

Fine Organic Industries

Estimate changes 

TP change 

Rating change 

CMP: INR4,496

TP: INR3,460 (-23%)

Sell

Slowdown in export markets hurts performance

Bloomberg	FINEORG IN
Equity Shares (m)	31
M.Cap.(INRb)/(USD\$b)	137.8 / 1.7
52-Week Range (INR)	5244 / 4031
1, 6, 12 Rel. Per (%)	-8/-15/-28
12M Avg Val (INR M)	207

Financials & Valuations (INR b)

Y/E March	FY24E	FY25E	FY26E
Sales	18.3	19.3	20.2
EBITDA	4.3	4.1	3.9
PAT	3.3	3.1	3.0
EPS (INR)	106.7	102.2	97.7
EPS Gr. (%)	-44.6	-4.2	-4.4
BV/Sh.(INR)	598.1	695.6	788.7

Ratios

Net D:E	-0.6	-0.6	-0.7
RoE (%)	19.5	15.8	13.2
RoCE (%)	19.3	15.8	13.2
Payout (%)	4.7	4.7	4.7

Valuations

P/E (x)	42.2	44.0	46.0
P/BV (x)	7.5	6.5	5.7
EV/EBITDA (x)	29.4	30.3	31.0
Div. Yield (%)	0.1	0.1	0.1
FCF Yield (%)	4.5	2.3	2.2

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	75.0	75.0	75.0
DII	11.8	12.2	11.5
FII	3.6	3.8	5.9
Others	9.6	9.0	7.6

FII Includes depository receipts

- Fine Organics (FINEORG) reported in-line EBITDA at INR924m in 3QFY24. EBITDAM contracted 160bp YoY to 21.7%, while gross margin improved 660bp YoY to 41.8% 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, except Patalganga-II, where there is still some headroom for capacity ramp up. However, the management has ruled out debottlenecking existing capacities due to safety concerns. FINEORG is currently awaiting physical land allotment (~30 acres) in SEZ and expects to complete the whole process before Mar'24. Although the board has approved the company's capex plans, the official announcement will only be made after the land is allotted.
- In a utopian world, it would take at least six months for environment clearance (EC) and another 18 months (minimum) to set up the 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 3QFY26. The plant is expected to cater primarily to the export market. Currently, exports account for 49% of the total revenue for FINEORG.
- Management is considering establishing manufacturing facilities closer to the 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 are ready for commissioning, subject to a couple of regulatory approvals. It has been delayed time and again since Dec'22 (though it is a small part in the overall scheme of things as of now).
- We have kept our numbers unchanged as of now, given that the performance in 3Q was in line with our estimates and guidance was more or less the same. Valuations too are expensive, with the stock trading at ~46x one-year forward P/E, which does not warrant such high valuations in a company that is going to have YoY earnings decline for the next three years (-39%/-4%/-4% in FY24/25/26). **We maintain our SELL rating on the stock.**

In-line performance; RM and operating expenses decline significantly

- Revenue was in line with our estimate at INR4.3b (-43% YoY).
- **Gross margin expanded 660bp YoY to 41.8%**, due to a sharp reduction in RM prices, while EBITDAM was at 21.7% (-160bp YoY).
- EBITDA was in line at INR924m (-47% YoY). PAT stood at INR697m (est. of INR702m, -47% YoY).
- **For 9MFY24**, revenue was down 39% at INR14.3b, and EBITDA was at INR3.5b (-41% YoY). PAT stood at INR2.6b (-42% YoY). EBITDAM contracted 110bp YoY to 24.4% in 9MFY24.

