

16 February 2021

Fine Organic-BUY

CMP :Rs.2,395.0
Target Price :Rs.2,950.0
Upside : 20%+
Stop Loss :Rs.2,153.0(Closingbasis)

Investment Thesis

Recently, the stock price of Fine Organic Industries Ltd.(Fine Organic) corrected by ~25% from 52-week high of Rs.3,260.00 as the company has reported lower-than-expected reports in the past few quarters.

Fine Organic is a leading player in oleochemical based additives in India and caters to various global markets. The oleochemical is used in various industries including plastic, polymer, food emulsifiers, cosmetics, etc. Fine Organic is among the five largest global players in polymer additives which account nearly 70% of topline and among leading global players in specialty food emulsifiers. It is one of the leading players to develop proprietary technology to manufacture green additives. Fine Organic has presence in the complex part of the value chain and manufactures green additives from base oleochemicals and has developed an in-house proprietary technology and process design through continuous R&D. Fine Organic is a niche player in specialized oleochemical-based additives and enjoys the first-mover advantage in India.

Continuous R&D is a key to the success of Fine Organic's growth in additive business, which is primarily based on customization. Its R&D efforts are geared towards improving production processes and the quality of its existing products, in addition to creating new additives. In the last few years, Fine Organic has been striving to achieve a balanced mix in its product portfolio and focusing more towards major categories like personal care and feed nutrition. Fine Organic has scaled up to 400+ products catering to various industries like plastics, food, cosmetics, etc. The same chemical ingredients are used for these 400+ products but the specifications of these products are different. Thus, with the slight modification in specification of one product, create a new product which caters to different end users.

Financials

- During the past 5 years, revenue of Fine Organic grew at a CAGR of 11.0% while PAT grew at a CAGR of 23.6% in the same period.

Consol. (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E
Revenue	8,558	10,603	10,381	11,938	13,729
EBITDA	1,584	2,336	2,405	2,765	3,180
% growth	9.3	47.5	2.9	15.0	15.0
PAT	953	1,362	1,648	1,895	2,179
EPS (INR)	31.1	44.4	53.7	61.8	71.1
P/E (x)	79.1	55.4	45.8	39.8	34.6
RoE (%)	24.1%	27.2%	26.6%	27.9%	29.2%

- Fine Organic has reported marginal decline of 1.1% YoY in revenue in Q2FY21 to Rs.2,710mn led by logistic challenges in domestic as well as in many other countries post Covid-19 outbreak.

Stock Data

Market Cap (Rs. Mn)	75,420
Market Cap (\$ Mn)	1,036.0
Shares O/S (in Mn)	30.70
Avg. Volume (3 month)	35,000
52-Week Range (Rs.)	3,260.00/ 1,521.70

Shareholding Pattern

Promoters	75.00%
FIIIs	6.38%
Institutions	14.14%
Others (incl. body corporate)	4.48%

Performance (%)	1M	6M	1Yr
Absolute	-9.2%	2.3%	-2.0%
BSE 500	4.3%	34.8%	25.6%

Key Ratios

Div Yield	0.3%
TTM PE	57.9x
ROE	25.2%
TTM EPS (Rs.)	42.4/-

- Fine Organic's EBITDA, however, declined by 21.4% YoY in Q2FY21 to Rs.512mn as newly commissioned plants has resulted in increase in overhead cost. As a result, EBITDA margin also declined by 480bps YoY to 18.9% in Q2FY21.
- Fine Organic's PAT has also declined by 45.8% YoY to Rs.317mn in Q2FY21 due to sharp increase in depreciation cost led by commissioning of new capacity (Ambernath-3).

Key Business Highlights

- Fine Organic is the largest manufacturer of oleochemical- based additives (chemicals derived from natural oils and fats of plant origins) in India, with a strong global presence.
- Fine Organic started off as a manufacturer of 2 products in 1973. With time, the company has gradually scaled it up to 400+ products currently. It is a strong global competitor in oleochemical based additives and currently a global leader in Slip Additives.
- Fine Organic operates in 2 segments namely plastic additives and Food & other additives. It has 2 subsidiaries and 1 Joint Venture that has helped to expand its global presence.

