

20September2020

## ChemconSpeciality–SUBSCRIBE

### Investment Thesis

ChemconSpeciality Chemicals Ltd.(Chemcon) is coming out with an initial public offering (IPO) on September 21, 2020. The Issue comprises of a fresh issue and an offer for sale. Chemcon plans to issue new 4,852,940equity shares and will offer 4,500,000equity shares for sale. The net proceeds of the fresh issue are proposed to be utilised for expansion of current manufacturing facilityof Chemconand to meet business working capital requirements.

Chemcon is only manufacturer of HMDS in India and is 3<sup>rd</sup>largest manufacturer of HMDS worldwide in terms of production while it is largest manufacturer of CMIC in India and is 2<sup>nd</sup> largest manufacturer of CMIC worldwide, in terms of production and capacity in year 2019. Further, it is the only manufacturer of Zinc Bromide and the largest manufacturer of Calcium Bromide in India as per Frost & Sullivan Report. Chemcon exports to all major countries in the world and export has contributed 39.8% of total revenue in FY20, which grew at a CAGR of 17.6% YoY during FY18-20. Its manufacturing facility is located at Manjusar near Vadodara in Gujarat which has 7 operational plants along with three warehouses for the storage of its products and raw materials. Out of seven plants of Chemcon, two plants are dedicated to manufacturing of HMDS and ancillary products, one multipurpose plant, two plants are dedicated to the manufacturing of CMIC while two plants dedicated to the manufacturing of Oilwell Completion Chemicals.

Since some of the chemicals manufactured by Chemcon find application in the pharmaceuticals industry, its pharmaceutical chemicals were categorized as 'essential goods' and its manufacturing facility was allowed to be operational from April 1, 2020. Hence, the pharmaceutical business was least affected due to Covid-19. However, the reduced demand for oil and gas in FY21E has resulted in a reduced demand for its Oilwell Completion Chemicals.

### Financials

- During the past 3 years, revenue of Chemcongrew at a CAGR of 42.9% while PAT grew at a CAGR of 158.6% in the same period.

Standal. (Rs.Mn.)	FY18	FY19	FY20	FY21E	FY22E
Revenue	1,583	3,033	2,621	3,014	3,466
EBITDA	457	661	703	808	929
% growth	427.6	44.7	6.3	15.0	15.0
PAT	264	430	489	562	646
EPS (Rs.) #	7.2	11.7	13.3	15.3	17.6
P/E (x) *#	47.2	28.9	25.5	22.2	19.3
RoE (%) #	32.1%	42.2%	32.3%	34.5%	36.9%

\* At highest price band# Post listing

### IPO Details

Issue Open Date	21September, 2020
Issue Close Date	23 September, 2020
Price Band (Rs.)	338.00 to 340.00
Issue Size (Rs. Mn)	~3,180.00*
Issue Size (Shares)	9,352,940
Market Lot	44 Equity Share
Listing Exchanges	BSE and NSE
Face Value (Rs.)	10/-

\* At highest price band

### Key Details

Fresh Issue	4,852,940Equity Shares
Offer for Sales	4,500,000 Equity Shares
Issue Type	100% Book Built Issue
Book Running Lead Manager	Intensive Fiscal Servicesand Ambit Capital
Issue structure	QIB: 50% Retail: 35% Non – Institutional: 15%

## Key Business Highlights

- Chemcon is a manufacturer of specialised chemicals, such as HMDS and 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.
- Chemcon is only manufacturer of HMDS in India and is 3rd largest manufacturer of HMDS worldwide in terms of production while it is largest manufacturer of CMIC in India and is 2nd largest manufacturer of CMIC worldwide, in terms of production and capacity in year 2019.
- Chemcon supply its products to domestic customers and also export its products to countries like United States of America, Italy, South Korea, Germany, China, Japan, United Arab Emirates, Serbia, Russia, Spain, Thailand and Malaysia.

