

Fineotex Chemical Limited
Q4 FY19 Earnings Conference Call
May 16th, 2019

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY19 conference call of Fineotex Chemical Limited. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Sonpal – CEO, Valorem Advisors. Thank you and over to you, Mr. Sonpal.

Anuj Sonpal: Thanks Jevian. Good evening everyone and a warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the investor relations of Fineotex Chemical Limited. On behalf of the company I would like to thank you all for participating in the Company's earnings conference call for Q4 FY19 and financial year ended 2019. Before we begin, I would like to mention a short cautionary statement as always. Some of the statements made in today's earnings conference call maybe forward looking in nature. Such forward looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management's belief as well as assumptions made by and information currently available to management. Audiences are cautioned not to place undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's earnings conference call is purely to educate and bring awareness about the Company's fundamental business and financial quarter under the review.

I would now like to introduce you to the management participating with us on the call. We have with us Mr. Sanjay Tibrewala –Whole time Director and CFO, Mr. Pradeep Tibrewala – President Finance, Mr. A.V. Nerurkar – Finance Manager and Ms. Pooja Kothari –Company Secretary. Without much delay, I request Mr. Sanjay Tibrewala to give his opening statements. Thank you and over to you, Sir.

Sanjay Tibrewala: Good afternoon everyone and welcome to this earnings conference call for Q4 FY19 under review. I hope you had an opportunity to look at the company's performance for the quarter and for the financial year 2019 as well as earnings presentation which has been circulated and uploaded on the website and the stock exchanges also. Let me start with giving you some brief of the company and the activities. Fineotex was started in 1979 by Mr. Surendra Tibrewala. The company is engaged in manufacturing of specialty chemicals for various

industries mainly textiles and specialty chemicals for the other in the ancillary industries also. It is India's one of the largest and most progressive specialty chemical manufacturers. We offer customized solutions, products to the customers which are mainly performance driven and these are very high value addition kind of businesses where we are into. We produce almost 400 different kinds of products right from, especially for the textiles from the pre-treatment stages, dyeing, printing, finishing all those stages and the specialty finishes also. We have our plants in Navi Mumbai and also in Malaysia which are under the name and style of BT Biotex. We have a combined production capacity of 43,000 tons which has been recently added up. We have a global presence in almost 60 countries and catering to well established brands in India, both overseas as well. Our industry has a very high entry barrier businesses. Our clients are very sticky, we provide customize solution, tailor-made solution to various industries and especially to the textile customers, we have our own R&D facilities as well. We are working with almost 105 agents all over India and we have several textile customers, well known brands almost all the Indian top brands are our customers in textile. Again, I would like to mention that we are a zero-debt company with consistent dividend paying records, high capital efficiency and high ROE company.

During the year the company has liquidated its investments of 10 crores approximately and put into the business. Apart from this all the cash generation from the business for the year has been ploughed back to the operations of the company. With this business expansion strategy, the company has been able to expand its operation to new geographies, new countries, new energy saving, efficient innovative products. Though it is time investing activity to start commercial marketing of Aquastrike our wonder product from Biotex Malaysia. Still we have developed an advancement in the step in the direction even during this year.

I would like to take you to the financial highlights of the company and I am sure you would have gone through the results which was released on 14th May, 2019. I will quickly brief you up about the same. Firstly on the standalone basis, our revenues for the quarter was 32.4 crore which is 33% higher year-on-year basis. Exports stood at 25 crore which is 12% higher year-on-year basis, operating profit after tax was 4.5 crore which grew 55% based on year-on-year basis. Net profit for the quarter is 5.5 crore with a PAT margins of 17%. This has resulted in an EPS of Rs.0.49 per share for the standalone numbers. And for the standalone for the yearly basis the revenue for the year was 112 crore which grew by 22.6% year-on-year basis. Operating PAT was at 16.7 crore which grew by 21.3% on a year-on-year basis. The net profit is 17.3 crore this has resulted in an EPS of 1.56 per share for the year standalone basis.

Coming to the consolidated numbers, the revenue for the quarter was 50.3 crore which grew by 25% year-on-year basis. The net profit for the quarter is 6.5 crore, this has resulted in an EPS of 0.55 per share for the consolidated numbers. On the yearly basis the revenue for the year was 182 crore approximately which grew by 27.6% year-on-year basis. Operating PAT was 23.4 crore grew by 25% almost on year-on-year basis. Net profit in the year is 24.3 crore

this has resulted in an EPS of INR 2.02 per share for the year on the consolidated basis. With this I would like to open the call for questions and answers. Thank you, over to you.

Moderator: Thank you sir. Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Anirudh Shetty from Solidarity Investment Managers. Please go ahead.

