Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Initiation Report

Fine Organic Industries

A play on green chemistry

Nitesh Dhoot
niteshdhoot@plindia.com
+91-22-6632 2260

Contents

Fine Organic Industries

Rating: BUY | CMP: Rs3,831 | TP: Rs4,400 | Mcap: Rs117.5bn

	Y/e March	2019	2020	2021	2022	2023	2024
Income Statement (Rs m)	Net Sales	10,603	10,381	11,332	16,732	18,892	21,558
	Growth (%)	*23.9*	*-2.1*	*9.2*	*47.7*	*12.9*	*14.1*
	EBITDA	2,336	2,405	1,993	2,695	3,578	4,549
	Growth (%)	*47.4*	*2.9*	*-17.1*	*35.3*	*32.8*	*27.2*
	Margin (%)	*22.0*	*23.2*	*17.6*	*16.1*	*18.9*	*21.1*
	EBIT	2,161	2,058	1,525	2,290	3,139	4,077
	Net Interest	18	48	61	42	15	-
	Other Income	198	202	171	171	205	277
	PBT	2,341	2,212	1,635	2,419	3,329	4,354
	Total Tax	945	513	418	610	839	1,097
	Adj. PAT	1,363	1,648	1,203	1,815	2,530	3,361
	Growth (%)	*42.7*	*20.9*	*-27.0*	*50.8*	*39.4*	*32.9*
Balance Sheet (Rs m)	Gross Block	2,470	4,193	4,436	4,699	5,199	5,449
	Investments	110	338	323	323	323	323
	Inventories	893	1,317	1,262	2,063	2,226	2,540
	Trade receivables	1,556	1,323	1,610	2,521	2,743	2,953
	Cash & Bank Balance	1,092	2,104	2,637	1,962	3,569	6,223
	Equity Share Capital	153	153	153	153	153	153
	Total Networth	5,002	6,189	7,314	8,791	10,958	13,813
	Borrowings	1,283	1,247	892	492	-	-
	Trade payables	534	858	1,072	1,329	1,553	1,772
Cash Flow (Rs m)	Net cash from Op. activities	984	2,190	1,334	433	2,521	3,133
	Net Cash from Invt. activities	-934	-847	-403	-329	-45	27
	Net cash from Fin. activities	924	-367	-399	-779	-869	-506
	Net change in cash	974	975	533	-675	1,607	2,654
	Free Cash Flow	54	1,463	871	-67	2,271	2,883
Key Ratios	EPS (Rs)	44.4	53.7	39.2	59.2	82.5	109.6
	Growth (%)	*42.7*	*20.9*	*-27.0*	*50.8*	*39.4*	*32.9*
	BPVS (Rs)	163.2	201.9	238.5	286.7	357.4	450.5
	DPS (Rs)	7.0	7.0	11.0	11.8	16.5	21.9
	RoCE (%)	40.1	30.0	19.5	26.2	31.0	32.9
	RoE (%)	30.4	29.4	17.8	22.5	25.6	27.1
	Net Debt : Equity (x)	0.0	-0.1	-0.2	-0.2	-0.3	-0.5
	Net Working Capital (Days)	65.9	62.7	58.0	71.0	66.0	63.0
	PE (x)	86.2	71.3	97.6	64.7	46.4	34.9
	P/B (x)	23.5	19.0	16.1	13.4	10.7	8.5
	EV / EBITDA (x)	50.4	48.5	58.1	43.0	31.8	24.4
	Dividend Yield (%)	0.2	0.2	0.3	0.3	0.4	0.6

Key Data	FINO.BO | FINEORG IN
52-W High / Low	Rs.4,049 / Rs.2,123
Sensex / Nifty	59,856 / 17,805
Market Cap	Rs.117bn/ $ 1,575m
Shares Outstanding	31m
3M Avg. Daily Value	Rs.163.23m

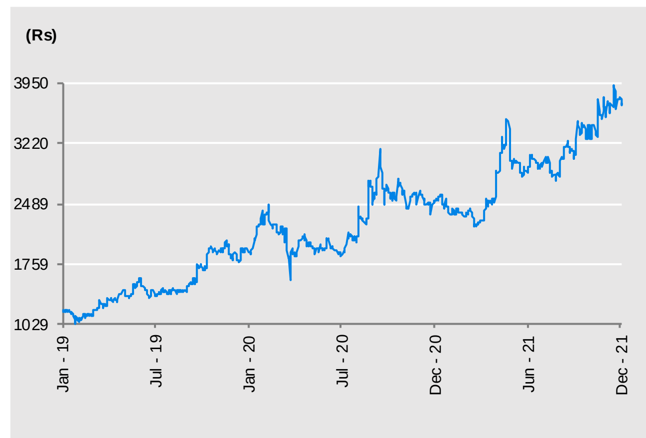
Shareholding Pattern (%)

Promoter's	75.00
Foreign	6.79
Domestic Institution	11.32
Public & Others	6.89
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.7	30.2	50.6
Relative	-0.1	14.2	21.2

Price Chart



Investment Argument

We initiate coverage on Fine Organic Industries Ltd (FINEORG) with BUY rating at TP of Rs 4400, 28x FY24E EV/EBITDA (implied PE of 40x FY24E). FINEORG is India's largest oleochemical based (green) polymer and food additives manufacturer and is amongst top 5-6 successful players globally. It operates at the top end of oleochemicals value chain (limited competition) and has sufficient capacity in place for growth till FY24E (~60% capacity expansion since FY19) to leverage the increasing adoption of green chemicals worldwide. We expect 24% revenue CAGR and 41% earnings CAGR over FY21-24E (20% CAGR over FY20-24E - on pre-covid base) as RoCE expands to 33% (19% in FY21, 34% avg over FY16-20). Net cash balance sheet (Rs 1.5 bn) coupled with strong OCF generation (Rs 6 bn exp. over FY22-24E) will enable self sustained growth. While there have been margin pressures on unprecedented raw material inflation, the long term earnings growth is structural in nature and offer a niche proxy play on consumption oriented industries (food, plastics, cosmetics, pharma, feed nutrition, coatings, rubber etc).

Investment rationale

- **At the vanguard of rising adoption of oleochemical based green additives:** Need for safeguarding the environment and natural resources from increasing emissions due to petrochemical products, is driving increased adoption of oleochemicals as a sustainable alternative to synthetic additives and FINEORG is among the leading players globally (in polymer and food additives). It has a range of 450+ products that include: Polymers - slip additives, anti-fog additives, anti-stat additives, lubricants, processing aids etc; Food – emulsifiers, antifungal agents/ preservatives, clouding agents and other specialty additives.
- **High entry barriers ensure limited competition:** FINEORG operates at the top end of oleochemicals value chain, characterised by complex processes requiring specialised skills & equipments and proprietary technology of established players (result of R&D over decades). High customer stickiness is driven by stringent product vetting processes (3-5 years approval cycle), regular technical support and strict regulatory requirements. In house equipment design and engineering capabilities minimizes capex intensity (vs. external vendors/ imports), visible in high asset turns (~4x at optimal utilisation vs. ~2x avg for peers).
- **Strong growth visibility till FY24 with major capex behind:** A sufficient capacity headroom is available for growth till FY24 with ~60% addition since FY19 coinciding with Covid-19, which restricted ramp up (~60% capacity utilisation currently, per our understanding). With strong demand recovery across domestic and international market and medium term growth expectations intact, we believe FINEORG will deliver 24% revenue CAGR (FY21-24E) as it reaches optimal capacity utilisation by FY24E leveraging on growth from existing and new product categories.
- **Margin headwinds to subside in the medium term:** While there have been short-term challenges due to Covid-19 including surge in raw material prices (reflecting in gross margin decline from 42.5% in Q3FY20 to 33.3% in Q2FY22), higher freight and power & fuel expenses, the company has intensified pass through of higher costs to customers by accepting incremental business only at spot pricing (reducing long term contracts). Margin headwinds should subside in the medium term as key raw material prices normalise with easing supply issues (expect Gross/ EBITDA margin to recover to 37.5%+/ 21%+ by FY24E).
- **Net cash balance sheet and continuing strong cash flow generation to enable self-sustained growth:** Management gears up for next leg of growth (post FY24E) through greenfield capex in Gujarat (as indicated); entailing18-24 months post land acquisition and is also open to inorganic opportunities. We believe, company's strong balance sheet with net cash of Rs 1.5 bn (Sep'21) coupled with Rs 6 bn operating cash flow expected over FY22-24E, will enable pursuing future growth opportunities largely from internal accruals (Polymer and food additives itself is USD 40/ 52 bn opportunity).

Sensitivity Analysis and Peer Valuations

Consol EBITDA sensitivity to Revenue growth and Gross Margin

(Rs bn)		Revenue CAGR FY21-24E (%)				
		20	22	24	26	28
Gross margin %	32.5	3.1	3.3	3.5	3.6	3.8
	35.0	3.6	3.8	4.0	4.2	4.4
	37.5	4.1	4.3	**4.5**	4.8	5.0
	40.0	4.6	4.8	5.1	5.3	5.6
	42.5	5.1	5.4	5.6	5.9	6.2

Source: PL

Consol EPS sensitivity to Revenue growth and Gross Margin

(Rs/ sh)		Revenue CAGR FY21-24E (%)				
		18	21	24	27	30
Gross margin %	32.5	70	76	82	89	96
	35.0	82	89	96	104	111
	37.5	94	101	**110**	118	127
	40.0	105	114	123	133	143
	42.5	117	127	137	147	158

Source: PL

Specialty Chemicals Valuation Matrix

Figures in bn		Revenue			EBITDA			EBITDA Margin			PAT			EPS (Rs)			PE (x)			RoE (%)		
Indian Companies (INR)	Mcap	FY21	FY18-21	FY21-24E	FY21	FY18-21	FY21-24E	FY22E	FY23E	FY24E	FY21	FY18-21	FY21-24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Aarti Industries Ltd	359	45	6%	25%	9.8	12%	26%	21.7%	22.1%	22.6%	5.2	16%	29%	20.8	28.4	34.6	47.7	34.9	28.7	16.7	17.1	18.2
Alkyl Amines Chemicals	190	12	26%	21%	4.3	55%	14%	27.4%	28.9%	29.3%	3.0	65%	16%	59.4	75.1	89.2	62.8	49.7	41.8	33.2	32.9	30.9
Atul Ltd	274	37	4%	18%	9.2	22%	14%	21.1%	22.4%	22.1%	6.6	34%	13%	236.4	295.8	347.7	39.2	31.3	26.6	16.4	17.4	16.9
Balaji Amines Ltd	123	13	15%	26%	3.7	25%	23%	26.0%	26.2%	26.5%	2.4	28%	26%	98.2	120.9	146.5	38.8	31.5	26.0	29.2	27.7	25.9
Clean Science & Technology Ltd	280	5	29%	24%	2.6	53%	24%	49.0%	49.7%	50.2%	2.0	60%	23%	22.1	29.0	36.0	119.3	91.1	73.4	36.2	33.7	31.5
Deepak Nitrite Ltd	343	44	38%	19%	12.5	85%	17%	25.9%	26.3%	27.0%	7.8	114%	19%	80.1	86.4	100.3	31.4	29.1	25.1	37.5	29.9	26.8
Fine Organic Industries Ltd	117	11	10%	24%	2.0	8%	32%	16.1%	18.9%	21.1%	1.2	8%	41%	59.2	82.5	109.6	64.4	46.2	34.8	22.5	25.6	27.1
Galaxy Surfactants Ltd	111	28	5%	13%	4.5	16%	9%	11.7%	14.1%	14.6%	3.0	24%	8%	72.5	94.5	106.6	43.3	33.2	29.4	18.3	20.5	20.0
Laxmi Organic Industries Ltd	114	18		19%	2.2	13%	28%	14.1%	13.6%	15.1%	1.3	19%	33%	8.6	10.3	13.6	50.2	42.0	31.9	20.0	19.8	21.5
Navin Fluorine International Ltd	204	12	9%	28%	3.1	13%	32%	26.0%	27.7%	28.6%	2.6	13%	25%	54.3	81.3	102.1	75.9	50.6	40.3	15.4	19.9	21.2
Neogen Chemicals Ltd	44	3	103%	29%	0.6	94%	33%	19.4%	20.0%	20.7%	0.3	70%	41%	18.5	27.4	37.9	101.8	68.8	49.8	21.6	24.3	24.5
Rossari Biotech Ltd	73	7		41%	1.2	42%	40%	13.2%	16.3%	17.0%	0.8	47%	40%	20.6	33.3	40.9	64.0	39.6	32.2	20.3	23.4	23.1
SRF Ltd	717	84	15%	21%	21.3	33%	20%	24.7%	24.9%	24.8%	12.0	37%	22%	51.5	61.0	71.2	47.0	39.7	34.0	21.0	20.7	20.3
Sudarshan Chemical Industries	40	19	12%	16%	2.9	15%	17%	13.3%	15.2%	16.0%	1.4	19%	19%	18.9	26.6	33.9	30.3	21.5	16.9	16.5	20.2	22.4
Tata Chemicals Ltd	231	102	0%	13%	15.0	-12%	26%	19.0%	20.3%	20.4%	2.6	-53%	75%	38.7	49.2	53.8	23.4	18.4	16.9	6.7	8.1	8.5
Tatva Chintan Pharma Chem Ltd	58	3		30%	0.7		38%	25.7%	27.2%	27.7%	0.5		39%	45.4	51.7	64.0	58.0	51.0	41.1	25.7	19.7	19.8
Vinati Organics Ltd	210	10	9%	37%	3.5	21%	33%	32.6%	34.0%	34.2%	2.7	23%	32%	35.9	47.5	59.2	56.9	43.0	34.5	21.2	23.3	24.1

Global Companies	Curr	Mcap	FY21	FY18-21	FY21-24E	FY21	FY18-21	FY21-24E	FY22E	FY23E	FY24E	FY21	FY18-21	FY21-24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Croda International PLC	GBP	14	1.4	0%	14%	0.4	0%	18%	29.7%	30.1%	30.2%	0.2	-5%	23%	2.3	2.6	2.7	43.4	39.4	37.4	18.9	18.7	17.8
Kerry Group PLC	EUR	20	7.0	3%	3%	0.9	3%	10%	14.9%	15.9%	16.1%	0.6	-2%	13%	3.8	4.2	4.6	29.8	27.2	24.8	13.6	13.1	13.5
International Flavors & Fragrances Inc	USD	38	5.1	14%	37%	1.0	12%	48%	21.0%	22.4%	23.6%	0.4	7%	65%	5.6	6.1	6.9	26.9	24.9	21.9	5.7	4.9	6.6
Ecolab Inc	USD	66	11.8	-5%	7%	2.2	-8%	17%	21.4%	23.4%	24.4%	-1.2			4.8	6.0	6.9	48.6	39.4	34.1	21.1	23.8	23.5
Johnson Matthey PLC	GBP	4	15.7	15%	-28%	0.5	-5%	17%	18.1%	14.0%	13.9%	0.2	-12%	28%	2.1	2.3	2.4	9.7	9.0	8.4	12.4	14.5	13.1
Avient Corp	USD	5	3.2	0%	18%	0.3	-4%	27%	12.0%	12.5%	13.0%	0.1	-232%	38%	3.0	3.5	4.0	18.6	16.2	13.8	15.5	16.0	19.6
Celanese Corp	USD	18	5.7	-3%	16%	1.1	-3%	32%	33.5%	28.9%	27.3%	2.0	33%	-6%	18.3	15.8	16.1	9.2	10.7	10.5	51.6	37.7	31.9
BASF SE	EUR	58	60.4	-1%	8%	6.5	-17%	20%	15.0%	14.4%	14.6%	-1.1			6.6	5.8	6.0	9.4	10.7	10.4	15.8	12.8	12.5

Source: Bloomberg, PL

A play on green chemistry

- FINEORG is a pioneer in oleochemical based additives in India, manufacturing innovative, low-carbon, sustainable, technology-rich additives and materials enabling transition of industrial markets to new sustainability driven solutions.
- Founded in 1970 by Late Ramesh Maganlal Shah and Prakash Damodar Kamat, the company has developed 450+ specialty additives, which find applications in foods, plastics, cosmetics, coatings and other key applications in several industries (ref table below).
- Its revenue grew at 12% CAGR (FY16-21) to Rs 11.3 bn while PAT growth is ~16% CAGR (FY16-22E, Rs 1.2 bn/ Rs 858 mn in FY21/ H1FY22). It has a net cash balance sheet (Rs 1.5 bn, on 30th Sep'21), high cash generation (5 yr avg OCF/PAT at 90%) and robust return ratios (5 yr avg RoCE 31% and RoE 26%).
- It has a team of 20 scientists, engineers, technologists and a dedicated R&D centre for product development coupled with in-house plant design competencies facilitating high quality products. Its manufacturing facilities are located at Ambernath, Badlapur, Dombivali and Patalganga (all in Maharashtra).

