

## FINE ORGANIC INDUSTRIES LTD | Chemicals - Speciality

..... FOIL

LKP

FOIL is India's largest oleochemical-based additives manufacturer with presence in domestic as well as international market. It is also among the top six players globally in the oleochemicals industry. FOIL manufactures green additives derived from vegetable oils which are used in industries such as food & beverages, plastics/polymers, cosmetics, pharmaceutical, rubber, paints and coatings etc. Oleochemicals currently is at a nascent stage in the chemical industry, however, with evolving problems of pollution & global warming, oleochemical-based additives will substitute most of the petrochemical based additives. FOIL as a company is built around strong R&D capability, specialized knowledge and indigenously developed proprietary technology which makes it a market leader in the oleochemical industry. This industry has high entry barriers such as higher R&D cost, stringent regulations, long gestation period for product approval making this an oligopolistic industry with select few players globally. With growing awareness about the use of green additives, the demand for oleochemical-based additives is set to surge going forward. FOIL being the largest player in India will be at the forefront of this surge. Over the last seven years, the company has been able to report a net profit CAGR of ~34% along with double digit growth in revenues. However during FY20-21, the company has faced certain headwinds such as Covid-19 and rise in raw material costs, however, we believe that oleochemicals is a multi-year growth story with FOIL being a key player. We expect the company to grow its Revenue/EBIDTA/PAT at CAGR of 15%/16%/19% respectively during FY20-26E. We Initiate Coverage on FOIL with a BUY recommendation and a DCF based target price of ₹3,232.

### Oleochemical Industry to play an important role in India's Chemical Growth story

Oleochemical-based additives are at a nascent stage and are expected to grow significantly over the years led by increasing shift from petrochemical based additives. Green additives are 100% safe to use as it is derived from plants as compared to other chemicals that are derived from petrochemicals. Leading industry players have also started adopting more of the green additives in the manufacture of end products. The oleochemical-based additives are used in several industries such as food & beverages, feed nutrition, plastics/polymers, cosmetics, pharmaceutical, personal care, paints, rubbers, etc. The global oleochemicals market is valued at US\$22 billion in 2020 and is expected to reach US\$ 31.9 billion by 2025 growing at CAGR of ~7.7%. The growth in this sector is mainly derived from the growth in the end use industries majorly being foods, plastics, cosmetics & pharmaceuticals, rubber and coating industries.

### Specialized Business Model with High Entry Barriers

FOIL is operating in the industry which has multiple entry barriers protecting the existing players from competition and fragmentation. Oleochemical derived green additives are used in a very small quantity in the final product, however, any defect in the additives will result in a disproportionately large amount of finished products being defective. Therefore, these products generally have a long gestation period for product approval. Another entry barrier is the strict regulation that the additives manufacturers need to adhere to, as these additives have a direct impact on human life as well as the environment. The additives industry is governed by strict regulations across the world due to human health and environmental concerns. Due to these high entry barriers, it is difficult for new entrants to compete with the existing players having decades of experience, products, and established clientele and R&D capabilities. FOIL is India's largest manufacturer of these green additives and globally it is among top six players. There are no major companies in India apart from FOIL.

Rating	Buy
Current Market Price (₹)	2,497
1 Year Price Target (₹)	3,232
Potential upside (%)	29

#### Stock Data

FV (₹) :	5
Market Cap Full (₹ bn) :	77
52-Week High / Low (₹) :	1,825 / 3,260
2-Year High / Low (₹) :	1,287 / 3,260
1 Year Avg. Dly Traded Volume	46,700
BSE Code / NSE Symbol :	541557 / FINEORG
Bloomberg :	FINEORG:IN

#### Shareholding Pattern (%)

	Dec-20	Sep-20	Jun-20	Mar-20
Promoter	75.00	75.00	75.00	75.00
FPIs	6.38	5.75	5.76	5.31
MFs	13.21	13.81	13.89	14.65
AIF	0.93	1.05	1.10	1.18
Others	4.48	4.39	4.25	3.86

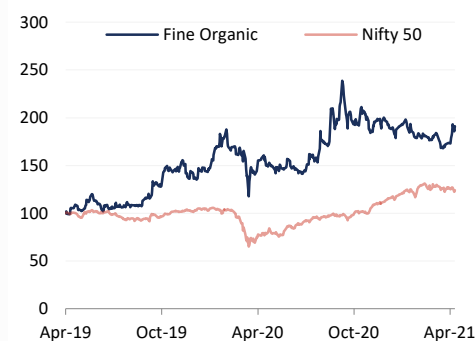
Source: BSE

#### Price Performance (%)

(%)	1M	3M	6M	1YR
Fine Organics	5.7%	-1.4%	-1.2%	22.7%
Nifty 50	-3.5%	-0.4%	21.5%	61.3%

\* To date / current date : April 13, 2021

#### Fine Organics vs Nifty 50

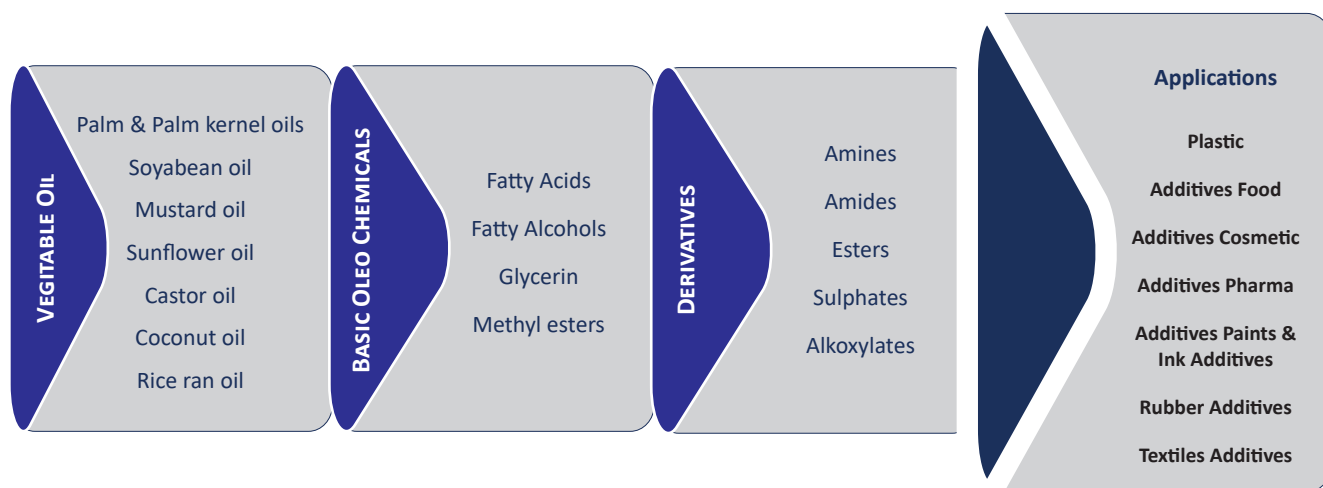


## Investment Rationale

### Oleochemical Industry to play an important role in India's Chemical Growth story

Oleochemicals are chemicals derived from natural oils and fats of plant origins. Oleochemicals can be categorised into basic oleochemicals such as fatty acids, fatty methyl esters, fatty alcohols, fatty amines and glycerol, and their downstream derivatives obtained from further chemical modifications of these basic oleochemicals (where FOIL has a market leadership). These oleochemicals exhibit special properties such as excellent emolliency, surface activity, emulsifying properties, as well as beneficial biological properties.

#### Oleochemicals-based additives value chain



Oleochemicals-based additives are gaining traction owing to the fact that they are bio-degradable, safe to use and can substitute harmful additives used in the end products. In recent times, the awareness about the use of safe products both in terms of health and environment in on a peak leading to shift in use of safer products. Green chemicals are 100% safe to use as it is derived from plants as compared to other chemicals that are derived from petrochemicals. Leading industry players have also started adopting more of the green additives in the manufacture of end products. For example, Companies such as Unilever, P&G, L'Oreal, among others have modified their mission statement to incorporate plant based additives in their product and simultaneously balancing/eliminating the use of hazardous chemicals in their products over the years. The oleochemical-based additives are used in several industries such as food & beverages, feed nutrition, plastics/polymers, cosmetics, pharmaceutical, personal care, paints, rubbers, etc.

