

IPO Note

12th March 2021

Company Overview

Laxmi Organic Industries Limited ("Laxmi Organic") is a leading manufacturer of Acetyl Intermediates and Specialty Intermediates with almost 3 decades of experience in large scale manufacturing of chemicals. Since their inception in 1989, they have been on a journey of transformation. They initially started manufacturing acetaldehyde and acetic acid in 1992, and soon thereafter moved on to manufacturing of ethyl acetate in 1996. Laxmi Organic is currently among the largest manufacturers of ethyl acetate in India with a market share of approximately 30% of the Indian ethyl acetate market. Further, post completion of the YCPL Acquisition, their market share in the ethyl acetate market will be further enhanced. In 2010, Laxmi Organic commenced manufacturing the Specialty Intermediates by acquiring Clariant's diketene business. The diversification of their product portfolio into varied chemistries in Specialty Intermediates has enabled them to create a niche for themselves. Laxmi Organic is the only manufacturer of diketene derivatives in India with a market share of approximately 55% of the Indian diketene derivatives market in terms of revenue in Fiscal 2020 and one of the largest portfolios of diketene products.

Objects of the issue

The issue consist of Offer for sale (INR 3.0 bn) and Fresh issue (INR 3.0 bn). Company proposes to utilize the net proceeds from fresh issue and Pre-IPO placement for:

- ⇒ Investment in the wholly owned Subsidiary, Yellowstone Fine Chemicals Pvt. Ltd. ("YFCPL") for part financing its capital expenditure requirements in relation to the setting up of a manufacturing facility for fluoro specialty chemicals ("Proposed Facility") (INR 0.6bn)
- ⇒ Investment in YFCPL for funding its working capital requirements (INR 0.37 bn)
- ⇒ Funding capital expenditure requirements for expansion of their SI Manufacturing Facility ("Proposed Expansion") (INR 0.91 bn)
- ⇒ Funding working capital requirements of the company (INR 0.35 bn)
- ⇒ Purchase of plant and machinery for augmenting infrastructure development at their SI Manufacturing Facility (INR 0.12 bn)
- ⇒ Prepayment or repayment of all or a portion of certain outstanding borrowings availed by the company and their wholly owned Subsidiary, Viva Lifesciences Pvt. Ltd (INR 1.79 bn)
- ⇒ General Corporate Purposes (1.86 bn)

Investment Rationale

Leading manufacturer of ethyl acetate with significant market share

The global ethyl acetate market is expected to grow at a CAGR of more than 4.5% over the next decade in terms of volume and is projected to grow from ~4 MMT in calendar year 2019 to ~5 MMT by calendar year 2024. In terms of revenue, the global ethyl acetate market stands approximately at USD 3.5 billion globally and is expected to grow at 5.5% to 6% CAGR over the next half decade. Ethyl acetate is a highly versatile solvent used in multiple applications across industries. It is derived from nonaromatic raw materials. The bio-based origin of ethyl acetate gives it a distinct identity and making it a preferred solvent over traditional solvents, given its lower toxicity when exposed to humans. The allowance of ethyl acetate in the human body is more than other solvents. In 2015, REACH banned products including glues containing toluene, chloroform, or benzene. In view of health hazards, this ban might be adopted by other regions as well and according to the Frost & Sullivan Report, such ban will enhance the need to move to a green solvent like ethyl acetate which will in turn beneficial to the company.

Diversified customer base across high growth industries and long-standing relationships with marquee customers

Their products find application in a number of high growth industries including pharmaceuticals, agrochemicals, dyes & pigments, inks & coatings, paints, printing & packaging, flavours & fragrances, adhesives and other industrial applications. Amongst the industries to which they cater, during the forecast period of 2019-24 the global active pharmaceutical ingredients market size is projected to grow at a CAGR of 5%-6%, the global agrochemicals and fertilizer market is expected to garner revenue at a CAGR of 5.5-6%, and the paints, coatings and additives industry is projected to grow at a CAGR of 5.1%.

Valuation and Outlook

Laxmi Organic is a leading manufacturer of Acetyl Intermediates and Specialty Intermediates in India. They have over three decades of experience in the manufacturing of specialty chemicals. Its products are currently divided into two categories, namely the Acetyl Intermediates and the Specialty Intermediates. On the valuation front, at the upper price band, the company is overpriced at 49x P/E based on FY20 numbers considering its diluted equity shares compare to its listed Industry peers (i.e Fine Organic Industries - 35x and Aarti Industries - 25x) based on FY20 numbers. However, considering the positive sentiments around speciality chemical stocks and for new IPO's in the current scenario, we believe a decent listing gain can be possible. Therefore, we assign the 'SUBSCRIBE' rating to this IPO issue (only for listing gain)

