

March 12, 2021

Incorporated in 1989, Laxmi Organic Industries is a leading manufacturer of acetyl intermediates and specialty intermediates. Laxmi Organic's products are currently divided into two broad categories viz. acetyl intermediates and specialty intermediates. Acetyl intermediates include ethyl acetate, acetaldehyde, fuel-grade ethanol and other proprietary solvents while specialty intermediates comprise ketene, diketene derivatives viz. esters, acetic anhydride, amides, arylides and other chemicals. The company's 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.

## Fluorospecialty chemicals business to support long term growth

In June 2019, the company acquired assets including plant & machinery, design and operating paperwork, REACH registrations and patents of Miteni, a manufacturer of organic fluorospecialties and electrochemical fluorination with a view to foray into the fluorospecialty chemical business and leverage its experience, capabilities and relationships. The company has also acquired 14 patents, 41 REACH registrations and all formulations, production and maintenance data and research & development data through this acquisition. It intends to capture the market share of Miteni given its existing chemistries and past customer base. It will incur a capex of ₹ 230-250 crore and asset turn of this business would be around 1.3x. The plant is expected to get commissioned by Q4FY22.

## Higher volumes in base business to support growth

Laxmi Organics is also in the process of expanding manufacturing capabilities for acetyl intermediates by acquiring AHPL, which through its wholly owned subsidiary, YCPL, is engaged in manufacturing acetaldehyde and ethyl acetate. The aggregate installed production capacity at the YCPL facility as on December 31, 2020 is 10,500 MTPA of acetaldehyde and 29,200 MTPA of ethyl acetate. Further, it is in the process of increasing the installed capacity at SI manufacturing facility from 78,045 MTPA to 82,525 MTPA. This should support incremental future growth in the medium to long term.

## Key risk & concerns

- Higher volatility in raw material to impact gross margins
- Increase in competition in end products to affect financial performance

## Priced at FY20 P/E of 48.8x on upper band

At ₹ 130, the stock is available at 48.8x FY20. We believe valuations are on the higher side given it is a commodity business. We also believe that upcoming incremental opportunity from fluorospecialties division for three/four years forward is also largely discounted in the price and thus leaves limited opportunity on the table.

## Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	H1FY21	CAGR FY18-20
Net Revenue	1,375.5	1,568.5	1,534.1	813.4	5.6%
EBITDA	151.4	153.3	113.5	85.4	-13.4%
EBITDA Margins (%)	11.0%	9.8%	7.4%	10.5%	
Adj. PAT	75.7	72.4	70.2	45.5	-3.7%
Adj. EPS (₹)	2.9	2.7	2.7	1.7	
EV/EBITDA	20.1x	19.8x	26.8x	17.8x	
P/E	45.3x	47.3x	48.8x	37.7x	
ROE (%)	20.0	16.1	16.4	19.3	
ROCE (%)	26.6	20.7	12.8	20.3	

Source: RHP, ICICI Direct Research. Note: Valuation ratios are calculated based on post issue money. Valuation for H1FY21 is on the basis of annualised numbers.



## Particulars

Issue Details	Amount
Issue Opens	March 15, 2021
Issue Closes	March 17, 2021
Issue Size (₹ Crore)	600
Price Band (₹)	129-130
No of Shares on Offer (Crore)	4.65
Minimum lot size	115
Face Value (₹)	2

## Shareholding Pattern (%)

	Pre-issue	Post-issue
Promoters	89.5%	72.9%
Public	10.5%	27.1%
Total	100.0%	100.0%

## Objective of issue

Objects of the issue	₹ Crore
Capex in YFCPL, SI expansion & other	164
Working capital requirement	73
Reayment of debt	179
General Corporate Purpose	84
<b>Total Fresh issue Proceeds</b>	<b>500</b>

\*Upper Band. This also includes ₹ 200 crore pre-IPO placement money.

