

Fine Organic Industries

Estimate changes	↔
TP change	↔
Rating change	↔

CMP: INR4,454

TP: INR4,710 (+6%)

Neutral

Short-term headwinds could pose a threat to growth

- Fine Organics (FINEORG) reported higher-than-estimated 4QFY23 results, with EBITDA at INR1.9b (our estimate of INR1.4b), EBITDAM at 26.8% (up 350bp QoQ), and gross margin at 39.1% (up 390bp QoQ). These were driven by factors including higher-priced contracts with customers, leading to better margins, as well as a decline in raw material costs and freight charges.
- All the plants (except the one in Patalganga) are currently operating at optimum capacity, and the management expects to achieve full capacity utilization for all the plants, including Patalganga, by end-Mar'24. Until a new plant is established, there is still a potential to enhance capacities through debottlenecking in the existing plants. The company has added several new products in the personal care, food, and coatings categories, representing ongoing developments in the overall scheme of operations.
- That being said, the management is still awaiting the land allotment from the Gujarat government which it expects will be finalized within the next couple of months. The board has already approved the capex plans for the company, but the official announcement will be made only when the land allotment is secured. As part of Plan B, the management has already started to look for an alternate land parcel in Maharashtra in case it is unable to acquire the land in Gujarat.
- While there is currently a temporary slowdown in the US and Europe due to de-stocking at the customers' end, the management does not view it as a cause of alarm. Some larger customers wanted FINEORG to stock up inventories in the US and Europe during the quarter, and thus, the management is also evaluating possibilities of manufacturing facilities closer to the customers in the US. The team has visited to evaluate the land parcel for a greenfield expansion.
- The start of the Thailand JV has also been delayed and is now expected to start by Aug/Sep'23. We have not changed our estimates materially as of now keeping in mind all of the above. We expect the margin to contract nearer to its long-term average of 20%, after it outperformed in FY23, led by disruptions in the global economy. The valuations remain expensive and we **reiterate our Neutral stance** on the stock.

Beat led by lower-than-expected RM cost and other expenses

- FINEORG's 4QFY23 revenue stood at INR7b (up 16% YoY, down 7% QoQ)
- Gross margin expanded 390bp QoQ to 39.1%, while **EBITDAM stood at 26.8% (up 350bp QoQ)**.
- EBITDA came in at INR1.9b (est. of INR1.4b, up 28% YoY, up 7% QoQ), with **consensus beat of 18%**.
- PAT stood at INR1.4b (est. of INR1.1b, up 25% YoY, up 5% QoQ), with **consensus beat of 19%**.
- **For FY23**, revenue was up 63% YoY at INR30.3b and EBITDA was at INR7.8b (up 124% YoY). PAT stood at INR5.9b (up 136% YoY)
- EBITDAM improved 7pp YoY to 25.8% in FY23.
- **The Board declared a final dividend of INR9.**

Bloomberg	FINEORG IN
Equity Shares (m)	31
M.Cap.(INRb)/(USD\$)	137 / 1.7
52-Week Range (INR)	7326 / 4028
1, 6, 12 Rel. Per (%)	0/-25/-10
12M Avg Val (INR M)	442

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	30.3	30.6	31.1
EBITDA	7.8	7.0	6.6
PAT	5.9	5.3	5.0
EPS (INR)	192.6	172.7	163.8
EPS Gr. (%)	135.6	(10.3)	(5.2)
BV/Sh.(INR)	496.5	617.4	732.0

Ratios

Net D:E	(0.3)	(0.4)	(0.5)
RoE (%)	47.6	31.0	24.3
RoCE (%)	46.3	30.8	24.2
Payout (%)	4.7	30.0	30.0

Valuations

P/E (x)	23.4	26.1	27.5
P/BV (x)	9.1	7.3	6.2
EV/EBITDA (x)	17.1	18.7	19.1
Div. Yield (%)	0.2	1.2	1.1
FCF Yield (%)	2.6	3.6	3.7

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	75.0	75.0	75.0
DII	12.1	11.5	11.6
FII	4.8	5.9	7.3
Others	8.1	7.6	6.1

