

Estimate changes

TP change

Rating change


CMP: INR5,821 TP: INR5,577 (-4%)
Neutral

Outperformance continues, although valuations remain expensive

Bloomberg	FINEORG IN
Equity Shares (m)	31
M.Cap.(INRb)/(USDb)	178.5 / 2.2
52-Week Range (INR)	6139 / 2735
1, 6, 12 Rel. Per (%)	5/45/86
12M Avg Val (INR M)	271

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	18.6	24.1	25.4
EBITDA	3.5	4.9	4.8
PAT	2.5	3.5	3.4
EPS (INR)	81.8	112.5	111.5
EPS Gr. (%)	118.1	37.7	(0.9)
BV/Sh.(INR)	312.6	391.4	469.5

Ratios

Net D:E	(0.2)	(0.2)	(0.3)
RoE (%)	29.5	32.0	25.9
RoCE (%)	27.6	31.0	25.3
Payout (%)	11.0	30.0	30.0

Valuations

P/E (x)	71.8	52.2	52.6
P/BV (x)	18.8	15.0	12.5
EV/EBITDA (x)	51.2	36.6	36.5
Div. Yield (%)	0.2	0.6	0.6
FCF Yield (%)	(0.1)	1.1	1.8

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	75.0	75.0	75.0
DII	10.9	11.6	11.4
FII	7.2	7.3	6.8
Others	6.9	6.1	6.8

FII Includes depository receipts

- FINEORG reported a better-than-estimated 1QFY23, with EBITDA margin at 27.3% (up 300bp QoQ) in 1QFY23 (its highest ever) and gross margin at 41.3% (down 110bp QoQ) after expanding in 4QFY22.
- Its plants are currently running at almost full capacity, and the management expects full capacity utilization by the end of Mar'23. As FINEORG's customers are expanding their capacities, the management foresees huge opportunities in its existing product portfolio. It plans to set up a new plant for Food Additives only at Patalganga by Mar'24.
- It is also setting up a new JV in Thailand. Once set up, FINEORG will have the advantage of easier access to its main raw material, with Indonesia, Malaysia, and Thailand being the major (88% share) producers of palm oil globally.
- FINEORG has been constantly enhancing its Food Emulsifiers through continued R&D and process integration. This segment witnessed a larger offtake during the COVID-19 pandemic. Growing awareness and demand for healthier and organic food are likely to propel usage of emulsifiers in India.
- **Owing to the beat to our estimates in 1QFY23, we raise our FY23/FY24 revenue estimate by 20%/17%. We raise our EBITDA/EPS estimate for FY23 by 33%/ 35% and our FY24 estimate by 12% each.** We expect gross margin to improve to 38% over the next couple of years, while EBITDAM is expected to be around similar levels in FY23-24.
- However, ever-increasing freight rates, shortages of containers, and rising fuel prices can challenge its near-term operations. We value the stock at 50x FY24E EPS to arrive at our TP of INR5,577. **We maintain our Neutral rating.**

Beat on EBITDA as EBITDAM expands sequentially

- Revenue grew 109% YoY and 25% QoQ to INR7.5b.
- **Gross margin declined by 110bp QoQ to 41.3% in 1QFY23.**
- **EBITDAM stood at 27.3%, up 300bp QoQ and 13.5pp YoY.**
- EBITDA came in at INR2.1b in 1QFY23, up 312% YoY and 41% QoQ.
- PAT stood at INR1.6b, up 350% YoY and 43% QoQ.

