



Archean Chemical Industries Ltd ("Archean") is a leading specialty marine chemical manufacturer in India and focused on producing and exporting bromine, industrial salt, and sulphate of potash to customers around the world. Archean has an integrated production facility for their bromine, industrial salt, and sulphate of potash operations, located at Hajipir, Gujarat, which are located in close proximity to the captive Jakhau Jetty and Mundra Port. The company's facility and its surrounding salt fields and brine reservoirs span approximately 240 sq.km. As of June 30, 2022, their manufacturing facility had an installed capacity of 28,500 MTPA of bromine, 3,000,000 MTPA of industrial salt and 130,000 MTPA of sulphate of potash. The Company holds leadership position in the manufacturer of bromine, industrial salt and is the only producer of Sulphate of Potash in India.

On Valuation front, the issue is priced at PE of 22.3x to its FY22 earnings, and The ROCE stands at 34.6%, which seems to be attractive in comparison to its peers. Thus, we recommend "Subscribe for Listing gains" to the issue.



## About the Company :

Archean Chemical Industries Ltd ("Archean") was incorporated on November 20, 2003. Archean is a leading specialty marine chemical manufacturer in India and focused on producing and exporting bromine, industrial salt, and sulphate of potash to customers around the world. Archean is the largest exporter of bromine and industrial salt in India in FY 2021 and has amongst the lowest cost of production globally in both bromine and industrial salt.

## Issue details

Price Band (Rs in per share)	386 - 407
Fresh Issue (In Rs. crore)	805
Offer for Sale (Shares In Lakhs)	161.50
Total Issue size (In Rs. crore)	1,428 - 1,462
Issue open date	09-11-2022
Issue close date	11-11-2022
Tentative date of Allotment	16-11-2022
Tentative date of Listing	21-11-2022
Total number of shares ( In lakhs)	370.05 - 359.29
No. of shares for QIBs (75%) (lakhs)	277.54 – 269.47
No. of shares for NII (15%) (lakhs)	55.51 – 53.89
No. of shares for retail investors (10%) (lakhs)	37.00 – 35.93
Minimum order quantity	36
Face value (in Rs)	2.00
Amount for retail investors (1 lot)	13,896 - 14,652
Maximum number of shares for Retail investors at lower Band	504 (14 Lots)
Maximum number of shares for Retail investors at upper band	468 (13 Lots)
Maximum amount for retail investors at lower Band- upper band (in Rs)	1,94,544 - 1,90,476
Exchanges to be listed on	BSE, NSE

## RESEARCH ANALYST

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A route to making money online

## Promoters

- Mr. Ranjit Pendurthi
- Mr. Ravi Pendurthi
- Chemikas Speciality LLP

## Objective of the Offer

- Redemption or earlier redemption, in part or full, of NCDs issued by the Company aggregating to INR 644 Crs
- General corporate purposes



Brief Financials *				
Particulars (Rs. Cr)	Q1FY-23*	FY-2022*	FY-2021	FY-2020*
Equity Share Capital	19.27	19.27	19.27	3.50
Net worth as stated	345.44	261.07	72.38	5.99
Revenue from Operations	400.27	1130.44	740.76	608.17
Revenue Growth (%)	99.4%	52.6%	21.8%	-
EBITDA	169.61	479.54	276.25	156.83
EBITDA Margin (%)	42.37%	42.42%	37.29%	25.79%
Profit before Tax	112.85	251.00	90.47	-16.69
Profit for the period	84.41	188.58	66.61	-36.22
Net Profit Margin (%)	21.09%	16.68%	8.99%	-5.96%
EPS (₹)	8.17	18.26	6.45	-3.51
Net Asset Value (₹)	33.45	25.28	7.01	0.58
PE#	12.45^	22.29	-	-
PB#	12.17	16.10	-	-

Source: RHP, # calculated at upper price band, \* Restated consolidated financials, ^ Annualized

