

Fine Organic Industries

CMP: INR5,156

TP: INR4,095 (-21%)

Sell

Medium-term outlook continues to remain gloomy



Stock Info

Bloomberg	FINEORG IN
Equity Shares (m)	31
M.Cap.(INRb)/(USDb)	158.1 / 1.9
52-Week Range (INR)	5959 / 4005
1, 6, 12 Rel. Per (%)	-4/8/-23
12M Avg Val (INR M)	199
Free float (%)	25.0

Financials Snapshot (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

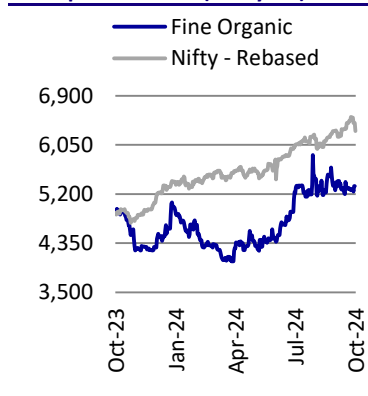
P/E (x)	43.0	43.3	44.1
P/BV (x)	8.5	7.2	6.3
EV/EBITDA (x)	30.9	30.5	30.2
Div. Yield (%)	0.2	0.2	0.2
FCF Yield (%)	3.4	2.1	2.3

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

Stock performance (one-year)



- The global oleochemicals market, valued at USD37.9b in CY23 and projected to reach USD65.4b by CY30, presents healthy opportunities for Fine Organic Industries (FINEORG). The company is well-positioned to capitalize on the growing demand for sustainable alternatives through strategic investments in R&D and capacity expansion.
- FINEORG is investing in a greenfield expansion at JNPA (Mumbai) to boost its export capacity and support international growth. The company is also exploring manufacturing facilities in the US or Europe. However, it is facing capacity constraints and land acquisition challenges that could delay any new capacity buildup by up to 30 months.
- FINEORG is currently trading at ~44x FY26E EPS and ~30x FY26E EV/EBITDA. Valuations appear expensive for a company that is going to experience a YoY earnings decline for the next two years (-1%/-2% in FY25/26). We reiterate our Sell rating on the stock with a TP of INR4,095.

Opportunities galore in the oleochemicals market...

- The global oleochemicals market was valued at USD37.9b in CY23 and is projected to report a 6.3% CAGR, reaching USD65.4b by CY30. This growth is likely to be driven by the rising demand for sustainable, plant-based alternatives to petroleum-derived chemicals across industries, such as food, personal care, and plastics.
- Oleochemicals have versatile applications across numerous industries, including personal care, food processing, polymers, cosmetics, lubricants, and biofuels. FINEORG has a presence in all these categories. Additionally, global regulations are increasingly favoring the use of bio-based products to mitigate the environmental impact of chemical manufacturing.
- FINEORG is strategically positioned to capitalize on the growing opportunities in the oleochemicals market, fueled by the rising demand for sustainable, bio-based products, including green additives. Its strategic investments in R&D, capacity expansion, and global market penetration would further strengthen its market position and enable it to meet the evolving needs of customers across diverse industries.

...but medium-term growth outlook appears soft


- The company has invested in a new greenfield expansion project through its subsidiary, Fine Organic Industries (SEZ) Pvt Ltd, which is acquiring land at JNPA (Mumbai). This facility is anticipated to bolster the company's international growth strategy by improving its export capacity.
- FINEORG aims to strengthen its presence in the export market by establishing manufacturing facilities in the US/Europe. It has also been seeking to expand its business operations through strategic acquisitions for two years now; however, it has yet to achieve this goal.

- That being said, management faces capacity constraints due to the lack of new land parcels for further expansion, and all current capacities are operating at optimal utilization (barring Patalganga-II, which still has some headroom for ramp-up).
- The company has been searching for land for nearly two years now but has not yet been able to successfully procure one. Further, even if capacity buildup were to commence today, it would take six months to obtain environmental clearance (EC) and another 18-24 months to commission the new capacity.

