

Chemcon Speciality Chemicals Ltd

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Price Band: INR 338-340

ISSUE SUMMARY

Issue Opens	21-Sep-20
Issue Closes	23-sep-20
Offer Price (INR per share)	338-340
Face Value (INR)	10.0
Pre Issue Shares o/s (mn)	31.8
Offer for Sale (No of sh. mn)	4.5
^Fresh Issue (No of sh. mn)	4.9
^Post Issue shares o/s (mn)	36.6
^*Issue Size (INR bn)	3.2
QIB	=>50%
Non-institutional	<15%
Retail	<35%

^ Issue Size (@INR340)

POST ISSUE DETAILS

M.Cap @INR340/sh. (INR bn) 12.5

Shareholding pattern

Promoters	74.5%
Non-Promoters	25.5%

Chemcon Speciality Chemicals Ltd (Chemcon) is the speciality chemicals manufacturer of Pharma Chemicals (HMDS, CMIC) and Oilwell Completion Chemicals (inorganic bromides).

Leading manufacturer globally for Pharma Chemicals and in India for Oilwell Completion Chemicals: Chemcon is the only manufacturer of HMDS in India and 3rd largest globally. It is also the largest player of CMIC in India and 2nd largest worldwide. Additionally, Chemcon is the only manufacturer of Zinc Bromide and the largest of Calcium Bromide in India. 40% of the revenues come from export which has grown at a CAGR of 18% over FY18-20. Chemcon enjoys high entry barriers which leads to client stickiness and long standing relationships.

Expanding capacity and geographic reach: Chemcon plans to set up two more plants for manufacture of Pharma Chemicals (capex of INR410mn), which would increase its capacity from 375KL to 626KL (operational by FY22 end). This will help Chemcon expand its reach in India which is currently net importer of HMDS/ CMIC. Chemcon also aims to expand its product portfolio and usage of its existing products to other industries.

Healthy Financials: Over FY18-20, Chemcon's revenue/EBITDA/PAT grew at a CAGR of 29%/25%/36%, led by volume and price growth. Its EBITDA margins are strong at 26.8% in FY20 given the leadership position and high complex nature products. Given continuous capex incurred over the last three years, the return ratios have tapered down, though healthy with ROE/ROCE at 40%/33% in FY20.

Issue Size: The INR3.2bn IPO consists of fresh issue of INR1.7bn and OFS (4.5mn shares by promoter) of INR1.5bn which would result in promoter's stake reducing from 100% pre-IPO to 74.5% post-IPO. The funds raised from fresh issue will be utilized to fund capex, meet working capital requirements and for general corporate purpose.

Valuation & View: At the higher end of the price band, the issue is valued at 25.5x FY20 P/E (fully diluted), which is reasonable compared to peers. We like Chemcon given its (1) leadership position in niche products, (2) high entry barriers and (3) healthy financials. Hence, investors can Subscribe to the IPO. Further considering the bright prospects for Chemical companies due to shift of supply chain away from China, we believe Chemcon would be well placed to capture this with its planned capex. Risk: (1) Client concentration, (2) limited product portfolio and (3) criminal proceeding against a member of promoter group.

Exhibit 1: Financials & Valuations (INR mn)

Y/E March	FY17	FY18	FY19	FY20
Revenue	899	1,576	3,033	2,621
Growth (%)	-	75.4	92.4	-13.6
Adj PAT	28	264	430	489
Growth (%)	-	833.8	63.2	13.5
EPS (INR)	0.8	7.2	11.7	13.3
RoE (%)	10.4	65.4	57.1	40.1
PE (x)	440.9	47.2	28.9	25.5