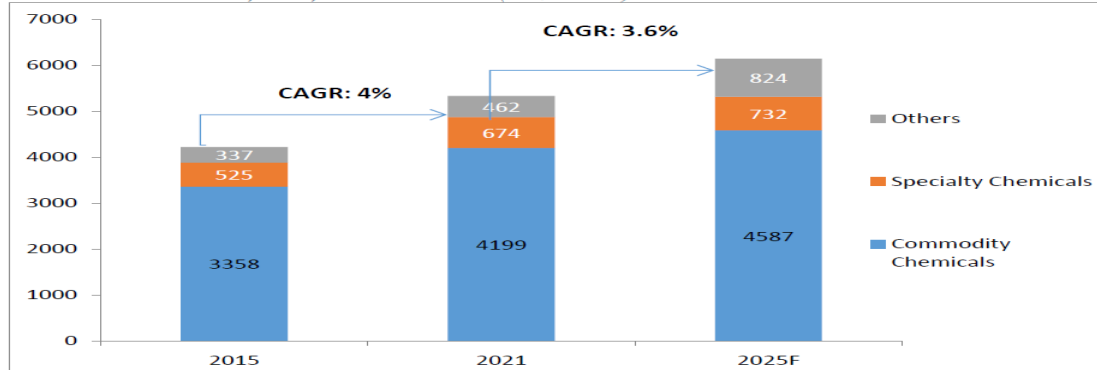
## Industry Overview

### GLOBAL CHEMICALS INDUSTRY OVERVIEW

#### Value of the global chemical industry

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. (3.2% of global military spending). In 2021, the Americas accounted for 42.5% of world total expenditure, while Asia and Oceania accounted for 27.9% of total global expenditure. In 2021, Europe contributed 20% of worldwide military spending, making it the third-largest spender.

Global chemicals market, 2015, 2021 and 2025F (US\$ billion)



Source: Company Commissioned F&S Report  
Note: Others mainly include Biotech chemicals

Source: RHP



## Type of chemicals

**Commodity Chemicals:** Commodity chemicals are common chemicals that can be produced in bulk quantities by a large number of chemical manufacturers. Commodity chemicals include plastics, synthetic fibres, films, certain paints and pigments, explosives, and petrochemicals. There is limited product differentiation within the sector; products are sold for their composition. The commodities market is highly fragmented. In 2020, each of the leading companies in the market (namely, The Dow Chemical and BASF SE) accounted for less than 5% of the total market. Other industry leaders include Bayer AG, DuPont de Nemours, and AkzoNobel. More than 85% of the market share, however, is accounted for by a mix of other companies. The end user markets include other basic chemicals, specialties, and other chemical products; manufactured goods such as textiles, automobiles, appliances, and furniture; and pulp and paper processing, oil refining, aluminium processing, and other manufacturing processes. Markets also include some non-manufacturing industries.

**Specialty Chemicals:** The specialty chemicals market is characterized by high value-added, low volume chemical production. These chemicals are used in a wide variety of products, including fine chemicals, additives, advanced polymers, adhesives, sealants and specialty paints, pigments, and coatings. The specialty market is extremely fragmented. The consolidation of companies has been a major trend, and is expected to continue. Similar to the commodity sector, the specialty sector is affected by high costs of energy and feedstock. Intangible value issues include heightened emphasis on research, customer migration to alternative products, and the impact of regulations on products.

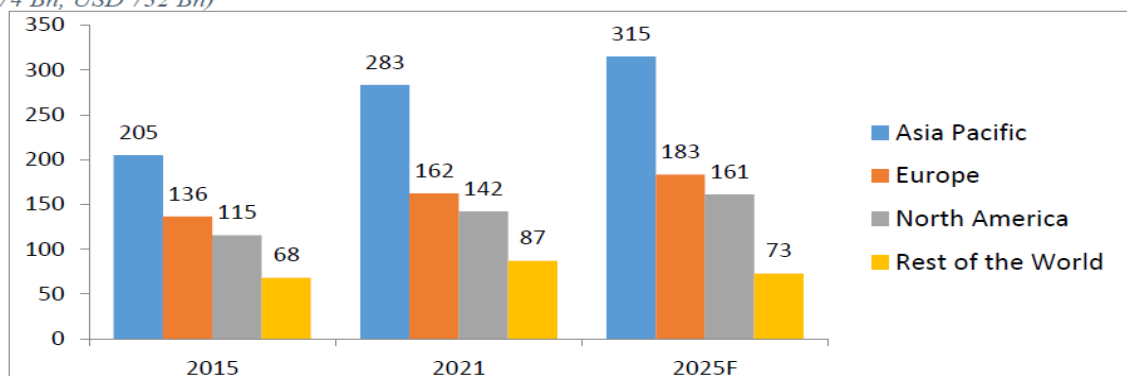
**Other Chemicals:** Other chemicals mainly include biotech chemicals.

