



SMC Ranking
★ ★ ☆ ☆ ☆ (2.5/5)

Issue Highlights

Industry	Chemical
Offer for sale (Shares)	16150000
Fresh Issue (Shares)	19,778,870
Net Offer to the Public	35,928,870
Issue Size (Rs. Cr.)	1387-1462
Price Band (Rs.)	386-407
Offer Date	9-Nov-22
Close Date	11-Nov-22
Face Value	2
Lot Size	36

Issue Composition

	In shares
Total Issue for Sale	35,928,870
QIB	26,946,652.50
NIB	5,389,331
Retail	3,592,887

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	65.58%	53.41%
QIB	23.33%	33.09%
NIB	11.10%	10.57%
Retail	0.00%	2.92%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The Selling Shareholders will be entitled to their respective portion of the proceeds of the Offer for Sale.

The company proposes to utilise the Net Proceeds of the Fresh Issue towards funding the following objects:

1. Redemption or earlier redemption, in part or full, of NCDs issued by the company.
2. General corporate purposes.

Book Running Lead Manager

- IIFL Securities Limited
- ICICI securities Limited
- JM Financial Limited

Name of the registrar

- Link Intime India Private Limited

About the company

Archean Chemical Industries Limited is India's largest exporter of bromine and industrial salt in Fiscal 2021. Archean Chemical Industries markets its products to 18 global customers in 13 countries and to 24 domestic customers. The company was the largest exporter of industrial salt in India with exports of 2.7 million MT in Fiscal 2021. The company is the only manufacturer of sulphate potash in India. The company's marine chemicals business is predominately conducted on a business-to-business basis both in India and internationally. The company has an integrated production facility for the bromine, industrial salt, and sulphate of potash operations, located at Hajipir, Gujarat, located on the northern edge of the Rann of Kutch brine fields.

Strength

Leading market position, expansion and growth in bromine and industrial salt: The Company is a leading specialty marine chemical manufacturer in India since 2013. The company attributes its strong market position to factors such as its long-standing relationship with global customers, its established infrastructure and access to brine reserves at the Rann of Kutch, its manufacturing facility close proximity to the captive Jakhau Jetty and Mundra Port and its consistent delivery of high-quality products. Its leadership position and low cost-production offers it competitive advantages such as product pricing, economies of scale, and the ability to scale its business, increase customer loyalty and expand its client base, all of which have in turn resulted in the growth of revenues and EBITDA in the last three fiscal years.

High entry barriers in the speciality marine chemicals industry: The specialty marine chemicals industry in which it operates has high entry barriers, which include the high cost and intricacy of product development, manufacture, and investment in salt beds, the limited availability of raw materials necessary for production, the limited number of locations with a suitable climate and access to reserves, and the lead time and expenditure required for research and development and building customer confidence and relationships, which can only be achieved through a long gestation period.

Established infrastructure and integrated production with cost efficiencies: It has an integrated production facility for its bromine, industrial salt, and sulphate of potash operations, located at Hajipir, Gujarat, which is located on the northern edge of the Rann of Kutch brine fields. Its facility and its surrounding salt fields and brine reservoirs span approximately 240 sq.km. As of June 30, 2022, its manufacturing facility had an installed capacity of 28,500 MT per annum of bromine, 3,000,000 MT per annum of industrial salt and 130,000 MT per annum of sulphate of potash. In the three months ended June 30, 2022 and in Fiscal 2022, its capacity utilization was 23.72% and 71.20% of bromine, respectively; 38.54% and 119.54% of industrial salt, respectively; and 0.00% and 1.91% of sulphate of potash, respectively. Its manufacturing facility is located in close proximity to the Jakhau Jetty and Mundra Port, where it transports its products to its customers internationally. Its integrated manufacturing site with access to the Rann of Kutch reserves and a close connectivity to ports allows the company to manage the production process

efficiently and to deliver high quality and timely products to its customers.

Largest Indian exporter of bromine and industrial salt with a global customer base: As of June 30, 2022, it has 18 global customers and 24 domestic customers. Its major customers include, for industrial salt, Sojitz Corporation (which is also a shareholder in the Company), Wanhau Chemicals and Qatar Vinyl Company Limited; and for bromine, Shandong Tianyi Chemical Corporation and Unibrom Corporation. In the three months ended June 30, 2022 and in Fiscal 2022, Fiscal 2021 and Fiscal 2020, its largest customer, Sojitz Corporation, contributed 19.29%, 20.56%, 30.51% and 31.94%, respectively, of its revenue from operations; its top 10 customers contributed 60.69% , 61.99%, 75.70% and 77.14%, respectively, of its revenue from operations; and its top 20 customers contributed 81.75%, 80.94%, 88.66% and 92.05%, respectively, of its revenue from operations. In the three months ended June 30, 2022 and in Fiscal 2022, Fiscal 2021 and Fiscal 2020, its industrial salt sales to Sojitz Corporation accounted for 39.38%, 45.29%, 61.95% and 54.98%, respectively, of its total salt sales, while no customer accounted for more than 20% of its total bromine sales.

