

#### Mixed bag performance; Retaining a Hold

Fine Organic Industries (FOIL) posted revenue of INR 3,576mn with a 49% YoY increase, which was 5.6% above our estimate of INR 3,387mn. The revenue growth was mainly driven by better realization supported by the price increase and partially due to new product introduction. Export volume grew at a better pace with a contribution of 62% compared to 55% in Q1FY21. However, domestic sales did not pick up and remained flat during the quarter due to the lockdown restrictions. FOIL has witnessed a increase in key raw material costs along with higher freight cost. Despite taking price increase by re-negotiation with some of its customers, continued increasing input cost severely impacted its gross margins by 673bps (YoY), which resulted in 732bps (YoY) contraction in EBITDA margin to 14.5% (est. 17.2%) in Q1FY22. Given the current situation, the Company is not making any long term contracts with customers and only working on short term contracts, where the customers pay increased freight costs; to mitigate the impact on the margins. Higher other income (INR 59mn vs INR 15mn) coupled with lower tax rate (22.6% vs 29.1%) helped to have a limited impact on PAT (growth of 25.4% YoY to INR 359mn vs our estimate of INR 366mn). 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.

#### Capacity enhancement to support growth

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 by end of 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 by the end of FY24.

#### Valuation and Outlook

We expect its short-term performance would be muted as end-user industries in the domestic market are witnessing slower recovery and a sharp surge in the RM and freight costs. 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 H2FY22/FY23. Moreover, we expect a gradual recovery in margins post H1FY22 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 retain our Hold rating on the stock with an unchanged price target of INR. 2,964 (based on 40x FY23E EPS of INR 74.1).

#### Stock Rating

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

#### Sector Outlook

Positive

#### Stock

CMP (INR)	2,841
Target Price (INR)	2,964
BSE code	541557
NSE Symbol	FINEORG
Bloomberg	FINEORG IN
Reuters	FINO.NS

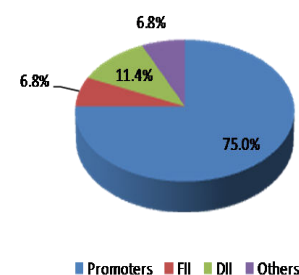
#### Key Data

Nifty	16,569
52 Week H/L (INR)	3,569/2,127
O/s Shares (Mn)	30.7
Market Cap (Bn)	87
Face Value (INR)	5

#### Average volume

3 months	52,200
6 months	70,150
1 year	64,010

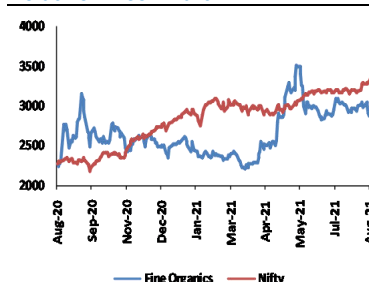
#### Share Holding Pattern (%)



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%
EBITDA	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					
EBITDA (%)	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)	63.9	52.9	72.4	46.9	38.3
EV/EBITDA (x)	37.8	35.7	42.7	29.9	24.5
P/BV (x)	17.4	14.1	11.9	10.1	8.5

