

# Fine Organic Industries

Estimate changes

TP change

Rating change



**CMP: INR4,287**

**TP: INR3,785 (-12%)**

**Sell**

## Export markets and stable RM prices drive performance

Bloomberg	FINEORG IN
Equity Shares (m)	31
M.Cap.(INRb)/(USD\$b)	131.4 / 1.6
52-Week Range (INR)	5165 / 4005
1, 6, 12 Rel. Per (%)	0/-14/-25
12M Avg Val (INR M)	177

### Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
Sales	19.5	20.0	21.0
EBITDA	4.8	4.4	4.4
PAT	3.7	3.4	3.3
EPS (INR)	120.0	109.9	108.1
EPS Gr. (%)	-37.7	-8.4	-1.6
BV/Sh.(INR)	607.1	707.8	806.9

### Ratios

Net D:E	-0.5	-0.6	-0.6
RoE (%)	21.8	16.7	14.3
RoCE (%)	21.7	16.8	14.4
Payout (%)	8.3	8.3	8.3

### Valuations

P/E (x)	35.8	39.1	39.8
P/BV (x)	7.1	6.1	5.3
EV/EBITDA (x)	25.4	26.9	26.7
Div. Yield (%)	0.2	0.2	0.2
FCF Yield (%)	4.1	2.6	2.6

### Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	75.0	75.0	75.0
DII	10.8	11.8	12.1
FII	4.5	3.6	4.8
Others	9.8	9.6	8.1

FII Includes depository receipts

- Fine Organic Industries (FINEORG) reported higher-than-estimated EBITDA at INR1.3b (-29% YoY) in 4QFY24. EBITDAM contracted 140bp YoY to 25.4%, while gross margin improved 450bp YoY to 43.6%, primarily due to stable vegetable oil prices. Management does not expect any volatility in vegetable oil prices, at least for the next few months. PAT dipped 24% YoY to INR1b (est. INR590m).

- All plants are currently running at optimal capacity, except Patalganga-II, where there is still some headroom for capacity ramp up. Management guided that it would take another 3-4 years for Patalganga-II to reach optimum utilization. FINEORG is currently awaiting the official land allotment letter from the Maharashtra government (~30 acres) in SEZ that it expects anytime now. This would primarily cater to the export markets.

- It would take six months for environment clearance (EC) and another 18-24 months to set up the newer capacities. Although the greenfield capacity is expected to take care of growth for the next 10 years, we do not expect the growth to commence until end-FY26. Exports accounted for 55% of the total revenue for FINEORG as of 4QFY24. The commissioning of the Thailand JV plant is also now expected by end-Jun'24.

- Management highlighted that some regions have started showing demand recovery on a selective basis, while some headwinds still exist in the export markets, with lead time also increasing because of the Red Sea crisis. FINEORG is considering establishing manufacturing facilities closer to its customers in the US. This move is expected to enable the sale of products at a premium, leading to higher margins, given its US manufacturing base.

- Due to the outperformance in 4Q and subsequent upward revision in margin guidance from the management, we raise our revenue/EBITDA/EPS estimates by 5%/10%/9% for FY25 and by 5%/13%/13% for FY26. Valuations are expensive for a company that is going to have YoY earnings decline for the next two years (-8%/-2% in FY25/26). **Reiterate SELL.**

## Beat across the board; EBITDAM contracts YoY

- Revenue stood at INR5.2b (-25% YoY). Gross margin expanded 450bp YoY to 43.6%, with EBITDAM at 25.4% (-140bp YoY).

- EBITDA stood at INR1.3b (est. of INR771m, -29% YoY), while PAT stood at INR1b (est. of INR590m, -24% YoY). An exceptional item of INR6m has been recorded toward insurance coverage for the fire at one of its plants in Jan'24.

- For FY24**, revenue was down 36% to INR19.5b, while EBITDA stood at INR4.8b (-38% YoY). PAT was INR3.7b (-38% YoY). EBITDAM contracted 110bp YoY to 24.6% in FY24.