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Valuation and view

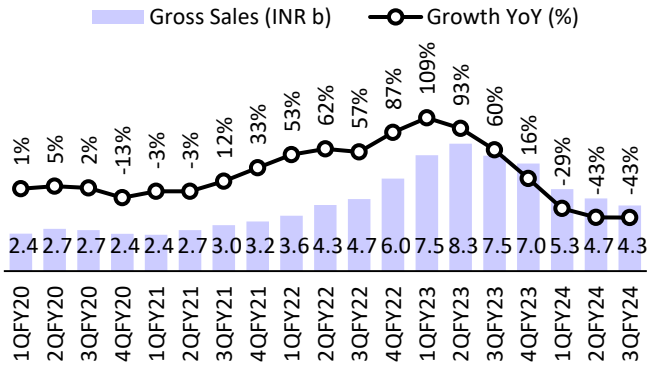
- The long-term prospects remain robust as the company is in the Oleochemical industry and is primarily driven by R&D innovations over the years. However, we believe that the performance would be hit in the near to medium term due to: 1) longer-than-expected commissioning of new capacities for further expansion, 2) existing plants running at optimum utilization with no further scope of debottlenecking, and 3) further delay in the start-up of the Thailand JV.
- The stock has underperformed the Nifty-50/Sensex indices by 14%/10% in the past one year. We estimate a compounded revenue/EBITDA/PAT decline of 13%/21%/20% over FY23-26, with margin hovering around its long-term average of 20% by FY25E (which the management has already been guiding for long enough now).
- FINEORG is currently trading at ~44x FY25E EPS and ~30x FY25E EV/EBITDA. Valuations are expensive for a company that is going to have YoY earnings decline for the next three years (-39%/-4%/-4% in FY24/25/26). **We maintain our SELL rating on the stock.**

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

Y/E March	FY23				FY24				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Gross Sales	7,526	8,281	7,499	6,986	5,321	4,717	4,258	4,039	30,291	18,335	4,451	-4%
YoY Change (%)	109.1	92.8	60.1	16.3	-29.3	-43.0	-43.2	-42.2	63.0	-39.5	-40.6	
Gross Margin (%)	41.3%	38.2%	35.1%	39.1%	42.9%	41.9%	41.8%	41.1%	38.4%	42.0%	41.5%	0.3%
EBITDA	2,056	2,138	1,747	1,873	1,519	1,044	924	834	7,813	4,320	917	1%
Margin (%)	27.3	25.8	23.3	26.8	28.5	22.1	21.7	20.7	25.8	23.6	20.6	1.1
Depreciation	111	115	123	130	117	144	147	151	479	560	150	
Interest	11	13	11	9	6	7	5	7	44	26	8	
Other Income	166	193	152	130	145	172	174	177	640	668	179	
PBT	2,099	2,203	1,764	1,863	1,540	1,064	946	853	7,930	4,403	938	1%
Tax	526	563	452	483	397	270	249	215	2,024	1,133	237	
Rate (%)	25.1	25.6	25.6	25.9	25.8	25.4	26.4	25.2	25.5	25.7	25.2	
Reported PAT	1,573	1,640	1,313	1,381	1,142	794	697	638	5,906	3,270	702	-1%
YoY Change (%)	350.2	228.2	135.6	25.5	-27.4	-51.6	-46.9	-53.8	135.6	-44.6	-46.5	
Margin (%)	20.9	19.8	17.5	19.8	21.5	16.8	16.4	15.8	19.5	17.8	15.8	0.6

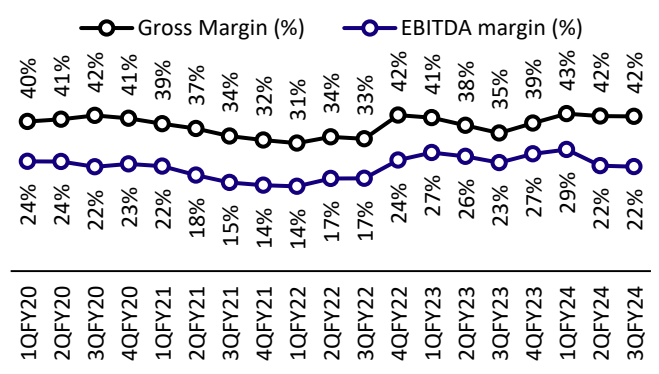
Story in charts – 3QFY24

Exhibit 1: Sales declined 43% YoY...