FII Includes depository receipts

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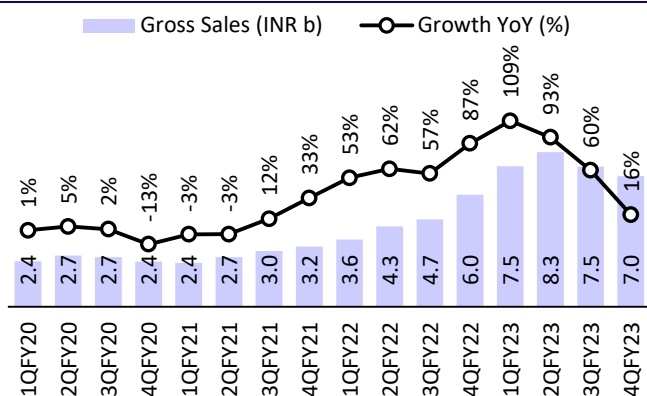
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Valuation and view – Reiterate Neutral

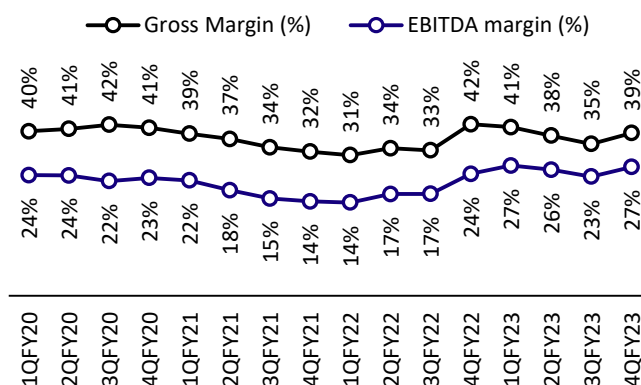
- FINEORG has been constantly enhancing its Food Emulsifiers through continued R&D and process integration. These efforts have resulted in increased demand, particularly during the pandemic. Rising demand for healthier products and the evolving consumer preferences toward processed and packed convenience foods are expected to drive growth for the company.
- **FINEORG is trading at 28x FY25E EPS and 20x FY25E EV/EBITDA.** We value the company at 30x FY25E EPS to arrive at our TP of INR4,710. We reiterate our Neutral rating on the stock.

Standalone - Quarterly Snapshot

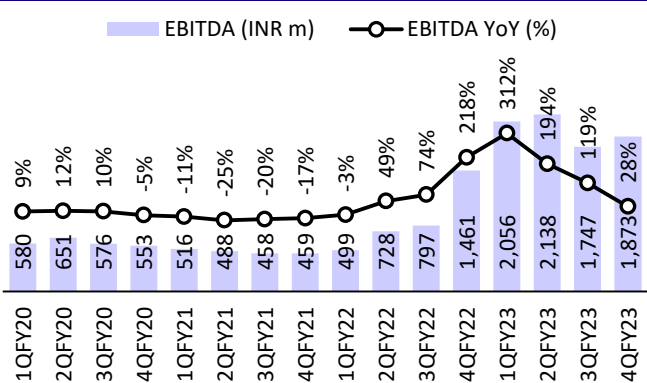
Y/E March	FY22				FY23				FY22	FY23	FY23	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	
Gross Sales	3,599	4,296	4,682	6,007	7,526	8,281	7,499	6,986	18,584	30,291	6,733	4%
YoY Change (%)	52.8	61.6	57.0	86.7	109.1	92.8	60.1	16.3	65.7	63.0	12.1	
Gross Margin (%)	31.1%	33.6%	32.8%	42.3%	41.3%	38.2%	35.1%	39.1%	35.7%	40.3%	34.0%	5.1%
EBITDA	499	728	797	1,461	2,056	2,138	1,747	1,873	3,485	8,385	1,429	31%
Margin (%)	13.9	17.0	17.0	24.3	27.3	25.8	23.3	26.8	18.8	27.7	21.2	5.6
Depreciation	95	98	101	106	111	115	123	130	399	479	127	
Interest	13	12	12	13	11	13	11	9	51	45	12	
Other Income	60	62	66	144	166	193	152	130	332	641	157	
PBT	451	681	750	1,486	2,099	2,203	1,764	1,863	3,368	8,502	1,447	29%
Tax	101	181	193	385	526	563	452	483	861	1,998	365	
Rate (%)	22.5	26.6	25.7	25.9	25.1	25.6	25.6	25.9	25.6	23.5	25.2	
Reported PAT	349	500	557	1,101	1,573	1,640	1,313	1,381	2,507	6,504	1,082	28%
YoY Change (%)	22.2	69.5	98.8	281.2	350.2	228.2	135.6	25.5	118.1	159.5	-1.7	
Margin (%)	9.7	11.6	11.9	18.3	20.9	19.8	17.5	19.8	13.5	21.5	16.1	3.7

