

# Specialty Chemicals



## Genie is out!

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# Specialty Chemicals: Genie is out!

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**India set to become the fourth largest player**

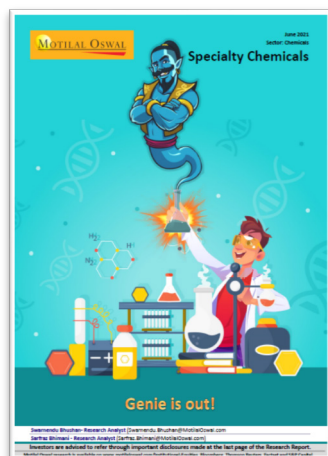
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# Specialty Chemicals



## Company covered

Atul

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Vinati Organics

Alkyl Amines

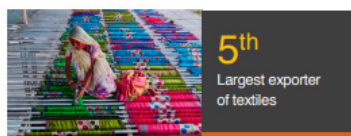
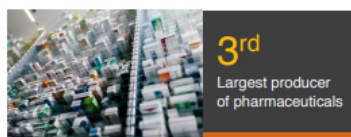
Navin Fluorine

Galaxy Surfactants

Fine Organic

NOCIL

## India's manufacturing competence



Source: FICCI

## Genie is out!

### Initiating coverage with a positive outlook on the space

- Globally, the Specialty Chemicals business accounts for ~20% of the USD4t Chemicals industry. From having an insignificant presence (4.5%) in this segment, India's share in Specialty Chemicals is expected to double over the next five years – at a ~12% CAGR to USD64b by CY25.
- Various factors favor the Specialty Chemicals industry in India, including 1) strong domestic consumption – led by a young population (median age of 28 years), a high percentage (~67%) of which forms the working age group, 2) favorable labor cost (one-third that of China / half that of Vietnam), and 3) government impetus.
- In this sector initiation report, we propound our views on eight companies operating in India's Specialty Chemicals space: Atul (ATLP), Deepak Nitrite (DN), Vinati Organics (VO), Alkyl Amines (AACL), Navin Fluorine (NFIL), Galaxy Surfactants (GALSURF), Fine Organics (FINEORG), and NOCIL.
- Capex plans of INR39b over FY22-24E (similar to FY19-21) would result in 52% revenue growth by FY24E (from FY21 levels), making these companies exciting plays. We expect 70bps EBITDAM expansion to 25% by FY24E (FY20/21 was 22.5/24.3%).
- We initiate coverage with a positive outlook on the Specialty Chemicals space. DN is our top pick in the sector. We assign a Buy rating to DN, VO, GALSURF, and NOCIL; a Neutral rating to ATLP, AACL, NFIL, and FINEORG.

### India Specialty Chemicals market in the right quadrant...

- The domestic Specialty Chemicals industry, which clocked double the global CAGR (11.7%) over CY15-20, is valued at ~USD32b. India's ranking in specialty chemicals is not available; it is the sixth largest producer of chemicals globally.
- **The India Specialty Chemicals industry is expected to deliver a 12.4% CAGR over the next five years (on a higher base), reaching USD64b by CY25** – driven by the aforementioned macro factors. This growth would be led by a strong **demand CAGR of 10–20% in the export / end user industries.**
- To meet the global demand for specialty chemical products, China has quickly scaled up its operations by establishing petrochemical hubs across the country. The proposed CY20–35 Petroleum, Chemicals and Petrochemicals Investment Region (PCPIR) policy envisages an INR10t investment by CY25 and an INR20t by CY35 to further boost demand for specialty chemicals.

### ...benefitting from global supply chain diversification

- With 18% market share in global exports, China is the leading specialty chemicals exporter – it exported ~USD35b worth of specialty chemicals in CY19 (~4x that of India). As nations look for alternatives away from China, India stands to benefit from lower labor cost and a large consumer base.
- **Domestic players (such as NFIL, VO, and NOCIL) are benefitting from the China+1 strategy with new orders and capex plans.** The new projects would primarily be export orders, which would enable Indian companies to capture a larger global market share in the Specialty Chemicals space.
- **Others players (such as DN) have quickly turned around their newly commissioned plants, in line with the rise in domestic demand, which has resulted in import substitution.**

**Capacity expansion to multiply growth...**

- **Our Coverage Universe has incurred an INR38b capex in the last three years ended FY21, and would spend a similar amount (~INR39b) over the next three years ending FY24E.** Along with an increase in the asset turnover rate, we estimate multiplicative growth in revenues (53% over FY21-24E).
- AACL and NOCIL are well-placed to cater to sudden demand after their capex spree over FY19–21; VO and NFIL are likely to commission ongoing projects by end FY22-23, while DN is yet to announce new capex plans for its DPL business.

**...translating to better financials**

- Its growing niche in this product category and increasing share of exports are likely to aid EBITDAM. DN, VO, and NFIL are venturing into new products, while ATLP is expanding its retail focus. **We expect our Coverage Universe EBITDAM to expand by 70bps to 25% by FY24E (FY20/21 was 22.5%/24.3%).**
- R&D expenditure is also likely to double to 5–6% of revenue in FY24E (from FY21), driving EBITDAM expansion.
- **We expect our Coverage Universe to post EBITDA/PBT CAGR of ~20%, with return ratios of 23–25% over FY22–24E (up from 22% in FY19 and FY21; we exclude FY20 in light of the tax rate revision).**
- Our Coverage Universe consists of net debt-free companies (excluding DN and GALSURF, which are expected to turn net debt-free by FY23E) that plan to incur capex through internal accruals only. **We expect total FCF generation of INR83b (v/s capex plans of ~INR39b) for our Coverage Universe over FY22–24E.**

**Initiating coverage with a positive outlook on Specialty Chemicals space**

- **Atul | Ideogram of integration:** We forecast a 13% revenue CAGR over FY21–24E (v/s 8% over FY15–20; -9% YoY in FY21) and a 14% PAT CAGR over FY21–24E.
- **Deepak Nitrite | Amoeba of growth:** Its valuation is the most attractive in this space. We expect a 19% PAT CAGR (on a higher base) over FY21–24E.
- **Vinati Organics | Preacher of purity:** Its process efficiencies and market share stand at over 99.5% and 65%. We expect a 33% PAT CAGR over FY21–24E.
- **Alkyl Amines | Growing tall:** Revenue could double over the next three years to INR21.5b. We expect margins to normalize to ~30% (from FY21 highs of 35%).
- **Navin Fluorine | Biggest beneficiary of China+1:** It has announced two new projects in the past year. We expect revenue to double by FY23E (39% CAGR).
- **Galaxy Surfactants | Pseudo-FMCG company:** We expect a ~10% volume CAGR over FY22–24E, with management's increased focus on high margin products.
- **Fine Organics | Stable outlook ahead:** Utilization ramp-up would boost growth. We forecast an ~18% revenue CAGR over FY21–24E (v/s 10% over FY15-21).
- **NOCIL | Multifold growth ahead:** Asset turnover would increase to ~1.0x by FY24E from 0.7x in FY21 (revenue/PAT CAGR of 25%/48% over FY21-24E).

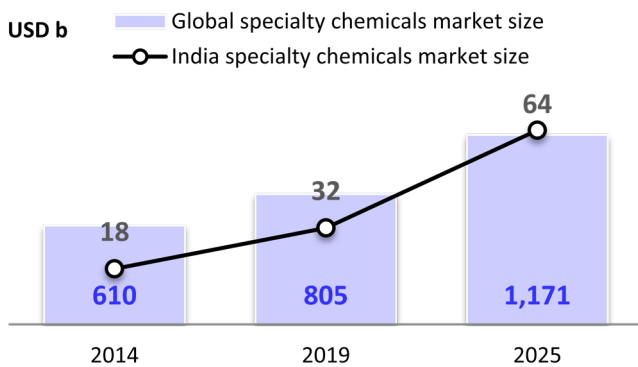
**Key risks**

- These companies have been on a high growth trajectory and seen margin expansion through backward integration as well as value-added products. Any slowdown in either of the factors may result in the de-rating of the stocks.
- As India improves its environmental norms, this may result in rising production cost, ultimately impacting exports.



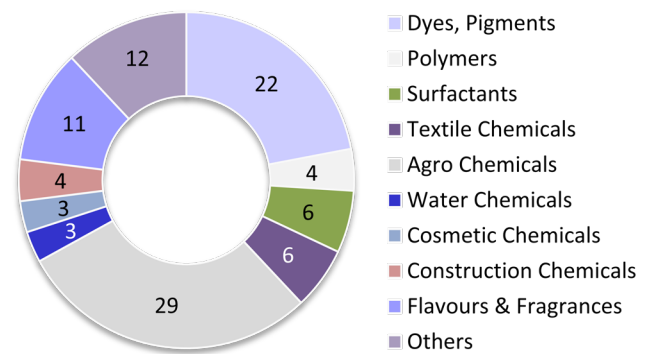
# Key thesis in charts: What are specialty chemicals and why invest in Indian companies?

**Expect India's Specialty Chemicals market to grow 2x the global market rate over next five years**



Source: Industry, MOFSL

**India's Specialty Chemical space serves broad range of sectors (%)**



Source: Industry, MOFSL

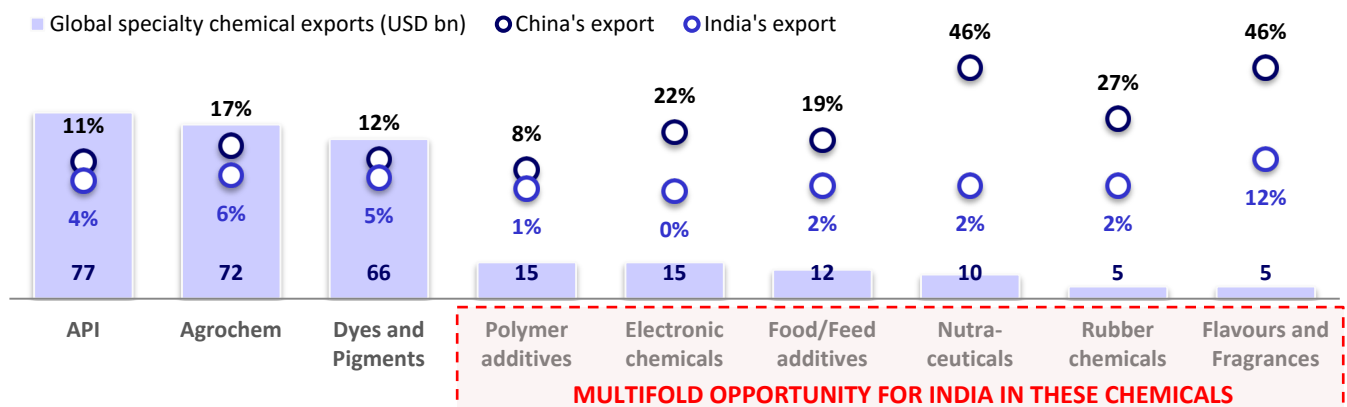
**End-user markets and their growth drivers to fuel demand for specialty chemicals in India - (USD b)**

Sub-segment	Growth driver	User industry	CY14-19 CAGR* (%)	Current market size	CY19-25 CAGR* (%)	Potential market size
Dyes, Pigments, and Coatings	❖ Around 1.5x GDP growth rate	❖ Construction, Automotive	7	7.0	10	12.4
Polymers Additives	❖ Growth from increased usage in Packaging, Construction, and Automotive industries	❖ Packaging, Automotive	13	1.3	10	2.3
Home Care Surfactants	❖ Increased consumption and move towards higher value products	❖ Laundry Care, Dishwashing	6	2.0	11	3.7
Textile Chemicals	❖ Industry had benefitted from currency depreciation; has strong growth potential	❖ Apparel, Technical Textiles	10	1.8	12	3.5
Agro Chemicals	❖ Strong growth in CRAMs and domestic Agrochemical industry as pesticide consumption is low in India	❖ Agriculture, exports	10	9.2	12	18.2
Water Chemicals	❖ Growing urbanization has led to a higher need for water purification and treatment	❖ Industrial water, municipal water	15	0.8	15	1.9
Cosmetic Chemicals	❖ Increasing awareness and evolving consumer needs drive growth	❖ Bath, shower, Hair Care	15	1.0	15	2.3
Construction Chemicals	❖ Rising demand for additives	❖ Infrastructure, Real Estate	13	1.4	15	3.2
Flavors, Fragrances	❖ Demand for higher value-added products in Packaged Foods and Personal Care	❖ Food Processing Personal Care	14	1.4	15	3.3
Nutraceuticals	❖ Huge demand from the US and Europe to drive growth (organized market)	❖ Food Additives, Dietary Supplements	19	1.0	20	3.0

\*Note: Growth estimates by leading institutions and companies in the industry.

Source: FICCI, MOFSL

**Massive opportunity for India to overtake China in specialty chemical exports to the world**



Source: McKinsey, MOFSL



Capacity additions in subsidiaries would drive major growth from FY22.

The company spends annually on debottlenecking and process efficiencies, which present an upside risk to our estimates.



DN is yet to announce any growth capex in the Phenolics business. DPL's plants were operating at a 115% utilization rate in FY21. We believe debottlenecking capex or additional expansion of capacities would lead to huge growth.



We expect revenue to more than double by FY24E, with ~56% YoY growth in FY22E (in line with the management guidance). VO is confident of being among the top five global players for Butyl Phenol and AOs over the next 4–5 years.

## Atul (ATLP)

(M-cap: USD3.6b, CMP: INR8,863, TP: INR9,850, Upside: 11%, Neutral)

- **Background:** ATLP operates in two major categories: Life Science Chemicals, and Performance and Other Chemicals. Other sub-segments are Aromatics, Bulk Chemicals and Intermediates, Colors, Crop Protection, Pharmaceuticals, and Polymers. It also operates a network of 38,000+ retail outlets in India.
- **It has the potential to clock consolidated revenue of INR54b (at 90% capacity utilization) in the near term as it completes its INR5b capex. We forecast a 13% revenue CAGR over FY21–24E (v/s ~8% over FY15–20, down 9% YoY in FY21). With further debottlenecking and process cost optimization, we expect an EBITDA/PAT CAGR of 13%/14% over FY21–24E, with return ratios hovering at 17–19% over this period.**
- The stock is trading at 30x FY23E EPS of INR299 and 21x FY23E EV/EBITDA. We value ATLP at 33x FY23E EPS to arrive at TP of INR9,850. We initiate coverage with a Neutral rating (owing to a limited upside).

## Deepak Nitrite (DN)

(M-cap: USD3.3b, CMP: INR1,760, TP: INR2,300, Upside: 31%, Buy)

- **Background:** DN is an intermediate chemicals company, with a diversified business of Basic Chemicals, Fine and Specialty Chemicals, and Performance Products. The company also manufactures phenol, acetone, and isopropyl alcohol (IPA) through its wholly-owned subsidiary – Deepak Phenolics (DPL).
- **DN aims to expand its footprint in High-Value Intermediates to capitalize and synergize with DPL, and has announced a new subsidiary called Deepak Clean Tech. Capex plans of INR4-6b are likely each year, resulting in revenue growth of more than 60% over FY21–24E (CAGR of 17%).**
- The stock is trading at 21x FY23E EPS of INR82 and 14x FY23E EV/EBITDA, with return ratios of 29–31%. We expect a 19% PAT CAGR over FY21–24E. We value the company at 28x FY23E EPS to arrive at TP of INR2,300. We initiate coverage on DN with a Buy rating.

## Vinati Organics (VO)

(M-cap: USD2.6b, CMP: INR1,855, TP: INR2,170, Upside: 17%, Buy)

- **Background:** It is currently the largest producer of IBB and ATBS in the world, with a dominant (~65%) domestic market share. VO has focused on excelling in a particular specialty chemical molecule through economies of scale, coupled with further integration. As a result, the company has emerged as a leading global manufacturer in the space.
- **We expect a 38% revenue CAGR over FY21–24E. In light of new capacity additions, with lower margin products, we expect the EBITDAM to normalize to ~34% (from ~37% in FY21), resulting in a 34% EBITDA CAGR. The amalgamation of Veeral Additives (VAL) with VO would result in further forward integration.**
- The stock is trading at 36x FY23E EPS of INR50.5 and 26x FY23E EV/EBITDA, with attractive return ratios of ~25% (+600bps v/s FY21). It has a fixed asset turnover of 1.3x, which is likely to double over next three years. We expect 33% PAT CAGR during FY21–24E, and value the company at 43x FY23E EPS to arrive at our TP of INR2,170. We initiate coverage with a Buy rating.



Alkyl Amines Chemicals Limited

Closure of global capacities and higher-than-expected revenue CAGR present an upside risk to our call, while there could be a downward risk from increased domestic competition.



NFIL is building capacity in the high-performance product segment and a multi-purpose plant, which would add INR6.5b in annual revenue. Asset turnover would increase to 0.9x in FY23E from 0.7x in FY21.



GALSURF has reduced its debt considerably from FY14 levels. We expect it to turn net cash by FY23E despite capex of INR3b planned over FY22–24E.

## Alkyl Amines (AACL)

(M-cap: USD2.5b, CMP: INR3,600, TP: INR3,825, Upside: 6%, Neutral)

- **Background:** AACL is the second largest player in the Indian Aliphatic Amines industry, with close to 45% market share. It is present in three major categories: Amines and Derivatives, Other Specialty Chemicals, and Industrial Gases. Life Sciences (Pharma + Agri) constitutes ~70% of total demand.
- **It plans to spend ~INR5b over the next three years via internal accruals. Assuming asset turnover of 2x, revenue could double to INR21.5b over the next three years. We believe (in line with the management guidance) that EBITDAM would normalize to 30–33% – assuming a gross margin at 50% (maintained over the last decade) – as the conversion cost declines further.**
- The stock is trading at 42x FY23E EPS of INR85 and 30x FY23E EV/EBITDA. We value the company at 45x FY23E EPS to arrive at TP of INR3,825. We initiate coverage with a Neutral rating due to a limited upside. Although, capacity expansions would facilitate the current high valuations as the company is expected to generate ROEs of 35–37%, the best among peers.

## Navin Fluorine (NFIL)

(M-cap: USD2.5b, CMP: INR3,714, TP: INR3,960, Upside: 7%, Neutral)

- **Background:** NFIL operates in four segments: Refrigerants, Inorganic Fluorides, Specialty Chemicals, and CRAMs. With India emerging as a fluorination hub (owing to the relocation of major downstream players from China), the company has announced two new projects as a part of its wholly-owned subsidiary (NFASL) over the past year.
- **Capex over FY22–24E is projected at ~INR7.3b; INR4.4b/INR1.95b would be toward the new HPP/MPP business and the rest toward ramping up production in existing segments. Funding would happen largely through internal accruals. We expect EBITDA/adj. PAT CAGR of 31%/29% over FY21–24E, with stable EBITDAM.**
- The stock is trading at 34x FY23E EPS of INR99 and 26x FY23E EV/EBITDA, with return ratios improving to ~23% (+600bps v/s FY21) despite massive capex. We value the company at 40x FY23E EPS to arrive at TP of INR3,960. We initiate coverage with a Neutral rating, highlighting downside risk to our estimates with even a slightest of delay in execution/commissioning of the upcoming projects.

## Galaxy Surfactants (GALSURF)

(M-cap: USD1.4b, CMP: INR3,010, TP: INR3,520, Upside: 17%, Buy)

- **Background:** GALSURF is a leader in the Surfactants and Specialty Care Ingredients categories. It exclusively focuses on catering to the Home and Personal Care industry. GALSURF's surfactants or specialty care ingredients are found in 9 out of every 10 products used by Indian consumers.
- **We expect GALSURF to post a 12% EBITDA and PAT CAGR over FY21–24E, with EBITDA/kg improving to INR20 (assuming 5% YoY growth in FY23E – as specialty products expansion at Jhagadia gets commissioned), led by new product launches on the back of strong R&D.**
- We expect the company to deliver volumes CAGR of ~10% over FY21–24E, higher than the management guidance of ~8%. The stock is trading at 28x FY23E EPS of INR107 and 18x FY23E EV/EBITDA. We value the stock at 33x FY23E EPS to arrive at TP of INR3,520. We initiate coverage with a Buy rating.



Extreme volatility in raw material prices is a cause for concern. Any delay in ramping up of expanded capacity would result in the further downward revision to our estimates.



Specialized products form ~25% of the total revenue mix currently. Any new capex announcement in this category would be realization and margin accretive.

## Fine Organic (FINEORG)

(M-cap: USD1.2b, CMP: INR2,878, TP: INR3,135, Upside: 9%, Neutral)

- **Background:** FINEORG is the largest manufacturer of oleo-chemical-based additives in India – it produces over 400 specialty additives at three domestic production facilities. It is a key global producer, with two subsidiaries (Fine Organics USA, and Fine Organics Europe BV) and three JVs (Fine Zeelandia Pvt, FineADD Ingredients, and a recently announced JV company in Thailand).
- **Given its recent expansions, we forecast a ~18% revenue CAGR over FY21–24E (v/s ~10% over FY15–21). However, despite assuming margin expansion to 22% over FY23–24E (v/s the company guidance of ~20%), we see no significant upside to the stock (expected EBITDA/PAT CAGR of 29%/36% over FY21–24E).**
- FINEORG's asset turnover is likely to remain stagnant around current levels of 1.4–1.5x. The stock is trading at 37x FY23E EPS of INR78 and 24x FY23E EV/EBITDA. We value the company at 40x FY23E EPS to arrive at TP of INR3,135. We initiate coverage with a Neutral rating.

## NOCIL (NOCIL)

(M-cap: USD0.5b, CMP: INR212, TP: INR275, Upside: 30%, Buy)

- **Background:** NOCIL is the largest manufacturer of rubber chemicals in India, with domestic market share of ~40%. With rich experience of over four decades, NOCIL is a one-stop shop and dependable supplier of rubber chemicals. It provides an almost complete (~22) range of products.
- **Restrictions on tyre imports have benefited the operations of domestic tyre companies in FY21. NOCIL targets a sustainable EBITDAM of 20–22%, which declined over FY20–21 due to higher dumping seen from China on the expiry of the Anti-Dumping Duty (ADD) in India. Furthermore, NOCIL is currently evaluating the next leg of its business expansion strategy.**
- The stock is trading at 17x FY23E P/E and 11x FY23E EV/EBITDA, with an asset turnover of ~0.7x in FY21 (set to increase to 1x over FY23–24E; this is similar to FY18 levels, when the company had achieved optimum utilization of its capacity). We value the stock at 22x FY23E P/E to arrive at TP of INR275. We initiate coverage with a Buy rating.

### Valuation and TP summary

	ATLP	DN	VO	AACL	NFIL	GALSURF	FINEORG	NOCIL
Market Cap (INR b)	264	241	190	185	184	107	89	36
Rating	Neutral	Buy	Buy	Neutral	Neutral	Buy	Neutral	Buy
Target Price (INR)	9,850	2,300	2,170	3,825	3,960	3,520	3,135	275
EPS - INR (FY23)	298	82	50	85	99	107	78	12
EPS - INR (FY25)	349	112	71	113	125	131	104	19
Multiple (x)	33	28	43	45	40	33	40	22
Upside (%)	11	31	17	6	7	17	9	30
CMP (INR)	8,863	1,760	1,855	3,600	3,714	3,010	2,878	212
FY23 PE (x)	29.9	21.6	36.3	42.3	37.5	28.4	36.6	17.2
FY25 PE (x)	25.6	15.9	25.9	31.7	29.8	23.1	27.7	11.5
Target Price on FY25 (INR)	11,510	3,125	3,050	5,100	4,985	4,330	4,140	410
Share Price Performance								
1Y (%)	96	270	92	327	129	105	54	158
3Y (%)	237	621	291	1295	489	135	NA	32



## Relative financial performance of our Coverage Universe

	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	5 <sup>th</sup>	6 <sup>th</sup>	7 <sup>th</sup>	8 <sup>th</sup>
Rev CAGR FY21-24E (%)	VO (37.8)	NFIL (29.4)	NOCIL (25.3)	AACL (20)	FINEORG (18.2)	DN (17.0)	ATLP (13.2)	GALSURF (11.9)
EBITDA CAGR FY21-24E (%)	NOCIL (46.5)	VO (33.9)	NFIL (30.6)	FINEORG (28.9)	AACL (17.5)	DN (14.9)	ATLP (13.0)	GALSURF (11.8)
PBT CAGR FY21-24E (%)	NOCIL (53.5)	VO (36.1)	FINEORG (35.1)	NFIL (21.0)	DN (18.7)	AACL (18.6)	GALSURF (14.6)	ATLP (13.7)
Avg ROE FY22-24E (%)	AACL (35.6)	DN (30.9)	VO (24.4)	FINEORG (23.7)	GALSURF (21.9)	NFIL (20.5)	ATLP (18.0)	NOCIL (14.7)
Avg ROCE FY22-24E (%)	AACL (33.9)	DN (28.3)	VO (23.5)	FINEORG (22.9)	GALSURF (20.5)	NFIL (20.4)	ATLP (17.6)	NOCIL (13.8)
Capex FY22-24E (INR b)	DN (12.0)	NFIL (7.3)	ATLP (7.0)	AACL (5.0)	VO (3.0)	GALSURF (3.0)	FINEORG (0.9)	NOCIL (0.6)
EV/EBITDA FY23E (x)	AACL (30.1x)	NFIL (26.4x)	VO (25.9x)	FINEORG (23.9x)	ATLP (20.4x)	GALSURF (18.4x)	DN (14.3x)	NOCIL (11.0x)
PE FY23E (x)	AACL (42.3x)	FINEORG (36.6x)	VO (36.3x)	NFIL (37.5x)	ATLP (29.9x)	GALSURF (28.4x)	DN (21.6x)	NOCIL (17.2x)

Source: Company, MOFSL

## Comparative valuations of specialty chemical companies – as per Bloomberg consensus

Company	M Cap (INR b)	EPS			EPS CAGR FY21-23 (%)	RoE (%)			PE (x)		
		FY21	FY22E	FY23E		FY21	FY22E	FY23E	FY21	FY22E	FY23E
Aarti Inds.	306	15	19	25	29	16	19	20	43.9	46.3	35.2
Atul	266	223	250	290	14	19	18	17	31.8	36.0	31.1
Deepak Nitrite	243	57	71	80	18	40	35	30	29.1	25.0	22.3
Vinati Organics	189	26	33	44	30	19	24	24	53.4	56.6	41.8
Alkyl Amines	185	58	60	73	12	44	34	33	39.4	60.3	49.7
Navin Fluo.Intl.	184	52	56	85	27	17	16	21	53.0	65.7	43.9
Gujarat Fluoroch	118	(20)	43	45	NM	(6)	11	10	NM	25.1	23.9
BASF India	112	128	86	97	-13	35	19	18	16.2	30.1	26.8
Galaxy Surfact.	107	85	92	107	12	26	23	22	29.9	32.9	28.4
Fine Organic	90	39	61	82	44	18	23	25	58.2	47.7	35.8
Balaji Amines	88	74	85	100	17	31	26	24	23.9	31.8	27.1
Anupam Rasayan	74	8	16	24	70	7	10	13	89.5	45.2	30.9
Rossari Biotech	67	16	21	27	32	23	18	17	66.6	58.9	44.7
Laxmi Organic	59	5	5	5	4	17	12	11	46.4	46.4	42.8
Sudarshan Chem.	48	20	25	31	22	21	21	22	25.4	27.8	22.4
Phillips Carbon	39	18	23	27	21	17	18	18	10.5	9.8	8.6
NOCIL	36	5	9	12	48	7	10	13	32.9	25.2	18.4
Camlin Fine	22	4	8	11	68	10	18	20	35.1	22.3	15.4
Neogen Chemicals	20	13	20	29	46	18	23	26	64.0	41.6	29.4
Chemcon Special.	17	16	20	26	25	23	18	20	28.0	22.9	17.9

Source: Bloomberg, MOFSL



## Latest management commentaries of specialty chemical companies



### Maulik D. Mehta, CEO, Deepak Nitrite

- The growth trajectory would continue across product segments, fuelled by increased capacity from brownfield expansions, new products at some greenfield capacities, and continued strong demand from our target end-segments.
- As we enter FY22 – given the current challenges in the global and, specifically, the Indian economic environment – we are confident that DN is well-equipped to evaluate the emerging growth prospects in end user industries.



### Vinati Saraf Mutreja, CEO, Vinati Organics

- Isobutyl Benzene (IBB) saw low business in FY21 as one of our largest customers had halted operations. However, the company has now resumed operations, on the back of which IBB would continue to grow in the double digits in FY22 and FY23, led by strong demand for Ibuprofen.
- We commenced operations at butyl-phenol plant a year ago; this is currently running at 50–60% of total capacity. The ramp-up in the butyl-phenol products would generate ~INR2.5b in revenue at peak capacity.



### Radhesh R. Welling, MD, Navin Fluorine International

- We are leveraging our R&D capabilities and deep fluorination expertise to strengthen the new opportunity pipeline, expand the product portfolio, and expand capacities through both greenfield and brownfield projects.
- Current engagements with innovative pharma majors would help sustain future growth.



### U. Shekhar, MD, Galaxy Surfactants

- The demand environment remains robust, clearly highlighting the resilience and underlying strength in the company's business model. Despite the challenges, we remain confident and optimistic about the growth journey.
- The new products emerging from its innovation funnel would form the bedrock of growth over the next decade. These are defined to cater to the emerging trends of non-toxicity, sulfate-free, green, and natural solutions.

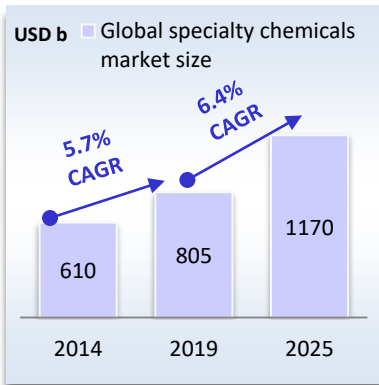


NOCIL LIMITED

### S R Deo, MD, NOCIL

- Given that our capacities are in place, unutilized capacities would enable us to continue on the growth trajectory next year as we work towards being valued as a reliable partner for the major tyre companies.
- We aim to continue to ramp up our capacity utilization. If we are able to sustain these indicators, we are reasonably confident of achieving 100% utilization by Sep'23 (instead of Mar'24), as stated in the previous earnings call.

At this juncture, in terms of the future outlook, India is poised for multi-fold growth – as the various factors at play blend into the perfect recipe for growth.



## Manifold factors simultaneously at play for India

### China+1, cost advantage, higher consumer base, and government impetus

- The global Specialty Chemicals market size is pegged at ~USD805b. It is expected to post a ~6.4% CAGR to USD1,170b by CY25. Globally, ~25% of the total specialty chemicals production is exported, amounting to ~USD200b.
- The EU and the US have historically been key global specialty chemical hubs. However, after CY08, the focus has shifted to China, facilitated by lower labor cost, government subsidies, and relaxed environmental norms.
- China dominates with ~36% share in the global Specialty Chemicals space, with exports worth USD35b in CY19 (i.e., ~4x that of India). However, the high economic growth seen in China has come at a very heavy environmental cost. Investments in environmental protection have failed to keep pace with the rapid advancement in the economy. China has now issued various environmental protection norms and taken the necessary steps to ensure a sustainable environment – within which the economy could grow without damaging the environment.
- Geopolitical issues: In Jun'18, the US announced the imposition of tariffs on Chinese imports. This event not only impacted the pricing of goods but also capital spending by chemical majors. The US–China trade war resulted in supply uncertainties in western countries. De-risking from a single concentrated source (i.e., China) presents an opportunity for countries such as India.

## 1.

### Focus shifting away from China

#### Environmental concerns in China – various units shut down, others fined

In CY17 (after the Yangtze incident), ~40% of chemical companies in China were shut down due to the Chemical industry's excessive contribution to environmental pollution; a 'green tax' was levied on these companies, increasing their costs.

- In CY11, when the US embassy in Beijing revealed data that the PM2.5 concentration was beyond the levels specified by the United States Environmental Protection Agency (US EPA)'s Air Quality Index, many international/national public concerns were raised.
- In CY16, the Chinese government issued a development plan for the Yangtze River Delta Economic Belt, where pollution had reached dangerous levels. **No Factories are now allowed within 1km of the river.**
- After a huge explosion in the industrial area of Yancheng in Mar'19, the Chinese government conducted heightened safety inspections at all chemical companies, which disrupted the supply of raw materials in the Chemicals space, resulting in the prices of certain specialty chemicals shooting up.

Exhibit 1: Location of CY17 blast site...



Source: Google, MOFSL

Exhibit 2: ...leads to tough environmental norms



Source: BBC, MOFSL

**Exhibit 3: Major air quality control strategies since CY12 – China strengthens cooperation on controlling heavy air pollution**

Type	Issue/Execute date	Measures	Issued by*
Plan	CY11-15	❖ 12th Five-Year Plan	State Council
Law	Executed Jul'12	❖ Clean Production Promotion law	NPC
Plan	Issued Oct'12	❖ The 12th FYP on Prevention and Control of Air Pollution in Key Regions	MEP, NDRC, MoF
Plan	Published Jun'13	❖ National 10 measures	State Council
Plan	Issued Sep'13	❖ Air pollution prevention and control action plan	State Council
Law	Amended Apr'14	❖ Environmental protection law	NPC
Law	Executed Jan'16	❖ Air pollution prevention and control law	NPC
Plan	Issued Jul'14	❖ Performance Assessment Measures for Air Pollution Prevention and Control Action Plan	State Council
Standard	Executed Jan'16	❖ National Ambient Air Quality Standard	MEP
Plan	Executed Aug'17	❖ Action Plan to Comprehensive Control Autumn and Winter Air Pollution in Beijing-Tianjin-Hebei and Surrounding Regions 2017–2018	MEP
Standard	Varied	❖ Emission standard of air pollutants for industries	MEP, AQSIQ
Plan	CY16-20	❖ 13th Five-Year Plan	State Council

\*Abbreviations: NPC – National People's Congress; MEP – Ministry of Environmental Protection of the People's Republic of China; MoF – Ministry of Finance; NDRC – National Development and Reform Commission; AQSIQ – General Administration of Quality Supervision, Inspection and Quarantine;

Source: International Journal of Environmental Research and Public Health, MOFSL

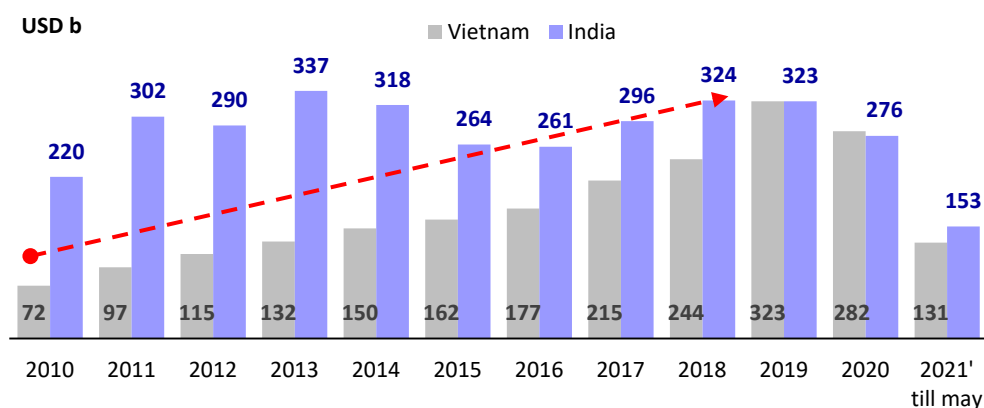
## 2.

### Policy initiatives in India

#### Vietnam – a case study (success based on reforms)

According to recent data, of the 56 companies that have moved out of China since its trade war with the US over the last two years, only 8 have invested in India, while 26 have shifted base to Vietnam.

- Vietnam commenced the Doi Moi Reform process in CY86, way after China begun its reform process in the late 70s, but before India, which kick-started the process in CY91. The country has since been on the path to growing its exports faster than India. **Vietnam delivered total merchandise exports at an 18% CAGR in the last decade, excluding CY20 (v/s a meager 4% CAGR for India over this period). The country has also beaten India in exports to the EU – it posted a 4.4x jump (v/s 1.6x growth for India) in the last decade.**
- In Jun'20, the Vietnam government ratified its FTA with the EU. This would allow European companies to invest in the country and export to other markets in Asia-Pacific where it has preferential access agreements. Vietnam has also emerged as the preferred choice for electronics and mobile phone companies trying to move out of China. **That said, Specialty chemical companies in India have an edge over Vietnam in terms of technology and niche expertise in respective chemical formulations.**

**Exhibit 4: Vietnam exports up 4x over last decade; now on par with India exports**

Source: Industry, MOFSL



### Production Linked Incentive scheme for Manufacturing to make India part of global supply chain

- The government intends to spend ~USD19.6b to
  - (a) build a competitive and efficient domestic manufacturing base,
  - (b) enable economies of scale and exports,
  - (c) attract investments in core sectors, and
  - (d) introduce cutting-edge technologies.
- It has also announced a production-linked incentive (PLI) scheme for the domestic manufacturing of key starting materials (KSMs), drug intermediates (DIs) and Active Pharmaceutical Ingredients (APIs), and medical devices.

Exhibit 5: PLI scheme for Manufacturing sector – potential game-changer

### Impact and benefits of scheme



### Increase in demand for Chemicals & Petrochemicals

**Polymers, resins, fibres, APIs, bulk chemicals, paints, pigments, food additives, etc.**

Source: DCPC, MOFSL

## 3.

### India's R&D spends to triple over next 4–5 years

#### Entry barriers in Specialty Chemicals to aid growth

Indian companies are well-placed to achieve strong growth over the next decade as they enhance their global tie-ups, along with current capacity ramp-ups and further capacity additions.

- Companies in the Specialty Chemicals space face low risk from competitors due to high entry barriers – given the complex nature of chemistries involved in producing these chemicals. **Substantial R&D requirements, technical know-how, service capabilities, customer relationships, and adherence to required regulations create important entry barriers.**
- In addition to R&D investments, further barriers to entry include bespoke solutions/applications and long-term customer relationships. Switching costs for specialty chemical customers are high. As a result, they are reluctant to switch existing products for marginal gains – as specialty chemicals account for just a small proportion of the final product cost.
- India would be the biggest beneficiary as the US and European companies face pressures from institutional investors and significant lenders to re-base their supply chain away from China. Downstream industries also seek alternative manufacturing options; thus, have been seeking lower cost locations over China.

China's share in the global chemical R&D spend has increased to 27.5% from 9.5% in the past decade. Over this period, it has clocked a 16.6% CAGR in R&D investments v/s the global R&D investment CAGR of 5.1%, thus driving growth.

- **India's public investment in R&D stands at 0.7% of GDP, which the government plans to increase to ~2% by FY25E. On similar lines, the Specialty Chemicals industry is likely to double its R&D spend to 5–6% of revenue over this period.**

**Exhibit 6: Comparative evaluation of various sub-segments of Indian Chemicals industry**

Parameters	Pharma	Agrochemical	Organic Chemical	Inorganic Chemical	Color Alkali	Dyes & Pigments	Specialty Chemicals
Entry barrier	Very strong	Very Strong	Weak	Weak	Weak	Weak	Very Strong
Regulatory approvals	High	High	Low	Low	Low	Low	Low
Customer profile	Toll manufacturing	Toll/open arrangements	Open Market	Open Market	Open Market	Open Markets/sticky customers	Toll/open arrangement
Customer stickiness	Very high	Very high	Low	Low	Low	Moderate	Very high
Pricing	Fixed arrangements	Fixed arrangements with pass on clause	Market driven	Market driven	Market driven	Fixed arrangements	Fixed arrangements with pass on clause
No. of suppliers for the same product	Limited (1-3) with key supplier catering to 2/3 <sup>rd</sup> of the market	Limited (1-3) with key supplier catering to 2/3 <sup>rd</sup> of the market	Many suppliers	Many suppliers	Many suppliers	Many suppliers	Limited (1-3) with key supplier catering to 2/3 <sup>rd</sup> of the market

Source: Industry, MOFSL

## 4.

**Protection to India industry while facilitating benefits****Various policy initiatives, along with investigation of ADD**

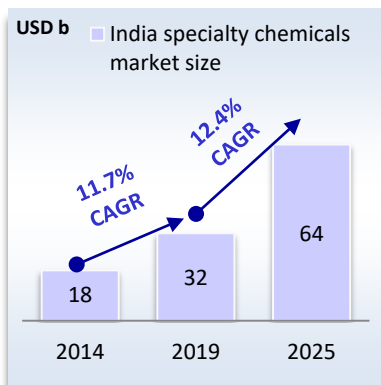
- Anti-dumping duty (ADD) was first levied on Chinese chemical imports in CY14 as a safeguard against dumping. While several anti-dumping duties have not been extended on such imports in the past, due to the recent 'Atmanirbhar Bharat' initiative by the Indian government, India has once again begun imposing ADD on Chinese chemical imports – to make the country resilient to cheap imports and protect the interests of domestic players.
- **Policy initiatives by government in last two years:** These include
  - (a) the reduction of basic custom duty on naphtha to 2.5% (from 4%),
  - (b) proposed PCPIR projects in Odisha/Gujarat,
  - (c) export promotion schemes and FTAs, and
  - (d) the public procurement policy for 28 chemicals/petrochemicals.

