

Rating: Subscribe

Issue Offer

Fresh Issue of 7,466,063 equity shares up to INR 1.65bn and OFS of 3,900,000 equity shares.

Issue Summary

Price Band (INR)	210-221
Face Value (INR)	10
Implied Market Cap (INR Mn)	8,660
Market Lot	67
Issue Opens on	March 5, 2024
Issue Close on	March 7, 2024
No. of share pre-issue	31,720,000
No. of share post issue	39,186,063
Listing	NSE, BSE

Issue Break-up (%)

QIB Portion	50%
NIB Portion	15%
Retail Portion	35%

Book Running Lead Managers

Centrum Capital Ltd
Emkay Global Fin. Services Ltd
Keynote Financial Services Ltd

Registrar

KFin Technologies Limited

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	100%	71.00%
Public & Others	-	29.00%

Objects of the issue

- Investment in Material Subsidiary, viz. BDJ Oxides
- Funding long-term working capital requirements
- General corporate purposes.

Abhishek Jain

abhishek.jain@arihantcapital.com

022-422548871

Aman Jain

JG Chemicals Ltd is India's largest zinc oxide manufacturer, employing the French (indirect) process for production. It holds a 30% market share in India and is among the top ten global manufacturers. Offering over 80 grades, its products serve diverse industries including rubber, ceramics, paints, pharmaceuticals, and more. With decades of experience, it has built strong relationships with customers worldwide. Its subsidiary, BDJ Oxides, holds the coveted IATF certification, making it a preferred supplier for tyre manufacturers. The company caters to 200 domestic customers and 50 global customers spanning across more than 10 countries.

Investment Rationale

Expansion of production facilities: The company currently operates on total capacity of 77,040 MTPA including recent capacity expansions at Naidupeta facility of 36,960 MTPA. The facilities have an average utilisation of 65% and expects to reach full utilisation in 3 years at Naidupeta facility. The company has also proposed to establish a greenfield manufacturing facility in Gujarat specifically to cater and penetrate the Ceramics industry and non tyre markets. With the large tyre manufacturers having significant presence in South East Asia, the company is exploring organic and inorganic growth opportunities including acquisitions in Thailand as it is favourable for tyre and rubber companies.

Leading Market position along with huge customer base: The company is the largest Zinc Oxide manufacturer in India with 30% market share and caters to 9 out of top 10 tyre manufacturers globally. They also cater to other industries like Ceramics, Paints, Pharma, Animal feed etc. They have been able to maintain 90% repeat order rate due to their strong relationship with their customers and have not lost any key customer in the last 20 years. Currently, 90.5% of revenue comes from Tyre and Rubber industry with 76% of total revenue coming from Top 10 customers. The company's sales have grown at 13.32% CAGR in the last 5 years.

Diversification in product offerings: With increasing demand of Zinc sulphate in the agro-chemical industry, the company has started with production of Zinc Sulphate with capacity of 10,000 MTPA. The company successfully uses Zinc Ash, a byproduct of Zinc Oxide, which helps them in cost reductions and margin expansions. They also have a GMP approved plant specifically to cater Pharma industry. The Zinc Oxide produced at this plant is of higher quality and attracts higher margins. The company also intends to cater the demand of Zinc Carbonate coming in from Electronics segment.

High entry barriers: Tyre manufacturers prioritize quality, favoring established suppliers. JG Chemicals stands out with IATF certification and pharmaceutical licenses, poised for industry growth. Despite zinc oxide industry challenges, JG Chemicals navigates them with a global supplier base and tailored products. Strong supplier-customer relationships are key, and the company benefits from no import issues from China, enhancing its position in the market.

Demand outlook: The growth in the automobile and rubber sectors, along with increasing demand for tyres and radial tyres, creates a favorable market for zinc oxide. Additionally, opportunities arise from the expanding ceramics industry and rising demand for skincare products, including zinc oxide's use in sunscreen. Moreover, the demand for zinc oxide-based paints and coatings is expected to increase, driven by its UV-blocking and corrosion-resistant properties, further contributing to JG Chemicals' growth.

