March 23, 2018

Fineotex Chemical Ltd (FINCHE) ₹ 57

Fast growing complete textile solution player

We recently met Sanjay Tibrewala, Executive Director of Fineotex Chemical, to understand the overall nuances, salient characteristics of the speciality chemical space in the textile industry, Fineotex' s market position and prospects, going forward. Fineotex has 22,000 tonne capacity across two facilities in India (15,500 tonne) and Malaysia (6,500 tonne). It manufactures over 400 different products with established presence across the entire textile value chain ranging from pre-treatment, dying, printing and finishing processes thereby making it a one-stop shop for any textile solution. Fineotex has successfully penetrated a typically niche market with a sticky customer profile that was formerly governed by dominant MNC players. The company sells its product under its own brand "Fineotex" since 2005, tapping into its rich four-decade old experience and through smart strategic acquisition of Biotex, an innovative speciality chemical manufacturer (2011). Biotex, through its indigenous research, has developed a unique non-poisonous product called "Aquastrike VCF"– mosquito killer liquid, commercialised in some Asian countries and is awaiting approvals elsewhere. It has strong potential and provides option value to the stock. In FY17, Fineotex recorded sales of ₹ 128 crore, EBITDA of ₹ 30 crore with corresponding EBITDA margins at 23.6% and PAT after minority interest at ₹ 20.6 crore.

Biotex a value buy and instrumental in growing Fineotex brand

In 2011, the company made a value buy through a 60% acquisition in Biotex for ~₹ 8.5 crore. It is spearheaded by Dr Cedric Veniat, a technocrat with over 25 years of experience in speciality chemicals industries. Apart from providing multifold returns on its investment, Biotex' technological edge has enabled Fineotex to compete against global textile auxiliary giants like Archroma, Clariant, Huntsman, etc. Currently, Fineotex accounts for ~8% market share (2017) in the Indian textile auxiliary chemical market (pegged at ~₹ 1500) crore with almost all textile majors like Arvind, Grasim, Birla, Raymond, etc, as their clients.

Prudent management, robust growth, impressive return ratios matrix!

Fineotex' growth has been impressive with consolidated sales, EBITDA and PAT growing at a CAGR of 13.9%, 49.5% and 47.0%, respectively, in FY14-17. The robust bottomline growth is a result of EBITDA margin expansion from 10.4% in FY14 to 23.6% in FY17 thereby percolating to impressive return ratios with average RoCE and RoICs of 25% and 53%, respectively, in FY14-17. As of FY17, Fineotex has an unlevered balance sheet with surplus cash of ₹ 56 crore. The company has a capital efficient business model with ~4.7x as asset turnover and controlled net working capital cycle of ~70 days. At the CMP, on FY17 numbers, it is quoting at 31x P/E, 19x EV/EBITDA and 6x P/BV.

Exhibit 1: Financial Summary (consolidated)

(₹ Crore)	FY14	FY15	FY16	FY17	9MFY18
Net Sales	86.7	102.0	109.9	128.1	100.9
EBITDA	9.0	16.5	28.2	30.2	21.5
Net Profit	6.5	12.9	17.6	20.6	19.7
EPS (₹)	0.6	1.2	1.6	1.9	2.4
P/E (x)	97.6	49.1	36.1	30.8	24.10
Price / Book (x)	9.8	8.3	6.9	6.0	4.9
EV/EBITDA (x)	64.0	35.1	20.5	19.2	20.2
RoCE (%)	15.9	24.6	30.0	29.4	22.5
RoIC (%)	29.0	53.0	64.9	66.7	41.2
RoE (%)	10.0	16.9	19.2	19.5	21.1

*Source: Company, ICICIdirect.com Research; *9MFY18 Valuation & Return Ratios on annualised numbers*

Rating Matrix

Rating	:	Unrated
Target	:	NA
Target Period	:	NA
Potential Upside	:	NA

Key Financials (Consolidated)

(₹ Crore)	FY14	FY15	FY16	FY17
Net Sales	86.7	102.0	109.9	128.1
EBITDA	9.0	16.5	28.2	30.2
Net Profit	6.5	12.9	17.6	20.6
EPS (₹)	0.6	1.2	1.6	1.9

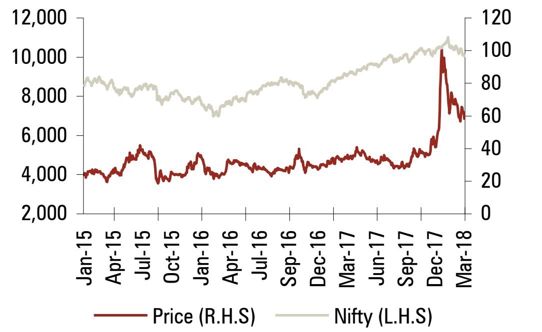
Valuation Summary

(x)	FY14	FY15	FY16	FY17
P/E	97.6	49.1	36.1	30.8
EV / EBITDA	64.0	35.1	20.5	19.2
P/BV	9.8	8.3	6.9	6.0
RoNW (%)	10.0	16.9	19.2	19.5
RoIC (%)	29.0	53.0	64.9	66.7
RoCE (%)	15.9	24.6	30.0	29.4

Stock Data

Particular	Amount
Market Capitalization	₹ 634 crore
Total Debt (FY17)	₹ 1 crore
Cash (FY17)	₹ 57 crore
EV	₹ 579 crore
52 week H/L (₹)	106 / 24
Equity capital	₹ 22.3 crore
Face value	₹ 2
FII Holding (%)	0.1
DII Holding (%)	0.1

