

Fine Organic Industries Ltd.

Fine Organic Industries Ltd (FOIL) is the largest manufacturer of oleochemical-based additives in India and a strong player globally. FOIL produces a wide range of specialty plant derived oleochemical-based additives used in food, plastic, cosmetics, paint, ink, coatings and other specialty application in various industries. As at March 31, 2018, company had a range of 387 different products sold under the 'Fine Organics' brand.

Largest producer of Oleochemical-based additives in India: FOIL commands largest market share in Oleochemical-based additives in India and is also one of the sixth and fifth global players in food and plastic additive industry respectively. FOIL is the first company to introduce slip additives in India, which gives the company a first-mover advantage.

Specialized business model with high entry barriers: FOIL manufactures specialty chemicals (derived from derivatives of vegetable oils) that require specialized skills, processes and equipments in order to match the quality of standard in the countries in which they are sold, as set by various regulations, industry bodies and by customers. This provides FOIL a significant advantage and restricts to new entrants, hence curtails competition.

Diversified and long-term association of customer base: With presence of extensive distribution network in India and worldwide, FOIL has been able to sell its products in 69 countries. FOIL's customer base comprises of direct customers and distributors. With the help of distributors, the company has been selling its product to more than 5,000 customers; few of the customers are engaged with the company for more than a decade.

Capacity addition to aid top-line growth going ahead: FOIL currently has 64,300 t.p.a. installed capacity and intends to almost double the same in the next 3-4 years through own and JVs in India and overseas. Current installed capacity is near to fully utilization level.

Outlook & valuation: In terms of valuation, pre- issue works out to 22x of annualized FY18 EPS of ₹35 (at the upper end of the issue price band). We believe FOIL is strategically placed owing to (a) market leadership in Slip additive, (b) maintaining healthy operating margin in the range of 18-22% and (c) diversified client base along with geography mix. However, due to lack of immediate triggers in revenue growth owing to near to utilization level of current capacity and no major capacity additions in near future, we have a **NEUTRAL** view on the issue.

Exhibit 1: Key Financial

Y/E March (₹ cr)	FY2015	FY2016	FY2017
Net Sales	607	652	778
% chg	-	8	19
Net Profit	53	76	78
% chg	-	44	2
EBITDA (%)	18.3	22.3	18.7
EPS (Rs)	17	25	26
P/E (x)	45	31	31
P/BV (x)	12	9	7
RoE (%)	26	30	24
RoCE (%)	37	42	37
EV/EBITDA	22	16	16

Source: RHP, Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

NEUTRAL

Issue Open: June 20, 2018

Issue Close: June 22, 2018

Present Eq. Paid up Capital: ₹15.3cr

Offer for Sale: **0.76cr Shares

Post Eq. Paid up Capital: ₹15.3cr

Issue size (amount): *₹598 -**₹600cr

Price Band: ₹780-₹783

Lot Size: 19 shares and in multiple thereafter

Post-issue implied mkt. cap: *₹2390cr
**₹2401cr

Promoters holding Pre-Issue: 100%

Promoters holding Post-Issue: 75%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	75%
Others	25%

Kripashankar Maurya

+022 39357600, Extn: 6004

kripashankar.maurya@angelbroking.com

Company background

Fine Organic Industries Limited (FOIL) is the largest manufacturer of oleochemical-based additives in India and a strong player globally in this industry. FOIL produces a wide range of specialty plant derived oleochemicals-based additives used in the Food, Plastic, Cosmetics, Paint, Ink, Coatings and other Specialty Application in various industries. Fine Organics has a range of 387 different products sold under the 'Fine Organics' brand. FOIL is the first company to introduce slip additives in India and it is the largest producer of slip additives in the world. Fine Organics currently has 64,300 t.p.a capacity and is planning to set up an additional production facility in Ambernath with a planned installed capacity of 32,000 t.p.a. FOIL sells its products in 69 countries through 127 distributors (who sell their products to more than 5,000 customers) and 631 direct customers.

