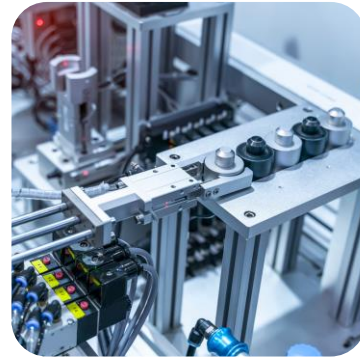


**FINEOTEX CHEMICALS LIMITED
INITIATING COVERAGE
09th February 2024**

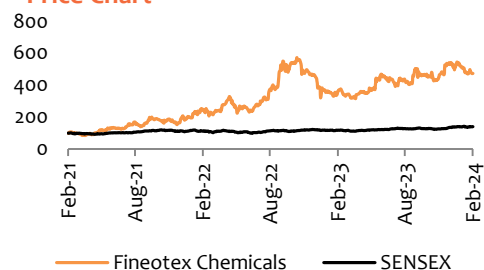


Fineotex Chemicals Ltd.

Market Data

CMP (INR)	374
Target Price (INR)	531
Upside (%)	42.0%
Rating	BUY
Mkt Cap (INR Mn)	41,531
52 Wk H/L (INR)	392/208
Volume Avg (3m K)	613.8
Shares outs (Mn)	111
Face Value (INR)	2
Bloomberg Code	FXTC IN
Sector	Chemicals

Price Chart



SENSEX	71,595
NIFTY	21,783

Shareholding Pattern (%)

Particulars	Dec-23	Sep-23	Jun-23
Promoters	65.04%	65.04%	65.04%
FIIIs	0.82%	0.72%	0.75%
DIIIs	3.69%	3.86%	3.65%
Others	30.46%	30.39%	30.56%
Total	100%	100%	100%

Investment thesis

- Fineotex Chemicals Limited (FCL) is a chemicals manufacturer operating in 3 segments: Textile Chemicals, Cleaning & Hygiene, Oil & Gas.
- The company operates 3 facilities: Ambernath, Mahape & Malaysia with a total installed capacity of 104,000 MTPA, capacity utilization @ 68% for Q2FY24.
- While the company captures the entire value chain for textile chemicals, focus is on the finishing process. Finishing chemicals have the higher margins and customer stickiness.
- FCL works with key clients like Vardhman, Chenab Textile Mills, Welspun India, Only Vimal, Raymond, among others.
- The cleaning & hygiene segment was launched 4 years ago and contributes to 56% of volumes and 41% of revenues for Q2FY24, this segment is poised for future growth with growing products like mosquito repellents, detergents, floor cleaners.
- FCL has spent INR 350 MN through it's a new wholly owned subsidiary FSPL Specialties Private Limited on 30th December 2023 for purchase of 7 acres of land, the land will be used to further expand manufacturing capacity.

Outlook & Valuation

FCL has showcased a strong track record of growth in revenues with 3 year Revenue CAGR of 38% as on FY23 supported by robust margins, average 5 year PAT margins coming in at 15% as on FY23. FCL is a growing specialty chemical manufacturer with international strategic partnerships with Eurodye-CTC, Belgium & HealthGuard Australia which will drive further growth opportunities for the company both in India & abroad. The upcoming addition to its manufacturing capacity will add a strong base for generating future growth, management's tight control over working capital cycle and margins will ensure good earnings growth going forward.

Currently, FCL is trading at a 35.2x/27.2x forward P/E for FY25E and FY26E, we remain optimistic on the prospects of the company and assign a P/E of 30x and initiate our coverage with a target price of 531.

Key Financials

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	2,185	3,682	5,170	6,417	7,893	9,729
EBITDA	406	712	1126	1465	1881	2416
PAT	446	569	896	1177	1524	1962
EPS (INR)	3.83	4.97	7.97	5.10	10.63	13.76
EBITDA Margin (%)	18%	19%	22%	22%	24%	25%
PAT Margin (%)	20%	15%	17%	18%	19%	20%

Source: KRChoksey Research

KRChoksey Research

is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and Capital IQ

Phone: +91-22-6696 5555, Fax: +91-22-6691 9576
www.krchoksey.com

Investment Thesis

Textile Chemical industry has been in a downcycle, poised for an upward trend

The textile chemical business is heavily linked to prices of cotton and fortunes of the cotton industry. This industry has been recently in a downcycle ailed by high commodity prices and lower margins. We expect cotton prices to taper off which will lead to supply side tailwinds in terms of production. An uptick in the textile industry will entail higher use of chemicals for processing/finishing.

Sustained growth in sales with robust margins

FCL has had a fantastic last 10 year track record, with 10/5/3 year CAGR in revenues of 38%/29%/49% as on FY23. This revenue growth has been supported by consistent margins with 5 year average EBITDA margins at 19% as on FY23, for H1FY24 the company posted EBITDA margins of 25%, highest so far. The PAT margins also stood tall with 5 year average at 15% as on Mar'23, and H1FY24 coming in at 21%. Buoyant margins along with sales growth over such a long period inspire confidence in management.

Solution based approach towards sales, with technical personnel guiding customers

FCL follows a solution based specialty chemical approach, where it can customize and provide specialty chemicals based on the needs of the individual customer. This approach is not followed by leading MNC players who have provide a standard formulation regardless of the needs of the customer. FCL can thus provide better finishing/processing chemicals which adhere to local needs like hardness of water. FCL also employs skilled technical personnel for sales of its specialty so as to be more involved in the process of the customer, giving it more traction.

