

Background

Neogen Chemicals Limited is one of India's leading manufacturers of bromine-based, and lithium-based, specialty chemicals. The company manufactures specialty organic bromine-based chemical compounds (Bromine Compounds) and other specialty organic chemical compounds as well as specialty inorganic lithium-based chemicals compounds (Lithium Compounds and together with the Bromine Compounds the Products). Neogen Chemicals commenced business operations in 1991, at Mahape, Navi Mumbai manufacturing facility with a few Bromine Compounds and Lithium Compounds. Over the years the company have expanded range of products and, presently, manufacture an extensive range of specialty chemicals which find application across various industries in India and globally. As on February 28, 2019, the company has manufactured an aggregate of 198 products comprising 181 organic chemicals and 17 inorganic chemicals.

Details of Offer

Particulars	Details
Price Band (Rs/ share)	Rs.212 - 215/-
Date of the issue	24th April 2019 to 26th April 2019
No. of shares pre-issue (mn)	20.08
No of share post - issue (mn) *	23.34
Book Building (mn shares)	
QIBs	50%
Non-Institutional	15%
Retail	35%
Lead Managers	INGA ADVISORS PVT LTD, BATLIVALA & KARANI SECURITIES INDIA PVT LTD

Source: Company RHP; Note: * At upper price band

Neogen's specialty chemicals product offerings comprise:

Organic chemicals

These are chemicals containing carbon in combination with hydrogen, and, or, other elements with a covalent bond (i.e. a chemical bond atoms sharing at least one pair of electrons between them). The product offering in this segment comprises Bromine Compounds and other organic compounds containing chlorine, fluorine and iodine-based and combinations thereof. In addition, the company also manufacture niche products such as Grignard reagents. Company specialty organic chemical compounds find use in application industries such as pharmaceutical, agrochemical, flavor and fragrance and electronic-chemical. Neogen market and sell Products in India and export products primarily to Europe, USA and Japan.

Inorganic chemicals

These are chemicals with an ionic bond (i.e. a chemical bond between a non-metal and a metal ion involving transfer of electron from one element to another, creating positively and negatively charged ions which together form the compound). Product offering in this segment primarily comprises Lithium Compounds. The Lithium Compounds manufactured by the company are used in eco-friendly Vapor Absorption Machines (VAM) for cooling air/water/process equipment and find application in industries such as heating ventilation and air-conditioning (HVAC) and refrigeration, construction chemicals, pharmaceutical and specialty polymer. The company markets and sells the Lithium compounds in India and export Products, in particular, to the USA, Europe and Japan.

In addition to manufacturing standard products, Neogen also undertake custom synthesis and contract manufacturing. In custom synthesis the product is developed and customized primarily for a specific customer, but process know-how and technical specifications are developed in-house by the company. Further, the company more recently, also commenced contract manufacturing where, the product is developed under confidentiality for a single customer using the process know-how and the technical specifications provided by the customer. Contract manufacturing has enabled the company to increase their bouquet of product offering. Neogen differentiate in the contract manufacturing space by additionally offering process innovation, which, generally, reduces the overall operating costs for their customers.

Manufacturing facilities are located in Mahape, Navi Mumbai in Maharashtra (Mahape Facility) and Karakhadi, Vadodara in Gujarat (Vadodara Facility). The company is presently, developing a green-field manufacturing unit in Dahej SEZ, in Gujarat (Proposed Dahej Facility) and is also proposing to expand operations in Karakhadi, Vadodara (Proposed Vadodara Facility). Manufacturing facilities in aggregate are spread across approximately 40 acres with an additional 12 acres of leased property in Dahej SEZ. Manufacturing units at Vadodara and Mahape also contain research and development (R&D) units comprising a dedicated 20 member in-house team.

A break-up of capacity, across manufacturing units is set out below:

- Aggregate manufacturing capacity of organic chemicals – approximately 1,30,400 litres (reactor volume); and
- Aggregate manufacturing capacity of inorganic chemicals – 1,200,000 Kg. per annum of products.

