

Fine Organic Industries

Estimate changes

TP change

Rating change



CMP: INR4,595

TP: INR3,730 (-19%)

Downgrade to Sell

	FINEORG IN
Bloomberg Equity Shares (m)	31
M.Cap.(INRb)/(USDb)	140.7 / 1.7
52-Week Range (INR)	6750 / 4031
1, 6, 12 Rel. Per (%)	-2/-2/-35
12M Avg Val (INR M)	232

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	30.3	20.5	21.5
EBITDA	7.8	4.7	4.3
PAT	5.9	3.6	3.3
EPS (INR)	192.6	117.6	106.6
EPS Gr. (%)	135.6	-38.9	-9.4
BV/Sh.(INR)	496.5	608.6	710.2

Ratios

Net D:E	-0.3	-0.6	-0.6
RoE (%)	47.6	21.3	16.2
RoCE (%)	46.3	21.1	16.1
Payout (%)	4.7	4.7	4.7

Valuations

P/E (x)	23.9	39.1	43.1
P/BV (x)	9.3	7.6	6.5
EV/EBITDA (x)	17.4	27.5	29.7
Div. Yield (%)	0.2	0.1	0.1
FCF Yield (%)	2.5	4.3	2.4

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	75.0	75.0	75.0
DII	12.2	12.3	10.9
FII	3.8	3.8	6.7
Others	9.1	9.0	7.3

FII Includes depository receipts

The promised 'land' still far away!

- Fine Organics (FINEORG) reported an in-line EBITDA of INR1b in 2QFY24. EBITDAM contracted 370bp YoY to 22.1%, while gross margin improved 370bp YoY to 41.9%, primarily due to a sharp decline in raw material costs. In a declining input cost scenario, the company would have to pass on the benefits of the same to the customers, and therefore, we expect its margin to contract further in the coming quarters.
- All plants are currently running at optimal capacity. However, the management has ruled out debottlenecking the existing capacities due to safety concerns. Management is currently awaiting land allotment (for close to two years now) either in Gujarat or in Maharashtra but has not been successful in doing so. Although the Board has approved the company's capex plans, the official announcement will only be made after the land allotment.
- In a utopian world, say, for example, even if the land is allotted to the company today, it would take at least six months for Environment Clearance (EC) and another 15-18 months in setting up capacities. Although, the land allotment news could be a short-term positive trigger for the stock, nothing is going to happen on the fundamental side of things, say, until FY25 or 1HFY26 in our view.
- FINEORG is considering establishing manufacturing facilities closer to these customers in the US. This move is expected to enable the sale of products at a premium, leading to higher margins, given their US-based manufacturing. The Thailand JV's Phase I operations has been delayed time and again since Dec'22 (anyway a small part in the overall scheme of things as of now) and Phase II is likely to start only after process conditions are standardized in Phase I (another year after this happens).
- Considering the above-mentioned medium-term challenges, we trim our revenue/EBITDA/PAT estimates by 8%/11%/11% for FY24; and EBITDA/PAT by 8%/10% for FY25. **We downgrade the stock to SELL.** Valuations too are expensive with the stock trading at ~37x one-year forward P/E, which doesn't warrant such high valuations in a company that is going to have YoY earnings decline for the next two years (-39% in FY24E and -9% in FY25E).

In-line EBITDA, marginal PAT miss due to higher depreciation

- Revenue was at INR4.7b (est. INR4.5b, -43% YoY)
- **Gross margin expanded 380bp YoY to 41.9%**, due to sharp reduction in raw material prices, **while EBITDAM was at 22.1% (-370bp YoY)**
- EBITDA came in at INR1b (est. of INR1.1b, -51% YoY), while PAT stood at INR794m (est. of INR845m, -52% YoY) during the quarter.

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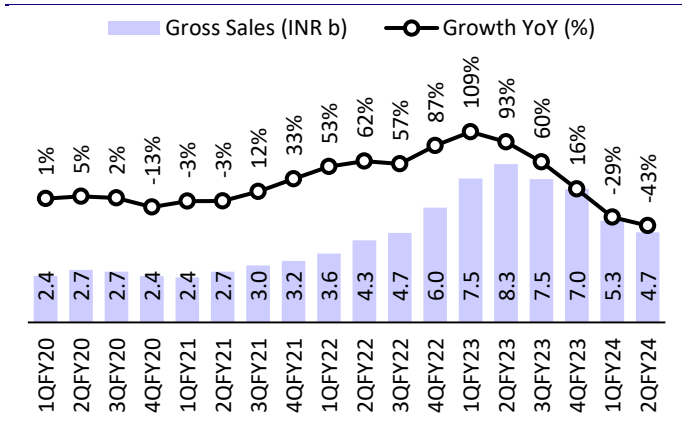
Valuation and view – Downgrade to SELL

