

Laxmi Organic Industries Limited

Laxmi Organic Industries Ltd. is a leading manufacturer of Acetyl Intermediates and Specialty Intermediates with almost three decades of experience in large scale manufacturing of chemicals. Company started its business in 1989, with initially manufacturing acetaldehyde and acetic acid in 1992, and soon thereafter moved on to manufacturing of ethyl acetate in 1996; currently among the largest manufacturers of ethyl acetate in India with a market share of approximately 30% of the Indian ethyl acetate market.

Positives: (a) Leading manufacturer of ethyl acetate with significant market share (b) Only Indian manufacturer of diketene derivatives with a significant market share and one of the largest portfolios of diketene products (c) Diversified customer base across high growth industries and long-standing relationships with marquee customers (d) Strategically located manufacturing facilities, vertical integration and supply chain efficiencies.

Investment concerns: (a) The continuing impact of the outbreak of the COVID-19 could have a significant effect on operations, and could negatively impact business, revenues, financial condition and results of operations. (b) A large part of the manufacturing facilities is located in one geographic, and therefore, any localized social unrest, natural disaster or breakdown of services could have material adverse effect on operations. (c) Due to foreign client base, it is exposed to foreign currency exchange risks which may adversely impact our results of operations.

Outlook & Valuation: Based on FY2020 earnings the IPO is priced at a PE of 42x at the upper end of the price band along with a good ROE of 16.4%. The company is the largest manufacturer of ethyl acetate with over 30% market share in the Indian ethyl acetate market and the only manufacturer of diketene derivatives in India with a diversified customer base. Looking at the competitive advantage and strong growth potential we are assigning a "SUBSCRIBE" recommendation to the issue.

Key Financials

Y/E March (` cr)	FY2018	FY2019	FY2020
Net Sales	1,393	1,569	1,534
% chg	-	12.6	-2.2
Net Profit	76	72	70
% chg	-	-4.4	-3.0
EBITDA (%)	10.9	9.8	7.4
EPS (Rs)*	3.0	2.9	3.1
P/E (x)	43.0	44.9	41.7
P/BV (x)	8.6	7.2	6.9
ROE (%)	20.0	16.1	16.4
ROCE (%)	19.9	17.6	11.2
EV/EBITDA	20.6	20.0	26.7
EV/Sales	2.2	2.0	2.0

Source: Company, Angel Research.

Note: Valuation ratios at upper price band., * FY2018 EPS is adjusted for bonus issue

SUBSCRIBE

Issue Open: March 15, 2021

Issue Close: March 17, 2021

Issue Details

Face Value: Rs 2

Present Eq. Paid up Capital: Rs 240.6 cr

Offer for Sale: Rs. 300cr

Fresh issue: Rs. 300 cr.

Post Eq. Paid up Capital: Rs 263.7cr

Issue size (amount): Rs 600 cr

Price Band: Rs 129-130

Lot Size: 115 shares and in multiple thereafter

Post-issue mkt. cap: *Rs 3401 cr - **Rs 3428 cr

Promoters holding Pre-Issue: 89.5%

Promoters holding Post-Issue: 72.9%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	72.9%
Others	27.1%

Jyoti Roy

+022 39357600, Extn: 6842

jyoti.roy@angelbroking.com

Company background

Company was incorporated as Laxmi Organic Industries Limited at Mumbai, Maharashtra on dated May 15, 1989. Its business includes manufacturers and dealing in chemicals, chemical compounds organic and inorganic) in all forms, and chemical products. In Fiscal 2010, it commenced manufacturing the Specialty Intermediates by acquiring Clariant's diketene business. Company is the only manufacturer of diketene derivatives in India with a market share of approximately 55 % of the Indian diketene derivatives market in terms of revenue in Fiscal 2020 and one of the largest portfolios of diketene products.

Issue details

The issue comprises of fresh issues of up to Rs. 600 crore in the price band of `129-`130 per share.

Pre and post IPO shareholding pattern

No of shares	(Pre-issue)	%	(Post-issue)	%
Promoter	215,339,729	89.5	192,262,806	72.9
Public	25,246,121	10.5	71,399,967	27.1
Total	240,585,850	100.0	263,662,773	100.0

Source: Company, Angel Research & RHP.

Objectives of the Offer

- The proceeds of the Offer for Sale shall be received by the Promoter Selling Shareholder.
- Investment in wholly owned Subsidiary, Yellowstone Fine Chemicals Private Limited ("YFCPL") for part-financing its capital expenditure requirements.
- Funding capital expenditure requirements for expansion of the company's SI Manufacturing.
- Funding working capital requirements of the Company.

Key Management Personnel

Ravi Goenka, aged 59 years, is the Chairman and Managing Director of the Company. He holds a bachelors' degree in chemical engineering from Bangalore University. He has been associated with the company since inception, and 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.

Satej Nabar, aged 57 years, is an Executive Director and Chief Executive Officer of our Company. He holds a bachelors' degree in mechanical engineering from the University of Bombay, a masters' degree in plastic engineering from the University of Bombay, and is a chartered engineer registered with the Institution of Engineers (India). He has around 31 years of experience in the chemicals industry and has handled numerous functions including, sales and marketing, corporate strategy, innovation and manufacturing.