Price Movement



Research Analysts

Chirag J Shah
shah.chirag@icicisecurities.com

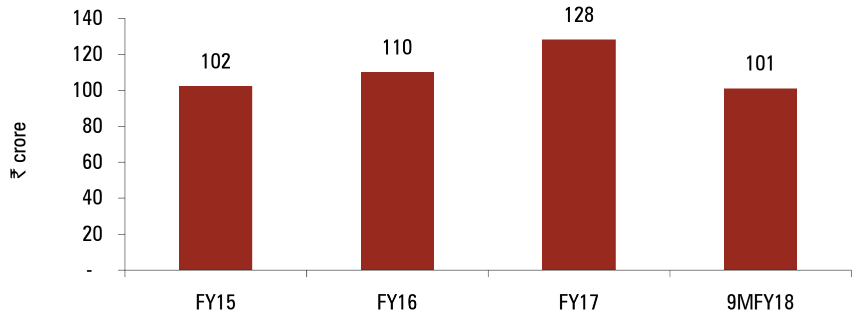
Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Key financials

Consolidated revenues have grown at a CAGR of 12.0% in FY15-17 to ₹ 128 crore in FY17. Revenues in 9MFY18 were at ₹ 101 crore.

As of FY17, the standalone entity delivered revenues of ₹ 75.7 crore, up 10.5% YoY while the Malaysian subsidiary revenues came in at ₹ 52.4 crore, up 26.6% YoY

Exhibit 2: Revenue trend (consolidated)

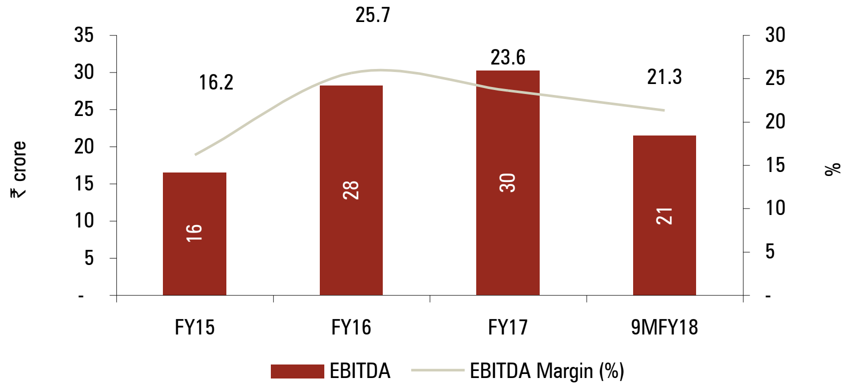


Source: Company, ICICIdirect.com Research

Declining EBITDA margins from peak levels of 25.7% in FY16 to 21.3% in 9MFY18 can be mainly attributed to stress faced by the subsidiary due to a weakening Malaysian currency. EBITDA margins at the standalone entity held steady above 25% during the FY16-9MFY18 period.

During 9MFY18, the standalone entity EBITDA came in at ₹ 17.2 crore, up 33.2% YoY with corresponding EBITDA margins at 26.2% (up 240 bps YoY) while EBITDA of the Malaysian subsidiary came in at ₹ 4.3 crore, down 37.3% YoY with corresponding EBITDA margins at 12.2% (down 840 bps YoY)

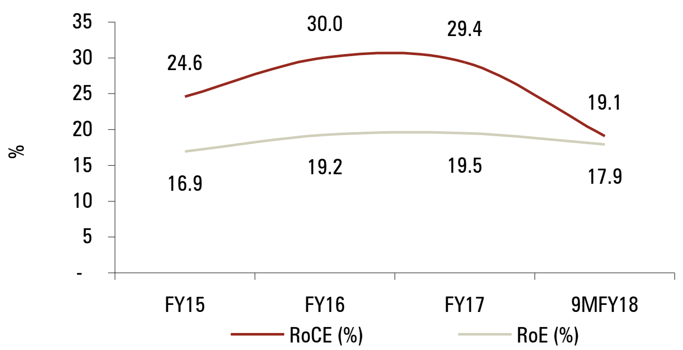
Exhibit 3: EBITDA & EBITDA margins (consolidated) trend



Source: Company, ICICIdirect.com Research

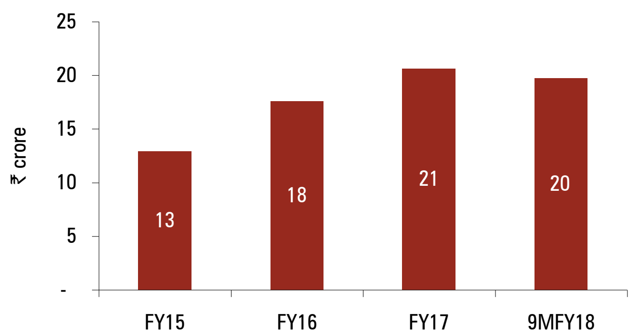
Healthy EBITDA margins and ~5x asset turnover in FY15-17 resulted in impressive return ratios with FY17 RoE & RoCE coming in at 29.4% & 19.5%, respectively. PAT has grown at a healthy CAGR of 26.4% in FY15-17 largely tracking healthy topline growth and EBITDA margin expansion.

Exhibit 4: RoCE & RoE trend



Source: Company, ICICIdirect.com Research

Exhibit 5: PAT trend (consolidated)



Source: Company, ICICIdirect.com Research

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Pankaj Pandey **Head – Research** **pankaj.pandey@icicisecurities.com**

ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No. 7, MIDC,
Andheri (East)
Mumbai – 400 093

research@icicidirect.com

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