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Price Band: INR 553-555
ISSUE SUMMARY

Issue Opens	12-Mar-21
Issue Closes	16-Mar-21
Offer Price (INR per share)	553-555
Bid Lot	27 shares
Face Value (INR)	10.0
Pre Issue Shares o/s (mn)	86.2
Offer for Sale (No of sh. mn)	-
^Fresh Issue (No of sh. mn)	13.7
^Post Issue shares o/s (mn)	100.0
^*Issue Size (INR bn)	7.6
QIB	=>50%
Non-institutional	<15%
Retail	<35%

^ Issue Size (@INR555)

* 0.2mn shares (INR110mn) reserved for employees

POST ISSUE DETAILS

M.Cap @INR555/sh. (INR bn)	55.4
Shareholding pattern	
Promoters	65.4%
Non-Promoters	34.6%

Anupam Rasayan Ltd (ARL) is engaged in manufacturing of custom synthesis (CSM) and specialty chemicals in India.

Diversified product portfolio with strong client relationship: ARL enjoys long standing relationship with its customers, given its fully integrated operations with presence across the value chain. It derives 87% of its revenue from top 10 customers with whom it has long term agreements between 2-5 years. ARL has significantly expanded its product portfolio to 41 of which Life science products catering to agrochemicals, personal care and pharma contribute ~90% of revenue while exports form 60%. Development of new complex chemistries like hydrogenation, photo chlorination along with focus on higher value products would help in increasing the wallet share further.

Major capex behind; asset sweating to support growth: The CSM market in India is expected to grow at 12% CAGR over next 5 years owing to strong demand domestically led by Government's Make in India campaign as well as globally due to China+1 strategy adopted by MNCs. Over last 3 years, ARL undertook capex of INR8bn to expand its manufacturing capacity to 23,438MT, majority of which commissioned in Mar'20. Now with major capex behind, the commissioning of assets would help ARL capitalize on the growth opportunities which has started to reflect in 9MFY21 revenues.

Healthy Financials: Over FY18-20, ARL's Revenue/EBITDA/PAT grew at a CAGR of 24%/35%/140% while EBITDA margins expanded 397bps to 25.5%. Backward integration in FY15 helped ARL reduce its import dependence to 22% by FY20 and improve its margins. Focus on higher value products too supported margins. In 9MFY21, Revenue/EBITDA/PAT grew 45%/28%/12% YoY. The net D/E stood at 0.9x as of 9mFY21, which post repayment, would reduce to zero. Return ratios are suppressed at ~10% due to huge capex undertaken which could improve with its commissioning.

Issue Size: The INR7.6bn IPO consists of entirely fresh issue of INR13.7mn shares which would result in promoter's stake reducing from 75.8% pre-IPO to 65.4% post-IPO. The funds raised will be utilized to repay debt of INR5.6bn, while the balance will be used for general corporate purpose.

Valuation & View: We like ARL given its presence in high growth CSM market, wide product portfolio, strong client relationship and high entry barriers. The company is expected to witness strong growth for next 2-3 years given its recent completion of major capex and strong sectoral tailwinds. The issue is valued at 3.5x FY21 P/BV and 7.7x FY21 EV/Sales on an annualized and post issue basis. Though the valuation appears little on a higher side both on absolute and relative basis, in the current scenario market prefers emerging growth stories. Hence we recommend **Subscribe**.

Exhibit 1: Financials & Valuations (INR mn)

Y/E March	FY18	FY19	FY20	9MFY21
Revenue	3,414	5,015	5,289	5,392
Growth (%)	-	46.9	5.5	45.0
Adj PAT	403	502	530	481
Growth (%)	-	24.5	5.5	12.4
EPS (INR)	4.0	5.0	5.3	4.8
RoE (%)	8.8	10.4	9.6	5.8
EV/sales (x)	17.5	12.4	12.0	7.7