Manufacturing Units

Manufacturing Plant	Product	Unit of Capacity Measurement	Capacity
Mahape, Navi Mumbai*	Organic chemicals	Reactor volume in litres	45,000
Karakhadi, Vadodara**	Organic chemicals	Reactor volume in litres	85,400
Mahape, Navi Mumbai*	Inorganic chemicals	Kg. production per annum	1,200,000

* As per certificate dated September 4, 2018 issued by M/s Anukul Associates, Consultants and Engineers; ** As per certificate dated September 19, 2018 issued by Mukund M. Patki, Chartered Chemical Engineer; Source: Company RHP

Objects of the issue

Objects	Amount (Rs Mn)
Prepayment or repayment of all or a portion of certain borrowings availed by the company	205
Early redemption of the 9.8% fully redeemable cumulative preference shares ("FRCPS")	115
Long term working capital	200
To achieve the benefits of listing of the Equity Shares to enhance the visibility and brand image among the existing and potential customers;	-
General Corporate Purposes	-
Total	-

Source: Company RHP

Offer Details

Fresh Issue	Equity shares
Upper Price Band	3255814
Lower Price Band	3301887

Offer for Sale

	Equity shares
Haridas Thakarshi Kanani	Upto 1,699,600
Beena Haridas Kanani	Upto 1,200,400

Source: Company RHP

Management Background

Name	Age (Years)	Designation	Background
Haridas Thakarshi Kanani	73	Chairman and Managing Director	He is the Chairman and Managing Director of Company. He oversees the manufacturing, research and development and general operation and management of manufacturing units. He holds a bachelor's degree in chemical engineering from the Indian Institute of Technology, Bombay. He has previously worked with Excel Industries Limited
Harin Haridas Kanani	42	Joint Managing Director	He is the Joint Managing Director of Company. He heads various business divisions of the Company including research and development, development, quality control, purchase, marketing 184 and finance. He holds a bachelor's degree in chemical engineering from the Indian Institute of Technology, Bombay and a master's degree and a doctorate in chemical engineering from the University of Maryland.

Source: Company RHP

Strengths

Experienced promoters with domain knowledge

The company's promoters, Haridas Thakarshi Kanani and Harin Haridas Kanani, have a cumulative experience of more than 6 decades. Both are chemical engineers and alumni of the Indian Institute of Technology, Bombay. Harin Haridas Kanani also completed his Ph.D. in chemical engineering from the University of Maryland, College Park, USA. Haridas Thakarshi Kanani has over the years worked as a consultant with chemical manufacturing companies in India before setting up Neogen in 1989. Prior to joining the company, Harin Haridas Kanani worked with Asian Paints Limited. He also worked with a research company viz., Pioneer Hi-Bred International – DuPont Company, USA. He has been instrumental in raising the profile of the company. He focusses on business development, marketing, purchase and quality control.

Large and diverse array of products

The Company started operations in 1991 manufacturing 4 products viz., lithium bromide, n-propyl bromide, potassium bromide and meta-phenoxy benzaldehyde. As of February 28, 2019, Neogen have manufactured an aggregate of 198 Products comprising 181 organic chemicals and 17 inorganic chemicals. Of these, Product bouquet comprises:

- 131 Bromine Compounds;
- 10 Lithium Compounds;
- 32 non-bromine specialty chemical compounds comprising 25 organic specialty chemical compounds; and
- 25 types of Grignard reagents.

A large product base allows the company to cater to the very niche requirements of customers from diverse industries and geographic locations. Broad-based and diverse product bouquet enables the company to cater to disparate needs of customers thereby increasing their viability of becoming a preferred supplier. In addition, the vast array of Products demonstrates technical quality as well as ability to innovate and instills in customers the confidence of entrusting them with the manufacture of newer products that the company may not have manufactured thus far.

Revenue Breakup

(Rs mn)	FY16	FY17	FY18	9MFY19
Organic Chemicals	732	634	1,056	1,259
Inorganic Chemicals	276	473	573	342
Total	1,008	1,107	1,629	1,601

Source: Company RHP

Diversified and stable customer base

Diversified Product range enables the company to cater to diverse customers across a wide array of user industries such as pharmaceutical, agrochemical, aroma chemical, electronic-chemical, construction chemicals, specialty polymer and VAM original equipment manufacturers. This helps Neogen to mitigate risks emanating from customer, industry and geographic concentration.

