

Estimate changes	↔
TP change	↔
Rating change	↔

CMP: INR5,046

TP: INR5,650 (+12%)

Neutral

Bloomberg	FINEORG IN
Equity Shares (m)	31
M.Cap.(INRb)/(USDb)	154.7 / 1.9
52-Week Range (INR)	7326 / 3567
1, 6, 12 Rel. Per (%)	-10/-15/26
12M Avg Val (INR M)	421

Financials & Valuations (INR b)

Y/E March	FY23E	FY24E	FY25E
Sales	30.0	30.3	30.8
EBITDA	7.3	6.9	6.5
PAT	5.5	5.2	4.9
EPS (INR)	180.9	168.0	159.2
EPS Gr. (%)	121.2	-7.1	-5.3
BV/Sh.(INR)	439.2	556.9	668.3
Ratios			
Net D:E	-0.2	-0.4	-0.5
RoE (%)	48.1	33.7	26.0
RoCE (%)	46.3	33.1	25.7
Payout (%)	30.0	30.0	30.0
Valuations			
P/E (x)	27.9	30.1	31.7
P/BV (x)	11.5	9.1	7.6
EV/EBITDA (x)	20.9	21.7	22.3
Div. Yield (%)	1.1	1.0	0.9
FCF Yield (%)	1.6	3.4	3.2

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	75.0	75.0	75.0
DII	11.5	10.9	11.2
FII	5.9	6.7	7.3
Others	7.6	7.3	6.5

FII Includes depository receipts

Performance declines as global disruptions ease

- Fine Organics (FINEORG) reported marginally lower-than-estimated results, with EBITDA at INR1.7b (our estimate of INR1.9b) and EBITDAM at 23.3% (down 250bp QoQ) in 3QFY23. Gross margin stood at 35.1% (down 310bp QoQ). This was due to the ease in global disruptions and in line with management commentary as well for the past couple of quarters.
- All the plants (except the one in 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 and it plans to set up a new plant by Mar'24. However, no announcements have been made till now.
- The company has set up a JV in Thailand with production expected 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. Phase-II of capacity expansion is to take some months from the date of the start of production in Phase-I.
- We have not changed our estimates as of now, premised on the marginally below performance from our estimates, after it outperformed in 1HFY23, ceteris paribus. We expect the gross margin to improve to 38% in the next couple of years with easier access and lower raw material prices, while EBITDAM is expected to be at 21-23%.
- The stock is trading at 30x FY24E P/E, EPS of INR168, and EV/EBITDA of 22x. We value the company at 35x Dec'24E EPS to arrive at our TP of INR5,650. Valuations remain expensive and we **reiterate our Neutral rating** on the stock.

Marginal miss on EBITDA with EBITDAM in line with expectation

- Revenue stood at INR7.5b (up 60% YoY).
- Gross margin declined 310bp QoQ to 35.1%, **while EBITDAM stood at 23.3% (up 6.3pp YoY)**.
- EBITDA came in at INR1.7b (est. of INR1.9b, up 119% YoY), while PAT stood at INR1.3b (est. of INR1.4b, up 136% YoY).
- **For 9MFY23**, revenue was up 85% at INR23.3b; EBITDA stood at INR5.9b (up 193% YoY) and PAT stood at INR4.5b (up 222% YoY).
- EBITDAM improved 9.4pp YoY to 25.5% in 9MFY23.

