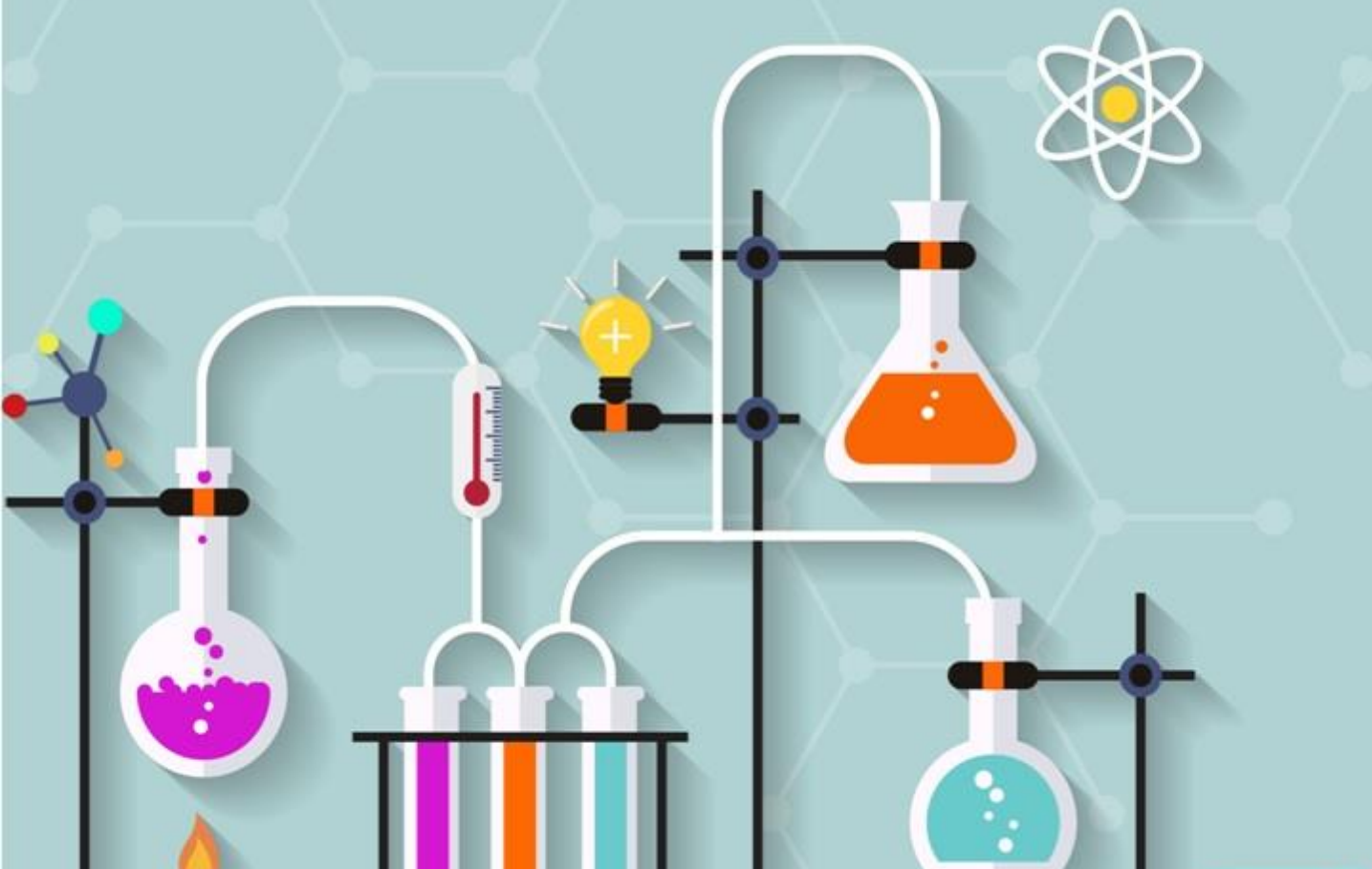


Laxmi Organics Industries Ltd.



Laxmi Organics Industries Ltd.

