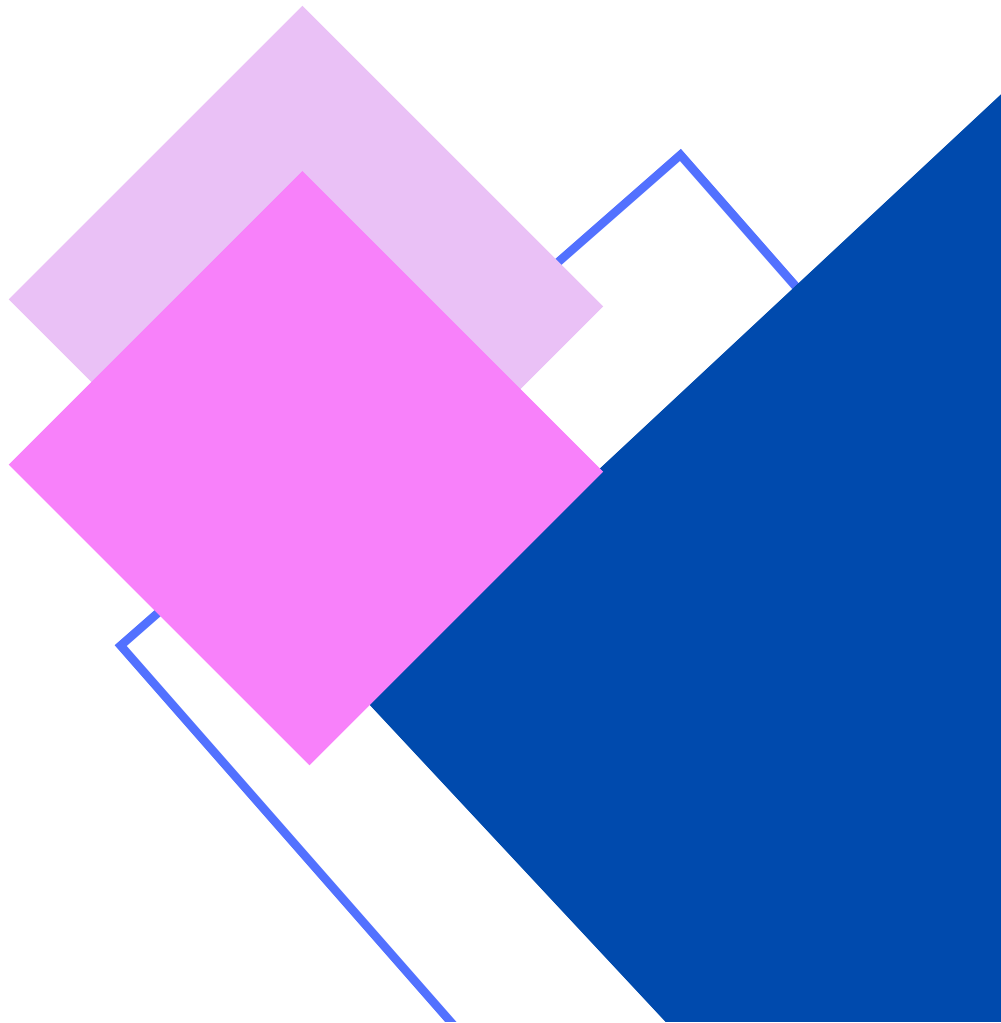
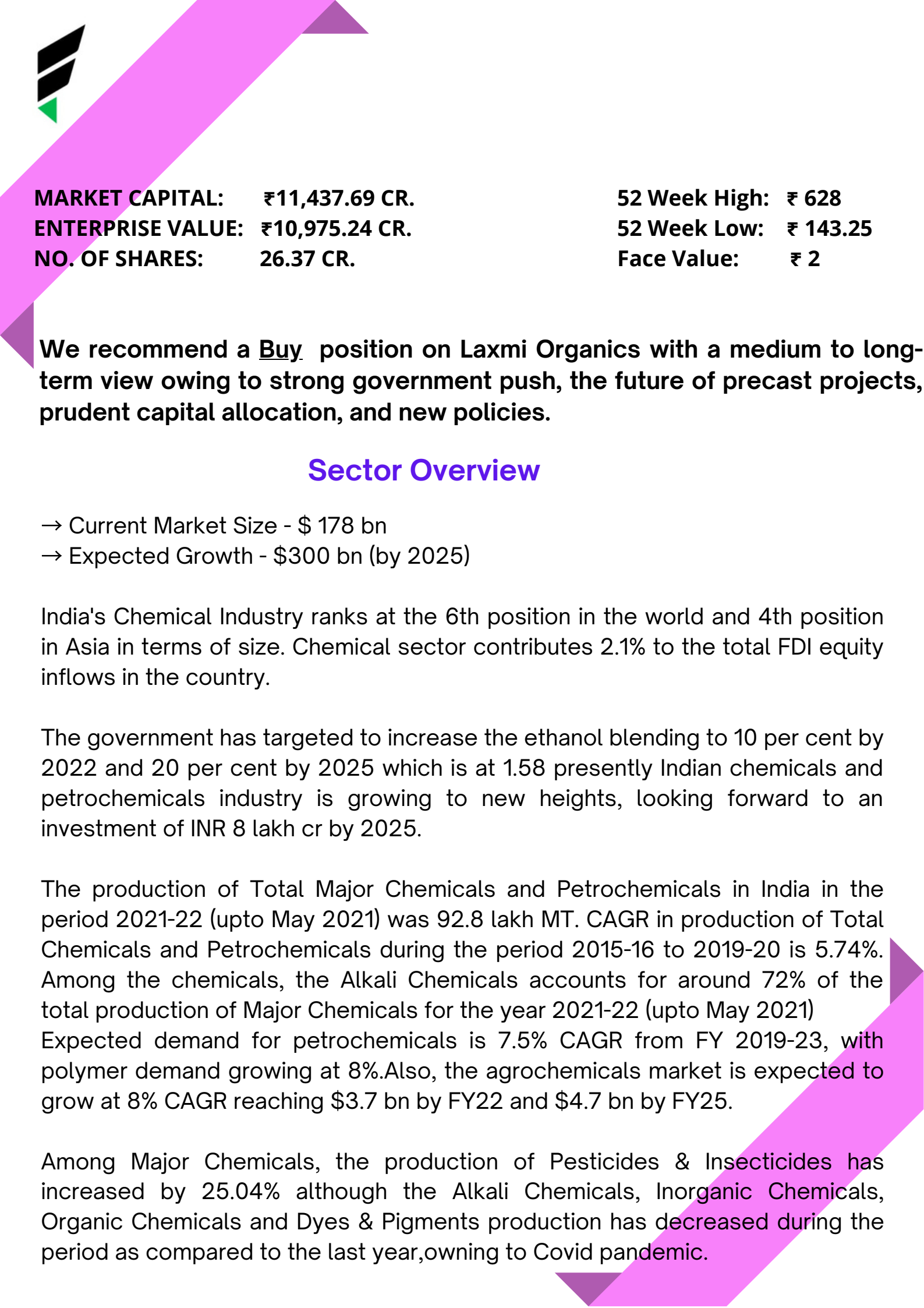




