

## Slower pickup in demand coupled with higher input cost to impact near-term performance

We recently interacted with the management of Fine Organic (FOIL) to get a sense of current demand trends in the Plastic and Food additive market, Covid-19 related challenges in manufacturing, and update on domestic and overseas business performance.

### Following are some of the key highlights of our discussion:

- ⇒ Overall demand environment seems quite challenging as end-user industries struggling for recovery.
- ⇒ Witnessing decline volume of high margin products and increasing volume of low margin products impacting business mix.
- ⇒ Management highlighted that Europe (28% of export) is going back into the lockdown phase, which could lead to a slower pickup in demand. Moreover, there can be a possible deferment of orders in European markets due to lockdown across key regions.
- ⇒ Raw material (RM) prices have witnessed a sharp increase with prices of edible oils going up 40–50% YoY. Historically, gross margin is less affected due to Short/Long term contracts (3m-1year) with customers which insulated against fluctuation in RM prices. However, the revision of most of the contracts at a higher price will start from Q4FY21.
- ⇒ Management believes that the recent cut of basic customs duty on crude Palm oil (key RM) from 37.5% to 27.5% would increase the availability of the commodity in the domestic market. Thereby cooling-off rising edible oil (Palm oil constitutes over 40% of India's total edible oil consumption) prices in the domestic market.
- ⇒ On 25th Nov 2020, Commissioned the first phase of the Patalganga facility (Part of the capacity of 10,000MT expected to complete by FY22), which is dedicated to food additives.
- ⇒ At optimum capacity utilization (by FY24), Ambarnath 3 and Patalganga collectively can add INR 5-5.5bn to overall revenue.

## Valuation and Outlook

The global leadership position in slip additives and its proprietary technology to manufacture green additives provide a competitive edge to FOIL. Going forward, we expect the company to continue its growth strategy on the back of volume growth in the light of planned capacity expansion, growing demand for green additive from the food industry, changing customer preferences, and a better business mix. We expect its short-term performance would be muted as end-user industries witnessing slower recovery and a sharp surge in the RM prices. However, we expect demand to recover and grow as the situation normalizes in FY22/FY23. We estimate 9.5%/9%/9% CAGRs in revenue/EBITDA/PAT over FY20-23. We maintain our HOLD rating on the stock with a target price of INR 2,459 by valuing the stock at a P/E of 35x on its FY23E.

Key Financials					
YE March (INR. mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	10,603	10,381	10,064	11,794	13,644
Growth %	24%	-2%	-3%	17%	16%
EBIDTA	2,302	2,405	2,010	2,511	3,107
Growth%	45%	4%	-16%	25%	24%
Net Profit	1,363	1,648	1,344	1,699	2,154
Growth %	43%	21%	-18%	26%	27%
Diluted EPS	44	54	44	55	70
Growth %	43%	21%	-18%	26%	27%
Profitability & Valuation					
EBIDTA (%)	21.7%	23.2%	20.0%	21.3%	22.8%
NPM (%)	12.9%	15.9%	13.4%	14.4%	15.8%
RoE (%)	30.4%	29.5%	19.8%	21.0%	22.0%
RoCE (%)	39.3%	37.5%	27.7%	24.7%	27.7%
P/E (x)	57.2	47.3	58.0	45.8	36.2
EV/EBITDA (x)	33.8	31.9	37.5	29.7	23.4
P/BV (x)	15.6	12.6	10.6	8.8	7.3

Source: Company, BP Equities Research

## Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

## Sector Outlook

Positive

## Stock

CMP (INR)	2,540
Target Price (INR)	2,459
BSE code	541557
NSE Symbol	FINEORG
Bloomberg	FINEORG IN
Reuters	FINO.NS

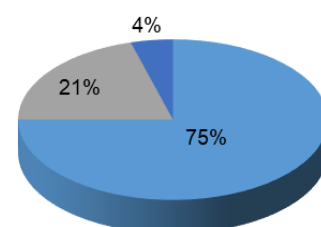
## Key Data

Nifty	13,389
52 Week H/L (INR)	3,260/1,522
O/s Shares (Mn)	30.7
Market Cap (Bn)	78
Face Value (INR)	5

