Fineotex Chemical (FTXC IN)

Rating: Not Rated | CMP: Rs62 | TP: NA

March 22, 2021

Management Meet Update

On a strong footing

Quick Pointers:

- Textile chemicals account for ~3% of total cost of textile production and high impact cost on finishing makes customer demand sticky.
- Plans to extend the chemistry beyond textiles to high growth areas of home care, hygiene and Oil & Gas to drive revenues ahead.
- Capacity expansion to be commissioned in Q1FY22 and management expects to double revenues by FY24.

In our interaction with Fineotex Chemicals the management indicated that 1) rising preference among companies to diversify supplies beyond China, augurs well for Indian textiles players and Fineotex and 2) increased demand for chemical treatments like water and oil repellant properties, anti-microbial properties etc. along with tailored solutions to textile majors also bode well for its growth plans in domestic and export markets. Capacity expansion will be commissioned by Q1FY22 which management expects can potentially double revenues by FY24. Margins are likely to improve as Fineotex targets higher wallet share among customers. On an annualized 9MFY21 numbers, the stock trades at PER of ~15x FY21. NOT RATED.

Key highlights of the interaction are:

Well poised to ride on increased textiles opportunities: Fineotex is one of India's leading specialty chemical player that provides products across the textile value chain. With nearly four decades of experience, deep relationship with major textile companies in India and global markets, and technology backup from Biotex Malaysia, where it holds 73% stake, Fineotex is well poised to ride on increased textiles opportunities as companies look to diversify their supply base beyond China. The company's operations are backed by highly valued certifications like Bluesign, REACH and ZDHC, Zero Discharge of Hazardous Certification.

Targeting high wallet share: Fineotex aims to garner higher wallet share of customers by developing more tailored value added products that will save power and water consumption along with reduced effluent treatments cost. Also, increased requirement for chemical treatment in fabrics, given rising preference for anti-microbial products will add to margins.

Cost of chemicals in textile processing is extremely low at ~3% which creates a high entry barrier for new entrants. Further the risk to change the chemicals is high and can lead to fabric damage and hence make customer demand sticky. There is also a great need for customization of the product, where Finoetex effectively competes with reputed names like Clariant, BASF, ICI, Archroma etc.

Key Financials - Consolidated

Y/e Mar	FY17	FY18	FY19	FY20
Sales (Rs. m)	1,270	1,411	1,823	1,963
EBITDA (Rs. m)	295	300	344	348
Margin (%)	*23.2*	*21.2*	*18.9*	*17.7*
PAT (Rs. m)	258	227	224	257
EPS (Rs.)	2.3	2.0	2.0	2.3
Gr. (%)	*51.4*	*-12.0*	*-1.5*	*15.0*
DPS (Rs.)	0.1	0.2	0.1	0.1
Yield (%)	*0.3*	*0.3*	*0.2*	*0.3*
*Adj RoE (%)**	*26.8*	*18.3*	*15.8*	*17.5*
*Adj RoCE (%)**	*26.1*	*21.9*	*21.5*	*21.1*
EV/Sales (x)	5.1	4.6	3.6	3.3
EV/EBITDA (x)	*22.0*	*21.7*	*18.9*	*18.7*
PE (x)	*26.7*	*30.4*	*30.7*	*27.0*
P/BV (x)	*6.1*	*5.1*	*4.3*	*4.1*

**Adjusted for Non-Cash Items*

Key Data	FINE.BO | FTXC IN
52-W High / Low	Rs. 76 / Rs. 12
Sensex / Nifty	49,802 / 14,721
Market Cap	Rs. 6.7bn/ $ 92.1m
Shares Outstanding	110.7 m
3M Avg. Daily Value	Rs.75.5 m

Shareholding Pattern (%)

Promoter's	64.72
Foreign	0.00
Domestic Institution	5.97
Public & Others	29.31
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(15.2)	88.5	297.7
Relative	(13.3)	59.0	231.5