Valuation and view – Reiterate Neutral

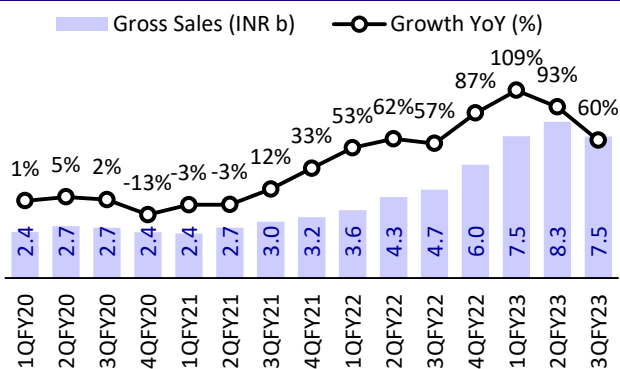
- FINEORG has been constantly enhancing its Food Emulsifiers through continued R&D and process integration, which witnessed a larger off-take during the pandemic. Rising demand for healthier products and changing consumer preferences for processed and packed convenience foods are expected to drive growth for the company.
- The stock has delivered a strong performance of 27% over the past one year. **FINEORG is trading at 30x FY24E EPS and 22x FY24E EV/EBITDA**. We value the company at 35x Dec'24E EPS to arrive at our TP of INR5,650. We reiterate our Neutral rating on the stock.

Standalone - Quarterly Snapshot

(INR m)

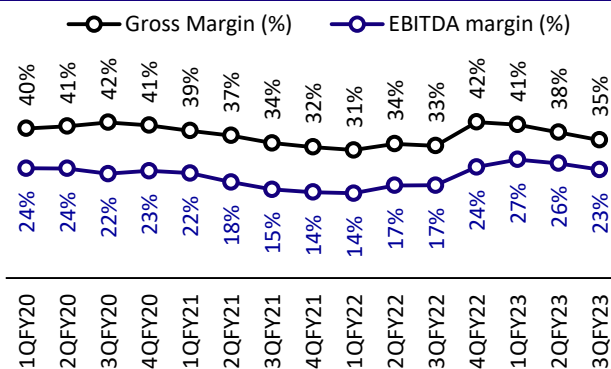
Y/E March	FY22				FY23				FY22	FY23E	FY23	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Gross Sales	3,599	4,296	4,682	6,007	7,526	8,281	7,499	6,733	18,584	30,038	8,107	-8%
YoY Change (%)	52.8	61.6	57.0	86.7	109.1	92.8	60.1	12.1	65.7	61.6	73.1	
Gross Margin (%)	31.1%	33.6%	32.8%	42.3%	41.3%	38.2%	35.1%	32.8%	35.7%	37.0%	36.8%	-1.7%
EBITDA	499	728	797	1,461	2,056	2,138	1,747	1,355	3,485	7,296	1,864	-6%
Margin (%)	13.9	17.0	17.0	24.3	27.3	25.8	23.3	20.1	18.8	24.3	23.0	0.3
Depreciation	95	98	101	106	111	115	123	124	399	473	119	
Interest	13	12	12	13	11	13	11	12	51	47	13	
Other Income	60	62	66	144	166	193	152	145	332	655	190	
PBT	451	681	750	1,486	2,099	2,203	1,764	1,363	3,368	7,430	1,923	-8%
Tax	101	181	193	385	526	563	452	343	861	1,885	484	
Rate (%)	22.5	26.6	25.7	25.9	25.1	25.6	25.6	25.2	25.6	25.4	25.2	
Reported PAT	349	500	557	1,101	1,573	1,640	1,313	1,020	2,507	5,545	1,438	-9%
YoY Change (%)	22.2	69.5	98.8	281.2	350.2	228.2	135.6	-7.3	118.1	121.2	158.2	
Margin (%)	9.7	11.6	11.9	18.3	20.9	19.8	17.5	15.1	13.5	18.5	17.7	-0.2

Exhibit 1: Sales declined 9%QoQ...



