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IPO note: Laxmi Organic Industries Limited - "SUBSCRIBE for listing gains"

March 15, 2021

Strong player in Indian ethyl acetate market and only manufacturer of diketene..

Laxmi Organic Industries Limited ("Laxmi Organic") was incorporated on May 15, 1989. The company is a leading manufacturer of Acetyl Intermediates and Specialty Intermediates with almost 3 decades of experience in large scale manufacturing of chemicals. Laxmi Organic is currently among the largest manufacturers of ethyl acetate in India with a market share of approximately 30% of the Indian ethyl acetate market. Further, post completion of the Yellowstone Chemicals Pvt. Ltd. ("YCPL") Acquisition, their market share in the ethyl acetate market will be further enhanced. Laxmi Organic has global footprint with customers in over 30 countries. In 2010, Laxmi Organic commenced manufacturing the Specialty Intermediates by acquiring Clariant's diketene business. Laxmi Organic is the only manufacturer in India of diketene derivatives with a market share of approximately 55 % in terms of revenue in FY20.

What is Ethyl acetate? and Industry outlook..

Ethyl acetate is a highly versatile solvent used in multiple applications across industries. It is derived from non-aromatic raw materials. The bio-based origin of ethyl acetate gives it a distinct identity and making it a preferred solvent over traditional solvents, given its lower toxicity when exposed to humans. The allowance of ethyl acetate in the human body is more than other solvents. In 2015, REACH banned products including glues containing toluene, chloroform, or benzene. In view of health hazards, this ban might be adopted by other regions as well and according to the Frost & Sullivan Report, such ban will enhance the need to move to a green solvent like ethyl acetate which will in turn beneficial to the company. Ethyl acetate has one of the higher evaporation rates among solvents making it a preferred solvent across multiple industries. Additionally, it is a low impact input (in terms of its relative cost in their final product) for the pharma and agro products. 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 and is projected to grow from ~4 MMT in calendar year 2019 to ~5 MMT by calendar year 2024. In terms of revenue, the global ethyl acetate market stands approximately at USD 3.5 billion globally and is expected to grow at 5.5% to 6% CAGR over the next half decade.

Diversified product portfolio catering to various user industries and good manufacturing setup..

The company has Diversified product portfolio in various high growth industries, including pharma (34%), agrochem (14%), paints & coatings (11%), printing, packaging (10%), dyes & pigments. The Company's products are currently divided into 2 broad categories, namely the Acetyl Intermediates ("AI") and the Specialty Intermediates ("SI"). The Acetyl Intermediates include ethyl acetate, acetaldehyde, fuel-grade ethanol and other proprietary solvents, while the Specialty Intermediates comprises of ketene, diketene derivatives namely esters, acetic anhydride, amides, arylides and other chemicals. They have dedicated manufacturing facilities for each AI & SI with combined installed capacity of 239,365 MTPA. They have DSIR approved 2 R&D facilities with state of the art infrastructure for synthesis of advanced intermediates.

Marquee customer base with long term relationship and diversified client base

The company has diversified customer base, in India and abroad. They supply their products to customers in over 30 countries including China, Netherlands, Russia, Singapore, United Arab Emirates, United Kingdom and United States of America. The Company has clients like Syngenta Asia Pacific Pte. Ltd., Covestro (India) Pvt. Ltd., Alembic Pharmaceuticals Ltd., Dr. Reddy's Laboratories Ltd., Flint Group India Private Ltd., Granules India Ltd., Hetero Labs Ltd., Heubach Colour Pvt. Ltd., Hubergroup India Pvt. Ltd., Huhtamaki India Ltd., Laurus Labs Ltd., Macleods Pharmaceuticals Pvt. Ltd., Mylan Laboratories Ltd., Neuland Laboratories Ltd., Parikh Packaging Pvt. Ltd., Suenen Pharmaceuticals Ltd., Colourtex Industries Pvt. Ltd., UPL Ltd.

Issue date	March 15 - March 17, 2021
Listing date	March 25, 2021
Price Band	Rs. 129 - Rs. 130 (FV: Rs. 2)
Bid lot	115 equity shares and in multiples thereof
Issue size & type	Fresh issue: Rs. 300 crores Offer for sale: 300 crores
Issue structure	OIB – 50 %, NIB – 15%, Retail – 35%
Post issue shares	26.36 crore equity shares
Promoter holding	Pre issue: 89.51%/Post issue: 72.92%
Post issue market cap	Rs. 3,428 crores
BRLM	Axis Capital, DAM Capital
Registrar to the issue	Link Intime India Pvt. Ltd.

