

FINEOTEX CHEMICALS LTD

12 December 2016

Initiating Coverage (BUY)

CMP

INR 28

Target Price

INR 40

Stock Details

Industry	SPECIALTY CHEMICALS
Bloomberg Code	FTXC:IN
BSE Code	533333
Face Value (Rs.)	2.00
Market Cap. (Rs. mn)	3,228.6
52wk. Low/High (Adjusted) ((Rs.))	41.30/20.25

Shareholding Pattern sept '16

Promoter (%)	71.71
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	28.29
No. of Share Outstanding (mn)	112.29

Valuation Summary

	FY 15A	FY 16A	FY 17P	FY 18P
P/E (x)*	4.09	18.62	18.00	18.00
EV/EBITDA (x)	2.08	10.38	9.93	9.01
P/BV (x)	0.69	3.48	3.62	3.56

*TTM for Current Year

Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

Rs. Mn	FY 15A	FY 16A	FY 17P	FY 18P
Net Sales	1,020	1,087	1,250	1,375
EBITDA	210	298	303	399
Net Profit	129	170	211	251
EPS (Rs.)*	5.8	1.5	1.9	2.2

*Un adjusted

Key Ratios

	FY 15A	FY 16A	FY 17P	FY 18P
EBITDA Margin (%)	19.7	26.6	24.2	28.0
EBIT Margin (%)	19.3	26.1	23.7	27.5
Net Pro. Margin (%)	12.1	15.2	16.8	17.6
Debt/Equity (x)	0.00	0.00	0.00	0.00
RoNW (%)	18.3	20.3	21.5	21.7
RoCE (%)	17.1	19.2	20.2	20.3

One Year Price / Volume



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We recommend 'BUY' on FINEOTEX CHEMICALS for a target of INR 40 - valuing the company at P/E 18x of FY18E Earning.

INVESTMENT RATIONALE:

- Presence across 33 countries
- Zero debt
- Technical knowhow from Europe and Malaysia
- Expertise of over 35 years in specialty chemicals
- Product range of over 400 products
- Focus on R&D leads to high level of product customization
- Strong relationship with large customers
- Production facilities in India and Malaysia
- Experienced management team from MNC background
- Diversified customers and product base

VALUATIONS AND VIEW:

It is one of the leading manufacturers of chemicals for textiles, construction, water-treatment, fertilizer, leather and paint industry. It also produce adhesives used in several industries like wood, paper etc. An ISO 9001:2015, ISO 14001:2004 and OHSAS 18001:2007 certified Public Listed Company. It is listed on the Bombay Stock Exchange and the National Stock Exchange. It has been recognized as 'Star Export House' We value the business at 18x FY18E EPS and recommend a BUY rating on the stock with a target price of INR 40 per share.

RISK & CONCERNS:

- **Competitive environment:** FCL operate in a very competitive environment as their products are produced by a large number of other manufacturers in India and abroad. Players in this market generally compete with each other on key attributes such as technical competence, quality of products and services, pricing and track record.
- **Government Regulations:** Company will be affected by changes in government policies related to chemical industry.

COMPANY BACKGROUND:

Fineotex Chemical Ltd. (FCL) founded in 1979 is in the business of manufacturing specialty chemicals and enzymes consumed by the textile and garment industry, leather, water treatment, construction, paper, paint, adhesives, agrochemical and other industries. FCL's existing plant, with an installed capacity of 5,000 MT/annum, is located at Mahape in Navi Mumbai. FCL manufactures over 100 products for various Industries.

Fineotex Chemical Limited is a holding company. The Company is engaged in the business of manufacturing and trading of chemicals. The Company operates through two segments: Speciality chemicals and Real estate Development. The Company is primarily engaged in the business of manufacturing of auxiliaries and specialty chemicals. The Company offers a range of products, which include adhesives, construction-chemicals, and products for pre-treatment process, dyeing process, printing process and finishing process.

Products-

- Pre- treatment process
- Dyeing process
- Printing process
- Finishing process
- Adhesives
- Construction- chemicals

INDUSTRY OVERVIEW:

The chemical industry in India is a key constituent of Indian economy, accounting for about 2.11 per cent of the gross domestic product (GDP). In terms of volume of production, Indian chemical industry is the third largest producer in Asia and sixth largest in the world. India's growing per capita consumption and demand for agriculture-related chemicals offers huge scope of growth for the sector in the future. Lured by the size and returns of the Indian market, foreign firms have strengthened their presence in India.

The Government of India has been supportive to the sector. 100 per cent FDI is permissible in the Indian chemicals sector while manufacturing of most chemical products is de-licensed. The government has also been encouraging Research and Development (R&D) in the sector. Moreover, the government is continuously reducing the list of reserved chemical items for production in the small-scale sector, thereby facilitating greater investment in technology up-gradation and modernisation. The Government has launched the Draft National Chemical Policy, which aims to increase chemical sector's share in country's GDP.

