



Archean Chemicals Industries Ltd

Budding Speciality Chemical Market Leader



Kyon ki bhaiya, sabse bada rupaiya.

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Budding Speciality Chemical Market Leader

Archean Chemicals Industries Ltd (Archean) is a leading specialty marine chemical manufacturer in India since 2013, focused on producing and exporting bromine, industrial salt, and sulphate of potash to customers around the world. Archean has amongst the lowest cost of production globally in both bromine and industrial salt.

They produce their products from their brine reserves in the Rann of Kutch, located on the coast of Gujarat, and manufacture products at their facility near Haj ipir in Gujarat. As of June 30, 2022, they marketed their products to 18 Global customers in 13 countries and to 24 domestic customers.

Over FY20-22, Archean's revenue/ EBITDA grew at a CAGR of 22.95%/ 46.67%/ 130.2% to INR 1,130 cr/ INR 467 cr, respectively. The company made a PAT of INR 189 in FY22 from a loss of INR 39 Cr in FY20. EBITDA margins improved by 1700bps (to 41.3%)

Archean's proposed issue size is INR 1462.3 cr out of which INR 805 cr is a fresh issue and the remaining INR 657.3 cr is an OFS. The proposed fresh issue will be utilized for

- Redemption or earlier redemption, in part or full, of NCDs issued by the Company.
- General corporate purposes

Through the OFS, the promoters are selling 2,000,000 shares, which will reduce the promoter stake from 65.58% (pre-issue) to 53.41% (post-issue).

Industry	Chemicals
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Issue Details

Listing	BSE & NSE
Open Date	9 th Nov 2022
Close Date	11 th Nov 2022
Price Band	INR 386-407
Face Value	INR 2
Market Lot	36 shares
Minimum Lot	1 Lot

Issue Structure

Offer for Sale	45%
Fresh Issue	55%
Issue Size (Amt)	INR 1462.3 cr
Issue Size (Shares)	1,97,78,870
QIB Share (%)	≤ 75%
Non-Inst Share (%)	≥ 15%
Retail Share (%)	≥ 10%
Pre issue sh (nos)	3,59,28,869
Post issue sh (nos)	3,70,04,922
Post issue M Cap	5,008

Shareholding (%)	Pre (%)	Post (%)
Promoter	65.6	53.4
Institution	32	15.4
Public	2.4	31.2
TOTAL	100	100

Key Financial Data (INR Cr, unless specified)

	Revenue	EBITDA	PAT	EBITDA (%)	PAT (%)	Adj EPS (₹)	BVPS (₹)	RoE (%)	RoIC (%)	P/E (X)	P/BV (X)	EV/EBITDA (X)
FY20	608	148	(35.7)	24.3	(5.9)	(2.9)	0.5	(595.5)	22.8		836.2	39.1
FY21	741	262	66.6	35.4	9.0	5.4	5.9	92.0	16.4	75.2	69.1	22.1
FY22	1,130	467	188.6	41.3	16.7	15.3	21.2	72.3	24.1	26.5	19.2	12.4



Financial Analysis

FY20-22 Performance

realization from the bromine and industrial salts business improved the revenue and operating performance.

During FY20-22,Archean's revenue/ EBITDA grew at a CAGR of 22.95% ,primarily driven by

- Increased bromine capacity, from 10,500 MTPA in FY20 to 28,500 in FY21
- Higher realization level from both, the bromine as well as industrial salts segment.

The company made a PAT of INR 189 in FY22 from loss of INR 39 Cr in FY20. EBITDA margins improved by 1700bps (to 41.3%)

Funds from the IPO will be utilized to make the company debt free from current levels of INR 845 Cr.

Archean generated positive cash flows to the tune of INR 327 Cr in FY22.

Q1FY23 Performance: Reported strong recovery in business performance and profitability

In Q1FY23, Archean's revenue grew at a YoY rate of 103% to INR 409 Cr, which was primarily driven by

- Higher realization level from both, the bromine as well as industrial salts segment.
- EBITDA margin enhancement, EBITDA margins grew by 470bps YoY from 34.4% in Q1FY22 to 39.1% in Q1FY23.

EBITDA and PAT grew at a CAGR of 103% to INR 409 Cr and 992% to INR 84 Cr respectively, while EBITDA and PAT margins improved by 470bps (to 39.1%) and 1680bps (to 20.6%), respectively.



Understanding the business of Archean Chemicals

Archean Chemicals Ltd is a leading specialty marine chemical manufacturer in India since 2013, focused on producing and exporting bromine, industrial salt, and sulphate of potash to customers around the world. Archean has amongst the lowest cost of production globally in both bromine and industrial salt.

