

Company Overview

Archean Chemical Industries is a speciality marine chemical manufacturer focusing on three products namely bromine, industrial salt, and sulphate of potash. The company was the largest exporter of bromine and industrial salt by volume in Fiscal 2021. The company produces its products from its brine reserves in Rann of Kutch, in Gujarat and has a manufacturing facility in Hajipur in Gujarat. The company has 18 global customers in 13 countries with key geographies being China, Japan, South Korea, Qatar, Belgium and Netherlands and 24 domestic customers. It has a business-to-business basis both in India and internationally. The company's product bromine has applications in pharmaceuticals, agrochemicals, water treatment, oil and gas and in many more industries. Also, the company is the only manufacturer of Sulphate of Potash in the country. Archean Chemicals was also the largest exporter of industrial salt from India exporting 2.7 million MT in Fiscal 2021. For the quarter ended June 2022, the company exported 100% of its industrial salt production. The sales of bromine contributed 50.94%, sales of industrial salt constituted 48.98% and sulphate of potash constituted 0.06% of the total revenue from operations of the company for the quarter ended 30th June 2022. The company has an export-oriented business with almost 67% of its revenue-generating from exports.

Objects of the issue

The IPO proceeds will be used towards the following purposes:

- ⇒ To carry out Offer for Sale.
- ⇒ Redemption or earlier redemption, in part or full, of NCDs issued by the Company.
- ⇒ General Corporate purposes.

Investment Rationale

Market leadership and opportunities to further expand

The company has been a market leader in speciality marine chemicals since 2013 and is also the largest exporter of bromine and industrial salt by volume. Also, it has one of the lowest costs of production globally for both of these products. The company has long-standing relationships with its international as well as domestic clientele and huge room to expand due to its robust infrastructure capacity and demand for the products. It has also expanded its bromine capacity with an addition of a feed enrichment section. The company also is the only manufacturer of sulphate of potash that has a great demand due to its use in fertilizers and certain medical uses.

High Barriers to entry into the industry

The speciality chemical industry has high entry barriers viz. High cost of production and manufacturing, scarcity of raw materials, a significant investment for salt beds etc. The company is already well-established in the industry and has numerous customers globally. Also, other barriers such as stringent regulatory and quality standard requirements from the end user increase the competition for customer acquisitions. The company has developed a strong relationship with its clients which makes it difficult for other players to enter the industry.

Valuation and Outlook

The global chemical market is expected to grow to a size of approx \$6143 billion by 2025 and coupled with the rapid growth across sectors the company caters provides the company with a strong momentum to grow further. Being an export-oriented business with a strong client portfolio gives the company a competitive advantage over its peers. It also has an established infrastructure and integrated production has one of the largest salt works at a single location according to industry reports. The manufacturing facility of the company is also located nearby ports through which it caters to international clients helping the company reduce its logistics and storage costs. The company has also displayed a strong and consistent financial performance with revenue from operations increasing at a CAGR of 36.34% from Fiscal 2020 to 2022 and a robust EBITDA margin of 42% for FY22. However, exchange rate fluctuations and other geographic, economic and regulatory changes are key risk factors for the company. On the upper end of the price band, the issue is valued at a P/E of 22.3x based on FY22 consolidated earnings which we feel is fairly priced and hence initiate a "SUBSCRIBE" rating to the IPO for the benefit of listing gains.

Issue Details

Offer Period	9 th Nov– 11 th Nov, 2022
Price Band	INR.386 to INR.407
Bid Lot	36
Listing	BSE&NSE
Issue Size (no. of shares in mn)	37.0/35.9
Issue Size (INR. in bn)	14.62
Face Value	2

Issue Structure

QIB	75%
NIB	15%
Retail	10%

	IIFL Securities Limited
BRLM	ICICI Securities Limited
	JM Financial Limited

Registrar	Link Intime India Private Limited
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Particulars	Pre Issue %	Post Issue %
Promoter	65.58%	53.41%
Public-Investor Selling	32.00%	15.36%
Public–	2.42%	31.23%
Total	100%	100%

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



Archean Chemical Industries Ltd.

