

August 11, 2022

Q1FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	HOLD		BUY	
Target Price	6,200		5,600	
Sales (Rs. m)	27,674	26,209	23,099	24,139
% Chng.	19.8	8.6		
EBITDA (Rs. m)	6,393	6,191	5,089	5,589
% Chng.	25.6	10.8		
EPS (Rs.)	152.1	155.0	120.2	140.2
% Chng.	26.5	10.6		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	11,332	18,763	27,674	26,209
EBITDA (Rs. m)	1,992	3,645	6,393	6,191
Margin (%)	17.6	19.4	23.1	23.6
PAT (Rs. m)	1,203	2,596	4,663	4,753
EPS (Rs.)	39.2	84.7	152.1	155.0
Gr. (%)	(27.0)	115.8	79.6	1.9
DPS (Rs.)	11.0	9.0	15.2	31.0
Yield (%)	0.2	0.1	0.2	0.5
RoE (%)	17.8	30.7	39.6	29.5
RoCE (%)	19.5	35.3	49.1	35.4
EV/Sales (x)	17.5	10.6	7.1	7.2
EV/EBITDA (x)	99.4	54.3	30.5	30.7
PE (x)	166.1	76.9	42.8	42.0
P/BV (x)	27.3	20.8	14.3	10.9

Key Data

FINO.BO | FINEORG IN

52-W High / Low	Rs.6,909 / Rs.2,735
Sensex / Nifty	59,333 / 17,659
Market Cap	Rs.200bn / \$ 2,508m
Shares Outstanding	31m
3M Avg. Daily Value	Rs.672.77m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	7.25
Domestic Institution	11.64
Public & Others	6.11
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	22.5	70.0	124.8
Relative	12.3	66.6	106.6

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Solid operating performance continues

Quick Pointers:

- EBITDA margin at 28.7% in Q1 surprises positively (PLe 24.5%, consensus 21.7%), led by better product mix and price hikes to offset higher costs.
- Plants operating at optimal capacity utilization (except new facility at Patalganga - ramping up fast), while management reiterated its guidance of full utilization by FY23 exit on healthy export demand.
- Capacity constraints likely in FY24 (evaluating debottlenecking). Gujarat capex announcement awaited (nearing finalization); minimum time (18-24 months) for plant setup will permit additional volumes only beyond FY25.

We increase our EPS estimates by 26% / 11% for FY23/24E factoring in improved earnings visibility and increase our TP to Rs 6200 (40x FY24E EPS) from Rs 5600 earlier but downgrade the stock to 'HOLD' given the sharp run up in price (>30% since our last update). FINEORG remains the best play on rising adoption of oleochemical based green additives [\(Click here\)](#).

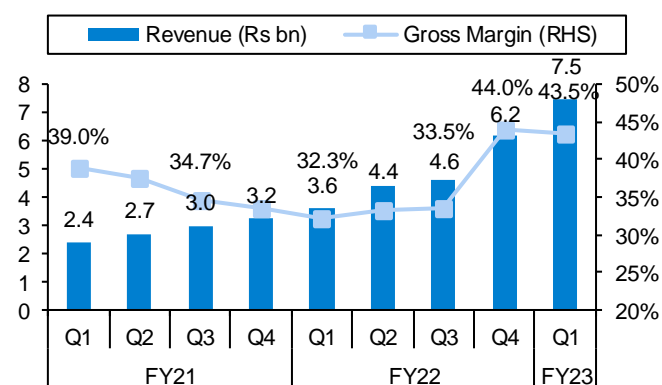
FINEORG demonstrated yet another quarter of strong operating performance aided by pass through of increased costs (vegetable oil / fatty acid prices, logistics etc) and higher volumes, driving improvement in EBITDA margin to 28.7% (vs 14.5% YoY/ 25.9% QoQ), reinforcing confidence on the company's pricing and client retention ability. Its growth prospects look encouraging given 1) healthy demand traction aided by improved client confidence and global consolidation benefits 2) capacity headroom to enable capturing demand improvement in FY23 3) Strong profitability over FY23-FY24 on optimum product mix and operating leverage playing out 4) net cash balance sheet and healthy OCF of Rs 8.6 bn over FY23-24 to enable self-funded capex.

