

Company Update

Fineotex Chemical Ltd

Bloomberg Code: FTXC IN

India Research - Stock Broking

BUY

H1FY17 Performance in-line amidst Persisting Uncertainty: The company's consolidated revenue in H1FY17 has grown by 3.8% to Rs. 590 Mn as against Rs. 568 Mn in H1FY16. However, it has registered mild de-growth by -0.8% QoQ basis wherein revenue de-grew to Rs. 294 Mn from Rs. 296 Mn. The mild de-growth has been on account of currency exchange rate fluctuations loss occurred during the aforesaid quarters and lower demand for high value added products due to seasonal effect. The company has witnessed improvement in its volume growth about 5% to 8% during the QoQ basis. Nonetheless, we have revised our estimates downside keeping in view tightened liquidity situation which has arisen following de-monetization of Rs.1000 and Rs.500 currency notes which may result into contracting manufacturing activities during upcoming quarters. The company's major focus on value added product will enhance appeal of its product basket offerings. We expect that going forward, earnings of the company will register stable top-line growth at CAGR of 6.6% during FY16-18E which will have overall positive bearing on bottom-line in view of focus on margin based products and also with likely improvements in macro-economic environment.

Improved Margin Performance: The company's gross margin/EBITDA margin and PAT margin have grown by 454bps/149bps/402bps YoY basis and 132bps/105bps/321bps QoQ basis to 41.5%/23.4%/18.0% during Q2FY17, respectively on account of high margin business growth. The improvements in margins have been supported by lower other expenses, lower finance cost and higher other income. We expect that margin trend likely to continue going forward and the company to maintain EBITDA margin around 24% and PAT Margin of around 16%.

Valuation and Outlook

We continue with our earlier positive long term outlook on the company and recommend "BUY" on stock for an upwardly revised target price of Rs. 34.7 which represents to an upside of 22.5%. At CMP of Rs. 28.3, the stock is trading at P/Ex of 15.8 of its FY18E EPS of Rs. 1.8. We are positive on the back of constant focus on value added products will drive the revenue to healthy return ratios i.e., RoE/RoCE of over 18%/20%, EBITDA margin of over 24%, Zero debt and continuous dividend payment.

Exhibit 1: Valuation Summary

YE Mar (Rs. Mn)	FY14	FY15	FY16	FY17E	FY18E
Net Sales	867	1020	1087	1142	1236
EBITDA	92	165	265	281	308
EBITDA Margin (%)	10.7	16.2	24.4	24.6	24.9
Adj. Net Profit	65	129	170	183	201
EPS (Rs.)	0.6	1.2	1.5	1.6	1.8
RoE (%)	10.6	18.3	20.3	19.0	18.4
PE (x)	10.2	19.4	21.3	17.4	15.8

Source: Company, Karvy Research; *Represents multiples for FY14, FY15 & FY16 are based on historic market price

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Recommendation (Rs.)

CMP	28.3
Target Price	34.7
Previous Target Price	33.0
Upside (%)	22.5

Stock Information

Mkt Cap (Rs.mn/US\$ mn)	3161 / 46
52-wk High/Low (Rs.)	41 / 20
3M Avg. daily volume (mn)	0.4
Beta (x)	1.3
Sensex/Nifty	25860 / 7966
O/S Shares(mn)	112.3
Face Value (Rs.)	2.0

Shareholding Pattern (%)

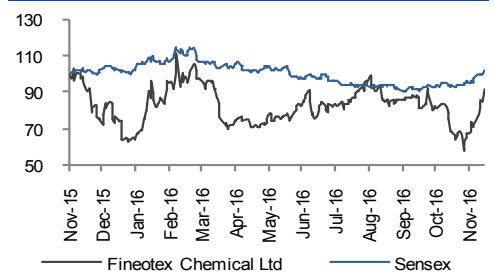
Promoters	71.72
FIIIs	0.00
DIIIs	0.03
Others	28.25

Stock Performance (%)

	1M	3M	6M	12M
Absolute	(16)	6	(6)	12
Relative to Sensex	(9)	14	(9)	11

Source: Bloomberg

Relative Performance*



Source: Bloomberg; *Index 100

Earnings Revision (%)

YE Mar	FY17E	FY18E
Sales (%)	↓ (2.8)	↔ 0.0
EBITDA (%)	↓ (2.9)	↑ 0.2
PAT (%)	↓ (2.3)	↑ 0.5

Source: Karvy Research;