## Average volume

3 months	59,200
6 months	58,170
1 year	40,280

## Share Holding Pattern (%)



■ Promoter ■ Institutions ■ Others

## Relative Price Chart



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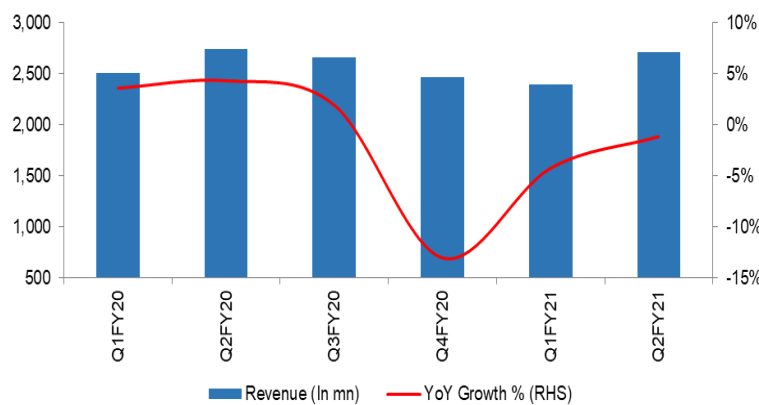
## Fine Organic Industries Ltd Q2 &amp; H1FY21 Result

YE March (INR. Mn)	Q2 FY21	Q1 FY21	Q-o-Q change %	Q2 FY20	Y-o-Y change %	H1FY21	H1FY20	Change %
Net Sales	2,710	2,400	12.9%	2,740	(1.1%)	5,110	5,246	(2.6%)
Other Operating Income	0	0		0				
Total Revenue	2,710	2,400	12.9%	2,740	(1.1%)	5,110	5,246	(2.6%)
Less:								
Raw Material Cost	1,690	1,464	15.5%	1,615	4.7%	3,155	3,115	1.3%
Operating & Manufacturing Expenses	325	220	47.8%	307	5.9%	545	540	1.0%
Employee Cost	182	191	(4.7%)	167	8.9%	373	334	11.7%
Total Expenditure	2,198	1,875	17.2%	2,089	5.2%	4,073	3,988	2.1%
EBIDTA	512	525	(2.4%)	651	(21.4%)	1,037	1,258	(17.6%)
Less: Depreciation	114	111	2.2%	65	74.6%	225	99	128.0%
EBIT	398	413	(3.7%)	586	(32.1%)	812	1,159	(30.0%)
Less: Interest	15.7	17.6	(10.3%)	6.5	141.3%	33.3	10.9	204.0%
Add: Other income	39	15		58		54	102	
Profit before tax	422	411	2.5%	638	(33.9%)	833	1,250	(33.4%)
Adjusted Profit before Tax	422	411	2.5%	638	(33.9%)	833	1,250	(33.4%)
Less: Total Tax	104	120	(12.7%)	52	99.7%	224	266	(15.7%)
Profit After Tax	317	292	8.8%	586	(45.8%)	609	984	(38.1%)
Share of profit /(loss) of JVs	-5	-5		-15		-10	-38	
Minority Interest	0	0		0		0	0	
Adjusted Profit After Tax	312	286	9.0%	570	(45.3%)	599	946	(36.7%)
Diluted EPS (Rs.)	10.3	9.5	8.8%	19.1	(45.8%)	19.9	32.1	(38.1%)
Adjusted Diluted EPS	10.2	9.3	9.0%	18.6	(45.3%)	19.5	30.9	(36.7%)
Diluted No of Share (mn)	30.7	30.7		30.7		30.7	30.7	
Margin Analysis %			Change in bps		Change in bps			Change in bps
Gross Margin %	37.6%	39.0%	-138	41.1%	-346	38.3%	40.6%	-237
EBIDTA Margin %	18.9%	21.9%	-297	23.8%	-488	20.3%	24.0%	-369
EBIT Margin %	14.7%	17.2%	-253	21.4%	-670	15.9%	22.1%	-621
NPM %	11.7%	12.2%	-44	21.4%	-966	11.9%	18.8%	-685
Effective Tax Rate %	24.8%	29.1%	-431	8.2%	1,656	26.9%	21.2%	564