Parameter	Oleochemical based additives	Petrochemical based additives
Type	Natural	Synthetic
Raw material sources	Vegetable oil derivatives	Crude oil derivatives
Sustainability	Yes, as raw materials are from sustainable sources	No, as raw materials are derivatives of fossil
Biodegradable	Yes	No
Environment	Friendly, as raw materials are vegetable sources	May cause pollution as raw materials are derivatives fossil fuels

The global oleochemicals market is valued at US\$22 billion in 2020 and is expected to reach US\$ 31.9 billion by 2025 growing at CAGR of ~7.7%. The growth in this sector is mainly derived from the growth in the end use industries majorly being the food, plastics, cosmetics & pharmaceuticals, rubber and coating industries.

End Use	Type/Use	Indian Market	Global Market
Food Additive	Anti-fungal agents/preservatives, Emulsifiers, Specialty additives	Expected to reach US\$ 144.8 million by 2023 at a CAGR of 7.36% during 2018-2023	Expected to reach US\$ 2,495.1 million by 2023 at a CAGR of 5.4% during 2018-2023
Plastic/Polymer Additives	Slip Additives, Anti-fogging, anti-static, lubricants, anti-scratch, processing aids	Expected at approx. 25,000 tonnes per annum in 2019 and is expected to reach around 30,000 tonnes per annum by 2023	Valued at approx. US\$ 43.82 billion in 2018 and is expected to reach around US\$ 61.25 billion by 2025, at a CAGR of 4.9%
Cosmetic & Pharma (CosPha)	Enable manufacturing, achieve long term physical stability, inhibit germination, increase chemical stability etc.	Valued at nearly US\$ 11.16 billion in 2017, is anticipated to grow at a CAGR of 5.91% by 2025	Valued at US\$ 507.8 billion in 2018 and is expected to reach US\$ 758.4 billion by 2025.
Rubber/TPE Additives	Added to improve compounding & processing of rubber.	Expected to grow at a CAGR of 6%-7% during 2017-22E	
Coatings and other Specialty Additives	Used as anti-settling agents, emulsifiers, thickening, anti-sagging agents, wetting & dispersing agents etc.	Expected to grow at a CAGR of 8%-10% during 2017-22E	

### Opportunities in the End use industry will drive the overall Oleochemical Industry

Food Additive	Plastic/Polymer Additives	Cosmetic & Pharma (CosPha)	Rubber/TPE Additives	Coatings and other Specialty Additives
<ul style="list-style-type: none"> <li>• Changing lifestyle, shifting pattern, rising disposable incomes and rising penetration of RTC/ RTE convenience foods, processed and packaged food products among working class</li> <li>• Surging demand for malt drinks</li> <li>• The increasing demand for premium ice creams, frozen desserts and other dairy products</li> <li>• Rise in health awareness and quality consciousness of consumers in developed nations demands for healthy packaged foods</li> </ul>	<ul style="list-style-type: none"> <li>• The growing e-commerce is propelling packaging industry coupled with the increased demand from the retail industry</li> <li>• Replacement of conventional products widely used in construction, infrastructure and automobile industry with plastic products</li> <li>• Shifting customer preferences to plastic products owing to their low price, better functionality and increased durability</li> <li>• Stringent regulations regarding depletion and recyclability of conventional materials such as metal and wood are anticipated to drive the demand for plastic from construction industries in insulation, pipes, cables, floorings, windows and storage tanks</li> <li>• Shift in consumer preference toward ecofriendly plastic products and increasing use in food packaging &amp; compostable bags applications in emerging markets such as APAC and Rest of the World</li> </ul>	<ul style="list-style-type: none"> <li>• Products containing multiple benefits in a single product such as those with anti-ageing properties, moisturizing care and sunscreen protection are gaining popularity in the skin care cosmetics industry</li> <li>• The Indian consumers are becoming more aware about their physical appearance and ready to invest in grooming process. This has created a demand for more herbal, organic and natural cosmetic products</li> <li>• The cosmetic category is also gaining popularity from millennial due to adoption of western culture and lifestyle and increasing number of beauty salons</li> <li>• With growing affluence, Indians are able to spend more on hygiene and personal care products. Increasing demand for wide range of cosmetic and health care products and as well as hygiene is expected to grow this segment</li> <li>• Factors like use of novel technology and ingredients, increased life expectancy and a growing number of working women will create a new avenue for product development in the coming years</li> </ul>	<ul style="list-style-type: none"> <li>• The growing use of rubber across automotive, chemical, medical and other industries</li> <li>• The growing population with the increasing purchasing power of the consumers will boost demand for automobiles, this, in turn, will increase the rubber demand</li> <li>• Increasing demand for rubber additives in non-tyre applications is one of the primary growth drivers. Non-tyre applications include adhesives, asphalt, foam and carpet backing, damping components, conveyor belt, footwear and ball bladders, seals, O-rings, gasket, gum, hoses, and medical and pharmaceutical devices</li> </ul>	<ul style="list-style-type: none"> <li>• The growing e-commerce business, increasing applications, technological advancements pose as future growth drivers for the industry</li> <li>• Increasing demand for plastics across industries like packaging, automobiles, durables etc. will demand for inks and coatings additives in India</li> <li>• Packaging sales are expected to show growth as both increased consumption and demand for consumer goods drives the need for more sophisticated packaging with the growing disposable income</li> </ul>

## Changing Dynamics of Global Chemical Industry

Apart from the growth in end use industry, the sector as a whole is benefited from the change in global business dynamics with shift in global supply chain and diversification of manufacturing facilities from single location like China to other countries. The major reasons for the shift are global trade tensions and a potential diversification in global manufacturing from China, tightening environmental regulations in China, rising labor costs in China and the Impact of the Covid-19 pandemic. Post the 2008 recession, a majority of chemical company shifted to China which helped them grow their market share from 24.1% in 2009 to 40.6% in 2019. The main factor in the growth of China's chemical industry was their low cost labour, relaxed environmental norms and government subsidies. However, in the last few years, the same factors have led to the shift away from China to other countries like India, Vietnam and Mexico.

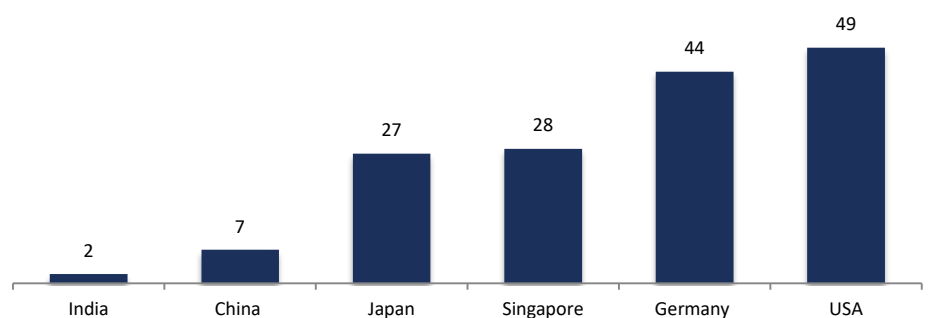
### Major Reason for the shift in opportunity from China to India

**Global Trade Tensions led to decline in US imports from China:** The US-China trade tensions has impacted the global value chain with rising tariffs by US government on goods imported from China. The Kearney analysis showcases the seasonally adjusted share of US imports from China as a percentage of total US imports from 14 low-cost Asian countries. In 2013, the year in which Kearney baselines its analysis, China held 69% of the share. As of Q4 2019, its share was down to 56%—a decrease of almost 900 bps between 2018 and 2019. During 2018-19, the shift in manufacturing facility out of China to other low cost Asian countries began benefiting India.