Valuation

- In order to cater the growing need for oleochemical based additives, Fine Organic has been expanding its facility to add capacity. In FY20, it has already commercialized 3 new lines which have increased its capacity by 50% at 101,300 tpa. Further, company has proposed to expand its plants at Patalganga facility (10,000 tpa) and German facility (10,000 tpa) which are expected to commercialize at FY21E and FY22E, depending on Covid- 19 situation & regulatory approvals. The recent commercialization of 32,000 tpaAmbernath facility (50% of existing capacity) in August 2019, which is likely to address any capacity constraints. It would be ramped up gradually with optimum utilization will to be achieved in FY22. Fine Organic has also commenced the construction of 10,000 tonnes of capacity at Patalganga, Maharashtra. As the construction takes 10-12 months, the capacity is likely to be commissioned by Q4FY21E.
- Over the years, Fine Organic has maintained good financial performance on the back of its leading position in oleochemical based additives and strong customer base. It has over 650 direct customers and more than 130 distributors, who sell products to more than 5,000 customers. Direct customers include MNCs, regional and local players, who largely manufacture consumer products/ petrochemical and polymer products globally. Fine Organic's marquee clients include top FMCG and petrochemical players and that enables it to sustain healthy topline and bottomline growth over the years. During FY15-FY20, revenue grew at a CAGR of 11%, while EBITDA and PAT grew at 17% and 25% CAGR in same period. Superior product portfolio and cater to the niche market support FOIL to sustain average EBITDA margin of 20%+ during FY15-FY20.
- With leading player in oleochemical based additives in India, R&D efforts are geared towards improving production processes, expanding its facility to add capacity and maintained good financial performance, we value Fine Organic at 41.5x FY22E EPS of Rs.71.10 to arrive at target price of Rs.2,950.00, an upside of ~20%.

Risk & Concern

- Fine Organic generates ~55% of its revenue come from exports against 15% of imports, thus any currency fluctuations may affect the margins of the company negatively.
- Fine Organic's primary raw materials are derived from vegetable oils, which include rapeseed oil, palm oil, palm kernel oil, sunflower oil, etc, any volatility in raw material prices may have negative impact on the earnings and margins.