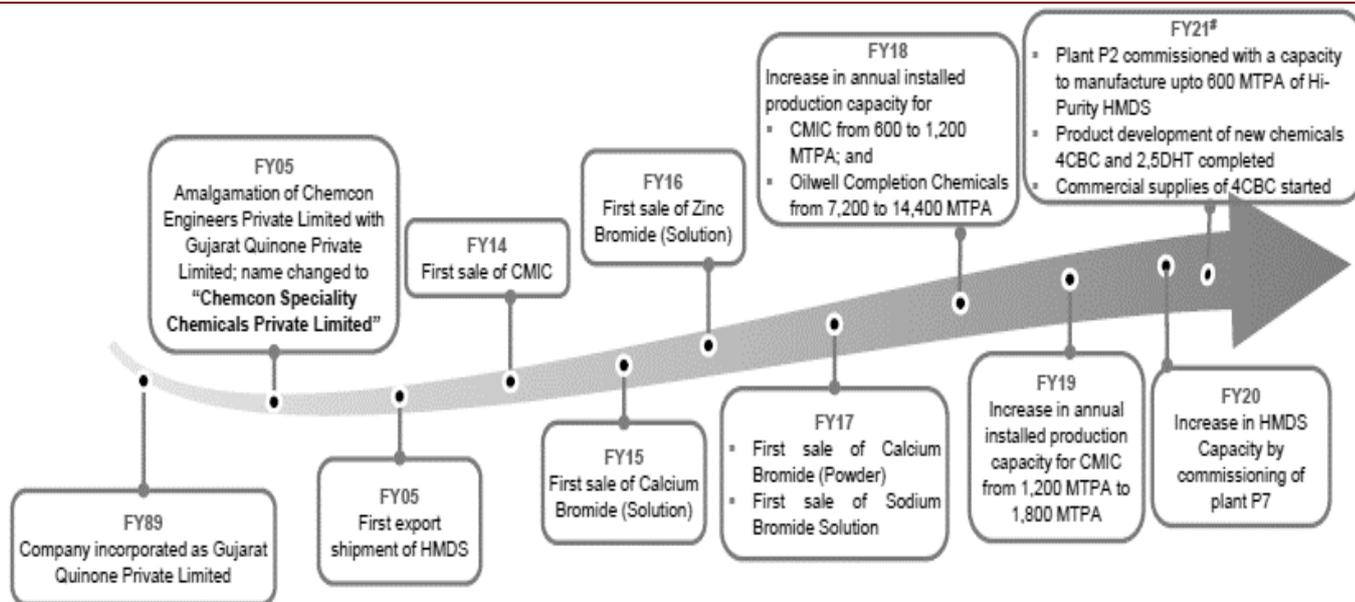
Source: Company RHP, MOFSL

Ratios are calculated on post issue basis, at the upper price band of INR340

About the Company

Incorporated in 1988, Chemcon Speciality Chemicals Ltd (Chemcon) was originally established as Gujarat Quinone Private Limited (GQPL) at Vadodara, Gujarat, India. Later in July 2004 the name of the company was changed to Chemcon Speciality Chemicals Limited post GQPL merger with Chemcon Engineers Private Limited (CEPL) which was incorporated by promoters in Vadodara in 1996.

Exhibit 2: Company Overview



Source: RHP, MOFSL

Chemcon is a manufacturer of specialised chemicals, such as Hexamethyldisilazane / Hexamethyldisilane (HMDS) and Chloromethyl Isopropyl Carbonate (CMIC) which are predominantly used in the pharmaceuticals industry. As per the Frost & Sullivan Report, Chemcon is the only manufacturer of HMDS in India and is the 3rd largest manufacturer of HMDS worldwide in terms of production (CY19). It is also the largest manufacturer of CMIC in India and the 2nd largest manufacturer of CMIC worldwide, in terms of production and capacity. In CY18, Chemcon was the 8th largest manufacturer of HMDS and 2nd largest manufacturer of CMIC chemical worldwide.

