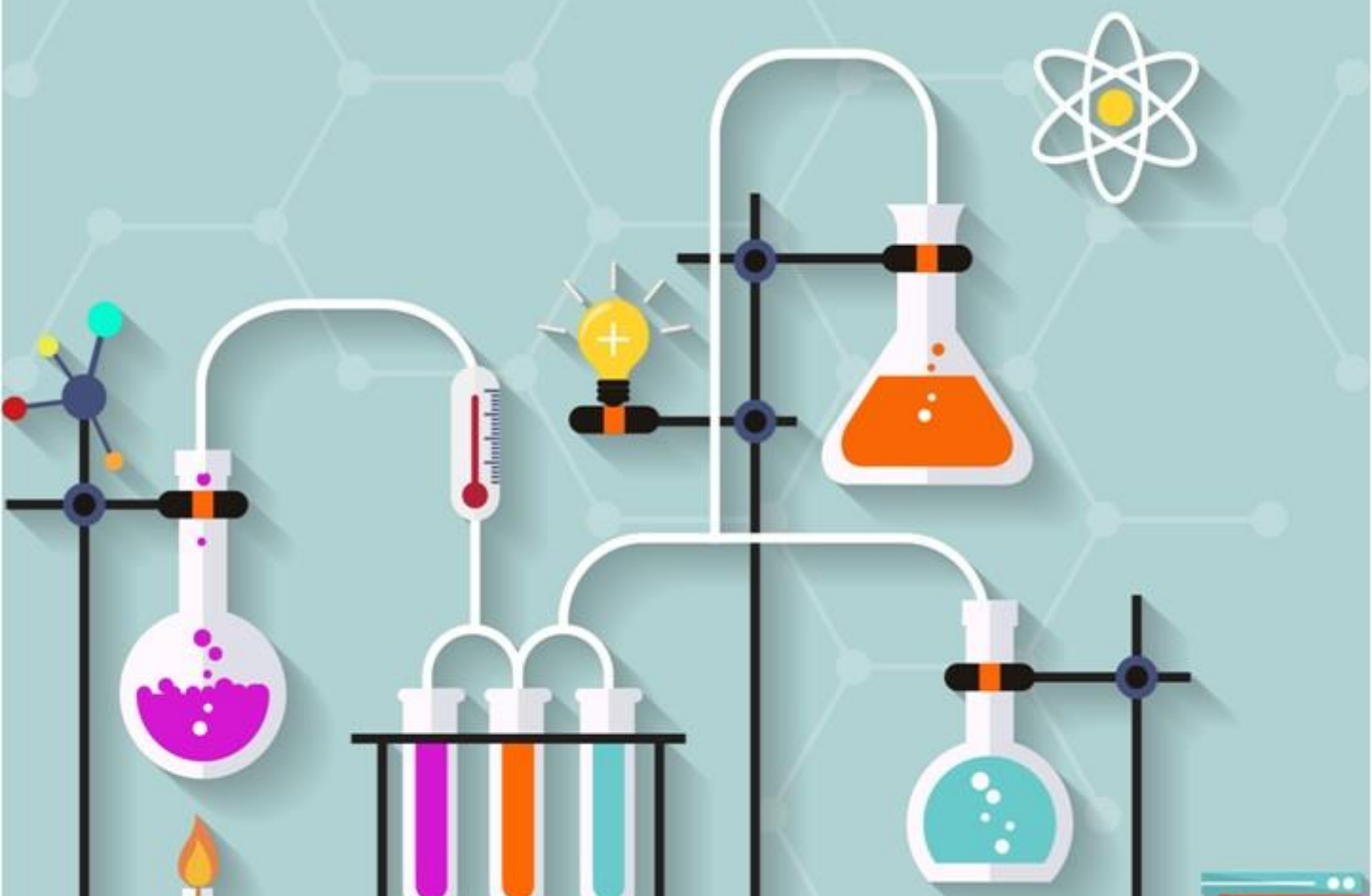


Laxmi Organic Industries Ltd.



