1 August 2024
1QFY25 Results Update | Sector: Specialty Chemicals

Fine Organic Industries

Estimate changes	⟷
TP change	⟷
Rating change	⟷

Bloomberg	FINEORG IN
Equity Shares (m)	31
M.Cap.(INRb)/(USDb)	171.2 / 2
52-Week Range (INR)	5959 / 4005
1, 6, 12 Rel. Per (%)	5/2/-3
12M Avg Val (INR M)	193

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
Sales	19.5	21.5	22.5
EBITDA	4.8	4.8	4.7
PAT	3.7	3.7	3.6
EPS (INR)	120.0	119.2	116.9
EPS Gr. (%)	-37.7	-0.7	-1.9
BV/Sh.(INR)	607.1	716.3	823.5
Ratios			
Net D:E	-0.5	-0.6	-0.6
RoE (%)	21.8	18.0	15.2
RoCE (%)	21.7	18.1	15.3
Payout (%)	8.3	8.3	8.3
Valuations			
P/E (x)	46.6	47.0	47.8
P/BV (x)	9.2	7.8	6.8
EV/EBITDA (x)	33.7	33.3	33.0
Div. Yield (%)	0.2	0.2	0.2
FCF Yield (%)	3.2	1.9	2.1

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	75.0	75.0	75.0
DII	11.1	10.8	12.3
FII	4.9	4.5	3.8
Others	8.9	9.8	9.0

FII Includes depository receipts

CMP: INR5,583 TP: INR4,095 (-27%) Sell

Earnings decline continues; expensive valuations

- Fine Organic Industries (FINEORG) reported EBITDA in line with our estimate at INR1.2b (down 20% YoY) in 1QFY25. EBITDAM contracted 460bp YoY to 24%, while gross margin contracted 60bp YoY to 42.2%. PAT declined 13% YoY to INR990m (our est. INR941m).
- All plants are currently running at optimal capacity, except Patalganga-II, where there is still some headroom for capacity ramp-up. FINEORG is currently awaiting approval from JNPA to execute the land deed, for which it has already paid the full amount (~30 acres). FINEORG has already incorporated a WOS, Fine Organic Industries (SEZ) Private Limited. This would primarily cater to export markets.
- It would take six months for environment clearance (EC) and another 18-24 months to set up new capacities. Although the greenfield capacity is expected to take care of growth for the next 10 years, we do not expect the growth to start until FY27. Exports account for 55% of the total revenue for FINEORG as of 1QFY25. The Thailand JV has started production trials and is in the process of product standardization.
- The management highlighted that domestic demand remains quite strong, with some uptick seen in the US market, while the European market is still experiencing weakness. Prices of some vegetable oils have risen and the company expects volatility to continue due to the weather impact on the crops. The overall lead time and freight costs are also high due to the container availability issues because of the Red Sea crisis.
- We have not made any changes to our estimate after the in-line performance in 1Q. FINEORG is currently trading at ~48x FY26E EPS and 33x FY26E EV/EBITDA. Valuations are expensive for a company that is going to have a YoY earnings decline for the next two years (-1%/-2% in FY25/FY26). **We maintain our SELL rating on the stock.**

Operating performance in line; PAT marginally above est. due to higher OI and lower Depn.

- Revenue stood at INR5.1b (5% below our est., down 4% YoY). **Gross margin contracted by 60bp YoY to 42.2%, with EBITDAM at 24% (-460bp YoY).**
- EBITDA was INR1.2b (est. INR1.2b, -20% YoY). PAT stood at INR990m (est. INR941m, -13% YoY).

Valuation and view

- The long-term prospects remain robust for FINEORG as the company is in the Oleochemical industry and is primarily driven by R&D innovations over the years. However, we believe that the performance would be hit in the near to medium term due to: 1) longer-than-expected delays in the commissioning of new capacities for further expansion, 2) existing plants running at optimum utilization with no further scope of debottlenecking, and 3) further delays in the commercial supplies starting from the Thailand JV.

