

## Estimate changes

TP change

Rating change



Bloomberg	FINEORG IN
Equity Shares (m)	31
M.Cap.(INRb)/(USDb)	189.7 / 2.3
52-Week Range (INR)	7326 / 3270
1, 6, 12 Rel. Per (%)	-18/24/82
12M Avg Val (INR M)	407

## Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	18.6	28.8	29.2
EBITDA	3.5	6.6	6.2
PAT	2.5	4.9	4.7
EPS (INR)	81.8	161.0	152.4
EPS Gr. (%)	118.1	96.9	(5.3)
BV/Sh.(INR)	312.6	425.3	532.0

### Ratios

Net D:E	(0.2)	(0.2)	(0.3)
RoE (%)	29.5	43.6	31.8
RoCE (%)	27.6	42.2	31.2
Payout (%)	11.0	30.0	30.0

### Valuations

P/E (x)	75.8	38.5	40.7
P/BV (x)	19.8	14.6	11.7
EV/EBITDA (x)	54.1	28.4	29.6
Div. Yield (%)	0.1	0.8	0.7
FCF Yield (%)	(0.1)	1.2	2.5

## Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	75.0	75.0	75.0
DII	10.9	10.9	11.3
FII	6.7	7.2	6.8
Others	7.3	6.9	6.9

FII Includes depository receipts

**CMP: INR6,187 TP: INR6,860 (+11% )**

**Neutral**

## Global disruptions continue to benefit; valuations still expensive

- Fine Organics (FINEORG) reported a better-than-estimated result, with EBITDA at INR2.1b (v/s our estimate of INR1.4b), EBITDAM at 25.8% (-150bp QoQ) and gross margin at 38.2% (-310bp QoQ). The management highlighted that disruptions existed in 2QFY23 as well.
- All the plants (barring Patalganga) are currently running at optimum capacity and the management expects full capacity utilization by end-Mar'23 for all including the Patalganga plant. FINEORG's customers are also expanding their capacities and therefore the management foresees huge opportunities in the existing product portfolio. It plans to set up a new plant by Mar'24E.
- The company has set up a JV in Thailand with production likely to start by end-FY23. FINEORG would 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. The phase-II of capacity expansion will take some months from the date of the start of production in phase-I.
- **Owing to the beat in our estimates in 2QFY23 and outperformance in 1H, we raise our revenue/EBITDA/EPS for FY23E/FY24E by 19%/36%/43% and 15%/30%/37%, respectively.** We expect its gross margin to improve to 38% in the next couple of years, while EBITDAM is likely to be at the 21-23% range.
- **FINEORG is trading at 41x FY24E EPS of INR152 and 30x FY24E EV/EBITDA of 29.6x.** We value the company at 45x FY24E EPS to arrive at our TP of INR6,860. **Maintain Neutral as its valuations remain expensive.**

## Beat on EBITDA; EBITDAM contracts for the first time in five quarters

- FINEORG's revenue was at INR8.3b (+93% YoY, +10% QoQ), in 2QFY23.
- **Gross margin contracted 310bp QoQ to 38.2%. While EBITDAM was at 25.8% (-150bp QoQ, +8.9pp YoY).**
- EBITDA came in at INR2.1b (est. of INR1.4b, +194% YoY, +4% QoQ). PAT stood at INR1.6b (est. of INR994m, +228% YoY, +4% QoQ) during the quarter.
- **For 1HFY23, revenue was up 100% to INR15.8b and EBITDA was at INR4.2b (+242% YoY). PAT stood at INR3.2b (+278% YoY) during the quarter.**
- EBITDAM improved 11pp YoY to 26.5% in 1HFY23.

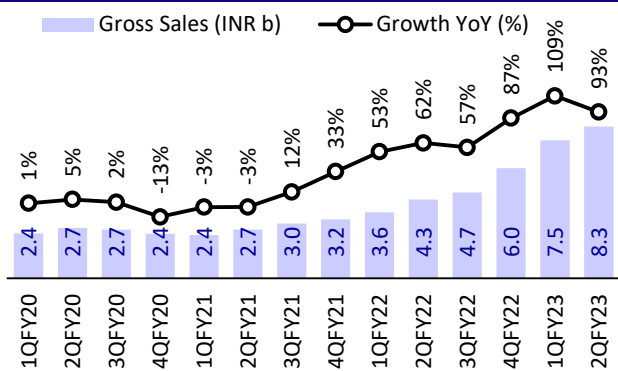
## Valuation and view – maintain Neutral due to its rich valuations

