

Estimate changes	↔↔
TP change	↔
Rating change	↔

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Bloomberg	FINEORG IN
Equity Shares (m)	31
M.Cap.(INRb)/(USDb)	88.4 / 1.2
52-Week Range (INR)	3559 / 2126
1, 6, 12 Rel. Per (%)	-8/14/-20
12M Avg Val (INR M)	170

Financials & Valuations (INR bn)

Y/E March	FY21	FY22E	FY23E
Sales	11.2	13.4	16.1
EBITDA	1.9	2.4	3.5
PAT	1.1	1.5	2.4
EPS (INR)	37.5	50.5	78.3
EPS Gr. (%)	(31.0)	34.7	55.2
BV/Sh.(INR)	241.0	276.3	331.2
Ratios			
Net D:E	(0.3)	(0.3)	(0.4)
RoE (%)	16.8	19.5	25.8
RoCE (%)	15.7	18.7	25.0
Payout (%)	37.3	30.0	30.0
Valuations			
P/E (x)	76.8	57.1	36.8
P/BV (x)	12.0	10.4	8.7
EV/EBITDA (x)	44.9	35.5	23.9
Div. Yield (%)	0.5	0.5	0.8
FCF Yield (%)	1.0	1.2	2.3

Kindly refer our detailed report on Specialty Chemicals



CMP: INR2,885 **TP: INR3,134 (+9%)** **Neutral**

Demand outlook strong; margins to remain subdued

- Fine Organic Industries (FINEORG) reported in-line revenues, while the gross margin stood at 31%, the lowest in the last 16 quarters. A broad trend was seen across companies due to a surge in freight costs, coupled with a rise in raw material costs.
- EBITDA at INR499m was a marginal beat of 7% on our numbers, with marginal decline in EBITDAM sequentially from 14.3% to 13.9%.
- Lower-than-expected depreciation resulted in a more pronounced beat of 16% on PBT and 21% on PAT.
- Higher disposable incomes, coupled with the rising trend of eating healthy, are expected to drive the global Food Additives market, with this trend catching up in India too. We believe the Indian Food Emulsifier / Polymer Additives market is expected to clock a ~7% CAGR each up to CY23E/CY26E. With its strong R&D capabilities, FINEORG stands to benefit from these trends.
- FINEORG is setting up a new joint venture facility in Thailand, with Oleofine Organics Thailand Co. (OFT) and Oleofine Organics Sdn. (OFM) – Malaysia. Once the JV is set up, FINEORG would have easier access to its primary raw material, palm oil – Indonesia, Malaysia, and Thailand are the major (88%) producers of palm oil globally.
- The company is trading at 37x FY23 EPS. Valuing it at 40x Sep'23 EPS, we reiterate our Neutral rating, with TP of INR3,134.

Highest ever quarterly revenues; input costs remain high

- Revenue was in line with our estimate at INR3.6b (+53% YoY; +12% QoQ). Exports accounted for 63% of total revenues in 1QFY22.
- EBITDA came in 7% above our estimate at INR499m (-3% YoY; +9% QoQ), with the EBITDA margin at 13.9% (the lowest in the last 16 quarters).
- That said, conversion cost was down 90bps QoQ to 17.2% (the lowest in five quarters) as operating efficiencies improved owing to recent capacity additions at its Ambernath and Patalganga (Phase-I) plants.
- PAT stood at INR349m (+22% YoY; +21% QoQ).

Valuation and view – maintain Neutral

- A ramp-up in the utilization levels of additional capacities by FY23 to optimal levels as well as the strong demand outlook for the Indian Food Emulsifiers market should help FINEORG grow at a faster rate than the industry.
- **We forecast a revenue CAGR of ~18% over FY21–24E, with an EPS CAGR of 36% over the same period.** The easier procurement of palm oil with the help of the JV formed in Thailand presents an upside risk to our call.
- **The stock is trading at 37x/31x FY23/24E EPS and 24x/20x FY23/24E EV/EBITDA – after correcting 4% in the last month.** We value the company at 40x Sep'23E EPS to arrive at TP of INR3,134.

