

SEPTEMBER 18, 2020

IPO Note

CHEMCON SPECIALITY CHEMICALS LTD**NOT RATED**

(Note: All the information in this note is taken from RHP)

Offer Details

The price band is in the range of Rs. 338-340/share. The total issue size is of Rs. 318 cr (at Rs.340/share). It includes fresh issue of Rs. 165 cr and an Offer for Sale (OFS) of up to Rs. 153 cr (Based on upper price band i.e. Rs. 340/share).

Details of the offer

Particulars	Details
Price band (Rs/share)	338-340
Opening date of the Issue	21st September, 2020
Closing date of the issue	23rd September, 2020
No. of shares pre-issue (nos. Lacs)	317.78
Fresh Issue (nos. Lacs) *	48.53
Offer for sale (nos. Lacs) *	45.00
No. of shares post-issue (nos. Lacs) *	366.31
Issue size (Rs Cr) *	318
Face Value (Rs/ share)	10
Bid Lot	44 equity shares & in multiple of 44 equity shares thereafter
Book Building	
QIBs (Including Anchor)	50%
Non-Institutional	15%
Retail	35%
Lead managers	Intensive Fiscal Services Private Limited and Ambit Capital Private Limited
Registrar to the issue	Link Intime India Private Limited.

Source: Company's RHP, * Based on upper price band

Shareholding Pattern

	Pre-Issue	Post-Issue ^A
Promoter holding (%)	100	74.47
Public holding (%)	-	25.53
Total (%)	100	100

Source: Company's RHP, ^A Based on upper price band

Objects of the offer - Utilization of the Net Proceeds

Particulars	Rs. In cr
Capital expenditure towards expansion of Manufacturing Facility	410*
To meet working capital requirements	90
General corporate purposes ^A	N.A

Source: Company's RHP

*Total estimated cost as per certificate dated August 26, 2020, issued by N.G. Vithalani, Chartered Engineer.

^ATo be finalised upon determination of Issue Price. The amount shall not exceed 25% of the Gross Proceeds of the Fresh Issue

Priyesh Babariya
priyesh.babariya@kotak.com
+91 22 6218 6433

Background

Incorporated on December 15, 1988, **CHEMCON SPECIALITY CHEMICALS LIMITED** is a manufacturer of specialized chemicals, engaged in the manufacturing and sale of the **Pharmaceutical Chemicals** and the **Oilwell Completion Chemicals**. The company supply their products to domestic customers and as well as customers outside India.

The company was the only manufacturer of Hexamethyldisilazane / Hexamethyldisilane (**HMDS**) in India and was the third largest manufacturer of HMDS worldwide in terms of production in the calendar year 2019. They were the largest manufacturer of Chloromethyl Isopropyl Carbonate (**CMIC**) in India and the second largest manufacturer of CMIC worldwide, in terms of production and capacity in calendar year 2019.

HMDS and CMIC which are predominantly used in the pharmaceuticals industry (the "Pharmaceutical Chemicals"), 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"). 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. The company's manufacturing facility is located at Manjusar near Vadodara in Gujarat. Within Manufacturing Facility, the company currently has 7 operational plants of which 2 plants are dedicated to the manufacturing of HMDS and ancillary products (including one plant dedicated to the manufacturing of hi-purity HMDS), one multipurpose plant, currently being used for manufacturing of HMDS and other pharmaceutical chemicals, two plants are dedicated to the manufacturing of CMIC and two plants dedicated to the manufacturing of Oilwell Completion Chemicals, along with three warehouses for the storage of products and raw materials.

Revenue from operations mix

Y/E March	FY18	FY19	FY20
Pharmaceutical Chemicals (%)	62.18	63.14	63.75
Domestic (%)	70.1	75.07	83.98
Export (%)	29.9	24.93	16.02
Oilwell Completion Chemicals (%)	35.63	35.30	33.47
Domestic (%)	18.75	54.14	11.66
Export (%)	81.25	45.86	88.34

