

Anupam Rasayan India

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Bloomberg: ANURAS IN

NBIE virtual conference Feb 2023

In this report, we have summarized key takeaways (KTAs) from the zoom meeting with the management of small cap CSM company Anupam Rasayan India Ltd (ARIL) on February 14, 2023. The underlying theme was: (a) The CSM pie in Agrochem, Pharma and Specialty Chemicals is large enough and each CSM provider has its own niche with customers. This is based on the expertise of each CSM player (including ARIL) in synthesis, the stage of chemical process in the manufacturing of the final product and consistency in quality/delivery at a reasonable price (b) ARIL has the potential to earn revenue of Rs17-18bn on exiting assets, driven by MPP flexibility on type of chemicals, the synthesis and the stage of manufacturing sequence for customers' final molecule (c) ARIL sees growth from increased wallet share and higher volume from existing customers, new contracts/LOIs and growth in high-value fluorination derivatives based on Hydrofluoric Acid (HF) and (d) New capex to add capacity and synthesis facilities combined with R&D pipeline and increase in the share of work from innovators. We maintain BUY on ARIL with a target price (TP) of Rs762, valuing it at a target PE of 29.8x on Sept'24E EPS; the core business is valued at Rs748 while the value of 25.8% stake in Tanfac Industries (TIL) is Rs14 at CMP (after holding co. discount of 50%).

Key catalysts: *Growth prospects on the back of healthy traction in enquiries/orders (especially Europe+) in outsourcing complex molecules; *Advancement/increase in volume of existing arrangements and supply of KSMs for the Pharma sector based on fluorine chemistry. The required HF will be sourced from subsidiary TIL (Not Rated), one of four producers of this raw material in India. *Entry barriers based on complex chemistry capabilities and established credentials with chemical majors who outsource synthesis/chemicals.

KTAs from ARIL group zoom meeting on February 13, 2023:

ARIL was represented by – Mr. Vishal Thakkar, Dep. CFO and Mr. Ravish Chaudhari, Corporate Strategy and Investor Relation.

ARIL plans to commercialise 6-8 molecules every year in fluorination

Total potential in fluorination chemicals based on HF is indicated at US\$220-260mn, as per consultant study. This is across high-value specialty polymers/agrochem/pharma vs current KF based fluorine chemicals – **current share of 12-15% of revenue**. ARIL expects to monetize about half of the above value in 3-5 years.

Total global fluorination market opportunity is ~US\$5bn+.

ARIL sees limited competition from peers as the pie is big enough.

The customer chemical company outsourcing chemicals also chooses a supplier based on the latter's expertise in chemical synthesis and manufacturing relevant for the chemical step or product required by each customer.

The nature of contracts provides high visibility of future revenue - Rs8bn in contracts and Rs18bn in LOIs.

Customer penetration and products

The number of molecules per customer as well as revenue per molecule is also increasing. Seven molecules have been commercialised in FY23 – mostly in Active Ingredients (AI).

There is a gradual shift from Intermediates/off-patented products to newly launched AI/patented and recently off-patent ones, and increasingly with innovators.

The no. of products per customer is increasing – it is likely to increase the wallet share per customer.

Also, **molecules contributing US\$10mn to revenue have also increased from 4 in FY22 to 7 in FY23**. The lead time for a molecule to reach US\$10mn revenue has reduced from 8-10 years to 3-4 years.

The no. of customers has increased from 53 in FY18 to 68 in FY22. The no. of products has increased from 25 to 48 during the same period ~ YTD FY23 this has touched 55.

All plants of ARIL are multipurpose plants.

This gives flexibility in production of various chemical intermediates and AIs, as per customers' requirements. ARIL's CSM contracts usually have a "Take or Pay" clause for a minimum volume, but the company prefers not to enforce this in normal circumstances.

