



**Choice**  
Nurturing Financial Excellence

# IPO REPORT

“Subscribe with Caution” to  
**Fine Organic Industries Ltd.**

Demanded valuation already factored in positive fundamentals

## Salient features of the IPO:

- **Fine Organics Industries Ltd.** (Fine Organics), engaged in the manufacture of additives is coming with an IPO by offering 7.66mn share between the price range Rs. 780 - 783 per share. The IPO size is in the range of Rs. 5,978.7 - 6,001.7mn.
- The issue is fully OFS, the company will not receive any proceeds from it.

## Key competitive strengths:

- Largest producer of oleochemical-based additives in India and one of the few large players in the world
- Diversified product
- Specialized business model with high entry barriers
- Flexible and strategically located production facilities
- Diversified customer base with long-term relationships

## Risk and concerns:

- Subdued economic activities
- Delay in capacity expansion
- Change in government duties on key raw materials
- Fluctuation in the raw material prices
- Poor pricing power
- Volatility in the USD-INR rates

## Valuation & recommendation:

There are no comparable listed companies in India that engage in the same line of business as of Fine Organics. However, few listed entities is considered at the proxy peers for the company. At the higher price band of Rs. 783 per share, its share is valued at a P/E multiple of 30.6x (to its restated FY17 EPS of Rs. 25.6).

**Below are few key observations of the issue:** (For detailed valuation, refer to page 8 & 9 of the report)

- Fine Organics is the largest manufacturer of oleochemical-based additives in India and a strong player globally in this industry. It is also the first company to introduce slip additives in India and is the largest producer of slip additives in the world. Fine Organics is one of six global players in the food additives industry and one of five global players in the plastic additives industry.
- The company produces a wide range of specialty additives used in food, plastic, cosmetics, paint, ink, coatings and other specialty application in various industries. As on 31<sup>st</sup> Mar. 2018, it had a range of 387 different products sold under the "Fine Organics" brand.
- It is planning to diversify by manufacturing and distributing premixes for bakery & confectionary products and pan release agents. This facility is expected to commence operations by Q1 FY19.
- Manufacturing plant-based additives from base oleochemicals is a highly specialized process. Hence, many of these additives are specialty products, and this industry enjoys premium margins with only a few players dominating the industry globally. Proprietary technology to manufacture these specialty additives is available with only a few global players. Fine Organics is one of the leading players that developed proprietary technologies to manufacture these green additives.
- As of 31<sup>st</sup> Dec. 2017, the company has three production facilities with a cumulative capacity of 64,300 tonnes per annum and operated at almost full capacity. Over the next 2-3 years, it is targeting to add 67,000 tonnes, thereby taking total capacity to 131,300 tonnes per annum. Thus, going forward with increased capacity, we are anticipating an increased sales volume from FY20 onwards. According to the company RHP, the global food emulsifiers and plastic additives market is expected to grow by 4.1% and 6% CAGR, respectively, over 2016-21. Thus with proposed capacity expansion and being a global player, Fine Organics is rightly placed to capture the future incremental demand of additives.
- The company has reported a solid financial performance over FY15-17. During the period, it reported a 13.2% CAGR rise in the total operating revenue to Rs. 8,149.4mn in FY17. Consolidated EBITDA increased by 14.5% CAGR with an average EBITDA margin of 18.8%. Reported PAT increased by 21.4% CAGR with average PAT margin of 9.7% during the period. Average RoE and RoIC stood at 26.6% and 32%, respectively, during FY15-17.
- For the nine month ended Dec. 2017, Fine Organics reported a top-line of Rs. 5,904.3mn with an EBITDA and PAT margin of 17.7% and 10.3%, respectively. For FY18E, we are anticipating a top-line of Rs. 8,069.2mn (a decline of 1% over FY17) and an EPS of 26.6 per share (a growth of 3.9% over FY17). EBITDA and PAT margin are anticipated at 18% and 10.1%, respectively. On the back of increased capacity expansion, in FY19 we are expecting a 16% rise in the operating revenues to Rs. 9,360.1mn and a 25.3% rise in EPS to Rs. 33.3 per share.

On valuation front, at higher price band, the company is demanding a P/E valuation of 30.6x as against the peer average of 24.2x. With respect to FY18E and FY19E EPS too, it is asking a premium valuation. Thus, the issue seems to be fully priced. However, considering the global market position, benefits arising from the capacity expansion, stable margin & profitability and limited competition, we assign a **"Subscribe with Caution"** rating to the issue with long term investment horizon.

