

# Fine Organic Industries

## Fine-tastic future

Our BUY recommendation on Fine Organic Industries (FOIL) with a target price of INR 3,910 is premised on (1) constant focus on R&D, (2) diversified product portfolio, (3) capacity-led expansion growth opportunity, and (4) leadership in oleo-chemical based additives in the domestic and global markets with a loyal customer base. We expect FOIL's PAT to grow at a 42% CAGR over FY22-24E, led by a 37% CAGR in EBITDA. In the absence of any major Capex over the next two years, the RoCE would expand from 19% in FY22E to 28% in FY24E. The constant focus on R&D and availability of capacity will enable the company to remain competitive and expand its customer base. Given the capacity expansion-led growth, FOIL's capability to generate 20%+ returns on reinvested profits, and unique business model with high entry barriers, its PER of 42.9/31.0x FY23/24E looks contextually low.

### Margins on an upward trend from here

*High input costs lead to a drop in margins:* FOIL's margins have been under pressure for over a year, owing to, (1) the volatile and high raw material prices, (2) high freight cost impacted by global supply chain disruption. The rise in prices of vegetable oils, which are the key raw material, is attributable to many factors such as shifting of the demand from food basket to fuel basket, increase in buying by China, labour issues due to lockdowns in Indonesia and Malaysia, climatical impact on soya producing areas and imposing of import duties on palm oil in India, which is the world's largest importer of it.

*Reduction in the volatility of raw material prices:* Raw material prices continue to be high currently, but aren't as volatile, owing to (1) reduction in import duty on vegetable oils by the government of India (refer Exhibit-5), (2) reduction in the ceiling rate of its crude palm oil (CPO) export levy by Indonesia (refer Exhibit-6), and (3) reduction in excessive buying done by China (refer Exhibit-7).

*Steps taken by the company to protect its margins:* FOIL has completed most of its long-term (over 1 year) contracts, and is now only getting into short-term (~3 months) contracts. It has been successful in renegotiating contracts with its customers to take the raw material price hike. In order to reduce the blow of higher freights costs, the company has introduced a new system of FOB pricing where customers are charged freight prevalent at the time of shipment.

We expect these changes along with better plant utilisation to drive the EBITDA margin by 542bps from 18% in FY21 to 23% in FY24E (refer Exhibit-1).

### Growth to be backed by capacity expansion

The remaining portion of the 10ktpa capacity dedicated to food additives at Patalganga will get commissioned by FY22 end. With the addition of this facility, the total capacity of the company will reach 111.3ktpa (refer Exhibit-8). All the plants are expected to reach optimum utilisation by FY24E.

FOIL has acquired a 45% stake in Fine Organic Industries (Thailand) Co. Ltd., which is a JV, formed to manufacture food additives in Thailand. The company plans to initially use up the existing capacity at the plant with minor changes in the plant and manufacture a few products immediately. Once travel resumes, the company will send its project team to evaluate opportunities there and come up with a Capex plan, post which the company shall augment its product and process portfolio.

**BUY**

CMP (as on 1 Oct 2021)	INR 3,266
Target Price	INR 3,910
NIFTY	17,532

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 3,480	INR 3,910
EPS %	FY22E +13.2%	FY23E +15.3%

### KEY STOCK DATA

Bloomberg code	FINEORG IN
No. of Shares (mn)	31
MCap (INR bn) / (\$ mn)	100/1,346
6m avg traded value (INR mn)	212
52 Week high / low	INR 3,563/2,123

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	13.3	42.9	25.2
Relative (%)	1.3	25.4	(26.6)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	75.00	75.00
FIs & Local MFs	14.19	11.40
FPIs	5.93	6.80
Public & Others	4.88	6.80
Pledged Shares	0.00	0.00