## Research Analyst

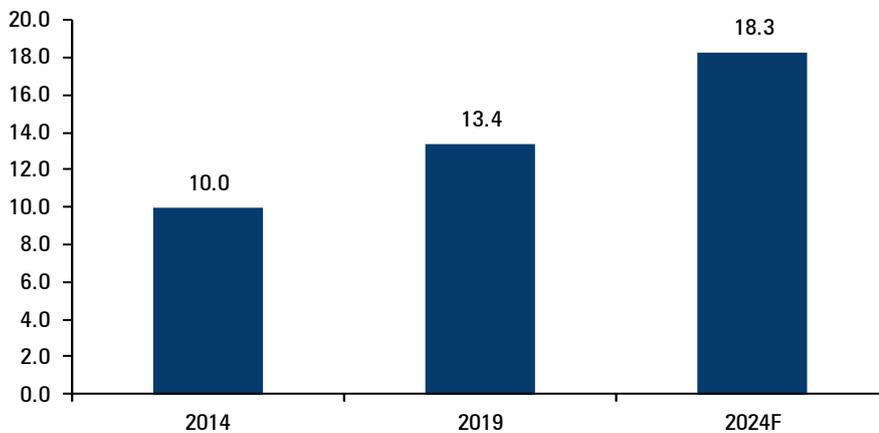
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## Industry Overview

Acetyls are used as intermediates in a wide range of applications such as solvents, adhesives, water-based paints, pharmaceuticals, dyestuff, emulsifiers, etc. The global acetyl market is projected to grow at 6.4% CAGR over the next five years owing to strong demand from end use applications. The acetyl market is valued at US\$13.4 billion in 2019, which is expected to reach US\$18.3 billion by the end of 2024. The primary demand drivers of the global acetyl market include increased demand for acetyls from drug delivery system, increased disposable income and per capita flexible packaging consumption throughout the globe, etc.

Exhibit 1: Global acetyl market (excludes acetic acid) (US\$ billion)



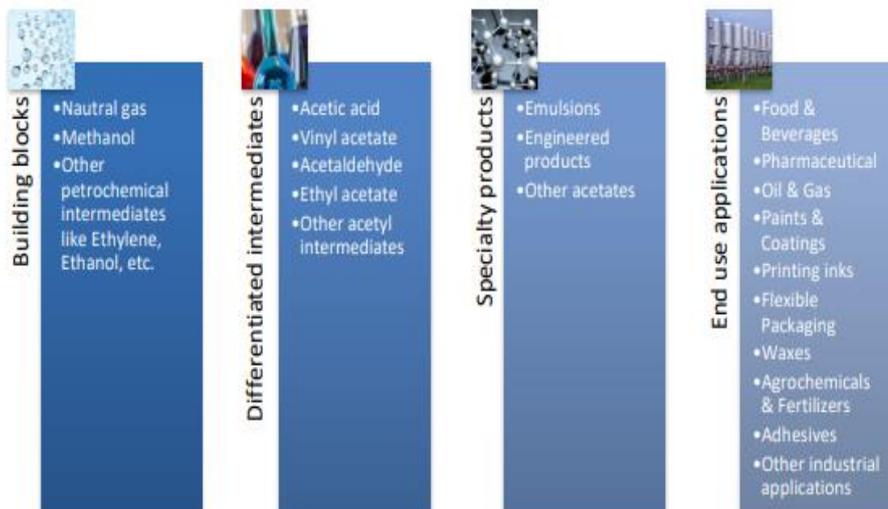
Source: RHP, ICICI Direct Research

Ethanol is used as a basic raw material or platform for production of acetyls and is widely manufactured through the fermentation route, another route being gasification. Ethanol based acetyls includes several products like acetic acid, acetaldehyde, ethyl acetate, etc.

### Acetyls market value chain

The acetyl value chain constitutes various building blocks used for manufacturing acetyl intermediates that are further used for manufacturing the specialty products that used in multiple end use industry applications. Many companies having a presence in the acetyl value chain take advantage of margins earned from high volume trade as well as vertical integration operation.

