

Fineotex Chemical Limited

12-month Q4 FY18 conference call

June 01, 2018

Moderator

Ladies and gentlemen, good day and welcome to the 12 month Q4 FY18 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 to 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 phone. I now hand the conference over to Mr. Pranav Khandwala from Valorem Advisors. Thank you and over to you, Mr. Khandwala.

Pranav Khandwala

Good afternoon, everyone and a warm welcome to you all. My name is Pranav Khandwala AVP of 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 Q4 and financial year ending March 2018. Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today's earning concall may be forward-looking in nature. Such forward-looking statements are subject to risk and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management belief as well as assumptions made by information currently available to management. Audiences are caution not to play undue reliance on these forward-looking statements and make any investment decision. 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 review.

I would now like to introduce you to the management participating with us in today's earning concall. We have with us Mr. Sanjay Tibrewala – Whole Time Director and CFO, Mr. Pradeep Tibrewala – President, Finance and Commercial and Ms. Pooja Kothari – Company Secretary. Now 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, good afternoon, this is Sanjay Tibrewala here. Welcome all of you to the earning call conference for quarter 4 financial year 2018 and financial year 2018. Thanks for joining in, and thanks Valorem Advisors as well. Along with me I have Mr. Pradeep Tibrewala – President (Finance & Commercial), Ms. Pooja Kothari – Company Secretary and our Valorem team also. We like to give you some background about the company and its activities and also brief you about the industry in which we are. Fineotex was started in 1979 by Mr. Surendra Tibrewala. The company is engaged in manufacturing speciality chemicals. It is one of India's largest and the most progressive speciality chemical manufacturers. We also offer solution revenue products to the customers which are more performance driven. We produce almost 400 speciality chemicals right from all the stages of pretreatment, dyeing, printing, finishing for the textiles.

Our manufacturing capacities are located in India and Malaysia. Combined we have a production capacity of 26,000 tonnes which has been increased also in the last couple of months. We have a global presence in across 33 countries and catering to well established brand in both India and overseas as well. Our industries like a very high entry barrier business. Our clients are very sticky. We provide customize products, tailor made products to the various, I mean to all the textile customers and we have our own R&D facilities. We are working with almost at the moment around 90 agents all over India. Also I would like

to mention that we are a 0 debt company with consistent dividend paying, high capital efficiencies and high ROC and ROE.

Regarding financial highlights, I am sure you would have seen the results which we have released on 30th May, 2018. I would like to briefly update you on the same. Let us start with the standalone quarter 4 financial 2018 results as per the Ind AS format. I would like to mention that the accounting standards have changed from GAAP to Ind As. So, first I would like to give you the details with the Ind AS accounting standards and after that I will give you the details with the GAAP accounting standards. So, coming to the Ind AS standalone quarter 4 financial 2018, our total income has grown up by almost 7% for the quarter year-on-year basis to 25 crores. EBITDA for the year was 60 crores which is 5.3% higher from the last year. EBITDA margins continue to remain healthy to 25% in this quarter 4 financial year towards financial year 2018. The net profit in quarter 4 financial year 2018 is 3.6 crores which was 8.4 crores in the last quarter financial year. This has resulted in the EPS of 0.32 in the quarter 4 financial 2018 results as compared to 0.75 in the quarter 4 financial 2017.

Now, like to brief the same information as per the Ind AS format also, in which our total income has grown up by 12% to 91.9 crores. EBITDA for the year ended at 23.6 crores which is 27.6% higher from the last year. EBITDA percentage, margins remain healthy at 26% in financial year 2018. The net profit in financial year 2018 is 21.3 crores from financial 2017 which was 21 crores. This has resulted in our EPS of 1.91 for this quarter, financial years compared to earlier 1.89 in the last quarter 4 financial year 2017. I will take you to the consolidate figures of the Ind As now. The consolidated Q4 financial year as per Ind As our total income is (-2.9%) in the year-on-year basis. EBITDA for the year ended is 8.1 crores which is 16% lower from the last year EBITDA. The EBITDA margins stood at 20.15% in the quarter 4 financial year. Net profit has reduced from 11.5 crores for this quarter 4 financial year 2017 to 2.7 as per the Ind AS format and which is a de-growth 75% as per the Ind AS format, year-on-year basis. This has resulted in our EPS of 0.25 in quarter 4 financial year 2018 as compared to whole year 0.58 in quarter 4 financial year 2017.

I will get you to the consolidated financial year 2018 numbers as per Ind AS. Our total income for the year grew by 6.3% year-on-year basis to 143 crores. EBITDA for this year ended was 30 crores which is 1.7% higher from last year. EBITDA margins stood at 21% in financial year 2017. As per the Ind AS systems, the net profit has declined from 29 crores in last year to 24 crores in the financial year 2018, which is a reduction of almost 15%. This has resulted in our EPS decline from 2.15 in financial year 2018 as compared to 2.6 in financial 2017. Now, I will tell you all these details as per the GAAP method. Because in the last year the difference, I mean last year performance was based on the accounting as per the GAAP method, so to give a performance comparison we have already updated about from the GAAP standards also. I will first take you to the GAAP understanding. As per the standalone quarter 4 financial year, our total income for the year grew by 12.3% to 24.6 crores. EBITDA for the last year ended was 65 crores which is 20% higher from the last year. EBITDA margins continue to remain healthy to 26.42% in quarter 4 financial year 2018. Net profit in quarter 4 financial year 2018 is 8.4 crores from quarter 4 financial year 2017 which was earlier 4 crores. This has resulted in increase of the EPS 0.76 in this quarter for financial 2018 as compared to 0.39 in the quarter 4 financial year 2017.