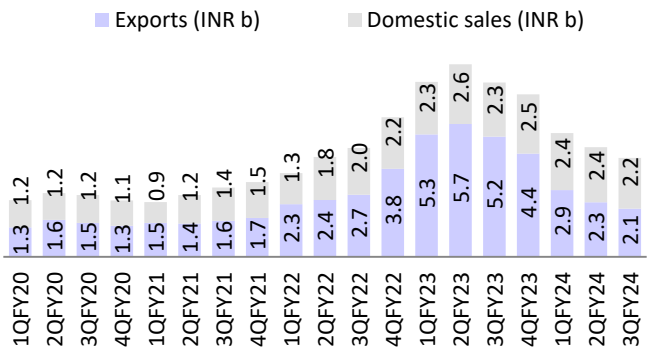
Source: Company, MOFSL

Exhibit 2: ...with EBITDAM declining to 21.7%



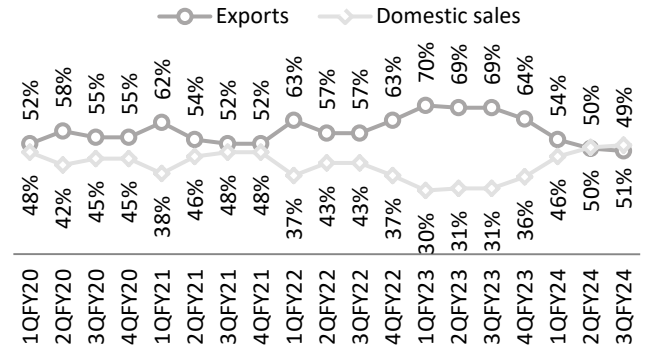
Source: Company, MOFSL

Exhibit 3: Exports declined 60% YoY...



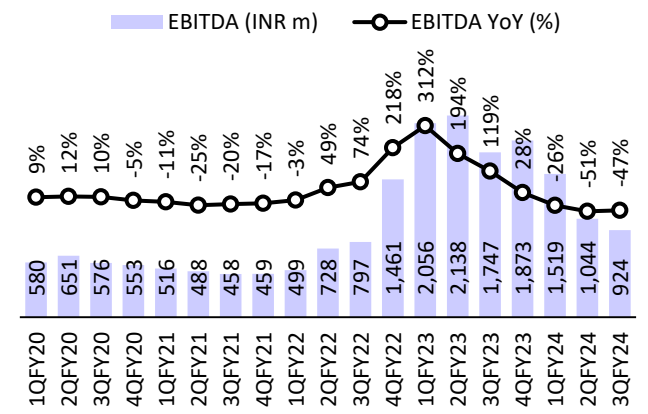
Source: Company, MOFSL

Exhibit 4: ...with domestic sales at 51% of total revenue



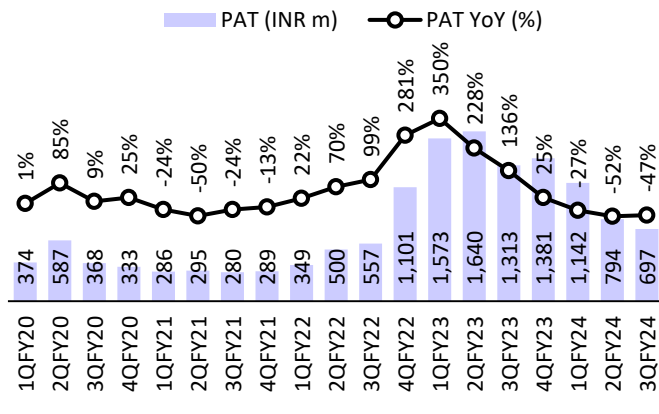
Source: Company, MOFSL

Exhibit 5: EBITDA was down 47% YoY



Source: Company, MOFSL

Exhibit 6: PAT was down 47% YoY too



Source: Company, MOFSL

Analyst meet takeaways

- Continued slowdown in the US and Europe would continue for another quarter
- The domestic market is doing well
- Sales – Domestic: exports now 51:49
- Land allotted in SEZ but awaiting final permission, and physical allotment is expected before March-end (30 acres)
 - Once land is allotted, the company would apply for EC
 - The plant will cater primarily to the export market
 - Would not need to look for new land for another 10 years for export market
- Thailand JV ready for commissioning
 - Waiting for two approvals – one from FDA and other a statutory approval
- All existing plants other than P-II plant running at optimum utilization
- All new products are high-margin products
- Vegetable oil prices are steady as of now because of lack of demand.
 - These prices are supposed to be at their peaks in Nov-Dec
 - RM prices are likely to come down once the fresh crops come into the market around Mar'24
- No specific change in the contracts with the customers as of now
 - Direct customer contracts are generally of one year
 - Distributor contracts are in the range of 3-6 months
- Freight costs have gone up for exports to the US and Europe because of Red Sea crisis
- Sustainable EBITDAM at 20%

