

# K E Y N O T E

## I P O N O T E

**Fineotex Chemical Ltd.**

**February 23, 2011**

<b>Price Band</b>	: ₹60 - 72 per share
<b>Minimum Bid Lot Size</b>	: 90 Equity Shares
<b>Maximum Bid Lot Size</b>	: 2,700 Equity Shares
<b>IPO open during</b>	: February 23 - 25, 2011
<b>Book Running Lead Managers</b>	: IndBank Merchant Banking Services Ltd.
<b>To list on</b>	: BSE
<b>IPO Grading</b>	: 2 / 5 (CARE)
<b>PE</b>	: 11.65x (based on base price)*
	: 13.98x (based on cap price)*
<b>Market Cap post-listing</b>	: ₹80.85Cr or \$17.96mn (based on the cap price)
<b>Market Cap of Free Float</b>	: ₹30.32Cr or \$6.74mn (based on the cap price)

\*based on FY10 EPS

**IPO of 4.21mn equity shares of ₹10 each, aggregating to ₹30.32Cr or \$6.73mn (at the cap price)**

### Shareholding Pattern

Shareholder Categories	Pre-Issue		Post-Issue	
	No. of Shares	% Holding	No. of Shares	% Holding
Promoters & Promoters Group	7018220	99.99%	7018220	62.50%
QIBs excl. Mutual Funds	0	0.00%	2000301	17.81%
Mutual Funds	0	0.00%	105279	0.94%
Non-Institutional Investors	0	0.00%	631674	5.63%
Public	380	0.01%	1474286	13.13%
<b>Total</b>	<b>7018600</b>	<b>100.00%</b>	<b>11229760</b>	<b>100.00%</b>

### Executive Summary

- Fineotex Chemical Ltd. (FCL) engaged in business of specialty chemicals consumed by Textile & Garment, Leather, Construction, Adhesives Paper, Water Treatment, Agrochemicals, Paint and other industries.
- FCL's products have an established international market in countries like Bangladesh, Indonesia, Bulgaria, Pakistan, Colombia, Singapore, etc. In domestic markets also, FCL sold its products in Indian cities like Mumbai, Balotra Bhilwara, Delhi, Ludhiana, Tirupur, Karur, Erode, etc.
- The company plans to set up a manufacturing facility for the production of specialty chemicals and enzymes with a capacity of 13,125 MT per annum in and around Khopoli in Maharashtra.
- FCL has a strong and varied customer base from various sectors. Thus, the business of the company is not cyclical in nature and a decline in a sector will not have an impact on its business as it supply to varied sectors.
- FCL offer tailor-make products to meet the customer's needs & requirements, not deviating from the quality, packaging and pricing.
- FCL has the latest technology required in this industry and are continually updated with its in-house R&D at Mahape unit which comprises 2 laboratories.

**Keynote Capitals Research (+9122-30266000-3)**

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### Our View

The company's IPO priced at 18.8x its annualized earnings for FY11 based on post issue capital. Considering the weak fundamentals of FCL and its small size of operations coupled with many unorganized players in the markets, it is advisable for the investors to skip the IPO.

### Company Background

Fineotex Chemical Ltd. (FCL) was incorporated as a private limited company in January 2004 to manufacture specialty chemicals and enzymes. FCL engaged in business of specialty chemicals consumed by Textile & Garment, Leather, Construction, Adhesives Paper, Water Treatment, Agrochemicals, Paint and other industries. FCL has its existing plants located in Navi Mumbai, Maharashtra.

### Promoters and Management

**Mr. Surendra Kumar Tibrewala** is the Chairman and Managing Director of FCL. He has more than 3 decades of experience into manufacturing specialty chemicals and enzymes for various industries namely Textiles & Garments, Construction, Water Treatment, Leather, Paper, Paint, Adhesives etc. As the Chairman & Managing Director, he is actively involved in the day to day affairs of FCL and in strategic decision making.

