

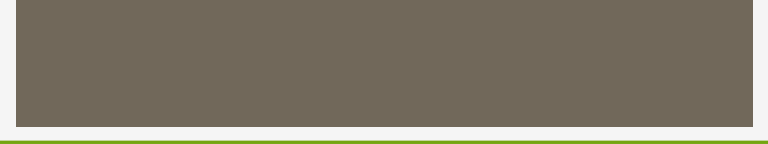
FINE ORGANICS INDUSTRIES LTD.

RESEARCH REPORT AS ON 19-08-2022

CMP : 6,120

PEE AAR SECURITIES LTD.

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(FUNDAMENTAL RESEARCH ANALYST)



Founded in 1970, Fine Organics was the brainchild of Mr. Ramesh Shah, a Mumbai-based businessman with experience in chemical trading and Mr. Prakash Kamat, a skilled technocrat from Institution of Chemical Technology. Together, they envisioned the potential of oleochemical derivatives and created an organization founded on the pillars of innovation and passion. Fine Organics introduced the Indian market to high-quality additives for specialty applications with raw materials from locally-grown plant sources and quality levels on par with international standards.

Today, Fine's range of innovative additives have expanded their reach into several specialty applications in food, plastics, cosmetics, textiles, paints, inks, rubber and many more. The products are appreciated and accepted globally due to their consistent quality and competitiveness. A technology and customer-driven company, Fine Organics enjoys a privileged position in the specialty additives industry globally. Fine Organics owes its growth and success to its expertise on oleochemistry, in-house manufacturing technology, customer-centric research and development and a techno-commercial mindset.

High-Performance Environment Friendly Additives

- Fine organics is an established and reputed international player of **oleochemical-based additives**, rooted in India
- Oleochemicals are chemicals derived from vegetable oil and animal oil & fat. In the case of Fine Organics Industries, they use only vegetable oil to derive their end product as usage of animal oil & fats are not permitted in India.
- Pioneered in developing over 450 wide range of unique specialty additives from vegetable oils, for a variety of applications that are connected to humans in their daily lives such as additives for food, polymers, cosmetics, coatings etc.
- **A Technical Pinch of salt in the end product making a HUGE difference in the product performance**
- **Polymer & Food additives are largest contributor of revenue at 72% & 20+% share respectively.**
- Solution-centric approach
- Pioneer in manufacturing of food emulsifiers in India. Expanded its range to anti-fungal agents, bread improvers, beverage clouding agents etc
- Its product range for CosPha (Cosmetics and Pharmaceuticals) applications serve as base ingredients. They enhance appearance and use for enduses in skin care products like Creams, Lotions & Ointments etc.

OLEO CHEMICALS: VALUE CHAIN



450+
PRODUCTS

750+
EMPLOYEE STRENGTH

180+
DISTRIBUTORS

75+
COUNTRIES GLOBAL PRESENCE

800+
DIRECT CUSTOMERS

5,000+
END-USERS

- Company has a dedicated research and development (“R&D”) centre located in Mahape, Navi Mumbai.
- Fine Organics is the first company to introduce slip additives in India and are the largest producer of slip additives in the world.
- Slip additives: Reduces the friction between plastic and the other surface it comes in contact with. Reduce the coefficient of friction of a polyolefin film. Eg. would be films, bottle caps, wires, cables, disposable syringes, car wipers. Largest producer in the world with 40% market share in India.
- Manufacturing plant-based additives from base oleochemicals is a highly specialised process. Hence, many of these additives are specialty products, and this industry enjoys premium margins with only a few players dominating the industry globally.
- Currently they have three production facilities: one in Ambernath, Badlapur & Dombivli (Maharashtra).
- Company’s direct customers are multinational, regional and local players manufacturing consumer products, such as Hindustan Unilever and Parle Products, and petrochemical companies and polymer producers globally.
- Company has a huge first-mover advantage, this gives Company an advantage in pricing products competitively and allows them to provide stiff competition to new players. Hence, no major domestic or global player has set up a manufacturing facility in India.

Why FINE additives are preferred?

