

Chemcon Speciality Chemicals

Chemcon Speciality Chemicals is a manufacturer of specialised chemicals, such as HMDS and CMIC which are predominantly used in the pharmaceuticals industry and inorganic bromides, namely Calcium Bromide, Zinc Bromide and Sodium Bromide, which are predominantly used as completion fluids in the oilfields industry. In FY 2020, ~40% of their revenue came from export (including deemed exports). For FY 2020, revenue contribution from pharmaceutical chemicals and oilwell completion chemicals was 63.8% and 33.5% respectively.

Positives: (1) Globally leading manufacturer of the pharmaceutical chemicals and also a leading manufacturer in India of the oilwell completion chemicals (2) Long standing relationship with diversified customers (3) Strong and experienced management team (4) Consistent financial performance with strong return ratios (5) Expansion plan of increasing their total installed production capacity by approximately two-third of the current capacity to meet the demand.

Investment concerns: (1) Adverse impact of COVID-19 on oilwell completion chemical business (2) Product portfolio concentration risk (approximately half of the bottom-line depends on HMDS) (3) Client Concentration risk (59% revenue came from top 5 customers in FY 2020). (4) Raw material supply is dependent on China.

Outlook & Valuation: At the upper end of the price band, Company demands PE multiple of 22.1x on F.Y.20 basis. None of the listed chemical companies has the same business as Chemcon. Its specialty chemical peers such as Neogen Chemicals, Paushak, Atul and Aarti Industries are currently trading at P/E multiples of 57.0x, 37.6x, 29.6x and 35.6x respectively on FY20 EPS. Company return ratios and margins are better than most of its peers. We believe Company is clearly undervalued compared to its peers; a lot of value is left in the table. As we are positive on the future outlook for the industry as well as the company, we would recommend to "Subscribe" issue for long term as well as for listing gains.

Key Financials

Y/E March (₹ cr)	FY18	FY19	FY20
Net Sales	157.6	303.3	262.1
% chg	-	92.4	-13.6
Net Profit	26.4	43.1	48.9
% chg	-	63.2	13.4
EBITDA (%)	28.6	21.8	26.8
EPS (Rs)	8.3	13.5	15.4
P/E (x)	41.0	25.1	22.1
P/BV (x)	5.0	11.1	7.4
RoE (%)	49.2	44.9	34.2
RoCE (%)	62.5	50.4	36.7
EV/EBITDA	36.8	25.2	15.8
EV/Sales	10.5	5.5	4.2

Source: Company, Angel Research & RHP (Valuation at upper price band)

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Issue Open: September 21, 2020

Issue Close: September 23, 2020

Face Value: ₹10

Present Eq. Paid up Capital: ₹31.8 cr

Offer for Sale: 45 lakh Shares

Fresh issue: ₹165 cr

Post Eq. Paid up Capital: ₹36.6 cr

Issue size (amt): *₹317-**₹318 cr

Price Band: ₹338-₹340

Lot Size: 44 shares and in multiple thereafter

Post-issue implied mkt. cap: *` 1,239- **₹1,245 cr

Promoters holding Pre-Issue: 100%

Promoters holding Post-Issue: 74.5%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	75%
Others	25%

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Company background

Company was originally incorporated as Gujarat Quinone Private Limited at Vadodara, Gujarat, India, as a private limited company under the Companies Act, 1956, pursuant to a certificate of incorporation dated December 15, 1988 issued by the RoC. Promoters and Promoter Group completed the acquisition of 100% of the Equity Share capital of the Company in 2004 from the shareholders of the Company at the time. Company is the only manufacturer of HMDS in India and is the third largest manufacturer of HMDS worldwide in terms of production in the calendar year 2019 (source: Frost & Sullivan Report). Company is also largest manufacturer of CMIC in India and the second largest manufacturer of CMIC worldwide, in terms of production and capacity in calendar year 2019 (source: Frost & Sullivan Report). Further, Company is the only manufacturer of Zinc Bromide and the largest manufacturer of Calcium Bromide in India, in terms of production in calendar year 2019 (source: Frost & Sullivan Report).

Issue Details

Company is raising ₹165 cr through fresh issue and ₹153cr through offer for sale in the price band of ₹338-340.

