

CHEMCON SPECIALITY CHEMICALS LIMITED

September 21, 2020


SMC Ranking


Issue Highlights

Industry	Chemical
Total Issue (Shares) - Offer for sale	4,500,000
Total Issue (Shares) - Fresh Issue	4,852,941
Net Offer to the Public	9,352,941
Issue Size (Rs. Cr.)	316-326
Price Band (Rs.)	338-340
Offer Date	21-Sep-20
Close Date	23-Sep-20
Face Value	10
Lot Size	44

Issue Composition	In shares
Total Issue for Sale	9,352,941
QIB	4,676,471
NIB	1,402,941
Retail	3,273,529

Shareholding Pattern (%)	Pre-issue	Post-issue
Promoters & promoters group	100.00%	74.47%
QIB	0.00%	12.77%
NIB	0.00%	3.83%
Retail	0.00%	8.94%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue
The company proposes to utilise the Net Proceeds towards funding the following objects:
1. To meet capital expenditures for expansion of manufacturing facility.
2. To meet business working capital requirements.
3. To meet general corporate purposes.

Book Running Lead Manager

- Ambit Private Limited
- Intensive Fiscal Services Private Limited

Name of the registrar

- Link Intime India Private Limited

About the Company

Incorporated on December 15, 1988, Chemcon Speciality Chemicals Ltd ("Chemcon") is a manufacturer of specialised chemicals, such as Hexamethyldisilazane / Hexamethyldisilane ("HMDS") and Chloromethyl Isopropyl Carbonate ("CMIC") which are predominantly used in the pharmaceuticals industry (the "Pharmaceutical Chemicals"), and inorganic bromides, namely Calcium Bromide, Zinc Bromide and Sodium Bromide, which are predominantly used as completion fluids in the oilfields industry (the "Oilwell Completion Chemicals"). Chemcon Chemicals is a leading manufacturer of Pharmaceutical chemicals and generates maximum revenue from this particular segment. Hetero Labs Limited, Laurus Labs Ltd, Aurobindo Pharma Ltd, Lantech Pharmaceuticals Ltd, Macleods Pharma Ltd are the key customers of its Pharma chemical business. Moreover, Shree Radha Overseas, Universal Drilling Fluids, Water Systems Speciality are some of the clients of its oilfield chemicals segment. In 2018, it was the 8th largest manufacturer of HMDS and 2nd largest manufacturer of CMIC chemical worldwide. The company not only serves the domestic market but also export its products in overseas market such as USA, China, Japan, UAE, Serbia, Russia, Malaysia, and Azerbaijan. It has a manufacturing plant at Manjusar near Vadodara in Gujarat, 5 operational plants, 3 warehouses, and 2 leased warehouses.

Strength

A leading manufacturer globally of the Pharmaceutical Chemicals and the company are a leading manufacturer in India of the Oilwell Completion Chemicals: Chemcon is the only manufacturer of HMDS in India and was the 3rd largest manufacturer of HMDS worldwide in terms of production in the calendar year 2019 and has an opportunity to grow at a CAGR of 15-20% between 2019 and 2023 including great opportunity for exports. It is the largest manufacturer of CMIC in India and the 2nd largest manufacturer of CMIC worldwide, in terms of production and capacity in calendar year 2019 and has an opportunity to grow at a CAGR of more than 25% between 2019 and 2023. The company was the only manufacturer of Zinc Bromide and the largest manufacturer of Calcium Bromide in India, in terms of production in calendar year 2019. The company believes that its positioning in the markets in which the company operates and its established relationships with its customers and suppliers, will enable it to benefit from any growth opportunities in the markets in which the company operates and continues to expand its operations.

Diversified customer base coupled with long standing relationships: The company supplies its products to customers in India and also export its products to countries including United States of America, Germany, Italy, South Korea, People's Republic of China, Japan, United Arab Emirates, Serbia, Russia, Spain, Thailand and Malaysia. In Fiscals 2020, 2019 and 2018, its exports (including Deemed Exports) contributed 39.78%, 31.99% and 47.84% respectively of its total revenue from operations. Its revenue from exports (including Deemed Exports) has grown at a CAGR of 17.57% between Fiscals 2018 and 2020. Its top five customers and its top ten customers contributed 59.35% and 72.26%, respectively of its total revenue from operations in Fiscal 2020, as compared to 45.94% and 67.56%, respectively of its total revenue from operations in Fiscal 2019 and 60.01% and 75.67%, respectively of its total revenue from operations in Fiscal 2018. The company believes that as a result of its diversified customer base and its endeavor to maintain long standing relationships with its customers, the company is well equipped to



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retain its presence in the market and build upon these relationships to increase its product base and reach out to new customers.