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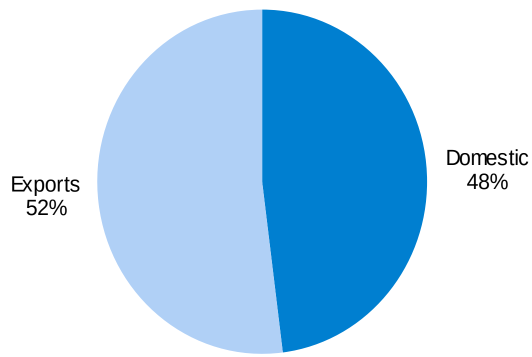
Diversifying beyond textiles: Leveraging expertise in textiles specialties the company is targeting new growth opportunities in Home Care, Cleaning, Hygiene and Drilling Specialty Chemicals. Within the home care and hygiene, Fineotex plans to collaborate with leading branded detergent manufacturers for their polymer requirements. The company also has speciality chemical offerings in Oil and Gas space.

Innovative technology to control mosquito menace: A Mosquito life cycle control product has been developed by the R&D team of Biotex. It is a nontoxic eco-friendly solution with European technology to control mosquito life cycle. The same has been approved by Ministry of Health Malaysia, Singapore PUB, European Union, NSF and relevant authorities in Vietnam and Cambodia. However, the product is yet to be approved by the Indian authorities.

Synergistic relation with Biotex, Malaysia: Fineotex shares a highly synergistic relation with Biotex Malaysia and acquired 60% stake in 2011 for USD1.8mn and currently holds 73% stake in Biotex. While Fineotex has over 400 products spanning entire textile value chain from pre-treatment to finishing, Biotex has over 50 products and is into development of products for high end super speciality textile chemicals. Also Fineotex mainly targets domestic customers, while Biotex focusses more on international customers.

Targeting global markets: Backed by end to end product offerings for entire textile value chain, the company exports its products to over 60 countries and accounts for 52% of FY20 sales. The company has presence across key international textile hubs, such as Brazil, Bangladesh, Germany, Indonesia, Malaysia, Thailand, USA and Vietnam. The company competes with Huntsman, Archroma, etc. globally.

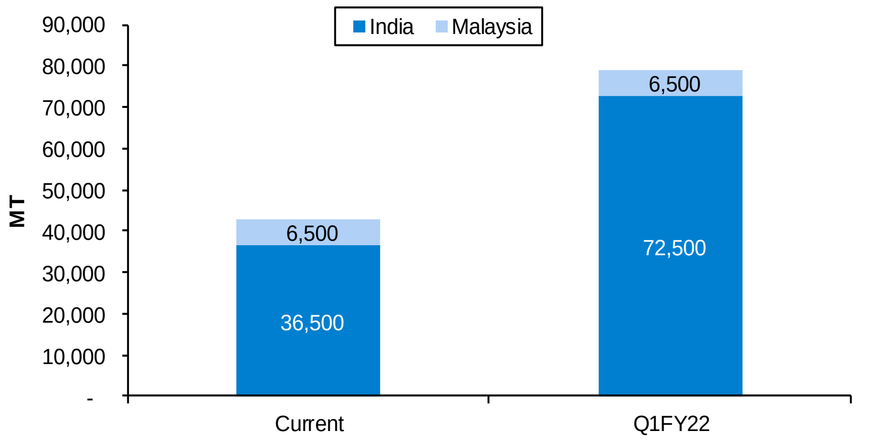
Exhibit 1: Fineotex exports to 60 countries accounted for 52% of FY20 sales



Source: Company, PL

Expansion to double capacity: Fineotex has two plants in Maharashtra (36,500MT) and Malaysia (6,500MT) currently operating at ~55% capacity. With plant optimum capacity at 75% and plans to diversify beyond textiles to home care, hygiene and oil & drilling chemical, the company will commission 36,000MT by Q1FY22E at Ambernath. Management expects the modern plant can potentially double revenues by FY24 once utilization rates improve and capex gets funded from internal accruals. Fineotex has overall asset turn of over 6x and expects to maintain even for new investment.

