



January 28, 2021

To,

General Manager,  
Listing Department,  
**BSE Limited,**  
P.J. Towers, Dalal Street,  
Mumbai – 400 001  
**Company code: 533333**

The Manager,  
Listing & Compliance Department  
**The National Stock Exchange of India Limited**  
Exchange Plaza, Bandra Kurla Complex,  
Bandra East, Mumbai - 400051  
**Company code: FCL**

Dear Sir/Madam,

**Subject: - Transcript of Concall with Investors and Analyst held on 25<sup>th</sup> January, 2021.**

We enclose the transcript of Concall with Investors and Analyst which was held on 25<sup>th</sup> January, 2021.

Kindly take this in your records.

Thanking You.

Yours faithfully,

**FOR FINEOTEX CHEMICAL LIMITED**



**Hemant Auti**  
**Company Secretary**



Fineotex Chemical Limited

Earnings Conference Call

Q3 FY2021

January 25, 2021

**Management: Sanjay Tibrewala - Executive Director  
Aarti Jhunjhunwala - Executive Director  
Pradeep Tibrewala**

**Moderators: Astha Jain – Hem Securities Ltd**

**Moderator:**

Ladies and gentlemen, good day and welcome to Fineotex Chemical Limited Q3 FY21 earnings conference call hosted by Hem Securities Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing \* and then 0 on your touchstone phones. Please note that this conference is being recorded. I would now like to handover the floor to Ms. Astha Jain from Hem Securities Limited. Thank you and over to you ma'am.

**Astha Jain:**

Thank you Moumita. Good afternoon ladies and gentlemen. Thank you for joining the Fineotex Chemical Limited Q3 FY2021 earnings conference call. Today we have with us Mr. Sanjay Tibrewala, Executive Director and CFO, Fineotex Chemical Limited, along with Ms. Aarti Jhunjhunwala and Mr. Pradeep Tibrewala to discuss Q3 FY2021 results and to answer all your queries. I take this opportunity to congratulate management on this impressive performance. So, without any further ado, I will hand over the call to Mr. Sanjay Tibrewala for his initial comments, which will be followed by Q&A session. Over to you sir.

**Sanjay Tibrewala:**

Good afternoon everyone. I take this pleasure of welcoming all of you for the Q3 financial year 2021 earnings conference call of Fineotex Chemical Limited. I hope you all had the chance to look at the financial statements and earnings presentation uploaded in the exchange and the website. Before I share my thoughts on the financial and operating performance, I would like to give an overview of our business and the strategic outlook going forward.

Fineotex is a leading specialty chemical producer and a solution provider, having a market leading position in the specialty chemicals, in the international business as well as the domestic textile industry. We are now starting the next phase of growth by growing into Home Care, Cleaning, Hygiene and Drilling Specialty Chemicals. And the FDA approval is expected shortly for our production facilities throughout these product lines. Our subsidiary in Malaysia Biotex, which leads the R&D initiatives and the overall product development. We have been recognized for our sustainability practices by leading global organizations such as Bluesign and ZDHC, Zero Discharge of Hazardous Certification. Fineotex and Biotex complement each other's strength and customers across the globe recognizes the value propositions. Since we acquired Biotex in 2011, we have grown the company multifold and turned around the capital structure to make it debt free.

We have historically delivered robust growth across three financial parameters and have a net cash flow, which we intend to deploy for our expansion plans. We intend to leverage our core competency in manufacturing and development expertise in textiles specialties. We have got new high growth segments such as home care, cleaning, hygiene, chemicals as well as the oil drilling specialties. Within the home care and hygiene, we foresight significant opportunities to collaborate with leading branded detergent manufacturers for their requirements for polymers and so on and so forth. In the oil and drilling specialties, there is a significant proposal and potential to offer to the leading oil and gas companies of India and overseas.

Fineotex and Biotex together cater to multiple fast-growing industries and also high-profile customer base in India and international markets. Our business is well diversified across key international textile hubs, such as Brazil, Bangladesh, Germany, Indonesia, Malaysia, Thailand, USA and Vietnam. Our objective is to leverage Fineotex and Biotex to grow the market share across the existing and new customers in both the Indian and international market. We have a conservative approach towards funding growth plans through internal accruals. And our target is to maintain a net debt neutral capital structure. Both our plants in India and Malaysia are GMP certified and are specifically located to serve our customers. We are leading the transition from synthetic to low carbon footprint products and we are

playing a very critical role in the sustainability chemistry and driving efforts through social responsibility.

Coming to the key highlights for the quarter, we have plans to commission a Brownfield project at Ambernath, near Mumbai by the first quarter of financial year 2022, before June 2021. We are investing approximately 270 million for the project and it will be a state of the art automated unit, which will comply to the highest quality standards of sustainability and boost growth. The machinery orders have been completed. The ground level work is in progress and almost through. The facility is expected to start production in quarter one, financial year 2022. It will cater to customers demand in the existing textile specialty and the fast-growing cleaning and hygiene, drilling specialty industries. There is a significant demand in the specialty textile chemicals and we have been successfully able to develop and move our product mix to more high marginable value added products, with our key focus on sustainable solutions and a way to save, conserve water, energy, utilities for the textile industry and also to reduce the affluent treatment, loads, which is the biggest challenge at the moment for any textile company in India and worldwide.

We have widened our Board of Directors by appointing two highly qualified professional, experienced doctorates, namely Dr. Anand Patwardhan Dr. Satish Waghmare. They will be able to contribute highly and support the company with their rich experiences in technical and quality assurance field to escalate the product quality to further highs.