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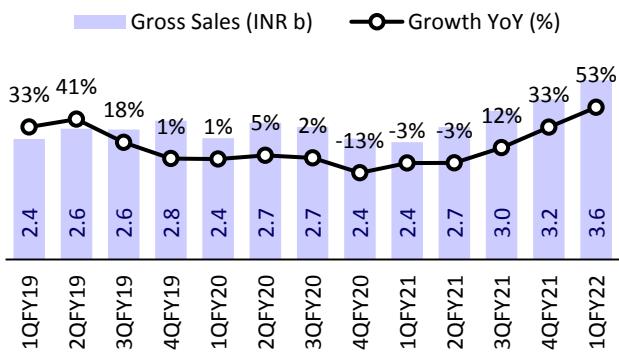
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Standalone - Quarterly Snapshot

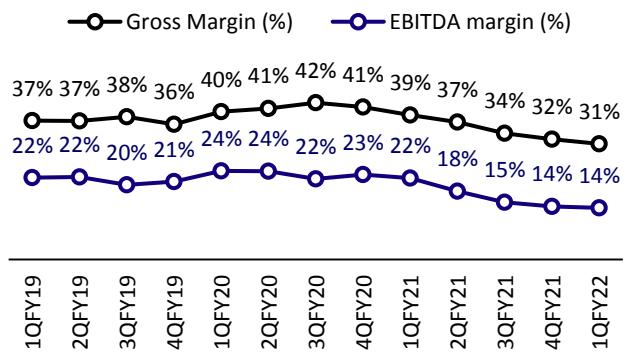
Y/E March	FY21								FY22		FY21	FY22E	FY22	Var (%)
	1Q		2Q		3Q		4Q		1Q					
	Gross Sales	2,356	2,658	2,982	3,217	3,599	3,419	3,556	2,876	11,213	13,450	3,474	4%	
YoY Change (%)		-3.2	-3.1	12.1	32.7	52.8	28.6	19.2	-10.6	9.3	19.9	47.5		
Gross Margins (%)		39%	37%	34%	32%	31%	36%	39%	34%	35%	35%	30%		
EBITDA		516	488	458	459	499	660	797	458	1,921	2,413	467	7%	
Margins (%)		21.9	18.3	15.4	14.3	13.9	19.3	22.4	15.9	17.1	17.9	13.4		
Depreciation		111	114	119	124	95	122	127	162	468	506	119	-20%	
Interest		18	16	15	12	13	12	10	7	61	42	11	16%	
Other Income		16	40	54	61	60	51	51	42	170	204	51	18%	
PBT before EO expense		403	398	378	384	451	578	710	330	1,562	2,068	387	16%	
PBT		403	398	378	384	451	578	710	330	1,562	2,068	387	16%	
Tax		117	103	97	95	101	145	179	95	413	521	98		
Rate (%)		29.1	26.0	25.8	24.7	22.5	25.2	25.2	28.8	26.4	25.2	25.2		
Reported PAT		286	295	280	289	349	432	531	235	1,149	1,548	290	21%	
YoY Change (%)		-23.6	-49.8	-23.9	-13.2	22.2	46.7	89.6	-18.6	-30.9	34.7	1.4		
Margins (%)		12.1	11.1	9.4	9.0	9.7	12.6	14.9	8.2	10.3	11.5	8.3		