## Global specialty chemicals market

### Value of the global specialty chemicals market

Specialty chemicals are low-volume and high-value products which are sold on the basis of their quality or utility, rather than composition. Thus, they may be used primarily as additives or to provide a specific attribute to the end products. The focus is on value addition to the end products and the properties or technical specifications of the specialty chemicals. Rapid industrialisation in India and China is expected to drive demand for specialty chemicals. Asia Pacific (APAC) dominated the global specialty chemicals market in calendar year 2020 with a 42.0% market share, owing to its huge customer base, increasing industrial production and robust growth of the construction sector in the region. APAC is followed by Europe and North America, with a 23.9% and 20.9% market share in calendar year 2020, respectively.

*Exhibit 2.5: Global Specialty Chemicals Market by Geography, 2015, 2021, 2025F Value (USD 525 Bn, USD 674 Bn, USD 732 Bn)*



Source: Company Commissioned F&S Report

Source: RHP

### Global specialty chemicals market by segments

Specialty chemicals industry can be categorised into a mix of end-use driven segments and application-driven segments. The various segments across specialty chemicals industry differ in competitive intensity, margin profiles, defensibility against raw material cost movements and growth. According to the Company Commissioned F&S Report, in calendar year 2021, the global specialty chemicals industry is valued at US\$674 billion. Agrochemicals & fertilizers made up the largest segment of the industry, accounting for approximately 31% of the global specialty chemicals industry in calendar year 2021. In APAC, with a high population base and majority of countries being underdeveloped or developing nations,



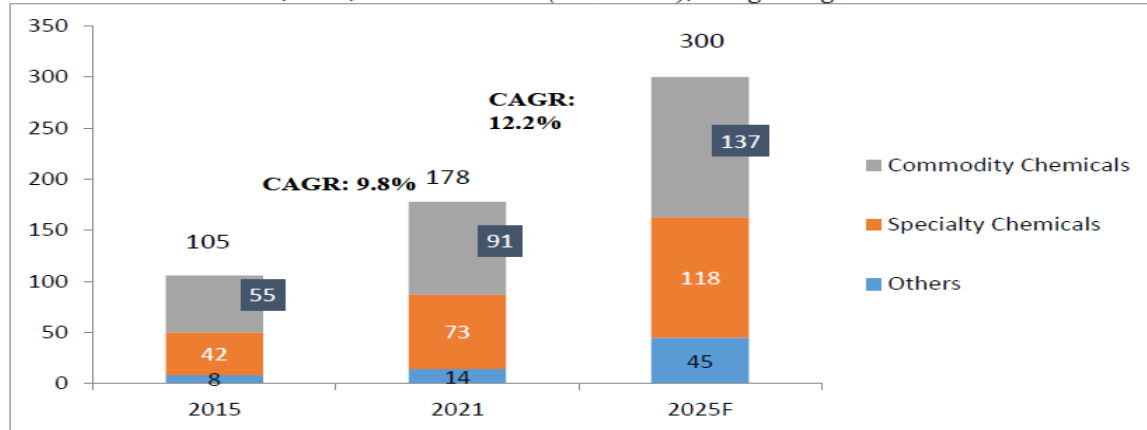
there is high rate of construction activities resulting in higher demand for construction chemicals and paints & coatings additives. Embracing modern practices in the fields, agrochemicals segment has seen tremendous growth particularly in respect of pesticides and fertilizer consumption. The consumption of pesticides in APAC recorded the fastest growth rate on a global basis and is expected to grow at a CAGR of 3-4% during the forecast period. According to the Company Commissioned F&S Report, China, India and Japan represent the largest agrochemicals markets of the Asian continent. Currently, China is leading the market with its developing agricultural sector along with the need for its ever -growing population. Globally, China is not only the largest producer but also the largest consumer of fertilizers.

## OVERVIEW OF THE CHEMICALS INDUSTRY IN INDIA

### Value of the Indian chemicals industry

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.

