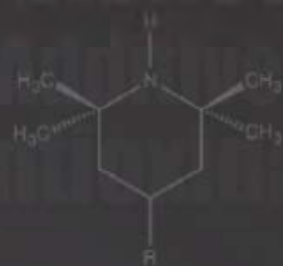
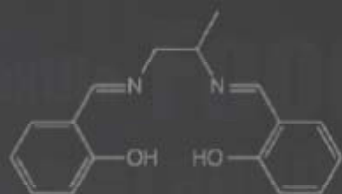


India Specialty Ingredients

Little Things That Matter



Flavours & Fragrances

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India Specialty Ingredients

1 April 2021

Little things that matter

Specialty ingredients are items that are added in very small quantities in various products across the end-user industries and add significant value in terms of the functionalities of the final products. Since there are multiple sub-categories in these additives, it is difficult to accurately estimate the size of this entire opportunity. But, we have elucidated key sub-segments of the specialty ingredients market that are expected to grow at ~5% CAGR globally over the next 5 years. We believe that having created a niche in a particular end-user industry or a type of additive(s), Indian companies can easily grow in mid-teens on a consistent basis considering their size. Also, within the overall ingredients space, the premium ingredients portfolio should grow ahead of the base portfolio. Increasing preference for oleochemicals-based ingredients vis-à-vis petroleum-based products is expected to drive growth for select companies having adequate experience in oleochemicals and R&D expertise. Industry leaders have set up aggressive targets to reduce reliance on fossil fuels and move towards plant-based options. Ingredients companies closely dealing with such companies stand to benefit significantly in our view. We believe that providing integrated solutions as against selling separate ingredients is the way forward for the specialty ingredients industry and there are very few global players who are moving towards this. Indian companies like Fine Organics (FINORG), Rossari Biotech ROSSARI etc have been able to grow on account of this differentiated approach and we believe there is a long runway for growth for such companies. While MNC conglomerates cannot focus on customer-centric approach, even some global ingredients manufacturers will not be able to do that in all geographies. We believe that Indian companies are leveraging this opportunity whereby they deal with some global companies for sourcing ingredients and subsequently provide value-added solutions to clients based on their requirements. We expect industry consolidation to continue wherein the global giants will divest their non-core operations, which include the ingredients business as well. We have discussed various ingredient types based on end-user industries like food, plastic, feed, surfactants etc. in detail. While in the developed markets (DM), use of premium ingredients (mainly green chemicals) will continue its strong upward trajectory, there is large headroom for growth in India where growth would be a function of penetration and premiumisation. In majority of specialty ingredients segments, there are high entry barriers as it is entirely research-driven and involves long gestation periods before getting approvals from foreign regulatory bodies. We are positive on this space and believe that players having a differentiated business model, strong R&D focus, edge in terms of product quality and/or cost of operations and established client relationships can grow meaningfully over the next few years. We initiate coverage on Fine Organic (FINEORG), Rossari Biotech (ROSSARI) and Camlin Fine Sciences (CFIN) with a Buy rating and Galaxy Surfactants (GALSURF) and Advanced Enzymes Technologies (ADVENZY) with an Accumulate rating.

Valuation and outlook: Global players with oleochemicals presence and strong R&D expertise claim premium valuations as they are expected to be key beneficiaries of market development. We highlight that operating margin of our coverage universe is broadly in-line with the global composite weighted average margin of relevant segments, as per our estimates. We believe that players like FINEORG, ROSSARI and GALSURF will continue to trade at premium valuations due to innovation-led growth opportunities. CFIN and ADVENZY could re-rate further post consistent performance in the coming quarters.

View: Positive
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Company	Rating	Market cap		CMP (Rs)	TP (Rs)	Upside/ (Downside)	EPS		PE (x)		EV/EBITDA (x)		ROE%
		Rsbn	USD bn				FY20	FY23E	FY20	FY23E	FY20	FY23E	
FINEORG	Buy	70.2	1.0	2,290	2,700	18	53.7	83.7	42.6	27.4	28.8	18.5	25.8
ROSSARI	Buy	54.5	0.7	1,073	1,230	15	12.9	27.6	83.5	38.8	50.5	23.9	18.6
GALSURF	Acc	90.3	1.2	2,546	2,800	10	65.4	105.3	38.9	24.2	25.2	15.7	21.9
CFIN	Buy	17.0	0.2	140	180	29	2.5	11.1	56.0	12.6	17.0	6.2	20.3
ADVENZY	Acc	39.4	0.5	353	400	13	11.6	18.6	30.5	19.0	19.2	11.7	16.6

Source: Nirmal Bang Institutional Equities Research

Table of Content

Why Indian companies can consistently grow ahead of market?.....	05
Indian companies' operating margin at par with global companies.....	07
For global giants, ingredients is not the core business.....	08
Integrated solutions is the way forward.....	10
Shift toward oleochemistry is a structural trend.....	11
Huge scope for market expansion and premiumisation.....	13
Food additives growth is directly correlated with packaged goods.....	15
Feed additives - enzymes, AO and probiotics to grow ahead of market.....	16
Plastic additives - bio-based additives to gain higher share.....	17
Surfactants - premium portfolio to grow faster than base products.....	18
Enzymes – a segment which enjoys highest margin and premium valuation.....	20
Probiotics has a long runway for growth.....	21
Textile chemicals - India is the fastest growing market.....	22
Raw materials - crude-based and plant-based are equally volatile.....	24
Share price performance and valuations (India and Global)	27
Coverage universe - financial grids and summary.....	29

Companies

Fine Organics.....	37
Rossari Biotech.....	47
Galaxy Surfactants.....	59
Camlin Fine Sciences.....	73
Advanced Enzymes Technologies.....	85

Why Indian companies can consistently grow ahead of market?

While all the key sub-segments in the specialty ingredients space are expected to grow at ~5% CAGR over the next five years, we believe that Indian companies with a niche in particular end-user segment or type of additives can consistently grow in double digits. Market share of Indian companies in these segments is very low currently. Formulation & application expertise and custom-made product approach are the key differentiators for these companies, in our view. MNCs or conglomerates do not have the bandwidth to concentrate on granular level, like dealing with one particular product for a client or dealing with local or regional clients on a small scale. Indian companies are leveraging this opportunity and hence we are not worried about competition. Across our coverage universe, we have seen many instances where India companies deal with these global giants (e.g. buy ingredients from them and then add value based on customer requirements etc.), which are their competitors.

Exhibit 1: Growth expectations of key specialty ingredients

Category	2016	2019	2025E	2016-19 CAGR	2019-25E CAGR
Specialty food ingredients	80	93	130	5%	6%
Probiotics	44	54	86	7%	8%
Surfactants	36	41	53	4%	4%
Feed additives	26	31	39	5%	4%
Plastic additives	22	25	31	4%	4%
Textile chemicals	22	24	29	4%	3%
Industrial enzymes	5	6	8	5%	6%
Antioxidants	3	4	6	6%	6%
Green plastic additives	1	2	2	5%	4%
Vanillin	0.4	0.5	0.7	5%	5%
Total	240	280	384	5%	5%

Source: Industry, Nirmal Bang Institutional Equities Research

Our detailed work on segment-wise revenue performance of global companies having presence in the ingredients space suggests that over the last five years, average CAGR has been in low single digits. Ingredients industry is undergoing consolidation and we expect the same to continue. Since the market is expected to grow ahead of these large players, we expect large delta from Indian specialty ingredients companies over the medium-to-long term. Global companies will continue to focus on their niche and cut down non-core activities in order to meet overall financial targets. We believe that despite their small size, Indian companies have been able to establish themselves in markers like oleochemicals and have the ability and resources to participate in growth, led by R&D focus, capacity additions and carving a niche where there is very limited competition.

Exhibit 2: Growth trend of relevant segments of key global companies

Companies	Segment	Revenue (USD bn)						Revenue CAGR %
		CY15	CY16	CY17	CY18	CY19	CY20	
Ingredion Inc	Specialty ingredients	5.7	5.6	5.7	6.2	6.3	6.2	1.8%
Kerry Group	Taste & Nutrition	5.5	5.7	6.0	6.2	7.0	6.7	4.1%
Royal DSM	Animal Nutrition & Health (AN&H)	NA	2.8	3.1	3.7	3.4	3.6	6.0%
Royal DSM	Human Nutrition & Health	NA	2.2	2.3	2.4	2.4	2.5	4.1%
Royal DSM	Personal Care & Aroma Ingredients	NA	0.4	0.3	0.3	0.3	0.3	-1.2%
Royal DSM	DSM Food Specialties	NA	0.6	0.6	0.6	0.7	0.8	4.9%
BASF	Care Chemicals	5.8	5.6	6.0	5.0	4.9	4.7	-4.0%
BASF	Nutrition & Health	2.4	2.3	2.2	2.0	2.3	2.4	0.3%
Givaudan	Fragrances & Beauty	2.2	2.4	2.5	2.7	3.0	3.1	6.9%
Givaudan	Taste & Wellbeing	2.4	2.6	2.9	3.2	3.6	3.6	8.1%
Evonik Industries	Nutrition & Care segment	NA	NA	3.5	3.6	3.4	3.5	-0.1%
Evonik Industries	Specialty Additives	NA	NA	3.8	4.0	4.0	3.8	-0.2%
The Archer-Daniels-Midland	Human Nutrition	2.5	2.5	2.4	2.6	2.8	2.8	2.8%
The Archer-Daniels-Midland	Animal Nutrition	1.1	1.1	1.2	1.2	2.9	3.0	21.3%
Kao Corporation	Chemical business	2.6	2.5	2.8	2.8	2.6	2.4	-1.4%
Wacker Chemie AG	Silicones	2.3	2.4	2.6	2.9	2.9	2.6	2.9%
Novozymes A/S	Household Care	0.7	0.8	0.8	0.7	0.8	0.8	1.1%
Novozymes A/S	Food, Beverages & Human Health	0.6	0.6	0.6	0.7	0.4	0.4	-5.7%
Novozymes A/S	Agriculture & Animal Health	0.3	0.4	0.3	0.3	0.3	0.3	-2.9%
IFF	Taste	1.4	1.5	1.6	2.1	3.2	3.1	16.6%
Associated British Foods PLC	Ingredients	1.7	1.8	2.1	2.0	2.1	2.1	3.8%
Clariant AG	Natural Resources	1.3	1.3	1.4	1.5	2.0	1.7	5.2%
Clariant AG	Care Chemicals	1.5	1.6	1.7	1.8	1.7	1.5	-0.3%
Stepan	Surfactants	1.2	1.2	1.3	1.4	1.3	1.4	2.3%
Stepan	Specialty Products	0.1	0.1	0.1	0.1	0.1	0.1	-3.6%
Chr Hansen Holding A/S	Food Cultures & Enzymes	0.6	0.7	0.7	0.8	0.8	0.8	6.0%
Chr Hansen Holding A/S	Health & Nutrition	0.2	0.2	0.3	0.3	0.3	0.3	10.9%
Croda Intl. PLC	Personal Care	0.5	0.6	0.6	0.7	0.7	0.7	4.8%
Solvay	Aroma Performance	0.4	0.4	0.4	0.5	0.5	0.5	3.9%
Solvay	Coatis	0.5	0.4	0.5	0.7	0.6	0.6	3.4%

Source: Respective company annual reports, Nirmal Bang Institutional Equities Research

Indian companies' operating margin at par with global ingredients counterparts

Except enzymes, all the other segments in the specialty ingredients market generate ~15-20% operating margin. All companies in our coverage universe have been guiding for similar numbers. We have analysed the margin profile of all the relevant segments of the key global companies in order to understand whether Indian companies' ability to command higher margins gets restricted because of global competition. Global composite weighted average operating margin is ~15-18%. We believe that operating margin is a function of greater value-add and gradually following the upward trajectory. While Indian companies are focussing on their niches, a lot of effort and money goes in adding new avenues of growth by seeding new industries etc and hence blended operating margin appears broadly in the similar range. We do not give a lot of emphasis on operating margin in the ingredients business over revenue growth since the operating margin of Indian companies is almost at par with global average and we see further upside over the medium term, led by strong revenue growth.

Exhibit 3: Operating margin of key global ingredients companies

Companies	Segment	Operating margin (%)					
		CY15	CY16	CY17	CY18	CY19	CY20
Ingredion Inc	Specialty ingredients	11.7%	14.1%	13.4%	11.2%	10.7%	9.7%
Kerry Group	Taste & Nutrition	14.3%	14.9%	15.1%	15.3%	15.5%	14.3%
Royal DSM	Nutrition	16.6%	18.0%	18.9%	22.9%	20.7%	21.0%
BASF	Nutrition & Care	N/A	N/A	N/A	18.6%	19.6%	19.1%
Givaudan	Fragrances & Beauty	23.8%	27.0%	20.7%	20.1%	19.8%	23.2%
Givaudan	Taste & Wellbeing	24.9%	21.5%	22.3%	21.2%	21.2%	21.2%
Evonik Industries	Nutrition & Care segment	N/A	N/A	16.6%	18.1%	15.8%	18.7%
Evonik Industries	Specialty Additives	N/A	N/A	6.0%	6.8%	6.8%	7.0%
The Archer-Daniels-Midland (ADM)	Human Nutrition	12.1%	11.0%	11.7%	12.4%	13.7%	16.4%
The Archer-Daniels-Midland (ADM)	Animal Nutrition	2.4%	0.1%	2.8%	1.7%	1.4%	3.7%
Kao Corporation	Chemical business	14.4%	15.1%	13.5%	13.6%	15.8%	15.8%
Wacker Chemie AG	Silicones	14.2%	18.1%	20.2%	24.7%	19.5%	17.3%
Novozymes A/S	Overall group	35.8%	35.1%	35.2%	35.8%	36.8%	35.1%
IFF	Taste	22.1%	22.1%	22.1%	20.0%	15.1%	14.0%
Associated British Foods PLC (ABF)	Ingredients	6.1%	7.2%	8.4%	9.8%	9.0%	9.8%
Clariant AG	Natural Resources	16.9%	16.9%	15.3%	12.8%	16.3%	15.5%
Clariant AG	Care Chemicals	18.4%	18.1%	16.4%	18.7%	17.5%	18.8%
Stepan	Surfactants	8.8%	8.6%	9.3%	9.6%	9.6%	12.5%
Stepan	Polymers	16.6%	19.5%	15.2%	12.6%	13.6%	15.1%
Stepan	Specialty Products	5.6%	12.5%	12.3%	14.5%	22.3%	21.3%
Chr Hansen Holding A/S	Food Cultures & Enzymes	31.5%	34.3%	34.5%	34.3%	34.3%	34.3%
Chr Hansen Holding A/S	Health & Nutrition	33.3%	28.3%	29.1%	31.0%	31.5%	32.2%
Croda Intl. PLC	Personal Care	33.0%	34.0%	33.3%	32.9%	33.4%	28.7%

Source: Respective company annual reports, Nirmal Bang Institutional Equities Research

Exhibit 4: Global composite weighted average operating margin of relevant segment vis-à-vis our coverage universe

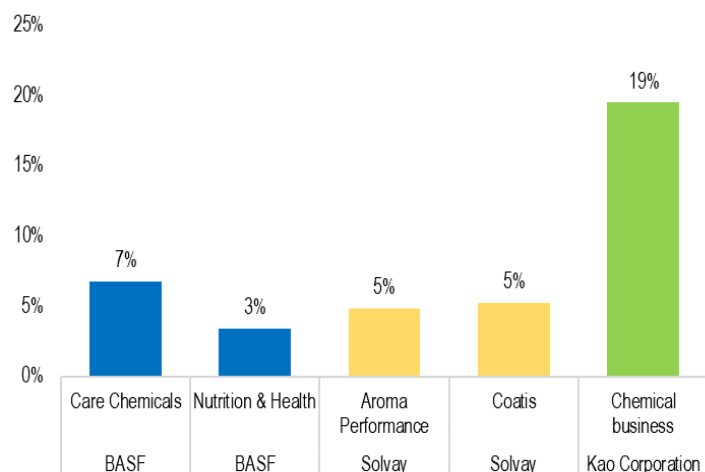
Companies	EBITDA margin					
	CY15	CY16	CY17	CY18	CY19	CY20
Global composite weighted avg.	15.3%	16.8%	16.3%	16.8%	16.2%	15.9%
Advanced Enzyme Technologies	46.8%	46.0%	41.8%	43.5%	45.8%	47.3%
Camlin Fine Sciences	18.8%	5.3%	1.7%	7.7%	12.5%	14.8%
Fine Organic Inds.	22.1%	18.6%	18.5%	22.0%	23.2%	17.6%
Galaxy Surfactants	12.9%	12.6%	11.8%	12.8%	14.2%	16.7%
Rossari Biotech	7.0%	10.4%	15.3%	15.0%	17.5%	16.6%

Source: Company, Nirmal Bang Institutional Equities Research

For global giants, ingredients is not a core business

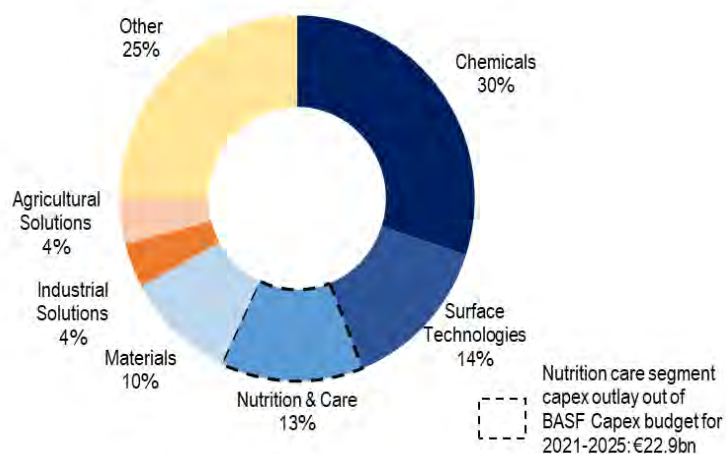
Specialty ingredients business forms a very small part of the overall business of global giants like BASF, Solvay etc. As part of ongoing consolidation, these companies are hiving off some of the non-core divisions or select facilities. Also, the no. of end-user industries that these companies target within the ingredients business is substantially higher as against Indian companies that have a significant presence in only 2-3 end-user industries.

Exhibit 5: Ingredients business as % of overall revenue for global giants



Source: BASF, Solvay, Kao, Nirmal Bang Institutional Equities Research

Exhibit 6: BASF has allocated ~13% towards Nutrition & Care segment in its next 5 years' capex plan



Source: BASF, Nirmal Bang Institutional Equities Research

Exhibit 7: Divestitures of surfactants capacities by BASF

Product group	Description	Year
Surfactants	Transfer of production of surfactants and other products manufactured in Washington, New Jersey, to Geismar, Louisiana; closure of Washington site	2017
	Divestiture of oleochemical surfactants business in Mexico, including production site in Ecatepec, Mexico	2018
Optical brighteners	Divestiture of stilbene-based optical brightening agents in Ankleshwar, India	2019

Source: BASF, Nirmal Bang Institutional Equities Research

Exhibit 8: Solvay caters to numerous end-user segments and hence its focus on additives business is limited

2020 sales by end-markets (in %)				
	Materials	Chemicals	Solutions	Solvay
Aeronautics and Automotive	48%	14%	8%	22%
Electrical and electronics	13%	0%	7%	7%
Resources and environment	8%	9%	19%	12%
Agro, feed and food	3%	19%	16%	13%
Consumer goods and healthcare	12%	23%	17%	18%
Building and construction	4%	11%	9%	8%
Industrial applications	11%	23%	24%	20%
Solvay	100%	100%	100%	100%

Source: Solvay, Nirmal Bang Institutional Equities Research

Global companies that are predominantly working in the ingredients space cater to various end-user industries and hence providing customised solutions in each segment is very difficult for these companies. That is the sole reason why these companies engage with local specialty ingredients player with focus on application and formulations. For instance, Croda International, which is a key competitor of FINEORG, engages with the company in India as a client. Similarly, Novozymes provides textile-related ingredients to ROSSARI, which does value addition based on customers' requirements. Therefore, we believe that existence of these companies will in fact provide growth opportunities for Indian companies. Also, Indian specialty ingredients companies focus on portfolio gaps compared to competitors and create new growth opportunities thereof. For instance, Novozymes is the market leader in industrial enzymes but Advanced Enzymes focuses more on specialty enzymes i.e. in Pharma and hence competition from Novozymes is limited. Novozymes is very strong in Household Care segment, which is not the target segment for Advanced Enzymes. Specialty ingredients market is R&D-driven and hence existence of market leader will not rule out growth opportunities for other smaller but niche players, in our view.

Exhibit 9: Clariant's natural resources segment targets following end-user industries

Business Unit Functional Minerals	Business Unit Oil and Mining Services	Business Unit Additives
<ul style="list-style-type: none"> – BTX catalysts – Cargo and device protection – Civil engineering – Clay specialties – Detergent additives – Foundry additives – Kerosene and jet fuel purification – Oil purification – Paper additives – PVC stabilizers – Wastewater treatment 	<ul style="list-style-type: none"> – Pour point depressants – Cold flow improvers – Froth flotation chemistries – Explosive emulsifiers – Chemical delivery and data management systems – Oilfield integrity management – Fluid separation – Oil flow assurance 	<ul style="list-style-type: none"> – Acid scavengers – Antioxidants – Antistatic agents – Halogen-free flame retardants – Heat stabilizers – Hot-melt adhesives – Light stabilizers – Lubricants – Processing aids – Processing stabilizers – Release agents – Slip control agents – Surface modifiers

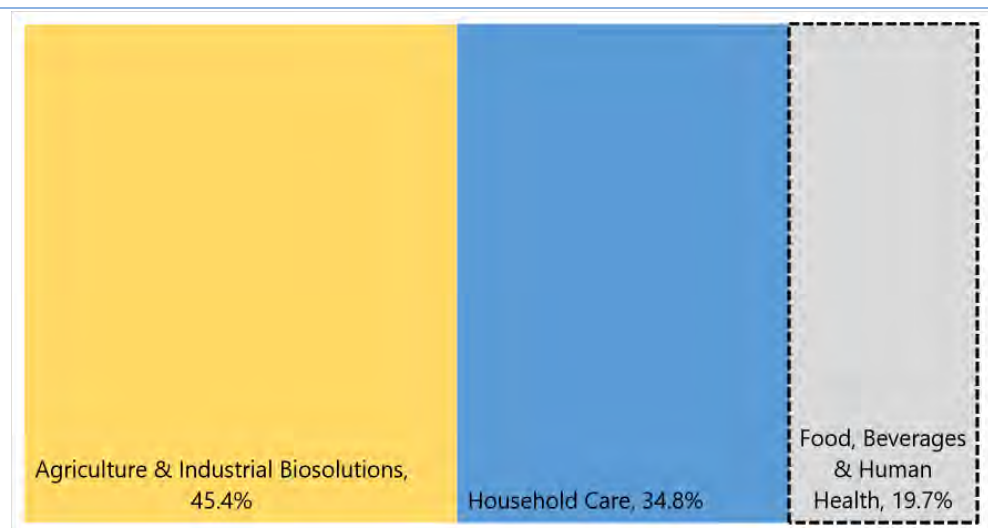
Source: Clariant, Nirmal Bang Institutional Equities Research

Exhibit 10: Clariant's Care chemicals segment caters to following end-user industries

Business Unit Industrial & Consumer Specialties
<ul style="list-style-type: none"> – Automotive fluids – Aviation – Construction – Crop solutions – Gas treatment – Heat transfer fluids – Industrial and home care – Industrial lubricants – Paints and coatings – Personal care – Special solvents

Source: Clariant, Nirmal Bang Institutional Equities Research

Exhibit 10: Novozymes key business segments - direct competition for Advanced Enzymes is limited

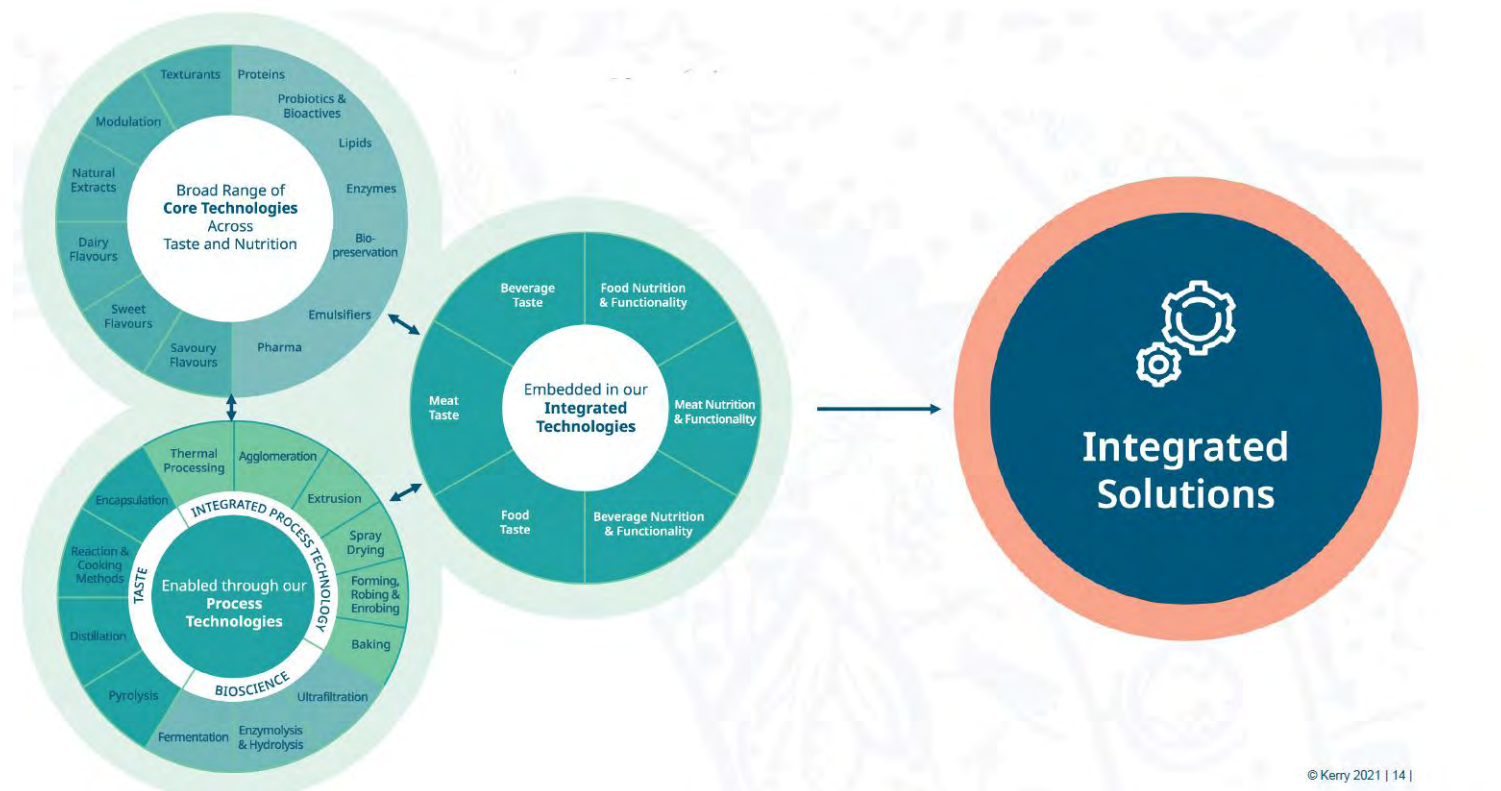


Source: Novozymes, Nirmal Bang Institutional Equities Research

Integrated solutions is the way forward

We believe that the specialty ingredients industry is moving towards integrated solutions, which involves application & formulation apart from just supplying separate ingredients. Integrated solutions approach enables these companies to work closely with clients in order to provide custom-made solutions. While key global specialty ingredient players like Kerry Group, Givaudan etc. have adopted this strategy, MNC conglomerates will not be able to aggressively adopt this approach on account of other commitments. Indian companies like FINEORG, ROSSARI etc have been able to grow in their respective segments on account of their deeper client engagements and customer-centric approach. Food Antioxidants company CFIN has also forward-integrated its portfolio by entering into blends business, which enjoys higher margins on account of its better functionality. CFIN operates in its key markets by having a local R&D presence in order to understand the consumption patterns of that geography before customizing solutions for the same. Global companies are predominantly involved in the manufacture of specialty ingredients. Indian companies have deeper distribution reach and hence can cater to local/regional clients as well, which is not the key focus area for MNCs. MNCs allocate a large part of their budget on R&D and core-business related activities.

Exhibit 11: Idea of Integrated solutions approach



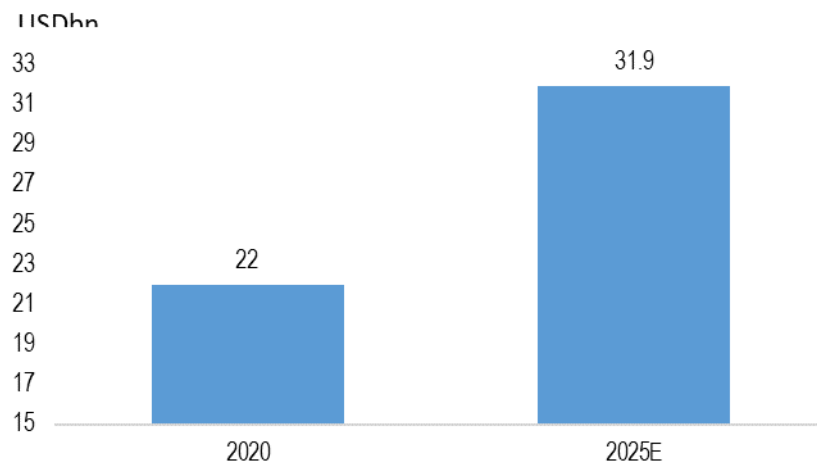
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Source: Kerry Group presentation, Nirmal Bang Institutional Equities Research

Shift towards oleochemistry is a structural trend

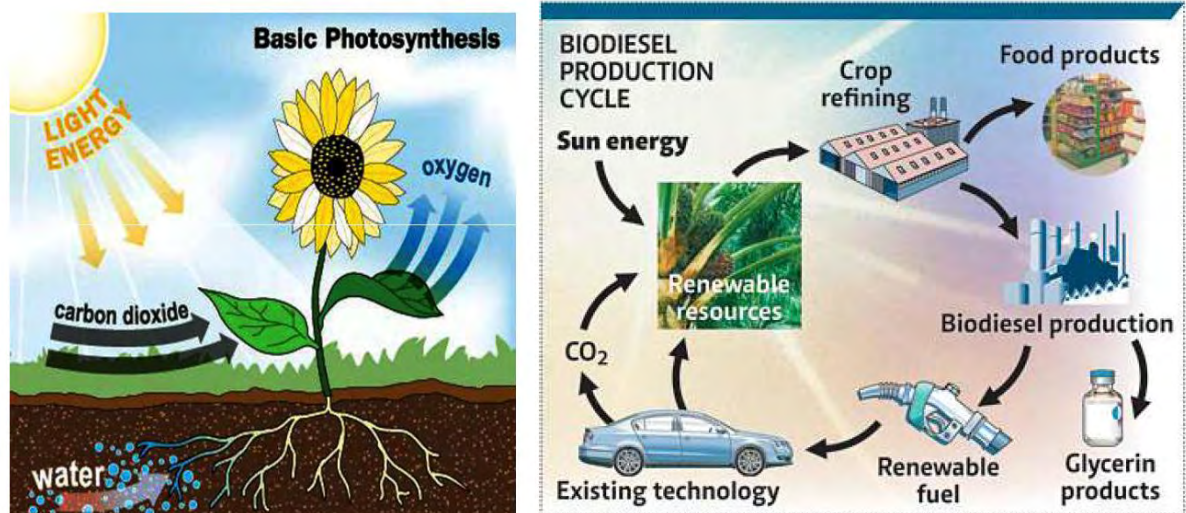
Oleochemicals are chemicals derived from plants and animal fat. Oleochemicals-based additives or green additives are effectively replacing synthetic chemicals in a wide range of industries. Among all, soaps & detergents segment represents substantial market for oleochemicals. Additionally, the use of oleochemicals in personal care is estimated to grow due to its cost-efficiency and growing awareness about preference for natural chemicals. Green additives are safe to use and are bio-degradable. As the entire world is moving towards sustainable resources, we believe that oleochemicals is a multi-year story as it acts as a perfect replacement for petroleum-based products. In our view, considering the latest developments like wildfires, global warming etc., global industry leaders have started to take this issue seriously as can be gauged from some of their mission statements. While we believe that petroleum-based products will continue to be used in specific applications, wherever cost effectiveness and environmentally friendly substitutes are available, the industry will move towards green chemistry in a big way.

Exhibit 12: Global oleochemicals market is expected to grow at ~8% CAGR over 2020-2025



Source: Industry, Nirmal Bang Institutional Equities Research

Exhibit 13: How oleochemicals are green?



Source: Industry, Nirmal Bang Institutional Equities Research

Unilever is planning to eliminate fossil fuels from cleaning portfolio by 2030. L'Oréal, the French cosmetics giant, has invested €1bn so far in its sustainability roadmap, with 4,000 researchers dedicated to realizing its goals by 2030. Its primary target is that 95% of ingredients should be derived from renewable plant sources, abundant minerals or circular processes by 2030. On the other hand, P&G maintains a healthy mix of natural and synthetic ingredients without compromising the sustainability aspect. Croda International plans to use 75% naturally sourced organic raw materials by 2030.

Exhibit 14: Unilever's sustainability strategy



Source: Unilever, Nirmal Bang Institutional Equities Research

Exhibit 15: Unilever's cleaning portfolio strategy



Source: Unilever, Nirmal Bang Institutional Equities Research

Exhibit 16: P&G maintains perfect blends of plant-based and synthetic chemicals



We relentlessly pursue the best and safest ingredients from both science and nature to give you the product options you prefer.

We unlock the untapped potential of both science and nature to provide superior product options you can trust.



Tide purclean
(Plant-based detergent)



Herbal Essences Bio:renew
(90% naturally derived)



Pampers Pure
(Crafted with premium cotton, soft plant-based materials and other thoughtfully selected materials)



Tampax Pure
(100% organic cotton core, 90% plant-based plastic applicator)

We continually improve our ingredient safety assessments through the latest advancements in science.

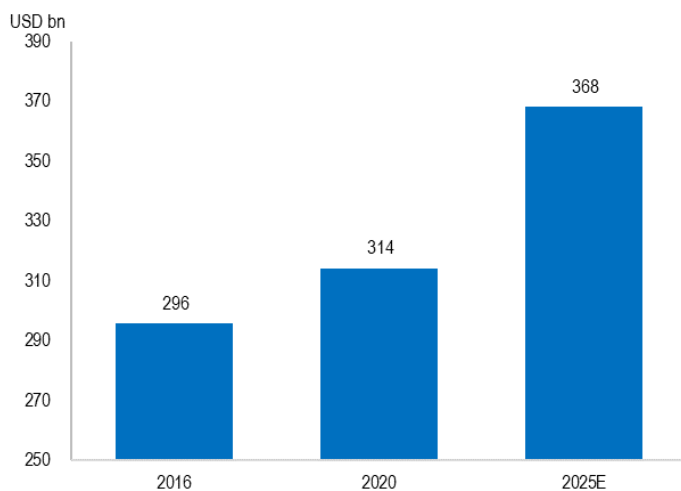
We explore options to replace or remove ingredients to improve their overall impact.

Source: P&G, Nirmal Bang Institutional Equities Research

Huge scope for market expansion and premiumisation

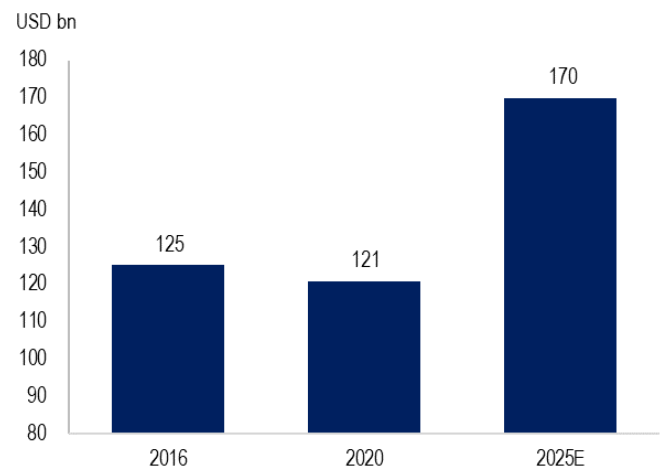
As per industry reports, premium portfolio is expected to grow ~2x compared to mass products across the global beauty and HPC space. In the premium portfolio, there is rising demand for organic products or products with plant origins. For example, in DMs, demand for non-toxic preservatives, mild surfactants and proteins is on the rise, as millennials are increasingly aware about the brand and the contents it uses in its products. We believe that oleochemical companies could become indirect beneficiaries of this premiumisation trend. In Emerging Markets (EM) like India, we see huge headroom for growth, led by penetration as well as premiumisation at the top end of the pyramid. A lot of additives like specialty emulsifiers, enzymes etc go into food items like noodles, biscuits, bread etc where per capita consumption is very low compared to DMs. Premium home care and migration from lower end surfactants to premium performance surfactants in laundry and dishwashing should further increase the use of specialty ingredients in India. The Indian Premium Home Care Market is projected to grow at a CAGR of 8.3% in the next 5 years. Rising share of women in workforce and urbanisation are some of the macro enablers, in our view, which can drive per capita consumption of packaged foods, plastic, home care products, paints & coatings etc.

Exhibit 17: Mass beauty and personal care market is expected to grow at 3% CAGR over 2020-2025



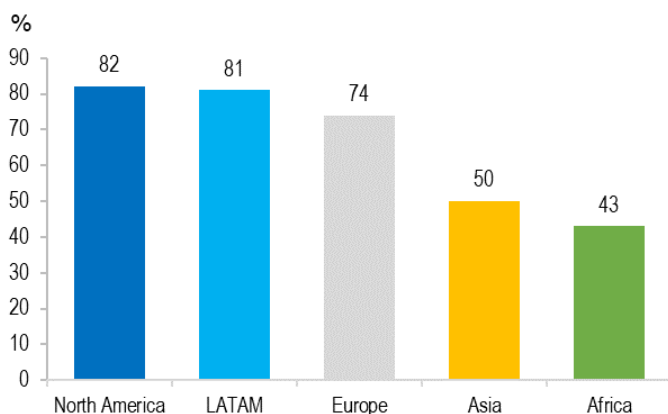
Source: Industry, Nirmal Bang Institutional Equities Research

Exhibit 18: Premiumisation in beauty and personal care market is expected to grow at 3% CAGR over 2020-2025



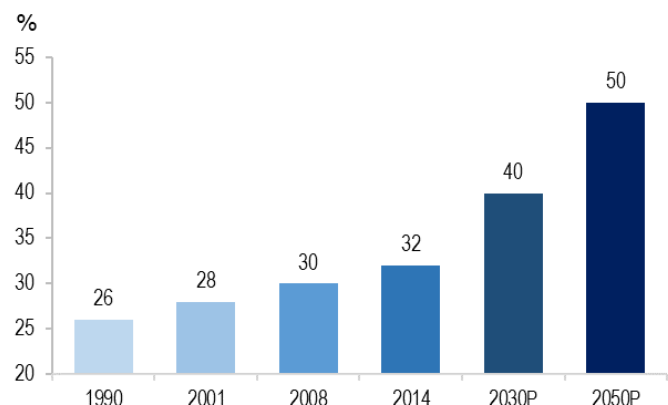
Source: Industry, Nirmal Bang Institutional Equities Research

Exhibit 19: Global urbanization trend (2018)



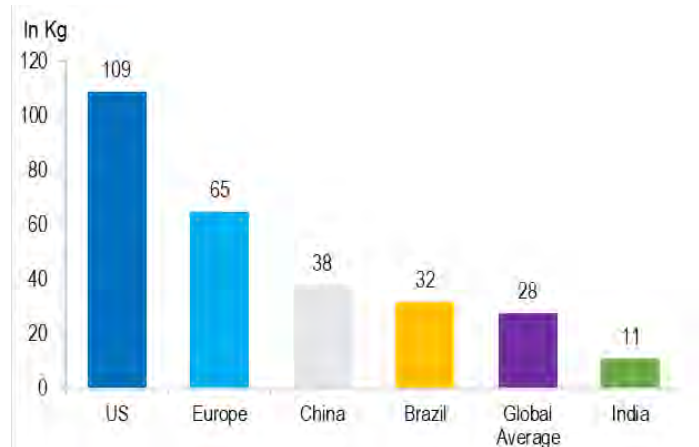
Source: UN, Nirmal Bang Institutional Equities Research

Exhibit 20: India urbanization rate projections



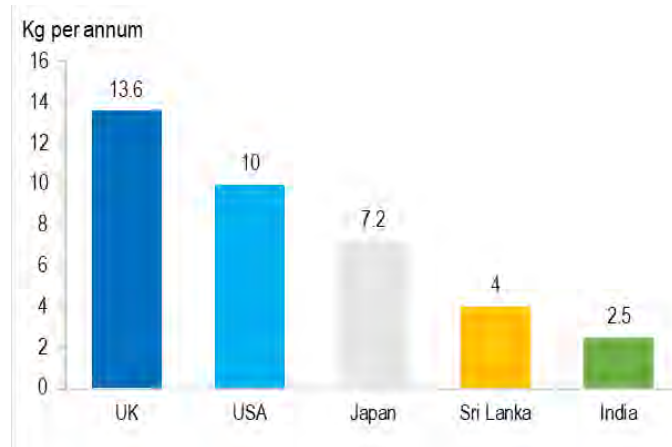
Source: UN, Nirmal Bang Institutional Equities Research

Exhibit 21: Per capita plastics consumption



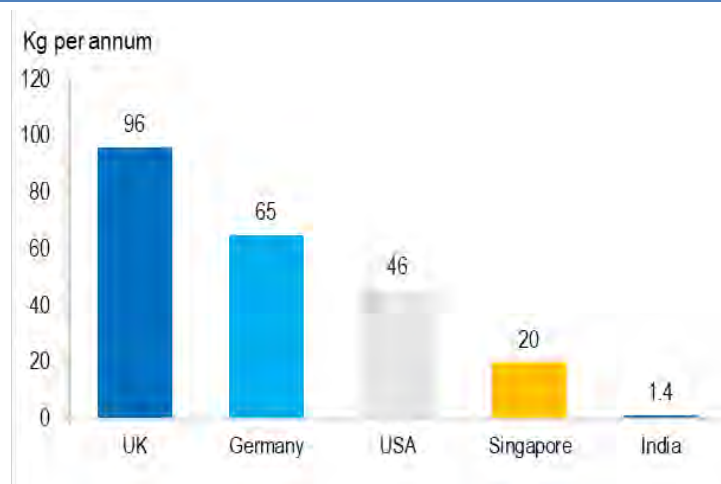
Source: Industry, Nirmal Bang Institutional Equities Research

Exhibit 22 Per capita biscuits consumption



Source: Mrs. Bectors'DRHP, Nirmal Bang Institutional Equities Research

Exhibit 23: Per capita bread consumption



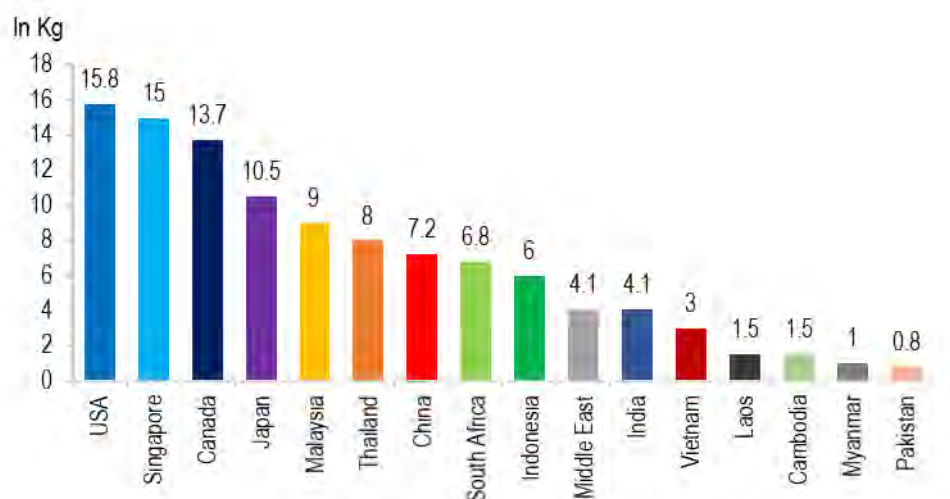
Source: Mrs. Bectors' DRHP, Nirmal Bang Institutional Equities Research

Exhibit 24: India per capita bread consumption estimates



Source: Mrs. Bectors'DRHP, Nirmal Bang Institutional Equities Research

Exhibit 25: Per capita consumption of paints and coatings

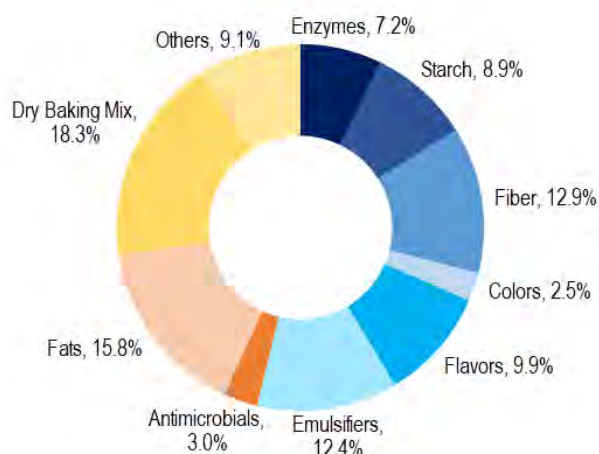


Source: Indigo Paints DRHP, Nirmal Bang Institutional Equities Research

Food additives growth is directly correlated with packaged goods

The global packaged food market growth is driven by innovative processing techniques for boosting food products' shelf life. Growing urbanization, rising disposable income, increased preference for diverse culinary styles etc have also contributed to the rise in demand for food additives. These ingredients enhance the texture, color, flavor, volume, softness and other properties of food items. Demand for plant-based or oleochemical based food additives is on the rise vis-à-vis synthetic additives on account of health, pollution etc. The Joint FAO/WHO Expert Committee on Food Additives (JECFA) is the international body responsible for evaluating the safety of food additives. Only food additives that have been evaluated and deemed safe by JECFA, on the basis of which maximum use levels have been established by the Codex Alimentarius Commission, can be used in foods that are traded internationally. Applicant has to undergo stringent measures before getting the requisite approval and hence it's a time-consuming process (5-8 years). In DMs, only additives approved by the USFDA or respective bodies are allowed in the proportion limits set by them.

