

Company Overview

JG Chemicals Ltd is India's largest zinc oxide manufacturer, employing the French (indirect) production process, the dominant production technology for producing zinc oxide, and has been adopted by all the major producers in the Americas, Europe, and Asia. It holds a 30% market share in India and is among the top ten global manufacturers. The company sells over 80 grades of zinc oxide and is among the top ten manufacturers of zinc oxides globally. The company products serve diverse industries, including rubber (tyre & other rubber products), ceramics, paints & coatings, pharmaceuticals & cosmetics, electronics & batteries, agro-chemicals & fertilizers, specialty chemicals, lubricants, oil & gas, and animal feed. With decades of experience, it has built strong relationships with customers worldwide. Its subsidiary, BDJ Oxides, holds the coveted IATF certification, making it a preferred supplier for tyre manufacturers. The company caters to 200 domestic and 50 global customers across more than 10 countries. As of December 31, 2023, JG Chemicals' aggregate installed capacity of 77,040 MTPA is spread across our three manufacturing facilities located at (i) Jangalpur (Kolkata), (ii) Belur (Kolkata), and (iii) Naidupeta (Nellore District, Andhra Pradesh), which is company largest manufacturing facility and is owned and operated by Material Subsidiary.

Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

Repayment/ pre-payment, in full /part, of all or certain borrowings availed by the Material Subsidiary ;

Funding long-term working capital requirements of the Company;

General corporate purposes.

Investment Rationale

Leading market position along with a well-established relationship with a marquee customer base

The company is India's largest zinc oxide manufacturer, among the top ten manufacturers globally. The company enjoys a dominant position in a growing market. Production capacities, process of production, grades of ZnO, and variety of application segments are some of the factors through which the key players control the market. The company sells over 80 grades of zinc oxide, enabling it to cater to various customers across various end-use industries. With a focus on export markets, particularly in the SAARC region and Southeast Asia, the company has reduced dependency on the domestic market. The company emphasizes customer-driven marketing, wherein Promoters take a personal interest in sales, marketing, and customer development activities with key customers, which has helped them create a strong presence in the global zinc oxide industry. The management believes this is one of the key factors for JG Chemicals being a supplier to 9 out of the top 10 global tyre manufacturers and all of the top 11 Indian tyre manufacturers. The company also caters to industries like Ceramics, Paints, Pharma, Animal feed, etc. It has maintained a 90% repeat order rate due to its strong relationship with its customers and has not lost any key customers in the last 20 years. Currently, 90.5% of revenue comes from the Tyre and Rubber industry with 76% of total revenue coming from the Top 10 customers. The company's leadership position established infrastructure and strategic manufacturing facility locations, providing competitive advantages and increased customer loyalty.

High entry barriers in key end-use industries

The company benefits from significant entry barriers in key end-use industries, including stringent vendor approval processes and technical expertise requirements. This creates a durable competitive advantage, positioning the company as a trusted and preferred supplier. The raw material tie-ups, the company has built a diverse global supplier base of over 100 suppliers and is a preferred customer for certain global suppliers. The company's strength lies in its ability to produce and supply a variety of grades with minimum downtime and maximum efficiency. Further, the Material subsidiary, BDJ Oxides, is the only zinc oxide manufacturing facility in India to have an IATF certification and has requisite licenses to manufacture zinc oxide by Indian Pharmacopoeia/ British Pharmacopoeia/ US Pharmacopoeia/ European standards. The company believes that such certifications enable it to cater to the varying needs of the industry and open new areas of growth in the pharmaceutical industry. Over the years, the company has built strong relationships with customers who recognize technical capabilities & timely deliveries and associate the company with good and consistent quality products.

