

RETAIL EQUITY RESEARCH

Fine Organic Industries Ltd

Specialty Chemicals

Sensex: 35,287

Nifty: 10,710

Subscribe

Price Range Rs 780. - Rs 783.

19th June, 2018

Niche play in speciality chemical space...

Fine Organic Industries Ltd (FOIL) is a niche player in the specialty chemical space. FOIL is a leading manufacturer of oleo-chemical based additives in India and one among few large players globally. FOIL has a product basket of 387 products, which find applications as additives in the polymer and FMCG (food, cosmetics etc) space. Further, plans to diversify into premixes for bakery & confectionary products. As on March 2018, FOIL had 631 direct customers & 127 distributors (cater to more than 5000 customers). As FY17, Plastic additives contribute 73% of sales and food & other additives form 27% sales. Export sales contribute 62% to the top line while 38% comes from domestic market. Over FY15-17, FOIL's Revenue, EBITDA and PAT grew at CAGR of 13%, 15% and 21% respectively. EBITDA margins were healthy in the range of 18%-22%. Last 2 year average RoE & RoCE stood at 30% & 24%, respectively. Going forward, FOIL plans to double its capacity by adding 67,000 tonne/annum to its existing capacity of 64,300 tonne/annum over FY18-21. This will another growth trigger for the company as the current installed capacity is near to fully utilisation level. Indian food emulsifiers market is expected to grow at a CAGR of 10-12% over CY16-22 driven by healthy growth in packaged food segments. Being a leader in the segment, FOIL will be key beneficiary from expected pick-up in the industry.

At an upper price band of Rs783, FOIL is available at a P/E of 29.5x on 9MFY18 annualised EPS. Given its healthy balance sheet, ongoing capex, diversified client base with geography mix and robust product demand we recommend 'Subscribe' to the issue, with a long term perspective.

Purpose of IPO

At the upper price band, total issue size stands at Rs600cr. The issue consists of only offer for sale (OFS) wherein the promoters and existing shareholders will dilute 0.77cr shares of the company. Although FOIL will not receive any proceeds from this offer yet the prime purpose of the issue is to achieve the benefits of listing shares on stock exchanges.

Key Risks...

- FOIL's key raw material is vegetable derivative oil, change in demand supply pattern of oil may adversely affect operational efficiency of the company.
- Company's majority of revenue comes from export segment, any adverse fluctuation in currency may impact earnings of FOIL.

Peer Valuation...

Company (FY17)	MCap(Rs.cr)	Sales (Rs.cr)	EBITDA %	P/E	RoE (%)	Revenue CAGR % (FY15-17)
Galaxy Surfactants Ltd	4,486	2,161	12.4	28	28	7
Fine Organic Industries Ltd	2,401	778	18.7	29.5*	27	13

Source: Geojit Research, Bloomberg; Note: Valuations of FOIL are based on upper end of the price band, Valuations as per FY18, *9MFY18 annualised.

Issue Details	
Date of Opening	20 th June 2018
Date of Closing	22 nd June 2018
Total no. of Shares offered(cr)	0.77
Post Issue No. of shares (cr)	3.07
Price Band	Rs780-783
Face Value	Rs5
Bid Lot	Multiples of 19 shares
Listing	BSE & NSE
Lead Manager	JM Financial, Edelweiss Financial
Registrars	Karvy Computershare
Issue size (at upper price)	
OFS	600
Total Issue	600

Shareholding (%)	Pre Issue	Post Issue
Promoters	100	75
Others	0	25
Total	100.0	100.0

Issue structure	Allocation %	Size Rs.cr (at upper band)
Retail	35	210
Non Institutional	15	90
QIB	50	300
Total	100	600

Y.E March (Rscr)	FY16	FY17	9MFY18
Sales	652	778	581
Growth (%)	7.5	19	-0.5*
EBITDA	145	145	104
Margin%	22.3	18.7	17.9
PAT Adj	76	78	61
Growth (%)	44	3	.04*
EPS	25	26	26.5*
P/E (x)	31.5	30.6	29.5*
EV/EBITDA	17.2	16.8	23.3
P/BV (x)	9.6	7.3	6.6

*Annualised

Company Description

Incorporated in 2002, Fine Organic Industries Ltd (FOIL) is the largest manufacturer of oleochemical-based additives in India and a strong player globally in the industry. The company produce a wide range of specialty plant derived oleochemical-base additives used in food plastic, cosmetics, paint, ink, coatings and other specialty application in various industries. FOIL is 1 of 6 global players in the food additives industry and 1 of 5 global players in the plastic additives industry. The 'Fine Organics' brand has a legacy of over four decades and the brand is widely recognized in the major markets in which the company compete. As on March, 2018, the company had 631 direct customers (end-users of products) and 127 distributors (who sold products to more than 5,000 customers) from 69 countries. Currently, FOIL has three manufacturing facilities, Ambernath, Badlapur and Dombivli, collectively has an installed capacity of about 64,300 tonne per annum.