Higher volumes with improved realizations boosted financials

| | | | | | |
|-----------------------|--------------------------|----------------------------------|---|------------------------------|--------------------------------------|
| CMP INR 484 | Target INR 620 | Potential Upside 28.2% | Market Cap (INR Mn) INR 127,666 | Recommendation BUY | Sector Specialty Chemicals |
|-----------------------|--------------------------|----------------------------------|---|------------------------------|--------------------------------------|

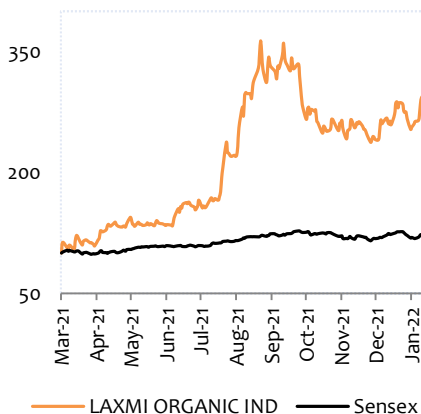
Result Highlights of Q3FY22

- Revenue reported at INR 8,599 Mn (+97.4% yoy / +41.4% qoq) which is well above our estimates of INR 7,622 Mn. The growth was backed by higher volumes and increased realizations of Acetyl Intermediates (AI) and improved product mix performance in Specialty Intermediates (SI).
- The gross profit reported at INR 3,081 Mn (+85.5% yoy / +122.3% qoq). The gross margins stood at 35.8% (-231bps yoy / +1304bps qoq) due to high cost of goods sold.
- Resumption in SI business operations post flood restoration and strong demand from international markets has boosted profitability for the quarter. EBITDA reported at INR 1,187 Mn (+75.4% yoy / +284.3% qoq) and EBITDA margin reported at 13.8% (-173bps yoy / +872bps qoq). PAT reported at INR 821 Mn (+67.3% yoy / +463.6% qoq) and PAT margin stood at 9.5% (-172bps yoy / +715bps qoq). Diluted EPS reported at INR 3.07.

MARKET DATA

| | |
|---------------------|-----------|
| Shares outs (Mn) | 264 |
| Equity Cap (INR Mn) | 527 |
| Mkt Cap (INR Mn) | 127,666 |
| 52 Wk H/L (INR) | 628/143 |
| Volume Avg (3m K) | 430.7 |
| Face Value (INR) | 2 |
| Bloomberg Code | LXCHEM IN |

SHARE PRICE PERFORMANCE



MARKET INFO

| | |
|--------|--------|
| SENSEX | 58,788 |
| NIFTY | 17,560 |

SHARE HOLDING PATTERN (%)

| Particulars | Dec 21 | Sep 21 | Jun 21 |
|-------------|--------|--------|--------|
| Promoters | 72.9 | 72.9 | 72.9 |
| FII's | 0.3 | 0.9 | 3.6 |
| DII's | 3.3 | 3.3 | 5.0 |
| Others | 23.5 | 22.9 | 18.5 |
| Total | 100.0 | 100.0 | 100.0 |

Key Financials

| INR millions | FY20 | FY21 | FY22E | FY23E | FY24E |
|-------------------|--------|--------|--------|--------|--------|
| Revenue | 15,341 | 17,684 | 31,259 | 36,073 | 44,117 |
| EBITDA | 1,135 | 2,167 | 4,220 | 5,050 | 7,191 |
| PAT | 702 | 1,271 | 3,052 | 3,563 | 5,225 |
| EPS (INR) | 2.86 | 5.58 | 11.57 | 13.51 | 19.82 |
| EBITDA Margin (%) | 7.4% | 12.3% | 13.5% | 14.0% | 16.3% |
| NPM (%) | 4.6% | 7.2% | 9.8% | 9.9% | 11.8% |

Source: Company data, KRChoksey Research

Commercialisation of new projects; robust trajectory in topline growth

There has been a consistent growth in AI segment in the past few quarters backed by rise in volumes with improved realisations. The volume growth is expected to be consistent in the future; however, normalisations in commodity prices may lower the product realisations in the upcoming quarters. Debottlenecking and capacity expansion in AI segment is expected to contribute in topline growth. AI segment revenue reported at INR 5,303 Mn (+144.2% yoy / +40.4% qoq) for the quarter.

In SI segment, the topline growth was disrupted during Q2FY22 led by shut down of SI unit due to floods. However, it has witnessed strong recovery during Q3FY22 supported by increased volumes and better product mix. Commercialisation of two new plants over the next few months to further contribute LOIL's topline in FY23. SI segment revenue reported at INR 2,655 Mn (+112.6% yoy / 174.3% qoq) for Q3FY22.

Expected completion of Fluorospecialty project by Q3FY23 will also start generating revenue from this segment during the year. Capex for fluoro project was at INR 1,700 Mn till Dec'21 where it expects to generate ~INR 2,800 – 3,000 Mn annual turnover.

