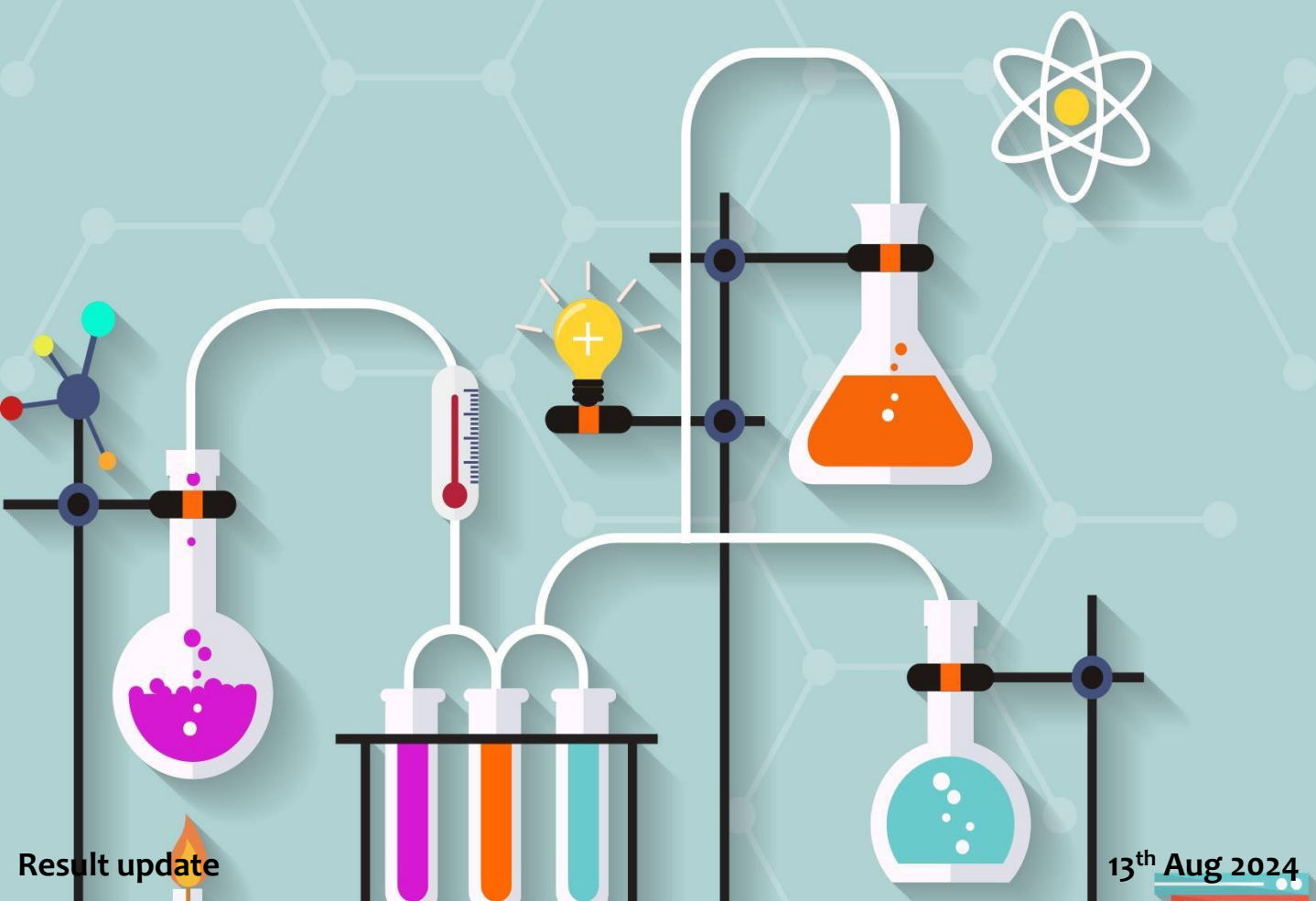




Q1FY25 Fineotex Chemicals Limited



Fineotex Chemicals Limited

Long term remains intact, Q1 with moderate growth and stable margins

CMP* INR 351	Target INR 529	Potential Upside 50.7%	Market Cap (INR Mn) INR 38,934	Recommendation BUY	Sector Specialty Chemicals
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Result Highlights of Q1FY25:

- FCL reported a revenue of INR 1,419 Mn, a growth of 7% YoY, revenue declined by 7% QoQ, we believe revenue growth was impacted due to lower realizations, but volume growth has been maintained.
- Gross Margins improved by 170 bps on a YoY basis, coming in at 38.5%.
- EBITDA margins (excl. OI) were maintained on a QoQ, coming in at 25%, with a 100bps rise on a YoY basis, margins were in line with our expectations.
- Other Income came in at INR 48.8 Mn (17% QoQ | 34% YoY)
- PAT for the quarter was at INR 292 Mn (+12% YoY/ -5% QoQ), beating our estimates by 22%, due to Other Income coming in higher than expected, while margins were in-line.
- Given the long-term story is intact, we retain our revenue & profit estimates, but we lower our FY26E EPS estimates by 9% due to fund raising to consequently arrive at a revised target price of INR 529/share, valuing the company at 30x 2 year forward multiple.