Well diversified portfolio catering to high growth industries...

As on March 2018, FOIL had a range of 387 products sold under the 'Fine organics' brand used in the plastics, food and other (cosmetics, printing inks, lube additives and other specialty applications) industries. In addition to this, the company is planning to diversify and strengthen their business by manufacturing premixes for bakery and confectionary products and pan release agents.

Product Categories

Plastic Additives: The company manufacture a large variety of plastic additives, polyolefins additives tyrenics/elastomer/thermoplastic elastomer compound additives, engineering plastic processing additives, foamed plastic product additives, polyvinyl chloride (PVC) processing additives and thermosets/composite product additives.

Food Additives: FOIL primarily manufacture three type of additives, namely Anti-Fungal Agents/Preservatives, Emulsifiers and Other Specialty Additives. They also manufacture some specialty premium food additives, which are used in enhancing properties of high-quality biscuits and sponge cakes.

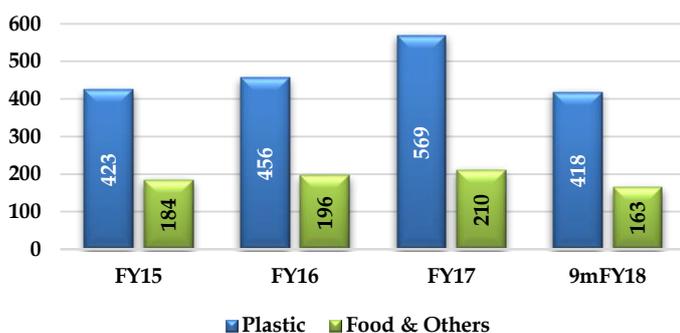
Plastic Additives

<i>Slip Additives</i>	Which reduce friction between plastic products (eg; Films, bottle cap etc).
<i>Anti-fogging Additives</i>	Which convert water droplets formed on plastic films into a continuous transparent water layer.
<i>Anti-static Additives</i>	Anti-static additives mitigate the build-up of electrical charges on plastic materials
<i>Lubricants</i>	Used as flow improvers & mould release agents in PVC pipes & fittings
<i>Processing aids</i>	Which improve the melt process ability and handling of high molecular weight polymers.

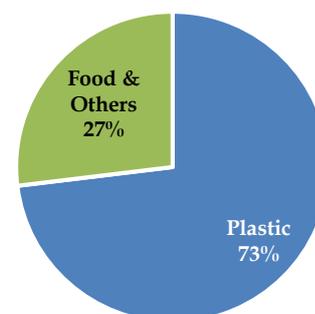
Food & Other Additives

<i>Anti-fungal agents/preservatives</i>	Which prevent food from spoiling or from becoming toxic due to unwanted growth of bacteria, yeast and moulds.
<i>Emulsifiers</i>	Which extracts the desired aesthetic structure and texture in various foods.
<i>Cosmetic & Pharmaceutical</i>	Added to creams, gels, lotions, varnishes, etc.
<i>Paint & Coating</i>	Anti-settling agents, emulsifiers, anti-sagging agents
<i>Rubber Additives</i>	Rubber additives are added to elastomers to ensure that they meet the performance parameters of specific applications.

Segmental Revenue breakup (Rs cr)



FY17 Revenue mix



Source:RHP, Geojit Research

Specialised Business model...

There are multiple entry barriers for a new entrant in the global oleochemical-based additives industry, such as product formulations, process technology and customer stickiness to established players. As a result, FOIL is one of the few large global players in this industry. Their products require specialised skills, processes and equipment to manufacture, as manufacturing additives from base oleochemicals is a highly complex process. Therefore, many of their specialty and formulated products are also difficult to replicate. This provides the company with a significant advantage over new entrants, as they would need to invest a great deal of resources to gain a foothold in the markets in which they compete.

Strong R&D capability...

Company's R&D efforts place significant emphasis on improving their production processes, improving the quality of their present products, creating new additives and creating downstream products. FOIL is in the process of in the process of developing a downstream product called Citrem, which is a hydrophilic (attracted to water molecules and water-soluble) emulsifier used in the confectionary industry. The company also developing other blends of existing products for foods, plastics and other applications. FOIL's R&D efforts are driven by customer needs, in terms of meeting specific needs that their direct customers communicate to them prior to them manufacturing their products. Further, the company is planning to expend its R&D lab by adding additional equipment for semi-commercial batches. Also plan to expand their applications labs for food and plastics, in addition to a new cosmetic application lab.

