Hem Securities
Building your wealth through values
BROKING | INVESTMENT BANKING | RESEARCH | DISTRIBUTION | DEPOSITORY I PMS

Initiating Coverage

Fineotex Chemical Ltd

A Growth Compounder

Research Analyst
Naman Jain

Date: 9th Dec 2020

Fineotex Chemical Ltd

Rating	Buy
Price (As on 09th Dec'20)	46.60
Price Target (PT)	95.00
Upside %	103

BSE Code	533333
NSE Code	FCL
Bloomberg Code	FTXC IN
Industry	Chemicals
Sub Industry	Speciality Chemicals
Market Cap(Rs Mn)	5158.6
52 Week High/Low	48.00/12.35
Face Value	2.00
Equity(No Of Shares)	110.7 Mn
TTM EPS	1.77
Book Value	16.99
Dividend Yield %	0.11
P/E	27.34
P/B	2.74

Company with debt free status, healthy cash conversion ratio, ROEs & ROCEs ranging in mid to high teens , is on the path of delivering whopping financial growth supported by expected commencement of new facility at Ambernath (Maharashtra) by Q1 FY22 & entry into high margin business of home Care ,hygiene and drilling specialities. **We expect company to grow at CAGR of 20% in topline as well as bottom line from FY20 to FY23E. This makes a strong case for initiating coverage on the stock as it is not only currently trading at just half times of its industry average P/E multiple (Industry P/E @ 32) i.e 17.71 x on FY21E EPS but also at 11x on FY22E EPS & merely 8x on FY23E EPS basis which is at deep discount to its peers in the industry. Also , stock is attractively priced at EV/EBIDTA of 10x on FY22 estimates while at 7x of FY23 estimates. Hence, we recommend "BUY" on the stock with conservative price target of Rs 95/- per share thus valuing company at 16.5x on FY23E EPS basis (upside of 103%).**

Fineotex Chemical Ltd is one of the leading manufacturers of specialty chemicals for textiles, home care ,hygiene & drilling specialities. Company manufactures range of specialty chemicals which improve process performance from the pre-weaving preparatory stage to finishing chemicals .The company has a global reach of more than 60 countries like Brazil, Bangladesh, Germany, Indonesia, Malaysia, Singapore, Thailand, USA and Vietnam with exports constituting 52% of revenue worth of Rs 1020 Mn in FY20. Company has 100+dealers in Indian & international markets & has sticky marquee client base.

Introduction of non textile specialty chemicals product portfolio along with expected commencement of new facility at Ambernath to enhance business : We believe that the future growth of company will be fuelled by the value and volume growth from non –textile chemicals portfolio which company has recently forayed into apart from expected commencement of facility in Ambernath, Maharashtra in which company has recently invested almost Rs. 270 million & which will cater to customer demands in the existing textile specialties, fast growing home care & hygiene and drilling specialties business . It will add up 36000 MT production capacity per annum from existing 45000 MT approximately. This will give strong boost to the revenues of company & we expect revenue of company to increase at CAGR of 20-23% from FY20-FY23E with whopping rise from Rs 1963 Mn in FY20 to Rs 3350 Mn in FY23E.

Strong R&D capabilities: Biotex Malaysia ,company's subsidiary spearheads the R&D solutions, application research and product development . R&D expenditure contitites 3- 4 % of consolidate sales of company which include application lab facilities. Biotex is Asias top textile chemicals manufacturer , selling into more than 40 countries & serving over 300 direct and indirect customers worldwide . Company release an average of 25 new products a year & has active patent rights.

Strong Clienetle with long term relationship

Company is working with the biggest brands and & enjoys long term relationship with them. Marquee clientele of company include names like Raymond , Vardhaman, JCT , WelspiunIndia,Himatsingka,BanswaraSyntex Ltd, Nahar Group of companies ,SHAHI , Chenab Textile Mills, Only Vimaletc.The top 10 customers of company contribute approx. 33% of the sales while top 10 products constitute 18% of sales in FY20.

Key Risks:

Delay in commencement of new facility, slower growth in new segments, increase in cost of raw material,cheaper imports & inaccuracy in forecasting

Key Financials (Rs Mn)

	FY20	FY21E	FY22E	FY23E
Total Income	1,963	2,062	2,680	3,350
EBIDTA	342	393	511	665
PAT*	269	298	361	472
EPS*	2.42	2.63	4.17	5.74

Note:: Calculated excluding exceptional expense incurred in FY20*

Shareholding Pattern %

	Q2FY21	Q1FY21	Q2FY20
Promoter	71.78%	71.42%	71.42%
Public	28.22%	28.58%	28.58%

TABLE OF CONTENT

Story through the Charts

We expect Revenue (In Rs Mn) to grow at CAGR of 20-25% from FY20-FY23E

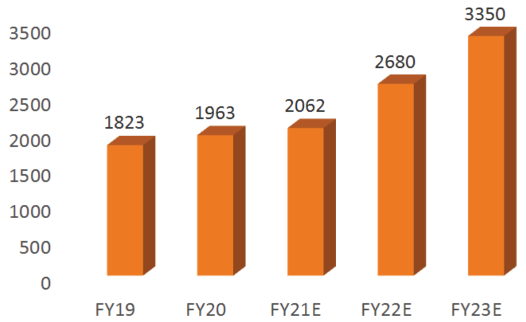


Exhibit:1

Led by Dominance in Textile Speciality Chemical Segment (Fig.In Rs Mn)