Product portfolio

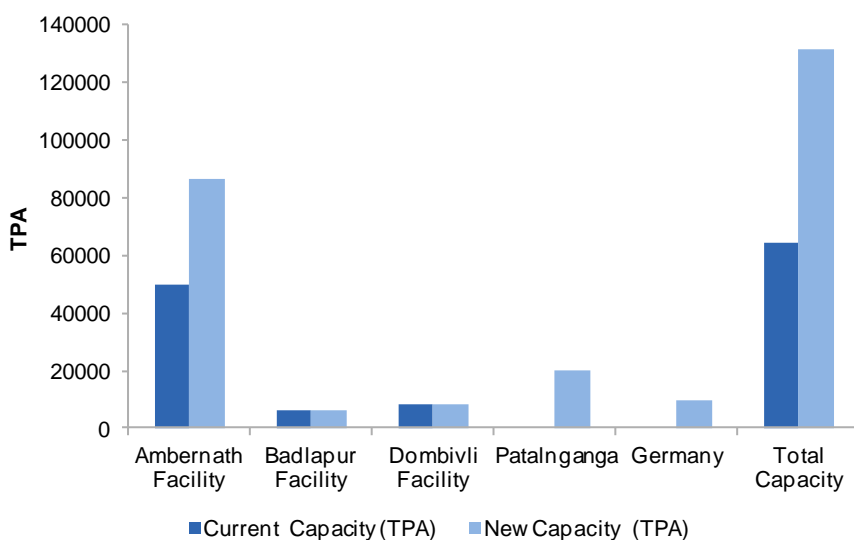
Plastics Additives	Usage
Slip Agents	Friction reducing additives
Anti-Stats	Mitigates build-up of electrical charges
Lubricants	Flow improvers and mould release agents
Processing Aids	Helps in melting high molecular weight polymers
Anti-Foggin	Converts water droplets formed on plastic films into a continuous transparent water layer

Source: Company, Angel Research

Food & Other Additives	Usage
Emulsifiers	Extracts desired aesthetic structure and texture
Preservatives	Preventing food from spoilage or toxic
Food & Beverage	Used in biscuits, voluminous sponge, chewing gums, etc.
Cosmetic & Pharmaceutical	Added to creams, gels, lotions, varnishes, etc.
Rubber	Additives for elastomers to reduce dampening / abrasion
Paint & Coating	Anti-settling agents, emulsifiers, anti-sagging agents
Feed Nutrition	Replace harmful antibiotics & improve feed nutrition

Source: Company, Angel Research

Exhibit 1: Capacity



Source: Company, Angel Research

Issue Details

The company is raising ~`600cr through an offer for sale in the price band of `780-`783. The offer will constitute ~25% of the post-issue paid-up equity share capital of the company, assuming the issue is subscribed at the upper end of the price band. The company is offering 0.76cr shares that are being sold by Promoters.

Exhibit 2: Pre and Post-IPO shareholding pattern

	No of shares (Pre-issue)		% No of shares (Post-issue)	
Promoter	30,659,976	100%	22,994,982	75%
Other	0	0%	7,664,994	25%
	30,659,976	100%	30,659,976	100%

Source: RHP, Angel Research; Note: Calculated on upper price band

Objects of the offer

- As the issue is an offer for sale, company will not receive any proceeds from the offer.

Key Management Personnel

Prakash Damodar Kamat: He is an Executive Director and Chairman of FOIL. He holds a Masters degree in science and technology (oils) from Institute of Chemical Technology (formerly UDCT), University of Bombay. He joined Fine Organic group in 1970 and has been associated with Fine Organic group since inception. He has work experience in product development, process technology and research and development. He received the distinguished alumni award in 1999 from the UDCT for his commitment and depth of knowledge of paints, plastics, oils, textiles, metal working and food industries in India and overseas. He is a co-founder of FOIL and has played a key role in developing several products, processes and leading engineering research and development.

Mukesh Maganlal Shah: He is an Executive Director and Managing Director of FOIL. He holds a Bachelors degree in science from the University of Bombay. He joined Fine Organic group in 1973 and played a key role in establishing the quality control, sales and marketing departments at Company. He formed and guided a team of sales and marketing professionals that helped the organization's products reach customers across India and find applications beyond the food industry. He has been associated with Company since inception.

Jayen Ramesh Shah: He is an Executive Director and Chief Executive Officer of FOIL. He holds a Masters degree in science from the University of Bombay. He joined Fine Organic group in 1986 and was instrumental in creating a vendor partner network needed to support Company. He played a key role in developing and managing channel partners for the organizations products in India. He has experience in procurement, vendor development and business development. He has been associated with our Company since inception.

Tushar Ramesh Shah: He is the Executive Director and Chief Financial Officer of FOIL. He has completed second year while pursuing for Bachelors in science (S.Y. B.Sc.) from the University of Mumbai. He joined Fine Organic group in 1989 and led several change management initiatives like the introduction of enterprise resource planning, customer relationships management and financial systems that helped FOIL to scale up operations. He played a key role in the development of FOIL's first slip additive manufacturing facility.

He helped in the setting up of offices in North America and Europe. He has been associated with FOIL since inception.