- FINE green additives have been effectively replacing potentially hazardous chemicals in wide range of industries such as plastics, packaging, foods, cosmetics, rubbers, coatings etc. without compromising on the performance
- Increasing consumer awareness for environment has resulted in remarkable preference for 'Green' and 'Sustainable' products
- FINE additives are majorly bio-based, safe to use and biodegradable; therefore, can offer the most effective benefits through 'Sustainability' combined with excellence in functionality and safety
- Minimized waste generation, effluent management through effective production process and stringent compliance to regulations

Diversified Product Portfolio

Food Additives

Additives for maintaining the quality and freshness of the food products, impart better product structure integrity and helps in increasing the shelf life of food products



Polymer Additives

Used for various functionalities in wide range of plastic products made from various polymers



Additives for Coatings

Used as anti-settling agents, emulsifiers, thickening/anti-sagging agents, wetting and dispersing agents, defoamers, biocides and anti-mar waxes for use in coating applications. Capable of improving the appearance and durability of a coating



Emollients for Cosmetics

Enables manufacturing of products with different structures like creams, gels, pastes, lotions etc. Aids in achieving long term physical stability for transport and storage. Increases sensory perception and the chemical stability of the sensitive active agents



Feed Nutrition Additives

Replaces harmful antibiotics and improves feed efficiency and imparts several technical advantages to the end products



Specialty Additives

A wide range of specialty performance additives for various industries



INDUSTRY

KEY ADDITIVES & INGREDIENTS

END-USE APPLICATIONS

GROWTH DRIVERS

FOOD ADDITIVES



- Emulsifiers
- Anti-fungal agents
- Improvers for bakery products
- Oil blinder
- Anti-crystallisers

- Bakery, confectionary, biscuits, oils & fats, dairy products and ice creams, beverages etc.

- Increasing consumption of convenience foods and premium products
- Growing number of end-use applications due to multifunctional attributes of emulsifiers
- Rise in health awareness & quality consciousness of consumers

FINAMUL 9750 (E471+E481)

- Premium Emulsifier Blend
- Effective Antistaling Agent
- Excellent Crumb Softener
- Increases Volume and Texture



INDUSTRY

KEY ADDITIVES & INGREDIENTS

END-USE APPLICATIONS

GROWTH DRIVERS

POLYMER ADDITIVES



- Lubricants
- Anti-fogging additives
- Anti-static additives
- Anti-scratch
- Processing aids
- Flow improvers
- Slip additives
- Dispersants

- Packaging films
- Bottle caps
- Wires & Cable
- Packaging
- Furniture
- Automobiles
- Pipes & Fittings

- Replacement of conventional materials by plastic in several applications
- Increasing preference for non-toxic green polymer additives
- Development of new high-performance polymer additives
- Increasing urbanization and rising purchasing power among consumers

FEED NUTRITION ADDITIVES



- Antibiotics replacer
- Nutritional additives
- Anti-fungal additives

- Poultry feeds
- Cattle feeds

- Growing health & safety awareness
- Increased demand for safer milk and milk products

Green Additives for Plastics



Lubricants for Rigid PVC and CPVC Processing



- Efficient External Lubrication
- Mould Release
- Montan Wax Replacement

FINAWAX-MES

INDUSTRY

KEY ADDITIVES & INGREDIENTS

END-USE APPLICATIONS

GROWTH DRIVERS

ADDITIVES FOR COATINGS



- Dispersing agents
- Emulsifiers
- Wetting & Dispersing Agents
- Defoamers
- Anti-Mar additives
- Slip additives

- Specialty Papers
- Printing Inks
- Coating materials
- Paints

- Increasing usage in automotive and industrial protective coatings
- Growing e-commerce business
- Increased awareness and penetration of paint protection coatings
- Growth in niche products: nano & green coating packaging products
- Increased use of Specialty papers (receipt) as a result of increased cashless transactions & air travel



COSPHA ADDITIVES



- Emulsifiers & Emollients
- Green Surfactants

- Creams, Lotions & Ointments
- Skin care, Hair care, Cleansers and Cosmetics
- Home care products

- Expanding growth of organised retail in Tier II and Tier III cities
- New sub-segments to grow: Men's Cosmetics
- Growing demand for skincare cosmetics

Compatible External Lubricants for PVC Calendaring



- Eliminates tackiness and flow lines
- Maintains transparency

The FINALUX-G700 SERIES

Specialised Business Model : Entry Barriers

Complex Technology

Complex technology & manufacturing processes create multiple entry barriers into the oleochemical derived green additives industry. Product formulations, innovation & process technology are time & capital intensive

Fine Organics: Has an early-mover advantage in this industry and has successfully established its in-house manufacturing set up and has been consistently delivering quality products.