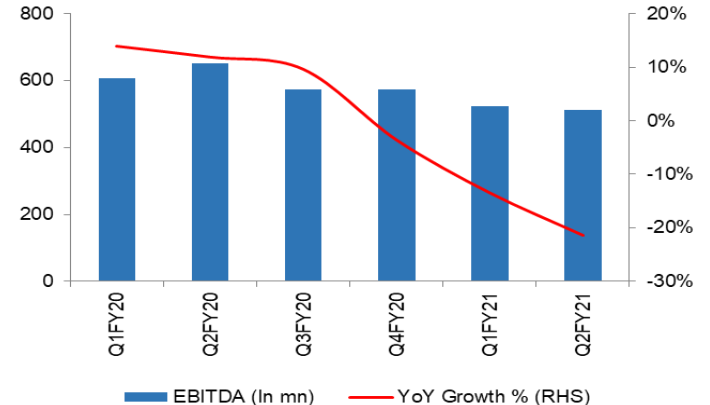
Source: Company, BP Equities Research

### Q2FY21 Result Highlights

#### Revenue declined by 1.1% YoY

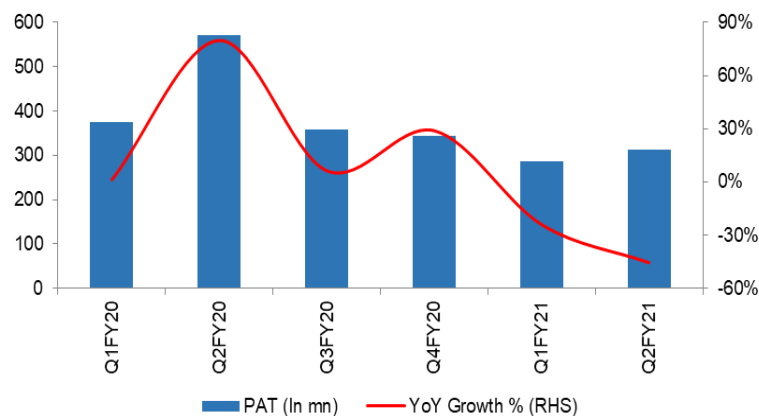


#### EBITDA de-grew by 21.4% YoY

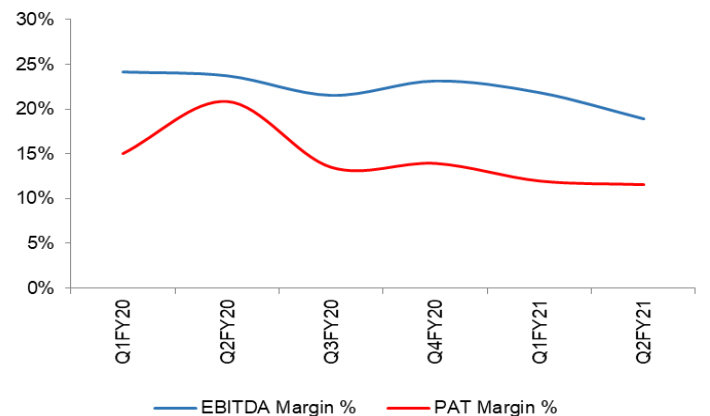


Source: Company, BP Equities Research

#### PAT contracted by 45.3% YoY

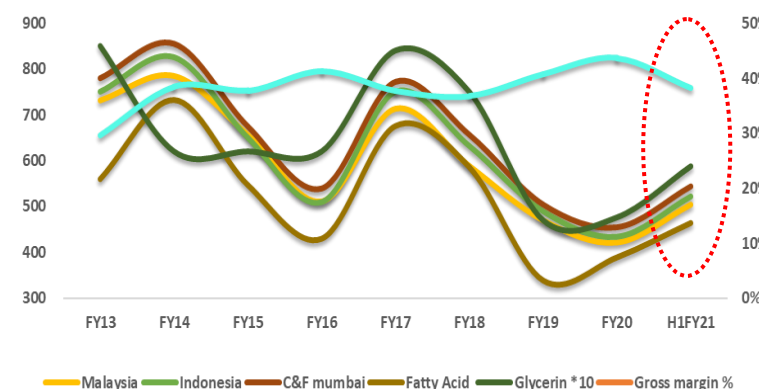


#### EBITDA/ PAT margin trend



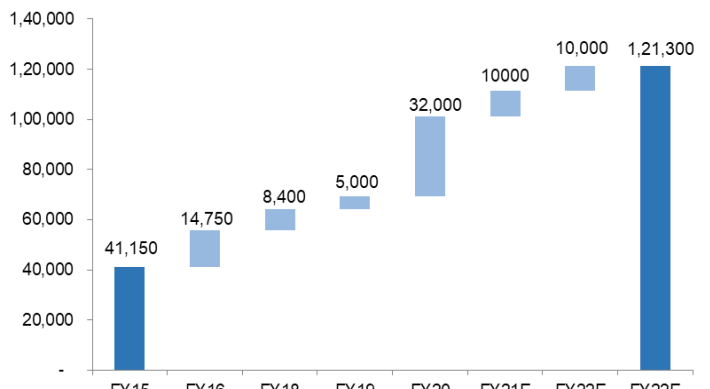
Source: Company, BP Equities Research

#### Increase in RM prices impacted Gross margin in H1FY21



Source: Bloomberg, BP Equities Research

#### Capacity Expansion Trend





# Fine Organic Industries Ltd

# Management Meet Update

Profit & Loss A/c					
YE March (INR. mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>10,603</b>	<b>10,381</b>	<b>10,064</b>	<b>11,794</b>	<b>13,644</b>
Growth %	23.9%	-2.1%	-3.1%	17.2%	15.7%
<b>Total Revenue</b>	<b>10,603</b>	<b>10,381</b>	<b>10,064</b>	<b>11,794</b>	<b>13,644</b>
<b>Less:</b>					
Raw Material Consumed	6,284	5,849	5,898	6,773	7,640
Employee Cost	628	725	797	917	1,054
