

Improved operational performance supported by higher volume growth and lower RM volatility

Fine Organic Industries (FOIL) overall Q3FY22 performance came slightly above our estimates. The company reported revenue of INR 4,634mn with a 54.8% YoY increase, which was 8.6% above our estimate of INR 4,266mn. The revenue growth was driven by better realization supported by the price increase and strong volume growth. Export volume grew at a better pace with a contribution of 59%. However, domestic sales picked up at slower pace during the quarter due to the Covid19 (3rd wave) led restrictions. The company continued re-negotiating with its customers by accepting incremental business at cost-plus pricing to protect and recover from RM price volatility and higher freight costs. Despite 118bps contraction in the Gross margin, EBITDA margin managed to improve by 145bps to 17.2% (est. 16.8%) in Q3FY22 due to a 3.7% decline in employee cost on a YoY basis. Higher other income (INR 66mn vs INR 53mn) coupled with a positive share of profit from JVs helped PAT growth of 81.5% YoY to INR 520mn vs our estimate of INR 494mn. 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. Backed by the strong demand scenario company is expecting to reach the peak utilisation level of its all capacities by March 23. To cater the growing demand, FOIL is looking to finalise land parcel in Gujarat for future expansion. It would be finalized in the next 2-3 months and the new plant is expected to take 20-24 months to get commission.

Valuation and Outlook

Given sustained traction for a niche business, strong client base, high margins and return ratios and robust balance sheet, FOIL remains a strong play. The company's in-house product innovations and engineering improvements to build advanced machinery help it gain an edge over other local players. Moreover, we expect a gradual recovery in margins to continue as the company re-negotiates the margins on a cost-plus basis. With the commissioning of the Patalganga unit (Phase 2) coupled with healthy demand environment, the company is expected to report significant growth in the FY23. However, as FOIL is expected to operate at optimum utilisation level in FY23, the following capacity addition is 24 months away (assuming no delay). Thus, we expect a minimal scope for volume growth in FY24. Considering the above factors, we revised our estimates and maintained a Hold rating with a target price of INR 3,976.

Stock Rating

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

Sector Outlook

Positive

Stock

| | |
|--------------------|------------|
| CMP (INR) | 3.932 |
| Target Price (INR) | 3,976 |
| BSE code | 541557 |
| NSE Symbol | FINEORG |
| Bloomberg | FINEORG IN |
| Reuters | FINO.NS |

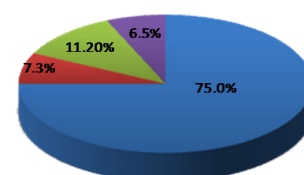
Key Data

| | |
|-------------------|---------------|
| Nifty | 17,322 |
| 52 Week H/L (INR) | 4,178 / 2,127 |
| O/s Shares (Mn) | 30.7 |
| Market Cap (Bn) | 121 |
| Face Value (INR) | 5 |

Average volume

| | |
|----------|--------|
| 3 months | 43,810 |
| 6 months | 43,040 |
| 1 year | 57,020 |

Share Holding Pattern (%)

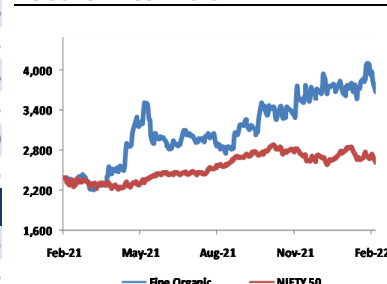


■ Promoters ■ FI ■ DII ■ Others

| Key Financials | | | | | |
|---------------------------|--------|--------|--------|--------|--------|
| YE March (INR. mn) | FY20 | FY21 | FY22E | FY23E | FY24E |
| Net Sales | 10,381 | 11,332 | 16,970 | 20,995 | 22,039 |
| Growth % | -2% | 9% | 50% | 24% | 5% |
| EBITDA | 2,405 | 1,993 | 2,934 | 4,125 | 4,648 |
| Growth% | 4% | -17% | 47% | 41% | 13% |
| Net Profit | 1,648 | 1,203 | 1,946 | 2,735 | 3,048 |
| Growth % | 21% | -27% | 62% | 41% | 11% |
| Diluted EPS | 54 | 39 | 63 | 89 | 99 |
| Growth % | 21% | -27% | 62% | 41% | 11% |
| Profitability & Valuation | | | | | |
| EBITDA (%) | 23.2% | 17.6% | 17.3% | 19.6% | 21.1% |
| NPM (%) | 15.9% | 10.6% | 11.5% | 13.0% | 13.8% |
| RoE (%) | 29.4% | 17.8% | 24.3% | 28.2% | 25.0% |
| RoCE (%) | 37.5% | 27.2% | 26.7% | 35.7% | 37.4% |
| P/E (x) | 73.2 | 100.2 | 62.0 | 44.1 | 39.6 |
| EV/EBITDA (x) | 49.6 | 59.5 | 40.2 | 28.5 | 24.7 |
| P/BV (x) | 19.5 | 16.5 | 13.8 | 11.3 | 8.8 |

