



# Fairchem Speciality Limited<sup>1</sup>

The creation of a Renewable Speciality Chemicals Company  
from the merger of the businesses of Adi Finechem Ltd And Privi Organics Ltd

**INVESTOR PRESENTATION**

25 JULY 2016

<sup>1</sup> Formerly known as "Adi Finechem Limited". The name 'Fairchem Speciality Limited' has been reserved with the Registrar of Companies by Adi Finechem Limited, the actual filing of the change of name application is pending receipt of shareholder approval and the approval under SEBI (LODR) Regulations 2015.

# AGENDA

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# **ABOUT ADI FINECHEM LIMITED (“Adi”)**

# ABOUT ADI

## COMPANY BACKGROUND

- Incorporated in 1985 and publicly listed on Bombay Stock Exchange since 1995 and National Stock Exchange since 2015
  - Management change in 2010; capacity expansion from 8,000 MTPA<sup>1</sup> in 2010 to 45,000 MTPA in 2016
  - Fairfax India Holdings Corporation (“Fairfax”) acquired 44.9% stake in February 2016
  - Post the merger of the businesses of Adi and Privi, the listed company will be renamed Fairchem Speciality Limited

## PRODUCTS

- Manufactures a range of oleo chemicals (high grade fatty acids) from the waste products generated during refining of edible oils<sup>2</sup>
  - One of the largest processing capacity of natural edible oil based fatty acids in India
  - Amongst the few players in the world with distinct capability set
- Key products include dimer, monomer, linoleic acid and tocopherols
  - Products used in resins, paints, inks, adhesive, cosmetic and natural vitamin-e nutraceuticals