LAXMI ORGANICS





MARKET CAPITAL: ₹11,437.69 CR.
ENTERPRISE VALUE: ₹10,975.24 CR.
NO. OF SHARES: 26.37 CR.

52 Week High: ₹ 628
52 Week Low: ₹ 143.25
Face Value: ₹ 2

We recommend a Buy position on Laxmi Organics with a medium to long-term view owing to strong government push, the future of precast projects, prudent capital allocation, and new policies.

Sector Overview

- Current Market Size - \$ 178 bn
- Expected Growth - \$300 bn (by 2025)

India's Chemical Industry ranks at the 6th position in the world and 4th position in Asia in terms of size. Chemical sector contributes 2.1% to the total FDI equity inflows in the country.

The government has targeted to increase the ethanol blending to 10 per cent by 2022 and 20 per cent by 2025 which is at 1.58 presently Indian chemicals and petrochemicals industry is growing to new heights, looking forward to an investment of INR 8 lakh cr by 2025.

The production of Total Major Chemicals and Petrochemicals in India in the period 2021-22 (upto May 2021) was 92.8 lakh MT. CAGR in production of Total Chemicals and Petrochemicals during the period 2015-16 to 2019-20 is 5.74%. Among the chemicals, the Alkali Chemicals accounts for around 72% of the total production of Major Chemicals for the year 2021-22 (upto May 2021) Expected demand for petrochemicals is 7.5% CAGR from FY 2019-23, with polymer demand growing at 8%.Also, the agrochemicals market is expected to grow at 8% CAGR reaching \$3.7 bn by FY22 and \$4.7 bn by FY25.

Among Major Chemicals, the production of Pesticides & Insecticides has increased by 25.04% although the Alkali Chemicals, Inorganic Chemicals, Organic Chemicals and Dyes & Pigments production has decreased during the period as compared to the last year,owning to Covid pandemic.



COMPANY OVERVIEW

Laxmi chemicals is a speciality chemical company founded in 1989 . Its IPO was launched in March 2021, after which it got listed on the stock exchange. It is a subsidiary of Goenka Group. Its products can be classified into two categories - acetyl intermediates and specialty intermediates.

Acetyl intermediates includes - ethyl acetate, acetaldehyde, fuel-grade ethanol and other proprietary solvents, while specialty intermediates consist of ketene and diketene derivatives like esters, acetic anhydrides, amides, arylides and other chemicals. These compounds are used in the manufacture of paints, coatings, adhesives and pharmaceuticals, among other products. The company is one of the country's largest manufacturers of ethyl acetate comprising a market share of around 30%, according to brokerage estimates. This number is expected to rise in future based upon completion of its acquisition of Yellowstone Chemicals Pvt.