Recommendation	Subscribe with Caution
Price Band (Rs.)	Rs. 780 - 783 per Share
Face Value (Rs.)	Rs. 5
Shares for Fresh Issue (mn)	Nil
Shares for OFS (mn)	7.66mn Shares
Fresh Issue Size (Rs. mn)	N/A
OFS Issue Size (Rs. mn)	Rs. 5,978.7 - 6,001.7mn
Total Issue Size (Rs. mn)	Rs. 5,978.7 - 6,001.7mn
Bidding Date	20 <sup>th</sup> Jun. – 22 <sup>nd</sup> Jun. 2018
MCAP at Higher Price Band	Rs. 24,007mn
Enterprise Value at Higher Price Band	Rs. 24,230mn
Book Running Lead Manager	JM Financial Ltd. and Edelweiss Financial Services Ltd.
Registrar	Karvy Computershare Pvt. Ltd.
Sector/Industry	Speciality Chemicals
Promoters	Mr. Prakash Damodar Kamat, Mr. Mukesh Maganlal Shah, Mrs. Jyotsna Ramesh Shah, Mr. Jayen Ramesh Shah, Mr. Tushar Ramesh Shah and Mr. Bimal Mukesh Shah

Pre and post - issue shareholding pattern		
	Pre – Issue	Post - Issue
Promoter and Promoter Group	100.00%	75.00%
Public	0.00%	25.00%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

Retail Application Money at Higher Cut-Off Price per Lot	
Number of Shares per Lot	19
Application Money	Rs. 14,877 per Lot

Analyst	
<b>Rajnath Yadav</b>	
Research Analyst (022 - 6707 9999; Ext: 912)	
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## About the issue:

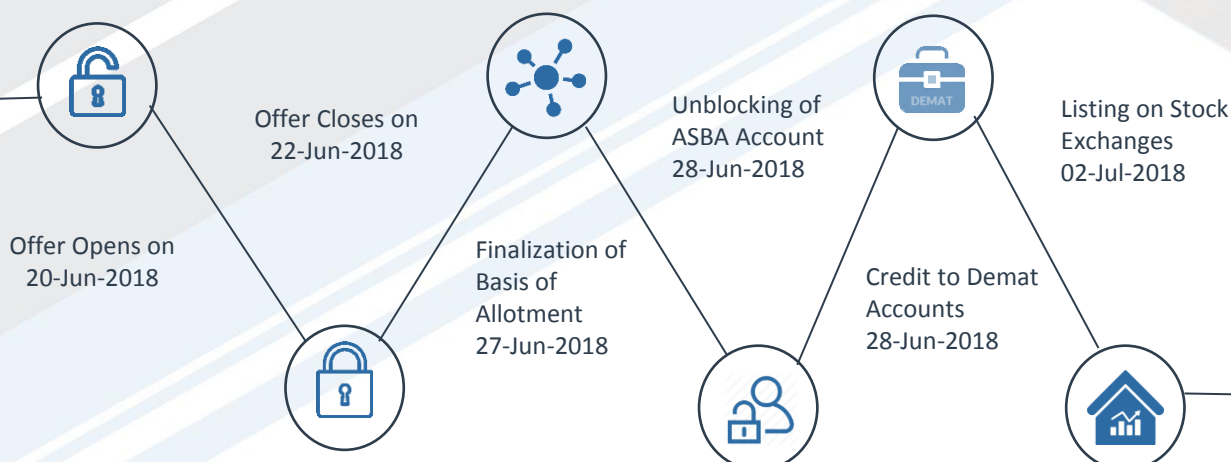
- Fine Organics is coming up with an initial public offering (IPO) with 7.66mn shares (fresh issue: nil; OFS shares: 7.66mn shares) in offering. The offer represents around 25% of its post issue paid-up equity shares of the company. Total IPO size is Rs. 5,978.7 - 6,001.7mn.
- The issue will open on 20<sup>th</sup> Jun. 2018 and close on 22<sup>nd</sup> Jun. 2018.
- The issue is book building with a price band of Rs. 780 - 783 per share.
- Since the issue is fully OFS, the company will not receive any proceeds from it.
- Its promoter holds 100% stake in the company and post IPO this will come down to 75.0%. Public holding will increase from current nil to 25.0%.

### Pre and Post Issue Shareholding Pattern (%)

	Pre Issue	Post Issue (at higher price band)
Promoter & Promoter Group (%)	100.00%	75.00%
Public (%)	0.00%	25.00%

Source: Company RHP

## Indicative IPO Process Time Line:



## Company Introduction:

Fine Organics is the largest manufacturer of oleochemical-based additives in India and a strong player globally in this industry. (Source: Company RHP). It produces a wide range of specialty plant derived oleochemical-based additives used in food, plastic, cosmetics, paint, ink, coatings and other specialty application in various industries. As at 31<sup>st</sup> Mar. 2018, the company had a range of 387 different products sold under the “Fine Organics” brand. Fine Organics is the first company to introduce slip additives in India and is the largest producer of slip additives in the world (Source: Company RHP).

As on 31<sup>st</sup> Mar. 2018, the company had 631 direct customers (i.e., end-users of its products) and 127 distributors (who sold the company’s products to more than 5,000 customers) from 69 countries. Its direct customers are multinational, regional and local players manufacturing consumer products and petrochemical companies and polymer producers globally. Moreover, its plastics additives and specialty additives are also used in the packaging of foods and other fast moving consumer goods.

