



“Finotex Chemicals Limited Q4 FY 2016
Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Finotex Chemical Limited Q4 FY2016 earning conference call hosted by Dolat Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Afshan Sayyad from Dolat Capital. Thank you and over to you!

Afshan Sayyad: Good afternoon everyone, On behalf of Dolat Capital, I welcome you all to the Q4 FY2016 earnings call of Finotex Chemical Limited. We have with us Mr. Sanjay TIBREWALA, the Managing Director of the company. I would now like to handover the call to him for his opening remarks and the results and the business outlook going forward followed by Q&A session. Thank you over to you Sir!

Sanjay TIBREWALA: Good afternoon to all of you. Thanks for joining in for the full year and Q4 2016 earnings conference call hosted by Dolat. This is our first conference call, I would also like to give you some background about the company and its activities and also brief you about the industry in which we work in.

Finotex produces textiles, specialty chemicals predominantly. We have been established in 1979 by Mr. Surendar TIBREWALAA. He is the Chairman and Director of the company. We have our plants in Malaysia and New Bombay. We produce over 400 textiles specialty chemicals for all kinds of processes. It is a very customized industry where we are working into every substrate whether it is cotton, polyester, polyester lycra, polyester wool, all wool, it is having different products to be used as well as it has to be bifurcated on the basis of the application of the end use of the substrate whether it goes for carpets or cottons or for needs of towels or yarn. Again the product has to be customized on the basis of the machines on which it has to be used. These products are very customized and that is one of the things, which have lot of sticky customers. The price of these products for the customer is not substantial, it contributes only 2% of their total cost and generally the customers, it is a like a high entry barrier industry where we are operating in.

Typically textile processing is bifurcated into various processes like spinning, weaving then it comes to pre-treatment where the fabric is washed, then there is a dyeing stage, printing stage and a finishing stage where the fabric is given the final finishes before it is sold to the consumers. We have a capacity of 22000 tonnes per annum and we are present across over 30 countries and have a well-established brand in India and overseas. We are a zero debt company and having a consistent dividend pay records.

I will also like to start with the financial highlights. As you might have seen the results posted yesterday, I would like to brief you something about the same. The consolidated financial year



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ending 2016, our income grew by around over 5% year-on-year basis 212 Crores, the EBITDA is up by 42% from versus year-on-year basis. The net profit the PAT is up by 32% and the earnings per share is 1.52 for the financial year ending 2016.

We have been very happy with and excited about the way we have been performing our businesses and the executions and the good growth targets what we are going to do further on. The industry is very high margin oriented because we have its like I said its a very value-added chemicals used for the specialty finishes, specialty functions and the customers do not generally change the products because we have more of European competitors in our businesses namely Clariant, Archroma, CHT and BSF to some extent we had Indian players like Pidilite and Atul also in our segment.

I would also like to take you to the standalone numbers where our EBITDA has gone up by 42% and the net profit has also gone up by around 33%. Our future strategy is like we are more focussed on specialty chemicals which are more valuable for the users in the sense if there is a certain finishes which has been set at the customers for the textile finishing, they generally stick to it, they do not like to change the finishes because it matters a lot for their marketing and their customers. We have been consistently focusing on enhancing our market share also for the clients by increasing more and more products and working on more new products, which are more required by the consumers for the textile industry.

Thank you and now I would like to open the conference to for the Q&A session.

Moderator:

Thank you very much Sir. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Rangan Venky from Brilliant Securities. Please proceed.

Rangan Venky:

Good evening Sir. Its a good working congratulations, and no doubt in because what I feel there was no growth in the sales one, in the standalone basis some 64 to 68 Crores only and whereas I am happy about the profit before tax EBITDA 10 Crores to 17 Crores remained, but the cost of raw material also this year has been reduced to 68 to 57%, what were the reasons. Regarding the depreciation I feel you are not able to expand with the current level of the capacity you have, how much you can scale up, I mean in turnover because whatever the turnover I find from last year to this year only 3 Crores something like that, only the dividend from the subsidiary in Malaysia 2.3 Crores has come that is in where it is in figure actually can you tell me other operating units comes in, where it comes please tell me that and I feel depreciation actually could concentrate on the increase in the fixed asset creation because taxation we pay heavily actually?

