

February 14, 2023

Q3FY23 Result Update

■ Change in Estimates | ■ Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		ACCUMULATE	
Target Price	7,000		7,000	
Sales (Rs. m)	30,200	30,519	30,200	30,519
% Chng.	-	-	-	-
EBITDA (Rs. m)	6,687	6,926	6,687	6,926
% Chng.	-	-	-	-
EPS (Rs.)	168.4	175.2	168.4	175.2
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	18,763	31,109	30,200	30,519
EBITDA (Rs. m)	3,645	7,838	6,687	6,926
Margin (%)	19.4	25.2	22.1	22.7
PAT (Rs. m)	2,596	5,872	5,162	5,371
EPS (Rs.)	84.7	191.5	168.4	175.2
Gr. (%)	115.8	126.2	(12.1)	4.0
DPS (Rs.)	9.0	19.2	33.7	35.0
Yield (%)	0.2	0.4	0.7	0.8
RoE (%)	30.7	47.4	29.5	24.5
RoCE (%)	35.3	58.1	35.5	29.0
EV/Sales (x)	7.4	4.4	4.3	4.2
EV/EBITDA (x)	38.3	17.5	19.6	18.5
PE (x)	54.5	24.1	27.4	26.3
P/BV (x)	14.7	9.3	7.2	5.9

Key Data

FINO.BO | FINEORG IN

52-W High / Low	Rs.7,329 / Rs.3,563
Sensex / Nifty	60,432 / 17,771
Market Cap	Rs.141bn / \$ 1,710m
Shares Outstanding	31m
3M Avg. Daily Value	Rs.245.36m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	6.74
Domestic Institution	10.92
Public & Others	7.34
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(18.1)	(25.7)	20.3
Relative	(18.4)	(26.9)	15.8

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Domestic demand recovery strengthens outlook

Quick Pointers:

- Peak utilization in FY24 reiterated by management as domestic demand recovers across end uses while export demand outlook remains strong
- Moderation in raw material prices from recent peaks, likely to be visible in Q4, as higher cost inventory impacted margin in Q3

We upgrade the stock to 'BUY' from 'Accumulate' given the recent stock price correction, as we maintain our EPS estimates FY23/24/25 and TP at Rs 7000 (40x FY25E EPS). FINEORG delivered healthy operating performance despite (a) lower export volumes QoQ (typically higher value) on plant turnaround (~10days impact) (b) higher cost RM inventory amidst lower blended realizations impacting gross margin/ spreads.

FINEORG remains the best play on rising adoption of oleochemical based green additives. Its growth prospects look encouraging given 1) strong demand/ order visibility aided by enhanced client confidence amidst covid-led supply chain disruption 2) capacity headroom to enable capturing demand improvement in FY24; though FY25 will be growth constrained for want of capacity 3) strong profitability over FY24-FY25 on optimum product mix and operating leverage playing out 4) net cash balance sheet and healthy OCF of Rs 15 bn over FY23-25 to enable self-funded capex. Gujarat capex facing undue delay as allotment letter from state government is still awaited.

- Revenue dip QoQ on plant turnaround and lower exports:** Consolidated revenue +64% YoY/ -17% QoQ to Rs 7.6bn impacted QoQ by (a) lower export volumes and (b) lower blended realizations on raw material and freight cost correction. Standalone revenue at Rs7.5bn (+60%YoY/ -9%QoQ).
- Margin impacted by sales mix and higher cost RM inventory:** EBITDA at Rs1.75bn (+119% YoY / -18% QoQ) and EBITDA margin at 23.3% (+627bps YoY/ -253bps QoQ), were impacted by change in sales mix QoQ (export contribution lower at 65% in Q3FY23 vs 72% in Q2; typically higher value/ margin), and adverse operating leverage. While domestic revenue increased 14%QoQ, exports revenue declined 18%QoQ. PAT stood at Rs1.3bn (+136% YoY/ -20%QoQ). Consolidated financials reflect partially offsetting inventory adjustments at subsidiary level.
- Management meeting takeaways: (1)** Freight costs reduced significantly as supply chain challenges have eased **(2)** Decline in raw material costs (led by lower vegetable oil prices) to be passed on to customers in a calibrated way **(3)** Signed several long term contracts over last couple of quarters as RM situation eased and expected to remain normal; large customers prefer long term contracts **(4)** Thailand production to commence in Apr'23 (small capacity – undisclosed); while expansion to be considered by Jun'23 (post production commencement) **(5)** New Patalganga unit (5000 mtpa) and Fine Zeelandia, ramping up steadily **(6)** All other plants operating at optimal capacity utilization and to operate at peak utilization next year **(7)** Debottlenecking is not possible