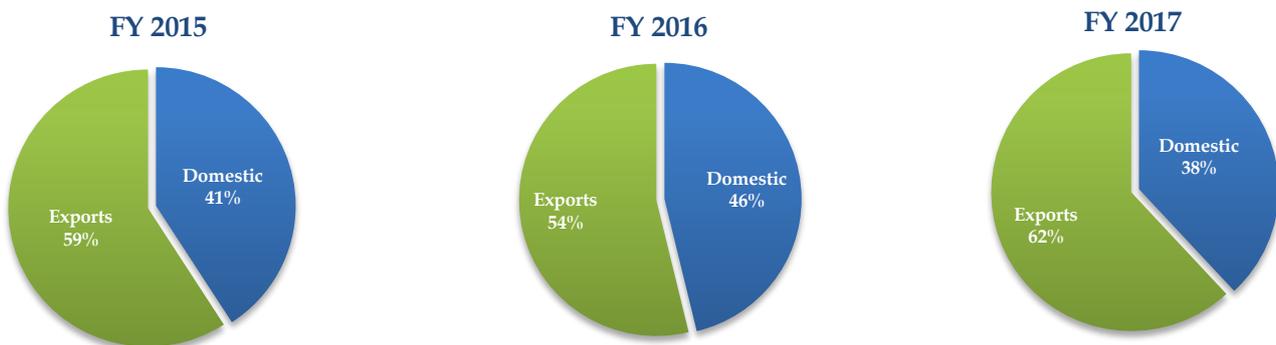
Flexible & strategically located production Facilities...

Currently, FOIL has three manufacturing facilities, the first Ambernath facility, the Badlapur facility and the Dombivli facility, with a combined installed capacity of ~64,300 tonnes per annum. Also, each of the three facilities are flexible to manufacture its wide range of products. Further, all the three production facilities are strategically located in close proximity to the Jawaharlal Nehru Port Mumbai. As the company is largely export oriented, their facilities' locations helps them to reduce freight & logistics costs.

Strong sales & marketing network across the globe...

The company have an extensive worldwide distribution network, enabling them to sell their products in 69 various countries. Their customer base comprises of direct customers and distributors. Direct customers are end-users of our products. Distributors are entities that purchase our products and then on-sell these products. As on March 2018, the company had 631 direct customers and 127 distributors (cater to more than 5000 customers). The direct customers includes multinational, regional and local players manufacturing consumer products and petrochemical companies and polymer producers globally. In FY17, the company recognise its 62% revenue from exports.

Geographic Revenue Mix



Source:RHP, Geojit Research

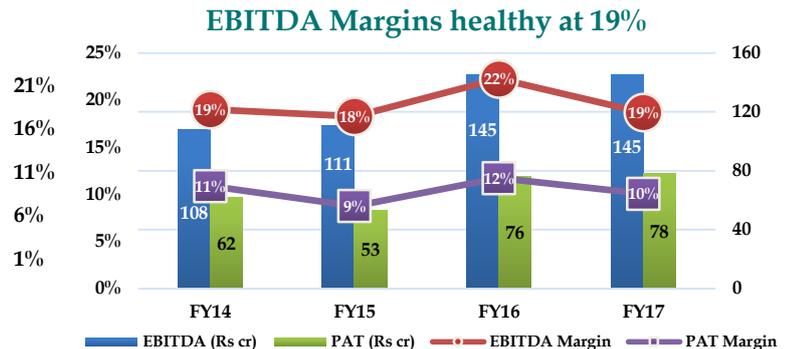
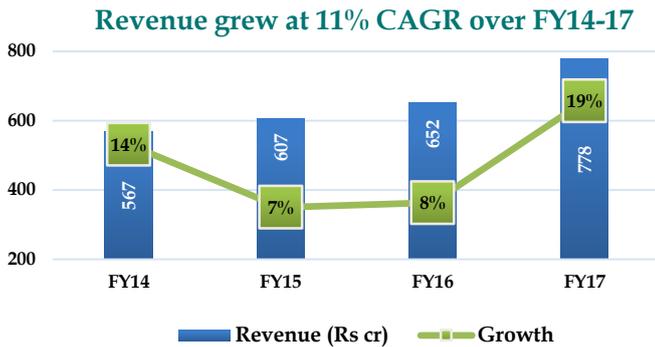
Capacity expansion to aid growth...

