



India

REDUCE (no change)

Consensus ratings*:	Buy 2	Hold 0	Sell 3
Current price:	Rs264		
Target price:	Rs168 ▲		
Previous target:	Rs155		
Up/downside:	-36.4%		
InCred Research / Consensus:	-38.8%		
Reuters:	LXCHEM IN		
Bloomberg:	US\$847m		
Market cap:	Rs70,019m		
Average daily turnover:	US\$2.0m		
	Rs166.9m		
Current shares o/s:	263.7m		
Free float:	27.6%		

*Source: Bloomberg



Price performance	1M	3M	12M
Absolute (%)	4.1	3.1	(20.0)
Relative (%)	6.2	(0.7)	(27.4)

Major shareholders	% held
Promoter & Promoter Group	72.4
Malabar India Fund Ltd	1.4
Kotak Mahindra Asset Management Co	1.4

Analyst(s)



Satish KUMAR
T (91) 22 4161 1562
E satish.kumar@incredcapital.com

Abbas PUNJANI
T (91) 22 4161 1598
E abbas.punjani@incredcapital.com

Laxmi Organic Industries Ltd

Weak EPS growth; B/S to worsen; REDUCE

- Laxmi Organic Industries (Laxmi) is a producer of commodity chemicals with almost 80% of its sales coming from commodity grade acetlys and esters.
- Laxmi is doing capex that will result in its net debt/EBITDA ratio exceeding 2. Global slowdown makes even our below consensus EPS estimates uncertain.
- Stock trades at 47x FY25F EPS. We feel the stock will be derated as repeated earnings disappointment comes through. Retain REDUCE with a TP of Rs168.

Laxmi's fortunes tied to ethyl acetate

Laxmi Organic Industries (Laxmi) primarily operates as a major ethyl acetate manufacturer, with ethyl acetate accounting for 90% of its export volume and 70% of its overall capacity. While the company also produces other acetlys, such as acetic anhydride and acetaldehyde, these chemicals are considered relatively common due to their ease of manufacturing. The notable fluctuations in spreads for these chemicals underscore their commodity-like nature. Laxmi's prospects hinge heavily on ethyl acetate prices, whose spreads over raw material acetic acid and ethanol are highly volatile. Ethanol prices are linked closely to crude oil prices and a likely rally in crude oil will lead to a rise in ethanol prices & hence, Laxmi's profitability will come under more stress. Please click our earlier report: [\(IN: Chemicals - Overall - Demand declines, RM pressure will follow\)](#).

Other products closely tied to global demand & hence, under stress

In the specialty intermediates segment, Laxmi manufactures mainly various esters and some of them are 1) acetoacetoxy ethyl methacrylate ester, 2) acetyl butyrolactone, 3) acetoacetate-o-toluidide, 4) dimethyl acetoacetamide, 5) acetoacetanilide, 6) acetoacetate-m-xylylidine, and 7) tert-butyl acetoacetate ester and other chemicals. These chemicals have general industrial applications, such as organic compound synthesis, flavouring agent, etc. Given the general nature of their usage, they are closely tied to the global macroeconomic situation and hence, their demand is under pressure. In these products, we are not witnessing a decline in spreads over their raw material, but headline sales in volume terms are under pressure.

Overvalued and unrealistic expectations; retain REDUCE

We forecast an EPS of Rs6.3 in FY26F, indicating that the EPS is likely to remain significantly lower than the peak achieved in FY22. The deterioration of the balance sheet is evident as net debt is poised to increase, resulting in a net debt/EBITDA multiple resembling that of steel companies. Despite these challenges, Laxmi is currently trading at an elevated multiple of 55x one-year forward FY24F EPS. It seems that investors may be holding unrealistic expectations for a commodity-focused business. Our valuation of Laxmi stands at 30x one-year forward EPS, leading to a revised 12-month target price of Rs168. We maintain our REDUCE rating on the stock. Upside risk: Any recovery in ethyl acetate prices will be a positive development for the company.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	30,842	27,966	30,763	33,839	37,223
Operating EBITDA (Rsm)	3,677	2,445	2,469	3,190	4,015
Net Profit (Rsm)	2,565	1,246	1,029	1,349	1,659
Core EPS (Rs)	9.7	4.7	3.9	5.1	6.3
Core EPS Growth	101.8%	(51.4%)	(17.5%)	31.2%	23.0%
FD Core P/E (x)	27.11	55.79	67.59	51.54	41.90
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	18.76	29.43	30.16	23.98	19.17
P/FCFE (x)	428.90	(112.43)	119.26	45.98	264.34
Net Gearing	(4.1%)	17.4%	32.7%	42.4%	41.1%
P/BV (x)	5.35	4.92	4.59	4.21	3.83
ROE	22.0%	9.2%	7.0%	8.5%	9.6%
% Change In Core EPS Estimates			(0.58%)		
InCred Research/Consensus EPS (x)					

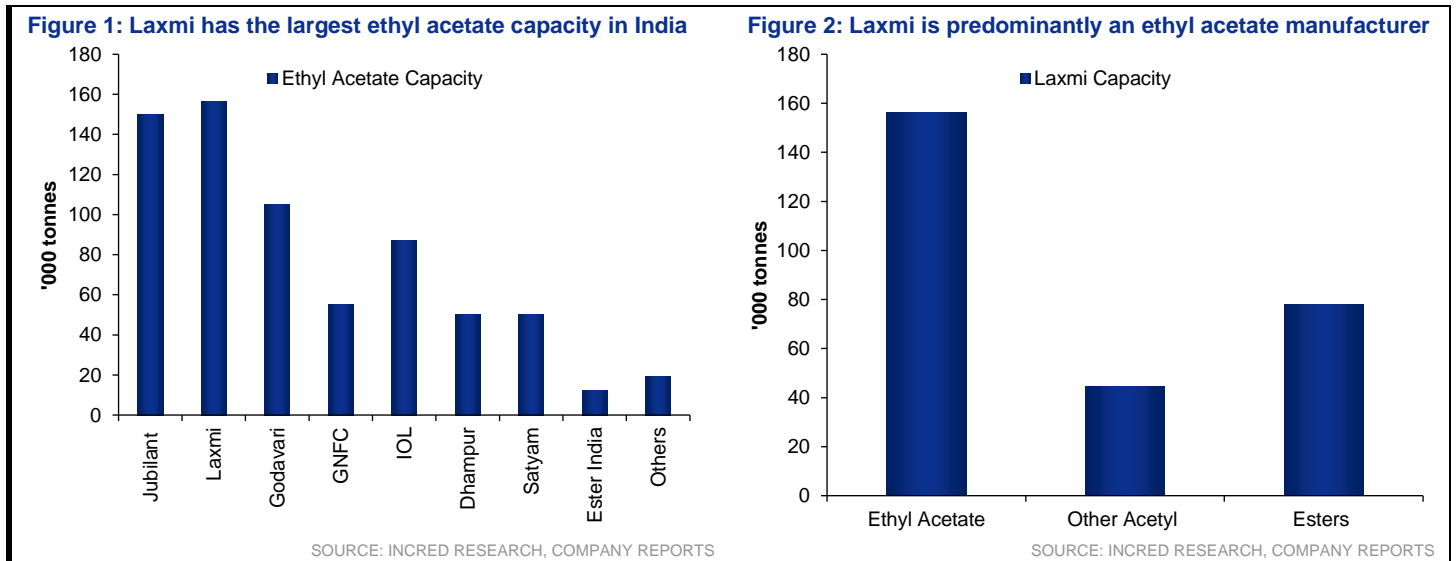
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Weak EPS growth; B/S to worsen; REDUCE