Source: BSE

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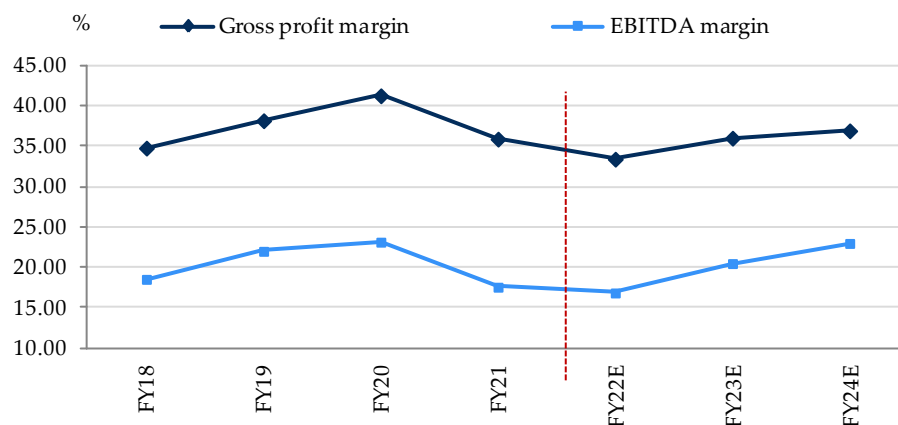
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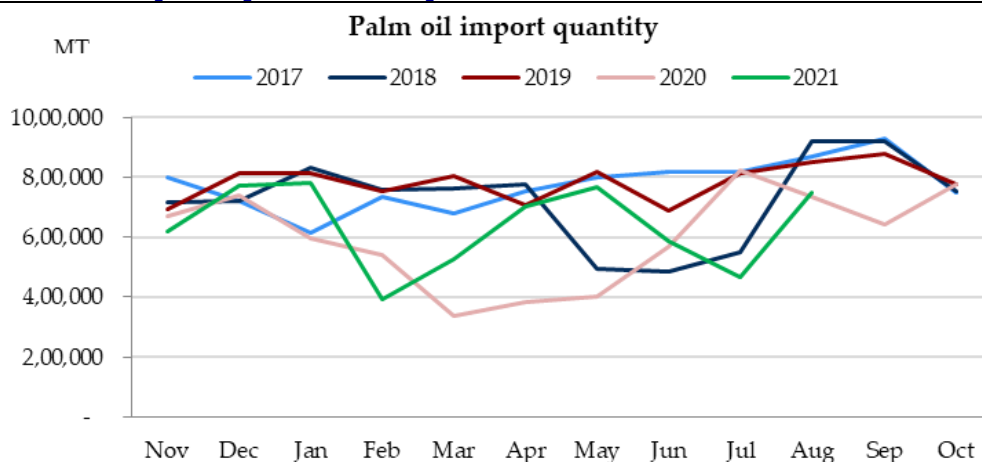
## Story in charts