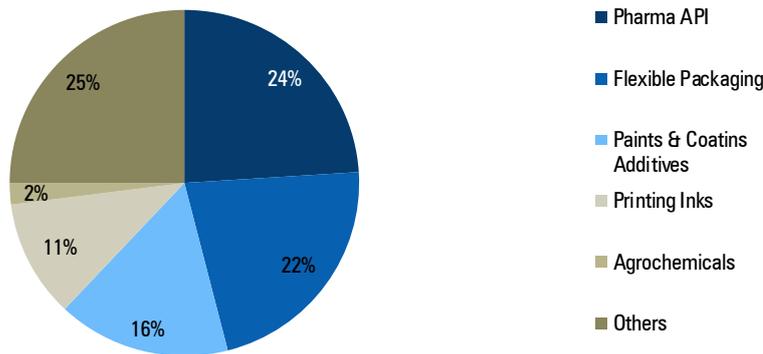
Exhibit 2: Acetyls market value chain



Source: RHP, ICICI Direct Research

Many of the acetyl intermediates are captive consumed by manufacturers in order to produce the forward integrated products in the value chain, taking advantage of higher margins when reaching closer to end use application. Acetic acid is one of the high volume acetyl intermediates having more than 12 MMT market globally (FY19).

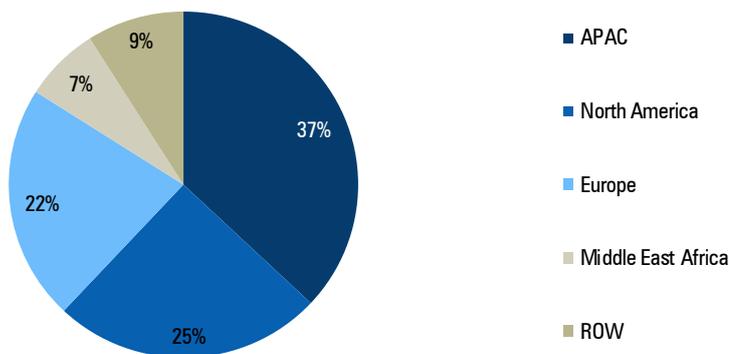
Exhibit 3: Global acetyl market by end use application



Source: RHP, ICICI Direct Research

The Asia-Pacific market dominated the global acetyls market in 2019 owing to the increasing demand from end use applications like coatings, adhesives, sealants and elastomers (CASE), food & beverage and pharmaceuticals segments. Moreover, the rising geriatric population coupled with the affordability of generic drugs is expected to fuel the demand in the region.

Exhibit 4: Global acetyl market by geography

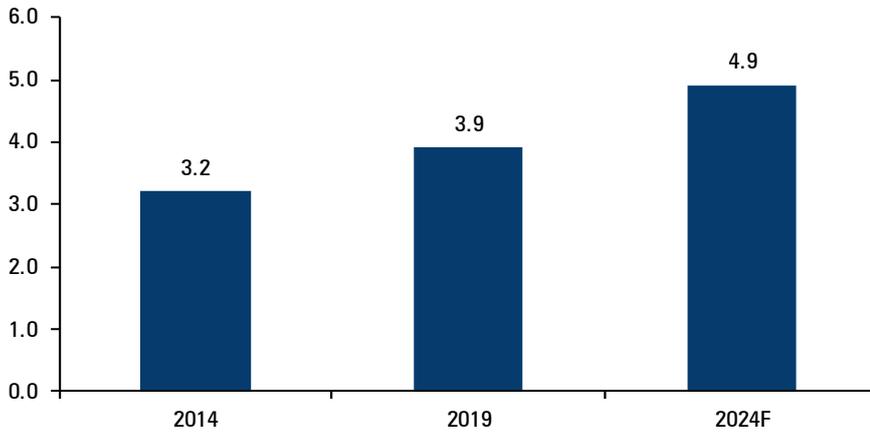


Source: RHP, ICICI Direct Research

### Ethyl Acetate

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. The global ethyl acetate market is projected to grow from ~4 MMT in 2019 to ~5 MMT by 2024E, pertaining to consumption led demand from APAC region. The global ethyl acetate capacity was ~5 MMT in 2019 with capacity utilisation at ~80%; China has historically been a leader in the supply of ethyl acetate driven by ample raw material availability & high end use growth. The global ethyl acetate market was at ~4 MMT in 2019. China is the largest exporter of the product, with EU and NE Asia being the key importing regions.