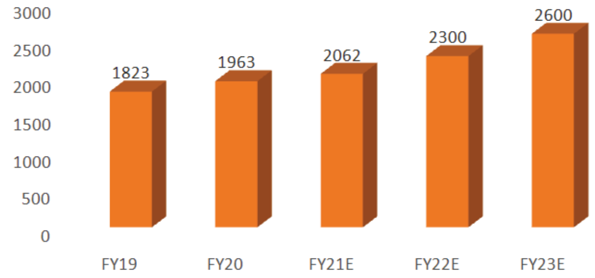


Exhibit:2

While increasing production capacity

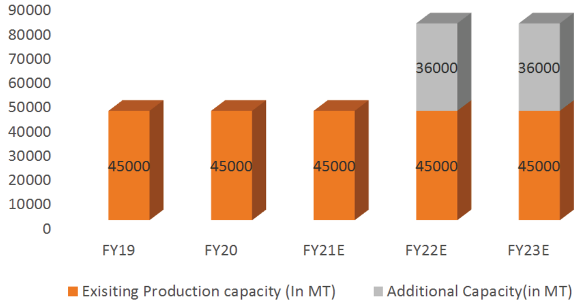


Exhibit:3

To cater segment diversification

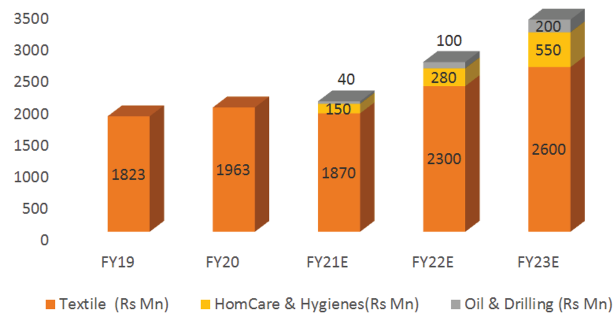


Exhibit:4

Leading to stable Gross Profit Margins

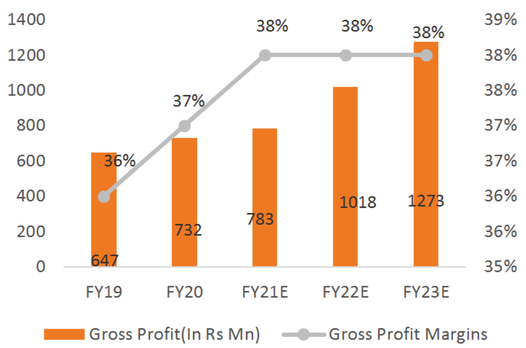


Exhibit:5

& improving & stabilizing EBIDTA Margin

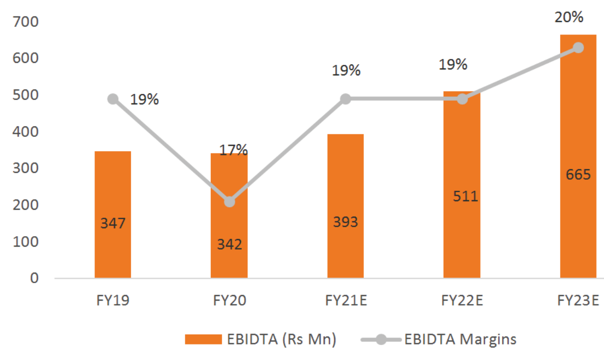


Exhibit:6

Source: Company, Hem Research

Creating Value for Stakeholders

Stable PBT with margins

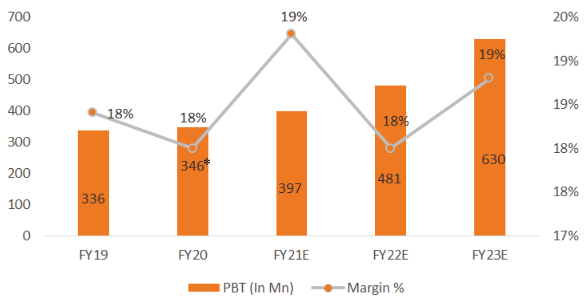


Exhibit:7

& PAT with margins will create

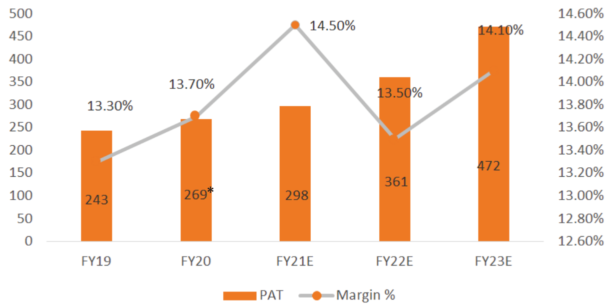


Exhibit:8

Value for investors through higher EPS
(Fig in Rs)

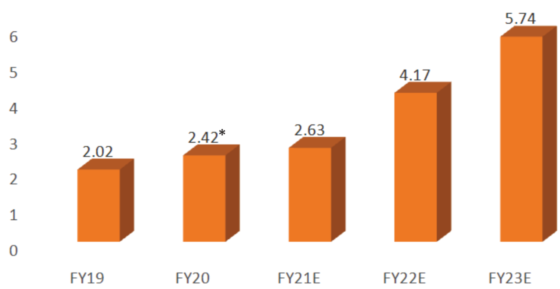


Exhibit:9

By growing company's ROE

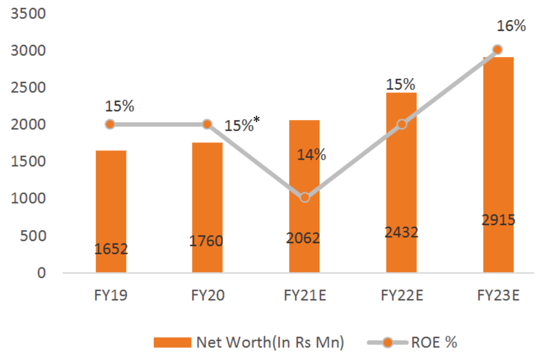


Exhibit:10

& ROCE %

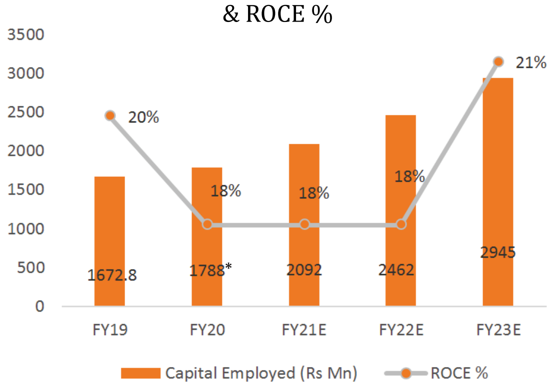


Exhibit:11

& Generating healthy cash flow in the business

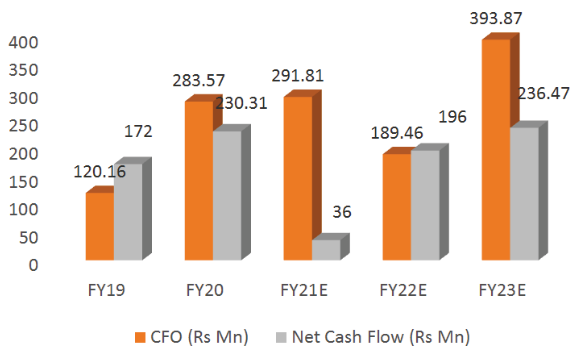


Exhibit:12

*: *Calculated excluding exceptional expense incurred in FY20*
Source: Company, Hem Research

What do we like?

One of the most progressive specialty textile chemical manufacturers with a market-leading position in the international textiles industry with Top 10 Clients having 33% share in sales.	Covering the manufacturing of entire value chain for the textile industry including pretreatment, dyeing, printing, and finishing process.	Presence in more than sixty countries with more than 50% of revenue coming from exports.	Malaysian subsidiary, Biotex, spearheads R&D solutions, application research, and product development compliments each other's strengths and offer distinguished speciality chemical solutions globally.	Strong management with proven track record in International acquisition and committed promoter who has increased his share in business from 62.5% to 71% over time showing faith in the business model.	Active management in finding a silverlining during Covid-19 pandemic and expanding Home and Personal Care segment.	Capacity expansion with new facility at Ambernath , Maharashtra.

Consequently we expect an efficient growth of 20-25% in FY20-23.Along with

- Strong Balance Sheet
- Improved Gross Margins
- Improved EBIDTA Margins
- Steady Income from Investment
- Improved Market Share in Domestic Markets
- Improvement in Export
- Healthy Cash flows

Growth in Revenue

(Rs Mn)	FY19	FY20	FY21E	FY22E	FY23E
Sales	1823	1963	2062	2680	3350
COGS	1176	1231	1278	1662	2077
EBIDTA	347	342	393	511	665

Steady Margins%

	FY19	FY20	FY21E	FY22E	FY23E
GROSS PROFIT	35.5	37.3	38.0	38.0	38.0
EBIDTA	19.0	17.4	19.1	19.1	19.8
PAT	13.3	13*	14.5	13.5	14.1

While continuing the legacy of giving regular returns to their investors

Year	Dividend Yield
2020	0.34
2019	0.24
2018	0.34
2017	0.29
2016	0.62
2015	0.45

Along with Capital Appreciation

Year	Corporate Action
2020	Buyback
2016	Buyback
2015	Bonus
2008	Bonus

Ratios to remain strong

%	FY19	FY20	FY21E	FY22E	FY23E
ROE	14.71	15.28*	14.45	14.84	16.19
ROCE	20.15	18.46*	18.26	18.32	20.54
ROA	12.44	12.88*	12.40	12.70	13.88

Healthy Cash Flows

(RsMn)	FY19	FY20	FY21E	FY22E	FY23E
CFO	120.16	283.57	291.81	189.46	393.87
FCF	41.67	220.87	156.38	69.46	233.87

*: Calculated excluding exceptional expense incurred in Fy20

Company Snapshot

Established in 1979 by Mr. Surendra Tibrewala, FINEOTEX group is one of the leading manufacturers of Specialty chemicals for textiles, home care, hygiene and drilling specialities. Company manufactures entire range of products for Pretreatment Process, Dyeing Process, Printing Process and Finishing Process for the textile processing to customers across the globe.

