

Higher input cost hurt Q4 performance; margins to remain under pressure in the near term

Fine Organic Industries (FOIL) posted revenue of INR 3,229mn with a 30.6% YoY increase, which was 9.2% above our estimate of INR 2,958mn. The revenue growth was mainly driven by better realization supported by the price increase. FOIL has witnessed a sharp increase in key raw materials prices (~25% to 30%). Despite taking price increase by re-negotiation with some of its customers, continued increasing input cost severely impacted its gross margins by 806bps (YoY), which resulted in 820bps (YoY) contraction in EBITDA margin to 15%(est. 19.1%) in Q4FY21. However, higher other income (INR 46mn vs INR 6mn) coupled with lower tax rate (25.9% vs 50.3%) helped to have a limited impact on PAT (de-growth of 7.5% YoY to INR 318mn compared to our estimate of INR 358mn). According to management, the company is looking for an inorganic expansion and evaluating downstream and upstream integration projects. However, these plans are still in their preliminary stages.

Fresh capacity addition to remaining key growth driver

As there is an increasing demand in the Additive industry, the company has done capacity expansions, leading to volume growth, aided by higher realizations. FOIL expanded capacity by 42,000 MTPA of which 32,000 MTPA in Ambernath for plastic, rubber and cosmetic additives got commissioned in Q2FY20, which we believe opens up a new avenue of revenue growth as demand recovers. Moreover, another 10,000TPA capacity dedicated to food additives at Patalganga near Karjat got commissioned in the first phase in Nov 2020 (Part of the capacity of 10,000MT expected to complete in FY22). Management expects the ramp-up of these facilities to be gradual and all its plants to reach optimum utilization by FY24E. The company has earmarked a capex of INR1.5-1.6bn for Ambernath while INR 550-600mn for Patalganga with 3-4x of asset turnover. Hence, we expect incremental revenue of INR 5-6bn at peak utilization level from these plants in the next three to four years. Given the continued uncertainty over COVID-19 situation, it is likely that the benefit of the expanded capacity will take time to ramp up. We modelled 60%/80% capacity utilization in FY22/FY23 from the Ambernath 3 facility (32,000MTPA) and 50%/90% utilization from the Patalganga facility in FY22/FY23.

Stock Rating

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

Sector Outlook

Positive

Stock

CMP (INR)	3,000
Target Price (INR)	2,964
BSE code	541557
NSE Symbol	FINEORG
Bloomberg	FINEORG IN
Reuters	FINO.NS

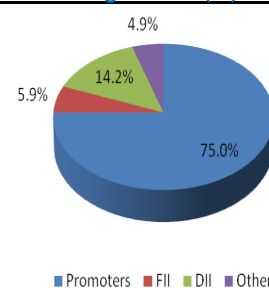
Key Data

Nifty	15,650
52 Week H/L (INR)	3,569/1,854
O/s Shares (Mn)	30.7
Market Cap (Bn)	92
Face Value (INR)	5

Average volume

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

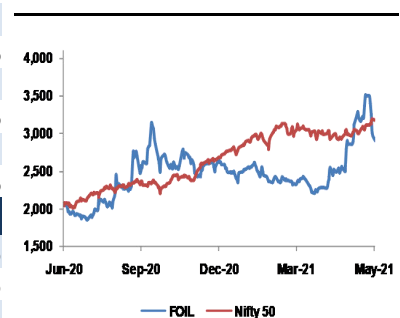
Share Holding Pattern (%)



Key Financials					
YE March (INR. mn)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	10,603	10,381	11,332	14,768	16,694
Growth %	24%	-2%	9%	30%	13%
EBIDTA	2,302	2,405	1,993	2,813	3,374
Growth%	45%	4%	-17%	41%	20%
Net Profit	1,363	1,648	1,203	1,855	2,272
Growth %	43%	21%	-27%	54%	22%
Diluted EPS	44	54	39	61	74
Growth %	43%	21%	-27%	54%	22%
Profitability & Valuation					
EBIDTA (%)	21.7%	23.2%	17.6%	19.0%	20.2%
NPM (%)	12.9%	15.9%	10.6%	12.6%	13.6%
RoE (%)	30.4%	29.4%	17.8%	23.2%	24.0%
RoCE (%)	39.3%	37.5%	27.2%	25.9%	31.6%
P/E (x)	67.5	55.8	76.4	49.6	40.5
EV/EBITDA (x)	40.0	37.8	45.1	31.7	25.9
P/BV (x)	18.4	14.9	12.6	10.6	8.9

Source: Company, BP Equities Research

Relative Price Chart



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**Variance Analysis - Q4 & FY21 Result**

