

Laxmi Organic Industries Limited

August 28, 2024



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Laxmi Organic Industries Limited

Equity Analysis

Kapitales Research Rating ★ ★ ★ ★
Recommendation Buy
Current Market Price ₹306.40
Risk Moderate

52 Week Range (₹)

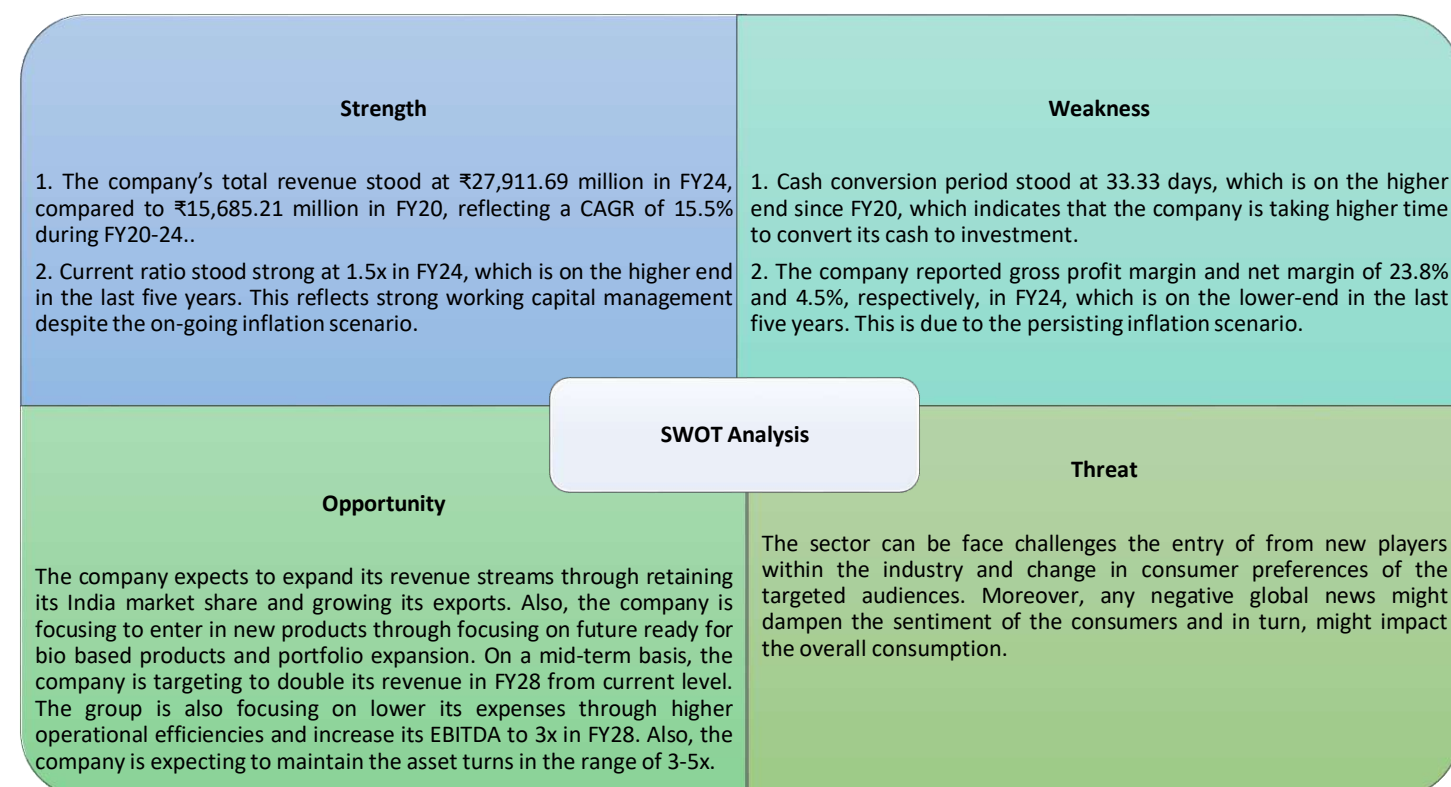


Average volume	4.20 million	52 Week Range (₹)	220.00 – 320.95
Shares outstanding	276.56 million	Dividend amount (₹)	0.60
Free float	80.39 million	Dividend Yield	0.21%
P/E (TTM)	67.68	Ex-date	19-Jul-24
Market cap (₹)	78.99 billion	Record date	-
EPS (TTM)(₹)	4.22	Pay date	04-Aug-24
ROE	7.26%	Franking	-