**Exhibit 1: Margins shall rise, going forward**



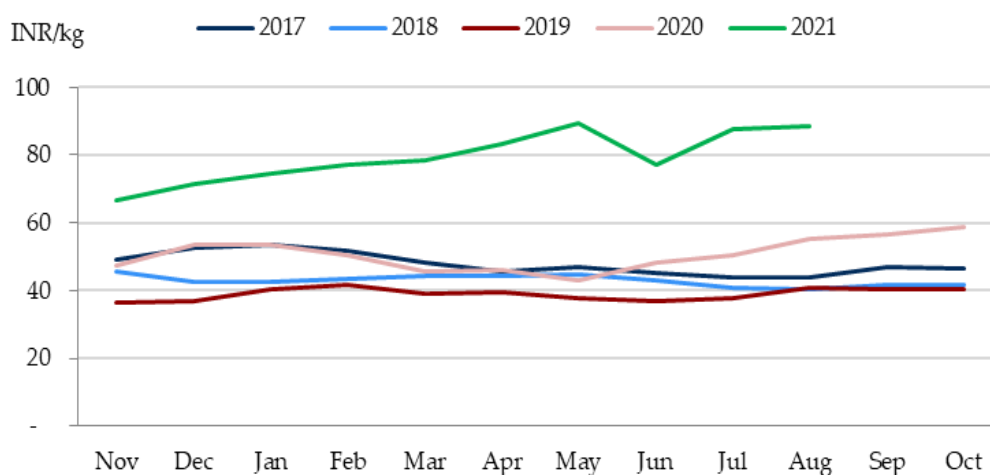
Source: Company, HSIE Research

**Exhibit 2: Import of palm oil (RBD palmolein + CPO + CPKO) in India**

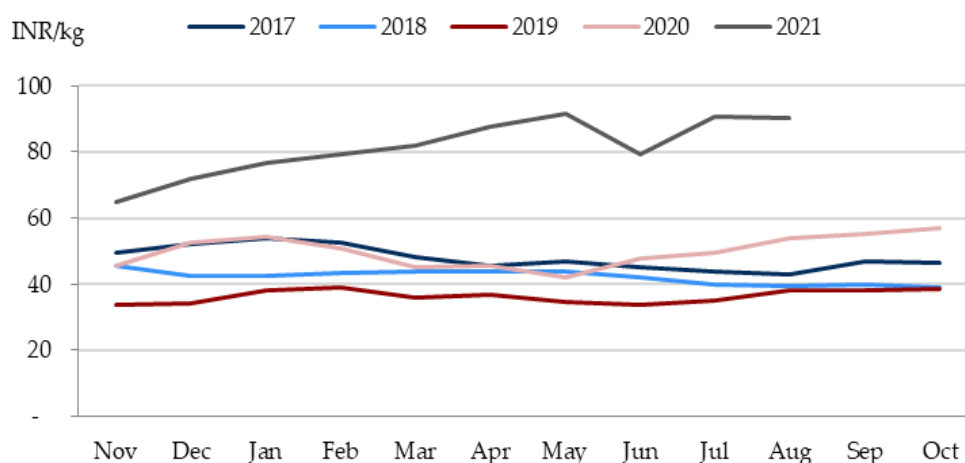


Source: The Solvent Extractors' Association of India, HSIE Research | Note: The cycle of a year is from Nov of the previous year to Oct of the current year; RBD refers to refined, bleached and deodorized; CPO stands for crude palm oil; CPKO stands for crude palm kernel oil

**Exhibit 3: RBD palmolein prices up by 62% YoY on an average in 2021**



Source: The Solvent Extractors' Association of India, HSIE Research | Note: The cycle of a year is from Nov of the previous year to Oct of the current year; RBD refers to refined, bleached and deodorized

**Exhibit 4: Crude palm oil prices up by 68% YoY on an average in 2021**

Source: The Solvent Extractors' Association of India, HSIE Research | Note: The cycle of a year is from Nov of the previous year to Oct of the current year

**Exhibit 5: Reduction of 5.5% in effective import duty on vegetable oils w.e.f. 11 Sept 2021 by GoI**

Products	Duty w.e.f. 11/09/21	Agri Infra and Develop. Cess	Social Welfare Cess on BCD	Effective duty	Duty w.e.f. 20/08/21	Agri Infra and Develop. Cess	Social Welfare Cess on BCD	Effective duty	Reduction in duty
Crude Palm Oil	2.5%	20.0%	10.0%	24.75%	10.0%	17.5%	10.0%	30.25%	-5.5%
RBD Palmolein	32.5%	0.0%	10.0%	35.75%	37.5%	0.0%	10.0%	41.25%	-5.5%
RBD Palm Oil	32.5%	0.0%	10.0%	35.75%	37.5%	0.0%	10.0%	41.25%	-5.5%
Crude Soyabean Oil	2.5%	20.0%	10.0%	24.75%	7.5%	20.0%	10.0%	30.25%	-5.5%
Refined Soyabean Oil	32.5%	0.0%	10.0%	35.75%	37.5%	0.0%	10.0%	41.25%	-5.5%
Crude Sunflower Oil	2.5%	20.0%	10.0%	24.75%	7.5%	20.0%	10.0%	30.25%	-5.5%
Refined Sunflower Oil	32.5%	0.0%	10.0%	35.75%	37.5%	0.0%	10.0%	41.25%	-5.5%

Source: The Solvent Extractors' Association of India, HSIE Research

**Exhibit 6: Reduction in the ceiling rate of its crude palm oil (CPO) export levy by USD 80/mt by Indonesia w.e.f. 2 July 2021**