They produce their products from their brine reserves in the Rann of Kutch, located on the coast of Gujarat, and manufacture products at their facility near Hajipir in Gujarat. As of June 30, 2022, they marketed their products to 18 global customers in 13 countries and to 24 domestic customers.

Company's Products

Product	Market Position in India	Volume Produced in FY22 (MT)	Revenue in FY22	% of Revenue from exports
Bromine	Largest export and leader in merchant sales	20,293	605.28	44.88%
Industrial Salts	Largest exporter	35,86,269	512.9	100%
Sulphate of Potash	Only producer in India	2,483	11.4	90.75%

Source: Company RHP

Bromine

Bromine is the only non-metallic element that is a liquid at standard conditions. Bromine is widely distributed in nature but in relatively small amounts, mainly as soluble salts. It is found in the form of bromide in sea water and in natural deposits, together with chloride. It is a member of the halogen family and is found naturally in seawater, underground brine deposits and other water reservoirs.

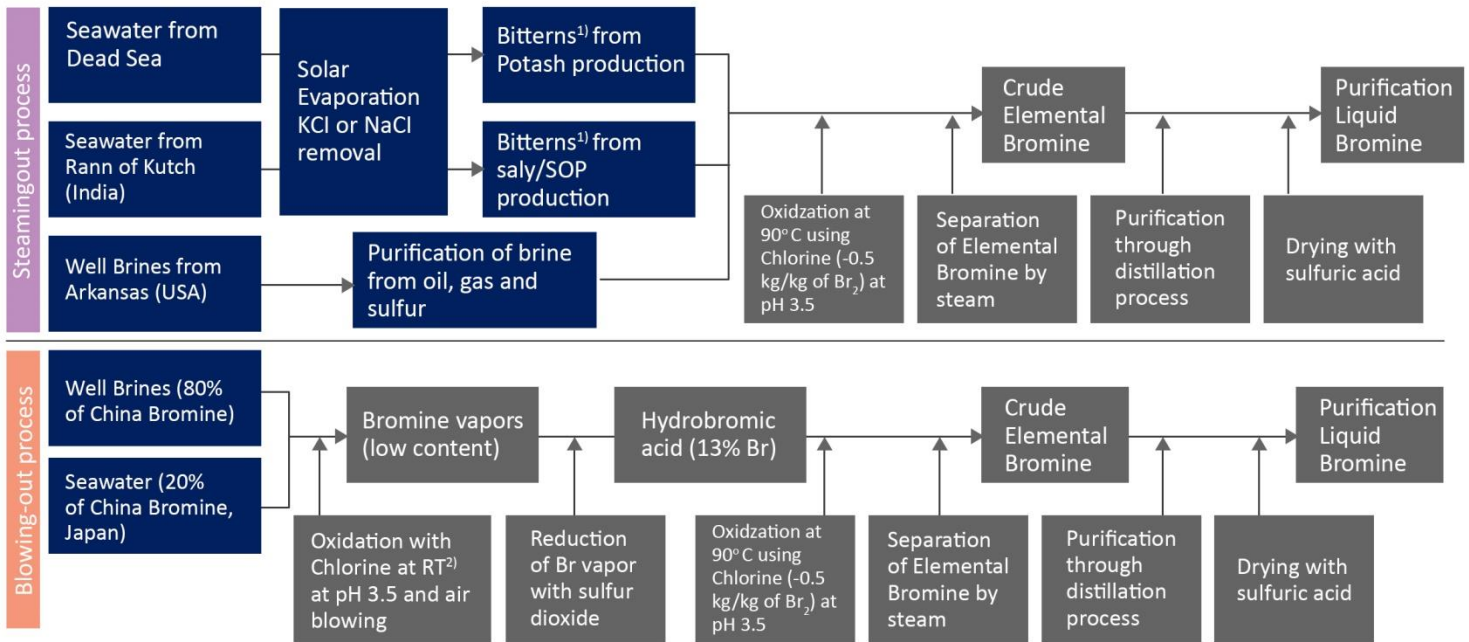
The bromine is used as key initial level materials, which have applications in the pharmaceuticals, agrochemicals, water treatment, flame retardant, additives, oil & gas, and energy storage batteries. Industrial salt is an important raw material used in chemical industry for production of sodium carbonate (soda ash), caustic soda, hydrochloric acid, chlorine, bleaching powders, chlorates, sodium sulphate (salt cake) and sodium metal.

In the three months ended June 30, 2022 and in Fiscal 2022, Fiscal 2021 and Fiscal 2020, The company exported 34.88%, 44.88%, 46.10% and 39.79%, respectively, of the bromine production abroad, mainly to China. The balance of bromine production is sold in the domestic market.

