

Fineotex Chemical Limited
Q1 FY19 Earnings Conference Call
August 20, 2018

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY19 earnings conference call of Fineotex Chemical Limited. As a reminder all participants lines will be in the listen-only mode and there will be an opportunity for you ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Aloney Jain from Valorem Advisors. Thank you and over to you, Ma'am.

Aloney Jain: Thank you so much. Good afternoon everybody and a warm welcome to you all. My name is Aloney Jain from Valorem Advisors. We represent the investor relations of Fineotex Chemical Limited. On behalf of the company and Valorem Advisors I would like to thank you all for participating in the Company's earnings conference call for Q1 FY19. Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today's earnings concall maybe forward looking in nature. Such forward looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management's belief as well as assumptions made by and information currently available with the management. Audiences are cautioned not to place undue reliance on these forward-looking statements and to rely on these forward-looking statements and make any investment decisions. The purpose of today's earnings conference call is purely to educate and bring awareness about the Company's fundamental business and financial quarter under the review.

I would now like to introduce you to the management participating with us in today's earnings concall. We have with us Mr. Sanjay Tibrewala – the Wholetime Director and CFO, Mr. Pradeep Tibrewala – President Finance, Mr. A.V. Nerurkar – Finance Manager and Ms. Pooja Kothari – the Company Secretary. Without much ado, I request Mr. Tibrewala to give his opening remarks. Thank you and over to you, Sir.

Sanjay Tibrewala: Thank you very much. Hello everyone, good afternoon, this is Sanjay Tibrewala here. I welcome you all to the earnings call for quarter one financial year 2019. Thanks for joining in. Alongwith me I have Mr. Pradeep Tibrewala – President Finance, Mr. Nerurkar – Finance Manager, Ms. Pooja Kothari – the Company Secretary and the Valorem team – our investor relations advisers.

Let me start with giving you some brief about the Company and the activities. Fineotex was started in 1979 by Mr. Surender Tibrewala. The company is engaged in manufacturing of specialty chemicals. It is India's one of the largest and most progressive specialty chemical manufacturers. We offer customized solutions, products to the customers which are more performance driven. We produce almost 400 products specialty ones right from the pre-treatment of all the stages of textile right from pre-treatment, buying, printing, finishing. Our manufacturing capacities are located in India, Navi Mumbai and Malaysia. Combined we have a production capacity of 29,300 tons which is recently added on by 3,300 tons which is under process as well in the last couple of months, let's say. We have a global presence in across 33 countries and catering to well established brands in India, both overseas as well. Our industries are very high entry barrier business. Our clients are very sticky, we provide customized solutions, tailor-made products to various industries to all the textile customers and we have own R&D facilities as well. We are working with almost 90 agents all over India at the moment and we have a lot of several textile customers as well. Again, I would like to mention that we are a zero-debt company with consistent dividend paying, high capital efficiency and high ROE company.

I will take you to the financial highlights. I am sure you would have gone to the results which we released on 14th August. I will briefly quickly update you on the same. Let me start with standalone quarter one financial year 2019 as per Ind AS. Our total income for the quarter grew by 11.6% year-on-year and a 3.3% Q-on-Q basis. EBITDA for the quarter was 7.8 crores which is 47% higher than the last year. EBITDA margins continue to remain healthy to 31.08% in the quarter one financial year 2019. Net profits in quarter one financial year 2019 is 4.4 crores which has grown by 22% Q-o-Q basis. This has resulted in the EPS of 0.39 for the standalone.

Now we will talk about the consolidated results for the quarter one financial year 2019 as per Ind AS. Our total income for the year grew by 33.2% year-on-year basis an almost 7% on Q-on-Q basis which is 43 crores now. EBITDA for the year ended was 10 crores which is 47.1% higher as compared to the last year and grown by 23.5% Q-on-Q basis. EBITDA margins stood at 23.31 in quarter one financial year 2019. Net profit has grown from 5.6 crores last year quarter one to 6.5 crores which is a growth of 16% year-on-year basis and a growth of 135% on Q-on-Q basis. This has resulted in the EPS of 0.55 Paise in the quarter one financial year 2019 as compared to the last year quarter financial year 2018 which was 0.47.

This growth in our financial is a clear reflection of a well-executed business strategy. We have been constantly focusing on higher margin products at the results of the same can be seen from a healthy EBITDA margins and profitability.

Now I open the discussions for the any queries and questions which we all would like to answer to you.

Moderator: Thank you very much, Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Nandan Vartak from Wealth Managers. Please go ahead.

Nandan Vartak: Currently we are serving few textile huge players like Welspun, Aditya Birla Group and etc., so what percentage of their total chemicals requirement we are catering now?

