

Company Update

Fineotex Chemical Ltd

Bloomberg Code: FTXC IN

India Research - Stock Broking

BUY

Decent Performance under Macroeconomic Pressure; Business Traction to Continue:

Fineotex Chemical recorded decent set of result as consolidated sales grew by 1.1% YoY (largely in line) to Rs. 298 Mn in Q3FY17 as against of Rs. 294 Mn in Q3FY16. In such a challenging business environment, the consolidated sales volume surged by ~10.0% YoY on the back of high demand from end users and increased client portfolio during the period. EBITDA margin also got increased by 379 bps YoY to 23.7% in Q3FY17 as against of 19.9% in Q3FY16 substantiating strong operating performance of the business during the aforesaid period. Such performance has been the outcome of constant focus on high yield chemicals and innovation. PAT has shown growth of 10.1% YoY to Rs. 44 Mn as against of Rs. 40 Mn in Q3FY16. The PAT margin stood at 14.9%, up by 122 bps YoY basis.

In 9MFY17, the revenue increased by 2.9% to Rs. 887 Mn as compared to Rs. 862 Mn YoY basis. EBITDA stood at Rs. 205 Mn showing a growth of 11.0% YoY along with EBITDA margin recorded at 23.1%, gaining by 169 bps YoY. PAT is at Rs. 141 Mn showing strong growth of 16.8% YoY.

“AquaStrike VCF” addition to portfolio - supports topline growth: During the quarter, the company succeeded in getting approval of its new product by the name of “AquaStrike VCF” (a non-toxic mosquito life cycle killer) from Ministry of Health in Malaysia, Singapore Public Utility Board, Vietnam and Cambodia by their respective authorities while approval from European authorities is awaited. Going forward, this newly launched product along with management move to expand its geographic reach will contribute in substantial growth in top line.

Valuation and Outlook

We continue to maintain our positive outlook on the company’s business on the back of healthy balance sheet with zero debt, robust return ratio, continuous dividend paid, high entry barrier business due to long approval process & validate (> 12 month) from customer end, continued improvement in quality of products and its properties and new additions of customer base coupled with product approvals coming from various international countries will augur well for the company. Currently, the stock is trading at P/E 18.5x to FY18E EPS. Looking at brighter growth prospects, we have revised target price to Rs.40 valuing stock at P/E 21.2x of FY18E EPS which represents to 15% upside with **“BUY”** recommendation for the period of 12-15 months.

Exhibit 1: Valuation Summary

YE Mar (Rs. Mn)	FY14	FY15	FY16	FY17E	FY18E
Net Sales	867	1020	1087	1175	1272
EBITDA	92	165	265	289	319
EBITDA Margin (%)	10.7	16.2	24.4	24.6	25.1
Net Profit	65	129	170	188	211
EPS* (Rs.)	**0.6	1.2	1.5	1.7	1.9
RoE (%)	10.6	18.3	20.3	19.5	19.2
PE (x) [#]	10.2	19.4	21.3	20.7	18.5

Source: Company, Karvy Research, *Adjusted for stock split of 1:5, **Adjusted bonus shares issued in proportion of 1:1 on face value of Rs. 10, [#]Represents multiples for FY14, FY15 & FY16 are based on historic market price

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Recommendation (Rs.)

CMP (as on Feb 21, 2017)	35
Target Price	40
Previous Target Price	35
Upside (%)	15

Stock Information

Mkt Cap (Rs.mn/US\$ mn)	3873 / 58
52-wk High/Low (Rs.)	41 / 21
3M Avg. daily volume (mn)	0.2
Beta (x)	1.4
Sensex/Nifty	28762 / 8908
O/S Shares(mn)	111.3
Face Value (Rs.)	2.0

Shareholding Pattern (%)