Exhibit 1: Sales up 12% QoQ



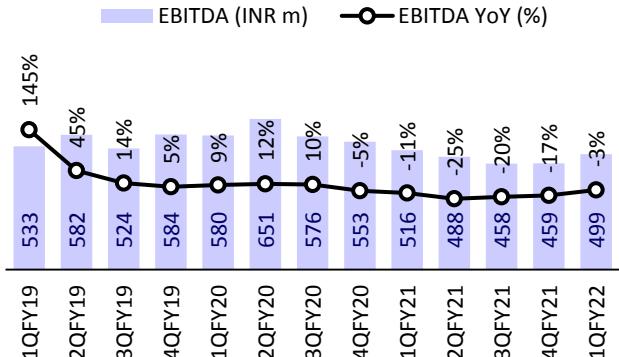
Source: Company, MOFSL

Exhibit 2: Margins remain subdued in 1QFY22



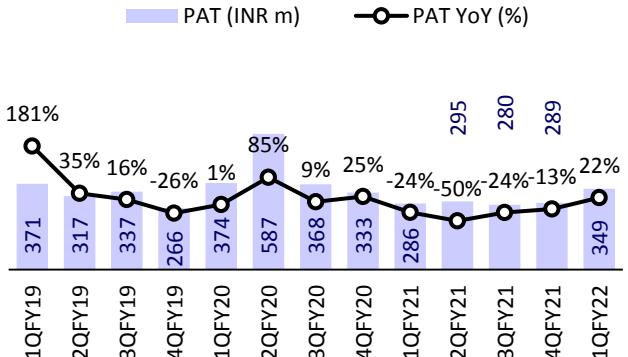
Source: Company, MOFSL

Exhibit 3: EBITDA up 9% QoQ (margins at 13.9%)



Source: Company, MOFSL

Exhibit 4: PAT up 21% QoQ (margins at 9.7%)

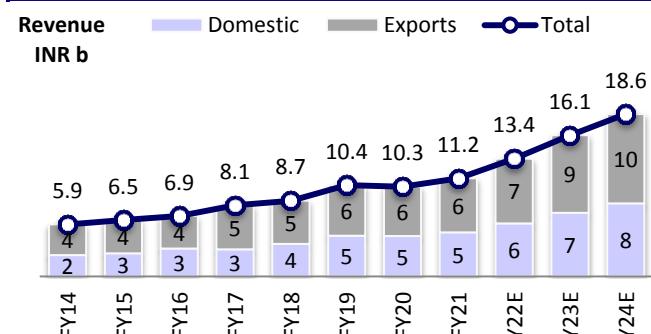


Source: Company, MOFSL

Financials story in charts

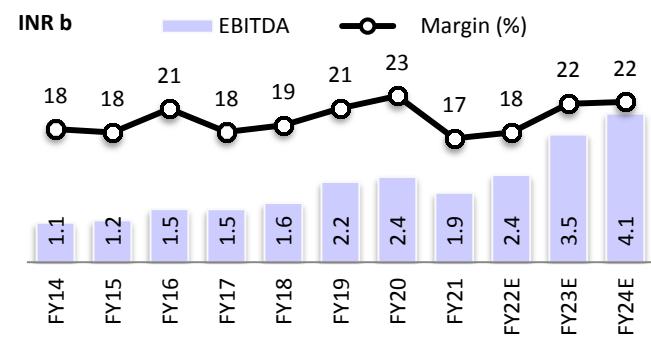
Stable growth, but stagnant margin and expensive valuations

Exhibit 5: Expect ~18% revenue CAGR over FY21–24...



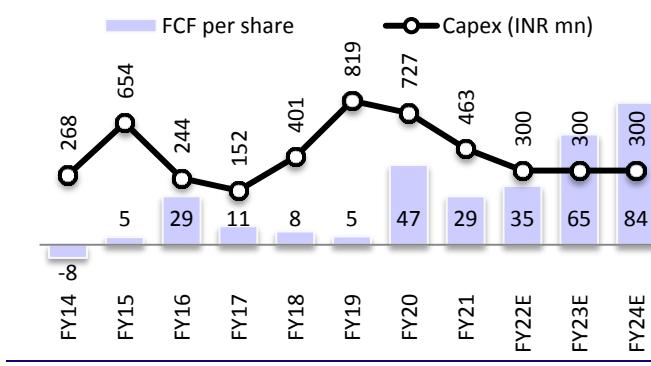
Source: Company, MOFSL

Exhibit 7: Expect EBITDAM to return to ~22%...