The company has a strong R&D partner, its Malaysian subsidiary BIOTEX which leads their R&D initiative and product development. Both Fineotex and Biotex compliments each other's strength providing tailor made products to create a sticky base for their clients. Since the acquisition of Biotex in 2011, the company has grown multifold and the management has been able to turn around the company from losses to profit and made it debt free.

In the recent pandemic where many companies have struggled, Fineotex has expanded its business segment into Home and Hygiene segment and Drilling specialities collaborating with leading detergent manufacturers. Also, the company was successfully able to revive the flagship textile business post lockdown retaining their anchor customers and creating new relationships.
The company also plans to commission its new factory at Ambernath, Maharashtra by Q1FY22 which will increase their capacity by 36000MT per annum in the coming future. Its "Mosquito Life cycle controller" is a unique product under regulatory approval by Biotex which will boost revenue in the future.

The Group success Mantra is providing Sustainable eco friendly products with a continuous search for innovation.

Future Outlook of the company:

Leveraging Fineotex's industry insights and long-standing customer relationships with Biotex's high-end product expertise and regional positioning to serve global customers while developing direct customer relationships and expand the distribution network.

The company is currently exploring greenfield opportunities for the next leg of growth and exploring partnership opportunities with international companies who wish to establish manufacturing facilities in India.

450+
Product
Categories

60+
Countries
Present

100+
Dealers in India &
International Market

43000+ MT p.a.
Installed
Capacities

Bluesign, ZDHC
Star Export
House Accrediation

Textile
Chemcials

Home and
Hygiene

Oil and
Drilling

FY20 REVENUE MIX

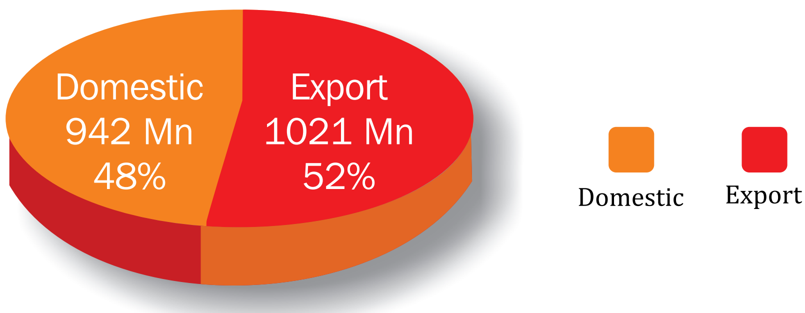


Fig in Mn

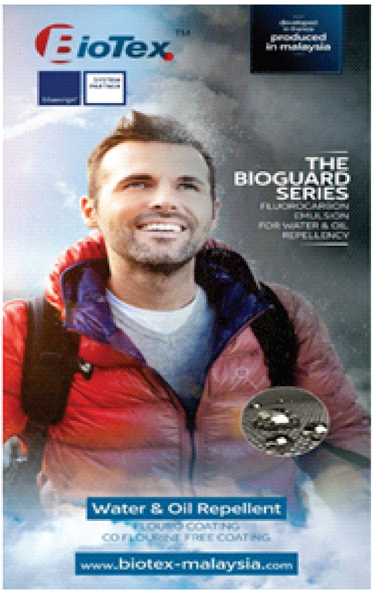
Investment Rationale

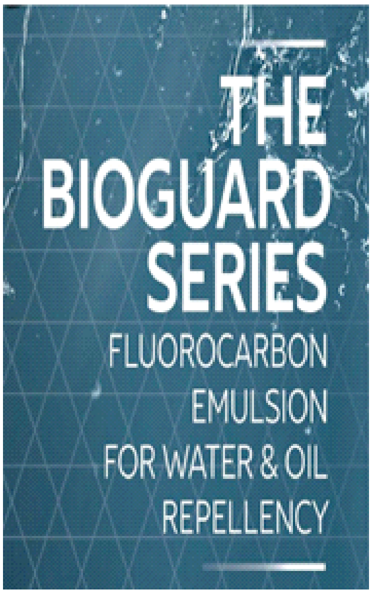
Synergistic Business Model with subsidiary Biotex

Fineotex India (standalone entity) and Biotex complement each other's strengths and offer distinguished specialty chemical solutions globally.
Both the companies work to cater to the specific needs of its customer along with creating new and unique products to capture and expand the market

Particular	Fineotex + Biotex
Overview	Fineotex has a product portfolio of 400+ products with Applications primarily across the entire textile value chain: pre-treatment to finishing while Biotex maintains a Neiche portfolio of 50+ products having High end super speciality textile chemical applications.
Key Focus Areas	The main area of business for Fineotex is textiles while rapidly entering other fast growing sectors catering to High Profile Domestic Customers, on the other hand Biotex provides Sustainable and effective textile solutions to International Customers Base while growing its Neiche product demand such as 'Mosquito Life Cycle Controller'.
Business Segment	Fineotex caters to Textile, Home Care and Hygiene, Drilling and Other Specialities and Biotex majorly focuses on Textile and auxiliary sectors. However, in the recent times Biotex has been aggressively focusing on marketing its new product 'Mosquito Life Cycle Controller', an eco friendly non toxic solution for mosquito outbreaks used primarily across developing countries.
Competitive Edge	While Fineotex has its roots within the country's for the last 4 decades creating deep relationship with customers with strong brand recall and reputation for high quality diversified portfolio mix . Biotex has the edge in geographical reach to Europe and all across the globe giving tailor made solution for finishing process in textile and a strong R&D capabilities.

Overall, we understand that Malaysian subsidiary has not only complimented Fineotex strength but also helped the company in reaching a global audience with diversified and distinguished speciality chemicals mix.





'The Bioguard Series' of products from Biotex with water and oil repellent features in great demand post outbreak of COVID-19

Source : Company, Hem research

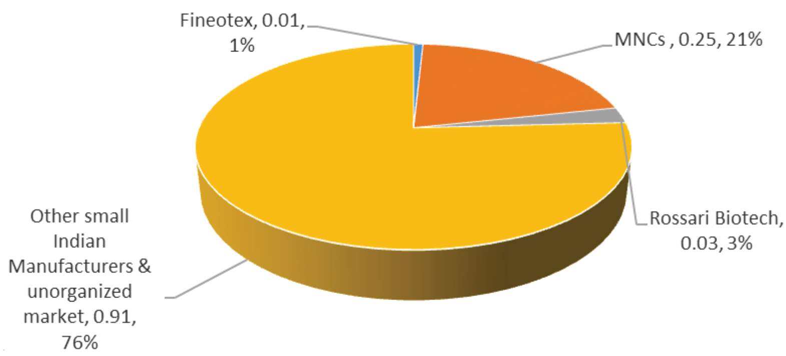
Indian Textile Speciality Chemical Sector – A Structural long term growth story:

India is the second largest exporter of textiles globally. Rising global as well as domestic demand for high quality textile products, growing textile production, favourable government policies and increasing garments sourcing from India by international brands are boosting demand for textile chemicals in the country. The future growth opportunities in the textile specialty chemicals industry will be primarily driven by diversified and value-added specialty chemicals which provide sustainable eco-friendly solutions.