Plastics Additives		Food & Other Additives	
Slip Agents	Friction reducing additives	Emulsifiers	Extracts desired aesthetic structure and texture
Anti-Stats	Mitigates build-up of electrical charges	Preservatives	Preventing food from spoilage or toxic
Lubricants	Flow improvers and mould release agents	Food & Beverage	Used in biscuits, voluminous sponge, chewing gums, etc.
Processing Aids	Helps in melting high molecular weight polymers	Cosmetic & Pharmaceutical	Added to creams, gels, lotions, varnishes, etc.
Anti-Fogging	Converts water droplets formed on plastic films into a continuous transparent water layer	Rubber	Additives for elastomers to reduce dampening / abrasion
		Paint & Coating	Anti-settling agents, emulsifiers, anti-sagging agents
		Feed Nutrition	Replace harmful antibiotics & improve feed nutrition

Source: Company RHP

Manufacturing plant-based additives from base oleochemicals is a highly specialized process. Hence, many of these additives are specialty products, and this industry enjoys premium margins with only a few players dominating the industry globally. Proprietary technology to manufacture these specialty additives is available with only a few global players. Fine Organics is one of the leading players that developed proprietary technologies to manufacture these green additives. The company currently have three production facilities: one in Ambernath (Maharashtra, first Ambernath facility); one in Badlapur (Maharashtra) and one in Dombivli (Maharashtra). As at 31<sup>st</sup> Mar. 2017, these three facilities have a combined installed capacity of approximately 64,300 tonnes per annum. Each of these current manufacturing facilities has the ability to manufacture wide range of its products, which provides the company with the necessary flexibility to cater to changing demands in the market, thereby avoiding dependence on any one major product category.

Fine Organics’s products are also manufactured for it on a job-work basis by Olefine Organics (Olefine), a partnership firm and a Promoter Group entity, at a manufacturing facility in Ambernath, Maharashtra (the second Ambernath facility). As at 31<sup>st</sup> Dec. 2017, this facility had an installed capacity of approximately 5,000 tonnes per annum.

The company is currently planning to set up an additional production facility in Ambernath with a planned installed capacity of 32,000 tonnes per annum (the third Ambernath facility) and is expected to commence operations in Q4 FY19. In addition, it is currently planning to set up a new production facility in Leipzig, Germany with a planned initial installed capacity of 10,000 tonnes per annum, which is expected to be operational by Q3 FY20. This facility will be owned and operated by a joint venture company, in which the company will have 50% equity interest.

## Company Introduction (Contd...):

Fine Organics is also in the preliminary stages of planning the development of two additional production facilities: one in Patalganga (Maharashtra) with a planned initial installed capacity of approximately 10,000 tonnes per annum and one in Ambernath (Maharashtra) for which it is awaiting possession of the land and have yet to decide on the planned initial installed capacity (the fourth Ambernath facility).

Since its inception, the company has looked to expand its product range into segments that it believes to offer high growth potential. While Fine Organics continues to maintain its focus in the additives space, it is planning to diversify and strengthen its business by manufacturing and distributing premixes for bakery and confectionary products and pan release agents. Fine Zeelandia Pvt. Ltd. (Fine Zeelandia), a joint venture company in which Fine Organics have a 50% equity interest, is in the process of setting up a new manufacturing facility in Patalganga to manufacture these products. This new facility has a planned initial installed capacity of 10,000 tonnes per annum and is expected to commence operations by Q3 FY19.

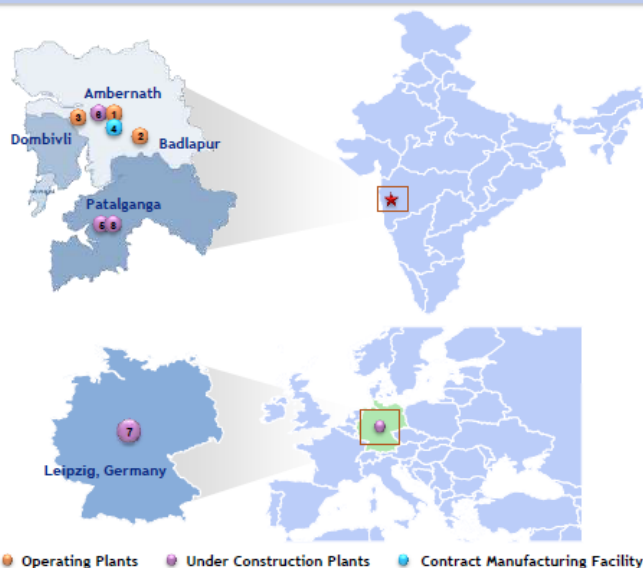
The company has a dedicated research and development (R&D) center located in Mahape, Navi Mumbai. Its R&D activities are focused on improving the production processes, improving the quality of present products, creating new additives and creating downstream products. Fine Organics has developed several new products, such as Acetem, Datem and Lactem, and processes, such as in-house technology for the production of fatty amides for the polymer industry. Currently, it is conducting research and development for new products such as fatty amines, polyglycerols and guerbet alcohols and new organic anti-block additives and new additives to make plastics biodegradable. The company is also conducting research into new technologies for chemical processing to minimize energy costs.

