

RETAIL EQUITY RESEARCH

J.G Chemicals Ltd.

Chemicals

SENSEX: 73,872

NIFTY: 22,406

SUBSCRIBE

Price Range Rs.210- Rs.221

A premier Zinc-oxide manufacturer...

JG Chemicals Ltd. (JGCL), established in 1975, stands as India's premier producer of zinc oxide. Recognized among the top-ten global entities by CARE, JGCL boasts the sector's highest production volume and revenue. Offering over 80 grades of zinc oxide, JGCL holds a commanding 30% market share, serving diverse industries like rubber, ceramics, paints, and pharmaceuticals. Its subsidiary, BDJ Oxides, holds the prestigious IATF certification, positioning it as a preferred supplier for tyre manufacturers. Serving 200 domestic clients and 50 global clients across 10 countries, JGCL maintains a robust presence both nationally and internationally.

- The Indian zinc oxide market is estimated at ~₹2,000cr and is projected to witness a compound annual growth rate (CAGR) of ~12% from FY22 to FY27.
- As of December 31, 2023, JGCL operates three manufacturing facilities situated in West Bengal and Andhra Pradesh. The company's total installed capacity stood at 77,040 metric tonnes per annum (mtpa), with a capacity utilization rate of 52.2%.
- The company plans to build a new manufacturing facility in Gujarat to target the ceramics sector. Additionally, JGCL aims to establish an R&D Centre in Andhra Pradesh, focusing on product innovations for the pharma, agrochemicals, and battery industries, with completion anticipated in FY26.
- JGCL is ramping up the manufacturing of premium-grade zinc oxide variants, commonly used in electronics and skincare, with the expectation of improving profit margins.
- Revenue and PAT grew at a CAGR of ~34% and ~40% over FY21-FY23, reflecting operational efficiency and effective cost management. Avg. EBITDA margin is at ~9.6% and PAT margin at 7% (FY21-FY23). Moreover, the return ratios RoE and RoCE remain healthy at ~26% (3-year Avg.).
- Considering the sector's robust outlook, characterized by high entry barriers and the global trend of the China Plus One strategy, the industry is poised for favourable growth prospects.
- At the upper price band of ₹221, JGCL is available at a P/E of 35x (FY24E annualised), which appears to be fully priced. Given its strong market position, loyal customer base, expansion plans, and growth exploration in Southeast Asia, we suggest a "Subscribe" rating for medium- to long-term basis.

Purpose of IPO

The IPO consists of fresh issue of ₹165cr and offer for sale of ₹86.2cr by the selling share holders. The net proceeds to invest in its material subsidiary, BDJ Oxides, amounting to ₹91.06cr (repayment of borrowings (₹25cr), funding capital expenditure requirements for setting up of R&D Centre (₹6.06cr), and funding the long-term working capital requirements (₹60cr)), funding long-term working capital requirements (₹35cr) of JG chemicals, and for general corporate purposes.

Key Risks

- 76% of the company's revenue (FY23) came from its top 10 customers, exhibiting considerable dependency on these clients.
- Operations heavily depend on the rubber and tire industry,(90% of total revenue-FY23); but diversifying products could mitigate this dependency.

Peer Valuation

Company	MCap(₹ cr)	Sales (₹ cr)	EBITDA(%)	PAT (%)	EPS(₹)	RoE (%)	Mcap/Sales (x)	P/E(x)	EV/EBITDA(x)	CMP
J.G Chemicals Ltd	866	785	10	7.2	15	27	1.1	15.2	12.4	221
NOCIL Ltd	4,393	1,611	16	9.3	9	10	2.7	29.4	12.7	262
Yasho Industries Ltd	2,401	668	17	10.2	60	33	3.6	35.1	17.6	2,090

Source: Geojit Research, Bloomberg; Valuations of JGCL are based on upper end of the price band (post issue), Financials as per FY23 consolidated.

Issue Details	
Date of opening	March 05, 2024
Date of closing	March 07, 2024
Total No. of shares offered (cr.)	1.14
Post Issue No. of shares (cr)	3.9
Price Band	₹210- ₹221
Face Value	₹10
Bid Lot	67 Shares
Minimum application for retail (upper price band for 1 lot)	₹ 14,807
Maximum application for retail (upper price band for 13 lot)	₹ 1,92,491
Listing	BSE,NSE
Lead Managers	Centrum Capital, Emkay Global, Keynote Financial
Registrar	KFin Technologies Ltd
Issue size (upper price)	Rs.cr
Fresh Issue	165
OFS	86.2
Total Issue	251.2