Bimal Mukesh Shah He is the Executive Director of FOIL. He holds a Bachelors degree in science from Purdue University and a Masters degree in management from Boston College. He joined Fine Organic group in 2009. Under the mentorship of Prakash Damodar Kamat, Bimal Mukesh Shah has transitioned into a position to lead several initiatives for upcoming projects, processes and additional capacities. He has experience in operations, instrumentation and projects.

Investment Argument

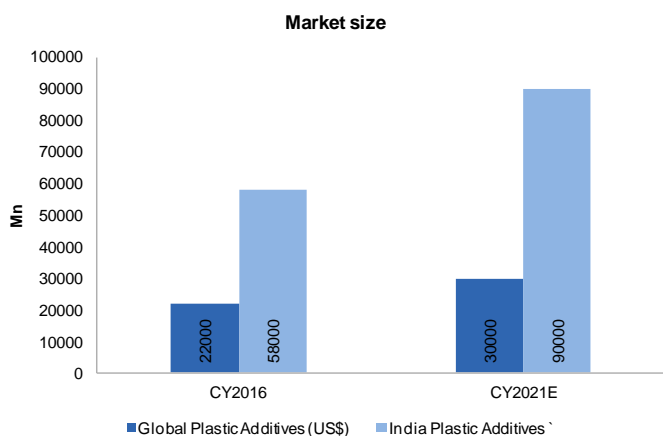
Largest producer of oleochemical-based additives in India

FOIL is the largest manufacturer of oleochemical-based additives in India and one of the few large players in global oleochemical-based additives industry. FOIL is 1 of 6 global players in the food additives industry and 1 of 5 global players in the plastic additives industry. The 'Fine Organics' brand has a legacy of over 44 years and the brand is widely recognized in the major markets in which the company competes. Although FOIL has only been operating for over 15 years, the 'Fine Organics' brand is in use by Promoter Group entities since 1973. FOIL manufactures a wide range of oleochemical-based additives in India. Fine Organics is the first company to introduce slip additives to the Indian market. FOIL is among the few other players who manufacture oleochemical-based additives in India. However, FOIL has only partial presence in the oleochemicals-based additives portfolio. The company has a huge first-mover advantage in India, alongside various other competitive advantages over other global players. This gives FOIL an advantage in pricing products competitively and allows to provide stiff competition to new players.

Diversified product portfolio catering to a variety of high growth industries

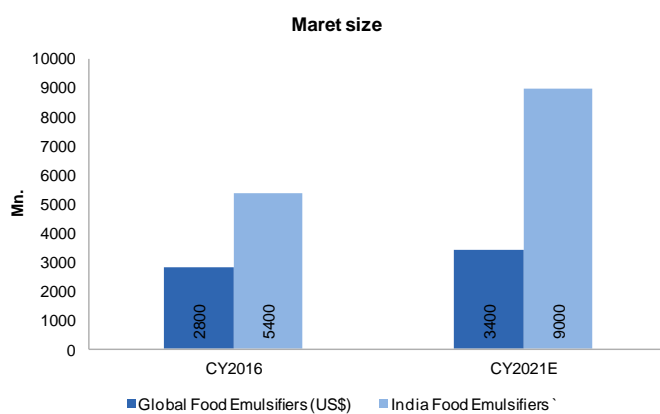
FOIL has a range of 387 products sold under the 'Fine Organics' brand, used in the (a) plastic industry and (b) food industry and others (cosmetics, printing inks, coated papers, lube additives, wires and cables, coatings and other specialty applications) industries. The Indian and global food emulsifiers market is expected to grow to Rs9 billion (at a CAGR of 10-12%) and USD 3.4 billion (at a CAGR of 4.1%) over FY16-21 respectively. The Indian and global plastic additive market is expected to grow to Rs55-60 billion (at a CAGR of 8-10%) and USD 30 billion (at a CAGR of 6%) over FY16-21 respectively.

Exhibit 3: Plastics Additive



Source: RHP, Angel Research

Exhibit 4: Food Additive



Source: RHP, Angel Research

Specialised business model with high entry barriers

There are multiple entry barriers for a new entrant in the global oleochemical-based additives industry, such as product formulations, process technology and customer stickiness to established players. Sometimes end users typically take three to five years to approve additives, after which the additive manufacturer can supply on a commercial basis. As a result, FOIL is one of the few large global players in this industry. FOIL's products require specialized skills, processes and equipment, as manufacturing additives from base oleochemicals is a highly complex process. Therefore, many of FOIL's specialty and formulated products are also difficult to replicate. This provides the company with a significant advantage over new entrants, as competitors would need to invest a great deal of resources to gain a foothold in the markets in which they compete.