Exhibit 3: Key Products

Key Products	
Pharmaceutical Chemicals	Oilwell Completion Chemicals
HMDS	Calcium Bromide
CMIC	Zinc Bromide
New Products: 4 CBC, 2,5 DHT (pending receipt of orders)	Sodium Bromide

Source: RHP, MOFSL

Exhibit 4: HMDS India Market (2019) (in MT)

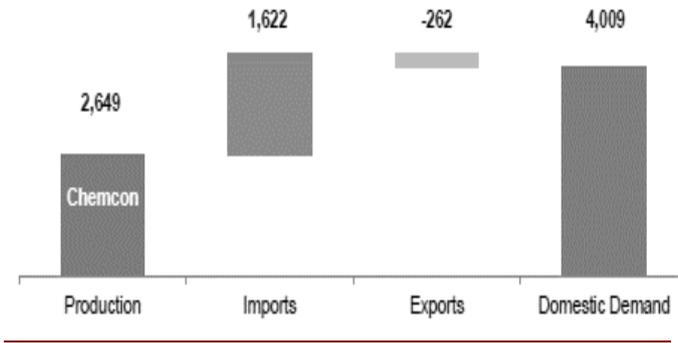
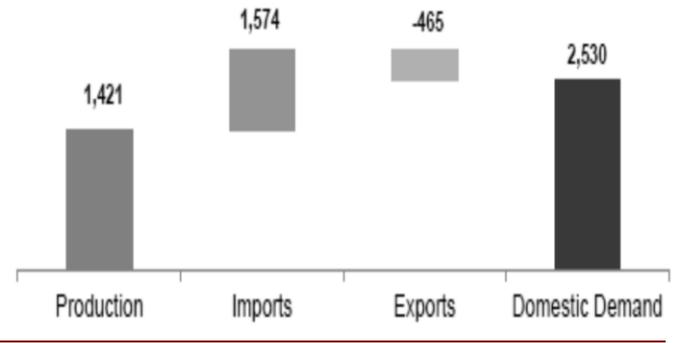


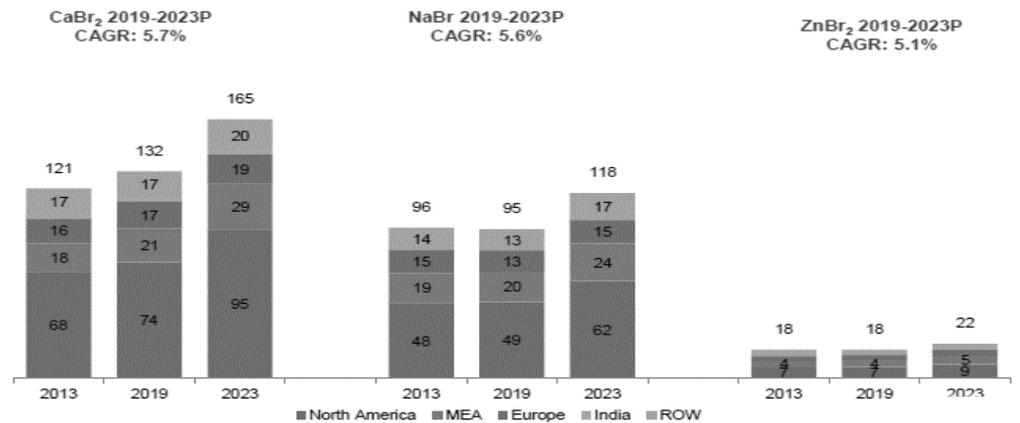
Exhibit 5: CMIC India Market (2019) (in MT)



Source: RHP, MOFSL

Chemcon also produces speciality chemicals like inorganic bromides, namely Calcium Bromide, Zinc Bromide and Sodium Bromide, which are predominantly used as completion fluids in the oilfields industry. It is the only manufacturer of Zinc Bromide and the largest manufacturer of Calcium Bromide in India, in terms of production.

Exhibit 6: Bromides Geography wise Demand ('000 MT)



Source: RHP, MOFSL

Company not only serves the domestic market but also export its products in overseas market such as USA, China, Japan, UAE, Serbia, Russia, Malaysia, and Azerbaijan. Exports contributed 40% to revenues in FY20 and grew at a CAGR of 18% over FY18-20.

