

January 26, 2023

## Q3FY23 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	HOLD		HOLD	
Target Price	300		335	
Sales (Rs. m)	33,980	38,601	36,003	39,822
% Chng.	(5.6)	(3.1)		
EBITDA (Rs. m)	4,192	5,083	4,691	5,613
% Chng.	(10.6)	(9.4)		
EPS (Rs.)	9.6	12.7	11.7	14.6
% Chng.	(17.8)	(12.9)		

### Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	30,842	29,434	33,980	38,601
EBITDA (Rs. m)	3,677	2,696	4,192	5,083
Margin (%)	11.9	9.2	12.3	13.2
PAT (Rs. m)	2,564	1,537	2,535	3,352
EPS (Rs.)	9.7	5.8	9.6	12.7
Gr. (%)	101.8	(40.1)	65.0	32.3
DPS (Rs.)	0.5	0.6	1.0	1.3
Yield (%)	0.2	0.2	0.3	0.5
RoE (%)	22.0	11.2	16.3	18.4
RoCE (%)	24.4	13.0	19.0	21.6
EV/Sales (x)	2.4	2.6	2.2	1.9
EV/EBITDA (x)	20.0	28.2	17.6	14.3
PE (x)	28.8	48.1	29.2	22.1
P/BV (x)	5.7	5.1	4.4	3.8

### Key Data

LAXR.BO | LXCHEM IN

52-W High / Low	Rs.502 / Rs.274
Sensex / Nifty	60,205 / 17,892
Market Cap	Rs.74bn/ \$ 911m
Shares Outstanding	265m
3M Avg. Daily Value	Rs.157.58m

### Shareholding Pattern (%)

Promoter's	72.51
Foreign	0.45
Domestic Institution	1.65
Public & Others	25.39
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	0.9	(11.0)	(33.5)
Relative	0.3	(17.6)	(36.1)

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## Weak operating performance, yet again

### Quick Pointers:

- Weak operating performance with EBITDA at Rs548mn (-49%YoY/+91%QoQ); QoQ improvement is on low base (21 days plant shutdown in Q2).
- Fluorochemicals (FI) plant to commission in Q4; Company secured HF supplies and plans to launch 6-8 products (agrochemical and pharmaceuticals)

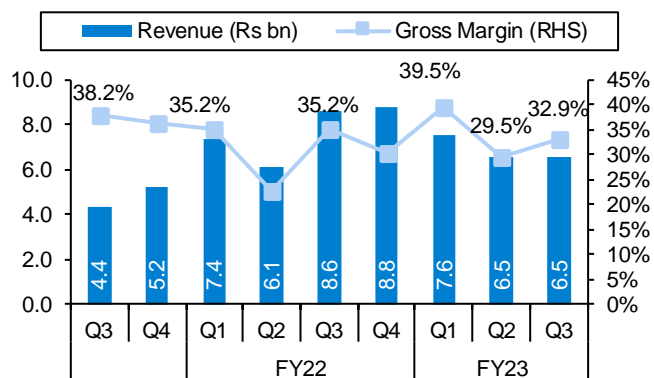
**We cut our FY24/25E EPS estimates by 18%/13% and reduce the TP to Rs300 (SOTP based) vs Rs335 earlier (implied consol FY25E EV/EBITDA of 16x and PE of 24x), given (1) slower than expected revenue growth in Specialty Intermediates (SI) segment ex-new long term contract, on persisting demand weakness in some key applications (2) sharp price correction (ETAC price down >30% YoY) and normalization of spreads in Acetyls (AI) and (3) slow execution of Fluorochemicals plant setup and no. of product launches curtailed further to 6-8 (vs 8-10 earlier); supply contracts still awaited. We believe, SI and AI will remain LXCHEM's core businesses in the medium term (SI revenue visibility remains high given long term contracts), while FI will be a long term earnings driver. EBITDA contribution from higher value segments (SI+FI) will increase to ~70% by FY25E from ~55% in FY22 as SI EBITDA grows at ~16% CAGR and FI earnings commence in Q4FY23. We maintain 'HOLD' rating given correction in the stock price.**

