

HSIE Results Daily

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Results Reviews

- **Fine Organic Industries:** Our BUY recommendation on Fine Organic Industries (FOIL) with a target price of INR 3,480 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 37% CAGR in EBITDA. In the absence of any major Capex in the coming years, the RoCE would expand from 16.7% in FY22E to 25.3% in FY24E. Q1 EBITDA/APAT were 1/2% above our estimates owing to a 7% rise in revenue, higher-than-expected other income, lower-than-expected tax outgo, offset by higher-than-anticipated other expense.

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Fine Organic Industries

In-line performance

Our BUY recommendation on Fine Organic Industries (FOIL) with a target price of INR 3,480 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 37% CAGR in EBITDA. In the absence of any major Capex in the coming years, the RoCE would expand from 16.7% in FY22E to 25.3% in FY24E. Q1 EBITDA/APAT were 1/2% above our estimates owing to a 7% rise in revenue, higher-than-expected other income, lower-than-expected tax outgo, offset by higher-than-anticipated other expense.

- **Financial performance:** Revenue grew 11/49% QoQ/YoY to INR 3.6bn. Exports continue to gain strong traction, while domestic business is impacted by the lockdown restrictions. The contribution of exports to the total revenue has increased from 55% to 62% currently. Gross margin came in at 32.3% (-114/-673bps QoQ/YoY) in Q1 on account of higher raw material costs and higher freight costs. FOIL has been instrumental in passing through the hike in raw material prices to its customers, and has now reworked contracts where the customers pay freight rate existing as on the shipping date. EBITDA came in at INR 5.2bn, +7/-1% QoQ/YoY with EBITDA margin coming in at 14.5% (-45/-732bps QoQ/YoY) in Q1. APAT came at INR 3.6bn (+13/+26% QoQ/YoY) in Q1.
- **Joint venture:** FOIL has made an investment by way of acquisition of 22,500 ordinary shares at a par value of THB 100 per share in Fine Organic Industries (Thailand) Co., Ltd. which is a JV formed to manufacture specialty chemical products and supply, export and distribute such products. FOIL holds a 45% stake in this JV.
- **Change in estimates:** We cut our FY22/FY23E EPS estimates by 6.2/4.1% to INR 46.1/66.1 per share to factor in the overall performance of Q1, change in our Capex assumption, and incorporation of the annual report of FY21.
- **DCF-based valuation:** Our price target is INR 3,480 (WACC 10%, terminal growth 4.5%). The stock is trading at 42.9x FY23E EPS.

Financial Summary (Consolidated)

INR mn	Q1 FY22	Q4 FY21	QoQ (%)	Q1 FY21	YoY (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	3,576	3,229	10.7	2,400	49.0	10,381	11,332	14,392	15,989	18,846
EBITDA	520	484	7.4	525	(0.9)	2,405	1,993	2,207	3,060	4,131
APAT	359	318	13.0	286	25.5	1,648	1,203	1,414	2,026	2,818
AEPS (INR)	11.7	10.4	13.0	9.3	25.5	53.7	39.3	46.1	66.1	91.9
P/E (x)						52.8	72.3	61.5	42.9	30.9
EV/EBITDA(x)						35.8	42.8	38.6	27.3	19.8
RoE (%)						29.5	17.8	18.1	22.5	26.3

Source: Company, HSIE Research

Change in estimates (Consolidated)

YE Mar	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch
EBITDA (INR mn)	2,200	2,207	0.3%	3,019	3,060	1.4%
Adj. EPS (INR/sh)	49.2	46.1	-6.2%	68.9	66.1	-4.1%

Source: Company, HSIE Research

BUY

CMP (as on 18 Aug 2021)	INR 2,841
Target Price	INR 3,480
NIFTY	16,569

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 3,585	INR 3,480
EPS %	FY22E -6.2%	FY23E -4.1%

KEY STOCK DATA

Bloomberg code	FINEORG IN
No. of Shares (mn)	31
MCap (INR bn) / (\$ mn)	87/1,171
6m avg traded value (INR mn)	198
52 Week high / low	INR 3,563/2,123

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(11.2)	19.4	26.7
Relative (%)	(22.1)	11.0	(17.6)

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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Rating Criteria

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

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Nilesh Ghuge	Fine Organic Industries	MMS	NO
Harshad Katkar	Fine Organic Industries	MBA	NO
Rutvi Chokshi	Fine Organic Industries	CA	NO
Rachael Alva	Fine Organic Industries	CA	NO

Disclosure:

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