CPO reference price (USD/t)	w.e.f. 2/7/2021	w.e.f. 10/12/2020	Change (%)	Change (USD/t)
750	55	90	-38.9%	-35.0
800	75	120	-37.5%	-45.0
850	95	150	-36.7%	-55.0
900	115	180	-36.1%	-65.0
950	135	210	-35.7%	-75.0
1000	155	240	-35.4%	-85.0
Above 1000	175	255	-31.4%	-80.0

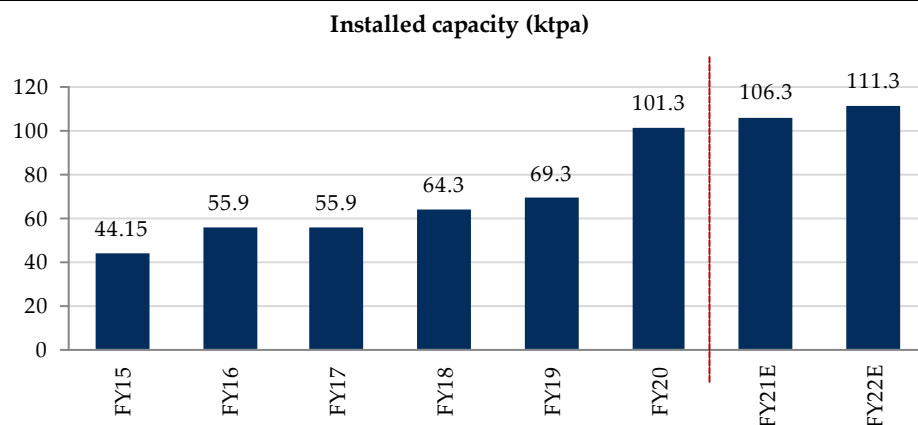
Source: Industry news, HSIE Research

**Exhibit 7: Malaysia's palm oil exports to India rising, while those to China falling**

	Jan-Aug 2021 (exports in MT)	Jan-Aug 2020 (exports in MT)	Change (MT)	Change %
India	21,13,500	11,76,274	9,37,226	80%
China	10,45,469	18,42,142	-7,96,673	-43%

Source: Monthly Palm Oil Trade Statistics, HSIE Research

**Exhibit 8: Capacity expansion to act as a growth lever**



Source: Company, HSIE Research

**Exhibit 9: Change in estimates**

	FY22E Old	FY22E New	Change (%)	FY23E Old	FY23E New	Change (%)	FY24E Old	FY24E New	Change (%)
EBIDTA	2,207	2,506	13.6%	3,060	3,517	14.9%	4,131	4,729	14.5%
EPS	46.1	52.2	13.2%	66.1	76.2	15.3%	91.9	105.5	14.8%