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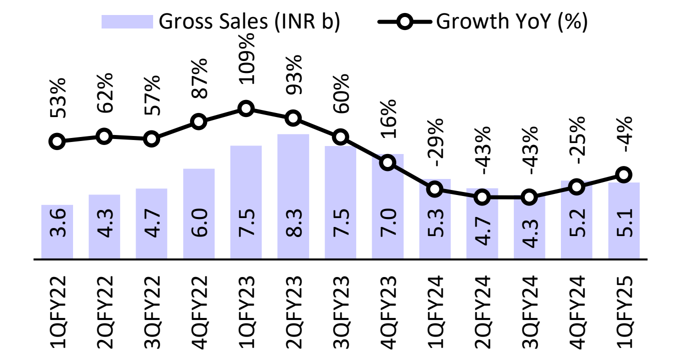
- We estimate a compounded EBITDA/PAT decline of 1% each over FY24-26, with margin in the range of 21-22% during the same period. FINEORG is currently trading at ~48x FY26E EPS and ~33x FY26E EV/EBITDA. Valuations are expensive for a company that is going to have a YoY earnings decline for the next two years (-1%/-2% in FY25/26). **We maintain our SELL rating on the stock.**

Standalone - Quarterly Snapshot **(INR m)**

Y/E March	FY24				FY25				FY24	FY25E	FY25	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Gross Sales	**5,321**	**4,717**	**4,258**	**5,215**	**5,083**	**5,258**	**5,446**	**5,675**	**19,511**	**21,463**	**5,339**	**-5%**
YoY Change (%)	*-29.3*	*-43.0*	*-43.2*	*-25.3*	*-4.5*	*11.5*	*27.9*	*8.8*	*-35.6*	*10.0*	*0.3*	
Gross Margin (%)	*42.9%*	*41.9%*	*41.8%*	*43.6%*	*42.2%*	*41.2%*	*40.0%*	*39.1%*	*42.6%*	*40.6%*	*41.8%*	*0.4%*
EBITDA	**1,519**	**1,044**	**924**	**1,322**	**1,218**	**1,215**	**1,208**	**1,132**	**4,809**	**4,772**	**1,246**	**-2%**
Margin (%)	*28.5*	*22.1*	*21.7*	*25.4*	*24.0*	*23.1*	*22.2*	*20.0*	*24.6*	*22.2*	*23.3*	*0.6*
Depreciation	117	144	147	153	117	159	162	204	561	642	157	
Interest	6	7	5	5	4	6	6	8	23	24	5	
Other Income	145	172	174	226	241	190	194	151	717	776	175	
PBT before EO expense	**1,540**	**1,064**	**946**	**1,391**	**1,338**	**1,240**	**1,233**	**1,071**	**4,941**	**4,882**	**1,258**	**6%**
Extra-Ord expense	0	0	0	6	0	0	0	0	6	0	0	
PBT	**1,540**	**1,064**	**946**	**1,385**	**1,338**	**1,240**	**1,233**	**1,071**	**4,935**	**4,882**	**1,258**	**6%**
Tax	397	270	249	342	348	312	310	259	1,259	1,229	316	
Rate (%)	*25.8*	*25.4*	*26.4*	*24.7*	*26.0*	*25.1*	*25.2*	*24.1*	*25.5*	*25.2*	*25.2*	
Reported PAT	**1,142**	**794**	**697**	**1,043**	**990**	**928**	**923**	**812**	**3,676**	**3,654**	**941**	**5%**
Adj PAT	**1,142**	**794**	**697**	**1,047**	**990**	**928**	**923**	**812**	**3,680**	**3,654**	**941**	**5%**
YoY Change (%)	*-27.4*	*-51.6*	*-46.9*	*-24.2*	*-13.3*	*16.9*	*32.5*	*-22.4*	*-37.7*	*-0.7*	*-17.6*	
Margin (%)	*21.5*	*16.8*	*16.4*	*20.1*	*19.5*	*17.7*	*17.0*	*14.3*	*18.9*	*17.0*	*17.6*	*1.8*