Coming to standalone financial year 2018 as per the IGAAP accounting systems, our total income for the year grew by 11% Y-on-Y basis to 92 crores. EBITDA for the year ended was 24 crores which is 25% higher from the last year. EBITDA margins continue to remain healthy at 26% in financial year 2018. Net profit in the financial year is 22 crores from financial year 2017 which was earlier 15.9 crores. This has resulted in increase in EPS to 1.99 let us say Rs. 2 in the financial year as compared to earnings of 1.43 in the financial year. Now, we will talk about the consolidated Q4 financial year 2018 as per the IGAAP

system accounting standards, our total income has grown up by 3.5% year-on-year basis to 42.5 crores. EBITDA for the year ended was 9.2 crores which was 2.1% lower from the last year. EBITDA margins stood at 21.65% in quarter 4 financial year 2018. Net profit reduced from 7.5 crores in quarter 4 financial year 2017 to 7.3 crores in quarter 4 financial year 2018, which is a reduction of 2% year-on-year basis. This has resulted in the EPS of 0.65 in the quarter 4 financial year as compared to earnings of 0.67 in the quarter 4 financial year 2017.

Now, we talk about the main consolidated financial year 2018 as per the IGAAP accounting standards. Our total income for the year grew by 5.7% year-on-year to 143 crores. EBITDA for the year ended was 30.2 crores which is let us say, 1% higher from the last year. EBITDA margins stood at 21.1% in financial year 2018. Net profit has increased from 23 crores in financial year 2017 to 25 crores in financial year 2018, which is a growth of almost 4.2% year-on-year basis. This has resulted in our current EPS of 2.23 in financial year 2018 as compared to earnings of 2.17 in financial year 2017. This growth in our financial is a clear reflection of a well-executed business strategy. We have been constantly focusing on high margin products and the results of the same can be seen from our healthy EBITDA margins and profitability. At the same time, I would also like to mention that there has been a difference in the Ind AS and the IGAAP accounting standard which has let us say, majorly affected the investments which we have which are the notional investment, I mean the notional valuations which has been revised as per the Ind AS method., we have also updated with the IGAAP standards to have a fair performance comparison as per the last year.

So, I would request now to hand it over to Mr. Pranav and we are open for any questions and any kinds of information's further required from the investors.

Moderator

Thank you very much. We will now begin the question and answer session. First question is from the line of Ajay Davis an individual investor. Please go ahead.

Ajay Davis

Can I ask the questions which are not related to conventional results? Actually I wanted to know the current stage of Aquastrike VCF product which is manufactured by FCL? The current status at which the product is?

Sanjay Tibrewala

The point is the product which is manufactured in Biotex Malaysia Aquastrike VCF is a mosquito life cycle controller. We already have applied for the WHO registration in Europe. The process is on the final stages. We have applied in India in the CIB which is Central Insecticide Board of Faridabad. It is already been taken in the agenda of the meeting and the meeting are been scheduled but the meetings have been postponed, I mean and I think in the next couple of months we should have a clarity on that and that should be more or less approved in the schedule. This is the update as per the India and WHO. At the same time, like you might have gone through our updates on the website and the stock exchange also that it has been approved in Vietnam also. And we have started getting small orders for that. The market size for this product is in billions of Dollars but the point is that the WHO approvals are very vital for getting the government orders in most. Now at the moment we are giving it to the house keeping companies, we are regularly selling it in Singapore some to Malaysia to Vietnam also which has recently started. But there is a long way to go on that lines at the moment we are working with the house keeping companies who are servicing the resident's areas and using it in all the in-house resident homes purposes for water tank, for fish ponds, for private swimming pools and others. So, this is currently what we have focusing upon. At the same time once we have a WHO approval, the business can be in a very different level.

Ajay Davis

Actually the top line growth is not so good. It is not so much substantial into current financials compare to last financials. And you are saying that you are acquiring one more site near to the factories which is currently there when there is no so much of substantial sales increment in the year-to-year. I think, what is the need in extending the plant actually?

Sanjay Tibrewala

No, I will like to explain to you that there has been as per the GAAP system, if you notice our profits have, I mean as per the GAAP system in the standalone also our profits have gone up by more than 38% in as per the GAAP system. But as per what happens in the GAAP and the difference between the GAAP and the Ind AS system is that in the Ind AS investments what is lying in the company that has to be revalued for the last 2-3 years. Because even the 2017 results the base results had to be revalued as per the Ind AS system from the GAAP. So, if there is any increase in the mutual fund instruments or in the debt instruments and the notional increase or notional decrease that also effect has to be taken on to the books. So what has happened is earlier this was the first year in which the Ind AS system has been implemented and that is the reason as per Ind AS you may be not being looking at this difference of the growth rate is not so visible in the Ind AS that is reason. But as per the GAAP rate, I am very sure if you can go through it in all these stages we have increased our total income, our EBITDA, our EBITDA margins and also in the Malaysian entity what has happened in the standalone we have definitely gone up by 30% also in the EBITDA margins. But in the consolidated for the Malaysian businesses for the promotion of Aquastrike, there has been lot of promotional expenses for exhibitions, for seminars and all these things which the company is routinely doing and also updating it. So, this is and also there has been some foreign exchange fluctuations also which has happened. So, because of which vis-à-vis that growth is not looking easily visible. But going forward, I am very confident that what we are doing in the standalone will also be happening there because now there is a new government also in Malaysia last month. So, lot of changes has happened and now the new news is from today onwards first June there is no GST also in Malaysia from now. So, because of this there are many benefits which will be seen in the current future times. And regarding the new plot what we are talking about already it is used already we have expanded also because we have producing so many speciality product. All the products have to be having a special manufacturing systems. It cannot be huge, the same products cannot be manufactured in all the reactors and the facilities, plant and machinery. So, for some specific things we need the expansion of the land and factory building. So, that is what we have been doing and that is very much required because the way we have been doing in the standalone like from, let us say from a 25%-27% growth. We need those excess space also to go to the next round of expansion.