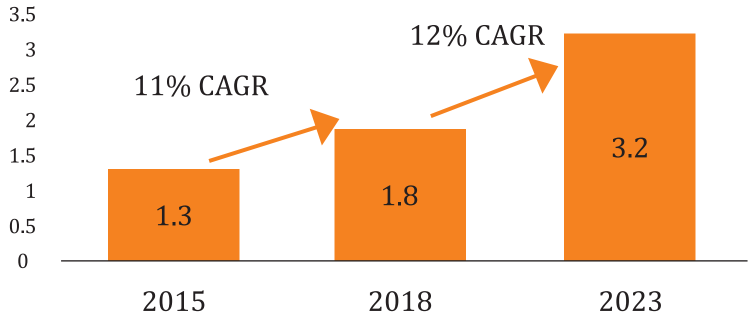
The demand for textile chemicals have risen owning to the huge production of not just apparels but also rising demand for home furnishings, floor coverings, and technical textiles globally. With the development of new and innovative textile and fabrics, the textile chemical manufacturers globally are constantly creating products for the future fabrics which are specially used for medical, construction, and functional interior textiles. The prospects of bio-based chemicals is on the rise, with the textile industry joining hands to produce and process sustainable and environment friendly products.

The consumption as well as production of clothing and other textile products is growing at a CAGR of nearly 3.5%. The pattern of consumption of apparel and textiles is growing largely in developing countries like India, China, Taiwan, Thailand, Indonesia, and in the Republic of Korea owing to which APAC is expected to register the highest growth. The growing demand for textile and apparels is driving in return the growth of textile chemicals in the industry.

Segmentation of Indian Textile Chemicals Market by Companies, Value (USD billion), 2018. Total market USD 1.2 Billion



Indian Textile Chemicals Market Forecast, Value (USD billion) 2015, 2018 and 2023F



Source: F&S Data (Available in Public Domain)

Home care & hygiene Market

India cleaning chemicals market is expected to reach USD 2.6 billion by 2023 at a projected growth rate of CAGR 9.8% in value terms. The growth will be driven by increasing incidence of various infections, rapid urbanization, coupled with growing number of new commercial setups and increasingly stringent safety standards. Additionally, setting up of new healthcare setups, rising disposable income and launch of new and innovative cleaning chemicals are propelling the market for homecare ingredients in India.

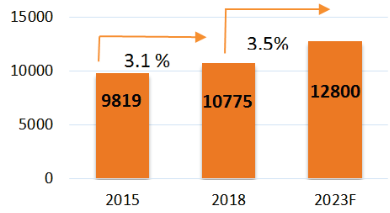
Among the industry type, household would account for a higher growth rate of 10.3% whereas the I&I segment is expected to grow at 7.6% on account of anticipated growth in food processing industry, healthcare sector and favourable government regulations. Moreover, the need for removal of dust particles, disease causing bacteria and micro-organisms and improving standard of living are also predicted to boost the market in the coming years.

FCL's core competency :
Textiles speciality chemical

Focus on Tailor Made solutions to ensure Stickiness of the customers:

Fineotex is the most progressive specialty textile chemical manufacturers with a market-leading position in the international textiles industry . The company offer tailored solutions across the textile value chain with a focus on higher realizations. This has lead to retention of their anchor investors despite of the Covid-19 pandamicand also development of new relationships.

Global Textile Chemical Market Forecast, volume (Kilo Ton),2015,2018 & 2023F

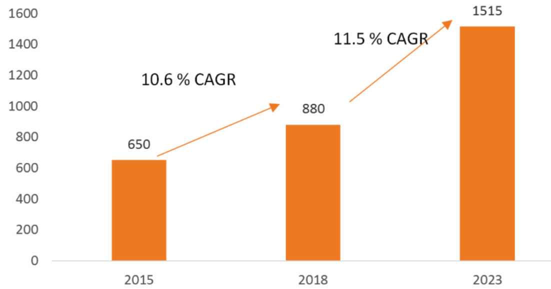


A Natural Progressive growth of Organized Indian Domestic Market:

India's textiles sector is one of the oldest industries in the Indian economy. India's textiles industry contributed 7% of the industry output (in value terms) in FY19. It contributed 2% to the GDP of India and employed more than 45 million people in FY19. The sector contributed 15% to India's export earnings in FY19.

Despite of the Covid-19 pandemic, the future for the Indian textiles industry looks promising, buoyed by strong domestic consumption as well as export demand and we believe we can see a sharp revival in the industry by FY2022.

Indian Textile Chemicals Market Forecast, Volume (Kilo Ton), 2015, 2018 and 2023F



Source: F&S data(available in public domain)

A one Stop Solution for all Textile Chemical Needs:

The Company manufactures a range of specialty chemicals that improve process performance from the pre-weaving preparatory stage to finishing chemicals

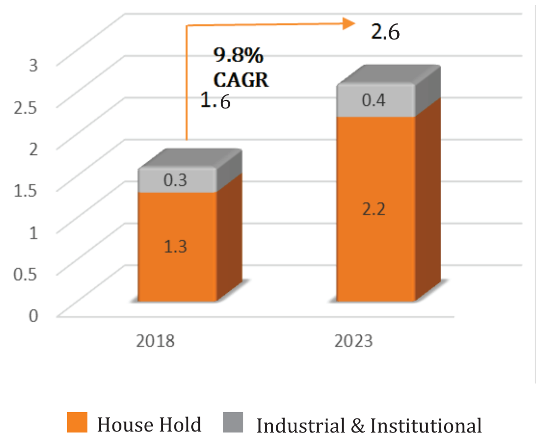
Steps	Weaving	Pre-treatment	Dyeing	Printing	Finishing
Process	Sizing	De-sizing, Scouring, Bleach	Dyeing, Washing, Fixing	Rotary Printing, Table Printing	Exhaust Padding
Product Category	Polymers and Softners	Enzymes, Wetting & Detergent, Sequestering Additives	Dyes, Acids, Alkali Levelling, Detergent Fixer	Dyes, Binder Thickener, Fixer Detergent, Loop accelerator	Softeners, Silicones, Polymers, Resins

Source: Company, Hem Research

Leveraging strength in Textile speciality chemical to enter into high growth - home care, hygiene & drilling specialities chemical segments

In Home Care &Hygiene ,India's cleaning chemicals market is expected to reach USD 2.6 billion by 2023 at a projected growth rate of CAGR 9.8% in value terms. The growth will be driven by increasing incidence of various infections, rapid urbanization, coupled with growing number of new commercial setups and increasingly stringent safety standards. Additionally, setting up of new healthcare setups, rising disposable income and launch of new and innovative cleaning chemicals are propelling the market for homecare ingredients in India. Among the industry type, household would account for a higher growth rate of 10.3% whereas the Industrial & Institutional segments expected to grow at 7.6% on account of anticipated growth in food processing industry, healthcare sector and favorable government regulations. Moreover, the need for removal of dust particles, disease causing bacteria and micro-organisms and improving standard of living are also predicted to boost the market in the coming years.

