



IPO Note – Laxmi Organic Industries Limited

10-March-2021

Issue Snapshot:

Issue Open: Mar 15 – Mar 17, 2021

Price Band: Rs. 129 –130

*Issue Size: 46,153,846 eq shares
(Fresh issue 23,076,923 + Offer for sale of 23,076,923 eq sh)

Issue Size: Rs. 595.4 – 600.0 cr

Reservation for:

QIB	Upto	50% eq sh
Non Institutional	atleast	15% eq sh
Retail	atleast	35% eq sh

Face Value: Rs 2

Book value: Rs 20.99 (September 30, 2020)

Bid size: - 115 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity: Rs. 48.11 cr

*Post issue Equity: Rs. 52.73 cr

Listing: BSE & NSE

Book Running Lead Manager: Axis Capital Limited, DAM Capital Advisors Limited

Registrar to issue: Link Intime India Private Limited

Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	89.5	72.9
Public & Employee	10.5	27.1
Total	100.0	100.0

*=assuming issue subscribed at higher band
Source for this Note: RHP

Background & Operations:

Laxmi Organic Industries Ltd (LOIL) is a leading manufacturer of Acetyl Intermediates and Specialty Intermediates with almost three decades of experience in large scale manufacturing of chemicals. It initially started manufacturing acetaldehyde and acetic acid in 1992, and soon thereafter moved on to manufacturing of ethyl acetate in 1996. It 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 YCPL Acquisition, LOIL's market share in the ethyl acetate market will be further enhanced. It 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

LOIL's products are currently divided into two broad categories, namely the Acetyl Intermediates and the Specialty Intermediates. 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. Its products find application in various high-growth industries, including pharmaceuticals, agrochemicals, dyes & pigments, inks & coatings, paints, printing & packaging, flavours & fragrances, adhesives and other industrial applications. It also propose to diversify into manufacturing of specialty fluorochemicals to which end, it has recently acquired assets including plant & machinery, design and operating paperwork, REACH registrations and patents of Miteni, a manufacturer of organic fluorospecialties and electrochemical fluorination.

Over the years, LOIL has significantly expanded its scale of operations and global footprint with customers in over 30 countries including China, Netherlands, Russia, Singapore, United Arab Emirates, United Kingdom and United States of America.. It currently has two manufacturing facilities in Mahad, Maharashtra (the "Manufacturing Facilities"), with one facility dedicated to Acetyl Intermediates (the "AI Manufacturing Facility") and another dedicated to Specialty Intermediates (the "SI Manufacturing Facility"), which are strategically located in proximity to several ports and each other. It also has two distilleries located in Satara district (the "Jarandeshwar Distillery") and Kolhapur district in Maharashtra (the "Panchganga Distillery" and together with the Jarandeshwar Distillery, the "Distilleries") for the manufacturing of ethanol or specially denatured spirit. Further, it is in the process of setting up a manufacturing facility at Lote Parshuram, Maharashtra for manufacturing fluorospecialty chemicals (the "Proposed Facility").

Objects of Issue:

The Offer comprises the Offer for Sale and the Fresh Issue

Offer for Sale

The proceeds of the Offer for Sale shall be received by the Promoter Selling Shareholder. LOIL will not receive any proceeds from the Offer for Sale.

Fresh Issue

Company proposes to utilise the net proceeds of the Fresh Issue, i.e. gross proceeds of the Fresh Issue less the Offer related expenses applicable to the Fresh Issue and the proceeds from the Pre-IPO Placement ("Net Proceeds") towards funding the following objects:

- Investment in wholly owned Subsidiary, Yellowstone Fine Chemicals Private Limited ("YFCPL") for part-financing its capital expenditure requirements in relation to the setting up of a manufacturing facility for fluorospecialty chemicals ("Proposed Facility") Rs.604 mn;
- Investment in YFCPL for funding working capital requirements Rs.377.4 mn;
- Funding capital expenditure requirements for expansion of SI Manufacturing Facility ("Proposed Expansion") Rs.910.6 mn;
- Funding working capital requirements of the Company Rs.351.8 mn;
- Purchase of plant and machinery for augmenting infrastructure development at SI Manufacturing Facility Rs.125.7 mn;
- Prepayment or repayment of all or a portion of certain outstanding borrowings availed by the Company and its wholly owned Subsidiary, Viva Lifesciences Private Limited ("VLPL") Rs.1793.1 mn; and
- General corporate purposes (collectively, referred to herein as the "Objects").

- In addition, LOIL expects to receive the benefits of listing of the Equity Shares on the Stock Exchanges and enhancement of Company's visibility and brand image and creation of a public market for Equity Shares in India.

Competitive Strengths

Leading manufacturer of ethyl acetate with significant market share: 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. Its conversion efficiencies has been strong and maintained consistently helping in consistent contribution margin maintenance throughout business cycles. It is currently among the largest manufacturers of ethyl acetate in India with a market share of approximately 30% of the Indian ethyl acetate market. LOIL has also been one of the largest exporters of ethyl acetate to Europe from India since 2012. It has a long-standing presence in Europe with approximately two decades of experience in the sales of ethyl acetate in Europe and are the only Indian company engaged in the sale of ethyl acetate with a direct presence in Europe currently.

The Company has strategically located and backward integrated AI Manufacturing Facility as well as the economies of scale have, over the years, enabled to maintain the consistency in quality of products. Its manufacturing operations are further supported by large storage capabilities at its AI Manufacturing Facility as well as storage tanks in *inter alia* Mumbai (Maharashtra), Rotterdam (Netherlands), Antwerp (Belgium) and Genoa (Italy). LOIL's large manufacturing capacity, consistent growth, experienced management, global footprint and high-quality products makes a reliable supplier of Acetyl Intermediates across various industries.