Source: Company, BP Equities Research

#### Relative Price Chart



#### Research Analyst

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## Variance Analysis

YE March (INR. Mn)	Q1 FY22	Q4 FY21	Q-o-Q change %	Q1 FY21	Y-o-Y change %
<b>Net Sales</b>	<b>3,576</b>	<b>3,229</b>	<b>10.7%</b>	<b>2,400</b>	<b>49.0%</b>
<b>Other Operating Income</b>	<b>0</b>	<b>0</b>		<b>0</b>	
<b>Total Revenue</b>	<b>3,576</b>	<b>3,229</b>	<b>10.7%</b>	<b>2,400</b>	<b>49.0%</b>
<b>Less:</b>					
Raw Material Cost	2,422	2,150	12.6%	1,464	65.4%
Operating & Manufacturing Expenses	422	394	7.1%	220	91.9%
Employee Cost	211	200	5.5%	191	10.6%
<b>Total Expenditure</b>	<b>3,056</b>	<b>2,745</b>	<b>11.3%</b>	<b>1,875</b>	<b>62.9%</b>
<b>EBITDA</b>	<b>520</b>	<b>484</b>	<b>7.4%</b>	<b>525</b>	<b>(0.9%)</b>
Less: Depreciation	95	124	(23.2%)	111	(14.5%)
<b>EBIT</b>	<b>425</b>	<b>360</b>	<b>18.0%</b>	<b>413</b>	<b>2.8%</b>
Less: Interest	13.0	12.5	4.1%	17.6	(25.9%)
Add: Other income	59	63		15	
<b>Profit before tax</b>	<b>471</b>	<b>411</b>	<b>14.6%</b>	<b>411</b>	<b>14.6%</b>
<b>Adjusted Profit before Tax</b>	<b>471</b>	<b>411</b>	<b>14.6%</b>	<b>411</b>	<b>14.6%</b>
Less: Total Tax	106	95	12.1%	120	(10.9%)
<b>Profit After Tax</b>	<b>365</b>	<b>316</b>	<b>15.4%</b>	<b>292</b>	<b>25.0%</b>
<b>Share of profit /(loss) of JVs+ MI</b>	<b>-6</b>	<b>2</b>		<b>-5</b>	
<b>Adjusted Profit After Tax</b>	<b>359</b>	<b>318</b>	<b>13.0%</b>	<b>286</b>	<b>25.4%</b>
<b>Diluted EPS (Rs.)</b>	<b>11.9</b>	<b>10.3</b>	<b>15.4%</b>	<b>9.5</b>	<b>25.0%</b>
<b>Adjusted Diluted EPS</b>	<b>11.7</b>	<b>10.4</b>	<b>13.0%</b>	<b>9.3</b>	<b>25.4%</b>
Diluted No of Share (mn)	30.7	30.7		30.7	
<b>Margin Analysis %</b>			<b>Change in bps</b>		<b>Change in bps</b>
Gross Margin %	32.3%	33.4%	-114	39.0%	-673
EBITDA Margin %	14.5%	15.0%	-45	21.9%	-732
EBIT Margin %	11.9%	11.2%	73	17.2%	-534
NPM %	10.2%	9.8%	41	12.2%	-195
Effective Tax Rate %	22.6%	23.1%	-52	29.1%	-647

Revenue came above our estimate driven by better realization supported by the price increase and partially due to new product introduction

Adj. PAT came slightly below our estimate of INR366mn, mainly due to subdued EBITDA performance.

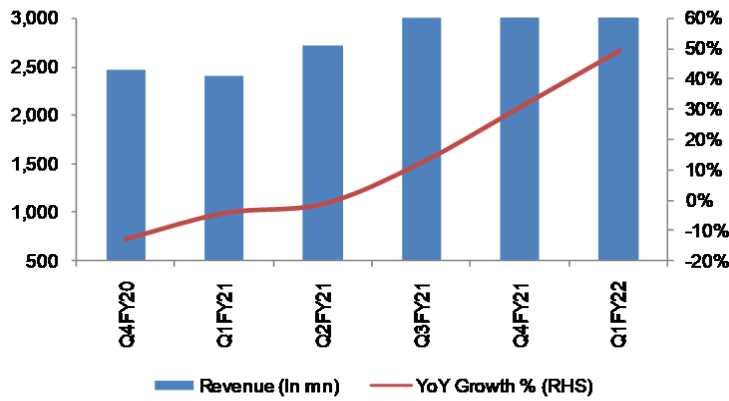
The EBITDA margin, at 14.5% was below our estimate of 17.2%, due to increase in key raw material costs along with higher freight cost.

