November 02, 2023

Fineotex Chemical Limited: Ratings upgraded to [ICRA]A+(Stable)/[ICRA]A1+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based - Cash credit	22.00	22.00	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Short term – Fund-based – Overdraft	8.00	8.00	[ICRA]A1+; upgraded from [ICRA]A1
Short term – Fund-based – Others	3.00	3.00	[ICRA]A1+; upgraded from [ICRA]A1
Short term - Non-fund based - Letter of credit	8.00	8.00	[ICRA]A1+; upgraded from [ICRA]A1
Short term - Non-fund based – Others	2.00	2.00	[ICRA]A1+; upgraded from [ICRA]A1
Unallocated limits - Long term/Short term	57.00	57.00	[ICRA]A+ (Stable)/ [ICRA]A1+; upgraded from [ICRA]A (Stable)/ [ICRA]A1
Total	**100.00**	**100.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade factors in the anticipated growth in Fineotex Chemical Limited's (FCL, the company) scale of operations, driven by a healthy ramp-up of the recently commissioned capacities, steady growth in the offtake from the non-textile segment and the improvement in the company's credit profile. Going forward the cash generation from the current operations is expected to remain healthy, which in the absence of any sizeable organic/inorganic expansion plans will keep the credit profile of the company robust.

The ratings continue to factor in the established track record of the company in textile chemicals, the experience of the promoters and a diversified customer base comprising reputed companies in the domestic and export markets. The ratings also factor in the company's healthy credit profile, marked by minimal debt levels, significant free cash and cash equivalents and healthy cash flow from operations. ICRA expects the credit profile of the company to remain robust in the absence of any significant capex plans.

The ratings are constrained by the high competitive intensity with the presence of several domestic and international players in the industry. The company is also exposed to the volatility in raw material prices and forex risks. However, it has been able to pass on the price fluctuations due to its focus on specialty chemicals and customised value-added solutions. Asa result the company has been able to maintain operating margins within a narrow range of 18%-22% over the last five years. While the company does not have a defined forex hedging policy, it has not witnessed significant foreign exchange losses in the past.

ICRA also takes note of the accreditations/certifications received by the Group for its manufacturing facilities in India and Malaysia (under subsidiary), its R&D efforts for developing new products and JVs with reputed international entities, helping it to acquire new customers and diversify its products and geographic presence.

The Stable outlook on FCL's rating indicates ICRA's expectation of the credit profile remaining stable. This will be supported by stable cash generation which will be driven by the ramp up in capacity utilisation for the existing capacities.

Key rating drivers and their description

Credit strengths

Established position in specialty textile chemicals and a reputed clientele - FCL has a long track record in textile chemicals, with experienced promoters and established relationships with reputed customers in the domestic and international markets. FCL is focused on specialty chemicals and customised solutions, which has helped the company add new customers over the years as well increase the sales to existing customers. This has also helped it maintain heathy profit margins over the years. The company is present in ~70 countries and exports formed ~23% of the total revenue in FY2023.

Revenue diversification in health & hygiene segment to reduce earning cyclicality – The company has in-house R&D facilities to develop customised specialty chemical solutions, catering to applications across the value chain. Its Malaysian subsidiary caters to high-end specialty textile applications. In recent years, the company has also been diversifying into other segments like home care and hygiene and drilling chemicals. The company also formed JVs with Euroye-CTC and HealthGuard in FY2022, which will aid its diversification and growth efforts.

Strong financial risk profile – The company has a strong financial risk profile, reflected in healthy profit margins and comfortable capital structure and strong coverage indicators. The consolidated entity's revenue had grown at a CAGR of ~38% during FY2020 to FY2023, while the OPM and NPM had remained in the range of 18-22% and 15-20%, respectively. In FY2023, the company's revenues grew 40.4% YoY, driven by the sharp increase in volumes, following the ramp up of the newly added capacities. In FY2023, the OPM was 21.8% and NPM 17.3%. The capital structure and coverage indicators have also remained healthy with low gearing in the last five years. The overall credit profile remains robust characterised by healthy cash generation and minimal debt levels.

Credit challenges

High competitive intensity - The company faces competition from domestic as well as multinational companies, with established brands and larger capital base. This necessitates focus on customised solutions and new product development and diversification into new segments.

Exposure to volatility in raw material prices and foreign exchange rates - The company uses a wide variety of raw materials, which are imported as well as procured from domestic suppliers. The prices of these raw materials are volatile, depending on factors such as the demand-supply trends and crude oil price volatility. The company has, however, demonstrated an ability to pass on the cost fluctuations, resulting in the OPM being in a healthy range of 18-22% in the last five years. The company also does not have a firm hedging policy and uses only natural hedging, exposing the company to the volatility in forex rates.

Liquidity position: Strong

FCL's liquidity position remains strong, supported by robust cash flow from operations of Rs. 105.0 crore in FY2023 and expectation of healthy cash flow from operations, going forward. The liquidity position is further strengthened by the healthy cash and bank balance of Rs. 50.7 crore apart from liquid investments of ~Rs. 90 crores as on March 31, 2023, and availability of un-utilised working capital limits.

