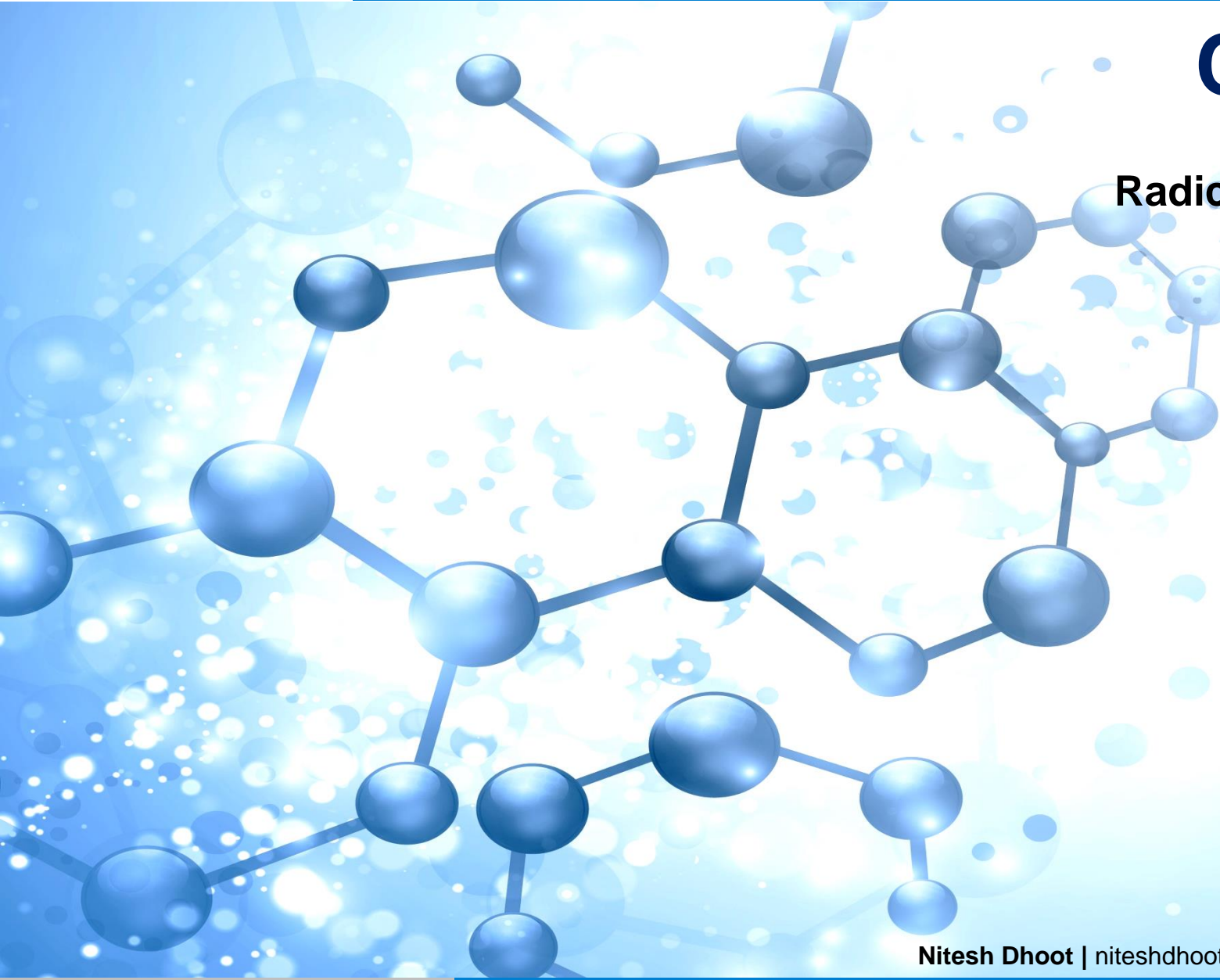


## Chemicals

(JUBLINGR / LXCHEM)

**Radical Shift to Specialty**



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# Investment Summary

We initiate coverage on Jubilant Ingrevia Ltd (JUBLINGR) and Laxmi Organic Industries Ltd (LXCHEM), pivoting around acetyls and radically shifting to specialty. Together, JUBLINGR and LXCHEM have large common business interests as 1) both generate more than 50% revenue from acetyls (ethyl acetate, acetic anhydride etc.) and fuel grade ethanol and 2) both plan to scale their presence in specialty chemicals (diketene derivatives, fluorochemicals and others). JUBLINGR is a leading global player of acetic anhydride, pyridine & its derivatives along with other products across three business segments - Specialty Chemicals (SPCM), Nutrition & Health Solutions (NHS) and Chemical Intermediates (CI). With an expertise in 35 technology platforms, the company is steadily expanding its product portfolio by leveraging business synergies. LXCHEM, on the other hand, a leading Acetyl Intermediates (AI) player is leveraging its core chemistry to scale up Specialty Intermediates (SI) portfolio (ketene/ diketene derivatives), while its fluorochemicals (FI) plant is facing time and cost overruns and will gradually scale up once commissioned in H2FY23, in our view.

We believe that strong underlying global demand environment in agrochemicals and pharmaceuticals along with China+1 tailwinds and improved prospects of CDMO (long term contracts from leading global innovators; sticky business) will drive JUBLINGR and LXCHEM's high value business\* EBITDA CAGR of 22% and 30% over FY22-FY25E with an increase in FY25E EBITDA contribution to 67%/70% (53%/55% in FY22). Increased focus on structural growth areas and commensurate investments augur well for both JUBLINGR and LXCHEM, as balance sheets remain healthy despite large capex outflows over FY22-25E. While we like both companies' stronghold in respective businesses and growth efforts, we believe JUBLINGR is a re-rating candidate, while most positives are factored in LXCHEM's valuations. Initiate 'BUY' for JUBLINGR and 'HOLD' for LXCHEM at SOTP based TP of Rs860 and Rs335 respectively.

## Moving up the value chain through large capital allocation towards high value segments

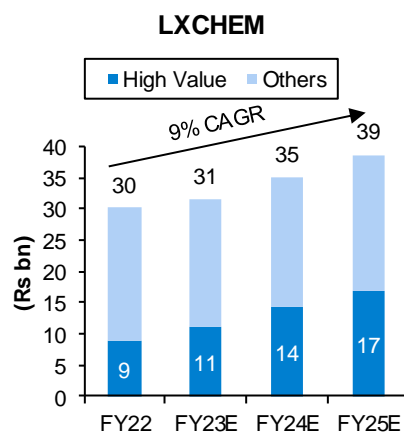
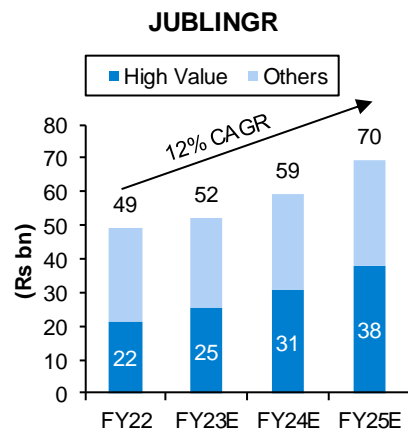
- **JUBLINGR's** global market leadership in various products across acetyls and pyridine derivatives, enables it to move up the value chain in CDMO, diketene derivatives, agro actives & advanced intermediates, pharma, cosmetic-grade vitamins, vitamin premixes etc. We expect revenue/ EBITDA CAGR of 26%/27% in SPCM and 11%/11% in NHS, aided by capex outlay of ~Rs15 bn (of total Rs20.5bn) over FY22-25E (~Rs13bn for SPCM and ~Rs2bn for NHS segment).
- **LXCHEM** is also diversifying into Fluorochemicals through asset acquisition of Miteni, Italy (relocating to India; to be commissioned in H2FY23) and capitalising on its R&D and portfolio capabilities (>100 products with an initial basket of 10 products in R&D and scale-up stages). LXCHEM's thrust to rejig SI product basket by ramping up newer products (higher margin) and rising share of high value products like Esters (end use in pharma), augur well for operating margins. We expect SI EBITDA to grow at ~22% CAGR topped with FI earnings commencing in FY23.

## Commoditised business concentration to reduce, aiding business profile improvement and reduced earnings volatility

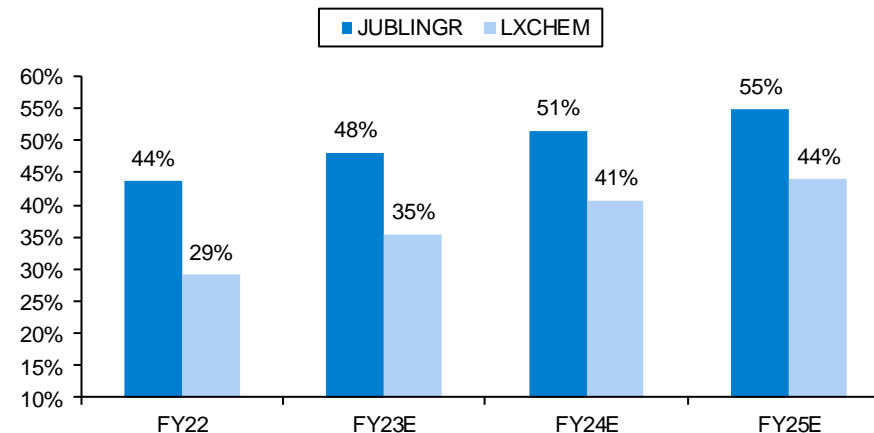
- CI and AI, the commodity segments of JUBLINGR and LXCHEM are expected to witness muted EBITDA CAGR of 1%/5% over FY22-25E (on normalisation of realisation and spreads from elevated base of FY22), driving reduction in CI/ AI's EBITDA contribution to 33%/30% by FY25E, despite volume growth. Improved performance in FY22 was on favorable market conditions/ pricing for key products like Ethyl Acetate and Acetic Anhydride^
- Acetic Acid (key RM) prices have corrected to ~USD 450/ton currently (reverted to long term average) from record highs of ~USD 1400/ton in FY22. We believe that this volatility will eventually subside and balanced global demand/ supply environment will prevail in the medium term (ref page 12). Hence we forecast sustainable EBITDA margins at 12-13% for JUBLINGR and 8-9% for LXCHEM over FY23-25E (in-line with historical average).

# JUBLINGR and LXCHEM poised for healthy growth and better EBITDA mix

Topline growth trajectory of JUBLINGR and LXCHEM over FY22-25E

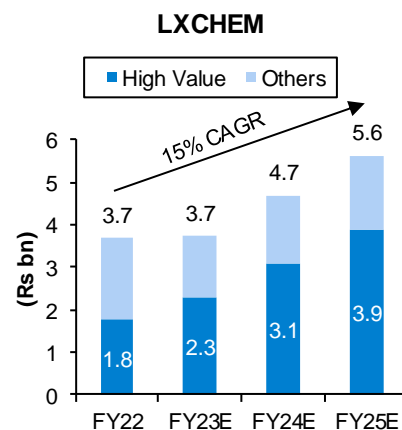
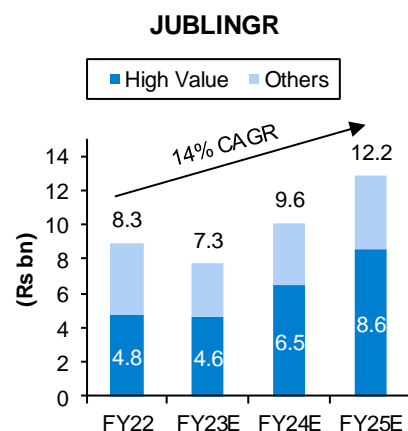


Rising share of higher value segments revenue for both companies

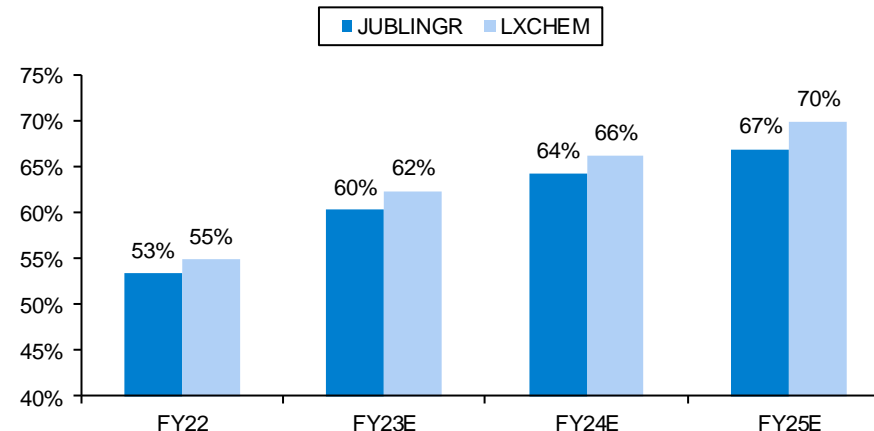


FY22 base is elevated given improved YoY performance (Rev/EBITDA growth 42%/36% YoY for JUBLINGR and 74%/ 70% YoY for LXCHEM) on favorable market conditions for key products (Ethyl Acetate, Acetic Anhydride etc). Normalising the cyclical impact in FY22, Rev/ EBITDA CAGR over FY21-25E is 19%/ 19% for JUBLINGR and 22%/ 27% for LXCHEM.

Healthy EBITDA growth despite near term challenges and elevated base...

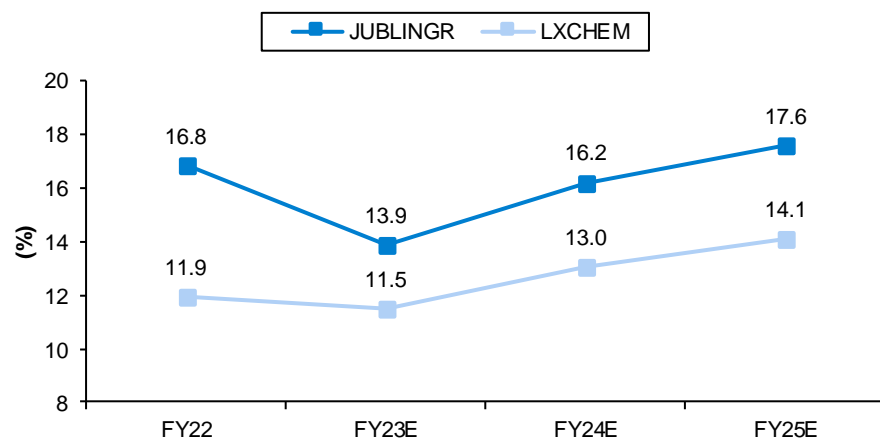


... aided by rising earnings contribution from higher value segments



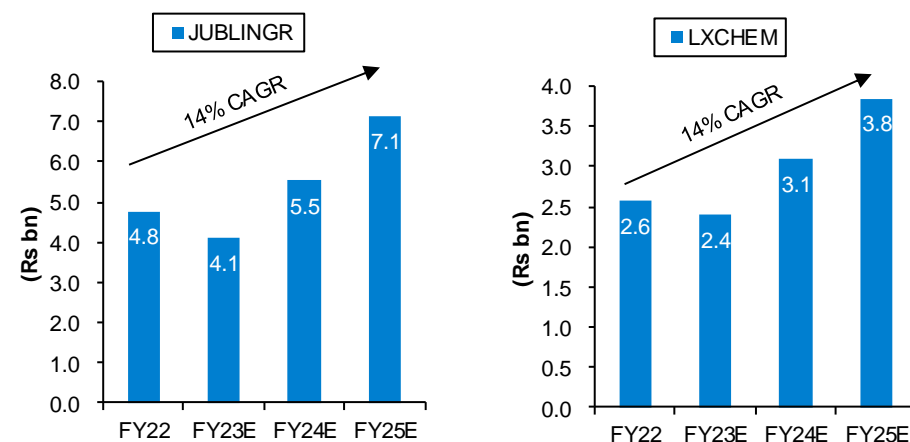
# JUBLINGR scores over LXCHEM on margin profile and RoCE

## Earnings mix improvement to drive margin profile and reduce volatility



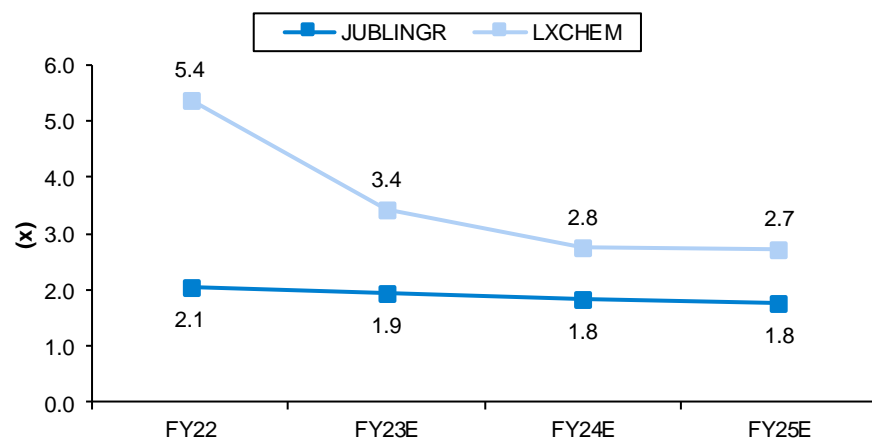
Source: Company, PL

## Healthy PAT growth over FY22-25E despite likely decline in FY23



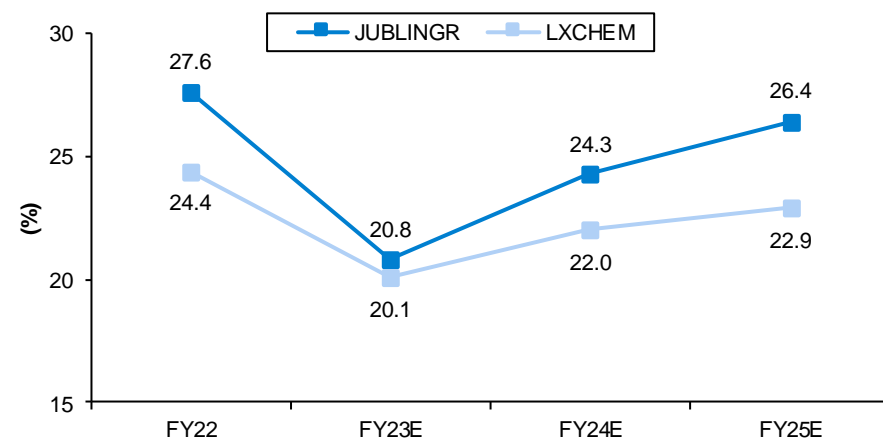
Source: Company, PL FY21-25E CAGR is 23% for JUBLINGR and 32% for LXCHEM

## LXCHEM's higher fixed asset turn is on larger commodity rev contribution



Source: Company, PL

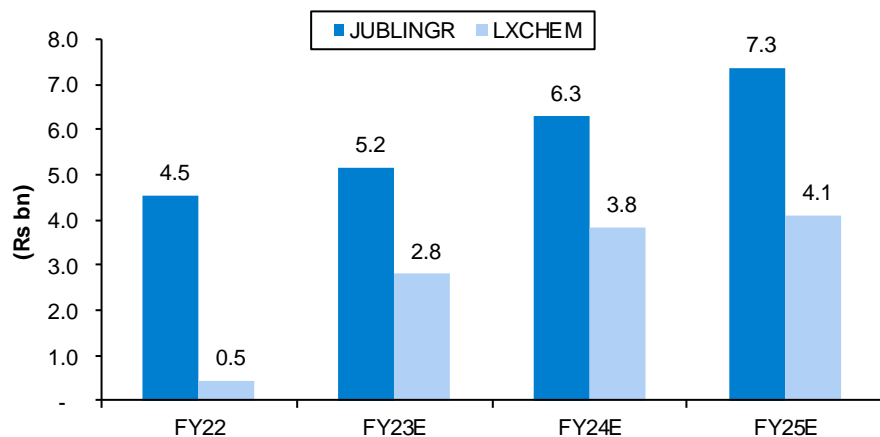
## JUBLINGR has a better RoCE profile vs LXCHEM



Source: Company, PL

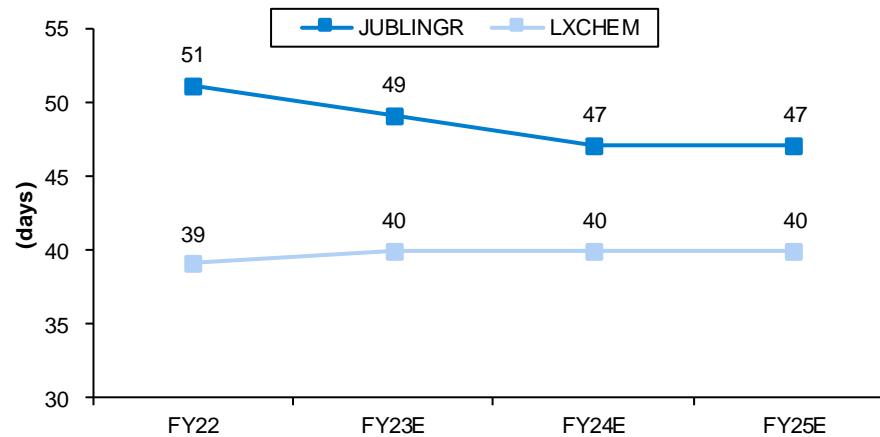
# Healthy balance sheets despite large capex outlay, largely self-funded

## Strong OCF generation aided by healthy earnings growth...



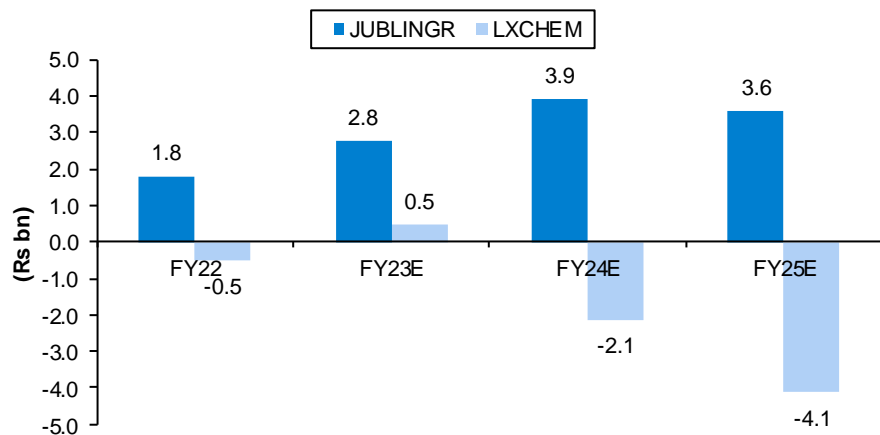
Source: Company, PL

## ...and stable working capital cycle



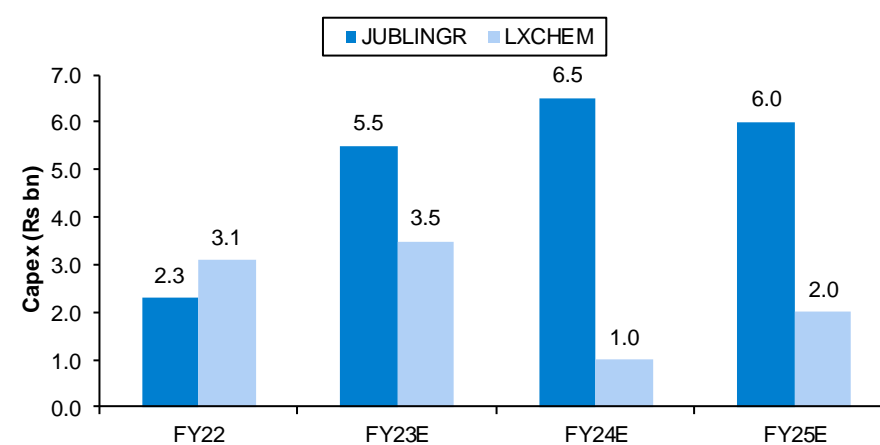
Source: Company, PL

## JUBLINGR net debt comfortable; LXCHEM net cash BS aided by IPO funds



Source: Company, PL

## Cash flow and BS remain strong despite large capex outlay over FY22-25E



Source: Company, PL



# Valuations - SOTP

## Jubilant Ingrevia (JUBLINGR) – Initiate BUY with TP Rs 860

SOTP	FY22	FY23E	FY24E	FY25E	CAGR (FY22-25E)
<b>EBITDA (Rs mn)</b>					
Specialty Chemicals	3,120	3,271	4,669	6,366	27%
Nutrition & Health Solutions	1,650	1,355	1,821	2,244	11%
Chemical Intermediates	4,170	3,132	3,607	4,248	1%
<b>Segment EBITDA - Total</b>	<b>8,940</b>	<b>7,758</b>	<b>10,097</b>	<b>12,858</b>	<b>13%</b>
Less: Unallocable items	(625)	(483)	(463)	(645)	
<b>Consolidated EBITDA (Rs mn)</b>	<b>8,315</b>	<b>7,275</b>	<b>9,635</b>	<b>12,212</b>	<b>14%</b>

<b>EV/EBITDA Target Multiple (x)</b>	<b>Sep-24</b>
Specialty Chemicals	16
Nutrition & Health Solutions	12
Chemical Intermediates	8
Unallocable items	8

<b>Enterprise Value (Rs mn)</b>	<b>Sep-24</b>	<b>Per Share</b>
Specialty Chemicals	88,670	558
Nutrition & Health Solutions	24,386	153
Chemical Intermediates	31,421	198
Less: Unallocable items	(4,432)	(28)
<b>Enterprise Value (Rs mn)</b>	<b>140,045</b>	<b>881</b>
Less: Net Debt and Investments	(3,329)	(21)
<b>Equity Value / MCap (Rs mn)</b>	<b>136,716</b>	<b>860</b>
<b>Target Price (Rs/ sh)</b>	<b>860</b>	

**Specialty Chemicals (SPCM):** Valued at 16x 1-year fwd EV/EBITDA (~30% discount to domestic specialty chemicals sector avg) given presence of building blocks revenue and we also await a large capex execution (right execution can drive re-rating).

**Nutrition & Health Solutions (NHS):** Valued at 12x 1-year fwd EV/EBITDA (in-line with global peer avg - Lonza, Koninklijke DSM N.V., Glanbia PLC, BASF), while focus increases on niche segments like pharma & cosmetic-grade vitamins.

**Chemical Intermediates (CI):** Commoditized business, valued at 8x 1-year fwd EV/EBITDA (in-line with global peer avg - Celanese, Eastman, Daicel).

## Laxmi Organic Industries (LXCHEM) - Initiate HOLD with TP Rs 335

SOTP	FY22	FY23E	FY24E	FY25E	CAGR (FY22-25E)
<b>EBITDA (Rs mn)</b>					
Specialty Intermediates	1,754	2,283	2,683	3,147	22%
Fluorochemicals	-	18	400	750	
Acetyl Intermediates	1,441	1,355	1,540	1,645	5%
Subsidiaries & Others	483	64	67	71	
<b>Consolidated EBITDA (Rs mn)</b>	<b>3,677</b>	<b>3,720</b>	<b>4,691</b>	<b>5,613</b>	<b>15%</b>

<b>EV/EBITDA Target Multiple (x)</b>	<b>Sep-24</b>
Specialty Intermediates	22
Fluorochemicals	18
Acetyl Intermediates	8
Subsidiaries & Others	6

<b>Enterprise Value (Rs mn)</b>	<b>Sep-24</b>	<b>Per Share</b>
Specialty Intermediates	63,983	243
Fluorochemicals	10,350	39
Acetyl Intermediates	12,743	48
Subsidiaries & Others	415	2
<b>Enterprise Value (Rs mn)</b>	<b>87,491</b>	<b>332</b>
Less: Net Debt and Investments	824	3
<b>Equity Value / MCap (Rs mn)</b>	<b>88,314</b>	<b>335</b>
<b>Fair Value / Target Price (Rs)</b>	<b>335</b>	

**Specialty Intermediates (SI):** Valued at 22x 1-year fwd EV/EBITDA (~10% discount to domestic specialty chemicals sector avg) given presence of Acetic Anhydride (commoditized product – JUBLINGR classifies it under CI segment).

**Fluorochemicals (FI):** Valued at 18x 1-year fwd EV/EBITDA (~50% discount to NFIL, a pure-play on fluorine), as there may be execution risks in ramping a new business area, and commercial success is gradual post commissioning (facing time and cost overrun).

**Acetyl Intermediates (AI):** Commoditized business, valued at 8x 1-year fwd EV/EBITDA (in-line with global peer avg - Celanese, Eastman, Daicel).