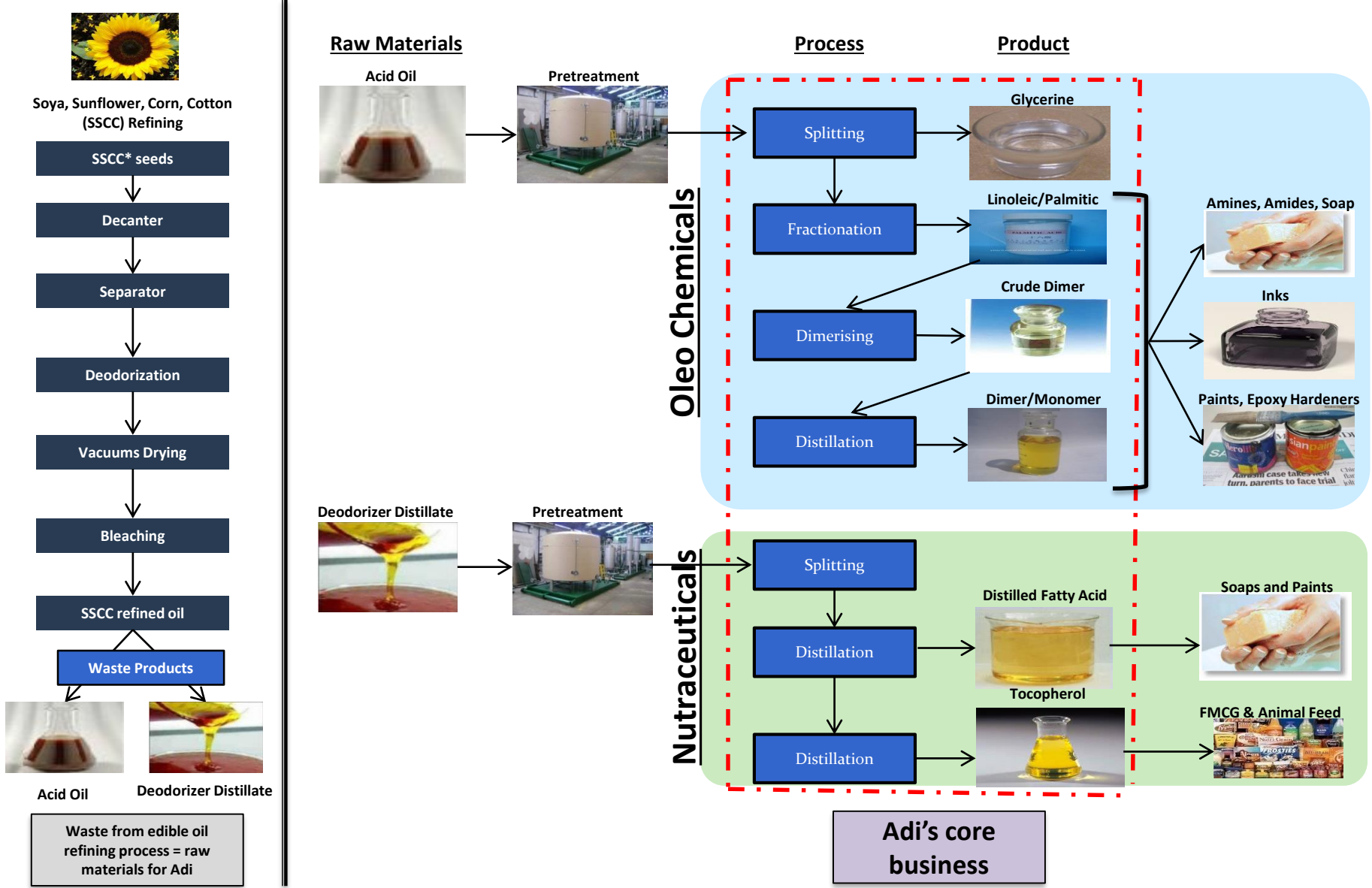
## CUSTOMERS

- Longstanding customer base includes BASF, ADM, Cargill, Arkema and Asian Paints

<sup>1</sup> MTPA : Metric Ton Per Annum

<sup>2</sup> Edible Oils: Edible Oils include Soya, Sunflower, Corn, Cotton

# ADI'S MANUFACTURING PROCESS



# ADI'S COMPETITIVE ADVANTAGE

## One of the Leading Players in the Oleo Chemicals Market Using Renewable Resources

Processes waste products of edible oil refining giving it price advantage

Enjoys leadership position in the industry due to barriers to entry

Focuses on natural and value added products which positions it well for future opportunities



## Competitive Position

One of the leading manufacturers in India for a substantial part of the overall revenue

Highly cost competitive vis a vis global peers

Favourable competence to pass on the fluctuation in the raw material prices



## Strong Customer and Supplier Relationships

Well entrenched customer relationships in high growth industries like paints, inks, FMCG etc.

Enjoys premium pricing due to high quality products

More than 10 years relationship with key raw material suppliers

## Adi's Supply Chain

Source Oils	Waste product	Products made	Application products	Major Customers
Soya, Sunflower, Corn, Cotton	Acid Oils	Palmitic, Linoleic, Dimer, Monomer	Amines & Amides, Soaps, Inks & Paints, Epoxy hardeners	Asian Paints, Arkema, Micro Inks, etc.
Soya, Sunflower, Corn, Cotton	Deodorizer Distillate	Distilled Fatty Acids, Mixed / Distilled Tocopherols & Sterol Concentrate	Natural Vitamin E, Cortico Steroids, Food Additives, Soaps, Textile, Paints	BASF (USA), ADM (USA), Cargill Inc. (USA), AOMC (Argentina)

# ADI'S HISTORICAL FINANCIAL SUMMARY

## Income Statement

Rs In Mm	Mar12	Mar13	Mar14	Mar15	Mar16
Revenue	974	1,235	1,524	1,513	1,525
Growth (%)	68.1%	26.8%	23.4%	-0.7%	0.8%
EBITDA	149	176	336	255	233
Margin (%)	15.3%	14.3%	22.0%	16.9%	15.3%
Net Income	74	84	187	137	106
Margin (%)	7.6%	6.8%	12.3%	9.0%	6.9%

**CAGR: FY12-FY16**  
 Revenue = 11.9%  
 EBITDA = 11.8%

## Balance Sheet

Rs In Mm	Mar12	Mar13	Mar14	Mar15	Mar16
Net Fixed Assets	273	284	449	694	787
Cash	1	1	1	2	2
Other Assets	270	311	427	358	375
<b>Total Assets</b>	<b>544</b>	<b>596</b>	<b>877</b>	<b>1,054</b>	<b>1,164</b>
Shareholders Funds	238	308	473	568	633
Debt	211	180	291	288	337
Other Liabilities	95	108	113	198	194
<b>Total Liabilities</b>	<b>544</b>	<b>596</b>	<b>877</b>	<b>1,054</b>	<b>1,164</b>

## Cash Flow Statement

Rs In Mm	Mar12	Mar13	Mar14	Mar15	Mar16
Cash flow from Operating Activities	30	120	122	321	161
Cash from Investing Activities	(70)	(51)	(191)	(255)	(131)
Cash from Financing Activities	38	(70)	68	(65)	(29)

Source: Company Financial statements

## **ABOUT PRIVI ORGANICS LIMITED (“Privi”)**



# ABOUT PRIVI

## COMPANY BACKGROUND

- One of the leading manufacturers of aroma chemicals such as Amber Fleur, dihydromyrcenol (citrus character), Citral derivatives etc.
- Expanded product range from two products in 1992 to 50+ high performance chemicals in 2016 based on in-house Research & Development (“R&D”)
- With an installed capacity of 22,000 MTPA (4 manufacturing plants), Privi enjoys a dominant position and economies of scale in all its product categories