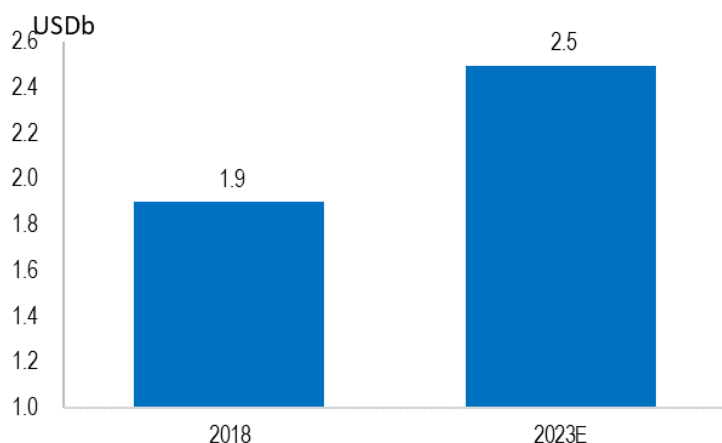
Exhibit 26: Key sub-segments of food additives (bakery ingredients) market



Source: Industry, Nirmal Bang Institutional Equities Research

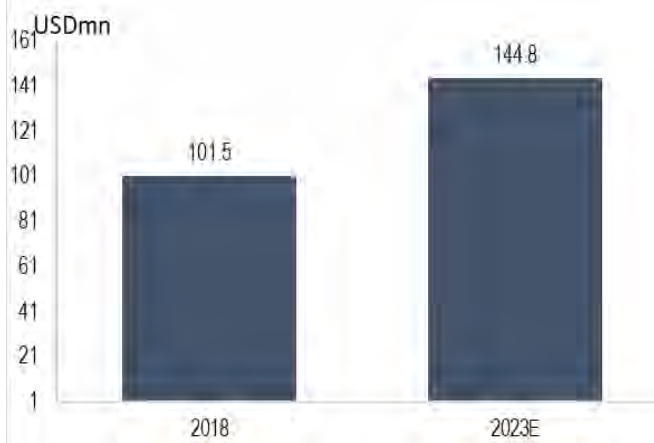
Emulsifiers are multifunctional ingredients that assist in blending ingredients, and beneficially interact with components of food and other ingredients in the mix. The emulsifiers segment is driven by rise in demand for quality food and premium products. Consumers are more inclined towards buying processed foods such as frozen & packaged meals, breads & cereals and processed meat & fish. While food emulsifiers market is expected to grow in mid-single digits globally, this includes a section of commodity emulsifiers also where growth is relatively low. Specialty food emulsifiers should continue to grow in double digits, as per our estimates. FINEORG has a large portfolio of food additives in India and majority of its clients are based out of India. While the company has other offerings in food additives, emulsifiers are one of its largest products.

Exhibit 27: Global emulsifiers growth 5% CAGR over 2018-23E



Source: Industry, Nirmal Bang Institutional Equities Research

Exhibit 28: India emulsifiers growth- 7% CAGR over 2018-23E

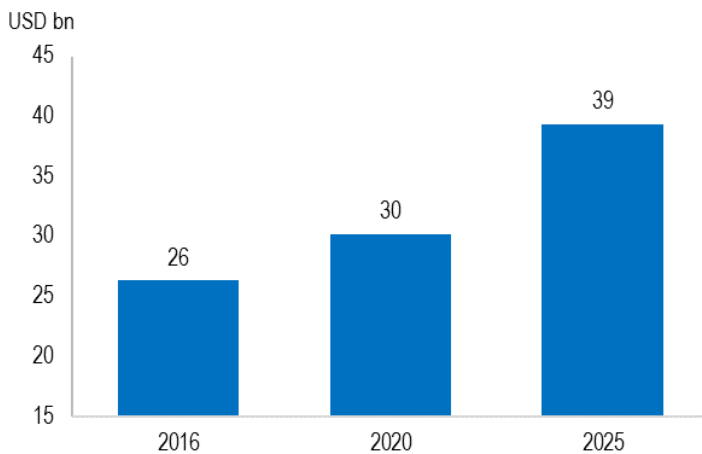


Source: Industry, Nirmal Bang Institutional Equities Research

Feed additives - Enzymes, AO and Probiotics to grow ahead of market

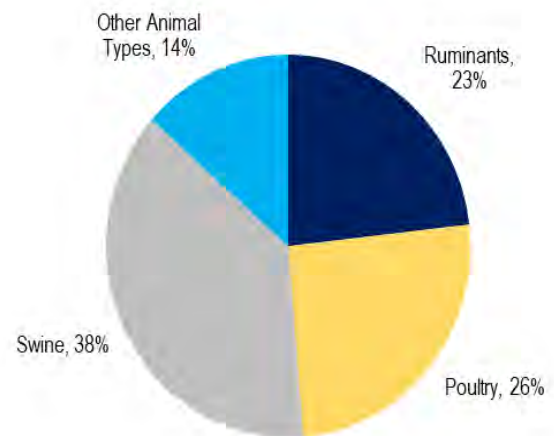
Increasing demand for animal protein sources such as meat, milk, eggs etc. will drive the livestock industry's production growth. Feed additives play a crucial role in improving livestock yields. Global feed additives market is expected to grow at ~5% CAGR over 2020-25E. The United Nations Food and Agriculture Organization (FAO) estimates that by 2050, demand for food will grow by 60% and during 2010-2050, production of animal proteins is expected to grow by ~1.7% per year, with meat production projected to rise by ~70%, aquaculture by 90% and dairy by 55%. Asia is expected to contribute significantly in the overall growth of meat and seafood consumption. Anti-microbials are used in meat and seafood production, particularly that of pig and poultry, to ward off disease and to promote growth. Rising awareness, growing demand for animal nutrition and reduction in the use of antibiotics in many geographies have prompted manufacturers to opt for probiotics, which is expected to deliver strong growth. We also expect high growth in anti-oxidants (BHA) and enzymes in feed additives space. Key beneficiaries from our coverage space are ROSSARI, CFIN, ADVENZY and FINEORG.

Exhibit 29: Feed additives market is expected to grow at 5% CAGR over the next 5 years



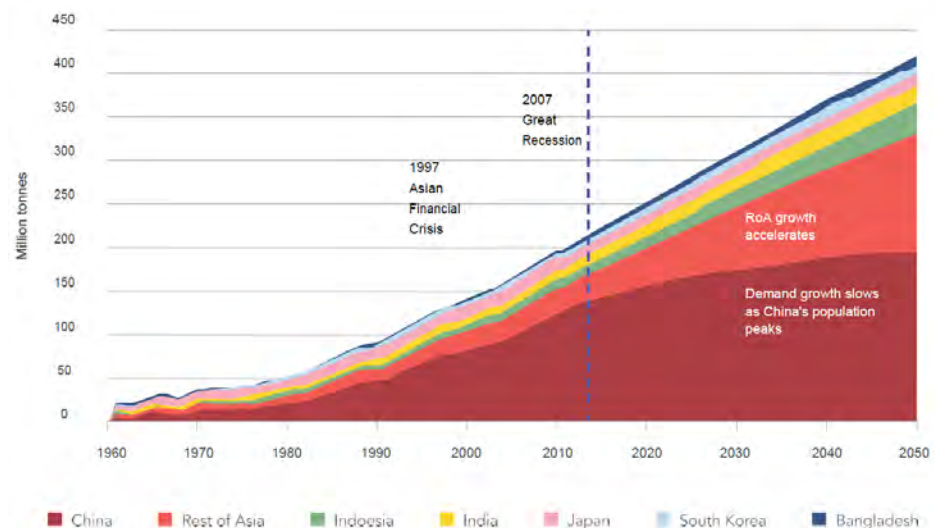
Source: Industry, Nirmal Bang Institutional Equities Research

Exhibit 30: Globally, poultry and swine are the biggest segments in feed additives



Source: Industry, Nirmal Bang Institutional Equities Research

Exhibit 31: Asia's meat and seafood consumption is expected to grow significantly

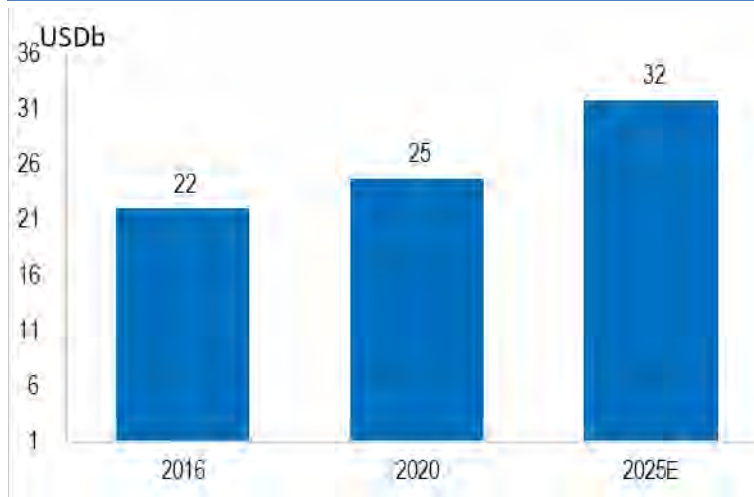


Source: Industry, Nirmal Bang Institutional Equities Research

Plastic additives - bio-based additives to gain higher share

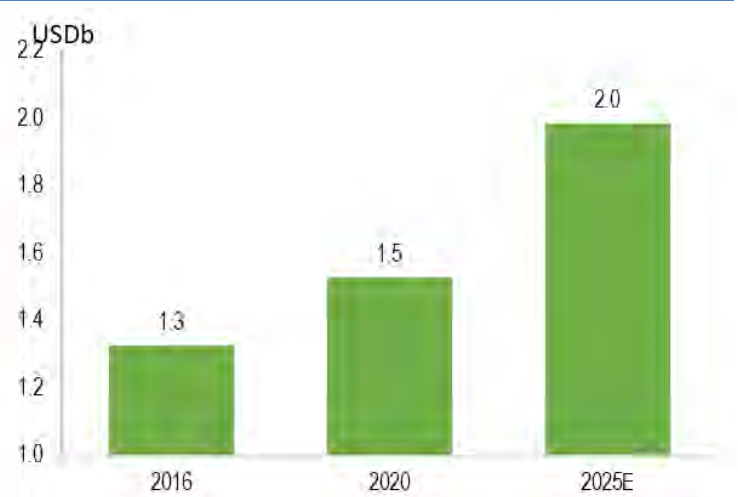
While overall plastic additives market is worth US\$24bn, we focus on bio-based or green additives in this space, which according to industry sources is a US\$1.5bn market. This segment is still at a nascent stage and is an oligopoly. We believe there are high entry barriers in this space on account of complex production process and high investments. Based on current research, bio-based additives cost >50% compared to synthetic additives. We highlight that FINEORG has an edge over peers in terms of its indigenous technology and engineering R&D, which results in significant capex efficiency. This segment has a long runway for growth since issues like climate change, scarcity of fossil fuels etc have accelerated the need to find alternatives to conventional plastic packaging. Stringent environmental regulations are being implemented, especially in DMs. Apart from the environmental and social impact, functionality of few bio-based products is considered superior to synthetic additives. We believe that FINEORG will be one of the key beneficiaries of this shift towards bio-based additives.

Exhibit 32: Global plastic additives market



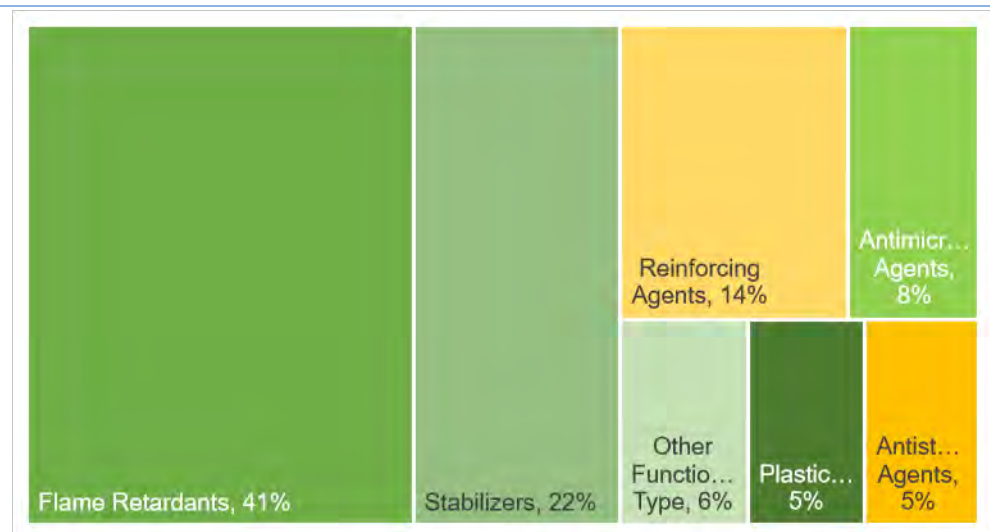
Source: Industry, Nirmal Bang Institutional Equities Research

Exhibit 33: Global bio-based plastic additives market



Source: Industry, Nirmal Bang Institutional Equities Research

Exhibit 34: Approximate break-up of bio-based plastic additives



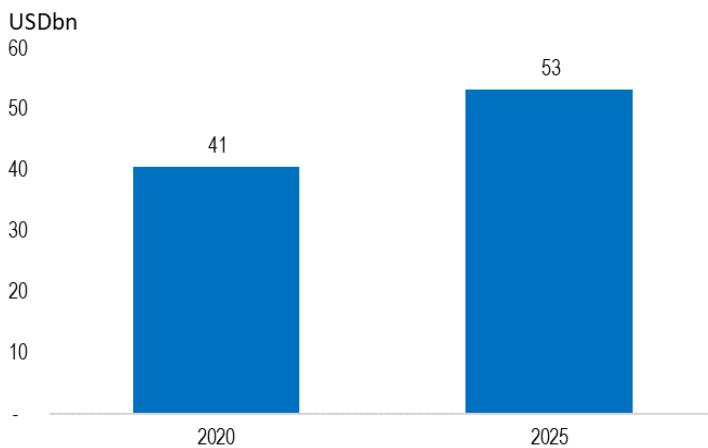
Source: Industry, Nirmal Bang Institutional Equities Research

Surfactants - premium portfolio to grow faster than base products

Global surfactants industry is expected to grow at ~6% CAGR over 2020-25E. We believe that within the surfactants industry, specialty surfactants will outgrow base performance surfactants, led by growing awareness about health and premiumisation. Demand for premium products that are either made from plant-based origins or other non-toxic products is on the rise. Especially in DMs, products like sulphate free, paraben free, proteins etc are in high demand. As per our estimates, the share of premium surfactants in USA is higher than in Asia and hence it claims ~10% price premium over Asia. We believe that GALSURF, which has a strong clientele (MNCs as well as local and regional players) and increasing number of premium products across segments, would be a key beneficiary of the above trend.

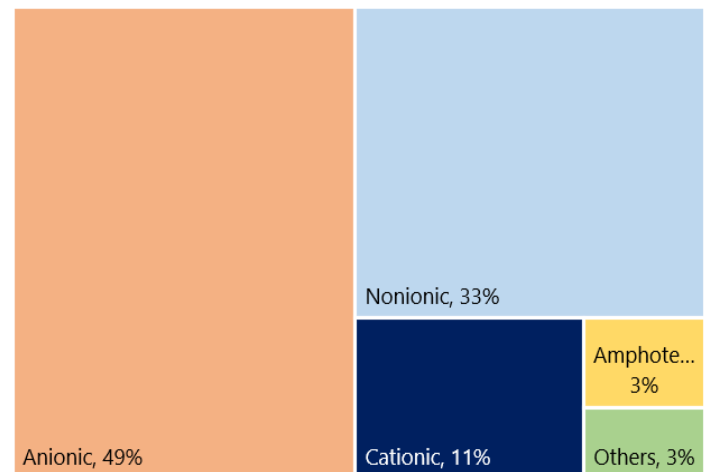
Industry leaders are aggressively moving towards plant-based raw material options across segments and hence we believe that similar to food and plastic additives, oleochemical-based surfactants are in high demand and this segment will capture market share from synthetic surfactants in the coming years. Unilever is planning to eliminate fossil fuels from cleaning portfolio by 2030. L'Oréal, the French cosmetics giant, has invested €1bn so far in its sustainability roadmap, with 4,000 researchers dedicated to realizing its goals by 2030. Its primary target is that 95% of ingredients should be derived from renewable plant sources, abundant minerals or circular processes by 2030. On the other hand, P&G maintains a healthy mix of natural and synthetic ingredients without compromising the sustainability aspect. Croda International plans to use 75% bio-based organic raw materials by 2030.

Exhibit 35: Global surfactants market to grow at ~6% CAGR over 2020-25E



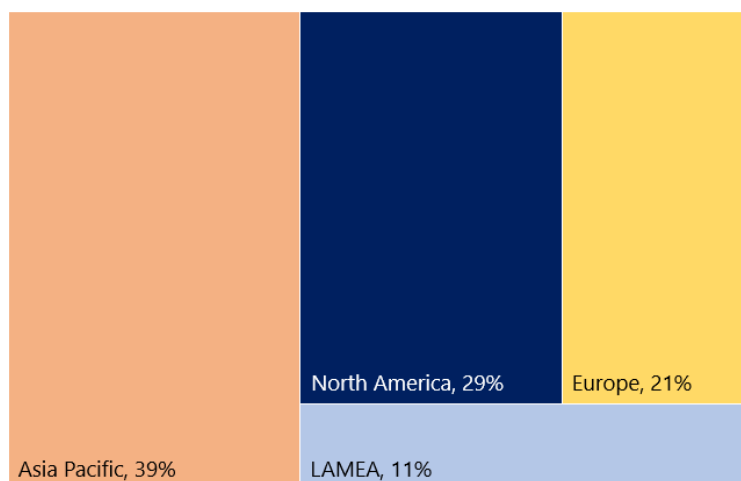
Source: Industry, Nirmal Bang Institutional Equities Research

Exhibit 36: Approximate break-up of global surfactants market



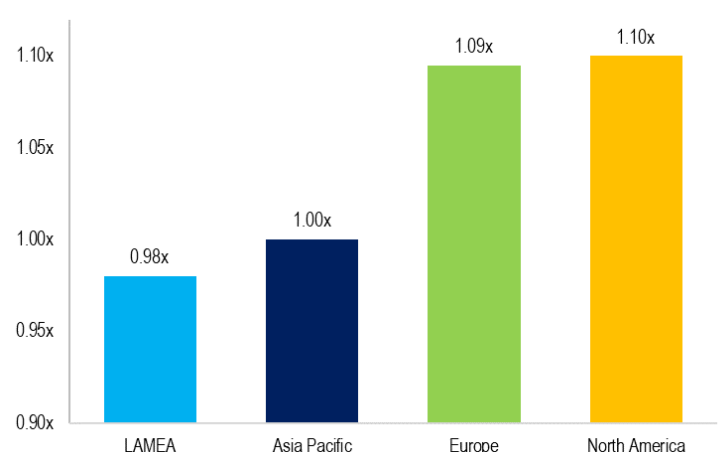
Source: Industry, Nirmal Bang Institutional Equities Research

Exhibit 37: Geography wise usage of surfactants



Source: Industry, Nirmal Bang Institutional Equities Research

Exhibit 38: US has ~10% pricing premium vs Asia



Source: Industry, Nirmal Bang Institutional Equities Research

BASF and Clariant are some of the key players in the surfactants industry. While Clariant focuses on various end-user industries unlike GALSURF's core focus on HPC, competition from BASF would be higher in performance surfactants vis-à-vis specialty products. BASF has discontinued select capacities of its surfactants business, including oleochemicals-based surfactants business in Mexico.

Exhibit 39: BASF is a key player in global surfactants market with huge capacity

Product	Europe	North America	Asia Pacific	South America, Africa, Middle East	Annual capacity (metric tons)
Anionic surfactants	■	■	■	■	600,000
Citral	■		■		78,000
Chelating agents	■	■		■	170,000
Methane sulfonic acid	■				30,000
Nonionic surfactants	■	■	■		635,000

a All capacities are included at 100%, including plants belonging to joint operations and joint ventures.

Source: BASF, Nirmal Bang Institutional Equities Research

Exhibit 40: Divestitures of surfactants capacities by BASF

Product group	Description	Year
Surfactants	Transfer of production of surfactants and other products manufactured in Washington, New Jersey, to Geismar, Louisiana; closure of Washington site	2017
	Divestiture of oleochemical surfactants business in Mexico, including production site in Ecatepec, Mexico	2018
Optical brighteners	Divestiture of stilbene-based optical brightening agents in Ankleshwar, India	2019

Source: BASF, Nirmal Bang Institutional Equities Research

Exhibit 41: Clariant's natural resources segment targets following end-user industries

Business Unit Functional Minerals	Business Unit Oil and Mining Services	Business Unit Additives
<ul style="list-style-type: none"> – BTX catalysts – Cargo and device protection – Civil engineering – Clay specialties – Detergent additives – Foundry additives – Kerosene and jet fuel purification – Oil purification – Paper additives – PVC stabilizers – Wastewater treatment 	<ul style="list-style-type: none"> – Pour point depressants – Cold flow improvers – Froth flotation chemistries – Explosive emulsifiers – Chemical delivery and data management systems – Oilfield integrity management – Fluid separation – Oil flow assurance 	<ul style="list-style-type: none"> – Acid scavengers – Antioxidants – Antistatic agents – Halogen-free flame retardants – Heat stabilizers – Hot-melt adhesives – Light stabilizers – Lubricants – Processing aids – Processing stabilizers – Release agents – Slip control agents – Surface modifiers

Source: Clariant, Nirmal Bang Institutional Equities Research

Exhibit 42: Clariant's Care chemicals segment caters to following end-user industries

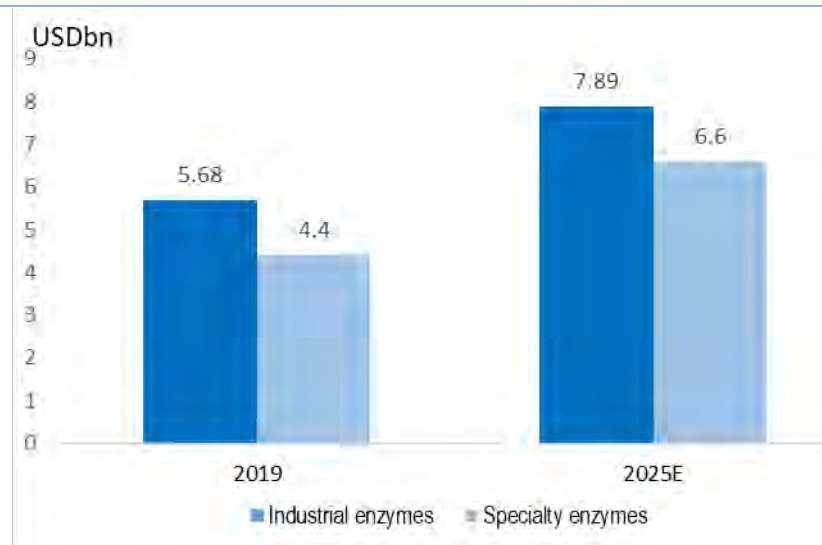
Business Unit Industrial & Consumer Specialties
<ul style="list-style-type: none"> – Automotive fluids – Aviation – Construction – Crop solutions – Gas treatment – Heat transfer fluids – Industrial and home care – Industrial lubricants – Paints and coatings – Personal care – Special solvents

Source: Clariant, Nirmal Bang Institutional Equities Research

Enzymes - segment which enjoys highest margin and premium valuation

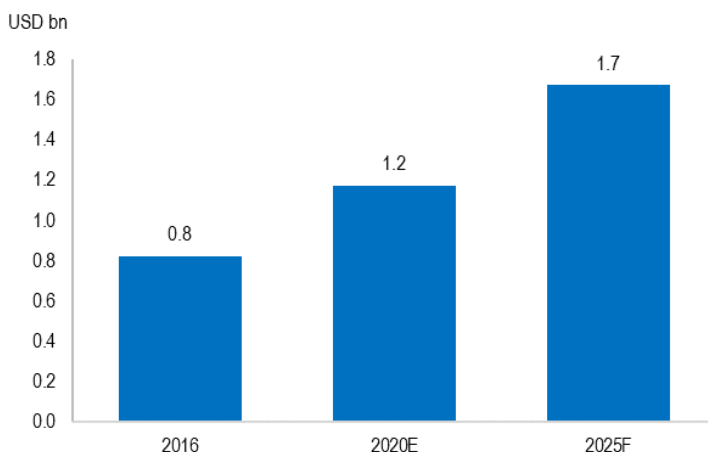
Industrial Enzymes have been used in the food & beverages industry for decades now. They are mainly used in baking, brewing and food preservation. Microbial enzymes are increasingly preferred over plant and animal enzymes, owing to their high level of stability. ADVENZY predominantly manufactures microbial enzymes. In terms of competition, Novozymes is the global leader in industrial enzymes with a ~48% market share. Household Care is the largest segment and key focus area for Novozymes whereas it also has presence in food and animal nutrition, grain processing etc. AB Enzymes and CHR Hansen are some of the major players that offer an extensive range of enzymes for the food industry, especially in baking and dairy segments to enhance the shelf life of these products. In specialty enzymes (where ADVENZY has a decent share and faces limited competition from Novozymes), biological catalysts in pharmaceuticals and diagnostics are in demand. In specialized enzymes, the polymerases & nucleases are the largest segments whereas in industrial enzymes, carbohydrase, which is a cost-effective and flexible segment, is widely used. Enzymes segment enjoys very high margins compared other specialty ingredients, as it is a highly research-driven segment and also requires significant time investment before getting approvals for registrations or patents. Enzymes is another sunrise industry and is expected to deliver strong growth on a sustainable basis as industries keep moving away from synthetic solutions. Along with better margin profile, enzymes companies claim premium valuations.

Exhibit 43: Industrial enzymes and specialty enzymes are expected to grow at 6% and 7% CAGR respectively over 2019-25



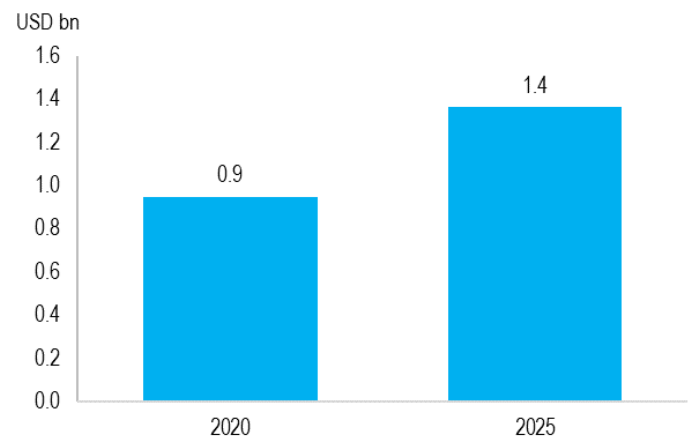
Source: Industry, Nirmal Bang Institutional Equities Research

Exhibit 44: Global feed enzymes market is expected to grow at ~7% CAGR over 2020-25E



Source: Industry, Nirmal Bang Institutional Equities Research

Exhibit 45: Global bakery enzymes market is expected to grow at ~7.5% CAGR over 2020-25E

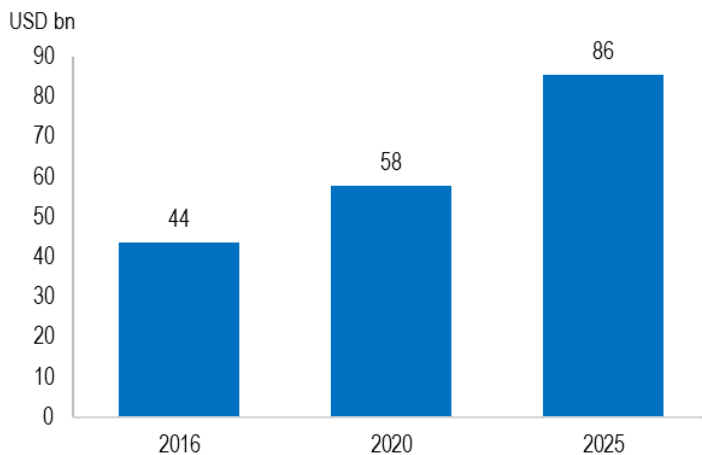


Source: Industry, Nirmal Bang Institutional Equities Research

Probiotics has a long runway for growth

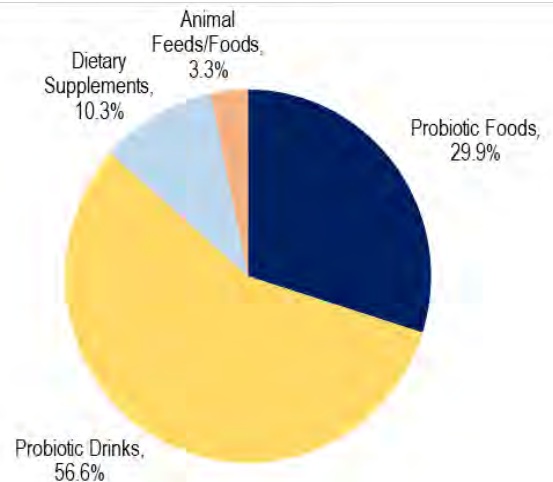
Probiotics are live bacteria and yeasts that are good for humans as well as animals, mainly for their digestive systems. Global probiotics industry is growing at ~8% CAGR as probiotics have become an integral part of functional foods and beverages as it boosts immunity and improves gut functionality. Increasingly, younger population is preferring probiotics. The dietary supplement market is growing in double digits in USA and demand for probiotics is rising because of growing awareness about its health benefits. Apart from F&B, probiotics are increasingly being used in animal nutrition. In animal nutrition, use of enzymes and probiotics has been increased post imposition of ban on antibiotics by many geographies. In our coverage universe, ADVENZY has presence in the probiotics space.

Exhibit 46: Global probiotics market is expected to grow at 8% CAGR over 2020-25E



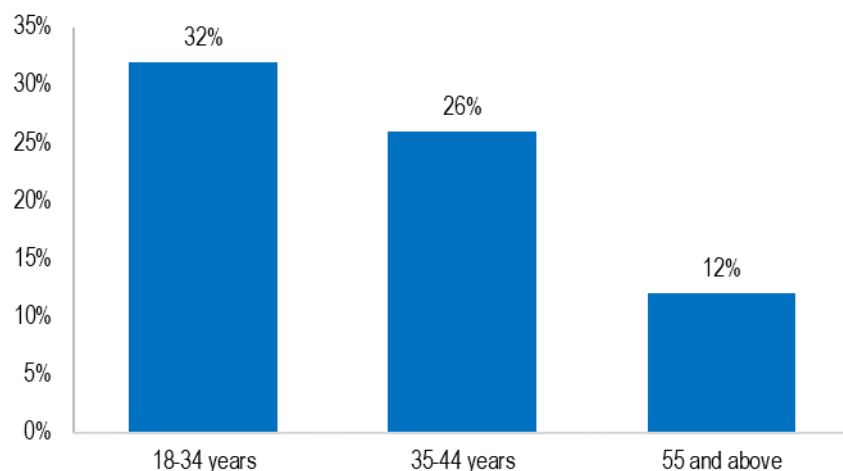
Source: Industry, Nirmal Bang Institutional Equities Research

Exhibit 47: Break-up of global pro-biotics market by end-user segments



Source: Industry, Nirmal Bang Institutional Equities Research

Exhibit 48: Probiotics are increasingly being preferred by young population

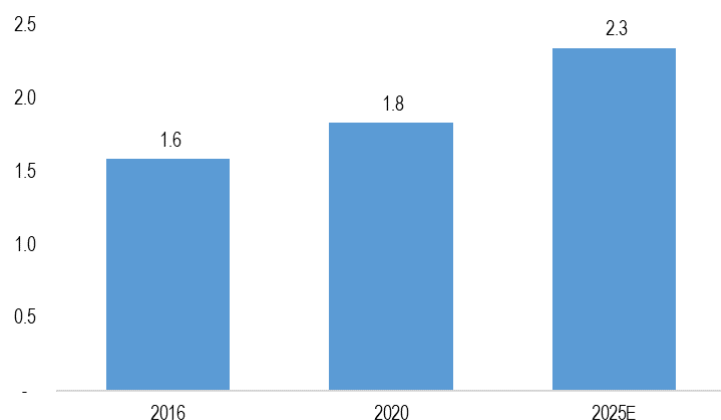


Source: USA based survey, Nirmal Bang Institutional Equities Research

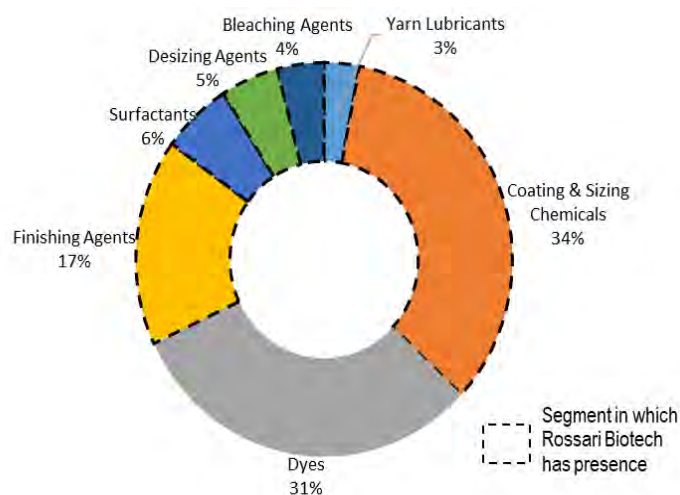
Textile chemicals segment - India is the fastest growing market

As per industry estimates, global textile chemicals is a US\$24bn market but we have focused mainly on India since ROSSARI has higher salience in the domestic market. Also, across the globe, India is the fastest growing market. Growth in the apparel industry and rising share of organized players will drive growth of the textile chemical segment in India.

Exhibit 49: India textile chemicals market is expected to grow at 5% CAGR over the next 5 years **Exhibit 50: Break-up of India textile chemicals segment by type**



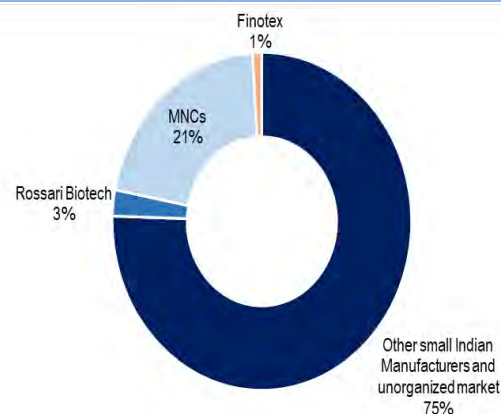
Source: Industry, Nirmal Bang Institutional Equities Research



Source: Industry, Nirmal Bang Institutional Equities Research

Exhibit 51: India competitive scenario- textile chemicals

Large MNCs	Large Indian Players	Smaller Indian Companies
Large MNCs have a significant presence in the India market	Large Indian players are competing with large MNCs across various products	These companies are usually characterized by restricted geographical presence and a limited product portfolio
These companies usually have a larger product portfolio as compared to their Indian counterparts	These companies typically have in-depth market understanding, strong distribution network and established customer base	These companies usually position themselves as low cost alternatives to MNCs and larger Indian players
List of Companies	List of Companies	List of Companies
Archroma CHT Rudolf Croda international Huntsman Corporation	Rossari Biotech Limited Fineotex Chemical Resil Chemicals Sarex Chemicals	Dai-ichi Karkaria Britacel Silicones Indokem Limited

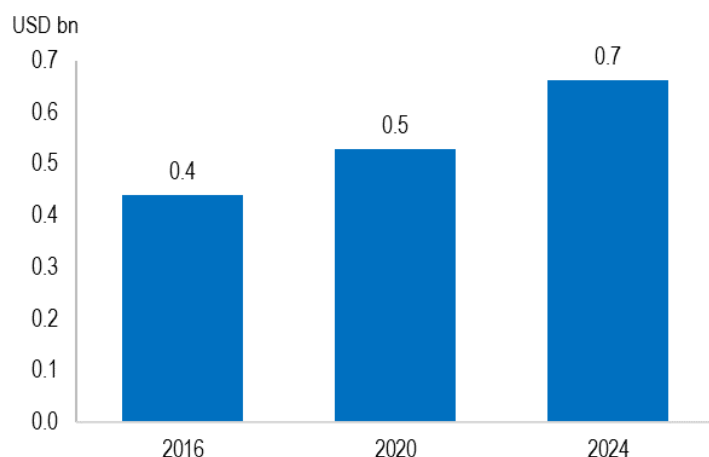


Source: Industry, Nirmal Bang Institutional Equities Research

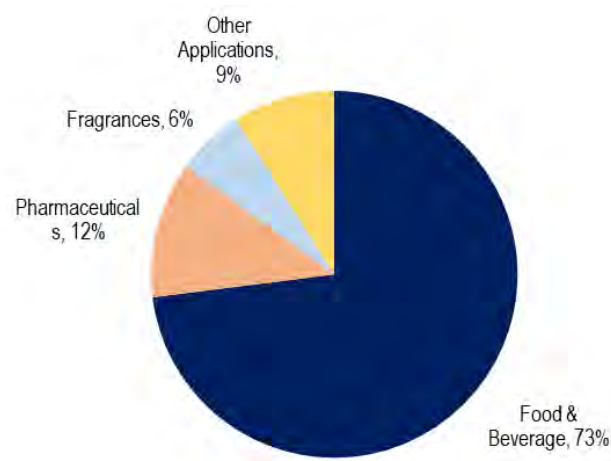
Vanillin market is expected to grow at 6% over 2019-24

CFIN is the second largest producer of vanillin after Solvay. Aroma performance division (which includes Vanillin) of Solvay forms ~5% of overall revenue. F&B is the key end-user industry for vanillin with almost ~75% share. CFIN follows environmental-friendly manufacturing process for Vanillin and also is one of the lowest cost producers of Vanillin.

Exhibit 52: Global vanillin market is expected to grow at ~6% CAGR over 2020-25E **Exhibit 53: F&B is the largest end-user segment for vanillin**



Source: Industry, Nirmal Bang Institutional Equities Research



Source: Industry, Nirmal Bang Institutional Equities Research

Exhibit 54: Solvay's aroma performance division forms ~5% of overall revenue

Euro mn	FY15	FY16	FY17	FY18	FY19	FY20
Aroma Performance	360	350	366	414	425	435
Growth %	-	-3%	5%	13%	3%	2%
% of Overall Solvay	3%	3%	4%	4%	4%	5%

Source: Solvay, Nirmal Bang Institutional Equities Research

While the trend of plant-based or animal-based sourcing of raw materials has been seen across industries, it does not rule out the existing market for synthetic ingredients. For instance, TBHQ and BHA are two synthetic anti-oxidants (which are derived from diphenols- hydroquinone and catechol). While excess quantity of these ingredients is harmful for humans as well as animals, consumption of the same within the prescribed limit is completely safe. It improves the shelf life of products. We believe that growth in TBHQ will be led by growth in packaged foods (wafers, noodles, snacks etc) whereas animal nutrition segment will continue to drive BHA growth. CFIN is a leading player in these two segments and has entered the blends segment also post 2016. Solvay also has presence in this space and its coatis segment (which includes phenol derivatives) forms ~5% of its overall revenue.

