

# Anupam Rasayan India Ltd

Specialty Chemical | India

IPO Note | 10 March 2021

## Valuations Exceed Growth Prospects

### About the Company

Anupam Rasayan India Ltd. (ARIL) is one of the leading companies engaged in the custom synthesis and manufacturing of specialty chemicals in India. It commenced business as a partnership firm in 1984 as a manufacturer of conventional products. Over the years, it has 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. ARIL has two distinct business verticals; (i) life science-related specialty chemicals comprising products related to agrochemicals, personal care and pharmaceuticals, and (ii) other specialty chemicals, comprising of specialty pigment, dyes, and polymer additives. It has developed strong and long-term relationships with various multinational corporations (MNCs), including, Syngenta Asia Pacific, Sumitomo Chemical and UPL, which has helped it expand product offerings and geographic reach across Europe, Japan, United States and India. As on Dec'20, ARIL operates 6 multi-purpose manufacturing facilities in Gujarat with 4 facilities located at Surat and 2 units located at Jhagadia, Bharuch and an aggregate installed capacity of 23,438 MT.

### Financials in Brief

ARIL reported decent earnings performance over the years. While revenue recorded 24% CAGR through FY18-FY20, EBITDA and net profit clocked 35% and 13% CAGR, respectively during the same period. However, other financial metrics have not been inspiring as its working capital cycle has been abnormally high (over 7 months), which impacted its cash flow. ARIL has generated cumulative OCF and FCF to the tune of Rs1.3bn and negative of Rs6.7bn, respectively through FY18-9MFY21. Further, its RoE has been sub-par at single digit, which is quite low compared to peers.

### Our View

**The IPO is valued at 80x and 69x EPS for FY20 and annualized FY21, respectively, which look to be aggressively priced.** ARIL indicated that as capex programme is completed, growth outlook is quite strong. However, considering capacity utilization of ~75% as on 9MFY21 and likely interest cost savings from debt repayment from IPO proceeds, we believe its earnings can potentially register ~35-40% CAGR over FY20-23E. Despite factoring this, it trades at over 40x of FY23 earnings, which is expensive compared to its quality peers like SRF and PI Industries. Further, a less than 1x asset turnover ratio over the years and low OCF yields raise apprehensions.

### IPO Details

|                                   |                    |
|-----------------------------------|--------------------|
| Pice Band                         | Rs553-555          |
| Face Value (Rs)                   | 10                 |
| Issue Open/Closing Date           | 12th / 16th Mar'21 |
| Fresh Issues (mn)                 | 13.7               |
| OFS (mn)                          | 0.0                |
| <b>Total Issue (mn)</b>           | <b>13.7</b>        |
| Minimum Bid Qty. (Nos)            | 27                 |
| <b>Issue Size (Rs bn)</b>         | <b>7.6</b>         |
| QIB / HNI / Retail                | 50% / 15% / 35%    |
| <b>Implied Market Cap (Rs bn)</b> | <b>55.4</b>        |

### Object of the Issue

- ▶ To repay / prepay borrowings availed by the Company
- ▶ To fund expenditures towards general corporate purposes

| Shareholding (%) | Pre-Issue | Post-Issue |
|------------------|-----------|------------|
| Promoters        | 75.8      | 65.4       |
| Public           | 24.2      | 34.6       |

### Key Financials

| Rs bn                        | FY18  | FY19  | FY20  | 9MFY21 |
|------------------------------|-------|-------|-------|--------|
| Revenue                      | 3.4   | 5.0   | 5.3   | 5.4    |
| EBITDA                       | 0.7   | 0.9   | 1.3   | 1.3    |
| EBITDA Margin (%)            | 21.8  | 18.4  | 25.5  | 24.2   |
| PAT                          | 0.4   | 0.5   | 0.5   | 0.5    |
| PAT Margin (%)               | 12.1  | 9.8   | 10.0  | 8.9    |
| EPS (Rs)                     | 6.6   | 6.6   | 6.9   | 6.0    |
| P/E (x)                      | 84.2  | 84.1  | 80.0  | 92.0   |
| EV/EBITDA (x)                | 80.1  | 67.4  | 47.0  | 48.3   |
| Net Worth                    | 4.6   | 5.1   | 5.9   | 8.2    |
| RoE (%)                      | 9.0   | 9.7   | 8.9   | 5.8    |
| OCF                          | (0.2) | 0.4   | 0.9   | 0.1    |
| OCF Yield (%)                | (0.4) | 0.7   | 1.7   | 0.2    |
| FCF                          | (2.8) | (2.1) | (0.9) | (1.0)  |
| Gross Debt                   | 4.3   | 6.7   | 8.2   | 8.4    |
| Net Debt/Equity (x)          | 0.9   | 1.3   | 1.3   | 0.9    |
| Gross Block                  | 4.5   | 7.7   | 10.4  | 11.3   |
| Asset Turnover (x)           | 0.8   | 0.7   | 0.5   | 0.5    |
| Installed Capacity ('000 MT) | 12.2  | 14.9  | 23.4  | 23.4   |
| Capacity Utilisation (%)     | 86.5  | 75.4  | 59.6  | 74.7   |
| WCC (Days)                   | 212.6 | 176.3 | 204.5 | 288.2  |

Source: RHP

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