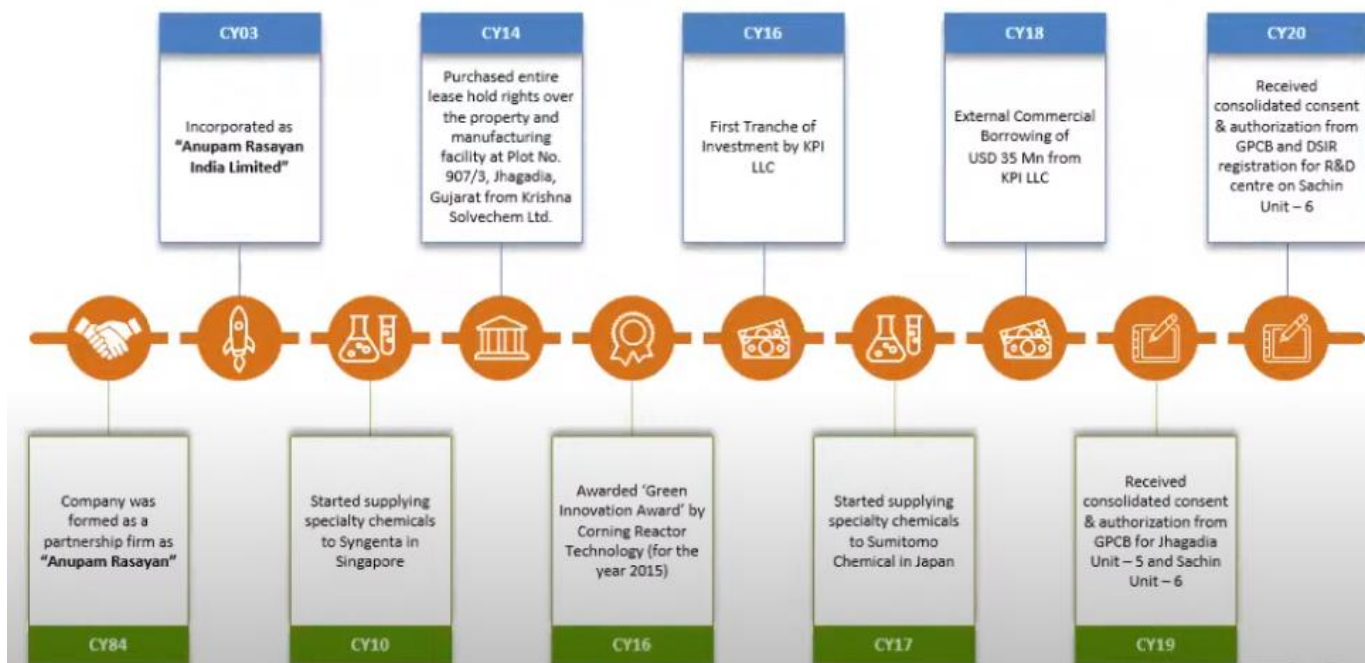
Source: RHP, MOFSL

*Calculated on annualized & post issue basis, at the upper price band of INR555

About the Company

Anupam Rasayan Ltd (ARL) is one of the leading companies engaged in the custom synthesis (CSM) and manufacturing of specialty chemicals in India. It commenced business as a partnership firm in 1984 as a manufacturer of conventional products and have, over the years, evolved into custom synthesis and manufacturing of life science related specialty chemicals and other specialty chemicals, which involve multi-step synthesis and complex technologies, for a diverse base of Indian and global customers.

