

# Laxmi Organic Industries

## Chartering journey into fluorine space

Absorbing the processes and technologies and scaling them up is the identity of Laxmi Organic Industries Ltd (LO). It has acquired assets from Clariant, Miteni and Yellowstone Chemicals in the last 15 years and scaled up these processes to become one of the top players globally. We recently visited LO's site at Lote Parshuram, Maharashtra, spanning ~30 acres (~1,22,000 square meters). The company has relocated Miteni's fluorochemical assets from Italy and built an impressive facility on 50% (66,500 sq. meters) of this site. It has invested INR5.5bn to rebuild this plant. The company is entering the USD25bn fluorine chemistry global market with electrochemical fluorination and other technologies. It has a balanced business model with the essentials vertical as a cash cow business while the specialties vertical is a growing business. The commodity business is feeding capital for the specialty business. The company is planning to invest INR7.1bn at Dahej to augment the Essentials, Ketene, Diketene, and derivatives capacities.

### Key takeaways from the LO plant visit (at Lote Parshuram)

- LO has two business divisions based on customer expectations from the company concerning the products offered to them. Customers of the essentials vertical demand competitive pricing and reliability while customers for the specialties vertical expect reliability and product development.
- Specialties business:** The specialties vertical encompasses Ketene, Diketene and its derivatives as one technology major platform and fluorine as the second platform. There are a lot of derivatives based on other chemistries that are part of the specialty business as well. The global market size of the fluorine business is USD25bn including fluoropolymers, fluoro surfactants, and refrigerant gases. The company is not targeting fluoropolymers, refrigerant gases and fluorosurfactants. The addressable market for the company's fluorine business is USD2.5bn. LO is the largest player in Ketene and Diketene intermediates in India and among the top 5 players globally (excluding China). 50% of products from this vertical are exported and it is expected to jump up as fluorine products start contributing to revenue. Mr Virag Shah has been heading this segment since September 2023.
- Essentials:** The essentials vertical includes a large number of products including bulk solvents and aldehydes. Esterification and Acetylation are the technology platforms in this vertical. The global market size of this business is USD12bn. It has more than 500 customers. LO is the largest player in Acetyl intermediate in India and the third player globally (excluding China). It has cost competitiveness in the product like Ethyl acetate. Exports form 30% of the revenue in this vertical. Mr Jitendra Agarwal is heading this vertical.

### About Lote Parshuram site and fluorochemicals product portfolio:

- The company has built an impressive facility on 50% (66,500 sq. meters) of this land parcel at Lote Parshuram. It has four blocks, namely Plant-100, Plant-200, Plant-300 and Pilot Plant & Kilo Lab. Besides, it has a utility area, Effluent Treatment Plant (ETP), warehouse, storage tank area and an administration block. The remaining site has the capacity to add seven more blocks which can absorb an investment of INR5bn. LO gives utmost importance to safety, health, and the environment.

## NOT RATED

CMP (as on 8 July 2024)	INR 276
Target Price	NA
NIFTY	24,321

### KEY STOCK DATA

Bloomberg code	LXCHEM IN
No. of Shares (mn)	276
MCap (INR bn) / (\$ mn)	76/913
6m avg traded value (INR mn)	308
52 Week high / low	INR 321/220

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	9.9	(3.0)	5.9
Relative (%)	2.9	(15.0)	(16.6)

	Dec-23	March-24
Promoters	69.83	69.72
FIs & Local MFs	3.54	3.44
FPIs	0.67	0.85
Public & Others	25.97	26
Pledged Shares	0.00	0.00