Exhibit 1: Q3FY23 Result Overview - Consolidated (Rs mn)

Y/e March	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY23	QoQ gr. (%)	9MFY23	9MFY22	YoY gr (%)
Net sales	7,595	4,634	63.9	9,192	-17.4	24,264	12,594	92.7
Material Cost	5,026	3,081	63.1	5,586	-10.0	14,833	8,427	76.0
Gross Profit	2,570	1,553	65.5	3,606	-28.7	9,432	4,167	126.4
<i>Gross Margin (%)</i>	<i>33.8</i>	<i>33.5</i>		<i>39.2</i>		<i>38.9</i>	<i>33.1</i>	
Other Overheads	969	755	28.3	1,067	-9.2	3,145	2,118	48.5
EBITDA	1,601	798	100.6	2,539	-37.0	6,286	2,048	206.9
<i>EBITDA margin (%)</i>	<i>21.1</i>	<i>17.2</i>		<i>27.6</i>		<i>25.9</i>	<i>16.3</i>	
Depreciation	123	101		115		349	293	
EBIT	1,478	697	112.0	2,424	-39.0	5,938	1,755	238.3
Other income	152	66	131.1	193	-21.7	512	187	174.1
Interest	11	12	-9.1	13	-13.3	37	38	-2.2
PBT	1,619	750	115.7	2,605	-37.9	6,413	1,904	236.8
Tax	549	231	137.5	577	-5.0	1,715	519	230.7
Net profit	1,062	520	104.4	2,026	-47.6	4,687	1,378	240.2
Adjusted PAT	1,062	520	104.4	2,026	-47.6	4,687	1,378	240.2
<i>Adj. PAT margin (%)</i>	<i>14.0</i>	<i>11.2</i>		<i>22.0</i>		<i>19.3</i>	<i>10.9</i>	
No. of shares (mn)	31	31		31		31	31	
Adj. EPS (Rs.)	34.6	17.0	104.4	66.1	-47.6	152.9	44.9	240.2

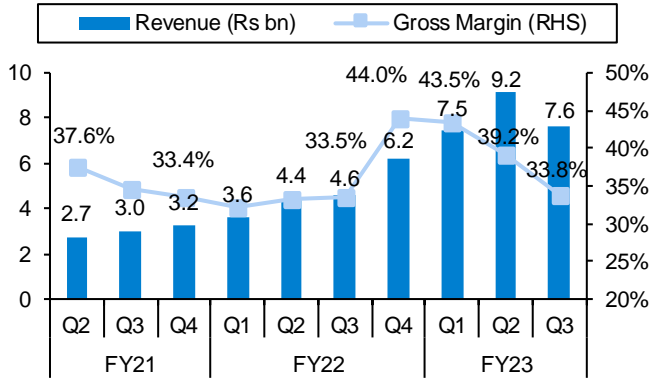
Source: Company, PL

Exhibit 2: Q3FY23 Result Overview - Standalone (Rs mn)

Y/e March	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY23	QoQ gr. (%)	9MFY23	9MFY22	YoY gr (%)
Net sales	7,499	4,682	60.1	8,281	-9.4	23,305	12,577	85.3
Material Cost	4,863	3,145	54.6	5,118	-5.0	14,402	8,477	69.9
Gross Profit	2,635	1,537	71.4	3,163	-16.7	8,903	4,100	117.2
<i>Gross Margin (%)</i>	<i>35.1</i>	<i>32.8</i>		<i>38.2</i>		<i>38.2</i>	<i>32.6</i>	
Other Overheads	888	740	20.1	1,025	-13.3	2,963	2,076	42.8
EBITDA	1,747	797	119.1	2,138	-18.3	5,940	2,024	193.5
<i>EBITDA margin (%)</i>	<i>23.3</i>	<i>17.0</i>		<i>25.8</i>		<i>25.5</i>	<i>16.1</i>	
Depreciation	123	101	21.9	115	6.5	349	293	
EBIT	1,624	696	133.2	2,023	-19.7	5,592	1,731	223.0
Other income	152	66	129.2	193	-21.5	511	188	171.5
Interest	11	12	-9.7	13	-12.9	36	37	-3.3
PBT	1,764	750	135.2	2,203	-19.9	6,067	1,882	222.4
Tax	452	193	134.0	563	-19.8	1,542	476	224.0
Net profit	1,313	557	135.6	1,640	-20.0	4,525	1,406	221.8
Adjusted PAT	1,313	557	135.6	1,640	-20.0	4,525	1,406	221.8
<i>Adj. PAT margin (%)</i>	<i>17.5</i>	<i>11.9</i>		<i>19.8</i>		<i>19.4</i>	<i>11.2</i>	
No. of shares (mn)	31	31		31		31	31	
Adj. EPS (Rs.)	42.8	18.2	135.6	53.5	-20.0	147.6	45.9	221.8

