

Subscribe for Long Term

Issue Details

| | |
|-----------------|--------------------|
| Price Band (Rs) | Rs. 338 - 340 |
| Face Value (Rs) | 10 |
| Issue Size (Rs) | 318Cr |
| Issue Type | Book Building |
| Minimum lot | 44 |
| Issue Opens | September 21, 2020 |
| Issue Closes | September 23, 2020 |
| Listing on | BSE, NSE |

Indicative Timeline

| Indicative Timeline | On or before |
|------------------------------------|--------------------|
| Finalization of Basis of Allotment | September 28, 2020 |
| Unblocking of Funds | September 29, 2020 |
| Credit of shares to Demat Account | September 30, 2020 |
| Listing on exchange | October 1, 2020 |

Other Detail

| | |
|----------------------------|---|
| Book Running Lead Managers | Intensive Fiscal Services Private Limited and Ambit Capital Private Limited |
| Registrar | Link Intime India Private Limited |

Chemcon Speciality Chemicals Limited

Company Background

Incorporated in 1988, Chemcon Speciality Chemicals Ltd is a manufacturer of specialized chemicals based near Vadodara, Gujarat. Company's products are predominantly used in the pharmaceuticals industry and as completion fluids in the oilfields industry. It has a manufacturing plant at Manjusar near Vadodara in Gujarat, 5 operational plants, 3 warehouses, and 2 leased warehouses. 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.

Issue Details

The offer comprises Fresh Issue of Equity shares aggregating upto Rs.165Cr and Offer for sale of up to 4,500,000 Equity Shares.

OFS Details:

| Name | Shares offered for sale |
|------------------------------|-------------------------------|
| Promoter | |
| Kamalkumar Rajendra Aggarwal | Up to 2,250,000 Equity Shares |
| Naresh Vijaykumar Goyal | Up to 2,250,000 Equity Shares |

Issue Objectives

1. Capital expenditure towards expansion of the Manufacturing Facility: Rs.41.03Cr
2. To meet working capital requirements: Rs.90Cr
3. General corporate purposes
4. To achieve the benefits of listing of the Equity Shares to enhance the visibility and brand image.

IPO share allotment pattern

| Category | Allocation | Number of Shares at Rs.338 | Number of Shares at Rs.340 | Issue Size* (Rs.Cr) |
|-------------------|------------|----------------------------|----------------------------|---------------------|
| QIB | 50% | 46,90,828 | 46,76,470 | 159 |
| Non-Institutional | 15% | 14,07,248 | 14,02,941 | 48 |
| Retail | 35% | 32,83,579 | 32,73,529 | 111 |
| Total | | 93,81,655 | 93,52,940 | 318 |

* Issue Size at Upper price band

Source: Company RHP, ACMIIL Research

Outlook and Valuations

Chemcon is the only HMDS manufacturer in India. Moreover, Chemcon is the leading CMIC manufacturer in India. According to Frost & Sullivan report Chemcon has immense opportunity in India by substituting import and catering to India's growing HMDS and CMIC market. Given its leadership position in niche products, high entry barriers and healthy financials, Chemcon is well placed to capture shift of supply chain away from china with its planned capex. At the upper price band of Rs.340/-, the stock trades at 25.5x its FY20 EPS of Rs.13.34/- (Post Issue dilution basis). **We recommend to subscribe the issue from a long-term prospective.**

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Business Overview

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, 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 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. Chemcon 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. Further, they were the only manufacturer of Zinc Bromide and the largest manufacturer of Calcium Bromide in India, in terms of production in calendar year 2019.

Chemcon supply their products to domestic customers and also export their products to countries including United States of America, Italy, South Korea, Germany, China, Japan, United Arab Emirates, Serbia, Russia, Spain, Thailand and Malaysia.

Their manufacturing facility is located at Manjusar near Vadodara in Gujarat. Currently they have 7 operational plants of which 2 plants are dedicated to the manufacturing of HMDS and ancillary products, 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.

In addition to the Operational Plants, Chemcon is in process of setting up 2 additional plants, within the premises of the Manufacturing Facility. The Additional Plants are to be used for the manufacturing of chemicals used in the pharmaceutical industry.