Ajay Davis

Where can I see FCL in the next 2 to 3 years? Currently you are active player in textile industry other than textile where can we expect FCL will be a major player in next 2-3 years, apart from textile industry. Actually, you are a major player in textile industry. Apart from textile industry, I do not think you are major player in other industries. But where can we see FCL in the next 2 years in industry other than textiles?

Sanjay Tibrewala

Got your point. Sir, the point is that actually our main focus, our main core business is textile chemicals, alright. And that has been our main fort area it is a very beautiful business because every customer needs 25 different products. 8 from pretreatment, 8 from dyeing, 8 from printing, 8 from finishing minimum. So, what we have been focusing upon is to serve our customers giving them more values, making their fabrics more in the main cost saving process, reducing the water, reducing the time. So, this is our main expertise, textile chemicals. This is has been of course, we are doing adhesives, we are doing other businesses. At the same time Aquastrike is there which is a totally different, let us say different let us say FMCG kind of a business in which we will be catering to the public utility sector. That is definitely something which is like billions of Dollars business product and this is being the most eco friendly and the economical version also as

compared to the non-eco friendly product which are running around in the market, like BTI and EBIT. So, this is the way we have been doing apart what you would like to focus upon is always to focus on our main core business, textile and for the last 6-7 years we have always done a PAT growth of 27% CAGR for the last 7 years and we are a zero-debt company also as you might have noticed. So, this is the way we have been focusing on our strengths in textile at the same time we are looking at many polymer businesses also in the water treatment products and other businesses. So, I mean these are the chemistries which we already producing, we are doing all those reactions, we are doing polymerizations, we are doing esterification, sulphonation, phosphonations. So, these are the products which also use in the different businesses as well. So, we are also catering to, let us say paper we are doing, we are doing leather, we already doing those kinds of business. We have vendors to the Bombay hospital also for detergents, I mean for the government hospitals to the BMC. So, we are getting the orders from that which have been executed. We are a vendors to ONGC also. So, we are there as such present but that is not our main fort area. But yes we are working on those areas also to grab more diversified business units.

Moderator

Thank you. The next question is from the line of Abhilasha S from Dalal and Broacha. Please go ahead.

Abhilasha S.

Sir, I want to know that, I mean why is the difference, so much as compared in Ind AS and Indian GAAP because as per Indian GAAP we are showing around 12% top line growth whereas as per Ind AS our top line growth is negative 3%. So, what is it like leading or can you explain actual growth in terms of volume?

Sanjay Tibrewala

Yes, the volume growth is also almost 8% to 10%. Yes, I can give you the exact numbers but coming to the Ind AS, GAAP and for the top line I think it is difference of the tax. Now, we are in the GST systems also and in the new Ind AS system there is some different way of measuring the sales. The sales which are not yet reached to the customer they have to deduct it in the Ind AS system although it is dispatched from the plant. And also the goods which are on the way from the supplier has to be taken into note of the purchases, although it has not reach the plant as per the Ind AS system. That is the reason the GAAP and the Ind AS systems are showing difference even in the top line. And also the good which are sent on the last day of the month or something like that which has not yet reach the customer let us say 2-3 days we take the time to reach the customer. So, one of the accounting standard does not accept until the goods are reached to the customer. They do not accept it as a sale. So, that is the difference between that is the reason between the getting differences even on the sales lines.

Abhilasha S.

Yes, but sir like the goods sent on last day and these will not be around 10% of the total sales, right?

Sanjay Tibrewala

Another thing the purchases, suppose like our goods are on the way from the customer as supplier and if it is coming from let us say we have booked it and it is on the way from importations also. So, that will also be affected in this. And the main thing is that earlier years also the differences, the 2017 that also has to be changed as per 2016 and 2017. So, that is also one change which has been taken place not only the 2018 also in the 2017. It is not only for us, it is for everybody. I mean, this kind of accounting standards which has been fully changed for everybody, I mean for Ind AS point of view. What will happen from next year, you will not see too much because next year from let us say from quarter 1,2018 that will be compared in the Ind AS format only. Because already the last year's first quarter was done in the Ind AS format only, so then Ind AS will be compared with Ind AS. Right now, what are also happened is that the 2017 we are on the GAAP systems. This

is some primarily confusion I can call it actually at because of the transition of the accounting standard this things are happening.

Abhilasha S. So, for next year sir, how much growth are we targeting for FY19? What is your outlook?

Sanjay Tibrewala See, as such like every year we have been growing at 25% average CAGR for the last 6-7 years. This has also happened in our standalone, in fact from the GAAP point of view standalone also. So, this is what we have been doing in future also, I am very confident that, in fact it can be increased further on. And we have been doing adding a lot of marketing team members, lot of distributors also in the current year. So, as and when we have been proceeding we have been expanding our business also. And in the last year we had this GST implementation also. So, that effect also has been subsided now by the textile market. So, I think going ahead it will be a better times than even the last year.