Note: HF – Hydrofluoric acid, KF – Potassium fluoride Note: YoY change in margins in the table below is in bps, YoY change in P&L figures are in %.-

Y/E March (Rsmn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	5,289	8,109	10,660	12,683	15,325	20,283
Revenue gr (%)	5.5	53.3	31.5	19.0	20.8	32.4
EBITDA	1,348	1,938	2,970	3,733	4,445	5,914
EBITDA Margin (%)	25.5	23.9	27.9	29.4	29.0	29.2
Consol. Net Profit Adjusted	532	703	1,513	1,661	2,226	3,171
EPS (Rs)	10.64	7.03	15.10	16.02	20.76	29.58
EPS gr (%)	6.0	-33.9	114.7	6.1	29.6	42.5
P/E (x)	61.0	92.3	43.0	40.5	31.3	21.9
EV/EBITDA (x)	49.0	34.0	22.2	17.7	14.8	11.2
P/BV	5.5	4.1	3.8	2.8	2.7	2.4
Revenue to Gross Block	0.69	0.78	0.87	0.93	1.01	1.14
Net Debt/(cash) Rsmn	7916	912	5861	842	3489	3685
Pre-tax RoCE (%)	9.0	10.7	12.3	12.1	13.6	16.2
RoE (%)	9.7	6.5	9.2	8.1	9.0	11.6
ROIC (%)	7.5	7.9	9.1	9.8	11.0	12.3

Source: Company, Nirmal Bang Institutional Equities Research

Revenue mix

- **70% revenue comes from contracts.** ARIL aims to earn margins in the range of 26-28% across contracts and also in the non-contractual business. These contracts provide for PBT level margins based on a transparent cost sheet shared by ARIL with each customer.
- Also, working capital is mainly driven by inventory holdings required for raw materials, finished goods and the cycle time between production to dispatch – i.e. the need to move materials from the arrival point to various MPPs and final dispatch, which entails some lead time.
- **Patented molecules' revenue share is 30%.** Recently off-patented products constituted 40% and the balance came from products off-patent for many years.
- ARIL is usually the primary or sole supplier of chemicals to customers.
- The company prefers to look at chemical supply contracts where that product is to be sourced from only one supplier each in India/China and Europe. They skip deals involving more than one Indian vendor.
- China opening up does not affect ARIL in terms of sourcing and demand.
- Europe+ is working in favour of ARIL in terms of the following:
 - (a) Increased volume and orders for new chemicals from existing customers, particularly in earlier stages of the production cycle of a product and
 - (b) enquiries and orders from new customers

Three legs of growth

- Increased volume and early stage in product development
- Executing order book/LOIs
- Growth from HF-based fluorination - across Agrochem and eventually in Pharma (currently 3-4% of ARIL's revenue) and specialty polymers
- Also, the output from MPPs moving up the value chain - from high-volume, low-value to low-volume, and high-value products/synthesis. ARIL has seen its realisations increase by 50% to US\$15/kg. New HF derivatives could enhance this further.

Exhibit 1: Operating assumptions and margins

Rsmn	FY20	FY21	FY22	FY23E	FY24E	FY25E
Domestic Revenue	1690	3051	4660	4711	5768	7752
Export Revenue	3599	5058	6000	7971	9556	12532
Total Company Revenue	5289	8109	10660	12683	15325	20283
Revenue Pie %						
Domestic Revenue	31.9	37.6	43.7	37.1	37.6	38.2
Export Revenue	68.1	62.4	56.3	62.9	62.4	61.8
Growth and Margins %						
Growth - Domestic Revenue %	-15.7	80.6	52.7	1.1	22.4	34.4
Growth - Export Revenue	19.6	40.5	18.6	32.9	19.9	31.1
Growth- Company Revenue %	5.5	53.3	31.5	19.0	20.8	32.4
Raw material/sales %	39.8	41.8	34.7	37.9	37.9	38.9
EBITDA Margin %	25.5	23.9	27.9	29.4	29.0	29.2
Capex(Rsmn)	1804	1460	1300	1800	3500	1700
Revenue/Asset(x)	0.3	0.4	0.4	0.4	0.4	0.5
Revenue/Gross Fixed Asset(x)	0.7	0.8	0.9	0.9	1.0	1.1

