

Rating: Unrated

Issue Offer

Fresh Issue of equity shares upto Rs 165 Cr and OFS of 45,00,000 shares by Promoters group taking the total issue size at Rs 318 cr

Issue Summary

Price Band (Rs)	338-340
Face Value (Rs)	10
Implied Market Cap (Rs Cr)	1,398
Market Lot	44
Issue Opens on	Sept 21, 2020
Issue Close on	Sept 23, 2020
No. of share pre-issue	31,777,760
No. of share post issue	36,631,000
Listing	NSE / BSE

Issue Break-up (%)

QIB Portion	50
NIB Portion	15
Retail Portion	35

Book Running Lead Managers

Intensive Fiscal Services Pvt. Ltd.
Ambit Capital Pvt. Ltd.

Registrar

Link Intime India Private Limited

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	100%	74.5%
Public & Others	0%	25.5%

Objects of the issue

- Company will utilise Rs 41 cr for capex
- Rs 90 cr will be utilised for Working capital
- General corporate purpose

Chemcon Specialty Chemicals Ltd (CSCL) manufacturer of specialized chemicals is engaged in the manufacturing and sale of the Pharmaceutical Chemicals and the Oilwell Completion Chemicals. Its product basket caters to 2 industries; i) manufactures HMDS and CMIC used predominantly in the pharma industry for making APIs, ii) Inorganic bromides used in oil well/fields. Its manufacturing plant is located in Manjusar near Vadodara in the state of Gujarat, Western India. As per Frost & Sullivan by 2019, it is the only manufacturer of HMDS in India & 3rd largest in the world, 2nd largest manufacturer of CMIC globally, and only manufacturer of Zinc Bromides in India and largest manufacturer of Calcium Bromides in India. It employs 172 employees on rolls and another 150 on contractual basis as of 31 July 2020.

Product Portfolio: CSCL caters its pharmaceutical customers with HMDS (including hi-purity HMDS), CMIC and 4 CBC products. It manufactures Oilwell Completion Chemicals used in oil & gas exploration process, Calcium Bromide, Zinc Bromide and Sodium Bromide.

Capacity Expansion to drive growth going forward: CSCL plans to expand its operations with 2 additional plants with a total volumetric reactor capacity of 251 KL. With the completion of this expansion, total volumetric reactor capacity at the manufacturing facility shall increase from 374.85 KL to 625.85 KL and will enable it to significantly benefit from economies of scale.

Leading manufacturer of those chemicals globally: The company is a leading manufacturer globally of the Pharmaceutical Chemicals and a leading manufacturer in India of the Oilwell Completion Chemicals. India is a net importer of both HMDS and CMIC, with 40% of HMDS and 62% of CMIC domestic demand catered by imports from China. With the Government focusing to shift its supply chain bases back to domestic market, the probability of high custom taxes, etc. will benefit CSCL as well as open future market scope for expansion of operations.

Diversified customer base with long standing relationships: It supplies products to customers in India and also export products to US, East Asia, Central Europe, Middle East as well as to South East Asian nations of Thailand and Malaysia. In Fiscals 2020, 2019 and 2018, exports (including Deemed Exports) contributed 39.78%, 31.99% and 47.84% respectively of total revenue from operations.

Entry barriers for new players: The business of manufacturing specialty chemicals provides the inherent protection to the business through entry barriers raised by both technology field, existing supply chain mechanisms as well as years of technical scalability and cost efficient production methods.

Valuation and View:

At upper price band of Rs 340, issue has been offered at P/E of 22x to its FY20 EPS of Rs 15.4, which is quiet inexpensive against its peers. With the company in the manufacturing of speciality chemicals, its vast potential to cater to the domestic market, rising neo-nationalism against Chinese imports and Government push for self-sufficiency in API supplies, the business outlook of CSCL gets even brighter. Hence, CSCL recognizing the opportunity it has in hand, is expanding its operations. However, concerns regarding the CBI sentence against one of the Promoters for 2 years imprisonment, may cast a shadow on its valuations.

Product Portfolio of the Company

Pharmaceutical Speciality Chemicals: Company produces HMDS and CMIC primarily for its pharma clients.

- A) HMDS (Hexamethyldisilane):** Chemcon is the only manufacturer of HMDS in India and is the 3rd largest manufacturer of HMDS globally. HMDS is used primarily in Pharma industry for the synthesis of antibiotics, e.g. Penicillin, Cephalosporins, their derivatives and Azacytidine, etc.
- B) CMIC (chloromethyl isopropyl carbonate):** Chemcon is the 2nd largest producer of CMIC globally and largest in India. CMIC belongs to the category of pharma intermediates product. It is primarily used in the synthesis of anti-AIDS and anti-hepatitis B and other anti-viral drugs.

