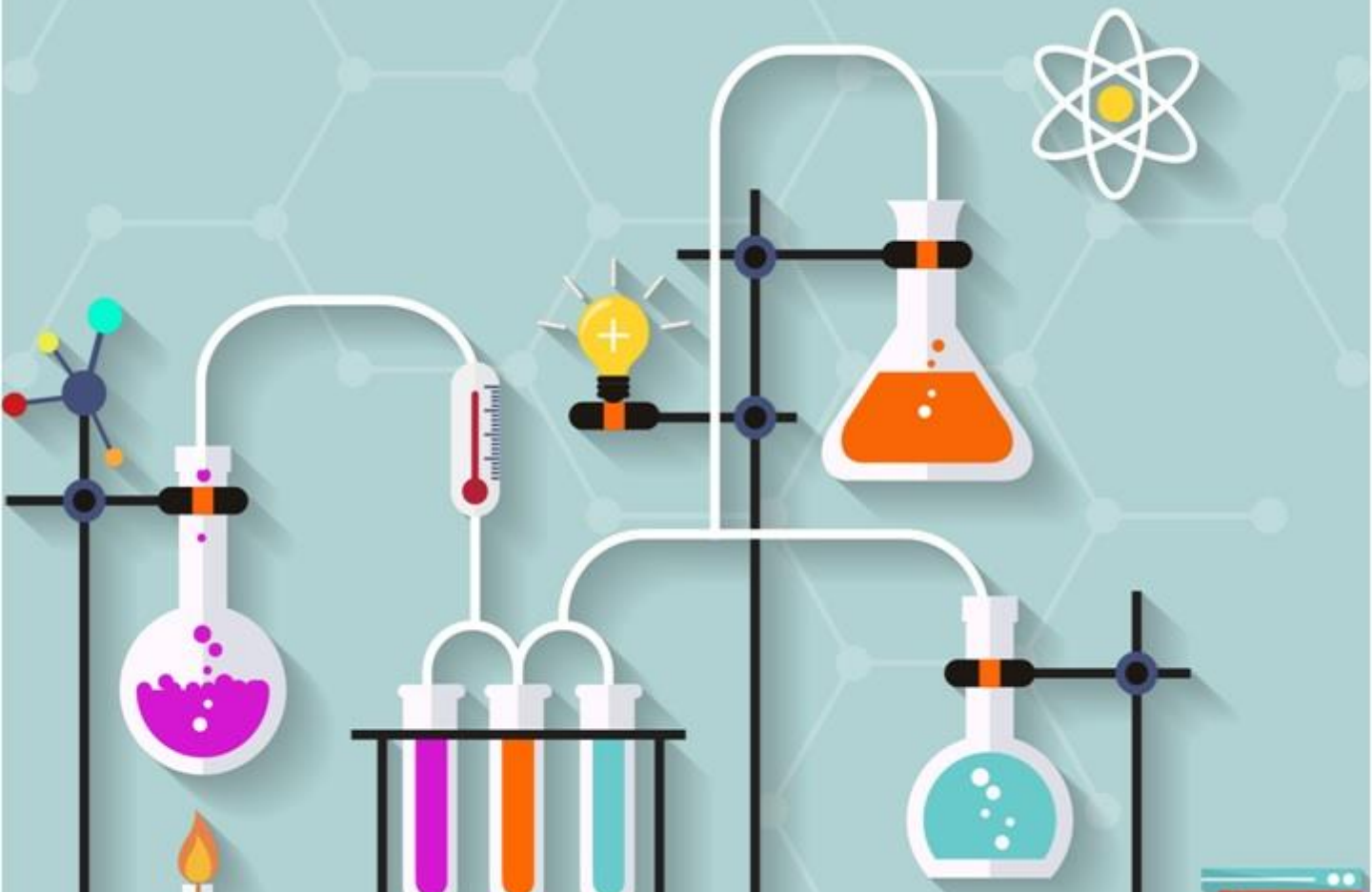


Fineotex Chemicals Limited



Fineotex Chemicals Ltd.
Powering through with strong revenue and profitability

CMP* INR 443	Target INR 571	Potential Upside 28.8%	Market Cap (INR Mn) INR 49,068	Recommendation BUY	Sector Specialty Chemicals
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Result Highlights of Q3FY24:

- For Q3FY24, Fineotex Chemicals'(FCL) posted a revenue of INR 1385 Mn growing by 26% YoY and -5% QoQ on a consolidated basis. For 9MFY24 revenue stood at INR 4160 Mn, growing by 10%. Volumes grew by 37% Y-o-Y
- EBITDA stood at INR 404 Mn, on the back of 42% gross margins, with EBITDA margin coming in at 29%. with margin expansion of 301 bps. EBITDA for 9MFY24 was INR 1101 Mn growing by 38%.
- PAT for the quarter came in at INR 329 MN, with margins at 24%, expanding by 320 bps YoY, for 9MFY24 PAT was INR 905 MN growing by 42%. On a standalone basis FCL grew its PAT by ~100%.
- EPS for the quarter came in at INR 2.95/share, compared with INR 2 in the same quarter last year. For 9MFY24, the EPS stood at INR 8.10, comparing with INR 5.64 a growth of 43%. The Board of Directors have approved a dividend of 1.20/share, a payout ratio of 15% for 9MFY24.

MARKET DATA

Shares outs (Mn)	111
Equity Cap (INR Mn)	222
Mkt Cap (INR Mn)	48,286
52 Wk H/L (INR)	458 / 203
Volume Avg (3m K)	682
Face Value (INR)	2.0
Bloomberg Code	FTXC:IN

KEY FINANCIALS

INR Millions	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	2,185	3,682	5,170	5,885	7,274	9,010
EBITDA	406	712	1126	1494	1974	2602
EBITDA margin (%)	18.57%	19.34%	21.78%	25.39%	27.14%	28.89%
PAT	446	569	896	1200	1596	2108
PAT margin (%)	20.39%	15.45%	17.32%	20.39%	21.95%	23.39%
Diluted EPS	3.83	4.97	7.97	10.83	14.41	19.03

Source: Company, KRChoksey Research

Improved EBITDA Margins due to lower Raw Material Costs

EBITDA Margin improved to 29% in Q3FY24 from 26% in the previous quarter. This was aided by lower COGS which declined to INR 864 MN or 62% of Revenue from 63% for the same period in previous financial year. FCL has passed on some of the benefits of lower raw material prices to customers, resulting in declining realizations, although COGS has improved. Employee expenditure rose by 18% Y-o-Y while other expenses declined by 2%. This led to overall EBITDA margin of 29%, increasing by 301 bps Y-o-Y.

Increasing wallet share, sustainability focus to drive volume growth

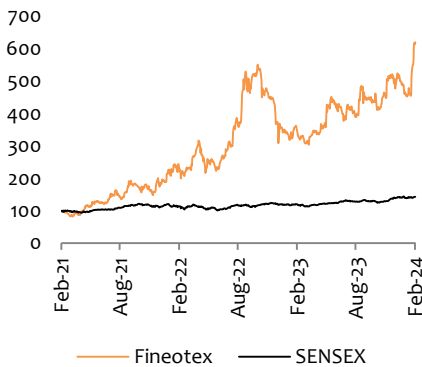
About 25 chemicals are required in the process for manufacture of textiles, the company currently supplies on average of 5-8 chemicals per customer. With chemicals as 3% of total cost of the final finished product, the company also retains pricing power. By increasing the number of chemicals that FCL can supply to its customers, the company can increase volumes. FCL has an early mover advantage in sustainability, it is BluSign Certified and has products in pipeline/trial for replacement of Soda Ash/LABSA. We believe FCL is strategically placed to take advantage of the upcoming move to sustainability.