Other Expenses	1,389	1,402	1,359	1,593	1,843
<b>Total Operating Expenditure</b>	<b>8,301</b>	<b>7,976</b>	<b>8,054</b>	<b>9,283</b>	<b>10,537</b>
<b>EBITDA</b>	<b>2,302</b>	<b>2,405</b>	<b>2,010</b>	<b>2,511</b>	<b>3,107</b>
Growth %	45.3%	4.4%	-16.4%	24.9%	23.7%
Less: Depreciation	175	347	383	431	441
<b>EBIT</b>	<b>2,128</b>	<b>2,058</b>	<b>1,626</b>	<b>2,080</b>	<b>2,666</b>
Growth %	53.8%	-3.3%	-21.0%	27.9%	28.2%
Interest Paid	61	80	80	58	36
Non-operating Income	240	233	250	250	250
Extraordinary Income	0	0	0	0	0
<b>Profit Before tax</b>	<b>2,308</b>	<b>2,212</b>	<b>1,797</b>	<b>2,272</b>	<b>2,880</b>
Tax	945	513	453	572	726
<b>Net Profit</b>	<b>1,363</b>	<b>1,648</b>	<b>1,344</b>	<b>1,699</b>	<b>2,154</b>
<b>Adjusted Profit</b>	<b>1,363</b>	<b>1,648</b>	<b>1,344</b>	<b>1,699</b>	<b>2,154</b>
<b>Reported Diluted EPS Rs</b>	<b>44.4</b>	<b>53.8</b>	<b>43.8</b>	<b>55.4</b>	<b>70.3</b>
Growth %	42.9%	20.9%	-18.5%	26.4%	26.8%
<b>Adjusted Diluted EPS Rs</b>	<b>44.4</b>	<b>53.8</b>	<b>43.8</b>	<b>55.4</b>	<b>70.3</b>
Growth %	42.9%	20.9%	-18.5%	26.4%	26.8%