Valuation and view – maintain our Neutral rating

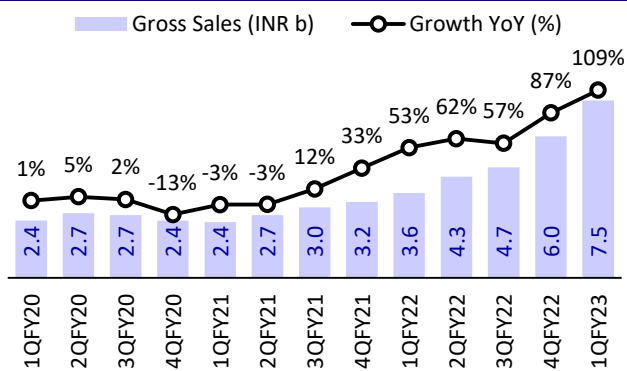
- Ramp-up in utilization (of additional capacities by FY23) to optimal levels as well as a strong demand outlook from the Indian Food Emulsifiers market should help FINEORG grow at a faster rate than the industry.
- **We forecast a revenue/EPS CAGR of ~17% each over FY22-24.** Easier procurement of palm oil, with the help of the new JV formed in Thailand, presents an upside risk to our call.
- The stock has delivered a strong performance of more than 48% over the last six months. **It is trading at 53x FY24E EPS and 37x FY24E EV/EBITDA.** We value the stock at 50x FY24 EPS to arrive at our TP of INR5,577. We maintain our Neutral rating on the stock.

Standalone - Quarterly Snapshot

(INR m)

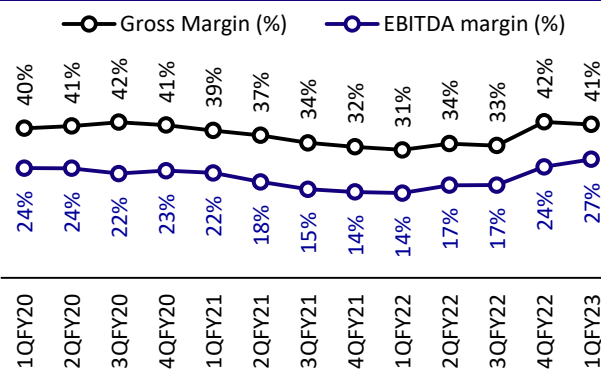
Y/E March	FY22				FY23				FY22	FY23E	FY23	Var (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Gross Sales	3,599	4,296	4,682	6,007	7,526	5,553	5,734	5,330	18,584	24,142	5,020	50%
YoY Change (%)	52.8	61.6	57.0	86.7	109.1	29.3	22.4	-11.3	65.7	29.9	39.5	
Gross Margin (%)	31.1%	33.6%	32.8%	42.3%	41.3%	36.0%	37.3%	36.2%	35.7%	38.0%	36.0%	5.3%
EBITDA	499	728	797	1,461	2,056	934	977	884	3,485	4,852	868	137%
Margin (%)	13.9	17.0	17.0	24.3	27.3	16.8	17.0	16.6	18.8	20.1	17.3	10.0
Depreciation	95	98	101	106	111	113	115	103	399	442	110	
Interest	13	12	12	13	11	22	20	26	51	79	11	
Other Income	60	62	66	144	166	52	49	13	332	280	59	
PBT	451	681	750	1,486	2,099	853	892	768	3,368	4,611	807	160%
Tax	101	181	193	385	526	215	225	194	861	1,161	203	
Rate (%)	22.5	26.6	25.7	25.9	25.1	25.2	25.2	25.3	25.6	25.2	25.2	
Reported PAT	349	500	557	1,101	1,573	638	667	573	2,507	3,451	603	161%
YoY Change (%)	22.2	69.5	98.8	281.2	350.2	27.7	19.7	-47.9	118.1	37.7	72.7	
Margin (%)	9.7	11.6	11.9	18.3	20.9	11.5	11.6	10.8	13.5	14.3	12.0	8.9

Exhibit 1: Sales grew 25% QoQ...