Top 10 customers by revenue

Sr. no	FY16	FY17	FY18	9MFY19
1	14.18%	11.27%	8.44%	18.76%
2	7.07%	5.97%	7.16%	12.24%
3	6.29%	5.96%	6.66%	7.44%
4	5.75%	4.95%	4.49%	4.30%
5	4.66%	4.77%	3.87%	3.89%
6	3.25%	4.63%	3.43%	3.61%
7	3.25%	4.37%	3.11%	3.30%
8	3.16%	2.70%	2.65%	2.86%
9	2.64%	2.63%	2.56%	2.26%
10	2.56%	2.18%	2.09%	1.54%
Total	52.81%	49.43%	44.45%	60.19%

Source: Company RHP

In addition, diversified customer base would enable the company to benefit from the expected growth in application industries such as the Pharmaceuticals, including advanced pharmaceutical intermediates, pesticides and the HVAC industry. [Source of expected industry growth: CRISIL Report.]

Growth led by continuous investment in R&D

Promoters, who are also Managing Directors, have inculcated the culture of innovation and instilled a firm belief that R&D is a key element of growth and, will continue to remain so. In line with this thinking, the company has over the years made regular investments in R&D to expand bouquet of Product offerings and to streamline manufacturing process. The company has 2 R&D facilities, one each in Vadodara and Mahape manufacturing units. Neogen have dedicated 20-member R&D team constituting around 10% of total workforce. The team comprises 6 senior personnel (including 1 retainer) with doctorates in science (Ph. D.) from reputed institutions. Chairman and Managing Director Haridas Thakarshi Kanani leads the R&D initiatives.

Further, since the commencement of dedicated R&D department in December 2001, Product portfolio has grown from around 20 products in 2001 to 198 products at present (excluding the products developed under contract manufacturing). The company believes that product and process innovations will be key factors going forward and continued investment in R&D will better prepare the company take advantage of any future opportunities.

Specialised business model with high entry barriers

The specialty chemicals industry is highly knowledge intensive. Products are used for specialty applications in the pharmaceutical, agrochemical, aroma chemical, construction chemical, speciality polymer and electronic-chemical industries where they are used to manufacture high value proprietary and specialised products. Given the nature of the application of Products, the company processes and products are subject to, and measured against, exacting quality standards and stringent impurity specifications. Further, where the company products are used, and such use has been formally recognised in filings with regulatory agencies, any change in the vendor of the product may require significant time and cost for the customer. These factors create significant entry barriers. The company believes that, over the years, they have built strong relationships of more than a decade with customers who recognise their technical capabilities and timely deliveries and associate brand with good and consistent quality products.

Moreover, some of the chemicals such as bromine, fluorine and lithium are highly corrosive and toxic chemicals. Therefore, handling these chemicals requires a high degree of technical skill and expertise, and operations involving such hazardous chemicals ought to be undertaken only by personnel who are qualified and proficient. The company believe that the level of technical skill and expertise that is essential for handling such chemicals can only be achieved over a period of time creating further barrier for new entrants.

Established and stable relationship with suppliers

Consistent track record of business growth over the years and repeated business from existing customers has enabled the company to develop long standing relationship with suppliers. Neogen have relationships of over a decade with large producers of Bromine Source and Lithium Source. Based on their relationships with their suppliers the company is able to enter into annual contracts thereby offering stability in pricing to their customers. Also, during times of shortages, they are ensured of continuous supplies at competitive rates and hence productivity and commitment to customers is not affected even under such difficult situations. Further, due to large volume of annual contracts they are also able to negotiate attractive pricing as compared to their local competitors which gives them a competitive advantage.

Strategies

Expanding production capacities

Neogen Chemicals have over the years increased their production capacities through organic and inorganic growth. Below table depict the growth of their capacity for the production of organic chemicals at Mahape Facility.

Production capacity – Mahape Facility

Year	Glass lined reactor capacity (in Ltrs.)*
1991	1,600
1994	6,000
2000	20,000
2007	30,000
2012	45,000

* As per certificate dated September 4, 2018 issued by M/s Anukul Associates, Consultants and Engineers; Source: Company RHP

The company also broadened product range by setting up facilities for the manufacture of inorganic chemicals at Mahape. Further, in Fiscal 2016, the company acquired the Vadodara Facility for augmenting organic chemicals manufacturing capability. Presently, the company propose to further increase their manufacturing capacity at Vadodara facility by an additional 126,000 litres (reactor volume in litres) which will nearly double their organic chemicals manufacturing capacity from 130,400 litres to 256,400 litres. Further, Vadodara Facility is spread over approximately 39 acres and on completion of the Proposed Vadodara facility the company will still have over 32 acres of freehold land which they can use for further growth and expansion.