Source: BSE

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- The construction at the site started in Q3FY20. The mechanical work part of the plant was completed in Q4FY24 and samples for validation were sent to customers in Q1FY25.
- **Miteni's fluorochemical portfolio:** Miteni has the technology to produce about 100 products along with 'Electrochemical Fluorination Technology'. The company has chosen 10 products to manufacture initially. Out of these 10, there are 2-3 products based on the Electrochemical Fluorination Technology. LO has already sent samples of these products to about 20 customers for validation. These samples are at different levels of qualification. All these products are being manufactured for the first time in India. End users of these products are agrochemicals, pharmaceuticals and others like electronic industries and semiconductors. Management envisages a peak revenue potential of ~INR2bn from these 10 products and it will be achieved in three years starting 2HFY25, when revenue will start flowing from this asset. Initially, LO is targeting existing customers of Miteni.
- **Electrochemical Fluorination Technology:** The company has acquired this technology from Miteni. This technology allows the company to cater for the demand from emerging industries like data centres, electronic industries, and the semiconductor industry. LO is planning to manufacture 2-3 products based on this technology initially from Plant-300.
- **Plant-100:** This plant is equipped to perform photochlorination, fluorination, nitration, and continuous ring chlorination. About 7-8 products can be manufactured from this plant.
- **Plant-200 and Pilot plant and kilo lab:** These two plants are taking care of scaling up and development of new molecules. Kilolab and the pilot plant are the starting point after R&D for scaling up. The pilot plant has a reactor capacity ranging from 0.5 to 1.8 kiloliters (kl) and can operate up to 10 bar pressure. After scaling up in Kilolab plant, the production shifted to Plant-200. Plant-200 is a multi-purpose plant (MPP) with reaction capacity ranging from 1,000 to 4,000 litres. The material of construction of these reactors is SS, GS, PTFE and Hastelloy Nickel alloy to handle reactions of corrosive raw materials. It has reaction capabilities for fluorination, monolysis, hydrolysis, and chlorination. This plant has the ability to conduct unit operations like distillation, filtration, drying, extraction and scrubbing.
- **Plant-300:** It is an electrochemical fluorination section. 2-3 products will be produced from this plant.
- All plants are operated with a Distributed Control System (DCS). The DCS system at the Lote Parshuram site is redundant and reliable. All processes are batch processes; therefore, as a safety measure, the plant operates with manual control along with DCS.
- The current effluent treatment plant (ETP) is oversized for existing plants. There is further scope for expansion to handle more effluent. Depending upon the processes, the type of effluent changes. Therefore, in the future, a few more additions to the ETP need to be made.
- Aqueous Hydrogen Fluoride (AHF) and Chlorine are both poisonous and can cause death if one is exposed to them for long. As a precautionary measure, the unloading facility of AHF is automated and in a closed system. The chlorine storage facility is also isolated and equipped with detectors.

### On capex

- **Capex at Lote Parshuram:** The total investment at this site is INR5.5bn. The cost escalation can be attributed to (i) delay in the relocation of assets due to COVID but the company needs to continue investing due to regulations in Italy and the European Union; (ii) higher than estimated logistic cost; and (iii) refurbishing of piping and equipment. 50% of the land is still unutilised. The company can add about seven blocks.
- **Capex at Dahej:** LO will invest INR7.1bn in phase I. Post completion of phase I, ~20% of the 85-acre land parcel will be utilised. The company is doubling its Ketene and Diketene capacities. All the approvals are in place and construction will start soon. LO has an advantage in Ketene and Diketene production as they are backwards integrated. Their competitor in Europe is struggling due to inflation. Japanese competitor is under capacity. 65% of specialties and 35% of essentials will be produced from this.
- LO has four manufacturing sites, two units at Mahad and one each at Dahej and Lote Parshuram. It manufactures more than 50 products with more than 620 customers spread across 52 countries.

### Details of manufacturing sites

Site	Land size (acre)	Land occupancy (%)	Product mix
Mahad 2 units	45	90	Essentials-60% Specialties- 40%
Lote Parshuram	30	50	Specialties-100%
Dahej	86	20 (Post phase I)	

Source: Company, HSIE Research

### On strategy

- **Ambition:** The company wants to be in the top four players globally in its essential product baskets. For specialties, it has an ambition of generating 20% revenue from the products launched over the last five years.
- In the Ketene and Diketene derivative business, the company is looking to sign a long-term contract for customised products.
- The company has a robust pipeline of products. 11 products are in the advanced stages of launching. These products are non-metallic products.