- FINEORG has been constantly enhancing its Food Emulsifiers through continued R&D and process integration, which witnessed a larger off-take during the pandemic. Rising demand for healthier products and changing consumer preferences for processed and packed convenience foods are expected to drive growth for the company.
- The stock has delivered a strong performance of +48% over the last six months. **FINEORG is trading at 41x FY24E EPS and 30x FY24E EV/EBITDA.** We value the company at 45x FY24E EPS to arrive at our TP of INR6,860. **We maintain our Neutral rating on the stock due to its rich valuations.**

Standalone - Quarterly Snapshot

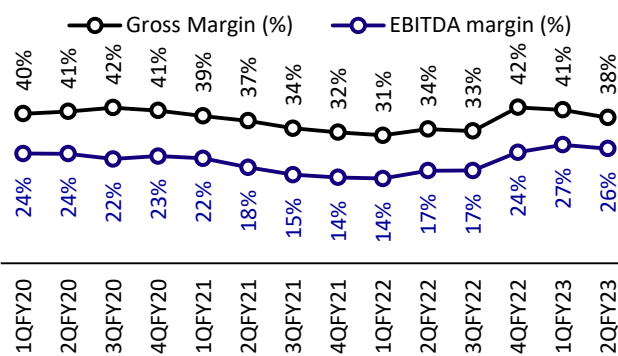
Y/E March	FY22				FY23				FY22	FY23E	FY23	(INR m)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	Var (%)
<b>Gross Sales</b>	<b>3,599</b>	<b>4,296</b>	<b>4,682</b>	<b>6,007</b>	<b>7,526</b>	<b>8,281</b>	<b>6,975</b>	<b>5,982</b>	<b>18,584</b>	<b>28,764</b>	<b>5,794</b>	<b>43%</b>
YoY Change (%)	52.8	61.6	57.0	86.7	109.1	92.8	49.0	-0.4	65.7	54.8	34.9	
<b>Gross Margin (%)</b>	<b>31.1%</b>	<b>33.6%</b>	<b>32.8%</b>	<b>42.3%</b>	<b>41.3%</b>	<b>38.2%</b>	<b>36.7%</b>	<b>35.1%</b>	<b>35.7%</b>	<b>38.0%</b>	<b>38.6%</b>	<b>-0.5%</b>
<b>EBITDA</b>	<b>499</b>	<b>728</b>	<b>797</b>	<b>1,461</b>	<b>2,056</b>	<b>2,138</b>	<b>1,392</b>	<b>1,023</b>	<b>3,485</b>	<b>6,608</b>	<b>1,409</b>	<b>52%</b>
Margin (%)	13.9	17.0	17.0	24.3	27.3	25.8	20.0	17.1	18.8	23.0	24.3	1.5
Depreciation	95	98	101	106	111	115	115	101	399	442	113	
Interest	13	12	12	13	11	13	20	35	51	79	22	
Other Income	60	62	66	144	166	193	127	22	332	508	52	
<b>PBT</b>	<b>451</b>	<b>681</b>	<b>750</b>	<b>1,486</b>	<b>2,099</b>	<b>2,203</b>	<b>1,384</b>	<b>909</b>	<b>3,368</b>	<b>6,596</b>	<b>1,327</b>	<b>66%</b>
Tax	101	181	193	385	526	563	349	222	861	1,660	334	
Rate (%)	22.5	26.6	25.7	25.9	25.1	25.6	25.2	24.4	25.6	25.2	25.1	
<b>Reported PAT</b>	<b>349</b>	<b>500</b>	<b>557</b>	<b>1,101</b>	<b>1,573</b>	<b>1,640</b>	<b>1,035</b>	<b>687</b>	<b>2,507</b>	<b>4,936</b>	<b>994</b>	<b>65%</b>
YoY Change (%)	22.2	69.5	98.8	281.2	350.2	228.2	85.8	-37.5	118.1	96.9	98.9	
Margin (%)	9.7	11.6	11.9	18.3	20.9	19.8	14.8	11.5	13.5	17.2	17.1	2.7

Exhibit 1: Sales grew 10% QoQ...