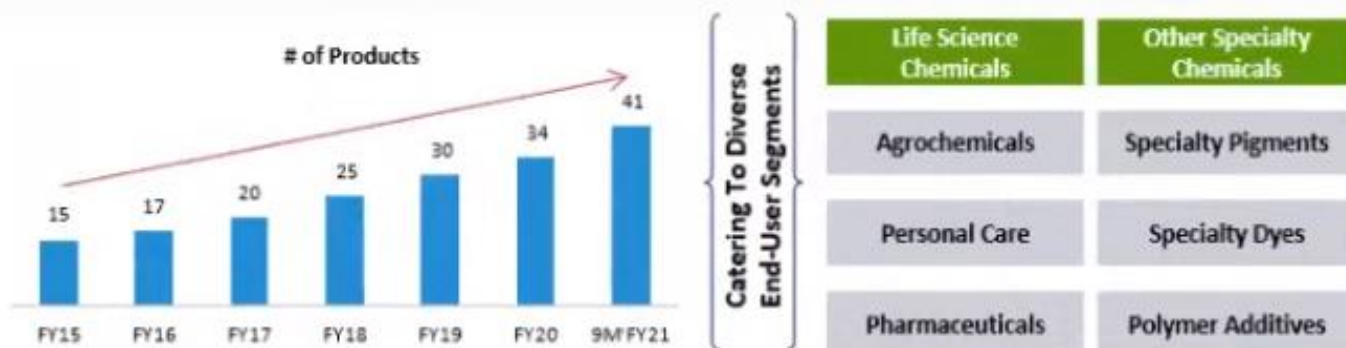
Exhibit 2: ARL’s journey so far



Source: RHP, MOFSL

ARL has two distinct business verticals (i) life science related specialty chemicals (94% of revenue in 9MFY21) comprising products related to agrochemicals, personal care and pharmaceuticals, and (ii) other specialty chemicals (6% of revenue), comprising specialty pigment and dyes, and polymer additives.

Exhibit 7: Key end-user segments



Source: RHP, MOFSL

According to the F&S Report, there exist significant entry barriers in the CSM industry including customer validation and approvals, high quality standards, stringent specifications, and expectation from customers for process innovation and cost reduction. Further, the acquisition of a customer is a long process since the end-

customer is required to register the manufacturer with the regulatory bodies as a supplier of intermediate products or active ingredients.

ARL has developed strong and long-term relationships with various multinational corporations, including, Syngenta Asia Pacific Pte. Ltd., Sumitomo Chemical Company Limited and UPL Limited that has helped the company to expand its product offerings and geographic reach across Europe, Japan, United States and India. In particular, ARL has been manufacturing products for certain customers for over 10 years. In 9MFY21, it manufactured products for over 53 domestic and international customer, including 17 multinational companies. The Government of India has also recognized the Company as a three star export house.

ARL is one of the leading companies in manufacturing products using continuous and flow chemistry technology on a commercial scale. This has made the company a preferred partner for various MNCs for manufacturing products utilizing these chemical reactions. There exists a significant opportunity for flow chemistry technology in speciality chemicals, especially pharmaceuticals, as it reduces the cost and lead time significantly. ARL is also in the process of developing photochemical technology which are currently becoming an important tool in the search of new active compounds for applications in speciality chemical and pharma industries.

According to the F&S Report, India's specialty chemicals industry is expected to grow at a CAGR of ~10-11% over the next five years, due to rising demand from end-user industries, along with tight global supply on account of stringent environmental norms in China. Further, the India accounts for ~1-2% of the global exportable specialty chemicals, indicating a large scope of improvement and widespread opportunity. In addition, CSM is on the rise in India and is expected to grow at a CAGR of 12% in the next five years, owing to strong growth from end-use demand.

Thus ARL is well positioned to capitalize on these opportunities owing to its successful track record of CSM products, low dependence on raw material imports from China, established relationships with MNCs, automated manufacturing infrastructure, and established R&D capabilities along with its focus on improving cost efficiency and productivity. In addition, MNCs are finding an alternative to China with their 'China plus one' strategy, and we believe ARL can benefit from the same.

As of 9MFY21, ARL operated six multi-purpose manufacturing facilities in Gujarat, with an aggregate installed capacity of 23,438MT. In addition, given that ARL's operations are primarily export oriented, the close proximity to Adani Hazira Port helps the company in reducing freight and logistics costs.