**Tightening Environmental Regulations In China:** With increasing focus on sustainability amid rising pollution & global warming, the Chinese government in 2015, has implemented stricter environment protection norms. This led to temporary shutdown of around 40% of the chemical manufacturing capacity in China along with over 80,000 manufacturing units charged and fined for breaching emission limits. Also, the Chinese government mandated the construction of compulsory effluent treatment plants and imposed a green tax on the chemicals industry to combat pollution. These measures have resulted in an overall increase in the cost of production, due to capital expenses incurred towards effluent treatment as well as, a rise in cost of compliance.

**Labour Cost On The Rise In China:** The labour cost in China has increased at a CAGR of around 19-20% during 2005-2015 as compared to only 4-5% in India. The major benefit which China had was lower labour cost which is gradually fading away to other Asian countries like India. Manufacturing cost in India is 1/3rd of that in China giving a significant competitive advantage.

### Manufacturing Labor Costs Comparison 2020 (\$/Hour)



Source: EIU, Invest India, Kearney

**Covid-19 Pandemic Impact:** The ongoing Covid-19 pandemic has disrupted the global supply chain with erratic lockdown across geographies. This pandemic has led to shortage of critical raw materials for specialty chemicals, significant price increase in certain specialty chemicals and intermediates used in everyday products, multinational chemicals companies being unable to source supplies and declaring force majeure on unfulfilled orders. All these events have led to MNCs actively looking at alternative manufacturing destinations such as India to diversify away their risks.

### Favorable Policies and environment for Chemical Companies in India

The Indian government has increased its focus on developing a Chemical hub in India with launch of 'Atmanirbhar Bharat'. Also, the government has announced several policies to increase the production of chemicals in India which includes 100% FDI allowed under the automatic route in the Chemical industry for a vast majority of chemicals, four petrochemical and chemical investment zones (PCPIR) are under development, and policy is being formulated for six plastic parks, skill development has been a major focus with the establishment of CIPET & CoEs for chemical industry and Production linked incentives (PLI) are being actively evaluated for the sector. There are several policies announced by respective states as well to promote chemical production. For e.g. Maharashtra state offers additional incentives for industrial investments like exemption from electricity duty, waiver of stamp duty, power tariff subsidy, expansion and diversification incentives for new units.

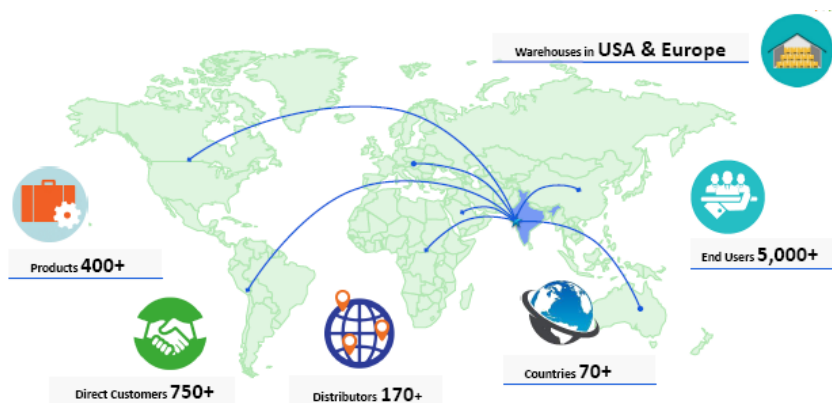
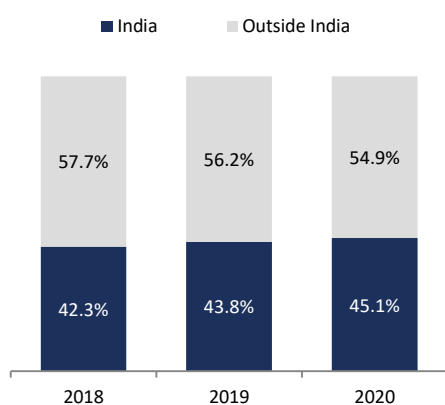
### Overview of Infrastructure Available in Maharashtra

Parameter		
Land Rates (Per Sq M.)	Average land rate	<ul style="list-style-type: none"> <li>AITL - ₹3200 per Sq.m (State will not increase the land lease rate beyond 5% per annum for the next 10 years)</li> <li>MIDC - ₹110 per sq. m. per annum (State will not increase the land lease rate beyond 5% per annum for the next 10 years); ₹2,200 per Sq.m (Upfront payment for long-term lease for 95 years)</li> </ul>
Annual Maintenance Charges (Per Sq. M)	Average	<ul style="list-style-type: none"> <li>AITL - ₹41 per year (Service, fire, drainage, environmental protection, ICT charges)</li> <li>MIDC - ₹22 per sq. m. per year</li> </ul>
Stamp Duty Rates(% terms)		<ul style="list-style-type: none"> <li>AITL - 100% Stamp Duty Exemption</li> <li>MIDC - 100% exemption for MSMEs &amp; LSIs for acquiring land and term loan; 100% exemption for Special LSI &amp; Mega/ Ultra Mega projects</li> </ul>
Freehold or Not. In case of Land Lease Policy (No. of years)		Leasehold Land for 95 years
Utility Rates	Average Rate of Electricity (Rs./KWH)	₹6.71 - Rs. 7.21 per unit
	Average Water Rates (Rs./1000 Liters)	₹18 – 25 per 1,000 liters
	Average Natural Gas Prices (available) Rs./ Standard Cubic Meters	Will be made available
Logistics Infrastructure	Total Railway Connectivity and Infrastructure	Aurangabad: 24 Kms / Roha (24 Kms)
	Airport Connectivity and Infrastructure	2 Airports offering access in proximity: Aurangabad, Navi Mumbai International Airport (Proposed)
	National or State Highways connectivity and Infrastructure	National Highway 52, National Highway 66, National Highway 166A offering access
	Ports Connectivity and Infrastructure.	Both locations having port access in under 50 Kms: Jalna Dry Port (37 Kms), Dighi Port (34 Kms). Further, JNPT ports could also be used.
Incentives offered by State Government as per the State Policy		<p>Various incentives and schemes available under 2019 Incentive policy for various categories of units including interest subsidy, exemption from electricity duty, waiver of stamp duty, power tariff subsidy, expansion and diversification incentive for new units, and/or others.</p> <p>Incentives/subsidies are dependent on category of units as MSME, Large scale industries, mega projects.</p>

### Largest manufacturer of Oleo-chemical based additives in India and a key producer globally

FOIL is a pioneer in the Indian oleochemical industry with operations spanning over four decades. The company is India's largest oleochemical manufacturer with presence in India as well as the global markets. FOIL is also one of the key players in the global oleochemical based additives industry being among the top six global players in the food additives industry and among the top five global players in the plastic additives industry. FOIL is also the first company to introduce slip additives in India and is currently the largest producer of slip additives in the world. The company has built six fully automatic state of the art facilities in India with capacity over 100,000 tonnes per annum. The company's manufacturing plants are backed by its strong R&D capabilities and indigenously built proprietary technology. FOIL is also one of the leading players to develop proprietary technology to manufacture green additives. The company enjoys the first mover advantage in majority of the products in the oleochemical industry with only few other small players who manufacture oleochemical-based additives in India. Along with being a market leader in India, the company also enjoys competitive advantage over the global players in terms of pricing and costs restricting them to build a market presence in India.

### A Truly Global Player with Diversified Revenue and Customer base



Source: Company, LKP Research

Plant Location	Capacity (TPA)
1st Ambernath Facility	49,500
Badlapur Facility	6,400
Dombivli Facility	8,400
2nd Ambernath Facility	5,000
3rd Ambernath Facility	32,000
Patalganga facility*	10,000
<b>Total Capacity</b>	<b>111,300</b>

\*Patalganga facility – construction work is going

### Strong R&D Capability with a Focus on Innovation

FOIL is a knowledge intensive company which requires constant innovation backed by robust research & development capabilities. As we know, the products which the company manufactures go through various tests and validation to finally be able to sell commercially. Here the R&D efforts place significant emphasis on improving the production processes, improving the quality of the products, creating new additives and creating downstream products. Started with only 2 products back in 1973, now the company has scaled up its product portfolio having more than 400 products catering to various end user industries such as food, plastics, feed nutrition, cosmetics, pharma, paints etc.

