

Laxmi Organics Industries

Rating: **Subscribe** | Price Band: **Rs129-130**

March 15, 2021

IPO Note

IPO Fact Sheet

Opening Date	March 15, 2021
Closing Date	March 17, 2021
BRLMs	AXIS Capital, DAM Securities
Issue Price	Rs 129-130
Issue Size	Rs 6bn*
Face value	Rs2
Bid lot	115 shares

Issue Details

Pre-issue equity shares (Mn)	240.6
Post-issue equity shares*	263.6
Post-issue Market Cap (Rs Mn)#	3,404
Post-issue Market Cap (Rs Mn)*	3,428

* Upper Band / # Lower Band

Object of the Issue

Fresh Issue- To fund Capex requirements and repayment of loans

Shareholding Pattern

(%)	Pre-Issue	Post-Issue
Promoters	89.5%	72.9%
Public & Others	10.5%	27.1%

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Impressive growth plans

We recommend Subscribe on Laxmi Organic's IPO with a long term perspective given its striking growth plans led by 1) scheduled new acquisitions, 2) expansion of core business, 3) entry in high margin fluoro chemistry segments and 4) long term contracts for speciality intermediates. Company is India's largest manufacturer of ethyl acetate with 30% market share. It is the sole manufacturer of diketene derivatives in India with 55% market share. While growth has been muted in FY20 due to floods and low production along with weak spreads, we expect it to improve as new capacities and business segment come on stream in FY22/23E. On an annualized H1FY21 numbers, the stock is valued at PER of ~38x FY21 which is not expensive given the earnings driver once capacities get commissioned.

Key Investment Points

- Laxmi Organics is a leading manufacturer of Acetyl Intermediates (AI) and Speciality Intermediates (SI) with almost three decades of experience.
- The products find application in varied high-growth industries including pharmaceuticals, agrochemicals, dyes & pigments, inks & coatings, paints, printing & packaging, flavours & fragrances, adhesives etc.
- The company has total capacity of ~240kmt. It is expanding capacity of AI by 39.7kmt through inorganic route to 201kmt. It is also augmenting capacity of SI business by 4.5kmt to 82.5kmt.
- It has also entered in long term contracts for speciality products, which would drive revenues and profits in medium term
- The company acquired assets and patents of Miteni Italy, a manufacturer of organic fluorospecialties and electrochemical fluorination. This plant with capacity of 13,820MT would be commissioned by Mar 22.
- Revenue growth over FY18-20 was at 5% CAGR as FY20 results were hit by 15% lower production due to floods and lower spreads. FY20 PAT declined to Rs445m, however, reported PAT of Rs702m got a boost from customs and electricity duty refund.
- In H1FY21, EBIDTA was at Rs854m and PAT was at Rs454m. The company plans to house fluorochemicals and acquisition in AI through wholly owned subsidiary to avail tax benefits.

Investment Thesis

Well established player in acetyl and speciality intermediates

- Laxmi Organics is a well-established player in Indian ethyl acetate market with 30% market share and is the only manufacturer of diketene derivatives in India having 55% market share.
- It has long standing relationship with marquee names like Syngenta, UPL, Mylan, Dr Reddys Laboratories, Huhtamaki, Lauras Labs etc.
- Company plans to add capacities in each segment i.e. AI and SI by 39,700MT (~25% addition) and 4,480MT (~6% addition) respectively.
- Its AI is a low margin, low working capital and high ROCE business while SI is a higher margin and high growth business.
- The AI business accounts for ~60% of FY20 revenues and only 40% of operating profits. Long term contract in the SI business will add to earnings visibility.
- The products find usage in downstream industries like pharmaceuticals, agrochemicals, packaging, printing inks etc.

Strategic foray into fluorochemicals can pay rich dividends

- Laxmi organics has recently taken over the assets and patents of Miteni Italy, a manufacturer of organic fluorospecialties and electrochemical fluorination.
- Local availability of raw materials will provide cost advantage, while existing relationship with customers to provide market access.