Pre & Post IPO Shareholding

No of shares	(Pre-issue)	%	(Post-issue)	%
Promoter	31,778,000	100	27,278,000	74.5
Public	0	0	9,352,941	25.5
Total	31,778,000	100	36,630,941	100

Source: Company, Angel Research (RHP)

Calculated at higher price band

Objects of the offer

Capital expenditure, working capital requirements and general corporate expenses.

Key Management Personnel

Kamalkumar Rajendra Aggarwal is the Chairman and Managing Director of the Company. He holds a diploma in petrochemical technology (plastic technology) from the Maharaja Sayajirao University of Baroda, Gujarat. He has more than 23 years of experience in the specialised chemicals industry. He has been on the Board since January 19, 2004.

Rajesh Chimanlal Gandhi is a Whole-time Director and the Chief Financial Officer of our Company. He holds a Bachelor's degree in commerce from Gujarat University, Gujarat. He has more than 20 years of experience in finance & accounts and related operations. He has been on the Board since May 1, 2012.

Navdeep Naresh Goyal is the Deputy Managing Director of the Company. He has obtained a passing certificate for completion of his higher secondary examinations from the Gujarat Secondary & Higher Secondary Education Board, Gandhinagar. He has more than 10 years of experience in operations. He has been on our Board since April 1, 2015.

Covid Update:

Some of the chemicals manufactured by the Company find application in the pharmaceuticals industry, pharmaceutical chemicals were categorized as “essential goods” and manufacturing facility was only temporarily shut during the pandemic from March 24, 2020 till March 31, 2020. Due to limited availability of labour, logistics and supply chain constraints, manufacturing facility was initially operating at sub-optimal capacity utilization in the current Fiscal. The reduced demand for oil and gas in Fiscal 2021 has resulted in a reduced demand for the oilwell completion chemicals. Company has continued to source raw materials from the suppliers and has been able to continue to supply the pharmaceutical chemicals to their customers. Accordingly, as on the date of this Red Herring Prospectus, Company are yet to resume manufacturing new batches of oilwell completion chemicals since the country-wide lockdown was lifted.

Product Portfolio:**HMDS:**

HMDS is widely used in the pharmaceutical industry as a silylating agent in the process of manufacture of pharmaceutical drugs of the Penicillin group (such as Amikacin, Penicillin, Cephalosporins and other kinds of Penicillin derivatives), hydroxyl protectants, preparation of 5-azacytidine, an antineoplastic drug, preparation of β 3-AR agonists used in anti-stress formulations and the manufacture of antibiotics such as Cefprozil and Cefadroxil and anti-viral drugs such as Sofosbuvir, Lamivudine and Emtricitabine. Key customers of HMDS in Fiscal 2020 included Hetero Labs Limited, Laurus Labs Limited, Aurobindo Pharma Limited, Ind-Swift Laboratories Limited, Sanjay Chemicals (India) Private Limited and Vivin Drugs and Pharmaceuticals Limited. India imported ~40% of its HMDS requirement in 2019.

CMIC:

CMIC is a key intermediate for the manufacture of Tenofovir, a nucleotide antiviral anti-AIDS and anti-Hepatitis B drug. Tenofovir has been approved by the US FDA for the treatment of HIV infections and Hepatitis B and by the European Medicine Authority for the treatment of Hepatitis B. Key customers of CMIC in Fiscal 2020 included Hetero Labs Limited, Aurobindo Pharma Limited, Macleods Pharmaceuticals Limited and Sanjay Chemicals (India) Private Limited.

Peer Comparison:

Particulars	PE	ROE %	EBIDTA margin %
Chemcon Speciality Chemicals	22.1	34.2	26.8
Neogen Chemicals	57.0	24.1	18.9
Paushak	37.6	15.9	31.1
Atul	29.6	22.6	22.0
Aarti Industries	35.6	19.3	23.3
Vinati Organics	41.2	28.5	39.7
Sudarshan Chemicals	25.0	22.3	14.5
Fine organics	53.3	29.4	23.1

Source: Company, Angel Research

Note: 1) PE is computed on the basis of closing price of September 18 and FY20 EPS. For Chemcon, higher price band is used as the share price.

2) ROE% and EBIDTA % is for the fiscal year 2020.