Valuation and view



- The long-term prospects for FINEORG remain robust, as the company operates within the oleochemicals industry and has consistently driven growth through R&D innovations over the years. However, we anticipate that its performance may be adversely affected in the near-to-medium term due to the following: 1) longer-than-expected delays in the commissioning of new capacities for expansion, 2) existing plants operating at optimum utilization with no potential of debottlenecking, and 3) further delays in the commencement of commercial supplies from the Thailand JV.
- 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 ~44x FY26E EPS and ~30x FY26E EV/EBITDA. Valuations appear expensive for a company that is going to experience a YoY earnings decline for the next two years (-1%/-2% in FY25/26). **We reiterate our Sell rating on the stock with a TP of INR4,095.**

Exhibit 1: Industry growth potential factors

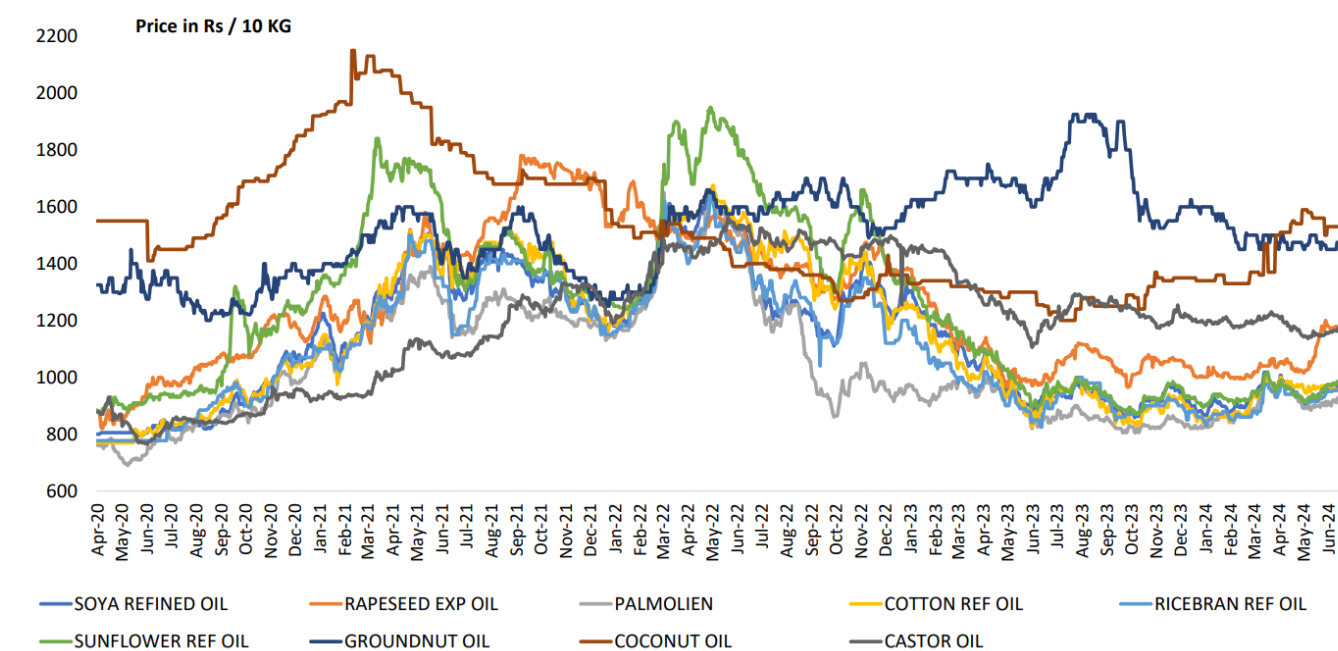
Industry	Key Additives & Ingredients	End-Use Applications	Growth Drivers
FOOD ADDITIVES 	<ul style="list-style-type: none"> Emulsifiers Anti-fungal agents Beverage cloudifier Anti-crystallisers 	<ul style="list-style-type: none"> Bakery products Confectionery Biscuits Oil and fats Dairy products Beverages 	<ul style="list-style-type: none"> Increased consumption Increased number of end-user applications People moving towards busy lifestyle Changing food habits
POLYMER ADDITIVES 	<ul style="list-style-type: none"> Lubricants Anti-fogging additives Anti-static additives Anti-scratch Processing aids Flow improvers Slip additives Dispersants 	<ul style="list-style-type: none"> Packaging films Bottle caps Wires & Cable Packaging Furniture Automobiles Pipes & Fittings Biodegradable plastic 	<ul style="list-style-type: none"> Replacing the use of conventional plastics Recycling of plastics Increased use of bioplastics Increased use of plastic as a substitute of other materials Demand for green polymer additives Development of performance polymer additives Increasing urbanisation and replacement of metal and wood Increased use of package materials
FEED NUTRITION ADDITIVES 	<ul style="list-style-type: none"> Natural antibiotics Nutritional additives Anti-fungal additives 	<ul style="list-style-type: none"> Poultry feeds Cattle feeds Aquaculture 	<ul style="list-style-type: none"> Growing health and safety awareness in the food processing industry Increased demand for quality end products Growing awareness about the healthy products