Financial story in charts

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

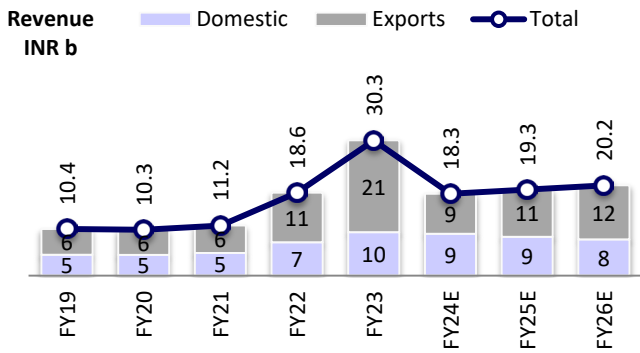


Exhibit 8: ...with the share of exports declining to 49%

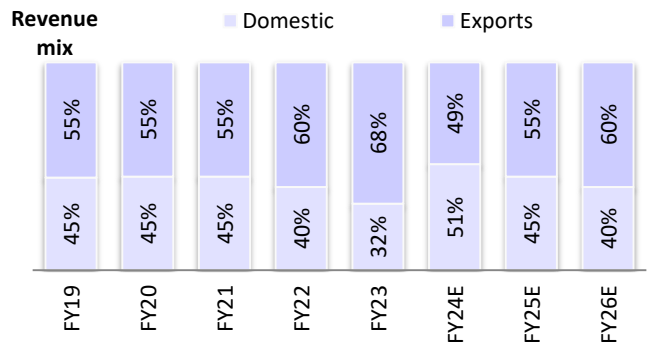


Exhibit 9: Expect EBITDAM to return to its long-term average...