Falling cotton prices to drive volumes going forward

WPI Cotton prices have been in a declining trend since Jun'22 with a peak of around 163 (base year 2012), have now dropped to 128 in Dec'23. With falling prices, textile mills are expected to produce more cotton, thus signifying a higher expected use of chemicals. We expect as the demand for cotton rises, FCL can be a key benefactor, particularly the finishing chemicals segment. This will drive volumes going forward.

Targeting Inorganic Future Opportunities

FCL's board has approved a fundraising plan for raising INR 2803 Mns via an issue of 4.2 Mn share warrants and issuing 3.9 Mn equity shares. The issue price is INR 346/share. The company plans to use the funds raised for future growth opportunities like BioTex, Malaysia which the company acquired from its IPO proceeds. FCL has scheduled an EGM on 9th March'24 for the approval of this transaction from its shareholders.

SHARE PRICE PERFORMANCE

MARKET INFO

SENSEX	73,057
NIFTY	22,196

SHARE HOLDING PATTERN (%)

Particulars	Dec-23	Sep-23	Jun-23
Promoters	65.0	65.0	65.0
FIIs	0.8	0.7	0.8
DIIIs	3.7	3.9	3.7
Others	30.5	30.4	30.5
Total	100	100	100



Revenue CAGR between FY23 and FY26



PAT CAGR between FY23 and FY26

*Based on previous day's closing price

Fineotex Chemicals Ltd.

Key Concall Highlights:

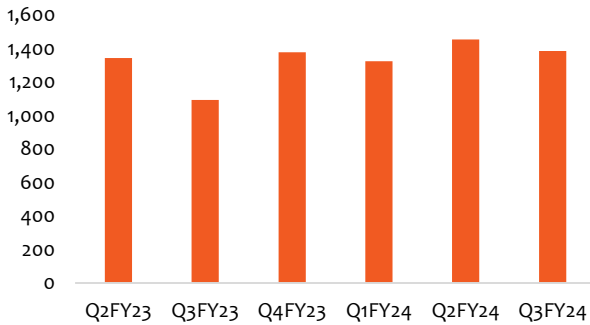
- FCL is one of the leading specialty chemicals companies in India.
- The company offers customized technical solutions with the help of 34 technical experts who assist customers with their requirements, the company has an extensive range of products covering polymerization, phosphates, textile finishing chemicals, detergent chemicals etc.
- FCL had a PAT of INR 329 Mn for the quarter with ROCE @ 31% and ROE @ 34%
- 7 acres new factory premises worth 35 crores funded by internal accruals, fungible plant, next to old plant. Existing demand for specialty chemicals for textile, cleaning & hygiene, drilling specialty chemicals.
- Company is diversifying into complementary products for cleaning and hygiene, drilling specialty.- Volume growth (37%) primary driver of volumes. - Co. is set to raise 280 crores via a combination of equity shares and warrants, management is looking for opportunities for inorganic growth.
- RM prices have softened, FCL has passed on some of this benefit to the customers bringing down avg realizations to INR 82/T, this has also led to expansion of margins at the same time.
- 55-60% of volumes are from textiles, balance volumes from Cleaning & Hygiene segment
- Management expects prices for chemicals to increase going forward due to issues in Red Sea, wars and other macro events,
- Increasing cotton prices can lead to higher consumption of textile chemicals- Ambernath facility has structures ready and 20% of capacity can be expanded with 2 quarters.
- Management expects EBITDA margins to be sustainable at Q2/Q3 FY24 levels. With realizations coming down, EBTIDA will be sustained by lower RM costs
- Additional 20% capacity expansion at Ambernath plant is ready with structures, the plant can be expanded by addition of machineries and the company expects once started, it'll take 2 quarters to complete the addition.