Profit & Loss Statement:

Y/E March (₹ cr)	FY18	FY19	FY20
Total operating income	157.6	303.3	262.1
% chg	-	92.4	-13.6
Total Expenditure	112.5	237.2	191.8
Cost of Materials Consumed	77.8	184.9	148.9
Employee Benefit expenses	18.8	24.1	14.1
Other expenses	15.9	28.2	28.8
EBITDA	45.1	66.1	70.3
% chg	-	46.5	6.3
(% of Net Sales)	28.6	21.8	26.8
Depreciation & Amortisation	2.3	2.9	4.6
EBIT	42.9	63.2	65.6
% chg	-	47.6	3.8
(% of Net Sales)	27.2	20.8	25.0
Interest & other Charges	3.0	4.0	4.7
Other Income	0.7	2.0	4.0
(% of Sales)	0.5	0.7	1.5
Recurring PBT	40.6	61.2	64.9
% chg	-	50.7	6.0
Tax	14.2	18.1	16.1
PAT (reported)	26.4	43.1	48.9
% chg	-	63.2	13.4
(% of Net Sales)	16.7	14.2	18.6
Basic & Fully Diluted EPS (Rs)	8.3	13.5	15.4
% chg	-	63.1	13.6

Source: Company, Angel Research

Balance Sheet

Y/E March (₹ cr)	FY18	FY19	FY20
SOURCES OF FUNDS			
Equity Share Capital	7.9	31.8	31.8
Other equity	45.7	65.3	114.5
Shareholders Funds	53.6	97.1	146.3
Total Loans	16.1	32.3	43.3
Other liabilities	2.3	2.9	3.3
Total Liabilities	72.1	132.3	192.8
APPLICATION OF FUNDS			
Property, plant & equipment	29.6	39.5	47.4
Intangible assets	-	-	-
Right-of-use assets	-	-	1.3
CWIP	-	0.7	3.7
Current Assets	65.5	131.1	172.5
Inventories	21.0	45.9	48.0
Sundry Debtors	29.6	64.1	88.9
Cash & Bank Balance	1.5	11.6	14.1
Other Assets	13.4	9.5	21.4
Current liabilities	25.0	40.7	32.9
Net Current Assets	40.5	90.4	139.6
Other Non Current Asset	2.0	1.7	0.7
Total Assets	72.1	132.3	192.8

Source: Company, Angel Research

Cash Flow Statement

Y/E March (₹ cr)	FY18	FY19	FY20
Profit before tax	40.6	61.2	64.9
Depreciation	2.3	2.9	4.3
Change in Working Capital	(20.1)	(34.1)	(45.8)
Interest Expense	3.0	4.0	4.7
Direct Tax Paid	(11.4)	(22.9)	(17.2)
Others	(0.2)	(0.1)	(0.4)
Cash Flow from Operations	14.1	11.1	10.5
(Inc.)/ Dec. in Fixed Assets	(7.9)	(13.5)	(15.3)
Others	0.1	(10.2)	(1.3)
Cash Flow from Investing	(7.8)	(23.7)	(16.6)
Payment of lease liabilities	-	-	(0.5)
Changes in Borrowings	(3.3)	16.2	11.4
Interest paid	(2.4)	(3.8)	(4.4)
Cash Flow from Financing	(5.7)	12.4	6.5
Inc./ (Dec.) in Cash	0.6	(0.2)	0.4
Opening Cash balances	0.3	0.9	0.7
Closing Cash balances	0.9	0.7	1.1

Source: Company, Angel Research

Key Ratios

Y/E March	FY18	FY19	FY20
Valuation Ratio (x)			
P/E (on FDEPS)	41.0	25.1	22.1
P/CEPS	9.4	23.2	20.3
P/BV	5.0	11.1	7.4
EV/Sales	10.5	5.5	4.2
EV/EBITDA	36.8	25.2	15.8
Per Share Data (Rs)			
EPS (Basic)	8.3	13.5	15.4
EPS (fully diluted)	8.3	13.5	15.4
Cash EPS	36.0	14.7	16.7
Book Value	67.5	30.6	46.0
Returns (%)			
Angel ROIC (Pre tax)	62.8	54.0	38.2
ROE	49.2	44.9	34.2
ROCE	62.5	50.4	36.7
Turnover ratios (x)			
Fixed Asset Turnover (net)	5.3	7.7	5.5
Receivables (days)	68.4	77.2	123.9
Payables (days)	79.5	54.0	60.9
Inventory (days)	96.7	86.1	114.3

Source: Company, Angel Research (Valuation at upper price band)

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