# Peer Valuations

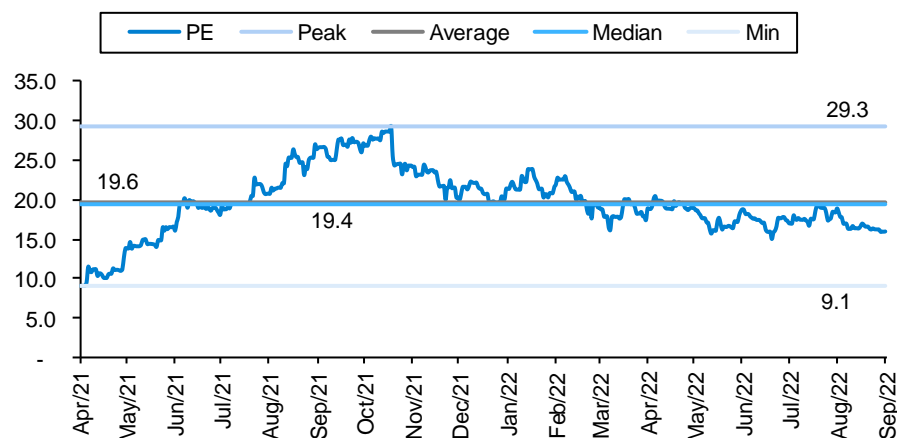
Figures in bn			Revenue			EBITDA			EBITDA Margin			PAT			PE			(x) EV/EBITDA			(x) ROE			(%)				
Domestic companies (Rs bn)			Rating	Mcap	FY22	FY19-22	FY22-25E	FY22	FY19-22	FY22-25E	FY23E	FY24E	FY25E	FY22	FY19-22	FY22-25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E			
Aarti Industries Ltd			ACC	308	70	19%	13%	13.2	11%	20%	20.6%	21.8%	22.5%	7.0	12%	22%	35	28	24	21	18	15	14	15	15			
Alkyl Amines Chemicals			NR	152	15	22%	31%	3.3	26%	50%	23.6%	25.8%	28.0%	2.2	38%	50%	50	39	31	NA	NA	NA	27	28	28			
Atul Ltd			NR	271	51	8%	22%	9.1	6%	31%	18.8%	20.2%	20.6%	6.0	12%	35%	36	30	25	25	20	17	16	16	18			
Balaji Amines Ltd			NR	112	23	35%	27%	6.2	47%	32%	27.1%	27.0%	28.8%	3.7	47%	36%	24	20	16	NA	NA	NA	29	26	25			
Clean Science & Technology Ltd			NR	191	7	20%	39%	3.0	30%	38%	42.3%	43.2%	42.7%	2.3	33%	36%	64	51	45	48	44	NA	34	33	28			
Deepak Nitrite Ltd			NR	273	68	36%	14%	16.0	57%	19%	22.5%	23.8%	25.4%	10.7	83%	20%	25	21	18	16	14	11	28	26	24			
Fine Organic Industries Ltd			HOLD	192	19	21%	16%	3.6	16%	25%	23.1%	23.6%	24.5%	2.6	24%	27%	40	40	35	29	29	25	40	29	26			
Galaxy Surfactants Ltd			NR	116	37	10%	14%	4.0	4%	-99%	12.3%	13.0%	0.0%	2.6	11%	20%	35	32	27	23	NA	NA	19	19	20			
Jubilant Ingrevia Ltd			BUY	74	49	12%	12%	8.3	26%	14%	13.9%	16.2%	17.6%	4.8	NA	14%	18	13	10	11	8	6	16	18	20			
Laxmi Organic Industries Ltd			HOLD	87	31	25%	9%	3.7	34%	15%	11.5%	13.0%	14.1%	2.6	52%	14%	36	28	22	23	18	15	17	19	20			
Navin Fluorine International Ltd			NR	212	15	13%	52%	3.5	18%	65%	25.5%	27.6%	28.5%	2.6	21%	60%	58	42	31	41	29	22	18	22	24			
Neogen Chemicals Ltd			NR	38	5	27%	41%	0.9	26%	47%	18.0%	19.4%	19.1%	0.4	29%	59%	58	41	32	33	24	19	14	17	18			
NOCIL Ltd			ACC	47	16	15%	9%	2.9	-1%	13%	19.0%	19.5%	20.3%	1.8	-2%	16%	21	19	17	13	12	11	15	15	15			
Privi Speciality Chemicals Ltd			NR	54	14	2%	43%	1.9	-3%	62%	12.8%	17.0%	17.8%	1.0	1%	66%	60	24	20	26	15	NA	11	22	22			
SRF Ltd			NR	777	124	21%	25%	31.0	33%	26%	25.5%	25.5%	25.6%	18.9	43%	26%	34	29	25	22	19	16	24	22	21			
Sudarshan Chemical Industries Ltd			NR	32	22	11%	21%	2.7	11%	33%	12.9%	7.6%	15.1%	1.3	-1%	40%	23	16	13	12	9	8	15	20	22			
Tatva Chintan Pharma Chem Ltd			NR	55	4	28%	37%	1.1	47%	41%	23.8%	25.8%	26.5%	1.0	67%	31%	58	38	34	45	30	26	18	23	20			
Vinati Organics Ltd			NR	233	16	13%	45%	4.3	1%	52%	27.9%	29.0%	29.8%	3.5	7%	48%	52	40	31	39	30	NA	22	24	25			
Sector Average						19%	26%		22%	27%					28%	35%		40	31	25		27	21	16		21	22	22

Global Companies			Curr	Mcap	FY22	FY19-22	FY22-25E	FY22	FY19-22	FY22-25E	FY23E	FY24E	FY25E	FY22	FY19-22	FY22-25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E			
Albemarle Corp			USD	30	3	0%	58%	1.1	-1%	78%	46.0%	44.1%	41.4%	0.1	-44%	341%	12	11	13	10	8	9	35	34	16			
BASF SE			EUR	39	80	9%	2%	10.8	5%	-3%	12.6%	11.9%	12.2%	5.5	5%	-7%	7	8	7	5	6	6	11	11	12			
Celanese Corp			USD	12	9	6%	8%	2.4	12%	12%	29.0%	27.7%	29.6%	1.9	16%	-2%	6	7	6	7	6	5	39	28	27			
Chemours Co/The			USD	5	6	-1%	11%	1.1	-10%	29%	22.0%	21.8%	22.4%	0.6	-15%	29%	6	5	5	5	4	4	75	58	47			
Clariant AG			CHF	6	4	0%	11%	0.7	4%	20%	16.5%	16.9%	17.7%	0.3	1%	13%	16	15	14	8	8	7	15	13	12			
Croda International PLC			GBP	9	2	11%	0%	0.6	13%	4%	31.0%	30.8%	31.2%	0.3	10%	7%	26	27	25	16	17	15	21	15	15			
Daicel Corp			JPY	267	468	0%	13%	78.9	-1%	12%	14.8%	15.8%	16.7%	31.3	-4%	11%	7	7	7	6	6	5	13	12	12			
Eastman Chemical Co			HKD	11	10	1%	3%	1.9	-4%	10%	19.7%	20.2%	20.7%	0.9	-7%	23%	9	9	8	7	7	7	21	24	21			
Ecolab Inc			USD	46	13	1%	11%	2.4	0%	20%	19.8%	21.5%	22.4%	1.1	-8%	29%	34	28	24	19	17	15	18	21	22			
Glanbia PLC			HKD	3	4	10%	17%	0.3	-5%	25%	7.1%	7.4%	7.7%	0.2	-11%	39%	13	12	11	10	9	8	15	15	15			
International Flavors & Fragrances Inc			USD	27	12	43%	8%	1.9	36%	26%	20.0%	21.3%	22.1%	0.3	-7%	150%	19	17	15	15	13	12	6	6	8			
Kerry Group PLC			EUR	18	7	4%	12%	1.2	10%	11%	14.4%	14.9%	15.4%	0.8	12%	10%	23	21	19	16	15	13	13	13	13			
Koninklijke DSM NV			EUR	27	9	0%	6%	1.7	-1%	10%	18.2%	18.9%	19.8%	1.7	16%	-21%	27	25	22	16	14	13	10	9	9			
Lonza Group AG			CHF	38	5	-1%	19%	1.3	-2%	43%	31.3%	32.3%	33.9%	2.9	74%	-28%	34	29	25	20	17	15	10	11	12			
Symrise AG			EUR	14	4	7%	14%	0.8	9%	15%	20.9%	20.9%	21.2%	0.4	11%	19%	32	29	26	17	16	14	13	13	13			
Wanhua Chemical Group Co Ltd			CNY	287	146	25%	14%	38.6	16%	9%	20.9%	23.6%	24.2%	24.6	17%	10%	13	11	10	9	8	7	26	26	24			
Zhejiang NHU Co Ltd			CNY	76	15	20%	19%	6.4	18%	19%	43.7%	43.8%	43.0%	4.3	12%	23%	15	13	11	11	9	8	20	20	19			
Ex-India Average						8%	13%		6%	20%					5%	38%		18	16	15		12	11	10		21	19	18
Global Average																		29	23	20		19	16	13				



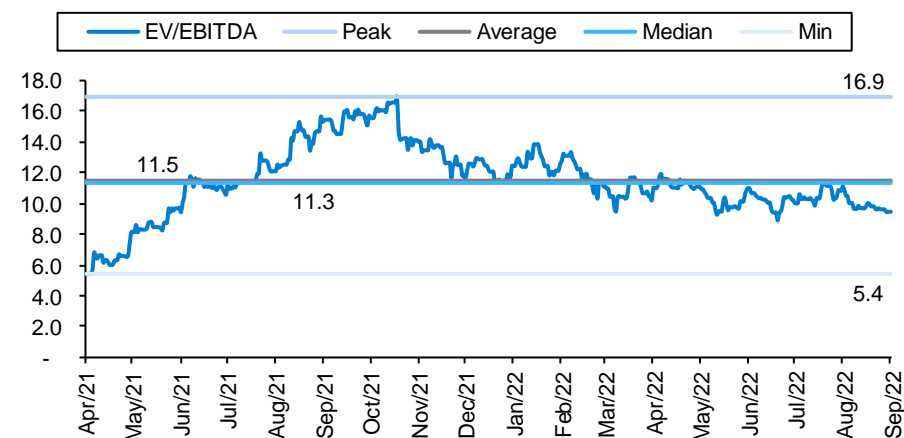
# Valuation Bands

Jubilant Ingrevia – One Year Forward Price to Earnings



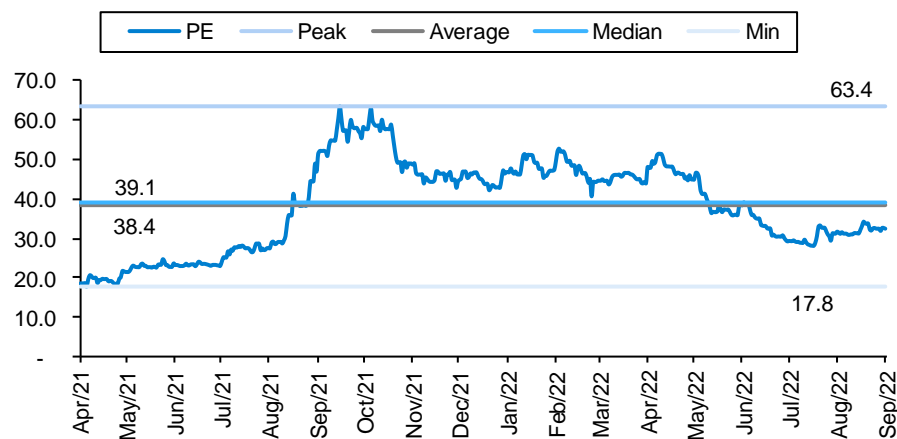
Source: Company, PL

Jubilant Ingrevia – One Year Forward EV to EBITDA



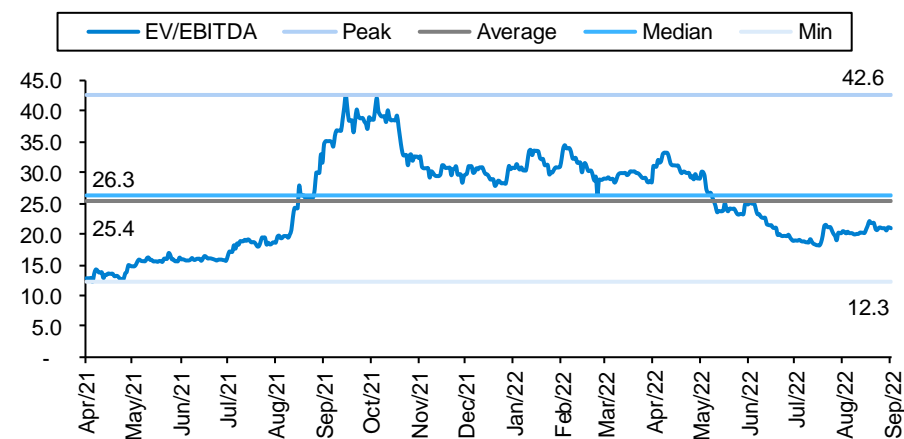
Source: Company, PL

Laxmi Organic Industries – One Year Forward Price to Earnings



Source: Company, PL

Laxmi Organic Industries – One Year Forward EV to EBITDA



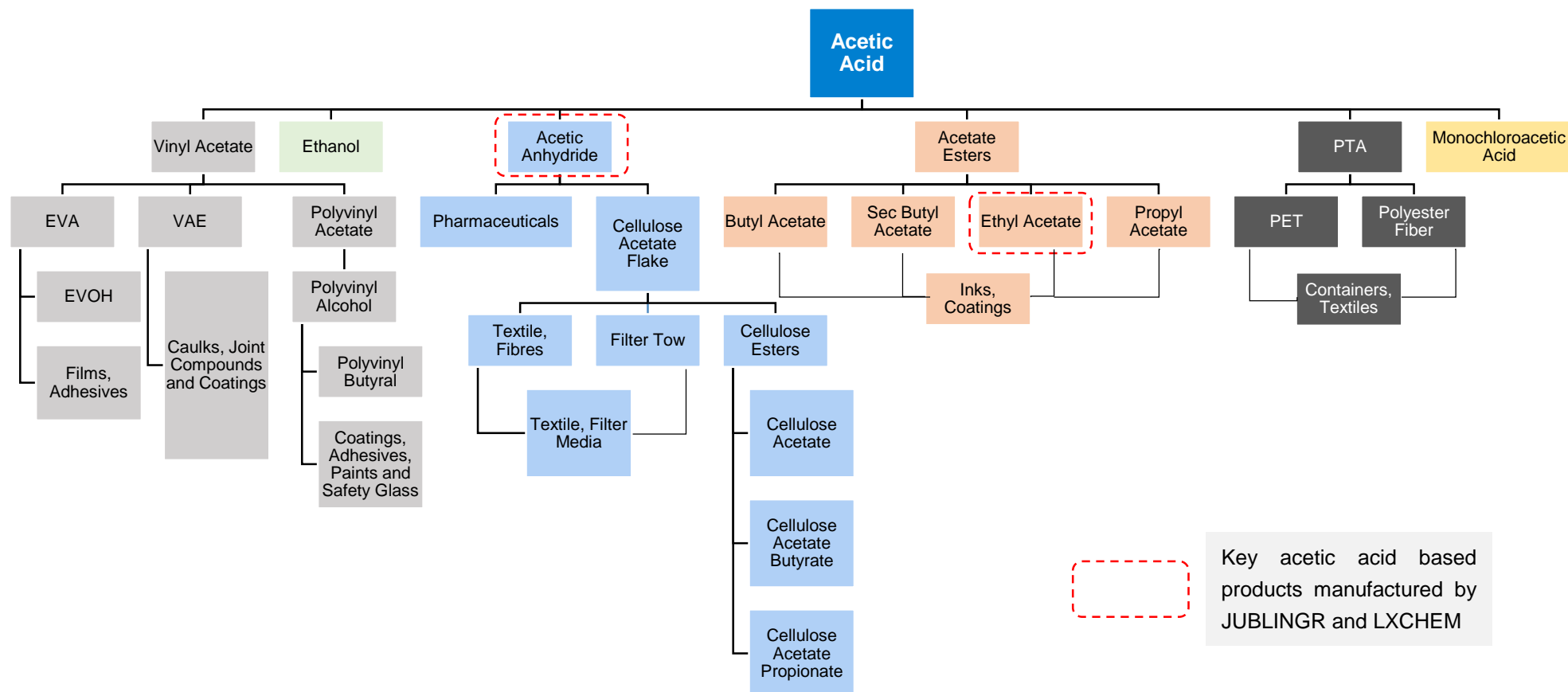
Source: Company, PL

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## Acetyl Industry Overview

# Acetic acid – Major organic chemical and key RM for JUBLINGR & LXCHEM

Acetic acid (also known as ethanoic acid/ ethylic acid) is a major organic chemical with annual global demand of over 15mn mtpa, and is largely petrochemically derived. The methanol carbonylation route constitutes ~85% of global acetic acid active capacity, given lower production costs vs other technologies like acetaldehyde route (oxidation of ethanol to form acetaldehyde and further oxidation to form acetic acid). Almost all acetic acid derivatives are expected to grow at or above GDP rates. Acetic acid is a key raw material for JUBLINGR and LXCHEM, for their chemical intermediates and acetyl intermediates segments respectively, in addition to ketene/ diketene derivatives.



# Acetic acid demand growth to be steady; price volatility may subside

- **Steady demand growth over next decade led by end user industries:** Global demand growth for acetic acid is forecasted at >3% over next decade, led by demand growth for Monochloroacetic acid (MCA) , Vinyl Acetate Monomer (VAM) and Ethylene Vinyl Acetate (EVA).
- **Price volatility may subside:** Currently acetic acid prices have corrected to ~USD 450/ton (reverted to long term average) from record highs of ~USD 1400/ton in 2021. We believe, volatility will eventually subside and a balanced global demand/supply environment will prevail in the medium term.
- **Input cost pressures to support prices:** Underlying cost pressures for acetic acid include high feedstock prices (natural gas, coal), higher catalyst prices (rhodium, iridium) and reduced production from marginal producers to lend support to prices.
- **Upcoming capacities to keep prices in check over the medium term:** Amongst key capacity expansions, Celanese Clear Lake Site in US Gulf (~1 mn mtpa) will come onstream in H12023, while Ineos/Zhejiang PC and Hualu Hengsheng new capacity in China is expected to come up in ~2-3 years. Supplies to increase in-line with growing demand will keep prices under check, while elevated production costs will support prices.
- **Higher operating rates on slow capacity additions:** Acetic acid witnessed tight market conditions in 2021 on (1) post-covid demand recovery, (2) winter storm (Uri) impact on US Gulf coast production, (3) Lyondell La-porte's unit incident, (4) Extended maintenance outage at Ineos's acetic acid unit in Hull (5) High freight costs and container availability issues resulting in lower inventories and record high prices. Only 1 new plant (0.5mn mtpa) started in Qinzhou city, China (Jul'21) and another unit (0.7mn mtpa) to commission by end of 2022 (same location), which partially offset closure of older and less efficient capacities.

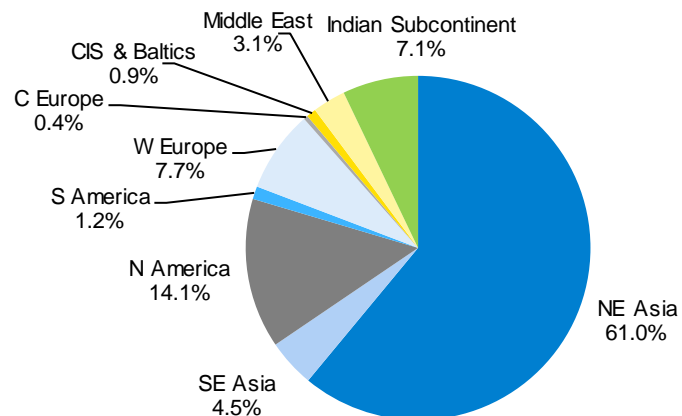
## Global Acetic Acid capacity and production: China controls >50% of global capacity and is also the largest consumer

Acetic Acid	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022E
<b>Production (world, 000's mtpa)</b>	<b>11436</b>	<b>11885</b>	<b>12334</b>	<b>12920</b>	<b>13377</b>	<b>13442</b>	<b>13798</b>	<b>14328</b>	<b>14650</b>	<b>13827</b>	<b>14632</b>	<b>15429</b>
China	4596	4650	4953	5529	5970	6008	6520	6956	7187	6785	7187	7710
North America	2592	2783	2800	2752	2772	2703	2549	2572	2686	2539	2656	2831
Rest of World	4248	4452	4581	4639	4635	4731	4729	4800	4777	4503	4789	4888
<b>Capacity (world, 000's mtpa)</b>	<b>16106</b>	<b>17455</b>	<b>17560</b>	<b>18244</b>	<b>19083</b>	<b>18799</b>	<b>18878</b>	<b>19029</b>	<b>19335</b>	<b>19605</b>	<b>19505</b>	<b>19405</b>
China	7514	8454	9029	9639	10359	9964	9964	10014	10264	10464	10364	10264
North America	2775	2880	2869	2869	2869	2984	3064	3169	3175	3315	3315	3315
Rest of World	5817	6121	5662	5736	5855	5851	5850	5846	5896	5826	5826	5826
<b>Global Operating Rate %</b>	<b>71%</b>	<b>68%</b>	<b>70%</b>	<b>71%</b>	<b>70%</b>	<b>72%</b>	<b>73%</b>	<b>75%</b>	<b>76%</b>	<b>71%</b>	<b>75%</b>	<b>80%</b>
China	61%	55%	55%	57%	58%	60%	65%	69%	70%	65%	69%	75%
North America	93%	97%	98%	96%	97%	91%	83%	81%	85%	77%	80%	85%
Rest of World	73%	73%	81%	81%	79%	81%	81%	82%	81%	77%	82%	84%

Source: Bloomberg, PL

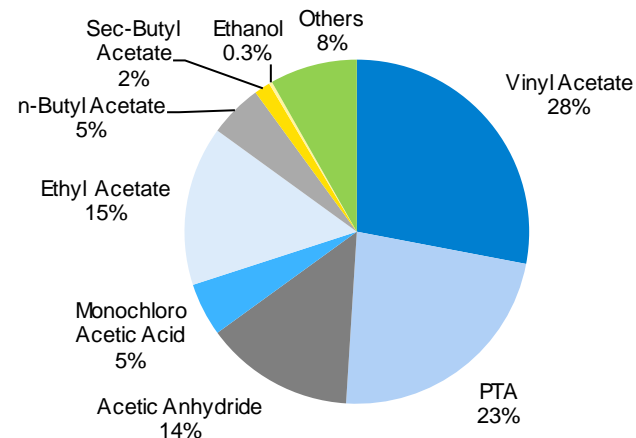
# Global acetic acid demand, capacity and key players

Global acetic acid demand by region (15.5mn mt)



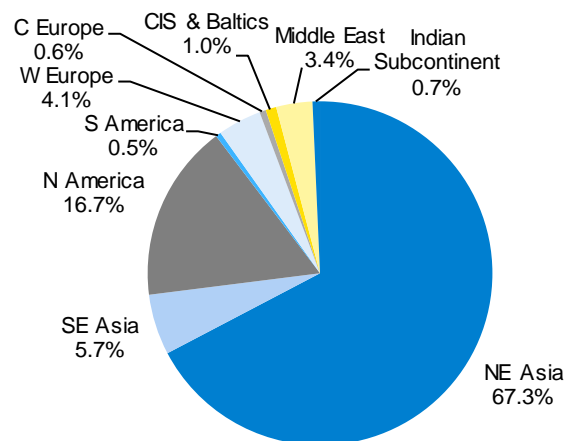
Source: Industry, PL

Global acetic acid demand by applications



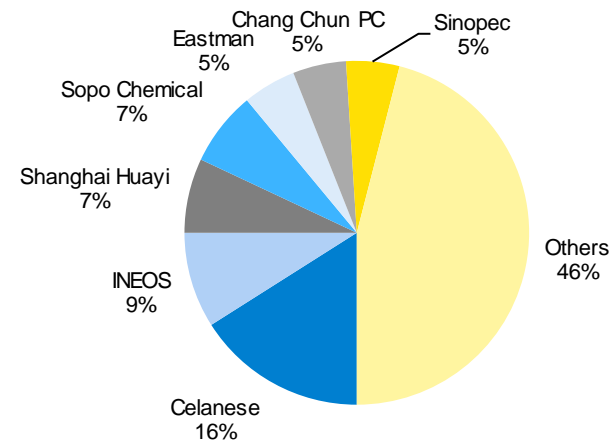
Source: Industry, PL

Global acetic acid capacity by region (20.6mn mtpa)



Source: Industry, PL

Global acetic acid producers (by capacity)



Source: Industry, PL

# Ethyl Acetate – A preferred solvent; LXCHEM and JUBLINGR are key players

- Preferred solvent in several applications with no drop in substitutes:** Faster evaporation rate and quick drying time, lower toxicity, less odour and cost efficiency make ethyl acetate a preferred solvent across paints & coatings, inks & printing, flexible packaging, adhesives, pharmaceuticals etc. In 2015, REACH banned products including glues containing toluene, chloroform or benzene.
- Steady demand growth led by end user industries:** Ethyl acetate demand is estimated at 3.4mn mt in 2021 (+10.2% YoY) and is expected to grow at 3.9% CAGR over 2021-31. Global operating rates are expected to increase gradually (56% in 2021 vs 54% in 2020), given limited new capacities.
- Large inter-regional trade, given concentrated capacities:** ~70% of global ethyl acetate capacity is located in North East Asia, whereby top 7 producers constitute 45% of the global capacity. ~65% of ethyl acetate volumes are traded inter regionally. North America is the biggest net exporter followed by Indian subcontinent, while South East Asia and West Europe are biggest net import regions.

ETHYL ACETATE	TOLUENE	KETONES
<ul style="list-style-type: none"> <li>Least toxic among solvents</li> <li>Eye, Nose and Throat irritant</li> </ul>	<ul style="list-style-type: none"> <li>Immediate effects are more severe than other solvents at high exposure</li> <li>Cause damage to Kidney and Liver</li> </ul>	<ul style="list-style-type: none"> <li>Cause narcosis and irritation to the eye and upper respiratory tract at high concentration</li> <li>Cause defatting of the skin upon prolonged exposure resulting in dry, scaly, cracked skin</li> </ul>

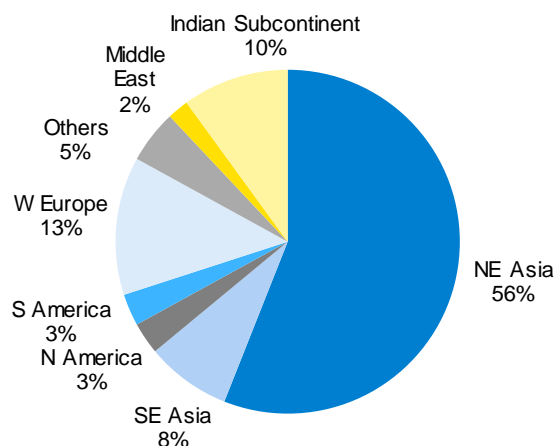
	Ethyl Acetate	Toluene	Methyl Ethyl Ketone
Acute Oral Toxicity LD50, mg/kg	4,100	636	2,737
Acute Toxicity of vapour LD50, mg/m3	45,000	440	32,000
Dermal toxicity LD50, ml/kg	>20,000	14,100	6,480

\*Lesser the values, higher the toxicity

\*Toluene is 100 times more toxic than Ethyl Acetate, in terms of its vapour exposure as solvent application.

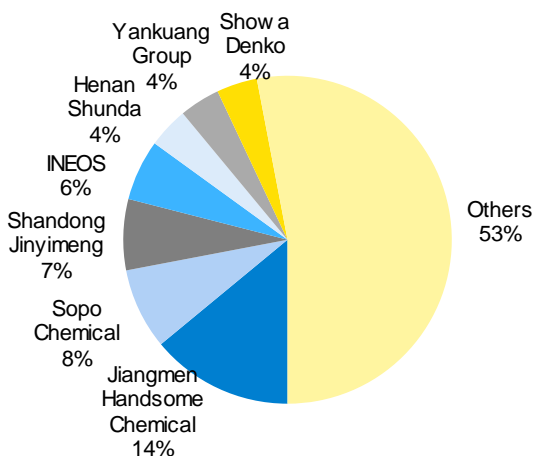
Solvents such as Toluene, MIBK, MEK, Acetone, Cyclohexane, etc. are getting replaced with greener solvent ethyl acetate in industrial applications.

Global ethyl acetate demand (3.4mn mtpa)



Source: Industry, PL

Key global ethyl acetate producers (6.1mn mt)



Source: Industry, PL

Leading domestic ethyl acetate manufacturers

Company	Plant Location	Capacity (ktpa)
Laxmi Organics (incl YCPL)	Maharashtra	188
Jubilant Ingrevia	Nira MS & Gajraula UP	150
Godavari Biorefineries	Sakarwadi, Maharashtra	105
IOL Chemicals	Barnala, Punjab	87
GNFC	Bharuch, Gujarat	55
Dhampur Alcochem	Bijnor, UP	50
Satyam Petrochemicals	Karad, Maharashtra	50
Ester India	Sahibabad, UP	12
Others (Shatabdi etc)	Ghaziabad, UP	19

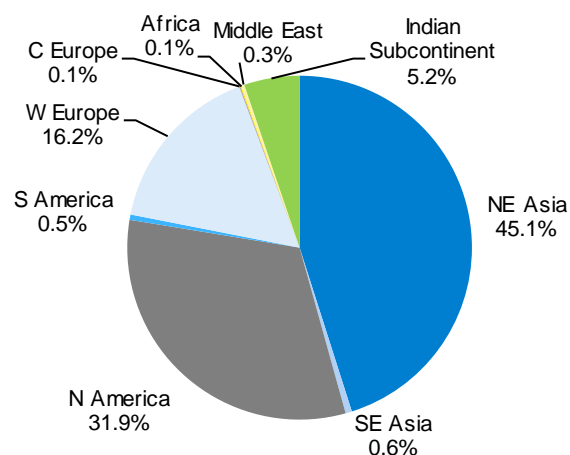
Source: Laxmi Organics DRHP, PL



# Acetic Anhydride – A key intermediate in industrial and pharma applications

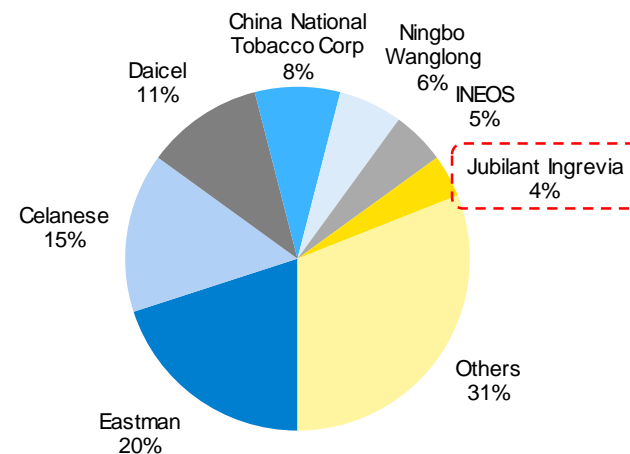
- Acetic anhydride is a colourless liquid that is formulated from organic synthesis and dehydration of acetic acid. Acetic anhydride is manufactured primarily by the ketene route or by carbonylation of methyl acetate.
- Industrial and pharmaceutical applications constitute ~79% and ~14% of the total Acetic Anhydride market, followed by agrochemicals and nutrition**
  - Industrial** - Cellulose acetate (cigarette filter tow, plastic films, fibre), detergents (TAED), artificial sweeteners, acetylated wood, industrial starches.
  - Pharmaceutical** - An important intermediate in production of about 20 APIs, which include Analgesic, Antipyretic, Anti-inflammatory drugs like Paracetamol, Ibuprofen, Aspirin and various other APIs like Prazoles and Caffeine.
  - Agrochemicals and Nutrition** - A critical intermediate for traditional and new generation agro chemicals like Acephate, Azoxystrobin, Glufosinate and s-metolachlor. It also used in food & nutritional applications like Vitamin A and Vitamin E.
- Healthy demand recovery:** Global acetic anhydride demand witnessed healthy recovery in 2021 after a Covid led fall. Operating rates improved to 74% (vs 70% in 2020). Acetic Anhydride market demand is estimated at 2.1mn mt (+7.5% YoY) in 2021 and is expected to grow at 3.4% CAGR over 2021-31.
- Limited inter-regional trade:** 2 players (Celanese and Eastman) control ~42% of the nameplate capacity (0.64 mn mtpa and 0.58 mn mtpa). Only~10% of acetic anhydride volumes are traded inter-regionally, as its movement is strictly controlled due to its possible application in explosives and drugs.

