

Fine Organic Industries

Estimate changes

TP change

Rating change



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Bloomberg	FINEORG IN
Equity Shares (m)	31
M.Cap.(INRb)/(USD\$b)	136.8 / 1.7
52-Week Range (INR)	7326 / 4031
1, 6, 12 Rel. Per (%)	-13/-26/-32
12M Avg Val (INR M)	347

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	30.3	25.0	24.4
EBITDA	7.8	5.7	4.9
PAT	5.9	4.4	3.7
EPS (INR)	192.6	142.0	122.3
EPS Gr. (%)	135.6	-26.3	-13.9
BV/Sh.(INR)	496.5	595.8	681.4

Ratios

Net D:E	-0.3	-0.5	-0.6
RoE (%)	47.6	26.0	19.1
RoCE (%)	46.3	25.8	19.1
Payout (%)	4.7	30.0	30.0

Valuations

P/E (x)	23.2	31.4	36.5
P/BV (x)	9.0	7.5	6.5
EV/EBITDA (x)	16.9	22.3	25.4
Div. Yield (%)	0.2	1.0	0.8
FCF Yield (%)	2.6	4.0	3.1

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	75.0	75.0	75.0
DII	12.3	12.1	10.9
FII	3.8	4.8	7.2
Others	9.0	8.1	6.9

FII Includes depository receipts

CMP: INR4,463

TP: INR4,280 (-4%)

Neutral

Short-term headwinds to play spoilsport

- Fine Organics (FINEORG) reported in-line earnings in 1QFY24. EBITDA stood at INR1.5b, in line with our estimate. EBITDAM improved by 170bp QoQ to 28.5%, and gross margin increased by 380bp QoQ to 42.9%. The decline in revenue was primarily due to lower prices. The US and European markets recorded lower volumes amid recessionary pressures. The company witnessed a slowdown across its product range.
- High-priced contracts with customers will return to normal levels upon renewal. The management expects to sustain EBITDA margin at ~20%. All plants are currently running at optimal capacity, and there is potential for a further ramp-up in the Patalganga plant (Phase II). However, the management has ruled out debottlenecking existing capacities due to safety concerns.
- Despite this, the management is currently awaiting land allotment from the Gujarat government, which the company anticipates will be finalized in the next couple of months. Although the board has approved the company's capex plans, the official announcement will only be made after the land allotment. As a contingency plan, the management has initiated search for an alternative land parcel in Maharashtra.
- Certain significant customers have advised FINEORG to increase inventory in the US and Europe. Consequently, the management is considering establishing manufacturing facilities closer to these customers in the US. This move is expected to enable the sale of products at a premium, leading to higher margins, given their US-based manufacturing.
- The Thailand JV's Phase I operations are set to begin around Aug/Sep'23. The management stated that Phase II would follow once process conditions are standardized (likely by Dec'23), and would be established in a year. These JV products differ from those manufactured by FINEORG and are primarily targeted at the US and European markets, with no demand for them in India.
- Considering the above-mentioned short-term challenges, we trim our revenue/ EBITDA/PAT estimates by 11%/9%/8% for FY24, and by 11%/8%/8% for FY25. We anticipate the margin to revert to its long-term average of 20% by FY25, following its outperformance in FY23 due to global economic disruptions. Given the expensive valuations, we maintain a Neutral rating on the stock.

In line EBITDA and PAT, margin expands sequentially

- Revenue stood at INR5.3b (est. INR6.3b, down 29% YoY, down 24% QoQ), **consensus miss by 15%.**
- **Gross margin expanded by 380bp QoQ to 42.9%**, primarily driven by a sharp decline in raw material costs (down 29% QoQ).
 - On the other hand, EBITDAM stood at 28.5% (up 170bp QoQ).
- EBITDA came in at INR1.5b (est. of INR1.5b, down 26% YoY, down 19% QoQ), **consensus miss by 7%.**
- PAT stood at INR1.1b (est. of INR1.1b, down 27% YoY, down 17% QoQ), **consensus miss by 5.2%.**

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Valuation and view – Reiterate Neutral

