

Growth momentum remains strong in Human VD3; Maintain BUY

Fermenta Biotech Ltd (FBL) has posted revenue of INR 1,096mn with a 16.1% YoY increase, which was 8.5% above our estimate of INR 1,011mn. The revenue growth was mainly driven by strong traction in the Human VD3 business and higher contribution from Fish Oil Cholesterol. In Q1FY22 the vitamin D3 (VD3) business contributed 77% to the overall revenue. The revenue ratio of VD3 between Human Nutrition & Animal Nutrition has moved from 47:53 in Q1FY21 to 77:23 in Q1FY22 in favour of Human Nutrition. Volumes of Human Nutrition VD3 continue to grow Q-o-Q and Y-o-Y while that of Animal Nutrition continues to show a decline. EBITDA margin for the quarter was 23.5% better than our estimate of 21.1% (EBITDA margin of 10.2% in Q4FY21, 23.7% in Q1FY21) supported by margin recovery in Fish Oil Cholesterol. Management is confident of improving margin profile from the current level on the back of strong traction in Human VD3, demand recovery in Animal VD3, positive operating leverage from the higher sale of Fish Oil Cholesterol, and new product launch in high margin category. FBL reported a PAT of INR 113mn compared to our estimate of INR109mn due to moderate operational performance. During Q1, the company commissioned a brownfield expansion of Human VD3 capacity at Dahej, increasing installed Human VD3 capacity by around 20%. Management believes the increased capacity can be fully absorbed in FY22 as there is a strong demand for human VD3 APIs in the market.

Valuation and Outlook

We believe FBL is on the verge of transforming itself into a nutraceutical company led by its strong R&D capability. It is expanding into value-added formats of vitamins like A, E, D2, and K, developing smart minerals, novel antioxidants, pre and probiotics, customized premixes and a huge opportunity in food fortification in India. We expect the VD3 segment to have enough headroom left and can continue to grow at a CAGR of 15.4% over FY21-23 on the back of capacity expansion supported by a healthy demand outlook in Human VD3 and recovery in Animal VD3 volumes. High barriers to entry in terms of technology requirements (photochemistry replication) and regulatory permissions make a supportive case. Moreover, backward integration into cholesterol to improve gross margin in coming quarters. Considering the expected strong growth in profitability, healthy balance sheet with improving return ratios, we are optimistic about the company's long-term growth prospects. Therefore, we maintain our BUY recommendation, with a price target of INR 395, based on 17x FY23e earnings.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

Stock

CMP (INR)	287
Target Price (INR)	395
BSE code	506414
NSE Symbol	na
Bloomberg	FERMENTA.IN
Reuters	DILL.BO

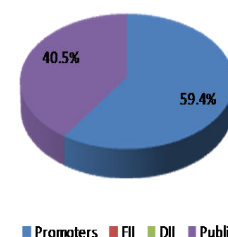
Key Data

Nifty	16,615
52WeekH/L(INR)	442/249
O/s Shares (Mn)	29
Market Cap (INR bn)	8.4
Face Value (INR)	5

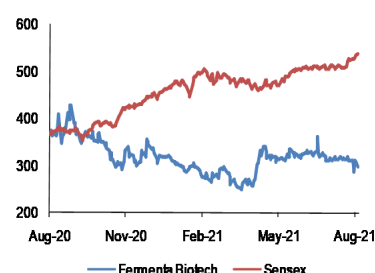
Average volume

3 months	50,100
6 months	50,750
1 year	50,690

Share Holding Pattern (%)



Relative Price Chart



Research Analyst

Nikhil Shetty

nikhilshetty@bpwealth.com

Key Financials

YE March (INR. Mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	4,047	2,929	3,773	4,525	5,262
Growth %	34%	-28%	29%	20%	16%
EBIDTA	1,489	652	817	957	1,239
Growth%	60%	-56%	25%	17%	29%
Net Profit	1,175	595	455	496	684
Growth %	143%	-49%	-24%	9%	38%
Diluted EPS	39.9	20.2	15.5	16.8	23.2
Growth %	143%	-49%	-24%	9%	38%

