November 01, 2022

Fineotex Chemical Limited: [ICRA]A(Stable)/[ICRA]A1 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based - Cash Credit	22.00	[ICRA]A(Stable) assigned
Short Term - Fund Based - Overdraft	8.00	[ICRA]A1 assigned
Short Term - Fund Based - Others	3.00	[ICRA]A1 assigned
Short Term - Non-Fund Based - Letter of Credit	8.00	[ICRA]A1 assigned
Short Term - Non-Fund Based - Others	2.00	[ICRA]A1 assigned
Unallocated Limits - Long Term/ Short Term	57.00	[ICRA]A(Stable)/[ICRA]A1 assigned
Total	**100.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings consider the established track record of Fineotex Chemical Limited (FCL, the company) in textile chemicals, the experience of the promoters and a diversified customer base comprising reputed companies in the domestic and export markets. The ratings also take note of the company's R&D capabilities, the capacity expansion undertaken in recent years and diversification into non-textile segments. ICRA also favourably considers its financial risk profile, characterised by healthy profit margins, comfortable capital structure and strong coverage indicators, despite the working capital intensive nature of operations.

The ratings are, however, constrained by the moderate scale of operations, high competition from domestic and multinational companies and exposure to the volatility in raw material prices and forex risks. But ICRA takes note of the YoY revenue growth of 68.5% in FY2022, driven by a sharp increase in volumes as the new plant at Ambernath (Maharashtra) went onstream in November 2021 and further supported by the healthy improvement in realisations.

The company is exposed to the volatility in raw material prices. However, it has been able to pass on the price fluctuations due to its focus on specialty chemicals and customised value-added solutions, with the OPM remaining in the range of 18-22% in the last five years. The company is currently expanding the capacity at Ambernath, which should be operational in H2 FY2023. The capex is being funded through internal accruals.

ICRA also takes note of the accreditations/certifications received by the Group for its manufacturing facilities in India and Malaysia (under subsidiary), its R&D efforts for developing new products and JVs with reputed international entities, helping it to acquire new customers and diversify its products and geographic presence. The outcome of these measures will be monitored.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that FCL's credit profile will remain comfortable, aided by expected growth in cash accruals with the ramp up in volumes and healthy profit margins, while the planned capex will be mainly funded through internal accruals. Any acquisition undertaken by the company and the consequent impact on its credit profile would remain a monitorable.

Key rating drivers and their description

Credit strengths

Established position in specialty textile chemicals and reputed clientele - FCL has a long track record in textile chemicals, with experienced promoters and established relationship with reputed customers in the domestic and international markets. The company is focused on specialty chemicals and customised solutions, which has helped the company add new customers over the years as well increase sales to existing customers. Further, this has also helped in maintaining heathy profit margins over the years. The company is present in ~70 countries and exports formed ~41% of the total revenue in FY2022.

Diversification initiatives – The company has in-house R&D facilities to develop customised specialty chemical solutions, catering to applications across the value chain. Its Malaysian subsidiary caters to high-end specialty textile applications. In recent years, the company has also been diversifying into other segments like home care and hygiene and drilling chemicals. The company also formed JVs with Euroye-CTC and HealthGuard in FY2022, which will aid its diversification and growth efforts.

Strong financial risk profile – The company has a strong financial risk profile, reflected in healthy profit margins and comfortable capital structure and strong coverage indicators. The consolidated entity's revenue had grown at a CAGR of ~12% during FY2018 to FY2021, while the OPM and NPM had remained in the range of 18-22% and 7-20%, respectively. In FY2022, the company's revenues grew 68.5% YoY, driven by the sharp increase in volumes, following the commencement of operations of the new plant at Ambernath in November 2021 and further supported by healthy improvement in realisations. The OPM and NPM were at 19.5% and 15.4%, respectively, in FY2022. The capital structure and coverage indicators have also remained healthy with low gearing in the last five years. The interest coverage, TD/OPBDITA and TOL/TNW have been healthy in the range of 41-77 times, 0.0-0.2 times and 0.1-0.3 times, respectively, during the same period.

Credit challenges

High competitive intensity – The company faces competition from domestic as well as multinational companies, with established brands and larger capital base. This necessitates focus on customised solutions and new product development and diversification into new segments.

Exposure to volatility in raw material prices and foreign exchange rates - The company uses a wide variety of raw materials, which are imported as well as procured from domestic suppliers. The prices of these raw materials are volatile depending on factors such as the demand-supply trends and crude oil price volatility. The company has, however, demonstrated an ability to pass on the cost fluctuations, resulting in OPM being in a healthy range of 18-22% in the last five years. The company also does not have a firm hedging policy and uses only natural hedging, exposing the company to the volatility in forex rates.

Liquidity position: Strong

FCL has no long-term debt repayment obligations in FY2023 and have moderate capex plans, against which the cash accruals are expected to witness healthy growth during the year (PY Rs. 51.8 crore), aided by the ramp-up in capacity utilisation. The liquidity position is further strengthened by the healthy cash and bank balance of Rs. 31.3 crore (as on March 31, 2022), apart from investments in mutual funds and availability of unutilised working capital limits.