Rating sensitivities

Positive factors – ICRA could upgrade FCL's ratings if the company is able to achieve material growth in the scale of operations and maintain healthy profitability on a sustained basis while maintaining a healthy credit profile.

Negative factors – The ratings could be downgraded if there is a sustained decline in the scale of operations or profitability, or a higher-than-anticipated debt-funded capex and/or acquisition, or a stretch in the working capital cycle that will weaken the liquidity position.

Environmental and Social Risks

FCL, being present in the chemical industry, is exposed to the risk of tightening regulations on environment and safety and potential penalties in case of any non-compliance. However, the company adheres to various industry standards and is also Zero Discharge Hazardous Chemicals (ZDHC) Gateway certified. The company is also compliant with environmental law/regulations pertaining to water and air pollution. Further, with growing focus on sustainability in the textile production process, the company's efforts to develop sustainable products/solutions and the certifications/accreditations which include ZDHC, Bluesign and REACH, should be favourable in the medium to long term from a credit perspective.

The company's exposure to social risks mainly pertain to safe operations and remaining compliant to all environmental regulations to ensure the safety of employees and the community in the vicinity of its manufacturing units. As per the disclosures, the company has safety equipment in place at its units.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Fineotex Chemical Limited (FCL). The subsidiaries are enlisted in Annexure II

About the company

The Fineotex Group was established in 1979 by Mr. Surendra Tibrewala. Fineotex Chemical Limited (FCL) is a part of the Group and was incorporated as a public limited company in 2004. The company got listed on the Bombay Stock Exchange in March 2011 and the National Stock Exchange in January 2015. At present, Mr. Sanjay Tibrewala, son of Mr. Surendra, looks after the day-to-day operations and Mr. Surendra supervises the overall affairs and is involved in the strategic decisions. The company has three manufacturing facilities in Navi Mumbai (Maharashtra), Selangor (Malaysia) and Ambernath (Maharashtra).

The company manufactures over 450 specialty chemicals and enzymes for the textile, garment, construction, leather, water treatment, agrochemical, adhesives, and other industries and has presence in ~70 countries. It is a leading manufacturer of specialty and performance chemicals for textiles. FCL manufactures and provides the entire range of products for pre-treatment, dyeing, printing, and finishing for textile processing to customers across the globe. The company has also entered into the health/hygiene (detergent/handwash) segment and has witnessed a healthy scale-up of operations.

Key financial indicators

FCL Consolidated	FY2022	FY2023
Operating income	368.2	517.0
PAT	56.9	89.6
OPBDIT/OI	19.5%	21.8%
PAT/OI	15.4%	17.3%
Total outside liabilities/Tangible net worth (times)	0.3	0.2
Total debt/OPBDIT (times)	0.0	0.1
Interest coverage (times)	77.7	137.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Nov 2, 2023	Nov 1, 2022	-	-
1	**Cash credit**	Long-term	22.00	-	**[ICRA]A+ (Stable)**	**[ICRA]A (Stable)**	-	-
2	**Overdraft**	Short-term	8.00	-	**[ICRA]A1+**	**[ICRA]A1**	-	-
3	**Fund-based limits – Others**	Short-term	3.00	-	**[ICRA]A1+**	**[ICRA]A1**	-	-
4	**Letter of credit**	Short-term	8.00	-	**[ICRA]A1+**	**[ICRA]A1**	-	-
5	**Non-fund based limits – Others**	Short-term	2.00	-	**[ICRA]A1+**	**[ICRA]A1**	-	-
6	**Unallocated limits**	Long-term and Short term	57.00	-	**[ICRA]A+ (Stable)/ [ICRA]A1+**	**[ICRA]A (Stable)/ [ICRA]A1**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund-based - Cash credit	Simple
Short term - Fund-based – Overdraft	Simple
Short term - Fund-based – Others	Simple
Short term - Non-fund based - Letter of credit	Very Simple
Short term - Non-fund based – Others	Very Simple
Unallocated Limits - Long term/ Short term	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	-	-	-	22.00	[ICRA]A+ (Stable)
NA	Overdraft	-	-	-	8.00	[ICRA]A1+
NA	Fund-based limits – Others	-	-	-	3.00	[ICRA]A1+
NA	Letter of credit	-	-	-	8.00	[ICRA]A1+
NA	Non-fund-based limits – Others	-	-	-	2.00	[ICRA]A1+
NA	Unallocated limits	-	-	-	57.00	[ICRA]A+ (Stable)/ [ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Fineotex Malaysia Limited	100.00%	Full Consolidation
BT Chemicals SDN BHD	71.92%	Proportionate
BT Biotex SDN BHD	72.38%	Proportionate
Rovatex SDN BHD	74.76%	Proportionate
Fineotex Biotex Healthguard FZE (formerly known as Fineotex Specialities FZE)	100.00%	Full Consolidation
Manya Manufacturing India Private Limited (formerly known as Manya Steel Private Limited)	100.00%	Full Consolidation
Fineotex Specialities Private Limited	100.00%	Full Consolidation
BT Biotex Limited	100.00%	Full Consolidation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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