Sanjay TIBREWALA:

Yes, I would like to brief you like how does the industry moves. We have like I said more than 400 products roughly for the textile industry and all of them have different applications, the basis are different the purpose and the performance of all the chemicals are totally different. Further these chemicals some of them have a lower margin on it, as well as there are certain products



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where we are now more focused upon higher margins. I would like to mention that the top line will keep on growing surely however the main focus on our industry where we are working especially the bottom line and I rather believe that while we are supplying the specialty chemicals we have to be more profitable and that is the main focus of our entire company and the marketing team also to offer customers products which have the higher margins, higher value additions and which are more important to the consumers and at the same time these products will also be not so easy for replacements so again you have a high exit barriers. So that is one of our focus as well, however, we keep on increasing our turnovers and that will keep on working well. Our main focus was to focus having to concentrate more on the specialty finishes, specialty functions which we have innovated and worked on for various applications and that is one of the reasons why the bottom line percentage has grown much higher than the top line. At the same time, we have been not targeting the products which are low price or low margins that is one of the reasons also why you cannot see the same kind of growth in the bottom line I mean the top line as much as the bottom line. Now coming to your second point about the depreciation, the depreciation you said is about constant and how much capacities we can go with the same investment or same fixed assets in the same production, the point again is like I said there are so many different products. All the products have a different production cycle, some products can be produced in two hours, some will take ten hours, and some will take twelve hours. Now our capacity generally we are working on let say 53-55% capacity utilization that is the way we have been working always. The reason to keep the capacity utilization is low is also in case we get some extra orders or more orders of products which takes higher production time we should be geared up enough to accept those orders and take that business as well. So that is one of the reasons why we are working at let us say capacity utilization of 53% to 55% and I think we can also target the growth of at least let us say 60% then now and keep the same capacities also with the same capacity what we have at the moment.

Rangan Venky:

What was the raw material cost, why it has come down from 60% to 57%?

Sanjay TIBREWALA:

That is exactly because the products what we are focusing upon are more profitable and also these products are let us say environment, now there is big thing going on in the textile industry which we have focused a lot. The point is like most of the textile companies are worried about the ETP, they are worried about the pollution norms, and they are worried about the ways of reducing the energies, steam consumption, the labour cost and other things. So we have come up a lot many products of which can help them to reduce their labour cost, the utility cost, the temperature, the steam, the process cycles and increase their productivity, for these special products are having a higher mark ups, higher profitability and that is the reason why you can see the cost the raw material this time going down.

Moderator:

The next question is from the line of Kunal Nopani from AUM Fund Advisors. Please proceed.



Kunal Nopani: I just heard you say that you have a 60% growth target, can you help me understand what sort of capex you would need to do say over the next two to three years to maintain this growth and how will you fund it?

Sanjay TIBREWALA: See I would like to, probably you might be knowing also that we have sitting on a cash position of around 35 – 40 Crores consolidated number, the quantity of capex which we need eventually for this year or next year actually we keep doing the capex to some extent always but it is not going to be a point where we will have to go to get some debts from the banks. We will be definitely managing it from the internal accruals. I do not see in the next two years we will be needing more than let us say a next one and half year or something like that more than eight to ten crores for expansion of our activities in the new places which we have already purchased. We have purchased a piece of land in additional Ambarnath, Newada where we can always we have in mind to set up and expand our production capacities later on but that will be manageable within the 8 to 10 Crores bracket something like that more or less.

Kunal Nopani: Per year?

Sanjay TIBREWALA: Yes you can say so.

Kunal Nopani: And you said your utilization was 55% right now?

Sanjay TIBREWALA: Roughly yes. Again what happens is I would like to add here, like I said that some of the products are produced in a very short production cycle so in case we can get more orders for those kinds of businesses, there will be not so much need of putting more money for expanding the capacities. However, if we get more orders for the products, which take higher production time, then definitely we will need to keep increasing our capacities also to accommodate those kinds of businesses.

Kunal Nopani: Okay and when do you see sort of a need for a more Greenfield expansion once you utilize these capacities you have enough space at your current locations to expand?

Sanjay TIBREWALA: Actually even last year we have purchased a piece of land next to our existing factory, we have already started utilizing it as well. What happens in our industry I would like to mention it, it is more about, it is not like that that in case we do not put ten crores or twenty crores we cannot start the production, we can always do it in phases.

Kunal Nopani: Understand a batch type production.