*Indian Chemicals Market, 2015, 2021 and 2025F (US\$ billion), along with growth rates*



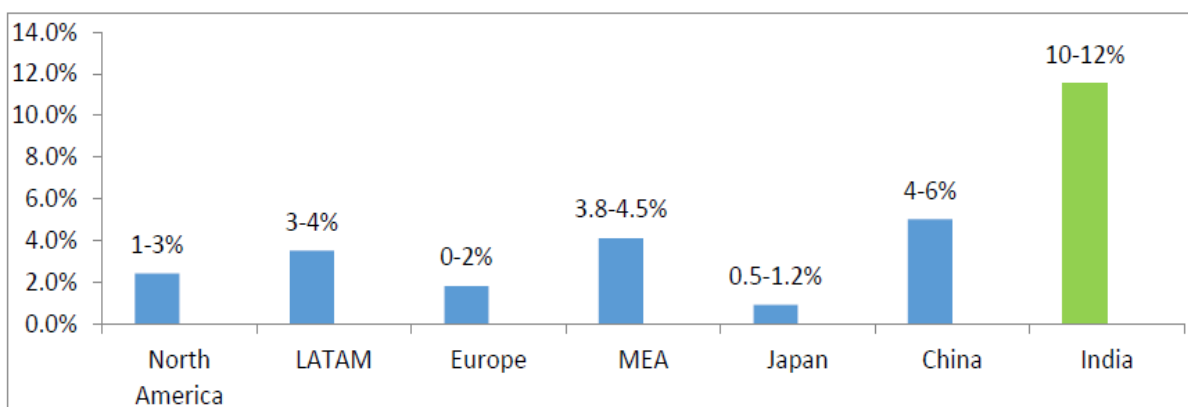
Source: Company Commissioned F&S Report

Note: Indian chemical industry generally showcases Agrochemicals & Fertilizers outside of Specialty chemicals. In the above graph the specialty chemicals section, however, is inclusive of Agrochemicals & Fertilizers to maintain consistency with the Global section.

Source: RHP

The value of the commodity chemicals segment and the specialty chemicals segment accounted for approximately 50% and 41% of the Indian chemicals industry, respectively. The growth rate of the Indian specialty chemicals segment in 2015-2020 was higher than the growth rate of the Indian commodity chemicals (10.4% vs. 8.7%). From 2021 to 2025, the Indian specialty chemicals segment is expected to grow at a CAGR of 12%.

### Region-wise Specialty Chemicals Growth, 2021-25



Source: Frost & Sullivan; Company Commissioned F&S Report

Source: RHP



## Indian specialty chemicals market by segments

**Agrochemicals and Fertilizers:** Agrochemicals include organic fertilizers, liming and acidifying agents (which are designed to change the pH), soil conditioners, insecticides and pesticides, fungicides, herbicides, and other chemicals like crop-growth regulators. Fertilizers are mainly inorganic compounds of nitrogen like urea or ammonium nitrate, compounds of phosphorous and potassium.

**Dyes and Pigments:** These are inclusive of Reactive Dyes, Disperse Dyes, Acid Direct Dyes, Azo Dyes, Sulphur Dyes, Solvent Dyes, Vat Dyes, Food Colorants, Organic Pigments, Optical Whitening agents, Inorganic Pigments, Pigment emulsions among others.

**Construction / Infratech Chemicals:** These are inclusive of concrete admixtures (plasticizers, accelerators, retarders, air entrainers), waterproofing (bitumen, PVC, silicon, SBR and others), protective coatings (epoxy, PUR, PE, alkyl, acrylic and others), concrete repair mortar (cement based and plaster based), plasters, base coats among others.

**Paints and Coatings Additives:** These are made up of insulating paint additives, powder coating additives, catalysts, wetting agents, levelers, clarifier, coupling agents, deflocculants, thinners, thickeners, anti-caking agents and other chemicals.

**Water Treatment Chemicals:** These are made up of PH neutralizers, algacides, antifoams (including insoluble oils, silicones, alcohols, stearates and glycols), biocides, boiler water chemicals, coagulants and flocculants, corrosion inhibitors, disinfectants, defoamers among others.

**Textile Chemicals:** These are inclusive of coating & sizing agents, colorants & auxiliaries, finishing agents, surfactants, de-sizing agents, bleaching agents, leather chemicals among others.

**Flavors and Fragrances:** Essential Oils (orange, corn mint, eucalyptus, pepper mint, lemon), Oleoresins (paprika, black pepper, turmeric, ginger, others), Aroma chemicals (esters, alcohol, aldehyde, phenol, others), others.

