

Mr. Sanjay Tibrewala
Director
Fineotex Chemical Limited
42 & 43, Manorama Chambers,
S. V. Road, Bandra (West),
Mumbai- 400050

4th Floor, Godrej Coliseum,
Somaiya Hospital Road,
Off Eastern Express Highway,
Sion (East), Mumbai - 400 022, INDIA.
☎ : 67543456 Fax : (022) 67543457
E-mail : care@careratings.com
www.careratings.com

January 31, 2011

Dear Sir,

IPO Grading

Please refer to our letter dated January 27, 2011 on the above subject.

2. The rationale for the grading is attached as an **Annexure - I**. Kindly note that the rationale would be published in the forthcoming issue of our quarterly journal, 'CAREVIEW'.
3. A write-up on the above grading is proposed to be issued to the press shortly. A draft of the press release is enclosed for your perusal as **Annexure - II**.
4. We request you to peruse the Rationale and Press Release and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by February 07, 2011 we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,


[Niriksha Gupta]
Analyst


[Gaurav Dixit]
Senior Manager

Encl.: As above

Annexure-I

Grading Rationale

Fineotex Chemical Limited (FCL)

Grading Assigned

Instrument	Size of the IPO	Grading¹	Remarks
Initial Public Offering (IPO)	42,11,160 shares having Face Value of Rs. 10 each	'IPO Grade 2'	Initial Grading

Grading Rationale

The grading is constrained by FCL's small size of operations, unorganized and highly competitive industry in which the company is operating, decline in total operating income, high collection period, low entry barriers and customer concentration risk faced by the company.

The grading, however, derives strength from experience of the promoters in the specialty chemical sector, debt and litigation free status of the company, improved profitability margins, long track record of operations and favourable industry scenario for specialty chemicals.

Background

Fineotex Chemical Limited (FCL) was incorporated as a Private Limited Company under The Companies Act 1956, on January 30, 2004. Its constitution was changed to a Public Limited Company on October 19, 2007. The promoters of the company are Mr. Surendra Kumar Tibrewala, Mr. Sanjay S. Tibrewala, Mrs. Kanaklata S. Tibrewala, Ms. Ritu S. Tibrewala, Proton Biochem Private Limited, Kamal Chemicals Private Limited and Surendra Kumar Tibrewala (HUF).

FCL is in the business of manufacturing specialty chemicals and enzymes consumed by the Textile and Garment Industry, Leather, Water Treatment, Construction, Paper, Paint, Adhesives, Agrochemical and other industries.



¹ Complete definition of the grading assigned is available at www.careratings.com and in other CARE Publications

FCL's existing plant, with an installed capacity of 5,000 MT/annum, is located at Mahape in Navi Mumbai. The company proposes to set up a new manufacturing facility, at Khopoli in Maharashtra, for the production of specialty chemicals and enzymes with a capacity of 13,125 MT/annum.

Management

Mr. Surendra Kumar Tibrewala, the Promoter and Managing Director of FCL, is supported by a team of senior executives headed by his son Mr. Sanjay Tibrewala, Whole Time Director. Mr. Surendra Kumar Tibrewala has more than three decades of experience in manufacturing specialty chemicals and enzymes for various industries. Further, Mr. Sanjay Tibrewala is actively engaged in managing the affairs of the company specifically focusing on entering new markets, increasing the product line with constant focus on improvement in quality of the products offered.

Corporate Governance

FCL has five directors, of which the Chairman of the board is an executive director. According to the requirements of clause 49 of the Listing Agreement, a company is required to have 50 per cent independent directors on the board, if the chairman of the board is also an executive director of the company. Accordingly, FCL has two executive directors and three independent directors. The company has an Audit Committee, a Remuneration Committee and a Shareholders/Investors Grievance Committee since the year 2007.

Litigations

No cases are pending against the company, its promoters and its directors as on March 31, 2010.

Operations

FCL is an ISO 9001:2000 certified company engaged in the business of manufacturing specialty chemicals and enzymes used by many industries. The company's existing manufacturing facility is located at Mahape in Navi Mumbai and has an installed capacity of 5,000 MT/annum. FCL is a small player in the specialty chemicals industry. It faces competition from some of the unorganised players in the sector as well as from big multinationals, like Pidilite Industries Limited, the BASF group, Clariant Chemicals India Limited etc., which have better manufacturing facilities and superior brand image than FCL. Although FCL has managed to carve a niche for itself within the industry and its customer profile includes some



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multinationals, it is highly dependent on a few key customers for its revenues. Its top six customers accounted for approximately 57.84% of its net sales in FY10.

IPO Details

FCL proposes to make a public issue of 42,11,160 equity shares of face value of Rs. 10 each. The proceeds of the issue are proposed to be deployed towards:

- 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

Financial Analysis

FCL's total income declined at a CAGR of 16.31% from FY08 to FY10 despite the revenues from the sale of manufactured specialty chemicals rising at a CAGR of 12.42%. This is mainly because the company gradually reduced its trading activities, which formed about 46.65% of the net sales in FY08, to focus on sale of manufactured specialty chemicals. Accordingly, there were no revenues from trading activities in FY10.