Coming to the operational and financial performance this quarter, an urge to scale up the high margins specialty chemical orders from both our core segments, for the textile segments as well as the new businesses. The consolidated PAT stood at 134 million in Q3 FY2021, which is 65.5% year on year, higher than the previous quarter three. The operating PAT is higher, it is at 23.2%. The margin stood at 23%, possibly one of the highest in the specialty chemical industry, led by our continuous focus on sustainability, which is supported and profitable growth areas. We expect the order trends to be more favorable in the coming quarters, which should drive our bottom lines and higher top lines rapidly. We will continue to strive towards achieving our business milestone in the next few years by collaborating with our key stakeholders, which includes our customers, suppliers and investors. Our top ten customers are contributing to only 33% of our sales. Our top ten products are contributing to only 19% of our sales in the quarter three financial year 2021.

Now, I would be happy to take any specific questions on our businesses and I would like to give it over to you, to ask whatever the questions and information you would like to know.

**Moderator:**

Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press \* and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing \* and 1 again.

Ladies and gentlemen, if you have any questions, please press \* and 1 on your telephone keypad.

Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question comes from the line of Mr. Sudarsan Padmanabhan from Sundaram Mutual Fund. Please go ahead sir.

**Sudarsan Padmanabhan:**

Thank you for taking my question and congrats on a very good set of numbers. Sir, my question is to understand more on the gross margins, if I look at it right from the first quarter to the third quarter, we have been consistently increasing our gross margins. So, if you can throw a bit color with respect to whether this has been coming in from mix or because, we have been in the system for such a long time

that the yields are benefitting at this point of time? My second question is on Biotex. There if you can give some color with respect to where is the utilization at this point of time, given that historically this has been a relatively lower margin business, are we seeing an improvement as far as the operational efficiencies are concerned?

**Sanjay Tibrewala:**

Yes, I will address your first question regarding the gross margins. Basically, I would also like to add up that what we do is, we provide textile solutions to the consumers. Now, what I mean by solutions is that there are certain challenges which the textile companies are always facing whether it is on finishing or labeling or fixing any particular kind of shade, in which the customers are ready to go for more value added products and also there is a lot of focus which we have on sustainable chemistry, let's say in ways to reduce the temperature, reduce the time of the process, reduce the water baths and these things eventually help the consumers to reduce the ETP loads, BOD and COD loads. So, our major focus, like we have always been focusing upon is for sustainable products, sustainable chemistries, which will be the most important driving force and these are value addition products. That is also one of the reasons why you can see our GPs are growing higher on quarter-on-quarter basis. But, this is something which is, it was already our target and plans and this is what we always had a foresight about. Going forward, also there is a lot of change in the demands of the consumers. Right now, not only the utility course is one of the important things for the consumers, but there is also different trend has come up in the textile market, in the textile garments market, that the consumers have also started demanding certain particular technical textiles and performance driven products, which are let's say, earlier it was like we have the T-shirts and the trousers, which was normal, finished and things like that, but due to the COVID also, there has been more hygiene level products and people want more of soil release, which means that the dirt should not stick to the fabric. People want water repellent finishes more, at the same time the anti-microbial products have also picked up a lot, because most of the sub sheets and the textile bedsheets, all these things are going ahead is all having a technical value addition for the consumers. So, suddenly there is a big demand and these can be only done by chemical finishes and this cannot be done by mechanical. The consumption of chemicals on textiles in terms of value, it is increasing, especially in the last one year. At the same time, our focus has always been into sustainable chemistries, in which we are saving the utility of the consumer. How we present it is, we don't go with our consumers that if you are buying a product from Archroma or any such multi-national, who are our competitors, we don't give one-to-one replacements. We look at the overall efficiency. We reduce the time of the process. We look at the water conservation, which ultimately will be more cost effective to the consumer. At the same time, our product price, the chemical cost treatment will be higher. But, if you see the overall cost reduction for the consumers, because they were already spending time, they were spending a lot for the labors, for the water treatment and for the energy, those things we are converting it into the chemical component and that is also one of the reasons why we are able to increase our sales of the value-added businesses. At the same time, the consumer is also getting much better results in terms of performances and sustainable chemistries. So, that is regarding the gross margins increase.

Whereas in Biotex, Biotex is founded and even managed by the German people, who are the CEO of the company and we started acquiring stake in 2011. If you notice the EBITDA per kilo, what Biotex is working at is comparatively much higher to the Indian standards. So, what Biotex has done is this that they are into a very high end, let's say very difficult to make kind of chemistries, which cannot be translated or made in India. Those are the way they are working. They are not doing in solutions also, in textile chemistries. They are not doing all the product lines. In a way they are only focused on the niche and the main cream products like water repellents or soil release, fluorocarbons, C8 chemistry, C6 chemistry. At the same time, those products are very complementary to the products what we make in India. We have an entire portfolio of the products for the consumers and we are complementing each other and that is the way we have been growing ahead. EBITDA per kilo for Biotex is not less as it looks like it. The margins must be, you