- The BoD declared a final dividend of INR10/share for FY24.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**Valuation and view**

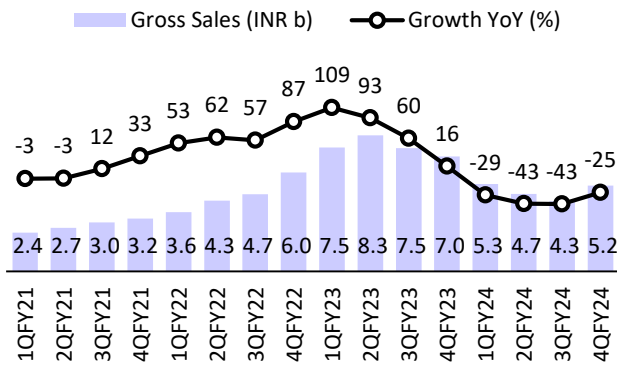
- The long-term prospects remain robust as the company is in the Oleochemical industry and is primarily driven by R&D innovations over the years. However, we believe that the performance would be hit in the near to medium term by: 1) longer-than-expected commissioning of new capacities for further expansion, 2) existing plants that are 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 by 24%/20% in the past one year. We estimate a compounded EBITDA/PAT decline of 5% each over FY24-26, with margin in the range of 21-22% during the same period.
- FINEORG is currently trading at ~40x FY26E EPS and ~27x FY26E EV/EBITDA. Valuations are expensive for a company that is going to have YoY earnings decline for the next two years (-8%/-2% in FY25/26). **Reiterate SELL.**

**Standalone - Quarterly Snapshot**

Y/E March	FY23				FY24				FY23	FY24	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
<b>Gross Sales</b>	<b>7,526</b>	<b>8,281</b>	<b>7,499</b>	<b>6,986</b>	<b>5,321</b>	<b>4,717</b>	<b>4,258</b>	<b>5,215</b>	<b>30,291</b>	<b>19,511</b>	<b>3,888</b>	<b>34%</b>
YoY Change (%)	109.1	92.8	60.1	16.3	-29.3	-43.0	-43.2	-25.3	63.0	-35.6	-44.3	
Gross Margin (%)	41.3%	38.2%	35.1%	39.1%	42.9%	41.9%	41.8%	43.6%	38.4%	42.6%	41.1%	2.5%
<b>EBITDA</b>	<b>2,056</b>	<b>2,138</b>	<b>1,747</b>	<b>1,872</b>	<b>1,519</b>	<b>1,044</b>	<b>924</b>	<b>1,322</b>	<b>7,813</b>	<b>4,809</b>	<b>771</b>	<b>72%</b>
Margin (%)	27.3	25.8	23.3	26.8	28.5	22.1	21.7	25.4	25.8	24.6	19.8	5.5
Depreciation	111	115	123	130	117	144	147	153	479	561	151	
Interest	11	13	11	9	6	7	5	5	44	23	7	
Other Income	166	193	152	130	145	172	174	226	640	717	177	
<b>PBT before EO expense</b>	<b>2,099</b>	<b>2,203</b>	<b>1,764</b>	<b>1,863</b>	<b>1,540</b>	<b>1,064</b>	<b>946</b>	<b>1,391</b>	<b>7,930</b>	<b>4,941</b>	<b>789</b>	<b>76%</b>
Extra-Ord expense	0	0	0	0	0	0	0	6	0	6	0	
<b>PBT</b>	<b>2,099</b>	<b>2,203</b>	<b>1,764</b>	<b>1,863</b>	<b>1,540</b>	<b>1,064</b>	<b>946</b>	<b>1,385</b>	<b>7,930</b>	<b>4,935</b>	<b>789</b>	<b>75%</b>
Tax	526	563	452	483	397	270	249	342	2,024	1,259	199	
Rate (%)	25.1	25.6	25.6	25.9	25.8	25.4	26.4	24.7	25.5	25.5	25.2	
<b>Reported PAT</b>	<b>1,573</b>	<b>1,640</b>	<b>1,313</b>	<b>1,381</b>	<b>1,142</b>	<b>794</b>	<b>697</b>	<b>1,043</b>	<b>5,906</b>	<b>3,676</b>	<b>590</b>	<b>77%</b>
<b>Adj PAT</b>	<b>1,573</b>	<b>1,640</b>	<b>1,313</b>	<b>1,381</b>	<b>1,142</b>	<b>794</b>	<b>697</b>	<b>1,047</b>	<b>5,906</b>	<b>3,680</b>	<b>590</b>	<b>77%</b>
YoY Change (%)	350.2	228.2	135.6	25.5	-27.4	-51.6	-46.9	-24.2	135.6	-37.7	-57.2	
Margin (%)	20.9	19.8	17.5	19.8	21.5	16.8	16.4	20.1	19.5	18.9	15.2	4.9