MARKET DATA

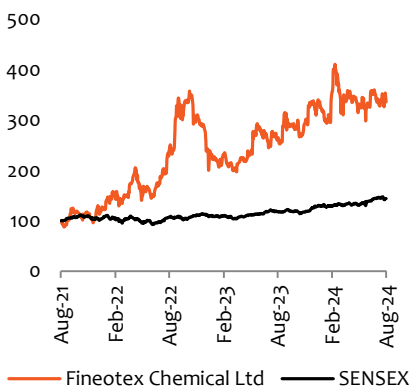
Shares outs (Mn)	111
Equity Cap (INR Mn)	4,536
Mkt Cap (INR Mn)	38,934
52 Wk H/L (INR)	458 / 275
Volume Avg (3m K)	460
Face Value (INR)	2.0
Bloomberg Code	FTXC:IN

KEY FINANCIALS

Particulars (INR Mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Net Sales	2,185	3,682	5,170	5,690	7,053	8,578
EBITDA	406	712	1126	1484	1896	2564
PAT	446	569	896	1210	1563	2117
EPS	3.83	4.97	7.97	10.80	13.67	17.65
EBITDA Margin (%)	19%	19%	22%	26%	27%	30%
PAT Margin (%)	20%	15%	17%	21%	22%	25%

Source: Company, KR Choksey Research

SHARE PRICE PERFORMANCE



Stable EBITDA margins

FCL reported 26% EBITDA margins for Q1FY25, Q4FY24 margins were clocked in at 25%, and Q1FY24 was at a similar levels of 24%. FCL follows a policy for pricing in for EBITDA margins for most of the orders, this ensures margins don't fall below acceptable levels.

Successful fund raise & allotment worth INR 3,425 Mn

During the quarter, the company allotted 0.97 Mn fully paid-up equity shares @ INR 346 per share, additionally 2.626 Mn share warrants convertible to 1 equity share each, were issued at the same price. The company has raised a total of INR 562 Mn this quarter, an additional round of 2.815 Mn equity shares and warrants both, has also been announced @ INR 387.40/share totaling to INR 1925 Mn. The company plans to use these funds for organic & inorganic expansion.

Increasing wallet share, sustainability focus to drive volume growth

FCL is focused on producing sustainable chemicals for the cleaning and hygiene segment. They are in conversation with a large detergent manufacturer for supply of chemicals. The TAM for detergent manufacturing is huge and a small share by the company will enable to grow very quickly. Further, the company also planning into foray into drilling chemicals. These two segments are poised to be next high-growth segments for the company.

International Inorganic Opportunity

FCL is on track for an international acquisition. The acquisition will have synergistic product lines and will aid the company in creating new opportunities and growth. We believe the focus of the company on the ROE/ROCEs and disciplined cash management may lead to another green shoot like Biotex, Malaysia which the company had acquired from their IPO proceeds.

MARKET INFO

SENSEX	78,956
NIFTY	24,139

SHARE HOLDING PATTERN (%)

Particulars	Jul-24	Jun-24	Mar-24
Promoters	62.9	64.5	65.0
FIIIs	3.1	0.9	1.5
DIIIs	3.6	3.7	3.7
Others	30.4	30.9	29.8
Total	100	100	100

*Based on today's closing

23%

Revenue CAGR between FY24 and FY26E

32%

PAT CAGR between FY24 and FY26E

Fineotex Chemicals Limited

Key Concall Highlights:

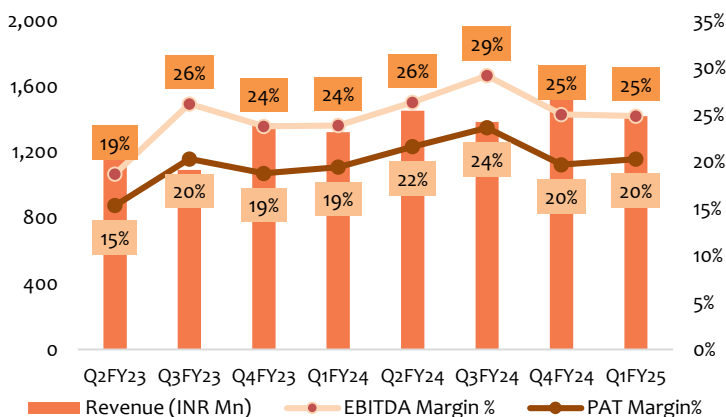
- Diversified offerings over the years, from textile to Oil & Gas, Cleaning & Hygiene others.
- 7.3% revenue growth YoY, higher share of business from core clients across key divisions
- EBITDA growth @ 11%, PAT @ Rs. 292 Mn, 7% YoY, 21% PAT margins
- Successfully raised a total of INR 3425Mn through preferential allotment and warrants.
- Fund raise executed in 2 phases, INR 192 crores already received from round 1.
- Production dipped due to both EIDs in the same quarter, slightly production dip
- No impact due to recent political events in Bangladesh, company has a office and management expects manufacturing to return to normal quickly.
- RM price trends, shortage of containers, shipping costs going up, unpredictability in RM prices.
- Volume growth of 4-5% on YoY basis, textiles doing much better in the current quarter
- Oil & Gas segment expected to show some positive results during this quarter.
- Acquisition in process, update will be shared as and when feasible
- Textile realization slightly lower on YoY basis, getting into more profitable product lines, changing product mix
- EBITDA margin range minimum 17% in last 54 quarters, solution driven business unlike a commodity so business, so margins can remain elevated.

Valuation and view:

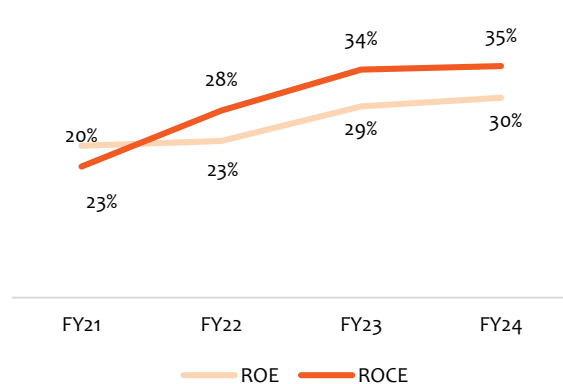
After a strong financial year with highest ever quarterly EBITDA, FCL had a relatively soft quarter in terms of revenue growth, but EBITDA margins remain intact at 26%. With multiple triggers coming into play for next year 1) increasing cotton demand 2) inorganic international opportunity 3) expansion of cleaning and hygiene segment, we believe the company is poised for a bright future ahead.

Currently, the stock is trading at 27x for FY25E and 20x FY26E EPS. With the successful recent fundraise, we have updated our estimates for the possible dilution and consequently lower our EPS estimate for FY26E by circa 8%. Given the upcoming triggers and strong growth possibility we maintain our target P/E multiple of 30x FY26E to arrive at a target price of INR 529/share (previously 573/share). Given the 50.7% upside from the current levels we recommend a “BUY” rating on the stock.

