

Laxmi Organics Industries

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

March 15, 2021

IPO Note

IPO Fact Sheet

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

Issue Details

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

* Upper Band / # Lower Band

Object of the Issue

Fresh Issue- To fund Capex requirements and repayment of loans

Shareholding Pattern

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

Avishek Datta

avishekdata@plindia.com | 91-22-66322254

Impressive growth plans

*We recommend **Subscribe** on Laxmi Organic's IPO with a long term perspective given its striking growth plans led by 1) scheduled new acquisitions, 2) expansion of core business, 3) entry in high margin fluoro chemistry segments and 4) long term contracts for speciality intermediates. Company is the largest manufacturer of ethyl acetate with 30% market share. It is the sole manufacturer of diketene derivatives in India with 55% market share. While growth has been muted in FY20 due to floods and low production along with weak spreads, we expect it to improve as new capacities and business segment come on stream in FY22/23E.*

Key Investment Points

- Laxmi Organics is a leading manufacturer of Acetyl Intermediates (AI) and Speciality Intermediates (SI) with almost three decades of experience.
- The products find application in varied high-growth industries including pharmaceuticals, agrochemicals, dyes & pigments, inks & coatings, paints, printing & packaging, flavours & fragrances, adhesives etc.
- The company has total capacity of ~240kmt. It is expanding capacity of AI by 39.7kmt through inorganic route to 201kmt. It is also augmenting capacity of SI business by 4.5kmt to 82.5kmt.
- It has also entered in long term contracts for speciality products, which would drive revenues and profits in medium term
- The company acquired assets and patents of Miteni Italy, a manufacturer of organic fluorospecialties and electrochemical fluorination. This plant with capacity of 13,820MT would be commissioned by Mar 22.
- Revenue growth over FY18-20 was at 5% CAGR, while net profits declined to Rs445m in FY20 due to 15% lower production, hit by floods. Customs and electricity duty refund restricted the fall in PAT. In H1FY21, EBIDTA was at Rs863m v/s Rs1.4bn in FY20. PAT for H1FY21 stood at Rs454m. The company plans to house fluorochemicals and acquisition in AI through wholly owned subsidiary to avail tax benefits.

Investment Thesis

Well established player in acetyl and speciality intermediates

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

Strategic foray into fluorochemicals can pay rich dividends

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

Experienced top management

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

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

About the Company

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

Exhibit 1: Key Products

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

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

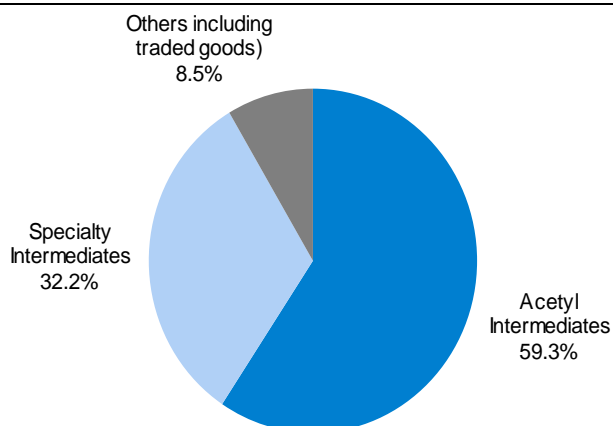
Source: Company, PL

Business verticals

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

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

Exhibit 2: FY20 revenue breakup of Rs13.5bn



Source: Company, PL

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

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

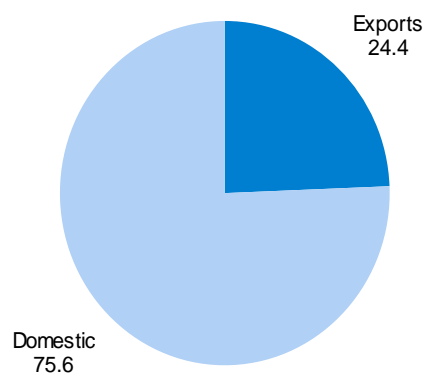
Manufacturing facilities

Exhibit 3: Two manufacturing facilities at Mahad

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

Source: Company, PL

Exhibit 4: Geographical Breakup of FY20 revenues (%)



