



SMC Ranking

★ ★ ★ ☆ ☆ (3/5)

Issue Highlights

Industry	Organic
Offer for sale (Shares)	23,076,923
Fresh Issue (Shares)	23,076,923
Total Offer	46,153,846
Issue Size (Rs. Cr.)	595-600
Price Band (Rs.)	129-130
Offer Date	15-Mar-21
Close Date	17-Mar-21
Face Value	2
Lot Size	115

Issue Composition In shares

Total Issue for Sale	46,153,846
QIB	23,076,923
NIB	6,923,077
Retail	16,153,846

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	89.51%	81.67%
QIB	10.49%	9.58%
NIB	0.00%	2.63%
Retail		6.13%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

- Investment in subsidiary firm, Yellowstone Fine Chemicals Private Limited (YFCPL) to partly finance the capex to establish a new manufacturing facility.
- To invest in YFCPL for financing working capital requirements.
- To finance the capex for expansion of SI manufacturing facility.
- To finance business working capital requirements.
- To purchase plant and machinery for infrastructure development at SI facility.
- To make prepayment or repayment of borrowings availed by the company and subsidiary, Viva Lifesciences Pvt Ltd (VLPL).
- To meet general corporate purposes.

Book Running Lead Manager

- Axis Capital Limited
- DAM Capital Advisors Limited

Name of the registrar

- Link Intime India Private Limited

About the company

Incorporated in 1989, Laxmi Organic Industries Ltd is a specialty chemical manufacturer that operates in 2 business segments; Acetyl Intermediates (AI) and Specialty Intermediates (SI). It is the leading manufacturer of ethyl acetate with over 30% market share in the Indian ethyl acetate market and the only manufacturer of diketene derivatives in India. Its AI segment includes ethyl acetate, acetaldehyde, fuel-grade ethanol, and other proprietary solvents whereas the SI segment includes ketene, diketene derivatives namely esters, acetic anhydride, arylides, amides, and other chemicals. Its products are being used in various industries like pharmaceuticals, agrochemicals, inks & coatings, dyes & pigments, paints, printing & packaging, etc. The company has a global footprint with customers in 30 countries including but not restricted to China, Russia, Singapore, UAE, UK, USA, Netherland, etc. Currently, it has 2 manufacturing facilities in Mahad, Maharashtra for the manufacturing of AI and SI products. It is also proposing to set-up a new manufacturing facility at Lote Parshuram, Maharashtra to manufacture four specialty chemicals.

Strength

Leading manufacturer of ethyl acetate with significant market share: The company is currently among the largest manufacturers of ethyl acetate in India with a market share of approximately 30% of the Indian ethyl acetate market. It is one of the largest exporters of ethyl acetate to Europe from India since 2012. It believes that such experience and direct presence in Europe has enabled the company to establish and consolidate its position in Europe. The company has also entered into definitive agreements for acquisition of YCPL (a wholly owned subsidiary of AHPL). Post completion of the YCPL Acquisition, we believe its market share in the ethyl acetate market will be further enhanced. Its strategically located and backward integrated AI Manufacturing Facility as well as the economies of scale have over the years, enabled the company to maintain the consistency in quality of its products.

Only Indian manufacturer of diketene derivatives with a significant market share and one of the largest portfolios of diketene products:

Traditionally, India fulfilled most of its diketene demand from imports which were mainly from Europe or from China. Over the last decade, being the only manufacturer of diketene derivatives, pursuant to inter alia company's R&D efforts and customer relationships, it has rapidly gained domestic market share and held a market share of approximately 55% of the Indian diketene derivatives market in terms of revenue in Fiscal 2020. Its SI Manufacturing Facility manufactures a range of specialty chemicals that cater to pharmaceuticals, colorants and agrochemical industries and also substitute possible imports. The company was one of the largest suppliers of diketene based specialty intermediates in Europe from India in calendar year 2019. The increasing demand in pharmaceuticals and agrochemicals from developing economies like India is likely to increase the consumption of diketene and its derivatives, where Laxmi Organic has a very strong presence which currently offers more than 34 products as part of their Specialty Intermediates portfolio and have one of the largest portfolios of diketene products. The company believes that it is well poised to capture the growing demand for diketene derivatives globally. In view of investments that it has made in technology and expertise in diketene chemistry, relationships with customers and track record in commercialization of products across the value chain.