Snapshot of FINEORG's key product categories and growth drivers

Industry	Polymer	Food	Feed Nutrition	Cosmetics & Pharmaceuticals	Coatings	Rubber
Key Additives & Ingredients	• Slip additives • Anti-fogging additives • Anti-static additives • Lubricants • Processing aids	• Anti-fungal agents • Emulsifiers • Specialty additives	• Natural antibiotics • Nutritional additives • Anti-fungal additives	• Emulsifiers • Emollients	• Dispersing agents • Emulsifiers • Wetting agents • Defoamers • Slip additives	• Processing aids • Specialty plasticizers • Slip additives • Anti-stats • Anti-sticking agents
End Uses	• PVC (Vinyls) • PS. ABS, SAN (Styrenics) • PE. PP (Polyolefins) • PU, PA, PC, PET	• Biscuits and bakery • Savoury snacks • Confectionary • Icre-creams • Beverages	• Poultry products • Milk and milk derivatives	• Creams, lotions and ointments • Skin care cosmetics	• Specialty paper • Printing inks • Coating materials	• Conveyor belts • Automotive parts and industrial components
India CAGR	7-8%	9-10%	11-13%	10-12%	8-10%	6-7%
Growth Drivers	• Plastic replacing conventional materials • Increasing demand for food-grade packaging • E-commerce led growth in packaging sector	• Consumers shifting to packaged products • Increasing disposable income, changing lifestyle, availability of convenience products	• Increasing health awareness and growing food processing industry • Safer milk and milk products	• Organised retail moving to tier-II cities • New sub-segments: mens cosmetics • Increasing interest in self care products	• Rising penetration in rural/ non-metro cities • Growth in niche products: nano and green coating packaging products	• Growth in auto sales • Steady improvement in industrial and infrastructural activity • Steady agricultural output

Source: Company, Industry, PL

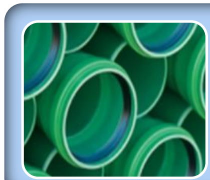
Diversified portfolio of 450+ products

Polymer Additives | **70%-75% of revenue** | **Food Additives**

Slip additives (Finawax, Finaslip) - Reduce friction between plastic products (films, bottle caps, wires, cables, disposable syringes, car wipers) and other surfaces.

Anti-fogging additives (Finafog) - Convert water droplets on plastic films (packaging and agricultural films) into a transparent water layer for cold/ hot fog applications

Anti-static additives (Finastat) – Reduce build up of electrical charges on plastic materials (like films, furniture, flooring, and carpets) which can damage electrical components, cause shocks or fire and also attracts dust particles



Lubricants (Finalux) – Used as flow improvers and mould release agents in PVC pipes, fittings, foam sheets, hose pipes, wires & cables, engineering plastics (white goods and auto-parts)

Processing aids (Plastaid, Finasperse) Improve melt processability and handling high molecular weight polymers and are used in filled compounds for packaging, furniture, and moulded plastic articles

Anti-fungal agents/ preservatives (Romoban) – To prevent food from spoiling or from becoming toxic due to unwanted growth of bacteria, yeast and moulds

Emulsifiers (Finamul) – (1) For desired aesthetic structure and texture in food. (2) To maintain freshness (3) Prevents separation of oil and fat in low fat foods (4) In baked items, extruded foods, chocolates, confectionary, margarine, coffee creamer

Specialty additives (premium) for niche applications - Eg. **Finamul 87** - a blend of emulsifiers to reduce fat in high quality biscuits, **Finagel** – aerating agent for high quality sponge with good volume, structure, sliceability, shelf life

Other Specialty Additives (25-30% of revenues)

Cosmetics and Pharma (Finester)

Paints and Coatings (Fineset, Fynol)

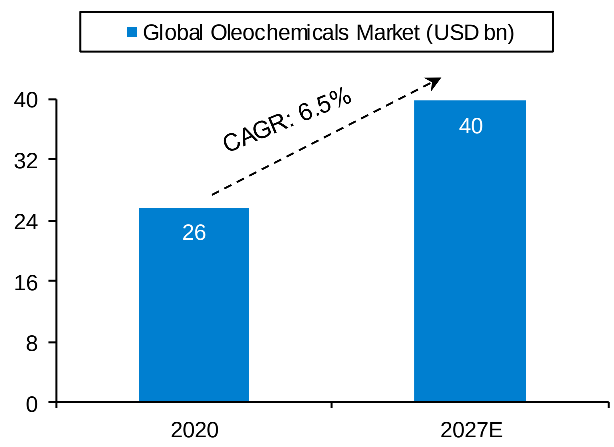
Rubber (Rubaid, Finetek, Finastat, Finawax, Finaid)

At the vanguard of rising adoption of oleochemical based green additives

Rising adoption of oleochemicals globally

- **Oleochemicals demand is being fuelled by rising demand for sustainable, bio-based chemicals** in various end user products (find applications in food, plastics, cosmetics, pharmaceuticals, and virtually every chemical end market) and traceability of their supply chains, given concerns around increasing emissions by petrochemical products and need for safeguarding environment and natural resources.
- **Global oleochemicals market (dominated by Asia Pacific) is expected to grow at 6.5% CAGR to USD 40bn by 2027.** Demand growth coupled with feedstock availability (renewable RM's like palm oil, palm kernel oil, other vegetable oils), is driving demand and production of oleochemicals in India and neighbouring countries, providing expansion/ diversification opportunity to Indian players.
- **Bio-polymers, bio-lubricants and bio-surfactants are being increasingly accepted as alternatives to petrochemical based products** and companies in the oleochemical value chain capable to spot changing industrial trends and introduce new oleochemical products, could benefit significantly in the long run.
- **FINEORG is a leading domestic player and among top 5-6 global players in oleochemical based polymer and food additives.** It is scaling up presence in adjacencies like feed nutrition, cosmetics, personal care etc, which provides a long growth runway.

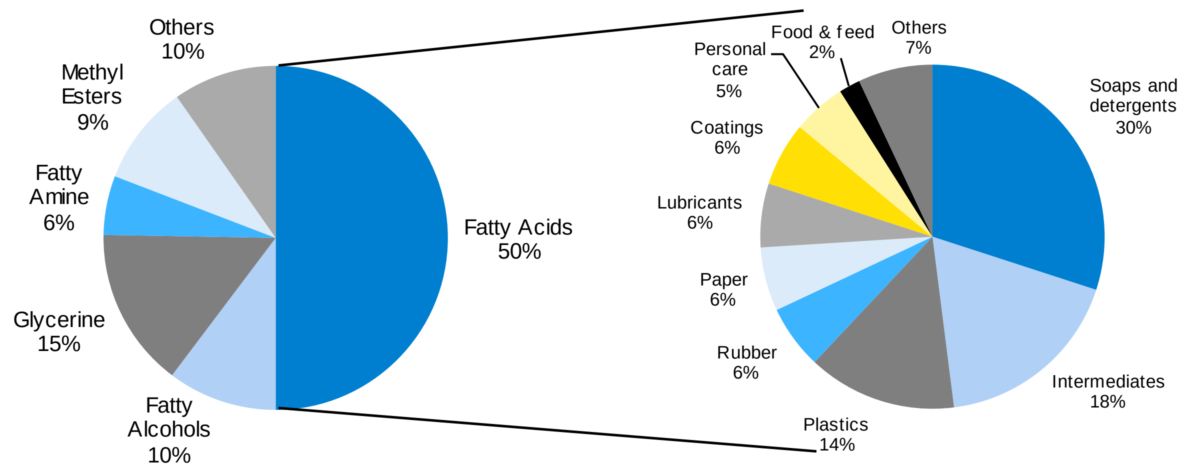
Global oleochemicals market growing steadily



Source: Industry, PL

Major groups of oleochemicals (value mix)

Fatty acid applications



Source: Industry, PL

Source: Industry, PL

Oleochemicals are chemical compounds derived from natural fats and oils, and can be used as raw materials in a variety of industries. Fatty acids (largest type) and other basic oleochemical substances are produced by various chemical and enzymatic reactions

Operates at the top end of value chain

- **FINEORG operates at the top end of oleochemical-based additives value chain** that involves highly complex processes requiring specialised skills and equipments, thereby limiting competition (only few successful players globally).
- **Continuing first mover advantages for established players** as their proprietary technology and product formulations is a result of R&D over decades, in response to changing needs of end-user industries (food, plastics, rubber, cosmetics etc.).
- **Superior margin is generated by players at higher end of the value chain (FINEORG's avg. 5 yr EBITDA margin is ~20%)** given limited competition and high entry barriers vs. base oleo chemicals manufacturers who largely operate at <10% EBITDA margins.

Oleochemicals-based additives value chain

Vegetable oils
- Palm & Palm kernel oils
- Soybean oil
- Mustard oil
- Sunflower oil
- Castor oil
- Coconut oil
- Rice bran oil

Base oleo chemicals
- Fatty acids
- Fatty alcohols
- Glycerin
- Methyl esters

Derivatives
- Amines
- Amides
- Esters
- Sulphates
- Alkoxylates

- Plastic Additives
- Food Additives
- Cosmetic Additives
- Pharma Additives
- Paints & Inks Additives
- Rubber Additives
- Textiles Additives

FINEORG operates at the top end of value chain

Easily available technology, high competition

Base oleochemicals (fatty acids, fatty alcohols, methyl esters) are produced from vegetable oils through splitting, distillation and fraction process - a simple step in the value chain

Specialized processes, limited competition

Manufacturing of green additives from base oleochemicals is a <u>complex process</u> requiring specialized skills and equipments involving proprietary technology (few successful players worldwide)

Limited competition globally

FOOD
- IFF-Dupont
- Kerry group
- Cargill
- Riken Vitamin
- Palsgaard

POLYMERS
- Croda
- Emery Oleo
- PMC Biogenix
- Peter Greven

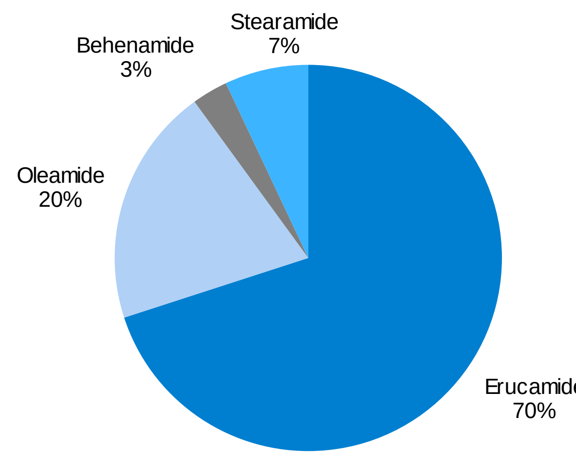
Source: Company, PL

Key player in global fatty amides market

- **FINEORG is amongst the key global players in fatty amides market which comprises of erucamide, oleamide, behenamide, and stearamide,** widely used across variety of industries, such as plastics processing, rubber and inks & coatings. Nearly 70% of fatty amides are used in polyolefin film processing industries (as slip additive and anti-blocking agent). Oleamide and stearamide are majorly used in paper, textiles, rubber and ink industries.
- **Global fatty amides market is projected to grow at 5.2% CAGR to US$ 450 million (over 2020-25)** led by increasing demand for polyolefin films (arising out of food and beverages), paints and coatings, printing ink, dyes, rubber etc. Asia Pacific continues its fatty amide market dominance given rising demand from India, China and South Korea among others.
- **Erucamide comprises of a significant chunk of fatty amides market** (~70%). High compatibility of erucamide in several end-use industries (food packaging, personal care, rubber etc) with different applications to drive growth. Growing concern for food safety and inclination towards hygienically packaged products (accelerated by COVID-19 and expected to continue) will boost development of erucamide market in upcoming years.

Global fatty amides market value chain

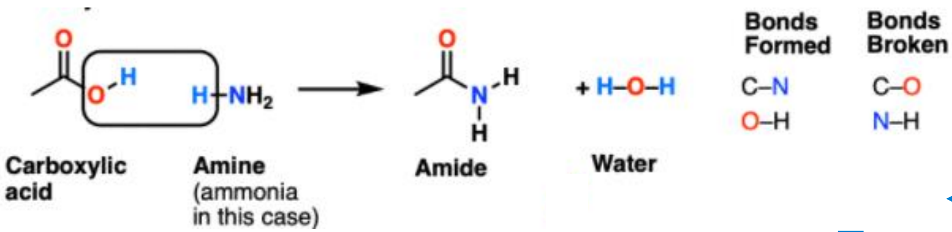
Erucamide comprises significant chunk of the fatty amides market



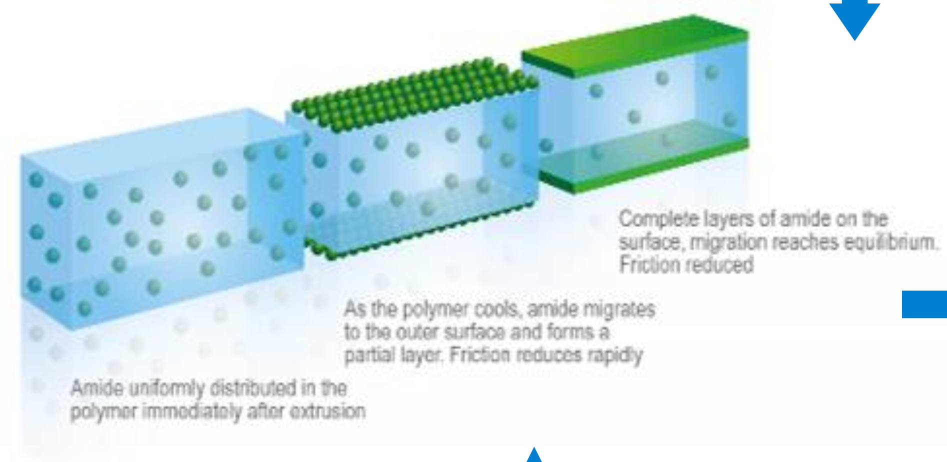
Source: Industry, PL **Some companies have backward integration* *P.S:Font size not indicative of market share and company list not exhaustive*

Additives manufacturing process and end-product incorporation

Chemical reaction for fatty amide manufacturing



How do the polymer additives work ?