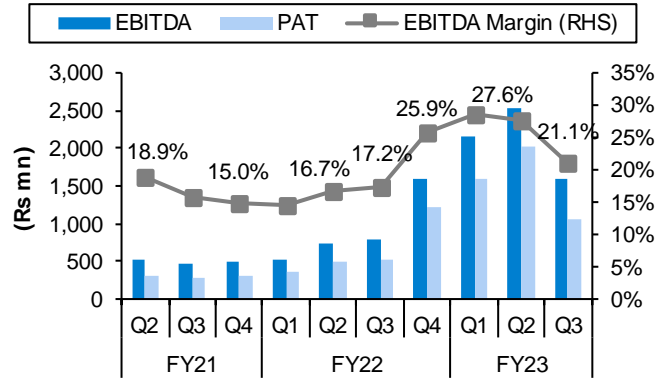
Source: Company, PL

Exhibit 3: Revenue decline QoQ on lower export vol



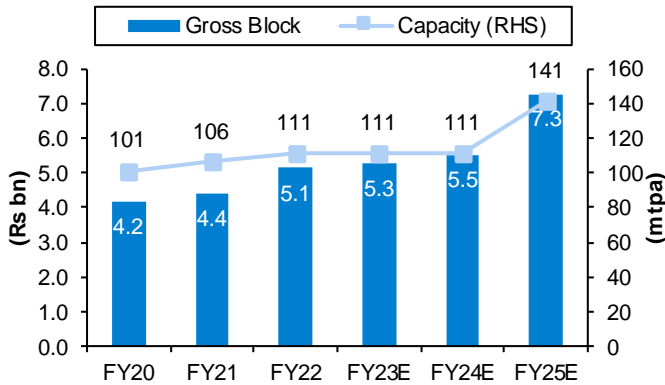
Source: Company, PL

Exhibit 4: QoQ margin dip on sales mix and high cost RM



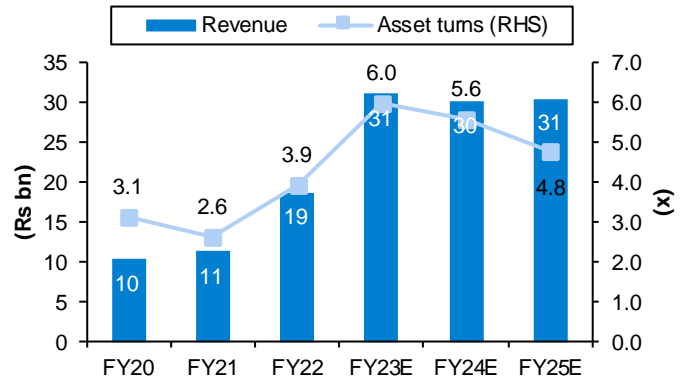
Source: Company, PL

Exhibit 5: Capacity headroom to aid FY24 volume growth



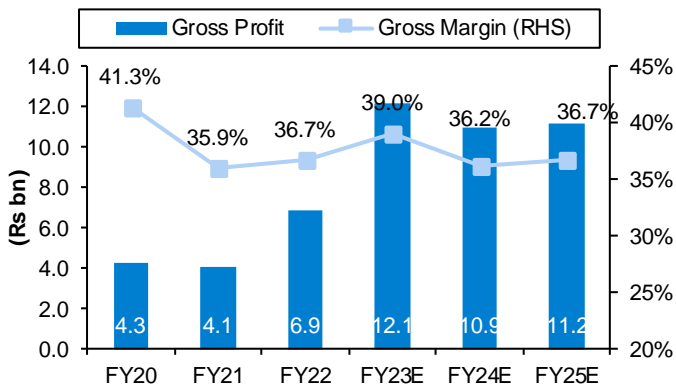
Source: Company, PL ^FY25E capacity increase not announced

