

# Archean Chemical Industries

Chemical | India

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## Specialty Chemical Manufacturer at a Discount

### About the Company

Archean Chemical Industries (ACI) is the leading speciality marine chemical manufacturer in India with focus on export of bromine, industrial salt, and sulphate of potash globally. During FY21, the company was India's largest exporter of bromine and industrial salt. It has one of the lowest cost of production in both bromine and industrial salt globally. Its predominantly focused on B2B business segment. The company is coming out with an IPO comprising fresh issue of ~19.8mn shares and OFS of ~16.2mn shares, aggregating a total of ~Rs14.6bn. The objective of the issue is redemption of NCDs.

### Decent Domestic Presence and Strong Global Footprint

Archean Chemical Industries markets its products to 18 global customers in 13 countries and to 24 domestic customers. The company is the largest exporter of bromine from India. It is the only manufacturer of sulphate potash in India. In FY21, exports contributed 70.3% of total revenues, indicating strong exports footprint. The company's marine chemicals business is predominately conducted on a B2B basis both in India and overseas market. In FY21, the company was the largest exporter of industrial salt in India with exports of 2.7mn metric tonnes. The transportation of bromine is dangerous and requires nickel and lead lined ISO containers. ACI has 228 containers (owned and leased) for export business as of Jun'22.

### Diverse Application Base

The company has an integrated production facility for the bromine, industrial salt, and sulphate of potash operations, located at Hajipir, Gujarat. The key application of its products includes **i) Bromine** is widely used in pharmaceuticals, agrochemicals, water treatment, flame retardant, additives, oil & gas, and energy storage batteries. **ii) Industrial Salt** is the principal material in chlorine and caustic soda production and utilised in the chemical and food and beverage industries. The company exported 100% of its industrial salt production to Japan and China. **iii) Potassium Sulphate** is a high-end, specialty fertilizer for chlorine-sensitive crops. It is also used for medical purposes to reduce plasma concentration of potassium when Hypokalemia occurs. Archean is only manufacturer of sulphate of potash from natural sea brine in India. The company aims to expand their product line into bromine derivative performance products in the next 2 -3 years.

### Strong Industry Dynamic

The bromine's global market size was US\$3.1bn in CY21, which is expected to grow at a CAGR of ~6% between CY20-CY25. The demand for bromine likely to grow led by increasing demand for flame retardants, increasing consumption of oil well chemicals and increasing use of hydrogen and zinc bromide in flow batteries. ACI is looking to increasing manufacturing capacity for bromine production over the next two-to-three years.

### Financials in Brief

During FY20-22, its revenue and EBITDA clocked CAGR of 36% and 78% respectively, while EBITDA margin expanded from 24.3% in FY20 to 41.3% in FY22. The company reported revenue of Rs11.3bn in FY22, up 53% YoY, while EBITDA grew by 78% YoY Rs4.8bn in FY22. PAT for FY22 stood at Rs1.9bn, as against Rs666mn in FY21 and net loss of Rs362mn in FY20. ROE has declined from 92% in FY21 to 72% in FY22. During 2QFY23, the company reported revenue of Rs4bn, up 99% YoY, EBITDA stood at Rs1.6bn (margin of 40.2%) while PAT jumped 4.5x YoY to Rs844mn. The company has reduced its Net Debt/Equity ratio from 11.4x in FY21 to 3x in FY22. The revenue contribution from top 10 clients has reduced to 61% in FY22 from 77% in FY22.

### Our View

Based on FY22 earnings, the company is valued at 26.5x P/E, 12.4x EV/EBITDA and 5.1x EV/Sales, which is a discount to peers. The company has a leading market position and it is undergoing continues expansion in bromine and industrial salt. High entry barriers in the speciality marine chemicals industry bodes well for the company. **In view of market leading position, established infrastructure, integrated production with cost efficiencies, consistent financial performance, high entry barriers for competitor, an experienced management team and attractive valuation, we recommend 'SUBSCRIBE' to the issue.**

### IPO Details

Price Band (Rs)	Rs386-407
Face Value (Rs)	2
Issue Open/Closing Date	9-Nov-22/11-Nov-22
Fresh Issues (mn)	19.8
OFS (mn)	16.2
Total Issue (mn)	35.9
Minimum Bid Qty. (Nos)	36
<b>Issue Size (Rs bn)*</b>	<b>14.6</b>
QIB / HNI / Retail	75%/15%/10%
<b>Implied Market Cap (Rs bn)*</b>	<b>50.1</b>

\*At a higher band

### Object of the Issue

- ▶ Redemption of NCDs
- ▶ OFS

### Key Risk

- ▶ Do not have long-term agreements with suppliers for raw materials.
- ▶ Dependent on third party transportation and logistics service providers.
- ▶ Pending litigations against the Company.
- ▶ Top-10 customers contributes 61% of of sales