Incorporation into the polymer

- Additives are incorporated directly into the polymer during extrusion process. It can be added directly to the polymer at processing stage, pre-compounded or included via masterbatch
- It migrates to the surface as polymer cools, forming a solid lubricating layer and works to lower the friction/ adhesion between polymer surfaces and other materials

Additive manufacturing process

- Fatty acid (Erucic acid, Oleic acid, Stearic acid, Behenic acid) is charged into reactor and ammonia gas is purged to make fatty acid amide (Erucamide, Oleamide, Stearamide, Behenamide)
- After reactions (at elevated temperature), the product is analyzed and sent for further processing, refining and filtration to remove impurities
- It is then converted to physical form as required by the customer – liquids, powder, beads, micro beads, pellets, pastilles and flakes.

Oleochemical based polymer additives go into several polymers

High entry barriers ensure limited competition

Multiple entry barriers

FINEORG operates in an industry with multiple entry barriers guarding existing players from competition and fragmentation

- **Stringent vetting processes by customers involving long gestation period of ~3-5 years**: Excessive and lengthy validation tests for additives to qualify customer requirements and quality parameters before the additives manufacturer can start commercial supplies, act as a deterrant for new entrants. It also involves high switching costs for customers resulting in higher reliance on established players.

- **Meeting high quality standards set by regulators and industry bodies in countries where they are sold:** Food and cosmetic ingredients are subject to high regulatory standards and safety assessments (FDA, REACH, FSSC etc.), to protect customers from health hazards in countries where these are sold (FINEORG primarily sells in India, USA and Europe). Similar regulations apply to plastic additives used in manufacturing packaging materials (food/ medical).

- **Significant impact on end product characteristics requires batch to batch consistency:** Additives comprise of a very small proportion of end-products manufactured by customers (typically <1% weight in plastics, and <2% weight in food) and any quality issues in additives can impact quality of the entire end-product (substantial quantity vs. additives).

- **New product development and product formulations:** Established players have a significant edge, given product development costs and confidentiality around formulations. Research and innovation led introduction/ improvisation of additives consistently over the years has strengthened their position further.

- **Capex costs to be high if players do not have own process design:** High capex costs given the requirement of superior technology for manufacturing high quality additives as well as stringent quality and safety standard testing, act as an entry barrier for unorganised players.

Key success factors in the oleochemical based additives industry

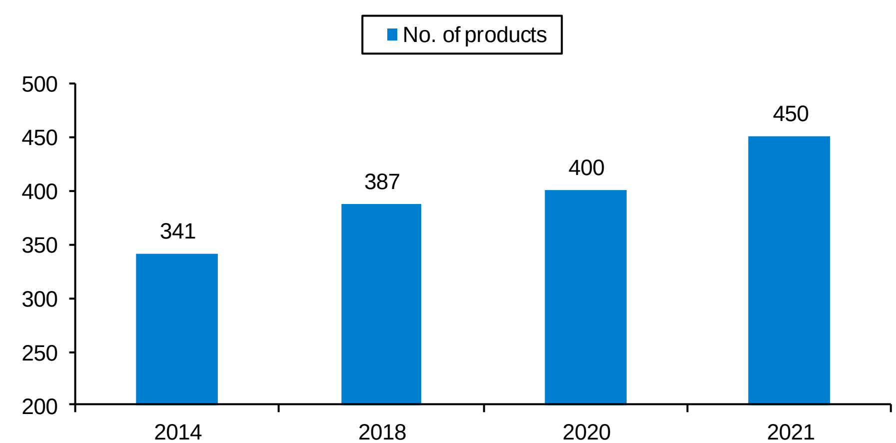
Lengthy and costly customer product approval cycle – Preference for approved suppliers	Quality conscious customers – Higher preference for consistent quality vs. lower prices	Access to process technology - Proprietary technology with few established players	New product development - High development costs and confidentiality around product formulations	Access to raw material sources + Access to markets – Logistical cost advantages

Source: Company, PL

Long term growth and market leadership aided by R&D focus

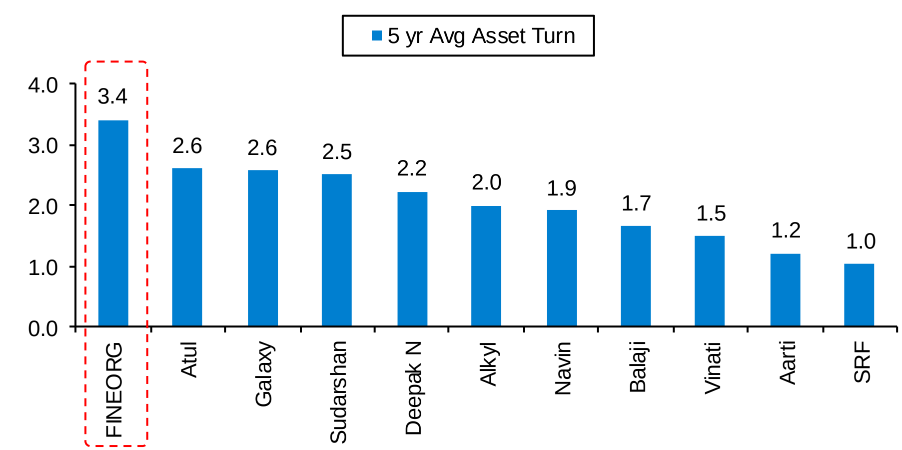
- **R&D focus enables over 450 products' development so far:** R&D initiatives are one of the critical success factors for long term growth and market leadership, whereby FINEORG has scaled up to more than 450 products over the years (from1 product in 1970), from food and polymer additives to adding new product categories like cosmetics, pharma, feed nutrition, coatings and others.
- **R&D gains visible across supply chain, design capabilities etc:** FINEORG's key focus areas to deliver higher value to customers include (a) Quality enhancement across existing products and development of new products – analysing the key industry trends and developing products as per customers needs / integrated product development with clients (b) Product application and technical support (c) In house design and engineering capabilities helping minimize capital expenditure (vs. external vendors/ imports), and protecting company's intellectual property, in addition to manufacturing high quality additives.
- **Zeelandia JV enabled entry in high growth food premixes -** Diversification into manufacturing bakery, confectionary premixes and pan release agents through its 50:50 JV with Dutch company Zeelandia International (Fine Zeelandia Pvt Ltd) which set up 10,000 mtpa manufacturing capacity at Patalganga, Maharashtra (capitalizing on its R&D strengths), in addition to being an exclusive distributor for Zeelandia's products in India, Sri Lanka, Bangladesh, Nepal.
- **FINEORG's R&D's capabilities driven by experienced R&D team built over years:** The R&D team (facility located at Mahape) consists of 20 scientists, engineers and technologists, organisational expertise and know-how in oleo chemistry developed over decades of experience.

More than 100 new products launched since Apr'14



Source: Company, PL

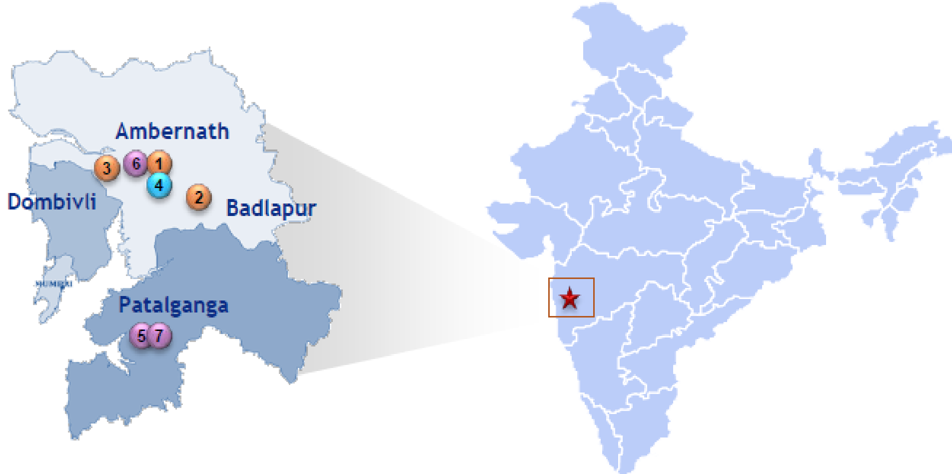
Highest fixed asset turns across leading specialty chemical companies



Source: Ace Equity, PL ^Âverage gross fixed asset turns for FY17-21

Strategically located plants and wide geographical footprint

Manufacturing plants strategically located near port



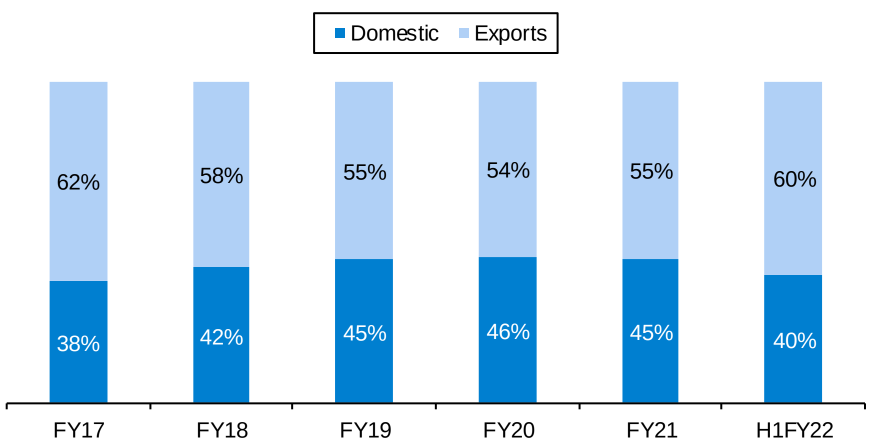
Source: Company, PL

Manufacturing capacity expanded by ~60%^ since FY19

No.	Operational Plants	Capacity (mtpa)	Comments
1	1st Ambernath facility	49,500	
2	Badlapur facility	6,400	
3	Dombivli facility	8,400	Acquired on sub lease basis (Nov 30, 2017)
4	2nd Ambernath facility	5,000	Acquired on sub lease basis (Sep 30, 2018)
5	Fine Zeelandia (JV) (Patalganga)	10,000	
6	3rd Ambernath facility	32,000	Commissioned in FY20
7	Patalganga facility*	10,000	To be fully commissioned in H2FY22
	Total Capacity	**1,21,300**	

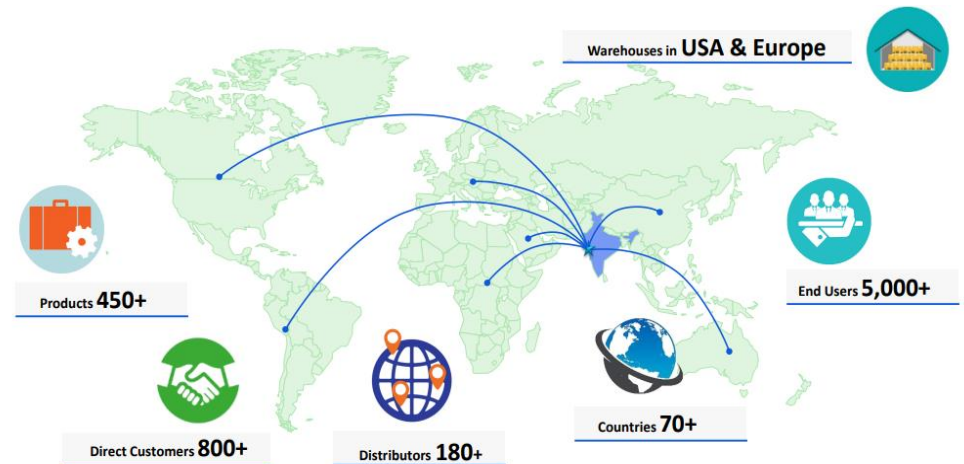
*Source: Company, PL ^ex-JV capacity *Phase 1 commissioned*

Exports constitute ~60% of revenues



Source: Company, PL

Wide geographical footprint



Source: Company, PL

Mergers & Acquisitions – key part of global growth strategy

Growing through mergers & acquisitions is the strategy being adopted adopted globally given the easier access to technology

<u>Cargill's biobased chemicals to get a boost with recent acquisition of Croda's business divisions (esp in high growth markets – Europe, USA and Asia)</u>

- Croda International (UK), the leading global player in polymer additives is divesting most of its Performance Technologies and Industrial Chemicals divisions to US food processing giant Cargill for £778 mn (USD 1 bn). <u>Croda is shifting its focus towards Life Science and Personal Care sectors (>90% of its 2020 profits).</u>
- Cargill has already made several moves to expand its biobased materials business (using its advantage as a producer of fats, oils, and starches), including acquisition of Arkema's epoxidized vegetable oil business in Oct'21 (USD 39 mn), prior to which (Jun'21) it lauched a JV to make biobased 1,4-butanediol.

<u>Other global M&A activity in additives space</u>

- Megamerger of International Flavors & Fragrances (IFF) and DuPont Nutrition and Biosciences (Feb'21), solidified IFF's place as one of the biggest players in the ingredients space, bringing together I<u>FF's expertise in F&F and DuPont division's leading positions in probiotics, enzymes and food protection.</u>
- <u>IFF stood out as a serial acquirer</u> — IFF acquired flavors and natural ingredients powerhouse Frutarom in 2018 (USD 7.1 bn), Columbia Phytotechnology in 2017, flavor experts David Michael & Co. in 2016 and Ottens Flavors in 2015.
- Kerry also entered into several deals in recent years — including Pevesa Biotech, IsoAge Technologies, Biosecur lab and probiotics leader Ganeden in 2017.