Shareholding (%)	Pre-Issue	Post Issue
Promoter & Promo. Group.	100	71
Public & Others	0	29
Total	100.0	100.0

Issue structure	Allocation (%)	Size Rs.cr
Retail	35	87.9
Non-Institutional	15	37.7
QIB	50	125.6
Employee Reservation	-	-
Total	100	251.2

Y.E March (Rs cr) Consol.	FY22	FY23	9MFY24
Sales	612.2	784.6	486.3
Growth (%)	40.8	28.0	-
EBITDA	56.2	75.5	28.2
Margin(%)	9.2	9.6	5.8
PAT Adj.	43.1	56.8	18.5
Growth (%)	49.7	31.7	-
EPS	11	14.5	4.7
P/E(x)	20.1	15.2	35.1*
EV/Sales (x)	1.6	1.2	1.8
RoE (%)	27.5	26.6	8.0

*Annualised



Business Description:

JG Chemicals Ltd (JGCL) is India's largest zinc oxide manufacturer in terms of production and revenue for zinc oxide manufacturing. Incorporated in 2001, they sell over 80 grades of zinc oxide and are among the top ten manufacturers of zinc oxides globally. (Source: CARE report). It holds a 30% market share and its products serve diverse industries including rubber, ceramics, paints, pharmaceuticals, and more. Its subsidiary, BDJ Oxides, holds the coveted IATF certification, making it a preferred supplier for tyre manufacturers. The company caters to 200 domestic customers and 50 global customers spanning across more than 10 countries.

Zinc oxide is an inorganic compound, white in colour and insoluble in water and finds its applications in various end user industries like rubber, rubber made products (like tyre, footwear, gloves, eraser etc.), ceramics, paints, fertilizers, pharma, personal care, cosmetics, agrochemicals, nutraceuticals, batteries, additives, feed, specialty chemicals among others. Zinc oxide is present in the earth's crust as mineral zincite and usually contains manganese and other impurities. Hence for commercial use it is synthetically made. Zinc oxide has a lot of properties that makes it desirable to various end user industries. It is used as an additives to various products like rubber, ceramics, cosmetics, food supplements, plastics, paints, sealants, batteries, animal feed, etc

Zinc oxide is the best activator for sulphur vulcanization for rubber companies and without the use of zinc oxide, rubber products cannot meet safety standards. Apart from rubber, the properties of zinc oxide make it an essential component in various other applications like paints, pharmaceuticals and agriculture etc. Various experiments have taken place globally to reduce zinc oxide usage in some applications. However, the efficiency of the alternatives is still in study phase and not yet implemented.

Zinc oxide is produced from two types of raw materials namely zinc metal and zinc scrap (dross). The availability of raw materials impacts zinc oxide prices and production. Zinc oxide produced from zinc metal is of high quality and is the preferred material for production of zinc oxide for purity level of 99.9%. This raw material is used to produce high quality of zinc oxide for end user industries like pharmaceuticals and other specialty applications.

Commercial grades of zinc oxide are divided by purity and by particle size. These categories are due to the difference in the manufacturing process. The purity range of zinc oxide ranges from 98.50% to 99.90% and within this range various customers have various other specifications with respect to impurities.

In India, tyre industry accounts for 70% of rubber consumption (Source: CARE Report) and the companies in the tyre industry are the largest consumers of the product. Along with being suppliers to 9 out of top 10 global tyre manufacturers and to all of the top 11 tyre manufacturers in India, they also supply to leading paints manufacturers, footwear players and cosmetics players in India (Source: CARE Report). Their Material Subsidiary, BDJ Oxides is the only zinc oxide manufacturing facility in India to have an IATF certification, which is preferred by tyre manufacturers supplying to original equipment manufacturers (Source: CARE Report). The table below, demonstrates the percentage of the sales to the various end-use industries we cater to:

(as a % of our revenue from operations)

Industry	Nine months period ended December 31, 2023	Fiscal 2023	Fiscal 2022	Fiscal 2021
Rubber and tyres	90.50	90.46	90.10	89.20
Pharmaceuticals & chemicals	7.09	6.79	6.37	7.48
Agriculture	0.75	0.92	2.06	1.79
Others*	1.66	1.83	1.47	1.53
Total	100.00	100.00	100.00	100.00

*includes ceramics, paints & coatings, electronics & batteries, lubricants, oil & gas and animal feed end-user industries.