Anirudh Shetty: So, I can see that you all had a very strong revenue growth this year. So like to understand what has been driving this growth, is there any change in the external environment as such and in our business is what is happening in specialty chemicals there is lot of shutdown, shutdown in China so will our business be beneficiary of that?

Sanjay Tibrewala: Well coming to the question what is the driving force regarding the growth of the business, as you can see that the growth has happened in the standalone as well as the consolidated numbers which is from Malaysia. So basically what we have been doing in the last couple of years we have been doing a lot of expenses and investments for new geographies expanding new products, R&D expenses. So those things are giving the results right now and the efforts what has been done in last one and a half year or two years say so. So those are helping us to go to and get more businesses from new area. At the same time we have been launching many utility saving products like which can reduce the time, the temperature, the ecofriendly products which is the need of the hour for all the textile market and textiles businesses. So, those things has also helped us to increase our profitability, our sales. And same thing is happening in Biotex also. Aquastrike has also picked up comparatively from the last year so that has also given a very positive signal for us. And coming to the benefits if at all the shutdowns which is happening in China and other countries like you have mentioned about. So to some extent it is a very, it is not one of the factors which has been helping us to increase our businesses. But in fact it is also, that we are also using some raw materials from Chinese made raw materials as such. So definitely the shortage is also there at the same time. In fact the performance could have happened much better, the GP margins could have been much higher than it should be. But because of the shortages of the Chinese supplies and all these things which I think in a couple of quarters or maybe one year I think things will settle down in China. So, I think the GP will in fact get much better than what it is now. So as such it is not helping us at all because we are in a business which is performance driven businesses its like cover cost to the customer is not so much from the point of view of the cost percentage for the customer. What is more important is, that our raw materials are based in from China, not exactly China but those products which are made in China too. So there has been an increase in the raw material prices also. So in fact if the supplies get normalize from China our GPs will go up further.

Anirudh Shetty: And if we think about growth how does one thing about sales growth in this business over long periods of time, do you have any sort of guidance?

Sanjay Tibrewala: Yes, Mr. Shetty as such for the last seven, eight years our CAGR has been almost 30% or 29% more or less so I think generally we are also being like this year also we had let say a good year from the sales point of view. So I think yes, that should be our target lines like 20-25% minimum top line should be going up year-on-year basis.

Anirudh Shetty: And is this only from textile chemicals or are we looking to get into new categories?

Sanjay Tibrewala: Let say the textile is almost contributing to 90% or 90% plus actually now. So that is the main thing, Aquastrike is one of the product which is one of the very important place where we are putting lot of investments and lot of time as also been going on for that development activities. So that is also one of the things which whenever we have applied for the WHO and other things as you must be knowing about. So like that WHO would then take a, we cannot have a timeline from their end about how much time they will take to give us a green signal on that. Time and again we are working on lot of certifications for the Aquastrike which is required by the WHO so those things are also taking time, investments so we are very hopeful that the number which I gave you at the target for the coming years would be definitely achievable in any circumstances.

Anirudh Shetty: Right. And will the profits grow faster than top line growth through product mix change are the new products higher margin?

Sanjay Tibrewala: Yes, definitely all the new products whatever is coming up is basically saving time, like I said about time, temperature, utilities, water saving, effluent treatment, BOD, COD, low BOD and COD product. So what we have been doing is not only replacement businesses suppose, I can just give you small example like if there is a customer is using a chemical let say for Rs.100 so our target is not to match that Rs.100 target price, our price can be Rs.400 for that chemical. But if we are able to reduce his utilities which is steam, water, labor cost and effluent treatment, BOD, COD. As you must be knowing that textile has the biggest challenge as the ecofriendliness and that is the area which is the most lucrative for us to offer more chemicals. So if they are ready to increase their chemical cost but by and large they are going to save their utility cost, so basically it will be meaning more business for us, that is what we have been doing now. So that is the place where there is more value addition going on.

Anirudh Shetty: Right. And plus you had mentioned that its not a very big percentage of the end customers product as well?

Sanjay Tibrewala: Well I can say that right from, there are like four stages of textiles processing one is pretreatment stage what we, in lame language its like the cleaning stage, then there is a dyeing stage which is called as the coloring stage, then there is a finishing stage which is giving like the final finish to the fabric and there is a printing stage like if at all the fabric is to be printed. All these four stages, processes they have like let say almost 25 or maybe 30 different functional finishes more or less. So adding all the functional finishes the cost to the

customer is less than 3%. So let say every product is costing them 0.1% of their total cost. So even, so its not a one product is giving cost of 0.10 to the customer so that does not make them to change because of the price reasons. So that is why I said its a very high value addition business and its like a very high entry and high exit barrier business since where we are.

Anirudh Shetty:

Just, if I would like to understand this as a laymen what exactly are the entry barriers in this industry and how competitive is the industry on a like-to-like product basis how many competitors would there be at any given point of time?

