

## Business Overview

- Incorporated on November 20, 2003, Archean Chemical Industries Limited is a leading specialty marine chemical manufacturer in India and focused on producing and exporting bromine, industrial salt, and sulphate of potash to customers around the world. (Source: Company Commissioned F&S Report).
- According to Frost & Sullivan, they are the largest exporter of bromine and industrial salt by volume in India in Fiscal 2021 and have amongst the lowest cost of production globally in both bromine and industrial salt. (Source: Company Commissioned F&S Report).
- The company produces its products from their brine reserves in the Rann of Kutch, located on the coast of Gujarat, and they manufacture the products at the facility near Hajipir in Gujarat.
- Their bromine is used as key initial level materials, which have applications in the pharmaceuticals, agrochemicals, water treatment, flame retardant, additives, oil & gas and energy storage batteries.
- According to Frost & Sullivan, we have one of the largest salt works at one single location in the world. (Source: Company Commissioned F&S Report).
- Archean's marine chemicals business is predominately conducted on a business-to-business basis both in India and internationally.
- They are an export-oriented business, and, in the three months ended June 30, 2022 and in Fiscal 2022, Fiscal 2021 and Fiscal 2020, 66.74%, 70.32%, 74.41% and 78.41%, respectively, of the revenue from operations were attributed to export sales.
- As of June 30, 2022, the company marketed its products to 18 global customers in 13 countries and to 24 domestic customers.
- The key geographies to which the company exports its products include China, Japan, South Korea, Qatar, Belgium and the Netherlands.

### Issue Details

Fresh Issue of [●] Equity Shares aggregating up to ₹ 8,050 million and Offer for Sale of 16,150,000 Equity Shares aggregating up to ₹ [●] million

Issue size: ₹ 1,428 - 1,462 Cr  
No. of shares: 3,59,28,870 - 3,70,04,922  
Face value: ₹ 2/-

Price band: ₹ 386 - 407  
Bid Lot: 36 shares and in multiples thereon

Post Issue Implied Market Cap:  
₹ 4,791 - 5,008 Cr

BRLMs: IIFL Securities Limited, ICICI Securities Limited & JM Financial Limited

Registrar: Link Intime India Private Limited

### Indicative Timetable

Activity	On or about
Anchor Investor Issue Opens	07-11-2022
Issue Opens	09-11-2022
Issue Closes	11-11-2022
Finalization of Basis of Allotment	16-11-2022
Refunds/ Unblocking ASBA Fund	17-11-2022
Credit of equity shares to DP A/c	18-11-2022
Trading commences	21-11-2022

Listing: BSE & NSE

### Issue Break Up

Retail	QIB	NII
10%	75%	15%

### Shareholding\*

	Pre Issue	Post Issue
Promoter and Promoter Group	65.58%	53.41%
Public - Investor Selling Shareholders	32.00%	15.36%
Public - Others	2.42%	31.23%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

\*Calculated using data in RHP on pages - 1, 85

## Competitive Strengths

**Leading market position, expansion and growth in bromine and industrial salt:** The company is a leading specialty marine chemical manufacturer in India since 2013. (Source: Company Commissioned F&S Report). According to Frost & Sullivan, they are the largest exporter of bromine and industrial salt by volume in India in Fiscal 2021 and have amongst the lowest cost of production globally in both bromine and industrial salt. (Source: Company Commissioned F&S Report). The leadership position and low cost-production offers the company competitive advantages such as product pricing, economies of scale, and the ability to scale the business, increase customer loyalty and expand client base, all of which have in turn resulted in the growth of revenues and EBITDA in the last three fiscal years.

**High entry barriers in the specialty marine chemicals industry:** The specialty marine chemicals industry in which the company operates has high entry barriers, which include the high cost and intricacy of product development, manufacture, and investment in salt beds, the limited availability of raw materials necessary for production, the limited number of locations with a suitable climate and access to reserves, and the lead time and expenditure required for research and development and building customer confidence and relationships, which can only be achieved through a long gestation period. (Source: Company Commissioned F&S Report).