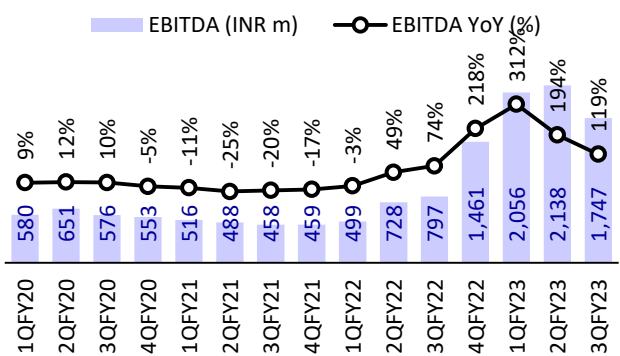
Source: Company, MOFSL

Exhibit 2: ...with EBITDAM declining to 23.3%



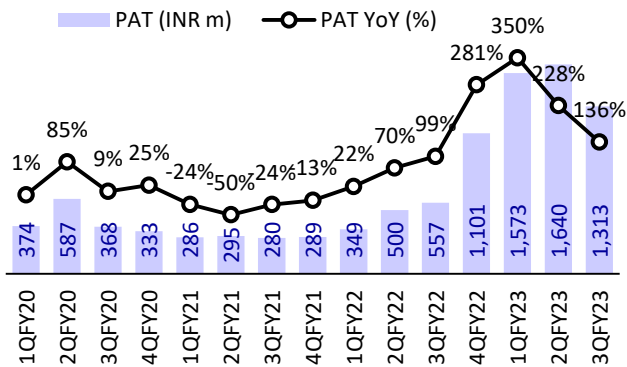
Source: Company, MOFSL

Exhibit 3: EBITDA was up 18% QoQ (up 119% YoY)



Source: Company, MOFSL

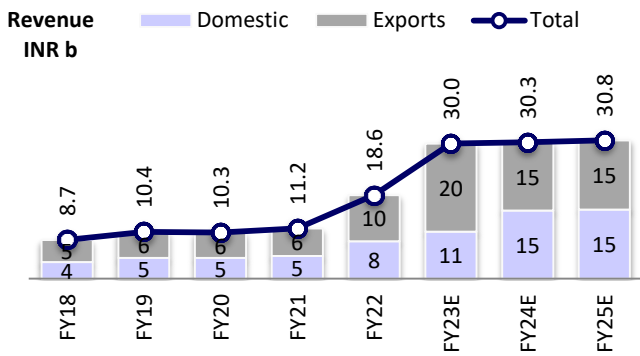
Exhibit 4: PAT was down 20% QoQ (margin at 17.5%)



Source: Company, MOFSL

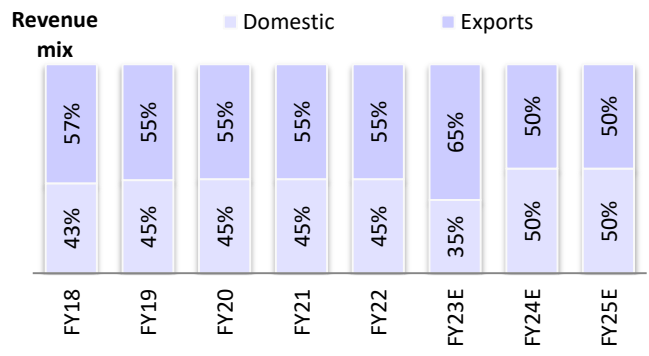
Financial story in charts

Exhibit 1: Expect ~18% revenue CAGR over FY23-25E...