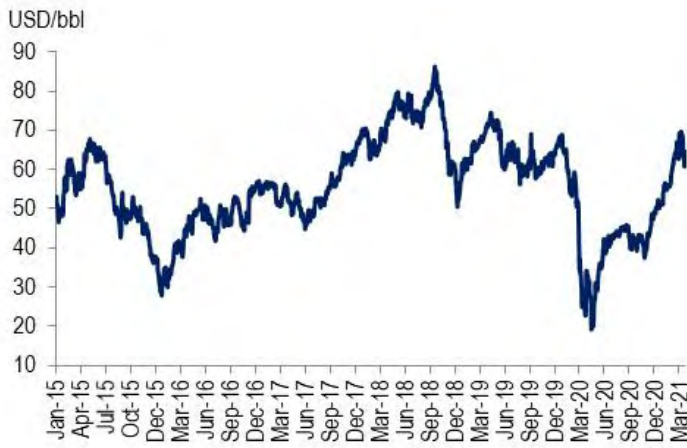
Exhibit 55: Phenol derivatives segment of Solvay

Euro mn	FY15	FY16	FY17	FY18	FY19	FY20
Coatis (Phenol derivatives)	398	346	410	591	535	470
Growth %		-13%	18%	44%	-9%	-12%
% of Overall Solvay	4%	3%	4%	6%	5%	5%

Source: Solvay, Nirmal Bang Institutional Equities Research

Raw materials - both crude-based as well as plant-based raw materials undergo significant volatility

Exhibit 56: Brent crude oil, up 24.5% from Dec'20



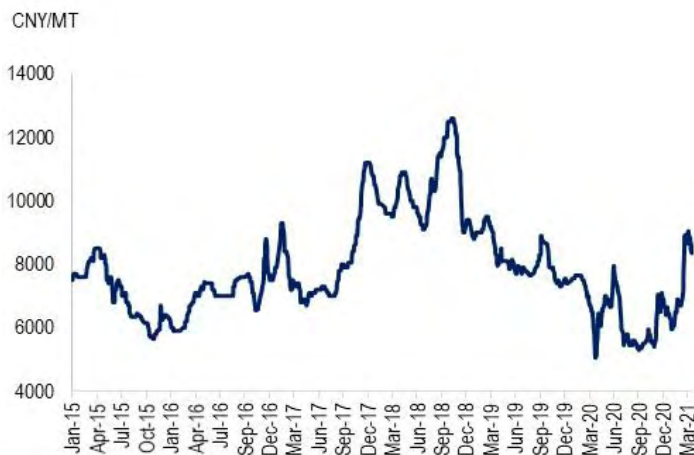
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 57: China pure benzene, up 44% from Dec'20



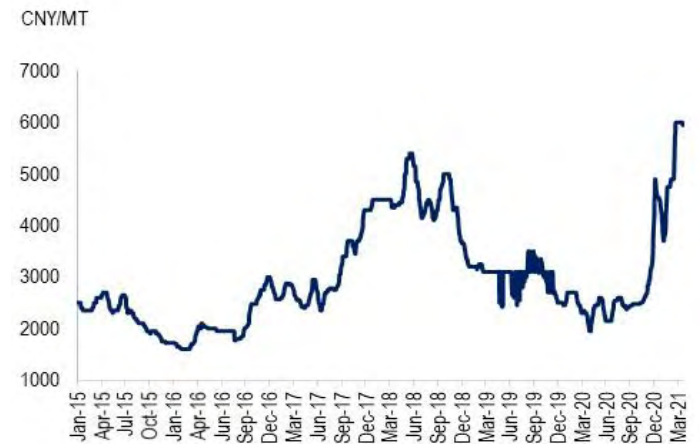
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 58: China Phenol, up 36.5% from Dec'20



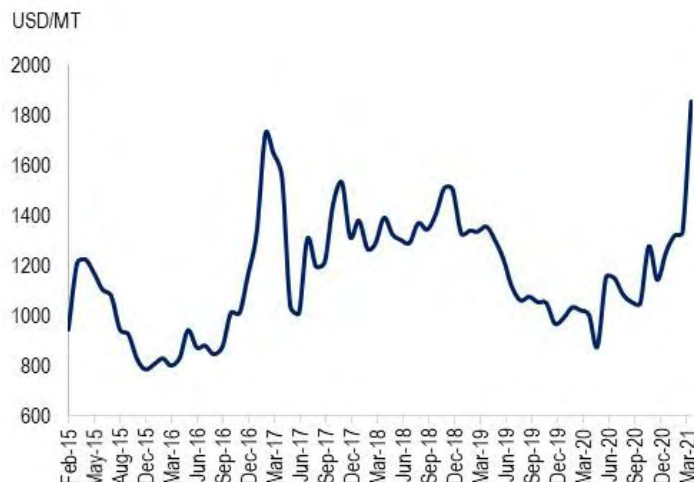
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 59: China Acetic acid, up 37% from Dec'20



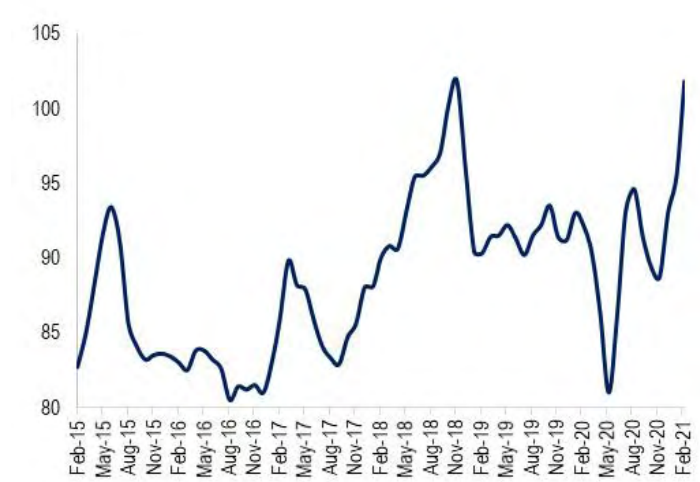
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 60: China Acrylic acid, up 48% from Dec'20



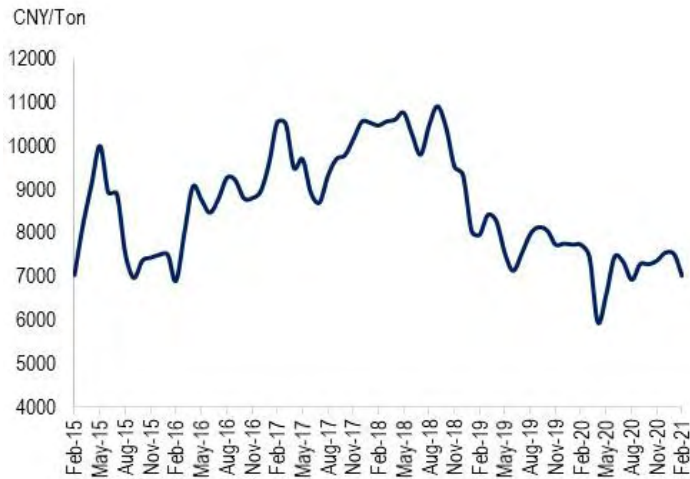
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 61: India WPI- Alkyl Benzene, up 9% from Dec'20



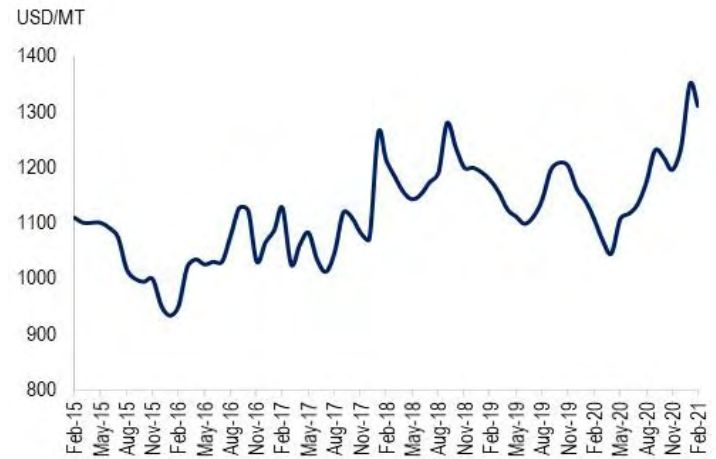
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 62: China Ethylene oxide, down 6% from Dec'20



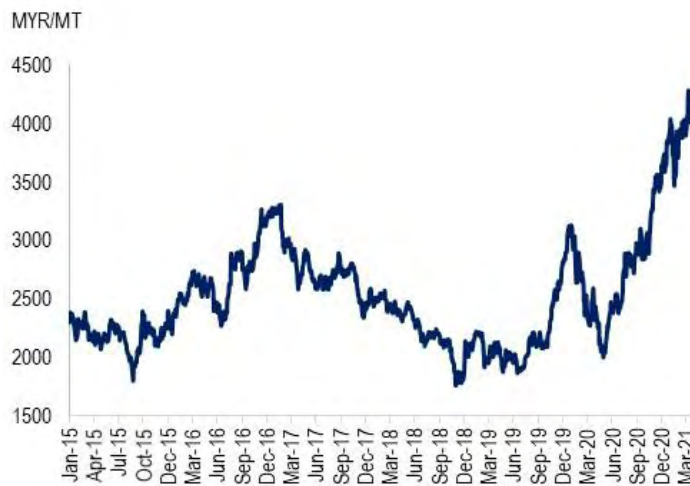
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 63: Ethylene oxide United States – FOB North America, up 6% from Dec'20



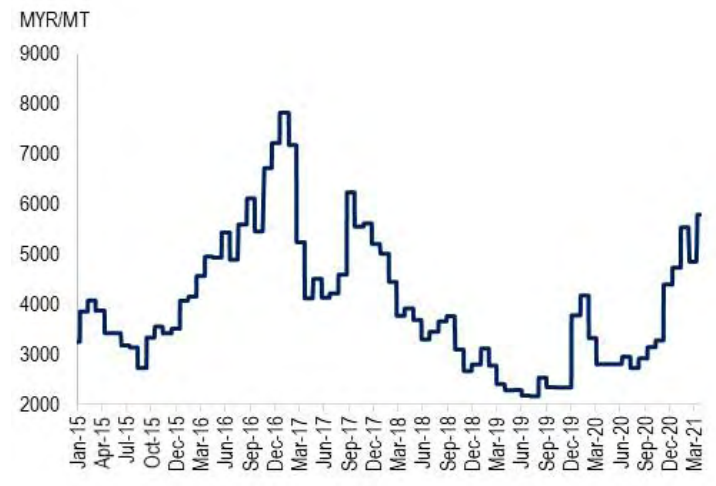
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 64: Crude palm oil, up 7% from Dec'20



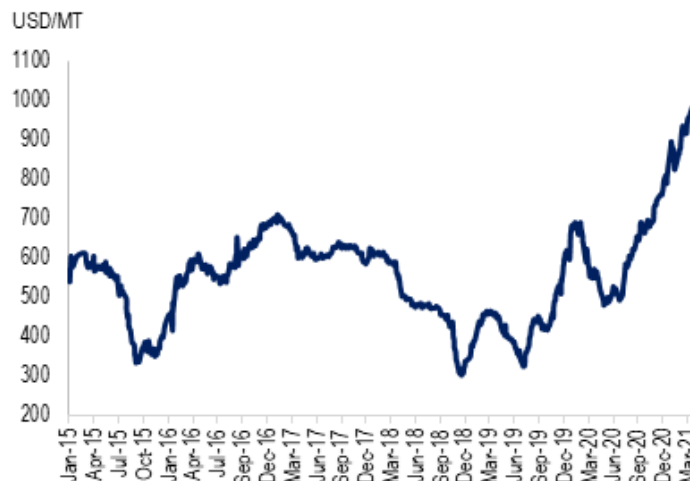
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 65: Crude palm kernel oil, up 22% from Dec'20



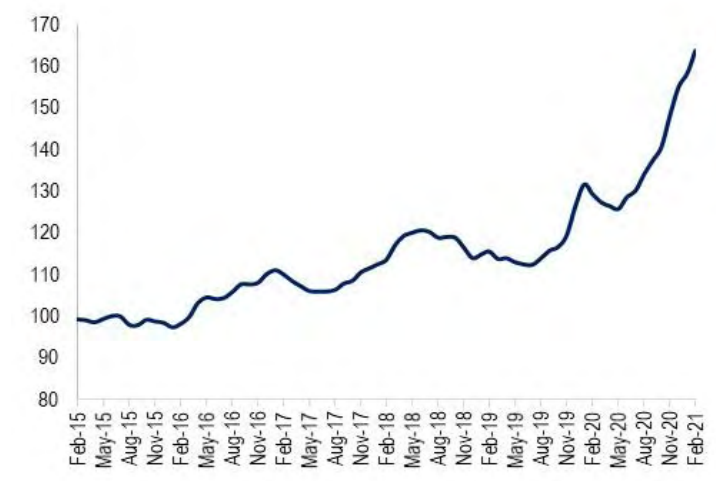
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 66: Malaysia Palm Fatty Acid Distillate FOB price, up 19% from Dec'20



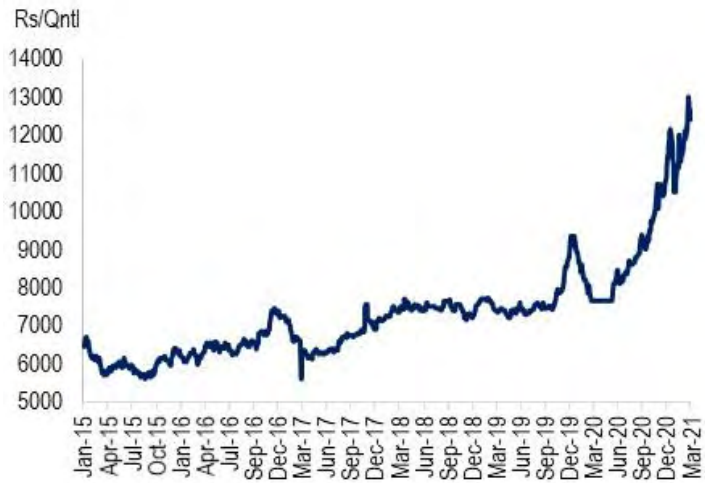
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 67: India WPI Manufacture of Vegetable and Animal Oils and Fats, up 6% from Dec'20



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 68: Edible oil - Soyabean refined, up 9% from Dec'20



Global chemical universe share price performance over multiple time horizons

Exhibit 70: Global chemical universe share price performance over multiple time horizons

Company Name	0.5yr absolute	1yr absolute	1.5yr CAGR	2yr CAGR	3yr CAGR	4yr CAGR	5yr CAGR	10yr CAGR	15yr CAGR
Nifty 50	29	68	17	12	13	12	14	10	10
Sensex 30	29	64	17	13	14	14	14	10	10
Average of Indian chemical companies	14	92	45	36	21	20	29	30	28
MSCI World Chemical Index	19	67	20	17	9	9	11	7	7
Indian chemical companies									
UPL	15	82	0	-3	6	5	14	20	13
Coromandel	-6	44	50	23	13	24	32	10	21
PI Industries	17	110	43	49	37	28	32	44	50
Rallis India	-8	55	32	28	3	2	9	7	18
Bayer Cropscience India	-16	55	30	7	6	7	6	18	24
BASF India	39	83	57	16	1	13	18	15	16
Navin Fluorine	18	89	119	83	47	42	47	47	30
SRF	26	93	54	47	39	35	33	33	22
Aarti Industries	29	73	38	31	33	37	41	49	27
Vinati Organics	5	78	17	32	46	42	49	45	56
Atul	17	76	45	41	39	32	37	45	30
Sudarshan Chemicals	13	46	24	22	6	11	43	23	26
Fine Organic Industries	-17	16	21	34	NA	NA	NA	NA	NA
Rossari Biotech	32	NA	NA	NA	NA	NA	NA	NA	NA
Galaxy Surfactant	30	109	38	50	17	NA	NA	NA	NA
Camlin Fine Sciences	30	275	81	67	11	11	9	37	NA
Advanced Enzyme Technologies	14	194	63	42	17	-4	NA	NA	NA
Global chemical companies									
Du Pont Nemours Inc	39	132	8	2	-4	-4	1	4	2
BASF SE	36	70	7	3	-5	-6	1	2	5
Chemours	35	191	54	-13	-16	-7	32	NA	NA
Solvay SA	42	66	8	6	-2	-1	4	3	1
Sinopec	9	-6	-10	-13	-13	-7	-1	-4	0
Clariant AG	4	22	-2	-4	-6	1	2	2	-0
Novozymes	-1	33	25	14	9	10	7	10	11
Croda International	3	53	20	12	11	15	15	14	18
Evonik Industries	35	66	22	12	2	0	3	NA	NA
Huntsman Corporation	30	102	17	15	-0	5	17	5	3
Wacker Chemie AG	41	169	54	23	-4	4	10	-3	NA
Givaudan SA	-8	27	20	19	19	19	14	15	9
Ecolab	8	35	5	10	16	14	14	16	12
International Flavors & Fragra	16	27	11	4	1	2	4	9	10
Associated British Foods PLC	28	33	3	-0	-1	-2	-6	9	7
Ingredion Inc	21	26	10	-0	-10	-6	-3	7	8
Archer-Daniels-Midland Co	25	73	26	16	11	6	10	5	4
Stepan Co	18	66	23	22	16	13	19	14	16
CHR Hansen Holding A/S	-21	11	-5	-10	2	6	5	16	NA
Kao Corporation	-12	-20	-8	-9	-2	4	3	13	6
Kerry Group PLC	-1	10	1	5	10	10	6	15	12
Riken Vitamin Co., Ltd.	-37	-36	-12	-10	-11	-9	-7	3	-0
Taiyo Holdings Co Ltd	8	44	41	30	10	5	10	9	4
Koninklijke DSM N.V.	8	49	22	23	22	23	25	13	9
Ube Industries, Ltd.	30	41	8	4	-7	-2	4	-1	-2
Mitsui Chemicals, Inc.	41	71	32	18	3	7	14	10	-1
Guilin Layn Natural Ingredients Corp	-5	-2	6	3	-3	-8	-6	1	NA
Kawaguchi Chemical Industry Co., Ltd.	-0	27	1	-7	-15	-10	-5	0	-10
Exxonmobil Chemical	63	56	-13	-15	-7	-8	-7	-4	-0
Eastman Chemical Company	44	142	33	22	3	9	9	9	10

Source: Bloomberg, Nirmal Bang Institutional Equities Research Prices as on 28th March 2021

Valuation (Global and Indian companies)





























































Global players with oleochemicals presence and strong R&D expertise claim premium valuations as these players are expected to be key beneficiaries of market development. Companies providing enzymes solutions claim the highest margin and valuation on account of high entry barriers in the industry and significant growth opportunity across segments. We highlight that operating margin of our coverage universe is broadly in-line with global composite weighted average operating margin of relevant segments, as per our estimates. We believe that players like FINEORG, ROSSARI and GALSURF will continue to trade at premium valuations due to innovation-led growth opportunities. CFIN and ADVENZY could re-rate further post consistent performance in the coming quarters.

Exhibit 71: Valuation (Global and Indian companies)

Company Name	Mcap	FY21E-23E CAGR (%)			EBITDA margin FY23E/CY22E	ROE (%)			P/E (x)			EV/EBITDA (x)			P/B (x)		
	(USD bn)	Revenue	EBITDA	PAT		FY21E/CY 20	FY22E/CY 21E	FY23E/CY 22E	FY21E/CY 20	FY22E/CY 21E	FY23E/CY 22E	FY21E/CY 20	FY22E/CY 21E	FY23E/CY 22E	FY21E/CY 20	FY22E/CY 21E	FY23E/CY 22E
Indian companies																	
UPL Ltd	6.2	8.0	10.8	18.6	22.7	15.7	16.8	17.1	15.0	12.5	10.8	8.0	6.9	5.9	2.1	1.8	1.6
Coromandel International Ltd	3.0	7.8	6.3	8.0	14.2	28.4	24.8	23.1	15.8	14.9	13.5	10.3	9.6	8.6	4.2	3.5	3.0
PI Industries Ltd	4.7	20.8	20.1	19.6	22.8	18.6	16.1	16.3	45.2	36.8	31.2	31.6	27.5	22.6	6.3	5.6	4.8
Rallis India Ltd	0.7	12.7	17.8	17.6	15.2	14.8	15.6	16.4	22.7	19.4	16.3	15.0	12.6	10.6	3.3	2.9	2.5
Bayer CropScience Ltd/India	3.1	9.8	14.2	18.8	21.6	21.5	23.5	22.7	38.0	30.4	26.9	26.3	22.0	19.1	8.0	6.6	5.7
BASF India Ltd	1.2	13.0	9.3	13.3	5.9	15.7	15.0	14.0	34.0	28.3	26.5	N/A	N/A	N/A	4.1	3.5	3.0
Navin Fluorine International L	1.7	35.5	39.0	42.7	28.3	15.3	18.6	23.8	52.8	38.6	25.9	37.0	30.2	19.3	7.7	6.8	5.7
SRF Ltd	4.3	17.9	18.8	21.4	26.8	19.6	19.3	19.6	26.6	21.6	18.0	15.7	13.5	11.1	4.5	3.9	3.3
Aarti Industries Ltd	3.2	23.5	26.4	28.0	23.6	17.8	18.8	19.7	42.9	33.3	26.2	26.2	20.6	16.5	6.8	5.2	4.5
Vinati Organics Ltd	2.0	34.9	31.4	29.8	37.8	22.5	23.8	28.0	53.4	44.0	31.7	38.2	30.7	21.8	10.0	8.6	7.1
Fine Organic Industries Ltd	1.0	15.6	29.9	37.7	22.3	20.1	25.4	25.8	51.4	33.9	27.1	32.2	22.8	18.3	9.6	7.8	6.3
Rossari Biotech Ltd	0.7	24.4	32.4	37.8	18.8	16.7	16.1	18.6	71.1	49.7	37.5	42.8	31.9	23.9	8.1	7.1	6.1
Galaxy Surfactants Ltd	1.2	16.3	13.6	13.9	15.9	24.3	22.7	21.9	29.3	26.1	22.6	19.2	17.0	14.6	6.5	5.4	4.5
Camlin Fine Sciences Ltd	0.2	23.4	35.0	58.3	17.7	13.2	16.9	20.3	31.3	18.0	12.5	11.2	8.4	6.1	2.6	2.2	1.8
Advanced Enzyme Technologies L	0.5	16.6	14.3	16.9	45.4	16.7	16.5	16.6	25.2	21.7	18.4	14.8	12.5	10.2	3.9	3.3	2.8
Atul Ltd	2.9	17.3	16.4	16.0	23.9	18.4	18.4	18.3	32.8	28.3	24.4	22.5	19.2	16.3	5.7	4.9	4.3
Sudarshan Chemical Industries	0.5	15.2	19.9	25.7	16.8	19.3	21.3	22.4	29.4	23.0	18.6	14.8	12.5	10.2	5.2	4.5	3.9
Global companies																	
DuPont de Nemours Inc	41.9	-10.8	-7.9	-5.8	26.2	5.4	4.9	5.4	24.0	22.9	19.4	11.5	13.2	12.2	1.5	1.2	1.1
BASF SE	75.8	5.7	16.1	27.5	14.7	-1.2	10.9	10.6	23.8	15.6	15.1	11.2	8.4	8.3	1.8	1.8	1.8
Chemours Co/The	4.7	10.0	20.3	39.7	20.9	41.0	48.8	45.3	16.0	10.2	8.2	8.9	6.9	5.9	6.2	4.3	3.3
Solvay SA	13.4	4.7	6.8	16.2	22.6	7.6	9.6	11.0	17.8	16.1	13.5	7.0	6.6	6.1	1.4	1.6	1.6
FMC Corp	14.6	6.5	9.0	9.1	28.3	29.1	28.6	28.6	18.3	15.9	14.1	13.9	12.7	11.6	4.9	4.5	4.1
China Petroleum & Chemical Cor	76.2	8.5	24.3	24.2	7.9	4.5	6.1	6.3	16.3	9.9	9.2	3.7	2.7	2.3	0.7	0.7	0.6
Clariant AG	6.7	5.3	6.9	16.3	16.3	10.2	11.6	11.9	28.1	24.8	21.6	11.7	11.0	9.6	2.6	2.6	2.6
Novozymes A/S	18.2	3.7	3.8	4.5	35.1	25.2	26.5	27.8	39.5	37.9	35.3	24.1	23.7	22.4	10.0	9.9	9.5
Croda International PLC	12.2	14.1	13.9	15.7	29.1	17.5	16.4	17.4	36.6	31.4	28.7	24.5	20.1	18.6	5.6	6.0	5.6
Evonik Industries AG	16.5	5.9	10.8	16.6	17.4	7.2	9.1	10.3	20.6	17.2	15.0	9.2	7.6	6.9	1.5	1.7	1.7
Huntsman Corp	6.4	10.4	31.3	62.0	14.7	10.4	12.7	13.7	30.6	13.2	11.6	11.5	7.1	6.4	1.8	1.6	1.5
Wacker Chemie AG	7.3	6.9	18.8	42.1	17.5	9.0	14.1	12.6	36.6	18.9	17.8	10.1	6.0	6.4	2.9	2.5	2.3
Givaudan SA	35.5	3.4	4.1	8.6	22.9	21.5	23.1	23.9	35.8	37.8	34.6	25.8	25.2	23.5	8.8	9.0	8.2
Ecolab Inc	61.5	5.4	14.9	22.0	24.3	12.4	23.4	25.7	53.0	41.6	35.0	27.4	23.2	20.6	10.3	9.6	9.0
International Flavors & Fragra	35.3	54.1	65.5	47.8	23.8	8.8	9.7	7.6	25.3	24.2	21.8	37.4	19.2	15.8	2.6	2.3	2.4
Associated British Foods PLC	25.9	8.0	18.6	-5.8	15.0	4.8	7.9	11.1	41.3	26.4	17.1	12.1	9.2	7.1	2.0	1.9	1.8
Ingredion Inc	6.2	4.7	7.1	8.8	15.0	13.6	12.4	14.2	15.4	13.9	12.9	9.2	8.4	7.9	2.2	2.1	1.9
Archer-Daniels-Midland Co	32.0	3.7	11.1	4.6	5.8	8.9	10.0	9.3	16.6	14.9	14.5	12.3	10.2	9.7	1.6	1.5	1.4
Chr Hansen Holding A/S	12.0	0.5	2.3	-1.7	37.9	30.6	28.2	19.3	292.5	354.3	304.4	181.2	188.6	172.5	84.0	55.5	53.7
Kao Corp	32.6	3.7	5.6	7.6	19.4	14.6	14.4	15.2	28.0	26.7	24.0	13.7	12.9	11.9	4.0	3.8	3.5
Kerry Group PLC	22.9	4.5	8.9	11.1	15.5	12.1	13.3	13.7	32.3	28.6	25.9	21.6	19.5	17.7	3.9	3.8	3.5
Taiyo Holdings Co Ltd	1.6	9.0	28.4	31.1	26.4	8.4	12.9	13.2	29.0	18.5	16.8	15.2	9.8	9.1	2.4	2.3	2.1
Koninklijke DSM NV	31.5	6.5	9.2	12.5	20.0	9.8	10.6	11.3	34.5	29.9	26.7	19.1	16.1	14.9	3.3	3.2	3.0
Ube Industries Ltd	2.4	-3.0	2.5	0.4	11.5	6.6	4.6	6.7	11.8	16.7	11.2	5.5	6.3	5.3	0.7	0.7	0.7
Eastman Chemical Co	15.1	5.7	10.4	18.5	22.6	11.9	15.7	15.8	18.7	14.3	13.3	11.5	9.7	9.1	2.4	2.3	2.1
Mitsui Chemicals Inc	6.8	-0.3	19.4	18.4	13.4	8.1	9.0	10.7	15.7	14.6	11.3	8.8	7.0	6.2	1.3	1.3	1.2

Source: Bloomberg, Nirmal Bang Institutional Equities Research (For companies under coverage, our estimates have been used) Prices as on 28th March 2021

Exhibit 72: Key financial parameters of the coverage universe

	Fine Organics	Rossari Biotech	Galaxy Surfactants	Camlin Fine	Advanced Enzymes
Revenue CAGR (%)					
FY16-20	 12%	 35%	 10%	 21%	 11%
FY20-23E	 15%	 22%	 11%	 20%	 15%
FY21E-23E	 16%	 24%	 16%	 23%	 17%
EBITDA CAGR (%)					
FY16-20	 13%	 70%	 12%	 9%	 10%
FY20-23E	 14%	 25%	 16%	 35%	 15%
FY21E-23E	 30%	 32%	 14%	 35%	 14%
APAT CAGR (%)					
FY16-20	 21%	 110%	 23%	 -6%	 13%
FY20-23E	 16%	 32%	 17%	 32%	 32%
FY21E-23E	 38%	 38%	 14%	 58%	 17%
Avg EBITDA margin (%)					
FY16-20	 21%	 13%	 13%	 10%	 45%
FY20-23E	 21%	 18%	 16%	 15%	 46%
FY21E-23E	 20%	 18%	 16%	 16%	 46%
Revenue share % (FY20)					
Domestic	55%	89%	35%	13%	43%
Overseas	45%	11%	65%	87%	57%
Gross margin %(FY20)	41%	38%	34%	49%	82%
Staff costs % sales (FY20)	7%	6%	7%	10%	18%
Other expenses % sales (FY20)	11%	14%	13%	27%	18%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 73: Coverage company grid

Particulars	Fine Organics	Rossari Biotech	Galaxy Surfactants	Camlin Fine	Advanced Enzymes
Fixed Asset turnover (x)					
FY20	7.0	7.2	4.1	5.2	1.8
FY21E	5.3	4.9	3.5	5.0	1.9
FY22E	5.8	4.6	3.8	5.4	2.3
FY23E	6.4	5.7	3.9	5.9	2.9
Capex (Rsmn)					
FY16-20	1,966	1,440	4,119	3,206	885
FY20-23E	1,800	1,632	4,354	2,850	358
Net working capital days					
FY20	65	27	68	123	111
FY21E	60	27	68	124	111
FY22E	57	25	68	112	108
FY23E	55	25	68	107	108
Net debt to equity (x)					
FY20	(0.2)	(0.3)	0.2	1.1	(0.2)
FY21E	(0.2)	(0.6)	0.1	0.4	(0.3)
FY22E	(0.4)	(0.6)	0.0	0.4	(0.4)
FY23E	(0.4)	(0.6)	(0.0)	0.2	(0.5)
OCF/EBITDA (%)					
FY20	90.8%	52.3%	85.7%	65.8%	69.4%
FY21E	60.2%	79.2%	75.0%	55.8%	67.9%
FY22E	74.0%	69.3%	60.9%	53.2%	62.5%
FY23E	63.6%	66.0%	63.3%	54.9%	64.1%
FCF yield (%)					
FY20	1.9%	N/A	4.2%	-10.1%	5.6%
FY21E	1.0%	-0.1%	3.0%	2.8%	3.9%
FY22E	2.4%	1.4%	1.2%	-3.9%	4.0%
FY23E	2.2%	2.0%	2.5%	8.4%	4.9%
ROCE (%)					
FY20	31.1%	37.0%	24.4%	11.5%	22.7%
FY21E	22.7%	19.3%	25.3%	13.0%	22.6%
FY22E	28.6%	18.0%	24.8%	15.6%	22.0%
FY23E	29.5%	21.4%	24.4%	19.3%	22.1%
ROE (%)					
FY20	29.4%	31.8%	23.9%	7.8%	17.0%
FY21E	20.1%	16.7%	24.3%	13.2%	16.7%
FY22E	25.4%	16.1%	22.7%	16.9%	16.5%
FY23E	25.8%	18.6%	21.9%	20.3%	16.6%

Source: Company, Nirmal Bang Institutional Equities Research

Risks

- Extreme raw material fluctuation
- Forex fluctuation
- Reduced pace of premiumisation
- Aggressive expansion by existing or new competitor
- Delay in approvals from authorities with respect to products in the pipeline
- Loss of key clients

Fine Organic Industries

Fine Organics (FINEORG) is a key manufacturer of oleochemical-based additives. While polymer additives and food additives are key segments for the company (~65-70% of revenue as per our estimates), it supplies specialty additives to other industries like Cosmetics, Pharma, Paints & Coatings, Rubber, Construction etc as well. As per the management, there is no direct competition from Indian players. FINEORG's focus on customer-centric solutions, R&D expertise in oleochemicals and strong engineering R&D capabilities with indigenous technology make it a formidable partner of choice in the oleochemicals space. Capex estimate for peers is ~8-10x compared to FINEORG for the same capacity, as per our estimates. While the company does not share segment-wise numbers, realisation from all the segments is range-bound and hence any increase or decrease of salience for one segment will not affect the company's margin profile. FINEORG follows an integrated solutions approach by working closely with clients. Very few global companies follow this approach. Also, FINEORG deals with some of the key global companies which are its peers. We believe that large players don't have the bandwidth to go deeper into product-specific requirements of clients and also salience of local/regional players in their client mix is low. There is a rising shift in preference towards oleochemistry-based products vis-à-vis petroleum-based products. There are very high entry barriers on account of R&D expertise, stringent regulations and long gestation period for product approvals. While we see multiple growth levers for food, feed and polymer additives, other end-user industries have also contributed to FINEORG's growth in a meaningful way (30% revenue as per our estimates) over the last couple of years. We believe this market will remain oligopolistic and select players should grow substantially over the next decade. While there have been short-term challenges due to Covid-19 and abnormal surge in raw material prices, FINEORG is a structural story and would benefit from market development and innovation in green additives. We are building in Revenue/EBITDA/PAT CAGR of ~16%/~30%/~38% over FY21-23E. In the event of any potential acquisition or expansion (FINEORG has sufficient cash reserves), there could be further upside to our estimates. We initiate coverage on FINEORG with a BUY rating and Target Price (TP) of Rs2,700, indicating an upside of ~18% from CMP. Our TP is based on 32x PE on FY23E earnings.

Financial summary (Consolidated)

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	10,603	10,381	11,938	13,729	15,939
Growth YoY %	23.9	(2.1)	15.0	15.0	16.1
Gross margin %	38.2	41.3	36.3	38.4	39.0
EBITDA	2,336	2,405	2,105	2,910	3,555
EBITDA margin %	22.0	23.2	17.6	21.2	22.3
Adj PAT	1,362	1,648	1,353	2,052	2,565
Growth YoY%	42.9	21.0	(17.9)	51.7	25.0
Adj. EPS	44.4	53.7	44.1	66.9	83.7
RoCE %	40.7	31.1	22.7	28.6	29.5
RoE %	30.4	29.4	20.1	25.4	25.8
P/E	51.5	42.6	51.9	34.2	27.4
EV/EBITDA	30.1	28.7	32.5	23.0	18.5
P/BV	14.0	11.3	9.7	7.9	6.4

Source: Company, Nirmal Bang Institutional Equities Research

Variance with consensus

Particulars	NBIE estimates			Consensus estimates			Variance (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	11,938	13,729	15,939	10,921	13,439	15,568	9.3	2.2	2.4
EBITDA	2,105	2,910	3,555	2,090	2,850	3,447	0.7	2.1	3.1
EBITDA margin	17.6%	21.2%	22.3%	19.1%	21.2%	22.1%	-150bps	-1bps	16bps
APAT	1,353	2,052	2,565	1,333	1,945	2,454	1.5	5.5	4.5

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Rossari Biotech

Rossari Biotech (ROSSARI) is a leading specialty ingredients player operating in Home, Personal Care and Performance Chemicals (HPPC), Textile Chemicals and Animal Health & Nutrition (AHN) segments. Formulation and application is the key forte of ROSSARI as against manufacturing and the company closely engages with clients by adopting a problem-solving approach. Predominantly, ROSSARI has a strong hold on four chemistries - acrylic polymers, surfactants, silicones and enzymes. While global giants like BASF, Wacker, Clariant etc. currently have a presence in these chemistries, ROSSARI focuses more on integrated solutions and in fact partners with some of its peers. Because of the company's custom-made approach, ROSSARI engages with bigger companies for ingredients and further adds value as per customers' requirements. Since these chemistries find applications in various end-user industries, it is all about seeding new industries and growing the addressable markets. The HPPC segment is a perfect example - it grew at ~94% CAGR in the last three years on the back of new client additions and new launches in HPC. Eventually, other industries (e.g. paints & coatings, ceramics, paper & pulp, water treatment etc.), which are in the seeding stage, will start contributing to the company's overall revenue. We believe that focus on formulation and application along with the ability to cater to different end-user industries will meaningfully expand the addressable market for ROSSARI. Hence, the company should be in a position to deliver profitable growth on a sustainable basis. ROSSARI has recently increased its capacity to 2x post Dahej commissioning, which can potentially double its revenue by FY24. Also, the management has clearly articulated its intention to grow inorganically as well, which might open new areas of growth for the company. The recent fund raising worth Rs3bn via preferential allotment for inorganic expansion clearly indicates that a deal could be in final stages. While the size of the opportunity is not known, considering the fund raise and cash on the balance sheet, we expect the target to have revenue of ~50% of the company's FY20 revenue. We are building in revenue/EBITDA/APAT CAGR of 24%/32%/38% over FY21E-23E. We initiate coverage on ROSSARI with a Target Price (TP) of Rs1,230, indicating an upside of 15% from CMP. While our current estimates do not include the acquisition, the implied target multiple stands at 37x FY23E considering the growth visibility in its existing segments and opening up of new growth avenues.

Financial summary (Consolidated)

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	5,162	6,001	7,059	8,902	10,920
Growth YoY%	76.9	16.2	17.6	26.1	22.7
Gross margin %	34.3	38.1	36.7	37.3	38.5
EBITDA	776	1,047	1,170	1,553	2,049
EBITDA margin %	15.0	17.5	16.6	17.4	18.8
Adj PAT	457	653	783	1,120	1,486
Growth YoY %	57.5	42.8	20.0	43.1	32.7
Adj EPS	20.8	12.9	14.6	20.8	27.6
RoCE %	54.0	37.0	19.3	18.0	21.4
RoE %	41.9	31.8	16.7	16.1	18.6
P/E	51.7	83.5	73.7	51.5	38.8
EV/EBITDA	70.2	51.4	43.5	32.4	24.3
P/BV	44.0	19.0	8.4	7.4	6.3

Source: Company, Nirmal Bang Institutional Equities Research

Variance with consensus

Particulars	NBIE estimates			Consensus estimates			Variance (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	7,059	8,902	10,920	7,112	8,972	10,974	(0.8)	(0.8)	(0.5)
EBITDA	1,170	1,553	2,049	1,305	1,684	2,102	(10.4)	(7.8)	(2.5)
EBITDA margin	16.6%	17.4%	18.8%	18.3%	18.8%	19.2%	-178bps	-132bps	-39bps
APAT	783	1,120	1,486	814	1,058	1,365	(3.8)	5.9	8.9

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Galaxy Surfactants

Galaxy Surfactants (GALSURF) is one of the leading players in the surfactants and specialty care ingredients market and it is focused on only Home and Personal Care (HPC) industry across the globe, unlike peers that are having presence across various end-user industries. Performance Surfactants and Specialty Care are the two segments where the company is highly focused on green technology, innovation and marketing. While a reasonable proportion of the Performance Surfactants segment is commodity business (yielding low margins), Specialty Care products are used in premium end-user segments and add significant value to the end products. GALSURF is a fairly diversified company in terms of geographical presence. On the margin front, the company has consistently moved up the ladder (EBITDA/kg up at ~3% CAGR over FY16-20) on the back of rising salience of the premium portfolio across segments and operating leverage. While the global beauty & personal care and home care market is expected to grow in the range of ~3-4% per annum, premium products' growth is expected at ~2x the overall growth for the category. We believe that GALSURF would be a key beneficiary of the broader trends like growing urbanization, rising disposable incomes, improving standards of living and premiumisation. It has large headroom for growth in the Developed Markets (DM), led by premiumisation (USA/Europe have ~10%/ ~7% premium realisations vs. India as per our estimates). The company's focus on oleochemistry and green technology augurs well for long-term growth given that MNCs like HUVR, P&G, L'Oréal etc. (which are GALSURF's clients) have upped the ante in shifting from petroleum-based inputs to oleochemistry-based products. We believe this is a structural trend and players having experience and deep client engagements in this field with constant innovation DNA have an edge over others in terms of earnings outperformance and consequently command premium valuations. We believe GALSURF acts as perfect proxy to the Global HPC market considering its diversified geographical presence, sharp focus on premiumisation and green chemistry. We are building in revenue/EBITDA/APAT CAGR of ~16%/~14%/~14% over FY21E-23E. We initiate coverage on GALSURF with a Buy rating and a Target Price (TP) of Rs2,800 (based on 26x PE FY23E earnings), indicating an upside of ~10% from CMP.

Key Financials (Consolidated)

Particulars (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	27,630	25,964	26,518	31,144	35,893
Growth YoY%	13.5	(6.0)	2.1	17.4	15.2
Gross margin %	29.5	33.9	34.2	34.4	34.4
EBITDA	3,534	3,689	4,433	4,996	5,716
EBITDA margin %	12.8	14.2	16.7	16.0	15.9
Adj PAT	1,971	2,319	2,878	3,232	3,730
Growth YoY %	24.7	17.7	24.1	12.3	15.4
Adj. EPS	55.6	65.4	81.2	91.2	105.2
RoCE %	28.2	24.4	25.3	24.8	24.4
RoE %	24.7	23.9	24.3	22.6	21.9
P/E	45.8	38.9	31.4	27.9	24.2
EV/EBITDA	26.2	25.2	20.5	18.2	15.7
P/BV	10.3	8.5	7.0	5.8	4.9

Source: Company, Nirmal Bang Institutional Equities Research

Variance with consensus

Particulars	NBIE estimates			Consensus estimates			Variance (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	26,518	31,144	35,893	27,403	31,231	34,831	(3.2)	(0.3)	3.1
EBITDA	4,433	4,996	5,716	4,276	4,844	5,458	3.7	3.1	4.7
EBITDA margin	16.7%	16.0%	15.9%	15.6%	15.5%	15.7%	111bps	53bps	26bps
APAT	2,879	3,234	3,732	2,744	3,138	3,599	4.9	3.1	3.7

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Camlin Fine Sciences

Camlin Fine Sciences (CFIN) is the leading integrated manufacturer of most preferred traditional antioxidants (AO), which is part of shelf-life solutions. CFIN's other key business verticals include aroma ingredients (Vanillin) and performance chemicals. In AO and Vanillin, CFIL is the leading player in terms of capacity and the lowest cost manufacturer in the world. We like CFIN's backward integration focus wherein all raw materials (except phenol) are manufactured in-house. Post FY16, CFIN has gone through a rough patch as it's decision to forward integrate into the AO business (AO blends which enjoy 20%+ margin) resulted in loss of its biggest client (~35% of overall revenue then), which is a global leader in AO blends. Also, blends business takes time to scale up and requires local presence in terms of R&D in order to understand food patterns of a particular geography. But, CFIL has done remarkably well with regards to the blends business (>Rs3bn in 4 years) and expects strong growth of ~25% over the next few years. As far as India operations are concerned, starting of Dahej diphenols capacity would result in incremental revenue growth and improvement in operating efficiency since raw materials need not be imported from the Italian subsidiary. Ethyl Vanillin facility in Dahej should start contributing to revenue from FY23E. Debottlenecking-led capacity expansion and new products would aid strong growth in performance chemicals. We see significant margin upside from FY20 level on account of faster growth of value-added portfolio, enhanced capacity utilisation of Mexico and Brazil subsidiaries and cost savings post Dahej commissioning. We are building in revenue/EBITDA/PAT CAGR of 23%/35%/58% over FY21E-23E. We believe there is significant upside to return ratios (FY23E ROCE/ROE of 19.3%/20.3% vs FY21E 13.0%/13.2%) and scope for improvement in working capital (mainly inventory days post Dahej commercialization). We initiate coverage on CFIN with a Buy rating and TP of Rs180 (based on 16x PE on FY23E), indicating an upside of ~29% from CMP.

Financial summary (Consolidated)

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	8,922	10,491	12,038	15,227	18,337
Growth YoY%	23.8	17.6	14.7	26.5	20.4
Gross margin %	46.8	49.1	51.9	53.5	54.3
EBITDA	687	1,307	1,785	2,503	3,251
EBITDA margin %	7.7	12.5	14.8	16.4	17.7
Adj PAT	6	303	697	1,209	1,747
Growth YoY%	NA	5,156.3	129.9	73.4	44.5
Adj EPS	0.0	2.5	4.4	7.7	11.1
RoCE %	5.2	11.5	13.0	15.6	19.3
RoE %	0.2	7.8	13.2	16.9	20.3
P/E	NA	56.0	31.5	18.2	12.6
EV/EBITDA	30.5	16.7	11.1	8.3	6.0
P/BV	4.6	4.2	2.6	2.2	1.8

Source: Company, Nirmal Bang Institutional Equities Research

Variance with consensus

Particulars	NBIE estimates			Consensus estimates			Variance (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	12,038	15,227	18,337	11,937	15,408	17,923	0.8	(1.2)	2.3
EBITDA	1,785	2,503	3,251	1,990	2,734	3,358	(10.3)	(8.4)	(3.2)
EBITDA margin	14.8%	16.4%	17.7%	16.7%	17.7%	18.7%	-184bps	-131bps	-101bps
APAT	697	1,209	1,747	822	1,376	1,773	(15.2)	(12.1)	(1.5)

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Advanced Enzymes Technologies

Advanced Enzymes Technologies (ADVENZY) is a research-driven company and manufactures enzymes and probiotics that play a crucial role in health and nutrition globally and has applications in various other end-user industries. ADVENZY offers 400+ proprietary products developed from 68 enzymes. While currently Human Nutrition is the biggest segment for ADVENZY wherein it engages with Pharmaceutical and Nutraceuticals companies in India and overseas, we believe that opportunities in other segments like Animal Nutrition and Food Processing segments could open up in a big way in the medium term. Probiotics is used across all the key focus segments. Demand for health and hygiene is on the rise and there is huge headroom for growth in Nutraceuticals, especially in USA. Enzymes are used across all food items, including bakery, dairy products etc. which are big segments. ADVENZY's aim is to become 2nd preferred supplier for bakery products, mainly in USA. While Novozymes is the global leader in industrial enzymes with ~48% market share, Pharma is not its key focus area and hence direct competition for ADVENZY is limited. Household Care is Novozymes' forte followed by Food & Beverages. Some of the Indian companies like Rossari Biotech are also present in Enzymes but with focus on Home Care and Textiles segments. ADVENZY is operating at ~55% capacity utilisation and hence capex requirement in the next three years is minimum. Focus on R&D will continue (~4% of revenue). The company has filed two dossiers and approval for the same should drive growth. Enzymes industry has very high entry barriers on account of extensive R&D focus and long gestation period before getting registration approvals for products in USA and EU. Most companies are now moving away from synthetic products to eco-friendly solutions and enzymes is a sunrise industry with significant growth potential across various industries. Exclusive enzymes players claim premium valuations over other companies. For ADVENZY, we are building in Revenue/EBITDA/APAT CAGR of 17%/14%/17% over FY21-23E. Any potential acquisition can surprise our numbers positively (estimated cash reserves of Rs3.5bn). We initiate coverage on ADVENZY with a Target Price (TP) of Rs400, indicating an upside of ~13% from CMP. Our TP is based on 20x PE on FY23E EPS.

Financial summary (Consolidated)

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	4,196	4,440	4,993	5,839	6,792
Growth YoY %	7.3	5.8	12.4	17.0	16.3
Gross margin %	81.6	81.8	81.2	79.8	79.7
EBITDA	1,826	2,031	2,361	2,655	3,086
EBITDA margin %	43.5	45.8	47.3	45.5	45.4
Adj PAT	1,111	1,293	1,519	1,762	2,076
Growth YoY%	23.2	16.4	17.5	16.0	17.8
Adj EPS	9.9	11.6	13.6	15.8	18.6
RoCE %	24.4	22.7	22.6	22.0	22.1
RoE %	17.9	17.0	16.7	16.5	16.6
P/E	35.5	30.5	25.9	22.4	19.0
EV/EBITDA	21.6	19.1	16.0	13.9	11.6
P/BV	5.8	4.7	4.0	3.4	2.9

Source: Company, Nirmal Bang Institutional Equities Research

Variance with consensus

Particulars	NBIE estimates			Consensus estimates			Variance (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	4,993	5,839	6,792	4,988	5,953	6,743	0.1	(1.9)	0.7
EBITDA	2,361	2,655	3,086	2,346	2,735	3,112	0.6	(2.9)	(0.8)
EBITDA margin	47.3%	45.5%	45.4%	47.0%	45.9%	46.2%	25bps	-47bps	-71bps
APAT	1,519	1,762	2,076	1,535	1,866	2,139	(1.0)	(5.6)	(2.9)

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Company Section

Fine Organic Industries

1 April 2021

Reuters: FINO.NS; Bloomberg: FINEORG IN

Oleochemical finesse

Fine Organics (FINEORG) is a key manufacturer of oleochemical-based additives. While polymer additives and food additives are key segments for the company (~65-70% of revenue as per our estimates), it supplies specialty additives to other industries like Cosmetics, Pharma, Paints & Coatings, Rubber, Construction etc as well. As per the management, there is no direct competition from Indian players. FINEORG's focus on customer-centric solutions, R&D expertise in oleochemicals and strong engineering R&D capabilities with indigenous technology make it a formidable partner of choice in the oleochemicals space. Capex estimate for peers is ~8-10x compared to FINEORG for the same capacity, as per our estimates. While the company does not share segment-wise numbers, realisation from all the segments is range-bound and hence any increase or decrease of salience for one segment will not affect the company's margin profile. FINEORG follows an integrated solutions approach by working closely with clients. Very few global companies follow this approach. Also, FINEORG deals with some of the key global companies which are its peers. We believe that large players don't have the bandwidth to go deeper into product-specific requirements of clients and also salience of local/regional players in their client mix is low. There is a rising shift in preference towards oleochemistry-based products vis-à-vis petroleum-based products. There are very high entry barriers on account of R&D expertise, stringent regulations and long gestation period for product approvals. While we see multiple growth levers for food, feed and polymer additives, other end-user industries have also contributed to FINEORG's growth in a meaningful way (30% revenue as per our estimates) over the last couple of years. We believe this market will remain oligopolistic and select players should grow substantially over the next decade. While there have been short-term challenges due to Covid-19 and abnormal surge in raw material prices, FINEORG is a structural story and would benefit from market development and innovation in green additives. We are building in Revenue/EBITDA/PAT CAGR of ~16%/~30%/~38% over FY21-23E. In the event of any potential acquisition or expansion (FINEORG has sufficient cash reserves), there could be further upside to our estimates. We initiate coverage on FINEORG with a BUY rating and Target Price (TP) of Rs2,700, indicating an upside of ~18% from CMP. Our TP is based on 32x PE on FY23E earnings.

Specialty additives across segments to witness strong growth: Green additives is a sunrise industry and would continue to grow rapidly, led by increasing shift from petrochemicals-based products. As per our estimates, 65-70% of FINEORG's revenue comes from food and polymer additives. The remaining pie refers to multiple end-user industries and strong pick-up select segment can drive significant growth for FINEORG in the medium term. While discretionary segments like coatings, paints, cosmetics etc. have been affected by Covid-19, the same has been offset by strong demand in anti-microbial additives and feed additives. We are building in ~16% revenue CAGR on an overall basis over FY21-23E.