Customer Loyalty

Lengthy & expensive product approval processes lead to high switching costs for customers. Due to this, customers rely on established suppliers, as performance ingredients are very critical to their end products.

Fine Organics: Eco-friendly oleo- derived green additives follow stringent quality parameters & regulations, governing the industry.

Limited Players

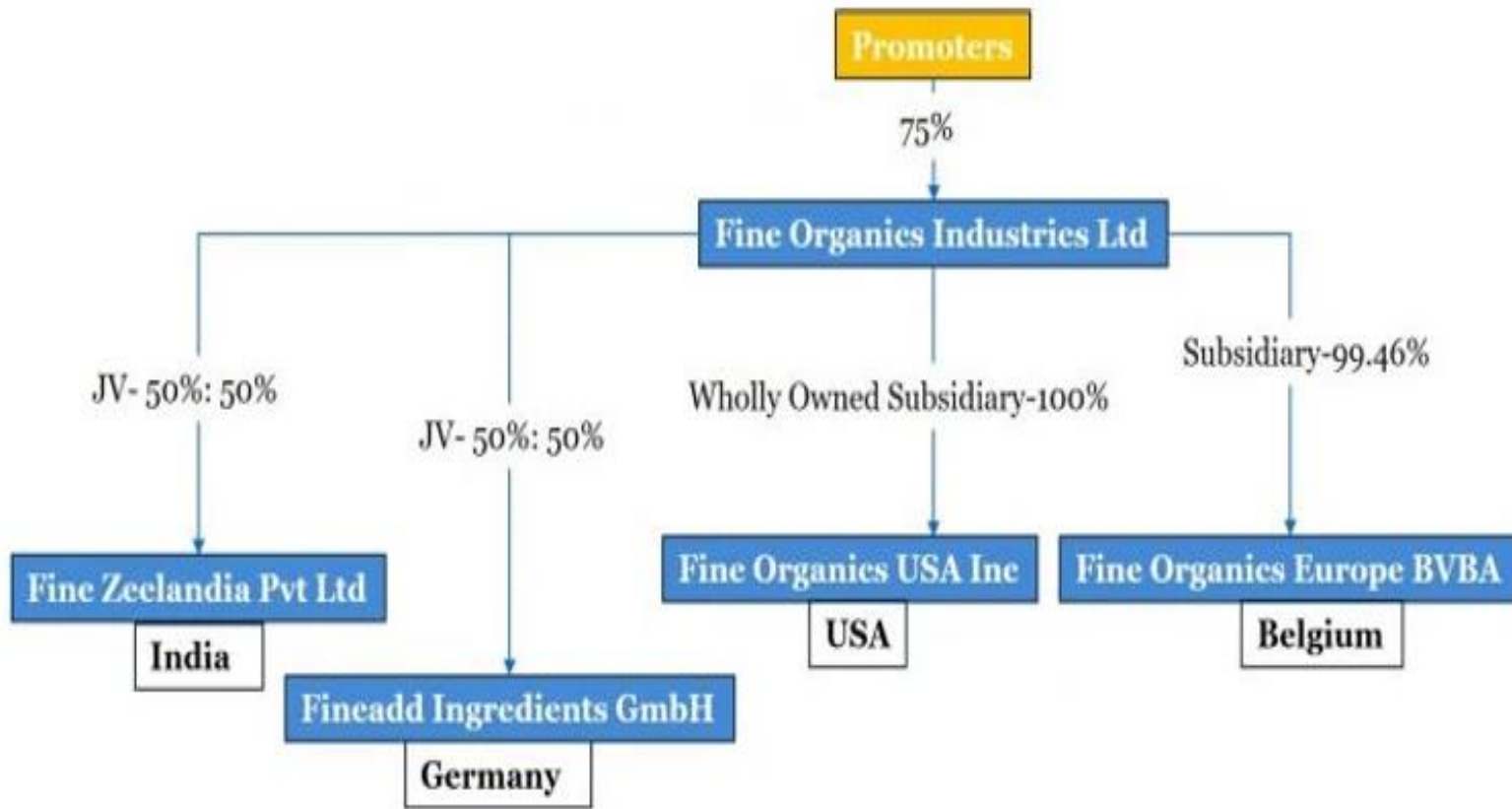
Limited & small players in Indian specialty additives market. Globally Few players which are very large.