Exhibit 1: Sales declined 7%QoQ...

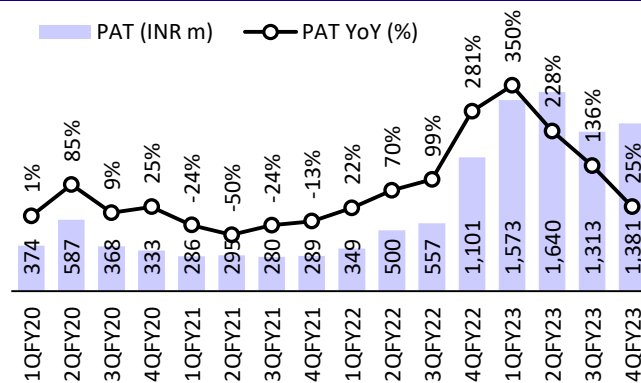
Source: Company, MOFSL

Exhibit 2: ...with EBITDAM expanding to 26.8%

Source: Company, MOFSL

Exhibit 3: EBITDA was up 7% QoQ (up 28% YoY)

Source: Company, MOFSL

Exhibit 4: PAT was up 5% QoQ (margin at 19.8%)

Source: Company, MOFSL

Financials story in charts

Exhibit 5: Expect ~19% revenue CAGR over FY23-25...

