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**IPO Report**

07<sup>th</sup> Nov' 22

**Snapshot**

Archean Chemical Industries Ltd 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. Company produce its products from its brine reserves in the Rann of Kutch, located on the coast of Gujarat, and company manufacture its products at its facility near Hajipir in Gujarat.

**VALUATION**

Company is bringing the issue at price band of Rs 386-407 per share at p/e multiple of 27x on FY22 basis.

Company with its leading market position, expansion and growth in bromine and industrial salt has high entry barriers in the specialty marine chemicals industry. Company has established infrastructure and integrated production with cost efficiencies & has focus on environment and safety. Company being Indian exporter of bromine and industrial salt with global customer base has shown strong and consistent financial performance.

Hence, looking after all above, we recommend “Subscribe” on issue.

<b>Price Band (Rs./Share)</b>	<b>386-407</b>
<b>Opening date of the issue</b>	<b>09<sup>th</sup> Nov 2022</b>
<b>Closing Date of the issue</b>	<b>11<sup>th</sup> Nov'2022</b>
<b>No of shares pre issue</b>	103,274,120 Eq Shares
<b>Issue Size</b>	Rs 1428-1462 Cr
<b>Fresh Issue</b>	Rs 805 Cr
<b>Offer For Sale</b>	16,150,000 Eq Shares
<b>Face Value (Rs/ share)</b>	Rs 2/share
<b>Bid Lot</b>	36

**BIDDING DETAILS**

<b>QIBs (Including Anchor)</b>	75% of the offer (Approx 26,946,653 Eq Shares)
<b>Non-Institutional</b>	15% of the offer ( Approx 5389330 Eq Shares)
<b>Retail</b>	10 % of the offer ( Approx 3592886 Eq Shares)
<b>Lead managers</b>	JM Financial, IIFL Securities, ICICI Securities
<b>Registrar to the issue</b>	Link Intime India Pvt Ltd.

**WHAT WE LIKE**

**Leading market position, expansion and growth in bromine and industrial salt**

Company is a leading specialty marine chemical manufacturer in India since 2013. It is 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. Company command a leadership position in Indian bromine merchant sales (traded bromine in the market) by volume in Fiscal 2021, and is the largest exporter of Bromine from India by volume in Fiscal 2021. 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 CY2020 and CY2025.

**Strong and consistent financial performance**

Company's 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. Its 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. Company have benefited from fixed sales contracts with agreed pricing and volumes of approximately 12 months duration with its bromine customers of approximately 24 months duration with its industrial salt customers.

**Established infrastructure and integrated production with cost efficiencies**

Company have an integrated production facility for its 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. Company's facility and its surrounding salt fields and brine reservoirs span approximately 240 sq.km. As of June 30, 2022, company's manufacturing facility had an installed capacity of 28,500 MT per annum of bromine, 3,000,000 MT per annum of industrial salt and 130,000 MT per annum of sulphate of potash. In the three months ended June 30, 2022 and in Fiscal 2022, company's capacity utilization was 23.72% and 71.20% of bromine, respectively; 38.54% and 119.54% of industrial salt, respectively; and 0.00% and 1.91% of sulphate of potash, respectively



## COMPANY BACKGROUND

As of June 30, 2022, company marketed its products to 18 global customers in 13 countries and to 24 domestic customers. Company's 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. Industrial salt is an important raw material used in chemical industry for 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.

Company command a leadership position in Indian bromine merchant sales (traded bromine in the market) by volume 151 in Fiscal 2021, and is the largest exporter of Bromine from India by volume in Fiscal 2021. In the three months ended June 30, 2022 and in Fiscal 2022, Fiscal 2021 and Fiscal 2020, company exported 34.88%, 44.88%, 46.10% and 39.79%, respectively, of its bromine production abroad, mainly to China. The balance of company's bromine production is sold in the domestic market. Bromine is a highly corrosive, hazardous and toxic chemical and its handling requires a high degree specialized expertise which company have developed. The transportation of bromine is also dangerous and requires nickel and lead lined ISO containers, of which company had 228 such containers (owned and leased) for its export business as of June 30, 2022. 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 CY2020 and CY2025.

Industrial salt has a high demand due to the diversity of applications in the oil & gas industry, chlor-alkali industry, and de-icing chemical industry. Company was the largest exporter of industrial salt in India with exports of 2.7 million MT in Fiscal 2021. In the three months ended June 30, 2022 and in Fiscal 2022, Fiscal 2021 and Fiscal 2020, company exported 100% of its industrial salt production, primarily to customers in Japan and China. Global demand for industrial salt was 173 million MT in CY 2017, 171 million MT in CY 2018 and 173 million MT in CY 2019 and declined to 153 million MT in CY 2020 but is expected to grow at a CAGR of 2.8% between CY2020 and CY2025.