Sanjay Tibrewala: It depends from customer to customer because all the customers will not give their 100% requirement to one company. Just to give an example, in Vardhman we are offering, let's say, 10% of their total consumption, Vardhman Group which includes Auro Dyeing, Auro Textiles and MahavirSpinning and Vardhman Budhni, Vardhman Perundurai, these are the factories which come under the Vardhman Group. So, for that matter its one of our important customers and there we are having only 10% wallet share which eventually we are trying to get in more and more products from them. So, it depends on customer to customer, there is no perfect numerical answer to that.

Nandan Vartak: What would be a range, estimate?

Sanjay Tibrewala: What happens, let's say Vardhman Group or any customers for that matter, they need let's say 7-8 products in pre-treatment, 7-8 products in dyeing, 7-8 in printing, 7-8 functions in finishing. Let's say more or less together they are like 25-30 functions which every customer requires to buy from their supplier. So, what happens in our business is we start from a couple of them, then we can gradually grow to more and more because textile is a lot of troubles and trouble-shootings in the processing, so we get an opportunity to offer our more products to solve their problems. So that's the way we have to increase of production. That's the way to increase the wallet share. This is what we have been doing for all the customers. Range is generally let's say from 5% to 20% I can call it.

Nandan Vartak: If we look at our textile and non-textile business, what would be growth rate going high from medium to long term?

Sanjay Tibrewala: Textile is our main focus core area. We are already expanding a lot into that. I think more than 95-96% business is textile driven.

Moderator: Sir, looks like the current participant has placed the call on hold. We will move to the next question in the meanwhile. That's on the line of Amit Jain, an Individual Investor. Please go ahead.

Amit Jain: I have two questions. One is based on the thing that we were discussing. You were mentioning that textile is a major part of our business. I am seeing that textile is contributing around 97% and this is up from 85% last quarter. So, is it because other businesses are not

growing enough or is the situation is that textile is growing much more than any other business?

Sanjay Tibrewala: The point is that we are more focused on the textile businesses because textile every customer like I said they need 25-30 different product functions. So, what happens is if we are catering to them for a couple of product lines there is a lot of opportunity to increase the wallet share to grow the businesses. Now our experience in textile has been for almost 3-4 decades and most of the substrates we are handling, whether it is polyester, cotton, machineries, because all of them are being used on different machines so they need different chemicals. So, it's not that we're not focused on others but let's say that we are more focused on our textile which is our core business.

Amit Jain: My second question is what percentage of business do we get directly from the company and how much is our distributor contributing.

Sanjay Tibrewala: Almost 80% of our business is coming from distributors and 20% is the direct end users.

Amit Jain: So, distributors also get into customization or our direct business is only customization rest is bulk business kind of thing?

Sanjay Tibrewala: Basically, what happens is the distributors give us the information that this is the customized product which is required in a 'x' customer, so we need to customize our product and then it has been given to the distributor for onward sales to the customer. So, customization is always required. It's a daily process I can call it like.

Amit Jain: Any update on Aquastrike WHO approval?

Sanjay Tibrewala: There are a lot of more tests which have been discussed about. So, lot of tests are in the process. For external lab and those things are going on. But I think that's the way they work. After every one month they will give you another new request or ask us more information about it. So, it's in the process. And we are very hopeful, let's see by this year-end we will have some positive new on that.

Moderator: The next question is a follow-up from the line of Nandan Vartak from Wealth Managers. Please go ahead.

Nandan Vartak: My question was regarding growth expectation for medium to long term for textile and non-textile segment?

Sanjay Tibrewala: In the last 6-7 years we always had a CAGR of almost 28%, that was mainly also contributing because of the textile area where we are working. I think from a bottom-line point of view I think that's the number which we always have in mind to target. And from a topline point of

view I think 20% growth in the turnover is something what we are looking at for the textile businesses which is almost 98% of our turnover, so basically that's what it is for the group.

Moderator: The next question is from the line of Ravi Nanda, an individual investor. Please go ahead.

Ravi Nanda: In the last concall you have mentioned that Aquastrike VCF will get approved in about one or two months. Today you are saying that yearend you will expect some action.

Sanjay Tibrewala: I don't think we ever said it is one or two months. It may be one or two quarters which we might have discussed about. The interview on the CNBC also I think that was what was asked, and we always said, by the year end it will happen and they were saying at least can happen in this financial year. So, I said, no, by the year-end we are positive that things will shape up. So, we are working on that already, from the Indian point of view also from the Central Insecticide Board of India as well as the WHO registration.

Moderator: The next question is from the line of Sanket Sanghvi from Edgecon Global Services. Please go ahead.