Source: Company, MOFSL

Exhibit 2: Industry growth potential factors

Industry	Key Additives & Ingredients	End-Use Applications	Growth Drivers
COATING AND SPECIALITIES 	<ul style="list-style-type: none"> Lube additives Property modifiers Anti-corrosive additives Emulsifiers Wetting and dispersing agents Anti-mat additives 	<ul style="list-style-type: none"> Automotive lubricants Roads and highway Printing inks and Coatings for metal, papers etc Other specialty applications 	<ul style="list-style-type: none"> Increase in infra-projects Growth in automobile sales Increasing usage in industrial protective coating Growing e-commerce Increased demand for paint protecting coating Growth in niche products Increased use of specialty papers
COSPHA ADDITIVES 	<ul style="list-style-type: none"> Emulsifiers Emollients Green surfactants 	<ul style="list-style-type: none"> Creams, lotions Skin care Hair care Cleanser Home care 	<ul style="list-style-type: none"> Growth in Tier II and Tier III cities Increased demand for men's cosmetics Growing demand for personal & home care products

Source: Company, MOFSL

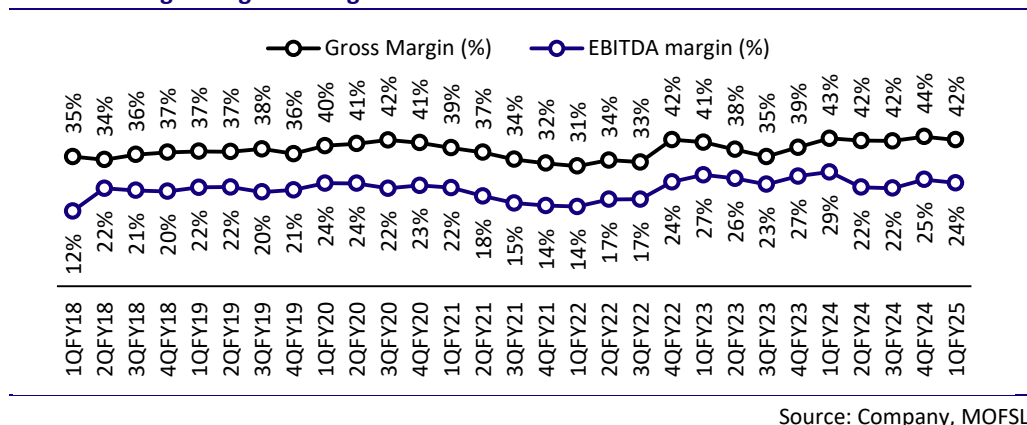
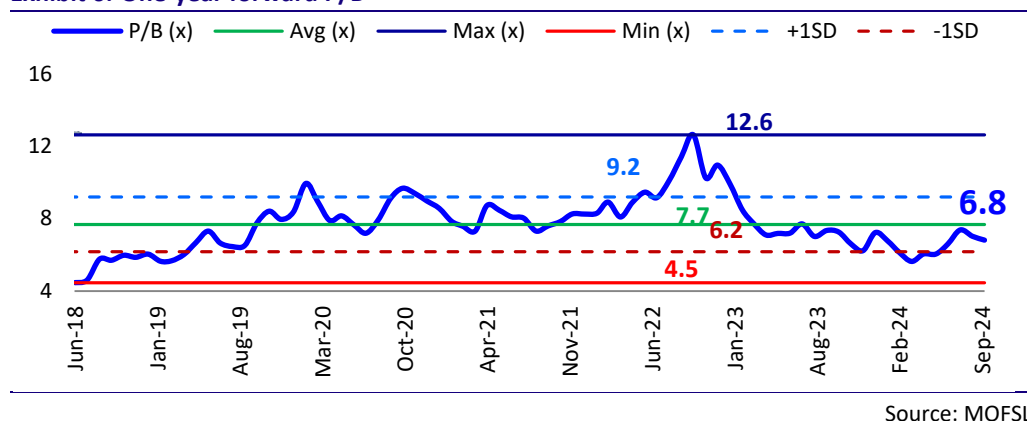