YE March (INR. Mn)	Q4 FY21	Q3 FY21	Q-o-Q change %	Q4 FY20	Y-o-Y change %	FY21	FY20	Change %
Net Sales	3,229	2,993	7.9%	2,473	30.6%	11,332	10,381	9.2%
Other Operating Income	0	0		0				
Total Revenue	3,229	2,993	7.9%	2,473	30.6%	11,332	10,381	9.2%
Less:								
Raw Material Cost	2,150	1,955	10.0%	1,448	48.5%	7,260	5,849	24.1%
Operating & Manufacturing Expenses	394	344	14.4%	283	39.3%	1,284	1,402	(8.4%)
Employee Cost	200	222	(9.7%)	169	18.7%	796	725	9.8%
Total Expenditure	2,745	2,521	8.9%	1,899	44.5%	9,340	7,976	17.1%
EBIDTA	484	472	2.5%	573	(15.6%)	1,993	2,405	(17.1%)
Less: Depreciation	124	119	4.1%	127	(2.7%)	468	347	35.0%
EBIT	360	353	2.0%	446	(19.3%)	1,525	2,058	(25.9%)
Less: Interest	12.5	15.5	(19.4%)	15.7	(20.4%)	61.3	79.8	(23.2%)
Add: Other income	63	53		46		171	233	
Profit before tax	411	391	5.2%	476	(13.7%)	1,635	2,212	(26.1%)
Adjusted Profit before Tax	411	391	5.2%	476	(13.7%)	1,635	2,212	(26.1%)
Less: Total Tax	95	99	(4.2%)	123	(23.0%)	418	513	(18.5%)
Profit After Tax	316	292	8.4%	353	(10.4%)	1,216	1,699	(28.4%)
Share of profit /(loss) of JVs+ MI	2	-5		-9		-13	-51	
Adjusted Profit After Tax	318	287	10.8%	344	(7.5%)	1,203	1,648	(27.0%)
Diluted EPS (Rs.)	10.3	9.5	8.4%	11.5	(10.4%)	39.7	55.4	(28.4%)
Adjusted Diluted EPS	10.4	9.4	10.8%	11.2	(7.5%)	39.2	53.7	(27.0%)
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 %	33.4%	34.7%	-129	41.5%	-806	35.9%	43.7%	-772
EBIDTA Margin %	15.0%	15.8%	-78	23.2%	-820	17.6%	23.2%	-558
EBIT Margin %	11.2%	11.8%	-64	18.0%	-688	13.5%	19.8%	-637
NPM %	9.8%	9.7%	5	14.3%	-447	10.7%	16.4%	-563
Effective Tax Rate %	23.1%	25.4%	-226	25.9%	-282	25.6%	23.2%	237

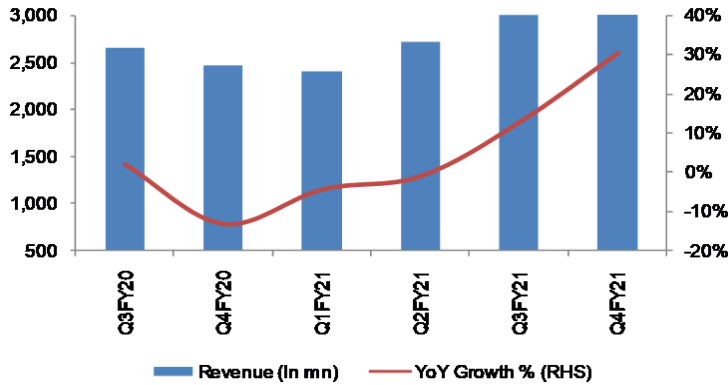
Source: Company, BP Equities Research

Valuation and Outlook

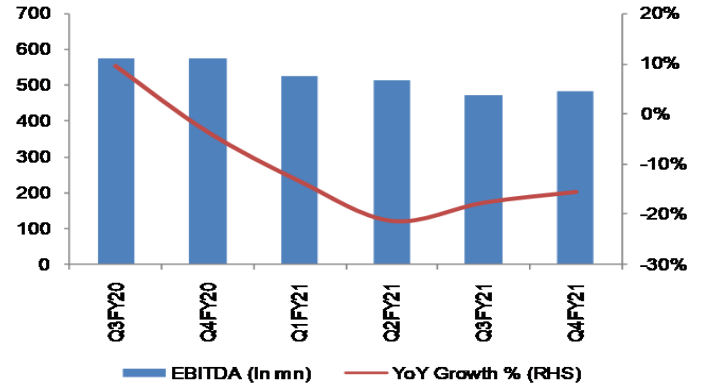
The global leadership position in slip additives and its proprietary technology to manufacture green additives provide a competitive edge to FOIL. We believe the gradual replacement of petrochemical-based additives towards greener oleochemical additives remains the biggest growth driver in the long term. 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 additives 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. Given sustained traction for a niche business, strong client base, high margins and return ratios and robust balance sheet, FOIL remains a strong play. However, we expect demand to recover and grow as the situation normalizes in FY22/FY23. Moreover, we expect a gradual recovery in margins post Q1FY22 as the company re-negotiates the margins on a cost-plus basis. We estimate 21.4%/30%/37% CAGRs in revenue/EBITDA/PAT over FY21-23e. We maintain our HOLD rating on the stock with a revised target price of INR 2,964 (40x FY23E EPS of INR 74.1, earlier target price INR 2,459).