Only Indian manufacturer of diketene derivatives with a significant market share and one of the largest portfolios of diketene products: According to Frost & Sullivan, based on average price and basic derivatives, the global market for diketene derivatives was estimated to be around USD 1-1.2 billion for the year 2019 and the volume was estimated to be between 0.4-0.45 MMT in 2019 and is expected to grow to 0.5-0.55 MMT by 2024 growing at a CAGR of ~4%. The market in India was valued at USD 150-170 million and is expected to reach ~USD 200 million by 2024, with about 40% of this demand being met by imports. The technology to manufacture diketene derivatives is linked to the product range of the derivatives and only a few companies worldwide hold the technology to cater to a complete range of diketene derivatives.

Traditionally, India fulfilled most of its diketene demand from imports which were mainly from Europe or from China. Over the last decade, being the only manufacturer of diketene derivatives, pursuant to *inter alia* LOIL's R&D efforts and customer relationships it has rapidly gained domestic market share and held a market share of approximately 55 % of the Indian diketene derivatives market in terms of revenue in Fiscal 2020. It was one of the largest suppliers of diketene based specialty intermediates in Europe from India in calendar year 2019. The increasing demand in pharmaceuticals and agrochemicals from developing economies like India is likely to increase the consumption of diketene and its derivatives, where LOIL has a very strong presence. It is well poised to capture the growing demand for diketene derivatives globally. In view of investments that it made in technology and expertise in diketene chemistry, relationships with customers and track record in commercialization of products across the value chain.

Diversified customer base across high growth industries and long-standing relationships with marquee customers : Products of LOIL find application in a number of high growth industries including pharmaceuticals, agrochemicals, dyes & pigments, inks & coatings, paints, printing & packaging, flavours & fragrances, adhesives and other industrial applications. Amongst the industries to which it caters, during the forecast period of 2019-24 the global active pharmaceutical ingredients market size is projected to grow at a CAGR of 5%-6%, the global agrochemicals and fertilizer market is expected to garner revenue at a CAGR of 5.5-6%, and the paints, coatings and additives industry is projected to grow at a CAGR of 5.1% . It has established long-standing relationships with marquee customers across various industries. The diversification of its customer base across various industries has enabled to minimize impact of industry-specific disruptions on business. LOIL's speedy execution and timely response to customer needs, coupled with high-quality products and innovation has enabled to successfully establish market presence and nurtured customer relationships. Further, its long-term relationships with marquee customers provides with steady revenue flows.

Strategically located manufacturing facilities, vertical integration and supply chain efficiencies: LOIL currently has two 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 it has ready access to port facilities and are able expediently import raw materials and export its products thereby providing with a cost and logistical advantage. Its AI Manufacturing Facility is the single largest ethyl acetate manufacturing site in India, in terms of capacity. Further, Manufacturing Facilities are located close to the southern and western regions of India, where some of the major pharmaceutical manufacturers are located. Its Manufacturing Facilities are located close to each other, thereby ensuring greater logistic synergies and operational efficiencies. LOIL also has two Distilleries located in Maharashtra for the manufacturing of ethanol and specially denatured spirit from molasses. These Distilleries and its Manufacturing Facilities are located close to sugar mills in Maharashtra thereby providing with easy supply for molasses and reducing transportation costs.

In order to further bolster logistics and cost efficiencies on the import as well as export side, LOIL also has arrangements with third parties for usage of storage tanks in *inter alia* Mumbai (Maharashtra) for storage of raw materials and finished goods and Rotterdam (Netherlands), Antwerp (Belgium) and Genoa (Italy) for storage of finished products. It also has large storage tanks at its Manufacturing Facilities, which are multi-purpose and can be used for storage of different raw materials (including raw materials of seasonal nature) and products.

In-house research and development capabilities and consistent track record of technology absorption: Research and development of new products to meet customers' requirements is a key growth driver of LOIL's business. It has two DSIR recognised research and development facilities ("R&D Facilities"), comprising of one R&D Facility located within the SI Manufacturing Facility which primarily deals with projects related to the direct application of ketene and diketene and its innovation center located at Rabale, Navi Mumbai, Maharashtra (the "Rabale Innovation Centre"), which predominantly works on development of new products for it based on complex chemistries. Its R&D Facilities are equipped with state-of-the-art research and development infrastructure to synthesise specialty molecules and advanced intermediates. It has consistently invested in R&D and technology and has successfully implemented some of them based on market/customer demand at its Manufacturing Facilities over the years. Its technology development efforts and execution capabilities have enabled to not only garner leading position in the domestic Speciality Intermediates market, but also made a leader in several product groups globally. Further, implementation of the latest technology and built-in-processes enables LOIL to produce high quality products consistently.

Global presence and low geographical concentration: In addition to India, LOIL has customers in over 30 countries including China, Netherlands, Russia, Singapore, United Arab Emirates, United Kingdom and United States of America. Its international operations are supported by its offices in Leiden (Netherlands), Shanghai (China) and Sharjah (United Arab Emirates). Its local presence in such international markets facilitate its sales, marketing and business development activities and provides with timely insights into the economic, product requirements and regulatory environment in such markets. It also has arrangements with third parties for usage of storage tanks in *inter alia* Rotterdam (Netherlands), Antwerp (Belgium) and Genoa (Italy) for storage of finished products which enables to deliver its products on short notice. Presence in various markets reduces its dependence on one market and thereby minimizing the risk of any adverse developments or material changes in economic outlook in any one market.