Laxmi Organics is India's largest exporter of ethyl acetate from 2018. It is also India's only manufacturer of diketene derivatives, with a market share of approximately 55%.

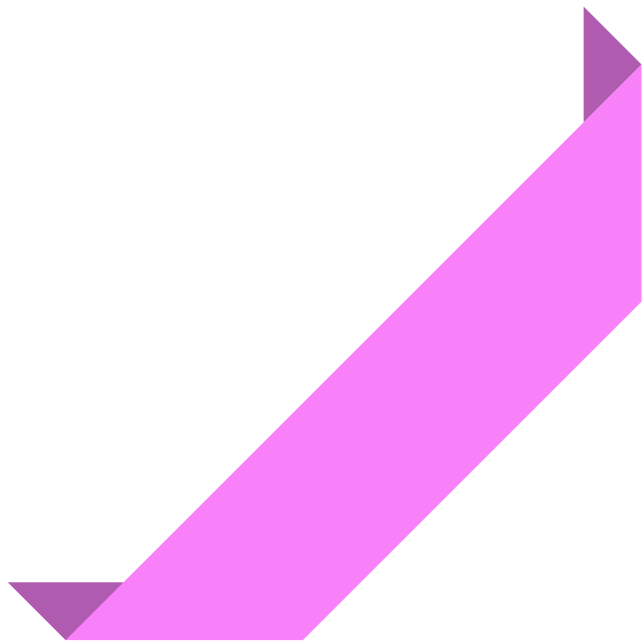
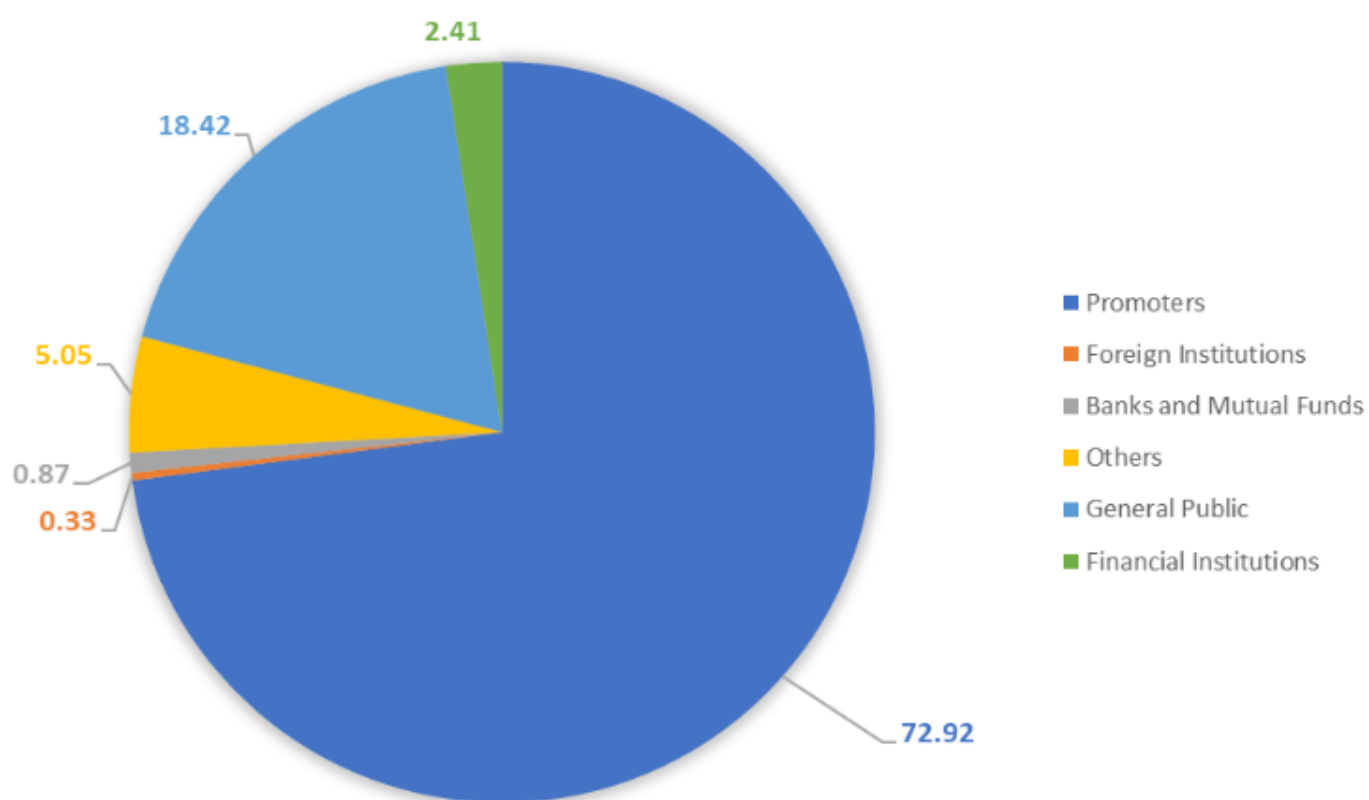
The company is planning to produce speciality fluorochemicals. For this, it has acquired assets which include plant and machinery, design and operating paperwork and patents of Miteni, which makes organic fluoro specialties and electrochemical fluorination.