- Consolidated revenue at Rs6.5 bn (-24% YoY/ flat QoQ)** largely led by price correction in AI and slower demand in certain end use SI applications.
- Gross margin at 32.9% (-223bps YoY/+346bps QoQ)** on lower spreads in AI and weaker product mix in SI. EBITDA margin at 8.4% (vs 12.4% in Q3FY22 and 4.4% in Q2FY23) on adverse operating leverage.
- PAT at Rs273mn (-61% YoY/ +216% QoQ)** impacted by higher depreciation on new SI plant commissioning.
- Concall takeaways:** (1) Phase 2 of second long term SI project capitalized in Q3. Both plants (long term contracts) to be at optimum utilization in FY24 (2) Management indicated demand pick-up from Q3 end in both SI and AI, with softening energy prices in Europe (3) Debottlenecking completed at the AI facility (4) Dahej land acquisition (from Welspun) has been completed (5) Board approval awaited for Dahej capex and additional fluorospecialty products (6) Energy costs and freight costs are softening; container availability issues started easing from Jan end (7) Solar power addition by Mar'23 to enhance renewable energy concentration (8) Considerable delay in receiving insurance claim related to Mahad flood damage; management indicated discussions are at an advanced stage (9) 9MFY23 OCF / EBITDA at 65% vs 57% in H1FY23 (10) Yellowstone Chemicals Pvt Ltd (YCPL) and Acetyls Holdings Pvt Ltd (AHPL) merger has been given effect (11) Company's Dubai subsidiary has been terminated as it was non-operational for over an year.

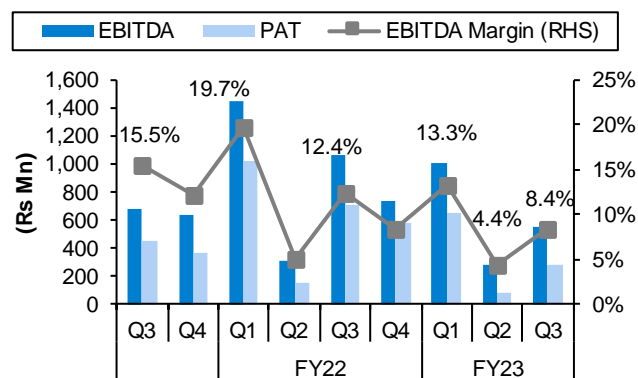
**Exhibit 1: Q3FY23 Result Overview – Consolidated (Rs mn)**

Y/e March	Q3FY23	Q3FY22	YoY gr.	Q2FY23	QoQ gr.	9MFY23	9MFY22	YoY gr.
<b>Net Revenue</b>	<b>6,546</b>	<b>8,599</b>	<b>-23.9%</b>	<b>6,522</b>	<b>0.4%</b>	<b>20,635</b>	<b>22,043</b>	<b>-6.4%</b>
Material Cost	4,390	5,574	-21.2%	4,599	-4.6%	13,569	15,043	-9.8%
Gross Profit	<b>2,157</b>	<b>3,025</b>	<b>-28.7%</b>	<b>1,923</b>	<b>12.2%</b>	<b>7,065</b>	<b>7,000</b>	<b>0.9%</b>
<i>Gross Margin (%)</i>	<i>32.9%</i>	<i>35.2%</i>		<i>29.5%</i>		<i>34.2%</i>	<i>31.8%</i>	
Employee expenses	289	335	-13.6%	294	-1.7%	867	922	-5.9%
Other operating expenses	1,320	1,625	-18.8%	1,342	-1.7%	4,360	3,252	34.1%
<b>EBITDA</b>	<b>548</b>	<b>1,065</b>	<b>-48.6%</b>	<b>286</b>	<b>91.4%</b>	<b>1,838</b>	<b>2,827</b>	<b>-35.0%</b>
<i>EBITDA margin (%)</i>	<i>8.4%</i>	<i>12.4%</i>		<i>4.4%</i>		<i>8.9%</i>	<i>12.8%</i>	
Depreciation	188	128	46.9%	170	10.6%	494	349	41.3%
<b>EBIT</b>	<b>360</b>	<b>937</b>	<b>-61.6%</b>	<b>116</b>	<b>209.3%</b>	<b>1,345</b>	<b>2,477</b>	<b>-45.7%</b>
Other income	32	20	60.5%	29	13.5%	82	130	-36.7%
Interest cost	57	69	-17.7%	44	30.6%	125	108	15.5%
<b>PBT</b>	<b>335</b>	<b>888</b>	<b>-62.2%</b>	<b>101</b>	<b>231.2%</b>	<b>1,302</b>	<b>2,499</b>	<b>-47.9%</b>
Tax	63	183	-65.7%	15	318.3%	298	624	-52.2%
Sh of ass. / Minority int	(0)	(0)	0.0%	(0)	0.0%	(0)	(0)	200.0%
<b>PAT</b>	<b>273</b>	<b>705</b>	<b>-61.4%</b>	<b>86</b>	<b>216.5%</b>	<b>1,003</b>	<b>1,874</b>	<b>-46.5%</b>
Extra ordinary income/ (exp.)	0	0		0		0	0	
<b>Adjusted PAT</b>	<b>273</b>	<b>705</b>	<b>-61.4%</b>	<b>86</b>	<b>216.5%</b>	<b>1,003</b>	<b>1,874</b>	<b>-46.5%</b>
<i>Adj. PAT margin (%)</i>	<i>4.2%</i>	<i>8.2%</i>		<i>1.3%</i>		<i>4.9%</i>	<i>8.5%</i>	
No. of shares (mn)	265	264	0.6%	265	0.0%	265	264	0.6%
<b>Adj. EPS (Rs.)</b>	<b>1.0</b>	<b>2.7</b>	<b>-61.6%</b>	<b>0.3</b>	<b>216.4%</b>	<b>3.8</b>	<b>7.1</b>	<b>-46.8%</b>