Indian Homecare Care Ingredients Market Forecast, Value (USD billion), 2018 & 2023 F



Source: F&S data(available in public domain)

Key Products

ECODO

CléanJet

Drilling Specialties Space: Driver for high growth due to Crude Oil

In Drilling specialities space , the global market of Drilling and Completion Fluids is growing rapidly due to increased oil & gas exploration activities around the world. The high demand for crude oil, along with the maturing of onshore oil and gas wells is fostering the growth of Drilling and Completion Fluids market. Moreover, factors such as continuous development of offshore reserves and rising deep water production are likely to influence the growth of the global Drilling and Completion Fluids market positively. The global clear brine fluids market was valued at about USD 860 Mn in2019 and is anticipated to grow at a CAGR of slightly above 5% between 2020 and 2023.

Our View

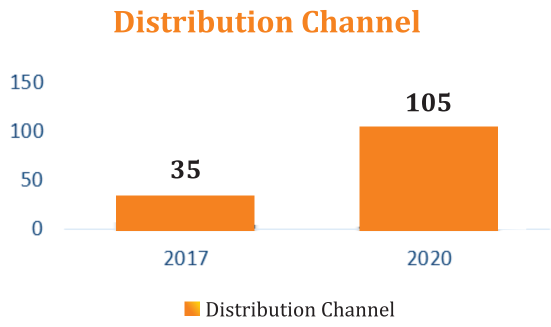
Company is currently present in $1.8 billion of textile chemical industry and now the company is ready to explore the surfactants industry, which is a $2 Billion worth and has a far greater requirement and reach along with Oil and Drilling specialty chemicals, which will gain traction once the global economy stabilizes.

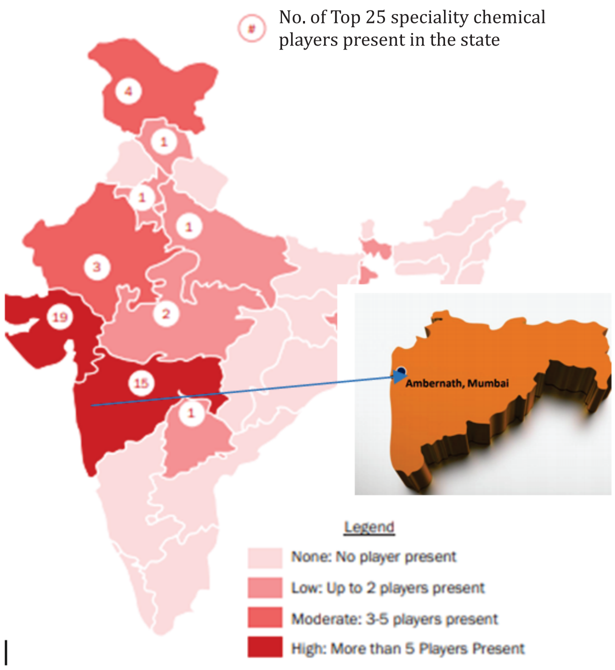
Hence, company's successful entry into the Home Care and Hygiene chemicals and Drilling Specialty chemicals segments will drive future growth.

Wide Reach & Strong Distribution Network:

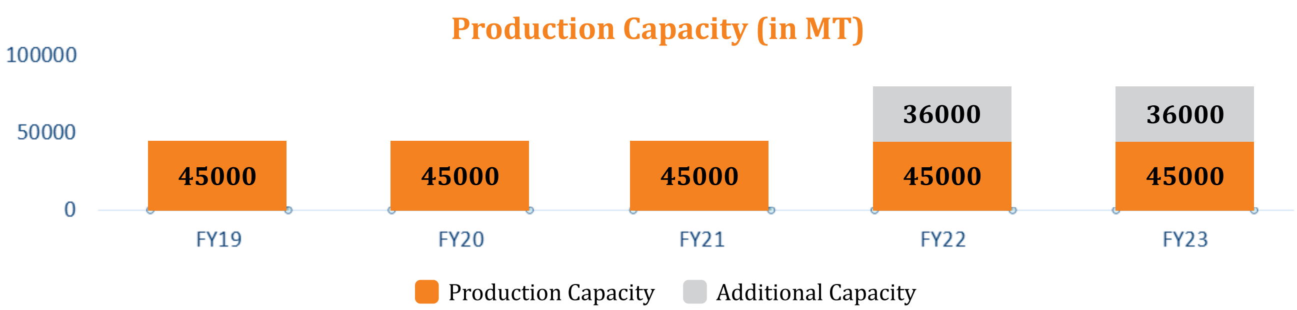
Considering the competitiveness of the business, Fineotex has been a proactive player not only in terms of expansion of their reach but also their distribution network. Currently fineotex is present in more than 60 countries with more than 100 dealers in the domestic and the international market.

Reach of Fineotex





The company's Navi Mumbai Strategically located plant near key port close to Mumbai with logistical advantage to textile hubs across North, West, South and Central India. While, the Malaysian subsidiary located at Selangor provides Easy access to high quality raw materials in the region, Backward integration into key raw materials and Cost benefits due to Free Trade Agreements (FTAs) with important regional markets like Vietnam, China and India. In the recent expansion plans, the company has recently invested in a state of the art facility in Ambernath, Maharashta which not only increases the production capacity of the company by 36000 MT annually but the facility of also located in close proximity to key port areas near Mumbai providing logistical and cost advantages.



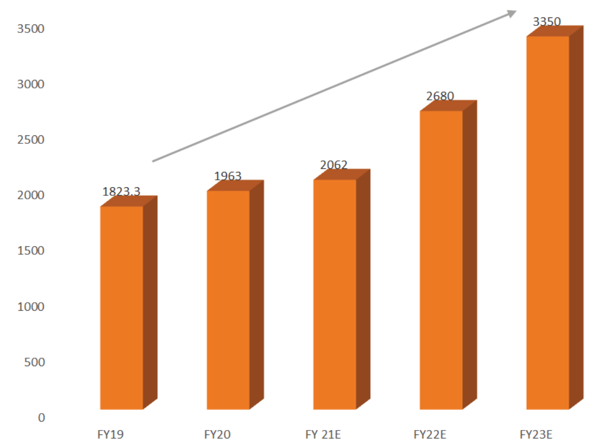
Strong Financial Performance

Company has grown at double digit CAGR from FY14 to FY20.The topline of company has grown at CAGR of almost 15% from FY14 to FY20 while operating profit of company has registered whopping CAGR of 25% during the same years. The bottom line of company has also registered healthy CAGR of 25% (excluding exceptional expenditure of Rs 12.63 Cr incurred in FY20) from FY14 to FY20.The cash flow from operations of company has shown outstanding CAGR of 71% during the same years. The company has posted stable margins with strong growth since last six years. Company has posted EBIDTA margin with steady growth from 13% in FY14 to 17% in FY20 while net profit margin of company grew from 8% in FY14 to 13% (excluding exceptional expenditure incurred in FY20) in FY20 . Company enjoys debt free status as company has successfully deleveraged its balance sheet with steady decline in debt to equity ratio from 0.06 in FY14 to 0.02 in FY20. Company's return on equity stood at decent 15% in FY20 while ROCE during the same year stood at 20%. The firm's cash conversion ratio , the ability of company to convert profits into available cash is also very strong with operating cash flow to Net Profit (excluding exceptional expenditure incurred in FY20) stood at whopping 110% in FY20 & operating cash flow to ebidta stood at healthy 82% in FY20 .