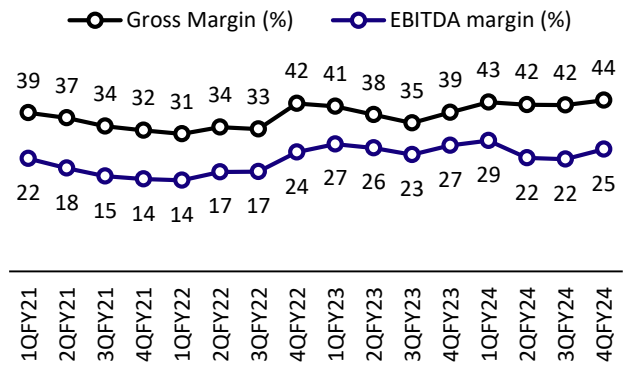
## Story in charts – 4QFY24

**Exhibit 1: Sales declined 25% YoY...**



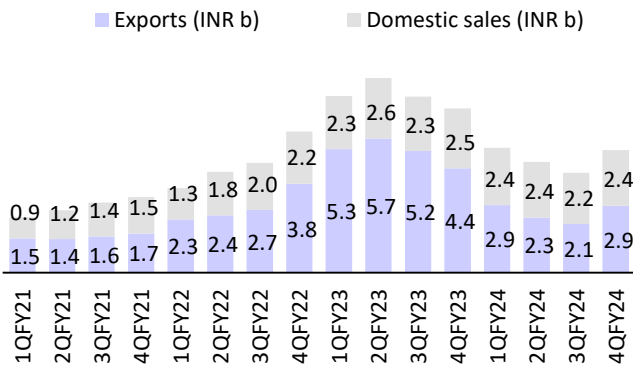
Source: Company, MOFSL

**Exhibit 2: ...with EBITDAM contracting 140bp YoY to 25.4%**



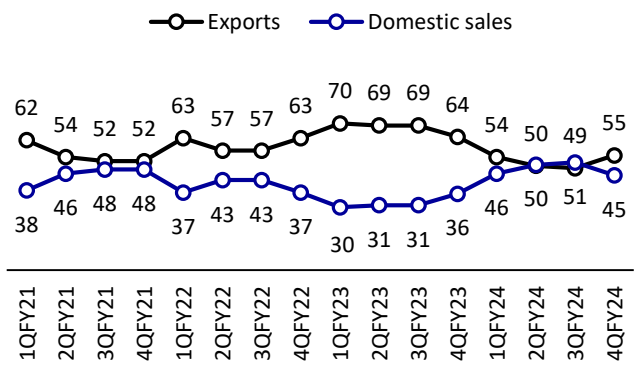
Source: Company, MOFSL

**Exhibit 3: Exports declined 36% YoY...**



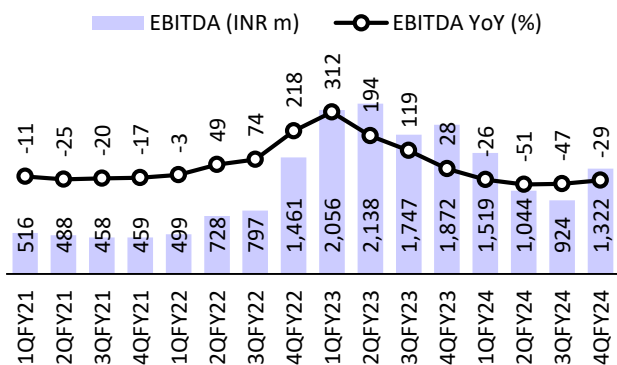
Source: Company, MOFSL

**Exhibit 4: ...with domestic sales at 45% of total revenue**



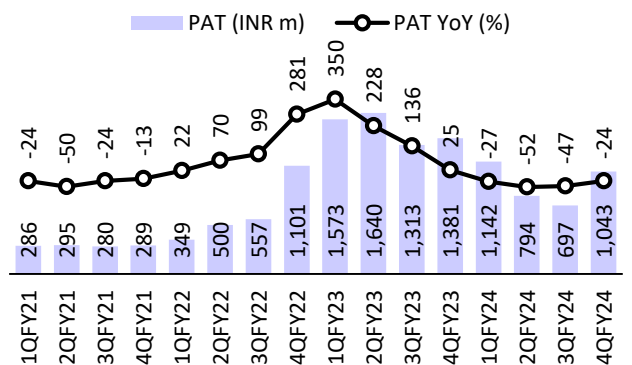
Source: Company, MOFSL

**Exhibit 5: EBITDA was down 29% YoY**



Source: Company, MOFSL

**Exhibit 6: PAT was down 24% YoY**



Source: Company, MOFSL

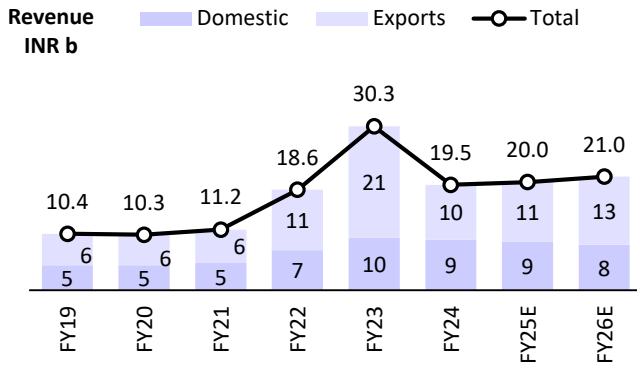


## Management concall highlights

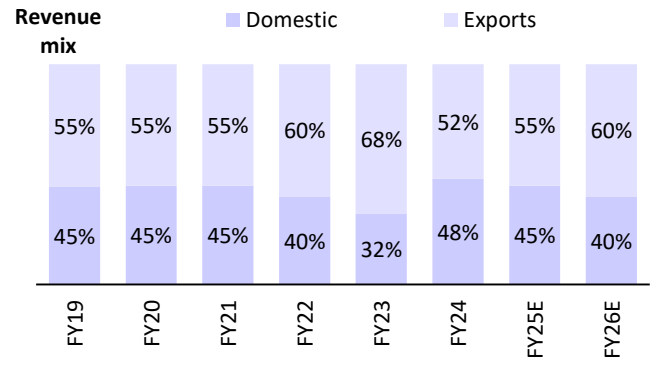
- Vegetable oil prices are stable as demand has stabilized now. This also led to expansion in margin on sequential basis
- Management does not expect any volatility in vegetable oil prices, at least for the next few months.
- If there aren't any major changes in the global macro situation, there wouldn't be major changes in the performance of the company as well
- Some headwinds still exist for exports (US and Europe) because of the Red Sea crisis, with lead time now at 30-45 days
- Some regions have started showing demand recovery but not Europe (uncertainty when it will recover)
- All plants are running at optimum utilization with some headroom for expansion in utilization rate (at the Patalganga plant)
- Patalganga plant to achieve optimum utilization in another 3-4 years
- Incorporated a WoS in Maharashtra SEZ area with land size of 30 acres
- Once possession of land is taken then would apply for EC
- There has been some progress with respect to land, allotment letter is still awaited though
- Would primarily cater to the export markets
- **Thailand JV**
- Have got one approval from Thailand authorities that would help the company send RMs to Thailand
- Will get another approval this week itself
- Commissioning would be done by the end of Jun'24
- Only two other players are making this product and FINEORG JV would be the third company globally
- Globally, contracts with customers vary from three to six months to one year. Same on the supplier side as well.
- Sustainable EBITDAM at 20-22%