## Strategically Located Manufacturing Facilities



Plant	Capacity (TPA)	Remarks
<b>Current Operational Facilities</b>		
1 1st Ambernath Facility	49,500	NA
2 Badlapur Facility	6,400	NA
3 Dombivli Facility	8,400	Acquired on Nov 30, 2017
<b>Total Capacity</b>	<b>64,300 TPA</b>	
<b>Proposed Expansion Plans</b>		
4 2nd Ambernath Facility <sup>1</sup>	5,000	Contract Manufacturing
5 Fine Zeelandia (Patalganga)	10,000	Q1 FY19
6 3rd Ambernath Facility	32,000	Q4 FY19
7 German Facility	10,000	Q3 FY20
8 Patalganga Facility	10,000	Yet to be Finalized
<b>Total Capacity</b>	<b>67,000 TPA</b>	

India plants located in close proximity to Nhava Sheva Port - Ideal for Exports



Source: Company RHP

**Competition:** There are only a few large players in the global oleochemical-based additives industry. This is due to multiple entry barriers, such as product formulations, process technology and customer stickiness to established players. None of the company's major competitors are based in India.

## Company Introduction (Contd...):

**Financial performance:** On the back of 14.4% CAGR rise in the business from the specialty chemicals over FY15-17, Fine Organics reported a 13.2% CAGR rise in the total operating revenue to Rs. 8,149.4mn in FY17. The specialty business contributed around 97.3% to the operating revenue during the period. Growth in the specialty business was primarily attributable to an increase in the sales volume arising due to increased production capacity at the first Ambernath plant. Moreover, the business was also supported by the depreciation of INR against USD during FY15-17. USD-INR rate stood at Rs. 61.15, 65.46 and Rs. 67.09 in FY15, FY16 and FY17, respectively. Average export revenue contribution stood at around 57-58% during FY15-17. For the nine month ended Dec. 2017, top-line stood at Rs. 5,904.3mn. Export revenue was impacted by the appreciation of INR against USD from Rs. 67.09 in FY17 to Rs. 64.61 during 9M FY18.

Total operating expenses increased at a lower pace in comparison to the revenue growth; and increased by 12.9% CAGR over FY15-17. Cost of material consumed, which formed around 75% of the operating expenses, increased by 14% CAGR and can be attributed to the rise in top-line, rise in the raw material prices and depreciation of INR against USD. As a result, consolidated EBITDA increased by 14.5% CAGR to Rs. 1,454.4mn in FY17. Average EBITDA margin during the period stood at 18.8%. For 9M FY18, EBITDA stood at Rs. 1,042.6mn with margin of 17.7%.

Depreciation & amortization charges increased by 2.5% CAGR, while finance cost declined by 23% CAGR during FY15-17. Other income increased by 47.6% CAGR. Consequently, reported PAT increased by 21.4% CAGR to Rs. 783.6mn in FY17. Average PAT margin during the period stood at 9.7%. 9M FY18, reported PAT stood at Rs. 609.5mn with a margin of 10.3%.

	FY15	FY16	FY17	9M FY18	CAGR (%)	Y-o-Y (%)
Total Operating Revenue	6,359.3	6,860.1	8,149.4	5,904.3	13.2%	18.8%
EBITDA	1,109.3	1,452.5	1,454.4	1,042.6	14.5%	0.1%
Reported PAT	531.8	764.8	783.6	609.5	21.4%	2.5%
Restated Adjusted EPS	17.3	24.9	25.6	19.9	21.4%	2.5%
Inventories Days	37.0	37.4	37.6	53.5	0.9%	0.7%
Debtor Days	49.5	46.0	44.4	72.5	-5.3%	-3.6%
Payable Days	(30.6)	(28.4)	(26.3)	(47.7)	-7.2%	-7.1%
Cash Conversion Cycle	55.9	55.0	55.7	78.3	-0.2%	1.1%
Cash Flow from Operating Activities	497.7	1,091.5	462.5	743.6	-3.6%	-57.6%
NOPLAT	568.3	752.5	784.6	572.7	17.5%	4.3%
FCF		495.3	256.2	385.0		-48.3%
RoIC (%)	30.9%	35.4%	29.6%	20.2%	(134) bps	(584) bps
Revenue Growth Rate (%)		7.9%	18.8%			
EBITDA Growth Rate (%)		30.9%	0.1%			
EBITDA Margin (%)	17.4%	21.2%	17.8%	17.7%	40 bps	(0.0333)
Reported PAT Growth Rate (%)		43.8%	2.5%			
Reported PAT Margin (%)	8.4%	11.1%	9.6%	10.3%	125 bps	(153) Bps
Fixed Asset Turnover Ratio (x)	5.8	6.3	8.2	6.0	19.1%	28.9%
Total Asset Turnover Ratio (x)	1.7	1.7	1.8	1.2	3.4%	10.8%
Current Ratio (x)	1.5	1.7	2.4	2.7	25.3%	40.1%
Debt to Equity (x)	0.5	0.4	0.1	0.1	-48.2%	-67.4%
Net Debt to EBITDA (x)	0.2	(0.2)	(0.5)	(0.8)		189.0%
RoE (%)	25.7%	30.5%	23.8%	16.8%	(186) bps	(665) bps
RoA (%)	14.3%	18.4%	17.6%	12.9%	327 bps	(82) bps
RoCE (%)	37.3%	42.5%	37.0%	24.7%	(36) bps	(549) bps