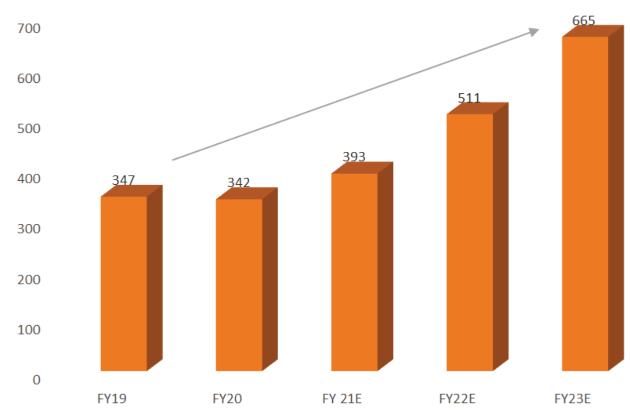
The strong past financial performance coupled with healthy growth outlook in coming future is infusing optimism in rock solid fundamentals of company.

As strategic investments and acquisitions of businesses in the specialty chemicals industry act as an enabler of growing business, in this direction in 2011, Fineotex acquired major stake in a well-known European founded chemical manufacturing company named 'Biotex' (73 % owned) located in Malaysia as a JV with the European partner. Fineotex with this acquisition has unlock potential efficiency & synergy benefits as net profit of biotex has grown by a factor of 4x since acquisition in 2011 and de-leveraged into a debt free company. Biotex Malaysia spearheads the R&D solutions, application research and product development and approved as a Bluesign partner–the highest sustainability certificate in textile chemistry globally. In the same way, company will continue to consider opportunities for inorganic growth to consolidate its market position in existing business lines, achieving operating leverage in key markets, strengthen and expand company's product portfolio, enhance the depth of experience, knowledge base and know-how and increase company's network of distributors, customers and geographical reach.

Revenue (Rs Mn)



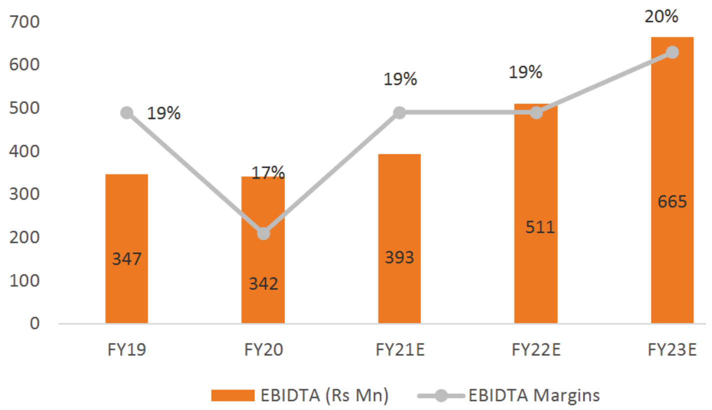
EBIDTA (In Mn)

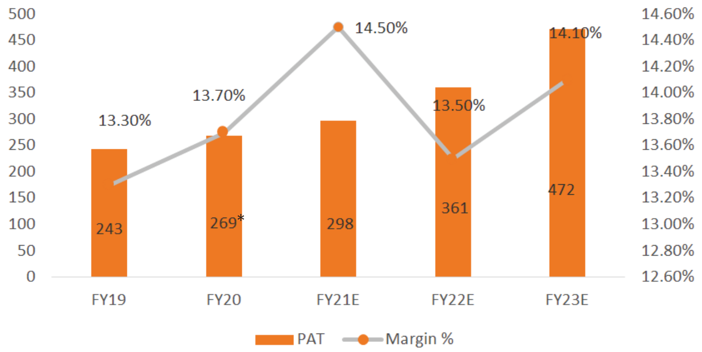


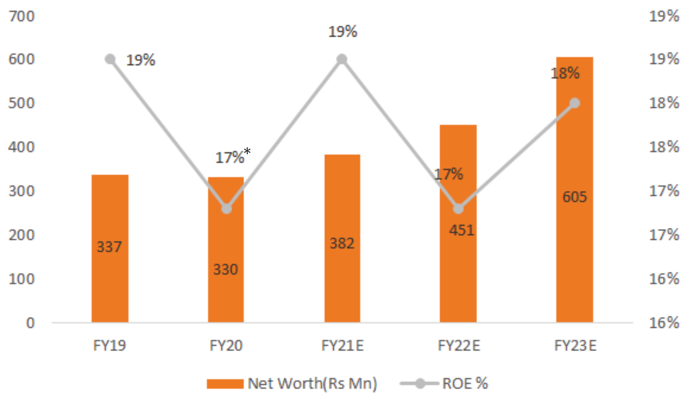
Buoyant Growth Prospects

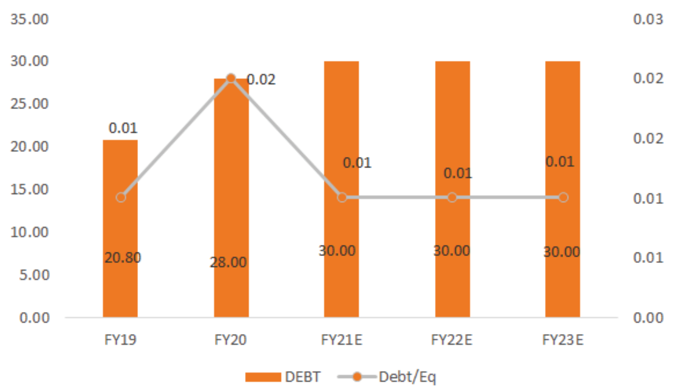
Since last few years company have been doing lots of investments for new geographies expanding new products, R&D expenses etc .These will aid company in delivering strong CAGR growth going forward.

Company's new facility at Ambernath, Maharashtra will be commissioned in the first quarter of FY22 which will help the company in delivering strong growth going forward. With the company's entry into fast growing synergistic segment such as Home Care and Hygiene and Drilling Specialties, company is looking forward to cater the vast opportunity present in these segments. We expect company to grow at CAGR of 20% in topline from FY20 to FY23E . Factors like capacity expansion , entry into high margin business , spreading into new geographies will help the company in posting more than 25% CAGR in EBIDTA .Along with all this minimal interest cost & stable tax rate will help the company in posting whopping CAGR of more than 20% in bottomline from FY20 to FY23E according to our expectations. Possible commencement of new facility at Ambernath in Maharashtra by Q1FY22 adding 36000MT capacity per annum will boost revenues. Also, growth will be enhance by company's focus on increasing wallet share with existing customers .Company have built long-standing relationships with its customers through various strategic endeavours, which company leverage by capitalizing on the significant cross-selling opportunities that its diversified product portfolio offers. Further, the demand for textile specialty chemicals have risen all over the world owning to the huge production of not just apparels but also rising demand for home furnishings, floor coverings and technical textile globally.









*: *Calculated excluding exceptional expense incurred in FY20*

Accreditation:
An exhibition of company's strengths

The Company is proud of making products from no hazardous chemicals, which also require a very minimal quantity of natural resources like water or fuel. The process also does not emanates pollutants in the form of gases, liquids, or solid wastes. Neither the employees nor the customers face any side effects due to its products.
Fineotex ensures that the air and water pollution norms laid by the local authorities are fulfilled, plants are properly maintained and waste release is as per norms.
The environmental concerns were the main reason for shutting down manufacturing plants in China and with authorities becoming more conservative on environmental effects, any company needs to be responsible and follow the path of sustainable manufacturing to survive in the long run and build a reputation in the market.
The ESG rating has been a key important factor for investments in the European and American market is also now gaining traction in the Indian markets. It is salient for the companies not only to follow the standards set by the local authorities but also international standards if they aspire to expand their business and establish a global name and prominence of the company and its products.
Both Fineotex and Biotex have focused on promoting sustainable manufacturing. They have been appreciated and certified by local and as well as international associations.

