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NEOGEN CHEMICALS LTD

April 24, 2019

SMC Ranking

★⯪☆☆☆ (1.5/5)

Issue Highlights

Industry	Specialty Chemicals
Offer for sale (Shares)	2,900,000
Fresh Issue (Shares)	3,255,814
Total Offer	6,155,814
Issue Size (Rs. Cr.)	130-133
Price Band (Rs.)	212-215
Offer Date	24-Apr-19
Close Date	26-Apr-19
Face Value	10
Lot Size	65

Issue Composition

	In shares
Total Issue for Sale	6,155,814
QIB	3,077,907
NIB	923,372
Retail	2,154,535

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	95.79%	70.00%
QIB	0.00%	13.19%
NIB	4.21%	7.58%
Retail	0.00%	9.23%
Total	**100.00%**	**100.00%**

*Calculated on the upper price band

Objects of the Issue

- Prepayment or repayment of all or a portion of certain borrowings availed by the Company
- Early redemption of 9.8% FRCPS
- Long term working capital
- General corporate purposes

Book Running Lead Manager

- Inga Advisors Private Limited
- Batlivala & Karani Securities India Private Limited

Name Of The Registrar Link Intime India Private Limited

About the Company

Neogen Chemicals Ltd (NCL) is one of India's leading manufacturers of bromine-based, and lithium-based, specialty chemicals. The company is a leading manufacturer of these products for pharmaceutical, agrochemical and other specialty chemical companies in India, Europe and Japan. As on 28th Feb. 2019, NCL manufactured an aggregate of 198 products - comprising of 181 organic chemicals and 17 inorganic chemicals. NCL operates out of its manufacturing facilities located in Mahape, Navi Mumbai in Maharashtra and Karakhadi, Vadodara in Gujarat. Over the last 25 years, NCL has established a customer base of about 1,363 customers of which about 1,237 are domestic customers and 126 customers are international customers. Its customers are spread across a wide array of application industries such as pharmaceutical, agrochemical, aroma chemical, electronic-chemical, specialty polymer, construction chemicals and VAM original equipment manufacturers and include Austin Chemical Company Inc., USA; CBC Co. Ltd., Japan; Divi's Laboratories Ltd., Laurus Labs Ltd., Solvay Specialties India Pvt. Ltd, Thermax Ltd. and Voltas Ltd.

Strength

Large and diverse array of products: As of February 28, 2019, it has manufactured an aggregate of 198 Products comprising 181 organic chemicals and 17 inorganic chemicals. Of these, its Product bouquet comprises are 131 Bromine Compounds; 10 Lithium Compounds; 32 non-bromine specialty chemical compounds comprising 25 organic specialty chemical compounds; and 25 types of Grignard reagents. A significant proportion of its revenue continues to be generated from the Pharmaceutical segment.

Diversified and stable customer base: The company believes that diversified Product range enables it to cater to diverse customers across a wide array of user industries such as pharmaceutical, agrochemical, aroma chemical, electronic-chemical, construction chemicals, specialty polymer and VAM original equipment manufacturers. This helps the company to mitigate risks emanating from customer, industry and geographic concentration.

Growth led by continuous investment in R&D: The Company has over the years made regular investments in R&D to expand its bouquet of Product offerings and to streamline manufacturing process. It has 2 R&D facilities, one each in Vadodara and Mahape manufacturing units. It has dedicated 20-member R&D team constituting around 10% of its total workforce. Since the commencement of its dedicated R&D department in December 2001, its Product portfolio has grown from around 20 products in 2001 to 198 products at present (excluding the products developed under contract manufacturing). It believes that product and process innovations will be key factors going forward and its continued investment in R&D will better prepare it take advantage of any future opportunities.

Specialised business model with high entry barriers: The specialty chemicals industry is highly knowledge intensive. The company believes that it has, over the years, built strong relationships of more than a decade with customers who recognize its technical capabilities and timely deliveries and associate its brand with good and consistent quality products. Furthermore, it believes that the level of technical skill and expertise that is essential for handling such chemicals can only be achieved over a period of time creating further barrier for new entrants.

Established and stable relationship with suppliers: Its consistent track record of business growth over the years and repeated business from existing customers has enabled us to develop long standing relationship with its suppliers. Based on its relationships with its suppliers it is able to enter into annual contracts thereby offering stability in pricing to its customers. Further, due to large volume of annual contracts it is also able to negotiate attractive pricing as compared to its local competitors which gives the company a competitive advantage.