## Financial story in charts

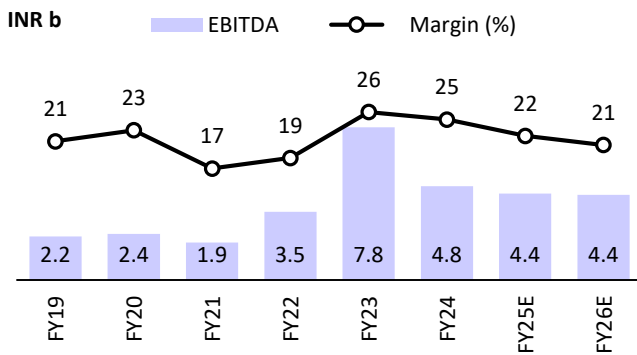
**Exhibit 7: Revenue expected to decline from its FY23 peak...**



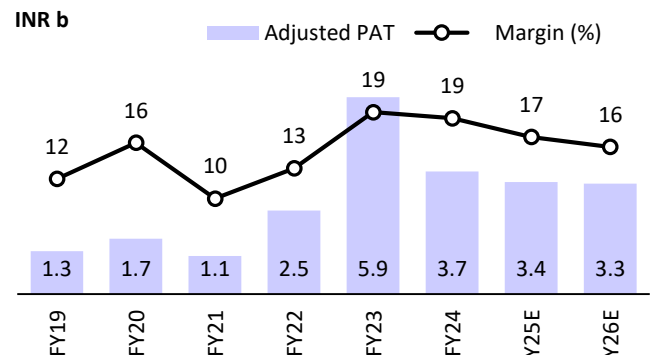
**Exhibit 8: ...with the share of exports increasing to 60%**



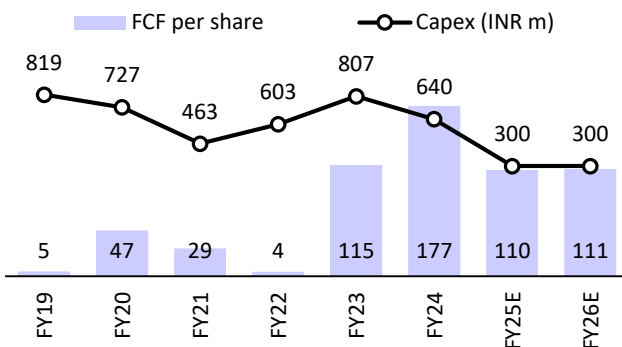
**Exhibit 9: Expect EBITDAM to be at 21-22%...**



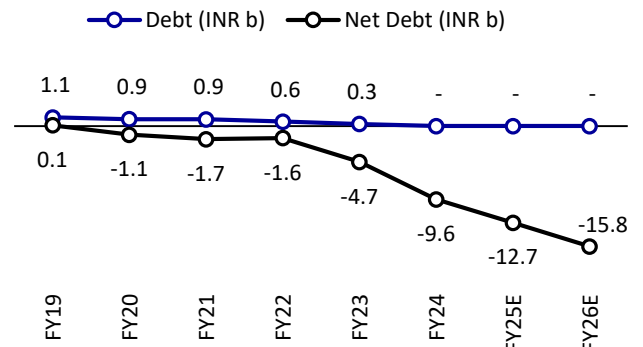
**Exhibit 10: ...along with a drop in PAT margin**