- Strong Q1 amidst challenges:** Revenue up 109% YoY/ 21% QoQ to Rs 7.5 bn on improvement in realizations and volumes mainly in export markets. Export rev grew 132%YoY/ 41% QoQ (rev contribution at 70% vs 60% in FY22) while domestic rev increased 70% YoY/ flat QoQ. Gross margin increased to 43.5% (vs 32.3% YoY / 44% QoQ), despite the continued rise in input prices, indicating expansion of unit margins. EBITDA increased 313% YoY / 34% QoQ to Rs 2.1 bn, while EBITDA margin expanded to 28.7%. aided by improved realisations and better product mix; overheads increased by 102% YoY/ flat QoQ on higher freight (increase in air cargo) and power & fuel costs.
- Other meeting takeaways: (1)** RM and container availability challenges persist, as supply chain disruption continues, albeit at lower intensity **(2)** Decline in raw material costs (led by lower vegetable oil prices) to be passed on to customers in a calibrated way. Few large clients still on annual contracts to oblige higher prices, reciprocating FINEORG's honouring all contracts without declaring force majeure (despite extremely challenging environment last year amidst RM price surge) **(3)** Croda's polymer additives business sale to Cargill Inc (new entrant in polymer additives) complete on 01st July'22 **(4)** Newer categories like green surfactant aimed at export market initially **(5)** New Patalganga unit (5000 mtpa), ramping up fast (commissioned in Mar'22).

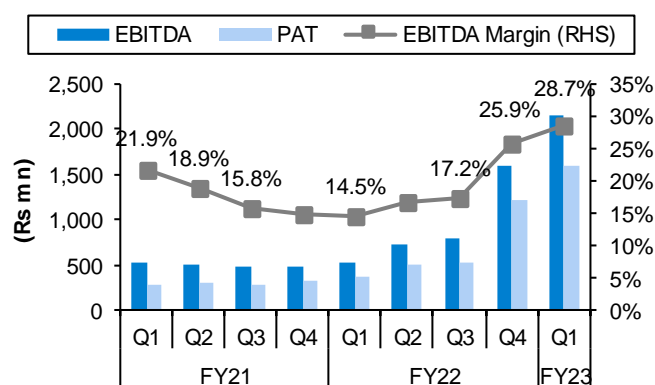
Exhibit 1: Q1FY23 Result Overview - Consolidated (Rs mn)

Y/e March	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)	FY22	FY21	YoY gr (%)
Net sales	7,477	3,576	109.1	6,169	21.2	18,763	11,332	65.6
Material Cost	4,221	2,422	74.3	3,452	22.3	11,879	7,260	63.6
Gross Profit	3,256	1,154	182.3	2,717	19.8	6,884	4,072	69.0
<i>Gross Margin (%)</i>	<i>43.5</i>	<i>32.3</i>		<i>44.0</i>		<i>36.7</i>	<i>35.9</i>	
Other Overheads	1,110	634	75.2	1,120	(0.9)	3,239	2,079	55.7
EBITDA	2,146	520	312.8	1,597	34.4	3,645	1,993	82.9
<i>EBITDA margin (%)</i>	<i>28.7</i>	<i>14.5</i>		<i>25.9</i>		<i>19.4</i>	<i>17.6</i>	
Depreciation	111	95		106		399	468	
EBIT	2,035	425	379.1	1,491	36.5	3,246	1,525	112.9
Other income	166	59	179.3	144	15.1	331	171	93.4
Interest	12	13	(11.0)	14	(14.7)	51	61	(16.7)
PBT	2,190	471	364.7	1,621	35.0	3,526	1,635	115.7
Tax	589	106	453.4	400	47.5	918	418	119.6
Sh of profits from associates	-2	-5		-3		-10	-13	
Net profit	1,598	359	344.9	1,219	31.1	2,597	1,203	115.8
Extra ordinary income/ (exp.)	0	0		0		0	0	
Adjusted PAT	1,598	359	344.9	1,219	31.1	2,597	1,203	115.8
<i>Adj. PAT margin (%)</i>	<i>21.4</i>	<i>10.0</i>		<i>19.8</i>		<i>13.8</i>	<i>10.6</i>	
No. of shares (mn)	31	31		31		31	31	
Adj. EPS (Rs.)	52.1	11.7	344.9	39.8	31.1	84.7	39.2	115.8

