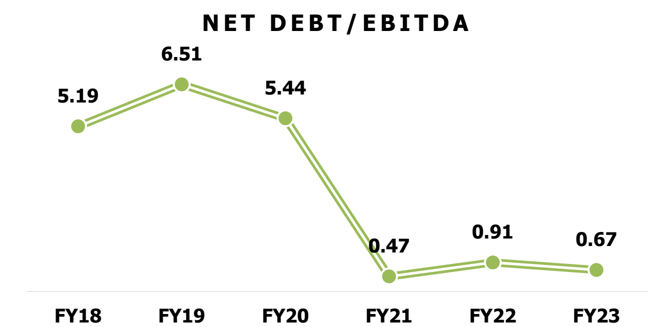
Charts











Source: *Company Data, Way2Wealth*

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Consolidated Quarterly Performance

(₹ Cr)

Particulars	Q3FY22	Q3FY21	YoY %	Q2FY22	QoQ %	9MFY22	9MFY21	YoY %
Net sales	266.16	184.10	45%	248.92	7%	748.76	539.22	39%
COGS	89.97	55.88	61%	89.71	0%	267.08	217.66	23%
Gross Profit	176.19	128.22	37%	159.21	11%	481.68	321.56	50%
Gross Profit margins %	66%	70%	(345) bps	64%	224 bps	64%	60%	470 bps
EBITDA	75.29	53.35	41%	64.00	18%	199.95	130.76	53%
EBITDA margins %	28%	29%	(69) bps	26%	258 bps	27%	24%	245 bps
EBIT/ Operating Profit	59.80	40.21	49%	49.19	22%	155.27	92.45	68%
Interest	5.23	14.42	-64%	5.22	0%	17.06	49.56	-66%
Other income	4.96	5.47	-9%	6.24	-20%	15.48	23.94	-35%
PBT	59.53	31.26	90%	50.21	19%	153.69	66.83	130%
PAT	37.88	21.59	75%	36.10	5%	106.09	48.16	120%
PAT margins %	14%	12%	251 bps	15%	(27) bps	14%	9%	524 bps
EPS (Basic &diluted)	3.79	2.45	55%	3.61	5%	10.61	5.86	81%

Source: *Company Data, Way2Wealth*

(₹ Cr)

Financial	FY19	FY20	FY21	FY22E	FY23E
Net sales	501	529	811	1100	1430
Growth yoy %		5%	53%	36%	30%
COGS	257	211	339	407	515
Gross Profit	244	318	472	693	915
Gross Profit margins %	49%	60%	58%	63%	64%
Employees cost	19	21	32	55	72
other Expense	133	162	246	352	458
Total Expenses	408	394	617	814	1044
EBITDA	93	135	194	286	386
EBITDA margins %	19%	26%	24%	26%	27%
Depreciation	23	29	52	61	66
EBIT/ Operating Profit	71	106	142	225	320
Interest	24	45	69	24	25
Other income	19	11	26	20	20
Exceptional Items					
PBT	66	71	100	221	315
Provision for current Tax	12	13	24	53	76
Provision for Deffered Tax	4	5	5	20	
PAT	50	53	70	148	239
PAT margins %	10%	10%	9%	13%	17%
EPS (Basic & diluted)	6.60	6.94	8.56	14.80	24.00

Source: *Company Data, Way2Wealth*

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Disclosure of Interest Statement Anupam Rasayan India Ltd. as on April 5th, 2022

Name of the Security	Anupam Rasayan India Ltd.
Name of the analyst	Ashwini Sonawane
Analysts' ownership of any stock related to the information contained Financial Interest Analyst : Analyst's Relative : Yes / No Analyst's Associate/Firm : Yes/No	NIL No No No
Conflict of Interest	No
Receipt of Compensation	No
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