



**SMC Ranking**

★ ★ ☆ ☆ ☆ (2/5)

**Issue Highlights**

Industry	FMCG
Offer for sale (Shares)	7,664,994
Fresh Issue (Shares)	0
Net Offer to the Public	7,664,994
Issue Size (Rs. Cr.)	597-600
Price Band (Rs.)	780-783
Offer Date	20-Jun-18
Close Date	22-Jun-18
Face Value	5
Lot Size	19 Shares

**Issue Composition**

	In shares
Total Issue for Sale	7,664,994
QIB	3,832,497
NIB	1,149,749
Retail	2,682,748

**Shareholding Pattern (%)**

Particulars	In shares	
	Pre-issue	Post-issue
Promoters & promoters group	100%	75%
QIB	-	12.50%
NIB	-	3.75%
Retail	-	8.75%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

\*calculated on the upper price band

**Objects of the Issue**

**The objects of the Offer are-**

- The objects of the Offer are to achieve the benefits of listing Equity Shares on the Stock Exchanges and to carry out the sale of up to 7,664,994 Offered Shares by the Selling Shareholders.

**Book Running Lead Manager**

- JM Financial Limited
- Edelweiss Financial Services Limited

**Name of the registrar** Karvy Computershare Private Limited

**About the Company**

Incorporated in 2002, Fine Organic Industries Limited is a company engaged in manufacturing of oleochemical-based additives. 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 has a range of 387 different products sold under the 'Fine Organics' brand. The company currently has three production facilities in Ambernath, Badlapur, and Dombivli in Maharashtra. As of on December 31, 2017, these three facilities have a combined installed capacity of approximately 64,300 tonnes per annum

**Strength**

**Largest Producer of Oleochemical-based Additives in India and one of the Few Large Players in the Oleochemicalbased Additives Industry in the World:** The Company is the largest manufacturer of oleochemical-based additives in India, one of six global players in the food additives industry and one of five 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.

**Diversified Product Portfolio Catering to a Variety of High Growth Industries:** As at March 31, 2018, The 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. Its revenue from operations net off exercise duty and the percentage of revenue from operations net off excise duty from each of the industries for Fiscal 2015, 2016 and 2017 and the nine months ended December 31, 2017 are shown in the table below.

Industry	Nine months ended December 31, 2017		Fiscal 2017		Fiscal 2016		Fiscal 2015	
	Revenue net off Exercise Duty	% revenue from operations net off exercise duty	Revenue net off Exercise Duty	% of revenue from operations net off exercise duty	Revenue net off Exercise Duty	% of revenue from operations net off exercise duty	Revenue net off Exercise Duty	% of revenue from operations net off exercise duty
Plastic	4,17.84	71.92	5,68.62	73.07	4,56.17	69.61	4,23.04	69.72
Foods and others	1,63.15	28.08	2,09.59	26.93	1,96.32	30.09	1,83.77	30.28

**Specialised Business Model with High Entry Barriers:** The Company believes that many of its specialty and formulated products are also difficult to replicate. This provides the company with a significant advantage over new entrants, as they would need to invest a great deal of resources to gain a foothold in the markets in which it competes. The company believes that a high barrier to entry enables the company to obtain higher profit margins for its products as compared to other manufacturing industries where barriers to entry are lower.

**Flexible and Strategically Located Production Facilities with In-house Development Capabilities:** The Company currently has three manufacturing facilities: the First Ambernath Facility; the Badlapur Facility; and the Dombivli Facility. These three facilities have a combined installed capacity of approximately 64,300 tonnes per annum as at December 31, 2017. Each of their current manufacturing facilities has the ability to manufacture wide range of products. The First Ambernath Facility and the Badlapur Facility, are fully automated and this helps to ensure that it will continue to produce high-quality products, as well as minimising the number of employees required to operate them, thereby reducing costs. All of the three production facilities are located in close proximity to the Jawaharlal Nehru Port. As it is largely export-oriented, its facilities' locations help to reduce freight and logistics costs.