Chemcon has 3 warehouses within the premises of the Manufacturing Facility for the storage of their products and raw materials along with 1 storage tank for the storage of HMDS and 5 external leased warehouses also situated in Manjusar.

Investment Rationale

Leading manufacturer globally of the Pharmaceutical Chemicals and Oilwell Completion Chemicals

India is currently a net importer of HMDS, with about 40% of India's current domestic demand being catered by imports majorly from China and Germany. According to Frost & Sullivan Report, India is expected to witness a demand growth for HMDS of 10.6% CAGR between calendar year 2019 and calendar year 2023. Chemcon is the only manufacturer of HMDS in India and well positioned to capitalise on the potential growth of the HMDS market. Frost & Sullivan further estimates that by substituting imports and catering to India's HMDS market, Chemcon has the opportunity to grow at a CAGR of 15-20% between 2019 and 2023 including great opportunity for exports.

HMDS Applications

| | |
|--------------------------|---|
| Pharmaceutical | As a silylating agent in the process of manufacture of pharmaceutical drugs of the Penicillin group |
| Semiconductor | Surface treatment agent of diatomite, white carbon black, titanium and blood additives of photoresist |
| Organic Synthesis | Precursor to many bases common in organic synthesis and organometallic chemistry |
| Others | Photolithography, electron microscopy and pyrolysis gas chromatography -mass spectrometry |

India and China are the only countries that produce CMIC. Company's share in the global CMIC manufacturing capacity has increased from 7.07% in calendar year 2014 to 26.16% in calendar year 2019. India is a net importer of CMIC, with about 62% of India's current domestic demand being catered to by imports from China. India, a major CMIC consumer market, is expected to witness a demand growth at a CAGR of 11% between 2019 and 2023. Frost & Sullivan further estimates that Chemcon is well positioned to substitute the imports from China and hence, has an opportunity to grow at a CAGR of more than 25% between 2019 and 2023.

CMIC Applications

| | |
|---|--|
| Chemicals used as Pharma intermediates | CMIC is mainly used in pharmaceutical industry as a key intermediate for anti - AIDS, anti- hepatitis B drug Tenofovir |
| Organic Synthesis | CMIC can also be used in synthesis of other antiviral drugs |

Chemcon is the only manufacturer of Zinc Bromide and the largest manufacturer of Calcium Bromide in India, in terms of production in calendar year 2019. Further, while they commenced the sales of their Oilwell Completion Chemicals in calendar year 2014, their share in the global production of the Oilwell Completion Chemicals has grown to 2.65% in calendar year 2019

Diversified customer base coupled with long standing relationships

Chemcon supply their products to customers in India and also export their products to countries including United States of America, Germany, Italy, South Korea, China, Japan, United Arab Emirates, Serbia, Russia, Spain, Thailand and Malaysia. The revenue from exports (including Deemed Exports) has grown at a CAGR of 17.57% between Fiscals 2018 and 2020. Chemcon has established long-lasting relationships with their key customers. For instance, they conduct business with Aurobindo Pharma Ltd on the basis of purchase orders and they have been chemcon's client for over 20 years. 68.61% of their total revenue from operations in Fiscal 2020 was contributed by customers who have been consistently purchasing Chemcon's products over the last 5 years. Their top 6 customers for Fiscal 2020 have been their customers for over 4 years.

The key customers of the Pharmaceutical Chemicals and Oilwell Completion Chemicals.

| Pharmaceutical Chemicals | Oilwell Completion Chemicals |
|--|---------------------------------------|
| - Hetero Labs Limited | Shree Radha Overseas |
| - Laurus Labs Limited | Water Systems Specialty Chemical DMCC |
| - Aurobindo Pharma Limited | CC Gran Limited Liability Company |
| - Sanjay Chemicals (India) Private Limited | |
| - Lantech Pharmaceuticals Limited | |
| - Ind-Swift Laboratories Limited, | |
| - Vivin Drugs & Pharmaceuticals Limited | |
| - Macleods Pharmaceuticals Limited | |
| Source: Company RHP, ACMIIL Research | |