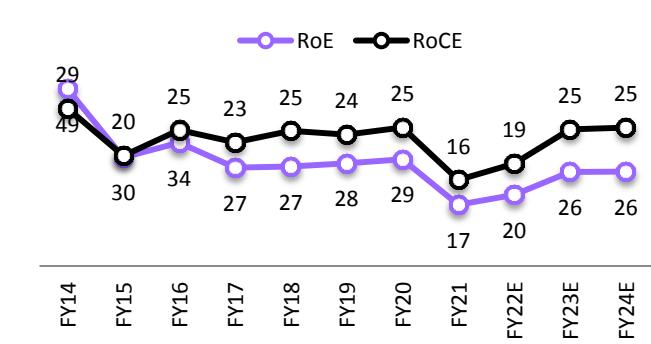
Source: Company, MOFSL

Exhibit 9: Capex for next 3 years stands at INR0.9b



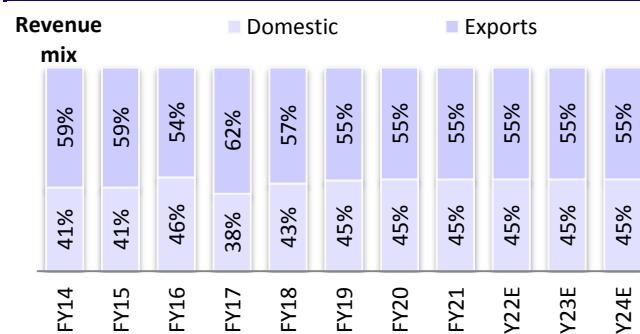
Source: Company, MOFSL

Exhibit 11: Return ratios to recover to 25–26% in FY24E



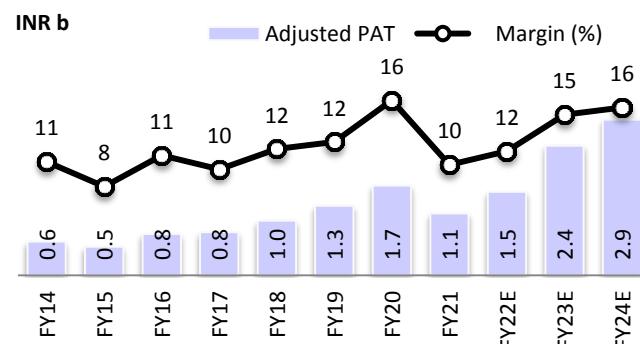
Source: Company, MOFSL

Exhibit 6: ...with constant export-to-revenue mix



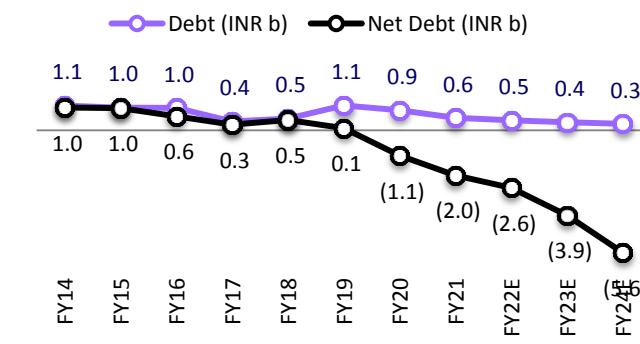
Source: Company, MOFSL

Exhibit 8: ...along with improvement in PAT margin



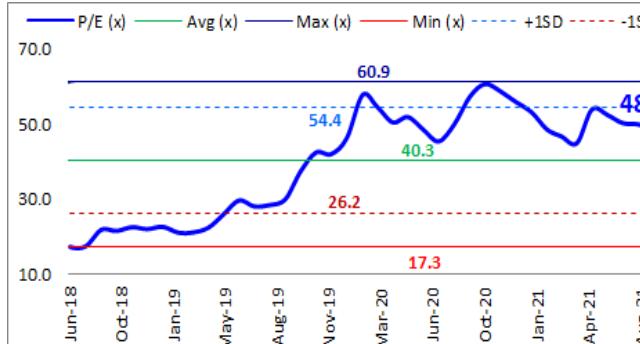
Source: Company, MOFSL

Exhibit 10: FINEORG remains cash positive



Source: Company, MOFSL

Exhibit 12: FINEORG trades at ~49x at 1-year forward PE



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement										(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	
Total Income from Operations	6,920	8,144	8,651	10,440	10,262	11,213	13,450	16,133	18,553	
Change (%)	7.2	17.7	6.2	20.7	-1.7	9.3	19.9	20.0	15.0	
Gross Margins (%)	44.0	38.8	35.6	37.3	40.9	35.2	35.0	38.0	38.0	
EBITDA	1,469	1,467	1,640	2,223	2,361	1,921	2,413	3,537	4,116	
Margin (%)	21.2	18.0	19.0	21.3	23.0	17.1	17.9	21.9	22.2	
Depreciation	298	237	200	175	347	468	506	539	572	
EBIT	1,171	1,230	1,440	2,048	2,014	1,453	1,907	2,997	3,543	
Int. and Finance Charges	71	44	31	18	48	61	42	34	27	
Other Income	76	43	164	202	205	170	204	246	340	
PBT bef. EO Exp.	1,176	1,229	1,572	2,233	2,172	1,562	2,068	3,210	3,856	
PBT after EO Exp.	1,175	1,229	1,572	2,233	2,172	1,562	2,068	3,210	3,856	
Total Tax	407	429	559	942	507	413	521	808	971	
Tax Rate (%)	34.6	34.9	35.5	42.2	23.3	26.4	25.2	25.2	25.2	
Reported PAT	769	800	1,014	1,290	1,665	1,149	1,548	2,402	2,886	