Environmental and Social Risks

FCL, being present in the chemical industry, is exposed to the risk of tightening regulations on environment and safety and potential penalties in case of any non-compliance. However, as per the disclosures in the audit report, the company is ISO 14001: Environment Management System certified and adheres to various industry standards and is also Zero Discharge Hazardous Chemicals (ZDHC) Gateway certified. The company is also compliant with environmental law/regulations pertaining to water and air pollution. Further, with growing focus on sustainability in textile production process, the company's efforts to develop sustainable products/solutions and the certifications/accreditations which include ZDHC, Bluesign and REACH, should be favourable in the medium to long term from a credit perspective.

The company's exposure to social risks mainly pertain to safe operations and remaining compliant to all environmental regulations to ensure the safety of employees and the community in the vicinity of its manufacturing units. As per the disclosures, the company has safety equipment in place at its units.

Rating Sensitivities

Positive factors – The ratings may be upgraded if the company is able to demonstrate a healthy improvement in its scale and margins and diversification in product profile on a sustained basis, while maintaining the working capital intensity and credit metrics.

Negative factors – The ratings could be downgraded if there is a sustained decline in the scale of operations, or profitability, or higher-than-anticipated debt-funded capex or stretch in the working capital cycle that will weaken the liquidity position. Specific credit metrics that could lead to a rating downgrade is ROCE below 20% on a sustained basis.

Analytical Approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Fineotex Chemical Limited (FCL). The subsidiaries are enlisted in Annexure-2.

About the Company

The Fineotex Group was established in 1979 by Mr. Surendra Tibrewala. Fineotex Chemical Limited (FCL) is part of the Group and was incorporated as a public limited company in 2004. The company got listed on the Bombay Stock Exchange in March 2011 and the National Stock Exchange in January 2015. Currently, Mr. Sanjay Tibrewala, son of Mr. Surendra, looks after the day-to-day operations along with his father. The company has three manufacturing facilities in Navi Mumbai (Maharashtra), Selangor (Malaysia) and Ambernath (Maharashtra).

The company manufactures over 450 specialty chemicals, catering mainly to the textile sector, apart from other sectors such as construction, water treatment, agrochemicals, adhesives, and other industries. In the last two years, the company has also started manufacturing home care and hygiene products and drilling chemicals.

Key financial indicators (audited)

Consolidated	FY2021	FY2022
Operating income (Rs. crore)	218.5	368.2
PAT (Rs. crore)	44.6	56.9
OPBDIT/OI	18.9%	19.5%
PAT/OI	20.4%	15.4%
Total outside liabilities/Tangible net worth (times)	0.2	0.3
Total debt/OPBDIT (times)	0.1	0.0
Interest coverage (times)	57.0	77.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Nov 1, 2022	-	-	-
1	**Cash Credit**	Long-term	22.00	-	**[ICRA]A (Stable)**	-	-	-
2	**Overdraft**	Short-term	8.00	-	**[ICRA]A1**	-	-	-
3	**Fund-based Limits - Others**	Short-term	3.00	-	**[ICRA]A1**	-	-	-
4	**Letter of Credit**	Short-term	8.00	-	**[ICRA]A1**	-	-	-
5	**Non-fund Based Limits - Others**	Short-term	2.00	-	**[ICRA]A1**	-	-	-
6	**Unallocated Limits**	Long-term and Short term	57.00	-	**[ICRA]A (Stable)/ [ICRA]A1**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund Based - Cash Credit	Simple
Short term - Fund Based - Overdraft	Simple
Short term - Fund Based - Others	Simple
Short term - Non-Fund Based - Letter of Credit	Very Simple
Short term - Non-Fund Based - Others	Very Simple
Unallocated Limits - Long term/ Short term	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	22.00	[ICRA]A(Stable)
NA	Overdraft	-	-	-	8.00	[ICRA]A1
NA	Fund based limits - Others	-	-	-	3.00	[ICRA]A1
NA	Letter of credit	-	-	-	8.00	[ICRA]A1
NA	Non-fund based limits - Others	-	-	-	2.00	[ICRA]A1
NA	Unallocated limits	-	-	-	57.00	[ICRA]A(Stable)/[ICRA]A1

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Fineotex Malaysia Limited	100.00%	Full Consolidation
BT Chemicals SDN BHD	71.92%	Proportionate
BT Biotex SDN BHD	72.38%	Proportionate
Rovatex SDN BHD	74.76%	Proportionate
Fineotex Biotex Healthguard FZE (formerly known as Fineotex Specialities FZE)	100.00%	Full Consolidation
Manya Manufacturing India Private Limited (formerly known as Manya Steel Private Limited)	100.00%	Full Consolidation
Fineotex Specialities Private Limited	100.00%	Full Consolidation
BT Biotex Limited	100.00%	Full Consolidation

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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