Oilwell Completion Chemicals:

- A) Bromides:** Chemcon is the only manufacturer of zinc bromides and largest manufacturer of Calcium Bromides in India. Chemcon is in the manufacturing of Calcium, Zinc and Sodium Bromides which are applicable for the completion of process of exploration of Oil and natural gas.

Revenue by Segment

Revenue by Operations Mix (%)	FY18	FY19	FY20
Pharmaceutical Chemicals (%)	62.2	63.1	63.8
Domestic (%)	70.1	75.1	84.0
Export (%)	29.9	24.9	16.0
Oilwell Completion Chemicals (%)	35.6	35.3	33.5
Domestic (%)	18.8	54.1	11.7
Export (%)	81.3	45.9	88.3

Financial Performance

Key Financial Metrics (in Rs Cr)	FY18	FY19	FY20
Revenue from Operations	158	303	262
Growth (%)		92.4	-13.6
EBITDA	45	66	70
EBITDA Margin (%)	28.6	21.7	26.8
PAT	26	43	49
Growth (%)		63.2	13.5
PAT Margin (%)	16.7	14.2	18.6
EPS	8.3	13.5	15.4
BVS	16.9	30.1	44.9
Net Debt to Equity	0.29	0.22	0.21
ROCE	62.1	53.9	37.9
ROE	49.2	44.9	34.2

Peer Group Comparison

Comparison among Listed Peers	Face Value	Revenue	EPS (diluted)	P/E	RoNW	NAV per share
Chemcon Speciality Chemicals	10	262	15.4	22	34.23	44.9
Aarti Industries Limited	5	3,994	30	33	18.04	166.6
Vinati Organics Limited	1	1,029	32.5	30	26.09	124.5
Sudarshan Chemical Industries	2	1,518	21.5	19	23.51	91.4
Atul Limited	10	3,906	215.8	23	20.85	1,035.10
Paushak Limited	10	138	113.3	31	15.36	737.3
Fine Organic Industries	5	1,026	54.3	39	26.4	205.7
Neogen Chemicals Ltd.	10	306	12.3	44	18.36	67.2

Management

Management Team	Position	Description
Kamalkumar Rajendra Aggarwal	Chairman & Managing Director	He holds a diploma in petrochemical technology (plastic technology) the Maharaja Sayajirao University of Baroda, Gujarat. In the past, he was associated with CEPL in the capacity of director. 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	CFO & Whole Time Director	He holds a bachelor's degree in commerce from Gujarat University, Gujarat. In the past, he was associated with CEPL in the capacity of Accounts & Finance Manager. 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	Deputy Managing Director	He has obtained a passing certificate for completion of his higher secondary examinations from the Gujarat Secondary & Higher Secondary Education Board, Gandhinagar. He is currently associated with SILPL in the capacity of director (operations). He has more than 10 years of experience in operations. He has been on the Board since April 1, 2015.
Himanshu Purohit	Whole Time Director	He holds a master's degree in science in inorganic chemistry from the Sardar Patel University, Gujarat. In the past, he has been associated with CEPL in the capacity of production manager. He has more than 20 years of experience in production related operations. He has been on the Board since May 1, 2012.

Covid-19 Impact on Company's Business

Ever since the Government imposed lockdown in response to the spread of Covid-19, the manufacturing industry across the nation suffered due to closure of operations. However, since Chemcon's products are used in the Pharma industry, the company's operations came under the essential goods manufacturing and the plant was closed only for the duration of March 24 till March 31, 2020, and Chemcon re-started its plant operations from April 1, 2020.

Key Risks

- **Pandemic induced lockdown:** The company could face pandemic induced lockdown constraining its supplies of raw materials due to stressed logistics and unavailability of manpower.
- **Business Competition from Chinese Players:** China is a known for its notoriety regarding dumping its produce to certain markets at throw-away prices in order to hamper and ultimately kill the domestic players. However, the Government of India has taken that in recognition, and is pushing private companies for domestic sourcing of raw materials as well as producing APIs within India and discouraging Chinese Imports.
- **Fire-safety and handling of Chemicals at Plant:** In FY18, the company witnesses fire related incident at its HMDS manufacturing facility leading to a fall in available annual capacity of HMDS.
- **Promoter Group Individual undergoing CBI investigation:** One of the Promoters, Mr. Naresh Vijaykumar Goyal has filed an appeal in relation to a criminal proceeding filed against him, with rigorous imprisonment of 2 years. This might have an adverse impact on the company's operations, reputation and business prospects.

Major Customers

CSSL sells its products to domestic market as well as it exports to foreign customers (39.8% of revenue came from exports in FY20). Chemcon sells its products in countries such as United States of America, Italy, South Korea, Germany, People's Republic of China, Japan, United Arab Emirates, Serbia, Russia, Spain, Thailand and Malaysia.

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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