Analyst Contact

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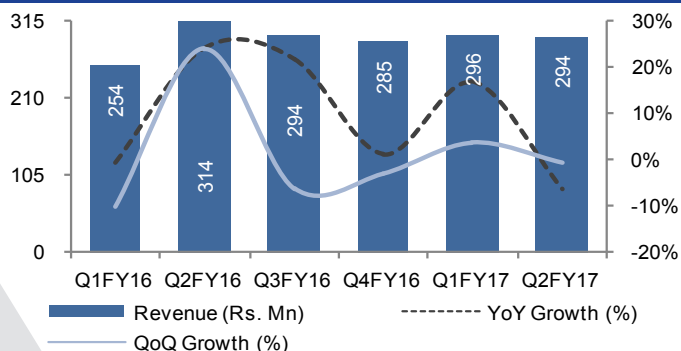
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Exhibit 2: Q2FY17

YE Mar (Rs. Mn)	Q2FY17	Q1FY17	QoQ %	Q2FY16	YoY %	H1FY17	H1FY16	YoY %
Turnover	294	296	(0.8)	314	(6.6)	590	568	3.8
Expenditure	225	230	(2.1)	245	(8.3)	455	442	3.0
EBITDA	69	66	3.9	69	(0.2)	135	126	6.7
Depreciation	2	1	10.4	1	28.5	3	3	18.0
Interest	1	1	(9.6)	1	6.3	2	2	(14.6)
Other Income	16	7	138.2	8	98.3	22	14	55.9
PBT	82	70	16.4	75	9.6	152	136	11.9
Tax	21	20	4.0	23	(6.8)	42	42	(1.2)
PAT	53	44	20.7	44	20.3	97	80	20.2
EBITDA Margin (%)	23.4	22.3	105 bps	21.9	149 bps	22.8	22.2	60 bps
EBIT Margin(%)	28.1	24.0	409 bps	24.0	414 bps	26.1	24.3	179 bps
Net Profit Margin (%)	18.0	14.8	321 bps	14.0	402 bps	16.4	14.2	223 bps

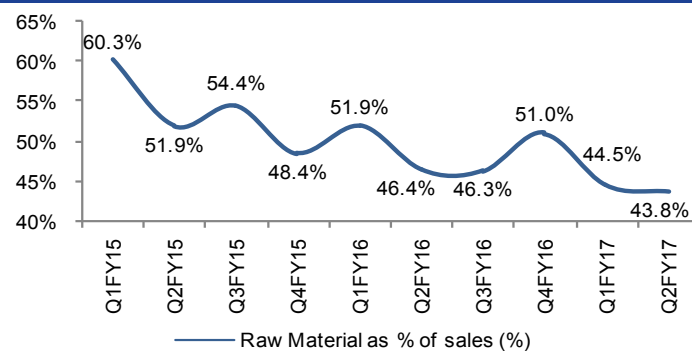
Source: Company, Karvy Research

Exhibit 3: Quarterly Revenue Trend & Revenue growth



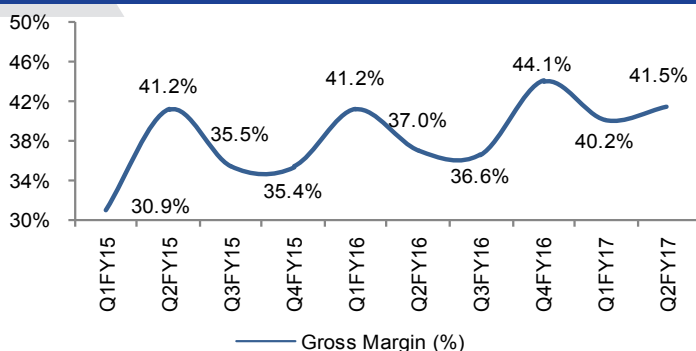
Source: Company, Karvy Research

Exhibit 4: Raw Material as % of sales (%)



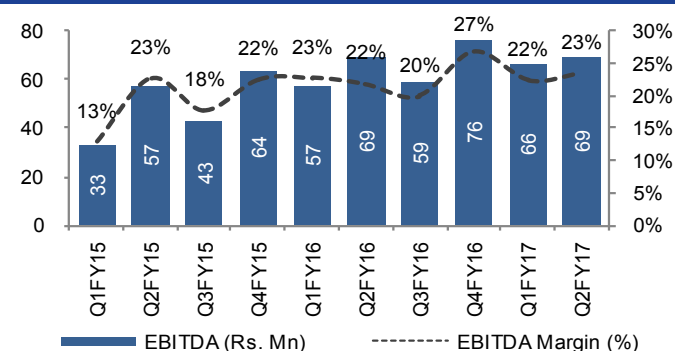
Source: Company, Karvy Research

Exhibit 5: Quarterly Gross Margin Trend (%)



