JOINDRE CAPITAL SERVICES LTD.

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RESEARCH REPORT

15th Jan 2019

ORIENTAL AROMATICS LIMITED

BSE : OAL | **Sector: FRAGRANCES & AROMAS** | **BSE: 500078**

View - BUY

CMP : Rs. 272

Target Price: Rs 424 (In next 12 to 18 mths)

BUSINESS BACKGROUND

Incorporated in 1961, OAL is one of the pioneers in terpene chemistry in India. It was the first company to set-up a Synthetic Camphor plant in India in 1964 with technology from Dupont, USA. OAL is the largest exporter of specialty aroma chemicals which finds application in a wide range of products including deo & perfumes, cosmetics, fabric care products and other personal care products.

Fragrance chemical portfolio of OAL includes Astromeran, Astrone, Astrolide, Capinone, Dihydroterpineol, Dihydroterpinyl Acetate, Fenchone, Isoborneol, Isobornyl Acetate, Ketone 101, Terpineol, Terpinyl Acetate, Citwanene, Isolongifolene, Longifolene, Camphor. OAL is having three manufacturing units at Bareily U.P, Ambernath and Vadodara, Gujarat.

INVESTMENT HIGHLIGHTS

Strong Financial Performance in H1 FY19 –

OAL reported a strong set of H1FY19 numbers with net sales at Rs 346.76 crs as compared to a revenue of Rs 238.51 crs up by 45% YoY, with EBIDTA placed at Rs 57.36 crs from Rs 26.08 crs up by 119% YoY with the PAT placed at Rs 28.34 crs from Rs 15.76 crs up by 75% YoY.

For FY18 OAL reported Sales of Rs 1439 crs, a EBIDTA of Rs 65 crs with PAT at Rs 25.50 crs from Rs 27.02 crs last year. OAL declared a dividend of 20% for FY18.

OAL is the 2nd largest Player in the F & F Blends segment and enjoys a marquee customer base –

OAL is 2nd Largest Indian-origin player after SH Kelkar & is the 6th Largest player in niche Indian F&F Blends segment catering to customers like Godrej, Nirma, Dabur, Bajaj, KeoKarpin, MTR, Pfizer, Abbott, Wockhardt, Wyeth, etc.

It is a key supplier of F&F blends to leading Indian brands like Godrej No.1 & Cinthol soaps, Bajaj Almond Drops Hair Oil, Nirma Washing Powder, Mediker Shampoo, etc

OAL is the 4th largest Indian player in F&F Ingredients (Aroma Chemicals) space after Privi, Eternis & Anthea group counting in its clintle key names like IFF, Givaudan, Firmenich, Symrise, SH Kelkar & Agan Aroma, etc. Largest Indian player in Pharmaceutical-grade Synthetic Camphor & 3rd Largest player in Indian Camphor segment having clients like P&G, Johnson & Johnson, Novartis, JB Chemicals, Association Forum Auditorias PZ Cusson, etc. OAL caters 80% of the camphor requirement for P&G's most popular 'Vicks' brand.

KEY DATA

FACE VALUE Rs	5.00
DIVD YIELD %	0.07
52 WK HI/LOW	333/177
NSE CODE	-----
BSE CODE	OAL
MARKET CAP RS	918 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	74%
BANKS, MFs & DIIs	-	…%
FIIs	-	…%
PUBLIC	-	26%

KEY FUNDAMENTALS

YE	FY19	FY20	FY21
Rev Gr%	27	20	17
EBIDTA Gr%	42	20	17
PAT Gr%	55	24	20
EPS Gr%	55	24	20
EPS (Rs)	17.05	22.33	27.93
ROE %	16	17	18
ROCE %	16	17	19
P/E(x)		12	10

Some Background to Camphor & Allied Limited and OAL's Business & History –

Incorporated in 1961, Camphor and Allied Products Limited is one of the pioneers in terpene chemistry in India. It was the first company to set-up a Synthetic Camphor plant in India in 1964 with technology from Dupont, USA.

