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IPO Report

04th Mar'24

Snapshot

Company is India's largest zinc oxide manufacturer in terms of production and revenue for zinc oxide manufacturing through French process, which is the dominant production technology for producing zinc oxide and has been adopted by all the major producers in Americas, Europe and Asia .The market share of Company is around 30% as on March 2022 .Company sell over 80 grades of zinc oxide and are among the top ten manufacturers of zinc oxides globally .

VALUATION

Company is bringing the issue at price band of Rs 210-221 per share at p/e multiple of 35x on H1FY24 PAT basis. Company has leading market position with a diversified customer base, being supplier to 9 out of top 10 global tyre manufacturers and to all of the top 11 Indian tyre manufacturers, There are High entry barriers in key end-use industries. Company has shown Strong and consistent financial performance with growth of revenue from operations and profit after tax growth at a CAGR 34.2825% and 40.43%, respectively, from FY21 to FY23.Also, company has long-term relationships with customers and suppliers & having robust supply chain with more than 250 customers in last 3 years. Company has Experienced and dedicated management team; and has focus on long term sustainability with environmental initiatives and safety standards. Hence ,looking after all above we recommend "Subscribe" on issue.

Price Band (Rs./Share)	210-221
Opening date of the issue	05th Mar '2024
Closing Date of the issue	07th Mar '2024
No of shares pre issue	3,17,20,000 Eq Shares
Issue Size	Rs 247-251 Cr
Fresh issue	Rs 165 Cr
Offer For Sale	39,00,000 Eq Shares
No of Shares	11757142-11366063 Eq Sh
Face Value (Rs/ share)	Rs 10/share
Bid Lot	67

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 56,83,030 Eq Shares)
Non-Institutional	15% of the offer (Approx 17,04,910 Eq Shares)
Retail	35 % of the offer (Approx 3978123 Eq Shares)
Lead managers	Centrum Capital Ltd, Emkay Global Financial Services, Keynote Financial Services
Registrar to the issue	KFin Technologies Ltd

WHAT WE LIKE

Leading market position with a diversified customer base

Company is the largest manufacturer of zinc oxides in India and among the top ten manufacturers of zinc oxides globally, with an installed capacity of 59,904 MTPA for zinc oxide, 7,056 MTPA for zinc ingots and 10,080 MTPA capacity for zinc sulphate and other allied chemicals. The installed capacity of company's Naidupeta Facility, has recently been augmented by 13,440 MTPA for zinc oxide and 10,080 MTPA for zinc sulphate and other allied chemicals. 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 .

High entry barriers in key end-use industries

Company's end-use industries have significant entry barriers due to specific factors unique to such end-use industries. Given the nature of the application of company's products and the processes involved, its products are subject to, and measured against high quality standards and rigorous product approval systems with stringent impurity specifications. Further, because end products manufactured by company's customers are typically subject to stringent regulatory and industry standards, any change in the vendor of the product may require significant time and expense on part of the customers, which acts an entry barrier and disincentives any such changes for them.

Strong and consistent financial performance

Company have experienced sustained growth with respect to the various financial indicators as well as a consistent improvement in its balance sheet position. Further, in the last three Fiscals, company have seen an increase in its net worth. Company's customers in the rubber industry have contributed ₹ 4,401.21 million, ₹ 7,097.27 million, ₹ 5,521.60 million and ₹ 3,882.86 million constituting 90.50%, 90.46%, 90.10% and 89.20% of company's revenue from operations for nine months period ended December 31, 2023 and Fiscals 2023, 2022 and 2021, respectively. During Fiscals 2017 to 2021, the tyre industry has grown at a CAGR of 0.32% .



COMPANY BACKGROUND

Company's product caters to a wide spectrum of industrial applications, including in the rubber (tyre & other rubber products), ceramics, paints & coatings, pharmaceuticals & cosmetics, electronics & batteries, agro-chemicals & fertilizers, speciality chemicals, lubricants, oil & gas and animal feed. Owing to company's legacy of over four decades in manufacturing businesses, company benefit from its experience in catering to a wide array of customers and company have built a long-standing relationship with customers across end-user industries in the tyres, ceramics, rubber, paints, cosmetics and batteries industry. Over the last three years, company marketed and sold its product to over 200 domestic customers and over 50 global customers in more than 10 countries. In India, tyre industry accounts for 70% of rubber consumption and the companies in the tyre industry are the largest consumers of its product. Along with being suppliers to 9 out of top 10 global tyre manufacturers and to all of the top 11 tyre manufacturers in India, company also supply to leading paints manufacturers, footwear players and cosmetics players in India. Company's Material Subsidiary, BDJ Oxides is the only zinc oxide manufacturing facility in India to have an IATF certification, which is preferred by tyre manufacturers supplying to original equipment manufacturers.