Consistent financial performance with a strong financial position: The company has a track record of operations of over two decades and has a strong balance sheet with stable cash flows. The company has experienced sustained growth in various financial indicators including its revenue and PAT, as well as a consistent improvement in its balance sheet position in the last three Fiscals, wherein the company has seen an increase in its net worth. The company believes that it has been able to maintain and improve its financial performance by regular capacity augmentation, diversification of its customer base and optimizing costs of sourcing raw materials and other fixed costs. Further, because of its strong business performance, the company has been able to maintain a low debt position. As on March 31, 2020, its total borrowing was ₹44.51 Crore, while its debt to equity ratio was 0.31 and its interest coverage ratio was 14.01.

Manufacturing facility with dedicated plants for its products: Chemcon is an ISO 9001:2015 certified company for the "Manufacture and supply of pharmaceutical intermediates, silanes and oilfield chemicals". Its manufacturing facility is located at Manjusar near Vadodara in Gujarat. Currently the company has 7 operational plants of which 2 plant are dedicated to the manufacturing of HMDS and ancillary products, (including 1 plant dedicated to the manufacturing of hi-purity HMDS), 1 multipurpose plant, currently being used for manufacturing of HMDS and other pharmaceutical chemicals, 2 plants are dedicated to the manufacturing of CMIC and 2 plants dedicated to the manufacturing of its Oilwell Completion Chemicals, along with 3 warehouses for the storage of its products and raw materials. It also has an in-house laboratory at its Manufacturing Facility to test the raw materials procured, as well as its products at the various stages of the manufacturing process. Further, the company has 5 leased warehouses located outside the Manufacturing Facility, in Manjusar, Vadodara.

Strategy

Expansion of its total installed production capacity: The company aims to expand its manufacturing operations and production capacity. The company has seven operational individual plants for the production of its Products, within the Manufacturing Facility. Its total volumetric reactor capacity as on July 31, 2020 was 374.85 KL. The company intends to build two additional plants with a total volumetric reactor capacity of 251.00 KL. These additional plants shall be utilised for the manufacturing of chemicals which are principally used pharmaceutical industry. With the completion of such expansion, its total volumetric reactor capacity at the Manufacturing Facility shall increase from its volumetric reactor capacity of 374.85 KL to 625.85 KL and will enable it to significantly benefit from economies of scale.

Augmenting growth in the current geographic markets and expanding into new geographic markets: The company aims to expand its manufacturing and sales operations of CMIC and HMDS to substitute such imports. The trade dispute between the USA and China, may influence China's HMDS exports to the USA and may indirectly help India boost its exports and The company has already started the supply of HMDS to the customers in the USA based on the opportunity created due to such trade dispute. In Fiscal 2020, the company supplied the Oilwell Completion Chemicals largely to customers in India, the Middle East, Serbia and Russia. The company aims to expand the sales of the Oilwell Completion Chemicals in existing and new geographies including Nigeria, Malaysia, China and Ghana. To access newer markets, The company regularly participates in trade exhibitions in different geographies. In the recent past, the company has participated in trade exhibitions, including CPHI Worldwide 2019 (in Frankfurt, Germany), CPHI India 2018, Adipex 2018 (in Abu Dhabi, United Arab Emirates), CPHI Japan 2019 and CPHI & ICSE China 2019. Accordingly, the company intends to further consolidate its position in the geographic markets where the company sells its products as well as expand into additional geographic markets.

Exploring newer applications of its existing products as well as focusing on new products that are in synergy with its current operations: The Company aims to expand the sale of its

products to other industries where such products have application. For instance, while the company currently supplies HMDS largely to the pharmaceuticals industry, the company aims to market its products for end-use applications in other industries including the rubber and semiconductor manufacturing industry. The company has recently commissioned a plant (Plant P2) which has the capacity to manufacture upto 600 MT per annum of high purity /electronic grade HMDS which finds application in the pharmaceuticals, silicone/rubber as well as semiconductor industries.