must be thinking about the margins, but if you see the per kilo EBITDA and the kind of orders and the kind of sustainable businesses where they have, right now they have huge order from Turkey and Pakistan for the defense and the other businesses, which are like contractual orders. So going forward Biotex is always into those kinds of businesses and products which are really tough to produce. Generally, the average production capacities, the increase in the production capacity is not a major cost to Fineotex or Biotex in that way. In our business, because we have products, which are, we do sulfonation, we do phosphonation, we do polymerization, we do esterification. We do polymerization of all the monomer, whether it is vinyl acetate monomer, butyl acrylates, styrene, acrylic acid, maleic anhydride, malic acids. Basically, we are doing polymerization. We make homopolymers, copolymers, terpolymers of all the monomers. All the products have a different production cycle and a time usage. We have to keep spare capacities with us for the orders of the products, which have a longer production cycle. We are able to cater to those demands. Recently we have experienced that we are always getting orders for products, which are taking more than thirty-six hours to produce. So, naturally we will need those kinds of spare capacities with us always. It doesn't cost a lot and these expansions in our business is done in staggering basis. It is not that the entire plant has to be set up first,; we can always increase capacities on the basis of number of reactors, number of steam boilers, thermo fluid boilers, so on and so forth. Ultimately it is making lot of business sense for us to work on the lower production capacities, which generally is around 55% and the optimum business, optimum production utilization can also be around 75%, because there is lot of change in the batches which we have to do in the same, so there is a lot of cleaning process, change of the batches. We always think that 75% is the optimum capacity and right now we are on 50%-55% capacity utilization. I am just trying to give you more, apart from the questions which are asked, I am giving you more briefing also at the same time, so that it can be taken as a macro reason of what is the strategy about us.

- Sudarsan Padmanabhan:** Perfect. It was very useful. Thanks a lot. I will join back in the queue sir.
- Sanjay Tibrewala:** Thank you. Thank you so much.
- Moderator:** Thank you, sir. The next question comes from the line of Mr. Nikhil Rungta from Nippon India Mutual Fund. Please go ahead sir.
- Nikhil Rungta:** Hi sir, thanks for the opportunity and congratulations on a great set of numbers.
- Sanjay Tibrewala:** Thank you so much.
- Nikhil Rungta:** Just a couple of questions. First is, in terms of opportunities, just wanted to check whether we would be open for inorganic opportunities as well or we will be largely planning for organic ones only?
- Sanjay Tibrewala:** Okay. Mr. Rungta, I would like to just bring across one, like in 2011, we have done an inorganic international acquisition and we were able to turn around the company into a debt free company and added a lot of bottom lines and lot of synergies between India and Malaysia. At the same time, we would also mention that we are quite let's say disciplined with our cash, with the internal accrual utilization. So yes, we are very much confident after the Biotex performance which has happened in the last nine years, we are very much geared up and confident. Our management is very confident to go for any domestic or international acquisition. But, having said that we would always like to go for businesses only which have same kind of applications let's say in the same field like textile chemicals or hygiene or polymers or something which we produce, the chemistries which we are able to handle for so many years, which I said like polymerization, esterification, sulfonation and phosphonation. Polymerization also, it is a vast field, like I said with solo polymers, copolymers, terpolymers and there are so many various monomers which are combined and used in various industries. The same products can be used in so many industries. We are confident of handling and acquiring companies which



either has the same chemistry and production or at least in the same business, where we are into, which we can easily have a good synergy about it. There are lot of proposals which are coming across and we are watching and analyzing and understanding it, but that is a daily. So, more or less, yes, we are optimistic about going ahead in any inorganic acquisition and we will be welcoming it. But, we will be very disciplined with our cash flow, we will not be looking at anything which is very high valued or very high valuation kind of a business until it makes a lot of synergy for us or until we are able to control those kinds of businesses and make a big value for the Fineotex shareholders.

**Nikhil Rungta:**

Okay. Actually, I have a follow up on this. If we come across any inorganic opportunities, are we ready to go for significant debt or the first target would be net tax positions only?

**Sanjay Tibrewala:**

Right now, we are cash rich company and there is already lot of funds which are there on the books. So, going forward the size of the acquisition first we will be using our internal cash flows and we are very much conservative with our approach, but, yes, that is also a healthy way and it is in fact one of the cheapest ways in the international acquisitions, because I think right now the debt rate is LIBOR plus point something. So, totally it doesn't come to more than 3% to 3.5% on our total cost. So yes, it does make sense. But, at the same time first is to understand the businesses, to understand what the synergies are we can give to our customers and what kind of chemistries we can handle. So, there is lot of deciding factors other than debt. Debt I don't think that that is a big thing, because every year we will have so much of internal accruals in our existing businesses and we would definitely seek to deploy it in the best interests of the shareholders and to make more value based out of it.

**Nikhil Rungta:**

Right. Sir, what would be our cash on books as of 31<sup>st</sup> December?

**Sanjay Tibrewala:**

Our cash on books would be around 50 crores more or less, 500 million. And that is what is, that has been earmarked for the other acquisitions or any kind of new business, the Ambernath plant which we have commissioned, so out of that we have already deployed almost 20 crores, 15 crores to 20 crores have been done, so another 10 will go out of it. So, that is what we have been using it for.

**Nikhil Rungta:**

Okay. What would be the current outstanding mutual funds on board?

**Sanjay Tibrewala:**

It is not mutual funds on board much, because we have much in the liquid plus and the fixed deposits and other instruments. Around 80% of this or 75% of this is almost into debt funds, which are liquid kind of instruments, which can be used anytime for expansion purpose, which has been used already for buying the plot two months back.

**Nikhil Rungta:**

Right. Sir, if I look at our tax rate, it has gone up, if I look at QoQ basis, 8% in first quarter and then 17% and now 27%. For full year, shall we take it in the same 25% range or how it should be?