**Mr. Sanjay S. Tibrewala** is the Whole-time director of FCL. His experience and dynamic nature has facilitated the Company to venture into indirect exports and segments like Construction Chemicals, Adhesives & Enzymes which are a new branch in specialty chemicals, making the company more integrated in nature.

**Mr. Anand Agarwal** is a Non Executive and Independent Director of the company. He has acquired experience in various Industries for over two decades. His Knowledge in the field of finance has helped the company in making critical financial decisions.

### Industry Overview

#### Global Chemical Industry

The Global Chemical Industry, estimated at US\$ 2.4 trillion, is one of the fastest growing sectors of the manufacturing industry. Despite the challenges of escalating crude oil prices and demanding international environmental protection standards now adopted globally, the chemicals industry has grown at a rate higher than the overall-manufacturing segment.

According to industry reports the pharmaceutical segment contributes approximately 26% of the total industry output and approximately 35-40% is dominated by the petrochemical segment. Commodity chemicals are the largest segment in the chemicals market with an approximately size of \$ 750 billion while the Specialty and Fine Chemicals segment accounts for \$ 500 billion.

Increased competition resulting from globalization is driving the chemical industry towards consolidation, cost reduction, location of manufacturing bases close to raw materials, cheaper energy sources, lower tax regimes, increased use of information technology (IT), and intensification of R&D activities. At the same time the industry is responding to the increased environment consciousness worldwide. Consolidation has become imperative as the industry seeks economies of scale in manufacturing, logistics, and R&D.

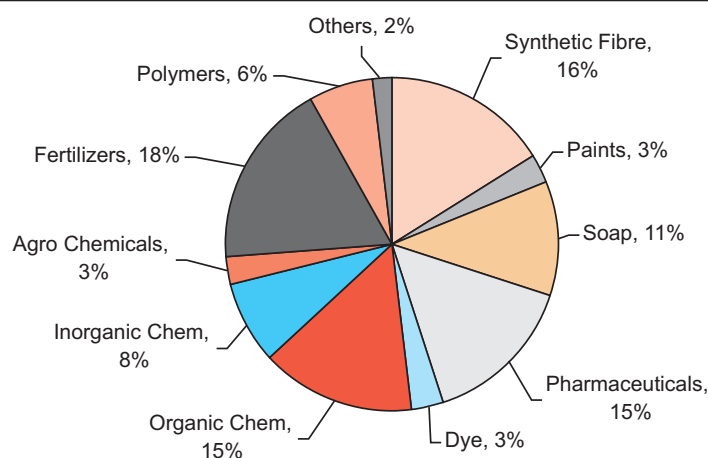
## Indian Chemical Industry

Indian Chemical Industry contributes significantly towards industrial and economic growth of the nation. It is highly science based and provides valuable chemicals for various end products such as textiles, paper, paints and varnishes, leather etc., which are required in almost all walks of life. The Indian Chemical Industry forms the backbone of the industrial and agricultural development of India and provides building blocks for downstream industries.

The Indian Chemical Industry includes basic chemicals and its products, petrochemicals, fertilizers, paints and varnishes, gases, soaps, perfumes and toiletries and pharmaceuticals and is one of the most diversified of all industrial sectors covering thousands of commercial products.

The chemical industry is an important constituent of the Indian economy with an estimated turnover at around \$35bn, constituting 1.5% of the global chemical industry estimated at \$2400bn.

Over the last decade, the Indian chemical industry has evolved from being a basic chemical producer to becoming an innovative industry. With increasing investments in R&D, the industry is registering significant growth in the knowledge sector comprising specialty chemicals, fine chemicals, and pharmaceuticals. Broadly, the share of basic, knowledge, and specialty chemicals is 57%, 18%, and 25%, respectively. Share of different segments of Chemical Industry in India is shown in figure below:



## Specialty Chemicals

The Specialty Chemicals segment in the Indian Chemical Industry is a new emerging sector which brings promises of huge growth. Specialty chemicals are those chemicals which are produced at a low volume; they are high priced and usually targeted at a wide variety of markets. These chemicals are developed under the user's specifications which usually vary from one user to another. The methods of development depend on the application and the function of the chemicals. Main specialty chemicals are rubber chemicals, water treatment chemicals, polymer additives, lubricating additives, specialty pigments etc. These chemicals are mainly based on organic chemicals.