FOIL has a dedicated team of 17 scientists, engineers and technologist with facility located in Mahape, Navi Mumbai. The company has its own in house manufacturing facilities with indigenously developed proprietary technology to provide innovative solutions to its customers. The manufacturing facilities are all located in Maharashtra, India with a total capacity of around 111,300 tonnes per annum.



The company has also set up a production facility in Leipzig, Germany with an installed capacity of 10,000 tonnes per annum (the “German Facility”) which will be owned and operated by a joint venture company FineAdd Ingredients GmbH, in which the company has a 50% equity interest. Capitalizing on its strong R&D capabilities the company has also diversified away from the additives business and started manufacturing & distributing premixes for bakery and confectionary products and pan release agents. The company has joined hands with Zeelandia International in a 50:50 JV in the name Fine Zeelandia Private Limited. This JV has set up a manufacturing facility in Patalganga, India to manufacture these products with a total installed capacity of 10,000 tonnes per annum. Fine Zeelandia also acts as an exclusive distributor for Zeelandia International Holdings B.V.’s range of premixes for bakery and confectionary products and pan release agents in India, Sri Lanka, Bangladesh and Nepal. Fine Zeelandia’s products is marketed at high-class star hotels, large niche and high-quality bakeries and quick service restaurants.

		
<p style="text-align: center;"><b>Strong R&amp;D Capabilities</b></p> <ul style="list-style-type: none"> <li>• Value Creation; Effective and Efficient technical support to customers</li> <li>• Dedicated team of <b>17 Scientists, Engineers and Technologists</b></li> </ul>	<p style="text-align: center;"><b>In-House Design and Engineering</b></p> <ul style="list-style-type: none"> <li>• In-house capabilities for plant designing and engineering</li> <li>• <b>Minimize capital expenditures</b> &amp; quicker commissioning</li> </ul>	<p style="text-align: center;"><b>New Product Developments</b></p> <p>Specialty Additives for:</p> <ul style="list-style-type: none"> <li>• <b>Feed nutrition</b></li> <li>• <b>Foods</b></li> <li>• <b>CosPha</b></li> <li>• <b>Coatings</b></li> <li>• <b>Polymers</b></li> </ul>

**Specialized Business Model with High Entry Barriers**

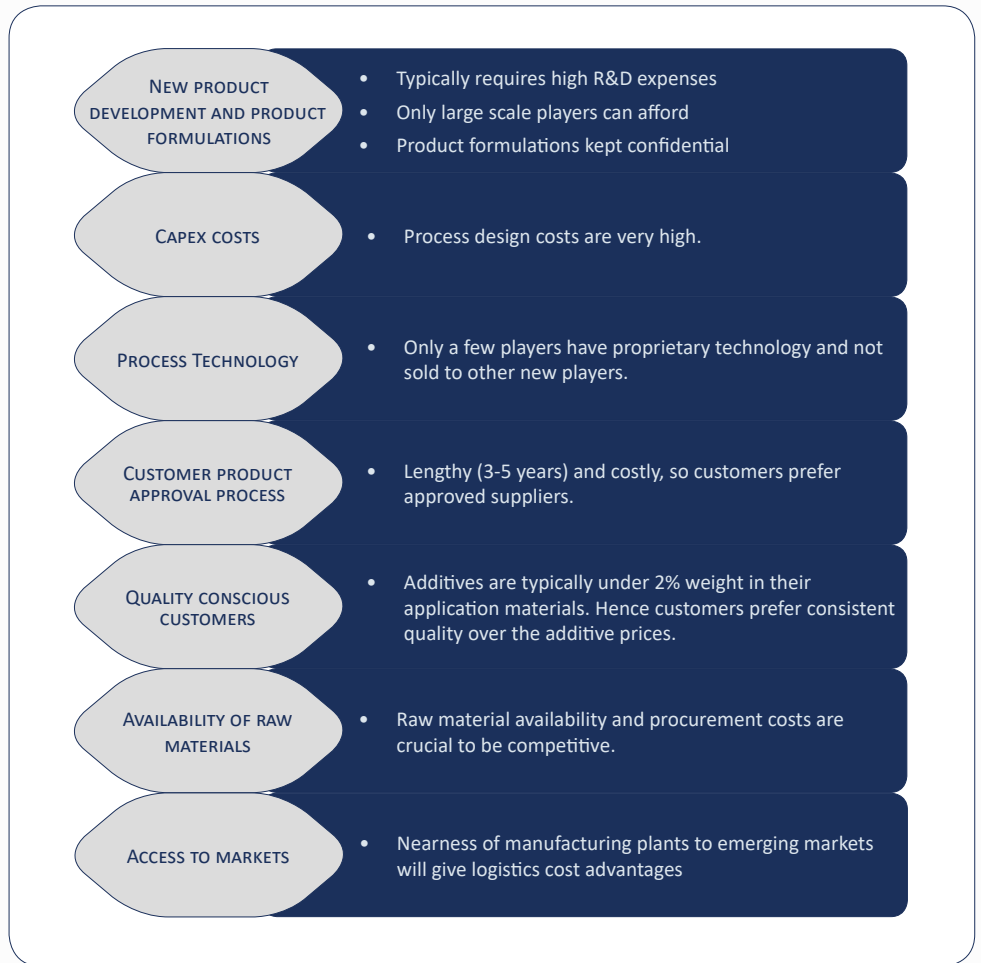
FOIL is operating in an industry which has multiple entry barriers protecting the existing players from competition and fragmentation. Base oleochemicals are produced from splitting, distillation and fraction process which is a simple process having many players globally. Technology for producing base chemicals is also easily available which makes this sub-segment non-specialized and more of a commoditized product. However, what FOIL does is a step further which requires proprietary technology, specialized skills and processes to manufacture green additives from these base chemicals. Being a complex manufacturing process requiring years of R&D in making is very difficult to replicate giving the established players an added advantage over the new entrants. This sub-segment of oleochemical enjoys premium margins with only few players dominating the industry globally including FOIL.

Oleochemical derived green additives is used in a very small quantity in the final product such as under 1% in weight in plastic materials and under 2% in weight in food. However, any defect in the additives will result in a disproportionately large amount of finished products being defective. Therefore, many end users generally take 3 to 5 years to approve a vendor for the supply of these additives after which the additive manufacturer can supply on commercial basis. Being a lengthy & expensive product approval processes leads to high switching costs for customers. Due to this, customers rely on established suppliers, as performance ingredients are very critical to their end products. FOIL has a first mover advantage in this industry with established customer base and stringent quality control parameters already in place.

Another entry barrier is the strict regulation that the additives manufacturers need to adhere to. As these additives have a direct impact on human life as well as the environment, the additives industry is governed by strict regulations across the world.



**Key Industry Factor**



The green additives industry is an oligopoly with very few players dominating the industry. Due to these high entry barriers, it is difficult for new entrants to compete with the existing players having decades of experience, products, and established clientele and R&D capabilities. FOIL is India’s largest manufacturer of these green additives and globally it is among top six players. There are no major companies in India apart from FOIL.