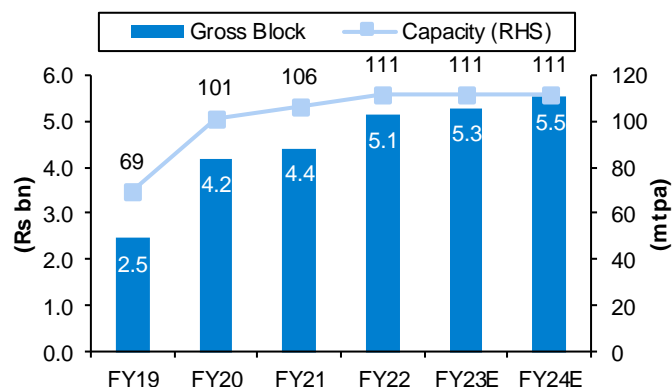
Source: Company, PL

Exhibit 2: Revenue jump led by higher realizations and vol


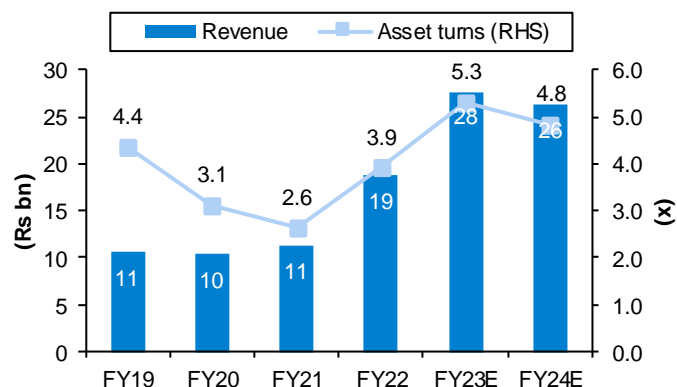
Source: Company, PL

Exhibit 3: Margin improvement amidst cost inflation


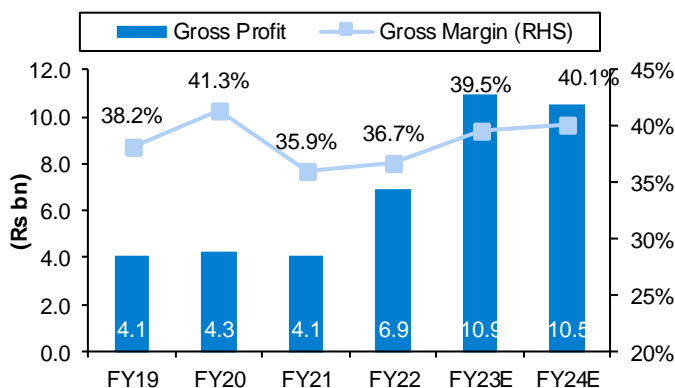
Source: Company, PL

Exhibit 4: Capacity headroom enabling volume growth


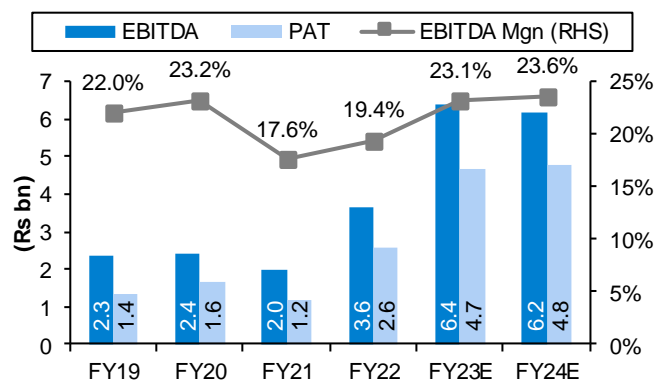
Source: Company, PL

Exhibit 5: Expect 18% revenue CAGR over FY22-24E


Source: Company, PL

Exhibit 6: Subsiding margin headwinds


Source: Company, PL

Exhibit 7: Improved earnings visibility


Source: Company, PL

Exhibit 8: Robust cash flow generation to enable self funded capex

Cash Flow (Rs bn)	FY19	FY20	FY21	FY22	FY23E	FY24E
PBIT	2.3	2.1	1.6	3.5	6.2	6.3
Add: Depreciation	0.2	0.3	0.5	0.4	0.5	0.5
Add: Others	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)	(0.4)
Working Capital Changes	(0.5)	0.4	(0.2)	(2.2)	(2.0)	0.7
Less: Tax	(0.9)	(0.6)	(0.4)	(0.8)	(1.3)	(1.6)
Cash from Operations	1.0	2.2	1.3	0.7	3.1	5.5
Capex	(0.9)	(0.7)	(0.5)	(0.6)	(0.3)	(0.3)
FCFF	0.1	1.5	0.9	0.1	2.9	5.3