Croda International CY20 Segment Financial Snapshot

USD mn	Total	Personal Care	Life Sciences	Performance Technologies	Industrial Chemicals
Revenue	1785	611	516	535	124
Growth (YoY %)	1%	-1%	15%	-3%	-13%
Revenue Mix (%)		34%	29%	30%	7%
Adj. Op. Income	410	175	166	69	0
Growth (YoY %)	-5%	-15%	21%	-22%	
Adj. OI Mix (%)		43%	40%	17%	0%
Margin (%)	23.0%	28.7%	32.2%	13.0%	-0.3%

Source: Bloomberg, PL

Large global M & A deals in chemicals sector

Announce Date	Target Name	Acquirer Name	Value (USD bn)	Pay Type	Status
22-Dec-21	**Croda PTIC BU**	**Cargill Inc**	**1.0**	**Cash**	**Pending**
15-Dec-19	Nutrition & Biosciences	IFF	24.7	Cash and Stock	Completed
21-Aug-20	Nippon Paint Holdings	Rainbow Light/ BVI	13.7	Cash	Completed
21-Aug-20	Nippon Paint Sabah	Nippon Paint Holdings Co Ltd	12.1	Cash	Completed
01-Jul-21	Atotech Ltd	MKS Instruments Inc	7.0	Cash and Stock	Pending
13-Sep-21	Tronox Holdings PLC	Apollo Global Management Inc	6.7	Cash	Proposed
26-Apr-21	W R Grace & Co	Standard Industries Holdings	6.4	Cash	Completed
18-Nov-20	Diversey Inc	Potential Buyer	6.0	Undisclosed	Proposed
11-Nov-21	MBCC Group	Sika AG	6.0	Cash	Pending
06-Jul-21	Solenis LLC	Platinum Equity LLC	5.3	Cash	Completed
02-Nov-21	Rogers Corp	DuPont de Nemours Inc	5.2	Cash	Pending
12-Jul-21	Allnex Holding GmbH	PTT Global Chemical PCL	4.2	Cash	Completed
23-Feb-21	Synthomer PLC	CVC Advisers Ltd	3.7	Cash	Proposed

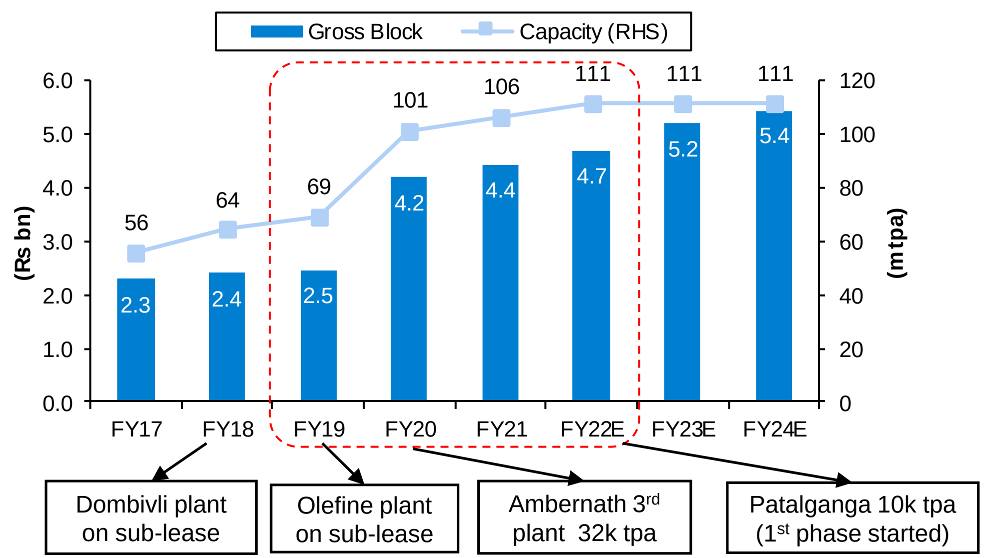
Source: Bloomberg, PL

Strong growth visibility till FY24 with major capex behind

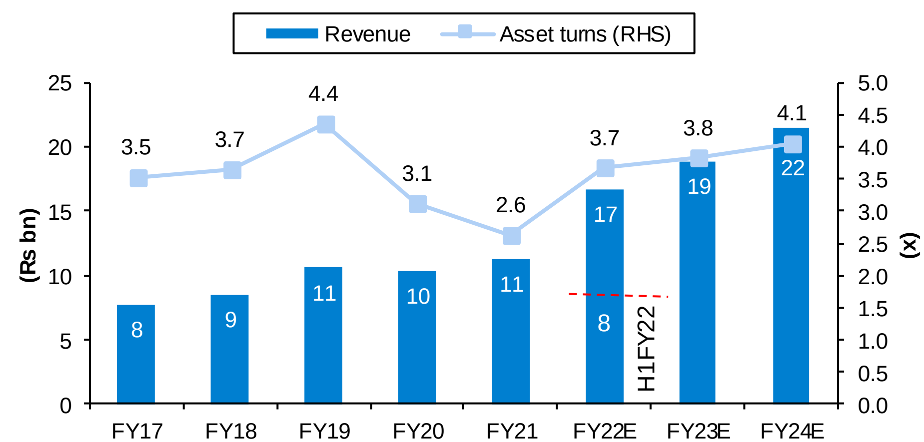
Sufficient capacity headroom to enable volume growth

- **Sufficient surplus manufacturing capacity is in place with ~60% addition since FY19**, coinciding with Covid-19 which restricted ramp up (~60% capacity utilisation currently, per our understanding). With strong demand recovery across domestic and international market and medium term growth expectations intact, we believe FINEORG is well poised to reach optimal capacity utilisation by FY24E.
- **Easing travel restrictions to aid new product launches and client approvals** (earlier delayed due to pandemic). Rising demand enquiries from India and abroad to drive strong revenue growth of ~24% revenue CAGR over FY21-24E, led by volume growth (domestic and exports). Capacity absorption to aid asset turns claw back to 4.1x (vs 2.6x in FY21 on steep rise in gross fixed assets coupled with ramp up delay).
- **Management gears up for next leg of growth (post FY24E)** through greenfield capex in Gujarat as indicated (18-24 months post land acquisition) and also open to inorganic opportunities to enable pursuing future growth opportunities in existing or new product lines. Neither of the above are built in our estimates yet as these plans are yet to be crystallised (offers further upsides).
- **FINEORG entered into a specialty chemicals JV in Thailand to expand its product basket and global presence** (Invested ~Rs 5 mn for 45% stake) . On the flip side, company's German JV (FineADD Ingredients GmbH) with Adcotec GmbH (50:50; commenced in 2018), was terminated (mutual decision) on Covid-19 led project viability issues (no material financial impact).

60% capacity addition^ provides significant growth headroom…



…to enable 24% revenue CAGR (FY21-24E)



Steep increase in Gross Fixed Assets impacted asset turns; capacity utilisation to ramp up to 4.1x by FY24E

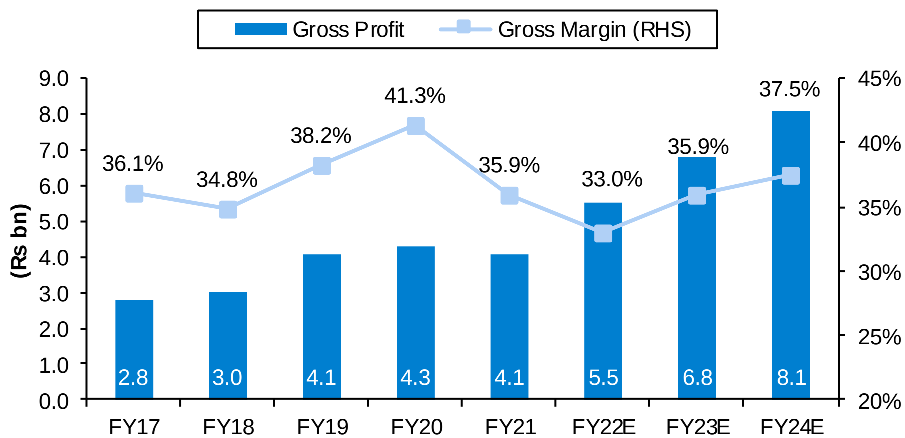
Source: Company, PL ^ex-JV capacity

Margin headwinds to subside in the medium term

Margin headwinds to subside…

- **Gross margin decline for last 6 quarters (from 42.5% in Q3FY20 to 32.3% in Q1FY22) has been arrested in Q2FY22 (33.3%)** despite continuing rise in RM prices. The company intensified pass through of higher input prices to customers by accepting incremental business only at cost plus pricing (reducing long term contracts). Near term pressure on gross margin **(%)** is not ruled out, given further hardening of RM (vs Q2), though we believe absolute cost increases will be comfortably passed through, limiting impact on profitability.
- **Margin headwinds should subside in the medium term, while long term earnings growth remains intact:** We believe, once RM price normalisation begins, company's price reduction will be gradual, helping negate the profitability impact witnessed over the last year. Limited competition and high entry barriers provides reasonable pricing power to the incumbents.
- **Pricing is not the primary criteria in vendor evaluation:** Adherence to quality standards, consistency, customization etc. are equally important, as these additives add critical functionality but constitute only 1-2% weight of in the end-product, thereby limiting impact of input price changes on final product pricing.

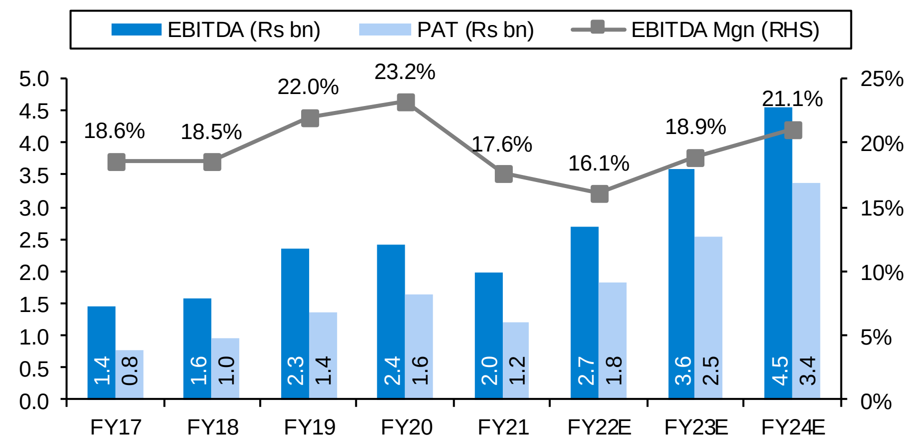
Steep increase in key RM prices drove gross margins lower in FY21-22….



Source: Company, PL

Near term margin pressure on lower utilization (expanded capacity) and steep RM price inflation. FY20 margin expansion was led by operating leverage (peak utilization), benign RM prices, and currency depreciation

GM recovery and better fixed cost absorption to drive up EBITDA margins



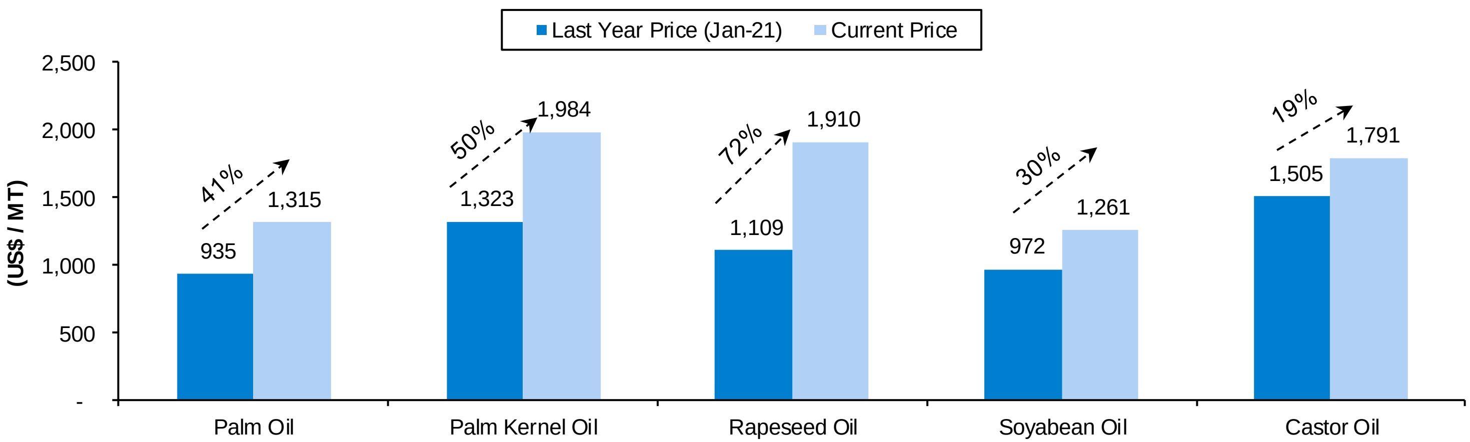
Source: Company, PL

Positive medium term outlook on EBITDA with recovery in gross margins (increased intensity of higher RM price pass through) coupled with improving absorption of fixed costs (with volume growth)

…as key raw material prices normalise with easing supply issues

- **FINEORG's key raw materials are fatty acids** like erucic acid (for erucamide, stearyl erucamide), stearic acid (for stearamide), oleic acid (for oleamide), behenic acid (for behenamide), propionic acid (for propionates) etc. which are derived from vegetable oils (palm oil, palm kernel oil, soyabean oil, rapeseed oil etc), of which India is among largest importers in the world (eg. crude palm oil, palm kernel oil, soybean oil etc).
- **Surge in prices of company's key raw materials (fatty acids) was led by up to 200% increase in vegetable oil prices since the outbreak of Covid-19, and may have already peaked out. Some of the reasons for unprecedented rise:**
- **(1) Covid induced labour shortage in Malaysia (world's 2nd largest palm oil exporter)** impacted harvesting and reduced palm planted areas. Malaysian government's recent approval to extend work permits for foreign workers will ease plantation labour shortage and prices, going forward.
- **(2) Soybean crop harvest and exports from Brazil (world's largest exporter)** impacted by floods coupled with increasing usage of the oil in renewable energy programmes. However, Brazil and USA administration's scale back proposal of the biofuels mandates, to aid price moderation.
- **(3) High import duty (effective duty rate >30%) levied by the Government of India on import of crude palm oil, soyabean oil till Aug'21**, cut to 8.25% and 5.5% respectively (w.e.f 14th Oct'21) to cool inflation.