Source: Company's RHP

Key Customer

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

Source: Company's RHP

Management Background

Name	Age	Designation	Background
Kamalkumar Rajendra Aggarwal	57	Chairman and Managing Director	He holds a diploma in petrochemical technology (plastic technology) the Maharaja Sayajirao University of Baroda, Gujarat. In the past, he was associated with CEPL in the capacity of director. He has more than 23 years of experience in the specialised chemicals industry. He has been on the Board since January 19, 2004.
Rajesh Chimanlal Gandhi	49	Whole-time Director and Chief Financial Officer	He holds a bachelor's degree in commerce from Gujarat University, Gujarat. In the past, he was associated with CEPL in the capacity of Accounts & Finance Manager. He has more than 20 years of experience in finance & accounts and related operations. He has been on the Board since May 1, 2012.
Himanshu Purohit	47	Whole-time Director	He holds a master's degree in science in inorganic chemistry from the Sardar Patel University, Gujarat. In the past, he has been associated with CEPL in the capacity of production manager. He has more than 20 years of experience in production related operations. He has been on the Board since May 1, 2012.
Navdeep Naresh Goyal	30	Deputy Managing Director	He has obtained a passing certificate for completion of his higher secondary examinations from the Gujarat Secondary & Higher Secondary Education Board, Gandhinagar. He is currently associated with SILPL in the capacity of director (operations). He has more than 10 years of experience in operations. He has been on the Board since April 1, 2015.
Rajveer Aggarwal	25	Whole-time Director	He holds a bachelor's degree in chemical engineering from the Gujarat Technological University, Gujarat. He is currently associated with Medicap Healthcare Limited in the capacity of director (operations). He has more than five years of experience in operations. He has been on the Board since October 1, 2017.
Lalit Chaudhary	60	Independent Director	He holds a bachelors' degree in commerce from the Sardar Patel University, Gujarat. He has been associated with Chaudhary Crains Private Limited as a director since 1993. He has more than 20 years of experience as an entrepreneur. He has been on the Board since April 29, 2019.
Bharat Shah	62	Independent Director	He holds a bachelor's degree in science from the Maharaja Sayajirao University of Baroda, Gujarat. In the past, he has been associated with Bank of Baroda in various roles. He has more than 37 years of experience in the financial services sector. He has been on the Board since April 29, 2019.
Neelu Shah	49	Independent Director	She holds a bachelor's degree in science from Kanpur University, Uttar Pradesh and a master's degree in business administration from the Jiwaji University, Gwalior. She has been engaged by "Dageena-the Jewellery Shoppe" since the year 2014, as a sales manager. She has 5 years of experience in sales. She has successfully completed a training programme on gold appraisal, organized by the MSME-Technology Development Centre, Agra, Gol. She has been on the Board since April 29, 2019
Devendra Rajkumar Mangla	63	Independent Director	He holds a bachelor's degree in commerce from the University of Delhi. He is currently a partner in "Baroda Freight Carrier", and has been associated as partner since 1979. He has over 15 years of experience in logistics. He has been on the Board since April 29, 2019.
Samir Chandrakant Patel	54	Independent Director	He holds a master's degree in science from the Sardar Patel University, Gujarat. He has been associated with Samir Tech – Chem Private Limited as a director. He has more than 30 years of experience in manufacturing and trading of laboratory chemicals. He has been on the Board since April 29, 2019

Source: Company RHP

Strengths

The company is a leading manufacturer globally of the Pharmaceutical Chemicals and a leading manufacturer in India of the Oilwell Completion Chemicals

India is currently a net importer of HMDS, with about 40% of India's domestic demand in calendar year 2019 being catered by imports majorly from China and Germany. India is expected to witness a demand growth for HMDS of 10.6% CAGR between calendar year 2019 and calendar year 2023. Additionally, other countries of the world are dependent on China for their HMDS requirement, however with changing environment regulations, the trade from the country is low, giving opportunity to Chemcon to target China's export customer base. All these factors provide an opportunity to Chemcon to grow at a CAGR of 15-20% between 2019 and 2023 including great opportunity for exports.

India and China are the only countries that produce CMIC. The 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 domestic demand in calendar year 2019 being catered to by imports from China. India, a major CMIC consumer market, is expected to witness a demand growth at a CAGR of 11.0% between 2019 and 2023. Frost & Sullivan further estimates that the Company 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.

Further, while they commenced the sales of 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

The company supply products to customers in India and also export products to countries including United States of America, Germany, Italy, South Korea, People's Republic of China, Japan, United Arab Emirates, Serbia, Russia, Spain, Thailand and Malaysia. In Fiscals 2020, 2019 and 2018, exports (including Deemed Exports) contributed 39.78%, 31.99% and 47.84% respectively of total revenue from operations. The company's revenue from exports (including Deemed Exports) have grown at a CAGR of 17.57% between Fiscals 2018 and 2020.

The company's top five customers and top ten customers contributed 59.35% and 72.26%, respectively of total revenue from operations in Fiscal 2020, as compared to 45.94% and 67.56%, respectively of total revenue from operations in Fiscal 2019 and 60.01% and 75.67%, respectively of total revenue from operations in Fiscal 2018.