| Issue Details | |
|----------------------------------|---|
| Offer Period | 05th Mar, 2024 - 07 th March, 2024 |
| Price Band | Rs. 210 to Rs. 221 |
| Bid Lot | 67 |
| Listing | BSE & NSE |
| Issue Size (no. of shares in mn) | 11.3 |
| Issue Size (Rs. in bn) | 2.51 |
| Face Value (Rs.) | 10 |

| Issue Structure | |
|-----------------|-----|
| QIB | 50% |
| NIB | 15% |
| Retail | 35% |

| | |
|-----------|--|
| BRLM | Centrum Capital Ltd, Emkay Global Financial Services, Keynote Financial Services |
| Registrar | KFin Technologies Ltd. |

| Particulars | Pre Issue % | Post Issue % |
|---------------------------|---------------|---------------|
| Promoter & Promoter Group | 100.00% | 70.99% |
| Public | 0.00% | 29.01% |
| Total | 100.00 | 100.00 |

(Assuming issue subscribed at higher band)

Research Team - 022-61596138



JG Chemicals Ltd.

Valuation

JG Chemicals is India's largest zinc oxide manufacturer in production and revenue for zinc oxide manufacturing through the French process. The company plans to establish a greenfield manufacturing facility in Gujarat. Moreover, the company is an approved vendor to most large global tyre companies, with a significant presence in Southeast Asia. Presently, the company's manufacturing process leads to the generation of zinc ash, which it sells in the market. The company plans to utilize the in-house availability of zinc ash in producing zinc sulphate. The company also intends to continue to leverage its direct marketing and distributor network and its industry standing to establish relationships with new export and local customers and expand the customer base. The company also has a record of sustained consolidated revenue from operation, growing at a CAGR of 34.3% during FY21-23. With a leading market position and strong customer base, the company maintains high customer retention rates and explores growth opportunities in Southeast Asia. Despite high entry barriers, its certifications and global supplier base ensure continued growth. As we advance, the favorable demand outlook in automotive, rubber, and ceramics, along with the expected revival of the chemical industry in early FY25, positions JG Chemicals for sustained growth and market leadership. **The issue is valued at a P/E of 29.6x on the upper price band based on FY24 earnings, which is fairly valued. We, therefore, recommend an "SUBSCRIBE" rating for the issue.**

Key Risks

The company's business is almost wholly dependent on the sale of one principal product, i.e. zinc oxide (in various grades), and any reduction in the demand for the same may harm business and financial performance.

The company is significantly dependent on the business operations of the material subsidiary, i.e. BDJ Oxides Private Ltd., and any deterioration in the performance of the material subsidiary may adversely affect business, financial condition, and results of operation.

The company has derived a significant part of its revenue from select customers. If one or more of such customers choose to refrain from sourcing their requirements, the company's business, financial condition, and results of operations may be adversely affected.

**JG Chemicals Ltd.****Income Statement (Rs. in millions)**

| Particulars | FY21 | FY22 | FY23 | 9MFY24 |
|--|--------------|--------------|--------------|--------------|
| Revenue | | | | |
| Revenue from Operations | 4,353 | 6,128 | 7,846 | 4,863 |
| Total Revenue | 4,353 | 6,128 | 7,846 | 4,863 |
| Expenses | | | | |
| Cost of raw materials consumed | 3,454 | 5,063 | 6,369 | 4,084 |
| Purchases of Stock-in-Trade | 5 | 5 | 0 | 0 |
| Changes in inventory | 31 | -109 | -28 | -31 |
| Employee benefit expenses | 103 | 133 | 148 | 122 |
| Other expenses | 325 | 475 | 602 | 408 |
| Total Operating Expenses | 3,918 | 5,567 | 7,091 | 4,582 |
| EBITDA | 435 | 562 | 755 | 282 |
| Depreciation and Amortization expenses | 23 | 27 | 34 | 32 |
| Other income | 51 | 102 | 96 | 48 |
| EBIT | 463 | 637 | 817 | 298 |
| Finance costs | 51 | 63 | 50 | 30 |
| Exceptional Item | 0 | 0 | 0 | 18 |
| PBT | 412 | 574 | 767 | 286 |
| Total tax | 124 | 143 | 199 | 64 |
| PAT | 288 | 431 | 568 | 221 |
| Diluted EPS | 7 | 13 | 17 | 6 |