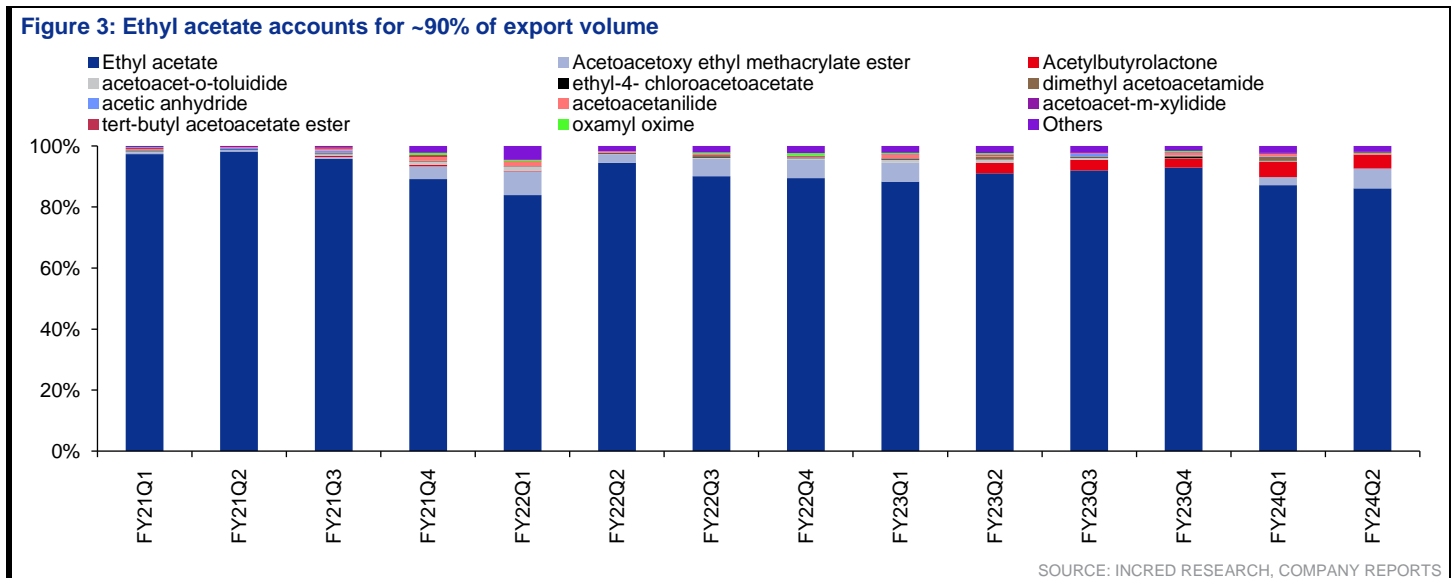
Laxmi is a commodity chemicals manufacturer

Laxmi manufactures acetyl and other Intermediates. Its capacity to make acetyl intermediates is ~201kt and other intermediates is ~78kt. Out of 201kt acetyl capacity, ethyl acetate capacity alone is ~156.2kt and hence, Laxmi is primarily an ethyl acetate manufacturer. The company also manufactures some esters, but their profitability is primarily driven by ethyl acetate.

Laxmi has ~156kt ethyl acetate capacity >



The company primarily exports ethyl acetate >



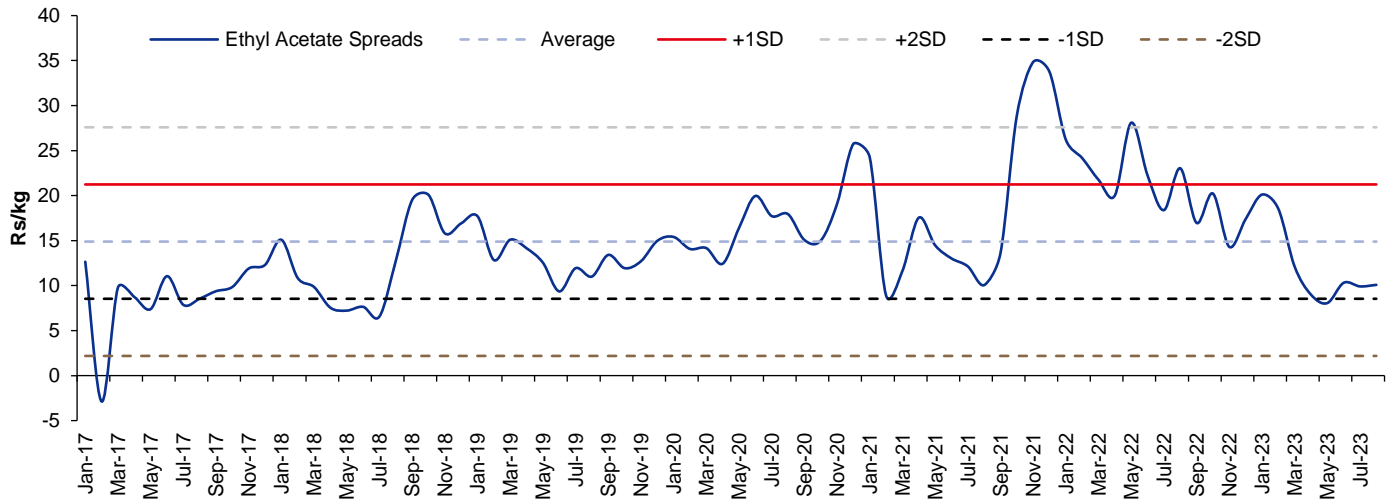
Apart from ethyl acetate, the company manufactures some other acetyls as well >

Apart from ethyl acetate, Laxmi manufactures acetic anhydride and acetaldehyde.