Source: Company, BP Equities Research

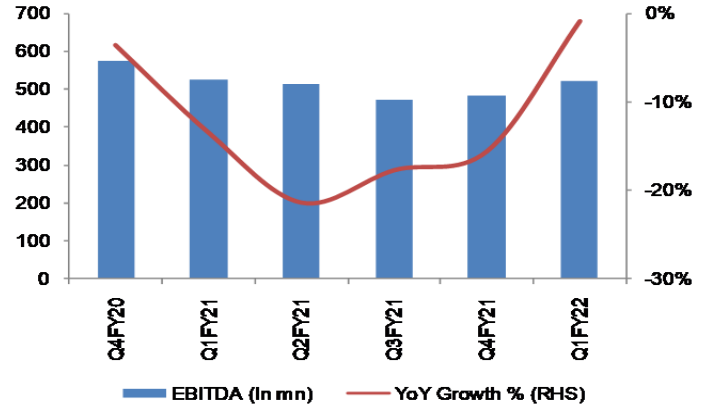


Q1FY22 Result Highlights

Revenue increased by 49% YoY

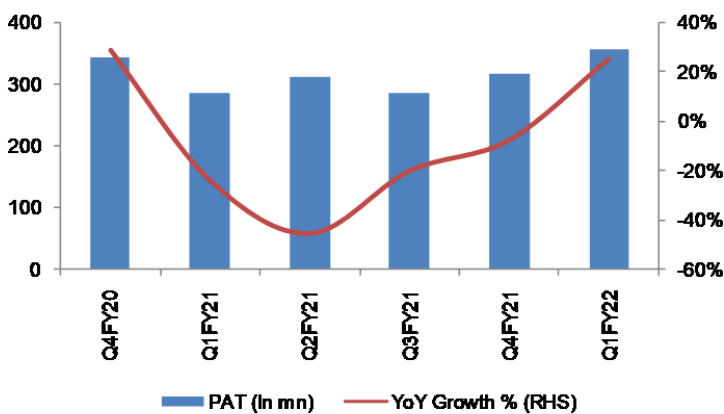


EBITDA remained flat (YoY)