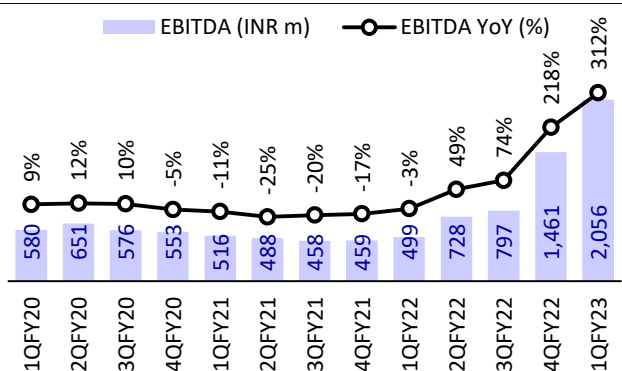
Source: Company, MOFSL

Exhibit 2: ...with EBITDAM expanding QoQ



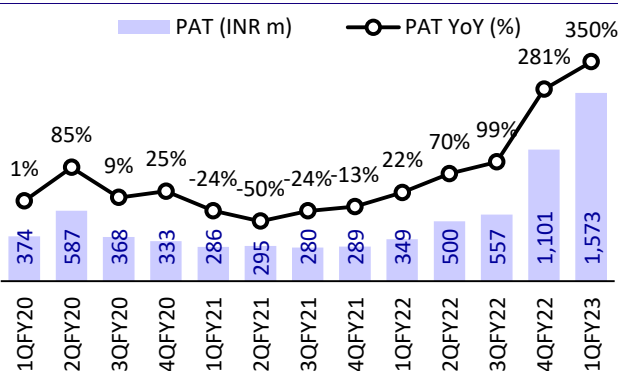
Source: Company, MOFSL

Exhibit 3: EBITDA was +41% QoQ (margin at 27.3%)



Source: Company, MOFSL

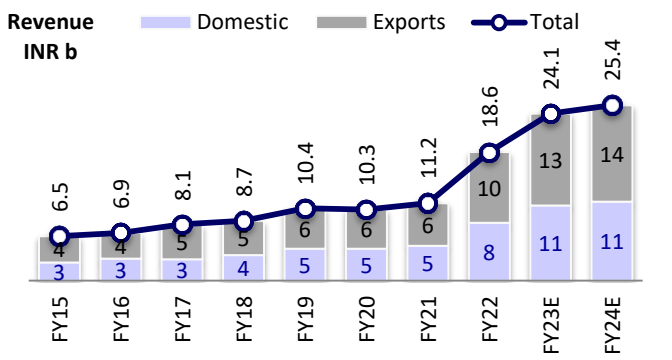
Exhibit 4: PAT was up +43% QoQ (margin at 20.9%)



Source: Company, MOFSL

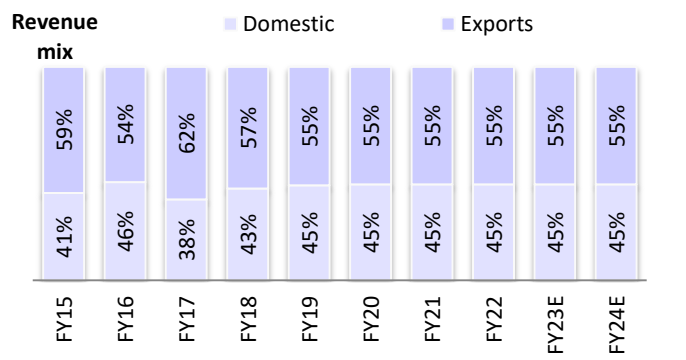
Financials story in charts

Exhibit 5: Expect ~17% revenue CAGR over FY22-24E...



