



HIDDEN GEMS

UNEXPLORED MULTIBAGGER SMALL CAP STOCKS

EQUITY RESEARCH REPORT

ORIENTAL AROMATICS LTD.	BSE CODE: 500078 NSE CODE: OAL
Industry: Chemicals	CMP: Rs. 140.30 (31/05/2020)
Market Cap: 472.16 (INR in Crore)	Target Price: Rs. 290.00
Date: May 31, 2020	Time Period: 12 – 24 months



Saral Gyan Capital Services
www.saralgyan.in
An Independent Equity Research Firm

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1. Company Background



Oriental Aromatics Ltd. is one of the largest Indian manufacturers of a variety of Aroma Chemicals, Camphor, Fragrances and Flavours. In August 2008, Oriental Aromatics promoters acquired a controlling stake of 57.66% in the listed entity of Camphor & Allied Products Ltd., a key supplier of Camphor and other specialty aroma chemicals. Furthermore in April 2017, Oriental Aromatics was fully amalgamated into the listed entity and thereafter, the name of Camphor & Allied Products Ltd was changed to Oriental Aromatics Limited.

Today, the company is one of the largest manufacturers of variety of specialty based aroma chemicals, and camphor, with a vast product range including Synthetic Camphor, Terpeneols, Pine Oils, Astromusk, several other specialty aroma chemicals finding applications in a wide array of industries ranging from like Cosmetics, Soaps, Pharmaceuticals and many more.

Oriental Aromatics custom designed fragrances are found in fine fragrances, incense sticks, candles, and various FMCG products like soaps, shampoos, hair oils, detergents, etc. and it also provides flavours for ice-creams, bakeries, confectionaries, beverages, chewing gums, chocolates etc.

In 1974, Oriental Aromatics established an in-house R&D centre to carry out extensive work on Terpene chemistry. R&D centre is recognized by the Department of Scientific & Industrial Research (DSIR) of the Government of India and is well equipped with bench scale laboratories to carry out various organic reactions. Also, the centre has the facility to carry out high pressure reactions and has various lab scale fractionating columns for separation.

Over the years, the company was able to successfully develop several new products for the first time for turpentine chemical category having 47 patents. It developed several specialty chemicals catering to various industries such as soaps and detergents, cosmetics, flavours and fragrances, paints and varnishes, rubber and tyre, pharmaceuticals and many more.

In 2016, the company also set up a centre for Innovation, state-of-the-art R&D facility in Mumbai equipped with the infrastructure required for research and new product development. It is a state-of-the-art synthesis lab dedicated to research on aroma chemicals having between 20- 25 research associates. The technology involved is head-space GC-MS, flash chromatography, UV along with regular analytical set-up.

In 2017-18 and 2018-19, company's R&D unit has developed number of molecules of aroma chemicals and scaled them up into commercialization. In 2018-19, R&D Centre has developed new encapsulation technology in perfume delivery system and has done new product development in personal and home care products.

Mr. Dharmil A. Bodani is the Chairman and Managing Director of the company. He has vast experience of more than 3 decades in fragrance, flavours and chemical industry. Mr. Bodani has specialized training on perfumery in Grasse, France and been instrumental in the formation and implementation of the overall strategy and vision of the company. He has been playing an important role in product selection on the chemicals side.

Mr. Shyamal A. Bodani is Executive Director of the company, he started his career in the year 2003 and currently looks after local as well as overseas marketing, sales and export promotion. He plays a key role in the formation and implementation of strategy of the chemicals division especially from the sales and marketing perspective.

Manufacturing Units

Ambarnath, Maharashtra: The company's state-of-the-art manufacturing facility based at outskirts of Mumbai - Ambarnath started its operations in 2014 with a total capacity of 6,000 MT per annum. This manufacturing facility capable of producing fragrances as well as flavours and it also has a modern R&D and QA infrastructure.