Manufacturing facility with dedicated plants for each of their products

Chemcon is an ISO 9001:2015 and ISO 14001:2015 certified company for the manufacture and supply of pharmaceutical intermediates, silanes and oilfield chemicals. Their Manufacturing Facility is located in Manjusar, near Vadodara in Gujarat. Within their Manufacturing Facility, they have seven operational plants of which 2 plants 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 manufacturing of CMIC and 2 plants are dedicated to manufacturing of its Oilwell Completion Chemicals, along with 3 warehouses for the storage of its products and raw materials.

| Plant No | Product categories | Product Manufactured | As on July 31, 2020 | |
|--|------------------------------|---|---------------------------------|-------------------------------------|
| | | | Installed Capacity (in MT p.a.) | Volumetric reactor capacity (in KL) |
| P- 3 & P-7 | Pharmaceutical Chemicals | HMDS and ancillary products | 4200 | 177.80 |
| P- 2 | | HMDS (hi-purity) | 600 | 13 |
| P- 4 & P-5 | | CMIC | 1,800 | 121.75 |
| P- 5 | Oilwell Completion Chemicals | Calcium Bromide, Zinc Bromide and Sodium Bromide (solution) | 14,400 | 57.30 |
| P- 1 | | Calcium Bromide (powder) | 600 | 5 |
| Total volumetric reactor capacity (in KL) | | | | 374.85 |
| Source: Company RHP, ACMIIL Research | | | | |

Expanding capacity and geographic reach

Chemcon plans to set up two more plants for manufacture of Pharma Chemicals (capex of Rs.410mn), which would increase its capacity from 375KL to 626KL (operational by FY22 end). This will help Chemcon expand its reach in India which is currently net importer of HMDS/ CMIC. Chemcon also aims to expand its product portfolio and usage of its existing products to other industries.

Consistent financial performance with a strong financial position

Chemcon has established a consistent track record of financial performance and growth. In the last three years (FY18-20), The Company's revenue and profitability has grown at a CAGR of 28.9% and 36.4% respectively. Further, during the same period, the company's operating profit has grown at a CAGR of 25%. Moreover, company has managed to maintain its operating margin in the range of 26 to 28% during the same period. Chemcon have a strong balance sheet with a debt-equity ratio of 0.30x as on FY20. Further, as on FY20, company's ROE and ROCE stands at 49.2% and 34.2% respectively.

Risk and Concern

- Promoters and certain members of Promoter Group have filed an application for settlement with SEBI with respect to certain past non compliances about their holding in a listed company, which was a member of their Promoter Group, which if determined adversely may have a negative impact on operations, reputation and prospects.
- Naresh Vijaykumar Goyal, a member of the Promoter Group, has filed an appeal in relation to a criminal proceeding filed against him, which if determined adversely may have a negative impact on operations, reputation and prospects.
- The recent outbreak of the novel coronavirus could have a significant effect on operations, and could negatively impact the business, revenues, financial condition and results of operations.

Business Update - COVID 19

- Since some of the chemicals manufactured by the company find application in the pharmaceuticals industry, its Pharmaceutical Chemicals were categorized as 'essential goods' and its Manufacturing Facility was only temporarily shut during the pandemic from March 24, 2020 till March 31, 2020.
- They have resumed operations in a phased manner as per the GoI and state government's directives. Company's plant utilization has improved, raw material suppliers have resumed operations and supply and logistics have become more regular. They have not terminated any lease deed or laid-off any employees and have not withheld any payments to employees as a consequence of the COVID-19. They have continued to source raw materials from its suppliers and have been able to continue to supply its Pharmaceutical Chemicals to its customers.
- The reduced demand for oil and gas in Fiscal 2021 has resulted in a reduced demand for its Oilwell Completion Chemicals. Accordingly, they are yet to resume manufacturing new batches of Oilwell Completion Chemicals since the country-wide lockdown was lifted.