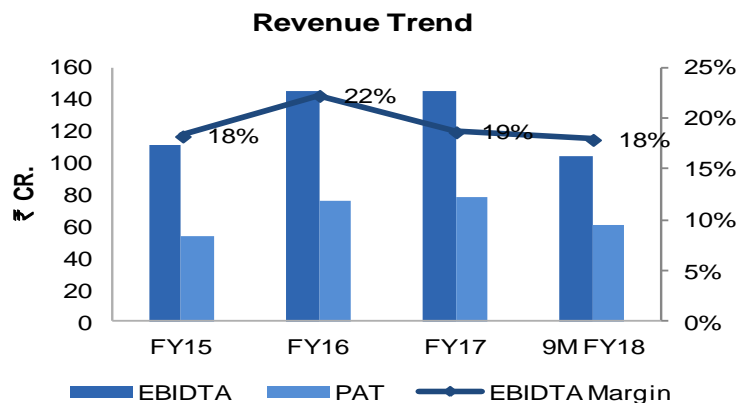
Diversified customers base with long-term relationships with marquee customers

FOIL's customer base comprises direct customers and distributors. Direct customers are end-users of its products. Distributors are entities that purchase the products and then sell these products. Currently, FOIL had 631 direct customers and 127 distributors (who sell to more than 5,000 customers). Their 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. FOIL has an extensive distribution network in India and worldwide, enabling their products to be sold in 69 countries.

Robust performance

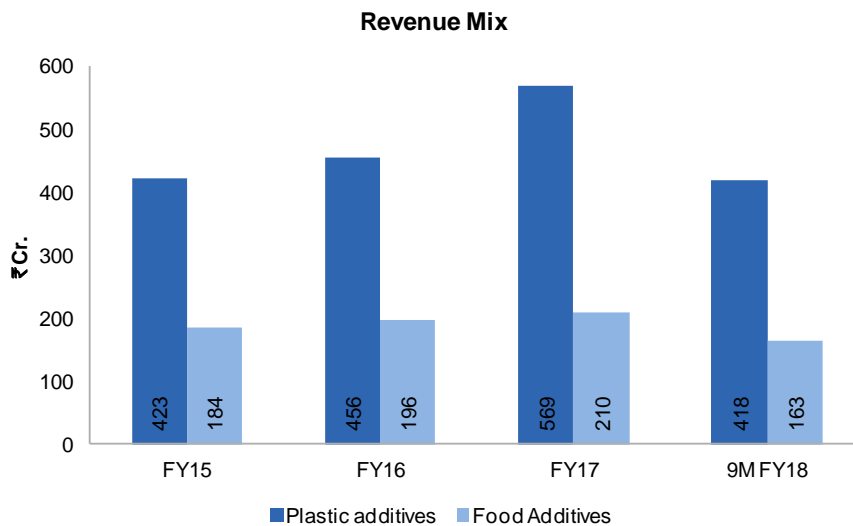
FOIL's net revenue has grown at CAGR 13.52% over FY15-17, due to capacity expansion at Ambarnath facility in the year 2015 and margin has been in the range of 18-22%. Due to improvement in margin and reduction in debt has helped PAT to grow at CAGR 21% during the same period from ₹53cr to ₹78cr.

Exhibit 5: Revenue and PAT trend



Source: RHP, Angel Research

Exhibit 6: Revenue Mix



Source: Company, Angel Research

Outlook & valuation:

In terms of valuation, pre- issue works out to 22x of annualized FY18 EPS of `35 (at the upper end of the issue price band). We believe FOIL is strategically placed owing to (a) market leadership in Slip additive, (b) maintaining healthy operating margin in the range of 18-22%, (c) diversified client base along with geography mix (Top client contribute ~3% of revenue), and (d) Indian food industry is expected to grow at CAGR of 13-15% over FY17-2022. However, due to lack of immediate triggers in revenue growth owing to 100% utilization of current capacity and no major capacity additions in near future, we have a **NEUTRAL** view on the issue.

Key Risks

Raw material prices

FOIL's key raw material is vegetable derivative oil, changes in demand supply pattern of derivative oil may adversely affect operational efficiency of the company.

Currency risk

Company's majority of revenue comes from export segment; any adverse fluctuation in movement of currency may impact earnings of FOIL.