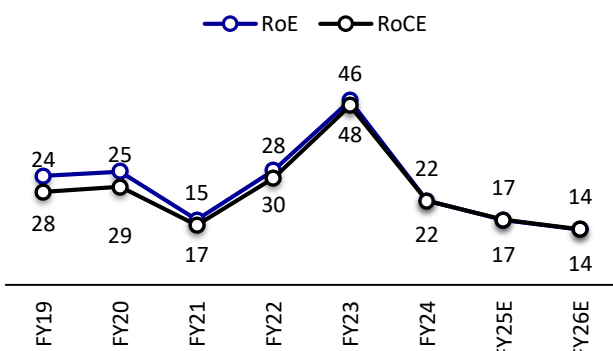
**Exhibit 11: Capex for the next two years stands at INR0.6b**



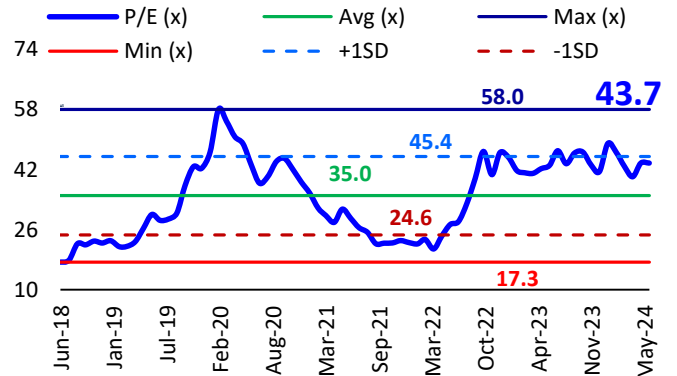
**Exhibit 12: FINEORG expected to remain cash positive**



**Exhibit 13: Return ratios to decline in the coming years**



**Exhibit 14: FINEORG trades at ~43.7x 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	FY24	FY25E	FY26E
<b>Total Income from Operations</b>	<b>10,440</b>	<b>10,262</b>	<b>11,213</b>	<b>18,584</b>	<b>30,291</b>	<b>19,511</b>	<b>19,999</b>	<b>20,999</b>
Change (%)	20.7	-1.7	9.3	65.7	63.0	-35.6	2.5	5.0
Gross Margin (%)	37.3	40.9	35.2	35.7	38.4	42.6	41.9	41.9
<b>EBITDA</b>	<b>2,223</b>	<b>2,361</b>	<b>1,921</b>	<b>3,485</b>	<b>7,813</b>	<b>4,808</b>	<b>4,428</b>	<b>4,354</b>
Margin (%)	21.3	23.0	17.1	18.8	25.8	24.6	22.1	20.7
Depreciation	175	347	468	399	479	561	626	638
<b>EBIT</b>	<b>2,048</b>	<b>2,014</b>	<b>1,453</b>	<b>3,086</b>	<b>7,334</b>	<b>4,247</b>	<b>3,803</b>	<b>3,716</b>
Int. and Finance Charges	18	48	61	51	45	23	24	26
Other Income	202	205	170	332	641	717	725	740
<b>PBT bef. EO Exp.</b>	<b>2,233</b>	<b>2,172</b>	<b>1,562</b>	<b>3,368</b>	<b>7,930</b>	<b>4,941</b>	<b>4,503</b>	<b>4,431</b>
EO Items	0	0	0	0	0	-6	0	0
<b>PBT after EO Exp.</b>	<b>2,233</b>	<b>2,172</b>	<b>1,562</b>	<b>3,368</b>	<b>7,930</b>	<b>4,935</b>	<b>4,503</b>	<b>4,431</b>
Total Tax	942	507	413	861	2,024	1,259	1,133	1,115
Tax Rate (%)	42.2	23.3	26.4	25.6	25.5	25.5	25.2	25.2
<b>Reported PAT</b>	<b>1,290</b>	<b>1,665</b>	<b>1,149</b>	<b>2,507</b>	<b>5,906</b>	<b>3,676</b>	<b>3,369</b>	<b>3,316</b>
<b>Adjusted PAT</b>	<b>1,290</b>	<b>1,665</b>	<b>1,149</b>	<b>2,507</b>	<b>5,906</b>	<b>3,680</b>	<b>3,369</b>	<b>3,316</b>
Change (%)	27.3	29.0	-31.0	118.1	135.6	-37.7	-8.4	-1.6
Margin (%)	12.4	16.2	10.2	13.5	19.5	18.9	16.8	15.8