- The long-term prospects remain robust as the company is in the Oleochemical space. FINEORG has primarily been 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) non-availability of land for further expansion as of now, (2) plants running at optimum utilization with no further scope of debottlenecking, (3) longer-than-expected time being taken for setting up incremental capacities and a delay in start-up of the Thailand JV.
- The stock has corrected 28% in the past one year and has underperformed the Nifty50/ Sensex indices by 37%/ 35%. We estimate a revenue/ EBITDA/ PAT CAGR of 5%/7%/9% over FY23-25 with margin hovering around its long-term average of 20% by FY25 (which the management has already been guiding for long enough now).
- FINEORG is currently trading at ~43x FY25E EPS and ~30x FY25E EV/EBITDA. The stock is at ~37x one-year forward P/E, which is expensive to say the least for a company which is going to post earnings decline for the next two years (-39% in FY24E and -9% in FY25E). **We downgrade the stock to SELL.**

Standalone - Quarterly Snapshot

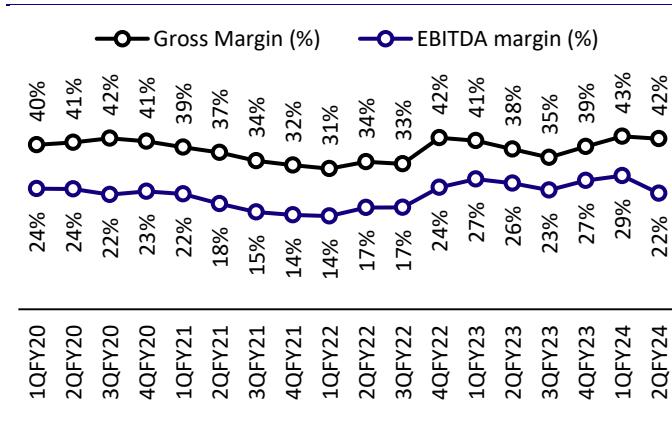
Y/E March	FY23				FY24				FY23	FY24E	(INR m)	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			FY24	Var.
										2QE	(%)	
Gross Sales	7,526	8,281	7,499	6,986	5,321	4,717	5,088	5,327	30,291	20,454	4,505	5%
YoY Change (%)	109.1	92.8	60.1	16.3	-29.3	-43.0	-32.1	-23.7	63.0	-32.5	-45.6	
Gross Margin (%)	41.3%	38.2%	35.1%	39.1%	42.9%	41.9%	40.1%	39.1%	38.4%	41.0%	41.4%	0.5%
EBITDA	2,056	2,138	1,747	1,873	1,519	1,044	1,088	1,087	7,813	4,738	1,082	-4%
Margin (%)	27.3	25.8	23.3	26.8	28.5	22.1	21.4	20.4	25.8	23.2	24.0	-1.9
Depreciation	111	115	123	130	117	144	149	157	479	567	124	
Interest	11	13	11	9	6	7	8	9	44	31	9	
Other Income	166	193	152	130	145	172	178	189	640	683	181	
PBT	2,099	2,203	1,764	1,863	1,540	1,064	1,109	1,111	7,930	4,824	1,129	-6%
Tax	526	563	452	483	397	270	279	267	2,024	1,214	285	
Rate (%)	25.1	25.6	25.6	25.9	25.8	25.4	25.2	24.0	25.5	25.2	25.2	
Reported PAT	1,573	1,640	1,313	1,381	1,142	794	830	844	5,906	3,610	845	-6%
YoY Change (%)	350.2	228.2	135.6	25.5	-27.4	-51.6	-36.8	-38.9	135.6	-38.9	-48.5	
Margin (%)	20.9	19.8	17.5	19.8	21.5	16.8	16.3	15.8	19.5	17.6	18.8	-1.9

Exhibit 1: Sales declined 43% YoY...