### Other details

- LO has acquired a plant along with technology from Miteni, a joint venture between Mitsubishi, Japan and Eni, Italy.
- The entire plant shifted to India from Italy post-acquisition in more than 300 containers. Reactors and piping design along with know-how transferred. These reactors are piping-tested for their mechanical strength and then installed at the site.
- The Miteni plant has been operational for more than 20 years. After importing equipment, piping and other instruments were imported from Italy. LO refurbished them but kept the original design, and fittings the same and increased life by 20 years.
- **Financial:** Asset turnover of the essential business is 3-5x while specialties have asset turnover of 1-2x. The EBITDA margin for essentials is 8-12% while specialties earned an EBITDA margin of 20-25%. The company has generated an operating cash flow of INR6bn in FY24.

- End-user industries for Ketene and Diketene business are agrochemicals, pharmaceuticals, paintings and other industries. Each industry contributes equally in revenue.
- AHF requirements of LO are less compared to the domestic companies working in fluorine chemistry. It is only the starting precursor and a reactant in the mixture. The company maintains a good hedge between imports and domestic sources. 40% of its AHF requirements are fulfilled through imports.
- The company has competition from Chinese manufacturers for its existing product portfolio.

## About the company

Laxmi Organics was established in 1989 as Laxmi Organics Industries Limited (LO) and it is one of the key players in Acetyl intermediates, Ketene/Diketene derivatives (speciality intermediates). It has recently ventured into the Fluoro Intermediates space by commissioning the first phase of its new plant at Lote-Parshuram, Maharashtra. Acetyl intermediates and speciality intermediates (Ketene/Diketene derivatives) contributed 69% and 31% respectively in revenue for FY24 while EBITDA contribution was 33% and 67% respectively. The strategic locations of the manufacturing plants close to large volume handling port (JNPT) is a key competitive advantage for the company, resulting in cost efficiency.

The company holds four manufacturing facilities, of which two are at Mahad (Maharashtra), one at Dahej and one at Lote Parshuram (Maharashtra). The units at Mahad are used for manufacturing Acetyl derivatives and speciality derivatives. The company also has two distilleries to produce ethanol at Jarandeshwar (Maharashtra), and Panchganga (Maharashtra).

Major reactions that are carried out at manufacturing facilities are Ketene/Diketene synthesis, Ethoxylation, Chlorination, Thiolation, Diazotization, Reactive Distillation, Esterification, Catalytic Oxidation, and Air Oxidation. The company has maintained its local presence in Europe and China through its offices at Leiden (Netherlands), Shanghai (China), and Rome (Italy).

The company serves a customer base of 620+ customers across the globe located in North America, South America, the UK, Europe, Africa, Asia, and Australia. Revenue contribution from exports is close to 30% of overall sales in FY24 and Europe remains a key export revenue contributor for the company at 32%, followed by America (26%), the Middle East (14%), Africa (8%) and RoW (19%). It serves a diverse set of customers from industries like pharmaceuticals, adhesives, inks & paints, coatings, printings, packaging, dyes and pigments, automotive, flavour and fragrances.

## Products

The company has a portfolio of 50+ products across two categories: 1) Essentials, 2) Specialities.

- 1) Essentials: The key products manufactured in this category are Ethyl Acetate, Acetaldehyde, Fuel grade ethanol, and other proprietary solvents. The company has a capacity of greater than 232kTPA for this category. Ethanol, one of the key raw materials for this category imported. The products, majorly solvents, in this category, find end use in industries like pharmaceuticals, agrochemicals, flexible packaging, auto coatings, and printing inks.

The company is a leader in the acetyl intermediates category with more than 30% market share and is amongst the top 7 producers of Ethyl Acetate globally.

Manufacturing of acetyl intermediates products is less capital-intensive. The company enjoys long-term relationships with its diverse set of customers across the globe as well as suppliers and has been present in Europe for more than 10 years.

- 2) **Specialities:** The key products from this category are mainly Ketene and Diketene derivatives and fluorochemicals. These products find applications in pharmaceuticals, agrochemicals, dyes and pigments, flavour and fragrances, paints, and coatings industries.

The company remains a market leader in Ketene and Diketene intermediates with a market share of 50% in India and is in the top 5 globally. Diketene derivatives find use in high-growth crop protection chemicals and pharmaceutical industries. The company has made R&D investments to develop in-house products in this category. The Specialities category requires the same raw material as the Essentials category, which enables cost-savvy procurement for the company. It has secured long-term contracts for global customers.

