

**Fineotex chemicals (FCL)** incorporated in 1995, is one of the India's largest and most progressive specialty chemical textile manufacturing company. FCL produces more than 400 specialty chemicals and enzymes to textile, garment, water treatment, leather, construction, paint, adhesives, agrochemical and other industries. It's headquarter is located in Mumbai and has manufacturing facilities in India and Malaysia with a combined production capacity of 43,000 MTPA. FCL has a long track record in chemical industry with a wide global presence in over 60 countries and caters to rich clientele base in India and overseas which includes Arvind, Grasim, Siyaram, Vardhaman, Raymond, Pidilite, etc. The major part of revenue is accounted from textile chemicals ~97% while rest from fertilizer, adhesives and other chemicals. On consolidated basis overseas business accounts ~52% to the total revenue while rest from domestic business. On a standalone business, the company derives 75% of revenue from the domestic business and rest from exports. The company has gained a good traction in improving exports share and domestic clientele with its efforts of consolidating its production and market infrastructure.

At the CMP of Rs 30.5, FCL stock is trading at TTM P/E of 22.9x which is available at an attractive valuation as compared to its peers average. We value FCL at P/E multiple of 20x to its FY22E EPS of Rs 2.2/share and assign 'Buy' rating to the stock with target price of Rs. 44.

### FCL likely to report a strong growth in FY22 with improvement in economic conditions

FCL reported a muted Q1 FY21 performance impacted by the Covid-19 led disruption in economic activities like supply chain constraints and limited availability of man-power. The near term performance of the FCL is likely to witness a subdued performance on the back of slower economic activities and Covid-19 disruptions. We expect H1 FY21 performance to witness a weak performance on the back of the current pandemic situation while H2 FY21 to report a recovery in earnings with improvement in economic conditions. The textile chemical business is likely to benefit in FY22 with lower chemical manufacturing in China due to strict environmental norms.

### Strengthen presence in global market

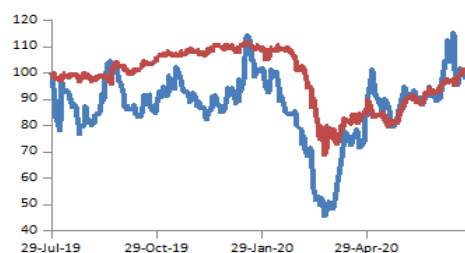
FCL has gained a good traction in textile chemical business in last few years and holds a presence in more than sixty countries where it caters to the entire value chain for the textile industry including pre-treatment, dyeing, printing and finishing process. Indian specialty chemical industry is likely to be a global manufacturing hub, a substitute to China post Covid-19 and also because of likely import ban due to ongoing tension between India-China. We believe FCL to benefit with its strategy to tap new global markets and efforts of client relationships development.

## Company Update

### Rating Matrix

CMP	Rs. 30.9
Rating	Buy
Potential Price	Rs. 43
Holding Period	12 Months
Upside Potential	39.2%
52 week H/L	Rs.. 36/12.4
M. Cap (in mns)	Rs. 3,439
Face value	Rs. 2
Sector	Specialty Chemicals

### Relative Capital Market Strength



Shareholders	Jun'20	Mar'20	Dec'19	Sep'19
Promoters	71.4%	71.4%	71.4%	71.4%
MFs	0.0%	0.1%	0.0%	0.0%
Other Insti.	0.2%	0.0%	0.3%	0.1%
Non. Inst.	28.4%	28.5%	28.3%	28.5%

Key financials Cons ( Rs. mn)	FY19	FY20	FY21E	FY22E
Operating Revenue	1,823	1,963	1,752	2,137
EBITDA	344	342	283	396
EBITDA Margin (%)	18.9%	17.4%	16.1%	18.5%
Adjusted PAT	225	131	208	241
NPM (%)	12.4%	6.7%	11.9%	11.3%
EPS (Rs.)	2.0	1.2	1.9	2.2
ROE (%)	14.2%	7.7%	11.0%	11.4%
PE (x)	15.3	26.3	16.5	14.3
P/BV (x)	2.2	2.0	1.8	1.6
P/S (x)	1.9	1.8	2.0	1.6

## Consolidated quarterly result analysis

Particular (Rs. Mn)	Q1FY21	Q1FY20	Change (YoY)	Q4FY20	Change (QOQ)
Operating Income	303.9	496.5	-38.8%	435.8	-30.3%
EBITDA	41.1	85.2	-51.7%	75.6	-45.6%
EBITDA Margin (%)	13.5%	17.2%	-361bps	17.3%	-380bps
PAT	78	55.2	41.3%	-63.1	-224%
PAT Margin (%)	25.7%	11.1%	1454bps	-14.5%	4,014

Source: Choice Broking Research, Company data

•Overall performance of Q1 FY21 remained muted primarily due the impact of covid-19 led disruption in business. Operating income came in at Rs. 303.9 mns, down 38.8% YoY due to lower business activity and the impact of covid-19. FCL have resumed business operations at a lower capacity as per the guidelines of Malaysia and India government.