Ethyl acetate, acetic anhydride and acetaldehyde are anything but specialty chemicals ▶

These three chemicals are so easy to manufacture that even school kids can manufacture it in a laboratory. The volatile spreads of these three chemicals are a testimony of the commodity nature of these chemicals. Rising crude oil prices will be a major headwind for Laxmi in the acetyl segment. Please click our earlier report on why we believe crude oil prices are likely to go up: ([IN: Chemicals - Overall - Demand declines, RM pressure will follow](#)).

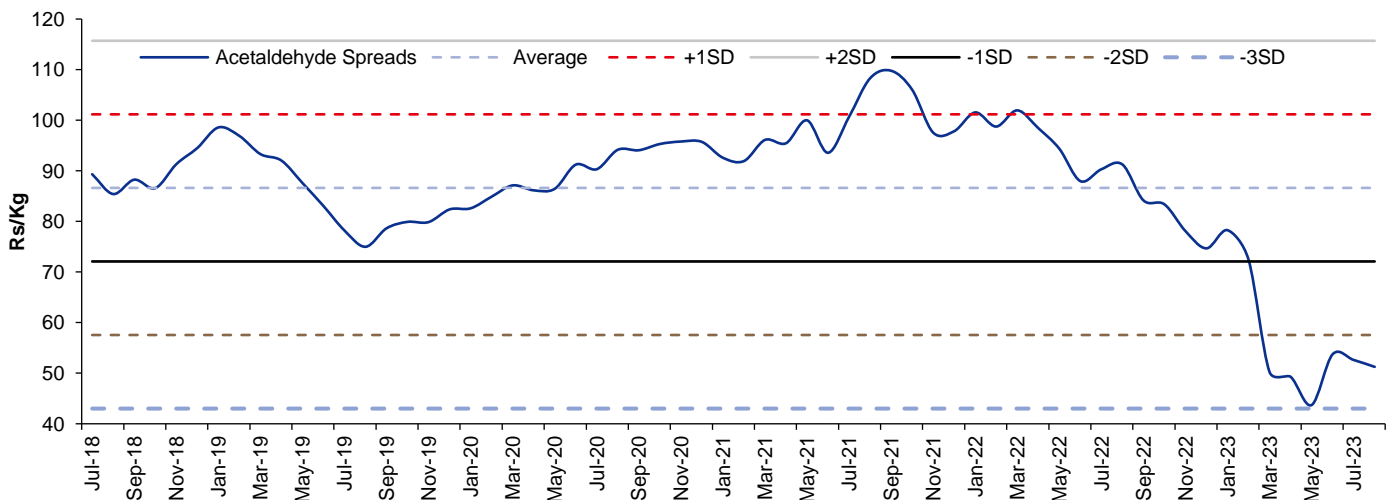
Figure 4: The extreme volatility of ethyl acetate spreads will put even steel to shame; It's such a simple chemical that even school students can make it (react ethanol with acetic acid and you will get ethyl acetate plus water)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Laxmi makes acetaldehyde by oxidizing ethanol in the presence of a silver catalyst.

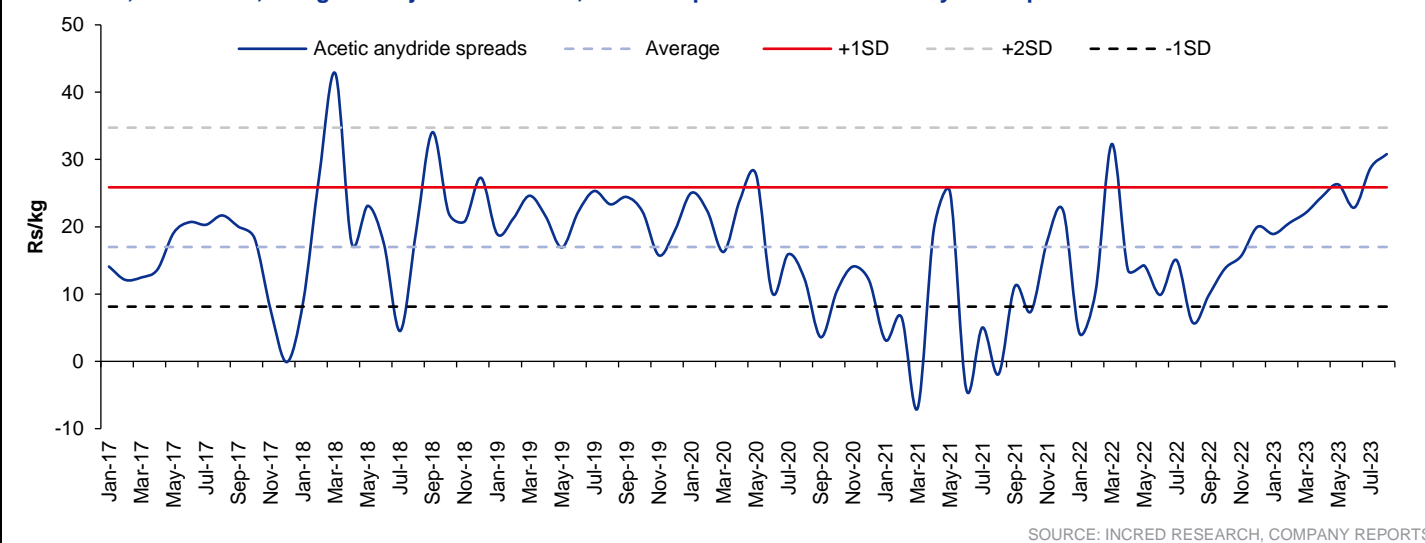
Figure 5: The volatility in acetaldehyde spreads is apparent from the graph below; acetaldehyde spreads just bounced from -3SD but given the slowdown in the global market and rising crude oil prices (hence, ethanol prices), they are likely to remain depressed



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Acetic anhydride is manufactured by dehydrating acetic acid. One can mix acetic anhydride in water to get acetic acid.