Profitability & Valuation

EBIDTA (%)	36.8%	22.3%	21.6%	21.2%	23.5%
NPM (%)	29.0%	20.3%	12.1%	11.0%	13.0%
RoE (%)	62.7%	21.3%	13.6%	13.0%	15.9%
RoCE (%)	46.4%	28.2%	14.3%	15.3%	16.9%
P/E (x)	7.2	14.2	18.6	17.0	12.4
EV/EBITDA (x)	6.3	15.6	12.3	10.3	7.7
P/BV (x)	3.4	2.7	2.3	2.1	1.8
Net Debt / EBITDA (x)	0.6	2.7	2.0	1.4	0.9

Source: Company, BP Equities Research

Variance Analysis

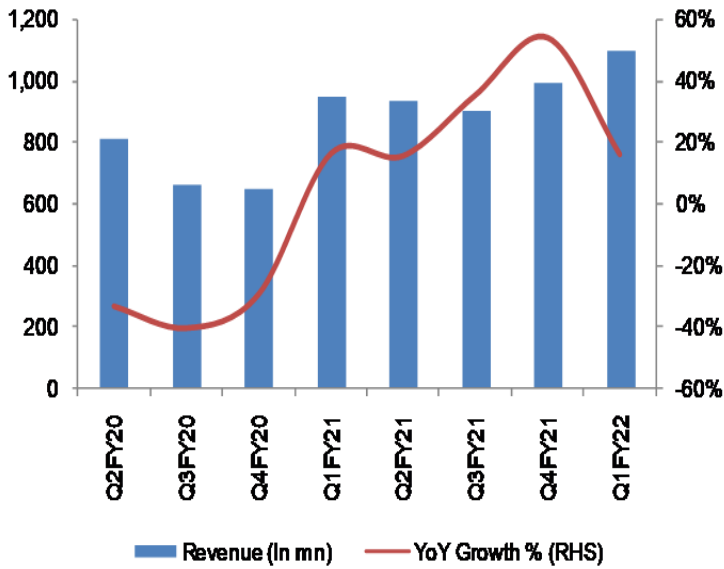
YE March (INR. Mn)	Q1 FY22	Q4 FY21	Q-o-Q change %	Q1 FY21	Y-o-Y change %
Net Sales	1,096	995	10.2%	944	16.1%
Other Operating Income	0	0		0	
Total Revenue	1,096	995	10.2%	944	16.1%
Less:					
Raw Material Cost	378	457	(17.2%)	324	17.0%
Operating & Manufacturing Expenses	294	294	(0.1%)	251	17.1%
Employee Cost	166	142	17.3%	146	13.7%
Total Expenditure	839	893	(6.1%)	721	16.4%
EBIDTA	258	102	153.3%	224	15.3%
Less: Depreciation	59	64	(7.1%)	41	44.3%
EBIT	198	38	425.9%	182	8.7%
Less: Interest	41.4	50.2	(17.7%)	35.8	15.6%
Add: Other income	18	46	(60.8%)	13	42.5%
Exceptional Income / Expenses	0				
Profit before tax	175	34	418.0%	159	9.9%
Adjusted Profit before Tax	175	34	418.0%	159	9.9%
Less: Total Tax	60	-10	(692.0%)	23	155.1%
Profit After Tax	115	44	163.1%	136	(15.1%)
Minority Interest	-2	30		0	
Adjusted Profit After Tax	113	74	53.0%	136	(16.8%)
Diluted EPS (INR.)	3.9	1.5	163.1%	4.6	(15.1%)
Adjusted Diluted EPS	3.8	2.5	53.0%	4.6	(16.8%)
Diluted No of Share (mn)	29.4	29.4		29.4	
Margin Analysis %			Change in bps	Change in bps	
Gross Margin %	65.5%	54.1%	1,143	65.7%	-25
EBIDTA Margin %	23.5%	10.2%	1,328	23.7%	-17
EBIT Margin %	18.1%	3.8%	1,429	19.3%	-123
NPM %	10.5%	4.4%	612	14.4%	-387
Effective Tax Rate %	34.1%	-29.8%	6,387	14.7%	1,939

Revenue came above our estimate mainly due to strong traction in Human VD3 business and higher contribution from Fish Oil Cholesterol