As a manufacturer of zinc oxide, it is a pre-requisite in most of company's end-use industries for its products to be customised according to the specifications by customers, which usually acts as a significant entry barrier. Further, high cost of product development, complexity of the chemistry involved in innovating and tailoring company's products to the customised needs of company's customers, which requires necessary technical expertise and lengthy and stringent supplier qualification process are the other entry barriers in company's business.

As on December 31, 2023, company's aggregate installed capacity of 77,040 MTPA is spread across its three manufacturing facilities located at (i) Jangalpur (Kolkata, West Bengal); (ii) Belur (Kolkata, West Bengal); and (iii) Naidupeta (Nellore District, Andhra Pradesh), which is company's largest manufacturing facility and is owned and operated by company's Material Subsidiary.

The installed capacity of company's Naidupeta Facility specified above, has recently been augmented by an additional 13,440 MTPA for zinc oxide and 10,080 MTPA for zinc sulphate and other allied chemicals. All processes at company's manufacturing facilities are undertaken with modern engineering systems to minimize emissions. Company have installed recuperators in most of its furnaces to reduce its carbon footprint. Company have also been granted the consent and hazardous waste authorisation order under the 'Orange Category' for generation, collection, storage, transport, reuse, recycling, utilisation, processing and treatment or any other use of hazardous or wastes and permissible quantity of emissions per hour at all its manufacturing facilities, by the respective state pollution control boards. In addition to the aforesaid accreditations, company is also a member of the All-India Rubber Industries Association, India Lead Zinc Development Association, Bureau of International Recycling, Indo-German Chambers of Commerce, Material Recycling Association of India, Chemicals and Allied Products Export Promotion Council and the International Zinc Association. All its manufacturing facilities have been accredited with ISO 9001:2015, ISO 45001:2018 and ISO 14001:2015.

With an intention to supply to customers in the European Union, company have also obtained the REACH (Registration, Evaluation, Authorization and Restriction of Chemicals, Regulation (EC) No. 1907/2006) certification which allows company to supply its products to the European Union. Company's recognition as a 'Two Star Export House' by the Director General of Foreign Trade, Ministry of Commerce & Industry valid, till March 31, 2028, signifies that company has excelled in international trade and has successfully contributed to country's foreign trade. In the year 2021, Apollo Tyres Limited awarded company with the Apollo Gold Partner Award-Quality Champion for company's significant contribution towards business partnership. Company is also a member of the All India Rubber Industries Association and the Merchant's Chamber of Commerce & Industry since September 5, 2018. Further, company's subsidiary, BDJ Oxides has obtained WHO GMP certificate for manufacture and supply of pharma grade zinc oxide at its Naidupeta Facility. Company's facilities are also subject to periodic audits by its customers, which ensures that company's customers are able to continually confirm the quality of its product and evaluate its manufacturing processes. Further, company's audit scores based on customer evaluations have been consistently in the higher end of the spectrum, which reflects the confidence of company's customers in its products and processes.



INVESTMENT RATIONALE

<p><i>Long-term relationships with customers and suppliers & having robust supply chain</i></p>	<p>Company believes in establishing a direct relationship with its customers and over 95% of company's sales in the last three Fiscals is directly to company's customers without involvement of any intermediary/distributor, which helps company build a strong relationship directly with its customers along with lowering of costs and improvement in company's returns. With many of company's customers, company's relationship extends to several years. In the last three Fiscals, company catered to more than 250 customers, of which around 90% customers were repeat customers. Such long-term association with key customers also offers significant competitive advantages such as revenue visibility, industry goodwill and enables company to demonstrate its quality. As a result of company's deep rooted association with company's customers, Company often receives new product requirements from such customers which in turn, helps company to expand its product base. On the procurement side, most of the Zinc Dross which comes from overseas is through old and established trading houses who work based on long term relationships and refrain from doing business with new entrants due to a wide range of complexities associated with dealing in Zinc Dross . Company have built a diverse global supplier base having procured raw materials from over 100 global suppliers in the last three Fiscals. Company's extensive global supplier base enables it to evaluate the various available options and choose according to company's commercial considerations. Some of these relationships have nurtured over the years, enabling company to be termed as a preferred customer for various global suppliers of Zinc Dross.</p>
<p><i>Experienced and dedicated management team</i></p>	<p>Company is led by qualified and experienced Promoters and management team, that has the expertise and vision to manage and grow company's business. Company's Promoters, Suresh Jhunhunwala, Anirudh Jhunhunwala and Anuj Jhunhunwala have a cumulative experience of over 8 (eight) decades in the industry and have been instrumental in Company's growth and development. Suresh Jhunhunwala, one of company's Promoters, has been at the helm of company since 2001, prior to which he was involved in various manufacturing businesses which has led to him forging strong ties with its customers. Anirudh Jhunhunwala and Anuj Jhunhunwala are second generation entrepreneurs and bring their acumen in finance and process chemistry to company's business. In addition to the commercial acumen that they bring to company's business, they also take personal interest in customer development activities. They strive to maintain regular contacts with customers and monitor monthly reviews and market research reports of customer's monthly performance in company's business. They have also been instrumental in identifying and initiating dialogue with new customers and existing customers for development of new products.</p>
<p><i>Focus on long term sustainability with environmental initiatives and safety standards</i></p>	<p>Company have a strong focus on sustainability in all aspects of its operations and over the years have adopted various green initiatives. Caring for the environment and sustainable development along with being the core principles that drive company's organization is also desired by company's customers and accordingly, company constantly strive to reduce emissions and recycle and reuse to conserve natural resources. As a part of company's initiatives towards continual improvement, company have also obtained the Environment Management System certification under the new standard of ISO 14001: 2015 for each of its manufacturing facilities.</p>