Differentiated business model, asset base, product mix and experience in handling complex chemistries create high entry barriers: The industry in which LOIL operates has high entry barriers due to *inter alia* the involvement of complex chemistries in the manufacturing of its 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. Given the nature of the application of its products, its processes and products are subject to, and measured against, high quality standards and stringent impurity specifications. Further, the manufacture of Specialty Intermediates is capital intensive. Its customer credit management abilities act as a strong entry barrier for smaller players trying to enter the market. The company has achieved a high capital efficiency with high asset turnover and working capital turnover ratios, which enables to utilise capital in the optimal manner and remain competitive in the industry it operates in. Given its diversified product portfolio, investment in technology, and R&D, its working capital management, Power Facilities and consequent cost efficiencies coupled with global footprint and customer relationships has helped it to create a differentiated position in the markets in which it operates.

Experienced promoter, board of directors and key managerial personnel: LOIL has a strong and well experienced Board, which is supported by highly qualified functional heads and key managerial personnel who actively contribute to and participate in its strategies, operations and business development. It has benefitted significantly from its Promoter's experience and capabilities, as well as its senior management's diverse backgrounds which has enabled to understand and anticipate market trends, expand its product portfolio, manage business operations and growth, leverage customer relationships and respond to changes in the business environment and customer preferences. LOIL's non-independent and Independent Directors are experienced and qualified professionals from varied fields such as the securities market, banking and human resources. Its key managerial personnel are experienced across various functions such as finance, legal and secretarial and business development.

Business Strategy:

Volume maximisation at Manufacturing Facilities by expanding installed capacities to support growth initiatives: As a part of LOIL's growth strategy, it intends to maximise production volumes at its Manufacturing Facilities. Further, it also intends to expand the installed capacities at its Manufacturing Facilities to support growth initiatives. It is also in the process of expanding its manufacturing capabilities for the Acetyl Intermediates by acquiring AHPL, which through its wholly owned subsidiary, YCPL is engaged in the manufacturing of acetaldehyde and ethyl acetate. Further, as a single site risk mitigation initiative, it is in the process of identifying one or more sites for the future growth of its business beyond the currently committed expansion initiatives. As it continues to grow its existing business in new geographies and develop new products, LOIL expects that it would be able to maximise production volumes and increase its operating leverage.

Expanding and optimising product portfolio: LOIL intends to diversify its existing product portfolio by adding new products (including downstream and value added products) which are synergistic with its existing products and chemistries. It intends to perform and deliver products pursuant to the long-term contracts already entered into with certain customers. Further, it also intends to focus on growing its recently launched products in order to grow customer base and revenues. It also intends undertaking manufacturing of certain products on a contract manufacturing basis with its customers to ensure efficient utilisation of its Manufacturing Facilities and to increase cash flows. Custom-manufacturing involves manufacturing of a new product or customizing existing products based on customer specifications. Such arrangements would further increase profit margins, and accordingly, it intends to enter into custom-manufacturing for select customers. Such custom-manufacturing also adds to its existing knowledge of chemistries, thereby aiding product development.

Increasing global footprint and augmenting growth in current geographies: With a view to further diversify customer base and increase market share, LOIL intends to augment its sales in the geographic markets where it sells its products as well as expand into new geographic markets. Currently, it has customers in over 30 countries including China, Netherlands, Russia, Singapore, United Arab Emirates, United Kingdom and USA. LOIL will continue to focus its efforts in select geographies such as United States of America, and establish a greater presence there. Its growth strategy in these markets will be to create strong local presence and connect and expertise with required development capabilities to exploit growth potential offered by these markets. Its strong focus will remain on acquiring new customers, retaining existing customers and offering high quality products and innovation.

Establishing fluorospecialty chemicals business: In June 2019, LOIL 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 its 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, it has also acquired 14 patents, 41 REACH registrations and all the formulations, production and maintenance data and research and development data through this acquisition. It intends to capture the market share of Miteni given its existing chemistries and past customer base. It has also appointed a consultant in Italy to *inter alia* liaise for it and facilitate a speedy and successful handover, dismantling and relocation of the assets acquired as well as to obtain business development and marketing support in Europe. Fluorochemistry is also synergistic with existing diketene manufacturing process making the fluorospecialty business cost-effective. Given the broad based applications of fluorospecialty products in pharmaceutical and agrochemical sectors, it intends to leverage its existing relationships with customers to boost entry into this segment. LOIL's entry into this segment will also facilitate a growth in its customer base into new industries.

Continuing focus on innovation and leveraging chemistries and technology absorption: LOIL intends to increase its initiatives in research and development in order to enhance its diversified product portfolio in both the domestic market and international markets. Its research and development capabilities have enabled to expand its Specialty Intermediates offerings from 14 products as at March 31, 2012 to more than 34 products as at September 30, 2020. As part of its strategy, LOIL will continue to leverage this know-how in complex chemistries and its experience in engineering to focus on the addition of downstream and value-added products to its product portfolio as well as addition of fluorospecialty products to its portfolio

Further, the Company also intends to focus on the growth of its recently launched products in order to grow its customer base and revenues. Its products have large revenue visibility. It has recently entered into a long-term agreement for sale of an agrochemical intermediate to a prominent crop sciences company and also recently launched an intermediate which can be used as an active pharmaceutical ingredient for a drug for HIV. Further, it also intends to set up a dedicated R&D unit for fluorospecialty at the Proposed Facility. Investment in R&D provides a long-term growth opportunity, and accordingly, intends to continue to make investments in development of products which has applications in high-growth industries.