Figure 6: As of now, acetic anhydride is doing well but rising crude oil prices will lead to higher methanol prices and hence, impact acetic acid; acetic acid, being the major raw material, will exert pressure on acetic anhydride spreads



Demand for acetyls is weak because of the general macroeconomic slowdown ➤

The usage of acetyls manufactured by Laxmi, such as ethyl acetate, acetic anhydride, and acetaldehyde indicate that the general economic slowdown will hit its demand.

Acetaldehyde has a variety of uses:

- 1. Production of acetic acid:** Acetaldehyde is the starting material for the production of acetic acid, which is a major industrial chemical. Acetic acid is used in the production of a wide variety of products, including vinegar, plastics, and pharmaceuticals.
- 2. Production of plastics:** Acetaldehyde is used to produce a variety of plastics, including polyvinyl acetate, polyacrylonitrile, and styrene. These plastics are used in a wide variety of applications, including construction, packaging, and textiles.
- 3. Production of pharmaceuticals:** Acetaldehyde is used to produce a variety of pharmaceuticals, including aspirin, acetaminophen, and ibuprofen. These drugs are used to treat a variety of medical conditions, including pain, fever, and inflammation.
- 4. Production of flavourings and fragrances:** Acetaldehyde is used to produce a variety of flavourings and fragrances, including apple, pear, and banana. These flavourings and fragrances are used in a wide variety of foods and beverages, as well as in perfumes and cosmetics.
- 5. Production of solvents:** Acetaldehyde is used as a solvent in a variety of applications, including the production of pharmaceuticals, plastics, and dyes. Solvents are used to dissolve other substances and to extract certain compounds from mixtures.

Acetic anhydride has the following uses:

- 1. Chemical synthesis:** Acetic anhydride is used as a reagent in a variety of chemical syntheses, including the production of pharmaceuticals, plastics, and dyes.
- 2. Production of cellulose acetate:** Cellulose acetate is a synthetic fibre that is used in a variety of applications, including photographic film, cigarette filters, and textiles. Acetic anhydride is used to convert cellulose into cellulose acetate.
- 3. Production of aspirin:** Acetic anhydride is used in the production of aspirin, which is a pain reliever and anti-inflammatory drug.

4. **Production of explosives:** Acetic anhydride is used in the production of some explosives, such as nitrocellulose.
5. **Production of perfumes and flavourings:** Acetic anhydride is used in the production of some perfumes and flavourings.

Ethyl acetate is also used as one of the basic commodities:

1. **Paints and coatings:** Ethyl acetate is used as a solvent in paints and coatings. It helps to dissolve the pigments and resins in the paint, and it also helps to make the paint dry faster.
2. **Nail polish remover:** Ethyl acetate is the main ingredient in most nail polish removers. It dissolves the nail polish so that it can be easily removed.
3. **Decaffeination of coffee and tea:** Ethyl acetate is used to decaffeinate coffee and tea. It dissolves the caffeine molecules from the beans or leaves, leaving behind the flavour and aroma.
4. **Flavouring and fragrances:** Ethyl acetate is used to produce a variety of flavours and fragrances. It has a fruity odour that is often used in perfumes, cosmetics, and food products.
5. **Solvent for adhesives, inks, and lubricants:** Ethyl acetate is used as a solvent for a variety of adhesives, inks, and lubricants. It helps to dissolve the resins and other components in these products, and it also helps to make them dry faster.
6. **Extraction solvent:** Ethyl acetate is used as an extraction solvent in the pharmaceutical industry. It is used to extract active ingredients from plant materials.
7. **Laboratory reagent:** Ethyl acetate is used as a laboratory reagent in a variety of applications. It is used to extract organic compounds from mixtures, and it is also used as a solvent in chemical reactions.

In the so called specialty intermediate segment, it manufactures mainly various esters >

Some of the products manufactured in this segment are:

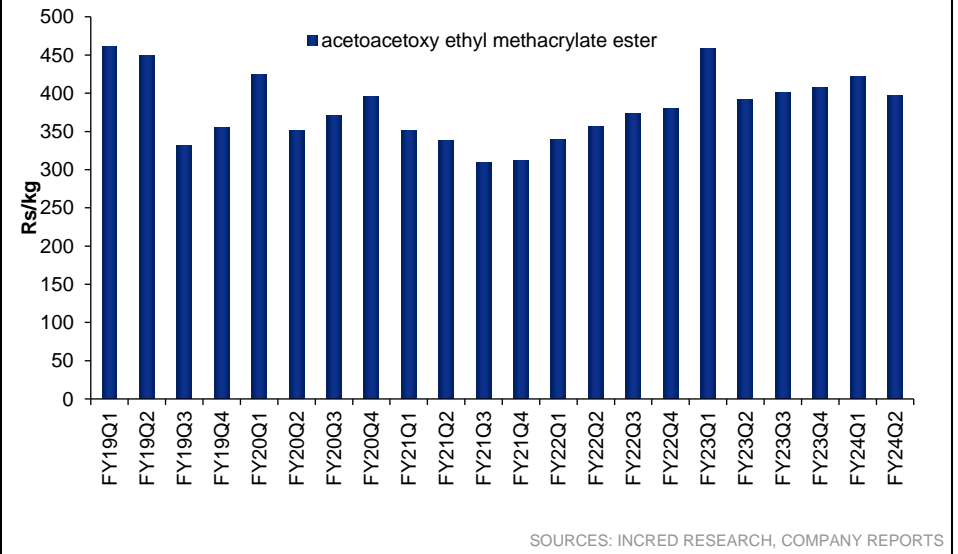
1. Acetoacetoxy ethyl methacrylate ester
2. Acetyl butyrolactone
3. Acetoacetate-o-toluidide
4. Dimethyl acetoacetamide
5. Acetoacetanilide
6. Acetoacetate-m-xylydide
7. Tert-butyl acetoacetate ester and other chemicals.

Acetoacetoxy ethyl methacrylate ester has general industrial usage >

Acetoacetoxy ethyl methacrylate (AAEM) is a specialty methacrylic monomer with a reactive methylene group. It is suitable as comonomer for adhesives and coatings as well as co-polymer for emulsion polymerization.

AAEM has a number of desirable properties that make it useful in a variety of applications. It is a strong adhesive and can be used to bond a variety of materials. It is also a good film former and can be used to create tough, durable coatings. AAEM is also resistant to chemicals and weathering, making it suitable for use in outdoor applications.