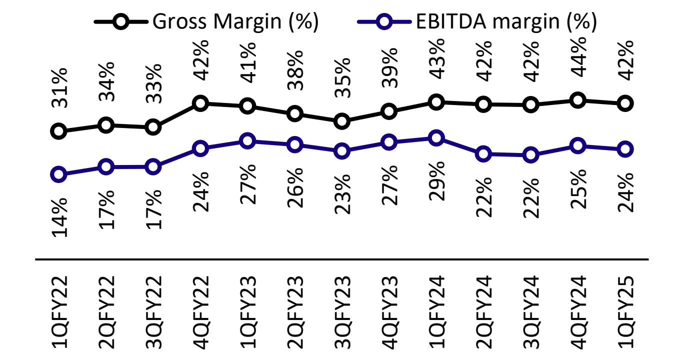
Story in charts – 1QFY25

Exhibit 1: Sales declined 4% YoY…



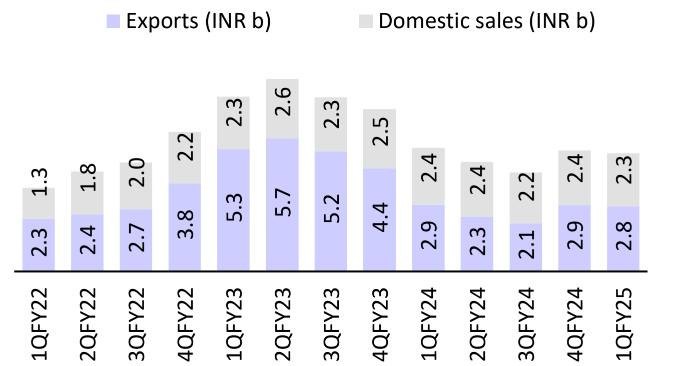
Source: Company, MOFSL

Exhibit 2: …with EBITDAM declining 460bp YoY to 24%



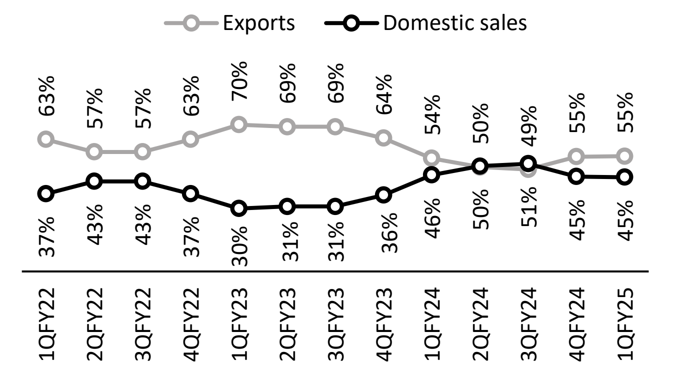
Source: Company, MOFSL

Exhibit 3: Exports declined 3% YoY…



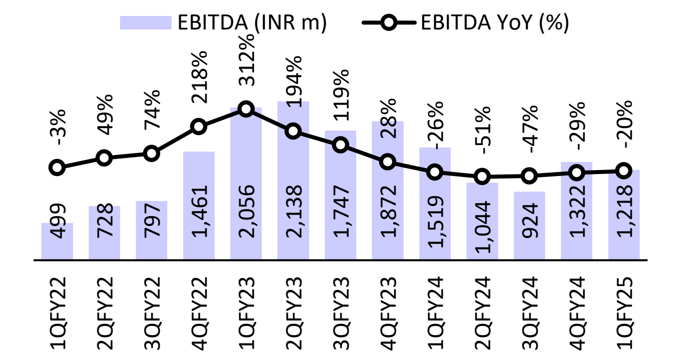
Source: Company, MOFSL

Exhibit 4: …with domestic sales at 45% of total revenue