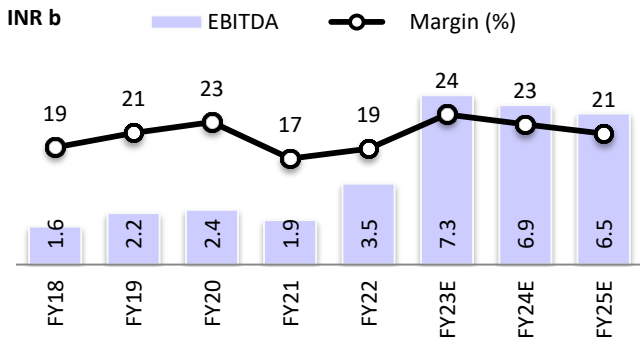
Source: Company, MOFSL

Exhibit 2: ...with share of exports rising in FY23



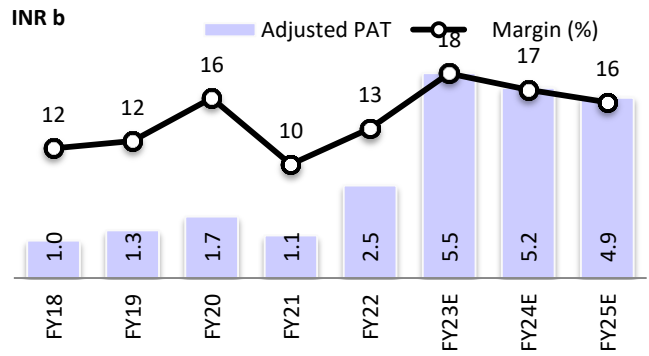
Source: Company, MOFSL

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



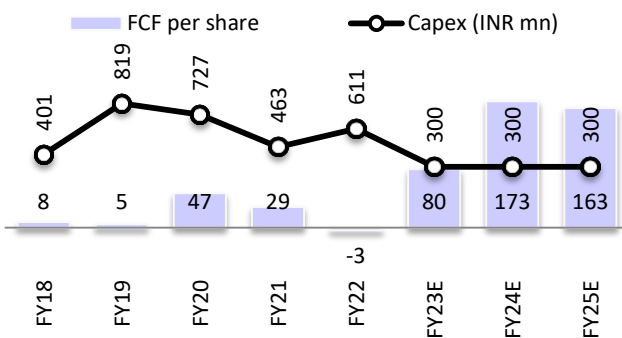
Source: Company, MOFSL

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



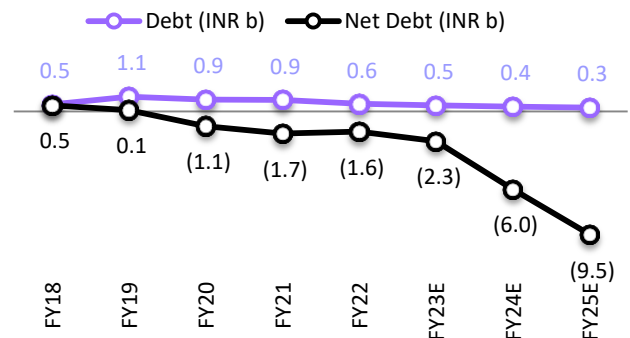
Source: Company, MOFSL

Exhibit 5: Capex for the next three years stand at INR0.9b



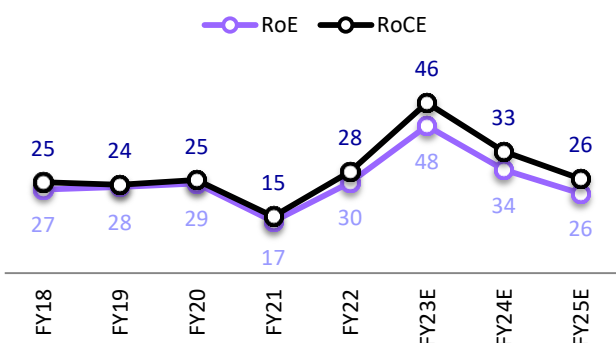
Source: Company, MOFSL

Exhibit 6: FINEORG expected to remain cash positive



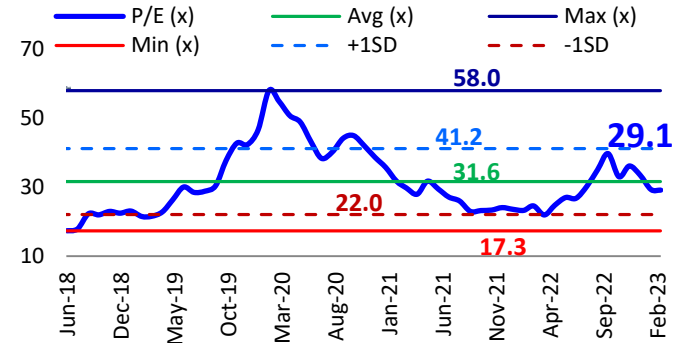
Source: Company, MOFSL

Exhibit 7: Return ratios to be at 26-34%



Source: Company, MOFSL

Exhibit 8: FINEORG trades at ~29.1x 1-year forward P/E



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement

	(INR m)							
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Total Income from Operations	8,651	10,440	10,262	11,213	18,584	30,038	30,338	30,793
Change (%)	6.2	20.7	-1.7	9.3	65.7	61.6	1.0	1.5
Gross Margin (%)	35.6	37.3	40.9	35.2	35.7	37.0	37.5	37.5
EBITDA	1,640	2,223	2,361	1,921	3,485	7,296	6,869	6,520
Margin (%)	19.0	21.3	23.0	17.1	18.8	24.3	22.6	21.2
Depreciation	200	175	347	468	399	473	485	507
EBIT	1,440	2,048	2,014	1,453	3,086	6,823	6,384	6,012
Int. and Finance Charges	31	18	48	61	51	47	48	49
Other Income	164	202	205	170	332	655	550	560
PBT bef. EO Exp.	1,572	2,233	2,172	1,562	3,368	7,430	6,885	6,523
PBT after EO Exp.	1,572	2,233	2,172	1,562	3,368	7,430	6,885	6,523
Total Tax	559	942	507	413	861	1,885	1,733	1,642
