



ANUPAM RASAYAN INDIA LIMITED

SMC Ranking
★ ★ ☆ ☆ ☆ (2/5)

Issue Highlights

Industry	Specialty Chemicals
Fresh Issue (Shares)	13,693,694
Employee reservation	220,000
Net Offer to the Public	13,473,694
Issue Size (Rs. Cr.)	757-760
Price Band (Rs.)	553-555
Offer Date	12-Mar-21
Close Date	16-Mar-21
Face Value	10
Lot Size	27

Issue Composition

	In shares
Total Issue for Sale	13,473,694
QIB	6,736,847
NIB	2,021,054
Retail	4,715,793

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	75.80%	65.41%
QIB	24.20%	27.63%
NIB	0.00%	2.02%
Employee reservation	0.00%	0.22%
Retail	0.00%	4.72%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

To make prepayment/repayment of company's indebtedness including accrued interest.

To meet general corporate purposes.

Book Running Lead Manager

- Axis Capital Limited
- Ambit Private Limited
- IIFL Securities Limited
- JM Financial Limited

Name of the registrar

- KFin Technologies Private Limited

About the company

Incorporated in 1984, Anupam Rasayan is one of the leading companies engaged in the cotton synthesis and manufacturing of specialty chemicals in India. The business has 2 verticals; 1. Life Science related specialty chemicals that are used in agrochemicals, personal care, and pharmaceutical sector and 2. other specialty chemicals i.e. pigment & dyes, polymer additives, etc. It has 6 manufacturing facilities out of which 4 are situated at Sachin and 2 are located at Jhagadia with an aggregated installed capacity of 23,438 MT.

Strength

Strong and long-term relationships with diversified customers across geographies with significant entry barriers: The company has developed strong and long-term relationships with various multinational corporations that have helped it to expand its product offerings, processes and geographic reach. In the nine months ended December 31, 2020, the company manufactured products for over 53 domestic and international customers, including 17 multinational companies. In Fiscal 2020 and the nine months ended December 31, 2020, revenue from operations from exports accounted for 68.05% and 61.38%, respectively, of its total revenue from operations in such periods. The company has a strong long-term relationship with many multinational companies like Syngenta Asia Pacific Pte Ltd, Sumitomo Chemical Company Ltd, and UPL Limited to expand geographical reach across countries like United States, Europe, Japan, and India. And the company derives a significant proportion of its revenue from such long-term agreements with customers. Revenue generated from sales to its top 10 customers represented 86.65% and 84.01% of its revenue from operations in Fiscal 2020 and in the nine months ended December 31, 2020, respectively.

Core focus on process innovation through consistent research and development, value engineering and complex chemistries: The company has a dedicated in-house R&D facility and a pilot plant located at Sachin Unit – 6, which is equipped with laboratories engaged in process development, process innovation, new chemical screening and engineering, which assists us in pursuing efficiencies from the initial conceptualization up to commercialization of a product. As of December 31, 2020, it had a dedicated team of over 42 employees in its R&D department. The Department of Scientific and Industrial Research has also recognized its in-house R&D facility. Its R&D team has successfully carried out multi-step synthesis and scale-up for several new molecules in the area of life sciences related specialty chemicals and other specialty chemicals, and as a result, expanded its commercialized product portfolio from 25 products in Fiscal 2018 to 34 products in Fiscal 2020 and 41 products in the nine months ended December 31, 2020.

Diversified and customized product portfolio with a strong supply chain: The company has over the years, diversified, expanded and evolved its operations from a manufacturer of conventional products into custom synthesis and manufacturing of life science related specialty chemicals and other specialty chemicals, which have diverse applications across various industries. The company's commercialized product portfolio has expanded from portfolio from 25 products in Fiscal 2018 to 34 products in Fiscal 2020 and 41 products in the nine months ended December 31, 2020, primarily consisting of products that it manufactures using in-house innovative processes, which enable it to cater to a wide range of customers in domestic and international markets.

Automated manufacturing facilities with strong focus on environment, sustainability, health and safety measures: As of December 31, 2020, ARL operated six multi-purpose manufacturing facilities in Gujarat, India, with four facilities located at Sachin, Surat, Gujarat and two located at Jhagadia, Bharuch, Gujarat and an aggregate

installed capacity of 23,438 MT. In addition, given that company's operations are primarily export-oriented, the close proximity to Adani Hazira Port of its facilities located at Sachin, Surat, Gujarat helps in reducing freight and logistics costs. As per the RHP, Health, safety and sustainability measures are at the core of its operations.

Consistent track record of financial performance: The company has demonstrated consistent growth in terms of revenues and profitability. Its revenue from operations has increased at a CAGR of 24.29% from Rs 349.18 Crore in Fiscal 2018 to Rs 539.38 Crore in Fiscal 2020. The value of its exports has grown at a CAGR of 32.94% from Rs 203.66 Crore in Fiscal 2018 to Rs. 359.92 Crore in Fiscal 2020.