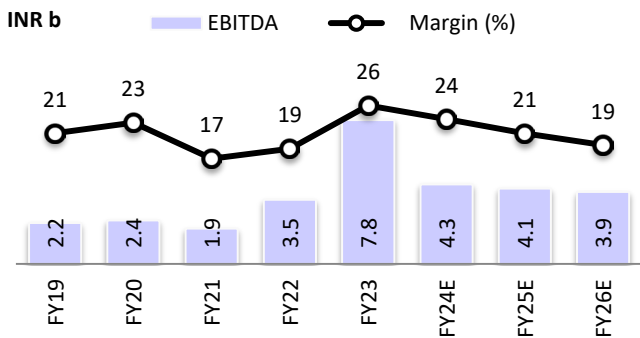


Exhibit 10: ...along with a decline in PAT margin

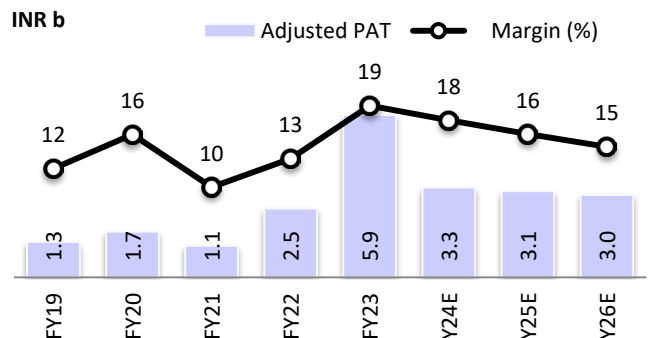


Exhibit 11: Capex for the next two years stands at INR0.9b

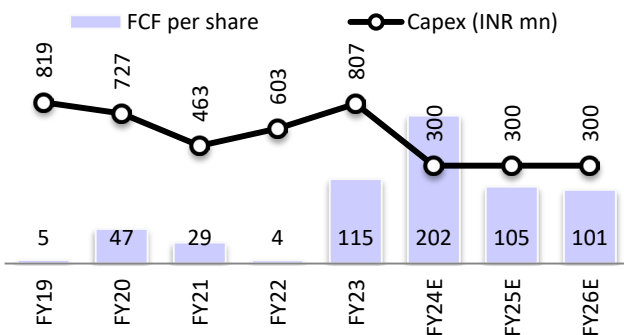


Exhibit 12: FINEORG expected to remain cash positive

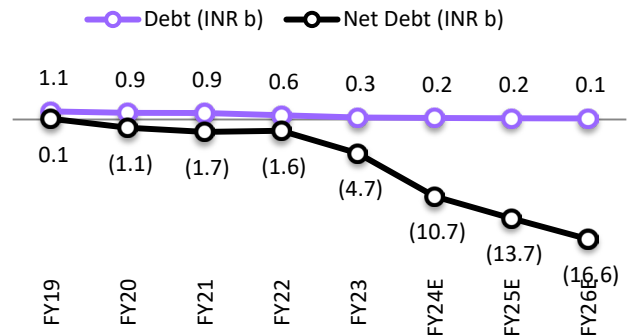


Exhibit 13: Return ratios to decline in the coming years

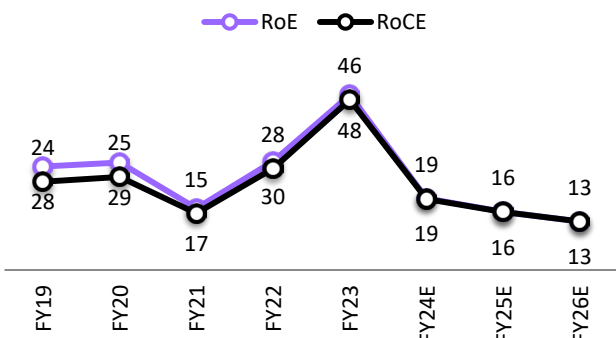
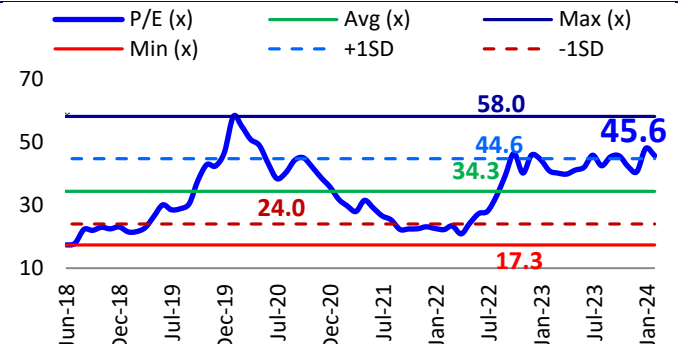


Exhibit 14: FINEORG trades at ~46x 1-year forward P/E



Source: Company, MOFSL

Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	10,440	10,262	11,213	18,584	30,291	18,335	19,252	20,215
Change (%)	20.7	-1.7	9.3	65.7	63.0	-39.5	5.0	5.0
Gross Margin (%)	37.3	40.9	35.2	35.7	38.4	42.0	41.0	40.5
EBITDA	2,223	2,361	1,921	3,485	7,813	4,320	4,090	3,908
Margin (%)	21.3	23.0	17.1	18.8	25.8	23.6	21.2	19.3
Depreciation	175	347	468	399	479	560	582	596
EBIT	2,048	2,014	1,453	3,086	7,334	3,761	3,508	3,313
Int. and Finance Charges	18	48	61	51	45	26	34	39
Other Income	202	205	170	332	641	668	714	730
PBT bef. EO Exp.	2,233	2,172	1,562	3,368	7,930	4,403	4,188	4,004
PBT after EO Exp.	2,233	2,172	1,562	3,368	7,930	4,403	4,188	4,004
Total Tax	942	507	413	861	2,024	1,133	1,054	1,008
Tax Rate (%)	42.2	23.3	26.4	25.6	25.5	25.7	25.2	25.2
Reported PAT	1,290	1,665	1,149	2,507	5,906	3,270	3,134	2,996
Change (%)	27.3	29.0	-31.0	118.1	135.6	-44.6	-4.2	-4.4
Margin (%)	12.4	16.2	10.2	13.5	19.5	17.8	16.3	14.8

Standalone - Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	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	18,185	21,173	24,029
Net Worth	5,084	6,308	7,388	9,585	15,221	18,339	21,326	24,182
Total Loans	1,130	915	892	585	272	218	174	139
Capital Employed	6,219	7,222	8,280	10,170	15,493	18,556	21,500	24,322
Gross Block	2,464	4,192	4,459	5,192	5,518	5,818	6,118	6,418
Less: Accum. Deprn.	1,686	2,033	2,500	2,899	3,378	3,938	4,520	5,115
Net Fixed Assets	778	2,159	1,958	2,293	2,140	1,881	1,599	1,303
Capital WIP	1,063	58	263	141	404	404	404	404
Total Investments	167	442	437	431	531	531	531	531
Curr. Assets, Loans&Adv.	5,086	5,964	6,902	9,413	14,648	17,450	20,761	23,968
Inventory	790	1,195	1,089	2,017	2,987	2,437	2,558	2,686
Account Receivables	1,670	1,451	1,752	3,316	4,769	2,887	3,031	3,183
Cash and Bank Balance	1,031	2,056	2,612	2,158	4,974	10,925	13,915	16,785
Cash	1,020	2,009	2,564	2,089	4,892	10,844	13,834	16,703
Bank Balance	11	48	48	69	81	81	81	81
Loans and Advances	1,595	1,262	1,449	1,922	1,918	1,201	1,256	1,314
Curr. Liability & Prov.	875	1,401	1,281	2,108	2,230	1,709	1,794	1,884
Account Payables	523	843	990	1,514	1,707	1,392	1,462	1,535
Other Current Liabilities	307	526	156	290	366	222	233	244
Net Current Assets	4,211	4,563	5,622	7,305	12,418	15,741	18,967	22,083
Appl. of Funds	6,219	7,222	8,280	10,170	15,493	18,556	21,500	24,322