Source: Company, BP Equities Research

Cash Flow Statement					
YE March (INR. Mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>PAT</b>	<b>1,362.6</b>	<b>1,648.0</b>	<b>1,343.8</b>	<b>1,699.1</b>	<b>2,154.2</b>
(Less)/Add: Extraordinary Income/Expense	0.0	0.0	0.0	0.0	0.0
Less: Non Operating Income	(240.5)	(233.5)	(250.0)	(250.0)	(250.0)
Add: Depreciation	174.5	346.6	383.5	431.5	441.1
Add: Interest Paid	60.6	79.8	79.8	58.0	36.2
Tax Adjustment	0.0	0.0	0.0	0.0	0.0
<b>Operating Profit before Working Capital Changes</b>	<b>1,357.2</b>	<b>1,840.9</b>	<b>1,557.1</b>	<b>1,938.6</b>	<b>2,381.4</b>
(Inc)/Dec in Current Assets	(39.7)	535.3	54.8	(299.4)	(320.2)
Inc/(Dec) in Current Liabilities	45.8	489.0	209.7	266.5	285.1
Changes in Inventory	(1.3)	(424.1)	40.2	(219.4)	(234.7)
<b>Net Cash Generated From Operations</b>	<b>1,362.0</b>	<b>2,441.2</b>	<b>1,861.8</b>	<b>1,686.3</b>	<b>2,111.6</b>
<b>Cash Flow from Investing Activities</b>					
(Inc)/Dec in Fixed Assets	(70.8)	(1,722.8)	(600.0)	(600.0)	(120.0)
(Inc)/Dec in Capital Work In Progress	(746.2)	1,004.5	0.0	0.0	0.0
(Inc)/Dec in Investment (Strategic)	7.3	(147.8)	19.6	(106.8)	(114.2)
(Inc)/Dec in Investment (Others)	0.0	0.0	0.0	0.0	0.0
Add: Non Operating Income	240.5	233.5	250.0	250.0	250.0
(Inc)/Dec in Intangible Assets	(125.7)	(1.3)	0.0	0.0	0.0
<b>Net Cash Flow from/(used in) Investing Activities</b>	<b>(694.8)</b>	<b>(633.9)</b>	<b>(330.4)</b>	<b>(456.8)</b>	<b>15.8</b>
<b>Cash Flow from Financing Activities</b>					
Inc/(Dec) in Total Loans	679.7	(244.3)	0.0	(250.0)	(250.0)
Inc/(Dec) in Reserves & Surplus	(101.4)	(246.8)	0.0	(0.0)	0.0
Inc/(Dec) in Equity	(2.8)	0.0	0.0	0.0	0.0
Dividend Paid	(214.6)	(214.6)	(175.0)	(221.3)	(280.5)
Less: Interest Paid	(60.6)	(79.8)	(79.8)	(58.0)	(36.2)
Adjustments	(2.2)	(9.8)	(0.0)	0.0	0.0
Exceptional Item	0.0	0.0	0.0	0.0	0.0
<b>Net Cash Flow from Financing Activities</b>	<b>298.1</b>	<b>(795.4)</b>	<b>(254.8)</b>	<b>(529.3)</b>	<b>(566.7)</b>
<b>Net Inc/Dec in cash equivalents</b>	<b>965.2</b>	<b>1,011.9</b>	<b>1,276.6</b>	<b>700.2</b>	<b>1,560.6</b>
<b>Opening Balance</b>	<b>126.5</b>	<b>1,091.8</b>	<b>2,103.6</b>	<b>3,380.2</b>	<b>4,080.4</b>
<b>Closing Balance Cash and Cash Equivalents</b>	<b>1,091.8</b>	<b>2,103.6</b>	<b>3,380.2</b>	<b>4,080.4</b>	<b>5,641.0</b>