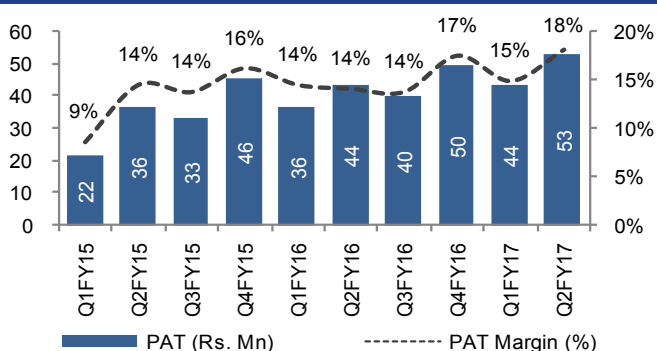
Source: Company, Karvy Research

Exhibit 6: Quarterly EBITDA & EBITDA margin (%)



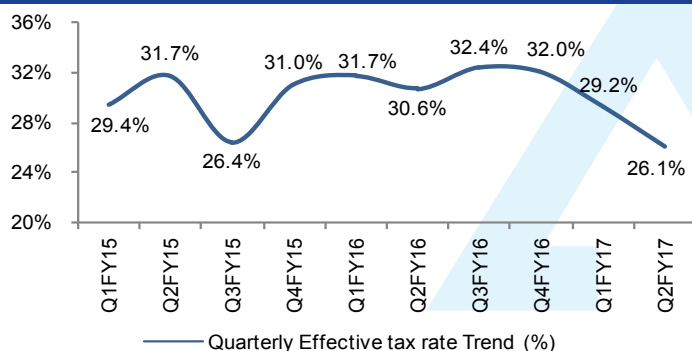
Source: Company, Karvy Research

Exhibit 7: Quarterly PAT & PAT margin (%) Trend

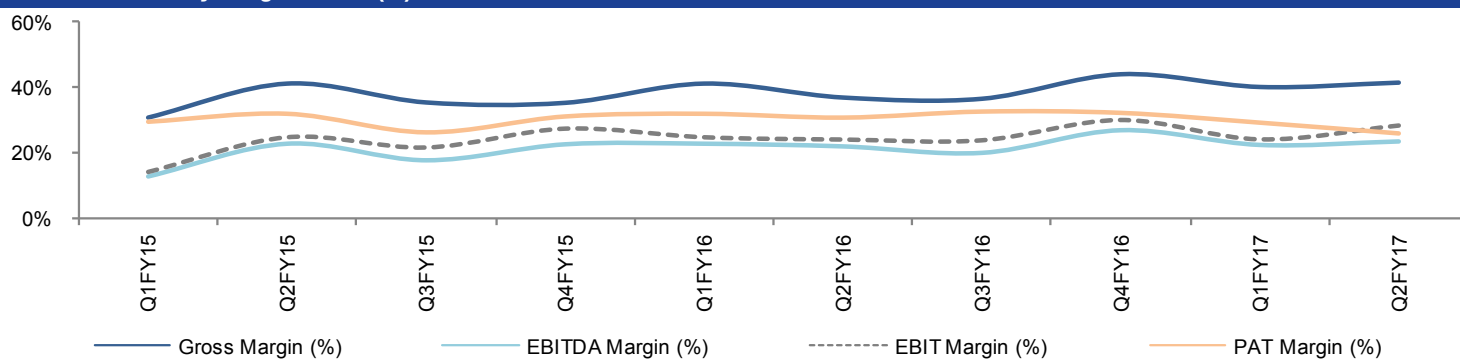


Source: Company, Karvy Research

Exhibit 8: Quarterly Effective tax rate Trend (%)



Source: Company, Karvy Research

Exhibit 9: Quarterly Margins Trend (%)


Source: Company, Karvy Research

Key Takeaways of Conference Call:

Revenue Analysis: FCL experienced revenue growth at 3.8% in H1FY17 YoY basis from Rs.568 mn to Rs. 590 Mn due to better performance of advance specialty chemicals. However, it recorded flattish growth of -0.8% QoQ basis from Rs.296 mn to Rs. 294 Mn during the quarter on account of currency exchange fluctuation loss and lower demand for high value added products due to seasonal effect. We expect that focus on more advanced chemicals like eco-friendly non-toxic products that kill mosquito life cycle, expanding geographic wings (point in case is the company entering into Iran engaging with 4 agents), increase distributors list from 68 in Q1FY17 to 74 in Q2FY17 with sole selling policy to channelize its efforts in view of long term relationship which will support the topline growth at CAGR of 6.6% during FY16-18E.