Issue Details

Offer Period	Mar 15th - 17th Mar 2021
Price Band	INR.129 to INR.130
Bid Lot	115
Listing	BSE&NSE
Issue Size (no. of shares in mn)	46.15
Issue Size (INR. in bn)	6.0
Face Value (INR)	2

Issue Structure

QIB	50%
Retail	35%
HNI	15%

BRLM	Axis Capital, DAM Capital
Registrar	Link Intime India Pvt. Ltd

Particulars Pre Issue % Post Issue %

Promoter	89.51	72.92
Public	10.49	27.08
Total	100	100

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



Income Statement (In mn)

Particulars	FY18	FY19	FY20	9MFY21
Revenue				
Revenue from operations	13,931	15,685	15,341	8,134
Total revenue	13,931	15,685	15,341	8,134
Expenses				
Raw Materials Consumed	6,558	8,884	7,810	3,519
Purchase of stock in trade	3,213	2,496	2,871	2,093
Changes in Inventories	(87)	(424)	285	125
Employee benefit expenses	526	645	686	357
Other expenses	2,031	2,551	2,554	1,186
Excise Duty	176	-	-	-
Total Operating expenses	12,417	14,152	14,206	7,280
EBITDA	1,514	1,533	1,135	854
Depreciation and amortisation expense	313	441	489	227
Other income	30	58	45	9
EBIT	1,231	1,150	692	636
Finance costs	98	170	140	74
PBT	1,133	981	551	562
Current tax	307	241	159	118
Deferred Tax charge	70	11	(51)	(10)
Provision for Taxation	-	(0)	(3)	-
Total tax	376	252	106	107
Exceptional Items	-	-	257	-
Share of profit/(loss) of a Joint Venture	0	(5)		
PAT	757	724	702	455
Diluted EPS	2.9	2.7	2.7	1.7

Source: RHP, BP Equities Research

Cash Flow Statement (In mn)

Particulars	FY18	FY19	FY20	9MFY21
Cash Flow from operating activities	(67)	1,877	1,960	355
Cash flow from investing activities	(850)	(1,225)	(558)	(578)
Cash flow from financing activities	847	(627)	(1,238)	248
Net increase/(decrease) in cash and cash equivalents	(71)	24	165	25
Cash and cash equivalents at the beginning of the period	123	52	76	241
Cash and cash equivalents at the end of the period	52	76	241	266

Source: RHP, BP Equities Research



Balance Sheet (In mn)

Particulars	FY18	FY19	FY20	9MFY21
Equity				
Share Capital	100	500	450	450
Other Equity	3,693	3,998	3,819	4,274
Non-Controlling Interests	2	3	4	3
Net worth	3,795	4,502	4,273	4,727
Long-Term Borrowings	531	746	902	903
Lease Liabilities	123	107	84	67
Long-Term Provisions	18	22	28	31
Other Non Current Liabilities	6	-	-	-
Deferred tax Liabilities	160	171	133	125
Total Non Current Liabilities	838	1,046	1,146	1,125
Short Term Borrowings	1,388	667	336	633
Trade payables	2,141	3,156	4,116	3,093
Lease Liabilities	19	21	24	29
current tax liability	102	28	10	15
Other current liabilities	72	36	62	95
Short Term Provisions	73	86	118	123
Other Financial Liabilities	518	604	621	532
Total Current Liabilities	4,314	4,597	5,287	4,519
Total liabilities	8,947	10,145	10,706	10,371
Assets				
Tangible Assets	2,771	3,306	3,255	3,209
Capital work in Progress	300	315	675	744
Intangible Assets	3	10	8	6
Right Use of Assets	160	141	114	100
Loans and Advances	30	41	83	83
Other Financial Assets	59	6	11	17
Deferred tax Liabilities	-	-	13	15
Other non-current assets	186	78	80	75
Total Non current assets	3,508	3,896	4,237	4,251
Other Financial Assets	8	9	403	331
Trade Receivables	3,242	3,262	3,594	3,343
Cash and cash equivalents	52	76	241	266
Bank Balances	-	391	206	550
Assets held for sale	72	-	-	-
Inventories	1,458	1,707	1,519	1,262
Loans	10	2	2	2
Other current assets	596	801	505	366
Total Current Asset	5,439	6,249	6,469	6,120
Net Current Assets	1,125	1,652	1,182	1,601
Total Assets	8,947	10,145	10,706	10,371

Source: RHP, BP Equities Research

Key Risks.

- ⇒ Any increase in the cost of raw materials or a shortfall in supply of raw materials might have an impact on company business.
- ⇒ Large part of its manufacturing facilities are located in one area, i.e. Mahad, Maharashtra. Any localized social unrest, natural disaster or breakdown of services in and around that area can have significant impact on company business
- ⇒ A significant portion of its revenues, expenses and borrowings are in foreign currencies. They are exposed to foreign currency exchange risks which can impact the results of operations

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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