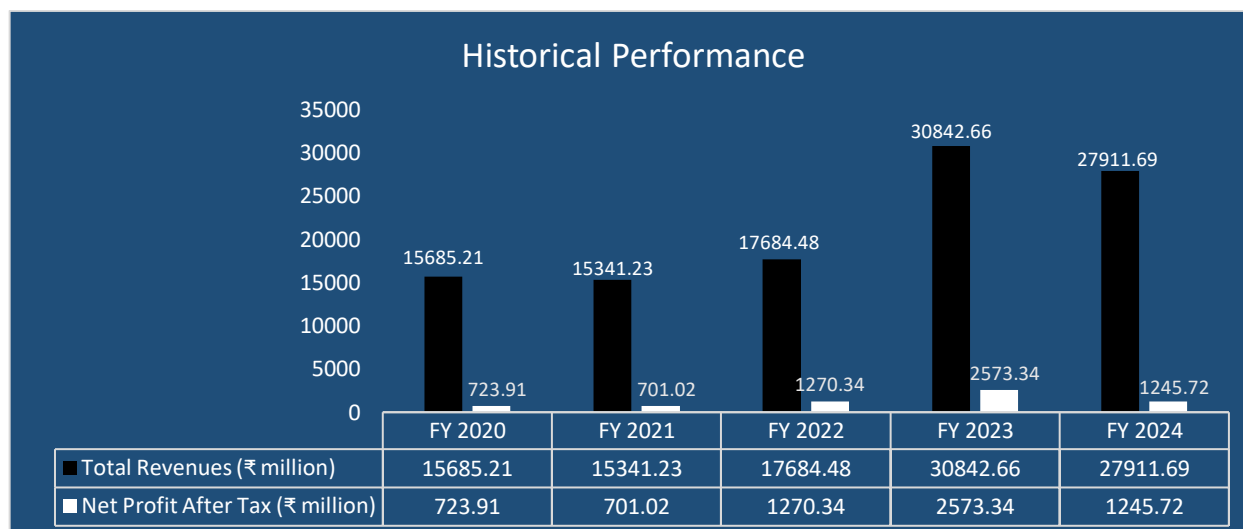
Source: (Markets.ft.com and Koyfin), Analysis by Kapitales Research

Laxmi Organic Industries Limited (NSE: LXCHEM) is an India-based company, which is engaged in the business of specialty chemicals. The Company manufactures ethyl acetate, acetic acid and diketene derivative products (DDP). Its business segments include Acetyl Intermediates and Speciality Intermediates. The Acetyl Intermediates segment produces a range of acetyl products, including Bulk Solvents and Aldehydes. The Company manufactures a range of Acetyl products, including bulk solvents and aldehydes. Its acetyl products have applications in diverse industries, such as pharmaceutical formulations, printing inks, adhesives, coatings.