Global acetic anhydride demand by region (2.1mn mt)



Source: Industry, PL

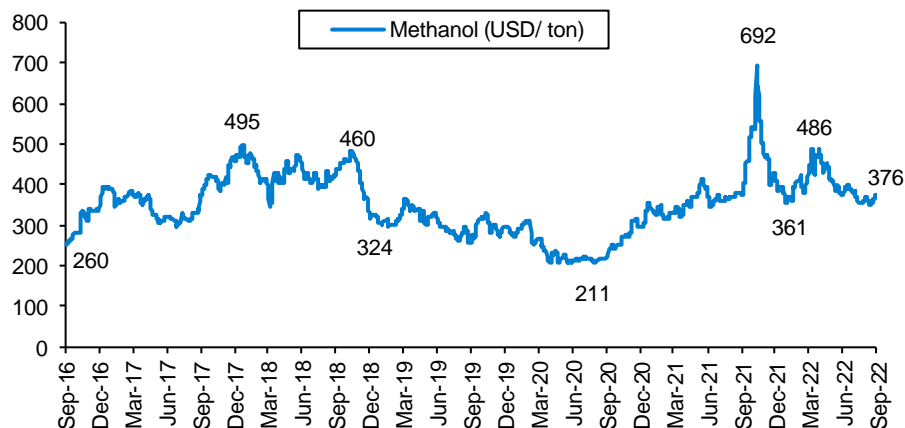
Key global acetic anhydride producers (capacity 2.9mn mtpa)



Source: Industry, PL

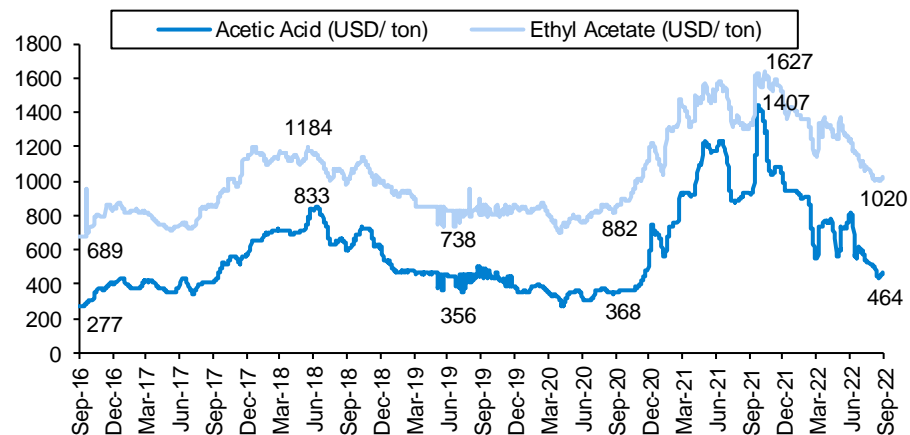
# Global pricing & spreads – A cyclical peak behind us

Methanol price trend (key input for Acetic Acid)



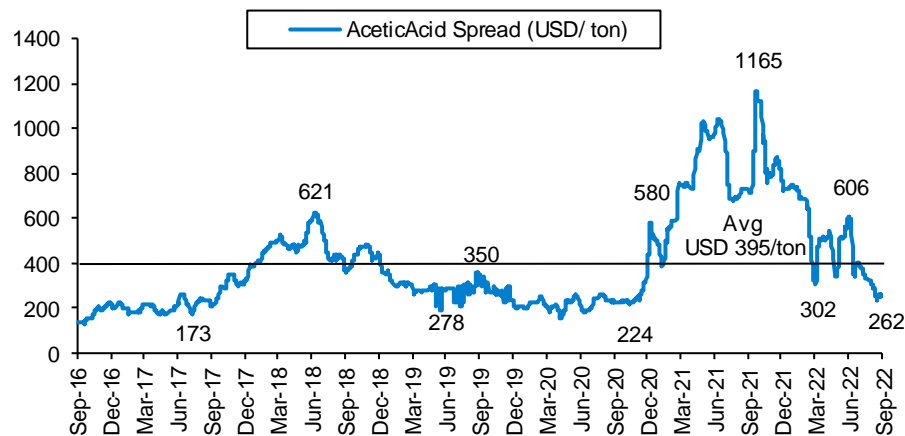
Source: Bloomberg, PL

Acetic Acid and Ethyl Acetate price trend



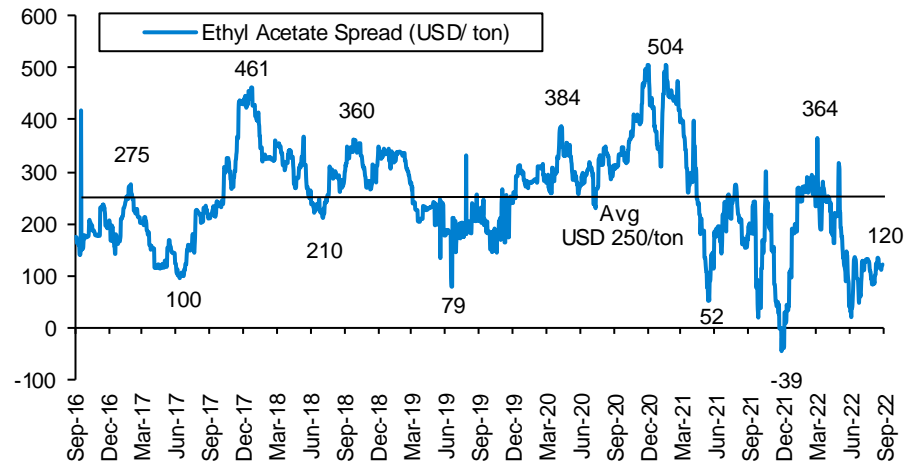
Source: Bloomberg, PL

Acetic Acid Spread (Methanol: Acetic Acid)



Source: Bloomberg, PL

Ethyl Acetate Spread (Acetic Acid + Ethanol : Ethyl Acetate)



Source: Bloomberg, PL

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## Companies

# Jubilant Ingrevia (JUBLINGR IN)

Rating: BUY | CMP: Rs463 | TP: Rs860 | Mcap: Rs73.6bn

	Y/e March	2022	2023	2024	2025
Income Statement (Rs m)	Net Sales	49,494	52,468	59,457	69,581
	Growth (%)	623.4	6.0	13.3	17.0
	EBITDA	8,318	7,275	9,635	12,212
	Growth (%)	610.2	-12.5	32.4	26.8
	Margin (%)	16.8	13.9	16.2	17.6
	EBIT	7,084	5,981	8,174	10,409
	Net Interest	309	162	220	228
	Other Income	315	220	165	298
	PBT	7,090	6,040	8,120	10,479
	Total Tax	2,322	1,933	2,598	3,353
Balance Sheet (Rs m)	Adj. PAT	4,767	4,107	5,521	7,125
	Growth (%)	608.3	-13.9	34.5	29.0
	Gross Block	24,697	29,197	35,697	42,697
	Investments	67	67	67	67
	Inventories	9,112	9,344	10,263	12,010
	Trade receivables	5,809	6,181	7,005	8,197
	Cash & Bank Balance	485	360	301	516
	Equity Share Capital	159	159	159	159
	Total Netw orth	24,331	27,727	32,293	38,186
	Borrow ings	2,288	3,117	4,202	4,094
Cash Flow (Rs m)	Trade payables	7,978	8,457	9,584	11,216
	Net cash from Op. activities	4,527	5,158	6,282	7,350
	Net Cash from Invnt. activities	-718	-5,280	-6,335	-5,702
	Net cash from Fin. activities	-4,166	-3	-7	-1,432
	Net change in cash	-357	-125	-60	216
Key Ratios	Free Cash Flow	2,226	-342	-218	1,350
	EPS (Rs)	30.0	25.8	34.7	44.8
	Growth (%)	609.6	-13.9	34.5	29.0
	BPV S (Rs)	153.0	174.4	203.1	240.2
	DPS (Rs)	5.0	4.5	6.0	7.8
	RoCE (%)	27.6	20.8	24.3	26.4
	RoE (%)	21.9	15.8	18.4	20.2
	Net Debt : Equity (x)	0.1	0.1	0.1	0.1
	Net Working Capital (Days)	51.2	49.2	47.2	47.2
	PE (x)	15.4	17.9	13.3	10.3
	P/B (x)	3.0	2.7	2.3	1.9
	EV / EBITDA (x)	9.1	10.5	8.0	6.3
	Dividend Yield (%)	1.1	1.0	1.3	1.7

Key Data	JUBN.BO   JUBLINGR IN
52-W High / Low	Rs.878 / Rs.401
Sensex / Nifty	59,197 / 17,656
Market Cap	Rs.74bn/ \$ 924m
Shares Outstanding	159m
3M Avg. Daily Value	Rs.239.55m

## Shareholding Pattern (%)

Promoter's	51.67
Foreign	10.19
Domestic Institution	0.70
Public & Others	37.44
Promoter Pledge (Rs bn)	-

## Stock Performance (%)

	1M	6M	12M
Absolute	-5.7	-0.8	-37.6
Relative	-7.0	-8.9	-38.6

## Price Chart



# Investment Summary

We initiate coverage on Jubilant Ingrevia Ltd (JUBLINGR) with 'BUY' rating at SOTP based TP of Rs 860 (implied 13x Sep'24 EV/EBITDA and 22x Sep'24 PE). JUBLINGR is a leading global player of acetic anhydride, pyridine & its derivatives along with other products that cater to pharmaceuticals, agrochemicals, packaging etc. across three business segments - Specialty Chemicals (SPCM), Nutrition & Health Solutions (NHS) and Chemical Intermediates (CI). The company exports to over 50 countries contributing 36% revenues with over 25% sales in regulated markets. With an expertise in 35 technology platforms (incl. Ammoxidation, Grignard, Halogenation Ketene/Diketene & others), JUBLINGR is steadily expanding its product portfolio by leveraging several business synergies. EBITDA contribution from higher value segments (SPCM + NHS) is expected to increase to ~67% by FY25E from ~53% in FY22, as SPCM/NHS EBITDA grow at ~27%/11% CAGR over FY22-25E. We believe JUBLINGR is well placed to capitalize on long term growth opportunities given (1) 60 new products pipeline (2) strong traction in CDMO (3) import substitution (4) China+1 policy adopted by global clients and (5) commensurate capex outlay of Rs20.5bn over FY22-25 (of which Rs9bn is committed). CI segment (commoditised business) is expected to witness muted EBITDA CAGR of 1% over FY22-25E on realisation and margin normalisation (from elevated base of FY22). Yet strong balance sheet (Net Debt/Equity at 0.1x) despite ~Rs18bn cash outflow on capex over FY23-25E, and earnings mix improvement led by higher value and structural growth segments will drive rerating in the stock, in our view. Initiate 'BUY'.

**Integrated business model enables global leadership:** JUBLINGR's vertical integration across value chain enables cost and market leadership (global top 2 in pyridine-beta, vitamin B3, and acetic anhydride) as 37% of CI volume is consumed in-house by SPCM segment and 52% of Pyridine & Picoline volume is consumed captively for value added products in SPCM and Vitamin B3. 100% Beta Picoline volume (key RM for Vitamin B3) is sourced from SPCM. JUBLINGR's leadership position within key products facilitates in leveraging customer relationships and enhancing revenue potential from new products/cross selling. Robustness of the business model is fortified by entry barriers, like (1) long gestation in SPCM (3-5 years for product approvals and facility audits), (2) expertise in handling multi-step chemistries (~13 steps) at commercial scale and (3) capability of handling large ketene volumes (ketene is unstable and cannot be stored).

**Specialty chemicals to lead earnings growth aided by highest capital allocation:** JUBLINGR's market leadership in various products across acetyls and pyridine derivatives, enables it to move up the value chain. It has already committed capex of ~Rs6bn, while ~Rs7bn is still under evaluation in (1) Diketene Derivatives Phase-1 (already commercialised in Q4FY22) (2) GMP and Non-GMP MPP's for CDMO Pharma and Crop Protection (to be commissioned by Q3FY23) and (3) MPP's for insecticides, fungicides and herbicides (to commence by Q3FY24) as it moves up the value chain for agro actives and advanced intermediates, aiding revenue/ EBITDA CAGR of 26%/27% over FY22-25E and driving up segment revenue/ EBITDA share of 28%/35% in FY22 to 40%/ 50% in FY25E.

**Focus on higher value added areas and entry into regulated markets:** JUBLINGR plans to diversify from animal feed nutrition and focus on higher value added areas i.e. pharma and cosmetic-grade vitamins in regulated markets like North America, EU & Japan (facilities to be upgraded to US DMF & European CEP standards compliance). We expect revenue/EBITDA CAGR of 11%/11% over FY22-FY25E, aided by capex outlay of Rs2bn by FY25E for expansion of Vitamin B3 capacity by ~20% and launch of various value-added grades of Vitamin B3.

**Chemical intermediates segment earnings concentration to reduce:** Improved performance in FY22 (Revenue/ EBITDA increased +61%/+77%) was on favorable market conditions/ pricing for key products like Acetic Anhydride and Ethyl Acetate, as margins rose to 14.9% (vs 13.6% in FY21) despite higher RM prices. We expect normalisation of spreads, hence we forecast sustainable EBITDA margins for the segment at 12-13% for FY23-25E (in-line with historical average) and CI revenue/ EBITDA share to decline from 56%/ 47% in FY22 to 45%/ 33% by FY25E, despite continuing capex (outlay of ~Rs5bn by FY25).

# Jubilant Ingrevia – Business overview

## Jubilant Ingrevia – FY22

Consol Revenue: Rs49.5bn  
Consol EBITDA: Rs8.3bn  
Consol EBITDA Margin: 16.8%

### Chemical Intermediates

Revenue: Rs27.9bn (56%)  
EBITDA: Rs4.2bn (47%)  
EBITDA Margin: 14.9%

#### Sub-segments

Acetyls  
Specialty Ethanol

#### Products

9 products including Acetic Anhydride, Ethyl Acetate, Propionic Anhydride, Green Acetic Acid (Food Grade), Green Acetaldehyde, Formaldehyde, Specialty Alcohol, Anhydrous Alcohol

#### Applications

Pharmaceuticals (Paracetamol and >6 other API's), Agro (Acephate, Clethodim), Food and Nutrition

#### Key Raw Materials

Acetic Acid, Ethanol

#### Competition

**Global** – Celanese Corporation, Eastman Chemical, Daicel Corporation, Saudi International Petrochemical Co. (Sipchem), British Petroleum (BP)  
**Domestic** – Laxmi Organics, GNFC, EID Parry, S.P.Y. Agro Industries

### Specialty Chemicals

Revenue: Rs13.9bn (28%)  
EBITDA: Rs3.1bn (35%)  
EBITDA Margin: 22.4%

Pyridines & Picolines  
Fine Chemicals  
Crop Protection Chemicals  
CDMO

70 products including Pyridines & Picolines, Cyanopyridines, Piperidines, Aminopyridines, Lutidines; Diketene derivatives

Pharmaceuticals, Agrochemicals, Nutrition, Microbial Control, Paints & Coatings, Solvent, Food, Electronics, Oil Field Chemicals, Personal Care and Cosmetics

Formaldehyde, Acetaldehyde, Ammonia

**Global** – Lonza AG, Vertellus LLC, Nanjing Red Sun Co., Shandong Hongda, Shandong Luba Chemical  
**Domestic** – Laxmi Organics (Diketene derivatives)

### Nutrition & Health Solutions

Revenue: Rs7.7bn (16%)  
EBITDA: Rs1.7bn (18%)  
EBITDA Margin: 21.5%

Nutrition & Health Ingredients  
Animal Nutrition  
Human Nutrition

48 products including  
5 Nutrition Ingredients & 18+ branded solutions (For Animal Health)

Animal Nutrition (Poultry, Dairy, Aqua), Hair Care, Cosmetics, Energy Drinks, Breakfast Cereals, Nutraceuticals, Weight Supplements

Beta Picoline

**Global** – Lonza AG, Vertellus LLC, Koninklijke DSM N.V., Glanbia PLC, Kemin Industries, BASF SE  
**Domestic** – Lasons India, Balaji Amines, Camlin Fine Science, Avitech Nutrition

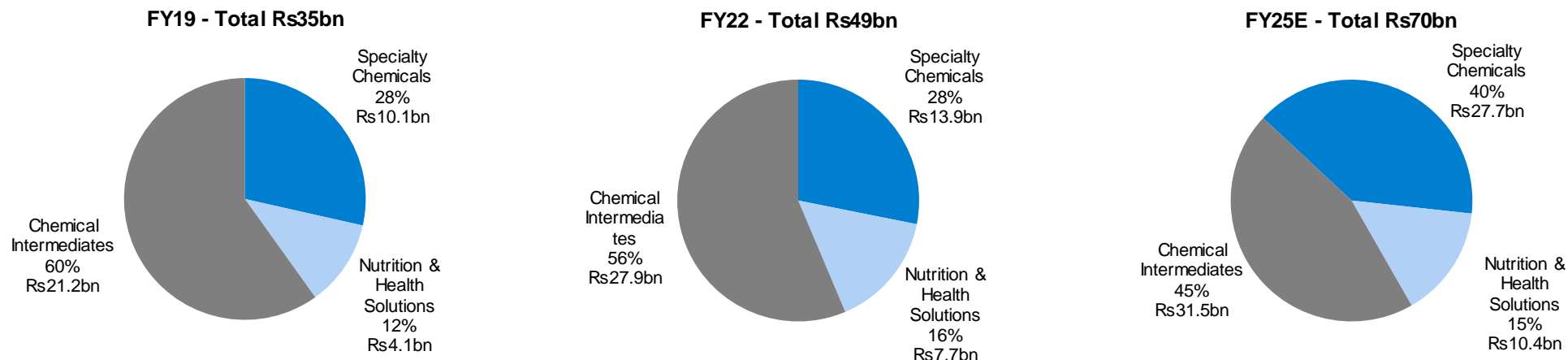


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## Story in charts

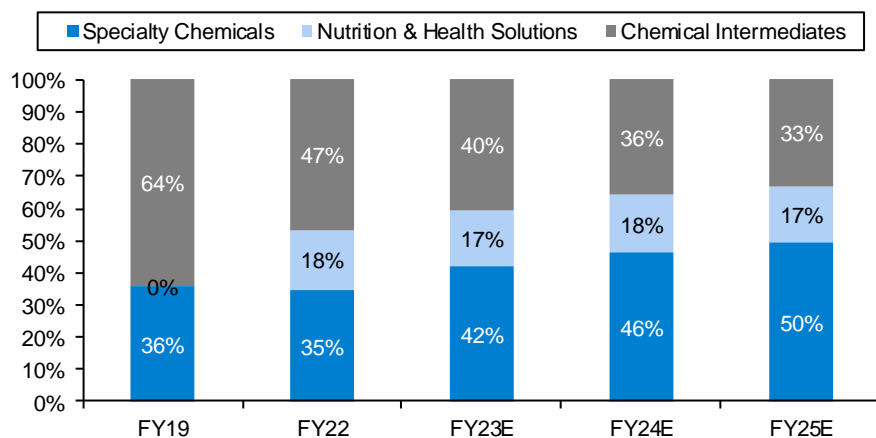
# Rising contribution of higher value segments...

Revenue share of higher value segments (Specialty Chemicals + Nutrition & Health Solutions) to increase to 55% by FY24E (from 44% in FY22)



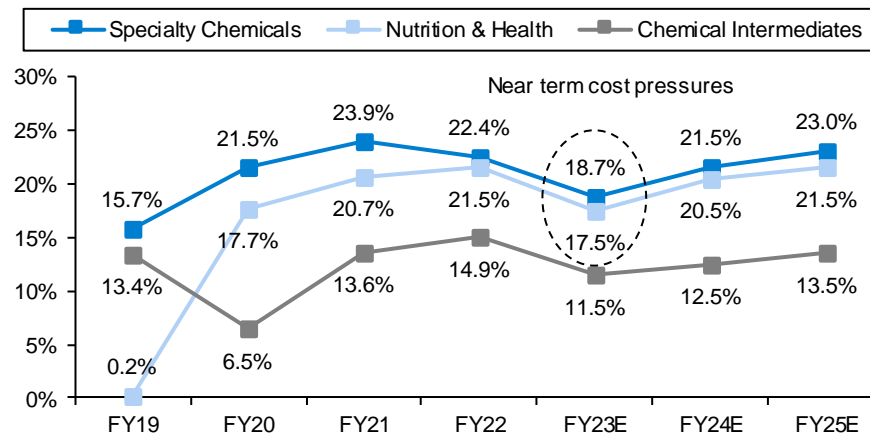
Source: Company, PL

EBITDA mix improvement with high value segments share at 67% by FY25E



Source: Company, PL

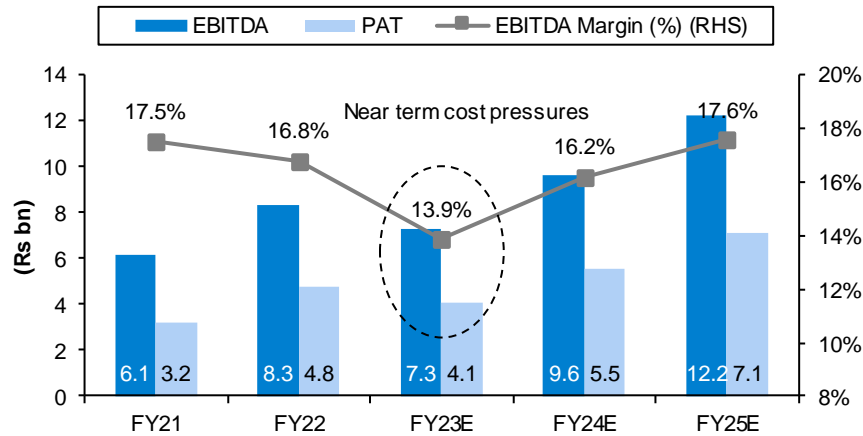
Margins to normalize in CI and remain steady in higher value segments



Source: Company, PL

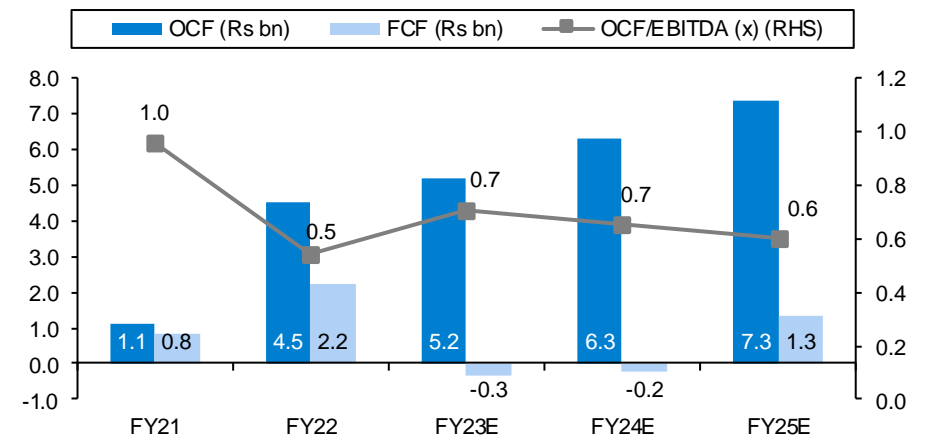
# ...to drive earnings quality improvement and strong cash flow generation

## Steady profitability despite earnings normalization in CI segment



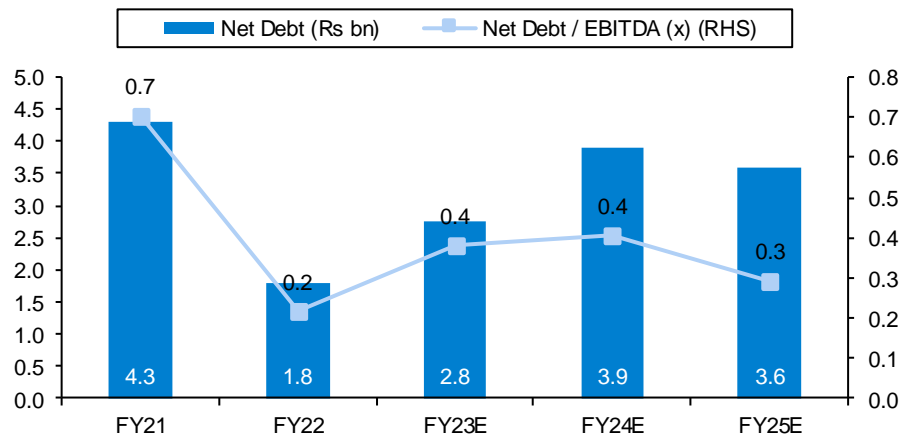
Source: Company, PL ^FY21 proforma financials

## Strong OCF generation of Rs19bn (FY23-25E) to aid self sustained capex



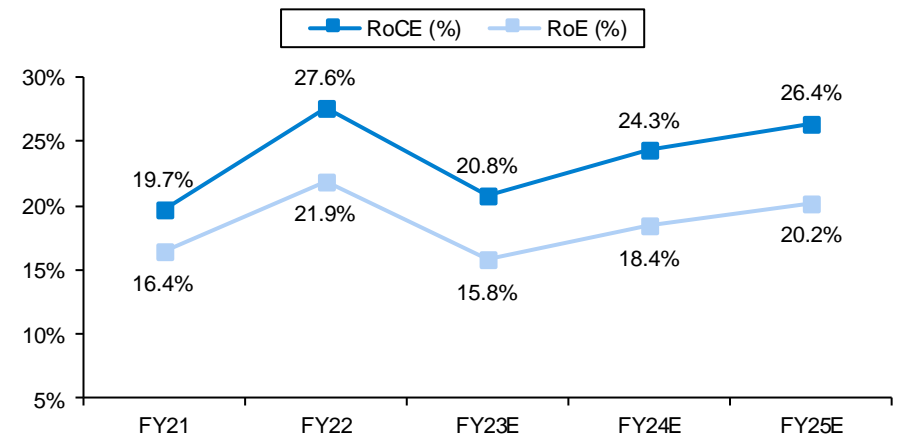
Source: Company, PL ^FY21 pertains to 2 months reported cash flows

## Debt metrics to remain healthy despite large capex



Source: Company, PL ^FY21 proforma financials

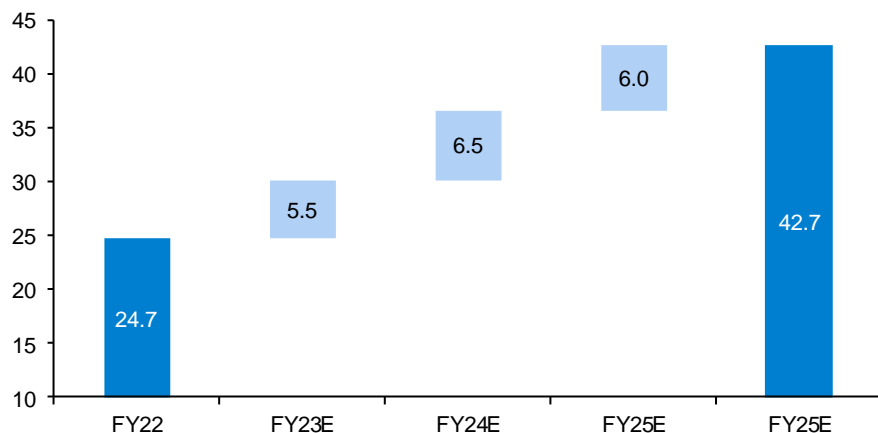
## Healthy return ratios (cyclical high in FY22 led by CI segment)



Source: Company, PL ^FY21 proforma financials

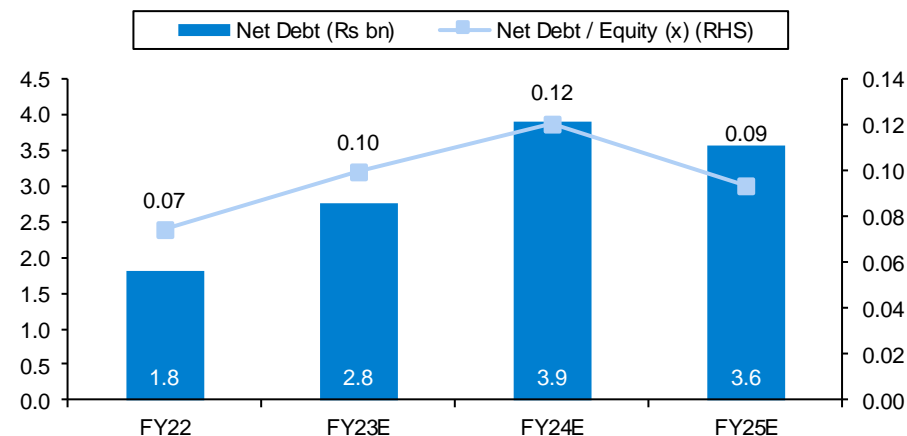
# Distributed capex over 3 years to aid growth without impacting BS

Gross Block to increase to Rs43bn led by ~Rs20bn capex over FY22-25E



Source: Company, PL

...without impacting Balance Sheet



Source: Company, PL

Project commissioning timeline and capex rationale – Diketene Derivatives (Phase 1) and Food Grade Acetic Acid plants commissioned as per schedule

Project	Segment	Expected Commissioning	Capex rationale
Diketene investment (Phase 1)	Specialty Chemicals	Q4FY22 (done)	Moving up the value chain of Ketene, growing demand and exit of the old leading producer
Food Grade Acetic Acid	Chemical Intermediates	Q1FY23 (done)	Green Acetic Acid for food applications
CDMO (GMP) Multi Purpose Plant	Specialty Chemicals	Q3FY23	For pharma intermediates
CDMO (Non-GMP) Multi Purpose Plants	Specialty Chemicals	Q3FY23	2 MPP's for pharma and agro intermediates
Acetic Anhydride capacity expansion	Chemical Intermediates	Q4FY23	Growing demand and geographic expansion
MPP Agro Active Plant (Insecticides/ Fungicides/ Herbicides)	Specialty Chemicals	Q3FY24	Moving up the value chain of Crop Protection actives and growing customer demand
Diketene investment (Phase 2)	Specialty Chemicals	Q3FY24	Moving up the value chain of Ketene, Growing demand and exit of the old leading producer
Niacinamide capacity expansion	Nutrition & Health Solutions	Q3FY24	Geographic expansion and value added end uses

Source: PL

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**Integrated business model enables global leadership**

# Integrated business model with high entry barriers

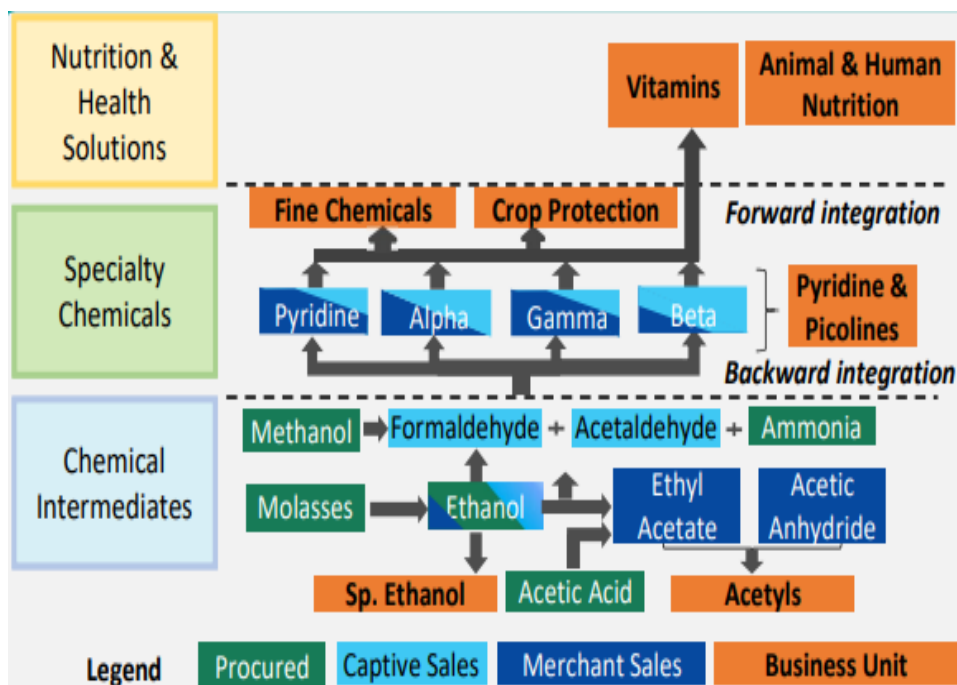
**JUBLINGR's vertical integration across value chain enables cost and market leadership** as 37% of Chemical Intermediates (CI) volume is consumed in-house by Specialty Chemicals (SPCM) segment and 52% of Pyridine & Picoline volume is consumed captively for value added products in SPCM and Vitamin B3. 100% Beta Picoline volume (key RM for Vitamin B3) is sourced from SPCM segment. **High entry barriers add to robustness of the business model.**

- **Specialty Chemicals (SPCM)** – (1) Cost leadership in production of pyridine, beta and value added products (2) Lengthy approval processes of customers which takes ~3-5 years for product approvals and facility audits (3) Capabilities in handling multi-step chemistries (~13 steps) upto commercial scale.
- **Nutrition & Health Solutions (NHS)** – (1) Differentiated niche technology (air oxidation) for manufacturing of niacinamide along with complete backward integration to key RM i.e. Beta Picoline enabling cost leadership (2) Deep reach to farmers for animal nutrition and health products.
- **Chemical Intermediates (CI)** – (1) Capability of handling large ketene volumes (ketene is extremely flammable, reacts violently with water, alcohol, ammonia, it readily polymerizes and cannot be shipped or stored) (2) Strong capabilities to manage controlled substances.