**Established infrastructure and integrated production with cost efficiencies:** The company has an integrated production facility for their bromine, industrial salt, and sulphate of potash operations, located at Hajipir, Gujarat, which is located on the northern edge of the Rann of Kutch brine fields. Their facility and its surrounding salt fields and brine reservoirs span approximately 240 sq.km. According to Frost & Sullivan, the company has one of the largest salt works at one single location in the world. Their ISO containers enable more efficient freight shipping than conventional shipping, provide an advantage of scale at ports, are safer and more reliable in transport, and provide a cost-advantage and greater flexibility for exporting the products.

**Focus on environment and safety:** Environment and safety considerations are an important part of the company's operations. They undertake an annual environment and safety audit and strive to ensure that any harmful elements aren't discharged from manufacturing operations. As part of environmental and sustainability efforts, the company has implemented an environmental management plan, which is focused on ensuring that - the manufacturing facility is compliant with environmental guidelines and standards set forth by regulatory agencies; adequate pollution control systems are installed and operating satisfactorily; the pollution concentration of treated effluent, ambient air, and stack air are within the prescribed standards set forth by regulatory agencies; and proper waste management handling and disposal system procedures are in place and followed by all of the employees.

**Largest Indian exporter of bromine and industrial salt with global customer base:** As of June 30, 2022, the company had 18 global customers and 24 domestic customers. Their major customers include, for industrial salt, Sojitz Corporation (which is also a shareholder in the Company), Wanhau Chemicals and Qatar Vinyl Company Limited; and for bromine, Shandong Tianyi Chemical Corporation and Unibrom Corporation. The company is an export-oriented business, and, some of the key geographies to which they export the products include China, Japan, South Korea, Qatar, Belgium and the Netherlands. They enjoy relationships in excess of five years with seven out of the top ten customers. These enduring customer relationships also has helped the company expand their product offerings and geographic reach.

**Strong and consistent financial performance:** The company has built their business organically and has demonstrated consistent growth in terms of revenues and profitability. Their revenue from operations have increased at a CAGR of 36.34% from ₹6,081.70 million in Fiscal 2020 to ₹11,304.37 million in Fiscal 2022. Their revenue from exports have grown at a CAGR of 29.11% from ₹4,768.38 million in Fiscal 2020 to ₹7,948.80 million in Fiscal 2022. They have benefited from their fixed sales contracts with agreed pricing and volumes of approximately 12 months duration with the bromine customers of approximately 24 months duration with the industrial salt customers.

**Experienced management team, promoters and financial investors and stakeholders:** The company is led by a qualified and experienced management team that has the expertise and vision to manage and grow the business. They additionally benefit from the industry experience of their financial investors and stakeholders. In 2011, the company established a relationship with Sojitz Corporation, a Japanese trading conglomerate and a major customer, which allowed them to develop new solar evaporation ponds in India based on the growing demand in Asia and offtake by Sojitz. In 2018, India Resurgence Fund, a joint venture between Piramal Enterprises Limited and Bain Capital Credit ("IndiaRF") invested US \$156 million in the Company in year 2018, which allowed them to refinance the debt, offer capital investment to optimize output across product lines, and provided working capital.

For further details, refer to 'Strengths' page 152 of RHP

## Business Strategies

### **Expand into downstream bromine derivative performance products:**

The company plans to expand their product line into bromine derivative performance products in the next two-to-three years, in particular brominated flame retardants, clear brine fluids and bromine catalysts used for the synthesis of PTA. They are setting up a new facility to manufacture bromine performance derivatives products through the subsidiary - Acume Chemicals Private Limited. The proposed facility will be constructed on 34,983 square meters parcel of land which has been allotted to the company from the GIDC, Ankleshwar. The total estimated cost for setting up the bromine performance derivatives products is approximately ₹ 2,517 million, which the company intends to fund through its internal accruals.