Strong balance sheet and high return ratios: FINEORG is a net cash company (Rs1.7bn as on FY21 per our estimates) and hence potential acquisition or capacity addition will be taken care of through internal cash reserves, in our view. Fixed asset turnover remains high on account of its strong hold on engineering R&D by using indigenous technology. While in FY21E, return ratios might look optically lower due to Covid-19 and under utilisation of capacity, normalized return ratios are in excess of 25%, as per our estimates. FINEORG is a consistent free cash generating company (~53% CAGR over FY21E-23E).

Outlook and valuation: While there have been short-term challenges due to Covid-19 and abnormal surge in raw material prices, FINEORG is a structural story and would benefit from market development and innovation in green additives. We believe this market will remain oligopolistic and select players should grow substantially over the next decade. We initiate coverage on FINEORG with BUY rating and TP of Rs2,700, indicating an upside of ~18% from CMP. Our TP is based on 32x PE on FY23E EPS. Premium valuation compared to other chemical companies is justified based on greater visibility on long-term growth for oleochemicals, deeper client engagements, earnings quality and strong balance sheet.

BUY

Sector: Chemicals

CMP: Rs2,290

Target Price: Rs2,700

Upside: 18%

Abhishek Navalgund

Research Analyst

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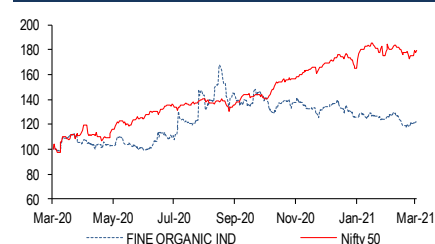
+91-22-6273-8013

Key Data

Current Shares O/S (mn)	30.7
Mkt Cap (Rsbn/US\$m)	70.2/956.1
52 Wk H / L (Rs)	3,260/1,825
Daily Vol. (3M NSE Avg.)	33,697

Share holding (%)	3QFY21	2QFY21	1QFY21
Promoter	75.0	75.0	75.0
Public	25.0	25.0	25.0
Others	-	-	-

One-Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
Fine Organics	(1.6)	(12.4)	21.8
Nifty Index	(0.3)	30.2	80.1

Source: Bloomberg

Financial summary (Consolidated)

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	10,603	10,381	11,938	13,729	15,939
Growth YoY %	23.9	(2.1)	15.0	15.0	16.1
Gross margin %	38.2	41.3	36.3	38.4	39.0
EBITDA	2,336	2,405	2,105	2,910	3,555
EBITDA margin %	22.0	23.2	17.6	21.2	22.3
Adj PAT	1,362	1,648	1,353	2,052	2,565
Growth YoY%	42.9	21.0	(17.9)	51.7	25.0
Adj. EPS	44.4	53.7	44.1	66.9	83.7
RoCE %	40.7	31.1	22.7	28.6	29.5
RoE %	30.4	29.4	20.1	25.4	25.8
P/E	51.5	42.6	51.9	34.2	27.4
EV/EBITDA	30.1	28.7	32.5	23.0	18.5
P/BV	14.0	11.3	9.7	7.9	6.4

Source: Bloomberg, Nirmal Bang Institutional Equities Research

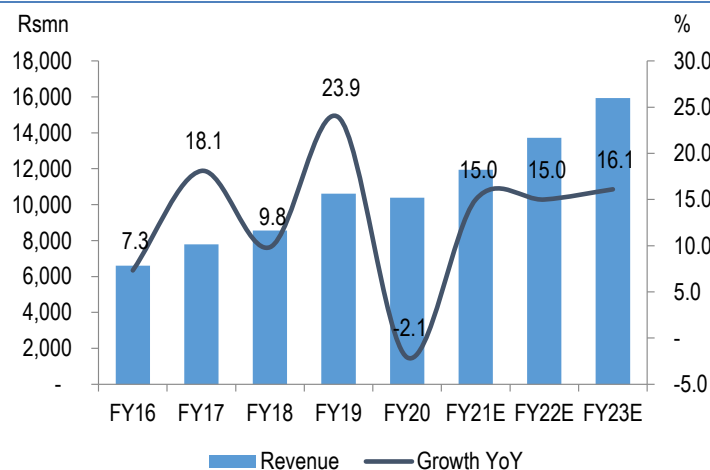
Variance with consensus

Particulars	NBIE estimates			Consensus estimates			Variance (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	11,938	13,729	15,939	10,921	13,439	15,568	9.3	2.2	2.4
EBITDA	2,105	2,910	3,555	2,090	2,850	3,447	0.7	2.1	3.1
EBITDA margin	17.6%	21.2%	22.3%	19.1%	21.2%	22.1%	-150bps	-1bps	16bps
APAT	1,353	2,052	2,565	1,333	1,945	2,454	1.5	5.5	4.5

Source: Bloomberg, Nirmal Bang Institutional Equities Research

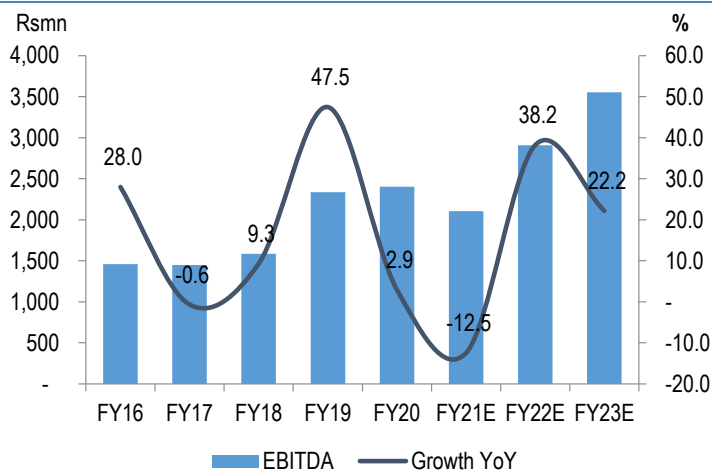
Key Financial charts

Exhibit 1: Revenue and growth trend



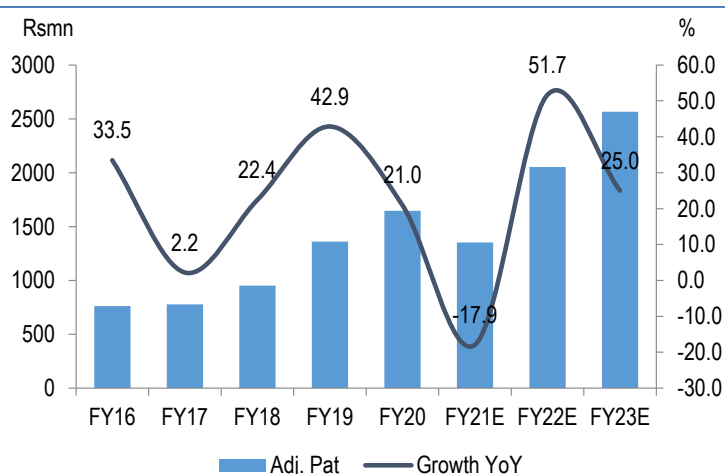
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: EBITDA and growth trend



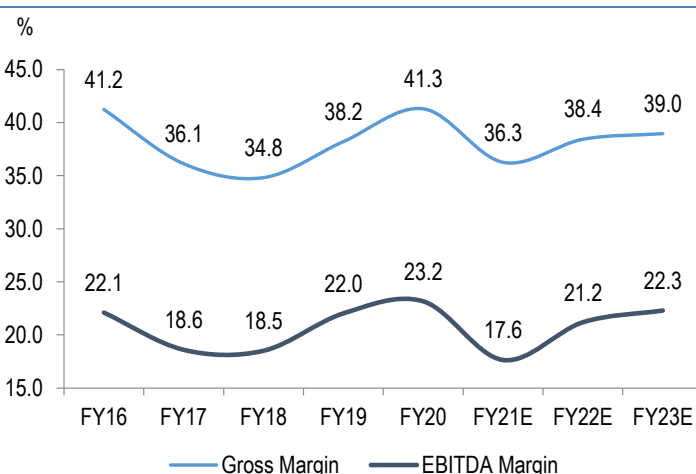
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: APAT and growth trend



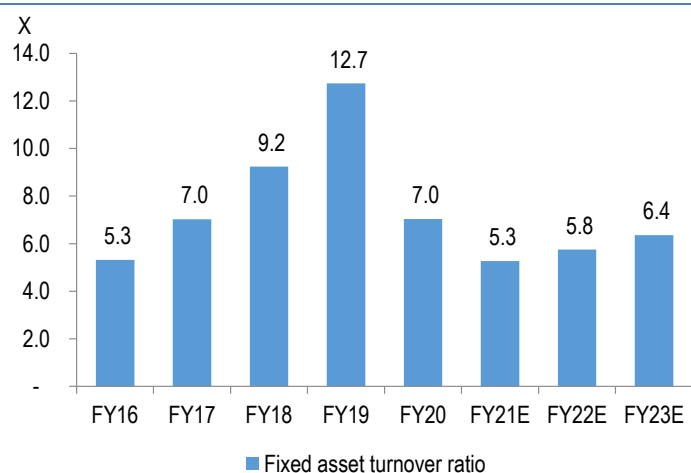
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Gross and EBITDA margin trend



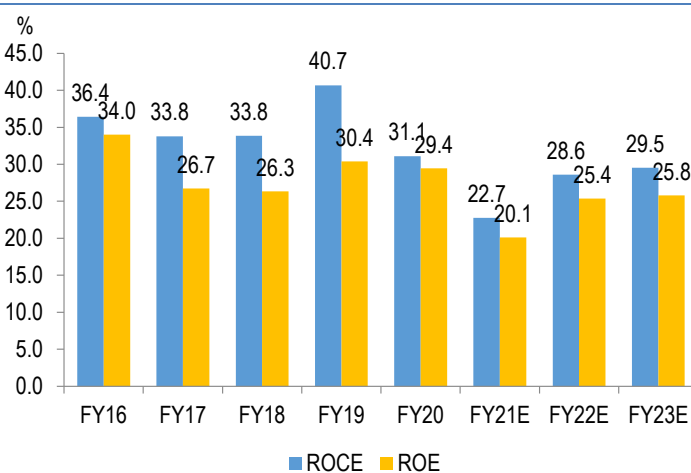
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Fixed asset turnover ratio

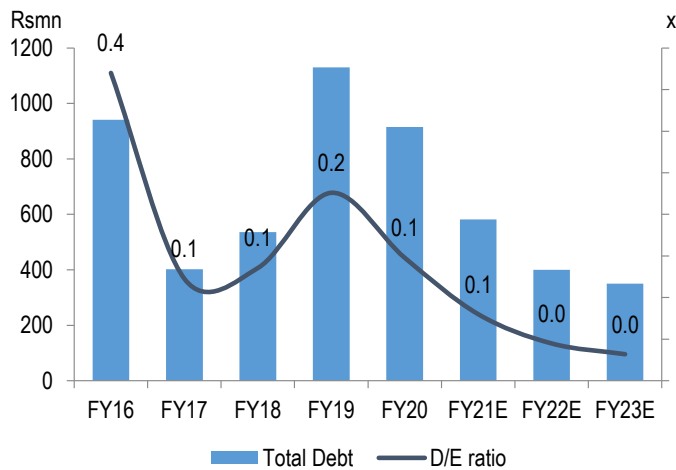


Source: Company, Nirmal Bang Institutional Equities Research

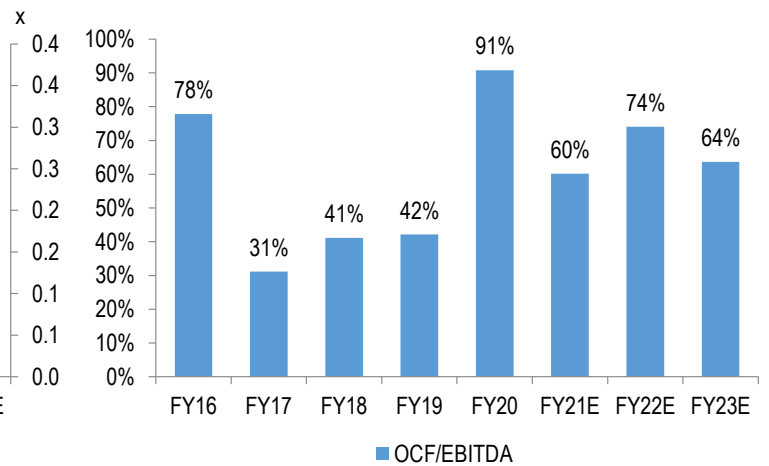
Exhibit 6: Return ratios



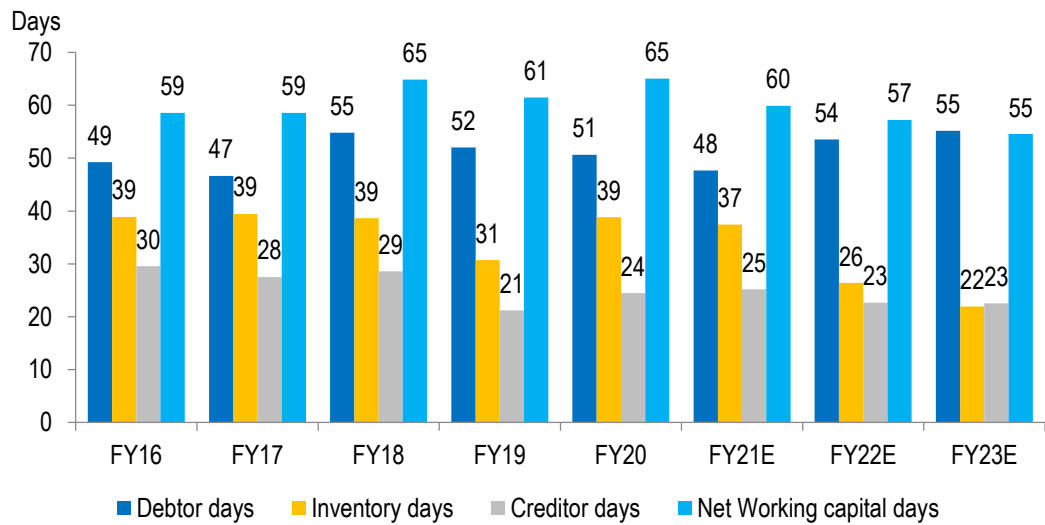
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Total debt and debt/equity ratio


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: OCF/EBITDA


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Working capital cycle


Source: Company, Nirmal Bang Institutional Equities Research

Valuation

While there have been short-term challenges due to Covid-19 and abnormal surge in raw material prices, FINORG is a structural story and would benefit from market development and innovation in green additives. We believe this market will remain oligopolistic and select players should grow substantially over the next decade. We initiate coverage on FINEORG with BUY rating and TP of Rs2,700, indicating an upside of ~18% from CMP. Our TP is based on 32x PE on FY23E earnings. Premium valuation compared to other chemical companies is justified based on greater visibility on long-term growth for oleochemicals, marquee clientele, earnings quality and strong balance sheet.

Exhibit 10: Initiate with BUY and TP of Rs2,700

Particulars	
Sept'22 Consolidated EPS (Rs)	84
Target PE multiple (x)	32
Target Price (Rs)	2,700

Source: Nirmal Bang Institutional Equities Research

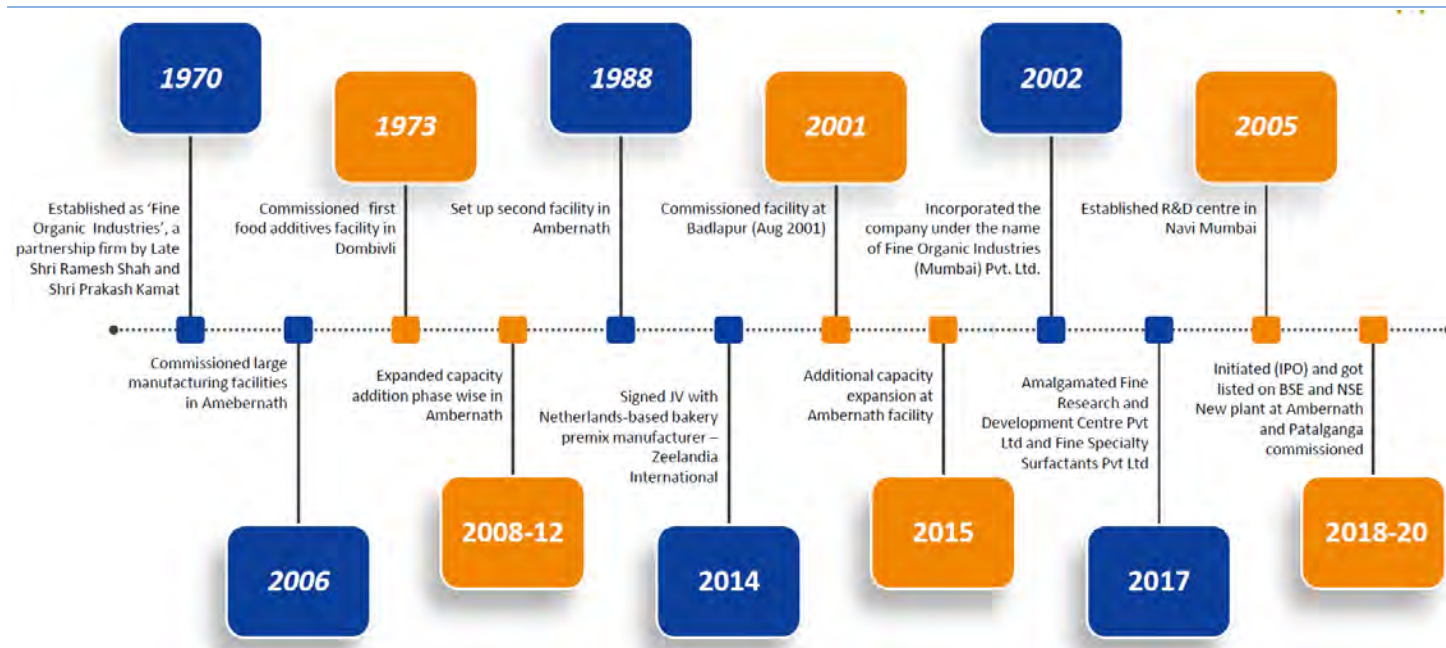
Exhibit 11 : DCF working

Particulars	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E
Net revenue	10,603	10,381	11,938	13,729	15,939	18,490	21,448	24,880	28,612	32,903	37,839	43,136	49,175
Growth %	23.9%	-2.1%	15.0%	15.0%	16.1%	16.0%	16.0%	16.0%	15.0%	15.0%	15.0%	14.0%	14.0%
EBIT	2,161	2,058	1,701	2,456	3,047	3,328	3,968	4,677	5,493	6,416	7,379	8,541	9,835
EBIT margin %	20.4%	19.8%	14.2%	17.9%	19.1%	18.0%	18.5%	18.8%	19.2%	19.5%	19.5%	19.8%	20.0%
EBIT(1-t)	1,276	1,569	1,281	1,848	2,293	2,505	2,987	3,521	4,135	4,830	5,554	6,429	7,403
Depreciation	175	347	404	454	508	647	751	871	1,059	1,217	1,362	1,553	1,721
% of sales	1.6%	3.3%	3.4%	3.3%	3.2%	3.5%	3.5%	3.5%	3.7%	3.7%	3.6%	3.6%	3.5%
Gross cash flow	1,451	1,916	1,686	2,302	2,801	3,152	3,737	4,392	5,194	6,047	6,916	7,982	9,124
Change in Working capital	-493	415	-396	-80	-450	-450	-450	-450	-450	-450	-450	-450	-450
Capex	404	729	600	500	700	500	500	500	500	750	750	500	400
% of revenue	3.8%	7.0%	5.0%	3.6%	4.4%	2.7%	2.3%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Free cash flow	554	1,602	690	1,722	1,651	2,202	2,787	3,441	4,243	4,847	5,716	7,031	8,274
Growth %		na	-56.9%	149.5%	-4.1%	33.4%	26.6%	23.5%	23.3%	14.2%	17.9%	23.0%	17.7%
Discounting Period			0.0	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0
Discounting Factor			1.0	0.9	0.8	0.7	0.7	0.6	0.5	0.5	0.4	0.4	0.4
Discounted FCF			690	1558	1351	1630	1867	2085	2326	2403	2564	2853	3037
DCF Valuation													
Terminal Growth Rate	5%												
WACC	11%												
PV of expected CF	22,365												
PV of terminal CF	57,572												
Total EV	79,937												
Net Debt	(1,686)												
Equity Value	81,622												
No of shares	31												
Equity value per share	2,662												
CMP	2,273												
Upside	17%												
Implied PE (FY23)	32												

Source: Nirmal Bang Institutional Equities Research

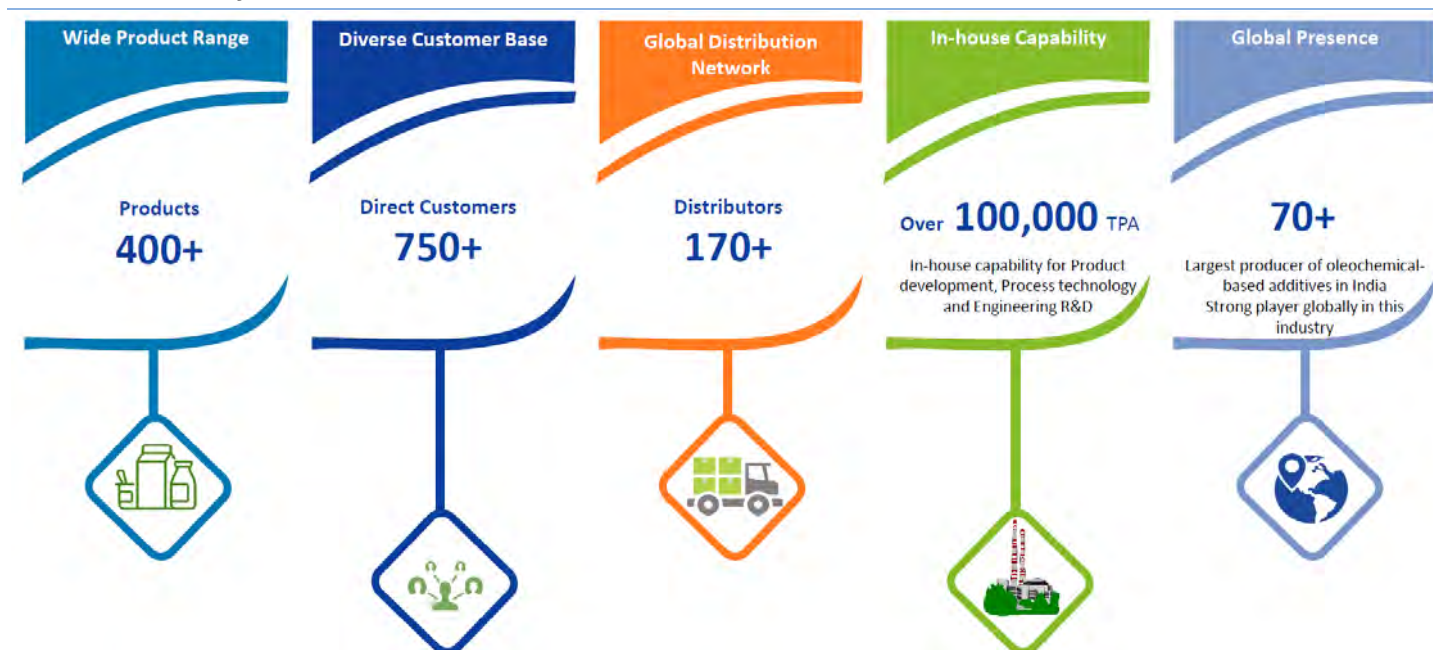
About the company

Exhibit 12: Journey of FINE so far



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Company details



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Product portfolio

Food Additives Additives for maintaining the quality and freshness of the food products, impart better product structure integrity and helps in increasing the shelf life of food products	Polymer Additives Used for various functionalities in wide range of plastic products made from various polymers	Additives for Coatings Used as anti-settling agents, emulsifiers, thickening/anti-sagging agents, wetting and dispersing agents, defoamers, biocides and anti-mar waxes for use in coating applications. Capable of improving the appearance and durability of a coating
Emollients for Cosmetics Enables manufacturing of products with different structures like creams, gels, pastes, lotions etc. Aids in achieving long term physical stability for transport and storage. Increases sensory perception and the chemical stability of the sensitive active agents	Feed Nutrition Additives Replaces harmful antibiotics and improves feed efficiency and imparts several technical advantages to the end products	Specialty Additives A wide range of specialty performance additives for various industries

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Growth expectations of key end-user industries

Industry	Specialties	Feed Nutrition	Cosmetics & Pharmaceuticals	Additives for Coatings	Rubber
Key Additives & Ingredients	<ul style="list-style-type: none"> Lube additives Property modifiers 	<ul style="list-style-type: none"> Natural Antibiotics Nutritional Additives Anti-fungal Additives 	<ul style="list-style-type: none"> Emulsifiers & Emollients Pharmaceuticals – Coating Ingredients 	<ul style="list-style-type: none"> Dispersing agents Emulsifiers Wetting Agents Defoamers Slip Additives 	<ul style="list-style-type: none"> Processing Aids Specialty Plasticizers Slip Additives Anti-stats Anti-sticking Agents
End Uses	<ul style="list-style-type: none"> Automotive Lubricants Roads & Highway Infrastructure Other Specialty applications 	<ul style="list-style-type: none"> Poultry Products Milk & Milk Derivatives 	<ul style="list-style-type: none"> Creams, lotions & ointments Skin care Cosmetics 	<ul style="list-style-type: none"> Specialty Paper Printing inks Coating Materials 	<ul style="list-style-type: none"> Conveyor Belts Automotive Parts and Industrial Component
India CAGR (FY17 – 22E)	--	11-13%	10% – 12%	8% – 10%	6% – 7%
Growth Drivers	<ul style="list-style-type: none"> Increase in Govt. expenditure on infra projects Use of cars/trucks 	<ul style="list-style-type: none"> Growing health awareness & food processing industry Sater milk and milk products 	<ul style="list-style-type: none"> Organized retail moving to Tier II cities New sub-segments to grow: Men's Cosmetics Growing demand for skin-care cosmetics 	<ul style="list-style-type: none"> Low per capita coatings consumption Increased penetration of coatings in rural & non-metro cities Growth in niche products : nano & green coating packaging products Cashless transactions & air travel 	<ul style="list-style-type: none"> Growth in auto sales Steady Improvement in industrial & infrastructure activity Steady agricultural output

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Capacity details

Plant Location	Capacity (TPA)	Remarks
1st Ambernath Facility	49,500	-
Badlapur Facility	6,400	-
Dombivli Facility	8,400	On sub-lease basis
2nd Ambernath Facility	5,000	On sub-lease basis
3rd Ambernath Facility	32,000	-
Patalganga facility	10,000	Partially commissioned
Total Capacity	1,11,300	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: List of key global players

Segment	Companies	Head Office
Food Additives	Kerry Group	Ireland
	Danisco	Denmark
	Palsgaard	Denmark
	Riken Vitamin	Japan
	Taiyo	Japan
Plastic Additives	Croda	UK
	Emery	Malaysia
	PMC Biogenix	USA
	Peter Greven	Germany

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Oleochemical-based additives and petchem-based additives comparison

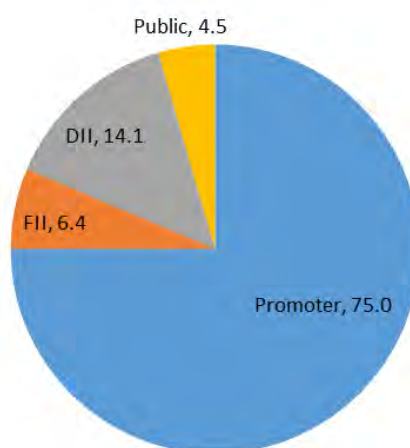
Parameter	Oleochemical-based additives	Petchem-based additives
Type	Natural	Synthetic
RM Source	Vegetable oil derivatives	Crude oil derivatives
Sustainability	Yes, as raw materials are from sustainable sources	No, as raw material are derivatives of fossil fuels
Biodegradable	Yes	No
Environment	Friendly, as raw materials are sourced from vegetables	May cause pollution, as raw material are derivatives of fossil fuels

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: Management profile

Name	Designation	Background
Prakash Damodar Kamat	Chairman & Executive Director	Mr. Prakash Kamat is the co-founder, and has played a key role in developing several products, processes and leading engineering R&D. He holds M.Sc. Tech-Master of Science & Tech (Oils) from Institute of Chemical Technology.
Mukesh Maganlal Shah	MD & Executive Director	Mr. Mukesh Shah joined the company in 1973 and played a key role in establishing the quality control and global sales and marketing of the company.
Jayen Ramesh Shah	CEO & Executive Director	Mr. Jayen has been associated with the company since 1986 and instrumental in creating a strong vendor-partner network for company. He played a key role in establishing Fine Zeelandia Private Limited (Joint Venture).
Tushar Ramesh Shah	CFO & Executive Director	Mr. Tushar Shah has been associated with company since 1989 and led several initiatives like ERP, CRM and Logistics among others. He played a key role in the development of company's first slip additive manufacturing facility.
Bimal Mukesh Shah	Executive Director	Mr Bimal Shah has been associated with company since June 2009. He holds Master's degree from Boston College. He led many initiatives for new projects and processes and automation of manufacturing process.

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 20: Shareholding pattern (Dec'20)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 21: Top 5 public shareholders

Top Mutual Funds Holding	%
SBI MF	4.01
IDFC MF	2.80
Nippon Life India AMC	2.57
Stichting Depositary APG	2.02
Axis MF	1.56

Source: BSE, Nirmal Bang Institutional Equities Research

Financials (Consolidated)

Exhibit 22: Income statement

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	10,603	10,381	11,938	13,729	15,939
Growth YoY%	23.9	(2.1)	15.0	15.0	16.1
COGS	6,552	6,093	7,609	8,452	9,729
Gross margin %	38.2	41.3	36.3	38.4	39.0
Staff costs	628	725	884	908	993
Other expenses	1,088	1,158	1,340	1,459	1,663
EBITDA	2,336	2,405	2,105	2,910	3,555
Growth YoY%	47.5	2.9	(12.5)	38.2	22.2
EBITDA margin %	22.0	23.2	17.6	21.2	22.3
Depreciation	175	347	404	454	508
EBIT	2,161	2,058	1,701	2,456	3,047
Interest	18	48	66	50	48
Other income	198	202	161	322	410
PBT (bei)	2,308	2,161	1,796	2,728	3,408
PBT	2,308	2,161	1,796	2,728	3,408
ETR %	41	24	25	25	25
PAT	1,362	1,648	1,353	2,052	2,565
Adj PAT	1,362	1,648	1,353	2,052	2,565
Growth YoY%	42.9	21.0	(17.9)	51.7	25.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 24: Balance sheet

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Share Capital	153	153	153	153	153
Reserves & Surplus	4,849	6,036	7,118	8,759	10,812
Net worth	5,002	6,189	7,271	8,913	10,965
MI	0	1	1	1	1
Long term debt	928	915	582	400	350
Short term debt	202	-	-	-	-
Total debt	1,130	915	582	400	350
Other non-current liabilities	37	8	13	13	13
Total Equity & Liabilities	6,170	7,112	7,867	9,327	11,329
Gross block	2,470	4,193	4,793	5,293	5,993
Accumulated depreciation	1,689	2,025	2,430	2,884	3,392
Net Block	782	2,168	2,363	2,409	2,602
CWIP	1,063	58	58	58	58
Intangible and others	-	-	-	-	-
Other non-current assets	736	657	657	657	657
Investments	100	328	328	328	328
Trade receivables	1,556	1,323	1,795	2,231	2,588
Inventories	893	1,317	1,132	853	1,061
Cash & Cash equivalents	1,092	2,104	2,268	3,602	4,961
Other current assets	801	498	502	507	507
Total current assets	4,342	5,243	5,696	7,192	9,117
Trade payables	534	858	793	911	1,059
Other current liabilities	318	483	443	406	373
Total current liabilities	852	1,341	1,235	1,318	1,432
Total Assets	6,170	7,112	7,867	9,327	11,329

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 23: Cash flow

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
PBT	2,308	2,161	1,796	2,728	3,408
Depreciation	175	347	404	454	508
Interest	33	63	66	50	48
Other adjustments	(177)	(183)	(161)	(322)	(410)
Change in Working capital	(493)	415	(396)	(80)	(450)
Tax paid	(855)	(612)	(440)	(672)	(840)
Operating cash flow	984	2,183	1,267	2,155	2,261
Capex	(404)	(729)	(600)	(500)	(700)
Free cash flow	581	1,454	667	1,655	1,561
Other investing activities	(115)	(111)	161	322	410
Investing cash flow	(518)	(840)	(439)	(178)	(290)
Issuance of share capital	-	-	-	-	-
Movement of Debt	1,081	(14)	(333)	(182)	(50)
Dividend paid (incl DDT)	(258)	(407)	(271)	(410)	(513)
Other financing activities	102	53	(14)	(50)	(49)
Financing cash flow	924	(367)	(617)	(643)	(612)
Net change in cash flow	1,390	975	211	1,334	1,359
Opening C&CE	107	1,081	2,057	2,268	3,602
Closing C&CE	1,497	2,057	2,268	3,602	4,961

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 25: Key ratios

Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Per share (Rs)					
Adj EPS	44.4	53.7	44.1	66.9	83.7
Book value	163.2	201.9	237.2	290.7	357.6
DPS	7.0	7.0	8.8	13.4	16.7
Valuation (x)					
P/Sales	6.6	6.8	5.9	5.1	4.4
EV/Sales	6.6	6.6	5.7	4.9	4.1
EV/EBITDA	30.1	28.7	32.5	23.0	18.5
P/E	51.5	42.6	51.9	34.2	27.4
P/BV	14.0	11.3	9.7	7.9	6.4
Return ratios (%)					
RoCE	40.7	31.1	22.7	28.6	29.5
RoE	30.4	29.4	20.1	25.4	25.8
Profitability ratios (%)					
Gross margin	38.2	41.3	36.3	38.4	39.0
EBITDA margin	22.0	23.2	17.6	21.2	22.3
PAT margin	12.6	15.6	11.2	14.6	15.7
Liquidity ratios (%)					
Current ratio	4.1	3.9	4.6	5.5	6.4
Quick ratio	3.3	2.9	3.7	4.8	5.6
Solvency ratio (%)					
Debt to Equity ratio	0.2	0.1	0.1	0.0	0.0
Turnover ratios					
Fixed asset turnover ratio (x)	12.7	7.0	5.3	5.8	6.4
Debtor days	52	51	48	54	55
Inventory days	31	39	37	26	22
Creditor days	21	24	25	23	23
Net Working capital days	61	65	60	57	55

Source: Company, Nirmal Bang Institutional Equities Research

Rossari Biotech

1 April 2021

Reuters: ROSSARI.NS; Bloomberg: ROSSARI IN

Formulation + Application = Sustainable Growth

Rossari Biotech (ROSSARI) is a leading specialty ingredients player operating in Home, Personal Care and Performance Chemicals (HPPC), Textile Chemicals and Animal Health & Nutrition (AHN) segments. Formulation and application is the key forte of ROSSARI as against manufacturing and the company closely engages with clients by adopting a problem-solving approach. Predominantly, ROSSARI has a strong hold on four chemistries - acrylic polymers, surfactants, silicones and enzymes. While global giants like BASF, Wacker, Clariant etc. currently have a presence in these chemistries, ROSSARI focuses more on integrated solutions and in fact partners with some of its peers. Because of the company's custom-made approach, ROSSARI engages with bigger companies for ingredients and further adds value as per customers' requirements. Since these chemistries find applications in various end-user industries, it is all about seeding new industries and growing the addressable markets. The HPPC segment is a perfect example - it grew at ~94% CAGR in the last three years on the back of new client additions and new launches in HPC. Eventually, other industries (e.g. paints & coatings, ceramics, paper & pulp, water treatment etc.), which are in the seeding stage, will start contributing to the company's overall revenue. We believe that focus on formulation and application along with the ability to cater to different end-user industries will meaningfully expand the addressable market for ROSSARI. Hence, the company should be in a position to deliver profitable growth on a sustainable basis. ROSSARI has recently increased its capacity to 2x post Dahej commissioning, which can potentially double its revenue by FY24. Also, the management has clearly articulated its intention to grow inorganically as well, which might open new areas of growth for the company. The recent fund raising worth Rs3bn via preferential allotment for inorganic expansion clearly indicates that a deal could be in final stages. While the size of the opportunity is not known, considering the fund raise and cash on the balance sheet, we expect the target to have revenue of ~50% of the company's FY20 revenue. We are building in revenue/EBITDA/APAT CAGR of 24%/32%/38% over FY21E-23E. We initiate coverage on ROSSARI with a Target Price (TP) of Rs1,230, indicating an upside of 15% from CMP. While our current estimates do not include the acquisition, the implied target multiple stands at 37x FY23E considering the growth visibility in its existing segments and opening up of new growth avenues.

Dahej capacity expansion and M&A are key growth drivers in the medium term:

Doubling of overall capacity post Dahej commercialization will allow ROSSARI to also focus on segments like paper & pulp, ceramics, water treatment, textile chemicals etc. apart from the profitable soaps & detergents segment. Seeding new industries would enable sustainable growth and portfolio diversification. Also, in our view, the upcoming acquisition size would be reasonable (~50% of revenue base).

HPPC segment to contribute ~61% to revenue in FY23E: While ROSSARI started out as a textile chemicals manufacturer, the company has diversified its presence into HPPC and ANH segments, which are driving the company's growth. The HPPC business contributed ~44% to FY20 revenue vis-à-vis ~15% in FY17. We expect further upside in HPPC on account of client additions in existing as well as new end-user industries and strong growth in original design manufacturing (ODM) and contract manufacturing. While we expect recovery in the textile chemicals segment going forward, growth in HPPC should continue to outpace growth in other segments. We are building in revenue CAGR (over FY21E-23E) of ~27%/~16%/~25% in HPPC/textile chemicals/AHN segments.

Outlook & valuation: While there are established global peers in all the segments that ROSSARI operates in, direct competition is very limited on account of the company's sharp focus on customer-driven strategy and formulation & application focus. In all the segments, there is a long runway for growth for ROSSARI since market participation is low and the company offers differentiated product applications. We initiate coverage on ROSSARI with a Buy and TP of Rs1,230, indicating 15% upside from CMP.

BUY

Sector: Chemicals

CMP: Rs1,073

Target Price: Rs1,230

Upside: 15%

Abhishek Navalgund

Research Analyst

abhishek.navalgund@nirmalbang.com

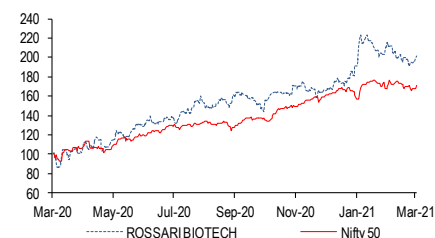
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Key Data

Current Shares O/S (mn)	51.9
Mkt Cap (Rsbn/US\$mn)	55.8/759.1
52 Wk H / L (Rs)	1,147/664
Daily Vol. (3M NSE Avg.)	200,531

Share holding (%)	3QFY21	2QFY21	1QFY21
Promoter	70.9	70.9	70.9
Public	29.1	29.1	29.1
Others	-	-	-

One-Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
Rossari Biotech	4.1	34.9	-
Nifty Index	(0.3)	30.2	80.1

Source: Bloomberg

Financial summary (Consolidated)

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	5,162	6,001	7,059	8,902	10,920
Growth YoY%	76.9	16.2	17.6	26.1	22.7
Gross margin %	34.3	38.1	36.7	37.3	38.5
EBITDA	776	1,047	1,170	1,553	2,049
EBITDA margin %	15.0	17.5	16.6	17.4	18.8
Adj PAT	457	653	783	1,120	1,486
Growth YoY %	57.5	42.8	20.0	43.1	32.7
Adj EPS	20.8	12.9	14.6	20.8	27.6
RoCE %	54.0	37.0	19.3	18.0	21.4
RoE %	41.9	31.8	16.7	16.1	18.6
P/E	51.7	83.5	73.7	51.5	38.8
EV/EBITDA	70.2	51.4	43.5	32.4	24.3
P/BV	44.0	19.0	8.4	7.4	6.3

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Variance with consensus

Particulars	NBIE estimates			Consensus estimates			Variance (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	7,059	8,902	10,920	7,112	8,972	10,974	(0.8)	(0.8)	(0.5)
EBITDA	1,170	1,553	2,049	1,305	1,684	2,102	(10.4)	(7.8)	(2.5)
EBITDA margin	16.6%	17.4%	18.8%	18.3%	18.8%	19.2%	-178bps	-132bps	-39bps
APAT	783	1,120	1,486	814	1,058	1,365	(3.8)	5.9	8.9

Source: Bloomberg, Nirmal Bang Institutional Equities Research

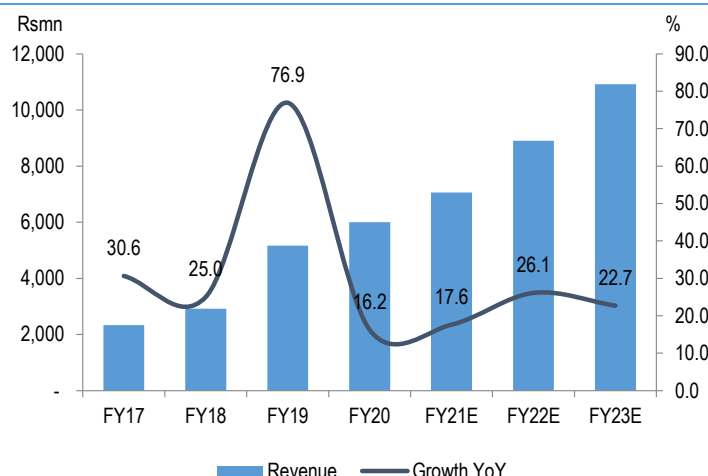
Exhibit 1: Segment wise revenue performance

Particulars	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Segment Revenue (mn)							
HPPC	382	553	1,952	2,809	4,045	5,258	6,573
TSC	2,028	2,143	2,694	2,623	2,413	2,848	3,275
AHN	185	294	516	569	541	676	845
Total	2,594	2,991	5,162	6,001	6,999	8,782	10,692
Segment wise growth							
HPPC	-	45%	253%	44%	44%	30%	25%
TSC	-	6%	26%	-3%	-8%	18%	15%
AHN	-	59%	76%	10%	-5%	25%	25%
Segment wise share							
HPPC	15%	19%	38%	47%	58%	60%	61%
TSC	78%	72%	52%	44%	34%	32%	31%
AHN	7%	10%	10%	9%	8%	8%	8%

Source: Company, Nirmal Bang Institutional Equities Research

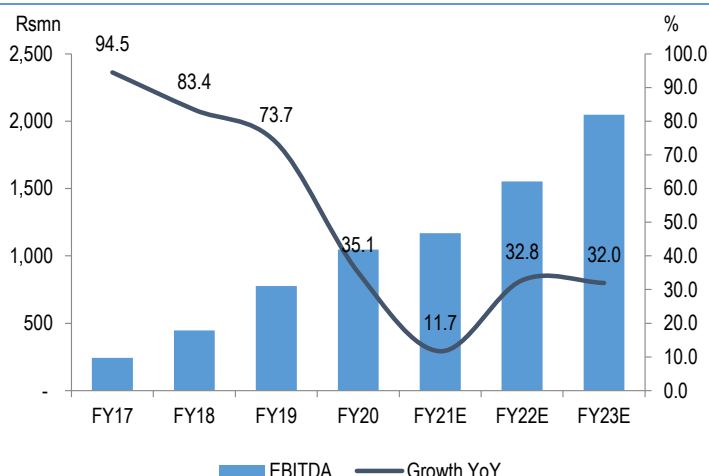
Key financial charts (Consolidated)

Exhibit 2: Revenue and revenue growth



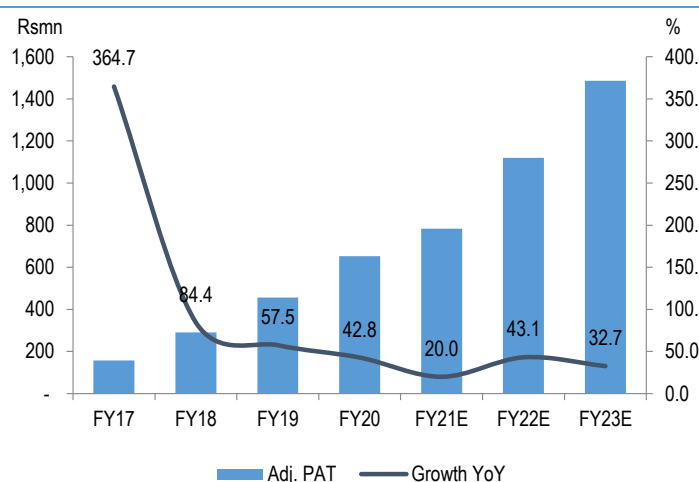
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: EBITDA and EBITDA growth



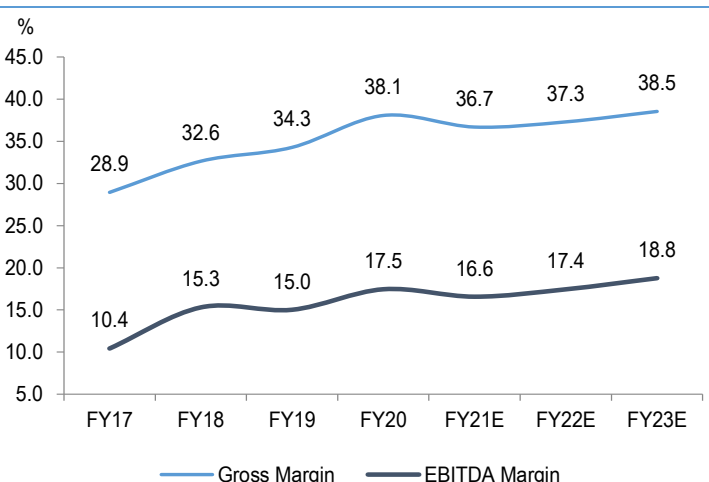
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Net profit and net profit growth