Q4FY21 Result Highlights

Revenue increased by 31% YoY

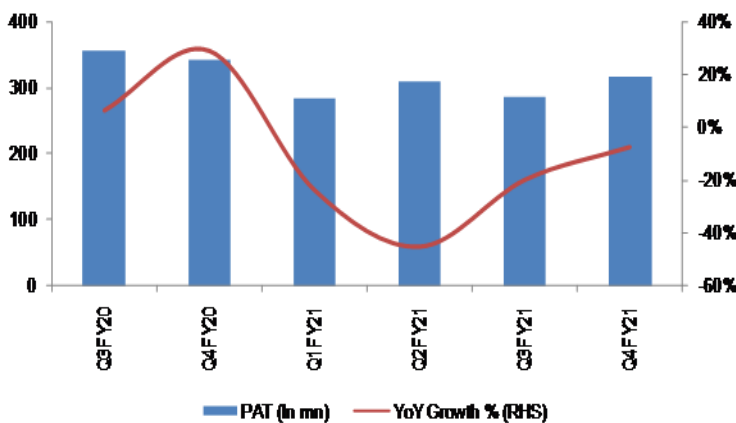


EBITDA de-grew by 16% YoY

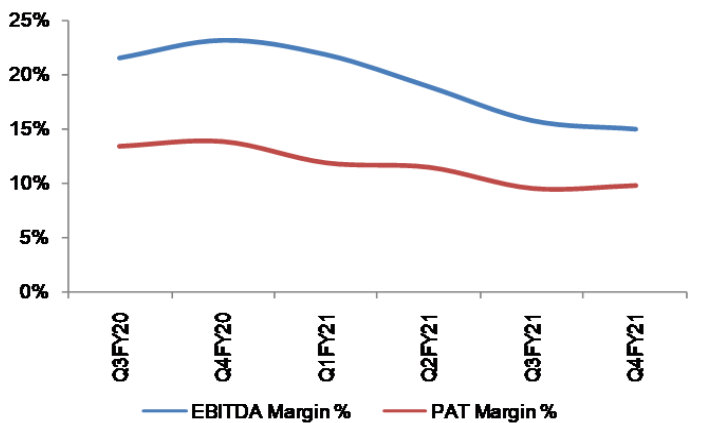


Source: Company, BP Equities Research

PAT contracted by 7% YoY

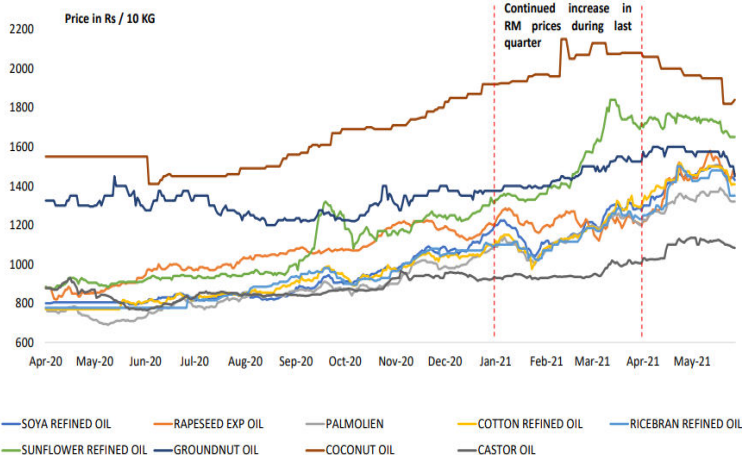


EBITDA/PAT margin trend

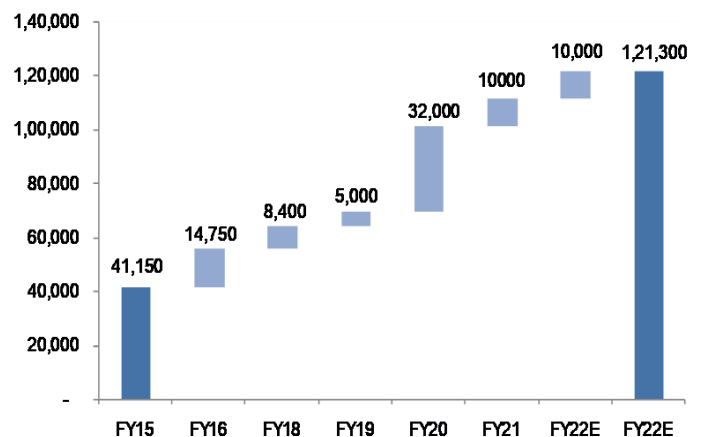


Source: Company, BP Equities Research

Increase in RM prices impacted Gross margin in FY21



Capacity Expansion Trend (in MTPA)



Source: Company presentation, BP Equities Research



Profit & Loss A/c

YE March (INR. mn)	FY19	FY20	FY21	FY22E	FY23E
Revenue	10,603	10,381	11,332	14,768	16,694
Growth %	23.9%	-2.1%	9.2%	30.3%	13.0%
Total Revenue	10,603	10,381	11,332	14,768	16,694
Less:					
Raw Material Consumed	6,284	5,849	7,260	9,367	10,377
Employee Cost	628	725	796	915	1,052
Other Expenses	1,389	1,402	1,284	1,673	1,891
Total Operating Expenditure	8,301	7,976	9,340	11,955	13,320
EBITDA	2,302	2,405	1,993	2,813	3,374
Growth %	45.3%	4.4%	-17.1%	41.2%	19.9%
Less: Depreciation	175	347	468	531	562
EBIT	2,128	2,058	1,525	2,282	2,812
Growth %	53.8%	-3.3%	-25.9%	49.7%	23.2%
Interest Paid	61	80	61	34	7
Non-operating Income	240	233	171	250	250
Extraordinary Income	0	0	0	0	0
Profit Before tax	2,308	2,212	1,635	2,498	3,055
Tax	945	513	418	630	770
Net Profit	1,363	1,648	1,203	1,855	2,272
Adjusted Profit	1,363	1,648	1,203	1,855	2,272
Reported Diluted EPS Rs	44.4	53.7	39.2	60.5	74.1
Growth %	42.9%	20.9%	-27.0%	54.2%	22.4%
Adjusted Diluted EPS Rs	44.4	53.7	39.2	60.5	74.1
Growth %	42.9%	20.9%	-27.0%	54.2%	22.4%

Source: Company, BP Equities Research

Cash Flow Statement

YE March (INR. Mn)	FY19	FY20	FY21	FY22E	FY23E
PAT	1,362.6	1,647.8	1,203.2	1,855.4	2,271.6