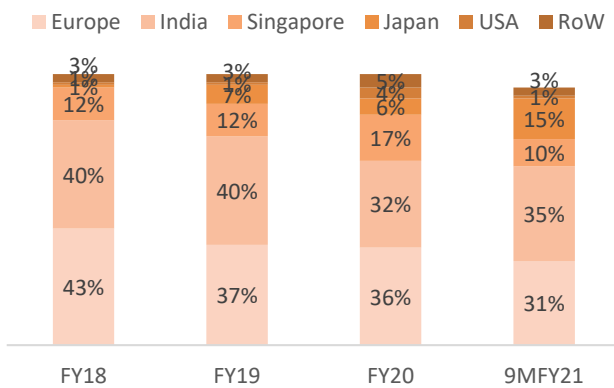
Exhibit 2: Manufacturing facilities

Facility	Installed Capacity ⁽¹⁾ (MT) As Of				Utilization % ⁽¹⁾⁽²⁾ As Of			
	FY18	FY19	FY20	9M'FY21	FY18	FY19	FY20	9M'FY21
Sachin Unit – 1	2,778	3,362	4,542	4,542	78.0%	77.2%	81.3%	90.7%
Sachin Unit – 2	2,220	2,520	2,520	2,520	96.1%	71.3%	78.8%	75.5%
Sachin Unit – 3	4,760	5,950	6,088	6,130	88.6%	77.1%	81.7%	86.9%
Jhagadia Unit – 4	2,420	3,050	3,520	3,520	83.0%	73.5%	78.6%	84.7%
Jhagadia Unit – 5	-	-	5,520	5,520	-	-	8.0%	42.9%
Sachin Unit – 6	-	-	1,206	1,206	-	-	7.3%	66.8%
Total	12,178	14,882	23,396	23,438	86.5%	75.4%	59.6%	74.7%