**Sanjay Tibrewala:**

Historically if we consider it is generally 25% to 27%, like for the last few years overall and right now, we also have a new wholly owned subsidiary, Fineotex Specialty Private Limited, which has been incorporated and we are looking for the new businesses of hygiene and cleaning will be new facilities and new expansions, our machinery is being invested in that company in which the tax as per the new income tax benefits of 15%, so I think going forward you can consider 25% as an overall understanding, considering Malaysia and considering the overall things. Next year I think it can go to little bit lower, maybe 23% also, depending on how fast we grow our new facilities, which will be under 15% tax.

**Nikhil Rungta:**

Right. And sir, last thing from my side. At our full capacity, what would be the revenue generation which we can go to?

- Sanjay Tibrewala:** Actually, what happens in our, like we have the entire range of textile chemicals right from pre-treatment, dyeing, printing, finishing, lot of products. There is a wide range we need to cater and the pricing is from let's say per kilo of Rs.30 a kilo till Rs.1000 a kilo. So, it always depends on what kind of product mix order is there, what kind of trends we are getting. But, even if we consider, even with the full capacities as of now, we can easily go to another let's say 70%-80% growth in the existing capacities, if we get the orders of those products which are more higher priced, in terms of absolute numbers. So, and that is what we can always achieve in the consolidated debt numbers.
- Nikhil Rungta:** And this 70%-80% growth won't be including our new Ambernath facility, right?
- Sanjay Tibrewala:** No, I am talking about just in case that now what we see is the average price realization is around Rs.70 to Rs.80, what we are getting right now or I think it is around Rs.80 to Rs.90 consol basis. So, if we consider that we are focusing and getting more sustainable chemistry orders, because those product pricing is around Rs.300, Rs.400, Rs.200, so if we get into those kinds of products more, so with the same capacities we can get a higher turnover, which can also be between 70%-80% increase. It depends upon how much faster we can get more focus on the sustainable chemistries and how much more the consumers are willing to buy the higher price products to save their effluent loads and the overall energy and the utilities cost.
- Nikhil Rungta:** So, on an average we can say that we can maintain this five to six times of asset turn?
- Sanjay Tibrewala:** We can surely consider that in terms of what you mentioned, but I think yes, there is a lot of positivity which has come. Understanding the need of the sustainable chemistries, getting into products which are more concentrated to reduce the BOD and the COD load of the water. So, that will always enhance our turnovers with the same kinds of facilities. But, at the same time we are also putting up at our new facilities in Ambernath, it will be one of the state-of-the-art sustainable sites and we are going to get lot of audits done with the biggest companies of the world. Logistic issues, the storage and lot of new bigger, higher reactors will be installed over there. Already more or less things are shaping up rapidly. I think in the coming six months we will be able to definitely start the production there. So, after that arrival there will be a big capacity. Also what we are also looking at, there is a big demand who were giving orders to China in the past for the textile markets as well as the specialty chemicals. So, there are lot of opportunities, which are coming on the table right now, in a way through joint ventures and produce in India or make in India kind of concepts and then to supply to the entire PAN Asia countries. There is lot of interest which has come from many companies in Europe and USA. So, we are also expanding and keeping ourselves ready for those kinds of opportunities and that will be the time the gestation period needs to be very, we need to start very quick. So, lot of planning and things have been done in the advance level looking at those kinds of opportunities which are going to come in this year.
- Nikhil Rungta:** That is all from my side. Thank you so much and all the best for your future.
- Sanjay Tibrewala:** Thank you Rungta-ji.
- Moderator:** Thank you, sir. Sir, our third question comes from the line of Ahmed Madha from Unifi Capital. Please go ahead sir.
- Ahmed Madha:** I would like to follow up on the same question regarding the capacity and the nature of business. The current capacity is near 45000 tons per annum and going by your presentation, I can understand that the peak utilization can be 75%. And as you told, we can grow at 70%-80% from the current level of revenue, which means additional 355 crores top line from the current capacity and with the gross block of 45 crores, which implies that you can do gross block turnover of more than eight



times. So, are these assets churn higher because of the nature of business or do we have any trading of goods? Can you just explain that part?

**Sanjay Tibrewala:**

Can you just repeat your last sentences, because I think the network was not clear? I could hear until times and then?

**Ahmed Madha:**

The question is that are these asset churns higher because of the trading of goods or are the business nature is such that the asset turns are near six-eight times?

**Sanjay Tibrewala:**

Sir the business nature is such that we have lot of products range, which can be produced in the shorter production cycle also. So, we need not have more number of reactors at our gross block, although we have done recently in the last two months which are not yet reflected in the balance sheet yet, the new gross block. So, that will also be coming up in the next quarter, for the year end totally with the balance sheet. So, going forward also it is dependent, because this trend is changing in the business, earlier the products was also lower price products and now the products pricing are also going up, because customers are demanding products which are like I said for saving the water, saving the steam cost, the energy cost, labor cost, so the consumption per kilo of fabric is increasing overall. And also, the prices will be higher and that is also helping us go to a higher turnover with the same facility. So, that is what is about the business change. Historically if you notice, in fact in the past if you notice, the ratio was still better. It was not even 8, I think it should be more than that. But, now it has come to it, because we are expanding with more gross block and also having lot of machineries being placed and that is one of the reasons and storage capacities also we are building up more, because there is quite a supply disruption happening around the world, because of the shortage of the container as you all guys are aware about, due to the container shortage and things, so we also need to increase our supply position, raw materials and other things. So yes, the gross block is increasing on that front, but if you see our whole previous four-five years, I think the ratio would be much higher than the 8 nor so.

**Ahmed Madha:**

Fine and out of your 200 crore top line of FY20 is it all manufacturing or do we have any trading portions also?

