



Fairchem Organics Ltd.

CMP: Rs 1,496

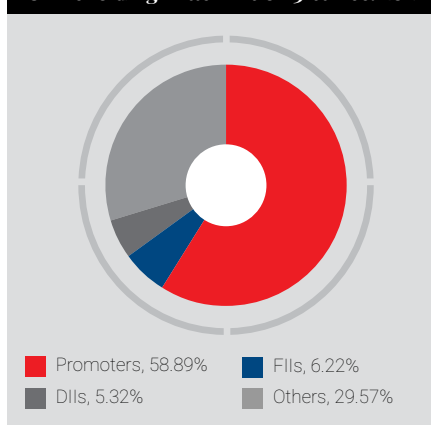
Rating: BUY

Target: Rs 1,950

Company Information

BSE Code	543252
NSE Code	FAIRCHEMOR
Bloomberg Code	FAIRORGA IN
ISIN	INEoDNW01011
Market Cap (Rs. Cr)	1970
Outstanding shares(Cr)	1.30
52-wk Hi/Lo (Rs.)	2,290/610
Avg. daily volume (1yr. on NSE)	38,820
Face Value(Rs.)	10.0
Book Value (Rs)	159.4

Shareholding Pattern as on 31st Dec. 2021



Company Profile

Fairchem Organics Ltd. (Fairchem) was established in 2019. As per scheme of demerger, Fairchem Speciality Ltd. (FSL) transferred its entire business (oleo chemicals and nutraceuticals). In FY16, Fairfax India through its wholly owned subsidiary, FIH Mauritius Investment Ltd. (FMIL) acquired controlling stake in FSL. Post demerger, FMIL increased its equity stake to 52.83% as on Dec 31,

2021 from 48.75% stake as on March 31, 2021. Fairchem is engaged in the manufacturing of specialty chemicals i.e., Dimer Acid, Linoleic Acid, Mixed Tocopherol Concentrate and Sterols Concentrate, which find application in various industries like nutraceuticals, paints, printing ink, detergents and adhesives etc. Its manufacturing facility is located at Chekala village near Sanand in Gujarat with an installed capacity of 72,000 MTPA as on May 31, 2021.

Investment Rationale

Leadership position in domestic market in key oleo chemical products

Fairchem is engaged in the business of manufacturing of oleo chemicals and nutraceuticals, since the last 25 years. Overall, oleo chemicals contribute ~97-99% to its total revenue. Its key oleo chemical products include: Dimer Acid, Linoleic Acid, Palmitic Acid, Monomer Acid and

key nutraceutical products include: Mixed Tocopherols and Sterol concentrate. Linoleic Acid, Dimer Acid and nutraceutical products (Tocopherols and Sterols) contribute ~75% to its total revenue, while other co-products and by-products contribute the rest. Fairchem is the one of the only manufacturers of Linoleic Acid and Dimer Acid in India, having a large addressable market size in India, which is expected to clock ~4% CAGR over FY21-FY27. The company supplies Linoleic Acid to paints and ink manufacturers, while Dimer Acid finds use in the manufacturing of epoxy hardeners. Mixed Tocopherol concentrate and Sterols concentrate are nutraceutical products having usage in FMCG and food additives. Fairchem supplies to various marquee customers like Asian Paints, Berger Paints, Huber (erstwhile Micro Inks), Arkema, BASF, ADM and Cargill etc. As most of its clients enjoy leading position in their respective industry segments and hence, Fairchem enjoys low business risk.

Efficient raw material sourcing acts as an entry barrier

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spanning >20 years and established procurement network to ensure steady supply of raw materials. Low cost of raw material and efficient manufacturing process enable the company to be highly cost-competitive vis-à-vis global peers. Moreover, Fairchem has also expanded its plant raw material capacity from 45,000 MTPA to 72,000 MTPA in FY21, which is being expanded to 1,20,000 MTPA by end of FY22 with minimal capex. The management expects capacity utilisation to clock 70%, 80% and 90% in FY23, FY24 and FY25, respectively.