The facility located in Maharashtra is expected to start production of fluoro speciality chemicals by the fourth quarter of FY'22. The Assets acquired from Miteni are planned to be relocated to this proposed facility. With this, the company will also enter the fluorochemical industry.



Company Financials

	FY2021	FY2020	FY2019
P/E Ratio	49.28	-	-
ROCE	19.98	18.03	20.25
ROE	16.55	17.54	18.63
Debt to Equity Ratio	0.02	0.22	0.24
Quick Ratio	1.68	1.07	1.09
Current Ratio	1.94	1.37	1.41
Basic EPS	5.40	3.21	15.54
Return on Assets(%)	7.06	7.67	8.12
Net Profit Margin	7.63	5.78	5.44
Revenue	1,768.45	1,534.12	1,568.52
Total Debt	1410.90	1588.38	-





INVESTMENT HYPOTHESIS

- **Confidence in investors ahead of IPO**

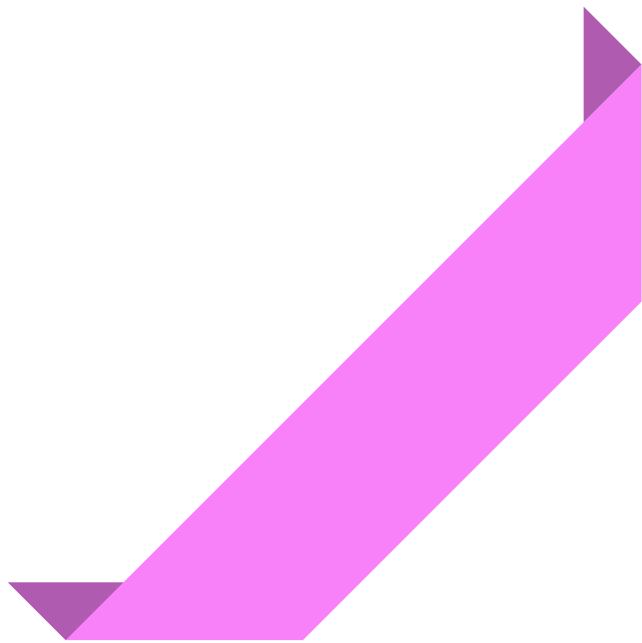
Laxmi Organics had raised Rs 180 crore from its anchor investors ahead of its IPO in March'21. The company's IPO committee after consultation with merchant bankers had decided to allocate 1,38,46,153 shares at Rs 130 to 15 anchor investors.

- **Strong Financials**

Laxmi Organics delivered a very robust performance in Q1FY22, the market price soared 52%. After a very good rally, the stock traded 219% against the issue price of Rs 130, in the same year of release of the IPO.

The company's consolidated revenue grew to Rs 736 crore by about 82% YoY. This growth was fueled by the increase in the acetyl intermediates (AI) and specialty intermediates (SI).

The performance gains in the SI sector was attributed to both volume and pricing whereas the AI sector performance was enhanced by realizations. In the same period, demand from the end-user industries was very firm and positive.





EBITDA and PAT grew at 246% and 379% respectively. The debt to equity ratio of the company improved from 0.24 to 0.02 in just 2 years of time from 2019 to 2022.

In March 2021, after the IPO the stock was trading at Rs 186 and at the time of making this report the stock closed at Rs 434, which is a growth of about 132% in less than 1 year of the IPO launch.

- **Growth in the chemical Industry**

The growth in the chemical industry is projected to be very high. India is a country with very high potential of development in the chemical industry. Currently, India ranks 6th in the world and 4th position in Asia in terms of size of the industry.

Under the Union Budget 2021-22, the government allocated Rs. 233.14 crore (US\$ 32.2 million) to the Department of Chemicals and Petrochemicals.

The speciality chemicals constitute about 22% of total chemicals and petrochemicals in India, its demand is expected to rise at the rate of 12% next year. Indian manufactures have recorded a CAGR of 11% in revenue between FY15 and FY21. This increased India's share in the global specialty chemicals market from 3% to 4%.



Projects

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.

So the company is in the process of setting up a manufacturing facility, with a new R&D lab, at Lote Parshuram, Maharashtra for manufacturing fluoro speciality chemicals.

Laxmi Organics is also 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.

The company 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.