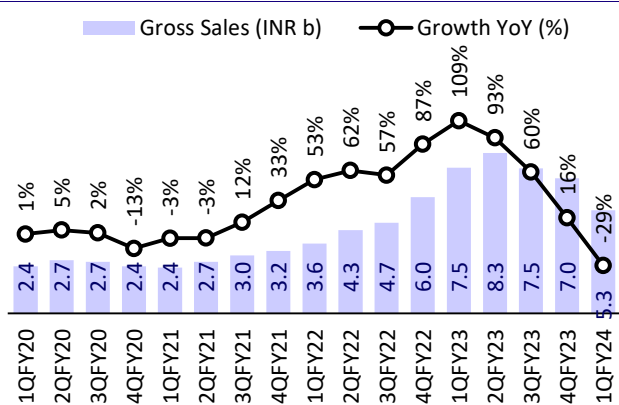
- FINEORG has consistently improved its Food Emulsifiers through ongoing R&D and process integration, leading to heightened demand, especially during the pandemic. The company's growth is expected to be driven by the increasing demand for healthier products and changing consumer preferences toward processed and conveniently packaged foods.
- The company has entered the green surfactants market, focusing on the Home and Personal Care industry. This segment is projected to grow steadily and contribute to the company's overall growth in the oleochemicals sector
- **FINEORG's current valuation is at 37x FY25E EPS and 25x FY25E EV/EBITDA.** Our TP of INR4,280 is based on 35x FY25E EPS. Given the expensive valuations, we maintain a Neutral rating on the stock.

Standalone - Quarterly Snapshot

(INR m)

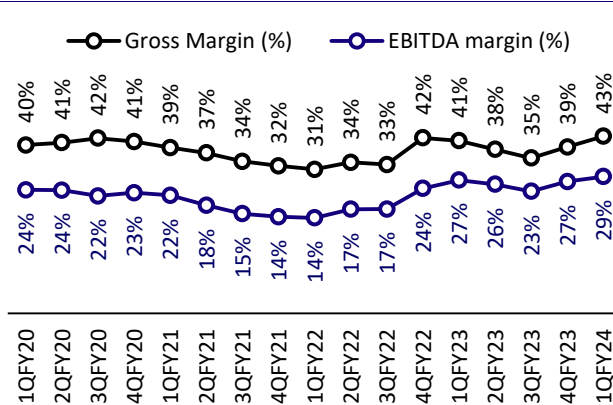
Y/E March	FY23				FY24				FY23	FY24E	FY24	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Gross Sales	7,526	8,281	7,499	6,986	5,321	5,935	6,560	7,174	30,291	24,990	6,304	-16%
YoY Change (%)	109.1	92.8	60.1	16.3	-29.3	-28.3	-12.5	2.7	63.0	-17.5	-16.2	
Gross Margin (%)	41.3%	38.2%	35.1%	39.1%	42.9%	40.4%	38.9%	37.7%	38.4%	39.8%	35.3%	7.5%
EBITDA	2,056	2,138	1,747	1,873	1,519	1,346	1,420	1,445	7,813	5,730	1,462	4%
Margin (%)	27.3	25.8	23.3	26.8	28.5	22.7	21.6	20.1	25.8	22.9	23.2	5.3
Depreciation	111	115	123	130	117	124	130	139	479	510	135	
Interest	11	13	11	9	6	9	8	13	44	37	10	
Other Income	166	193	152	130	145	174	161	153	640	633	170	
PBT	2,099	2,203	1,764	1,863	1,540	1,387	1,443	1,447	7,930	5,816	1,488	3%
Tax	526	563	452	483	397	350	364	353	2,024	1,464	375	
Rate (%)	25.1	25.6	25.6	25.9	25.8	25.2	25.2	24.4	25.5	25.2	25.2	
Reported PAT	1,573	1,640	1,313	1,381	1,142	1,037	1,079	1,094	5,906	4,352	1,113	3%
YoY Change (%)	350.2	228.2	135.6	25.5	-27.4	-36.8	-17.8	-20.8	135.6	-26.3	-29.2	
Margin (%)	20.9	19.8	17.5	19.8	21.5	17.5	16.4	15.3	19.5	17.4	17.7	3.8

Exhibit 1: Sales declined 24%QoQ...