**Exhibit 7: List of specialty chemicals on which ADD has been extended in last two years (ADD valid for five years)**

Chemical	First imposed on	Extension	End user industry
Zeolite 4A	Dec'18		❖ Surfactants
Sulfonated Naphthalene Formaldehyde	Mar'18		❖ Surfactants
PX-13	Nov'17	Yes	❖ Automobiles, Tyres
Linear Alkyl Benzene	Apr'17		❖ Surfactants
Sodium citrate	May'15	Yes	❖ Food, Pharma
Meta Phenylenediamine (MPDA)	Mar'14	Yes	❖ Photography, Dyes
1-phenyl-3-methyl -5-pyrazolone	Jan'21		❖ Dye and Pharma industries
Phthalic anhydride	Dec'15	Yes	❖ Plasticizers and pigments
Carbon Black		Yes	❖ Rubber applications
Choline Chloride		Yes	❖ Animal Feed and ❖ the Oil and Gas sector
Toluene Dilsocyanate (TDI)		Under consideration	❖ Furniture, bedding ❖ and carpet underlay
Natural mica based pigments		Under consideration	❖ Paint and Pigments
Polytetrafluoroethylene (PTFE)		Under consideration	❖ Electrical, electronics, ❖ mechanical manufacture
Aniline		Under consideration	❖ Dyes, drugs, plastics, ❖ and rubber chemicals

Source: Industry, MOFSL

We discuss the key end-user markets below in detail, highlighting its relevance/importance to our coverage companies

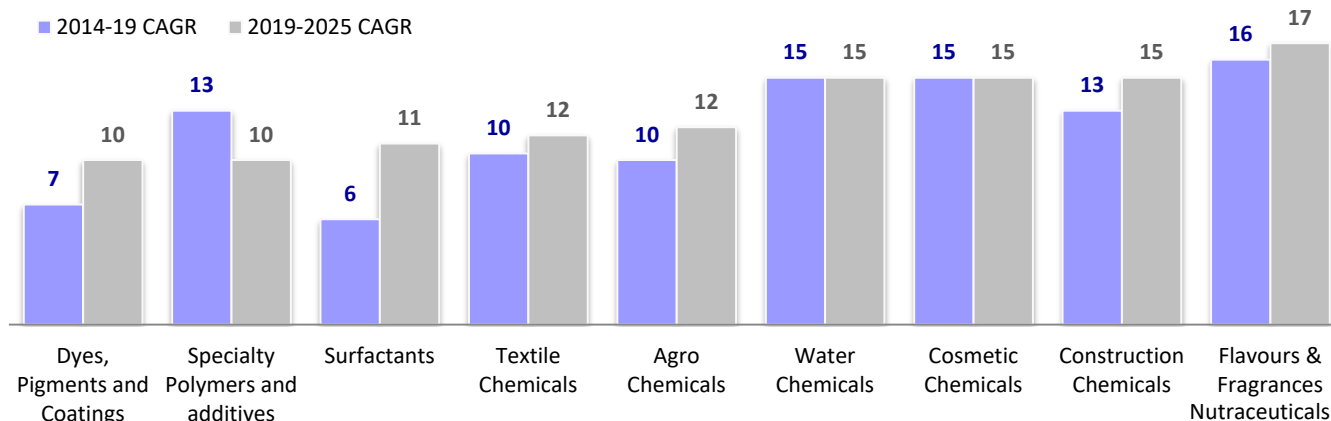


## India set to become the fourth largest player

### ...key sectoral trends that would influence growth going forward

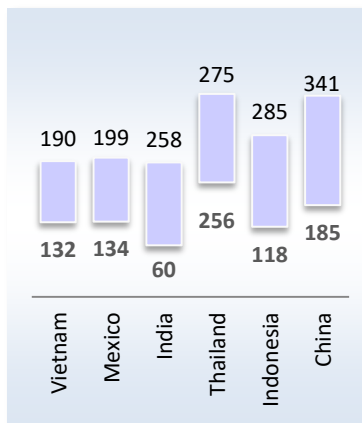
- India is the sixth largest chemical producer globally, delivering ~11.7% CAGR over the last five years. Despite the strong CAGR, India accounts for ~4.5% of the USD4t global Chemical industry (v/s ~36% for China). Commodity Chemicals make up ~80% of the global Chemical industry, with Specialty Chemicals forming the balance.
  - The Specialty Chemical industry in India is worth ~USD32b, or ~18% of the USD180b domestic Chemical industry. Led by various factors, highlighted in the previous section, the domestic Specialty Chemical industry is expected to deliver 12.4% CAGR (on a higher base) and touch ~USD64b by CY25.
- a. Growth in the Specialty Chemicals industry will be fueled by end-user industries such as Lifesciences, Healthcare, Food, Cosmetics, other consumer goods, etc.
  - b. Various domestic players are leading the path in forward/backward integration of their specialty chemical processes to open the door to new opportunities, earn better margins, and reduce dependence on imports. To give a classic example, VO started producing Butyl Phenols after DN commissioned their Phenolic plant (as Phenols were entirely imported earlier).
  - c. Import substitution: India is highly dependent (+USD13b annually) on petrochemical imports, led by a huge manufacturing deficit in most petrochemical intermediates. The proposed CY20-35 Petroleum, Chemicals & Petrochemicals Investment Region (PCPIR) policy envisages an investment of INR10t by CY25, rising to INR20t by CY35; which would boost feedstock availability, and thus production of specialty chemicals.
  - d. India is emerging as a key exporter as global players are reducing their dependence and outsourcing from China. This would help India increase its exports and capture incremental market share globally. The country is set to become the fourth largest chemical producer (from sixth currently) in the world in the current decade.
- The Specialty Chemicals industry caters to a wide range of end-user markets like Pharmaceuticals, Automobiles and Tyres, Steel, Dyes and Pigments, Packaging, Flavors and Fragrances, Textiles, etc. Growth in end-user industries would drive growth of the Specialty Chemicals sector and take it to new heights.

Exhibit 8: Growth in Specialty Chemicals in coming years to be higher than the last five years (%)



Source: Industry, MOFSL

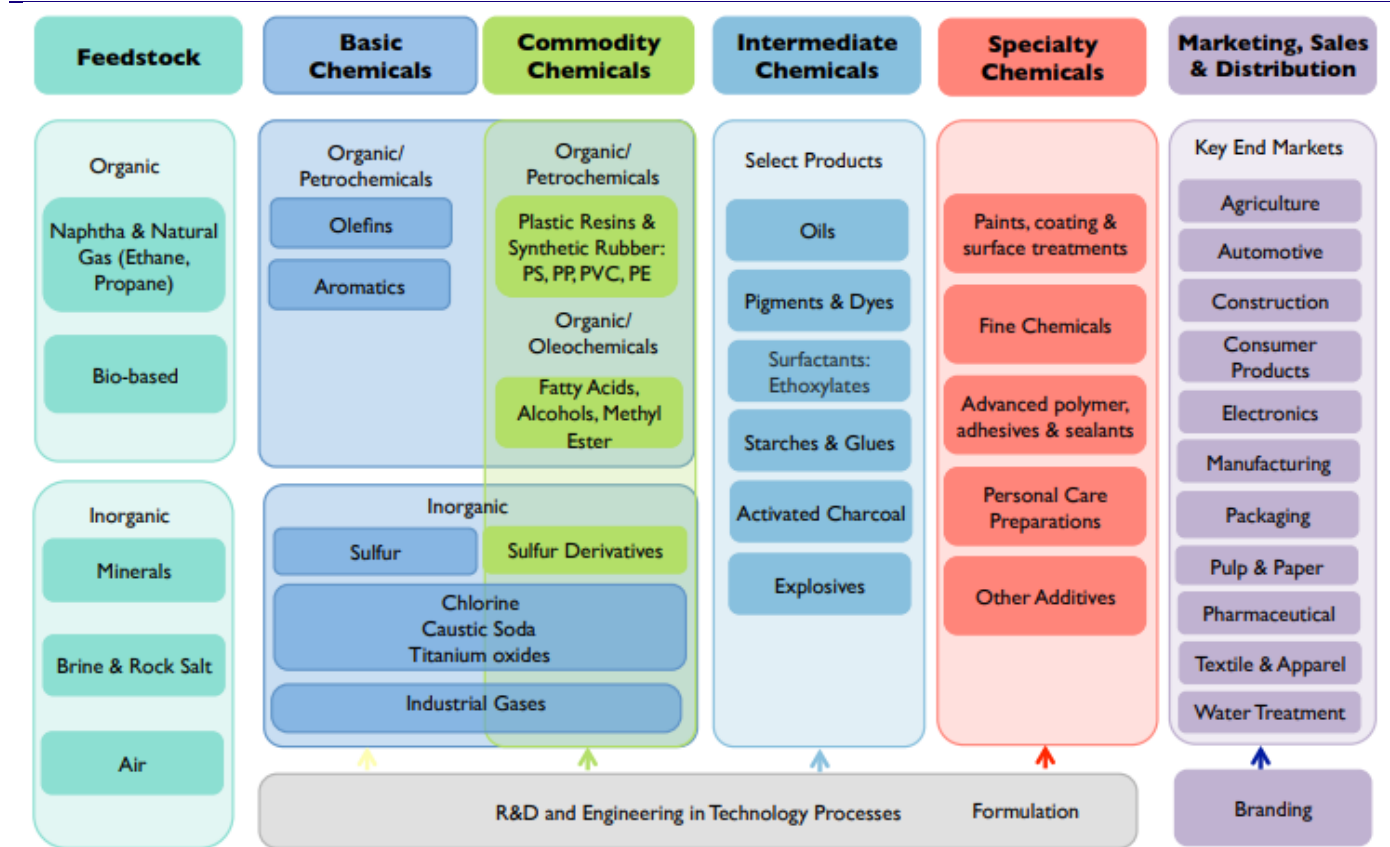
Labour rates per month (USD) –  
Lowest/Highest



### India has the following tailwinds that would favor growth:

- **Demographic dividend:** India has one of the youngest populations in an aging world, **with the median age just ~28 years** (v/s ~38 years in China and the US, ~42 years in Western Europe, and ~49 years in Japan).
- **Higher population in the working class:** India's working-age population (those between 15 years and 64 years) has been growing larger than its dependent population and **constitutes ~67% of its total population**.
- **Low per capita consumption across product categories:** Current per capita consumption of chemical products in India is about one-tenth the world average, indicating huge headroom for growth.
- **Make in India – the biggest trigger for growth:** The Government of India (GoI) has implemented several structural reforms such as **GST and lower corporate tax rate**, amended the Land Acquisition Act, and increased transparency to make the business environment conducive to invest and grow in India.

Exhibit 9: Global chemical value chain



Source: Duke, MOFSL

Exhibit 10: India's trade flow as per segmental value chain



Source: FICCI, MOFSL



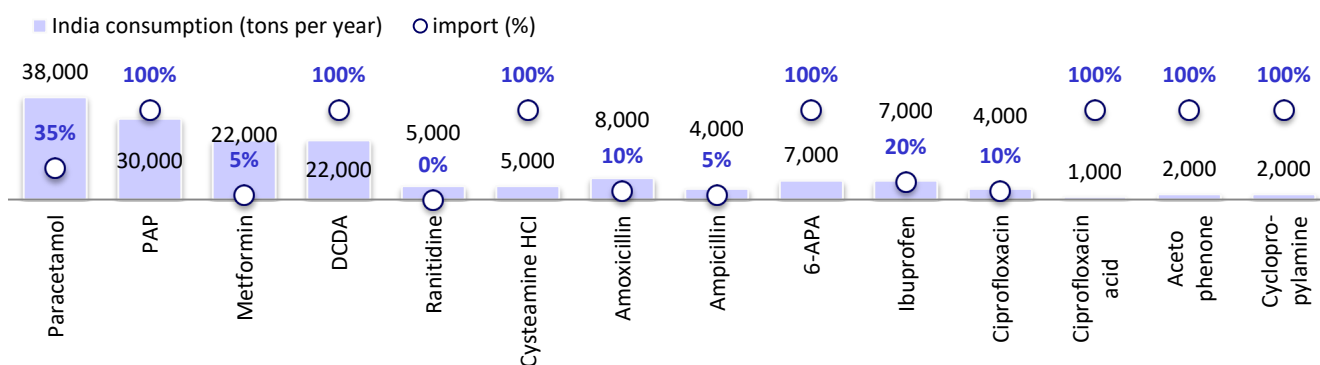
## Structural transformations to drive the next leg of growth in the Indian Specialty Chemicals space

Around 67% of all Pharma imports in India are from China. As highlighted in the exhibit below, India imports most regular drug APIs, thus presenting a huge opportunity for the domestic industry.

### API segment – India is the third largest market in APAC

- India is the third largest API market in the Asia-Pacific region, and China is its main competitor. The Govt's 'Pharma Vision 2020' aims to make India a global leader in end-to-end drug manufacturing, thus increasing private sector investments in R&D are driving the sector's growth in India.
- Recent management commentary from Healthcare companies suggests that the overall outlook for API manufacturers has improved due to lower supplies from Chinese companies.
- This is a big positive for companies in the Specialty Chemicals space that cater to the Pharmaceutical industry, as higher API production domestically would mean higher demand of intermediate molecules. **COVID-19 has increased the importance of R&D and prompted widespread investment in Healthcare.**

Exhibit 11: India's import of most regularly used drugs

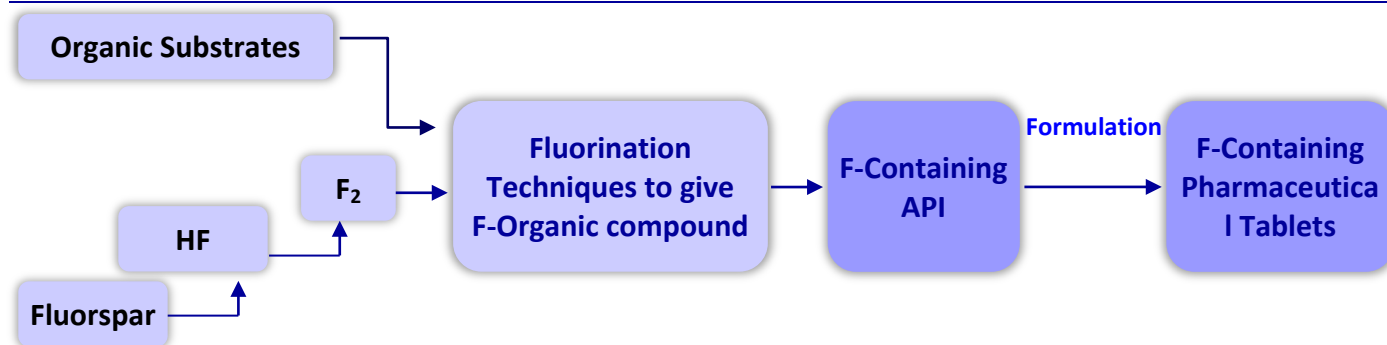


Source: MDPI, MOFSL

### Fluorochemicals – finding increasing use in Life Science and Pharma

- The global Fluorochemicals market is expected to touch USD30b by CY25, recording 5% CAGR. The global Life Science industry (base on Fluorochemicals) is estimated to grow at ~6% CAGR to ~USD4.5b by CY25.
- Fluorination is finding an increasing use in the Life science and Pharma space. For instance, the US Food and Drug Administration (FDA) approved 48 new drugs in the last year. More than a quarter (14 out of 48) of the drugs approved by the FDA contains fluorine.

Exhibit 12: Value chain for Fluorination containing Pharma



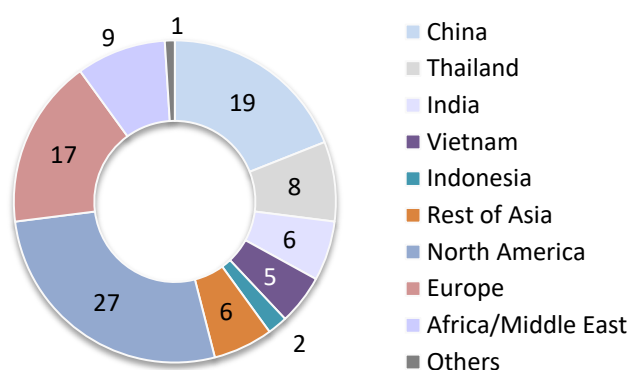
Source: FICCI, MOFSL

Globally, Tyre manufacturers have lined up a capex of USD7b over 2019-23E (as highlighted in exhibit 15), which affirms their confidence in the long-term growth of tyres

### Rubber Chemical industry – replacement demand at rescue

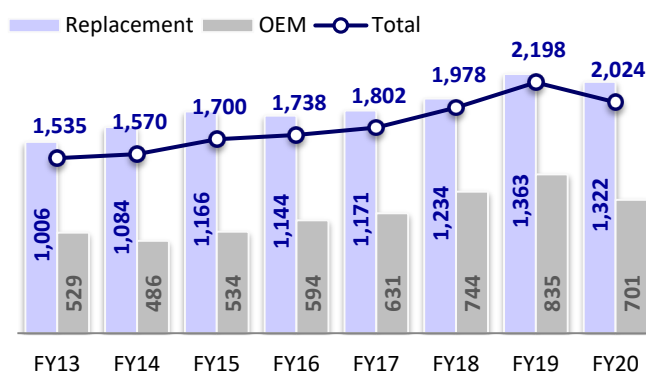
- The Tyre industry constitutes ~65% of rubber chemical consumption. Replacement demand accounts for 55% of total tyre volumes.
- **India has been receiving a normal monsoon for the last two years and expects a normal monsoon in CY21 as well**, which should lead to better rural demand for new vehicles or replacement tyres once the economy open up post COVID.
- **The recent import restriction on various classes of tyres should aid domestic tyre companies' operating rates.** Domestic players like Apollo Tyres, CEAT, and MRF are planning to ramp up production as the Tyre industry is expected to witness considerable growth by FY23-end.

Exhibit 13: Global tyre investments over CY19-23 (%)



Source: Company, Bloomberg, MOFSL

Exhibit 14: Rising tyre demand (MT) in India



\*Note FY21 data is not published yet

Source: Industry, MOFSL

### Surfactants industry (home care and personal care)

#### Key trends which need to be monitored in coming years include:

- Fabric Care (laundry constitutes 70% of total home care demand) as a category is expected to outperform over the next five years, with increasing penetration of washing machines (marking a shift to premium detergent from bar/powder).
- The growing consciousness for hygiene due to the COVID-19 outbreak can act as a strong trigger for demand for disinfectants, and multi-purpose cleaners.
- Younger population, the growing influence of social media, and rising share of e-commerce in home and personal care sales should ensure double-digit growth over the next five years.
- **In India, while 44% of consumers prefer premium home and personal care brands, 37% of consumers prefer premium ingredients over premium brands.** 'Free from claims' based products are on the rise and the need of the hour, as it is milder, greener, cleaner, and safer products. **Purchasing decisions of ~65% of Indian mothers for their kids are based on quality and safety of ingredients.**

### Flavors and Fragrances (F&F) and Nutraceutical ingredients

- Various key trends – growing demand for processed food, lifestyle changes, rural penetration of FMCG products, etc. – would drive higher demand for flavors, fragrances, and other additives.
- **India, with its rich history in Ayurveda and related sciences, has become a meaningful player in natural nutraceutical ingredients.** The emergence of various skin care brands would further drive demand for F&F and additives.

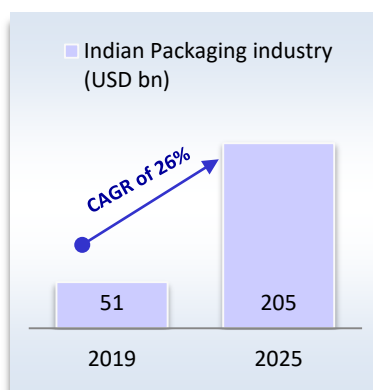
**Exhibit 15: Factors driving strong demand growth for surfactants as well as additives and packaging industry**

Rising middle Class	Female Employment Dynamics: India	Emerging Areas and Categories: Global Trends
<ul style="list-style-type: none"> <li>❖ By 2030, the global middle class is expected to touch</li> <li>❖ 5.3 Billion - additional 2 Billion people from 2017</li> <li>❖ China and India together will account for 59% of the Middle Class Consumption</li> <li>❖ India could be the World's largest Middle Class consumer market surpassing both USA and China</li> <li>❖ Middle Class spending is expected to grow from USD 37 Trillion in 2017 to USD 64 Trillion by 2030 accounting for 1/3<sup>rd</sup> GDP Growth globally (Source: EU Commission - Growing Consumerism)</li> </ul>	<ul style="list-style-type: none"> <li>❖ Since 2004-05, within the Female Workforce, the percentage of women as salaried employees has increased from 3.7% to 10.5% in rural areas and from 35.6% to 52.1% in Urban Areas indicating more women moving from self employed jobs to regular salaried jobs. With literacy rates rising from 57% in 2004-05 to 69.6% in</li> <li>❖ 2017-18 among females and female workers population ratio only being 16.5%, there is ample scope for growth in the coming decade (Source: PLFS 17-18)</li> <li>❖ 17% of the Annual Income (average USD 6,000) of a working age Chinese female is spent on Personal Care Products, Apparels and services</li> </ul>	<ul style="list-style-type: none"> <li>❖ Growing Digital Engagement</li> <li>❖ Increasing number of Private Labels and Startups in Niche Emerging Categories</li> <li>❖ 3E's - E-Commerce</li> <li>❖ + Emerging Markets</li> <li>❖ + Education = Higher Engagement + Consumer Access and Spending</li> </ul>

Source: Galaxy Surfactant, MOFSL

With internet penetration picking up in India, the next decade should see digitally-influenced shoppers and a younger workforce willing to spend more on e-commerce.

By CY25, 25-30% of FMCG sales in India are expected to be digitally-influenced

**E-commerce a young business model**

- **Online sales of home and personal care products constitute just 6% of total sales in India, whereas the same is 13%/34% in the US/China.** The country is still taking baby steps as the per capita spending in India of USD205 is one-fifteenth that of the US and one-ninth of China.
- **Amid the COVID-19 outbreak, there has been a 9% increase in home deliveries from neighborhood stores as well as food aggregators over the last one year.** Footfalls at various stores are down 10-25%. The same is down ~10%/~50% at neighboring stores/department stores and modern trade.
- **It would be fair to assume that even after the pandemic ends, the e-commerce sector can outgrow its previous levels;** providing end-to-end shopping experience to customers – from the first to the last mile.

**Higher e-commerce penetration to further boost Packaging industry**

- The Indian Packaging market was valued at USD51b in CY19 and is expected to touch USD205b by CY25, registering ~26% CAGR over CY19-25. Rapid growth in the market will be driven by Pharma and Foods and Beverages.
- According to the Federation of Indian Chambers of Commerce & Industry (FICCI), **the expenditure on packaged foods (is at an inflection point and) is increasing due to higher per capita income, urbanization, and an increase in the number of working women.** The Ready-To-Cook Foods segment is seeing accelerated growth. Stand-up and pillow pouches are some of the most common types of pouches used in the country.

## Specialty Chemicals: Genie is out!

Ideogram of  
Integration



Pg21

Pg29



Amoeba of growth

Preacher of purity



Pg37

Pg45



Growing tall

Biggest beneficiary  
of China+1



Pg52

Pg61



A pseudo FMCG  
company

Stable outlook ahead



Pg68

Pg76



Multifold growth  
ahead



BSE Sensex	S&P CNX
52,550	15,748

**CMP: INR8,863 TP: INR9,850 (+11%)**

**Neutral**



#### Stock info

Bloomberg	ATLP IN
Equity Shares (m)	30
M.Cap.(INRb)/(USDb)	262.3 / 3.5
52-Week Range (INR)	9132 / 4425
1, 6, 12 Rel. Per (%)	-1/29/46

#### Financial Snapshot (INR b)

Y/E March	FY21	FY22E	FY23E
Sales	37,315	45,575	49,986
EBITDA	9,171	11,275	12,291
PAT	6,455	8,031	8,838
EPS (INR)	218.0	271.2	298.5
EPS Gr. (%)	(2.3)	24.4	10.0
BV/Sh.(INR)	1,292.3	1,522.9	1,776.6

#### Ratios

Net D:E	(0.1)	(0.1)	(0.2)
RoE (%)	18.5	19.3	18.1
RoCE (%)	17.8	18.6	17.7
Payout (%)	9.0	15.0	15.0

#### Valuations

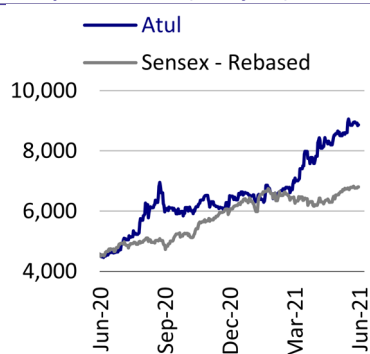
P/E (x)	40.6	32.6	29.6
P/BV (x)	6.8	5.8	5.0
EV/EBITDA (x)	28.3	22.8	20.5
Div. Yield (%)	0.2	0.5	0.5
FCF Yield (%)	1.5	1.5	2.7

#### Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	44.9	44.8	44.8
DII	23.1	22.9	22.9
FII	9.5	9.4	9.4
Others	22.5	23.0	23.0

FII Includes depository receipts

#### Stock performance (one-year)



## Ideogram of Integration

...subsidiaries and JVs to drive medium term growth

- ATLP is the most integrated and a diversified Indian Specialty Chemicals company (present in both manufacturing and retail of over 900 products). It is the first private sector company of independent India, incorporated in CY47 and inaugurated by Mr. Jawaharlal Nehru (the first Prime Minister of the country).
- It functions in two major categories: Life Science Chemicals and Performance and Other Chemicals. ATLP has ~13 operational subsidiaries and two joint ventures. It has 38,000+ retail outlets in India and also retails in neighboring countries.
- Over FY20-21, ATLP incurred a capex of ~INR7b for capacity expansion/additions, which would result in a revenue potential of INR54b. We expect 13%/14% revenue/PAT CAGR over FY21-24E. We value the stock at 33x FY23E EPS to arrive at our TP of INR9,850. We initiate coverage with a Neutral rating.

### Sheer focus on excellence and efficiencies

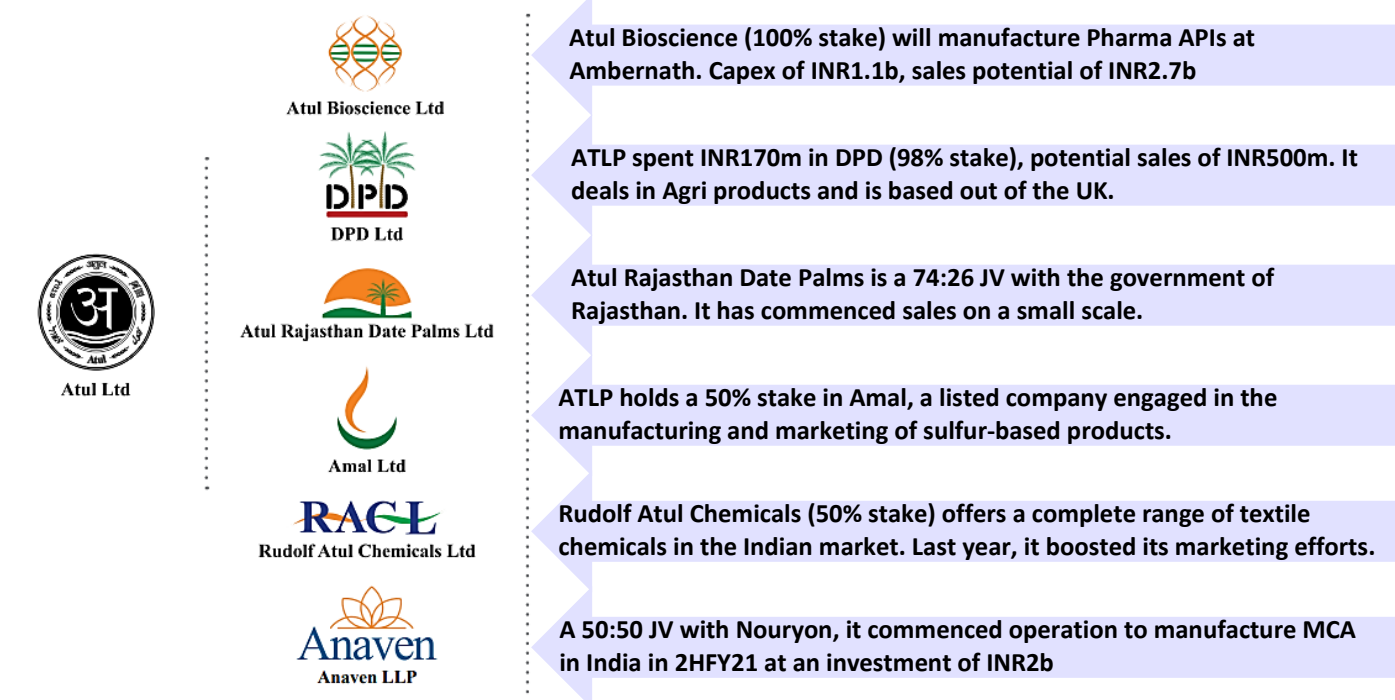
- The biggest advantage for ATLP is its capability of being backward integrated, which has resulted in a decline in fixed costs, aiding margin. EBITDAM has grown to ~25% in FY21 from ~14% in FY15.
- Continued focus on process cost efficiencies has led to a decrease in raw material consumption, improving yields on products.
- The company has the potential to clock consolidated revenue of INR54b (at 90% capacity utilization) in the near term. We forecast 13% revenue CAGR over FY21-24E (v/s ~8% over FY15-20, FY21 saw a decline of 9% YoY).

### Capacity additions in subsidiaries to drive major growth starting FY22

- Atul Bioscience (100% stake) completed its first phase of investment of INR1.1b at Ambarnath, which has a revenue potential of INR2.7b, mainly from APIs and their intermediates.
- Anaven, an equal JV with Nouryon, commenced the first phase of its manufacturing facility of monochloroacetic acid (MCA), built at an investment of INR2b in the latter part of FY21. The primary objective is to have sufficient capacity to meet the entire demand of MCA in India.
- DPD (98% stake) completed at an investment of INR170m; has doubled capacity and now has a sales potential of INR500m.
- Amal has shortlisted new expansion projects. Atul Rajasthan Date Palms further stabilized its operations. RACL strengthened its marketing presence (additional details about subsidiaries in the exhibit below).

### Valuation and view – initiating coverage with a Neutral rating

- We assume EBITDAM to be ~25% (flat v/s FY21 levels) over next three years. The company spends annually on debottlenecking and process efficiencies (as mentioned above), which presents an upside risk to our assumptions.
- We built in a capex of INR7b over FY22-24E. ATLP turned net cash in FY21 and plans to fund capex via internal accruals only (FCF generation of INR18.7b over FY22-24E). Return ratios of 17-18% are likely going forward.

**Exhibit 1: Investment of INR4b in subsidiaries over the last two years to drive the growth**

Source: Company, MOFSL

**Exhibit 2: Retail portfolio primarily used in Auto, Agri, and Construction**

**LAPOX** is an adhesive/solvent/mixture brand used for coating steel bars, bonding marble and granite, and fixing ply, glass, plastic, etc.

**\*POLYGRIP** is a synthetic rubber based adhesive used in the Construction, Auto, Leather, and Footwear industry

**\*LACARE** is a lubricating and corrosion preventive spray

**Crop Protection brands:** It offers a complete range of herbicides, insecticides, and fungicides. ZURA and AMSAC are key products of ATLP in this category

Source: Company, MOFSL

Key products manufactured in this segment are 2,4-D, indoxacarb, and isoprothiolane

Dapsone, fluconazole, and metoprolol salts are key APIs. Chloroformates and amino acid derivatives are key Intermediates

Few of the key products are para-Cresol, para-Anisic aldehyde, and para-Cresidine

Mainly used for internal consumption, while Intermediates are used by Cosmetic, Dyestuff, Pharma, and Tyre industries

Some of the key products are Pigment Red 168, Sulfur Black 1, and Vat Green 1

B11, P62, and P101 are the key products used in Aerospace, Auto, Construction, Defense, Electronics, Paper, Footwear, Paint/Coatings, and Wind Energy

### Life Science segment of ATLP

The **Crop Protection** segment comprises of ~20 products and 70 formulations. Floods or famines may adversely affect demand. Fluctuations in foreign exchange may impact sales realizations.

- Caloric demand is estimated to increase by ~70%, with crop demand for human consumption and animal feed likely to nearly double by CY50.

### Pharmaceuticals and Aromatics – API intermediates and ingredients

- This segment comprises ~76 products. **Atul Bioscience (ABL)** would contribute to growth in this segment by increasing its R&D capabilities.

### Aromatics – Intermediates, Perfumery, and others

- This segment comprises ~31 products. The world market for (a key product) para-Cresol is estimated at 66ktpa. Earlier the product used to be manufactured in the UK, but now US, China, and India are major suppliers.

### Performance and Other Chemicals segment of ATLP

**Bulk Chemicals and Intermediates:** This segment comprises of ~23 products.

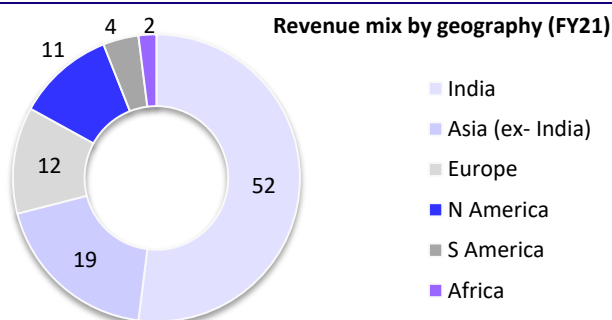
- Captive consumption of Bulk Chemicals is expected to grow as the company expands manufacturing capacities for its various products.

**Colors:** This segment comprises of ~620 products and is used in the Textile, Paint and Coatings, and Paper industry.

- **Rudolf Atul Chemicals (RACL)**, a joint venture formed in CY11-12, provides a complete range of Textile Chemicals to the Indian market. ATLP, along with RACL, would participate in the growth by increasing its manufacturing and working capital efficiencies, and introducing new Dyes, Pigments, Textile Chemicals, and products for non-textile applications.
- Treatment costs are expected to remain high because of stricter regulatory norms and increasing demand for cleaner/greener products from industries.

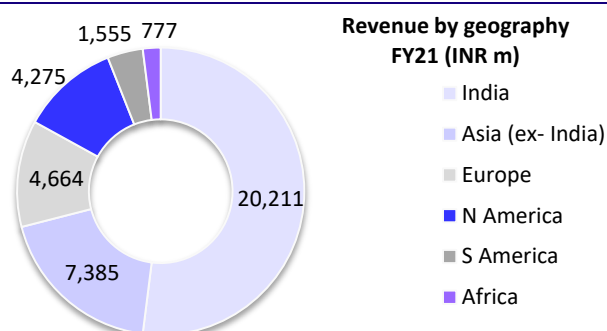
**Polymers:** This segment comprises ~96 synthetic products and 300 formulations. Cheaper imports and new entrants in the market would keep the market competitive and pressurize margin. Since the two main raw materials – Bisphenol-A and Epichlorohydrin – are imported, foreign exchange impacts margin.

Exhibit 3: Asia, Europe and North America (%)...



Source: Company, MOFSL

Exhibit 4: ...remain key geographies (excluding India)

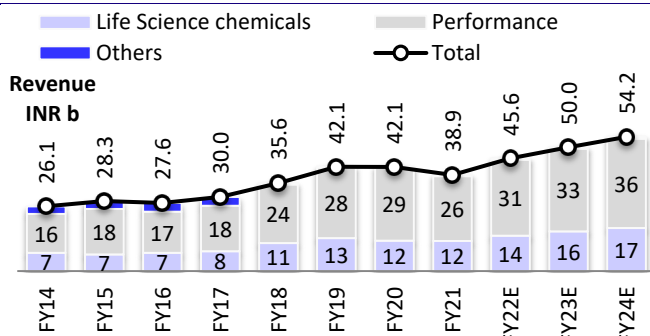


Source: Company, MOFSL

## Financial story in charts

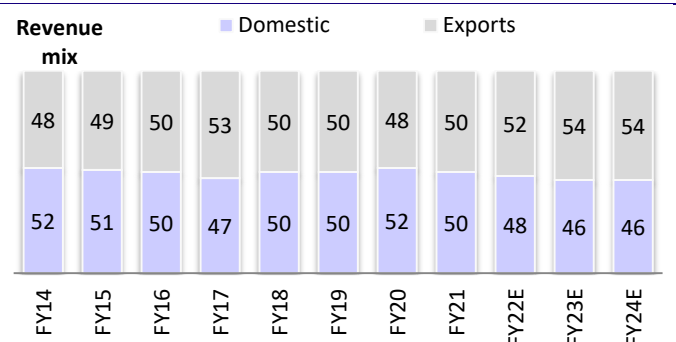
### Leveraging legacy, continued process efficiencies, and subsidiaries to drive growth

**Exhibit 5: Expect ~13% revenue CAGR over FY21-24E...**



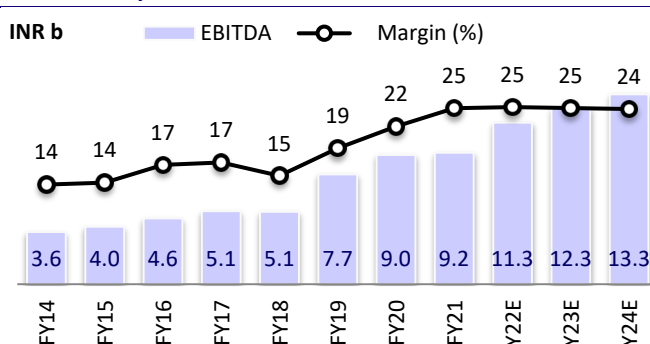
Source: Company, MOFSL

**Exhibit 6: ...with exports increasing by ~400bp to ~54%**



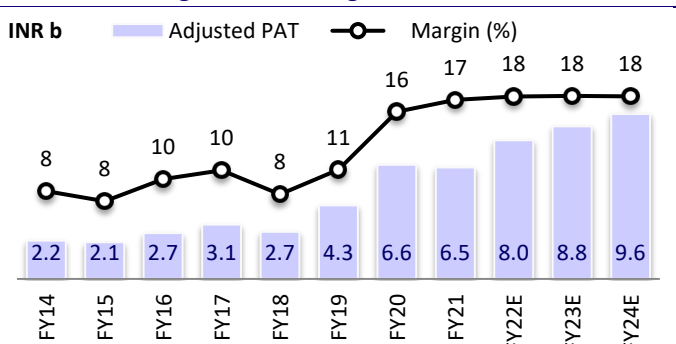
Source: Company, MOFSL

**Exhibit 7: Expect EBITDAM to stabilize ~25%...**



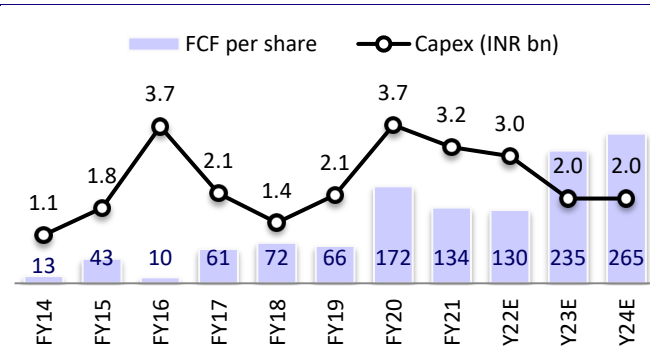
Source: Company, MOFSL

**Exhibit 8: ...along with PAT margin**



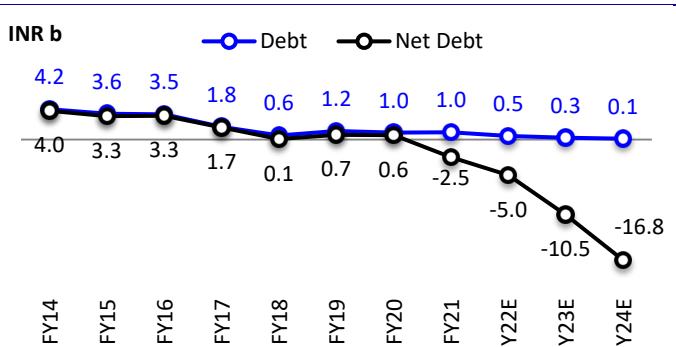
Source: Company, MOFSL

**Exhibit 9: Capex for the next three years is ~INR7b...**



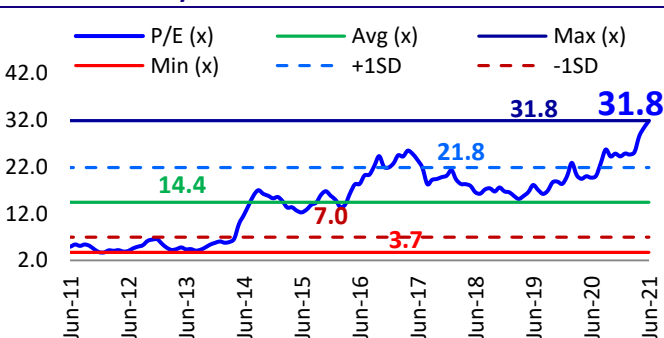
Source: Company, MOFSL

**Exhibit 10: ...although the company to remain net cash**



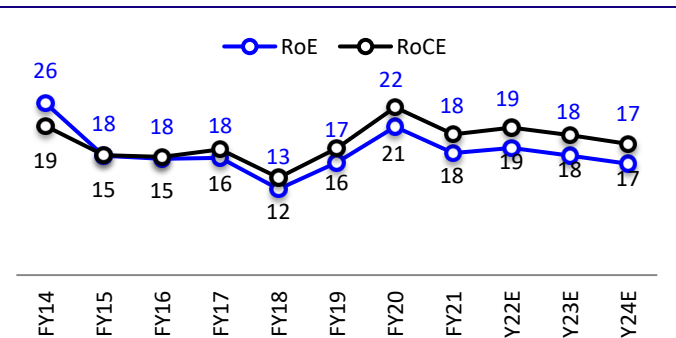
Source: Company, MOFSL

**Exhibit 11: One year forward PE trades at 31.8x...**



Source: Company, MOFSL

**Exhibit 12: ...with return ratios between 17%-19%**



Source: Company, MOFSL



## Valuation and view (TP: INR9,850; +11% upside)

### Initiate coverage with a Neutral rating

- Owing to COVID-led challenges, demand is low for some of the company's products. Projects under implementation are delayed by about six months. However, a recovery in demand for Colors and Polymers, along with a pick-up in Bulk Chemicals, is likely to boost volumes for the company in coming quarters.
- ATLP plans to participate in the growth of the Crop Protection and Pharma segment by focusing on providing its customers with the best quality research and products, and securing access through additional registrations.
- Fluctuations in foreign exchange may impact sales realizations. Thus, prices of some products may vary widely over the short-term.
- The stock is trading at 30x FY23E EPS of INR299 and 21x FY23E EV/EBITDA. We expect 14% PAT CAGR over FY21-23E, with return ratios hovering at 17-19% over next three years. We value the company at 33x FY23E EPS to arrive at our TP of INR9,850. We initiate coverage on ATLP with a Neutral rating (owing to limited upside).