Cleaning & Hygiene Segment to drive growth

Cleaning & Hygiene segment has been started by the company 4 years ago. Similar products & processes as used in the Textile segment can also be re-purposed with minimal modifications to be sold in this segment. Additionally, FCL is starting to gain traction for its consumer segment chemicals like floor cleaners, toilet cleaners, mosquito repellents.

Brownfield expansion on cards

The company through its' wholly owned subsidiary has acquired about 7 acres of land next to the existing Ambernath Plant, the land has buildings already constructed as it was an existing plant for packaging and labelling products. The company expects about 1-1.5 years for development and operationalization of the plant. The plant is expected to be fungible like the Ambernath plant and will contribute to manufacture of both Textile and Cleaning Hygiene products.

Strategic Tie-ups with Healthguard & Eurodye CTC

FCL has tied up with Healthguard for global licensing of their anti-microbial products. Health Guard is an Australian company developing premium anti-microbial surface coatings. The company also working towards bringing manufacture of these products to India. FCL has also partnered with EuroDye CTC to introduce their dyeing and pre-treatment products to India. Eurodye-CTC is a premium Belgian specialty chemicals company founded in 1978. These products are primarily focused on enabling the sustainable manufacturing of textiles.

Investment Thesis

Strong Focus on R&D

FCL's subsidiary, Biotex, spearheads the company's R&D activities aimed at sustainable manufacturing and products. Biotex has developed a "mosquito life cycle controller," which is used as a non-toxic and eco-friendly solution for mosquito outbreaks. FCL has established a state-of-the-art R&D center in collaboration with the Synthetic & Art Silk Mills Research Association (Sasmira) in Worli, Mumbai. The primary focus of this center is on the manufacture and research of sustainable chemicals that reduce water, energy, and time consumption in wet textile production

Key Takeaways from Plant visit & Management Meets

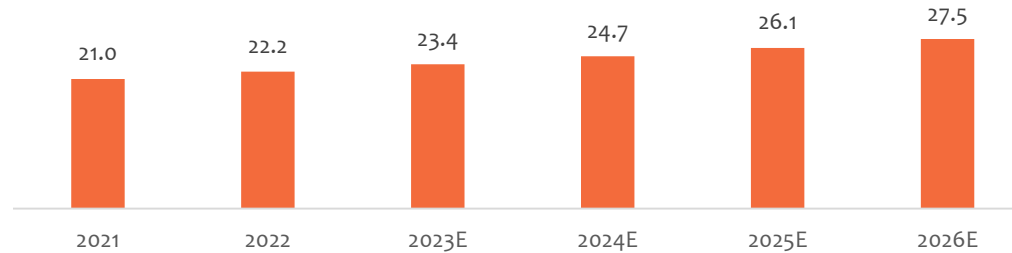
- Management is focused on finishing chemicals in the Textile segments as it is a higher margins and sticky proposition for customers
- Customers rarely change their finishing chemicals as these chemicals determine the fit and finish of the final product
- FCL has an edge as it provides customized specialty chemicals based on each customer's need rather than providing standard formulations as offered by larger players
- FCL employs technical experts for sales, guiding customers and assisting them in determining what would work best for their processes
- FCL has opportunity to cross-sell and up sell their products within the existing customer base
- Increasing the prices of finished products is justified to customers due to the time saved in manufacturing and the enhanced quality of the textile output
- FCL has partnered with HealthGuard, Australia for developing anti-microbial and anti-viral products and Eurodye-CTC, Belgium contributes specialized pre-treatment and dyeing products
- Management keeps a long-term view of the production process as setting up and establishing a new plant takes 1.5-2 years
- BioTex Malaysia is offering chemicals for applications in technical textiles like water and blood repellent, anti-microbial etc.
- Company is under process of releasing products for replacement of LABSA/Soda Ash for use in detergents, FCL has already received trial orders
- A reduction in cotton prices can bring increasing sales, as textile manufacturers are more likely to procure & manufacture in higher quantities
- Company has recently received upgraded ratings from ICRA, CRISIL
- Capex for new plant should be in the range of INR 400-600 Mn, and management expects it to complete it within 1-1.5 years
- EBITDA & PAT margins to remain stable and might improve going forward
- Credit period for Textile Chemicals is 70-80 days and 30-45 days for Cleaning & Hygiene segment
- Cleaning & Hygiene segment is mainly driven by B2B business
- Major Raw Materials for textile segment: Caustic Soda, IPA.

Industry Overview – Textile Chemicals

In India, the specialty chemicals sector demonstrates significant fragmentation. As per McKinsey's findings, the Indian specialty chemicals landscape comprised roughly 700 companies in 2010, wherein the top 20 companies contributed to just under 50% of market revenues. In a September 2020 report, the Federation of Indian Chambers of Commerce and Industry (FICCI) similarly characterized the market as fragmented, noting that the majority of sub-segments had only a few major players that had scaled up their operations. Although the market is fragmented, Indian specialty chemicals manufacturers are engaged across various segments, including colorants, construction chemicals, flavors and fragrances, paints and coatings, personal care ingredients, polymer additives, surfactants, textile chemicals, and water treatments.