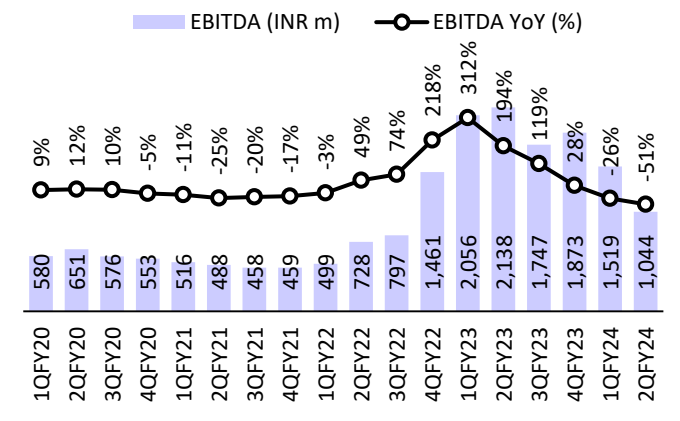
Source: Company, MOFSL

Exhibit 2: ...while EBITDAM contracted to 22.1%



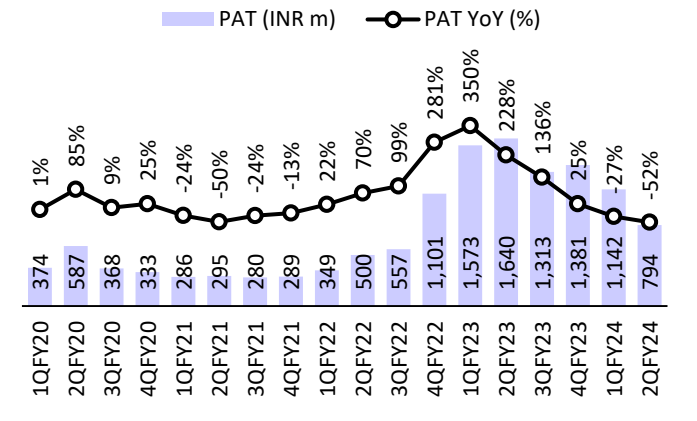
Source: Company, MOFSL

Exhibit 3: EBITDA was down 51% YoY



Source: Company, MOFSL

Exhibit 4: PAT was down 52% YoY



Source: Company, MOFSL

Financial story in charts

Exhibit 5: Expect ~5% revenue CAGR over the next two years...

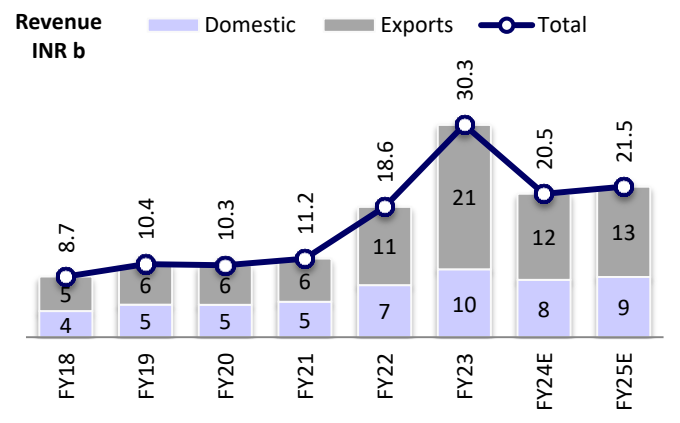


Exhibit 6: ...with the share of exports declining to 60%

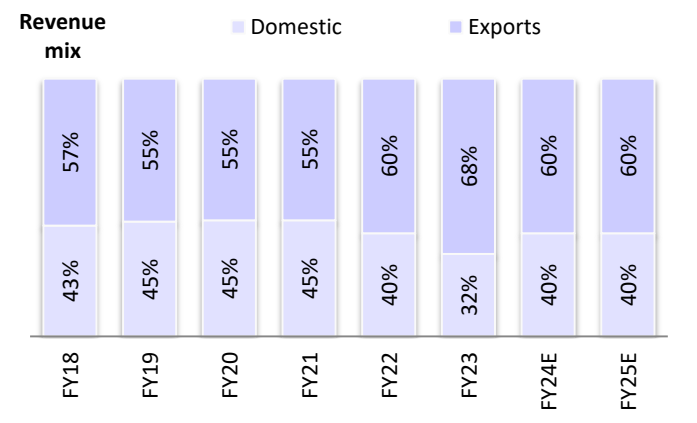


Exhibit 7: Expect EBITDAM to return to its long-term average...