**Home & Personal Care Ingredients:** These are inclusive of formaldehyde, glycerols, titanium dioxide, isopropyls, alcohols, dimethicone, sodium lauryl sulphate, parabens, tocopherols benzones, oleochemicals, surfactants, polymers, botanical extracts among others.

## India's exports and imports of chemicals

### Value of India's exports and imports of chemicals

According to the Company Commissioned F&S Report, India's chemical exports recorded a CAGR of approximately 11% between Fiscal 2015 and Fiscal 2021, compared to approximately 5% for China. According to the Company Commissioned F&S Report, the top partner countries and regions to which India exported chemicals were United States, China, Brazil, United Arab Emirates and Germany. While India exported chemicals worth US\$30 billion in calendar year 2021, over 35% of which were exported the abovementioned five countries. The key sub-segments likely to benefit from higher exports were dyes and agrochemicals, with export shares of 45-50% and 50-55%, respectively, for the period from 2015 to 2021. According to the Company Commissioned F&S Report, in calendar year 2021, the top partner countries and regions from which India imported chemicals included China, the United States, Singapore, Saudi Arabia and Korea Republic. Indian imports were valued at US\$53 billion in calendar year 2021, with China contributing to almost 25% of India's total imports.

### Chemicals exports trend – India and China

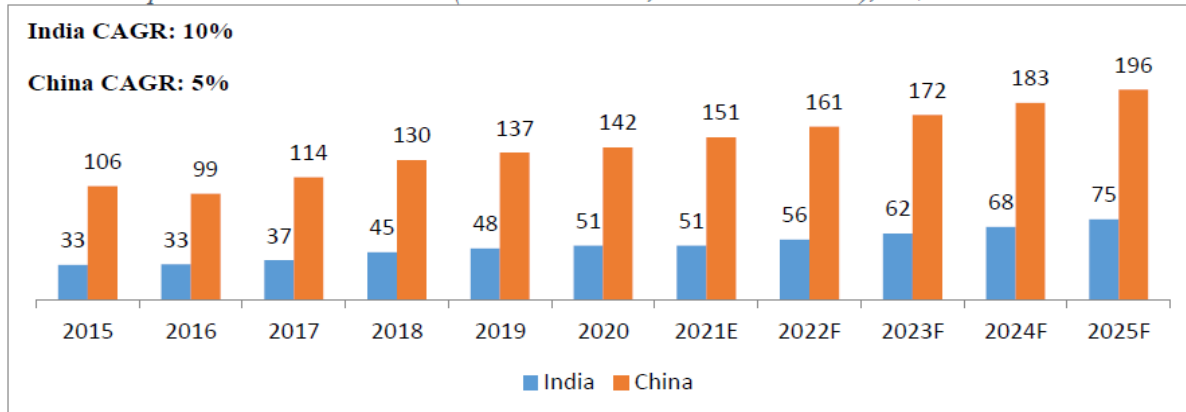
China's specialty chemicals market has seen a downturn in recent years due to various factors. Most prominent amongst these are the recent environmental norms introduced by the Chinese government in 2015, which have led to shutdown of a number of chemical plants. According to the Company Commissioned F&S Report, in 2017, an estimated 40% of the chemical manufacturing capacity in China was temporarily shut down for safety inspections, with over 80,000 manufacturing units charged and fined for breaching emission limits. As a result of stringent environmental norms, the Chinese chemical companies are witnessing a rise in capital expenditure and operational costs, making them less competitive in the export market. Several global players prefer a "China + 1 offshore strategy", with manufacturing capacities shifting to cost efficient markets with strong technology capabilities like India. Stringent environmental regula





-tions and increased cost of labour have already stifled growth in China. The pandemic has compounded the situation further as companies across the world are looking for alternate supply solutions. Japan's announcement to offer incentives to companies shifting base from China to India further proves the strong desires for certain countries to reduce dependence on China and develop local supply chains. Joint ventures or technology transfers will drive the knowledge wave for the Indian industry, given stronger IP protection rights. The spillover impact of China's declining competitiveness has set the stage for India to intensify its effort to capture larger market share.

