



## IPO DETAILS

Issue Date 21<sup>st</sup> Sept-23<sup>rd</sup> Sept 2020

Price Band 338-340 per Share

Bid Lot 44 & in multiple there

Face Value Rs 10/Share

Listing BSE, NSE

Issue Size ~ 93,52,940 Eq Shares\*

Fresh Issue ~ 48,52,940 Eq Shares\*

Offer For Sale 45,00,000 Eq Shares

Pre Issue Eq Shares 31,777,760 Eq Shares

BRLM Intensive Fiscal Services Pvt  
Ltd, Ambit Capital Pvt Ltd

Registrar Link Intime India  
Private Limited

**Note:\*** At higher end of price band of Rs 338-340/share

Company is a manufacturer of specialised chemicals, such as HMDS and CMIC which are predominantly used in the pharmaceuticals industry and inorganic bromides, namely Calcium Bromide, Zinc Bromide and Sodium Bromide, which are predominantly used as completion fluids in the oilfields industry.

The key customers of company's Pharmaceutical Chemicals include Hetero Labs Limited, Laurus Labs Limited, Aurobindo Pharma Limited, Sanjay Chemicals (India) Private Limited, Lantech Pharmaceuticals Limited, Ind -Swift Laboratories Limited, Vivin Drugs & Pharmaceuticals Limited and Macleods Pharmaceuticals Limited and the key customers of company's Oilwell Completion Chemicals include Shree Radha Overseas, Water Systems Specialty Chemical DMCC and CC Gran Limited Liability Company. 68.61% of company's total revenue from operations in Fiscal 2020 was contributed by customers who have been consistently purchasing company's products over the last five years. Company's top seven customers for Fiscal 2020 have been company's customers for over four years.

The trade dispute between the USA and China, may influence China's HMDS exports to the USA and may indirectly help India boost its exports and company has already started the supply of HMDS to the customers in the USA based on the opportunity created due to such trade dispute.

For Fiscals 2020, 2019 and 2018, company's revenue from operations was ₹ 2,620.52 million, ₹3,033.41 million and ₹1,576.42 million, respectively, growing at a CAGR of 28.93% between Fiscal 2018 and Fiscal 2020. Company's EBITDA for Fiscals 2020, 2019 and 2018 was ₹ 702.61 million, ₹660.83 million and ₹450.96 million respectively, growing at a CAGR of 24.82% between Fiscal 2018 and Fiscal 2020, while company's profit after tax for Fiscals 2020, 2019 and 2018 was ₹ 488.53 million, ₹430.41 million and ₹263.81 million respectively, growing at a CAGR of 36.08% between Fiscal 2018 and Fiscal 2020.

The specialty chemicals industry in India has high entry barriers due to the involvement of complex chemistry in the manufacture of products, which is difficult to commercialize on a large scale and a long gestation period to be enlisted as a supplier with the customers. Moreover, some of the raw materials that company use such as bromine, MCF and TMCS are highly corrosive and toxic chemicals. Therefore, handling these chemicals requires a high degree of technical skill and expertise, and operations .

### Valuation

Company is bringing the issue at p/e multiple of approx 22x at higher end of price band of Rs 338-340/share on FY20 eps basis. Company being leading manufacturer globally of the Pharmaceutical Chemicals and is a leading manufacturer in India of the Oilwell Completion Chemicals has diversified customer base coupled with long standing relationships. Company has shown consistent financial performance with a strong financial position. Also, the specialty chemicals industry in which company operate has high entry barriers Therefore, looking after all, we recommend "Subscribe" the issue both for short & long term horizon.



COMPANY OVERVIEW

Company was the only manufacturer of HMDS in India and were the third largest manufacturer of HMDS worldwide in terms of production in the calendar year 2019. Company was the largest manufacturer of CMIC in India and the second largest manufacturer of CMIC worldwide, in terms of production and capacity in calendar year 2019. Further, company was the only manufacturer of Zinc Bromide and the largest manufacturer of Calcium Bromide in India, in terms of production in calendar year 2019. Company supply its products to domestic customers and also export its products to countries including United States of America , Italy, South Korea, Germany, People's Republic of China, Japan, United Arab Emirates, Serbia, Russia, Spain, Thailand and Malaysia. In Fiscals 2020, 2019 and 2018, company's revenue from exports (including Deemed Exports) contributed 39.78%, 31.99% and 47.84%, respectively of its revenue from operations. Company's revenues from exports (including Deemed Exports) have grown at a CAGR of 17.57% between Fiscals 2018 and 2020.

