Fineotex Chemical Limited

Earnings Conference Call
Q3 FY2024

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Management:

Sanjay Tibrewala	CFO and Executive Director
Aarti Jhunjhunwala	Executive Director
Arindam Choudhuri	Chief Executive Officer

Moderator: Ladies and gentlemen, good day and welcome to Fineotex Chemical Limited Q3 FY2024 Conference Call. As a reminder, all participant 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 star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Aarti Jhunjhunwala from Fineotex Chemical Limited. Thank you and over to you, ma'am.

Aarti Jhunjhunwala: Thank you so much. Good morning, ladies and gentlemen. We are delighted to welcome you all to the Q3 FY2024 Earnings Conference Call of Fineotex Chemical Limited.

We have uploaded the financial statements and the presentation on the stock exchange and our website. We trust you've had the opportunity to review them thoroughly. Fineotex is one of the leaders in India's specialty chemical sector.

It is well recognized in both domestic and international textile markets. Our steadfast commitment to expanding our market propels us to continuously introduce new products, exploring untapped regions, and providing value-added services, including customized technical solutions. At FCL, we take pride in our extensive range of products customized to meet the unique requirements of a diverse customer base.

This commitment underscores our dedication to delivering excellence. During this quarter, we have acquired additional factory land premises of seven acres at Additional Ambernath MIDC, Thane, Maharashtra for a total investment of approximately Rs.35 crores funded totally by internal accruals.

This facility is situated near the existing Ambernath plant. This will help us cater to the growing demands in the existing specialty performance chemical product line, catering to textile, home care, cleaning, hygiene, and drilling specialty chemicals. This strategic investment reinforces our commitment to meeting evolving customer needs.

This new facility will be a fungible plant, enhancing our production capacity and enabling us to capitalize on future growth prospects in the expanding market. With a streamlined operational setup, we enhance our agility and responsiveness, better serving our customers and adapting quickly to changing market dynamics. We express our sincere gratitude for the continuous support and active participation of our stakeholders as we collectively work towards a brighter and a more sustainable future together.

I would request Arindamji to provide his insights into our operations. Thank you.

Arindam Choudhuri: Thank you, Aarti ji, and warm welcome to one and all. Fineotex Chemical is a well-diversified company with a wide range of product offerings. Our journey began with the production of specialty chemicals tailored for the textile industry.

Over the time, we have diversified into complementary products for sectors such as hygiene, oil and gas, etc. We are dedicated to providing customized solutions to our customers and focus on adding value to their businesses. Our commitment to customer satisfaction is backed by the trust in our product and our strong brand reputation.

During the quarter, we acquired additional factory land premises of seven acres at Additional Ambernath MIDC Thane, Maharashtra for a total investment of approximately Rs.35 crores funded by internal accruals. This facility is situated near the existing Ambernath plant of ours.

This will help to cater the growing demand in the existing specialty performance chemicals product line, catering to textile, home care, cleaning, hygiene, and drilling specialty chemicals. This strategic investment reinforces our commitment to meeting evolving customer needs. This new facility will be a fungible plant, enhancing our production capacity and enabling us to capitalize on future growth prospects in the expanding markets.

With a streamlined operation setup, we enhance our agility and responsiveness, better serving our customers with a short lead time and adapting quickly to the changing market dynamics with higher volume. I now request Sanjay ji to take us through the quarterly and nine month financial performance of our company and other recent strategic development. Have a good day. Thank you.

Sanjay Tibrewala: Thank you, Arindam ji. And good morning, everyone. I'm pleased to present the financial highlights of Q3 FY2024 and 9M FY2024 and provide insights into our strategic initiatives.

On the financial front, during the quarter FY2024, our operational revenue was Rs. 1,385 million. The growth in the revenue was due to the sales growth in volumes across segments and strong demand from the customers. The EBITDA increased to Rs. 404 million up by 41.3% Y-o-Y with the margins at 29.1%. The PAT was at Rs. 329 million up by 46.5% Y-o-Y basis and its margins were at 23.8%. For the nine month FY2024, our operational revenue increased to Rs. 4,160 million. Our EBITDA increased to Rs. 1,101 million up by 37.8% Y-o-Y basis and its margin was 26.5%.

We recorded a PAT of Rs. 905 million up by 42.5% with its margins at 21.8%. Our ROCE and ROE were at 35.2% and 30.4% respectively, highlighting effective capital utilization. The expansion in our margins reflect our commitment to sustained growth and position us for the continued success with the headroom of revenue expansion. Moreover, yesterday on 16th Feb, our board of directors approved a strategic fundraising initiative aimed at enhancing shareholders' value and supporting our long-term vision.

As part of our strategic initiatives, Fineotex is set to raise a total of Rs. 280 crores approximately through a combination of equity share issuance and share warrants, each priced at Rs. 346 with a premium of Rs. 344 per share.

The participation of a diverse group of non-promoter investors underscores confidence in our company's potential. We will seek the shareholders' approval for the above through the EGM, ensuring transparency and corporate governance. These funds will be instrumental in driving our strategic initiatives, enhancing product offerings and expansion of our market reach.