In 1999, CAL ventured into manufacture of specialty F&F Ingredients (Aroma Chemicals) via in-house developed technology developed at its own R&D Centre.

In 2009, change of promoters/management took place wherein CAP was acquired from then promoters – Dalal Family by current promoters – Bodani Family via their flagship company Oriental Aromatics Ltd**.**

In 2013, by using the expertise and reach of new promoters, company undertook a major expansion of its F&F Ingredients' manufacturing capacity and ventured into production of Galaxolide Musk with Technology & product-Marketing support from Agan Aroma, an Israel based company pioneer in Aroma Chemical industry.

It set-up one of the world's most advanced Polycyclic Musk manufacturing plant and captured around 30% of the global marketshare of Galaxolide Musk within a span of just 3 years.

In 2014, company inked a long-term manufacturing and supply agreement with International Flavors & Fragrances Inc. (IFF) – 3rd Largest player in Global F&F industry enjoying 12.50% market share of world F&F market – to manufacture and supply Fragrance Ingredients' Intermediates and Finished Products.

In 2015, company acquired certain indentiified assets & liabilities of Arofine Group (Arofine+Vaishnavi) — a group incorporated in 1976 with 4 state-of-the-art specialty F&F Ingredients' manufacturing plants in Dombivali & Ambernath, Maharashtra for a consideration of Rs 17.50. cr.

Arofine Group was an existing supplier to leading global F&F companies like IFF, Givaudan & Symrise and had expertise to manufacture 200 high value specialty F&F Ingredients. Two key promoters of Arofine Group joined CAP as CEO & R&D Head of newly formed Specialty Chemical Division.

In 2016, company undertook an expansion in F&F Ingredients manufacturing capacity to the tune of 18% at a cost of Rs 40 crs. Expansion is into high value specialty F&F Ingredients (inline with that manufactured by Arofine Group) space – used majorly by MNCs in premium FMCG products' & Fine Fragrances. CAPL has also built a Multi-Purpose plant at Vadodara in which Specialty Aroma Chemicals including the products developed from R&D will be manufactured. It has commenced its operations WEF May 2018

Also, in 2016, promoters decided to merge their only flagship company – Oriental Aromatics Ltd. – with CAP in lieu of increasing their stake in merged listed entity from current 57.66 % to 74.16%. Consequently OAL, which had a 57.66% stake in CAPL, was amalgamated with CAPL with the effective date for the scheme of amalgamation being January 2, 2018.

Post Amalgamation of Camphor & Allied Products, Oriental Aromatics Limited is now a fully integrated F & F Blends Player –

By virtue of the amalgamation of Camphor and Allied Products with Oriental Aromatics Limited, the new company OAL is a now a integrated player which is fully integrated from the raw material to the finished products stage. Hence post amalgamation OAL has evolved as a complete F&F player due to forward integration of the business, with a strong presence in aroma chemicals and is now named amongst one of the few fully integrated F&F Companies worldwide.

OAL's and CAL's vast product range includes Synthetic Camphor, Terpineols, Pine Oils, Astromusk, perfumery chemicals, specialty chemicals and several other chemicals finding applications in vast array of industries ranging from Flavours & Fragrances, Pharmaceuticals, Soaps & Cosmetics, Rubber & Tyre, Paints & Varnishes and many more. Post amalgamation OAL will now also provides custom designed fragrances that are found in fine fragrances, incense sticks, candles, and various FMCG products like soaps, shampoos, hair oils, detergents, etc. and it also provides flavours for ice-creams, bakeries, confectionaries, beverages, chewing gums, chocolates etc. This will make it evolve as one shop solution provider in the aroma chemical industry

We hence believe that OAL will be one of the key beneficiary of healthy demand of F&F industry as favourable macroeconomic factors like growing disposable incomes, urbanisation and aspirational lifestyles put the fragrance and flavours industry in a positive space.

A growing global demand means greater opportunities and the management believes that OAL will be one of the key beneficiaries of the robust demand scenario in F&F market on account of amalgamation as well as wide product acceptability.