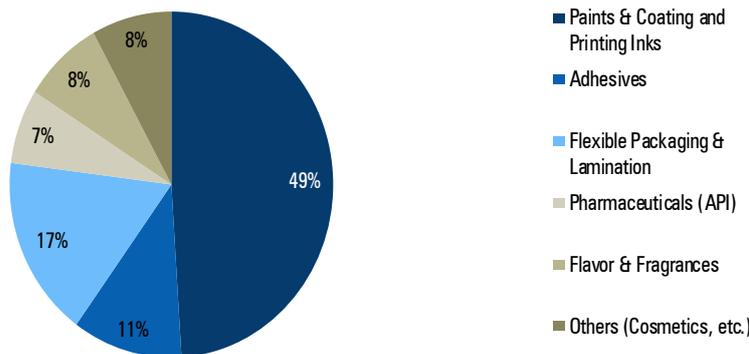
Exhibit 5: Global ethyl acetate market (MMT)



Source: RHP, ICICI Direct Research

Almost 80% of global ethyl acetate demand is catered by Asia, with the region also being the largest demand centre. North America & Europe region are also among the large consumers. China is the largest producer of ethyl acetate followed by North East Asia (NEA), India and SEA. Asia is the largest supplier of ethyl acetate. South East Asia is dependent on imports from China and NEA. India is a net exporter of ethyl acetate, mainly to EU & MEA. The other competitive solvents such as Toluene, MIBK, MEK, Acetone, Cyclohexane, etc, are getting replaced with the greener solvent ethyl acetate in industrial applications.

Exhibit 6: Global ethyl acetate market by end-use application segments, 2019 (3.9 MMT)



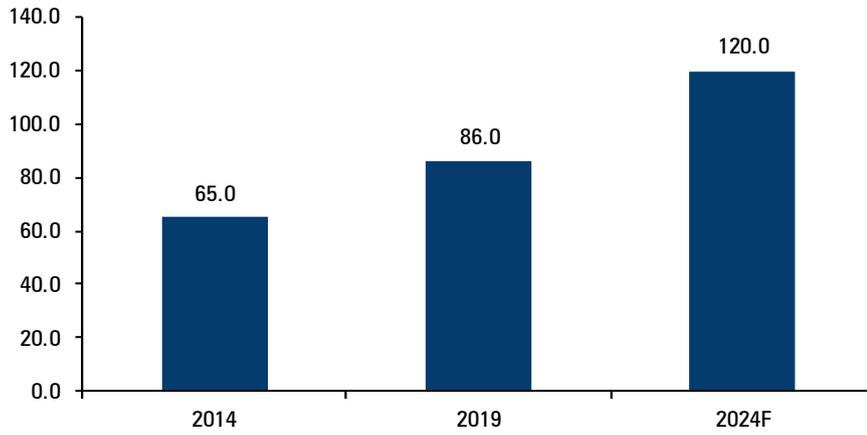
Source: RHP, ICICI Direct Research

### Ketene derivatives market: Acetic anhydride

Acetic anhydride is a transparent organic colourless liquid with a pungent smell and is mainly used in pharmaceuticals, industrial chemicals, polymers & resins, flavours & fragrances, and dyes, etc. The global acetic anhydride market reached a volume of 2.5-2.8 MMT and value of US\$2.5-3 billion in 2019 and is further expected to reach a volume demand of ~3-3.5 MMT by 2024. The major global producers of acetic anhydride include Jubilant Life Sciences, Celanese Corporation, DuPont, Sasol Ltd, SABIC among others.