The company has recently entered the USD 2.5 bn market of Fluorochemicals. The plant is being set up at Lote Parshuram, Maharashtra. Fluorochemicals are heavily used for the manufacturing of agrochemicals. Fluorine-based pesticides have a 67% share in the overall pesticides category. Pharmaceuticals is the next high-growth industry where fluorochemicals find their application. Fluorine-containing drugs account for 2% of the drugs approved by the FDA in the last five years. In the nascent stages, the company is planning to start producing 8-10 products and gradually add the products to the fluorochemical portfolio. The company is well-positioned to leverage its relationship with global pharmaceuticals and agrochemicals clients for its fluorochemicals.

## Financials (Consolidated)

### INCOME STATEMENT

INR mn	FY18	FY19	FY20	FY21	FY22	FY23	FY24P
Revenues	13,755	15,685	15,341	17,684	30,843	27,912	28,650
Growth %		14.0	(2.2)	15.3	74.4	(9.5)	2.6
Raw Material	9,684	10,956	10,907	11,743	21,256	18,552	19,248
Employee Cost	526	645	686	929	1,244	1,159	1,479
Other Expenses	2,031	2,551	2,613	2,846	4,666	5,810	5,367
EBITDA	1,514	1,533	1,135	2,167	3,676	2,391	2,557
EBITDA Margin (%)	11.0	9.8	7.4	12.3	11.9	8.6	8.9
EBITDA Growth %		1.3	(25.9)	90.9	69.6	(35.0)	7.0
Depreciation	313	441	489	465	481	724	1,066
EBIT	1,201	1,092	647	1,702	3,195	1,666	1,491
Other Income (Including EO Items)	30	58	302	46	148	175	282
Interest	98	170	140	164	154	113	65
PBT	1,133	981	808	1,584	3,189	1,729	1,708
Tax	376	252	106	313	614	483	503
PAT	757	729	702	1,271	2,574	1,246	1,205
EO (Loss) / Profit (Net Of Tax)	-	-	223	-	-	-	-
APAT	757	729	479	1,271	2,574	1,246	1,205
Share from associates	0	(5)	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-
Consolidated APAT	757	724	479	1,271	2,574	1,246	1,205
Consolidated APAT Growth (%)		(4.4)	(33.8)	165.1	102.6	(51.6)	(3.3)
AEPS	2.7	2.6	1.8	4.6	9.4	4.5	4.4
AEPS Growth %		(4.4)	(31.6)	156.7	102.6	(51.6)	(3.3)

Source: Company, HSIE Research

### BALANCE SHEET

INR mn	FY18	FY19	FY20	FY21	FY22	FY23	FY24P
<b>SOURCES OF FUNDS</b>							
Share Capital	100	500	450	527	527	530	552
Reserves And Surplus	3,695	4,001	3,823	9,823	12,375	13,593	17,428
<b>Total Equity</b>	<b>3,795</b>	<b>4,502</b>	<b>4,273</b>	<b>10,350</b>	<b>12,902</b>	<b>14,124</b>	<b>17,980</b>
Minority Interest	-	-	-	-	-	-	-
Long-term Debt	654	854	985	156	65	1,385	1,036
Short-term Debt	1,407	688	360	1,338	1,326	2,673	385
<b>Total Debt</b>	<b>2,061</b>	<b>1,541</b>	<b>1,345</b>	<b>1,494</b>	<b>1,391</b>	<b>4,057</b>	<b>1,422</b>
Deferred Tax Liability	160	171	120	156	168	272	283
Long-term Provision and others	24	22	28	35	39	41	61
<b>TOTAL SOURCES OF FUNDS</b>	<b>6,040</b>	<b>6,236</b>	<b>5,767</b>	<b>12,037</b>	<b>14,500</b>	<b>18,493</b>	<b>19,746</b>
<b>APPLICATION OF FUNDS</b>							
Net Block	2,933	3,457	3,377	3,251	3,786	7,146	8,787
Capital WIP	300	315	675	1,479	3,738	4,471	4,442
Other non-current assets	186	78	80	444	126	207	172
Non-current Investments	89	47	177	152	115	131	99
<b>Total Non-current assets</b>	<b>3,508</b>	<b>3,896</b>	<b>4,308</b>	<b>5,325</b>	<b>7,765</b>	<b>11,955</b>	<b>13,500</b>
Inventories	1,458	1,707	1,519	2,033	3,738	2,942	2,833
Debtors	3,242	3,262	3,594	4,346	6,684	5,702	5,834
Cash and Cash Equivalents	52	467	363	5,394	1,823	1,309	3,171
Other Current Assets	687	812	910	1,278	2,485	2,214	2,934
<b>Total Current Assets</b>	<b>5,439</b>	<b>6,249</b>	<b>6,385</b>	<b>13,051</b>	<b>14,730</b>	<b>12,167</b>	<b>14,772</b>
Creditors	2,141	3,156	4,116	4,750	7,117	4,663	7,621
Other Current Liabilities & Provns	766	753	810	1,590	878	965	905
<b>Total Current Liabilities</b>	<b>2,907</b>	<b>3,909</b>	<b>4,927</b>	<b>6,339</b>	<b>7,994</b>	<b>5,629</b>	<b>8,526</b>
<b>Net Current Assets</b>	<b>2,532</b>	<b>2,340</b>	<b>1,459</b>	<b>6,711</b>	<b>6,736</b>	<b>6,539</b>	<b>6,246</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>6,040</b>	<b>6,236</b>	<b>5,767</b>	<b>12,037</b>	<b>14,500</b>	<b>18,493</b>	<b>19,746</b>