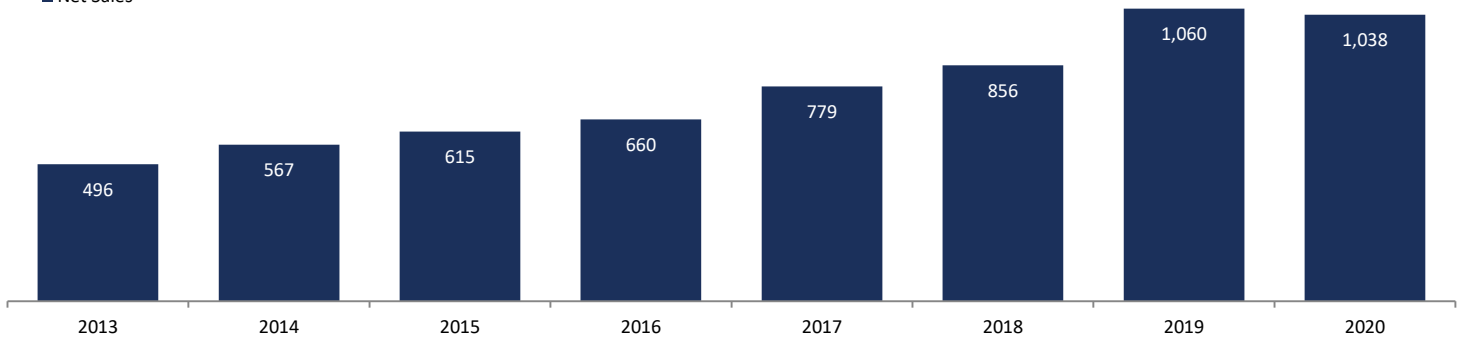
Segment	Company	Headquarters
Food Additives	Kerry Group	Ireland
	Danisco	Denmark
	Palsgaard	Denmark
	Riken Vitamin	Japan
	Taiyo	Japan
Plastic Additives	Croda	UK
	Emery	Malaysia
	PMC Biogenix	USA
	Peter Greven	Germany

**Strong Financial Track Record**

FOIL is one of the leading global player in the oleochemical industry and the largest player in India. The company has built a diversified client base and product portfolio which helped them achieve a strong financial performance over the years. FOIL has grown its topline at a CAGR of c.11% during 2013-20 while its EBIDTA has grown at a CAGR of c. 25% during the same period.

**Strong Topline Performance - CAGR of c.11%**

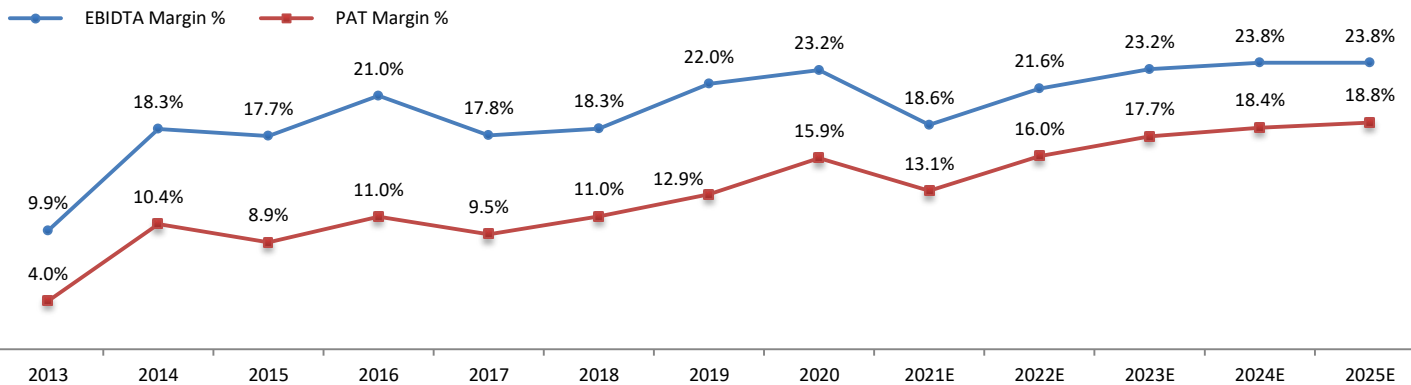
■ Net Sales



Source: Company, LKP Research

The company enjoys higher operating margins as it is more of a knowledge intensive business rather than capital intensive. The product development takes time, however, once developed and approved provides a higher margin to the company as the operating leverage kicks in. FOIL has sustained its margins at higher teen figures in the last seven years and we expect this to sustain in the range of 20-25% going forward. Green additives are specialized products catering to niche end user products and going forward, this industry is expected to play a major role in Indian Chemical story. The company has grown its PAT margins at a CAGR of c.34% during 2013-20 indicating a significant margin expansion during this period. The PAT margins have expanded by ~1185bps from 4% in 2013 to c.16% in 2020 and we expect this to expand further to high teen figure in next few years.

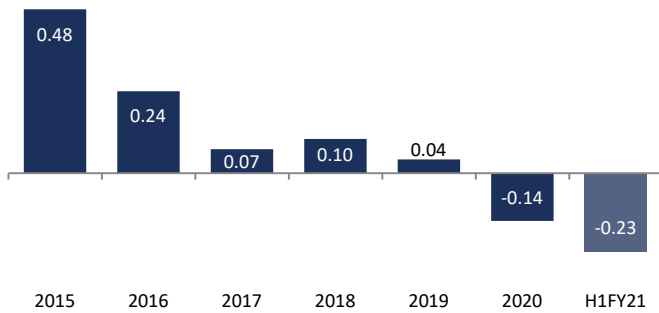
**Superior Margin Profile with scope to improve further**



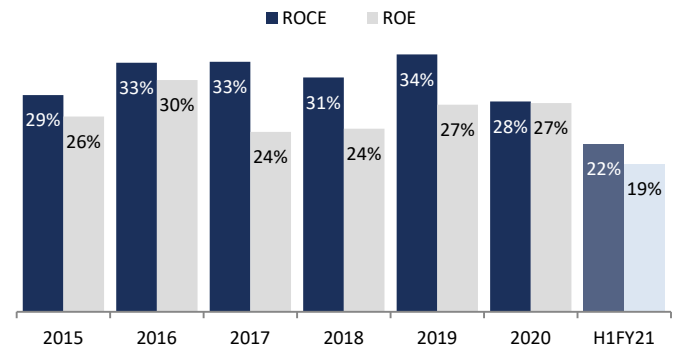
Source: Company, LKP Research

Higher operating margin has helped the company to generate higher cash flows which enabled the company to have a negative net debt in FY20. The operating cashflow to EBIDTA ratio touched almost 100% in FY20 indicating a superior operational performance in terms of margins as well as working capital efficiency. The superior margin profile has also aided FOIL in earning higher return ratios. Over the last five years, the company has been able to maintain its average ROE & ROCE at 26% and 31% respectively.

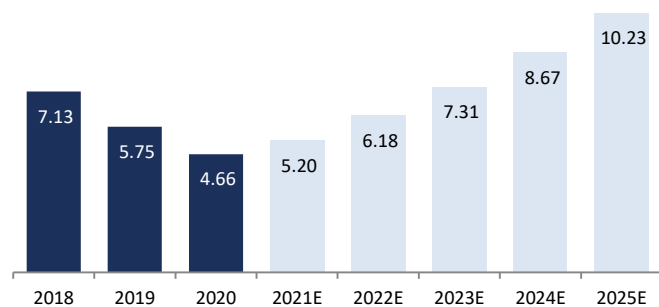
## Net Debt to Equity



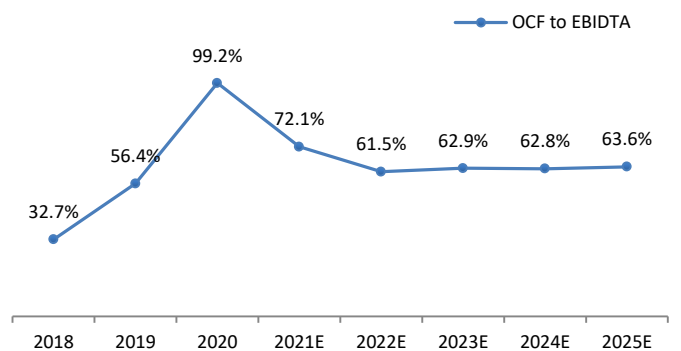
## Industry Best Return Ratios



## Fixed Asset Turnover (x)



## OCF to EBITDA



Source: Company, LKP Research

## Outlook & Valuation

FOIL is the largest player in the oleochemical industry in India and among top six globally. Oleochemical based additives are a greener alternative to the petrochemical based additives and as the entire world is moving towards more sustainable resources; we believe the oleochemicals are a multi-year growth story. Primary raw material for producing green additives are the vegetable oil which can be easily sourced from domestic as well international market due to their abundant supply. Unlike the petrochemical based additives which have limited sources and are prone to price volatility. FOIL has been in this industry for more than four decades and has established a significant knowhow, raw material source and clientele which are one of the most important factors in this industry. The company's product portfolio caters to various end user industries but predominantly to polymer and food industry. Also, the company has expanded its product portfolio to produce niche products which can be used in end user sectors such as into feed nutrition, coatings, rubbers, etc. having a higher margin profile. Introduction of these new products has helped the company in improving its gross margins from ~34% in 2013 to ~43% in 2020.