Exhibit 7: Revenue from operations - Geographic (%)

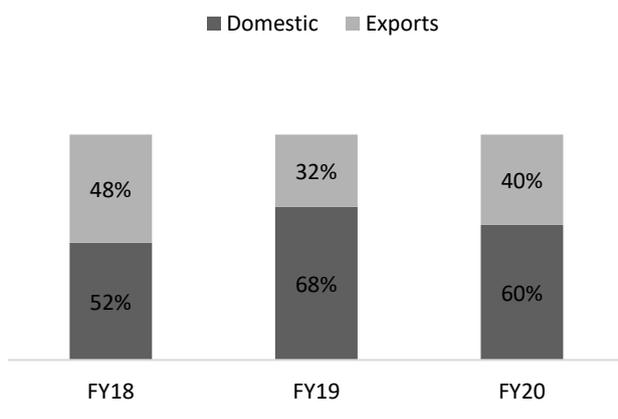
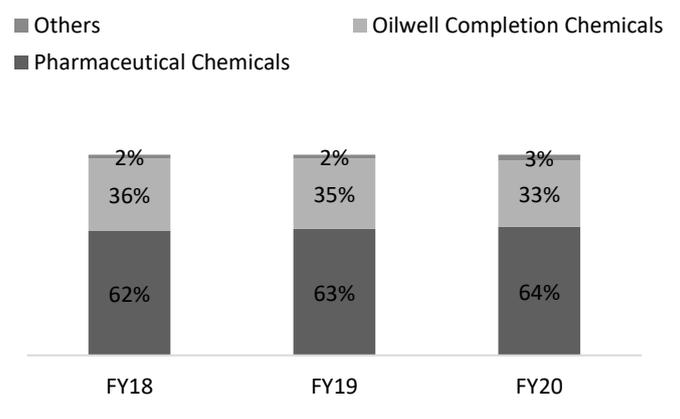


Exhibit 8: Revenue from operations - Businesswise (%)



Source: RHP, MOFSL

The key customers of Pharmaceutical chemicals include Hetero Labs, Laurus Labs, Aurobindo Pharma, Lantech Pharmaceuticals, Ind –Swift Laboratories, Vivin Drugs & Pharmaceuticals and Macleods Pharmaceuticals. Shree Radha Overseas, Water Systems Specialty Chemical DMCC and CC Gran Limited Liability Company are some of the clients of its oilfield chemicals segment.

Exhibit 9: Overview of key customers product-wise

HMDS	CMIC	Oilwell Completion Chemicals

Source: RHP, MOFSL

Chemcon has dedicated manufacturing plants for each product at Vadodara, Gujarat. The Company currently has seven operational plants of which two plants are dedicated to the manufacturing of HMDS and ancillary products (including one plant dedicated to the manufacturing of hi-purity HMDS), one multipurpose plant, currently being used for manufacturing of HMDS and other pharmaceutical chemicals, two plants are dedicated to the manufacturing of CMIC and two plants dedicated to the manufacturing of Oilwell Completion Chemicals, along with three warehouses for the storage of its products and raw materials. In addition, Chemcon is in process of setting up 2 additional plants at Vadodara at cost of INR410mn, to be used for the manufacturing of chemicals used in the pharmaceutical industry. The Company also has an in-house laboratory at its Manufacturing Facility and five leased warehouses.

Exhibit 8: Manufacturing Facility

Details of Manufacturing Facility				
Product Categories	Products manufactured	Plant no.	Annual installed Production Capacity (MT per annum)	Volumetric Reactor Capacity (in KL)
Pharmaceutical Chemicals	HMDS and ancillary products	P-3 & P-7 ⁽¹⁾	4,200	177.80
	HMDS Hi-Purity	P-2 ⁽²⁾	600	13
	CMIC	P-4 & P-8	1,800	121.75
Oilwell Completion Chemicals	Calcium Bromide (solution), Zinc Bromide (solution) and Sodium Bromide (solution)	P-5 ⁽³⁾	14,400	57.30
	Calcium Bromide (powder)	P-1 ⁽³⁾	600	5.00
Total volumetric reactor capacity (in KL)				374.85

