Adi Finechem

CMP: Rs309; Rating: Buy; M-cap: US$68.2mn; TP: Rs460

- **Brownfield capex to provide healthy volume growth at lower costs**
  - Adi Finechem (AFL) plans to increase its capacity by 80% to 45,000tn at a cost of Rs210mn by December 2014, which is likely to result in a healthy 40.4% volume CAGR over FY14-FY16E as against a 23.3% CAGR over FY11-FY14.
- **Healthy cash flow and return ratios**
  - RoCE is expected to improve by 270bps from 32.8% to 35.5% over FY14-FY16E.
  - Healthy operating cash flow/free cash flow of Rs678mn/ Rs137mn, respectively, likely over FY14-FY17E.
  - D/E ratio likely to fall from 0.6x in FY14 to 0.2x in FY17E.
- **Value addition and lower costs to support margins**
  - AFL started selling an additional product called concentrated sterol, which directly aids EBITDA without incurring significant costs. With a better product mix and reduction in manufacturing costs, operating margin improved 799bps at 21.9% in FY14, which is sustainable.
  - Following lower interest costs and modest capex, net profit is expected to grow 83.8% in FY16E.

Y/E March (Rsmn)	FY12	FY13	FY14	FY15E	FY16E	FY17E
Revenue	972	1,231	1,518	1,748	2,830	3,396
YoY (%)	*69.4*	*26.7*	*23.3*	15.1	61.9	20.0
EBITDA	147	171	333	329	583	699
EBITDA (%)	*15.2*	*13.9*	*21.9*	18.8	20.6	20.6
Adj. PAT	74	84	187	190	349	420
FDEPS (Rs)	5.9	6.7	14.9	13.8	25.3	30.4
YoY (%)	*46.2*	*13.6*	*122*	(7.6)	83.8	20.2
RoE (%)	*35.9*	*30.9*	*47.9*	34.2	43.6	36.1
RoCE (%)	*23.2*	*21.6*	*32.8*	25.1	35.5	31.5
RoIC (%)	*21.1*	*19.7*	*30.4*	23.4	33.4	29.9
P/E (x)	52.2	46.0	20.7	22.4	12.2	10.1
P/BV (x)	16.3	12.6	8.2	6.7	4.4	3.1
EV/EBITDA (x)	27.7	23.6	12.5	13.7	7.7	6.4

Source: Company, Nirmal Bang Institutional Equities Research