Sanjay TIBREWALA: Totally batch type products and then we can always increase as much as our requirement but obviously the base cost will have to be incurred first which is acquiring the land and the licenses, but now we already got the land so I do not think we need to buy any extra land now for that. We can just put the next capex for the plant and machineries as per the sizes and the phases what you would like to do as per the requirements.



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Kunal Nopani: So what are these 48 Crores of non-current investment on your balance sheet, could you elaborate?

Sanjay TIBREWALA: What I guess as what the auditors had pointed out, if your investments in liquid or let us say the debt funds or the funds are over a period of year then you cannot classify as current, so they had to classify as non-current and that is the reason there was a decrease in the current and it went to the non-current section if I am right.

Kunal Nopani: Okay but they are more in the nature of money market instruments that is what you are...

Sanjay TIBREWALA: Yes, absolutely.

Kunal Nopani: I understand. Finally last question Sir, I see that your EBITDA has grown very well, revenues are 5% so how much of that is, what is the underlying volume growth and how much of that EBITDA growth is you do, say product mix?

Sanjay TIBREWALA: Well, our EBITDA growth is basically because of the product mix because our focus is on the needs of the consumers rather than only replacing an European product that is obviously our main focus as well that we are focusing things which the industry needs more and the faster we can go and penetrate with our these range of products, I see that the EBITDA will always be growing faster rate than the turnover because our focus on such kinds of businesses. Now what happens typically in textile, chemical and textile industry, a textile is a much laid back industry as such. What happens is to start the product in one customer takes at least six months to one year and to get a first customer for a new product I mean the gestation period is the highest and thereafter like if we move on to other customers with the reference of another big corporate client like we are working with almost 60 corporate like from Chenab, JCT, (inaudible) 17.14, mostly all the textile big names corporate names our customers and we are having almost 68 or 70 distributors in India as well. So what happens let u say for example like Chenab Textile, I will just refer about something on this line, when Chenab Textile we were offering a product which works at a low temperature bleaching like generally the bleaching is done at 105 – 110 degrees but once we offer them a product of 65 to 70 degrees, it took a lot of time for them to understand the concept and try it out, then there was a lot of efforts, free sampling lot of manpower required for trials and other things. Once they started it, it works very well for us because we go through the other customers like we started with Birla, we started Windsor Textiles immediately once they started, so the earlier the initial customers are always a task to get into the products and then it is quite simpler later on.

Kunal Nopani: Okay. So what sort of a sustainable margin do you see from new product innovation going forward?

Sanjay TIBREWALA: Going forward I can just assure or I can just comment that we are more focused on the bottom lines and profitable value added businesses value added products. Now the more orders, more business we can gather in these product segments I am sure that we may be definitely able to



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maintain these kinds of EBITDA margins or maybe let us say plus minus ten percent variable from the existing EBITDA percentage should be a good reasonable approach.

Kunal Nopani: If I could just squeeze in one last thing, you mentioned 60% growth so is that going to be driven by volume growth in existing products or you see a lot of that coming from these new products that you have in your pipeline?

Sanjay TIBREWALA: Again I would like to clarify 60% growth is not what I mentioned, I just mentioned that we can increase the capacity by 60% I mean we can produce more 60% volumes probably with the same investment, with the same capex what we have done by now, that was the point but to answer that question we generally target a growth of around 25% minimum to 30% and I think in the last five years CIGR we have been able to deliver these kinds of performances and I am quite optimistic that we should be able to at least match to that level in future.

Kunal Nopani: Okay fine thank you very much, my questions have been answered.

Moderator: The next question is from the line of Resha Hariya from GreenEdge Wealth Securities. Please proceed.

Resha Hariya: Hi Sir, just wanted to understand that our gross margins have improved significantly this time around, is it purely because of the high value products that we have got into or is it also because raw material cost have declined?

Sanjay TIBREWALA: Well I would like to say that we are, like I mentioned that we have more than 400 products roughly and at the same time all the chemistries are different, all the basis are different so there is no particular raw material which is significant in out for us as such. Again there are always ups and downs in the raw material market but it may not be necessary it depends on the trend let us say there was a dip in the crude oil in like January February but I can tell you that there is still raw material of our name as silicon oil that was on the historic high because it is more controlled by the demand and supply globally for that businesses for those products rather than just that the commodity prices or maybe the crude oil prices, so as such it does not affect us much, maybe little bit can always add or decrease our margins but that will be that is it, I mean that would not be affecting our bottom lines to substantial portions.