(Less)/Add: Extraordinary Income/Expense	0.0	0.0	0.0	0.0	0.0
Less: Non Operating Income	(240.5)	(233.5)	(171.0)	(250.0)	(250.0)
Add: Depreciation	174.5	346.6	467.7	530.7	562.2
Add: Interest Paid	60.6	79.8	61.3	34.3	7.3
Tax Adjustment	0.0	0.0	0.0	0.0	0.0
Operating Profit before Working Capital Changes	1,357.2	1,840.7	1,561.3	2,170.4	2,591.1
(Inc)/Dec in Current Assets	(39.7)	535.3	(477.3)	(680.6)	(381.7)
Inc/(Dec) in Current Liabilities	45.8	489.0	203.2	766.2	301.4
Changes in Inventory	(1.3)	(424.1)	54.9	(382.6)	(214.5)
Net Cash Generated From Operations	1,362.0	2,441.0	1,342.1	1,873.4	2,296.2
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	(70.8)	(1,722.8)	(258.5)	(600.0)	(300.0)
(Inc)/Dec in Capital Work In Progress	(746.2)	1,004.5	(204.6)	0.0	0.0
(Inc)/Dec in Investment (Strategic)	7.3	(147.8)	292.1	(105.8)	(59.3)
(Inc)/Dec in Investment (Others)	0.0	0.0	0.0	0.0	0.0
Add: Non Operating Income	240.5	233.5	171.0	250.0	250.0
(Inc)/Dec in Intangible Assets	(125.7)	(1.3)	(277.9)	0.0	0.0
Net Cash Flow from/(used in) Investing Activities	(694.8)	(633.9)	(277.9)	(455.8)	(109.3)
Cash Flow from Financing Activities					
Inc/(Dec) in Total Loans	679.7	(244.3)	(391.5)	(250.0)	(250.0)
Inc/(Dec) in Reserves & Surplus	(101.4)	(246.7)	259.0	0.0	0.0
Inc/(Dec) in Equity	(2.8)	0.0	0.0	0.0	0.0
Dividend Paid	(214.6)	(214.6)	(337.3)	(520.1)	(636.7)
Less: Interest Paid	(60.6)	(79.8)	(61.3)	(34.3)	(7.3)
Adjustments	(2.2)	(9.8)	(0.0)	(0.0)	0.0
Exceptional Item	0.0	0.0	0.0	0.0	0.0
Net Cash Flow from Financing Activities	298.1	(795.2)	(531.1)	(804.4)	(894.0)
Net Inc/Dec in cash equivalents	965.2	1,011.9	533.1	613.3	1,292.9
Opening Balance	126.5	1,091.8	2,103.6	2,636.7	3,250.0
Closing Balance Cash and Cash Equivalents	1,091.8	2,103.6	2,636.7	3,250.0	4,543.0