They mark a pivotal phase in our journey towards sustained growth and value creation for our stakeholders. We are delighted to announce that the board of directors have approved an interim dividend of 60%, i.e. Rs.1.20 paisa per share at face value of Rs.2 per share, which is a total dividend payout of Rs. 13.29 crores. Our robust financial results reaffirm our commitment to operational and financial efficiency with a steadfast focus on sustainable growth and maximizing shareholders' wealth.

Over the last few years, we have consistently strived to provide the best returns to all the stakeholders. As we move forward, we remain dedicated to strengthening our strategic partnership, seizing new opportunities to fortify our market position and drive long-term success. With this, we close our opening remarks and will open the call for an interactive question and answer session.

Thank you. Over to you, Zico.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Tej Patel from Niveshaay. Please go ahead.

Tej Patel: Thank you so much for the opportunity, sir. I have a couple of questions. So, the first one is, since we already have like 60% of our products coming from the finished chemicals, right. So how much portion can that further go up to. And are the current margins sustainable? This is question number one.

Question number two is, sir, like we saw significant uptick in the volume. However, the revenue didn't see any major uptick. So, is the realization across the industry down which has led to this drop or is it due to the change in the product mix. And the last question, sir, is when can we expect our average realization to reach like 100 per kg. And what would be the factors which will lead to this?

Sanjay Tibrewala: Well, thank you, Mr. Patel. Yes, that's all. Okay, I'll just try to reply to all your queries in the explanation which I'm giving now.

So basically, our capacities are fungible. The investments what we have been making in our capacities are for the textile specialty verticals or FMCG oil and gas. These are fungible capacities.

So, with the same capacities, we have been able to utilize the same facilities and we can produce the similar line of products for any of the verticals which we have been catering. Now, regarding the realization, I think, as you can see, there has been at least a 26% revenue increase. And the volume increase has been like almost 40% on a Y-o-Y basis in the quarter three.

Now, I would like to mention there has been a shift in the product mix. But also, there has been certain factors where there has been a softening in the raw metal prices. And some portion of that has been passed to the consumers.

However, interestingly, as you can also notice, there has been an upscale in the EBITDA margin. And there has been a significant increase in the EBITDA as well. So, all in all, this is the kind of business where we are.

And whenever there is a price drop in the raw metal prices, we need not have the same kind of reduction with our customers being our products are like very high entry exit barrier performance chemicals. However, this is something which we do pass on to the customers after a certain period of time. And then, however, that is reflecting in our increase in the EBITDA margins.

So, And the, like you said about the average product mix and the average valuation. So basically, like there are also trends in the businesses, let's say there are certain trends now prevailing where there are a lot of product mix have been changing. What is more important for us is the kind of EBITDA we are making.

That is what differentiates our company being a specialty chemical producer with the other so-called chemical companies. We are very much focused on the bottom lines and EBITDA margins. And we are working with only highly specific performance chemicals.

And EBITDA margins is very crucial focus which we have. So, as and when there has been like also it is looking like now in the last couple of months, again, there has been an increase in the prices of the chemicals as we are totally aware of the global changes happening in the Red Sea issue. There has been shortage in the containers, the freight cost of the containers has gone up.

And this is leading to, again, a little bit of a shortage, delayed raw material incoming. And also, in such situations, the companies generally have a higher inventory ratio also because it is the stock is, it is not guaranteed about the kind of, inventory has to increase because the kind of delays which is happening now also pumps up the sales and the businesses. This is the kind of, we expect the product mix average realization to be going up in the coming times.

Tej Patel: Okay, got it. Thank you. Thank you so much, sir.

Sanjay Tibrewala: Thank you.

Moderator: The next question is from the line of Anupam Agarwal from Lucky Investments. Please go ahead.

Anupam Agarwal: Thank you for the opportunity and great numbers Sanjay sir. My first question is if you can give a breakup of your volume mix between the textile and the FMCG business for Q3 and 9 months.

Sanjay Tibrewala: Yes, the kind of, let's say generally we have like 60% of our volumes has been always in the FMCG sector in terms of the volumes. Even now, I can say we are almost to that level. So basically, you can consider that we have maybe almost 60% or let's say 58% is in the cleaning and hygiene businesses right now. The rest is on the textile specialties and the drillings and the other ones.

Anupam Agarwal: For Q3 and 9 months or just the Q3?

Sanjay Tibrewala: No, I'm just talking about the Q3. Let's say it's always 55% to 60% FMCG and cleaning and hygiene. So, this is a similar kind of a quarter as per let's say about the, let's compare with Q2also in that sense.

But if you talk about the Q3, 2020 to2023, there has been a significant increase in the proportion of the cleaning hygiene FMCG businesses from that point of view.

Anupam Agarwal: Understood. And what has been the domestic and export mix in the similar Q3 and 9 months?

Sanjay Tibrewala: Basically, it's 75% is domestic and 25% is overseas.

Anupam Agarwal: Okay. My second question is on your capex, if you can give some more details as to how much capacity addition we are doing on the Rs.35 crores capex in tonnage terms, what is the timeline of us to commercialize the volumes from the new plant. Will that be also fungible in the similar ratio that we are doing in terms of volume or will that be slightly more dedicated towards higher margin business?