Source: Company, PL

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

Industry Snapshot

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

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

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

Diketene market dynamics

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

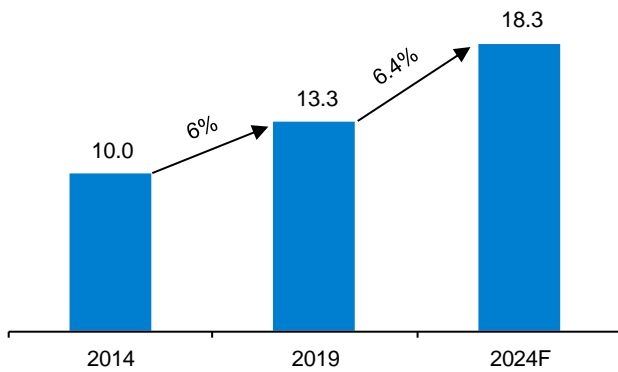
Flurochemcials market dynamics

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

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

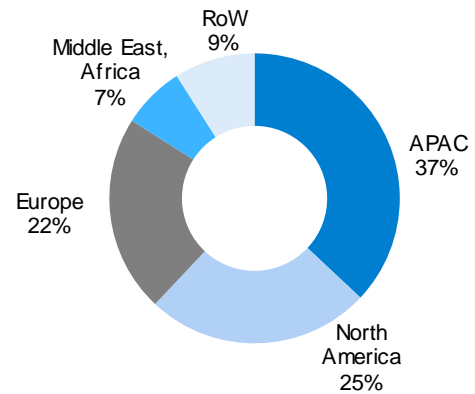
Story in Charts

Exhibit 1: Global acetyl market (\$ bn)



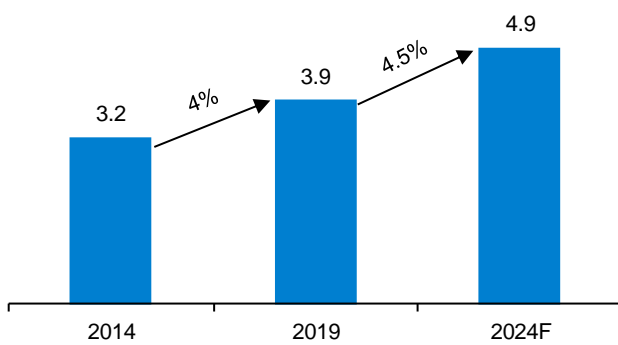
Source: Company, PL

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



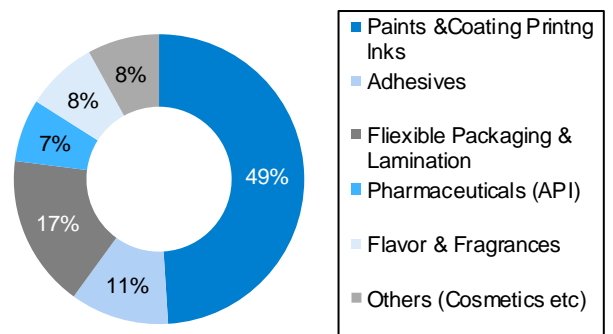
Source: Company, PL

Exhibit 3: Global ETAC market (in MMT)