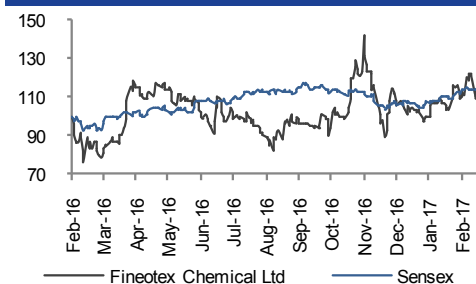
Promoters	72.0
FII	0.1
DII	0.1
Others	27.8

Stock Performance (%)

	1M	3M	6M	12M
Absolute	21	39	29	51
Relative to Sensex	13	25	26	24

Source: Bloomberg

Relative Performance*



Source: Bloomberg; *Index 100

Earnings Revision (%)

YE Mar	FY17E	FY18E
Sales (%)	↑ 2.9	↑ 2.9
EBITDA (%)	↑ 3.1	↑ 3.7
PAT (%)	↑ 3.2	↑ 5.2

Source: Karvy Research;

Analyst Contact

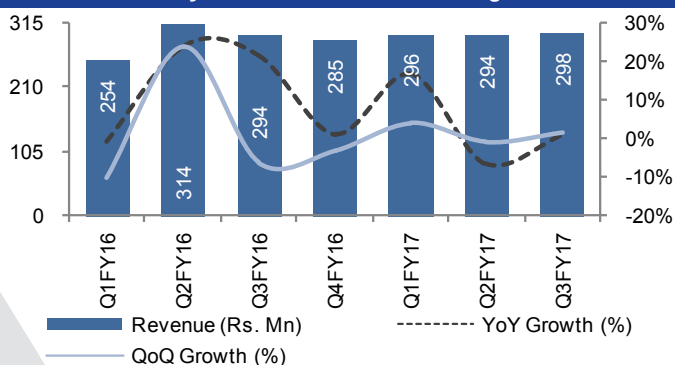
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Exhibit 2: Q2FY17

YE Mar (Rs. Mn)	Q3FY17	Q2FY17	QoQ %	Q3FY16	YoY %	9M FY17	9M FY16	YoY%
Turnover	298	294	1.4	294	1.1	887	862	2.9
Expenditure	227	225	0.9	236	(3.7)	682	677	0.7
EBITDA	71	69	2.9	59	20.3	205	185	11.0
Depreciation	2	2	4.2	1	30.0	5	4	22.0
Interest	1	1	40.0	1	42.6	3	3	1.7
Other Income	12	16	(21.1)	13	(2.0)	34	27	28.7
PBT	80	82	(2.1)	69	15.8	232	205	13.2
Tax	26	21	22.3	22	16.3	68	65	4.9
PAT	44	53	(16.1)	40	10.1	141	121	16.8
EBITDA Margin (%)	23.7	23.4	36 bps	19.9	379 bps	23.1	21.4	169 bps
EBIT Margin(%)	27.3	28.1	(83) bps	23.7	354 bps	26.5	24.1	238 bps
Net Profit Margin (%)	14.9	18.0	(311) bps	13.7	122 bps	15.9	14.0	189 bps