Exhibit 6: Expect 18% revenue CAGR over FY22-25E



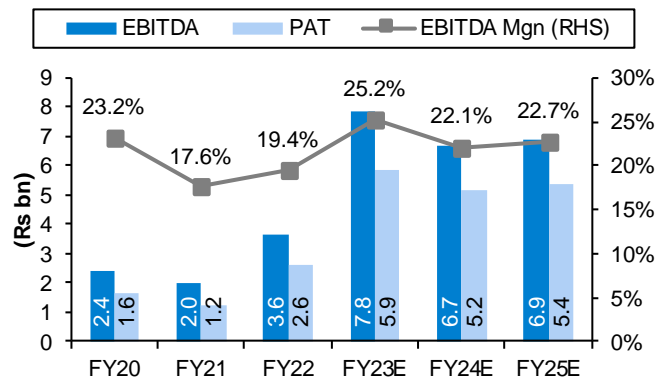
Source: Company, PL

Exhibit 7: Healthy margins despite spread normalization



Source: Company, PL

Exhibit 8: Improved earnings visibility



Source: Company, PL

Exhibit 9: Robust cash flow generation to enable self-funded capex

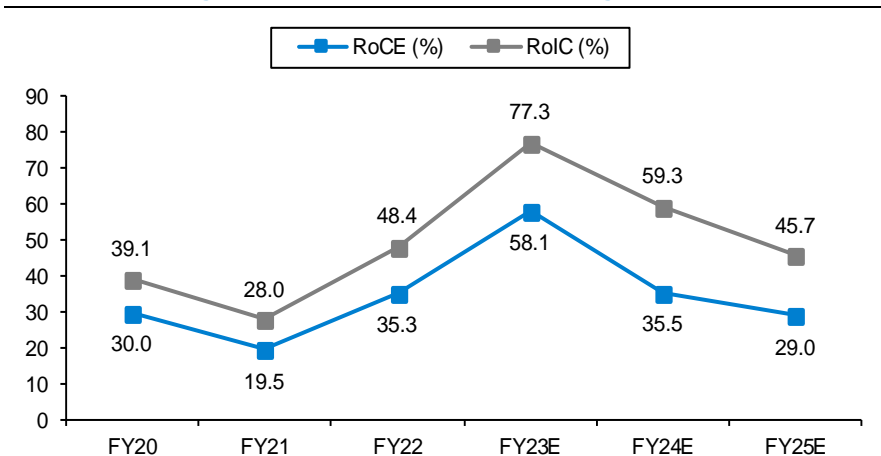
Cash Flow (Rs bn)	FY20	FY21	FY22E	FY23E	FY24E	FY25E
PBIT	2.1	1.6	3.5	7.8	6.9	7.1
Add: Depreciation	0.3	0.5	0.4	0.5	0.5	0.6
Add: Others	(0.1)	(0.1)	(0.2)	(0.3)	(0.5)	(0.6)
Working Capital Changes	0.4	(0.2)	(2.2)	(3.9)	1.3	0.5
Less: Tax	(0.6)	(0.4)	(0.8)	(1.6)	(1.7)	(1.7)
Cash from Operations	2.2	1.3	0.7	2.4	6.5	5.9
Capex	(0.7)	(0.5)	(0.6)	(0.3)	(0.3)	(2.5)
FCFF	1.5	0.9	0.1	2.2	6.2	3.4

Working Capital (Days)

Inventory	46	41	46	50	45	43
Receivable	47	52	59	65	57	52
Payable	(30)	(31)	(30)	(30)	(30)	(30)
Core W.C.Days	63	61	75	85	72	65
Other Current Assets	18	22	23	21	21	21
Other Current Liabilities & Prov	5	8	12	12	12	12
Overall W.C.Days	75	75	85	94	81	74

Source: Company, PL

Exhibit 10: Strong operational performance to aid high return ratios



Source: Company, PL

RoCE moderation over FY24/25E to 35%/29% (from 58% in FY23E) on net cash of ~Rs 13 bn given strong cash flow generation.