Product wise OAL has presence across the entire value chain which is Fragrance & Flavor ingredients (Aroma Chemicals), Fragrance & Flavor Blends & Camphor and its by products –

In terms of key product segments where OAL and CAL collectively operate include the Aroma Chemicals, Fragrance and Flavors segment and the Camphor and speciality chemicals segments.

Aroma chemicals are Key ingredients used in Fragrance & Flavor Blends where its key customers include Agan Aroma, IFF, Firmenich, Givaudan, Symrise, SH Kelkar

In Aroma Chemicals it is the 4th Largest player in India after Privi Organics, Eternis and Anthea group

With Aroma Chenicals include the Bulk Aroma Chemicals where EBITDA Margins range between 9 to 14% where as Specialty Aroma Chemicals are more profitable with EBITDA Margins ranging between 16 to 20%

For the company as a whole the contribution on a an average from bulk and specialty is as follows
Bulk Aroma Chemicals 40% Specialty Aroma Chemicals 60%

Here the company has tied up with Agan for Galaxolide musk and ensured firm offtake of expanded capacities. Also the company has collaborated with IFF post which it acquired Arofine & undertook further expansion.

Fragrance & Flavor blends are key small components of every FMCG products. Here its key clients include Godrej, Nirma, Dabur, Bajaj, Keokarpin, Pfizer, Abbott, Wockhardt, Wyeth etc.

In this segment the company is the 2nd Largest Indian-origin player after SH Kelkar & overall 6th Largest player in India after Givaudan, IFF, Firmenich, SH Kelkar & Symrise.

Within Aroma chemicals segment CAL's capacity breakup is largely focused on Polycyclic & Macrocyclic Musks (35% capa), Specialty Aroma Chemicals (25% Capa) and Bulk Aroma Chemicals (40% Capa)

In the Synthetic Camphor is Key ingredient used in many pharmaceutical formulations as well as for regional purposes.

Here the company's key clients include P&G (80 % of the camphor requirement of 'Vicks' brand met by CAP), Johnson & Johnson (J&J), Welding GMBH & CO. KG Germany, Aventish Pharma, Novartis, Perrigo Laboratories, SSL International, Select Chemie, PZ Cusson, Wyeth, Reckitt & Benckisher, Throtan & Ross, Ayanda Qy – Finland, Association forum Auditorias (AFA), Frey & Lau, J.B. Chemicals

In this segment CAL now OAL is the largest player in Pharma-grade Camphor in India & 3rd Largest player in India after Mangalam Organics & Saptagir.

In fact in this segment the company has become one of the largest supplier of Pharma-grade camphor which enjoys premium realizations and where it enjoys a stable revenue stream from a well established customer base.

FLAVOURS AND FRAGRANCES INDUSTRY STRUCTURE AND KEY DEVELOPMENTS –

Global Scenario –

The global market for flavors and fragrances was valued at $26.0 billion in 2015. This market is expected to increase from $27.1 billion in 2016 to $37.0 billion in 2021 at a compound annual growth rate (CAGR) of 6.4% for 2016-2021. (Source: BCC Research & Avendus). The global F&F market is a reasonably consolidated market, with the top 5 players constituting 60% and the top 10 players constituting 80% of the market. (Source: Avendus)

The F&F market is almost equally distributed. Large players continue to consolidate for scaling up and to build differentiated product portfolio. The F&F market is highly fragmented. Flavour and Fragrances purchasers may range from multinational companies to big Indian industrial houses to small-scale industrial units to local eateries to even individual homes. The market has witnessed a remarkable growth, owing to increasing demand in application industries such as food, beverages and personal care, coupled with higher levels of disposable income.

The Global flavors and fragrances (F&F) Market is poised to grow strong during the forecast period 2017 to 2025. Some of the prominent trends that the market is witnessing include growing vegan population which is increasing the demand for flavors & fragrances, growing demand for biotic ingredients usage and recent technological developments in flavors and fragrances.