- ❖ Increasing efficiency, productivity, and strengthening business processes each year drives EBITDAM improvement
- ❖ Continues to broaden and deepen its presence in the marketplace
- ❖ The company is also working to promote contract manufacturing

# S

## STRENGTH



- ❖ Demand and price of Bulk Chemicals are cyclical in nature. Fluctuations in foreign exchange may impact sales
- ❖ Has investments in various subsidiaries, which are not operational and are loss making in nature

# W

## WEAKNESS



- ❖ Developing and growing its retail product portfolio to participate in the full value chain
- ❖ Treatment costs (for chemicals) are expected to remain high because of stricter regulatory norms and increasing demand for cleaner/greener products

# O

## OPPORTUNITY



- ❖ Delay in the recovery of end-user industries would impact demand for chemicals
- ❖ A further rise in raw material prices of phenol and methanol to impact current high margin.

# T

## THREATS







## Bull and Bear Case

**Exhibit 13: Margin improvement is the key – higher cost efficiencies to drive huge upside**

TP (at 33x FY23E EPS)	(INR m)	FY21	FY22E	FY23E	FY24E	CAGR (FY21-24E, %)	Thesis
Bear Case	Revenue	37,315	42,635	46,463	50,706	11	Assuming EBITDAM reverts to FY20 levels of 22%, and revenue growth tanks to 8% over FY21-24E (similar to growth recorded over FY15-20)
	EBITDA	9,171	9,380	10,222	11,155	7	
<b>INR7,850</b>	EPS	217.6	218.5	237.8	260.5	6	
Base Case	Revenue	37,315	45,575	49,986	54,190	13	In line with the company's guidance. Various subsidiary expansions/additions to contribute to growth starting FY22. EBITDAM at 25% (same as in FY21)
	EBITDA	9,171	11,275	12,291	13,254	13	
<b>INR9,850</b>	EPS	218.0	271.2	298.5	322.7	14	
Bull Case	Revenue	37,315	45,575	51,828	58,976	16	Assuming yearly EBITDAM improvements of 100bp (amid annual cost efficiency measures), with revenue CAGR of ~16% over FY21-24E
	EBITDA	9,171	11,849	13,994	16,513	22	
<b>INR11,120</b>	EPS	217.6	283.0	337.0	402.0	23	

Source: Company, MOFSL

## Management overview

### Mr. Sunil S. Lalbhai, Chairman

- Mr. Lalbhai has been Managing Director since Jun'84 and Chairman of the board since Aug'07.
- Mr. Lalbhai holds a postgraduate degree in Chemistry from the University of Massachusetts and in Economic Policy and Planning from Northeastern University.

### Mr. Bharathy N. Mohanan, Director and President

- Mr. Bharathy Mohanan joined the company in Aug'92 and has been a Whole-time Director since Jan'09.
- He is currently President, Utilities and Services.
- Mr. Mohanan holds a graduate degree in Engineering (Honors) from the University of Calicut.

### Mr. Gopi Kannan Thirukonda, CFO

- Mr. Gopi Kannan Thirukonda joined the company in Oct'93 and has been a Whole-time Director since Oct'14. He is currently the Chief Financial Officer.
- Mr. Kannan holds a degree in Science from the University of Madras and has a postgraduate diploma in management from Indian Institute of Management, Ahmedabad. He is a Fellow Member of the ICAI, the ICMAI and the ICSI.

## Financials and valuations – ATLP

## Consolidated – Income Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Total Income from Operations</b>	<b>27,550</b>	<b>29,961</b>	<b>33,379</b>	<b>40,378</b>	<b>40,931</b>	<b>37,315</b>	<b>45,575</b>	<b>49,986</b>	<b>54,190</b>
Change (%)	-2.6	8.7	11.4	21.0	1.4	-8.8	22.1	9.7	8.4
Gross Margins (%)	51.8	52.1	46.0	47.8	51.9	54.6	52.3	51.3	50.4
<b>EBITDA</b>	<b>4,592</b>	<b>5,095</b>	<b>5,052</b>	<b>7,668</b>	<b>9,020</b>	<b>9,171</b>	<b>11,275</b>	<b>12,291</b>	<b>13,254</b>
Margin (%)	16.7	17.0	15.1	19.0	22.0	24.6	24.7	24.6	24.5
Depreciation	661	954	1,104	1,189	1,302	1,363	1,468	1,505	1,625
<b>EBIT</b>	<b>3,932</b>	<b>4,140</b>	<b>3,948</b>	<b>6,479</b>	<b>7,718</b>	<b>7,808</b>	<b>9,807</b>	<b>10,787</b>	<b>11,629</b>
Int. and Finance Charges	275	252	127	74	94	94	72	36	18
Other Income	344	526	259	349	780	1,030	1,094	1,157	1,255
<b>PBT bef. EO Exp.</b>	<b>4,000</b>	<b>4,414</b>	<b>4,080</b>	<b>6,753</b>	<b>8,404</b>	<b>8,744</b>	<b>10,829</b>	<b>11,908</b>	<b>12,866</b>
<b>PBT after EO Exp.</b>	<b>4,000</b>	<b>4,414</b>	<b>4,080</b>	<b>6,753</b>	<b>8,404</b>	<b>8,744</b>	<b>10,829</b>	<b>11,908</b>	<b>12,866</b>
Total Tax	1,302	1,227	1,310	2,443	1,745	2,217	2,726	2,997	3,238
Tax Rate (%)	32.6	27.8	32.1	36.2	20.8	25.3	25.2	25.2	25.2
Minority Interest	45	47	42	50	50	73	73	73	73
<b>Reported PAT</b>	<b>2,743</b>	<b>3,234</b>	<b>2,812</b>	<b>4,360</b>	<b>6,709</b>	<b>6,600</b>	<b>8,031</b>	<b>8,838</b>	<b>9,555</b>
<b>Adjusted PAT</b>	<b>2,654</b>	<b>3,140</b>	<b>2,728</b>	<b>4,260</b>	<b>6,610</b>	<b>6,455</b>	<b>8,031</b>	<b>8,838</b>	<b>9,555</b>
Change (%)	25.1	18.3	-13.1	56.2	55.2	-2.3	24.4	10.0	8.1
Margin (%)	9.6	10.5	8.2	10.5	16.1	17.3	17.6	17.7	17.6

## Consolidated - Balance Sheet

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	297	297	297	297	297	296	296	296	296
Total Reserves	15,851	18,911	22,343	26,998	31,252	37,969	44,796	52,308	60,430
<b>Net Worth</b>	<b>16,148</b>	<b>19,208</b>	<b>22,639</b>	<b>27,295</b>	<b>31,549</b>	<b>38,265</b>	<b>45,092</b>	<b>52,604</b>	<b>60,726</b>
Total Loans	3,519	1,765	570	1,200	970	1,017	509	254	127
Deferred Tax Liabilities	794	998	1,296	1,395	1,148	1,351	1,351	1,351	1,351
<b>Capital Employed</b>	<b>20,461</b>	<b>21,970</b>	<b>24,505</b>	<b>29,890</b>	<b>33,666</b>	<b>40,633</b>	<b>46,951</b>	<b>54,209</b>	<b>62,204</b>
Gross Block	8,153	11,599	12,681	14,135	17,868	21,082	24,082	26,082	28,082
Less: Accum. Deprn.	658	1,608	2,678	3,643	4,946	6,309	7,777	9,281	10,906
<b>Net Fixed Assets</b>	<b>7,495</b>	<b>9,990</b>	<b>10,003</b>	<b>10,491</b>	<b>12,922</b>	<b>14,773</b>	<b>16,306</b>	<b>16,801</b>	<b>17,176</b>
Goodwill on Consolidation	0	0	238	323	291	291	291	291	291
Capital WIP	1,804	370	962	1,723	3,681	2,497	2,497	2,497	2,497
<b>Total Investments</b>	<b>3,787</b>	<b>5,316</b>	<b>4,698</b>	<b>7,520</b>	<b>11,373</b>	<b>6,948</b>	<b>6,948</b>	<b>6,948</b>	<b>6,948</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>11,704</b>	<b>10,522</b>	<b>14,234</b>	<b>15,382</b>	<b>13,236</b>	<b>24,863</b>	<b>31,583</b>	<b>39,379</b>	<b>47,983</b>
Inventory	4,281	3,679	4,226	5,209	5,165	6,075	7,420	8,139	8,823
Account Receivables	4,414	5,071	7,234	6,985	7,197	7,332	8,955	9,822	10,648
Cash and Bank Balance	220	72	494	545	354	3,482	5,469	10,738	16,933
Cash	181	234	427	376	262	469	2,456	7,725	13,920
Bank Balance	39	49	67	169	92	3,013	3,013	3,013	3,013
Loans and Advances	2,789	1,700	2,280	2,644	520	7,973	9,738	10,681	11,579
<b>Curr. Liability &amp; Prov.</b>	<b>4,330</b>	<b>4,228</b>	<b>5,630</b>	<b>5,550</b>	<b>7,838</b>	<b>8,739</b>	<b>10,673</b>	<b>11,707</b>	<b>12,691</b>
Account Payables	3,151	3,291	4,590	3,796	4,776	5,631	6,878	7,544	8,178
Other Current Liabilities	930	660	753	1,264	2,485	2,477	3,025	3,318	3,597
Provisions	248	277	287	490	577	631	770	845	916
<b>Net Current Assets</b>	<b>7,374</b>	<b>6,294</b>	<b>8,604</b>	<b>9,832</b>	<b>5,398</b>	<b>16,124</b>	<b>20,909</b>	<b>27,672</b>	<b>35,292</b>
<b>Appl. of Funds</b>	<b>20,460</b>	<b>21,970</b>	<b>24,505</b>	<b>29,890</b>	<b>33,666</b>	<b>40,633</b>	<b>46,951</b>	<b>54,209</b>	<b>62,204</b>

E: MOFSL Estimates

## Financials and valuations – ATLP

### Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Basic (INR)</b>									
EPS	89.6	106.0	92.1	143.9	223.2	218.0	271.2	298.5	322.7
EPS Growth (%)	25.1	18.3	-13.1	56.2	55.2	-2.3	24.4	10.0	8.1
Cash EPS	111.9	138.3	129.4	184.0	267.2	264.0	320.8	349.3	377.6
BV/Share	545	649	765	922	1,065	1,292	1,523	1,777	2,051
DPS	9.1	12.5	13.0	13.4	37.8	20.0	40.7	44.8	48.4
Payout (%)	9.8	11.4	13.7	9.1	16.7	9.0	15.0	15.0	15.0
<b>Valuation (x)</b>									
P/E	98.8	83.5	96.1	61.5	39.6	40.6	32.6	29.6	27.4
Cash P/E	79.1	64.0	68.4	48.1	33.1	33.5	27.6	25.3	23.4
P/BV	16.2	13.6	11.6	9.6	8.3	6.8	5.8	5.0	4.3
EV/Sales	9.6	8.8	7.9	6.5	6.4	7.0	5.6	5.0	4.5
EV/EBITDA	57.8	51.8	51.9	34.3	29.1	28.3	22.8	20.5	18.5
Dividend Yield (%)	0.1	0.1	0.1	0.2	0.4	0.2	0.5	0.5	0.5
FCF per share	10.4	60.7	71.8	65.9	171.6	133.9	129.8	235.0	265.0
<b>Return Ratios (%)</b>									
RoE	17.6	17.8	13.0	17.1	22.5	18.5	19.3	18.1	16.9
RoCE	14.9	15.9	12.3	16.0	21.2	17.8	18.6	17.7	16.6
RoIC	19.5	19.4	15.5	21.5	31.9	25.4	24.6	24.4	24.9
<b>Working Capital Ratios</b>									
Fixed Asset Turnover (x)	4.3	3.4	3.3	3.9	3.5	2.7	2.9	3.0	3.2
Asset Turnover (x)	1.3	1.4	1.4	1.4	1.2	0.9	1.0	0.9	0.9
Inventory (Days)	57	45	46	47	46	59	59	59	59
Debtor (Days)	58	62	79	63	64	72	72	72	72
Creditor (Days)	42	40	50	34	43	55	55	55	55
<b>Leverage Ratio (x)</b>									
Current Ratio	2.7	2.5	2.5	2.8	1.7	2.8	3.0	3.4	3.8
Net Debt/Equity	0.2	0.1	0.0	0.0	0.0	-0.1	-0.1	-0.2	-0.3

### Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	4,045	4,461	4,122	6,803	8,454	8,817	10,829	11,908	12,866
Depreciation	661	954	1,104	1,189	1,302	1,363	1,468	1,505	1,625
Interest Expenses	275	252	127	74	94	94	72	36	18
Direct Taxes Paid	-1,098	-820	-1,054	-2,541	-2,168	-2,023	-2,726	-2,997	-3,238
(Inc)/Dec in WC	-2	-551	-594	-1,427	1,667	-246	-2,798	-1,495	-1,424
<b>CF from Operations</b>	<b>4,010</b>	<b>3,918</b>	<b>3,557</b>	<b>4,036</b>	<b>8,813</b>	<b>7,179</b>	<b>6,845</b>	<b>8,957</b>	<b>9,846</b>
(Inc)/Dec in FA	-3,701	-2,120	-1,430	-2,084	-3,733	-3,214	-3,000	-2,000	-2,000
<b>Free Cash Flow</b>	<b>309</b>	<b>1,797</b>	<b>2,127</b>	<b>1,953</b>	<b>5,080</b>	<b>3,965</b>	<b>3,845</b>	<b>6,957</b>	<b>7,846</b>
Change in Investments	-79	196	6	-1,994	-4,344	-3,900	0	0	0
<b>CF from Investments</b>	<b>-3,748</b>	<b>-1,732</b>	<b>-1,302</b>	<b>-4,075</b>	<b>-7,827</b>	<b>-6,464</b>	<b>-3,000</b>	<b>-2,000</b>	<b>-2,000</b>
Inc/(Dec) in Debt	357	-1,429	-1,518	389	537	182	-509	-254	-127
Interest Paid	-260	-273	-129	-74	-94	-87	-72	-36	-18
Dividend Paid	-304	-357	-381	-412	-1,515	0	-1,205	-1,326	-1,433
<b>CF from Fin. Activity</b>	<b>-207</b>	<b>-2,059</b>	<b>-2,028</b>	<b>-98</b>	<b>-1,072</b>	<b>96</b>	<b>-1,785</b>	<b>-1,616</b>	<b>-1,578</b>
<b>Inc/Dec of Cash</b>	<b>55</b>	<b>126</b>	<b>228</b>	<b>-137</b>	<b>-86</b>	<b>811</b>	<b>2,060</b>	<b>5,341</b>	<b>6,268</b>
Opening Balance	310	181	234	427	376	262	469	2,456	7,725
<b>Closing Balance</b>	<b>364</b>	<b>307</b>	<b>462</b>	<b>290</b>	<b>290</b>	<b>1,073</b>	<b>2,529</b>	<b>7,797</b>	<b>13,992</b>

# Deepak Nitrite

BSE Sensex 52,550 S&P CNX 15,748

CMP: INR1,760 TP: INR2,300 (+31%)

Buy



## Stock info

Bloomberg	DN IN
Equity Shares (m)	136
M.Cap.(INRb)/(USDb)	240.5 / 3.2
52-Week Range (INR)	1989 / 474
1, 6, 12 Rel. Per (%)	-4/86/206

## Financial Snapshot (INR b)

Y/E March	FY21	FY22E	FY23E
Sales	43,598	53,695	61,270
EBITDA	12,470	13,911	16,490
PAT	7,758	9,200	11,204
EPS (INR)	56.9	67.4	82.1
EPS Gr. (%)	27.0	18.6	21.8
BV/Sh.(INR)	172.0	229.4	299.2

## Ratios

Net D:E	0.2	0.0	(0.1)
RoE (%)	39.6	33.6	31.1
RoCE (%)	29.4	29.1	29.0
Payout (%)	9.7	15.0	15.0

## Valuations

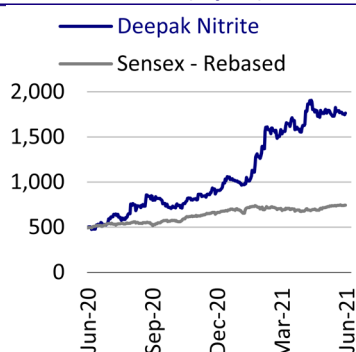
P/E (x)	31.1	26.2	21.5
P/BV (x)	10.3	7.7	5.9
EV/EBITDA (x)	19.8	17.4	14.3
Div. Yield (%)	0.3	0.6	0.7
FCF Yield (%)	3.3	2.4	3.2

## Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	45.7	45.7	45.7
DII	11.6	10.5	10.5
FII	11.9	13.3	13.3
Others	30.8	30.5	30.5

FII Includes depository receipts

## Stock Performance (1-year)



## Ameoba of growth

...most lucrative profile in the entire space

- DN is an intermediate chemical company, with a diversified business of Basic Chemicals, Fine and Specialty Chemicals, and Performance Products. It has a wholly owned subsidiary called Deepak Phenolic Limited (DPL). Through DPL, it has substituted a majority of its imports of phenol and acetone, and reportedly attained ~65% market share in the country.
- It further plans to expand its footprint in high-value intermediates to capitalize and synergize DN with DPL, and has announced a new subsidiary called Deepak Clean Tech. Deepak Clean Tech is a new division, with a new product range, which would be both growth and margin accretive.
- Capex of INR4-6b is likely each year (the company has announced a capex of INR4b in DN), resulting in revenue growth of ~60% over FY21-24E (CAGR of 17%), with attractive return ratios of 29-31%. We value DN at 28x FY23E EPS to arrive at our TP of INR2,300. We initiate coverage with a Buy rating.

## Achieved huge success with DPL

- DPL, a wholly-owned subsidiary of DN, began commercial production at its mega phenol and acetone facility at Dahej, Gujarat in Nov'18. This facility has an installed capacity of 200ktpa/120ktpa of phenol/acetone and 260ktpa of cumene for captive consumption.
- The clear objective of foraying into these products was to substitute imports. DN has achieved this objective by establishing itself as the most reliable player (domestic market share touched ~65% in the first year itself).
- In line with its objective of moving into value-added downstream products, with captive raw material consumption, DPL is expanding its 30ktpa IPA manufacturing plant to 60ktpa (likely commissioning in 1HFY22).

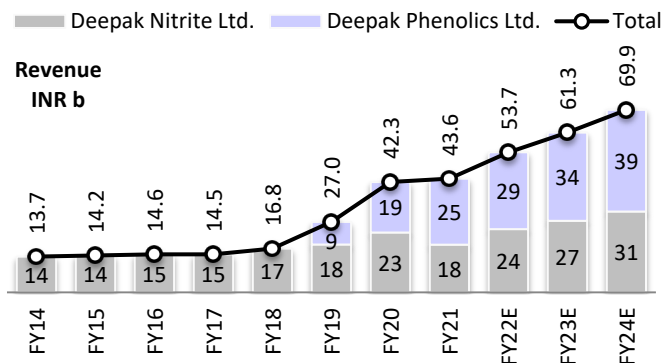
## Fine and Specialty Chemicals to drive growth for DN

- Backed by a diversified portfolio mix, DN continues to leverage export demand for Fine and Specialty Chemicals as large global customers shift to high-quality products and diversify away from China.
- Recently, DN launched two products in Pharmaceuticals and Agrochemicals, respectively. The management believes that the Fine and Specialty Chemical segment would continue to deliver stellar performance in coming years, realizing the solid gains accruing from further integration initiatives, and capacity expansion in established products. In Basic Chemicals, it would continue leveraging its cost leadership position to drive market share gains.

## Valuation and view – initiating coverage with a Buy rating

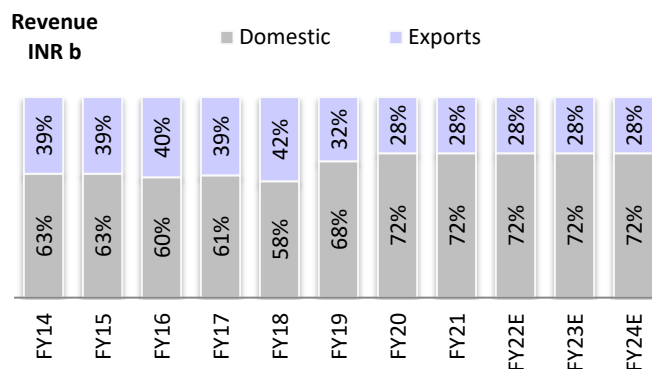
- The company is planning further forward integration in its product portfolio, based on photo-chlorination and fluorination platforms.
- Factoring in all of the above, we expect ~17%/19% revenue/PAT CAGR over FY21-24E. We expect EBITDAM to normalize ~27% from current levels, resulting in 15% EBITDA CAGR over the same period.
- Despite a capex of INR12b over the next three years, it is expected to turn net cash positive by FY23E, with FCF generation of INR23b over FY22-24E.

Exhibit 14: Expect consolidated revenue CAGR of ~17%...



Source: Company, MOFSL

Exhibit 15: ...with a stable export mix



Source: Company, MOFSL

**Basic Chemicals**

**applications:** Dyes and Pigments, Pharma, Agro, concrete mixture, Water Treatment, Rubber, Steel, and Glass industries

**Fine and Specialty Chemicals**

**applications:** Agrochemicals, Pigments, Pharma, and Personal Care segments

**Performance Products**

**applications:** Paper, Detergents, and Textiles.

**Product segments for DN**

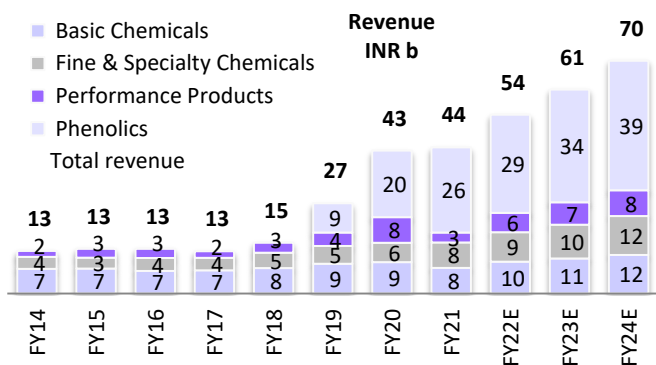
**Basic Chemicals** are typically manufactured in standard specifications. DN has cost leadership in this space, which drives growth and profitability for these high-volume and extremely price sensitive products. **It manufactures nitrites, nitro toluidine, and fuel additives.**

The **Fine and Specialty Chemicals** segment produces specialized and niche compounds that require technical skills and technological competencies in handling potentially complex reactions.

- **DN manufactures products** (like xylidines, oximes, and cumidines) **that are specially customized as per the clients' requirements. These are typically manufactured in lower volumes, but command higher value and profitability.**
- It has witnessed increased export demand on the back of the China+1 strategy.

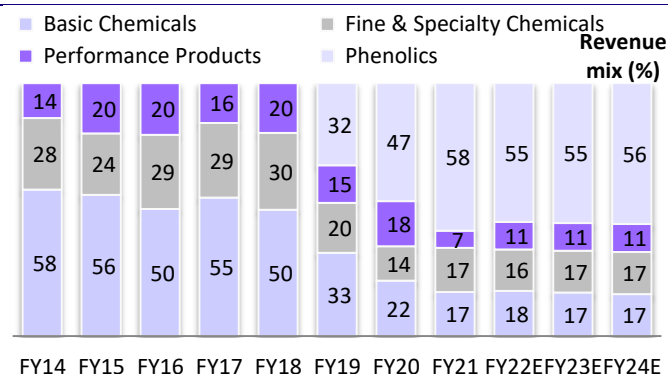
**Performance Products:** DN is a fully integrated manufacturer of Optical Brightening Agent (OBA), which is backward integrated from the basic building block up to the feedstock of toluene to PNT and further into DASDA. OBA has strengthened its competitive edge. These products have strict requirements in terms of performance and technical specifications. Over the years, the management has targeted and built a robust global customer network.

Exhibit 16: Achieved ~90% utilization rate in its Phenolics business in the first year (FY20), currently operating at 115%



Source: MOFSL

Exhibit 17: DPL constitutes over 50% of consolidated revenue, which is likely to stay at current levels



Source: Company, MOFSL



Exhibit 18: DPL, a wholly owned subsidiary, doubled DN's revenue in a year

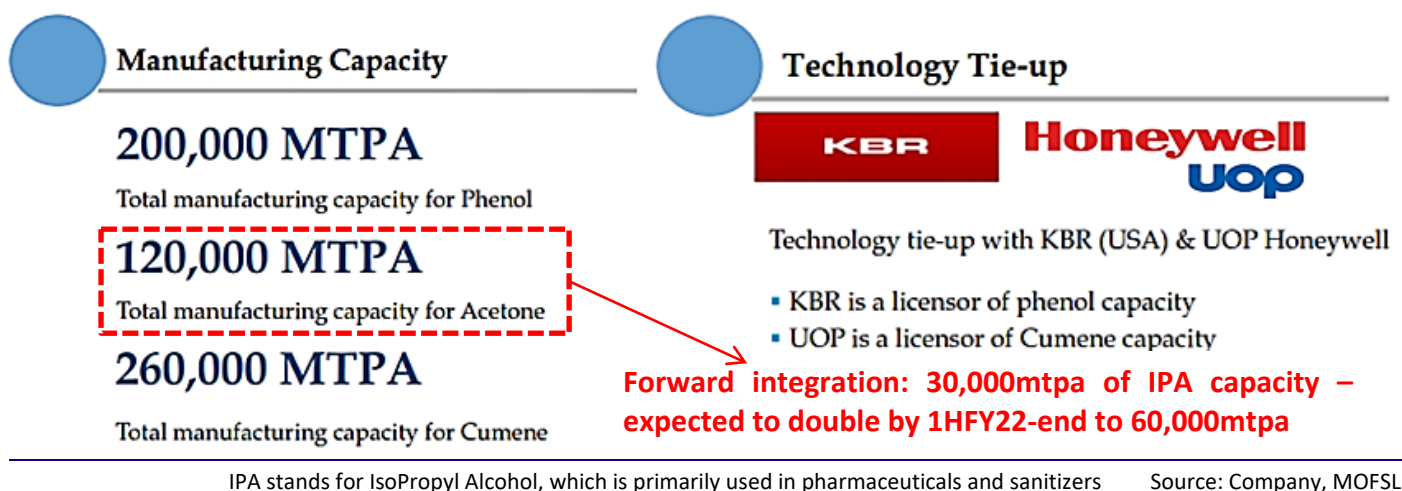
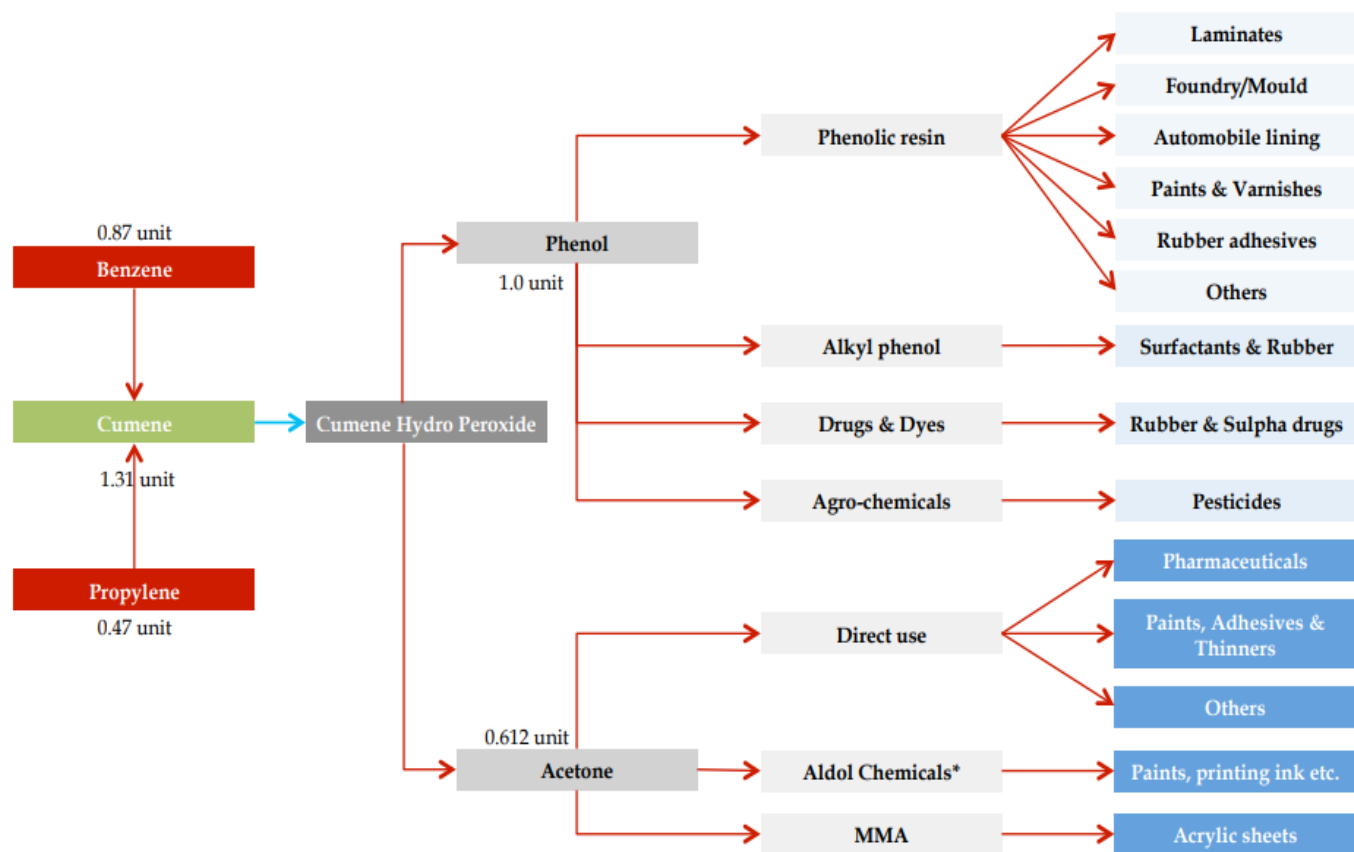


Exhibit 19: Chemical value chain for DPL

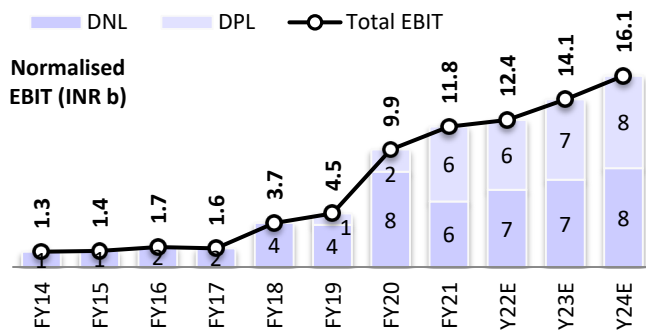


Source: Company, MOFSL

## Financial story in charts

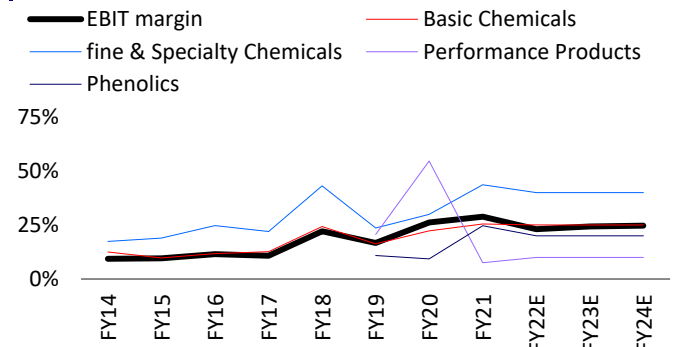
### Focus on new business opportunities with cost leadership to continue

**Exhibit 20: Expect EBIT CAGR of ~16% over FY21-24E (as per company's segmental guidance)...**



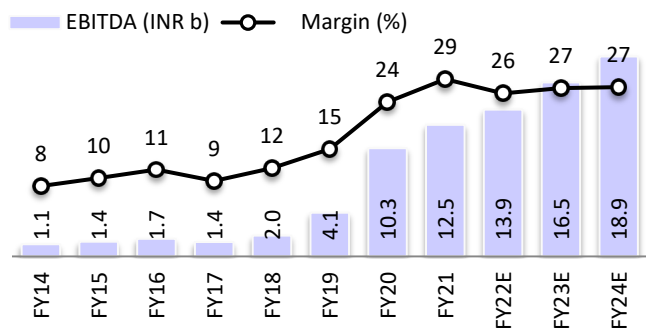
Source: Company, MOFSL

**Exhibit 21: ...with Fine and Specialty Chemicals enjoying the highest EBIT margin**



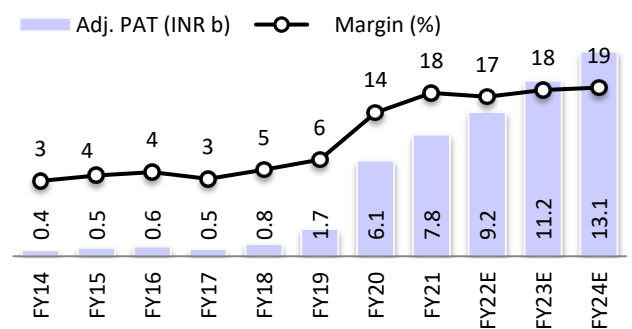
Source: Company, MOFSL

**Exhibit 22: EBITDAM to normalize from FY21 levels**



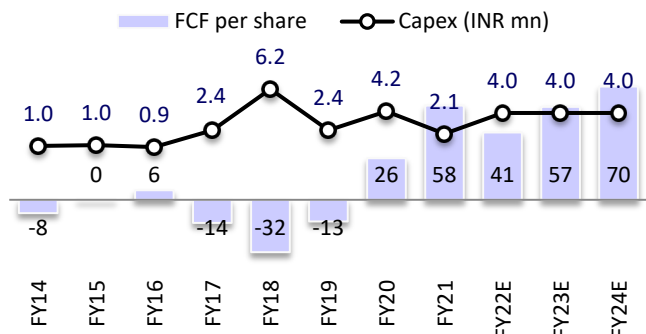
Source: Company, MOFSL

**Exhibit 23: Expect ~19% PAT CAGR over FY21-24E**



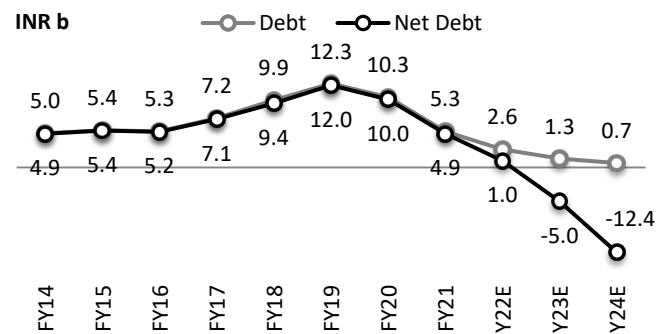
Source: Company, MOFSL

**Exhibit 24: DN to incur ~INR12b on capex over FY22-24E...**



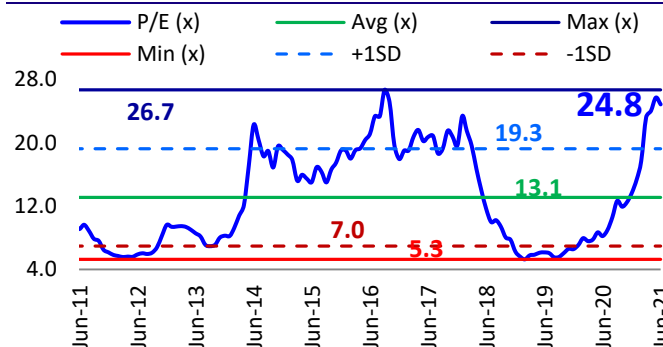
Source: Company, MOFSL

**Exhibit 25: ...but is likely to turn net cash positive in FY23E**



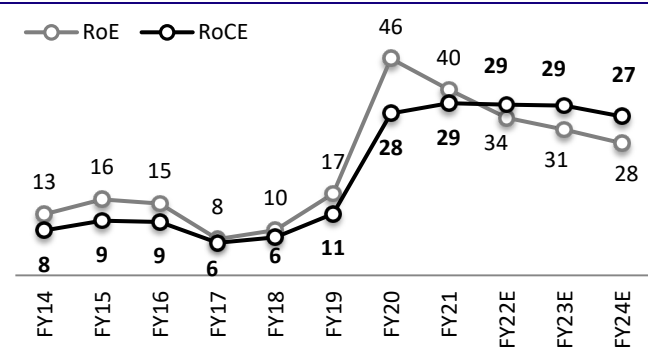
Source: Company, MOFSL

**Exhibit 26: One year forward PE trades at 24.8x...**



Source: Company, MOFSL

**Exhibit 27: ...with return ratios between 29%-31%**



Source: Company, MOFSL

## Valuation and view (TP: INR2,300; +31% upside)

### Initiate coverage with a Buy rating

- The company has manufacturing facilities at Nandesari and Dahej in Gujarat (Basic and Fine and Specialty Chemicals); Roha (intermediates for Agrochem, Dyes, and Specialty Chemicals) and Taloja (Synthetic Organic Chemicals and Fine and Specialty Chemicals) in Maharashtra; and Hyderabad (optical brightness intermediates and DADSA).
- DPL's plant is situated at Dahej. Development works are being undertaken on (127 acre) land parcel procured in CY20 in Dahej. Capex of INR3b spent on Phase II at Dahej, which would result in huge value unlocking for the company.
- The Dyes segment of DN, which was recovering slower post the lifting of the COVID-led lockdowns, performed well in 4QFY21. A further recovery in demand for OBA and DASDA (i.e performance chemicals) is expected over FY22, while demand for Agrochemical and Personal Care products continues to be robust.
- Huge opportunities ahead for DPL – as phenol plants in the US are facing challenges. China has also started importing phenols. Imports in India are growing strong due to lack of supply and higher freight rates (expect domestic demand CAGR of 10-12%).
- Expansion of IPA would result in further import substitution for the company. DN has not announced any growth capex in the Phenolics business. DPL's plants were operating at a 115% utilization rate in FY21. We believe debottlenecking capex or additional expansion of capacities would lead to huge growth in this segment.
- We value the company at 28x FY23E EPS to arrive at our TP of INR2,300. We initiate coverage on DN with a Buy rating (one of the best ROE profile amongst our coverage).

- ❖ Diversified product offerings, which meet niche customer requirements
- ❖ The company undertakes expansion only after tying up its capacities or visibility from its customers
- ❖ Presence in 30 nations and six continents aids global positioning

**S**  
STRENGTH



- ❖ Any adverse movement in raw materials and foreign exchange risk could have an adverse impact on margin and profitability
- ❖ Phenols saw stellar performance in FY21 on the back of increased realization – any drastic normalization would impact growth

**W**  
WEAKNESS



- ❖ Import substitution has been a key objective of the company over the years. Thus, further expansions would achieve higher domestic market share
- ❖ Huge opportunity for phenols in India (even VO is expanding its Butyl Phenol plant – which uses phenol as feedstock from DN)

**O**  
OPPORTUNITY



- ❖ Slowdown in basic and performance chemicals would significantly impact DN's business
- ❖ Global competition is huge and the company may face problems in attracting new customers

**T**  
THREATS





## Bull and Bear Case

**Exhibit 28: Revival in DN's businesses and growth in DPL remain key**

TP (at 28x FY23E EPS)	(INR m)	FY21	FY22E	FY23E	FY24E	CAGR (FY21-24E, %)	Thesis
<b>Bear Case</b>	Revenue	43,598	49,664	55,107	61,189	12	■ Much slower recovery in the Performance Products business, with flattish improvement in Phenolics as the sharp increase in realization falls to FY20 levels
	EBITDA	12,470	11,388	12,500	13,722	3	
	INR1,765	EPS	59.4	56.1	63.0	70.1	6
<b>Base Case</b>	Revenue	43,598	53,695	61,270	69,933	17	■ Estimate ~17% revenue CAGR over FY21-24E on the back of improved performance, with EBIT margin as per the company's guidance
	EBITDA	12,470	13,911	16,490	18,942	15	
	INR2,300	EPS	56.9	67.4	82.1	95.7	19
<b>Bull Case</b>	Revenue	43,598	55,357	65,470	77,510	21	■ Assuming EBIT margin sustains at FY21 levels (~29%), with ~20% growth in Fine and Specialty Chemicals and quicker revival in Performance Products
	EBITDA	12,470	15,990	19,480	23,101	23	
	INR2,890	EPS	59.4	82.6	103.3	124.3	28

Source: Company, MOFSL

## Management overview

### Mr. Deepak C. Mehta, Chairman

- Mr. Mehta is a science graduate from the University of Mumbai and is at the helm of affairs at DN for the last 48 years.
- An active participant in industry forums, he is the Chairman of Gujarat State Council – The Federation of Indian Chambers of Commerce and Industry (FICCI). He is also the Chairman of National Chemicals Committee of FICCI.
- Mr. Mehta has been a member of the Task Force on Chemical Industry, constituted by the government with an objective of creating a strategy for increasing competitiveness of the Indian Chemical industry.

### Mr. Maulik D. Mehta, CEO

- Mr. Mehta has been appointed as the Executive Director and CEO of the company with effect from 1st Jun'20.
- He has a Bachelor of Business Administration from the University of Liverpool, UK. He holds a Masters in Industrial and Organizational Psychology from Columbia University, US. He is part of Harvard Business School's prestigious Owner/President Management program.
- He possesses around 12 years of experience. Over the years, he has built up a diversified profile and has served in varied capacities/functions in the organization, including Product Head, Profit Centre Head, Group SBU Head, and was till recently responsible for the day-to-day business of all verticals.