**Sanjay Tibrewala:**

No it is entirely manufacturing. In fact a lot of our products are coming from Biotex also specialty ones which we are taking from Malaysia Biotex and supplying to India. Let's say Reliance is using entire water repellants for the Maruti cars since so many years, all those are treated with finishes, C8, C6, C0, all the products are coming from Biotex which we as it is imported and give it to Reliance and such many big companies. So those are the internal sales already deducted as per accounting standards in that. This is the total manufacturing sales only what we are doing because we are there since so long and we have the entire facilities and we are doing all sorts of reactions. In fact we are the company who has been also supplying in the past quite a big amount to some European multinationals who were earlier selling in their brands in the past which now our brand has become so much popular, we are working with almost 85 textile corporate companies right from China Blue City, Aerodyne, Auro Textiles, Mahavir Spinning, Deepak, Birla, Nagar, Tee Cee, Narayan, Himatsingka, Sangam, Morarjee, GFCL, I mean you name it Raymonds, Raymonds Vapi, Raymonds Jalgaon, denims, so on and so forth I mean I am not getting into so many more names but in let's say Vardhman, all of them are appreciating Fineotex to a very high level of quality producer with all the certifications, undertakings and other things which is required. We have 35 plus technical marketing people stationed outside Mumbai in all the textile hubs. At the same time we have around 100 plus dealers, stockists and distributors who are channelizing our products to all the smallest zones also having smaller textile zones across India. So going forward this is the way we have been growing and the consumers are very much willing to increase our wallet shares and we are trying to pick up more wallet shares with these big customers. So going forward these companies are all the ones who are now depending, not depending I should say welcoming us to reduce their overall cost of utilities and reduce the water treatment

cost and other things. So going forward I think this percentage will be effective. Their gross block to the sales will be of that ratio.

- Ahmed Madha:** I have one more book keeping question. Depreciation for the year FY20 was near 1.2 crores on the gross block of near 45 crores, which implies less than 3% depreciation rates, so why did is depreciation make it so low although we have plants which still have 30, 35 years? How does that work?
- Sanjay Tibrewala:** Mr. Ahmed I will give Pradeep Tibrewala to answer this question about depreciation.
- Pradeep Tibrewala:** Mr. Ahmed traditionally if you see with low capital cost industries, the machineries require lesser but the buildings part in gross bloc is higher and the machinery part is low. The depreciation rate if you see by the Company's law and other regulations, it is lower than the machinery rate. So in percentage terms it is lower but if you see the next year onwards, then we will be putting plants and the gross block will be higher, we are adding some plant and machinery also then the depreciation would be a little higher. So it is a mix of building and machinery. Building is higher, building and land are higher so the depreciation is lower.
- Ahmed Madha:** Fine, thank you.
- Moderator:** Thank you sir. The next question comes from Mr. Nav Bharadwaj from Anand Rathi. Please go ahead sir.
- Nav Bharadwaj:** Thank you for the opportunity. Congratulations on the great set of numbers sir. First of all I would like to know the cash and cash equivalents as well as the investments that we hold in our books currently but by when do we plan to invest this fully in the business or do we plan to carry such an investment as cash on the books?
- Sanjay Tibrewala:** There is always an investment which is ongoing – increase in plant and machinery, increase in storage. Recently as you know we had expanded in Ambarnath in one of the great prime location which is between Bhiwandi and the docks. Year on year our net profit is increasing. As such we are zero debt and at the same time like we discussed now we are eyeing something which is good inorganic acquisition which we are always looking and welcoming. So it is not exactly deployed today or tomorrow and we don't know whether it can be done in the next quarter or two quarters or whatever because we are as such very disciplined in our cash allocation also. But going forward the way the world is treating specialty chemicals sector in India and the kind of companies and entrepreneurship what I understand from the various chemical companies worldwide and the interest label which has come into India for that to avoid dependency on China primarily, I think there can be a lot of nice interesting opportunities coming up in the coming few years. I think that will be a time when you can see major cash deployed into something which will add more and more value to the stakeholders, shareholders and the company can grow into a different league further more. So we will consider in a couple of years. So we are open do those kind of projects and opportunities and we have in the last 10 years also we have a good CAGR growth overall and most of the foreign companies also seeing how historic incline, in the way we are efficiently handling our businesses our operating PAT is at 23%, so these are the key factors which our joint venture companies are watching very carefully the way we have been doing our businesses and having operational efficiencies. So yes we have lot many more opportunities and yes we are working on it if there is something which is really worth getting into; it will be deployed more earlier.
- Nav Bharadwaj:** Alright, great sir. If I heard you correctly, in your opening remarks you mentioned that you are awaiting an FDA approval for the plant that is going to come by was that correct sir.
- Sanjay Tibrewala:** FDA approval you said?
- Nav Bharadwaj:** Right. Which products particularly do we require an FDA approval?