Industry

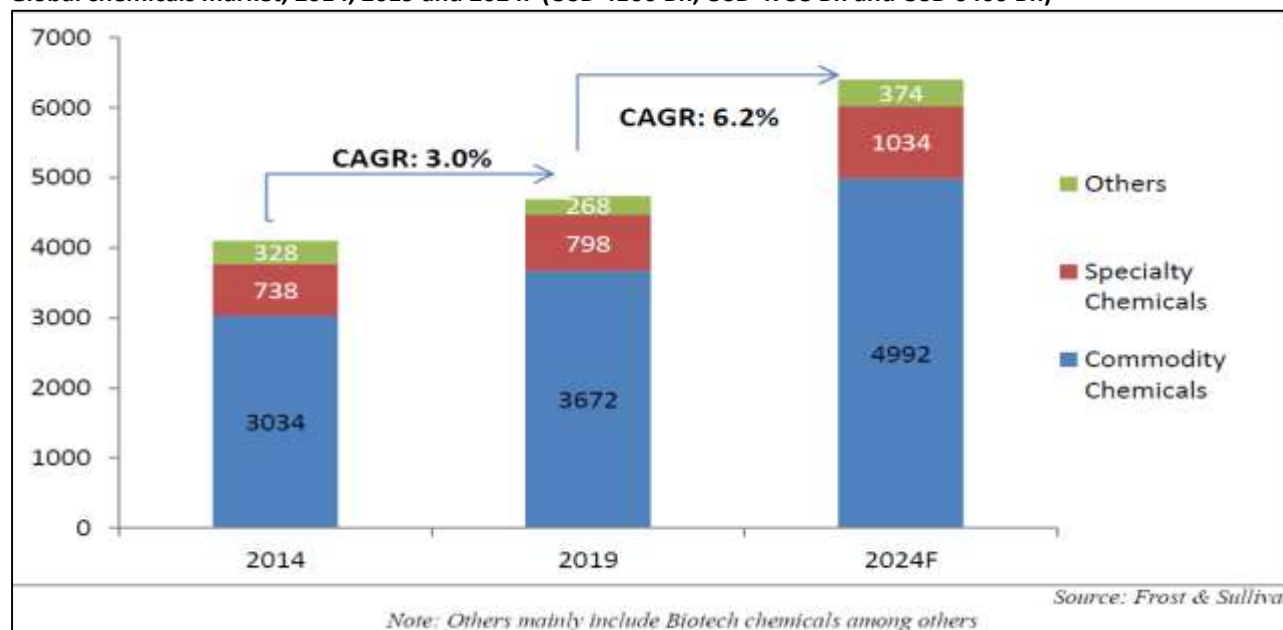
SPECIALTY CHEMICALS AND CHEMICALS MARKET

Global Overview

Global Chemicals Market

The global chemicals market is valued at around USD 4,738 Bn with China accounting for major market share (37%) in the segment followed by European Union (17%) and United States (14%). India accounts for ~3.5% market share in the global chemicals market. Going forward the APAC is anticipated to grow at the fastest rate of 7-8% during the forecast period (2019-24F). The chemicals markets in Western Europe, North America, and Japan are relatively mature and hence would record slow growth rates of around 3-4%.

Global chemicals market, 2014, 2019 and 2024F (USD 4100 Bn, USD 4738 Bn and USD 6400 Bn)



Global Specialty Chemicals Market

Specialty chemicals are low-volume and high-value products which are sold on the basis of their quality or utility, rather than composition. Thus, they may be used primarily as additives or to provide a specific attribute to the end product.

Rapid industrialisation in India and China is expected to drive demand for specialty chemicals. The Asia Pacific (APAC) dominates the market across the world, with a share of 42%, owing to the huge customer base, leading to high demand for specialty chemicals, increasing industrial production, and robust growth of the construction sector in the region. APAC is followed by Europe and North America. With a high population base and majority of countries being underdeveloped or developing nations in Asia Pacific (APAC), there is high rate of construction activities resulting in higher demand for construction chemicals and paints & coatings additives

Impact of COVID-19

Many leading chemical manufacturers have reduced capital and operational expenditure to address the crisis. Capacity utilizations had scaled down to 40%-60% capacity due to labour shortages and disruptions in the supply of raw material since March, however companies are slowly getting back to pre-Covid levels. The supply chains are being reconfigured as competitive order of chemicals producers in the US, Middle East, China and Europe has changed. The demand for chemicals for automotive, transportation and consumer products sectors have fallen by ~20%-30% with the automotive industry almost coming to standstill in April-May. The products that have been less exposed to the prices of oil have seen stable prices whereas the crude dependent ones like petrochemicals have been highly impacted

Indian Overview

The Indian chemicals market is valued at USD 166 Bn (~4% share in the global chemical industry) with the commodity chemicals accounting for almost 46%. It is expected to reach ~USD 280-300 Bn in the next 5 years, with an anticipated growth of ~12% CAGR. The specialty chemical industry forms ~47% of the domestic chemical market, which is expected to grow at a CAGR of around 11-12% over the same period.

Impact of Make in India

The chemical industry contributes approximately 6.6% of national gross domestic product and accounts for 15-17% of India's manufacturing sector. The government permits 100% foreign direct investment (FDI) in this sector under the automatic approval route. The manufacturing of most chemical products inter-alia covering organic/inorganic, dyestuff and pesticides is de-licensed. The factors such as boost to specialty (as well as fine agrochemicals) chemicals due to rapid development in construction and agricultural sector, inadequate per capita consumption and strong demand from paints, textiles and diversified manufacturing base shall aid towards the development of Indian chemicals sector.

