



SUBSCRIBE

IPO Report

18th Nov'23

Snapshot

Company is a leading manufacturer of white oils by revenue with a growing focus on the consumer and healthcare end-industries. As of June 30, 2023, company's product suite comprised over 440 products primarily across the personal care, healthcare and performance oils ("PHPO"), lubricants and process and insulating oils ("PIO") divisions under the "Divyol" brand. Company's products are used as ingredients by leading Indian and global companies for the manufacture of end products for the consumer, healthcare, automotive, industrial, power and tyre and rubber sectors.

VALUATION

Company is bringing the issue at price band of Rs 160-169 per share at p/e multiple of 8x on post issue annualized Q1FY24 PAT basis.

Company being leading market share of the Indian white oils market with significant overseas sales, focused on the consumer and healthcare end-industries. Company has extensive and diversified customer base and a supplier base comprised of leading oil companies with competitive pricing terms. Company's strategically located manufacturing facilities and in-house R&D capabilities with Resilient, flexible and scalable business model & prudent risk management framework has track record of consistent financial performance and experienced and qualified management team. Hence, looking after all above we recommend "Subscribe" on issue.

Price Band (Rs./Share)	160-169
Opening date of the issue	22nd Nov '2023
Closing Date of the issue	24th Nov '2023
No of shares pre issue	80000000 Eq Shares
Issue Size	Rs 490-501 Cr
Fresh issue	Rs 302 Cr
Offer For Sale	11756910 Eq Shares
Face Value (Rs/ share)	Rs 2/share
Bid Lot	88

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 14813365 Eq Shares)
Non-Institutional	15% of the offer (Approx 4444010 Eq Shares)
Retail	35 % of the offer (Approx 10369357 Eq Shares)
Lead managers	Nuvama Wealth, ICICI Securities
Registrar to the issue	Link Intime India Pvt Ltd

WHAT WE LIKE

Leading market share of the Indian white oils market with significant overseas sales, focused on the consumer and healthcare end-industries

The global white oil market is oligopolistic with a few players highly active in the market and the top 10 players account for 40-45% of the global white oil market. Company was India's largest manufacturer of white oils by revenue in Financial Year 2023, including domestic and overseas sales and was one of the top five players globally in terms of market share in the calendar year 2022. As of June 30, 2023, company offered a diverse portfolio of over 440 products primarily across the PHPO, lubricants and PIO divisions. Company's products form a major component by volume for various consumer and healthcare end-industry products such as cosmetics, skin care products, ointments, over-the-counter and other medicines, as well as lubricants, processing oils and insulating oils.

Track record of consistent financial performance

Company's pro forma consolidated revenue from finished goods sold grew at a CAGR of 48.61% from ₹17,287.41 million in the Financial Year 2021 to ₹27,661.96 million in the Financial Year 2022 and ₹38,181.63 million in the 213 Financial Year 2023 and was ₹9,816.77 million for the quarter ended June 30, 2023. Company have put in measures to minimize commodity price volatility risks and protect its gross margin spreads from any positive and negative moves in raw material price volatility. As a result, company's EBITDA margins have been stable at 7.76% in the Financial Year 2023 and 7.85% for the quarter ended June 30, 2023.

Extensive and diversified customer base and a supplier base comprised of leading oil companies with competitive pricing terms

Company catered to an extensive customer base of 3,558 Indian and global companies during the Financial Year 2023. Company's customers in the PHPO division include P&G, Unilever, Marico, Emami, Bajaj Consumer Care, Encube, Patanjali Ayurved, Dabur, Amrutanjan Healthcare, Supreme Petrochem and other leading Indian manufacturers of pharmaceutical products. manufacturers of transformers and power distribution and transmission companies.



COMPANY BACKGROUND

As of June 30, 2023, company's products were sold in over 100 countries across the globe. Company catered to over 3,500 customers in the Financial Year 2023, including leading Indian and global companies such as Procter & Gamble ("P&G"), Unilever, Marico, Dabur, Encube, Patanjali Ayurved, Bajaj Consumer Care, Emami and Amrutanjan Healthcare, supported by its global supplier base and manufacturing operations in India and United Arab Emirates. As a manufacturer of speciality oils, company's products and processes are required to comply with strict standards and other specifications prescribed by its customers, and company's long-standing relationships with several leading Indian and global companies demonstrate its qualification of these requirements.

