

## Equity Research Desk



## ALPHA

20 OCT 2022

## Laxmi Organic Industries Ltd. – Diversified Player

Market Data	
CMP	Rs. 326
Date	20-Oct-22
Target Price	Rs. 385
Upside Potential	18.00%
52 Week High/Low	556/274
Market Cap	Small Cap
NSE Code	LXCHEM
Sector	Chemicals
Rating	Buy

Incorporated in 1989, Laxmi Organic Industries Ltd. (LOIL) 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. Laxmi is also the only significant integrated Diketene manufacturer across the globe and has a market leadership in India for its diketene derivatives. In 2019, Laxmi acquired Italy-based Miteni to venture into fluorochemicals business. Laxmi exports nearly 30% of its production. Approximately 10% of its employees are dedicated towards Research and its expenses towards Research & Development stood at 5.5% of net profit in FY22. Company's plants are situated in a chemical park in Raigad, Maharashtra.



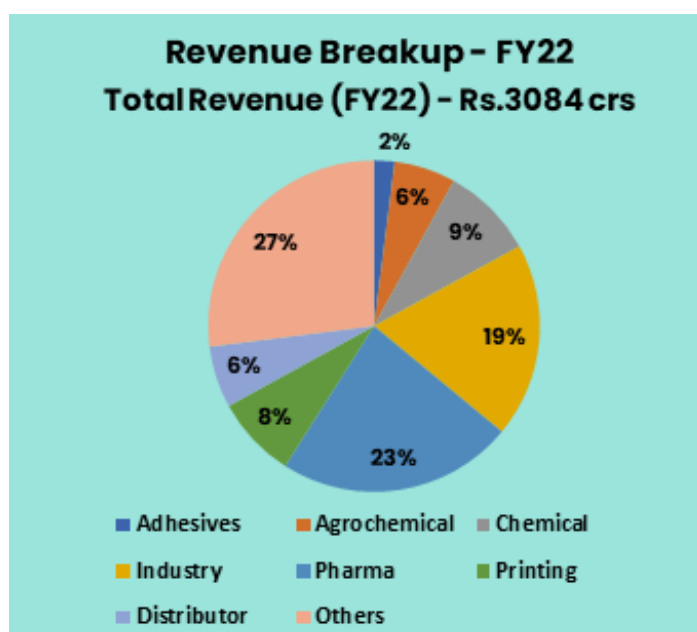
**Products & Services:** LOIL's products are currently divided into two broad categories, namely the Acetyl Intermediaries (AI) and the Speciality Intermediaries (SI). The products in both the segments find application in various high-growth industries, including pharmaceuticals, agrochemicals, dyes & pigments, inks & coatings, paints, printing & packaging, flavours & fragrances, adhesives and other industrial applications.

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

**SI** - The Specialty Intermediaries comprises of ketene, diketene derivatives namely esters, acetic anhydride, amides, arylides and other chemicals.

SHP	Jun - 22 (%)	Mar - 22 (%)	Change
Promoters	72.53	72.92	-0.39
FPI	0.60	0.34	0.26
DII	3.22	3.39	-0.17
Public & Others	23.66	23.35	0.31
Pledged	0.00	0.00	0.00

**Subsidiaries:** As on Mar'22, the Company has 10 wholly owned subsidiaries, 3 step down subsidiaries and 1 Associate company.





## Key Rationale

- **Healthy market position** – LOIL is a leading manufacturer of ethyl acetate and di-ketene derivative products in India, with over three decades of experience. The Company, along with its recent acquisition of Yellowstone Chemicals Private Limited (YCPL), is one of the largest global producers of Ethyl Acetate. It has a share of more than 33% in the Indian Ethyl Acetate market and is the leading exporter of this product for several years now. Moreover, LOIL was the largest Indian exporter to Europe over FY16-FY22, accounting for nearly 50% of the total exports from the country. LOIL is the only manufacturer of speciality intermediates diketene derivatives in India and it has one of the largest portfolios, with about 34 diketene products. LOIL meets close to 55% of the domestic demand for diketene derivatives; the balance is imported, mainly from Europe and China. Considering that diketene derivative products entail technologically-intensive processes and are highly hazardous in nature (leading to restricted transport), local supplies of the same are preferred by Indian customers, leading to higher penetration and improved market share for the company.
- **Fluorination Business** – Laxmi forseees opportunities in fluorination despite presence of established players like Navin Fluorine and SRF. Laxmi had acquired the business of Miteni Italy, to venture into the business of fluoro-chemical derivatives in Jun'19 and now it aims to leverage Miteni's chemistry and targets new products in fluorination space (including chemical applications for electric vehicles). It is noteworthy that the fluorochemical products targeted by Laxmi are not yet manufactured in India by its peers. Laxmi is planning to setup solar power plant to mitigate energy cost which will help them to move towards renewable energy resource.
- **Q1FY23** – The Company reported a revenue of Rs.757 crs in Q1FY23, an increase of 3% YoY and a decline of 14% QoQ. The exports revenue has doubled from Rs.134 crs in Q1FY22 to Rs.293 crs in Q1FY23. The AI (Acetyl Intermediaries) segment contributed the 65% of revenue and the rest is contributed by SI (Speciality Intermediaries) business. The PAT increased by 13% QoQ to Rs.65 crs in Q1FY23.
- **Financial Performance** – The company generated a Revenue and PAT CAGR of 23% and 29% over the period of 5 years (FY18-22). The PAT margin of the company increased from 5.5% in FY18 to 8.3% in FY22. As of March 2022, cash & cash equivalent stood at Rs.187 crs with a low debt to equity ratio of just 0.11x which indicates a strong balance sheet. Over a five-year period, the Company has invested almost 10% of its cumulative PAT in R&D, and 10% of the staff at Laxmi are employed with the R&D team. The contribution from the top 10 customers have increased from 24% in FY18 to 41% in FY22.

