

IPO note: Fine Organics Industries Ltd. – Strong play on oleochemical - based additives - "SUBSCRIBE" 19th June, 2018

Incorporated on May 24, 2002, Fine Organic Industries Limited ("Fine Organic") is the **largest manufacturer of oleochemical - based additives in India and a strong player globally in this industry.** The company produces a wide range of specialty plant derived oleochemicals - based additives used in the Food, Plastic, Cosmetics, Paint, Ink, Coatings and other Specialty Application in various industries. The Company's brand 'Fine Organics' brand has a legacy of over 44 years and the brand is widely recognized in the major markets in which the company compete. As at March 31, 2018, Fine Organic had a range of 387 products sold under the 'Fine Organics' brand, used in the (a) Plastic Industry and (b) Food Industry and others (Cosmetics, Printing Inks, Coated Papers, Lube Additives, Wires and Cables, Coatings and Other Specialty Applications) industries. **Fine Organic is the first company to introduce slip additives in India and they are the largest producer of slip additives in the world.**

Fine Organic primarily manufacture 3 types of Food Additives, namely, Anti-Fungal Agents/Preservatives, Emulsifiers and Other Specialty Additives. In Plastics Additives, Fine Organic manufacture a large variety of plastic additives: polyolefins additives; tyrenics/elastomer/ thermoplastic elastomer compound additives; engineering plastic processing additives; foamed plastic product additives; polyvinyl chloride (PVC) processing additives and thermosets/composite product additives. Fine Organic primarily manufacture 3 types of Food Additives, namely, Anti-Fungal Agents/Preservatives, Emulsifiers and Other Specialty Additives. In Plastics Additives, Fine Organic manufacture a large variety of plastic additives: polyolefins additives; tyrenics/elastomer/ thermoplastic elastomer compound additives; engineering plastic processing additives; foamed plastic product additives; polyvinyl chloride (PVC) processing additives and thermosets/composite product additives. The Company's topline is majorly accounted by plastic additives (72%) and 28% of sales from food & other additives. **In the 12 months ended March 31, 2018, Fine Organic had 631 direct customers and 127 distributors (who sold their product to more than 5,000 customers).** Their direct customers are multinational, regional and local players manufacturing consumer products and petrochemical companies and polymer producers globally. They have an extensive distribution network in India and worldwide, **enabling their products to be sold in 69 countries.** Fine Organic currently has 3 production facilities:

- At Ambarnath (Maharashtra) (the "1st Ambarnath Facility");
- At Badlapur (Maharashtra) (the "Badlapur Facility"); and
- At Dombivli (Maharashtra) (the "Dombivli Facility").

As at December 31, 2017, these 3 facilities have a **combined installed capacity of approximately 64,300 tonnes p.a.** Each of their current manufacturing facilities has the ability to manufacture their wide range of products, which provides them with the necessary flexibility to cater to changing demands in the market, thereby avoiding dependence on any one major product category. Company's products are also manufactured on a job-work basis by Olefine Organics ("Olefine"), a partnership firm and a Promoter Group entity, at a manufacturing facility in Ambarnath, Maharashtra (the "2nd Ambarnath Facility"). The Second Ambarnath Facility is situated on a plot of land that MIDC currently leases to Olefine. The company has entered into a leave and license agreement for the land with Olefine for a term of 3 years effective March 26, 2018. However, they are unable to take over the operation of the 2nd Ambarnath Facility until they receive MIDC's approval, which they received from MIDC pursuant to a letter dated May 21, 2018. The company will be taking over operation of the facility in the near future. As at December 31, 2017, the 2nd Ambarnath Facility had an installed capacity of approximately 5,000 tonnes p.a. While the Company continues to maintain its focus in the additives space, it is planning to diversify and strengthen their business by manufacturing and distributing premises for bakery and confectionary products and pan release agents. Fine Zeelandia Pvt. Ltd. ("Fine Zeelandia"), a joint venture company in which they have a 50% equity interest, is in the process of setting up a new manufacturing facility in Patalganga to manufacture these products (the "Fine Zeelandia Facility"). This new facility has a planned initial installed capacity of 10,000 tonnes p.a. The company expects it to commence operations in the 1st quarter of Fiscal 2019.

Issue date	June 20 - June 22, 2018
Listing date	July 02, 2018
Type of issue	Offer for sale: 7.66 mn equity shares
Face Value	Rs. 5
Price Band	Rs. 780 – Rs. 783
Issue size	Rs. 6 billion
Issue allocation	QIB: 50% HNI: 15% Retail: 35%
Lot size	19 equity shares and in multiple thereof
Equity shares post issue at upper end of price band	30.66 mn equity shares
Post issue market cap	Rs. 24 billion
Book Running Lead Managers	JM Financial, Edelweiss, Edelweiss
Registrar to the issue	Karvy Computershare

Y/e 31 Mar (Rs. mn)	9MFY18	FY17	FY16
Total Income	5,902	8,135	6,848
EBITDA	1,173	1,519	1,564
EBITDA (%)	19.87	18.67	22.8
PAT	653	803	777
PAT (%)	11.06	9.87	11.35
Equity Share Capital	153.30	48.30	48.30
Networth	3,735	3,359	2,555
Book value (Rs.)	244	219	167
EPS (Rs.)	21.3	26.2	25.3
P/E (x)	28	30.6	31
P/BV (x)	3.2	3.6	4.7
RoE(%)	17.5	23.9	30.4