- Sanjay Tibrewala:** That's a good point that you have. You know the disinfectant sector which is used in hygiene that's anti-microbial hand wash or something to do with any disinfectant, so that has to be approved by the FDA and there is a lot of effort and things being done and already the visits and the FDA audits and approvals and the systems are set. I think in a couple of weeks we should be getting the FDA approval and that we will be announcing to the stock exchange as and when we get it.
- Nav Bharadwaj:** Great, all right sir. My last question from my side would be the new tonnage that we have mentioned. As compared to our current capacity what would be the new tonnage and by when do we plan to utilize it based on the order that we can foresee currently.
- Sanjay Tibrewala:** As such the raised capacities, what we are putting is almost 36,000 tons in Ambernath which we will be doing on staggering basis also. As I said our business is such that we don't need to put all the capital in one go and then get the first production/unit out. It is not that. We can always increase our capacities and keep investing more depending on how good we perform in our existing capacity. So that can always be flexible and that could be around monthly 3000 tons more or less.
- Nav Bharadwaj:** Alright. Thank you so much sir and all the best going ahead.
- Sanjay Tibrewala:** Thank you so much and over to you.
- Moderator:** Thank you sir. Our next question comes from Mr. Samir Rachh from Nippon India Mutual Fund. Please go ahead sir.
- Samir Rachh:** Good evening and congratulations for you and your team for the excellent numbers. I have a few questions, one is regarding Ambernath site. You are having (not clear) you said you are going to invest 27 crores kind of....so...
- Samir Rachh:** Overall, what could be the potential of this site, that is question number one? Second, when we are speaking to textile companies and already they are getting signals?
- Sanjay Tibrewala:** Actually Samir ji, I am not exactly very clear about all the questions that you have asked. I am not sure whether it is only your network or my network too. But what I understand in the first part of the question was yes, the new facilities can always double our turnover with the existing product mix which we have, that is with the capacities of 36000 tons which we can put in staggering as I said. So definitely, we can double our business after the installation and commissioning of the plant but I could not hear your second question.
- Moderator:** Sir we will go with the next question now. It comes from Mr. Abhishek Jain from Seriate Capital. Please go ahead sir.
- Abhishek Jain:** Congratulations sir for the good set of numbers. I just want to ask, how do you envisage the shaping up of working capital cycle down the line after your capex and on the product end cycle, we are seeing the green shoots for the industry. So how are you envisaging the working capital cycle for the same?
- Sanjay Tibrewala:** See as such you know our working cycle what has happened recently in a couple of months, there is a big requirement to have more inventory of raw materials because there has been shortage in the world. Not only for textile chemicals or textile, even if you talk about any product or commodity in the world, there is a lot of supply shortages because of the containers and docks position. So we have increased our inventory levels to a level where we are not too much having any kind of shortage or disruption. But more or less it will be the same as what is going on now around 5% variance can always be there which also depends, sometimes it makes better logic to get a better discounting rate from the creditors and build up

more profitability. As you see we are a very cash rich company so all should make sense of getting a better discount from the creditors and maybe it looks like more working capital but sometimes it makes more bottom line efficiency. So that is not a big difference which will happen in the future. More or less it has been there since, in line and action.

**Abhishek Jain:** Okay sure. Yeah that's all from my side.

**Moderator:** Thank you sir. The next question comes from Mr. Naushad Chaudhary from Systematix Shares. Please go ahead sir.

**Naushad Chaudhary:** HI, thanks for the opportunity. Just a couple of clarifications. First on the capex side; if I heard correctly, we are doing around 27 crore rupees of capex which is going to be operational by 1QFY22. Correct sir?

**Sanjay Tibrewala:** Perfect sir.

**Naushad Chaudhary:** So I just wanted to understand your thought process because if I see the history of our gross block addition, we have never taken this kind of bold decision of almost doubling our gross block. What was the thought process behind this and when did we start thinking about our setting up this kind of capacity and when actually the construction has started at this time because as of 1HFY21 also I don't see any addition on our balance sheet opening capex?

**Sanjay Tibrewala:** Well the thought process was always there and like I said about there are a lot of opportunities that are coming along the way for having more production in India. There are a lot of joint venture opportunities from foreign companies. Those who want to make in India, they don't want to depend on China for their sourcing and other things and they want to use India as their hub for the entire pan Asia because India being well located, it is very close to most of the countries and the freight rates are also not so high. In India indigenously we have a lot of raw materials of the chemical base, everything is available indigenously. So there are a lot of opportunities which are coming across for that. At the same time we are also looking for plants where we can get more scopes for growth and more kind of joint ventures. There is a lot of potential within the textile field itself; textile chemicals. So the thought process was always there. It was like identification of the perfect location because we have to be very careful with the norms of effluent in chemical businesses and production. It does take time and so always it was in the plan and there was this plot which was available. It was not only available, the building structure is also usable well and that also happened just on the 18<sup>th</sup> of November. So it is not reflecting in the September books; it will be seen in the March balance sheet what will be effective now. The capacity expansion has also been done with the demand for the detergent polymer, the demands for the cleaning and hygiene products which are coming up and the textile chemicals which are also picking up dramatically. So these are all done, capacity expansion for the next set of two, three years where we can see even with the same set of product mix we can easily double our business in the next two, three years.

**Naushad Chaudhary:** Okay, would you be able to give a breakup out of 27 crores, how much would be for the land and how much would be for the machine and construction?

**Sanjay Tibrewala:** So around 15 crores will be all in all for the land and the building, which has been already deployed. Another 12 crores for the construction of the machines, platforms and the utilities. There will be also cost for UTP and all the other requirements.

**Naushad Chaudhary :** Okay, so if I read the 1HFY21 balance, can I say that these kind of capacities does not take much time to come on stream because you would have started after 1H and then in 1Q you are expecting this to be operational. So it is not taking even 9 months to us to double our capacity; would it be a fair assessment to say or am I missing something here?