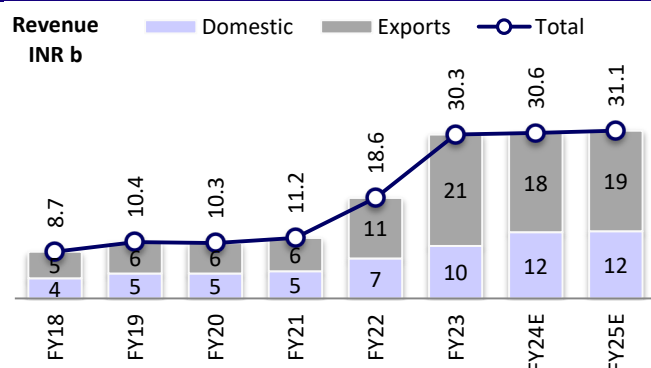


Exhibit 6: ...with the share of exports at 60%

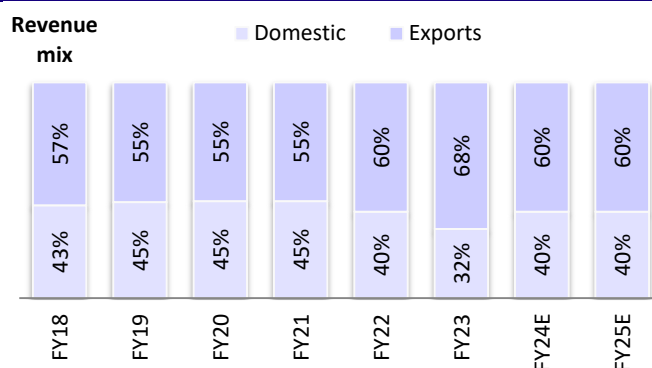


Exhibit 7: Expect EBITDAM to return to its long-term average

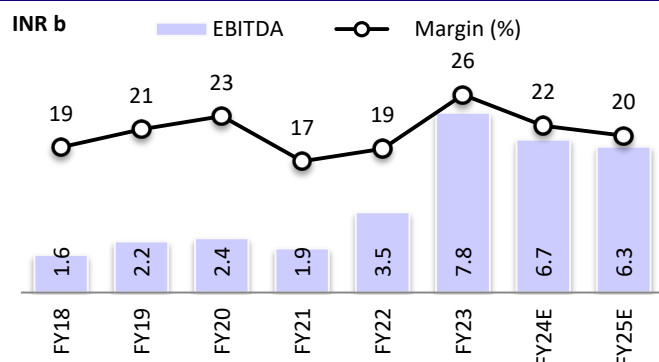


Exhibit 8: ...along with a decline in PAT margin

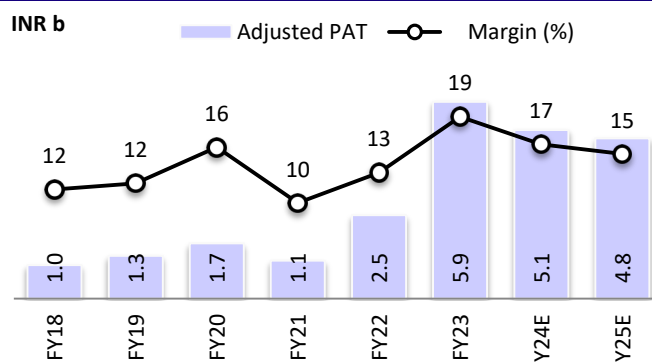


Exhibit 9: Capex for the next two years stands at INR0.9b

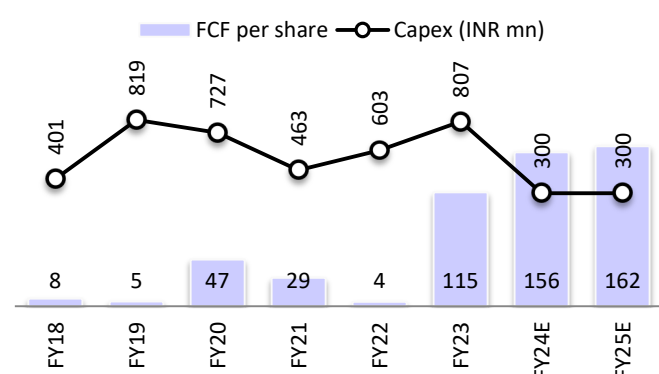


Exhibit 10: FINEORG expected to remain cash positive

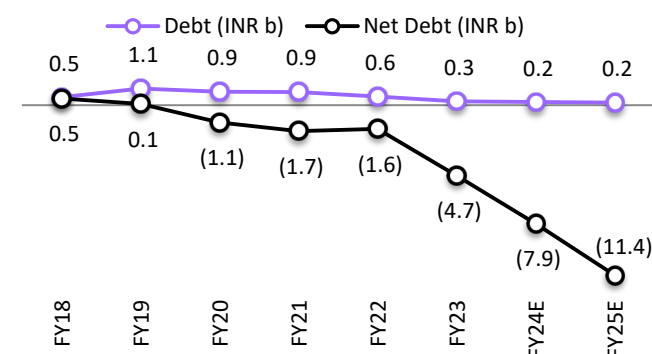


Exhibit 11: Return ratios to be at 24-30%

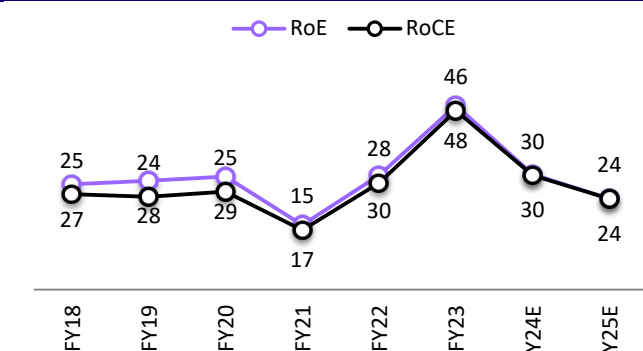
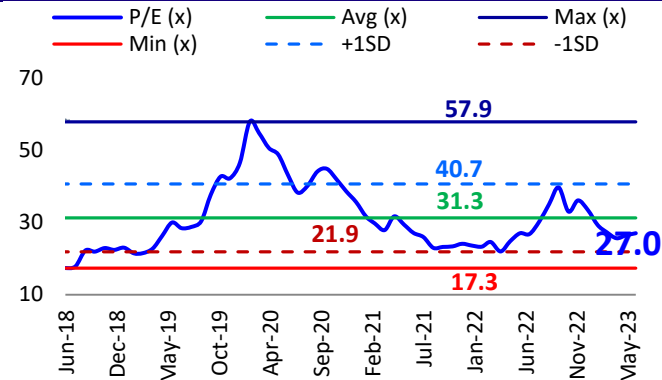


Exhibit 12: FINEORG trades at ~27x 1-year forward P/E



Source: Company, MOFSL

Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	8,651	10,440	10,262	11,213	18,584	30,291	30,594	31,053
Change (%)	6.2	20.7	-1.7	9.3	65.7	63.0	1.0	1.5
Gross Margin (%)	35.6	37.3	40.9	35.2	35.7	38.4	37.5	37.5
EBITDA	1,640	2,223	2,361	1,921	3,485	7,813	6,656	6,346
Margin (%)	19.0	21.3	23.0	17.1	18.8	25.8	21.8	20.4
Depreciation	200	175	347	468	399	479	487	510
EBIT	1,440	2,048	2,014	1,453	3,086	7,334	6,169	5,837
Int. and Finance Charges	31	18	48	61	51	45	49	54
Other Income	164	202	205	170	332	641	645	649
PBT bef. EO Exp.	1,572	2,233	2,172	1,562	3,368	7,930	6,765	6,432
PBT after EO Exp.	1,572	2,233	2,172	1,562	3,368	7,930	6,765	6,432
Total Tax	559	942	507	413	861	2,024	1,703	1,619
Tax Rate (%)	35.5	42.2	23.3	26.4	25.6	25.5	25.2	25.2
Reported PAT	1,014	1,290	1,665	1,149	2,507	5,906	5,062	4,813