Company is an ISO 9001:2015 and ISO 14001:2015 certified company for the "Manufacture and supply of pharmaceutical intermediates, silanes and oilfield chemicals".Company's manufacturing facility is located at Manjusar near Vadodara in Gujarat .Within company's Manufacturing Facility, company currently have seven operational plants of which two plants are dedicated to the manufacturing of HMDS and ancillary products (including one plant dedicated to the manufacturing of hi-purity HMDS), one multipurpose plant, currently being used for manufacturing of HMDS and other pharmaceutical chemicals, two plants are dedicated to the manufacturing of CMIC and two plants dedicated to the manufacturing of company's Oilwell Completion Chemicals, along with three warehouses for the storage of company's products and raw materials. Company also have an in-house laboratory at its manufacturing Facility to test company's raw materials procured, as well as its products at the various stages of the manufacturing process. Further, company have five leased warehouses located outside its manufacturing Facility, in Manjusar, Vadodara.

In Fiscals 2020, 2019 and 2018, company's Pharmaceutical Chemicals, contributed 63.75%, 63.14% and 62.18% of its total revenue from operations respectively, while company's Oilwell Completion Chemicals, contributed 33.47%, 35.30% and 35.63% respectively of its total revenue from operations.



**INVESTMENT RATIONALE**

***Company is a leading manufacturer globally of the Pharmaceutical Chemicals and is a leading manufacturer in India of the Oilwell Completion Chemicals***

India is currently a net importer of HMDS, with about 40% of India's domestic demand in calendar year 2019 being catered by imports majorly from China and Germany. India is expected to witness a demand growth for HMDS of 10.6% CAGR between calendar year 2019 and calendar year 2023. Company was the only manufacturer of HMDS in India, and is well positioned to capitalise on the potential growth of the HMDS market. Frost & Sullivan further estimates that by substituting imports and catering to India's growing HMDS market, Chemcon has immense opportunity in India. Additionally other countries of the world are dependent on China for their HMDS requirement, however with changing environment regulations, the trade from the country is low, giving opportunity to Chemcon to target China's export customer base. All these factors provide an opportunity to Chemcon to grow at a CAGR of 15-20% between 2019 and 2023 including great opportunity for exports. India and China are the only countries that produce CMIC. Company's CMIC manufacturing capacity has increased from 7.07% in calendar year 2014 to 26.16% in calendar year 2019. India is a net importer of CMIC, with about 62% of India's domestic demand in calendar year 2019 being catered to by imports from China. India, a major CMIC consumer market, is expected to witness a demand growth at a CAGR of 11.0% between 2019 and 2023. Frost & Sullivan further estimates that company is well positioned to substitute the imports from China and hence, has an opportunity to grow at a CAGR of more than 25% between 2019 and 2023. Company was the only manufacturer of Zinc Bromide and the largest manufacturer of Calcium Bromide in India, in terms of production in calendar year 2019. Further, while company commenced the sales of its Oilwell Completion Chemicals in calendar year 2014, company's share in the global production of the Oilwell Completion Chemicals has grown to 2.65% in calendar year 2019 (source: Frost & Sullivan Report).

***Diversified customer base coupled with long standing relationships***

Company supply its products to customers in India and also export its products to countries including United States of America, Germany, Italy, South Korea, People's Republic of China, Japan, United Arab Emirates, Serbia, Russia, Spain, Thailand and Malaysia. In Fiscals 2020, 2019 and 2018, company's exports (including Deemed Exports) contributed 39.78%, 31.99% and 47.84% respectively of company's total revenue from operations. Company's revenue from exports (including Deemed Exports) have grown at a CAGR of 17.57% between Fiscals 2018 and 2020.

***The specialty chemicals industry in which company operate has high entry barriers***

The specialty chemicals industry in which company operate has high entry barriers due to: (a) the involvement of complex chemistry in the manufacture of company's products, which is difficult to commercialize on a large scale and; (b) a long gestation period to be enlisted as a supplier with the customers, particularly with the customers of company's Pharmaceutical Chemicals. The specialty chemicals industry is highly knowledge intensive. Company's Products have application in the pharmaceutical, oil-well drilling, semi-conductor and electronic-chemical industries where they are used to manufacture high value proprietary and specialised products.



***Expansion of company's total installed production capacity***

Company aim to expand its manufacturing operations and production capacity. Company have seven operational individual plants for the production of its products, within the manufacturing facility. Company's total volumetric reactor capacity as on July 31, 2020 was 374.85 KL. Company intends to build two additional plants with a total volumetric reactor capacity of 251.00 KL. These additional plants shall be utilised for the manufacturing of chemicals which are principally used pharmaceutical industry.