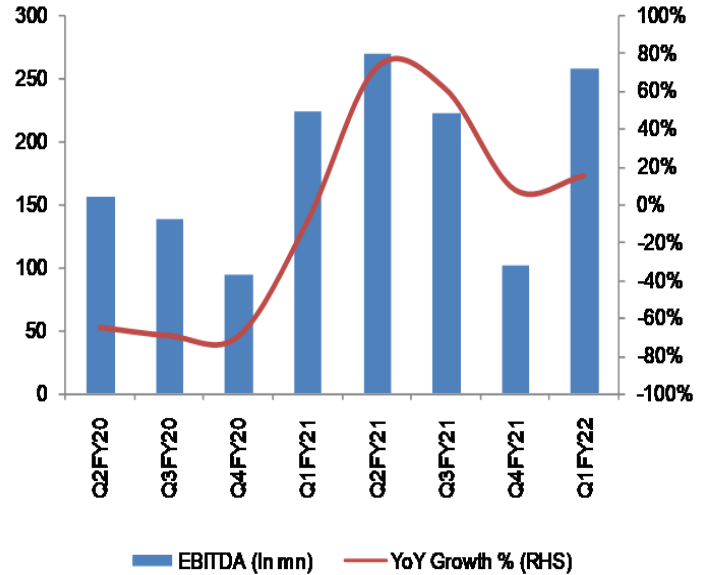
PAT came lower than our estimate due to higher tax rate (34.1% vs 14.7% in Q1FY21)