Changing consumer preferences, increasing health concerns and a growing trend among customers to purchase products with natural ingredients are driving demand in the market for flavours and fragrances.Regulatory authorities in different countries are taking initiatives to set standards and regulations for the promotion of safe and healthy products, which also is driving demand.

Indian Scenario –

Flavours and fragrances are small but significant constituents of food & beverage and FMCG products respectively. They are directly involved in creating a sensorial connection between the product and its consumer, often contributing to a strong brand recall. The Indian F&F market is dominated by the large global F&F houses, which contribute over 60% of the Indian production of flavour and fragrance blends. India is an important supplier to the global market in this space, catering to 60% of the global spice oleoresin demand and 80% of the global mint extracts demand.

The top six companies like Givaudan, Firmenich, IFF, Symrise, SHK, Takasago have had a substantial presence and business in India for many years now. These players are strengthening their manufacturing base in India to cater to the growth in Indian demand. All F&F blends use a large number of ingredients, which can be either natural or synthetic, depending on the source and manufacturing process. The organized Indian F&F production market is $1.1bn in size, close to 30% of which is exported.

The growth drivers of F&F in India have been strong end-user growth driven by increased penetration, rising affordability, premiumization of FMCG products, rising exports and ability to innovate etc. Rising incomes and growing youth population have been key growth drivers of the sector. Brand consciousness has also aided demand. Disposable income in rural India has increased due to the direct cash transfer scheme.

With a large and growing demand and the resultant opportunities for Indian manufacturers, the market for Flavours & Fragrances and ingredients is set to flourish more. Rising incomes, better education and more awareness will mean a higher inclination to spend on 'Quality Lifestyle' products for home and health, personal grooming and social symbols.

The demand for flavours will also continue to rise as the processed food market continues to grow. Regular use of flavours and fragrances in a product is no longer a luxury but a necessity for consumer acceptance. Flavours and fragrances that are novel will continue to be popular and gain better and faster acceptance. India traditionally used more of natural flavours as Indians preferred freshly prepared foodstuff unlike in Europe and America where artificial or synthetic flavour were in demand due to the use of canned frozen food and beverage. This is likely to continue. However, due to fundamental changes in lifestyles certain food items, beverages, confectionaries, bakery, and snacks that generally use artificial additives will increase giving a fillip to the flavour industry in times to come.

AROMA CHEMICALS –

Aroma chemicals form the building blocks of F&F and are used in a variety of sectors. Aroma chemicals are further classified into terpenes, miscellaneous aroma chemicals, musk chemicals and benzenoids.

Global Scenario –

The Global Aroma Chemicals Market is accounted for $4.08 billion in 2016 and expected to grow at a CAGR of 6.8% to reach $6.48 billion by 2023. Factors like change in consumer preferences, healthy and green sustainability package among the consumers and growth in end user markets are boosting the market growth. High R&D cost and compliance with quality and regulatory standards will impede the market growth. Furthermore, surge in demand for natural aroma chemicals and advances in technology and emerging applications, increased penetration in emerging markets and the demand for custom fragrances are few trends market is likely to observe.

Soaps and detergents segment accounted for the largest market share because most of the soap makers source fragrance chemicals from suppliers that manufacture fragrance ingredients. Asia Pacific region accounted for the largest market share due to huge domestic consumption of aroma chemicals in India. Europe is expected to be a significant revenue generating region during forecast period.

India Scenario –

Competition is seen in the aroma chemical industry in terms of quality, price and services rendered to the end user. Aroma chemicals form the building blocks of F&F and are used in a variety of sectors. The competitive edge can be achieved by use of captive and exclusive ingredient technology that will make ones flavour and fragrance unique and difficult to copy.