Source: Company, PL

**Exhibit 2: Revenue decline on price correction in acetyls**


Source: Company, PL

**Exhibit 3: Margin impacted by adverse operating leverage**


Source: Company, PL

**Exhibit 4: Valuation – SOTP based TP at Rs 300; Maintain HOLD rating**

SOTP	FY22	FY23E	FY24E	FY25E	CAGR (FY22-25E)
<b>EBITDA (Rs mn)</b>					
Specialty Intermediates	1,754	1,659	2,338	2,722	16%
Fluorochemicals	-	4	400	750	
Acetyl Intermediates	1,441	974	1,392	1,542	2%
Subsidiaries & Others	203	59	62	68	
<b>Consolidated EBITDA (Rs mn)</b>	<b>3,398</b>	<b>2,696</b>	<b>4,192</b>	<b>5,083</b>	<b>14%</b>
<b>EV/EBITDA Target Multiple (x)</b>				<b>FY25</b>	
Specialty Intermediates				20	
Fluorochemicals				16	
Acetyl Intermediates				8	
Subsidiaries & Others				6	
<b>Enterprise Value (Rs mn)</b>				<b>FY25</b>	<b>Per Share</b>
Specialty Intermediates				54,447	207
Fluorochemicals				12,000	46
Acetyl Intermediates				12,339	47
Subsidiaries & Others				409	2
<b>Enterprise Value (Rs mn)</b>				<b>79,195</b>	<b>300</b>
Less: Net Debt and Investments				39	0
<b>Equity Value / MCap (Rs mn)</b>				<b>79,156</b>	<b>300</b>
<b>Fair Value / Target Price (Rs)</b>				<b>300</b>	