Company have completed rigorous selection processes for securing business from several of its customers and have been able to maintain high customer loyalty. Company's customer engagement, relationships and the quality and other certifications awarded to its manufacturing facilities demonstrate the quality of company's products and its capabilities. Company's relationships with its customers have contributed to company's growth and performance in the last three Financial Years and, such long-term relationships with customers are one of the barriers to entry in company's industry.

Certain aspects of company's business are outlined below:

- **Customers:** Company have a diversified customer base that comprised 3,558 customers during the Financial Year 2023. Company's customers include P&G, Unilever, Marico, Emami, Bajaj Consumer Care, Encube, Patanjali Ayurved, Dabur, Amrutanjan Healthcare, Supreme Petrochem and other leading Indian manufacturers of pharmaceutical products in the PHPO division; Gulf Oil, Adani Ports and Special Economic Zone and other users of industrial machines and equipment in the lubricants division; and Toshiba Transmission and Distribution Systems (India) and other leading manufacturers of transformers and power distribution and transmission companies in the PIO division.
- **Suppliers:** Company have successfully built relationships with leading oil companies including SK Lubricants, S-Oil, GS Caltex, and other global base oil suppliers as well as various Indian oil refining companies for the procurement of base oil, which is company's primary raw material. Over the years, company have transitioned to directly purchasing raw material from base oil suppliers from using intermediaries earlier, which has resulted in increased efficiency and lower costs.
- **Geographical presence:** As of June 30, 2023, company's overseas operations catered to over 100 countries globally. Company's overseas sales primarily comprise revenue from overseas sales of Company and revenue earned by company's Subsidiary, Texol, in Sharjah, United Arab Emirates. Company's revenue from overseas sales, based on its Pro Forma Consolidated Financial Information, has grown at a CAGR of 71.22% over the last three financial years from ₹7,413.61 million in the Financial Year 2021 to ₹13,456.64 million in the Financial Year 2022 and ₹21,733.50 million in the Financial Year 2023 and was ₹6,905.58 million in the quarter ended June 30, 2023, contributing 36.00%, 39.76%, 53.32% and 64.57% of company's pro forma consolidated revenue from sale of products, respectively, in these periods.

Manufacturing facilities and R&D: Company currently operate three manufacturing facilities with a combined annual production capacity of 522,403 kL as of June 30, 2023, with plants located in (i) Talolja, Maharashtra (the "Taloja Plant"), (ii) Silvassa, the Union Territory of Dadra and Nagar Haveli and Daman and Diu (the "Silvassa Plant") and (iii) Sharjah, United Arab Emirates (the "Sharjah Plant") to cater to domestic and overseas demand for company's products. Company have obtained various quality certifications for company's plants, each of which is ISO-certified.



