

# HSIE Results Daily

## Contents

### Results Reviews

- **Fine Organic Industries:** Our BUY recommendation on Fine Organic Industries (FOIL) with a target price of INR 4,220 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 41% CAGR over FY22-24E, led by a 36% CAGR in EBITDA. In the absence of any major Capex in the coming years, the RoCE would expand from 20% in FY22E to 29% in FY24E. Q2 EBITDA/APAT were 26/37% above our estimates, owing to a 22% rise in revenue, lower-than-expected raw material costs, lower-than-expected depreciation, and higher-than-expected other income.
- **Sadbhav Engineering:** Sadbhav Engineering (SEL) continued its weak operating performance in Q2 as revenue/EBITDA, at INR 2.6/0.35bn, were a (miss)/beat of (6.3)/31%. It reported an exceptional loss of INR 50mn on the sale of fixed assets. SEL has been caught in a tightened liquidity conundrum and is in the midst of deleveraging through asset monetisation (INR17-18bn). Execution pick-up is contingent on the same. We await progress on monetisation of Ahmedabad ring road and three HAM assets along with the remaining 2.5% stake sale in Indinfravit trust. Further, proceeds from Maharashtra border check post and arbitration claims shall aid deleveraging. Given slower-than-expected recovery in execution & monetisation and high commodity prices, we have cut our estimates. We downgrade our rating to ADD (from BUY) with a reduced TP of INR 47/sh.

HSIE Research Team

[hdfcsec-research@hdfcsec.com](mailto:hdfcsec-research@hdfcsec.com)

# Fine Organic Industries

## Shining on!

Our BUY recommendation on Fine Organic Industries (FOIL) with a target price of INR 4,220 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 41% CAGR over FY22-24E, led by a 36% CAGR in EBITDA. In the absence of any major Capex in the coming years, the RoCE would expand from 20% in FY22E to 29% in FY24E. Q2 EBITDA/APAT were 26/37% above our estimates, owing to a 22% rise in revenue, lower-than-expected raw material costs, lower-than-expected depreciation, and higher-than-expected other income.

- Q2 financial performance:** Revenue grew 23/62% QoQ/YoY to INR 4.4bn, on the back of strong domestic demand, continued traction in exports driving volumes, and higher realisations. The contribution of exports to the total revenue was 60% in H1FY22. Gross margin came in at 33.3% (+104/-431bps QoQ/YoY) in Q2, improving sequentially as customers are now accepting price hikes on account of higher raw material costs and higher freight costs. EBITDA came in at INR 0.7bn, +41/+43% QoQ/YoY, with EBITDA margin improving sequentially to 16.7% (+212/-223bps QoQ/YoY), owing to lesser opex. APAT was INR 0.5bn (+39/+60% QoQ/YoY).
- Joint venture update:** The Board has agreed to terminate the joint venture agreement with Adcotec GmbH dated 17 January 2018 for the JV FineADD Ingredients GmbH in Germany. The timeline of the proposed JV was impacted by COVID-19 disruptions. The prevailing situation and cost escalation have adversely affected the viability of the project.
- Change in estimates:** We raise our FY22/23/24E EPS estimates by 6.7/4.0/4.3% to INR 55.7/79.3/111 per share to factor in the overall performance of H1FY22.
- DCF-based valuation:** Our target price is INR 4,220 (WACC 10%, terminal growth 4.5%). The stock is trading at 32.3x FY24E EPS.