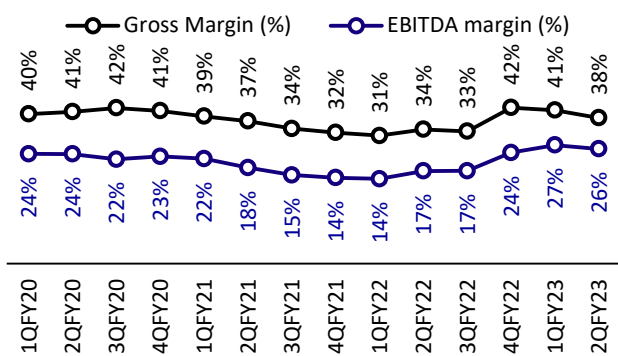
Source: Company, MOFSL

Exhibit 2: ...with EBITDAM declining for the first time in five quarters



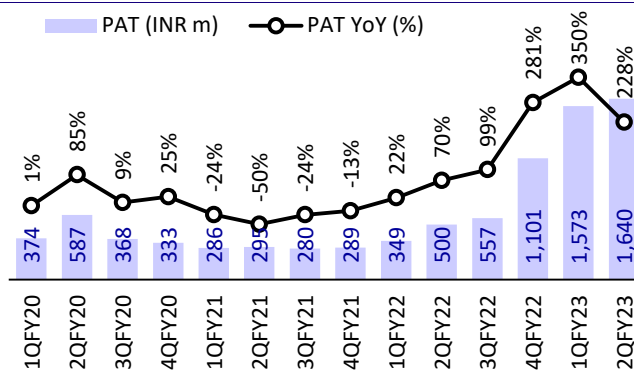
Source: Company, MOFSL

Exhibit 3: EBITDA was up 4% QoQ (margin at 25.8%)



Source: Company, MOFSL

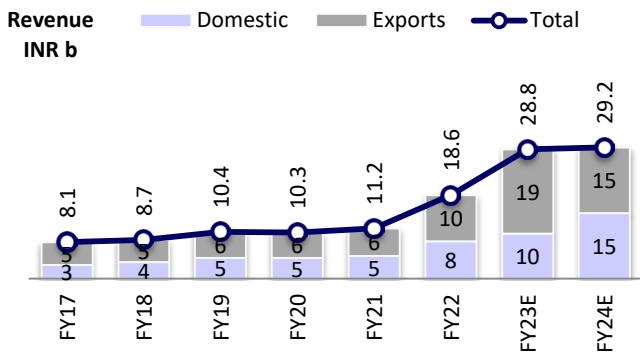
Exhibit 4: PAT was up 4% QoQ (margin at 19.8%)



Source: Company, MOFSL

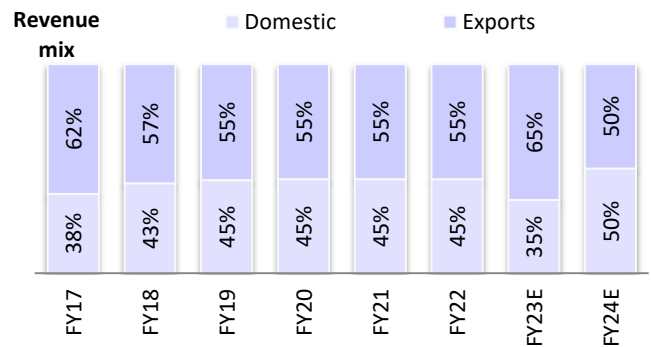
Financial story in charts

Exhibit 1: Expect ~25% revenue CAGR over FY22-24...