Source: RHP, MOFSL

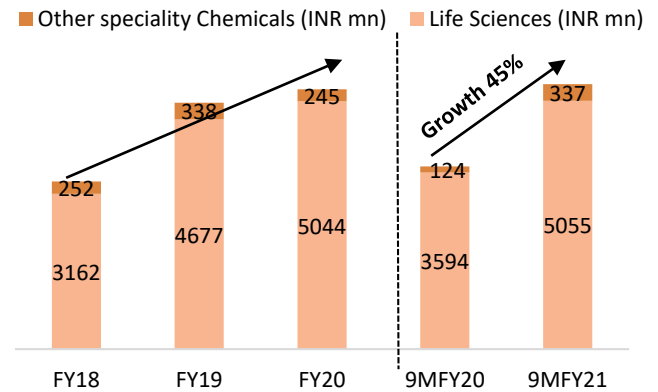
Story in Charts

Exhibit 9: Well diversified geographically



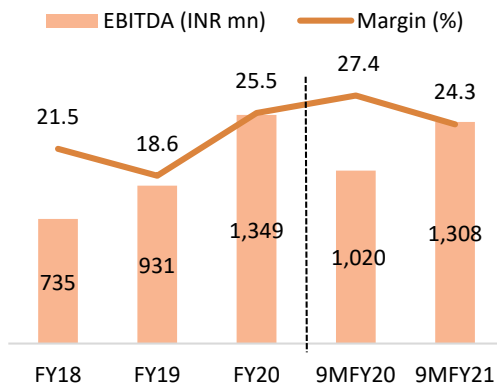
Source: RHP, MOFSL

Exhibit 10: Revenue (INR mn) grew at a 24% CAGR over FY18-20



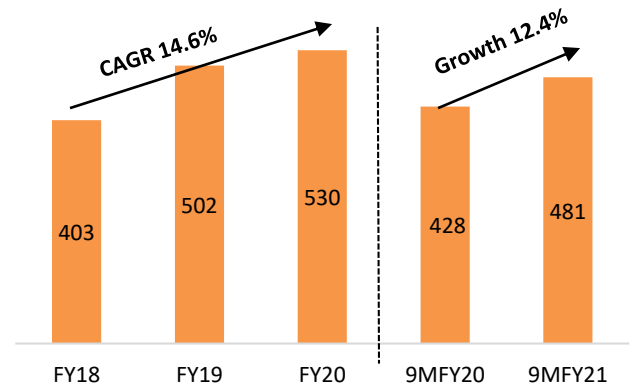
Source: RHP, MOFSL

Exhibit 11: EBITDA grew at 35% CAGR over FY18-20 aided by margin expansion



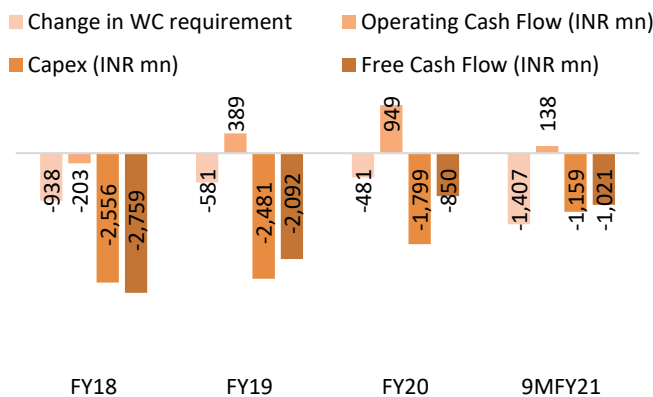
Source: RHP, MOFSL

Exhibit 12: PAT (INR mn) grew at a 15% CAGR over FY18-20 due to high interest cost



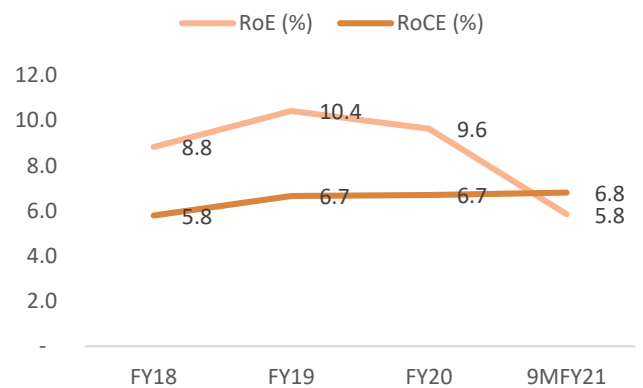
Source: RHP, MOFSL

Exhibit 13: High WC and huge capex impacted cash flows



Source: RHP, MOFSL

Exhibit 14: Return ratios low due to large capex undertaken



Source: RHP, MOFSL

Peer Comparison

Company	M.Cap. INR Bn	Revenue CAGR FY18-20 (%)	PAT CAGR FY18-20 (%)	EBITDA Margin FY20 (%)	ROE FY20 (%)
PI Industries	344	21.6	11.4	21.3	18.6
SRF	338	13.6	48.8	20.2	20.1
Navin Flourine	133	7.8	48.3	24.8	32.4
Anupam Rasayan	55	24.5	14.6	25.5	9.6
Astec Lifesciences	21	19.2	16.7	16.3	21.2

Company	P/E		P/BV		EV/Sales		EV/EBITDA	
	FY20 (x)	FY21 (x)	FY20 (x)	FY21 (x)	FY20 (x)	FY21 (x)	FY20 (x)	FY21 (x)
PI Industries	75.1	44.3	13.1	6.5	3.7	7.2	17.4	30.7
SRF	36.3	29.2	6.4	4.9	2.1	4.5	10.2	17.5
Navin Flourine	32.6	NA	9.4	NA	12.2	NA	17.0	NA
Anupam Rasayan	104.7	86.5	9.3	3.5	12.0	7.7	47.0	31.8
Astec Lifesciences	42.9	NA	8.3	NA	4.1	NA	20.7	NA

Source: Company RHP, Bloomberg, MOFSL

*Price Data as on 10th March, 2021

^Calculated on annualized and fully diluted basis at upper price band of INR555

Risk and concerns

- ARL faces customer concentration risk as it derived 87% of its revenues from its top 10 customers.
- Working capital days are extremely high at >200 days due to high inventory which impacted its cash flows so far.
- ARL is exposed to exchanges rate fluctuations as exports are not completely offset by raw material imports.

Financials

Income Statement

(INR mn)

Y/E March	FY18	FY19	FY20	9MFY21
Net Sales	3,414	5,015	5,289	5,392
Change (%)	-	46.9	5.5	45.0
Total Expenditure	2,679	4,084	3,940	4,085
% of Sales	78.5	81.4	74.5	75.7
EBITDA	735	931	1,349	1,308
Margin (%)	21.5	18.6	25.5	24.3
Depreciation	176	225	287	383
EBIT	560	706	1,062	924
Int. and Finance Charges	140	244	453	496
Other Income	78	195	105	239
PBT	498	657	714	668
Tax	94	155	184	187
Tax Rate (%)	18.9	23.6	25.8	28.0
Reported PAT	403	502	530	481
Adjusted PAT	403	502	530	481
Change (%)	-	24.5	5.5	12.4
Margin (%)	11.8	10.0	10.0	8.9