### Standalone - Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	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	18,460	21,548	24,587
<b>Net Worth</b>	<b>5,084</b>	<b>6,308</b>	<b>7,388</b>	<b>9,585</b>	<b>15,221</b>	<b>18,613</b>	<b>21,701</b>	<b>24,740</b>
Total Loans	1,130	915	892	585	272	0	0	0
<b>Capital Employed</b>	<b>6,219</b>	<b>7,222</b>	<b>8,280</b>	<b>10,170</b>	<b>15,493</b>	<b>18,613</b>	<b>21,701</b>	<b>24,740</b>
Gross Block	2,464	4,192	4,459	5,192	5,518	6,267	6,567	6,867
Less: Accum. Deprn.	1,686	2,033	2,500	2,899	3,378	3,940	4,565	5,203
<b>Net Fixed Assets</b>	<b>778</b>	<b>2,159</b>	<b>1,958</b>	<b>2,293</b>	<b>2,140</b>	<b>2,327</b>	<b>2,002</b>	<b>1,664</b>
Capital WIP	1,063	58	263	141	404	297	297	297
<b>Total Investments</b>	<b>167</b>	<b>442</b>	<b>437</b>	<b>431</b>	<b>531</b>	<b>1,156</b>	<b>1,156</b>	<b>1,156</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>5,086</b>	<b>5,964</b>	<b>6,902</b>	<b>9,413</b>	<b>14,648</b>	<b>16,661</b>	<b>20,563</b>	<b>24,056</b>
Inventory	790	1,195	1,089	2,017	2,987	1,952	2,655	2,788
Account Receivables	1,670	1,451	1,752	3,316	4,769	3,480	3,567	3,746
Cash and Bank Balance	1,031	2,056	2,612	2,158	4,974	9,610	12,684	15,790
Cash	1,020	2,009	2,564	2,089	4,892	6,075	9,150	12,255
Bank Balance	11	48	48	69	82	3,535	3,535	3,535
Loans and Advances	1,595	1,262	1,449	1,922	1,918	1,618	1,655	1,732
<b>Curr. Liability &amp; Prov.</b>	<b>875</b>	<b>1,401</b>	<b>1,281</b>	<b>2,108</b>	<b>2,230</b>	<b>1,828</b>	<b>2,316</b>	<b>2,432</b>
Account Payables	523	843	990	1,514	1,707	1,320	1,795	1,885
Other Current Liabilities	307	526	156	290	366	308	316	332
<b>Net Current Assets</b>	<b>4,211</b>	<b>4,563</b>	<b>5,622</b>	<b>7,305</b>	<b>12,418</b>	<b>14,833</b>	<b>18,247</b>	<b>21,624</b>
<b>Appl. of Funds</b>	<b>6,219</b>	<b>7,222</b>	<b>8,280</b>	<b>10,170</b>	<b>15,493</b>	<b>18,613</b>	<b>21,701</b>	<b>24,740</b>