## Global leadership position across several products

Specialty Chemicals	<p><b>Offering 240+ value added ingredients for application in Pharma, Agro etc.</b></p> <ul style="list-style-type: none"> <li>• Global top 2 in Pyridine-Beta</li> <li>• Global #1 in 17 Pyridine derivatives</li> </ul> <p><i>Leader in Pyridine Chemistry - expertise in 35 technology platforms</i></p>
Nutrition & Health Solutions	<p><b>Offering Nutrition &amp; Health Ingredients like Vitamin B3, Picolinates, RPS, IHN etc.</b></p> <ul style="list-style-type: none"> <li>• Global top 2 in Vitamin B3 (Niacin &amp; Niacinamide)</li> <li>• India #1/ Global top 10 in Vitamin B4</li> </ul> <p><i>Trusted supplier to top Global Nutrition &amp; Nutraceutical Companies</i></p>
Chemical Intermediates	<ul style="list-style-type: none"> <li>• Global top 2 merchant seller of Acetic Anhydride, expected to be global leader by FY24</li> <li>• Domestic market leader in Acetic Anhydride and top 2 in Ethyl Acetate</li> <li>• World's largest manufacturer of bio-based Acetaldehyde</li> </ul>

## Vertical integration across value chain enables cost competitiveness





# Long term growth and market leadership aided by R&D focus

- **R&D focus enables long term growth and market leadership:** R&D initiative is one of the critical success factors for long term growth and market leadership, whereby JUBLINGR has developed expertise in 35 technology platforms (incl. Ammoxidation, Grignard, Halogenation Ketene/Diketene & others) at large commercial scale, along with expertise in multi-step chemistries (upto ~13 steps) at commercial scale.
- **Strong R&D team & facilities:** Its Research Development & Technology (RDT) team consists of 92 scientists and engineers including 22 Ph.D's operating from 3 RDT centres in Noida, Gajraula and Bharuch. JUBLINGR has a full-fledged kilo lab and pilot plant facility with various reactors (20-1000L, operable at -70° to 300°C) and other equipments for scale-up studies to ensure smooth operations and safety.
- **In-house catalyst manufacturing facility** to service internal commercial requirement of customized and tailored made catalysts. JUBLINGR also has scientists in catalysis R&D to develop vapour phase, fixed/ fluidise bed, heterogeneous catalytic reactions for making Pyridine, Picolines, Cyanopyridines, Lutidines etc.
- **94 patents:** 94 of its 152 active patent applications have been granted. Its focus is on product development and cost reduction through process innovation.
- **Continuous new product introductions:** The company developed and commercialised 9 new products during FY22 — 2 in CDMO and rest in Fine Chemicals and Crop Protection and targets 60+ new products by FY26, including 36 in SPCM, 24 in NHS and 7 in CI.

## Key technology platforms

1000s MT	100s MT	MTs
Ammoxidation	Bromination	Bu-Li Reaction
Aromatization	Chichibabin	Chiral Synthesis
Chlorination	EO Reaction	De-alkylation
Fermentation	Esterification	Hoffman Re-arrangement
Ketene Technology	Fluorination	Iodination
Oxidation	Grignard	Methoylation
Photo chlorination	Hydrogenation	N-Formylation
Vapour Phase Reactions	Methylation	
	Quarternisation	
	Sandmeyer	
	Thiol Handling	

Source: Company, PL

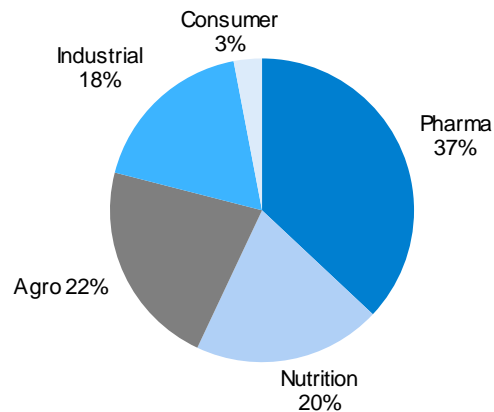
## Key focus areas for RDT

Optimization	Existing product's process to remain globally competitive
Expansion	Focus on Agro, Nutrition CDMO & Antimicrobials - New Product Development
Academic Collaboration	New technologies by academia collaboration / expanding internal infrastructure
Scientific Advisory Board	Strong Scientific advisory board to support RDT
Centre of Excellence	For Bio catalysis, Flow chemistry, Chemo catalysis, Gas phase Catalytic Chemistry

Source: Company, PL

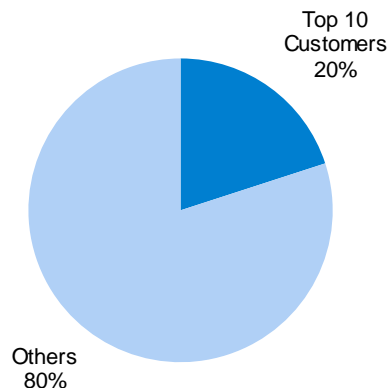
# Diversification benefits

## Multiple end uses - Pharma + Agro ~60%



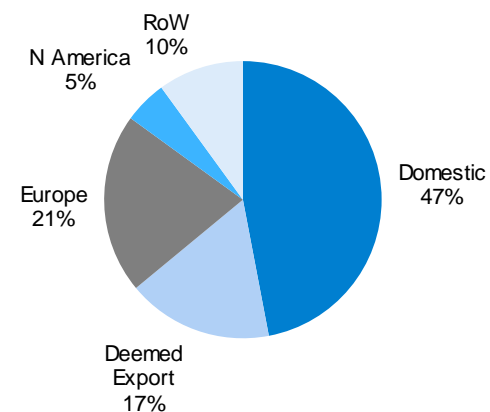
Its ingredients are used in >60 API's and 16 Agro-technicals (Herbicides, Insecticides, Fungicides)

## Low customer concentration – Top 10 ~20%



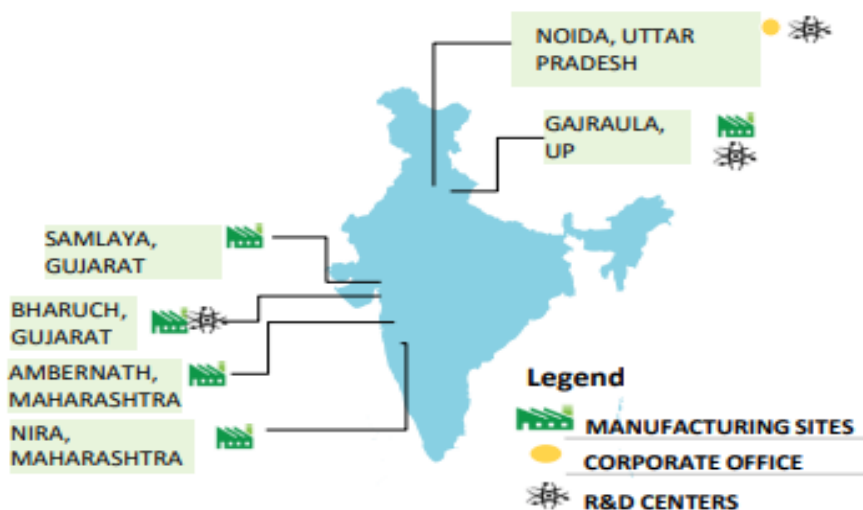
1500+ customers across business segments

## Geographical diversification - Exports ~36%



Sales in 50 countries with ~25% from regulated markets like North America, Europe and Japan

## Manufacturing footprint across India



- Diversified and comprehensive product portfolio for various applications and a large global customer base lowers concentration risks.
- It has 125+ products of which 70+ belong to Specialty Chemicals, 48 to Nutrition & Health Solution and 9 to Chemical Intermediates.
- Over 25% of revenue generation is from regulated markets like US, Europe, Japan while the export footprint is in 50+ countries.
- Since revenue is not concentrated on few molecules, end-uses or clients, the company is shielded from any industry slowdown.

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**Specialty chemicals to drive earnings growth aided by highest capital outlay**

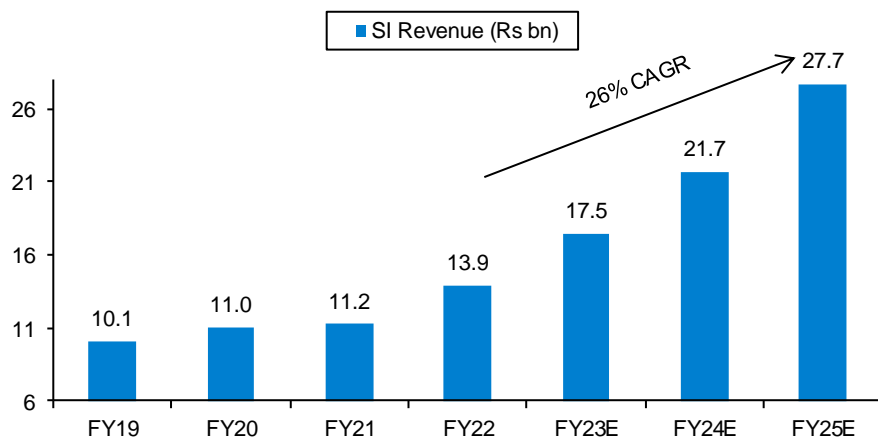
# Capital outlay highest among three segments

**Speciality Chemicals (SPCM) segment contributes 28% to JUBLINGR'S revenue.** It comprises of (1) Pyridines & Picolines, (2) Fine Chemicals, (3) Crop Protection Chemicals and (4) CDMO. The company is the largest manufacturer in Pyridine-based value chain, offering 240+ value added products using renewable starting material i.e Acetaldehyde. **SPCM capex outlay is the highest among its three segments (~Rs 13bn/ Rs20bn)**, whereby various capacity expansions are committed for Fine Chemicals, Crop Protection and CDMO on rising demand in end applications coupled with 36 new products in pipeline. **Key investments:**

- **Diketene Derivatives (forward integration of Ketene capability)** investment is in two phases with phase 1 commercialised in Q4FY22 and phase 2, to commence in H2FY24. It launched diketene and 2 derivatives (building blocks) and plans to launch 15 more derivatives over next 3 years.
- **GMP and Non-GMP multi-product facility (MPP) for CDMO Pharma and Crop Protection customers-** Both facilities to be commissioned by Q3FY23. The company expects commercialisation of 7 molecules (5 in pharma and 2 in agrochemicals) soon.
- **Multi Purpose Plants (MPP's) for insecticides, fungicides and herbicides** to commence by Q3FY24 as it moves up the value chain for agro actives and advanced intermediates to enable enhancing market share with global customers (de-risking their supply chains).

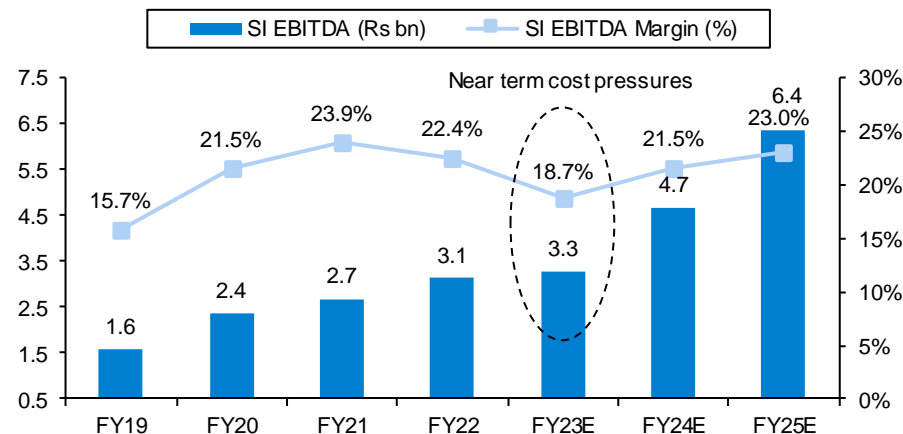
**Strong outlook aided by investments in value added projects:** A strong underlying global demand environment in agrochemicals and pharmaceuticals in addition to China+1 tailwinds (as global supply chains get de-risked) and improved prospects of CDMO business (Rs2.7bn, 3 year contract from a leading global pharma innovator) are likely to drive 26% revenue CAGR over FY22-25E, in our view. Further, improving product mix (rising agro-actives and CDMO contribution) as company moves up the value chain will aid margin improvement with newer capacities ramping up (after an inflation-led dip in FY23). 27% EBITDA CAGR (FY22-25E) to enhance specialty chemicals EBITDA contribution in the business to 50% (from 35% in FY22).

Revenue CAGR of 26% over FY22-25E aided by ~Rs13bn capex



Source: Company, PL

EBITDA CAGR of 27% over FY22-25E; Margins to recover after a dip in FY23



Source: Company, PL

# Pyridine and pyridine derivatives gaining traction

- Pyridine (C<sub>5</sub>H<sub>5</sub>N) a basic heterocyclic organic compound, is synthesized from acetaldehyde, ammonia, and formaldehyde. Commonly used reactions for pyridine synthesis include Chichibabin, Bönnemann cyclization and Cobalt-catalyzed alkyne-nitrile cyclotrimerization.
- Pyridine is an excellent solvent and is completely soluble in water, benzene, ether and alcohol.** It finds large scale application in popular herbicides (paraquat, diquat), various pharmaceutical products (incl. vitamin B3), for manufacturing of personal care products, paints, dyes, rubber products, adhesives etc.
- Agricultural and nutrition sectors have been the key volume drivers for pyridine as a key ingredient.** Of overall global market estimated at 0.1mn tons (USD253mn) in 2020, agrochemicals and nutrition are the largest end use of pyridine (~70% contribution) followed by pharmaceutical, consumer and industrial.
- Increasing demand for pyridine derivatives on rising R&D in healthcare and chemical sectors:** Pyridine was typically used only as a solvent earlier, but pyridine derivatives are now increasingly being used as starting materials in agrochemicals, pharmaceuticals, food-flavouring additives, denaturant for anti freeze mixtures etc. Some key derivatives of pyridine are beta picoline (3-picoline), alpha picoline (2-picoline), gamma picoline (4-picoline), and others.
- Pyridine Industry (including derivatives) is estimated at USD1.1bn (in 2021, 7.1% CAGR over 2016-20) by industry research and projected to grow at 8.2% CAGR (2021-31) to USD2.5bn, led by new product launches in pharma and agrochemicals and higher capacity utilization of derivatives.**

## JUBLINGR's Specialty Chemicals Segment

Sub-business unit	Products
Pyridines & Picolines	<ul style="list-style-type: none"> <li>Pyridines</li> <li>Picolines</li> <li>Piperidines</li> <li>Cyanopyridines</li> <li>Oil Field Chemicals</li> </ul>
Fine Chemicals	<ul style="list-style-type: none"> <li>Halogenated Pyridines</li> <li>Alkyl Pyridines</li> </ul>
Crop Protection Chemicals	<ul style="list-style-type: none"> <li>Amino Pyridines</li> <li>Hydrogenated Derivatives</li> <li>Anti-microbial Products</li> <li>Pyridine Aldehydes</li> <li>Pyridine Carboxylic acids</li> <li>Pyridine Quaternary Salts</li> </ul>
CDMO	<ul style="list-style-type: none"> <li>Acetyl of Pyridine</li> <li>Chromium Picolinate</li> <li>Zinc Picolinate</li> <li>Other speciality derivatives</li> </ul>

## Applications of some of the key products and services

Select Products	Application
Lutidines & Collidines	<b>Pharma:</b> Esomeprazole, Lansoprazole and other prazoles (anti-Ulcer), Etoricoxib (anti-inflammatory)
Amino Pyridines	<b>Pharma:</b> Dabigatran (anti-coagulant/blood thinner), Pirfenidone (Idiopathic pulmonary fibrosis), Risperidone (anti-psychotic), Rifaximine (IBS - irritable bowel syndrome), Sulfasalazine (anti-arthritis)
Halo Pyridines	<b>Pharma:</b> Abirateron acetate, Venetoclax (anti-cancer), Vonoprazan (anti-ulcer), Palbociclib (anti-breast cancer), Lasmiditan (anti-migraine), Edoxaban (anti-coagulant/ blood thinner) <b>Agro:</b> Rynaxpyr (insecticide), Picoxystrobin (fungicide), Fluroxypr (herbicide), Nitrapyrin (nitrification inhibitor), Picloram, Clopyralid, Aminopyralid (herbicide)
Picolines	<b>Pharma:</b> Isoniazid (anti-TB), Fexofenadine (anti-histamine), Bromazepam (anti-anxiety) <b>Agro:</b> Haloxyfop, Fluazifop (herbicide), Pymetrozine, Flonicamid (insecticide) <b>Nutrition:</b> Vitamin B3, Chromium and Zinc Picolinate <b>Industrial:</b> 2-Vinyl Pyridine Latex
Pyridine	<b>Agro:</b> Paraquat, Diquat (Herbicide)
Pyrithiones	<b>Consumer:</b> Anti-microbial for paints, personal care

# Revenue sustainability led by market leadership in existing products

**JUBLINGR's market leadership in pyridine and its derivatives (amongst top 2 global leaders in pyridines and No.1 in 17 pyridine derivatives)** is ascribed to its complete integration, comprehensive product portfolio, product innovation, adherence to stringent client specifications and customisation along with strong R&D capabilities with expertise in ~35 key technology platforms. It counts **15/20 top global pharma and 7/10 top agrochemical companies among its clients**, while serving 420 global customers through its offices in US, Europe, Japan & China with **42% exports to regulated markets (within 50% exports)** aiding revenue sustainability. 20+ proprietary products have been developed in the last decade, beyond pyridine value-chain.

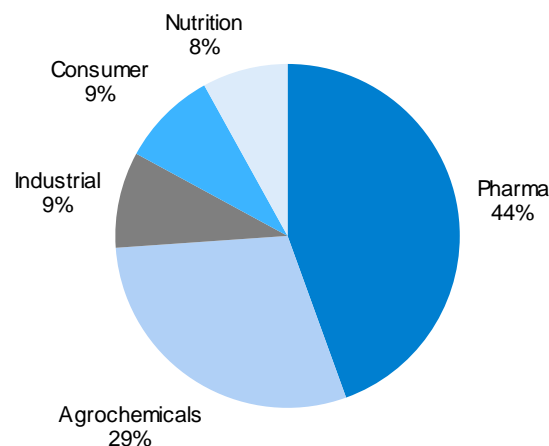
- **Global cost leadership in pyridine offers significant long term advantage** - Complete forward and backward integration in the pyridine based value chain enables cost leadership, quality and consistency, thereby achieving sustainable global leadership position.
- **52% of Pyridine & Picoline volumes used captively for value added products** – 2 Chloropyridine (produced using captive Pyridine), Vitamin B3 (produced using captive Beta Picoline & 3-Cyano Pyridine; ~70% of Beta Picoline finds application in Vitamin B3) and Nitrapiyrin intermediate (produced using captive Alpha Picoline). The company's strong R&D capabilities extend to CDMO, supported through vertical integration.
- **Products used in important therapeutic segments** - Anti-ulcerative (Esomeprazol, Rabiprazol), anti-viral (Remdesivir), anti-diabetic (Alogliptin, Linagliptin), anti-malarial (Pyramax), anti-thrombotic (Dabigartan), anti-retroviral, anti-histamine (Fexofenadine), anti-neoplastic (Palbociclib, Ribociclib), Anti-Idiopathic pulmonary fibrosis (Perfenidone) etc.

## Global leadership in several products

Products	Global market share
Pyridine & Beta-Picolines	22%
3-Cyanopyridine	26%
4-Cyanopyridine	15%
Alpha Picoline	7%
Gamma Picoline	30%
Piperidine	35%
Amino Pyridine	>75%
Halo Pyridine	30%
Lutidines & Colidines	>55%
Cetylpyridinium	52%
Azacyclonol	52%
Pyrithiones	3%

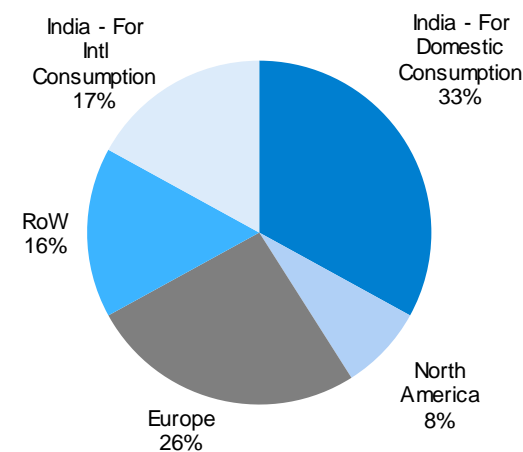
Source: PL

## Comprehensive portfolio with multiple applications



Source: Company, PL

## Significant exports to regulated markets



Source: Company, PL

# Leveraging on inherent strengths for moving up the value chain

JUBLINGR's market leadership in various pyridine derivatives with 20-75% global market share, enables to move up the value chain. The company is investing ~Rs13bn (Rs6bn committed and ~Rs7bn proposed) over FY22-25E for (1) Diketene derivatives, GMP & Non-GMP MPP's for pharma & agro and MPP for agrochemicals (2) Expansion of diketene derivatives, new plants for CDMO GMP, fluorination derivatives and agro-actives (fungicides).

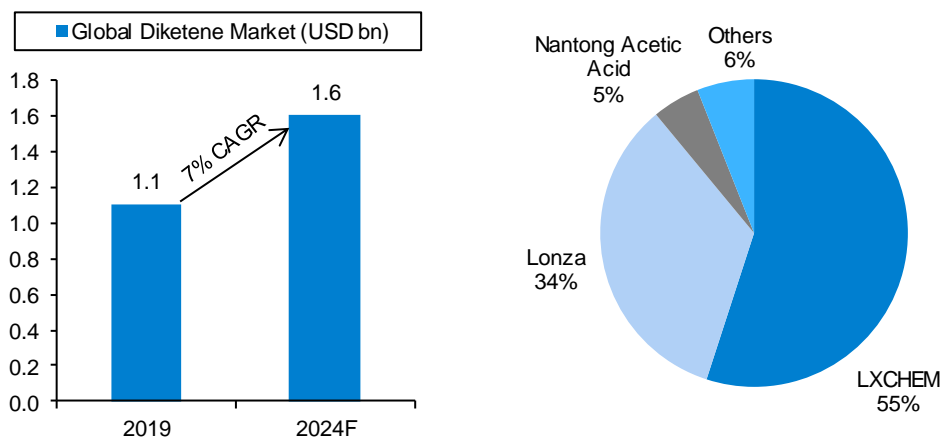
## Diketene derivatives: Strong presence in ketene chemistry, now forward integrated into diketene derivatives:

- JUBLINGR has presence in ketene chemistry for long (acetic anhydride) and has now forward integrated into diketene derivatives to tap into ~45% of the domestic market demand, which is currently met via imports. LXCHEM is the only other diketene derivatives manufacturer (~55% market share).
- Its proven ability to handle large ketene volumes provides confidence of it being able to fast scale up its newly commissioned plant. Ketene is extremely flammable, reacts violently with water, alcohols, ammonia, readily polymerizes and cannot be shipped or stored, plus mixture with air is explosive.

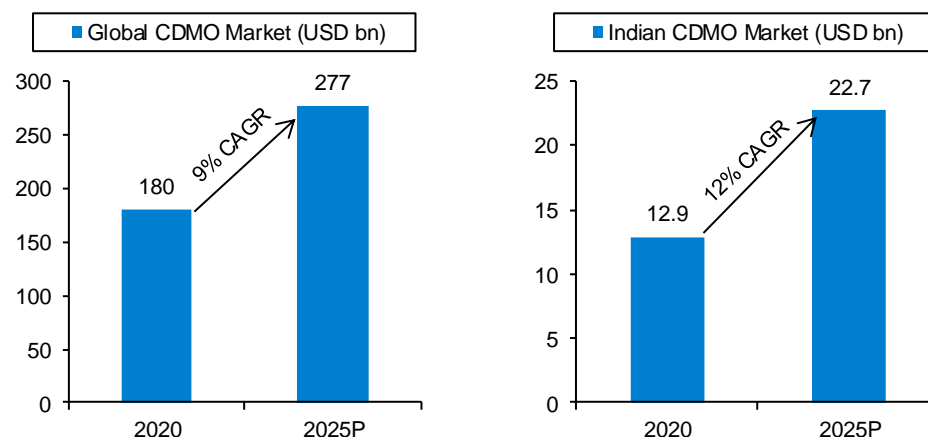
## CDMO services for pharma & agro: Sufficiently demonstrated capabilities in process development, optimisation and scale up of complex chemistries

- Its CDMO services ranges from (1) Process R&D (2) Scale Up (3) Commercial Manufacturing** and caters to global pharma and agro customers given its strong synthetic, organic chemistry and manufacturing capabilities (17+ collaborations on late-phase and launch products with pharma and biotech companies).
- Current pipeline includes** (1) 5 molecules in pharma CDMO of which 3 in Phase III for anti-retroviral, anti-cancer and anti-diabetic applications and 2 in Phase II for anti-cancer and anti-thrombotic applications (2) 3 molecules in agrochemical CDMO of which all are in Stage IV for insecticides/ fungicides.
- New contract with a global pharma innovator:** JUBLINGR announced Rs 2.7bn (3 year) contract with a global innovator, to whom it will supply two key GMP intermediates for one of its patented drugs. Both these products involve a 7 step chemistry with commercial supplies starting in FY23.

## Global & Indian diketene and diketene derivatives market



## CDMO market growing fast



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## **Nutrition and Health Solutions to grow on newer value added products**



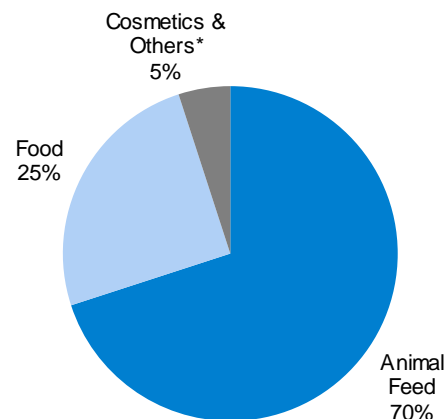
# Strengthening leadership position in key products and markets

- **Nutrition & Health Solutions segment contributes 16% to JUBLINGR's revenue** and comprises of (1) Nutrition & Health Ingredients (2) Animal Nutrition & Health Solutions and (3) Human Nutrition & Health Solutions.
- **Vitamin B3 is a key product** in Nutrition & Health Ingredients, **and among eight B-complex vitamins**, significant in multiple physiological functions. Its used in animal feed (increases nutrient absorption, thereby weight gain and better feed utilization), human nutrition (food premixes, dietary supplements, flour and rice fortification, energy drinks), personal care (skin and hair care), technical (metal plating for uniform surfaces) and agrochemicals (insecticides).
- **JUBLINGR is amongst top 2 global manufacturers of Vitamin B3 (Niacinamide & Niacin) with ~20% market share.** Vitamin B3's global market is ~60,000 mtpa with major application in animal feed (~60%), human food (~25%) and cosmetics & others (~15%). Exports to regulated market contribute >50% revenue, thereby providing sustainability. Vitamin B4 is a major feed supplement in Poultry, Dairy, Swine and Aqua and it is a domestic leader in Vitamin B4 (69% share).
- **Complete backward integration across product chain of Niacinamide** is a key advantage. It has 100% in-house sourcing of Beta Picoline (key raw material) from specialty chemicals (manufacturing vitamin B3 via green route).
- **Strong new product pipeline:** In Animal Nutrition & Health Solutions, JUBLINGR has 5 nutrition ingredients and 18+ branded solutions (animal health) and 18 new products pipeline over next 3-4 years.

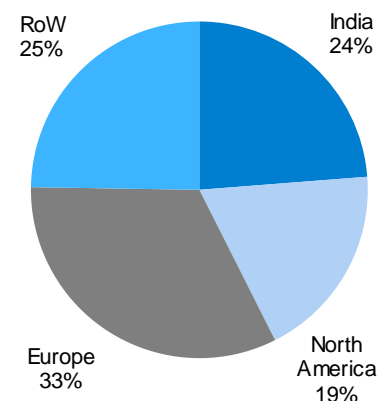
## JUBLINGR's Nutrition & Health Solutions Segment

Sub-business unit	Products
Nutrition & Health Ingredients	<ul style="list-style-type: none"> <li>• Vitamin B3 (Niacinamide &amp; Niacin)</li> <li>• Chromium Picolinate</li> <li>• Zinc Picolinate</li> </ul>
Animal Nutrition & Health Solutions	<ul style="list-style-type: none"> <li>• Vitamin B4 (Choline Chloride)</li> <li>• Vitamin B3</li> <li>• Mineral Premixes</li> <li>• Acidifiers</li> <li>• Toxin Binders</li> <li>• Herbal Non-Antibiotic Growth Promoters</li> <li>• Herbal Choline</li> <li>• Emulsifiers</li> <li>• Stress regulator range of products</li> <li>• Rumen protected range of products for dairy application</li> </ul>
Human Nutrition & Health Solutions	<ul style="list-style-type: none"> <li>• Vitamin Premixes</li> <li>• Mineral Premixes</li> <li>• Amino acid premixes</li> <li>• Nutraceutical premixes: Fortification premix</li> </ul>

## Food & cosmetics to be the focus



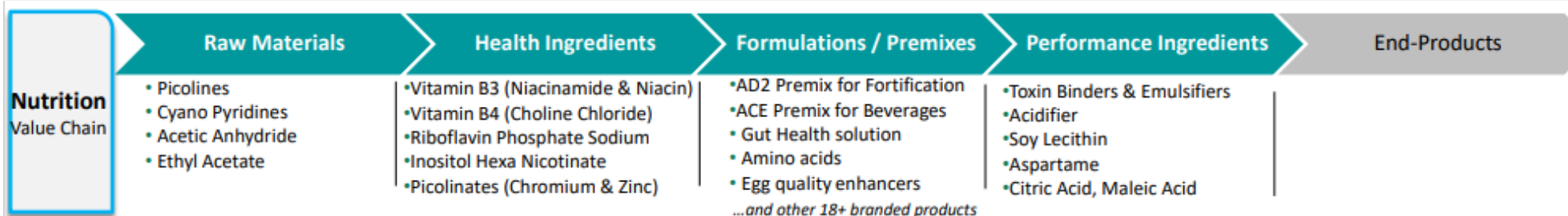
## Exports contribute > 75% revenue



# Leveraging specialty chemicals for steady growth in nutraceuticals

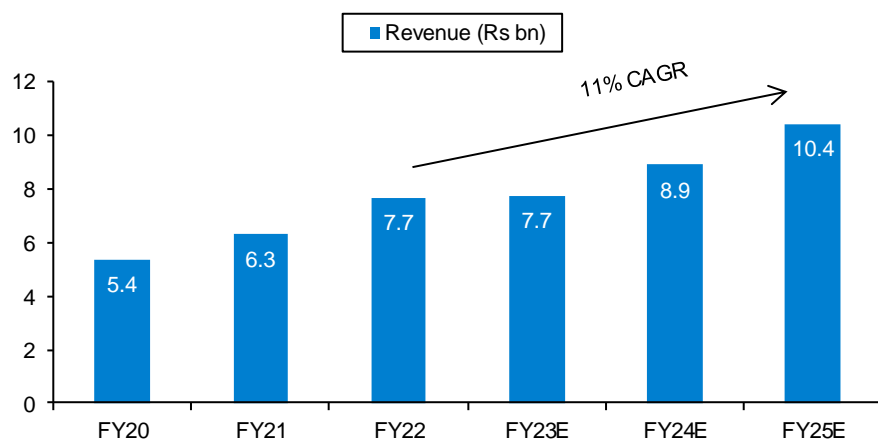
JUBINGR is expected to leverage robust growth in specialty chemicals for its nutrition business to diversify from animal feed nutrition and move towards higher value added areas i.e. pharma and cosmetic-grade vitamins. Focus will be on market share enhancement in **niche segments like food & cosmetics & regulated markets like North America, EU and Japan**. With capex outlay of Rs2bn by FY25E and expected launch of various value-added grades of Vitamin B3 coupled with entry in regulated markets like US and Europe, we expect revenue/EBITDA CAGR of 11%/11% over FY22-FY25E. JUBLINGR plans on:

- Expansion of Vitamin B3 capacity by ~20% from current 13,000 MT/ year and launch various value-added grades of Vitamin B3.
- Upgrade facilities to US DMF & European CEP standards compliance and enter regulated pharma market of Niacinamide.
- Enhance the product portfolio with value-added premixes and investment for premix plant expansion.

