

IPO Note: Archean Chemical Industries Ltd.

Industry: Chemical

Reco: Subscribe

Date: November 07, 2022

Issue Snapshot		Issue Break up		
Company Name	Archean Chemical Industries Ltd.	QIB ex Anchor	30%	10,778,661
Issue Opens	November 09, 2022 to November 11, 2022	Anchor Investor	45%	16,167,991
Price Band	Rs. 386 to Rs. 407	HNI<Rs. 10 Lakhs	5%	1,796,443
Bid Lot	36 Equity Shares and in multiples thereof.	HNI>Rs. 10 Lakhs	10%	3,592,887
The Offer	Public issue of 35,928,870 Equity shares of Face value Rs. 2 each, (Comprising of fresh issue of 19,778,870 Equity Shares* (Rs. 805 cr.) and Offer for Sale of 16,150,000 Equity Shares (Rs. 657.3 cr.*) by Selling Shareholder).	RII	10%	3,592,887
		Total Public	100%	35,928,870
Issue Size	Rs. 1428.4 – 1462.3 Crore	Equity Share Pre Issue (Nos. Cr.)		10.3
IPO Process	100% Book Building	Fresh Share (Nos. Cr.)		2.0
Face Value	Rs. 2.00	OFS Share (Nos. Cr.)		1.6
Exchanges	NSE & BSE	Equity Share Post Issue (Nos. Cr.)		12.3
BRLM	IIFL Securities Ltd, ICICI Securities Ltd and JM Financial Ltd	Market Cap (Rs. Cr.)		5,008.3
Registrar	Link Intime India Pvt Ltd	Equity Dilution		16.1%
		Stake Sale by OFS		13.1%

Objects of the Offer

Offer for Sale

The Company will not receive any proceeds of the Offer for Sale by the Selling Shareholder. (up to 2,000,000 equity shares by Chemikas Speciality LLP, up to 3,835,562 equity shares by India Resurgence Fund, Scheme I, up to 6,478,876 equity shares by India Resurgence Fund, Scheme II and up to 3,835,562 equity shares by Piramal Natural Resources Private Limited)

Fresh Issue

- Redemption or earlier redemption, in part or full, of NCDs issued by the Company (Rs. 644 cr.); and
- General corporate purposes.

Company Highlights

- Archean Chemical Industries Ltd. (ACIL) 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, ACIL is the largest exporter of bromine and industrial salt by volume in India in Fiscal 2021 and has amongst the lowest cost of production globally in both bromine and industrial salt. (Source: Company Commissioned F&S Report).
- The company produces products from its brine reserves in the Rann of Kutch, located on the coast of Gujarat, and manufactures products at its facility near Hajipir in Gujarat. As of June 30, 2022, it marketed products to 18 global customers in 13 countries and to 24 domestic customers.
- ACIL's bromine is used as key initial-level material, which has applications in pharmaceuticals, agrochemicals, water treatment, flame retardant, additives, oil & gas, and energy storage batteries. Industrial salt is an important raw material used in the chemical industry for the production of sodium carbonate (soda ash), caustic soda, hydrochloric acid, chlorine, bleaching powders, chlorates, sodium sulphate (salt cake), and sodium metal. Sulphate of potash is used as a fertilizer and also has medical uses.
- Archean has an integrated production facility for bromine, industrial salt, and sulphate of potash operations, located at Hajipir, Gujarat, which are located in close proximity to the captive Jakhau Jetty and Mundra Port. The facility and its surrounding salt fields and brine reservoirs span approximately 240 sq.km. As of June 30, 2022, manufacturing facility had an installed capacity of 28,500 MTPA of bromine, 3,000,000 MTPA of industrial salt and 130,000 MTPA of sulphate of potash. The facility is equipped with quality department, central quality assurance and quality control department, co-generation power plant, desalination plant, effluent treatment plant, sewage treatment plant and warehouse.