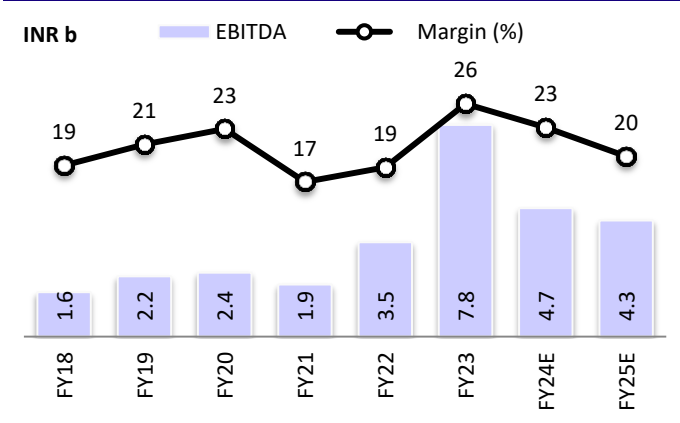


Exhibit 8: ...along with a decline in PAT margin

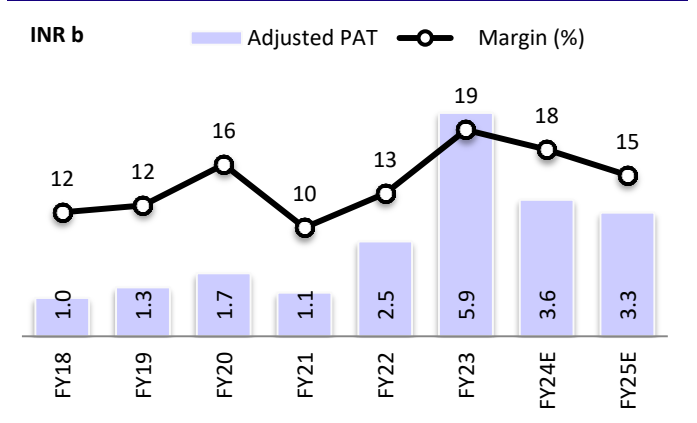


Exhibit 9: Capex for the next two years stands at INR0.6b

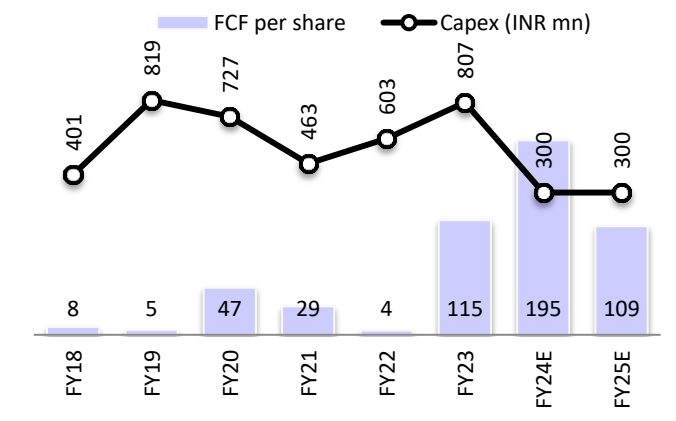


Exhibit 10: FINEORG expected to remain cash positive

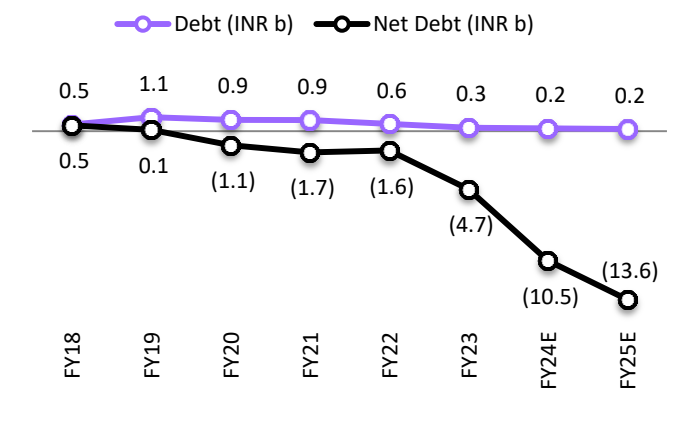
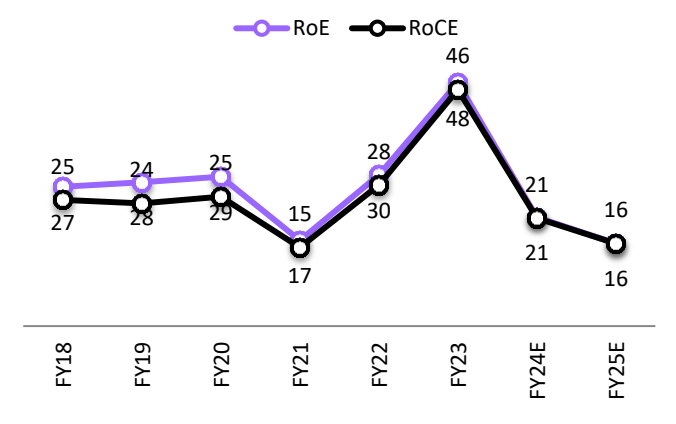
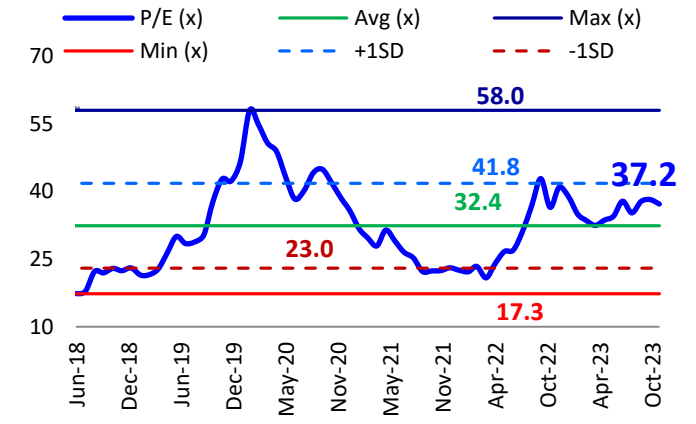


Exhibit 11: Return ratios to be at 16-21%



Source: Company, MOFSL

Exhibit 12: FINEORG trades at ~37x 1-year forward P/E



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	8,651	10,440	10,262	11,213	18,584	30,291	20,454	21,476
Change (%)	6.2	20.7	-1.7	9.3	65.7	63.0	-32.5	5.0
Gross Margin (%)	35.6	37.3	40.9	35.2	35.7	38.4	41.0	39.5
EBITDA	1,640	2,223	2,361	1,921	3,485	7,813	4,738	4,288
Margin (%)	19.0	21.3	23.0	17.1	18.8	25.8	23.2	20.0
Depreciation	200	175	347	468	399	479	567	597
EBIT	1,440	2,048	2,014	1,453	3,086	7,334	4,171	3,691
Int. and Finance Charges	31	18	48	61	51	45	31	39
Other Income	164	202	205	170	332	641	678	714
PBT bef. EO Exp.	1,572	2,233	2,172	1,562	3,368	7,930	4,819	4,366
PBT after EO Exp.	1,572	2,233	2,172	1,562	3,368	7,930	4,819	4,366
Total Tax	559	942	507	413	861	2,024	1,213	1,099
Tax Rate (%)	35.5	42.2	23.3	26.4	25.6	25.5	25.2	25.2
Reported PAT	1,014	1,290	1,665	1,149	2,507	5,906	3,606	3,267
Change (%)	26.7	27.3	29.0	-31.0	118.1	135.6	-38.9	-9.4