**Strong R&D Capability with a Focus on Innovation:** The Company's R&D efforts place significant emphasis on improving production processes, improving the quality of present products, creating new additives and creating downstream products, such as Acetem, Datem, and Lactem. It is also developing other blends of existing products for foods, plastics and other applications. It has had several significant achievements in innovation and R&D namely a glycerol derivative for polymer applications; a bio-based plasticizer with improved

properties and processing characteristics of polymer; a natural based monoglyceride with improved odour and flavour; a polypropylene cap composition; and applications of an ester additive from bio-derived raw materials.

#### **Diversified Customer Base with Long-Term Relationships with Marquee Customers**

The company's customer base comprises direct customers and distributors. It has an extensive distribution network in India and worldwide, enabling products to be sold in 69 countries in the 12 months ended March 31, 2018. Its 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.

#### **Strategy**

**Expand Total Installed Production Capacity and Product Range:** Currently company's products are manufactured at the Second Ambernath Facility by Olefine on a job-work basis which is leased by MIDC to Olefine. The company has entered into a lease and license agreement for the land for a term of three years effective March 26, 2018. Second Ambernath had an installed capacity of approximately 5000 tonnes per annum. The Company is in the process of setting Third Ambernath facility with an installed capacity of 32,000 tonnes per annum. It expects to commence the operations in the Fourth Quarter of Fiscal 2019. The Third Ambernath Facility will be capable of producing most of additive products. However, it plans to manufacture derivatives. The company is currently in the preliminary stages of planning to set up the Patalganga Facility. The Patalganga Facility will be capable some of additive products and will have a planned initial installed capacity of 10,000 tonnes per annum. The Fourth Ambernath Facility will be capable of manufacturing additives for food, plastic, cosmetics and other specialty additives. The Company has paid \$24.2 Crore for the Fourth Ambernath Facility. However, the company hasn't received possession of the land from the MIDC.

**Increase Sales of Higher-Margin Downstream Products:** One of the strategies is to increase sales of higher margin downstream and other specialty products. For instance, it plans to manufacture specialty feed nutrition additives, which currently manufactures only in limited quantities for export.

**Global Expansion:** In order to serve existing direct customers and distributors, as well as to secure new direct customers and distributors and expand the reach of products to new markets, the company intends to expand globally. The company has entered into a joint venture agreement with Adcotec, to set up FineAdd, which will operate the German Facility. FineAdd will manufacture specialty food emulsifiers and other food additives. The company will own a 50.00% equity interest in FineAdd. The German Facility's planned initial installed capacity is of 10,000 tonnes per annum. It expects the German Facility to commence operations by the third quarter of Fiscal 2020.

**Expand into Manufacturing Premixes for Bakery and Confectionary Products and Pan Release Agents:** Fine Zeelandia currently acts as an exclusive distributor for Zeelandia International Holdings B.V.'s range of premixes for bakery and confectionary products and pan release agents in India, Sri Lanka, Bangladesh and Nepal, but does not currently manufacture these products. The Fine Zeelandia Facility will produce premixes for bakery and confectionary products and pan release agents, in line with its strategy to enter high-growth segments. It plans for the Fine Zeelandia Facility to commence operations by the first quarter of Fiscal 2019. Its planned installed capacity is 10,000 tonnes per annum. Fine Zeelandia's products will be marketed to high-class star hotels, large niche and high-quality bakeries and quick service restaurants. Demand for bakery ingredients in India depends on demand from the end-use bakery industry. CRISIL Research estimates that the market size of the biscuits and bakery products segments was Rs. 35900 Cr in Fiscal 2016 and its forecast is that the size of the bread and bakery items market in India will grow at the rate of 10-12% over the five-year period Fiscal 2017-2022.

**Continuing Focus on R&D:** The Company's focus on product innovation through continuous development has been critical to the growth of business and improved ability to customize products for customers. It plans to expand its R&D lab by adding additional equipment for semi-commercial batches. It also plans to expand applications labs for food and plastics, in addition to a new cosmetic application lab. It has also leased a plot of land in Dombivli on which it plans to build new R&D facility. The chemistry laboratory at its current Navi Mumbai facility will be moved to this new R&D facility. It also plans to expand applications laboratory in its Navi Mumbai facility.