In addition to Ambernath 1st and 2nd (owned by Olefine, a partnership firm and promoter group entity), the company is in the process of starting up the 3rd Ambernath facility with an installed capacity of 32,000 tonne per annum. This facility is expected to commence operations in Q4FY19. This facility will be capable of manufacturing most of their additive products. However, the company is planning to manufacture oleochemical derivative in the 3rd facility in Ambernath. Additionally, the company is in the preliminary stages of planning to set up the Patalganga Facility. The Patalganga Facility will be capable of manufacturing some of their additive products and it will have a planned initial capacity of

10,000 tonnes per annum.

Consistent financial performance...

The company has delivered consistent financial performance in the last 4 fiscals. FOIL's revenue and EBITDA have grown at CAGR 13% and 15% over FY15-17, largely on account of capex at Ambernath facility in the year 2015. During the same period, EBITDA margin has been in the range of 18% to 22%. Due to improvement in margins and reduction on debt has helped PAT to grow at 21% CAGR during the same period with an average PAT margin of 10%. Additionally, the company has been continuously delivering healthy RoE and RoCE over FY14-17. In FY17, RoE and RoCE stood healthy at 27% and 23% respectively. Further, healthy cash balance and almost debt free status will provide enough headroom for growth.



Source:RHP, Geojit Research

Industry Outlook

Any substance added to food can be termed broadly as food additive. In a stricter sense, any substance that is intended to affect the characteristics of food is a food additive. In CY 2016, overall global food emulsifiers market size was estimated to be USD 2.8 bn. Europe is the largest consuming region with 33% share of global market. Among product categories, mono- and di-glycerides and natural emulsifiers were the largest product categories. According to Credence Research, the global food emulsifiers market size is expected to reach USD 3.4 bn by CY 2021 by growing at 4.1% CAGR over CY16-21. This was largely driven by the expected higher growth in Asia Pacific region (26% global share). Within the Asia Pacific region, emerging economies such as China and India to record higher growth. Indian food emulsifiers market size is estimated to be Rs5-6bn in 2016. Going forward, between CY16 and CY21, CRISIL Research expects the Indian food emulsifiers market size to reach Rs9 bn by CY21 by growing at 10-12% CAGR driven by healthy growth in convenience and packaged food segments, especially the premium food segments.

Plastics products are essentially made from polymers. However, basic polymer material is mixed with a complex blend of materials collectively called as plastic additives. Plastic additives impart key properties to plastics that are critical from functional perspective such as ease the plastic processing, improve aesthetics of plastics, make plastics safe, make plastics clean and healthy, increase plastics life and make plastics environment friendly. In CY16, the overall global plastic additives market size was estimated to be USD 22bn. Asia Pacific is the largest consuming region with a 53% share of global market. Among end-use sectors, the packaging sector dominated plastic additives off-take with a 25% share of global market. Among the end use plastic types, polyethylene category was the largest with a 16% share. According to Mordor Intelligence, plastic additives market size is expected to reach USD 30bn growing at 6.0% CAGR over CY16-CY21 driven by higher growth of 7% CAGR in the Asia Pacific region. Within the region, China and India are expected to record higher growth of 8% and 6.4% CAGR, respectively.

Promoter and promoter group

The company has 6 promoters, jointly holding 30,659,976 Equity Shares, which constitutes 100% of the company's paid-up Equity Share capital of the company. Post the issue the promoters shall hold 75% of the post issue equity share capital of the company. Some of the prominent shareholders are listed below.

Mr. Prakash Damodar Kamat is the Executive Director and Chairman of the company and associated with the company since inception. He holds a bachelor's degree in science from the University of Bombay. He has work experience in product development, process technology and research and development. He is a co-founder of the company and has played a key role in developing several products, processes and leading engineering research and development.

Mr. Mukesh Maganlal Shah is the Executive Director and Managing Director of the company. He holds a bachelor's degree in science from the University of Bombay. He joined Fine Organic group in 1973 and played a key role in establishing the quality control, sales and marketing departments at the company.

Mr. Jayen Ramesh Shah, is the Executive Director and Chief Executive Officer of the company. He holds a master's degree in science from the University of Bombay. He joined Fine Organic group in 1986 and was instrumental in creating a vendor partner network needed to support the company. He has experience in procurement, vendor development and business development.

Mr. Tushar Ramesh Shah is the Executive Director and Chief Financial Officer of the company. He joined Fine Organic group in 1989 and led several change management initiatives like the introduction of enterprise resource planning, customer relationships management and financial systems that helped in scaling up the operations. He played a key role in the development of company's first slip additive manufacturing facility. He helped in the setting up of offices in North America and Europe.