EBITDA Analysis: FCL's EBITDA rose at 3.9% on QoQ basis to Rs. 69 Mn in Q2FY17 as against Rs. 66 Mn in Q1FY17 and it grew 6.7% YoY basis in H1FY17 when compared with H1FY16. EBITDA margin increased by 149 bps YoY and 105 bps QoQ. The company has reported 23.4% EBITDA margin in Q2FY17 on support from innovate advance specialty chemicals which require less raw material. Its other expenses as a percentage of sales have increased by 198 bps YoY and 41 bps QoQ to Rs. 43 Mn due to promotional activities in Q2FY17.

PAT Analysis: Lower finance cost, lower tax and higher other income aided profits during the quarter. Lower finance costs were mainly due to no debt taken during the quarter. Higher other income has been generated with higher investment in mutual funds, dividend etc. Effective tax rate was lower at 26.1% in Q2FY17 from 29.2% in Q1FY17. Finally, the company reported PAT growth at 20.3% YoY to Rs. 53 Mn during Q2FY17 which has been in-line with our estimates.

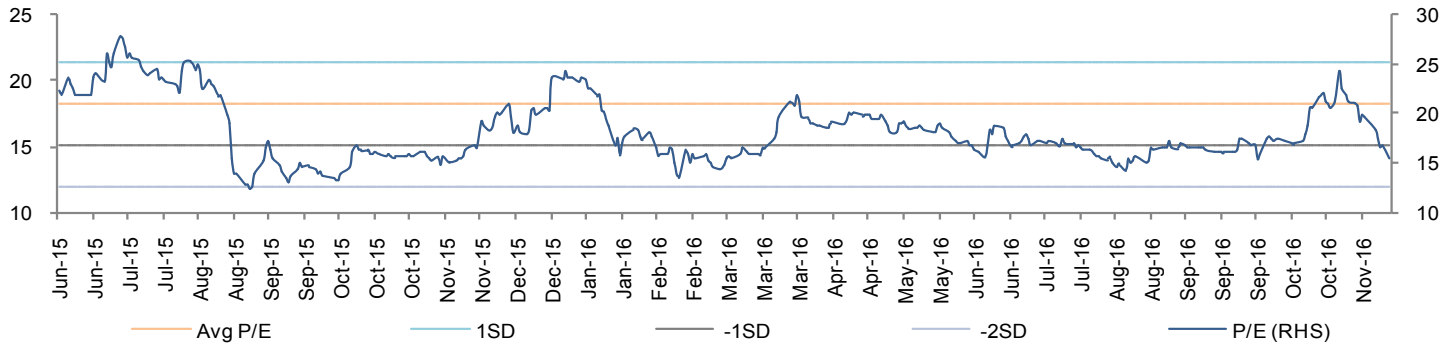
Change in Estimates: We have revised our revenue estimates down by ~2.8% due to demonetization of Rs.1000 and Rs.500 currency notes which has potential of adversely impacting production and demand of textile products in the short run where there is greater application of the company's products. However, we maintain our positive outlook with likely revenue growth of 8.3% YoY to Rs. 1236 Mn during FY18E. We have revised our EBITDA estimates down for FY17E from Rs. 289 Mn to Rs. 281Mn, implying to -2.9%. While we have maintained our EBITDA for FY18E at the same level of Rs. 308 Mn on the back of softening of crude oil prices (i.e., 20% raw material based on crude oil price) and enhanced value chain contributing higher products which require lower raw materials. Thus, PAT estimates for FY17E have been revised down by 2.3% from Rs. 187 Mn to Rs. 183 Mn. While PAT estimates for FY18E have been revised up from Rs. 200 Mn to Rs. 201 Mn, implying to 0.5%.

Exhibit 10: Change in Estimates

YE Mar (Rs. Mn)	FY17E			FY18E		
	Old	New	% Change	Old	New	% Change
Net Sales	1175	1142	(2.8)	1236	1236	0.0
EBITDA	289	281	(2.9)	307	308	0.2
EBITDA Margin (%)	24.6	24.6	(2) bps	24.8	24.9	7 bps
Adj. Net Profit	187	183	(2.3)	200	201	0.5
EPS (Rs.)	1.69	1.63	(3.8)	1.78	1.79	0.4

Source: Company, Karvy Research

Exhibit 11: PE Band



Source: BSE, Karvy Research

Upcoming Event: The company has announced buy back of shares in open market around 0.89% of total outstanding 112.3 Mn shares at the face value of Rs. 2 (not exceeding 9,98,110 no. of shares) at a price not exceeding Rs. 40 (including premium of Rs. 38 per equity share) which is payable in cash amount of upto Rs. 39.9 Mn. We have factored share reduction on account of buyback in our estimates.