Throughout the manufacturing process of textiles, ranging from fiber pre-treatment to textile finishing, a variety of chemicals are employed to treat the textile materials. The production of textile chemicals involves multiple stages, including washing, scouring, mercerizing, dyeing, printing, and finishing. Textile chemicals mainly fall into two categories: colorants, which encompass substances like azo dyes, anthraquinone dyes, and phthalocyanine dyes, among others; and auxiliary chemicals comprising bleaching agents, detergents and scouring elements, softeners, fixing agents, and more.

Asia Pacific Textile Chemical Revenue (USD Bn)



Source: Industry Reports, KRChoksey Research

The textile chemicals market is anticipated to achieve a market size of USD 27.5 Bn by FY2026E within the Asia-Pacific region. In FY2020, Asia Pacific held the dominant position in the textile chemicals market concerning revenue, securing a share of 38.0% out of the total chemicals market. This region is expected to maintain its market dominance in the coming years. During FY2023-28E, the Indian Textile Chemicals Market is expected to achieve a growth rate of approximately 11.0% CAGR. Strong domestic consumption, escalating export rates, and a rise in import substitution collectively stimulate growth across diverse end-user industries, propelling the market's expansion. On a global scale, the textile finishing chemicals market was USD 6.2 Bn in FY2019 and is estimated to attain USD 8.2 Bn by FY2024E. The surge in market growth is credited to increased demand across diverse applications such as clothing textiles, home textiles, and technical textiles.

The escalating global need for finishes in technical textiles and home textiles is propelling the expansion of the textile finishing chemicals market. India's contribution of only 9% to global cotton production, despite having the largest cultivated cotton area, suggests room for improvement. However, inconsistent prices and uncertain raw material supplies stand as primary factors contributing to low productivity and health issues in the mills. Moreover, the industry faces hindrances in its development due to frequent strikes, layoffs, and retrenchments occurring within cotton mills across the country. The cost of raw materials accounts for 35% of the overall production expenses in textile manufacturing. Yet, there exists a demand for increased cotton supply in the country, especially for long-staple cotton sourced from nations like Pakistan, Kenya, Uganda, Sudan, Egypt, Tanzania, the United States of America, and Peru.

Industry Overview – Textile Chemicals

India is a major producer and exporter of dyes and dyestuffs. Being the world's second-largest textile exporter, India plays a pivotal role as a primary end-user industry for manufacturers of dyes and dyestuffs. India holds a 12% share within the global colorant industry, exporting over 65% of this production. India's focus has predominantly been on exports, positioning itself as a leading global supplier of reactive, acid, and direct dyes, contributing to 10% of the world's trade in this sector. At present, India exports dyes and dye intermediates to nations from which it previously relied for imports. Key export destinations encompass the USA, Turkey, Bangladesh, China, Germany, Europe, Southeast Asia, and Taiwan.

The Chinese government has implemented more rigorous environmental regulations targeting chemical producers to manage air pollution within the country. Consequently, regulators in China have compelled the most severe violators to cease their operations and have increased compliance expenses across the chemical industry. This action has diminished the cost benefit that Chinese producers previously enjoyed in comparison to counterparts worldwide. China's commitment to maintaining its zero COVID strategy prompts end-user industries to seek diversification in their supply chains, potentially favoring exporters in the Indian specialty chemicals sector.

Industry Overview – Cleaning & Hygiene

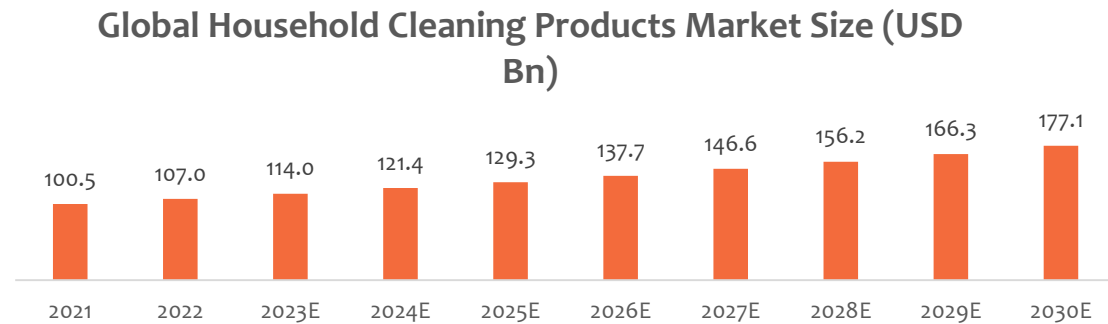
The global household cleaning products market is projected to expand from USD 100.50 Bn in CY21 to USD 177.13 Bn by CY30E. This growth signifies a compound annual growth rate (CAGR) of 6.5% anticipated in the coming years, according to Spherical Insights & Consulting. The surge in the household cleaning products market is propelled by heightened awareness concerning cleanliness and the upkeep of hygienic environments, influenced by both individuals and the escalating prevalence of the COVID-19 pandemic. Increased consciousness among individuals about maintaining cleanliness within households has emerged as a leading catalyst for the growth of the household cleaning market. Factors such as an aging population, urbanization expansion, and increased income levels are poised to fuel the demand for household cleaning products in the market.