Peer Comparison (AS ON 31st March 2020)

| Name of the Company | "Total Revenue (In Mn)" | P/E | EPS | "Return on Net Worth (%)" | "NAV per share (₹)" |
|----------------------------------|-------------------------|-------|--------|---------------------------|---------------------|
| Chemcon Speciality Chemicals Ltd | 2,621 | 25.5 | 13.34* | 34.23% | 45 |
| Aarti Industries Limited | 39,944 | 32.96 | 30.04 | 18.04% | 167 |
| Vinati Organics Ltd | 10,289 | 30.11 | 32.48 | 26.09% | 124 |
| Sudarshan Chemical Industries | 15,183 | 19.04 | 21.5 | 23.51% | 91 |
| Atul Limited | 39,057 | 23.39 | 215.82 | 20.85% | 1035 |
| Paushak Ltd | 1,379 | 31.23 | 113.27 | 15.36% | 737 |
| Fine Organics Industries Limited | 10,262 | 38.67 | 54.31 | 26.40% | 206 |
| Neogen Chemicals Ltd | 3,061 | 43.71 | 12.33 | 18.36% | 67 |

* Post Issue dilution basis

All the financial information for listed industry peers mentioned above is sourced from the standalone audited financial statements/ results of the relevant companies for Fiscal 2020, as available on website of stock exchanges.

Source: Company RHP, ACMIIL Research



Financials

Income statement

| Particulars (Rs Mns) | FY18 | FY19 | FY20 |
|--------------------------------|--------------|--------------|--------------|
| Revenue from Operations | 1,576 | 3,033 | 2,621 |
| Less: Operating exp | | | |
| Cost of material consumed | 794 | 1,947 | 1,534 |
| Changes in inventories | -21 | -98 | -45 |
| Employee Benefit expenses | 188 | 241 | 141 |
| Other expenses | 166 | 282 | 288 |
| Total Expenses | 1,127 | 2,372 | 1,918 |
| EBITDA | 450 | 661 | 703 |
| EBITDA % | 28.5% | 21.8% | 26.8% |
| Less : Dep & Amortization | 23 | 29 | 46 |
| EBIT | 427 | 632 | 657 |
| Add: other income | 8 | 20 | 40 |
| Less : Finance cost | 30 | 40 | 47 |
| PBT | 405 | 612 | 650 |
| Less : Tax | 142 | 182 | 161 |
| Net Profit | 263 | 430 | 489 |
| PAT % | 16.7% | 14.2% | 18.6% |
| Diluted EPS (Rs) | 8.30 | 13.54 | 15.37 |

Source: Company RHP, ACMIIL Research

Balance sheet

| Particulars (Rs Mns) | FY18 | FY19 | FY20 |
|--------------------------------------|------------|--------------|--------------|
| Share Capital | 79 | 318 | 318 |
| Other Equity | 457 | 653 | 1,146 |
| Total Shareholders Fund | 536 | 970 | 1,464 |
| Non Current Liabilities: | | | |
| Borrowing | 25 | 25 | 154 |
| Provisions | 7 | 5 | 1 |
| Deffered tax Liabilities | 16 | 24 | 23 |
| Total Non Current Liabilities | 48 | 54 | 178 |
| Current Liabilities: | | | |
| Short Term borrowings | 136 | 297 | 287 |
| Trade Payables | 173 | 288 | 258 |
| Other Financial Liabilities | 27 | 112 | 44 |
| Other Current Liabilities | 12 | 7 | 4 |
| Provisions | 38 | 1 | 24 |
| Total Current Liabilities | 386 | 705 | 617 |
| Total Liabilities | 970 | 1,730 | 2,258 |
| Assets | | | |
| Non Current Assets | | | |
| Property, plant & Equipment | 296 | 395 | 474 |
| CWIP | | 7 | 37 |
| Right of Use Assets | | | 14 |
| Others Financial Assets | 2 | 5 | 5 |
| Other non-current assets | 17 | 12 | 2 |
| Total Non Current Assets | 315 | 419 | 533 |
| Current Asset | | | |
| Inventories | 210 | 459 | 481 |
| Trade Receivables | 296 | 641 | 889 |
| Cash and cash equivalents | 9 | 7 | 11 |
| Other Balances with Banks | 6 | 109 | 130 |
| Others Financial Assets | 15 | 14 | 14 |
| Other current assets | 119 | 80 | 200 |
| Total Current Asset | 655 | 1,311 | 1,726 |
| Total Asset | 970 | 1,730 | 2,258 |

Source: Company RHP, ACMIIL Research

ACMIIL Retail Research Products

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| Union Budget Report | Top Mutual Fund Schemes |
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