Bareilly, Uttar Pradesh: The company established the first synthetic camphor plant backed by technology from DuPont, USA in 1964. This plant produces more than 12000 MT per annum of pine based chemicals annually and has chemical operations such as fractionation, esterification, saponification, hydrogenation, dehydrogenation, oxidation, peroxidation, pyrolysis, etc. The vast product range includes Pharma Grade accredited with WHO-GMP and USFDA, Synthetic Camphor (Technical Grade), Terpeneols, Pine Oils, Isobornyl Acetate, Terpene Resins, etc.

Vadodara, Gujarat: The-state-of-the-art manufacturing facility was set up at Vadodara, Gujarat in 1999 and having production capacity of more than 6,700 MT per annum of special aroma chemicals annually. Products manufactured at this plant are of international standards and 75% of the annual production is exported all over the world. The plant produces Alpha



Pinene Epoxide, Alpha Campholenic Aldehyde, Musk, Astromusk, Sandalica, Sandal alcohol, etc. Chemical operations handled at this plant include epoxidation peroxidation, hydrogenation, aldol condensation, cyclization, esterification, bromination, etc.

Product Portfolio

i) Fragrance: The company delivers innovative fragrance formulations supplying fine fragrance and perfume raw materials. The company continually strives to find the best balance between creativity and functional needs to develop fragrances with the highest acceptance and the best release performance in the final product.

ii) Flavour: The company caters to flavours used in oral hygiene, instant foods, beverages, health and wellness, dairy and snack foods. The flavours are formulated to give a food product a unique flavour and to maintain flavour consistency between different product batches or after recipe changes. The company understands how important taste is to our sense of being i.e. sweet, salted, bitter, sour, spicy, savoury. Custom flavour manufacturing is one of the specialty of the company.

iii) Aroma Chemicals: The company offers a broad spectrum of aroma chemicals that are used in flavours and fragrances.

Sandalwood Derivates	Musk polycyclic & Macrocylic	Pinene Derivatives	Specialty Aroma Chemicals	Generics offered by Specialty Chemicals Division
Bacdanol	Astromusk	Alpha – Pinene epoxide	Astromeran	Esters of Allyl alcohol
Mysornaol	Cambrettolide	Alpha-Campholenic	Amberone	Esters of Geraneol & Citronellol
		Camphor	Astrone	Esters of Phenyl Acetic acid, Cinnamic acid
		Isoborneol	Capinone	Esters of Cinnamic alcohol & Cyclohexanol
		Terpineol	Ketone 101	Esters of Para cresol & Phenyl Ethyl alcohol
		Terpinyl Acetate	Safranal	Aromatics ethers like Nerolin crist, etc.
				Phenoxyethyl Isobutyrate
				Nitriles of various Aldehydes Like c12 Lauric, c10, citronellyl nitrile

iv) Camphor: The company is one of the established manufacturers of Camphor in India. Camphor has a wide variety of topical uses due to its antibacterial, antifungal, and anti-inflammatory properties to treat skin conditions, improve respiratory function, and relieve pain. It is also used for its scent, as an ingredient in cooking (mainly in India), as an embalming fluid, for medicinal purposes, and in religious ceremonies.

Company Clientele

i) Aroma Chemicals:



ii) Flavours & Fragrance:



2. Recent Development

i) Covid-19 Pandemic Situation Update on Company's Operations – May 2020

Due to complete lock down announced by the Government of India, the operations of the company were also shut down resulting into adverse effect on the business during March 2020 and the current quarter.

Oriental Aromatics was granted permission by the District Magistrate, to partially run its plant, located at Bareilly, for manufacturing of essential commodities. In view of the same, the company had resumed partial operations at its manufacturing unit from 3rd April 2020.

The company subsequently resumed its operations at all the manufacturing units situated at Vadodara, Bareilly and Ambarnath from 04 May 2020 in accordance with the formal permissions from concerned government authorities. The company has adopted the work from home policy during the entire duration of the lockdown in its corporate office.

As the company is having comfortable liquidity position therefore the company is servicing its debt and other financial obligations on timely manner. There is disruption in the supply chain as some of the vendors have re-started their production partially and are ready to provide required supplies. Supplies from international vendors have also commenced. In the current scenario the demand continues to be at a slower pace. However, the company is positive and hopes that it will get normalized as and when the government lockdown is lifted.