*Chemicals Exports Trend – India vs China (2015 – 19 Actuals, 2021 – 25 Forecast), US\$ billion*



*Source: World Bank, Company Commissioned F&S Report*

*Note: The forecasted data is not published by World Bank; it has been calculated considering the same CAGRs for both the countries. The actual CAGR for India and China respectively for the period 2015-2019 stood at around 13% and 7%; as World Bank does not forecast the export trends, the same CAGR (13% for India and 7% for China) has been considered for the forecast period 2020-2025.*

*Source: RHP*

## Government policies and initiatives in India

### Aatmanirbhar Bharat Abhiyan

On May 12, 2020, the Government announced the Aatmanirbhar Bharat Abhiyan which combined relief, policy reforms and fiscal and monetary measures to help businesses and individuals to cope with the situation created by the pandemic and helps transform India into a self-reliant economy. Supplemental measures, namely Aatmanirbhar Bharat Abhiyan 2.0 and Aatmanirbhar Bharat Abhiya 3.0, were announced subsequently as well. Government seized on opportunity presented by the crisis to push forward long-pending industrial and other economic reforms in a least political resistant atmosphere. This campaign is especially expected to benefit the specialty chemicals sector, with several players hoping to position themselves as an alternative to China as the coronavirus crisis prompts companies to diversify their supply chains. In particular, the Government announced a production linked incentive (PLI) scheme for the promotion and manufacturing of pharmaceutical raw materials in India. The government's move is aimed to boost domestic manufacturing and cut dependence on imports of critical Active Pharmaceutical Ingredients (APIs). Further, the government has also decided to develop three mega bulk drug parks in partnership with states. These schemes will likely appeal more to the smaller players and should foster more investments.

### PLI for agrochemicals sector

The government is also expected to introduce a production-linked incentive scheme for the agrochemicals sector with incentives of 10-20% output and creating an end-to-end manufacturing ecosystem through cluster development. The sector can progress by adopting a multi-pronged approach by leveraging the reforms in rules and regulations as well as 'Make in India'. Indian government has set up a 2034 vision for the chemicals and petrochemicals sector to seize the opportunities to strengthen domestic manufacturing, reduce imports and attract investment for manufacturing key chemicals in the country. The government has taken initiative to promote and facilitate 'Aatmanirbhar Bharat' (self-reliance India) in the chemicals and petrochemicals sector. The government might relook at the Pesticides Management 2020 Bill as it does not meet the farmer's requirement; most clauses being redrafted from Insecticides Act 1968 and Rules 1971.



## Competitive Strengths

### **Leading market position, expansion and growth in bromine and industrial salt**

Archean attributes their strong market position to factors such as their long-standing relationship with global customers, their established infrastructure and access to brine reserves at the Rann of Kutch, their manufacturing facility, and their consistent delivery of high-quality products. Their leadership position and low cost-production offers them competitive advantages such as product pricing, economies of scale, and the ability to scale their business, increase customer loyalty and expand their client base, all of which have in turn resulted in the growth of revenues and EBITDA in the last 3 fiscal years.

### **High entry barriers in the specialty marine chemicals industry**

The specialty marine chemicals industry in which the company 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. Given the nature of the application of the products and the processes involved, the products are subject to, and measured against, high quality standards and sensitive and rigorous product approval systems with stringent impurity specifications. Further, because end products manufactured by its customers are typically subject to stringent regulatory and industry standards, any change in the vendor of the products may require significant time and expense for customers, which acts an entry barrier and disincentives any such change. Further, bromine and certain raw materials that it uses in production are highly corrosive, hazardous and toxic chemicals. Therefore, handling these chemicals requires a high degree of technical skill and specialized expertise, and only personnel who are well trained to handle such chemicals must undertake operations involving such hazardous chemicals.

### **Established infrastructure and integrated production with cost efficiencies**

The company has an integrated production facility for the 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. The company's facility and its surrounding salt fields and brine reservoirs span approximately 240 sq.km. As of June 30, 2022, the 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, the 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. According to Frost & Sullivan, The company has one of the largest salt works at one single location in the world. The industrial salt washing facility has three washeries, each having a capacity of 200 tons/hour.