Cost control continues to play a very important role if one has to maintain a leading position.The ability to function on a truly integrated world scale and service globally will be a key in gaining core listing and long-term contracts mutually beneficial to the aroma chemical houses and the FMCG players. Rising incomes, better education and more awareness will mean a higher inclination to spend on 'Quality Lifestyle' products for home and health, personal grooming and social symbols. The demand for aroma chemicals will also continue to rise as the processed food market continues to grow

In short the key growth drivers of F&F in India are as follows –

Strong end-user growth, driven by increased penetration, rising affordability –

F&F blends are mainly used by industries like F&B and FMCG. In the recent past, with rising disposable income in India, these segments have seen explosive growth. Penetration of FMCG majors like HUL, P&G in rural areas has also been a significant contributing factor

Premiumization of FMCG products –

Indian consumers are moving towards using high end personal care products like hair gels, lotions, skin creams and so on. These products, on an average, use a higher quality of flavours and fragrances than the usual soaps and detergents. Segments like fruit based drinks and air care market are expected to grow at +30% p.a.

Rising exports –

Most of the major F&F houses have manufacturing plants in India from where they supply blends to their customers across the world. Even Indian players like S H Kelkar and OAL are increasingly supplying to customers outside India, with exports constituting 30% of total sales for OAL on a consolidated basis as on FY18. OAL reported exports of Rs 152 crs in FY18 accounting for 30% of consolidated revenues.

Key Success Factors in the F & F Industry –

Ability to innovate –

Blenders create products by mixing together various base ingredients in unique combinations. This involves considerable IP and blenders need to keep innovating to create new flavours and fragrances to satisfy the demands of the market. They collaborate with end-users as well as ingredient manufacturers to come up with unique scents. The major global F&F houses spend an average of 9% on R&D, highlighting its importance to stay ahead of the curve.

Relationship with customers –

In some cases, customers could be large FMCG players like HUL and P&G which have significant requirements for F&F across their product basket. In such cases, most of the major F&F houses and some scaled up Indian players directly align with them to supply specific flavours and fragrances for their specific products.

Customer acquisition is a long drawn out process with several customers having stringent vendor selection processes and quality norms. This makes building and maintaining relationships with these customers extremely important

F&F Blends Industry – Why Clients are so sticky here?

Fragrance is a uniquely designed product for every customer and on a new customer inquiry the fragrance House's perfumer initiates process to develop the required fragrance by employing the already huge inventory of raw materials stocked with the Fragrance House as also dwelling into the library of Fragrances company which it has already generated so far.

Typically 10 to 100 versions are made to develop one required fragrance Specialists shortlist the best versions amongst them and those shortlisted versions are sent to FMCG company for evaluation.

After this the FMCG company's internal specialists evaluate the versions.If inquiries are sent to more than one Fragrance House vendors then the fragrance samples of both the houses are evaluated. The FMCG company's internal specialists shortlist only one sample of Fragrance out of all sent for its likely product launch.

Till the said FMCG Product remains in production, the vendor and ingredients of the fragrance are never changed in its entire lifecycle.

Other Key Barriers in this Industry –

Difficult-to-Duplicate Research & Technical Capabilities –

Each Fragrance & Flavor Blend is created for a particular product is unique with its own mix of ingredients and their precise mix ratio. Each of the individual ingredients (which normally number close to 500 +) are never listed on the product label nor its ratio is disclosed which makes each blend
the IP of its creating company.

Backward Integration into manufacture of F&F Ingredients –

There is considerable pressure on a F&F company to create best unique Fragrance/Flavor blend in the most cost effective way wherein only those which can achieve this consistently find place in the long-term supplier list of key Personal & Home Care clientele.

For achieving this, backward integration into manufacture of F&F ingredients becomes a must as it is actually the cost and the ratio of the ingredients used that ultimately determine the uniqueness and the cost of final F&F Blend.

It is the R&D strength of a F&F company in ingredients space that speaks highly in the form of unique final F&F Blend formulated by the company. This is the reason why we find each of the successful major F&F company like IFF, Givaudan, Firmenich, Symrise, SH Kelkar,Oriental Aromatics, etc. running two businesses simultaneously under its fold – one for manufacture of ingredients and the other for formulating of Blends

Players need access to resources and time to enable creation of large pool of Internal Fragrance Library & Access to Large Range of Ingredients –

F&F companies need access to very large range of raw materials, both standard & exotic as well as access to the latest new RM formulations and additions Also, F&F company needs to be proactive as far as formulation of unique Blends are concerned.