FOIL has recently set up two new plants, one in Ambernath (commissioned – 32,000 tpa) and other in Patalganga (partly commissioned – 10,000 tpa) which has significantly increased its producing capacity from 69,300 tonnes per annum to 1,11,300 tonnes per annum. The company has a strong track record of robust financial performance with margin expansion and superior cash flow generation. We expect this performance to continue going forward aided by newer products & geographies along with higher traction for oleochemical-based additives in end user products.

We Initiate Coverage on FOIL with a BUY recommendation and a 12 months target price of ₹3,232 valued using the DCF method.

## DCF Model

Particulars (₹ In Crs)	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Mar-26	Terminal year
Net income	144.6	211.4	274.6	334.4	393.1	466.7	
Depreciation	31.1	33.3	35.7	38.0	40.5	43.0	
Capital Expenditure	-20.0	-35.0	-35.0	-35.0	-35.0	-35.0	
Working Capital Changes	-19.6	-54.0	-59.2	-67.7	-69.9	-79.5	
Interest (After Tax)	2.9	2.3	1.7	1.3	1.5	1.8	
<b>FCFF</b>	<b>139.0</b>	<b>157.9</b>	<b>217.8</b>	<b>271.0</b>	<b>330.2</b>	<b>396.9</b>	<b>11,691.6</b>
Discounted cash flow	139.0	143.7	179.0	200.8	221.2	240.4	8,665.4

Sum of discounted cash flows-Firm value	9,789.5
Less Debt	124.7
Add: Cash and Investment	243.2
Equity Value	9,908.0
Shares outstanding (in Crs)	3.07
<b>Equity Price (₹)</b>	<b>3,232</b>

## Key Assumptions

Particulars	%
WACC	10.5%
Long term Growth rate	7.0%

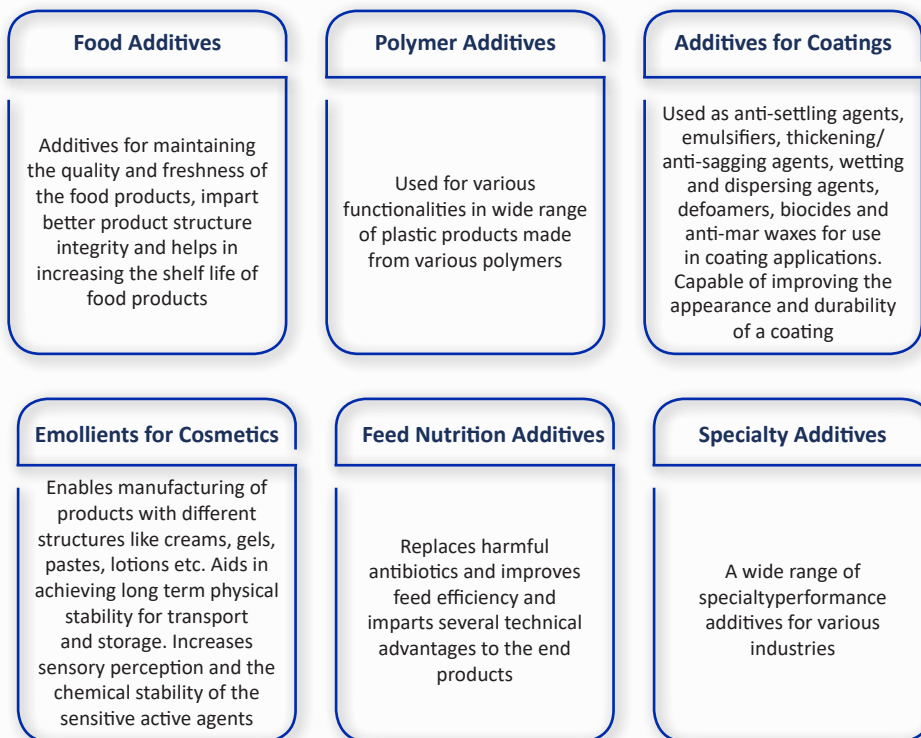
## Key Managerial Personnel

Name	Designation	Description
Mr. Prakash Kamat	Executive Director & Chairman	Holds a M.Sc. Tech- Master of Science & Tech (Oils) from Institute of Chemical Technology (formerly UDCT). Associated with the group since inception having experience in product development, process technology and R&D
Mr. Mukesh Shah	Managing Director	Joined in 1973. Holds a Bachelor's degree in Science. Played a key role in establishing quality control and marketing
Mr. Jayen Shah	Executive Director and CEO	Joined in 1986. Holds a Master's degree in Science. Instrumental in creating a strong vendor-partner network
Mr. Tushar Shah	Executive Director and CFO	Joined in 1989 and led several initiatives like ERP, CRM, etc. Key role in the development of the first slip additive facility
Mr. Bimal Shah	Executive Director	Joined in 2009. Holds a Bachelor's degree in Science from Purdue University and a Master's degree from Boston College. Led initiatives for new projects and processes

### Business Overview

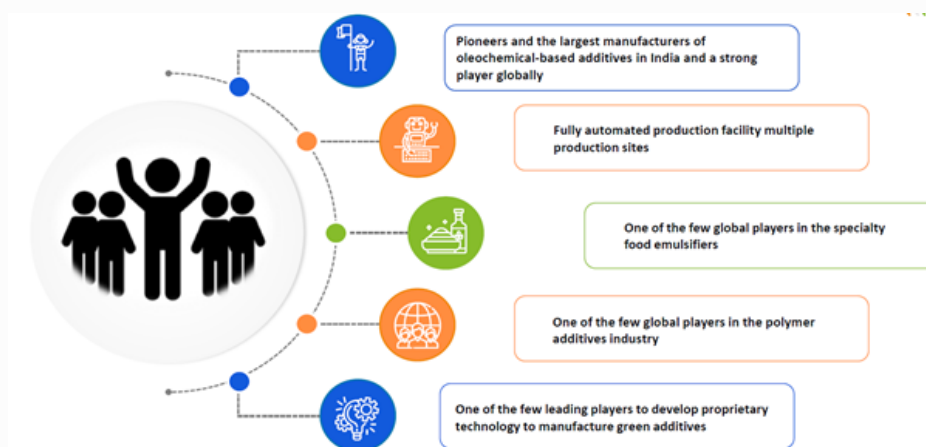
FOIL is India's largest manufacturer of Oleochemical-based additives and is among the top six global players. The company manufactures more than 400 additives which find its application in end user industries such as food & beverage, plastics/polymer, cosmetic, pharmaceutical, rubber, paints & coatings, feed nutrition etc. Majority of the company's revenue comes from the food and plastic additives business which contribute around 70-80% of the revenue. The company has six manufacturing facilities all located in Maharashtra, India which is also in close proximity to the JNPT port. The company's production facility is back by robust R&D and innovation with facility in Maharashtra itself.

### Diversified Product Portfolio with Multiple End-users



Source: Company, LKP Research

### Leading Player in Oleochemical Industry



Source: Company, LKP Research

The company has a strong distribution network with 750+ direct customers (i.e., end-users of our products) and 170+ distributors (who sell their products to more than 5,000 customers) from 70+ countries. The direct customers are multinational, regional and local players manufacturing consumer products and petrochemical companies and polymer producers globally. Company's plastics additives and specialty additives are also used in the packaging of foods and other fast moving consumer goods.