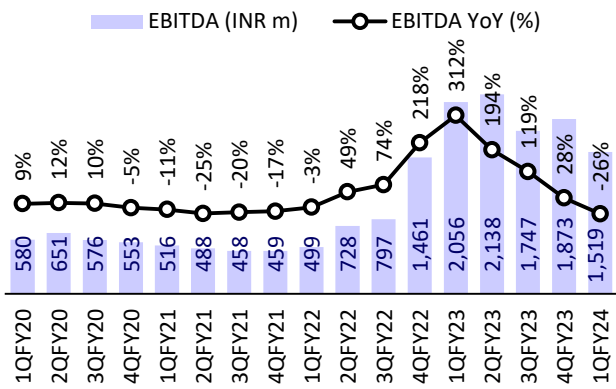
Source: Company, MOFSL

Exhibit 2: ...with EBITDAM expanded to 28.5%



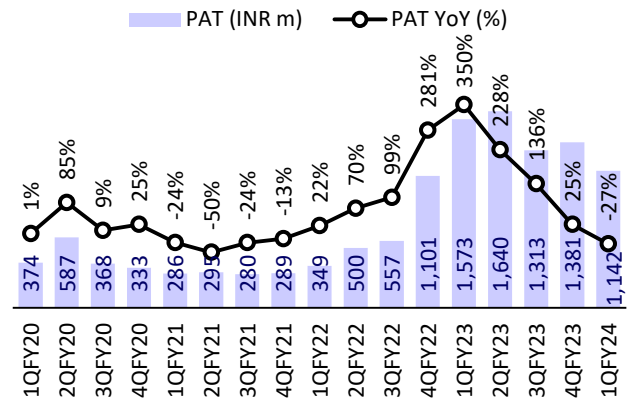
Source: Company, MOFSL

Exhibit 3: EBITDA was down 19% QoQ (down 26% YoY)



Source: Company, MOFSL

Exhibit 4: PAT was down 17% QoQ (margin at 21.5%)



Source: Company, MOFSL

Financials story in charts

Exhibit 5: Expect ~9% revenue CAGR over FY23-25...

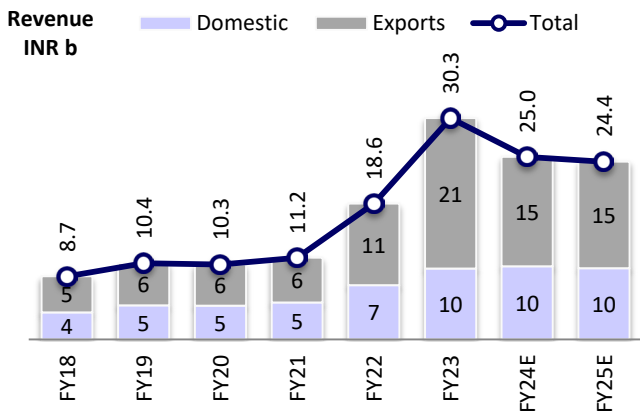


Exhibit 6: ...with the share of exports at 60%

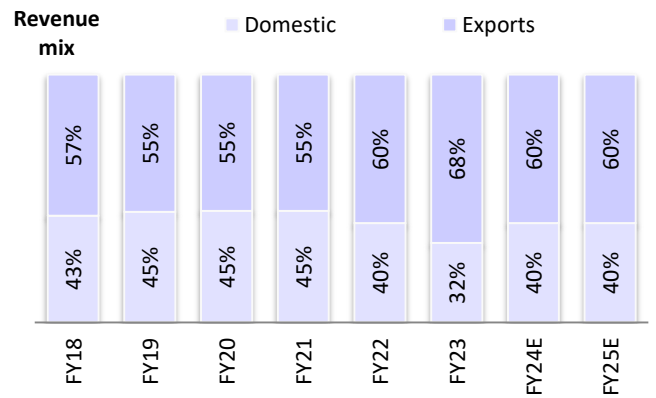


Exhibit 7: Expect EBITDAM to return to its long-term average...