Source: PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>30,842</b>	<b>29,434</b>	<b>33,980</b>	<b>38,601</b>
YoY gr. (%)	74.4	(4.6)	15.4	13.6
Cost of Goods Sold	21,125	19,680	21,815	24,678
Gross Profit	9,717	9,755	12,165	13,923
Margin (%)	31.5	33.1	35.8	36.1
Employee Cost	1,244	1,319	1,517	1,699
Other Expenses	4,796	5,740	6,456	7,141
<b>EBITDA</b>	<b>3,677</b>	<b>2,696</b>	<b>4,192</b>	<b>5,083</b>
YoY gr. (%)	69.7	(26.7)	55.5	21.3
Margin (%)	11.9	9.2	12.3	13.2
Depreciation and Amortization	493	687	977	1,079
<b>EBIT</b>	<b>3,184</b>	<b>2,009</b>	<b>3,215</b>	<b>4,004</b>
Margin (%)	10.3	6.8	9.5	10.4
Net Interest	154	200	158	37
Other Income	149	112	112	223
<b>Profit Before Tax</b>	<b>3,179</b>	<b>1,921</b>	<b>3,169</b>	<b>4,191</b>
Margin (%)	10.3	6.5	9.3	10.9
Total Tax	614	384	634	838
Effective tax rate (%)	19.3	20.0	20.0	20.0
<b>Profit after tax</b>	<b>2,565</b>	<b>1,537</b>	<b>2,535</b>	<b>3,352</b>
Minority interest	1	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>2,564</b>	<b>1,537</b>	<b>2,535</b>	<b>3,352</b>
YoY gr. (%)	101.8	(40.1)	65.0	32.3
Margin (%)	8.3	5.2	7.5	8.7
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>2,564</b>	<b>1,537</b>	<b>2,535</b>	<b>3,352</b>
YoY gr. (%)	101.8	(40.1)	65.0	32.3
Margin (%)	8.3	5.2	7.5	8.7
Other Comprehensive Income	(11)	-	-	-
Total Comprehensive Income	2,553	1,537	2,535	3,352
<b>Equity Shares O/s (m)</b>	<b>264</b>	<b>264</b>	<b>264</b>	<b>264</b>
<b>EPS (Rs)</b>	<b>9.7</b>	<b>5.8</b>	<b>9.6</b>	<b>12.7</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>6,294</b>	<b>13,832</b>	<b>14,832</b>	<b>16,832</b>
Tangibles	6,269	13,807	14,807	16,807
Intangibles	26	26	26	26
<b>Acc: Dep / Amortization</b>	<b>2,383</b>	<b>3,070</b>	<b>4,047</b>	<b>5,126</b>
Tangibles	2,365	3,052	4,029	5,108
Intangibles	18	18	18	18
<b>Net fixed assets</b>	<b>3,911</b>	<b>10,762</b>	<b>10,785</b>	<b>11,707</b>
Tangibles	3,903	10,755	10,778	11,699
Intangibles	8	8	8	8
Capital Work In Progress	3,738	1,000	1,000	1,000
Goodwill	33	33	33	33
Non-Current Investments	178	178	178	178
Net Deferred tax assets	(215)	(215)	(215)	(215)
Other Non-Current Assets	63	63	63	63
<b>Current Assets</b>				
Investments	40	40	40	40
Inventories	3,736	3,629	4,189	4,759
Trade receivables	6,684	6,048	6,982	7,932
Cash & Bank Balance	1,822	154	498	1,425
Other Current Assets	768	733	372	423
<b>Total Assets</b>	<b>22,675</b>	<b>24,266</b>	<b>26,013</b>	<b>29,683</b>
<b>Equity</b>				
Equity Share Capital	527	527	527	527
Other Equity	12,479	13,862	16,144	19,161
<b>Total Networth</b>	<b>13,007</b>	<b>14,390</b>	<b>16,671</b>	<b>19,688</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	99	1,277	577	77
Provisions	37	39	45	50
Other non current liabilities	44	44	44	44
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,235	968	-	-
Trade payables	7,117	6,451	7,448	8,461
Other current liabilities	894	854	985	1,119
<b>Total Equity &amp; Liabilities</b>	<b>22,675</b>	<b>24,266</b>	<b>26,013</b>	<b>29,683</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	3,178	1,921	3,169	4,191
Add. Depreciation	493	687	977	1,079
Add. Interest	63	200	158	37
Less Financial Other Income	149	112	112	223
Add. Other	212	(112)	(112)	(223)
Op. profit before WC changes	3,946	2,696	4,192	5,083
Net Changes-WC	(2,929)	161	(293)	(716)
Direct tax	(561)	(397)	(593)	(797)
<b>Net cash from Op. activities</b>	<b>457</b>	<b>2,461</b>	<b>3,305</b>	<b>3,570</b>
Capital expenditures	(3,083)	(4,800)	(1,000)	(2,000)
Interest / Dividend Income	114	112	112	223
Others	3,707	992	-	-
<b>Net Cash from Invt. activities</b>	<b>738</b>	<b>(3,696)</b>	<b>(888)</b>	<b>(1,777)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(1,033)	912	(1,668)	(500)
Dividend paid	(132)	(154)	(253)	(335)
Interest paid	(48)	(200)	(158)	(37)
Others	(29)	2	6	5
<b>Net cash from Fin. activities</b>	<b>(1,242)</b>	<b>560</b>	<b>(2,073)</b>	<b>(866)</b>
<b>Net change in cash</b>	<b>(47)</b>	<b>(676)</b>	<b>344</b>	<b>927</b>
Free Cash Flow	(2,635)	(2,339)	2,305	1,570