Tax Rate (%)	35.5	42.2	23.3	26.4	25.6	25.4	25.2	25.2
Reported PAT	1,014	1,290	1,665	1,149	2,507	5,545	5,152	4,881
Change (%)	26.7	27.3	29.0	-31.0	118.1	121.2	-7.1	-5.3
Margin (%)	11.7	12.4	16.2	10.2	13.5	18.5	17.0	15.9

Standalone - Balance Sheet

	(INR m)							
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	153	153	153	153	153	153	153	153
Total Reserves	3,931	4,931	6,154	7,235	9,432	13,313	16,920	20,337
Net Worth	4,085	5,084	6,308	7,388	9,585	13,467	17,073	20,490
Total Loans	536	1,130	915	892	585	468	375	300
Capital Employed	4,621	6,219	7,222	8,280	10,170	13,935	17,448	20,790
Gross Block	2,395	2,464	4,192	4,459	5,192	5,492	5,792	6,092
Less: Accum. Deprn.	1,515	1,686	2,033	2,500	2,899	3,372	3,857	4,365
Net Fixed Assets	881	778	2,159	1,958	2,293	2,120	1,935	1,728
Capital WIP	317	1,063	58	263	141	141	141	141
Total Investments	143	167	442	437	431	431	431	431
Curr. Assets, Loans&Adv.	4,079	5,086	5,964	6,902	9,413	15,214	18,952	22,561
Inventory	833	790	1,195	1,089	2,017	4,012	4,052	4,113
Account Receivables	1,611	1,670	1,451	1,752	3,316	5,360	5,413	5,494
Cash and Bank Balance	71	1,031	2,056	2,612	2,158	2,784	6,398	9,821
Cash	54	1,020	2,009	2,564	2,093	2,719	6,334	9,756
Bank Balance	17	11	48	48	65	65	65	65
Loans and Advances	1,564	1,595	1,262	1,449	1,922	3,059	3,089	3,134
Curr. Liability & Prov.	799	875	1,401	1,281	2,108	3,972	4,012	4,072
Account Payables	693	523	843	990	1,514	3,013	3,043	3,089
Other Current Liabilities	84	307	526	156	290	469	474	481
Net Current Assets	3,280	4,211	4,563	5,622	7,305	11,242	14,940	18,490
Appl. of Funds	4,621	6,219	7,222	8,280	10,170	13,935	17,448	20,790