Income Statement (Rs in millions)

Particulars	Q1FY23	FY22	FY21*	FY20
Revenue				
Revenue from Operations	4,003	11,304	7,408	6,082
Total Revenue	4,003	11,304	7,408	6,082
Expenses				
Cost of Materials Consumed	148	449	167	250
Purchases of Stock in Trade	44	-	-	111
Change in inventory of finished goods, work in progress and stock-in-Trade	(144)	(56)	(79)	(358)
Employee benefit expenses	98	378	353	345
Impairment losses on financial assets	-	-	-	-
Other expenses	2,245	5,861	4,343	4,254
Total Operating Expenses	2,392	6,633	4,785	4,602
EBITDA	1,611	4,672	2,622	1,480
Depreciation and amortisation expense	176	669	554	518
Other income	85	124	140	88
EBIT	1,520	4,127	2,209	1,051
Finance costs	392	1,617	1,304	1,218
Exceptional Item	-	-	-	-
PBT	1,129	2,510	905	(167)
Current tax	-	-	-	-
Current tax - for earlier periods	-	-	-	-
Deferred Tax charge	284	624	239	137
MAT Credit reversed/(availed)	-	-	-	59
Total tax	284	624	239	195
PAT	844	1,886	666	(362)
Diluted EPS	8	18	6	(4)

Source: RHP, BP Equities Research

*FY21 figures are on standalone basis

Cash Flow Statement (Rs in million)

Particulars	Q1FY23	FY22	FY21*	FY20
Cash Flow from operating activities	1,709	3,145	1,191	1,476
Cash flow from investing activities	(1,045)	(1,101)	(18)	(1,967)
Cash flow from financing activities	(469)	(2,237)	(1,103)	264
Net increase/(decrease) in cash and cash equivalents	196	(193)	70	(228)
Cash and cash equivalents at the beginning of the period	122	315	245	472
Cash and cash equivalents at the end of the period	318	122	315	245

Source: RHP, BP Equities Research

*FY21 figures are on standalone basis



Archean Chemical Industries Ltd.

Balance Sheet (Rs in millions)

Particulars	Q1FY23	FY22	FY21*	FY20
Equity and Liabilities				
Share Capital	193	193	193	193
Other Equity	3,262	2,418	531	(133)
Net worth	3,454	2,611	724	60
Borrowings	8,413	8,428	8,464	8,483
Lease liabilities	438	455	402	382
Other Financial Liabilities	33	770	1,204	720
Provisions	2	3	4	0
Deferred tax liabilities	377	92	0	0
Other non-current liabilities	890	1,182	1,704	2,107
Total Non Current Liabilities	10,153	10,930	11,778	11,691
Current Liabilities				
Borrowings	710	21	120	90
Lease liabilities	67	69	49	37
Trade Payables				
(a) total outstanding dues of micro enterprises and small enterprises	45	24	23	43
(b) total outstanding dues of creditors other than micro enterprises and small enterprises	938	1,099	1,095	1,628
Other Financial Liabilities	21	49	141	48
Short Term Provisions	8	8	9	7
Other current liabilities	670	486	386	681
Derivative Liabilities	0	0	0	0
Total Current Liabilities	2,459	1,756	1,823	2,535
Total liabilities	12,612	12,686	13,601	14,226
Total Equity and Liabilities	16,067	15,297	14,324	14,286
Assets				
Property, plant and equipment	10,336	10,455	10,072	8,823
Right-of-Use assets	495	389	334	331
Capital work in Progress	381	172	189	1,582
Intangible assets	1	1	1	1
Investments	1	1	1	1
Other Financial Assets	18	18	16	17
Deferred tax assets	1	0	533	771
Other non-current assets	97	274	172	138
Total Non current assets	11,330	11,310	11,318	11,664
Inventories	1,374	1,208	1,106	988
Current Tax Assets	50			
Investments	667	111	412	471
Trade Receivables	1,132	1,530	681	445
Cash and cash equivalents	318	122	315	245
Other Bank Balances	724	465	3	3
Loans	5	5	5	4
Other Financial Assets	148	144	142	7
Other current assets	320	402	343	460
Total Current Asset	4,737	3,986	3,006	2,622
Total Assets	16,067	15,297	14,324	14,286

Source: RHP, BP Equities Research

*FY21 figures are on standalone basis

Key Risks

- ⇒ The company's business is dependent and will continue to depend on its manufacturing facility, and it is subject to certain risks in its manufacturing processes. Any slowdown or shutdown in its manufacturing operations or strikes, work stoppages or increased wage demands by its employees that could interfere with its operations could have an adverse effect on its business, financial condition and results of operations.
- ⇒ An inability to comply with repayment and other covenants in its financing agreements could adversely affect its business, financial condition, cash flows and credit rating.
- ⇒ The company's reliance on three principal products for substantially of its sales could have an adverse effect on its business.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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