Sulphate of potash, also known as potassium sulphate, is a high-end, specialty fertilizer for chlorine-sensitive crops and also has medical uses to reduce the plasma concentration of potassium when hypokalemia occurs. Company 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 CY 2021 but is expected to grow at a CAGR of 6.0% between CY2021 and CY2025.

Company's marine chemicals business is predominately conducted on a business-to-business basis both in India and internationally. The key geographies to which company export its products include China, Japan, South Korea, Qatar, Belgium and the Netherlands. Some of company's major customers include Sojitz Corporation, which is also a shareholder in company, Shandong Tianyi Chemical Corporation, Unibrom Corporation, Wanhau Chemicals and Qatar Vinyl Company Limited.

The table set forth below sets out company's market position in India and globally for each of its products for the periods indicated.

Product	Company Market Position in India	Volume Produced in Fiscal 2022 (MT)	Volume CAGR (Fiscal 2020 to Fiscal 2022)	Revenue Fiscal 2022 (₹ million)	Percentage of revenue from exports Fiscal 2022
<b>Bromine</b>	Largest export and leader in merchant sales	20,293	51.38%	6,052.84	44.88%
<b>Industrial Salt</b>	Largest exporter	35,86,269	11.11%	5,129.00	100.00%
<b>Sulphate of Potash</b>	Only producer in India	2,483	(63.88%)	114.00	90.75%



**INVESTMENT RATIONALE**

<p><i>High entry barriers in the specialty marine chemicals industry</i></p>	<p>The specialty marine chemicals industry in which company operate 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. Given the nature of the application of company’s products and the processes involved, its products are subject to, and measured against, high quality standards and sensitive and rigorous product approval systems with stringent impurity specifications. Further, because end products manufactured by company’s customers are typically subject to stringent regulatory and industry standards, any change in the vendor of the products may require significant time and expense for customers, which acts an entry barrier and disincentives any such change.</p>
<p><i>Established infrastructure and integrated production with cost efficiencies</i></p>	<p>Company’s manufacturing facility is located in close proximity to the Jakhau Jetty and Mundra Port, where it transport its products to its customers internationally. The Jakhau Jetty is a fair-weather facility, operating for seven to eight months a year between the months of October/November through May. The Jakhau Jetty has a designed capacity of 5 million MT per annum and a capacity to load 28,000 MT. It is equipped with a twin conveyor system, diesel generator sets and is supported by a stockyard with storage capacity in excess of 350,000 MT to ensure continuous availability of products for customers .Company have made significant investments in capital expenditures for the improvement and maintenance of its facility, including investments in salt beds, which typically have a three-to-four-year gestation period, and investments in ISO containers for the export of bromine of which company had 228 (owned and leased) as of June 30, 2022. The transportation of bromine is also dangerous and requires lead lined ISO containers. Company’s 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 its products.</p>
<p><i>Focus on environment and safety</i></p>	<p>Environment and safety considerations are an important part of its operations. Company undertake an annual environment and safety audit and strive to ensure that it do not discharge any harmful elements from its manufacturing operations. As of June 30, 2022, company had an environmental, health and safety team of 13 employees. As part of company’s environmental and sustainability efforts, company have implemented an environmental management plan, which is focused on the following: • ensuring that its manufacturing facility is compliant with environmental guidelines and standards set forth by regulatory agencies; • ensuring that adequate pollution control systems are installed and operating satisfactorily; • ensuring that the pollution concentration of treated effluent, ambient air, and stack air are within the prescribed standards set forth by regulatory agencies; and • ensuring proper waste management handling and disposal system procedures are in place and followed by all of company’s employees.</p>



## OBJECTS OF OFFER

The Offer comprises a Fresh Issue by company and an Offer for Sale by the Selling Shareholders.

### Offer for Sale

The object of the Offer for Sale is to allow the Selling Shareholders to sell up to 16,150,000 Equity Shares held by them

### Fresh Issue

Company proposes to utilise the Net Proceeds of the Fresh Issue towards funding the following objects:

1. Redemption or earlier redemption, in part or full, of NCDs issued by company; and
2. General corporate purposes (collectively, referred to herein as the “Objects”).

## RISKS

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.