Strategies

Continue to focus on custom synthesis and manufacturing by developing innovative processes and value engineering: The company intends to continue developing in-house innovative processes for new complex chemistries, such as, hydrogenation and photo chlorination. It continuously seeks to try and explore which products or processes can be converted to continuous process for which it develops in-house processes. Further, it is currently in the process of developing a few products for customers by undertaking photo chemistry technology and intends to advance this technology to take it to a commercial scale

Expand the business by capitalizing on industry opportunities and organic and inorganic growth: In Fiscal 2020, the company has commissioned two manufacturing facilities, namely, Jhagadia Unit -5 and Sachin Unit – 6, and believe that this new and excess capacity will help capitalize on the growth opportunities in the specialty chemicals industry. In addition, the commissioning of Sachin Unit - 6 enabled it to expand its product portfolio to include the manufacture of pharmaceutical intermediates. Going forward, it may consider acquisition opportunities to selectively expand in other verticals. It believes such acquisitions will support its long-term strategy, strengthen its competitive position, particularly in acquiring technical expertise and provide greater scale to grow its earnings and increase shareholder value.

Diversify its product portfolio and expand its chemistry expertise: Its focus continues to remain on manufacturing specialty chemicals that are intermediates of key molecules manufactured by its end customers. It intends to continue to focus on its ability to customize its products according to the specific requirements of its customers and broaden its portfolio through innovation, focus on sustainable solutions, undertake new chemistries and perform multi-step synthesis of niche products. Its R&D team is focused on building knowledge-based value added products, new innovative processes, scaling up the capacity of existing products while lowering the cost of production and improving the existing design parameters to increase the yields and thus the overall product quality. It aims to focus on molecules which (i) are patented; (ii) are in the early stages of their life cycles; (iii) are of high or medium value and low volume; (iv) involve complex chemistries; and (iv) it believes would lead to high growth rates on commercialization across geographies. It is focused on expanding its chemistry expertise and entering into new value chains by adding new reaction capabilities at its manufacturing facilities. It intends to offer a wide range of chemistry competency with emphasis on chemistries such as, Grignard, and new group chemistries, such as, Ethylene Oxide, ammoxidation and Isobutylene. Currently, only a few companies in India undertake such new group chemistries (Sitsce: F&S Report). It believes such steps would enable it to offer higher value addition, generate higher margins and increase its profitability.

Continue to focus on cost efficiency and improving productivity: The company intends to focus on keeping its operating costs low, which it believes is critical for remaining profitable, by implementing measures to reduce its operating costs and improve its operational efficiencies. Its focus is to continue to develop and adopt energy efficient technologies and practices, increase usage of alternative raw material and fuels, and waste utilization technologies, to further improve the quality of its products and optimize its production costs. It intends to continue further integration of its manufacturing facilities and carry out most of the processes in-house to maximize its efficiencies. It believes its focus on developing cost-reduction strategies and implementing more sustainable methods in its operations will enable it to maintain its cost leadership position.

Risk factors

- The company has incurred significant indebtedness, and an inability to comply with repayment and other covenants in its financing agreements could adversely affect its business, financial condition, cash flows and credit rating.
- All its manufacturing facilities are operated on industrial land allotted to it by industrial development corporations on a leasehold basis. Failure to comply with the conditions of use of such land could result in an adverse impact on its business and financial condition
- The company has had negative cash flows from operating activities in the past and a consequent net decrease in cash and cash equivalents in some of the recent years.
- The company depends on the success of its relationships with its customers most of whom are multinational corporations. Any adverse developments or inability to enter into or maintain such relationships could have an adverse effect on its business, results of operations and financial condition.

Peer comparison

Company	Net sales	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
SRF	7525.81	1002.77	169.26	33.43	5.40	1047.61	10.00	5658.25	33522.42
P I Industries	4235.10	669.20	44.11	51.44	6.87	330.47	1.00	2269.10	34425.30
Navin Fluor. Intl.	1119.54	455.42	92.00	29.63	8.87	307.40	2.00	2725.60	13492.60
Astec Lifescienc	563.52	72.27	36.91	28.50	7.41	141.94	10.00	1052.00	2059.64
Anupam Rasayan**	718.96	64.13	6.42	86.46	3.46	160.21	10.00	555.00	5544.48

** Estimated Annualised FY21

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.555, the stock is priced at pre issue P/E of 74.61x on its estimated annualised FY21 EPS of Rs. 7.44. Post issue, the stock is priced at a P/E of 86.46x on its EPS of Rs. 6.42. Looking at the P/B ratio at Rs. 555 the stock is priced at P/B ratio of 5.80x on the pre issue book value of Rs.95.64 and on the post issue book value of Rs. 160.21 the P/B comes out to 3.46x.

On the lower end of the price band of Rs.553 the stock is priced at pre issue P/E of 74.34x on its estimated annualised FY21 EPS of Rs. 7.44. Post issue, the stock is priced at a P/E of 86.15x on its EPS of Rs. 6.42. Looking at the P/B ratio at Rs.555, the stock is priced at P/B ratio of 5.78x on the pre issue book value of Rs. 95.64 and on the post issue book value of Rs. 160.21, the P/B comes out to 3.45x.