Source: Company RHP, MOFSL

Balance Sheet

(INR mn)

Y/E March	FY18	FY19	FY20	9MFY21
Share Capital	500	500	500	862
Reserves	4,076	4,571	5,437	7,383
Net Worth	4,576	5,071	5,937	8,245
Debt	4,349	6,697	8,180	8,420
Deferred Tax (Net)	102	137	192	259
Total Capital Employed	9,027	11,905	14,309	16,924
Net Fixed Assets	3,822	6,809	9,773	10,224
Capital WIP	2,561	1,906	1,009	1,152
Investments	26	4	4	0
Current Assets	3,603	4,506	5,854	7,816
Inventory	1,725	1,954	2,970	4,213
Debtors	884	1,206	1,295	1,414
Cash and Bank Balance	91	71	268	780
Loans and Advances & OCA	903	1,276	1,320	1,408
Curr. Liability & Provisions	985	1,320	2,332	2,268
Account Payables	621	738	1,302	1,368
Current Liabilities	329	556	693	518
Other Long Term Liab. & Provs.	35	25	338	383
Net Current Assets	2,618	3,186	3,522	5,547
Misc Expenditure	0	0	0	0
Appl. of Funds	9,027	11,905	14,309	16,924

Source: Company RHP, MOFSL

Key Ratios

Y/E March	FY18	FY19	FY20	9MFY21
Basic (INR)				
EPS	4.0	5.0	5.3	4.8
Cash EPS	5.8	7.3	8.2	8.6
BV/Share	45.8	50.8	59.4	160.2
DPS	0.0	0.0	0.0	0.0
Valuation (x)				
P/E	137.4	110.4	104.7	86.5
Cash P/E	95.7	76.2	67.9	48.1
P/BV	12.1	10.9	9.3	3.5
EV/Sales	17.5	12.4	12.0	7.7
EV/EBITDA	81.2	66.6	47.0	31.8
Dividend Yield (%)	0.0	0.0	0.0	0.0
Return Ratios (%)				
RoE	8.8	10.4	9.6	5.8
RoCE	5.8	6.7	6.7	6.8
Working Capital Ratios				
Asset Turnover (x)	0.4	0.4	0.4	0.4
Inventory (Days)	184	142	205	214
Debtor (Days)	94	88	89	72
Creditor (Days)	66	54	90	69
Leverage Ratio (x)				
Net Debt/Equity	0.9	1.3	1.3	0.0

Source: Company RHP, MOFSL

*All ratios calculated on annualized & fully diluted basis at the upper price band of INR555

Cash Flow Statement**(INR mn)**

Y/E March	FY18	FY19	FY20	9MFY21
OP/(Loss) before Tax	498	657	714	668
Depreciation	176	225	287	383
Interest paid	140	244	453	496
Income Taxes paid	-85	-125	-92	-38
(Inc)/Dec in WC	-938	-581	-481	-1,407
CF from Operations	-209	420	881	103
Others	7	-31	69	36
CF from Operating (Net)	-203	389	949	138
(Pur)/Sale of FA	-2,556	-2,481	-1,799	-1,159
(Pur)/Sale of Investments	-1	14		-0
Interest Received	6	-35	17	-45
CF from Investments	-2,551	-2,502	-1,782	-1,205
Proceeds from borrowings	1,209	2,301	1,170	239
Amount paid on equity shares bought back	1,679	-	354	1,836
Interest Paid	-140	-244	-438	-483
Dividend paid	-	-	-71	1
CF from Fin. Activity	2,748	2,057	1,014	1,594
Net Inc/Dec of Cash	-5	-56	182	527
Exchange differences				
Opening Balance	79	74	18	200
Closing Balance	74	18	200	728

Source: Company RHP, MOFSL

Investment Rating	Expected return (over 12-month)
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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Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Panel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022-3980 4263; www.motilaloswal.com. Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 71881000. Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-71881085.

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