Source: Company, HSIE Research

## Financials (Consolidated)

### INCOME STATEMENT

INR mn	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Revenues</b>	<b>8,558</b>	<b>10,603</b>	<b>10,381</b>	<b>11,332</b>	<b>14,857</b>	<b>17,149</b>	<b>20,555</b>
<b>Growth %</b>	<b>9.8</b>	<b>23.9</b>	<b>(2.1)</b>	<b>9.2</b>	<b>31.1</b>	<b>15.4</b>	<b>19.9</b>
Raw Material	5,578	6,552	6,093	7,260	9,887	10,966	12,958
Employee Cost	516	628	725	796	873	957	1,050
Other Expenses	876	1,088	1,158	1,284	1,590	1,708	1,818
<b>EBITDA</b>	<b>1,588</b>	<b>2,336</b>	<b>2,405</b>	<b>1,993</b>	<b>2,506</b>	<b>3,517</b>	<b>4,729</b>
<i>EBITDA Margin (%)</i>	<i>18.6</i>	<i>22.0</i>	<i>23.2</i>	<i>17.6</i>	<i>16.9</i>	<i>20.5</i>	<i>23.0</i>
<i>EBITDA Growth %</i>	<i>9.4</i>	<i>47.1</i>	<i>2.9</i>	<i>(17.1)</i>	<i>25.8</i>	<i>40.4</i>	<i>34.5</i>
Depreciation	200	175	347	468	497	543	570
<b>EBIT</b>	<b>1,388</b>	<b>2,161</b>	<b>2,058</b>	<b>1,525</b>	<b>2,009</b>	<b>2,974</b>	<b>4,159</b>
Other Income (Including EO Items)	160	198	202	171	179	188	198
Interest	32	18	48	61	49	39	31
<b>PBT</b>	<b>1,516</b>	<b>2,341</b>	<b>2,212</b>	<b>1,635</b>	<b>2,139</b>	<b>3,123</b>	<b>4,325</b>
Tax	559	945	513	418	525	774	1,077
<b>PAT</b>	<b>957</b>	<b>1,396</b>	<b>1,699</b>	<b>1,216</b>	<b>1,615</b>	<b>2,349</b>	<b>3,248</b>
EO (Loss) / Profit (Net of Tax)	-	-	-	-	-	-	-
<b>APAT</b>	<b>957</b>	<b>1,396</b>	<b>1,699</b>	<b>1,216</b>	<b>1,615</b>	<b>2,349</b>	<b>3,248</b>
Share from associates	(4)	(34)	(51)	(13)	(13)	(13)	(13)
Minority Interest	-	-	-	-	-	-	-
<b>Consolidated APAT</b>	<b>953</b>	<b>1,363</b>	<b>1,648</b>	<b>1,203</b>	<b>1,602</b>	<b>2,336</b>	<b>3,235</b>
<i>Consolidated APAT Growth (%)</i>	<i>22.4</i>	<i>42.9</i>	<i>20.9</i>	<i>(27.0)</i>	<i>33.1</i>	<i>45.9</i>	<i>38.5</i>
<b>AEPS</b>	<b>31.1</b>	<b>44.4</b>	<b>53.7</b>	<b>39.3</b>	<b>52.2</b>	<b>76.2</b>	<b>105.5</b>
<i>AEPS Growth %</i>	<i>22.4</i>	<i>42.9</i>	<i>21.0</i>	<i>(27.0)</i>	<i>33.1</i>	<i>45.9</i>	<i>38.5</i>

Source: Company, HSIE Research

### BALANCE SHEET

INR mn	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>SOURCES OF FUNDS</b>							
Share Capital	153	153	153	153	153	153	153
Reserves And Surplus	3,803	4,849	6,036	7,161	8,282	9,917	12,182
<b>Total Equity</b>	<b>3,956</b>	<b>5,002</b>	<b>6,189</b>	<b>7,314</b>	<b>8,435</b>	<b>10,070</b>	<b>12,335</b>
Minority Interest	-	-	-	1	-	-	-
Long-term Debt	-	928	915	567	713	571	457
Short-term Debt	536	354	333	324	-	-	-
<b>Total Debt</b>	<b>536</b>	<b>1,283</b>	<b>1,247</b>	<b>892</b>	<b>713</b>	<b>571</b>	<b>457</b>
Deferred Tax Liability	(48)	(2)	(67)	(79)	(81)	(82)	(84)
Long-term Provision and others	-	39	76	44	44	45	46
<b>TOTAL SOURCES OF FUNDS</b>	<b>4,443</b>	<b>6,322</b>	<b>7,445</b>	<b>8,170</b>	<b>9,112</b>	<b>10,604</b>	<b>12,754</b>
<b>APPLICATION OF FUNDS</b>							
Net Block	883	782	2,168	1,959	2,060	1,794	1,463
Capital WIP	317	1,063	58	263	214	137	99
Other non-current assets	611	736	657	659	680	701	723
Non-current Investments	106	100	328	311	311	311	311
<b>Total Non-current assets</b>	<b>1,917</b>	<b>2,680</b>	<b>3,211</b>	<b>3,192</b>	<b>3,265</b>	<b>2,943</b>	<b>2,595</b>
Inventories	891	893	1,317	1,262	1,654	1,909	2,289
Debtors	1,465	1,556	1,323	1,610	2,413	2,656	3,104
Cash and Cash Equivalents	124	1,092	2,104	2,637	2,660	4,220	6,255
Other Current Assets	852	801	498	689	703	717	731
<b>Total Current Assets</b>	<b>3,332</b>	<b>4,342</b>	<b>5,243</b>	<b>6,198</b>	<b>7,431</b>	<b>9,502</b>	<b>12,379</b>
Creditors	699	534	858	1,072	1,433	1,688	2,063
Other Current Liabilities & Provns	107	166	151	148	151	154	157
<b>Total Current Liabilities</b>	<b>806</b>	<b>700</b>	<b>1,009</b>	<b>1,220</b>	<b>1,584</b>	<b>1,842</b>	<b>2,220</b>
<b>Net Current Assets</b>	<b>2,526</b>	<b>3,642</b>	<b>4,234</b>	<b>4,978</b>	<b>5,846</b>	<b>7,660</b>	<b>10,159</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>4,443</b>	<b>6,322</b>	<b>7,445</b>	<b>8,170</b>	<b>9,112</b>	<b>10,604</b>	<b>12,754</b>