Key Financials							
YE Mar	2018	2019	2020	2021E	2022E	2023E	2024E
Total sales(₹ Crore)	855.81	1,060.33	1,038.08	1,100.26	1,318.60	1,554.39	1,817.13
EBITDA margins (%)	18.5%	22.0%	23.2%	18.6%	21.6%	23.2%	23.8%
PAT margins (%)	11.1%	12.9%	15.9%	13.1%	16.0%	17.7%	18.4%
EPS (₹)	31.09	44.43	53.74	47.16	68.93	89.55	109.04
P/E (x)	80.95	56.65	46.83	53.37	36.51	28.10	23.08
P/BV (x)	19.51	15.43	12.47	10.59	8.56	6.85	5.51
EV/EBITDA (x)	48.97	33.12	31.73	36.76	25.98	20.06	16.28
ROE (%)	24.10%	27.24%	26.63%	19.84%	23.44%	24.37%	23.87%
ROCE (%)	39.02%	38.96%	30.77%	24.79%	30.49%	32.44%	31.72%

## Key Risks & Concerns

### Raw material cost fluctuation

The company's primary raw materials are derived from vegetable oils, including rapeseed oil, palm oil, palm kernel oil, sunflower oil, castor oil, soybean oil, rice bran oil. The company does not enter into supply contracts that are longer than six months, and therefore, are subject to the risk of increases in the costs of raw materials. The global vegetable oil prices are determined by demand in biofuel & its consumption. However, prices of oleochemical-based additives base raw materials, i.e., vegetable oils, are relatively less volatile compared with other commodity prices.

### Geopolitical & Forex Risk

The company generates around 55% of its revenue from the international market. Also the company imports substantial amount of raw materials from countries like Indonesia, Malaysia etc. Imposition of duties on essential raw materials can increase the company's costs thereby impacting the margins. For e.g. the government of India has imposed tax on import of Crude Palm oil and Crude Soyabean at 35.75% and 35% respectively. Also fluctuations in the exchange rates can affect the company's margin profile.

### Failure to comply with quality standards

Oleochemical based additives even though makes up only a small part of the end products, however, they have a significant impact at the molecular level in the end product. Any defect in the company's products would result in a disproportionately large amount of finished products being defective. Therefore, any lapse in the quality of the company's products could result in the company being removed from their end-user customers' 'approved supplier' lists, which would have a material adverse effect the business, financial condition and results of operations.

## Income Statement

₹ Cr	2018	2019	2020	2021E	2022E	2023E	2024E
Total Revenue From Operations(Net)	855.8	1,060.3	1,038.1	1,100.3	1,318.6	1,554.4	1,817.1
% Growth		23.9%	-2.1%	6.0%	19.8%	17.9%	16.9%
<b>Expenses</b>							
Cost Of Material Consumed (incl. changes in inventory)	554.2	649.9	604.4	689.0	785.9	901.5	1,053.9
Purchases of stock-in-trade	3.6	5.3	4.9	4.8	5.8	6.8	8.0
Employee Benefit Expenses	51.6	62.8	72.5	80.8	96.9	114.2	123.6
Other Expenses	88.0	108.8	115.8	120.8	144.8	170.6	199.5
Total Expenses	697.4	826.7	797.6	895.4	1,033.3	1,193.2	1,385.0
<b>EBITDA</b>	<b>158.4</b>	<b>233.6</b>	<b>240.5</b>	<b>204.8</b>	<b>285.3</b>	<b>361.2</b>	<b>432.2</b>
<i>EBITDA Margin</i>	<i>18.5%</i>	<i>22.0%</i>	<i>23.2%</i>	<i>18.6%</i>	<i>21.6%</i>	<i>23.2%</i>	<i>23.8%</i>
Other Income	16.0	19.8	20.2	25.6	31.5	38.9	48.2
Depreciation and Amortization Expenses	20.0	17.5	34.7	31.1	33.3	35.7	38.0
Share of loss of joint ventures (net of tax)	-	-3.4	-5.1	-2.2	2.0	4.8	6.2
<b>EBIT</b>	<b>154.3</b>	<b>232.6</b>	<b>220.9</b>	<b>197.1</b>	<b>285.5</b>	<b>369.2</b>	<b>448.6</b>
<i>EBIT Margin %</i>	<i>18.0%</i>	<i>21.9%</i>	<i>21.3%</i>	<i>17.9%</i>	<i>21.7%</i>	<i>23.8%</i>	<i>24.7%</i>
Finance Cost	3.2	1.8	4.8	3.9	3.1	2.3	1.8
<b>Profit / (Loss) before exceptional items and tax</b>	<b>151.2</b>	<b>230.8</b>	<b>216.1</b>	<b>193.2</b>	<b>282.5</b>	<b>367.0</b>	<b>446.8</b>
Exceptional Items	-	-	-	-	-	-	-
<b>PBT</b>	<b>151.2</b>	<b>230.8</b>	<b>216.1</b>	<b>193.2</b>	<b>282.5</b>	<b>367.0</b>	<b>446.8</b>
<i>PBT Margin %</i>	<i>17.7%</i>	<i>21.8%</i>	<i>20.8%</i>	<i>17.6%</i>	<i>21.4%</i>	<i>23.6%</i>	<i>24.6%</i>
Tax Expense	55.9	94.5	51.3	48.6	71.1	92.4	112.5
<b>Profit / (Loss) for the year</b>	<b>95.3</b>	<b>136.3</b>	<b>164.8</b>	<b>144.6</b>	<b>211.4</b>	<b>274.6</b>	<b>334.4</b>
<i>PAT Margins %</i>	<i>11.1%</i>	<i>12.9%</i>	<i>15.9%</i>	<i>13.1%</i>	<i>16.0%</i>	<i>17.7%</i>	<i>18.4%</i>

Source: Company, LKP Research



## Balance Sheet

₹ Cr	2018	2019	2020	2021E	2022E	2023E	2024E
<b>Equities And Liabilities</b>							
<b>Shareholders' funds</b>							
Share capital	15.3	15.3	15.3	15.3	15.3	15.3	15.3
Reserves and surplus	380.3	484.9	603.6	713.3	886.5	1,111.5	1,385.5
	<b>395.6</b>	<b>500.2</b>	<b>618.9</b>	<b>728.7</b>	<b>901.9</b>	<b>1,126.9</b>	<b>1,400.8</b>
Non-Controlling Interest	0.0	0.0	0.1	0.1	0.1	0.1	0.1
	<b>395.6</b>	<b>500.3</b>	<b>618.9</b>	<b>728.7</b>	<b>901.9</b>	<b>1,127.0</b>	<b>1,401.0</b>
<b>Non-current liabilities</b>							
Long term Borrowings	-	92.8	91.5	58.2	24.9	-	-
Other Longterm Liabilities	-	3.9	7.6	8.0	9.6	11.3	13.2
	-	<b>96.7</b>	<b>99.0</b>	<b>66.2</b>	<b>34.5</b>	<b>11.3</b>	<b>13.2</b>
<b>Current liabilities</b>							
Short-term borrowings	53.6	20.2	-	-	-	-	-
Trade payables	69.9	53.4	85.8	97.6	111.4	127.8	149.4
Other Financial Liabilities	1.1	16.5	34.9	35.0	35.3	27.4	2.9
Short term Provisions	2.2	4.5	3.3	3.5	4.2	4.9	5.7
Current Tax Laibilities (Net)	5.0	7.3	4.6	4.6	4.6	4.6	4.6
Other current liabilities	2.4	3.6	5.6	5.9	7.1	8.4	9.8
	<b>134.2</b>	<b>105.4</b>	<b>134.1</b>	<b>146.6</b>	<b>162.6</b>	<b>173.1</b>	<b>172.4</b>
<b>Total</b>	<b>529.8</b>	<b>702.4</b>	<b>852.1</b>	<b>941.6</b>	<b>1,099.1</b>	<b>1,311.4</b>	<b>1,586.6</b>
<b>ASSETS</b>							
<b>Non-current Assets</b>							
<b>Fixed Assets</b>							
Tangible Assets	88.1	77.8	215.9	211.0	213.0	212.5	209.5
Capital work-in-progress	31.7	106.3	5.8	-	-	-	-
Intangible Assets	0.3	0.3	0.9	0.5	0.2	-	-
<b>Financial Assets:</b>							
Non-current investments	10.61	9.97	32.80	32.80	32.80	32.80	32.80
Long-term loans and advances	0.97	1.01	1.00	1.00	1.00	1.00	1.00
Other fiancial assets	0.43	2.08	3.01	3.19	3.83	4.51	5.27
Deffered Tax Assets (Net)	4.85	0.20	6.72	6.72	6.72	6.72	6.72
Other non-current assets	59.71	70.49	61.65	65.34	78.31	92.32	107.92
	<b>196.6</b>	<b>268.2</b>	<b>327.8</b>	<b>320.5</b>	<b>335.9</b>	<b>349.8</b>	<b>363.2</b>
<b>Current Assets</b>							
Inventories	89.1	89.3	131.7	149.9	171.1	196.3	229.5
<b>Financial Assets:</b>							
Trade Receivables	146.5	155.6	132.3	140.3	168.1	198.2	231.6
Cash and Cash Equivalent	10.7	108.1	205.7	73.7	57.9	61.2	95.5
Other Balances with Banks	1.7	1.1	4.8	204.8	304.8	434.8	584.8
Other financial assets	0.4	0.3	0.3	0.3	0.4	0.5	0.6
Current Tax Assets(net)	3.8	4.4	7.0	7.0	7.0	7.0	7.0
Other current assets	81.0	75.4	42.5	45.0	54.0	63.6	74.4
	<b>333.2</b>	<b>434.2</b>	<b>524.3</b>	<b>621.0</b>	<b>763.2</b>	<b>961.5</b>	<b>1,223.4</b>
<b>Total</b>	<b>529.8</b>	<b>702.4</b>	<b>852.1</b>	<b>941.6</b>	<b>1,099.1</b>	<b>1,311.4</b>	<b>1,586.6</b>