## Valuation

- India is currently a net importer of HMDS with ~40% of India's domestic demand being catered by imports majorly from China and Germany in 2019. India is expected to witness a demand growth for HMDS of 10.6% CAGR between 2019-23. Chemcon is the only manufacturer of HMDS in India and we believe that it is well positioned to capitalize on the potential growth of the HMDS market. Frost & Sullivan further estimates that by substituting imports and catering to India's growing HMDS market, Chemcon has immense opportunity in India. Further, other countries are dependent on China for their HMDS requirement. With changing environment and regulations, the trade from China is expected to decline, 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 FY20-23 including great opportunity for exports.
- Chemcon supply its products to customers in India and also export its products to countries like the USA, Germany, Italy, South Korea, China, Japan, UAE, Serbia, Russia, Spain, Thailand and Malaysia. Its top five customers and top ten customers contributed 59.3% and 72.36%, respectively of its total revenue from operations in FY20. Chemcon has established good relationships with its key customers, its top seven customers have been its customers for over four years. In FY20, it has generated ~68.6% of revenue from customers who have been consistently purchasing for over the last five years. We believe that as a result of Chemcon's diversified customer base and endeavor to maintain long standing relationships with its customers, the company is well equipped to retain its presence in the market and build upon these relationships to increase product base and reach out to new customers.
- With largest manufacturer of HMDS and CMIC in India, not affected due to Covid-19, India is currently a net importer of HMDS, opportunity to target China's export customer base and long relationship with large customers, we are recommending **SUBSCRIBE** to the IPO of ChemconSpeciality Chemicals Ltd.

## Risk & Concern

- As Chemcon has limited product, its business may adversely affected if any of its products do not continue to perform as expected.
- Chemcon supply specialised chemicals to pharmaceuticals and oilfield industries. Any decrease in use of these products may have an adverse impact on the business, growth and results of operations.
- Chemcon's profitability largely depends upon the global prices of its products. Any significant fall in global prices of its products may have a material adverse effect on its business and financial condition.

## Graphs & Charts

Figure 1: Net Sales Trend

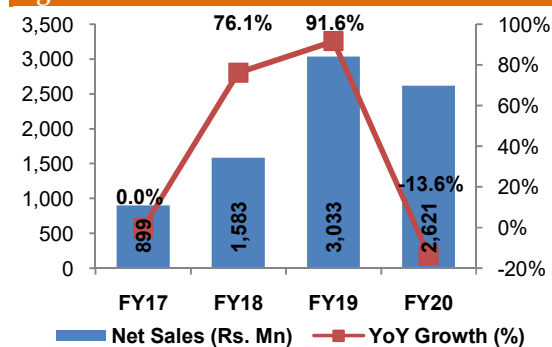


Figure 2: EBITDA & EBITDA Margin Trend

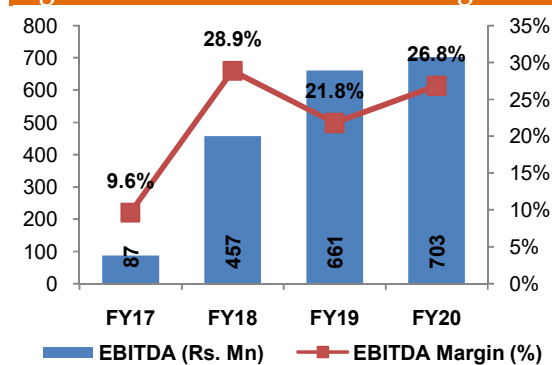


Figure 3: PAT Trend

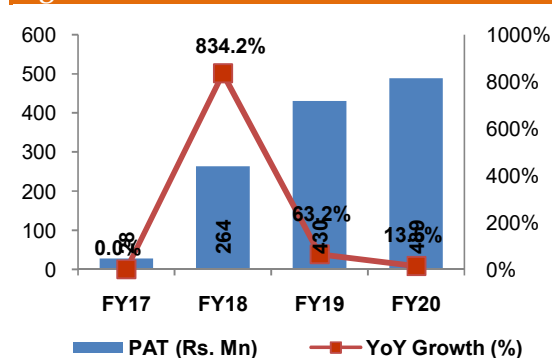
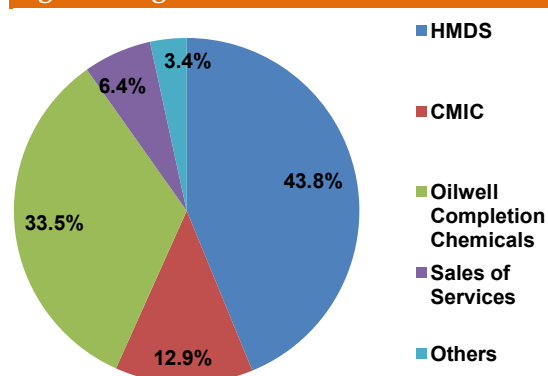


Figure 4: Segment-wise Revenue (FY20)



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