Resha Hariya: Sir I understand, we use 300 raw material products but would we have let us say four or five raw material products, which are very significant?

Sanjay TIBREWALA: I do not think so, I do not think that the most important raw material for us will be ever contributing 5% of our 5 or 6 or something like that, I do not think so.

Resha Hariya: Okay. And Sir crude would form what percentage of your raw material?



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Sanjay TIBREWALA: Well like I said it is not related to crude actually because it also like I gave you an example of crude oil when it was 25 dollars and that time there was a raw material known as silicon oil which is quite one of the top raw material what we buy that was on the historic high ever because of the demand and supply situation because globally there were some plants which were on maintenance or something which they have discontinued and suddenly that products had more demand in the other industries and hence the prices have shot up, so it is not directly connected as such to the crude oil prices, but yes there may be we can say some most percentage of our raw material which may be depending on crude oil but again having said that, that should not affect our gross margins or bottom lines to substantial effect.

Resha Hariya: So would it be safe to say that the current commodity down cycle per se has not led to any significant gross margin improvement it is purely because of the value-added product in our portfolio?

Sanjay TIBREWALA: And I would also like to tell you like let us say we are supplying to Raymonds also, Raymonds kinds of companies now when Raymonds is selling its suits it is selling let us say selling at Rs.25000 – Rs.30000 starting range. For them the cost of our chemical let us say Rs.400 so even if the prices of our raw matrix if at all it is going down or something like that they never come to us for a price decrease because for them saving Rs.10 or Rs.20 or Rs.40 is not an important target at all, rather they keep on asking us for innovated products or something new, something new finishes in which they can excel like if you know there is a techno smart fabric of Raymonds which has come out and those are the things which they would like us to do rather than the cost reduction part, so again there are lot of corporate companies where we are working on are these kinds of companies where they were not more concerned about the prices because it is not quite substantial for their total costing. For them, if the raw material prices goes down or something it never happens that they come up for price reduction so this is quite an exit barrier entry barrier kind of a business so that is one of the reasons why it takes time to grow, like I said even you want to start the new product with one consumer they have to change the recipe, they have to change the process, they have to make sure everything goes well. If you want to sell something to the yarn consumers they first take some samples, they try it and then they wait till the yarn is made into fabric and it is sold to the consumers because in case something has gone wrong in the yarn they will come to know only after the fabric is made and produced and gone to the final customers so what happens is this increases our gestation period to get the business and grow it faster.

Resha Hariya: Okay and Sir since you know we are into such high value products, so do we have any patents for these products or how does it work?

Sanjay TIBREWALA: I would like to tell you like that this industry was always dominated by the European companies over 100 years or something like that. Even these European companies like Clarion, Clarion has turned into Archroma, BSSK, Huntsman, Woodolf, Woolcra and many such names. They also do not have these products patented at all. There is no system of getting these products patented, it is



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more about giving the right kind of technical services to the consumers, so that is the reason we have our technical marketing experts in various locations, various regions we have over 70 distributors whom we have selected because of their marketing skills and also their technical abilities and technical zeal who can conduct the trials so there is no patent happening in our product lines.

Resha Hariya:

Okay and Sir you know the earlier participant touched upon the sales growth so if you could just give a sense on from where does this sales growth comes through, what is the market size in India and what are we doing per se to increase our sales growth because if you look at the past two three years sales growth has certainly slow down I understand that the company is more focused on bottom line growth but is the sales growth going to be coming from new customers, existing customers or are we focusing on different industries outside of textiles, so if you could just give some sense on the growth, top line growth?

Sanjay TIBREWALA:

Okay. I would like to tell you first the topline growth is happening especially in the standalone, if you notice the financial 13 year let us say that was we have almost gone up by let us say 80% roughly in the last three four years in the standalone. Now coming to the consolidated like we have Biotechs in Malaysia, there were lot of foreign currency fluctuations happen and the Malaysian currency also had a fall and that is also one of the reasons why our consolidated percentage was not growing so much so, but if you have a look at our standalone income for the last four years or five years you can see the growth is intact and it is in fact like I said in the last four years I think it is around 80% growth. Coming to another point was in the topline, I mean of course it is important there, but the industry is, the size of the industry in India let us say 1500 Crores, out of which and I am talking about the organized markets where we are focused upon the customers. In the world it is around 15000 Crores roughly, we are not so I mean there is still a lot of room to grow and the consumers, the customers like 68 Corporate companies where we are already working with, I mean even if we keep increasing our valued shares in these existing customers we can easily double and triple our profitability and sales growth also. Actually like I said in some of my earlier conversation, I would like to divide the journey of Finotex into three parts that from 2005 to 2010, then 2011 to 2015 and thereon. What happened in from 2005 to 2010 the customers like Raymonds and all these big names like Banswara Syntex Limited, Himatsingka all these Chenabs and all these big names like our industry is dominated by European brands so when we got to the direct customers since from 2005 there was a lot of resistance from them because we were not quite visible. We never had a lot of reference customers that time because it was our initial phases of getting into the branding and getting to the direct customers, so those were the time where the consumers took a very, very long time to allow us even to get in with one product or two product businesses. Now as in time when passed by, they see our services, they see the new customers, which we have, and after the IPO in 2011 we could also get more visible as a corporate company for the consumers and these consumers are not looking at our profit margins or prices as such. Yes, price is important but first thing is whether they can rely on our products because our product cost is only 2% for them so Raymonds will not use any product even at half the cost just to save cost just to the way this



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industry operates, so from 2011 to 2015 we were by then we had a lot of good customers and I think the journey from 2016 onwards will be the most simplest for us because we are already known and visible and the consumers are well aware with the Finotex brand they take it as a reliable brand to increase the businesses.

Resha Hariya: Sir some last data question if for last two years FY2015 and FY2016 so if you can give a spilt of your volume growth and your value growth?

Sanjay TIBREWALA: You would like to get the data for the standalone only or you would like to get with consolidated once you are referring about?

Resha Hariya: Both if possible?

Sanjay TIBREWALA: Well I can give you the total income for this standalone was this year financial 2016 were 73 Crores.

Resha Hariya: Right Sir, I was looking for volume growth and value growth FY2016 our revenue have grown by 18% and FY2016 by roughly 6.5% to 6% odd on a consolidated basis so how much of that has come some volume growth and value growth?

Sanjay TIBREWALA: See the volume growth has grown up around 4% or something around that for the last year-on-year was 15% and 16% with around 4% volume growth.

Resha Hariya: This is for this standalone or consolidated?

Sanjay TIBREWALA: Standalone and consolidated. If you want the numbers I think the standalone has grown higher, the standalone has gone up by 7% to 8%, the volumes.

Resha Hariya: This is for FY2016 right or what about FY2015?

Sanjay TIBREWALA: I am saying year-on-year basis, okay you mean FY2015 with the FY2014?

Resha Hariya: Versus FY 2014 yes?

Sanjay TIBREWALA: I think even then it was more than 10% or something like this the standalone.

Resha Hariya: Okay, all right and consolidated would be?

Sanjay TIBREWALA: A consolidated last year was at 4%, which I said now and before that 2014 versus 2015 the growth was almost again like 9% or 10% something like that. If you would like to know the exact numbers our IR company can always give you the break up and other things.



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Resha Hariya: Sure Sir, lastly by my answers one more question are there, a strict pollution norms do we require any pollution licenses for affluences etc., within India and how are you see that as the risk?

Sanjay TIBREWALA: Here what happen this like this product of based on water, most of our products are based on water? Water is one of the raw materials for that and all are used for the textile industries and naturally it will be touching the skin always. So what our product are our products are not hazardous at all, even the manufacturing is not hazardous at all. Yes, we need the pollution license and approvals as a system. I think it comes under the red category as well. However, being water based there is no affluent and our plants connected with common affluent treatment plant by the MIDC and we have own treatment also as such we do not have any solid base, we do not have any liquid waste or liquid dyes and liquid colours going out so this is not applicable for our products what we are doing. Yes when we supply to the textile factories those are more regulated and that is one of the reasons why textile companies are more preferring products, which can reduce their ETP, load, they can reduce their DOD values, COD values, PDS values and hence this gives another opportunity for us to sell more products to them.

Resha Hariya: Thank you so much that is it from my side and all the best for the forthcoming coming quarters.

Moderator: Thank you. The next is followup question is from the line of Kunal Nopani from AUM Fund Advisors. Please proceed.

Kunal Nopani: Thanks for taking my question again. Sir, can you talk about what is your customer concentration in terms of the largest top 5 customers what sort of revenue with contribute and what sort of wallet share do we have an average which some of these big MNC companies?