In addition, Neogen also propose to set up the Proposed Dahej Facility, a green-field manufacturing facility for manufacturing inorganic chemical products. When completed, the Proposed Dahej Facility will increase inorganic chemicals manufacturing capacity by 1,200,000 kg per annum, which will double total inorganic specialty chemical manufacturing capacity. The Proposed Dahej Facility is expected to cater to the anticipated increase in demand for lithium compounds. The company expect that they will still have approximately 9 acres available for further expansion. Neogen Chemicals believe that the Proposed Vadodara Facility and the Proposed Dahej facility will enable the company to significantly increase their product offering and also expect to benefit from the economies of scale.

Increasing contract manufacturing portfolio

The company believe that the contract manufacturing business will enables them to enter into long term contracts with assured margins and product off-take which will helps them to strengthen their repeat business as year on year repeatability is confirmed by these customers. At present, the company has entered into contract manufacturing arrangements with a few international companies, engaged in the pharmaceutical, agrochemical, aroma and speciality polymer industries and have already delivered products under some of these arrangements. During the 9 month period ended December 31, 2018, and during Fiscal 2018, Fiscal 2017 and Fiscal 2016, revenue from contract manufacturing operations on a consolidated basis, was Rs149.84 mn, Rs38.08 mn, Rs24.16 mn and Rs1.77 mn, respectively. The company aims to increase the size and scale of their contract manufacturing business over the next few years. The company is in discussions with various companies in Europe and Japan to develop their proprietary products for which they have already executed nondisclosure and

secrecy agreements. Further, Neogen also propose to increase their focus on custom synthesis business by augmenting the share of their business with innovator companies.

Augmenting growth in domestic and global markets

Presently, revenue from domestic and export business is almost 50% each, (including 16% deemed exports, where the company supply their product to customers who will eventually export their end product). In India, over the last 3 immediately preceding fiscal years, the pharmaceuticals, agrochemical, refrigeration and specialty polymer, industries have, generally, contributed in excess of 90% of revenue from Operations. Going forward primary focus would be to continue growth in export. The company strongly believe that the demand for bromine-based and lithium-based products will grow, in India and overseas, owing to the growth in their final application industries such as pharmaceutical, agrochemical, refrigeration, polymer synthesis, flavour and fragrances, etc. Neogen believe they are well positioned to exploit the opportunities offered by the expected growth in the final application industries due to their strong manufacturing capabilities, established customer relationships, strong R&D capabilities and robust Product portfolio. The company intend to focus on leveraging such opportunities to increase sales and cross-sales of Bromine Compounds and Lithium Compounds across various industries. Further, the company also expect to derive the benefits of the general decline in manufacturing of specialty chemicals in China due to environmental concerns, which comprised a significant part of global specialty chemical market share.

Improving financial performance through focus on operational efficiencies and functional excellence

Neogen believe that focus on functional excellence and providing integrated solutions for a gamut of Bromine Compounds and Lithium Compounds has contributed to their financial strength and performance whilst also strengthening the trust and engagement that the company share with customers. The company believe that the various strategic initiatives that have implemented, including the continued investment in the manufacturing facilities such as the use of bromine in 6,000 litre ISO storage tanks in Vadodara Facility instead of in 1 litre glass bottles at Mahape which reduced manpower cost for transfer and addition of bromine, permits a much faster rate of addition of bromine, thereby increasing reactor productivity. In addition, developing and enhancing in-house capabilities, and supply-chain management protocols will continue to play a critical role in future success. Accordingly, the company intend to build on existing strategic initiatives to achieve operational excellence that translates into financial strength and performance.

Focus on advanced specialty intermediates which offer higher value addition

Over the last few years the company has been focusing not only on manufacturing Bromine Compounds but also combining bromination with other chemistries to make advance intermediates which otherwise would have been manufactured by their customers internally. Such forward integration allows customers to reduce processing at their end freeing up their specialized capacity for making final molecules such as APIs, specialty polymers, electronic chemicals etc. Such forward integration enables the company to offer higher value addition and generate higher margin and increased profitability. Neogen Chemicals believe that with proposed augmentation in capacity the company would be able to cater to the increasing demand for such advanced intermediates.