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	18,763	31,109	30,200	30,519
YoY gr. (%)	65.6	65.8	(2.9)	1.1
Cost of Goods Sold	11,879	18,964	19,273	19,304
Gross Profit	6,884	12,145	10,927	11,215
Margin (%)	36.7	39.0	36.2	36.7
Employee Cost	893	1,009	1,069	1,176
Other Expenses	2,346	3,298	3,171	3,113
EBITDA	3,645	7,838	6,687	6,926
YoY gr. (%)	83.0	115.0	(14.7)	3.6
Margin (%)	19.4	25.2	22.1	22.7
Depreciation and Amortization	399	464	481	570
EBIT	3,246	7,374	6,206	6,355
Margin (%)	17.3	23.7	20.5	20.8
Net Interest	51	19	-	-
Other Income	331	331	496	595
Profit Before Tax	3,526	7,686	6,701	6,950
Margin (%)	18.8	24.7	22.2	22.8
Total Tax	918	1,937	1,689	1,752
Effective tax rate (%)	26.0	25.2	25.2	25.2
Profit after tax	2,607	5,749	5,013	5,199
Minority interest	1	-	-	-
Share Profit from Associate	(10)	123	149	172
Adjusted PAT	2,596	5,872	5,162	5,371
YoY gr. (%)	115.8	126.2	(12.1)	4.0
Margin (%)	13.8	18.9	17.1	17.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,596	5,872	5,162	5,371
YoY gr. (%)	115.8	126.2	(12.1)	4.0
Margin (%)	13.8	18.9	17.1	17.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,596	5,872	5,162	5,371
Equity Shares O/s (m)	31	31	31	31
EPS (Rs)	84.7	191.5	168.4	175.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	5,159	5,301	5,551	7,301
Tangibles	5,141	5,282	5,532	7,282
Intangibles	18	18	18	18
Acc: Dep / Amortization	2,866	3,330	3,811	4,382
Tangibles	2,854	3,317	3,799	4,369
Intangibles	13	13	13	13
Net fixed assets	2,293	1,970	1,739	2,919
Tangibles	2,287	1,965	1,734	2,913
Intangibles	6	6	6	6
Capital Work In Progress	141	250	250	1,000
Goodwill	-	-	-	-
Non-Current Investments	319	319	319	319
Net Deferred tax assets	84	84	84	84
Other Non-Current Assets	647	647	647	647
Current Assets				
Investments	-	-	-	-
Inventories	2,356	4,261	3,723	3,595
Trade receivables	3,014	5,540	4,716	4,348
Cash & Bank Balance	2,326	3,957	10,071	12,995
Other Current Assets	1,184	1,790	1,738	1,756
Total Assets	12,364	18,818	23,287	27,663
Equity				
Equity Share Capital	153	153	153	153
Other Equity	9,439	15,035	19,610	23,948
Total Networkth	9,592	15,188	19,763	24,101
Non-Current Liabilities				
Long Term borrowings	585	-	-	-
Provisions	-	-	-	-
Other non current liabilities	9	9	9	9
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,536	2,557	2,482	2,508
Other current liabilities	642	1,065	1,034	1,045
Total Equity & Liabilities	12,364	18,818	23,287	27,663

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	3,515	7,809	6,851	7,122
Add. Depreciation	399	464	481	570
Add. Interest	(23)	19	-	-
Less Financial Other Income	331	331	496	595
Add. Other	(235)	(331)	(496)	(595)
Op. profit before WC changes	3,657	7,961	6,836	7,097
Net Changes-WC	(2,162)	(3,902)	1,331	507
Direct tax	(825)	(1,629)	(1,711)	(1,744)
Net cash from Op. activities	670	2,430	6,456	5,861
Capital expenditures	(611)	(250)	(250)	(2,500)
Interest / Dividend Income	59	331	496	595
Others	(10)	-	-	-
Net Cash from Inv. activities	(563)	81	246	(1,905)
Issue of share cap. / premium	-	-	-	-
Debt changes	(306)	(585)	-	-
Dividend paid	(337)	(276)	(587)	(1,032)
Interest paid	(37)	(19)	-	-
Others	245	-	-	-
Net cash from Fin. activities	(436)	(880)	(587)	(1,032)
Net change in cash	(329)	1,631	6,114	2,924
Free Cash Flow	59	2,180	6,206	3,361