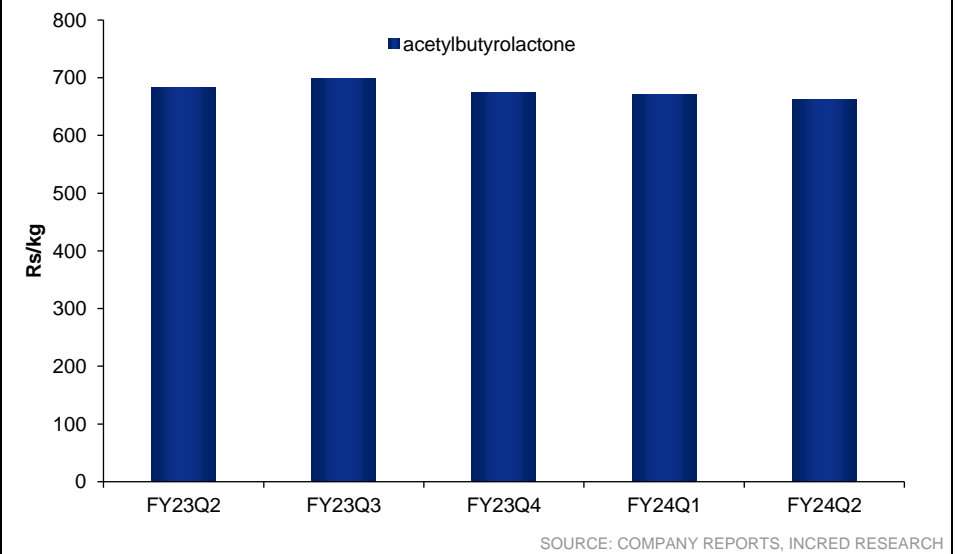
Figure 7: In the recent past, its prices have fallen



Acetyl butyrolactone (ABL) is mostly used in organic chemicals synthesis➤

- Precursor in organic synthesis:** ABL is used to synthesize a variety of other compounds, including pharmaceuticals, polymers, and flavours.
- Identification of primary amines:** ABL reacts with primary amines to form Schiff bases, which can be detected using spectroscopy. This reaction is used to identify primary amines in organic synthesis and in analytical chemistry.
- Fluorescent reagent:** ABL can be used as a fluorescent reagent to detect amines and other compounds. It is used in a variety of applications, including analytical chemistry, biochemistry, and molecular biology.
- Flavouring agent:** ABL has a fruity odour and is used as a flavouring agent in a variety of foods and beverages. However, it is not approved for use in food in the US.

Figure 8: Unlike other intermediates, acetyl butyrolactone prices are very stable

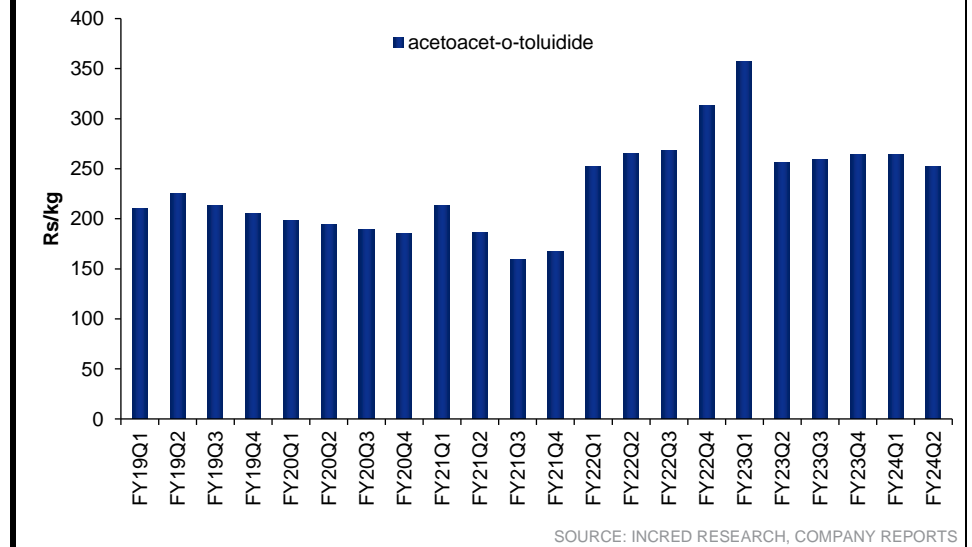


Acetoacetate-o-toluidide is used in pharmaceuticals and in textile dyes ➤

Acetoacetate-o-toluidide is used as a reagent in organic synthesis. It is used to synthesize a variety of compounds, including pharmaceuticals, polymers, and flavours.

Specifically, acetoacetate-o-toluidide is used as a coupling reagent in the synthesis of azo dyes. It is also used to synthesize fluorescent probes and sensors.

Figure 9: Usage in textiles makes this chemical susceptible to volatility, which results in its varying prices

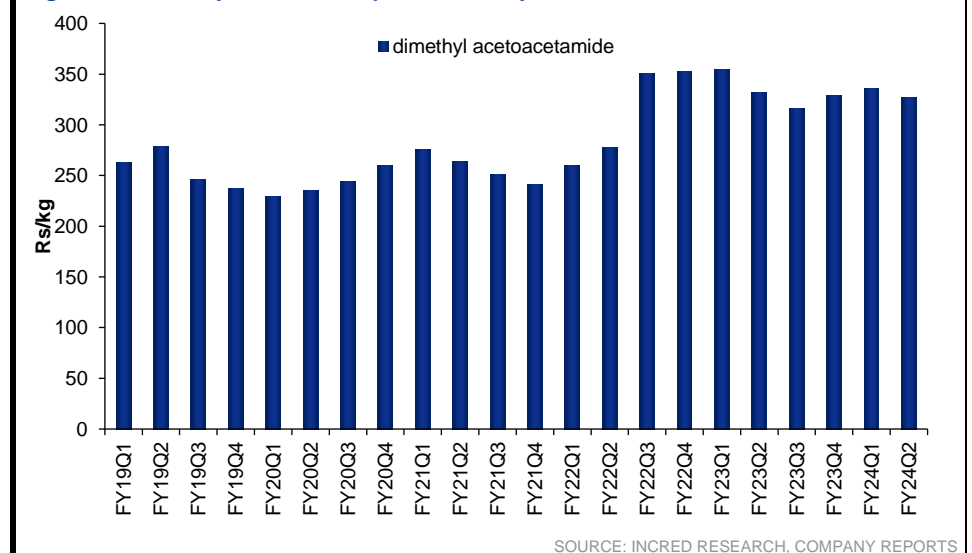


Dimethyl acetoamide is having a good time because of its versatility ➤

Dimethyl acetoamide is a versatile compound with a wide range of applications. It is used in a variety of industries, including:

- Pharmaceuticals:** DMA is used to synthesize a variety of pharmaceuticals, including antibiotics, anti-inflammatory drugs, and analgesics.
- Agrochemicals:** DMA is used to synthesize a variety of agrochemicals, including herbicides, insecticides, and fungicides.
- Polymers:** DMA is used to synthesize a variety of polymers, including plastics, fibres, and elastomers.
- Solvents:** DMA is used as a solvent for a variety of organic compounds, including dyes, pigments, and resins.