Source: RHP, MOFSL

Peer Comparison

Exhibit 8: Key Matrix for FY20

Company	M.Cap. (INR Bn)	EBITDA Margin (%)	D/E (x)	RoE (%)	P/E (x)	Earnings CAGR (FY18-20)
Atul Ltd	197.1	22.0	0.0	22.7	29.8	55.9
Aarti Industries	186.4	23.4	0.7	19.5	34.8	26.9
Vinati Organics	137.5	40.3	-	28.7	41.2	52.3
Fine Organics	87.8	23.2	0.2	30.4	51.8	33.5
Sudarshan Chemicals	36.2	14.5	0.8	24.7	25.0	30.6
Neogen Chemicals	16.3	19.0	0.9	25.3	56.6	64.0
Paushak	13.6	31.1	-	17.3	37.8	27.5
Chemcon[^]	12.5	26.8	0.2	40.1	25.5	36.1

Source: Company RHP, Bloomberg, MOFSL

*Price Data as on 18th September, 2020

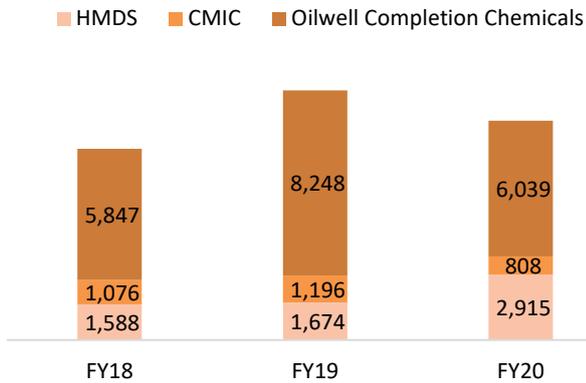
[^]Calculated on fully diluted basis at upper price band of INR340

Risk and concerns

- Chemcon derived 59%/72% of its revenue in FY20 from its Top 5/Top 10 clients. Thus loss of any one or more clients can adversely impact its financials
- Chemcon has limited product portfolio and the business may be adversely affected if any of the products do not continue to perform as expected or if competing products gain wider market acceptance.
- Company's profitability largely depends upon the global prices of its products. Any significant fall in global prices may have a material adverse effect on company's business, results of operations and financial condition.
- Promoters have filed an application for settlement with SEBI with respect to certain past non compliances about their holding in a listed company, which was a member of their Promoter Group, which if determined adversely may have a negative impact on operations, reputation and prospects.
- Naresh Vijaykumar Goyal, a member of the Promoter Group, has filed an appeal in relation to a criminal proceeding filed against him, which if determined adversely may have a negative impact.
- Chemcon has contingent liabilities and capital commitments which has not been provided for in its balance sheet.

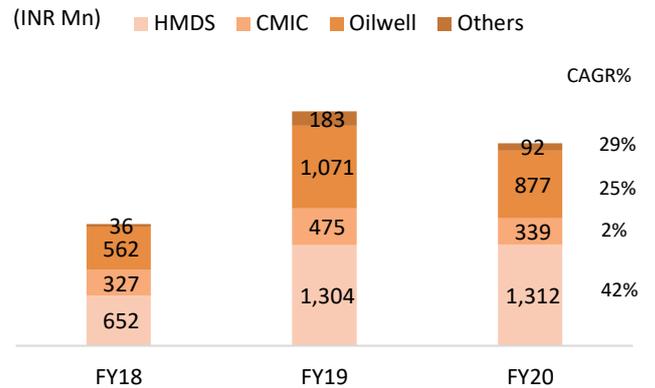
Story in Charts

Exhibit 9: Production Volume (MTPA)