Sanjay Tibrewala:

So basically this industry has been dominated by biggest European companies like earlier it was like Clariant and now Archroma, earlier it was CIBA now Huntsman, ICI which has become Croda. So these are all the European companies which have been already not able to have a good bottom line and they have been changing hands and also diversifying to various healthcare, personal care kind of businesses where there are very high margins. So, basically what is, that is they are the main controlling companies in this industry but they have been losing their strengths because the textile was getting more and more competitive also. Textile as such, and that is they were also increasing, they were very much open to companies like us where we can also come up the Indian companies which can come up and give them same kind of quality services, prices, supply those ways. So these are the big names which have been already facing a big challenge in there, and most of them are European companies and they are already having a tough time in India and other places and they all are moving away from the textile right now. So that is also helping us to gain businesses at the moment.

Anirudh Shetty:

Okay. And the entry barriers, what exactly are the reasons why its difficult for a new player to get in?

Sanjay Tibrewala:

Okay. So what happens like I said that every product like I told you there are 25-30 functions between pre-treatment dyeing, printing, finishing. So every function and total cost is 3% so every function is costing the customer 0.1%. So price is not the factor which can suppose you are saving 20% of the price. So their net cost saving will be 0.02% number one, for any cost saving which is negligible at the same time textile is such a subjective business that if anything goes wrong with the product the entire fabric is wasted or if any product suppose there is some chemicals going from one company which is not good, the product which are going from in that same package with the other multinationals that entire product will get spoiled with that. So they are very much careful about their product mix from where are they sourcing. So this is one of the reasons, one of the entry barrier businesses. Plus there are lot of certifications which are required now, lot of expenses what is going on in our company also is because of the certification that are very REACH, REACH is there now GOTS is there, and every Levis and Inditex and Zara's and all these big brands they have their own protocols for the product certification and all. So those also are the challenges which other Indian companies are not able to invest upon. So it is about that and plus right now we have been

working with almost all the brands like Chenab, JCT, Auro Dyeing, Auro Textile, MahavirSpinning, Deepak Birla, Nahar, DCM, Reliance, Raymond, Himmatsingka,GHCL, Welspun, Trident, Siyaram, Sangam Spinners,Banswara Syntex So we are working with the biggest brands and we are spread across all the sub states. Let say for polyester viscose Raymond's is the let say the bench mark company for all the polyester viscose customers. So if we are supplying to Raymond's automatically there is welcome from other customer like if you are supplying to Raymond's please come in we are ready to experiment with your chemicals and try it out at our end. Same thing with towels like Welspun same things happens with yarns also let say Auro dyeing is there, Chenab is there, for bed sheetsHimmatsingkais there GHCL is there so these are our places for every segment we have the key customers who are using our packages and they are increasing a wallet share also everywhere. With our existing customer like we are doing almost 70 corporate customers of India, half of them or maybe more than that is are the listed companies only likeIndo Count we started recently. So by and large we are getting a, we already have 70 top textile customers of India and even if we increase the wallet share in these customers I think we can easily our business can go to a very good extent even with the existing customers just by increasing more and more products. So this is one of the entry barriers which I discussed and then I also mentioned about where we stand now and what drives us faster now for the next stage.

Anirudh Shetty:

Great. So the 20-25% growth will that be largely coming from new customer or increasing share in with the existing guys or are you all looking to get into new geographies what are the drivers exactly?

Sanjay Tibrewala:

The drivers are all actually but more importantly I can see new geographies are already there in most of the countries, most of the textile segments and cities in India. Its not exactly about that I think its more about the wallet share and also. Wallet share is a very big topic here because the textile people generally they cannot, they generally don't buy all the chemicals from one company. Let say they have 30 different function chemicals they need to buy, so maybe if they are giving two or three something so always we can go to six and nine which will be double our sales in that customer. So that was definitely help at the same time we are also going to many more areas, we will just increase our distributor network, our team has increased we have an office in South India now where we have our team has gone to large numbers also. So we have been growing very well, our distributors in the last three years we have three times the distributors now. It was 35 three years back now its 105 almost. So that is also helping us to increase our channels partners.

Anirudh Shetty:

And our target market is India currently or are we looking overseas as well?

Sanjay Tibrewala:

Let say out of the total revenue if I can bifurcate its almost 50-50 almost now, not 50-50 maybe 60-40, but we are targeting everywhere as such last month we were in China Interdye for the exhibition. I think the pictures are also posted on the website of the exhibitions and

next month we are in Spain in Barcelona there is a exhibition called ITMA which happens once in four years, so our team will be exhibiting there also all these specialty range of products. So every year we are doing at least four international exhibitions even in Pakistan, in Bangladesh, in Iran and Vietnam, Indonesia, Sri Lanka. So for the last two years we have been traveling to these places also for exhibition as such.