Source: Company, HSIE Research

## CASH FLOW STATEMENT

(INR mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Reported PBT	1,520	2,375	2,262	1,648	2,152	3,136	4,338
Non-operating & EO Items	(164)	(232)	(252)	(184)	(193)	(201)	(211)
Interest Expenses	32	18	48	61	49	39	31
Depreciation	200	175	347	468	497	543	570
Working Capital Change	(534)	(148)	420	(211)	(845)	(255)	(463)
Tax Paid	(568)	(899)	(578)	(430)	(526)	(775)	(1,078)
<b>OPERATING CASH FLOW (a)</b>	<b>486</b>	<b>1,290</b>	<b>2,247</b>	<b>1,351</b>	<b>1,135</b>	<b>2,487</b>	<b>3,188</b>
Capex	(403)	(819)	(728)	(463)	(550)	(200)	(200)
Free Cash Flow (FCF)	84	471	1,519	888	585	2,287	2,988
Investments	4	6	(228)	17	-	-	-
Non-operating Income	160	198	202	171	179	188	198
Others	(120)	(125)	79	(3)	(21)	(21)	(22)
<b>INVESTING CASH FLOW (b)</b>	<b>(359)</b>	<b>(739)</b>	<b>(675)</b>	<b>(278)</b>	<b>(391)</b>	<b>(33)</b>	<b>(24)</b>
Debt Issuance/(Repaid)	133	747	(36)	(355)	(178)	(143)	(114)
Interest Expenses	(32)	(18)	(48)	(61)	(49)	(39)	(31)
FCFE	185	1,199	1,435	471	358	2,105	2,842
Share Capital Issuance	105	-	-	-	-	-	-
Dividend	(277)	(258)	(407)	(405)	(480)	(701)	(971)
Others	(113)	(52)	(69)	282	(13)	(12)	(12)
<b>FINANCING CASH FLOW (c)</b>	<b>(183)</b>	<b>418</b>	<b>(559)</b>	<b>(540)</b>	<b>(721)</b>	<b>(895)</b>	<b>(1,128)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(55)</b>	<b>968</b>	<b>1,012</b>	<b>533</b>	<b>23</b>	<b>1,559</b>	<b>2,035</b>
EO Items, Others							
<b>Closing Cash &amp; Equivalents</b>	<b>124</b>	<b>1,092</b>	<b>2,104</b>	<b>2,637</b>	<b>2,660</b>	<b>4,220</b>	<b>6,255</b>

