

Neogen Chemicals Ltd.

Neogen Chemicals Limited (NCL) is one of the leading Indian manufacturers of bromine & lithium based specialty chemicals. The company manufactures specialty organic bromine-based chemical compounds (bromine compounds) and other specialty organic chemical compounds coupled with specialty inorganic lithium-based chemicals compounds (lithium compounds).

Marquee client base with long relationships: Over the last 25 years, Neogen has established a customer base of about 1,363 customers, of which about 1,237 are domestic customers and 126 are international customers. Neogen has established relationship of over a decade with large producers of Bromine Source and Lithium Source such as Divi's Lab, Austin Chemical, Thermax and Voltas.

Focus on advanced specialty intermediates which offer higher value addition: Over the last few years Neogen has not only been focusing on manufacturing Bromine Compounds but also combining bromination with other chemistries to make advance intermediates, which otherwise would have been manufactured by its customers internally. Such forward integration has enabled Neogen to offer higher value addition and generate higher margins along with increased profitability.

Specialized business model with high entry barriers: Company's products are used for specialty applications in the pharmaceutical, agrochemical, aroma chemical, construction chemical, specialty polymer and electronic-chemical industries where they are used to manufacture high value proprietary and specialized products. Given the nature of the application of their products, company's processes and products are subject to, and measured against, exacting quality standards and stringent impurity specifications this technicality makes tough entry barrier for other players to enter in segment.

Outlook & valuation: In terms of valuations, PE works out to be 31x annualized FY19 EPS of ₹7 post listing (at the upper end of the issue price band) and there is no listed peer available with similar products for comparison. Moreover, NCL is operating at optimum level of utilization and company has not planned any defined capacity expansion in near term. Therefore we believe investors should wait for price discovery before taking any investment decision. Hence, we have **NEUTRAL** view on the issue.

Key Financial

Y/E March (₹ cr)	FY15	FY16	FY17	FY18	FY19E*
Net Sales	91	109	121	164	212
% chg	-	19	12	35	29
Net Profit	5	5	8	10	16
% chg	-	2	48	37	57
EBITDA (%)	13.8	13.0	16.5	17.7	18.5
EPS (Rs)	2	2	3	4	7
P/E (x)	99	97	66	48	31
P/BV (x)	21	18	12	9	7
RoE (%)	22	19	18	21	27
RoCE (%)	38	38	22	28	32
EV/EBITDA	40	36	27	19	14

Source: Company, Angel Broking, *Annualized

Note: Valuation ratios based on post-issue outstanding shares and at upper end of the price band

NEUTRAL

Issue Open: April 24, 2019

Issue Close: April 26, 2019

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹20.85cr

Offer for Sale: ₹62cr*

Post Eq. Paid up Capital: ₹23.33cr

Issue size (amount): *₹131cr - **132.35 cr

Price Band: ₹210 - ₹215

Lot Size: 65 shares and in multiple thereafter

Post-issue implied mkt. cap: *₹490cr - **₹502cr

Promoters holding Pre-Issue: 96%

Promoters holding Post-Issue: 70%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	70%
Others	30%

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Company background

Neogen Chemicals Limited (NCL) is one of the leading Indian manufacturers of bromine and lithium-based specialty chemicals. Specialty chemicals are those chemicals that impart different properties to a variety of products (i.e. the effect that specialty chemicals have varies based on the product) and have a high degree of value addition. Specialty chemicals are, also generally, in the Indian context, manufactured in smaller volumes when compared to non-specialty chemicals. NCL manufactures specialty organic bromine-based chemical compounds (Bromine Compounds) and other specialty organic chemical compounds coupled with specialty inorganic lithium-based chemicals compounds (Lithium Compounds). Company commenced its business operations in 1991, at Mahape, Navi Mumbai manufacturing facility with a few Bromine Compounds and Lithium Compounds. Over the years, NCL has expanded its range of products and, presently, manufactures an extensive range of specialty chemicals which find application across various industries in India and globally. As on February 28, 2019, Company had manufactured an aggregate of 198 products comprising 181 organic chemicals and 17 inorganic chemicals.

Issue Details

The company is raising ~₹62.35cr through an offer for sale and fresh issue of ₹70cr in the price band of ₹210-215. The fresh issue will constitute ~13.95% of the post-issue paid-up equity share capital of the company, assuming the issue is subscribed at the upper end of the price band. The company is offering 0.29cr shares that are being sold by promoters.

Pre and Post-IPO shareholding pattern

	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Promoter (GOI)	1,92,33,453	96%	1,63,33,453	70%
Other	8,45,340	4%	70,01,154	30%
Total	2,00,78,793	100%	2,33,34,670	100%

Source: RHP, Angel Research; Note: Calculated on upper price band

Objects of the offer

Description	Amt. Rs cr
Prepayment or repayment of all or a portion of certain borrowings availed by the company	21
Early redemption of the 9.8% fully redeemable cumulative preference shares ("FRCPS")	11.5
Long term working capital	20
General Corporate Purposes	-

Source: RHP, Angel Research

Outlook & valuation:

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Key Risks
Operates and manufacture hazardous chemicals

NCL's manufacturing process involves the use of hazardous and flammable industrial chemicals which entails significant risks and could also result in enhanced compliance obligations.