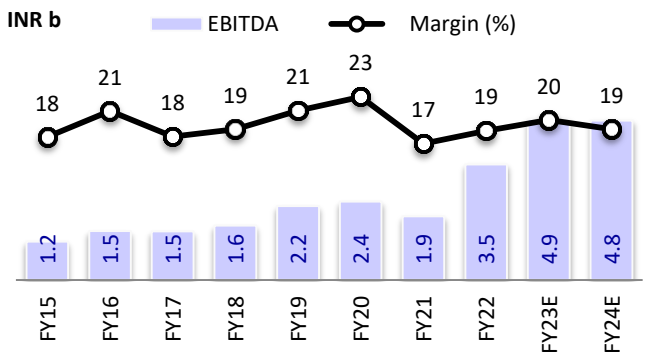
Source: Company, MOFSL

Exhibit 6: ...with constant export-to-revenue mix



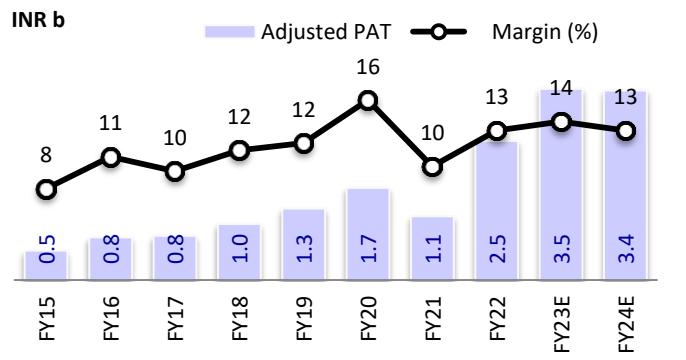
Source: Company, MOFSL

Exhibit 7: Expect EBITDAM to return to ~20% (its long-term average, barring FY21)...



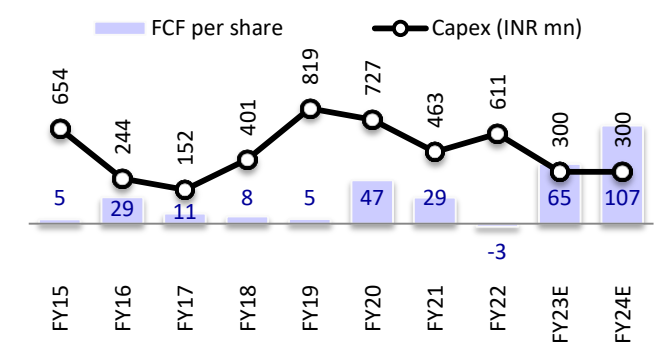
Source: Company, MOFSL

Exhibit 8: ...along with an improvement in PAT margin as well from the trough in FY21