With the completion of such expansion, company's total volumetric reactor capacity at the Manufacturing Facility shall increase from its volumetric reactor capacity of 374.85 KL to 625.85 KL and will enable company to significantly benefit from economies of scale. Company has recently acquired approximately 22,000 square metres of land next to company's manufacturing facility, to enable future expansion of the Manufacturing Facility. Together with the existing land of approximately 29,000 square metres, the total land available for the Manufacturing Facility after this acquisition is approximately 51,000 square metres.

***Augmenting growth in the current geographic markets and expanding into new geographic markets***

India is currently a net importer of HMDS, with about 40% of India's current domestic demand being catered by imports majorly from China and Germany. India is expected to witness a demand growth for HMDS of 10.6% CAGR between 2019 and 2023 (source: Frost & Sullivan Report). Further, India and China are the only countries that produce CMIC (Source: Frost & Sullivan Report). India is a net importer of CMIC, with about 62% of India's current domestic demand being catered to by imports majorly from China. India, a major CMIC consumer market, is expected to witness a demand growth at a CAGR of 11.0% between 2019 and 2023 (source: Frost & Sullivan Report). Company, the only manufacturer of HMDS in India and the largest manufacturer of CMIC in India in terms of production in calendar year 2019, aims to capitalise on the potential growth of the HMDS and CMIC market in India by expanding its manufacturing and sales of HMDS and CMIC. India is a net importer of CMIC and HMDS (source: Frost & Sullivan Report) and company aims to expand its manufacturing and sales operations of CMIC and HMDS to substitute such imports. In Fiscal 2020 company supplied the Oilwell Completion Chemicals largely to customers in India, the Middle East, Serbia and Russia. Company aim to expand the sales of the Oilwell Completion Chemicals in existing and new geographies including Nigeria, Malaysia, China and Ghana. To access newer markets, company regularly participate in trade exhibitions in different geographies. In the recent past, company have participated in trade exhibitions, including CPHI Worldwide 2019 (in Frankfurt, Germany), CPHI India 2018, Adipecc 2018 (in Abu Dhabi, United Arab Emirates), CPHI Japan 2019 and CPHI & ICSE China 2019.

***Exploring newer applications of company's existing products as well as focusing on new products that are in synergy with company's current operations***

Company aims to expand the sale of its products to other industries where such products have application. For instance, while company currently supply HMDS largely to the pharmaceuticals industry, company aim to market its products for end-use applications in other industries including the rubber and semiconductor manufacturing industry. Company have recently commissioned a plant (Plant P2) which has the capacity to manufacture upto 600 MT per annum of high purity /electronic grade HMDS which finds application in the pharmaceuticals, silicone/rubber as well as semiconductor industries.



**Risk Factors:**

The reduced demand for oil and gas in Fiscal 2021 has resulted in a reduced demand for company's Oilwell Completion Chemicals. Accordingly, as on the date of this Red Herring Prospectus, company is yet to resume manufacturing new batches of Oilwell Completion Chemicals since the country-wide lockdown was lifted.

**Objects of Issue:**

**Offer for Sale**

Company will not receive any proceeds from the Offer for Sale. The Selling Shareholder will be entitled to their respective portion of the proceeds of the Offer for Sale, net of their respective portion of the Issue related expenses.

**Fresh Issue**

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

1. Capital expenditure towards expansion of company's manufacturing facility worth of Rs 41 Cr
2. To meet working capital requirements worth of Rs 90 Cr and
3. General corporate purposes

**Financial Statement**

(Rs Cr)

Particulars	FY18	FY19	FY20
Total Income	157.64	303.34	262.05
Total Exp	112.55	237.26	191.79
EBIDTA	45.10	66.08	70.26
Other Income	0.75	1.99	3.97
Depreciation	2.26	2.86	4.62
EBIT	43.59	65.21	69.61
Interest	3.04	4.02	4.68
PBT	40.55	61.18	64.92
E/O Items	0.00	0.00	0.00
PBT	40.55	61.18	64.92
Sh Of Profit in			
Asso	0.00	0.00	0.00
PBT	40.55	61.18	64.92
Tax	14.17	18.16	16.07
PAT	26.38	43.02	48.85
Eq Cap	7.94	31.78	31.78
Net Worth	53.62	97.03	146.37
Eq Shares	0.79	3.18	3.18
EPS	8.30	13.54	15.37
ROE	49.20	44.94	34.23

Source:RHP

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