Experienced top management

Ravi Goenka is the Promoter, Chairman and Managing Director of the company. He has approximately 30 years of experience in the chemicals and paper industries, 16 years of experience in the education industry and 21 years in the power industry.

Mr Satej Nabar, the CEO, has over 30 years' experience in the chemical industry with prior stints at Atul Ltd, Styrolution ABS, BASF etc. He is associated with the company since April 2020.

About the Company

Laxmi Organic Industries is a speciality chemical manufacturer, focused on two key business segments; AI and SI. Since its inception, the company has maintained a constant focus on innovation, creativity and speed which enabled it to meet with new challenges and service new opportunities across the world.

Exhibit 1: Key Products

Acetyl intermediates Ethyl acetate, acetaldehyde, fuel-grade ethanol and other proprietary solvents

Specialty intermediates Ketene, diketene derivatives namely esters, acetic anhydride, amides, arylides and other chemicals.

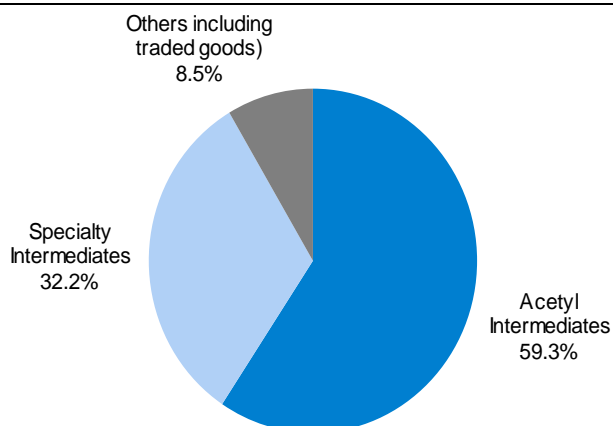
Source: Company, PL

Business verticals

The Acetyl Intermediates include ethyl acetate, acetaldehyde, fuel-grade ethanol and other proprietary solvents.

The Specialty Intermediates include ketene, diketene derivatives namely esters, acetic anhydride, amides, arylides and other chemicals.

Exhibit 2: FY20 standalone revenue breakup of Rs13.5bn



Source: Company, PL

The products find application in various high-growth industries, including pharmaceuticals, agrochemicals, dyes & pigments, inks & coatings, paints, printing & packaging, flavours & fragrances, adhesives and other industrial applications.

The company plans to diversify into manufacturing of specialty fluorochemicals and has recently acquired assets including plant & machinery, design and operating paperwork, REACH registrations and patents of Miteni, an Italian manufacturer of organic fluorospecialties and electrochemical fluorination.

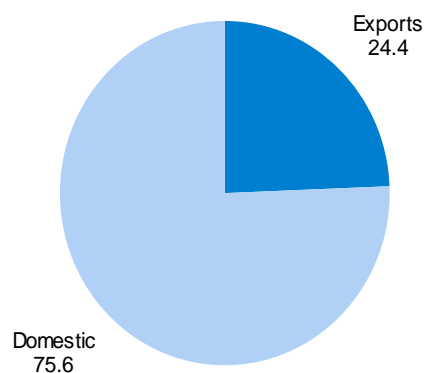
Manufacturing facilities

Exhibit 3: Two manufacturing facilities at Mahad

Business segment	FY20 Capacity (TPA)	Utilisation (FY20)
Acetyl intermediates	161,320	83.57%
Specialty intermediates	78,045	60.14%

Source: Company, PL

Exhibit 4: Geographical Breakup of FY20 revenues (%)



Source: Company, PL

- Diversified and stable customer base:** Laxmi has diversified customer base for its B2B business. Top 10 customers account for ~27% of H1FY21 revenues. Syngenta Asia Pacific Pte Ltd, UPL, Lauras Labs, Dr Reddy, Granules etc. are some of the top clients.

Industry Snapshot

The global Ethyl Acetate market is expected to grow at a CAGR of more than 4.5% over the next decade in terms of volume i.e. to ~5 MMT by CY24F vs ~4MMT in CY19, led by demand from APAC region. China is the largest product exporter, with EU and NE Asia being key importing regions.