Source: Company, BP Equities Research

Relative Price Chart



Research Analyst

Nikhil Shetty

nikhilshetty@bpwealth.com

Fine Organic Industries Ltd

Q3FY22 Result Update

Variance Analysis

| YE March (INR. Mn) | Q3 FY22 | Q2 FY22 | Q-o-Q change % | Q3 FY21 | Y-o-Y change % |
|------------------------------------|--------------|--------------|----------------|--------------|----------------|
| Net Sales | 4,634 | 4,384 | 5.7% | 2,993 | 54.8% |
| Other Operating Income | 0 | 0 | | 0 | |
| Total Revenue | 4,634 | 4,384 | 5.7% | 2,993 | 54.8% |
| Less: | | | | | |
| Raw Material Cost | 3,081 | 2,924 | 5.4% | 1,955 | 57.6% |
| Operating & Manufacturing Expenses | 541 | 514 | 5.4% | 344 | 57.2% |
| Employee Cost | 214 | 216 | (1.0%) | 222 | (3.7%) |
| Total Expenditure | 3,836 | 3,653 | 5.0% | 2,521 | 52.2% |
| EBITDA | 798 | 731 | 9.2% | 472 | 69.0% |
| Less: Depreciation | 101 | 98 | 3.1% | 119 | (15.4%) |
| EBIT | 697 | 633 | 10.2% | 353 | 97.5% |
| Less: Interest | 12.4 | 12.1 | 1.9% | 15.5 | (20.3%) |
| Add: Other income | 66 | 62 | | 53 | |
| Profit before tax | 750 | 683 | 10.0% | 391 | 92.1% |
| Adjusted Profit before Tax | 750 | 683 | 10.0% | 391 | 92.1% |
| Less: Total Tax | 231 | 181 | 27.6% | 99 | 133.1% |
| Profit After Tax | 519 | 501 | 3.6% | 292 | 78.1% |
| Share of profit /(loss) of JVs+ MI | 0 | -3 | | -5 | |
| Adjusted Profit After Tax | 520 | 499 | 4.2% | 287 | 81.5% |
| Diluted EPS (Rs.) | 16.9 | 16.4 | 3.6% | 9.5 | 78.1% |
| Adjusted Diluted EPS | 17.0 | 16.3 | 4.2% | 9.3 | 81.5% |
| Diluted No of Share (mn) | 30.7 | 30.7 | | 30.7 | |
| Margin Analysis % | | | Change in bps | | |
| Gross Margin % | 33.5% | 33.3% | 21 | 34.7% | -118 |
| EBITDA Margin % | 17.2% | 16.7% | 55 | 15.8% | 145 |
| EBIT Margin % | 15.0% | 14.4% | 61 | 11.8% | 325 |
| NPM % | 11.2% | 11.4% | -23 | 9.7% | 147 |
| Effective Tax Rate % | 30.8% | 26.5% | 425 | 25.4% | 541 |

Revenue came above our estimate driven by better realization supported by the price increase and healthy volume growth

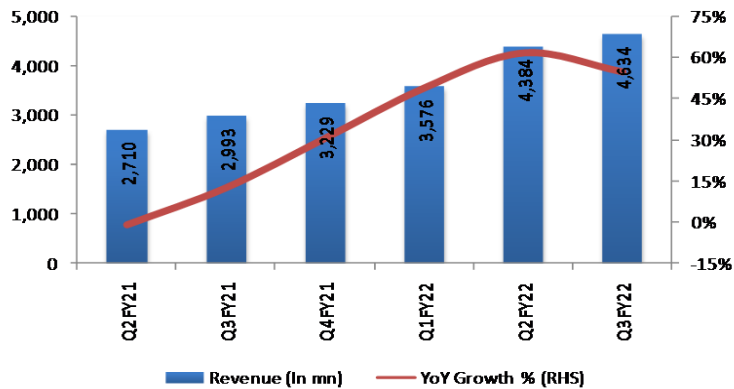
Adj. PAT came slightly above our estimate of INR 520mn, mainly due to Higher other income (INR 66mn vs INR 53mn) coupled with a positive share of profit from JVs

The EBITDA margin, at 17.2% was above our estimate of 16.8%, due to 3.7% YoY decline in the employee cost.