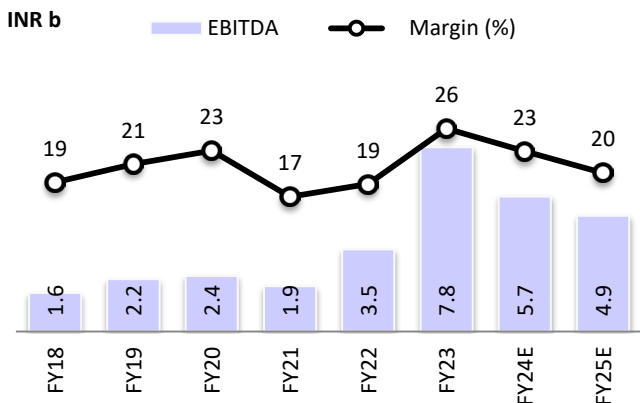


Exhibit 8: ...along with a decline in PAT margin

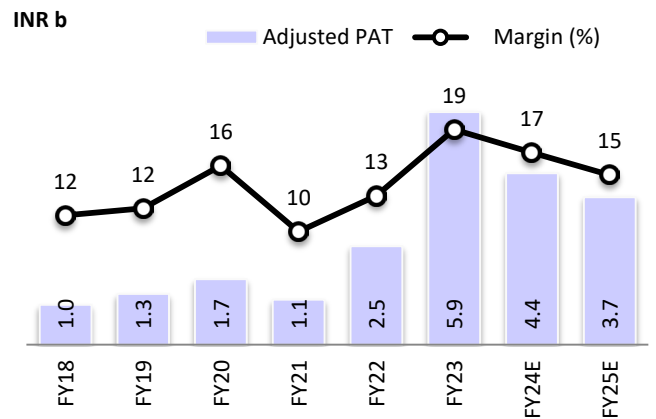


Exhibit 9: Capex for the next two years stands at INR0.9b

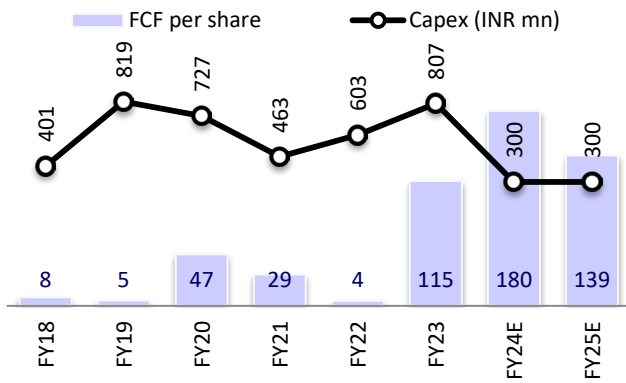


Exhibit 10: FINEORG expected to remain cash positive

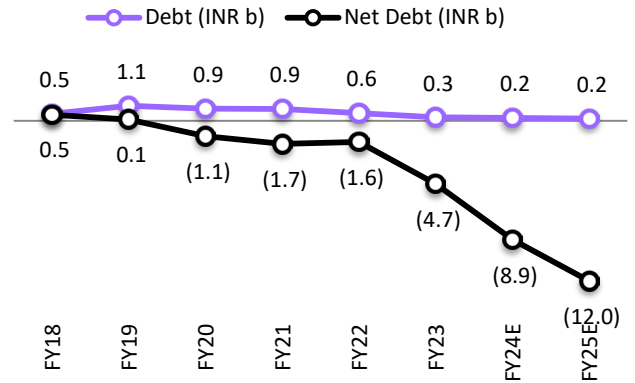


Exhibit 11: Return ratios to be at 19-26%

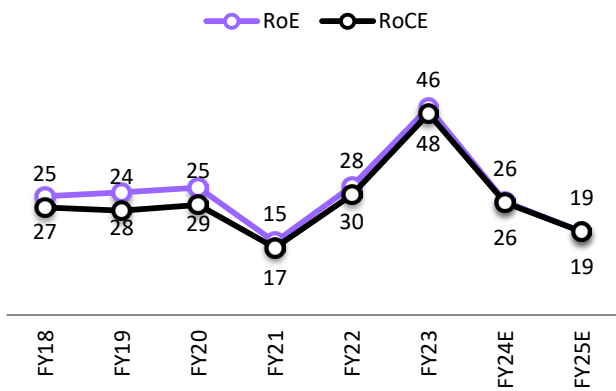
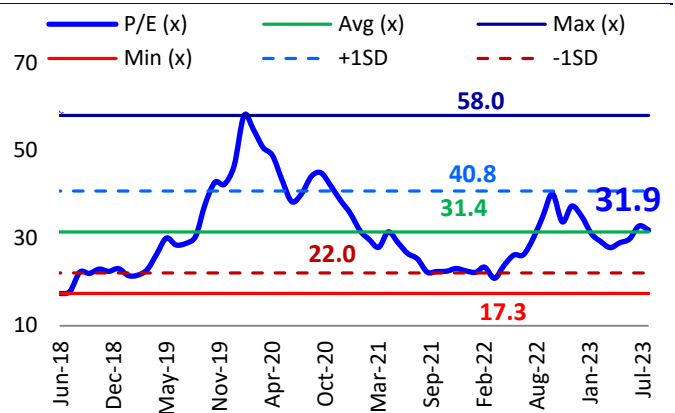


Exhibit 12: FINEORG trades at ~31.9x 1-year forward P/E



Source: Company, MOFSL

Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement

	(INR m)							
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	8,651	10,440	10,262	11,213	18,584	30,291	24,990	24,366
Change (%)	6.2	20.7	-1.7	9.3	65.7	63.0	-17.5	-2.5
Gross Margin (%)	35.6	37.3	40.9	35.2	35.7	38.4	39.8	40.0
EBITDA	1,640	2,223	2,361	1,921	3,485	7,813	5,730	4,912
Margin (%)	19.0	21.3	23.0	17.1	18.8	25.8	22.9	20.2
Depreciation	200	175	347	468	399	479	510	597
EBIT	1,440	2,048	2,014	1,453	3,086	7,334	5,220	4,315
Int. and Finance Charges	31	18	48	61	51	45	37	50
Other Income	164	202	205	170	332	641	633	745
PBT bef. EO Exp.	1,572	2,233	2,172	1,562	3,368	7,930	5,816	5,011
PBT after EO Exp.	1,572	2,233	2,172	1,562	3,368	7,930	5,816	5,011
Total Tax	559	942	507	413	861	2,024	1,464	1,261
Tax Rate (%)	35.5	42.2	23.3	26.4	25.6	25.5	25.2	25.2
Reported PAT	1,014	1,290	1,665	1,149	2,507	5,906	4,352	3,749