With the rapid globalisation and opening up of the Indian economy, "Intellectual Capital" has become one of the key wealth drivers in the present international trade. Intellectual property rights have become significantly conspicuous on the legal horizon of India both in terms of new statutes and judicial pronouncements.

Moving forward, with a total of over 300 USFDA approved manufacturing sites, the country can become the global leader in the CRAMS industry with the implementation of mandates including Schedule M (Good Manufacturing Practices (GMP) for Premises & Materials and

Requirements of GMP in Plant and Equipment) outlining various requirements for manufacturing good quality drugs and pharmaceuticals, by applying Current Good Manufacturing Practice (CGMP) guidelines.

This has resulted in the launch of the Production Linked Incentive Scheme (PLI) for APIs, KSMs and DIs as well as the Scheme for Promotion of Bulk Drug Parks. These schemes have been constructed to incentivize large-scale manufacturing of critical bulk drugs and to build the required infrastructure for developing manufacturing clusters for across India. This aligns with the Government's mission for self-reliance (atmanirbharta).

In addition to the production linked incentive (PLI) scheme, the Department of Pharmaceuticals (DoP) is planning to allow the industry to import a maximum of 30% of the total value of chemicals/ intermediates. Having categorised pharma as a 'priority sector', the government is aggressively working on creating a single-window clearance to expedite FDI and domestic investment in the pharma sector.

The government is also expected to introduce a production-linked incentive scheme for the agro-chemicals sector with incentives of 10-20% output and creating an end-to-end manufacturing ecosystem through cluster development.

The government has set up a 2034 vision for the chemicals and petrochemicals sector to seize the opportunities to strengthen domestic manufacturing, reduce imports and attract investment for manufacturing key chemicals in the country. The government has taken initiative to promote and facilitate 'Aatmanirbhar Bharat' (self-reliance India) in the chemicals and petrochemicals sector.

GLOBAL ACETYL INDUSTRY OVERVIEW

Acetyl group is an organic compound with formula $\text{CH}_3\text{CO}-$ which is the combination of methyl group (CH_3) and a carbonyl (CO) part making it a subset of the Acyl Group (an organic compound with the chemical formula R-CO where "R" is any Alkyl group which can be Methyl or Ethyl or any other). Acetyls are used as intermediates in a wide range of applications such as solvents, adhesives, water-based paints, pharmaceuticals, dyestuff, emulsifiers etc.

Ethanol is used as a basic raw material or platform for production of Acetyls and is widely manufactured through the fermentation route, another route being gasification. Ethanol based acetyls includes several products like Acetic Acid, Acetaldehyde, Ethyl Acetate, etc.

The global Acetyl market is projected to grow at 6.4% growth rate over the next five years owing to strong demand from end use applications. The Acetyl market is valued at USD 13.4 Bn in 2019 which is expected to reach USD 18.3 Bn by the end of year 2024. The primary demand drivers of the global Acetyl market include increased demand for acetyls from drug delivery system, increased disposable income and per capita flexible packaging consumption over the globe, etc.

Acetyls Market Value Chain

The Acetyl value chain constitutes of various building blocks used for manufacturing the acetyl intermediates which are further used for manufacturing the specialty products that used in multiple end use industry applications. Many companies having a presence in the acetyl value chain take advantage of margins earned from high volume trade as well as vertical integration operation.

Many of the Acetyl intermediates are captive consumed by manufacturers in order to produce the forward integrated products in the value chain, taking advantage of higher margins when reaching closer to end use application. Acetic Acid is one of the high volume acetyl intermediates having more than 12 MMT market globally (FY 2019).

The Asia-Pacific market dominated the global acetyls market in 2019 owing to the increasing demand from end use applications like CASE (coatings, adhesives, sealants and elastomers), food & beverage and pharmaceuticals segments. Moreover, the rising geriatric population coupled with the affordability of generic drugs is expected to fuel the demand in the region.

The Asia-Pacific region is estimated to lead the market, due to its rapid growth in the global textile market. The growing population coupled, with improving economic conditions, such as, the rising GDP and disposable income of the people, are some of the factors contributing to the growth of the Asia-Pacific market.

China produces ~5.7 MMT of Acetic Acid and is the largest supplier with a share of 42% with a total installed capacity of is 6.5 MMT (FY2019). India produced ~ 160 KT of Acetic Acids during FY2019; India is majorly an import dependent economy for Acetic Acid. The total production from APAC is estimated to be 71% of the global supplies.

Ethyl Acetate market constitutes to 16% of the total demand for Acetic Acid. Butyl Acetates are also solvents in the printing inks, paints and adhesives market making up for 7% of the total acetic acid demand. Apart from the other common uses, Acetic Acid also finds application in the Textile, Pharmaceutical, Photographic, Dyestuff, Pesticide and Rubber industry. It is used to make specialty chemicals such as Sorbic acid.

Global Ethanol and Ethyl Acetate Market (one of the major acetyls)

The global ethanol market was valued at USD 49-50 Bn in 2019 and is expected to reach USD 53-54 Bn by 2024. The major players operating the global ethanol market include Cargill Inc., Archer Daniels Midland Company, Grain Processing Corporation, Ace Ethanol LLC, Advanced Bio Energy LLC, MGP Ingredients, Flint Hills Resources, Marquis Energy, and various others.

Ethyl Acetate

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. The global Ethyl Acetate market is projected to grow from ~4 MMT in 2019 to ~5 MMT by 2024F, pertaining to consumption led demand from APAC region.