### **Expand the bromine and industrial salt capacities:**

According to Frost & Sullivan, the bromine global market size was US\$3.13 billion in CY2021, and the market is expected to grow at a CAGR of 5.8% between CY2021 and CY2025. (Source: Company Commissioned F&S Report). Due to the company's market leadership position in merchant sales (traded bromine in the market) in India and low production costs, it is believed that they are well positioned to capitalize on these growth opportunities. The company intends to, and are in the process of, increasing their manufacturing capacity for bromine production. In addition, to cater to the growing demand from the existing customers and to meet requirements of new customers, they intend to expand manufacturing capacities for industrial salt production by adding an additional washery of 250 tons per hour. It is expected that this additional washery will be operational in Fiscal 2023.

### **Continue to build the global customer base and enter new geographical markets:**

In Fiscal 2022, the company exported their products to 18 global customers in 13 countries. They enjoy relationships in excess of five years with seven out of top ten customers. The company is expanding globally to serve the existing direct end-use customers as well as to secure new direct end-use customers and expand the reach of products in new markets. They intend to achieve this by having dedicated sales and marketing teams whose primary focus will be on business development in international markets and in certain focus geographies like Asia and Europe.

### **Continue to focus on quality, environment, health and safety:**

The company will continue to focus on sustainability by emphasizing quality, environment, health and safety. Across the manufacturing facility, they have put in place quality systems that cover all areas of the company's business processes from manufacturing and supply chain to product delivery to ensure consistent quality, efficacy and safety of their products. Their products adhere to global quality standards and go through various quality checks at various stages, including random sampling check and quality check by internal and external agencies.

For further details, refer to 'Our Strategies' page 157 onwards of RHP

## Profile of Directors

**Ranjit Pendurthi** is the Managing Director of the Company. He has been associated with the Company since incorporation. He holds a degree of master of business administration from University of Chicago, Illinois, USA. He has 21 years of experience in the chemical business.

**Ravi Pendurthi** is a Non-Executive Director on the Board of the Company. He holds a degree of bachelor of science (business administration with a concentration in management) from Monmouth University, New Jersey. He has 14 years of experience in the chemical industry. He has been previously associated with Jakhau Salt Company Private Limited and Bharath Salt Refineries Limited.

**Subrahmanyam Meenakshisundaram** is a Non-Executive Director on the Board of the Company. He has been associated with the Company since incorporation. He is admitted as an associate and fellow of the Institute of Chartered Accountants of India and holds a degree of bachelor of commerce from University of Madras. He has approximately four decades of experience in accounting, finance and tax. He was previously associated with Muljibhai Madhvani & Co. Limited, Chemplast Sanmar Limited, Electronics Corporation of India Limited and Mohan Breweries and Distilleries Limited.

**Padma Chandrasekaran** is an Independent Director on the Board of the Company. She holds a post graduate diploma in business administration from Indian Institute of Management, Ahmedabad, a degree of bachelor of science from University of Calcutta and a degree of master of business administration with prime emphasis in telecommunication from University of San Francisco. She has several years of experience in various fields such as information technology and financial services. She is associated with various companies, including PNB Metlife India Insurance Company Limited, Adani Capital Private Limited and SKYFI Education Labs Private Limited.

**Chittoor Ghatambu Sethuram** is an Independent Director on the Board of the Company. He holds a post graduate diploma in business administration from Indian Institute of Management, Ahmedabad and a degree of bachelor of technology in chemical engineering from Regional Engineering College, Jawaharlal Nehru Technology University, Andhra Pradesh. He has over three decades of experience in chemical industry. He has been associated with Polyolefins Industries Limited, Sanmar Speciality Chemicals Limited, Pidilite Industries Limited and Thirumalai Chemicals Limited.