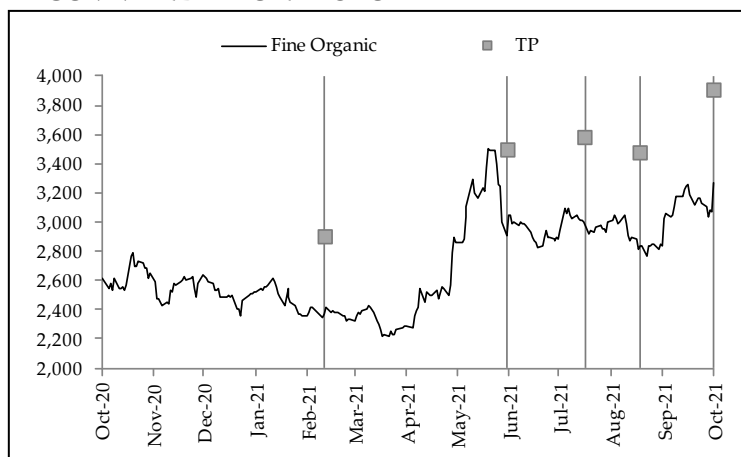
Source: Company, HSIE Research

## KEY RATIOS

	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>PROFITABILITY %</b>							
Gross Margin	34.8	38.2	41.3	35.9	33.4	36.1	37.0
EBITDA Margin	18.6	22.0	23.2	17.6	16.9	20.5	23.0
EBIT Margin	16.2	20.4	19.8	13.5	13.5	17.3	20.2
APAT Margin	11.1	12.9	15.9	10.6	10.8	13.6	15.7
RoE	26.3	30.4	29.5	17.8	20.3	25.3	28.9
RoIC	24.2	31.9	34.2	22.7	27.7	37.6	51.8
RoCE	24.1	25.5	24.5	16.0	19.0	24.0	27.9
<b>EFFICIENCY</b>							
Tax Rate %	36.9	40.4	23.2	25.6	24.5	24.8	24.9
Fixed Asset Turnover (x)	3.6	4.4	3.1	2.6	3.1	3.3	3.8
Inventory (days)	38	31	46	41	41	41	41
Debtors (days)	62	54	47	52	59	57	55
Other Current Assets (days)	36	28	18	22	17	15	13
Payables (days)	46	30	51	54	53	56	58
Other Current Liab & Provns (days)	5	6	5	5	4	3	3
Cash Conversion Cycle (days)	87	76	54	56	61	53	48
Net Debt/EBITDA (x)	0.3	0.1	(0.4)	(0.9)	(0.8)	(1.0)	(1.2)
Net D/E	0.1	0.0	(0.1)	(0.2)	(0.2)	(0.4)	(0.5)
Interest Coverage	44.0	117.5	42.7	24.9	41.1	75.9	132.3
<b>PER SHARE DATA (Rs)</b>							
EPS	31.1	44.4	53.7	39.3	52.2	76.2	105.5
CEPS	37.6	50.1	65.0	54.5	68.5	93.9	124.1
Dividend	-	7.0	7.0	11.0	13.1	19.1	26.4
Book Value	129.0	163.2	201.9	238.5	275.1	328.5	402.3
<b>VALUATION</b>							
P/E (x)	105.1	73.6	60.8	83.3	62.6	42.9	31.0
P/Cash EPS (x)	86.8	65.2	50.2	60.0	47.7	34.8	26.3
P/BV (x)	25.3	20.0	16.2	13.7	11.9	9.9	8.1
EV/EBITDA (x)	63.4	43.0	41.3	49.4	39.2	27.4	20.0
EV/Revenue (x)	11.8	9.5	9.6	8.7	6.6	5.6	4.6
Dividend Yield (%)	-	0.2	0.2	0.3	0.4	0.6	0.8
OCF/EV (%)	0.5	1.3	2.3	1.4	1.2	2.6	3.4
FCFF/EV (%)	0.1	0.5	1.5	0.9	0.6	2.4	3.2
FCFE/M Cap (%)	0.2	1.2	1.4	0.5	0.4	2.1	2.8

Source: Company, HSIE Research

## RECOMMENDATION HISTORY



Date	CMP	Reco.	Target
11-Feb-21	2,359	BUY	2,905
31-May-21	3,003	BUY	3,500
16-Jul-21	3,015	BUY	3,585
19-Aug-21	2,841	BUY	3,480
4-Oct-21	3,266	BUY	3,910

## Rating Criteria

BUY: >+15% return potential  
 ADD: +5% to +15% return potential  
 REDUCE: -10% to +5% return potential  
 SELL: > 10% Downside return potential



## Disclosure:

We, **Nilesh Ghuge, MMS, Harshad Katkar, MBA, Rutvi Chokshi, CA, Rachael Alva, CA** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. 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.

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