Sanjay Tibrewala: See, I'll let you know about the new plant which we have acquired recently just a month back. As there are a lot of permissions and approvals which we require for the commissioning of the chemical plants from the pollution and the government authorities, this and that. So generally, the idea to go ahead with this plant expansion today was not envisaging the current financial year or something like that.

We are already targeting the things which kind of, in 2026 and the kind of businesses which are the kind of interest levels which is coming overseas for joint venture tie-ups across specialty chemicals. Let me put it also like that. India's specialty chemical business is looking very strong right now because let's say most of the European and American companies, they do not want to depend on China for a lot of things.

They all need to come to India from the Make in India concept also. At the same time, we are getting great projections from the customers and industries looking that it is going to be on an upscale very soon. So, looking at all those things, we have set up this kind of a facility today envisaging what will happen after two years.

Similarly, the existing Ambernath plant, which we had commissioned in the first COVID part, COVID-1 in August 2020, which we initiated by November 2021. So that time also when we had invested in the plant, it was already we had a spare capacity of the Mahape plants. However, we had done that kind of investments in Ambernath in 2020, which is the most unpredictable quarter.

We had done it with a view that, the demands will come in and that's what we have seen that from a 40,000 tonnage, we have reached 1,04,000 tons and today we are almost at 67% of capacity utilizations almost broadly. And gradually, we have increased the capacities from 40,000 to 1,04,000 tons in the Ambernath facilities where it's already the production is going on. So, looking at the kind of jump which we have done, it was evident that if you're looking at a couple of years ahead, we will need something which is supporting the kind of demand which is looking at in the speciality chemical sector.

So that is one. Number two, the kind of capacities we can put there, it will be definitely fungible number one. See, our businesses are like speciality chemical businesses where the textile specialities, oil and gas, FMCG are produced in the same kind of, let's say 95% of the capacities are fungible, maybe a little bit here and there is required depends on the reactions of the product.

Broadly, as we are doing all the reactions like polymerization. We do homopolymer, copolymer, terpolymer of almost all the monomers. We do esterfication, we do sulfonation, we do condensation reactions, we do phosphonation as well.

And these are basically the chemistries which have applications in all these verticals, let's say, not only that, let's talk about water treatment also, paper also and way on forward. So, we have been focusing on increasing our capacities to cater to new avenues as well. So, our business model has been in a way that we produce more products for the similar existing verticals where we are present at the same time, wherever these product lines can be offered to the new businesses.

Let's say water treatment is also something which we have been looking and we are beginning to work on that line. But again, the capacities are fungible. Similar kind of products have applications in these avenues. So, this is what we have been focusing upon.

Anupam Agarwal: Understood. Any tonnage number that you want to call out. How much are we increasing on the new kit?

Sanjay Tibrewala: We do not have exact planning right now on that. And however, let's say we still have spare capacities in our existing Ambernath plant. There also we would be increasing some capacity. And we are working upon how much capacities will be increasing in the new facilities very soon.

Anupam Agarwal: Optimum utilization for all our capacities is 80% roughly?

Sanjay Tibrewala: Well, it also depends on certain factors. One is, like I said, we have more than 1,400 to 1,500 SKUs. Now what happens, all these products are not produced at the same time and not in the same kind of facilities.

In the sense, certain products are produced in a shorter span of time and certain will take one day or two days and things like that. So sometimes the facilities must be adjusted, the volumes and all. Again, the point here would be that as this new Ambernath facility, which is ongoing for the last two years, this is the latest technology, automized plant where we do not see the raw material also.

In fact, everything is pumpable. Everything is going in the reactor, going to the storage tanks, things like that. So, the vessel sizes are massive, and the storage capacities are huge. So that gives us a lot of operational efficiency in our business. In fact, that has also helped us to increase and reduce our overheads and work towards more efficiencies as well. So that is also which we have been progressing upon.

So, I think yes, speaking about 80% could be something which is definitely doable. The more and more we go to the bigger vessels and the bigger production capacities, this is what we have been always focusing upon.

Anupam Agarwal: My next question is on your fundraise that you commented. Rs. 280 crores at Rs. 345 crores is what I heard. Is that right?

Sanjay Tibrewala: It's Rs.346 crores.

Anupam Agarwal: Okay. And just if I may ask, Rs. 35 crores is the capex. Why the fundraise at Rs. 280 crores? Just trying to understand why such a large fundraise.

Sanjay Tibrewala: See, let me bring it in a way that let's say last 50 quarters we have been listed. When we came up with an IPO, I'm trying to answer not only this question, but I'm giving a generalized update to all the participants because I think this question might come up again. So rather I would take this opportunity to reply on that part as well now.

So basically, we got listed on 11th March 2011. And in a maximum three months' time, we use the IPO proceeds to invest in a European manufacturing company in Malaysia called Biotex, which is a part of Fineotex now. And the same, that was our first international successful acquisition.

And the company has been fairly well in the last 12 years. In the last 12 years, as you can also see that, our company has been always cash disciplined. It has been always, let's say technically debt-free in a broader space.

There have been a lot of discussions and things which we always look at, certain opportunities where we can see a lot of synergies because the kind of confidence, we have got in handling the first international acquisition and the international companies are relatively little bit more, in a way, let's say the management bandwidth has to be

more strong in handling international thing. And I think we, our management has proven that part and we are geared up for the next league also.