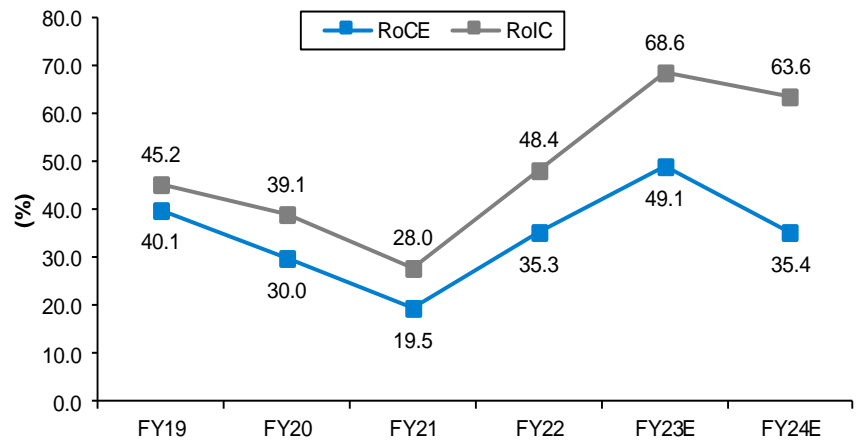
Working Capital (Days)

Inventory	31	46	41	46	45	43
Receivable	54	47	52	59	58	55
Payable	-18	-30	-31	-30	-30	-30
Core W.C.Days	66	63	61	75	73	68
Other Current Assets	28	18	22	23	21	21
Other Current Liabilities & Prov	6	5	8	12	12	12
Overall W.C.Days	88	75	75	85	82	77

Source: Company, PL

RoCE moderation in FY24E to 35% (from 48% in FY23E) on net cash of ~Rs 10 bn given strong cash flow generation. However, RoIC aptly reflects the profitability improvement.

Exhibit 9: Strong operational performance to drive return ratios higher



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	11,332	18,763	27,674	26,209
YoY gr. (%)	9.2	65.6	47.5	(5.3)
Cost of Goods Sold	7,260	11,879	16,732	15,703
Gross Profit	4,072	6,884	10,942	10,506
Margin (%)	35.9	36.7	39.5	40.1
Employee Cost	796	893	1,089	1,144
Other Expenses	1,284	2,346	3,459	3,171
EBITDA	1,992	3,645	6,393	6,191
YoY gr. (%)	(17.2)	83.0	75.4	(3.2)
Margin (%)	17.6	19.4	23.1	23.6
Depreciation and Amortization	468	399	464	481
EBIT	1,524	3,246	5,930	5,710
Margin (%)	13.5	17.3	21.4	21.8
Net Interest	61	51	19	-
Other Income	171	331	198	417
Profit Before Tax	1,634	3,526	6,109	6,126
Margin (%)	14.4	18.8	22.1	23.4
Total Tax	418	918	1,539	1,544
Effective tax rate (%)	25.6	26.0	25.2	25.2
Profit after tax	1,216	2,607	4,569	4,582
Minority interest	0	1	-	-
Share Profit from Associate	(13)	(10)	93	171
Adjusted PAT	1,203	2,596	4,663	4,753
YoY gr. (%)	(27.0)	115.8	79.6	1.9
Margin (%)	10.6	13.8	16.8	18.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,203	2,596	4,663	4,753
YoY gr. (%)	(27.0)	115.8	79.6	1.9
Margin (%)	10.6	13.8	16.8	18.1
Other Comprehensive Income	23	-	-	-
Total Comprehensive Income	1,226	2,596	4,663	4,753
Equity Shares O/s (m)	31	31	31	31
EPS (Rs)	39.2	84.7	152.1	155.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	4,436	5,159	5,301	5,551
Tangibles	4,421	5,141	5,282	5,532
Intangibles	15	18	18	18
Acc: Dep / Amortization	2,477	2,866	3,330	3,811
Tangibles	2,468	2,854	3,317	3,799
Intangibles	9	13	13	13
Net fixed assets	1,959	2,293	1,970	1,739
Tangibles	1,953	2,287	1,965	1,734
Intangibles	5	6	6	6
Capital Work In Progress	263	141	250	250
Goodwill	-	-	-	-
Non-Current Investments	323	319	319	319
Net Deferred tax assets	79	84	84	84
Other Non-Current Assets	647	647	647	647
Current Assets				
Investments	-	-	-	-
Inventories	1,262	2,356	3,412	3,088
Trade receivables	1,610	3,014	4,398	3,949
Cash & Bank Balance	2,637	2,326	4,537	9,741
Other Current Assets	695	1,184	1,592	1,508
Total Assets	9,476	12,364	17,209	21,325
Equity				
Equity Share Capital	153	153	153	153
Other Equity	7,161	9,439	13,826	18,112
Total Networkth	7,314	9,592	13,979	18,266
Non-Current Liabilities				
Long Term borrowings	892	585	-	-
Provisions	-	-	-	-
Other non current liabilities	44	9	9	9
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	978	1,536	2,275	2,154
Other current liabilities	249	642	947	897
Total Equity & Liabilities	9,476	12,364	17,209	21,325