•EBITDA fell 51.7% due to lower sales which is partially offset by the lower raw material cost and employee cost. EBITDA margin stood 13.5% (-361 bps YoY)

•PAT was reported at Rs. 78 mns, 41.3% higher YoY due to higher other income on account of net gains of financial assets at FVTPL.

## Peer Comparison

Companies	CMP	ROE	12MR(%)	M. Cap (Rs. Mn)	EPS	BVPS	EBITDA Margin (%)	NPM (%)
Fineotex	30.9	9.1%	13.6%	3,439	1.4	15.2	16.8%	8.7%
Clariant chemicals	373.9	7.8%	33.6%	8,629	22.1	282.0	8.3%	6.0%
Rossari Biotech	683.2	19.4%	-8.0%	35,478	12.6	64.8	17.4%	10.9%
Aarti Industries	964.9	17.4%	16.0%	1,68,119	30.8	176.4	23.3%	12.8%
Atul Ltd	5081.9	20.9%	39.5%	1,50,738	224.7	1072.5	22.0%	16.3%
<b>Average</b>		14.9%					16.5%	9.6%

Companies	P/E (x)	P/Bv (x)	P/Sales(x)	EV/EBITDA (x)	D/E	TTM PAT(Rs. Mn)	TTM EBITDA (Rs. Mn)	TTM Sales (Rs. Mn)
Fineotex	22.4	2.0	1.9	11.0	0.0	153	298	1,771
Clariant chemicals	16.9	1.3	1.0	12.3	0.0	510	700	8,430
Rossari Biotech	54.2	10.5	5.9	33.3	0.2	655	1,047	6,001
Aarti Industries	31.3	5.5	4.0	18.8	0.6	5,361	9,773	41,863
Atul Ltd	22.6	4.7	3.7	16.8	0.0	6,665	9,020	40,931
<b>Average</b>	29.5	4.8	3.3	18.5	0.2			

## Business Overview:

FCL operates in specialty chemicals segment which are mainly used in textile processing. Company's products play an important role in the textile manufacturing processes. Increasing usage of chemicals in the textile industry is a strong demand driver for chemical companies due to expectations of quality and fashionable textile products. The Company has a strong balance sheet and almost a zero debt company. It has a tech JV with BT BioTex Malaysia which is a world-class specialty chemicals and sustainable solutions producer. BioTex innovates and specialises in high end speciality finishing textile chemicals like water and oil repellents, antimicrobials, etc. for textile and military wear and great presence in other segments for paints, public utilities. With blue sign and other sustainable certifications, BioTex is tapping the global markets with its innovative products. FCL has a diversified revenue mix across its clients, products and geographies. The top ten clients of FCL contributes about one third of the total revenue and the top ten products accounts for 18% of the revenue. FCL entry into the Home Care and Hygiene chemicals and Drilling Speciality chemicals segments to drive future growth and leverage core technical expertise

## Manufacturing Facilities:

FCL has two manufacturing facilities with a combined capacity of 43,000 MT per annum.

### 1. Mahape, Navi Mumbai

Production capacity of 36,500 MT per annum.

Utilization : 56%

### 2. Bander Baru Bangi, Malaysia

Production capacity of 6,500 MT per annum.

Utilization : 70%

## FCL announced Buy-Back on 27th July, 2020

The Board of Directors of the company held a meeting on July 27, 2020 and approved buy back of company's equity shares of face value of Rs. 2/- each from the open market through stock exchange mechanism at maximum price of Rs. 40 per equity share payable in cash for an aggregate maximum amount of up-to Rs. 44 millions excluding transaction cost.

	Pre Buy Back		Post Buy Back	
Particulars	No. of shares	%	No. of shares	%
Promoters	7,94,93,070	71.42%	7,94,93,070	72.14%
Public	3,18,06,930	28.58%	3,07,06,930	27.86%
Total NOS	11,13,00,000	100%	11,02,00,000	100%

## Risk & Concerns:

- Higher raw material prices
- Risk of increasing chemicals supply from China
- Prolonged slowdown in global economy
- Weak demand and higher inventory levels

## Valuation:

At the CMP of Rs 31.6, FCL stock is trading at TTM P/E of 22.9x which is available at an attractive valuation as compared to its peers average. We value FCL at P/E multiple of 20x to its FY22E EPS of Rs 2.2/share and assign 'Buy' rating to the stock with target price of Rs. 44 translating into an upside potential of 36.1%.



## Choice's Rating Rationale

The price target for a large cap stock represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as Outperform, the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as Underperform, the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as Neutral.

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- **Investors are advised to sell the stock if the recommended upside potential achieves.**
- **If recommended upside potential remains under-achieved, investors are advised to consider the update report on suggested stock.**

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