Peer Comparison

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
Pidilite Inds.	640	39.0	32,829.2	0.65	231.2	13.15	1,417.7	7.52	9.99
Solar Inds.	662	34.5	5,990.4	0.68	36.9	0.19	328.3	(0.98)	6.30
Vinati Organics	603	22.9	3,109.1	0.66	30.4	(2.06)	139.8	(14.16)	5.12
NOCIL	71	11.9	1,148.9	1.68	46.0	67.00	181.3	(0.04)	2.14
Sudarshan Chem.	310	23.0	2,145.4	0.97	26.7	45.31	339.4	5.00	5.57
Meghmani Organ.	41	19.5	3,791.2	0.73	25.2	10.07	388.0	7.64	3.48
INEOS Styrolut.	591	14.9	1,039.0	0.68	19.2	29.29	393.3	(2.08)	0.20
Fineotex Chem	29	19.8	322.9	0.70	3.8	26.25	18.7	7.54	0.19

*TTM

FINANCIAL OVERVIEW

Q4 FY16 Performance Highlight

(in Million)	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	YoY (%)	QoQ (%)
Revenue	17.38	15.96	17.97	18.35	18.69	7.54%	1.85%
Other Income	0.31	1.87	2.29	0.54	1.04		
Total Income	17.68	17.83	20.26	18.89	19.74	11.65%	4.50%
Expenditure	-12.88	-11.66	-13.12	-13.82	-14.17		
<i>As a % of Sales</i>	74.11%	73.06%	73.01%	75.31%	75.82%		
Interest	-0.05	-0.06	-0.07	-0.07	-0.06	20.00%	-14.29%
PBDT	4.76	6.12	7.07	5.01	5.51		
<i>As a % of Sales</i>	27.39%	38.35%	39.34%	27.30%	29.48%		
Depreciation	-0.12	-0.12	-0.16	-0.14	-0.15		
PBT	4.65	5.99	6.92	4.87	5.36	15.27%	10.06%
<i>As a % of Sales</i>	26.75%	37.53%	38.51%	26.54%	28.68%		
Tax	-1.63	-1.69	-2.06	-1.55	-1.56	-4.29%	0.65%
Net Profit	3.02	4.3	4.86	3.32	3.8	25.83%	14.46%
<i>As a % of Sales</i>	17.38%	26.94%	27.05%	18.09%	20.33%		
Equity	22.46	22.46	22.46	22.46	22.46	0.00%	0.00%
EPS (Rs)	0.27	0.38	0.43	0.3	0.34	25.93%	13.33%
CEPS (Rs)	0.28	0.39	0.45	0.31	--		
OPM %	27.68	38.69	39.73	27.65	29.8		
NPM %	17.35	26.98	27.06	18.07	20.32		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17P	FY 18P
Net Sales	959	867	1,020	1,087	1,250	1,375	1,719
Other Operating Income	25	28	45	33	-	48	62
Expenditure	864	774	855	822	947	1,025	1,075
EBITDA	120	120	210	298	303	399	706
Depreciation	3	3	5	6	6	7	9
EBIT	117	118	205	292	297	391	697
Interest Expenses	5	4	3	4	4	5	6
PBT	111	114	202	289	292	387	691
Tax	30	33	56	91	82	108	173
Other Income	-	-	-	-	-	-	-
Extraordinary Items	-	(2)	-	-	-	-	-
Net Income Before Adjustment	81	78	146	197	211	278	519
Minority Int./Income from Assoc.	11	13	17	27	-	28	34
Adjusted PAT	70	65	129	170	211	251	484

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17P	FY 18P
Equity share capita	112	112	225	225	225	225	225
Reserves & surplus	469	535	539	688	822	1,044	1,475
Share Warrants	-	-	-	-	-	-	-
Misc Expenditure	-	-	-	-	-	-	-
Net worth	581	648	763	913	1,046	1,269	1,700
Minority Interest	35	43	54	48	72	82	90
Share Application Money	-	-	-	-	-	-	-
Loan Funds	33	7	-	-	2	0	(2)
Net deferred tax liability	-	-	-	-	-	-	-
Other Long-term Liabilities	-	-	-	-	-	-	-
Long-term Provisions	-	-	-	-	-	-	-
Total Liabilities	649	699	818	963	1,122	1,353	1,789
Net block	120	138	178	193	150	172	196
Investment, Loan & Adv.	79	85	127	454	68	75	94
Total Current Assets	615	656	703	495	1,146	1,357	1,788
Current Liabilities & Provisions	166	181	191	181	243	254	291
Net Current Assets	450	475	512	314	902	1,103	1,498
Total Assets	649	699	818	963	1,122	1,353	1,789

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16E	FY 17P	FY 18P
Operating Cash Flow	136	341	201	365
Cash Flow from Investments	(98)	356	(37)	(51)
Cash Flow from Financing	(15)	3	(27)	(27)
Net Changes in Cash	24	700	137	288
Opening Cash	92	85	785	922
Closing Cash Balance	116	785	922	1,210

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