Change (%)	26.7	27.3	29.0	-31.0	118.1	135.6	-14.3	-4.9
Margin (%)	11.7	12.4	16.2	10.2	13.5	19.5	16.5	15.5

Standalone - Balance Sheet

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	153	153	153	153	153	153	153	153
Total Reserves	3,931	4,931	6,154	7,235	9,432	15,068	18,612	21,981
Net Worth	4,085	5,084	6,308	7,388	9,585	15,221	18,765	22,134
Total Loans	536	1,130	915	892	585	272	218	174
Capital Employed	4,621	6,219	7,222	8,280	10,170	15,493	18,982	22,308
Gross Block	2,395	2,464	4,192	4,459	5,192	5,518	5,818	6,118
Less: Accum. Deprn.	1,515	1,686	2,033	2,500	2,899	3,378	3,866	4,375
Net Fixed Assets	881	778	2,159	1,958	2,293	2,140	1,953	1,743
Capital WIP	317	1,063	58	263	141	404	404	404
Total Investments	143	167	442	437	431	531	531	531
Curr. Assets, Loans&Adv.	4,079	5,086	5,964	6,902	9,413	14,648	18,946	22,524
Inventory	833	790	1,195	1,089	2,017	2,987	4,066	4,127
Account Receivables	1,611	1,670	1,451	1,752	3,316	4,769	4,817	4,889
Cash and Bank Balance	71	1,031	2,056	2,612	2,158	4,974	8,127	11,545
Cash	54	1,020	2,009	2,564	2,089	4,892	8,046	11,463
Bank Balance	17	11	48	48	69	81	81	81
Loans and Advances	1,564	1,595	1,262	1,449	1,922	1,918	1,936	1,964
Curr. Liability & Prov.	799	875	1,401	1,281	2,108	2,230	2,852	2,894
Account Payables	693	523	843	990	1,514	1,707	2,324	2,358
Other Current Liabilities	84	307	526	156	290	366	370	376
Net Current Assets	3,280	4,211	4,563	5,622	7,305	12,418	16,094	19,630
Appl. of Funds	4,621	6,219	7,222	8,280	10,170	15,493	18,982	22,308