Source: Company, BP Equities Research

Revenue surged by 16.1% YoY

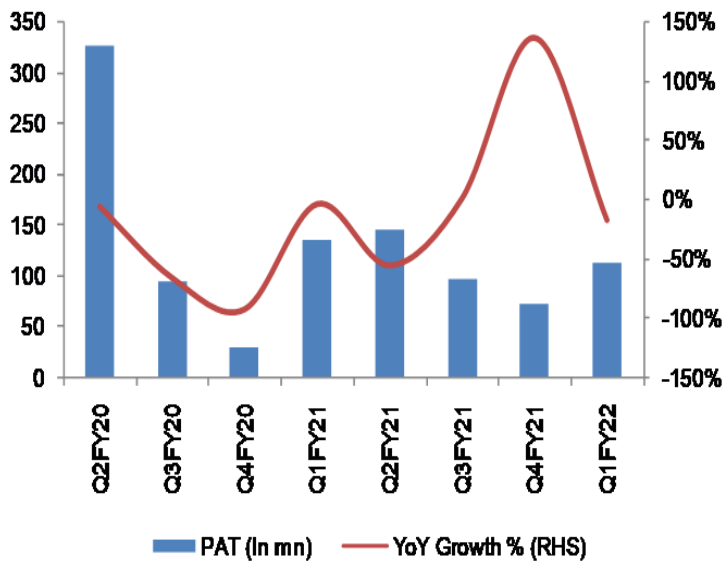


EBITDA grew by 15.3%

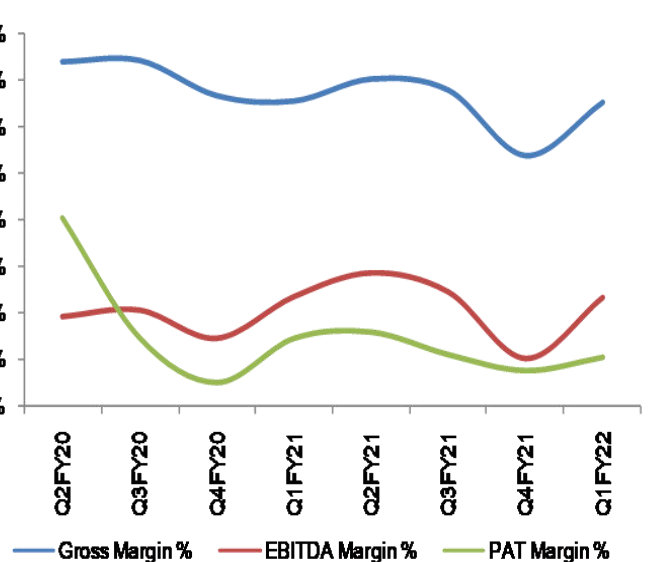


Source: Company, BP Equities Research

Higher tax expense resulted in 16.8% de-growth in PAT



Gross, EBITDA and PAT margin trend



Source: Company, BP Equities Research



Profit & Loss A/c (Consolidated)						
YE March (INR in mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
Revenue	3,027	4,047	2,929	3,773	4,525	5,262
Growth %	84.4%	33.7%	-27.6%	28.8%	19.9%	16.3%
Total Revenue	3,027	4,047	2,929	3,773	4,525	5,262
Less:						
Raw Material Consumed	798	923	790	1,344	1,692	1,869
Employee Cost	398	532	500	582	640	717
Other Expenses	900	1,104	987	1,030	1,235	1,436
Total Operating Expenditure	2,097	2,558	2,277	2,956	3,568	4,023
EBITDA	930	1,489	652	817	957	1,239
Growth %	677.6%	60.1%	-56.2%	25.2%	17.2%	29.4%
Less: Depreciation	124	119	150	203	257	303
EBIT	807	1,370	502	614	700	937
Growth %	4785.2%	69.9%	-63.3%	22.1%	14.1%	33.8%
Interest Paid	136	207	191	180	180	180
Non-operating Income	89	124	123	83	115	120
Extraordinary Income	0	0	0	0	0	0
Profit Before tax	760	1,287	434	516	635	877
Tax	211	108	-161	91	140	193
Net Profit before Minority	548	1,179	595	425	496	684
Minority Interest	-60	0	0	30	0	0
Other Consolidated Items	0	0	0	0	0	0
Net Profit	483	1,179	595	455	496	684
Adjusted Profit	483	1,175	595	455	496	684
Reported Diluted EPS Rs	16.4	39.9	20.2	15.5	16.8	23.2
Growth %	660.3%	143.1%	-49.3%	-23.5%	8.9%	38.0%
Adjusted Diluted EPS Rs	16.4	39.9	20.2	15.5	16.8	23.2
Growth %	660.3%	143.1%	-49.3%	-23.5%	8.9%	38.0%

Source: Company, BP Equities Research

Cash Flows (Consolidated)						
YE March (INR. Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
PAT	483.1	1,174.7	595.2	455.1	495.6	683.9
(Less)/Add: Extraordinary Income/Expense	0.0	0.0	0.0	0.0	0.0	0.0
Less: Non Operating Income	(89.5)	(123.7)	(123.2)	(82.5)	(115.0)	(120.0)
Add: Depreciation	123.6	118.9	150.0	203.1	257.3	302.5
Add: Interest Paid	136.3	206.5	191.4	179.7	179.7	179.7
Tax Adjustment	0.0	0.0	0.0	0.0	0.0	0.0
Operating Profit before Working Capital Changes	653.6	1,376.5	813.4	755.4	817.6	1,046.2
(Inc)/Dec in Current Assets	(355.7)	(183.8)	(55.1)	195.0	(348.0)	(224.1)
Inc/(Dec) in Current Liabilities	246.7	220.6	(55.0)	216.1	425.9	252.0
Changes in Inventory	(122.7)	(364.9)	(409.2)	(336.9)	(112.9)	(138.5)
Net Cash Generated From Operations	422.0	1,048.4	294.1	829.6	782.6	935.7
Cash Flow from Investing Activities						
(Inc)/Dec in Fixed Assets	(111.5)	(148.1)	(374.9)	(581.3)	(600.0)	(500.0)
(Inc)/Dec in Capital Work In Progress	15.6	(182.2)	(463.5)	143.7	0.0	0.0
(Inc)/Dec in Investment (Strategic)	(23.7)	(62.2)	60.3	(242.0)	209.9	(6.0)
(Inc)/Dec in Investment (Others)	79.4	74.1	28.9	25.6	0.0	0.0
Add: Non Operating Income	89.5	123.7	123.2	82.5	115.0	120.0
(Inc)/Dec in Intangible Assets	4.3	1.4	(28.3)	(5.1)	0.0	0.0
Net Cash Flow from/(used in) Investing Activities	53.6	(193.4)	(654.4)	(576.5)	(275.1)	(386.0)
Cash Flow from Financing Activities						
Inc/(Dec) in Total Loans	902.7	100.9	(97.4)	(12.6)	0.0	0.0
Inc/(Dec) in Reserves & Surplus	(820.7)	(17.0)	(10.9)	187.7	0.0	0.0
Inc/(Dec) in Equity	0.0	30.4	151.6	(60.7)	0.0	0.0
Dividend Paid	(36.8)	(36.8)	(147.2)	(73.6)	(80.1)	(110.6)
Less: Interest Paid	(136.3)	(206.5)	(191.4)	(179.7)	(179.7)	(179.7)
Adjustments	(82.8)	(39.4)	(26.7)	0.0	(0.0)	(0.0)
Exceptional Item	0.0	0.0	0.0	0.0	0.0	0.0
Net Cash Flow from Financing Activities	(173.9)	(168.4)	(321.9)	(138.9)	(259.9)	(290.3)
Net Inc/Dec in cash equivalents	301.7	686.6	(682.1)	114.2	247.7	259.3
Opening Balance	24.9	326.6	1,013.2	331.1	445.3	693.0
Closing Balance Cash and Cash Equivalents	326.6	1,013.2	331.1	445.3	693.0	952.3