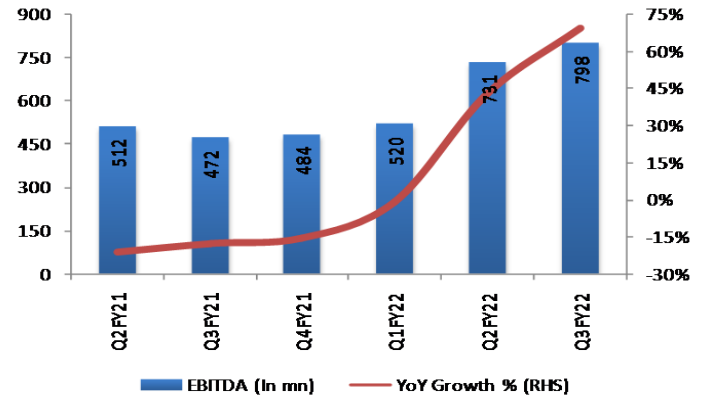
Source: Company, BP Equities Research

Q3FY22 Result Highlights

Revenue increased by 54.8% YoY

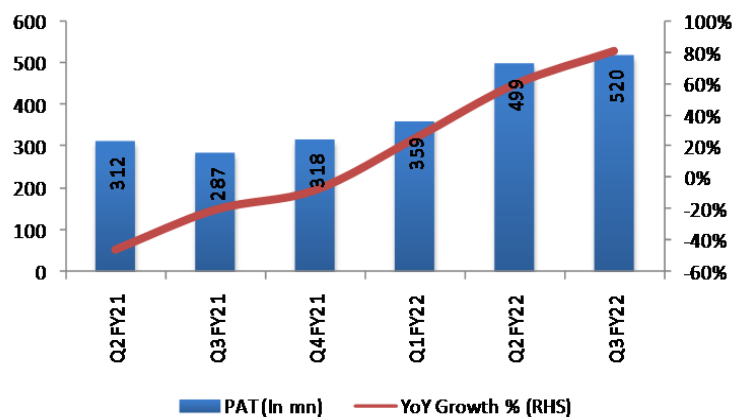


EBITDA surged by 69% (YoY)