Change (%)	26.7	27.3	29.0	-31.0	118.1	135.6	-26.3	-13.9
Margin (%)	11.7	12.4	16.2	10.2	13.5	19.5	17.4	15.4

Standalone - Balance Sheet

	(INR m)							
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	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	15,068	18,115	20,739
Net Worth	4,085	5,084	6,308	7,388	9,585	15,221	18,268	20,893
Total Loans	536	1,130	915	892	585	272	218	174
Capital Employed	4,621	6,219	7,222	8,280	10,170	15,493	18,486	21,067
Gross Block	2,395	2,464	4,192	4,459	5,192	5,518	5,818	6,118
Less: Accum. Deprn.	1,515	1,686	2,033	2,500	2,899	3,378	3,888	4,485
Net Fixed Assets	881	778	2,159	1,958	2,293	2,140	1,930	1,633
Capital WIP	317	1,063	58	263	141	404	404	404
Total Investments	143	167	442	437	431	531	531	531
Curr. Assets, Loans&Adv.	4,079	5,086	5,964	6,902	9,413	14,648	17,950	20,769
Inventory	833	790	1,195	1,089	2,017	2,987	3,321	3,238
Account Receivables	1,611	1,670	1,451	1,752	3,316	4,769	3,935	3,836
Cash and Bank Balance	71	1,031	2,056	2,612	2,158	4,974	9,094	12,132
Cash	54	1,020	2,009	2,564	2,089	4,892	9,012	12,051
Bank Balance	17	11	48	48	69	81	81	81
Loans and Advances	1,564	1,595	1,262	1,449	1,922	1,918	1,600	1,563
Curr. Liability & Prov.	799	875	1,401	1,281	2,108	2,230	2,329	2,271
Account Payables	693	523	843	990	1,514	1,707	1,898	1,850
Other Current Liabilities	84	307	526	156	290	366	302	295
Net Current Assets	3,280	4,211	4,563	5,622	7,305	12,418	15,620	18,498
Appl. of Funds	4,621	6,219	7,222	8,280	10,170	15,493	18,486	21,067