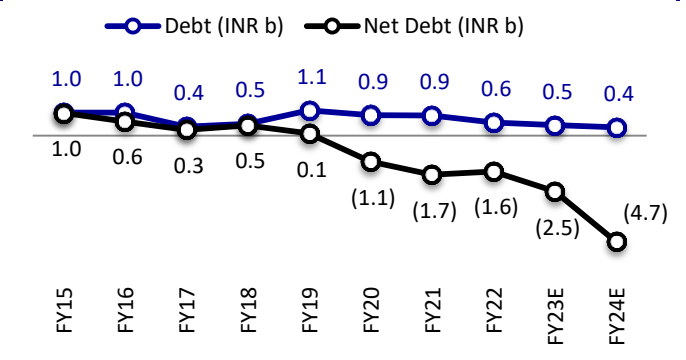
Source: Company, MOFSL

Exhibit 9: Capex for the next two years stand at INR0.6b



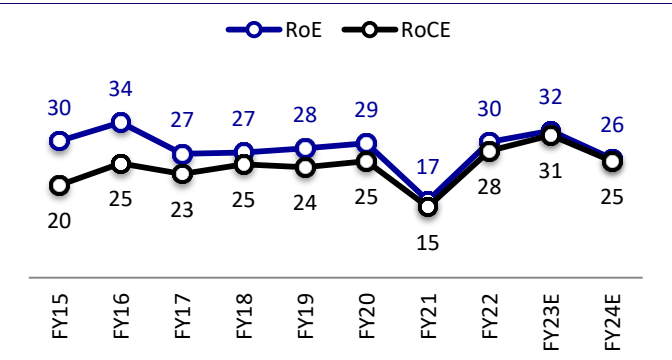
Source: Company, MOFSL

Exhibit 10: FINEORG remains cash positive



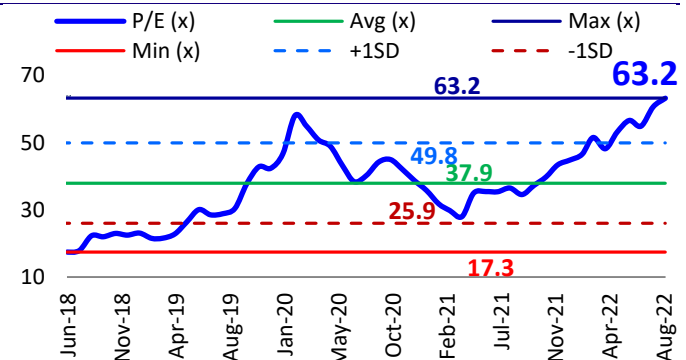
Source: Company, MOFSL

Exhibit 11: Return ratios to be at 25-32% in FY23-24E



Source: Company, MOFSL

Exhibit 12: FINEORG trades at ~63x 1-year forward P/E



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement

	(INR m)							
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	8,144	8,651	10,440	10,262	11,213	18,584	24,142	25,362
Change (%)	17.7	6.2	20.7	-1.7	9.3	65.7	29.9	5.1
Gross Margins (%)	38.8	35.6	37.3	40.9	35.2	35.7	38.0	37.5
EBITDA	1,467	1,640	2,223	2,361	1,921	3,485	4,852	4,803
Margin (%)	18.0	19.0	21.3	23.0	17.1	18.8	20.1	18.9
Depreciation	237	200	175	347	468	399	442	467
EBIT	1,230	1,440	2,048	2,014	1,453	3,086	4,410	4,337
Int. and Finance Charges	44	31	18	48	61	51	79	42
Other Income	43	164	202	205	170	332	280	276
PBT bef. EO Exp.	1,229	1,572	2,233	2,172	1,562	3,368	4,611	4,570
PBT after EO Exp.	1,229	1,572	2,233	2,172	1,562	3,368	4,611	4,570
Total Tax	429	559	942	507	413	861	1,161	1,150
Tax Rate (%)	34.9	35.5	42.2	23.3	26.4	25.6	25.2	25.2
Reported PAT	800	1,014	1,290	1,665	1,149	2,507	3,451	3,420
Adjusted PAT	800	1,014	1,290	1,665	1,149	2,507	3,451	3,420
Change (%)	4.0	26.7	27.3	29.0	-31.0	118.1	37.7	-0.9
Margin (%)	9.8	11.7	12.4	16.2	10.2	13.5	14.3	13.5

Standalone - Balance Sheet

	(INR m)							
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	51	153	153	153	153	153	153	153
Total Reserves	3,298	3,931	4,931	6,154	7,235	9,432	11,847	14,241
Net Worth	3,350	4,085	5,084	6,308	7,388	9,585	12,000	14,394
Total Loans	403	536	1,130	915	892	585	468	375
Capital Employed	3,752	4,621	6,219	7,222	8,280	10,170	12,469	14,769
Gross Block	2,290	2,395	2,464	4,192	4,459	5,192	5,492	5,792
Less: Accum. Deprn.	1,322	1,515	1,686	2,033	2,500	2,899	3,341	3,808
Net Fixed Assets	968	881	778	2,159	1,958	2,293	2,151	1,985
Capital WIP	28	317	1,063	58	263	141	141	141
Total Investments	143	143	167	442	437	431	431	431
Curr. Assets, Loans&Adv.	3,406	4,079	5,086	5,964	6,902	9,413	12,937	15,565
Inventory	885	833	790	1,195	1,089	2,017	3,224	3,387
Account Receivables	1,203	1,611	1,670	1,451	1,752	3,316	4,307	4,525
Cash and Bank Balance	142	71	1,031	2,056	2,612	2,158	2,932	5,058
Cash	103	54	1,020	2,009	2,564	2,093	2,867	4,993
Bank Balance	39	17	11	48	48	65	65	65
Loans and Advances	1,176	1,564	1,595	1,262	1,449	1,922	2,474	2,595
Curr. Liability & Prov.	793	799	875	1,401	1,281	2,108	3,192	3,354
Account Payables	676	693	523	843	990	1,514	2,421	2,544
Other Current Liabilities	117	84	307	526	156	290	377	396
Net Current Assets	2,613	3,280	4,211	4,563	5,622	7,305	9,745	12,212
Appl. of Funds	3,752	4,621	6,219	7,222	8,280	10,170	12,469	14,769

