

## Fineotex Chemical Ltd Management Meet update

(Nirmal Bang Retail Research)

Outlook: Neutral

We attended 'analyst day' of Fineotex Chemical Ltd and below are the key highlights of the same:

- The management guidance remains at Rs. 550-600 Cr revenue in FY23E and Rs. 1,000 Cr by FY25E on account of organic growth. Cleaning & hygiene is expected to contribute 40% of its revenue in FY25E.
- FY23E EBITDA margin guidance is maintained at ~18% for FY23E which is expected to improve towards ~19-20% levels by FY25E. PAT margin is expected in the range of 15-16%.
- Fineotex chemical mainly engaged in three segments such as textiles, oil & gas and cleaning & hygiene. Top 10 products contribute 18% of revenue and top 10 customers contribute 27% of revenue that indicates, business is diversified and not limited to any specific product or customer.
- Promoter stake has increased over the last 6 quarters 64.74% in Mar'21 to 64.97% in Sep'22.
- Total installed capacity stands at 1,04,000 MTPA as on Nov'22 after adding 21,000 MTPA capacity at Ambarnath in November 2022. Last year, Fineotex chemical has completed greenfield expansion with 40,000 MTPA capacity at Ambarnath which is integrated with an automated technology that requires minimal manual intervention. These capacities are fungible in nature.
- It can enhance ~50,000 MTPA additional capacity at Ambarnath location with a capex requirement of ~Rs. 15-20Cr which will be executed through internal accruals. The management is expected to finalise the capex plan in the coming few months which is required for the Rs. 1,000 Cr revenue by FY25E. This expansion will be commissioned within 7-8 months post capex announcement.
- Textiles segment contribute ~68% of revenue in H1FY23. There are 35 technical professionals who are accessible at any point of time to facilitate tailor-made solutions to its customers. In 2012, it had invested in technical textiles which has observed growth over the last 2-3 years. It expects 20-30% growth in the segment over the medium term on account of change in consumer preferences. The exports contribution largely delivered through textiles segment.
- Exports revenue contribution in FY22 stood at 41% of overall revenue. The export revenue is expected to grow in absolute terms; however, the revenue mix (domestic – exports) is expected to change over the medium term.

- Working capital cycle has improved from 141 days to 90 days driven by improved operational efficiencies and the management expects further improvement in the near term. Asset turnover ratio stood at 8 times.
- It has secured new orders worth Rs. 150 Cr specialty performance chemical from a leading FMCG company of which it has started supplying the small quantities from the current quarter.
- It expects robust outlook from Cleaning & hygiene segment from FMCG industry in both i) institutional and ii) B2B segments. It serves major clients, such as, Patanjali, Ghadi, Jyoti, Fena, Unilever, etc.
- Fineotex imports 40% of its required raw materials. Overall, it is the net exporter and don't hedge directly to avoid the risk.
- Oil & gas segment is largely based on the tender oriented business. The products are driven by government policy. Thus, we expect slower growth in this segment compared to textile and cleaning & hygiene segments.

The stock is currently trading at a price of Rs. 316 at TTM PE multiple of 46.4x. It has delivered more than 75% of returns over the last 6 months and outlook remains neutral on the stock in the near term.a