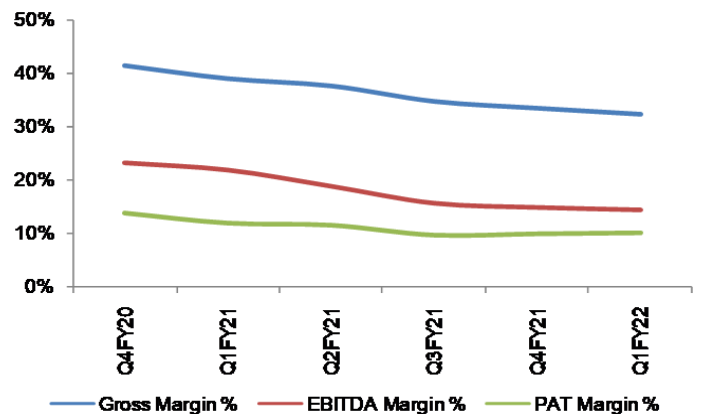


Source: Company, BP Equities Research

PAT grew by 25% YoY

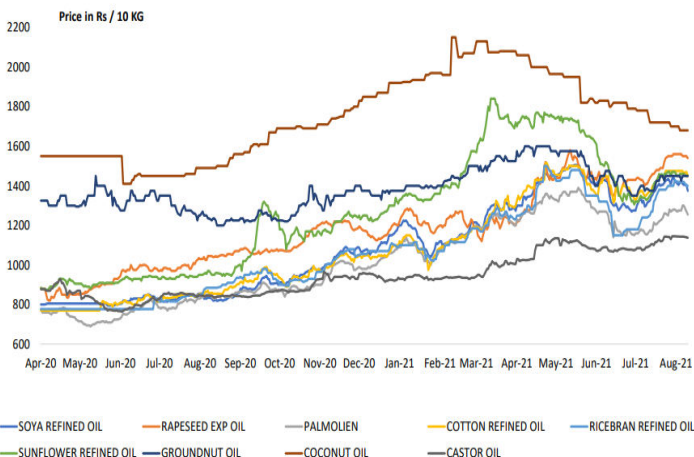


Gross/EBITDA/ PAT margin trend

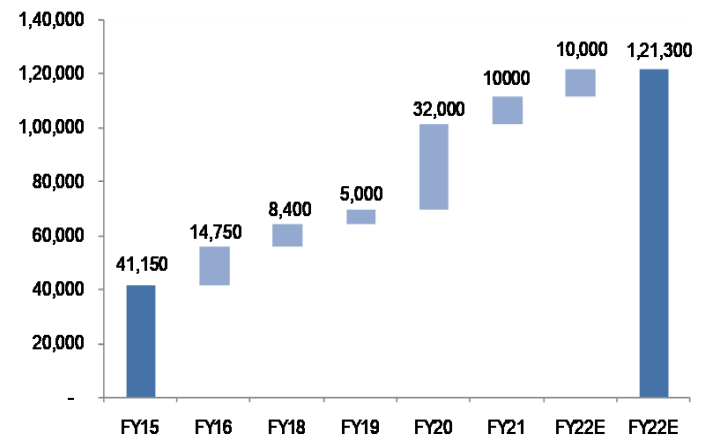


Source: Company, BP Equities Research

Volatility in RM Prices over last 15 Months



Capacity Expansion Trend (in MTPA)



Source: Company presentation, BP Equities Research



## Profit &amp; Loss A/c

YE March (INR. mn)	FY19	FY20	FY21	FY22E	FY23E
<b>Revenue</b>	<b>10,603</b>	<b>10,381</b>	<b>11,332</b>	<b>14,768</b>	<b>16,694</b>
Growth %	23.9%	-2.1%	9.2%	30.3%	13.0%
<b>Total Revenue</b>	<b>10,603</b>	<b>10,381</b>	<b>11,332</b>	<b>14,768</b>	<b>16,694</b>
<b>Less:</b>					
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
<b>Total Operating Expenditure</b>	<b>8,301</b>	<b>7,976</b>	<b>9,340</b>	<b>11,955</b>	<b>13,320</b>
<b>EBITDA</b>	<b>2,302</b>	<b>2,405</b>	<b>1,993</b>	<b>2,813</b>	<b>3,374</b>
Growth %	45.3%	4.4%	-17.1%	41.2%	19.9%
Less: Depreciation	175	347	468	531	562
<b>EBIT</b>	<b>2,128</b>	<b>2,058</b>	<b>1,525</b>	<b>2,282</b>	<b>2,812</b>
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
<b>Profit Before tax</b>	<b>2,308</b>	<b>2,212</b>	<b>1,635</b>	<b>2,498</b>	<b>3,055</b>
Tax	945	513	418	630	770
<b>Net Profit</b>	<b>1,363</b>	<b>1,648</b>	<b>1,203</b>	<b>1,855</b>	<b>2,272</b>
<b>Adjusted Profit</b>	<b>1,363</b>	<b>1,648</b>	<b>1,203</b>	<b>1,855</b>	<b>2,272</b>
<b>Reported Diluted EPS Rs</b>	<b>44.4</b>	<b>53.7</b>	<b>39.2</b>	<b>60.5</b>	<b>74.1</b>
Growth %	42.9%	20.9%	-27.0%	54.2%	22.4%
<b>Adjusted Diluted EPS Rs</b>	<b>44.4</b>	<b>53.7</b>	<b>39.2</b>	<b>60.5</b>	<b>74.1</b>
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
<b>PAT</b>	<b>1,363</b>	<b>1,648</b>	<b>1,203</b>	<b>1,855</b>	<b>2,272</b>
(Less)/Add: Extraordinary Income/Expense	0	0	0	0	0
Less: Non Operating Income	(240)	(233)	(171)	(250)	(250)
Add: Depreciation	175	347	468	531	562
Add: Interest Paid	61	80	61	34	7
Tax Adjustment	0	0	0	0	0
<b>Operating Profit before Working Capital Changes</b>	<b>1,357</b>	<b>1,841</b>	<b>1,561</b>	<b>2,170</b>	<b>2,591</b>
(Inc)/Dec in Current Assets	(40)	535	(477)	(681)	(382)
Inc/(Dec) in Current Liabilities	46	489	203	766	301
Changes in Inventory	(1)	(424)	55	(383)	(215)
<b>Net Cash Generated From Operations</b>	<b>1,362</b>	<b>2,441</b>	<b>1,342</b>	<b>1,873</b>	<b>2,296</b>
<b>Cash Flow from Investing Activities</b>					
(Inc)/Dec in Fixed Assets	(71)	(1,723)	(258)	(600)	(300)
(Inc)/Dec in Capital Work In Progress	(746)	1,004	(205)	0	0
(Inc)/Dec in Investment (Strategic)	7	(148)	292	(106)	(59)
(Inc)/Dec in Investment (Others)	0	0	0	0	0
Add: Non Operating Income	240	233	171	250	250
(Inc)/Dec in Intangible Assets	(126)	(1)	(278)	0	0
<b>Net Cash Flow from/(used in) Investing Activities</b>	<b>(695)</b>	<b>(634)</b>	<b>(278)</b>	<b>(456)</b>	<b>(109)</b>
<b>Cash Flow from Financing Activities</b>					
Inc/(Dec) in Total Loans	680	(244)	(392)	(250)	(250)
Inc/(Dec) in Reserves & Surplus	(101)	(247)	259	0	0
Inc/(Dec) in Equity	(3)	0	0	0	0
Dividend Paid	(215)	(215)	(337)	(520)	(637)
Less: Interest Paid	(61)	(80)	(61)	(34)	(7)
Adjustments	(2)	(10)	(0)	(0)	0
Exceptional Item	0	0	0	0	0
<b>Net Cash Flow from Financing Activities</b>	<b>298</b>	<b>(795)</b>	<b>(531)</b>	<b>(804)</b>	<b>(894)</b>
<b>Net Inc/Dec in cash equivalents</b>	<b>965</b>	<b>1,012</b>	<b>533</b>	<b>613</b>	<b>1,293</b>
<b>Opening Balance</b>	<b>127</b>	<b>1,092</b>	<b>2,104</b>	<b>2,637</b>	<b>3,250</b>
<b>Closing Balance Cash and Cash Equivalents</b>	<b>1,092</b>	<b>2,104</b>	<b>2,637</b>	<b>3,250</b>	<b>4,543</b>