The segment of surface cleaners currently holds the most significant market share and is expected to witness substantial growth at a high CAGR in the foreseeable future. This surge is attributed to the growing dependence of customers on surface cleaners for disinfecting home spaces, significantly driven by the impact of the COVID-19 pandemic. The utilization of cleaning solutions and the sales of surface cleaners have experienced an exceptional surge, largely propelled by the escalating threat posed by the COVID-19 pandemic. There has been a heightened demand for surface cleaning solutions, driven by increased awareness regarding personal hygiene and the heightened risk of contagious illnesses. North America emerged as the predominant region in the household cleaning products market. Notably, in recent years, there has been a significant upsurge in the utilization of cleaning chemicals in North American countries, particularly the United States. The expanding middle-class demographic in the region has notably favored manufacturers and key players, especially within the home cleaning products industry. Both the elevated living standards of consumers and the robust employment rate are propelling the growth of the home cleaning products market in Italy. Anticipated factors contributing to market expansion include the advancement of superior-quality products, heightened hygiene standards, and the entry of new participants into the market.

Industry Overview

According to Future Market Insights, the worldwide hand sanitizer market is projected to achieve a valuation of USD 1.8 Bn by CY23. Moreover, it is forecasted to attain USD 3.7 Bn by CY33E, with an estimated CAGR of 7.2% from CY23E to CY33E. As per Market Research Future, the floor cleaner market size is expected to attain USD 20.46 Bn by CY30E worldwide, with a CAGR of 4.9%. The household cleaning market in India is thriving due to an increased consciousness regarding hygiene and a significant level of disposable income within the nation's middle-income demographic.

In a recent study by BlueWeave Consulting, the India household cleaning market was projected to reach USD 7.6 Bn in CY22. BlueWeave anticipates a strong CAGR of 21.4% during the forecast period spanning from CY23 to CY29E, estimating the market to escalate to a value of USD 29.6 Bn by CY29E. Primary factors fueling growth in the India household cleaning market encompass the accelerating pace of urbanization, heightened disposable incomes, evolving lifestyles, and an expanding consciousness regarding hygiene and cleanliness.. Notably, the market is experiencing expansion due to the wider availability of products and the swift proliferation of organized retail outlets, especially in tier 2 and tier 3 cities throughout the country. The Indian Government is actively engaged in advocating household hygiene awareness in rural regions through diverse initiatives. Additionally, consumer inclinations are moving towards specialized cleaning solutions tailored for a variety of surfaces like glass, stainless steel, wood, and concrete. The surge in demand for eco-friendly cleaners made from natural elements such as citrus solvents, corn starch, oxygen bleach, baking soda, and alcohol is amplifying this trend and driving market expansion. Nevertheless, price sensitivity and fierce competition are expected to hinder overall market growth throughout the forecast period. GreyViews reported that the market size of floor cleaning and mopping machines in India reached USD 0.50 Bn in CY22 and is projected to achieve USD 1.2 Bn by CY30E. They anticipate a CAGR of 12.0% from CY23E to CY30E. The increase in dual-income nuclear families in India has led to an increased need for floor cleaning and mopping machines. Moreover, the advancement of the "Make in India" initiative has played a role in enhancing market growth, with various local manufacturers entering the market and further propelling its momentum.

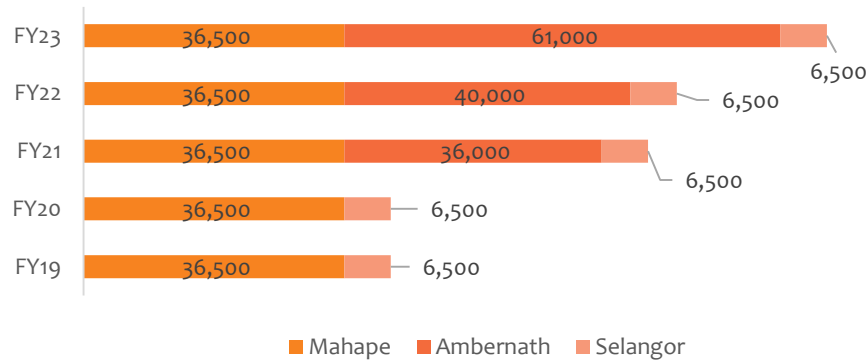


Source: Industry Reports, KRChoksey Research

Company Overview

FCL was founded in 1979 by Surendra Tibrewala, listed on BSE in 2011. FCL is one of the leading manufacturer for specialty chemicals with applications for textiles, water treatment, cleaning & hygiene, oil chemical industry. The company offers 470+ product categories and has 100+ dealers in the Indian and International markets. FCL operates in almost 70 countries including Brazil, Bangladesh, Germany, Indonesia, Malaysia, Singapore, Syria, Thailand, USA, Venezuela and Vietnam. The company is rated A+ (long term)/A1+ (short term) by ICRA, the company has critical industry certifications like Bluesign, Global Organic Textile Standard, REACH, Bhive, ISO 9001:2015, ZDHC and OEKO-Tex. The company was recently certified by US EPA for antimicrobial treatments, HG AMIC and HG BK.