Figure 10: Dimethyl acetoamide prices are very stable



Acetoacetanilide is also quite versatile and a difficult-to-synthesize compound ➤

Acetoacetanilide is used to synthesize a variety of organic compounds, including arylide yellows, photoluminescent lanthanide complexes, and acetoacetanilido-4-aminoantipyrine (Schiff base). Arylide yellows are used as pigments in paints, plastics, and textiles. Photoluminescent lanthanide complexes are used in optical devices such as lasers and light-emitting diodes. Acetoacetanilido-4-aminoantipyrine is used as an antipyretic and analgesic.

Acetoacetate-m-xylylidide (AAX) can be characterized as a specialty intermediate ➤

AAX is prepared by the reaction of acetoacetic acid with m-xylylidine in the presence of a base such as sodium hydroxide. The reaction is carried out in a solvent such as ethanol or methanol.

AAX is used to detect protein adducts by forming a Schiff base with the amino groups of the protein. The Schiff base is a coloured compound that can be detected by spectroscopy. AAX is used to detect a variety of protein adducts, including those caused by environmental pollutants, drugs, and toxins.

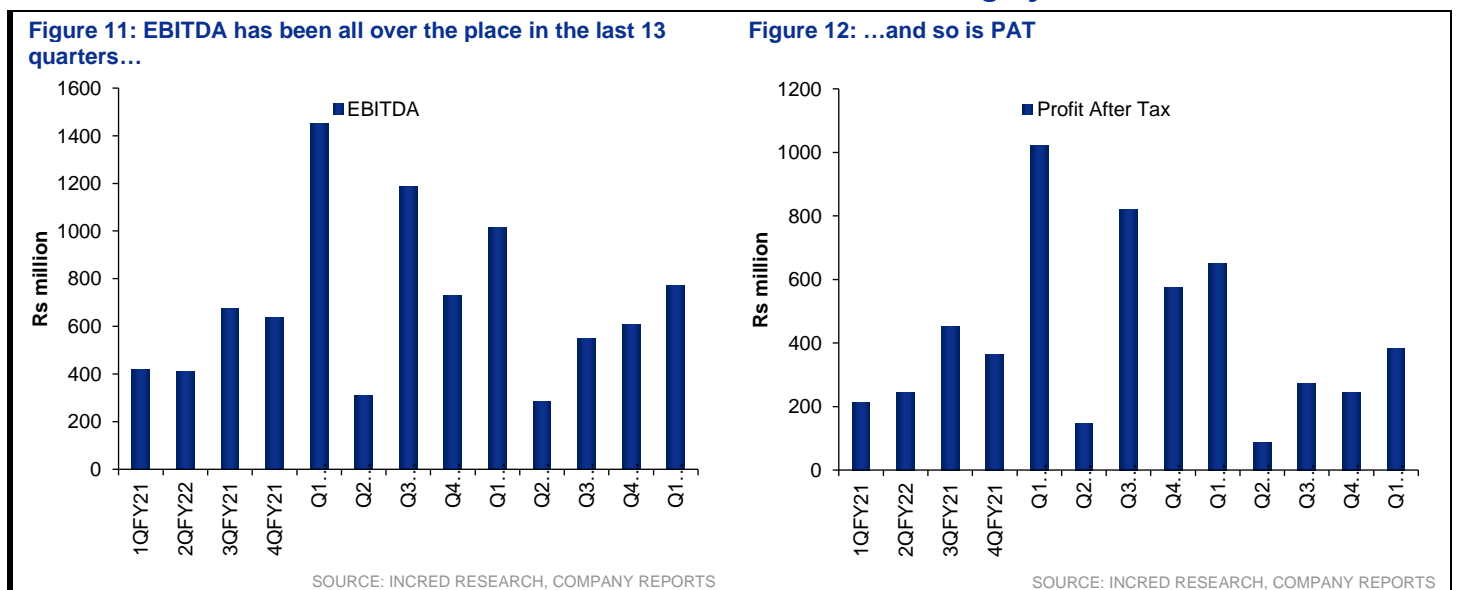
Tert-butyl acetoacetate is a simple ester which is used as an intermediate for synthesis of various compounds ➤

1. Tert-butyl acetoacetate ester, also known as tert-butyl 3-oxobutanoate, is an organic compound with the formula $\text{CH}_3\text{C}(\text{O})\text{C}(\text{O})\text{OC}(\text{CH}_3)_3$. It is a colourless liquid that is soluble in organic solvents.
2. Tert-butyl acetoacetate ester is prepared by the reaction of tert-butyl alcohol with acetoacetic acid in the presence of a base such as sodium hydroxide. The reaction is carried out in a solvent such as ethanol or methanol.
3. Tert-butyl acetoacetate ester is used as a reagent in organic synthesis. It can be used to synthesize a variety of compounds, including ketones, carboxylic acids, and esters. It is also used as a solvent in some reactions.