SWOT Analysis



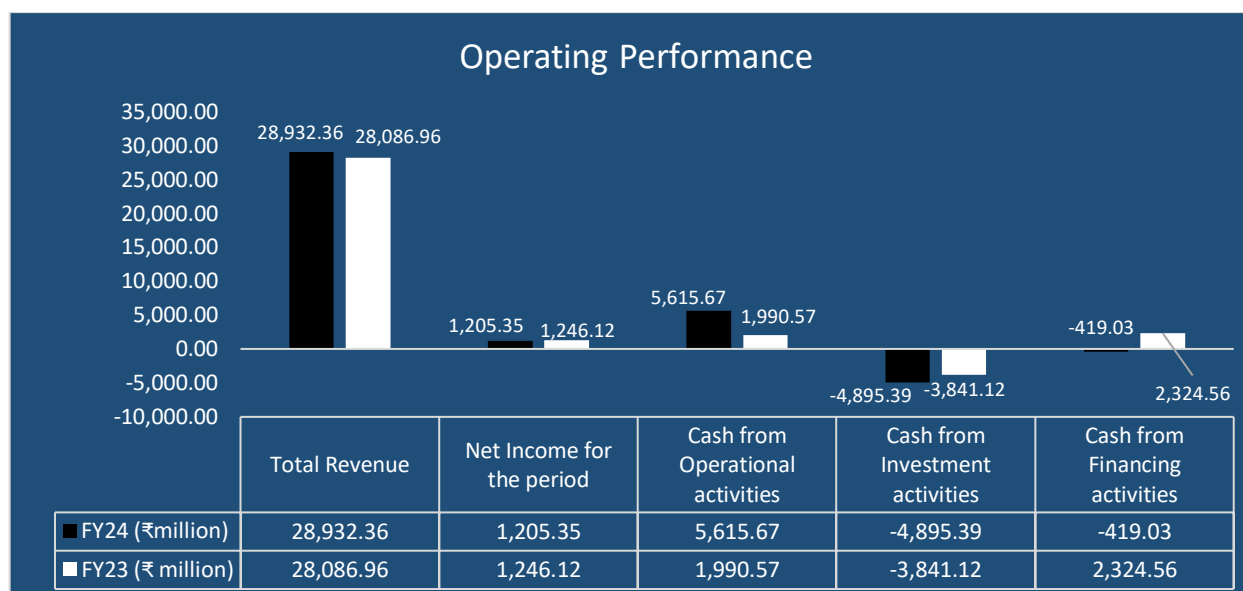
Historical Performance



Source: Koyfin, Analysis by Kapitales Research

The company's total revenue stood at ₹27,911.69 million in FY24, compared to ₹15,685.21 million in FY20, reflecting a CAGR of 15.5% during FY20-24. The company's net profit stood at ₹1,245.72 million in FY24 as compared to net profit of ₹723.91 million in FY20 reflecting a CAGR of 14.5% during FY20-24.

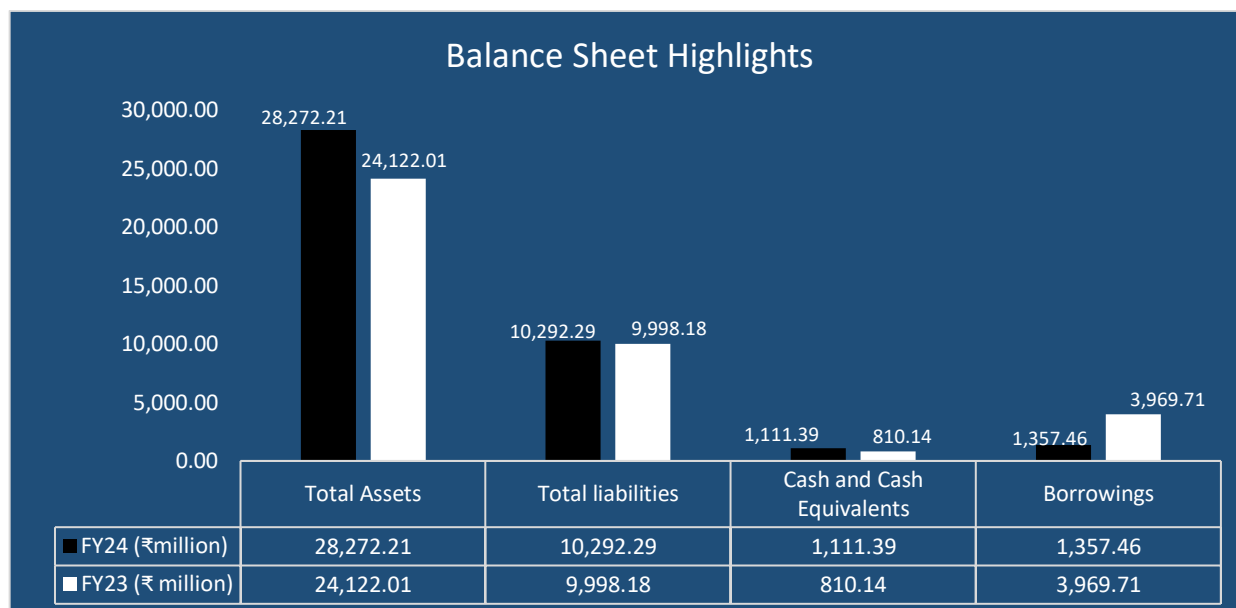
Operating Performance (period ended 31 March 2024)



Source: Company Reports, Chart Prepared by Kapitales Research

- Revenue stood at ₹28,932.36 million in FY24, grew 3.01% over FY23. This is primarily driven strong brokerage revenue along with a surge in income from depository operations.
- Total expense stood at ₹27,224.42 million in FY24, up from ₹26,357.83 million in FY23 primarily due to higher employee benefits expenses and a surge in raw material prices.
- Net profit stood at ₹1,205.35 million in FY24, increased from a net profit of ₹1,246.12 million in FY23.
- Cash from operational activities stood at ₹5,615.67 million in FY24, as compared to ₹1,990.57 million in FY23.