Source: Company RHP



## Competitive Strengths:

- Largest producer of oleochemical-based additives in India and one of the few large players in the oleochemical based additives industry in the world
- Diversified product portfolio catering to a variety of high growth industries
- Specialized business model with high entry barriers
- Flexible and strategically located production facilities with in-house development capabilities
- Strong R&D capability with a focus on innovation
- Diversified customer base with long-term relationships with marquee customers

## Business Strategy:

- Production capacity and product range expansion
- Expand into the manufacturing of premixes for bakery and confectionary products and pan release agents
- Increase sales of higher margin downstream products
- Global business expansion
- Continued focus on R&D



## Risk and Concerns:

- Subdued economic activities
- Delay in capacity expansion
- Change in government duties on key raw materials
- Fluctuation in the raw material prices
- Poor pricing power
- Volatility in the USD-INR rates

## Peer Comparison and Valuation:

Company Name	CMP (Rs.)	MCAP (Rs. mn)	EV (Rs. mn)	Stock Return (%)				Total Operating Revenue (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	EBITDA Margin (%)	PAT Margin (%)
				1 Month	3 Months	6 Months	1 Year					
<b>Fine Organic Industries Ltd.</b>	<b>783</b>	<b>24,007</b>	<b>24,230</b>					<b>8,149.4</b>	<b>1,454.4</b>	<b>783.6</b>	<b>17.8%</b>	<b>9.6%</b>
Galaxy Surfactants Ltd.	1,265	44,863	47,944	-14.4%	-15.6%			21,613.4	2,708.6	1,463.1	12.5%	6.8%
Aarti Industries Ltd.	1,271	103,324	117,396	-0.2%	10.9%	36.5%	37.8%	31,634.6	6,535.0	3,157.8	20.7%	10.0%
Atul Ltd.	2,698	80,015	81,153	-4.2%	1.2%	5.3%	11.0%	28,339.4	5,094.5	3,046.7	18.0%	10.8%
Bodal Chemicals Ltd.	137	16,709	18,032	9.8%	12.9%	-12.7%	-14.4%	12,363.0	2,257.9	1,285.8	18.3%	10.4%
Clariant Chemicals (India) Ltd.	440	10,162	10,130	-18.7%	-22.1%	-21.8%	-30.2%	9,809.8	671.3	244.8	6.8%	2.5%
Deepak Nitrite Ltd.	247	33,710	38,575	-1.8%	-4.0%	15.0%	60.8%	13,604.4	1,390.6	978.0	10.2%	7.2%
GHCL Ltd.	288	28,019	39,276	-3.2%	1.3%	-11.8%	12.1%	27,838.3	6,808.2	3,800.5	24.5%	13.7%
IG Petrochemicals Ltd.	545	16,797	17,096	-15.9%	-23.2%	-26.2%	31.7%	10,374.8	1,638.6	1,011.9	15.8%	9.8%
Nocil Ltd.	175	28,825	27,655	-11.4%	-12.0%	2.2%	51.3%	7,422.1	1,594.5	1,204.3	21.5%	16.2%
Jayant Agro-Organics Ltd.	252	7,554	11,604	-4.2%	-23.9%	-34.1%	-47.3%	16,625.4	1,241.3	535.7	7.5%	3.2%
SH Kelkar & Co Ltd.	229	33,089	32,662	-10.5%	-13.2%	-9.0%	-18.5%	9,805.1	1,668.9	1,048.2	17.0%	10.7%
Shree Pushkar Chemicals & Fertilisers	186	5,609	5,531	-7.7%	-17.7%	-26.1%	-19.2%	3,130.2	523.3	305.0	16.7%	9.7%
<b>Average</b>											<b>15.8%</b>	<b>9.2%</b>