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	26.1	33.1	42.1	54.3	37.5	81.8	112.5	111.5
EPS Growth (%)	4%	27%	27%	29%	-31%	118%	38%	-1%
Cash EPS	33.8	39.6	47.8	65.6	52.7	94.8	126.9	126.8
BV/Share	109.2	133.2	165.8	205.7	241.0	312.6	391.4	469.5
DPS	0.0	7.5	7.0	11.0	11.0	9.0	33.8	33.5
Payout (%)	0.0	27.3	20.0	24.4	29.3	11.0	30.0	30.0
Valuation (x)								
P/E	225.0	177.6	139.5	108.1	156.6	71.8	52.2	52.6
Cash P/E	173.6	148.3	122.9	89.5	111.3	61.9	46.2	46.3
P/BV	53.7	44.1	35.4	28.5	24.4	18.8	15.0	12.5
EV/Sales	22.1	20.9	17.2	17.4	15.9	9.6	7.4	6.9
EV/EBITDA	122.9	110.0	81.0	75.8	92.8	51.2	36.6	36.5
Dividend Yield (%)	0.0	0.1	0.1	0.2	0.2	0.2	0.6	0.6
FCF per share	11.0	7.9	5.0	47.3	28.7	-3.4	65.4	107.2
Return Ratios (%)								
RoE	27.0	27.3	28.1	29.2	16.8	29.5	32.0	25.9
RoCE	22.6	24.7	24.0	25.3	15.4	27.6	31.0	25.3
RoIC	24.6	24.7	29.4	35.8	22.2	37.0	40.2	35.9
Working Capital Ratios								
Fixed Asset Turnover (x)	7.4	9.4	12.6	7.0	5.4	8.7	10.9	12.3
Asset Turnover (x)	2.2	1.9	1.7	1.4	1.4	1.8	1.9	1.7
Inventory (Days)	40	35	28	42	35	40	49	49
Debtor (Days)	54	68	58	52	57	65	65	65
Creditor (Days)	30	29	18	30	32	30	37	37
Leverage Ratio (x)								
Current Ratio	4.3	5.1	5.8	4.3	5.4	4.5	4.1	4.6
Interest Cover Ratio	28.3	46.1	114.4	42.1	23.9	61.0	55.8	102.9
Net Debt/Equity	0.1	0.1	0.0	-0.2	-0.2	-0.2	-0.2	-0.3

Standalone - Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	1,229	1,572	2,232	2,172	1,562	3,368	4,611	4,570
Depreciation	237	200	174	347	468	396	442	467
Others	1	-118	-158	-144	-106	-254	79	42
Direct Taxes Paid	-495	-509	-855	-612	-415	-769	-1,161	-1,150
(Inc)/Dec in WC	-483	-503	-423	416	-167	-2,233	-1,666	-341
CF from Operations	490	643	972	2,178	1,343	508	2,305	3,588
(Inc)/Dec in FA	-152	-401	-819	-727	-463	-611	-300	-300
Free Cash Flow	338	242	153	1,451	880	-103	2,005	3,288
Change in Investments	-56	-2	-42	-287	4	-6	0	0
Others	46	-118	-73	172	57	55	0	0
CF from Investments	-163	-521	-934	-842	-402	-562	-300	-300
Inc/(Dec) in Debt	-539	0	1,081	-14	-347	-317	-117	-94
Interest Paid	-38	-21	-33	-63	-52	-37	-79	-42
Dividend Paid	0	-277	-258	-407	-92	-337	-1,035	-1,026
Others	-15	125	139	137	106	274	0	0
CF from Fin. Activity	-592	-172	929	-346	-385	-416	-1,231	-1,162
Inc/Dec of Cash	-264	-49	966	989	555	-471	774	2,126
Opening Balance	367	103	54	1,020	2,009	2,564	2,093	2,867
Closing Balance	103	53	1,020	2,009	2,564	2,093	2,867	4,994

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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