As of June 30, 2022, company's bromine installed capacity was of 28,500 MT per annum and it is on track to expand capacity to 42,000 MT per annum by the end of FY23

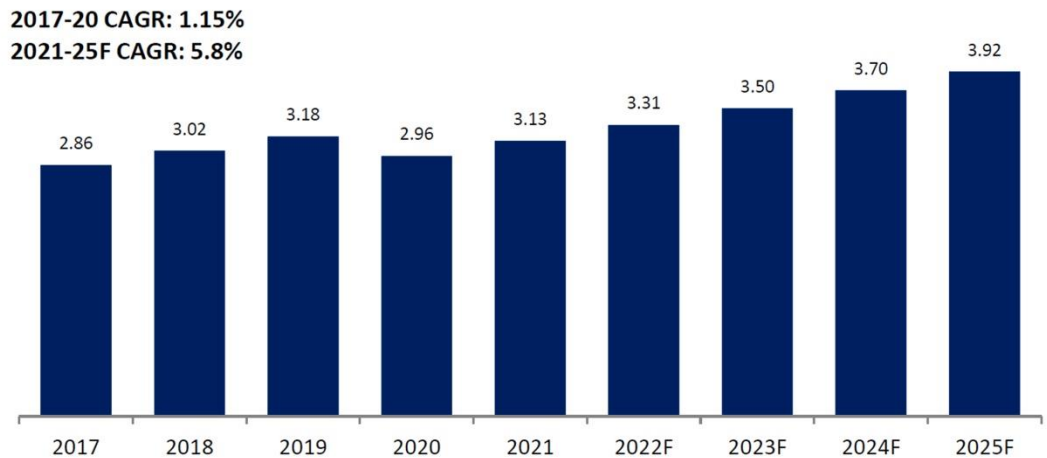


Manufacturing Process of Bromine



Source: Company RHP

Global Bromine Market Size and Growth Forecast (US\$ Billion)



Source: Company RHP

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. 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



Industrial Salt

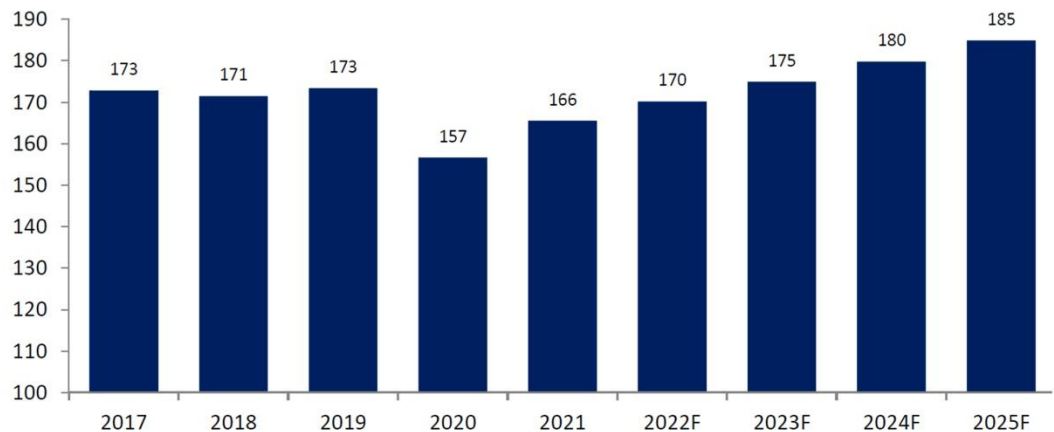
Industrial salt is the principal material in chlorine and caustic soda production (together, known as chloralkali) and is widely used in the chemical and food and beverage industries. Chlorine finds end-uses in vinyl, phosgene, chloromethanes, chlorinated C3, water treatment, synthesis HCl, bleach, and other organic and inorganic chemical material. Caustic soda finds end-uses in alumina, paper and pulp, soap and detergents, textiles, water treatment, bleach, and other organic and inorganic chemical material.

In the three months ended June 30, 2022 and in Fiscal 2022, Fiscal 2021 and Fiscal 2020, the company exported 100% of industrial salt production abroad, primarily to customers in Japan and China.

As of June 30, 2022, company’s industrial salt installed capacity was of 3,00,000 MT per annum and company is on track to expand capacity to 5,00,000 MT per annum by end of FY23.

Global Industrial Salt Market Size and Growth Forecast(in million MT)

2017-19 CAGR: 1%
2020-25F CAGR: 2.8%



Source: Company RHP

Sulphate of Potash

Sulphate of Potash, also known as potassium sulphate, is a high-end, specialty fertilizer for chlorine-sensitive crops. It is one of the most popular forms of low chloride potash, largely due to its high 50-52% K₂O content, which contains about 50% of plant food. Sulphate of Potash 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.