Financials

Profit and Loss

(Rs mn)	FY14	FY15	FY16	FY17	FY18	9MFY19
Income						
I. Revenue from operations	799	915	1,089	1,215	1,640	1,592
II. Other income	4	10	2	3	7	5
Total Income (I+II)	803	925	1,090	1,218	1,647	1,597
III. Expenses						
Cost of materials consumed	465	527	652	696	1,026	1,111
Changes in inventories of finished goods, work-in-progress and stock-in-trade(17)	(29)	(41)	(55)	(77)	(171)	
Employee benefits expense	34	48	45	54	87	81
Finance costs	48	47	48	75	104	86
Depreciation and Amortization	9	9	10	13	19	21
Other Expense	202	243	292	320	315	301
Total Expenses	741	844	1,006	1,103	1,474	1,428
IV. Profit/(loss) before, share of profit of investment accounted for using equity method and taxes						
Share of Profit/(Loss) of investments accounted for using equity method	0	0	0	0	0	1
Profit Before Tax	62	81	85	115	173	170
V. Income tax						
1. Current Tax	18	26	31	39	65	44
2. Deferred Tax	7	4	2	(1)	4	5
VI. Profit for the year/period	36	51	52	77	105	122

Source: Company RHP

Balance Sheet

(Rs mn)	FY14	FY15	FY16	FY17	FY18	9MFY19
ASSETS						
(1) Non-current assets						
(a) Property, plant and equipment	136	132	174	563	666	810
(b) Capital work-inprogress	0	1	7	13	14	0
(c) Intangible assets	0	0	0	0	1	1
(d) Financial assets						
(i) Investments				5	4	6
(ii) Loans & advances	2	9	14	21	19	34
(iii) Other financial assets				23	23	25
(e) Other non-current assets	29	14	1	1	6	7
Total Non-current Assets	168	157	196	626	733	883
(2) Current Assets						
(a) Inventories	212	243	318	400	500	772
(b) Financial assets						
(i) Trade receivables	166	180	158	322	414	425
(ii) Cash and cash equivalents	3	7	5	6	3	2
(iii) Bank balances other than (ii) above	15	17	20	25	15	8
(iv) Loans & advances	6	3	0	4	1	3
(v) Other current financial assets	2	5	3	2	2	9
(c) Other current assets	57	76	106	139	133	272
Total Current Assets	462	531	609	897	1,068	1,491
TOTAL ASSETS	629	688	805	1,523	1,801	2,374
EQUITY AND LIABILITIES						
(1) Equity						
(a) Equity share capital	45	45	200	200	200	201
(b) Other equity	151	190	75	220	301	414
Total Equity	196	235	275	420	501	615
(2) Non-current liabilities						
(a) Financial liabilities						
Borrowings	48	47	48	368	385	441
Other Non-current Financial Liabilities		2	2	22	22	20
(b) Long Term Provisions	2	3	2	12	17	18
(c) Deferred tax liabilities (net)	17	20	22	37	40	45
Total Non-current Liabilities	66	73	74	438	464	524
(3) Current liabilities						
(a) Financial liabilities						
(i) Borrowings	190	183	201	301	412	677
(ii) Trade payables – Due to entities under micro and small enterprises	0	0	0	0	0	5
Due to other than micro and small enterprise	144	164	218	310	367	473
(iii) Other financial liabilities	23	13	25	36	34	62
(b) Other current liabilities	11	18	8	15	15	10
(c) Short-term provisions	0	2	4	3	7	9
Total Current liabilities	367	380	456	666	836	1,235
Total Liabilities	433	453	529	1,103	1,300	1,759
TOTAL EQUITY AND LIABILITIES	629	688	805	1,523	1,801	2,374

Source: Company RHP

Cash Flow Statement

(Rs mn)	FY14	FY15	FY16	FY17	FY18	9MFY19
Cash Flow from operating activities	29	87	86	2	118	(63)
Cash Flow from investment activities	(12)	(18)	(44)	(329)	(127)	(173)
Cash Flow from financial activities	(17)	(63)	(41)	333	(4)	227
Increase/(decrease) in cash and cash equivalents	0	6	1	6	(13)	(8)
Cash and cash equivalents at the end of the year	18	24	25	31	18	10

Source: Company RHP

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
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NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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