INVESTMENT RATIONALE

<p><i>Strategically located manufacturing facilities and in-house R&D capabilities</i></p>	<p>Company currently operate three manufacturing facilities, with two plants located in Western India and one plant located in Sharjah, United Arab Emirates, spread across 1,28,454 square meters to cater to company’s Indian and global operations. As of June 30, 2023, the combined annual production capacity of company’s manufacturing facilities was approximately 522,403 kL. Company’s Silvassa Plant, with an annual production capacity of 143,853 kL as of June 30, 2023, primarily manufactures specialty oils for the Indian market. Company’s Taloja Plant, with an annual production capacity of 143,256 kL as of June 30, 2023, primarily manufactures white oils, petroleum jelly and waxes for overseas sales. Company’s Sharjah Plant, with an annual production capacity of 235,294 kL as of June 30, 2023, primarily manufactures specialty oils for the GCC, Africa and Middle-East regions. Company is also in the process of enhancing the production capacity of company’s Taloja Plant by an aggregate of 100,000 kL, out of which, company commissioned an incremental capacity of 25,000 kL in October 2022. This enhancement of capacity is proposed to be funded out of company’s internal accruals and through external borrowings obtained by Company. Company expect to complete the enhancement to its production capacity during the Financial Year 2024. Company’s Taloja Plant has close proximity to port</p>
<p><i>Resilient, flexible and scalable business model with prudent risk management framework</i></p>	<p>Company has three decades of experience in the specialty oils industry. Company have increased the scale of its operations over the years, while increasing efficiency and reducing costs. Company started with the Taloja Plant in 1993, subsequently set up the Silvassa Plant in 2000 and set up Texol (which has become company’s Subsidiary with effect from March 30, 2022) with a partner in 2017, to expand into United Arab Emirates. Company’s business model affords company the flexibility to grow and manage company’s operations. For example, company made a strategic decision to exit the coal-trading business during the Financial Year 2022 and continued to expand its specialty oils business. Company also made investments in expanding its production capacities, upgrading company’s equipment and technology systems over the last three Financial Years.</p>
<p><i>Track record of consistent financial performance</i></p>	<p>Company have a track record of consistent financial performance, which positions company for future growth and diversification. Company’s pro forma consolidated revenue from operations was ₹10,703.35 million for the quarter ended June 30, 2023. Company’s pro forma consolidated revenue from operations grew at a CAGR of 40.59% to ₹40,794.41 million in the Financial Year 2023 from ₹20,638.57 million in the Financial Year 2021. Company’s pro forma consolidated revenue from finished goods sold grew at a CAGR of 48.61% from ₹17,287.41 million in the Financial Year 2021 to ₹27,661.96 million in the Financial Year 2022 and ₹38,181.63 million in the Financial Year 2023 and was ₹9,816.77 million for the quarter ended June 30, 2023. Company’s Manufacturing Gross Margin Spread, based on its Pro Forma Consolidated Financial Information grew to ₹11,429.60/kL in the Financial Year 2023 from ₹9,735.78/kL in the Financial Year 2022 and from ₹10,977.06/kL in the Financial Year 2021 and was ₹10,836.86/kL for the quarter ended June 30, 2023. Company have put in measures to minimize commodity price volatility risks and protect company’s gross margin spreads from any positive and negative moves in raw material price volatility. As a result, company’s EBITDA margins have been stable at 7.76% in the Financial Year 2023 and 7.85% for the quarter ended June 30, 2023. Company’s PAT has also increased significantly to record a CAGR of 15.02% between Financial Year 2021 and Financial Year 2023, which was one of the highest among selected specialty oil peers. Company’s PAT was ₹542.84 million for the quarter ended June 30, 2023. Company’s RoE of 32.28% in the Financial Year 2023 was the highest among selected specialty oil and specialty chemical peers.</p>



OBJECTS OF OFFER

Offer for Sale

The Selling Shareholders will be entitled to their respective portion of the proceeds of the Offer for Sale after deducting their respective portion of the Offer-related expenses and relevant taxes thereon

Fresh Issue

Company proposes to utilize the Net Proceeds from the Fresh Issue towards funding the following objects:

1. Investment in Texol by way of a loan for financing the repayment/pre-payment of a loan facility availed by Texol from the Bank of Baroda;
2. Capital expenditure through purchase of equipment and civil work required for expansion in capacity of automotive oil at company's Silvassa Plant;
3. Funding working capital requirements of Company; and
4. General corporate purposes.

RISKS

Company depend significantly on its personal care, health care and performance oil business division and downturns in the industries addressed by this business division or an inability to manage sales by the business division effectively leading to any reduction in revenue from this division could adversely affect company's business, financial condition and results of operations.

Source:RHP

INDUSTRY OVERVIEW

Outlook on the specialty oil industry in India

White oil Industry size

The Indian white oil market is estimated to be 782 KT at the end of 2023. Market volume is expected to grow to 1,236 KT by 2028, at a CAGR of 9.6% during 2023-2028. Further, the market is valued at \$0.473 billion by 2023-end. It is anticipated to grow to \$0.759 billion by 2028 at a CAGR of 9.9% over the next five years. Since the consumer segment accounts for ~40% of the entire Indian white oil market in 2022, growth of this segment and the white oil market are directly correlated. Additionally, from 2023 to 2028, the CAGR of the consumer segment will be consistent with that of the white oil market in India. Market growth is anticipated to be driven by an improving standard of living and rising demand for cosmetics. White oil also finds significant use in the pharmaceuticals sector. Positive outlook for the pharmaceuticals is one of the key growth drivers.

End-use segments White mineral oil is used in various industries such as cosmetics, pharmaceutical, food and plastics. White mineral oil is used to manufacture products where the safety requirements are high. For instance, white oil used in the cosmetics and pharmaceuticals industries must be of pharmaceutical quality and cannot include any compounds that are harmful to human health. In the cosmetics industry, this is typically used as a principal or auxiliary ingredient in the manufacture of various products such as cream and lotion formulations, baby oil, suntanning products, sun blocks, cosmetics, makeup removers, depilatories, and bath oils. In the pharmaceuticals industry, it is used to make laxatives, formulations for ointments/ pomades, and gelatine capsules. It is also used in the veterinary drug sector to create animal vaccines.

