

Incorporated in 2004, Fineotex Chemical Ltd is a specialty chemicals producer and mainly caters to segments such as - i) Textile chemicals and ii) Cleaning & hygiene. Recently, it has forayed into drilling specialty chemicals for oil & gas. It has established strategic partnerships with EuroDye, HealthGuard, and Sasmira to further enhance its market presence and offer customized technical solutions through its dedicated focus on R&D.

Outperformed overall industry in terms of volumes and profitability

- The company has delivered healthy volume growth of ~25% for FY24. Company's textiles chemicals segment witnessed 20% volume growth while cleaning and hygiene segment saw volume growth of ~25%.
- While the industry players have faced challenges in terms of optimizing or sustaining operating leverage due to various macro events such as Ukrain - Russia war, Red sea issue, etc., Fineotex has been able to generate growth in both volume as well as in value terms. Company's revenue has grown at 24% CAGR between FY22-24 and operating margins improved from the 19.3% in FY22 to 26.1% levels in FY24.

Efficient operational capabilities with sustained return ratios

- Company mainly focuses on sustainable products and it has received ESG badge from Dun & Bradstreet. This recognition highlights company's commitment towards sustainability. Change in product mix, new product launches, cost saving measures along with improved working capital cycle has helped Fineotex deliver healthy financials with sustained margins. With this, it has generated healthy return ratios i.e. ROCE at 34.3% and ROE at 29.9% for FY24.

Expansion through organic as well as inorganic route is expected to drive business growth

- Fineotex is expanding its capacity in a phased manner where phase I expansion is expected to be completed by FY25 end which will add 20K MTPA and further phase II expansion of 20K MTPA is planned. It is in advanced stage of an international acquisition for which it has already raised funds worth Rs. 120 cr in May'24.

Peer Analysis

In terms of topline growth between FY20-24, Fineotex has grown ahead of many leading players. High revenue growth of Rossari Biotech is on account of inorganic growth. It has also outperformed in terms of profitability with 26.1% of EBITDA margin in FY24 compared to 14.9% of average of peer performance. Additionally, it has delivered healthy return ratios when compared with its peers. Despite its healthy financial performance, Fineotex is valued at the similar valuation when compared with its peers. We expect re-rating of the stock on account of its strong growth drivers.

FY24 Financials	BASF India	Rossari Biotech	Sudarshan Chemical	Tatva Chintan Pharma Chem	Vinati Organics	Average	Fineotex Chemical
Revenue	13,767	1,831	2,514	394	1,900	4,081	569
CAGR (FY20-24)	16%	32%	10%	11%	17%	17%	31%
EBITDA Margin	6.5%	13.6%	12.6%	17.3%	24.7%	14.9%	26.1%
Asset Turns (x)	1.9x	1.2x	1.1x	0.5x	0.7x	1.1x	1.0x
Wkg Cap Days	30	97	71	182	121	98	92
ROCE	22.9%	17.5%	12.1%	6.6%	16.0%	15.0%	21.6%
ROE	19.0%	13.3%	36.2%	4.1%	13.8%	17.3%	29.6%
Debt/Equity	0.0x	0.1x	0.4x	0.0x	0.0x	0.1x	0.0x
EV/EBITDA	24.1x	19.0x	21.0x	37.5x	41.7x	28.6x	28.4x
P/E	38.8x	35.5x	53.2x	83.0x	60.9x	54.1x	35.4x

Source: NBRR, Company data

Valuation

Fineotex has delivered healthy financials over the last few years despite macro challenges that impacted overall chemical industry financials. In FY24, it has delivered healthy volume growth of ~25% where capacity utilization stood at ~72%. While industry has witnessed impact on volumes mainly due to subdued demand from global markets. International revenue contribution maintained at 22% of FY24 revenue.

Recently, Fineotex chemical has received an approval for a fund raise through an issue of share warrants and equity shares worth Rs. 218 cr to fund the company's expansion of business through organic/inorganic growth and working capital requirement. The same is proposed at an issue price of Rs. 387.4 each per unit that gives a positive indication. Overall, the company is expected to dilute 11.6% of its equity in the future.

We have modeled topline growth at 20% CAGR between FY24-26E with operating margins in the range of 27-28%. Based on this, the stock is currently trading at 29x / 24x to FY25E / FY26E EPS. We assign 30x to FY26E EPS to arrive at a target of Rs. 483/share with an upside of 26% over the CMP.

Figures in Rs Cr

Year	Revenue	Growth	EBITDA	Margin	PAT	Growth	EPS	PE	EV/EBITDA	ROE
FY23	517	40.4%	113	21.8%	88.32	60.1%	7.97	48.0x	37.7x	28.2%
FY24	569	10.1%	148	26.1%	119.81	35.7%	10.82	35.4x	28.4x	29.6%
FY25E	683	20.0%	184	27.0%	145.83	21.7%	13.17	29.1x	22.8x	27.7%
FY26E	819	20.0%	225	27.5%	178.50	22.4%	16.12	23.8x	18.7x	25.9%

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