Exhibit 1: Consolidated Profit & Loss Statement

Y/E March (` cr)	FY2018	FY2019	FY2020	6MFY2021
Total operating income	1,393.1	1,568.5	1,534.1	813.4
% chg	-	12.6	-2.2	-
Total Expenditure	1,241.7	1,415.2	1,420.6	728.0
Cost of raw materials consumed	655.8	888.4	781.0	351.9
Purchase of stock in trade	321.3	249.6	287.1	209.3
Stock in Trade	-8.7	-42.4	28.5	12.5
Excise Duty	17.6	-	-	-
Employee benefits expense	52.6	64.5	68.6	35.7
Other expenses	203.1	255.1	255.4	118.6
EBITDA	151.4	153.3	113.5	85.4
% chg	-	1.3	-25.9	-24.8
(% of Net Sales)	10.9	9.8	7.4	10.5
Depreciation & Amortization	31.3	44.1	48.9	22.7
EBIT	120.1	109.2	64.7	62.7
% chg	-	-9.1	-40.8	-
(% of Net Sales)	8.6	7.0	4.2	7.7
Finance costs	9.8	17.0	14.0	7.4
Other income (with income from associate)	3.0	5.3	4.5	0.9
(% of Sales)	0.2	0.3	0.3	0.1
Recurring PBT	113.3	97.6	55.1	56.2
% chg	-	-13.9	-43.5	1.9
Exceptional item	-	-	25.7	-
Tax	37.6	25.2	10.6	10.7
PAT (reported)	75.7	72.4	70.2	45.5
% chg	-	-4.4	-3.0	-35.2
(% of Net Sales)	5.4	4.6	4.6	5.6
Basic & Fully Diluted EPS (Rs)*	3.0	2.9	3.1	2.0

Source: Company, Angel Research, * FY2018 EPS is adjusted for bonus issue

Consolidated Balance Sheet

Y/E March (` cr)	FY2018	FY2019	FY2020	6MFY2021
SOURCES OF FUNDS				
Equity Share Capital	10.0	50.0	45.0	45.0
Other equity (Retained Earning)	369.3	399.8	381.9	427.4
Shareholders' Funds	379.3	449.8	426.9	472.4
Total Loans	192.1	141.6	124.2	153.9
Other liabilities	30.7	30.0	24.5	22.2
Total Liabilities	602.2	621.5	575.6	648.5
APPLICATION OF FUNDS				
Property, plant and equipment	277.1	330.6	325.5	320.9
Capital work-in-progress	30.0	31.5	67.5	74.4
Intangible assets	0.3	1.0	0.8	0.6
Right of use assets	16.0	14.1	11.4	10.0
Current Assets	543.9	624.9	646.9	612.0
Inventories	145.8	170.7	151.9	126.2
Trade receivables	324.2	326.2	359.4	334.3
Cash and cash equivalents	5.2	7.6	24.1	26.6
Other Bank Balance	-	39.1	20.6	55.0
Loans and Advances	1.0	0.2	0.2	0.2
Others	0.8	0.9	40.3	33.1
Other current assets	59.6	80.1	50.5	36.6
Assets held-for-sale	7.2	-	-	-
Current Liability	292.6	393.0	495.1	388.6
Net Current Assets	251.4	231.8	151.9	223.4
Other Non Current Asset	27.5	12.5	18.6	19.1
Total Assets	602.2	621.5	575.6	648.5

Source: Company, Angel Research

Consolidated Cash flow

Y/E March ('cr)	FY18	FY19	FY20	6MFY21
Operating profit before working capital changes	153.5	158.6	110.9	86.4
Net changes in working capital	-132.9	56.7	100.6	-40.1
Cash generated from operations	20.6	215.2	211.5	46.3
Direct taxes paid (net of refunds)	-27.4	-27.6	-15.5	-10.8
Net cash flow (used in)/from operating activities (A)	-6.7	187.7	196.0	35.5
Capital expenditure on Property Plant and Equipment	-88.5	-97.5	-77.1	-23.6
Movement in Other Bank Balances	5.1	-33.8	18.0	-35.1
Others	-1.6	8.7	3.4	0.9
Cash Flow from Investing (B)	-85.0	-122.5	-55.8	-57.8
Proceeds from Long term borrowings	40.0	56.4	50.0	25.0
Repayment of Long term borrowings	-29.0	-26.5	-34.1	-21.3
Net Proceeds from Short term borrowings	86.3	-72.2	-33.0	29.7
Non Controlling interest	0.1	0.1	-0.1	-0.1
Interest paid	-9.0	-15.9	-11.4	-7.0
Others	-3.6	-4.7	-95.2	-1.5
Cash Flow from Financing	84.7	-62.7	-123.8	24.8
Inc./ (Dec.) in Cash	-7.1	2.4	16.5	2.5
Opening Cash balances	12.3	5.2	7.6	24.1
Closing Cash balances	5.2	7.6	24.1	26.6

Source: Company, Angel Research

Key Ratios

Y/E March	FY2018	FY2019	FY2020
Valuation Ratio (x)			
P/E (on FDEPS)	43.0	44.9	41.7
P/CEPS	6.1	27.9	24.6
P/BV	8.6	7.2	6.9
EV/Sales	20.6	20.0	26.7
EV/EBITDA	2.2	2.0	2.0
Per Share Data (Rs)			
EPS (Basic)*	3.0	2.9	3.1
EPS (fully diluted)*	3.0	2.9	3.1
Cash EPS	4.3	4.7	5.3
Book Value	15.2	18.0	19.0
Returns (%)			
ROE	20.0	16.1	16.4
ROCE	19.9	17.6	11.2
Turnover ratios (x)			
Receivables (days)	84.9	75.9	85.5
Inventory (days)	38.2	39.7	36.1
Payables (days)	76.7	91.5	117.8
Working capital cycle (days)	46.5	24.2	3.9

Source: Company, Angel Research, * FY2018 EPS is adjusted for bonus issue

Research Team Tel: 022 - 39357800
www.angelbroking.com

E-mail: research@angelbroking.com

Website:

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