Now, as such, this Rs.35 crores of expansion have been done from internal accruals as such. There will be another Rs.40 crores or Rs.50 crores organic expansion, which we'll be doing in the coming times. That is also broadly, it can be funded from the internal accruals and the cash flows which we have today.

However, going forward, there are a lot of great opportunities which keeps coming to our table, which are having a lot of scope and synergy also. So as such, we are very disciplined in deployment of cash. However, if there's certain good opportunities which comes to us at a great value and which is fitting in our strategic initiatives, which is either we produce the same kind, either the target produces similar kind of products for new avenues or maybe additional product lines going to the same target.

So, we are very clear about what is the direction where we are going to. And this kind of fundraise, there has been promoters' participation also, which we have done yesterday in the board of directors meeting. So, promoters are also coming forward to, for the same, as well as there are certain non-promoters also, we have shown great interest on that. So, we want to have this kind of opportunity, the fund, this thing so that, whenever there's an opportunity, we can go ahead for that.

Anupam Agarwal: Understood. My next question is if you can call out or give us a sense of how the demand situation is in domestic market and export market. You mentioned there has been some inventory stocking that is happening because of the Red Sea issues. What is demand like compared to, let's say, earlier this year and now in December, January, what if you can give some sense there?

Sanjay Tibrewala: So, I would like to give you, just update you what's happening and what we feel is happening and going to happen. [inaudible 24:46] Trade cost goes up, the raw material prices will shoot up, also not for us, even for the commodity chemicals.

At the same time, there will be a lot of inventory increase by all the companies, distributors. We also, like we will also need to, we have started stocking up a lot of raw materials as well because things have got a little bit, undependable, let's say. And at the same time, interestingly, what is happening, some of our competitors or co-producers in Europe and Turkey, their goods are stuck, and their customers are not happy about that.

And we are getting certain opportunities in Bangladesh and Vietnam also to cater to those markets and start spreading our products from India, which has lesser problems than for the freight routes of what's simpler here. So, this is a kind of opportunity which we are trying to capitalize upon as such. And kind of demand, I can say, yes, there has been a pickup.

See, textile is a very wavy market. Let me talk about textile first. Textile, it's always like you said, COVID-1, the 2020 first quarter was one of the, like say, everything was stopped. And but if you see the Q3 and Q4, most of the companies or maybe all of the textile companies had shown great results in comparison to the earlier things in spite of six months of closure, almost six months of closure.

So, textile market is always a wavy demand. It's not because there is a big gestation period from the time the cotton is grown and from the time the fabrics or the garments are sold in Walmarts of the world. So, there is a big gestation

period when the cotton price goes up, these big brands stop buying it and stop placing orders. So, there is a problem in the spinning, weaving, processors, where we sell to and then the exporters and way on. But now this can happen only up to the point when the pipeline, the goods are there in the pipeline.

Now what has happened is the cotton price has gone down from Rs. 1,20,000 to almost Rs. 55,000. So, the prices have gone down and also the material in the pipeline has reduced. There is a good demand coming from USA also in a couple of months.

At the same time, there is a price increase also, which has happened significantly. The containers from India to Houston, which was $1,500 before, is almost now $4,500. It is significant from the price because the price of the chemicals is not so high that this can be absorbed.

And this is the secret I'm talking about. In spite of this increase, the delay has happened because the routes have changed now. So, all in all, what is looking now, this can be a good inflection point, I can say, that in the coming quarters and things, a lot of chemical prices might go up because of these kinds of uncertainty, which is prevailing now.

So, the demands are going up, and not only from a stocking point of view, but as a consumption point of view also globally. From a domestic point of view, definitely the time from January will have to be better and 2024 broadly will be much better than 2023 for the textile specialties also.

Moderator: Thank you. The next question is from the line of Karan Kamdar from DR Choksey Finserv Private Limited. Please go ahead.

Karan Kamdar: Hello, sir. Very great number. Thank you for the opportunity. So, one thing I'd like to know is when are we planning to expand our current capacity at Ambernath plant that we have some extra capacity, right. So, when do we plan to install additional machinery there?

Sanjay Tibrewala: So, as you can see from November 21 till today, let's say almost 25 months, we have increased the capacity from 40,000 to 1,04,000 all in this facility itself. And as you might have seen also in the plant, [inaudible 28:48] so always add on more capacities and the, all the structuring and everything has been always kept ready. And this increased capacity is not going to be time taking for us. It will not take more than two quarters by and large. So that is something which is very doable. We are working upon that.

And maybe we can always add another 10,000 tons of capacity or 10,000 tons to 15,000 tons capacity in the same facility as well. And at the same time, the new facilities also, we are working aggressively on that. We will be coming up with our final numbers on the plan of the increased capacity very soon.

Karan Kamdar: Okay. Thank you, sir. Understood. Can you guide us on what kind of volumes you've done in absolute numbers this quarter?

Sanjay Tibrewala: So, let's say the volumes broadly, this has been almost a 40% increase by Y-o-Y basis. Last year it was, Q3 was 12,000 tons broadly. Today it is almost 17,000 tons. I mean, a little less than that, but yes, more or less.

Moderator: Thank you. The next question is from the line of Aditya Agrawal from Ambit GPC. Please go ahead.