Diversified customer base across high growth industries and long-standing relationships with marquee customers: Its products find application in a number of high growth industries including pharmaceuticals, agrochemicals, dyes & pigments, inks &

coatings, paints, printing & packaging, flavours & fragrances, adhesives and other industrial applications. It has established long-standing relationships with marquee customers across various industries. For instance, its long-term customers in the pharmaceutical segment include Alembic Pharmaceuticals Limited, Dr. Reddy's Laboratories Limited, Hetero Labs Limited, Laurus Labs Limited, Macleods Pharmaceuticals Private Limited, Mylan Laboratories Limited, Neuland Laboratories Limited, Seven Pharmaceuticals Limited and Granules India Limited and in the agrochemicals segment includes UPL Limited, Syngenta Asia Pacific Pte. Ltd., and Sudarshan Chemical Industries Limited. The company believes that the diversification of its customer base across various industries has enabled it to minimize impact of industry-specific disruptions on its business. The company believes that its speedy execution and timely response to customer needs, coupled with its high-quality products and innovation have enabled it to successfully establish its market presence and nurtured its customer relationships. Further, its long-term relationships with marquee customers provides the company with steady revenue flows.

Strategically located manufacturing facilities, vertical integration and supply chain efficiencies : The company currently has 2 strategically located Manufacturing Facilities for Acetyl Intermediates and Specialty Intermediates which are located in Mahad, Maharashtra, in close proximity to several ports including the Jawaharlal Nehru (Nhava Sheva) Port, JSW port and Mumbai port which ensures that it has ready access to port facilities and are able expediently import its raw materials and export its products thereby providing them with a cost and logistical advantage. It also has 2 Distilleries located in Maharashtra for the manufacturing of ethanol and specially denatured spirit from molasses. These Distilleries and its 2 Manufacturing Facilities are located close to sugar mills in Maharashtra thereby providing them with easy supply for molasses and reducing transportation costs. Its Distilleries enable backward integration by acting as feeder plants to both their Acetyls as well as Specialty Intermediates operations, provide effective control over raw materials and also reduce its dependence on third parties for ethanol.

In-house research and development capabilities and consistent track record of technology absorption: The research and development of new products to meet company's customers' requirements is a key growth driver of its business. It has 2 DSIR recognised research and development facilities ("R&D Facilities"), comprising of its R&D Facility located within the SI Manufacturing Facility which primarily deals with projects related to the direct application of ketene and diketene and its innovation center located at Rabale, Navi Mumbai (the "Rabale Innovation Centre"), which predominantly works on development of new products for it based on complex chemistries. The company has demonstrated a track record of concept to commercialization. As on September 30, 2020, it had more than 34 products as part of the Specialty Intermediates product category. Through its R&D efforts, in addition to the products acquired from Clariant, it has added 20 new products (the "New Products") to its Specialty Intermediates portfolio over the last decade. The company has developed 5 different chemistry platforms on a commercial scale.

Global presence and low geographical concentration: In addition to India, it has customers in over 30 countries including China, Netherlands, Russia, Singapore, United Arab Emirates, United Kingdom and United States of America. Its international operations are supported by its offices in Leiden (Netherlands), Shanghai (China) and Sharjah (United Arab Emirates). It believes its local presence in such international markets facilitate its sales, marketing and business development activities and provide the company with timely insights into the economic, product requirements and regulatory environment in such markets. It also has arrangements with third parties for usage of storage tanks in inter alia Rotterdam (Netherlands), Antwerp (Belgium) and Genoa (Italy) for storage of finished products which enables the company to deliver its products on short notice.