Financials

Exhibit 12: Income Statement

YE Mar (Rs. Mn)	FY14	FY15	FY16	FY17E	FY18E
Revenues	867	1020	1087	1142	1236
Growth (%)	(9.6)	17.7	6.6	5.0	8.3
Operating Expenses	774	855	822	861	929
EBITDA	92	165	265	281	308
Growth (%)	10.7	16.2	24.4	24.6	24.9
Depreciation & Amortization	3	5	6	8	11
Other Income	28	45	33	35	38
EBIT	118	205	292	307	334
Interest Expenses	4	3	4	3	0
PBT	112	202	289	304	334
Tax	33	56	91	96	106
Adjusted PAT	65	129	170	183	201
Growth (%)	(7.6)	98.7	31.9	7.2	10.0

Source: Company, Karvy Research

Exhibit 13: Balance Sheet

YE Mar (Rs. Mn)	FY14	FY15	FY16	FY17E	FY18E
Cash & Cash Equivalents	127	100	95	96	134
Trade Receivables	219	217	254	250	271
Inventory	114	104	115	114	122
Loans & Advances & Others	184	177	158	160	163
Investments	158	293	390	421	484
Net Block	76	117	131	203	271
Total Assets	879	1008	1142	1244	1446
Current Liabilities & Provisions	147	166	145	156	166
Debt	7	10	30	0	0
Other Liabilities	77	69	53	79	106
Total Liabilities	231	244	229	235	273
Shareholders Equity	112	225	225	223	223
Reserves & Surplus	535	539	688	787	951
Total Networth	648	763	913	1009	1173
Total Networth & Liabilities	879	1008	1142	1244	1446

Source: Company, Karvy Research

Exhibit 14: Cash Flow Statement

YE Mar (Rs. Mn)	FY14	FY15	FY16	FY17E	FY18E
PBT	112	202	289	304	334
Depreciation	3	5	6	8	11
Interest	4	3	0	3	0
Tax Paid	(26)	(43)	(102)	(96)	(106)
Inc/dec in Net WC	(59)	4	(42)	13	(21)
Other Income	(25)	(43)	(14)	(35)	(38)
Other non cash items	1	(9)	(30)	0	0
Cash flow from operating activities	9	120	106	197	180
Inc/dec in capital expenditure	(7)	(52)	(15)	(80)	(80)
Inc/dec in investments	142	(97)	(87)	(31)	(63)
Others	(16)	25	5	35	38
Cash flow from investing activities	119	(124)	(98)	(76)	(105)
Inc/dec in borrowings	(28)	(19)	20	(30)	0
Dividend paid	(6)	(6)	(35)	(37)	(37)
Interest paid	(4)	(3)	(0)	(3)	0
Cash flow from financing activities	(38)	(28)	(15)	(110)	(37)
Net change in cash	90	(32)	(6)	11	38

Source: Company, Karvy Research

Exhibit 15: Key Ratios

YE Mar	FY14	FY15	FY16	FY17E	FY18E
EBITDA Margin (%)	10.7	16.2	24.4	24.6	24.9
EBIT Margin (%)	13.6	20.1	26.9	26.9	27.0
Net Profit Margin (%)	7.5	12.7	15.7	16.0	16.3
Dividend Payout Ratio (%)	17.3	8.7	19.7	18.4	16.8
Net Debt/Equity (x)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
RoE (%)	10.6	18.3	20.3	19.0	18.4
RoCE (%)	12.2	19.5	22.0	20.2	19.4

Source: Company, Karvy Research

Exhibit 16: Valuation Parameters

YE Mar	FY14	FY15	FY16	FY17E	FY18E
EPS (Rs.)	0.6	1.2	1.5	1.6	1.8
DPS (Rs.)	0.1	0.1	0.3	0.3	0.3
BVPS (Rs.)	5.8	6.8	8.1	9.0	10.4
PE (x)	10.2	19.4	21.3	17.4	15.8
P/BV (x)	1.0	3.3	4.0	3.1	2.7
EV/EBITDA (x)	6.4	15.0	13.7	11.2	10.2
EV/Sales (x)	0.7	2.4	3.3	2.8	2.5

Source: Company, Karvy Research; *Represents multiples for FY14, FY15 & FY16 are based on historic market price

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: <5%

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