Particulars (Rs. crores)	H1FY21	FY20	FY19	FY18
Topline	813	1,534	1,569	1,393
EBITDA	86	144	159	154
EBITDA (%)	10.6	9.34	10.08	11.06
Profit after tax	45	70	72	76
PAT margin (%)	5.59	4.56	4.60	5.42
Equity share cap.	45.02	45.02*	50.05	10.01
Networth	471	426	449	378
Total debt	153	124	141	192
Post IPO EPS (Rs.)	1.71	2.66	2.73	2.88
P/E (x)	57	49	48	45
RoNW (%)	9.65	16.45	16.13	20.01

Source: RHP, # denotes P/E and ROE on annualised H1FY21 numbers,

*Reduction of Equity capital due the buyback of shares.

Investment recommendation and rationale

At the upper end of the price band of Rs. 130, the Company's IPO is valued at P/E of 38x on H1FY21 annualised EPS and at a P/E of 49x on post IPO FY20 EPS which is expensive. The Company will always enjoy premium over its peers post listing as it is a strongly placed in the space it operates with good return profile. We recommend to "SUBSCRIBE the issue for listing gains" due to the following factors: a) currently among the largest manufacturers of ethyl acetate in India with a market share of approximately 30% of the Indian ethyl acetate market, b) only manufacturer in India of diketene derivatives with significant market share of approximately 55% after acquiring Clariant's diketene business, c) diversified customer base across high growth industries and long-standing relationships with marquee customers, d) in-house research and development capabilities and consistent track record of technology absorption, e) research and development capabilities have enabled the company to expand their Specialty Intermediates offerings from 14 products as at March 31, 2012 to more than 34 products as at September 30, 2020, f) establishing the fluorospecialty chemicals business will drive growth and aid margin expansion, g) the differentiated business model, asset base, product mix and experience in handling complex chemistries create high entry barriers, f) strong and consistent financial performance over the years, g) investors fancy for speciality chemical companies in COVID-19 era can investors too post listing despite high valuations; the company has already raised Rs. 180 crore from anchor investors which instills confidence in the issue.

Objects of the issue

Fresh issue: Rs. 300 crores

Utilisation of the net proceeds from the Fresh Issue and Pre IPO placement	Amount (Rs. in crores)
Investment in the wholly owned Subsidiary, Yellowstone Fine Chemicals Pvt. Ltd. ("YFCPL") for part-financing its capital expenditure requirements in relation to the setting up of a manufacturing facility for fluorospecialty chemicals ("Proposed Facility");	60.40
Investment in YFCPL for funding its working capital requirements;	37.74
Funding capital expenditure requirements for expansion of their SI Manufacturing Facility ("Proposed Expansion");	91.06
Funding working capital requirements of the company;	35.18
Purchase of plant and machinery for augmenting infrastructure development at their SI Manufacturing Facility;	12.57
Prepayment or repayment of all or a portion of certain outstanding borrowings availed by the company and their wholly owned Subsidiary, Viva Lifesciences Pvt. Ltd ("VLPL");	179.31

Source: RHP

Offer for sale: Rs. 300 crores by Yellow Stone Trust – The Promoter Selling Shareholder (Upto 23,076,923 Equity Shares at upper end of the price band which is Rs. 130)

The company has undertaken a Pre-IPO Placement of **15,503,875 Equity Shares** at a price of **Rs. 129/-** per share, aggregating to **Rs. 200** crore as under:

Name of the shareholder	No. of Equity Shares	Amount (Rs. in crores)
IIFL Special Opportunities Fund – Series 7	5,503,875	71.00
One Up Financial Consultants Pvt Ltd	775,193	10.00
Ashoka India Equity Investment Trust PLC	2,713,178	35.00
Malabar India Fund	4,224,806	54.50
Malabar Value Fund	813,953	10.50
GMO Emerging Domestic Opportunities Fund	1,094,319	14.12
Nishant Agarwal	378,551	4.88
Total	15,503,875	200.00

Key concerns

IPO priced at a premium: The Company's IPO is valued at P/E of 38x on H1FY21 annualised EPS and at a P/E of 49x on post IPO FY20 EPS which is expensive and at a premium as compared to valuations of existing players at current market price in speciality chemicals space like Aarti Industries (41x on FY20 EPS with ROE of 18%), Fine Organic Industries (43x on FY20 EPS with ROE of 26.63%), Navin Flourine Limited (32x on FY20 EPS with ROE of 28.42%).