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	65.6	55.0
Others	34.4	45.0

### Key Financials

(Rs mn)	FY20	FY21	FY22
Revenue	6,082	7,408	11,304
EBITDA	1,480	2,622	4,672
EBITDA Margin (%)	24.3	35.4	41.3
PAT	(362)	666	1,886
PAT Margin (%)	(6.0)	9.0	16.7
EPS (Rs)	(2.9)	5.4	15.3
P/E (x)	(138.3)	75.2	26.6
EV/EBITDA (x)	39.5	22.3	12.4
EV/Sales (x)	9.6	7.9	5.1
Net Worth	60	724	2,611
RoE (%)	(605.1)	92.0	72.2
Gross Debt	8,573	8,584	8,449
Net Block	8,823	10,072	10,455
Net Asset Turnover (x)	0.7	0.7	1.1

Source: RHP

### Research Analyst:

**Arafat Saiyed**

Contact : (022) 41681371 / 9819503007

Email : arafat.saiyed@relianceada.com

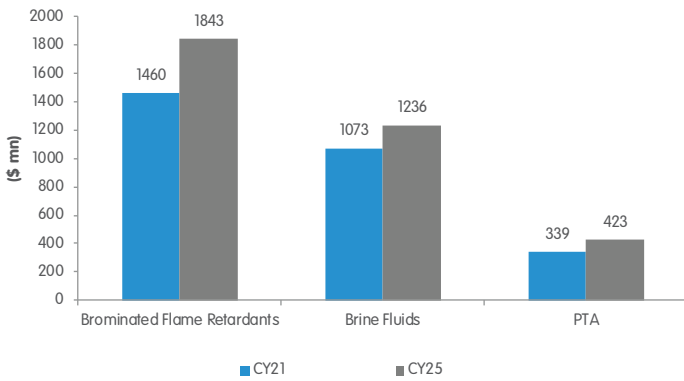
### Research Associate:

**Anirvan Divakera**

Contact : (022) 41681371

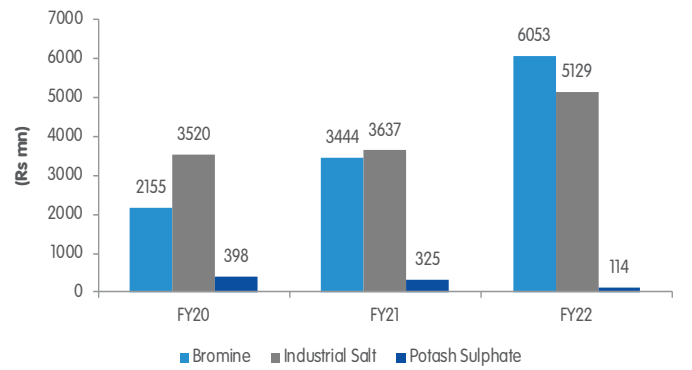
Email : anirvan.divakera@relianceada.com