Aditya Agrawal: Hi. Good morning, sir. Thank you for the opportunity. So, my first question is on the realization. So, at the consol level for the last few quarters, June, September and December, realization at the consol level is roughly about Rs. 82 per kg. And you have mentioned that going forward, we expect realizations to go up. So, for now, can you say that this current realization, which we have seen is kind of a base and whatever, the base effect that is kind of behind us?

Sanjay Tibrewala: Actually, I would like to correct you. The average realization for this quarter has gone down and due to the product mix and also the correction in the price of raw materials and some of it, which we have passed to the customer, retaining certain portion of the EBITDA, which has reflected in the increase of EBITDA also. So, earlier it was 90, 90 plus something like that, and which has dropped to almost 83, like you rightly also said for the quarter. So, that's about it. And so, I mean, what was it like. Can you repeat your point on that?

Aditya Agrawal: So, 82, which I mentioned, so that is kind of stabilized for the last few quarters, right. So, June quarter, September and December. So, going forward, as you expect, this could be the base and then from here on, at least we will not see further correction in the realization, right? I mean, that's a fair assumption.

Sanjay Tibrewala: So, I can, yes, I think you are right in that. I can tell you this is the lowest average realization price that the company has ever experienced in the last 10 years, or maybe at least for the last five years, as I 100% recall. So, this has been the lowest place where we are today. So, I don't think it has to be lower, and especially with the new Red Sea issues and the freight components going up and things like that, it shouldn't go down now.

Moderator: Thank you. The next question is from the line of Parikshit Kabra from Pkeday Advisors LLP. Please go ahead.

Parikshit Kabra: So, I just first wanted to understand that you obviously have seen volume growths in both your textile as well as the FMCG, the cleaning sector domain. So, what is the driver in each of them? For example, in textile, are you adding new customers, or your existing customers are asking for more and more chemicals. And if it's a mixture of the two, how would you divide the growth between the two drivers?

Sanjay Tibrewala: Okay. So, I'd like to mention there has been both the factors which are leading to the growth. Number one, we keep adding more geographies. As such, we have been participating in at least five international exhibitions every year, at least four or five exhibitions domestically as well. This increases our reach to the customers for sure. And there are a lot many more customers which are being added on.

Also, like I have been mentioning in most of our phone calls, like all the customers, each of them requires 25 different functional chemicals broadly. And we are, let's say, not present in more than five or eight, let's say, on our highest level. So, there is always a scope to have more wallet share.

And that is also reach we have been doing by providing more packages and product lines. That has been our great USP. And adding on more and more product lines, more partnership with Eurodye Belgium and for the antimicrobial from Australia as well.

So, we are adding more and more product lines and segments which can help us to get more wallet share as well as biotech specialty chemicals, which are the high-end technical textile driven businesses. That is also contributing to a lot of product lines and things which we have got, attracting the customers and exciting them. So all-in-all, our focus has been to give a great service.

See, I'll tell you one thing. We not only produce specialty performance chemicals, but we also provide a great technical solutions and sustainable products. This part is driving it. Let's say our competitors are, the European giants. Now what happens with them? They have a high cost of operations, number one.

At the same time, they are a little bit less flexible. And there is a lot of long chain of hierarchies and things like that. And things are getting controlled from Europe and all these things.

So, what happens is our team, we have 36 technical high-end technical technologists who visit the customers. Pan-India, we have an office in Bangladesh also where we have Bangladeshi people also working and giving services, technical services. See, I'll just tell you what textile psychology is.

Textile is all about, it's like they need a grocer. They are all in, all day in, day out, they have a lot of technical issues because their customers keep asking them for a higher up thing. the Walmarts will have a Walmart target.

These will be giving a better and higher target, like more fastness, more observance or whatever is a technical topic. Now, what happens, they need people like us who can sit with them, work with them and give them the guidance that this is the kind of thing. Importantly, we are on the solution businesses.

Our products are not a COA driven business. Our products, it's not like a soda ash or a costic, where everybody's quality will be the same. We are here like a homeopathy solution provider where our products, in fact, we do not have a COA kind of marketing only.

Yes, technically, we do have COA when the materials are going out, but the customers are least bothered about it. They don't care whether your product is 10% active or 40% active or whatever it is. The idea is very clear for them that they need to use the product and get the performance.

That's it. They do not care, it's something like that. It's a homeopathy solution. Now, what happens in textiles, we have been focusing on finishing. Now, finishing is, let's say, more than, I would say more than 60% of our businesses in textiles. Now, finishing is the stage which is the final finish given to the fabric before it is sold to the malls and shops.

Any consumer who is going to buy a garment or any cloth is checking the finish of the fabric and the colour. So, what happens in the finish is that once you are getting into those kinds of businesses where we are, customers do not change. Since the time Raymond's has put a plant in Vapi and all these Chhindwara, they hardly ever change their finishes.

Let's say for that matter, we have customers from 2007. Our products are running smoothly even today, the same kind of products, plus we keep adding on. So, the story is here because these costs are very insignificant.