Globally the contribution of specialty chemicals is upto 25% of the chemical sector i.e. it is approximately worth \$453bn. The average annual growth is expected to be

7.5%. In India, the capacity of specialty chemical is 5272 thousand MTs and production is approx. 3690 thousand MTs.

The industry can be divided into two categories — traditional specialty chemicals in the textiles and leather treatment segments and the emerging specialty chemicals in paper treatment, polymer intermediates, master batches, water treatment chemicals and electronic chemicals segments. The largest section of the industry continues to be in the textile dyes and chemicals segment. The second in line, in terms of numbers, is leather chemicals and pigments.

The dyestuffs segment has traditionally been one of the largest in the industry and continues to be crucial because of its forward and backward linkages with a number of other industries. Dyes find application in industries and product segments such as textiles, leather, paper, printing inks and food processing.

### **Scope of Improvement in Specialty Chemicals Industry**

- Consolidation to leverage on reducing the overall cost of production.
- Focus on Research & Development to enable development of world class technological capabilities in product and processes to become cost competitive globally.
- Manufacturing units to improve their operational efficiencies. - There must be a focus on training human resources to enhance their skills.
- Also the industry needs to attract outsourcing partners through:
  - a) Follow good manufacturing practices for attracting outsourcing
  - b) Benchmark global Quality systems (Assurance & Control)

### **Business Operations**

Fineotex Chemical Ltd. (FCL) is engaged in business of specialty chemicals consumed by Textile & Garment, Leather, Construction, Adhesives Paper, Water Treatment, Agrochemicals, Paint and other industries. FCL has its existing plants located in Navi Mumbai, Maharashtra.

FCL's products have an established international market in countries like Bangladesh, Indonesia, Bulgaria, Pakistan, Colombia, Singapore, etc. In domestic markets also, FCL sold its products in Indian cities like Mumbai, Balotra Bhilwara, Delhi, Ludhiana, Tirupur, Karur, Erode, etc.

The company plans to set up a manufacturing facility for the production of specialty chemicals and enzymes with a capacity of 13,125 MT per annum in and around Khopoli in Maharashtra. Setting up this project by FCL would be a step towards expansion of current business i.e. manufacturing of specialty chemicals and enzymes for Construction, Textile & Garments, Leather and Water Treatment Industry. This expansion would help the company to tap the potential of the increasing demand of the specialty chemicals in the above industries

### **Strengths**

#### **Over 100 products of specialty chemicals**

FCL offers a wide range of specialty chemicals and enzymes used in many industries.

The company has large number of products and offers an entire range of specialty chemicals used in Textiles & Garments Processing namely the Pre-treatment, Printing, Dyeing and Finishing Process. It also offer specialty performance chemicals to the Leather, Agrochemicals, Construction, Water Treatment, Wood, Sticker and Adhesive Industries etc.

### **Cater to customers from varied industries**

FCL has a strong and varied customer base from various sectors. Thus, the business of the company is not cyclical in nature and a decline in a sector will not have an impact on its business as it supply to varied sectors. Certain products that are being used for water treatment are being used in all industries where water is being used as a raw material. Thus indirectly our products are being used by majority of the industries.

### **Manufacturing Plants are ISO 9001:2000 certified**

The existing manufacturing units of FCL at Mahape, Navi Mumbai are ISO 9001:2000 certified from JASANZ. In specialty chemicals business quality and innovation are very important. FCL focus on quality not only of the final product but at every stage of production, right from sourcing the raw materials.