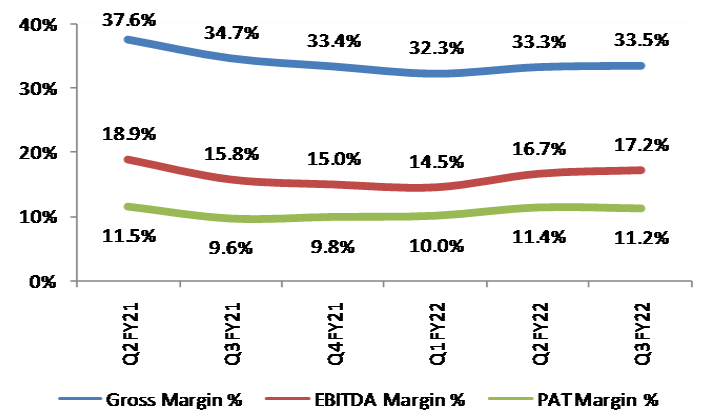


Source: Company, BP Equities Research

PAT grew by 81.5% YoY

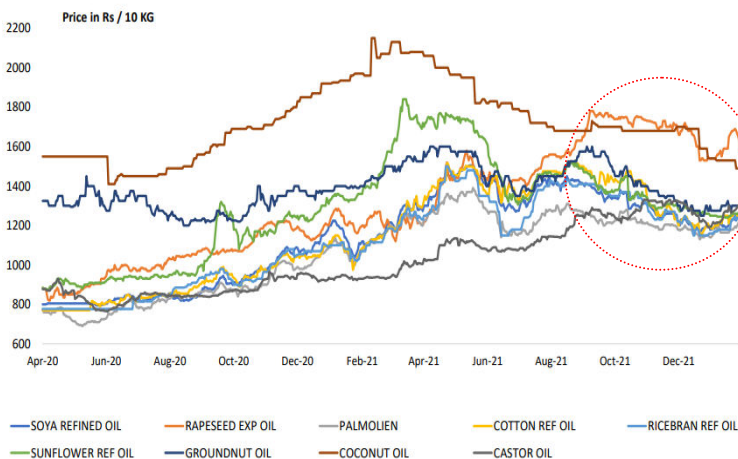


Gross/EBITDA/ PAT margin trend



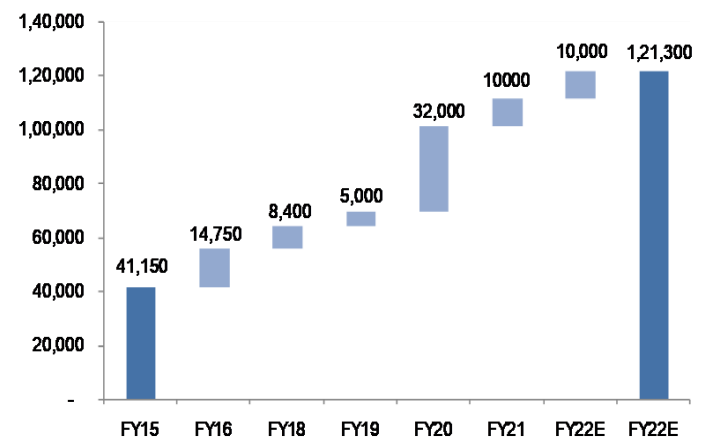
Source: Company, BP Equities Research

Witnessing some stability in RM prices



Source: Company presentation, BP Equities Research

Capacity Expansion Trend (in MTPA)





Fine Organic Industries Ltd

Q3FY22 Result Update

Profit & Loss A/c

| YE March (INR. mn) | FY20 | FY21 | FY22E | FY23E | FY24E |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 10,381 | 11,332 | 16,970 | 20,995 | 22,039 |
| Growth % | -2.1% | 9.2% | 49.7% | 23.7% | 5.0% |
| Total Revenue | 10,381 | 11,332 | 16,970 | 20,995 | 22,039 |
| Less: | | | | | |
| Raw Material Consumed | 5,849 | 7,260 | 11,198 | 13,438 | 13,684 |
| Employee Cost | 725 | 796 | 915 | 1,052 | 1,210 |
| Other Expenses | 1,402 | 1,284 | 1,922 | 2,378 | 2,497 |
| Total Operating Expenditure | 7,976 | 9,340 | 14,035 | 16,869 | 17,391 |
| EBITDA | 2,405 | 1,993 | 2,934 | 4,125 | 4,648 |
| Growth % | 4.4% | -17.1% | 47.3% | 40.6% | 12.7% |
| Less: Depreciation | 347 | 468 | 531 | 688 | 793 |
| EBIT | 2,058 | 1,525 | 2,403 | 3,437 | 3,855 |
| Growth % | -3.3% | -25.9% | 57.6% | 43.0% | 12.2% |
| Interest Paid | 80 | 61 | 34 | 13 | 13 |
| Non-operating Income | 233 | 171 | 250 | 250 | 250 |
| Extraordinary Income | 0 | 0 | 0 | 0 | 0 |
| Profit Before tax | 2,212 | 1,635 | 2,619 | 3,674 | 4,092 |
| Tax | 513 | 418 | 660 | 926 | 1,031 |
| Net Profit | 1,648 | 1,203 | 1,946 | 2,735 | 3,048 |
| Adjusted Profit | 1,648 | 1,203 | 1,946 | 2,735 | 3,048 |
| Reported Diluted EPS Rs | 53.7 | 39.2 | 63.5 | 89.2 | 99.4 |
| Growth % | 20.9% | -27.0% | 61.7% | 40.6% | 11.4% |
| Adjusted Diluted EPS Rs | 53.7 | 39.2 | 63.5 | 89.2 | 99.4 |
| Growth % | 20.9% | -27.0% | 61.7% | 40.6% | 11.4% |