Laxmi Organic Industries Ltd. Higher revenue share from specialty business will drive margin improvement

CMP INR 270	Target INR 302	Potential Upside 11.8%	Market Cap (INR mn) INR 71,820	Recommendation ACCUMULATE	Sector Specialty Chemicals
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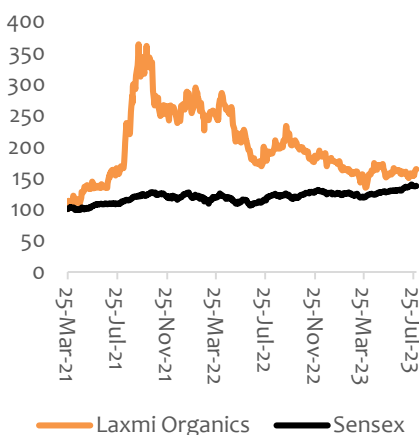
Result Highlights of Q1FY24:

- Laxmi Organic Industries Ltd (LOIL) reported a flattish revenue of INR 7,336 Mn (-3% YoY/+0.1% QoQ). The revenue sluggishness was due to overall macroeconomic headwinds with inventory destocking and inflationary environment in Europe.
- EBITDA for the quarter is reported at INR 773 Mn (-23% YoY/+27.4% QoQ). EBITDA margin stood at 10.5% (-273 bps YoY, 226 bps QoQ).
- For the quarter, the net profit declined by -40.5% YoY and increased 57.9% QoQ to INR 383 mn, Net profit margin reported at 5.2% (-329 bps YoY, 191 bps QoQ).
- EPS stood at INR 1.44 in Q1FY24 compared to INR 2.44 in Q1FY23 and INR 0.92 in Q4FY23.

MARKET DATA

Shares outs (mn)	267
Equity Cap (INR mn)	530
Mkt Cap (INR mn)	71,820
52 Wk H/L (INR)	395/220
Volume Avg (3m K)	611
Face Value (INR)	2
Bloomberg Code	LXCHEM IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	66,459
NIFTY	19,734

SHARE HOLDING PATTERN (%)

Particulars	Jun-23	Mar-23	Dec-22
Promoters	72.4	72.5	72.5
FII's	0.5	0.5	0.5
DII's	1.5	1.7	1.7
Others	25.6	25.3	25.4
Total	100	100	100.0

Key Financials

INR millions	FY21	FY22	FY23	FY24E	FY25E
Revenue	17,684	30,843	27,966	30,549	36,660
EBITDA	2,167	3,676	2,445	3,510	5,870
PAT	1,271	2,574	1,246	1,919	3,637
EPS (INR)	5.6	9.7	4.7	7.2	13.7
EBITDA Margin (%)	12.3%	11.9%	8.7%	11.5%	16.0%
NPM (%)	7.2%	8.3%	4.5%	6.3%	9.9%

Source: Company data, KRChoksey Research

Revenue impacted due to multiple macroeconomic headwinds:

In Q1FY24, Laxmi Organics reported a stagnant revenue of INR 7,336 million with a flattish growth. The revenue remained flat as compared to the previous quarter and witnessed a marginal decline of 3 YoY%. The revenue declined due to lower realization and destocking of high channel inventory across the chemical manufacturers coupled with weak exports due to inflationary environment in Europe. Moreover, the company's exports were impacted by the inflationary environment in Europe.

Revenue declined despite increase in volumes:

The company has classified its business into two segments viz. Essentials and Specialties. The Essentials BU consists of acetyl intermediates including anhydrides and the Specialties BU consists of fluorine and specialty intermediates. In Q1FY24, the overall business witnessed a 5% volume growth QoQ and 9% growth YoY. The volume growth of Essentials BU remained in line with the blended business growth at 5% QoQ growth and 9% YoY. However, the Specialty BU witnessed a 6% QoQ growth and 15% YoY growth led by capitalization done in the preceding year. In Q1FY24 the revenue split between Essentials and Specialties stood at 67% and 33% respectively.

Update on Capex & R&D:

In fluorochemistry, the asset acquired from Miteni have now been successfully relocated to Maharashtra. The company encountered delays and cost overruns due to rising freight costs and Covid led delays during the relocation of plant. LOIL has identified its first product for this facility and is working with an agrochemical company for launch for their product in 2026. The company is currently undergoing capacity ramp up for this unit and FY24 is expected to have sample productions and commercial production will begin FY25 onwards. However, the delays and cost overrun has led to a capex of INR 550 crores for commercialization of this unit. We believe this high cost overrun to impact the asset turn and ROCE of this unit.