Fine Organics : Largest organised player in the Indian market and among top 6 global players expanding its presence across the globe.

Extended product approval process

The regulatory approvals received from the different industry institutions are generally granted for a limited duration; further there are regular revisions in the regulatory compliances depending on the geographical region, industry, end-use and more. Upon approval at the immediate customer, it further can take three to five years to approve the additives before the manufacturer gets the nod as an additive supplier by an end-customer. This means the additive end-users are likely to source tested additives from established suppliers to avoid expensive and lengthy validation tests. This process creates a high entry barrier for a Company in new customers, geography and applications.

Patents: The company has 5 patents in India and 4 patents globally.

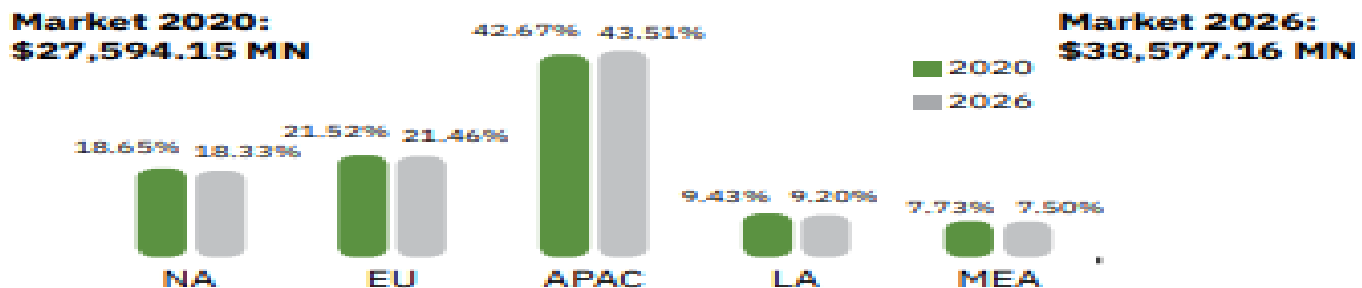


The company is in the process of setting up wholly owned subsidiary in China. With China shifting towards greener alternatives, Fine organics' products fine ready acceptance over there. The company is already exporting to China & find immense opportunity.

Growth Drivers

The fast-growing demand for biodiesel as well as the Fast-Moving Consumer Goods (FMCG) industry, are the key determinants driving the market's expansion. Furthermore, the growing adoption of oleochemicals by chemical manufacturers to produce bio-surfactants, biolubricants and biopolymers as sustainable alternatives to the petrochemicals is a major growth driver. The market is driven by rising consumer demand for natural items such as organic soaps, food additives, cosmetics and so on. Additionally, Rapid industrialisation around the world is another key driving market expansion. Furthermore, the manufactures are keen to introduce sustainable oleochemicals and reduce carbon footprint in order to create the brand-image of environmentally responsible businesses.

REGIONAL CONTRIBUTION 2020-2026 (% SHARE)



Global Oleochemicals Market by Segment 2020 (% share)

Key Risks

Raw material cost increment: The prices of vegetable oil are determined by global and domestic demand-supply output, other climatic/crop factors, extensive usage in making bio diesel and sustainable aviation fuel and tariff changes implemented by the Indian Government and exporting countries may cause price volatility and swings. Recent Russia invasion on Ukraine has also fueled up prices and disrupted supplies.

Stringent customer specification : Our Specialty additives are subject to strict customer specification requirements in terms of manufacturing processes and products. Any failure on the part of the manufacturer or supplier to comply with the applicable customer specifications may lead to cancellation of existing and future orders, recalls or warranty claims or civil claims. If products fail to meet customers' quality standards, it could be removed from end-user customers' 'approved supplier' list.

No long term contracts with suppliers: The Company does not enter into contracts for duration exceeding three to six months with any of its supplier base depending upon products, Suppliers and prevailing situation. Any disruption in the supply of the raw materials can disrupt the Company's manufacturing operations.