View

- Archean attributes the strong market position to factors such as long-standing relationship with global customers, established infrastructure and access to brine reserves at the Rann of Kutch, manufacturing facility, and consistent delivery of high-quality products. The leadership position and low cost-production offers company the competitive advantages such as product pricing, economies of scale, and the ability to scale business, increase customer loyalty and expand client base.
- Archean commands a leadership position in Indian bromine merchant sales (traded bromine in the market) by volume in FY21, and the company is the largest exporter of Bromine from India mainly to China. The balance of the bromine production is sold in the domestic market. According to Frost & Sullivan, the bromine global market size was US\$3.13 billion in CY21, and the market is expected to grow at a CAGR of 5.8% between CY20 and CY25. In addition, the growing demand for bromine and bromine performance derivatives driven by a host of factors including an increasing demand for flame retardants, increasing consumption of oil well chemicals and increasing use of hydrogen and zinc bromide in flow batteries. In response to this demand, Archean intends to, and is in the process of, increasing their manufacturing capacity for bromine production.
- Archean exported 100% of their industrial salt production, primarily to customers in Japan and China. According to Frost & Sullivan, global demand for industrial salt was 173 million MT in each of CY17, 171 million in CY18, and 173 million in CY19 and declined to 153 million MT in CY20 but is expected to grow at a CAGR of 2.8% between CY20 and CY25. The growing demand for industrial salt will be driven primarily by increasing industrialization owing to its wide range of industrial applications. In particular, demand is expected to increase from the food and beverage industry, the chlor-alkali sector in the chemical industry as well as chemical processing, water treatment, agriculture, and de-icing.
- Archean is the only manufacturer of sulphate of potash from natural sea brine in India. According to Frost & Sullivan, global demand for sulphate of potash was 6.9 million MT in CY21 but is expected to grow at a CAGR of 6% between CY20 and CY25. The sulphate of potash market is being driven by the advantages of sulphate of potash over muriate of potash and growing demand from a growing middle-class population driving the use of fertilizers primarily for growing fruit and vegetables. ACIL aim to be the key producer and supplier of sulphate of potash in India.
- Archean plans to expand the product line into bromine derivative performance products in the next 2 to 3 years, in particular brominated flame retardants, clear brine fluids and bromine catalysts used for the synthesis of PTA.
- ACIL is setting up a new facility to manufacture bromine performance derivatives products through subsidiary, Acume Chemicals Pvt Ltd. The total estimated cost for setting up the bromine performance derivatives products is approximately Rs. 251.70 crore, which the company intend to fund through internal accruals.
- Archean intends to, and is in the process of, increasing the manufacturing capacity for bromine production. To achieve the expansion of the bromine capacity, the company added in FY21 a feed enrichment section at the site in Hajipir, Gujarat which will improve bromine recovery from the sea bittern. This expansion added 18,000 MTPA to the bromine capacity. The company is looking to add an additional 12,500 MTPA capacity by FY23 at an estimated cost of approximately Rs. 17.88 crore which intend to fund through internal accruals.
- In addition, to cater to the growing demand from the existing customers and to meet requirements of new customers, the company intend to expand the manufacturing capacities for industrial salt production by adding an additional washery of 250 tons per hour. The company expect that additional washery will be operational in FY23.
- On financial front, during FY20-22, ACIL's Revenue and EBITDA grew at a CAGR of 36.3% and 77.7%, respectively. Average EBITDA margins is ~34%,. The RoE/RoCE were 29.4%/42.3%. For Q1FY23, revenue stood at Rs. 400 cr and EBITDA margin was 40.2%.
- In terms of the valuations, on the higher price band, ACIL demands a P/E multiple of 14.8x based on Q1FY23 post issue fully diluted EPS and EV/EBITDA multiple of 8.1x based on Q1FY22 post issue fully diluted EBITDA. The industry P/E and EV/EBITDA is ~25x and ~15x which indicates that the IPO is suitably priced.
- China plus one policy, largest manufacturer of certain specialty chemicals, expanding manufacturing facility, expanding R&D infrastructure, strong financials and healthy balance sheet will augur for the company's performance going forward. Hence, it is recommended to "SUBSCRIBE" the issue.

Revenue from Operations

	FY20		FY21		FY22		Q1FY22		Q1FY23	
	Amount (Rs. Cr.)	% to Total	Amount (Rs. Cr.)	% to Total	Amount (Rs. Cr.)	% to Total	Amount (Rs. Cr.)	% to Total	Amount (Rs. Cr.)	% to Total
Sales of products	605.8	99.6%	738.5	99.7%	1129.6	99.9%	200.7	100.0%	400.2	100.0%
- Domestic sales	129.0	21.2%	187.3	25.3%	334.7	29.6%	59.3	29.5%	133.0	33.2%
- Export sales	476.8	78.4%	551.2	74.4%	794.9	70.3%	141.5	70.5%	267.2	66.7%
Sales of Products										
Other operating revenues	2.4	0.4%	2.3	0.3%	0.9	0.1%	0.0	0.0%	0.1	0.0%
- Export incentives	1.5	0.3%	2.2	0.3%	-	-	-	-	0.0	-
- Scrap sales	0.8	0.1%	0.1	0.0%	0.9	0.1%	0.0	0.0%	0.1	0.0%
Total revenue from operations	608.2	100.0%	740.8	100.0%	1130.4	100.0%	200.8	100.0%	400.3	100.0%
Product-wise										
Marine Chemicals Salt	352.0	57.9%	363.7	49.1%	512.9	45.4%	86.9	43.3%	196.0	49.0%
Bromine	215.5	35.4%	344.4	46.5%	605.3	53.5%	113.9	56.7%	203.9	50.9%
Sulphate of Potash	39.8	6.6%	32.5	4.4%	11.4	1.0%	-	-	0.3	0.1%
Others	0.8	0.1%	0.1	0.0%	0.9	0.1%	0.0	0.0%	0.1	0.0%
Total revenue from operations	608.2	100.0%	740.8	100.0%	1130.4	100.0%	200.8	100.0%	400.3	100.0%