Indian Acetyl market is projected to grow at 6.6% growth rate over next five years owing to the demand from end use applications. The Acetyl market is valued at USD 1.5bn in CY19 which is expected to reach USD 2.1bn by the end of year 2024. The India Acetyl market has ~70% market share concentrated in 5 applications viz. flexible packaging, pharmaceuticals, printing inks, CASE (coatings, adhesives, sealants and elastomers) and agrochemicals industry.

India imports 1/4th of its Acetyl demand producing almost 75% Acetyls locally. India Acetyls market demand was 0.73 MMT in 2019 and is projected to grow at ~4.4% CAGR to more than ~0.9 MMT by the end of 2024.

Diketene market dynamics

The global market for diketene derivatives was estimated to be around USD 1-1.2 bn for the year 2019 and the volume expected to grow to 0.5-0.55 MMT by 2024 growing at a CAGR of ~4%. The market in India was valued at USD150-170mn and is expected to reach ~USD200mn by 2024F; about 40% of this demand is catered to by imports.

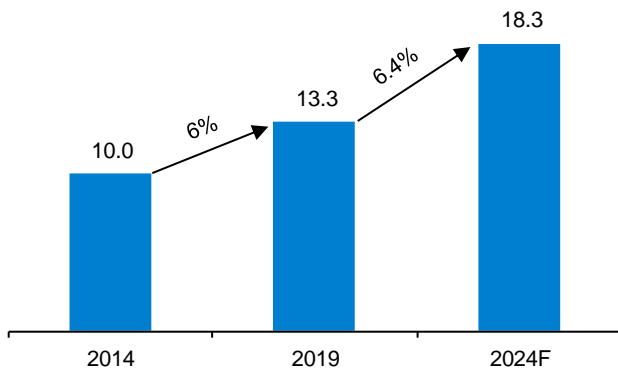
Flurochemcials market dynamics

Flurochemicals are chemicals containing fluorine as an element and are one of the most critical classes of chemicals that are used across applications. The global market for Fluorospar stood at ~5.5-5.8 MMT and is expected to grow at 2.8-3% CAGR to reach ~7 MMT by CY27. Accordingly, the global flurochemicals market is expected to reach USD28.8bn by CY24 vs USD22.5bn in CY19.

The rising requirement for refrigeration across various industries is a significant driver boosting growth of fluorochemicals market. The Indian flurochemcials market is expected to reach USD702m by CY24 vs USD405m in CY19.

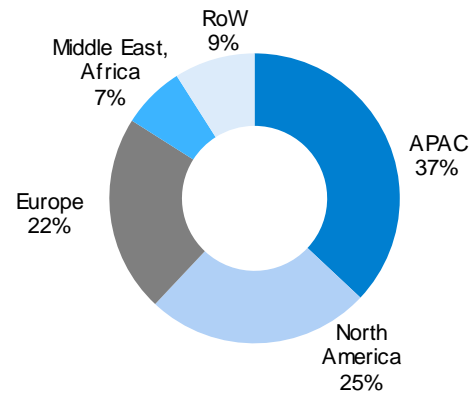
Story in Charts

Exhibit 1: Global acetyl market (\$ bn)



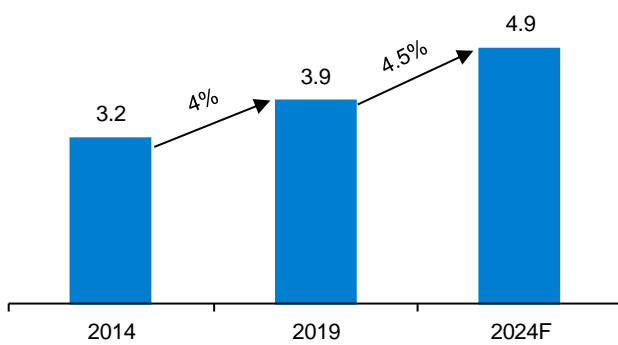
Source: Company, PL

Exhibit 2: Geographical segmentation in CY19 (USD13.4bn)