The global Ethyl Acetate capacity was ~5 MMT in 2019 with capacity utilization at ~80%; China has historically been a leader in the supply of Ethyl Acetate driven by ample raw material availability & high end use growth. The global Ethyl Acetate market stands at ~4 MMT in 2019. China is the largest exporter of the product, with EU and NE Asia being the key importing regions.

Almost 80% of the global Ethyl Acetate demand is catered by Asia, with the region also being the largest demand centre; North America & Europe region are also among the large consumers. China is the largest producer of Ethyl Acetate followed by NEA, India and SEA. Asia is the largest supplier of Ethyl Acetate. South East Asia is dependent on imports from China and North East Asia. India is a net exporter of Ethyl Acetate, mainly to EU & MEA.

India - Acetyl Industry Overview

Indian Acetyl market is projected to grow at 6.6% growth rate over the next five years owing to the demand from the end use applications. The Acetyl market is valued at USD 1.5 Bn in 2019 which is expected to reach USD 2.1 Bn by the end of year 2024. The India Acetyl market has ~70% market share concentrated in 5 applications viz. flexible packaging, pharmaceuticals, printing inks, CASE (coatings, adhesives, sealants and elastomers) and agrochemicals industry. In the pharmaceuticals industry, Acetyls are used in the drug delivery system and manufacturing of API. Acetyl's like Ethyl Acetate is consumed at GSK to manufacture IPA's like Ceftin, Stieprox, Fortaz, etc. The Indian Acetyl market has been dominated by domestic suppliers like Jubilant Industries, Laxmi Organics, Godavari bio-refineries and GNFC; they hold strong positions in the domestic market and make up for majority of the market by volume. Some of the foreign players like Sipchem, etc. have minor shares in the domestic acetyls market. GNFC has a presence in acetic acid which is forward integrated for producing various acetates like Ethyl Acetate, etc. The other players import significant portions of their raw materials from China and SEA.

India Acetyls Market Trade Scenario India imports 1/4th of its Acetyl demand producing almost 75% Acetyls locally. ~20% of the manufactured Acetyls are exported to various destinations from India. India Acetyls market demand was 0.73 MMT in 2019 and is projected to grow at ~4.4% CAGR to more than ~0.9 MMT by the end of 2024.

SPECIALTY INTERMEDIATES

Global Specialty Intermediates Market Overview

The global specialty intermediates market stands at USD 115 Bn in the year 2019, and is projected to grow at 5.2% CAGR by 2024F and estimated to reach USD 148 Bn. This growth is primarily driven through the high growth end-use segments such as pharmaceuticals, agrochemicals, paints and coatings, personal care, flavour & fragrances, etc

Global Specialty Intermediates market by Type

Various chemistries are prominently used across end-use application segments of specialty intermediates which include reagents, solvents, building blocks, protective groups, lubricants, etc. Reagents are typically consumed in the reactions which are nothing but reactants. On the other hand, solvents do not take part into the reaction but facilitate the reaction. Building blocks are the key materials which are responsible for the formation of specific property to the final product.

Ketene Derivatives Market: Acetic Anhydride

Acetic Anhydride is a transparent organic colourless liquid with a pungent smell and is majorly used in Pharmaceuticals, Industrial Chemicals, Polymers & Resins, Flavours & Fragrances, and Dyes etc. The global acetic anhydride market reached a volume of 2.5-2.8 MMT and a value of USD 2.5-3 Bn in 2019 and is further expected to reach a volume demand of ~3-3.5 MMT by 2024. The major global producers of Acetic Anhydride include Jubilant Life Sciences, Celanese Corporation, DuPont, Sasol Ltd, SABIC among others.

The Indian market for Acetic Anhydride was valued at USD 85-87 Mn. The market has been growing at 6-7% over the last five years, and expected to grow at similar rate by 2024F.

Diketene and Diketene Derivatives Market

The global market for diketene derivatives was estimated to be around USD 1-1.2 Bn for the year 2019 and the volume was estimated to be between 0.4-0.45* MMT in 2019 and is expected to grow to 0.5-0.55 MMT* by 2024 growing at a CAGR of ~4%. The market in India was valued at USD 150-170 Mn and is expected to reach ~USD 200 Mn by 2024F; about 40% of this demand is catered to by imports. The overall growth will be at Global GDP levels however the new applications and locking in the value chains (like Africa) is the key to success.

Diketene products are technology intensive and are highly hazardous in nature leading to restricted transport of diketene as is. India fulfils most of its diketene demand from imports which mainly come from Europe or from China.

North America and Europe are the key markets for Diketene derivatives covering ~50% of the market demand in total. However, major regions of exports remain Asia and LATAM as Europe and North American markets are mainly catered by Lonza and Eastman Chemicals.

FLUOROCHEMICALS MARKET

Global Overview

Fluorochemicals are chemicals containing fluorine as an element are one of the most critical classes of chemicals that are used across applications. All fluorochemicals start with the mineral Fluorospar, which is then converted to Hydrofluoric acid (HF). The global market for Fluorospar stood at ~5.5-5.8 MMT and is expected to grow at 2.8-3% CAGR to reach ~7 MMT by 2027. Fluorine based intermediates segment comprises of both basic and advanced intermediates that go into applications of Pharmaceuticals, Agrochemicals, Speciality additives etc. They have both Organic and Inorganic products that go into various applications as intermediates. Organic have a relatively higher share as intermediates used in especially pharmaceuticals and agrochemicals are complex in nature. On a broad level it can be estimated that organic fluorine intermediates are over 85% of the total market.