Vegetable oil prices have surged over the past year impacted by supply constraints

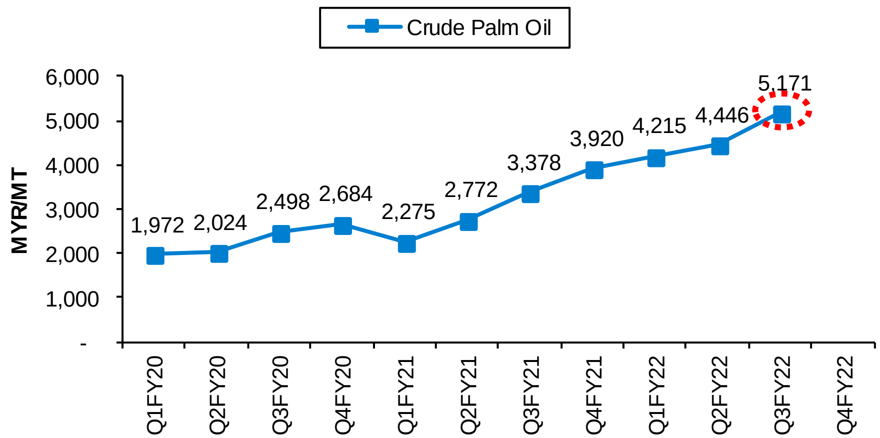


Steep jump in vegetable oil prices led to surge in prices of company's key raw materials (i.e fatty acids)

Source: Bloomberg, PL

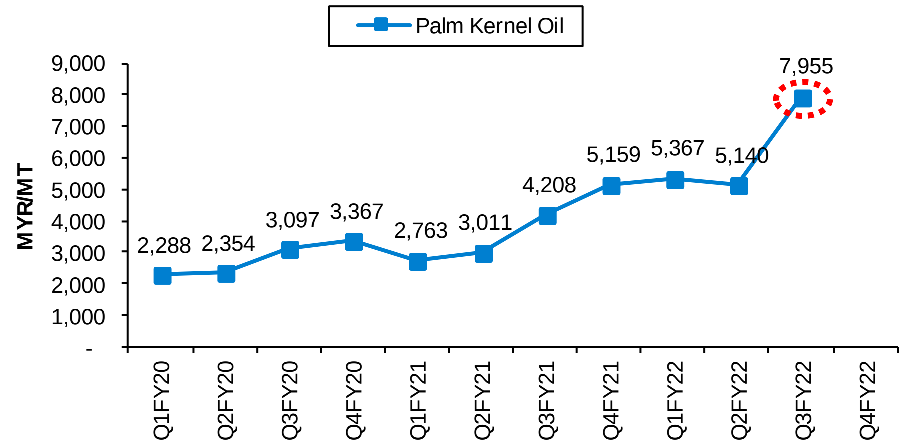
Surge in oleochemical feedstock prices since covid outbreak

Crude Palm Oil prices have more than doubled vs. pre-covid levels



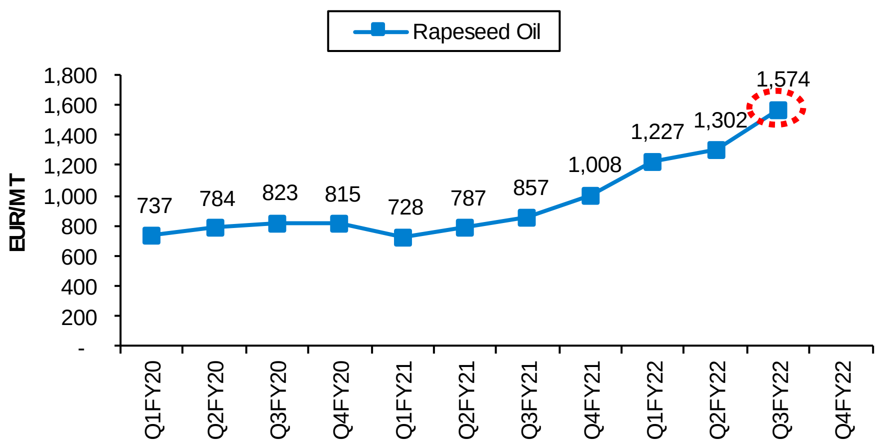
Source: Bloomberg, PL

Palm Kernel Oil prices at 2.5x vs. pre-covid levels



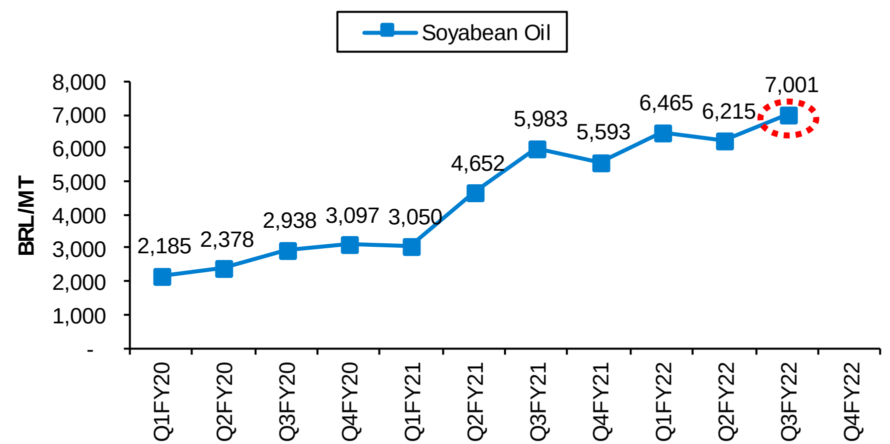
Source: Bloomberg, PL

Rapeseed Oil prices are up 90% vs. pre-covid levels



Source: Bloomberg, PL

Soyabean oil prices at 2.5x vs. pre-covid levels



Source: Bloomberg, PL

Self sustaining growth model amidst healthy competition

Robust cash flow generation enabling self-sustaining growth

Revenue growth

Revenue growth to be driven by increased adoption of oleochemical based additives whereby company's existing products, new product launches, new client additions and cross selling of new products to existing clients will drive 24% CAGR over FY21-24E.

Steady profitability

Steady profitability improvement as margins revert to long term averages (Gross margin 37.5% and EBITDA Margin 21%) from lows of FY21 & 22 (Gross margin ~33% and EBITDA margin ~15% given unprecedented raw material price pressure). with company accepting new business only at cost plus pricing (lesser long term contracts).

Stable working capital cycle

Working capital cycle has been stable over the years (avg core working capital days ~65), though there have been some increased stocking recently led by supply chain disturbances, which will normalize in the medium term and revert to long term average.

Robust cash flows (OCF/FCF)

Steady margins coupled with stable working capital to drive robust cash flow generation. Expect OCF of Rs 6 bn and FCF of Rs 5 bn over FY22-24E (despite negligible FCF in FY22E). Company has consistently generated 1x OCF/ PAT (FY16-21 avg).

Capex

High OCF generation coupled with large opportunity across existing and new products to enable continued investments and self sustained growth. While a large capex leg is already complete (sufficient till FY24E), management is gearing up for the next round of capex (greenfield and inorganic).

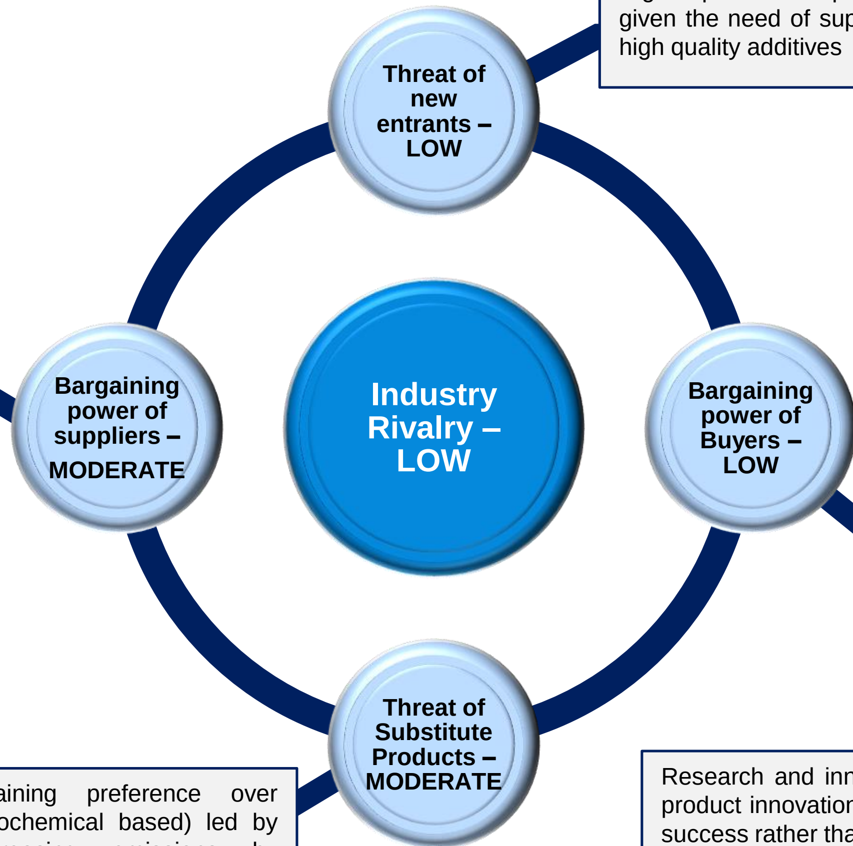
Competitive position analysis – Porter's Five Forces

Stringent vetting process by customers involving long gestation of 3-5 years coupled with high regulatory requirements

High capex costs if players do not have own design, given the need of superior technology for producing high quality additives

Sharp movements/ volatility in input prices can impact margins in the short term (as witnessed in last few quarters) led by nature of contracts with customers and vendors

Though there are a lot of suppliers/ import sources of base oleochemicals, but quality/ consistency may vary on switching suppliers



Additives form <2% of end-product RM but impacts product characteristics significantly requiring batch to batch consistency

Excessive and lengthy validation tests for additives to qualify customers requirements and quality parameters makes vendor switching difficult for customers

Oleochemicals are gaining preference over synthetic additives (petrochemical based) led by concerns around increasing emissions by petrochemical products and need for safeguarding environment and natural resources. Substitute products are less environment friendly

Research and innovation led business requiring consistent product innovation and delivery which determines long term success rather than cut-throat pricing competition etc.

Established players have an edge given the specialized skills and equipments and confidentiality around product formulations

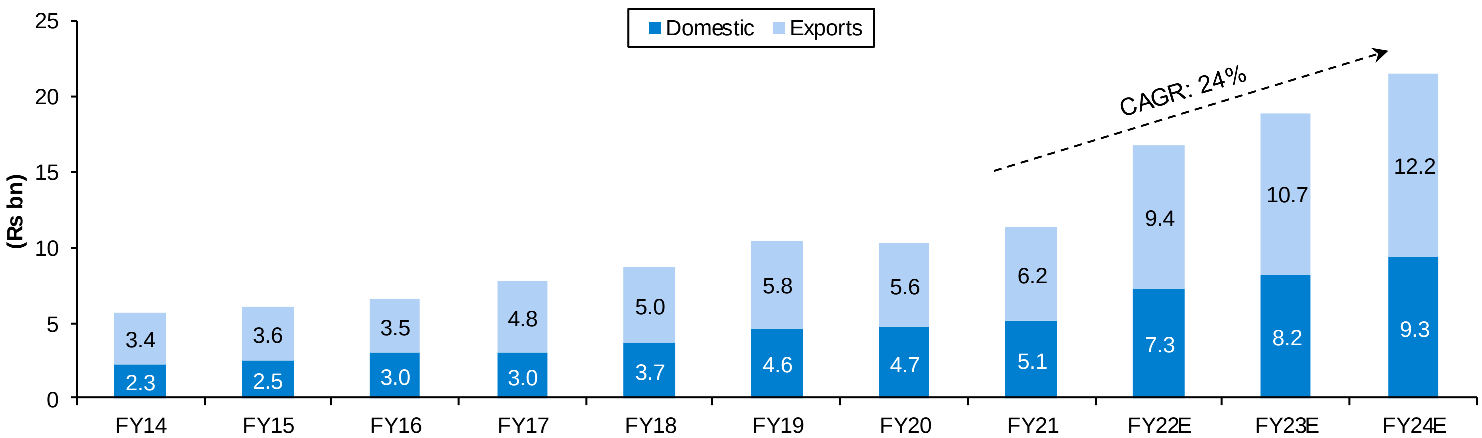
Financials

Valuation Bands

Key Risks

Strong revenue growth coupled with margin recovery to boost earnings

Scaling up of newer product lines with steady growth in existing products to drive revenue and earnings growth



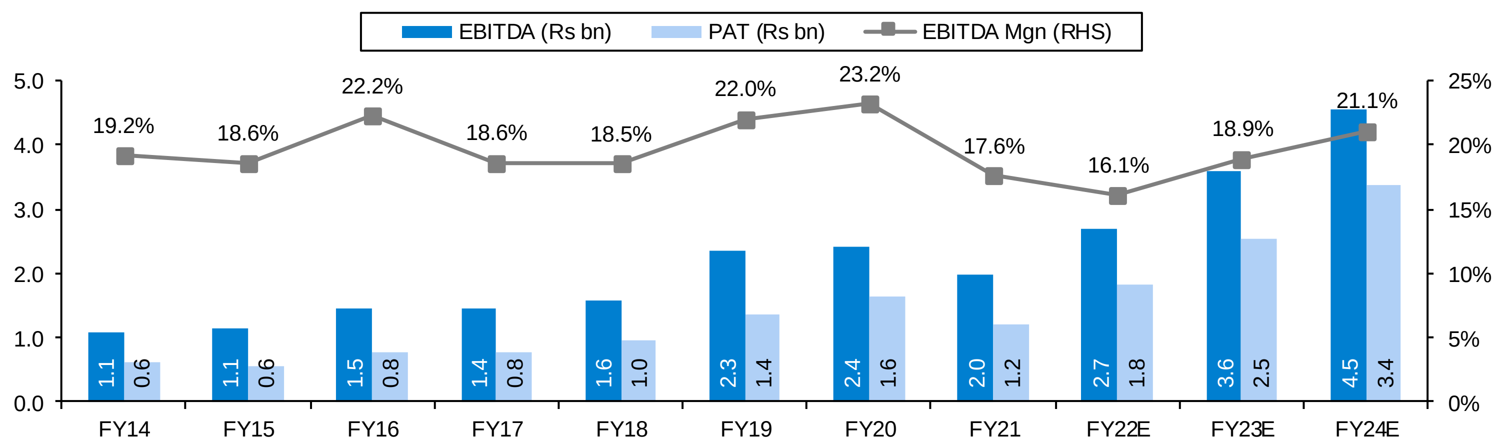
FINEORG to reach optimal capacity utilisation by FY24E leveraging on the growth across categories (food, plastics, animal feed, cosmetics, personal care, rubber etc).

Expect revenue/ earnings growth of 24%/41% CAGR respectively (FY21-24E) and (20%/20% CAGR over FY20-24E; on pre-covid base).

Key growth drivers - New product launches, new client additions and cross selling of new products to existing clients.

Source: Company, PL

Positive medium term outlook on EBITDA with normalcy in raw material prices coupled with operating leverage benefit



EBITDA margins historically have ranged between 18.5 – 23%. We believe margins in FY21-22 are an exception given unprecedented increase in oleochemical feedstock prices (Up to 200% increase in vegetable oil prices since the outbreak of Covid-19).