The specialty chemicals industry in which the Company operate has high entry barriers

The specialty chemicals industry in which the Company operate has high entry barriers due to inter alia: (a) the involvement of complex chemistry in the manufacture of Products, which is difficult to commercialize on a large scale and; (b) a long gestation period to be enlisted as a supplier with the customers, particularly with the customers of Pharmaceutical Chemicals.

Manufacturing facility with dedicated plants for products

The company is ISO 9001:2015 and ISO 14001:2015 certified company for the manufacture and supply of pharmaceutical intermediates, silanes and oilfield chemicals. The Manufacturing Facility is located in Manjusar, near Vadodara in Gujarat. As of July 31, 2020, installed capacity for: (a) HMDS was 4,200 MT per annum and HMDS (hi-purity) was 600 MT per annum; (b) CMIC was 1,800 MT per annum and; (c) Oilwell Completion Chemicals was 14,400 MT per annum, while total volumetric reactor capacity was 374.85 KL.

Strategies

Expansion of total installed production capacity

The company aims to expand manufacturing operations and production capacity. The Company intends to build two additional plants with a total volumetric reactor capacity of 251.00 KL. These additional plants shall be utilised for the manufacturing of chemicals which are principally used pharmaceutical industry. With the completion of such expansion, total volumetric reactor capacity at the Manufacturing Facility shall increase from volumetric reactor capacity of 374.85 KL to 625.85 KL and will enable them to significantly benefit from economies of scale.

Operational Plants

Products (As on July 31, 2020)	Product Category	Plant	Installed Capacity (in MT per annum)	Volumetric Reactor Capacity (in KL)	Capacity Utilization (%)
HMDS and ancillary products	Pharmaceutical	P-3 & P-7*	4,200	177.8	49.74
HMDS (hi-purity)	Chemicals	P-2@	600	13	-
CMIC		P 4 & P 6	1,800	121.75	75.24
Calcium Bromide (Solution), Sodium Bromide (Solution) and Zinc Bromide (Solution)	Oilwell Completion Chemicals	P-5^	14,400	57.3	1.83
Calcium Bromide (Powder)		P-1^	600	5	-
Total Volumetric Reactor Capacity				374.85	

* The plant "P-7" was commissioned on March 16, 2020 with a reactor capacity of 125.20 KL and an installed capacity of 1,800 MT per annum. Plant "P-7" is a multipurpose plant and besides HMDS, it can also be utilized for manufacturing other products including 4 CBC and 2,5 DHT.

@Plant P-2 was damaged in a fire in Fiscal 2018. It has been rebuilt and was commissioned on July 6, 2020 with reactor capacity of 13 KL and installed production capacity of 600 MT per annum.

^The plant "P-1" is solely used for converting Calcium Bromide (solution) to Calcium Bromide (powder). The installed capacity for Oilwell Completion Chemicals in the plant "P-5" as described above is for the production of the Oilwell Completion Chemicals in solution form. The Company converts a portion of the Calcium Bromide (solution) produced in plant "P-5" to Calcium Bromide (powder) either in "P-1" or by using external service providers or job workers. Accordingly, this is not counted in the installed production capacity.

Source: Company's RHP

Further, the Company has recently acquired approximately 22,000 square metres of land next to Manufacturing Facility, to enable future expansion of the Manufacturing Facility. Together with the existing land of approximately 29,000 square metres, the total land available for the Manufacturing Facility after this acquisition is approximately 51,000 square metres.

Augmenting growth in the current geographic markets and expanding into new geographic markets

The Company, the only manufacturer of HMDS in India and the largest manufacturer of CMIC in India in terms of production in calendar year 2019, aims to capitalise on the potential growth of the HMDS and CMIC market in India by expanding manufacturing and sales of HMDS and CMIC. The trade dispute between the USA and China, may influence China's HMDS exports to the USA and may indirectly help India boost its exports and The Company has already started the supply of HMDS to the customers in the USA based on the opportunity created due to such trade dispute. In Fiscal 2020, The Company supplied the Oilwell Completion Chemicals largely to customers in India, the Middle East, Serbia and Russia. It aims to expand the sales of the Oilwell Completion Chemicals in existing and new geographies including Nigeria, Malaysia, China and Ghana.