PEER Comparison

Company	MCAP (Cr.)	P/B	P/E	EPS	ROE%	ROCE%	EV/EBITDA
Laxmi Organic	11494.38	9.97	93.79	4.65	16.55%	19.98%	50.57
Deepak Nitrite Ltd.	30374.73	14.38	68.32	32.6	21.27%	27.32%	46.96
Supreme Petrochem	6732.35	4.86	10.05	71.22	54.94%	74.91%	7.11
Atul	29214.25	7.08	45	219.41	18.61%	24.47%	29.27
Asian Paints Ltd.	298392.04	23.18	97.69	31.84	28.34%	38.55%	60.99
Bhansali Engg Polymers	2273.74	2.42	5.17	26.5	64.3%	86.13%	3.57
Chembond Chemicals Ltd.	257.27	1.05	24.84	7.7	4.13%	5.42%	16.37
GOCL Corp Ltd.	1,547.41	3.78	20.26	15.41	12.72 %	14.69%	17.31



Deepak Nitrite

Revenue: 4,299 Cr
Net Profit: 353.34 Cr
Employees: 1324

Deepak Nitrite is a chemical company founded by Chimanlal Mehta in 1970 with a vision to minimize the country's chemical dependence on international markets. Deepak Nitrite Ltd. is headquartered in Baroda, Gujarat and is listed on NSE and BSE (BSE:506401, NSE:DEEPAKNTR).

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Being India's one of the fastest growing chemical intermediates companies Deepak Nitrite has been ranked amongst Fortune Next 500 and 25 Top wealth creators by the prestigious Fortune India Magazine.

Basic chemicals manufactured by DNL are Sodium Nitrate, Sodium Nitrite, Fuel additives, nitrosyl sulphuric acid, etc.



Supreme Petrochemical

Revenue: 1615.4 Cr
Net Profit: 477 Cr
Employees: 400

Supreme Petrochem is a chemical company founded in 1995. It is headquartered in Mumbai and is listed in NSE and BSE (BSE:500405, NSE:SUPPETRO).

It is the producer as well as exporter of Polystyrene polymer with more than 50% share in the Indian market.

Also Supreme Petrochem is the joint venture between Supreme Industries Ltd. and Rajan Raheja Group. SPL has been awarded with 5 star ratings from British Safety Council and due to it, it has the reputation as a reliable International supplier due to its safety records in plant operation and compliance with global and local standards on EHS.

ATUL

Revenue: 3616 cr
Net Profit: 630.89 cr
Employees: 2900

Atul Ltd. was founded in 1947 by Kasturbhai Lalbhai. It is headquartered in Gujarat and is listed in NSE and BSE (BSE:500027, NSE:ATUL).

It is an integrated chemical company and a diversified company meeting the needs of various industries ranging from adhesives to cosmetics to defense. Atul has established subsidiary companies in the US, the UK, the UAE, China and Brazil. Its stock is priced at Rs. 9874 which is on a very high side although it has shown great results in recent times.



Related to Industry

Industries related to chemical sector are:

Pharmaceuticals

Indian pharmaceutical business is third largest within the world and is one of the foremost developed industries. Pharmaceutical industry is directly dependent on the chemical industry. The chemicals supplied are used for the production of many drugs and medicines.

Agrochemicals

An agrochemical is a chemical product used in agriculture. Agricultural chemicals are defined as chemicals such as pesticides, herbicides, fungicides, insecticides, and fertilizers used in agriculture to control pests and disease or control and promote growth. Agrochemicals are one of the most important applications of the chemical industry.

Paint and Coatings

Paints and Coatings have a vital role in the chemical Industry. A coating is a layer of material deposited onto a substrate to enhance the surface properties for corrosion and wear protection. Paint is a subset of Coating which is used for decorative purposes. Global coatings industry is firm and striving and further looking for developments by protecting the environment, being corrosion resistance, weather permanence, gloss and shine altogether in a single coat. And hence the demand for these chemicals is on a rise.

