



# 5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

## FINEOTEX CHEMICAL LTD

### WHAT WE LIKE

#### STRONG TAILWINDS IN THE END-USER INDUSTRIES & CHANGE IN REVENUE MIX

- The company primarily caters to the textile sector by providing specialty textile chemicals to marquee home-textiles companies like Welspun India & Himatsingka Seide which are reporting decent growth numbers.
- The company forayed into niche & less-cyclical cleaning, hygiene, drilling care, and FMCG chemicals business which is growing at a strong pace & now contributes 40% of the overall revenues vs 12% a few years back.

#### STRONG GROWTH PROSPECTS & HISTORICAL PERFORMANCE

- The company has increased its capacity by close to 3X in the past 5 years with current capacity being at 1,04,000 MTPA & utilization levels of 65% which leaves adequate room to grow from current capacity. The company can also increase Ambernath's Plant capacity by an additional 20-30% (i.e. 20,000 MTPA) in the same plot which will entail relatively lower capex requirements.
- The company is witnessing strong growth led by the FMCG division which is expected to contribute more than 50% of revenues in the near future, & the management expects to clock 25% growth in volumes & PAT for FY24.
- Historically as well, the company has reported 5 yr Revenue & PAT CAGR of 30% & has been one of the biggest wealth creators of the past decade.

#### HEALTHY BALANCE SHEET & RETURN METRICS

- The working capital cycle has moderated from around 110 days to 70 Days in FY23 (due to high share of FMCG)
- D/E < 0.25X
- Capacity is fungible which can be used for both- textiles & other chemical segments & the capex requirement for putting additional capacities are lower which has led to a strong ROCE of around 35%.
- Extraordinary ROCE is also a factor of its pricing power coupled with favorable formula-based pricing contracts which have ensured stable EBITDA margins of 19-23% for the past 5-7 years.

**EURODYE-ctc**  
Specialty Chemicals

Strategic collaboration with Eurodye-CTC, Belgium, to commercialize specialty chemicals for the Indian market

**HealthGuard**  
Specialty Chemicals

Strategic collaboration with HealthGuard, Australia to become the exclusive global marketing and sales channel partner with joint operations from Malaysia

**sasmira**  
Specialty Chemicals

Setting up a state of art Research & Development centre in collaboration with Sasmira Institute, one of India's premier textile institutes

#### Diversified geographical presence & strategic location benefits

- The company acquired Biotex Malaysia in 2011 which in engaged in niche-High end super speciality textile chemical applications like 'Mosquito Life Cycle Controller' & the company serves its marquee international clientele through this entity.
- The company caters to more than 70 countries whose contribution stood as 65% as on Q4FY23.
- Its recent strategic partnerships coupled with increased R&D spend of 3.5 Crs P.A. (vs 1 Crs 3-4 yrs back) will further boost its market positioning.
- Further, the location of plants allows it to procure raw materials easily & supply through ports.

### WHAT WE DON'T LIKE

#### RAW MATERIAL VOLATILITY RISKS

As the majority of the raw materials are petrochemical derivatives, the company is exposed to crude oil volatility. Although this risk is partially mitigated by its pricing contracts, it remains a major risk considering the management reported that it got benefits of lower cost raw materials (i.e.commodity chemicals) which boosted its recent margins & it expects costs to increase going forward which can hurt margins.

#### HIGH COMPETITIVE INTENSITY

The company faces competition from European players as well as other players due to developments of enhanced specifications products on a regular basis.

Further, there is intense competition in the high-end performance chemicals segment as players regularly introduce new products with enhanced capabilities or wider applications. The company faces strong competition from large European players, who are well established with a high capital base and dominate the market.

#### LUMPY CFO/PAT CONVERSION

The company has historically generated poor CFO wherein CFO/PAT has been less than 80-90% for a major period since its listing. Now, although things have improved in FY23, it remains to be seen if it will be able to generate consistent cashflows in the future.

	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020	Mar 2021	Mar 2022	Mar 2023
Cash from Operating Activity -	7		1	14	14	19	6	12	28	9	13	107
Profit from operations	9		10	17	28	31	30	34	36	43	73	116

#### FOREX RISKS

More than 20% of the raw material requirements are met by imports which exposes it to risks of volatility in Forex rates. This risk is partially mitigated through natural hedge in the form of exports which has ranged from 20-40% of the company's revenues in the past.

#### EQUITY DILUTION RISKS

- The company has received principal approval to raise up to 300 Crs from QIP/ preferential allotment. Now, although this is an indication of the reinvestment opportunities in the business, the potential dilution of equity coupled with risks of deployment of these funds are some glaring risks.
- It is important to note that the company has yet to raise funds through QIP & will pursue this only when the right opportunity arrives showcasing prudence.

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