Adjusted PAT	769	800	1,014	1,290	1,665	1,149	1,548	2,402	2,886	
Change (%)	44.9	4.0	26.7	27.3	29.0	-31.0	34.7	55.2	20.1	
Margin (%)	11.1	9.8	11.7	12.4	16.2	10.3	11.5	14.9	15.6	

Standalone - Balance Sheet

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	
Equity Share Capital	51	51	153	153	153	153	153	153	153	
Total Reserves	2,534	3,298	3,931	4,931	6,154	7,235	8,319	10,000	12,020	
Net Worth	2,585	3,350	4,085	5,084	6,308	7,388	8,472	10,153	12,173	
Total Loans	1,021	403	536	1,130	915	567	454	363	291	
Capital Employed	3,577	3,752	4,621	6,219	7,222	7,956	8,926	10,516	12,464	
Gross Block	2,343	2,290	2,395	2,464	4,192	4,453	4,753	5,053	5,353	
Less: Accum. Deprn.	1,096	1,322	1,515	1,686	2,033	2,500	3,007	3,546	4,118	
Net Fixed Assets	1,247	968	881	778	2,159	1,953	1,747	1,507	1,235	
Capital WIP	57	28	317	1,063	58	263	263	263	263	
Total Investments	54	143	143	167	442	437	437	437	437	
Curr. Assets, Loans&Adv.	2,841	3,406	4,079	5,086	5,964	6,901	8,646	10,908	13,517	
Inventory	737	885	833	790	1,195	1,089	2,033	2,439	2,805	
Account Receivables	955	1,203	1,611	1,670	1,451	1,745	1,902	2,281	2,623	
Cash and Bank Balance	387	142	71	1,031	2,056	2,612	3,065	4,228	5,846	
Cash	367	103	54	1,020	2,009	2,564	3,017	4,180	5,799	
Bank Balance	16	39	17	11	48	48	48	48	48	
Loans and Advances	761	1,176	1,564	1,595	1,262	1,454	1,646	1,960	2,243	
Curr. Liability & Prov.	622	793	799	875	1,401	1,598	2,166	2,599	2,988	
Account Payables	532	676	693	523	843	1,084	1,434	1,721	1,979	
Other Current Liabilities	82	117	84	307	526	473	689	827	951	
Net Current Assets	2,219	2,613	3,280	4,211	4,563	5,303	6,479	8,309	10,529	
Appl. of Funds	3,577	3,752	4,621	6,219	7,222	7,956	8,926	10,516	12,464	