Abhilasha S. And in terms of margin like this could, we have also seen some pressure on margins. So, why this so and going forward what will be consistent margin we can expect in our business, base business?

Sanjay Tibrewala See, actually if you notice our margins, standalone Q4 2018 margins as per the GAAP system is healthy and remains to 26.42% even for the year it is 26.17% in the financial year 2018. So, EBITDA margins have not been effected at all. Actually I think, you are referring to the Ind AS system.

Abhilasha S. Ind As, as per Ind AS margin has gone down from 25% to, I think 23.5%?

Sanjay Tibrewala I think that is also because of the change of the sales like we pointed out also, right now. And also in the change of the notional value of the investments which has also been affected in that. In fact, today only we have again published we have given a press release for additional information what I am speaking about I would request, if you can also go to the stock exchange sites and see the comparisons of all this Ind AS and the IGAAP also. So, this would be giving a better understanding about the real positions.

Abhilasha S. Sir, as per like Ind AS from year-on-year will be reporting margin as per Ind AS. So, how much margins like what kind of margin has sustainable from?

Sanjay Tibrewala See, averagely the real margins are always 25, I mean that is the standard thumb rule. Let us say, average EBITDA margins are 25%. Even for Ind AS that could be done but now what had happened is this time what comparison what we are doing is also on the base year for which everything has to be changed. Now, the base year will become that 2018 year. Now, going forward 2018-2019 will be compared with 2018, so I think it will be an easier way to do the comparison. And I think you can still be expecting the, what we are expecting is almost similar performance at least.

Abhilasha S. And here also like, other income is reported negative 19 million. So, why it is so as against

Sanjay Tibrewala That is the main reason as per the Ind AS system. That is the notional loss which we have to put on the books. Earlier it was on the GAAP basis. So, in the GAAP system only the realized values have to be put. In Ind AS system even the notional things have to be applied for. So, this is the basic difference between what you are talking about. This is the reason why you are finding not so much growth in the Ind AS system. This is the point.

Abhilasha S. Sir, this notional loss is on what? Like because

Sanjay Tibrewala The Debt instruments and debt and equity instruments and all the market fluctuations and the financial instruments what we are holding.

Moderator Thank you. The next question is from the line of Chandra S, an individual investor. Please go ahead.

Chandra S I have few questions, one is regarding AquastrikeVCF. Have you applied for patent?

Sanjay Tibrewala Yes, it is already applied in Malaysia,6 months back.

Chandra S you got patent approved or not in?

Mangement Generally they will take a, it is a quite a long procedure. So, I think it should not take less than 2 years or something like that.

Chandra S The other question is, WHO approval. What is the expected timeline, by which you will get the approvals, so that you can

Sanjay Tibrewala So, actually what happened in WHO we had applied almost a year and a half back. After one year period they come out with new procedures. So, the entire old procedure was scrapped off. Fortunately, that is the new procedure is not so long. It does not take more than, earlier it was 3 years now it takes 2 years or 1.5 years something like that. So, why we are almost very close to this the fag end of it, so I think, in a couple of months we should have a clarity, I mean getting the almost it is they are very happy about it. They are very excited about it. We are getting very positive things from them. And now the next step would be to take it on the commercial trials with them. So that is, once it is approved then there is a commercial trials also. See, what happens with WHO approval there are 2 benefits. WHO is like a foundation which also gives financial such kinds of products. At the same time, if once our product is WHO certified the foundation businesses from ADG or from let us say Bill Gates Foundations and all the big names which are the social responsibility kind of approaches. If they are main financiers and for this kind of business wherever there is a famine they buy these kinds of products and get its circulated. But that happens only with a WHO stamp. So, once market is a WHO will be buying it also and promoting and providing to the various affected regions and also the foundation business. At the moment the BTI and the EBIT which are the 2 main products which are the, let us say the non-eco friendly products which are like a diesel, it is like diesel BTI and EBITDA like diesel. Now, these products have been funded if like what record I had was more than \$2 billion. So, alone funding of these products by this foundation is \$2 billion. Now coming to from a non-eco friendly product to an eco-friendly product, I am very sure that the interest levels from WHO is on a very high level. But it is a matter of time and they have their own protocols and systems which is, I mean it is totally system driven. But we are in the good speed on that. We are awaiting some more positive actions in this month itself. I mean, positive news and then there after the trials will be conducted commercially. That is what we have been informed until now. And another thing is the WHO is not, let us say the all the discussions which we have with the WHO is in fact, we are not allowed to share too many details until it has been done. But it is in a very positive direction.

Chandra S So, if I ensure this year probably the April process would be complete, correct?

Sanjay Tibrewala Yes, surely. In this, I think by the next couple of months or 3 months I think maximum we should be having some great next step on that.

Chandra S What is the plan of marketing Aquastrike been in the Indian market? Have you started what is the plan there?

Sanjay Tibrewala

Now, what happens is the main market for this is the government bodies because this is used on the lakes and the rivers and all the sides which comes under public utility welfare. Now, what and there is another market which is, we call it as the housekeeping market. Now housekeeping is not a market in India actually because it is more in the Singapore and other places where people they give contrast to some housekeeping companies to come and clean once in 15 days or once in a month something like that. So, at the moment our businesses are depending on housekeeping area where we are giving it to the housekeeping companies they are going in cleaning the residential things. Now marketing, main marketing will start once we have the WHO approval and the CIB approval as far as the India is concerned. Now, CIB also has its own protocol and systems and right now CIB is the, the full form is Central Insecticide Board of India. It comes under Agriculture Ministry. Now, this is actually an insecticide board whereas our product is not insecticide or anything. So, basically we have to make sure that we are not having, I mean because ours is a very total eco friendly product. So, as such we are not in insecticide only in this. So, that explanations and details are going on with CIB and now they have taken our application on the agenda also. And it has been taken for the meetings also. So, once the meeting I have what also we have then updates which I can share is that the meeting has been done also but only the minutes has to be updated on the website. Once we have those meetings on the website, so we will be able to understand and get confident about the approval and induction of our product in this.