Archean is the only manufacturer of sulphate of potash from natural sea brine in India. 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

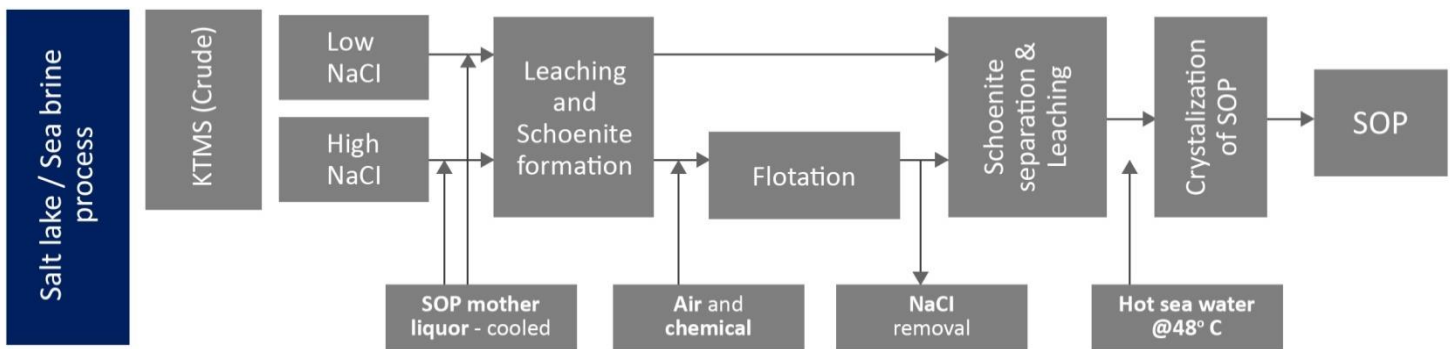


use of fertilizers primarily for growing fruit and vegetables. The company aims to be the key producer and supplier of sulphate of potash in India.

In Fiscal 2022, Fiscal 2021 and Fiscal 2020, the company exported 90.75%, 88.32% and 98.09%, respectively, of our sulphate of potash production abroad, mainly to Europe. The balance of sulphate of potash production is sold in the domestic market

As of June 30, 2022, company’s industrial salt installed capacity was of 1,30,000 MT per annum.

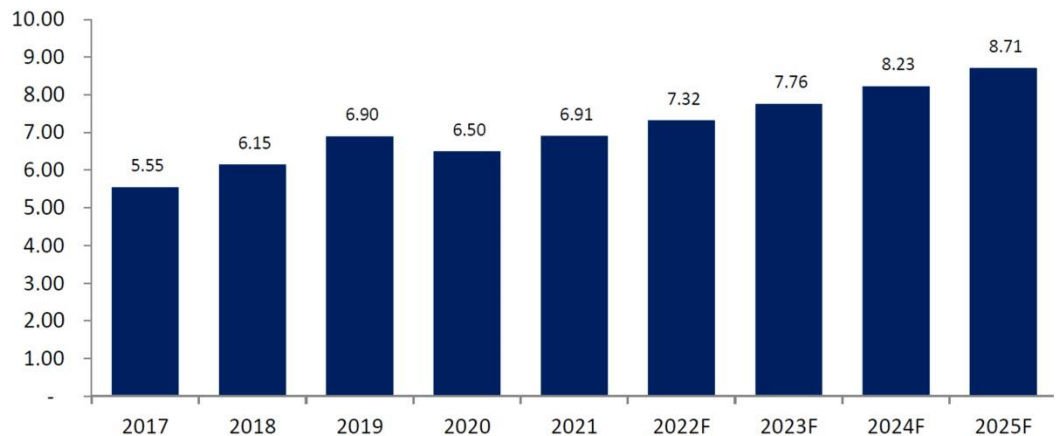
Manufacturing Process of Sulphate of Potash



Source: Company RHP

Global Sulphate of Potash Market Size and Growth Forecast(in million MT)

2017-20 CAGR: 5.41%
2021-25F CAGR: 6.0%



Source: Company RHP

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% between CY2020 and CY2025 on back of increase in use of fruits and vegetables growing fertilizers primarily



Key Strengths/ MOAT

Leading market position

Archean Chemical Industries Ltd 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. The cost of production for industrial salt from sea water brine is about US\$12 to 15 per MT, while Archean's costs are in the range of US\$5.5-6 per MT

High entry barriers in the specialty marine chemicals industry

Bromine and certain raw materials that are used in production are highly corrosive, hazardous and toxic chemicals. Therefore, handling these chemicals requires a high degree of technical skill and specialized expertise. Existing brine fields were established over a period of three to four years before commercial cultivation was possible

Location advantage

The Rann of Kutch brine fields are located in environmentally sensitive coastal areas which require a number of regulatory hurdles before production could be established. The manufacturing facility is located in close proximity to the Jakhau Jetty and Mundra Port, where the company transports 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.