Income statement

Y/E March (₹ cr)	FY2015	FY2016	FY2017
Total operating income	607	652	778
% chg	-	8	19
Total Expenditure	496	507	633
Raw Material	382	388	498
Personnel	44	55	64
Others Expenses	69	65	71
EBITDA	111	145	145
% chg	-	31	0
(% of Net Sales)	18	22	19
Depreciation & Amortisation	23	30	24
EBIT	88	116	122
% chg	-	31	5
(% of Net Sales)	15	18	16
Interest & other Charges	8	8	5
Other Income	2	10	4
(% of PBT)	2	9	4
Extraordinary Items	0	0	0
Share in profit of Associates	-	-	-
Recurring PBT	83	118	122
% chg	-	42	3
Tax	29	41	43
PAT (reported)	53	76	78
% chg	-	44	2
(% of Net Sales)	9	12	10
Basic & Fully Diluted EPS (Rs)	110	158	162
% chg	-	44	2

Source: RHP, Angel Research

Balance Sheet

Y/E March (₹ cr)	FY2015	FY2016	FY2017
SOURCES OF FUNDS			
Equity Share Capital	4.8	4.8	4.8
Reserves& Surplus	202	246	324
Shareholders Funds	207	251	329
Total Loans	29	21	0
Other Liab & Prov	0	0	0
Total Liabilities	237	272	329
APPLICATION OF FUNDS			
Net Block	102	103	97
Capital Work-in-Progress	8	6	3
Investments	0	5	11
Current Assets	154	205	221
Inventories	64	76	92
Sundry Debtors	86	87	111
Cash & Bank	3	42	18
Loans & Advances	54	42	61
Other Assets	53	55	53
Current liabilities	135	143	117
Net Current Assets	19	62	105
Other Non Current Asset			
Total Assets	237	272	329

Source: RHP, Angel Research

Cash Flow Statement

Y/E March (₹ cr)	FY2015	FY2016	FY2017
Profit before tax	83	118	122
Depreciation	23	30	24
Change in Working Capital	85	149	96
Interest / Dividend (Net)	(0)	(1)	(1)
Direct taxes paid	(35)	(40)	(49)
Others	(105)	(146)	(144)
Cash Flow from Operations	50	109	46
(Inc.)/ Dec. in Fixed Assets	(46)	(24)	(15)
(Inc.)/ Dec. in Investments	4	(4)	(1)
Cash Flow from Investing	(43)	(28)	(16)
Issue of Equity	-	-	-
Inc./(Dec.) in loans	-	-	(33)
Others	(10)	(53)	(23)
Cash Flow from Financing	(10)	(53)	(55)
Inc./(Dec.) in Cash	(3)	28	(25)
Opening Cash balances	6	3	31
Closing Cash balances	3	31	14

Source: RHP, Angel Research

Key Ratio

Y/E March	FY2015	FY2016	FY2017
Valuation Ratio (x)			
P/E (on FDEPS)	45.1	31.4	30.6
P/CEPS	31.7	22.6	23.5
P/BV	11.6	9.5	7.3
EV/Sales	4.0	3.6	3.1
EV/EBITDA	21.9	16.4	16.4
EV / Total Assets	10.3	8.7	7.2
Per Share Data (Rs)			
EPS (Basic)	110.2	158.3	162.2
EPS (fully diluted)	17.4	24.9	25.6
Cash EPS	24.7	34.6	33.3
DPS	5.5	5.5	5.9
Book Value	67.6	82.7	107.4
Returns (%)			
ROCE	37.3%	42.1%	37.0%
Angel ROIC (Pre-tax)	39%	52%	41%
ROE	25.7%	30.2%	23.8%
Turnover ratios (x)			
Inventory / Sales (days)	39	43	43
Receivables (days)	52	49	52
Payables (days)	32	30	30
Working capital cycle (ex-cash) (days)	59	61	65

Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

DISCLAIMER

Angel Broking Private Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and Metropolitan Stock Exchange Limited. It is also registered as a Depository Participant with CDSL and Portfolio Manager with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Private Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Pvt. Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Pvt. Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Pvt. Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel Broking Pvt. Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

DISCLAIMER

Angel Broking Private Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and Metropolitan Stock Exchange Limited. It is also registered as a Depository Participant with CDSL and Portfolio Manager with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Private Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Pvt. Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Pvt. Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Pvt. Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel Broking Pvt. Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Disclosure of Interest Statement	Company Name		
1. Financial interest of research analyst or Angel or his Associate or his relative	No		
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No		
3. Served as an officer, director or employee of the company covered under Research	No		
4. Existing relationship with company covered under Research	Nil		

Ratings (Based on expected returns over 12 months investment period):	<i>Buy (> 15%)</i>	<i>Accumulate (5% to 15%) Reduce (-5% to -15%)</i>	<i>Neutral (-5 to 5%) Sell (< -15)</i>
--	-----------------------	--	---