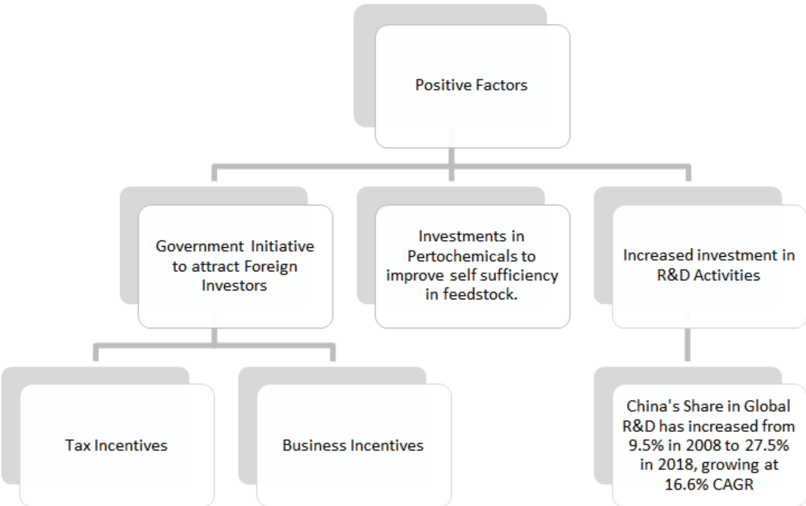
Fineotex and Biotex play a critical role in sustainable chemistry and drive efforts towards social responsibility

Source: Company, Hem Research

The China factor: One of the key triggers

China is one of the leading players in the global chemical industry with a share of ~35% followed by Europe ~20% and US ~15%. India constitutes ~3% of the global chemical market. During the last three decades, China's manufacturing capabilities underwent bigger changes than any other economy in the history, and its chemical industry was one of the primary beneficiaries of these changes.

While, China was the fastest growing chemical market for a decade between 2005-2015 which was led by multiple factors , however geopolitical and environment tensions has led to shift in paradigm of the international chemical market
Factors that contributed to massive growth/Downfall of China's Chemical Industry



Negative Factors

- Tightening of financial availability for over supplied industry such as chemicals by the government
- Increase in Pollution levels and environment protection has lead to shutting down of manufacturing facilities
- Uncertainty Created by US-China Trade war
- Covid-19 outbreak has lead to re evaluation of supply chain and global world moving towards deglobalization

Why India could be the next China in International Chemical Market?

- Low costs of manufacturing and availability of skilled labour.
- Strong Intellectual Property Rights (IPR) protection
- Track record of producing world quality output
- Improved focus on R&D
- Policy reforms to boost domestic manufacturing
- Emergence of business focusing on sustainable chemistry

Meet the Management:

S. no.	Name	Designation	Education
1.	Surendra K Tibrewala	M.D (Fineotex Group)	B.Com and LLB
2.	Sanjay Tibrewala	Chief Financial Officer	Education: B.Com and P.G. in Textile Chemicals & Processing
3.	Aarti Tibrewala	Head-International Mktg	B.Com and M.Com
4.	Noa N. Ouakass	Chief Executive Officer-Biotex	M. Sc., MBA
5.	Kedar Sankar Sonai	Executive Director – Biotex	M.Tech, MBA
6.	Raman Perumal	Production Director – Biotex	Diploma in Boiler Engineering
7.	Wong Lai Yoon	Operations Manager – Biotex	BBA
8.	Tang Chai Yean	Senior R&D Manager – Biotex	Diploma in Chemistry
9.	Jeetendra Adhav	Plant Manager – Fineotex	BE Industrial Engineering & Diploma in Chemical Engineering
10.	Ramesh Gupta	Production Manager – Fineotex	MSc, MBA B. Ed.
11.	Manoj Sharma	Senior Manager – Fineotex	B.Tech Responsible for: Plant and Projects
12.	PurvaRane	Assistant Manager – Fineotex	MSc in Analytical Chemistry Responsible for: Technical Service Lab and Product Compliance
13.	Dr. Anand Patwardhan	Independent Director	Ph.D. (technology) in chemical engineering, from ICT Mumbai University
14.	Dr. Sunil Waghmare	Independent Director	Ph.D. from University of Pune & post-doctoral researcher at various institutions and universities of repute

Experienced management team with multi decade expertise in speciality chemicals industry

Valuation and Outlook

FCL offers good combination of 1) strong past financial performance coupled with healthy future outlook & possible double digit CAGR in key financials till FY'23. 2) Capacity expansion with commencement of new facility at Ambernath by Q1FY22 3) Entry into high margin business of Home Care and Hygiene and Drilling Specialities business 4) Biotex's Niche product portfolio with a unique 'Mosquito Life Cycle Controller' product under regulatory approval intended to grow revenue share 5) Healthy balance sheet with net debt neutral , robust cash conversion ratio , stable margins & attractive ROEs & ROCEs. 6) Strong management with conservative approach to funding acquisitions, capacity expansions and greenfield/brownfield developments through internal accruals 7) Continuous evaluation of acquisition with management's proven track record of successful acquisition of Biotex in 2011 .

We expect company to grow at CAGR of 20% in topline as well as bottom line from FY20 to FY23E. This makes a strong case for initiating coverage on the stock as it is not only currently trading at just half times of its industry average P/E multiple (Industry P/E @ 32)i.e 17.71x on FY21E EPS but also at 11x on FY22E EPS & merely 8x on FY23E EPS basis which is at deep discount to its peers in the industry. Also , stock is attractively priced at EV/EBIDTA of 10x on FY22 estimates while at 7x of FY23 estimates. Hence, we recommend "BUY" on the stock with conservative price target of Rs 95/- per share thus valuing company at 16.5x on FY23E EPS basis (upside of 103%).

Peer Comparison

Particular	Revenue CAGR (FY20-23E)	PAT CAGR (FY20-23E)	Debt / Equity (FY22 E)	ROE % (FY22 E)	ROCE % (FY22 E)	EBIDTA Margin % (FY22E)	Net Profit Margin % (FY22E)	EPS (FY22 E)	P/E (FY22 E)	CMP (as on 9th Dec)
Galaxy Surfactants	11.2	12.6	0.20	21.9	17.8	13.9	8.24	79.4	24.05	1909.70
Rossari Biotech	22.4	29.1	0.00	25.0	33.0	18.8	11.9	20.4	40.94	835.35
Atul Ltd	10.7	5.0	0.00	19.1	18.0	22.0	15.0	239.70	25.50	6114.00
Fineotex	***19.5***	***20.0***	***0.01***	***15.32***	***20.20***	***19.10***	***13.5***	***4.17***	***11.18***	***46.60***

Source: Hem Research, Consensus Estimates

Risk to our Investment Analysis:

1. Delay in commencement of new facility at Ambernath: Any delay in scheduled commencement of new facility at Ambernath can impact the future financial performance of company
2. Slower growth in Home care, Hygiene& drilling specialities business : In case if pandemic situation normalizes or demand slows down then expected growth in home care, hygiene& drilling specialities business will get affected.
3. Increase in the cost of raw materials –Could have a material adverse effect on financials.
4. Risk of losing market share to cheaper imports from other countries.
5. Inaccuracy in forecasting demand and management of inventory or working capital balances may have an adverse impact on business, market position and result of operations of company