Foreign exchange risks: The Company is exposed to foreign exchange risks emanating from business, assets and liabilities denominated in foreign currency. Our export sales constitute approx.60% of our Revenue from Operations in value term. Most of our sales to overseas customers are denominated, predominantly in USD and Euro. We import goods, primarily Raw materials which is approx. 30% in value term of our total Raw material procurement and mainly denominated in USD. In order to hedge foreign currency exposure, the Company uses forward contracts as hedging instruments from time to time for exports as well as imports.

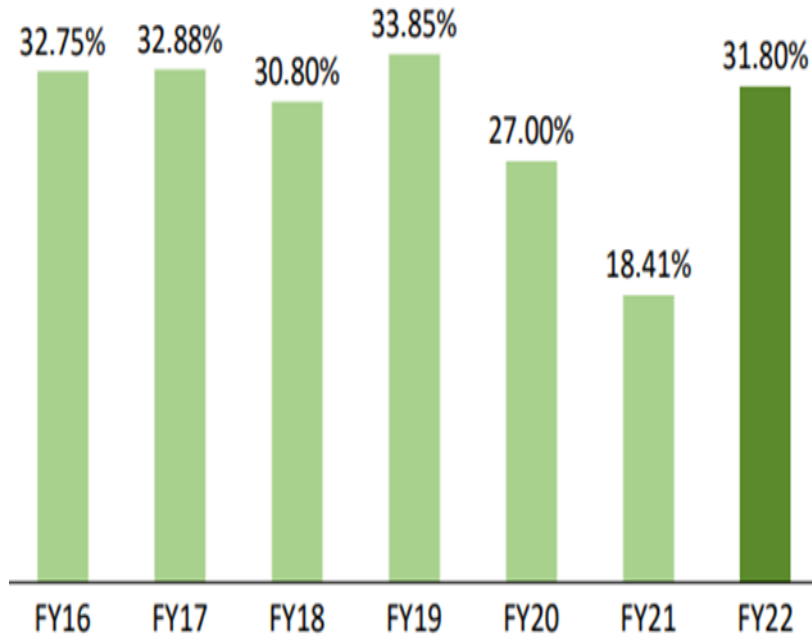
Legal issues: In addition to Indian laws, rules, and regulations, we must also comply with the laws, rules, and regulations in each country where we sell our products like all chemical companies, Fine Organics is also subjected to foreign, central, state, local laws and regulations related to pollution, environment, generation, storage, handling, transportation, treatment, disposal and remediation of hazardous substances and waste materials. Changes in environmental regulations could also inhibit or interrupt the Company's operations