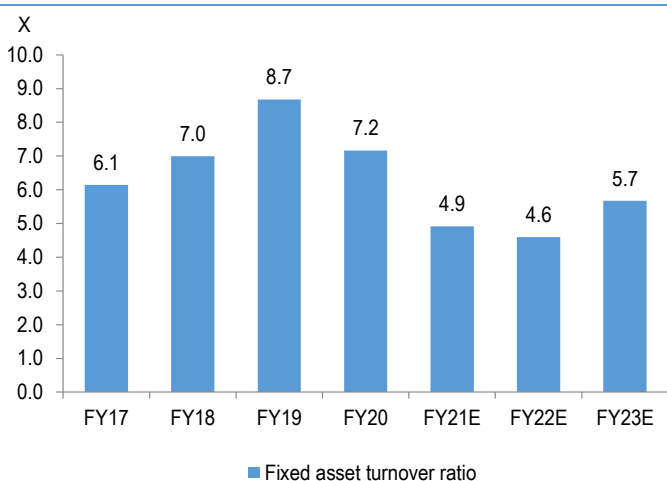
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Gross margin and EBITDA margin



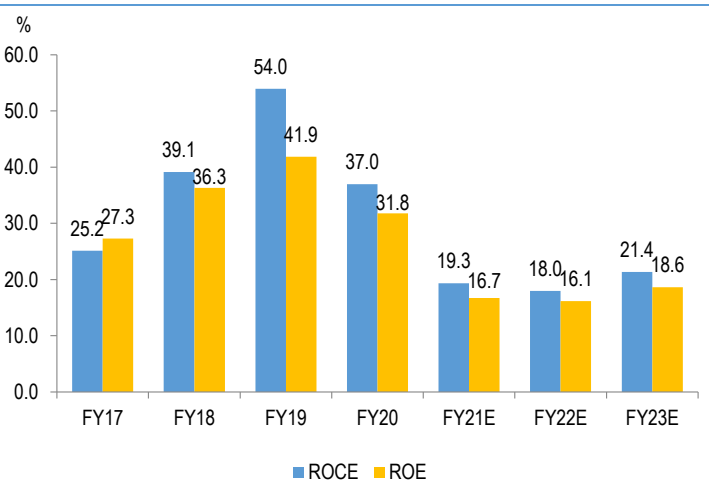
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Fixed asset turnover ratio

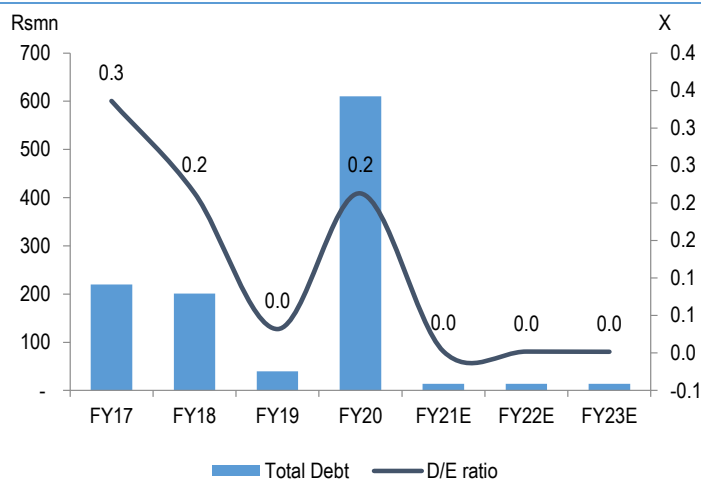


Source: Company, Nirmal Bang Institutional Equities Research

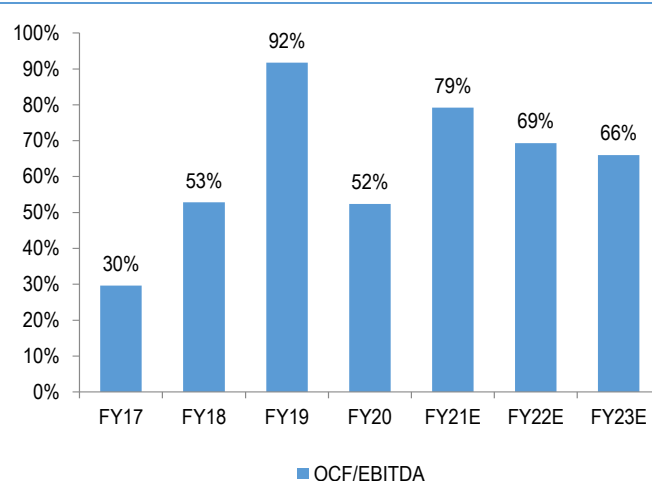
Exhibit 7: Return ratios



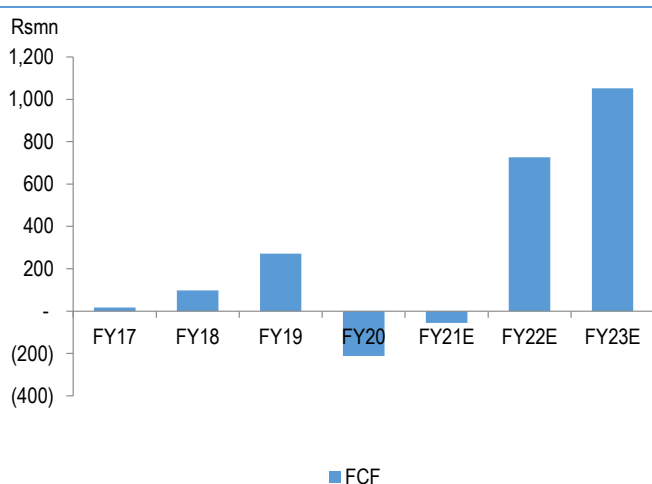
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Total debt and D/E ratio


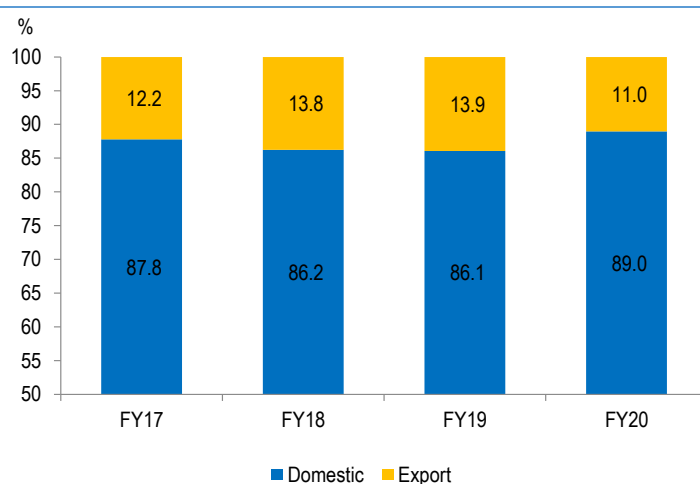
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: OCF/EBITDA


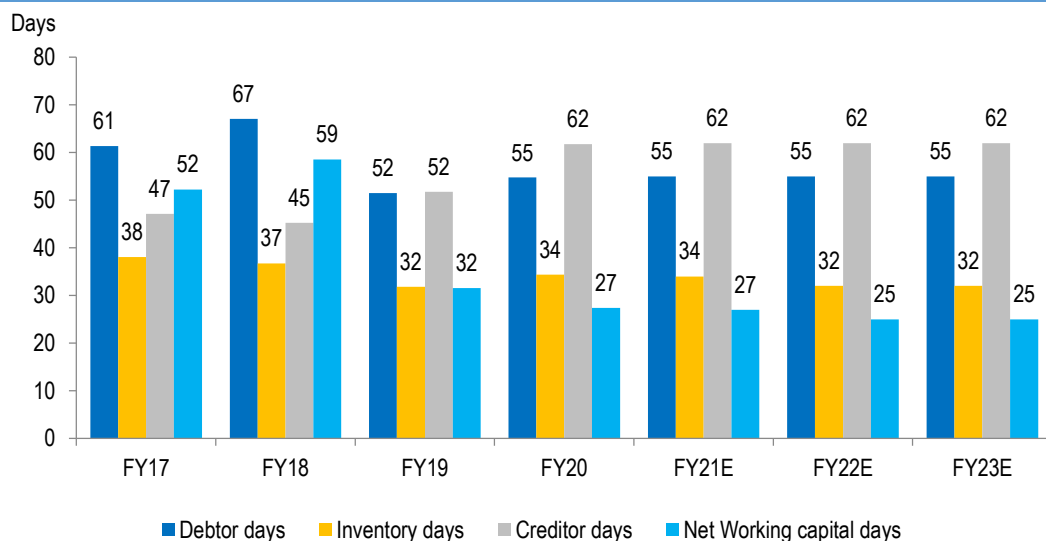
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: FCF trend


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: India vs exports revenue share over FY17-20


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Net working capital days


Source: Company, Nirmal Bang Institutional Equities Research

Valuation

While there are established global peers in all the segments that ROSSARI currently operates in, direct competition is very limited on account of the company's sharp focus on customer-driven strategy and formulation & application focus. In all the segments, there is a long runway for growth for ROSSARI since market participation is low and the company offers differentiated product applications. We initiate coverage on ROSSARI with a TP of Rs1,230, indicating 15% upside from CMP. While our current estimates do not include any acquisition(s), the implied target multiple stands at 37x FY23E considering the growth visibility in its existing segments and opening up of new growth avenues.

Exhibit 13: Initiate at Buy with TP of Rs1,230

Particulars		
FY23E Consolidated EPS (Rs)	28	-
Target PE multiple (x)	44	Implied multiple considering acquisition assumption at 37x. Refer table below
Target Price (Rs)	1,230	-

Source: Nirmal Bang Institutional Equities Research

The Rossari management has clearly articulated its intention to grow inorganically as well, which might open up new areas of growth for the company. The recent fund raising worth Rs3bn via preferential allotment for inorganic expansion clearly indicates that the deal should be in the final stages. While the size of the opportunity is not known, considering the fund raise and cash on the balance sheet, we expect the target to have revenue of ~50% of the company's FY20 revenue. We believe that the CMP factors in potential acquisition and hence based on the amount of cash reserves and fund raise, we have baked in the following three scenarios, including acquisition, and accordingly assigned 37x PE multiple to FY23E (including acquisition assumption).

Exhibit 14: Pro-forma financials including acquisition assumption

FY23 estimates (Rsmn)	Scenario 1	Scenario 2	Scenario 3	Average
Revenue	10,920	10,920	10,920	10,920
Acquisition revenue	3,000	4,000	5,000	4,000
Total	13,920	14,920	15,920	14,920
APAT	1,670	1,790	1,910	1,790
EPS	31.1	33.3	35.5	33.3

Source: Nirmal Bang Institutional Equities Research

DCF working (without considering acquisition)

Particulars	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E
Net revenue	5,162	6,001	7,059	8,902	10,920	14,196	17,035	20,442	24,122	28,464	32,734	37,644	43,290
Growth %	76.9%	16.2%	17.6%	26.1%	22.7%	30.0%	20.0%	20.0%	18.0%	18.0%	15.0%	15.0%	15.0%
EBIT	654	879	964	1,251	1,709	2,229	2,675	3,230	3,811	4,497	5,237	6,023	6,926
EBIT margin %	12.7%	14.6%	13.7%	14.1%	15.6%	15.7%	15.7%	15.8%	15.8%	15.8%	16.0%	16.0%	16.0%
EBIT(1-t)	471	653	722	936	1,278	1,667	2,001	2,416	2,851	3,364	3,918	4,505	5,181
Depreciation	122	169	206	302	341	426	511	613	724	854	982	1,129	1,299
% of sales	2.4%	2.8%	2.9%	3.4%	3.1%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Gross cash flow	593	821	927	1,238	1,619	2,093	2,512	3,029	3,575	4,218	4,900	5,635	6,480
Change in Working capital	114	-311	19	-99	-196	-196	-196	-196	-196	-196	-196	-196	-196
Capex	440	760	982	350	300	568	426	511	603	1,139	818	941	1,082
% of revenue	8.5%	12.7%	13.9%	3.9%	2.7%	4.0%	2.5%	2.5%	2.5%	4.0%	2.5%	2.5%	2.5%
Free cash flow	267	-249	-36	789	1,122	1,329	1,889	2,322	2,775	2,883	3,885	4,497	5,201
Growth %		na	-85.7%	#####	42.3%	18.4%	42.2%	22.9%	19.5%	3.9%	34.8%	15.8%	15.7%
Discounting Period			0.0	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0
Discounting Factor			1.0	0.9	0.8	0.8	0.7	0.6	0.6	0.5	0.5	0.4	0.4
Discounted FCF			-36	717	928	999	1291	1442	1567	1480	1813	1908	2007

DCF Valuation	
Terminal Growth Rate	5%
WACC	10%
PV of expected CF	14,117
PV of terminal CF	42,204
Total EV	56,321
Net Debt	(3,704)
Equity Value	60,025
No of shares	54
Equity value per share	1,116
CMP	1,035
Upside	8%
Implied PE (FY23E)	40

	TP sensi	WACC				
Residual growth rate	1,116	9.6%	10.6%	10.0%	12.6%	13.6%
	7%	1,868	1,441	1,666	1,045	937
	6%	1,430	1,192	1,322	931	852
	5%	1,183	1,031	1,116	847	787
	4%	1,025	920	979	783	736
	3%	914	837	881	732	694

Source: Nirmal Bang Institutional Equities Research

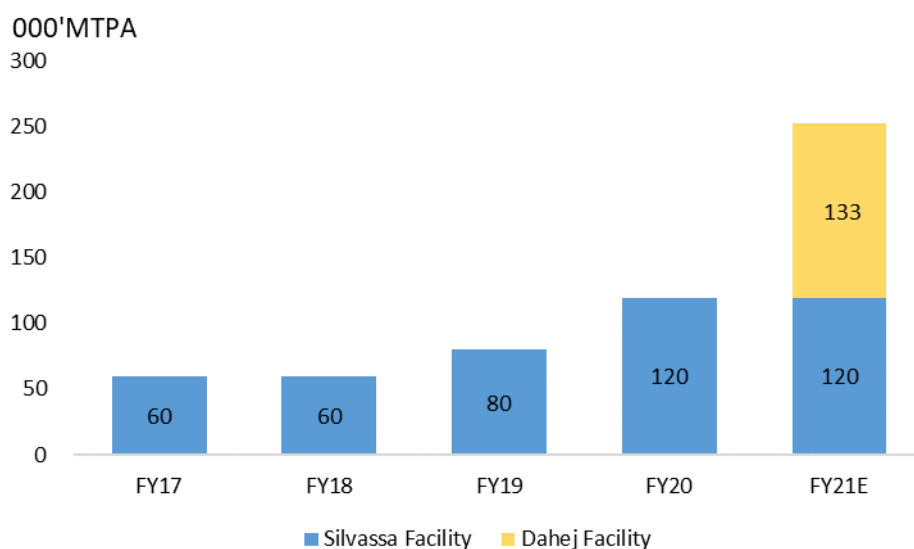
Company information

Exhibit 15: Business segments of Rossari Biotech

Segment	Home, personal care and performance chemicals (HPPC)	Textile specialty chemicals (TSC)	Animal health and nutrition (AHN)
Business description	Manufactures products from acrylic polymers, which are used in soaps and detergents, paints, ceramics and tiles, water treatment chemicals, and pulp and paper industries. It also produces institutional cleaning chemicals used at hospitals, airports and other facilities. Forayed into e-Commerce by listing its HPPC products on the Amazon.com, India.	Have diversified products range in this segment which company caters to the entire textile value chain right from fibre, yarn to fabric, wet processing and garment processing.	Manufactures and sells poultry feed supplements and additives, pet grooming and pet treats
No. of products (approx.)	300	1,500	100
No of distributors	22	109	37
No of Customers (approx.)	373	481	150
Key customers	RSPL (Ghadi Detergent), IFB Industries, HUL, BSH Household Appliances Manufacturing Pvt, CICO Technologies, Rentokil Initial Hygiene India Pvt and Millennium Papers Pvt	Arvind, Ashnoor Textile Mills, Bhaskar Industries Pvt, European Textile Chemical Corporation and Shahi Exports Pvt	Hitech Hatch Fresh Pvt, Gokul Poultry Industries, Sarvottam Poultry Feed Supply Centre Pvt and Sneha Farms Pvt

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Capacity details



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Rossari Biotech Products - category of industry and its application

Industry	Product Application
Soaps and detergents	<ul style="list-style-type: none"> • Anti re-deposition agent – four variants: Dispel 2050 HN; Detrol 2048 AD; Detrol 2040 CP; and Detrol 2045 HP • Water softener • Stain busters • Detergent cake and others
Paints and coatings	<ul style="list-style-type: none"> • Different types of acrylic emulsions • Different types of additives <p>E.g. Dispersing agent thickeners, defoamer and wetting agents, etc.</p>
Ceramics and tiles	<ul style="list-style-type: none"> • Body binder • Deflocculant • Polishing agent • CMC
Pulp and paper	<ul style="list-style-type: none"> • Acrylic emulsions • Additives <p>E.g. Dispersing agent, DSR, cross linking agent and various products for water treatment</p>
Proposed	
Cement and construction chemicals	<ul style="list-style-type: none"> • Specialty additive for cement processing
Water treatment formulations	<ul style="list-style-type: none"> • Boiler chemicals • Cooling tower chemicals • RO chemical • Waste water treatment
Specialty formulation for breweries as well as dairies	<ul style="list-style-type: none"> • Hinder bacterial growth • Break molasses • Cleaning sugar syrup
Sanitizers for electronic gadgets	<ul style="list-style-type: none"> • Mobile-antibacterial sanitizers for screens • Non-alcohol sanitizers

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Rossari products' applications in animal health & nutrition products category

Industry	Product application
Poultry feed	<ul style="list-style-type: none"> • Enzymes • Vitamin premix • Trace minerals • Toxin binders • Acidifiers • Liquid essential oil • Liquid acidifiers • Disinfectants • Anticoca and AGP
Pet grooming	<ul style="list-style-type: none"> • Lozalo shampoo for dogs, cats and horse
Pet treats	<ul style="list-style-type: none"> • Dog and cat treats (chicken, meat, fish, milk, carrot, paneer)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: Rossari products' applications in the textile industry

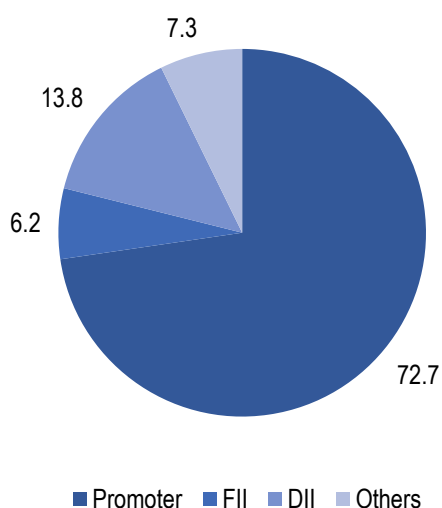
Stage	Products application
Yarn production	<ul style="list-style-type: none"> • Yarn dyeing and finishing • Yarn lubricants • Performance enhancers
Man-made fibre production	<ul style="list-style-type: none"> • Lubricants • Water based and non-water based • Antistites • Antimicrobial
Thread production	<ul style="list-style-type: none"> • High performance thread lubricants • Water based and non-water based • Thread finishing
Digital printing	<ul style="list-style-type: none"> • Performance enhancers and base treatment for digital printing technology
Fabric processing	<ul style="list-style-type: none"> • Pre-treatment of cellulose • Comprehensive pre-treatment range of product based on complex combination of chemistry of wetting, sequestering and dispersant sustainable chemistry focus
Dyeing auxiliaries	<ul style="list-style-type: none"> • Full range of products based on dispersant, chelating agents and levelling agents
Finishing range	<ul style="list-style-type: none"> • Comprehensive pre-treatment range of product based on complex combination of chemistry polymer science and nano technology • Performance products • Enzymes and biochemical finishing range
Garment finishing	<ul style="list-style-type: none"> • Comprehensive pre-treatment range of product based on complex combination of chemistry polymer science and nano technology • Performance products • Enzymes and biochemical finishing range
Printing	<ul style="list-style-type: none"> • Comprehensive range of product based on complex combination of chemistry polymer science and nano technology • Performance products • Enzymes and biochemical printing range

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 20: Management profile

Name	Designation	Background
Edward Menezes	Co-Founder and Executive Chairman	He has more than 25 years of experience in the specialty chemical industry and 10+ years of experience in different roles within Rossari Biotech. Earlier, he has part of textile processing in mills, then moved to Jaysynth Dyechem in their Technical Services department and then joined of Clariant India (erstwhile Sandoz India). He holds a bachelor's degree of science (technology) in textile chemistry from University Department of Chemical Technology (UDCT). He also holds a Master's degree in Marketing Management from the University of Mumbai and also alumnus of the Institute of Chemical Technology.
Sunil Chari	Co-Founder and MD	He has more than 25 years of experience in the industry of textiles and ancillary chemicals. Prior to Rossari Biotech, he worked in a variety of textile processing and dyestuff industries including Century Mills. He holds a master's in management degree from Mumbai University and Licentiate in Textile Chemistry from VJTI.
Puneet Arora	CEO - Textile Chemicals Global (TSC) Division	He has been associated with Rossari Biotech since incorporation. He holds a bachelor's degree in commerce from University of Mumbai.
Manikantan Viswanathan	Group CFO	He joined recently in Oct-2020, has over 30 years of Management and Leadership experience in Finance, Regulatory affairs, Commercial, Legal, IT implementation, Taxation and Budgetary Controls and has expertise in handling merger & acquisitions and corporate structuring. He is qualified chartered accountant from the ICAI.
Manasi Nisal	CFO	Manasi Nisal has been associated with company since November 2019. Prior to Rossari, she worked with HUE Chem Textiles Pvt as a General Manager. She is qualified chartered accountant from the ICAI.
Prasad Gadkari	President - Manufacturing and oversees operations	He has more than 10 years of experience in handling purchase, managing a factory and productivity, and industrial relations. He holds a diploma in business management from Nagpur University.
Rajeev Jha	Vice President - Home, Personal Care and Performance Chemicals (HPPC) Division	He has been associated with company since 2001. He has around of 15 years of experience in the field of sales and marketing of products across textile specialty chemicals and HPPC segments. He holds a bachelor's degree of science in textile chemistry from the Institute of Chemical Technology, Mumbai (formerly UDCT).
Anish Kumar	Vice President - Animal Health and Nutrition (AHN) Division	He has been associated with company since 2012. Prior to joining Rossari, he worked as General Manager for the domestic and international market at Varuna Biocell Pvt. He holds a bachelor's degree in veterinary science and animal husbandry from the Jawaharlal Nehru Krishi Vishwa Vidyalaya.
Manjiri Paranjpe	Vice President - Research and Development	Manjiri Paranjpe associated with Rossari Biotech since incorporation. She has over 10 years of experience in R&D in the textile specialty chemicals and HPPC, enzymes, formulations, emulsification, and institutional and industrial cleaning chemicals. She holds a bachelor's degree of science in textile chemistry from the Institute of Chemical Technology, Mumbai (formerly UDCT).

Exhibit 21: Shareholding pattern (Dec'20)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 22: Top 5 public shareholders

Top Mutual Funds Holding	%
SBI MF	5.5
Principal MF	1.8
UTI MF	1.6
Goldman Sachs India Limited	1.3
Mirae Asset Global	0.5

Source: BSE, Nirmal Bang Institutional Equities Research

Financials (Consolidated)

Exhibit 23: Income statement

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	5,162	6,001	7,059	8,902	10,920
Growth YoY%	76.9	16.2	17.6	26.1	22.7
COGS	3,393	3,717	4,469	5,581	6,712
Gross margin %	34.3	38.1	36.7	37.3	38.5
Staff costs	275	372	435	562	708
Other expenses	719	864	985	1,206	1,451
EBITDA	776	1,047	1,170	1,553	2,049
Growth YoY%	73.7	35.1	11.7	32.8	32.0
EBITDA margin %	15.0	17.5	16.6	17.4	18.8
Depreciation	122	169	206	302	341
EBIT	654	879	964	1,251	1,709
Interest	29	36	22	20	20
Other income	9	37	103	267	298
PBT (bei)	634	878	1,046	1,498	1,987
PBT	634	878	1,046	1,498	1,987
ETR	28	26	25	25	25
PAT	457	653	783	1,120	1,486
Adj PAT	457	653	783	1,120	1,486
Growth YoY%	57.5	42.8	20.0	43.1	32.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 25: Balance sheet

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
Share Capital	44	102	108	108	108
Reserves & Surplus	1,194	2,765	6,386	7,282	8,471
Net worth	1,238	2,867	6,493	7,389	8,578
Long term debt	7	340	-	-	-
Short term debt	33	271	14	14	14
Total debt	39	610	14	14	14
Other non-current liabilities	365	351	420	420	462
Total Equity & Liabilities	1,642	3,828	6,927	7,823	9,053
Gross block	862	1,224	2,424	2,724	3,024
Accumulated depreciation	122	289	489	785	1,116
Net Block	740	935	1,935	1,939	1,908
CWIP	28	218	-	50	50
Intangible and others	-	-	-	-	-
Other non-current assets	461	586	587	705	847
Investments	-	179	207	277	695
Trade receivables	859	941	1,064	1,341	1,645
Inventories	549	582	658	780	957
Cash & Cash equivalents	60	1,272	3,580	4,136	4,640
Other current assets	130	532	533	535	535
Total current assets	1,598	3,327	5,835	6,792	7,778
Trade payables	1,060	970	1,199	1,512	1,855
Other current liabilities	125	448	438	428	370
Total current liabilities	1,185	1,418	1,637	1,940	2,225
Total Assets	1,642	3,828	6,927	7,823	9,053

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 24: Cash flow

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
PBT	634	881	1,046	1,498	1,987
Depreciation	123	169	206	302	341
Interest	29	36	22	20	20
Other adjustments	16	(24)	(103)	(267)	(298)
Change in Working capital	114	(311)	19	(99)	(196)
Tax paid	(203)	(201)	(261)	(373)	(491)
Operating cash flow	712	548	926	1,077	1,353
Capex	(440)	(760)	(982)	(350)	(300)
Free cash flow	272	(211)	(56)	727	1,053
Other investing activities	76	(1,143)	74	79	(263)
Investing cash flow	(364)	(1,903)	(908)	(271)	(563)
Issuance of share capital	-	1,000	3,000	-	-
Movement of Debt	(164)	629	(597)	-	-
Dividend paid (incl DDT)	(106)	(26)	(157)	(224)	(297)
Other financing activities	(21)	(33)	1,023	(26)	11
Financing cash flow	(292)	1,569	3,270	(250)	(286)
Net change in cash flow	56	215	3,288	556	504
Opening C&CE	6	57	292	3,580	4,136
Closing C&CE	57	292	3,580	4,136	4,640

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 26: Key ratios

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
Per share (Rs)					
Adj EPS	20.8	12.9	14.6	20.8	27.6
Book value	24.4	56.5	127.9	145.6	169.0
DPS	5.0	0.5	2.9	4.2	5.5
Valuation (x)					
P/Sales	10.5	9.1	7.7	6.1	5.0
EV/sales	10.5	9.0	7.2	5.7	4.6
EV/EBITDA	70.2	51.4	43.5	32.4	24.3
P/E	51.7	83.5	73.7	51.5	38.8
P/BV	44.0	19.0	8.4	7.4	6.3
Return ratios (%)					
RoCE	54.0	37.0	19.3	18.0	21.4
RoE	41.9	31.8	16.7	16.1	18.6
Profitability ratios (%)					
Gross margin	34.3	38.1	36.7	37.3	38.5
EBITDA margin	15.0	17.5	16.6	17.4	18.8
PAT margin	8.8	10.8	10.9	12.2	13.2
Liquidity ratios (%)					
Current ratio	1.3	2.1	3.6	3.5	3.5
Quick ratio	0.9	1.7	3.2	3.1	3.1
Solvency ratio (%)					
Debt to Equity ratio	0.0	0.2	0.0	0.0	0.0
Turnover ratios					
Fixed asset turnover ratio (x)	8.7	7.2	4.9	4.6	5.7
Debtor days	52	55	55	55	55
Inventory days	32	34	34	32	32
Creditor days	52	62	62	62	62
Net Working capital days	32	27	27	25	25

Source: Company, Nirmal Bang Institutional Equities Research

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Galaxy Surfactants

1 April 2021

Reuters: GALX.NS; Bloomberg: GALSURF IN

Perfect proxy to play Global HPC story

Galaxy Surfactants (GALSURF) is one of the leading players in the surfactants and specialty care ingredients market and it is focused on only Home and Personal Care (HPC) industry across the globe, unlike peers that are having presence across various end-user industries. Performance Surfactants and Specialty Care are the two segments where the company is highly focused on green technology, innovation and marketing. While a reasonable proportion of the Performance Surfactants segment is commodity business (yielding low margins), Specialty Care products are used in premium end-user segments and add significant value to the end products. GALSURF is a fairly diversified company in terms of geographical presence. On the margin front, the company has consistently moved up the ladder (EBITDA/kg up at ~3% CAGR over FY16-20) on the back of rising salience of the premium portfolio across segments and operating leverage. While the global beauty & personal care and home care market is expected to grow in the range of ~3-4% per annum, premium products' growth is expected at ~2x the overall growth for the category. We believe that GALSURF would be a key beneficiary of the broader trends like growing urbanization, rising disposable incomes, improving standards of living and premiumisation. It has large headroom for growth in the Developed Markets (DM), led by premiumisation (USA/Europe have ~10%/~7% premium realisations vs. India as per our estimates). The company's focus on oleochemistry and green technology augurs well for long-term growth given that MNCs like HUVR, P&G, L'Oréal etc. (which are GALSURF's clients) have upped the ante in shifting from petroleum-based inputs to oleochemistry-based products. We believe this is a structural trend and players having experience and deep client engagements in this field with constant innovation DNA have an edge over others in terms of earnings outperformance and consequently command premium valuations. We believe GALSURF acts as perfect proxy to the Global HPC market considering its diversified geographical presence, sharp focus on premiumisation and green chemistry. We are building in revenue/EBITDA/APAT CAGR of ~16%/~14%/~14% over FY21E-23E. We initiate coverage on GALSURF with a Buy rating and a Target Price (TP) of Rs2,800 (based on 26x PE FY23E earnings), indicating an upside of ~10% from CMP.

Long runway for growth in both the segments: We believe that the company's major focus remains on building the premium portfolio for high-growth product categories with low penetration. We believe there is a long runway for growth in both Performance Surfactants as well as Specialty Care products. The domestic market for Performance Surfactants is growing at ~9% p.a. vs ~4% in USA and other DMs. Specialty Care products are mainly catering to DMs and these are custom made products with higher realisations. On a broader level, USA and Europe market realisations are higher by ~10% and ~7%, respectively vs. India. While we believe these segments can sustainably grow in low-to-mid double digits, we are building in FY21E-23E revenue CAGR of ~14% and ~20% in Performance Surfactants and Specialty Care segments, respectively.

New products and green chemistry to improve margins: Innovation-led new launches addressing specific customer needs and affordability are expected to drive EBITDA/kg for GALSURF on a consistent basis. Premium products like non-toxic preservatives, mild surfactants, proteins etc. (~5% of revenue in 3QFY21) should continue to grow at a faster rate over the long term. The green chemistry trend is a structural trend since all the key clients have set ambitious targets for reducing the salience of petroleum-based products wherever possible. Over FY16-20, EBITDA/kg has increased at ~3% CAGR. Higher EBITDA/kg in 9MFY21 despite Specialty Care's underperformance indicates favourable change in the mix of the Performance Surfactants segment. We expect GALSURF to clock Rs19.8 EBITDA/kg in FY23 vs Rs16.5 in FY20 and Rs18.9 in FY21E.

Outlook and valuation: We believe that GALSURF is a perfect proxy to play the Global HPC story and expect it to continuously outperform the HPC industry growth, led by its sharp focus on R&D & premiumisation trend. We initiate coverage on GALSURF with a Buy rating and a TP of Rs2,800 (based on 26x PE FY23E earnings), indicating an upside of ~10% from CMP.

ACCUMULATE

Sector: Chemicals

CMP: Rs2,546

Target Price: Rs2,800

Upside: 10%

Abhishek Navalgund

Research Analyst

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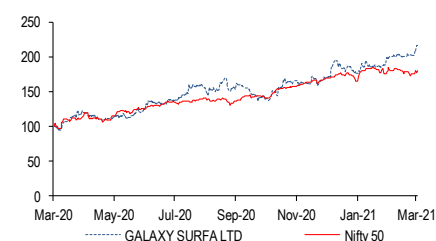
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Key Data

Current Shares O/S (mn)	35.5
Mkt Cap (Rsbn/US\$Bn)	90.3/1.2
52 Wk H / L (Rs)	2,606/1,096
Daily Vol. (3M NSE Avg.)	33,378

Share holding (%)	3QFY21	2QFY21	1QFY21
Promoter	70.9	70.9	70.9
Public	29.1	29.1	29.1
Others			

One-Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
Galaxy Surfactants	9.2	35.3	119.6
Nifty Index	(0.3)	30.2	80.1

Source: Bloomberg

Key Financials (Consolidated)

Particulars (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	27,630	25,964	26,518	31,144	35,893
Growth YoY%	13.5	(6.0)	2.1	17.4	15.2
Gross margin %	29.5	33.9	34.2	34.4	34.4
EBITDA	3,534	3,689	4,433	4,996	5,716
EBITDA margin %	12.8	14.2	16.7	16.0	15.9
Adj PAT	1,971	2,319	2,878	3,232	3,730
Growth YoY %	24.7	17.7	24.1	12.3	15.4
Adj. EPS	55.6	65.4	81.2	91.2	105.2
RoCE %	28.2	24.4	25.3	24.8	24.4
RoE %	24.7	23.9	24.3	22.6	21.9
P/E	45.8	38.9	31.4	27.9	24.2
EV/EBITDA	26.2	25.2	20.5	18.2	15.7
P/BV	10.3	8.5	7.0	5.8	4.9

Source: Company, Nirmal Bang Institutional Equities Research

Variance with consensus

Particulars	NBIE estimates			Consensus estimates			Variance (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	26,518	31,144	35,893	27,403	31,231	34,831	(3.2)	(0.3)	3.1
EBITDA	4,433	4,996	5,716	4,276	4,844	5,458	3.7	3.1	4.7
EBITDA margin	16.7%	16.0%	15.9%	15.6%	15.5%	15.7%	111bps	53bps	26bps
APAT	2,879	3,234	3,732	2,744	3,138	3,599	4.9	3.1	3.7

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 1: Segment information

Segment (Consolidated)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Volume Mix								
Performance Surfactants	62%	65%	66%	63%	64%	66%	65%	64%
Speciality Care	38%	35%	34%	37%	36%	34%	35%	36%
Revenue Mix								
Performance Surfactants	62%	65%	66%	63%	61%	64%	63%	62%
Speciality Care	38%	35%	34%	37%	39%	36%	37%	38%
Volume sales (/MT)								
Performance Surfactants	98,775	1,15,392	1,30,596	1,35,337	1,43,521	1,55,003	1,68,953	1,85,848
YoY (%)	2%	17%	13%	4%	6%	8%	9%	10%
Speciality Care	59,718	62,087	66,833	79,374	80,716	79,102	90,176	1,02,801
YoY (%)	6%	4%	8%	19%	2%	-2%	14%	14%
Overall sales volume	1,58,493	1,77,479	1,97,429	2,14,711	2,24,237	2,34,104	2,59,129	2,88,649
YoY (%)	3%	12%	11%	9%	4%	4%	11%	11%
Segment revenue (mn)								
Performance Surfactants	11,203	14,118	16,130	17,410	15,872	16,971	19,608	22,216
YoY (%)	-5%	26%	14%	8%	-9%	7%	16%	13%
Speciality Care	6,867	7,602	8,310	10,270	10,148	9,547	11,537	13,678
YoY (%)	-1%	11%	9%	24%	-1%	-6%	21%	19%
Total	18,070	21,720	24,440	27,680	26,020	26,518	31,144	35,893
YoY (%)	-4%	20%	13%	13%	-6%	2%	17%	15%
Realisation/kg								
Performance Surfactants	113	122	124	129	111	109	116	120
YoY (%)	-7%	8%	1%	4%	-14%	-1%	6%	3%
Speciality Care	115	122	124	129	126	121	128	133
YoY (%)	-7%	6%	2%	4%	-3%	-4%	6%	4%
Total	114	122	124	129	116	113	120	124
YoY (%)	-7%	7%	1%	4%	-10%	-2%	6%	3%

Exhibit 2: EBITDA/kg trend

EBITDA/kg	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Standalone	20	19	18	20	21	21	21	22
YoY (%)	20%	-8%	-5%	13%	4%	1%	2%	3%
Subsidiaries	5	11	10	11	10	16	16	16
YoY (%)	66%	112%	-3%	2%	-6%	60%	1%	2%
Consolidated	15	15	15	16	16	19	19	20
YoY (%)	19%	4%	-5%	13%	0%	15%	2%	3%

Source: Company, Nirmal Bang Institutional Equities Research

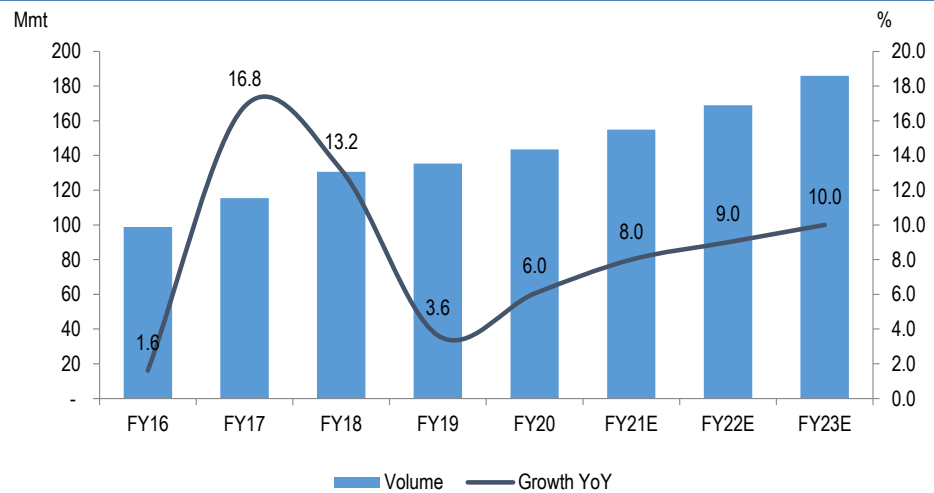
Exhibit 3: Geographical performance

Segment Consolidated	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Volume Mix								
India	36%	34%	35%	36%	35%	37%	36%	36%
AMET	37%	43%	43%	37%	39%	39%	38%	38%
ROW	27%	23%	22%	26%	26%	24%	25%	26%
Revenue Mix								
India	34%	35%	35%	37%	35%	38%	38%	38%
AMET	0%	0%	36%	31%	32%	32%	31%	30%
ROW	0%	0%	29%	32%	33%	30%	31%	32%
Outside India	66%	65%	65%	63%	65%	62%	62%	62%
Geographic volume break-up								
India	57,550	60,735	69,261	77,619	78,041	85,845	94,430	1,03,910
YoY (%)	-8%	6%	14%	12%	1%	10%	10%	10%
AMET	58,938	75,754	84,213	80,290	87,798	91,029	99,457	1,10,362
YoY (%)	16%	29%	11%	-5%	9%	4%	9%	11%
ROW	42,005	40,990	43,955	56,802	58,398	57,230	65,242	74,376
YoY (%)	5%	-2%	7%	29%	3%	-2%	14%	14%
Overall sales volume	1,58,493	1,77,479	1,97,429	2,14,711	2,24,237	2,34,104	2,59,129	2,88,649
YoY (%)	3%	12%	11%	9%	4%	4%	11%	11%
Geographical revenue (mn)								
India	6,245	7,826	8,554	10,242	9,107	10,018	11,791	13,494
YoY (%)	-16%	25%	9%	20%	-11%	10%	18%	14%
AMET	-	-	8,798	8,581	8,326	8,422	9,592	10,826
YoY (%)	-	-	-	-2%	-3%	1%	14%	13%
ROW	-	-	7,088	8,858	8,587	8,078	9,762	11,574
YoY (%)	-	-	-	25%	-3%	-6%	21%	19%
Outside India	12,242	14,417	15,886	17,438	16,913	16,500	19,354	22,400
YoY (%)	2%	18%	10%	10%	-3%	-2%	17%	16%
Overall	18,487	22,243	24,440	27,680	26,020	26,518	31,144	35,893
Realisation/kg								
India	109	129	124	132	117	117	125	130
YoY (%)	-9%	19%	-4%	7%	-12%	0%	7%	4%
AMET	-	-	104	107	95	93	96	98
YoY (%)	-	-	-	2%	-11%	-2%	4%	2%
ROW	-	-	161	156	147	141	150	156
YoY (%)	-	-	-	-3%	-6%	-4%	6%	4%
Outside India	121	123	124	127	116	111	118	121
YoY (%)	-8%	2%	0%	3%	-9%	-4%	6%	3%
Overall	117	125	124	129	116	113	120	124
YoY (%)	-8%	7%	-1%	4%	-10%	-2%	6%	3%

Source: Company, Nirmal Bang Institutional Equities Research

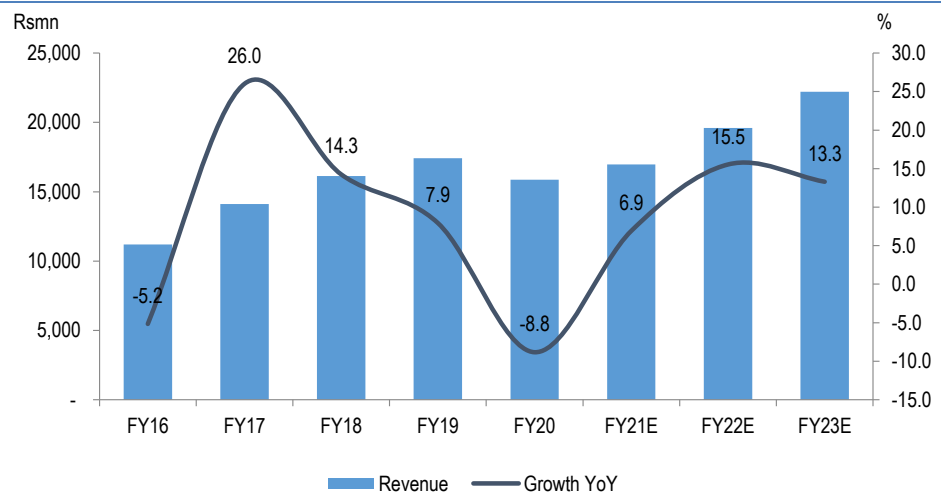
Performance Surfactants

Exhibit 4: Volume and volume growth trend



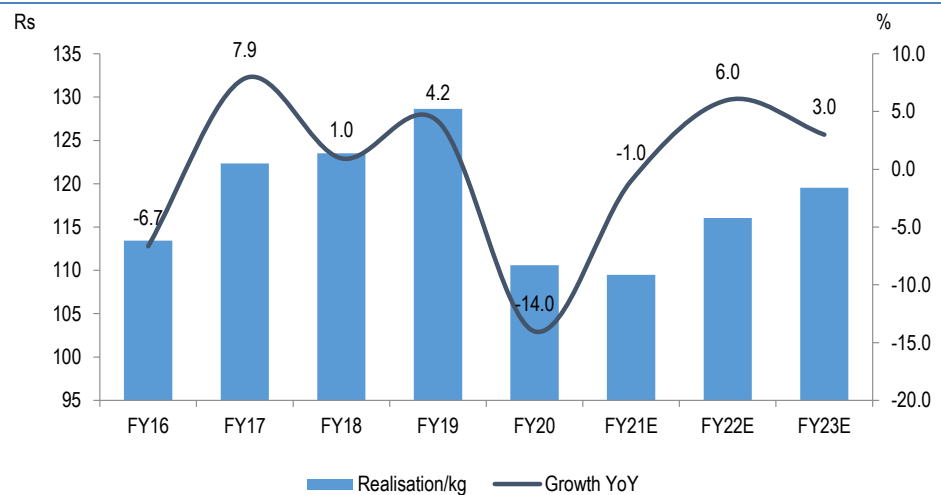
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Revenue and revenue growth trend



Source: Company, Nirmal Bang Institutional Equities Research

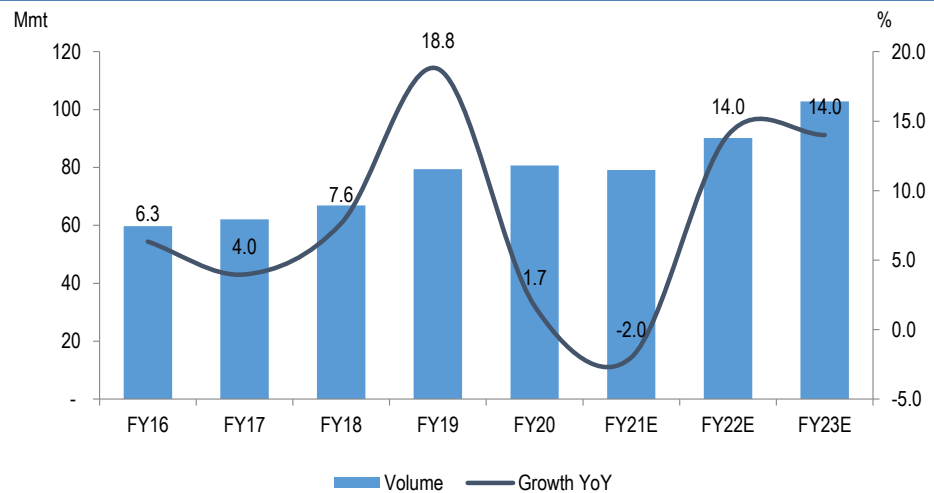
Exhibit 6: Realisation/kg and growth trend