### Mr. Sanjay Upadhyay, CFO

- Mr. Upadhyay is an Associate Member of The Institute of Cost Accountants of India. He has completed an Advanced Management Program from Wharton, US. He has vast experience in the areas of finance, accounts, commercial, and secretarial functions.
- He has been associated with the company since CY94. He has held important positions of Director-Finance and CFO in CY17 prior to joining the board.

## Financials and valuations – DN

### Consolidated – Income Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Total Income from Operations</b>	<b>14,571</b>	<b>14,547</b>	<b>16,762</b>	<b>26,999</b>	<b>42,297</b>	<b>43,598</b>	<b>53,695</b>	<b>61,270</b>	<b>69,933</b>
Change (%)	3.0	-0.2	15.2	61.1	56.7	3.1	23.2	14.1	14.1
Gross Margins (%)	43.3	41.9	38.0	39.0	43.9	48.1	44.5	45.2	45.0
<b>EBITDA</b>	<b>1,668</b>	<b>1,355</b>	<b>1,963</b>	<b>4,139</b>	<b>10,258</b>	<b>12,470</b>	<b>13,911</b>	<b>16,490</b>	<b>18,942</b>
Margin (%)	11.4	9.3	11.7	15.3	24.3	28.6	25.9	26.9	27.1
Depreciation	395	480	526	778	1,397	1,526	1,515	1,604	1,693
<b>EBIT</b>	<b>1,273</b>	<b>874</b>	<b>1,437</b>	<b>3,361</b>	<b>8,861</b>	<b>10,944</b>	<b>12,396</b>	<b>14,886</b>	<b>17,249</b>
Int. and Finance Charges	397	341	451	832	1,149	742	316	158	79
Other Income	16	109	123	151	352	215	215	245	280
<b>PBT bef. EO Exp.</b>	<b>891</b>	<b>642</b>	<b>1,109</b>	<b>2,680</b>	<b>8,064</b>	<b>10,417</b>	<b>12,294</b>	<b>14,972</b>	<b>17,450</b>
EO Items	0	705	0	0	0	0	0	0	0
<b>PBT after EO Exp.</b>	<b>891</b>	<b>1,347</b>	<b>1,109</b>	<b>2,680</b>	<b>8,064</b>	<b>10,417</b>	<b>12,294</b>	<b>14,972</b>	<b>17,450</b>
Total Tax	262	382	318	943	1,954	2,659	3,095	3,769	4,392
Tax Rate (%)	29.4	28.4	28.7	35.2	24.2	25.5	25.2	25.2	25.2
<b>Reported PAT</b>	<b>627</b>	<b>963</b>	<b>790</b>	<b>1,737</b>	<b>6,110</b>	<b>7,758</b>	<b>9,200</b>	<b>11,204</b>	<b>13,058</b>
<b>Adjusted PAT</b>	<b>627</b>	<b>458</b>	<b>790</b>	<b>1,737</b>	<b>6,110</b>	<b>7,758</b>	<b>9,200</b>	<b>11,204</b>	<b>13,058</b>
Change (%)	18.6	-26.9	72.4	119.8	251.9	27.0	18.6	21.8	16.5
Margin (%)	4.3	3.2	4.7	6.4	14.4	17.8	17.1	18.3	18.7

### Consolidated - Balance Sheet

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	233	261	273	273	273	273	273	273	273
Total Reserves	4,496	6,887	8,949	10,443	15,446	23,194	31,014	40,537	51,636
<b>Net Worth</b>	<b>4,729</b>	<b>7,149</b>	<b>9,221</b>	<b>10,716</b>	<b>15,719</b>	<b>23,467</b>	<b>31,286</b>	<b>40,810</b>	<b>51,909</b>
Total Loans	5,288	7,239	9,866	12,286	10,279	5,271	2,636	1,318	659
Deferred Tax Liabilities	567	391	454	775	796	1,078	1,078	1,078	1,078
<b>Capital Employed</b>	<b>10,583</b>	<b>14,778</b>	<b>19,541</b>	<b>23,776</b>	<b>26,794</b>	<b>29,816</b>	<b>35,000</b>	<b>43,206</b>	<b>53,646</b>
Gross Block	8,842	6,106	6,403	17,749	20,460	22,304	26,304	30,304	34,304
Less: Accum. Deprn.	2,924	306	528	743	2,140	3,666	5,182	6,786	8,479
<b>Net Fixed Assets</b>	<b>5,918</b>	<b>5,801</b>	<b>5,875</b>	<b>17,006</b>	<b>18,320</b>	<b>18,637</b>	<b>21,122</b>	<b>23,518</b>	<b>25,825</b>
Capital WIP	319	3,492	9,545	339	1,723	2,068	2,068	2,068	2,068
<b>Total Investments</b>	<b>866</b>	<b>1,198</b>	<b>318</b>	<b>24</b>	<b>24</b>	<b>1,893</b>	<b>1,893</b>	<b>1,893</b>	<b>1,893</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>5,838</b>	<b>7,385</b>	<b>10,167</b>	<b>11,910</b>	<b>12,019</b>	<b>13,005</b>	<b>16,535</b>	<b>23,208</b>	<b>32,385</b>
Inventory	1,210	1,671	3,272	4,107	3,945	3,827	4,899	5,514	6,279
Account Receivables	3,132	3,603	4,118	5,750	6,127	7,563	7,778	8,876	10,131
Cash and Bank Balance	65	145	482	258	314	334	1,785	6,453	13,276
Cash	48	58	94	30	21	89	1,539	6,207	13,030
Bank Balance	17	87	388	228	293	245	245	245	245
Loans and Advances	1,431	1,965	2,296	1,795	1,633	1,281	2,073	2,366	2,700
<b>Curr. Liability &amp; Prov.</b>	<b>2,358</b>	<b>3,097</b>	<b>6,364</b>	<b>5,502</b>	<b>5,292</b>	<b>5,787</b>	<b>6,617</b>	<b>7,481</b>	<b>8,525</b>
Account Payables	1,331	2,146	5,953	4,724	3,643	4,367	4,523	5,091	5,797
Other Current Liabilities	776	832	280	587	1,385	1,144	1,758	2,006	2,290
Provisions	251	119	132	191	264	276	336	383	437
<b>Net Current Assets</b>	<b>3,480</b>	<b>4,288</b>	<b>3,803</b>	<b>6,408</b>	<b>6,727</b>	<b>7,218</b>	<b>9,918</b>	<b>15,727</b>	<b>23,860</b>
<b>Appl. of Funds</b>	<b>10,583</b>	<b>14,779</b>	<b>19,541</b>	<b>23,776</b>	<b>26,794</b>	<b>29,816</b>	<b>35,000</b>	<b>43,206</b>	<b>53,646</b>

E: MOFSL Estimates



## Financials and valuations – DN

### Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Basic (INR)</b>									
<b>EPS</b>	<b>4.6</b>	<b>3.4</b>	<b>5.8</b>	<b>12.7</b>	<b>44.8</b>	<b>56.9</b>	<b>67.4</b>	<b>82.1</b>	<b>95.7</b>
Cash EPS	7.5	6.9	9.6	18.4	55.0	68.1	78.6	93.9	108.1
BV/Share	34.7	52.4	67.6	78.6	115.2	172.0	229.4	299.2	380.6
DPS	1.0	1.1	1.3	6.5	4.5	5.5	10.1	12.3	14.4
Payout (%)	26.8	19.6	27.0	61.6	12.1	9.7	15.0	15.0	15.0
<b>Valuation (x)</b>									
P/E	384.9	526.6	305.5	139.0	39.5	31.1	26.2	21.5	18.5
Cash P/E	236.1	257.2	183.4	96.0	32.2	26.0	22.5	18.8	16.4
P/BV	51.1	33.8	26.2	22.5	15.4	10.3	7.7	5.9	4.7
EV/Sales	16.9	17.1	15.0	9.4	5.9	5.7	4.5	3.9	3.3
EV/EBITDA	147.9	183.4	127.8	61.2	24.5	19.8	17.4	14.3	12.1
Dividend Yield (%)	0.1	0.1	0.1	0.4	0.3	0.3	0.6	0.7	0.8
FCF per share	5.9	-14.1	-32.1	-13.3	25.6	58.0	42.4	57.4	69.8
<b>Return Ratios (%)</b>									
RoE	15.3	7.7	9.7	17.4	46.2	39.6	33.6	31.1	28.2
RoCE	9.1	5.6	6.5	10.5	27.6	29.4	29.1	29.0	27.1
RoIC	9.9	6.5	10.7	13.5	28.0	32.4	33.9	35.9	37.3
<b>Working Capital Ratios</b>									
Fixed Asset Turnover (x)	2.6	2.5	2.9	2.4	2.4	2.4	2.7	2.7	2.8
Asset Turnover (x)	1.4	1.0	0.9	1.1	1.6	1.5	1.5	1.4	1.3
Inventory (Days)	30	42	71	56	34	32	33	33	33
Debtor (Days)	78	90	90	78	53	63	53	53	53
Creditor (Days)	33	54	130	64	31	37	31	30	30
<b>Leverage Ratio (x)</b>									
Current Ratio	2.5	2.4	1.6	2.2	2.3	2.2	2.5	3.1	3.8
Net Debt/Equity	1.1	1.0	1.0	1.1	0.6	0.2	0.0	-0.1	-0.2

### Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	891	1,347	1,109	2,680	8,064	10,417	12,294	14,972	17,450
Depreciation	395	480	528	778	1,397	1,526	1,515	1,604	1,693
Others	403	-403	481	829	1,262	853	316	158	79
Direct Taxes Paid	-188	-162	-279	-561	-1,985	-2,365	-3,095	-3,769	-4,392
(Inc)/Dec in WC	171	-772	-9	-3,123	-1,092	-440	-1,249	-1,142	-1,310
<b>CF from Operations</b>	<b>1,673</b>	<b>490</b>	<b>1,830</b>	<b>603</b>	<b>7,647</b>	<b>9,991</b>	<b>9,782</b>	<b>11,825</b>	<b>13,519</b>
(Inc)/Dec in FA	-865	-2,412	-6,206	-2,410	-4,160	-2,086	-4,000	-4,000	-4,000
<b>Free Cash Flow</b>	<b>808</b>	<b>-1,922</b>	<b>-4,376</b>	<b>-1,808</b>	<b>3,487</b>	<b>7,905</b>	<b>5,782</b>	<b>7,825</b>	<b>9,519</b>
<b>CF from Investments</b>	<b>-1,694</b>	<b>-3,526</b>	<b>-5,247</b>	<b>-1,626</b>	<b>-4,279</b>	<b>-3,962</b>	<b>-4,000</b>	<b>-4,000</b>	<b>-4,000</b>
Inc/(Dec) in Debt	-254	2,160	2,626	2,033	-1,088	-5,217	-2,636	-1,318	-659
Interest Paid	-372	-342	-450	-841	-1,134	-736	-316	-158	-79
Dividend Paid	-125	-167	-188	-213	-1,060	-4	-1,380	-1,681	-1,959
<b>CF from Fin. Activity</b>	<b>51</b>	<b>3,046</b>	<b>3,453</b>	<b>958</b>	<b>-3,376</b>	<b>-5,962</b>	<b>-4,332</b>	<b>-3,157</b>	<b>-2,697</b>
<b>Inc/Dec of Cash</b>	<b>30</b>	<b>10</b>	<b>36</b>	<b>-64</b>	<b>-8</b>	<b>67</b>	<b>1,450</b>	<b>4,668</b>	<b>6,823</b>
Opening Balance	17	47	58	94	30	22	89	1,540	6,208
<b>Closing Balance</b>	<b>47</b>	<b>58</b>	<b>94</b>	<b>30</b>	<b>22</b>	<b>89</b>	<b>1,540</b>	<b>6,208</b>	<b>13,030</b>

# Vinati Organics

BSE Sensex 52,550 S&P CNX 15,748



## Stock info

Bloomberg VO IN  
Equity Shares (m) 103  
M.Cap.(INRb)/(USDb) 184.8 / 2.5  
52-Week Range (INR) 1880 / 947  
1, 6, 12 Rel. Per (%) -4/45/28

## Financial Snapshot (INR b)

Y/E March	FY21	FY22E	FY23E
Sales	9,543	14,850	19,904
EBITDA	3,525	5,337	6,955
PAT	2,693	3,945	5,190
EPS (INR)	26.2	38.4	50.5
EPS Gr. (%)	(19.3)	46.5	31.6
BV/Sh.(INR)	150.2	180.9	221.3

## Ratios

Net D:E	(0.0)	(0.1)	(0.2)
RoE (%)	19.1	23.2	25.1
RoCE (%)	18.1	22.2	24.2
Payout (%)	22.9	20.0	20.0

## Valuations

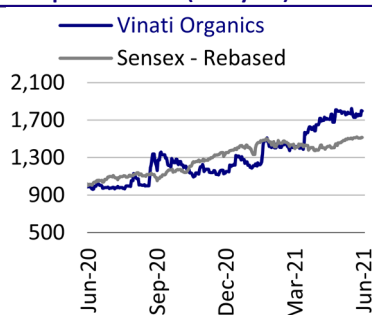
P/E (x)	70.0	47.8	36.3
P/BV (x)	12.2	10.1	8.3
EV/EBITDA (x)	53.5	34.9	26.5
Div. Yield (%)	0.3	0.4	0.6
FCF Yield (%)	0.9	1.8	2.0

## Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	74.1	74.1	74.1
DII	7.3	6.7	6.7
FII	3.5	3.7	3.7
Others	15.2	15.6	15.6

FII Includes depository receipts

## Stock performance (one-year)



CMP: INR1,855 TP: INR2,170 (+17%)

Buy

## Preacher of purity

Process efficiencies over 99.5%, market share over 65%

- Since its inception in CY89, VO has focused on excelling in a particular Specialty Chemicals molecule on economies of scale. With further integration and product diversification, the company has emerged as a leading global manufacturer.
- It is currently the largest producer of IBB and ATBS in the world, with a dominant (~65% domestic) market share. The management has relentlessly focused on quality, with patented process innovations and has various other chemicals under R&D, which could contribute immensely to its growth.
- It has a fixed asset turnover of 1.3x, which is likely to double by FY24E, clocking revenue/EBITDA/PAT CAGR of ~38/34%/33% over FY21-24E. We value VO at 43x FY23E EPS to arrive at our TP of INR2,170. We initiate coverage with a Buy rating.

## New announcements to double revenue over the next two years...

- VO recently expanded its ATBS capacity to 40ktpa from 26ktpa. The management expects the plant to touch optimal capacity over the next three years, with a revenue potential of INR2.5-3b.
- It also has a new capex plan of INR2b in other segments. These are synergistic Specialty Chemical products like Plastics, Agro, etc., of which two would be Butyl Phenol products. The plant is expected to be commissioned by FY22-end and would add INR3b in revenue annually at peak capacity.
- The company is in the process of amalgamation of Veeral Additives Limited (VAL) with VO, which will result in forward integration of Butyl Phenols, creating synergies and generating incremental revenue of INR3b by FY24E.

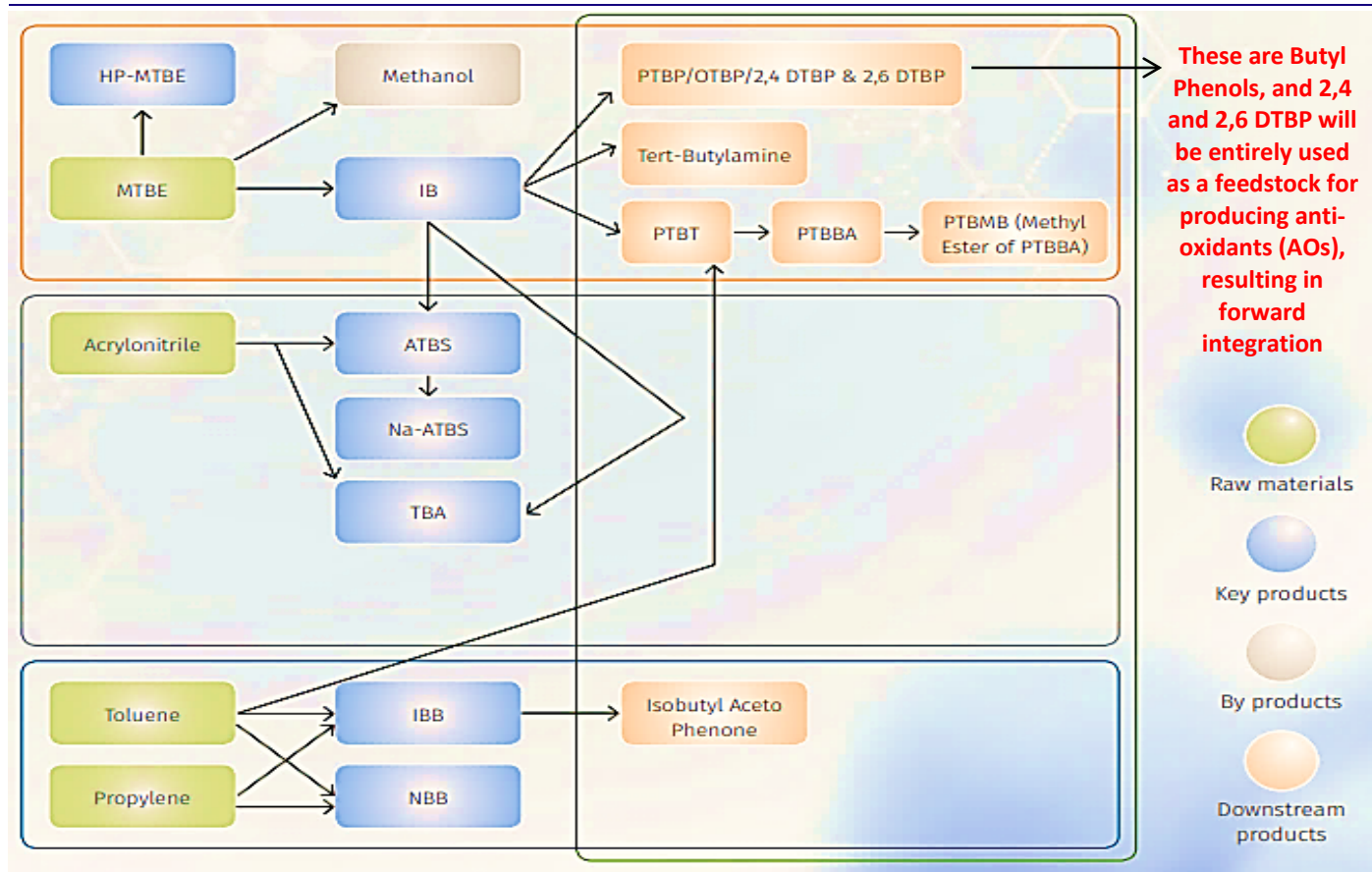
## ...further aided by the ramp up of existing units

- VO last year commissioned a new Butyl Phenol unit (which is used in fragrance and anti-oxidants) in India (making it the sole producer). It expects incremental annual revenue of ~INR5b in FY24 (VAL will use 50% of it as captive consumption; thus incremental revenue to be ~INR2-2.5b), with a ramp up in the utilization rate to 70-75% in FY22, and full capacity in FY23. Phenol is a relatively low margin product (EBITDAM ~15%).
- The IBB business continues to grow and is currently operating at 60-65% utilization. It recorded a growth in FY21 due to higher Pharma demand, which is likely to continue for a couple of quarters. Debottlenecking can result in capacity expansion to 50ktpa (from 40ktpa currently).
- ATBS' growth guidance for FY22 stands at 80-85% of FY21 (30-35% growth on FY20). FY21 had a lower base as one of its large customers was under shut down. Globally, the ATBS market is growing at 20-25% YoY and VO is rightly placed to grab majority market share of this potential growth.

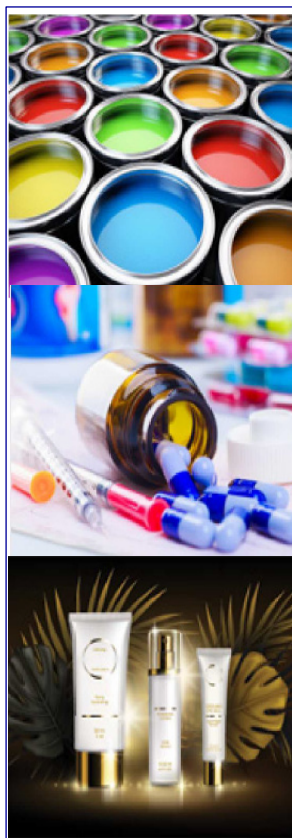
## Valuation and view – initiating coverage with a Buy rating

- Capex over the next three years projected ~INR3b. Despite the stated capex, we expect FCF generation of ~INR12b over FY22-24E.
- In lieu of capacity additions in lower margin products, we expect EBITDAM to normalize ~34% in FY24E (from ~37% in FY21), resulting in 34% EBITDA CAGR over FY21-24E. Return ratios to improve to ~25% (+600bp v/s FY21).

Exhibit 29: Integration chart for the company



Source: Company, MOFSL



### Product segments (and key products)

**Specialty Monomers (ATBS, NA-ATBS, and TBA)** act like building blocks and are useful in designing unique polymer structures. They contain a low to high range of molecular weight and are low in volatility.

- **Applications:** Construction, Water Treatment, Textile, Adhesives and Paints, Oil Drilling, Mining, Paper, Personal Care, Metal, and Antiscalants.

**Specialty Aromatics (IBB):** These colorless liquids, with a characteristic smell, can be converted into many intermediates and polymers needed to produce an extensive range of everyday products.

- **Applications:** Pharmaceuticals, Specialty Solvents, Paints and Coatings, and Agrochemicals.

**Other Specialty Chemical products (IB, PTBBA, methanol, HP MTBE, Tert-Butylamine):** Also known as performance chemicals, these are used as ingredients in finished products to improve manufacturing processes.

- **Applications:** Pharmaceuticals, Specialty Solvent, Paints and Coatings, Agrochemicals, Rubber and Tyre industry, Gasoline, Crop Protection, Personal Care, PVC Stabilizers, and Alkyd Resins.

**Antioxidants (AOs):** The company is in the process of amalgamating VAL with VO (post which the promoter holding in VO will rise to 74.34% from 74.06%). VO will produce AOs from Butyl Phenol, thus resulting in further forward integration. **VO would become the largest and only doubly integrated manufacturer of AO's.** India/global AO demand stand at 12ktpa/300ktpa (VO's capacity will be ~24ktpa). AOs are right now imported into the country and the domestic market is seeing huge demand for PP, LLDPE, etc. (which is expected to grow at 8% YoY).

**Exhibit 30: AOs application chart: Global demand for AOs is ~300ktpa (India demand ~12ktpa); VO plans to achieve 50:50 export-to-domestic mix in AOs, which would also increase its access to varied/new Western customers**

### Product Selection Guide

✓ = Recommended

□ = Suitable

		ABS	PC / ABS	PC	PU Fibers	Polyamide	Polyesters	Polyethylene	Polypropylene	Polystyrene	Polyurethane	PVC	Elastomers	Acrylics	Polyacetal	TPU
PHOSPHITE ANTIOXIDANTS	Veenox 168	□	□	✓	✓	✓	✓	✓	✓				✓	✓	✓	
PHENOLIC ANTIOXIDANTS	Veenox 1010				✓		✓	✓			□					
	Veenox 1076	✓	□	✓			✓		✓	✓	□	✓	✓			

Source: Company, MOFSL:

**Exhibit 31: Technological leverages – VO has an IP patent for ATBS in India and thus earns a higher margin on it**

VO has adopted a strategy of leveraging its technological tie ups to achieve purity of products and economies of scale, resulting in dominant market share across products

Product	Institute tie up
IB	■ Saipem SPA, Italy
IBB	■ InstitutFrancais du Petrole (IFP), France
ATBS	■ National Chemical Laboratories (NCL), Pune
PTBT, PTBBA	■ IICT, Hyderabad

Source: Company, MOFSL:

**Exhibit 32: Capacity expansion for VO across products**

Capacity (mtpa)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
ATBS	26,000	26,000	26,000	26,000	26,000	40,000	40,000	40,000	40,000
IBB	16,000	16,000	16,000	25,000	25,000	25,000	25,000	25,000	25,000
IB	12,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Others (TBA)	21,500	21,500	21,500	21,500	21,500	21,500	21,500	21,500	21,500
Total capacity	75,500	78,500	78,500	87,500	87,500	1,01,500	1,01,500	1,01,500	1,01,500

Source: Company, MOFSL:

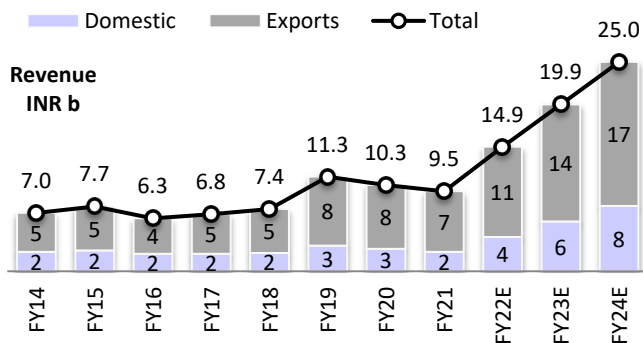
### Products in the pipeline:

**Para Amino Phenol (PAP - an intermediate for Paracetamol)** is imported largely from China. The government has offered some sops by including it under the PLI scheme. VO had dropped pilot plant trials about a year-and-a-half back, but because of the new PLI scheme it is again restarting trials. We expect around 6-9 months before an investment decision is made by the company.

## Financial story in charts

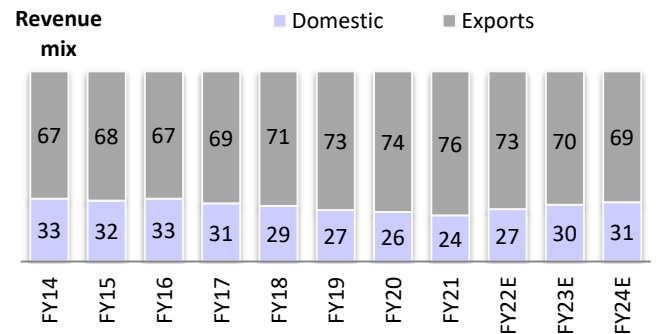
Recent/ongoing expansions to fuel growth; product excellence to continue

**Exhibit 33: Revenue to double over the next two years**



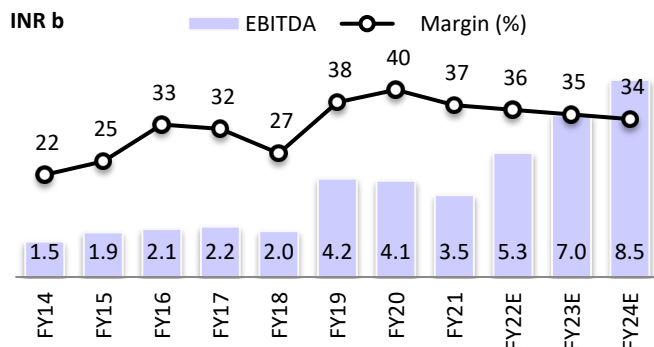
Source: Company, MOFSL

**Exhibit 34: AOs to normalize export share (%)**



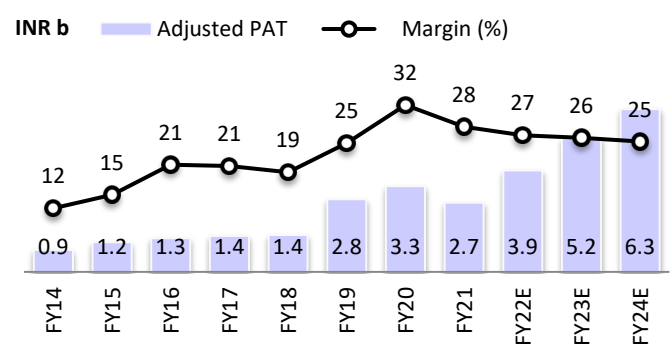
Source: Company, MOFSL

**Exhibit 35: Expect EBITDA and PAT margin to normalize...**



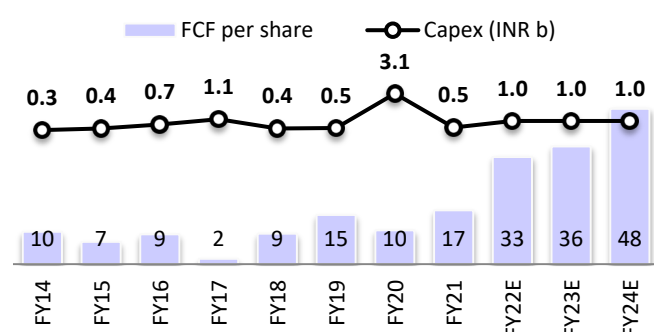
Source: Company, MOFSL

**Exhibit 36: ...as share of Butyl Phenol in total mix increases**



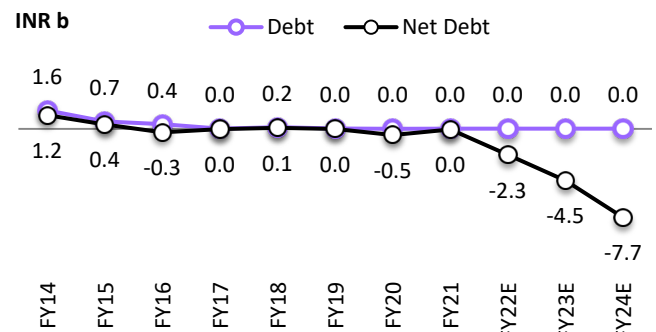
Source: Company, MOFSL

**Exhibit 37: Capex for the next three years is INR3b...**



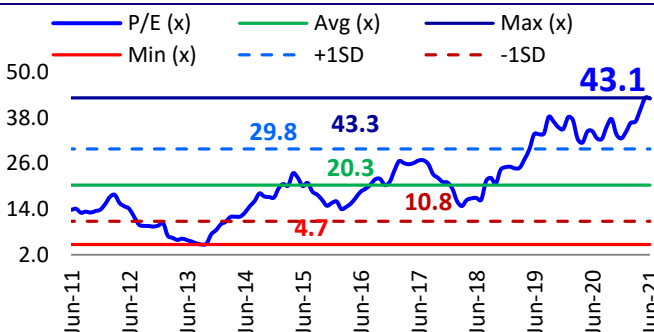
Source: Company, MOFSL

**Exhibit 38: ...which will be funded by internal accruals**



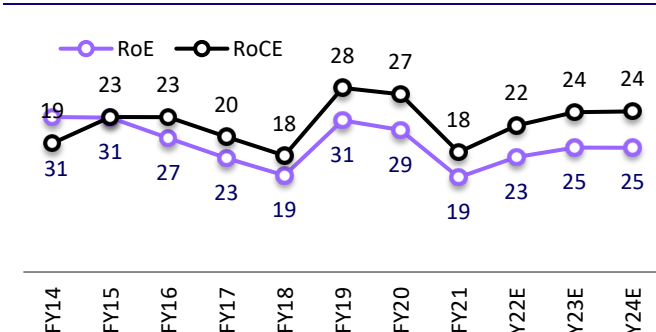
Source: Company, MOFSL

**Exhibit 39: One year forward PE trades at 43.1x...**



Source: Company, MOFSL

**Exhibit 40: ...with return ratios improving to ~25%**



Source: Company, MOFSL



## Valuation and view (TP: INR2,170; +17% upside)

### Initiate coverage with a Buy rating

- Disruption in various industries has led to demand concerns in ATBS, with slower than expected ramp-up post lifting of COVID-related lockdown/restrictions (lower demand from the Oil and Gas space; while demand for Water Treatment Chemicals has almost rebounded to pre-COVID levels). With a further rise in oil demand due to the opening up of economies, we expect demand for ATBS to grow at 80-85% of FY21 levels (30-35% on FY20 levels) in FY22 – in line with the management's guidance.
- A gradual ramp-up of expanded capacity over the next three years would drive huge growth for VO, with further development on product molecules currently under R&D. With new products like AO and Butyl Phenols resulting in import substitution, we expect the export mix to moderate to ~70% in FY23-24E (from 76% in FY21).
- We expect revenue to grow 2.6x by FY24E (v/s FY21), with ~56% YoY growth in FY22E (in line with the management's guidance). The company is confident it will be among the top five global players for Butyl Phenol and AOs over the next 4-5 years.
- The stock is trading at 36x FY23E EPS of INR50.5 and 26x FY23E EV/EBITDA, with attractive return ratios of ~25% (+600bps v/s FY21). It has a fixed asset turnover of 1.3x, which is likely to double over next three years. We expect 34% EBITDA CAGR during FY21-24E, and value the company at 43x FY23E EPS to arrive at our TP of INR2,170. We initiate coverage with a Buy rating.

- ❖ VO lays great emphasis on synergic integration that helps the company gain dominant market share
- ❖ The company has achieved the highest purity standards for its products like ATBS/IBB/IB/HP-MTBE of 99.7-99.97%

**S**  
STRENGTH



- ❖ VO faces continued pressure on its high market share and global dominance, which could result in margin suppression.
- ❖ Development of lower margin products would result in lower blended EBITDAM in the future

**W**  
WEAKNESS



- ❖ Forward integration of Butyl Phenols into AOs, with the amalgamation of VAL, will help capture domestic market share
- ❖ The company plans on entering into the production of PAP – an intermediate for Paracetamol

**O**  
OPPORTUNITY



- ❖ Disruption in the global Oil and Gas industry could dampen profitability (as ATBS contributes ~48% to total revenue and the Oil sector constitutes 30% of ATBS)
- ❖ Delay in ramp up of recently commissioned expansions could further dampen the growth

**T**  
THREATS





## Bull and Bear Case

**Exhibit 41: Ramping up of capacities remains key – margin dilution a risk**

TP (at 43x FY23 EPS)	(INR m)	FY21	FY22E	FY23E	FY24E	CAGR (FY21-24E, %)	Thesis
<b>Bear Case</b>	Revenue	9,543	12,095	16,484	21,560	31	■ Delay in commissioning of ongoing expansions, while weakness in ATBS continues. Assuming ramp up in Butyl Phenols is impacted.
	EBITDA	3,525	4,347	5,760	7,318	28	
<b>INR1,765</b>	EPS	26.1	30.5	41.0	52.4	26	
<b>Base Case</b>	Revenue	9,543	14,850	19,904	24,980	38	■ In line with VO's guidance, with ATBS recording growth in FY22, Butyl Phenols ramping up, and AOs and the others segment contributing by FY22-end
	EBITDA	3,525	5,337	6,955	8,479	34	
<b>INR2,170</b>	EPS	26.2	38.4	50.5	61.6	33	
<b>Bull Case</b>	Revenue	9,543	16,378	22,098	27,174	42	■ Quicker ramp up and commissioning of capacities with no margin dilution (as captive consumption of Butyl Phenols by AOs support margin)
	EBITDA	3,525	6,050	8,164	10,039	42	
<b>INR2,555</b>	EPS	26.1	43.7	59.5	73.0	41	

Source: Company, MOFSL

## Management overview

### Mr. Vinod Banwarilal Saraf, Chairman

- Mr. Saraf is the founder of VO. He has over 50 years of experience in the Indian Chemical industry.
- Prior to VO, he was associated with Bhilwara Group, Modern Syntex (I), and Grasim Industries. He was earlier Managing Director of Mangalore Refinery & Petrochemicals (MRPL).
- He was awarded the CY19 HURUN India Self-Made Entrepreneur of the year.

### Ms. Vinati Saraf Mutreja, Managing Director and CEO

- Ms. Saraf joined VO in CY06. She holds a Bachelor's of Science in Economics (Finance) from The Wharton School and Bachelors in Applied Science from the School of Engineering (University of Pennsylvania).
- She has over 14 years of experience spearheading the Marketing, Finance, and Operation functions at VO.
- She is named in the World Economic Forum's Young Global Leader's list and was also listed in The Economic Times annual India's Top 40 under 40 for CY19.

### Ms. Viral Saraf Mittal, Director

- Ms. Mittal joined VO in CY09.
- She holds a Bachelor's of Science degree in Economics (Finance and Management) from The Wharton School, University of Pennsylvania.
- She has volunteered at reputed non-profit organizations like Pratham and Dasra and brings with her rich knowledge of the social sector to VO's CSR activities.
- She is also a partner and volunteer at the Mumbai chapter of Social Venture Partners (SVP).