Anirudh Shetty: So when we go aboard and we pitch our product so the customers there would be sourcing their chemical from some other company probably international one. So when you pitch them what is our value proposition how do we say we are different from the existing guys so you should switch to us?

Sanjay Tibrewala: So what happens now in this line let say Fineotex and Biotex are quite famous now. So what happens now the work for us is very simple now, not very simple but quite simpler than the before times, that time we have to first introduce our company and we have to start from scratch now in fact we have business in almost 60 countries, we have agents all over so the agents take our to their customer where we exhibit the results of the products and also show them the benefits, the cost benefits and other things. Most of the customers are not ready to buy from the European multinational now because of the pricing and the way they are running the businesses. So, I think that is one of the reasons also why we are able to grow the business as faster in most of the geographies. So its' more about services and getting more cost competitive we have our distributors almost all the countries which I wherever we are offering. So distributor is local distributor knows the customers they take us to all the end users to show the new products, cost effective, saving the time, temperature and whereas for all the European multinational they are not bothered about increasing more products to textiles, they are not inclined to work for the textile businesses anymore. Earlier the textile chemical businesses were a 400% margin and of business, so that has come to 40-50% now and they not able to manage their cost out of 40-50% level so they all have diversified to healthcare, personal care so that is also one of the reasons why these companies are not able to match up our cost.

Anirudh Shetty: Very true. So they are looking for same quality but better pricing because they are under cost pressure itself the textile.

Sanjay Tibrewala: That can be there but also some new products which is all in one kind of products, products which reduces the temperature, steam, something to do with effluent, something to do with savings from water consumption, labor utility, water efficient products.

Anirudh Shetty: And our new products are very value added solving different problems. Was Biotex acquisition a big, was it really helpful in our innovation?

Sanjay Tibrewala: Yes, definitely. Actually what was happening is like Biotex we took stake in that in 2011 after our IPO in 2011 almost in four months we acquired stake in Biotex. So before that also we

knew the promoters there, they are all Europeans and they have been there in Malaysia. Malaysia is a very good country to produce chemicals as such there is no import duty when the goods come to Malaysia and in local Malaysia also you can sell in dollars. At the same time whenever the goods are sold from Malaysia to neighboring countries or any country like even Turkey which is far off. And all the importers will get a zero import duty preferential tariff over there. So it's also coming under Asian rule so if we are exporting to China also from Malaysia. So the Chinese importer don't need to pay any tax there. Same thing happens for Thailand, Indonesia, Vietnam when the goods come to India there is a zero import duty treaty with India also from Malaysia. So it's a lovely place to do production there, so what was happening is we have been in 2011 before 2011 we have been buying some specialty chemicals from them, and selling them some chemicals also because our products were all complementing each other but the same set of customers. So in 2011 we decided let's work together and we need to be more united to fight with the European brands which is like Acroma and the names which I told you above. And there after we started having two way technology transfer, market analysis, market intelligence, so places which Fineotex was strong enough but Biotex was not strong enough we introduced Biotex products over there and vice versa. So that helped us to have a better, the customers were delighted with the new product offerings which we have, because every dealer and every customer would like to know like the supplier should have all the range of products complementing each other it should not be, and it should be compatible with each other. There are lot of reasons why, I mean not why there are lot of reasons why which could help us to grow the business faster. So if you see from 2011 we have been growing at 30%-29% CAGR. And even Biotex is a debt free company by the way.

Anirudh Shetty: Okay. Just one final question from my side. So is there any scope for working capital to reduce from current levels. It's about 100 days in FY18 is there scope to reduce?

Sanjay Tibrewala: I think in the current year, I mean in the current times I think it has already come to almost 75 level the working capital.

Anirudh Shetty: Okay. And this is steady state working capital in some sense?

Sanjay Tibrewala: Yes, that is almost similar only. Our businesses like perennial it's not much seasonal or not much fluctuating as such. The orders are also like a contract it's not like a tender businesses so it is perennial order, perennial things and textile has no dips and ups as such so the working capital more or less is the same throughout the year.

Moderator: Thank you. As there are no further questions, I would like to hand the conference over to Mr. Sanjay Tibrewala from Fineotex Chemical Limited for closing comments.

Sanjay Tibrewala: So, I would like to thank all of you for being there. And if you have any more questions you can write to us at our email addresses or you can put it to our Investor Relations Valorem

Advisors for getting to us for a personal meeting or any such updates and information which you require from the company. We will keep you all posting you about all our developments regularly on the stock exchanges and our websites. Thank you very much, have a good evening. Thank you.

Moderator:

Thank you. Ladies and gentlemen on behalf of Fineotex Chemical Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.