Source: Geojit Research, RHP

As on December 31, 2023, the aggregate installed capacity of 77,040 MTPA is spread across the three manufacturing facilities located at (i) Jangalpur (Kolkata, West Bengal); (ii) Belur (Kolkata, West Bengal); and (iii) Naidupeta (Nellore District, Andhra Pradesh), which is the largest manufacturing facility and is owned and operated by the Material Subsidiary.

Financial Year / Date	Installed Capacity		
	Zinc Oxide	Zinc Ingot	Zinc Sulphate and other allied chemicals
December 31, 2023	59,904	7,056	10,080
2023	59,904	7,056	10,080
2022	46,464	5,040	NA
2021	38,832	NA	NA

Source: Geojit Research, RHP

They procure the raw materials from multiple domestic and global suppliers. The primary raw materials are virgin zinc metal and Zinc Dross (which is a type of zinc scrap). They procure virgin zinc metal and Zinc Dross from various domestic and global entities. Zinc Dross is primarily produced by steel galvanizers as a by-product of steel production. The availability of zinc scrap is a challenge and the biggest constraint for new entrants in the market is to build a global supply network.



Strengths

- Leading market position with a diversified customer base
- High entry barriers in key end-use industries
- High entry barriers in key end-use industries
- Long-term relationships with customers and suppliers & having robust supply chain
- Experienced and dedicated management team
- Focus on long term sustainability with environmental initiatives and safety standards

Key strategies

- Expand the production capacities and broadening the footprint of manufacturing operations
- Further diversify the product offerings and enter new verticals
- Deep mining of existing customers and continued focus to expand customer base
- Increasing focus on R&D to support complex chemistries, product innovation and cost efficiencies

Industry outlook

India ranked sixth in terms of global chemical sales with a contribution of USD 105 billion and accounted for a share of 2.7% during the year. In terms of volume, the zinc oxide production in India has been around 100 – 115 thousand tonnes in the past 5 years from Fiscal 2018 to 2022. During this period, the Indian zinc oxide market size is estimated at around ₹ 18,000 million to around ₹ 20,000 million. The Indian zinc oxide industry includes limited organized players, who constitute a major portion of the market due to high entry barriers for any new entrant.

Promoter and promoter group

The promoters of the company are Suresh Jhunjhunwala, Anirudh Jhunjhunwala and Anuj Jhunjhunwala.

Brief Biographies of directors

- **Suresh Jhunjhunwala** is an Executive Chairman and Whole-time Director of the company. He is responsible for strategy formulation and identifying new growth areas for the Company. He has been associated with the company since its incorporation and has over 35 years of experience in chemical and speciality chemical industry.
- **Anirudh Jhunjhunwala** is a Managing Director and CEO of the company. He is responsible for the overall business activities of the Company. He has been associated with the company since its incorporation and has over 20 years of experience in chemical and speciality chemical industry.
- **Anuj Jhunjhunwala** is a Whole-time Director and CFO of the company. He has been associated with the Company since March 7, 2022. He has over 14 years of experience. In the past, he was associated with Greater Pacific Capital India Private Limited from October 2007 to June 2009 and is currently associated with the Material Subsidiary, BDJ Oxides Private Limited since November 2010.
- **Ashok Bhandari** is an Independent Director of the company. He was associated with Shree Cements Limited as group financial advisor since 1999. Further, in the year 2004, he was appointed as the chief financial officer of Shree Cements Limited and he retired from his services in the year 2014. Additionally, he was previously associated with Intrasoft Technologies Limited, Mcleod Russel India Limited, NPR Finance Ltd., Eastern Financiers Ltd., Newa Investments Private Limited, AUM Capital Market Private Limited, Bindal Equities Private Limited, Lone Star Holdings Pvt. Ltd., Cast Solutions Private Limited and CEM Logistics Private Limited. He has been associated with the Company since June 30, 2022.
- **Sukanta Nag** is an Independent Director of the company. He holds a bachelors and master's degree in commerce from University of Calcutta. He was previously associated with many organisations including, Credit Analysis & Research Ltd., as an executive vice-president and Infomerics Valuation and Rating Private Limited as chief executive officer and is presently associated with Riskman Consulting LLP and Bagchi Sengupta Pal & Co LLP as designated partner. He has been associated with the Company since June 30, 2022.
- **Savita Agarwal** is an Independent Director of the company. Presently, she is a partner at R. Kothari & Co. LLP, a practicing Chartered Accountants firm. She was previously associated with Knitwoth Exports Ltd., Kalpaturu Engineering Ltd., Mapple Commerce Pvt. Ltd and Manmohak Suppliers Private Limited. She has been associated with the Company since June 30, 2022.