Margin (%)	11.7	12.4	16.2	10.2	13.5	19.5	17.6	15.2

Standalone - Balance Sheet

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	153	153	153	153	153	153	153	153
Total Reserves	3,931	4,931	6,154	7,235	9,432	15,068	18,505	21,620
Net Worth	4,085	5,084	6,308	7,388	9,585	15,221	18,659	21,773
Total Loans	536	1,130	915	892	585	272	218	174
Capital Employed	4,621	6,219	7,222	8,280	10,170	15,493	18,876	21,947
Gross Block	2,395	2,464	4,192	4,459	5,192	5,518	5,818	6,118
Less: Accum. Deprn.	1,515	1,686	2,033	2,500	2,899	3,378	3,945	4,542
Net Fixed Assets	881	778	2,159	1,958	2,293	2,140	1,873	1,577
Capital WIP	317	1,063	58	263	141	404	404	404
Total Investments	143	167	442	437	431	531	531	531
Curr. Assets, Loans&Adv.	4,079	5,086	5,964	6,902	9,413	14,648	17,974	21,437
Inventory	833	790	1,195	1,089	2,017	2,987	2,718	2,854
Account Receivables	1,611	1,670	1,451	1,752	3,316	4,769	3,220	3,381
Cash and Bank Balance	71	1,031	2,056	2,612	2,158	4,974	10,708	13,813
Cash	54	1,020	2,009	2,564	2,089	4,892	10,626	13,731
Bank Balance	17	11	48	48	69	81	81	81
Loans and Advances	1,564	1,595	1,262	1,449	1,922	1,918	1,328	1,389
Curr. Liability & Prov.	799	875	1,401	1,281	2,108	2,230	1,906	2,002
Account Payables	693	523	843	990	1,514	1,707	1,553	1,631
Other Current Liabilities	84	307	526	156	290	366	247	260
Net Current Assets	3,280	4,211	4,563	5,622	7,305	12,418	16,068	19,436
Appl. of Funds	4,621	6,219	7,222	8,280	10,170	15,493	18,876	21,947