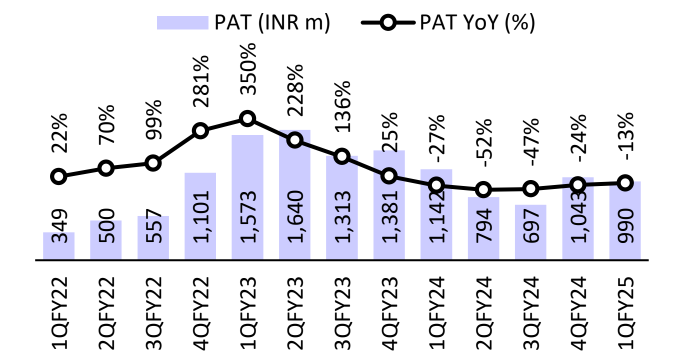
Source: Company, MOFSL

Exhibit 5: EBITDA was down 20% YoY



Source: Company, MOFSL

Exhibit 6: PAT was down 13% YoY



Source: Company, MOFSL

Financial story in charts

Exhibit 7: Revenue expected to decline from its FY23 peak…

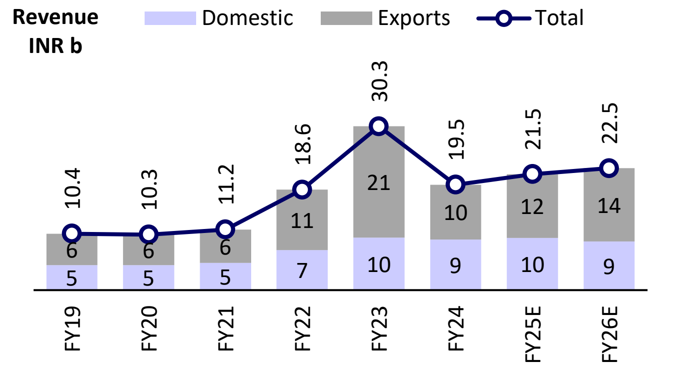


Exhibit 8: …with the share of exports increasing back to 60%

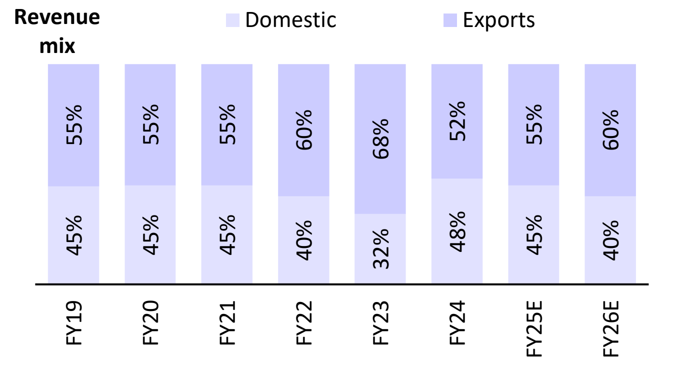


