

Market Cap: Rs. 4400 Cr  
CMP: Rs. ~1400



### 1) About:

- Incorporated on May 24, 2002, Fine Organic Industries Limited (“Fine Organic”) is the largest manufacturer of oleochemical-based additives in India and a strong player globally in this industry.
- The company produces a wide range of specialty plant-derived oleochemicals-based additives used in food, plastic, cosmetics, paint, ink, coatings and other specialty applications in various industries.
- 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 is present.

### What are Oleochemicals?

- Oleochemicals are chemicals derived from plant and animal fats. They are equivalent to petrochemicals derived from petroleum.
- Uses of oleochemicals: coatings, surfactants, plasticisers, lubricant additives, cosmetics, soaps, detergents, textiles, plastics and organic pesticides industries.

### 5 Interesting Facts about Fine organics:

- Pioneer and largest manufacturer of oleochemical-based additives in India
- One of the five global manufacturers of polymer additives
- One of the leading players to develop proprietary technology to manufacture green additives
- One of the six global manufacturers of specialty food emulsifiers
- The first to introduce slip additives in India and the largest producer of slip additives in the world.

→ **Business Segments:**

**a) Plastic additives (contribute ~70% to revenue):**

- Plastics products are essentially made from polymers. Basic polymer material, however, is mixed with a complex blend of materials, collectively called plastic additives.

**b) Food and other specialty additives. (Contribute ~30% to revenue):**

- **Food additives** are any substances added to food. In a stricter sense, any substance intended to affect the characteristics of food is a food additive. This includes any substance used in production, processing, treatment, packaging, transportation and storage. Additives are used to preserve, flavour, blend, thicken and colour foods. Food additives are strictly regulated and monitored by governments to ensure the health of people.
- **Cosmetic and pharmaceutical additives:** Cosmetic and pharmaceutical additives are ingredients added in cosmetic and related pharmaceutical products to achieve certain specific properties. They have various functions such as enabling the manufacturing of cosmetic and pharmaceutical products of different structures such as creams, gels, pastes, lotions, solutions, varnishes, sticks, powders and aerosols.
- **Rubber additives:** The company's products are key additives in the rubber industry. These can be in the form of processing aids, specialty plasticisers, slip additives, anti-stats and anti-stacking agents used in conveyor belts, automotive parts and engine components, tyres and dock fenders.

→ **Manufacturing Plants:** The company has **four manufacturing plants:** two at Ambarnath, one each at Badlapur and Dombivli, for a combined installed capacity of ~69,300 tpa. Each of the plants can manufacture a wide range of products.

• **Raw Materials:**

- Vegetable oils
- Fats and fatty acids
- Fatty alcohols
- Fatty amines
- Polyols derived from oils such as rapeseed oil, palm oil, palm kernel oil, sunflower oil, castor oil, soybean oil, rice bran oil.

## 2) Industry Outlook:

- Growing demand for green products and sustainable solutions, coupled with regulatory changes in recent times, has brought oleochemicals into focus.
- Oleochemical-based products are becoming popular across specialty chemicals segments owing to their advantages including their eco-friendly image, low toxicity and fine dermatological compatibility.
- Oleochemicals are gaining popularity among companies that manufacture lubricants, polymers and surfactants.
- New and niche oleochemicals have been developed for utilization across a variety of industries such as food, coatings, surfactants, cosmetics, soaps, detergents, textiles, plastics, organic pesticides, and several other fields.
- Growing demand for naturally derived products of food & beverages and from other industries are expected to be the major factors driving the oleochemicals market.
- The Indian food emulsifiers market is expected to register a 10-12% CAGR over FY16-21.
- Rising number of nuclear families, rising affluence of the middle class, improvement in living standards, rising urbanisation and changing consumer preferences and eating habits are primary growth drivers for the industry.

## 3) Investment Case:

### a) Specialised products and Oligopolistic nature of the industry:

- Manufacturing additives from base oleochemicals is a highly complex process as it involves technical know-how and R&D for product innovation.
- Which makes specialty and formulated products difficult to imitate.
- This provides it 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.
- Presence of Multiple entry-barriers such as product formulations, process technology and customer stickiness to established players.
- All the established players are enjoying their first-mover advantages. For an entry into this industry, new players won't be able to procure product formulations and process technology from established players, which are reluctant to share their technology and other intellectual properties.

**b) Strong R&D capability, with focus on innovation:**

- R&D is the backbone of the industry and driven by customer needs in terms of meeting specific needs in relation to manufacturing a particular product.
- The R&D thrust is on improving production processes, enhancing the quality of present products and creating new additives and downstream products.
- The company developed and launched 30 products in 9M FY19 and the
- share of revenue from the new products is rising very well. Since 2014, contribution of new products developed through R&D has been on rise.

**c) Capacity Expansion is the key growth driver:**

1. **Fine Zeelandia plant:** the company formed a 50-50% JV with Fine Zeelandia Pvt. Ltd to set up a plant at Patalganga for premixes for bakery and confectionary products. Fine Zeelandia's products will be marketed to high-class "star" hotels, large niche and high-quality bakeries and quick-service restaurants.

**2. Forthcoming expansions in FY20 and FY21:**

- Third Ambernath plant: 32,000tpa plant in Ambernath expected to commence production in Q1 FY20.
- Patalganga plant with MIDC and Neo Wheels: 10,000tpa that can manufacture any additive product which the company offers. The plant would be operational in Q3 FY20.
- FineAdd, Germanplant: (JV with Adcotec): FineAdd to own and operate a 10,000-tonne plant in Germany, to manufacture specialty food emulsifiers and other food additives.

