



## Laxmi Organic Industries Limited

Issue Opens	Monday, March 15, 2021
Issue Closes	Wednesday, March 17, 2021
Price Band (in Rs)	129/130
Bid Lot	115 shares and multiples thereafter



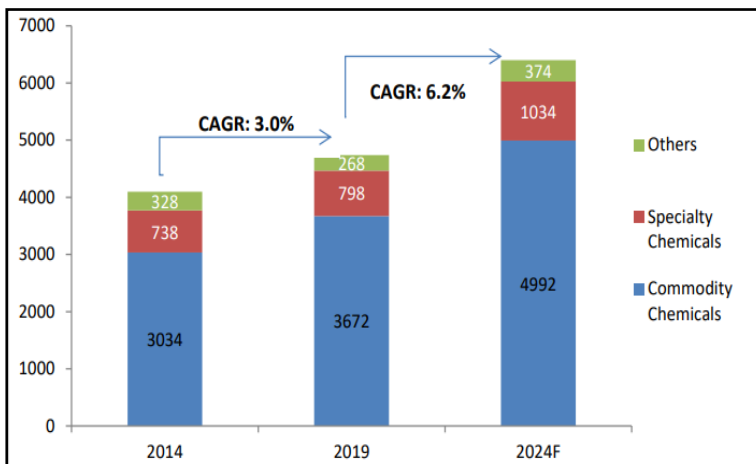
## IPO UPDATE

### Laxmi Organic Industries Limited

#### Industry Overview: Specialty Chemicals and Chemicals Market:

The global chemicals market is valued at around USD4,738bn with China accounting for major market share (37%) followed by European Union (17%) and United States (14%). India accounts for ~3.5% market share in the global chemicals market. Going forward the Asia Pacific (APAC) is anticipated to grow at the fastest rate of 7-8% during the forecast period (2019-24F). Being a relatively mature market in the Western Europe, North America, and Japan are expected to record slow growth rates of around 3-4%.

**Exhibit 1: Global Chemicals Market (in USD bn)**

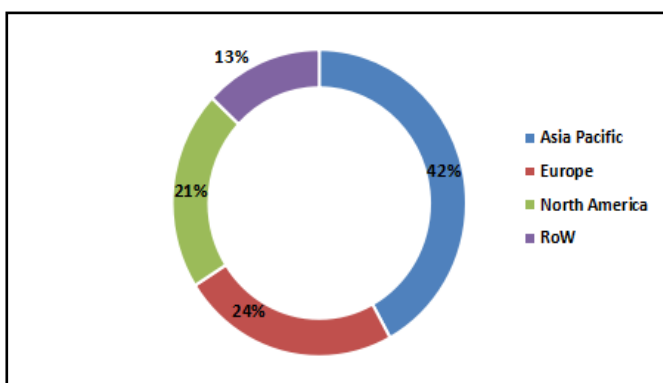


Source: Company RHP

#### Global Specialty Chemicals Market:

Specialty chemicals are primarily used as additives in order to provide a specific attribute to the end product. They are regarded as low-volume and high-value products sold on the basis of their quality or utility, rather than composition. APAC dominates the market across the world, with a share of 42%, (followed by Europe and North America) 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.

**Exhibit 2: Global Specialty Chemicals Market-2019**



Source: Company RHP, Progressive Research

SNAPSHOT		
Issue Opens	Monday, March 15, 2021	
Issue Closes	Wednesday, March 17, 2021	
Price Band (Rs)	129/130	
Bid Lot	115 shares and multiples thereafter	
Face Value	Rs2	
Listing	BSE & NSE	
Type of Issue	Fresh Issue	
Offer Size (Rs Mn)	Fresh Issue	3,000
	OFS	3,000
	<b>Total</b>	<b>6,000</b>
*Implied Market Cap (Rs Mn)	34,276	
P/E (based on FY20 Earnings)*	48.82	

\*Note: Implied Market Cap & P/E are calculated at upper price band of Rs130

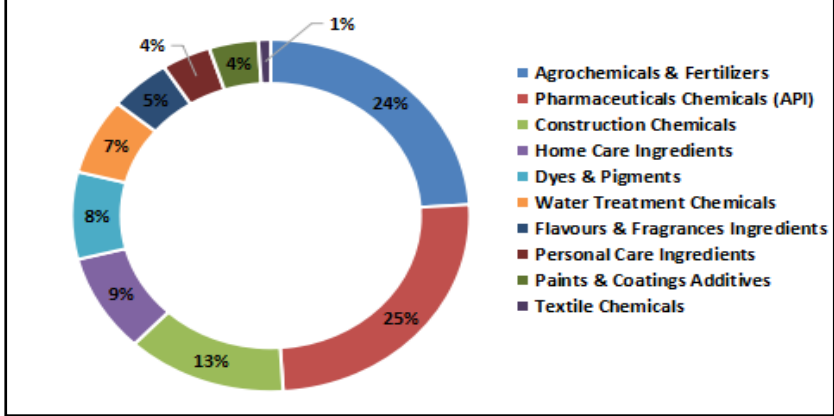
Issue Allocation	
Reservations	% of Net Issue
QIB	50
NIB	15
Retail	35
<b>Total</b>	<b>100</b>

