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Issue Details	
Price Band (Rs)	780-783
Face Value(Rs)	5
Issue Size(Rs)	600cr
Issue Type	Book building
Minimum lot	19 shares
Issue Opens	June 20,2018
Issue Closes	June 22,2018
Listing on	NSE, BSE

Indicative Timeline	On or before
Finalization of Allotment	June 27, 2018
Initiation of refund	June 28, 2018
Credit of Shares to Demat Accounts	June 28, 2018
Listing on Stock Exchanges	July 02, 2018

Other Detail	
Book Running Lead Managers	JM Financial Ltd. & Edelweiss Financial Services Ltd.
Registrar	Karvy Computershare Pvt. Ltd.

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FINE ORGANIC INDUSTRIES LTD.

Company Background

Incorporated in 2002, Mumbai based Fine Organic Industries Limited (Fine Organics) is engaged in manufacturing of oleochemical-based additives. Fine Organics is the largest manufacturer of oleochemical-based additives in India and a strong player globally. The company 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. The plastics additives and specialty additives are also used in the packaging of foods and other fast moving consumer goods.

Fine Organics has three production facilities in Ambarnath, Badlapur, and Dombivali in Maharashtra. As of Dec 31, 2017, these three facilities have a combined installed capacity of approximately 64,300 tonnes per annum. Currently, the company has a 387 different range of products. These are sold under the 'Fine Organics' brand. Further, the company has a subsidiary in Europe and North America, and it sells directly to selected large direct customers.

Issue Details

The company through the IPO will be raising Rs. 600cr through an offer for sale worth at an upper price band of Rs 783/- by offering 76,64,994 equity shares of face value of Rs. 5 each. Fine Organics will not receive any proceeds from the offer and all the proceeds will go to the Promoter Group Selling Shareholders. Issue would comprise 25% of post offer paid up capital.

Objectives of the issue

The objective of the offer is to achieve the benefits of listing equity share. Fine Organics believes that listing of equity shares will enhance the company's brand name and simultaneously provide liquidity to the existing shareholders.

IPO share allotment pattern

Category	Allocation	Number of Shares	Issue Size (Rs.Cr) at	
			Lower Band (Rs.780)	Upper band (Rs.783)
QIB	50%	38,32,497	299	300
Non-Institutional Investors	15%	11,49,749	90	90
Retail Individual	35%	26,82,748	209	210
Total	100%	76,64,994	598	600

Source: Company RHP, ACMIIL

Outlook and Valuations

Fine Organics is one of India's largest manufacturers of oleochemical-based additives and a strong player globally. The company is well positioned to benefit from favorable industry dynamics as demand for oleochemical from global and domestic markets, which are expected to grow at 5-6% and 12-15% respectively for next few years. Further, we believe a rapid increase in substitutes by plastic materials followed by rise in demand for healthy packed foods would augur well for companies such as Fine Organics. At a higher

price band of Rs. 783/-, the company's stock trades at 29.5x its FY18E EPS of Rs 26.5/-, which is fairly valued. Hence, we recommend to **SUBSCRIBE** the issue on long-term basis.

Business Overview

Fine Organics one of India's largest manufacturers of oleochemical-based additives and a strong player globally. The company 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. It is the first company to introduce slip additives in India and is the largest producer of slip additives in the world.

As on Dec 31, 2017, the company has 603 direct customers (i.e. end-users of their products) and 127 distributors (who sold their products to more than 5,000 customers) from 67 countries. Fine Organics's direct customers are multinational, regional, and local players manufacturing consumer products such as Hindustan Unilever, Parle Products, and petrochemical companies and polymer producers globally. The company's products are manufactured on a job-work basis by Olefine Organics ("Olefine"), a partnership firm and a Promoter Group entity, at a manufacturing facility in Ambernath, Maharashtra.

Further, the company has a dedicated research and development ("R&D") centre located in Mahape, Navi Mumbai. Their R&D activities are focused on improving production processes, improving the quality of existing products, creating new additives and creating downstream products. Currently, they are conducting research and development for new products such as fatty amines, polyglycerols and guerbet alcohols and new organic anti-block 52 additives and new additives to make plastics biodegradable. Moreover, they are also conducting research into new technologies for chemical processing to minimize energy costs.

Major events and milestones

The following table sets forth the major events and milestones in the history of the Company:

Year	Particulars
2005	Research and development centre was established in Mahape, Navi Mumbai
2006	Fatty acid esters facility was commissioned in First Ambernath Facility
2008	Polymer additives facility was commissioned in First Ambernath Facility
2010	Polymer additives capacity was expanded in First Ambernath Facility
2011	Amalgamation of Olefine Organics (India) Pvt Ltd with the Company
2012	Additional food and polymer additives facility was commissioned in First Ambernath Facility
2014	Joint venture was signed with Zeelandia International, a Netherlands based bakery premix manufacturer
2015	Additional food and polymer additives capacity was commissioned in First Ambernath Facility
2017	Amalgamation of Fine Research and Development Centre Private Limited and Fine Speciality Surctants Pvt Ltd
2018	Joint venture agreement was signed with Adcotec, a German company for application, development, marketing, distribution & sales activities of food & food additives