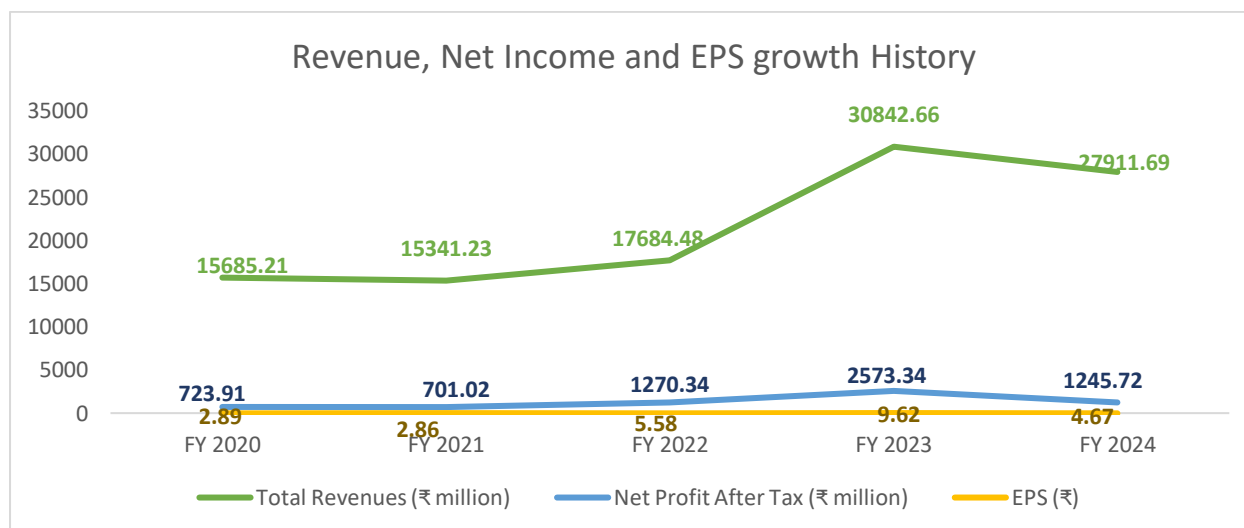
Balance Sheet Highlights (period ended 31 March 2024)



Source: Company Reports, Chart Prepared by Kapitaless Research

Compared to FY23, the Company's total asset increased 17.21% due to higher cash balances and short-term financial assets. Total liabilities of the company were at ₹10,292.29 million in FY24, up 2.94% on y-o-y. The Company reported a higher cash balance of ₹1,111.39 million in FY24, as compared to ₹810.14 million in FY23, indicating strong liquidity. The company had a significantly lower debt component in FY24 which was down by 65.80% over FY23.

Revenue, Net Income and EPS growth History



Source: Koyfin, Analysis by Kapitaless Research

Fiscal Years	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	Growth Trend
Total Revenues (₹ million)	15685.21	15341.23	17684.48	30842.66	27911.69	<div></div>
Net Profit After Tax (₹ million)	723.91	701.02	1270.34	2573.34	1245.72	<div></div>
EPS (₹)	2.89	2.86	5.58	9.62	4.67	<div></div>