The Indian market for acetic anhydride was valued at US\$85-87 million. The market has been growing at 6-7% over the last five years and expected to grow at a similar rate by 2024E.

Exhibit 7: India acetic anhydride market (US\$ million)

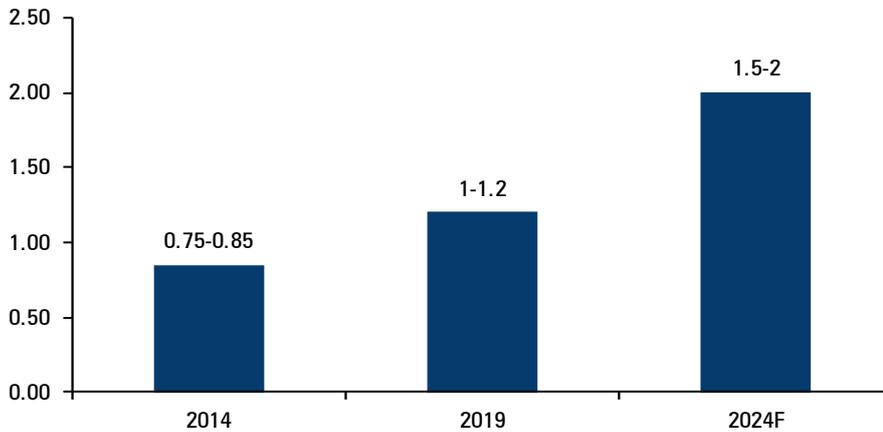


Source: RHP, ICICI Direct Research

### Diketene derivatives market

The global market for diketene derivatives was estimated to be around US\$1-1.2 billion in 2019. The volume was estimated to be between 0.4 MMT and 0.45 MMT in 2019 and is expected to grow to 0.5-0.55 MMT by 2024 growing at a CAGR of ~4%. The market in India was valued at US\$150-170 million and is expected to reach ~US\$200 million by 2024E; about 40% of this demand is catered to by imports. The overall growth will be at global GDP levels but the new applications and locking in the value chains (like Africa) are the key to success.

Exhibit 8: Global diketene, diketene derivatives market (US\$ billion)



Source: RHP, ICICI Direct Research

## Company background

Incorporated in 1989, Laxmi Organic Industries is a leading manufacturer of acetyl intermediates and specialty intermediates. The company initially started manufacturing acetaldehyde and acetic acid in 1992. Soon, thereafter, it moved on to manufacturing ethyl acetate in 1996. It is currently among the largest manufacturers of ethyl acetate in India with a market share of ~30% of the Indian ethyl acetate market (source: Frost & Sullivan Report). Further, post completion of the YCPL acquisition, its market share in the ethyl acetate market will be further enhanced. In FY10, It commenced manufacturing the specialty intermediates by acquiring Clariant's diketene business. It is the only manufacturer of diketene derivatives in India with a market share of ~55% of the Indian diketene derivatives market.

Laxmi Organic's products are currently divided into two broad categories, viz. acetyl intermediates and specialty intermediates. Acetyl intermediates include ethyl acetate, acetaldehyde, fuel-grade ethanol and other proprietary solvents, while the specialty intermediates comprise ketene, diketene derivatives viz. esters, acetic anhydride, amides, arylides and other chemicals. The company's 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. It also proposes to diversify into manufacturing of specialty fluorochemicals to which end, it has recently acquired assets including plant & machinery, design and operating paperwork, REACH registrations and patents of Miteni, a manufacturer of organic fluorospecialties and electrochemical fluorination.