Source: Company, HSIE Research

**CASH FLOW STATEMENT**

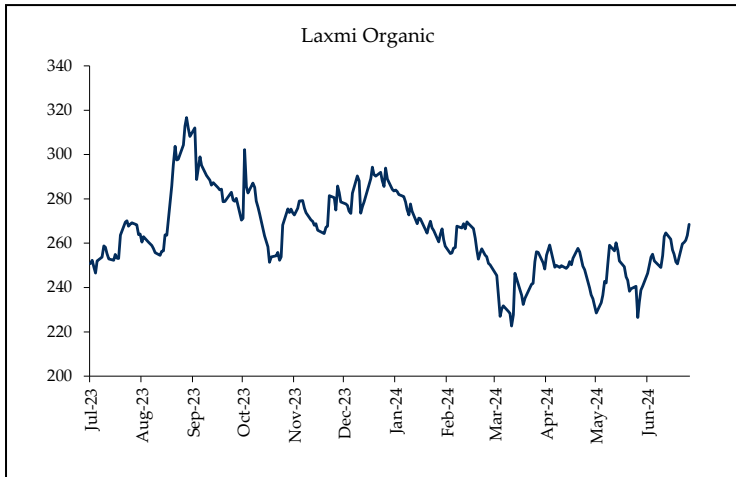
INR mn	FY19	FY20	FY21	FY22	FY23	FY24P
Reported PBT	985	808	1,584	3,189	1,729	1,708
Non-operating & EO Items	(63)	(302)	(46)	(148)	(175)	(282)
Interest Expenses	170	140	164	154	113	65
Depreciation	441	489	465	481	724	1,066
Working Capital Change	608	777	(222)	(3,596)	(317)	2,155
Tax Paid	(241)	(156)	(277)	(603)	(379)	(491)
<b>OPERATING CASH FLOW ( a )</b>	<b>1,899</b>	<b>1,756</b>	<b>1,668</b>	<b>(523)</b>	<b>1,695</b>	<b>4,221</b>
Capex	(979)	(769)	(1,144)	(3,275)	(4,817)	(2,678)
Free Cash Flow (FCF)	920	987	524	(3,798)	(3,122)	1,543
Investments	42	(130)	25	37	(16)	32
Non-operating Income	58	302	46	148	175	282
Others	109	(2)	(364)	318	(81)	35
<b>INVESTING CASH FLOW ( b )</b>	<b>(771)</b>	<b>(599)</b>	<b>(1,436)</b>	<b>(2,772)</b>	<b>(4,739)</b>	<b>(2,329)</b>
Debt Issuance/(Repaid)	(520)	(196)	149	(103)	2,666	(2,636)
Interest Expenses	(170)	(140)	(164)	(154)	(113)	(65)
FCFE	231	651	509	(4,055)	(569)	(1,158)
Share Capital Issuance	400	(50)	77	-	3	21
Dividend	(15)	(18)	(79)	(132)	(186)	(133)
Others	(410)	(857)	4,815	113	159	2,783
<b>FINANCING CASH FLOW ( c )</b>	<b>(714)</b>	<b>(1,261)</b>	<b>4,799</b>	<b>(276)</b>	<b>2,530</b>	<b>(30)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>415</b>	<b>(104)</b>	<b>5,031</b>	<b>(3,571)</b>	<b>(514)</b>	<b>1,862</b>
EO Items, Others						
<b>Closing Cash &amp; Equivalents</b>	<b>467</b>	<b>363</b>	<b>5,394</b>	<b>1,823</b>	<b>1,309</b>	<b>3,171</b>