The company has also announced a capex of INR 710 crores spread over next 3 years at its Dahej facility. The shifting supply chain globally with China+1, growing end markets and resilient Indian market are the leveraging factors for the capex and company's growth going forward. The capex will require a 20% land acquisition at Dahej and the product portfolio would comprise of Essentials BU (Ester, Anhydrides and Aldehydes) and Specialties BU (Diketene and Ketene derivatives).

Laxmi Organic Industries Ltd.

Key Concall Highlights

- The company appointed Dr. Rajan Venkatesh new MD and CEO.
- LOIL is witnessing an industry wide macro-economic headwind with destocking of inventory at dealer level and degrowth in prices this is resulting to a weak demand.
- The export sales have been impacted with Europe inflation.
- The Essentials BU is currently operating at fully utilization level and in Q1FY24 contributed 67% topline and ~30% to EBITDA.
- The Essentials BU is expected to have EBITDA margins of 8-12% and generate asset turn of 3-5x.
- The Specialties BU which contributed to 33% revenue, accounted for 70% EBITDA.
- The Specialties BU which comprises of Ketene/Diketene and Flourination chemistry is expected to have EBITDA margins of 20-25% and asset turn of 1-2x.
- The specialties division will have high focus on R&D and the company has earmarked 2% of this divisions topline to R&D.
- The management highlighted that, the R&D has resulted into better margin products and revenue growth as the products developed in last 5 years account for ~25% of Specialties revenue.
- With changing business mix and growing Specialties revenue, the overall business is expected to have a combined ROCE of 20%.
- The company has a strong Innovation pipeline and 11 products which are in pilot and capex approval stage.

Valuation:

The company continues to face several macroeconomic challenges throughout the quarter. With the ongoing macroeconomic challenges led by price correction which have resulted into high cost inventory with dealers thus translating into a weak demand and a lower than expected ROCE with cost overruns from Miteni we revise our estimates. The stock is currently trading at PE multiples of 37.3x / 19.7x based on FY24E / FY25E EPS respectively. **We revise our target price at INR 302 by assigning a PE multiple of 22.0x to FY25E EPS (previous TP: INR 343) and revising our recommendation from 'BUY' to 'ACCUMULATE' (upside 11.8%).**

Q1FY24 Result Analysis- Consolidated

Particulars (INR mn)	Q1FY24	Q1FY23	YoY	Q4FY23	QoQ
Revenue from operations	7,336	7,566	-3.0%	7,332	0.1%
Cost of Materials consumed	4,478	4,179	7.2%	4,018	11.5%
Purchase of Stock-in-trade	172	876	-80.4%	556	-69.1%
Changes in Inventories	128	-475	-127.0%	306	-58.1%
COGS	4,779	4,580	4.3%	4,880	-2.1%
Gross Profit	2,557	2,986	-14.4%	2,452	4.3%
GPM	34.9%	39.5%	-460bps	33.4%	142bps
Employee cost	347	284	22.1%	292	18.9%
Other Expenses	1,437	1,698	-15.4%	1,553	-7.5%
EBITDA	773	1,004	-23.0%	607	27.4%
EBITDA Margin	10.5%	13.3%	-273bps	8.3%	226bps
Depreciation & amortization	210	136	54.3%	230	-9.1%
EBIT	564	868	-35.1%	377	49.7%
Other Income	40	21	86.7%	38	3.0%
Finance Cost	46	24	90.1%	-12	-472.4%
EBT	557	865	-35.6%	427	30.4%
Tax expense/(credit)	174	221	-21.1%	185	-5.7%
PAT	383	644	-40.5%	243	57.9%
PAT Margin	5.2%	8.5%	-329bps	3.3%	191bps
Diluted EPS	1.44	2.44	-41.1%	0.92	57.3%
Segment Revenue Performance					
Essentials	4,915	4,918	-0.1%	4,712	4.3%
Specialty	2,421	2,648	-8.6%	2,537	-4.6%
% of Revenue					
Essentials	67.0%	65.0%	200bps	64.3%	273bps
Specialty	33.0%	35.0%	-200bps	34.6%	-161bps

Source: Company data, KRChoksey Research,

Laxmi Organic Industries Ltd.