Source: Company, BP Equities Research

Cash Flow Statement

| YE March (INR. Mn) | FY20 | FY21 | FY22E | FY23E | FY24E |
|--|--------------|--------------|--------------|----------------|--------------|
| PAT | 1,648 | 1,203 | 1,946 | 2,735 | 3,048 |
| (Less)/Add: Extraordinary Income/Expense | 0 | 0 | 0 | 0 | 0 |
| Less: Non Operating Income | (233) | (171) | (250) | (250) | (250) |
| Add: Depreciation | 347 | 468 | 531 | 688 | 793 |
| Add: Interest Paid | 80 | 61 | 34 | 13 | 13 |
| Tax Adjustment | 0 | 0 | 0 | 0 | 0 |
| Operating Profit before Working Capital Changes | 1,841 | 1,561 | 2,261 | 3,186 | 3,604 |
| (Inc)/Dec in Current Assets | 535 | (477) | (1,117) | (797) | (207) |
| Inc/(Dec) in Current Liabilities | 489 | 203 | 1,111 | 630 | 163 |
| Changes in Inventory | (424) | 55 | (628) | (448) | (116) |
| Net Cash Generated From Operations | 2,441 | 1,342 | 1,627 | 2,570 | 3,444 |
| Cash Flow from Investing Activities | | | | | |
| (Inc)/Dec in Fixed Assets | (1,723) | (258) | (600) | (1,500) | (1,000) |
| (Inc)/Dec in Capital Work In Progress | 1,004 | (205) | 0 | 0 | 0 |
| (Inc)/Dec in Investment (Strategic) | (148) | 292 | (174) | (124) | (32) |
| (Inc)/Dec in Investment (Others) | 0 | 0 | 0 | 0 | 0 |
| Add: Non Operating Income | 233 | 171 | 250 | 250 | 250 |
| (Inc)/Dec in Intangible Assets | (1) | (278) | 0 | 0 | 0 |
| Net Cash Flow from/(used in) Investing Activities | (634) | (278) | (524) | (1,374) | (782) |
| Cash Flow from Financing Activities | | | | | |
| Inc/(Dec) in Total Loans | (244) | (392) | (250) | (200) | 0 |
| Inc/(Dec) in Reserves & Surplus | (247) | 259 | 0 | 0 | 0 |
| Inc/(Dec) in Equity | 0 | 0 | 0 | 0 | 0 |
| Dividend Paid | (215) | (337) | (545) | (767) | 0 |
| Less: Interest Paid | (80) | (61) | (34) | (13) | (13) |
| Adjustments | (10) | (0) | (0) | (0) | 0 |
| Exceptional Item | 0 | 0 | 0 | 0 | 0 |
| Net Cash Flow from Financing Activities | (795) | (531) | (830) | (979) | (13) |
| Net Inc/Dec in cash equivalents | 1,012 | 533 | 274 | 217 | 2,649 |
| Opening Balance | 1,092 | 2,104 | 2,637 | 2,911 | 3,128 |
| Closing Balance Cash and Cash Equivalents | 2,104 | 2,637 | 2,911 | 3,128 | 5,777 |

Source: Company, BP Equities Research



Fine Organic Industries Ltd

Q3FY22 Result Update

| Balance Sheet | | | | | |
|---|--------------|--------------|--------------|---------------|---------------|
| YE March(INR. mn) | FY20 | FY21 | FY22E | FY23E | FY24E |
| Liabilities | | | | | |
| Equity Capital | 153 | 153 | 153 | 153 | 153 |
| Reserves & Surplus | 6,036 | 7,161 | 8,561 | 10,530 | 13,577 |
| Equity | 6,189 | 7,314 | 8,714 | 10,683 | 13,731 |
| Net Worth | 6,189 | 7,314 | 8,714 | 10,683 | 13,731 |
| Minority Interest | | | | | |
| Net Deferred tax liability/(Asset) | 8 | -36 | -36 | -36 | -36 |
| Total Loans | 915 | 567 | 317 | 117 | 117 |
| Capital Employed | 7,112 | 7,845 | 8,996 | 10,764 | 13,812 |
| Assets | | | | | |
| Gross Block | 4,193 | 4,452 | 5,052 | 6,552 | 7,552 |
| Less: Depreciation | 2,025 | 2,493 | 3,024 | 3,712 | 4,506 |
| Net Block | 2,168 | 1,959 | 2,028 | 2,839 | 3,046 |
| Capital WIP | 58 | 263 | 263 | 263 | 263 |
| Investments | 641 | 349 | 522 | 646 | 679 |
| Others - A | 0 | 0 | 0 | 0 | 0 |
| Current Assets | | | | | |
| Inventories | 1,317 | 1,262 | 1,889 | 2,338 | 2,454 |
| Sundry Debtors | 1,323 | 1,610 | 2,411 | 2,982 | 3,131 |
| Cash and Bank Balance | 2,104 | 2,637 | 2,911 | 3,128 | 5,777 |
| Current Investments | 0 | 0 | 0 | 0 | 0 |
| Loans and Advances | 473 | 634 | 950 | 1,175 | 1,233 |
| Other Current Assets | 25 | 55 | 55 | 56 | 56 |
| Total Current Assets | 5,242 | 6,198 | 8,216 | 9,678 | 12,651 |
| Less:Current Liabilities & Provisions | | | | | |
| Sundry Creditors | 858 | 1,072 | 1,947 | 2,409 | 2,529 |
| Provisions | 78 | 86 | 129 | 160 | 168 |
| Other Current Liabilities | 405 | 386 | 578 | 715 | 751 |
| Total Current Liabilities & Provisions | 1,341 | 1,544 | 2,655 | 3,284 | 3,448 |
| Capital Applied | 7,112 | 7,845 | 8,996 | 10,764 | 13,812 |