Margins are likely to expand led by fluorospecialty business and reduction in RM costs

Fluorospecialty project is a high margin business in nature (~24% to 26% EBITDA margins). As per recent finance bill announcement, reduction in import duties on acetic acid (LOIL's one of the key RM) from 7.5% to 5% will have a favorable impact on LOIL's raw material costs. Further, expected normalisation in commodity prices will be another positive for the overall industry. Accordingly, we expect margins to improve over the next 2 years and revised our EPS estimate for FY22E / FY23E / FY24E to INR 11.57 / INR 13.51 / INR 19.82, respectively.

Valuation

Commissioning of SI and FI projects during FY23, reduction in custom duties of acetic acid, healthy revenue growth from exports and diversified customer base are some of the positive elements for LOIL's business growth. There is a large opportunity in fluorospecialty chemicals industry and LOIL is leveraging Miteni's existing chemistries and past customer base in pharma and agro sector to enable smooth market entry. **We maintain our 'BUY' recommendation on the share of Laxmi Organics Industries Ltd with a target price of INR 620/share (upside 28.2%).**

Laxmi Organics Industries Ltd.

Key Concall Highlights

Key updates

- LOIL will continue to enhance its SI product value chain while debottlenecking and expansion in AI business will unlock value opportunities in the market.
- In the finance bill, import duty on acetic acid which is one of its key raw material has been reduced from 7.5% to 5% which will have a favorable impact on raw material costs.
- India is a small producer of acetic acid and one of the largest consumers globally. India imports more than a million tones of acetic acid annually from various countries (small share from China and supplies from South East Asia, US and Europe). LOIL imports more than 90% of its acetic acid requirement.
- There has been an upsurge in other operating expenses due to 1) rise in coal cost that led to higher energy costs and 2) export related costs including logistics and freight costs.

Acetyl Intermediates

- AI Business will remain cash generating business and will be utilised to fund fluorospecialty project as required.
- Acquisition with YCPL has provided incremental revenue and EBITDA of 5-7%.

Specialty Intermediates

- SI project development remains on the course of completion and it will start generating revenue from Q1FY23. It includes completion of a plant by end of FY22 and another plant post a month of this completion.
- In the SI business, there are new molecules in the pilot phase and are to be commercialised in FY23.
- It has generated 30% of its revenue from exports as compared with 10% in FY21 which is in line with LOIL's strategy for SI segment. It expects sustainable growth in this segment in terms of product mix, number of customers and share of exports.
- Current capacity utilisation stands at 70%. However, product mix has a key role in segment profitability.
- Last quarter total capex stood at INR 600 Mn. SI segment overall capex stood at INR 2,000 Mn.

Fluorospecialty Intermediates

- Fluorospecialty project has been delayed due to COVID restrictions. It is also dealing with certain cost escalations on account of COVID, price increases in construction materials and high freight cost has an overall impact on the progress.
- Post reassessment of the project, phase 2 capex remains at ~INR 450 Cr as compared to the initial capex of around INR 280-290 Cr. Significant portion of this capex is for additional capacities of some new and existing products. It is also investing to speed up the future expansion which will enable smooth commercialisation of newer products.
- Commercial production of the FI project to start in Q3FY22 and LOIL expects INR 280 – 300 Cr annual revenue from this project initially. Peak utilisation levels are expected over the next 3 years.

Performance highlights

- In 9MFY22, revenue grew by 76.5% YoY at INR 22,043 Mn. AI segment revenue grew by 206% YoY on account of higher volumes and realisations while SI segment revenue grew by 168% YoY with better product mix despite disruptions in Q2FY22 due to floods.
- EBITDA reported at INR 2,948 Mn (92.6% YoY) and EBITDA margin reported at 13.4% (+112bps YoY). PAT reported at INR 1,990 Mn (110% YoY) and EPS stood at INR 7.31.
- Commodity prices are expected to normalise in the quarters to come. The same is expected to have impact on realisations.

Laxmi Organics Industries Ltd.