## PRODUCTS

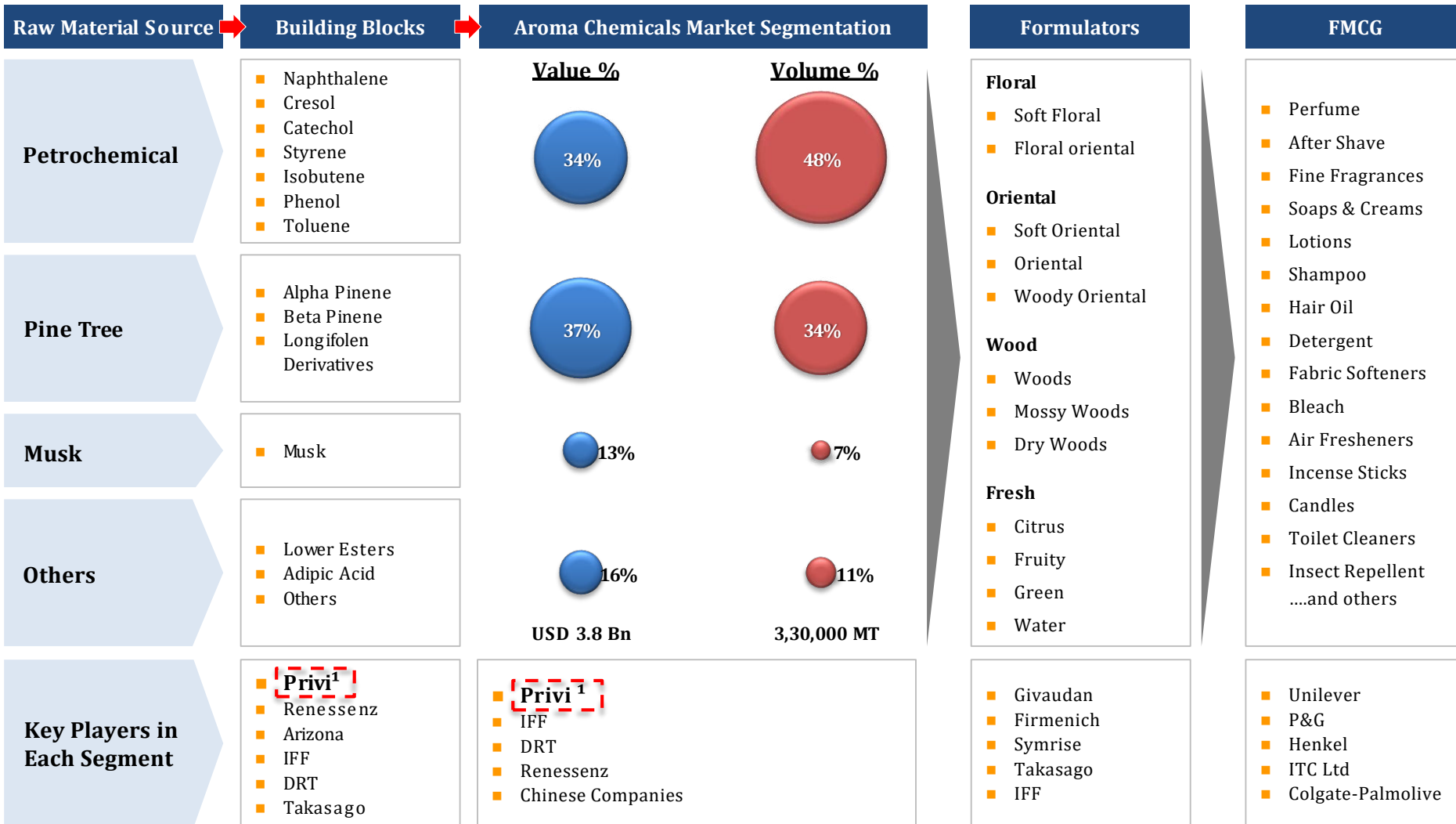
- Manufactures 50+ products which are used to make fragrances, in turn used in day to day products like soaps, detergents, shampoos, perfumes etc.
- Expanded margin on account of backward integration to process Crude Sulfate Turpentine (“CST”) - a waste from pulp mills – to make  $\alpha$  and  $\beta$  Pinene - key building blocks for Pinene based products (60% by value for Privi). This provides a long term visibility on raw material supplies and prices

## CUSTOMERS

- Trusted supplier (for over 10 years) to all of the Top 10 fragrance companies, which control about 80% of the global fragrance market
- Direct relationships with global FMCG giants like P&G, Henkel etc. to further strengthen the business model and drive growth

# AROMA CHEMICALS VALUE CHAIN



Petrochem & Pine based Aroma Chemicals Constitute ~70% Of Global Aroma Chemicals Market



<sup>1</sup> Majority of Privi's products are produced from the pine chain.