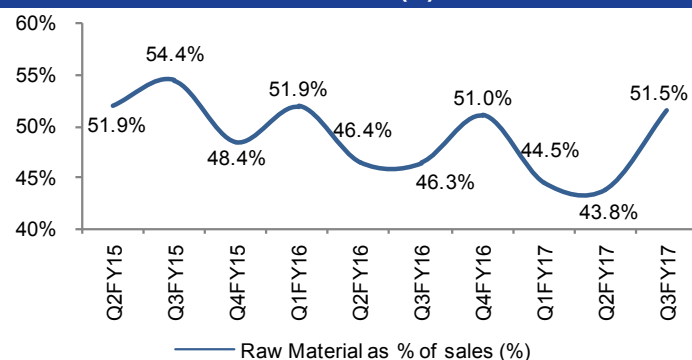
Source: Company, Karvy Research

Exhibit 3: Quarterly Revenue Trend & Revenue growth



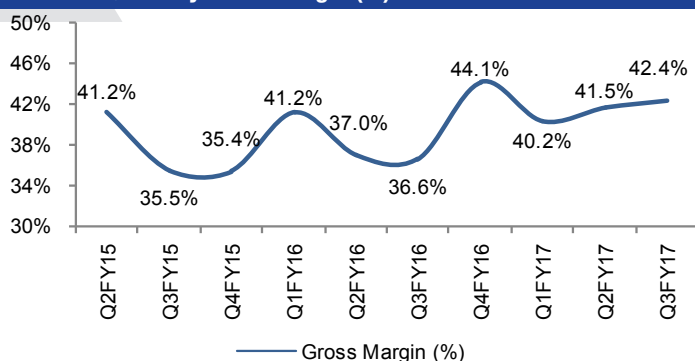
Source: Company, Karvy Research

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



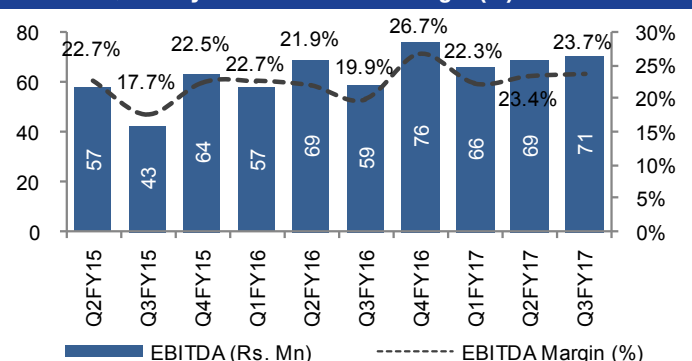
Source: Company, Karvy Research

Exhibit 5: Quarterly Gross Margin (%)



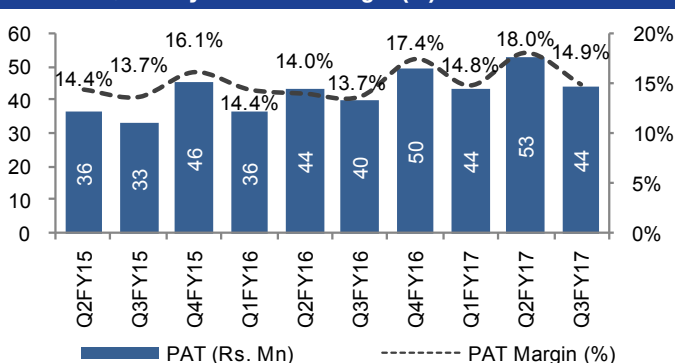
Source: Company, Karvy Research

Exhibit 6: Quarterly EBITDA & EBITDA Margin (%)



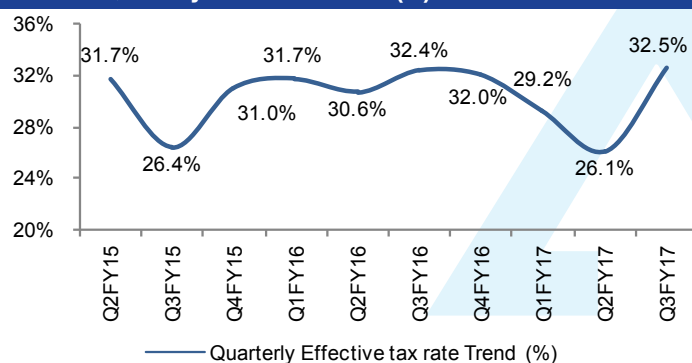
Source: Company, Karvy Research

Exhibit 7: Quarterly PAT & PAT Margin (%)