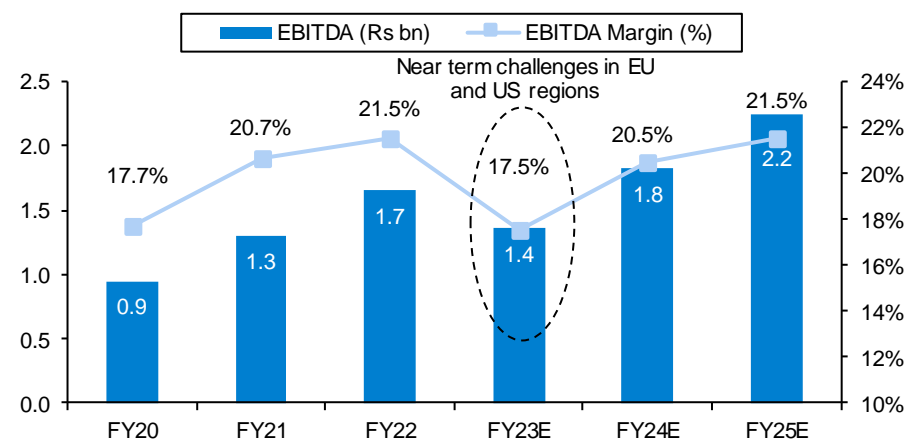


Revenue CAGR of 11% over FY22-25E aided by Rs 2 bn capex

EBITDA CAGR of 11% over FY22-25E aided by steady margin



Source: Company, PL

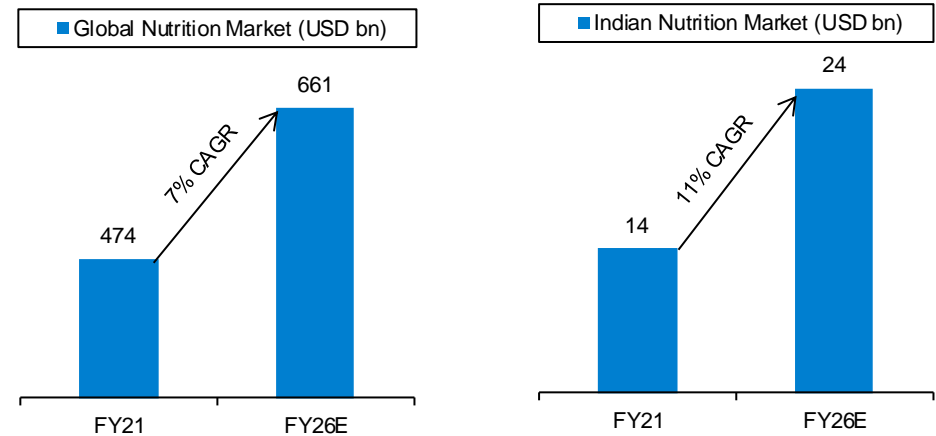


Source: Company, PL

# Rapid growth in nutrition industry

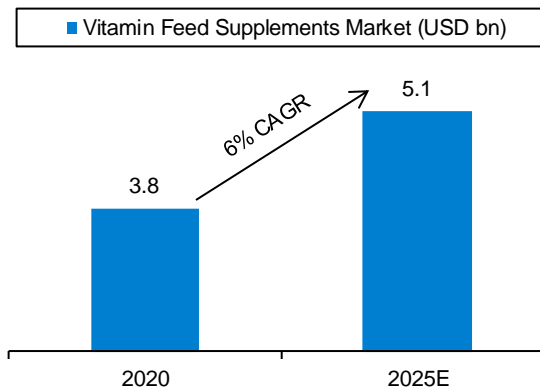
- JUBLINGR is well placed to ride on the fast growth in nutrition industry given increasing health & wellness trend, rising demand for fortified food products and supplements in tablets & capsules (especially post covid era).
- Chemicals like Vitamin B3, chromium picolinate and inositol hexa-nicotinate (IHN) are utilized for manufacturing nutraceutical products.
- Animal nutrition products market is growing steadily globally on rising demand for animal protein in daily diets of consumers. Rise in meat consuming population is driving higher demand for red and white meat.
- Also, growing concern for food safety drives need for increasing intake of vitamins and minerals.
- The global vitamin feed supplements market is estimated to be at USD5.1bn by 2025 (~6% CAGR over 2020-25), while Indian market is estimated at USD295mn (~7% CAGR over 2020-25; ~6% of global market).

## Nutrition market growing at a healthy pace globally and in India

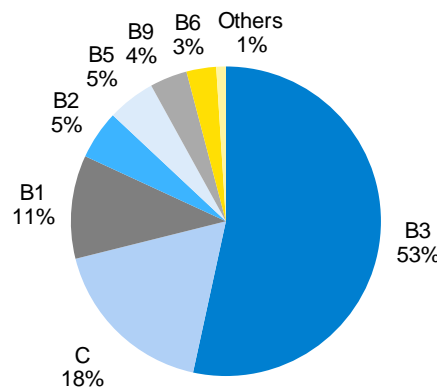


Source: Industry, PL

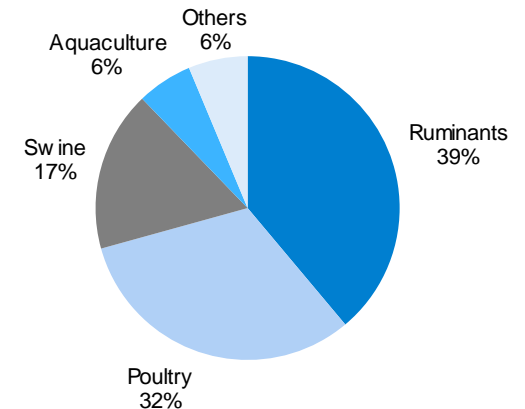
## Vitamin Feed Supplements (VFS) market



## VFS market by vitamin type



## VFS market by livestock species



Asia Pacific market forms ~28% of the Vitamin Feed Supplements market and is expected to grow at ~7% CAGR (2020-25) (1) Increasing industrialization in poultry, swine and aquaculture in the region aided by govt. support and (2) rising awareness and adoption of international feeding practices to drive demand.

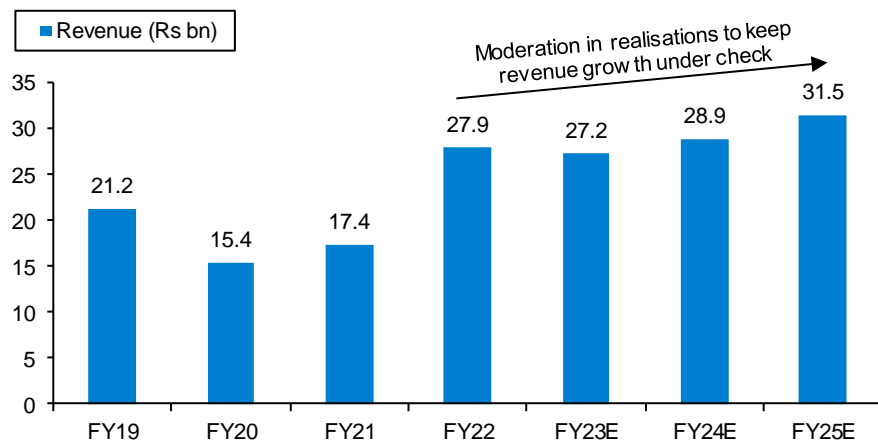
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**Chemical Intermediates (CI) segment earnings concentration to reduce**

# Segment earnings to consolidate (FY22-25E) despite continuing capex

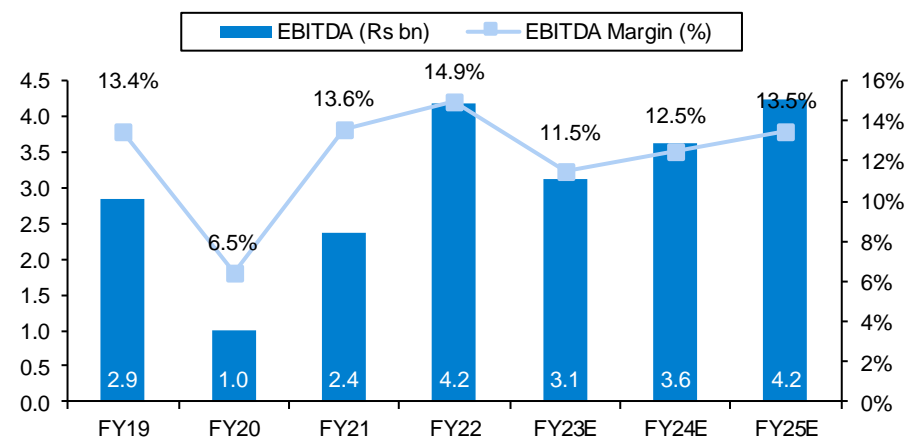
- **Chemical Intermediates segment (contributes 56% to JUBLINGR's revenue) offers building block ingredients based on Acetyls and Ketene chemistry** with applications in pharmaceuticals, agrochemicals, food & nutrition, packaging, paints & coatings, adhesives, dye intermediates and solvents.
- **Key growth drivers:** (1) Food grade acetic acid capacity set up, (2) Acetic anhydride capacity expansion, (2) Value added anhydrides and aldehydes addition and (3) Higher volumes in speciality ethanol. 37% of overall volume of Chemical Intermediates is consumed in-house by Speciality Chemicals segment.
- **Capex outlay of Rs2.5bn to be completed by FY23** includes food grade acetic acid plant (started in Q1FY23) and acetic anhydride capacity expansion (expected by Q4FY23), while **additional ~Rs3bn capex is proposed** for grain based green specialty ethanol. 7 new products form part of expansion pipeline.
- **Improved performance in FY22 on favorable market conditions** is led by key end products like Acetic Anhydride and Ethyl Acetate. FY22 revenue increased 61% to Rs27.9bn, while EBITDA increased 77% YoY to Rs4.2bn as margins rose to 14.9% (vs 13.6% in FY21) despite higher RM prices.
- **CI segment concentration to reduce over FY22-25E:** With higher growth in value added segments (SPCM + NHS) and normalization in RM prices & spreads, we expect CI revenue/ EBITDA share to decline from 56%/ 47% in FY22 to 45%/ 33% by FY25E (despite ~Rs5.5bn capex).
- **EBITDA margins to converge towards historical average of 12-13%:** Acetic acid prices are likely to remain balanced, as supplies increase on one hand and input costs remain elevated. This will result in normalisation of margins vs. peak witnessed in FY22 as spreads reduce (acetic acid: ethyl acetate/ acetic anhydride etc). Hence for FY23-25E we forecast sustainable EBITDA margins for the segment at 12-13% (in-line with historical average).

## Revenue to grow at muted 4% CAGR (FY22-25E) despite ~Rs 5.5 bn capex



Source: Company, PL

## EBITDA to be flattish over FY22-25E as margins normalize, post FY22 peak



Source: Company, PL

# Diverse applications and growing consumption augurs well over long term

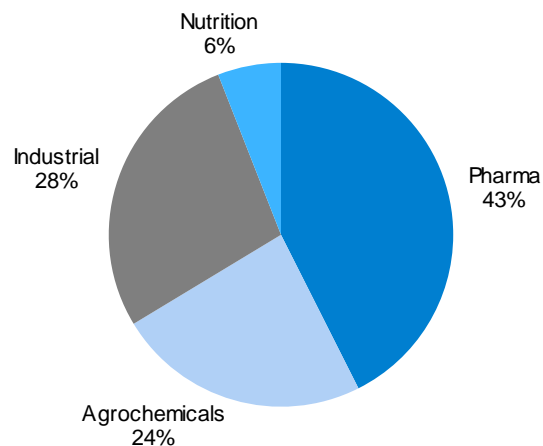
- **Food-grade Acetic acid provides healthier option for food preservation requirements** vs. Acetic acid produced through petroleum route. JUBLINGR's food-grade Acetic acid plant commissioned in Q1FY23 (rated capacity of 25,000 mtpa) will use Green Ethanol (via natural bio-based feedstock) as input.
- **Acetic Anhydride is an important intermediate in production of about 20 APIs** which include Analgesic, Antipyretic and Anti-inflammatory drugs like Paracetamol, Ibuprofen, Aspirin and various other APIs like Prazoles & Caffeine, which are growing at ~3%.
- **Acetic Anhydride is also a critical intermediate for traditional and new generation agro chemicals** like Acephate, Azoxystrobin, Glufosinate and s-metolachlor. It is also used in food & nutritional applications like Vitamin A, Vitamin E, artificial sweetener, emulsifier, modified starch & flavours and fragrances.
- **Ethyl Acetate is a preferred solvent** to manufacture wide range of APIs like new generation ARVs, statins, anti-ulcer drugs & antibiotics. It is also used for food packaging, coating, ink & resins. JUBLINGR manufactures it through bioethanol route vs. petrochemical route, thereby giving it a lower carbon footprint.
- **Propionic Anhydride** is used for manufacturing of perfumes, oils, resins, dyestuffs, drugs and cellulose esters.
- **European Union is a major deficit market for Acetic Anhydride (~90% import dependent) and Ethyl Acetate (~70% import dependent).** JUBLINGR is globally no. 2 and domestically no. 1 in Acetic Anhydride merchant market and amongst top 2 in domestic Ethyl Acetate (LXCHEM being the leader).

## JUBLINGR's Chemical Intermediates Segment

Sub-business unit	Products
Acetyls	<ul style="list-style-type: none"> <li>• Acetic Anhydride</li> <li>• Ethyl Acetate</li> <li>• Propionic Anhydride</li> <li>• Acetic Acid</li> <li>• Green Acetaldehyde</li> <li>• Formaldehyde</li> </ul>
Specialty Ethanol	<ul style="list-style-type: none"> <li>• Ethanol (Fuel grade, Specialty alcohol for pharma and agro industries)</li> <li>• CO2 (Food grade)</li> </ul>

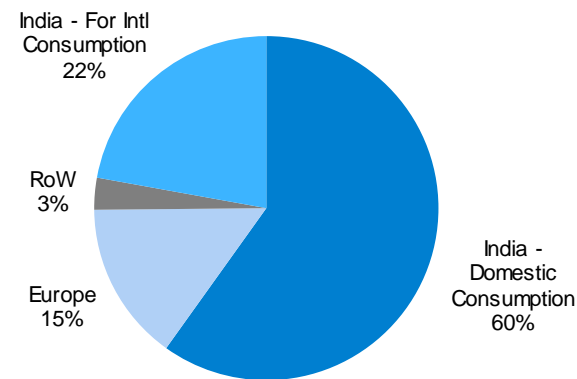
Source: Company, PL

## Diverse end-use applications



Source: Company, PL

## Focus largely on domestic market & Europe



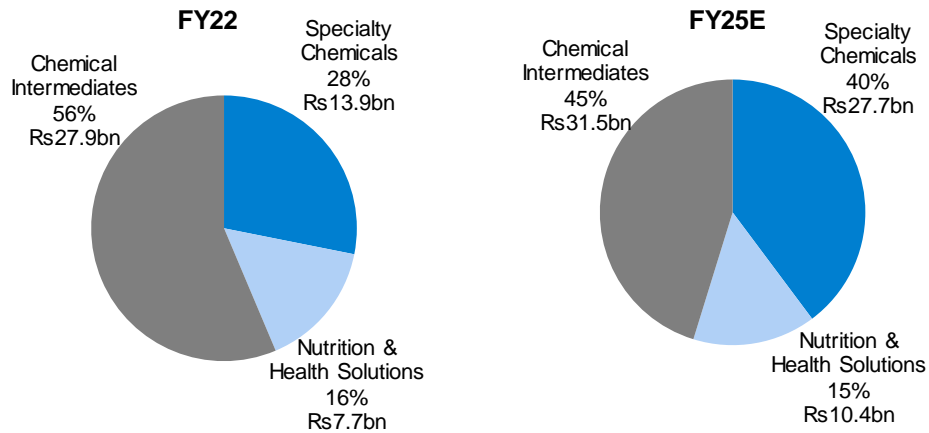
Source: Company, PL

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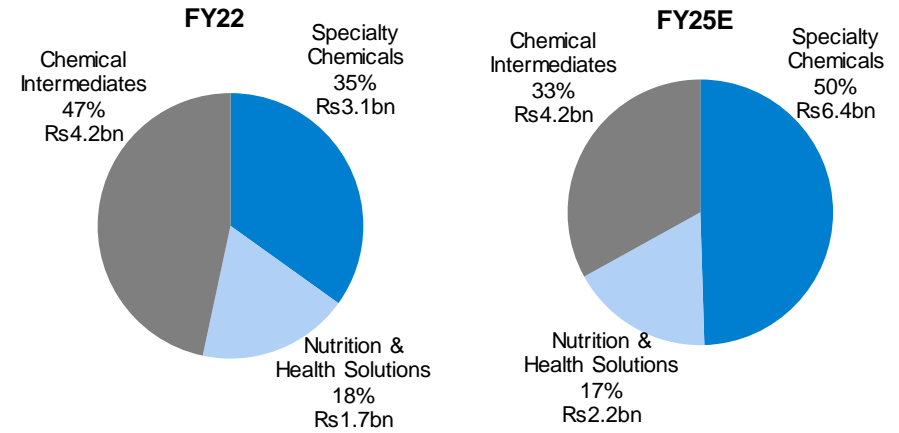
**Financials**  
**Outlook & Valuation**  
**Key Risks**

# Rising contribution of higher value business to drive better earnings quality

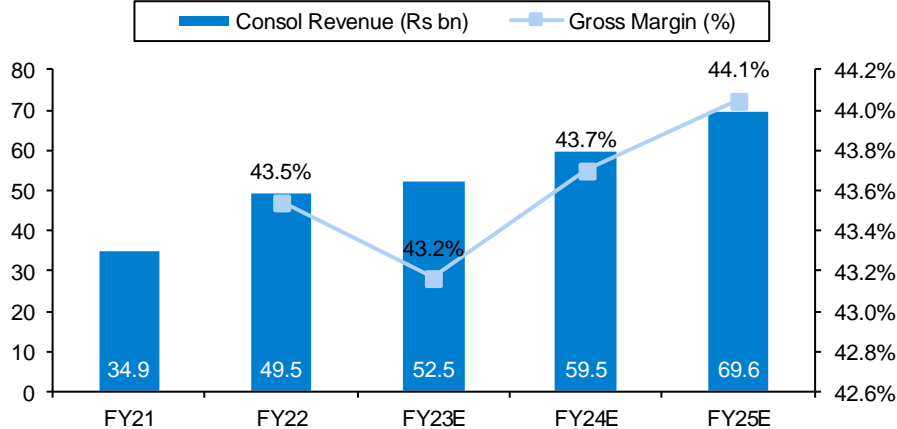
## High value (SPCM+NHS) revenue contribution to rise to 55% by FY25E



## High value (SPCM+NHS) EBITDA contribution to rise to 67% by FY25E

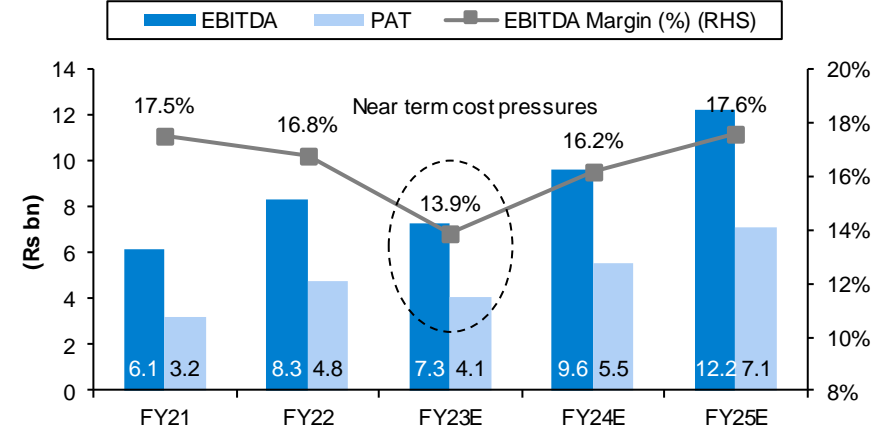


## 12% revenue CAGR (FY22-25E) despite muted CI growth



JUBLINGR's SPCM/ NHS/ CI revenue to grow at 26%/ 11%/ 4% over FY22-25E aided by Rs20bn capex, as it moves up the value chain and expands its product portfolio by leveraging business synergies. CI growth is muted (4% CAGR) despite higher volume (as product prices normalize from elevated base of FY22).

## Steady profitability growth despite earnings normalization in CI segment

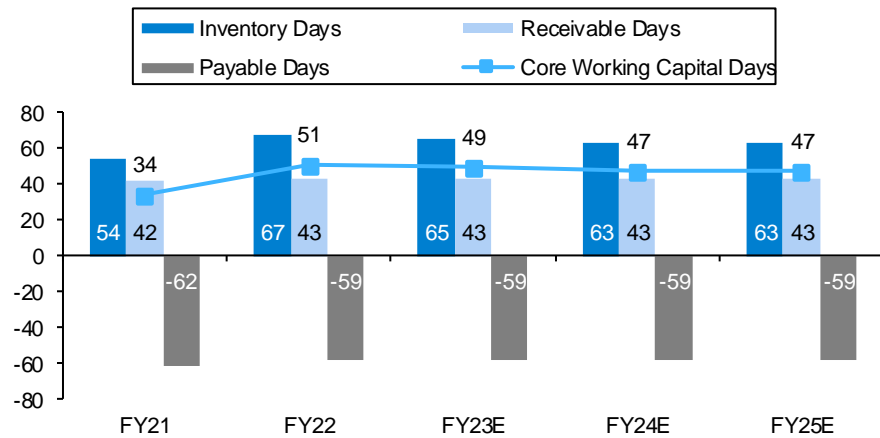


EBITDA contribution from higher value segments (SPCM + NHS) is expected to increase to ~67% by FY25E from ~53% in FY22, as SPCM/ NHS/ CI EBITDA grow at ~27%/ 11%/ 1% CAGR (FY22-25E). Rising share of higher value business to reduce earnings volatility, as PAT grows of 14% CAGR(FY22-25E).



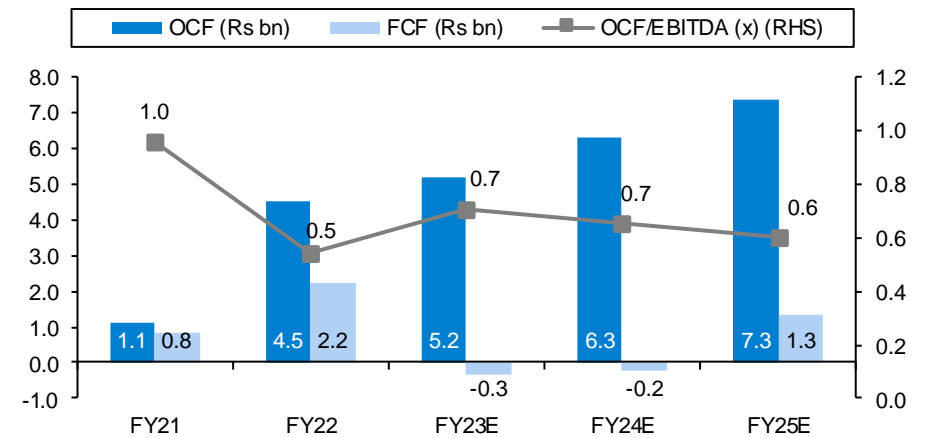
# Strong cash flow aided by healthy profitability; return ratios to improve

## Stable working capital days



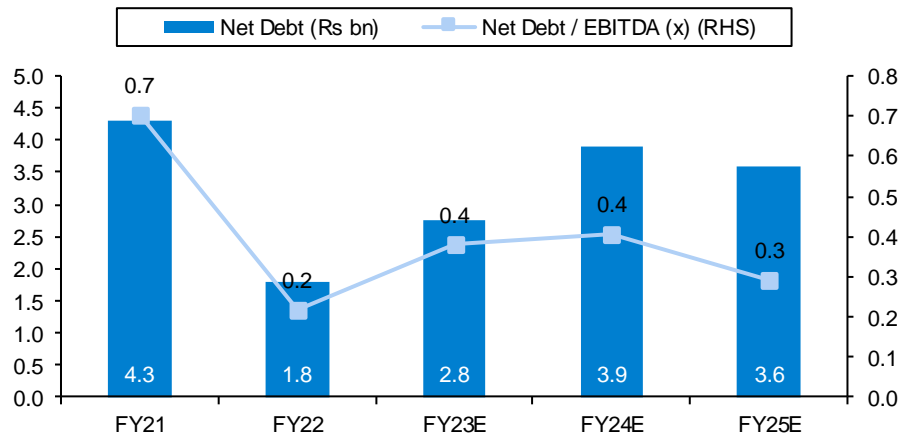
Source: Company, PL ^FY21 proforma financials

## Strong OCF generation of Rs19bn (FY23-25E) to aid self sustained capex



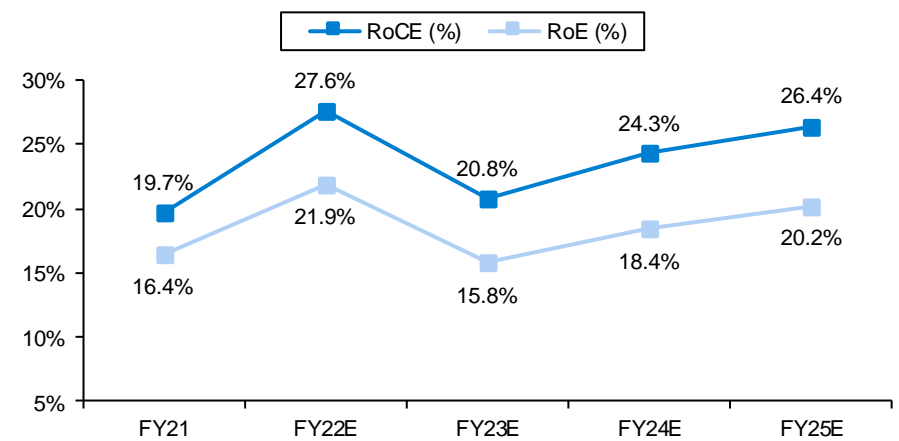
Source: Company, PL ^FY21 pertains to 2 months reported cash flows

## Debt metrics to remain healthy despite large capex outlay



Source: Company, PL ^FY21 proforma financials

## Healthy return ratios (cyclical high in FY22 led by CI segment)



Source: Company, PL ^FY21 proforma financials

# Valuation - SOTP

We value JUBLINGR on SoTP basis given the difference in business dynamics and growth prospects of its three business segments. Initiate coverage with 'BUY' rating at target price of Rs860 (implied consol Sep'24E EV/EBITDA of 13x and PE of 22x).

- **Specialty Chemicals (SPCM):** We value JUBLINGR's SPCM business at 16x 1-year forward EV/EBITDA (~30% discount to domestic specialty chemicals sector average) given presence of building blocks revenue within the segment, and we await execution of a large capex outlay of ~Rs13bn over FY22-25E, which will enable it to move up the value chain (right execution can drive re-rating). While JUBLINGR's market leadership in various pyridine derivatives provides comfort, a strong underlying global demand environment in agrochemicals and pharmaceuticals in addition to China+1 tailwinds and improved prospects of CDMO are likely to drive 26% revenue CAGR (FY22-25E). Improving product mix (rising agro-actives and CDMO contribution) will aid margin improvement, driving 27% EBITDA CAGR (FY22-25E).
- **Nutrition & Health Solutions (NHS):** We value JUBLINGR's Nutrition & Health Solutions business at 12x 1-year forward EV/EBITDA (in-line with global peer average - Lonza, Koninklijke DSM N.V., Glanbia PLC, BASF). We expect revenue/ EBITDA CAGR of 11% each over FY22-FY25E, aided by capex outlay of Rs2bn by FY25E for expansion of Vitamin B3 capacity by ~20% and launch of various value-added grades of Vitamin B3 (focus on pharma and cosmetic-grade vitamins in regulated markets).
- **Chemical Intermediates (CI):** We value JUBLINGR's commoditized CI business at 8x 1-yr forward EV/EBITDA (in-line with global peer average - Celanese, Eastman, Daicel). We expect normalization of spreads, hence forecast EBITDA margin for the segment at 12-13% for FY23-25E (in-line with historical average) and EBITDA CAGR of 4% (over FY22-25E).

## Jubilant Ingrevia (JUBLINGR) – Initiate BUY with TP Rs 860

SOTP	FY22	FY23E	FY24E	FY25E	CAGR (FY22-25E)
<b>EBITDA (Rs mn)</b>					
Specialty Chemicals	3,120	3,271	4,669	6,366	27%
Nutrition & Health Solutions	1,650	1,355	1,821	2,244	11%
Chemical Intermediates	4,170	3,132	3,607	4,248	1%
<b>Segment EBITDA - Total</b>	<b>8,940</b>	<b>7,758</b>	<b>10,097</b>	<b>12,858</b>	<b>13%</b>
Less: Unallocable items	(625)	(483)	(463)	(645)	
<b>Consolidated EBITDA (Rs mn)</b>	<b>8,315</b>	<b>7,275</b>	<b>9,635</b>	<b>12,212</b>	<b>14%</b>
<b>EV/EBITDA Target Multiple (x)</b>					<b>Sep-24</b>
Specialty Chemicals					16
Nutrition & Health Solutions					12
Chemical Intermediates					8
Unallocable items					8
<b>Enterprise Value (Rs mn)</b>					<b>Sep-24 Per Share</b>
Specialty Chemicals					88,670 558
Nutrition & Health Solutions					24,386 153
Chemical Intermediates					31,421 198
Less: Unallocable items					(4,432) (28)
<b>Enterprise Value (Rs mn)</b>					<b>140,045 881</b>
Less: Net Debt and Investments					(3,329) (21)
<b>Equity Value / MCap (Rs mn)</b>					<b>136,716 860</b>
<b>Target Price (Rs/ sh)</b>					<b>860</b>

Source: PL

# Key Risks

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- **Demand risk** – The company is undergoing significant capex across business verticals (Rs9bn committed and ~Rs 11 bn under evaluation) in existing and new products. Any major demand reversal from end-use industries, especially global pharmaceuticals and agrochemicals could impact financials adversely. Unutilized capacities in Pyridine, Picoline and Acetyl Derivatives in China may lead to competitive pressure on company's products.
- **Earnings risk** – Our earnings assumptions would be at risk if the segments fail to deliver forecasted volume/revenue growth. Due to import dependence on feedstock, sometimes finished products also face volatility in supply chain decisions, which can be a competitive risk. Chinese manufacturers, who gain from economies of scale, favourable policies and lower cost etc. may affect company's ability to maintain market leadership.
- **Supply chain disturbances** – Any disturbance in supply chain impacting movement of goods globally, can adversely impact the business. Multiple logistics challenges persist, including shortage of containers/ higher turnaround time and elevated costs.
- **Exchange risk** –Company's foreign currency exposures due to exports and imports may lead to credit risks in some markets. Imposition of price controls or restrictions on conversion of foreign currencies can have an adverse impact on financial performance.

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## Appendix

# Key management personnel and board of directors

- JUBLINGR has a strong and well experienced Board, supported by functional heads and key managerial personnel who actively participate in strategies, operations and business development. Mr. Shyam S. Bhartia and Mr. Hari S. Bhartia, the company's promoters, have over 4 decades of industry experience individually. They are responsible for formulating growth plans and are involved in all strategic business decisions.
- The company's executive leadership team comprises of experienced and qualified professionals, associated with group for ~15-20 years with experience in domestic and international companies including areas of R&D, regulatory affairs, manufacturing, quality control, sales, marketing and finance.