Source: Company Data, PL Research

Key Financial Metrics

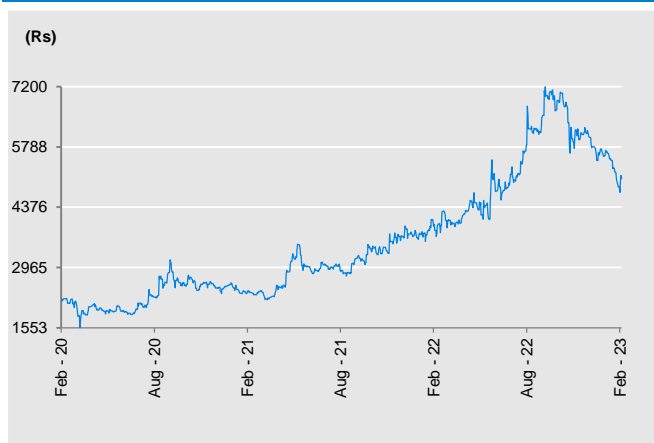
Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	84.7	191.5	168.4	175.2
CEPS	97.7	206.6	184.1	193.8
BVPS	312.9	495.4	644.6	786.1
FCF	1.9	71.1	202.4	109.6
DPS	9.0	19.2	33.7	35.0
Return Ratio(%)				
RoCE	35.3	58.1	35.5	29.0
ROIC	35.0	49.1	47.9	42.8
RoE	30.7	47.4	29.5	24.5
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.3)	(0.5)	(0.5)
Net Working Capital (Days)	75	85	72	65
Valuation(x)				
PER	54.5	24.1	27.4	26.3
P/B	14.7	9.3	7.2	5.9
P/CEPS	47.2	22.3	25.1	23.8
EV/EBITDA	38.3	17.5	19.6	18.5
EV/Sales	7.4	4.4	4.3	4.2
Dividend Yield (%)	0.2	0.4	0.7	0.8

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	6,169	7,477	9,192	7,595
YoY gr. (%)	91.0	109.1	109.7	63.9
Raw Material Expenses	3,452	4,221	5,586	5,026
Gross Profit	2,717	3,256	3,606	2,570
Margin (%)	44.0	43.5	39.2	33.8
EBITDA	1,597	2,146	2,539	1,601
YoY gr. (%)	230.0	312.8	247.6	100.6
Margin (%)	25.9	28.7	27.6	21.1
Depreciation / Depletion	106	111	115	123
EBIT	1,491	2,035	2,424	1,478
Margin (%)	24.2	27.2	26.4	19.5
Net Interest	14	12	13	11
Other Income	144	167	193	152
Profit before Tax	1,621	2,190	2,605	1,619
Margin (%)	26.3	29.3	28.3	21.3
Total Tax	400	589	577	549
Effective tax rate (%)	24.6	26.9	22.2	33.9
Profit after Tax	1,222	1,600	2,027	1,070
Minority interest	-	-	-	-
Share Profit from Associates	(3)	(2)	(1)	(8)
Adjusted PAT	1,219	1,598	2,026	1,062
YoY gr. (%)	283.5	344.9	306.3	104.4
Margin (%)	19.8	21.4	22.0	14.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,219	1,598	2,026	1,062
YoY gr. (%)	283.5	344.9	306.3	104.4
Margin (%)	19.8	21.4	22.0	14.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,219	1,598	2,026	1,062
Avg. Shares O/s (m)	31	31	31	31
EPS (Rs)	39.8	52.1	66.1	34.6

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jan-23	Accumulate	7,000	5,609
2	14-Nov-22	Accumulate	7,000	6,200
3	06-Oct-22	Hold	6,200	6,640
4	11-Aug-22	Hold	6,200	6,515
5	06-Jul-22	BUY	5,600	4,950
6	01-Jun-22	BUY	5,600	4,969
7	08-Apr-22	BUY	4,600	4,230
8	16-Feb-22	BUY	4,600	3,758

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Accumulate	660	565
2	Fine Organic Industries	Accumulate	7,000	5,609
3	Jubilant Ingrevia	BUY	900	485
4	Laxmi Organic Industries	Hold	300	280
5	NOCIL	Accumulate	275	239

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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