# PRIVI'S CUSTOMER RELATIONSHIPS

## Privi Is A One Stop Shop For All Its Customers

Key Customers	Latest Reported Revenue* (\$ Mm)	Global Ranking	# Molecules Supplied Till Date
	4,576	#1 in F&F (Flavours and Fragrances)	15
	76,279	#1 in FMCG (Fast Moving Consumer Goods)	7
	3,023	# 2 in F&F	2
	3,143	# 3 in F&F	16
	2,887	# 4 in F&F	27
	1,170	# 5 in F&F	20
	1,052	# 7 in F&F	29
	18,089 (€ Mm)	Leading FMCG Co.	4
	483	# 9 in F&F	10
	~127	Leading Indian F&F Co.	24
	~52	Leading Indian Distributor of F&F Ingredients	25

# GROWTH STRATEGY

## PROJECTS IN PIPELINE

- R&D team developing process to convert by-products from CST and other manufacturing processes
  - Terpenes , Delta Carene and other by-product
- R&D team developing processes to add new products
  - Privimoss – Privi to be only the second company to make this product
  - Rose alcohol and its esters
  - Delta Carene to Dipentene to Tackifier Resins
  - $\alpha$ -Pinene to Camphene to Isobornyl Acetate

## GROWTH OPPORTUNITIES

- New production site Unit III at Mahad started commercial production
- New molecules in pipelines would be marketed to the same set of customers
- Other business verticals like Resins being developed are based on existing raw materials
- New products being developed from by-products have applications in industries like agrochemicals
- Environmental clearance received for all products planned over 3 years

## INCREASING CUSTOMER WALLET SHARE

- Visibility on raw material prices & supplies have positioned Privi at a significant competitive advantage resulting in customers providing long term orders
- Customers working closely with Privi R&D to develop new products for their specific requirements
- Customers assisting in improvement of working capital cycle by providing factoring facilities

# PRIVI'S HISTORICAL FINANCIAL SUMMARY

## Income Statement

Rs in Mm	Mar12	Mar13	Mar14	Mar15	Mar16
Revenue	3,837	4,295	5,142	5,493	6,276
Growth (%)	5.7%	11.9%	19.7%	6.8%	14.6%
EBITDA	468	553	714	771	855
Margin (%)	12.2%	12.9%	13.9%	14.0%	13.2%
Net Income	136	74	118	131	170
Margin (%)	3.5%	1.7%	2.3%	2.4%	2.2%

**CAGR: FY12-FY16**  
Revenue = 13.1%  
EBITDA = 16.3%

## Balance Sheet

Rs in Mm	Mar12	Mar13	Mar14	Mar15	Mar16
Net Fixed Assets	1,531	1,410	1,878	1,722	2,461
Cash	267	256	278	664	1,755
Other Assets	2,484	3,100	3,571	4,493	4,592
<b>Total Assets</b>	<b>4,282</b>	<b>4,766</b>	<b>5,727</b>	<b>6,879</b>	<b>8,808</b>
Shareholders Funds	1,523	1,597	1,715	1,846	3,567
Debt	1,415	1,911	2,343	3,094	2,714
Other Liabilities	1,344	1,258	1,669	1,939	2,527
<b>Total Liabilities</b>	<b>4,282</b>	<b>4,766</b>	<b>5,727</b>	<b>6,879</b>	<b>8,808</b>

Includes Rs 1,500 mm Fairfax investment announced on 12 July 2016

## Cash Flow Statement

Rs in Mm	Mar12	Mar13	Mar14	Mar15	Mar16
Cash flow from Operating Activities	9	63	317	445	435
Cash from Investing Activities	100	(404)	(624)	(617)	(517)
Cash from Financing Activities	(47)	284	306	524	(271)

Source: Company Financial statements

# **ABOUT FAIRCHEM SPECIALITY LIMITED (“Fairchem”)**

**Adi**  
processes waste  
products from the  
edible oil refining  
process

**Privi**  
processes waste  
products from pulp  
and paper mills

## To Be The Leading Renewable Speciality Chemicals Company

**Adi**  
manufactures oleo  
chemicals with end use in  
adhesives, paints, inks and  
nutraceuticals

**Privi**  
manufactures aroma  
chemicals with end use in  
perfumes, fragrances  
and FMCG products

# INSPIRATION AND DESIGN PHILOSOPHY



The two drops and a leaf symbol is an artistic representation of a merger of two companies forming a new beautiful green leaf. Which is a main source of agricultural waste products into value added speciality chemicals. Yellow colour is for the sun, blue colour is for water and the green for agriculture. When the blue and yellow merge it turns into green colour. No vegetation is possible without this combination. The two upper tips of symbol also suggest a future growth.