### **Largest Indian exporter of bromine and industrial salt with global customer base**

As of June 30, 2022, Archean had 18 global customers and 24 domestic customers. In the 3 months ended June 30, 2022 and in Fiscal 2022, Fiscal 2021 and Fiscal 2020, their largest customer, Sojitz Corporation, contributed 19.29%, 20.56%, 30.51% and 31.94%, respectively, of their revenue from operations; In the 3 months ended June 30, 2022 and in Fiscal 2022, Fiscal 2021 and Fiscal 2020, their industrial salt sales to Sojitz Corporation accounted for 39.38%, 45.29%, 61.95% and 54.98%, respectively, of their total salt sales, while no customer accounted for more than 20% of their total bromine sales. The company has an export-oriented business, and their revenue from operations were attributed to export sales. Some of the key geographies to which they export their products include China, Japan, South Korea, Qatar, Belgium, and the Netherlands. They enjoy relationships in excess of 5 years with 7 out of their Top-10 customers. Their long-term relationships and ongoing active engagements with customers also allow them to plan their capital expenditure, enhance their ability to benefit from increasing economies of scale with stronger purchasing power for raw materials and a lower cost base.



## Risk Factors

### **Any slowdown or shutdown of manufacturing could have an adverse effect on the business, financials of the company**

The company's business is dependent upon its ability to manage the manufacturing facility, which is subject to various operating risks, including those beyond the management's control, such as the breakdown, failure of equipment or industrial accidents, severe weather conditions (including heavy rainfall), natural disasters and infectious disease outbreaks such as the COVID-19 pandemic resulting in unplanned slowdowns and/or shutdowns as a result of which the overall production of the products may impact the overall financial performance of the company.

### **Changes in regulatory policies may affect the business operations**

The company's manufacturing operations require significant labour and is also reliant on government policies in terms of taxes, duties and incentives made applicable by the Gujarat state government. As a result, any unfavorable policies in Gujarat, could adversely affect the business, financial condition and results of operations. Furthermore, Gujarat has experienced social and civil unrest in the past within the state and such tensions could lead to political or economic instability in Gujarat and a possible adverse effect on the business, financial condition and results of operations. There can be no assurance that such situations will not recur or be more intense than in the past.

### **Exchange rate fluctuations may adversely affect the results of operations as the sales from exports and a portion of the expenditures are denominated in foreign currencies.**

Archean operates an export-oriented business. The company sales from exports are denominated in foreign currencies, mostly the U.S. Dollar. The financial statements, however, are prepared in Indian Rupees. Accordingly, it has currency exposures relating to buying and selling in currencies other than in Indian Rupees, particularly the U.S. Dollar. Therefore, changes in the relevant exchange rates could also affect sales, operating results and assets and liabilities reported in Indian Rupees as part of the financial statements.

### **Top 10 customers majorly drive revenue and if any of these customers terminates the contract may affect the overall financial**

As of June 30, 2022, The Company has clients 18 global customers in 13 countries and to 24 domestic customers. In Q1FY2022 and in FY2022, FY2021 and FY2020, the largest customer and shareholder, Sojitz Corporation, contributed 19.29%, 20.56%, 30.51% and 31.94%, respectively, of the revenue from operations; the top 10 customers contributed 60.69%, 61.99%, 75.70% and 77.14%, respectively, of revenue from operations; and the top 20 customers contributed 81.75%, 80.94%, 88.66% and 92.05%, respectively, of the revenue from operations. Accordingly, any failure to retain these customers and/or negotiate and execute contracts on terms that are commercially viable, with these select customers, could adversely affect the business, financial condition and results of operations. Any defaults or delays in payments by a major customer or the insolvency or financial distress by a major customer may have an adverse effect on business, financial condition and results of operations.





## Peer Comparison

Company	Face Value	Total Income (In INR Crs) for FY-2022	EPS (Basic)	NAV	PE	ROE %	ROCE%
Archean Chemical Industries Ltd	2	1,142.83	18.26	25.28	22.29*	113.1%	34.6%
Tata Chemicals Ltd	10	1,287.81	49.17	716.48	23.01	6.9%	7.6%
Deepak Nitrite Ltd	2	6,844.80	78.2	244.77	29.66	32.0%	44.8%
Aarti Industries Ltd	5	7,000.76	36.06	163.16	20.26	22.1%	22.1%
Neogen Chemicals Ltd	10	488.32	18.7	176.12	80.16	10.2%	14.3%

CMP as on 03-Nov-2022, \* Upper Price band

## OUR VIEWS

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On Valuation front, the issue is priced at PE of 22.3x to its FY22 earnings, and The ROCE stands at 34.6%, which seems to be attractive in comparison to its peers. Thus, we recommend **"Subscribe for Listing gains"** to the issue.

Sources: Company Website and red herring prospectus



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