Chandra S

The last question is, who is the competitor globally and locally as far as this Aqua VCF is concerned?

Sanjay Tibrewala

Right now, actually this is the totally different kind of a product. This is a non-toxic eco friendly mosquito life cycle controller. Right now, what has been used is not eco friendly products all non-eco friendly products like BTI EBIT. Now, both of these products are like very close to diesel and fuel not an economical product, I mean not eco friendly product also. And now in India HPCL is supplying all these products. So, as such we are not competing with any product. We are not competing with that. We are competing with the products which are non-eco friendly which are basic like EBIT and BTI are not brand names. They are like the basic chemistry we can call it, basic chemicals.

Moderator

Thank you. The next question is from the line of V. V Bajaj from Bajaj Shares and Securities. Please go ahead.

V. V Bajaj

Sir, I have two questions. One is the acquisition of plant factory near to the existing one. How you are funding that and what will be the CAPEX to suite to our manufacturing process, that is one? Number two is about AquastrikeVCF only. Just now we had detail response but what is the time frame we are expecting, when it is marketed commercially? Thank you, sir.

Sanjay Tibrewala

Now, coming to your first question, the funding of the new plant as such we are a 0 debt company and averagely the cash on books is almost 40 crores, 40 crores-45 crores investment. And every year we have a net cash flow of 25 crores more or less as well. So, the funding will be done by internal accruals only. There is no debt required for that. And some portion of it has already been paid from internal accruals. The CAPEX line is, let us say the CAPEX will be for the, I mean for the plant and machinery investment will not be too sizeable because we will be using it for storage purposes also and also for the manufacturing as well. But that will not be sizeable it should not be more than 3 crores-4 crores let us say put together. And coming to your third question of VCF, already let me tell you that we already selling it since 1.5 year. Now, the sales and the housekeeping department, housekeeping markets not in the government sectors. So, this is what has been going on regularly since one year. Now, what we are trying to do is to get into the

government. Now, what is happening in the government approvals one is the government approval and one is the WHO approval. So, our actions have been done at WHO and also because the bigger order will be coming from the WHO after the WHO certifications and with the governments approvals also. Right now it has been approved in Vietnam, it approved in Cambodia. We have all the non-specified certificate it is upload in the EU also the basis. We have all the commercial documents and the certifications from Singapore, from Vietnam which are in favor of this. Right now, our focus in on WHO this is what we have been looking at.

Moderator Thank you. The next question is from the line of Nehal Shah, an individual investor. Please go ahead.

Nehal Shah Just wanted to ask you, if the mix between pretreatment, dyeing, printing & finishing chemicals mix has changed over the period of time. Although the company focuses more on finishing chemicals.

Sanjay Tibrewala Perfect, can you please repeat your question like I did not get it like the pretreatment, dyeing, printing, and finishing.

Nehal Shah Yes, sir has the mix between these 4 chemicals has changed over the period of time?

Sanjay Tibrewala Well yes, I mean let me explain, I think you might be already aware about it also. The finishing is the process in which the final feel is given to the fabric the sub-straight and the consumer decides on buying needs and deciding, I mean on the basis of the finishing and the dyeing and the color also. So, finishing always has been more sticky business in these entire 4 processes. And of course, it is the more value addition business also because as per the growing needs of the consumers people are wanting more technical textile like you might be watching the ads from Raymond's they have a Technosmart fabric in which, it is let us say water repellent, oil repellent at the same time it will absorb the sweat also it will be, those kinds of Techno smart fabrics. So, this is the new demands from the consumers and that is the place where you can supply more and more products and more value added products can be offered as well. So, going forward our focus is always been to be in the more finishing stage, finishing in one stage we people do not change. I mean and we are so strong in finishing is like Raymond's let us say Raymond's Vapi, Raymod's Chhindwara, Raymod's Kolhapur also using our finishing products. Also our finishing products are going to Vardhman Groups and also, I mean many corporate customers are buying all their finishing products like Sangam Banswara Syntex the suiting customers, Siyarams also. All of them are buying our finishing products from us. So, going forward we will be focusing more on finishing and also the dyeing stage which is also quite profitable stage. Because in dyeing also there is lot of value addition which can be done. At the same time we have been developing and also started our marketing since 2 years more and more of specialty products which are like saving the energy, saving water, water requirements, saving the time requirements, saving the heat, energy and other things in the product. So, these things also we have been doing regularly on a regular basis which can also replace, let us say conventional product instead of using 2 or 3 products we can use one product. So, these are the kinds of business where we already into. The mix is changing, we will come up with the exact changes also almost 40% is finishing, 38% is finishing and let us say almost 37% is finishing 27 is dyeing and the rest one is all between 14 to 22 something like that.

Nehal Shah And on the inorganic growth side, are you looking for opportunities over there since you are a cash surplus company?