#### **Risk Factor**

- 1. Increase in the cost of the raw materials:** The Company's largest expense is the cost of raw materials. Since the company doesn't enter into any contracts for more than 6 months, it is subject to the risk of increasing cost of raw materials. The increase in cost of raw material will further reduce the margins of the company, affecting its operations and financial condition.

2. **Failure to meet the consumer's quality standards:** If the company fails to meet the consumer's quality standards, it could result in the removal from their end user customers' "approved supplier" list. It can adversely affect the financial condition and the result of operations.
3. **Increasing stringent regulatory environment:** This could result in stricter standards for the company's products (food, cosmetics, other special additives etc.) and could cost the company to incur substantial costs.
4. **Dependence on two suppliers for the key raw materials:** If the suppliers are not able to supply, there is no assurance that they will be able to identify alternative suppliers in future at similar cost. Any disruption in the supply can disrupt the manufacturing operations which could have a material adverse effect on the business.
5. **Failure to anticipate the demand:** If the company is unable to estimate the demand for its products, the company might have to procure unanticipated markdowns or impairment charges for disposing off the excess inventory and may have to procure additional inventory, including inventory space and associated costs, thereby affecting the business adversely.

#### Peer comparison

Co Name	Operating Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Galaxy Surfactants Limited	2433.91	158.03	44.57	28.57	6.28	202.73	10.00	1273.30	4514.45
Fine Organic Industries Limited	787.24	81.26	26.50	29.54	6.28	124.76	5.00	783.00	2400.68

#### Valuation:

Considering the P/E valuation on the upper price band of Rs.783 EPS and P/E of estimated annualised FY2018 are Rs.26.50 and 29.54 multiple respectively and at a lower price band of Rs. 780, P/E multiple is 29.43. Looking at the P/B ratio on the upper price band of Rs.783, book value and P/B of estimated annualised FY18 are Rs.124.76 and 6.28 multiple respectively and at a lower price band of Rs. 780 P/B multiple is 6.25. No change in pre and post issue EPS and Book Value as the company is not making fresh issue of capital.

#### Industry Outlook

Oleochemicals are chemicals derived from natural oils and fats of plant origins. Oleochemicals can be categorised into basic oleochemicals such as fatty acids, fatty methyl esters, fatty alcohols, fatty amines and glycerol, and their downstream derivatives obtained from further chemical modifications of these basic oleochemicals. These oleochemicals exhibit special properties such as excellent emolliency, surface activity, emulsifying properties, as well as beneficial biological properties. Indian food emulsifiers' market size is estimated to be ₹ 5-6 billion in 2016. Going forward, between CY 2016 and CY 2021, CRISIL Research expects the Indian food emulsifiers' market size to reach ₹ 9 billion by CY 2021 by growing at 10-12% CAGR driven by healthy growth in convenience and packaged food segments, especially the premium food segments. Changing lifestyles and hectic work schedules are widening the market for processed and packaged convenience foods. The booming organised retail sector further extends the reach of processed foods. Change in eating habits and frequent introduction of new products and product lines, particularly in the functional food and beverage market for low-fat, low-calorie products, necessitates usage of food emulsifiers.

#### Outlook

The company manufactures additives from base oleochemicals is a highly specialized and fully atomized process. Hence, many of these additives are specialty products, and this industry enjoys premium margins with only a few players dominating the industry globally. The company is planning to set up a new production facility in Leipzig, Germany with a planned initial installed capacity of 10,000 tonnes per annum and expects to commence operations in the third quarter of Fiscal 2020. However, on the pricing front, it looks expensive. Investors may consider investment for long term.