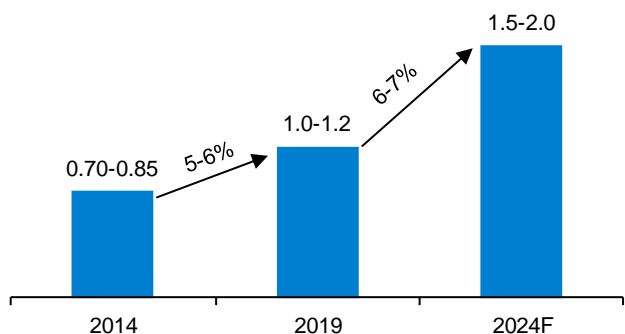
Source: Company, PL

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



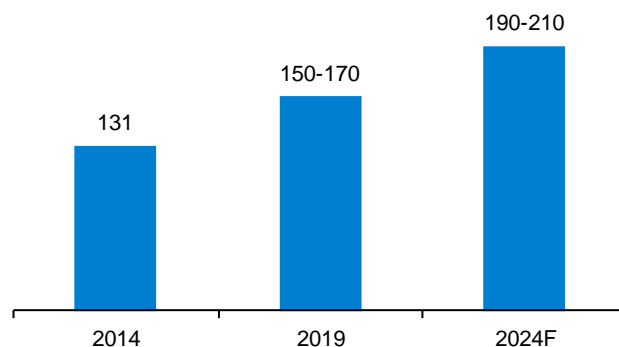
Source: Company, PL

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



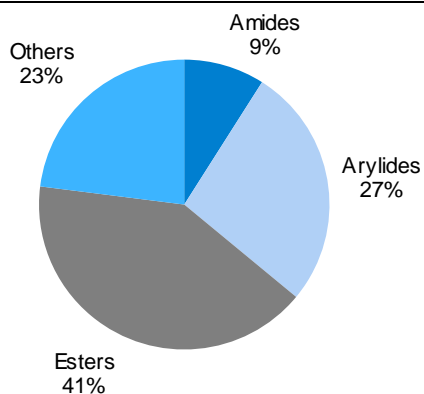
Source: Company, PL

Exhibit 6: Indian diaketene market (\$ mn)



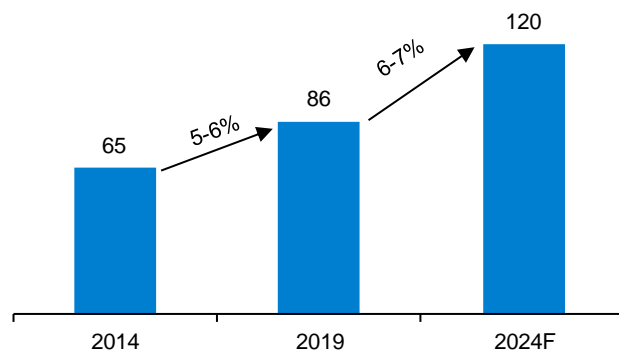
Source: Company, PL

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



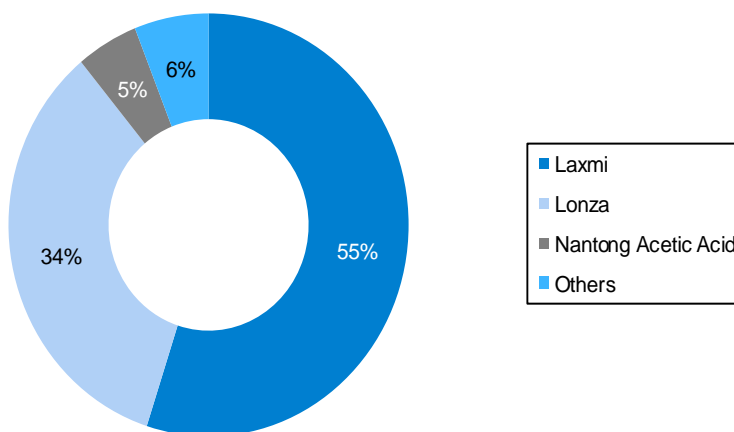
Source: Company, PL

Exhibit 8: Ketene derivatives (\$ mn)



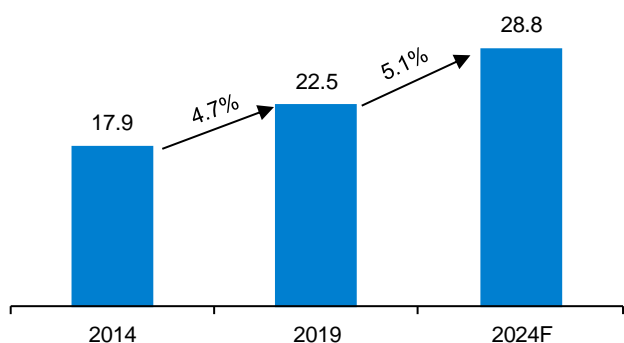
Source: Company, PL

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



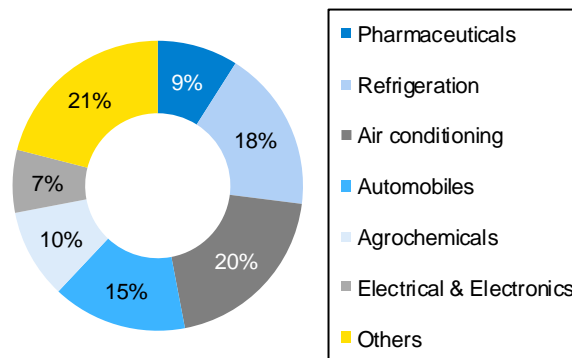
Source: Company, PL

Exhibit 10: Global fluorochem market (\$ bn)



