

November 11, 2024

Fineotex Chemical Limited: Ratings reaffirmed; outlook revised to Positive

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+ (Positive); reaffirmed and outlook revised to Positive from Stable
Short term – Fund-based – Overdraft	8.00	8.00	[ICRA]A1+; reaffirmed
Short term – Fund-based – Others	3.00	3.00	[ICRA]A1+; reaffirmed
Short term – Non-fund based – Letter of credit	8.00	8.00	[ICRA]A1+; reaffirmed
Short term – Non-fund based – Others	2.00	2.00	[ICRA]A1+; reaffirmed
Long term/Short term – Unallocated	57.00	57.00	[ICRA]A+ (Positive)/[ICRA]A1+; reaffirmed and outlook revised to Positive from Stable
TOTAL	100.00	100.00	

*Instrument details are provided in Annexure-I

Rationale

The revision in the outlook factors in the strong demand for the company's products, which is expected to continue, thereby supporting the growth in the scale of operations and higher profitability. ICRA notes that the company has raised around Rs. 192.5 crore of funds through the issuance of common equity and warrants and will be receiving around Rs. 150 crores in FY2026 for the balance payout towards the warrants. The company intends to utilise the funds so raised for undertaking organic as well as inorganic expansion. ICRA believes that given the sizeable fund raised and the robust cash generation, the company will continue to maintain a healthy credit profile while undertaking the inorganic/organic expansions.

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 strong credit profile, marked by minimal debt levels, significant free cash and cash equivalents and healthy cash flow from operations.

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. As a result, the company has been able to maintain operating margins within a narrow range of 19%-22% during FY2020 to FY2023, with the margins rising sharply in FY2024, supported by a healthy uptick in sales volumes. 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 the JVs with reputed international entities, helping it to acquire new customers and diversify its products and geographic presence.

The Positive outlook on FCL's rating indicates ICRA's expectation of a healthy uptick in its scale of operations, supported by a favourable demand for the products. A steady cash generation and a large equity fund-raise will enable the company to maintain a healthy credit profile in the near to medium term.

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 as increasing the sales to existing customers. This has also helped it maintain healthy profit margins over the years. The company is present in ~70 countries and exports formed ~22% of the total revenue in FY2024.

Revenue diversification in health & hygiene segment to reduce earnings cyclicalities – 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 Eurodye-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 its healthy profit margins, comfortable capital structure and strong coverage indicators. The consolidated entity's revenue had grown 54% during the FY2022 to FY2024 period, while the OPM% and NPM% had remained in the range of 20-25% and 15-20%, respectively. In FY2024, the company's revenues rose 10% YoY, driven by a healthy growth in sales volume as the company's products continued to witness strong demand. In FY2024, the OPM was 26.1% and the NPM 21.3%. The capital structure and coverage indicators have also remained healthy with low gearing in the last five years. The credit profile is further supported by the recent equity fund raised by the company.

Credit challenges

High competitive intensity – The company faces competition from domestic as well as multinational companies, with established brands and a larger capital base. This necessitates a 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 20-25% 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.

Environmental & Social Considerations

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 with 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.

Liquidity position: Strong

FCL's liquidity position remains strong, supported by a robust cash flow from operations of Rs. 93.0 crore in FY2024 and expectation of healthy cash flow from operations, going forward. The liquidity position is further strengthened by the healthy cash and liquid investments of Rs. 182 crore on March 31, 2024 and availability of unutilised working capital limits. The recent fund-raise by the company through a preferential allotment of equity shares and warrants will further improve the overall liquidity position of the company.

Rating sensitivities

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

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

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Chemicals
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 Tibrewala, looks after the day-to-day operations and Mr. Surendra Tibrewala supervises the overall affairs and is involved in the strategic decisions. The company has three manufacturing facilities at 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, adhesive and other industries and is present 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 the health/hygiene (detergent/handwash) segment and has witnessed a healthy scale-up of operations.

Key financial indicators (audited)

FCL Consolidated	FY2023	FY2024
Operating income	517.0	569.0
PAT	89.6	121.0
OPBDIT/OI	21.8%	26.1%
PAT/OI	17.3%	21.3%
Total outside liabilities/Tangible net worth (times)	0.2	0.2
Total debt/OPBDIT (times)	0.1	0.0

FCL Consolidated	FY2023	FY2024
Interest coverage (times)	137.6	111.5

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current (FY2025)				Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Nov 11, 2024	Date	Rating	Date	Rating	Date	Rating
Cash credit	Long term	22.00	[ICRA]A+ (Positive)	Nov 2, 2023	[ICRA]A+ (Stable)	Nov 1, 2022	[ICRA]A (Stable)	-	-
Overdraft	Short term	8.00	[ICRA]A1+	Nov 2, 2023	[ICRA]A1+	Nov 1, 2022	[ICRA]A1	-	-
Fund-based limits – Others	Short term	3.00	[ICRA]A1+	Nov 2, 2023	[ICRA]A1+	Nov 1, 2022	[ICRA]A1	-	-
Letter of credit	Short term	8.00	[ICRA]A1+	Nov 2, 2023	[ICRA]A1+	Nov 1, 2022	[ICRA]A1	-	-
Non-fund based limits – Others	Short term	2.00	[ICRA]A1+	Nov 2, 2023	[ICRA]A1+	Nov 1, 2022	[ICRA]A1	-	-
Unallocated limits	Long term and short term	57.00	[ICRA]A+ (Positive)/ [ICRA]A1+	Nov 2, 2023	[ICRA]A+ (Stable)/ [ICRA]A1+	Nov 1, 2022	[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+ (Positive)
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+ (Positive)/ [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	FCL 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
Fineoclean Specialities Private Limited	100.00%	Full Consolidation
BT Biotex Limited	100.00%	Full Consolidation

Source: Company AR FY2024

ANALYST CONTACTS

Girishkumar Kashiram Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Varun Gogia
+91 98 7115 6542
Varun.gogia1@icraindia.com

Prashant Vasisht
+91 12 4454 5322
prashant.vasisht@icraindia.com

Mohika Kundara
+91 9599133619
mohika.kundara@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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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.

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



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