# LEADERSHIP IN RENEWABLE SPECIALITY CHEMICALS DRIVEN BY:

## FOCUS ON RESEARCH AND DEVELOPMENT

- R&D focus to backward integrate and develop green chemistry
- Develop processes to add value to various by-products formed in manufacturing process leading to further expansion in operating margin
- Develop and expand work on green manufacturing processes which reduces effluents to ensure sustainability

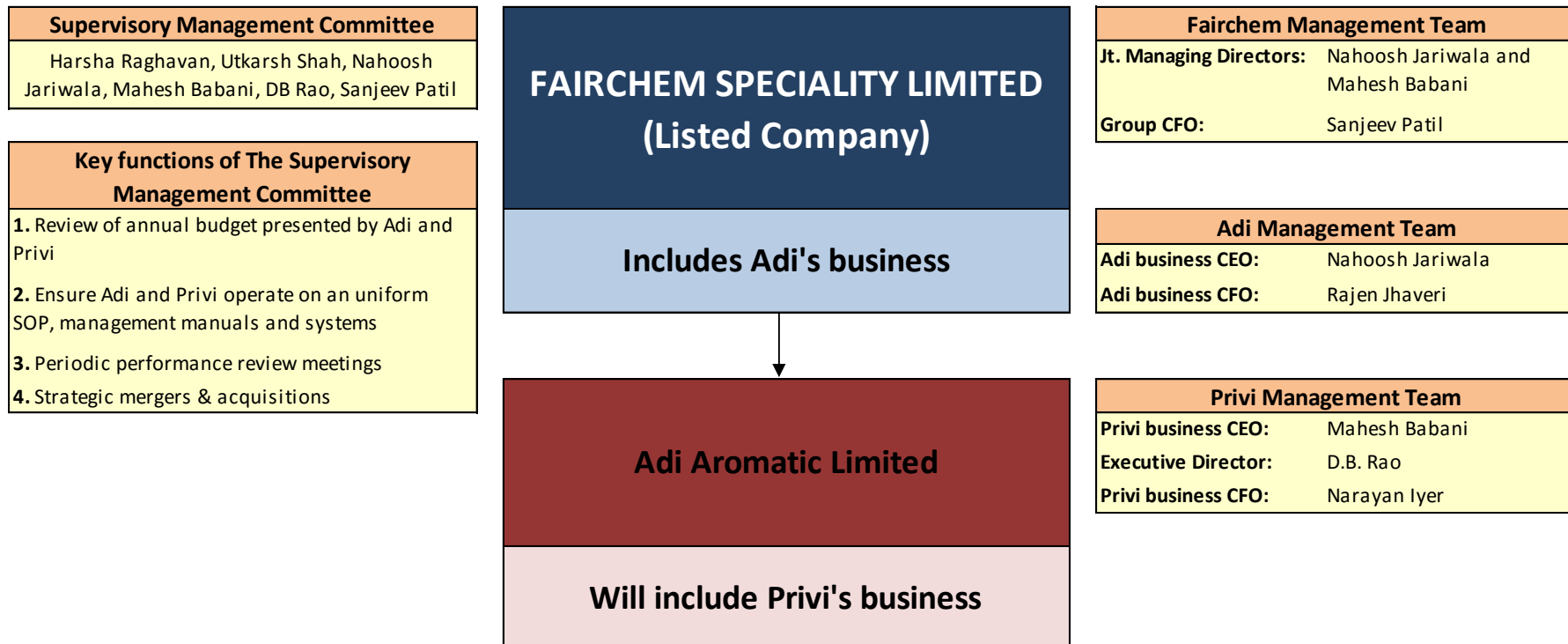
## CAPITAL EFFICIENCY

- Adi has expanded capacity from 8,000 MT in 2010 to 45,000 MT in 2015 from internal accruals only
- Low cost of raw material and efficient manufacturing process enables Adi to be highly cost competitive vis a vis global peers

## PRODUCT DIVERSIFICATION

- Adi processes waste from edible oil refining process to produce high value oleo chemicals
- Privi processes CST (waste from paper and pulp manufacturing) to produce high performance aroma chemicals
- The two companies combined produce 60+ types of high performance niche chemicals with end use in varied industries such as paints, adhesive, inks, FMCG, perfumes etc.

# MANAGEMENT STRUCTURE



## Brief Profiles

- **Utkarsh Shah:** Chairman of Adi Finechem Limited. Will provide strategic guidance to Fairchem.
- **Nahoosh Jariwala:** CEO of Adi business. Will continue to be responsible for the Adi's operating performance.
- **Mahesh Babani:** CEO of Privi business. Will continue to be responsible for the Privi's operating performance.
- **D.B. Rao:** Executive Director of Privi business. Will continue to be responsible for the Privi's operating performance.
- **Harsha Raghavan:** CEO of Fairbridge Capital. Will provide guidance on capital allocation to Fairchem.
- **Sanjeev Patil:** Group CFO and Head of Strategy of Fairchem. Will be responsible for Fairchem's finance & compliance functions and will be responsible for execution of strategic initiatives.