Q1FY23 Consolidated Profit & Loss Statement

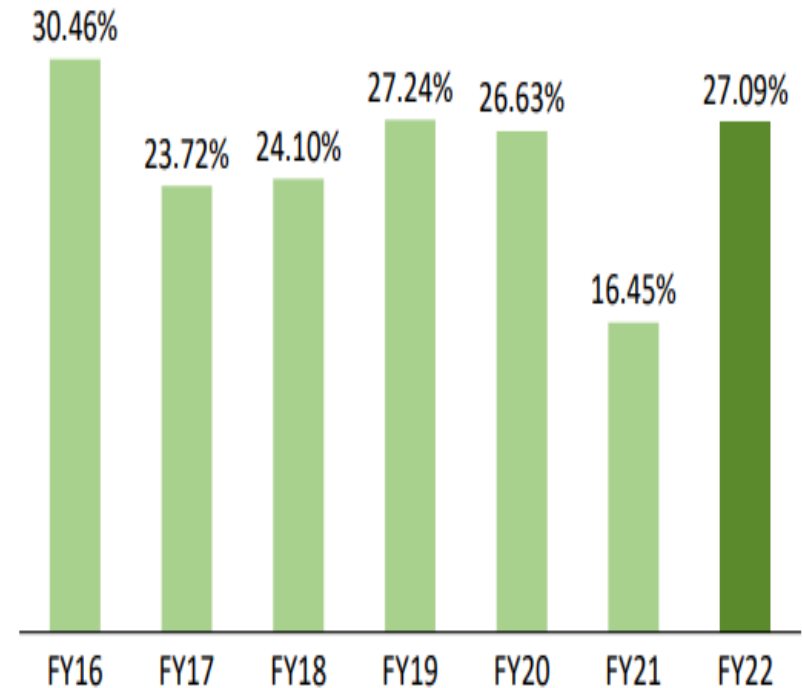


Particulars (Rs in Crs)	Q1FY23	Q1FY22	YoY	Q4FY22	QoQ	FY22
Revenue from Operations	747.7	357.6	109%	616.9	21%	1,876.3
Cost of Raw Material Consumed	422.1	242.2		345.2		1,187.9
Gross Profit	325.6	115.4	182%	271.7	20%	688.4
Gross Profit Margin	43.5%	32.3%		44.0%		36.7%
Employee Cost	25.8	21.1		25.2		89.3
Other Expenses	85.2	42.2		86.9		234.6
Share of profit /(loss) of Joint ventures	-0.2	-0.5		-0.3		-1.0
EBITDA	214.4	51.6	316%	159.3	35%	363.5
EBITDA Margin	28.7%	14.4%		25.8%		19.4%
Other Income	16.6	5.9		14.4		33.1
Depreciation	11.1	9.5		10.6		39.9
EBIT	219.9	48	358%	163.1	35%	356.7
EBIT Margin	29.4%	13.4%		26.4%		19.0%
Finance Cost	1.2	1.3		1.4		5.1
PBT	218.7	46.7	368%	161.7	35%	351.6
PBT Margin	29.2%	13.1%		26.2%		18.7%
Tax	58.9	10.6		40.0		91.8
PAT	159.8	36.1	343%	121.7	31%	259.8
PAT Margin %	21.4%	10.1%		19.7%		13.8%
Other Comprehensive Income	0.0	0.6		1.2		2.7
Total Comprehensive Income for the year / period	159.8	36.7	335%	122.9	30%	262.5
EPS*	52.1	11.7		39.8		84.7

Return on Capital Employed



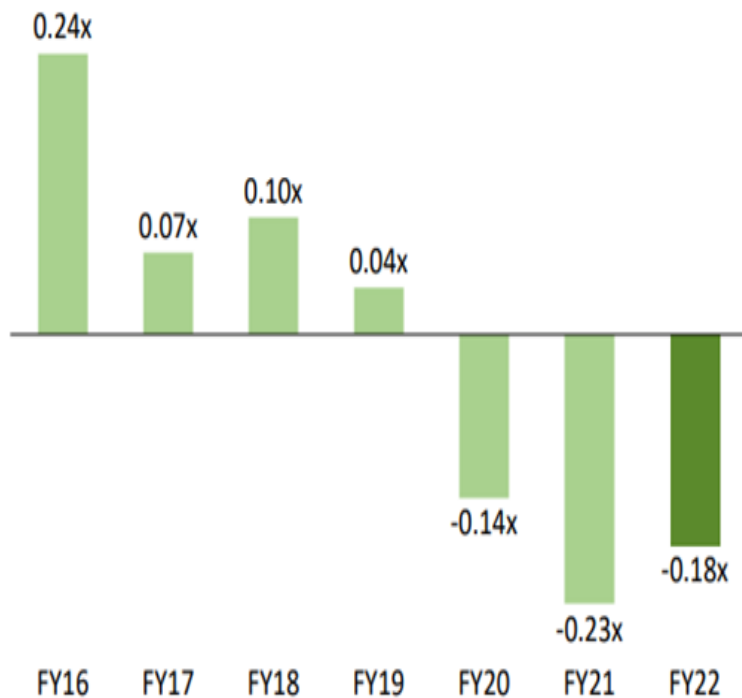
Return on Net Worth



Return on Capital Employed = EBIT (excluding Other Income and including share of profit / (loss) of JV (net of tax)) / (Total Debt + Total Net worth)