Source: Company, BP Equities Research



Balance Sheet (Consolidated)						
YE March(INR in mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
Liabilities						
Equity Capital	23	46	144	144	144	144
Reserves & Surplus	1,222	2,452	2,889	3,462	3,877	4,450
Equity	1,244	2,505	3,094	3,606	4,021	4,595
Net Worth	1,354	2,506	3,094	3,603	4,015	4,589
Minority Interest						
Net Deferred tax liability/(Asset)	103	-98	-303	-333	-333	-333
Total Loans	1,652	1,954	2,061	2,079	2,079	2,079
Capital Employed	3,109	4,362	4,853	5,349	5,761	6,335
Assets						
Gross Block	1,142	1,290	1,665	2,246	2,846	3,346
Less: Depreciation	173	253	376	579	836	1,139
Net Block	969	1,037	1,289	1,667	2,010	2,207
Capital WIP	25	207	671	527	527	527
Long Term Loans & Advances	68	186	196	275	65	71
Other Non Current Assets	134	78	8	171	171	171
Intangible assets under development	10	9	37	42	42	42
Non- Current Investments	818	744	715	690	690	690
Current Assets						
Inventories	512	877	1,286	1,623	1,736	1,874
Sundry Debtors	687	655	698	680	816	949
Cash and Bank Balance	327	1,013	331	445	693	952
Current Investments	11	11	0	0	0	0
Loans and Advances	183	311	434	313	348	405
Other Current Assets	103	190	91	35	212	247
Total Current Assets	1,823	3,058	2,840	3,096	3,805	4,427
Less: Current Liabilities & Provisions						
Sundry Creditors	401	427	563	621	951	1,106
Provisions	42	56	8	77	92	107
Other Current Liabilities	294	474	331	420	504	586
Total Current Liabilities & Provisions	737	958	903	1,119	1,548	1,800
Capital Applied	3,109	4,362	4,853	5,349	5,761	6,335

Source: Company, BP Equities Research

Key Ratios (Consolidated)						
YE March (INR in mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
Key Operating Ratios						
EBITDA Margin (%)	31%	37%	22%	22%	21%	24%
Tax / PBT (%)	28%	8%	-37%	18%	22%	22%
Net Profit Margin (%)	16%	29%	20%	12%	11%	13%
RoE (%)	36%	63%	21%	14%	13%	16%
RoCE (%)	18%	46%	28%	14%	15%	17%
Current Ratio (x)	2.5x	3.2x	3.1x	2.8x	2.5x	2.5x
Dividend Payout (%)	8%	3%	25%	16%	16%	16%
Book Value Per Share (Rs.)	42	85	105	123	137	156
Financial Leverage Ratios						
Debt/ Equity (x)	1.3x	0.8x	0.7x	0.6x	0.5x	0.5x
Interest Coverage (x)	6.8x	7.2x	3.4x	4.5x	5.3x	6.9x
Net Debt / EBITDA	1.4x	0.6x	2.7x	2.0x	1.4x	0.9x
Growth Indicators %						
Growth in Net Block (%)	8%	7%	24%	29%	21%	10%
Sales Growth (%)	84%	34%	(28%)	29%	20%	16%
EBITDA Growth (%)	678%	60%	(56%)	25%	17%	29%
Net Profit Growth (%)	660%	143%	(49%)	(24%)	9%	38%
Diluted EPS Growth (%)	660%	143%	(49%)	(24%)	9%	38%
Turnover Ratios						
Debtors Days	83	59	87	66	66	66
Creditors Days	70	61	90	77	77	77
Inventory Days	62	79	160	157	140	130

Source: Company, BP Equities Research

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Corporate Office:

4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:

24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001
BP Wealth Management Pvt. Ltd.
CIN No: U67190MH2005PTC154591
BP Equities Pvt. Ltd.
CIN No: U67120MH1997PTC107392