

## Fine Organics Industries Limited

**Recommendation: SUBSCRIBE**

June 19, 2018

### Details of the Issue

Price Band	₹780 - ₹783
Issue Size	₹6000mn
Opening Date	June 20, 2018
Closing Date	June 22, 2018
Face Value	₹5
Bid Lot	19
Listing on	BSE, NSE

### Objects of the Issue

The objects of the Offer are to achieve the benefits of listing Equity Shares on the Stock Exchanges and to carry out the sale of up to 7,664,994 Offered Shares by the Selling Shareholders. The listing of Equity Shares will enhance the Company's brand name and provide liquidity to the existing Shareholders. The listing will also provide a public market for Equity Shares in India. The Company will not receive any proceeds from the Offer and all the proceeds from the Offer, less Offer related expenses, will go to the Selling Shareholders.

### Lead Managers

Jm Financial, Edelweiss Financial,

### Registrar

Karvy Computershare Private Ltd.

### Investment Details

No. of shares at cut-off	255
Max. Amount to be paid (₹)	199,665

### Company Background

Fine Organics Industries Ltd. (FOIL) is incorporated in 2002, Mumbai based Fine Organic Industries Limited is a company engaged in manufacturing of oleochemical-based additives. As per CRISIL Research Report, it 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. It has 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. Its direct customers are multinational, regional and local players manufacturing consumer products, such as Hindustan Unilever and Parle Products, and petrochemical companies and polymer producers globally. The plastics additives and specialty additives are also used in the packaging of foods and other fast moving consumer goods.

### Largest Producer of Oleochemical-based Additives in India and One of the Few Large Players in the Oleochemicalbased Additives Industry in the World

Fine Organic is the largest manufacturer of oleochemical-based additives in India and one of the few large players in global oleochemical-based additives industry. They are 1 of 6 global players in the food additives industry and 1 of 5 global players in the plastic additives industry. The '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. Although the company has only been operating for over 15 years, the 'Fine Organics' brand is in use by Promoter Group entities since 1973. They manufacture a wide range oleochemical based additives in India. Fine Organic is the first company to introduce slip additives to the Indian market. There are only a few other small players who manufacture oleochemical-based additives in India. However, they have only a partial presence in the oleochemicals-based additives portfolio. The company has a huge first-mover advantage in India, alongside various other competitive advantages over other global players. This gives them an advantage in pricing products competitively and allows them to provide stiff competition to new players.

### Specialized Business Model with High Entry Barriers

There are multiple entry barriers for a new entrant in the global oleochemical-based additives industry, such as product formulations, process technology and customer stickiness to established players. As a result, Fine Organic is one of the few large global players in this industry. (Source: CRISIL Research Report). Their products require specialized skills, processes and equipment to manufacture, as manufacturing additives from base oleochemicals is a highly complex process. Therefore, many of their specialty and formulated products are also difficult to replicate. This provides the company with a significant advantage over new entrants, as they would need to invest a great deal of resources to gain a foothold in the markets in which they compete.

### Flexible and Strategically Located Production Facilities with In-house Development Capabilities

The company currently has 3 manufacturing facilities: the First Ambernath Facility; the Badlapur Facility; and the Dombivli Facility. These 3 facilities have a combined installed capacity of approximately 64,300 tonnes p.a. as at December 31, 2017. Each of their current manufacturing facilities has the ability to manufacture their wide range of products. 2 of their production facilities, the 1st Ambernath Facility and the Badlapur Facility, are fully automated. This helps ensure that they will continue to produce high-quality products, as well as minimizing the number of employees required to operate them, thereby reducing costs. All 3 of their production facilities are strategically located in close proximity to the Jawaharlal Nehru Port (Nhava Sheva) located near Mumbai. As they are largely export-oriented, their facilities' locations help reduce freight and logistics costs. The plots of land on which they are planning to build the 3rd Ambernath Facility, the Fine Zeelandia Facility, the Patalganga Facility and the 4th Ambernath Facility are also located in close proximity to the Jawaharlal Nehru Port (Nhava Sheva) located near Mumbai. Their facilities require specialized facility design and technologically sophisticated equipment. Their in-house team is capable of designing and assembling their production equipment at a much lower cost compared to what a third party contractor would charge.

Source: RHP, GEPL Capital Research

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## Key Risks

- There Increases in the cost of raw materials as a percentage of our revenue from operations could have a material adverse effect on our results of operations and financial condition.
- If products fail to meet their customers' quality standards, it could result in removal from end-user customers' 'approved supplier' lists, which would have a material adverse effect business, financial condition and results of operations.
- Their commercial success also depends to a large extent on the success of customers' products with end consumers. If the demand for the products in which thier products are used declines, this could have a material adverse effect on their business, financial condition and results of operations.
- The company does not have any long term contract with any of the clients.

## Valuation & Recommendation

Fine Organics Industries Ltd (FOIL) stands to gain from operating leverage. At a P/E of 31x of FY17 EPS. We believe that it demands a discount to its domestic peers. We assign a **Subscribe** rating to the IPO.

## Financial Snapshot

Particulars (₹mn)	FY15	FY16	FY17	For Nine months endind Dec-31- 2018
Total Income	6,359	6,860	8,149	5,904
Net profit before tax	826.5	1175.9	1215.7	954
PBT(margin)	13%	17%	15%	16%
PAT	532	765	784	609
EPS (₹)	18.35	24.95	25.56	26.38

Source: RHP, GEPL Capital Research

## NOTES

GEPL CAPITAL Pvt Ltd (formerly known as Gupta Equities Pvt. Ltd.)

Head Office: D-21/22 Dhanraj mahal, CSM Marg, Colaba, Mumbai 400001

Reg. Office : 922-C, P.J. Towers, Dalal Street, Fort, Mumbai 400001

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