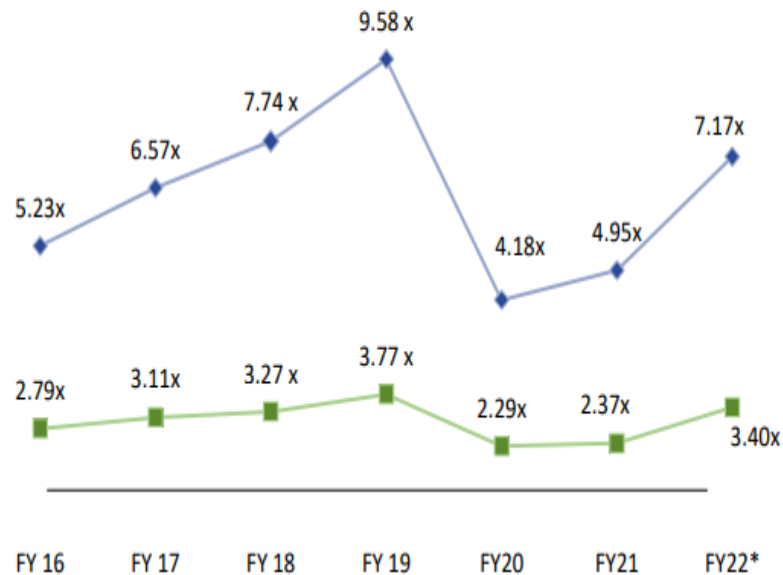
Return on Net Worth = Net Profit After Tax / Total Net Worth

Net Debt to Equity



Net Debt = Total Long term debt + short term debt + current of maturities of long term debt – cash and bank balances

Fixed Asset Turnover

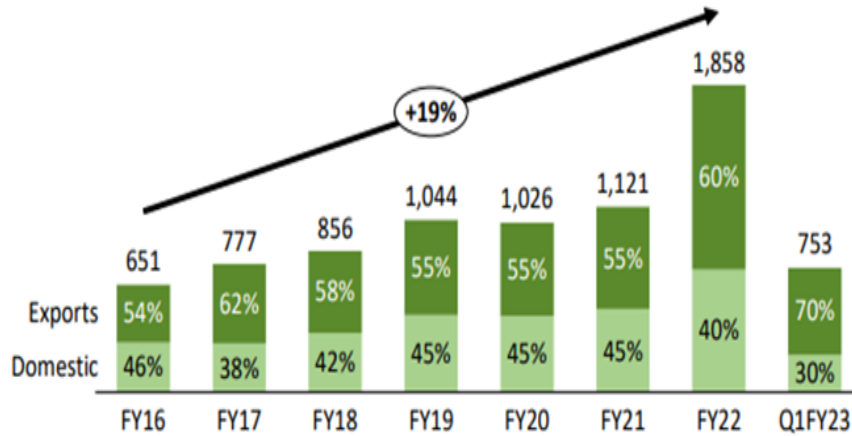


■ Fixed Asset Turnover (Gross) = Net Revenue from Operations / Total Gross Block of Fixed Assets including Land

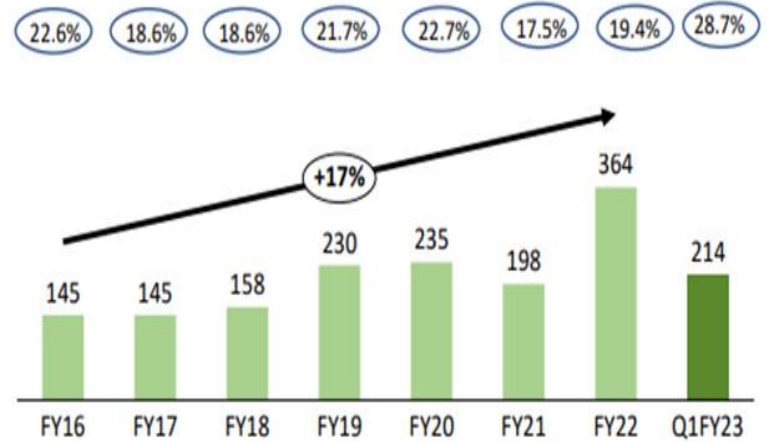
◆ Fixed Asset Turnover (Net) = Net Revenue from Operations / Total Net Block of Fixed Assets including Land