## Board of Directors

Board members	Designation	Board members	Designation
Shyam S. Bhartia	Chairman	Sudha Pillai	Independent Director
Hari S. Bhartia	Co-Chairman	Sushil Kumar Roongta	Independent Director
Priyavrat Bhartia	Non-executive Director	Arun Seth	Independent Director
Arjun Shanker Bhartia	Non-executive Director	Pradeep Banerjee	Independent Director
Rajesh Kumar Srivastava	CEO and Managing Director	Siraj Azmat Chaudhry	Independent Director
Anil Khubchandani	Co- CEO and Whole-time Director	Ameeta Chatterjee	Independent Director

Source: Company, PL

## Executive leadership team

Members	Designation	Industry Exp. (Years)
Rajesh Srivastava	CEO and Managing Director	35
Anil Khubchandani	Co-CEO and Whole-Time Director - Specialty Chemicals	30
Chandan Singh	Co-CEO - Chemical Intermediates	36
Sumit Das	SVP - Nutrition & Health Ingredients	30
Ashish Kumar Sinha	VP - Animal & Human Nutrition & Health Solutions	24
Prakash Bisht	President & CFO	33
Vijay Kumar Srivastava	President- Chief of Operations	23
Vinita Koul	SVP & Head - HR	26
Prasad Joglekar	EVP & Head - Supply Chain	29

Source: Company, PL

## 5 out of 7 key committees led by independent directors

Audit Committee	Sustainability & CSR Committee	Stakeholders Relationship Committee	Nomination, Remuneration & Compensation Committee	Risk Management Committee	Finance Committee	Listing Compliance Committee
<u>Sushil Kumar Roongta*</u>	<u>Sudha Pillai*</u>	<u>Siraj Azmat Chaudhry*</u>	<u>Pradeep Banerjee*</u>	<u>Arun Seth*</u>	Shyam S. Bhartia*	Shyam S. Bhartia*
<u>Arun Seth</u>	Hari S. Bhartia	<u>Sushil Kumar Roongta</u>	Shyam S. Bhartia*	<u>Ameeta Chatterjee</u>	Hari S. Bhartia	Hari S. Bhartia
<u>Pradeep Banerjee</u>	<u>Arun Seth</u>	<u>Arun Seth</u>	Hari S. Bhartia	<u>Sudha Pillai</u>	Priyavrat Bhartia	Rajesh Kumar Srivastava
<u>Siraj Azmat Chaudhry</u>	<u>Sushil Kumar Roongta</u>	Rajesh Kumar Srivastava	<u>Sudha Pillai</u>	<u>Sushil Kumar Roongta</u>	Rajesh Kumar Srivastava	
<u>Ameeta Chatterjee</u>	<u>Pradeep Banerjee</u>		<u>Siraj Azmat Chaudhry</u>	<u>Pradeep Banerjee</u>	Arjun Shanker Bhartia	
Arjun Shanker Bhartia	<u>Ameeta Chatterjee</u>		<u>Ameeta Chatterjee</u>	<u>Siraj Azmat Chaudhry</u>		
	Priyavrat Bhartia			Rajesh Kumar Srivastava		
	Rajesh Kumar Srivastava			Prakash Chandra Bisht		
	Arjun Shanker Bhartia			Arjun Shanker Bhartia		
				Priyavrat Bhartia		

Source: Company, PL

\*Chairperson of the Committee, Underlined personnel are independent members

# Multi Location Manufacturing

Manufacturing facilities – 50 plants across 5 sites in 3 states with enough land available at existing sites for future expansions



463 acres

**Gajraula, Uttar Pradesh, India**

Integrated facility for Speciality Chemicals & Chemical Intermediates



310 acres

**Bharuch, Gujarat, India**

Speciality Chemicals, Nutrition & Health Ingredients & Chemical Intermediates facility located in SEZ



144 acres

**Nira, Maharashtra, India**

Chemical Intermediates



109 acres

**Samlaya, Gujarat, India**

Animal Nutrition & Health Solutions



3.5 acres

**Ambernath, Maharashtra, India**

Speciality Chemicals

Source: Company, PL

## Operational highlights

**Multi-Chemistry, Multi-Product** and Process Condition handling expertise

Large capacities in **Continuous & Batch processes**

**World Class GMP facility at Bharuch**

Temp, Humidity & Differential Pressure Controlled Areas with ISO-8 (Class 100,000) Clean rooms

**cGMP compliant Pilot Plant**

20 – 1000L Reactors (Glass Assemblies, Cryogenic & Plug Flow reactors, Lyophilizer Autoclaves)

**In-house Utilities**

Captive Power Plant (Gajraula), Own Steam Generating Boilers, Chilled Water & Brine Unit

**Ecologically Harmonized Practices**

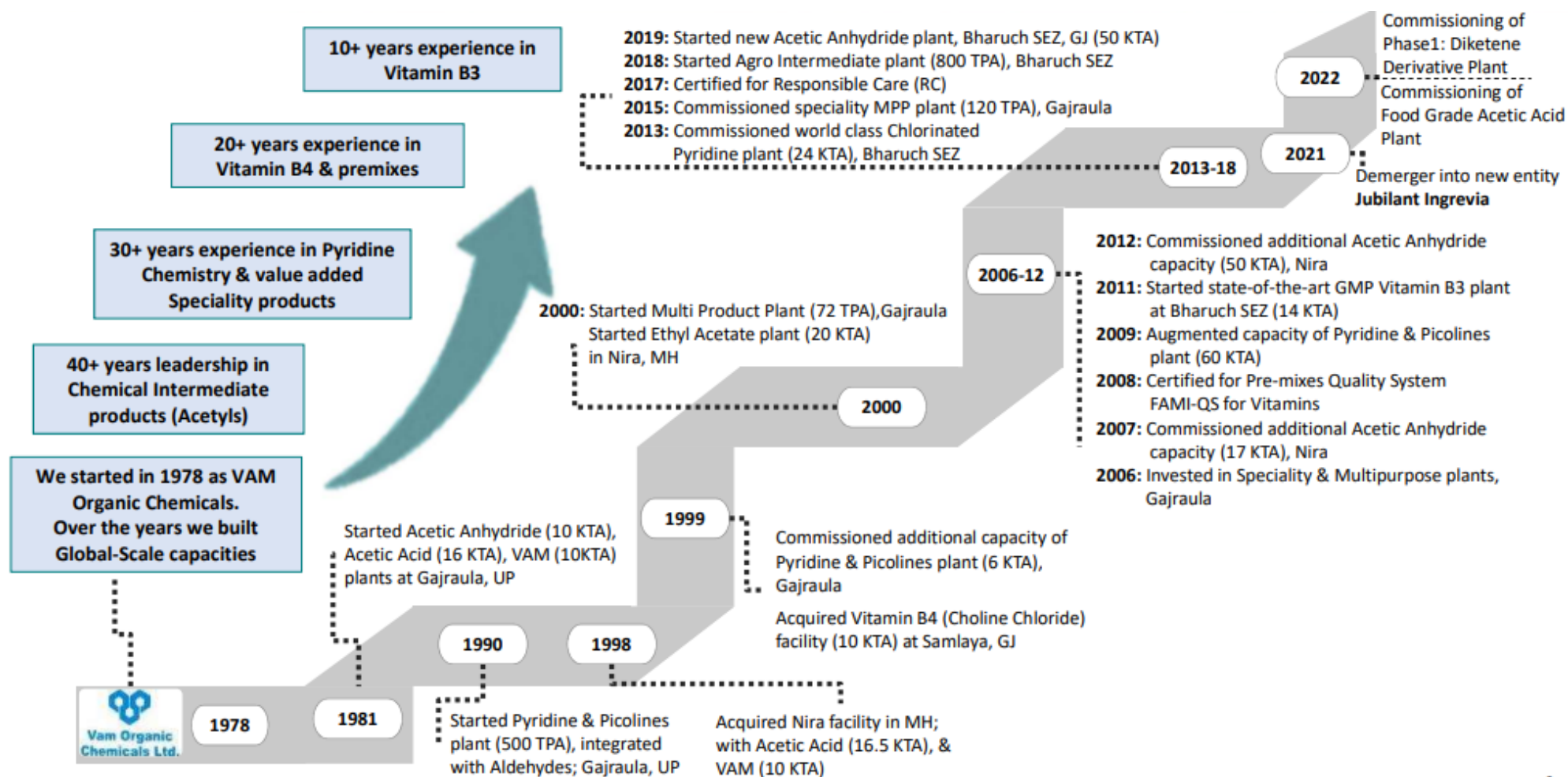
Incinerators, ETPs, Multi Effect Evaporators, Reverse Osmosis, Water Polishing Plants

**Health & Safety:** benchmarking global performance by Chilworth Dekra- FY'07 & Chola MS- FY'21

**Compliance:** 3,800+ compliance items through 'EY' Conformity tool

Source: Company, PL

# Key milestones



Source: Company, PL



# Income Statement & Balance Sheet

Y/e Mar	FY22	FY23E	FY24E	FY25E	Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>49,494</b>	<b>52,468</b>	<b>59,457</b>	<b>69,581</b>	<b>Non-Current Assets</b>				
YoY gr. (%)	623.4	6.0	13.3	17.0					
Cost of Goods Sold	27,941	29,820	33,472	38,930	<b>Gross Block</b>	<b>24,697</b>	<b>29,197</b>	<b>35,697</b>	<b>42,697</b>
Gross Profit	21,552	22,648	25,985	30,651	Tangibles	24,473	28,973	35,473	42,473
Margin (%)	43.5	43.2	43.7	44.1	Intangibles	224	224	224	224
Employee Cost	3,273	3,463	3,865	4,523	<b>Acc: Dep / Amortization</b>	<b>6,714</b>	<b>8,008</b>	<b>9,468</b>	<b>11,271</b>
Other Expenses	9,961	11,910	12,486	13,916	Tangibles	6,583	7,876	9,337	11,140
					Intangibles	131	131	131	131
<b>EBITDA</b>	<b>8,318</b>	<b>7,275</b>	<b>9,635</b>	<b>12,212</b>	<b>Net fixed assets</b>	<b>17,983</b>	<b>21,189</b>	<b>26,229</b>	<b>31,426</b>
YoY gr. (%)	610.2	(12.5)	32.4	26.8	Tangibles	17,890	21,097	26,137	31,334
Margin (%)	16.8	13.9	16.2	17.6	Intangibles	93	93	93	93
Depreciation and Amortization	1,234	1,293	1,460	1,803	Capital Work In Progress	1,742	2,742	2,742	1,742
					Goodwill	-	-	-	-
<b>EBIT</b>	<b>7,084</b>	<b>5,981</b>	<b>8,174</b>	<b>10,409</b>	Non-Current Investments	67	67	67	67
Margin (%)	14.3	11.4	13.7	15.0	Net Deferred tax assets	(1,220)	(1,220)	(1,220)	(1,220)
Net Interest	309	162	220	228	Other Non-Current Assets	385	385	385	385
Other Income	315	220	165	298					
					<b>Current Assets</b>				
<b>Profit Before Tax</b>	<b>7,090</b>	<b>6,040</b>	<b>8,120</b>	<b>10,479</b>	Investments	-	-	-	-
Margin (%)	14.3	11.5	13.7	15.1	Inventories	9,112	9,344	10,263	12,010
Total Tax	2,322	1,933	2,598	3,353	Trade receivables	5,809	6,181	7,005	8,197
Effective tax rate (%)	32.8	32.0	32.0	32.0	Cash & Bank Balance	485	360	301	516
					Other Current Assets	2,235	2,370	2,685	3,142
<b>Profit after tax</b>	<b>4,768</b>	<b>4,107</b>	<b>5,522</b>	<b>7,126</b>	<b>Total Assets</b>	<b>37,972</b>	<b>42,792</b>	<b>49,830</b>	<b>57,641</b>
Minority interest	-	-	-	-					
Share Profit from Associate	(1)	(1)	(1)	(1)	<b>Equity</b>				
					Equity Share Capital	159	159	159	159
<b>Adjusted PAT</b>	<b>4,767</b>	<b>4,107</b>	<b>5,521</b>	<b>7,125</b>	Other Equity	24,172	27,568	32,134	38,027
YoY gr. (%)	608.3	(13.9)	34.5	29.0	<b>Total Networth</b>	<b>24,331</b>	<b>27,727</b>	<b>32,293</b>	<b>38,186</b>
Margin (%)	9.6	7.8	9.3	10.2					
Extra Ord. Income / (Exp)	-	-	-	-	<b>Non-Current Liabilities</b>				
					Long Term borrowings	997	997	1,897	1,397
<b>Reported PAT</b>	<b>4,767</b>	<b>4,107</b>	<b>5,521</b>	<b>7,125</b>	Provisions	679	719	802	939
YoY gr. (%)	777.0	(13.9)	34.5	29.0	Other non current liabilities	67	67	67	67
Margin (%)	9.6	7.8	9.3	10.2					
					<b>Current Liabilities</b>				
Other Comprehensive Income	899	-	-	-	ST Debt / Current of LT Debt	1,291	2,120	2,305	2,697
Total Comprehensive Income	5,666	4,107	5,521	7,125	Trade payables	7,978	8,457	9,584	11,216
<b>Equity Shares O/s (m)</b>	<b>159</b>	<b>159</b>	<b>159</b>	<b>159</b>	Other current liabilities	1,259	1,335	1,513	1,771
<b>EPS (Rs)</b>	<b>30.0</b>	<b>25.8</b>	<b>34.7</b>	<b>44.8</b>	<b>Total Equity &amp; Liabilities</b>	<b>37,972</b>	<b>42,792</b>	<b>49,830</b>	<b>57,641</b>



# Cash Flow & Key Ratios

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	7,089	6,039	8,120	10,478
Add. Depreciation	1,234	1,293	1,460	1,803
Add. Interest	309	162	220	228
Less Financial Other Income	315	220	165	298
Add. Other	188	(220)	(165)	(298)
Op. profit before WC changes	8,821	7,274	9,634	12,212
Net Changes-WC	(3,012)	(198)	(789)	(1,558)
Direct tax	(1,281)	(1,918)	(2,564)	(3,303)
<b>Net cash from Op. activities</b>	<b>4,527</b>	<b>5,158</b>	<b>6,282</b>	<b>7,350</b>
Capital expenditures	(2,276)	(5,500)	(6,500)	(6,000)
Interest / Dividend Income	13	220	165	298
Others	1,544	-	-	-
<b>Net Cash from Invst. activities</b>	<b>(718)</b>	<b>(5,280)</b>	<b>(6,335)</b>	<b>(5,702)</b>
Issue of share cap. / premium	(183)	-	-	-
Debt changes	(3,188)	830	1,085	(108)
Dividend paid	(452)	(710)	(955)	(1,233)
Interest paid	(330)	(162)	(220)	(228)
Others	(14)	39	83	137
<b>Net cash from Fin. activities</b>	<b>(4,166)</b>	<b>(3)</b>	<b>(7)</b>	<b>(1,432)</b>
<b>Net change in cash</b>	<b>(357)</b>	<b>(125)</b>	<b>(60)</b>	<b>216</b>
Free Cash Flow	2,226	(342)	(218)	1,350

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	30.0	25.8	34.7	44.8
CEPS	37.7	34.0	43.9	56.2
BVPS	153.0	174.4	203.1	240.2
FCF	14.0	(2.2)	(1.4)	8.5
DPS	5.0	4.5	6.0	7.8
<b>Return Ratio(%)</b>				
RoCE	27.6	20.8	24.3	26.4
ROIC	19.2	14.4	16.7	18.2
RoE	21.9	15.8	18.4	20.2
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.1	0.1	0.1	0.1
Net Working Capital (Days)	51	49	47	47
<b>Valuation(x)</b>				
PER	15.4	17.9	13.3	10.3
P/B	3.0	2.7	2.3	1.9
P/CEPS	12.3	13.6	10.5	8.2
EV/EBITDA	9.1	10.5	8.0	6.3
EV/Sales	1.5	1.5	1.3	1.1
Dividend Yield (%)	1.1	1.0	1.3	1.7

# Laxmi Organic Industries (LXCHEM IN)

Rating: HOLD | CMP: Rs329 | TP: Rs335 | Mcap: Rs86.7bn

	Y/e March	2020	2021	2022	2023	2024	2025
Income Statement (Rs m)	Net Sales	15,341	17,684	30,842	32,353	36,003	39,822
	Growth (%)	-2.2	15.3	74.4	4.9	11.3	10.6
	EBITDA	1,135	2,167	3,677	3,720	4,691	5,613
	Growth (%)	-25.3	90.9	69.7	1.2	26.1	19.7
	Margin (%)	7.4	12.3	11.9	11.5	13.0	14.1
	EBIT	647	1,702	3,184	3,078	3,776	4,521
	Net Interest	140	164	154	141	69	9
	Other Income	45	46	149	60	149	298
	PBT	808	1,584	3,179	2,996	3,855	4,810
	Total Tax	106	313	614	599	771	962
Balance Sheet (Rs m)	Adj. PAT	444	1,270	2,564	2,397	3,084	3,848
	Growth (%)	-38.6	185.9	101.8	-6.5	28.7	24.7
	Gross Block	4,839	5,166	6,294	12,532	13,532	15,532
	Investments	145	507	218	218	218	218
	Inventories	1,519	2,033	3,736	3,989	4,439	4,910
	Trade receivables	3,594	4,346	6,684	6,648	7,398	8,183
	Cash & Bank Balance	363	5,394	1,822	616	2,169	4,172
	Equity Share Capital	450	527	527	527	527	527
	Total Netw orth	4,269	10,346	13,007	15,164	17,940	21,403
	Borrow ings	1,588	1,411	1,333	1,141	77	77
Cash Flow (Rs m)	Trade payables	4,116	4,750	7,117	7,091	7,891	8,728
	Net cash from Op. activities	1,955	1,062	457	2,803	3,838	4,094
	Net Cash from Inv. activities	-559	-6,410	738	-2,448	-851	-1,702
	Net cash from Fin. activities	-1,232	5,274	-1,242	-569	-1,434	-389
	Net change in cash	165	-75	-47	-214	1,553	2,003
Key Ratios	Free Cash Flow	1,184	-89	-2,635	-697	2,838	2,094
	EPS (Rs)	9.9	4.8	9.7	9.1	11.7	14.6
	Growth (%)	-31.8	-51.2	101.8	-6.5	28.7	24.7
	BPV/S (Rs)	94.8	39.2	49.3	57.5	68.0	81.2
	DPS (Rs)	-	0.3	0.5	0.9	1.2	1.5
	RoCE (%)	10.7	19.3	24.4	20.1	22.0	22.9
	RoE (%)	10.1	17.4	22.0	17.0	18.6	19.6
	Net Debt : Equity (x)	0.3	-0.4	-0.0	0.0	-0.1	-0.2
	Net Working Capital (Days)	23.7	33.6	39.1	40.0	40.0	40.0
	PE (x)	33.3	68.2	33.8	36.2	28.1	22.5
	P/B (x)	3.5	8.4	6.7	5.7	4.8	4.0
	EV / EBITDA (x)	14.1	38.1	23.4	23.4	18.0	14.7
	Dividend Yield (%)	-	0.1	0.2	0.3	0.4	0.4

Key Data	LAXR.BO   LXCHEM IN
52-W High / Low	Rs.628 / Rs.274
Sensex / Nifty	59,197 / 17,656
Market Cap	Rs.87bn/ \$ 1,091m
Shares Outstanding	265m
3M Avg. Daily Value	Rs.491.38m

## Shareholding Pattern (%)

Promoter's	72.53
Foreign	0.6
Domestic Institution	3.22
Public & Others	23.66
Promoter Pledge (Rs bn)	-

## Stock Performance (%)

	1M	6M	12M
Absolute	5.3	-19.2	-32.9
Relative	3.9	-25.8	-33.9

## Price Chart



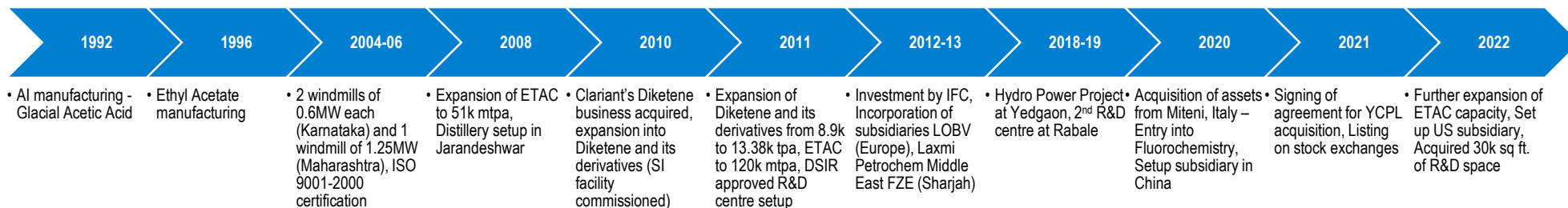
We initiate coverage on Laxmi Organic Industries Ltd (LXCHEM) with 'HOLD' rating at SOTP based target price of Rs335 (implied consol Sep'24E EV/EBITDA of 17x and PE of 25x). LXCHEM, a leading Acetyl Intermediates (AI) player, is moving up the value chain through Specialty Intermediates (SI) as it leverages its core chemistry and strong portfolio of ketene/ diketene derivatives with applications across agro, pharma, pigments etc. Moreover, the company is diversifying into fluorochemicals (FI) after acquiring assets of Miteni, Italy (erstwhile manufacturer of organic fluorospecialties and electrochemical fluorination). While SI revenue visibility increases through long term contracts from global majors, FI business faces time and cost overruns, and is likely to scale up gradually once commissioned in H2FY23. Acetyls and Specialty intermediates (AI & SI) will remain LXCHEM's core businesses in the medium term, while Fluorochemicals will be a long term earnings driver. We believe, EBITDA contribution from higher value segments (SI+FI) will increase to ~70% by FY25E from ~55% in FY22 as SI EBITDA grows at ~22% CAGR and FI earnings commence in H2FY23. AI (commoditised business) to witness moderate EBITDA growth of ~5% CAGR over FY22-25E (on realisation and margin normalisation from elevated base of FY22), despite healthy volume growth driven by YCPL acquisition and debottlenecking. While we like LXCHEM's stronghold in both AI and SI business, we believe that FI scale up will be gradual, while most positives are factored in its valuations. Initiate 'HOLD'.

- **Specialty Intermediates to drive business mix improvement:** LXCHEM is India's only manufacturer of diketene derivatives with technology to offer complete product range across segments (JUBLINGR entered this space in Q4FY22). Its domestic market share stands at ~55% (balance with MNCs) and its well positioned to substitute imports from other countries like Europe and China. Thrust to rejig SI product basket with ramp up in newer products (higher margin) and rising share from high value products like Esters (end use in pharma) augur well for operating margin. SI revenue visibility increased through long-term contracts for such high-value products, including an agreement for sale of an intermediate to a large global innovator. This could drive a steep jump in the company's revenue and earnings. We expect SI revenue/EBITDA to grow at 17%/22% CAGR (FY22-25E), led by margin accretive value added products.
- **Fluorochemicals to be a long term earnings driver:** LXCHEM is diversifying into Fluorochemicals with acquisition of assets of Miteni, Italy and capitalising on its R&D and portfolio (capabilities for >100 products – with an initial basket of 10 products in R&D and scale-up stages with 14 patents and 41 REACH registrations). Its strategy is to leverage existing relationships in agro and pharma sector for entry into fluorochemicals and to capture market share of Miteni, utilizing its existing chemistries and past customer base. While the technical knowhow to make fluorochemicals has been acquired, commercial success will be achieved only over the longer term, as re-establishing Miteni's lost market share (non-operational for >4 years) or establishing own presence through understanding of customers production processes, products approvals and alignment with customers supply chains, will be gradual.
- **Acetyl Intermediates business is a cash cow:** LXCHEM is one of the largest manufacturers of Ethyl Acetate (ETAC) with >33% domestic market share, and added 29k mtpa post YCPL acquisition while debottlenecking added 32k mtpa, thereby taking total ETAC capacity to 188k mtpa (total AI capacity to 232k mtpa). ETAC, a highly versatile solvent with applications across multiple high growth industries like pharma, agro-chemicals, flexible packaging, auto coatings and printing inks is estimated to grow at ~4% CAGR over 2021-31 (globally). It is preferred over traditional petro-based solvents given (a) its lower toxicity to humans (bio-based origin) (b) higher evaporation rate among solvents and (c) low impact input (in terms of relative cost in final product). AI is a cash cow for LXCHEM, whereby it can leverage infrastructure and scale for cost synergies. We expect revenue to remain flat over FY22-25E despite increase in volume, as product prices normalise, while EBITDA growth to be ~5% CAGR over FY22-25E.

# About the company

- **Laxmi Organic Industries Limited (LXCHEM) is a leading manufacturer of Acetyl Intermediates (AI) and Specialty Intermediates (SI).** The company started with acetaldehyde and acetic acid in 1992, moved to ethyl acetate in 1996 and currently has three decades of large scale chemical manufacturing experience. It pursued growth by leveraging scale and size in the AI segment and R&D in SI segment to move up the value chain.
- **It is amongst the largest Indian manufacturers and exporters of ethyl acetate** with >33% domestic market share post capacity enhancement through acquisition of Yellowstone Chemicals (YCPL) adding 29k mtpa and debottlenecking adding 32k mtpa. Its also among the leading suppliers of fuel grade ethanol to OMCs under oil blending program of the government.
- **LXCHEM entered the SI space in 2010 through acquisition of Clariant's diketene business.** Until JUBLINGR entered diketene derivatives in FY22, LXCHEM was the only domestic manufacturer of diketene derivative products with ~55% market share having one of the largest portfolios of diketene products.
- **Currently, LXCHEM is diversifying into fluorochemicals through acquisition of Miteni's assets** (manufacturer of organic fluorospecialties and electrochemical fluorination) relocating to its new manufacturing facility in India, to be commissioned in H2FY23.

## LXCHEM's journey



Source: Company, PL

# Business overview

## Laxmi Organics – FY22

StdI Revenue: Rs 30.2 bn  
StdI EBITDA: Rs 3.2 bn  
StdI EBITDA Margin: 10.7%

### Acetyl Intermediates (AI)

Revenue: Rs 18.1 bn (60%)

### Specialty Intermediates (SI)

Revenue: Rs 8.8 bn (29%)

### Fluorochemicals (FI)

Plant expected to begin commercial production in H2FY23

#### Products

**13 products** - including Ethyl acetate, Acetaldehyde, Fuel-grade ethanol and other proprietary solvents

**34+ products** - including Ketene, Diketene derivatives (esters, acetic anhydride, amides and arylides)

**Capabilities for >100 products** – with an initial basket of 10 products in R&D and scale-up stages

#### Applications

Pharmaceuticals, Agrochemicals, Inks and Paints, Coatings, Printing, Packaging and Adhesives

Pharmaceuticals, Agrochemicals, Dyes and Pigments, Flavor and Fragrance, Paints and Coatings

Pharmaceuticals, Agrochemicals, Industrials, Electronics, Automotive

#### Key Raw Materials

Acetic acid, Ethanol

Aniline, Monomethyl Amine, Ortho Anisidine, Ortho Toluidine and Acetic Acid

Hydrofluoric Acid, Chlorine

#### Competition

**Global** - Celanese Corporation, Eastman Chemical, Daicel Corporation, Saudi International Petrochemical Co. (Sipchem), British Petroleum (BP)  
**Domestic** - Jubilant Ingrevia, GNFC, Godavari Biorefineries

**Global** - Lonza AG, Nantong Acetic Acid  
**Domestic** - Jubilant Ingrevia

**Global** – Chemours, Honeywell, Arkema, Dongyue, Mexichem, Diakin, 3M, Solvay  
**Domestic** – SRF, GFL, NFIL

### Others (incl trading)

Revenue: Rs 3.3 bn (11%)

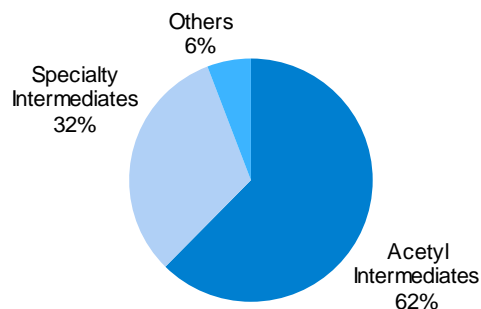
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## Story in charts

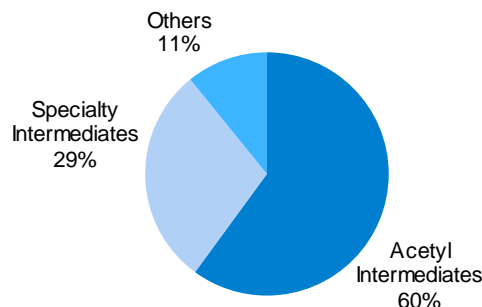
# Rising contribution of higher value business to reduce earnings volatility

Revenue share of higher value segments (Specialty Intermediates + Fluorochemicals) to increase to 44% in FY25E from 29% in FY22

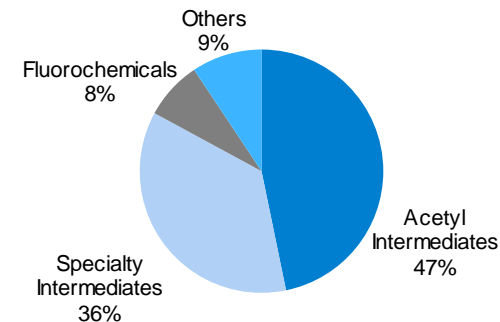
**FY19 - Total Rs14bn**



**FY22 - Total Rs30bn**

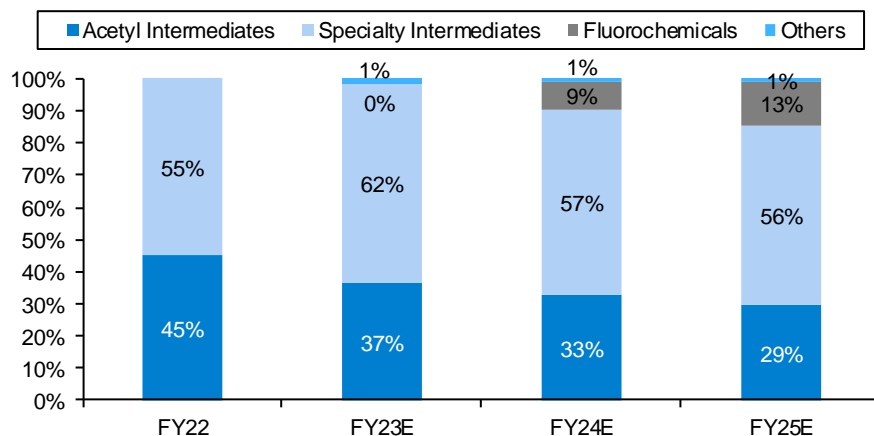


**FY25E - Total Rs39bn**



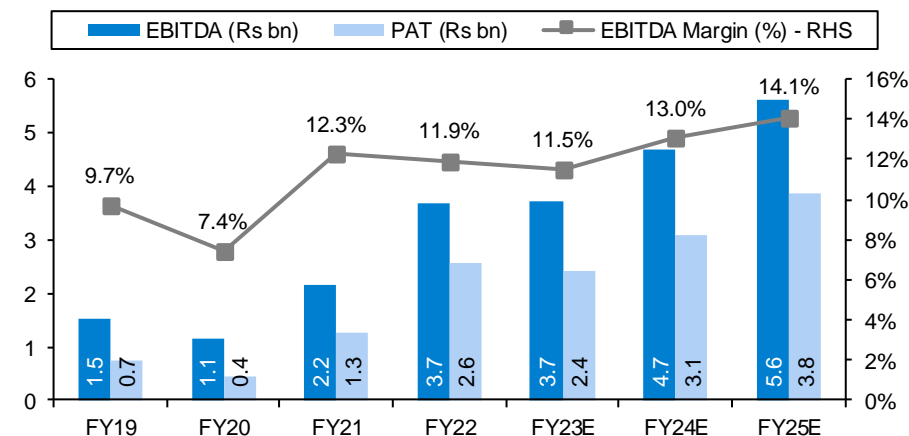
Source: Company, PL

EBITDA mix improvement with high value business share at 70% by FY25E



Source: Company, PL Segment wise EBITDA as per our assumptions (not reported by company)

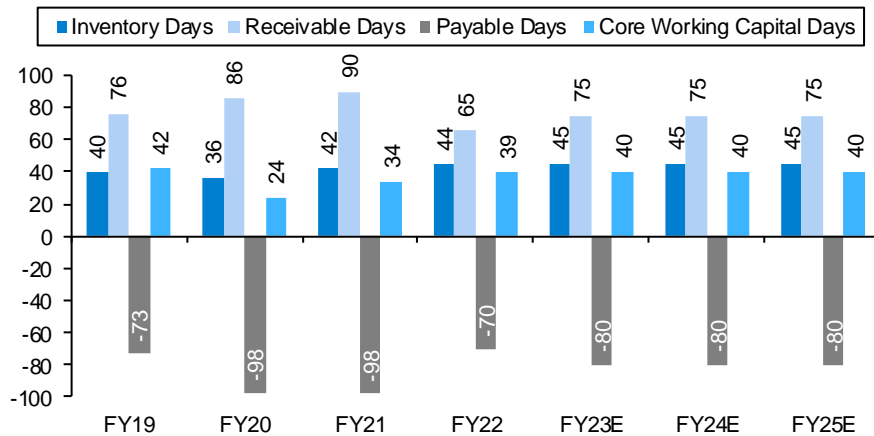
Gradual improvement in margin profile with lower AI concentration