The company is presently running its business to full fill the demand. The company is able to meet its orders and requirements of the customers. These are the early days and the company is not in a position to gauge with certainty the future impact on operations but expects normalcy to be achieved only after a quarter.

ii) Oriental Aromatics paid Interim Dividend of Rs. 2.50 per share for FY19-20 – March 2020

Board of Directors of the company in the meeting held on Monday, 9th March 2020 had considered and declared the interim dividend of Rs 2.50 per equity share of Rs.5 each for the financial year 2019-20.

20th March 2020 has been fixed as Record Date to determine the list of eligible shareholders for the payment of interim dividend. The dividend has been paid by the company through ECS / NECS / NEFT / RTGS / any other electronic mode on 27 March 2020.

3. Financial Performance

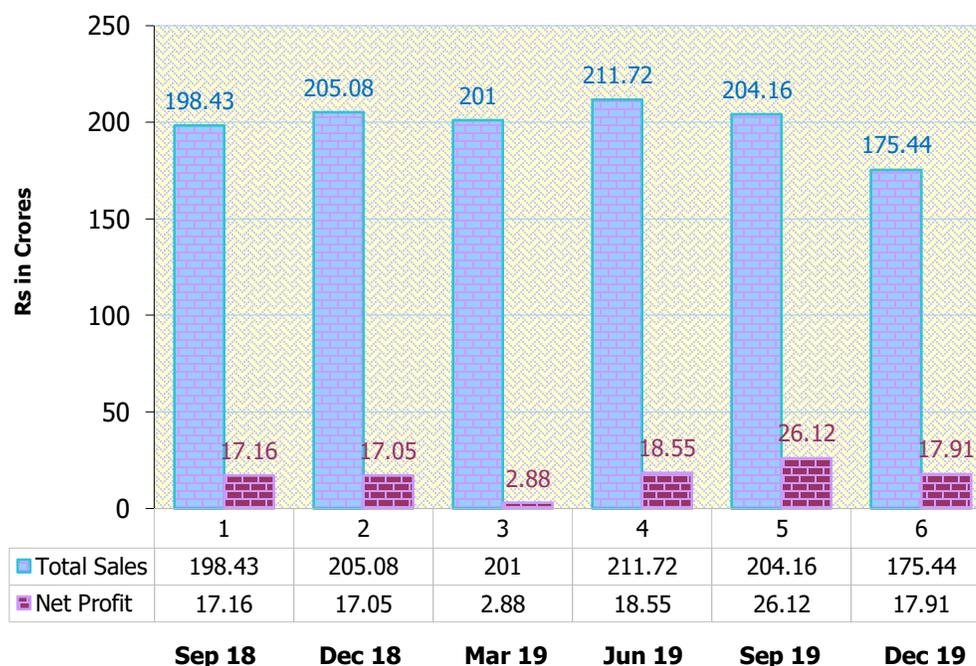
Oriental Aromatics standalone net profit rises 5.04% in the Dec 2019 quarter

Net profit of Oriental Aromatics rose 5.04% to Rs 17.91 crore in the quarter ended Dec 2019 as against Rs 17.05 crore during the previous quarter ended Dec 2018. Sales declined 14.62% to Rs 175.44 crore in the quarter ended Dec 2019 as against Rs 205.08 crore during the previous quarter ended Dec 2018.

Oriental Aromatics standalone net profit rises 52.21% in the Sept 2019 quarter

Net profit of Oriental Aromatics rose 52.21% to Rs 26.12 crore in the quarter ended Sept 2019 as against Rs 17.16 crore during the previous quarter ended Sept 2018. Sales rose 2.89% to Rs 204.16 crore in the quarter ended Sept 2019 as against Rs 198.43 crore during the previous quarter ended Sept 2018.