# FINANCIAL GOVERNANCE STANDARDS

- Invest for long term growth / value creation at the cost of short term gains
- Always be adequately capitalized
- Not overleverage the balance sheet
- Not bet the entire company on any one project or acquisition
- Secure sources of sustainable raw material supply
- Invest in backward and forward integration
- Acquire complementary businesses to enhance product diversification
- Consider long term value accretive acquisitions
- Transparent communications with all the stakeholders
- Low volatility in the cash flow generation

# RESEARCH & DEVELOPMENT INITIATIVES

## IN-HOUSE CHEMISTRY RESEARCH

- Strong 60 member R&D team comprising PhD, M.Sc. in Chemistry, Post Graduates in Chemical Engineering, well supported by Civil, Mechanical, Instrumentation engineers
- Facilities to develop alternate and more competitive manufacturing routes and then scale up process from Gram to Kilogram to Metric Ton
- All product process scale up done in-house, all project execution by in-house team
- Ongoing process intensification
- Fast track commercialization of new products

Privi is setting up a unique state of the art Pilot Plant at Navi Mumbai in collaboration with the Institute of Chemical Technology (“ICT”), first of its kind in India to undertake following research under one roof.

## BIOMASS TO BIOREFINERY [Partly Funded By BIRAC<sup>1</sup>]

- Biorefinery is a concept of fractionating a variety of Bio waste into building blocks which can be converted into useful chemical products – (ICT technology)
- Patented technology to convert the building blocks to value added products like Xylitol, Vanillin by natural – fermentation – processes
- Published 3 international patents which are pending for Grant from the US, and European countries after the mandatory waiting period

## OLEO CHEMICALS [Partly Funded By DST<sup>2</sup>]

- Scale up of a green enzymatic fat splitting technology that will provide cost advantage over traditional process.

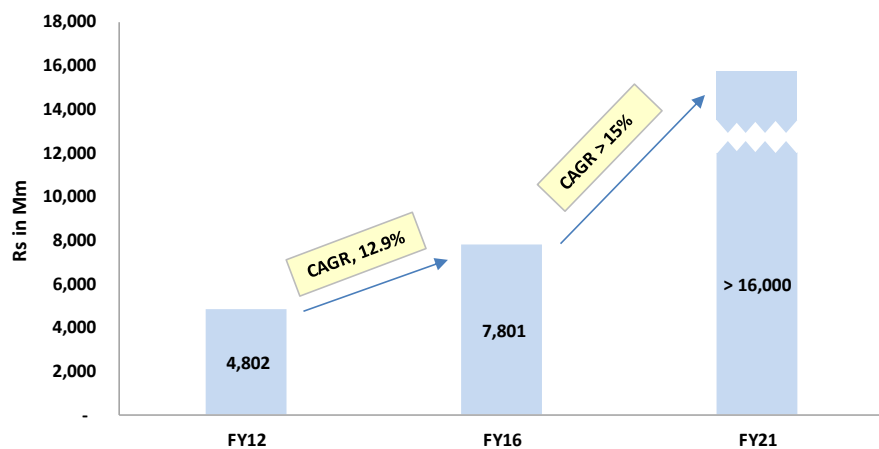
## 2G BIO-BUTANOL [Partly Funded By IGSTC<sup>3</sup>]

- Chemicals made from bio-waste are termed as 2<sup>nd</sup> Generation (2G) chemicals.
- In a 4 way collaboration between Privi, ICT, Fraunhofer Institute and Atech Innovation – from Germany a novel 2G Bio Butanol manufacturing process is scaled up.

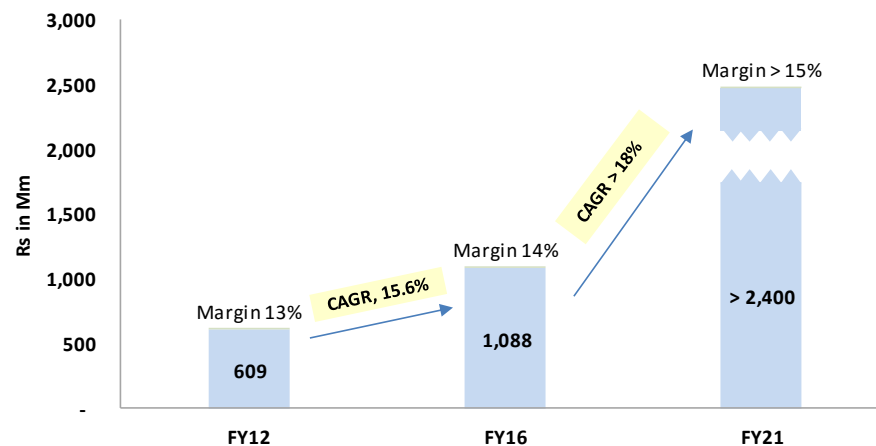
<sup>1</sup> BIRAC: Biotechnology Industry Research Assistance Council; <sup>2</sup> DST: Department of Science and Technology; <sup>3</sup> IGSTC: Indo-German Science & Technology Centre