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	42.1	54.3	37.5	81.8	192.6	106.7	102.2	97.7
EPS Growth (%)	27%	29%	-31%	118%	136%	-45%	-4%	-4%
Cash EPS	47.8	65.6	52.7	94.8	208.2	124.9	121.2	117.1
BV/Share	165.8	205.7	241.0	312.6	496.5	598.1	695.6	788.7
DPS	7.0	11.0	11.0	9.0	9.0	5.0	4.8	4.6
Payout (%)	20.0	24.4	29.3	11.0	4.7	4.7	4.7	4.7
Valuation (x)								
P/E	106.8	82.8	119.9	55.0	23.3	42.2	44.0	46.0
Cash P/E	94.1	68.5	85.3	47.4	21.6	36.0	37.1	38.4
P/BV	27.1	21.9	18.7	14.4	9.1	7.5	6.5	5.7
EV/Sales	13.2	13.3	12.1	7.3	4.4	6.9	6.4	6.0
EV/EBITDA	62.1	57.9	70.9	39.1	17.0	29.4	30.3	31.0
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1
FCF per share	5.0	47.3	28.7	4.5	115.1	201.7	104.8	100.6
Return Ratios (%)								
RoE	28.1	29.2	16.8	29.5	47.6	19.5	15.8	13.2
RoCE	24.0	25.3	15.4	27.6	46.3	19.3	15.8	13.2
RoIC	29.4	35.8	22.2	37.0	64.2	34.3	39.3	37.4
Working Capital Ratios								
Fixed Asset Turnover (x)	12.6	7.0	5.4	8.7	13.7	9.1	11.1	13.9
Asset Turnover (x)	1.7	1.4	1.4	1.8	2.0	1.0	0.9	0.8
Inventory (Days)	28	42	35	40	36	49	49	49
Debtor (Days)	58	52	57	65	57	57	57	57
Creditor (Days)	18	30	32	30	21	28	28	28
Leverage Ratio (x)								
Current Ratio	5.8	4.3	5.4	4.5	6.6	10.2	11.6	12.7
Interest Cover Ratio	114.4	42.1	23.9	61.0	164.2	147.4	102.4	84.9
Net Debt/Equity	0.0	-0.2	-0.2	-0.2	-0.3	-0.6	-0.6	-0.7

Standalone - Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	2,232	2,172	1,562	3,368	7,930	4,403	4,188	4,004
Depreciation	174	347	468	399	479	560	582	596
Others	-158	-144	-106	-257	-546	26	34	39
Direct Taxes Paid	-855	-612	-415	-769	-2,092	-1,133	-1,054	-1,008
(Inc)/Dec in WC	-423	416	-167	-2,001	-1,435	2,629	-236	-247
CF from Operations	972	2,178	1,343	741	4,336	6,484	3,515	3,383
(Inc)/Dec in FA	-819	-727	-463	-603	-807	-300	-300	-300
Free Cash Flow	153	1,451	880	137	3,529	6,184	3,215	3,083
Change in Investments	-42	-287	4	-18	-150	0	0	0
Others	-73	172	57	60	110	0	0	0
CF from Investments	-934	-842	-402	-561	-847	-300	-300	-300
Inc/(Dec) in Debt	1,081	-14	-347	-306	-357	-54	-44	-35
Interest Paid	-33	-63	-52	-37	-44	-26	-34	-39
Dividend Paid	-258	-407	-92	-337	-276	-153	-146	-140
Others	139	137	106	27	-9	0	0	0
CF from Fin. Activity	929	-346	-385	-654	-686	-233	-224	-214
Inc/Dec of Cash	966	989	555	-475	2,803	5,952	2,990	2,869
Opening Balance	54	1,020	2,009	2,564	2,089	4,892	10,843	13,834
Closing Balance	1,020	2,009	2,564	2,089	4,892	10,843	13,834	16,703

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NOTES

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

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