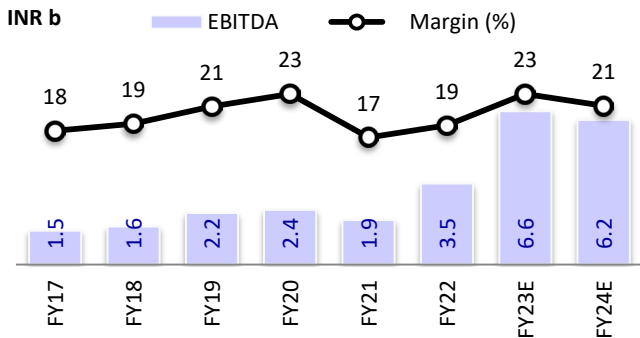
Source: Company, MOFSL

Exhibit 2: ...with share of exports rising in FY23E



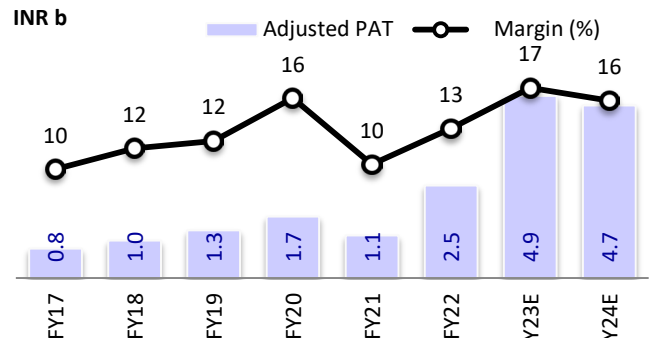
Source: Company, MOFSL

Exhibit 3: Expect EBITDAM to return to ~21% (its long-term average, barring FY21)...



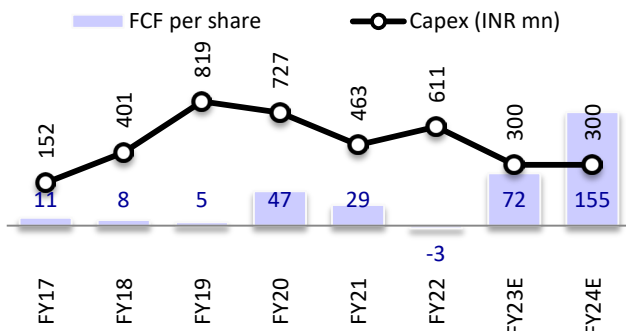
Source: Company, MOFSL

Exhibit 4: ...along with an improvement in PAT margin as well from the trough in FY21