Source: Company, BP Equities Research



Balance Sheet

YE March(INR. mn)	FY19	FY20	FY21	FY22E	FY23E
Liabilities					
Equity Capital	153	153	153	153	153
Reserves & Surplus	4,849	6,036	7,161	8,496	10,131
Equity	5,002	6,189	7,314	8,649	10,284
Net Worth	5,002	6,189	7,314	8,649	10,284
Minority Interest					
Net Deferred tax liability/(Asset)	37	8	-36	-36	-36
Total Loans	1,130	915	567	317	67
Capital Employed	6,170	7,112	7,845	8,931	10,316
Assets					
Gross Block	2,470	4,193	4,452	5,052	5,352
Less: Depreciation	1,689	2,025	2,493	3,024	3,586
Net Block	782	2,168	1,959	2,028	1,766
Capital WIP	1,063	58	263	263	263
Investments	493	641	349	455	514
Others - A	0	0	0	0	0
Current Assets					
Inventories	893	1,317	1,262	1,644	1,859
Sundry Debtors	1,556	1,323	1,610	2,098	2,372
Cash and Bank Balance	1,092	2,104	2,637	3,250	4,543
Current Investments	0	0	0	0	0
Loans and Advances	778	473	634	826	934
Other Current Assets	23	25	55	55	56
Total Current Assets	4,341	5,242	6,198	7,874	9,763
Less:Current Liabilities & Provisions					
Sundry Creditors	534	858	1,072	1,695	1,916
Provisions	117	78	86	112	127
Other Current Liabilities	201	405	386	503	569
Total Current Liabilities & Provisions	852	1,341	1,544	2,310	2,612
Capital Applied	6,170	7,112	7,845	8,931	10,316

Source: Company, BP Equities Research

Key Ratios

YE March	FY19	FY20	FY21	FY22E	FY23E
Key Operating Ratios					
EBITDA Margin (%)	21.7%	23.2%	17.6%	19.0%	20.2%
Tax / PBT (%)	41.0%	23.2%	25.6%	25.2%	25.2%
Net Profit Margin (%)	12.9%	15.9%	10.6%	12.6%	13.6%
RoE (%)	30.4%	29.4%	17.8%	23.2%	24.0%
RoCE (%)	39.3%	37.5%	27.2%	25.9%	31.6%
Current Ratio (x)	5.1x	3.9x	4.0x	3.4x	3.7x
Dividend Payout (%)	15.8%	13.0%	28.0%	28.0%	28.0%
Book Value Per Share (INR)	163.2	201.9	238.5	282.1	335.4
Financial Leverage Ratios					
Debt/ Equity (x)	0.2x	0.1x	0.1x	0.0x	0.0x
Interest Coverage (x)	38.0x	30.1x	32.5x	82.0x	463.1x
Growth Indicators %					
Growth in Net Block (%)	(11.5%)	177.3%	(9.7%)	3.5%	(12.9%)
Sales Growth (%)	23.9%	(2.1%)	9.2%	30.3%	13.0%
EBITDA Growth (%)	45.3%	4.4%	(17.1%)	41.2%	19.9%
Net Profit Growth (%)	42.9%	20.9%	(27.0%)	54.2%	22.4%
Diluted EPS Growth (%)	42.9%	20.9%	(27.0%)	54.2%	22.4%
Turnover Ratios					
Debtors Days	54	47	52	52	52
Creditors Days	23	39	42	42	42
Inventory Days	31	46	41	41	41

Source: Company, BP Equities Research

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