Its not that the company has to wait for the client for intimation of any of its product launch and then start formulating blends for such product. Company has to create beforehand an internal library of industry/application -specific unique blends and also from time-to-time send samples of such blends to its clientle for evaluation purpose to vet the chance of improvisation of any existing product or incorporate such blend in any planned forthcoming new product. Hence it is extremely difficult for new entrants to build these kind of capabilities quickly.

Stringent Environment Protection Laws & Safety Considerations –

F & F is one of the most stringently regulated industry and is only second to Pharmaceutical Industry
Also volumes in this industry are low Per Product Production Scale and hardly few products reach 10,000 MT p.a. global production quantities. Blends which use these ingredients are each composed of more than 500 individual ingredients and so required quantities of each product per blend is very less.

Tough Audit Requirements to become a supplier to MNCs at global level –

Almost 75% of the global F&F market, including India, controlled by MNCs and it normally takes many years to forge a meaningful supply-relationship with any MNC and scaling up supplies.

Musks, an important Aromatic Input – But What are these and their Importance to the F & F basket –

Musk is one of the most common and important element of any Fragrance Blend. 90 % of all the Fragrance Blends used as either standalone perfume or into various Personal & Homecare & Other FMCG Products contains Musk.

Musk is added to Soaps, Shampoos, Powders, Cosmetics, Bath Oils, Toothpastes, Household Cleansers, Laundry Detergents, Insect Repellents and even majority of the artificially flavored Food.

In short, Musk is used as an ingredient in almost every commercial product that requires Fragrance. Musk not only serves as a key fragrance component, but, it also balances and amplifies the effect of other constituents of the blend.

It also acts as a key fixative. Without musk, volatile ingredients of which a fragrance blend is composed of, don't cast the desired prolonged effect

In earlier years Musk came exclusively from animal sources like from various species of Musk Deer. However, today, animal sources have completely stopped because of ethical and cost reasons. Hence, most Fragrance Blends today make use of some form of Synthetic Musks but, there are few blends which make use of natural sources, especially from plant origin. Musk from natural sources Is extremely expensive and therefore 90% of the Musks used today in Fragrance Blends are of Synthetic Origin.

CAL's Positioning in Musks Segment includes the Nitro Musks Polycyclic Musks Macrocyclic Musks Alicyclic Musks where in almost 35% of the Baroda Plant Capacity dedicated to these two Musks,

CAL enjoys 30% Global Marketshare in the Galaxolide Musk where in the capacity break-up of Aroma Chemical Division of Camphor & Allied Products Ltd included Polycyclic & Macrocyclic Musks 35% and speciality Aroma Chemicals 23%

OAL has already commenced the commercial production at its newly set up multipurpose plant situated at Vadodara, Gujarat in May 2018. This Plant has the capacity to manufacture around 1,200 TPA of products spread over 12-13 different chemistries. And it has the Capability of manufacturing fragrance as well as flavour chemicals.

OAL enjoys a strong balance sheet and both Topline and Bottomline growth is likely to remain strong going ahead –

OAL has maintained a strong balance sheet over the years but has started funding expansion via debt but yet the leverage is decent as on March 2018. The company has also enjoyed healthy operating cashflows. Operating cashflows between FY15-FY18 has grown at a CAGR of 15% where as company is now focusing on adding capacities selectively to encash the demand in tehn domestic and export markets.

OAL is expected to generate a average RoE of 17-18% during the next 2 3 years, thus showing strong commitment on delivering shareholders return. Hence going ahead we expect that OAL has the capability to sustain the robust financials performance given its strong order scenario, strong operating margins and strong cash flow generation expected over the next 2-3 years.

We expect that going ahead overall bottomline growth in the next 3 years starting FY19 onwards should easily increase at a CAGR of 35-40% and going ahead also we believe that net cash flows generated will remain healthy going ahead.

Business Outlook & Stock Valuation –

On a rough cut basis, in FY19, Topline will see a steady rise wherein Topline is expected to touch Rs 696 crs in FY19E.