Differentiated business model, asset base, product mix and experience in handling complex chemistries create high entry barriers: The specialty chemicals industry is highly knowledge intensive. Given the nature of the application of its products, its processes and products are subject to, and measured against, high quality standards and stringent impurity specifications. Further, the manufacture of Specialty Intermediates is capital intensive. It believes that its customer credit management abilities act as a strong entry barrier for smaller players trying to enter the market. Given the nature of the application of its products, its processes and products are subject to, and measured against, high quality standards and stringent impurity specifications. Further, with respect to end

products manufactured by certain of its customers, it believes if the usage of its products has been formally recognised in filings with regulatory agencies, any change in the vendor of the product may require significant time and cost for the customer. The company believes that given its diversified product portfolio, investment in technology, and R&D, its working capital management, its Power Facilities and consequent cost efficiencies coupled with its global footprint and customer relationships have helped it create a differentiated position in the markets in which it operates.

Strategy

Volume maximisation at the Manufacturing Facilities by expanding installed capacities to support the growth initiatives: As a part of the growth strategy, the company intends to maximise production volumes at its Manufacturing Facilities. It is also in the process of expanding its manufacturing capabilities for the Acetyl Intermediates by acquiring AHPL, which through its wholly owned subsidiary-YCPL is engaged in the manufacturing of acetaldehyde and ethyl acetate. Further, as a single site risk mitigation initiative, it is in the process of identifying one or more site for the future growth of its business beyond the currently committed expansion initiatives. Their capacity utilisation for the 6 months ended December 31, 2020 of the AI Manufacturing Facility was 77.56% and of the SI Manufacturing Facility was 62.82%. They propose to increase the installed capacity at their AI Manufacturing Facility and are in the process of increasing the installed capacity at their SI Manufacturing Facility from 78,045 MTPA to 82,525 MTPA.

Expanding and optimising the product portfolio: The company intends to diversify its existing product portfolio by adding new products (including downstream and value added products) which are synergistic with its existing products and chemistries. Introduction of such products would increase the profit margins and the long-term contracts would provide them incremental and steady revenues. It also intends undertaking manufacturing of certain products on a contract manufacturing basis with its customers to ensure efficient utilisation of its Manufacturing Facilities and to increase its cash flows.

Increasing the global footprint and augmenting growth in current geographies: With a view to further diversify its customer base and increase the market share, the company intends to augment its sales in the geographic markets where it sells its products as well as expand into new geographic markets. It will continue to focus its efforts in select geographies such as United States of America, and establish a greater presence there. Its growth strategy in the markets will be to create strong local presence and connect and expertise with required development capabilities to exploit growth potential offered by these markets. Its strong focus will remain on acquiring new customers, retaining existing customers and offering high quality products and innovation.

Establishing the fluorospecialty chemicals business: In June 2019, it has acquired assets including plant & machinery, design and operating paperwork, REACH registrations and patents of Miteni, a manufacturer of organic fluorospecialties and electrochemical fluorination with a view to foray into the fluorospecialty chemical business and leverage its experience, capabilities and relationships. The company is in the process of setting up the Proposed Facility in Lote Parshuram, Maharashtra for manufacturing fluorospecialty chemicals which is proposed to commence operations by the fourth quarter of Fiscal 2022. With its knowledge and capabilities in complex chemistries, experience in product development and large-scale manufacturing and availability of infrastructure, it is well poised to leverage the opportunity. Given the broad based applications of fluorospecialty products in pharmaceutical and agrochemical sectors, it intends to leverage its existing relationships with customers to boost its entry into this segment. Its entry into this segment will also facilitate a growth in its customer base into new industries.

Continuing focus on innovation and leveraging chemistries and technology absorption: The company intends to increase its initiatives in research and development in order to enhance its diversified product portfolio in both the domestic market and international markets. Its research and development capabilities has enabled the company to expand its Specialty Intermediates offerings from 14 products as at March 31, 2012 to more than 34 products as at September 30, 2020. As part of its strategy, it will continue to leverage this know-how in complex chemistries and its experience in engineering to focus on the addition of downstream and value-added products to its product portfolio

as well as addition of fluorospecialty products to their portfolio. The company has recently entered into a long-term agreement for sale of an agrochemical intermediate to a prominent crop sciences company and also recently launched an intermediate which can be used as an active pharmaceutical ingredient for a drug for HIV. Further, it also intends to set up a dedicated R&D unit for fluorospecialty at the Proposed Facility.