Largest Indian exporter of bromine and industrial salt with global customer base

The company has 18 global customers and 24 domestic customers. Major customers for industrial salt include, Sojitz Corporation (which is also a shareholder of the Company), Wanhau Chemicals and Qatar Vinyl Company Limited; and for bromine, Shandong Tianyi Chemical Corporation and Unibrom Corporation.

In the three months ended June 30, 2022 and in Fiscal 2022, Fiscal 2021 and Fiscal 2020, company's largest customer, Sojitz Corporation, contributed 19.29%, 20.56%, 30.51% and 31.94%, respectively, of revenue from operations; the top 10 customers contributed 60.69%, 61.99%, 75.70% and 77.14%, respectively, of revenue from operation.

Exports and domestic sales as a percentage of the revenue from operations

Particulars	FY22		FY21		FY20	
	Exports(%)	Domestic(%)	Exports(%)	Domestic(%)	Export(%)	Domestic(%)
Bromine	44.9	55.1	46.1	53.9	39.8	60.2
Industrial salt	100.0	0.0	100.0	0.0	100	0.0
Sulphate of potash	90.8	9.2	88.3	11.7	98.1	1.9

Source: Company RHP

Key Strategies

Expand into downstream bromine derivative performance products

The company is setting up a new facility to manufacture bromine performance derivatives products through its subsidiary, Acume Chemicals Private Limited. The proposed facility will be constructed on 34,983 square meters parcel of land which has been allotted to the company from the GIDC, Ankleshwar.

The installed capacity of the facility is proposed to be an aggregate of:

- High end Flame retardant - 10,000 TPA, which is expected to commence commercial operations by second quarter of Fiscal 2024.
- Clear Brine fluids – 13,000 TPA, which is expected to commence commercial operations by second quarter of Fiscal 2024.
- PTA – 5,000 TPA, which is expected to commence commercial operations by second quarter of Fiscal 2024.

The plan is to expand the product line into bromine derivative performance products in the next two-to-three years, in particular brominated flame retardants, clear brine fluids and bromine catalysts used for the synthesis of PTA.

The total estimated cost for setting up the bromine performance derivatives products is approximately INR 250.2 Cr, which will be funded through internal accruals.

Expand bromine and industrial salt capacities

Due to its market leadership position in merchant sales (traded bromine in the market) in India and low production costs, the company is well positioned to capitalize on these growth opportunities. The company is looking to add an additional 13,500 MT per annum capacity in the bromine segment by the end of Fiscal 2023 which will increase capacity to 42,000 MTPA from current 28,500 MTPA at an estimated cost of plant and machinery of approximately INR 17.9 Cr, which would be funded through internal accruals.