## Cash Flow

₹ Cr	2018	2019	2020	2021E	2022E	2023E	2024E
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>							
Profit / (Loss) before Tax	151.2	230.8	216.1	193.2	282.5	367.0	446.8
Depreciation and Amortization	20.0	17.5	34.7	31.1	33.3	35.7	38.0
Interest (net)	1.6	0.0	(2.3)	(8.4)	(15.2)	(23.8)	(33.3)
Other Operating Activities	(13.2)	(14.4)	(9.7)				
Working capital changes	(57.0)	(15.9)	61.7	(19.6)	(54.0)	(59.2)	(67.7)
Income tax paid	(50.9)	(86.1)	(62.0)	(48.6)	(71.1)	(92.4)	(112.5)
<b>NET CASH GENERATED BY OPERATING ACTIVITIES (A)</b>	<b>51.8</b>	<b>131.9</b>	<b>238.5</b>	<b>147.6</b>	<b>175.4</b>	<b>227.3</b>	<b>271.3</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Capital Expenditure	(40.0)	(81.7)	(71.9)	(20.0)	(35.0)	(35.0)	(35.0)
Change in Investments	(0.2)	(4.2)	(28.8)	(200.0)	(100.0)	(130.0)	(150.0)
Other Investing Activities	(11.3)	(7.5)	16.6	12.3	18.3	26.1	35.1
<b>NET CASH GENERATED / (USED) IN INVESTING ACTIVITIES (B)</b>	<b>(51.5)</b>	<b>(93.4)</b>	<b>(84.0)</b>	<b>(207.7)</b>	<b>(116.7)</b>	<b>(138.9)</b>	<b>(149.9)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>							
Interest paid	(2.1)	(3.3)	(6.3)	(3.9)	(3.1)	(2.3)	(1.8)
Dividend paid including DDT	(27.7)	(25.8)	(40.7)	(34.8)	(38.2)	(49.6)	(60.4)
Other Financial Activities	26.2	88.1	(9.9)	(33.3)	(33.3)	(33.3)	(24.9)
<b>NET CASH GENERATED / (USED) IN FINANCING ACTIVITIES (C)</b>	<b>(3.6)</b>	<b>59.0</b>	<b>(56.9)</b>	<b>(71.9)</b>	<b>(74.5)</b>	<b>(85.1)</b>	<b>(87.1)</b>
Net Change in Cash (A+B+C)	(3.3)	97.5	97.5	(132.0)	(15.8)	3.3	34.3
Cash & cash equivalents at the end of the year	10.7	108.1	205.7	73.7	57.9	61.2	95.5

Source: Company, LKP Research

## Financial Ratios

	2018	2019	2020	2021E	2022E	2023E	2024E
<b>Per Share data (₹)</b>							
EPS	31.09	44.43	53.74	47.16	68.93	89.55	109.04
Cash EPS	37.63	50.13	65.05	57.31	79.80	101.20	121.44
BV/Share	129.02	163.16	201.86	237.66	294.15	367.53	456.89
DPS	7.00	11.00	7.00	9.43	10.34	13.43	16.36
Payout (%)	23%	25%	13%	20%	15%	15%	15%
<b>Growth Ratios (%)</b>							
Sales Growth	5.98%	22.63%	-2.10%	5.99%	19.84%	17.88%	16.90%
EBIDTA Growth	9.33%	47.46%	2.94%	-14.82%	39.28%	26.60%	19.65%
EBIT Growth	23.29%	50.72%	-5.02%	-10.79%	44.86%	29.32%	21.49%
EBT Growth	25.16%	52.64%	-6.35%	-10.59%	46.17%	29.92%	21.76%
PAT Growth	22.41%	42.93%	20.95%	-12.26%	46.17%	29.92%	21.76%
<b>Valuation Ratios (x)</b>							
P/E	80.95	56.65	46.83	53.37	36.51	28.10	23.08
Cash P/E	66.89	50.20	38.69	43.92	31.54	24.87	20.72
EV/Sales	8.97	7.30	7.35	6.84	5.62	4.66	3.87
EV/EBITDA	48.97	33.12	31.73	36.76	25.98	20.06	16.28
P/B	19.51	15.43	12.47	10.59	8.56	6.85	5.51
Mcap/Sales	9.02	7.28	7.43	7.01	5.85	4.96	4.25
<b>Working Capital Ratios (x)</b>							
Fixed Asset Turnover Ratio	7.13	5.75	4.66	5.20	6.18	7.31	8.67
Asset Turnover Ratio	1.63	1.51	1.22	1.17	1.20	1.19	1.15
Inventory Days	58.32	49.73	78.88	78.88	78.88	78.88	78.88
Trade Receivables Days	61.84	53.57	46.53	46.53	46.53	46.53	46.53
Trade Payables Days	45.77	29.74	51.37	51.37	51.37	51.37	51.37
<b>Profitability Ratios (%)</b>							
EBITDA Margin	18.5%	22.0%	23.2%	18.6%	21.6%	23.2%	23.8%
EBIT Margin	18.0%	21.9%	21.3%	17.9%	21.7%	23.8%	24.7%
EBT Margin	17.7%	21.8%	20.8%	17.6%	21.4%	23.6%	24.6%
PAT Margin	11.1%	12.9%	15.9%	13.1%	16.0%	17.7%	18.4%
<b>Return Ratios</b>							
ROE (%)	24.10%	27.24%	26.63%	19.84%	23.44%	24.37%	23.87%
ROCE (%)	39.02%	38.96%	30.77%	24.79%	30.49%	32.44%	31.72%
ROA (%)	17.99%	19.40%	19.34%	15.36%	19.23%	20.94%	21.07%
<b>Liquidity &amp; Leverage Ratios (x)</b>							
Current Ratio	2.48	4.12	3.91	4.24	4.69	5.55	7.10
Interest Coverage Ratio	48.93	126.48	45.83	50.97	93.16	161.94	252.66
Net Debt/Equity Ratio	0.28	0.14	0.00	(0.12)	(0.21)	(0.30)	(0.38)
Debt/EBIDTA Ratio	0.34	0.55	0.52	0.45	0.20	0.07	-
Financial Leverage	1.34	1.40	1.38	1.29	1.22	1.16	1.13
Gearing Ratio (%)	21.4%	10.6%	0.0%	-9.7%	-18.0%	-26.8%	-34.2%

Source: Company, LKP Research

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