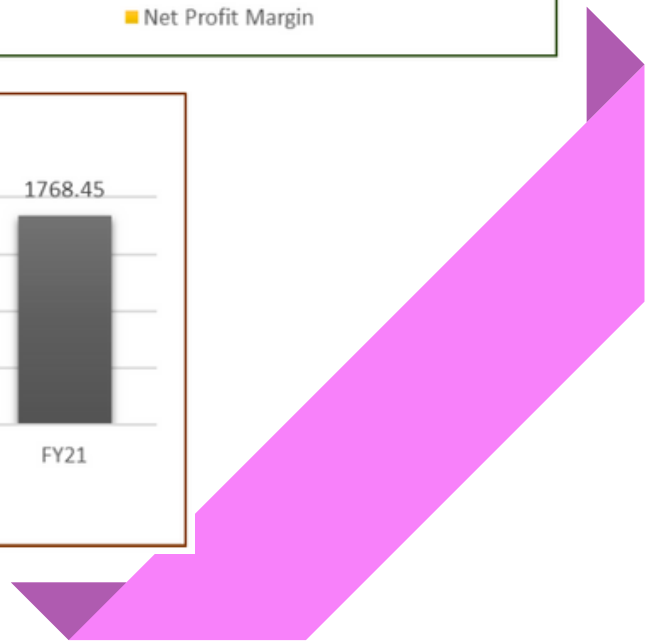
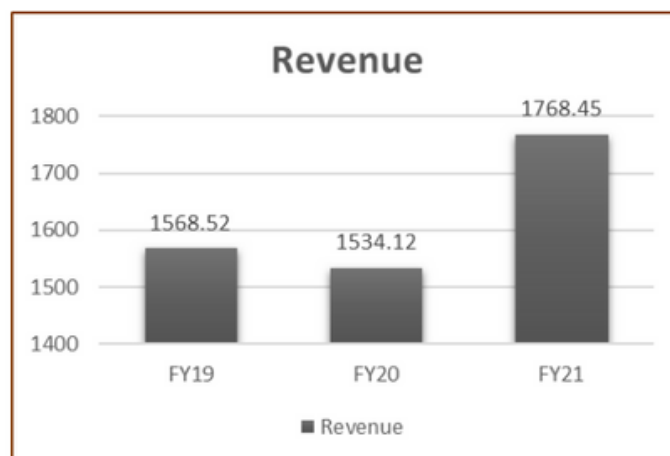
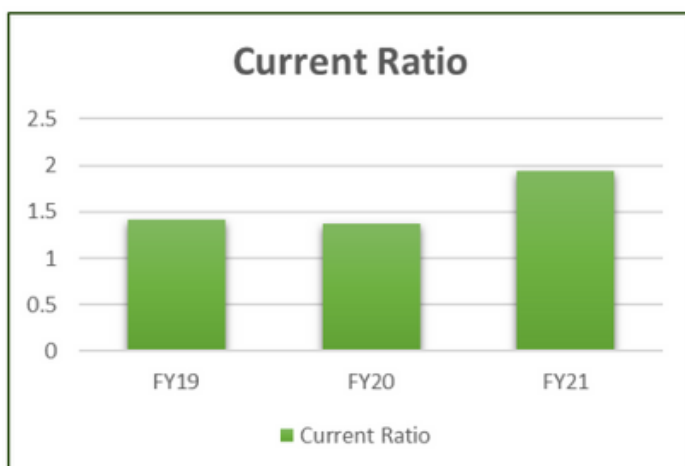
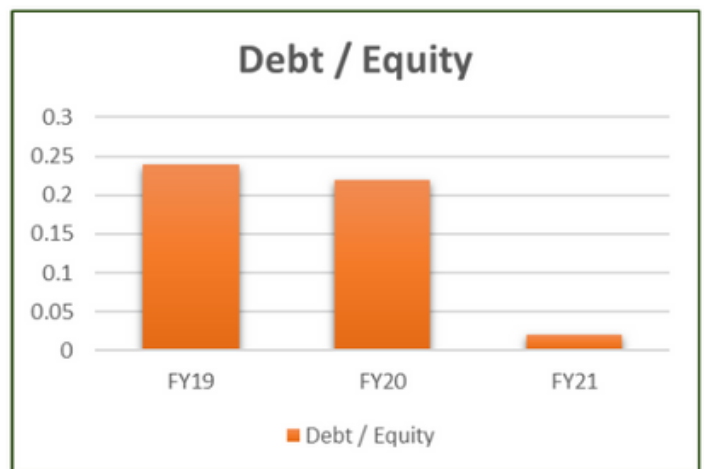
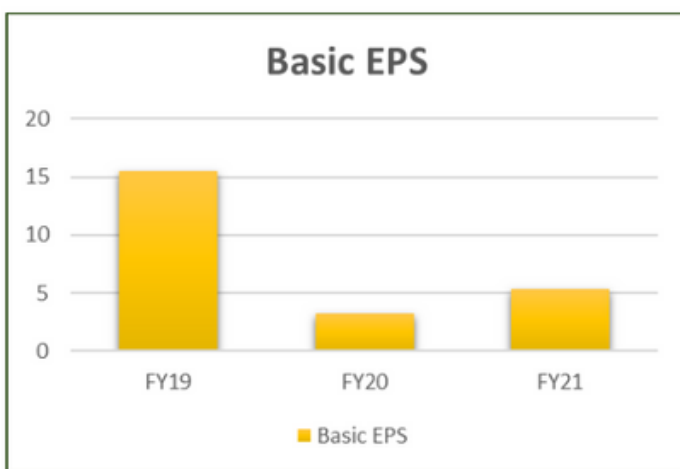
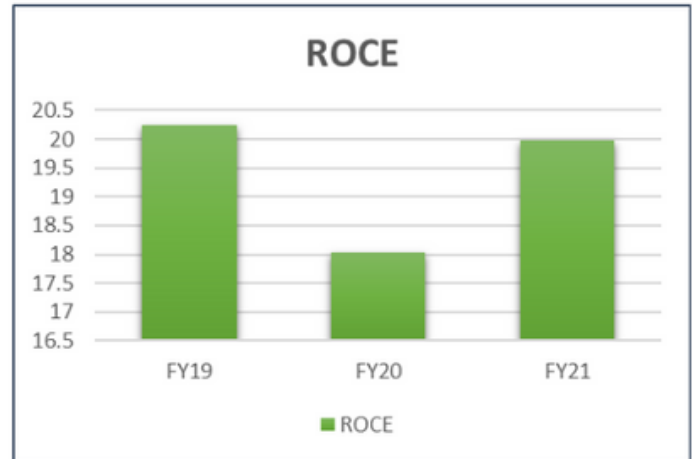
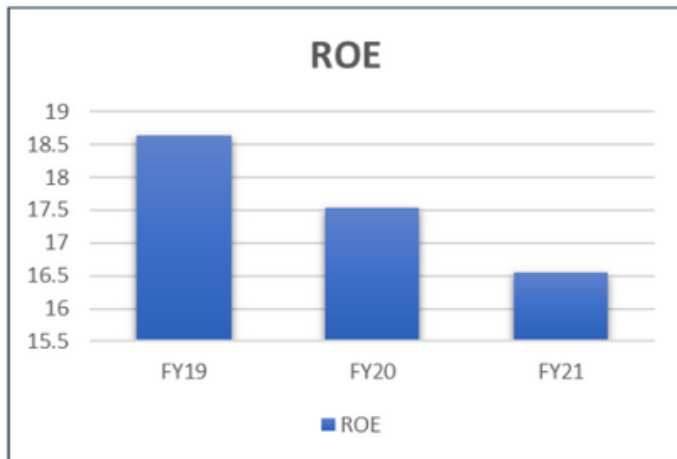
Pigments and Inks