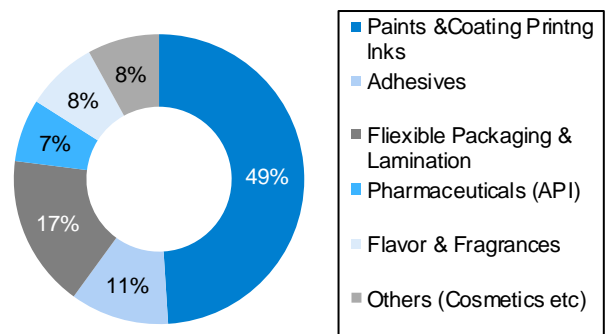
Source: Company, PL

Exhibit 3: Global ETAC market (in MMT)



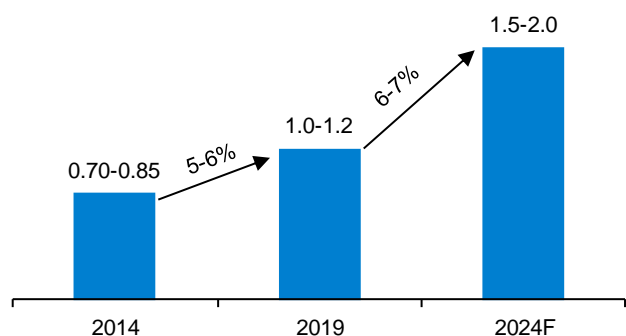
Source: Company, PL

Exhibit 4: End use application in CY19 (3.9MMT)



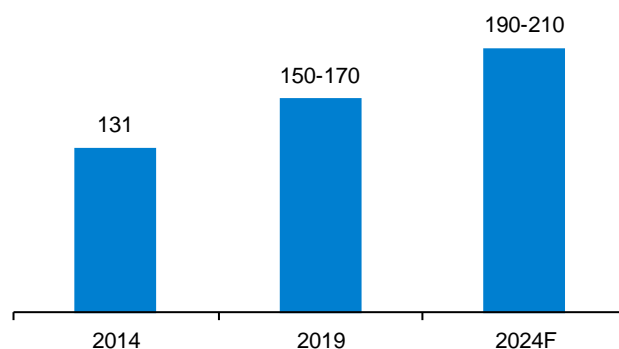
Source: Company, PL

Exhibit 5: Diketene & derivatives market (\$ bn)



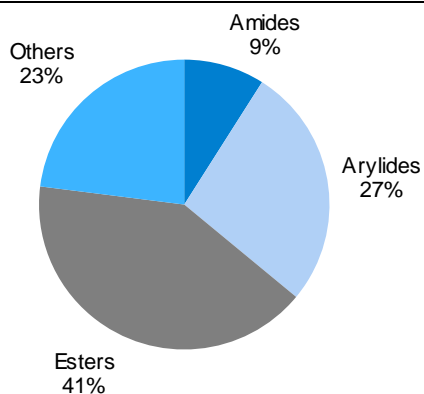
Source: Company, PL

Exhibit 6: Indian diaketene market (\$ mn)