Last 6 Quarters Net Sales & Profit



4. Peer Group Comparison

PEER GROUP	ORIENTAL AROMATICS	MANGALAM ORGANICS	KANCHI KARPOORAM
CMP	140.30	339.65	210.75
52 W H/L	233.40/116.55	458.65/120.80	330.00/125.00
Market Cap	472.16	290.89	91.98
Results (in Crores)	Dec-19	Dec-19	Dec-19
Sales	174.44	80.54	43.20
PAT	17.91	3.77	5.59
Equity	16.83	8.56	4.26
EPS (TTM)	19.45	59.05	62.02
P/E	7.21	5.46	3.40

5. Key Concerns / Risks

- Slowdown in the economic growth of the country due to ongoing Covid-19 crisis will lead to a slowdown in the FMCG sector on account of sluggish consumption-led demand. This may adversely impact the financial performance of the company over next couple of quarters.
- Raw material price fluctuation and uncertainty of availability / short supply of raw materials can adversely impact the revenue and overall profitability of the company.

6. Saral Gyan Recommendation

- ✚ The global market for aroma chemicals is estimated at USD 4,727 million in 2018, and is forecast to grow at a CAGR of 5.3% to reach USD 6,126 Mn by 2023. In FY18 Aroma chemicals contributed 16% in the F&F Industry and the major driver was due to growth in middle class consumption in the emerging economies. Aroma Chemicals can be found in food, wine, spices, essential oils, perfumes and fragrance oils. These compounds have a considerable role in the manufacture of flavours and fragrance. Oriental Aromatics has the ability to manufacture aroma ingredients from bulk to specialty grade at its manufacturing facility in Bareilly and Vadodara. The company has a longstanding relationship to supply a broad spectrum of aroma chemicals that are used in flavours and fragrances to global majors like IFF, Givaudan, Symrise etc. Moreover, the company is one of the prominent manufacturers of Camphor in India. Camphor is primarily used in India for religious purposes, but also finds usage in fragrances, cooking, and pharmaceutical industry.
- ✚ The global flavour and fragrance (F&F) market is valued at USD 21 billion in 2018 and is projected to reach USD 35 billion by 2028 growing at a CAGR of 5.1%. Of the main global regions, the flavours and fragrances market is largest in the Asia Pacific region, followed by North America and Western Europe. The Indian Flavour & Fragrance (F&F) market in 2018 was INR 6,000 crores and is primarily dominated by global MNC's while local players are fragmented and smaller in size, mostly catering to the unorganized market. In India, the top 6 F&F Players contribute 72% of the total market while the balance 28% is held with the smaller players. The company delivers innovative fragrance formulations to a wide set of customers. The company continually strives to develop fragrances with the highest acceptance and the best release performance in the final product.
- ✚ Oriental Aromatics is one of the few companies globally who are fully integrated in the space of Fragrances and Flavours. The company has 6 decades of experience in Aroma Chemicals and 7 decades of experience in Fragrances and Flavours. It has adopted a sustainable sourcing policy for key elements such as Turpentine Oil and alpha-Pinene, which are essential raw materials for its products. The company offers vast range of products which finds applications in array of industries ranging from F&F, Pharmaceuticals, Soaps & Cosmetics, Rubber & Tyre, Paints & Varnishes, etc.
- ✚ As Indian consumers graduate from using basic soaps and detergents to high end products such as skin creams, lotions, hair gels and other specialised cosmetics products, the quality and value of the flavours and fragrances used in these products are expected to increase. Catalysed by a rising global population and increasing urbanisation rates, the demand for processed foods and beverages has been witnessing a continuous growth creating a positive impact on the growth of the market. Moreover, driven by rising incomes, changing lifestyle and increasing consciousness towards physical appearance, the market for personal care products

has also been witnessing strong growth creating a strong demand for flavours and fragrances. As the company has evolved as a complete F&F player due to forward integration of the business, with a strong presence in aroma chemicals. Management believes that the company will be one of the key beneficiaries of the robust demand scenario in the F&F market on account of amalgamation as well as wide product acceptability.