Strategy

Expanding its production capacities: The Company has two manufacturing facilities i.e. at Mahape (Maharashtra) and Vadodara (Gujarat) with an aggregate organic and inorganic chemical manufacturing capacity of 0.13mn liters and 1.2mn kg per annum, respectively. In FY18, its inorganic chemical capacity operated at around 94% utilization level, while its organic chemicals capacities operated at around 67% utilization level. To further capture the market growth, with its expansion at the Vadodara facility, NCL is planning to double its organic chemical capacity to 0.26mn liters. It has also proposed a greenfield expansion at Dahej (Gujarat), which will also the double the inorganic chemical capacity to 2.4mn kg per annum. Vadodara capacity expansion is a brownfield expansion and has the required regulatory approvals in place, whereas recently, the company has received the environmental clearance for the Dahej greenfield expansion.

Augmenting growth in domestic and global markets: Presently, its revenue from domestic and export business is almost 50% each, (including 16% deemed exports, where it supplies its Product to customers who will eventually export their end product). In India, over the last 3 immediately preceding fiscal years, the pharmaceuticals, agrochemical, refrigeration and specialty polymer, industries have, generally, contributed in excess of 90% of its Revenue from Operations. The company strongly believes that the demand for bromine-based and lithium-based products will grow, in India and overseas, owing to the growth in their final application industries such as pharmaceutical, agrochemical, refrigeration, polymer synthesis, flavour and fragrances, etc. The company believed that it is well positioned to exploit the opportunities offered by the expected growth in the final application industries due to its strong manufacturing capabilities, established customer relationships, strong R&D capabilities and robust Product portfolio.

Improving financial performance through focus on operational efficiencies and functional excellence: The company believes that the various strategic initiatives that it has implemented, including the continued investment in its manufacturing facilities such as the use of bromine in 6,000 litre ISO storage tanks in its Vadodara Facility instead of in 1 litre glass bottles at Mahape which reduced manpower cost for transfer and addition of bromine, permits a much faster rate of addition of bromine, thereby increasing reactor productivity. In addition, developing and enhancing its in-house capabilities, and its supply-chain management protocols will continue to play a critical role in its future success. Accordingly, it intends to build on its existing strategic initiatives to achieve operational excellence that translates into financial strength and performance.

Focus on advanced specialty intermediates which offer higher value addition: Over the last few years, the Company has been focusing not only 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 allows customers to reduce processing at their end freeing up their specialized capacity for making final molecules such as APIs, specialty polymers, electronic chemicals etc. On the flip side, it would help the company to offer higher value addition and generate higher margin and increased profitability.

Risk Factor

Heavily reliant on the demand from application industries: The Company is heavily reliant on the demand from application industries such as pharmaceuticals, agrochemicals, refrigeration and construction chemicals. Accordingly, any significant downturn in the application industries could have a significant impact on its financial condition and its growth prospects.

Do not have long-term agreements with suppliers for its raw materials: The Company does not have long-term agreements with suppliers for its raw materials and an increase in the cost of, or a shortfall in the availability or quality of such raw materials could have an adverse effect on its business and results of operations.

Its operations are in a highly competitive industry: The Company operates in a highly competitive industry. Any inability to compete effectively may lead to a lower market share or reduced operating margins.

Peer Comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Aarti Industries Limited	4675.54	429.55	37.88	41.95	5.92	268.60	5	1589.05	13772.08
Atul Industries	3781.55	420.02	93.15	37.66	4.64	756.54	10	3507.80	10404.13
Navin Flourine Int.Ltd.	919.28	151.86	33.54	20.65	3.48	198.86	2	692.55	3425.16
Paushak Ltd	138.69	29.07	94.32	23.09	5.95	366.15	10	2177.85	671.24
Vinati Organics Ltd.	1029.15	251.87	49.01	35.16	9.86	174.75	2	1723.30	8856.22
Neogen Chemicals Limited**	212.31	16.29	8.12	30.79	3.72	57.81	10	215.00	501.69

Peer Companies financials are on TTM basis
** Neogen Chemicals limited financials are annualised.

Valuation

Considering the P/E valuation on the upper price band of Rs.215, EPS and P/E of FY2019 are Rs.6.98 and 30.79 multiple respectively and at a lower price band of Rs. 212, P/E multiple is 30.36. Looking at the P/B ratio on the upper price band of Rs.215, book value and P/B of FY19 are Rs. 57.81 and 3.72 multiple respectively and at a lower price band of Rs. 212 P/B multiple is 3.67.

Industry Overview

The global chemicals market, which stood at $3,722.53 billion in 2017, is segregated into basic chemicals, industrial gases, petrochemicals, polymers, specialty chemicals, and others. China, Japan and the US are leaders in this space. Within global chemicals, specialty chemicals are a key segment, valued at $743.80 billion in 2017. Specialty chemicals are widely used for specialised applications, especially to meet industry-specific requirement. These chemicals impart a variety of properties to products, have a high degree of value addition, and are produced in small volume. Agrochemicals dominated the specialty chemicals revenue pie, accounting for 21% share in 2017. The use of agrochemicals in fertilisers, herbicides, insecticides and pesticides is rising because of increasing demand for agro products owing to rapid industrialisation and population growth globally. The polymers and plastic additives segments comprised the second-largest revenue share at 13.5%. By 2022, the global specialty chemicals market is expected to grow at 5.47% CAGR to $970.55 billion. The steady growth is because of sustained demand in end-user industries. Rapid industrialisation in China and India is also driving demand for specialty chemicals.