Income Statement

Y/E March (₹ cr)	FY15	FY16	FY17	FY18	FY19E*
Total operating income	91	109	121	164	212
% chg	-	19	12	35	29
Total Expenditure	79	95	101	135	173
Raw Material	50	61	64	95	122
Personnel	5	5	5	9	11
Others Expenses	24	29	32	31	40
EBITDA	13	14	20	29	39
% chg	-	11	42	45	36
(% of Net Sales)	14	13	16	18	19
Depreciation & Amortization	1	1	1	2	3
EBIT	12	13	19	27	37
% chg	-	12	42	45	35
(% of Net Sales)	13	12	15	16	17
Interest & other Charges	5	5	8	10	11
Other Income	1	0	0	1	1
(% of PBT)	12	2	3	4	3
Extraordinary Items	0	0	0	1	2
Share in profit of Associates	-	-	-	-	-
Recurring PBT	8	8	11	16	24
% chg	-	5	35	42	46
Tax	3	3	4	7	10
PAT (reported)	5	5	8	9	14
% chg	-	2	48	24	51
(% of Net Sales)	6	5	6	6	7
Basic & Fully Diluted EPS (Rs)	2	2	3	4	7
% chg	-	2	48	37	57

Source: Company, Angel Research

Note *Annualized number

Balance Sheet

Y/E March (₹ cr)	FY15	FY16	FY17	FY18	FY19E*
SOURCES OF FUNDS					
Equity Share Capital	4.5	20.0	20.0	20.0	20.1
Reserves & Surplus	19.0	7.5	22.0	30.1	41.4
Shareholders' Funds	23.5	27.5	42.0	50.1	61.5
Total Loans	7.3	7.4	43.8	46.4	52.4
Other Liab & Prov	0.0	0.0	0.0	0.0	0.0
Total Liabilities	30.8	34.9	85.7	96.5	113.9
APPLICATION OF FUNDS					
Net Block	13.2	17.4	56.3	66.7	81.1
Capital Work-in-Progress	0.1	0.7	1.3	1.4	0.0
Investments	0.0	0.0	0.0	0.0	0.0
Current Assets	53.1	60.9	89.7	106.8	149.1
Inventories	24.3	31.8	40.0	50.0	77.2
Sundry Debtors	18.0	15.8	32.2	41.4	42.5
Cash & Bank	2.4	2.5	3.1	1.8	1.0
Other Assets	0.9	1.4	4.4	4.2	6.5
Current liabilities	38.0	45.6	66.6	83.6	123.5
Net Current Assets	15.1	15.3	23.1	23.2	25.6
Other Non Current Asset	1.4	0.1	0.6	1.1	0.7
Total Assets	30.8	34.9	85.7	96.5	113.9

Source: Company, Angel Research

Cash Flow

Y/E March (₹ cr)	FY15	FY16	FY17	FY18	FY19E*
Profit before tax	8.1	8.5	11.5	17.3	17.0
Depreciation	0.9	1.0	1.3	1.9	2.1
Change in Working Capital	(2.0)	(2.8)	(14.9)	(13.4)	(31.5)
Interest / Dividend (Net)	(0.2)	(0.2)	(0.2)	(0.3)	(0.1)
Direct taxes paid	(2.6)	(3.1)	(3.9)	(4.0)	(2.6)
Others	4.4	5.3	6.5	10.2	8.7
Cash Flow from Operations	8.7	8.6	0.2	11.8	(6.3)
(Inc.)/ Dec. in Fixed Assets	(2.2)	(4.0)	(32.4)	(13.9)	(17.1)
(Inc.)/ Dec. in Investments	0.4	(0.4)	(0.5)	1.2	(0.2)
Cash Flow from Investing	(1.8)	(4.4)	(32.9)	(12.7)	(17.3)
Issue of Equity	-	-	-	-	-
Inc./(Dec.) in loans	(1.8)	1.7	29.6	12.0	33.4
Others	(4.5)	(5.9)	3.8	(12.5)	(10.6)
Cash Flow from Financing	(6.3)	(4.1)	33.3	(0.4)	22.7
Inc./(Dec.) in Cash	0.6	0.1	0.6	(1.3)	(0.8)
Opening Cash balances	1.8	2.4	2.5	3.1	1.8
Closing Cash balances	2.4	2.5	3.1	1.8	1.0

Source: Company, Angel Research

Valuation Ratios

Y/E March	FY15	FY16	FY17	FY18E	FY19E
Valuation Ratio (x)					
P/E (on FDEPS)	98.7	96.9	65.6	48.0	30.7
P/CEPS	83.3	81.2	56.0	40.5	26.1
P/BV	21.4	18.2	12.0	8.6	7.0
EV/Sales	5.6	4.7	4.5	3.3	2.6
EV/EBITDA	40.3	36.2	27.4	18.9	14.1
EV / Total Assets	16.6	14.6	6.4	5.7	4.9
Per Share Data (Rs)					
EPS (Basic)	2.5	2.6	3.8	5.2	8.2
EPS (fully diluted)	2.2	2.2	3.3	4.5	7.0
Cash EPS	2.6	2.6	3.8	6.2	9.6
DPS	0.4	0.4	0.2	1.4	1.3
Book Value	10.1	11.8	18.0	24.9	30.6
Returns (%)					
ROCE	38.1%	37.6%	21.8%	28.0%	32.1%
Angel ROIC (Pre-tax)	42%	41%	23%	29%	32%
ROE	21.7%	18.8%	18.2%	20.9%	26.7%
Turnover ratios (x)					
Asset T/O	6.9	6.2	2.2	2.5	2.6
Inventory / Sales (days)	97	106	120	120	120
Receivables (days)	72	53	97	97	97
Payables (days)	65	73	93	93	93
Working capital cycle (ex-cash) (days)	103	86	124	124	124

Source: Company, Angel Research

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4. Broking relationship with company covered under Research	No