Object of the Offer
<ul style="list-style-type: none"> <li>Investment in Yellowstone Fine Chemicals Private Ltd (YFCPL) for funding its working capital requirements</li> <li>Funding working capital requirement of the company</li> <li>Funding capex requirements for expansion of SI facility</li> <li>General corporate purposes</li> </ul>



**IPO UPDATE**  
**Laxmi Organic Industries Limited**

**Exhibit 3: Global Specialty Chemicals Market-Industries & Applications 2019**

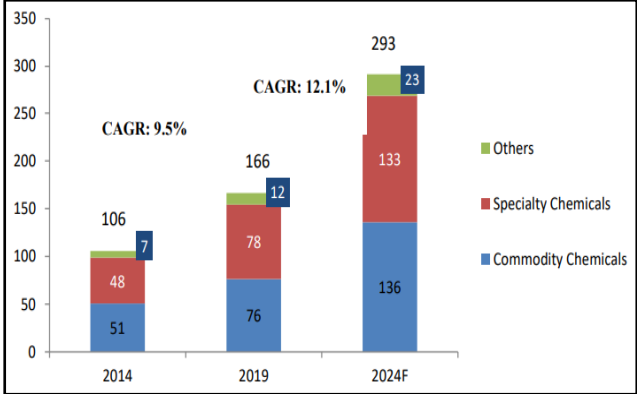


Source: Company RHP, Progressive Research

**Indian Overview:**

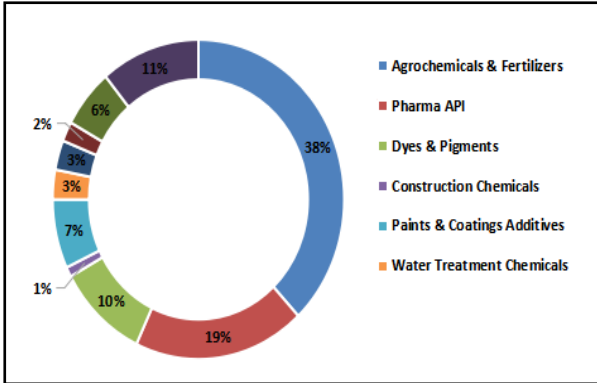
The Indian chemicals market is valued at USD166bn (~4% share in the global chemical industry) with the commodity chemicals accounting for almost 46%. It is expected to reach ~USD280-300bn in the next 5 years, with an anticipated growth of ~12% CAGR. The specialty chemical industry forms ~47% of the domestic chemical market, which is expected to grow at a CAGR of around 11-12% over the same period.

**Exhibit 4: Indian Chemicals Market (in USD bn)**



Source: Company RHP

**Exhibit 5: Indian Specialty Chemicals Market-Industries & Applications-2019**

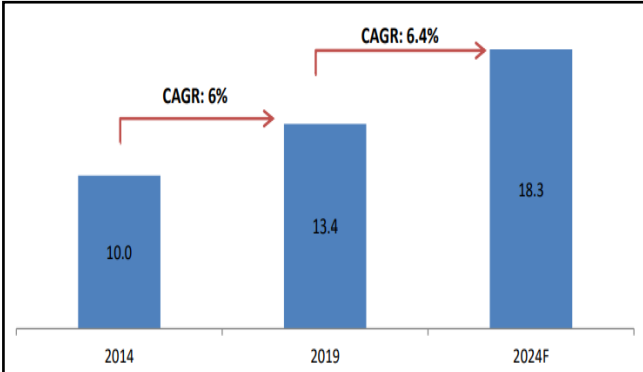


Source: Company RHP, Progressive Research

**Global Acetyl Industry Overview:**

Acetyl group is an organic compound which is a combination of methyl group and a carbonyl part making it a subset of the Acyl Group. Acetyls are used as intermediates in a wide range of applications such as solvents, adhesives, water-based paints, pharmaceuticals, dyestuff, emulsifiers etc. The global Acetyl market is projected to grow at 6.4% rate over the next five years owing to strong demand from end use applications. The Acetyl market is valued at USD13.4bn in 2019 and is anticipated to reach USD18.3bn by the end of year 2024; backed by increased demand for acetyls from drug delivery system, increased disposable income and per capita flexible packaging consumption over the globe.