Risk factors

- Large part of its manufacturing facilities is located in one area, i.e. Mahad, Maharashtra. Any localized social unrest, natural disaster or breakdown of services in and around that area can have significant impact on company business.
- The company is in the process of setting up a proposed manufacturing facility of fluorospecialty chemicals. This is a new product line, business and would depend on acceptance from customers. Such new business may or may not be profitable considering the investment it is making now.
- Any increase in the cost of raw materials or a shortfall in supply of raw materials might have an impact on company business.
- A significant portion of its revenues, expenses and borrowings are in foreign currencies. It is exposed to foreign currency exchange risks which can impact the results of operations.

Peer comparison

Co_Name	Net Sales	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Atul	3581.21	621.96	210.21	32.06	5.62	1199.00	10	6738.70	19937.83
SRF	7525.81	1002.77	169.26	33.24	5.37	1047.61	10	5625.85	33330.46
Aarti Industries	4372.90	497.72	28.57	44.15	6.85	184.23	5	1261.35	21977.07
Navin Fluor. Intl.	1119.54	455.42	92.00	28.64	8.57	307.40	2	2634.50	13041.62
Fine Organic	1057.61	122.89	40.08	60.48	11.09	218.51	5	2424.10	7432.28
Rossari Biotech	650.67	72.89	14.04	71.02	14.24	70.01	2	997.15	5178.14
Laxmi Organic Industries Ltd	1626.81	90.97	3.45	37.68	4.19	31.03	2	130.00	3427.62

** Estimated Annualised FY21

Valuation

Considering the P/E valuation of expected annualised FY21, on the upper end of the price band of Rs. 130, the stock is priced at pre issue P/E of 34.38x on its FY21 EPS of Rs. 3.78. Post issue, the stock is priced at a P/E of 37.68x on its EPS of Rs. 3.45. on the upper end of the price band of Rs.130, the stock is priced at pre issue P/Bv of 6.62x on its FY21 BVPS of Rs. 19.65. Post issue, the stock is priced at a P/Bv of 4.19x on its BVPS of Rs. 31.03.

Considering the P/E valuation of expected annualised FY21, on the lower end of the price band of Rs. 129, the stock is priced at pre issue P/E of 34.12x on its FY21 EPS of Rs. 3.78. Post issue, the stock is priced at a P/E of 37.39x on its EPS of Rs. 3.45. on the lower end of the price band of Rs. 129, the stock is priced at pre issue P/Bv of 6.57x on its FY21 BVPS of Rs. 19.65. Post issue, the stock is priced at a P/Bv of 4.16x on its BVPS of Rs. 31.02.

Industry overview

The Indian chemicals market is valued at USD 166 Bn (~4% share in the global chemical industry) with the commodity chemicals accounting for almost 46%. It is expected to reach ~USD 280-300 Bn in the next 5 years, with an anticipated growth of ~12% CAGR. The specialty chemical industry forms ~47% of the domestic chemical market, which is expected to grow at a CAGR of around 11-12% over the same period. Specialty chemicals industry is expected to be the key driver for growth in the chemicals sector, out-pacing petrochemicals and other bulk chemicals in the next 2-3 years. Indian Acetyl market is projected to grow at 6.6% growth rate over the next five years owing to the demand from the end use applications. The Acetyl market is valued at USD 1.5 Bn in 2019 which is expected to

reach USD 2.1 Bn by the end of year 2024. India specialty intermediates market stands at USD 6.6 Bn in 2019 projected to grow at 10.2% CAGR over the next half decade to reach USD 10.8 Bn by the year 2024F. India specialty intermediates market is approximately 5-6% of the global specialty intermediates market.