Rs in Crores

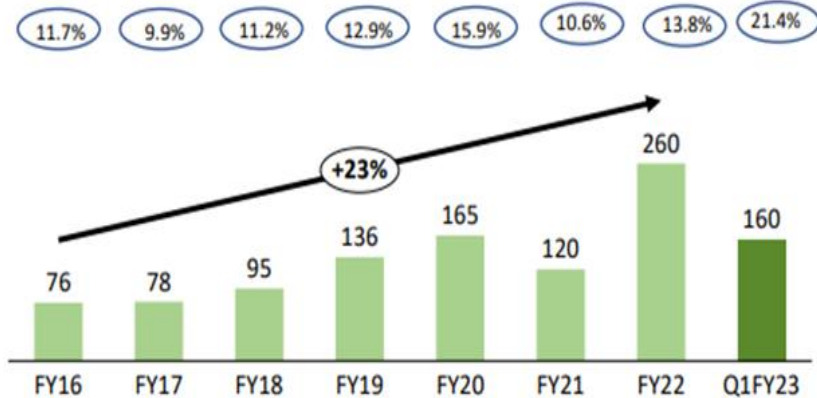
Revenues



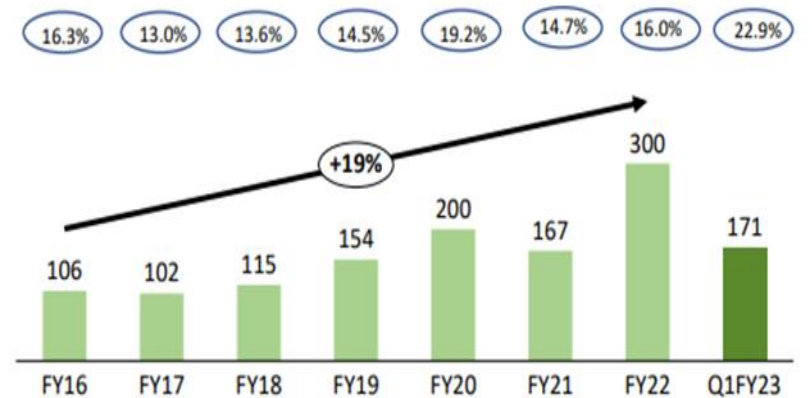
Operating EBITDA & Margins*



PAT & Margins



Cash PAT & Margins



Key Ratios	FY 2020-21	FY 2021-22
Inventory Turnover (X) Net Credit Sales/Average Inventories	9.82	11.97
Interest Coverage Ratio (X) (Earnings Before Interest and Taxes(-) Other Income/ Finance Cost)	23.86	61.04
Current Ratio(X) (Current Assets/Current Liabilities)	3.93	3.56
Debt Equity Ratio (X) (Total Debt/Shareholders Equity)	0.12	0.06
Debtors Turnover (X) (Net Sales/Average Accounts Receivables)	7.00	7.33
Operating Profit Margin (%) (Profit Before Interest and Taxes(-) Other Income/Net Sales)	12.96%	16.61%
Net Profit Margin(%) (Net Profit after Taxes/Net Sales)	10.25%	13.49%
Return on Net-worth(%) (Net Profit after Taxes/ Average Shareholders Equity)	16.97%	29.54%

KEY RATIOS ANALYSIS

- The Company posted strong net revenue from operation 1,85,842.83 lakhs in 2021-22 as against 1,12,129.01 lakhs in 2020-21 representing increase of 65.74% over the previous year.
- EBIDTA of the Company recorded increase of 81.46% from 9,206.95 lakhs in 2020-21 to 34,852.40 lakhs in 2021-22. The EBIDTA margin improved from 17.13% in 2020-21 to 18.75% in 2021-22.
- PAT of the Company increased by 120.46% from 11,493.58 lakhs in 2020-21 to 25,338.43 lakhs in 2021-22. The PAT margins improved from 10.25% in 2020-21 to 13.63% in 2021-22.
- Company has delivered good profit growth of 27.2% CAGR over last 5 years
- Company has a good return on equity (ROE) track record: 3 Years ROE 26.2%
- Company has been maintaining a healthy dividend payout of 17.2%

CONCLUSION

“ WE MAY BUY “

- **Strong Technical know-how** : The process of making oleo-chemical based derivatives is a complex process and requires prudent research and development. A Technical Pinch of salt in the end product makes a HUGE difference in the product performance.
- Fine organics is the **leading manufacturer of green additives** and enjoys premium margins with only a few players dominating the industry globally.
- **High level of customer loyalty and satisfaction** : Lengthy & expensive product approval processes lead to high switching costs for customers. Fine organics has loyal customer base as performance ingredients are very critical to their end products.
- It has great financials indicating sustainable growth
- Consumer preference shifting towards eco-friendly plastics, especially ones used in food packaging.
- Steady rise in demand for natural cosmetics and medicines.

DISCLAIMER : We are not SEBI registered. The information provided here is for education purpose only.