**Ratios - FY22**

ROE	20%
ROCE	23%
Div. Yield	0.22%
PE Ratio	34.00
Face Value	2.00
EPS	Rs. 9.72

**Industry Analysis**

The Indian chemicals market is valued at USD 186 billion (~4% share in the global chemical industry) with commodity chemicals accounting for almost 46%. It is expected to reach ~USD 330 billion in the next 5 years, with an anticipated growth of ~12.2% CAGR. The speciality chemical industry forms ~47% of the domestic chemical market, which is expected to grow at a CAGR of around 11% over the same period. India's specialty chemicals industry is driven by both domestic consumption and exports, and it continues to gain favor with global MNCs on account of geopolitical shift after the outbreak of COVID-19, leading to reduced dependence on China. Currently, China accounts for ~15-17% of the world's exportable specialty chemicals. whereas India accounts for merely 1-2%, indicating large scope of improvement and widespread opportunity. The commodity chemicals (includes Acetyl Intermediates) market is presently valued at ~USD 3,745 billion and is expected to grow at 5%-6% globally in the next five years.

**Growth Drivers**

The overall growth of the Indian economy and the "Make in India" campaign is expected to add further impetus to the emergence of India as a manufacturing hub for the chemicals industry in the medium term.

Factors like the slowdown of China present a barrage of opportunities for countries like India, as Indian chemicals manufacturers are exporting to bridge the demand gap left by China.

The Government of India is considering launching a production linked incentive (PLI) scheme in the chemical sector to boost domestic manufacturing and exports.



## Peer Analysis

**Competitors:** Navin Fluorine Ltd., Gujarat Fluorochemicals Ltd., etc.

The fundamentals of Laxmi Organic Industries are way better than the peers. Even with the strong fundamentals, Laxmi Organic is available at an attractive valuation than its peers. The backward integration and the monopolistic status in some derivative products are the competitive advantages of Laxmi Organic Industries.

Company	CMP	Mcap.	ROE	ROCE	P/E	EPS
Laxmi Organics	326	8660	20.00%	23.00%	34	9.72
Navin Fluorine	4271	21166	15.00%	19.00%	80	53.09
Gujarat Fluorochemicals	3682	40446	18.00%	19.00%	51	71.66

## Outlook

New plant in Speciality Intermediaries segment commissioned for supplying of a higher value molecule for global use. The sales to start in Q2FY23. Currently, Specialty Intermediaries contributes 35% to its sales while Fluorination is a relatively new business area for Laxmi. For Fluorination project, significant progress has been made in India with almost 95% of the civil and structural work being completed. The Management is confident of commissioning the plant in this Fiscal and the sales too will follow the same. The samples for initial 8 products of fluorochemical segment are approved by the customers and the demand for the products remains strong from existing customer base. Going ahead, the company's capital expenditure will be mainly towards SI and Fluorochemical segments (Rs.700 crs over FY23-24). The company targets sales mix to improve in favour of Specialty Intermediaries and fluorochemicals. The EBITDA margins for FY23 are expected to be in the range of ~12 to 13%.

Margins - FY22	
Gross	32%
EBITDA	12%
PAT	8%



## Valuation

AI segment is performing well, as it has observed steady volume growth in the last few quarters despite price volatility challenges. Further, we are expecting margin expansion in the long run on account of Fluorination project commissioning as well as improved product mix of SI segment. Hence, we recommend a BUY rating in the stock with the target price (TP) of Rs.385, 25x FY24E EPS.

## Risks

- **Production Risk** – Any delay in the commencement of new segment or a failure in the acceptability of the new products will impact the revenue of the company.
- **Raw Material Risk** – Acetic acid, a common raw material for its acetyl intermediates and specialty intermediates, has historically witnessed significant volatility in prices. Any further volatility in the RM prices will impact the margins.
- **Forex Risk** – Exports accounts for a significant portion of the overall revenue. As a result, the company is exposed to foreign currency exchange risks which may adversely impact its results of operations.

Source – Tickertape, Company's Website, BSE Website.

Thanks & Regards

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