Key Concerns:

- The continuing impact of the outbreak of the COVID-19 could have a significant effect on LOIL's operations, and could negatively impact its business, revenues, financial condition and results of operations.
- A large part of LOIL's manufacturing facilities are located in one geographic area and therefore, any localized social unrest, natural disaster or breakdown of services or any other natural disaster in and around Mahad, Maharashtra or any disruption in production at, or shutdown of, its Manufacturing Facilities could have material adverse effect on its business and financial condition.
- LOIL is in the process of setting up the Proposed Facility for manufacturing of fluorospecialty chemicals. Such fluorospecialty chemicals, a new product line, may not be accepted by the customers and/or may not be profitable or achieve the profitability that justifies its investment, which may have an adverse impact on the prospects, growth, results of operations and financial condition.
- Any inability on LOIL's part to manage growth or implement strategies effectively could have a material adverse effect on the business, results of operations and financial condition.
- If LOIL's research and development efforts do not succeed, it may not be able to improve its existing products and/or introduce new products, which could adversely affect its results of operations, growth and prospects.
- Any increase in the cost of raw material or other purchases or a shortfall in the supply of raw materials, may adversely affect the pricing and supply of LOIL's products and have an adverse effect on the business, results of operations and financial condition.
- A significant portion of the revenues and expenses and certain of LOIL's borrowings are denominated in foreign currencies. As a result, it is exposed to foreign currency exchange risks which may adversely impact its results of operations.
- Profitability largely depends upon the global prices of LOIL's products. Any significant fall in global prices of its products may have a material adverse effect on its business, results of operations and financial condition.
- Any defaults or delays in payment by a significant portion of LOIL's customers, may have an adverse effect on cash flows, results of operations and financial condition.
- The global scope of LOIL's operations exposes it to risks of doing business in foreign countries, including the constantly changing economic, regulatory, social and political conditions in the jurisdictions in which it operates and seeks to operate, which could adversely affect the business, financial condition and results of operations.
- Relies on third-party transportation and logistics service providers for the storage and procurement of raw materials and the storage and supply of LOIL's products. Significant increases in the charges of these entities could adversely affect the business, results of operations and financial conditions.
- Any adverse change in regulatory requirements governing products and the products of LOIL's customers, may adversely impact its business, prospects, results of operations and financial condition.
- Under-utilization of manufacturing capacities and an inability to effectively utilize expanded manufacturing capacities could have an adverse effect on the business and results of operations.
- Derives a majority of income from the Acetyl Intermediates and LOIL's business, results of operations and financial condition may be adversely affected if its Acetyl Intermediates do not continue to perform as expected or if competitors gain wider market acceptance.

- Failure to adhere to the terms of the contracts entered into by LOIL's with its customers and suppliers, may have an adverse effect on the, business, results of operations and financial condition.
- Significant and continuous power, water, fuel and steam and any disruption to power, water, fuel or steam sources, including power facilities could increase production costs and adversely affect the results of operations.
- In the event of any delay in placing the orders, or in the event the vendors are not able to provide the equipment in a timely manner, or at all, may result in time and cost over-runs and LOIL's business, prospects and results of operations may be adversely affected.
- LOIL's efforts at integrating acquired businesses may not yield timely or effective results, which may affect the financial condition and results of operations.
- LOIL does not have long-term agreements with most of its customers. Its inability to accurately forecast demand for its products or manage inventory or working capital requirements may have an adverse effect on its business, results of operations and financial condition.
- LOIL is required to obtain, renew or maintain certain material statutory and regulatory permits and approvals required to operate its business, and if it fails to do so in a timely manner or at all, it may be unable to fully or partially operate its business and results of operations may be adversely affected.
- LOIL is in the process of completing the acquisition of Yellowstone Chemicals Private Limited, a wholly owned subsidiary of Acetyls Holding Private Limited. However, it may not be able to complete such acquisition in a timely manner and such acquisition may not prove to be profitable or achieve the profitability that justifies its investment, which may adversely impact the prospects, growth and results of operations.
- Some of the raw materials that LOIL uses as well as its finished products are corrosive and flammable and require expert handling and storage.
- LOIL is subject to safety, health, environmental, labour, workplace and related laws and regulations and any failure to comply with any current or future laws or regulations could have a material adverse effect on the business, financial condition and results of operations.
- Performance depends to a large extent on the efforts and abilities of individual Promoter, Directors, Key Managerial Personnel.
- LOIL's Manufacturing Facilities are subject to client inspections and quality audits and any failure on its part to meet their expectations or to comply with the quality standards set out in its contractual arrangements, could result in the termination of contracts and adversely affect its business, results of operations, financial condition and cash flows.
- A significant portion of revenue from Speciality Intermediates has been generated from new products developed by LOIL over the last decade. Its failure to continue to introduce new products and/or effectively commercialise such products may have an adverse effect on its revenue from operations, growth and prospects.
- Any failure of information technology systems could adversely affect the business and its operations. Further, changes in technology may render current technologies obsolete or require LOIL to make substantial capital investments.
- LOIL operates in a competitive business environment. Competition from existing players and new entrants and consequent pricing pressures could have a material adverse effect on its business growth and prospects, financial condition and results of operations.
- LOIL benefits from certain export incentives from the Government of India and certain other benefits, which if withdrawn or modified may have an adverse impact on its results operations.
- The Company has availed certain unsecured borrowings which may be recalled by its lenders at any time. Any such demand may adversely affect its business, cash flows, financial condition and results of operations.
- Fluctuations in the exchange rate between the Indian Rupee and foreign currencies may have an adverse effect on the value of Equity Shares, independent of its operating results.