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	1,621	3,515	6,202	6,297
Add. Depreciation	468	399	464	481
Add. Interest	(15)	(23)	19	-
Less Financial Other Income	171	331	198	417
Add. Other	(84)	(235)	(198)	(417)
Op. profit before WC changes	1,990	3,657	6,487	6,361
Net Changes-WC	(226)	(2,162)	(2,026)	723
Direct tax	(421)	(825)	(1,317)	(1,580)
Net cash from Op. activities	1,343	670	3,143	5,504
Capital expenditures	(463)	(611)	(250)	(250)
Interest / Dividend Income	66	59	198	417
Others	(6)	(10)	-	-
Net Cash from Inv. activities	(403)	(563)	(52)	167
Issue of share cap. / premium	-	-	-	-
Debt changes	(355)	(306)	(585)	-
Dividend paid	(92)	(337)	(276)	(466)
Interest paid	(52)	(37)	(19)	-
Others	93	245	-	-
Net cash from Fin. activities	(407)	(436)	(880)	(466)
Net change in cash	533	(329)	2,211	5,204
Free Cash Flow	880	59	2,893	5,254

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	39.2	84.7	152.1	155.0
CEPS	54.5	97.7	167.2	170.7
BVPS	238.5	312.9	455.9	595.7
FCF	28.7	1.9	94.4	171.4
DPS	11.0	9.0	15.2	31.0
Return Ratio(%)				
RoCE	19.5	35.3	49.1	35.4
ROIC	21.9	35.0	47.0	50.1
RoE	17.8	30.7	39.6	29.5
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.2)	(0.3)	(0.5)
Net Working Capital (Days)	61	75	73	68
Valuation(x)				
PER	166.1	76.9	42.8	42.0
P/B	27.3	20.8	14.3	10.9
P/CEPS	119.6	66.7	39.0	38.2
EV/EBITDA	99.4	54.3	30.5	30.7
EV/Sales	17.5	10.6	7.1	7.2
Dividend Yield (%)	0.2	0.1	0.2	0.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	4,384	4,634	6,169	7,477
YoY gr. (%)	61.8	54.8	91.0	109.1
Raw Material Expenses	2,924	3,081	3,452	4,221
Gross Profit	1,460	1,553	2,717	3,256
Margin (%)	33.3	33.5	44.0	43.5
EBITDA	731	798	1,597	2,146
YoY gr. (%)	42.7	69.0	230.0	312.8
Margin (%)	16.7	17.2	25.9	28.7
Depreciation / Depletion	98	101	106	111
EBIT	633	697	1,491	2,035
Margin (%)	14.4	15.0	24.2	27.2
Net Interest	12	12	14	12
Other Income	62	66	144	166
Profit before Tax	683	750	1,621	2,190
Margin (%)	15.6	16.2	26.3	29.3
Total Tax	181	231	400	589
Effective tax rate (%)	26.5	30.8	24.6	26.9
Profit after Tax	501	519	1,222	1,600
Minority interest	-	-	-	-
Share Profit from Associates	(3)	-	(3)	(2)
Adjusted PAT	499	520	1,219	1,598
YoY gr. (%)	59.7	81.2	283.5	344.9
Margin (%)	11.4	11.2	19.8	21.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	499	520	1,219	1,598
YoY gr. (%)	59.7	81.2	283.5	344.9
Margin (%)	11.4	11.2	19.8	21.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	499	520	1,219	1,598
Avg. Shares O/s (m)	31	31	31	31
EPS (Rs)	16.3	17.0	39.8	52.1

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-22	BUY	5,600	4,950
2	01-Jun-22	BUY	5,600	4,969
3	08-Apr-22	BUY	4,600	4,230
4	16-Feb-22	BUY	4,600	3,758
5	05-Jan-22	BUY	4,400	3,831

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Accumulate	880	685
2	Fine Organic Industries	BUY	5,600	4,950
3	NOCIL	Accumulate	300	273

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



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