Q3FY22 and 9MFY22 Result Analysis- Consolidated

| Particulars (INR mn) | Q3FY22 | Q3FY21 | YoY | Q2FY22 | QoQ | 9MFY22 | 9MFY21 | YoY |
|------------------------------------|--------------|--------------|----------------|--------------|----------------|---------------|---------------|---------------|
| Revenue from operations | 8,599 | 4,355 | 97.4% | 6,081 | 41.4% | 22,043 | 12,489 | 76.5% |
| Cost of Materials consumed | 5,537 | 2,001 | 176.7% | 3,288 | 68.4% | 12,607 | 5,519 | 128.4% |
| Purchase of Stock-in-trade | 518 | 826 | -37.3% | 1,235 | -58.1% | 3,130 | 2,919 | 7.2% |
| Changes in Inventories | -538 | -133 | 304.8% | 172 | -412.0% | -751 | -8 | 9120.5% |
| COGS | 5,517 | 2,694 | 104.8% | 4,695 | 17.5% | 14,987 | 8,430 | 77.8% |
| Gross Profit | 3,081 | 1,662 | 85.5% | 1,386 | 122.3% | 7,057 | 4,059 | 73.9% |
| GPM | 35.8% | 38.2% | -231bps | 22.8% | 1304bps | 32.0% | 32.5% | -49bps |
| Employee cost | 335 | 215 | 55.8% | 285 | 17.5% | 922 | 572 | 61.1% |
| Other Expenses | 1,560 | 770 | 102.6% | 792 | 96.9% | 3,187 | 1,956 | 62.9% |
| EBITDA | 1,187 | 677 | 75.4% | 309 | 284.3% | 2,948 | 1,530 | 92.6% |
| EBITDA Margin | 13.8% | 15.5% | -173bps | 5.1% | 872bps | 13.4% | 12.3% | 112bps |
| Depreciation & amortization | 134 | 122 | 9.7% | 113 | 18.8% | 355 | 349 | 1.8% |
| EBIT | 1,053 | 554 | 89.8% | 196 | 436.7% | 2,593 | 1,181 | 119.5% |
| Other Income | 20 | 19 | 5.5% | 67 | -69.8% | 130 | 29 | 352.9% |
| Finance Cost | 69 | 0 | 70593.9% | 11 | 539.1% | 108 | 75 | 45.2% |
| EBT | 1,004 | 574 | 75.0% | 252 | 298.1% | 2,614 | 1,136 | 130.2% |
| Tax expense/(credit) | 183 | 83 | 120.8% | 106 | 71.6% | 624 | 190 | 228.9% |
| PAT | 821 | 491 | 67.3% | 146 | 463.6% | 1,990 | 946 | 110.4% |
| PAT Margin | 9.5% | 11.3% | -172bps | 2.4% | 715bps | 9.0% | 7.6% | 146bps |
| Diluted EPS | 3.07 | 1.86 | 64.9% | 0.39 | 687.2% | 7.31 | 3.74 | 95.4% |
| | | | | | | | | |
| Segment Revenue Performance | | | | | | | | |
| Acetyl Intermediates | 5,303 | 2,172 | 144.2% | 3,778 | 40.4% | 12,755 | 4,175 | 205.5% |
| Specialty Intermediates | 2,655 | 1,249 | 112.6% | 968 | 174.3% | 6,023 | 2,249 | 167.8% |
| | | | | | | | | |
| % of Revenue | | | | | | | | |
| Acetyl Intermediates | 61.7% | 49.9% | 1180bps | 62.1% | -46bps | 57.9% | 33.4% | 2443bps |
| Specialty Intermediates | 30.9% | 28.7% | 220bps | 15.9% | 1496bps | 27.3% | 18.0% | 932bps |

Source: Company data, KRChoksey Research

Laxmi Organics Industries Ltd.

Consolidated Financial Statements

| Income Statement (INR mn) | FY20 | FY21 | FY22E | FY23E | FY24E |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenues | 15,341 | 17,684 | 31,259 | 36,073 | 44,117 |
| COGS | 10,907 | 11,743 | 20,319 | 23,628 | 28,676 |
| Gross profit | 4,435 | 5,942 | 10,941 | 12,445 | 15,441 |
| Employee cost | 686 | 929 | 1,563 | 1,804 | 1,853 |
| Other expenses | 2,613 | 2,846 | 5,158 | 5,591 | 6,397 |
| EBITDA | 1,135 | 2,167 | 4,220 | 5,050 | 7,191 |
| Depreciation & amortization | 489 | 465 | 554 | 641 | 727 |
| EBIT | 647 | 1,702 | 3,666 | 4,410 | 6,464 |
| Interest expense | 140 | 164 | 102 | 61 | 31 |
| Other income | 45 | 46 | 251 | 220 | 265 |
| PBT | 808 | 1,584 | 3,815 | 4,568 | 6,699 |
| Tax | 106 | 313 | 763 | 1,005 | 1,474 |
| Minority interest | 0 | 0 | 0 | 0 | 0 |
| PAT | 702 | 1,271 | 3,052 | 3,563 | 5,225 |
| EPS (INR) | 2.86 | 5.59 | 11.57 | 13.51 | 19.82 |