Financial Statements

Consolidated Income Statement

Particulars (In Mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	1823	1963	2062	2680	3350
Growth (%)		8%	5%	30%	25%
Expenditure	1487	1633	1680	2229	2745
EBIDTA	347	342	393	511	665
Growth (%)		-1%	15%	30%	30%
Depreciation	10	12	12	60	60
EBIT	337	330	382	451	605
Other Income	8	22	22	40	40
Financial Cost	10	6	6	10	15
Exceptional Item	2	(126)			
PBT	336	220	397	481	630
Tax	93	77	99	120	157
PAT	243	143	298	361	472
Growth (%)		-41%	108%	21%	31%

Source: Hem Research, Company

Ratios

	FY19	FY20	FY21E	FY22E	FY23E
EBIDTA Margin %	19	17*	19	19	20
Net Profit Margin%	13	14*	15	14	14
ROE %	15	15*	14	15	16
ROCE%	20	18	18	18	21
Debt /Equity	0	0	0	0	0
Debt/EBIDTA	0	0	0	0	0

Valuation Parameters

	FY19	FY20	FY21E	FY22E	FY23E
EPS (Rs)	2	2*	3	4	6
Book Value (Rs)	14	15	18	21	26
EV/Sales (x)	2	1	3	2	1
EV/EBIDTA(x)	13	4	13	10	7
Price/Earning(x)	20	6	18	11	8
Price/Book Value(x)	3	1	3	2	2

Note: * Calculated excluding exceptional expense incurred in FY20
Figures rounded off

Financial Statements

Consolidated Balance Sheet

Particulars (In Mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	223	223	223	223	223
Reserves and Surplus	1,372	1,474	1,772	2,134	2,606
Non-controlling interest	57	63	67	76	87
Total Equity (A)	**1652**	**1760**	**2062**	**2433**	**2916**
Total Non-current liabilities	6	6	6	6	6
Total current liabilities	295	322	335	405	480
Total Non-current & current Liabilities (B)	**301**	**328**	**341**	**411**	**486**
Total Liabilities (A+B)	**1,953**	**2,088**	**2,403**	**2,844**	**3,402**
ASSETS					
Non-current assets (A)					
Property, Plant & Equipment	261	307	427	477	557
Financial Assets	453	457	736	594	617
Other Non-Current assets	156	159	166	176	196
Total Non-Current Assets (A)	**870**	**923**	**1329**	**1247**	**1370**
Current Assets					
Inventories	251	211	221	288	410
Trade Receivables	491	538	565	811	918
Other Current Assets	341	416	288	498	704
Total Current Assets (B)	**1083**	**1165**	**1074**	**1597**	**2032**
Total Assets (A+B)	**1,953**	**2,088**	**2,403**	**2,844**	**3,402**

Source: Hem Research, Company

Financial Statements
Consolidated Cash Flow Statement

Particulars (In Mn)	FY19	FY20	FY21E	FY22E	FY23E
(A)CASH FLOW FROM OPERATING ACTIVITIES					
Net Profit / (Loss) Before Tax	336	219	397	481	630
Add / (Less):- Adjustments for Non-Cash / Non-Operating Items:	8	137	19	71	76
Operating Profit Before Changes in Working Capital	344	357	416	552	706
Adjustment for Changes in Working Capital	-128	6	-29	-243	-154
Cash Generated from Operations	216	363	387	310	551
Less: Taxes Paid (Net of refund received)	-96	-80	-95	-120	-157
NET CASH FLOW FROM OPERATING ACTIVITY (A)	**120**	**284**	**292**	**189**	**394**
NET CASH FLOW FROM INVESTING ACTIVITY (B)	**42**	**-190**	**-430**	**-19**	**-338**
NET CASH FLOW FROM FINANCING ACTIVITY (C)	**-34**	**-39**	**-5**	**-10**	**-15**
CLOSING BALANCE OF CASH & CASH EQUIVALENTS	**172**	**230**	**36**	**196**	**236**

Source: Hem Research, Company

Financial Statements

Consolidated Quarterly Numbers

	Quarter ended				
(In Mn)	**Sept20**	**Sept 19**	***% VAR***	**Jun 20**	***Var%***
Sales	547	510	***7***	303	***80***
Total Expenditure	448	409	***9***	263	***70***
PBIDT	100	101	***-1***	41	***142***
Other Income	38	-7	***636***	53	***-28***
Interest	2	2	***-12***	1	***15***
PBDT	136	92	***48***	93	***47***
Depreciation	3	3	***25***	3	***0***
PBT	133	90	***48***	90	***47***
TAX	23	24	***-4***	8	***200***
PAT	110	66	***67***	82	***34***
PBIDTM %	18	20	***-8***	14	***34***
PATM %	20	13	***56***	27	***-25***

Quarterly Summary

- Since Q1FY21 was washout quarter due to pandemic, Q2FY21 has showed 7% growth in topline while bottomline of company has registered 10% growth (excluding other income component in PAT for Q2FY21) as compare to Q2FY20 .On QoQ basis, company has registered 80% growth in its net sales at Rs 54.75 Cr while Operating Profit of company has witnessed jump of 142.34% in Q2FY21as compare to Q1FY21. The bottom line of company has registered 34% growth in its bottom line at Rs11.01 Cr as compare to Q1FY21.As company has recently entered fast-growing home care and hygiene and drilling speciality chemicals segments the benefits are expected to start reflecting from Q3FY21 onwards.

- Q2 FY21 revenue growth was driven by gradual increase in order book from company's leading customers. Company continue to maintain a strong EBTDA margin profile as per the industry benchmark led by cost rationalisation efforts in a difficult business environment .Q2 FY21 PAT was higher on account of gains in investments (including mark-to-market gain of Rs. 34.0 mn) Company has posted strong balance sheet numbers in H1FY21 with networth of company stood at Rs 188 Cr v/s 169.72 Cr in H1FY20,growth of 11% YoY.

- Also, Q4 being the seasonally strong quarter of company, growth in H2FY21 seems to outpace the growth in H1FY21. Company is in early-stage dialogue with select FMCG companies for chemical solutions for branded detergents, which is a large addressable business opportunity. We also believe that COVID-19 has brought up opportunities for textile and garments to feature more technical chemistries like stain release, water repellents, antimicrobials, etc. which are strengths of BioTex Malaysia, company's subsidiary

Disclosure: I, Naman Jain, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Research Analyst or his relative or Hem Securities Ltd. does not have any financial interest in the subject company. Also Research Analyst or his relative or Hem Securities Ltd or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or Hem Securities Ltd.. or its associate does not have any material conflict of interest.

Any holding in stock –No

Hem Securities Ltd. (HSL) is a SEBI Registered Research Analyst having registration no. INH100002250.

Disclaimer: This report has been prepared by Hem Securities Ltd. and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time. This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner. Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security. This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments. HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc. HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report. HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months. HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business. HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

SEBI REGISTRATION NO.:
INZ000168034 (BSE)
INM000010981(MERCHANT BANKER)
INH100002250 (RESEARCH ANALYST)
IN-DP-CDSL-83-2000 (DEPOSITORY PARTICIPANT)
INP000006794 (PORTFOLIO MANAGER)

HEM SECURITIES LTD.

Corporate Office : 904, Naman Midtown, Senapati Bapat Marg, Near Prabhadevi Station, Lower Parel, Mumbai- 400013. Ph- 022-49060000
Registered Office: 204, Jaipur Towers, M I Road, Jaipur- 302001. Ph- 0141-4051000

research@hemsecurities.com www.hemsecurities.com