Source: Koyfin, Analysis by Kapitaless Research

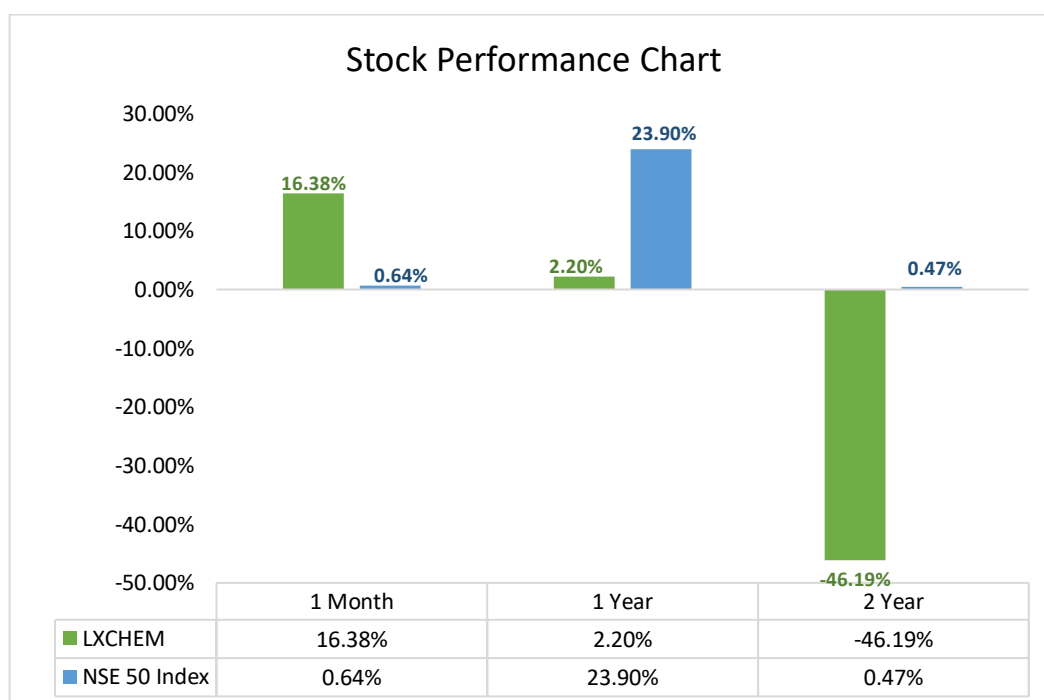
Ratio Analysis

Fiscal Years	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Return on Assets (ROA) %	7.9%	4.2%	7.6%	9.8%	4.9%
Return On Equity %	17.5%	16.0%	17.4%	22.1%	9.2%
Return on Common Equity (ROCE) %	17.5%	16.0%	17.4%	22.1%	9.2%
EBITDA Margin %	10.3%	7.5%	12.5%	11.9%	9.0%
Gross Profit Margin %	29.2%	28.3%	32.9%	30.3%	23.8%
Net Income Margin %	4.6%	4.6%	7.2%	8.3%	4.5%
Receivables Turnover (Average Receivables)	4.8	4.5	4.5	5.6	4.5
Fixed Assets Turnover (Average Fixed Assets)	4.5	3.9	4.0	5.0	2.9
Inventory Turnover (Average Inventory)	7.0	6.8	6.7	7.4	6.4
Asset Turnover	1.6	1.5	1.2	1.5	1.2
Days Outstanding Inventory (Avg)	52	53.7	54.6	49.0	57.3
Current Ratio	1.4	1.2	1.7	1.6	1.5
Quick Ratio	0.8	0.8	0.7	0.8	0.9
Cash Conversion Cycle (Average Days)	42.6	12.5	5.9	20.9	33.3

Source: Koyfin, Analysis by Kapitales Research

- It has reported gross profit margin and net margin of 23.8% and 4.5%, respectively, in FY24, which is on the lower-end in the last five years. This is due to the persisting inflation scenario.
- The company's reported ROA of 4.9% in FY24, which is on mid-point in the last five years, indicating stable return ratio.
- Current ratio stood strong at 1.5x in FY24, which is on the higher end in the last five years. This reflects strong working capital management despite the on-going inflation scenario.
- Cash conversion period stood at 33.33 days, which is on the higher end since FY20, which indicates that the company is taking higher time to convert its cash to investment.

Price Performance



Source: Investing.com, Analysis by Kapitales Research

Recent Development

- The Group reported its Q1FY25 revenue of ₹7,301.43 million, which is 0.41% lower than previous corresponding period.
- Net Profit stood at ₹343.51 million, which is 22.47%, lower than the Q1FY25 due to higher employee benefit expense and a surge in income tax expense.

Outlook

The company expects to expand its revenue streams through retaining its India market share and growing its exports. Also, the company is focusing to enter in new products through focusing on future ready for bio based products and portfolio expansion. On a mid-term basis, the company is targeting to double its revenue in FY28 from current level. The group is also focusing on lower its expenses through higher operational efficiencies and increase its EBITDA to 3x in FY28. Also, the company is expecting to maintain the asset turns in the range of 3-5x. The group expects its Fluro assets to start delivering revue from FY25- which is a high-margin business and expects to improve its profitability and cash flows.