This industry manufactures synthetic organic and inorganic dyes and pigments, such as lakes and toners (except electrostatic and photographic). As such, the industry produces various pigments and dyes, including color, lead, chrome, metallic and zinc-based pigments as well as disperse, vat, and direct dyes. A chemical intermediate product, these pigments, and dyes are used to impart color to numerous products. Major industry products include inorganic dyes and pigments and synthetic organic dyes and pigments.



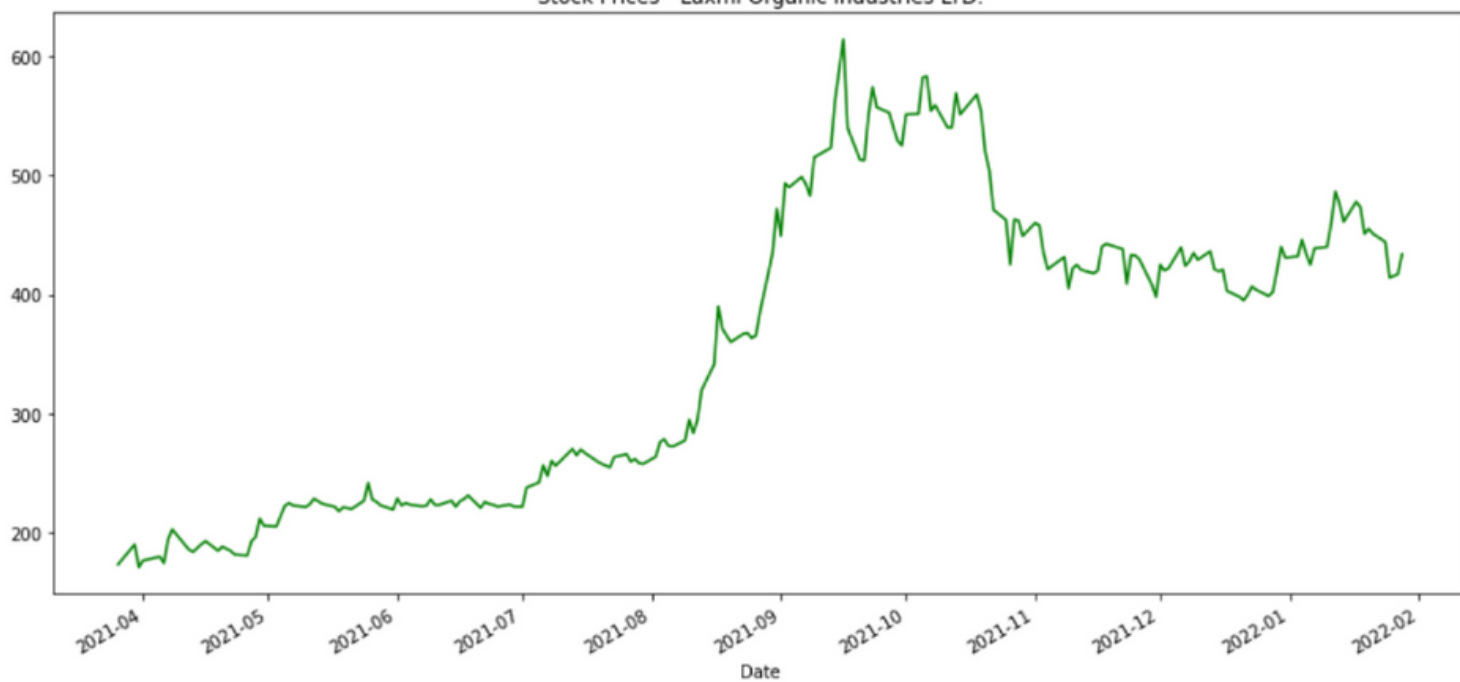
RISK AND CONCERN

- **Exemption on import tariffs of chemicals:** Due to this the import of chemicals has become cheaper many Indian companies face the issue of high competition in their own market due to foreign competitors.
- **Technological Innovations** - Advancement in the sector is very dynamic. The sector advances by quite a lot in a span of a year or two. Also, established practices in the sector generally become obsolete in a matter of time. Newer products and technology are more efficient and provide better methodologies to produce and manufacture chemicals. However, newer technology is often expensive to implement, this is disregarding the technical learning curve and replacement efforts to be made to the new manufacturing process.