Source: Company data, KRChoksey Research

| Balance Sheet (INR mn) | FY20 | FY21 | FY22E | FY23E | FY24E |
|--|---------------|---------------|---------------|---------------|---------------|
| Property, plant and equipment | 3,257 | 3,152 | 3,827 | 4,215 | 4,517 |
| Right-of-use assets / CWIP / other intangibles | 798 | 1,577 | 2,842 | 2,820 | 2,798 |
| Other non current assets | 257 | 594 | 733 | 1,198 | 1,462 |
| Inventories | 1,519 | 2,033 | 2,655 | 2,965 | 3,626 |
| Trade receivables | 3,594 | 4,344 | 6,252 | 7,412 | 9,065 |
| Cash and bank balance | 241 | 306 | 1,759 | 1,534 | 4,406 |
| Loans / other assets | 910 | 1,280 | 1,921 | 2,211 | 2,691 |
| TOTAL ASSETS | 10,697 | 18,374 | 21,006 | 23,067 | 29,064 |
| Equity share capital | 450 | 527 | 527 | 527 | 527 |
| Other equity | 3,819 | 9,819 | 12,657 | 15,971 | 20,830 |
| Non-controlling interests | 4 | 5 | 5 | 5 | 5 |
| Total equity | 4,273 | 10,351 | 13,189 | 16,502 | 21,362 |
| Borrowings | 1,238 | 906 | 565 | 339 | 203 |
| Other non current liab | 232 | 250 | 301 | 344 | 368 |
| Trade payables | 4,116 | 4,750 | 3,730 | 4,337 | 5,264 |
| Other financial liabilities | 655 | 1,827 | 2,707 | 951 | 1,141 |
| Provisions | 118 | 132 | 233 | 269 | 329 |
| Other current liabilities | 62 | 159 | 282 | 325 | 397 |
| TOTAL EQUITY AND LIABILITIES | 10,694 | 18,373 | 21,006 | 23,067 | 29,064 |

Source: Company data, KRChoksey Research

| Cash Flow Statement (INR mn) | FY20 | FY21 | FY22E | FY23E | FY24E |
|--|----------------|----------------|--------------|--------------|--------------|
| Operating Cash Flow | 1,955 | 1,225 | 418 | 793 | 3,933 |
| Investing Cash Flow | (559) | (6,434) | 1,392 | (389) | (320) |
| Financing Cash Flow | (1,232) | 5,273 | (357) | (628) | (741) |
| Net Inc/Dec in cash equivalents | 165 | 64 | 1,453 | (225) | 2,873 |
| Opening Balance | 76 | 241 | 305 | 1,759 | 1,534 |
| Closing Balance Cash & Cash Eq. | 241 | 305 | 1,759 | 1,534 | 4,406 |

Source: Company data, KRChoksey Research

| Key Ratio | FY20 | FY21 | FY22E | FY23E | FY24E |
|-----------------------|-------|-------|-------|-------|-------|
| EBITDA Margin (%) | 7.4% | 12.3% | 13.5% | 14.0% | 16.3% |
| Net Profit Margin (%) | 2.9% | 7.2% | 9.8% | 9.9% | 11.8% |
| RoE (%) | 16.0% | 17.4% | 25.9% | 24.0% | 27.6% |
| RoA (%) | 6.7% | 8.7% | 15.5% | 16.2% | 20.0% |
| RoCE (%) | 12.8% | 16.3% | 29.0% | 27.5% | 31.0% |
| Debt/Equity | 0.29x | 0.09x | 0.04x | 0.02x | 0.01x |

Source: Company data, KRChoksey Research

Laxmi Organics Industries Ltd.

| Laxmi Organics Industries Ltd. | | | | Rating Legend (Expected over a 12-month period) | |
|--------------------------------|-----------|----------|----------------|---|----------------|
| Date | CMP (INR) | TP (INR) | Recommendation | Our Rating | Upside |
| 03-Feb-22 | 484 | 620 | BUY | Buy | More than 15% |
| 08-Nov-21 | 430 | 620 | BUY | Accumulate | 5% – 15% |
| 01-Oct-21 | 542 | 620 | ACCUMULATE | Hold | 0 – 5% |
| | | | | Reduce | -5% – 0 |
| | | | | Sell | Less than – 5% |

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Visit us at www.krchoksey.com

KRChoksey Shares and Securities Pvt. Ltd.

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.
Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.
Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.