Source: Company, Nirmal Bang Institutional Equities Research

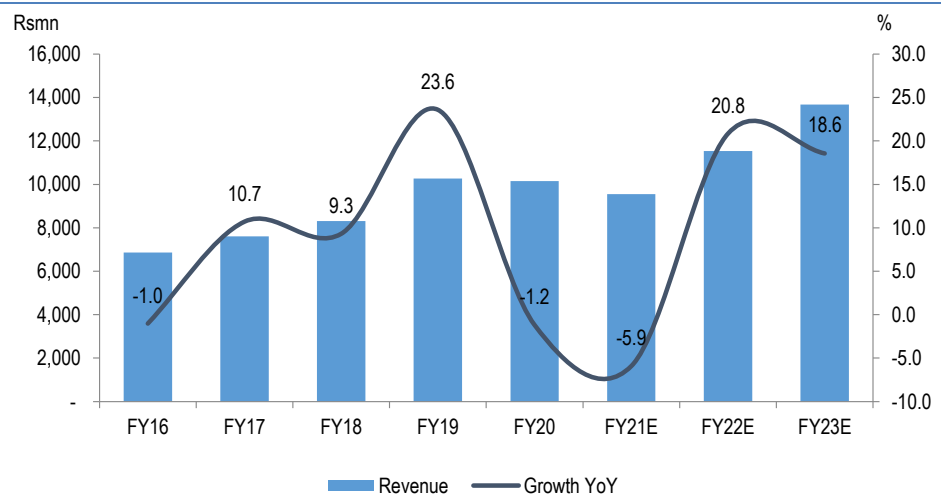
Specialty Care products

Exhibit 7: Volume and volume growth trend



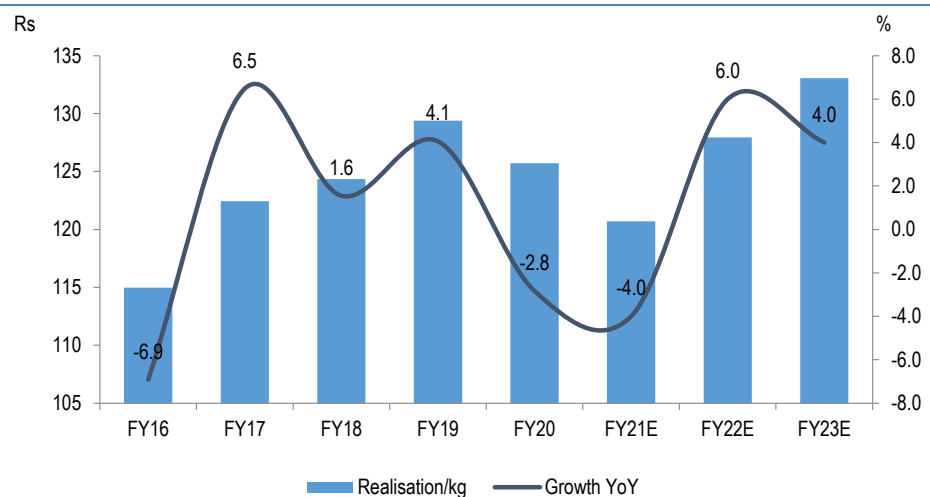
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Revenue and revenue growth trend



Source: Company, Nirmal Bang Institutional Equities Research

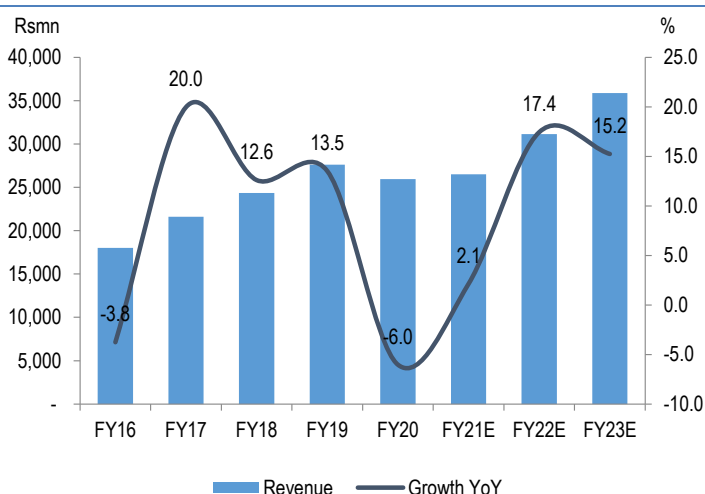
Exhibit 9: Realisation and realisation growth trend



Source: Company, Nirmal Bang Institutional Equities Research

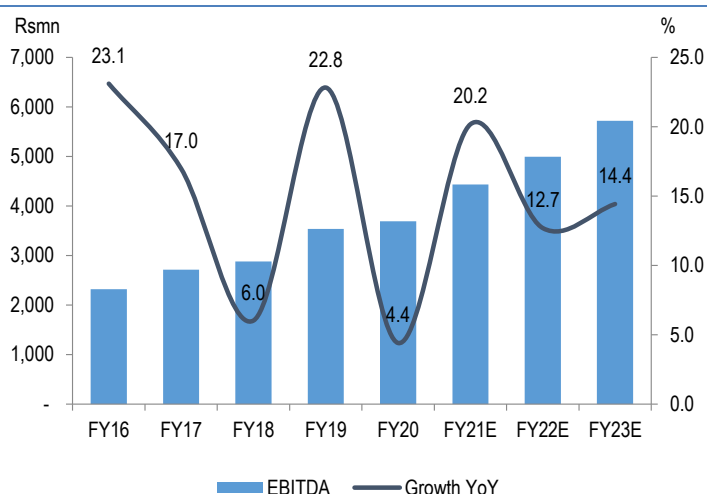
Key financial charts

Exhibit 10: Revenue and revenue growth



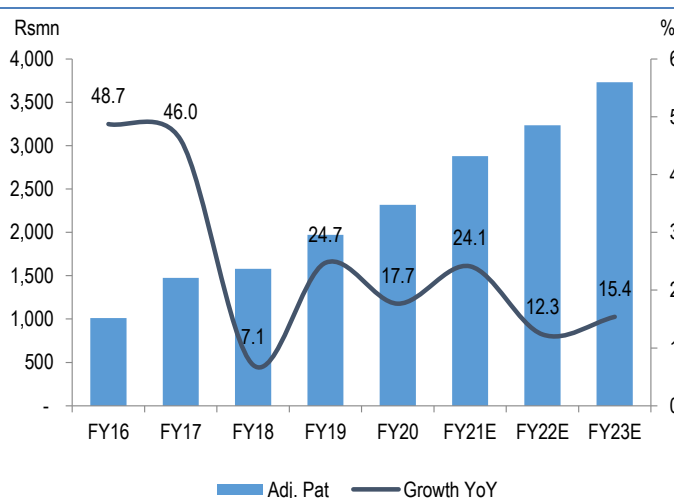
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: EBITDA and EBITDA growth



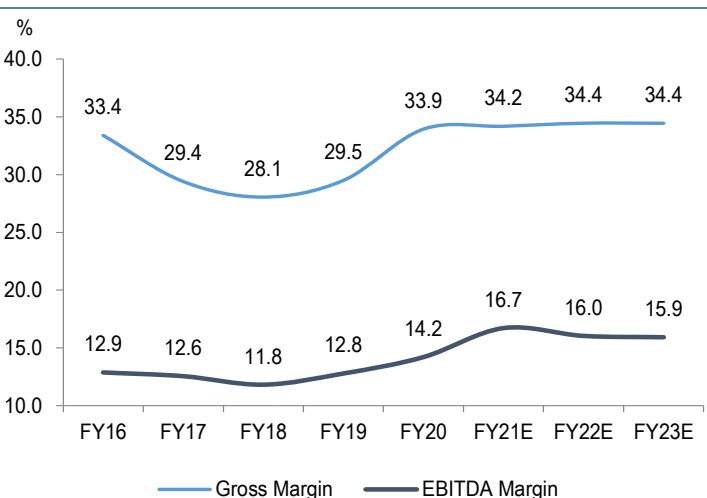
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Net profit and growth



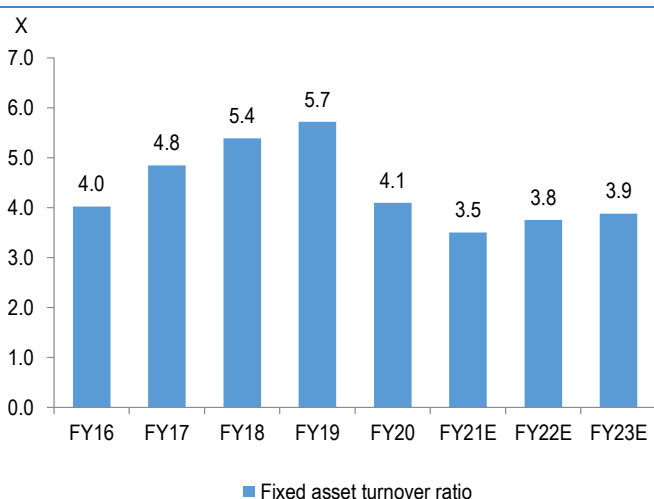
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Gross and EBITDA margins



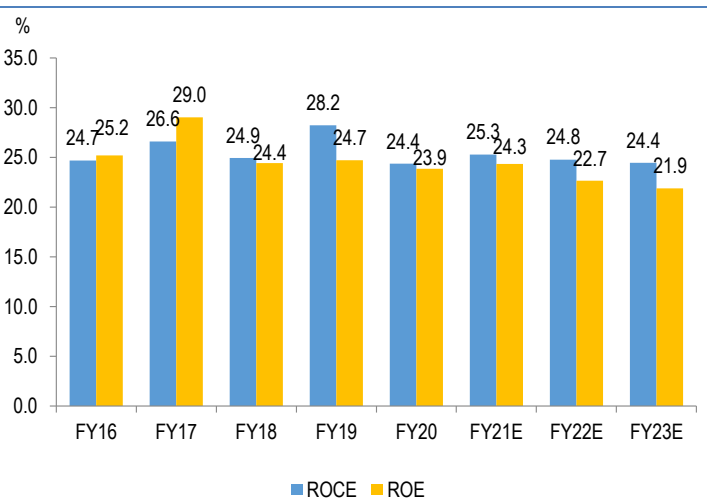
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Fixed asset turnover ratio

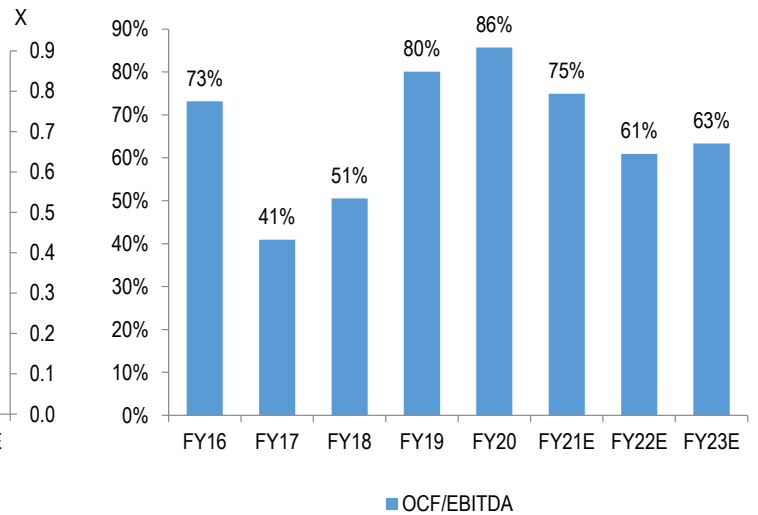
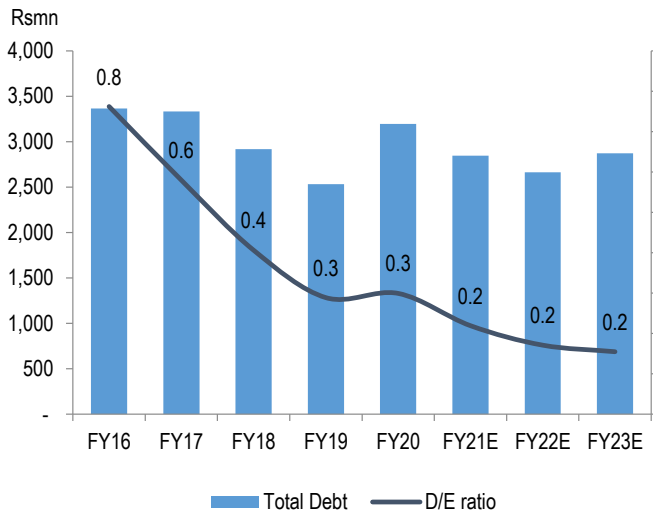


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Return ratios

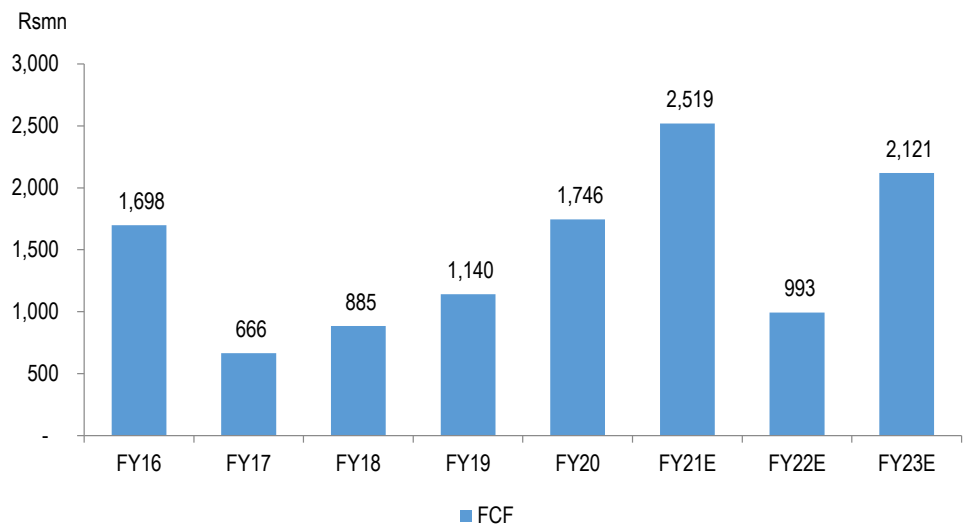


Source: Company, Nirmal Bang Institutional Equities Research

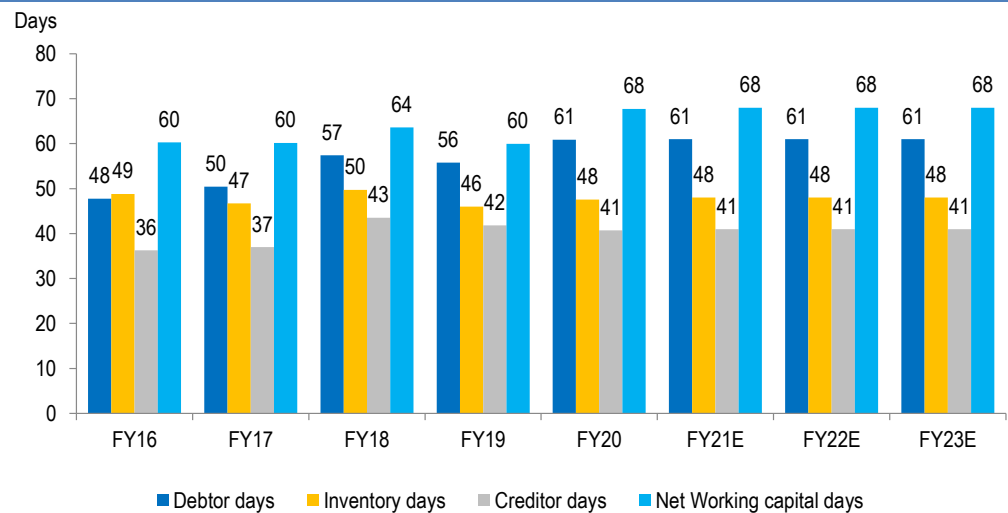
Exhibit 16: Total debt and D/E
Exhibit 17: OCF/EBITDA


Source: Company, Nirmal Bang Institutional Equities Research

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Free cash flow chart


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: Net working capital days


Source: Company, Nirmal Bang Institutional Equities Research

Valuation

We believe that GALSURF is a perfect proxy to play the Global HPC story and expect it to continuously outperform HPC industry growth, led by its sharp focus on R&D, growing premiumisation trend and other macro tailwinds. We initiate coverage on GALSURF with a Buy rating and a TP of Rs2,800 (based on 26x PE FY23E earnings), indicating an upside of ~10% from the CMP.

Exhibit 20: Initiate with Buy and potential upside of 10%

Particulars	
FY23E Consolidated EPS (Rs)	105
Target PE multiple (x)	26
Target Price (Rs)	2,800

Source: Nirmal Bang Institutional Equities Research

Exhibit 21: DCF Working

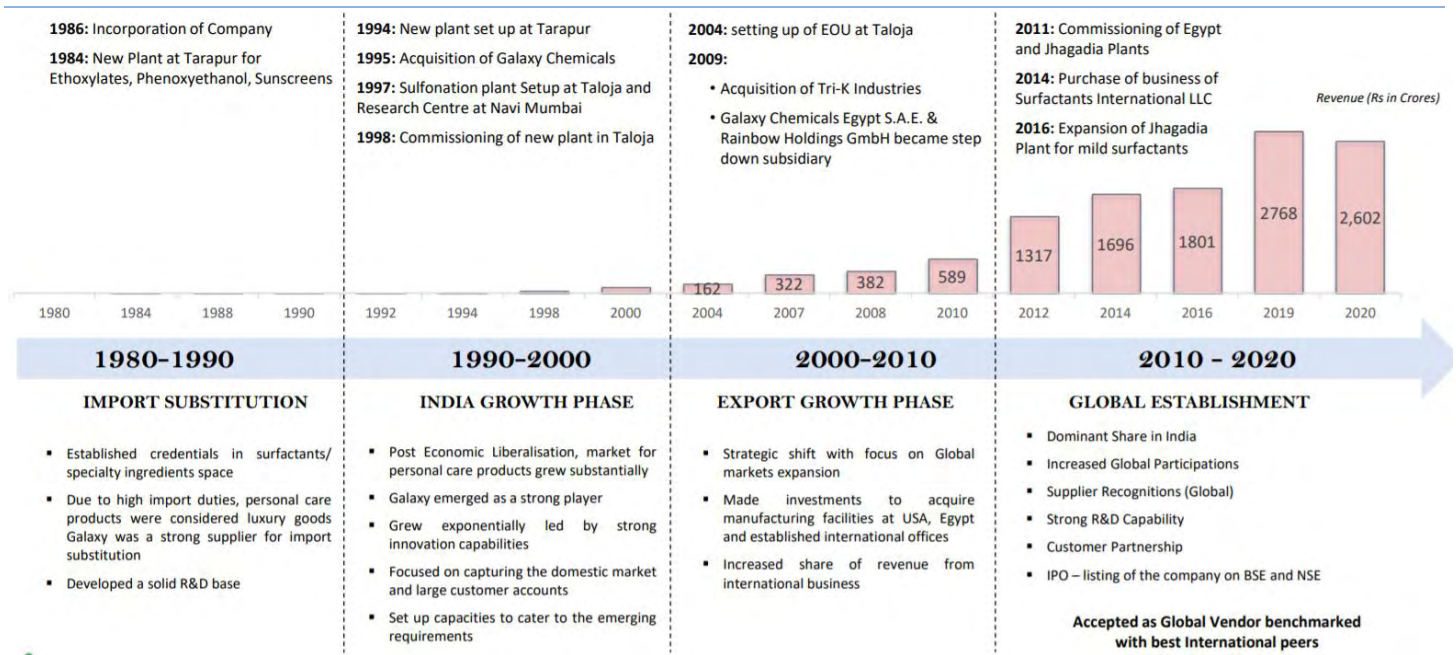
Particulars	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E
Net revenue	27,630	25,964	26,518	31,144	35,893	40,919	46,647	53,178	59,559	66,706	74,711	83,676	93,717
Growth %	13.5%	-6.0%	2.1%	17.4%	15.2%	14.0%	14.0%	14.0%	12.0%	12.0%	12.0%	12.0%	12.0%
EBIT	3,022	3,067	3,757	4,220	4,847	5,524	6,391	7,285	8,338	9,472	10,609	12,133	13,589
EBIT margin %	10.9%	11.8%	14.2%	13.5%	13.5%	13.5%	13.7%	13.7%	14.0%	14.2%	14.2%	14.5%	14.5%
EBIT(1-t)	2,105	2,450	2,948	3,308	3,799	4,330	5,009	5,711	6,536	7,425	8,316	9,511	10,652
Depreciation	512	622	677	776	870	941	1,073	1,223	1,370	1,534	1,718	1,925	2,155
% of sales	1.9%	2.4%	2.6%	2.5%	2.4%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%
Gross cash flow	2,617	3,072	3,625	4,085	4,669	5,271	6,082	6,934	7,906	8,959	10,034	11,435	12,807
Change in Working capital	11	113	-321	-1,062	-1,067	-1,067	-1,067	-1,067	-1,067	-1,067	-1,067	-1,067	-1,067
Capex	1,689	1,416	804	2,050	1,500	1,228	1,166	1,329	1,489	1,668	1,868	1,841	2,062
% of revenue	6.1%	5.5%	3.0%	6.6%	4.2%	3.0%	2.5%	2.5%	2.5%	2.5%	2.5%	2.2%	2.2%
Free cash flow	939	1,769	2,500	973	2,102	2,977	3,849	4,538	5,350	6,225	7,100	8,527	9,679
Growth %		na	41.4%	-61.1%	116.1%	41.6%	29.3%	17.9%	17.9%	16.3%	14.1%	20.1%	13.5%
Discounting Period			0.0	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0
Discounting Factor			1.0	0.9	0.8	0.8	0.7	0.6	0.6	0.5	0.5	0.4	0.4
Discounted FCF			2500	886	1745	2251	2653	2849	3060	3244	3371	3689	3815

DCF Valuation		TP sensi						WACC					
Terminal Growth Rate	4%	Residual growth rate	2,771	9.6%	10.6%	9.8%	12.6%	13.6%					
WACC	10%		7%	5,256	4,026	5,004	2,884	2,572					
PV of expected CF	30,065		6%	3,996	3,307	3,864	2,556	2,328					
PV of terminal CF	68,924		5%	3,284	2,845	3,203	2,314	2,141					
Total EV	98,989		4%	2,826	2,523	2,771	2,129	1,993					
Net Debt	740		3%	2,507	2,286	2,468	1,982	1,873					
Equity Value	98,249												
No of shares	35												
Equity value per share	2,771												
CMP	2,340												
Upside	18%												
Implied PE (FY23)	26												

Source: Nirmal Bang Institutional Equities Research

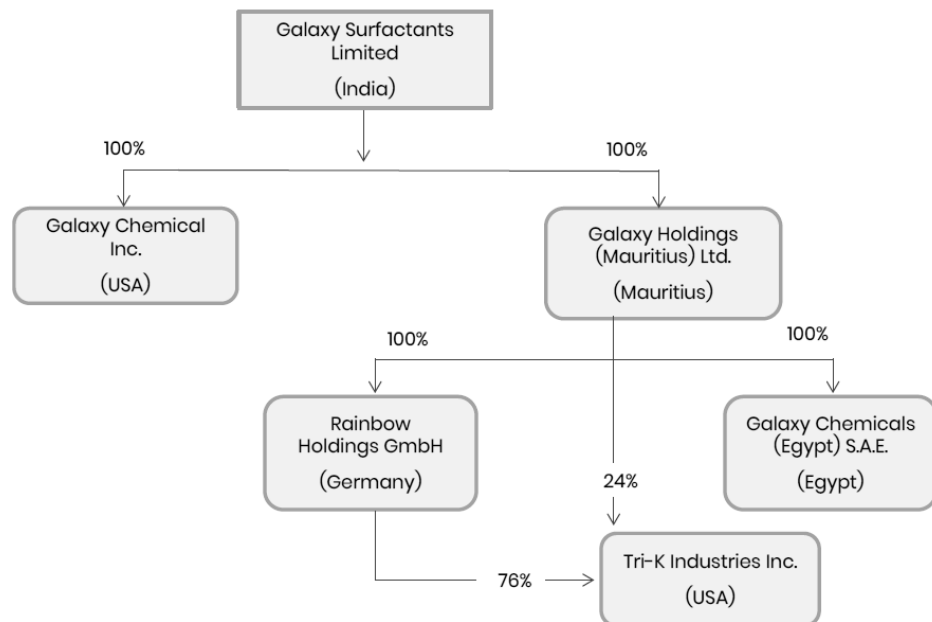
Company description

Exhibit 22: Journey of GALSURF so far



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 23: Corporate structure-



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 24: Product portfolio



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 25: Manufacturing footprint



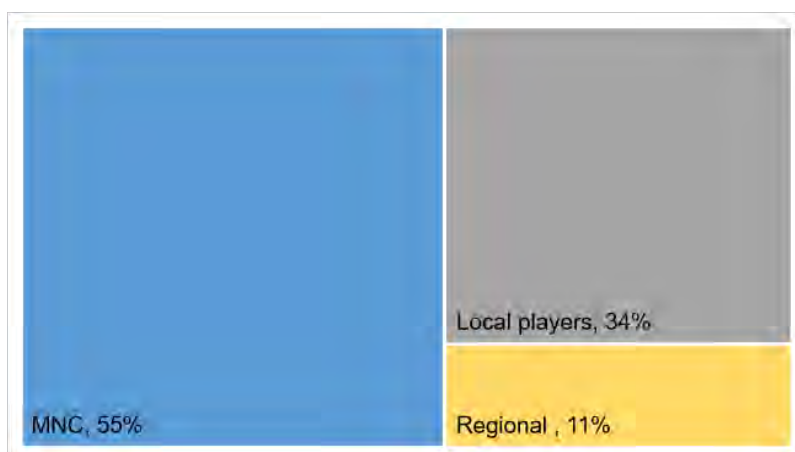
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 26: Capacity details

Location	No. of Units	Installed Capacity	Details
Tarapur, Maharashtra	3	33,647 MTPA	<ul style="list-style-type: none"> ✓ 1 pilot plant for scale up and commercialisation of new products rolling out from R&D activities ✓ Easy access to the Jawaharlal Nehru Port Trust, Navi Mumbai
Taloja, Maharashtra	1	153,741 MTPA	<ul style="list-style-type: none"> ✓ One of the largest sulfation facilities in India ✓ Easy access to the Jawaharlal Nehru Port Trust, Navi Mumbai
Jhagadia, Gujarat*	1	131,000 MTPA	<ul style="list-style-type: none"> ✓ Located close to raw material source ethylene oxide
Suez, Egypt*	1	117,500 MTPA	<ul style="list-style-type: none"> ✓ Located in the Attqa Public Free Zone, exempt from all direct and indirect taxes ✓ Access to the Suez Canal, can address AMET, Europe and Americas (North and South) markets
New Hampshire, USA	1	600 MTPA	<ul style="list-style-type: none"> ✓ Step-down Subsidiary - Tri-K Industries owns and operates for different grades of proteins for cosmetic applications

Source: Company, Nirmal Bang Institutional Equities Research

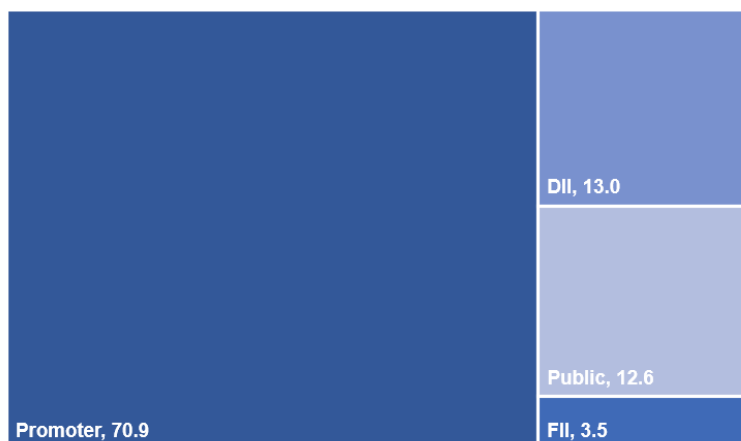
Exhibit 27: Classification of clients (FY20)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 28: Management profile

Name	Designation	Background
Mr. Shekhar Ravindranath Warrior	Chairman & Non-Executive Independent Director	He has been associated with company since June 2007. He was a fellow member of The Institute of Cost Accountants of India. He has been associated with Hindustan Unilever Limited for more than 30 years in various capacities prior to joining the company.
Mr. Unnathan Shekhar	Promoter & MD	He has been associated with the company since 1986. He holds Chemical Engineer degree from the University Department of Chemical Technology, Mumbai and also holds PGDM from IIM, Calcutta. He has over 30 years of experience in the chemical manufacturing industry. He is a recipient of the "Distinguished Alumnus Award for 1998" conferred by the University Department of Chemical Technology Alumni Association.
Mr. Kasargod Ganesh Kamath	CFO & Executive Director (Finance)	He joined as General Manager- Finance & Company Secretary in 2004 took over CFO of company. He is a qualified CS and a Cost Accountant. He was also an associate of The Institute of Bankers, London and The Indian Institute of Bankers. He also holds a Bachelor of Laws (LL.B.) degree from the Mangalore University.
Mr. Natarajan K. Krishnan	COO & Executive Director	He joined Galaxy in April 1993, and headed diverse functions including Finance, IT, Business Creation, Business Commercial, Global Sourcing and Supply Chain and was designated as Chief of Operations in December 2009. He holds degree of Cost of Accountant and Advance Management Programme from Harvard Business School.
Dr. Nirmal Koshti	Non-Executive director	He holds a Ph. D. in Organic Chemistry (University of Bombay) and has several years of post-doctoral research experience in academia. He has been associated with our Company since inception and has been looking after our research and development division.
Mr. Vaijanath Kulkarni	Non-Executive director	He currently the managing director of Galaxy Chemicals (Egypt) S.A.E. and Non-Executive Director of Galaxy. He holds a Bachelor's Degree in Chemical Engineering from Shivaji University, Kolhapur.
Mr. Shashikant R. Shanbhag	Promoter & Non-Executive director	He is a qualified Cost Accountant and member of ICAI as well. He has over 35 years of experience in Chemical Manufacturing Industry.

Exhibit 29: Shareholding pattern (Dec'20)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 30: Top 5 public shareholders

Top Mutual Funds Holding	%
SBI MF	6.81
Axis MF	3.32
Kotak Mahindra MF	1.10
Nippon Life India AMC	1.03
Abu Dhabi Investment Authority	1.62

Source: BSE, Nirmal Bang Institutional Equities Research

Financials (Consolidated)

Exhibit 31: Income statement

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	27,630	25,964	26,518	31,144	35,893
Growth YoY%	13.5	(6.0)	2.1	17.4	15.2
COGS	19,481	17,153	17,454	20,416	23,531
Gross margin %	29.5	33.9	34.2	34.4	34.4
Staff costs	1,604	1,781	1,891	2,207	2,482
Other expenses	3,011	3,341	2,739	3,525	4,164
EBITDA	3,534	3,689	4,433	4,996	5,716
Growth YoY%	22.8	4.4	20.2	12.7	14.4
EBITDA margin %	12.8	14.2	16.7	16.0	15.9
Depreciation	512	622	678	779	872
EBIT	3,022	3,067	3,755	4,217	4,844
Interest	300	238	158	165	176
Other income	108	74	70	70	90
PBT (bei)	2,830	2,904	3,667	4,122	4,758
PBT	2,830	2,904	3,667	4,122	4,758
ETR	30	20	22	22	22
PAT	1,971	2,319	2,878	3,232	3,730
Adj PAT	1,971	2,319	2,878	3,232	3,730
Growth YoY %	24.7	17.7	24.1	12.3	15.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 33: Balance sheet

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
Share Capital	355	355	355	355	355
Reserves & Surplus	8,413	10,323	12,625	15,211	18,195
Net worth	8,767	10,678	12,980	15,566	18,549
Long term debt	892	1,166	818	634	844
Short term debt	1,640	2,030	2,030	2,030	2,030
Total debt	2,532	3,196	2,848	2,664	2,874
Other non-current liabilities	382	582	582	582	582
Total Equity & Liabilities	11,681	14,456	16,410	18,812	22,006
Gross block	9,979	12,774	13,674	15,724	17,224
Accumulated depreciation	4,792	5,296	5,974	6,753	7,625
Net Block	5,188	7,478	7,700	8,971	9,599
CWIP	826	660	614	614	614
Intangible and others	-	-	-	-	-
Other non-current assets	644	627	630	632	635
Investments	-	58	58	58	58
Trade receivables	4,268	4,394	4,660	5,460	6,283
Inventories	3,513	3,250	3,374	3,952	4,545
Cash & Cash equivalents	257	545	2,001	2,067	3,563
Other current assets	937	1,106	1,271	1,462	1,633
Total current assets	8,974	9,353	11,364	12,999	16,082
Trade payables	3,059	2,731	3,013	3,563	4,125
Other current liabilities	892	931	885	840	798
Total current liabilities	3,950	3,663	3,898	4,404	4,924
Total Assets	11,681	14,456	16,410	18,812	22,006

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 32: Cash flow

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
PBT	2,769	2,888	3,667	4,122	4,758
Depreciation	512	622	678	779	872
Interest	300	238	158	165	176
Other adjustments					
Change in Working capital	11	113	(321)	(1,062)	(1,067)
Tax paid	(701)	(574)	(620)	(704)	(815)
Operating cash flow	2,829	3,162	3,323	3,044	3,621
Capex	(1,689)	(1,416)	(854)	(2,050)	(1,500)
Free cash flow	1,140	1,746	2,470	994	2,121
Other investing activities	16	(95)	68	67	87
Investing cash flow	(1,673)	(1,511)	(786)	(1,983)	(1,413)
Issuance of share capital					
Movement of Debt	(623)	(272)	(348)	(184)	210
Dividend paid (incl DDT)	(298)	(940)	(576)	(646)	(746)
Other financing activities	(272)	(226)	(158)	(165)	(176)
Financing cash flow	(1,192)	(1,438)	(1,014)	(995)	(712)
Net change in cash flow	(36)	213	1,524	67	1,496
Opening C&CE	271	250	477	2,001	2,067
Closing C&CE	250	477	2,001	2,067	3,563

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 34: Key ratios

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
Per share (Rs)					
Adj EPS	55.6	65.4	81.2	91.2	105.2
Book value	247.3	301.2	366.1	439.1	523.3
DPS	8.0	14.0	16.2	18.2	21.0
Valuation (x)					
P/Sales	3.3	3.5	3.4	2.9	2.5
EV/sales	3.3	3.6	3.4	2.9	2.5
EV/EBITDA	26.2	25.2	20.5	18.2	15.7
P/E	45.8	38.9	31.4	27.9	24.2
P/BV	10.3	8.5	7.0	5.8	4.9
Return ratios (%)					
RoCE	28.2	24.4	25.3	24.8	24.4
RoE	24.7	23.9	24.3	22.6	21.9
Profitability ratios (%)					
Gross margin	29.5	33.9	34.2	34.4	34.4
EBITDA margin	12.8	14.2	16.7	16.0	15.9
PAT margin	7.1	8.9	10.8	10.4	10.4
Liquidity ratios (%)					
Current ratio	1.6	1.6	1.9	2.0	2.3
Quick ratio	1.0	1.1	1.3	1.4	1.7
Solvency ratio (%)					
Debt to Equity ratio	0.3	0.3	0.2	0.2	0.2
Turnover ratios					
Fixed asset turnover ratio (x)	5.7	4.1	3.5	3.7	3.9
Debtor days	56	61	61	61	61
Inventory days	46	48	48	48	48
Creditor days	42	41	41	41	41
Net Working capital days	60	68	68	68	68

Source: Company, Nirmal Bang Institutional Equities Research

Camlin Fine Sciences

1 April 2021

Reuters: CAMF.NS; Bloomberg: CFIN IN

Blending the right strategy

Camlin Fine Sciences (CFIN) is the leading integrated manufacturer of most preferred traditional antioxidants (AO), which is part of shelf-life solutions. CFIN's other key business verticals include aroma ingredients (Vanillin) and performance chemicals. In AO and Vanillin, CFIL is the leading player in terms of capacity and the lowest cost manufacturer in the world. We like CFIN's backward integration focus wherein all raw materials (except phenol) are manufactured in-house. Post FY16, CFIN has gone through a rough patch as it's decision to forward integrate into the AO business (AO blends which enjoy 20%+ margin) resulted in loss of its biggest client (~35% of overall revenue then), which is a global leader in AO blends. Also, blends business takes time to scale up and requires local presence in terms of R&D in order to understand food patterns of a particular geography. But, CFIL has done remarkably well with regards to the blends business (>Rs3bn in 4 years) and expects strong growth of ~25% over the next few years. As far as India operations are concerned, starting of Dahej diphenols capacity would result in incremental revenue growth and improvement in operating efficiency since raw materials need not be imported from the Italian subsidiary. Ethyl Vanillin facility in Dahej should start contributing to revenue from FY23E. Debottlenecking-led capacity expansion and new products would aid strong growth in performance chemicals. We see significant margin upside from FY20 level on account of faster growth of value-added portfolio, enhanced capacity utilisation of Mexico and Brazil subsidiaries and cost savings post Dahej commissioning. We are building in revenue/EBITDA/PAT CAGR of 23%/35%/58% over FY21E-23E. We believe there is significant upside to return ratios (FY23E ROCE/ROE of 19.3%/20.3% vs FY21E 13.0%/13.2%) and scope for improvement in working capital (mainly inventory days post Dahej commercialization). We initiate coverage on CFIN with a Buy rating and TP of Rs180 (based on 16x PE on FY23E), indicating an upside of ~29% from CMP.

AO blends business is a key growth driver: CFIN's strategy to forward integrate into AO blends has worked in favour of the company with the company reporting ~Rs3bn revenue in 4 years. AO blends is not a capital-intensive business but getting established in the market takes time and usually requires local R&D set-up. We are building in strong growth for its subsidiaries in Brazil and Mexico in blends. Also, USA is a big market for AO blends and CFIL's dedicated efforts on that front augur well for growth in the long run. We are building in ~25% revenue growth in the blends business over FY20-23E and expect its revenue share to rise from ~31% in FY20 to ~35% in FY23E. On the margin front, we see upside potential on account of rising AO blends share and operating leverage benefits in subsidiaries.

Strategic expansion at Dahej to yield results from FY22: CFIN recently commenced its 10,000 MTPA diphenol greenfield capacity at Dahej. Hydroquinone and Catechol, which are the key raw materials for AO blends and other downstream products, would be produced at Dahej as against imports from its Italian subsidiary earlier. With this expansion, CFIL is the 2nd largest player (20,000 MTPA) after Solvay (~40,000 MTPA) in diphenols. Dahej commercialization is expected to save ~US\$1-1.5/kg on account of savings in logistics, labour costs etc. and lower inventory days. The upcoming ethyl vanillin capacity at Dahej would start contributing to revenue FY23 onwards and would mainly cater to USA and EU markets. China vanillin capacity would cater to markets like South Africa, Malaysia, Indonesia etc.

Outlook and valuation: We like CFIN's focus on backward as well as forward integration within the segments it operates in. We believe that earnings underperformance in the last 4-5 years was not account of internal inefficiencies and the company has taken necessary steps post the loss of customer (revenue exposure cap of 5% per group). AO blends business is at the cusp of strong growth, in our view. Also, with Dahej commercialization, we expect turnaround in earnings performance FY22 onwards. While the stock is trading at ~13x PE FY23E, we believe that it has re-rating potential based on these growth drivers. We initiate coverage on CFIN with a Buy rating and TP of Rs180, indicating an upside of ~29% from CMP. Our target PE multiple of 16x factors in potential improvement in its operating performance.