### **Technical Assistance to its customers**

FCL has experienced and technically qualified team, which has an experience of more than three decades. All products supplied by FCL are accompanied with the product literature which exhibits all details regarding uses, dosages etc. The team delivers prompt technical service and attends to customer queries. The company also offers on-site assistance, online web assistance and after sales service, which ensures prompt solutions to its clients.

### **Customized products**

FCL offer tailor-make products to meet the customer's needs & requirements, not deviating from the quality, packaging and pricing. Modifying its products on various parameters like viscosity, appearance, moisture content, solubility, pH as per customer requirements helps the company to deliver value to its customers.

### **In-house Research & Development**

FCL has the latest technology required in this industry and are continually updated with its in-house R&D at Mahape unit which comprises 2 laboratories. Also, its experienced and technically qualified personnel strive to develop and improve upon the product features by incorporating the latest technology, customer feedback, suggestions from staff and developing new specialty and cost-effective products.

### **Experienced management team**

The Chairman & Managing Director of FCL has been in the business of manufacturing specialty chemicals for more than 3 decades. His knowledge and experience in the field of specialty chemicals and enzymes has helped the company to have long term relations with its customers and has also facilitated it to enter new segments of enzymes and construction chemicals etc.

### **Proximity to sources of raw material**

FCL consumes approximately 100 raw materials. The company either procures them

from domestic importers or sources them from indigenous manufacturers in India, which has their warehouses located in close proximity to its manufacturing units.

### Objects of the Issue

The objects of the issue are:

- Setting up of manufacturing facility for production of specialty chemicals
- Setting up of sales office in Mumbai
- Working capital requirements
- Meeting public issue expenses
- General corporate purpose

### Utilisation of Net Proceeds

Particulars	Amount (₹Cr)
Setting up of new manufacturing facility	7.44
Sales Office at Mumbai	1.80
Working Capital Requirements	8.00
Public Issue Expenses	[•]
General Corporate Purposes	[•]
<b>Total</b>	<b>[•]</b>

### Investment Risks

(Please refer to the RHP for a complete listing of risk factors)

- FCL has experienced negative cash flows from operating activities for FY06 to FY08. Any negative cash flows in the future would adversely affect our results of operations and financial condition.
- The customers of FCL generally do not enter into long term contracts. Any loss of potential customers or scale down their orders may impact its financial performance.
- FCL is dependent on third-party transportation providers for the supply of raw materials and delivery of products.

## Restated Profit & Loss Statements

(₹Cr)