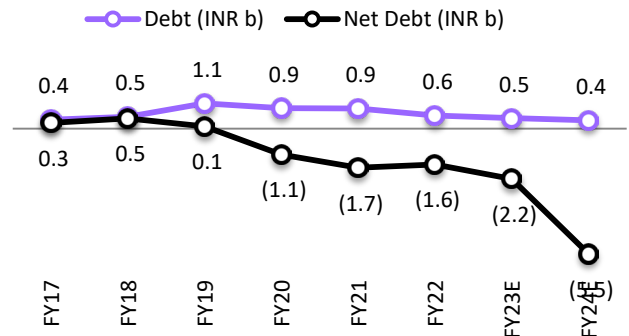
Source: Company, MOFSL

Exhibit 5: Capex for the next two years stands at INR0.6b



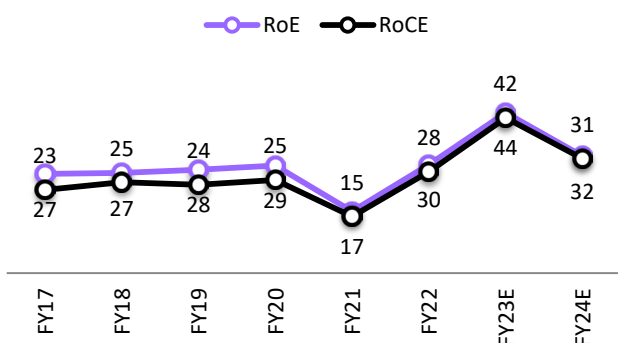
Source: Company, MOFSL

Exhibit 6: FINEORG remains cash positive



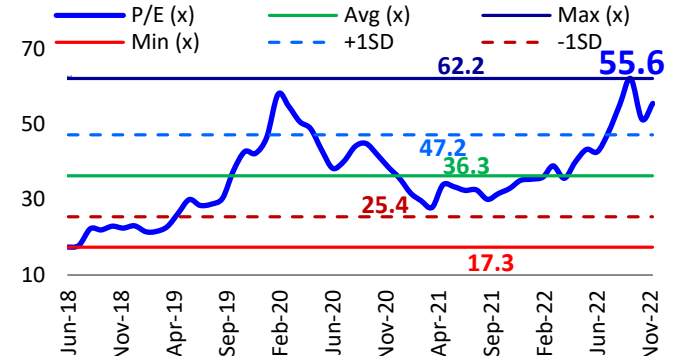
Source: Company, MOFSL

Exhibit 7: Return ratios to be at 25-32% in FY23-24E



Source: Company, MOFSL

Exhibit 8: FINEORG trades at ~55.6x 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
<b>Total Income from Operations</b>	<b>8,144</b>	<b>8,651</b>	<b>10,440</b>	<b>10,262</b>	<b>11,213</b>	<b>18,584</b>	<b>28,764</b>	<b>29,195</b>
Change (%)	17.7	6.2	20.7	-1.7	9.3	65.7	54.8	1.5
Gross Margins (%)	38.8	35.6	37.3	40.9	35.2	35.7	38.0	37.5
<b>EBITDA</b>	<b>1,467</b>	<b>1,640</b>	<b>2,223</b>	<b>2,361</b>	<b>1,921</b>	<b>3,485</b>	<b>6,608</b>	<b>6,241</b>
Margin (%)	18.0	19.0	21.3	23.0	17.1	18.8	23.0	21.4
Depreciation	237	200	175	347	468	399	442	467
<b>EBIT</b>	<b>1,230</b>	<b>1,440</b>	<b>2,048</b>	<b>2,014</b>	<b>1,453</b>	<b>3,086</b>	<b>6,167</b>	<b>5,774</b>
Int. and Finance Charges	44	31	18	48	61	51	79	42
Other Income	43	164	202	205	170	332	508	514
<b>PBT bef. EO Exp.</b>	<b>1,229</b>	<b>1,572</b>	<b>2,233</b>	<b>2,172</b>	<b>1,562</b>	<b>3,368</b>	<b>6,596</b>	<b>6,246</b>
<b>PBT after EO Exp.</b>	<b>1,229</b>	<b>1,572</b>	<b>2,233</b>	<b>2,172</b>	<b>1,562</b>	<b>3,368</b>	<b>6,596</b>	<b>6,246</b>
Total Tax	429	559	942	507	413	861	1,660	1,572
Tax Rate (%)	34.9	35.5	42.2	23.3	26.4	25.6	25.2	25.2
<b>Reported PAT</b>	<b>800</b>	<b>1,014</b>	<b>1,290</b>	<b>1,665</b>	<b>1,149</b>	<b>2,507</b>	<b>4,936</b>	<b>4,674</b>
<b>Adjusted PAT</b>	<b>800</b>	<b>1,014</b>	<b>1,290</b>	<b>1,665</b>	<b>1,149</b>	<b>2,507</b>	<b>4,936</b>	<b>4,674</b>
Change (%)	4.0	26.7	27.3	29.0	-31.0	118.1	96.9	-5.3
Margin (%)	9.8	11.7	12.4	16.2	10.2	13.5	17.2	16.0

### 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	12,887	16,158
<b>Net Worth</b>	<b>3,350</b>	<b>4,085</b>	<b>5,084</b>	<b>6,308</b>	<b>7,388</b>	<b>9,585</b>	<b>13,040</b>	<b>16,312</b>
Total Loans	403	536	1,130	915	892	585	468	375
<b>Capital Employed</b>	<b>3,752</b>	<b>4,621</b>	<b>6,219</b>	<b>7,222</b>	<b>8,280</b>	<b>10,170</b>	<b>13,508</b>	<b>16,686</b>
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
<b>Net Fixed Assets</b>	<b>968</b>	<b>881</b>	<b>778</b>	<b>2,159</b>	<b>1,958</b>	<b>2,293</b>	<b>2,151</b>	<b>1,985</b>
Capital WIP	28	317	1,063	58	263	141	141	141
<b>Total Investments</b>	<b>143</b>	<b>143</b>	<b>167</b>	<b>442</b>	<b>437</b>	<b>431</b>	<b>431</b>	<b>431</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>3,406</b>	<b>4,079</b>	<b>5,086</b>	<b>5,964</b>	<b>6,902</b>	<b>9,413</b>	<b>14,588</b>	<b>17,989</b>
Inventory	885	833	790	1,195	1,089	2,017	3,841	3,899
Account Receivables	1,203	1,611	1,670	1,451	1,752	3,316	5,132	5,209
Cash and Bank Balance	142	71	1,031	2,056	2,612	2,158	2,682	5,906
Cash	103	54	1,020	2,009	2,564	2,093	2,617	5,841
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	2,932	2,975
<b>Curr. Liability &amp; Prov.</b>	<b>793</b>	<b>799</b>	<b>875</b>	<b>1,401</b>	<b>1,281</b>	<b>2,108</b>	<b>3,803</b>	<b>3,860</b>
Account Payables	676	693	523	843	990	1,514	2,885	2,928
Other Current Liabilities	117	84	307	526	156	290	449	456
<b>Net Current Assets</b>	<b>2,613</b>	<b>3,280</b>	<b>4,211</b>	<b>4,563</b>	<b>5,622</b>	<b>7,305</b>	<b>10,784</b>	<b>14,129</b>
<b>Appl. of Funds</b>	<b>3,752</b>	<b>4,621</b>	<b>6,219</b>	<b>7,222</b>	<b>8,280</b>	<b>10,170</b>	<b>13,508</b>	<b>16,686</b>