Source: Company, BP Equities Research

| Key Ratios | | | | | |
|----------------------------------|--------|---------|-------|--------|--------|
| YE March | FY20 | FY21 | FY22E | FY23E | FY24E |
| Key Operating Ratios | | | | | |
| EBITDA Margin (%) | 23.2% | 17.6% | 17.3% | 19.6% | 21.1% |
| Tax / PBT (%) | 23.2% | 25.6% | 25.2% | 25.2% | 25.2% |
| Net Profit Margin (%) | 15.9% | 10.6% | 11.5% | 13.0% | 13.8% |
| RoE (%) | 29.4% | 17.8% | 24.3% | 28.2% | 25.0% |
| RoCE (%) | 37.5% | 27.2% | 26.7% | 35.7% | 37.4% |
| Current Ratio (x) | 3.9x | 4.0x | 3.1x | 2.9x | 3.7x |
| Dividend Payout (%) | 13.0% | 28.0% | 28.0% | 28.0% | 28.0% |
| Book Value Per Share (INR) | 201.9 | 238.5 | 284.2 | 348.4 | 447.8 |
| Financial Leverage Ratios | | | | | |
| Debt/ Equity (x) | 0.1x | 0.1x | 0.0x | 0.0x | 0.0x |
| Interest Coverage (x) | 30.1x | 32.5x | 85.6x | 325.2x | 366.4x |
| Growth Indicators % | | | | | |
| Growth in Net Block (%) | 177.3% | (9.7%) | 3.5% | 40.0% | 7.3% |
| Sales Growth (%) | (2.1%) | 9.2% | 49.7% | 23.7% | 5.0% |
| EBITDA Growth (%) | 4.4% | (17.1%) | 47.3% | 40.6% | 12.7% |
| Net Profit Growth (%) | 20.9% | (27.0%) | 61.7% | 40.6% | 11.4% |
| Diluted EPS Growth (%) | 20.9% | (27.0%) | 61.7% | 40.6% | 11.4% |
| Turnover Ratios | | | | | |
| Debtors Days | 47 | 52 | 52 | 52 | 52 |
| Creditors Days | 39 | 42 | 42 | 42 | 42 |
| Inventory Days | 46 | 41 | 41 | 41 | 41 |

Source: Company, BP Equities Research



Research Desk

Tel: +91 22 61596406

Institutional Sales Desk

Tel: +91 22 61596403/04/05

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

We analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer (s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation (s) or view (s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the BP Equities Pvt. Ltd. (Institutional Equities).

General Disclaimer

This report has been prepared by the research department of BP EQUITIES Pvt. Ltd, is for information purposes only. This report is not construed as an offer to sell or the solicitation of an offer to buy or sell any security in any jurisdiction where such an offer or solicitation would be illegal.

BP EQUITIES Pvt. Ltd have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time. Prospective investors are cautioned that any forward looking statement are not predictions and are subject to change without prior notice.

Recipients of this material should rely on their own investigations and take their own professional advice. BP EQUITIES Pvt. Ltd or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. BP EQUITIES Pvt. Ltd. or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

BP EQUITIES Pvt. Ltd and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by any person in any locality, state and country or other jurisdiction where such distribution, publication or use would be contrary to the law or regulation or would subject to BP EQUITIES Pvt. Ltd or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Corporate Office:

4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:

24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001

BP Wealth Management Pvt. Ltd.
CIN No: U67190MH2005PTC154591

BP Equities Pvt. Ltd.
CIN No: U67120MH1997PTC107392