Sanjay TIBREWALA: What happens is like all the companies which is our customers they all do this spinning, they do the repeat treatment, the dyeing, painting and finishing, so by and large most of these companies need at least 25 products or 20 products to be used all the processes together. What we do is we specialize more in finishing because finishing has more value adding scopes also that the place where the consumers before fabric is got the consumers always like to have touch of the finished fabric and those our places where you have a more exist barriers than entry barriers so typically we are more focused on the finishing sector which contributes surround the 38% to 40% of our products share. Now coming to your question of the number of customers, I think the top 10 customers should be contributing around 25% of our consolidated business, the top 10 customers. I do not have the data exact for the 5 customers. We can always furnish it to you.

Kunal Nopani: Okay and what is look wallet share we would have with a large clients. I am just trying to understand how much we can grow some of the existing clients going forward?

Sanjay TIBREWALA: I can also like a mentioned that the customers where we are working, the corporate customers, there are 65 corporate customers where we are working and all other biggest brands like, Himatsingka, Chenab, Birla, Grasim, Reliance, GHCL, Arvind, Jaishree, Bhaskar, Raymonds, Denim and everyone so these customers if we keep adding our businesses and adding more



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products to the same setup of customers that is what our focus is also now. We can easily double or triple our profitability keeping these customers. But at the same time we keep on increasing our adding more customers that are still couple of big textile factories which we have not yet got into where we had only verge of getting into that will also be coming into our customer list very shortly at the same time we also have lot many distributors and they are also working and spreading our products to the semi corporate customers so that is also helping us to grow the businesses to the semi-corporate companies?

Kunal Nopani:

Sir, one last thing, you mentioned that in your products are highly customized so can you talk about your product development process how involved are your clients when your doing this chemicals? Do you have any in-house research team and how do they sort of interface with your clients?

Sanjay TIBREWALA:

What happens is let us saying we were talking about cotton, we are talking about function called as wetting agents. Now what happen in this business is the product what Vardhman like the most wetting agent which is most favorite for Vardhman will be the worst product for Balotra market and vise versa. Now what happens again is the water quality, the process cycle, the steaming, the timing and the culture of that market has to be understood and then the product has to be given. Now this is quite a subjective business as well like finishing there is no machine which you can put it on the fabric and see whether this finishes good or that finishes good because it is quite a subjective industry so the best, the only most effective way of getting up a product approval is to test the product in the customers place with our KR facilities, which in their water, in their team, with their team members and their recipes also so what happens is the most important product development and understanding whether which product is appropriate for the customers generally is done at the customers place and every time even if the machines are separate you have to use the different dosage even if the factories are located in the same place they we are same kind of cotton, they are using the same water, but if they are having two different machines let us say Benninger Machines and refacta machine the dosage of the product can vary, so what happens with us because I am like the second generation in this business and we are therefore last 40 years by now have been having a great experience into this and by now we have all our packages set like we have more than 30 packages which are totally perfectly set so in case if we know that there is our customer let us say in Pali they are doing cotton processing and they have this machine we just need to know that much and our packages is ready because of the experience what we have and what our marketing technical people had with this experiences all cross the India, so that makes our work very simple we have the packages set already so only thing is the trial has be conducted with our sample and it has to be conducted at the customer place only. It is not running on the COA business, it is not like a pharma business where products are sold COA or test reports of something like that.

Kunal Nopani:

Sure, okay so you have now enough access with your clients to be able to test your products as and when you required?



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Sanjay TIBREWALA: Yes, sure and also I would like to tell you regarding Biotech in Malaysia Dr. Frederick is our partner, yes 40% share of Biotech, he is hailing from Thor. He is European and he has been into the R&D and productions over period of years. He has great tie up with European companies and this industry was born. This textile chemical is always predominant by the European since 100 years or more. There were certain products which we had already launched in 2011; however, that could not pick up then because of the demand for those kinds of products was not there, but now for the last one year we can see a lot of demand coming for those kind of product which we already had in portfolio so again we are getting better edge of having European version together with us in this business which is also makes lot of difference for our market teams, our visibility, our reliability on qualities and certain things.

Kunal Nopani: Thank you very much for taking my questions.

Moderator: Thank you. The next question is from the line of Urvi Jha from Sameeksha Capital. Please proceed.

Urvi Jha: Congrats in good set of numbers. Sir, if I get it right you said that industry side in India 1500 Crores and world over it is 15000 Crores that correct?

Sanjay TIBREWALA: This is for the organised market where we are working into.