Expect EBITDA margin normalisation with recovery in gross margins coupled with better absorption of fixed costs (with volume growth)

Source: Company, PL

Net cash balance sheet and healthy cash flow generation

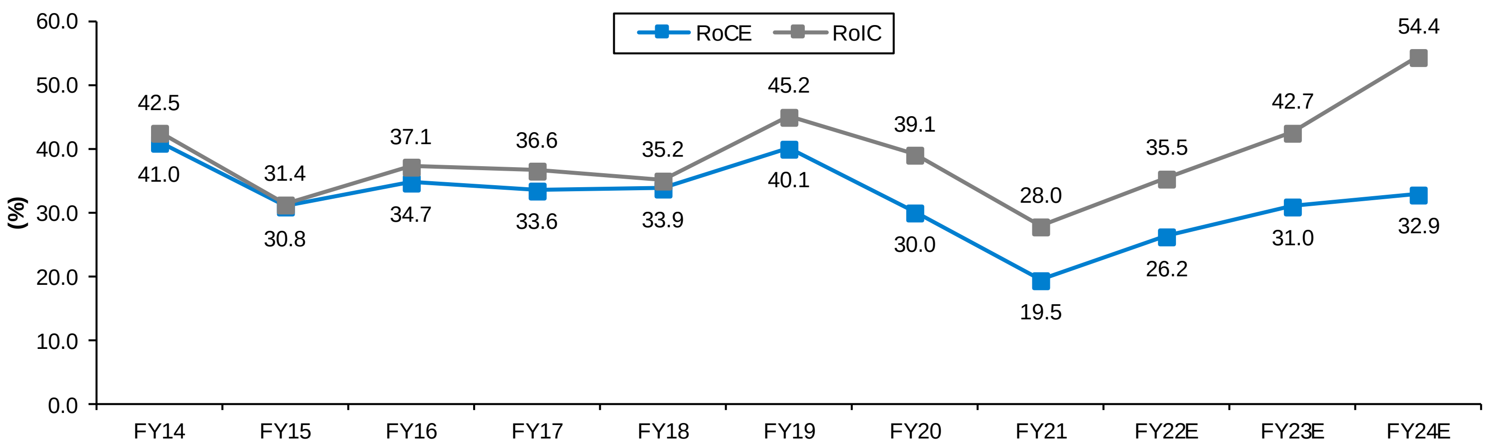
Strong revenue growth coupled with stable working capital days to drive strong jump in cash generation; enable future growth capex

Cash Flow (Rs bn)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
PBIT	1.0	0.9	1.2	1.2	1.5	2.3	2.1	1.6	2.5	3.4	4.5
Add: Depreciation	0.1	0.2	0.3	0.2	0.2	0.2	0.3	0.5	0.4	0.4	0.5
Add: Others	0.0	0.0	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)	(0.3)
Working Capital Changes	(0.8)	(0.3)	0.0	(0.5)	(0.4)	(0.5)	0.4	(0.2)	(1.7)	(0.3)	(0.4)
Less: Tax	(0.3)	(0.4)	(0.4)	(0.5)	(0.5)	(0.9)	(0.6)	(0.4)	(0.6)	(0.8)	(1.1)
Cash from Operations	**0.0**	**0.5**	**1.1**	**0.5**	**0.7**	**1.0**	**2.2**	**1.3**	**0.4**	**2.5**	**3.1**
Capex	(0.3)	(0.5)	(0.2)	(0.2)	(0.4)	(0.9)	(0.7)	(0.5)	(0.5)	(0.3)	(0.3)
FCFF	**(0.2)**	**0.0**	**0.8**	**0.3**	**0.2**	**0.1**	**1.5**	**0.9**	**(0.1)**	**2.3**	**2.9**

Working Capital (Days)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Inventory	35	37	43	43	38	31	46	41	45	43	43
Receivable	50	54	48	52	62	54	47	52	55	53	50
Payable	-38	-32	-30	-30	-30	-18	-30	-35	-29	-30	-30
Core W.C.Days	**47**	**60**	**61**	**65**	**71**	**66**	**63**	**58**	**71**	**66**	**63**
Other Current Assets	35	34	24	28	36	28	18	22	21	21	21
Other Current Liabilities & F	6	5	5	6	5	6	5	5	5	5	5
Overall W.C.Days	**91**	**93**	**77**	**86**	**103**	**88**	**75**	**75**	**87**	**82**	**79**

Source: Company, PL

Strong operational performance to drive RoCE to 33%; RoIC significantly higher given the cash in BS

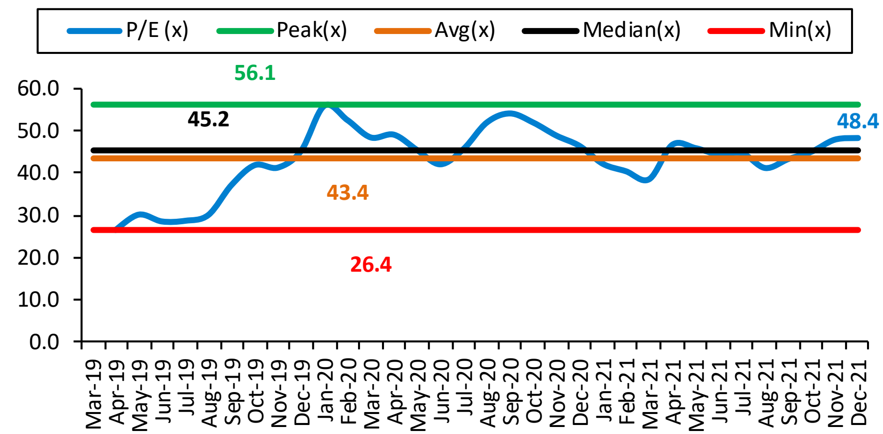


RoCE to increase to 33% by FY24E, but remains suppressed given cash in Balance Sheet (RoIC to strengthen to >50%), which we believe will be deployed over the next 2 years but haven't factored in estimates

*Source: Company, PL * Pre-tax RoCE and RoIC*

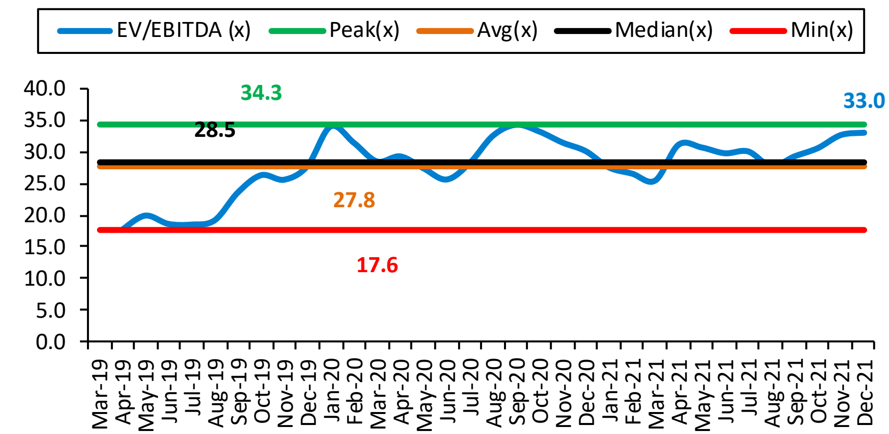
Valuation Bands

One year forward Price / Earnings



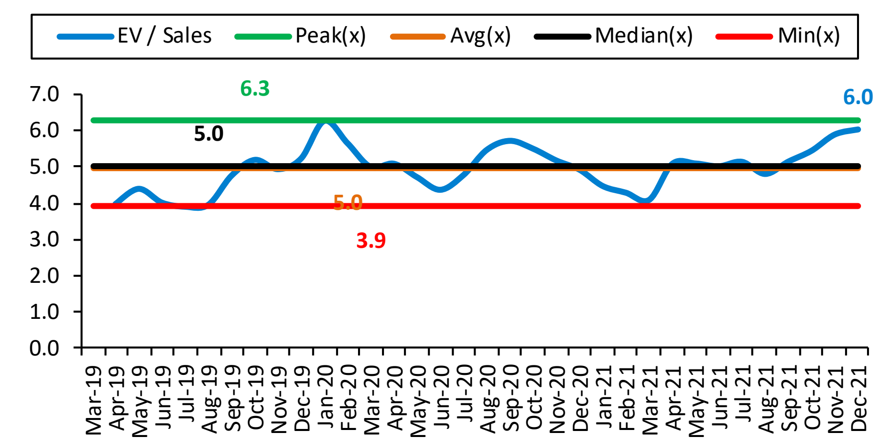
Source: Bloomberg, PL

One year forward EV / EBITDA



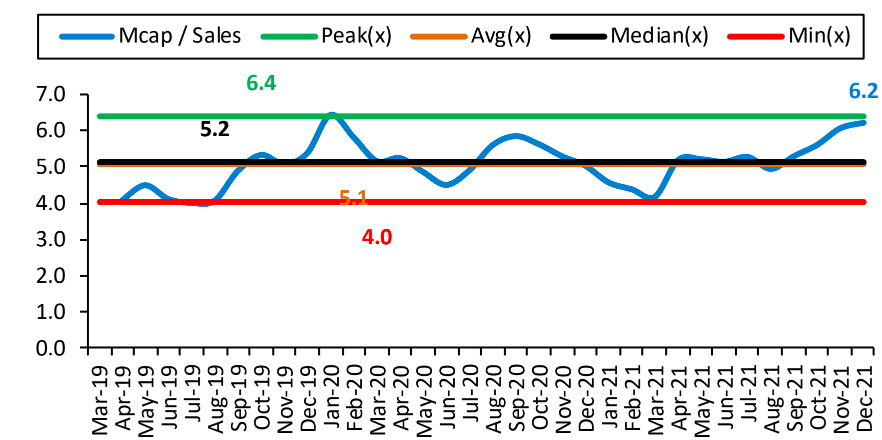
Source: Bloomberg, PL

One year forward EV / Sales



Source: Bloomberg, PL

One year forward Mcap / Sales

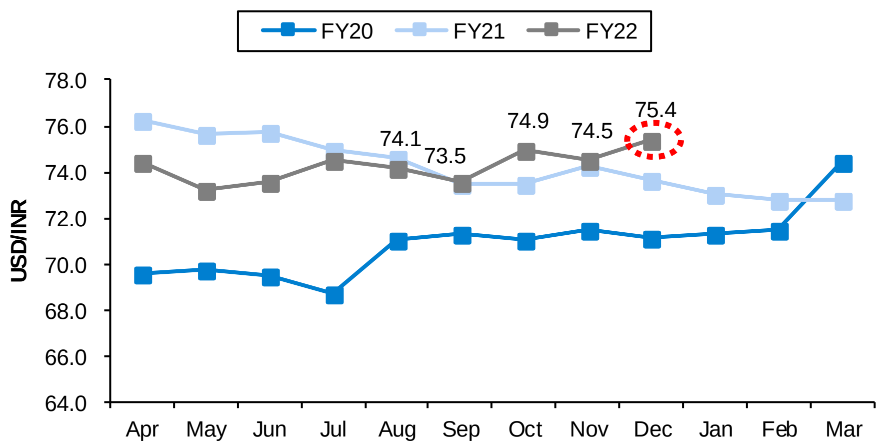


Source: Bloomberg, PL

Key Risks

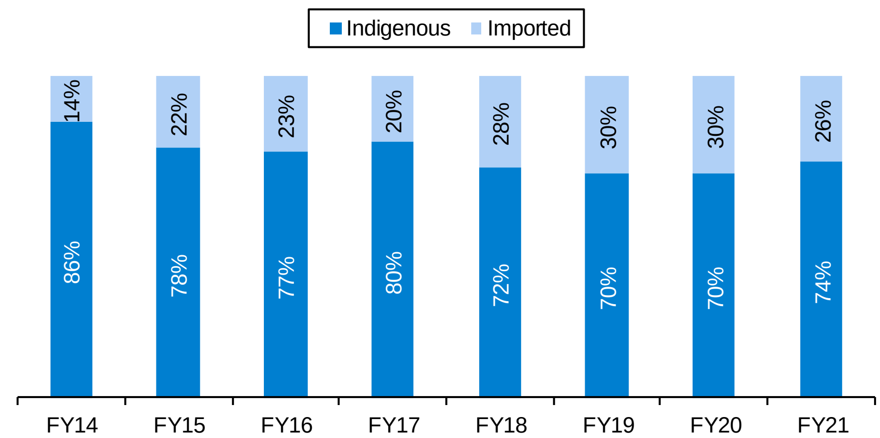
- **<u>Significant volatility in raw material prices:</u>** Sharp fluctuation in the underlying raw material prices (vegetable oils – key RM for base oleochemicals) can impact margins in the short term (as witnessed in last few quarters) led by nature of contracts with customers and vendors.
- **<u>Currency fluctuations may impact margins:</u>** Fluctuation in Rupee against foreign currencies (primarily USD) may impact margins, although FINEORG has a natural hedge available with ~60% of revenue from exports, ~30% of raw material consumed being imported and part of the raw materials sourced domestically also being import linked. The company imports these RM's from Malaysia, Indonesia, Thailand, China, Germany, Sweden etc. (low dependence on China). Further, changes in duties by Indian or foreign governments can also create uncertainties.
- **<u>Covid-led travel restrictions may impact growth:</u>** Measures like travel bans, quarantines and lockdowns can push back new product launches and client approvals which can impact operational performance/ growth. It has impacted and may further impact workforce & operations of company's customers/ vendors
- **<u>Stringent product approval processes and regulations:</u>** High gestation period (product approvals takes 3-5 years) can restrict/ delay new customer additions/ new product launches, though it acts as a strong entry barrier.

Currency fluctuation may impact profitability



Source: Bloomberg, PL

~30% of raw materials are imported



Source: Company, PL

Appendix

Strong management team led by technocrat promoters

50% of the Board comprises of independent directors

Prakash Kamat – Executive Director and Chairman

- Holds a M.Sc. Tech- Master of Science & Tech (Oils) from Institute of Chemical Technology (formerly UDCT)
- Associated with the group since inception having experience in product development, process technology and R&D

Mukesh Shah – Managing Director

- Joined in 1973. Holds a Bachelor's degree in Science
- Played a key role in establishing quality control and marketing

Jayen Shah – Executive Director and CEO

- Joined in 1986. Holds a Master's degree in Science
- Instrumental in creating a strong vendor-partner network

Tushar Shah – Executive Director and CFO

- Joined in 1989 and led several initiatives like ERP, CRM, etc.
- Key role in the development of the first slip additive facility

Bimal Shah – Executive Director

- Joined in 2009. Holds a Bachelor's degree in Science from Purdue University and a Master's degree from Boston College
- Led initiatives for new projects and processes

Prakash Apte – Independent Director

- On the Board since Nov 2017. Holds a Bachelor's degree in Mechanical Engineering
- Previously served as MD of Syngenta India

Kaushik Shah – Independent Director

- On the Board since Jan 2018. Holds a Bachelor's degree in Commerce and a Qualified Chartered Accountant
- Previously served as MD of Fulford (India)

Mahesh Sarda – Independent Director

- On the Board since Nov 2017. Qualified Chartered Accountant
- Previously served as a Partner at Deloitte Haskins & Sells

Parthasarathi Thiruvengadam – Independent Director

- On the Board since Nov 2017. Holds a BTech degree from IIT, Madras and Post Graduate in Industrial Engineering
- Previously served as a Senior Director with Deloitte India

Pratima Umarji – Independent Director

- On the Board since Nov 2017. Holds a Law degree
- Current panel member of the "Lok Adalat", Bombay High Court

Independent chairman in 4/5 committees

Audit committee	Nomination and Remuneration Committee	CSR Committee	Stakeholders Relationship Committee	Risk Management Committee
<u>Mahesh Sarda</u>	**<u>Parthasarathi Thiruvengadam</u>**	**Jayen Shah**	**<u>Pratima Umarji</u>**	**<u>Prakash Apte</u>**
<u>Prakash Apte</u>	<u>Pratima Umarji</u>	<u>Prakash Apte</u>	<u>Prakash Apte</u>	<u>Parthasarathi Thiruvengadam</u>
<u>Kaushik Shah</u>	<u>Mahesh Sarda</u>	<u>Kaushik Shah</u>	<u>Kaushik Shah</u>	Jayen Shah
<u>Parthasarathi Thiruvengadam</u>	Prakash Kamat	Mukesh Shah	Mukesh Shah	*Nikhil Kamat (SVP-Operations)*
Jayen Shah		Tushar Shah	Jayen Shah	*Sonali Bhadani (VP-Finance)*
Tushar Shah			Tushar Shah	

***Bold** - Chairman, **Underline** - Independent Director, **Italics** - Not Board Members*

Key milestones in 50 years journey

1970 – Established as 'Fine Organic Industries', a partnership firm by Late Shri Ramesh Shah and Shri Prakash Kamat

1973 – Commissioned first food additives facility in Dombivli

1988 – Set up second facility in Ambernath

2001 – Commissioned facility at Badlapur (Aug 2001)

2002 – Incorporated the company under the name of Fine Organic Industries (Mumbai) Pvt. Ltd.