Exploring newer applications of existing products as well as focusing on new products that are in synergy with current operations

The Company aims to expand the sale of products to other industries where such products have application. For instance, while They currently supply HMDS largely to the pharmaceuticals industry, It aims to market products for end-use applications in other industries including the rubber and semiconductor manufacturing industry. They have recently commissioned a plant (Plant P2) which has the capacity to manufacture upto 600 MT per annum of high purity /electronic grade HMDS which finds application in the pharmaceuticals, silicone/rubber as well as semiconductor industries. They have recently developed 2 new products, namely 4 CBC and 2,5 DHT. While, they have already executed first sale of 4 CBC in July 2020 and in the process of commencing the commercial production of 2,5 DHT.

Continue to strive for cost efficiency

The company intends to continue to be cost efficient in the production of products. This efficiency is achieved through strategies like having a large single location manufacturing facility, dedicated plants for each product, process reengineering for efficient raw material consumption and being a sizeable player in the industry in each of products. Economies of scale will also enable them to continuously improve operational efficiencies.

Risk Factors

- The Promoters and certain members of Promoter Group have filed an application for settlement with SEBI with respect to certain past non compliances with respect to their holding in a listed company, which was a member of Promoter Group, which if determined adversely may have a negative impact on operations, reputation and prospects
- Super Scientific Works Private Limited ("SSWPL"), an entity qualifying as a Promoter Group entity of the Company, has lodged a formal complaint with SEBI against Naresh Vijaykumar Goyal, a Promoter Group member of the Company
- Naresh Vijaykumar Goyal, a member of 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 business, revenues, financial condition and results of operations
- The company derives a significant portion of revenue from a few customers and the loss of one or more such customers, the deterioration of their financial condition or prospects, or a reduction in their demand for products may adversely affect business, results of operations, financial condition and cash flows
- The RBI had initiated certain proceedings against Rudra Fincorp Private Limited, an entity forming part of the Promoter Group of the Company

Key financial indicators

Y/E March (Rs. In cr)	FY18	FY19	FY20
Revenue from operations	158	303	262
Growth (%)		92.4	-13.6
EBITDA	45	66	70
EBITDA Margin (%)	28.61	21.79	26.81
PAT	26	43	49
Growth (%)		63.2	13.5
PAT Margin (%)	16.7	14.2	18.6
EPS (Rs/ Share)	8.3	13.5	15.4
BVS (Rs/ Share)	16.9	30.1	44.9
Net Debt to equity (x)	0.29	0.22	0.21
Return on capital employed (%)	62.1	53.9	37.9
Return on equity (%)	49.2	44.9	34.2

Source: Company's RHP

Comparison with listed industry peers

Company name	Face Value	Revenue from Operations*	Basic EPS (Rs)	Diluted EPS (Rs)	PE (based on Diluted EPS)	Return on net worth (%)	NAV per Equity share (in Rs)
Chemcon Speciality Chemicals Limited	10	262	15.4	15.4	N/A	34.23	44.9
Peer Group							
Aarti Industries Limited	5	3,994	30.0	30.0	33	18.04	166.6
Vinati Organics Limited	1	1,029	32.5	32.5	30	26.09	124.5
Sudarshan Chemical Industries Limited	2	1,518	21.5	21.5	19	23.51	91.4
Atul Limited	10	3,906	215.8	215.8	23	20.85	1,035.1
Paushak Limited	10	138	113.3	113.3	31	15.36	737.3
Fine Organic Industries Limited	5	1,026	54.3	54.3	39	26.4	205.7
Neogen Chemicals Limited	10	306	12.3	12.3	44	18.36	67.2

Source: 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. The financial information related to the Company are based on the Restated Financial Statements. * Excludes other income; Source: Company's RHP

Statement of Assets and Liabilities

Y/E March (Rs. In Cr)	FY18	FY19	FY20
ASSETS			
Non-current assets			
Property, plant and equipment	30	40	47
Capital work-in-progress	-	1	4
Right-Of-Use Asset	-	-	1
Intangible assets	-	0	0
Financial assets			
Other financial assets	0	1	0
Other non-current assets	2	1	0
Total non-current assets	32	42	53
Current assets			
Inventories	21	46	48
Financial assets			
Trade receivables	30	64	89
Cash and cash equivalents	1	1	1
Bank Balances Other than above	1	11	13
Other financial assets	1	1	1
Other current assets	12	8	20
Total current assets	65	131	173
Total assets	97	173	226
EQUITY AND LIABILITIES			
Equity			
Equity share capital	8	32	32
Other equity	46	65	115
Total equity	54	97	146
Liabilities			
Non-current liabilities			
Financial liabilities			
Borrowings	2	2	15
Lease Liabilities	-	-	1
Non-current provisions	1	0	0
Deferred tax liabilities (net)	2	2	2
Total non-current liabilities	5	5	18
Current liabilities			
Financial liabilities			
Borrowings	14	30	29
Trade payables			
Total outstanding dues of micro enterprises and small enterprises	3	3	4
Total outstanding dues of creditors other than micro enterprises and small enterprises	14	26	22
Other financial liabilities	3	11	5
Lease liabilities	-	-	0
Other current liabilities	1	1	2
Short Term Provisions	4	0	0
Total current liabilities	39	71	62
Total equity and liabilities	97	173	226