**Kandheri Munaswamy Mohandass** is an Independent Director on the Board of the Company. He is admitted as an associate and fellow of the Institute of Chartered Accountants of India and holds a degree of bachelor of science from University of Madras. He is also entitled to practice as chartered accountant by the Institute of Chartered Accountants of India. He has over four decades of experience in audit, tax, project finance, corporate restructuring and corporate laws advisory. He is a senior partner of M/s. K.M. Mohandass and Co, Chartered Accountants. He is also a director on Aptus Value Housing Finance India Limited (an entity listed on BSE and NSE).

Given above is the abstract of data on directors seen on page 184 of the RHP

## Object of the Offer

**Offer for Sale:** Since the Offer is an offer for sale, the Company will not receive any proceeds from the Offer.

**Fresh Issue:** The Net Proceeds are proposed to be utilized in accordance with the details provided in the following table:

Particulars	Amount (Rs. In Million)*
Gross Proceeds of the Fresh Issue	Up to 8,050.00
(Less) Offer related expenses in relation to the Fresh Issue (only those apportioned to the Company)	[•]
<b>Net Proceeds*</b>	[•]

\* To be finalized upon determination of Offer Price.

## Comparison with peers

The following peer group has been determined on the basis of companies listed on Indian stock exchanges, whose business profile is comparable to their business:

Company	FV/Share (₹)	EPS (Basic)	RONW (%)	NAV (₹ per share)	P/E (times)
Archean Chemical Industries Limited#	2	18.26	72.24	25.28	[•]
<b>Listed Peers</b>					
Tata Chemicals Limited	10	49.17	6.89	716.48	24.16
Deepak Nitrite Limited	2	78.20	31.95	244.77	28.88
Aarti Industries Limited	5	36.06	22.10	163.16	19.18
Neogen Chemicals Limited	10	18.70	10.16	176.12	79.79

Above data is obtained from page 103 of RHP

Notes:

(a) P/E Ratio has been computed based on the closing market price of equity shares on NSE on October 27, 2022, divided by the Diluted EPS.

(b) Return on Net Worth (%) = Net Profit after Tax attributable to owners of the parent divided by Net worth at the end of the year attributable to owners of the parent. Net worth represents the equity share capital and other equity.

(c) NAV is computed as the net worth at the end of the year attributable to owners of the parent divided by the outstanding number of equity shares at the end of the year.

(d) Source for the Company: Based on the Restated Financial Information for the year ended March 31, 2022 (which is after giving effect of conversion of CCDs into equity shares).

Source for listed peers: All the financial information for listed industry peers mentioned above is on a consolidated basis (unless otherwise available only on standalone basis) and is sourced from the annual reports as available of the respective company for the year ended March 31, 2022 available on the website of stock exchanges.

**Financials (Restated):**

(Rs. in Million unless stated otherwise)

Particulars	As at 30/Jun/22 (Consolidated)	As at 31/Mar/22 (Consolidated)	As at 31/Mar/21 (Standalone)	As at 31/Mar/20 (Consolidated)
Equity Share Capital	192.67	192.67	192.67	192.67
Other Equity	3,261.70	2,417.98	531.16	(132.81)
Net Worth	3,454.37	2,610.65	723.83	59.86
Total Borrowings	9,155.84	9,218.74	9,788.23	9,292.60
Revenue from Operations	4,002.74	11,304.37	7,407.64	6,081.70
EBITDA	1,696.11	4,795.40	2,762.53	1,568.29
EBITDA Margin	42.37%	42.42%	37.29%	25.79%
Profit/(Loss) Before Tax	1,128.51	2,509.95	904.65	(166.90)
Profit/(Loss) After Tax	844.09	1885.83	666.06	(362.19)
PAT Margin	21.09%	16.68%	8.99%	(5.96)%
Basic EPS	8.17	18.26	6.45	(3.51)

Above data obtained from pages 13, 63, 65 & 104 of RHP

Notes:

(a) Net worth = Equity + other reserves.