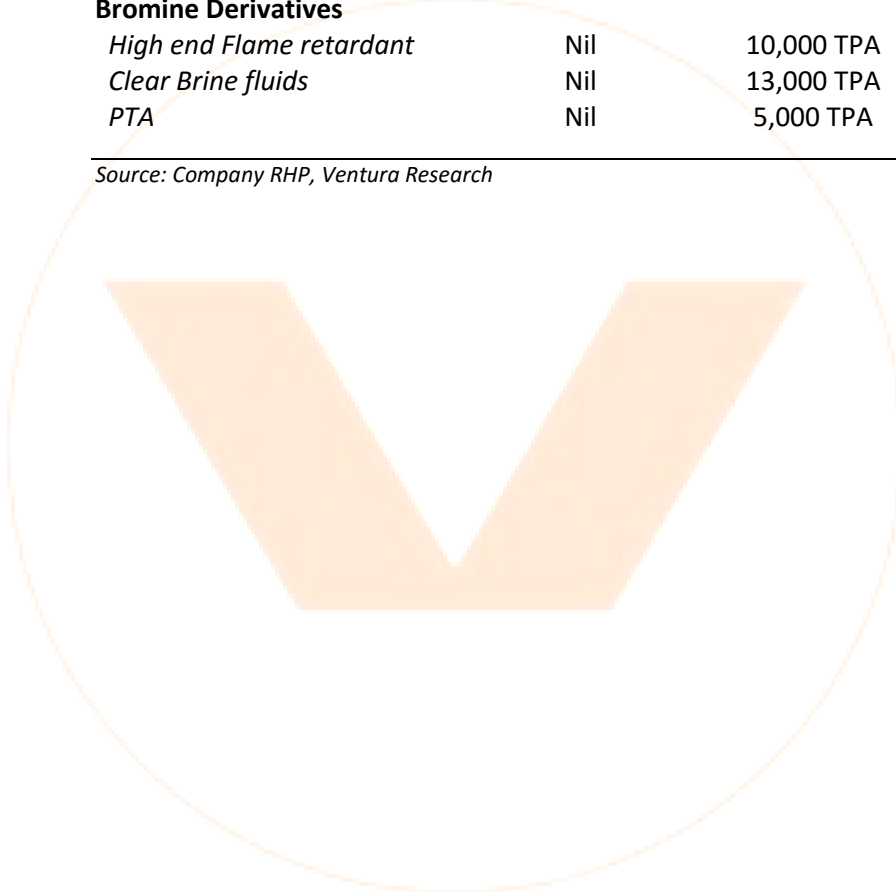


In addition, to cater to the growing demand from the company's existing customers and to meet requirements of new customers, the company intends to expand its manufacturing capacities for industrial salt production by adding an additional washery of 250 tons per hour. This would increase the capacity to 5,00,000 MTPA from the current 3,50,000 MTPA. This additional washery is expected to be operational by the end of Fiscal 2023.

Archean's Capacity

Particular	Current Capacity	Additional Capacity	Expected Commission
Bromine	28,500 MTPA	13,500 MTPA	End of FY23
Industrial Salt	3,50,000 MTPA	5,00,000 MTPA	End of FY23
Bromine Derivatives			
<i>High end Flame retardant</i>	Nil	10,000 TPA	H2FY24
<i>Clear Brine fluids</i>	Nil	13,000 TPA	H2FY24
<i>PTA</i>	Nil	5,000 TPA	H2FY24