Revenue and earnings

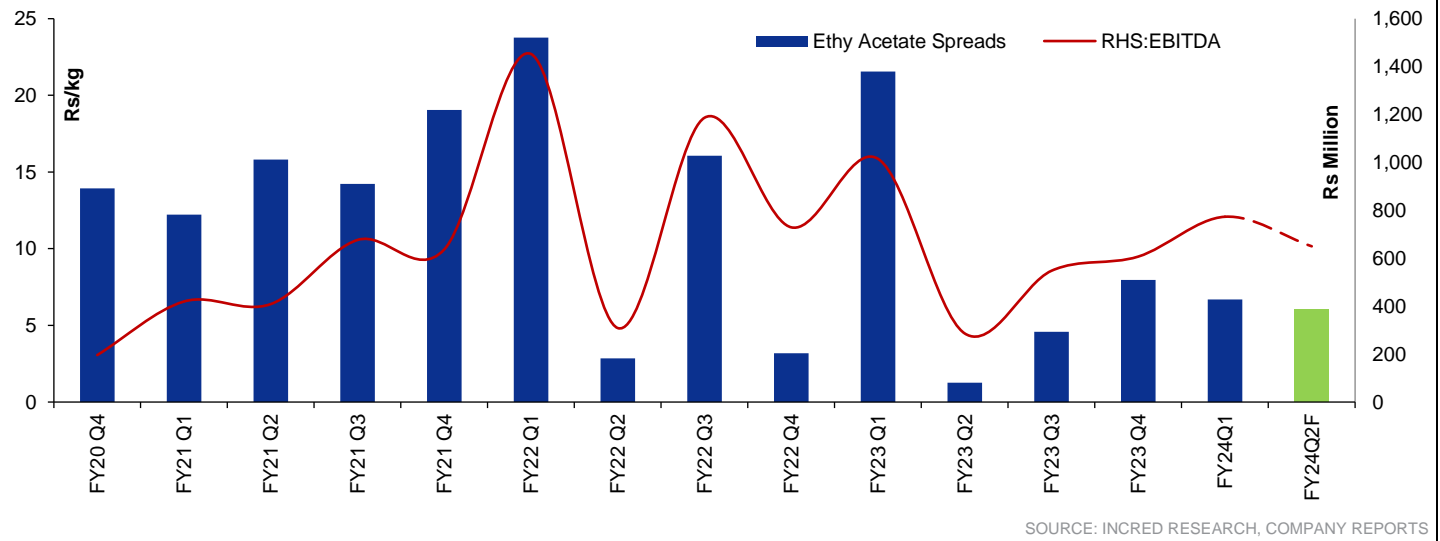
As acetyls are predominant, at ~70% of Laxmi's overall capacity, the earnings of the company are highly volatile. Within acetyls as well, ethyl acetate is a commodity whose cyclicality is worse than steel. Hence, EBITDA and PAT of Laxmi are highly volatile.

EBITDA and PAT of Laxmi are highly volatile ➤



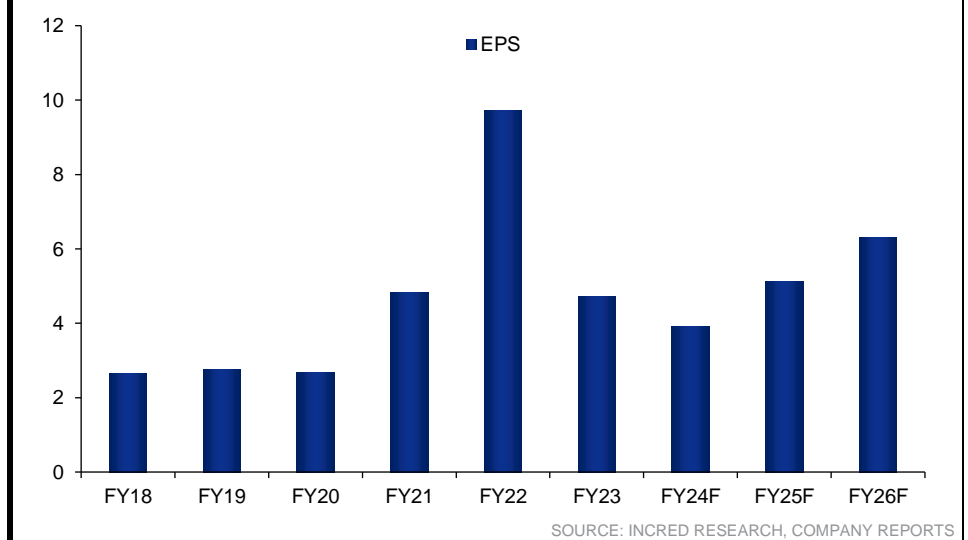
Laxmi's fortunes are closely linked to ethyl acetate spreads

Figure 13: Laxmi's fortunes can be predicted based on ethyl acetate prices only (ethyl acetate accounts for ~70% of its sales volume)



We forecast an EPS of Rs6.3 in FY26F

Figure 14: In the foreseeable future, EPS is likely to remain way below the FY22 peak



Balance sheet to deteriorate

Figure 15: Net debt to increase

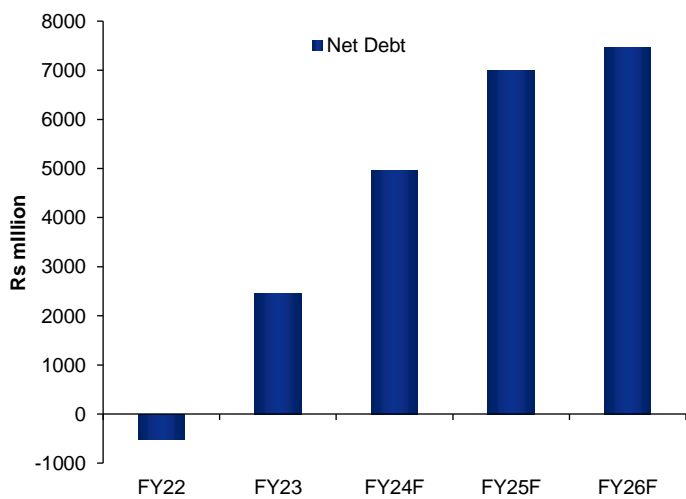
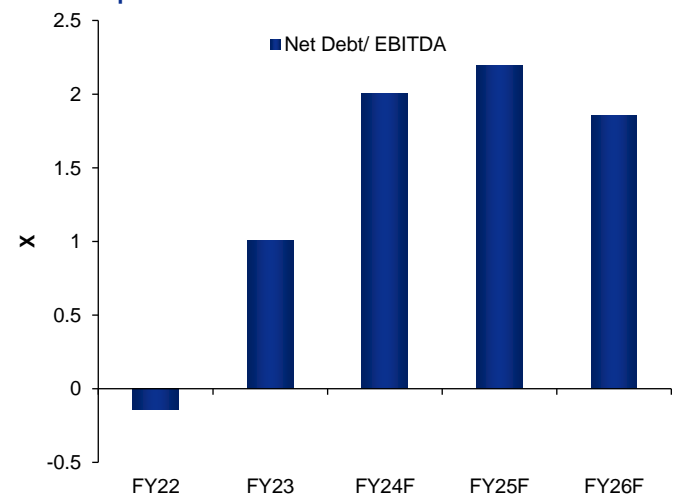