**Sanjay Tibrewala:**

No actually what we were doing is, we had already placed the orders for the machinery from the engineering manufacturers whom we have been working with and expanding for many decades and it is a Brown field project. It is not a Green field project. So there is certain ways to it, there is a law, already things are in place, there is generator established, there is a big one acre of the plant shade which is established. In fact there was a lot of interest from many analyst who visit our facilities in Ambernath and that is also what we will be proposing to all of our analysts and investors eventually. So there is a lot of action going on as it is a Brown field project, a lot of the kick-start was already there. Everything was in place and it made more sense to go for a Brown field project to save the time value. Also it is well located, it has a brick frontage and it is very well located to Bhiwandi area which is the local hub for the chemical and sourcing and storage as well as it is only 2 hours from JNPT port. So it is ideally located and we could get a very good price offers and things like that so we have gone into it for that in November itself. So the MoU was made before and then the transfer was made in November after all the MIDC rules and regulations etc. We are very sure that before the end of June 2021, in the next six months we will be able to commission it. Already the storage tankers have arrived. There is a lot of things which are coming up and these storage tanks. I think they are all 40-ton storage tanks and there are 20-ton production reactors with fully jacketed, full with columns, column condensers, all these full set of machinery is coming which will be flexible to make any kind of products. We can go with various products which needs 220 degrees also. At the same time it can make products which require 95 to 100 degrees also. We are going for such facility where we can change the products and use it for any kind of production activities.

**Naushad Chaudhary:**

Okay and typically in our kind of businesses, if we are taking this kind of capacity expansion project, do we get some verbal pre-commitment from our clients or how does it work? If you come up with a capacity, would you initially take a hit on your realization and margin to fill up your capacity and then gradually as you move towards the higher realization products, how does it actually work?

**Sanjay Tibrewala:**

You know generally, we are having a lot of topics and proposals ongoing and as such, it is not something which we eventually have to do. We are having quite good foresight on it. Even if we don't do it in 2020, we would have done in 2021 and knowing the kind of businesses which is going to come to India for specialty chemicals and also for the textile chemicals because textile orders in India is booming right now, most of our customers are like Indo Counts and all are having such a big commitment for export, they are in fact getting their production done as job work at their competitors levels also. There is in fact a big demand in the textile market and other things because China is again not a reliable supplier for the big brands. So going forward if we are able to gear it up now, because these facilities take time. It does not happen in one month or something like this. Once we have systems in place, then things like that, of course there are lots of requirements coming up for many industries and if these products are always inter-changeable. It is not that if we set a plant for this product, we will not be able to use it for any other product. So that is the reason, this is something which is definitely making a stronger base for getting more business opportunities and as you know we are already quite a cash rich company in that sense, so deploying into the business is one of the best thing which you will ever like to do and this is something which is done at very good pricing and things like that, so it is making a lot of business sense to go for it and we are expecting a lot of contracts coming up.

**Naushad Chaudhary:**

So can you see a whole utilization of this in the next two or three years or will it more time for the commercial utilization?

**Sanjay Tibrewala:**

No, I am quite confident it will not take more than two, three years to meet. That is what you are asking and we are very sure that is easily doable looking at the things which we are going through and also the kind of support we are getting from the textile companies and for the polymers detergents, cleaning and hygiene chemicals, I think it is very doable and we will be maintaining almost the same margins more or less.



- Naushad Chaudhary:** What will be the end user mix focus in this plant; in your textile and home and personal care?
- Sanjay Tibrewala:** So it will be definitely interchangeable. We can always use and make detergent products also in that, cleaning hygiene as well as textile chemicals. Textile chemicals also like I said we are doing all sorts of reaction whether it is phosphonation, sulfonation, esterification, condensation and polymerization for all the monomers. We have been into this since many decades by now and so we are very confident that we will be able to use it at most for all the kind of product mix we have. So that would not be a challenge for us. Going forward we will be looking at more of the other new businesses also for the new verticals and naturally the percentage growth in that will be more higher because right now it is not on higher value. In terms of absolute numbers textile will always be growing more for at least one or two years in terms of absolute numbers but at the same time the percentage numbers, I think the polymer detergent, HPC businesses and the drilling specialty chemicals will be picking up more in terms of the percentage growth. These products are also interchangeable with the same facility so that is not a challenge actually for us.
- Naushad Chaudhary:** Okay and in terms of working capital, as you answered lot of inventory you have to keep because of the supply chain disruption and congestion at the ports level.
- Sanjay Tibrewala:** It is not that we will have to keep it is because as you know we are sustainable chemistry, numbers are going up so we want to make sure we are able to always support the new demands and things like that. It is not high, it is the same. The working capital in fact is exactly the same; there is no change in that. I am just saying from a point of view that we have that much spare cash flows and definitely why don't we use it for improving more of the profitability by paying off the creditors faster or maybe keep higher stock levels also for certain raw materials and orders which can jump up suddenly.
- Naushad Chaudhary:** Okay so what sort of raw materials do we import and what are we doing on that side....procuring and all?
- Sanjay Tibrewala:** So what happens is, in the imported products also...let's say acetic acid as an example. I am just giving you an example about it. Acetic acid can come from China, Korea and also there is GNFC Gujarat Narmada over here. Now the Chinese already have their agents in Bhiwandi in India and they must be having their stocks in Bhiwandi. So for us although the products are imported, we don't necessarily need to import it, we can always buy it from their agents in India who are having long credit terms and very special rates from their foreign companies. Let us say in this example China. Then we can always compare costs with Gujarat Narmada or this importer who has his stocks at Bhiwandi and then we can choose. The products are almost the same because basically our raw materials are standardized quality. It has to be the same from all the sources whether we buy from China or from Gujarat Narmada or any such comparison which I can tell you about. So we do not need to import, we do not need to stock those items; at the same time, we can get it easily overnight I can say or maybe in two days also. To answer that question more numerically, as such 60% of the products are indigenous and 40% are imported but technically, although those are imported and made overseas, they are still available locally at the same time duration. So ultimately, for us it does not matter. Let us say there are importers of CJ Shah and these labels who have a turnover of 4000 crores or something, so basically the foreign companies are stocking huge and ordering ship loads. So of course when we buy the goods in grams or tankers or containers, they can give us much better deal and better pricing and we have been dealing with them since so many decades, so it always makes sense rather than to get it locally from them, compare it with the indigenous producers also and get the best deal whatever we can. So that is not a challenge really for us.