Sanjay Tibrewala Yes, we are always looking at such kinds of like we did Biotex also 6 years back and that has been gone very well. And so, we are very much let us say more confident to in doing good deliveries with the inorganic acquisitions also. We have been talking with many companies they have given mandate to some M&A consultation companies as well for getting us the right kind of company in the specialty chemicals mainly, if preferably in textiles or in water treatment polymers. These are the markets which we are already holding our, let us say chemical expertise on to. At the same time we are also making sure that the offers, many offers also coming but at the same time we are very conservative with deployment of our funds. So, we do not want to just go for the inorganic acquisition just for the sake of it or just for the expansion purpose. Once it has to have more it is a synergy with our product lines or some chemistries which we are already handling at the moment and it can be going to different businesses. So, this is the way we have been looking at our next step of growth. So, this is what I can tell you, yes there are many opportunities, but we are very conservative with making a decision on it until unless we are very much satisfied about it.

Nehal Shah Last question from my side. Sir, what would be the CAPEX for the next 2 to 3 years and what is the current capacity utilization that you have in?

Sanjay Tibrewala See what earlier capacity is, 3 months back was 22,000 tonnes which we have made to 26,000 tonnes now. Already we have increased our capacity which is now started going functional also even last month was good enough to grow, I mean using more and more capacities and going forward our CAPEX plans would be to, I mean our average CAPEX is around 6 crores to 10 crores. That is the basic line for the organic expansion point of view. So, I think 6 crores to 10 crores is what we have been doing at the stretch of it maybe 12 crores or maybe 15 crores could be a higher number but it should not go to that level. But all of it will be done from the internal accruals only. Because we have good cash on books and that is the reason the cash is kept also on books, so that we can also use it for inorganic acquisition and also for the organic expansion and CAPEX point of view.

Moderator Thank you. The next question is from the line of V. Raju, an individual investor. Please go ahead.

V. Raju On the BSE website notice which you put yesterday or something day before yesterday you talked about even you mention in the initial discussion that this mosquito control project product is couple of global market size is billions of Dollar and you wanted to do like 2% to 5% of that business. So, that works out to something like at 2% it works out like 200 crores-300 crores. So, what is the time frame we are looking at to get that 2%?

Sanjay Tibrewala So, in fact the 2% of the market is also not of the total market it is just of the funded foundation market which I have mentioned, which we have mentioned on that. Like there are 3 markets, one is the government public utility sector, one is the house keeping market and one is the market where the foundations are financing this product and let us say donating it or as per CSR policies and all those things. So coming to that, the 2% of the market what we are talking about is even if we get on to the first stage of it, of the funded market itself not of the total market. So, that can be done once the WHO approval has come into place. Because all these companies, all the foundations rely on the WHO approvals and the margins in this product is at least 60% on the sales. So, this is the kind of business where, I mean this is something which is different level of business where we are talking about.

V. Raju My specific question is assuming we get the WHO approval sometime maybe in next 3 months or 4 months. From that point, how long it may take what is the management's vision in terms of time? How long it will take to get that 2% market share?

Sanjay Tibrewala

Well, it will come in gradual basis. Because the presentations will go to ADB and the Bill Gates Foundations and all those things where we are already on the touch levels and we have been awaiting the WHO approvals for that thing. So, once we are, I do not think it is to start with once we have let us say on day one, the WHO approval, I think in the next quarter or so we should be having some great news on the, on some of the companies who have opened up and started looking at this. Just for a small example I can tell you there was a one epidemic which has spread in Malaysia and the government was ready to give an order for \$5 million. But finally the WHO approval was not there. So, I mean this is just whenever there is an epidemic the government comes into action with their funding and all and also the many foundations like Bill Gates and all the ADB and all these foundations keep coming. So, it is very, it is certain orders also as such depends on the level of epidemic depends upon the where they would like to do the social responsibilities. So, I cannot give you the exact date 2% when can it happen. But yes, the good news will come in the next couple of months once we have the WHO approval, which should be sizeable as well. Because the most important things is once you get an, it is a routine business thereafter. Once you are into funding items like Bill Gates Foundation or ADB foundation or so, these are routine consumption based businesses, so wherever there is a requirement in Africa or something we get those kinds of requirements from those areas also which is funded by them.

V. Raju

So, you said the order in which might which was stopped because of WHO was US \$5 million, is that?

Sanjay Tibrewala

Yes, that is from the Malaysian government. We have not yet published all those things. This is off hand example which I am trying to give you.

V. Raju

And typically these products like in the last one year, you said you are actually marketing to the cleaning companies, which is basically business-to-business, housekeeping company. So, how to big is that and what was our sales in the last one year to them?

Sanjay Tibrewala

See, what happens in housekeeping it is use in the residential wherever they have swimming pools and wherever they have fish pond or something like that. So, sales is not in numbers very big. It is 22,000 liters till for the last year. But the most important thing what we are looking at to build a big profile on it that it is going to Vietnam, it is going to Singapore. It is used in various plus we have the approval from the PUB of Singapore, PUB is the Public Utility Board of Singapore which allows the list of chemicals which are allowable to be used in the residential catchment areas. So, we have that our product registered on that list which itself is the big thing, I mean it is PUB is like the BMC of like municipal corporation we can call it of this country of the city. So, once we have approval their at least it gives its endorsement of the product performance and Singapore is such a country that it is, they go by the product performance. Now the point is, Singapore is such a clean country that the demand for these kinds of problems of mosquito is not so high. Unfortunately, the biggest markets for this are all developing countries like India, Bangladesh and other such countries but the government because there is a government intervention to it and that is the slowest in the developing countries. So, unfortunately the markets where is the biggest the government is the slowest. So, anyway we are trying to, our main focus is on that WHO approval and this is the place where and WHO is very strong extremely strong as we all know that they can also give, let us say guide lines to the Healthy Ministries and other things to go for it. And once we have a WHO certification, of course even the national domestic level companies and bodies have to give a due weight age to it.