Production Capacity (MTPA)



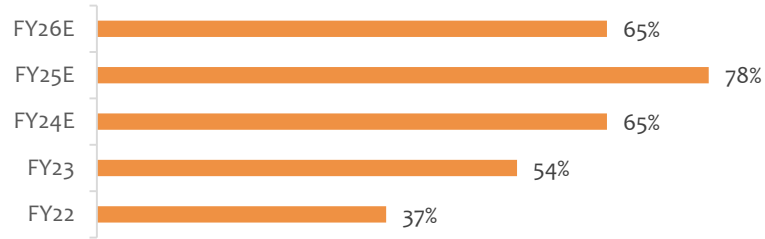
FCL operates 3 plants, 2 near Mumbai: Mahape & Ambernath and 1 in Selangor, Malaysia via its subsidiary Biotex. The Ambernath facility is fungible across the entire product range, this is the newest facility for the company which was commissioned in 2020. The Ambernath facility has room for addition of about 15-20% with minimal capex. The total production capacity of the company stands at 1,04,000 MT as on 30th September 2023. The Mahape facility caters exclusively to the Textile Segment.

Source: Industry Reports, KRChoksey Research

Capital History

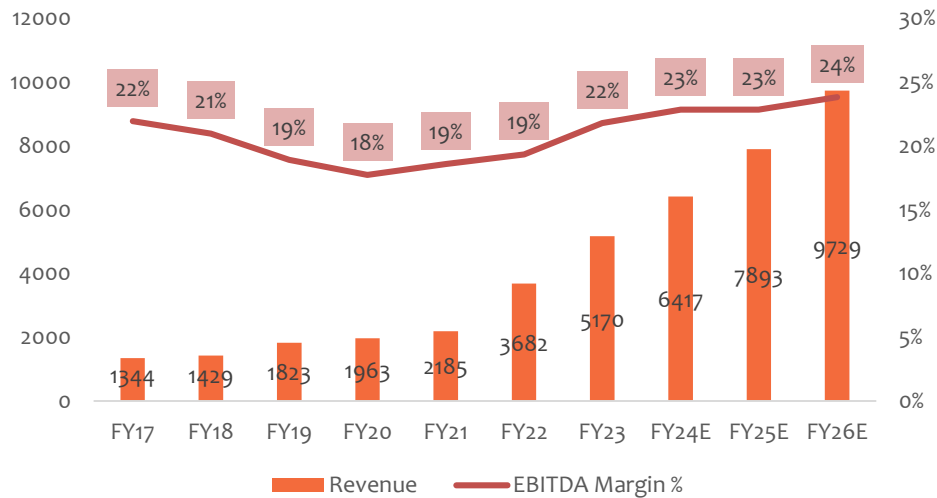
FCL is a debt-free company, with a negative net debt position as 31st March 2023. The company is cash rich and has Rs.143 Mn of Investment as on 30th Sep 2023. FCL conducted its IPO in Feb'2011, with issue price of INR 70/share. In 2014, FCL issued bonus shares in the ratio of 1:1 doubling its paid-up equity capital to INR 220 MNs. In 2020, the company conducted a buyback of its equity shares at a weighted average price of INR 33/share. w

Financial Summary



Capacity Utilization %

Source: Industry Reports, KRChoksey Research



Source: Industry Reports, KRChoksey Research

Increasing Capacity Utilization

We expect the capacity utilization to steadily increase towards FY25E to 78% dropping to 65% in FY26E post assumed expansion of Ambernath Plant. The primary drivers for increasing capacity utilization would be 1) Higher Export Turnover 2) Pick up in textile chemical segments 3) Expansion of Cleaning & Hygiene Product Portfolio

Revenue Growth

We have assumed a modest 3% growth rate in realizations for FY24E onwards. This will result in a modest 3 year CAGR of 15%, our model assumes 90%+ of production will be sold on average.

EBITDA growth

FCL has commendably increased its EBITDA margins from 19% (avg FY19-FY22) to 25% in H1FY24, we have assumed modest/flatline EBITDA margins from 23-25% from FY24E to FY25E

Strong ROE and ROCE

The company has maintained a strong ROE/ROCE profile of 25% average over last 5 FYs (FY19-FY23), peaking in FY23 @ 34%. We expect this ratio to remain stable till FY26E.

Products

FCL has three major product lines: Textile Chemicals, Cleaning & Hygiene and Oil & Gas.

Textile Chemicals

FCL supplies chemicals to the textile industry that have applications for weaving, pre-treatment, dyeing, printing & finishing. FCL is focused on finishing chemicals, finishing chemicals determine the look & feel of the final textile product and hence are very critical to get right. This increases the stickiness of the customers while making the product price insensitive as it forms a very small part (1-3%) of the final finished output.

The domestic business contributes to 77% of the revenue where it caters to esteemed clients like Raymond, Welspun, Vardhaman Textiles, Nahar Group and Only Vimal. FCL's expertise in the Specialty chemicals and customized solution has helped the business grow both its clientele and attract new ones over the years to sustain healthy profit margins.

FCL's technical partnership with BioTex-Malaysia led to the development of "Mosquito Lifecycle Controller" which is a distinctive product, this is opening doors to a niche market segment which has high end super speciality textile chemical applications.

Biotex Malaysia drives all the R&D initiatives of the Company and overall new product development. BioTex specializes in high end specialty finishing textile chemicals like water & oil repellents, antimicrobials, etc. for textiles.

Cleaning & Hygiene

The cleaning and hygiene business provides customized solutions for housekeeping, kitchen care and disinfectants. FCL's key products in this segment are Finocon, ECODO, Clean Jet. The management expects the non textile segments to accelerate even further.

