



COMPANY NAME : **Fine Organic Industries Ltd**

BSE Code : **541557**

Time Duration : **1 year**

CMP : **₹1837.35 (as on 19 Mar., 2020)**

Target Price : **₹2400**

Mid-Bridge recommendation for the month of March is Fine Organic Industries. The company is in oleochemical-based manufacturing of additive business, which is derived from vegetable oils. Its end-product is categorised into two segments, such as food additives and plastic additives, which constitute 70 per cent of the total revenue. Along with this, the company has a presence in other additives such as paints, rubber, cosmetics etc. It has its plants located in Ambernath, Badlapur and Dombivali region of Maharashtra. Its total installed capacity is 1,01,300 TPA, including sub-lease based acquisition.

Strong Industry Outlook

Oleochemicals are chemical compounds that are derived from natural resources, such as plants and animal fats. It has applications in many industries, constituting a large part of consumer product formulation. The company can be expected to benefit from the changing dynamics in plastic and rubber industries, which are increasing demand of fatty acids. A wide range of application of oleochemicals creates a lot of growth drivers across the board. Looking at Fine Organics, product range of more than 400 products makes it one of the key players in the growth trajectory, going ahead.

Further, the company is also expected to benefit from the current shutdown in Malaysia due to Coronavirus, which is one of the largest manufacturers of oleo chemistry-based products. Fine Organic Industries already has a strong presence in the international market, which will be helpful in grabbing new market areas that are affected by the shutdown.

Capacity expansion to lead the way ahead

In FY19, the company had acquired an existing facility at Ambernath on sub-lease basis, having an installed capacity of 5,000 TPA. This had taken the total capacity to 69,300 TPA of operational capacity as on March 31, 2019. Also, the construction of its proposed third facility at Ambernath with a capacity of 32,000 TPA was completed in June 2019. This production facility got operational from October 2019.

The company is planning an expansion of 10,000 TPA facility at Patalganga (Maharashtra) dedicated to food additives for export

and cater to the growing demand in the domestic market. It is expected that this facility would get completed by Q2FY21 and get operational in H2FY21, after getting necessary regulatory approvals. Further, to strengthen its footprints in the export market, the company has entered into JV with Adcotec to set up 'Fine Add Ingredients GmbH' for operating a facility of 10,000 TPA in Germany as well as sell food additives in European markets. This facility is expected to commence operations from FY22. With these expansion plans, the company would be able to cater to the ever-increasing demand in the market and generate additional revenue of Rs 500 crore in the next three to four years.

The company is well-placed to benefit from the rising demand in additive industry and allied products. Before its proposed expansion, it was operating at 95 per cent utilisation level, which push the need for the capacity addition. During the second quarter, the company commissioned 32,000 MTPA capacity for plastic, rubber and cosmetic chemicals. The current shutdown, though, may hamper its plans of maintaining the ongoing rate of expansion work. However, we see that the additional capacity would act as an alternative to supply disruption from Malaysia and China after the virus spread.

Raw Material Procurement

The company has a dependence on vegetable oil as its key raw material. As of FY19, it had an exposure of nearly 30 per cent to the import of vegetable oils. Though, the latest import data of these oils, suggest that imports have decline by nearly 10 per cent for February 2020. This was the fourth straight month when imports declined for vegetable oils. This reduces the company's exposure to the forex risks and international price variations. Further, this shows that domestic availability has increased, which would benefit the company in the long-run. Lower dependence on imported raw material and long-term partnerships with supplier helps it mitigate input costs-related risks.

Financial Performance

On the financial front, it has reported a top-line growth of CAGR of 14.4 per cent since FY14 to FY19. At operating level, the company has maintained strong margins in the range of 18 per

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cent to 20 per cent. Strong margins have been reported even in the case of volatility in raw material prices. The total debt on its books stood at Rs 126 crore as of the end of H1FY20. Despite the ongoing large capex, its debt to equity ratio stood at 0.22.

Outlook

The stock is trading at TTM EPS of Rs 52 and PE multiple of 37 times. On the back of volume growth after a strong capacity

addition, the demand for green additives and strong business mix, we expect it to report healthy financial performance. For near-term, though, we expect some disruption due to macro-level slowdown but looking at its strong operational efficiency, it's observed that it can prevail in difficult times. We factor out this slowdown by the virtue of its 40 per cent market in domestic market share and high entry barriers in the core business raising its long-term sustainability. Hence, we recommend BUY on the scrip with a price target of Rs 2,400.

Inc/Exp Statement(Standalone) (Rs in Crore)					
Description	201903	201803	201703	201603	201503
Net Sales	1043.97	856.28	777.69	658.49	616.25
Total Income	1068.43	872.67	781.97	667.32	618.27
Total Expenditure	821.72	692.31	631.00	511.59	500.30
PBIDT	246.71	180.36	150.97	155.73	117.96
PAT	129.01	101.34	79.97	76.96	59.09
Dividend %	140.00	140.00	450.00	462.00	300.00
Adj. EPS(Rs)	42.08	33.05	165.58	159.35	122.34

Quarter On Quarter (Standalone) (Rs in Crore)					
Particulars	201912	201909	Q on Q Var%	201812	Y on Y Var%
Net Sales	265.91	274.38	-3.09	261.03	1.87
Total Expenditure	208.32	209.27	-0.45	208.66	-0.16
PBIDT (Excl OI)	57.58	65.11	-11.56	52.37	9.96
PAT	36.84	58.70	-37.24	33.66	9.47
PBIDTM% (Excl OI)	21.66	23.73	-8.72	20.06	7.98
PBIDTM%	23.72	25.88	-8.35	23.02	3.04
PATM%	13.86	21.39	-35.20	12.89	7.53
Adj. EPS(Rs)	12.02	19.15	-37.23	10.98	9.47



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