### Financial Summary (Consolidated)

INR mn	Q2 FY22	Q1 FY22	QoQ (%)	Q2 FY21	YoY (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	4,384	3,576	22.6	2,710	61.8	10,381	11,332	15,537	17,931	21,671
EBITDA	731	520	40.5	512	42.7	2,405	1,993	2,676	3,643	4,953
APAT	499	359	38.8	312	59.8	1,648	1,203	1,708	2,430	3,402
AEPS (INR)	16.3	11.7	38.8	10.2	59.8	53.7	39.3	55.7	79.3	111.0
P/E (x)						66.6	91.2	64.3	45.2	32.3
EV/EBITDA(x)						45.3	54.2	40.3	29.1	20.9
RoE (%)						29.5	17.8	21.6	26.0	29.8

Source: Company, HSIE Research

### Change in estimates (Consolidated)

YE Mar	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch	FY24E Old	FY24E New	% Ch
EBITDA (INR mn)	2,506	2,676	6.8%	3,517	3,643	3.6%	4,765	4,953	3.9%
Adj. EPS (INR/sh)	52.2	55.7	6.7%	76.2	79.3	4.0%	106.4	111.0	4.3%

Source: Company, HSIE Research

## BUY

CMP (as on 18 Nov 2021)	INR 3,571
Target Price	INR 4,220
NIFTY	17,765

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 4,050	INR 4,220
EPS %	FY22E +6.7%	FY23E +4.0%

### KEY STOCK DATA

Bloomberg code	FINEORG IN
No. of Shares (mn)	31
MCap (INR bn) / (\$ mn)	109/1,471
6m avg traded value (INR mn)	161
52 Week high / low	INR 3,787/2,123

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	25.7	11.6	37.6
Relative (%)	18.5	(7.2)	2.6

### SHAREHOLDING PATTERN (%)

	Jun-21	Sept-21
Promoters	75.00	75.00
FIs & Local MFs	11.40	11.32
FPIs	6.80	6.79
Public & Others	6.80	6.89
Pledged Shares	0.00	0.00

Source: BSE

### Nilesh Ghuge

nilesh.ghuge@hdfcsec.com  
+91-22-6171-7342

### Rutvi Chokshi

rutvi.chokshi@hdfcsec.com  
+91-22-6171-7356

### Akshay Mane

akshay.mane@hdfcsec.com  
+91-22-6171-7319

# Sadbhav Engineering

## Execution pick-up awaited

Sadbhav Engineering (SEL) continued its weak operating performance in Q2 as revenue/EBITDA, at INR 2.6/0.35bn, were a (miss)/beat of (6.3)/31%. It reported an exceptional loss of INR 50mn on the sale of fixed assets. SEL has been caught in a tightened liquidity conundrum and is in the midst of deleveraging through asset monetisation (INR17-18bn). Execution pick-up is contingent on the same. We await progress on monetisation of Ahmedabad ring road and three HAM assets along with the remaining 2.5% stake sale in Indinfravit trust. Further, proceeds from Maharashtra border check post and arbitration claims shall aid deleveraging. Given slower-than-expected recovery in execution & monetisation and high commodity prices, we have cut our estimates. We downgrade our rating to ADD (from BUY) with a reduced TP of INR 47/sh.

- Q2 highlights:** Revenue: INR 2.6bn (-36/0% YoY/QoQ, a 6.3% miss). EBITDA: INR 352mn (-29/+46% YoY/QoQ, a 31% beat due to lower-than-expected material cost). EBITDA margin came in at 13.4% (+132/+421bps YoY/QoQ, vs estimate of 9.6%). Exceptional item: INR 50mn in loss on sale of fixed assets. Consequently, APAT was at INR 81mn (vs the estimated loss of INR 146mn).
- Order book strong; SEL-SIPL merger conclusion awaited:** The implied OB was at INR 88bn in Sep-21, with transport sector being the major contributor. On FY21 revenue, the OB is 5.5x, which looks strong, given continuing weaker execution. The SEL-SIPL merger is likely to be finalised by Dec-21.
- Liquidity issue lingers, asset monetisation key for revival:** SEL standalone gross debt is at INR 10.9bn, down from INR 11.4bn at Jun-21 end. INR 5.5bn sale proceeds from the concluded Maharashtra border check post deal is yet to be realised; with this, the likely proceed of INR 5.5-6bn from Ahmedabad ring road and three HAM assets and INR 1.6-1.8bn from the sale of remaining 2.5% units in Indinfravit Trust will further reduce the debt. Half of these proceeds, however, will be used to cover working capital needs. The net worth of Rohtak-Panipat and Rohtak-Hisar has fully eroded. Both have issued notices for termination of concession agreement and filed claims with the NHA for INR 30bn/12bn respectively. The carrying value of loans given by SEL to these entities is at INR 1.5bn (no provision or adjustment was made).

