

Company Overview

The company was originally incorporated as Gujarat Quinone Private Limited (“Gujarat Quinone”) at Vadodara, Gujarat on December 15, 1988. Chemcon Engineers Private Limited (“CEPL”) was incorporated at Vadodara, Gujarat on April 30, 1996. CEPL, a company largely owned and promoted by the Promoters and Promoter Group of Gujarat Quinone, merged into Gujarat Quinone approving the Scheme of Amalgamation between CEPL and Gujarat Quinone. The name of the company was changed to “Chemcon Speciality Chemicals Private Limited” on July 27, 2004.

Objects of the issue

The objects of the Offer are to achieve the benefits of listing the Equity Shares on the Stock Exchanges. Further, Chemcon Speciality proposes to utilize the net proceeds from fresh issue for:

- A) Capital expenditure towards expansion of the Manufacturing Facility (i.e. to set up 2 new plants and 1 laboratory, at the existing Manufacturing Facility at Manjusar, Vadodara) (0.41 bn)
- B) To meet working capital requirements (0.9 bn)
- C) General Corporate Purposes (0.34 bn)

Investment Rationale

Leading manufacturer globally of the Pharmaceutical Chemicals and leading manufacturer in India of the Oilwell Completion Chemicals

India is currently a net importer of HMDS, with about 40% of India’s current domestic demand being catered by imports majorly from China and Germany. India is expected to witness a demand growth for HMDS of 10.6% CAGR between calendar year 2019 and calendar year 2023 (source: Frost & Sullivan Report). Company is the only manufacturer of HMDS in India and well positioned to capitalise on the potential growth of the HMDS market. Frost & Sullivan further estimates that by substituting imports and catering to India’s HMDS market, It has the opportunity to grow at a CAGR of 15-20% between 2019 and 2023 including great opportunity for exports. Chemcon is the only manufacturer of Zinc Bromide and the largest manufacturer of Calcium Bromide in India, in terms of production in calendar year 2019. Further, while they commenced the sales of their Oilwell Completion Chemicals in calendar year 2014, their share in the global production of the Oilwell Completion Chemicals has grown to 2.65% in calendar year 2019

Diversified customer base coupled with long standing relationships

Chemcon supply their products to customers in India and also export their products to countries including United States of America, Germany, Italy, South Korea, China, Japan, United Arab Emirates, Serbia, Russia, Spain, Thailand and Malaysia. In Fiscals 2020, 2019 and 2018, their exports (including Deemed Exports) contributed 39.78%, 31.99% and 47.84% respectively of their total revenue from operations. The revenue from exports (including Deemed Exports) has grown at a CAGR of 17.57% between Fiscals 2018 and 2020. Company is expanding its customer base, which has resulted in a decrease in their customer concentration, year on year. Their top 5 customers and their top 10 customers contributed 59.35% and 72.26%, respectively of their total revenue from operations in Fiscal 2020, as compared to 45.94% and 67.56%, respectively of the total revenue from operations in Fiscal 2019, and 60.01% and 75.67%, respectively of the total revenue from operations in Fiscal 2018. It has established long-lasting relationships with their key customers. .

Valuation and Outlook

At the upper end of the price band, Chemcon demands a P/E multiple of 25.5x based on fully diluted EPS of FY20. Its listed 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. Due to the fancy for the China replacement story in the chemicals sector, most of these chemical companies are trading at high P/Es. We believe Chemcon is well-positioned to tap import substitution opportunity from China with its planned CAPEX. Considering the niche player in the chemicals segment, healthy business performance, improving margin profile, and positive outlook for the chemical sector, we give a “SUBSCRIBE” rating to this IPO issue for the medium to long term.

Issue Details

Offer Period	Sept 21st - 23rd Sept 2020
Price Band	INR.338 to INR.340
Bid Lot	44
Listing	BSE&NSE
Issue Size (no. of shares in mn)	9.3
Issue Size (Rs. in bn)	3
Face Value	10

Issue Structure

QIB	50%
Retail	35%
HNI	15%
BRLM	Intensive Fiscal Services, Ambit Capital
Registrar	Link Intime India Pvt. Ltd

Particulars Pre Issue % Post Issue %

Promoter	100	74.4
Public	-	25.5
Total	100%	100%

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



Income Statement (In mn)

Particulars	FY18	FY19	FY20
Revenue			
Revenue from operations	1,576	3,033	2,621
Total revenue	1,576	3,033	2,621
Expenses			
Raw material consumed	794	1,947	1,534
Changes in inventories of finished goods and work-in-progress	(21)	(98)	(45)
Excise Duty	5	-	-
Employee benefit expenses	188	241	141
Other expenses	159	282	288
Total Operating expenses	1,125	2,373	1,918
EBITDA	451	661	703
Depreciation and amortisation expense	23	29	46
Other income	7	20	40
EBIT	436	652	696
Finance costs	30	40	47
PBT	406	612	649
Current tax	143	175	164
Deferred Tax charge	(1)	6	(3)
Total tax	142	182	161
PAT	264	430	489
Diluted EPS	7.2	11.8	13.3

Source: Company, BP Equities Research

Cash Flow Statement (In mn)

Particulars	FY18	FY19	FY20
Cash Flow from operating activities	141	111	105
Cash flow from investing activities	(78)	(237)	(166)
Cash flow from financing activities	(57)	124	65
Net increase/(decrease) in cash and cash equivalents	6	(2)	4
Cash and cash equivalents at the beginning of the period	3	9	7
Cash and cash equivalents at the end of the period	9	7	11

Source: Company, BP Equities Research



Balance Sheet (In mn)

Particulars	FY18	FY19	FY20
Liabilities			
Share Capital	79	318	318
Reserve & Surplus	457	653	1,146
Net worth	536	970	1,464
Financial liabilities	25	25	154
Provisions	7	5	1
Deferred tax liability	16	24	23
Total Non Current Liabilities	48	54	177
Trade payables	173	289	257
Other financial liabilities	27	112	45
Short term Borrowings	136	297	287
Other current liabilities	12	7	28
Current tax liabilities (net)			-
Short Term Provisions	38	1	0
Total Current Liabilities	386	706	617
Total liabilities	971	1,730	2,258
Assets			
Tangible Assets	296	395	474
Right of Use Assets	-	-	13
Capital work in Progress	-	7	37
Intangible Assets	-	0	0
Other financial assets	2	5	5
Other non-current assets	17	12	2
Total Non current assets	316	419	532
Trade Receivables	296	641	889
Cash and Bank Balances	15	116	141
Other financial assets	15	14	14
Inventories	210	459	481
Other current assets	119	80	200
Total Current Asset	655	1,311	1,726
Net Current Assets	269	605	1,109
Total Assets	971	1,730	2,258

Source: Company, BP Equities Research

Key Risks

Any disturbance in or shutdown of their Manufacturing Facility may have a material adverse effect on entire manufacturing operations and consequently, business, financial condition and our results of operations.

Any shortfall in the supply of raw materials or an increase in raw material costs, or other input costs, may adversely affect the pricing and supply of products and have an adverse effect on their business, results of operations and financial condition.

Any adverse change in regulations governing products and the products of the customers, may adversely impact their business, prospectus and results of operations.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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