Source: Company RHP, Ventura Research





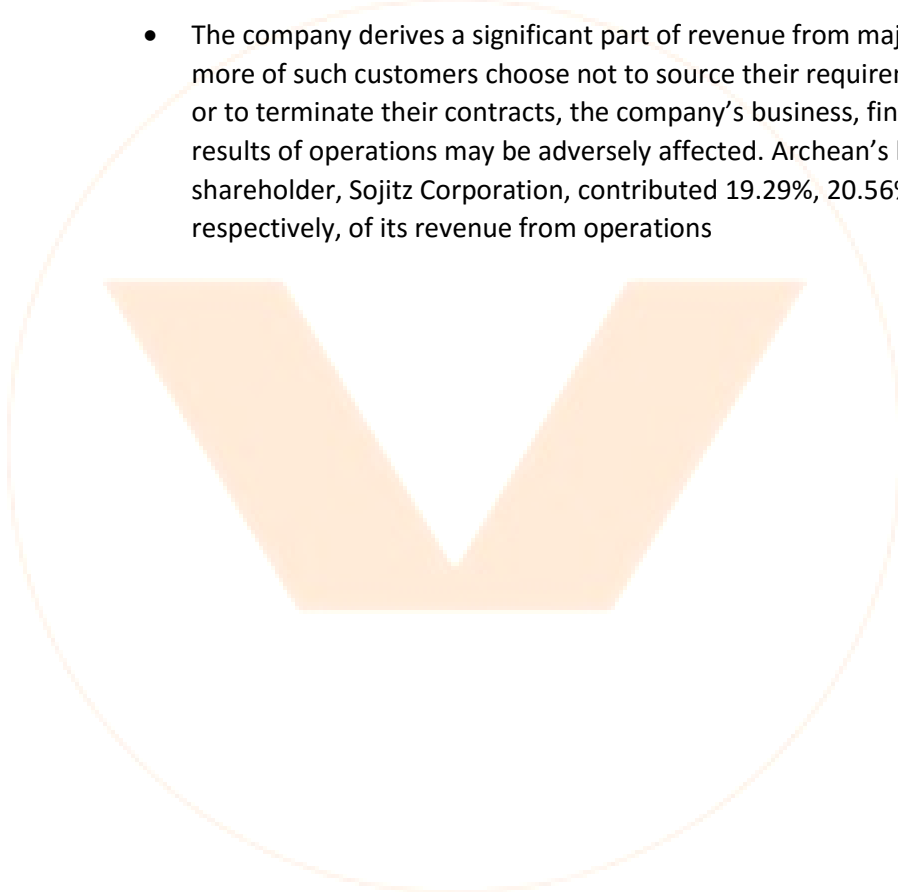
Archean Key Management Persons

Key Person	Designation	Details
Ranjit Pendurthi	Managing Director	He holds a degree of master of business administration from University of Chicago, Illinois, USA. He has 21 years of experience in the chemical business.
Raghunathan Rajagopalan	CFO	He is admitted as an associate of the Institute of Chartered Accountants of India and has passed the final examination held by the Institute of Cost and Works Accountant. He also holds a degree of bachelor of commerce from Bangalore University. He has more than a decade of experience in financial planning, budgeting and cash management while implementing strict budgetary controls, governance policies and to contribute towards strategic growth.
Bhupathi K	Vice-president - operations and unit head	He is a certified boiler operations engineer and holds a degree of bachelor of mechanical engineering from Government College of Technology, Coimbatore. He has 28 years of experience in spearheading production, maintenance, erection and commissioning, quality and projects with key focus on profitability
Padma Chandrasekaran	Independent Director	She holds a post graduate diploma in business administration from Indian Institute of Management, Ahmedabad, a degree of bachelor of science from University of Calcutta and a degree of master of business administration with prime emphasis in telecommunication from University of San Francisco. She has several years of experience in various fields such as information technology and financial services.
Ravi Pendurthi	Non-Executive Director	He holds a degree of bachelor of science (business administration with a concentration in management) from Monmouth University, New Jersey. He has 14 years of experience in the chemical industry. He has been previously associated with Jakhau Salt Company Private Limited and Bharath Salt Refineries Limited.
Chittoor Ghatambu Sethuram	Nominee Director	He holds a post graduate diploma in business administration from Indian Institute of Management, Ahmedabad and a degree of bachelor of technology in chemical engineering from Regional Engineering College, Jawaharlal Nehru Technology University, Andhra Pradesh. He has over three decades of experience in chemical industry.

Source: Company Reports

Key Risks & Concerns

- The company's manufacturing facility is located at Hajjpir, Gujarat. The concentration of all of its operations at one location in Gujarat heightens the exposure to adverse developments related to weather and natural occurrences, as well as regulatory, economic, demographic and other changes in Gujarat, which may adversely affect business, financial condition and results of operations
- Archean is an export-oriented business and exchange rate fluctuations may adversely affect results of operations as sales from exports and a portion expenditures are denominated in foreign currencies.
- The company derives a significant part of revenue from major customers. If one or more of such customers choose not to source their requirements from the company or to terminate their contracts, the company's business, financial condition and results of operations may be adversely affected. Archean's largest customer and its shareholder, Sojitz Corporation, contributed 19.29%, 20.56%, 30.51% and 31.94%, respectively, of its revenue from operations



Issue Structure and Offer Details

The proposed issue size of Archeon's IPO is INR 1462.3 cr (INR 805 cr fresh issue and INR 657.3 cr OFS) and the price band for the issue is in the range of INR 386-407 and the bid lot is 36 shares and multiples thereof.

Issue Structure		
Investor Category	Allocation	No. of shares offered
QIB	Not more than 75% of the Offer	26,946,653
NIB	Not less than 15% of the Offer	5,389,330
Retail	Not less than 10% of the Offer	3,592,886

Number of shares based on a higher price band of INR 407

Source: Company Reports

Details of the selling shareholders		
Promoter Selling shares	Amount offered	No of shares
Chemika Speciality LLP	Not more than INR 81 Cr	2,000,000
India Resurgence Fund, Scheme I	Not more than INR 156 Cr	3,835,562
India Resurgence Fund, Scheme II	Not more than INR 263 Cr	6,478,876
Piramal Natural Resources Pvt Ltd	Not more than INR 156 Cr	3,835,562