**Exhibit 1: Global Market of Specialty Chemical**



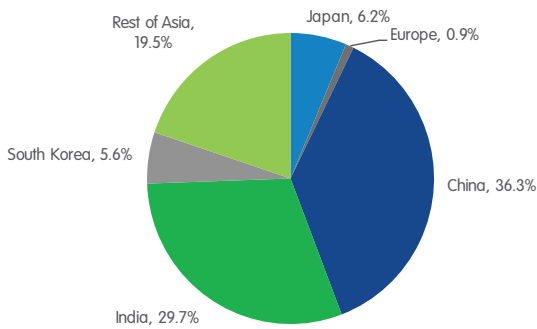
Source: RHP, F&S Report

**Exhibit 2: Revenue Split**



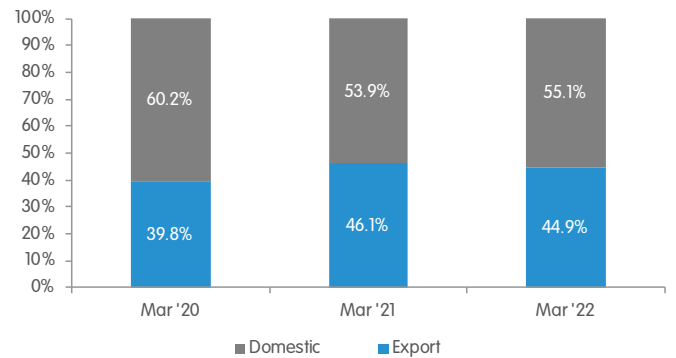
Source: RHP

**Exhibit 3: Geographical Revenue Mix (FY22)**



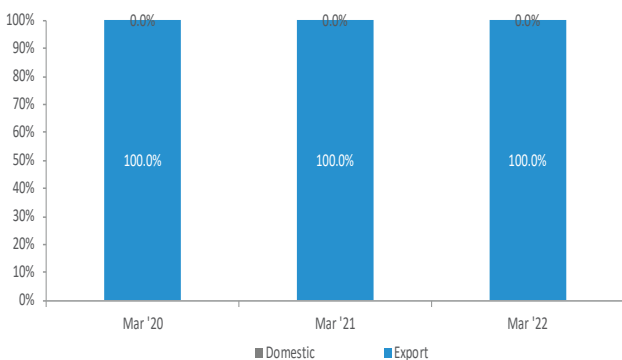
Source: RHP

**Exhibit 4: Revenue Mix (%) - Bromine**



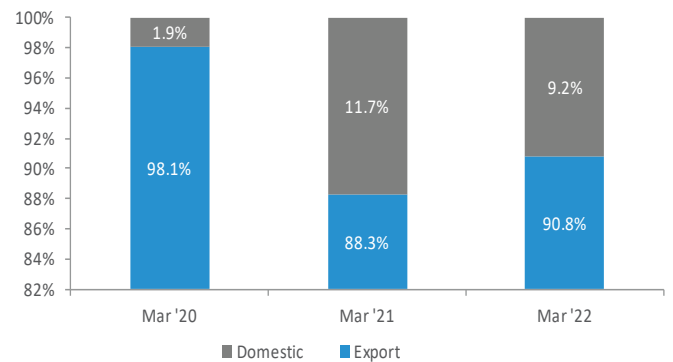
Source: RHP

**Exhibit 5: Revenue Mix (%) - Industrial Salts**



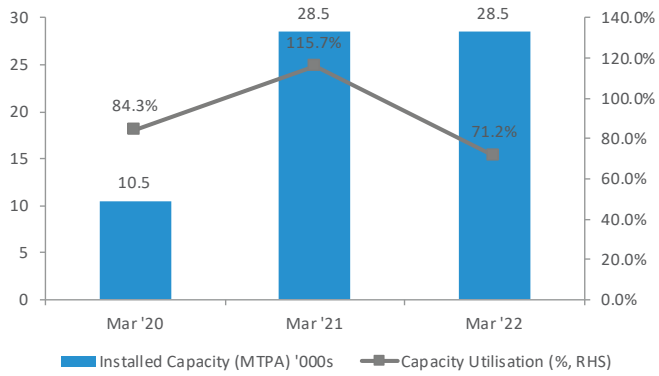
Source: RHP

**Exhibit 6: Revenue Mix (%) - Sulphate of Potash**



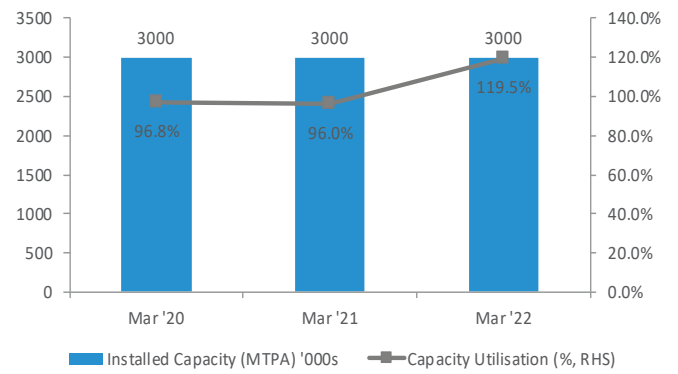
Source: RHP

**Exhibit 7: Installed & Utilised Capacity - Bromine**



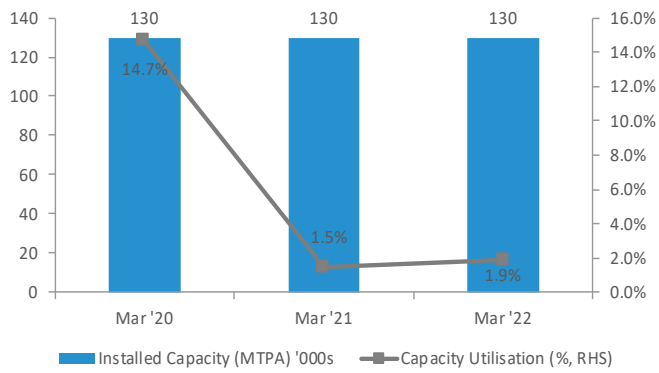
Source: RHP

**Exhibit 8: Installed & Utilised Capacity - Industrial Salts**



Source: RHP

**Exhibit 9: Installed & Utilised Capacity - Sulphate of Potash**



Source: RHP

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