# FAIRCHEM'S PROFORMA FINANCIAL SUMMARY

## Proforma<sup>1</sup> Revenue Growth



## Proforma<sup>1</sup> EBITDA Growth



<sup>1</sup> Proforma Revenue and EBITDA are simple additions of those of Adi and Privi for the year ended 31 March 2016

# **TRANSACTION HIGHLIGHTS**

# TRANSACTION HIGHLIGHTS

- The board of directors of Adi and Privi unanimously approved a scheme of arrangement to demerge the aroma chemicals business of Privi into a wholly owned subsidiary of Adi. The Appointed Date for the said merger is fixed to be 1 August 2016.
- In consideration of the merger, Adi will issue 27 equity shares of Rs 10 each and 27 Compulsory Convertible Preference Shares of Rs 10 each for every 40 equity shares of Rs 10 each of Privi as recommended by the valuation report issued by Walker Chandiook & Co. (Grant Thornton). ICICI Securities Limited has issued a fairness opinion on the exchange ratio.
- The above swap ratio is based on Privi's post-money equity value of Rs 7,250 mm and Adi's MarketCap of Rs 3,969 mm implying Adi's share price of Rs 287/share.
- Below are the proforma financial results for the year ended 31 March 2016 for Adi, Privi and Fairchem (simple addition of Adi and Privi financial results):

## Income Statement

Rs in Mm	Adi	Privi (Proforma)	Fairchem (Proforma)
<b>For the year ending 31 March 2016</b>			
Revenue	1,525	6,276	7,802
EBITDA	233	855	1088
Net Income	106	170	276

## Balance Sheet

Rs in Mm	Adi	Privi (Proforma)	Fairchem (Proforma)
<b>For the year ending 31 March 2016</b>			
Net Fixed Assets	787	2,461	3248
Cash	2	1,755	1757
Other Assets	375	4,592	4,967
<b>Total Assets</b>	<b>1,164</b>	<b>8,808</b>	<b>9,972</b>
Shareholders Funds	633	3,567	4,200
Debt	337	2,714	3,051
Other Liabilities	194	2,527	2,721
<b>Total Liabilities</b>	<b>1,164</b>	<b>8,808</b>	<b>9,972</b>

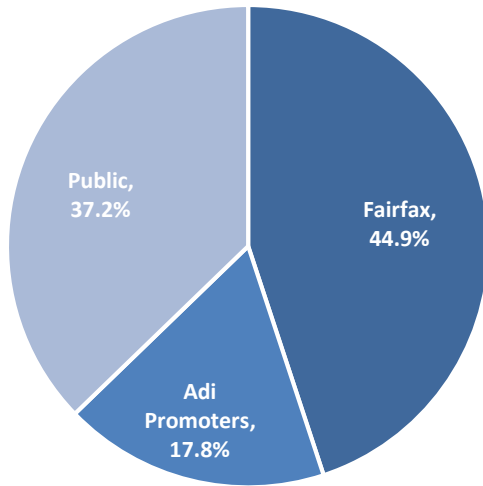
Source: Company Financial statements.

Please refer the scheme that will be filed with the stock exchanges for details of the proposed scheme of arrangement.