BUY

Sector: Chemicals

CMP: Rs140

Target Price: Rs180

Upside: 29%

Abhishek Navalgund

Research Analyst

abhishek.navalgund@nirmalbang.com

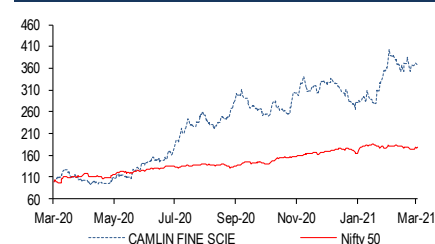
+91-22-6273-8013

Key Data

Current Shares O/S (mn)	127.5
Mkt Cap (Rsbn/US\$mn)	17.8/242.5
52 Wk H / L (Rs)	161/35
Daily Vol. (3M NSE Avg.)	806,996

Share holding (%)	3QFY21	2QFY21	1QFY21
Promoter	21.6	22.7	22.7
Public	78.4	77.3	77.3
Others	-	-	-

One-Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
Camlin Fine Sciences	2.2	23.7	245.8
Nifty Index	(0.3)	30.2	80.1

Source: Bloomberg

Financial summary

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	8,922	10,491	12,038	15,227	18,337
Growth YoY%	23.8	17.6	14.7	26.5	20.4
Gross margin %	46.8	49.1	51.9	53.5	54.3
EBITDA	687	1,307	1,785	2,503	3,251
EBITDA margin %	7.7	12.5	14.8	16.4	17.7
Adj PAT	6	303	697	1,209	1,747
Growth YoY%	NA	5,156.3	129.9	73.4	44.5
Adj EPS	0.0	2.5	4.4	7.7	11.1
RoCE %	5.2	11.5	13.0	15.6	19.3
RoE %	0.2	7.8	13.2	16.9	20.3
P/E	NA	56.0	31.5	18.2	12.6
EV/EBITDA	30.5	16.7	11.1	8.3	6.0
P/BV	4.6	4.2	2.6	2.2	1.8

Source: Company, Nirmal Bang Institutional Equities Research

Variance with consensus

Particulars	NBIE estimates			Consensus estimates			Variance (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	12,038	15,227	18,337	11,937	15,408	17,923	0.8	(1.2)	2.3
EBITDA	1,785	2,503	3,251	1,990	2,734	3,358	(10.3)	(8.4)	(3.2)
EBITDA margin	14.8%	16.4%	17.7%	16.7%	17.7%	18.7%	-184bps	-131bps	-101bps
APAT	697	1,209	1,747	822	1,376	1,773	(15.2)	(12.1)	(1.5)

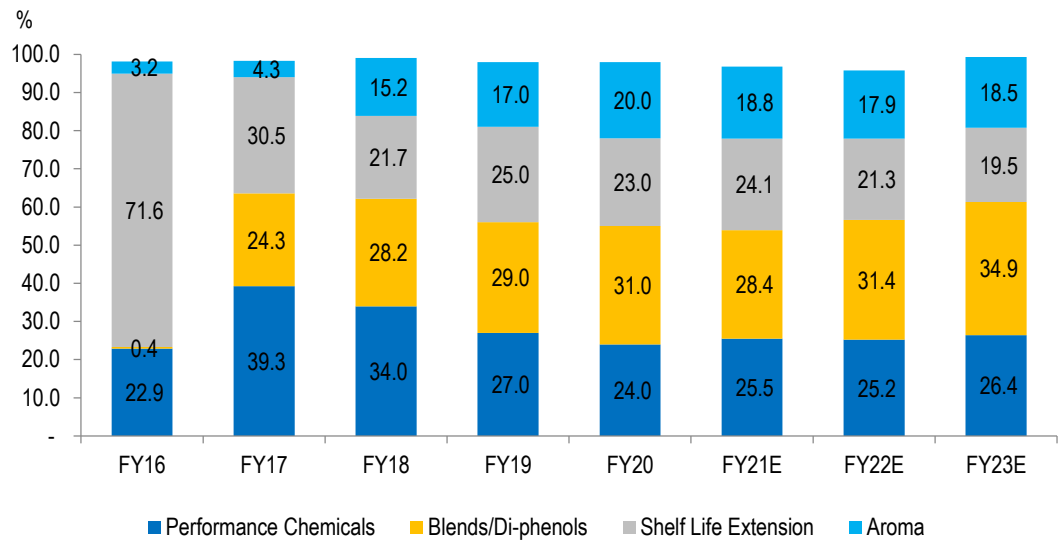
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 1: Subsidiaries wise details

Countries	CFS India	CFS Mexico	CFS Europe	CFS Brazil	CFS Wanglong	CFS North America
Business heads	Ashish Dandekar (Managing Director)	Arturo Paulin (Manager)	Dr. Massimo Cupello Castagna (Managing Director)	Luciano Monteiro (General Manager)	Gautam Sapute (Head of operations)	Jennifer Igou (General Manager)
Products	Di-Phenols, Self Life Solutions, Aroma and Performance Checmicals	Self Life Solutions	Di-Phenols, Self Life Solutions and Performance Checmicals	Self Life Solutions	Vanilin (Aroma)	Self Life Solutions
Capacity (MT)	25,000	12,000	12,000	6,000	4,200	NA
Employee Strength	350+	130+	50+	30+	75+	10+
Customers	500+	400+	15+	85+	15+	15+
EBITDA Margin-						
FY20	10%	16%	16%	4%	-10%	-15%
FY23E	16%	22%	16%	16%	9%	12%

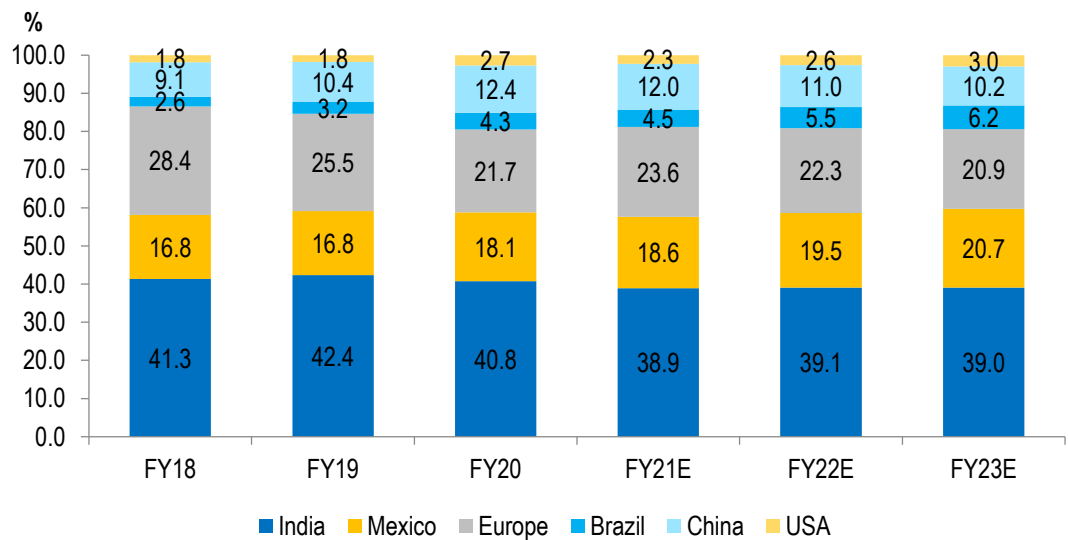
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Segment Break up



Source: Company, Nirmal Bang Institutional Equities Research

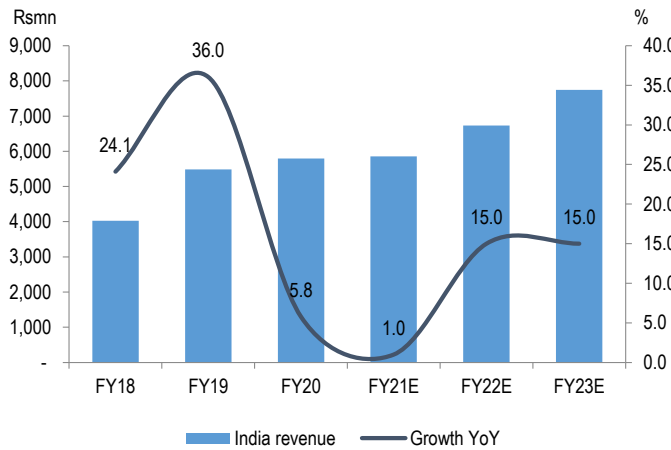
Exhibit 3: Geographical revenue presence chart



Source: Company, Nirmal Bang Institutional Equities Research

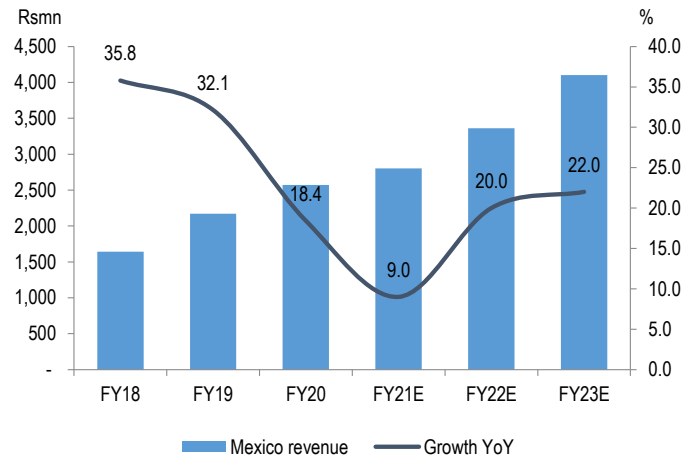
Subsidiaries revenue performance

Exhibit 4: India revenue and growth trend



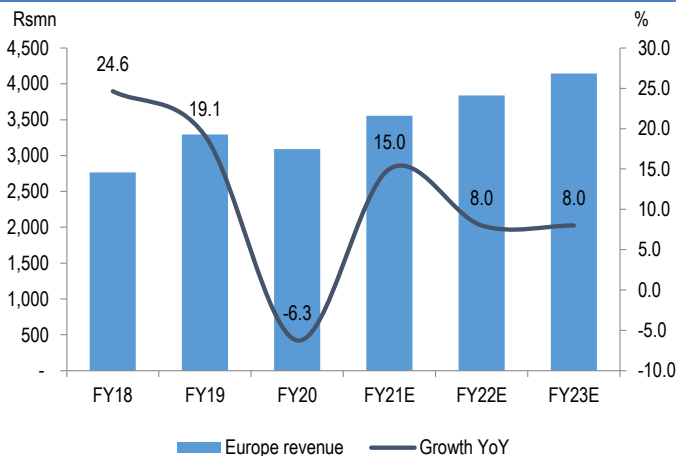
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Mexico revenue and growth trend



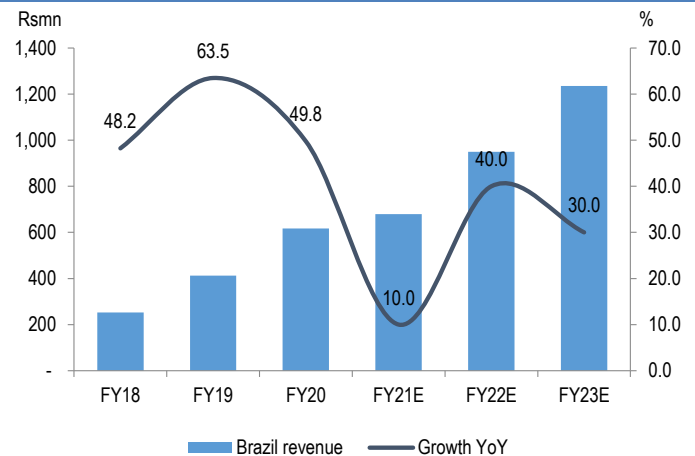
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Europe revenue and growth trend



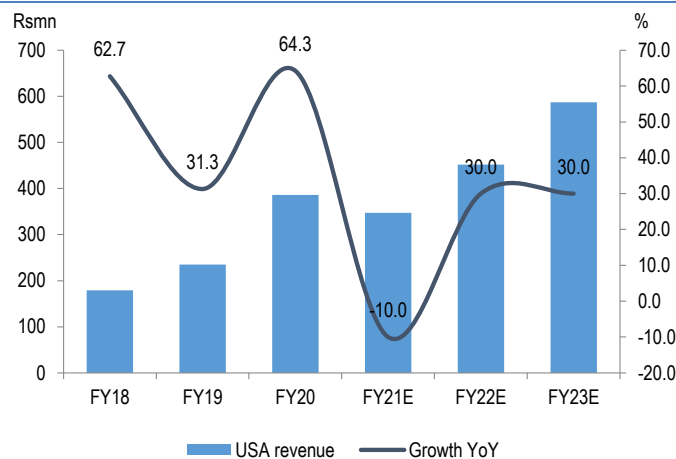
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Brazil revenue and growth trend



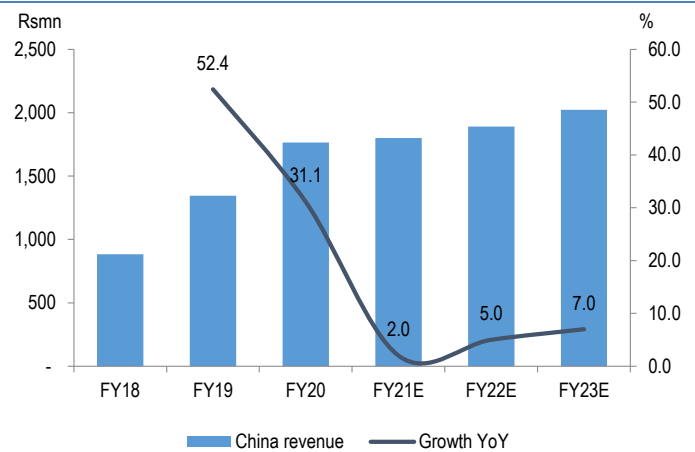
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: USA revenue and growth trend



Source: Company, Nirmal Bang Institutional Equities Research

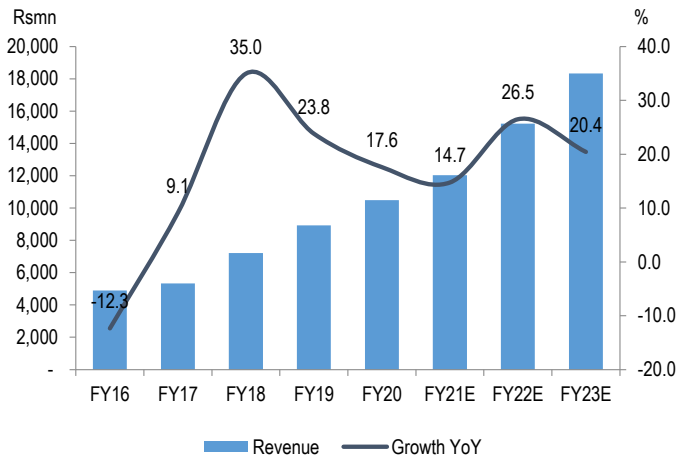
Exhibit 9: China revenue and growth trend



Source: Company, Nirmal Bang Institutional Equities Research

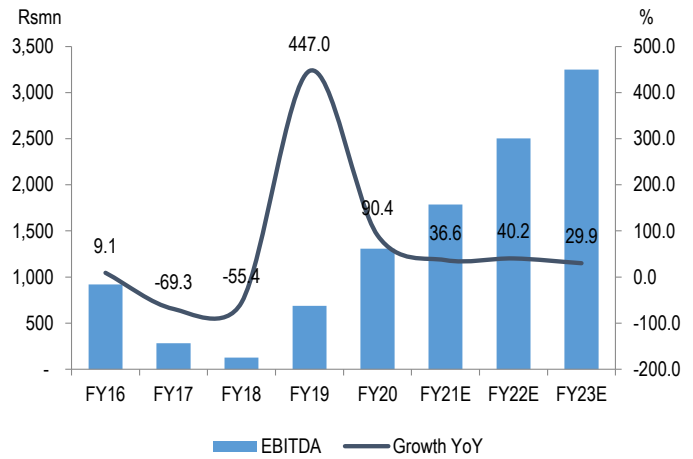
Key financial charts (Consolidated)

Exhibit 10: Revenue and growth trend



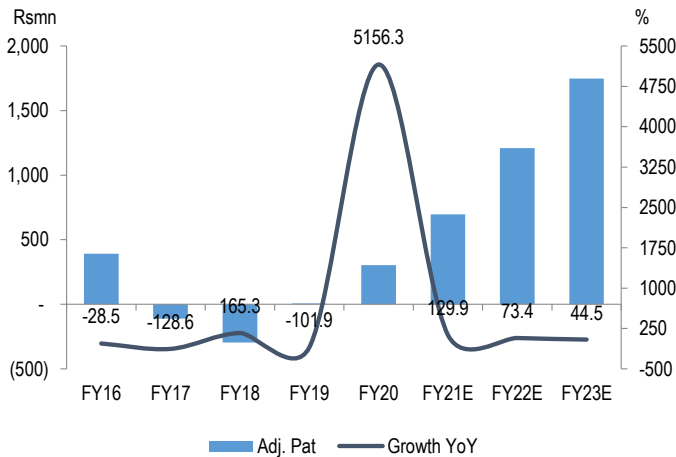
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: EBITDA and growth trend



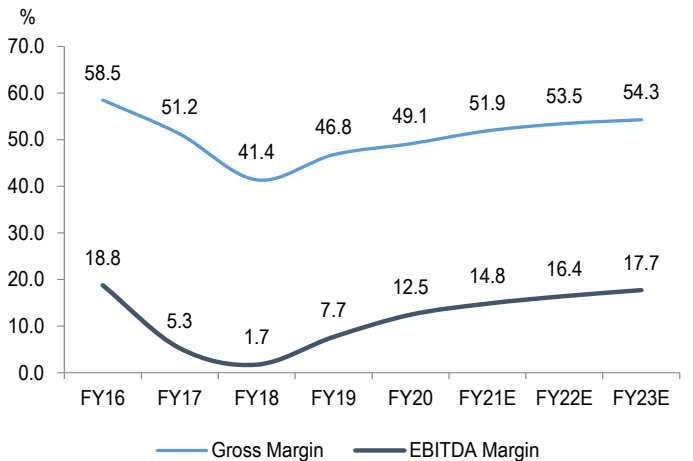
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Net Profit and growth trend



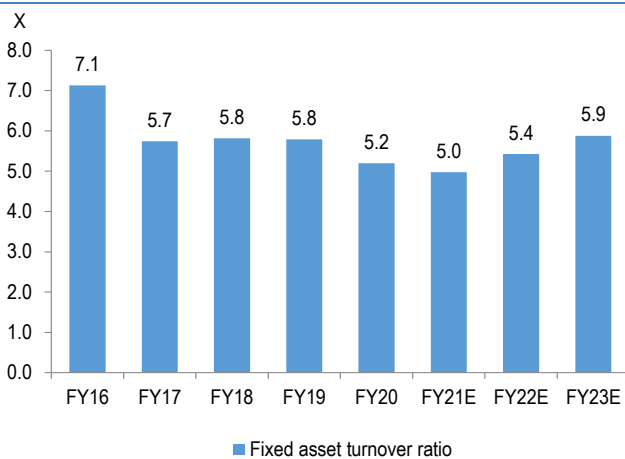
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Margins trend



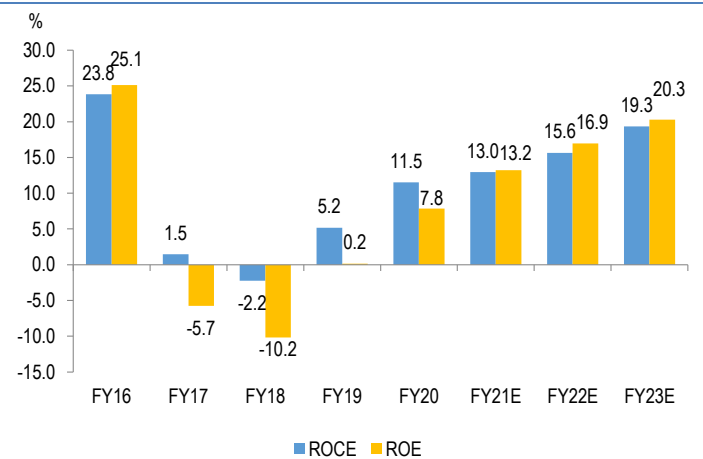
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Fixed Assets t/o ratio

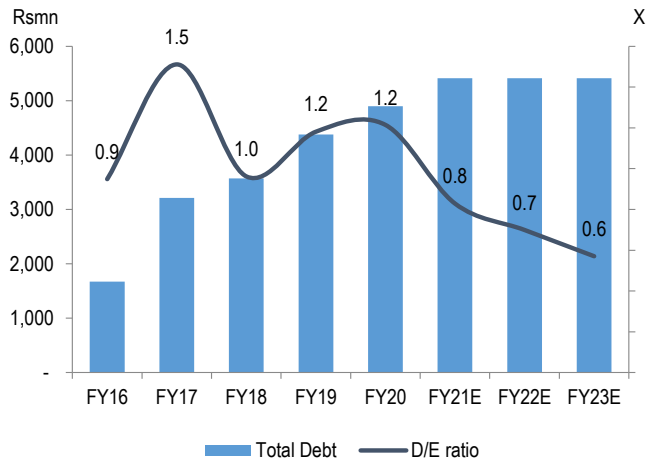


Source: Company, Nirmal Bang Institutional Equities Research

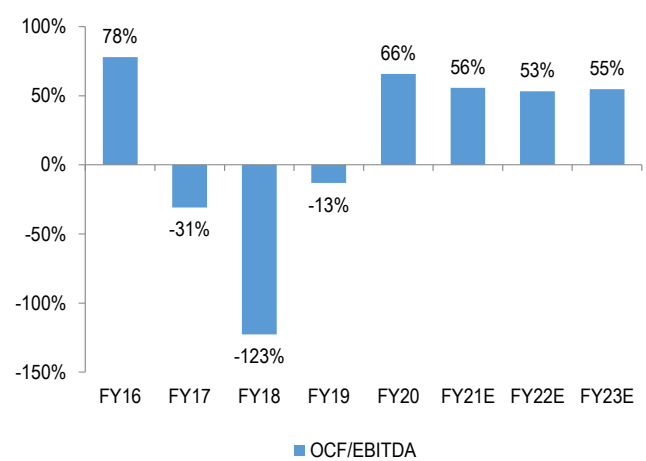
Exhibit 15: Return ratios



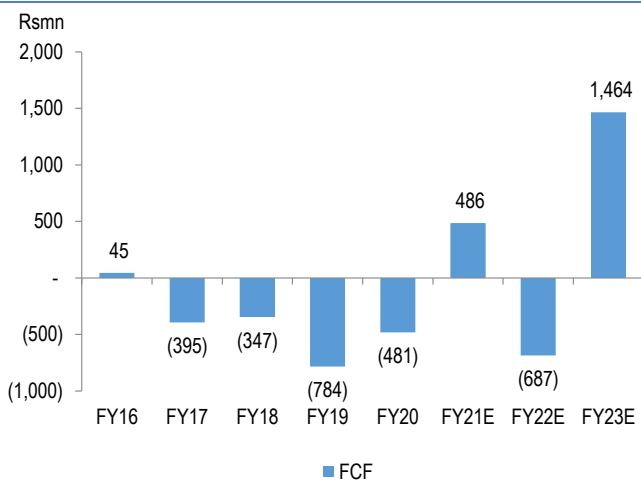
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Debt to Equity


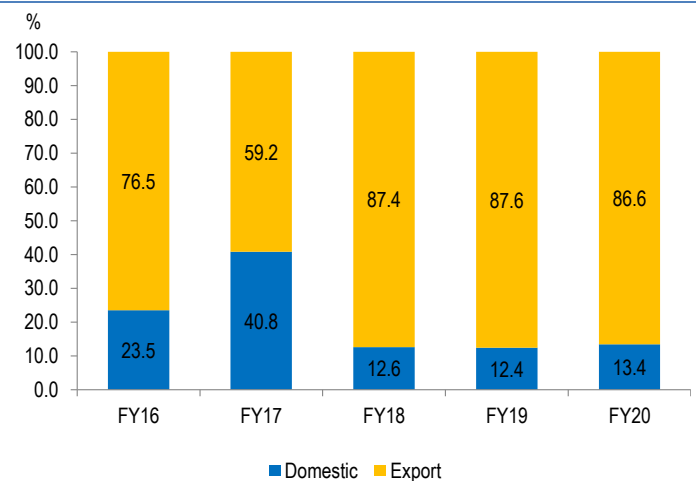
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: OCF/EBITDA


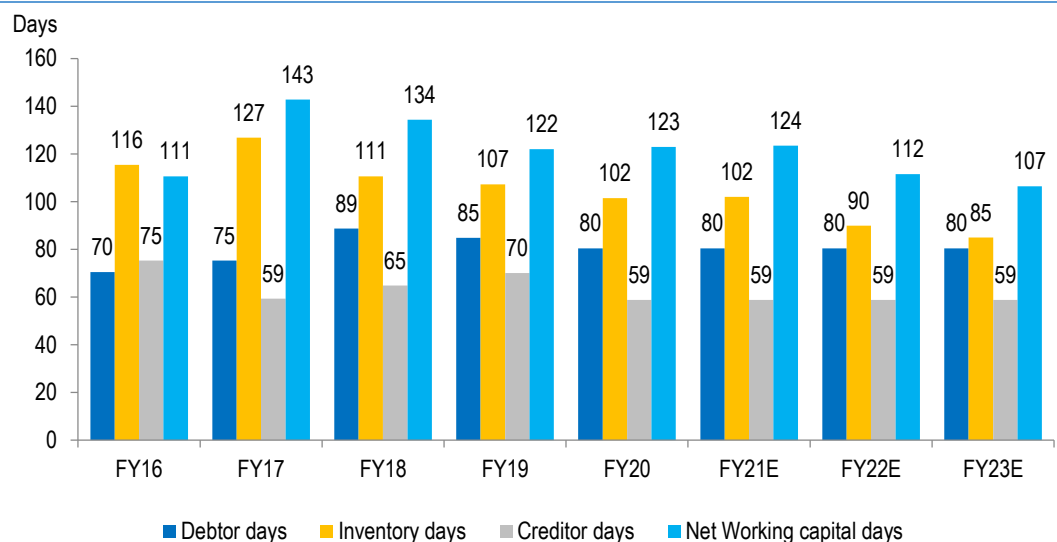
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: FCF


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: Geographical break-up


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 20: Working Capital Days


Source: Company, Nirmal Bang Institutional Equities Research

Valuation

We like CFIN's focus on backward as well as forward integration within the segments it operates in. We believe that earnings underperformance in the last 4-5 years was not account of internal inefficiencies and company has taken necessary steps post loss of that customer (revenue exposure cap of 5% per group). Blends business is at the cusp of strong growth in our view. Also, with Dahej commercialization, we expect turnaround in earnings performance from FY22. While the stock is trading at ~13x PE FY23E, we believe that it has a re-rating potential based on these growth drivers. We initiate coverage on CFIN with a Buy rating and TP of Rs180, indicating an upside of ~29% from CMP. Our Target PE multiple of 16x factors in potential improvement in operating performance.

Exhibit 21: Initiate at BUY with TP of Rs180

Particulars	
FY23E Consolidated EPS (Rs)	11
Target PE multiple (x)	16
Target Price (Rs)	180

Source: Nirmal Bang Institutional Equities Research

Exhibit 22: DCF working

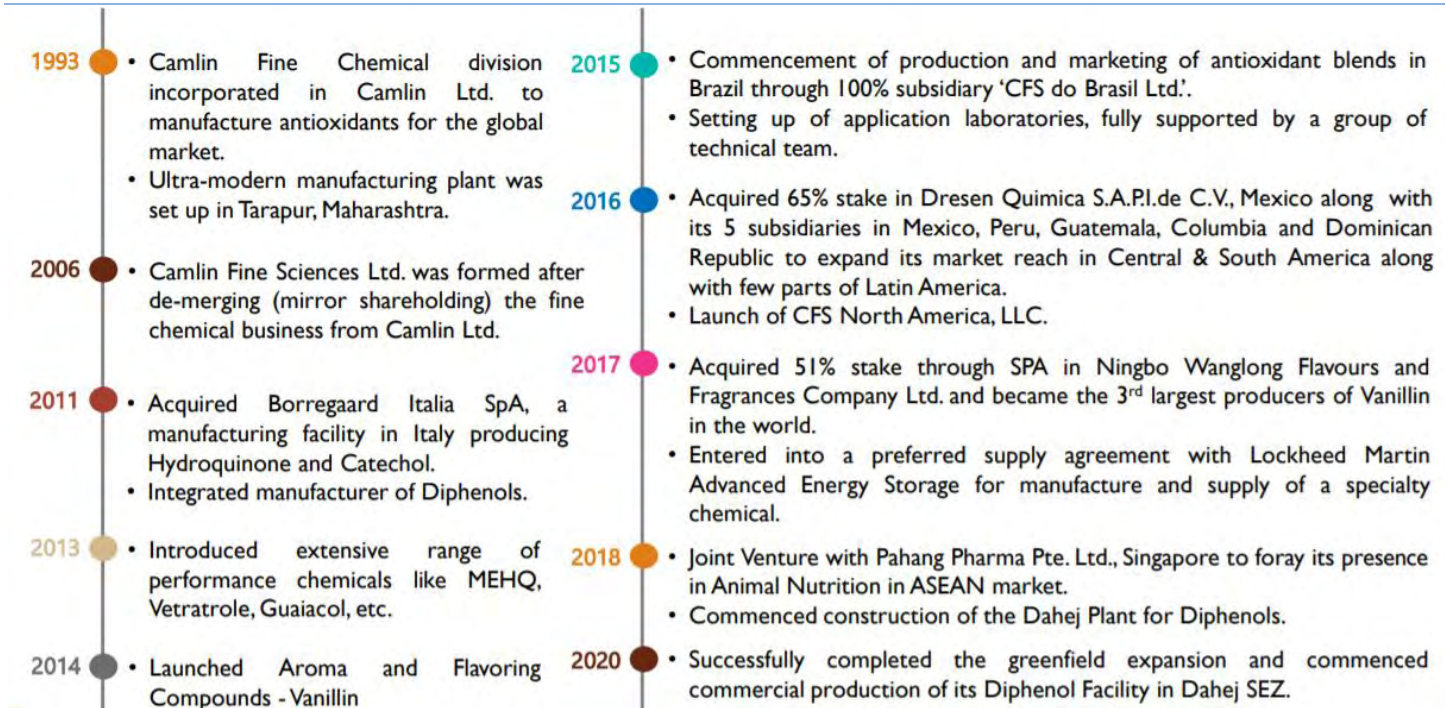
Particulars	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E
Net revenue	8,922	10,491	12,038	15,227	18,337	21,087	24,250	27,888	31,234	34,983	39,180	43,099	47,408
Growth %	23.8%	17.6%	14.7%	26.5%	20.4%	15.0%	15.0%	15.0%	12.0%	12.0%	12.0%	10.0%	10.0%
EBIT	397	979	1,351	1,962	2,709	3,037	3,516	4,044	4,560	5,177	5,799	6,465	7,111
EBIT margin %	4.4%	9.3%	11.2%	12.9%	14.8%	14.4%	14.5%	14.5%	14.6%	14.8%	14.8%	15.0%	15.0%
EBIT(1-t)	71	502	891	1,428	1,971	2,209	2,558	2,942	3,318	3,767	4,219	4,703	5,174
Depreciation	290	328	433	541	542	633	728	837	937	875	980	1,077	1,185
% of sales	3.2%	3.1%	3.6%	3.6%	3.0%	3.0%	3.0%	3.0%	3.0%	2.5%	2.5%	2.5%	2.5%
Gross cash flow	361	830	1,324	1,969	2,513	2,842	3,286	3,779	4,255	4,641	5,198	5,781	6,359
Change in Working capital	-798	-408	-431	-720	-814	-814	-814	-814	-814	-814	-814	-814	-814
Capex	694	1,341	510	2,020	320	1,054	1,213	837	937	1,049	1,567	862	948
% of revenue	7.8%	12.8%	4.2%	13.3%	1.7%	5.0%	5.0%	3.0%	3.0%	3.0%	4.0%	2.0%	2.0%
Free cash flow	-1,130	-919	383	-771	1,379	973	1,259	2,128	2,504	2,778	2,817	4,105	4,597
Growth %		na	-141.7%	-301.2%	-278.8%	-29.4%	29.4%	69.0%	17.7%	10.9%	1.4%	45.7%	12.0%
Discounting Period			0.0	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0
Discounting Factor			1.0	0.9	0.8	0.7	0.7	0.6	0.5	0.5	0.4	0.4	0.3
Discounted FCF			383	-693	1,113	706	820	1,246	1,317	1,313	1,196	1,566	1,576

DCF Valuation		WACC					
Terminal Growth Rate	4%	Residual growth rate		10.0%	11.0%	11.3%	12.0%
WACC	11%		5.5%	276	233	223	203
PV of expected CF	10,543		5.0%	251	216	208	191
PV of terminal CF	22,449		4.5%	231	202	195	180
Total EV	32,992		4.0%	214	190	183	171
Net Debt	4,248		3.0%	188	170	165	155
Equity Value	28,744						144
No of shares	157						
Equity value per share	183						
CMP	146						
Upside	26%						
Implied PE (FY23E)	16						

Source: Nirmal Bang Institutional Equities Research

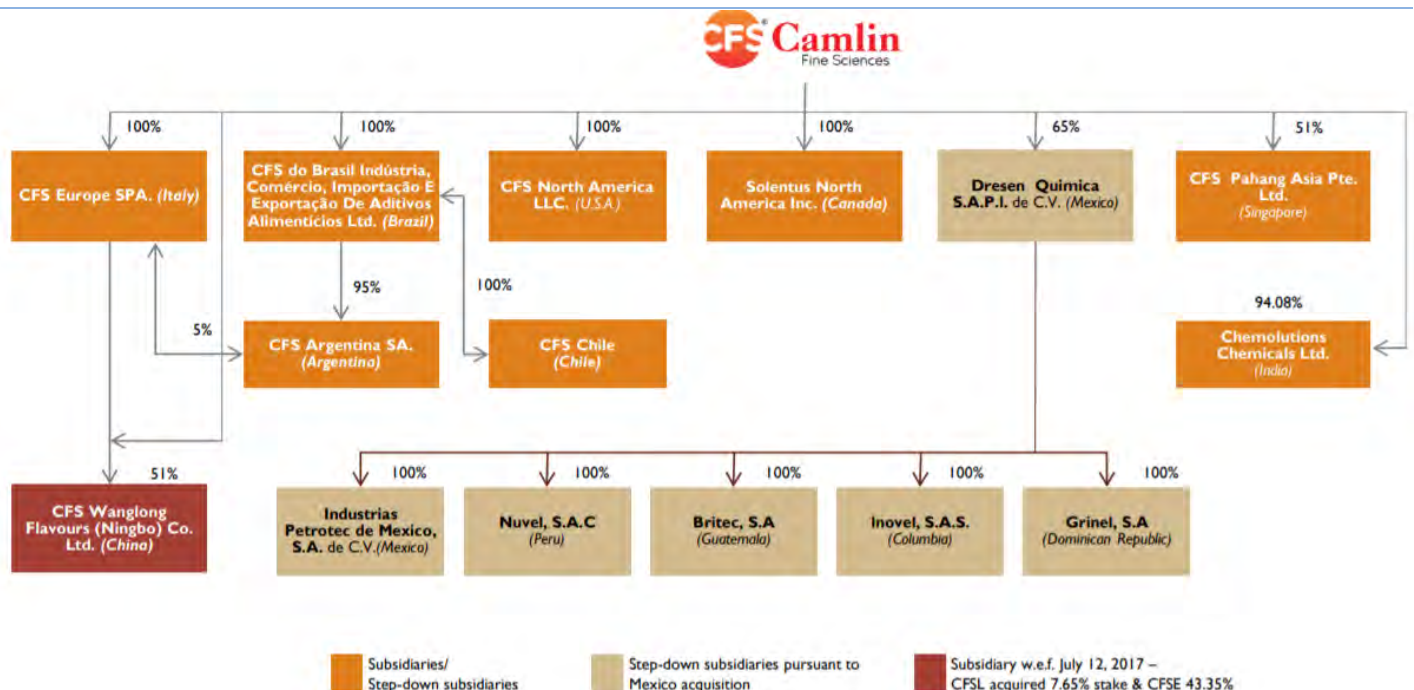
Company background

Exhibit 23: Journey of CFIL so far



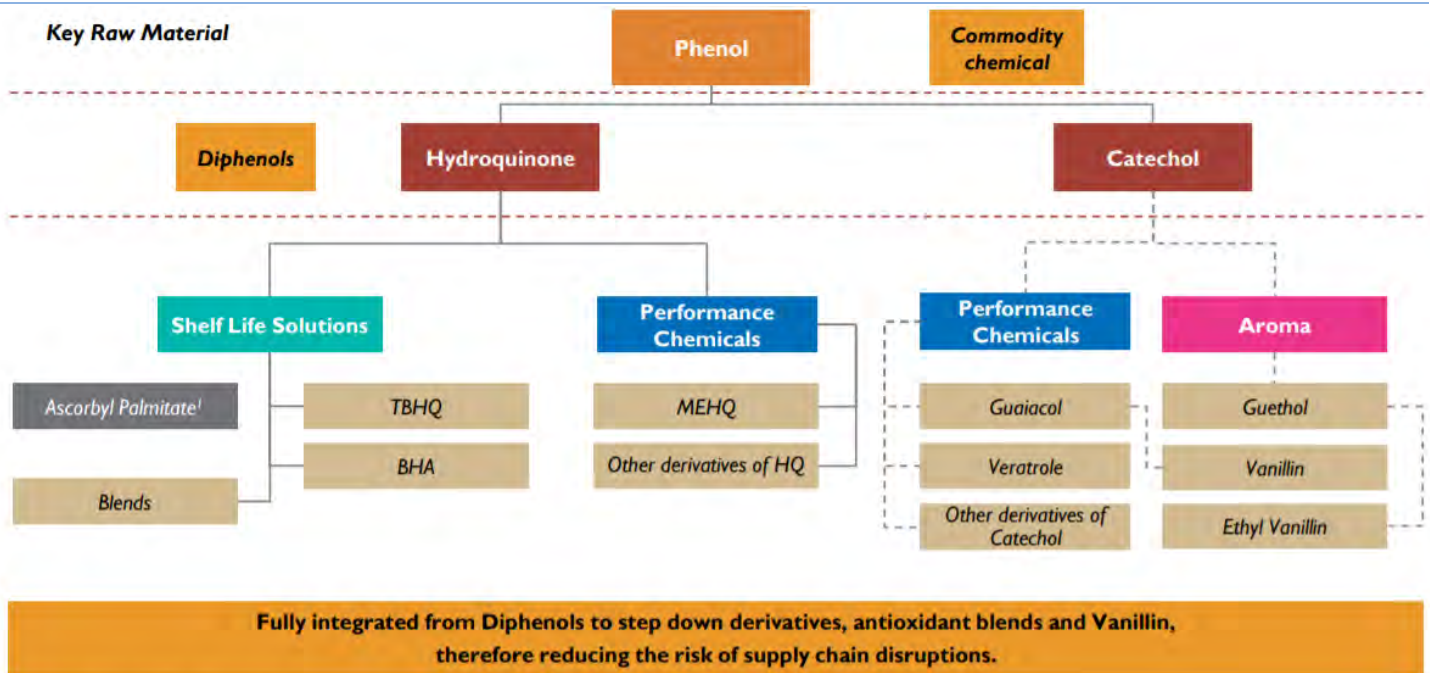
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 24: Corporate structure



Source: Company, Nirmal Bang Institutional Equities Research

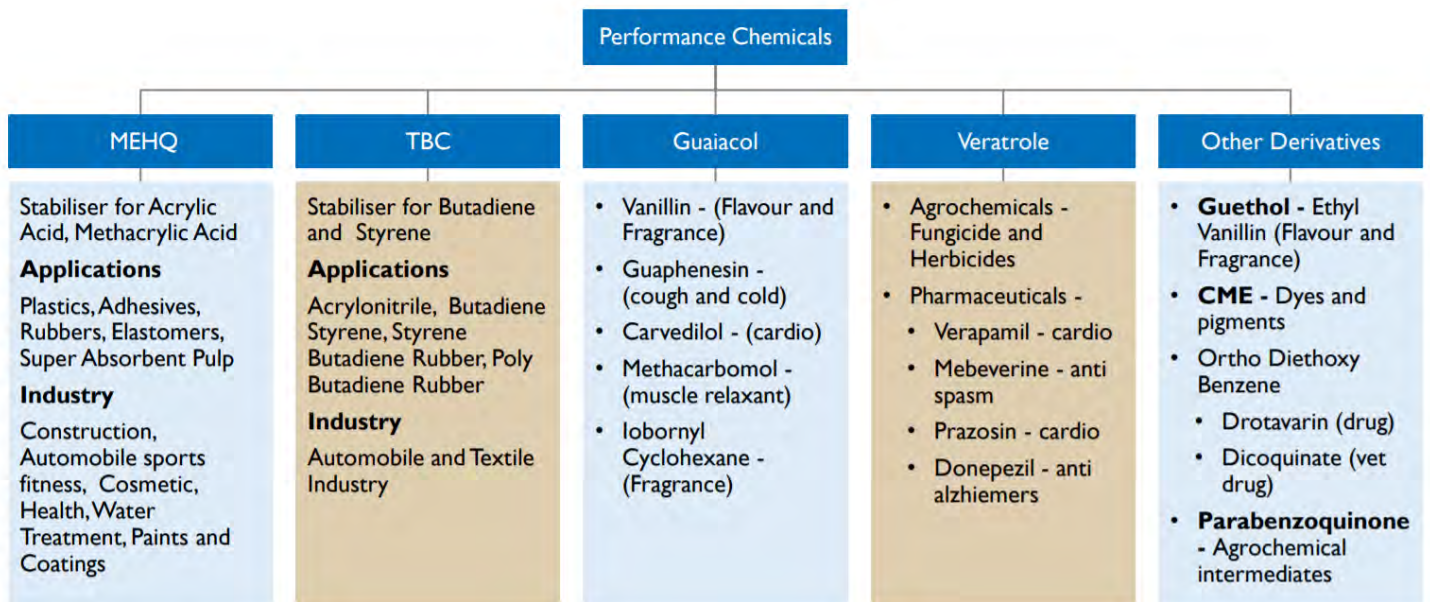
Exhibit 25: Product chain



¹ Ascorbyl Palmitate is not a part of HQ / Catechol value-chain and is manufactured from ascorbic acid

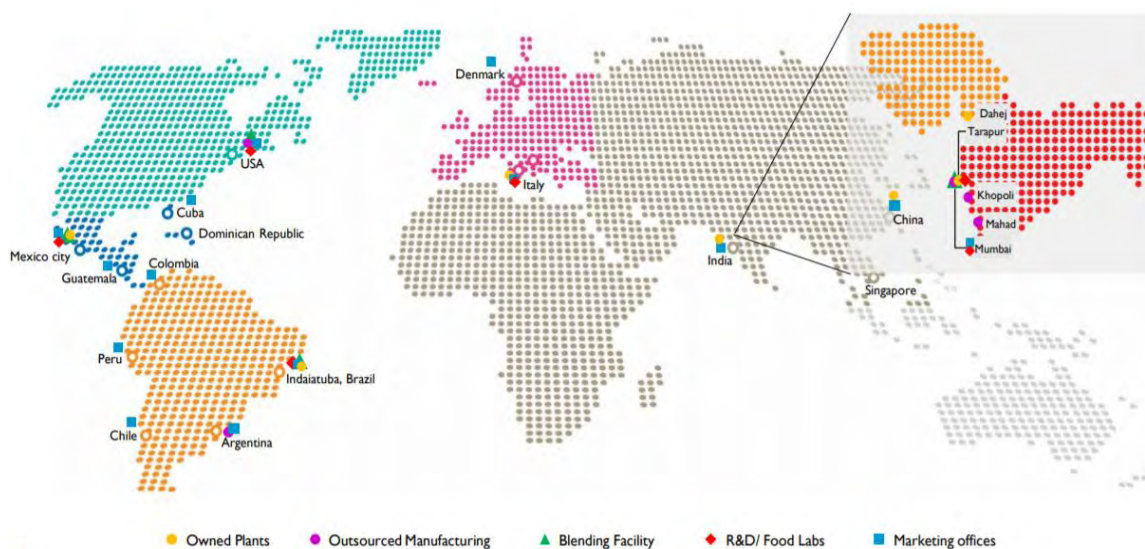
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 26: Performance chemicals portfolio



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 27: Manufacturing capacities



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 28: Client profile



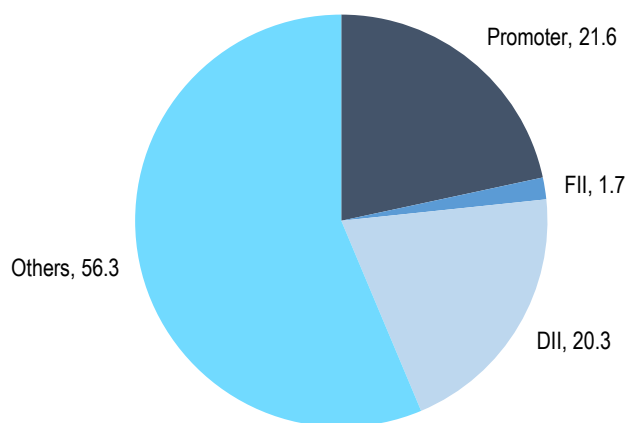
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 29: Profile of top management team

Name	Designation	Background
Dilip Dandekar	Chairman	Mr. Dilip D. Dandekar is the chairman of CFS and Kokuyo Camlin Ltd and has been associated with company since 2006. He also served as the President of Indian Merchants' Chambers the Maharashtra Chamber of Commerce, Industry and Agriculture. He has more than 40 years of experience in the specialty chemical industry in the field of marketing and administration.
Ashish Dandekar	Managing Director	He has over 30 years of experience in Pharmaceuticals and Fine Chemical Products and has expertise in Business Planning, Information Systems, Research & Development, Product Development and Marketing. He holds B. A. in Economics and Management Studies from USA.
Nirmal Momaya	Non-executive director	He is qualified CA and have more than 25 years of professional experience in finance, taxation & audit and management consultancy. He founded Pagoda Advisors, a consulting firm for various businesses like chemicals, healthcare, pharma, QSR, FMCG etc.
Santosh Parab	CFO	He has been associated with the company since 2016. He has expertise in Global Strategic Financial Analysis & Planning, P & L Ownership and management, M&A, J.V Alliance, Legal and ethics. He is qualified CA with over 24 years of experience in accounting, financial and tax management.

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 30: Shareholding pattern (as on Dec 20)



Source: BSE, Nirmal Bang Institutional Equities Research

Exhibit 31: Top 5 public shareholders

Particulars	% holding
SBI MF	7.9
ICICI Pru MF	7.3
Axis MF	1.7
Nippon Life India AMC	1.2
Daiwa AMC India	1.8

Source: BSE, Nirmal Bang Institutional Equities Research

Financials (Consolidated)

Exhibit 32: Income statement

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	8,922	10,491	12,038	15,227	18,337
Growth YoY%	23.8	17.6	14.7	26.5	20.4
COGS	4,748	5,338	5,791	7,088	8,386
Gross margin %	46.8	49.1	51.9	53.5	54.3
Staff costs	879	997	1,222	1,537	1,845
Other expenses	2,608	2,850	3,240	4,099	4,855
EBITDA	687	1,307	1,785	2,503	3,251
Growth YoY%	447.0	90.4	36.6	40.2	29.9
EBITDA margin %	7.7	12.5	14.8	16.4	17.7
Depreciation	290	328	433	541	542
EBIT	397	979	1,351	1,962	2,709
Interest	367	431	355	377	377
Other income	138	34	54	70	63
PBT (bei)	167	582	1,050	1,655	2,395
PBT	167	582	1,050	1,655	2,395
ETR	82	49	34	27	27
PAT	6	303	697	1,209	1,747
Adj PAT	6	303	697	1,209	1,747
Growth YoY%	(101.9)	5,156.3	129.9	73.4	44.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 34: Balance sheet

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
Share Capital	121	121	157	157	157
Reserves & Other Equity	3,588	3,910	6,372	7,581	9,328
Net worth	3,709	4,031	6,529	7,737	9,484
Minority Interest	594	570	545	550	560
Long term debt	1,936	2,115	2,630	2,630	2,630
Short term debt	2,443	2,781	2,781	2,781	2,781
Total debt	4,380	4,896	5,410	5,410	5,411
Other non-current liabilities	(388)	(261)	(261)	(261)	(261)
Total Equity & Liabilities	8,295	9,236	12,223	13,437	15,194
Gross block	3,570	4,340	6,110	8,130	8,550
Accumulated depreciation	867	1,303	1,737	2,278	2,819
Net Block	2,704	3,037	4,374	5,853	5,731
CWIP	573	1,760	500	500	400
Intangible and others	17	27	27	27	27
Other non-current assets	343	265	268	272	277
Investments	126	94	94	94	94
Trade receivables	2,093	2,528	2,651	3,354	4,038
Inventories	2,854	2,981	3,364	3,755	4,270
Cash & Cash equivalents	1,034	648	3,123	2,135	3,295
Other current assets	710	592	681	783	861
Total current assets	6,725	6,750	9,819	10,026	12,465
Trade payables	1,646	1,737	1,941	2,455	2,957
Other current liabilities	514	960	920	881	844
Total current liabilities	2,161	2,698	2,861	3,336	3,801
Total Assets	8,295	9,236	12,222	13,436	15,194

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 33: Cash flow

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
PBT	167	582	1,050	1,655	2,395
Depreciation	290	328	433	541	542
Interest	367	431	355	377	377
Other adjustments	47	106	(54)	(70)	(63)
Change in Working capital	(798)	(408)	(431)	(720)	(814)
Tax paid	(38)	(11)	(57)	(112)	(160)
Operating cash flow	(90)	860	995	1,333	1,784
Capex	(694)	(1,341)	(510)	(2,020)	(320)
Free cash flow	(784)	(481)	486	(687)	1,464
Other investing activities	674	440	50	66	58
Investing cash flow	(19)	(901)	(459)	(1,954)	(262)
Issuance of share capital	2	-	1,765	-	-
Movement of Debt	887	507	515	-	0
Dividend paid (incl DDT)	(62)	(28)	-	-	-
Other financing activities	(569)	(447)	(216)	(367)	(362)
Financing cash flow	257	33	2,063	(367)	(362)
Net change in cash flow	147	(8)	2,600	(988)	1,160
Opening C&CE	385	532	524	3,123	2,135
Closing C&CE	532	524	3,123	2,135	3,295

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 35: Key ratios

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
Per share (Rs)					
Adj EPS	0.0	2.5	4.4	7.7	11.1
Book value	30.6	33.2	53.8	63.8	78.2
DPS	-	-	-	-	-
Valuation (x)					
P/Sales	1.9	1.6	1.4	1.1	0.9
EV/sales	2.3	2.1	1.6	1.4	1.1
EV/EBITDA	30.5	16.7	11.1	8.3	6.0
P/E	2,943.1	56.0	31.5	18.2	12.6
P/BV	4.6	4.2	2.6	2.2	1.8
Return ratios (%)					
RoCE	5.2	11.5	13.0	15.6	19.3
RoE	0.2	7.8	13.2	16.9	20.3
Profitability ratios (%)					
Gross margin	46.8	49.1	51.9	53.5	54.3
EBITDA margin	7.7	12.5	14.8	16.4	17.7
PAT margin	0.1	2.9	5.8	7.9	9.5
Liquidity ratios (%)					
Current ratio	1.5	1.2	1.7	1.6	1.9
Quick ratio	0.8	0.7	1.1	1.0	1.2
Solvency ratio (%)					
Debt to Equity ratio	1.2	1.2	0.8	0.7	0.6
Turnover ratios					
Fixed asset turnover ratio (x)	5.8	5.2	5.0	5.4	5.9
Debtor days	85	80	80	80	80
Inventory days	107	102	102	90	85
Creditor days	70	59	59	59	59
Net Working capital days	122	123	124	112	107

Source: Company, Nirmal Bang Institutional Equities Research

Advanced Enzyme Technologies

1 April 2021

Reuters: ADEN.NS; Bloomberg: ADVENZY IN

Strong player in enzymes segment

Advanced Enzymes Technologies (ADVENZY) is a research-driven company and manufactures enzymes and probiotics that play a crucial role in health and nutrition globally and has applications in various other end-user industries. ADVENZY offers 400+ proprietary products developed from 68 enzymes. While currently Human Nutrition is the biggest segment for ADVENZY wherein it engages with Pharmaceutical and Nutraceuticals companies in India and overseas, we believe that opportunities in other segments like Animal Nutrition and Food Processing segments could open up in a big way in the medium term. Probiotics is used across all the key focus segments. Demand for health and hygiene is on the rise and there is huge headroom for growth in Nutraceuticals, especially in USA. Enzymes are used across all food items, including bakery, dairy products etc. which are big segments. ADVENZY's aim is to become 2nd preferred supplier for bakery products, mainly in USA. While Novozymes is the global leader in industrial enzymes with ~48% market share, Pharma is not its key focus area and hence direct competition for ADVENZY is limited. Household Care is Novozymes' forte followed by Food & Beverages. Some of the Indian companies like Rossari Biotech are also present in Enzymes but with focus on Home Care and Textiles segments. ADVENZY is operating at ~55% capacity utilisation and hence capex requirement in the next three years is minimum. Focus on R&D will continue (~4% of revenue). The company has filed two dossiers and approval for the same should drive growth. Enzymes industry has very high entry barriers on account of extensive R&D focus and long gestation period before getting registration approvals for products in USA and EU. Most companies are now moving away from synthetic products to eco-friendly solutions and enzymes is a sunrise industry with significant growth potential across various industries. Exclusive enzymes players claim premium valuations over other companies. For ADVENZY, we are building in Revenue/EBITDA/APAT CAGR of 17%/14%/17% over FY21-23E. Any potential acquisition can surprise our numbers positively (estimated cash reserves of Rs3.5bn). We initiate coverage on ADVENZY with a Target Price (TP) of Rs400, indicating an upside of ~13% from CMP. Our TP is based on 20x PE on FY23E EPS.