Valuation and view:

FCL witnessed a strong quarter, with standalone profits for 9MFY24 jumping 101%. As cotton prices hit lower levels, we expect the company to perform better in the coming quarters. The turbulence due to issues with Red Sea, wars and macro events the realizations seem to be bottoming out and tailwinds are expected. The recent fundraise by the company for foreign opportunities might bring additional impetus to company's growth prospects. We remain positive on the stock. **Currently, the stock is trading at 41x/31x/23x FY24E/FY25E/FY26E EPS, respectively. We increase our FY26E EPS estimate to INR 19.03 (previously INR 17.7) and assign a PE multiple of 30x to arrive at a target price of INR 570 (previously INR 531). Given the 29% upside from current levels, we retain our "BUY" rating on Fineotex Chemicals Ltd.**

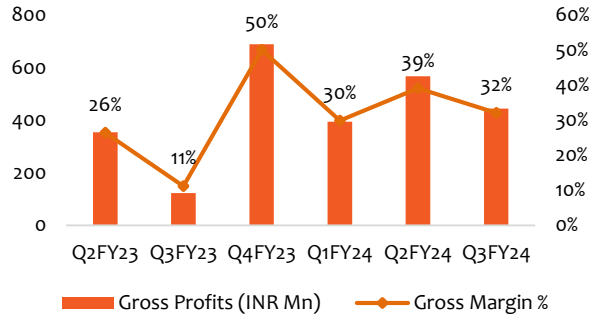
Quarterly Financial Performance

Revenue (INR Mn)



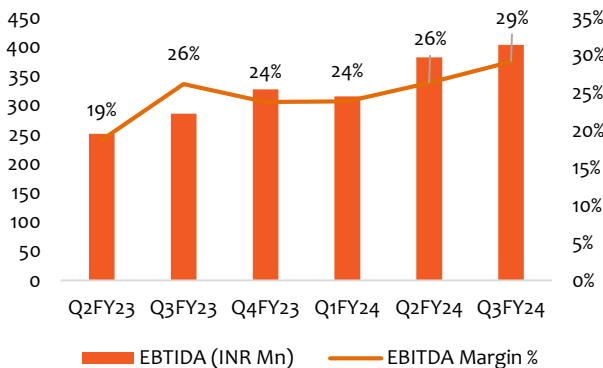
Source: Company, KRChoksey Research

Gross Margin Trends



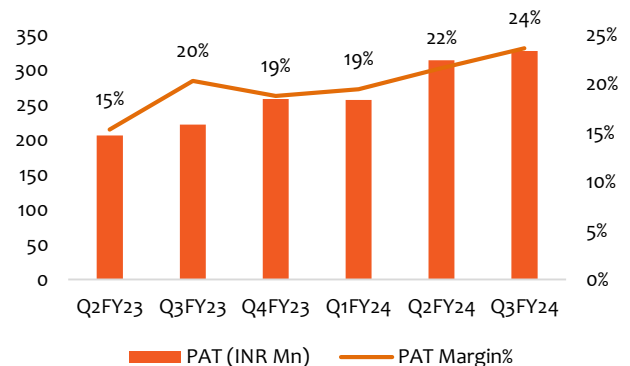
Source: Company, KRChoksey Research

EBITDA Trends



Source: Company, KRChoksey Research

PAT Trends



Source: Company, KRChoksey Research

Fineotex Chemicals Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

Income Statement	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue from operation	2185	3682	5170	5885	7274	9010
Cost of goods sold (COGS)	1406	2351	3392	3861	4700	5731
Employee benefits expense	89	136	184	177	200	225
Other expenses	285	483	468	353	400	450
Total Expenses	1779	2970	4044	4391	5300	6407
EBITDA	406	712	1126	1494	1974	2602
Depreciation and amortization expense	15	25	43	43	43	53
EBIT	391	687	1083	1451	1931	2550
Other income	175	55	73	95	123	160
Finance costs	7	9	8	8	8	8
Profit before tax	559	733	1148	1538	2046	2702
Exceptional items - income / expense	0	0	0	0	0	0
Profit / loss before tax	559	733	1148	1538	2046	2702
Total Tax expense	113	164	252	338	450	594
Profit after tax	446	569	896	1200	1596	2108