Outlook

The Company is presently, developing a green-field manufacturing unit in Dahej SEZ, in Gujarat (Proposed Dahej Facility) and are also proposing to expand their operations in Karakhadi, Vadodara (Proposed Vadodara Facility). Undoubtedly, augmenting growth in domestic and global markets can provide enormous opportunities for growth. There are already its established competitors in India include Aarti Industries, Atul Ltd, Mody Chemi Pharma Private Ltd, NFIL and Pacific Organics Pvt Ltd. Also, the valuation looks expensive. High risk investors who are willing to invest for long term may invest in this IPO.

EVENT	INDICATIVE DATE (On or about)
FOR ALL BIDDERS	24-Apr-19
Bid/ Offer Closing Date	26-Apr-19
Finalisation of Basis of Allotment with the Designated Stock Ex.	On or about May 3, 19
Initiation of refunds for anchor investors/unblocking of funds	On or about May 6, 19
Credit of Equity Shares to demat accounts of Allottees	On or about May 7, 19
Commencement of trading of the Equity Shares on the Stock Ex.	On or about May 8, 19

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Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	9 Months Ended 31-Dec-18	12 Months Ended 31-Mar-18	12 Months Ended 31-Mar-17
Revenue from operations	159.23	164.01	121.47
Total expenditure	132.10	135.02	101.48
Operating Profit	**27.13**	**28.99**	**19.99**
OPM%	17.04	17.68	16.45
Other Income	0.46	0.66	0.31
PBDIT	**27.59**	**29.65**	**20.30**
Depreciation	2.11	1.94	1.31
PBIT	**25.48**	**27.71**	**18.98**
Interest	8.56	10.42	7.52
PBT before Share of profit/(loss) of JV	**16.92**	**17.30**	**11.47**
Share of Profit/(Loss) of investments accounted for using equity method	0.13	0.04	0.04
PBT	**17.05**	**17.34**	**11.51**
Tax	4.83	6.84	3.82
Profit After Tax	**12.22**	**10.50**	**7.68**

Balance sheet is on next page

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Balance Sheet

Rs. in Cr.

Particulars	31-Dec-18	31-Mar-18	31-Mar-17
Non-current assets			
Property, plant and equipment	81.04	66.64	56.32
Capital work-in-progres	0.05	1.38	1.26
Intangible assets	0.09	0.06	0.00
Financial assets			
Investments	0.55	0.42	0.49
Loans & advances	3.41	1.85	2.14
Other financial assets	2.52	2.31	2.26
Other non-current assets	0.69	0.63	0.13
Total non-current assets	**88.35**	**73.29**	**62.60**
Current assets			
Inventories	77.22	49.99	40.01
Trade receivables	42.47	41.36	32.16
Cash and cash equivalents	0.18	0.32	0.58
Bank balances other than (ii) above	0.81	1.50	2.50
Loans & advances	0.284	0.081	0.403
Other current financial assets	0.94	0.164	0.183
Other current assets	27.159	13.347	13.882
Total current assets	**149.06**	**106.77**	**89.72**
Total Assets	**237.41**	**180.05**	**152.32**
Non-current liabilities			
Borrowings	44.062	38.495	36.761
Other Non-current Financial Liabilities	2	2.174	2.173
Long Term Provisions	1.831	1.725	1.182
Deferred tax liabilities (net)	4.541	4.03	3.65
Total Non-current Liabilities	**52.434**	**46.424**	**43.766**
Current liabilities			
Borrowings	67.70	41.22	30.15
Trade payables ~Due to entities under micro and small enterprises	0.46	0.00	0.00
Due to other then micro and small enterprises	47.28	36.67	30.98
Other financial liabilities	6.18	3.44	3.63
Other current liabilities	0.95	1.53	1.54
Short-term provisions	0.91	0.70	0.28
Total Current liabilities	**123.49**	**83.57**	**66.58**
Total liabilities	**175.92**	**129.99**	**110.35**
NET Worth	**61.49**	**50.06**	**41.97**
Net worth represented by:			
Share capital	20.08	20.00	20.00
other equity	41.41	30.06	21.97
Net Worth	**61.49**	**50.06**	**41.97**

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★ ★
FAIR	★ ★ ★
GOOD	★ ★ ★ ★
EXCELLENT	★ ★ ★ ★ ★

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