Financials and valuations

Ratios								
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	33.1	42.1	54.3	37.5	81.8	192.6	142.0	122.3
EPS Growth (%)	27%	27%	29%	-31%	118%	136%	-26%	-14%
Cash EPS	39.6	47.8	65.6	52.7	94.8	208.2	158.6	141.8
BV/Share	133.2	165.8	205.7	241.0	312.6	496.5	595.8	681.4
DPS	7.5	7.0	11.0	11.0	9.0	9.0	42.6	36.7
Payout (%)	27.3	20.0	24.4	29.3	11.0	4.7	30.0	30.0
Valuation (x)								
P/E	134.9	106.0	82.1	119.0	54.6	23.2	31.4	36.5
Cash P/E	112.6	93.4	68.0	84.6	47.1	21.4	28.1	31.5
P/BV	33.5	26.9	21.7	18.5	14.3	9.0	7.5	6.5
EV/Sales	15.9	13.1	13.2	12.0	7.3	4.4	5.1	5.1
EV/EBITDA	83.7	61.6	57.4	70.3	38.8	16.9	22.3	25.4
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2	0.2	1.0	0.8
FCF per share	7.9	5.0	47.3	28.7	4.5	115.1	179.9	138.8
Return Ratios (%)								
RoE	27.3	28.1	29.2	16.8	29.5	47.6	26.0	19.1
RoCE	24.7	24.0	25.3	15.4	27.6	46.3	25.8	19.1
RoIC	24.7	29.4	35.8	22.2	37.0	64.2	43.3	39.2
Working Capital Ratios								
Fixed Asset Turnover (x)	9.4	12.6	7.0	5.4	8.7	13.7	12.3	13.7
Asset Turnover (x)	1.9	1.7	1.4	1.4	1.8	2.0	1.4	1.2
Inventory (Days)	35	28	42	35	40	36	49	49
Debtor (Days)	68	58	52	57	65	57	57	57
Creditor (Days)	29	18	30	32	30	21	28	28
Leverage Ratio (x)								
Current Ratio	5.1	5.8	4.3	5.4	4.5	6.6	7.7	9.1
Interest Cover Ratio	46.1	114.4	42.1	23.9	61.0	164.2	142.1	86.4
Net Debt/Equity	0.1	0.0	-0.2	-0.2	-0.2	-0.3	-0.5	-0.6

Standalone - Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
(INR m)								
OP/(Loss) before Tax	1,572	2,232	2,172	1,562	3,368	7,930	5,816	5,011
Depreciation	200	174	347	468	399	479	510	597
Others	-118	-158	-144	-106	-257	-546	37	50
Direct Taxes Paid	-509	-855	-612	-415	-769	-2,092	-1,464	-1,261
(Inc)/Dec in WC	-503	-423	416	-167	-2,001	-1,435	918	161
CF from Operations	643	972	2,178	1,343	741	4,336	5,817	4,557
(Inc)/Dec in FA	-401	-819	-727	-463	-603	-807	-300	-300
Free Cash Flow	242	153	1,451	880	137	3,529	5,517	4,257
Change in Investments	-2	-42	-287	4	-18	-150	0	0
Others	-118	-73	172	57	60	110	0	0
CF from Investments	-521	-934	-842	-402	-561	-847	-300	-300
Inc/(Dec) in Debt	0	1,081	-14	-347	-306	-357	-54	-44
Interest Paid	-21	-33	-63	-52	-37	-44	-37	-50
Dividend Paid	-277	-258	-407	-92	-337	-276	-1,306	-1,125
Others	125	139	137	106	27	-9	0	0
CF from Fin. Activity	-172	929	-346	-385	-654	-686	-1,397	-1,218
Inc/Dec of Cash	-49	966	989	555	-475	2,803	4,120	3,039
Opening Balance	103	54	1,020	2,009	2,564	2,089	4,892	9,012
Closing Balance	53	1,020	2,009	2,564	2,089	4,892	9,012	12,051

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NEUTRAL	< - 10 % to 15%
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