Over the years, it has significantly expanded scale of operations and global footprint with customers in over 30 countries including China, Netherlands, Russia, Singapore, UAE, UK and US. It has established long-standing relationships with marquee players including Syngenta Asia Pacific Pte. Ltd., Alembic Pharmaceuticals, Covestro (India) Pvt Ltd, Dr Reddy's Laboratories, Flint Group India Pvt Ltd, Granules India, Hetero Labs, Heubach Colour Pvt Ltd, Hubergroup India Pvt Ltd, Huhtamaki India, Laurus Labs, Macleods Pharmaceuticals Pvt Ltd, Mylan Laboratories, Neuland Laboratories, Parikh Packaging Pvt Ltd, Suven Pharmaceuticals, Colourtex Industries Pvt Ltd and UPL. For H1FY21, FY20, FY19 & FY18, the revenue from exports of manufactured products contributed 23.17%, 24.24%, 27.80% and 22.18%, respectively, of overall revenue from operations on a standalone basis.

The company has two manufacturing facilities in Mahad, Maharashtra with one facility dedicated to Acetyl Intermediates (AI manufacturing facility) and another dedicated to specialty intermediates (SI manufacturing facility), which are strategically located in proximity to several ports and each other. As at December 31, 2020, the aggregate installed production capacity at the AI manufacturing facility was 161,320 MTPA, while the aggregate installed production capacity at the SI manufacturing facility was 78,045 MTPA. The company is also in the process of acquiring YCPL, having an aggregate installed production capacity of 10,500 MTPA of acetaldehyde and 29,200 MTPA of ethyl acetate as on December 31, 2020. It also has two distilleries located in Satara district (Jarandeshwar Distillery) and Kolhapur district in Maharashtra (Panchganga Distillery and together with Jarandeshwar distillery, the "Distilleries") for manufacturing ethanol or specially denatured spirit. As at December 31, 2020, the Jarandeshwar distillery had an installed production capacity of 8,100 KLPA while the Panchganga distillery had an installed production capacity of 9,112 KLPA. The ethanol manufactured at the distilleries is primarily consumed at the AI manufacturing facility and the SI manufacturing facility for the manufacture of fuel-grade ethanol, ethyl acetate and certain specialty intermediates including several downstream products. Further, it is in the process of setting up a manufacturing facility at Lote Parshuram, Maharashtra for manufacturing fluorospecialty chemicals.

## Investment Rationale

### Volume maximisation at manufacturing facilities by expanding installed capacities to support growth

The company intends to expand the installed capacities at manufacturing facilities to support growth initiatives. It is also in the process of expanding manufacturing capabilities for acetyl intermediates by acquiring AHPL, which through its wholly owned subsidiary, YCPL is engaged in the manufacture of acetaldehyde and ethyl acetate. The aggregate installed production capacity at the YCPL facility as on December 31, 2020 was 10,500 MTPA of acetaldehyde and 29,200 MTPA of ethyl acetate. Further, as a single site risk mitigation initiative, it is in the process of identifying one or more sites for the future growth of business beyond the currently committed expansion initiatives. Further, it is in the process of increasing the installed capacity at SI manufacturing facility from 78,045 MTPA to 82,525 MTPA. This should support incremental future growth in the medium to long term.

### Expanding, optimising product portfolio to support growth

The company intends to diversify existing product portfolio by adding new products (including downstream and value added products) that are synergistic with existing products and chemistries. It intends to perform and deliver products pursuant to the long-term contracts already entered into with certain customers. The company believes that introduction of such products would increase profit margins and the long-term contracts would provide incremental and steady revenues. Further, it also intends to focus on growing recently launched products in order to grow customer base and revenues. It also intends to undertake manufacturing of certain products on a contract manufacturing basis with customers to ensure efficient utilisation of manufacturing facilities and increase cash flows. In the past, it has also undertaken custom-manufacturing of certain products for customers.

### Fluorospecialty chemicals business to support long term growth

In June 2019, the company acquired assets including plant & machinery, design and operating paperwork, REACH registrations and patents of Miteni, a manufacturer of organic fluorospecialties and electrochemical fluorination with a view to foray into the fluorospecialty chemical business and leverage its experience, capabilities and relationships. The assets acquired from Miteni include inter alia differentiated world-class technology and equipment and a library of more than 100 products including products in research and development and scale-up stages. Further, it has also acquired 14 patents, 41 REACH registrations and all the formulations, production and maintenance data and research and development data through this acquisition. It intends to capture the market share of Miteni given its existing chemistries and past customer base.