(b) EPS = Profit after tax / weighted average number of equity shares.

(c) Total borrowings = Long term borrowings + short term borrowings + liability portion of CCD + Interest accrued but not due.

(d) Data as at 30/Jun/2022 isn't annualised

## Key Risk Factors

- The Offer Price, market capitalization to total revenue multiple and price to earnings ratio based on the Offer Price of the Company, may not be indicative of the market price of the Equity Shares on listing.
- The company's business is dependent and will continue to depend on their manufacturing facility, and they are subject to certain risks in the manufacturing processes. Any slowdown or shutdown in the manufacturing operations or strikes, work stoppages or increased wage demands by the employees that could interfere with the operations could have an adverse effect on the company's business, financial condition and results of operations.
- An inability to comply with repayment and other covenants in the financing agreements could adversely affect the company's business, financial condition, cash flows and credit rating.
- The company's debt was restructured as at March 18, 2017 with overdue principal and interest aggregating to ₹177.41 million with certain banks as at March 18, 2017.
- The company's manufacturing facility is located in Gujarat exposing them to regulatory and other geography specific risks such as weather and natural occurrences as well as regulatory, economic, demographic and other changes in Gujarat. In particular, excessive rainfalls could decrease the quality of their salt and brine reserves.
- The company's reliance on three principal products for substantially of the sales could have an adverse effect on their business.
- Exchange rate fluctuations may adversely affect the company's results of operations as their sales from exports and a portion of the expenditures are denominated in foreign currencies.
- They derive a significant part of the revenue from major customers. If one or more of such customers choose not to source their requirements from the company or to terminate their contracts, the business, financial condition and results of operations may be adversely affected.
- The company does not have long-term agreements with suppliers for their 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 the business, financial condition and results of operations.
- In the past, the company has failed to meet certain requirements of SEBI, the Stock Exchanges and the Companies Act, 2013.
- The company is subject to certain risks consequent to their operations involving the manufacture, usage and storage of various hazardous substances.
- The company's branch office has been leased from their Promoter and Managing Director.
- The company operates their manufacturing facility and brine reserves on land parcels that were leased to them by the Government of Gujarat and such land leases have expired. If the company is unable to renew this land lease, they may be required to relocate the business operations or shut down the manufacturing facility, which would have a material and adverse effect on the business, results of operations and financial condition.
- The company has received notices from regulatory authorities in the past; and in particular from the environmental authorities, which may result in litigation, penalties, fines or cancellation or suspension of their operating licenses.
- There are pending litigations against the Company. Any adverse decision in such proceedings may render the company liable to liabilities/penalties and may adversely affect the business, results of operations and financial condition.
- The company's statutory auditor and previous statutory auditor have included certain observations in the audit reports pursuant to the Companies (Auditor's Reports) Order, 2016 / 2020.
- The company's contingent liabilities could materially and adversely affect their business, results of operations and financial condition.
- The company has in the past entered into related party transactions and may continue to do so in the future, which may potentially involve conflicts of interest with the equity shareholders.
- The company's Promoters have, among others, agreed to pledge certain Equity Shares in favour of IDBI Trusteeship Services Limited, as specified under the Promoter Undertaking to secure certain debentures. Any default or breach of terms and conditions of such debentures may trigger invocation of pledge and in turn affect the company's reputation, business, operations and growth prospects.

- Certain of the Directors, Promoter and key management personnel may have interests other than reimbursement of expenses incurred and normal remuneration or benefits in the company.
- The Promoters have interest in entities, which are in businesses similar to that of the company and this may result in conflict of interest.
- After the completion of the Offer, the Promoters will continue to collectively hold substantial shareholding in the Company.
- The company has listed ₹8,400 million non-convertible debentures on the BSE. Any non-compliance with the listing obligations may subject them to penalties.

Please read carefully the Risk Factors given in detail in section II (page 23 onwards) of RHP



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