### Mr. N. K. Goyal, CFO

### Mr. Milind A Wagh, Company Secretary and Compliance officer

## Financials and valuations – VO

### Standalone - Income Statement

(INR M)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Total Income from Operations</b>	<b>6,309</b>	<b>6,813</b>	<b>7,422</b>	<b>11,279</b>	<b>10,289</b>	<b>9,543</b>	<b>14,850</b>	<b>19,904</b>	<b>24,980</b>
Change (%)	-18.2	8.0	8.9	52.0	-8.8	-7.3	55.6	34.0	25.5
Gross Margins (%)	53.0	55.9	49.1	53.4	58.3	59.4	57.6	56.8	56.4
<b>EBITDA</b>	<b>2,068</b>	<b>2,170</b>	<b>1,973</b>	<b>4,234</b>	<b>4,139</b>	<b>3,525</b>	<b>5,337</b>	<b>6,955</b>	<b>8,479</b>
Margin (%)	32.8	31.8	26.6	37.5	40.2	36.9	35.9	34.9	33.9
Depreciation	185	216	234	274	332	429	466	514	563
<b>EBIT</b>	<b>1,883</b>	<b>1,953</b>	<b>1,739</b>	<b>3,960</b>	<b>3,808</b>	<b>3,096</b>	<b>4,872</b>	<b>6,441</b>	<b>7,916</b>
Int. and Finance Charges	79	19	12	9	11	2	2	2	2
Other Income	62	125	307	302	450	259	402	498	550
<b>PBT bef. EO Exp.</b>	<b>1,866</b>	<b>2,060</b>	<b>2,034</b>	<b>4,252</b>	<b>4,247</b>	<b>3,353</b>	<b>5,272</b>	<b>6,936</b>	<b>8,463</b>
<b>PBT after EO Exp.</b>	<b>1,866</b>	<b>2,060</b>	<b>2,034</b>	<b>4,252</b>	<b>4,247</b>	<b>3,353</b>	<b>5,272</b>	<b>6,936</b>	<b>8,463</b>
Total Tax	550	657	595	1,428	908	659	1,327	1,746	2,130
Tax Rate (%)	29.5	31.9	29.3	33.6	21.4	19.7	25.2	25.2	25.2
<b>Reported PAT</b>	<b>1,316</b>	<b>1,403</b>	<b>1,439</b>	<b>2,825</b>	<b>3,338</b>	<b>2,693</b>	<b>3,945</b>	<b>5,190</b>	<b>6,333</b>
<b>Adjusted PAT</b>	<b>1,316</b>	<b>1,403</b>	<b>1,439</b>	<b>2,825</b>	<b>3,338</b>	<b>2,693</b>	<b>3,945</b>	<b>5,190</b>	<b>6,333</b>
Change (%)	13.6	6.6	2.6	96.3	18.2	-19.3	46.5	31.6	22.0
Margin (%)	20.9	20.6	19.4	25.0	32.4	28.2	26.6	26.1	25.4

### Standalone - Balance Sheet

(INR M)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	103	103	103	103	103	103	103	103	103
Total Reserves	5,305	6,697	7,864	10,410	12,691	15,331	18,487	22,640	27,706
<b>Net Worth</b>	<b>5,408</b>	<b>6,800</b>	<b>7,967</b>	<b>10,513</b>	<b>12,794</b>	<b>15,434</b>	<b>18,590</b>	<b>22,742</b>	<b>27,809</b>
Total Loans	421	23	152	37	3	20	20	20	20
Deferred Tax Liabilities	492	696	809	846	705	779	779	779	779
<b>Capital Employed</b>	<b>6,321</b>	<b>7,519</b>	<b>8,927</b>	<b>11,395</b>	<b>13,502</b>	<b>16,234</b>	<b>19,390</b>	<b>23,542</b>	<b>28,608</b>
Gross Block	4,851	4,892	5,023	5,473	8,551	9,045	10,045	11,045	12,045
Less: Accum. Deprn.	1,032	216	454	728	1,060	1,489	1,954	2,469	3,032
<b>Net Fixed Assets</b>	<b>3,819</b>	<b>4,676</b>	<b>4,569</b>	<b>4,745</b>	<b>7,491</b>	<b>7,557</b>	<b>8,091</b>	<b>8,577</b>	<b>9,013</b>
Capital WIP	248	74	349	1,912	310	547	547	547	547
<b>Total Investments</b>	<b>27</b>	<b>618</b>	<b>1,317</b>	<b>965</b>	<b>2,274</b>	<b>2,887</b>	<b>4,303</b>	<b>4,303</b>	<b>4,303</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>2,775</b>	<b>2,843</b>	<b>3,565</b>	<b>4,654</b>	<b>4,355</b>	<b>6,345</b>	<b>7,787</b>	<b>11,909</b>	<b>16,996</b>
Inventory	447	651	822	924	932	1,219	1,345	1,802	2,262
Account Receivables	1,148	1,405	1,771	2,440	2,018	2,772	2,912	3,903	4,899
Cash and Bank Balance	722	48	52	38	537	68	2,276	4,523	7,726
Cash and liquid investments	35	621	1,318	492	1,586	1,762	2,276	4,523	7,726
Bank Balance	733	45	52	38	0	0	0	0	0
Loans and Advances	458	740	919	1,252	869	2,285	1,254	1,680	2,109
<b>Curr. Liability &amp; Prov.</b>	<b>549</b>	<b>693</b>	<b>872</b>	<b>881</b>	<b>927</b>	<b>1,102</b>	<b>1,339</b>	<b>1,794</b>	<b>2,252</b>
Account Payables	223	327	635	531	557	664	803	1,077	1,351
Other Current Liabilities	209	338	174	211	213	391	308	413	518
Provisions	117	27	64	139	157	47	227	305	382
<b>Net Current Assets</b>	<b>2,226</b>	<b>2,151</b>	<b>2,693</b>	<b>3,774</b>	<b>3,428</b>	<b>5,243</b>	<b>6,449</b>	<b>10,115</b>	<b>14,744</b>
<b>Appl. of Funds</b>	<b>6,321</b>	<b>7,519</b>	<b>8,927</b>	<b>11,395</b>	<b>13,502</b>	<b>16,234</b>	<b>19,390</b>	<b>23,542</b>	<b>28,608</b>

E: MFOSL Estimates

## Financials and valuations – VO

### Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Basic (INR)</b>									
EPS	12.8	13.6	14.0	27.5	32.5	26.2	38.4	50.5	61.6
EPS Growth (%)	13.6	6.6	2.6	96.3	18.2	-19.3	46.5	31.6	22.0
Cash EPS	14.6	15.7	16.3	30.1	35.7	30.4	42.9	55.5	67.1
BV/Share	52.6	66.2	77.5	102.3	124.5	150.2	180.9	221.3	270.6
DPS	2.0	0.3	0.3	2.3	5.5	6.0	7.7	10.1	12.3
Payout (%)	18.9	2.2	2.2	9.9	31.6	22.9	20.0	20.0	20.0
<b>Valuation (x)</b>									
P/E	143.3	134.5	131.1	66.8	56.5	70.0	47.8	36.3	29.8
Cash P/E	125.7	116.5	112.8	60.9	51.4	60.4	42.8	33.1	27.3
P/BV	34.9	27.7	23.7	17.9	14.7	12.2	10.1	8.3	6.8
EV/Sales	29.8	27.7	25.4	16.7	18.3	19.8	12.5	9.2	7.2
EV/EBITDA	91.1	86.9	95.7	44.5	45.4	53.5	34.9	26.5	21.3
Dividend Yield (%)	0.1	0.0	0.0	0.1	0.3	0.3	0.4	0.6	0.7
FCF per share	9.2	1.6	9.4	15.1	10.4	16.5	32.9	36.1	47.7
<b>Return Ratios (%)</b>									
RoE	27.0	23.0	19.5	30.6	28.6	19.1	23.2	25.1	25.1
RoCE	23.4	20.5	17.6	27.9	26.9	18.1	22.2	24.2	24.3
RoIC	26.0	22.0	17.6	33.5	31.7	21.5	29.2	36.5	39.2
<b>Working Capital Ratios</b>									
Fixed Asset Turnover (x)	1.8	1.6	1.6	2.4	1.7	1.3	1.9	2.4	2.8
Asset Turnover (x)	1.0	0.9	0.8	1.0	0.8	0.6	0.8	0.8	0.9
Inventory (Days)	26	35	40	30	33	47	33	33	33
Debtor (Days)	66	75	87	79	72	106	72	72	72
Creditor (Days)	13	18	31	17	20	25	20	20	20
<b>Leverage Ratio (x)</b>									
Current Ratio	5.1	4.1	4.1	5.3	4.7	5.8	5.8	6.6	7.5
Net Debt/Equity	-0.1	0.0	0.0	0.0	0.0	0.0	-0.1	-0.2	-0.3

### Standalone - Cash Flow Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	1,866	2,060	2,034	4,252	4,247	3,353	5,272	6,936	8,463
Depreciation	185	216	254	274	332	429	466	514	563
Direct Taxes Paid	-447	-535	-491	-1,262	-1,005	-607	-1,327	-1,746	-2,130
(Inc)/Dec in WC	73	-380	-316	-1,138	811	-874	-29	-993	-998
<b>CF from Operations</b>	<b>1,674</b>	<b>1,304</b>	<b>1,384</b>	<b>2,003</b>	<b>4,159</b>	<b>2,190</b>	<b>4,384</b>	<b>4,713</b>	<b>5,901</b>
(Inc)/Dec in FA	-732	-1,136	-422	-450	-3,094	-490	-1,000	-1,000	-1,000
<b>Free Cash Flow</b>	<b>942</b>	<b>168</b>	<b>962</b>	<b>1,553</b>	<b>1,065</b>	<b>1,700</b>	<b>3,384</b>	<b>3,713</b>	<b>4,901</b>
Change in Investments	0	695	1	-442	-674	127	0	0	0
<b>CF from Investments</b>	<b>-722</b>	<b>-268</b>	<b>-388</b>	<b>-2,427</b>	<b>-1,975</b>	<b>-1,982</b>	<b>-1,385</b>	<b>-1,427</b>	<b>-1,429</b>
Inc/(Dec) in Debt	-231	-396	0	0	0	0	0	0	0
Interest Paid	-33	-16	-11	-9	-11	-2	-2	-2	-2
Dividend Paid	-217	-35	-32	-278	-1,046	-55	-789	-1,038	-1,267
<b>CF from Fin. Activity</b>	<b>-503</b>	<b>-451</b>	<b>-298</b>	<b>-403</b>	<b>-1,090</b>	<b>-31</b>	<b>-2,484</b>	<b>-1,040</b>	<b>-1,269</b>
<b>Inc/Dec of Cash</b>	<b>450</b>	<b>585</b>	<b>697</b>	<b>-826</b>	<b>1,094</b>	<b>176</b>	<b>515</b>	<b>2,247</b>	<b>3,203</b>
Opening Balance	271	35	621	1,318	492	1,586	1,762	2,277	4,523
<b>Closing Balance</b>	<b>721</b>	<b>621</b>	<b>1,318</b>	<b>491</b>	<b>1,585</b>	<b>1,762</b>	<b>2,277</b>	<b>4,523</b>	<b>7,727</b>

# Alkyl Amines

BSE Sensex 52,550 S&P CNX 15,748



Alkyl Amines Chemicals Limited

## Stock info

Bloomberg	AACL IN
Equity Shares (m)	51
M.Cap.(INRb)/(USDb)	181.1 / 2.4
52-Week Range (INR)	3987 / 780
1, 6, 12 Rel. Per (%)	-5/114/260

## Financial Snapshot (INR b)

Y/E March	FY21	FY22E	FY23E
Sales	12,424	14,909	17,891
EBITDA	4,291	4,737	6,029
PAT	2,953	3,357	4,337
EPS (INR)	57.9	65.8	85.0
EPS Gr. (%)	57.0	13.7	29.2
BV/Sh.(INR)	155.3	201.3	260.8

## Ratios

Net D:E	(0.1)	(0.1)	(0.1)
RoE (%)	44.4	36.9	36.8
RoCE (%)	39.5	34.7	35.1
Payout (%)	27.6	30.0	30.0

## Valuations

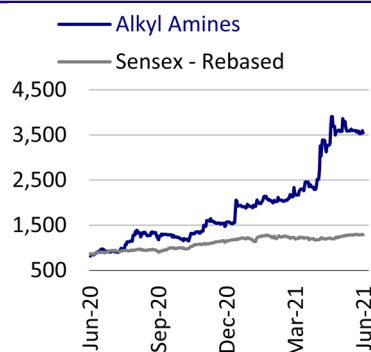
P/E (x)	62.1	54.6	42.3
P/BV (x)	23.1	17.8	13.8
EV/EBITDA (x)	42.5	38.6	30.2
Div. Yield (%)	0.4	0.5	0.7
FCF Yield (%)	1.1	0.3	1.2

## Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	74.1	74.1	74.2
DII	2.0	1.8	1.7
FII	0.9	1.0	0.7
Others	23.0	23.1	23.4

FII Includes depository receipts

## Stock performance (one-year)



CMP: INR3,600

TP: INR3,825 (+6%)

Neutral

## Growing tall

### Utilization ramp-up and margin sustainability key

- AACL is the second largest player in the Indian Aliphatic Amines industry, with ~45% market share. It is present in three major categories: Amines and its derivatives, other Specialty Chemicals, and Industrial Gases. It has three manufacturing sites, two in Maharashtra (Patalganga and Kurkumbh), and one in Gujarat (Dahej).
- It caters to ~14 end-user industries with over 100 different products. Life Sciences (Pharma + Agri.) constitutes ~70% of total demand. The company has a client base of over 600, with no single customer constituting more than 3-4% of revenue.
- The management plans on spending ~INR5b over the next three years (all via internal accruals). Assuming an asset turnover of 2x, revenue could double in the next three years to INR21.5b. We value AACL at 45x FY23E EPS to arrive at our TP of INR3,825. We initiate coverage with a Neutral rating.

### Opportune capacity expansion...

- Ongoing expansions will boost aliphatic amines capacity by ~30% by 3QFY22 (capex: INR3b) and take ACN capacity to 27ktpa (making it the largest producer, with ~25% of global capacity). Current capacity stands at 90ktpa for aliphatic amines, 35ktpa for its derivatives, and ~12ktpa for acetonitrile.
- India's demand for acetonitrile (ACN) stands at 35ktpa, of which ~60% is imported, presenting a huge import substitution opportunity for AACL. The expansion comes at a time when global capacities are shutting down owing to environmental challenges.
- Over the last decade, the company has been growing ~17% revenue CAGR, while it has been growing ~20% over the last five years. Considering the same growth, on the back of recent capacity expansions, AACL is expected to double its revenue over the next three years.

### ...with margin to sustain around current levels

- EBITDAM expanded to ~35% in FY21 (up from 19%/26% in FY19/FY20), due to higher realization of supply-constrained acrylonitrile (used in ABS as polymers), owing to the slowdown in the Auto industry. This has raised concerns about its sustainability among investors.
- In line with the management's guidance, EBITDAM would normalize ~30-33% – assuming gross margin at 50%, which AACL has maintained over the last one decade with agile pricing. Conversion cost would further reduce, with higher operating efficiencies, post completion of the ongoing expansions.
- ACN prices have been stable around current (high) levels for more than a year now, which is likely to stay as per management's guidance. An increase in the share of Specialty Chemicals (with expansion of ACN) would also aid margin.

### Valuation and view – initiating coverage with a Neutral rating

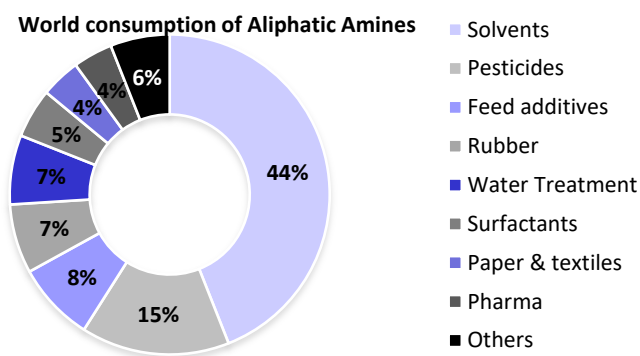
- AACL has maintained dividend ~20-30% over FY18-21. With FCF generation of ~INR6.6b over FY22-24E, we expect dividend payout to remain strong ~30%.
- The company turned net cash in FY21 and would maintain the same despite higher capex. We expect RoE at 35-37% over FY22-24E (best amongst its peers and our coverage universe), commanding higher multiple for the stock.



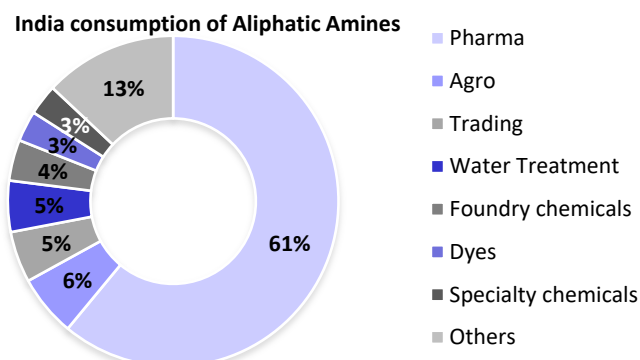
**Exhibit 42: AACL – company snapshot**

Description	Aliphatic Amines	Derivatives	Specialty Chemicals
Brief features	Alkyl group with six carbons or less. Methyl alcohol + Ammonia = Methylamine. Ethyl Alcohol + Ammonia = Ethylamine. These are hazardous chemicals in their gaseous form. It has 50% captive consumption in all	Amines such as Methylamine and Ethylamine are used to make derivative products such as dimethylamine hydrochloride (DMAHCL) and dimethylamine propylamine (DMAPA)	Non-Amines based chemicals. ACN is more of a solvent.
Revenue mix	50%	20- 25%	25%-30%
Expected growth rate	15%	20-25%	20-25%
Major products	Methylamine, Ethylamine, and 50 other additional products	DMAHCL, DMAPA, and 30-40 other products	Acetonitrile
Major applications	Used in Pharma and Agri industries as a solvent, intermediary, and raw material	Animal Feed, drugs, Insecticide. DMAPA - Personal Care DMAHCL - Water Treatment, polymer	Pharma, Agrichemicals, dyestuff. ACN is used in DNA synthesis, production of insulin, and antibiotics
Competitive intensity	Methylamine – Balaji, RCF, and imports up to 3% Ethylamine – Balaji and imports – 10-15% mix. Less difficult to enter	More competitive	Realizations fluctuate due to demand and supply mismatch. More competitive
Capacity	Currently – 90ktpa Post capex – 125ktpa	35ktpa	Currently – 12ktpa Post capex – 27ktpa

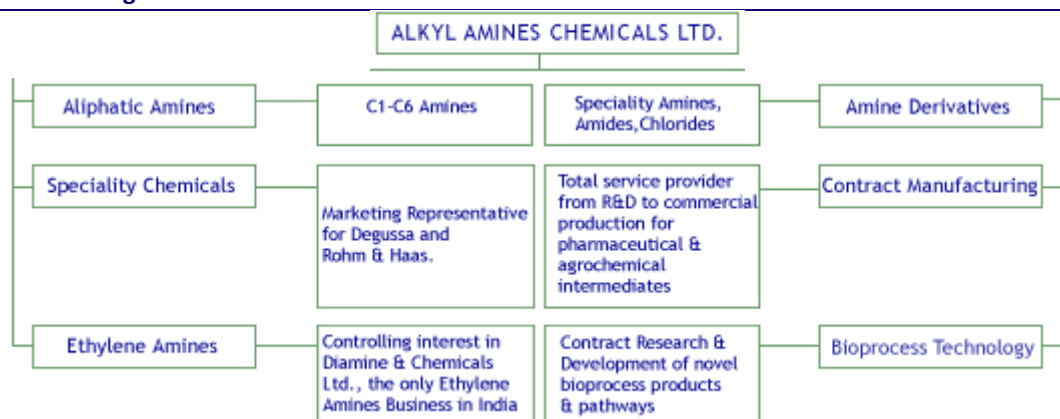
Source: Company, MOFSL

**Exhibit 43: End-user industry: Amines are used as solvents...**

Source: Company, MOFSL

**Exhibit 44: ...~70% used in Life Sciences (Pharma + Agro)**

Source: Company, MOFSL

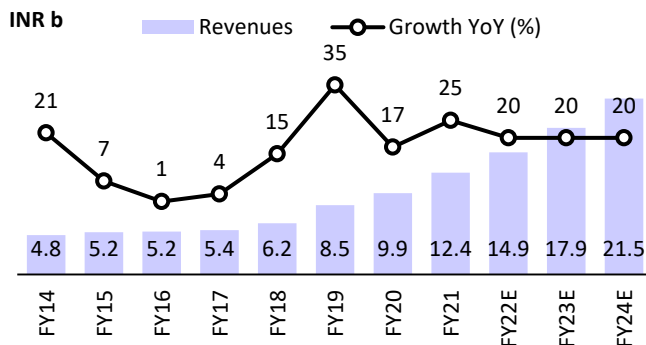
**Exhibit 45: Product segmentation**

Source: Company, MOFSL

## Financials story in charts

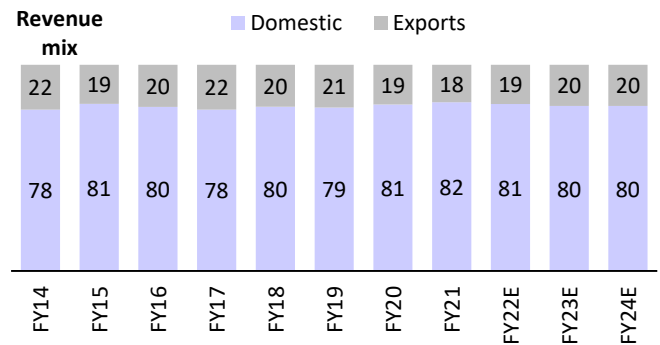
### Next leg of growth to facilitate current high valuations

**Exhibit 46: Expect ~20% revenue CAGR over FY21-24E...**



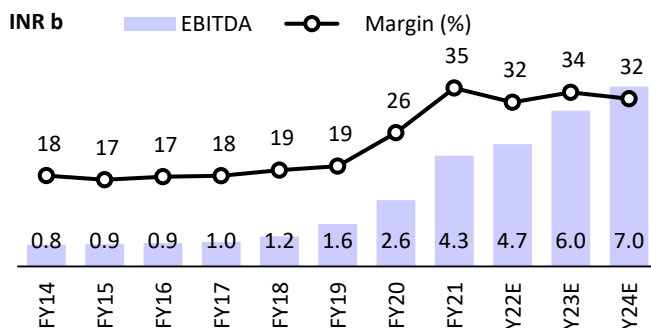
Source: Company, MOFSL

**Exhibit 47: ...with revenue mix remaining constant**



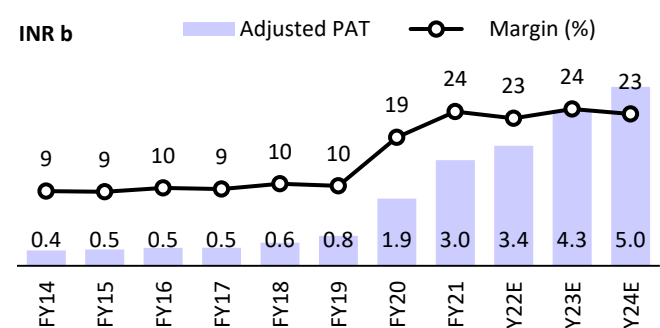
Source: Company, MOFSL

**Exhibit 48: Expect EBITDAM to sustain ~32-34%...**



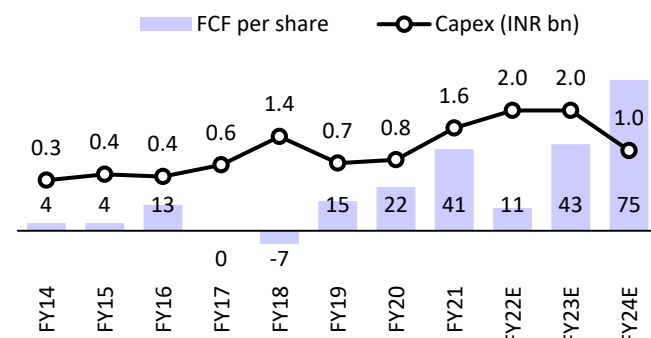
Source: Company, MOFSL

**Exhibit 49: ...along with a normalization in PAT margin**



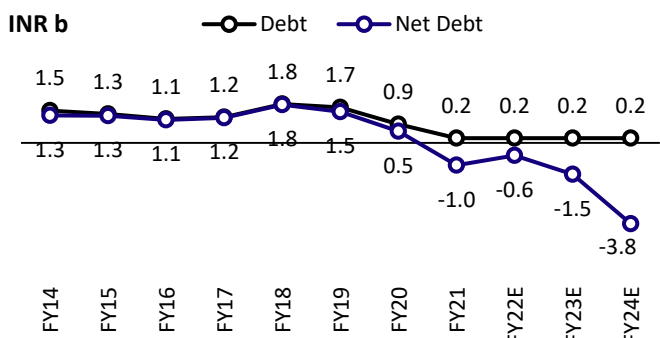
Source: Company, MOFSL

**Exhibit 50: Expect strong FCF generation over FY22-24E...**



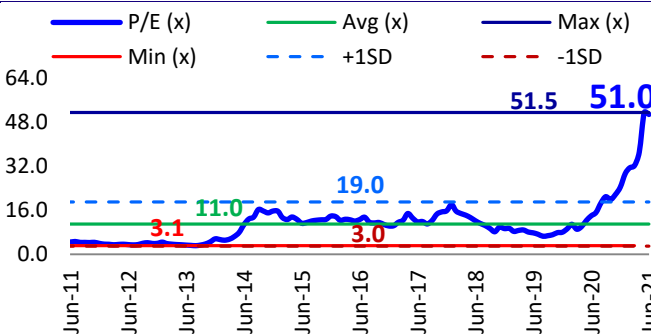
Source: Company, MOFSL

**Exhibit 51: Expect AACL to remain net cash positive**



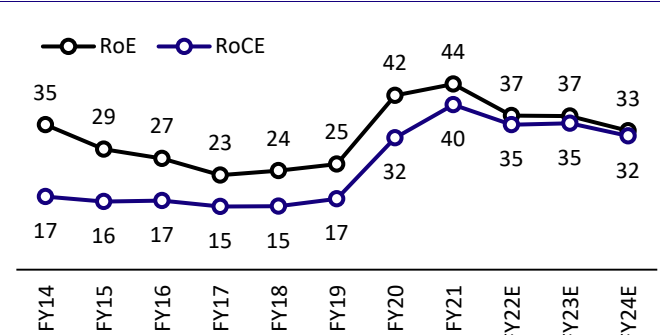
Source: Company, MOFSL

**Exhibit 52: One year forward PE trades at 51.0x...**



Source: Company, MOFSL

**Exhibit 53: ...with return ratios stabilizing ~35-37%**



Source: Company, MOFSL

## Valuation and view (TP INR3,825; +6% upside)

### Initiating coverage with a Neutral rating

- The company recorded 25% revenue growth in FY21, a year of COVID-led disruption, with one-third growth led by an increase in volumes. The company was one of the prime beneficiaries of COVID-19 as demand for Aliphatic Amines increased as it is mainly used as solvents in the Pharmaceutical industry. Demand for its products is expected to remain strong in the aftermath of the pandemic.
- EBITDAM, which stood ~35% in FY21, is likely to normalize ~32% next year, although expect it to climb back up with commissioning of ACN expansion. AACL is vulnerable to alcohol price volatility. Domestic alcohol prices are dependent on cyclical in the Sugar industry and government policy on its use in the Oil sector – any change may have an adverse impact on the company.
- Closure of global capacities and higher than expected revenue CAGR (of ~20%) presents an upside risk to our call, while downward risk could be from increase in domestic competition.
- The stock is trading at 42x FY23E EPS of INR85 and 30x FY23E EV/EBITDA. We value the company at 45x FY23E EPS to arrive at our TP of INR3,825. We initiate coverage with a Neutral rating, owing to limited upside. Although, the capacity expansions would facilitate the current high valuations as even ROEs for the company are best amongst peers at ~35-37% in FY23E.

- ❖ Continuous expansion since FY16 has helped the company grow on the domestic front
- ❖ Focus on Derivatives and Specialty Chemicals has led to margin expansion
- ❖ New ACN plant to boost revenue in the Specialty Chemicals segment

**S**  
STRENGTH



- ❖ Vulnerability to alcohol price volatility may have an adverse impact
- ❖ Dependence on a single end-user industry (Life Sciences) as a major revenue source. Others contribute less than 10% each

**W**  
WEAKNESS



- ❖ Capturing the domestic Aliphatic Amines market, with a play on import substitution through expansion of capacities
- ❖ CRAMs is a completely untapped area, where the company can foray into

**O**  
OPPORTUNITY



- ❖ Increase in domestic competition, with continuous expansion by its immediate competitor
- ❖ With an increasing supply of ACN, margin may come off from the highs of FY21

**T**  
THREATS





## Bull and Bear Case

Exhibit 54: A play on sustaining healthy margin

TP (at 45x FY23 EPS)	(INR m)	FY21	FY22E	FY23E	FY24E	CAGR (FY21-24E, %)	Thesis
Bear Case	Revenue	12,424	14,288	16,431	18,896	15	Assuming ~15% revenue CAGR over FY21-24E, with a contraction in EBITDAM to 29-30% over the same period
	EBITDA	4,291	4,122	4,762	5,681	10	
	INR2,860	EPS	57.9	56.0	63.6	76.2	10
Base Case	Revenue	12,424	14,909	17,891	21,469	20	Assuming ~20% revenue CAGR over FY21-24E (in line with last five-years), with normalization of EBITDAM at ~32-33% over the same period
	EBITDA	4,291	4,737	6,029	6,967	18	
	INR3,825	EPS	57.9	65.8	85.0	98.1	19
Bull Case	Revenue	12,424	15,530	19,413	24,266	25	Assuming ~25% revenue CAGR over FY21-24E (similar to that in FY21 on the back of capacity expansion), with margin at ~34-35%
	EBITDA	4,291	4,755	6,253	8,366	25	
	INR3,865	EPS	57.9	65.4	85.9	116.4	26

Source: Company, MOFSL

## Management overview

### Mr. Yogesh M. Kothari, Chairman and Managing Director

- Mr. Kothari founded AACL and has been its CMD since CY82.
- He is a Chemical Engineer from the Institute of Chemical Technology, Mumbai. He is also a Master of Management Science and Master of Science in Chemical Engineering from the University of Massachusetts, Lowell, USA.

### Mr. Kirat Patel, Executive Director

- Mr. Patel has been working with the company since its inception. He holds a B.Tech. in Mechanical Engineering from Indian Institute of Technology Bombay, and an M.M.S. (Finance) from Jamnalal Bajaj Institute of Management, Mumbai.

### Mr. Suneet Kothari, Executive Director

- Mr. Kothari is the son of the CMD and has been working with AACL since CY01.
- He is a Chemical Engineer and Chemistry/Biochemistry Graduate from Cornell University, USA. He has completed a one-year MBA course from INSEAD, France/Singapore.

## Financials and valuations – AACL

## Standalone – Income statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Total Income from Operations</b>	<b>5,233</b>	<b>5,418</b>	<b>6,248</b>	<b>8,464</b>	<b>9,929</b>	<b>12,424</b>	<b>14,909</b>	<b>17,891</b>	<b>21,469</b>
Change (%)	1.4	3.5	15.3	35.5	17.3	25.1	20.0	20.0	20.0
Gross Margins (%)	51.9	51.4	46.5	45.5	51.2	57.9	53.0	53.0	50.0
<b>EBITDA</b>	<b>910</b>	<b>951</b>	<b>1,164</b>	<b>1,644</b>	<b>2,570</b>	<b>4,291</b>	<b>4,737</b>	<b>6,029</b>	<b>6,967</b>
Margin (%)	17.4	17.6	18.6	19.4	25.9	34.5	31.8	33.7	32.5
Depreciation	129	143	157	233	269	291	316	333	393
<b>EBIT</b>	<b>781</b>	<b>809</b>	<b>1,008</b>	<b>1,410</b>	<b>2,301</b>	<b>4,001</b>	<b>4,421</b>	<b>5,697</b>	<b>6,575</b>
Int. and Finance Charges	80	81	81	148	103	63	25	25	25
Other Income	24	11	32	39	70	70	91	125	142
<b>PBT bef. EO Exp.</b>	<b>725</b>	<b>739</b>	<b>958</b>	<b>1,302</b>	<b>2,269</b>	<b>4,007</b>	<b>4,486</b>	<b>5,796</b>	<b>6,692</b>
EO Items	0	0	0	0	328	0	0	0	0
<b>PBT after EO Exp.</b>	<b>725</b>	<b>739</b>	<b>958</b>	<b>1,302</b>	<b>2,597</b>	<b>4,007</b>	<b>4,486</b>	<b>5,796</b>	<b>6,692</b>
Total Tax	226	236	315	464	444	1,054	1,129	1,459	1,684
Tax Rate (%)	31.2	31.9	32.9	35.7	17.1	26.3	25.2	25.2	25.2
<b>Reported PAT</b>	<b>499</b>	<b>504</b>	<b>643</b>	<b>837</b>	<b>2,153</b>	<b>2,953</b>	<b>3,357</b>	<b>4,337</b>	<b>5,007</b>
<b>Adjusted PAT</b>	<b>499</b>	<b>504</b>	<b>643</b>	<b>837</b>	<b>1,881</b>	<b>2,953</b>	<b>3,357</b>	<b>4,337</b>	<b>5,007</b>
Change (%)	9.8	1.0	27.6	30.3	124.5	57.0	13.7	29.2	15.5
Margin (%)	9.5	9.3	10.3	9.9	18.9	23.8	22.5	24.2	23.3

## Standalone - Balance Sheet

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	102	102	102	102	102	102	102	102	102
Total Reserves	1,893	2,354	2,869	3,548	5,264	7,822	10,172	13,208	16,714
<b>Net Worth</b>	<b>1,995</b>	<b>2,456</b>	<b>2,972</b>	<b>3,650</b>	<b>5,366</b>	<b>7,924</b>	<b>10,274</b>	<b>13,310</b>	<b>16,816</b>
Total Loans	1,115	1,201	1,813	1,653	866	216	216	216	216
Deferred Tax Liabilities	286	327	405	507	404	414	414	414	414
<b>Capital Employed</b>	<b>3,396</b>	<b>3,984</b>	<b>5,189</b>	<b>5,810</b>	<b>6,636</b>	<b>8,554</b>	<b>10,904</b>	<b>13,940</b>	<b>17,445</b>
Gross Block	3,213	2,329	3,846	4,280	4,971	5,315	7,315	9,315	10,315
Less: Accum. Deprn.	1,342	129	295	515	736	1,026	1,342	1,675	2,067
<b>Net Fixed Assets</b>	<b>1,871</b>	<b>2,201</b>	<b>3,552</b>	<b>3,764</b>	<b>4,235</b>	<b>4,288</b>	<b>5,973</b>	<b>7,640</b>	<b>8,247</b>
Capital WIP	161	348	184	432	449	1,376	1,376	1,376	1,376
<b>Total Investments</b>	<b>23</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>0</b>	<b>302</b>	<b>302</b>	<b>302</b>	<b>302</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>2,008</b>	<b>2,559</b>	<b>2,621</b>	<b>3,275</b>	<b>3,150</b>	<b>5,486</b>	<b>5,052</b>	<b>6,781</b>	<b>10,111</b>
Inventory	632	1,114	852	1,057	837	1,219	1,256	1,508	1,809
Account Receivables	903	973	1,238	1,526	1,642	2,280	2,466	2,959	3,551
Cash and Bank Balance	43	30	32	202	323	1,260	807	1,686	3,997
Cash	39	22	22	193	312	961	508	1,387	3,698
Bank Balance	3	8	10	8	10	299	299	299	299
Loans and Advances	431	442	499	490	349	727	524	628	754
<b>Curr. Liability &amp; Prov.</b>	<b>668</b>	<b>1,139</b>	<b>1,182</b>	<b>1,676</b>	<b>1,198</b>	<b>2,899</b>	<b>1,800</b>	<b>2,159</b>	<b>2,591</b>
Account Payables	468	886	848	1,304	748	1,790	1,123	1,347	1,617
Other Current Liabilities	166	213	250	264	354	1,002	531	638	765
Provisions	34	41	84	107	97	107	146	175	210
<b>Net Current Assets</b>	<b>1,340</b>	<b>1,421</b>	<b>1,439</b>	<b>1,599</b>	<b>1,952</b>	<b>2,587</b>	<b>3,253</b>	<b>4,621</b>	<b>7,519</b>
<b>Appl. of Funds</b>	<b>3,395</b>	<b>3,984</b>	<b>5,189</b>	<b>5,810</b>	<b>6,635</b>	<b>8,554</b>	<b>10,904</b>	<b>13,940</b>	<b>17,445</b>

E: MOFSL Estimates



## Financials and valuations – AACL

### Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Basic (INR)</b>									
EPS	9.8	9.9	12.6	16.4	36.9	57.9	65.8	85.0	98.1
EPS Growth (%)	9.8	1.0	27.6	30.3	124.5	57.0	13.7	29.2	15.5
Cash EPS	12.3	12.7	15.7	21.0	42.1	63.6	72.0	91.5	105.8
BV/Share	39.1	48.1	58.2	71.5	105.2	155.3	201.3	260.8	329.5
DPS	4.8	0.0	2.4	3.4	8.7	16.0	19.7	25.5	29.4
Payout (%)	49.2	0.0	19.1	20.6	20.6	27.6	30.0	30.0	30.0
<b>Valuation (x)</b>									
P/E	368	364	285	219	97	62	55	42	37
Cash P/E	292	284	229	171	85	57	50	39	34
P/BV	92	75	62	50	34	23	18	14	11
EV/Sales	35	34	30	22	19	15	12	10	8
EV/EBITDA	203	194	159	112	72	42	39	30	26
Dividend Yield (%)	0	0	0	0	0	0	1	1	1
FCF per share	13	0	-7	15	22	41	11	43	75
<b>Return Ratios (%)</b>									
RoE	27	23	24	25	42	44	37	37	33
RoCE	17	15	15	17	32	40	35	35	32
RoIC	18	16	16	18	35	51	47	45	44
<b>Working Capital Ratios</b>									
Fixed Asset Turnover (x)	3.1	2.7	2.2	2.3	2.5	2.9	2.9	2.6	2.7
Asset Turnover (x)	1.5	1.4	1.2	1.5	1.5	1.5	1.4	1.3	1.2
Inventory (Days)	44	75	50	46	31	36	31	31	31
Debtor (Days)	63	66	72	66	60	67	60	60	60
Creditor (Days)	33	60	50	56	27	53	27	27	27
<b>Leverage Ratio (x)</b>									
Current Ratio	3.0	2.2	2.2	2.0	2.6	1.9	2.8	3.1	3.9
Net Debt/Equity	0.5	0.5	0.6	0.4	0.1	-0.1	-0.1	-0.1	-0.2

### Standalone - Cash Flow Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>(INR m)</b>									
OP/(Loss) before Tax	725	739	958	1,302	2,597	4,007	4,486	5,796	6,692
Depreciation	129	129	154	233	269	291	316	333	393
Interest Expenses	80	81	81	148	103	63	25	25	25
Direct Taxes Paid	-148	-198	-198	-356	-581	-1,012	-1,129	-1,459	-1,684
(Inc)/Dec in WC	204	-105	26	64	-193	290	-1,119	-489	-587
<b>CF from Operations</b>	<b>1,013</b>	<b>635</b>	<b>1,016</b>	<b>1,442</b>	<b>1,886</b>	<b>3,640</b>	<b>2,579</b>	<b>4,206</b>	<b>4,838</b>
(Inc)/Dec in FA	-352	-645	-1,350	-689	-771	-1,561	-2,000	-2,000	-1,000
<b>Free Cash Flow</b>	<b>661</b>	<b>-10</b>	<b>-334</b>	<b>753</b>	<b>1,115</b>	<b>2,079</b>	<b>579</b>	<b>2,206</b>	<b>3,838</b>
<b>CF from Investments</b>	<b>-352</b>	<b>-636</b>	<b>-1,340</b>	<b>-668</b>	<b>-407</b>	<b>-2,127</b>	<b>-2,000</b>	<b>-2,000</b>	<b>-1,000</b>
Inc/(Dec) in Debt	-242	39	547	-268	-797	-381	0	0	0
Interest Paid	-80	-78	-83	-150	-107	-68	-25	-25	-25
Dividend Paid	-344	0	-123	-172	-443	-408	-1,007	-1,301	-1,502
<b>CF from Fin. Activity</b>	<b>-681</b>	<b>-16</b>	<b>325</b>	<b>-603</b>	<b>-1,351</b>	<b>-864</b>	<b>-1,032</b>	<b>-1,326</b>	<b>-1,527</b>
<b>Inc/Dec of Cash</b>	<b>-20</b>	<b>-17</b>	<b>1</b>	<b>171</b>	<b>128</b>	<b>649</b>	<b>-454</b>	<b>879</b>	<b>2,311</b>
Opening Balance	59	39	22	22	193	312	961	508	1,387
<b>Closing Balance</b>	<b>39</b>	<b>22</b>	<b>22</b>	<b>193</b>	<b>321</b>	<b>962</b>	<b>508</b>	<b>1,387</b>	<b>3,698</b>

# Navin Fluorine

BSE Sensex 52,550 S&P CNX 15,748

CMP: INR3,714

TP: INR3,960 (+7%)

Neutral



## Stock info

Bloomberg NFIL IN  
Equity Shares (m) 50  
M.Cap.(INRb)/(USDb) 168.9 / 2.3  
52-Week Range (INR) 3659 / 1542  
1, 6, 12 Rel. Per (%) 3/19/58

## Financial Snapshot (INR b)

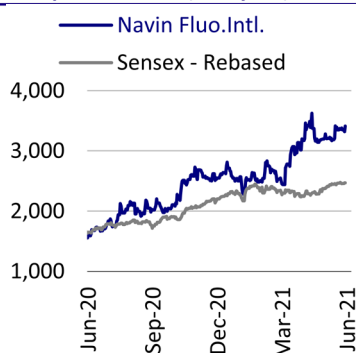
Y/E March	FY21	FY22E	FY23E
Sales	11,331	13,608	21,894
EBITDA	3,108	3,739	6,138
Adj. PAT	2,508	2,951	4,851
EPS (INR)	51.2	60.2	99.0
EPS Gr. (%)	(37.3)	17.7	64.4
BV/Sh.(INR)	336.7	386.0	467.0
Ratios			
Net D:E	(0.2)	(0.2)	(0.2)
RoE (%)	16.5	16.7	23.2
RoCE (%)	16.4	16.6	23.1
Payout (%)	18.2	18.2	18.2
Valuations			
P/E (x)	66.6	56.6	34.4
P/BV (x)	10.1	8.8	7.3
EV/EBITDA (x)	52.5	43.8	26.5
Div. Yield (%)	0.3	0.3	0.5
FCF Yield (%)	1.4	0.0	1.1

## Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	30.2	30.5	30.5
DII	15.8	16.9	16.9
FII	25.1	24.5	24.5
Others	28.9	28.1	28.1

FII Includes depository receipts

## Stock performance (one-year)



## Biggest beneficiary of China+1

...announced two new projects over the last one-year

- NFIL is one of the world's few pure-play Fluorochemicals companies and among the pioneers in the realm of fluorine chemistry in India. Fluorine is the most difficult molecule to handle, given its characteristic of being highly reactive, which also presents niche expertise of the company in this space.
- NFIL operates in four segments: Refrigerants, Inorganic Fluorides, Specialty Chemicals, and CRAMs. With India emerging as a fluorination hub (owing to the relocation of major downstream players from China to India), NFIL has announced two new projects under a new wholly owned subsidiary in the last one year.
- We expect 31% EBITDA CAGR during FY21-24E, and value the company at 40x FY23E EPS to arrive at our TP of INR3,960. We initiate coverage with a Neutral rating, highlighting huge downside risk to our estimates with even a slightest of delay in execution/commissioning of the upcoming projects.

## Huge change in business mix with new businesses

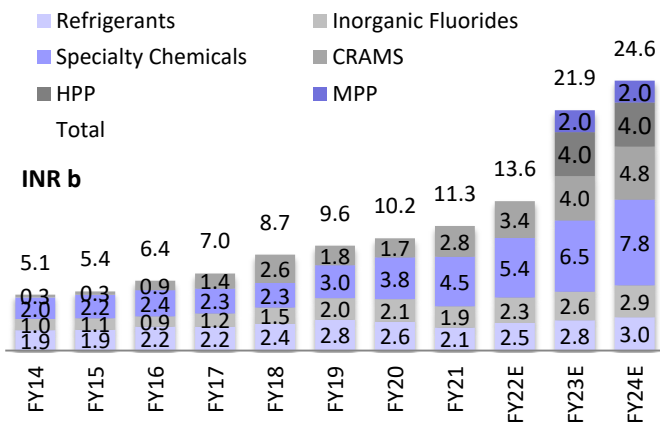
- NFIL's diversified portfolio is a big plus. Its share of revenue from the Refrigerants business has fallen to ~18% in FY21 from ~55% in FY11, with other business segments gaining share in overall revenue.
- Over the past five years (FY16-21), NFIL has delivered 11% revenue CAGR, with exports at 53% in FY21. Over FY21-24E, we expect NFIL to deliver 29% revenue CAGR, driven by growth in new businesses.
- The company has announced new business such as HPP (commissioning in 4QFY22) and a multi-purpose plant (MPP) at Dahej (commissioning in 1HFY23), which would aid margin expansion. These would boost the share of exports for the company by 8-9% over FY21 levels to 61-62% in FY23-24E.

## To continue leveraging its profound expertise

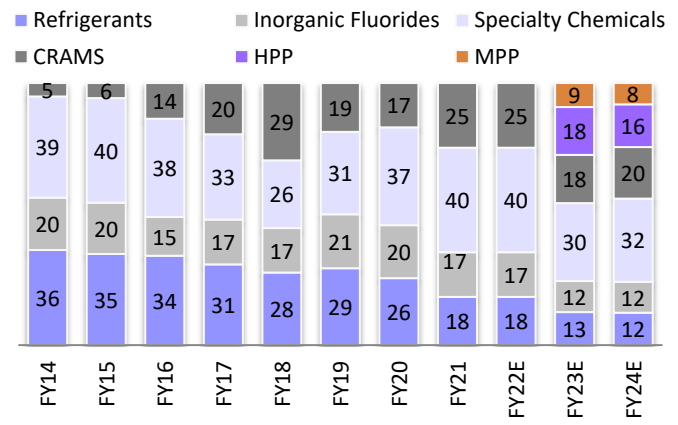
- With cGMP3 operational, the ability to handle large projects and complex chemistries will significantly improve. NFIL is seeing a strong pipeline from global Pharma innovators and majors (~20% revenue CAGR over FY21-24E).
- Growth in Refrigerants is likely to slow down further with the phasing out of R-22 gases and emerging demand for R-32 gases. NFIL plans on leveraging its refill market and is also looking for non-emissive applications, thus expects realization to improve going forward.
- Improvement in operational efficiencies and product rationalization continues, with the de-risking of feedstock procurement, which would lead to margin improvement.