Outlook

Laxmi Organics is a leading manufacturer of Acetyl Intermediates and Specialty Intermediates and has good experience in large scale manufacturing of chemicals. The company has a global footprint with customers in 30 countries including but not restricted to China, Russia, Singapore, UAE, UK, USA, Netherland, etc. Considering its long-standing relations with leading global customers and it plans to shift for high margin specialty chemicals business, it is expected that the company would see good growth going forward.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	March 15, 2021
Bid/Offer Closing Date	March 17, 2021
Finalisation of Basis of Allotment with the Designated Stock Exchange	On or about March 22, 2021
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	On or about March 23, 2021
Credit of Equity Shares to depository accounts of Allottees	On or about March 24, 2021
Commencement of trading of the Equity Shares on the Stock Exchanges	On or about March 25, 2021

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-20 (6 Months)	Period ended 31-Mar-20 (12 Months)	Period ended 31-Mar-19 (12 Months)
Revenue from operations	813.41	1,534.12	1,568.52
Total expenditure	728.01	1420.58	1,415.24
Operating Profit	85.39	113.55	153.29
OPM%	10.50	7.40	9.77
Other Income	0.949	4.498	5.802
PBDIT	86.34	118.05	159.09
Depreciation	22.701	48.888	44.059
PBIT	63.64	69.16	115.03
Interest	7.442	14.019	16.969
Profit before share of profit from JV & exceptional items	56.20	55.14	98.06
Share of profit from JV	0	0	-0.47
Profit before exceptional items	56.20	55.14	97.59
Exceptional items	0.00	25.663	0.00
PBT	56.20	80.80	97.59
Tax	10.72	10.59	25.20
Profit After Tax	45.48	70.21	72.39

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Dec-20	As on 31-Mar-20	As on 31-Mar-19
Non-current assets			
Property, plant and equipment	320.93	325.51	330.59
Capital Work in progress	74.40	67.49	31.48
Right-of-use assets	10.04	11.37	14.05
Intangible assets	0.64	0.78	1.04
Financial assets			
Loans and Advances	8.34	8.25	4.05
Others	1.75	1.07	0.63
Deferred tax assets (net)	1.50	1.26	0.00
Other non-current assets	7.54	7.98	7.79
Total non-current assets	425.14	423.71	389.63
Current assets			
Inventories	126.21	151.89	170.75
Trade receivables	334.30	359.37	326.18
Cash and cash equivalents	26.61	24.11	7.65
Other bank balances	54.97	20.60	39.09
Security Deposits	0.19	0.20	0.20
Other Financial assets	33.11	40.31	0.92
Other Current assets	36.61	50.45	80.07
Total current assets	612.00	646.93	624.86
Total Assets	1037.13	1070.63	1014.49
Non-current liabilities			
Borrowings	90.27	90.15	74.61
Lease liabilities	6.69	8.36	10.75
Provisions	3.08	2.84	2.20
Deferred tax liabilities (Net)	12.47	13.27	17.07
Total Non-Current Liabilities	112.50	114.62	104.62
Current liabilities			
Financial Liabilities			
Borrowings	63.30	33.65	66.65
Trade payables			
Total outstanding dues of micro enterprises and small enterprises	1.87	4.00	0.72
Total outstanding dues of creditors other than micro enterprises and small enterprises	307.48	407.63	314.85
Lease Liability	2.87	2.39	2.13
Other financial liabilities	53.15	62.11	60.40
Provisions	12.31	11.77	8.61
Current Tax Liabilities (net)	1.47	0.97	2.77
Other Current tax liabilities (net)	9.46	6.21	3.55
Total current liabilities	451.90	528.71	459.67
Total Liabilities	564.39	643.33	564.30
Networth	472.74	427.31	450.19
Net worth represented by:			
Equity Share capital	45.02	45.02	50.05
Other equity	427.39	381.90	399.80
Non-controlling interest	0.34	0.39	0.35
NET Worth	472.74	427.31	450.19

RANKING METHODOLOGY

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

E-mail: smc.care@smcindiaonline.com



Moneywise. Be wise.

Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Lotus Corporate Park, A Wing 401/402, 4th Floor,
Graham Firth Steel Compound, Off Western
Express Highway, Jay Coach Signal, Goreagon
(East) Mumbai - 400063
Tel: 91-22-67341600, Fax: 91-22-67341697

Kolkata Office:
18, Rabindra Sarani, Poddar Court, Gate No-4,
5th Floor, Kolkata - 700001
Tel.: 033 6612 7000/033 4058 7000
Fax: 033 6612 7004/033 4058 7004

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