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	9.7	5.8	9.6	12.7
CEPS	11.6	8.4	13.3	16.8
BVPS	49.3	54.6	63.2	74.7
FCF	(10.0)	(8.9)	8.7	6.0
DPS	0.5	0.6	1.0	1.3
<b>Return Ratio(%)</b>				
RoCE	24.4	13.0	19.0	21.6
ROIC	27.3	11.1	15.5	18.3
RoE	22.0	11.2	16.3	18.4
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.0	0.1	-	(0.1)
Net Working Capital (Days)	39	40	40	40
<b>Valuation(x)</b>				
PER	28.8	48.1	29.2	22.1
P/B	5.7	5.1	4.4	3.8
P/CEPS	24.2	33.3	21.1	16.7
EV/EBITDA	20.0	28.2	17.6	14.3
EV/Sales	2.4	2.6	2.2	1.9
Dividend Yield (%)	0.2	0.2	0.3	0.5

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

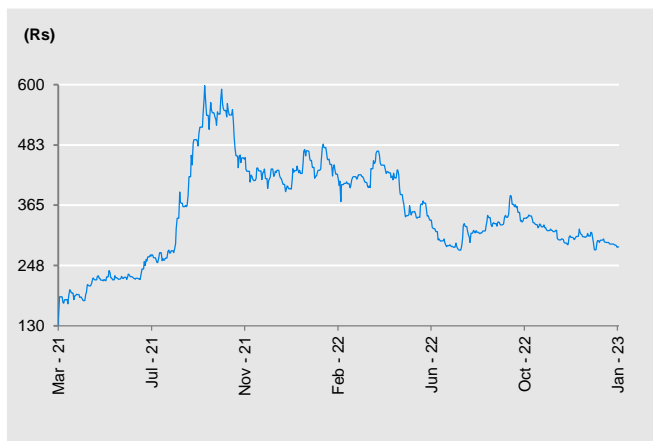
Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
<b>Net Revenue</b>	<b>8,799</b>	<b>7,566</b>	<b>6,522</b>	<b>6,546</b>
YoY gr. (%)	69.4	2.8	7.3	(23.9)
Raw Material Expenses	6,138	4,580	4,599	4,390
Gross Profit	2,661	2,986	1,923	2,157
Margin (%)	30.2	39.5	29.5	32.9
<b>EBITDA</b>	<b>729</b>	<b>1,004</b>	<b>286</b>	<b>548</b>
YoY gr. (%)	14.5	(30.9)	(7.3)	(48.6)
Margin (%)	8.3	13.3	4.4	8.4
Depreciation / Depletion	138	136	170	188
<b>EBIT</b>	<b>592</b>	<b>868</b>	<b>116</b>	<b>360</b>
Margin (%)	6.7	11.5	1.8	5.5
Net Interest	46	24	44	57
Other Income	19	21	29	32
<b>Profit before Tax</b>	<b>565</b>	<b>865</b>	<b>101</b>	<b>335</b>
Margin (%)	6.4	11.4	1.6	5.1
Total Tax	(10)	221	15	63
Effective tax rate (%)	(1.8)	25.5	14.8	18.7
<b>Profit after Tax</b>	<b>575</b>	<b>644</b>	<b>86</b>	<b>273</b>
Minority interest	1	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>574</b>	<b>644</b>	<b>86</b>	<b>273</b>
YoY gr. (%)	57.9	(37.0)	(40.9)	(61.4)
Margin (%)	6.5	8.5	1.3	4.2
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>574</b>	<b>644</b>	<b>86</b>	<b>273</b>
YoY gr. (%)	57.9	(37.0)	(40.9)	(61.4)
Margin (%)	6.5	8.5	1.3	4.2
Other Comprehensive Income	(5)	7	1	-
<b>Total Comprehensive Income</b>	<b>569</b>	<b>651</b>	<b>87</b>	<b>272</b>
Avg. Shares O/s (m)	264	265	265	265
<b>EPS (Rs)</b>	<b>2.2</b>	<b>2.4</b>	<b>0.3</b>	<b>1.0</b>

Source: Company Data, PL Research



## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jan-23	Hold	335	293
2	14-Nov-22	Hold	335	299
3	06-Oct-22	Hold	335	343
4	07-Sep-22	Hold	335	329

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Accumulate	775	608
2	Fine Organic Industries	Accumulate	7,000	5,609
3	Jubilant Ingrevia	BUY	860	534
4	Laxmi Organic Industries	Hold	335	293
5	NOCIL	Accumulate	275	239

## PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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