Company Name	EPS (Rs.)	BVPS (Rs.)	DPS (Rs.)	Debt Equity Ratio	Fixed Asset Turnover Ratio	RoE (%)	RoCE (%)	P / E (x)	P / B (x)	EV / Sales (x)	EV / EBITDA (x)	MCAP / Sales (x)	Earnings Yield (%)
<b>Fine Organic Industries Ltd.</b>	<b>25.6</b>	<b>107.4</b>	<b>0.0</b>	<b>0.1</b>	<b>8.2</b>	<b>23.8%</b>	<b>37.0%</b>	<b>30.6</b>	<b>7.3</b>	<b>3.0</b>	<b>16.7</b>	<b>2.9</b>	<b>3.3%</b>
Galaxy Surfactants Ltd.	41.3	161.5	4.0	0.6	4.5	25.6%	24.3%	30.7	7.8	2.2	17.7	2.1	3.3%
Aarti Industries Ltd.	38.8	175.4	1.0	1.0	1.6	22.1%	18.5%	32.7	7.2	3.7	18.0	3.3	3.1%
Atul Ltd.	102.7	667.9	10.0	0.1	2.6	15.4%	19.0%	26.3	4.0	2.9	15.9	2.8	3.8%
Bodal Chemicals Ltd.	10.5	29.5	0.3	0.4	5.4	35.6%	38.6%	13.0	4.6	1.5	8.0	1.4	7.7%
Clariant Chemicals (India) Ltd.	10.6	291.5	25.0	0.2	2.8	3.6%	3.4%	41.5	1.5	1.0	15.1	1.0	2.4%
Deepak Nitrite Ltd.	7.2	52.6	1.2	0.9	1.4	13.6%	7.2%	34.5	4.7	2.8	27.7	2.5	2.9%
GHCL Ltd.	39.0	165.3	3.5	0.7	1.1	23.6%	21.5%	7.4	1.7	1.4	5.8	1.0	13.6%
IG Petrochemicals Ltd.	32.9	127.4	3.0	0.2	3.1	25.8%	32.1%	16.6	4.3	1.6	10.4	1.6	6.0%
Nocil Ltd.	7.3	36.2	1.8	0.0	2.4	20.2%	19.9%	23.9	4.8	3.7	17.3	3.9	4.2%
Jayant Agro-Organics Ltd.	17.9	98.8	4.4	1.4	7.2	18.1%	13.6%	14.1	2.5	0.7	9.3	0.5	7.1%
SH Kelkar & Co Ltd.	7.2	56.1	1.8	0.1	3.2	12.9%	16.7%	31.6	4.1	3.3	19.6	3.4	3.2%
Shree Pushkar Chemicals & Fertilisers	10.1	64.1	1.5	0.1	2.5	15.7%	22.4%	18.4	2.9	1.8	10.6	1.8	5.4%
<b>Average</b>				<b>0.5</b>	<b>3.1</b>	<b>19.4%</b>	<b>19.8%</b>	<b>24.2</b>	<b>4.2</b>	<b>2.2</b>	<b>14.6</b>	<b>2.1</b>	<b>5.2%</b>

Note: All financial data are as of FY17 end; Source: Choice Broking Research

There are no comparable listed companies in India that engage in the same line of business as of Fine Organics. However, the above listed entities can be considered at the proxy peers for the company. At the higher price band of Rs. 783 per share, its share is valued at a P/E multiple of 30.6x (to its restated FY17 EPS of Rs. 25.6) as compared to the peers average of 24.2x.

### Below are few key observations of the issue:

Fine Organics is the largest manufacturer of oleochemical-based additives in India and a strong player globally in this industry. It is also the first company to introduce slip additives in India and is the largest producer of slip additives in the world. Fine Organics is one of six global players in the food additives industry and one of five global players in the plastic additives industry.

The company produces a wide range of specialty additives used in food, plastic, cosmetics, paint, ink, coatings and other specialty application in various industries. As on 31st Mar. 2018, it had a range of 387 different products sold under the "Fine Organics" brand.

Since inception, Fine Organics has looked to expand its product range into segments that it believes to offer high growth potential. Thus maintain its focus in the additives space, the company is planning to diversify by manufacturing and distributing premixes for bakery and confectionary products and pan release agents. This facility is expected to commence operations by Q1 FY19.



## Peer Comparison and Valuation (Contd...):

- As of FY18 end, the company had 631 direct customers and 127 distributors (who sold its products to more than 5,000 customers) from 69 countries. Fine Organics's direct customers are multinational, regional and local players manufacturing consumer products and petrochemical companies and polymer producers globally. The company's plastics additives and specialty additives are also used in the packaging of foods and other fast moving consumer goods.
- Manufacturing plant-based additives from base oleochemicals is a highly specialized process. Hence, many of these additives are specialty products, and this industry enjoys premium margins with only a few players dominating the industry globally. Proprietary technology to manufacture these specialty additives is available with only a few global players. Fine Organics is one of the leading players that developed proprietary technologies to manufacture these green additives.
- As of 31<sup>st</sup> Dec. 2017, the company has three production facilities with a cumulative capacity of 64,300 tonnes per annum and operated at almost full capacity. Over the next 2-3 years, it is targeting to add 67,000 tonnes, thereby taking total capacity to 131,300 tonnes per annum. For the same, Fine Organics has planned a capex of around Rs. 2.7bn, of which already Rs. 0.7bn is invested. Of the planned expansion, around 42,000 tonnes is expected to be added in FY19 and the rest in FY20 and FY21. In the past i.e. between FY15-16 and for 9M FY18, capacity constraint was one of the reasons for slower topline growth. Thus, going forward with increased capacity, we are anticipating increased sales volume from FY20 onwards.
- According to the company RHP, the global food emulsifiers market is expected to grow by 4.1% CAGR from USD 2.8bn in 2016 to USD 3.4bn by 2021. Similarly, the global plastic additives market is expected to grow to USD 30bn by 2021, a CAGR of 6% in the period 2016-2021. The growth would be primarily driven by India and China. Thus with proposed capacity expansion and being a global player, Fine Organics is rightly placed to capture the future incremental demand of additives.
- The company has reported a solid financial performance over FY15-17. During the period, it reported a 13.2% CAGR rise in the total operating revenue to Rs. 8,149.4mn in FY17. The specialty business increased by 14.4% CAGR and contributed around 97.3% to the operating revenue during the period. Growth in the specialty business was primarily attributable to an increase in the sales volume and was also supported by the depreciation of INR against USD. Consolidated EBITDA increased by 14.5% CAGR during FY15-17 to Rs. 1,454.4mn in FY17. Average EBITDA margin during the period stood at 18.8%. Reported PAT increased by 21.4% CAGR to Rs. 783.6mn in FY17 with average PAT margin of 9.7% during the period. Average RoE and RoIC stood at 26.6% and 32%, respectively, during FY15-17.
- As on FY17 end, the company had nil long term debt, while short term debt was at Rs. 285.5mn. It has consistently generated a positive cash flow from operations and its debt equity ratio declined from 0.5x in FY15 to 0.1x in FY17.
- For the nine month ended Dec. 2017, Fine Organics reported a top-line of Rs. 5,904.3mn with an EBITDA and PAT margin of 17.7% and 10.3%, respectively. For FY18E, we are anticipating a top-line of Rs. 8,069.2mn (a decline of 1% over FY17) and an EPS of 26.6 per share (a growth of 3.9% over FY17). EBITDA and PAT margin are anticipated at 18% and 10.1%, respectively. On the back of increased capacity expansion, we are expecting a 16% rise in the operating revenues to Rs. 9,360.1mn and a 25.3% rise in EPS to Rs. 33.3 per share in FY19.