Consolidated Financial Statements

Income Statement (INR mn)	FY21	FY22	FY23	FY24E	FY25E
Revenues	17,684	30,843	27,966	30,549	36,660
COGS	11,743	21,256	18,342	19,610	23,018
Gross profit	5,942	9,587	9,624	10,938	13,641
Employee cost	929	1,244	1,159	1,443	1,503
Other expenses	2,846	4,666	6,020	5,985	6,269
EBITDA	2,167	3,676	2,445	3,510	5,870
Depreciation & amortization	465	481	724	855	949
EBIT	1,702	3,195	1,721	2,655	4,920
Interest expense	164	154	113	180	167
Other income	46	148	121	157	162
PBT	1,584	3,189	1,729	2,633	4,916
Tax	313	614	483	714	1,278
PAT	1,271	2,574	1,246	1,919	3,637
EPS (INR)	5.59	9.72	4.70	7.24	13.72

Source: Company data, KRChoksey Research

Balance Sheet (INR mn)	FY21	FY22	FY23	FY24E	FY25E
Property, plant and equipment	3,153	3,716	7,057	9,702	10,253
Right of use assets/CWIP/other intangibles	1,577	3,808	4,560	1,589	1,589
Other non current assets	596	228	310	339	407
Inventories	2,033	3,738	2,942	3,348	3,817
Trade receivables	4,346	6,684	5,702	6,229	7,475
Cash and bank balance	5,394	1,823	1,309	3,952	5,416
Loans / other assets	1,278	1,735	1,501	1,641	1,947
TOTAL ASSETS	18,376	22,495	24,122	27,540	31,645
Equity share capital	527	527	530	530	530
Other equity	9,819	12,371	13,587	15,372	18,755
Non-controlling interests	5	4	6	6	6
Total equity	10,350	12,902	14,124	15,909	19,291
Borrowings	1,411	1,333	3,970	5,140	4,764
Other non current liab	250	251	394	394	394
Trade payables	4,750	7,117	4,663	5,094	6,113
Other financial liabilities	1,321	643	489	490	491
Provisions	294	249	482	515	592
Other current liabilities	18,376	22,495	24,122	27,540	31,645

Source: Company data, KRChoksey Research

Cash Flow Statement (INR mn)	FY21	FY22	FY23	FY24E	FY25E
Operating Cash Flow	1,225	650	1,991	2,159	3,600
Investing Cash Flow	(6,434)	546	(3,841)	(372)	(1,338)
Financing Cash Flow	5,273	(1,239)	2,325	856	(798)
Net Inc/Dec in cash equivalents	64	(43)	474	2,643	1,464
Opening Balance	241	166	336	810	3,453
Closing Balance Cash & Cash Eq.	166	336	810	3,453	4,918

Source: Company data, KRChoksey Research

Key Ratio	FY21	FY22	FY23	FY24E	FY25E
EBITDA Margin (%)	12.3%	11.9%	8.7%	11.5%	16.0%
Net Profit Margin (%)	7.2%	8.3%	4.5%	6.3%	9.9%
RoE (%)	17.4%	22.1%	9.2%	12.8%	20.7%
RoA (%)	8.7%	12.6%	5.3%	7.4%	12.3%
RoCE (%)	16.3%	25.4%	11.6%	14.9%	22.7%
Debt/Equity	0.14x	0.10x	0.28x	0.32x	0.25x

Source: Company data, KRChoksey Research

Laxmi Organic Industries Ltd.

Laxmi Organic Industries Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
01-Aug-23	270	302	ACCUMULATE	Buy	More than 15%
17-May-23	252	343	BUY	Accumulate	5% – 15%
30-Jan-23	267	376	BUY	Hold	0 – 5%
29-Jul-22	311	380	BUY	Reduce	-5% – 0
09-May-22	387	530	BUY	Sell	Less than – 5%
03-Feb-22	484	620	BUY		

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