On the bottomline level we expect the company to record a PAT of Rs 57 crs in FY19E. Thus on a conservative basis, OAL should record a EPS of Rs 17 for FY19E. For FY20E and FY21E our expectation is that earnings traction for OAL would continue to be strong wherein we expect a EPS of Rs 22 and Rs 28 respectively.

CAPL is India's one of the largest manufacturers of variety of terpene chemicals, camphor and other speciality aroma chemicals. These aroma chemicals are the basic ingredients used in the manufacturing of fragrances and flavours catering to FMCG products. CAPL had been a supplier of chemicals, as raw material, to OAL earlier which was engaged in the business of manufacturing of flavours and fragrances in India and abroad. Its custom designed fragrances were found in fine fragrances, soaps, incense sticks, candles, household cleaners and mosquitoes gels. With the consolidation now complete we believe integration benefits have already started getting reflected in financials for the H1 of FY19 where in EBIDTA margins have expanded to 16.54% from 10.93% in the same period last year.

Post amalgamation of OAL with CAPL, OAL has evolved as a complete F&F player due to forward integration of the business, with a strong presence in aroma chemicals. OAL is one of the leading players in manufacturing of aroma chemicals and post amalgamation has evolved as a complete F&F player due to forward integration of the business.

The Company's vast product basket range includes Synthetic Camphor, Terpineols, Pine Oils, Astromusk, perfumery chemicals, specialty chemicals and several other chemicals finding applications in industries ranging from Flavours & Fragrances, Pharmaceuticals, Soaps & Cosmetics, Rubber & Tyre, Paints & Varnishes and many more. Going ahead post amalgamation OAL now also provides custom designed fragrances that are found in fine fragrances, incense sticks, candles, and various FMCG products like soaps, shampoos, hair oils, detergents, etc. and it also provides flavours for ice-creams, bakeries, confectionaries, beverages, chewing gums, chocolates etc thus making it a one shop solution provider in the aroma chemical industry.

Further, high entry barrier in the F & F business due to stringent regulatory requirements, established blending expertise and stringent quality parameters make this business lucrative in the long term. Thus, we believe that OAL is in a best position to benefit from both a huge domestic & Global market opportunity where only select hand full players operate. Valuations also look attractive at 12x FY20E which look attractive to SH Kelkar which is a market leader which trades at 19x FY20E. With a stronger EPS growth of around 20% plus for next 3 years (Between FY19 to FY21) on the post bonus equity and an average ROCE of 17% OAL makes a good case for Rerating here.

Hence we believe that the OAL stock should be purchased at the current price for a price target of around Rs 424 over the next 18 months.

FINANCIALS

For the Year Ended March RsCrs	FY17A	FY18A	FY19E	FY20E	FY21
Net Sales	457.75	506.03	696.00	870.00	1044.00
EBIDTA	56.86	64.73	111.36	139.2	167.04
EBIDTA %	12.42	12.79	16.00	16.00	16.00
Interest	5.34	7.31	16.00	17.00	16.00
Depreciation	14.3	14.82	16.50	18.00	20.00
Non Operational Other Income	6.97	0.36	3.00	3.00	3.00
Profit Before Tax	44.19	42.96	81.86	107.20	134.04
Profit After Tax	27.02	25.50	57.30	75.04	93.83
EPS (Rs)	26.34	15.16	17.05	22.33	27.93
Diluted EPS(Rs)	8.04	7.59	17.05	22.33	27.93
Equity Capital	5.13	8.41	16.8	16.8	16.8
Reserves	311.28	329.16	382.60	453.64	542.47
Borrowings	104.78	131.87	157.47	160.00	150.00
Gross Block	169.00	198.23	208.00	220.00	245.00
Investments	0.00	0.00	0.00	0.00	0.00

Source Company our Estimates

KEY CONCERNS

Any sharp increase in raw material costs could impact margins negatively

Any slowdown in the domestic Pharma and FMCG segments could impact profitability for OAL negatively

DISCLAIMERS AND DISCLOSURES

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