V. Raju And how are these chemicals particularly the mosquito product? How are they marketed? Are they marketed like consumer products like in TVs or something or its purely institutional

PradeepTibrewala No, it is purely institutional?

Sanjay Tibrewala No, we are not giving it to consumers. We are giving it in let us say, yes. I mean, from the size point of view 5 liters and 25 liters are the two packing. We are giving it to the housekeeping companies. So, these housekeeping companies take it in their 5 liters and they have their vehicles which is going on rounds for the cleaning purposes to various their clients and customers. So, they take it along it is a liquid. It just to be poured it is not to be, it is not to spray or something and it is totally in colorless, non-toxic, it has no smell, I mean it is something like that. So, this is the way they have been it is not sold in the shops. It is not like that. It has been given to like, let us say it is like pest control kind of companies which are going to various houses and getting it done. It is not sold in the, because it is not its main business is in the public utility. So, consumers will be not be the main customer for it, I mean the residential peoples and others. But anyhow we are growing in that also and people are getting more aware about it. So, you are seeing how we can take it forward on that.

V. Raju Of the earlier discussion, so can I understand that this product right now has no competition?

Sanjay Tibrewala Well yes, you can say that this product does not have any competition as such. But the thing is that competition is one topic but the paper work and getting the thing is done from the government and the WHO, that is a quite a challenge and getting to all their requirements and systems. And that is also expenses procedure also because lot of sampling, lot of investments has to be done. That has also been done in the last 3-4 months also because of which you also see some the profitability in the Biotex is not to the great expected standard. But as such business is good the point is that this kind of cost is also coming into picture which is affecting the EBITDA on the Malaysian business.

V. Raju One last question from me. Coming to our current core business, which is the chemicals for the textile industry. So, we keep reading that exporters are on the big stress and we keep hearing people in Tirupur are really stressed for want of working capital and so on. So, how are you seeing whether things are changing? How do you see the Q1 we have already completed 2 months in Q1. So, how do you see that the export textile market reviving and what is happening in Q1 and how do you see our prospects?

Sanjay Tibrewala See, what I see as an Indian textile market business, let us say China is going down in textiles. Now there are 2 kinds of the market, one is the netting market and one is the fabric market. Now, if the netting market the orders from the China is going to Bangladesh mainly. That is there for the nets but for the fabrics it is coming to India. So, most of the bed sheet fabric company is like Himatsingka and Indocount and GHCL, I mean they are our main customers also. They are also growing their businesses rapidly because of this orders which are coming from countries which are not buying from China now. At the same time the unorganized market because of the GST the organized markets are getting more orders from that. So, the organized players are becoming more and stronger. Tirupur is the net market basically, Tirupur. So, Tirupur is competing with Bangladesh in that matter. Now for us, we have 90 agents in India all over. And also we have our agents in Bangladesh we keep exhibiting every year in Bangladesh. I personally got to Pakistan for exhibitions. We did part exhibition in last month in China intermediate maker 2 months before in Sri Lanka again in Iran we are participating and visiting also. So, Bangladesh we have our own team members also Fineotex. So, Bangladesh is something even if the

business goes to Bangladesh we still have our presence there and that is one of the countries which is growing very fast in textile, I mean garments mainly. It is also getting better than before, I mean if you see 6-7 years down the line they were in the big mess. So, now that is also getting better.

V. Raju And finally on this Chinese chemical this pollution issues, do we stand to benefit by that or basically we have nothing to do with that?

Sanjay Tibrewala Actually we have nothing to do that. Actually we are more in the customized tailor-made solution driven businesses. Chinese companies are based on mass selling like they find soda ash let us say for that matter and then they will produce soda ash for the world. So, those makers and competitors of Chinese products in India they are getting a temporarily benefit. Let us say that point of view for the dyes business let us say H-Acids and vinyl sulphone and all these dyes intermediate maker. But now what has happened that these Chinese are also very Fast they are faster than most of the country. So, they are also laying their investments rapidly. I think, in a couple of quarters or something I think Chinese production was also get normalized. So, now what is happening is because of this all the, I am just saying from my part, my opinion point of view. But coming to Fineotex, we are not depending we are not competing with China. China is does not present in tailor-made and customized products. So, we are not competing with them ever.

Moderator Thank you. The next question is from the line of Amit Jain, an individual investor. Please go ahead.

Amit Jain So, I have a couple of questions. So, first one is regarding Aquastrike. So, let us say we get WHO clearance and we have the ability to do supply to a number of countries. So, what are we planning about our production? Will it be only based out of Malaysia or we are thinking about starting production in some other countries also?

Sanjay Tibrewala No, it will be only based in Malaysia for sure and as such even from Malaysia to India there is no import duty. Because Malaysia has treaty with all the countries importing country. So, there is always a zero import duty for the buying country and our expansions can be done in Malaysia for the bigger prospectus, bigger requirements of the orders. At the same time, we still have spare capacity over there already. So, that can be always been utilized for this purpose.

Amit Jain So, the reason I was asking this question is because this being a liquid and the probably the cost per volume will not be that high. So, will it be, can we manage with this transportation cost adding on to the product?

Sanjay Tibrewala Sure, this is a very value addition business and there is no doubt about it. The transport will not take even 0.5% or 1% of the cost. Yes, so it is and making such a high tech product and giving it to this kind of a market. I think it is the functions and the results and the performances is more important on that lines and we would not like to modify it or bring it to any other location at the moment. And capacities can be always expanded that is not a problem.