Strong and consistent financial performance: It has built its business organically and has demonstrated consistent growth in terms of revenues and profitability. In Fiscal 2021, it was the largest exporter of bromine and industrial salt by volume in India and has one of the lowest cost of production globally in both bromine and industrial salt. Its revenue from operations has increased at a CAGR of 36.34% from Rs. 608.10 Crore in Fiscal 2020 to Rs.1130.43 Crore in Fiscal 2022. Its revenue from operations was Rs. 400 Crore in the three months ended June 30, 2022. Its revenue from exports has grown at a CAGR of 29.11% from Rs. 476.85 Crore in Fiscal 2020 to Rs.794.90 Crore in Fiscal 2022. It has benefited from its fixed sales contracts with agreed pricing and volumes of approximately 12 months duration with its bromine customers of approximately 24 months duration with its industrial salt customers.

Strategy

Expand into downstream bromine derivative performance products: The company Plans to expand its product line into bromine derivative performance products in the next two-to-three years, in particular brominated flame retardants, clear brine fluids and bromine catalysts used for the synthesis of PTA. It is setting up a new facility to manufacture bromine performance derivatives products through its subsidiary, Acume Chemicals Private Limited. The proposed facility will be constructed on 34,983 square meters parcel of land which has been allotted to it from the GIDC, Ankleshwar.

Expand its bromine and industrial salt capacities: It intends to, and is in the process of, increasing its manufacturing capacity for bromine production. To achieve the expansion of its bromine capacity, it added in Fiscal 2021 a feed enrichment section at its site in Hajipir, Gujarat which will improve bromine recovery from its sea bittern. This expansion added 18,000 metric tons per annum to its bromine capacity. It is looking to add an additional 12,500 MT per annum capacity by Fiscal 2023 at an estimated cost of plant and machinery of approximately Rs.17.88 Crore, which it intends to fund through its cash generated from its operations.

Continue to build its global customer base and enter new geographical markets: In Fiscal 2022, it exported its products to 18 global customers in 13 countries. It enjoys relationships in excess of five years with seven out of its top ten customers. The long-standing relationships that it has enjoyed with its customers over the years and the repeat and increased orders received from them are an indicator of its position as a preferred source as compared to its competition.

Risk factor

- The business of the company is dependent and will continue to depend on its manufacturing facility.
- An inability to comply with repayment and other covenants in its financing agreements could adversely affect its business.
- Its reliance on three principal products for substantially of its sales could have an adverse effect on its Business.
- It derives a significant part of its revenue from major customers.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Deepak Nitrite	7333.96	998.63	73.22	31.68	9.48	244.77	2.00	2319.30	31633.64
Tata Chemicals	14856.58	1965.33	77.50	14.58	1.50	753.29	10.00	1130.25	28794.25
Aarti Industries	7655.22	1331.40	36.73	19.82	4.46	163.14	5.00	727.95	26388.48
Neogen Chemicals	550.52	48.38	19.40	77.22	8.51	176.12	10.00	1498.15	3736.28
Archean Chemical Industries Limited**	1130.44	188.58	15.33	26.56	4.52	90.12	2.00	407.00	5008.26

* Peer companies financials are TTM based.

** FY22 Financials

Valuation

Considering the P/E valuation on the upper end of the price band of Rs. 407, the stock is priced at pre issue P/E of 22.29x on its FY22 EPS of Rs. 18.26. Post issue, the stock is priced at a P/E of 26.56x on its EPS of Rs. 15.33. Looking at the P/B ratio at Rs. 407 the stock is priced at P/B ratio of 16.10x on the pre issue book value of Rs.25.28 and on the post issue book value of Rs. 90.12 the P/B comes out to 4.52x.

On the lower end of the price band of Rs.386 the stock is priced at pre issue P/E of 21.14x on its FY22 EPS of Rs. 18.26. Post issue, the stock is priced at a P/E of 25.19x on its EPS of Rs. 15.33. Looking at the P/B ratio at Rs.386, the stock is priced at P/B ratio of 15.27x on the pre issue book value of Rs. 25.28 and on the post issue book value of Rs. 90.12, the P/B comes out to 4.28x.