## Valuation and view – initiating coverage with a Neutral rating

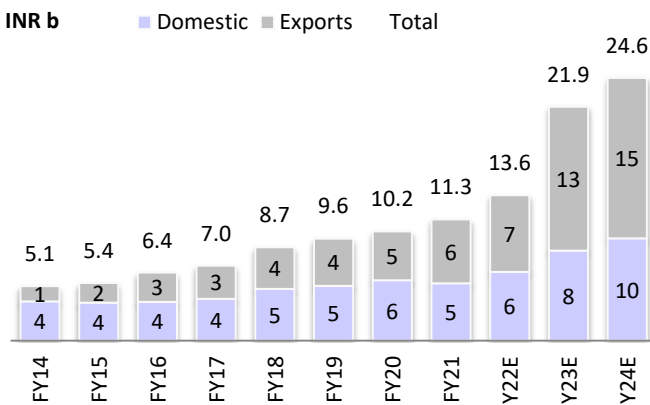
- Capex over FY22-24E projected ~INR7.3b, with INR4.4b/INR1.95b going toward the new HPP/MPP business. The rest is to ramp up production in existing segments. The entire capex will be funded via internal accruals. Despite heavy capex, we expect FCF generation of ~INR5.7b over FY22-24E.
- The company has been paying a dividend ~18% over the last couple of years. We expect dividends to remain around similar levels.

**Exhibit 55: Expect ~29% revenue CAGR over FY21-24E, primarily led by HPP and MPP businesses...**

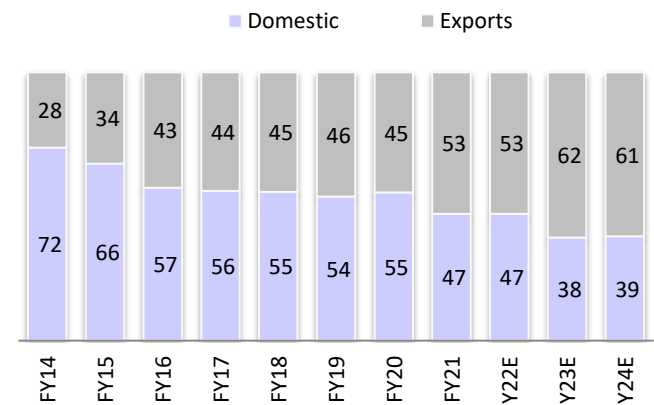
Source: Company, MOFSL

**Exhibit 56: ...with Specialty Chemicals and CRAMs CAGR ~20% over the same period**

Source: Company, MOFSL

**Exhibit 57: Exports form ~53% of total revenue in FY21...**

Source: Company, MOFSL

**Exhibit 58: ...which is set to grow to ~61-62% by FY23-24E**

Source: Company, MOFSL

## NFIL forms a wholly-owned subsidiary - Navin Fluorine Advanced Sciences (NFAS):

### The High Performance Product (HPP) segment

- The company has entered into a long-term contract (of USD410m) with a global player in the US for manufacturing and supply in the Fluorochemicals space. The contract requires capex (of INR4.4b, with INR3.7b dedicated to the processing plant and the rest toward the captive power plant), which the company has guided to be a mix of debt and equity.
- The contract is for seven years. The product is not part of NFIL's existing product portfolio. The company would further leverage this new expertise for developing its own set of products going forward.

### ...and a Multi-Purpose Plant (MPP)

- NFIL is investing INR1.95b in setting up an MPP plant at Dahej, which will commercialize new products in Life Science and Crop Science space. It will help enhance its product offerings and strengthen its customer relationships, providing building blocks for future growth. Company is developing five new products which are already placed with five different customers.

Expected completion: 4QFY22

Revenue potential:

INR4b annually

Manufacturing of both intermediates and final products

Expected completion: 1HFY23

Revenue potential:

INR2.5b annually

Enters into the next leg of Specialty Chemicals

## High value business drove growth over FY20-21. Remains the main focus of NFIL until NFAS projects are commissioned

### Specialty Chemicals

- NFIL has dedicated MPPs to process multi-step products and intermediates, which are high on the value chain. It has capabilities to handle complex chemistries and delivers high-quality products in all forms.
- It is one of the leading high-quality producers of boron trifluoride gas and its adducts. It has 48 products in this segment that caters to Pharmaceutical (40%), Crop Protection (40%), Hydrocarbon and Fragrance (20%) industries.
- We see the company focusing more on this segment than the legacy businesses in the medium term. **We expect 20% CAGR over FY21-24E in this segment as it caters largely to the Pharma industry.**

### CRAMs

- NFIL provides custom chemical synthesis of fluorinated compounds for Pharmaceutical, Agro Chemicals, and Specialty Chemical industries. The company's offerings and capabilities include basic research, library synthesis, process development, and scale up of small and large batch manufacturing.
- Manchester Organics is based out of the UK and is a wholly-owned subsidiary of NFIL. The company entered into a JV with Manchester Organics when it only had a catalog business. It acquired a 51% stake in the company in FY11 and subsequently bought the entire stake. Manchester Organics is the prime location for its contract research activities. NFIL has access to Manchester Organics' global clients, which gives it wide reach in this segment.
- **The CRAMs business has shown exponential (~26%) revenue CAGR over FY16-21 and we expect ~20% CAGR over FY21-24E (in line with management's guidance).** The company plans to widen its customer reach and relationships with various global Pharma companies. Customer audits by several Pharma majors have been successfully completed.

## Stable growth in the legacy business

### Refrigerants

- The manufacturing plant in Surat is backward integrated to produce critical intermediates – sulfuric and hydrofluoric acid, which are precursors to the company's Mafron brand of refrigerants.
- There are five products under the Refrigerants division: HCFC22, HCFC 22 PTFE Grade, HFC 134a, HFC 404a, and HFC 410a. All these products are sold under the Mafron brand name.
- Following the government's directive to phase out CFC gases, the company has already initiated production cuts in a phased manner.
- **We expect revenue from this segment to remain flat over the next two years owing to the impact of COVID-19 in FY21 and due to phasing out of R-22 gas by the company in forthcoming years.** NFIL expects to leverage its superior quality and delivery predictability to strengthen its customer retention and engagement with new customers.

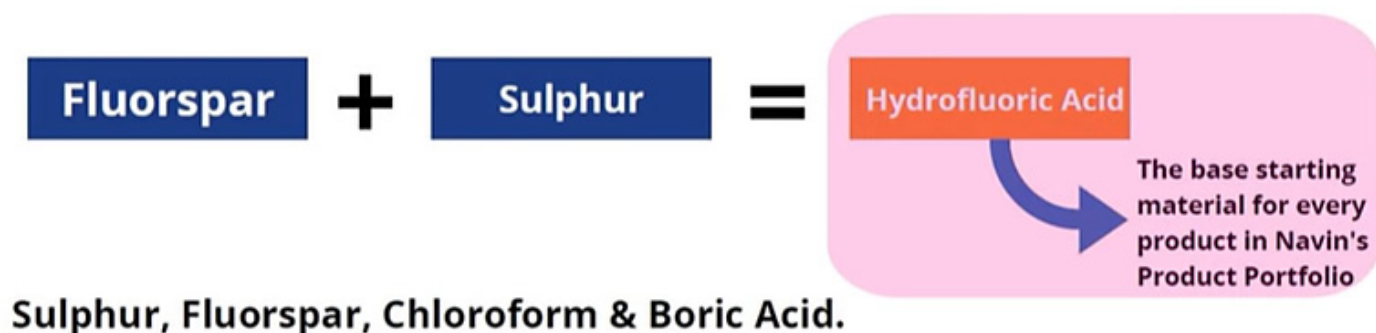
### Inorganic Fluorides

- **NFIL has one of the largest anhydrous hydrofluoric (AHF) and aqueous hydrofluoric acid manufacturing capacities in India.** AHF is used for captive manufacture of various Inorganic Fluorides. The company has Potassium Fluoride (application in Pharma, Agro, and foundry intermediates) and Sodium Fluoride (application in tin plates, toothpastes, etc.) in its bouquet of products.
- It has 26 products in the Inorganic Fluorides segment that caters to the Sugar, Oil, Steel, Pharma, and Auto industries. **We expect ~15% CAGR over the next 2-3 years from this segment.**

### NFIL has de-risked fluorspar procurement

- **Over the last few years, NFIL has diversified its fluorspar (feedstock) procurement base away from China to other geographies.**
- NFIL has also subscribed to 25% of the initial equity share capital of Swarnim Gujarat Fluorspar Pvt. It is a joint venture with Gujarat Mineral Development Corporation (GMDC) and Gujarat Fluorochemicals (GFL) formed for the purpose of beneficiation of fluorspar ores to be supplied by GMDC from its mines. Although, the procurement of fluorspar from this entity has still not started.
- The company holds minimum inventory to remain closer to market prices of all raw materials - thus increasing the possibility of passing on the cost disadvantages to its end-customers.

Exhibit 59: Process value chain for NFIL



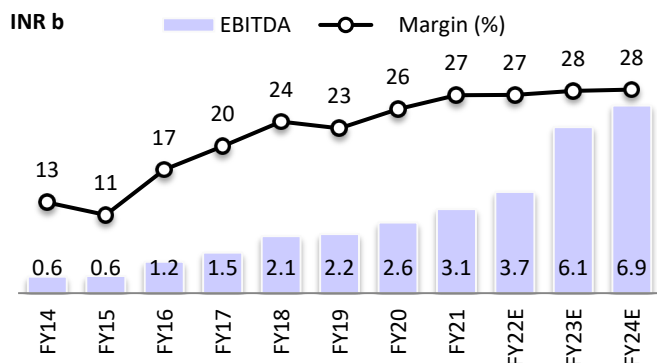
Source: Company, MOFSL



## Financials story in charts

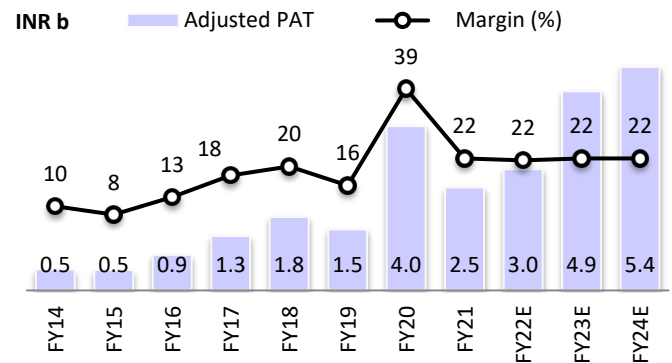
Near-term growth from CRAMs and Specialty Chemicals, longer-term growth from HPP/MPP segments

Exhibit 60: Expect EBITDA CAGR of ~31% over FY21-24E...



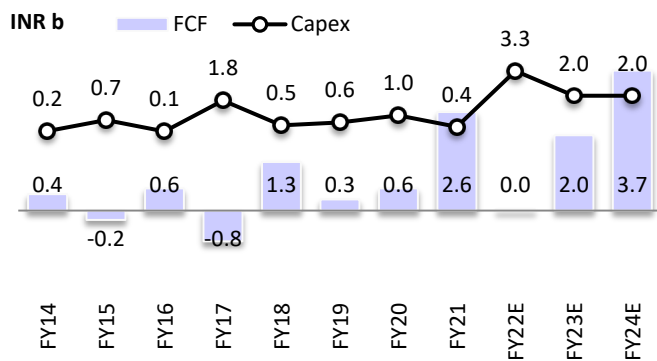
Source: Company, MOFSL

Exhibit 61: ...with PAT CAGR of ~29% over the same period



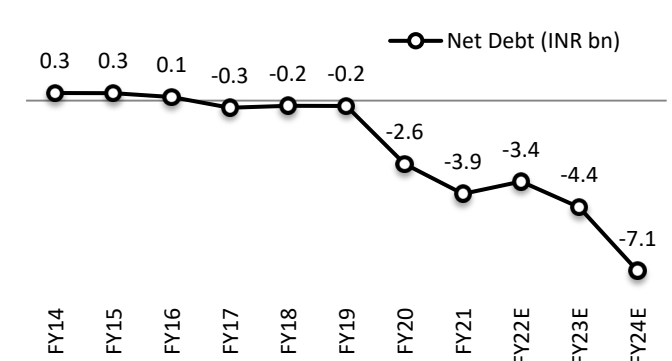
Source: Company, MOFSL

Exhibit 62: Capex for the next three years is INR7.3b...



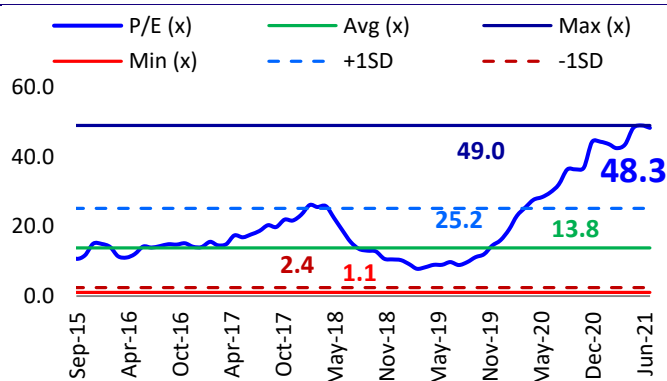
Source: Company, MOFSL

Exhibit 63: ...which will be funded by internal accruals



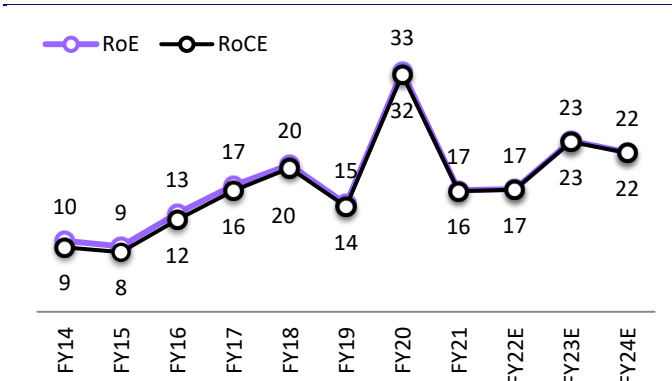
Source: Company, MOFSL

Exhibit 64: One year forward PE trades at 48.3x...



Source: Company, MOFSL

Exhibit 65: ...with return ratios improving to ~22-23%



Source: Company, MOFSL

## Valuation and view (TP INR3,960; +7% upside)

### Initiating coverage with a Neutral rating

- The Specialty Chemicals and CRAMs segments would continue to drive robust growth (15-20%) with increasing use of fluorine in the Pharma and Agrochemical space. Manchester Organics has also become a revenue generating facility.
- Going forward, NFIL intends to leverage its R&D capabilities and deep fluorination expertise to partner with global companies, thus helping it grow further. It intends to launch a strong product pipeline over the next 2-3 years and scale approved molecules from the pilot and laboratory stage. Also, some of the MPP molecules will be sold (in smaller quantities) from Surat facility.
- The company is looking at opportunities beyond traditional businesses and is eyeing the HPP segment now. It plans on developing new molecules in the HPP segment for various other players. It is looking to offer a full range of products in this category.
- The Refrigerant Gas business is likely to remain flat, with no meaningful growth. The company expects to target the refill market and earn better realization in this space.
- We estimate EBITDAM in line with company's guidance of ~28%, although with improvement in refgas business (post suffering in FY21), more new projects in contract manufacturing and commencement of fluorspar supply from Swarnim Gujarat could result in an upward revision to our estimates.
- The stock is trading at 34x FY23E EPS of INR99 and 27x FY23E EV/EBITDA, with an improvement in return ratios to ~23% (+600bps v/s FY21), despite a huge capex. We value the company at 40x FY23E EPS to arrive at our TP of INR3,960. Initiating coverage with a Neutral rating – owing to limited upside at CMP.

- ❖ One of India's largest manufacturers of Fluorochemicals
- ❖ Over five decades of experience in the fluorine chain
- ❖ A portfolio of over 50 fluorine-based products

# S

## STRENGTH



- ❖ Fluorochemicals (emissive category) are responsible for the depletion of the ozone layer, restricting its market growth
- ❖ China is the largest producer of fluorspar and NFIL may face operational hindrances owing to its imports

# W

## WEAKNESS



- ❖ Growing demand in the end-user industry
- ❖ Innovation and technological developments continuously taking place
- ❖ Entering the HPP and MPP segments would add huge value

# O

## OPPORTUNITY



- ❖ Phasing out of R-22 could yield flat revenue over the next few years in the Refrigerant Gas business
- ❖ Delay in commissioning of the new businesses; or slower ramp up of the same could dampen growth for the company

# T

## THREATS





## Bull and Bear Case

**Exhibit 66: Delay in project execution could lead to a huge de-rating**

TP (at 40x FY23E EPS)	(INR m)	FY21	FY22E	FY23E	FY24E	CAGR (FY21-24E, %)	Thesis
<b>Bear case</b>	Revenue	11,331	13,608	14,969	22,966	12	■ Delay in commissioning of HPP and MPP units, with ~10% CAGR in Specialty Chemicals and CRAMs business over the next three years
	EBITDA	3,108	3,897	3,279	6,517	19	
<b>INR1,800</b>	EPS	51.2	58.7	45.1	95.1	24	
<b>Base case</b>	Revenue	11,331	13,608	21,894	24,589	29	■ Timely completion of HPP and MPP units, with ~20% CAGR in Specialty Chemicals and CRAMs business over the next three years
	EBITDA	3,108	3,739	6,138	6,936	31	
<b>INR3,960</b>	EPS	51.2	60.2	99.0	111.1	29	
<b>Bull Case</b>	Revenue	11,331	13,888	23,279	28,132	23	■ Faster ramp up in HPP and MPP businesses, with ~30% growth in CRAMs over next three years (as seen over the last five years).
	EBITDA	3,108	4,045	7,457	8,986	40	
<b>INR4,470</b>	EPS	51.2	61.1	111.7	134.6	48	

Source: Company, MOFSL

## Management overview

### Mr. Vishad P. Mafatlal, Chairman

- Mr. Mafatlal holds a Bachelor of Science Degree in Economics from the University of Pennsylvania, Wharton School and has rich experience of more than two decades in the field of Textiles and Chemicals.
- He is the Chairman of Shri Sadguru Seva Sangh Trust (est. CY68), a social and charitable trust in Uttar Pradesh/Madhya Pradesh, which provides services in the fields of Education and Healthcare to rural masses.
- He is on the company's Board as a Non-Executive Promoter Director since Jan'03. In the past, he was the Executive Vice-Chairman of Mafatlal Industries and the Non-Executive Promoter Director of NOCIL.

### Mr. Radhesh R. Welling, Managing Director

- Mr. Welling has worked and handled many functions ranging from Innovation to Sales and Marketing to Corporate Strategy to Manufacturing across multiple geographies.
- In his previous role, he was the CEO and Executive Director of Laxmi Organic Industries. He has earlier worked with J.M. Huber Corporation for eight years and was based out of their head office in Atlanta, USA.
- He has a Mechanical Engineering degree from the National Institute of Technology, India and has done his Masters in International Business from IIFT, New Delhi. He also has an MBA from IMD, Lausanne, Switzerland.

### Mr. Ketan Sablok, CFO

- Mr. Sablok has 18 years of experience in Financial Planning and Analysis (FP&A), Accounts, and MIS and Stakeholder Relationship Management.
- He is a Chartered Accountant and a Cost Accountant. He joined the company in CY97 and has worked across various facets of Finance, Accounting, MIS, Systems Design and Integration, Business Planning and Analysis, and Acquisition during his tenure.

## Financials and valuations - NFIL

### Standalone – Income Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Total Income from Operations</b>	<b>6,785</b>	<b>7,368</b>	<b>8,861</b>	<b>9,551</b>	<b>10,223</b>	<b>11,331</b>	<b>13,608</b>	<b>21,894</b>	<b>24,589</b>
Change (%)	16.1	8.6	20.3	7.8	7.0	10.8	20.1	60.9	12.3
Gross Margins (%)	57.0	57.9	56.6	52.3	54.5	54.9	53.6	52.2	52.2
<b>EBITDA</b>	<b>1,161</b>	<b>1,499</b>	<b>2,107</b>	<b>2,181</b>	<b>2,607</b>	<b>3,108</b>	<b>3,739</b>	<b>6,138</b>	<b>6,936</b>
Margin (%)	17.1	20.3	23.8	22.8	25.5	27.4	27.5	28.0	28.2
Depreciation	209	284	382	259	337	407	461	554	674
<b>EBIT</b>	<b>952</b>	<b>1,216</b>	<b>1,725</b>	<b>1,922</b>	<b>2,270</b>	<b>2,702</b>	<b>3,278</b>	<b>5,584</b>	<b>6,261</b>
Int. and Finance Charges	32	5	7	5	16	14	14	14	14
Other Income	247	557	906	348	313	745	680	913	1,025
<b>PBT bef. EO Exp.</b>	<b>1,167</b>	<b>1,768</b>	<b>2,625</b>	<b>2,265</b>	<b>2,567</b>	<b>3,433</b>	<b>3,944</b>	<b>6,483</b>	<b>7,272</b>
EO Items	0	0	0	0	0	662	0	0	0
<b>PBT after EO Exp.</b>	<b>1,167</b>	<b>1,768</b>	<b>2,625</b>	<b>2,265</b>	<b>2,567</b>	<b>4,095</b>	<b>3,944</b>	<b>6,483</b>	<b>7,272</b>
Total Tax	302	441	835	780	-1,431	1,103	993	1,632	1,830
Tax Rate (%)	25.9	25.0	31.8	34.5	-55.7	26.9	25.2	25.2	25.2
<b>Reported PAT</b>	<b>865</b>	<b>1,326</b>	<b>1,790</b>	<b>1,485</b>	<b>3,998</b>	<b>2,992</b>	<b>2,951</b>	<b>4,851</b>	<b>5,442</b>
<b>Adjusted PAT</b>	<b>865</b>	<b>1,326</b>	<b>1,790</b>	<b>1,485</b>	<b>3,998</b>	<b>2,508</b>	<b>2,951</b>	<b>4,851</b>	<b>5,442</b>
Change (%)	75.1	53.4	34.9	-17.0	169.3	-37.3	17.7	64.4	12.2
Margin (%)	12.7	18.0	20.2	15.5	39.1	22.1	21.7	22.2	22.1

### Standalone - Balance Sheet

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	98	98	99	99	99	98	98	98	98
Total Reserves	7,132	8,137	9,601	10,493	13,790	16,402	18,817	22,786	27,238
<b>Net Worth</b>	<b>7,230</b>	<b>8,235</b>	<b>9,700</b>	<b>10,592</b>	<b>13,889</b>	<b>16,500</b>	<b>18,915</b>	<b>22,884</b>	<b>27,336</b>
Total Loans	299	0	0	0	0	0	0	0	0
Deferred Tax Liabilities	213	207	239	295	206	167	167	167	167
<b>Capital Employed</b>	<b>7,742</b>	<b>8,443</b>	<b>9,939</b>	<b>10,887</b>	<b>14,096</b>	<b>16,667</b>	<b>19,082</b>	<b>23,051</b>	<b>27,503</b>
Gross Block	4,304	4,377	3,232	3,511	4,643	4,937	8,237	10,237	12,237
Less: Accum. Deprn.	1,633	272	477	715	1,053	1,459	1,920	2,475	3,149
<b>Net Fixed Assets</b>	<b>2,671</b>	<b>4,105</b>	<b>2,755</b>	<b>2,796</b>	<b>3,591</b>	<b>3,478</b>	<b>6,317</b>	<b>7,763</b>	<b>9,088</b>
Capital WIP	139	168	201	393	389	365	365	365	365
<b>Total Investments</b>	<b>2,909</b>	<b>3,157</b>	<b>5,219</b>	<b>5,267</b>	<b>3,387</b>	<b>4,503</b>	<b>4,503</b>	<b>4,503</b>	<b>4,503</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>3,406</b>	<b>3,805</b>	<b>3,817</b>	<b>4,224</b>	<b>7,042</b>	<b>10,319</b>	<b>10,052</b>	<b>13,873</b>	<b>17,420</b>
Inventory	627	989	924	929	1,361	1,543	1,763	2,815	3,154
Account Receivables	1,401	1,308	1,471	1,675	2,093	2,759	2,787	4,483	5,035
Cash and Bank Balance	152	297	219	224	2,641	3,889	3,375	4,448	7,104
Cash	93	224	136	127	1,692	761	247	1,320	3,976
Bank Balance	59	74	83	97	890	3,128	3,128	3,128	3,128
Loans and Advances	1,226	1,211	1,203	1,397	947	2,127	2,127	2,127	2,127
<b>Curr. Liability &amp; Prov.</b>	<b>1,383</b>	<b>2,793</b>	<b>2,053</b>	<b>1,794</b>	<b>1,644</b>	<b>1,998</b>	<b>2,156</b>	<b>3,454</b>	<b>3,874</b>
Account Payables	759	760	889	679	922	1,027	1,195	1,908	2,138
Other Current Liabilities	547	1,941	1,056	1,005	590	824	786	1,265	1,420
Provisions	77	91	108	110	131	147	175	281	315
<b>Net Current Assets</b>	<b>2,023</b>	<b>1,012</b>	<b>1,764</b>	<b>2,431</b>	<b>5,398</b>	<b>8,321</b>	<b>7,896</b>	<b>10,420</b>	<b>13,547</b>
<b>Appl. of Funds</b>	<b>7,742</b>	<b>8,443</b>	<b>9,939</b>	<b>10,887</b>	<b>14,096</b>	<b>16,667</b>	<b>19,082</b>	<b>23,051</b>	<b>27,503</b>

## Financials and valuations – NFIL

### Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Basic (INR)</b>									
EPS	17.6	27.1	36.5	30.3	81.6	51.2	60.2	99.0	111.1
EPS Growth (%)	75.1	53.4	34.9	-17.0	169.3	-37.3	17.7	64.4	12.2
Cash EPS	21.9	32.9	44.3	35.6	88.5	59.5	69.6	110.3	124.8
BV/Share	147.6	168.1	198.0	216.2	283.5	336.7	386.0	467.0	557.9
DPS	4.2	5.3	7.1	7.9	11.1	11.1	10.9	18.0	20.2
Payout (%)	28.6	26.2	19.9	41.7	17.9	18.2	18.2	18.2	18.2
<b>Valuation (x)</b>									
P/E	193.2	126.0	93.4	112.5	41.8	66.6	56.6	34.4	30.7
Cash P/E	155.6	103.8	77.0	95.8	38.5	57.3	49.0	30.9	27.3
P/BV	23.1	20.3	17.2	15.8	12.0	10.1	8.8	7.3	6.1
EV/Sales	24.6	22.6	18.8	17.5	16.1	14.4	12.0	7.4	6.5
EV/EBITDA	144.0	111.2	79.2	76.5	63.1	52.5	43.8	26.5	23.1
Dividend Yield (%)	0.1	0.2	0.2	0.2	0.3	0.3	0.3	0.5	0.6
FCF per share	11.8	-16.3	25.9	6.0	11.9	52.6	0.8	40.2	74.7
<b>Return Ratios (%)</b>									
RoE	13.4	17.2	20.0	14.6	32.7	16.5	16.7	23.2	21.7
RoCE	12.5	16.4	19.5	14.3	32.2	16.4	16.6	23.1	21.6
RoIC	17.7	19.5	25.8	27.1	55.7	25.3	26.2	34.0	32.0
<b>Working Capital Ratios</b>									
Fixed Asset Turnover (x)	2.8	2.2	2.6	3.4	3.2	3.2	2.8	3.1	2.9
Asset Turnover (x)	0.9	0.9	0.9	0.9	0.7	0.7	0.7	0.9	0.9
Inventory (Days)	34	49	38	35	49	50	47	47	47
Debtor (Days)	75	65	61	64	75	89	75	75	75
Creditor (Days)	41	38	37	26	33	33	32	32	32
<b>Leverage Ratio (x)</b>									
Current Ratio	2.5	1.4	1.9	2.4	4.3	5.2	4.7	4.0	4.5
Net Debt/Equity	0.0	0.0	0.0	0.0	-0.2	-0.2	-0.2	-0.2	-0.3

### Standalone - Cash Flow Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	1,167	1,768	2,625	2,265	2,567	4,095	3,944	6,483	7,272
Depreciation	209	284	382	259	337	407	461	554	674
Others	-73	-519	-694	-277	-210	-1,054	14	14	14
Direct Taxes Paid	-261	-306	-496	-710	-456	-186	-993	-1,632	-1,830
(Inc)/Dec in WC	-325	-275	-90	-637	-684	-305	-89	-1,451	-471
<b>CF from Operations</b>	<b>717</b>	<b>951</b>	<b>1,727</b>	<b>900</b>	<b>1,555</b>	<b>2,958</b>	<b>3,337</b>	<b>3,969</b>	<b>5,660</b>
Capex	-137	-1,750	-457	-606	-972	-382	-3,300	-2,000	-2,000
<b>Free Cash Flow</b>	<b>581</b>	<b>-800</b>	<b>1,270</b>	<b>294</b>	<b>582</b>	<b>2,576</b>	<b>37</b>	<b>1,969</b>	<b>3,660</b>
Change in Investments	42	133	-1,338	190	1,706	-914	0	0	0
<b>CF from Investments</b>	<b>-314</b>	<b>-196</b>	<b>-1,489</b>	<b>-315</b>	<b>766</b>	<b>-3,452</b>	<b>-3,300</b>	<b>-2,000</b>	<b>-2,000</b>
Inc/(Dec) in Debt	-150	-299	0	0	0	0	0	0	0
Interest Paid	-32	-5	-7	-5	-16	-14	-14	-14	-14
Dividend Paid	-216	-343	-350	-611	-714	-394	-537	-882	-989
<b>CF from Fin. Activity</b>	<b>-392</b>	<b>-623</b>	<b>-326</b>	<b>-595</b>	<b>-756</b>	<b>-437</b>	<b>-551</b>	<b>-896</b>	<b>-1,004</b>
<b>Inc/Dec of Cash</b>	<b>11</b>	<b>131</b>	<b>-87</b>	<b>-9</b>	<b>1,565</b>	<b>-931</b>	<b>-513</b>	<b>1,073</b>	<b>2,656</b>
Opening Balance	83	94	224	136	127	1,692	760	247	1,320
<b>Closing Balance</b>	<b>94</b>	<b>224</b>	<b>136</b>	<b>127</b>	<b>1,692</b>	<b>760</b>	<b>247</b>	<b>1,320</b>	<b>3,976</b>



# Galaxy Surfactants

BSE Sensex 52,550 S&P CNX 15,748

CMP: INR3,010

TP: INR3,520 (+17%)

Buy



## Stock info

Bloomberg	GALSURF IN
Equity Shares (m)	35
M.Cap.(INRb)/(USDb)	107.6 / 1.4
52-Week Range (INR)	3350 / 1380
1, 6, 12 Rel. Per (%)	-5/47/57

## Financial Snapshot (INR b)

Y/E March	2021	2022E	2023E
Sales	27,841	31,192	35,518
EBITDA	4,488	4,937	5,702
PAT	3,021	3,163	3,782
EPS (INR)	85.2	89.2	106.7
EPS Gr. (%)	31.1	4.7	19.6
BV/Sh.(INR)	367.1	434.0	514.0

## Ratios

Net D:E	0.1	(0.0)	(0.1)
RoE (%)	25.5	22.3	22.5
RoCE (%)	21.1	19.9	21.3
Payout (%)	21.1	25.0	25.0

## Valuations

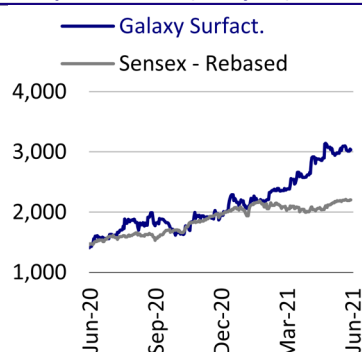
P/E (x)	35.4	33.9	28.3
P/BV (x)	8.2	7.0	5.9
EV/EBITDA (x)	24.1	21.7	18.5
Div. Yield (%)	0.6	0.7	0.9
FCF Yield (%)	2.4	2.0	2.4

## Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	70.9	70.9	70.9
DII	13.3	13.0	13.0
FII	3.4	3.5	3.5
Others	12.3	12.6	12.6

FII Includes depository receipts

## Stock performance (one-year)



## A pseudo FMCG company

...higher growth ahead, and margins to rebound

- GALSURF is one of the leading players in the world of Surfactants and Specialty Care Ingredients. It exclusively focuses on catering to the Home and Personal Care industry. It tends to be known as a 'pseudo FMCG' company due to its close association with the FMCG industry.
- With a capacity of 436.5ktpa across seven plants, it is by far the largest manufacturer of oleo-chemical based surfactants in India. Around 9 out of 10 Indian consumers use products, which have GALSURF's surfactants or specialty care ingredients, at least once in their daily routine.
- Volumes have grown by ~8% CAGR over the last five years to 236kt in FY21. We expect the company to deliver ~10% CAGR over FY21-24E, in line with industry growth for Surfactants. It has 78 approved and 13 applied patents, which should drive higher growth. Valuing it at 33x FY23E P/E, we initiate coverage on GALSURF with a Buy rating and TP of INR3,520.

## Industry at an inflection point...

- GALSURF is the largest player in growing Indian Surfactants market and has huge growth opportunities (increase in middle income and working women).
- MNCs command a 60-65% share of the total market in India v/s 40% globally. The company expects this share to reduce, with the increase in standalone brands, which provide solutions to end-customer rather than a normal product offering. E-commerce is expected to play a key role in the same.
- Growth in the Middle East has been strong in the latter part of FY21; while sales from Tier III customers globally are likely to take some more time to revive (global Tier III share for company stands ~34%).

## ...GALSURF has its strategy and plans sketched

- GALSURF's strategy is to develop its Specialty portfolio in developed markets (the US, Europe, and APAC), where demand for mild surfactants, i.e. sulfate-free products, remains high.
- Emerging markets are seeing huge demand for Performance Surfactants; while its Specialty portfolio is likely to grow on the back of an increase in affordability for premium products and standalone brands.

## Valuation and view – initiating coverage with a Buy rating

- We expect 12% EBITDA and PAT CAGR over FY21-24E, with an improvement in EBITDA/kg to INR20 (assuming 5% YoY growth in FY23 – as specialty products expansion at Jhagadia gets commissioned by end FY22), led by new product launches backed by strong R&D. RoEs are likely to stabilize going forward to 22% in FY22-24E v/s 24-25% in FY20-21.
- Company has bought additional land at Jhagadia and is in the process of announcing a capex plan for the same. Any significant capex announced over next 1-2 years could further result in re-rating of the stock.
- GALSURF has reduced its debt considerably from FY14 levels. We expect it to turn net cash by FY23E, despite capex plans of INR3b over FY22-24E.



**Extensive R&D Capabilities**  
74 Members, R&D Centre, Pilot Plant, Product Application Centre;



**Indigenous Intellectual property**  
78 Approved; 13 Applied

Strong R&D capabilities have led GALSURF to continuously innovate, providing it with a sustainable and long-term competitive advantage

### Business segments – GALSURF has a robust portfolio of over 210 products

#### Performance Surfactants (over 45 products) – 64% of total revenue

- Performance Surfactants do not need any special properties to be present in products that are manufactured by the company. **They can be categorized into two types: Anionic Surfactants and Non-Anionic Surfactants.**
- They are used as foam and dirt removal agents and as emulsifiers in Cosmetics and Personal Care products.

#### Specialty Care (over 165 products) – 36% of the total revenue

- These categories of products are more complex in nature and require more time to produce than Performance Surfactants. For example, they are used as sunscreen agents to reduce toxicity, and have dermatological properties to reduce skin irritation.
- **They can be broken down into seven product categories such as Amphoteric Surfactants, Cationic Surfactants, UV filters, Preservatives and Preservative Blends, Specialty Ingredients, Fatty Alkanolamides (FA) and Fatty Acid Esters (FAE), and other care products.**

#### Strong R&D capabilities

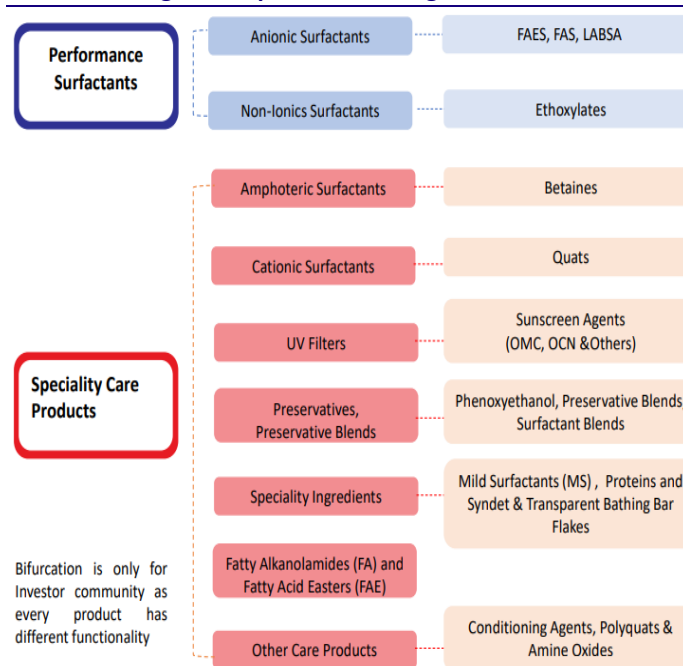
- GALSURF boasts of an in-house R&D team of 74 professionals comprising **doctorates, chemists, and engineers.** It has a well-equipped R&D center, with a Product Application Center for proteins in Denville, US.
- **It has a collaborative product development approach with customers, which helps customers to choose the ‘right technology with the right application.’**
- The company is aiming to increase its R&D spends to ~2% of sales per year (from 1-1.5% currently), which would help them innovate and provide customers with unique solutions.

**Exhibit 67: Manufacturing capacities of the company**

Location	No. of Units	Installed Capacity
Tarapur, Maharashtra	3	33,647 MTPA
Taloja, Maharashtra	1	153,741 MTPA
Jhagadia, Gujarat*	1	131,000 MTPA
Suez, Egypt*	1	117,500 MTPA
New Hampshire, USA	1	600 MTPA

Source: Company, MOFSL

**Exhibit 68: Segmental product offerings**

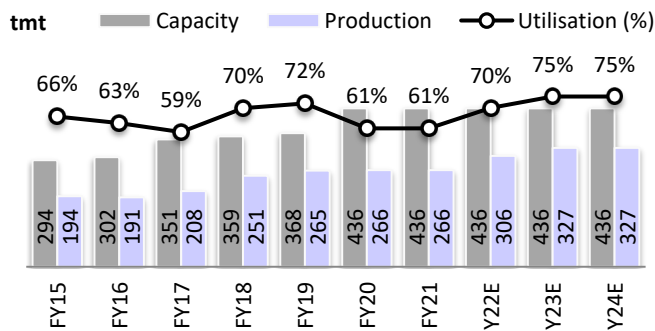


Source: Company, MOFSL

## Financial story in charts

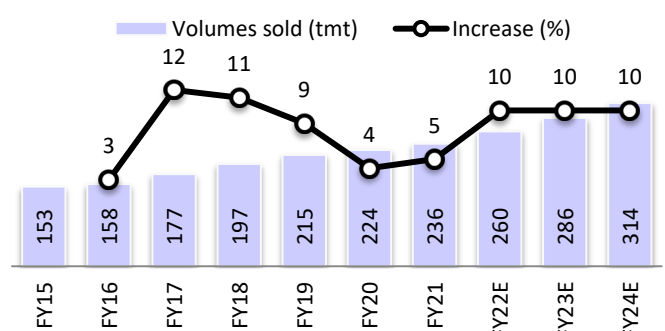
Higher expected industry CAGR of ~11% till 2025 (v/s 6% over CY14-19) to drive growth...