Exhibit 2: Fineotex capacity buildup



Source: Company, PL

Marquee customer list: The company has reputed clientele in textiles such as Raymond, Himmatsingka, Chenab Textile, Vardhman Textile, Mahavir Spinning, Reliance Industries, Indocount, Nahar, the Aditya Birla group.

Financial analysis: Fineotex consolidated revenues increased at a CAGR of 16% over FY17-20. However, led by lower gross margins and higher cost, EBIDTA increased at 6%CAGR to Rs348m in FY20. EBIDTA margins for FY20 were at 17.4% vs 21.9% in FY17. FY20 PAT was at Rs269mn vs Rs291mn in FY17, due to lower other income and higher depreciation.

9MFY21 financials bounce back sharply: For 9MFY21, while revenues were at Rs1.4bn (-6%YoY) due to weak Q1 given pandemic restrictions, EBIDTA was at Rs277mn (+4%YoY) and PAT was at Rs326mn (+60%YoY) due to higher other income of Rs146mn (+517%YoY). 9MFY21 EBIDTA margins were at 19.3% (+190bps YoY) and Q3FY21 margins were at 23.3% (+790bps YoY).

Liquid BS: Fineotex maintains a highly liquid BS with net cash of Rs500m as on Q3FY21.

Exhibit 3: Q3FY21 Consolidate result Overview (Rs mn)

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	9MFY21	9MFY20	YoY gr. (%)
Net Sales	**584**	**521**	***12.1***	**547**	**1,435**	**1,528**	***(6.1)***
Cost of material consumed	235	245	*(4.1)*	245	613	713	*(14.0)*
Purchase of stock in trade	116	66	*75.0*	107	323	233	*38.5*
Changes in inventories	(2)	19	*(109.1)*	6	(18)	20	*(189.8)*
RM cost	350	331	*5.7*	359	918	966	*(4.9)*
GP	**234**	**190**	***23.2***	**188**	**517**	**562**	***(8.0)***
GP (%)	*40.1*	*36.5*		*34.4*	*36.0*	*36.8*	
Employee benefits expense	26	21	*25.2*	20	61	62	*(0.6)*
Other expenses	72	89	*(19.4)*	69	178	233	*(23.7)*
Operating expenses	447	440	*1.6*	448	1,158	1,261	*(8.2)*
EBITDA	**136**	**80**	***69.9***	**100**	**277**	**266**	***4.0***
Margin (%)	*23.3*	*15.4*		*18.2*	*19.3*	*17.4*	
Depreciation	4	3	*31.2*	3	11	8	*27.5*
EBIT	**132**	**77**	***71.4***	**96**	**266**	**258**	***3.2***
Finance cost	2	2	*10.2*	1	4	5	*(5.1)*
Other Income	55	31	*74.5*	38	146	24	*517.2*
PBT before exceptional items	**185**	**107**	***73.2***	**133**	**408**	**277**	***47.2***
Exceptional Income / Expenses							
PBT	**185**	**107**	***73.2***	**134**	**408**	**277**	***47.2***
Tax expenses	51	26	*97.2*	23	82	72	*12.5*
PAT	**134**	**81**	***65.5***	**112**	**326**	**204**	***59.5***

Source: Company, PL

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	BUY	1,314	1,159
2	Bharat Petroleum Corporation	BUY	505	455
3	GAIL (India)	Accumulate	139	134
4	Gujarat Gas	BUY	528	380
5	Hindustan Petroleum Corporation	BUY	315	230
6	Indian Oil Corporation	BUY	124	96
7	Indraprastha Gas	BUY	662	557
8	Mahanagar Gas	BUY	1,313	1,129
9	NOCIL	BUY	182	143
10	Oil & Natural Gas Corporation	BUY	125	97
11	Oil India	Accumulate	117	113
12	Petronet LNG	BUY	403	242
13	Reliance Industries	BUY	2,232	2,008

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Buy	:	>15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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