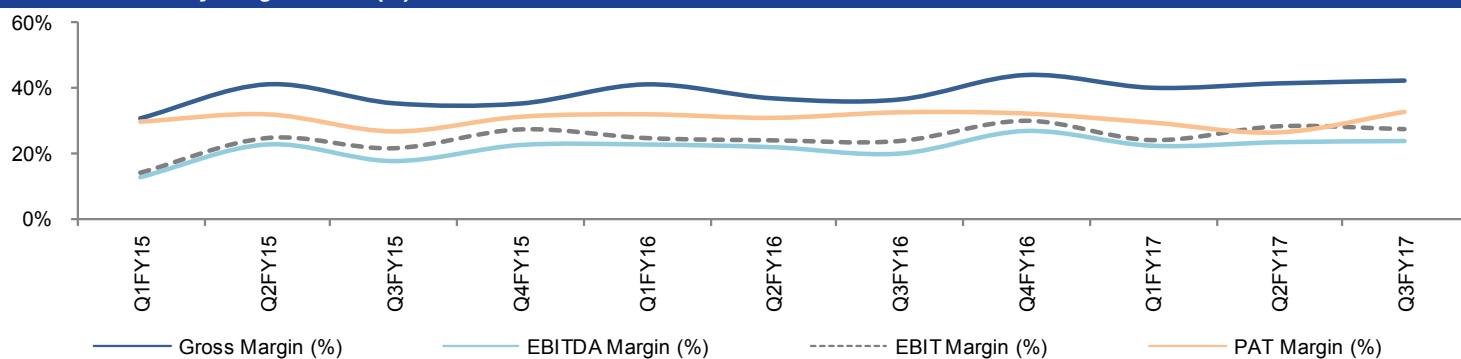
Source: Company, Karvy Research

Exhibit 8: Quarterly Effective tax rate (%)



Source: Company, Karvy Research

Exhibit 9: Quarterly Margins Trend (%)



Source: Company, Karvy Research

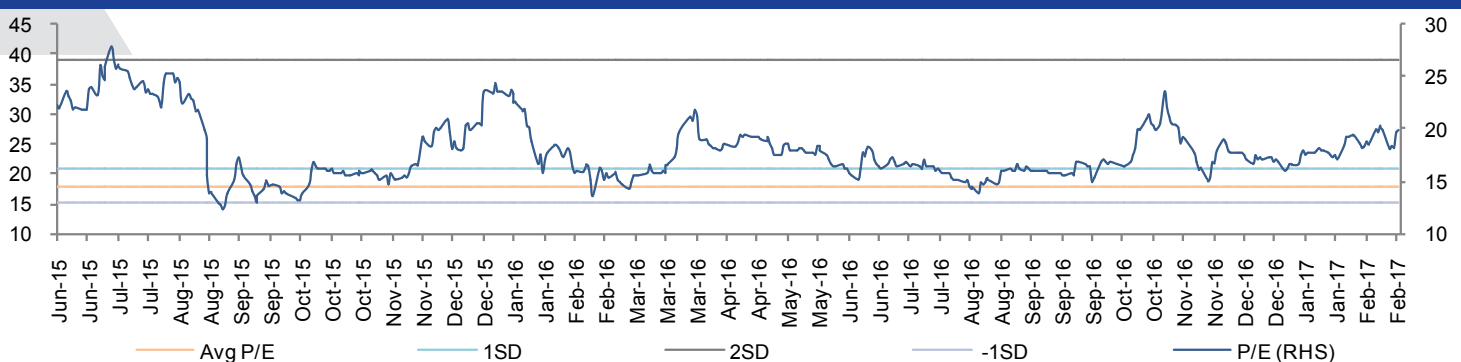
Exhibit 10: Change in Estimates

YE Mar (Rs. Mn)	FY17E			FY18E		
	Old	New	% Change	Old	New	% Change
Net Sales	1142	1175	2.9	1236	1272	2.9
EBITDA	281	289	3.1	308	319	3.7
EBITDA Margin (%)	24.6	24.6	4 bps	24.9	25.1	19 bps
Adj. Net Profit	183	188	3.2	201	211	5.2
EPS (Rs.)	1.6	1.7	3.2	1.8	1.9	5.2

Source: Company, Karvy Research

Change of Estimates: We have revised up the revenue estimates for FY17E and FY18E by 2.9% on the back of better performance in adverse condition during the quarter and continuing increase demand by end user industries for high yield specialty chemical and increase customer base. We revise up the EPS to Rs.1.9 from Rs.1.8 in FY18E.