**Exhibit 6: Global Acetyl Market (in USD bn)**



Source: Company RHP



**IPO UPDATE**  
**Laxmi Organic Industries Limited**

**Industry: (contd.)**

**Growth forecast based on end-user industry applications:**

**(i) Food & Beverages:** increasing global population, new demand for flavours & essences with use of new technology to improve the shelf life of food products

**(ii) Pharmaceuticals API:** Growing global demand for generic drugs and India being the largest provider of these drugs leads to higher demand for domestic consumption of pharmaceutical chemicals

**(iii) Printing inks:** Demand from end-use segments like flexible packaging, banner printing, etc.

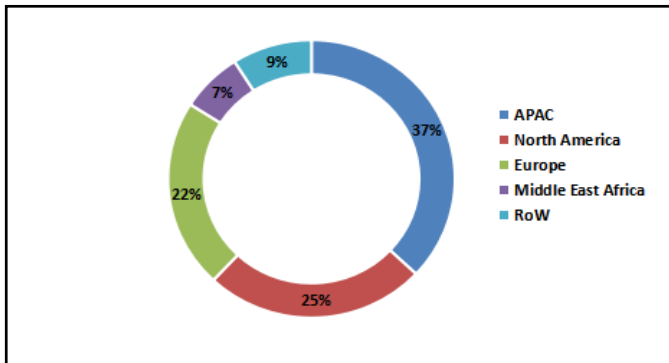
**(iv) Cosmetics:** Growth in demand for personal care products is driven primarily by emerging markets in the Asia-Pacific region, particularly China and India

**(v) Paints & Coatings Additives:** Demand driven by growing automotive industry, increasing urban population, rising household consumption expenditure and improving economic conditions

**(vi) Flexible Packaging:** Increasing per-capita consumption of flexible packaging where various acetyl based solvents are used

**(vii) Dyes & Pigments:** Emerging trends of eco-friendly colorants such as low impact dyes is on the rise

**Exhibit 7: Geographic Segmentation Global Acetyl Market-2019**



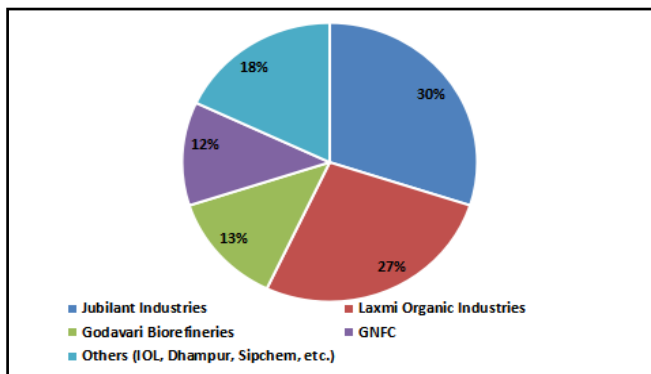
Source: Company RHP, Progressive Research

**Indian Acetyl Market Overview:**

Indian Acetyl market is projected to grow at 6.6% rate over the next five years owing to the demand from the end use applications. The Acetyl market is valued at USD1.5bn in 2019 which is expected to reach USD2.1bn 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.

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.

**Exhibit 8: Indian Acetyl Market Segmentation By Competition-2019**



Source: Company RHP, Progressive Research

**Specialty Intermediates Market Overview:**

The global specialty intermediates market stood at USD115bn in the year 2019, and is projected to grow at 5.2% CAGR by 2024F and estimated to reach USD148bn. This growth is primarily driven through the high growth end-use segments such as pharmaceuticals, agrochemicals, paints and coatings, personal care, flavour & fragrances, etc. On the other hand, the Indian specialty intermediates market stood at USD6.6bn in 2019; projected to grow at 10.2% CAGR over the next half decade to reach USD10.8bn by the year 2024F. India specialty intermediates market is approximately 5-6% of the global specialty intermediates market.

**About the Company:** Incorporated in 1989, Laxmi Organic Industries Ltd is a specialty chemical manufacturer having its focus on 2 key business segments: **Acetyl Intermediates and Specialty Intermediates**. Since its inception, the company has maintained a constant emphasis on innovation, creativity and speed, which has enabled it to meet new challenges and service new opportunities across the world. The company initially started manufacturing acetaldehyde and acetic acid in 1992, and soon thereafter moved on to manufacturing of ethyl acetate in 1996. Laxmi Organic is currently among the largest manufacturers of ethyl acetate in India with a market share of ~30% of the Indian ethyl acetate market. In the coming years, the company aims to establish as a leader in specialty intermediates and become the growth partner of choice to global Life Sciences, Crop Sciences and Pigments companies.