Laxmi Organic Industries Limited

Profit & Loss

Particulars (Rs in million)	H1FY21	FY20	FY19	FY19
Income				
Revenue from operations	8134.1	15,341.2	15,685.2	13,930.7
Other income	9.5	45.0	58.0	30.0
Total revenue from operations	8,143.6	15,386.2	15,743.2	13,960.8
Expenses				
Cost of materials consumed	3,518.6	7,809.6	8,884.2	6,558.2
Purchase of stock in trade	2,093.4	2,870.7	2,496.0	3,213.0
Changes in Inventories of Finished Goods, Work-in-Progress and Stock-in-Trade	124.7	285.5	-423.8	-87.3
Excise Duty	0.0	0.0	0.0	175.5
Employee Benefits Expense	357.3	685.6	645.3	526.0
Finance Costs	74.4	140.2	169.7	98.1
Depreciation and Amortisation Expenses	227.0	488.9	440.6	312.9
Other Expenses	1,186.1	2,554.4	2,550.7	2,031.4
Total expenses	7,581.6	14,834.8	14,762.6	12,827.8
Profit/ (Loss) before exceptional items and tax	562.0	551.4	980.6	1,133.0
Exceptional Items	0.0	0.0	0.0	0.0
Profit before share of profit/(loss) of an associate/ Joint venture and exceptional items	562.0	551.4	980.6	1,133.0
Share of profit/(loss) of a Joint Venture	0.0	0.0	-4.7	0.2
Profit before exceptional items and tax	562.0	551.4	975.9	1,133.1
Exceptional items	0.0	256.6	0.0	0.0
Profit before Tax	562.0	808.0	975.9	1,133.1
Tax expense				
Current tax	117.6	159.4	241.5	306.7
Deferred tax (credit) / charge	-10.5	-50.6	11.0	69.5
Income Tax (Excess)/Short Provision of previous year	0.0	-2.9	-0.5	0.0
Total Tax Expenses	107.2	105.9	252.0	376.2
PAT	454.8	702.1	723.9	757.0
EPS	2.0	3.1	2.9	15.1
Equity	450.2	450.2	500.5	100.1
FV	2	2	2	2
PATM (%)	5.6	4.6	4.6	5.4

(Source:RHP)

Balance Sheet

Particulars (Rs in million)	H1FY21	FY20	FY19	FY18
Assets				
NON CURRENT ASSETS				
Property, Plant and Equipment's	3209.3	3255.1	3305.9	2770.9
Capital Work-in-Progress	744.0	674.9	314.8	299.5
Right of Use Assets	100.4	113.7	140.5	159.9
Intangible Assets	6.4	7.8	10.4	2.5
Financial Assets				
<i>Loans and Advances</i>	83.4	82.5	40.5	29.9
<i>Others</i>	17.5	10.7	6.3	58.9
Deferred tax assets (net)	15.0	12.6	0.0	0.0
Other Non Current Assets	75.4	79.8	77.9	186.5
TOTAL NON CURRENT ASSETS	4251.4	4237.1	3896.3	3508.1
CURRENT ASSETS				
Inventories	1262.1	1518.9	1707.5	1458.3
Financial Assets				
<i>Trade Receivables</i>	3343.0	3593.7	3261.8	3241.8
<i>Loans</i>				
<i>Cash and Cash Equivalents</i>	266.1	241.1	76.5	52.4

<i>Bank balances other than (ii) above</i>	549.7	206.0	390.9	0.0
Loans and Advances	1.9	2.0	2.0	10.4
<i>Other Financial Assets</i>	331.1	403.1	9.2	8.4
Other Current Assets	366.1	504.5	800.7	596.2
Assets held for sale	0.0	0.0	0.0	71.8
TOTAL CURRENT ASSETS	6120.0	6469.3	6248.6	5439.2
TOTAL ASSETS	10371.3	10706.3	10144.9	8947.3
LIABILITIES				
EQUITY AND LIABILITIES				
Equity Share Capital	450.2	450.2	500.5	100.1
Other Equity	4273.9	3819.0	3998.0	3693.1
Non-controlling interest	3.4	3.9	3.5	2.1
TOTAL EQUITY	4727.4	4273.1	4501.9	3795.3
NON CURRENT LIABILITIES				
Financial Liabilities				
<i>Borrowings</i>	902.7	901.5	746.1	531.0
<i>Lease liabilities</i>	66.9	83.6	107.5	123.0
Provisions	30.8	28.4	22.0	18.5
Deferred Tax Liabilities (Net)	124.7	132.7	170.7	159.7
Other Non Current Liabilities	0.0	0.0	0.0	6.0
TOTAL NON CURRENT LIABILITIES	1125.0	1146.2	1046.2	838.1
CURRENT LIABILITIES				
Financial Liabilities				
<i>Borrowings</i>	633.0	336.5	666.5	1,388.3
Trade payables				
Total outstanding dues of micro and small enterprises	18.7	40.0	7.2	5.3
Total outstanding dues of creditors other than micro and small enterprises	3,074.8	4,076.3	3,148.5	2,136.1
Lease Liability	28.7	23.9	21.3	18.7
<i>Other Financial Liabilities</i>	531.5	621.1	604.0	518.4
Provisions	123.1	117.7	86.1	73.5
Current Tax Liabilities (net)	14.7	9.7	27.7	101.9
Other current liabilities	94.6	62.1	35.5	71.9
TOTAL CURRENT LIABILITIES	4,519.0	5,287.1	4,596.7	4,314.0
TOTAL EQUITY AND LIABILITIES	10,371.3	10,706.3	10,144.9	8,947.3

(Source:RHP)

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