The company's PBILDT grew by 11.04% in FY10 due to a higher focus on manufactured products as opposed to the low margin trading. Backed by an increase in the PBILDT and a decline in the interest cost, the PAT grew by 16.62% in FY10. The margins of FCL improved in FY10 due to the discontinuation of the low margin trading activities by the company.

Due to a significant increase in the capital employed and the networth of the company combined with a slight increase in the profits, the company's ROCE and RONW have declined in FY10.

FCL was a debt free company as on March 31, 2010. The company has sanctioned fund based limits of Rs. 0.44 crore against a fixed deposit with the bank. However the limits of the company remain largely unutilized.

The average collection period of the company increased to 91 days as on March 31, 2010 due to a decline in the sales of the company as FCL shifted its focus towards sale of manufactured goods only and in FY10 there were no sales of traded goods.

As per the audited results for H1FY11, FCL earned a PAT of Rs.2.15 core on total income of Rs.13.48 crore.

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Industry Review

The Specialty Chemicals segment in the Indian Chemical Industry is an emerging sector which brings promises of huge growth. Specialty chemicals are those chemicals which are produced at a low volume, are highly 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 which requires the best technical knowhow. The main specialty chemicals are rubber chemicals, water treatment chemicals, polymer additives, lubricating additives, specialty pigments etc. These chemicals are mainly based on organic chemicals. In India, the capacity of specialty chemical is estimated at 5,272 thousand MTs and production is approximately 3690 thousand MTs.

Like information technology, specialty chemicals are also a knowledge based industry and India has the capability to become a leading player in the world because of its low cost structure, scientific competence and skilled manpower. Specialty chemicals have high rates of growth, superior margins, are specific need oriented, non-cyclic and relatively immune to industry cycles.

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 emerging specialty chemicals offer better margins as compared to traditional specialty chemicals.



Financial Performance

For the period ended / as at Mar.31,	(Rs. Cr)		
	2008 (12m, A)	2009 (12m, A)	2010 (12m, A)
Working Results			
Manufactured goods sales	17.47	20.48	22.08
Traded goods sales	13.66	6.48	-
Total Operating income	29.87	25.61	20.92
PBILDT	6.15	4.50	5.00
Depreciation	0.09	0.09	0.13
Interest	0.03	0.04	0.02
PBT	6.14	4.79	5.34
PAT (after deferred tax)	3.86	3.00	3.50
Gross Cash Accruals	4.02	3.07	3.82
Financial Position			
Equity share capital	7.02	7.02	7.02
Networth	10.31	12.47	15.34
Total capital employed	10.36	13.93	15.34
Key Ratios			
<i>Growth</i>			
Growth in Total income (%)	-	(14.26)	(18.33)
Growth in PBILDT (%)	-	(26.84)	11.04
Growth in PAT (after D.Tax) (%)	-	(22.25)	16.62
<i>Profitability</i>			
PBILDT/Total Op. income (%)	20.59	17.57	23.88
PAT (after deferred tax)/ Total income (%)	12.92	11.71	16.73
ROCE (%)	118.91	43.65	37.25
RONW (%)	74.78	26.35	25.16
EPS (Rs.)	5.50	4.27	4.98
<i>Solvency</i>			
Long Term Debt Equity ratio (times)	-	-	-
Overall gearing ratio(times)	-	0.12	-
Interest coverage(times)	185.66	119.77	313.89
Term debt/Gross cash accruals(years)	0.01	0.31	-
<i>Liquidity</i>			
Current ratio(times)	1.98	1.69	2.08
Quick ratio(times)	1.84	1.54	1.85
<i>Turnover</i>			
Average collection period (days)	44	88	91
Average creditors (days)	27	52	58
Average inventory (days)	8	20	34
Operating cycle (days)	25	56	67



DISCLAIMER:

CARE's IPO grading is a one time assessment and the analysis draws heavily from the information provided by the issuer as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE, does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. CARE's IPO grading does not take cognizance of the price of the security and it is not a recommendation to buy, sell or hold shares/securities. It is also not a comment on the offer price or the listed price of the scrip. It does not imply that CARE performs an audit function or forensic exercise to detect fraud. It is also not a forecast of the future market performance and the earnings prospects of the issuer; also it does not indicate compliance/violation of various statutory requirements. CARE shall not be liable for any losses incurred by users from any use of the IPO grading.

Annexure II

Press Release

CARE assigns 'IPO Grade 2' to the proposed Initial Public Offering (IPO) of Fineotex Chemical Limited (FCL)

Grading

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On a total operating income of Rs. 20.92 crore in FY10, FCL earned a PAT of Rs. 3.50 crore.



¹ Complete definition of the grading assigned is available at www.careratings.com and in other CARE Publications

As per the audited results for H1FY11, FCL earned a PAT of Rs.2.15 core on total operating income of Rs.13.48 crore.

Analyst Contact

Name: Gaurav Dixit

Tel # 67543483

Mobile # 9892962879

Email: gaurav.dixit@careratings.com

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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