- Naushad Chaudhary:** Okay, so there is no connection between importing the raw material versus having a higher inventory because...
- Sanjay Tibrewala:** 95% it does not matter unless we need something specific; like say, we need something from Biotex, then of course we need to import from Biotex only. Those are specific performance chemicals which we must sell to Reliance or Vardhmans or any such big names. So that we have to keep the same source but that is not a major challenge for us. That is just 2% or 5% of the entire purchase.
- Naushad Chaudhary:** Okay sir, one last question on the margin side. The margin is growing, we have seen in the last two, three quarters, what I see historically, we have done very well in FY16, FY17 when the cycle was in upturn and China thing emerging, so is it something that's kind of cyclical stuff or is it you see it as sustainable for us going forward the kind of margin we have seen in the last two, three quarters.
- Sanjay Tibrewala:** We are actually into certain solution driven products. Our products are not sold on COA basis. What it means by that is, we take the fabric from the consumer and they give us the target result, that is if they want this field, this kind of a finish and they give us untreated fabric. Now, whatever product we want to put in their fabric is entirely our choice. The dosage, the costing, that is what we have to offer to the consumers. They are not worried about what kind of solutions or what kind of activity or what kind of profit margin products we are offering as long as they are able to get what they want to achieve. So the Chinese trend is not so much applicable in our businesses as such, it is more driven by the trend and the kind of products and consumers change of demand. Now the consumers are demanding more textiles and fabrics which need more chemical treatments like water repellants, soil release, (not clear) agent, perspiration absorbers, dust repellants and for everything. Let's say for mask also they need PU coating so there is a lot of poly-urethane demand which has come up. So on and so forth, more than the need of the consumer behavior is changing, it cannot be done mechanically; it has to be done by chemical treatment. At the same time, as I said that we are trying to focus on the sustainable solutions to save the water, steam, labor cost, time cost for the company. Ultimately that is what we are trying to focus upon and that will be building our profitability more in terms of margin.
- Naushad Chaudry:** Okay sir, I have a few more I will come back in queue sir.
- Moderator:** We will take one question on behalf of Mr. Samir Rachh of Nippon India Mutual Fund. Sir he wanted to know about the outlook on textile sector.
- Sanjay Tibrewala:** There are a lot of changes which is happening in the textile demand during the COVID period. There is a big jump and lot many brands have diverted from China to India. There is a big demand for technical textile coming up. Technical textile means textile which will do a specific performance like water repellants, oil repellants, dust repellants, water absorbers, perspiration absorbers, aroma finishes, anti-microbial finishes, PU coating for the mask, anti-microbial for the mask. These things are something which India is very good at. India is one of the countries...let's say number two to the world in terms of China's production but if you consider the overall kind of technical knowledge what the textile industry has and the kind of historical tradition of business textile has been. We are much ahead of China from that point of view. China's strength was they were giving at a better pricing and things like that but now what has happened is the European brand and American brand have diverted a lot of demand to India and Bangladesh recently after the last one year. Even last week when I was meeting some Directors of big companies, they were all very busy in expanding their production to a level they are planning for doubling in 1-1/2 years. That is what has been planned for even home textiles, for the towels, for sheeting business, technical textiles because these are the things which everybody is looking at. There is a big demand worldwide, there is a lot of buying houses coming there. Entire south market, Thirupur market is over full with production orders, even during this Pongal month, I think only a couple of days there was holidays in Tamil Nadu rather than earlier times when there were 7 to 10 days,

there was always shut down and things like that. So I think everybody has huge orders piled up and the order books are very healthy. I have no confusion about understanding that the trend of textile is really going very high eventually in one and a half year it should be drastically high. This is very positive news for India from that front.

**Moderator:** Thank you sir. That would be the last question for the call. Now I would like to hand over the floor to Ms. Astha Jain from Hem Securities Limited for closing comments. Please go ahead ma'am.

**Astha Jain:** On behalf of Hem Securities Limited I thank Fineotex Chemicals team for giving us a detailed insight on the results and the time they spent on this call. I would also like to thank all the participants for joining this call. It was an extremely fruitful discussion. Thank you all for being on the call. Sanjay sir, in case any closing comments from your side?

**Sanjay Tibrewala:** I would like to thank all of you for being there and listening to us and having more faith and interest in Fineotex's business model and the way we have been passionately and sincerely growing our company. We are a very accessible company and management. You can always write to us if you have any questions. You can email us or you can contact our IR or our email address on the websites and also the earning presentations. If there is any information required, we will definitely be quite enthusiastic in replying and getting back to you. So that's all from us and we will keep updating about our developments coming up on the stock exchanges and our websites. Thank you very much and have a good evening.

**Moderator:** Thank you sir. On behalf of Hem Securities Limited that concludes your conference call. Thank you for joining. You may now all disconnect your lines now Thank you and have a good evening everyone.

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*Note: This transcript has been edited to improve readability*

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