Source: Company's RHP

Statements of Profit and Loss (including other comprehensive income)

Y/E March (Rs. In Cr)	FY18	FY19	FY20
Income			
Revenue from operations	158	303	262
Other income	1	2	4
Total income	158	305	266
Expenses			
Cost of Materials Consumed	79	195	153
Changes in inventories of finished goods and work-in-progress	-2	-10	-4
Excise Duty	0	0	0
Employee Benefit expenses	19	24	14
Finance costs	3	4	5
Depreciation and Amortisation expenses	2	3	5
Other expenses	16	28	29
Total expenses	118	244	201
Profit before tax	41	61	65
Tax expense			
Current tax			
Current tax	14	17	16
Taxes for earlier years	0	0	0
Deferred tax charge/(credit)	-0	1	-0
Total Tax Expenses	14	18	16
Profit/(Loss) after tax	26	43	49
Other comprehensive income			
Items that will not be reclassified subsequently to Profit and Loss			
Remeasurement of Gains/(Losses) on defined benefit Plans	0	1	1
Deferred tax	0	0	0
Other Comprehensive Income (expense)/income, Net of Tax	0	0	0
Total Comprehensive Income for the Year/Period	27	43	49

Source: Company's RHP

Statement of Cash Flows

Y/E March (Rs. in Cr)	FY18	FY19	FY20
Net Cash generated from Operating Activities	14	11	11
Net Cash used in Investing Activities	-8	-24	-17
Net Cash used in Financing Activities	-6	12	7
Net increase / (decrease) in cash and cash equivalents	1	0	0
Cash and cash equivalents at the beginning of the period	0	1	1
Cash and cash equivalents at the end of the period	1	1	1

Source: Company's RHP

RATING SCALE (PRIVATE CLIENT GROUP)

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
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NA	–	Not Available or Not Applicable. The information is not available for display or is not applicable
NM	–	Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

FUNDAMENTAL RESEARCH TEAM (PRIVATE CLIENT GROUP)

Rusmik Oza Head of Research rusmik.oza@kotak.com +91 22 6218 6441	Arun Agarwal Auto & Auto Ancillary arun.agarwal@kotak.com +91 22 6218 6443	Amit Agarwal, CFA Transportation, Paints, FMCG agarwal.amit@kotak.com +91 22 6218 6439	Priyesh Babariya Research Associate priyesh.babariya@kotak.com +91 22 6218 6433
Sanjeev Zarbade Cap. Goods & Cons. Durables sanjeev.zarbade@kotak.com +91 22 6218 6424	Jatin Damania Metals & Mining, Midcap jatin.damania@kotak.com +91 22 6218 6440	Purvi Shah Pharmaceuticals purvi.shah@kotak.com +91 22 6218 6432	K. Kathirvelu Support Executive k.kathirvelu@kotak.com +91 22 6218 6427
Sumit Pokharna Oil and Gas, Information Tech sumit.pokharna@kotak.com +91 22 6218 6438	Pankaj Kumar Midcap pankajr.kumar@kotak.com +91 22 6218 6434	Krishna Nain M&A, Corporate actions krishna.nain@kotak.com +91 22 6218 7907	

TECHNICAL RESEARCH TEAM (PRIVATE CLIENT GROUP)

Shrikant Chouhan shrikant.chouhan@kotak.com +91 22 6218 5408	Amol Athawale amol.athawale@kotak.com +91 20 6620 3350	Sayed Haider Research Associate sayed.haider@kotak.com +91 22 62185498
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DERIVATIVES RESEARCH TEAM (PRIVATE CLIENT GROUP)

Sahaj Agrawal sahaj.agrawal@kotak.com +91 79 6607 2231	Malay Gandhi malay.gandhi@kotak.com +91 22 6218 6420	Prashanth Lalu prashanth.lalu@kotak.com +91 22 6218 5497	Prasenjit Biswas, CMT, CFTe prasenjit.biswas@kotak.com +91 33 6615 6273
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