Source: RHP

Investment recommendation and rationale

At the upper end of the price band, the issue is valued at 28 times of 9MFY18 annualized EPS which we feel is reasonable considering it is the only Company with significant market share in India. With due consideration to factors like a) largest producer of Oleochemical – based Additives in India, b) first mover advantage in India, c) one of the few players in the Oleochemical – based Additives industry in the world, d) specialized business model with high entry barriers (products require specialized research and chemistry along with specialized expensive equipments based on imported technology, specialty and formulated products difficult to replicate), e) diversified product portfolio, f) negligible threat of substitutes, g) flexible and strategically located production facilities with in – house development capabilities, h) strong R&D capability with a focus on innovation, i) diversified customer base with long term relationships with marquee customers, j) strong balance sheet with Net Debt: Equity at 0.1x, favourable Net Working Capital cycle of ~70 days, positive operating cashflow with decent RoE of 25%, we recommend "SUBSCRIBE" to the issue.

Objects of the issue

The Offer for Sale (OFS)

The proceeds of the Offer for Sale shall be received by the Selling Shareholder - Promoters. The Company will not receive any proceeds from the Offer for Sale. The following are the selling Promoters shareholders:

- a) Prakash Damodar Kamat : 1,530,005 equity shares offered in OFS
- b) Mukesh Maganlal Shah Jointly with Jayshree Mukesh Shah: 824,397 equity shares
- c) Jyotsna Ramesh Shah: 1,544,976 equity shares
- d) Jayen Ramesh Shah jointly with Neeta Jayen Shah: 1,530,003 equity shares
- e) Tushar Ramesh Shah jointly with Bina Tushar Shah: 1,530,004 equity shares
- f) Bimal Mukesh Shah jointly with Mukesh Maganlal Shah: 705,609 equity shares

Promoters' background

Late Ramesh Maganlal Shah and Prakash Damodar Kamat founded 'Fine Organic Industries' in early 1970 at Mumbai, which was registered in 1973 as a partnership firm. It commissioned its first facility in Dombivli in 1973, which carried out processing and supply of food additives in Gujarat and Maharashtra. In 1975, Mukesh Maganlal Shah joined the partnership firm and expanded the business across India.

Thereafter, in 1982, then existing partners incorporated a private limited company at Mumbai under the name of 'Smoothex Chemicals Private Limited' for further expansion of the business. In 1988, the partnership firm had set up a production facility of various specialty additives i.e. the Second Ambernath Facility. Subsequently, Smoothex Chemicals expanded the production facilities in Malaysia and Thailand in 1990 and 1993, respectively. Further, the then existing partners founded another partnership firm in the name of 'Olefine Organics' for enhancing the capacity in order to meet the market demands. In 1995, the then existing promoters incorporated another private limited company under the name of Olefine Organics (India) Private Limited for expanding the capacity for polymer additives.

The company was incorporated as a private limited company on May 24, 2002 at Mumbai under the name of Fine Organic Industries (Mumbai) Pvt. Ltd. In 2003, the then existing promoters incorporated another private company under the name of Fine Research & Development Centre Pvt. Ltd. for undertaking dedicated research and development in their existing products, and established the Research and Development Centre in Navi Mumbai. In the 1st Ambernath Facility, they commissioned a fatty acids esters facility in 2006. In the period from 2008 to 2012, they commissioned a polymer additives facility stage-wise.

In June 17, 2011, Olefine Organics (India) Pvt. Ltd. was amalgamated with the company. Subsequently, the company incorporated their wholly owned Subsidiaries at the United States of America and Europe in 2013 and 2016, respectively. Additionally, in 2014, the company established their Joint Venture with Zeelandia International at Mumbai to manufacture food premixes and to maximise the benefits of synergies.

Further, pursuant to the order passed by the National Company Law Tribunal, Mumbai on June 19, 2017, Fine Speciality Surfactants Pvt. Ltd., a company incorporated on August 19, 1987, and engaged in the manufacture, distribution and production of speciality chemicals, and Fine Research & Development Centre Pvt. Ltd. were amalgamated with the company.

Prakash Damodar Kamat is the Promoter, Executive Director and Chairman of the company. He joined the Fine Organic group in 1970 and has been associated with it since inception. He has work experience in product development, process technology and research and development. He has in-depth knowledge of paints, plastics, oils, textiles, metal working and food industries in India and overseas. He is a co-founder of the company and has played a key role in developing several products, processes and leading engineering research and development.

Mukesh Maganlal Shah is the Promoter, Executive Director and Managing Director of the company. He joined the Fine Organic group in 1973 and played a key role in establishing the quality control, sales and marketing departments.

Jayen Ramesh Shah is the Promoter, Executive Director and Chief Executive Officer of the company. He joined the Fine Organic group in 1986 and was instrumental in creating a vendor partner network needed to support the company. He played a key role in developing and managing channel partners for the organizations products in India.

Tushar Ramesh Shah is the Promoter, Executive Director and Chief Financial Officer of the company. He joined the Fine Organic group in 1989 and led several change management initiatives like the introduction of enterprise resource planning, customer relationships management and financial systems. He played a key role in the development of the Company's first slip additive manufacturing facility. He helped in the setting up of their offices in North America and Europe.

Bimal Mukesh Shah is the Promoter, Executive Director of the company. He joined the Fine Organic group in 2009. He has experience in operations, instrumentation and projects.

Prakash Krishnaji Apte, Kaushik Dwarkadas Shah, Mahesh Pansukhlal Sarda, Parthasarathi Thiruvengadam and Pratima Umarji are the Independent Directors of the company.

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