Source: Company, BP Equities Research



## Fine Organic Industries Ltd

## Management Meet Update

Balance Sheet					
YE March( INR. mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>					
Equity Capital	153	153	153	153	153
Reserves & Surplus	4,849	6,036	7,204	8,682	10,556
<b>Equity</b>	<b>5,002</b>	<b>6,189</b>	<b>7,358</b>	<b>8,836</b>	<b>10,709</b>
<b>Net Worth</b>	<b>5,002</b>	<b>6,189</b>	<b>7,358</b>	<b>8,836</b>	<b>10,709</b>
Minority Interest					
Net Deferred tax liability/(Asset)	37	8	8	8	8
<b>Total Loans</b>	<b>1,130</b>	<b>915</b>	<b>915</b>	<b>665</b>	<b>415</b>
<b>Capital Employed</b>	<b>6,170</b>	<b>7,112</b>	<b>8,281</b>	<b>9,509</b>	<b>11,132</b>
<b>Assets</b>					
Gross Block	2,470	4,193	4,793	5,393	5,513
Less: Depreciation	1,689	2,025	2,409	2,840	3,281
<b>Net Block</b>	<b>782</b>	<b>2,168</b>	<b>2,384</b>	<b>2,553</b>	<b>2,232</b>
Capital WIP	1,063	58	58	58	58
<b>Investments</b>	<b>493</b>	<b>641</b>	<b>621</b>	<b>728</b>	<b>842</b>
Others - A	0	0	0	0	0
<b>Current Assets</b>					
Inventories	893	1,317	1,276	1,496	1,731
Sundry Debtors	1,556	1,323	1,283	1,503	1,739
Cash and Bank Balance	1,092	2,104	3,380	4,080	5,641
Current Investments	0	0	0	0	0
Loans and Advances	778	473	459	538	622
Other Current Assets	23	25	25	25	25
<b>Total Current Assets</b>	<b>4,341</b>	<b>5,242</b>	<b>6,424</b>	<b>7,643</b>	<b>9,758</b>
<b>Less:Current Liabilities &amp; Provisions</b>					
Sundry Creditors	534	858	1,082	1,268	1,467
Provisions	117	78	76	89	103
Other Current Liabilities	201	405	393	460	532
<b>Total Current Liabilities &amp; Provisions</b>	<b>852</b>	<b>1,341</b>	<b>1,551</b>	<b>1,817</b>	<b>2,102</b>
<b>Capital Applied</b>	<b>6,170</b>	<b>7,112</b>	<b>8,281</b>	<b>9,509</b>	<b>11,132</b>

Source: Company, BP Equities Research

Key Ratios					
YE March	FY19	FY20	FY21E	FY22E	FY23E
<b>Key Operating Ratios</b>					
EBITDA Margin (%)	21.7%	23.2%	20.0%	21.3%	22.8%
Tax / PBT (%)	41.0%	23.2%	25.2%	25.2%	25.2%
Net Profit Margin (%)	12.9%	15.9%	13.4%	14.4%	15.8%
RoE (%)	30.4%	29.5%	19.8%	21.0%	22.0%
RoCE (%)	39.3%	37.5%	27.7%	24.7%	27.7%
Current Ratio (x)	5.1x	3.9x	4.1x	4.2x	4.6x
Dividend Payout (%)	15.8%	13.0%	13.0%	13.0%	13.0%
Book Value Per Share (INR)	163.2	201.9	240.0	288.2	349.3
<b>Financial Leverage Ratios</b>					
Debt/ Equity (x)	0.2x	0.1x	0.1x	0.1x	0.0x
Interest Coverage (x)	38.0x	30.1x	25.2x	43.3x	85.9x
<b>Growth Indicators %</b>					
Growth in Net Block (%)	(11.5%)	177.3%	10.0%	7.1%	(12.6%)
Sales Growth (%)	23.9%	(2.1%)	(3.1%)	17.2%	15.7%
EBITDA Growth (%)	45.3%	4.4%	(16.4%)	24.9%	23.7%
Net Profit Growth (%)	42.9%	20.9%	(18.5%)	26.4%	26.8%
Diluted EPS Growth (%)	42.9%	20.9%	(18.5%)	26.4%	26.8%
<b>Turnover Ratios</b>					
Debtors Days	54	47	47	47	47
Creditors Days	23	39	39	39	39
Inventory Days	31	46	46	46	46

Source: Company, BP Equities Research



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