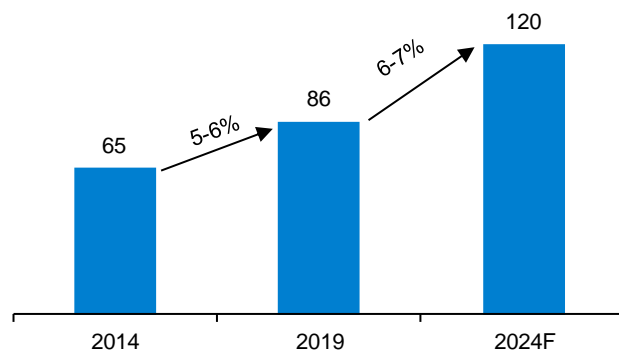
Source: Company, PL

Exhibit 7: Split by type in CY19; USD150-170m



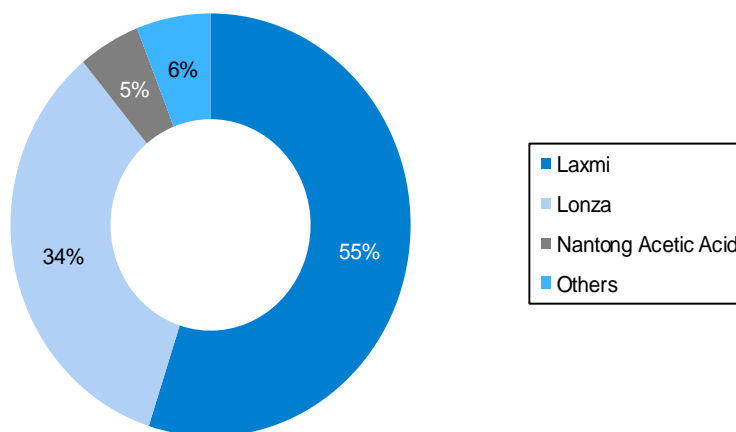
Source: Company, PL

Exhibit 8: Ketene derivatives (\$ mn)



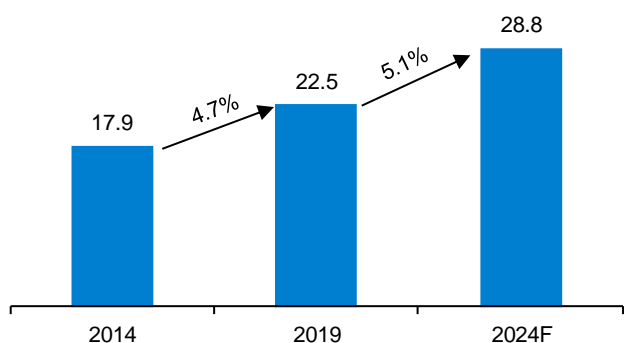
Source: Company, PL

Exhibit 9: Indian diketene market split in CY19 (USD150-170m)



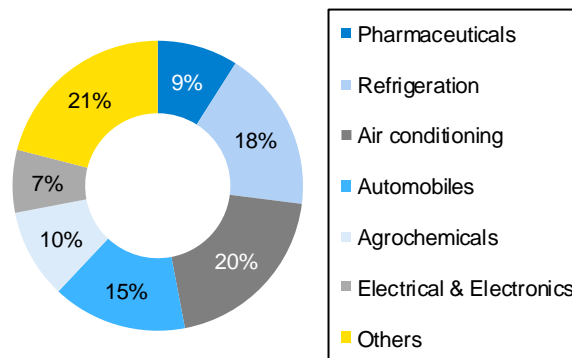
Source: Company, PL

Exhibit 10: Global fluorochem market (\$ bn)



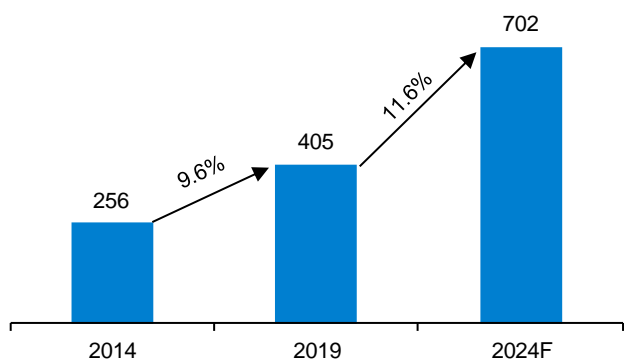
Source: Company, PL

Exhibit 11: Split by application



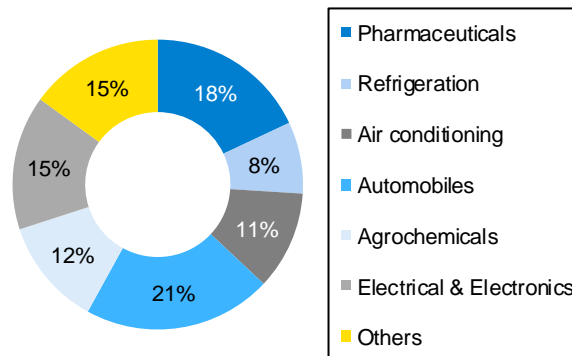
Source: Company, PL

Exhibit 12: Indian fluorochem market (\$ mn)