The market for fluorochemicals in India was valued at ~US\$405 million for 2019 (source: Frost & Sullivan Report). It is estimated that up to 20% of pharmaceuticals in the market or in clinical development contain a fluorine atom and 50% of agrochemicals molecules developed recently also contain fluorine (source: Frost & Sullivan Report). According to the Frost & Sullivan Report, in future, one in every three new active pharmaceutical ingredients are expected to be based on fluorine chemistry. Thus, fluorine based organic and inorganic chemical products are gaining high importance in the Indian market. Further, there is ample scope for a new player, which can manage the complexity of handling the fluorine chemistry as well as a good understanding of the high growth segments such as that of intermediates (Source: Frost & Sullivan Report). The company is in the process of setting up the proposed facility in Lote Parshuram, Maharashtra for manufacturing fluorospecialty chemicals that is proposed to commence operations by Q4FY22.

## Key Risks & Concerns

- **Higher volatility in RM to impact gross margins:** Acetic acid, a common raw material for its acetyl intermediates and specialty intermediates, has historically witnessed significant volatility in prices. Further, availability of ethanol, which also a common raw material across acetyl intermediates and specialty intermediates, is dependent on monsoons and consequently, depicts seasonality in availability as well as prices. Thus, higher volatility as witnessed recently and inability to pass on that increase can materially impact the gross margins of the business and thereby the overall performance
- **Increase in competition of end products to affect financial performance** – The company is one of the largest exporters of ethyl acetate and thus, end product prices are subject to global prices. Any significant fall in global prices of products may have a material adverse effect on business, results of operations and financial condition

## Financial summary

Exhibit 9: Profit and loss statement		₹ crore		
Year end March	FY18	FY19	FY20	
<b>Total Operating Income</b>	<b>1,375.5</b>	<b>1,568.5</b>	<b>1,534.1</b>	
Growth (%)	-	14.0	-2.2	
Raw Material Expenses	968.4	1,095.6	1,096.6	
<b>Gross Profit</b>	<b>407.1</b>	<b>472.9</b>	<b>437.6</b>	
Employee Cost	52.6	64.5	68.6	
Other Operating Expenses	203.1	255.1	255.4	
<b>EBITDA</b>	<b>151.4</b>	<b>153.3</b>	<b>113.5</b>	
Growth (%)	-	1.3	-25.9	
Other Income	3.0	5.8	4.5	
<b>EBITDA, including OI</b>	<b>154.4</b>	<b>159.1</b>	<b>118.0</b>	
Depreciation	31.3	44.1	48.9	
Net Interest Exp.	9.8	17.0	14.0	
Other exceptional items	0.0	0.0	25.7	
<b>PBT</b>	<b>113.3</b>	<b>98.1</b>	<b>80.8</b>	
Total Tax	37.6	25.2	10.6	
Tax Rate	33.2%	25.7%	13.1%	
<b>PAT</b>	<b>75.7</b>	<b>72.9</b>	<b>70.2</b>	
Adj.PAT after Minority interest	75.7	72.4	70.2	
Adj. EPS (₹)	2.9	2.7	2.7	
Shares Outstanding	26.4	26.4	26.4	

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement		₹ crore		
Year end March	FY18	FY19	FY20	
PBT & Extraordinary	113.3	97.6	55.1	
Depreciation	31.3	44.1	48.9	
After other adjustments				
(Inc) / Dec in Working Capital	-132.9	56.7	100.6	
Taxes	-27.4	-27.6	-15.5	
Others	-45.8	-38.2	-24.1	
<b>CF from operating activities</b>	<b>-6.7</b>	<b>187.7</b>	<b>196.0</b>	
Purchase of Fixed Assets	-88.5	-97.5	-77.1	
Others	3.5	-25.1	21.3	
<b>CF from investing activities</b>	<b>-85.0</b>	<b>-122.5</b>	<b>-55.8</b>	
Proceeds from issue of shares	0.0	0.0	-90.1	
Borrowings (Net)	97.2	-42.3	-17.1	
Others	-12.5	-20.4	-16.6	
<b>CF from financing activities</b>	<b>84.7</b>	<b>-62.7</b>	<b>-123.8</b>	
Net cash flow	-7.1	2.4	16.5	
Effects of foreign currency translation				
Opening Cash & Bank	12.3	5.2	46.7	
<b>Closing Cash &amp; Bank</b>	<b>5.2</b>	<b>46.7</b>	<b>44.7</b>	