**Exhibit 69: Expect capacity utilization to ramp up...**



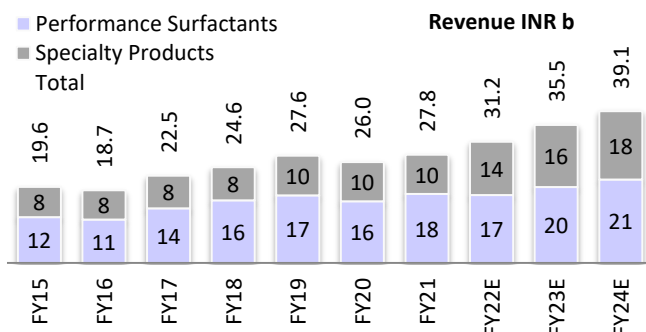
Source: Company, MOFSL

**Exhibit 70: ...with higher volume growth in FY22-24E**



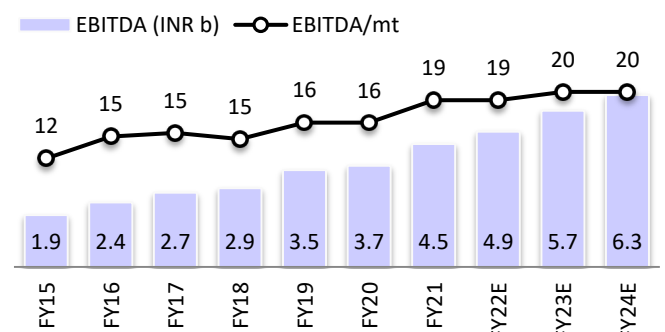
Source: Company, MOFSL

**Exhibit 71: Expect ~12% revenue CAGR over FY21-24E**



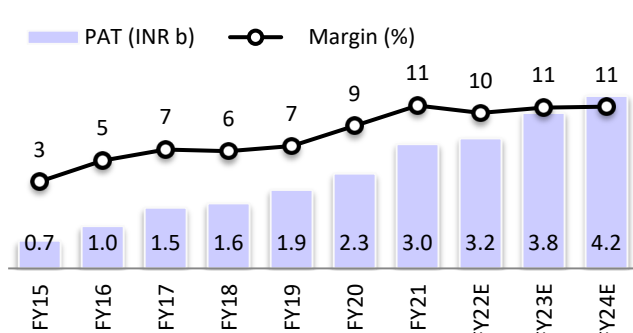
Source: Company, MOFSL

**Exhibit 72: EBITDA/MT is set to increase**



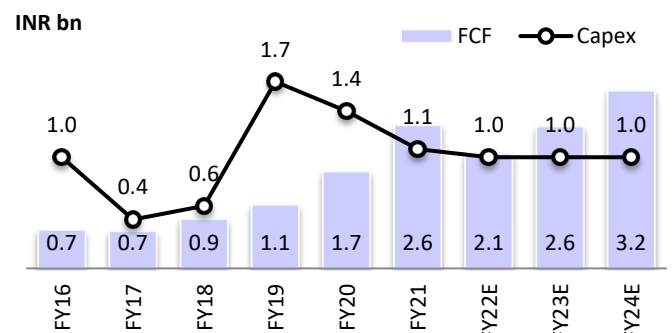
Source: Company, MOFSL

**Exhibit 73: Expect PAT margin to normalize further**



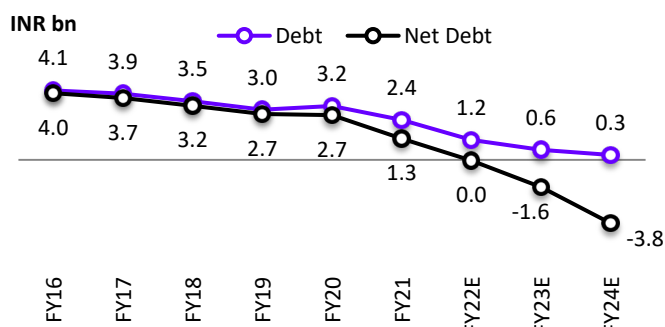
Source: Company, MOFSL

**Exhibit 74: GALSURF is likely to generate a FCF of INR7.9b...**



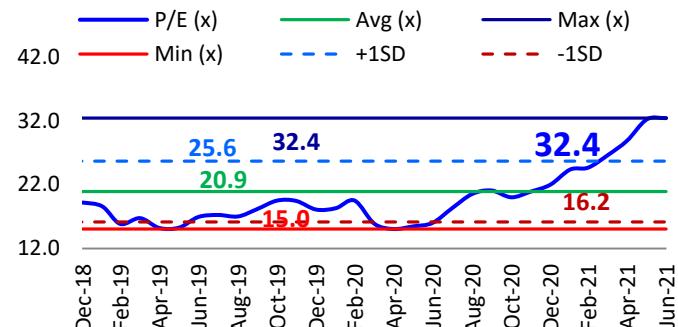
Source: Company, MOFSL

**Exhibit 75: ...and become a net cash company by FY23E**



Source: Company, MOFSL

**Exhibit 76: One year forward PE trades at 32.4x...**



Source: Company, MOFSL

## Valuation and view (TP INR3,520; +17% upside)

### Initiating coverage with a Buy rating

- Over the last decade, the company's Specialty revenue grew to INR10b in FY21 (flat since FY19) from INR7.8b in FY15. Its Preservatives portfolio, which addresses the 'paraben free' trend, has grown to INR2.5b in FY21. The Specialty segment is likely to see robust growth going forward as demand for green chemistry/product increases.
- Specialty continues to face near term challenges in the current COVID environment (due to WFH and lack of leisure travel). That said, we expect the consumption of cosmetic products to increase with opening up of economy (offices and travel).
- Currently, Home Care products consume enormous powder detergents (LABSA-based). As middle-class income/female workforce increases, demand for liquid and premium washing/laundry is likely to rise. Also, Mild Surfactants (sulfate-free products) are likely to see healthy growth as awareness and the standard of living improves.
- GALSURF's new launches - GLI 21 (a unique patented green mild amino acid-based surfactant - mildest of all), Galguard Tetra, Trident and NT range of Paraben, Chlorine, and Formaldehyde free non-toxic preservatives are products of the future, which find applications in the emerging categories of Home and Personal Care.
- The management has shared its growth vision. It will focus on high margin products, with continued focus on R&D and increased wallet share from existing customers. This is likely to support EBITDAM at current levels (16%), if not increase it.
- The stock is trading at 28x FY23E EPS of INR107 and 18x FY23E EV/EBITDA. Asset turnover likely to remain ~1.8-1.9x over next 2-3 years. Valuing it at 33x FY23E EPS, we initiate coverage on GALSURF with a Buy rating and TP of INR3,520.

- ❖ Largest oleo-chemical based player in the domestic market
- ❖ Legacy of 35 years with over 210 products and strong customer relationships
- ❖ Has state-of-the-art R&D facility, giving it an edge over competitors

**S**  
STRENGTH



- ❖ Directly linked to only one industry (FMCG) and its growth; thus any slowdown in the FMCG industry would impact GALSURF's growth as well
- ❖ Huge volatility in fatty alcohol prices

**W**  
WEAKNESS



- ❖ No direct competitors in the HPC segment. Can grow market share easily with strong R&D capabilities and patents
- ❖ Increase in paraben free and sulfate free products in the overall basket could be margin accretive

**O**  
OPPORTUNITY



- ❖ Uncertainty in the Specialty Care segment due to COVID-19
- ❖ Demand may not pick up in congruence to the capacity expansion taking place

**T**  
THREATS





## Bull and Bear Case

**Exhibit 77: Product innovation and development for growth and margin expansion is key**

TP (at 33x FY23E EPS)	(INR m)	FY21	FY22E	FY23E	FY24E	CAGR (FY21-24E, %)	Thesis
<b>Bear case</b>	Revenue	27,841	31,026	34,595	38,595	12	■ Assuming revenue growth of 8% over FY21-24E (in line with its growth rate of the last five years) and EBITDAM normalization to ~15%
	EBITDA	4,488	4,847	5,235	5,654	8	
	3,065	85.2	85.8	92.9	100.8	6	
<b>Base case</b>	Revenue	27,841	31,192	35,518	39,070	12	■ Assuming volume growth of 10% over FY21-24E (in line with the industry growth rate) and EBITDAM sustaining around current levels
	EBITDA	4,488	4,937	5,702	6,273	12	
	3,520	85.2	89.2	106.7	118.3	12	
<b>Bull Case</b>	Revenue	27,841	32,106	38,212	43,943	16	■ Assuming volume growth of 15% over FY21-24E, as the dynamics for HPC changes post pandemic, and EBITDAM expansion to ~18%
	EBITDA	4,488	5,678	6,856	7,884	21	
	4,335	85.2	104.9	131.3	152.9	22	

Source: Company, MOFSL

## Management overview

### Mr. Unnathan Shekhar, promoter and Managing Director

- Mr. Shekhar has been associated with the company since 20<sup>th</sup> May'86.
- He holds a Bachelor's Degree in Chemical Engineering from the University Department of Chemical Technology, Mumbai and a Post Graduate Diploma in Management from the Indian Institute of Management, Calcutta.
- He has over 30 years of experience in the Chemical Manufacturing industry and is a recipient of the 'Distinguished Alumnus Award for CY98' conferred by the University Department of Chemical Technology Alumni Association.

### Mr. Kasargod Ganesh Kamath, Executive Director (Finance) and CFO

- Mr. Kamath has been associated with the company since 10<sup>th</sup> Sep'04. He is a qualified Company Secretary from The Institute of Company Secretaries of India and a Cost Accountant from the Institute of Cost and Work Accountants of India.
- In CY14, he was handed the responsibility of Special Projects and was designated as Vice President – Special Projects. He joined the board from 1<sup>st</sup> Apr'17. He has over 20 years of experience in the Banking and Financial sector.

### Mr. K. Natarajan, Executive Director and COO

- Mr. Natarajan has been associated with GALSURF since 21<sup>st</sup> Apr'93. He is a Cost Accountant from the Institute of Cost and Works Accountants of India and has completed an Advanced Management Program from Harvard Business School.
- Since joining GALSURF in Apr'93, he has headed diverse functions including Finance, IT, Business Creation, Business Commercial, Global Sourcing, and Supply Chain, and was designated as Chief of Operations in Dec'09.

### Mr. Shekhar Ravindranath, Chairman and Non-Executive Director

- Mr. Ravindranath has been associated with the company since 29<sup>th</sup> Jun'07.
- He was a fellow member of The Institute of Cost Accountants of India. He has been associated with Hindustan Unilever in various capacities for over 30 years. He was the former Managing Director - Foods Division, Executive Director (Beverages), and Divisional Vice President Commercial for Detergents at Hindustan Unilever.



## Financials and valuations - GALSURF

### Consolidated – Income Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Total Income from Operations</b>	<b>18,715</b>	<b>22,480</b>	<b>24,625</b>	<b>27,630</b>	<b>25,964</b>	<b>27,841</b>	<b>31,192</b>	<b>35,518</b>	<b>39,070</b>
Change (%)	-4.3	20.1	9.5	12.2	-6.0	7.2	12.0	13.9	10.0
Gross Margins (%)	35.9	32.1	28.9	29.5	33.9	36.3	34.3	33.3	33.3
<b>EBITDA</b>	<b>2,357</b>	<b>2,714</b>	<b>2,877</b>	<b>3,534</b>	<b>3,689</b>	<b>4,488</b>	<b>4,937</b>	<b>5,702</b>	<b>6,273</b>
Margin (%)	12.6	12.1	11.7	12.8	14.2	16.1	15.8	16.1	16.1
Depreciation	452	472	485	512	622	740	747	807	867
<b>EBIT</b>	<b>1,905</b>	<b>2,242</b>	<b>2,392</b>	<b>3,022</b>	<b>3,067</b>	<b>3,749</b>	<b>4,190</b>	<b>4,896</b>	<b>5,406</b>
Int. and Finance Charges	339	272	306	300	238	134	86	43	21
Other Income	68	104	101	47	59	109	122	201	221
<b>PBT bef. EO Exp.</b>	<b>1,635</b>	<b>2,074</b>	<b>2,188</b>	<b>2,769</b>	<b>2,888</b>	<b>3,723</b>	<b>4,226</b>	<b>5,053</b>	<b>5,605</b>
<b>PBT after EO Exp.</b>	<b>1,638</b>	<b>2,074</b>	<b>2,188</b>	<b>2,769</b>	<b>2,888</b>	<b>3,723</b>	<b>4,226</b>	<b>5,053</b>	<b>5,605</b>
Total Tax	608	598	607	859	584	702	1,064	1,272	1,411
Tax Rate (%)	37.1	28.8	27.8	31.0	20.2	18.8	25.2	25.2	25.2
<b>Reported PAT</b>	<b>1,030</b>	<b>1,476</b>	<b>1,580</b>	<b>1,910</b>	<b>2,304</b>	<b>3,021</b>	<b>3,163</b>	<b>3,782</b>	<b>4,194</b>
<b>Adjusted PAT</b>	<b>1,028</b>	<b>1,476</b>	<b>1,580</b>	<b>1,910</b>	<b>2,304</b>	<b>3,021</b>	<b>3,163</b>	<b>3,782</b>	<b>4,194</b>
Change (%)	52.5	43.6	7.1	20.9	20.6	31.1	4.7	19.6	10.9
Margin (%)	5.5	6.6	6.4	6.9	8.9	10.9	10.1	10.6	10.7

### Consolidated - Balance Sheet

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	355	355	355	355	355	355	355	355	355
Total Reserves	4,123	5,395	6,833	8,413	10,323	12,660	15,032	17,868	21,013
<b>Net Worth</b>	<b>4,478</b>	<b>5,749</b>	<b>7,188</b>	<b>8,767</b>	<b>10,678</b>	<b>13,014</b>	<b>15,386</b>	<b>18,222</b>	<b>21,368</b>
Total Loans	4,117	3,929	3,480	2,978	3,196	2,374	1,187	594	297
Deferred Tax Liabilities	207	253	277	320	241	233	233	233	233
<b>Capital Employed</b>	<b>8,802</b>	<b>9,930</b>	<b>10,944</b>	<b>12,065</b>	<b>14,115</b>	<b>15,621</b>	<b>16,806</b>	<b>19,049</b>	<b>21,898</b>
Gross Block	7,743	8,183	8,548	9,722	11,525	11,945	12,945	13,945	14,945
Less: Accum. Deprn.	3,502	3,711	4,148	4,609	5,231	5,971	6,717	7,524	8,391
<b>Net Fixed Assets</b>	<b>4,241</b>	<b>4,472</b>	<b>4,399</b>	<b>5,112</b>	<b>6,294</b>	<b>5,974</b>	<b>6,227</b>	<b>6,421</b>	<b>6,554</b>
Goodwill on Consolidation	117	24	24	25	28	27	27	27	27
Capital WIP	508	103	249	826	660	1,240	1,240	1,240	1,240
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>6,227</b>	<b>8,273</b>	<b>9,881</b>	<b>9,717</b>	<b>11,081</b>	<b>12,821</b>	<b>14,353</b>	<b>17,149</b>	<b>20,487</b>
Inventory	2,358	3,174	3,456	3,513	3,250	4,278	4,810	5,462	6,008
Account Receivables	2,502	3,472	4,182	4,268	4,394	4,689	5,254	5,982	6,581
Cash and Bank Balance	160	261	276	257	542	1,114	1,221	2,211	4,056
Cash	147	257	271	250	477	815	923	1,913	3,757
Bank balance	14	4	5	7	65	299	299	299	299
Loans and Advances	1,208	1,366	1,966	1,680	2,894	2,740	3,068	3,493	3,842
<b>Curr. Liability &amp; Prov.</b>	<b>2,291</b>	<b>2,942</b>	<b>3,610</b>	<b>3,615</b>	<b>4,005</b>	<b>4,874</b>	<b>5,475</b>	<b>6,222</b>	<b>6,844</b>
Account Payables	1,965	2,523	3,278	3,059	2,731	3,770	4,238	4,813	5,294
Other Current Liabilities	184	309	230	416	1,098	918	1,028	1,171	1,288
Provisions	142	110	102	140	176	186	209	238	262
<b>Net Current Assets</b>	<b>3,937</b>	<b>5,331</b>	<b>6,271</b>	<b>6,102</b>	<b>7,075</b>	<b>7,947</b>	<b>8,878</b>	<b>10,928</b>	<b>13,643</b>
<b>Appl. of Funds</b>	<b>8,802</b>	<b>9,931</b>	<b>10,944</b>	<b>12,065</b>	<b>14,115</b>	<b>15,621</b>	<b>16,806</b>	<b>19,049</b>	<b>21,898</b>

## Financials and valuations – GALSURF

### Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Basic (INR)</b>									
EPS	29.0	41.6	44.6	53.9	65.0	85.2	89.2	106.7	118.3
EPS Growth (%)	52.5	43.6	7.1	20.9	20.6	31.1	4.7	19.6	10.9
Cash EPS	41.8	54.9	58.3	68.3	82.5	106.1	110.3	129.4	142.8
BV/Share	126.3	162.2	202.8	247.3	301.2	367.1	434.0	514.0	602.8
DPS	6.0	4.0	3.0	12.0	17.0	18.0	22.3	26.7	29.6
Payout (%)	24.9	11.6	8.1	26.9	31.5	21.1	25.0	25.0	25.0
<b>Valuation (x)</b>									
P/E	104.1	72.5	67.7	56.1	46.5	35.4	33.9	28.3	25.5
Cash P/E	72.3	55.0	51.8	44.2	36.6	28.5	27.4	23.3	21.2
P/BV	23.9	18.6	14.9	12.2	10.0	8.2	7.0	5.9	5.0
EV/Sales	5.9	4.9	4.5	4.0	4.2	3.9	3.4	3.0	2.6
EV/EBITDA	47.1	40.8	38.3	31.1	29.7	24.1	21.7	18.5	16.5
Dividend Yield (%)	0.2	0.1	0.1	0.4	0.6	0.6	0.7	0.9	1.0
FCF per share	19.6	18.9	25.1	32.4	49.2	72.7	61.2	72.5	90.6
<b>Return Ratios (%)</b>									
RoE	24.9	28.9	24.4	23.9	23.7	25.5	22.3	22.5	21.2
RoCE	14.3	17.8	17.3	18.4	19.1	21.1	19.9	21.3	20.6
RoIC	14.6	18.0	17.3	19.5	20.5	23.7	23.4	25.2	25.8
<b>Working Capital Ratios</b>									
Fixed Asset Turnover (x)	4.3	5.2	5.6	5.8	4.6	4.5	5.1	5.6	6.0
Asset Turnover (x)	2.1	2.3	2.3	2.3	1.8	1.8	1.9	1.9	1.8
Inventory (Days)	46	52	51	46	46	56	56	56	56
Debtor (Days)	49	56	62	56	62	61	61	61	61
Creditor (Days)	38	41	49	40	38	49	50	49	49
<b>Leverage Ratio (x)</b>									
Current Ratio	2.7	2.8	2.7	2.7	2.8	2.6	2.6	2.8	3.0
Net Debt/Equity	0.9	0.6	0.4	0.3	0.2	0.1	0.0	-0.1	-0.2

### Consolidated - Cash Flow Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	1,638	2,074	2,188	2,769	2,888	3,723	4,226	5,053	5,605
Depreciation	452	472	485	512	622	740	747	807	867
Others	339	268	249	288	220	79	86	43	21
Direct Taxes Paid	-608	-568	-583	-750	-686	-706	-1,064	-1,272	-1,411
(Inc)/Dec in WC	-127	-1,135	-886	11	113	-186	-824	-1,059	-871
<b>CF from Operations</b>	<b>1,694</b>	<b>1,111</b>	<b>1,454</b>	<b>2,830</b>	<b>3,157</b>	<b>3,651</b>	<b>3,171</b>	<b>3,572</b>	<b>4,212</b>
Capex	-1,000	-440	-562	-1,680	-1,414	-1,073	-1,000	-1,000	-1,000
<b>Free Cash Flow</b>	<b>694</b>	<b>671</b>	<b>891</b>	<b>1,150</b>	<b>1,744</b>	<b>2,578</b>	<b>2,171</b>	<b>2,572</b>	<b>3,212</b>
<b>CF from Investments</b>	<b>-1,000</b>	<b>-440</b>	<b>-562</b>	<b>-1,680</b>	<b>-1,414</b>	<b>-1,073</b>	<b>-1,000</b>	<b>-1,000</b>	<b>-1,000</b>
Inc/(Dec) in Debt	-393	-133	-485	-623	562	-951	-1,187	-594	-297
Interest Paid	-339	-264	-285	-272	-226	-152	-86	-43	-21
Dividend Paid	-256	-173	-127	-298	-940	-495	-791	-945	-1,049
<b>CF from Fin. Activity</b>	<b>-735</b>	<b>-570</b>	<b>-897</b>	<b>-1,192</b>	<b>-1,434</b>	<b>-1,650</b>	<b>-2,064</b>	<b>-1,582</b>	<b>-1,367</b>
<b>Inc/Dec of Cash</b>	<b>-41</b>	<b>101</b>	<b>-6</b>	<b>-42</b>	<b>309</b>	<b>928</b>	<b>108</b>	<b>990</b>	<b>1,845</b>
Opening Balance	188	147	257	271	250	477	815	923	1,913
<b>Closing Balance</b>	<b>147</b>	<b>257</b>	<b>270</b>	<b>251</b>	<b>477</b>	<b>815</b>	<b>923</b>	<b>1,913</b>	<b>3,758</b>

# Fine Organics

BSE Sensex	S&P CNX
52,550	15,748



## Stock info

Bloomberg	FINEORG IN
Equity Shares (m)	31
M.Cap.(INRb)/(USD\$)	88.9 / 1.2
52-Week Range (INR)	3565 / 1852
1, 6, 12 Rel. Per (%)	-21/6/1

## Financial Snapshot (INR b)

Y/E March	FY21	FY22E	FY23E
Sales	11,213	13,450	16,133
EBITDA	1,921	2,413	3,537
PAT	1,149	1,548	2,402
EPS (INR)	37.5	50.5	78.3
EPS Gr. (%)	(31.0)	34.7	55.2
BV/Sh.(INR)	241.0	276.3	331.2

## Ratios

Net D:E	(0.3)	(0.3)	(0.4)
RoE (%)	16.8	19.5	25.8
RoCE (%)	15.7	18.7	25.0
Payout (%)	37.3	30.0	30.0

## Valuations

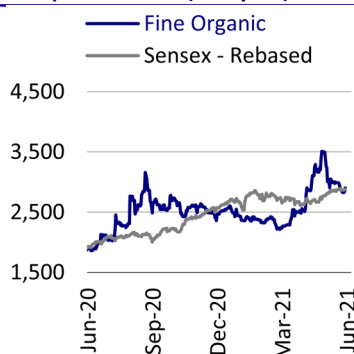
P/E (x)	77.1	57.2	36.9
P/BV (x)	12.0	10.5	8.7
EV/EBITDA (x)	45.1	35.6	24.0
Div. Yield (%)	0.5	0.5	0.8
FCF Yield (%)	1.0	1.2	2.3

## Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	75.0	75.0	75.0
DII	14.2	14.1	14.1
FII	5.9	6.4	6.4
Others	4.9	4.5	4.5

FII Includes depository receipts

## Stock performance (one-year)


**CMP: INR2,878**
**TP: INR3,135 (+9%)**
**Neutral**

## Stable outlook ahead

### Utilization ramp-up and import substitution to compliment growth

- FINEORG is the largest manufacturer of oleo-chemical based Additives in India, producing over 400 Specialty Additives. It is a key producer globally, with two subsidiaries – Fine Organics (USA), and Fine Organics Europe BV, and two JVs – Fine Zeelandia Pvt and FineADD Ingredients.
- It recently commissioned its third facility at Ambarnath (32ktpa capacity) and phase I at Patalganga (10ktpa) – taking its total capacity to 111ktpa. These new capacities are expected to reach optimal levels over the next three years, generating additional revenue of INR6-6.5b on an asset turnover of 2.5-3x.
- In line with these expansions, we forecast ~18% revenue CAGR over FY21-24E v/s ~10% clocked over FY16-21. Despite assuming EBITDAM expansion to 22% in FY23-24E v/s the management's guidance of ~20% (EBITDA/PAT CAGR of 29%/36%), we see no upside to the stock. We value the company at 40x FY23E EPS to arrive at our TP of INR3,135. We initiate coverage with a Neutral rating.

### Demand to remain robust (ahead of industry growth)...

- The Indian Food Emulsifier/Polymer Additives market is expected to clock ~8%/10% CAGR till CY25 respectively. Strong R&D capabilities and development of new products in CosPha (expect 15% CAGR till CY25) will aid FINEORG (largest organized player in India) to achieve higher growth.
- Entry barriers in this industry remain high on the back of complex technology (for green additives), and stringent quality parameters and regulation. With more than 450 products and over 750 direct customers, FINEORG has established itself as a trusted and preferred supplier.
- The company has recently developed a green antimicrobial additive to make plastics safer for customers. The shift towards natural and organic Cosmetics, along with the eco-friendly products, is expected to lift this market in future.

### ...with a recovery in margin after a dip in FY21

- The management expects to sustain EBITDAM at 18-20% (v/s ~17% in FY21), with a normalization in feedstock cost. Prices of raw materials (vegetable oils for oleo-chemicals) touched a record high during the pandemic on the back of strong demand.
- FINEORG has long-standing relationships with its suppliers, which enables it to source raw materials at competitive prices. However, any disruption in the supply chain can impact the company's profitability.
- Also, it has a team of 18 scientist, engineers, and technologists working on creating value for its customers – thus providing company an edge.

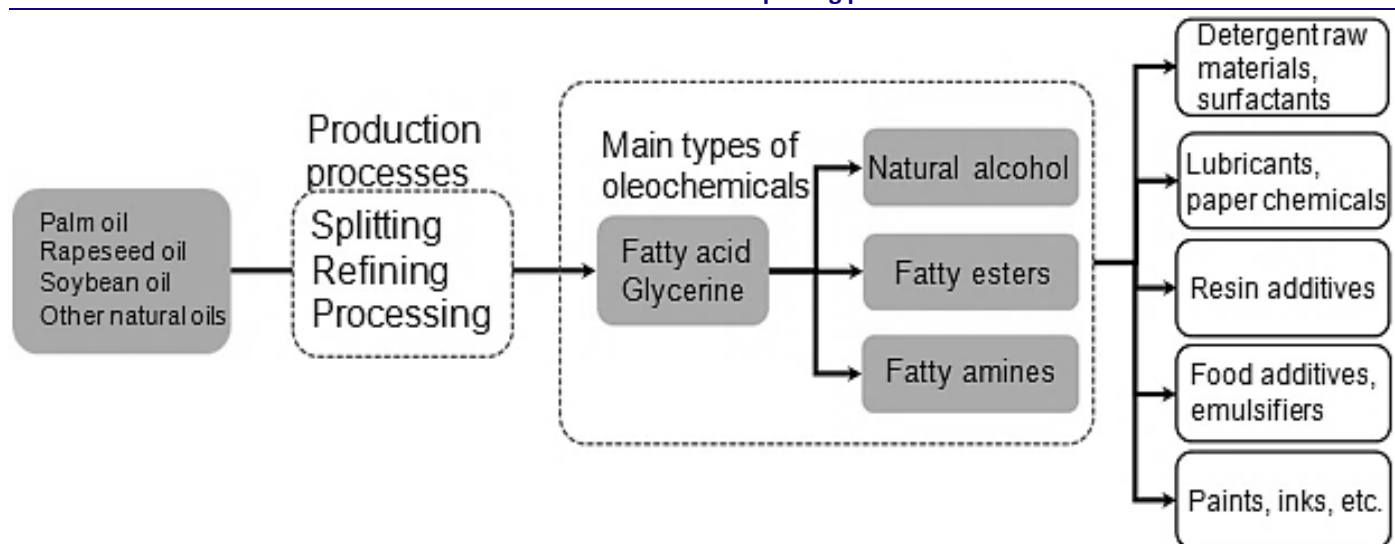
### Valuation and view – initiating coverage with a Neutral rating

- The Cabinet has approved INR110b under the PLI scheme for the Food Processing industry. It will provide incentives to MSMEs if they achieve a minimum growth of 6-7%. This would help FINEORG grow at a faster rate.
- As per our assumptions, the company's asset turnover is likely to remain stagnant around current levels of 1.4-1.5x over next 2-3 years.

**Exhibit 78: FINEORG's capacity and project expansion details**

Plant	Capacity (tpa)	Remarks
First Ambernath facility	49,500	
Badlapur facility	6,400	
Dombivli facility	8,400	
Second Ambernath plant	5,000	
<b>Total</b>	<b>69,300</b>	Running at optimal utilization in FY20
Third Ambernath plant	32,000	Commenced operation in 2QFY20
Patalganga facility	10,000	Phase I commissioned in the latter part of FY21
<b>Total</b>	<b>42,000</b>	
<b>Total</b>	<b>1,11,300</b>	

Source: Company, MOFSL

**Exhibit 79: Oleo-chemicals value chain: oleo-chemicals have been replacing petrochemicals used in surfactants**

Source: Mitsui, MOFSL

## Market potential and opportunities in various segments

### Food

- **Food Additives help in enhancing the quality of products** (both visually as well as in terms of end-properties. For example, smoothness, creamy consistency, and homogeneous texture of a chocolate). **It also protects food via imparting anti-staling and anti-fungal properties**, thus maintaining the quality and freshness of various bakery products.
- **Opportunities:** The key contributors to growth are: 1) rise in consumption of processed foods – further accelerated by the COVID-19 pandemic; 2) increasing urbanization and growing affinity towards convenience products; 3) high growth rate of the Food and Beverage industry, and 4) increasing number of end-use applications due to multi-functional attributes of emulsifiers.

### Feed Nutrition

- **These Additives are 100% bio-based, which offers benefits through improved animal health and fertility**, thus resulting in higher quality and more nutritious derived products such as milk and milk-based products.
- These products provide natural nutritional replacements to synthetic chemical products for animals, and natural antimicrobials in feeds, facilitating the growth of birds and cattle.

### Plastics/Polymer

- **Plastic/Polymer Additives help prevent surface defects and offers superior aesthetics** (for example, films used in Food Packaging and Agricultural applications), **make molding process more efficient through better mold release, reduces dust pick-up in the final product by dissipating static charge, enhances polymer processing and increases production rate by reducing surface friction.**
- The market for Plastic Additives is classified into: antioxidants, anti-blocks, UV stabilizers, fillers, catalysts, lubricants, processing aids, flow improvers, Slip Additives, Antistatic Additives, pigment wetting agents, Anti-Fog Additives, impact modifiers, and others.
- **Opportunities:** The growth in e-commerce is propelling the Packaging industry, coupled with increased demand from the Retail industry. Replacement of conventional products and an increasing preference for non-toxic polymers to aid growth in this segment.

### Cosmetics and Pharmaceuticals (CosPha)

- **CosPha Additives are capable of offering excellent consistency** (pearlescent effect – which increases the consumer appeal) **and aids in achieving long-term physical stability in creams, ointments, and lotions.** They contribute in cleansing formulations as mild co-surfactant and antimicrobial components.
- **Opportunities:** Rising disposable incomes, growing population (gaining popularity with millennials), increasing awareness, and products containing multiple benefits (such as those with anti-ageing properties, moisturizing care, and sunscreen protection in a single product) is driving growth for Cosmetics.

### Coatings, rubber and other Specialty Additives

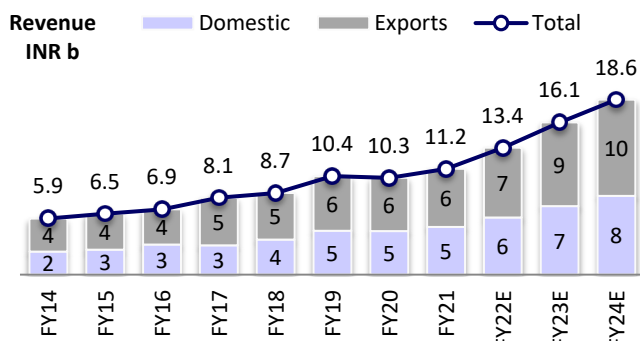
- **Coatings Additives** act as anti-settling agents, emulsifiers, thickening/anti-sagging agents, wetting and dispersing agents, defoamers, biocides, and anti-mar waxes, thereby **improving the appearance and performance of coatings.**
- **Rubber Additives help improve compounding and processing of rubber via improved flow, easy release, and surface quality.** They find wide applications across conveyor belts, automotive parts, hoses and shoe soles, etc.
- **Other Specialty Additives aid in the printing process** (ensuring a high quality printed surface) and in road marking paint by offering excellent quality.
- **Opportunities:** The growing e-commerce business (like packaging), increasing applications (use of plastics across industries, Automobiles, Durables etc.), and technological advancements are the future growth drivers for the industry.



## Financials story in charts

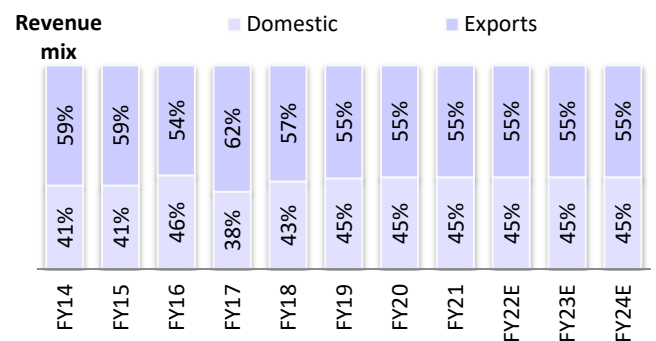
### Stable growth, but stagnant margin and expensive valuations

**Exhibit 80: Expect ~18% revenue CAGR over FY21-24E...**



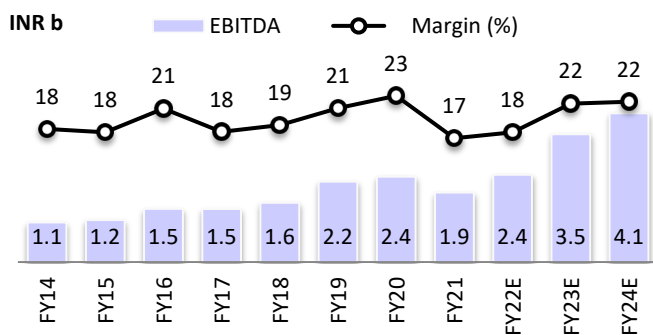
Source: Company, MOFSL

**Exhibit 81: ...with constant export-to-domestic mix**



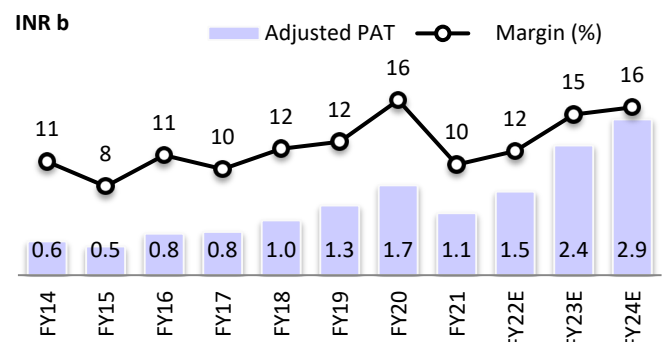
Source: Company, MOFSL

**Exhibit 82: Expect EBITDAM to return to ~22%...**



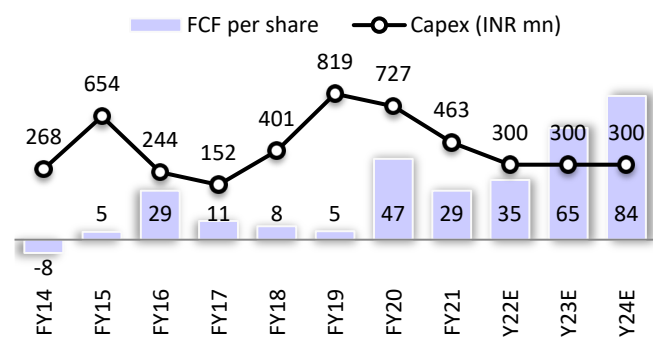
Source: Company, MOFSL

**Exhibit 83: ...along with an improvement in PAT margin**



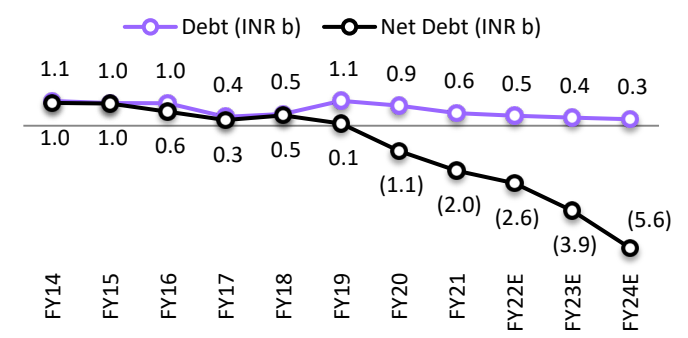
Source: Company, MOFSL

**Exhibit 84: Capex for the next three years stands at INR0.9b**



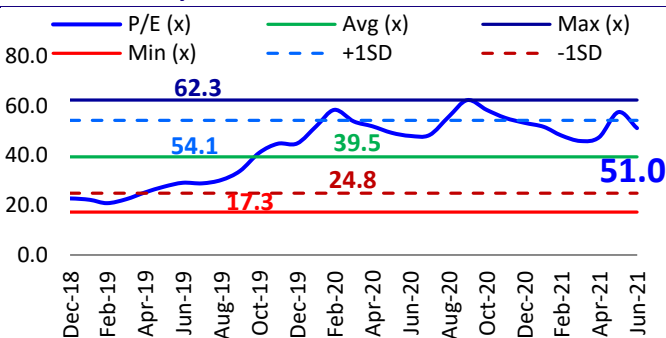
Source: Company, MOFSL

**Exhibit 85: FINEORG remains net cash positive**



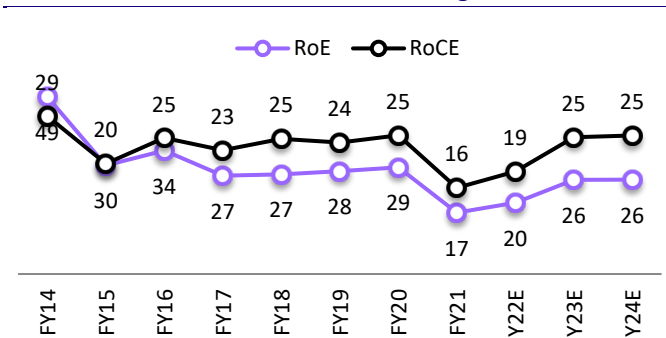
Source: Company, MOFSL

**Exhibit 86: One year forward PE trades at 51x...**



Source: Company, MOFSL

**Exhibit 87: ...with return ratios recovering to ~25-26%**



Source: Company, MOFSL

## Valuation and view (TP INR3,135; +9% upside)

### Initiating coverage with a Neutral rating

- FINEORG has been constantly enhancing its Food Emulsifiers through continued R&D and process integration for Biscuits and Bakery products, which witnessed a larger offtake during the pandemic. Growing awareness and demand for healthier and organic food products is expected to propel usage of emulsifiers in the country. Surging demand for malt drinks will further drive the market for Food Emulsifiers.
- FINEORG will set up a new joint venture facility in Thailand, with the shareholding pattern as follows: Fine Organic Industries (FINEORG) – India: 45%; Oleofine Organics Thailand Co. (OFT): 45%; and Oleofine Organics Sdn. (OFM) – Malaysia: 10%. The project would enjoy the advantage of easier procurement of palm oil, with Indonesia, Malaysia, and Thailand being the major (88%) producers of palm oil globally.
- On 23<sup>rd</sup> Dec'20, the Maharashtra Pollution Control (MPCB) issued a blanket order to close all facilities in the vicinity of Ambarnath in violation of water and air norms. This also impacted FINEORG's operations at its Ambarnath facility, which was later allowed to restart on 11<sup>th</sup> Jan'21.
- Despite building in aggressive numbers ahead of the company's guidance (considering normalization in raw materials prices from its peak and cost efficiencies with a ramp up in production), our estimates do not result in significant upside from the CMP.
- Any delay in ramp-up of the expanded capacity would further result in downward revision to our estimates. The stock is trading at 37x FY23E EPS of INR78 and 24x FY23E EV/EBITDA. We value the company at 40x FY23E EPS to arrive at our TP of INR3,135. We initiate coverage on FINEORG with a Neutral rating.

- ❖ The largest organized player in oleo-chemical based Green Additives in India
- ❖ It is one of the top six global players in Specialty Food Emulsifiers
- ❖ It is one of the top five global players in Polymer Additives

**S**  
STRENGTH



- ❖ Long product approvals, especially for food and feed nutrients, could impact new customer procurement, and growth in volumes in the near term

**W**  
WEAKNESS



- ❖ In-house process design expertise in constructing production facilities significantly reduces capex v/s other players
- ❖ Technological advancement to cater to need-based solutions as per the varied needs of clients

**O**  
OPPORTUNITY



- ❖ The slowdown in end-user industries (like Paints, Coatings, and Construction Chemicals) could hamper growth in the near term
- ❖ The cyclical nature of key raw materials (vegetable oils) could impact production as well as margin

**T**  
THREATS





## Bull and Bear Case

**Exhibit 88: End-user industry growth and recovery in margin remains key**

TP (at 40x FY23 EPS)	(INR m)	FY21	FY22E	FY23E	FY24E	CAGR (FY21-24E, %)	Thesis
<b>Bear Case</b>	Revenue	11,213	12,558	14,065	15,753	12	■ Assuming volume growth at 12% CAGR over FY21-24E, in line with end-user industry growth (assuming no legacy advantage for the company)
	EBITDA	1,921	2,539	2,878	3,261	19	
<b>INR2,490</b>	EPS	37.5	54.1	62.2	71.4	24	
<b>Base Case</b>	Revenue	11,213	13,450	16,133	18,553	18	■ Assuming 18% revenue CAGR over FY21-24E, in line with the management's guidance, backed by recent expansion – with higher than guided margins
	EBITDA	1,921	2,413	3,537	4,116	29	
<b>INR3,135</b>	EPS	37.5	50.5	78.3	94.1	36	
<b>Bull Case</b>	Revenue	11,213	14,016	17,520	21,024	23	■ Assuming 23% revenue CAGR at over FY21-24E, assuming faster ramp up of new capacities and meaningful contribution from Thailand JV
	EBITDA	1,921	3,094	4,193	5,268	40	
<b>INR3,775</b>	EPS	37.5	67.6	94.3	120.9	48	

Source: Company, MOFSL

## Management overview

### Mr. Prakash Kamat, Chairman

- He holds a master's degree in science and technology (oils) from the Institute of Chemical Technology (formerly UDCT).
- He has been associated with the group since inception. Mr. Kamat has varied experience in product development, process technology, and R&D.

### Mr. Mukesh Shah, Managing Director

- He holds a bachelor's degree in science. He joined the company in CY73.
- He played a key role in establishing quality control and global sales and marketing.

### Mr. Jayen Shah, CEO

- He holds a master's degree in science. He joined the company in CY86.
- Mr. Shah was instrumental in creating a strong vendor-partner network, established Fine Zeelandia Pvt (a JV).

### Mr. Tushar Shah, CFO

- He joined the company in CY89. He led several initiatives like ERP, CRM, logistics, among others.
- He played a key role in the development of the first Slip Additives facility.