All the 25 different functional chemicals from pre-treatment, dyeing, printing, finishing only contribute 3% cost to the user. Like every chemical is costing 3 divided by 25, 0.15%. What I'm trying to say, this is insignificant cost for the customer, number one. Number two, if something goes wrong in the product mix, let's say there is a hole in the pre-treatment due to the peroxide having a reaction and the iron content in the water is there and because of it, there is a hole because our product was not stable.

For example, it's irreversible loss. The customers cannot get back the fabric. Similarly, if there is a silicon softener spot coming on the fabric, it cannot be removed. You have to sell it in the cutting kind of thing. It cannot be removed by any mechanical or anything like that. So, let's say Raymond's suit starts with Rs.20,000 range, the cost for them is Rs.3,000. So, they need 3% cost is like Rs.100 per suit divided by 25 chemicals. Every chemical is costing Rs.4 per suit. So, if any customer is giving 25% discount also, so Rs. 1 out of that per Rs. 20,000, nobody takes the risk.

So, it is like changing the salt of the food. Now, I'll tell you our journey actually. I mean, I'm just trying to give a broader perspective to the participants if some people have not heard us before. The idea is like we have been backdoor suppliers to all the European textile chemical producers since many, many decades.

After 2001 and 2005, let's say that was the time where textile got more and more competitive, and they realized they are not able to pay extraordinary pricing to the European companies and then we decided to let's not be the backdoor to these companies rather be their co-producers and in the front with the brand and the things like that. So, after, that is the way the company was coming in the front with the dealers and today we are supplying to almost and let me also mention, very important.

Textile is a very customized solution. Cotton chemical is different, polyester is different, acrylic, wool, nylon, everything is different. Even in cotton, it depends on the kind of machines and processes one is doing. If it's an exhaust process or if it's a continuous machine. Again, in continuous, which kind of machine it is? It's Bruckner or Menzel or, Dhall machine or whatever it is.

So, again, we have to customize our product accordingly. Vardhaman is using, like Vardhaman is one of our prestigious customers and we are supplying to all the plants, all to Pan-India. So, the product which suppose Vardhaman tells is the best product of Fineotex, which we go to Balotra, the Balotra customers will say this is the worst product because the water hardness is 2,000 ppm in Balotra.

So, the product has to be adjusted and fine-tuned to suit the water of Balotra. So, here is the catch. The catch is it's not a paracetamol business where we are that everybody, boy, girl, male, big, senior, junior, anyone can pop in, and have it and everything is same.

Also, we have differentiated on the product aspects of it because we are the early movers in sustainability. Now, this is a very important thing. After we stepped into biotex in 2011, they were the leaders of sustainability.

They have been talking about TDS reduction, EOD, BOD, CODs and all the things. Now, for the last four years, you can see every textile promoter of Trident or Welspun, in all their posts and speeches on LinkedIn, social media, you will see only sustainability flaring up because this is the only way the companies can flourish now and grow worldwide, not only for them. So, we have done a lot of things, and we are the early movers in that.

Now, also, we have done a lot of product audits, a lot of product certifications. Our plants are Bluesign certified and Bluesign is one of the most stringent audits, I think, in India two or three have it. So, these are the kinds of, branding aspects and that is the kind of, and also our USPs that we go to the customers' customers and convince them on our finish and then they tell their suppliers who are our customers to use Fineotex packages.

Now, these are the kinds of USPs which we have been working upon, that is the focus area. So, I think, I mean, geographies increase, wallet share increase and the kind of services we are giving to the customers, that is

something which is the major reason that they are depending on us. So, we are like the grocer for the textile specialties, let's say.

So, we need to have the entire range. So, we have Eurodye CTC from Belgium, which is a Unilever plant. They had acquired the business of also Stephenson in UK, which was a wool specialty chemical company just before the COVID, they had acquired it. So, we get that package also. Now, we make products for them in India. We supply to Pan Asia, Pan India.

We are trying to do, also trying to put a point to them that, they need to shift their entire focus to India and Make in India, at least for the point of view of being closer to the customers and raw materials, because the raw materials and customers are broadly in India now, I mean, in Asia. So, there are a lot of strategies which play. It's not about one strategy.

It's not only geography. It's not about only wallet shares. It's not only about the exhibitions or, factory audits. So, it's a totality of things. And everything which we have been doing has fallen in place and going right. Unless we are early movers in sustainability, where we are able to delight the customers.

What I mean by sustainability is, we do not offer our analogy like, in front of Parle biscuit, don't promote Tiger biscuit, we don't work like that. We work on the totality. Let's say, when we go to the customer, we say, what's your utility cost, water cost, steam how much, labour how much, how much time it takes, we'll reduce your time, temperature, which will reduce your labour cost, which will reduce, increase your production capacities and efficiencies.

And broadly, BOD, COD, and all in one concept. Instead of using two chemicals, we'll give you one. Instead of three, we'll give you all in one type of product. Now, what happens. Technically, we increase the chemical cost, honestly. However, if you come check on the totality basis, we are able to reduce their utility cost.

Now, that is called sustainability. On virtual paper, it looks higher. But if you take an overall picture of that, it is much better and not even better. In fact, they have been, they have to use it going forward because of the kinds of norms, which are getting more stricter worldwide. And of course, in India also, one needs to get into the ZDHC things and, zero discharge, colourless discharge for the textiles. So, in fact, we have been invited by Eco Passport, which is a Swiss company who are giving the ZDHC accreditation.