FCL's recent strategic collaboration with EURODYE –CTC to commercialize specialty chemical product would facilitate an efficient production system and distribution network across the Indian Textile. Collaboration with Healthguard, Australia will concentrate on developing cutting-edge solutions that will be marketed and channelized by FCL-Biotex. The synergies derived are expected to provide durable metal-free sustainable chemistry solutions that are anti-microbial and anti-viral. Moreover FCL has set up R&D center in collaboration with Sasmira Institute (India's premier textile Institute) to catalyze innovation and focus on sustainable chemistry.

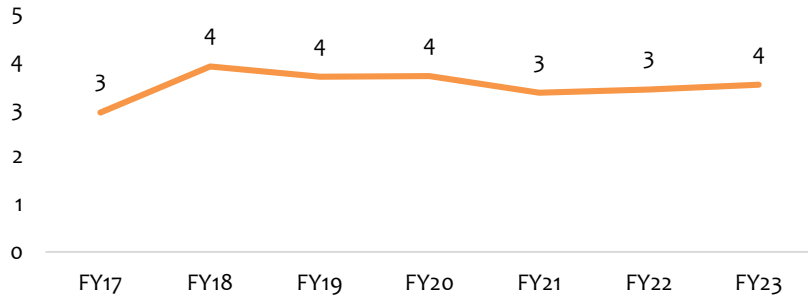
Oil & Gas

The company has also ventured into speciality chemicals for oil & gas drilling and is in discussions with major players in this field. FCL has also received sizable orders from a leading oil and gas company India. There is significant potential for offering effective products used for drilling in oil exploratory process. This product line is in very early stages of prototyping.

Strong Working Capital Management

The current ratio of FCL has been consistent over the years in the range of ~3 to 4

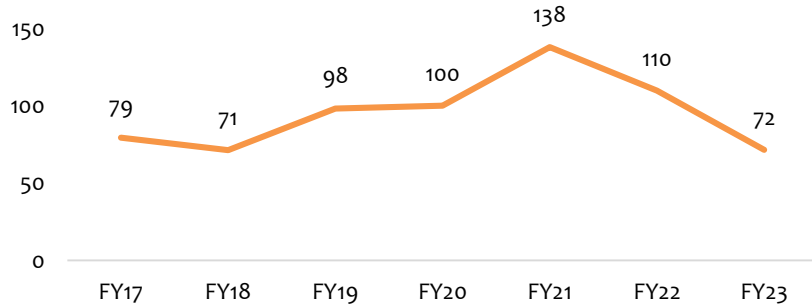
Current Ratio



Source: Industry Reports, KRChoksey Research

FCL's debtor days are improving and reaching the pre COVID levels. For FY23 the debtor days stood at 72.

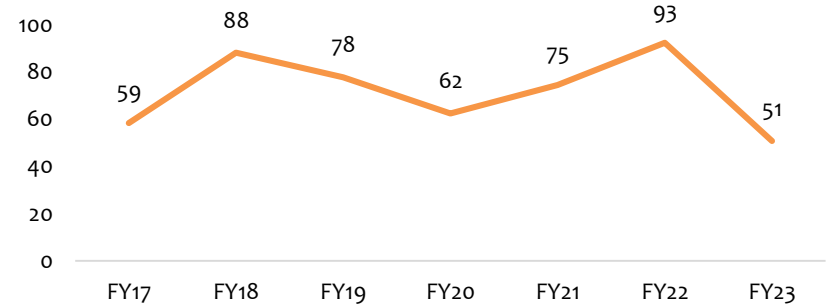
Debtor Days



Source: Industry Reports, KRChoksey Research

In FY23, FCL's Inventory days was lowest from the previous years at 51 days showcasing a good working capital management.

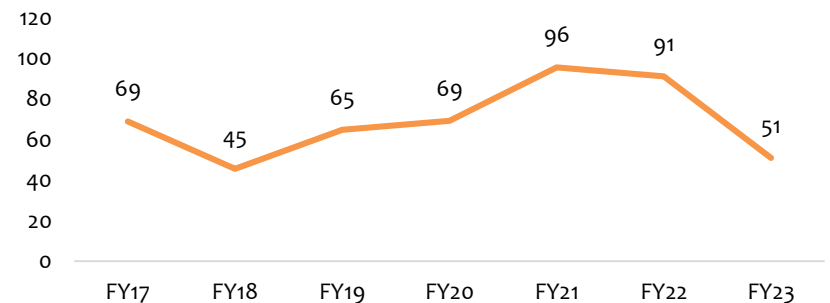
Inventory Days



Source: Industry Reports, KRChoksey Research

The creditor days of FCL are normalizing to the previous levels. The creditor days for FY23 stood at 51.