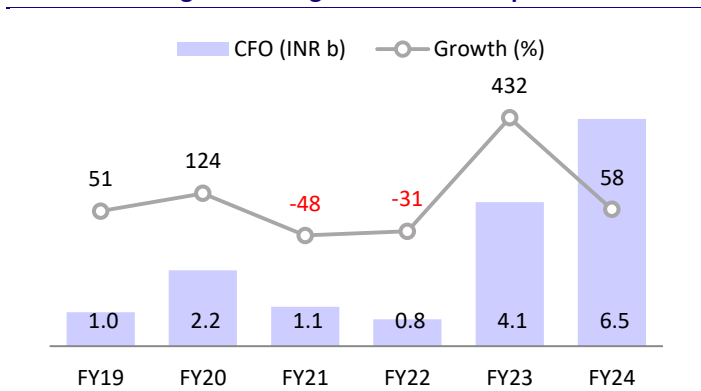
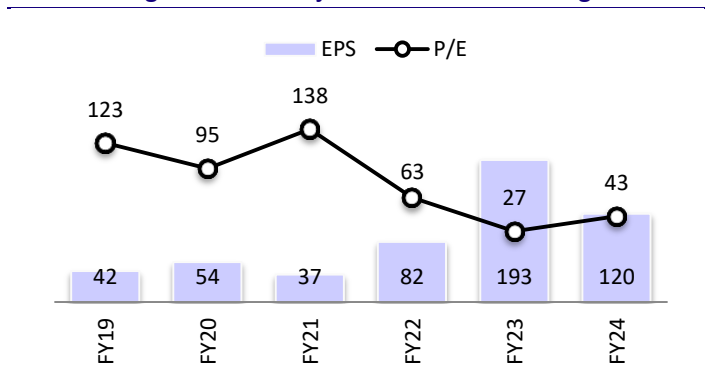
Exhibit 3: RM Prices Volatility

Source: Company, MOFSL

Exhibit 4: No new land for further expansion with almost all capacities at full utilization

Plant	Capacity (mtpa)	Remarks
1st Ambarnath Facility	49,500	NA
Badlapur facility	6,400	NA
Dombivli facility	8,400	Acquired on 30.11.2017 on sub lease basis
2nd Ambarnath plant	5,000	Acquired on sub lease basis
Sub Total - A	69,300	Running at optimal utilisation in FY20
Post FY20		
3rd Ambarnath plant	32,000	Commenced operation in 2QFY20
Patalganga facility	10,000	First phase commissioned in latter part of FY21, Phase II in Mar'22
Sub Total - B	42,000	
Total (A + B)	1,11,300	

Source: Company, MOFSL

Exhibit 5: Long term gross margin and EBITDAM trend**Exhibit 6: One-year forward P/B****Exhibit 7: Strong cash flow generation from operations****Exhibit 8: High valuation unjustified due to declining FY24 EPS****Exhibit 9: Investing aggressively in R&D**

R&D Expenditure (INR m)	FY20	FY21	FY22	FY23	FY24
Capital Expenditure	5	4	5	161	212
Recurring Expenditure	37	46	50	64	68
Total Expenditure	42	50	56	225	280
Total R&D expenditure as % of total turnover	0.41%	0.45%	0.30%	0.74%	1.44%