Investment Rationale

Largest Producer of Oleochemical-based Additives

Fine organics is the largest manufacturer of oleochemical-based additives in India and one of the few large players in global oleochemical-based additives industry. It is of one the six global players in the food additives industry & one of the five global players in the plastics additives industry. The 'Fine Organics' brand has a legacy of over 44 years and they believe that the brand is widely recognized in the major markets in which they operate. Company has a huge first-mover advantage in India, alongside various other competitive advantages over other global players. This gives them an advantage in pricing products competitively and thus allows them to provide stiff competition to new players. Hence, no major domestic or global player has set up a manufacturing facility in India.

Diversified Product Portfolio & high entry barriers

As at December 31, 2017, company had 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. Further, revenue contribution from plastics industry & food industry & others stands at 72% & 28% respectively as on 9MFY18. Moreover, company believes that there are multiple entry barriers for a new entrant in the global & local oleochemical-

based additives industry. Being a well-established player in the market, company enjoys good product formulations, solid process technology, and customer stickiness. Consequently, Fine Organics is one of the few large global players in this industry. The company also believes that these high barriers to entry enable them to obtain higher EBITDA and profit margins for their products compared to other manufacturing industries where barriers to entry are lower.

Capacity expansion to drive future growth

Currently, company has three production facilities: one in Ambernath, Badlapur and Dombivali in a Maharashtra State. As at December 31, 2017, these three facilities have a combined installed capacity of approximately 64,300 tonnes per annum.

Plant	Capacity (tonnes p.a.)	Remarks
Current Operational facilities		
Ambernath Facility	49,500	NA
Badlapur Facility	6,400	NA
Dombivali Facility	8,400	Acquired on 30th Nov 2017
Total Capacity	64,300	
Proposed Expansion Plans		
2nd Ambernath Facility	5,000	Contract Manufacturing
Fine Zeelandia (Patalganga)	10,000	Q1FY19
3rd Ambernath Facility	32,000	Q4FY19
German Facility	10,000	Q3FY20
Patalganga Facility	10,000	Yet to be finalized
Total Capacity	67,000	
Source: Company RHP, ACMIIL		

Above table indicates company's future plan strategy. Company is planning to set up an additional production facility in Ambernath with a planned installed capacity of 32,000 tonnes per annum & they expect it to commence operations by Q4FY19. In addition, they are also planning to set up a new production facility under 50:50 JV in Leipzig, Germany with a planned initial installed capacity of 10,000 tonnes per annum & they expect it to commence operations by Q3FY20. Moreover, company is also in the preliminary stages of planning the development of two additional production facilities: one in Patalganga (Maharashtra) with a planned initial installed capacity of approximately 10,000 tonnes per annum and one in Ambernath (Maharashtra) for which they are awaiting possession of the land and have yet to decide on the planned initial installed capacity. Also, since inception, company has looked to expand their product range into segments that they believe offer high growth potential & hence company is planning to diversify and strengthen their business by manufacturing and distributing premises for bakery and confectionary products and pan release agents. Fine Zeelandia Private Limited ("Fine Zeelandia"), a joint venture company in which they have a 50% equity interest, is in the process of setting up a new manufacturing facility in Patalganga to manufacture these products (the "Fine Zeelandia Facility"). This new facility has a planned initial installed capacity of 10,000 tonnes per annum & company expects it to commence operations in Q1FY19. Overall, company looking to expand its capacity by additional 67,000 tonnes per annum over next few years with an investment cost worth Rs. 250-260cr. Fine Organics utilizes 35% of cash from internal accrual and rest through raising debt for incremental investment. We believe incremental capacity to drive future growth in coming years.

Diversified Customer Base with Long Term Relationships

Fine Organics' customer base comprises of direct customers and distributors. Direct customers are end-users of their products. Distributors are entities that purchase their products and then on-sell these products. In the 12 months ended December 31, 2017, company has 603 direct customers and 127 distributors (who sold their products to more than 5,000 customers). 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. Further, they have an extensive distribution network in India and worldwide, enabling their products to be sold in 67 countries.

Experienced Management Team

Company has a strong management team led by Prakash Damodar Kamat, the co-founder and Chairman, as well as an executive

director of their Company. He has more than four decades of experience in the oleochemical-based additives sector, having co-founded the first Promoter Group entity along with the late Mr. Ramesh Shah and having joined a Promoter Group entity in 1970. Mr. Kamat holds a master's degree in science and technology (oils) from the Institute of Chemical Technology (formerly UDCT), University of Bombay. They have a strong team of professionals to manage the core functional areas such as finance, procurement, manufacturing, logistics, sales and marketing, and human resources. Also, company is driven by experienced Key Management Personnel, who have an average experience of 30 years. They believe that collective experience and capabilities of their management team enable them to understand and anticipate market trends, manage business operations and growth, leverage customer relationships and respond to changes in customer preferences. Over the years, their workforce has grown significantly and as at December 31, 2017, it has 596 full-time employees.