Financials and valuations

Ratios								
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)								
EPS	33.1	42.1	54.3	37.5	81.8	180.9	168.0	159.2
EPS Growth (%)	27%	27%	29%	-31%	118%	121%	-7%	-5%
Cash EPS	39.6	47.8	65.6	52.7	94.8	196.3	183.9	175.8
BV/Share	133.2	165.8	205.7	241.0	312.6	439.2	556.9	668.3
DPS	7.5	7.0	11.0	11.0	9.0	54.3	50.4	47.8
Payout (%)	27.3	20.0	24.4	29.3	11.0	30.0	30.0	30.0
Valuation (x)								
P/E	152.8	120.0	93.0	134.7	61.8	27.9	30.1	31.7
Cash P/E	127.6	105.7	77.0	95.8	53.3	25.7	27.5	28.7
P/BV	37.9	30.5	24.5	21.0	16.2	11.5	9.1	7.6
EV/Sales	18.0	14.8	15.0	13.7	8.2	5.1	4.9	4.7
EV/EBITDA	94.7	69.7	65.1	79.7	44.0	20.9	21.7	22.3
Dividend Yield (%)	0.1	0.1	0.2	0.2	0.2	1.1	1.0	0.9
FCF per share	7.9	5.0	47.3	28.7	-3.4	80.0	172.9	163.4
Return Ratios (%)								
RoE	27.3	28.1	29.2	16.8	29.5	48.1	33.7	26.0
RoCE	24.7	24.0	25.3	15.4	27.6	46.3	33.1	25.7
RoIC	24.7	29.4	35.8	22.2	37.0	56.5	45.4	43.1
Working Capital Ratios								
Fixed Asset Turnover (x)	9.4	12.6	7.0	5.4	8.7	13.6	15.0	16.8
Asset Turnover (x)	1.9	1.7	1.4	1.4	1.8	2.2	1.7	1.5
Inventory (Days)	35	28	42	35	40	49	49	49
Debtor (Days)	68	58	52	57	65	65	65	65
Creditor (Days)	29	18	30	32	30	37	37	37
Leverage Ratio (x)								
Current Ratio	5.1	5.8	4.3	5.4	4.5	3.8	4.7	5.5
Interest Cover Ratio	46.1	114.4	42.1	23.9	61.0	143.9	131.7	123.0
Net Debt/Equity	0.1	0.0	-0.2	-0.2	-0.2	-0.2	-0.4	-0.5

Standalone - Cash Flow Statement

									(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	
OP/(Loss) before Tax	1,572	2,232	2,172	1,562	3,368	7,430	6,885	6,523	
Depreciation	200	174	347	468	396	473	485	507	
Others	-118	-158	-144	-106	-254	47	48	49	
Direct Taxes Paid	-509	-855	-612	-415	-769	-1,885	-1,733	-1,642	
(Inc)/Dec in WC	-503	-423	416	-167	-2,233	-3,311	-84	-127	
CF from Operations	643	972	2,178	1,343	508	2,754	5,602	5,311	
(Inc)/Dec in FA	-401	-819	-727	-463	-611	-300	-300	-300	
Free Cash Flow	242	153	1,451	880	-103	2,454	5,302	5,011	
Change in Investments	-2	-42	-287	4	-6	0	0	0	
Others	-118	-73	172	57	55	0	0	0	
CF from Investments	-521	-934	-842	-402	-562	-300	-300	-300	
Inc/(Dec) in Debt	0	1,081	-14	-347	-317	-117	-94	-75	
Interest Paid	-21	-33	-63	-52	-37	-47	-48	-49	
Dividend Paid	-277	-258	-407	-92	-337	-1,664	-1,546	-1,464	
Others	125	139	137	106	274	0	0	0	
CF from Fin. Activity	-172	929	-346	-385	-416	-1,828	-1,688	-1,588	
Inc/Dec of Cash	-49	966	989	555	-471	626	3,614	3,423	
Opening Balance	103	54	1,020	2,009	2,564	2,093	2,720	6,334	
Closing Balance	53	1,020	2,009	2,564	2,093	2,720	6,334	9,756	

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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