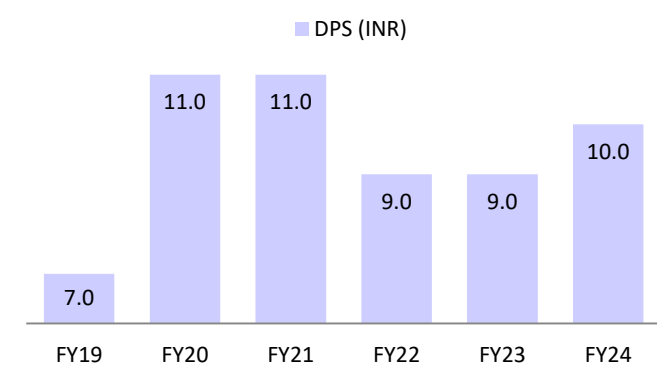
Source: Company, MOFSL

Exhibit 10: R&D expenses and capex in specific technologies to total R&D and capex

% R&D and capex investments to total R&D and capex investments	FY23	FY24	Improvements in environmental and social impacts
R&D	100%	100%	❖ The Company prioritises developing products & technologies which are beneficial to environment and society.
Capex	100%	96%	

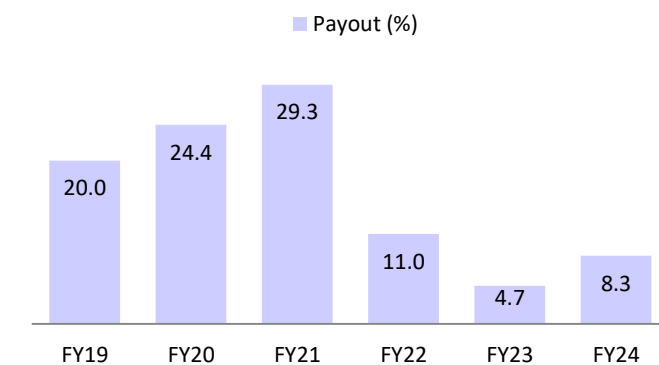
Source: Company, MOFSL

Exhibit 11: Dividend per share declared in FY24



Source: Company, MOFSL

Exhibit 12: Higher payout ratio in FY24 compared to FY23



Source: Company, MOFSL

Exhibit 13: Cash conversion cycle at 77 days in FY24

Cash conversion cycle (year-end basis)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Days										
Inventory	35	39	40	35	28	42	35	40	36	37
Debtor	53	50	54	68	58	52	57	65	57	65
Creditor	30	28	30	29	18	30	32	30	21	25
Cash conversion cycle	58	61	63	74	68	64	60	75	73	77

Source: Company, MOFSL

Exhibit 14: Peer comparison for our coverage universe

Company	Reco	TP (INR)	EPS (INR)			P/E (x)			P/BV (x)			EV/EBITDA (x)			ROE (%)		
			FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Alkyl Amines	Neutral	1,955	29.1	41.5	55.8	78.8	55.2	41.1	9.3	8.3	7.4	47.6	34.0	26.4	12.2	15.9	19.0
Atul	Buy	9,100	103.4	160.8	214.4	74.2	47.7	35.8	4.4	4.1	3.7	35.5	25.1	20.2	6.2	8.9	10.9
Clean Science	Neutral	1,440	23.0	27.5	36.1	67.0	55.9	42.6	13.6	11.2	9.1	49.8	41.2	32.5	22.1	22.0	23.6
Deepak Nitrite	Neutral	3,060	55.1	65.3	76.4	52.5	44.3	37.9	8.2	7.1	6.1	34.0	28.8	23.9	16.9	17.2	17.3
Fine Organic	Sell	4,095	120.0	119.2	116.9	43.0	43.3	44.4	8.5	7.2	6.3	30.9	30.5	30.2	21.8	18.0	15.2
Galaxy Surfact.	Buy	3,450	85.0	97.7	115.0	35.3	30.7	26.1	4.9	4.4	3.9	23.0	19.2	16.5	14.8	15.0	15.8
Navin Fluorine	Neutral	3,450	46.1	60.3	86.2	74.4	56.9	39.8	7.1	6.5	5.8	45.4	34.3	26.1	10.0	12.0	15.5
NOCIL	Neutral	305	7.9	9.4	12.3	36.5	30.6	23.4	2.8	2.7	2.5	24.0	20.3	16.0	8.1	9.0	11.1
P I Industries	Buy	5,200	110.6	113.8	137.5	42.0	40.9	33.8	8.1	6.9	5.8	33.0	28.0	23.0	21.1	18.2	18.6
SRF	Neutral	2,130	47.5	52.6	74.0	51.9	46.8	33.3	6.4	5.8	5.1	29.0	24.9	19.4	13.0	13.0	16.4
Tata Chemicals	Neutral	980	36.1	29.6	49.4	29.5	36.0	21.6	1.2	1.2	1.2	10.9	11.9	9.3	4.4	3.4	5.5
Vinati Organics	Buy	2,425	31.2	42.7	53.9	66.1	48.3	38.2	8.7	7.6	6.6	43.3	32.2	26.0	13.8	16.8	18.5