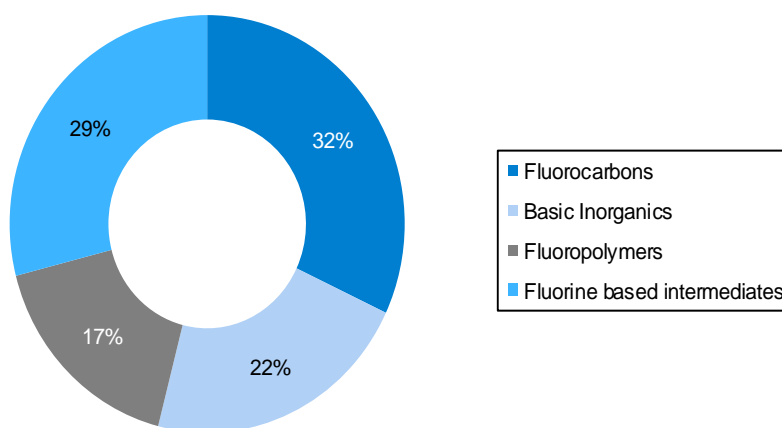
Source: Company, PL

Exhibit 13: Indian fluorochem market split



Source: Company, PL

Exhibit 14: Global fluorochemical split in CY19



Source: Company, PL

Financials

Laxmi organics consolidated revenues grew at 5% CAGR over FY18-20. FY20 operations were impacted due to floods which impacted production by 15%. Weak spreads of ethyl acetate also impacted profitability. Accordingly, FY20 PAT came down to Rs445m in FY20 from Rs724m in FY19. However, reported PAT in FY20 of Rs702m got a boost from electricity duty refund of Rs152m and VAT/CST refund of Rs150m.

In H1FY21, operations have come back on track with revenues of Rs8.1bn and PAT of Rs454m.

Company's D/E for FY20 was at 0.37x and the company plans to pay off debt of Rs2bn from the IPO proceeds.

Exhibit 15: Objects of issue

	Rs m
Investment in YFCPL for setting up of manufacturing facility for flurospeciality chemicals	536
Investment in YFCPL for funding its working capital requirements	377
Funding capital expenditure requirements for expansion of our SI manufacturing facility	819
Funding working capital requirements of the company	352
Purchase of plant and machinery for augmenting infrastructure development at SI manufacturing facility	123
Prepayment or repayment of all or a portion of certain outstanding borrowings	2,059
General corporate purposes	734
Total	5,000

Source: Company; YCPL- Yellowstone Chemicals Pvt Ltd

Financials

Exhibit 16: Consolidated Income Statement (Rs mn)

Y/e Mar	FY17	FY18	FY19	FY20	H1FY21
Net Revenues	10,759	13,755	15,685	15,341	8,134
YoY gr. (%)	2.8	27.9	14.0	-2.2	
Cost of Goods Sold	7,521	9,769	11,064	11,086	5,737
Gross Profit	3,237	3,987	4,621	4,256	2,397
Margin (%)	30.1	29.0	29.5	27.7	
Employee Cost	324	410	539	644	357
Other Expenses	1,706	2,063	2,534	2,446	1,186
EBITDA	1,207	1,513	1,548	1,166	854
YoY gr. (%)	50.1	25.3	2.3	-24.7	
Margin (%)	11.2	11.0	9.9	7.6	10.5
Depreciation and Amortization	280	295	441	489	227
EBIT	928	1,218	1,107	677	627
Margin (%)	8.6	8.9	7.1	4.4	7.7
Net Interest	137	111	189	170	74
Other Income	19	30	58	45	10
Profit Before Tax	810	1,138	976	551	543
Margin (%)	7.5	8.3	6.2	3.6	6.7
Total Tax	104	375	252	106	107
Effective tax rate (%)	12.8	33.0	25.8	19.2	19.7
Profit after tax	706	763	724	445	436
Minority interest				-1	
Share Profit from Associate					
Adjusted PAT	706	763	724	444	436
YoY gr. (%)	165.7	8.0	-5.1	-38.6	
Margin (%)	6.6	5.5	4.6	2.9	
Extra Ord. Income / (Exp)	0	0	0	257	
Reported PAT	706	763	724	701	436
YoY gr. (%)	165.7	8.0	-5.1	-3.2	
Margin (%)	6.6	5.5	4.6	4.6	
Other Comprehensive Income					
Total Comprehensive Income					
Equity Shares O/s (m)	250	250	250	225	225
EPS (Rs)	2.82	3.03	2.89	2.86	2.02