- **Regulatory Issues** - Due to many regulatory, environmental and safety regulations imposed by the government in recent times many certificates and licenses are required to set up a chemical company; making it a complex process.
- **Outlying locations and transportation costs** - Most of the chemical industries are located in the western coast of India while the major demand of chemicals is in the southern regions so this gives rise to the logistical costs and also at times hampers the complete process due to failures in the transportation processes.

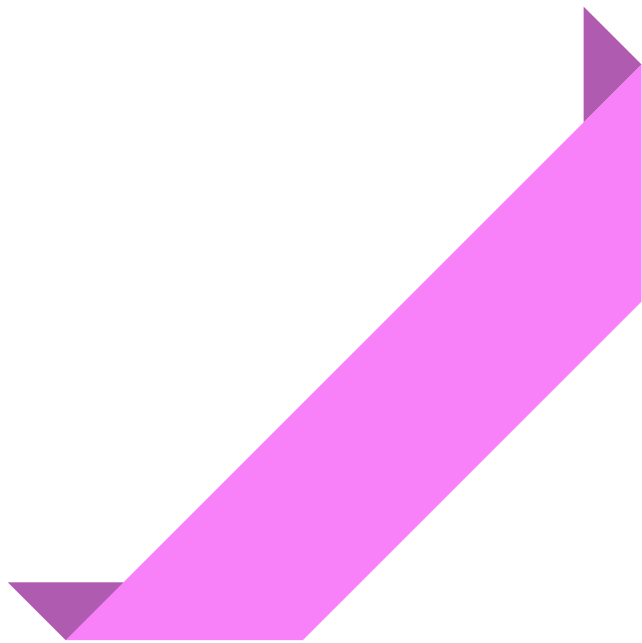




Stock Prices - Laxmi Organic Industries LTD.



(Graph of Stock Price)





Summing Up

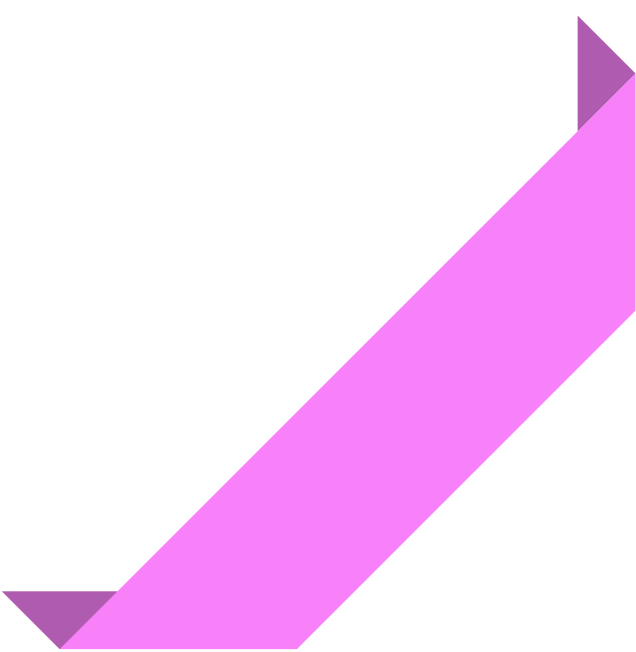
We recommend a BUY position on Laxmi organics with a medium to long term view owing to the following:

- Acquisition of Miteni
- Production assets increment
- Strong Management
- Growth in chemical industry

After looking at sector growth from recent years, and policies that the government has made recently, we expect high growth in the chemical sector:

- Chemical Exports
- Alcohol based products
- Fluorochemicals

Laxmi Organics is in a very strongly placed position. Future expansion plans and currently being the sole supplier of some major chemicals in the country, the company is expected to grow higher in the future.





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