Robust financial position

Company has delivered a robust growth over the last five financial years both in terms of financial and operational metrics. In last five years i.e. FY13-FY17, company's revenue & profitability has grown at a CAGR of 12% and 39% respectively. Moreover, during the same period, company's operating margin has improved from 10.3% in FY13 to 18.7% in FY17. Further, company's export revenue has increased from 53.8% in FY16 to 61.9% in FY17. Moreover, company has developed and commercialized a feed nutrition additive based on natural vegetable oils and company intends to export to selected markets mainly Europe and United States. In additions, company is in the process of establishing a wholly-owned subsidiary in China and are in the process of opening a sales office in Shanghai. The company believes that most of their potential direct customers in China are large petrochemical companies many of which are state-owned. Hence, their sales offices in China would allow them to maintain a presence closer to these large direct customers to help secure their business. Furthermore, the company has strong balance sheet with zero long term borrowings. We believe this provide company a legroom to expand capacity through debt. Fine Organics has delivered a strong return ratio with ROE and ROCE at 25.7% and 35.3% as on FY17. We believe diversification in product offerings and expansion of new capacities will aid future growth.

Risk Factors

- Increase in cost of raw materials could have material adverse effect on result of operations.
- Company does not have long-term agreements with most of their customers.
- Fluctuations of the rupee against other currencies could adversely affect their financial condition and results of operations.

Peer Comparison

There are no direct comparable listed companies in India engaged in the same line of business as the Company, hence comparison with industry peers are not applicable.



Source: Company RHP, ACMIIL

Financials

Income statement

Particulars (Rs Mns)	FY13	FY14	FY15	FY16	FY17	9MFY18
Revenue from operations	4,965	5,672	6,068	6,525	7,782	5,810
Less: Operating exp						
Cost of materials	3,534	3,490	3,867	3,894	5,028	3,781
Purchase of stocks	0	0	21	22	11	17
Changes in inventory	-38	6	-64	-41	-61	46
Employee Benefit Expenses	328	381	443	545	643	379
Other Expenses	632	716	691	651	707	544
Total Expenses	4,456	4,593	4,958	5,071	6,328	4,767
EBITDA	509	1,079	1,110	1,454	1,454	1,043
EBITDA %	10.3%	19.0%	18.3%	22.3%	18.7%	18.0%
Less : Dep & Amortization	114	106	226	296	237	146
EBIT (before Other income)	395	973	884	1,158	1,217	897
Add : Other Income	11	70	20	102	44	88
EBIT (After Other Income)	406	1,043	904	1,260	1,261	985
Less : Finance cost	96	98	77	83	46	30
PBT	310	945	827	1,177	1,215	955
Less : Tax	101	328	295	411	432	346
Net Profit	209	617	532	766	783	609
PAT %	4.2%	10.9%	8.8%	11.7%	10.1%	10.5%
EPS (Rs)	7.21	21.3	18.4	24.9	25.6	26.4

Source: Company RHP, ACMIIL

Balance Sheet

Particulars (Rs Mns)	FY13	FY14	FY15	FY16	FY17	9MFY18
Share Capital	48	48	48	48	48	153
Share capital Suspense	0	0	0	3	3	0
Reserves	927	1,545	1,888	2,493	2,991	3,473
Total Shareholders Fund	975	1,593	1,936	2,544	3,042	3,626
Non Current Liabilities						
Long term borrowings	664	871	553	516	41	0
Deferred tax liabilities	14	8	0	0	0	0
Long term provisions	1	0	0	0	0	0
Total Non Current Liabilities	679	879	553	516	41	0
Current Liabilities						
Short term borrowings	350	201	393	425	362	346
Trade Payables	412	584	534	534	645	779
Other Current Liabilities	140	122	160	162	119	60
Short Term Provision	-2	24	172	9	277	0
Total Current Liabilities	900	931	1,259	1,130	1,403	1,185
Total Liabilities	2,554	3,403	3,748	4,190	4,486	4,811
Assets						
Tangible Assets	753	701	1,237	1,246	1,222	1,175
Intangible Assets	0	0	0	1	2	2
CWIP	27	241	81	57	37	172
Deferred tax assets	0	0	6	30	48	37
Long term loans & advances	28	523	327	345	337	452
Total Non Current Assets	808	1,465	1,651	1,679	1,646	1,838
Current Asset						
Inventories	617	543	644	762	924	871
Trade Receivables	558	765	892	887	1,132	1,183
Cash & Cash Eq	79	92	34	436	215	276
Short Term Loans & Advances	492	531	527	426	569	643
Other Current Assets	0	7	0	0	0	0
Total Current Asset	1,746	1,938	2,097	2,511	2,840	2,973
Total Asset	2,554	3,403	3,748	4,190	4,486	4,811

Source: Company RHP, ACMIIL

Asit C. Mehta

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