Creditors Days



Source: Industry Reports, KRChoksey Research

Strengths

- Diversified Revenue Mix across geographies
- Fungible Plant Capacity at Ambernath
- Certified Manufacturing Excellence
- Diverse Product Portfolio
- Deep Customer Relationships
- Sticky Customers in Textile Finishing Chemicals Segment

Weakness

- Textile Chemical Business is dependent on cotton & other fibre prices
- Volatile Raw Material Prices
- Supply Chain Disruptions
- Threats from Import of Substitute Materials

Opportunities

- 20% Additional brownfield capacity expansion possible at Ambernath Plant
- New Land acquired by wholly owned subsidiary of the company for setting up 4th Plant
- New Collaborations with Health Guard-CTC & Eurodye
- Non Textile Segments to drive volume & value growth
- Oil & Gas segment has possibility of driving large contracts from Oil exploration companies in India/Abroad

Threats

- Textile Chemicals has stiff competition from peers
- Under utilized Large Cash Balance on books
- Environmental Compliance Costs
- Supply Chain Disruptions

Management Team

Mr. Surendra Kumar Tibrewala, Chairman & Managing Director (B.Com LLB)

Mr. Surendra Kumar is the chairman and the managing director of the company. He has three decades of experience into the manufacturing Specialty Chemicals and Enzymes for various industries namely Textile, Chemicals and Enzymes for various industries namely Textile Garments, Construction, Water treatment, Leather, Paint , Adhesives, etc. He is a commerce graduate RA Podar College and Law graduate from Government Law College.

Mr. Sanjay S. Tibrewala, Executive Director & CFO (B.Com & P.G in Textile Chemicals & Processing)

Mr. Sanjay S. Tibrewala is the Whole time Director of the Company. He joined his father in 2001 and has in depth knowledge of products and understanding of market dynamics. He has about 9 years of experience in the Specialty chemicals sector. He is a commerce graduate from Narsee Monjee College and a Post Graduate in Textile Processing and Chemicals from SASMIRA.

Other Directors:

Aarti Jhunjunwala, Executive Director & Head, International Marketing (B.Com M.Com)

Navin Mittal, Independent Director

Alok Dhanuka, Independent Director

CS Bindu Shah, Independent Director

Dr. Sunil Waghmare, Independent Director

Peer comparison

Name	Industry	Current Price	Price to Earning	Price to book value	Return on equity	Return on capital employed	EV/ EBITDA	PEG Ratio
Fineotex Chemicals	Chemicals	335	35.4	9.31	28.92	36.46	26.76	1.14
Industry average				4.21	17.91	21.34	17.29	-2.21
Transpek Inds.	Chemicals	1,977	16.8	1.8	15.96	19.92	6.99	0.64
Rossari Biotech	Chemicals	783	34.4	4.41	12.45	18.45	19.88	
GHCL	Chemicals	578	6.24	2.01	31.5	35.53	4.16	0.25
Chemplast Sanmar	Chemicals	472	212	4.1	11.93	14.86	23.35	
BASF India	Chemicals	2,954	37.4	4.38	15.19	20.12	17.47	1.44
Alkyl Amines	Chemicals	2,271	67.8	9.72	21.46	27.87	37.18	2.34
Tata Chemicals	Chemicals	1,006	12.9	1.2	11.96	11.63	7.93	-19
SRF	Chemicals	2,223	38	6.07	22.84	22.37	21.34	1.05

Source: Industry Reports, KRChoksey Research

Name	Sales growth 10Years	Sales growth 7Years	Sales growth 3Years	Profit growth 3Years	Average return on equity 3Years	Free cash flow 3years	EPS growth 3Years	Dividend yield
Fineotex Chemicals	18.36	24.76	38.09	63.84	25.47	63.58	64.11	0.26
Industry average							23.49	
Transpek Inds.	13.07	16.51	13.49	5.22	13.32	95.57	5.22	1.5
Rossari Biotech			40.26	17.92	15.65	106.12	14.69	0.06
GHCL	7.27	8.73	11.21	39.9	24.41	1322.47	39.6	2.77
Chemplast Sanmar			57.79	66.4	18.09	1806.62	25.01	0
BASF India	13.22	16.27	21.57	99.77	20.54	1091.05	99.77	0.31
Alkyl Amines	16.48	19.49	19.22	6.96	28.54	111.85	6.89	0.44
Tata Chemicals	1.33	1.75	17.47	-30.87	7.63	2610.82	-30.87	1.65
SRF	14.67	18.27	27.29	28.9	22.74	905.43	27.58	0.31

Source: FactSet, KRChoksey Research

In contrast to the industry average of 17.91, Fineotex Chemical recorded a Return on Equity ratio of 28.92. At 36.46%, the ROCE is the greatest compared to its peers; the industry average is 21.43%. In contrast to Fineotex's PEG ratio of 1.19, the industry average PEG ratio is negative. Fineotex Chemical had the most industrial growth, with a 10-year CAGR of 18.36%. Furthermore, with a three-year EPS growth of 64.1%, it ranks second among its peers, behind BASF India. The industry average 3 years EPS growth is 23.49.

Peer comparison

It is a key player in the specialty chemicals market, with applications for the paint, leather, water treatment, textile, and fertilizer industries. In comparison to its peers and the industry, FCL is fairly valued. In contrast to the industry average of 17.91, Fineotex Chemical recorded a Return on Equity ratio of 28.92. At 36.46%, the ROCE is the greatest compared to its peers; the industry average is 21.43%. In contrast to Fineotex's PEG ratio of 1.19, the industry average PEG ratio is negative. Finetoex Chemical had the most industrial growth, with a 10-year CAGR of 18.36%. Furthermore, with a three-year EPS growth of 64.1%, it ranks second among its peers, behind BASF India. The industry average 3 years EPS growth is 23.49.