Figure 16: Net debt/ EBITDA multiple looks more like that of steel companies



Laxmi doesn't deserve to trade at 60x its one-year forward P/E ➤

Figure 17: Laxmi is akin to a normal steel company and hence, doesn't deserve to trade at 60x its one-year forward P/E - may be this premium is because of illiquidity in the stock



SOURCE: INCRED RESEARCH, COMPANY REPORTS

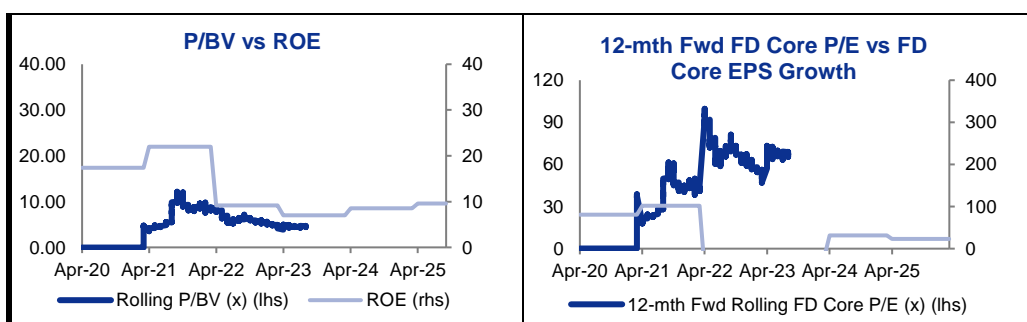
Valuation too high; reiterate REDUCE rating ➤

Figure 18: We value Laxmi at 30x one-year forward EPS to arrive at our 12-month target price of Rs168

	Rs/ Share
FY25F EPS	5.6
FY26F EPS	6.3
Sep 2025F EPS	5.6
P/E (x)	30.0
Target Price (Sep 2024F)	168.2

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	30,842	27,966	30,763	33,839	37,223
Gross Profit	9,717	9,414	9,844	10,998	12,284
Operating EBITDA	3,677	2,445	2,469	3,190	4,015
Depreciation And Amortisation	(493)	(724)	(797)	(869)	(1,160)
Operating EBIT	3,184	1,721	1,672	2,321	2,855
Financial Income/(Expense)	(154)	(113)	(418)	(638)	(758)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	149	121	121	121	121
Profit Before Tax (pre-EI)	3,179	1,729	1,375	1,804	2,218
Exceptional Items					
Pre-tax Profit	3,179	1,729	1,375	1,804	2,218
Taxation	(614)	(483)	(347)	(454)	(559)
Exceptional Income - post-tax					
Profit After Tax	2,565	1,246	1,029	1,349	1,659
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	2,565	1,246	1,029	1,349	1,659
Recurring Net Profit	2,565	1,246	1,029	1,349	1,659
Fully Diluted Recurring Net Profit	2,565	1,246	1,029	1,349	1,659

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	3,677	2,445	2,469	3,190	4,015
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,929)	(133)	(910)	(1,094)	(1,314)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	219	66			
Other Operating Cashflow	204	226	538	758	878
Net Interest (Paid)/Received	(154)	(113)	(418)	(638)	(758)
Tax Paid	(561)	(501)	(347)	(454)	(559)
Cashflow From Operations	457	1,991	1,333	1,762	2,263
Capex	(2,891)	(4,759)	(3,250)	(3,250)	(2,000)
Disposals Of FAs/subsidiaries	8	1			
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	3,621	916			
Cash Flow From Investing	738	(3,841)	(3,250)	(3,250)	(2,000)
Debt Raised/(repaid)	(1,033)	1,232	2,500	3,000	
Proceeds From Issue Of Shares	(4)	2			
Shares Repurchased					
Dividends Paid	(25)	(24)			
Preferred Dividends					
Other Financing Cashflow	(180)	1,114			
Cash Flow From Financing	(1,242)	2,325	2,500	3,000	
Total Cash Generated	(47)	474	583	1,512	263
Free Cashflow To Equity	162	(618)	583	1,512	263
Free Cashflow To Firm	1,349	(1,738)	(1,499)	(850)	1,021

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	1,862	1,509	1,515	2,473	2,010
Total Debtors	6,684	5,702	6,461	7,320	8,294
Inventories	3,736	2,942	3,560	4,308	5,212
Total Other Current Assets	2,445	2,014	2,014	2,014	2,014
Total Current Assets	14,728	12,167	13,550	16,115	17,530
Fixed Assets	7,619	11,527	13,980	16,361	17,201
Total Investments	13	28	28	28	28
Intangible Assets	63	85	114	114	114
Total Other Non-Current Assets	253	315	327	327	327
Total Non-current Assets	7,947	11,955	14,449	16,830	17,670
Short-term Debt	1,312	2,666	5,166	8,166	8,166
Current Portion of Long-Term Debt					
Total Creditors	7,117	4,663	5,130	5,643	6,207
Other Current Liabilities	894	972	972	972	972
Total Current Liabilities	9,323	8,301	11,268	14,780	15,345
Total Long-term Debt	22	1,303	1,303	1,303	1,303
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	44	81	81	81	81
Total Non-current Liabilities	65	1,385	1,385	1,385	1,385
Total Provisions	277	312	197	281	312
Total Liabilities	9,665	9,998	12,849	16,446	17,042
Shareholders Equity	13,007	14,118	15,146	16,495	18,154
Minority Interests	4	6	4	4	4
Total Equity	13,010	14,124	15,150	16,499	18,158

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	74.4%	(9.3%)	10.0%	10.0%	10.0%
Operating EBITDA Growth	69.7%	(33.5%)	1.0%	29.2%	25.9%
Operating EBITDA Margin	11.9%	8.7%	8.0%	9.4%	10.8%
Net Cash Per Share (Rs)	2.01	(9.33)	(18.79)	(26.53)	(28.29)
BVPS (Rs)	49.32	53.54	57.44	62.55	68.85
Gross Interest Cover	20.65	15.29	4.00	3.64	3.77
Effective Tax Rate	19.3%	27.9%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio					
Accounts Receivables Days	65.26	80.83	72.16	74.32	76.55
Inventory Days	49.84	65.70	56.73	62.86	69.66
Accounts Payables Days	102.51	115.88	85.44	86.07	86.71
ROIC (%)	41.3%	9.7%	7.4%	8.5%	9.0%
ROCE (%)	24.5%	10.4%	8.3%	9.7%	10.6%
Return On Average Assets	13.1%	5.7%	5.1%	6.0%	6.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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