Negligible growth in past: The topline and bottomline have been constant in the last 3 years which raises concerns over future growth with issue priced so aggressively.

Background

The company was incorporated as Laxmi Organic Industries Limited at Mumbai on May 15, 1989. The company was promoted by Mr. Ravi Goenka and Yellow Stone Trust. Since their inception in 1989, they have been on a journey of transformation. They initially started manufacturing acetaldehyde and acetic acid in 1992, and soon thereafter moved on to manufacturing of ethyl acetate in 1996.

The Company is currently among the largest manufacturers of ethyl acetate in India with a market share of approximately 30% of the Indian ethyl acetate market. Company's conversion efficiencies have been strong and maintained consistently helping in consistent contribution margin maintenance throughout business cycles. Laxmi Organic has been the largest exporter of ethyl acetate from India in the 6 months ended September 30, 2020 and Fiscals 2020, 2019 and 2018, which amounted to slightly less than half of the total ethyl acetate exports from the country.

Strategically located manufacturing facilities, vertical integration and supply chain efficiencies

The company currently has 2 strategically located Manufacturing Facilities for Acetyl Intermediates and Specialty Intermediates which are located in Mahad, Maharashtra, in close proximity to several ports including the Jawaharlal Nehru (Nhava Sheva) Port, JSW port and Mumbai port which ensures that they have ready access to port facilities and are able expediently import their raw materials and export their products thereby providing them with a cost and logistical advantage. They also have 2 Distilleries located in Maharashtra for the manufacturing of ethanol and specially denatured spirit from



molasses. These Distilleries and their 2 Manufacturing Facilities are located close to sugar mills in Maharashtra thereby providing them with easy supply for molasses and reducing transportation costs. Ethanol is a basic raw material required for the manufacture of Acetyls including acetic acid, acetaldehyde and ethyl acetate. Their Distilleries enable backward integration by acting as feeder plants to both their Acetyls as well as Specialty Intermediates operations, provide effective control over raw materials and also reduce their dependence on third parties for ethanol.

Intellectual property

The company has obtained trademark registrations with respect to “Laxmi” “Laxmisolv”. Further, the company has also obtained a copyright registration with respect to the logo. They hold patents in Belgium, France, Hungary, Italy, Germany, Japan, Netherlands, Spain, Switzerland, United Kingdom and United States of America. The Company has additionally, filed applications for the grant of 2 process patents in India which are currently pending.

Establishing the fluorospecialty chemicals business

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 their 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, they have also acquired 14 patents, 41 REACH registrations and all the formulations, production and maintenance data and research and development data through this acquisition. They intend to capture the market share of Miteni given its existing chemistries and past customer base. **The market for fluorochemicals in India was valued at ~USD 40.5 crore for the 2019. 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. The company is in the process of setting up the Proposed Facility in Lote Parshuram, Maharashtra for manufacturing fluorospecialty chemicals which is proposed to commence operations by the fourth quarter of Fiscal 2022.**

The differentiated business model, asset base, product mix and experience in handling complex chemistries create high entry barriers

The industry in which the Company operates has high entry barriers due to inter alia the involvement of complex chemistries in the manufacturing of their products and the requirement to be enlisted as a supplier after due qualification of the products with certain customers, particularly with the customers in the pharmaceutical and agrochemical industries. The specialty chemicals industry is highly knowledge intensive. Further, the manufacture of Specialty Intermediates is capital intensive. Given the nature of the application of their products, their processes and products are subject to, and measured against, high quality standards and stringent impurity specifications. Further, with respect to end products manufactured by certain of their customers, the usage of their products has been formally recognised in filings with regulatory agencies, any change in the vendor of the product may require significant time and cost for the customer. The company has achieved a high capital efficiency with high asset turnover and working capital turnover ratios, which enables them to utilise their capital in the optimal manner and remain competitive in the industry they operate in.

Promoter and management background..