Industry overview

The Indian chemicals market is valued at approximately US \$ 200 billion in 2019 with basic chemicals, also known as commodity chemicals or bulk chemicals, accounting for majority share of 56%. The specialty chemicals industry is driven by both domestic consumption and exports. India's specialty chemical companies are gaining favour with international multinational companies on account of the geo-political shift after the outbreak of COVID-19 as the world looks to reduce its dependence on China. Currently, China accounts for approximately 17% to 18% of the world's exportable specialty chemicals, whereas India accounts for only 1% to 2%, indicating that India has a large scope of improvement and widespread opportunity. It is anticipated that specialty chemicals will be the next great export pillar for India. Overall, the specialty chemicals industry is likely to continue to perform well in the near to medium term and is expected to capitalize on the 'Make in India' benefits to assume leadership position in the market. Specialty chemicals are a \$22 billion industry already in India and in the next six to seven years, it is expected to become a \$44 billion industry. Specialty chemicals, such as, agrochemicals and APIs are seeing an upward shift in the manufacturing.

Outlook

The company has developed strong and long-term relationships with various multinational corporations, including, Syngenta Asia Pacific Pte. Ltd., Sumitomo Chemical Company Limited and UPL Limited that has helped it expand product offerings and geographic reach across Europe, Japan, United States and India. In particular, it has been manufacturing products for certain customers for over 10 years. On the Industry front, India's specialty chemicals industry is expected to grow at a CAGR of approximately 10% to 11% over the next five years, due to rising demand from end-user industries, along with tight global supply on account of stringent environmental norms in China. So, it is expected that the company is likely to see good growth in long term. However on the pricing front, the issue looks expensive. An investor with long term investment horizon may invest in the issue.

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

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	March 12, 2021
Bid/Offer Closing Date	March 16, 2021
Finalisation of Basis of Allotment with the Designated Stock Exchange	On or about March 19, 2021
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	On or about March 22, 2021
Credit of Equity Shares to depository accounts of Allottees	On or about March 23, 2021
Commencement of trading of the Equity Shares on the Stock Exchanges	On or about March 24, 2021

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Dec-20 (9 Months)	Period ended 31-Mar-20 (12 Months)	Period ended 31-Mar-19 (12 Months)
Revenue from operations	539.22	528.88	501.50
Total expenditure	408.46	393.98	408.36
Operating Profit	130.76	134.90	93.14
OPM%	56.77	65.87	48.53
Other Income	23.942	10.507	19.464
PBDIT	154.70	145.40	112.60
Depreciation	38.316	28.712	22.528
PBIT	116.39	116.69	90.07
Interest	49.625	45.32	24.354
PBT	66.76	71.37	65.72
Tax	18.67	18.40	15.51
Profit After Tax	48.10	52.98	50.21

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Dec-20	As on 31-Mar-20	As on 31-Mar-19
Asset			
Non-current assets			
Property, plant and equipment	972.64	925.27	667.66
Capital Work-in-Progress	115.25	100.95	190.62
Right-Of-Use Assets	37.978	39.282	0.00
Intangible Assets	11.766	12.793	13.229
Financial Assets			
Investments	0.022	0.4	0.4
Other Financial Assets	6.218	2.983	3.812
Other Non-Current Assets	32.212	30.861	23.32
Total non-current assets	1176.09	1112.53	899.04
Current assets			
Inventories	421.29	297.04	195.37
Financial assets			
Trade receivables	141.42	129.49	120.59
Cash and cash equivalents	69.749	20.019	1.847
Bank balances other than Cash and cash equivalents	8.282	6.812	5.216
Loans	28.797	25.167	21.393
Other financial assets	20.425	15.866	15.073
Other current assets	53.164	57.132	63.969
Total current assets	743.13	551.53	423.46
Total Assets	1919.22	1664.07	1322.50
Non-current liabilities			
Borrowings	516.21	524.24	462.30
Other Financial Liabilities	33.244	32.961	0.00
Deferred Tax liabilities (Net)	25.91	19.17	13.689
Total Non-Current Liabilities	575.36	576.37	475.99
Current liabilities			
Borrowings	186.94	237.11	154.41
Trade Payables – MSME	0.00	0.00	0.225
Trade Payables – Other than MSME	136.75	130.15	73.578
Current maturities of long term borrowings	138.83	56.672	53.037
Other Financial Liabilities	7.145	9.66	1.55
Provisions	5.008	0.791	2.522
Other Current Liabilities	36.457	52.872	53.08
Current Tax Liabilities (Net)	8.205	6.722	1.003
Total current liabilities	519.34	493.98	339.41
Total	1094.70	1070.35	815.40
NET Worth	824.52	593.72	507.11
Net worth represented by:			
Share capital	86.207	50	50
Other equity	738.31	543.72	457.11
Total Networth	824.52	593.72	507.11

RANKING METHODOLOGY

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

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