## IPO UPDATE

# Laxmi Organic Industries Limited

### About the Company (contd.):

The company has its offices in Leiden (Netherlands), Shanghai (China) and Sharjah (United Arab Emirates) which enables it to assess international demand and increase the customer outreach thereby bolstering its product development initiative. Laxmi has 2 manufacturing facilities in Mahad, Maharashtra with one facility dedicated to Acetyl Intermediate (AI manufacturing facility) and the other dedicated for Specialty Intermediates (SI manufacturing facility).

**Business Segments:** Laxmi Organic's business portfolio is classified into 2 segments:

**(a) Acetyl Intermediates:** This unit produces a wide range of acetyl products, including bulk solvents and aldehydes. The acetyl products have applications in diverse industries such as pharmaceutical formulations, printing inks, adhesives, coatings. The combination of deep industry knowledge, a commitment to innovation, and a focus on excellence has made Laxmi a leading producer of Acetyl Intermediates. For 6M ending Sept, 2020 this segment contributed ~55.37% of the total revenues.

**(b) Specialty Intermediates:** The company is a leading manufacturer of specialty intermediates such as ketene & diketene derivatives including esters, amides and arylides. The high quality specialty intermediates have applications in pharmaceuticals, synthesis and manufacturing of agrochemicals, pigments, and more. For 6M ending Sept, 2020 this segment contributed ~30.21% of the total revenues.

### Competitive Strengths:

#### (i) Diverse customer base across high growth industries:

The company's products find its 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. Out of the industries that the company caters, the global API 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% (for the forecast period 2019-2024).

**(ii) Strategic location:** The company 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. This ensures that the company has ready access to port facilities and is able to import the raw materials and export its products thereby providing a cost and logistical advantage.

**(iii) Global presence:** The company has customers in over 30 countries including China, Netherlands, Russia, Singapore, United Arab Emirates, United Kingdom and United States of America. The company's revenue from exports of manufactured products stood at 23.17%, 24.24%, 27.80% and 22.18% for 6M ended September 30, 2020 and FY20, FY19 and FY18 respectively.

### Strategies:

- Maximisation of manufacturing facilities by expanding installed capacities
- Expansion and optimisation of the product portfolio
- Increase global footprint
- Establishing the fluorospecialty chemicals business
- Continued focus on innovation and technology absorption

**Exhibit 9: Industry wise Revenue Contribution (%)**

Industry	6M ending Sept,2020	FY20
Pharmaceuticals	33.98	35.70
Agrochemicals	13.97	14.44
Color and Pigments	10.62	15.22
Printing and Packaging	9.51	8.07
Other Industrial Applications	7.87	9.26
Distributors	24.04	26.30

Source: Company RHP, Progressive Research

**Exhibit 10: Global Revenue Contribution (%)**

Geography	6M ending Sept,2020	FY20
India	76.71	75.64
Europe	12.33	13.71
Middle East	3.75	4.36
Africa	2.37	2.38
China	0.33	0.57
Rest of Asia	4.43	2.56
RoW	0.09	0.78

Source: Company RHP, Progressive Research



**IPO UPDATE**

**Laxmi Organic Industries Limited**

**Financials:**

The company reported consolidated revenues at Rs15,341mn in FY20 as against Rs15,685mn in FY19; drop of 2%. The profits came in at Rs702mn in FY20 v/s Rs724mn in FY19 (the profits were impacted due to floods at its Unit-2 facility at Mahad, the insurance claim for the same is pending). The margins came in at 7.4% in FY20 as against 9.8% in FY19. For H1FY21, the revenues came in at Rs8,134mn, with an Ebitda margin of 10.5% and PAT levels at Rs455mn. The capacity utilization of its specialty chemical plant stood at 67.50% in December, 2020 as against 41.06% in April, 2020. Whereas, the capacity utilization of acetyl intermediate plant stood at 78.55% in December, 2020 as against 75.66% in April, 2020.