OBJECTS OF OFFER

Offer for Sale Company will not receive any proceeds from the Offer for Sale and the proceeds received from the Offer for Sale will not form part of the Net Proceeds

Company intends to utilize the Net Proceeds towards the following objects:

1. Investment in company's Material Subsidiary, viz. BDJ Oxides (i) repayment or pre-payment, in full or in part, of all or certain borrowings availed by company's Material Subsidiary; (ii) funding capital expenditure requirements for setting up of a research and development centre situated in Naidupeta, Andhra Pradesh ("R&D Centre"); and (iii) funding its long-term working capital requirements;
2. Funding long-term working capital requirements of Company; and
3. General corporate purposes.

RISKS

Company's business is almost completely dependent on the sale of one principal product i.e. zinc oxide (in various grades) and any reduction in the demand of the same may have an adverse effect on company's business and financial performance.

Source:RHP

INDUSTRY OVERVIEW

Growth drivers of Tyre Industry The growth drivers for tyres industry are mentioned below:

1. Low car penetration & Rising family income: The growing domestic income is to make motor vehicles more affordable for local consumers. The emergence of a young and aspirational middle class in India is also likely to drive passenger vehicle industry, which in turn is likely to fuel growth for the tyres industry. Demand is linked to economic growth and rise in income levels. Further, it is inversely related to the interest rates and fuel prices as 85% of the total vehicles are bought on credit. Per capita penetration at around nineteen cars per thousand people is among the lowest in the world..

2. Revival in Rural Demand: Hike in Minimum Support Price (MSP) for agricultural produce in (which year) last year (especially for Kharif crops), farm loan waivers and improvement in farm yield are expected to drive two-wheeler, CV and tractor volume which should generate demand for tyres. 3. New launches: As several OEMs are scheduled to launch new models in the FY23, decent volume growth is foreseen, as historically new models drive volume growth for the industry. 4. Improved Road Connectivity: A significant growth has been witnessed in the construction of roads and highways over the past few years. With the government's focus on roads and infrastructure development, it is envisaged most villages will be connected to the highways in the next 2-3 years. Introduction of smart cities and highways is expected to increase the volumes of CVs and PVs, which account for the maximum tyre consumption. 5. Increasing demand in luxury car segment: The demand for luxury vehicle segment, especially the SUV luxury cars have increased over the past few years. The demand for pre-owned luxury cars is also increasing as the owners want more upgraded and latest models while they sell off their vehicle in few years. With the increasing number of service providers in the market, the


Consolidated Financials

(Rs in Mn)

Financials	FY21	FY22	FY23	9months ended FY24
Total Revenue (A)	4352.98	6128.30	7845.76	4863.22
Total Expenditure (B)	3917.98	5566.70	7090.72	4581.57
EBIDTA	435.00	561.60	755.04	281.65
EBIDTA Margin	9.99	9.16	9.62	5.79
Other Income	51.07	102.17	96.12	47.77
Depreciation	23.38	26.80	34.40	31.81
EBIT	462.69	636.97	816.76	297.61
Interest	50.70	62.51	49.83	30.04
PBT	411.99	574.46	766.93	267.57
Exceptional	0.00	0.00	0.00	-18.02
PBT	411.99	574.46	766.93	249.55
Tax	123.99	143.21	199.01	64.45
PAT	288.00	431.25	567.92	185.10
NPM	6.62	7.04	7.24	3.81
ROE%	21.61	27.09	27.49	8.16
EPS	7.39	12.61	17.32	5.60
Eq Cap	12.20	12.20	317.20	317.20
Net Worth	1,190.04	1,566.38	2,135.28	2,325.10

(Source: RHP)

Peer Comparison

Company Name	P/E	Revenue from operations (Rs in Mn)	EPS	NAV	ROE %
<i>J.G.Chemicals Limited</i>		<i>7941.88</i>	<i>17.32</i>	<i>63.02</i>	<i>27.49</i>
Peers					
Rajratan Global Wire Limited	33.43	8986.80	19.72	86.54	22.79
NOCIL Limited	30.97	16228.10	8.92	93.14	9.61
Yasho Industries Limited	30.03	6825.95	59.54	208.75	28.52

(Source: RHP)



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