Urvi Jha: There are couple of questions one is that of course you said that the pricing and all does not matter, but of course it is a very dynamic market and so competition sometimes does influence I think some of the products also be crude derivative, you have to take like price cuts and if at all, if in your contracts how easily can you pass it on to the customers in case of increasing raw materials scenario?

Sanjay TIBREWALA: I will tell you how it works generally once we start any products with a customer we never lose this product business at all. You may lose it if case you cannot supply on time or if something is not correct in your quality or something like that, but due to external factors it never happens that the customers switch to other products just because of the prices going down or something like that, but whenever cost goes up we generally do not that is not our main strategy to increase the prices, but keep doing increasing the prices depending on the level where we can go to because like we are were about the European companies prices, we understand how much higher it is our prices and then we understand the customers dependability on us and whenever we find it that yes we been need to increase the prices we do that so we need to intimate them I think around a month before and I think that is all because this is not tender business where we are fixed with a customer for one year or two year's period, we produce fertilizer chemicals as well we supplying to RCF, we have supplying East Gojwari (ph) and other names, Deepak Fertilizers also in those places like in RCF they have a tender businesses for which we have to we are fixed on the price for one year so any increase or decreases to our account, but in textile it does not happen so. It is always routine products. It is regular some companies like Vardhman has a strategy they give us



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three months orders, but then they have then they keep giving us the dispatch intimations as and when required as and when they are orders in place and things like that so there is no binding on the prices as such in this business.

Urvi Jha: Of course you did mention some of the competitors in business in India as well as globally but how big is China as a competition?

Sanjay TIBREWALA: Like a mentioned that this products are totally customized products now being so customized and tailor-made products and there we need lot of technical manpower to be present at the customer placed keep on giving services which is not the main focus of China, China is generally into products which are mass selling items, they may enter things which are having more world demands, things which can be sold on the COA basis now these are like tailor-made product in which China is not working at all. They are more prominent in the dyestuff market. Dyes are also used in the processing of textiles, but we are not into dyestuff and that is one of the reasons why China is not at all any, I do not see Chinese products in Indian markets actually.

Urvi Jha: Okay, and one more question Sir, you have 15 Crores is organized, so organized share would be roughly how much 50%?

Sanjay TIBREWALA: What I mean is 1500 Crores is organized customers.

Urvi Jha: Yes, so that is like 50% of the market organized customer?

Sanjay TIBREWALA: It is very difficult to say so, but I do not think it is 58% can be around let us say 35% something like 40%, but the unorganized market they do not need special product, they are mainly products the fabrics running on the price things and there are certain customers where we can corporate company we can not walk into, let us say (inaudible) 45.35 markets and Bhiwandi markets if you know these kinds of business or market places we are not able to we do not long to sell to these markets where they do not value the quality, where they do not need quality products and the systems of credits and other things are not in place.

Urvi Jha: Thanks a lot Sir for taking my questions.

Moderator: Thank you. The next question is followup questions from the line of Rangan Venky from Brilliant Securities. Please proceed.

Rangan Venky: Now I can understand the business. This business is low. I mean turnover will be less but the margins, is going to increase like that. Now the question is that nonstandard and what happens customer driven so what happens cannot you unless you know smaller companies and make them unviable so that your market share increase like that so that number of unorganized people are more in this line and can not you setup some more factories at the nearest to that textile industry like in South India where the facility will be given quick because you what you said it is have to be done at the customer level. Now that trade payables also I see that receivables are more than



19 Crores and increase about 1684 lakhs to 1916 lakhs. Why it is like that because probably state some reasons like that, you have to increase the picture this is also this year by about 4 Crores what will be the current year expansion will be roughly?

Sanjay TIBREWALA: Now I will answer one by one. Number one as you see these products are value added products for setting up a plant next to the customer's location will never be helpful even for cost cutting reasons that is one thought. At the same time I would like to mention like I said we have like 68 to 70 distributors all over India and these distributors are like stockiest so they always keep the stocks of at least 15 days to one month with them and whenever the consumers require it they always then over within 24 hours further regionally we have our marketing, technical guys let us say in Tirupur, in Erode, in Ahmedabad, in Surat, in Ludhiana, in Panipat, in Jodhpur, and other places as well as these distributors also have their technical team and they are also servicing in the customer continuously for setting the businesses giving followup visits and things like that being into very high margin oriented businesses, it will definitely not make any cost saving for kinds of better productivity by setting up any plants over there in the customer's place. That is one point to your question about setting plants close to the customer. Now regarding the capex of this year, I think around the generally we always have capex of 4, 5, 6 Crores for year which in the last year we did for the land acquisition, for the next door premises to our existing unit and we also did some acquisition of some office set up also in the last year probably, I think like I said even if we go to highest capex what we would like to do the next one and half year also I do not think it will be over 8 to 10 Crores or something like that. That also will be funded by the internal accruals itself. There will be no debt taken for that purpose. Now coming to your take payable question can you just again mention about that point like you mentioned 4 Crores you something like that? Can you please repeat your question on that?