Installed Capacity and Capacity Utilisation

Production Stream	FY21			FY22			Q1FY23		
	Installed Capacity (MP)	Production Volume (MP)	Capacity utilization (%)	Installed Capacity (MP)	Production Volume (MP)	Capacity utilization (%)	Installed Capacity (MP)	Production Volume (MP)	Capacity utilization (%)
Bromine	28,500	14,751	115.69%	28,500	20,293	71.20%	28,500	6,759	23.72%
Industrial Salt	3,000,000	2,879,533	95.98%	3,000,000	3,586,269	119.54%	3,000,000	1,156,272	38.54%
Sulphate of Potash	13,000	2,002	1.54%	130,000	2,483	1.91%	130,000	-	0.00%

Financial Statement

(In Rs. Cr)	FY20	FY21	FY22	Q1FY22	Q1FY23
Share Capital	19.3	19.3	19.3	19.3	19.3
Net Worth	6.0	72.4	261.1	91.0	345.4
Long Term Borrowings	848.3	846.4	842.8	845.1	841.3
Other Long Term Liabilities	320.8	331.4	250.2	329.2	174.1
Short-term borrowings	9.0	12.0	2.1	12.7	71.0
Other Current Liabilities	244.5	170.3	173.5	181.2	174.9
Fixed Assets	1073.7	1059.6	1101.8	1052.4	1121.3
Non Current Assets	1166.4	72.2	29.2	71.8	11.7
Current Assets	262.2	300.6	398.6	335.0	473.7
Total Assets	1428.6	1432.4	1529.7	1459.3	1606.7
Revenue from Operations	608.2	740.8	1130.4	200.8	400.3
Revenue Growth (%)		21.8	52.6		99.4
EBITDA	148.0	262.2	467.2	80.1	161.1
EBITDA Margin (%)	24.3	35.4	41.3	39.9	40.2
Net Profit	(36.2)	66.6	188.6	18.7	84.4
Net Profit Margin (%)	(6.0)	9.0	16.7	9.3	21.1
Earnings Per Share (Rs.)	(3.5)	6.5	18.3	1.8	8.2
Return on Networth (%)	(605.1)	92.0	72.2	20.5	24.4
Net Asset Value per Share (Rs.)	0.6	7.0	25.3	8.8	33.5

Source: RHP, Ashika Research

Cash Flow Statement

(In Rs. Cr)	FY20	FY21	FY22	Q1FY22	Q1FY23
Cash flow from Operations Activities	147.6	119.1	314.5	37.5	170.9
Cash flow from Investing Activities	(196.7)	(1.8)	(110.1)	(36.9)	(104.5)
Cash flow from Financing Activities	26.4	(110.3)	(223.7)	(28.9)	(46.9)
Net increase/(decrease) in cash and cash equivalents	(22.8)	7.0	(19.3)	(28.2)	19.6
Cash and cash equivalents at the beginning of the year	47.2	24.5	31.5	31.5	12.2
Cash and cash equivalents at the end of the year	24.5	31.5	12.2	3.3	31.8

Source: RHP

Comparison with listed industry peers

Co Name	Net Sales (Rs. Cr.)	OPM (%)	D/E (x)	ROCE (%)	RONW (%)	P/E (x)	P/BV (x)	EV/EBIDTA (x)	MCap/Sales (x)	Market Cap (Rs. Cr.)
Archean Chemical Industries Ltd.	1130.4	41.3	0.2	42.3	29.4	14.8	4.4	8.1	3.1	5008.3
Deepak Nitrite Ltd.	6802.2	24.2	0.1	44.8	37.5	31.6	8.8	20.5	4.3	31579.1
Tata Chemicals Ltd.	12622.1	19.2	0.4	7.6	7.2	14.6	1.5	10.1	1.9	28614.2
Aarti Industries Ltd.	7000.0	24.4	0.4	22.1	27.8	20.0	4.4	14.6	3.5	26602.4
Neogen Chemicals Ltd.	487.3	15.5	0.5	14.3	14.3	79.7	8.3	39.6	6.4	3750.0

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