Source: Company, MOFSL

Story in charts

Exhibit 15: Revenue likely to decline from its FY23 peak...

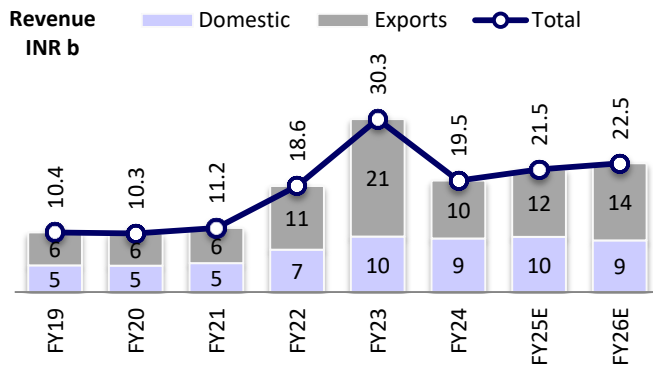


Exhibit 16: ...with the share of exports recovering to 60%

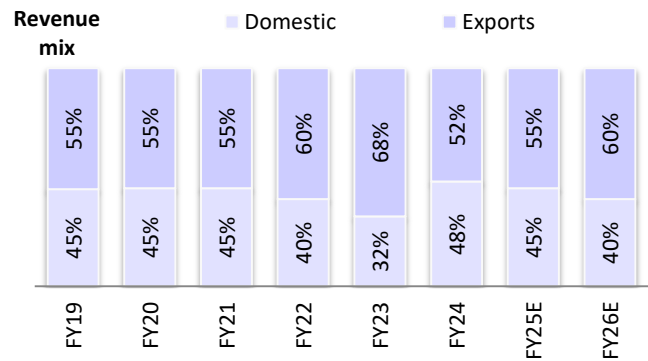


Exhibit 17: Expect EBITDAM to be at 21-22%...