## Financials and valuations

<b>Ratios</b>								
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>42.1</b>	<b>54.3</b>	<b>37.5</b>	<b>81.8</b>	<b>192.6</b>	<b>120.0</b>	<b>109.9</b>	<b>108.1</b>
EPS Growth (%)	27%	29%	-31%	118%	136%	-38%	-8%	-2%
Cash EPS	47.8	65.6	52.7	94.8	208.2	138.3	130.3	129.0
BV/Share	165.8	205.7	241.0	312.6	496.5	607.1	707.8	806.9
DPS	7.0	11.0	11.0	9.0	9.0	10.0	9.2	9.0
Payout (%)	20.0	24.4	29.3	11.0	4.7	8.3	8.3	8.3
<b>Valuation (x)</b>								
P/E	102.2	79.2	114.7	52.6	22.3	35.8	39.1	39.8
Cash P/E	90.0	65.5	81.5	45.4	20.6	31.1	33.0	33.3
P/BV	25.9	20.9	17.8	13.8	8.7	7.1	6.1	5.3
EV/Sales	12.6	12.7	11.6	7.0	4.2	6.3	6.0	5.5
EV/EBITDA	59.4	55.4	67.7	37.4	16.3	25.4	26.9	26.7
Dividend Yield (%)	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2
FCF per share	5.0	47.3	28.7	4.5	115.1	176.7	110.2	111.1
<b>Return Ratios (%)</b>								
RoE	28.1	29.2	16.8	29.5	47.6	21.8	16.7	14.3
RoCE	24.0	25.3	15.4	27.6	46.3	21.7	16.8	14.4
RoIC	29.4	35.8	22.2	37.0	64.2	36.9	37.7	36.9
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	12.6	7.0	5.4	8.7	13.7	8.7	9.2	11.5
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	37	48	48
Debtor (Days)	58	52	57	65	57	65	65	65
Creditor (Days)	18	30	32	30	21	25	33	33
<b>Leverage Ratio (x)</b>								
Current Ratio	5.8	4.3	5.4	4.5	6.6	9.1	8.9	9.9
Interest Cover Ratio	114.4	42.1	23.9	61.0	164.4	183.1	156.1	145.3
Net Debt/Equity	0.0	-0.2	-0.2	-0.2	-0.3	-0.5	-0.6	-0.6

<b>Standalone - Cash Flow Statement</b>								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	2,232	2,172	1,562	3,368	7,930	4,935	4,503	4,431
Depreciation	174	347	468	399	479	561	626	638
Others	-158	-144	-106	-257	-546	-668	24	26
Direct Taxes Paid	-855	-612	-415	-769	-2,092	-1,380	-1,133	-1,115
(Inc)/Dec in WC	-423	416	-167	-2,001	-1,435	2,610	-339	-272
<b>CF from Operations</b>	<b>972</b>	<b>2,178</b>	<b>1,343</b>	<b>741</b>	<b>4,336</b>	<b>6,058</b>	<b>3,680</b>	<b>3,708</b>
(Inc)/Dec in FA	-819	-727	-463	-603	-807	-640	-300	-300
<b>Free Cash Flow</b>	<b>153</b>	<b>1,451</b>	<b>880</b>	<b>137</b>	<b>3,529</b>	<b>5,418</b>	<b>3,380</b>	<b>3,408</b>
Change in Investments	-42	-287	4	-18	-150	-4,114	0	0
Others	-73	172	57	60	110	464	0	0
<b>CF from Investments</b>	<b>-934</b>	<b>-842</b>	<b>-402</b>	<b>-561</b>	<b>-847</b>	<b>-4,290</b>	<b>-300</b>	<b>-300</b>
Inc/(Dec) in Debt	1,081	-14	-347	-306	-357	-274	0	0
Interest Paid	-33	-63	-52	-37	-44	-21	-24	-26
Dividend Paid	-258	-407	-92	-337	-276	-276	-281	-277
Others	139	137	106	27	-9	-14	0	0
<b>CF from Fin. Activity</b>	<b>929</b>	<b>-346</b>	<b>-385</b>	<b>-654</b>	<b>-686</b>	<b>-584</b>	<b>-305</b>	<b>-302</b>
<b>Inc/Dec of Cash</b>	<b>966</b>	<b>989</b>	<b>555</b>	<b>-475</b>	<b>2,803</b>	<b>1,183</b>	<b>3,075</b>	<b>3,105</b>
Opening Balance	54	1,020	2,009	2,564	2,089	4,892	6,075	9,150
<b>Closing Balance</b>	<b>1,020</b>	<b>2,009</b>	<b>2,564</b>	<b>2,089</b>	<b>4,892</b>	<b>6,075</b>	<b>9,150</b>	<b>12,255</b>

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NOTES



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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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