Nutraceuticals and Probiotics have a long runway for growth: ADVENZY's ~70% revenue comes from Human Nutrition wherein the company deals with Pharmaceuticals and Nutraceuticals companies. Demand for nutraceuticals is on the rise, especially in the developed countries and it is sustainable. There is a lot of untapped potential in India as well. Food processing is another area where ADVENZY is focusing on, but growth in this segment could unfold in medium-to-long term on account of competitive challenges. Apart from enzymes, ADVENZY also sells probiotics, which have applications across all the segments. Usage of probiotics is increasing due to growing demand for health-centric products from consumers, mainly the millennials. Overall, we are building in revenue CAGR of 15%/16%/17% in Human Nutrition/Animal Nutrition/Bio-processing segments over FY21-23E.

Specialized business model and limited competitive challenges: Enzymes are a subject of heavy research and companies invest significantly in R&D on an ongoing basis. Also, gestation period for research and further approval is very long. Therefore, there are very few successful players in enzymes on account of high entry barriers. While Novozymes is a global leader in industrial enzymes, there is very limited competition for ADVENZY due to minimum portfolio overlap.

Outlook and valuation: Enzymes industry has very high entry barriers on account of extensive R&D focus and long gestation period before getting registration approvals for products in USA and EU. Most companies are now moving away from synthetic products to eco-friendly solutions and enzymes, in our view is a sunrise industry with a significant growth potential across various industries. Therefore, pure enzymes players claim premium valuations over other companies. We initiate coverage on ADVENZY with a TP of Rs400, indicating an upside of ~13% from CMP. Our TP is based on 20x PE on FY23E earnings.

ACCUMULATE

Sector: Chemicals

CMP: Rs353

Target Price: Rs400

Upside: 13%

Abhishek Navalgund

Research Analyst

abhishek.navalgund@nirmalbang.com

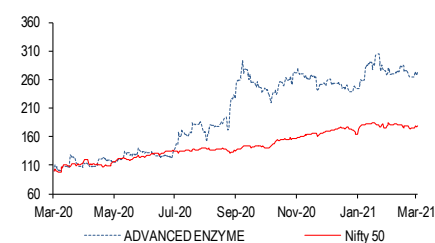
+91-22-6273-8013

Key Data

Current Shares O/S (mn)	111.7
Mkt Cap (Rsbn/US\$mn)	39.5/537.2
52 Wk H / L (Rs)	417/129
Daily Vol. (3M NSE Avg.)	358,882

Share holding (%)	3QFY21	2QFY21	1QFY21
Promoter	55.4	55.5	58.1
Public	44.6	44.6	41.9
Others	-	-	-

One-Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
Advanced Enzymes	1.5	5.5	155.2
Nifty Index	0.7	30.2	80.1

Source: Bloomberg

Financial summary

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	4,196	4,440	4,993	5,839	6,792
Growth YoY %	7.3	5.8	12.4	17.0	16.3
Gross margin %	81.6	81.8	81.2	79.8	79.7
EBITDA	1,826	2,031	2,361	2,655	3,086
EBITDA margin %	43.5	45.8	47.3	45.5	45.4
Adj PAT	1,111	1,293	1,519	1,762	2,076
Growth YoY%	23.2	16.4	17.5	16.0	17.8
Adj EPS	9.9	11.6	13.6	15.8	18.6
RoCE %	24.4	22.7	22.6	22.0	22.1
RoE %	17.9	17.0	16.7	16.5	16.6
P/E	35.5	30.5	25.9	22.4	19.0
EV/EBITDA	21.6	19.1	16.0	13.9	11.6
P/BV	5.8	4.7	4.0	3.4	2.9

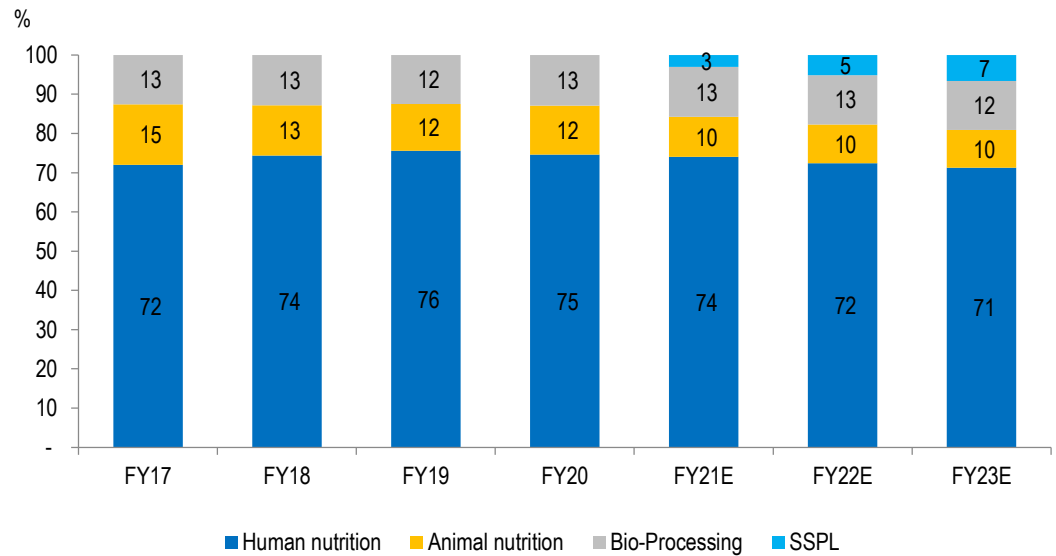
Source: Company, Nirmal Bang Institutional Equities Research

Variance with consensus

Particulars	NBIE estimates			Consensus estimates			Variance (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	4,993	5,839	6,792	4,988	5,953	6,743	0.1	(1.9)	0.7
EBITDA	2,361	2,655	3,086	2,346	2,735	3,112	0.6	(2.9)	(0.8)
EBITDA margin	47.3%	45.5%	45.4%	47.0%	45.9%	46.2%	25bps	-47bps	-71bps
APAT	1,519	1,762	2,076	1,535	1,866	2,139	(1.0)	(5.6)	(2.9)

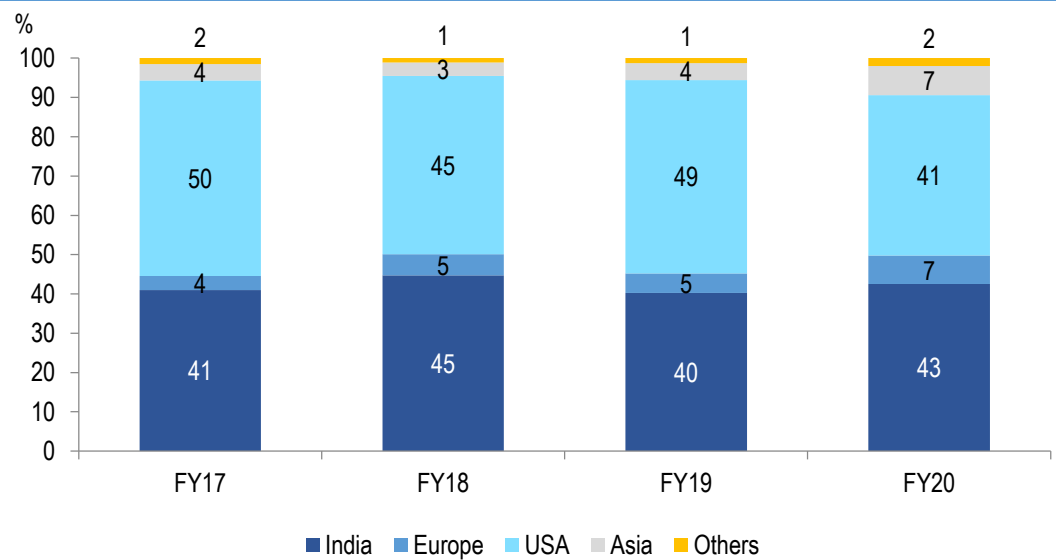
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 1: Segment-wise revenue share



Source: Company, Nirmal Bang Institutional Equities Research

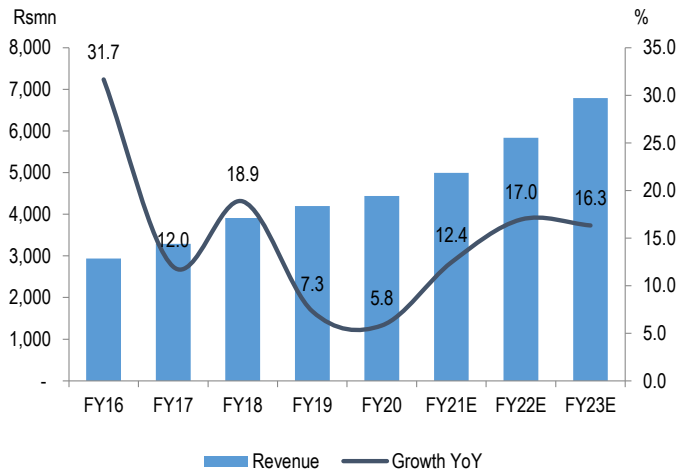
Exhibit 2: Geography-wise revenue share



Source: Company, Nirmal Bang Institutional Equities Research

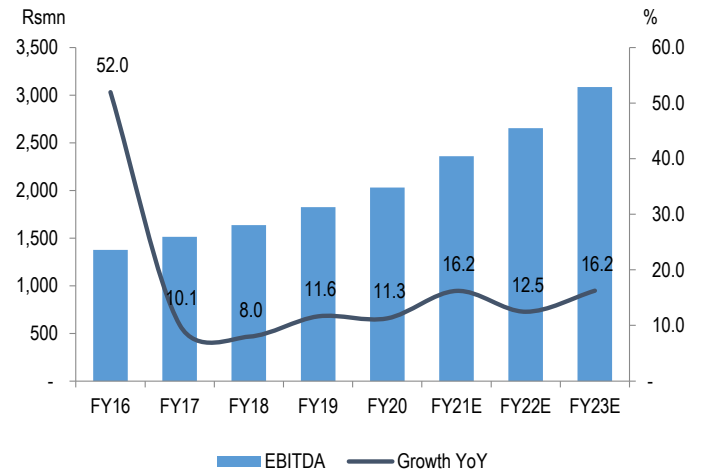
Key financial charts

Exhibit 3: Revenue and growth trend



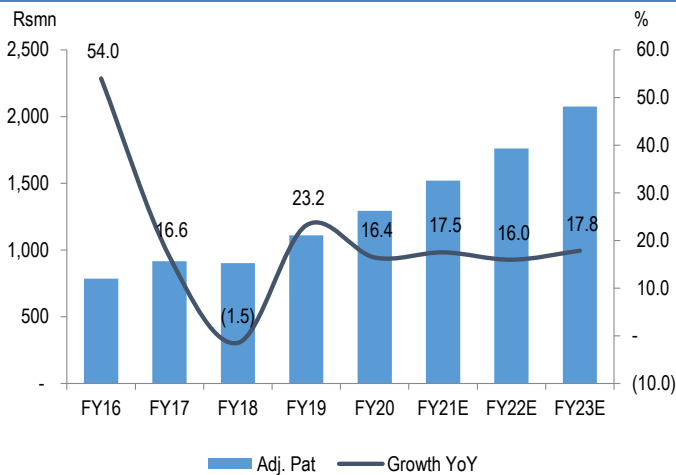
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: EBITDA and growth trend



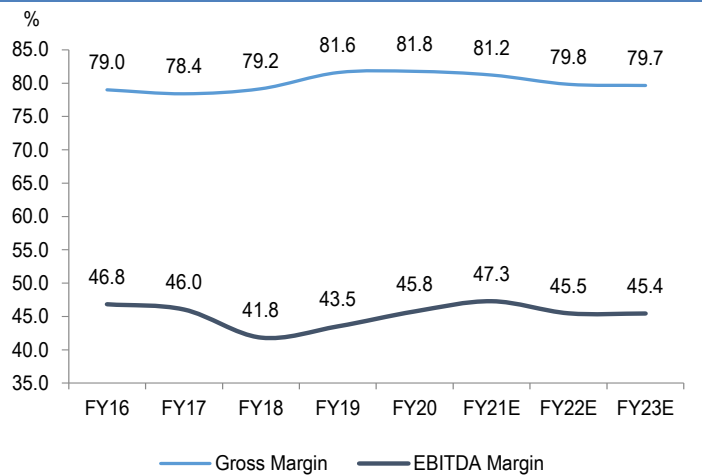
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Net profit and growth trend



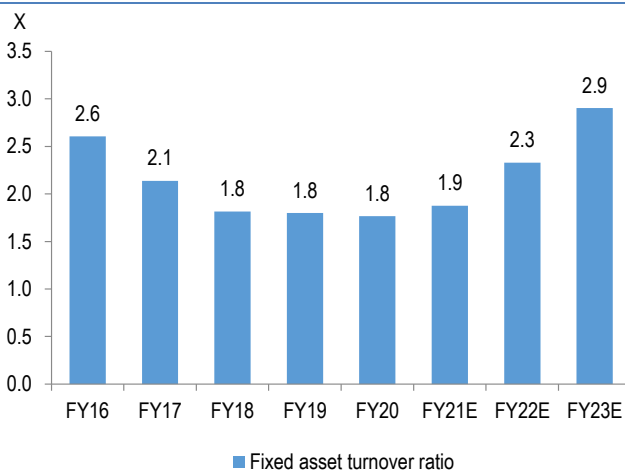
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Gross and EBITDA margin



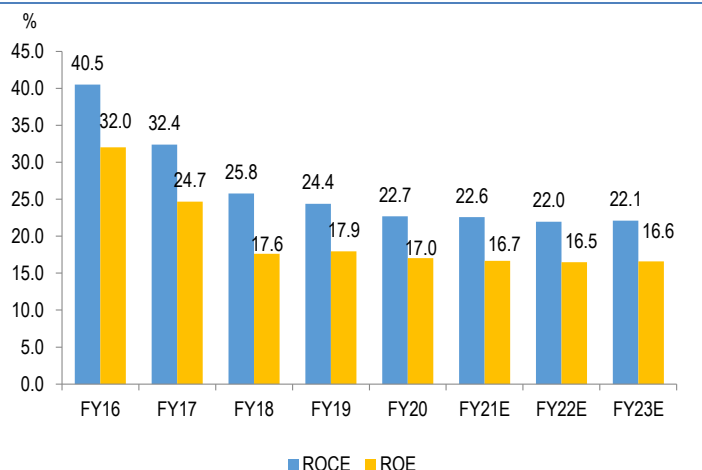
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Fixed assets turnover ratio

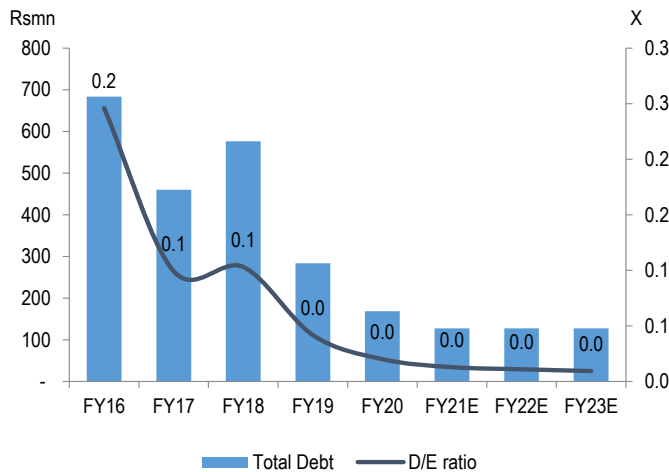


Source: Company, Nirmal Bang Institutional Equities Research

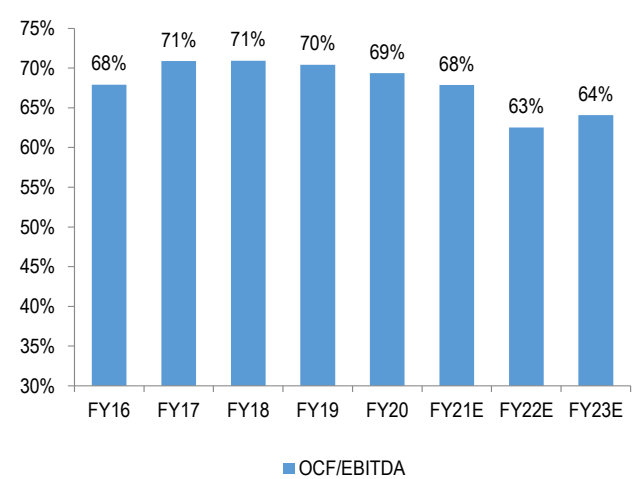
Exhibit 8: Return ratios



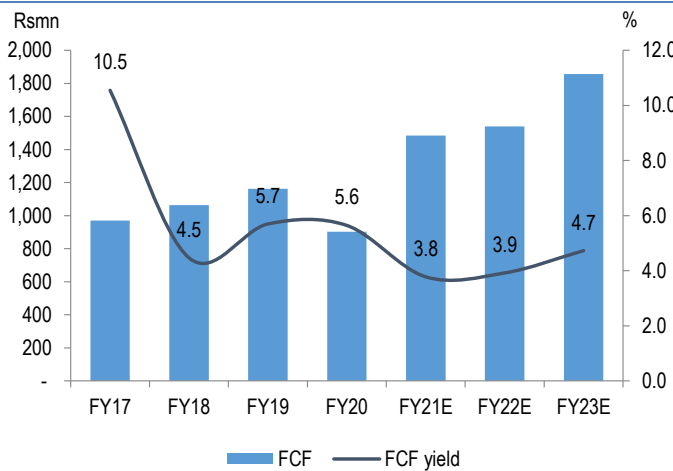
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Debt to equity


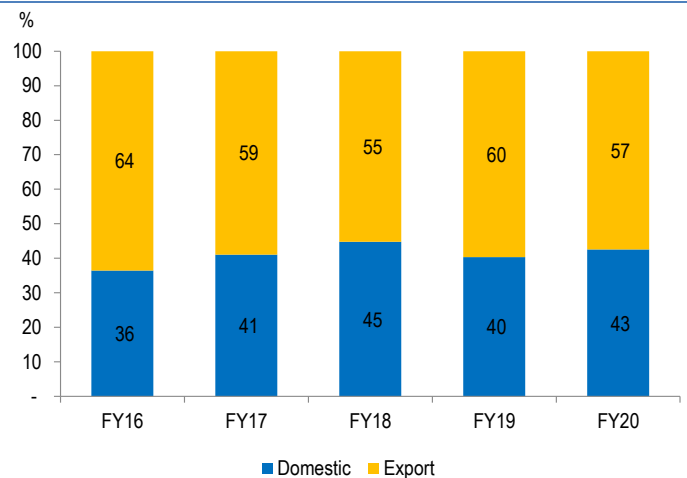
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: OCF/EBITDA


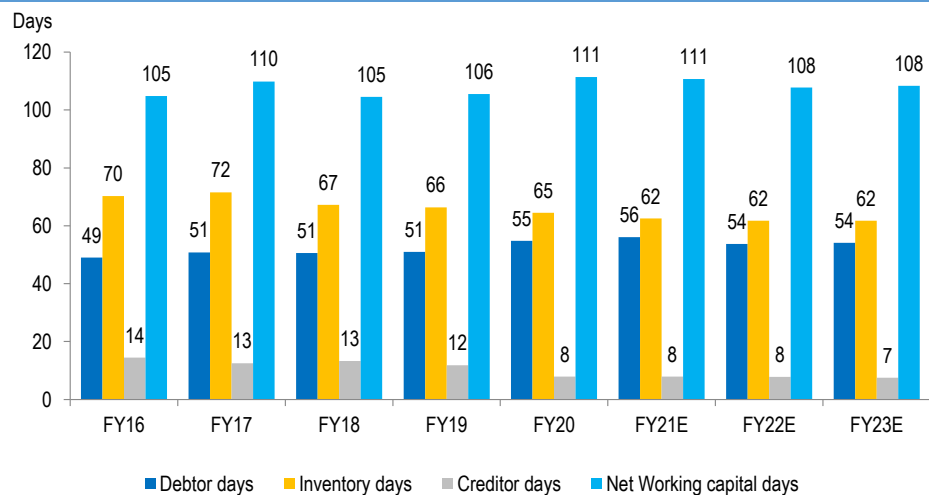
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: FCF


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Domestic vs exports share


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Working capital days


Source: Company, Nirmal Bang Institutional Equities Research

Valuation

Enzymes industry has very high entry barriers on account of extensive R&D focus and long gestation period before getting registration approvals for products in USA and EU. Most companies are now moving away from synthetic products to eco-friendly solutions and enzymes, in our view is a sunrise industry with a significant growth potential across various industries. Therefore, pure enzymes players claim premium valuations over other companies. We initiate coverage on ADVENZY with a TP of Rs400, indicating an upside of ~13% from CMP. Our TP is based on 20x PE on FY23E EPS.

Exhibit 14: Initiate with ACCUMULATE and TP of Rs400

Particulars	
FY23E Consolidated EPS (Rs)	19
Target PE multiple (x)	20
Target Price (Rs)	400

Source: Nirmal Bang Institutional Equities Research

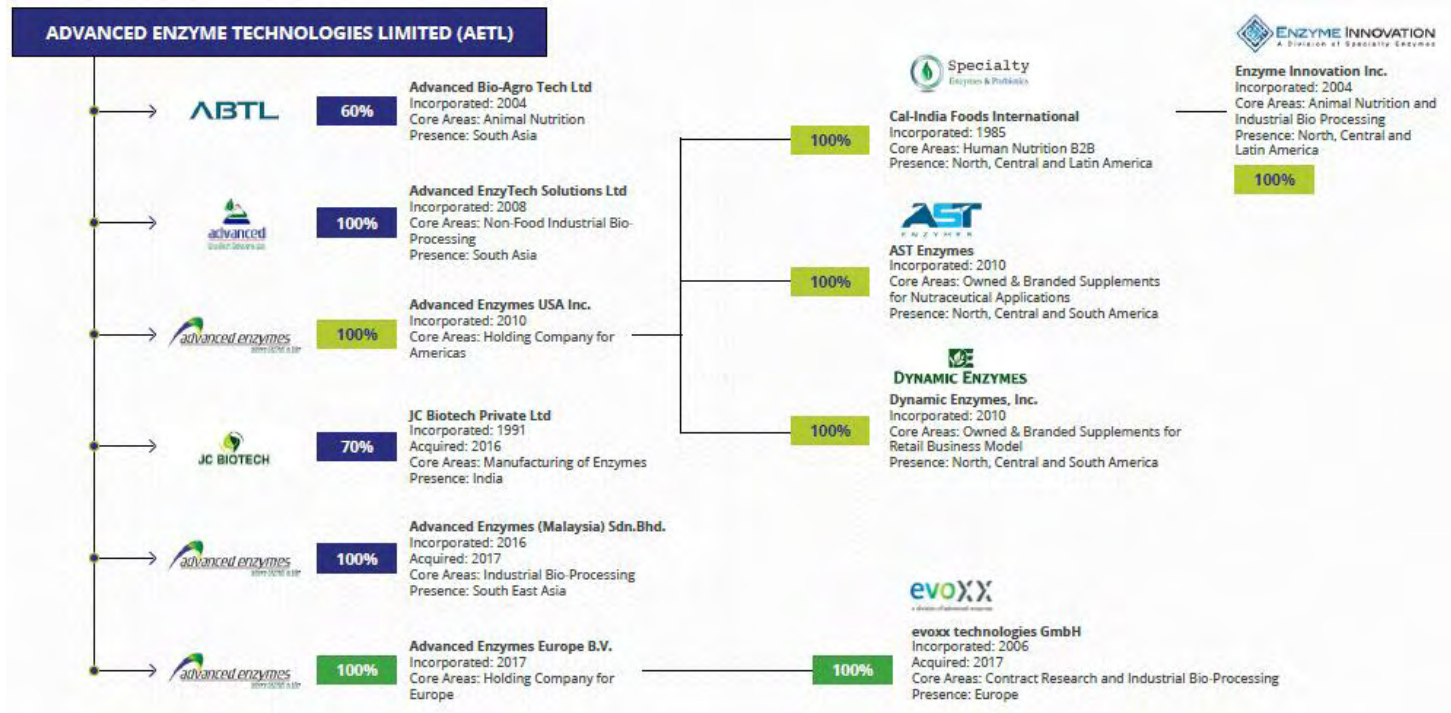
Exhibit 15: DCF working

Particulars	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E
Net revenue	4,196	4,440	5,139	6,008	6,992	8,041	9,247	10,634	11,910	13,339	14,940	16,434	18,077
Growth %	7.3%	5.8%	15.7%	16.9%	16.4%	15.0%	15.0%	15.0%	12.0%	12.0%	12.0%	10.0%	10.0%
EBIT	1,614	1,774	2,183	2,475	2,911	3,345	3,847	4,445	4,978	5,602	6,275	6,902	7,592
EBIT margin %	38.5%	39.9%	42.5%	41.2%	41.6%	41.6%	41.6%	41.8%	41.8%	42.0%	42.0%	42.0%	42.0%
EBIT(1-t)	1,155	1,317	1,578	1,807	2,125	2,442	2,808	3,245	3,635	4,090	4,581	5,039	5,543
Depreciation	211	258	269	280	293	322	370	425	476	534	598	657	723
% of sales	5.0%	5.8%	5.2%	4.7%	4.2%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Gross cash flow	1,366	1,575	1,847	2,087	2,418	2,764	3,178	3,671	4,111	4,624	5,179	5,696	6,266
Change in Working capital	-121	-156	-190	-329	-318	-318	-318	-318	-318	-318	-318	-318	-318
Capex	124	507	118	120	120	161	462	532	238	267	299	329	362
% of revenue	3.0%	11.4%	2.3%	2.0%	1.7%	2.0%	5.0%	5.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Free cash flow	1,122	912	1,538	1,639	1,980	2,285	2,398	2,821	3,555	4,039	4,562	5,050	5,587
Growth %		na	68.6%	6.5%	20.8%	15.4%	4.9%	17.6%	26.0%	13.6%	12.9%	10.7%	10.6%
Discounting Period			0.0	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0
Discounting Factor			1.0	0.9	0.8	0.7	0.6	0.6	0.5	0.5	0.4	0.4	0.3
Discounted FCF			1538	1464	1580	1630	1528	1606	1808	1835	1852	1832	1810
DCF Valuation													
Terminal Growth Rate	4%												
WACC	12%												
PV of expected CF	18,483												
PV of terminal CF	23,749												
Total EV	42,232												
Net Debt	(3,416)												
Equity Value	45,648												
No of shares	112												
Equity value per share	409												
CMP	343												
Upside	19%												
Implied PE (FY23E)	21												

Source: Nirmal Bang Institutional Equities Research

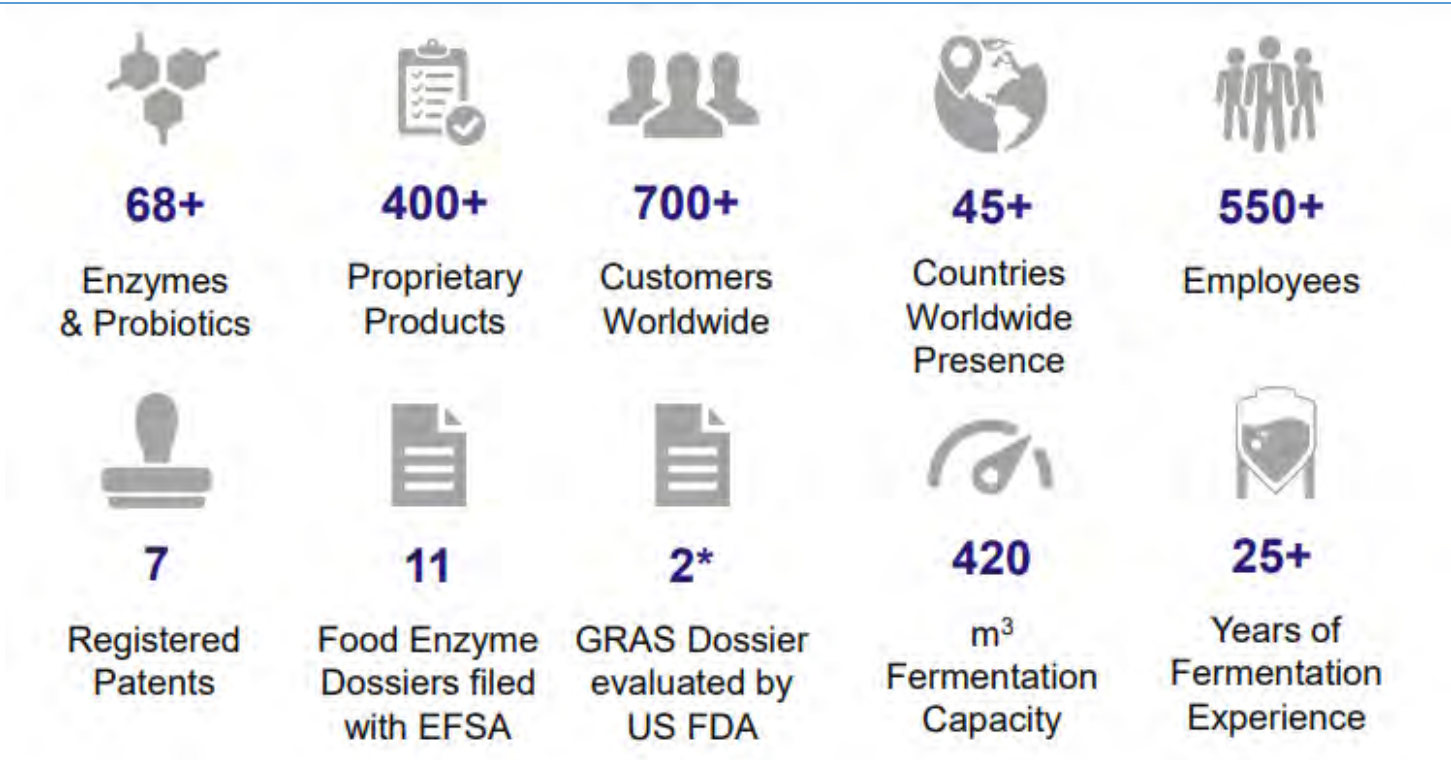
About the company

Exhibit 16: Corporate Structure



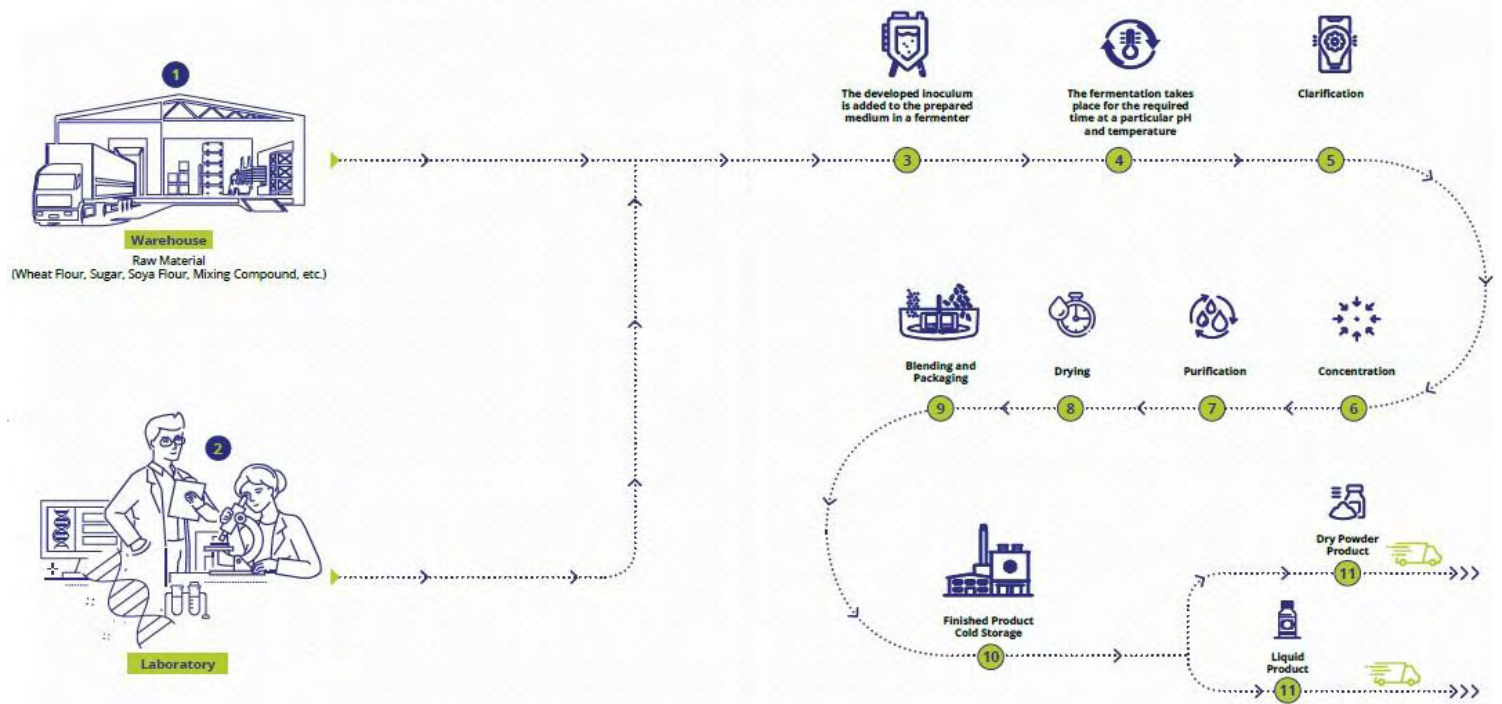
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Journey so far








Source: Company, Nirmal Bang Institutional Equities Research; * 1 GRAS Dossier under evaluation with US FDA

Exhibit 18: Production process



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: Application Pipeline

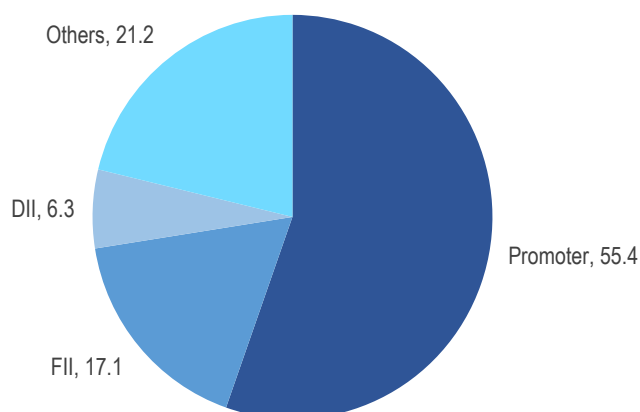
Industry	Area of Focus	USP	Geographical Focus	Market Potential
 Animal Nutrition	Productivity Enhancement	Powder & Liquid Blends	Global	\$500 mn+
 Oils & Fats Processing	Palm Oil Extraction	First Mover, Patent Granted	Asia	\$700 mn+
 BioDiesel	Techno-Commercial Feasibility	Complete Technology Package	India	\$650 mn+ (India)
 Washing Solutions	Detergents	Organic & Chemical-Free Detergents	India & USA	\$200 mn+ (India)
 BioCatalysis	Green Technology for API Production	Technical Service & Low Cost Producer	India	To be mapped

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 20: Profile of top management team

Name	Designation	Background
Mr. Vasant Laxminarayan Rathi	Promoter, Chairman and Non- Executive Director	He has been associated with the company since 1993 and has more than 37 years of experience in the enzyme industry. He was the co-founder of Rathi Papains Pvt Ltd. and also incorporated Cal-India 1985. He holds a Bachelor's degree in Pharmacy and degree of Master of Science from University of Hawaii.
Mr. Beni Prasad Rauka	Group CFO , Director - Advanced Bio-Agro Tech Ltd and Advanced Enzytech Solutions	He joined Advanced Enzymes in 2000 as a consultant and played pivotal role to drive the business and profits of the company. He has vast experience of over 24 years in the Finance Industry as a merchant banker. He is a Chartered Accountant and Company Secretary by qualification.
Mr. Harshad Doshi	CFO & Facilities Director of the US subsidiaries	He joined the US subsidiaries in 2010 as CFO. He has more than 30 years of experience in accounting, facility & sanitation management and manufacturing. Prior to this, he worked as a Financial Analyst, Financial Controller, and Financial Consultant.
Dr. Anil Kumar Gupta	Vice President - R&D	He has been associated with the company since 1996. He heads process development, proteomics & the applied microbiology labs and leads the research effort in developing several new commercially-viable enzymes. He has over 18 years of experience in Industrial Biotechnology and has published over 18 research papers in journals of national and international repute. He has done Ph.D. in Microbiology.
Mr. Dipak Roda	Vice President – Market & Business Development, Director - Advanced Enzytech Solutions Ltd, India	He has been associated with company since 2005, joined as a General Manager in Sales & Marketing. With his rich experience of sales & marketing he led the company's entry into the large and competitive Chinese market through establishment of Advanced Enzyme Far East. He started his career with Khandelwal Laboratories in bio-technology division. He holds Chemical Engineering degree from Bharati Vidyapeeth, Pune and an M.Sc Tech in Bioprocess Technology from UDCT.

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 21: Shareholding pattern (as on Dec'20)


Source: BSE, Nirmal Bang Institutional Equities Research

Exhibit 22: Top 5 public shareholders

Particulars	% holding
HDFC MF	5.6
Nalanda India Fund	4.7
UTI MF	0.4
Dimensional Fund Advisors	0.3
BlackRock Inc	0.2

Source: BSE, Nirmal Bang Institutional Equities Research

Financials (Consolidated)

Exhibit 23: Income statement

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	4,196	4,440	4,993	5,839	6,792
Growth YoY%	7.3	5.8	12.4	17.0	16.3
COGS	772	809	937	1,177	1,382
Gross margin %	81.6	81.8	81.2	79.8	79.7
Staff costs	780	802	879	1,032	1,208
Other expenses	817	798	815	974	1,116
EBITDA	1,826	2,031	2,361	2,655	3,086
Growth YoY%	11.6	11.3	16.2	12.5	16.2
EBITDA margin %	43.5	45.8	47.3	45.5	45.4
Depreciation	211	258	269	280	293
EBIT	1,614	1,774	2,092	2,374	2,794
Interest	52	41	19	20	20
Other income	57	59	105	150	190
PBT (bei)	1,620	1,792	2,178	2,504	2,964
PBT	1,620	1,792	2,178	2,504	2,964
ETR %	28	26	28	27	27
PAT	1,111	1,293	1,519	1,762	2,076
Adj PAT	1,111	1,293	1,519	1,762	2,076
Growth YoY%	23.2	16.4	17.5	16.0	17.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 25: Balance sheet

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
Share Capital	223	223	223	223	223
Reserves & Other Equity	6,565	8,173	9,616	11,290	13,262
Net worth	6,788	8,397	9,840	11,513	13,486
MI	260	278	334	402	491
Long term debt	70	42	-	-	-
Short term debt	213	127	127	127	127
Total debt	284	169	127	127	127
Other non-current liabilities	282	400	400	400	400
Total Equity & Liabilities	7,614	9,244	10,702	12,443	14,505
Gross block	3,198	3,864	3,984	4,104	4,224
Accumulated depreciation	910	1,128	1,397	1,677	1,970
Net Block	2,288	2,736	2,587	2,426	2,254
CWIP	48	48	46	46	46
Intangible and others	57	54	54	54	54
Goodwill on consolidation	2,715	2,941	2,941	2,941	2,941
Other non-current assets	123	177	179	182	185
Investments	1,110	1,236	1,730	2,422	3,390
Trade receivables	587	747	787	934	1,080
Inventories	769	800	909	1,067	1,230
Cash & Cash equivalents	234	830	1,787	2,674	3,627
Other current assets	120	143	155	168	168
Total current assets	2,821	3,756	5,368	7,264	9,495
Trade payables	97	96	119	132	147
Other current liabilities	341	372	355	339	324
Total current liabilities	438	468	474	471	471
Total Assets	7,614	9,244	10,702	12,443	14,505

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 24: Cash flow

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
PBT	1,620	1,792	2,178	2,504	2,964
Depreciation	211	258	269	280	293
Interest	39	26	19	20	20
Other adjustments	10	(1)	(105)	(150)	(190)
Change in Working capital	(121)	(156)	(155)	(321)	(310)
Tax paid	(124)	(127)	(250)	(263)	(309)
Operating cash flow	1,286	1,409	1,602	1,660	1,977
Capex	(124)	(507)	(118)	(120)	(120)
Free cash flow	1,162	902	1,484	1,540	1,857
Other investing activities	(1,123)	62	(391)	(544)	(781)
Investing cash flow	(1,247)	(445)	(509)	(664)	(901)
Issuance of share capital	1	2	-	-	-
Movement of Debt	(313)	(223)	(42)	-	-
Dividend paid (incl DDT)	(80)	(105)	(76)	(88)	(104)
Other financing activities	(39)	(59)	(15)	(20)	(20)
Financing cash flow	(431)	(386)	(132)	(108)	(124)
Net change in cash flow	(392)	578	961	887	952
Opening C&CE	611	231	827	1,787	2,674
Closing C&CE	231	827	1,787	2,674	3,627

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 26: Key ratios

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
Per share (Rs)					
Adj EPS	9.9	11.6	13.6	15.8	18.6
Book value	60.8	75.2	88.1	103.1	120.8
DPS	0.6	0.6	0.7	0.8	0.9
Valuation (x)					
P/Sales	9.4	8.9	7.9	6.8	5.8
EV/sales	9.4	8.7	7.6	6.3	5.3
EV/EBITDA	21.6	19.1	16.0	13.9	11.6
P/E	35.5	30.5	25.9	22.4	19.0
P/BV	5.8	4.7	4.0	3.4	2.9
Return ratios (%)					
RoCE	24.4	22.7	22.6	22.0	22.1
RoE	17.9	17.0	16.7	16.5	16.6
Profitability ratios (%)					
Gross margin	81.6	81.8	81.2	79.8	79.7
EBITDA margin	43.5	45.8	47.3	45.5	45.4
PAT margin	26.1	28.7	29.8	29.4	29.7
Liquidity ratios (%)					
Current ratio	4.3	6.3	8.9	12.1	15.9
Quick ratio	3.2	5.0	7.4	10.4	13.8
Solvency ratio (%)					
Debt to Equity ratio	0.0	0.0	0.0	0.0	0.0
Turnover ratios					
Fixed asset turnover ratio (x)	1.8	1.8	1.9	2.3	2.9
Debtor days	51	55	56	54	54
Inventory days	66	65	62	62	62
Creditor days	12	8	8	8	7
Net Working capital days	106	111	111	108	108

Source: Company, Nirmal Bang Institutional Equities Research

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