Financials and valuations

Ratios									
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)									
EPS	25.1	26.1	33.1	42.1	54.3	37.5	50.5	78.3	94.1
Cash EPS	34.8	33.8	39.6	47.8	65.6	52.7	67.0	95.9	112.8
BV/Share	84.3	109.2	133.2	165.8	205.7	241.0	276.3	331.2	397.0
DPS	0.0	0.0	7.5	7.0	11.0	14.0	15.1	23.5	28.2
Payout (%)	0.0	0.0	27.3	20.0	24.4	37.3	30.0	30.0	30.0
Valuation (x)									
P/E	114.8	110.4	87.1	68.5	53.0	76.8	57.1	36.8	30.6
Cash P/E	82.7	85.2	72.8	60.3	43.9	54.6	43.0	30.0	25.5
P/BV	34.2	26.4	21.6	17.4	14.0	12.0	10.4	8.7	7.3
EV/Sales	12.9	10.9	10.3	8.5	8.5	7.7	6.4	5.2	4.5
EV/EBITDA	60.6	60.4	54.1	39.8	36.9	44.9	35.5	23.9	20.1
Dividend Yield (%)	0.0	0.0	0.3	0.2	0.4	0.5	0.5	0.8	1.0
FCF per share	28.8	11.0	7.9	5.0	47.3	28.7	35.0	65.5	84.3
Return Ratios (%)									
RoE	33.8	27.0	27.3	28.1	29.2	16.8	19.5	25.8	25.9
RoCE	24.9	22.6	24.7	24.0	25.3	15.7	18.7	25.0	25.3
RoIC	25.7	24.6	24.7	29.4	35.8	23.0	29.1	41.7	46.1
Working Capital Ratios									
Fixed Asset Turnover (x)	5.6	7.4	9.4	12.6	7.0	5.5	7.3	9.9	13.5
Asset Turnover (x)	1.9	2.2	1.9	1.7	1.4	1.4	1.5	1.5	1.5
Inventory (Days)	39	40	35	28	42	35	55	55	55
Debtor (Days)	50	54	68	58	52	57	52	52	52
Creditor (Days)	28	30	29	18	30	35	39	39	39
Leverage Ratio (x)									
Current Ratio	4.6	4.3	5.1	5.8	4.3	4.3	4.0	4.2	4.5
Interest Cover Ratio	16.5	28.3	46.1	114.4	42.1	23.9	45.4	89.3	131.9
Net Debt/Equity	0.2	0.1	0.1	0.0	-0.2	-0.3	-0.3	-0.4	-0.5

Standalone - Cash Flow Statement (INR m)									
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	1,176	1,229	1,572	2,232	2,172	1,562	2,068	3,210	3,856
Depreciation	298	237	200	174	347	468	506	539	572
Others	70	1	-118	-158	-144	-106	42	34	27
Direct Taxes Paid	-426	-495	-509	-855	-612	-415	-521	-808	-971
(Inc)/Dec in WC	7	-483	-503	-423	416	-167	-724	-667	-601
CF from Operations	1,126	490	643	972	2,178	1,343	1,372	2,308	2,884
(Inc)/Dec in FA	-244	-152	-401	-819	-727	-463	-300	-300	-300
Free Cash Flow	882	338	242	153	1,451	880	1,072	2,008	2,584
Change in Investments	-53	-56	-2	-42	-287	4	0	0	0
Others	99	46	-118	-73	172	57	0	0	0
CF from Investments	-198	-163	-521	-934	-842	-402	-300	-300	-300
Inc/(Dec) in Debt	-47	-539	0	1,081	-14	-347	-113	-91	-73
Interest Paid	0	-38	-21	-33	-63	-52	-42	-34	-27
Dividend Paid	-443	0	-277	-258	-407	-92	-464	-721	-866
Others	-68	-15	125	139	137	106	0	0	0
CF from Fin. Activity	-558	-592	-172	929	-346	-385	-620	-845	-965
Inc/Dec of Cash	370	-264	-49	966	989	555	452	1,163	1,619
Opening Balance	17	367	103	54	1,020	2,009	2,564	3,017	4,180
Closing Balance	387	103	53	1,020	2,009	2,564	3,017	4,180	5,798

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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