We had, in fact, the lead speakers also, even Arindamji, Aarti, and all are always attending and, on the panel speakers as well. So, we have been trying to inculcate the importance of this we are the early moves in that. And we are going, and that's the same thing which is happening in detergents and FMCG now.

Now, in detergent powder, let's say, a powder's recipes are generally like 20%-30% soda ash, 20%-30% salt, and there is LABSA 10%-12%. And then there is a certain product, which we have been offering and things like that. But now, soda ash is like soda ash STPP. In the world, it has always been reduced and getting to a max cap by the government. These are government initiatives because the soda ash, there is a big carbon footprint issues going on. So, that is one.

LABSA has to be reduced by all of us. Most of the detergent companies, earlier they were adding 12% LABSA. Now, everything has to fall below 8% and 9% eventually. P&G has announced that, in 2026, we will get more sustainable.

We will remove LABSA in our product only. Now, if they remove LABSA in their product, there has to be certain performance additives, which have to be added to give the cleaning to the fabric in the washing machines or wherever it is.

Now, we are there. Along with us, our competitors are like European companies. And we have been able to provide such solutions to detergent companies. It's a $50 billion market. Even 10% of the detergent market, which is $5 billion. Even if this gets sustainable in the next 10 years, it's a big market coming up for us. So, we are working on that for the last two, three years. And we have got great success on that actually.

So, I think that there are a lot of ways to get the sustainability drive. And that's the focus which we have. We are quite a little bit, I can say, early movers in all these things. So, I mean, you asked me about the kind of increase in wallet share and geographies. But I try to give to all the participants this kind of an answer, so that most of your understandings are more clear.

Parikshit Kabra: No. So, first of all, thank you so much for the long, detailed explanation. But if I could just push you a little bit to ask specifically, is it possible for you to quantify the split between adding new geographies and hence new customers versus increasing share of wallet with existing customers, this 40% volume growth and textile business. How would you split it between the two?

Sanjay Tibrewala: I will say it's adding customers and also getting wallet share equally.

Parikshit Kabra: Okay, so 50-50?

Sanjay Tibrewala: Yes.

Parikshit Kabra: Okay. And could you tell me how that is happening for detergents as well. If I recall correctly, Ghadi was our biggest customer in the detergent space. Since you have grown 40% by volume, is it just that Ghadi has grown that much or is it they have added more customers?

Sanjay Tibrewala: See, when I'm talking about volume growth, I'm talking about the totality. So, if I want to [inaudible 46:00] growth of textiles has also been 40% in the Y-o-Y business, number one. Number two, let's talk about oil and gas for a moment.

If you talk about oil and gas, most of the biggest companies are Oil India, ONGC, or Reliance and this and that. So, obviously, companies in oil and gas segment, your major customer has to be oil and gas, ONGC. I mean, there is no debate about it. So, this is not distributed, fragmented market like textile. What happens in textile. Our top 10 customers will not contribute more than 30% of our business.

Our top 10 products will not contribute more than 20% of our business because we are widespread. We have pre-treatment, dyeing, finishing, printing solutions. We have like more than 1,500 SKUs, 1,400-1,500 SKUs. So, what I'm trying to say, textile is a fragmented market. And detergents in oil and gas are not too fragmented. Let me put it like that.

Let's talk about FMCG and things. If you talk about the biggest names, let's say it is Patanjali. We are in Patanjali. I mean, there are regional heads also. I'll in fact tell you, okay, in the top, it is Unilever and P&G. Okay, we are also

going forward with them. It's on the last stage of things and many things are happening and shaping up. So, that is a protocol. It takes two years.

Let's say, put it for Patanjali. Patanjali today is almost a Rs. 40,000 crores-Rs. 50,000 crores market company from the point of the product distribution of Dant Manjan, Alo vera and etcetera. Now, for them to replace a chemical which they have been using for 10 years and that is not an important area for them in the detergent. Detergent itself is not important for Patanjali for that matter. Still, they want to change it which can affect their entire brand value.

Because these days, social media and, anything goes here and there. There are a lot of people who, blow it up. So, the idea is that they take a very long gestation period. It's very, very high entry-exit barriers. Because they are in the FMCG sector. It's not a B2B.

Let's say, if we give some chemicals to Raymond, for example, if there is a problem with it, then they will look at the lot and say, this is bad. But it doesn't affect the Raymond's brand in the market. Let's say the products are stopped there.

Let's say a situation where Patanjali's products have been, defective when it goes to the stores, and it's called back. Just imagine the kind of blow-up will be done by the other biggest multinational marketing guys. So, one has to be very careful. It doesn't happen in a day. Things take time. And that is the best thing. Because the higher the entry barrier, the higher the exit barriers. So, this is the kind of, we just need our perseverance. We are on the right track.

And I think that, we are in the right thing. Because our competitors also, ironically, European companies do not have a plant in India. They need three months projection, month of stock, supplying by dealers, supplying to all these companies. Whereas we are supplying in tanker loads within four days. So, that is also adding sustainability.

Like when we are supplying tanker loads, there is no plastic and things like that. So, there has been a lot of advantages. We are trying to capitalize on these things. We exactly know our strengths. And going forward, I think this will be a good further growth on these aspects.