Backed by strong promoter

Fairchem is a professionally managed company led by one of the promoters, Mr. Nahoosh Jariwala, who is the MD and has experience of >25 years in chemical manufacturing and trading of various textile products. He looks after the company's core operations including process optimization, product development and production planning etc. He is well-supported by a qualified second tier management. As on Dec 31st, 2021, Canada-based FIH Mauritius Investment Ltd. (FMIL) has 52.83% equity stake (increased from 48.75% as on March 31, 2021) in Fairchem. FMIL is an investment arm of Fairfax India founded in 2014 by Mr. V. Prem Watsa having diverse investment portfolio with fair value of Rs24,723 crore in India as on March 31, 2021. Thus, the company is under able guidance of experienced management and backed by strong international promoter, which augur well for future ventures.

Healthy financial performance over the years

Having monopoly in key products together with efficient raw material sourcing is reflected in healthy financials. Its 5-year Revenue, EBITDA and PAT CAGR stood at 14%, 24% and 36%, respectively. More importantly, strong focus on R&D together with higher economies of scale and efficient sourcing of raw materials reflected in improvement

Fairchem 3 yr price chart (Rs)



in EBITDA margin from 11.6% in FY17 to 17.3% in FY21. During 9MFY22, Revenue, EBITDA and PAT grew by 96%, 110% and 140% on YoY basis to Rs465.5 crore, Rs86.1 crore and Rs56.7 crore, respectively. More importantly, EBITDA margin improved to 18.5% in 9MFY22 from 17.3% in FY21. In Q3FY22, the company witnessed some margin pressure owing to higher raw materials and coal prices in Q3FY22 apart from lower lifting of one of the prime products by the customers. Although, majority of raw material hike is passed on, the company, being in B2B business, has to absorb the cost to some extent in view of long-term relationship with its customers. Fairchem is nearly debt-free and generates healthy free cash flow, translating into strong RoCE of ~30%. The management expects the company's revenue to clock 25% CAGR in the next 5 years. It sees EBITDA margin at 15-16% on sustainable basis, driven by economies of scale on higher capacity utilization, going ahead.

Fairchem Organics Ltd. is the one of the only manufacturers of key oleo chemicals (Linoleic Acid and Dimer Acid) in India, having a large addressable market size in India and backed by strong promoter group.

Key Risks

- Increase in competition
- Higher raw material prices

Valuation

Fairchem Organics Ltd. is the one of the only manufacturers of key oleo chemicals (Linoleic Acid and Dimer Acid) in India, having a large

addressable market size in India and backed by strong promoter group. Linoleic Acid and Dimer Acid together with nutraceutical products (Tocopherols and Sterols) contribute ~75% to its total revenue, while other co-products and by-products contribute the rest. Fairchem supplies to various marquee customers like Asian Paints, Berger Paints, Huber (erstwhile Micro Inks), Arkema, BASF, ADM and Cargill etc. Strong business model and efficient raw materials sourcing is reflected in strong financials, as its 5-year CAGR for revenue, EBITDA and PAT stood at 14%, 24% and 36%, respectively. Besides, its EBITDA margin improved from 11.6% in FY17 to 17.3% in FY21 and further to 18.5% in 9MFY22. **At the CMP, the stock trades at a P/E of 16.6x FY24E EPS and the investors are advised to 'BUY' the scrip for a target of Rs 1,950.**

Particulars (in Rs Cr)	FY21	FY22E	FY23E	FY24E
Revenue	397	616	769	962
Growth (%)	29.4%	55.2%	25%	25%
EBITDA	69	106	130	163
EBITDA Margin (%)	17.3%	17.2%	16.9%	17.0%
Net profit	43	69	93	117
Net profit Margin (%)	10.7%	11.2%	12.0%	12.2%
EPS (Rs)	32.6	53.0	71.1	90.1

Source: Ashika Research

Ashika Stock Broking Ltd.

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