Company	EPS FY25	EPSFY26	FY25 Forward PE	FY26 Forward PE
Fineotex Chemicals	13.76	17.72	24.35	18.91
Transpek Inds.	NA	NA	NA	NA
Rossari Biotech	27.60	34.40	28.37	22.76
GHCL	95.40	NA	6.06	NA
Chemplast Sanmar	24.33	30.35	19.40	15.55
BASF India	135.70	157.50	21.77	18.76
Tata Chemicals	70.70	60.55	14.23	16.61
SRF	73.48	92.27	30.25	24.09

Source: FactSet, KRChoksey Research

Outlook and Valuation

FCL has showcased a strong track record of growth in revenues with 3 year Revenue CAGR of 38% as on FY23 supported by robust margins, average 5 year PAT margins coming in at 15% as on FY23. FCL is a growing specialty chemical manufacturer with international strategic partnerships with Eurodye-CTC, Belgium & HealthGuard Australia which will drive further growth opportunities for the company both in India & abroad. The upcoming addition to its manufacturing capacity will add a strong base for generating future growth, management's tight control over working capital cycle and margins will ensure good earnings growth going forward.

Currently, FCL is trading at a 35.2x/27.2x forward P/E for FY25E and FY26E, we remain optimistic on the prospects of the company and assign a P/E of 30x and initiate our coverage with a target price of 531.

Ratio Analysis

Particulars	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profitability						
Return on Assets	19%	19%	23%	24%	24%	24%
Return on Capital	20%	28%	34%	34%	33%	32%
Return on Equity	23%	23%	29%	28%	28%	27%
Margin Trend						
Gross Margin	64.3%	63.9%	65.6%	65.6%	65.6%	65.6%
EBITDA Margin	18.6%	19.3%	21.8%	22.8%	23.8%	24.8%
Net Profit Margin	20.4%	15.4%	17.3%	18.3%	19.3%	20.2%
Liquidity						
Current Ratio	3.34	3.41	3.51	3.45	3.40	3.36
Debtor Days	138	110	72	72	72	72
Inventory Days	75	93	51	51	51	51
Creditors Days	96	91	51	51	51	51
Working Capital Days	117	111	72	72	72	72
Solvency Ratio						
Total Debt / Equity	2%	1%	2%	2%	1%	1%
Interest Coverage	54.00	74.41	132.01	173.34	224.03	287.99
CMP			359.65	359.65	359.65	359.65
EPS	3.83	4.97	7.97	10.63	13.76	17.72
Book Value	19.47	24.33	32.12	42.74	56.50	74.22
Valuation Ratio						
EV/EBITDA			35.10	26.98	21.01	16.36
EV/Sales			7.65	6.16	5.01	4.06
P/E			45.13	33.84	26.14	20.30
P/B			11.20	8.41	6.37	4.85
CFO/EBITDA	23%	19%	95%	66%	68%	68%

Source: KRChoksey Research

Financials & Projections

Income Statement (INR Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue from operation	2185	3682	5170	6417	7893	9729
COGS	1406	2351	3392	4211	5179	6384
Employee benefits expense	89	136	184	228	281	346
Other expenses	285	483	468	513	553	584
Total Expenses	1779	2970	4044	4952	6012	7313
EBITDA	406	712	1126	1465	1881	2416
Depreciation and amortization expense	15	25	43	43	43	53
EBIT	391	687	1083	1422	1838	2363
Other income	175	55	73	95	123	160
Finance costs	7	9	8	8	8	8
Profit before tax	559	733	1148	1509	1953	2515
Exceptional items - income / expense	0	0	0	0	0	0
Profit / loss before tax	559	733	1148	1509	1953	2515
Current tax	101	159	242	0	0	0
Total Tax expense	113	164	252	332	430	553
Profit after tax	446	569	896	1177	1524	1962

Source: KRChoksey Research

Cash Flow Statement (INR Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Cash Generated From Operations	92	134	1073	973	1275	1653
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
Net Inc/Dec in cash equivalents	-25	84	14	0	0	-1
Opening Balance	230	205	289	303	302	302
Closing Balance Cash and Cash Equivalents	205	289	303	302	302	301

Source: KRChoksey Research

Financials & Projections

Balance sheet (INR Mn)	FY21	FY22	FY23	FY24E	FY25E	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	587	722	890
Investments	9	0	0	0	0	0
Trade receivables	827	1109	1014	1259	1548	1908
Cash and cash equivalents	232	308	376	376	376	376
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	2598	3023	3551
Total assets	2670	3395	4227	5518	7177	9308
Equity and Liabilities						
Equity share capital	221	221	221	221	221	221
Other equity	1872	2400	3265	4442	5966	7928
Minority interest	67	73	70	70	70	70
Total equity	2161	2694	3557	4734	6258	8220
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	588	723	891
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	753	888	1056
Total liabilities	509	701	670	785	920	1088
Total equity and liabilities	2670	3395	4227	5518	7177	9308

Source: KRChoksey Research

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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KRChoksey Shares and Securities Pvt. Ltd.

CIN-U67120MH997PTC108958

Registered Office: 1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: 91-22-6653 5000; Fax: 91-22-6653 8060

Corporate Office: 701-702, DLH Plaza, Opp Shoppers Stop, S V Road, Andheri (W), Mumbai 400 058

Phone: 91-22-66535000

Compliance Officer: Varsha Shinde

Email: varsha.shinde@krchoksey.com