Source: Company, KR Choksey Research

Exhibit 2: Cash Flow Statement

INR Mn	FY 21	FY 22	FY 23	FY 24E	FY 25E	FY26E
Net Cash Generated From Operations	92	134	1073	1100	1365	1818
Net Cash Flow from/(used in) Investing Activities	-65	-7	-1018	-966	-1267	-1646
Net Cash Flow from Financing Activities	-44	-57	-64	-8	-8	-8
Effect of Exchange Differences	-7	14	24	0	0	0
Net Inc/Dec in cash equivalents	-25	84	14	126	89	164
Opening Balance	230	205	289	303	429	518
Closing Balance Cash and Cash Equivalents	205	289	303	429	518	683

Exhibit 3: Ratio Analysis

Key Ratio	FY 21	FY 22	FY 23	FY 24E	FY 25E	FY26E
EBITDA Margin (%)	18.6%	19.3%	21.8%	25.4%	27.1%	28.9%
Tax rate (%)	20.2%	22.4%	22.0%	22.0%	22.0%	22.0%
Net Profit Margin (%)	20.4%	15.4%	17.3%	20.4%	21.9%	23.4%
RoE (%)	22.7%	23.4%	28.7%	28.9%	28.7%	28.5%
EPS (INR)	3.83	4.97	7.97	10.83	14.41	19.03
CFO/EBITDA	22.7%	18.8%	95.3%	73.6%	69.1%	69.9%

Source: Company, KRChoksey Research

Fineotex Chemicals Ltd.

Exhibit 4: Balance Sheet

INR Mn	FY 21	FY 22	FY 23	FY 24E	FY 25E	FY26E
Property, plant & equipment	495	740	888	845	802	984
Capital work in progress	46	0	4	4	235	0
Investment property	38	39	39	39	39	39
Goodwill on consolidation	61	61	61	61	61	61
Investments	315	173	893	1869	2915	4571
Others	19	8	24	24	24	24
Non - current tax assets	0	12	33	33	33	33
Other non - current assets	38	43	45	45	45	45
Total non - current assets	1013	1077	1988	2920	4155	5758
Inventories	288	596	473	538	655	799
Investments	9	0	0	0	0	0
Trade receivables	827	1109	1014	1154	1427	1767
Cash and cash equivalents	232	308	376	503	592	757
Bank balances	108	72	220	220	220	220
Other financial asset	3	31	7	7	7	7
Other current assets	119	129	77	77	77	77
Asset classified as held for sale	72	72	72	72	72	72
Total current assets	1656	2318	2239	2572	3050	3700
Total assets	2670	3395	4227	5492	7205	9457
Equity and Liabilities						
Equity share capital	221	221	221	221	221	221
Other equity	1872	2400	3265	4465	6061	8169
Minority interest	67	73	70	70	70	70
Total equity	2161	2694	3557	4756	6353	8460
Other financial liabilities	5	8	10	10	10	10
Provisions	1	1	0	0	0	0
Deferred tax liabilities (net)	7	11	21	21	21	21
Total non - current liabilities	13	20	32	32	32	32
Borrowings (overdraft)	35	19	73	73	73	73
Trade payables	368	588	474	539	656	800
Other financial liabilities	1	1	2	2	2	2
Other current liabilities	91	70	87	87	87	87
Provisions	2	3	4	4	4	4
Current tax liabilities (net)	0	0	0	0	0	0
Total current liabilities	496	681	638	704	821	965
Total liabilities	509	701	670	736	853	997
Total equity and liabilities	2670	3395	4227	5492	7206	9457

Source: Company, KRChoksey Research

Fineotex Chemicals Ltd.

Fineotex Chemicals Limited			
Date	CMP (INR)	TP (INR)	Recommendation
21-February-24	436	571	BUY
09-February-24	374	531	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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