Exhibit 9: Expect EBITDAM to be at 21-22%…

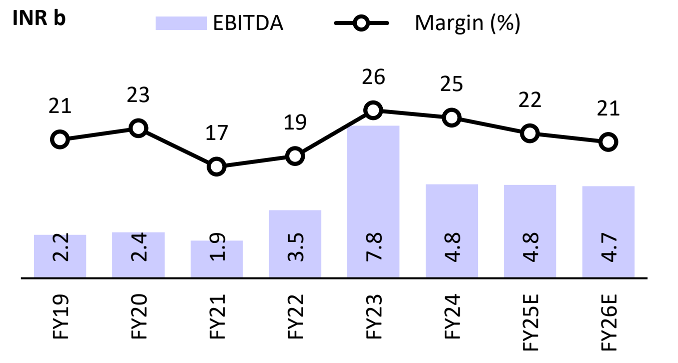


Exhibit 10: …along with a decline in PAT margin

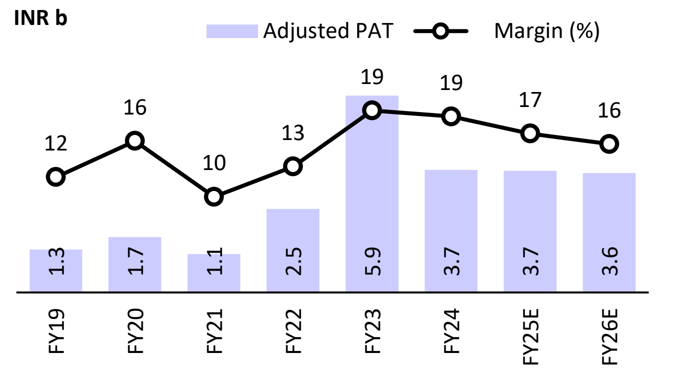


Exhibit 11: Capex for the next two years stands at INR0.6b

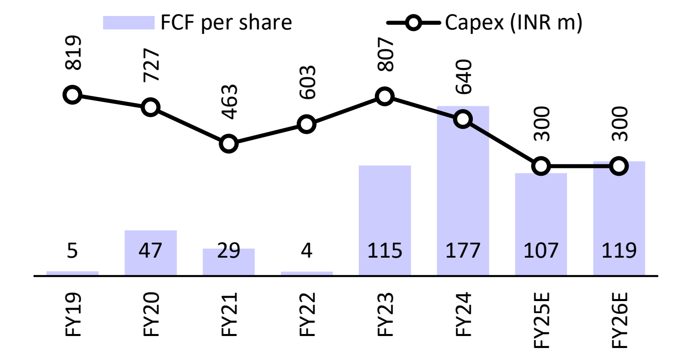


Exhibit 12: FINEORG expected to remain cash positive

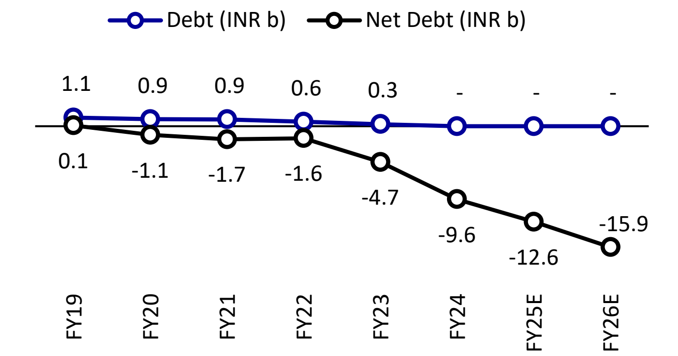
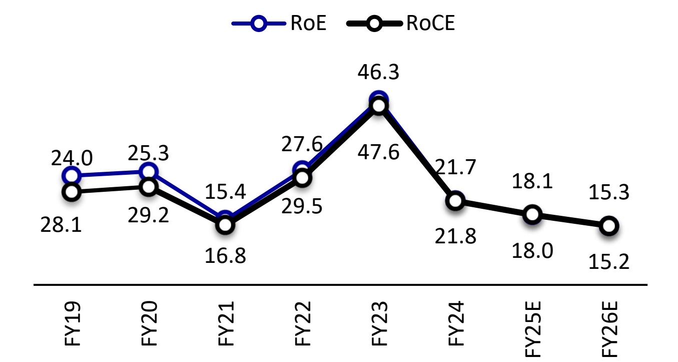
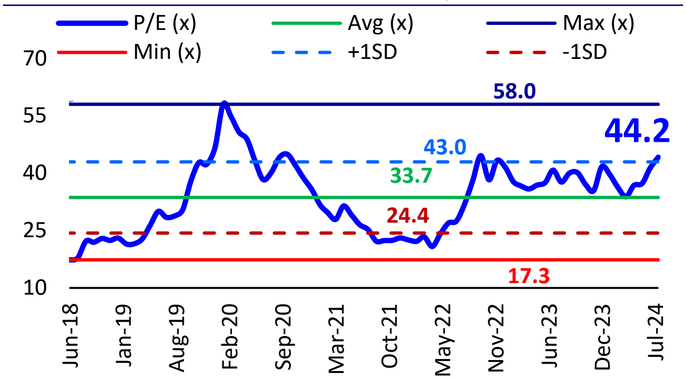