CONSOLIDATED FINANCIALS

PROFIT & LOSS

Y.E March (Rs cr)	FY22	FY23	9MFY24
Sales	612.8	784.6	486.3
% change	40.8	28.0	-
EBITDA	56.2	75.5	28.2
% change	29	34	-
Depreciation	2.7	3.4	3.2
EBIT	53.5	72.1	25.0
Interest	6.3	5.0	3.0
Other Income	10.2	9.6	4.8
Exceptional items	-	-	-2
PBT	57.4	76.7	25
% change	39	33.5	-
Tax	14.3	19.9	6.4
Tax Rate (%)	25	26	26
Reported PAT	43.1	56.8	18.5
Adj	-	-	-
Adj. PAT	43.1	56.8	18.5
% change	49.7	31.7	-
Post issue No. of shares (cr)	3.9	3.9	3.9
Adj EPS (Rs)	11.0	14.5	4.7
% change	49.7	31.7	-

BALANCE SHEET

Y.E March (Rs cr)	FY22	FY23	9MFY24
Cash	8.1	4.9	7.4
Accounts Receivable	94.8	115.6	94.3
Inventories	88.3	103.8	76.4
Other Cur. Assets	23.7	10.9	28.7
Investments	18.3	25.2	21.4
Deff. Tax Assets	0.1	0.0	-
Net Fixed Assets	22.4	35.3	37.7
CWIP	7.4	0.9	3.4
Intangible Assets	0.0	0.0	0.0
Other Assets	1.2	1.1	1.7
Total Assets	264	298	271
Current Liabilities	7.4	8.8	7.7
Provisions	1.4	2.1	2.3
Debt Funds	93.9	70.4	25.0
Other Fin. Liabilities	3.9	2.3	3.8
Deferred Tax liability	0.9	0.6	-
Equity Capital	1.2	31.7	31.7
Reserves & Surplus	155.4	181.8	200.8
Shareholder's Fund	156.6	213.5	232.5
Total Liabilities	264	298	271
BVPS (Rs)	40.0	54.5	59.3

CASH FLOW

Y.E March (Rs cr)	FY22	FY23	9MFY24
PBT Adj.	57.2	76.7	26.8
Non-operating & non cash adj.	6.4	9.5	4.9
Changes in W.C	-57.0	-55.0	35.5
C.F.Operating	6.8	31.2	67.1
Capital expenditure	-8.7	-9.9	-8
Change in investment	2.7	4.7	-7.10
Sale of investment	-	-	-
Other invest.CF	0.5	0.3	0.12
C.F - investing	-5.4	-4.9	-15.1
Issue of equity	-	-5.1	-
Issue/repay debt	4.9	-28.6	-48.1
Dividends paid	-	-	-
Other finance.CF	-	-	-
C.F - Financing	-0.2	-28.6	-48.1
Change. in cash	1.2	-2.3	3.9
Opening Cash	4.7	5.9	3.6
Closing cash	5.9	3.5	7.4

RATIOS

Y.E March	FY22	FY23	9MFY24
Profitab. & Return			
EBITDA margin (%)	9.2	9.6	5.8
EBIT margin (%)	8.7	9.2	5.1
Net profit mgn.(%)	7.0	7.2	3.8
ROE (%)	27.5	26.6	8.0
ROCE (%)	21.5	22.6	7.7
W.C & Liquidity			
Receivables (days)	55	49	26
Inventory (days)	50	55	25
Payables (days)	3	4	3
Current ratio (x)	26.5	23.7	22.9
Quick ratio (x)	13.8	13.6	13.3
Turnover & Levq.			
Net asset T.O (x)	27.4	27.4	25.8
Total asset T.O (x)	2.6	2.8	1.7
Int. covge. ratio (x)	8.6	14.5	8.3
Adj. debt/equity (x)	0.6	0.3	0.1
Valuation ratios			
EV/Sales (x)	1.6	1.2	1.8
EV/EBITDA (x)	17.1	12.4	31.6
P/E (x)	20.1	15.2	35.1*
P/BV (x)	5.5	4.1	3.7

*Annualised

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Geojit Financial Services Ltd. Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com. **Compliance officer:** Ms. Indu K. Address: Geojit Financial Services Limited, 34/659 P, Civil Lane Road, Padivattom, Kochi - 682024; Phone: +91 484-2901367; Email: compliance@geojit.com. **For grievances: Grievance Officer:** Mr Nitin K; Address: Geojit Financial Services Limited,34/659 P, Civil Lane Road, Padivattom, Kochi - 682024; Phone: +91 484-2901363; Email: grievances@geojit.com. Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226.