## Financials and valuations

### Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Basic (INR)</b>								
EPS	26.1	33.1	42.1	54.3	37.5	81.8	161.0	152.4
EPS Growth (%)	4%	27%	27%	29%	-31%	118%	97%	-5%
Cash EPS	33.8	39.6	47.8	65.6	52.7	94.8	175.4	167.7
BV/Share	109.2	133.2	165.8	205.7	241.0	312.6	425.3	532.0
DPS	0.0	7.5	7.0	11.0	11.0	9.0	48.3	45.7
Payout (%)	0.0	27.3	20.0	24.4	29.3	11.0	30.0	30.0
<b>Valuation (x)</b>								
P/E	237.7	187.6	147.3	114.2	165.4	75.8	38.5	40.7
Cash P/E	183.3	156.6	129.8	94.5	117.6	65.4	35.4	37.0
P/BV	56.8	46.5	37.4	30.1	25.7	19.8	14.6	11.7
EV/Sales	23.4	22.0	18.2	18.4	16.8	10.1	6.5	6.3
EV/EBITDA	129.8	116.2	85.6	80.0	98.1	54.1	28.4	29.6
Dividend Yield (%)	0.0	0.1	0.1	0.2	0.2	0.1	0.8	0.7
FCF per share	11.0	7.9	5.0	47.3	28.7	-3.4	71.8	155.3
<b>Return Ratios (%)</b>								
RoE	27.0	27.3	28.1	29.2	16.8	29.5	43.6	31.8
RoCE	22.6	24.7	24.0	25.3	15.4	27.6	42.2	31.2
RoIC	24.6	24.7	29.4	35.8	22.2	37.0	52.2	42.2
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	7.4	9.4	12.6	7.0	5.4	8.7	12.9	14.1
Asset Turnover (x)	2.2	1.9	1.7	1.4	1.4	1.8	2.1	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
<b>Leverage Ratio (x)</b>								
Current Ratio	4.3	5.1	5.8	4.3	5.4	4.5	3.8	4.7
Interest Cover Ratio	28.3	46.1	114.4	42.1	23.9	61.0	78.0	137.0
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	6,596	6,246
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	-1,660	-1,572
(Inc)/Dec in WC	-483	-503	-423	416	-167	-2,233	-2,956	-120
<b>CF from Operations</b>	<b>490</b>	<b>643</b>	<b>972</b>	<b>2,178</b>	<b>1,343</b>	<b>508</b>	<b>2,501</b>	<b>5,062</b>
(Inc)/Dec in FA	-152	-401	-819	-727	-463	-611	-300	-300
<b>Free Cash Flow</b>	<b>338</b>	<b>242</b>	<b>153</b>	<b>1,451</b>	<b>880</b>	<b>-103</b>	<b>2,201</b>	<b>4,762</b>
Change in Investments	-56	-2	-42	-287	4	-6	0	0
Others	46	-118	-73	172	57	55	0	0
<b>CF from Investments</b>	<b>-163</b>	<b>-521</b>	<b>-934</b>	<b>-842</b>	<b>-402</b>	<b>-562</b>	<b>-300</b>	<b>-300</b>
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	-1,481	-1,402
Others	-15	125	139	137	106	274	0	0
<b>CF from Fin. Activity</b>	<b>-592</b>	<b>-172</b>	<b>929</b>	<b>-346</b>	<b>-385</b>	<b>-416</b>	<b>-1,677</b>	<b>-1,538</b>
<b>Inc/Dec of Cash</b>	<b>-264</b>	<b>-49</b>	<b>966</b>	<b>989</b>	<b>555</b>	<b>-471</b>	<b>524</b>	<b>3,224</b>
Opening Balance	367	103	54	1,020	2,009	2,564	2,093	2,617
<b>Closing Balance</b>	<b>103</b>	<b>53</b>	<b>1,020</b>	<b>2,009</b>	<b>2,564</b>	<b>2,093</b>	<b>2,617</b>	<b>5,842</b>

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

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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