White mineral oil is widely used in the food industry as lubricating oils used in the industry must be safe for contact with food and free of potentially harmful ingredients for human health. Products used for this purpose must adhere to tight regulations, satisfy applicable requirements, and get all appropriate certifications. Consequently, white mineral oil is favoured in a variety of food processing steps, especially for producing lubricating oils for use by food and beverage manufacturers. In food processing plants, grease, hydraulic system oils, gear oils, and compressor oils made from white mineral oil are preferred due to their likelihood to come into contact with food products. Another industry that regularly uses white mineral oil is plastics and elastomer. It is employed in the manufacture of polystyrene, PVC, and thermoplastic rubber. White mineral oil may also be found in common household items including glues, toys, wood products, cleaning supplies, lamp oil and glossing and polishing products.

Indian consumer products industry The Indian consumer product industry size encompassing BPC and F&B segments was \$49.5 billion in fiscal 2023 and is anticipated to grow to \$83.6 billion by fiscal 2028 at a CAGR of 11.0%. It has recently been growing steadily in India. **Beauty & personal care segment (BPC)** The Indian BPC market is valued an estimated \$29.7 billion in 2023 and anticipated to grow to \$46.0 billion by 2028. Key growth drivers for this segment are rise in purchasing power, improving standard of living, growing awareness among youth about personal hygiene and wellness, image consciousness and shift in preference among customers from basic nourishment-based products to premium/ specialty problem-solving products.



Consolidated Financials

(Rs in Mn)

Financials	FY21	FY22	FY23	Q1FY24
Total Revenue (A)	22210.01	35433.74	40794.41	10703.35
Total Expenditure (B)	20822.36	32974.08	37628.22	9862.76
EBIDTA	1387.65	2459.66	3166.19	840.59
EBIDTA Margin	6.25	6.94	7.76	7.85
Other Income	215.88	255.89	223.50	11.81
Depreciation	114.15	151.04	165.09	46.51
EBIT	1489.38	2564.51	3224.60	805.89
Interest	357.73	317.28	515.08	134.52
PBT	1131.65	2247.23	2709.52	671.37
Extraordinary Items	0.00	-5.10	0.00	0.00
PBT	1131.65	2252.33	2709.52	671.37
Share of profit in associate	71.11	0.00	0.00	0.00
PBT	1202.76	2252.33	2709.52	671.37
Tax	199.56	616.49	577.77	128.52
PAT	1003.20	1635.84	2131.75	542.85
NPM	4.52	4.62	5.23	5.07
ROE %	24.77	32.54	32.28	6.91
EPS	12.54	18.42	23.77	5.60
Eq Cap	4.52	4.62	5.23	5.07
Net Worth	4,448.25	5,607.05	7,602.06	8,107.93

(Source: RHP)

Peer Comparison

Company Name	Face value	P/E	Revenue from operations (Rs in Mn)	EPS	NAV	ROE %
<i>Gandhar Oil Refinery</i>	2		<i>40794.41</i>	<i>23.77</i>	<i>95.03</i>	<i>32.28</i>
Peers						
Savita Oil Technologies Limited	2	10.84	36304.35	32.66	209.70	16.68
Apar Industries Limited	10	29.96	143521.50	166.64	584.39	32.28
Panama Petrochem Limited	2	7.96	22487.20	38.51	157.39	27.08
Galaxy Surfactants Limited	10	24.16	44452.40	107.46	530.97	22.04
Privi Speciality Chemicals Limited	10	222.13	16078.20	5.45	213.88	2.57
Rossari Biotech Limited	2	40.73	16558.81	19.38	165.92	12.47
Fairchem Organics Limited	10	32.74	6480.41	33.41	199.11	17.70

(Source: RHP)



DISCLAIMER

HEM Securities Limited (“Research Entity or HSL”) is regulated by the Securities and Exchange Board of India (“SEBI”) and is licensed to carry on the business of broking, depository services, merchant banking services, Portfolio Management Services and other related activities. Broking services offered by HEM Securities Limited are under SEBI Registration No.: INZ000168034.

This Report has been prepared by HEM Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH100002250 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. This should not be construed as invitation or solicitation to do business with HSL. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed 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, regulation or which would subject HSL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. HSL reserves the right to make modifications and alterations to this statement as may be required from time to time. HSL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. HSL is committed to providing independent and transparent recommendation to its clients. Neither HSL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

HSL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company(ies), mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Investments in securities market are subject to market risks, read all the related documents carefully before investing.