Source: Company, PL

Exhibit 17: Balance Sheet (Rs mn)

Y/e Mar	FY17	FY18	FY19	FY20
Non-Current Assets				
Gross Block	2,296	3,360	4,480	4,884
Tangibles	2,296	3,344	4,466	4,867
Intangibles	0	16	15	17
Acc: Dep / Amortization	276	569	1,024	1,507
Tangibles	276	564	1,019	1,499
Intangibles	0	5	4	9
Net fixed assets	2,020	2,791	3,457	3,377
Tangibles	2,020	2,780	3,446	3,369
Intangibles	0	11	10	8
Capital Work In Progress	481	300	315	675
Goodwill	0	0		
Non-Current Investments	46	72		
Net Deferred tax asset	-86	-159	-171	-120
Other Non-Current Assets	235	251	125	173
Current Assets				
Investments				
Inventories	746	1,458	1,707	1,519
Trade receivables	2,312	3,242	3,262	3,594
Cash & Bank Balance	231	52	467	447
Other Current Assets	296	615	812	910
Total Assets	6,281	8,622	9,974	10,574
Equity				
Equity Share Capital	100	100	500	450
Other Equity	2,948	3,699	3,998	3,819
Total Networth	3,048	3,799	4,498	4,269
Non-Current Liabilities				
Long Term borrowings	422	531	746	902
Provisions	17	18	22	28
Other non current liabilities	5	7	111	87
Current Liabilities				
ST Debt / Current of LT Debt	756	1,620	1,007	687
Trade payables	1,633	2,141	3,156	4,116
Other current liabilities	399	505	434	484
Total Equity & Liabilities	6,281	8,622	9,974	10,574

Source: Company, PL

Exhibit 18: Cash Flow (Rs mn)

Y/e Mar	FY17	FY18	FY19	FY20
PBT	810	1,138	976	551
Add. Depreciation	281	295	441	489
Add. Interest	110	89	170	124
Less Financial Other Income	-14		-16	-33
Add. Other	20	-11	16	-23
Op. profit before WC changes	1,208	1,511	1,586	1,109
Net Changes-WC	377	-1,559	567	1,006
Direct tax	-155	-273	-276	-155
Net cash from Op. activities	1,430	-321	1,877	1,960
Capital expenditures	-312	-885	-975	-771
Interest / Dividend Income	14	9	14	31
Others	-38	44	-237	245
Net Cash from Invt. activities	-364	-850	-1,225	-558
Issue of share cap. / premium	0			
Debt changes	0	0	-158	170
Dividend paid	-12	-12	-15	-18
Interest paid	-115	-90	-159	-114
Others1	-908	1,202	-295	-1,276
Net cash from Fin. activities	-1,036	1,100	-627	-1,238
Net change in cash	30	-71	24	165
Free Cash Flow	1,051	-1,386	756	1,426

Source: Company, PL

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	BUY	1,314	1,159
2	Bharat Petroleum Corporation	BUY	505	455
3	GAIL (India)	Accumulate	139	134
4	Gujarat Gas	BUY	528	380
5	Hindustan Petroleum Corporation	BUY	315	230
6	Indian Oil Corporation	BUY	124	96
7	Indraprastha Gas	BUY	662	557
8	Mahanagar Gas	BUY	1,313	1,129
9	NOCIL	BUY	182	143
10	Oil & Natural Gas Corporation	BUY	125	97
11	Oil India	Accumulate	117	113
12	Petronet LNG	BUY	403	242
13	Reliance Industries	BUY	2,232	2,008

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



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