## Financials and valuations – FINEORG

### Standalone – Income Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Total Income from Operations</b>	<b>6,920</b>	<b>8,144</b>	<b>8,651</b>	<b>10,440</b>	<b>10,262</b>	<b>11,213</b>	<b>13,450</b>	<b>16,133</b>	<b>18,553</b>
Change (%)	7.2	17.7	6.2	20.7	-1.7	9.3	19.9	20.0	15.0
Gross Margins (%)	44.0	38.8	35.6	37.3	40.9	35.2	35.0	38.0	38.0
<b>EBITDA</b>	<b>1,469</b>	<b>1,467</b>	<b>1,640</b>	<b>2,223</b>	<b>2,361</b>	<b>1,921</b>	<b>2,413</b>	<b>3,537</b>	<b>4,116</b>
Margin (%)	21.2	18.0	19.0	21.3	23.0	17.1	17.9	21.9	22.2
Depreciation	298	237	200	175	347	468	506	539	572
<b>EBIT</b>	<b>1,171</b>	<b>1,230</b>	<b>1,440</b>	<b>2,048</b>	<b>2,014</b>	<b>1,453</b>	<b>1,907</b>	<b>2,997</b>	<b>3,543</b>
Int. and Finance Charges	71	44	31	18	48	61	42	34	27
Other Income	76	43	164	202	205	170	204	246	340
<b>PBT bef. EO Exp.</b>	<b>1,176</b>	<b>1,229</b>	<b>1,572</b>	<b>2,233</b>	<b>2,172</b>	<b>1,562</b>	<b>2,068</b>	<b>3,210</b>	<b>3,856</b>
<b>PBT after EO Exp.</b>	<b>1,175</b>	<b>1,229</b>	<b>1,572</b>	<b>2,233</b>	<b>2,172</b>	<b>1,562</b>	<b>2,068</b>	<b>3,210</b>	<b>3,856</b>
Total Tax	407	429	559	942	507	413	521	808	971
Tax Rate (%)	34.6	34.9	35.5	42.2	23.3	26.4	25.2	25.2	25.2
<b>Reported PAT</b>	<b>769</b>	<b>800</b>	<b>1,014</b>	<b>1,290</b>	<b>1,665</b>	<b>1,149</b>	<b>1,548</b>	<b>2,402</b>	<b>2,886</b>
<b>Adjusted PAT</b>	<b>769</b>	<b>800</b>	<b>1,014</b>	<b>1,290</b>	<b>1,665</b>	<b>1,149</b>	<b>1,548</b>	<b>2,402</b>	<b>2,886</b>
Change (%)	44.9	4.0	26.7	27.3	29.0	-31.0	34.7	55.2	20.1
Margin (%)	11.1	9.8	11.7	12.4	16.2	10.3	11.5	14.9	15.6

### Standalone - Balance Sheet

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	51	51	153	153	153	153	153	153	153
Total Reserves	2,534	3,298	3,931	4,931	6,154	7,235	8,319	10,000	12,020
<b>Net Worth</b>	<b>2,585</b>	<b>3,350</b>	<b>4,085</b>	<b>5,084</b>	<b>6,308</b>	<b>7,388</b>	<b>8,472</b>	<b>10,153</b>	<b>12,173</b>
Total Loans	1,021	403	536	1,130	915	567	454	363	291
<b>Capital Employed</b>	<b>3,577</b>	<b>3,752</b>	<b>4,621</b>	<b>6,219</b>	<b>7,222</b>	<b>7,956</b>	<b>8,926</b>	<b>10,516</b>	<b>12,464</b>
Gross Block	2,343	2,290	2,395	2,464	4,192	4,453	4,753	5,053	5,353
Less: Accum. Deprn.	1,096	1,322	1,515	1,686	2,033	2,500	3,007	3,546	4,118
<b>Net Fixed Assets</b>	<b>1,247</b>	<b>968</b>	<b>881</b>	<b>778</b>	<b>2,159</b>	<b>1,953</b>	<b>1,747</b>	<b>1,507</b>	<b>1,235</b>
Capital WIP	57	28	317	1,063	58	263	263	263	263
<b>Total Investments</b>	<b>54</b>	<b>143</b>	<b>143</b>	<b>167</b>	<b>442</b>	<b>437</b>	<b>437</b>	<b>437</b>	<b>437</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>2,841</b>	<b>3,406</b>	<b>4,079</b>	<b>5,086</b>	<b>5,964</b>	<b>6,901</b>	<b>8,646</b>	<b>10,908</b>	<b>13,517</b>
Inventory	737	885	833	790	1,195	1,089	2,033	2,439	2,805
Account Receivables	955	1,203	1,611	1,670	1,451	1,745	1,902	2,281	2,623
Cash and Bank Balance	387	142	71	1,031	2,056	2,612	3,065	4,228	5,846
Cash	367	103	54	1,020	2,009	2,564	3,017	4,180	5,799
Bank Balance	16	39	17	11	48	48	48	48	48
Loans and Advances	761	1,176	1,564	1,595	1,262	1,454	1,646	1,960	2,243
<b>Curr. Liability &amp; Prov.</b>	<b>622</b>	<b>793</b>	<b>799</b>	<b>875</b>	<b>1,401</b>	<b>1,598</b>	<b>2,166</b>	<b>2,599</b>	<b>2,988</b>
Account Payables	532	676	693	523	843	1,084	1,434	1,721	1,979
Other Current Liabilities	82	117	84	307	526	473	689	827	951
<b>Net Current Assets</b>	<b>2,219</b>	<b>2,613</b>	<b>3,280</b>	<b>4,211</b>	<b>4,563</b>	<b>5,303</b>	<b>6,479</b>	<b>8,309</b>	<b>10,529</b>
<b>Appl. of Funds</b>	<b>3,577</b>	<b>3,752</b>	<b>4,621</b>	<b>6,219</b>	<b>7,222</b>	<b>7,956</b>	<b>8,926</b>	<b>10,516</b>	<b>12,464</b>

## Financials and valuations – FINEORG

### Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Basic (INR)</b>									
<b>EPS</b>	<b>25.1</b>	<b>26.1</b>	<b>33.1</b>	<b>42.1</b>	<b>54.3</b>	<b>37.5</b>	<b>50.5</b>	<b>78.3</b>	<b>94.1</b>
Cash EPS	34.8	33.8	39.6	47.8	65.6	52.7	67.0	95.9	112.8
BV/Share	84.3	109.2	133.2	165.8	205.7	241.0	276.3	331.2	397.0
DPS	0.0	0.0	7.5	7.0	11.0	14.0	15.1	23.5	28.2
Payout (%)	0.0	0.0	27.3	20.0	24.4	37.3	30.0	30.0	30.0
<b>Valuation (x)</b>									
P/E	115.2	110.8	87.4	68.7	53.2	77.1	57.2	36.9	30.7
Cash P/E	83.0	85.5	73.0	60.5	44.0	54.8	43.1	30.1	25.6
P/BV	34.3	26.5	21.7	17.4	14.0	12.0	10.5	8.7	7.3
EV/Sales	12.9	10.9	10.3	8.5	8.5	7.7	6.4	5.3	4.5
EV/EBITDA	60.7	60.6	54.3	39.9	37.0	45.1	35.6	24.0	20.2
Dividend Yield (%)	0.0	0.0	0.3	0.2	0.4	0.5	0.5	0.8	1.0
FCF per share	28.8	11.0	7.9	5.0	47.3	28.7	35.0	65.5	84.3
<b>Return Ratios (%)</b>									
RoE	33.8	27.0	27.3	28.1	29.2	16.8	19.5	25.8	25.9
RoCE	24.9	22.6	24.7	24.0	25.3	15.7	18.7	25.0	25.3
RoIC	25.7	24.6	24.7	29.4	35.8	23.0	29.1	41.7	46.1
<b>Working Capital Ratios</b>									
Fixed Asset Turnover (x)	5.6	7.4	9.4	12.6	7.0	5.5	7.3	9.9	13.5
Asset Turnover (x)	1.9	2.2	1.9	1.7	1.4	1.4	1.5	1.5	1.5
Inventory (Days)	39	40	35	28	42	35	55	55	55
Debtor (Days)	50	54	68	58	52	57	52	52	52
Creditor (Days)	28	30	29	18	30	35	39	39	39
<b>Leverage Ratio (x)</b>									
Current Ratio	4.6	4.3	5.1	5.8	4.3	4.3	4.0	4.2	4.5
Net Debt/Equity	0.2	0.1	0.1	0.0	-0.2	-0.3	-0.3	-0.4	-0.5

### Standalone - Cash Flow Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>(INR m)</b>									
OP/(Loss) before Tax	1,176	1,229	1,572	2,232	2,172	1,562	2,068	3,210	3,856
Depreciation	298	237	200	174	347	468	506	539	572
Others	70	1	-118	-158	-144	-106	42	34	27
Direct Taxes Paid	-426	-495	-509	-855	-612	-415	-521	-808	-971
(Inc)/Dec in WC	7	-483	-503	-423	416	-167	-724	-667	-601
<b>CF from Operations</b>	<b>1,126</b>	<b>490</b>	<b>643</b>	<b>972</b>	<b>2,178</b>	<b>1,343</b>	<b>1,372</b>	<b>2,308</b>	<b>2,884</b>
(Inc)/Dec in FA	-244	-152	-401	-819	-727	-463	-300	-300	-300
<b>Free Cash Flow</b>	<b>882</b>	<b>338</b>	<b>242</b>	<b>153</b>	<b>1,451</b>	<b>880</b>	<b>1,072</b>	<b>2,008</b>	<b>2,584</b>
Others	99	46	-118	-73	172	57	0	0	0
<b>CF from Investments</b>	<b>-198</b>	<b>-163</b>	<b>-521</b>	<b>-934</b>	<b>-842</b>	<b>-402</b>	<b>-300</b>	<b>-300</b>	<b>-300</b>
Inc/(Dec) in Debt	-47	-539	0	1,081	-14	-347	-113	-91	-73
Interest Paid	0	-38	-21	-33	-63	-52	-42	-34	-27
Dividend Paid	-443	0	-277	-258	-407	-92	-464	-721	-866
Others	-68	-15	125	139	137	106	0	0	0
<b>CF from Fin. Activity</b>	<b>-558</b>	<b>-592</b>	<b>-172</b>	<b>929</b>	<b>-346</b>	<b>-385</b>	<b>-620</b>	<b>-845</b>	<b>-965</b>
<b>Inc/Dec of Cash</b>	<b>370</b>	<b>-264</b>	<b>-49</b>	<b>966</b>	<b>989</b>	<b>555</b>	<b>452</b>	<b>1,163</b>	<b>1,619</b>
Opening Balance	17	367	103	54	1,020	2,009	2,564	3,017	4,180
<b>Closing Balance</b>	<b>387</b>	<b>103</b>	<b>53</b>	<b>1,020</b>	<b>2,009</b>	<b>2,564</b>	<b>3,017</b>	<b>4,180</b>	<b>5,798</b>



BSE Sensex  
52,550S&P CNX  
15,748

NOCIL LIMITED

**Stock info**

Bloomberg	NOCIL IN
Equity Shares (m)	166
M.Cap.(INRb)/(USDb)	35.7 / 0.5
52-Week Range (INR)	221 / 82
1, 6, 12 Rel. Per (%)	-4/37/95

**Financial Snapshot (INR b)**

Y/E March	FY21	FY22E	FY23E
Sales	9,247	13,223	15,510
EBITDA	1,269	2,310	3,063
PAT	865	1,547	2,075
EPS (INR)	5.2	9.3	12.5
EPS Gr. (%)	(34.0)	78.9	34.1
BV/Sh.(INR)	76.6	82.2	89.7

**Ratios**

Net D:E	(0.1)	(0.1)	(0.1)
RoE (%)	7.1	11.7	14.5
RoCE (%)	6.6	11.0	13.7
Payout (%)	48.0	40.0	40.0

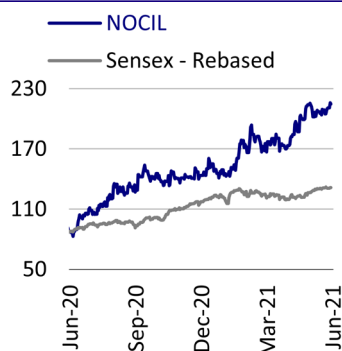
**Valuations**

P/E (x)	41.3	23.1	17.2
P/BV (x)	2.8	2.6	2.4
EV/EBITDA (x)	27.5	15.1	11.1
Div. Yield (%)	1.2	1.7	2.3
FCF Yield (%)	1.8	2.2	4.6

**Shareholding pattern (%)**

As On	Mar-21	Dec-20	Mar-20
Promoter	33.9	34.0	34.0
DII	5.2	5.1	5.1
FII	2.2	2.1	2.1
Others	58.7	58.9	58.9

FII Includes depository receipts

**Stock performance (one-year)**

CMP: INR212

TP: INR275 (+30%)

Buy

**Multifold growth ahead****...expected to see a cyclical revival**

- NOCIL is the largest manufacturer of rubber chemicals in India, with a domestic/global market share of ~40%/~5% respectively. With a rich experience of over four decades, it is a one-stop shop and a dependable supplier of rubber chemicals. It provides an almost complete (~22) range of products.
- After a sluggish FY19-20, volumes for the company grew ~13% in FY21, while the same for the industry declined ~7%. This led to market share gains for NOCIL. Restriction on tyre imports has helped the companies to operate at a higher rate in 2HFY21. Also, ADD has been imposed on one product so far (out of six products) and investigations are ongoing on other products as well.
- We forecast revenue/PAT CAGR of 25%/48% over FY21-24E. Valuing NOCIL at 22x FY23E EPS, we initiate coverage with a Buy rating and TP of INR275.

**Ready to compete with China**

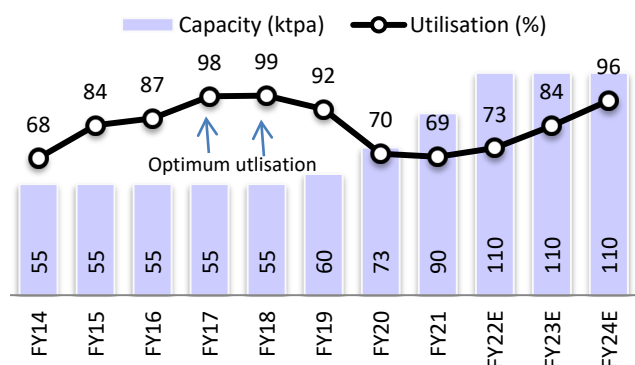
- China accounts for 75% of global rubber chemical production and is a major exporter as it consumes only 35%. However, due to COVID-19 and stricter compliance of environmental norms in China, buyers are looking elsewhere for alternative supply sources.
- Globally, NOCIL is recognized for its technical capabilities, and on this aspect alone it enjoys an edge over peers.
- At the end of FY21, it had an average capacity of 90ktpa (~70% utilization). With the commissioning of Phase 2B, capacity has increased to 110ktpa, which the management has guided at achieving 95% utilization by Sep'23.

**Huge potential both domestically and internationally**

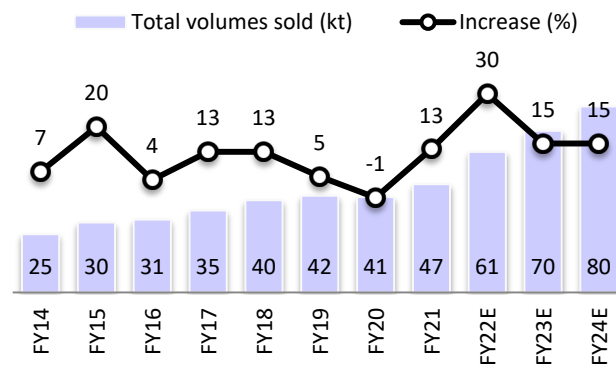
- NOCIL's exports are likely to strengthen further as global consumers look for an alternative to Chinese suppliers. Exports constitute ~35% of total revenue in FY21, which is expected to reach ~40% over the next two years.
- China produces ~7mmt of rubber chemicals (with ~35% exports, ~2.5mmt). Any movement of consumers from China to India could fill NOCIL's remaining capacity of ~50ktpa (i.e. a mere 2% of China's current export).
- Over FY21-24E, we expect NOCIL to deliver ~25% revenue CAGR, with EBITDAM expansion to 20-22%, led by better price realizations and improvement in process efficiencies, thus decreasing conversion cost.

**Valuation and view – initiating coverage with a Buy rating**

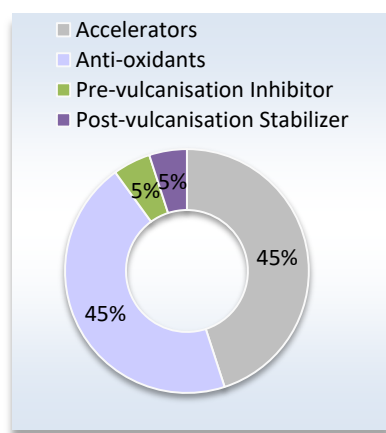
- NOCIL is currently evaluating its next leg of the strategy for business expansion. Specialized products form ~25% of the total revenue mix right now. Any new capex announcement in this category would be both realization and margin accretive. Each process plant at the facility has sufficient elbow room and can support 20-25% expansion if required.
- The company became debt free in FY19 and internal accruals would help fund the next leg of capex (FCF generation of INR4.7b over FY22-24E).
- We expect return ratios to recover to 17-18% in FY23-24E (up from 7% in FY21). NOCIL saw a strong dividend payout (last five year average at ~40%), and we assume a similar payout going forward as well.

**Exhibit 89: Expect optimal capacity utilization by FY24E...**

Source: Company, MOFSL

**Exhibit 90: ...with ~20% YoY volume CAGR over FY21-24E**

Source: Company, MOFSL

**Product portfolio: the main products****Anti-degradants/anti-oxidants: Px 13 (6 PPD) and TDQ (TMQ).**

Anti-degradants/anti-oxidants ensure that the normal or desired lifecycle of a rubber product is achieved. Anti-oxidants predominantly protect unsaturated polymers from oxygen, heat, and heavy metal ions, while anti-degradants protect polymers from more aggressive degradative forces such as ozone and flex-fatigue.

**Accelerators: MBT, MBTS, CBS, and PVI**

It accelerates the sulfur cross-linking reaction (vulcanization), imparts desired physical properties to rubber products, and enables manufacturing of products on a large scale at an optimum cost. It also decreases the quantity of sulfur necessary for vulcanization.

**Pre-vulcanization inhibitor: Pilgard PVI**

Widely used in the manufacturing of almost all rubber products based on sulfur curable rubbers. Pilgard PVI is an effective tool to overcome various processing limitations. Incorporation of Pilgard PVI can permit the addition of curatives at an early stage of mixing for better dispersion of curatives, resulting in a reduced mixing cycle, power consumption, labor, and capital investment cost.

**Post-vulcanization stabilizer: Pilocure DHTS**

- Helps in vulcanization at a higher temperature.
- Helps in vulcanization over an extended period.

**Exhibit 91: NOCIL has two manufacturing facilities – the recent expansion to 110ktpa was completed with the commissioning of Phase 2B (entire capex already capitalized in FY21)**

Navi Mumbai Plant	Dahej Plant
Set up in 1976	Commercialized operation in March 2013
Located in Trans-Thane Creek industrial area at Navi Mumbai, Thane - Belapur's industrial zone designated for the chemical industry, about 40 kms away from Mumbai	Located about 45 kms from Bharuch, Gujarat
State-of-the-art technology for the manufacture of the entire range of Rubber Chemicals for Tyre & other Rubber Products	Location has synergistic Chemicals & Petrochemicals industry and excellent connectivity with Dahej & Hazira Port
	Fully automated continuous process plant developed completely with in-house technology

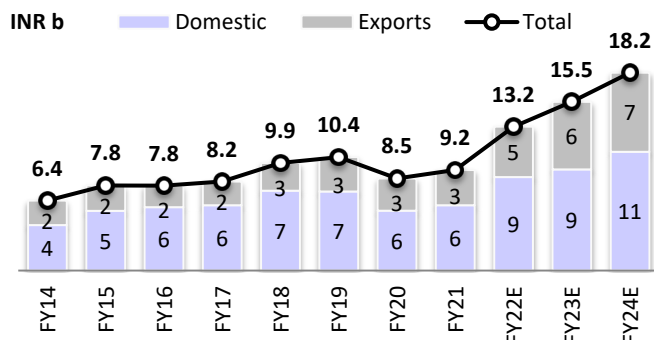
Source: Company, MOFSL

The future demand potential of rubber can be gauged from the present low Auto penetration in India. Also, growth in demand for tyres is linked to the GDP growth rate, particularly growth in infrastructure (for commercial tyres) and income levels (for passenger tyres). Tyre companies in India export 10-15% of their total production. These companies are seeing increased exports, led by adoption of global technology and better product quality

## Financials story in charts

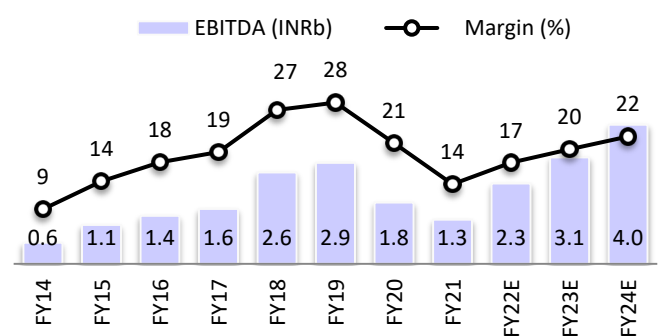
### Capacity expansion comes at the right time, to drive multi fold growth

**Exhibit 92: Exports to constitute ~40% of revenue...**



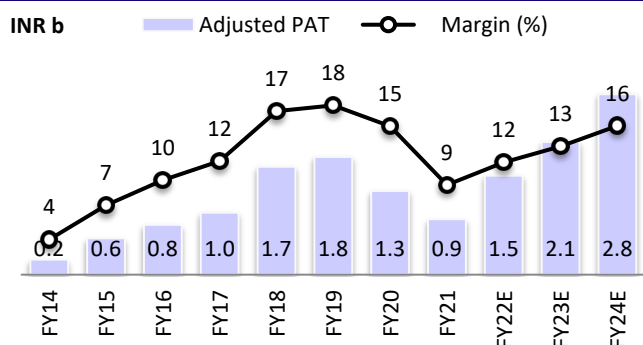
Source: Company, MOFSL

**Exhibit 93: ...with a sustainable EBITDAM of 20-22%**



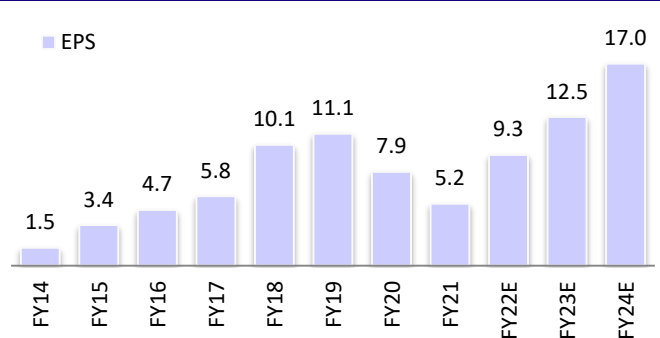
Source: Company, MOFSL

**Exhibit 94: Forecast PAT to grow by 3x+ by FY24E...**



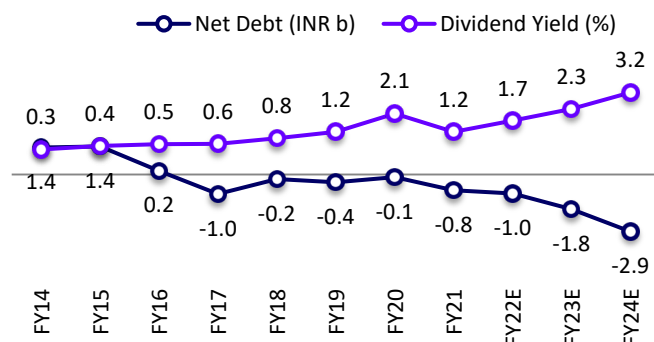
Source: Company, MOFSL

**Exhibit 95: ...registering ~48% CAGR over FY21-24E**



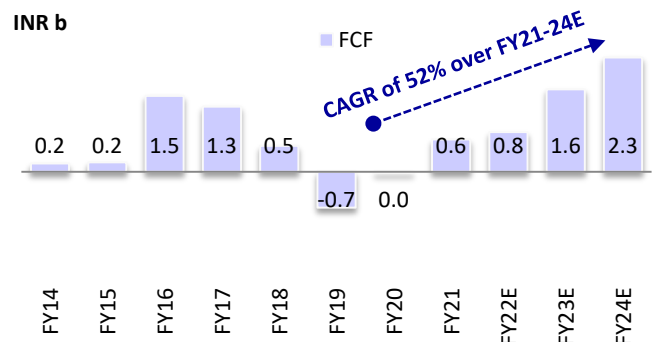
Source: Company, MOFSL

**Exhibit 96: Expect dividend yield to grow...**



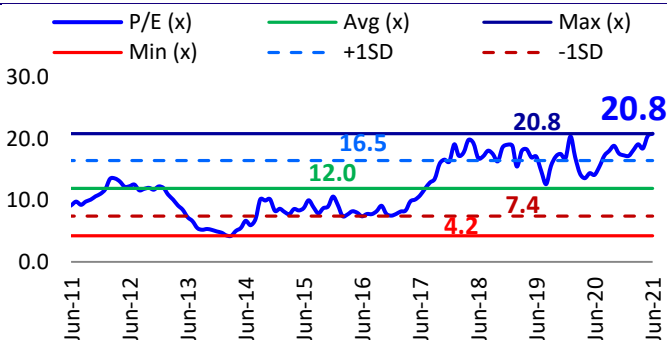
Source: Company, MOFSL

**Exhibit 97: ...with a strong FCF yield of ~13% over FY22-24E**



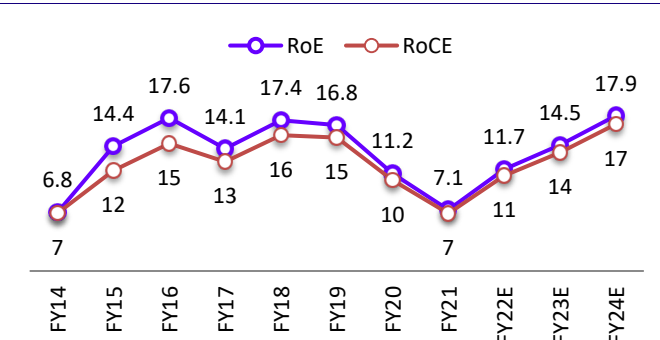
Source: Company, MOFSL

**Exhibit 98: One year forward PE trades at 20.8x...**



Source: Company, MOFSL

**Exhibit 99: ...with return ratios improving**

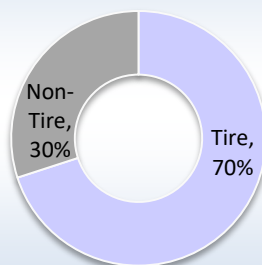


Source: Company, MOFSL

## Valuation and view (TP INR275; +30% upside)

### Initiating coverage with a Buy rating

Global rubber chemicals market share



- In line with its geographic diversification strategy, the company has entered newer export markets and is witnessing a higher share of inquiries. NOCIL's capacity expansion seems to have come at the right time.
- APAC has emerged as the dominant market for rubber processing chemicals. Rising demand from China, India, and Japan (due to a flourishing Auto and Construction industry), offers immense opportunities for rubber chemical manufacturers. Recovery in the Auto sector should boost demand for tyres, thus benefitting NOCIL.
- The recent import restriction on various classes of tyres into India should further help domestic tyre companies to operate at higher utilization rates (seen in 2HFY21). Domestic companies like Apollo Tyres, CEAT, and MRF are planning to ramp up production as the tyre industry is expected to witness considerable growth.
- Over the past five years, NOCIL has delivered 3% revenue CAGR, with exports at 30% of total revenue. This was primarily due to increased Chinese dumping after the expiry of ADD in Jun'19, further impacted by a slowdown in the global Auto sector (in FY20). Tyre import restrictions and ongoing ADD investigation (approval likely for one more product in addition to PX13 issued in CY20) would support volume growth for NOCIL.
- The stock is trading at 17x FY23E P/E and 11x FY23E EV/EBITDA, with an asset turnover of ~0.7x (which is set to increase to 1x in FY23-24E – similar to FY18 levels, when the company achieved optimal utilization of its then capacity). Valuing it at 22x FY23E EPS, we initiate coverage on NOCIL with a Buy rating and TP of INR275.

- ❖ Market leader with 40% domestic share
- ❖ A trusted 40-year old company with over 22 products in its portfolio
- ❖ Has state-of-the-art R&D facility, giving its products a technology edge over competitors

# S

STRENGTH



- ❖ Huge dependence on Auto and Tyre industries, which is cyclical in nature
- ❖ Business is not diversified as NOCIL is predominantly into the rubber chemicals space

# W

WEAKNESS



- ❖ Globally, Tyre companies have earmarked a capex of USD7b, which would result in higher demand for rubber chemicals
- ❖ EV disruption to not affect NOCIL

# O

OPPORTUNITY



- ❖ Delay in revival of Auto and Tyre demand, resulting in weak demand for rubber and rubber chemicals
- ❖ Lifting of current restriction on tyre imports and expiry of ADD (currently available only on one product) could dampen volumes and realization

# T

THREATS





## Bull and Bear Case

**Exhibit 100: Multifold growth ahead for NOCIL – faster ramp-up of utilization rates is the key**

TP (at 22x FY23E EPS)	(INR m)	FY21	FY22E	FY23E	FY24E	CAGR (FY21-24E,%)	Thesis
<b>Bear Case</b>	Revenue	9,247	11,697	13,721	16,094	20	■ Assuming a delay in reaching optimal utilization (to FY25-end) owing to slower recovery in the auto sector, resulting in 15% volume CAGR over FY21-24E
	EBITDA	1,269	2,044	2,710	3,537	41	
<b>INR255</b>	EPS (INR)	5.2	8.3	11.5	15.1	43	
<b>Base case</b>	Revenue	9,247	13,223	15,510	18,193	25	■ Assuming optimal utilization by FY24-end (v/s companies guidance by Sep'23), resulting in 20% volume CAGR over FY21-24E
	EBITDA	1,269	2,310	3,063	3,999	47	
<b>INR275</b>	EPS (INR)	5.2	9.3	12.5	17.0	48	
<b>Bull case</b>	Revenue	9,247	13,731	18,208	21,357	32	■ Assuming it reaches optimal utilization (by FY23-end), led by higher export orders owing to China+1, resulting in 28% volume CAGR over FY21-24E
	EBITDA	1,269	2,399	3,596	4,694	55	
<b>INR330</b>	EPS (INR)	5.2	9.7	15.0	20.0	57	

Source: Company, MOFSL

## Management overview

### Mr. Hrishikesh A Mafatlal, Executive Chairman and promoter Director

- Mr. Mafatlal is the Executive Chairman and promoter Director of NOCIL. He is the Chairman of Arvind Mafatlal Group of Companies (AMG).
- Mr. Mafatlal has an Honors Degree in Commerce (CY75) from Sydenham College, Mumbai. In CY93, he attended the Advanced Management Program (AMP) at Harvard Business School, US.
- He is the past President and now a Managing Committee Member of The Mill Owners' Association, Mumbai (MOA).
- He was a Member on the Board of Governors of IIM Ahmedabad for 12 years (CY95-CY07) and was the Vice Chairman of The Cotton Textiles Export Promotion Council (TEXPROCIL).

### Mr. Sudhir R Deo, Managing Director

- Mr. Deo has an M. Tech. degree in Chemical Engineering from IIT Kanpur. He has been associated with NOCIL for ~35 years in various technical capacities.
- He was appointed as Managing Director from 1<sup>st</sup> Aug'17.

### Mr. P Srinivasan, CFO

- Mr. Srinivasan holds the position of CFO and President – Finance at NOCIL.

### Mr. Amit K. Vyas, Company Secretary

- Mr. Vyas is a Member of the Institute of Company Secretaries of India and is on the board of five more companies.
- In the past, he occupied the position of Secretary, Head-Legal and Internal Audit at Greaves Cotton, was the Secretary and Compliance Officer for Kamat Hotels (India), and the Secretary and Chief Compliance Officer for Gillette India.
- He graduated from the University of Delhi.



## Financials and valuations – NOCIL

### Standalone - Income Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Total Income from Operations</b>	<b>7,886</b>	<b>8,183</b>	<b>9,893</b>	<b>10,429</b>	<b>8,463</b>	<b>9,247</b>	<b>13,223</b>	<b>15,510</b>	<b>18,193</b>
Change (%)	0.4	3.8	20.9	5.4	-18.9	9.3	43.0	17.3	17.3
Gross Margins (%)	54.4	56.1	55.5	55.2	54.2	45.4	45.4	46.3	47.2
<b>EBITDA</b>	<b>1,381</b>	<b>1,580</b>	<b>2,629</b>	<b>2,903</b>	<b>1,765</b>	<b>1,269</b>	<b>2,310</b>	<b>3,063</b>	<b>3,999</b>
Margin (%)	17.5	19.3	26.6	27.8	20.8	13.7	17.5	19.7	22.0
Depreciation	137	187	229	230	324	361	391	444	451
<b>EBIT</b>	<b>1,244</b>	<b>1,393</b>	<b>2,400</b>	<b>2,673</b>	<b>1,440</b>	<b>909</b>	<b>1,919</b>	<b>2,620</b>	<b>3,547</b>
Int. and Finance Charges	93	22	12	6	13	10	10	10	10
Other Income	30	91	143	100	97	143	158	163	232
<b>PBT bef. EO Exp.</b>	<b>1,181</b>	<b>1,462</b>	<b>2,531</b>	<b>2,767</b>	<b>1,524</b>	<b>1,042</b>	<b>2,067</b>	<b>2,773</b>	<b>3,770</b>
<b>PBT after EO Exp.</b>	<b>1,181</b>	<b>1,462</b>	<b>2,531</b>	<b>2,767</b>	<b>1,524</b>	<b>1,042</b>	<b>2,067</b>	<b>2,773</b>	<b>3,770</b>
Total Tax	404	494	845	926	214	177	520	698	949
Tax Rate (%)	34.2	33.8	33.4	33.5	14.1	17.0	25.2	25.2	25.2
<b>Reported PAT</b>	<b>777</b>	<b>968</b>	<b>1,686</b>	<b>1,841</b>	<b>1,310</b>	<b>865</b>	<b>1,547</b>	<b>2,075</b>	<b>2,821</b>
<b>Adjusted PAT</b>	<b>777</b>	<b>968</b>	<b>1,686</b>	<b>1,841</b>	<b>1,310</b>	<b>865</b>	<b>1,547</b>	<b>2,075</b>	<b>2,821</b>
Change (%)	37.0	24.6	74.1	9.2	-28.9	-34.0	78.9	34.1	36.0
Margin (%)	9.9	11.8	17.0	17.7	15.5	9.4	11.7	13.4	15.5

### Standalone - Balance Sheet

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	1,608	1,636	1,645	1,654	1,656	1,662	1,662	1,662	1,662
Total Reserves	3,072	7,415	8,730	9,876	10,104	11,073	12,001	13,246	14,938
<b>Net Worth</b>	<b>4,679</b>	<b>9,050</b>	<b>10,374</b>	<b>11,531</b>	<b>11,760</b>	<b>12,735</b>	<b>13,663</b>	<b>14,908</b>	<b>16,601</b>
Total Loans	259	150	50	0	0	0	0	0	0
Deferred Tax Liabilities	462	1,025	1,003	1,054	887	956	956	956	956
<b>Capital Employed</b>	<b>5,400</b>	<b>10,226</b>	<b>11,427</b>	<b>12,584</b>	<b>12,647</b>	<b>13,691</b>	<b>14,619</b>	<b>15,864</b>	<b>17,557</b>
Gross Block	4,327	6,653	6,569	8,050	9,789	11,374	11,574	11,774	11,974
Less: Accum. Deprn.	1,430	1,509	1,576	1,787	2,111	2,472	2,863	3,307	3,758
<b>Net Fixed Assets</b>	<b>2,898</b>	<b>5,144</b>	<b>4,994</b>	<b>6,263</b>	<b>7,678</b>	<b>8,902</b>	<b>8,710</b>	<b>8,467</b>	<b>8,216</b>
Capital WIP	60	31	392	1,305	1,563	140	140	140	140
<b>Total Investments</b>	<b>473</b>	<b>2,014</b>	<b>3,020</b>	<b>1,487</b>	<b>726</b>	<b>826</b>	<b>826</b>	<b>826</b>	<b>826</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>3,354</b>	<b>4,291</b>	<b>4,750</b>	<b>5,223</b>	<b>4,312</b>	<b>6,122</b>	<b>7,494</b>	<b>9,424</b>	<b>11,885</b>
Inventory	1,324	1,143	1,550	1,704	1,361	1,653	2,127	2,495	2,926
Account Receivables	1,511	1,665	2,434	2,322	2,032	3,086	3,175	3,724	4,369
Cash and Bank Balance	70	1,135	276	389	128	797	956	1,755	2,890
Cash	47	1,055	240	360	84	441	601	1,400	2,534
Bank Balance	24	81	36	29	44	356	356	356	356
Loans and Advances	449	347	491	808	791	587	1,236	1,450	1,700
<b>Curr. Liability &amp; Prov.</b>	<b>1,385</b>	<b>1,255</b>	<b>1,729</b>	<b>1,694</b>	<b>1,633</b>	<b>2,297</b>	<b>2,551</b>	<b>2,992</b>	<b>3,510</b>
Account Payables	620	810	1,139	988	892	1,710	1,394	1,635	1,918
Other Current Liabilities	335	243	397	502	511	378	798	936	1,098
Provisions	430	202	193	204	230	210	359	421	493
<b>Net Current Assets</b>	<b>1,968</b>	<b>3,036</b>	<b>3,022</b>	<b>3,529</b>	<b>2,680</b>	<b>3,824</b>	<b>4,943</b>	<b>6,432</b>	<b>8,376</b>
<b>Appl. of Funds</b>	<b>5,399</b>	<b>10,225</b>	<b>11,427</b>	<b>12,584</b>	<b>12,647</b>	<b>13,691</b>	<b>14,619</b>	<b>15,864</b>	<b>17,557</b>

E: MOFSL Estimates

## Financials and valuations – NOCIL

### Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Basic (INR)</b>									
EPS	4.7	5.8	10.1	11.1	7.9	5.2	9.3	12.5	17.0
EPS Growth (%)	37.0	24.6	74.1	9.2	-28.9	-34.0	78.9	34.1	36.0
Cash EPS	5.5	6.9	11.5	12.5	9.8	7.4	11.7	15.2	19.7
BV/Share	28.2	54.4	62.4	69.4	70.8	76.6	82.2	89.7	99.9
DPS	1.2	1.2	1.8	2.5	4.5	2.5	3.7	5.0	6.8
Payout (%)	29.9	24.0	21.0	27.0	76.0	48.0	40.0	40.0	40.0
<b>Valuation (x)</b>									
P/E	46.0	36.9	21.2	19.4	27.3	41.3	23.1	17.2	12.7
Cash P/E	39.1	30.9	18.7	17.3	21.9	29.2	18.4	14.2	10.9
P/BV	7.6	3.9	3.4	3.1	3.0	2.8	2.6	2.4	2.2
EV/Sales	4.6	4.2	3.6	3.4	4.2	3.8	2.6	2.2	1.8
EV/EBITDA	26.0	22.0	13.5	12.2	20.2	27.5	15.1	11.1	8.2
Dividend Yield (%)	0.5	0.6	0.8	1.2	2.1	1.2	1.7	2.3	3.2
FCF per share	9.1	7.8	3.1	-4.3	-0.1	3.9	4.7	9.9	13.7
<b>Return Ratios (%)</b>									
RoE	17.6	14.1	17.4	16.8	11.2	7.1	11.7	14.5	17.9
RoCE	14.7	12.6	15.6	15.4	10.5	6.6	11.0	13.7	16.9
RoIC	16.0	15.6	21.6	20.7	12.6	6.8	11.7	15.2	19.8
<b>Working Capital Ratios</b>									
Fixed Asset Turnover (x)	2.7	2.0	2.0	1.9	1.2	1.1	1.5	1.8	2.2
Asset Turnover (x)	1.5	0.8	0.9	0.8	0.7	0.7	0.9	1.0	1.0
Inventory (Days)	61	51	57	60	59	65	59	59	59
Debtor (Days)	70	74	90	81	88	122	88	88	88
Creditor (Days)	29	36	42	35	38	67	38	38	38
<b>Leverage Ratio (x)</b>									
Current Ratio	2.4	3.4	2.7	3.1	2.6	2.7	2.9	3.1	3.4
Net Debt/Equity	0.0	-0.1	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.2

### Standalone - Cash Flow Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
(INR m)									
OP/(Loss) before Tax	1,181	1,462	2,531	2,767	1,524	1,042	2,067	2,773	3,770
Depreciation	137	187	229	230	324	361	391	444	451
Direct Taxes Paid	-306	-454	-802	-878	-510	-1	-520	-698	-949
(Inc)/Dec in WC	574	269	-901	-400	515	-372	-959	-690	-809
<b>CF from Operations</b>	<b>1,649</b>	<b>1,402</b>	<b>984</b>	<b>1,638</b>	<b>1,772</b>	<b>904</b>	<b>988</b>	<b>1,838</b>	<b>2,473</b>
(Inc)/Dec in FA	-140	-106	-470	-2,351	-1,790	-262	-200	-200	-200
<b>Free Cash Flow</b>	<b>1,509</b>	<b>1,296</b>	<b>514</b>	<b>-713</b>	<b>-18</b>	<b>642</b>	<b>788</b>	<b>1,638</b>	<b>2,273</b>
Other investing activity	16	27	-908	1,334	746	-325	0	0	0
<b>CF from Investments</b>	<b>-124</b>	<b>-79</b>	<b>-1,379</b>	<b>-1,017</b>	<b>-1,044</b>	<b>-586</b>	<b>-200</b>	<b>-200</b>	<b>-200</b>
Inc/(Dec) in Debt	-1,214	-109	-100	-50	0	0	0	0	0
Interest Paid	-101	-23	-13	-7	-9	-4	-10	-10	-10
Dividend Paid	-192	-230	-350	-490	-980	-7	-619	-830	-1,128
Others	4	-9	2	41	-15	51	0	0	0
<b>CF from Fin. Activity</b>	<b>-1,504</b>	<b>-315</b>	<b>-420</b>	<b>-501</b>	<b>-1,004</b>	<b>40</b>	<b>-628</b>	<b>-839</b>	<b>-1,138</b>
<b>Inc/Dec of Cash</b>	<b>21</b>	<b>1,008</b>	<b>-814</b>	<b>120</b>	<b>-276</b>	<b>358</b>	<b>160</b>	<b>799</b>	<b>1,135</b>
Opening Balance	26	47	1,055	240	360	84	441	601	1,400
<b>Closing Balance</b>	<b>47</b>	<b>1,055</b>	<b>240</b>	<b>360</b>	<b>84</b>	<b>441</b>	<b>601</b>	<b>1,400</b>	<b>2,534</b>

## THEMATIC/STRATEGY RESEARCH GALLERY

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5th January 2025

Sector Update | Sector: HFC

# Housing Finance



Record low interest rates

Stagnant real estate prices

Govt. Incentives/Reforms

## A Home Run!

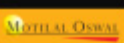
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27 September 2020  
Sector update | Indian MNCs

**Gold Finance**



**The Gold Rush!**

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April 2021

# India Strategy

Earnings drought ending, finally!

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**India Strategy**

October 2020

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