### Standalone Financial Summary (INR mn)

YE March	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	2,625	4,122	(36.3)	2,628	(0.1)	16,236	17,089	20,960	23,786
EBITDA	352	498	(29.3)	242	45.6	2,114	1,965	2,452	2,878
APAT	81	52	54.7	(169)	(148.1)	(204)	186	545	788
EPS (INR)	0.5	0.3	54.7	(1.0)	(148.1)	(1.2)	1.1	3.2	4.6
P/E (x)						(36.8)	40.5	13.8	9.5
EV/EBITDA (x)						8.7	8.9	5.6	5.0
RoE(%)						(1.0)	0.9	2.5	3.5

### Standalone Estimate Change Summary (INR mn)

Particulars (INR mn)	FY22E			FY23E			FY24E		
	New	Old	Chg. (%)	New	Old	Chg. (%)	New	Old	Chg. (%)
Revenues	17,089	17,476	(2.2)	20,960	27,789	(24.6)	23,786	30,723	(22.6)
EBITDA	1,965	2,010	(2.2)	2,452	3,196	(23.3)	2,878	3,718	(22.6)
EBITDA margin (%)	11.5	11.5	(0.0)	11.7	11.5	20.0	12.1	12.1	0.0
APAT	186	230	(19.3)	545	1,040	(47.6)	788	1,308	(39.8)

Source: Company, HSIE Research

## ADD

CMP (as on 18 Nov 2021)	INR 44
Target Price	INR 47
NIFTY	17,765

KEY CHANGES	OLD	NEW	
Rating	BUY	ADD	
Price Target	INR 76	INR 47	
EPS Change %	FY22E (19.3)	FY23E (47.6)	FY24E (39.8)

### KEY STOCK DATA

Bloomberg code	SADE IN
No. of Shares (mn)	172
MCap (INR bn) / (\$ mn)	8/101
6m avg traded value (INR mn)	104
52 Week high / low	INR 97/43

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(25.3)	(32.8)	(13.3)
Relative (%)	(32.5)	(51.7)	(48.3)

### SHAREHOLDING PATTERN (%)

	Jun-21	Sep-21
Promoters	44.89	44.86
FIs & Local MFs	22.17	15.59
FPIs	4.39	4.39
Public & Others	28.55	35.16
Pledged Shares	31.93	39.46

Source: BSE

Pledged shares as % of total shares

**Parikshit D Kandpal, CFA**  
 parikshitd.kandpal@hdfcsec.com  
 +91-22-6171-7317

**Manoj Rawat**  
 manoj.rawat@hdfcsec.com  
 +91-22-6171-7358

**Rating Criteria**

BUY: &gt;+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: &gt; 10% Downside return potential

**Disclosure:**

Analyst	Company Covered	Qualification	Any holding in the stock
Nilesh Ghuge	Fine Organic Industries	MMS	NO
Rutvi Chokshi	Fine Organic Industries	CA	NO
Akshay Mane	Fine Organic Industries	PGDM	NO
Parikshit Kandpal	Sadbhav Engineering	CFA	NO
Manoj Rawat	Sadbhav Engineering	MBA	NO

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: [complianceofficer@hdfcsec.com](mailto:complianceofficer@hdfcsec.com) Phone: (022) 3045 3600

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**HDFC securities****Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 [www.hdfcsec.com](http://www.hdfcsec.com)