Industry Outlook

In calendar year 2021, the global chemicals market was valued at approximately US\$5,334 billion, with China accounting for a substantial market share (39%), followed by the European Union (15%) and the United States (13%). In calendar year 2020, India accounted for an approximately 4% market share in the global chemicals market. According to the Company Commissioned F&S Report, the global chemicals market is expected to grow at a CAGR of 3.6% from US\$5,334 billion in calendar year 2021 to reach US\$6,143 billion by calendar year 2025. According to the Company Commissioned F&S Report, from calendar years 2022 to 2025, the Asia Pacific (APAC) chemicals market is expected to grow at the fastest rate of 5-6%, while the chemicals markets in Western Europe, North America, and Japan are expected to grow at a slower rate of 2-3% since they are relatively mature. According to the Company Commissioned F&S Report, in calendar year 2021, the Indian chemicals industry was valued at US\$178 billion, representing approximately 3-4% of the value of the global chemicals industry. According to the Company Commissioned F&S Report, the value of the Indian chemicals industry is expected to grow at a CAGR of 9.3% from US\$178 billion in 2021 to US\$300 billion in 2025. According to the Company Commissioned F&S Report, in fiscal 2020, the Indian chemical industry contributed approximately 6.6% of the national gross domestic product and accounted for 15-17% of value of the India's manufacturing sector.

Outlook

Archean Chemical Industries Ltd (“Archean”) is a leading specialty marine chemical manufacturer in India. Archean attributes its strong market position to factors such as its long-standing relationship with global customers, its established infrastructure and access to brine reserves at the Rann of Kutch, its manufacturing facility, and its consistent delivery of high-quality products. It has built its business organically and has demonstrated consistent growth in terms of revenues and profitability. A long term investor may opt the issue.

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

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	09-November-22
BID/ISSUE CLOSES ON	11-November-22
Finalisation of Basis of Allotment with the Designated Stock Exchange	16-November-22
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	17-November-22
Credit of Equity Shares to demat accounts of Allottees	18-November-22
Commencement of trading of the Equity Shares on the Stock Exchanges	21-November-22

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended	Period ended	Period ended
	30-Jun-22 (3 Months)	31-Mar-22 (12 Months)	31-Mar-21 (12 Months)
Revenue from operations	400.27	1130.44	740.76
Total expenditure	239.21	663.29	478.54
Operating Profit	161.06	467.15	262.23
OPM%	40.24	41.32	35.40
Other Income	8.55	12.39	14.03
PBDIT	169.61	479.54	276.25
Depreciation	17.61	66.88	55.40
PBIT	152.00	412.66	220.86
Interest	39.15	161.67	130.39
Restated Profit before tax	112.85	251.00	90.47
Tax	28.44	62.41	23.86
Profit & Loss before Share of Post-acquisition Profit of Associate	84.41	188.58	66.61

** 31.03.2021 financials are standalone

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Jun-22	As on 31-Mar-22	As on 31-Mar-21
Non-current assets			
Property, plant and equipment	1033.57	1045.50	1007.19
Capital Work-in-progress	38.05	17.20	18.93
Intangible assets under development	0.04	0.04	0.00
Intangible assets	0.13	0.14	0.13
Right of use assets	49.50	38.93	33.37
Investment financial assets	0.09	0.09	0.09
Other financial assets	1.78	1.80	1.62
other non current assets	9.68	27.35	17.20
Deferred tax assets (Net)	0.13	0.00	53.29
Total non-current assets	1132.98	1131.03	1131.83
Current assets			
Inventories	137.36	120.79	110.63
Bank balances other than cash	72.36	46.50	0.31
Trade receivables	113.22	152.97	68.07
Cash and cash equivalents	31.77	12.20	31.50
Other financial assets	14.81	14.40	14.20
Loans Financial assets	0.51	0.47	0.46
Investment financial assets	66.69	11.12	41.17
Current tax assets	5.00	0.00	0.00
Other current assets	31.95	40.21	34.27
Total current assets	473.67	398.65	300.61
Total Assets	1606.65	1529.68	1432.43
Non-current liabilities			
Financial liabilities			
Borrowings	841.25	842.83	846.41
Lease liabilities	43.78	45.49	40.18
Provisions	0.19	0.34	0.41
Deferred tax liabilities	37.71	9.15	0.00
Other non-current liabilities	89.03	118.23	170.37
Other Financial liabilities	3.33	76.99	120.39
Total financial liabilities	1015.30	1093.03	1177.76
Current liabilities			
Borrowings	71.00	2.05	12.02
Lease Liabilities	6.73	6.86	4.91
Total outstanding dues of creditors of micro enterprises and small enterprises	4.51	2.42	2.28
Total outstanding dues of creditors other than micro enterprises and small enterprises	93.76	109.87	109.50
Other Financial liabilities	2.13	4.90	14.09
Other current liabilities	67.01	48.62	38.62
Provisions	0.77	0.83	0.87
Derivative liabilities	0.00	0.04	0.00
Total current liabilities	245.91	175.59	182.29
Total	1261.21	1268.62	1360.05
NET Worth	345.44	261.07	72.38
Net worth represented by:			
Share capital	19.267	19.267	19.267
Other equity	326.17	241.798	53.116
Net Worth	345.44	261.07	72.38

**31st March 2021 financials are standalone

RANKING METHODOLOGY

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

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