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Closing Date	June 22, 2018
Finalisation of Basis of Allotment with the Designated Stock Exchange	On or about June 27, 2018
Initiation of refunds (if any, for Anchor Investors) /unblocking of funds form ASBA Account	On or about June 28, 2018
Credit of Offered Shares of demat accounts of Allottees	On or about June 28, 2018
Commencement of trading of the Equity Shares on the Stock Exchange	On or about July, 2 2018

## Annexure

### Consolidated Financials

#### Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Dec-17 (9 Months)	Period ended 31-Mar-17 (12 Months)	Period ended 31-Mar-16 (12 Months)
Total Operating Income	590.43	814.94	686.01
Total expenditure	486.17	669.50	540.76
<b>Operating Profit</b>	<b>104.26</b>	<b>145.44</b>	<b>145.25</b>
OPM%	17.66	17.85	21.17
Other Income	8.78	4.41	10.21
<b>PBDIT</b>	<b>113.04</b>	<b>149.85</b>	<b>155.46</b>
Depreciation	14.63	23.71	29.56
<b>PBIT</b>	<b>98.42</b>	<b>126.14</b>	<b>125.90</b>
Interest	3.02	4.57	8.31
<b>PBT</b>	<b>95.40</b>	<b>121.57</b>	<b>117.59</b>
Tax	34.45	43.21	41.11
<b>Profit after tax</b>	<b>60.94</b>	<b>78.36</b>	<b>76.48</b>

**Balance sheet is on next page**

## Balance Sheet

Rs. in Cr.

Particulars	As on 31-Dec-17	As on 31-Mar-17	As on 31-Mar-16
<b>Non-Current Assets</b>			
<b>Property, Plant and Equipment</b>	92.26	96.77	102.47
Capital work-in-progress	6.74	2.80	5.65
Intangible Assets	0.21	0.21	0.13
Financial Assets	0.00	0.00	0.00
Investment	10.57	11.07	5.27
Other Financial Assets	0.286	0.128	0.042
Deferred tax assets (Net)	3.9	3.453	1.435
Other Non-current Assets	63.47	49.205	53.156
<b>Total Non Current Assets</b>	<b>177.43</b>	<b>163.64</b>	<b>168.15</b>
<b>Current Assets</b>			
<b>Inventories</b>	86.60	91.98	76.02
<b>Financial Assets</b>	0.00	0.00	0.00
Trade Receivables	117.21	111.40	86.79
Cash and Cash Equivalents	26.08	13.97	39.35
Bank Balances	0.185	3.946	2.828
Loans	0.73	0.735	0.761
Other Financial Assets	0.135	0.098	0.102
Current Tax Assets (Net)	2.378	3.974	0
Other Current Assets	63.072	55.918	41.6
<b>TOTAL Current ASSETS</b>	<b>296.39</b>	<b>282.02</b>	<b>247.45</b>
<b>Total Assets</b>	<b>473.82</b>	<b>445.66</b>	<b>415.60</b>
<b>Non Current Liabilities</b>			
Financial Liabilities	0	0	21.268
<b>TOTAL NON-CURRENT LIABILITIES</b>	0.00	0.00	21.27
<b>CURRENT LIABILITIES</b>			
Borrowings	28.55	40.26	72.87
Trade Payables	77.10	64.32	53.34
Other Financial Liabilities	0.82	0.91	8.64
Other current liabilities	5.15	11.02	7.57
Provisions	0	0	0.326
Current tax liabilities (Net)	0.00	0.00	0.49
<b>TOTAL CURRENT LIABILITIES</b>	<b>111.62</b>	<b>116.52</b>	<b>143.24</b>
<b>TOTAL</b>	<b>111.62</b>	<b>116.52</b>	<b>164.50</b>
	<b>362.20</b>	<b>329.14</b>	<b>251.10</b>
<b>NET WORTH REPRESENTED BY:</b>			
EQUITY SHARE CAPITAL	15.33	4.83	4.83
OTHER EQUITY	346.87	0.28	0.28
Equity Share Suspense account	0.00	324.03	245.99
<b>Net Worth</b>	<b>362.20</b>	<b>329.14</b>	<b>251.10</b>

## RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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