Ravi Goenka is the Promoter, Chairman and Managing Director of the company. 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. He is a director on the board of International Knowledge Park Pvt. Ltd. which established Ecole Mondiale World School and Russell Square International College.

Satej Nabar is the Executive Director and Chief Executive Officer of the company. He has been associated with the company since April 1, 2020 and has around 31 years of experience in the chemicals industry and has handled numerous functions including, sales and marketing, corporate strategy, innovation and manufacturing. Prior to joining the company, he was associated with Atul Ltd. as president – polymers business; Styrolution ABS (India) Ltd. as head – sales and marketing; BASF South East Asia Pte Ltd. as manager- Asia Pacific, Styrolux Market/Business Development; Reliance Industries Ltd. as deputy general manager- technical (PE), Bhor Industries Ltd. as unit manager of a plant in Satara; Caprihans India Ltd. as a project engineer; Garware-Wall Ropes Ltd. as the executive in the new-projects department; and Kabra Extrusion technik Ltd. of Kolsite Group of Industries as engineer, design.

Harshvardhan Goenka is the Executive Director – Business development and Strategy of the company. He has 9 years of experience in the chemicals industry. He has been associated with the company since September 15, 2011 and heads the business development initiatives of the company.

Rajeev Goenka is the Non-Executive Director of the company. He has been associated with the company since August 12, 1994 and has approximately 26 years of experience in the chemicals industry, 21 years of experience in the renewable energy, and 17 years of experience in the field of education. He was the vice president-business development of Maharashtra Aldehydes Chemicals Ltd. from 1991 to 1994 and currently serves as a member on the board. He is the founding member of, and a director on the board of directors of International Knowledge Park Pvt. Ltd. which established Ecole Mondiale World School and Russel Square International College.

Manish Chokhani is the Independent Director of the company. He has been associated with the company since March 30, 2012 and has 13 years of experience in the securities market. Prior to joining the company, he was the director of Enam Securities Pvt. Ltd. from 2006 to 2019. He served as the managing director and chief executive officer of Axis Capital Ltd from 2012 to 2013. He served as chairman of TPG Growth India during 2015-2016, and as senior advisor to TPG Growth during 2013 to 2019. He currently holds the position of independent director on the boards of various companies including Zee Entertainment Enterprises Ltd., Westlife Development Ltd., Shoppers Stop Ltd., Auxilo Finserve Pvt. Ltd. and Parksons Packaging Ltd. He also serves on the governing board of Flame University. He is also a director on the board of directors of Livinguard AG, a healthcare technology company based in Switzerland.



O.V. Bundellu is the Independent Director of the company. He has been associated with the company since February 21, 2011 and has approximately 37 years of experience in the banking industry. Prior to joining the company, he was associated with Indian Bank as manager, and with IDBI Bank Ltd. as whole-time director (designated as deputy managing director).

Sangeeta Singh is the Independent Director of the company. She has been associated with the company since September 4, 2017. Prior to joining the company, she was associated with KPMG as an executive director, heading human resources in India.

Dr. Rajeev Vaidya is the Independent Director of the company. He has approximately 30 years of experience in the chemicals industry and around 4 years of experience in investment advisory services. He is presently associated with Alpha Investments and Services LLC as the initial member. In the past, he has been associated with Dupont Specialty Products USA, LLC and has held varied capacities within the Dupont business divisions and companies, ranging from research engineer to global president for the DuPont Building Innovations business.

Partha Roy Chowdhury is the Chief Financial Officer of the company and the President – Corporate of the company. He joined the company on January 25, 2016. He has more than 31 years of experience in building and leading businesses through complex operational issues, financial restructuring, international expansion and capital market transactions. In the past, he has been associated with Arvind Mafatlal Group, Indian Oxygen Ltd., ESAB India Ltd. and Navin Fluorine International Ltd.

Aniket Hirpara is the Company Secretary of the company and the Vice President – Legal & Secretarial. He is responsible for overlooking the secretarial and legal matters of the company. He joined the company on August 3, 2012. He has more than 15 years of experience in secretarial and legal matters.

TCN Sai Krishnan is the Chief Operating Officer of the company. He joined the company on November 26, 2019. He has approximately 30 years of experience in manufacturing, projects, procurement & supply chain with speciality chemicals, petro chemicals, paints, inks & FMCG industries.



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