Graphs & Charts

Figure 1: Net Sales Trend

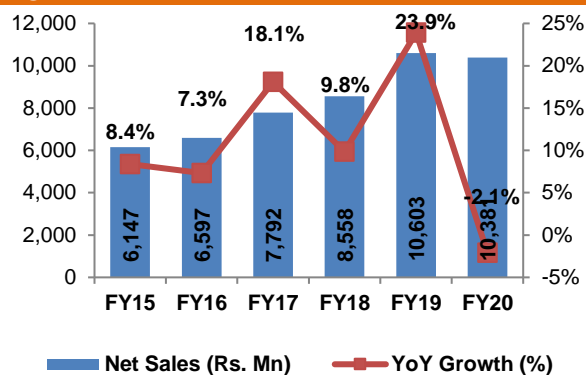


Figure 2: EBITDA & EBITDA Margin Trend

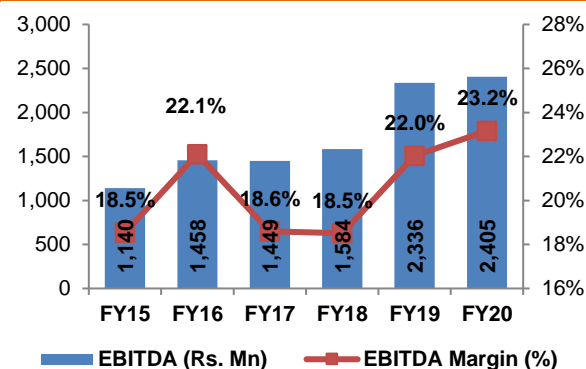


Figure 3: PAT Trend

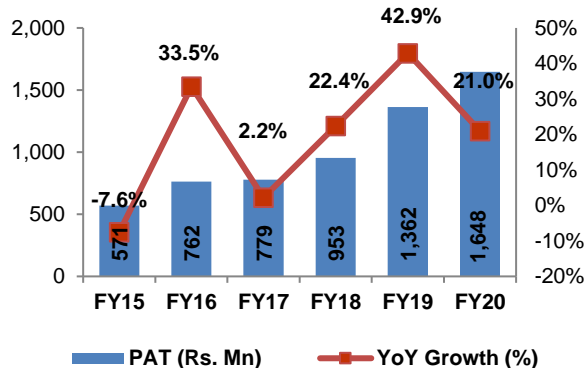
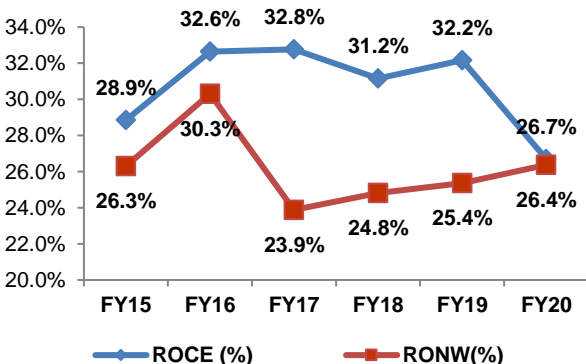


Figure 4: ROCE and RONW Trend



Name
Jitendra Upadhyay

Designation
Research Analyst

Disclosure:

Bonanza Portfolio Ltd here by declares that views expressed in this report accurately reflect view point with subject to companies/securities. Bonanza Portfolio Ltd is responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations. Bonanza Portfolio Ltd or its associates or Analyst or his relatives may or may not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

Bonanza Portfolio Ltd operates under the regulation of SEBI RegnNo.INM000012306

Disclaimer:

This research report has been published by Bonanza portfolio Ltd and is meant solely for use by the recipient and is not for circulation. This document is for information purposes only and information / opinions / views are not meant to serve as a professional investment guide for the readers. Reasonable care has been taken to ensure that information given at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. If this report is inadvertently send or has reached to any individual, same may be ignored and brought to the attention of the sender. Preparation of this research report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Past performance is not a guide for future performance. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by Bonanza portfolio Ltd to be reliable. This report should not be taken as the only base for any market transaction; however this data is representation of one of the support document among other market risk criterion. The market participant can have an idea of risk involved to use this information as the only source for any market related activity. The distribution of this report in definite jurisdictions may be restricted by law, and persons in whose custody this report comes, should observe, any such restrictions. The revelation of interest statements integrated in this analysis are provided exclusively to improve & enhance the transparency and should not be treated as endorsement of the views expressed in the analysis. The price and value of the investments referred to in this report and the income from them may go down as well as up. Bonanza portfolio Ltd or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of Bonanza portfolio Ltd shall be liable. Research report may differ between Bonanza portfolio Ltd RAs and other companies on account of differences in, personal judgment and difference in time horizons for which recommendations are made. Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. Research analyst have not received any compensation/benefits from the subject company or third party in connection with the research report

Bonanza Portfolio Ltd. Bonanza House, Plot No. M-2, Cama Industrial Estate. Walbhat Road, Goregaon (E), Mumbai – 400063

Web site: <https://www.bonanzaonline.com>

SEBI Regn. No.: INZ000212137

BSE CM: INB 011110237 | BSE F&O: INF 011110237 | MSEI: INE 260637836

| CDSL: a) 120 33500 | NSDL: a) IN 301477 | b) IN 301688 (Delhi) | PMS: INP 000000985 | AMFI: ARN -0186