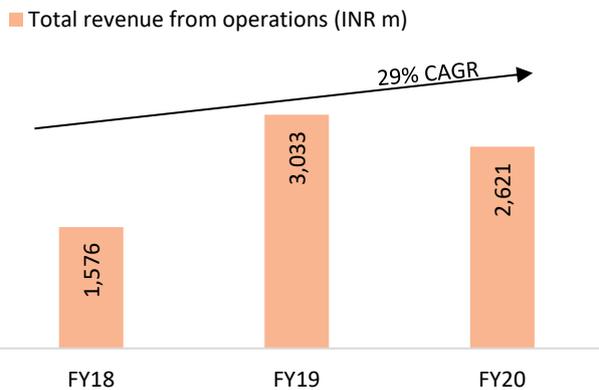
Source: RHP, MOFSL

Exhibit 10: Product wise Revenue breakup



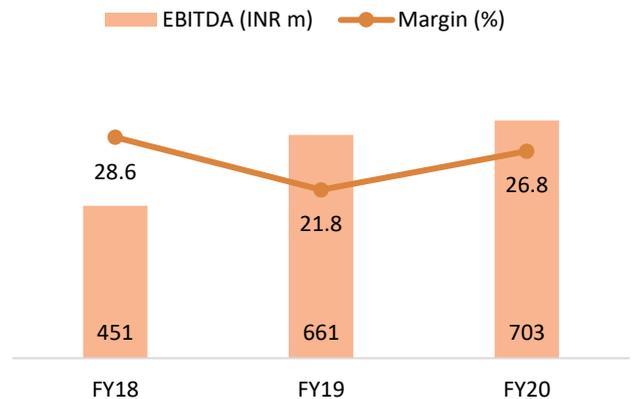
Source: RHP, MOFSL

Exhibit 11: Revenue grew at 29% CAGR over FY18-20



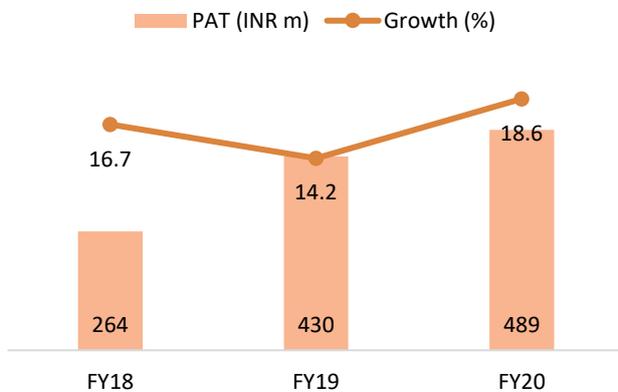
Source: RHP, MOFSL

Exhibit 12: EBITDA grew at 25% CAGR over FY18-20



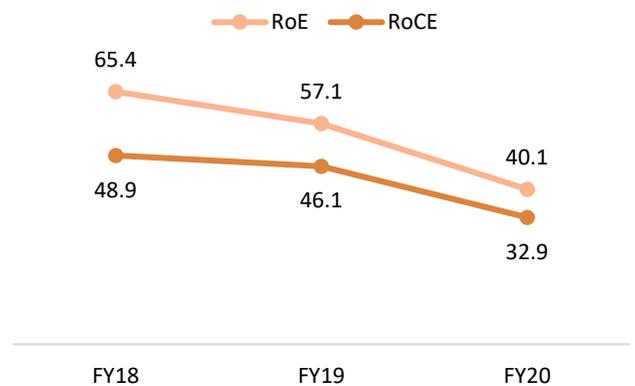
Source: RHP, MOFSL

Exhibit 13: PAT grew at 36% CAGR over FY18-20



Source: RHP, MOFSL

Exhibit 14: Healthy Return ratios



Source: RHP, MOFSL

Financials

Income Statement

(INR mn)