Source: Company, Nirmal Bang Institutional Equities Research

Anupam Rasayan Standalone Financials

Exhibit 2: Income statement

Y/E March (Rsmn):	FY21	FY22	FY23E	FY24E	FY25E
Net Revenue	8,109	10,660	12,683	15,325	20,283
y/y	53.32	31.46	18.98	20.83	32.36
Raw Material Expenses	3,390	3,699	4,801	5,801	7,882
RM/Sales %	41.8	34.7	37.9	37.9	38.9
Employee cost	324	485	608	760	950
Power and fuel cost	751	1,222	1,331	1,470	1,867
Selling, General & Admin Expense	1,706	2,283	2,210	2,848	3,671
EBITDA	1,938	2,970	3,733	4,445	5,914
y/y	43.78	53.30	25.66	19.07	33.06
Depreciation	517	603	745	821	935
EBIT	1,421	2,367	2,987	3,623	4,979
Interest Expense	685	308	567	551	539
Other Income	264	151	-15	151	151
PBT (adjusted)	1,000	2,210	2,405	3,223	4,591
- Income Tax Expense	297	697	744	997	1,420
Consolidated PAT (adjusted)	703	1,513	1,661	2,226	3,171
Exceptional items	-	-	-	-	-
Consolidated PAT reported	703	1,513	1,661	2,226	3,171
Diluted EPS (adjusted)	7.03	15.10	16.02	20.76	29.58
y/y	-33.92	114.67	6.14	29.58	42.45

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Cash flow

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
PBT	1,000	2,210	2,405	3,223	4,591
Add depreciation	517	603	745	821	935
Other adjustments	680	248	582	400	388
Change in W/C	2,006	4,416	414	1,980	2,334
Income tax	176	358	744	997	1,420
Cashflow from Operations (A)	15	-1,712	2,575	1,468	2,160
Net Capex (inc in Tang and Intang assets)	1,460	1,471	1,799	3,500	1,700
Other Non-Current Assets	471	2,652	49	-	-
Free cashflow	-1,916	-5,835	726	-2,032	460
Cashflow from Investing (B)	-1,931	-4,122	-1,848	-3,500	-1,700
Ch in Borrowing	-4,243	4,221	-1,733	1,336	-1,646
Dividends paid including dividend tax	-	100	124	214	268
Interest exp	685	305	567	551	539
Issue of equity SC	218	3	69	-	-
Sec Premium	9,218	65	4,931	-	-
Others Including other income	-350	-41	-15	151	151
Cashflow from Financing (C)	4,158	3,844	2,560	722	-2,302
Ch in Cash and Cash equiv	2,241	-1,991	3,286	-1,311	-1,842
Opening cash	716	4,086	2,097	5,383	4,073
Closing cash	2,957	2,095	5,383	4,073	2,230

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Balance sheet

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	999	1,002	1,071	1,071	1,071
Reserves and Surplus	14,735	16,266	22,734	24,745	27,648
Networth	15,734	17,269	23,805	25,816	28,719
Non-controlling interest	0	0	0	0	0
Long Term Borrowings	2,474	4,945	3,752	5,088	3,442
Deferred Tax Assets / Liabilities	243	546	546	546	546
Other Long Term Liabilities+Provisions	322	195	195	195	195
Trade Payables	1,996	2,278	2,543	3,072	4,168
Other Current and financial Liabilities	572	431	431	431	431
Current Maturities	961	614	427	427	427
Short Term Borrowings	433	2,399	2,047	2,047	2,047
Income tax liabilities	90	136	136	136	136
Short Term Provisions	153	92	123	190	208
Total Capital And Liabilities	22,980	28,905	34,004	37,949	40,319
Net Block	10,771	11,583	12,289	14,236	15,591
Goodwill on consolidation	0	0	0	0	0
CWIP plus IUD	432	437	807	1,561	992
Other Investments	0	1,488	1,537	1,537	1,537
Other Non-Current Assets	629	932	681	660	639
Currents Investments	0	0	0	0	0
Inventories	4,922	8,632	9,243	11,168	13,393
Sundry Debtors	2,055	2,801	3,127	3,779	5,001
Cash and Bank balances	2,957	2,097	5,383	4,073	2,230
Advances and prepaid expenses	114	40	40	40	40
Other current assets	1,098	895	895	895	895
Total Assets	22,980	28,905	34,004	37,949	40,319