Year / Period ended on	31-Mar-06	31-Mar-07	31-Mar-08	31-Mar-09	31-Mar-10	30-Sep-10
<b>Income</b>						
Sales – Products Manufactured	-	-	17.83	20.48	22.08	14.55
Traded Sales	-	1.05	13.66	6.48	-	-
Less : Excise Duty	-	-	-1.85	-1.69	-1.33	-1.16
Net Sales	-	1.05	29.64	25.27	20.75	13.39
Increase/(Decrease) in Inventory	-	-	-	-0.12	0.33	-0.06
Other Income	-	0.00	0.23	0.34	0.71	0.16
<b>Total (A)</b>	-	1.05	29.87	25.49	21.79	13.48
<b>Expenditure</b>						
Materials Consumed	-	-	9.56	10.19	11.84	7.70
Cost of sales of goods traded	-	1.04	12.64	6.47	-	-
Work Expenses	-	-	0.66	2.03	2.44	1.12
Staff Cost	-	-	0.44	0.67	0.94	0.44
Administrative & Other Expenses	0.00	0.00	0.42	0.97	1.07	0.88
<b>Total (B)</b>	0.00	1.05	23.71	20.34	16.29	10.15
<b>Profit Before Interest, Depreciation and Tax</b>	0.00	0.00	6.16	5.15	5.50	3.33
Depreciation	-	-	0.09	0.09	0.13	0.07
<b>Profit Before Interest and Tax</b>	0.00	0.00	6.07	5.06	5.38	3.26
Financial Charges	-	-	0.03	0.04	0.02	0.01
<b>Profit after Interest and Before Tax</b>	0.00	0.00	6.04	5.02	5.36	3.25
Preliminary Expenses W/o	-	0.00	0.00	0.00	0.00	0.00
<b>Profit before Taxation</b>	0.00	0.00	6.04	5.02	5.36	3.25
Provision for Taxation	-	0.00	2.20	1.79	1.67	1.07
Provision for Deferred Tax	-	-	0.07	0.10	0.08	0.04
Fringe Benefit Tax	-	-	0.01	0.01	-	-
<b>Profit After Tax before Extra ordinary Items</b>	0.00	0.00	3.76	3.12	3.61	2.15
Extraordinary items	-	-	0.11	-0.24	-	-
<b>Profit after Tax</b>	0.00	0.00	3.87	2.88	3.61	2.15
Weighted average number of shares	10000	14630	6784205	7018600	7018600	7018600
<b>EBITDA margin (%) on Net Sales</b>	0.00	0.39%	20.77%	20.38%	26.53%	24.87%
<b>EPS (₹)</b>	-0.40	1.78	5.70	4.10	5.15	3.06
<b>Book Value (₹)</b>	6.70	9.71	15.10	17.53	21.51	24.57

**Restated Balance Sheets**

(₹Cr)

Year/Period ended on	31-Mar-06	31-Mar-07	31-Mar-08	31-Mar-09	31-Mar-10	30-Sep-10
Gross Block	-	-	2.84	3.59	3.70	3.73
Less: Depreciation	-	-	0.09	0.09	0.22	0.29
Net Block	-	-	2.75	3.50	3.49	3.45
Capital Work in Progress	-	-	0.68	0.76	0.81	0.47
<b>Total Fixed Assets (A)</b>	-	-	3.43	4.26	4.30	3.91
Investments (B)	-	-	-	2.02	3.51	5.56
<b>Current Assets, Loans and Advances</b>						
Inventories	-	-	1.00	1.36	1.61	2.19
Sundry Debtors	-	0.01	7.77	5.47	5.75	6.89
Cash and Bank Balances	0.01	0.01	2.17	0.24	0.83	0.73
Other Current Assets	-	-	0.24	1.86	0.47	0.43
Loans and Advances	0.00	0.00	2.54	2.83	2.48	2.49
<b>Total (C)</b>	0.01	0.02	13.72	11.76	11.14	12.73
<b>Liabilities and Provisions</b>						
Secured Loans	-	-	0.05	0.50	-	-
Unsecured Loans	-	-	-	0.96	-	-
Deferred Tax Liability	-	-	0.07	0.17	0.25	0.28
Current Liabilities	-	0.00	3.86	2.55	2.68	4.33
Provisions	0.00	0.00	2.92	1.56	0.93	0.35
<b>Total (D)</b>	0.00	0.00	6.91	5.73	3.85	4.96
<b>Net Worth (A+B+C-D)</b>	0.01	0.01	10.24	12.30	15.09	17.24
Net Worth represented by:						
Equity Share Capital	0.01	0.02	7.02	7.02	7.02	7.02
Total	0.01	0.02	7.02	7.02	7.02	7.02
<b>Reserves and Surplus</b>	-	0.00	3.22	5.28	8.08	10.23
<b>Net Worth</b>	0.01	0.01	10.24	12.30	15.09	17.24

**Keynote Capitals Ltd.**

**Member**

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Central Depository Services Ltd. (IN-DP-CDSL-152-2001)

**Registered Office**

4th Floor, Balmer Lawrie Building,  
5, J. N. Heredia Marg,  
Ballard Estate, Mumbai 400 001.  
Tel Nos. 022-2269 4322 / 24 / 25

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