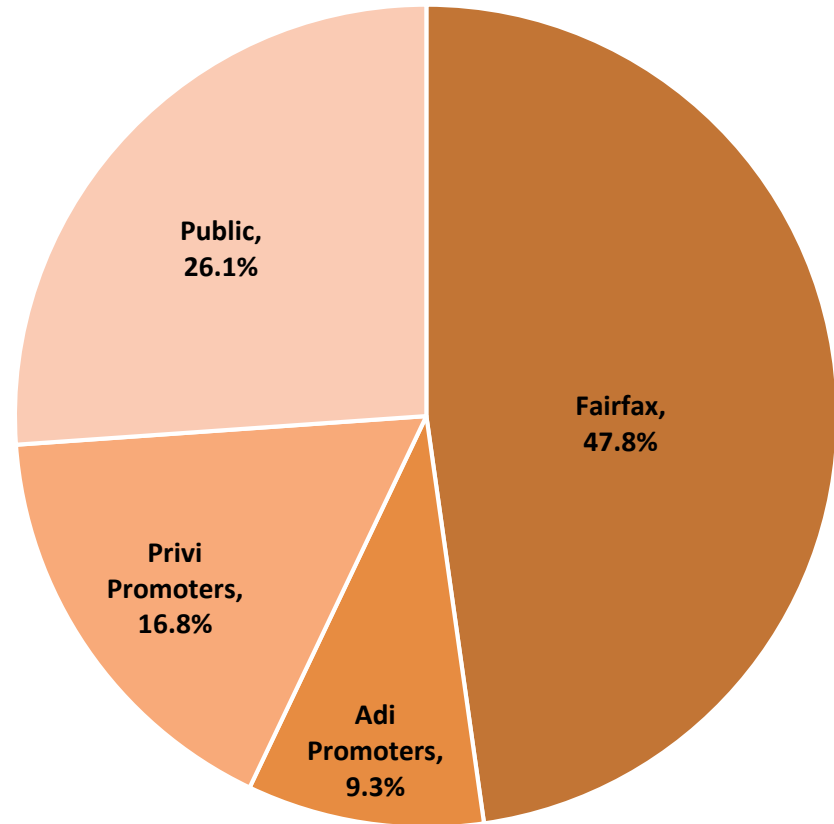
Includes Rs 1,500 mm Fairfax investment announced on 12 July 2016

# SHAREHOLDING INFORMATION

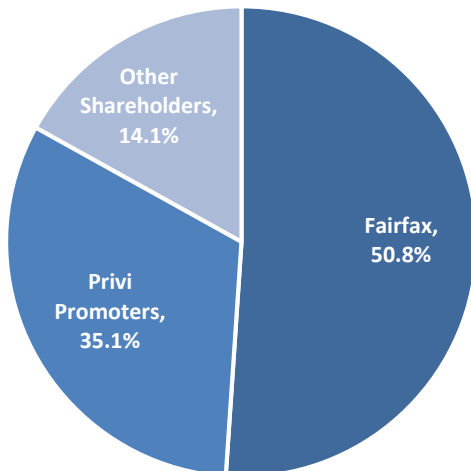
## Adi's Current Shareholding



## Post Merger Equity Shareholding



## Privi's Shareholding (pre merger)



**Note:**

In addition to the equity shares, Compulsorily Convertible Preference Shares ("CCPS") will be issued pursuant to the court approved demerger. The CCPS will be issued in the ratio of: Fairfax = 50.8%; Privi Promoters = 35.1%; Public = 14.1%. 1 CCPS will be converted into 1 equity share of Adi. The tenure of CCPS conversion will be determined by the court.



# INDICATIVE TIMETABLE

Events	Expected Completion Date <sup>1</sup>
Stock exchange approval	September 2016
Shift of registered office of Adi to Mumbai	October 2016
Shareholder and creditor approval	December 2016
Admission of petition to the High Court to approve the scheme	December 2016
Approval from regulatory authorities (Regional Director etc.)	February 2017
Obtain High Court order approving the demerger	March 2017
Listing of new equity shares issued on demerger	March 2017

<sup>1</sup> subject to requisite regulatory approvals

## **Fairchem Investor Relations**

Sanjeev Patil

Group CFO and Head of Strategy

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# FAIRFAX GUIDING PRINCIPLES

## OBJECTIVE

- We expect to compound our mark-to-market book value per share over the long term by 15% annually by running Fairfax and its subsidiaries for the long term benefit of customers, employees and shareholders - at the expense of short term profits if necessary
- Our focus is long term growth in book value per share and not quarterly earnings. We plan to grow through internal means as well as through friendly acquisitions
- We always want to be soundly financed
- We provide complete disclosure annually to our shareholders

## STRUCTURE

- Our companies are decentralized and run by the presidents except for performance evaluation, succession planning, acquisitions and financing which are done by or with Fairfax. Cooperation among companies is encouraged to the benefit of Fairfax in total
- Complete and open communication between Fairfax and subsidiaries is an essential requirement at Fairfax
- Share ownership and large incentives are encouraged across the Group
- Fairfax will always be a very small holding company and not an operating company

## VALUES

- Honesty and integrity are essential in all our relationships and will never be compromised.
- We are results oriented - not political
- We are team players – no “egos”. A confrontational style is not appropriate. We value loyalty - to Fairfax and our colleagues
- We are hard working but not at the expense of our families
- We always look at opportunities but emphasize downside protection and look for ways to minimize loss of capital
- We are entrepreneurial. We encourage calculated risk taking. It is all right to fail but we should learn from our mistakes
- We will never bet the company on any project or acquisition
- We believe in having fun - at work!

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**FAIRCHEM SPECIALITY LIMITED**

*(formerly known as Adi Finechem Limited)*

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[www.adifinechem.com](http://www.adifinechem.com) / [www.privi.com](http://www.privi.com)