Source: RHP, BP Equities Research

Cash Flow Statement (Rs. in millions)

| Particulars | FY21 | FY22 | FY23 | 9MFY24 |
|---|-----------|-----------|------------|-----------|
| Cash Flow from operating activities | -73 | 68 | 312 | 671 |
| Cash flow from investing activities | -56 | -54 | -49 | -151 |
| Cash flow from financing activities | 170 | -2 | -286 | -481 |
| Net increase/(decrease) in cash and cash equivalents | 40 | 11 | -23 | 39 |
| Cash and cash equivalents at the beginning of the period | 7 | 47 | 59 | 35 |
| Cash and cash equivalents at the end of the period | 47 | 59 | 35 | 74 |

Source: RHP, BP Equities Research

**JG Chemicals Ltd.****Balance Sheet (Rs. in millions)**

| Particulars | FY21 | FY22 | FY23 | 9MFY24 |
|--------------------------------------|--------------|--------------|--------------|--------------|
| Equity and Liabilities | | | | |
| Equity Share Capital | 12 | 12 | 317 | 317 |
| Other Equity | 1,178 | 1,554 | 1,818 | 2,008 |
| Total Equity | 1,190 | 1,566 | 2,135 | 2,325 |
| Non-Current Liabilities | | | | |
| Financial Liabilities | | | | |
| (i) Borrowings | 55 | 56 | 67 | 46 |
| (ii) Lease Liabilities | | | | |
| Provisions | 2 | 2 | 3 | 4 |
| Other financial liabilities | 2 | 0 | 0 | 0 |
| Deferred tax liabilities (net) | 1 | 0 | 6 | 7 |
| Other non-current liabilities | | | | |
| Current Liabilities | | | | |
| Financial Liabilities | | | | |
| (i) Borrowings | 690 | 883 | 636 | 204 |
| (ii) Lease Liabilities | | | | |
| (iii) Trade Payable | 72 | 53 | 84 | 63 |
| (iv) Other financial liabilities | 21 | 39 | 23 | 38 |
| Current tax liabilities | 26 | 9 | 6 | 0 |
| Provisions | 9 | 11 | 13 | 12 |
| Other current liabilities | 32 | 21 | 5 | 14 |
| Total Current Liabilities | 850 | 1,017 | 767 | 331 |
| Total liabilities | 909 | 1,075 | 843 | 388 |
| Total Equity and Liabilities | 2,099 | 2,641 | 2,978 | 2,713 |
| Assets | | | | |
| Non-Current Assets | | | | |
| Property, plant and equipment | 224 | 224 | 353 | 377 |
| Capital work in Progress | 0 | 74 | 9 | 34 |
| Goodwill on Consolidation | 6 | 0 | 0 | 0 |
| Intangible Assets | 0 | 0 | 0 | 0 |
| (i) Investments | 86 | 85 | 30 | 61 |
| (ii) Other financial assets | 8 | 9 | 11 | 10 |
| Non-Current Tax Assets | 5 | 0 | 0 | 0 |
| Deferred tax assets (net) | 0 | 0 | 0 | 0 |
| Other non current assets | 15 | 12 | 11 | 17 |
| Total Non current assets | 344 | 404 | 415 | 500 |
| Current Assets | | | | |
| Inventories | 486 | 883 | 1,038 | 764 |
| Current Tax Assets (Net) | 0 | 0 | 0 | 7 |
| (i) Trade Receivables | 898 | 948 | 1,156 | 943 |
| (ii) Cash and cash equivalents | 52 | 81 | 49 | 74 |
| Loans | 20 | 18 | 18 | 62 |
| (iii) Other Current Financial Assets | 51 | 89 | 211 | 82 |
| Other current assets | 249 | 219 | 91 | 280 |
| Total Current Assets | 1,756 | 2,237 | 2,563 | 2,213 |
| Total Assets | 2,099 | 2,641 | 2,978 | 2,713 |

Source: RHP, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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