- ✚ Oriental Aromatics through its Innovation and creativity has adopted technologies that guarantee performance. The company has performed many tests and obtained certifications and is one of the prominent players in the growing market of aroma chemicals. Favourable macroeconomic factors like growing disposable income, preference towards personal wellness products and increased confectionery and bakery sales have raised the demand for the aroma chemicals established by the company.
- ✚ The largest market for flavour and fragrance is the US and UK and there is an increasing demand in the developing markets of the Asia Pacific (APAC) region. The restrictions imposed by the Chinese government on the domestic chemical industry to strictly adhere to environmental norms coupled with the trade tension between US and China has catapulted India to become the preferred choice. Oriental Aromatics in-depth understanding of the consumer's requirements based on its market research has helped it to strengthen its position in the industry. Backed by an excellent distribution network, manufacturing expertise coupled with operational efficiency, the company has catalysed its business growth. The company's current product portfolio includes 200 aroma chemicals which are further formulated into innovative flavours and fragrances and are supplied to renowned players in the industry.
- ✚ Flavour & fragrance is a high entry barrier business due to stringent regulatory requirements, established blending expertise and stringent quality parameters make this business lucrative in the long term. We believe the company is in a best position to benefit from both a huge domestic & global market opportunity with limited number of players operating in the Industry. Post amalgamation of Oriental Aromatics with Camphor & Allied Products Ltd, the company has evolved as a complete F&F player due to forward integration of the business, with a strong presence in aroma chemicals. The company provides custom designed fragrances that are found in fine fragrances, incense sticks, candles, and various products like soaps, shampoos, hair oils, detergents, etc. and it also provides flavours for ice-creams, bakeries, confectionaries, beverages, chewing gums, chocolates etc thus making it a one shop solution provider to meet requirements of various FMCG companies.
- ✚ As on Mar'20, promoter's shareholding in the company is 74.17% without any share being pledged. The company has registered sales CAGR of 19.5%, profit CAGR of 23% with ROE of 12.7% over last 5 years and looks attractive at current valuations

considering forward integration of the company post amalgamation and favourable growth outlook for the industry.

- ✚ Oriental Aromatics has paid dividend every year since 2014. The company has recently paid interim dividend of Rs. 2.50 per share for FY19-20, the record date for the same was 20 March 2020. At current price of Rs. 140.30, dividend yield is 1.78%. The company has also rewarded its shareholders issuing bonus share in the ratio of 1:1 in Dec 2018.
- ✚ As per our estimates, Oriental Aromatics can deliver net profit of Rs. 67 crores in FY 2020-21 with annualized EPS of Rs. 19.9. At current price of 140.30, stock is available at forward P/E multiple of 7X based on FY20-21 earnings. Stock looks attractive considering high promoters holding, manageable debt on books with debt to equity ratio at 0.24 and robust growth outlook for the industry in medium to long term.
- ✚ On equity of Rs. 16.83 crore, the estimated annualized EPS for FY 20-21 works out to Rs. 19.90 and the Book Value per share is Rs. 128.46. At current market price of Rs. 140.30, stock price to book value is 1.1.

With tremendous growth opportunities in segments like confectionery, bakery, food and beverages as well as personal care products with changing urban lifestyles, flavour & fragrance Industry is expected to register robust growth in coming years. As the company has spread its presence in both domestic as well as international markets, its wide range of products offering in aroma chemicals and flavours & fragrance industry will keep it ahead of competition.

The company will make further investments in certain chemistries to expand and strengthen its product portfolio and building newer capabilities. The company is also planning to strategically stabilise, validate and fully utilise its Multi-Purpose Plant which will play a crucial role in augmenting business growth. Considering the company's expertise in dynamic flavours and fragrances industry and its strong position to become most valued partner for various FMCG companies by offering unique range of products, management thrust on innovation giving utmost importance to R&D and attractive valuations of the company, Saral Gyan team recommends **"Buy"** on **Oriental Aromatics Ltd** at current market price of Rs. 140.30 for target of Rs. 290 over a period of 12 to 24 months.

Buying Strategy:

- 60% at current market price of Rs. 140.30
- 40% at price range of Rs. 90 – 100 (in case of correction in stock price)

Portfolio Allocation: 3% of your equity portfolio

7. Disclaimer

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