Mr. Bimal Mukesh Shah is one of the promoters and Executive Director of the company. He holds a bachelor's degree in science from Purdue University and a master's degree in management from Boston College. Under the mentorship of Shri. Prakash Damodar Kamat, Mr. Bimal Mukesh Shah has transitioned into a position to lead several initiatives for upcoming projects, processes and additional capacities. He has experience in operations, instrumentation and projects.

Consolidated Financials

Profit & Loss Account

Y.E March (Rscr)	FY15	FY16	FY17	9MFY18
Sales	607	652	778	581
% change		7.5	19	-0.5*
EBITDA	111	145	145	104
% change		30.9	0.1	-4.4*
Depreciation	23	30	24	15
EBIT	88	116	122	90
Interest	8	8	5	3
Other Income	2	10	4	9
PBT	83	118	122	95
% change		42	3	-*
Tax	29	41	43	34
Tax Rate (%)	35.7	35.0	35.5	36.1
Reported PAT	53	76	78	61
Adj	-	-	-	-
Adj PAT	53	76	78	61
% change		43.9	2.8	.04*
No. of shares (cr)	3.07	3.07	3.07	3.07
Adj EPS (Rs)	17	25	26	26.5*
% change		43.9	2.8	.04*

*Annualised

Balance Sheet

Y.E March (Rscr)	FY15	FY16	FY17	9MFY18
Cash	3	42	17	26
Accounts Receivable	86	87	111	117
Inventories	64	76	92	87
Other Cur. Assets	53	42	57	64
Investments	2	5	16	13
Gross Fixed Assets				
Net Fixed Assets	102	102	97	92
CWIP	8	6	3	7
Intangible Assets	0	0	0	0
Def. Tax (Net)	0	1	3	4
Other Assets	53	53	49	63
Total Assets	371	416	446	473
Current Liabilities	69	70	76	83
Provisions	0	0	-	-
Debt Funds	95	94	40	29
Other Liabilities	0	0	0	0
Equity Capital	5	5	5	15
Reserves & Surplus	202	246	324	347
Share capital sus. ac	-	-	-	-
Shareholder's Fund	207	251	329	362
Total Liabilities	371	416	446	474
BVPS (Rs)	68	82	107	118

Cash flow

Y.E March (Rscr)	FY15	FY16	FY17	9MFY18
PBT.	83	118	122	95
Non-cash adj.	32	28	24	9
Changes in W.C	(30)	3	(50)	3
C.F.O	50	109	46	74
Capital exp.	(43)	(24)	(11)	(29)
Change in inv.				
Sale of investment	0	0	0	0
Other invest.CF	0	(4)	(5)	0
C.F - investing	(43)	(28)	(16)	(28)
Issue of equity				
Issue/repay debt	(3)	(8)	(54)	(12)
Dividends paid		(44)		(28)
Other finance.CF	(7)	(1)	(1)	5
C.F - Financing	(10)	(53)	(55)	(35)
Chg. in cash	(3)	28	(25)	11
Closing cash	3	42	17	26

Ratios

Y.E March	FY15	FY16	FY17	9MFY18
Profitab. & Return				
EBITDA margin (%)	18.3	22.3	18.7	17.9
EBIT margin (%)	14.6	17.7	15.6	15.4
Net profit mgn.(%)	8.7	11.7	10.1	10.5
ROE (%)	51.1	33.3	27.0	17.6
ROCE (%)	37.4	24.6	22.5	16.5
W.C & Liquidity				
Receivables (days)	25.9	48.4	46.5	53.9*
Inventory (days)	30.7	66.1	61.6	84.8
Payables (days)	33.0	65.4	53.5	75.6
Current ratio (x)	3.0	3.6	3.8	3.7
Quick ratio (x)	1.3	1.9	1.7	1.7
Turnover &Levg.				
Net asset T.O (x)	11.8	6.4	7.8	6.1
Total asset T.O (x)	3.3	1.7	1.8	1.3
Int. covge. ratio (x)	11.5	13.9	26.7	29.7
Adj. debt/equity (x)	0.5	0.4	0.1	0.1
Valuation ratios				
EV/Sales (x)	4.1	3.8	3.1	4.2
EV/EBITDA (x)	22.6	17.2	16.8	23.3
P/E (x)	45.3	31.5	30.6	29.5*
P/BV (x)	11.6	9.6	7.3	6.6

*Annualised

Investment Rating Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell. The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review.

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