Exhibit 11: Balance sheet		₹ crore		
Year end March	FY18	FY19	FY20	
<b>Liabilities</b>				
Share Capital	10.0	50.0	45.0	
Reserves	369.3	399.8	381.9	
<b>Total Shareholders Funds</b>	<b>379.3</b>	<b>449.8</b>	<b>426.9</b>	
Minority Interest	0.2	0.3	0.4	
Long Term Borrowings	53.1	74.6	90.2	
Net Deferred Tax liability	16.0	17.1	13.3	
Other long term liabilities	12.9	10.7	8.4	
Long-term provisions	1.8	2.2	2.8	
<b>Current Liabilities and Provisions</b>				
Short term borrowings	138.8	66.7	33.6	
Trade Payables	214.1	315.6	411.6	
Other Current Liabilities	71.1	68.9	71.7	
Short Term Provisions	7.3	8.6	11.8	
Total Current Liabilities	431.4	459.7	528.7	
<b>Total Liabilities</b>	<b>894.7</b>	<b>1,014.5</b>	<b>1,070.6</b>	
<b>Assets</b>				
Net Block	277.3	331.6	326.3	
Capital Work in Progress	30.0	31.5	67.5	
Non-current investments	0.0	0.0	0.0	
Other Non Current Assets	43.5	26.5	29.9	
<b>Current Assets, Loans &amp; Advances</b>				
Current Investments	0.0	0.0	0.0	
Inventories	145.8	170.7	151.9	
Sundry Debtors	324.2	326.2	359.4	
Cash and Bank	5.2	46.7	44.7	
Loans and Advances	1.0	0.2	0.2	
Other Current assets	67.6	81.0	90.8	
Current Assets	543.9	624.9	646.9	
<b>Total Assets</b>	<b>894.7</b>	<b>1,014.5</b>	<b>1,070.6</b>	

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
Year end March	FY18	FY19	FY20	
<b>Per share data (₹)</b>				
Adj. EPS	2.9	2.7	2.7	
Adj. Cash EPS	4.1	4.4	4.5	
BV	25.8	28.4	27.6	
DPS	0.0	0.0	0.0	
<b>Operating Ratios (%)</b>				
Gross Margin (%)	29.6	30.1	28.5	
EBITDA Margin (%)	11.0	9.8	7.4	
PAT Margin (%)	5.5	4.6	4.6	
Debtor Days	86	76	86	
Inventory Days	39	40	36	
Creditor Days	57	73	98	
Cash Conversion Cycle	68	42	24	
<b>Return Ratios (%)</b>				
Return on Assets (%)	8.5	7.1	6.6	
RoCE (%)	26.6	20.7	12.8	
Core RoIC (%)	21.2	20.1	12.8	
RoE (%)	20.0	16.1	16.4	
<b>Solvency Ratios</b>				
Total Debt / Equity	0.5	0.3	0.3	
Interest Coverage	12.6	6.8	4.9	
Current Ratio	1.3	1.4	1.2	
Quick Ratio	0.9	1.0	0.9	
<b>Valuation Ratios (x)</b>				
EV/EBITDA	20.1	19.8	26.8	
P/E	45.3	47.3	48.8	
P/B	5.0	4.6	4.7	
EV/Sales	2.2	1.9	2.0	

Source: Company, ICICI Direct Research

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## ANALYST CERTIFICATION

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