Sanket Sanghvi: What is our CAPEX planning for the next financial year?

Sanjay Tibrewala: Our CAPEX is generally into 8-10 crores range which has been funded from the internal accruals itself and I think more or less that should be our CAPEX plan for the moment, around 8-10 crores a year, that's what is the CAPEX plan which will include facilities, storage facilities, plant and machinery, land and other things.

Sanket Sanghvi: Even acquisition?

Sanjay Tibrewala: No, acquisition will be a totally different subject actually. We are open for acquisitions but at the moment we are very conservative in deployment of funds and accordingly we are looking for the right synergy company which is ready to join us and to be acquired for. So that would not be to this range of 8-10 crores but it depends on the size of the company, it will depend on the product lines, what the company belongs to, so it's very difficult to say about the inorganic growth. For organic growth this is the CAPEX plan what we have, 8-10 crores.

Sanket Sanghvi: What is the current order book value that we have?

Sanjay Tibrewala: Our business doesn't exactly run on the order books. What happens in our business is once the customer has started it is almost a perineal business and it doesn't have too much of season differentiation also. At the same time, it's not a tender kind of a business for this year you have.....I mean its not a yearly contract or anything. Because like I said, its solution driven tailor-made products and until and unless the demand for the product is, let's say the machines have changed or more polyester started running instead of cotton or vice versa, till then the order books, its all repetitive orders for that matter.

Sanket Sanghvi: Current tax rate that is prevailing right now in our market?

Sanjay Tibrewala: The current tax rate is around 28% roughly.

Moderator: The next question is a follow-up from the line of Ravi Nanda, an individual investor. Please go ahead.

Ravi Nanda: You have developed a very good product called Aquastrike VCF. Are you working on any other this type of product that any other company does not make?

Sanjay Tibrewala: No, from the point of view of vector borne diseases solution driven mosquito control product, this is the only product what we have made and actually this was made by Biotech in 2008-2009 from the time onwards there was registration and finally in the last two years only we started getting some sales for that. So, this is the only product apart from that of course in the textile field we always have customizations and new solutions to be given, so lot of tailor made products have to be developed every now and then in the textile business. But yeah, for the textiles it is an ongoing process. For the other businesses Aquastrike VCF is one of the things which we have on hand.

Ravi Nanda: Your product Aquastrike VCF is it less costly than the prevailing product in the market?

Sanjay Tibrewala: Pro-rata wise from the point of dosage, from the point that this works for four weeks, the BTI and abate work for two days and the diesel and the AMO also, from that point of view if you see the overall cost per meter of the water treatment for one month, yes, this is quite cost effective because of the function. And not only cost-effective it is more important it is saving the aquatic life, it is good for the human consumption of water.

Moderator: The next question is a follow-up from the line of Amit Jain, an individual investor. Please go ahead.

Amit Jain: What is our R&D budget as a percentage of our revenue?

Sanjay Tibrewala: Percentage of the revenue as such, most of the R&D has been done by Biotech in the previous years and we also are doing it in India as well. So, the R&D budget is more or less let's say 1% of the total turnover and that is the budget at the moment.

Amit Jain: What is our capacity utilization?

Sanjay Tibrewala: The volumes have gone up by 20% compared to the last year quarter on a year-on-year basis and also, we have increased our capacities, so at the moment our capacity utilization is almost 60% which was earlier 54%, something like that. But with the additional capacities which is going on now I think again it will be around 58% or something like that.

Moderator: The next question is from the line of Mohammed Rafi, an individual investor. Please go ahead.

Mohammed Rafi: I joined the call late. Would you be able to update me on the timelines of WHO and Indian Approval Board with regard to the product that we have been waiting for quite some time?

Sanjay Tibrewala: The WHO is not from the Indian Board it is from the European countries and what is happening is they don't have any timeline for that as such. When we are coming more closer to the results and findings and certain more lab test has been asked for which is under the process. Conservatively or let's say we are very hopeful that this year-end or latest by in this financial year we should have the confirmation for that.

Mohammed Rafi: How about the Indian Insecticide Board approval?

Sanjay Tibrewala: That is ongoing, and we were there in Delhi also last week. Lot of things are going on for that. That may be happening much earlier than the WHO.

Moderator: As there are no further questions from the participants, I now hand the conference over to Mr. Sanjay Tibrewala from Fineotex Chemical Limited for closing comments. Over to you, Sir.

Sanjay Tibrewala: Thanks very much all of you for organizing this earnings concall. And we will keep you updated about all the developments of the company from the stock exchange. Thank you very much. Valorem, thank you very much.

Moderator: On behalf of Fineotex Chemical Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.