**KEY RATIOS**

	FY18	FY19	FY20	FY21	FY22	FY23	FY24P
<b>PROFITABILITY %</b>							
Gross Margin	29.6	30.1	28.9	33.6	31.1	33.5	32.8
EBITDA Margin	11.0	9.8	7.4	12.3	11.9	8.6	8.9
EBIT Margin	8.7	7.0	4.2	9.6	10.4	6.0	5.2
APAT Margin	5.5	4.6	3.1	7.2	8.3	4.5	4.2
RoE	N/A	17.4	10.9	17.4	22.1	9.2	7.5
RoIC	N/A	14.7	7.4	28.5	37.3	11.2	8.5
RoCE	N/A	13.8	10.0	15.8	20.3	8.0	6.5
<b>EFFICIENCY</b>							
Tax Rate %	33.2	25.7	13.1	19.8	19.3	27.9	29.4
Fixed Asset Turnover (x)	7.8	3.9	3.3	3.5	5.4	3.4	2.5
Inventory (days)	39	40	36	42	44	38	36
Debtors (days)	86	76	86	90	79	75	74
Other Current Assets (days)	18	19	22	26	29	29	37
Payables (days)	81	105	138	148	122	92	145
Other Current Liab & Provns (days)	20	18	19	33	10	13	12
Cash Conversion Cycle (days)	42	12	(14)	(22)	20	38	(8)
Net Debt/EBITDA (x)	1.3	0.7	0.9	(1.8)	(0.1)	1.1	(0.7)
Net D/E	0.5	0.2	0.2	(0.4)	(0.0)	0.2	(0.1)
Interest Coverage	12.2	6.4	4.6	10.4	20.7	14.8	22.8
<b>PER SHARE DATA (INR)</b>							
EPS	2.7	2.6	1.8	4.6	9.4	4.5	4.4
CEPS	3.9	4.2	3.6	6.3	11.1	7.2	8.2
Dividend		0.05	0.06	0.29	0.48	0.67	0.48
Book Value	13.8	16.4	15.5	37.6	46.9	51.3	65.3
<b>VALUATION</b>							
P/E (x)	97.6	102.1	149.3	58.2	28.7	59.3	61.3
P/Cash EPS (x)	69.1	63.5	75.1	42.6	24.2	37.5	32.5
P/BV (x)	19.5	16.4	17.3	7.1	5.7	5.2	4.1
EV/EBITDA (x)	50.1	48.9	66.0	32.3	20.0	32.1	28.2
EV/Revenue (x)	5.5	4.8	4.9	4.0	2.4	2.7	2.5
Dividend Yield (%)	N/A	N/A	N/A	N/A	1.2	1.9	1.9
OCF/EV (%)	N/A	2.5	2.3	2.4	(0.7)	2.2	5.8
FCFF/EV (%)	N/A	1.2	1.3	0.7	(5.2)	(4.1)	2.1
FCFE/M Cap (%)	N/A	0.3	0.9	0.7	(5.5)	(0.8)	(1.6)

Source: Company, HSIE Research

## 1 Yr Price history



## Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential



## Disclosure:

We, Nilesh Ghuge, MMS, Harshad Katkar, MBA, Prasad Vadnere, MSc & Akshay Mane, PGDM authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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## Any holding in stock – NO

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