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Key ratios

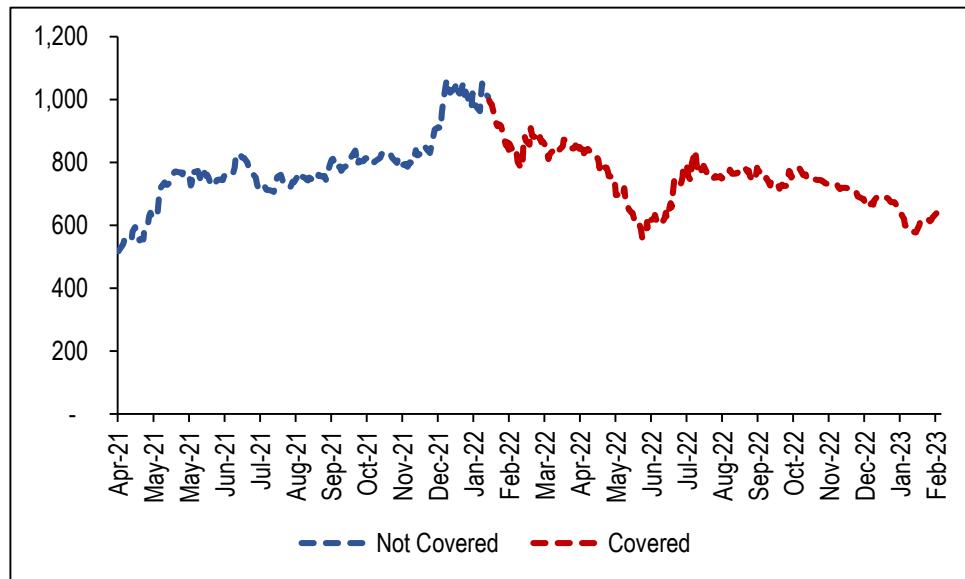
Y/E March: Consolidated	FY21	FY22	FY23E	FY24E	FY25E
Profitability & return ratios					
EBITDA margin (%)	23.9	27.9	29.4	29.0	29.2
EBIT margin (%)	17.5	22.2	23.6	23.6	24.5
Adj Net profit margin (%)	8.7	14.2	13.1	14.5	15.6
RoE (%)	6.5	9.2	8.1	9.0	11.6
Pre-tax RoCE (%)	10.7	12.3	12.1	13.6	16.2
RoIC (%)	7.9	9.1	9.8	11.0	12.3
Working capital ratios					
Receivables (days)	75	83	90	90	90
Inventory (days)	178	232	266	266	241
Payables (days)	74	73	73	73	75
Cash conversion cycle	179	242	283	283	256
Leverage ratios					
Net deb/(Cash) (Rsmn)	912	5,861	842	3,489	3,685
Net Debt (cash)/Equity (X)	0.06	0.34	0.04	0.14	0.13
Net Debt/EBITDA	0.47	1.97	0.23	0.78	0.62
Valuation ratios					
EV/sales (x)	8.14	6.19	5.20	4.30	3.25
EV/EBITDA (x)	34.05	22.21	17.67	14.84	11.16
EV/FCF	-34.4	-11.3	90.8	-32.5	143.5
P/E (x)	92.29	42.99	40.50	31.26	21.94
P/BV (x)	4.12	3.77	2.83	2.70	2.42
FCF Yield (%)	-2.90	-8.84	1.10	-3.08	0.70
Dividend Yield (%)	0.00	0.00	0.00	0.00	0.00
Per share ratios					
EPS	7.03	15.10	16.02	20.76	29.58
Cash EPS	12.20	21.11	23.21	28.42	38.30
BVPS	157.46	172.26	229.61	240.81	267.89
DPS	0.00	1.00	1.20	2.00	2.50

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
8 February 2022	Buy	1,008	1,158
14 February 2022	Buy	923	1,173
14 May 2022	Buy	801	1142
26 July 2022	Acc	788	774
16 September 2022	Acc	772	838
30 October 2022	Acc	774	863
30 January 2023	Buy	600	762
27 February 2023	Buy	649	762

Rating track graph



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ACCUMULATE -5% to 15%

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