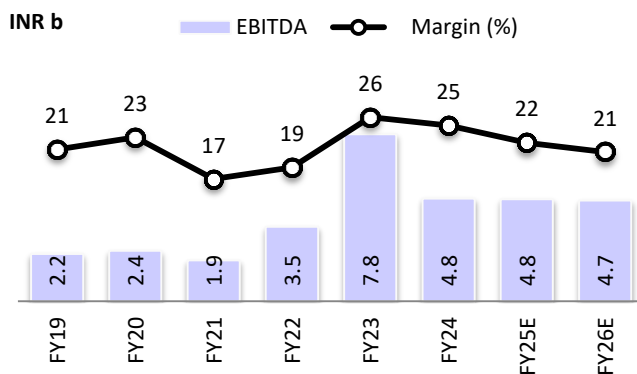


Exhibit 18: ...along with a contraction in PAT margin

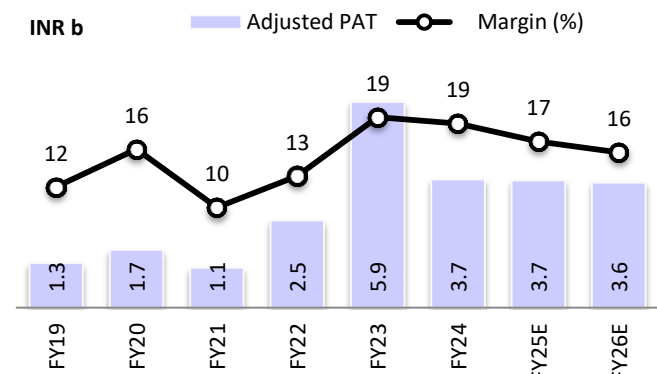


Exhibit 19: Capex for the next two years stands at INR0.6b

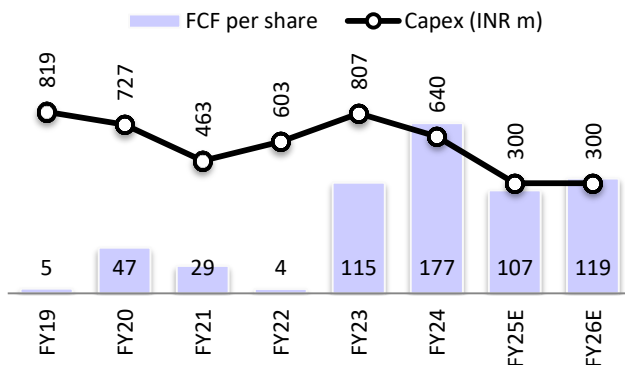


Exhibit 20: FINEORG expected to remain cash positive

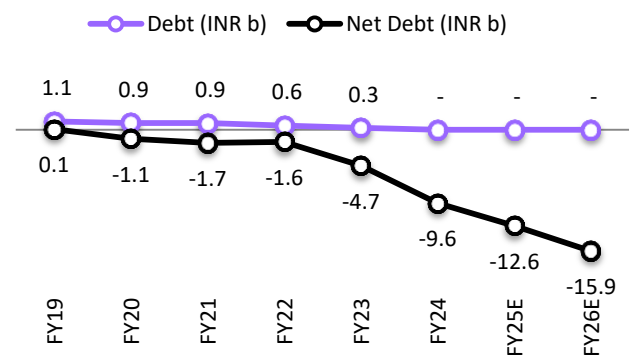


Exhibit 21: : Return ratios to decline in the coming years

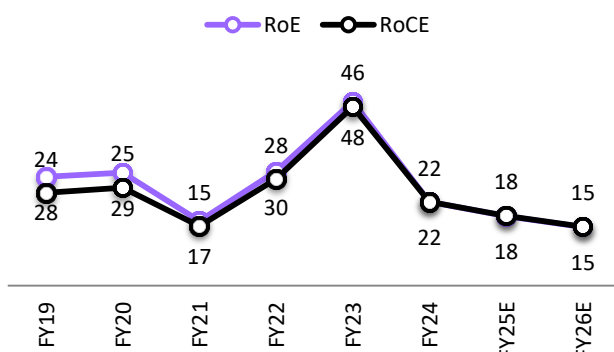
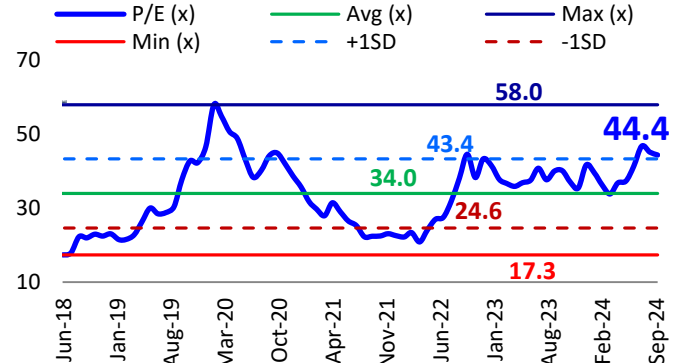


Exhibit 22: : FINEORG trades at ~44.4x 1-year forward P/E



Source: Company, MOFSL

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	122.5	94.9	137.6	63.1	26.8	43.0	43.3	44.1
Cash P/E	107.9	78.6	97.8	54.4	24.8	37.3	36.8	37.4
P/BV	31.1	25.1	21.4	16.5	10.4	8.5	7.2	6.3
EV/Sales	15.2	15.3	13.9	8.4	5.1	7.6	6.8	6.3
EV/EBITDA	71.2	66.5	81.4	44.9	19.6	30.9	30.5	30.2
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

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SELL	< - 10%
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UNDER REVIEW	Rating may undergo a change
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