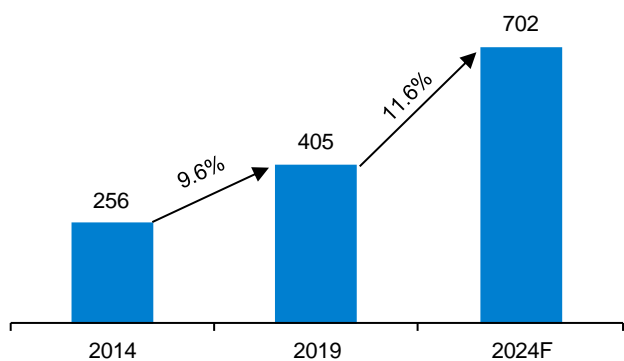
Source: Company, PL

Exhibit 11: Split by application



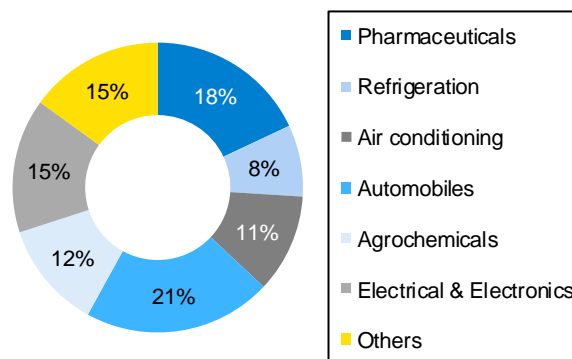
Source: Company, PL

Exhibit 12: Indian fluorochem market (\$ mn)



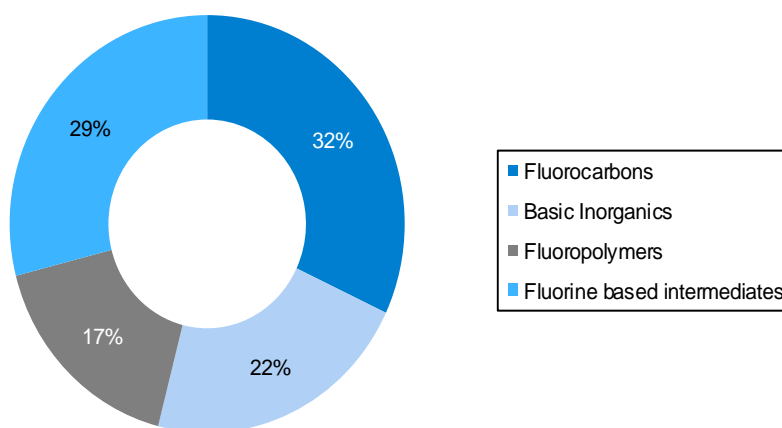
Source: Company, PL

Exhibit 13: Indian fluorochem market split



Source: Company, PL

Exhibit 14: Global fluorochemical split in CY19



Source: Company, PL

Financials

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

In H1FY21, operations have come back on track. Revenues were at Rs813m while PAT was at Rs454m.

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

Exhibit 15: Objects of issue

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

Source: Company; YCPL- Yellowstone Chemicals Pvt Ltd

Financials

Exhibit 16: Income Statement (Rs mn)

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

Source: Company, PL

Exhibit 17: Balance Sheet (Rs mn)

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

Source: Company, PL

Exhibit 18: Cash Flow (Rs mn)

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

Source: Company, PL

**Analyst Coverage Universe**

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

PL's Recommendation Nomenclature (Absolute Performance)

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



ANALYST CERTIFICATION

(Indian Clients)

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

(US Clients)

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

DISCLAIMER

Indian Clients

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com.

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Avishek Datta- MBA Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

US Clients

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

www.plindia.com