Parikshit Kabra: So, again, thank you for the detail. But if I can just push you for a specific number on the FMCG space, have we added, as of now, the growth has come?

Sanjay Tibrewala: We have more than 100 customers in that space. Or maybe I think it's 120 by now. Because there are a lot many players and the regional guys also. And the regional guys' products, I'll tell you, when you go to the villages, you will not much find Unilever. And that market is not popular for our city life. And in fact, that product is much better than the city life.

Because in cities, what we are doing generally, we are washing clothes daily. We are in the air conditions. We are traveling by most of the facilities. But you talk about the villager, he is not washing the clothes daily, number one. And he is always in the open where there is sand, dust and everything. And the water is very hard.

So, the efficiency of the product and the need of solutions are more in regional markets rather than the multinational European brands supplying to the cities mainly. So, this is the answer which I could give you. I think this is more important answer than what you were looking for.

The kind of explanation broadly, which I have shared with you now. Because the psyche of the market is something which is not evident from the numbers or the earning presentations and things, which can be only done in this kind of concalls, you know.

Moderator: Thank you. The next question is from the line of Raj from KC Family Office. Please go ahead.

Raj: Hi, thank you for the opportunity. Sanjay ji, I just had this one question that because we expect the realization to go up, right, in the near term because of the geopolitical issues, do you think 29% EBITDA margin that we've achieved this quarter is, there could be some upside risk here in the near term. Because, the demand is very good, your realization will go up.

So, I would expect that, we can have maybe another 100 basis points or at least in a positive direction of the EBITDA margin for the next, in the next three, four, five quarters. What's your sense on it?

Sanjay Tibrewala: So, talking about the EBITDA margins in the last at least eight concalls, which we had on earnings, and every time I have been mentioning about this, that the things are looking much better also because the new plant, which is, which is already on the gear, full gear now almost, so, which all, the kind of operational efficiencies we are getting is also helping us to reduce our costs.

At the same time, there is a lot of product mix changing on the consumer preferences have been changing, people asking for more sustainable solutions, or even detergents, for oil and gas also, we are able to crack a great kind of businesses coming up very soon, and also in textile. So, the kind of things which are falling in place is helping us to enter into more specialty, high-end specialty chemicals.

So, the more and more we focus, and the more and more these kinds of demands come up, I think we should be around what we have been doing in the last quarter, Q2 and Q3, like something like that, broadly speaking. But yes, definitely, these things do help us a lot, this kind of product mix, which helps us going forward. I think it is likely that the similar kind of product orders will go up.

Average realization prices will also go up. So, the absolute number EBITDA will surely be more, going in the right direction, because once your average relation price goes up, so everything, EBITDA values also go up. So, I think that would be a right statement to make.

Raj: EBITDA might go up, but in terms of percentage, that might go down, because you might have to, maybe increase the RM cost as well. So, in percentage terms, it might go down, but the absolute EBITDA could go up. Is that what you're saying? Sorry, I'm not understanding.

Sanjay Tibrewala: If you talk very, very short-term, it's different thing. Generally, when we do a business with detergents and textiles, we do not have a fixed price. It's not a tender business where we are locked for one year.

So, generally, what happens is we generally have, let's say, two months of stock, broadly. And, and the orders are also more or less confirmed for the next two months, three months, and the dispatches are on their requirements and things like that. So, it doesn't extend to a lot of these things.

So, even if whenever the nominal prices go up, we have enough of room and time to convince the customers for the up increase. And then we can always, pass it on ahead. So, generally, this is what happens in our routine business.

Moderator: Thank you. The next question is from the line of Aditya Agrawal from Ambit GPC. Please go ahead.

Aditya Agrawal: Hi. Sir, just one question. So, in terms of, given your current order book, what kind of a volume growth rate you could probably rise for, let's say, FY2024 and next couple of years?

Sanjay Tibrewala: See, as we understand, in the last 10 quarters, there has been always a growth of at least 35% or 30%, or maybe highest is also 50% basis also. And this is evident from the kind of response and, interest coming from the customers, the growing demands, and also the kind of new products, new geographies, new customers, we have been getting. So, I think, in fact, not only that, rather than I can say in the last 12 years of being listed, last 50 quarters, you will always see that, I mean, the last 12 years CAGR for the company is more than 28% on a 12 year basis.

I'm not considering the last three years, which has been more, much, much more than, from the normal averages. So, let me put it like that, that the times are good. And, I mean, there are a lot of opportunities coming in to Make in India, grow the business further. We are trying to get as much as opportunities we can.

Organically, also, the kind of demand of the customers looks to be increasing now. The customers are looking at a better time now from 2022. It's already picked up a little bit. And I think this will go ahead now. So, I think if you see the last few growth rates, I think similar can be done in the coming quarters and years.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to Mr. Sanjay Tibrewala for closing comments.

Sanjay Tibrewala: Thank you very much, participants. And I hope we could give you an insight of things which are not easily available from the earnings presentation, etc. If you have any kind of other questions, please get in touch with our investor relations or our company. And we'll be more than happy to guide and, update you with more accurate information. And great, have a nice weekend ahead. And thank you very much for being there.

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

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