Exhibit 13: Return ratios to decline in the coming years



Source: Company, MOFSL

Exhibit 14: FINEORG trades at ~44.2x 1-year forward P/E



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Income from Operations	**10,440**	**10,262**	**11,213**	**18,584**	**30,291**	**19,511**	**21,463**	**22,536**
Change (%)	*20.7*	*-1.7*	*9.3*	*65.7*	*63.0*	*-35.6*	*10.0*	*5.0*
Gross Margin (%)	*37.3*	*40.9*	*35.2*	*35.7*	*38.4*	*42.6*	*40.6*	*40.6*
EBITDA	**2,223**	**2,361**	**1,921**	**3,485**	**7,813**	**4,808**	**4,772**	**4,715**
Margin (%)	*21.3*	*23.0*	*17.1*	*18.8*	*25.8*	*24.6*	*22.2*	*20.9*
Depreciation	175	347	468	399	479	561	642	638
EBIT	**2,048**	**2,014**	**1,453**	**3,086**	**7,334**	**4,247**	**4,131**	**4,077**
Int. and Finance Charges	18	48	61	51	45	23	24	26
Other Income	202	205	170	332	641	717	776	740
PBT bef. EO Exp.	**2,233**	**2,172**	**1,562**	**3,368**	**7,930**	**4,941**	**4,882**	**4,792**
EO Items	0	0	0	0	0	-6	0	0
PBT after EO Exp.	**2,233**	**2,172**	**1,562**	**3,368**	**7,930**	**4,935**	**4,882**	**4,792**
Total Tax	942	507	413	861	2,024	1,259	1,229	1,206
Tax Rate (%)	*42.2*	*23.3*	*26.4*	*25.6*	*25.5*	*25.5*	*25.2*	*25.2*
Reported PAT	**1,290**	**1,665**	**1,149**	**2,507**	**5,906**	**3,676**	**3,654**	**3,586**
Adjusted PAT	**1,290**	**1,665**	**1,149**	**2,507**	**5,906**	**3,680**	**3,654**	**3,586**
Change (%)	*27.3*	*29.0*	*-31.0*	*118.1*	*135.6*	*-37.7*	*-0.7*	*-1.9*
Margin (%)	*12.4*	*16.2*	*10.2*	*13.5*	*19.5*	*18.9*	*17.0*	*15.9*

Standalone - Balance Sheet								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	153	153	153	153	153	153	153	153
Total Reserves	4,931	6,154	7,235	9,432	15,068	18,460	21,808	25,095
Net Worth	**5,084**	**6,308**	**7,388**	**9,585**	**15,221**	**18,613**	**21,962**	**25,248**
Total Loans	1,130	915	892	585	272	0	0	0
Capital Employed	**6,219**	**7,222**	**8,280**	**10,170**	**15,493**	**18,613**	**21,962**	**25,248**
Gross Block	2,464	4,192	4,459	5,192	5,518	6,267	6,567	6,867
Less: Accum. Deprn.	1,686	2,033	2,500	2,899	3,378	3,940	4,581	5,219
Net Fixed Assets	**778**	**2,159**	**1,958**	**2,293**	**2,140**	**2,327**	**1,986**	**1,648**
Capital WIP	1,063	58	263	141	404	297	297	297
Total Investments	**167**	**442**	**437**	**431**	**531**	**1,156**	**1,156**	**1,156**
Curr. Assets, Loans&Adv.	**5,086**	**5,964**	**6,902**	**9,413**	**14,648**	**16,661**	**21,009**	**24,758**
Inventory	790	1,195	1,089	2,017	2,987	1,952	2,850	2,992
Account Receivables	1,670	1,451	1,752	3,316	4,769	3,480	3,828	4,020
Cash and Bank Balance	1,031	2,056	2,612	2,158	4,974	9,610	12,563	15,897
Cash	1,020	2,009	2,564	2,089	4,892	6,075	9,029	12,362
Bank Balance	11	48	48	69	82	3,535	3,535	3,535
Loans and Advances	1,595	1,262	1,449	1,922	1,918	1,618	1,767	1,849
Curr. Liability & Prov.	**875**	**1,401**	**1,281**	**2,108**	**2,230**	**1,828**	**2,486**	**2,610**
Account Payables	523	843	990	1,514	1,707	1,320	1,926	2,023
Other Current Liabilities	307	526	156	290	366	308	339	356
Net Current Assets	**4,211**	**4,563**	**5,622**	**7,305**	**12,418**	**14,833**	**18,523**	**22,148**
Appl. of Funds	**6,219**	**7,222**	**8,280**	**10,170**	**15,493**	**18,613**	**21,962**	**25,248**