Amit Jain My second question is regarding, our cost of goods sold on the consolidated basis. So, revenues have grown in single digits probably 3% or 4% but there are costs of goods sold on the consolidated basis they have increased by 30%, anything there?

Sanjay Tibrewala You are referring to the Ind AS system, if I am not wrong?

Amit Jain Yes.

Sanjay Tibrewala What I would also like to go through is, just one second. Can you again

Amit Jain So, I can give you the figure if you want. So, on the consolidated annual audited financial results the COGS for last year was 59.57 crores and

Sanjay Tibrewala Just one second Amit, one second. Can you repeat?

Amit Jain Yes, so my question was, so cost of material consume. So, that has increased from 59.57 crores to 77.81 crores for the financial year. So, that is growth of around 30%.

Sanjay Tibrewala Financial year, consolidated?

Amit Jain Yes, my question is revenue has increased by only 3%-4% if I am right? But the cost of material consume has increased by around 30%. So, anything to worry on that front?

Sanjay Tibrewala See, what happens is there is nothing to worry about. At the same time we have been giving lot of free sampling and promotional activities also going on which also comes under this effect. Because in our textile business there is lot of free sampling which we have to on and off give to all our customers which are in bulk stages. Even for Aquastrike we have to do a lot of free sampling and all. But again having said, if you notice our

PradeepTibrewala Because of the excise duty has been accounted in the Ind AS. So, there is also a change.

Sanjay Tibrewala In the Ind AS the excise duty has been accounted and there has been a change in that in the

Pradeep Tibrewala Earlier it was not in Indian GAAP, excise duty was not net off.

Sanjay Tibrewala In the earlier system of GAAP the excise duty was not net off and in the Ind AS system the excise duty has been net- off on that line and that is one of the

PradeepTibrewala Yes, that is also one of the reason.

Sanjay Tibrewala That is one of the reasons also because of the excise duty which was earlier included in the, which was not earlier included in the GAAP and now included in the Ind AS system. That is also one of the reasons for that.

Amit Jain So, that would have been on the both the things, right? So, when you talk about growth, so I am seeing the revenue numbers for last year and this year and both in Ind AS format. So, the growths over there, in both the numbers duty I think has been taken care off. But if I look only at the revenue the growth is only 4% or 3%?

Sanjay Tibrewala The growth as per the Ind AS format from year-to-year, your point of view is shown to you as per 3%. But if you go by our Indian GAAP, which I, in the initial starting of our conference which where I had mentioned that the total income has gone up by 6% to 143 crores. Now, what has happened in the GAAP and the IndAS system there is some changes in the sense if the goods are still not reach the customer you cannot accounted for sales as per the Ind AS system. So, by the GAAP system was even if you have made an invoice to your customer even if you taking 4 days to reach you will put in your sales. But the Ind AS system does not allow that. So, and also we have to change the last-to-last year things also for that. Sometimes if some goods are on the way from the supplier to the plant, so we have to take that also into the purchase part of it in the Ind AS system. But earlier it was

not so until the goods arrived to our plant. So, this is also one of the point which I would like to tell, any other point?

PradeepTibrewala So, other is basically if you see below just below the cost of material consumed one item is excise duty paid. So, if you club all 4 items cost from material consume first is of stock in trade, change in inventory and excise duty, that gives you the complete picture of cost of goods. Because in earlier Indian GAAP excise duty is net off from the revenue. Now, in revenue excise duty as per IndAS, excise duty to be added in the revenue and to be shown as a cost of goods of sold. So, I think you are not adding the excise duty and the cost of goods of sold if you add that and you say since the excise duty has been scrapped 1st of July because of GST. Now the effect of excise duty is just 1 crores 81 lakh this to be 7 crores 36 lakh in the earlier year. So, that difference gives you the comfort on the cost of goods front.

Sanjay Tibrewala That was Mr. Pradeep Tibrewala answering your query about that.

Amit Jain So, one last question. So, you mention earlier that we are expanding our capacity plant capacity in India. Just one question on that, so what impact can we see on the volume basis on our Indian capacity and what would be the impact on our top line due to that?

Sanjay Tibrewala Well, what we have been the top line averagely we have been looking at going up by let us say 20% for this year with the new expansions what we have been planning for and doing about it. And volumes have will also be almost 15% increase 10% to 15% increase but it also depends on the kind of products, see what happens we are not in one product segment. We are in a product segment which has all different kinds of reactions and different kind of applications and things like that. So, all the products have to be made in a different production systems. So, it also depends on the trends of the textile markets. Sometimes the trend is more for cotton sometimes more for polyester and all the products have different requirements. It is not that the same product can be used for the different sub-states. So, we have to have capacities for products even where we which have a longer production cycle. Some production made in 2 hours some are made in 12 hours. So, even for the 12 hours products we should have that much capacity available to produce those kind of business products. So, this is what we have been looking at always and so basically that will be our expectation to increase by 20% in this thing standalone by the increase of capacities and around 15% in the volumes.

Moderator Thank you. Ladies and gentlemen, that was the last questions. I now hand the conference over Mr. Sanjay Tibrewala for closing comments. Thank you and over to, you.

Sanjay Tibrewala Thank you very much all of you for being there. And if you have some more queries you can always write to us on our email addresses or you can even contact our IR Team, Valorem Advisors and I end the conference right now. And thanks Valorem, thanks Chorus for organizing this. Thank you.

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