Continue to strive for cost efficiency: The company intends to continue to be cost efficient in the production of its products. This efficiency is achieved through strategies like having a large single location manufacturing facility, dedicated plants for each product, process reengineering for efficient raw material consumption and being a sizeable player in the industry in each of its products. Economies of scale will also enable it to continuously improve its operational efficiencies.

Risk factor

- The company has a limited product portfolio and its business may be adversely affected if any of its products do not continue to perform as expected or if competing products gain wider market acceptance. Further, if its competitors are able to improve the efficiency of their manufacturing processes and thereby offer their products at lower prices, its revenues and profitability may decline.
- The company derives a significant portion of its revenue from a few customers and the loss of one or more such customers', the deterioration of their financial condition or prospects, or a reduction in their demand for its products may adversely affect its business, results of operations, financial condition and cash flows.
- The commercial success of its Oilwell Completion Chemicals is dependent on the level of oil and gas exploration, development and production activities. Factors affecting the level of oil and gas exploration, development and production activities, could have a material adverse effect on its business, financial condition and results of operations.
- The commercial success of its Pharmaceutical Chemicals depends to a large extent on the success of its customers' products with end consumers. If the demand for the products in which its products are used declines, this could have a material adverse effect on its business, financial condition and results of operations.
- The profitability of the company largely depends upon the global prices of its products. There is no assurance that the prices may sustain or further increase in the future. Any significant fall in global prices of Company's products may have a material adverse effect on its business, results of operations and financial condition.

Peer comparison

Company	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Atul	3713.07	636.91	214.74	32.37	6.53	1063.68	10	6950.15	20614.14
Aarti Industries	4308.78	479.61	27.53	40.83	6.58	170.93	5	1124.15	19586.57
Vinati Organics	960.44	323.76	31.5	38.73	9.8	124.48	1	1220	12539.41
Fine Organic	1027.5	155.84	50.83	60.41	15.21	201.86	5	3070.7	9414.76
Sudarshan Chem.	1623.07	121.54	17.56	27.81	5.63	86.78	2	488.35	3380.71
Neogen Chemicals	318.27	29.32	12.56	55.35	10.38	66.96	10	695.25	1622.34
Paushak	134.27	33.5	108.69	41.36	6.1	737.29	10	4495.3	1385.5
Chemcon Speciality Chemicals Ltd	262.05	48.85	13.34	25.49	4.00	85.00	10	340.00	1245.44

* FY20 Annualised financials are taken for valuation



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Valuation

Considering the P/E valuation on the upper end of the price band of Rs. 340, the stock is priced at pre issue P/E of 22.12x on its actual annualised FY20 EPS of Rs. 15.37. Post issue, the stock is priced at a P/E of 25.49x on its EPS of Rs. 13.34. Looking at the P/B ratio at Rs. 340 the stock is priced at P/B ratio of 7.38x on the pre issue book value of Rs.46.06 and on the post issue book value of Rs. 85.00 the P/B comes out to 4.00x.

On the lower end of the price band of Rs.338 the stock is priced at pre issue P/E of 21.99x on its annualised FY20 EPS of Rs. 15.37. Post issue, the stock is priced at a P/E of 25.34x on its EPS of Rs. 13.34. Looking at the P/B ratio at Rs. 338, the stock is priced at P/B ratio of 7.34x on the pre issue book value of Rs. 46.06 and on the post issue book value of Rs. 85.00, the P/B comes out to 3.98x.

Industry overview

Pharmaceutical intermediates are the chemical compounds that form the building blocks used in production of active pharmaceutical ingredient (API). The global market of chemicals used as pharma intermediates was valued at about USD 27 Bn in 2019 and is expected to grow at a CAGR of 4% between 2020 and 2023. The major factors that will drive the requirement of pharmaceutical drugs over the forecast period are the increase in burden of diseases and geriatric population. Patent expiration is also one of the key factors that will drive the growth of the generics drug market. The greater production of APIs is expected to enhance the demand of chemicals used as pharma intermediates. Domestic consumption for chemicals used as pharma intermediates is dependent upon bulk drugs manufacturing (domestic consumption as well as captive consumption by integrated players). Majority of large bulk drug players are forward integrated through presence in formulations as well. However, backward integration for large players through intermediates manufacturing is limited. The players in chemicals used as pharma intermediates domain mostly have footprints in specialty chemicals, which are supplied to pharmaceutical sector in addition to other sectors. CRISIL Research estimates that domestic consumption of chemicals used as pharma intermediates remained at INR ~322 Bn (~USD 4.9 Bn) in fiscal 2019, growing at ~7% CAGR since fiscal 2013. During the same period, bulk drugs production (including exports) also grew at ~7% CAGR.