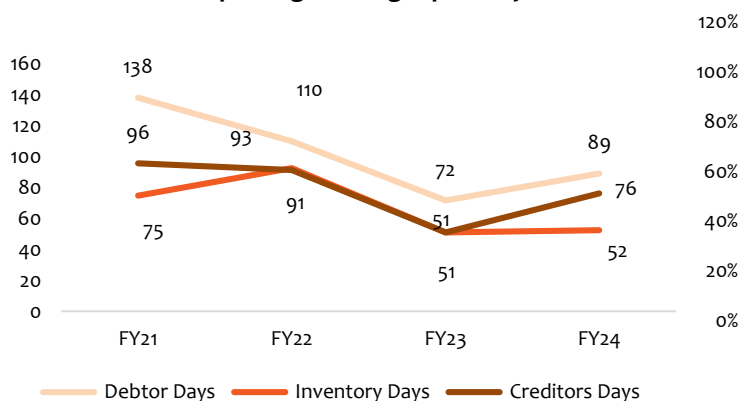
Stable margins with moderate growth



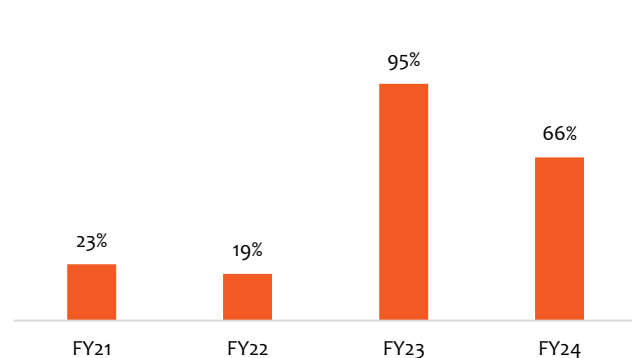
Improving return ratios



Improving working capital days



CFO/EBITDA



Source: Company, KRChoksey Research

Fineotex Chemicals Limited

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

Income Statement (INR Mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Revenue from operation	2,185	3,682	5,170	5,690	7,053	8,578
Cost of goods sold (COGS)	1,406	2,351	3,392	3,488	4,373	5,147
Employee benefits expense	89	136	184	212	227	233
Other expenses	285	483	468	506	557	634
Total Expenses	1,779	2,970	4,044	4,206	5,157	6,015
EBITDA	406	712	1,126	1,484	1,896	2,564
Depreciation and amortization expense	15	25	43	60	63	73
EBIT	391	687	1,083	1,424	1,833	2,490
Other income	175	55	73	165	215	279
Finance costs	7	9	8	13	13	13
Profit before tax	559	733	1,148	1,576	2,035	2,757
Exceptional items - income / expense	-	-	-	-	-	-
Profit / loss before tax	559	733	1,148	1,576	2,035	2,757
Current tax	101	159	242	348	-	-
Total Tax expense	113	164	252	365	472	639
Profit after tax	446	569	896	1,210	1,563	2,117
EPS	3.8	5.0	8.0	10.8	13.7	17.6

Source: Company, KR Choksey Research

Exhibit 2: Cash Flow Statement

Cash Flow Statement (INR Mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Net Cash Generated From Operations	92	134	1,073	974	1,438	1,924
Net Cash Flow from/(used in) Investing Activities	-65	-7	-1,018	-469	-3,227	-3,175
Net Cash Flow from Financing Activities	-44	-57	-64	-239	1,913	1,486
Effect of exchange differences	-7	14	24	-6	0	0
Net Inc/Dec in cash equivalents	-25	84	14	260	123	235
Opening Balance	230	205	289	303	563	687
Closing Balance Cash and Cash Equivalents	205	289	303	563	687	922

Source: Company, KRChoksey Research

Exhibit 3: Ratio Analysis

Key Ratios	FY21	FY22	FY23	FY24	FY25E	FY26E
EBITDA Margin (%)	18.6%	19.3%	21.8%	26.1%	26.9%	29.9%
Tax rate (%)	20.2%	22.4%	22.0%	23.2%	23.2%	23.2%
Net Profit Margin (%)	20.4%	15.4%	17.3%	21.3%	22.2%	24.7%
RoE (%)	22.7%	23.4%	28.7%	29.9%	24.9%	21.5%
EPS (INR)	3.8	5.0	8.0	10.8	13.7	17.6
CFO/EBITDA	22.7%	18.8%	95.3%	65.6%	75.8%	75.1%

Source: Company, KRChoksey Research

Fineotex Chemicals Limited

Exhibit 4: Balance Sheet

Balance sheet (INR Mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Property, plant & equipment	495	740	888	1,310	1,247	1,409
Capital work in progress	46	0	4	0	235	0
Investment property	38	39	39	39	39	39
Goodwill on consolidation	61	61	61	61	61	61
Investments	315	173	893	1,080	4,051	7,207
Others	19	8	24	16	16	16
Non - current tax assets	0	12	33	76	76	76
Other non - current assets	38	43	45	41	41	41
Total non - current assets	1,013	1,077	1,988	2,623	5,767	8,849
Inventories	288	596	473	501	610	718
Investments	9	0	0	388	388	388
Trade receivables	827	1,109	1,014	1,388	1,383	1,683
Cash and cash equivalents	232	308	376	227	351	586
Bank balances	108	72	220	172	172	172
Other financial asset	3	31	7	21	21	21
Other current assets	119	129	77	90	90	90
Asset classified as held for sale	72	72	72	72	72	72
Total current assets	1,656	2,318	2,239	2,858	3,086	3,728
Total assets	2,670	3,395	4,227	5,482	8,853	12,577
Equity and Liabilities						
Equity share capital	221	221	221	222	232	240
Other equity	1,872	2,400	3,265	4,249	7,728	11,336
Minority interest	67	73	70	65	65	65
Total equity	2,161	2,694	3,557	4,536	8,024	11,641
Other financial liabilities	5	8	10	10	10	10
Provisions	1	1	0	3	3	3
Deferred tax liabilities (net)	7	11	21	39	39	39
Total non - current liabilities	13	20	32	52	52	52
Borrowings (overdraft)	35	19	73	52	52	52
Trade payables	368	588	474	728	610	719
Other financial liabilities	1	1	2	6	6	6
Other current liabilities	91	70	87	103	103	103
Provisions	2	3	4	4	4	4
Current tax liabilities (net)	0	0	0	0	0	0
Total current liabilities	496	681	638	894	777	885
Total liabilities	509	701	670	946	828	936
Total equity and liabilities	2,670	3,395	4,227	5,482	8,853	12,577

Source: Company, KRChoksey Research

Fineotex Chemicals Limited

Fineotex Chemicals Limited			
Date	CMP (INR)	TP (INR)	Recommendation
13-Aug-24	351	529	BUY
31-May-24	355	573	BUY
20-Feb-24	436	571	BUY
09-Feb-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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