Y/E March	FY17	FY18	FY19	FY20
Net Sales	899	1,576	3,033	2,621
Change (%)	-	75.4	92.4	-13.6
Total Expenditure	812	1,125	2,373	1,918
% of Sales	90.4	71.4	78.2	73.2
EBITDA	87	451	661	703
Margin (%)	9.6	28.6	21.8	26.8
Depreciation	23	23	29	46
EBIT	63	428	632	656
Int. and Finance Charges	20	30	40	47
Other Income	1	7	20	40
PBT	44	406	612	649
Tax	16	142	182	161
Tax Rate (%)	36.2	34.9	29.7	24.8
Min. Int. & Assoc. Share	0.0	0.0	0.0	0.0
Reported PAT	28	264	430	489
Adjusted PAT	28	264	430	489
Change (%)	-	834	63	13.5
Margin (%)	3.1	16.7	14.2	18.6

Source: Company RHP, MOFSL

Balance Sheet

(INR mn)

Y/E March	FY17	FY18	FY19	FY20
Share Capital	79	79	318	318
Reserves	191	457	653	1,146
Net Worth	271	536	970	1,464
Minority Interest	0	0	0	0
Debt	192	161	322	433
Deferred Tax (Net)	16	16	24	23
Total Capital Employed	479	713	1,317	1,919
Net Fixed Assets	245	296	396	488
Capital WIP	0	0	7	37
Investments	-	0	0	0
Current Assets	382	674	1,328	1,733
Inventory	90	210	459	481
Debtors	224	296	641	889
Cash and Bank Balance	9	15	116	141
Loans and Advances & OCA	59	153	112	222
Curr. Liability & Provisions	148	257	414	339
Account Payables	88	173	289	257
Current Liabilities	53	39	119	73
Other Long Term Liab. & Provs.	8	46	6	9
Net Current Assets	234	417	914	1,394
Misc Expenditure	0	0	0	0
Appl. of Funds	479	714	1,317	1,919

Source: Company RHP, MOFSL

Key Ratios

Y/E March	FY17	FY18	FY19	FY20
Basic (INR)				
EPS	0.8	7.2	11.7	13.3
Cash EPS	1.4	7.8	12.5	14.6
BV/Share	7.4	14.6	26.5	40.0
DPS	0.0	0.0	0.0	0.0
Valuation (x)				
P/E	440.9	47.2	28.9	25.5
Cash P/E	241.3	43.5	27.1	23.3
P/BV	46.0	23.2	12.8	8.5
EV/Sales	14.1	8.0	4.2	4.9
EV/EBITDA	146.0	27.9	19.2	18.1
Dividend Yield (%)	0.0	0.0	0.0	0.0
Return Ratios (%)				
RoE	10.4	65.4	57.1	40.1
RoCE	8.9	48.9	46.1	32.9
Working Capital Ratios				
Asset Turnover (x)	1.9	2.2	2.3	1.4
Inventory (Days)	37	49	55	67
Debtor (Days)	91	68	77	124
Creditor (Days)	36	40	35	36
Leverage Ratio (x)				
Net Debt/Equity	0.7	0.3	0.2	0.2

Source: Company RHP, MOFSL

*All ratios calculated on fully diluted basis

#Calculated on the upper price band of INR340

Cash Flow Statement**(INR mn)**

Y/E March	FY17	FY18	FY19	FY20
OP/(Loss) before Tax	44	406	612	649
Depreciation	23	23	29	46
Interest paid	20	30	40	47
Income tax paid	-15	-114	-228	-172
(Inc)/Dec in WC	-48	-201	-341	-458
CF from Operations	24	143	112	112
Others		-2	-1	-7
CF from Operating (Net)	24	141	111	105
(Pur)/Sale of FA	-78	-79	-135	-153
Purchase of investments	0	-0	-103	-21
Interest Received	0	1	1	8
CF from Investments	-78	-78	-237	-166
Proceeds from borrowings	72	-33	162	114
Payments of lease liabilities	0	0	0	-5
Interest Paid	-20	-24	-38	-44
CF from Fin. Activity	52	-57	124	65
Net Inc/Dec of Cash	-2	6	-2	4

Source: Company RHP, MOFSL

Explanation of Investment Rating	Expected return (over 12-month)
Investment Rating	
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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