Source: Company, BP Equities Research



## Balance Sheet

YE March( INR. mn)	FY19	FY20	FY21	FY22E	FY23E
<b>Liabilities</b>					
Equity Capital	153	153	153	153	153
Reserves & Surplus	4,849	6,036	7,161	8,496	10,131
<b>Equity</b>	<b>5,002</b>	<b>6,189</b>	<b>7,314</b>	<b>8,649</b>	<b>10,284</b>
<b>Net Worth</b>	<b>5,002</b>	<b>6,189</b>	<b>7,314</b>	<b>8,649</b>	<b>10,284</b>
Minority Interest					
Net Deferred tax liability/(Asset)	37	8	-36	-36	-36
<b>Total Loans</b>	<b>1,130</b>	<b>915</b>	<b>567</b>	<b>317</b>	<b>67</b>
<b>Capital Employed</b>	<b>6,170</b>	<b>7,112</b>	<b>7,845</b>	<b>8,931</b>	<b>10,316</b>
<b>Assets</b>					
Gross Block	2,470	4,193	4,452	5,052	5,352
Less: Depreciation	1,689	2,025	2,493	3,024	3,586
<b>Net Block</b>	<b>782</b>	<b>2,168</b>	<b>1,959</b>	<b>2,028</b>	<b>1,766</b>
Capital WIP	1,063	58	263	263	263
<b>Investments</b>	<b>493</b>	<b>641</b>	<b>349</b>	<b>455</b>	<b>514</b>
Others - A	0	0	0	0	0
<b>Current Assets</b>					
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
<b>Total Current Assets</b>	<b>4,341</b>	<b>5,242</b>	<b>6,198</b>	<b>7,874</b>	<b>9,763</b>
<b>Less:Current Liabilities &amp; Provisions</b>					
Sundry Creditors	534	858	1,072	1,695	1,916
Provisions	117	78	86	112	127
Other Current Liabilities	201	405	386	503	569
<b>Total Current Liabilities &amp; Provisions</b>	<b>852</b>	<b>1,341</b>	<b>1,544</b>	<b>2,310</b>	<b>2,612</b>
<b>Capital Applied</b>	<b>6,170</b>	<b>7,112</b>	<b>7,845</b>	<b>8,931</b>	<b>10,316</b>

Source: Company, BP Equities Research

## Key Ratios

YE March	FY19	FY20	FY21	FY22E	FY23E
<b>Key Operating Ratios</b>					
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
<b>Financial Leverage Ratios</b>					
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
<b>Growth Indicators %</b>					
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%
<b>Turnover Ratios</b>					
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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