Source: Company, PL

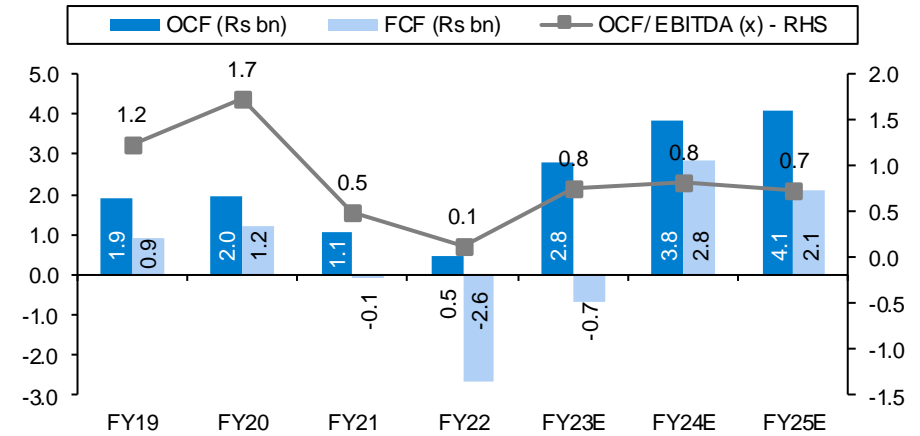
# Strong cash flow aided by healthy profitability; return ratios to improve

## Stable working capital days



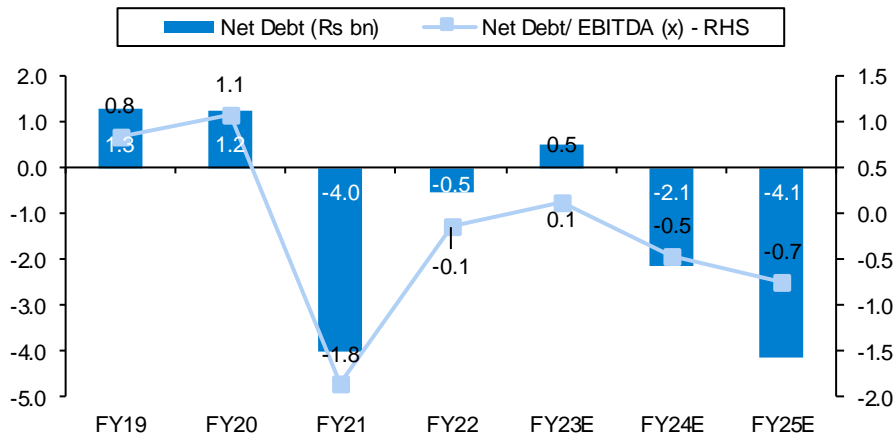
Source: Company, PL

## Strong OCF generation (~Rs 11 bn over FY23-25E) to aid capex



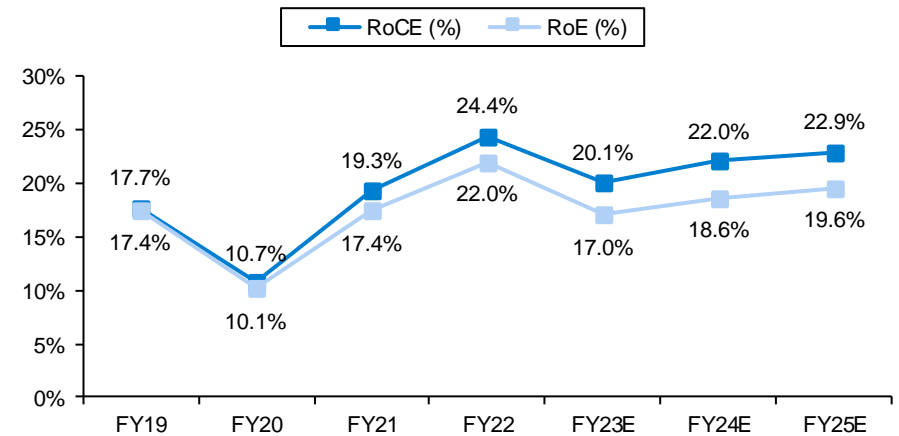
Source: Company, PL

## Debt metrics comfortable despite ~Rs 10 bn capex over FY22-25E



Source: Company, PL

## Steady return ratios (cyclical high in FY22 led by AI business)



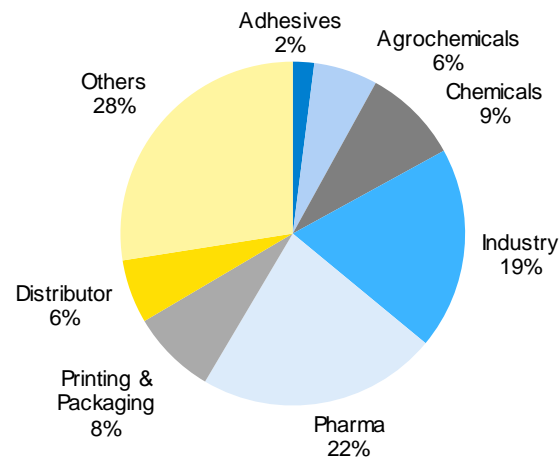
Source: Company, PL



# De-risked business model with diversified end-use segments

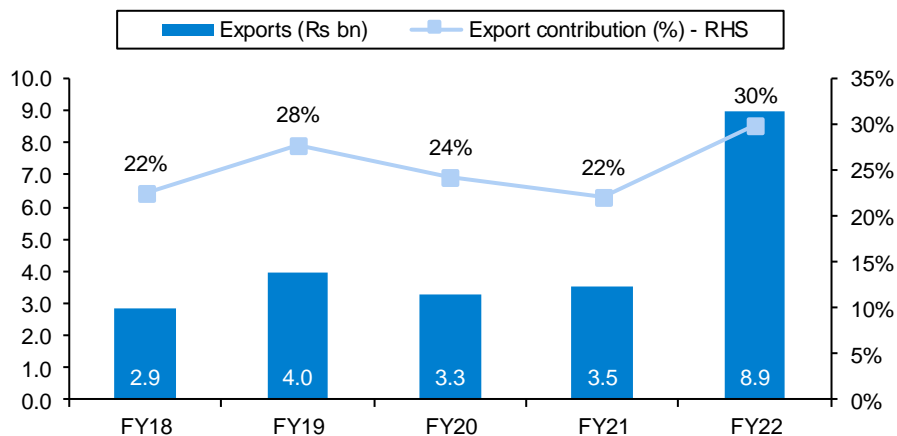
- **LXCHEM has a** diversified portfolio of >50 products catering to pharma, agro, paints & coatings, printing & packaging, dyes & pigments etc.
- **Domestic demand for underlying industries is growing at mid double digit levels** over last 5 years and expected to maintain its trajectory over next 5 years, while global demand is growing at ~ 7% CAGR.
- **It has a global footprint** with offices in Europe, China, Middle-East with stock points in key markets and marquee customers in >40 countries.
- **Its top 10 customers contribute to 41% of its revenues.**

Diversified customer base (% of rev from sale of manufactured products)



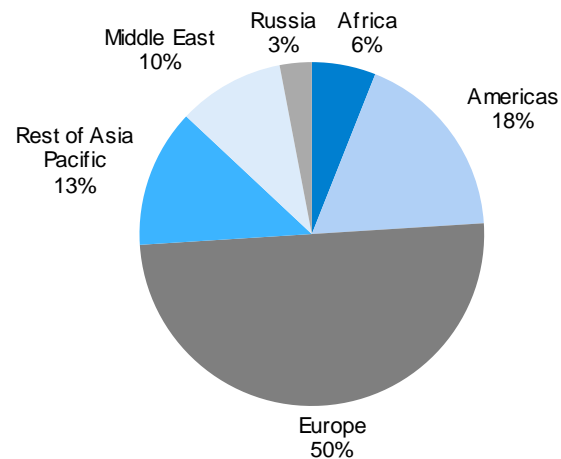
Source: Company, PL

Rising export contribution...



Source: Company, PL

...with low dependence on a single export market



Source: Company, PL

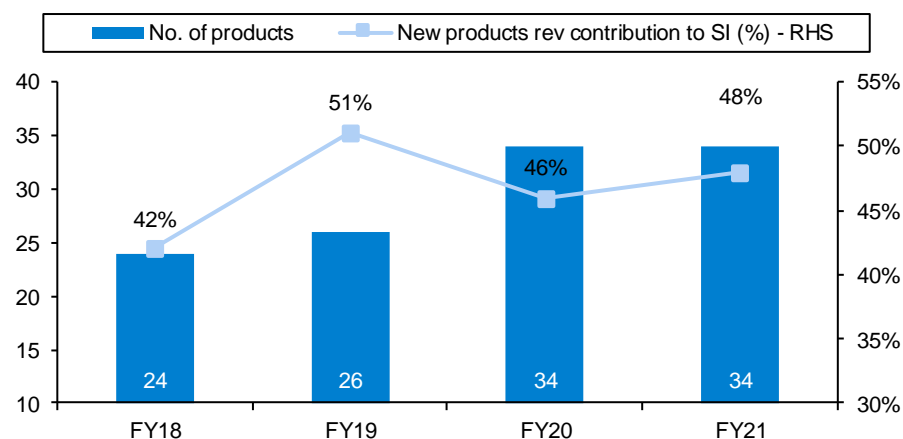
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## **Specialty Intermediates (SI) to drive business mix improvement**

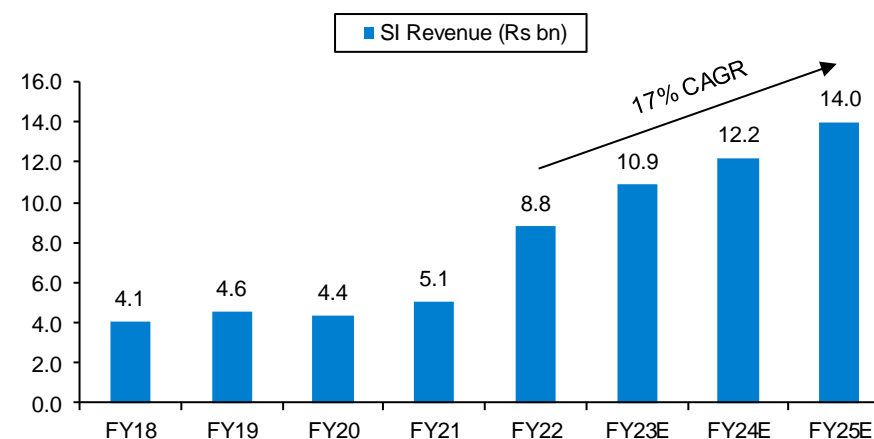
# Specialty Intermediates (SI) scaling up through new products addition...

- **Specialty Intermediates commenced by acquiring Clariant's diketene business in 2010** to capitalise on synergies between SI and AI business. It has scaled up over the years through addition of capacity and new products through R&D efforts (20 new products) contributing ~48% to SI revenue.
- **LXCHEM is amongst few companies worldwide with technology that can cater to a complete range of diketene derivatives** having versatile and high growth applications in pharmaceuticals, agrochemicals, dyes, pigments, vitamins, flavours & fragrance, paints & coatings, stabilizers for PVC and polyester.
- **Substitution of import** mainly from Europe and China, has been the key strategy, thereby rapidly gaining domestic market share (~55%) through R&D efforts and customer relationships. LXCHEM was the only diketene derivatives manufacturer in India, until recently (JUBLINGR being the new entrant).
- **LXCHEM has acquired crucial international business**, as its recent long-term contracts in high value products (intermediates for large global innovators) provide incremental revenue visibility. Its in the process of expanding its SI manufacturing capacity for these products (partly commenced in Q1FY23, balance expected by Q3FY23). Successful implementation of these capexes will drive increase in exports and contract manufacturing business.
- **Growing revenue share from contract manufacturing for global and local customers** to be company's primary focus given its sticky business nature. The business will also get traction from changes in sourcing strategies of global customers on geopolitical realignment. We expect SI revenue to grow at 17% CAGR (over FY22-25E) led by new and value added products, whereby new projects (long term contracts) will contribute ~15% of SI revenue from FY23E onwards.

## Continuous new product additions\* backed by R&D



## New product additions and long term contracts to drive 17% revenue CAGR



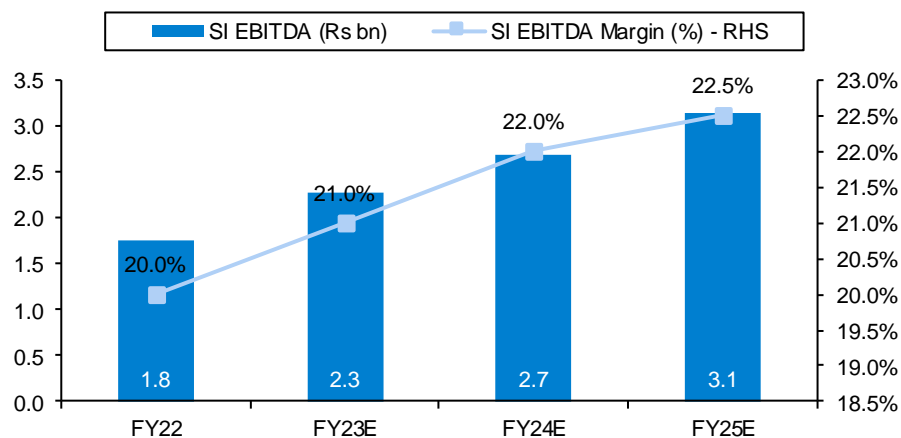
# ...and moving up in the value chain

**Endeavour to constantly move up the value chain:** Unlike the acetyls, endeavour in SI is to constantly move up the value chain, develop & perfect chemistry adjacencies, leverage R&D and scale-up expertise. It's a multi-product business built on multiple synergies.

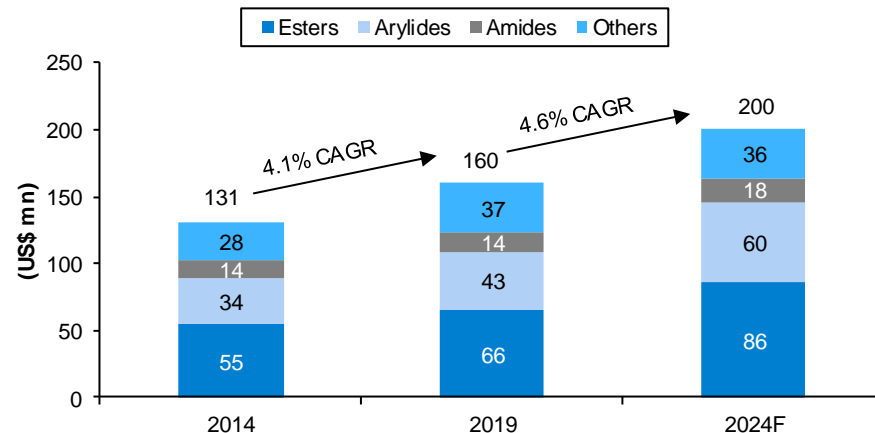
## Focus on high value SI products, with stronghold in ketene/diketene:

- LXCHEM is focused on high value SI products like Esters (end use in pharma) which led its revenue growth and margin improvement over last few years v/s high volume products like Arylides (end use in pigments).
- It has a stronghold in ketene and its dimer diketene, which serve as starting material for many intermediates mainly used for production of pigments, drugs, agrochemicals, paper etc.

## EBITDA margin to improve with rising contribution of high value products



## Indian diketene derivatives market (by type)



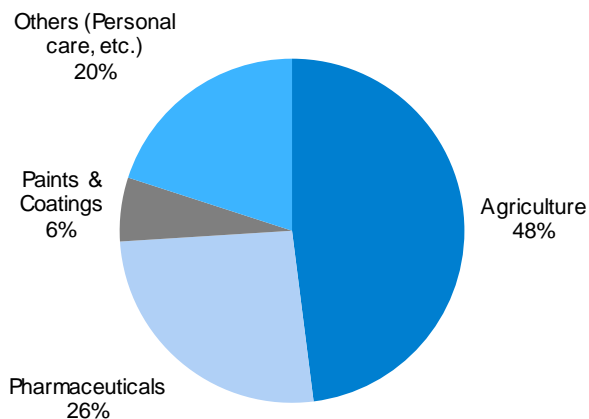
Source: Industry, PL **Applications:** Amides > Agrochemicals, Arylides > Colours and pigments, Acetic anhydride > Multiple uses including pharma, Esters > Pharma

## Efficient and well synergised operations

- Raw material & process synergies:** Acetic acid and ethanol are common RMs for both AI and SI, thereby driving lower effective costs (volume discounts). Additionally, LXCHEM has process synergies for new products.
- Supply chain synergies:** Its manufacturing facilities (including YCPL) are located close to each other, thereby ensuring greater logistic synergies and operational efficiencies. Its power facilities (co-gen, windmills, hydro) ensure steady supply of steam for AI and power for SI.
- Similar customer base:** Further, it benefits from synergies in customer base between AI and SI businesses, as both cater to similar industries (pharmaceuticals, agro-chemicals, paints & coatings etc).

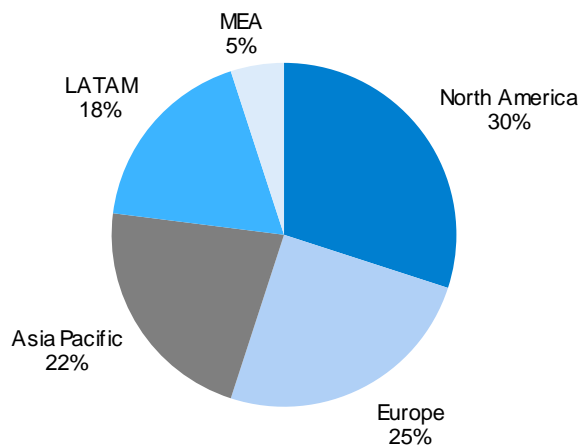
# Industry well poised for growth

## Global Specialty Intermediates market by application



Source: Industry, PL

## Global Specialty Intermediates market by geography



Source: Industry, PL

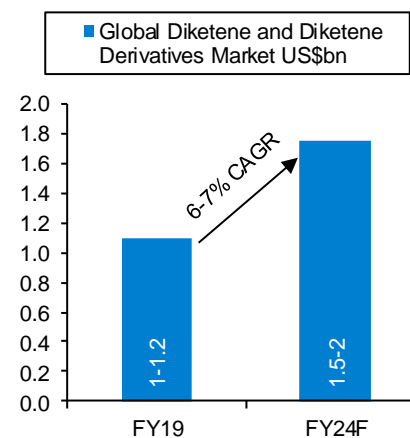
## Growth trend of Global Specialty Intermediates market

Global Specialty Intermediates Market US\$bn	FY14	FY19	FY24F	CAGR FY 19-FY24F
Pharmaceutical Intermediates	23	30	40	6-7%
Agrochemical Intermediates	45	58	74	5-6%
Pigment Intermediates	4	5	7	5.5-6.5%
Others (personal care, etc.)	18	22	27	4.5-5.5%
<b>Total</b>	<b>90</b>	<b>115</b>	<b>148</b>	<b>5%</b>

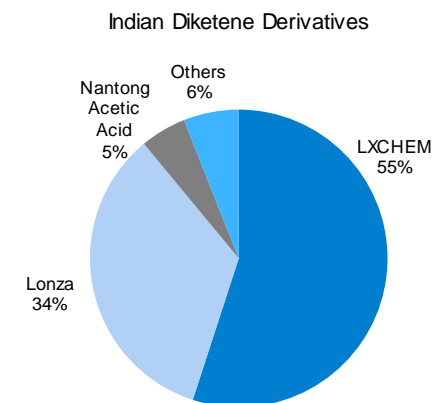
India Specialty Intermediates Market US\$bn	FY14	FY19	FY24F	CAGR FY 19-FY24F
Pharma Intermediates	2.5	4.2	7.1	11.30%
Agrochemical Intermediates	1.0	1.5	2.3	8.90%
Pigment Intermediates	0.3	0.5	0.8	9.20%
Others	0.2	0.4	0.6	6.40%
<b>Total</b>	<b>4.0</b>	<b>6.6</b>	<b>10.8</b>	<b>10.4%</b>

Source: Industry, PL

## Diketene and Diketene Derivatives Market



Source: Industry, PL



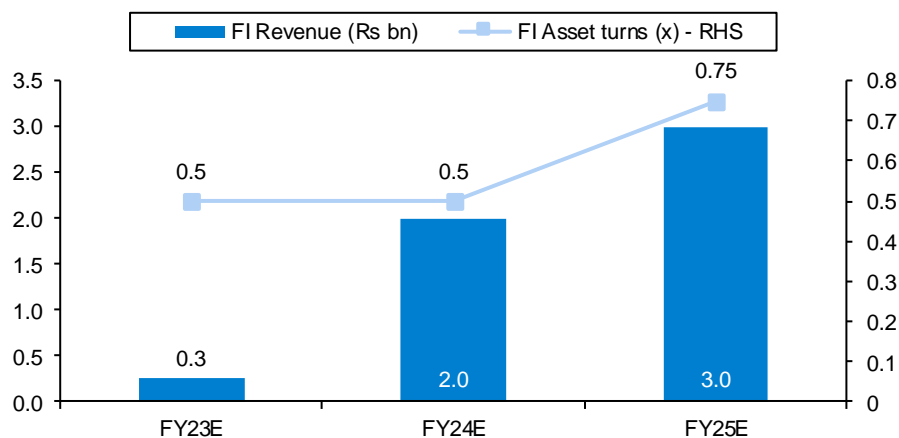
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**Fluorochemicals (FI) to be a long term earnings driver**

# Diversifying into fluorochemicals through acquisition of Miteni, Italy

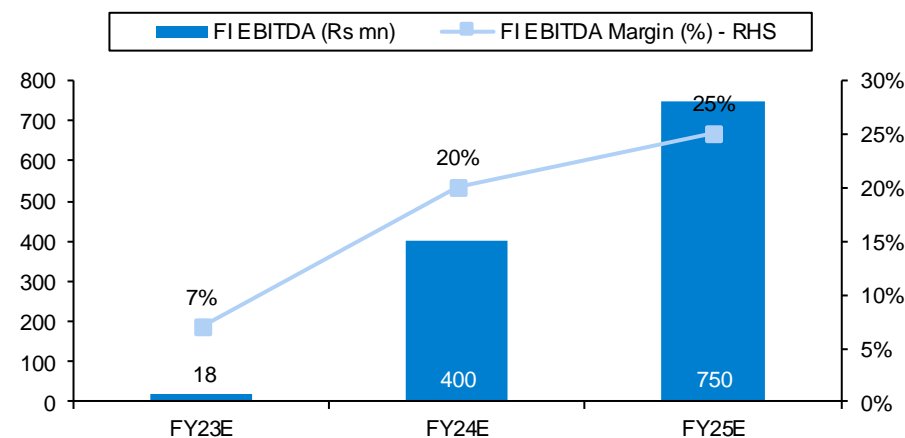
- **Entry into fluorochemicals:** LXCHEM is diversifying into fluorochemicals through acquisition of assets of Miteni, Italy (erstwhile manufacturer of organic fluorospecialties and electrochemical fluorination), to be relocated to its new manufacturing facility at Lote Parshuram, Maharashtra.
- **Access to technology, equipments and patents:** Miteni acquisition gives access to technology, equipments and a library of >100 products including products in R&D and scale-up stages with 14 patents, 41 REACH registrations, formulations, production and R&D data.
- **Strategy to regain Miteni's market share:** LXCHEM's strategy is to leverage existing customer relationships in agrochemicals, pharma, dyes & pigments, cosmetics, flavours and fragrances for its fluorochemicals market entry and to capture Miteni's market share utilizing its chemistries and past customer base.
- **Thrust on R&D:** R&D kilo lab in India has commenced with several trial runs completed and samples for 8-10 products approved by customers.
- **De-risk its current dependence on highly volatile raw materials:** The local availability of raw materials (including chlorine and hydrofluoric acid) helps to de-risk its current dependence on highly volatile raw materials, especially acetic acid and ethanol and associated high foreign currency exposure (imports).
- **Project under implementation, to commence in H2FY23:** Civil and structural work is close to completion at its new site at Lote Parshuram, Maharashtra, while technology transfer from Italy progresses well (aided by R&D and Kilo lab facility). Till FY22, total spend was Rs 2.05 bn.

## Fluorochemicals revenue ramp up to be gradual



Source: Company, PL

## EBITDA margin to be inline with Indian fluorochemicals peer group

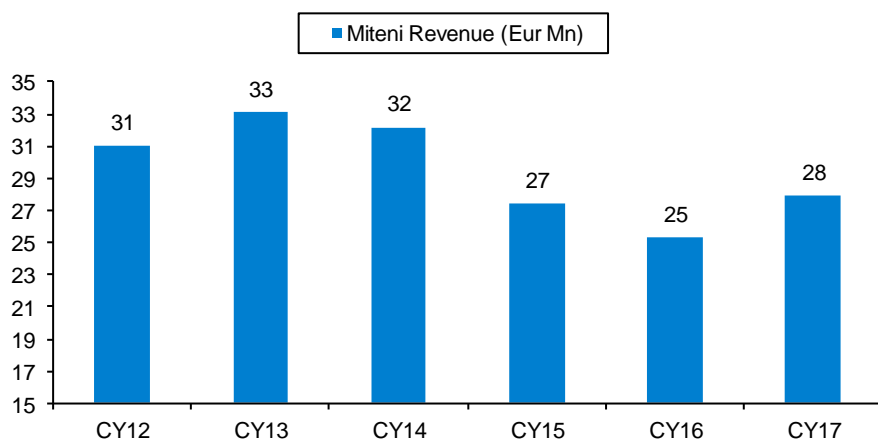


Source: Company, PL

# Miteni's history and the way forward for LXCHEM

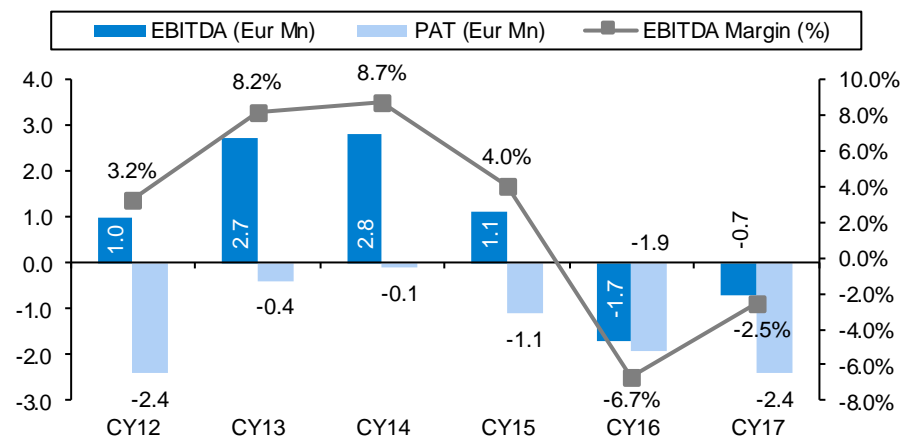
- **Steady revenue and contribution margin:** Miteni generated revenue of over Eur25mn/ year and >30% contribution margin prior to bankruptcy which was due to (1) high environmental litigation cost and (2) high manpower cost.
- **Background:** Miteni was controlled by the International Chemical Investors Group (ICIG), which acquired it from Japanese Mitsubishi Corp. in 2009. The company was originally Rimar Chimica (R&D arm of Marzotto Textile Group which later expanded to electrochemical fluorination) and was acquired jointly by Mitsubishi (49%) and an Italian company Enichem (51%) then renamed Miteni. In 1996, Mitsubishi acquired Enichem's 51% stake and got complete control.
- **Environment litigation and bankruptcy:** Miteni shut down and an Italian court declared it bankrupt in 2018. In 2013, the Italian government's National Research Council produced a study implicating Miteni in large-scale water pollution and water contamination across the Veneto Region in northeast Italy (large quantities of Per and Polyfluoroalkyl Substances (PFAS) leaking into water sources around the chemical manufacturing plant, contaminating drinking water).
- **Returns only over long term:** While LXCHEM acquired the technical knowhow to make fluorochemicals through Miteni's acquisition, commercial success is likely to be achieved only over long term, as establishing itself and re-establishing Miteni's lost market share (non-operational for >4 years) may be a tall task. Fluorochemicals involves developing strong understanding of customers production processes, alignment with customers supply chains and long approval cycles. While fluorine based organic and inorganic chemical products are gaining traction in the Indian market, it continues to remain highly competitive with presence of established players like SRF, Navin Fluorine and GFL.

Miteni generated over Eur25mn/ year prior to bankruptcy



Source: Bloomberg, PL

Higher environment related overheads led to losses



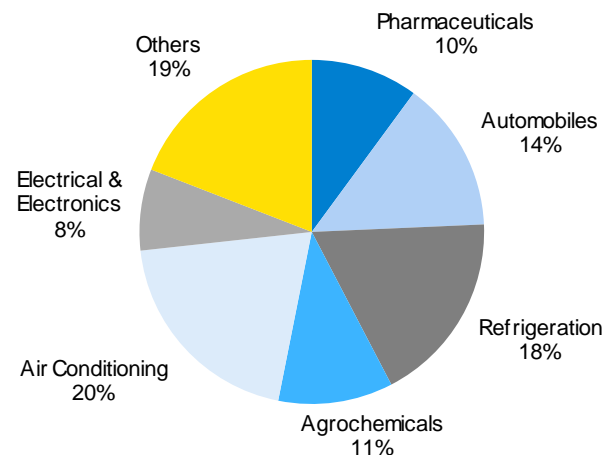
Source: Bloomberg, PL



# Fluorine derivatives find extensive usage in high growth applications

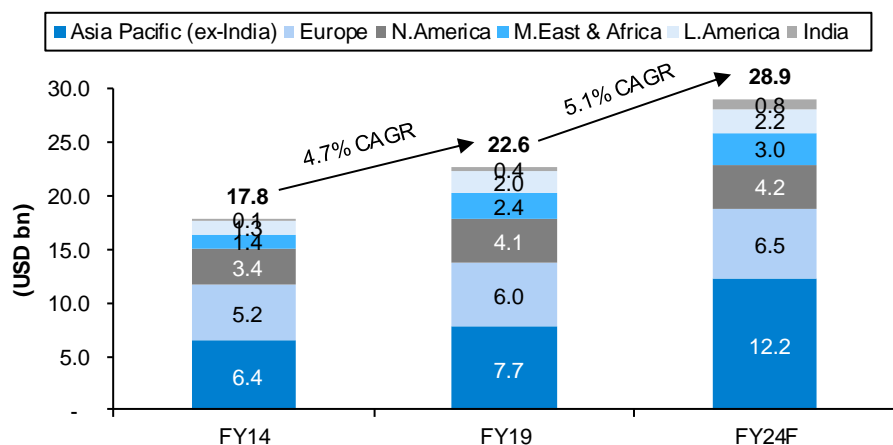
- **Fluorine derivatives find extensive use in multiple applications** like agrochemicals, pharma, electronics, textile, paints and coatings and are a strong local play in terms of raw materials (AHF and Chlorine) and markets (Pharmaceuticals and Agrochemicals).
- **Fluorine chemistry gaining traction:** As per industry reports, ~20% of pharmaceuticals contain a fluorine atom and ~50% of agrochemical molecules developed recently also contain fluorine. In future, 1 in every 3 new APIs will be based on fluorine chemistry and thus fluorine based organic and inorganic chemicals are gaining traction in the Indian market.
- **Fluorine based intermediates are expected to grow fastest (>15%)** LXCHEM's presence in intermediates augurs well, as India is moving towards in-house manufacturing of many actives and intermediates, substituting imports from China.