**Exhibit 11: Financials Snapshot**

Revenues (Rs mn)	FY18	FY19	FY20	6M ending Sept,2020
<b>Sales</b>	13,755	15,685	15,341	8,134
<b>EBITDA</b>	1,514	1,533	1,135	854
<i>EBITDA Margin %</i>	11.0	9.8	7.4	10.5
<b>Net Profit After Tax</b>	757	724	702	455
<i>Net Profit Margin %</i>	5.5	4.6	4.6	5.6
<b>Earning Per Share</b>	3.0	2.9	2.9	2.0
RoNW (%)	20.0	16.1	16.5	9.7

Source: Company RHP, Progressive Research

**Risks & Concerns:**

- A large part of the manufacturing facilities are located in one geographic area and any disruption in production or an shutdown could have material adverse effect on the business and financial condition
- Any increase in the cost of raw material or other purchases or a shortfall in the supply of raw materials could impact business
- Foreign currency exchange risks may have a material adverse effect on the business as significant portion of revenues and expenses and certain borrowings are denominated in foreign currencies
- Any significant fall in global prices of the products may have a material adverse effect on the business
- Defaults or delays in payment by a significant portion of customers
- Any adverse change in regulatory requirements governing the products and the products of the customers
- Majority of the income is derived from the Acetyl Intermediates and results of operations may be adversely affected if Acetyl Intermediates do not continue to perform as expected or if competitors gain wider market acceptance
- Delays in transfer of the necessary approvals in relation to the proposed facility
- Competition from existing players and new entrants and consequent pricing pressures
- Withdrawal of any of the export incentives

**Outlook and Recommendations:**

Laxmi Organic is the leading manufacturer of ethyl acetate, diketene derivatives each having a significant market share. In order to maximise the production volume capacities, the company is in the process of expanding its manufacturing capabilities of acetyl intermediates by the acquisition of Yellowstone Chemicals Limited (YCPL), engaged in manufacturing of acetaldehyde and ethyl acetate. The company is of the belief that the completion of its acquisition with YCPL would enable them to further enhance its share in the ethyl acetate market. Additionally, the company has a long lasting relationship with its marquee customers across the industries that the company caters to. Based on the FY20 earnings, the P/E stands at 48.82x and at annualised 32.17x based on earnings of H1FY21. We assign a **Subscribe** to the IPO from a long term perspective.



**IPO UPDATE**  
**Laxmi Organic Industries Limited**

**DISCLAIMERS AND DISCLOSURES-**

Progressive Share Brokers Pvt. Ltd. and its affiliates are a full-service, brokerage and financing group. Progressive Share Brokers Pvt. Ltd. (PSBPL) along with its affiliates are participants in virtually all securities trading markets in India. PSBPL started its operation on the National Stock Exchange (NSE) in 1996. PSBPL is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE) for its stock broking services and is Depository Participant with Central Depository Services Limited (CDSL) and is a member of Association of Mutual Funds of India (AMFI) for distribution of financial products. PSBPL is SEBI registered Research Analyst under SEBI (Research Analysts) Regulations, 2014 with SEBI Registration No. INH000000859. PSBPL hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. PSBPL has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time. PSBPL offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by Progressive Share Brokers Pvt. Ltd. (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company (s) covered in this report:-

- PSBPL or its associates financial interest in the subject company: NO
- Research Analyst (s) or his/her relative's financial interest in the subject company: NO
- PSBPL or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (PSBPL) has not been engaged in market making activity for the subject company.
- PSBPL or its associates actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: NO
- Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: NO
- PSBPL or its associates may have received any compensation including for brokerage services from the subject company in the past 12 months. PSBPL or its associates may have received compensation for products or services other than brokerage services from the subject company in the past 12 months. PSBPL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Subject Company may have been client of PSBPL or its associates during twelve months preceding the date of distribution of the research report and PSBPL may have co-managed public offering of securities for the subject company in the past twelve months.
- The research Analyst has served as officer, director or employee of the subject company: NO

PSBPL and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our sales people, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses (if any) may make investment decisions that may be inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution publication, availability or use would be contrary to law or regulation or which would subject PSBPL or its group companies to any registration or licensing requirement within such jurisdiction. If this document is sent or has reached any individual in such country, especially, USA, the same may be ignored. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of PSBPL. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of PSBPL or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

**Terms & Conditions:**

This report has been prepared by PSBPL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of PSBPL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. PSBPL will not treat recipients as customers by virtue of their receiving this report.

**Registered Office Address:**  
Progressive Share Brokers Pvt. Ltd,  
122-124, Laxmi Plaza, Laxmi Indl Estate,  
New Link Rd, Andheri West,  
Mumbai-400053;  
www.progressiveshares.com | research@progressiveshares.com

**Compliance Officer:**  
Mr. Shyam Agrawal,  
Email Id: compliance@progressiveshares.com,  
Contact No.:022-40777500.