2005 – Established R&D Centre in Navi Mumbai

2006 – Commissioned large manufacturing facilities in Ambernath

2008-12 – Expanded capacity addition phase wise in Ambernath

2014 – Signed JV with Netherlands-based bakery premix manufacturer – Zeelandia International

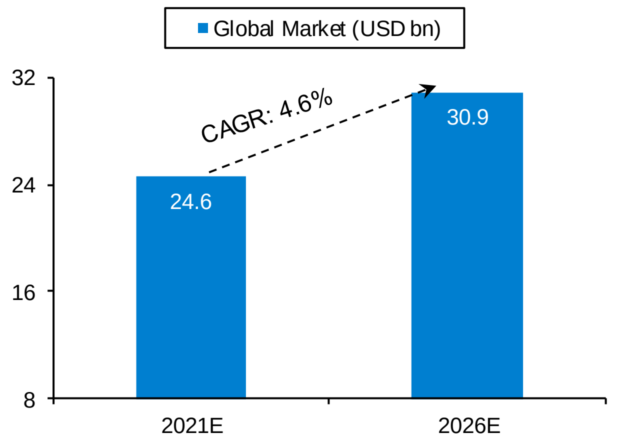
2015 – Additional capacity expansion at Ambernath facility

2017 – Amalgamated Fine Research and Development Centre Pvt Ltd and Fine Specialty Surfactants Pvt Ltd

2018-20 – Initiated (IPO) and got listed on BSE and NSE
New plant at Ambernath and Patalganga commissioned

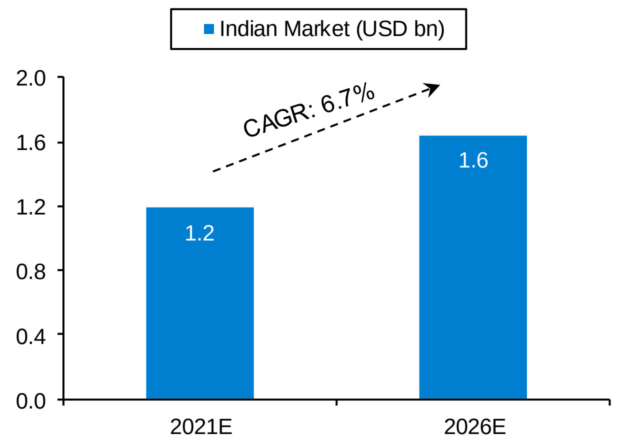
Steady growth in polymer additives industry

Global market size of polymer additives



Source: Industry, PL

Indian market size of polymer additives

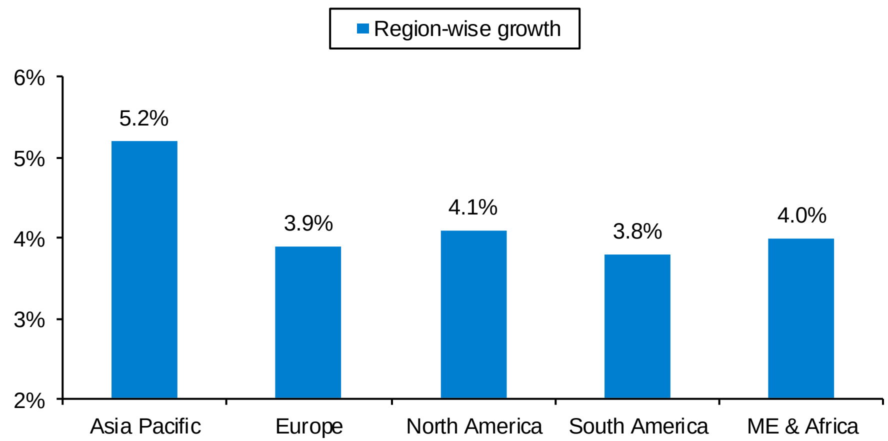


Source: Industry, PL

Key growth drivers

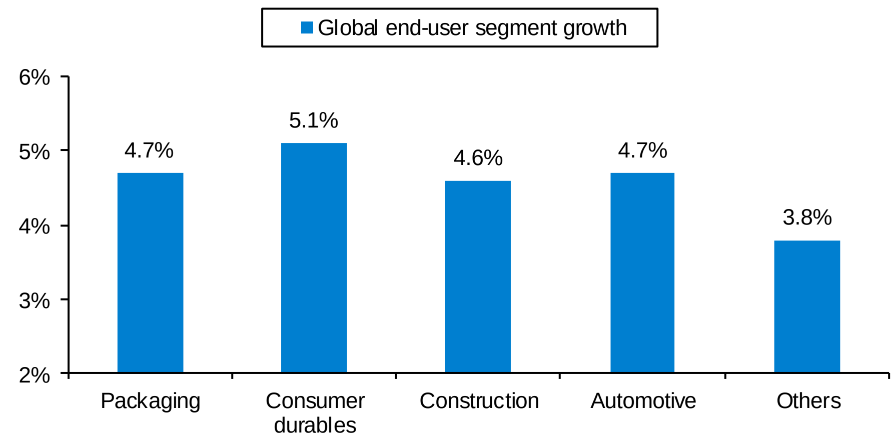
- Replacement of conventional materials by plastic in several applications
- Increasing demand for convenience food driving demand for food grade plastics used for packaging
- E-commerce growth driving the packaging sector in-turn driving growth in plastic additives
- Rising preference for non-toxic plastic additives (product safety improvement)

Asia-Pacific leads region-wise growth in polymer additives



Source: Industry, PL

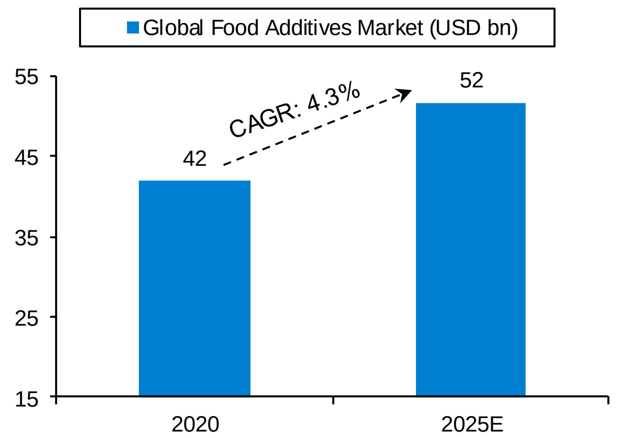
Global market growth led by consumption oriented segments



Source: Industry, PL

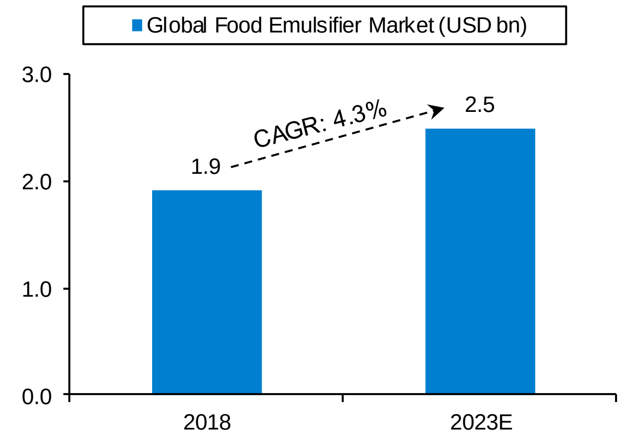
Rising demand for functional food additives

Global market size of food additives



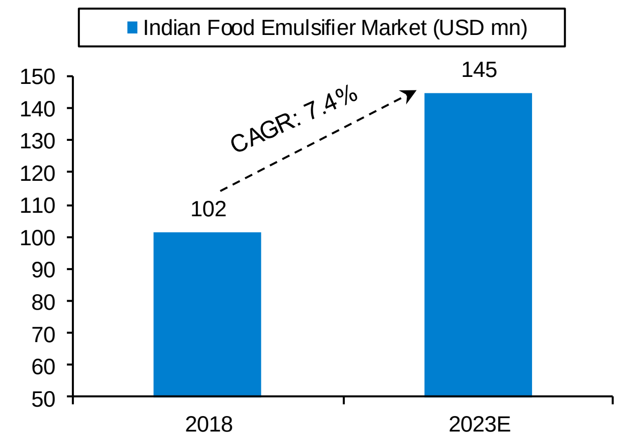
Source: Industry, PL

Global market size of food emulsifiers



Source: Industry, PL

Indian market size of food emulsifiers

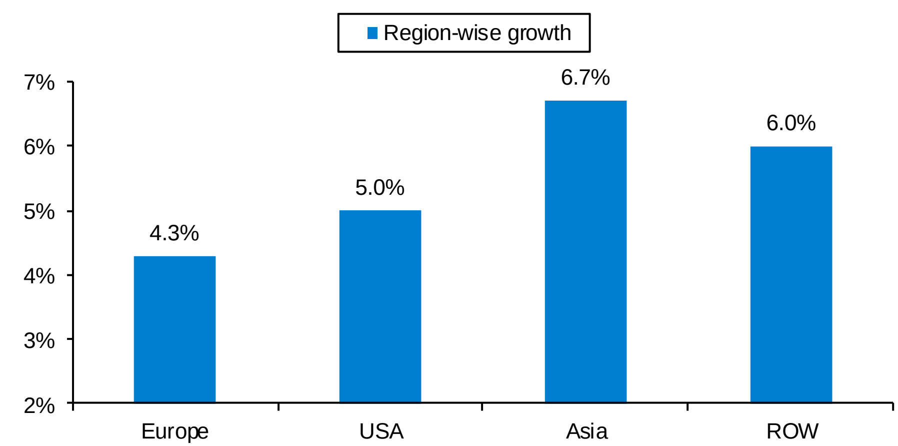


Source: Industry, PL

<u>Key growth drivers</u>

- Extensive use of functional additives in food & beverages, such as preservative, flavour enhancer, emulsifier, sweetener, colorant, etc.
- Rising demand for convenience and packaged foods is further fuelling the market growth
- Growing number of end use applications of emulsifiers given its multifunctional attributes
- Asia-Pacific and North America are major manufacturing and consuming hubs of food additives, and Asia leads the region wise growth given high underlying growth in various food categories

Asia leads region wise growth in food emulsifiers



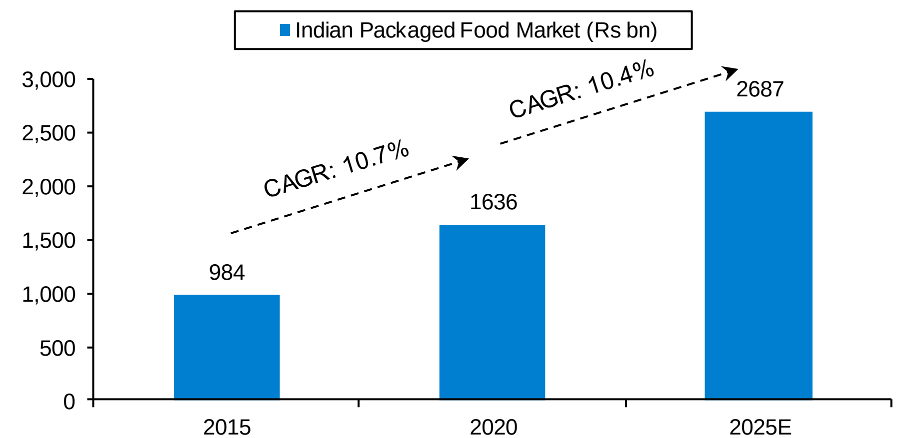
Source: Industry, PL

Shift towards packaged foods

<u>Key emerging trends</u>

- **Consumers shifting towards packaged and branded products:** Growing concern for food safety and inclination towards hygienically packaged products is driving the shift towards packaged and branded products (accelerated by COVID-19 and expected to continue). Significant shift seen in categories like savoury snacks, biscuits, breads and buns after manifesting itself in staple categories such as wheat flour, spices, pulses.
- **Consumers across the spectrum are moving towards premium products:** Consumers are moving upwards across food categories and prices, whether its a shift from standard to premium snack items, or from basic staples to enriched, organic or luxury versions.
- **Convenience and healthy eating trends continue to drive sales:** Increasing convenience, availability and affordability along with information (on benefits and downsides of such products) is driving a change in perception of packaged foods among consumers, in-turn driving sales.
- **Increasing participation of women in workforce:** Rising influence of women on their families and society led by better education opportunities, healthcare, new electoral rules etc. is translating not only in higher literacy levels but also changing workforce demographics. Their enrolment rate in secondary education is up from 45% to 81% over 2005-15 (now higher than boys) and that in higher education is at 26.4% (vs 26.3% for boys).