**d) In-house design and engineering help to reduce capex:** The company is equipped with self-sustaining technology for plant designing and engineering, in-house technology for process design and engineering development. Else, capex would have been more than eight times higher. Also, the plant would have taken longer to be commissioned.

**e) Strategically located plants aid operating efficiency:** All the company's manufacturing plants are in Maharashtra, strategically in proximity to the Jawaharlal Nehru (Nhava Sheva) Port near Mumbai. This locational advantage helps reduce freight and logistics costs as the company is largely export-oriented.

**f) Focus on global markets:** With exports bringing ~55% to revenue. Major markets are the US, Europe and the Middle East. The company has subsidiaries in Europe and North America, which sell products directly to select large customers.

**g) High-growth industries with a diversified product range:** Under the brand 'Fine Organics', the company has more than 400 products serving diversified industries. Product expansion and diversification into high-margin downstream products of bakery and confectionery premixes as well as feed nutrition additives would help the company cater to the growing international market in the near future.

#### **h) Strong Balance Sheet and Robust Financials:**

→ Aided with the capex we expect the top line to grow consistently.

	2010-03	2013-03	2014-03	2015-03	2016-03	2017-03	2018-03	2019-03	TTM
Revenue INR Mil		4,965	5,672	6,068	6,525	7,782	8,516	10,603	10,635
Gross Margin %		29.5	38.3	36.9	40.6	36	34.5	38.2	38.2
Operating Income IN		399	980	884	1,160	1,219	1,388	2,170	2,169
Operating Margin %		8	17.3	14.6	17.8	15.7	16.3	20.5	20.4
Net Income INR Mil		209	617	532	765	784	953	1,362	1,284
Earnings Per Share IN		7.21	21.31	18.35	24.95	25.4	31.09	44.43	41.89

- Excellent return ratios.
- Manageable debt
- Improving efficiency ratios.

FINE ORGANIC INDUSTRIES LTD			
	Mar-17	Mar-18	Mar-19
Debtor Days	51.8	62.5	53.6
Inventory Turnover	8.4	9.6	11.9
Fixed Asset Turnover	8.0	9.7	13.6
Debt/Equity	0.1	0.1	0.3
Debt/Assets	9.0%	10.1%	18.2%
Interest Coverage (Times)	28.5	49.0	126.4
Return on Equity	23.7%	24.1%	27.2%
Return on Capital Employed	34.0%	34.4%	37.0%

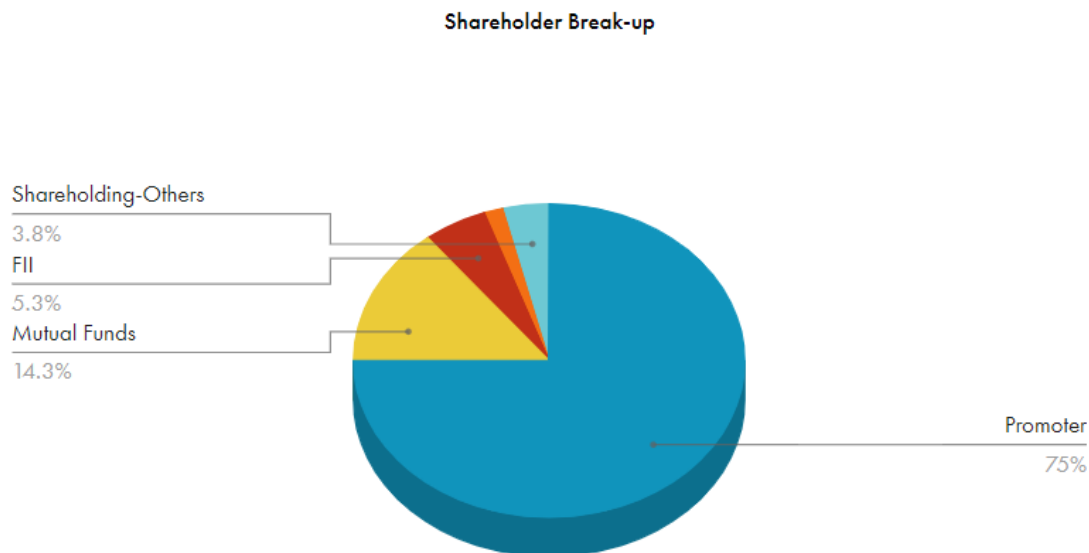
#### **4) Key Risks:**

- **Vulnerability to adverse movements in raw material prices** – The company's key raw materials are vegetable oil, palm oil and palm oil-based derivatives, the prices of which have been volatile. The company is thus exposed to any sharp changes in the input prices since its contracts are on fixed-price basis.
- **Foreign currency fluctuation:** 60% of revenue is generated from exports and denominated in foreign currency, predominantly the dollar. Fluctuations in the value

of the rupee against such foreign currencies, to the extent not hedged, would result in gains or losses. Net-net, the rupee appreciation would be negative for business.

- **Pricing pressure:** The industries the company serves are faced with intense competition. Normally, customers are generally aware of the prices of raw materials and will negotiate to reduce prices when raw material costs decrease. This means the ability to keep prices at the same level when raw-material costs decrease is somewhat constrained.

## 5) Shareholding:



## 6) View:

- With growing demand for green products, tailwinds in the specialty chemical space and substantial Capacity Expansion on cards, we believe it is just the beginning of the journey of Fine organics and it is a great addition to the portfolio in between **Rs. 1350-1450.**

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