Exhibit 11: PE Band



Source: BSE, Karvy Research

Key Risks

- Intense competition.
- Foreign exchange risk.
- Switching sticky customers.

Financials

Exhibit 12: Income Statement

YE Mar (Rs. Mn)	FY14	FY15	FY16	FY17E	FY18E
Revenues	867	1020	1087	1175	1272
Growth (%)	(9.6)	17.7	6.6	8.0	8.3
Operating Expenses	774	855	822	886	953
EBITDA	92	165	265	289	319
Growth (%)	10.7	16.2	24.4	24.6	25.1
Depreciation & Amortization	3	5	6	8	11
Other Income	28	45	33	36	39
EBIT	118	205	292	317	346
Interest Expenses	4	3	4	3	0
PBT	112	202	289	314	346
Tax	33	56	91	99	106
Adjusted PAT	65	129	170	188	211
Growth (%)	(7.6)	98.7	31.9	10.6	12.2

Source: Company, Karvy Research

Exhibit 13: Balance Sheet

YE Mar (Rs. Mn)	FY14	FY15	FY16	FY17E	FY18E
Cash & Cash Equivalents	127	100	95	96	145
Trade Receivables	219	217	254	257	279
Inventory	114	104	115	117	125
Loans & Advances & Others	184	177	158	161	163
Investments	158	293	390	421	484
Net Block	76	117	131	203	271
Total Assets	879	1008	1142	1255	1468
Current Liabilities & Provisions	147	166	145	160	170
Debt	7	10	30	0	0
Other Liabilities	77	69	53	80	109
Total Liabilities	231	244	229	240	279
Shareholders Equity	112	225	225	223	223
Reserves & Surplus	535	539	688	793	967
Total Networth	648	763	913	1015	1189
Total Networth & Liabilities	879	1008	1142	1255	1468

Source: Company, Karvy Research

Exhibit 14: Cash Flow Statement

YE Mar (Rs. Mn)	FY14	FY15	FY16	FY17E	FY18E
PBT	112	202	289	314	346
Depreciation	3	5	6	8	11
Interest	4	3	0	3	0
Tax Paid	(26)	(43)	(102)	(99)	(106)
Inc/dec in Net WC	(59)	4	(42)	7	(22)
Other Income	(25)	(43)	(14)	(36)	(39)
Other non cash items	1	(9)	(30)	0	0
Cash flow from operating activities	9	120	106	196	191
Inc/dec in capital expenditure	(7)	(52)	(15)	(80)	(80)
Inc/dec in investments	142	(97)	(87)	(31)	(63)
Others	(16)	25	5	36	39
Cash flow from investing activities	119	(124)	(98)	(75)	(104)
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	49

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	25.1
EBIT Margin (%)	13.6	20.1	26.9	26.9	27.2
Net Profit Margin (%)	7.5	12.7	15.7	16.0	16.6
Dividend Payout Ratio (%)	17.3	8.7	19.7	17.9	15.9
Net Debt/Equity (x)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
RoE (%)	10.6	18.3	20.3	19.5	19.2
RoCE (%)	12.2	19.5	22.0	20.8	20.2

Source: Company, Karvy Research

Exhibit 16: Valuation Parameters

YE Mar	FY14	FY15	FY16	FY17E	FY18E
EPS (Rs.)*	0.6	1.2	1.5	1.7	1.9
DPS (Rs.)*	0.1	0.1	0.3	0.3	0.3
BVPS (Rs.)*	5.8	**6.8	8.1	9.0	10.6
PE (x) [#]	10.2	19.4	21.3	20.7	18.5
P/BV (x) [#]	1.0	3.3	4.0	3.8	3.3
EV/EBITDA (x) [#]	6.4	15.0	13.7	13.4	12.1
EV/Sales (x) [#]	0.7	2.4	3.3	3.3	3.0

Source: Company, Karvy Research, *Adjusted for stock split of 1:5, ** Bonus shares issued in proportion of 1:1 on face value of Rs. 10 in FY15., [#] 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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