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	33.1	42.1	54.3	37.5	81.8	192.6	165.1	157.0
EPS Growth (%)	27%	27%	29%	-31%	118%	136%	-14%	-5%
Cash EPS	39.6	47.8	65.6	52.7	94.8	208.2	181.0	173.6
BV/Share	133.2	165.8	205.7	241.0	312.6	496.5	612.0	721.9
DPS	7.5	7.0	11.0	11.0	9.0	9.0	49.5	47.1
Payout (%)	27.3	20.0	24.4	29.3	11.0	4.7	30.0	30.0
Valuation (x)								
P/E	134.8	105.9	82.0	118.8	54.5	23.1	27.0	28.4
Cash P/E	112.5	93.2	67.9	84.5	47.0	21.4	24.6	25.7
P/BV	33.4	26.9	21.7	18.5	14.2	9.0	7.3	6.2
EV/Sales	15.8	13.1	13.2	12.0	7.3	4.4	4.2	4.0
EV/EBITDA	83.6	61.5	57.4	70.2	38.7	16.9	19.3	19.7
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2	0.2	1.1	1.1
FCF per share	7.9	5.0	47.3	28.7	4.5	115.1	155.8	161.7
Return Ratios (%)								
RoE	27.3	28.1	29.2	16.8	29.5	47.6	29.8	23.5
RoCE	24.7	24.0	25.3	15.4	27.6	46.3	29.6	23.5
RoIC	24.7	29.4	35.8	22.2	37.0	64.2	47.3	44.2
Working Capital Ratios								
Fixed Asset Turnover (x)	9.4	12.6	7.0	5.4	8.7	13.7	14.9	16.8
Asset Turnover (x)	1.9	1.7	1.4	1.4	1.8	2.0	1.6	1.4
Inventory (Days)	35	28	42	35	40	36	49	49
Debtor (Days)	68	58	52	57	65	57	57	57
Creditor (Days)	29	18	30	32	30	21	28	28
Leverage Ratio (x)								
Current Ratio	5.1	5.8	4.3	5.4	4.5	6.6	6.6	7.8
Interest Cover Ratio	46.1	114.4	42.1	23.9	61.0	164.2	126.0	108.4
Net Debt/Equity	0.1	0.0	-0.2	-0.2	-0.2	-0.3	-0.4	-0.5

Standalone - Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	1,572	2,232	2,172	1,562	3,368	7,930	6,765	6,432
Depreciation	200	174	347	468	399	479	487	510
Others	-118	-158	-144	-106	-257	-546	49	54
Direct Taxes Paid	-509	-855	-612	-415	-769	-2,092	-1,703	-1,619
(Inc)/Dec in WC	-503	-423	416	-167	-2,001	-1,435	-523	-118
CF from Operations	643	972	2,178	1,343	741	4,336	5,076	5,259
(Inc)/Dec in FA	-401	-819	-727	-463	-603	-807	-300	-300
Free Cash Flow	242	153	1,451	880	137	3,529	4,776	4,959
Change in Investments	-2	-42	-287	4	-18	-150	0	0
Others	-118	-73	172	57	60	110	0	0
CF from Investments	-521	-934	-842	-402	-561	-847	-300	-300
Inc/(Dec) in Debt	0	1,081	-14	-347	-306	-357	-54	-44
Interest Paid	-21	-33	-63	-52	-37	-44	-49	-54
Dividend Paid	-277	-258	-407	-92	-337	-276	-1,519	-1,444
Others	125	139	137	106	27	-9	0	0
CF from Fin. Activity	-172	929	-346	-385	-654	-686	-1,622	-1,541
Inc/Dec of Cash	-49	966	989	555	-475	2,803	3,154	3,417
Opening Balance	103	54	1,020	2,009	2,564	2,089	4,892	8,046
Closing Balance	53	1,020	2,009	2,564	2,089	4,892	8,046	11,463

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NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
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