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	33.1	42.1	54.3	37.5	81.8	192.6	117.6	106.6
EPS Growth (%)	27%	27%	29%	-31%	118%	136%	-39%	-9%
Cash EPS	39.6	47.8	65.6	52.7	94.8	208.2	136.1	126.0
BV/Share	133.2	165.8	205.7	241.0	312.6	496.5	608.6	710.2
DPS	7.5	7.0	11.0	11.0	9.0	9.0	5.5	5.0
Payout (%)	27.3	20.0	24.4	29.3	11.0	4.7	4.7	4.7
Valuation (x)								
P/E	139.0	109.2	84.6	122.6	56.2	23.9	39.1	43.1
Cash P/E	116.1	96.2	70.0	87.1	48.5	22.1	33.8	36.5
P/BV	34.5	27.7	22.3	19.1	14.7	9.3	7.6	6.5
EV/Sales	16.3	13.5	13.6	12.4	7.5	4.5	6.4	5.9
EV/EBITDA	86.2	63.4	59.2	72.5	40.0	17.4	27.5	29.7
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
FCF per share	7.9	5.0	47.3	28.7	4.5	115.1	195.3	108.9
Return Ratios (%)								
RoE	27.3	28.1	29.2	16.8	29.5	47.6	21.3	16.2
RoCE	24.7	24.0	25.3	15.4	27.6	46.3	21.1	16.1
RoIC	24.7	29.4	35.8	22.2	37.0	64.2	37.1	38.3
Working Capital Ratios								
Fixed Asset Turnover (x)	9.4	12.6	7.0	5.4	8.7	13.7	10.2	12.4
Asset Turnover (x)	1.9	1.7	1.4	1.4	1.8	2.0	1.1	1.0
Inventory (Days)	35	28	42	35	40	36	49	49
Debtor (Days)	68	58	52	57	65	57	57	57
Creditor (Days)	29	18	30	32	30	21	28	28
Leverage Ratio (x)								
Current Ratio	5.1	5.8	4.3	5.4	4.5	6.6	9.4	10.7
Interest Cover Ratio	46.1	114.4	42.1	23.9	61.0	164.2	136.3	94.2
Net Debt/Equity	0.1	0.0	-0.2	-0.2	-0.2	-0.3	-0.6	-0.6

Standalone - Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
(INR m)								
OP/(Loss) before Tax	1,572	2,232	2,172	1,562	3,368	7,930	4,819	4,366
Depreciation	200	174	347	468	399	479	567	597
Others	-118	-158	-144	-106	-257	-546	31	39
Direct Taxes Paid	-509	-855	-612	-415	-769	-2,092	-1,213	-1,099
(Inc)/Dec in WC	-503	-423	416	-167	-2,001	-1,435	2,084	-263
CF from Operations	643	972	2,178	1,343	741	4,336	6,288	3,640
(Inc)/Dec in FA	-401	-819	-727	-463	-603	-807	-300	-300
Free Cash Flow	242	153	1,451	880	137	3,529	5,988	3,340
Change in Investments	-2	-42	-287	4	-18	-150	0	0
Others	-118	-73	172	57	60	110	0	0
CF from Investments	-521	-934	-842	-402	-561	-847	-300	-300
Inc/(Dec) in Debt	0	1,081	-14	-347	-306	-357	-54	-44
Interest Paid	-21	-33	-63	-52	-37	-44	-31	-39
Dividend Paid	-277	-258	-407	-92	-337	-276	-168	-153
Others	125	139	137	106	27	-9	0	0
CF from Fin. Activity	-172	929	-346	-385	-654	-686	-253	-235
Inc/Dec of Cash	-49	966	989	555	-475	2,803	5,734	3,105
Opening Balance	103	54	1,020	2,009	2,564	2,089	4,892	10,626
Closing Balance	53	1,020	2,009	2,564	2,089	4,892	10,626	13,731

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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