On valuation front, at higher price band, the company is demanding a P/E valuation of 30.6x as against the peer average of 24.2x. With respect to FY18E and FY19E EPS too, it is asking a premium valuation. Thus, the issue seems to be fully priced. However, considering the global market position, benefits arising from the capacity expansion, stable margin & profitability and limited competition, we assign a **"Subscribe with Caution"** rating to the issue with long term investment horizon.

## Financial Statements:

### Consolidated Profit and Loss Statement (Rs. mn)

	FY15	FY16	FY17	9M FY18	CAGR over FY15 - 17 (%)	Annual Growth over FY16 (%)
<b>Total Operating Revenue</b>	<b>6,359.3</b>	<b>6,860.1</b>	<b>8,149.4</b>	<b>5,904.3</b>	<b>13.2%</b>	<b>18.8%</b>
Cost of Materials Consumed	(3,866.9)	(3,894.4)	(5,027.6)	(3,780.8)	14.0%	29.1%
Purchase of Stock in Trade	(21.5)	(22.2)	(11.4)	(16.6)	-27.4%	-48.8%
Changes in Inventories of Finished Goods, Stock in Trade and Work in Progress	64.1	40.8	61.3	(46.5)	-2.2%	50.3%
Excise Duty / Goods and Service Tax Expenses	(291.3)	(335.2)	(367.4)	(94.6)	12.3%	9.6%
Employee Benefits Expense	(443.3)	(545.4)	(642.8)	(379.1)	20.4%	17.9%
Other Expenses	(691.1)	(651.3)	(707.2)	(544.1)	1.2%	8.6%
<b>EBITDA</b>	<b>1,109.3</b>	<b>1,452.5</b>	<b>1,454.4</b>	<b>1,042.6</b>	<b>14.5%</b>	<b>0.1%</b>
Depreciation / Impairment & Amortization Expenses	(225.8)	(295.6)	(237.1)	(146.3)	2.5%	-19.8%
<b>EBIT</b>	<b>883.5</b>	<b>1,156.9</b>	<b>1,217.3</b>	<b>896.4</b>	<b>17.4%</b>	<b>5.2%</b>
Finance Costs	(77.0)	(83.1)	(45.7)	(30.2)	-23.0%	-45.0%
Other Income	20.3	102.1	44.1	87.8	47.6%	-56.8%
<b>PBT</b>	<b>826.8</b>	<b>1,175.9</b>	<b>1,215.7</b>	<b>954.0</b>	<b>21.3%</b>	<b>3.4%</b>
Tax Expenses	(294.9)	(411.1)	(432.1)	(344.5)	21.0%	5.1%
<b>Reported PAT</b>	<b>531.8</b>	<b>764.8</b>	<b>783.6</b>	<b>609.5</b>	<b>21.4%</b>	<b>2.5%</b>