Valuation & Outlook: JG Chemicals is strategically expanding its production facilities and diversifying product offerings to meet growing market demands, particularly in the ceramics industry and non-tyre markets. With a leading market position and strong customer base, the company maintains high customer retention rates and explores growth opportunities in South East Asia. Despite high entry barriers, its certifications and global supplier base ensure continued growth. The favorable demand outlook in automotive, rubber and ceramics, along with expected revival of chemical industry in early FY25, positions JG Chemicals for sustained growth and market leadership. At the upper band of INR 221, the issue is valued at an EV/EBITDA of 12.3x based on FY23 EBITDA of INR 755.35 Mn and P/E of 12.8x based on FY23 EPS of INR 17.32. We are recommending "Subscribe" for this issue.

Financial Statements

Income statement summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23
Revenue	4,353	6,128	7,846
Operating expenses	3,490	4,959	6,341
Gross Profit	863	1,169	1,505
Gross Margin (%)	19.8%	19.1%	19.2%
Employee Cost	103	133	148
Other Expenses	325	475	602
EBITDA	435	561	755
EBITDA Margin (%)	10.0%	9.2%	9.6%
Depreciation	(23)	(27)	(34)
Interest expense	(51)	(63)	(50)
Other income	51	102	96
Share of profits associate & JV	-	0.1	-
Profit before tax	413	574	767
Taxes	(124)	(143)	(199)
PAT	289	431	568
PAT Margin (%)	6.6%	7.0%	7.2%
EPS (INR)	7.4	12.6	17.3

Source: Company Reports, Aриhant Capital Research

Balance sheet summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23
Equity capital	12	12	317
Reserves	1,073	1,514	1,759
Share allotment pending	-	-	-
Net worth	1,085	1,526	2,077
Minority Interest	105	40	59
Provisions	2	2	3
Debt	745	939	704
Other non-current liabilities	3	-	6
Total Liabilities	1,940	2,508	2,848
Fixed assets	224	224	353
Capital Work In Progress	0	0	0
Other Intangible assets	0	74	9
Goodwill	6	-	-
Investments	86	85	30
Other non current assets	27	22	23
Net working capital	1,493	1,934	2,173
Inventories	486	883	1,038
Sundry debtors	898	948	1,156
Loans & Advances	20	18	18
Other current assets	249	219	91
Sundry creditors	(72)	(53)	(84)
Other current liabilities & Prov	(88)	(80)	(47)
Cash	52	81	49
Other Financial Assets	51	89	211
Total Assets	1,939	2,508	2,848

Source: Company Reports, Aриhant Capital Research

Cashflow summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23
Profit before tax	413	574	767
Depreciation	23	27	34
Tax paid	(124)	(143)	(199)
Working capital Δ	(1,493)	(441)	(239)
Change in Goodwill	(6)	6	-
Operating cashflow	(1,187)	22	364
Capital expenditure	(247)	(27)	(163)
Free cash flow	(1,434)	(4)	200
Equity raised	901	(55)	1
Investments	(86)	1	55
Others	(79)	(106)	(59)
Debt financing/disposal	745	195	(236)
Dividends paid	-	-	-
Other items	5	(3)	6
Net Δ in cash	52	29	(32)
Opening Cash Flow		52	81
Closing Cash Flow	52	81	49

Source: Company Reports, Aриhant Capital Research

Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23
Growth matrix (%)			
Revenue growth		40.8%	28.0%
Op profit growth		29.0%	34.6%
Profitability ratios (%)			
OPM	10.0%	9.2%	9.6%
Net profit margin	6.6%	7.0%	7.2%
RoCE	22.5%	21.7%	25.9%
RoNW	26.6%	28.2%	27.4%
RoA	14.9%	17.2%	20.0%
Per share ratios (INR)			
EPS	7.39	12.61	17.32
Book value per share	1,030.2	1,449.4	65.5
Valuation ratios (x)			
P/E	29.9	17.5	12.8
P/B	0.2	0.2	3.4
EV/EBITDA	21.4	16.6	12.3
Payout (%)			
Tax payout	30.1%	24.9%	25.9%
Liquidity ratios			
Debtor days	75	56	54
Inventory days	51	65	60
Creditor days	(7)	(3)	(4)
WC Days	119	118	109

Source: Company Reports, Aриhant Capital Research

Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park
Building No. 10, 1st Floor
Andheri Ghatkopar Link Road
Chakala, Andheri (E)
Mumbai – 400093
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

Arihant House
E-5 Ratlam Kothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Absolute Return**Research Analyst
Registration No.**

INH000002764

Contact

SMS: 'Arihant' to 56677

Website

www.arihantcapital.com

Email Id

instresearch@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880