Source:RHP

## INDUSTRY OVERVIEW

### OVERVIEW OF ELEMENTAL BROMINE

**Introduction of bromine** Bromine is a halogen chemical element. Bromine is a reddish-brown liquid with an appreciable vapour pressure at room temperature. Bromine vapour is amber in colour. Bromine has a pungent odour and is irritating to the skin, eyes, and respiratory system. Exposure to concentrated bromine vapour, even for a short time, may be fatal. Like the other halogens, bromine exists as diatomic molecules in all aggregation states. It is widely used as a reactant and catalyst for manufacturing a variety of products, such as agrochemicals, biocides, water disinfectants, pharmaceuticals intermediates, dyes, completion fluids, flame retardants, and photographic chemicals. Bromine is a naturally occurring element. The most recoverable form of bromine is from soluble salts found in seawater (chief commercial source), salt lakes, inland seas and brine wells. Bromine is produced from brine after separation of most of the sodium chloride and potash. Bromine in much higher concentrations are found in inland seas and brine wells. Much of the bromine and brominated compounds are manufactured at the Dead Sea in Israel, Jordan and in the United States.

**Production cost of bromine** According to the Company Commissioned F&S Report, the typical cost of production of elemental bromine is approximately US\$500-600 per Metric Ton (MT) for Israel and Jordan, US\$800-1,000 per MT for Arkansas, US\$ 900-1,100 per MT for India, US\$ 1,500- 1,700 per MT for China and USD 2,500 or above per MT for Japan. Considering the lower cost of production Israel and Jordan have high production capacities and are market leaders in bromine production.

**Overview of the global bromine market** According to the Company Commissioned F&S Report, the global bromine industry was valued at approximately US\$3.13 billion in calendar year 2021. From 2017 to 2019, the global bromine industry grew at a CAGR of 1.2% from US\$2.86 billion in 2017 to US\$3.18 billion in 2019. According to the Company Commissioned F&S Report, the global bromine industry is expected to grow at a CAGR of 5.8% from between 2020 and 2025.

**Overview of the Indian bromine industry** India’s bromine production is from Bittern and produced from the underground brine mainly concentrated towards the western state of Gujarat. According to the Company Commissioned F&S Report, with abundant resources, India's bromine capacity has developed rapidly, from 20,000 MT in year 2008 to 60,000 MT in year 2020. According to the Company Commissioned F&S Report, the production of bromine in India increased from 20,500 MT in Fiscal 2015 to approximately 46,000 MT in Fiscal 2021 (estimated), out of which approximately 13,500 MT was used for captive consumption.

**Overview of the Indian industrial salt industry:** In 2021, the per-capita consumption of salt in India was approximately 12-13 kg, which includes edible and industrial salt. The current annual requirement of salt in the country in 2021 is estimated to be 12 million tonnes for industrial use and export of 13.3 million tonnes to various countries, according to the Company Commissioned F&S Report.

**Overview of the Indian Sulphate of potash( SOP) market:** Being second most populous country India has huge food requirements and limited arable land to produce that food grains. Hence the need for fertilisers is increasing in India. About 90% of the potassium sulphate consumed in India is for agricultural purposes as fertilizers in tobacco, citrus fruits such as pineapples, tomatoes and oranges, walnuts, etc. The overall SOP market in India was approximately 55,757 MT in Fiscal 2020. According to the Company Commissioned F&S Report, the growth in SOP in India is expected to follow the global trend of approximately 6% until the year 2025.



**Consolidated Financials**

(Rs in Mn)

<b>Financials</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>Q1FY23</b>
Total Revenue (A)	6081.70	7407.64	11304.37	4002.74
Total Expenditure (B)	4601.84	4785.36	6632.87	2392.11
EBIDTA	1479.86	2622.28	4671.50	1610.63
EBIDTA Margin	24.33	35.40	41.32	40.24
Other Income	88.43	140.26	123.90	85.48
Depreciation	517.61	553.97	668.76	176.10
EBIT	1050.68	2208.57	4126.64	1520.01
Interest	1217.58	1303.92	1616.69	391.50
PBT	-166.90	904.65	2509.95	1128.51
Extraordinary item	0.00	0.00	0.00	
PBT	-166.90	904.65	2509.95	1128.51
Tax	195.29	238.59	624.12	284.42
PAT	-362.19	666.06	1885.83	844.09
NPM%	-5.96	8.99	16.68	21.09
ROE %	-604.96	92.02	72.24	24.44
EPS	-3.76	6.91	19.58	8.76
Eq Cap	192.67	192.67	192.67	192.67
Net Worth	59.87	723.83	2,610.65	3,454.37

(Source: RHP)

**Peer Comparison**

<b>Company Name</b>	<b>Total Income (Rs in million)</b>	<b>P/E</b>	<b>EPS</b>	<b>RONW %</b>	<b>NAV as at March'2022</b>
Archean Chemical	11428.27	--	18.26	72.24	25.28
<b>Peer Group</b>					
Tata Chemicals Ltd	12878.10	24.16	49.17	6.89	716.48
Deepak Nitrite	68448	28.88	78.20	31.95	244.77
Aarti Industries	70007.60	19.18	36.03	22.10	163.16
Neogen Chemical	4883.20	79.79	18.70	10.16	176.12

(Source: RHP)



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