Outlook

Chemcon Speciality Chemicals is a manufacturer of specialized chemical products i.e. HMDS and CMIC and largest manufacturer across the globe. The company has seen strong revenue growth along with its margins improving. On the flip side, derive a significant portion of revenue from a few customers and the loss of one or more such customers, the deterioration of their financial condition or prospects, or a reduction in their demand for its products may adversely affect their business.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	September 21, 2020
Bid/Offer Closing Date	September 23, 2020
Finalisation of Basis of Allotment with the Designated Stock Exchange	September 28, 2020
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	September 29, 2020
Credit of Equity Shares to depository accounts of Allotees	September 30, 2020
Commencement of trading of the Equity Shares on the Stock Exchanges	October 01, 2020

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Jun-20 (6 Months)	Period ended 31-Mar-20 (12 Months)	Period ended 31-Mar-19 (12 Months)
Total Operating Income	262.05	303.34	157.64
Total expenditure	191.79	237.26	112.55
Operating Profit	70.26	66.08	45.10
OPM%	26.81	21.79	28.61
Other Income	3.97	1.99	0.75
PBDIT	74.23	68.07	45.85
Depreciation	4.62	2.86	2.26
PBIT	69.61	65.21	43.59
Interest	4.68	4.00	3.04
PBT	64.92	61.20	40.55
Tax	16.07	18.16	14.17
Profit After Tax	48.85	43.04	26.38

Balance sheet is on next page



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Balance Sheet

Rs. in Cr.

Particulars	As on 30-Jun-20	As on 31-Mar-20	As on 31-Mar-19
Non-current assets			
Property, plant and equipment	47.42	39.54	29.64
Capital work-in-progress	3.74	0.67	0.00
Right of Use Assets	1.33	0.00	0.00
Intangible assets	0.02	0.03	0.00
Financial assets			
Other financial assets	0.48	0.52	0.23
Other non-current assets	0.24	1.19	1.71
Total Non- Current Assets	53.23	41.94	31.59
Current assets			
Inventories	48.08	45.91	21.04
Financial assets			
Investments	0.00	0.00	0.00
Trade Receivables	88.95	64.12	29.56
Cash and Bank balances	1.07	0.68	0.93
Bank Balances other than cash and cash equivalents	13.03	10.91	0.56
Other financial assets	1.40	1.44	1.48
Other current assets	20.03	8.03	11.92
Total current assets	172.56	131.09	65.48
Total Assets	225.79	173.03	97.07
Liabilities			
Non-current liabilities			
Financial liabilities			
Borrowings	14.60	2.47	2.50
Lease Liabilities	0.822	0	0
Non-current provisions	0.056	0.492	0.721
Deferred tax liabilities (net)	2.26	2.43	1.62
Total non-current liabilities	17.73	5.39	4.84
Current liabilities			
Financial liabilities			
Borrowings	28.68	29.74	13.61
Trade payables			
-Total outstanding dues of micro enterprises and small enterprises	3.87	2.53	3.41
-Total outstanding dues of creditors other than micro enterprises and small enterprises	21.85	26.34	13.87
Other financial liabilities	4.50	11.20	2.72
Lease liabilities	0.41	0.00	0.00
Other Current liabilities (net)	2.38	0.67	1.17
Short Term Provisions	0.00	0.13	3.83
Total current liabilities	61.69	70.61	38.61
Total liabilities	79.42	76.01	43.44
Net worth represented by:			
Equity share capital	31.78	31.78	7.94
Other equity	114.59	65.25	45.68
Total Equity	146.37	97.03	53.62



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RANKING METHODOLOGY

WEAK	★
NEUTRAL	★ ★
FAIR	★ ★ ★
GOOD	★ ★ ★ ★
EXCELLENT	★ ★ ★ ★ ★

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