Steady growth in the Indian packaged foods^ market



Source: Mrs Bectors Food DRHP, PL ^exclusive of staples, edible oil and dairy

Category wise sale of packaged foods^

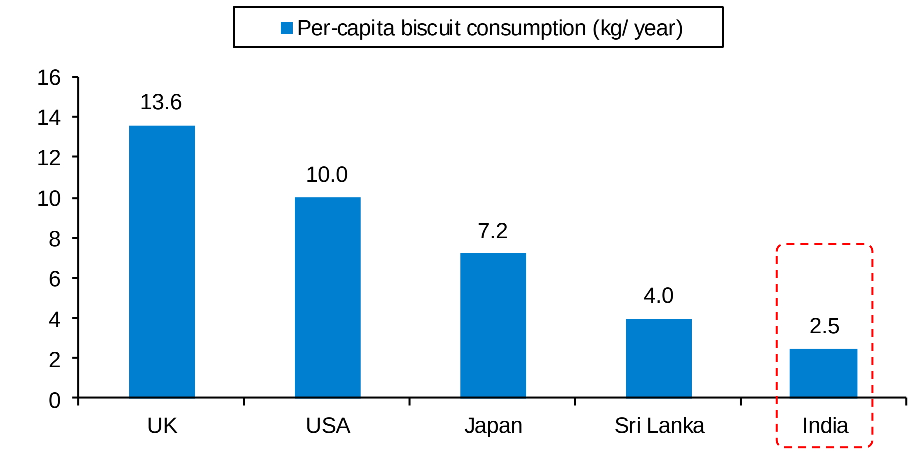
Category	2015	2020	CAGR (2015-20)	2025	CAGR (2020-25)
Biscuits and Bakery *	282	450	9.8%	696	9.1%
Pasta and Noodles	48	78	10.2%	125	9.9%
Savoury Snacks	192	400	15.8%	805	15.0%
Confectionary	190	286	8.5%	400	6.9%
Sauces, Dressings & Condiments	106	160	8.6%	250	9.3%
Ice Cream & Frozen Desserts	85	120	7.1%	170	7.2%
Baby Food	34	45	5.8%	62	6.6%
Others	47	97	15.6%	180	13.2%
Total	**984**	**1636**	**10.7%**	**2688**	**10.4%**

Source: Mrs Bectors Food DRHP, PL ^exclusive of staples, edible oil and dairy

Biscuits – Significant headroom for growth in India

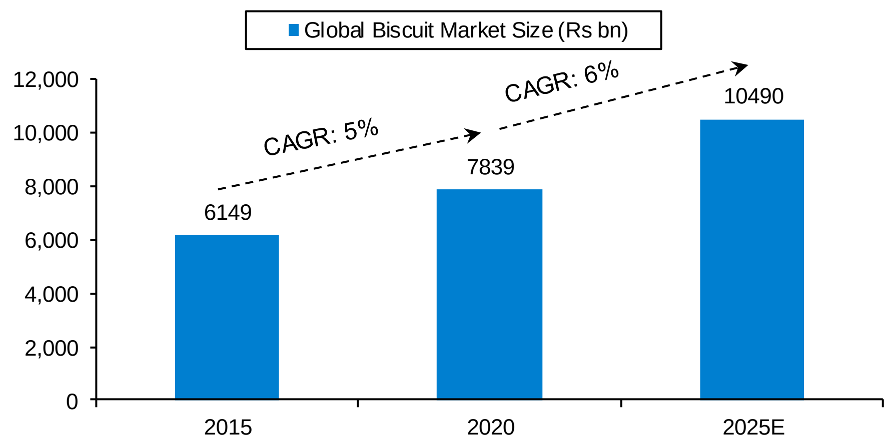
- India's per capita biscuit consumption lags far behind developed countries like US, UK, Japan and even developing countries like Sri Lanka, despite increasing by 16% over the last five years
- This indicates significant headroom for growth in India although it's a complex market which requires regional customization
- It is characterized by a few large players, regional brands and small scale industries. The unbranded sector comprises of >30,000 small/ tiny units spread across the country
- Key growth drivers – Increasing disposable income, changing lifestyle, affordability, availability of products

Per-capita biscuit consumption



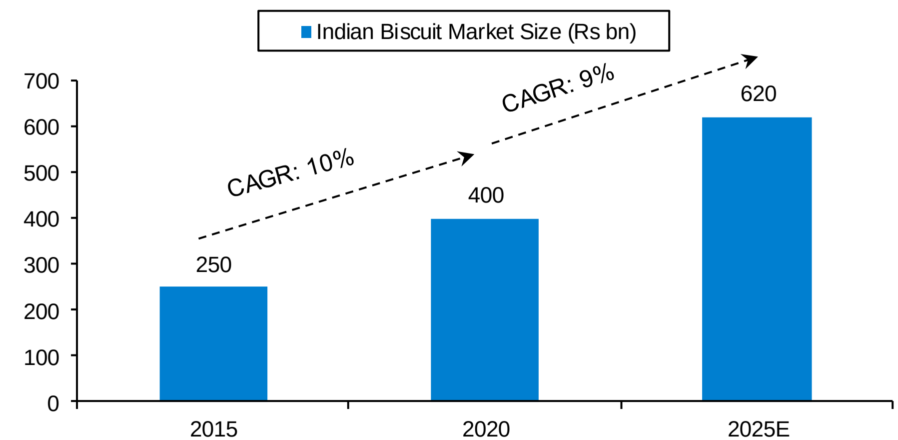
Source: Mrs Bectors Food DRHP, PL

Global biscuit market size



Source: Mrs Bectors Food DRHP, PL

Indian biscuit market size

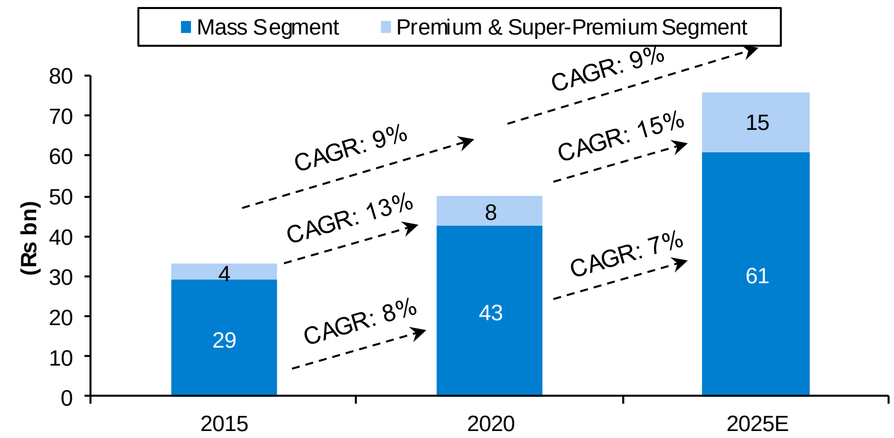


Source: Mrs Bectors Food DRHP, PL

Bread and buns – Rising consumption

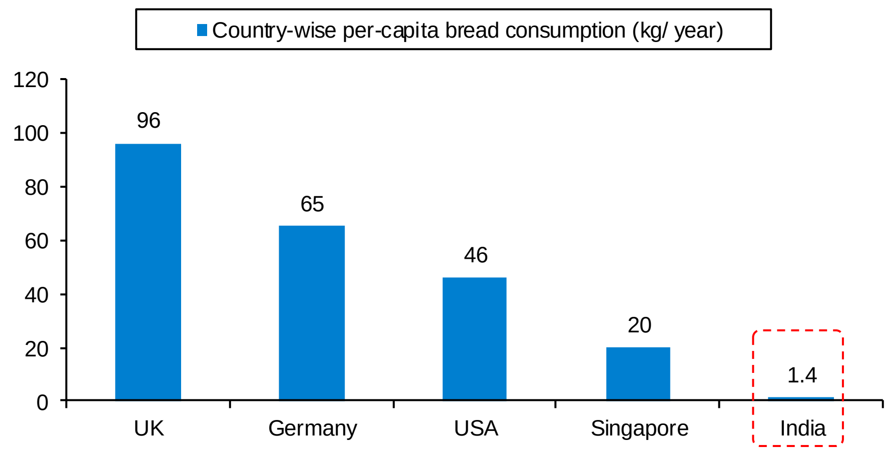
- The bread and buns retail market in India stood at Rs 50 bn in FY20 and is expected to grow at 9% CAGR to Rs 76 bn by FY25
- Key growth drivers: Increase in disposable incomes, change in lifestyle and preferences of consumers
- Key success factors: Logistics, product innovation and safe ingredients
- Demand for breads is concentrated around Tier I and II cities due to higher disposable incomes and changing meal preferences
- Industry is dominated by branded players contributing ~55% of the market. The unbranded sector comprises >85,000 bread bakers mostly located in residential areas of cities and towns
- Average per capita yearly bread consumption is estimated at 1.4 kg in India compared to 96 kg in the UK and 46 kg in the USA

Bread and Buns retail market size



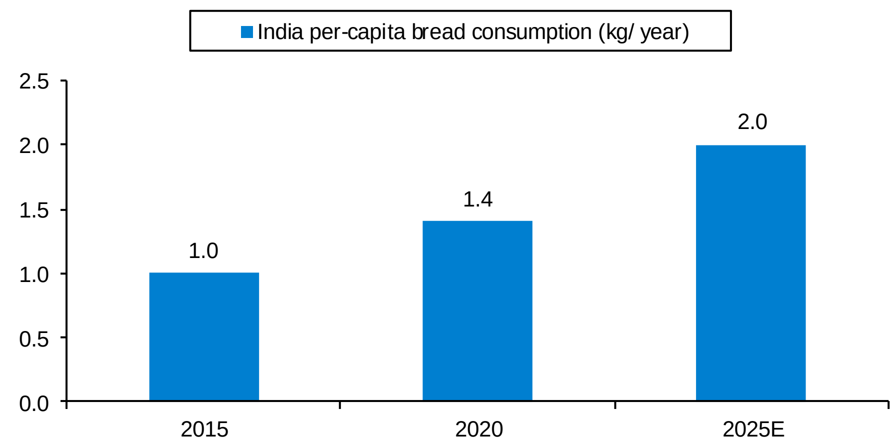
Source: Mrs Bectors Food DRHP, PL

Per-capita bread consumption



Source: Mrs Bectors Food DRHP, PL

India's per-capita bread consumption growth



Source: Mrs Bectors Food DRHP, PL

Income Statement & Balance Sheet

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	**11,332**	**16,732**	**18,892**	**21,558**
YoY gr. (%)	*9.2*	*47.7*	*12.9*	*14.1*
Cost of Goods Sold	7,260	11,210	12,102	13,473
Gross Profit	4,072	5,523	6,790	8,085
Margin (%)	*35.9*	*33.0*	*35.9*	*37.5*
Employee Cost	796	870	1,020	1,121
Other Expenses	1,284	1,958	2,191	2,414
EBITDA	**1,993**	**2,695**	**3,578**	**4,549**
YoY gr. (%)	*(17.1)*	*35.3*	*32.8*	*27.2*
Margin (%)	*17.6*	*16.1*	*18.9*	*21.1*
Depreciation and Amortization	468	405	439	472
EBIT	**1,525**	**2,290**	**3,139**	**4,077**
Margin (%)	*13.5*	*13.7*	*16.6*	*18.9*
Net Interest	61	42	15	-
Other Income	171	171	205	277
Profit Before Tax	**1,635**	**2,419**	**3,329**	**4,354**
Margin (%)	*14.4*	*14.5*	*17.6*	*20.2*
Total Tax	418	610	839	1,097
Effective tax rate (%)	*25.6*	*25.2*	*25.2*	*25.2*
Profit after tax	**1,216**	**1,810**	**2,490**	**3,257**
Minority interest	0	-	-	-
Share Profit from Associate	(13)	5	39	104
Adjusted PAT	**1,203**	**1,815**	**2,530**	**3,361**
YoY gr. (%)	*(27.0)*	*50.8*	*39.4*	*32.9*
Margin (%)	*10.6*	*10.8*	*13.4*	*15.6*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**1,203**	**1,815**	**2,530**	**3,361**
YoY gr. (%)	*(27.0)*	*50.8*	*39.4*	*32.9*
Margin (%)	*10.6*	*10.8*	*13.4*	*15.6*
Other Comprehensive Income	23	-	-	-
Total Comprehensive Income	1,227	1,815	2,530	3,361
Equity Shares O/s (m)	**31**	**31**	**31**	**31**
EPS (Rs)	**39.2**	**59.2**	**82.5**	**109.6**

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	**4,436**	**4,699**	**5,199**	**5,449**
Tangibles	4,421	4,684	5,184	5,434
Intangibles	15	15	15	15
Acc: Dep / Amortization	**2,477**	**2,882**	**3,321**	**3,794**
Tangibles	2,468	2,873	3,312	3,785
Intangibles	9	9	9	9
Net fixed assets	**1,959**	**1,816**	**1,877**	**1,655**
Tangibles	1,953	1,811	1,872	1,649
Intangibles	5	5	5	5
Capital Work In Progress	263	500	250	250
Goodwill	-	-	-	-
Non-Current Investments	323	323	323	323
Net Deferred tax assets	79	79	79	79
Other Non-Current Assets	647	647	647	647
Current Assets				
Investments	-	-	-	-
Inventories	1,262	2,063	2,226	2,540
Trade receivables	1,610	2,521	2,743	2,953
Cash & Bank Balance	2,637	1,962	3,569	6,223
Other Current Assets	689	963	1,087	1,240
Total Assets	**9,470**	**10,875**	**12,802**	**15,911**
Equity				
Equity Share Capital	153	153	153	153
Other Equity	7,161	8,638	10,805	13,660
Total Networth	**7,314**	**8,791**	**10,958**	**13,813**
Non-Current Liabilities				
Long Term borrowings	892	492	-	-
Provisions	-	-	-	-
Other non current liabilities	44	44	44	44
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,072	1,329	1,553	1,772
Other current liabilities	148	218	247	282
Total Equity & Liabilities	**9,470**	**10,875**	**12,802**	**15,911**

Cash Flow & Key Ratios

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	1,621	2,424	3,369	4,458
Add. Depreciation	468	405	439	472
Add. Interest	(15)	42	15	-
Less Financial Other Income	171	171	205	277
Add. Other	(84)	(171)	(205)	(277)
Op. profit before WC changes	1,990	2,700	3,617	4,654
Net Changes-WC	(235)	(1,699)	(274)	(444)
Direct tax	(421)	(569)	(823)	(1,077)
Net cash from Op. activities	**1,334**	**433**	**2,521**	**3,133**
Capital expenditures	(463)	(500)	(250)	(250)
Interest / Dividend Income	66	171	205	277
Others	(6)	-	-	-
Net Cash from Invt. activities	**(403)**	**(329)**	**(45)**	**27**
Issue of share cap. / premium	-	-	-	-
Debt changes	(347)	(400)	(492)	-
Dividend paid	(92)	(337)	(363)	(506)
Interest paid	(52)	(42)	(15)	-
Others	93	-	-	-
Net cash from Fin. activities	**(399)**	**(779)**	**(869)**	**(506)**
Net change in cash	**533**	**(675)**	**1,607**	**2,654**
Free Cash Flow	871	(67)	2,271	2,883

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	39.2	59.2	82.5	109.6
CEPS	54.5	72.4	96.8	125.0
BVPS	238.5	286.7	357.4	450.5
FCF	28.4	(2.2)	74.1	94.0
DPS	11.0	11.8	16.5	21.9
Return Ratio(%)				
RoCE	19.5	26.2	31.0	32.9
ROIC	21.9	25.3	31.8	40.2
RoE	17.8	22.5	25.6	27.1
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.2)	(0.3)	(0.5)
Net Working Capital (Days)	58	71	66	63
Valuation(x)				
PER	97.6	64.7	46.4	34.9
P/B	16.1	13.4	10.7	8.5
P/CEPS	70.3	52.9	39.6	30.6
EV/EBITDA	58.1	43.0	31.8	24.4
EV/Sales	10.2	6.9	6.0	5.2
Dividend Yield (%)	0.3	0.3	0.4	0.6

Disclaimer

Prabhudas Lilladher Pvt. Ltd. - 3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai 400 018, India. Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

PL's Recommendation Nomenclature (Absolute Performance)		
Buy	:	> 15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

DISCLAIMER/DISCLOSURES

ANALYST CERTIFICATION

We/I, Mr. Nitesh Dhoot- B.Com (Hons), MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Nitesh Dhoot- B.Com (Hons), MBA, Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all o the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

DISCLAIMER/DISCLOSURES (FOR US CLIENTS)

ANALYST CERTIFICATION

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report

Terms & conditions and other disclosures:

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.