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The Trick Is To **Spot Them** At The **Larval Stage**

BSE Code	: 500078
Time Duration	: 1 year
CMP	: ₹276 (as on 24 January, 2019)
Target Price	: ₹360

Oriental Aromatics Limited The Pleasant Aroma Of Growth

Our Tiny Treasure for the month of January 2019 is Oriental Aromatics Limited (OAL). It is one of India's largest manufacturers of terpene chemicals, camphor and other specialty aroma chemicals. Earlier, it had been a supplier of chemicals as raw material to its holding company, the erstwhile Oriental Aromatics Limited, which used to manufacture flavours and fragrances. After amalgamation, OAL has become one of the few fully integrated F&F player in the world. Its revenue mix includes perfumery chemicals (58.70%) and camphor and isoborneol (22.16%) and others (19.14%).

Efficient capacity utilisation of plants

OAL has three manufacturing facilities in India. Its first synthetic camphor plant was established in Bareilly, Uttar Pradesh, using technology from Dupont, USA. The second fragrance manufacturing facility with a total capacity of 6,000 TPA is situated at Ambarnath in Maharashtra and the operations were started in 2014. This facility has capability of producing fragrances and flavours. The manufacturing facilities in Bareilly (for synthetic camphor and terpineols) and in Baroda (for other aroma chemicals) have total manufacturing capacity in excess of 10,000 TPA. Turpentine-based chemicals and other aroma chemicals are the raw materials which are used for manufacturing of flavours and fragrances. Also, recently, OAL has set up multipurpose plant situated at Vadodara, Gujarat, and the commercial production commenced in May 2018. It has capacity of 1,200 TPA of products spread over 12-13 different chemistries. The impact was seen through the robust numbers posted by the company in Q2FY19.

Strong customer base across various industries

OAL's products have wide applications across industries like flavours and fragrances, pharmaceuticals, soaps and cosmetics, rubber and tyres, paints and varnishes. It also provides custom-designed fragrances that are found in incense sticks, candles and various FMCG products like soaps, shampoos, hair oils, detergents, etc. It also provides flavours for ice-creams, bakeries, confectionaries, beverages, chewing gums, chocolates, etc. Its customers include HUL, Godrej, Nirma, Dabur, Bajaj, KeoKarpin, MTR, Pfizer, Abbott, Wockhardt, Wyeth, etc. Its customers in the pharmaceutical industry include P&G, Johnson & Johnson, No-

vartis, JB Chemicals, etc. P&G's 80% requirement of camphor for 'Vicks' brand is supplied by OAL. Its products are used for branded products like Godrej No.1 and Cinthol soaps, Bajaj Almond Drops hair oil, Nirma washing powder, Mediker shampoo, etc.

Growth in aroma chemicals segment

Aroma chemicals are classified into terpenes, miscellaneous aroma chemicals, musk chemicals and benzenoids. OAL is the fourth largest player in India after Privi Organics, Eternis and Anthea group. The clients in this segment includes IFF, Givaudan, Firmenich, Symrise, SH Kelkar and Agan Aroma, etc. Aroma chemicals are further classified into bulk and specialty chemicals. For OAL, 40% is contributed by bulk aroma chemicals and 60% by specialty aroma chemicals under the aroma chemicals segment. Specialty aroma chemicals help the company to earn higher profitability margins.

R&D - competitive strength

The R&D department of the company is very strong. The fragrance type which it provides for individual products is very unique and ingredients mix ratio differs for every product. Also, the client companies which manufacture FMCG products continue with the same vendor for a lifetime. Thus, the relationship of OAL with the FMCG companies is long-lasting, which proves to be a barrier for other players in the industry. Also, OAL keeps numerous versions of flavours and fragrances ready, out of which the FMCG companies choose the best which fit their products. Thus, any new player cannot enter this segment easily due to the high level of R&D.

Robust demand for FMCG products

The domestic market for personal care products is projected to grow at a CAGR of around 22% during the period 2017-2020. The principal areas that are expected to grow include colour cosmetics, fragrances, specialised skin care, hair care and make-up cosmetics. The demand for flavours will also continue to rise as the processed food market continues to grow. In personal care products like shampoos, fairness creams, conditioners and hair

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oils, the demand in urban markets is shifting towards high value products, while key categories such as detergents, toilet soaps, dishwashing bars, hair oils, shampoos, fairness creams and toothpastes have all witnessed rural growth surpassing urban growth by 1.5 times. Companies like HUL, P&G, Bajaj Consumer, etc. have performed well so far in FY19 with decent growth in volumes. We expect such strong growth in FMCG companies would benefit OAL.

FY19 started on a good note with the company posting strong numbers in H1FY19. The revenue was up 92.2% YoY from Rs 180.4 cr to Rs 346.7 cr. EBITDA increased by 128.1% YoY to Rs 57.4 cr from Rs 25.2 cr. The EBITDA margin improved from Rs 13.9% to 16.5% on YoY basis. PAT jumped during the period by 146.5% YoY from Rs 11.5 cr to Rs 28.2 cr. PAT margin surged from 6.4% to 8.1% on a YoY basis. In December 2018, the company declared bonus issue in the ratio of 1:1 and the stock was split from face value of Rs 10 to Rs 5.

Financial Performance

OAL's revenue and net profit has grown at CAGR of 12.5% and 18.7%, respectively. OAL's revenue in FY18 grew by 10.9% YoY from Rs 455.5 cr to Rs 505.4 cr. The EBITDA during the year increased by 16.9% YoY from Rs 58.1 cr to Rs 65.8 cr. The EBITDA margin stood at 13.03% in FY18 as against 12.7% in FY17. PAT in FY18 was up 18.4% YoY to Rs 30.3 cr from Rs 25.4 cr. PAT margin stood at 6% as against 5.6% in FY17. The debt-equity ratio in FY14 was 1.02x, which improved to 0.38x in FY18. It has been consistently paying dividends since last 5 years and paid 20% dividend in FY18.

Valuation

OAL is trading at TTM P/E of 21.8x with TTM EPS of Rs 12.6. The growing urbanisation and aspirational lifestyles are some of the leading growth drivers for the FMCG products, which are largely dependent on flavours and fragrances. The R&D department of the company is very strong and its long association with FMCG companies for the leading brands will generate consistent revenues for OAL. The commencement of production at the new plant in Baroda is adding to its growth. Considering all these factors, we see a potential upside of 30% with a target price of Rs 360 over a period of one year.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201803	201703	201603	201503	201403
Net Sales	505.42	455.56	350.92	355.06	309.33
Total Income	510.95	457.72	353.19	356.84	310.74
Total Expenditure	440.50	397.48	301.25	312.06	262.40
PBIDT	70.45	60.23	51.94	44.78	48.34
PAT	30.33	25.61	22.69	19.26	20.11
Dividend %	20.00	15.00	15.00	15.00	20.00
Adj. EPS(Rs)	9.01	12.47	11.05	9.38	9.79

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201809	201806	Q on Q Var%	201709	Y on Y Var%
Net Sales	199.28	147.49	35.11	126.21	57.89
Total Expenditure	165.04	124.35	32.72	112.26	47.01
PBIDT (Excl OI)	34.24	23.14	47.96	13.95	145.48
PAT	17.16	11.07	55.02	9.69	77.07
PBIDTM% (Excl OI)	17.18	15.69	9.50	11.05	55.48
PBIDTM%	17.84	16.50	8.12	14.90	19.73
PATM%	8.61	7.50	14.80	7.68	12.11
Adj. EPS(Rs)	5.10	3.29	55.02	4.72	8.05

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