

**Jainam Broking Ltd**



**Archean  
Chemical  
Industries  
Limited**

**By**

**Jainam Broking Ltd**

## **Disclaimer**

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<b>IPO Details</b>	
<b>Opening date</b>	3th Nov 2022
<b>Closing date</b>	11th Nov 2022
<b>Face Value</b>	2 rupees per share
<b>Price band</b>	Rupees 386 to 407 per share
<b>Lot size</b>	36 shares
<b>Listing on</b>	BSE & NSE
<b>Total issue size</b>	INR 1462.31 crores
<b>Fresh issue</b>	INR 805 crores
<b>Offer for sale</b>	INR 657.31 crores

<b>Promoter's Holdings</b>	
Pre-issue shareholdings	65.58%
Post-issue shareholdings	55.04%

- Based on the issue price, the company is valued at around INR ~3250 crores' market cap.

## About the company:

- A leading specialty marine manufacturer in India, producing and exporting bromine, Industrial salt, and sulfate of potash. One of the largest exporters of bromine and Industrial salt by volume in India in fiscal 2021.
- Originally a company was formed as a partnership firm on 20<sup>th</sup> Nov 2003, having a certificate of incorporation in Tamilnadu at Chennai.
- It produces from its brine reserves in the Rann of Kutch located on the coast of Gujarat.
- The company is providing 3 key major chemicals:
  - **Bromine**- end-user industries are pharma, agro chem, water treatment, and oil & gas, and energy storage batteries.
  - **Industrial salt**- it is an important raw material in the production of sodium carbonate, caustic soda, chlorine, bleaching powders, and sodium metal.
  - **Sulfate of potash**- used as a fertilizer and for medical uses.
- As of 30<sup>th</sup> June 2022, the company has 18 global customers in 13 countries and 24 domestic customers.
- The company incorporated one subsidiary name, “Acume Chemicals Pvt Ltd” on 18<sup>th</sup> Nov 2021; to engage in the business of dealing, marketing, selling, trading, and processing of salt rocks, sea salt, and bromine & related derivative chemicals in Indian and abroad.

## Financial performance:

(in ₹ millions except percentages and ratios)

Particulars	Three months ended June 30, 2022	Fiscal 2022	Fiscal 2021	Fiscal 2020
Revenue from operations	4,002.74	11,304.37	7,407.64	6,081.70
EBITDA	1696.11	4,795.40	2,762.53	1,568.29
EBITDA margin	42.37%	42.42%	37.29%	25.79%
Profit/(loss) after tax	844.09	1,885.83	666.06	(362.19)
PAT margin	21.09%	16.68%	8.99%	(5.96%)
Capital expenditure	245.11	965.32	362.12	1,747.87
Net cash generated from operations	1,709.38	3,145.22	1,190.97	1,475.51
ROCE <sup>(1)</sup>	11.71%*	34.62%	21.01%	11.24%

Geography	Three months ended June 30, 2022		Fiscal 2022		Fiscal 2021		Fiscal 2020	
	₹ million	% of revenue from operations	₹ million	% of revenue from operations	₹ million	% of revenue from operations	₹ million	% of revenue from operations
India (domestic)	1,331.16	33.26%	3,355.57	29.68%	1,895.55	25.59%	1,313.32	21.59%
Japan	339.44	8.48%	704.64	6.23%	746.37	10.08%	742.09	12.20%
China	1,628.68	40.69%	4,103.40	36.30%	2,792.67	37.70%	2,507.99	41.24%
South Korea	274.38	6.85%	635.15	5.62%	926.8	12.51%	593.28	9.76%
Rest of Asia	429.07	10.72%	2,200.03	19.46%	758.91	10.24%	534.29	8.79%
Europe	-	-	103.45	0.92%	287.34	3.88%	390.73	6.42%
Africa	-	-	202.13	1.79%	-	-	-	-
<b>Total Revenue from Operations</b>	<b>4,002.74</b>	<b>100.00%</b>	<b>11,304.37</b>	<b>100.00%</b>	<b>7,407.64</b>	<b>100.00%</b>	<b>6,081.70</b>	<b>100.00%</b>

## Objects of the offer:

- Total issue size is INR ~1462 crores:
  - Fresh issue- INR 805 crores-
    - Redemption of NCD which is listed on the BSE, and for general corporate purposes.
  - Offer for sale- INR 657 crores-
    - Indian resurgence fund 1 & 2, Piramal natural, and Chemikas specialty.

<i>S. No.</i>	<i>Name of Selling Shareholder</i>	<i>Equity Shares offered in the Offer for Sale</i>
1.	CS LLP	Up to 2,000,000
2.	IRF I	Up to 3,835,562
3.	IRF II	Up to 6,478,876
4.	PNRPL	Up to 3,835,562

## Positive points:

- A leading & largest market export position in bromine and Industrial salt by volume in fiscal 2021.
- The company is the only manufacturer of sulfate of potash from natural sea brine in India. It is expected to grow at a CAGR of 6% due to end-user industry demand which is fertilizer.
- Its leadership position and low cost-production offer a competitive advantage, as one of its manufacturing facilities are located close to Mundra port & Jakhau Jetty, where they transport to international customers.

<b>Product</b>	<b>Company Market Position in India<sup>(1)</sup></b>	<b>Volume Produced in Fiscal 2022 (MT)<sup>(2)</sup></b>	<b>Volume CAGR (Fiscal 2020 to Fiscal 2022)</b>	<b>Revenue Fiscal 2022 (₹ millions)</b>	<b>Percentage of revenue from exports Fiscal 2022</b>
Bromine	Largest export and leader in merchant sales <sup>(3)</sup>	20,293	51.38%	6,052.84	44.88%
Industrial Salt	Largest exporter	35,86,269	11.11%	5,129.00	100.00%
Sulphate of Potash	Only producer in India	2,483	(63.88%)	114.00	90.75%

### **Negative Points:**

- In the latest management team reporting, ~60-65% of the team members are newly joined like before 1-2 years. The company has changed more than ~60% of staff recently. That is the key watch area.
- Exchange rate fluctuation may affect business as the business is highly export-oriented.
- The company does not have any long-term contracts with suppliers for raw materials.

## Our Recommendations:

We are recommending “**Apply with caution**” as:

- Attrition rates from the past 3 years were very high including the management team, in Q1FY23, FY22, FY21, and FY20 it was at 6.44%, 28.69%, 18.32%, and 21.51, respectively.
- A newly incorporated subsidiary’s promoter and Archean chemical’s promoter both are the same, that is the key watch area.
- Export-oriented business is in decreasing trend for the past 3 financial years but the company representing itself as leading exporter.