## Global Fluorochemicals market opportunity (by applications)



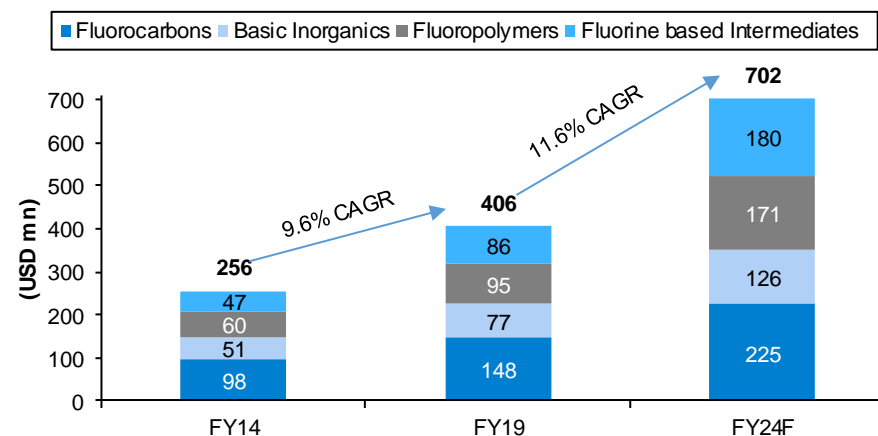
Source: Industry, PL

## Global Fluorochemicals market (by geography)



Source: Industry, PL

## Indian Fluorochemicals market (by type)



Source: Industry, PL

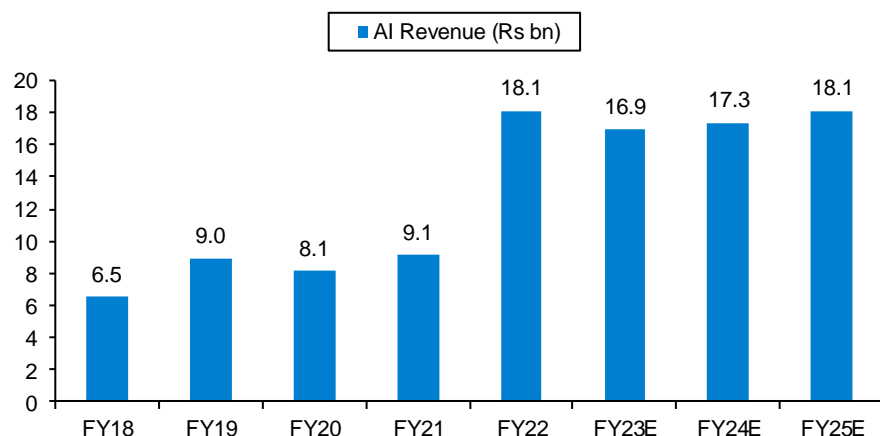
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**Acetyl Intermediates (AI) business is a cash cow**

# LXCHEM is the largest Indian player in Ethyl Acetate and top 6 globally

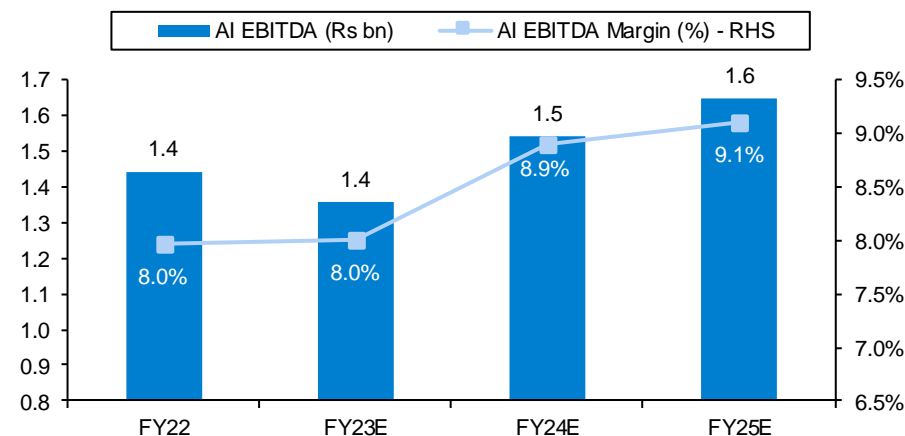
- **Ethyl Acetate (ETAC) is the largest revenue contributor to AI segment:** LXCHEM's AI segment comprises of 13 products including ETAC, acetaldehyde and fuel-grade ethanol, while ETAC is largest contributor to revenue (>80% of AI). ETAC, a highly versatile solvent with applications across multiple high growth industries like pharma, agro-chemicals, flexible packaging, auto coatings and printing inks, is estimated to grow at ~3.9% CAGR over 2021-31.
- **LXCHEM is amongst the largest Indian manufacturers and exporters of ETAC:** LXCHEM's domestic ETAC market share stands enhanced (>33%) with completion of YCPL acquisition adding 29k mtpa and debottlenecking adding 32k mtpa, taking total ETAC capacity to 188k mtpa (total AI capacity to 232k mtpa). Its also the largest exporter of ETAC from India and among largest exporters to Europe since 2012 (only Indian company with direct presence in Europe).
- **Strategically located manufacturing facilities and supply chain efficiencies:** Its manufacturing facilities are in proximity to several ports including Nhava Sheva and Mumbai Port, ensuring ready port access, given its high raw material import dependence (especially acetic acid).
- **Distillery operations provide effective control over raw materials and reduce external dependence for ethanol:** It's two in-house distilleries in Satara and Kolhapur support both ethyl acetate and ethanol for oil blending businesses, acting as feeder plants to both AI and SI businesses.
- **AI is a cash cow for LXCHEM, whereby it can leverage infrastructure and scale for cost synergies:** This vertical involves high volume, low value/ margin products, whereby LXCHEM's strategy is to maintain/gradually increase market share (low capex). We expect revenue to remain flat over FY22-25E despite increase in volume as product prices normalise, while EBITDA growth to be ~5% CAGR over FY22-25E. While the company doesn't disclose segment wise profitability separately, these estimates are as per our best judgement and workings.

## FY22-25E revenue growth to be flat despite healthy volume growth



Source: Company, PL

## 6% EBITDA CAGR (FY22-25E); % margin normalization on lower realizations



Source: Company, PL

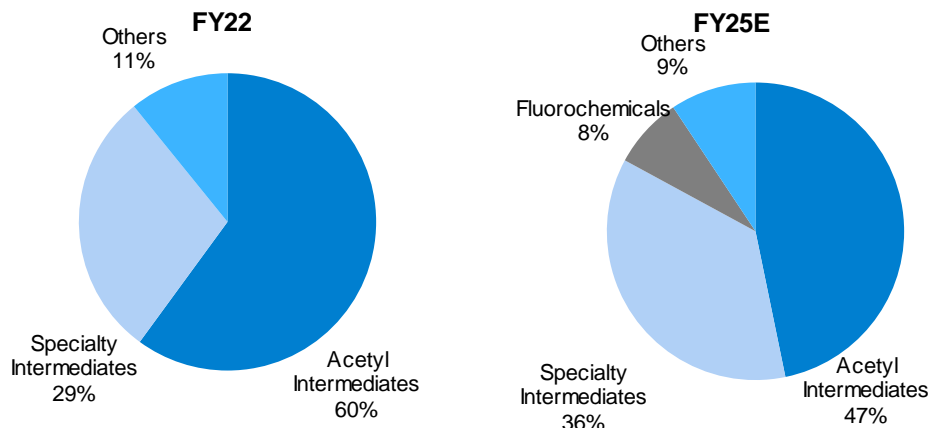
Segment wise EBITDA as per our assumptions (not reported by company)

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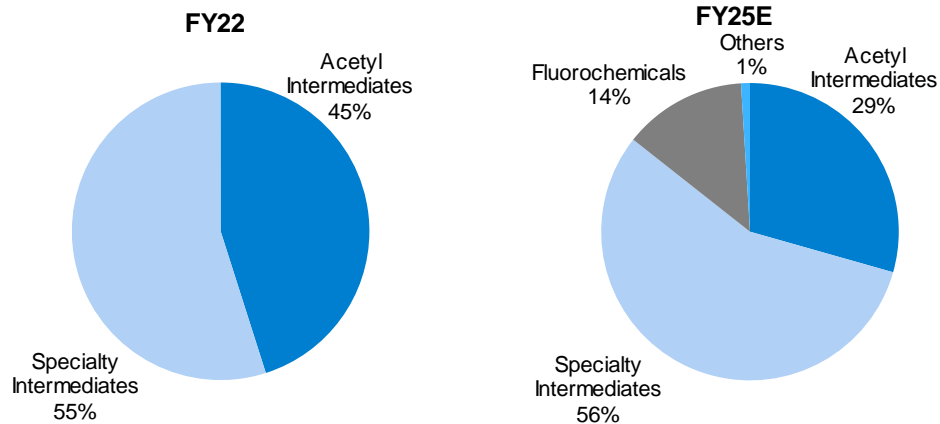
**Financials**  
**Outlook & Valuation**  
**Key Risks**

# Rising contribution of higher value business to reduce earnings volatility

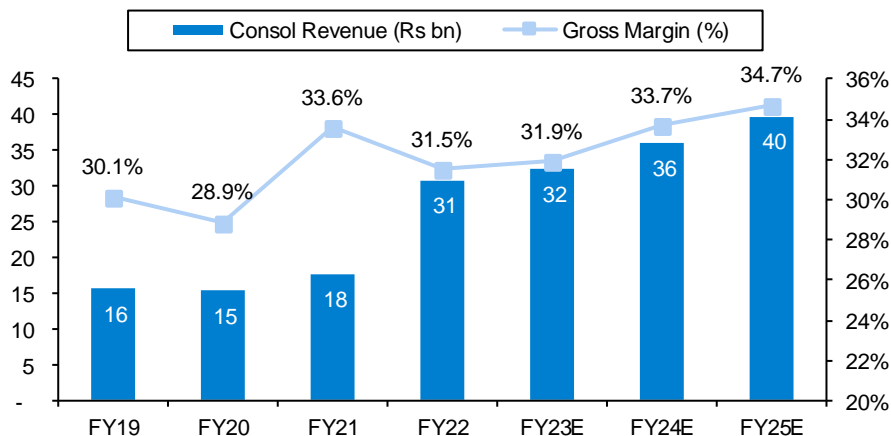
High value business (SI+FI) revenue contribution to rise to 44% by FY25E



High value business (SI+FI) EBITDA contribution to rise to 70% by FY25E

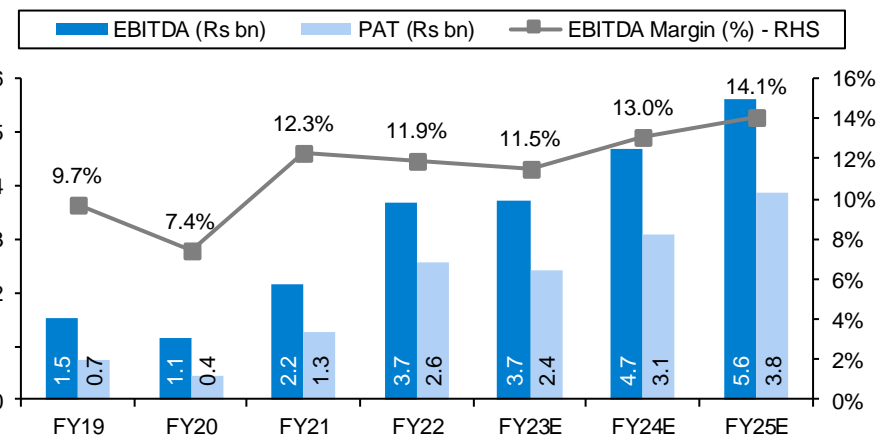


9% revenue CAGR (FY22-25E) despite flat AI rev; GM to improve steadily



SI revenue to grow at 17% CAGR (FY22-25E) and FI to add Rs 3bn to revenue in FY25E, while AI revenue remains flat over FY22-25E despite increase in volume, (as product prices normalize from elevated base of FY22). Rising contribution of high value business (SI+FI) to aid steady gross margin improvement.

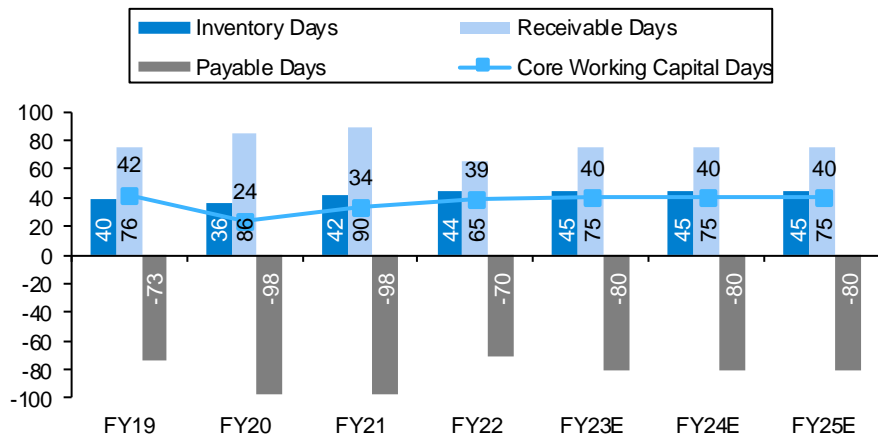
Gradual improvement in overall margin profile with lower AI concentration



SI EBITDA to grow at ~22% CAGR (FY22-25E) and FI to add ~Rs0.8bn in FY25, while AI witnesses moderate 5% EBITDA CAGR aided by higher volume. Higher share of higher value businesses (SI+FI) to aid reduced earnings volatility while LXCHEM registers PAT growth of 14% CAGR (FY22-25E).

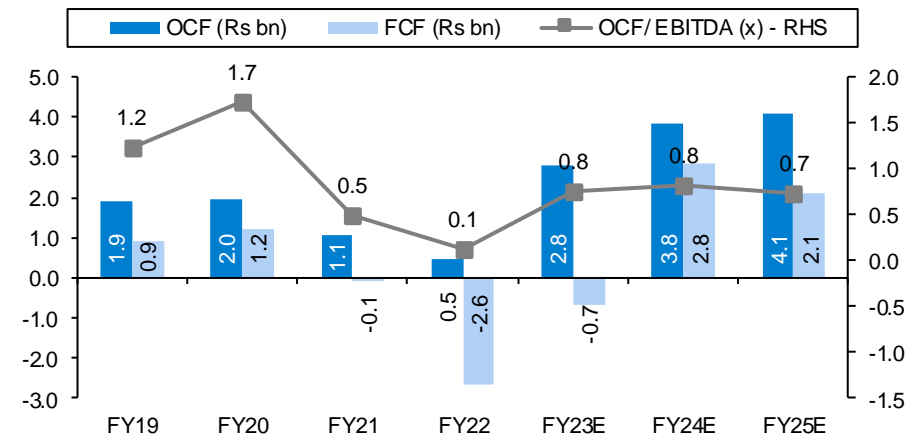
# Strong cash flow aided by healthy profitability; return ratios to improve

## Stable working capital days



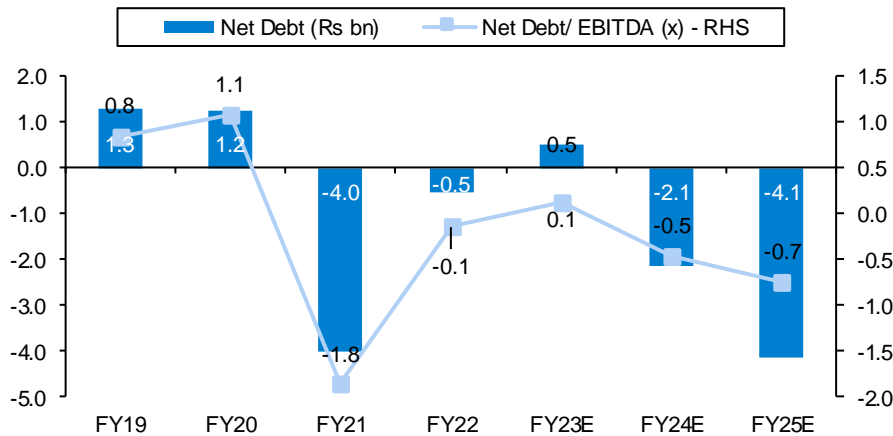
Source: Company, PL

## Strong OCF generation (~Rs 11 bn over FY23-25E) to aid capex



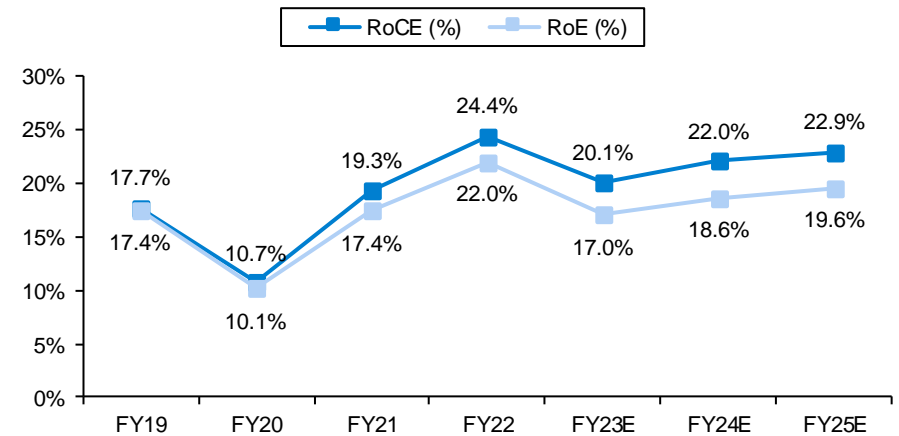
Source: Company, PL

## Debt metrics comfortable despite ~Rs 10 bn capex over FY22-25E



Source: Company, PL

## Steady return ratios (cyclical high in FY22 led by AI business)



Source: Company, PL

# Valuation - SOTP

We value LXCHEM on SoTP basis, given the difference in business dynamics and growth prospects of its three business segments, and initiate coverage with 'HOLD' rating at target price of Rs335 (implied consol Sep'24E EV/EBITDA of 17x and PE of 25x)

- **Specialty Intermediates (SI):** We value LXCHEM's SI business at 22x 1-year forward EV/EBITDA (~10% discount to domestic specialty chemicals sector average) given presence of Acetic Anhydride (commoditized product – JUBLINGR classifies it under CI segment). LXCHEM's strength in diketene derivatives (~55% market share) coupled with increasing revenue visibility in SI through long-term contracts from global innovators, gives comfort. Ramp up in newer products and higher share from high value sub-segments like esters augur well for operating margins. We expect SI revenue/EBITDA to grow at 17%/22% CAGR (FY22-25E), led by margin accretive value added products.
- **Fluorochemicals (FI):** We value LXCHEM's fluorochemicals business at 18x 1-yr forward EV/EBITDA implying ~50% discount to Navin Fluorine (pure-play on fluorination), as there may be execution risks in ramping a new business area, and may involve challenges in terms of plant commissioning and acceptance/approvals by customers for its products. Cost and time overruns may also impact return profile (expected commissioning in H2FY23). We believe, commercial success is likely to be achieved only over long term as establishing itself and re-establishing Miteni's lost market share (non-operational for >4 years) to be gradual.
- **Acetyl Intermediates (AI):** We value the commoditized Acetyl Intermediates business at 8x 1-yr forward EV/EBITDA, largely in-line with comparable global peers (Celanese, Eastman, Daicel). We expect revenue to remain flat (over FY22-25E) despite increase in volume, as product prices normalize, while EBITDA growth to be ~5% CAGR.

## Laxmi Organic Industries (LXCHEM) - Initiate HOLD with TP Rs 335

SOTP	FY22	FY23E	FY24E	FY25E	CAGR (FY22-25E)
<b>EBITDA (Rs mn)</b>					
Specialty Intermediates	1,754	2,283	2,683	3,147	22%
Fluorochemicals	-	18	400	750	
Acetyl Intermediates	1,441	1,355	1,540	1,645	5%
Subsidiaries & Others	483	64	67	71	
<b>Consolidated EBITDA (Rs mn)</b>	<b>3,677</b>	<b>3,720</b>	<b>4,691</b>	<b>5,613</b>	<b>15%</b>
<b>EV/EBITDA Target Multiple (x)</b>					<b>Sep-24</b>
Specialty Intermediates					22
Fluorochemicals					18
Acetyl Intermediates					8
Subsidiaries & Others					6
<b>Enterprise Value (Rs mn)</b>					<b>Sep-24 Per Share</b>
Specialty Intermediates					63,983 243
Fluorochemicals					10,350 39
Acetyl Intermediates					12,743 48
Subsidiaries & Others					415 2
<b>Enterprise Value (Rs mn)</b>					<b>87,491 332</b>
Less: Net Debt and Investments					824 3
<b>Equity Value / MCap (Rs mn)</b>					<b>88,314 335</b>
<b>Fair Value / Target Price (Rs)</b>					<b>335</b>

Source: PL

# Key Risks

- **Execution risks in Fluorochemicals:** There may be execution risks in ramping up fluorochemicals as its a new product line and may involve challenges in terms of plant commissioning and acceptance/approvals by customers for its products. Further cost and time overruns may also impact return profile.
- **Raw material concentration risk:** Acetic acid, a common raw material for AI & SI business has witnessed significant volatility in prices historically. Further, availability and pricing of ethanol may also impact margin. LXCHEM typically does not enter into long-term contracts with suppliers, thus may witness earnings impact. Despite covering purchases to an extent, its still exposed and has to absorb fluctuations in the RM prices (if any), which may adversely impact margins, though SI acts as a partial buffer for AI.
- **Geographic concentration of all manufacturing facilities:** All of its plants (including CPP housed in AI plant) are located in Mahad, Maharashtra. Further, it is also in the process to set up fluorospecialty chemicals facility in Lote Parshuram, Maharashtra. It also has two distilleries located in Maharashtra.
- **Handling of hazardous chemicals:** Some raw materials (eg. acetic acid) and finished products (eg. acetic anhydride) are corrosive and flammable and require expert handling and storage.
- **Foreign exchange risks:** Financial losses due to unfavorable movement in any currency, especially Europe, North America and Asia.



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## Appendix

# Key management personnel and board of directors

- LAXMI has a strong and well experienced Board, supported by functional heads and key managerial personnel who actively participate in strategies, operations and business development. The company's promoter, Ravi Goenka, who is also its Chairman and Managing Director, has extensive experience in chemicals industry and has played a significant role in development of the business.
- Company's key managerial personnel are experienced across various functions such as finance, legal and secretarial and business development, while its Independent Directors are experienced and qualified professionals from varied fields such as the securities market, banking and human resources.

## Board of Directors

Board members	Designations
Ravi Goenka	Chairman and Managing Director
Satej Nabar	Executive Director and CEO
Harshvardhan Goenka	Executive Director - Strategy and Business Development
Rajeev Goenka	Non-Executive Director
Manish Chokhani	Independent Director
O.V. Bundellu	Independent Director
Sangeeta Singh	Independent Director
Dr. Rajeev Vaidya	Independent Director
Dr. Rajiv Banavali	Independent Director

Source: Company, PL

## Key Managerial Personnel

Members	Designation
Ravi Goenka	Chairman and Managing Director
Satej Nabar	Executive Director and CEO
Harshvardhan Goenka	Executive Director - Strategy and Business Development
Partha Roy Chowdhury^	President Corporate and CFO
Tanushree Bagrodia^	CFO
Aniket Hirpara	Company Secretary & VP

Source: Company, PL

## 5 out of 6 key committees led by independent directors

Audit Committee	CSR Committee	Stakeholders Relationship Committee	Nomination and Remuneration Committee	Risk Management Committee	Finance Committee
<u>O.V. Bundellu*</u>	Ravi Goenka*	<u>Manish Chokhani*</u>	<u>Sangeeta Singh*</u>	<u>Dr. Rajeev Vaidya*</u>	<u>O.V. Bundellu*</u>
<u>Sangeeta Singh</u>	<u>Sangeeta Singh</u>	Ravi Goenka	<u>Manish Chokhani</u>	Satej Nabar	Ravi Goenka
Ravi Goenka	Rajeev Goenka	Harshvardhan Goenka	<u>Dr. Rajeev Vaidya</u>	Harshvardhan Goenka	Satej Nabar
				<u>Dr. Rajiv Banavali</u>	

Source: Company, PL \*Chairperson of the Committee, Underlined personnel are independent members

# Income Statement & Balance Sheet

Y/e Mar	FY22	FY23E	FY24E	FY25E	Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>30,842</b>	<b>32,353</b>	<b>36,003</b>	<b>39,822</b>	<b>Non-Current Assets</b>				
YoY gr. (%)	74.4	4.9	11.3	10.6					
Cost of Goods Sold	21,125	22,037	23,879	25,997	<b>Gross Block</b>	<b>6,294</b>	<b>12,532</b>	<b>13,532</b>	<b>15,532</b>
Gross Profit	9,717	10,316	12,124	13,825	Tangibles	6,269	12,507	13,507	15,507
Margin (%)	31.5	31.9	33.7	34.7	Intangibles	26	26	26	26
Employee Cost	1,244	1,394	1,645	1,809	<b>Acc: Dep / Amortization</b>	<b>2,383</b>	<b>3,026</b>	<b>3,940</b>	<b>5,033</b>
Other Expenses	4,796	5,202	5,789	6,403	Tangibles	2,365	3,008	3,922	5,015
					Intangibles	18	18	18	18
<b>EBITDA</b>	<b>3,677</b>	<b>3,720</b>	<b>4,691</b>	<b>5,613</b>	<b>Net fixed assets</b>	<b>3,911</b>	<b>9,506</b>	<b>9,592</b>	<b>10,500</b>
YoY gr. (%)	69.7	1.2	26.1	19.7	Tangibles	3,903	9,499	9,584	10,492
Margin (%)	11.9	11.5	13.0	14.1	Intangibles	8	8	8	8
Depreciation and Amortization	493	642	915	1,092	Capital Work In Progress	3,738	1,000	1,000	1,000
					Goodwill	33	33	33	33
<b>EBIT</b>	<b>3,184</b>	<b>3,078</b>	<b>3,776</b>	<b>4,521</b>	Non-Current Investments	178	178	178	178
Margin (%)	10.3	9.5	10.5	11.4	Net Deferred tax assets	(215)	(215)	(215)	(215)
Net Interest	154	141	69	9	Other Non-Current Assets	63	63	63	63
Other Income	149	60	149	298					
					<b>Current Assets</b>				
<b>Profit Before Tax</b>	<b>3,179</b>	<b>2,996</b>	<b>3,855</b>	<b>4,810</b>	Investments	40	40	40	40
Margin (%)	10.3	9.3	10.7	12.1	Inventories	3,736	3,989	4,439	4,910
Total Tax	614	599	771	962	Trade receivables	6,684	6,648	7,398	8,183
Effective tax rate (%)	19.3	20.0	20.0	20.0	Cash & Bank Balance	1,822	616	2,169	4,172
					Other Current Assets	768	806	395	436
<b>Profit after tax</b>	<b>2,565</b>	<b>2,397</b>	<b>3,084</b>	<b>3,848</b>	<b>Total Assets</b>	<b>22,675</b>	<b>24,663</b>	<b>27,288</b>	<b>31,704</b>
Minority interest	1	-	-	-					
Share Profit from Associate	-	-	-	-	<b>Equity</b>				
					Equity Share Capital	527	527	527	527
<b>Adjusted PAT</b>	<b>2,564</b>	<b>2,397</b>	<b>3,084</b>	<b>3,848</b>	Other Equity	12,479	14,637	17,412	20,875
YoY gr. (%)	101.8	(6.5)	28.7	24.7	<b>Total Network</b>	<b>13,007</b>	<b>15,164</b>	<b>17,940</b>	<b>21,403</b>
Margin (%)	8.3	7.4	8.6	9.7					
Extra Ord. Income / (Exp)	-	-	-	-	<b>Non-Current Liabilities</b>				
					Long Term borrowings	99	77	77	77
<b>Reported PAT</b>	<b>2,564</b>	<b>2,397</b>	<b>3,084</b>	<b>3,848</b>	Provisions	37	41	49	54
YoY gr. (%)	101.8	(6.5)	28.7	24.7	Other non current liabilities	44	44	44	44
Margin (%)	8.3	7.4	8.6	9.7					
Other Comprehensive Income	(11)	-	-	-	<b>Current Liabilities</b>				
Total Comprehensive Income	2,553	2,397	3,084	3,848	ST Debt / Current of LT Debt	1,235	1,064	-	-
<b>Equity Shares O/s (m)</b>	<b>264</b>	<b>264</b>	<b>264</b>	<b>264</b>	Trade payables	7,117	7,091	7,891	8,728
<b>EPS (Rs)</b>	<b>9.7</b>	<b>9.1</b>	<b>11.7</b>	<b>14.6</b>	Other current liabilities	894	938	1,044	1,155
					<b>Total Equity &amp; Liabilities</b>	<b>22,675</b>	<b>24,663</b>	<b>27,288</b>	<b>31,704</b>

# Cash Flow & Key Ratios

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	3,178	2,996	3,855	4,810
Add. Depreciation	493	642	915	1,092
Add. Interest	63	141	69	9
Less Financial Other Income	149	60	149	298
Add. Other	212	(60)	(149)	(298)
Op. profit before WC changes	3,946	3,720	4,691	5,613
Net Changes-WC	(2,929)	(331)	(114)	(591)
Direct tax	(561)	(586)	(739)	(928)
<b>Net cash from Op. activities</b>	<b>457</b>	<b>2,803</b>	<b>3,838</b>	<b>4,094</b>
Capital expenditures	(3,083)	(3,500)	(1,000)	(2,000)
Interest / Dividend Income	114	60	149	298
Others	3,707	992	-	-
<b>Net Cash from Invst. activities</b>	<b>738</b>	<b>(2,448)</b>	<b>(851)</b>	<b>(1,702)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(1,033)	(193)	(1,064)	-
Dividend paid	(132)	(240)	(308)	(385)
Interest paid	(48)	(141)	(69)	(9)
Others	(29)	4	7	5
<b>Net cash from Fin. activities</b>	<b>(1,242)</b>	<b>(569)</b>	<b>(1,434)</b>	<b>(389)</b>
<b>Net change in cash</b>	<b>(47)</b>	<b>(214)</b>	<b>1,553</b>	<b>2,003</b>
Free Cash Flow	(2,635)	(697)	2,838	2,094

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	9.7	9.1	11.7	14.6
CEPS	11.6	11.5	15.2	18.7
BVPS	49.3	57.5	68.0	81.2
FCF	(10.0)	(2.6)	10.8	7.9
DPS	0.5	0.9	1.2	1.5
<b>Return Ratio(%)</b>				
RoCE	24.4	20.1	22.0	22.9
ROIC	27.3	17.5	19.2	21.9
RoE	22.0	17.0	18.6	19.6
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.0	0.0	(0.1)	(0.2)
Net Working Capital (Days)	39	40	40	40
<b>Valuation(x)</b>				
PER	33.8	36.2	28.1	22.5
P/B	6.7	5.7	4.8	4.0
P/CEPS	28.4	28.5	21.7	17.5
EV/EBITDA	23.4	23.4	18.0	14.7
EV/Sales	2.8	2.7	2.3	2.1
Dividend Yield (%)	0.2	0.3	0.4	0.4



# Disclaimer

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## PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	:	<b>&gt; 15%</b>
<b>Accumulate</b>	:	<b>5% to 15%</b>
<b>Hold</b>	:	<b>+5% to -5%</b>
<b>Reduce</b>	:	<b>-5% to -15%</b>
<b>Sell</b>	:	<b>&lt; -15%</b>
<b>Not Rated (NR)</b>	:	<b>No specific call on the stock</b>
<b>Under Review (UR)</b>	:	<b>Rating likely to change shortly</b>

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We/I, Mr. Nitesh Dhoot- B.Com (Hons), MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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