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS	**42.1**	**54.3**	**37.5**	**81.8**	**192.6**	**120.0**	**119.2**	**116.9**
EPS Growth (%)	*27%*	*29%*	*-31%*	*118%*	*136%*	*-38%*	*-1%*	*-2%*
Cash EPS	47.8	65.6	52.7	94.8	208.2	138.3	140.1	137.8
BV/Share	165.8	205.7	241.0	312.6	496.5	607.1	716.3	823.5
DPS	7.0	11.0	11.0	9.0	9.0	10.0	9.9	9.8
Payout (%)	20.0	24.4	29.3	11.0	4.7	8.3	8.3	8.3
Valuation (x)								
P/E	133.0	103.0	149.3	68.4	29.0	46.6	47.0	47.8
Cash P/E	117.1	85.3	106.1	59.0	26.9	40.4	39.9	40.6
P/BV	33.7	27.2	23.2	17.9	11.3	9.2	7.8	6.8
EV/Sales	16.4	16.6	15.1	9.1	5.5	8.3	7.4	6.9
EV/EBITDA	77.2	72.2	88.4	48.8	21.4	33.7	33.3	33.0
Dividend Yield (%)	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
FCF per share	5.0	47.3	28.7	4.5	115.1	176.7	107.1	119.3
Return Ratios (%)								
RoE	28.1	29.2	16.8	29.5	47.6	21.8	18.0	15.2
RoCE	24.0	25.3	15.4	27.6	46.3	21.7	18.1	15.3
RoIC	29.4	35.8	22.2	37.0	64.2	36.9	39.9	38.5
Working Capital Ratios								
Fixed Asset Turnover (x)	12.6	7.0	5.4	8.7	13.7	8.7	10.0	12.4
Asset Turnover (x)	1.7	1.4	1.4	1.8	2.0	1.0	1.0	0.9
Inventory (Days)	28	42	35	40	36	37	48	48
Debtor (Days)	58	52	57	65	57	65	65	65
Creditor (Days)	18	30	32	30	21	25	33	33
Leverage Ratio (x)								
Current Ratio	5.8	4.3	5.4	4.5	6.6	9.1	8.5	9.5
Interest Cover Ratio	114.4	42.1	23.9	61.0	164.4	183.1	169.6	159.4
Net Debt/Equity	0.0	-0.2	-0.2	-0.2	-0.3	-0.5	-0.6	-0.6

Standalone - Cash Flow Statement **(INR m)**

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	2,232	2,172	1,562	3,368	7,930	4,935	4,882	4,792
Depreciation	174	347	468	399	479	561	642	638
Others	-158	-144	-106	-257	-546	-668	24	26
Direct Taxes Paid	-855	-612	-415	-769	-2,092	-1,380	-1,229	-1,206
(Inc)/Dec in WC	-423	416	-167	-2,001	-1,435	2,610	-737	-291
CF from Operations	**972**	**2,178**	**1,343**	**741**	**4,336**	**6,058**	**3,583**	**3,958**
(Inc)/Dec in FA	-819	-727	-463	-603	-807	-640	-300	-300
Free Cash Flow	**153**	**1,451**	**880**	**137**	**3,529**	**5,418**	**3,283**	**3,658**
Change in Investments	-42	-287	4	-18	-150	-4,114	0	0
Others	-73	172	57	60	110	464	0	0
CF from Investments	**-934**	**-842**	**-402**	**-561**	**-847**	**-4,290**	**-300**	**-300**
Inc/(Dec) in Debt	1,081	-14	-347	-306	-357	-274	0	0
Interest Paid	-33	-63	-52	-37	-44	-21	-24	-26
Dividend Paid	-258	-407	-92	-337	-276	-276	-305	-299
Others	139	137	106	27	-9	-14	0	0
CF from Fin. Activity	**929**	**-346**	**-385**	**-654**	**-686**	**-584**	**-329**	**-325**
Inc/Dec of Cash	**966**	**989**	**555**	**-475**	**2,803**	**1,183**	**2,954**	**3,333**
Opening Balance	54	1,020	2,009	2,564	2,089	4,892	6,075	9,029
Closing Balance	**1,020**	**2,009**	**2,564**	**2,089**	**4,892**	**6,075**	**9,029**	**12,362**

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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