Key Risks and Uncertainties

The sector can face challenges from the entry of new players within the industry and change in consumer preferences of the targeted audiences. Moreover, any negative global news might dampen the sentiment of the consumers and in turn, might impact the overall consumption.

Valuation

Relative Valuation Based on Price/Earnings Per Share	
Laxmi Organic Industries Ltd	LXCHEM
Earnings Per Share (FY27E ₹)	10.50
Price/EPS Multiple (NTM) (Peer Median) (approx)	35.6x
Target Share Price (₹)	373.80
Current Market Price (₹) 28 August 2024	306.40
Recommendation	Buy

Source: Kayfin, Analysis By Kapitaless Research

Technical Analysis

Sector: Materials
Industry: Chemicals
28 August 2024



Source: TradingView, Analysis by Kapitaless Research

Company Name	Ticker	Sector	CMP (₹)	Advisory date	Rating	Target 1 (₹)	Target 2 (₹)	Stop Loss (₹)
Laxmi Organic Industries Limited	LXCHEM	Materials	306.40	28 August 2024	Buy	334.00	367.75	277.25

On a weekly price chart, the stock of LXCHEM closed above 20, 50, and 200-weeks EMAs, which indicates strong buying interest. Moreover, the stock has appreciated from its lows of ₹220.00-233.00 levels, indicating a strong momentum. The stock has ended its sidewise movement since July 2024 and since the third week of August 2024, the stock price has been on an uptrend and is likely to test its strong resistance zones of ₹349.60 and ₹367.45 levels.

Investors can enter at the current price level of ₹306.40 with a target price of ₹334.00 (pivot resistance R1) and ₹367.75 (previous swing resistance), respectively. Investors can either book full or partial profits at target 1 and wait for the stock to achieve target 2 (depending on their risk appetite).

Investors are advised to keep a strict stop loss at or below ₹277.25 (central pivot P) to protect their investments, in case of an unfavourable movement in the stock due to any uncertain event.

Please Note: It would be in the best interest of investors to trail their stop-loss upward if the stock is moving in our favorable direction.

Investment Summary

The business operates within specialty chemicals sector and has World Class Technology platforms with strong development capabilities serving diverse industries. It has large, global addressable markets across Essentials and Specialties consisting more than US\$16 billion, and the segment is expected to grow in the coming days as well, driven by constant increase in demand.

Sector: Materials
Industry: Chemicals
28 August 2024

The end users are diversified in nature ranging from Pharmaceuticals, Agrochemicals, Inks & Paints, Coatings, and Fragrance & Flavour etc. Due to the change in consumer spending pattern on account of elevated per-capita, we have seen an increase in demand for high-margin products as the end-users are choosing luxury items over basic items. As the company caters to diversified sectors and offers several tailor-made services to its clients resulting higher customer stickiness.

Hence, after considering the above mentioned facts, investors are advised to have a “Buy” rating on the stock of LXCHEM at the closing price of ₹306.40 on 28 August 2024, with a target price of ₹373.80.

Note: Kapitales Research Rating Star has been decided over the quantitative analysis of the stock. Maximum number of stars can be 5, with 5 for the top rating and 1 for the lowest rating.

Technical Indicators Defined:

EMA: Exponential Moving Average is the moving average that puts more weight on the most recent data points. $EMA = \text{Closing price} * \text{multiplier} + EMA(\text{previous day}) * (1 - \text{multiplier})$. For a 200-day exponential moving average, the multiplier can be calculated with the formulae i.e. $[2/(200+1)] = 0.0095$.

RSI: Momentum indicator, Relative Strength Index is used to evaluate the overbought or oversold nature of an asset by measuring the magnitude of its recent price changes.

Bollinger Band: A technical analysis tool that uses two parameters i.e. period (default is 20) and standard deviations, forming a kind of price envelope depicting a range of upper price band and lower price band. This price band shifts according to the volatility swings, and it helps in identifying whether the underlying asset is in the overbought zone or oversold zone.

Support: This is a level or zone where the stock finds good demand indicating the buyer's strength.

Resistance: This is a level or zone where the stock finds a good supply indicating the seller's strength.

Stop-loss: This is the level from where the investors should exit their positions to prevent any further losses in case of unfavorable movement in the stock prices.

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Disclosure: The information mentioned above has been sourced from the company reports and a third-party database, i.e., Koyfin. Investors are advised to use strict stop-loss to protect their investments in case of any unfavorable/uncertain market events.

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