The amount is based on a higher price band of INR 407

Source: Company Reports

Archean financial summary and analysis

Fig in INR Cr (unless specified)	FY20	FY21	FY22	Fig in INR Cr (unless specified)	FY20	FY21	FY22
Income Statement				Per share data & Yields			
Revenue	608.2	740.8	1,130.4	Adjusted EPS (INR)	(2.9)	5.4	15.3
<i>YoY Growth (%)</i>	<i>7.5</i>	<i>21.8</i>	<i>52.6</i>	Adjusted Cash EPS (INR)	1.3	9.9	20.8
Raw Material Cost	0.3	8.9	39.3	Adjusted BVPS (INR)	0.5	5.9	21.2
<i>RM Cost to Sales (%)</i>	<i>0.1</i>	<i>1.2</i>	<i>3.5</i>	Adjusted CFO per share (INR)	12.0	9.7	26.6
Employee Cost	34.5	35.3	37.8	CFO Yield (%)	2.9	2.4	6.5
<i>Employee Cost to Sales (%)</i>	<i>5.7</i>	<i>4.8</i>	<i>3.3</i>	Adjusted FCF per share (INR)	11.9	8.7	14.3
Other Expenses	425.3	434.3	586.0	FCF Yield (%)	2.9	2.1	3.5
<i>Other Exp to Sales (%)</i>	<i>69.9</i>	<i>58.6</i>	<i>51.8</i>				
EBITDA	148.0	262.2	467.3	Solvency Ratio (X)			
<i>Margin (%)</i>	<i>24.3</i>	<i>35.4</i>	<i>41.3</i>	Total Debt to Equity	143.7	11.9	3.2
<i>YoY Growth (%)</i>		<i>77.1</i>	<i>78.2</i>	Net Debt to Equity	131.7	10.8	3.0
Depreciation & Amortization	51.9	55.4	66.9	Net Debt to EBITDA	5.3	3.0	1.7
EBIT	96.1	206.9	400.5				
<i>Margin (%)</i>	<i>15.8</i>	<i>27.9</i>	<i>35.4</i>	Return Ratios (%)			
<i>YoY Growth (%)</i>	<i>347.0</i>	<i>115.2</i>	<i>93.6</i>	Return on Equity	(595.5)	92.0	72.3
Other Income	8.3	14.0	12.6	Return on Capital Employed	22.8	16.4	27.2
Finance Cost	121.8	130.4	161.7	Return on Invested Capital	12.1	24.1	38.4
Interest Coverage (X)	0.8	1.6	2.5				
Exceptional Item	0.0	0.0	0.0	Working Capital Ratios			
PBT	(17.4)	90.5	251.4	Payable Days (Nos)	100	55	36
<i>Margin (%)</i>	<i>(2.9)</i>	<i>12.2</i>	<i>22.2</i>	Inventory Days (Nos)	59	55	39
<i>YoY Growth (%)</i>		<i>(621.3)</i>	<i>177.8</i>	Receivable Days (Nos)	27	34	49
Tax Expense	18.3	23.9	62.8	Net Working Capital Days (Nos)	(14)	33	52
<i>Tax Rate (%)</i>	<i>(105.4)</i>	<i>26.4</i>	<i>25.0</i>	Net Working Capital to Sales (%)	(4.0)	9.0	14.3
PAT	(35.7)	66.6	188.6				
<i>Margin (%)</i>	<i>(5.9)</i>	<i>9.0</i>	<i>16.7</i>	Valuation (X)			
<i>YoY Growth (%)</i>		<i>(286.8)</i>	<i>183.2</i>	P/E	(140.4)	75.2	26.5
Min Int/Sh of Assoc	0.0	0.0	0.0	P/BV	836.2	69.1	19.2
Net Profit	(35.7)	66.6	188.6	EV/EBITDA	39.1	22.1	12.4
<i>Margin (%)</i>	<i>(5.9)</i>	<i>9.0</i>	<i>16.7</i>	EV/Sales	9.5	7.8	5.1
<i>YoY Growth (%)</i>		<i>(286.8)</i>	<i>183.2</i>				
Balance Sheet				Cash Flow Statement			
Share Capital	19.3	19.3	19.3	PBT	(17.4)	90.5	251.4
Total Reserves	(13.3)	53.2	241.8	Adjustments	134.2	143.5	232.9
Shareholders Fund	6.0	72.4	261.1	Change in Working Capital	49.0	(91.0)	(94.4)
Long Term Borrowings	848.3	846.4	842.8	Less: Tax Paid	(18.3)	(23.9)	(62.8)
Deferred Tax Assets / Liabilities	0.0	0.0	9.2	Cash Flow from Operations	147.5	119.1	327.1
Other Long Term Liabilities	282.7	290.8	195.3	Net Capital Expenditure	(151.6)	(9.9)	(96.6)
Long Term Trade Payables	0.0	0.0	0.0	Change in Investments	(45.0)	8.1	(31.1)
Long Term Provisions	0.0	0.4	0.4	Cash Flow from Investing	(196.7)	(1.8)	(127.6)
Total Liabilities	1,136.9	1,210.0	1,308.7	Change in Borrowings	148.1	20.1	(62.1)
Net Block	882.1	1,007.3	1,045.6	Less: Finance Cost	(121.8)	(130.4)	(161.7)
Capital Work in Progress	158.2	18.9	17.2	Proceeds from Equity	0.0	0.0	0.0
Intangible assets under developmen	0.0	0.0	0.0	Buyback of Shares	0.0	0.0	0.0
Non Current Investments	0.1	0.1	1.9	Dividend Paid	0.0	0.0	0.0
Long Term Loans & Advances	78.8	55.5	0.0	Cash flow from Financing	26.4	(110.3)	(223.7)
Other Non Current Assets	13.8	17.2	27.4	Net Cash Flow	(22.8)	7.0	(24.3)
Net Current Assets	3.8	110.9	216.6	Forex Effect	0.0	0.0	0.0
Total Assets	1,136.9	1,210.0	1,308.7	Opening Balance of Cash	47.5	24.5	31.5
				Closing Balance of Cash	24.7	31.5	7.2

Source: Ventura Research



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