### Consolidated Balance Sheet Statement (Rs. mn)

	FY15	FY16	FY17	9M FY18	CAGR over FY15 - 17 (%)	Annual Growth over FY16 (%)
Equity Share Capital	48.3	48.3	48.3	153.3	0.0%	0.0%
Equity Share Suspense Account		2.8	2.8			0.0%
Other Equity	2,023.9	2,459.9	3,240.3	3,468.7	26.5%	31.7%
Long Term Borrowings	290.6	212.7			-100.0%	-100.0%
Deferred Tax Liabilities (Net)	3.4				-100.0%	
Short Term Borrowings	655.9	728.7	402.6	285.5	-21.7%	-44.7%
Trade Payables	532.6	533.4	643.2	771.0	9.9%	20.6%
Other Current Financial Liabilities	88.2	86.4	9.1	8.2	-67.8%	-89.4%
Other Current Liabilities	71.7	75.7	110.2	51.5	24.0%	45.6%
Short Term Provisions	1.7	3.3			-100.0%	-100.0%
Current Tax Liabilities (Net)		4.9				-100.0%
<b>Total Liabilities</b>	<b>3,716.1</b>	<b>4,156.0</b>	<b>4,456.6</b>	<b>4,738.2</b>	<b>9.5%</b>	<b>7.2%</b>
Property, Plant and Equipment	1,024.2	1,024.7	967.7	922.6	-2.8%	-5.6%
Capital Work in Progress	81.1	56.5	28.0	67.4	-41.3%	-50.5%
Intangible Assets		1.3	2.1	2.1		59.1%
Non Current Investment		52.7	110.7	105.7		110.2%
Other Long Term Financial Assets	0.7	0.4	1.3	2.9	35.2%	204.8%
Deferred Tax Assets (Net)		14.4	34.5	39.0		140.6%
Other Non Current Assets	527.4	531.6	492.1	634.7	-3.4%	-7.4%
Inventories	644.4	760.2	919.8	866.0	19.5%	21.0%
Trade Receivables	862.7	867.9	1,114.0	1,172.1	13.6%	28.4%
Cash & Cash Equivalents	30.4	393.5	139.7	260.8	114.3%	-64.5%
Bank Balances	3.3	28.3	39.5	1.9	247.9%	39.5%
Current Loans and Advances	5.7	7.6	7.4	7.3	13.6%	-3.4%
Other Current Financial Assets	0.1	1.0	1.0	1.4	164.6%	-3.9%
Current Tax Assets (Net)	15.2		39.7	23.8	61.7%	
Other Current Assets	520.9	416.0	559.2	630.7	3.6%	34.4%
<b>Total Assets</b>	<b>3,716.1</b>	<b>4,156.0</b>	<b>4,456.6</b>	<b>4,738.2</b>	<b>9.5%</b>	<b>7.2%</b>

Source: Company RHP

## Financial Statements (Contd...):

### Consolidated Cash Flow Statement (Rs. mn)

Particulars (Rs. mn)	FY15	FY16	FY17	9M FY18	CAGR over FY15 - 17 (%)	Annual Growth over FY16 (%)
Cash Flow from Operating Activities	497.7	1,091.5	462.5	743.6	-3.6%	-57.6%
Cash Flow from Investing Activities	(425.2)	(278.5)	(164.2)	(284.9)	-37.9%	-41.1%
Cash Flow from Financing Activities	(104.3)	(529.5)	(553.1)	(345.1)	130.3%	4.4%
<b>Net Cash Flow</b>	<b>(61.1)</b>	<b>363.1</b>	<b>(253.8)</b>	<b>121.1</b>	<b>103.7%</b>	<b>-169.9%</b>
Opening Balance of Cash and Bank Balances	91.6	30.4	393.5	139.7	107.3%	1193.2%
<b>Closing Balance of Cash and Bank Balances</b>	<b>30.4</b>	<b>393.5</b>	<b>139.7</b>	<b>260.8</b>	<b>114.3%</b>	<b>-64.5%</b>

Source: Company RHP

### Consolidated Financial Ratios

Particulars (Rs. mn)	FY15	FY16	FY17	9M FY18
Revenue Growth Rate (%)		7.9%	18.8%	
EBITDA Growth Rate (%)		30.9%	0.1%	
EBITDA Margin (%)	17.4%	21.2%	17.8%	17.7%
EBIT Growth Rate (%)		30.9%	5.2%	
EBIT Margin (%)	13.9%	16.9%	14.9%	15.2%
Reported PAT Growth Rate (%)		43.8%	2.5%	
Reported PAT Margin (%)	8.4%	11.1%	9.6%	10.3%

### Liquidity Ratios

Current Ratio	1.5	1.7	2.4	2.7
Debt Equity Ratio	0.5	0.4	0.1	0.1
Net Debt to EBITDA	0.2	(0.2)	(0.5)	(0.8)

### Turnover Ratios

Inventories Days	37.0	37.4	37.6	53.5
Trade Receivable Days	49.5	46.0	44.4	72.5
Accounts Payable Days	(30.6)	(28.4)	(26.3)	(47.7)
Cash Conversion Cycle Days	55.9	55.0	55.7	78.3
Fixed Asset Turnover Ratio (x)	5.8	6.3	8.2	6.0
Total Asset Turnover Ratio (x)	1.7	1.7	1.8	1.2

### Return Ratios

RoE (%)	25.7%	30.5%	23.8%	16.8%
RoA (%)	14.3%	18.4%	17.6%	12.9%
RoCE (%)	37.3%	42.5%	37.0%	24.7%

### Per Share Data

Restated Adjusted EPS (Rs.)	17.3	24.9	25.6	19.9
Restated DPS (Rs.)	0.0	12.0	0.0	7.5
BVPS (Rs.)	67.6	81.9	107.4	118.1
Restated Operating Cash Flow Per Share (Rs.)	16.2	35.6	15.1	24.3
Restated Free Cash Flow Per Share (Rs.)		16.2	8.4	12.6

Note: Pre-issue data; Source: Company RHP

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