Rangan Venky: Trade receivables, sundry debtors like that because it is high side?

Sanjay TIBREWALA: I would like to also mention in this business the textile business is as such a little credit oriented business, what we have been doing is we give lot of support our distributors in our credits also and has well to the consumers this is of strategy for marketing which is not adopted much by the European multinationals and that is one of the also strategy why we will be also able to grow and service the customer in much way. I will recheck how much is the number of days that the ratio which has been increased.

Rangan Venky: 17 Crores to 19 in standalone basis in the consolidated balance sheet it is on the higher side?

Sanjay TIBREWALA: I think the debtor in the standalone it has gone up by 8 days debtors from 95 to 103 in the standalone. I do not think that is quite a big thing possibly our last quarter was also doing well and we have grown have our business in the last quarter year-on-year basis so probably those are the reasons why the sales the debtor days has increased because of that and now coming to the consolidated like you mentioned, there is also an increase of seven days only which I see from 78 to 85



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- Rangan Venky:** With receivables 21.72 Crores to 25.39 Crores?
- Sanjay TIBREWALA:** I am just looking as per the ratios of the sales growth also so debtor days from 78 has gone to 85 that is an increase of 10% which I am sure depending on the growth of the sales in the Q4 which might be a reason for increasing the debtors, but that is the point, but anyway we will just go through again what you mentioned in the numbers. Actually we were looking at the debtor days, which has gone up by 8 to 9 days.
- Rangan Venky:** Now you are talking about the silicon oil, which is most important, which has gone up very well. As a percentage of raw materials, in the raw material space how much this forms part of this silicon oil?
- Sanjay TIBREWALA:** I will need to go through that and answer your question.
- Rangan Venky:** What I am trying to tell you that if you can make sufficient inventories, more inventories of where the vagaries are going up and down, so that at least cost can come down. If it is better than the interest rates so you can build up inventories on those costs materials that are very costly?
- Sanjay TIBREWALA:** Well it will make a different.
- Rangan Venky:** That you can do that; you can do an exercise because it is very easily to ask question.
- Sanjay TIBREWALA:** I appreciate your point and suggestion, but I can also tell you our main focus is on the selling our value added products to consumers and that is the place where the profit lies. That is the most important focus because let us even save it all reaches by storing more it is not necessary that always the price is there, because it is not easy to determine any trend in these things it is irrespective of the crude oil to great extent. So we cannot see exactly after three or four months whether it will go 3% or 3% down, now even if it goes 3% up or 3% it is quite irrespective because our margins are much, much more than that and always our focus is on getting the sales businesses and growing our margins and we are getting more wallet share from the existing users rather than going into because this has a very specialty chemical business unlike the other industries where yes if that happens we will always need to keep the stocks and inventory and things like that further we are not into a tender business where our final prices are always fixed to the customer and hence we should always book our raw material just to make sure that we do not lose out due to the increase of the raw material prices, but anyway I understand your suggestion and we have made a note of it and we appreciate the same and we will try to do that as well.
- Rangan Venky:** At the cost of raw material if there are 58 to 57 brought down, please peg it at least 60% over a long-term basis, I think that will be much better for you. Always you have an eye on the raw material cost as a percentage of sales in spite of that wish you all the best.
- Sanjay TIBREWALA:** Thank you Mr. Venky.



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Moderator: Thank you. As there are no further questions, I now hand the conference over to Ms. Afshan Sayyad for closing comments over to you.

Afshan Sayyad: I would like to thank Mr. TIBREWALA for answering the queries and clarifying on his business model and would like to thank the participants as well for joining in the call. Thank you.

Sanjay TIBREWALA: Thank you so much.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Dolat Capital that concludes today's conference call. Thank you for joining us. You may now disconnect your lines.