

Chemicals | India

IPO | 04 March 2024

J.G. Chemicals Limited

Leading zinc oxide manufacturer



About the Company

JG Chemicals Limited (JGCL) is one of the largest zinc oxide manufacturers in India and among the top 10 manufacturers of zinc oxides globally manufacturing through French process, the dominant production technology for producing zinc oxide adopted by all the major producers in Americas, Europe, and Asia with a market share of around 30% for FY22. It sells over 80 grades of zinc oxide, thereby enabling it to cater to a wide variety of customers, across various end-use industries, but derives 90% of the revenues from rubber and tyres industries. JGCL material subsidiary BDJ Oxides is the only zinc oxide manufacturing facility in India to have an IATF certification preferred by tyre manufacturers supplying to OEM.

Long term relationships and High barriers to entry

JGCL caters to a wide array of customers and has built a long-standing relationship with customers across end-user industries in the tyres, ceramics, rubber, paints, cosmetics and batteries industry. JGCL has marketed and sold products to over 200 domestic customers and over 50 global customers in more than 10 countries, suppliers to 9 out of top 10 global tyre manufacturers and to all of the top 11 tyre manufacturers in India over the last 3 years. The high cost of product development, complexity of the chemistry involved in innovating and tailoring products to the customised needs of customers, which requires necessary technical expertise and lengthy and stringent supplier qualification process are the other entry barriers in business.

Diversification and expansion of production facilities

The zinc oxide market in India is estimated to register around 10%-12% CAGR from FY22 to FY27. JGCL proposes to establish a green field manufacturing facility in the state of Gujarat to capture market share by catering to the needs of the ceramics, pharmaceuticals and tyre industries, which have a presence in the western part of India. JGCL constantly seeks to introduce new product verticals and develop our product capabilities to distinguish ourselves from our competitors to enhance the product portfolio for industries like ceramics, pharmaceuticals & cosmetics, paints & coatings, agrochemicals, nutraceuticals, animal feed and batteries.

Financials in Brief

On the financial front, JGCL has reported a turnover of Rs 435.3 Crs, Rs. 612.8 Crs and Rs 784.6 Crs for FY21, FY22 and FY23 respectively. The company reported profit of Rs28.8 Crs, Rs43.1 Crs and Rs56.8 Crs for the respective periods. It has recorded a healthy Revenue, EBITDA and PAT CAGR of 34%, 32% and 40% respectively over FY21-23. For the last three fiscals, the company has reported an average EPS of Rs.11 on diluted basis and an average RoNW of 30% and is expected to improve further with improvement in capacities, lower interest and new products improving margins.

Our View

JGCL enjoys a leading market position with a diversified customer base and multiple products and has long term association with key customers in ZnO for end-user industries like tyres, ceramics, paints, footwear, cosmetics etc. JGCL is expanding its footprints, diversifying products in new verticals, improving capacity utilization with strong demand, and focusing on R&D to support complex chemistries and cost efficiencies thereby improving the margin acceleration over the next few years. We believe with an experienced management team, strong financials of 34% CAGR in revenues and 40% CAGR in profits for FY21-23 and strong growth levers ahead.

Hence, we recommend "SUBSCRIBE" to the issue.

IPO Details

Price Band (Rs)	210-221
Face Value (Rs)	10
Issue Open/Closing Date	05-Mar-24/07-Mar-24
Fresh Issues (Crs)	165.0
OFS (Crs)	86.2
Total Issue (Crs)	251.2
Minimum Bid Qty. (Nos)	67
QIB / HNI / Retail	50%/15%/35%
Implied Market Cap (Rs Crs)*	866

*At higher band

Object of the Issue

- Funding working capital and R&D centre.
- Repayment of certain borrowings.
- General Corporate purposes.

Strengths

- Leading market position with a diversified customer base.
- Long-term relationships with suppliers & having robust supply chain.
- High entry barriers in key end-use industries.
- Experienced and dedicated management team with strong financials.

Key Risk

- Dependency on single product to single end user, i.e tyres industries.
- Higher input prices denting margins.

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	100.0	71.0
Others	0.0	29.0

Key Financials

(Rs Crs)	FY22(12)	FY23(12)	9MFY24
Capacity Utilisation (%)	63.4	57.4	52.1
Revenue	612.8	784.6	486.3
EBITDA	66.4	85.1	32.9
EBITDA Margin (%)	10.8%	10.8%	6.8%
PAT	43.1	56.8	18.5
PAT Margin (%)	7.0%	7.2%	3.8%
EPS (Rs)	11.00	14.5	4.7*
RocE (%)	25.9	29.4	11.9*
RoE (%)	30.6	30.5	8.2*
Net Worth	147.7	199.9	217.8
Total Borrowings	93.9	70.3	24.9

Source: RHP, Note: *9M Not annualised

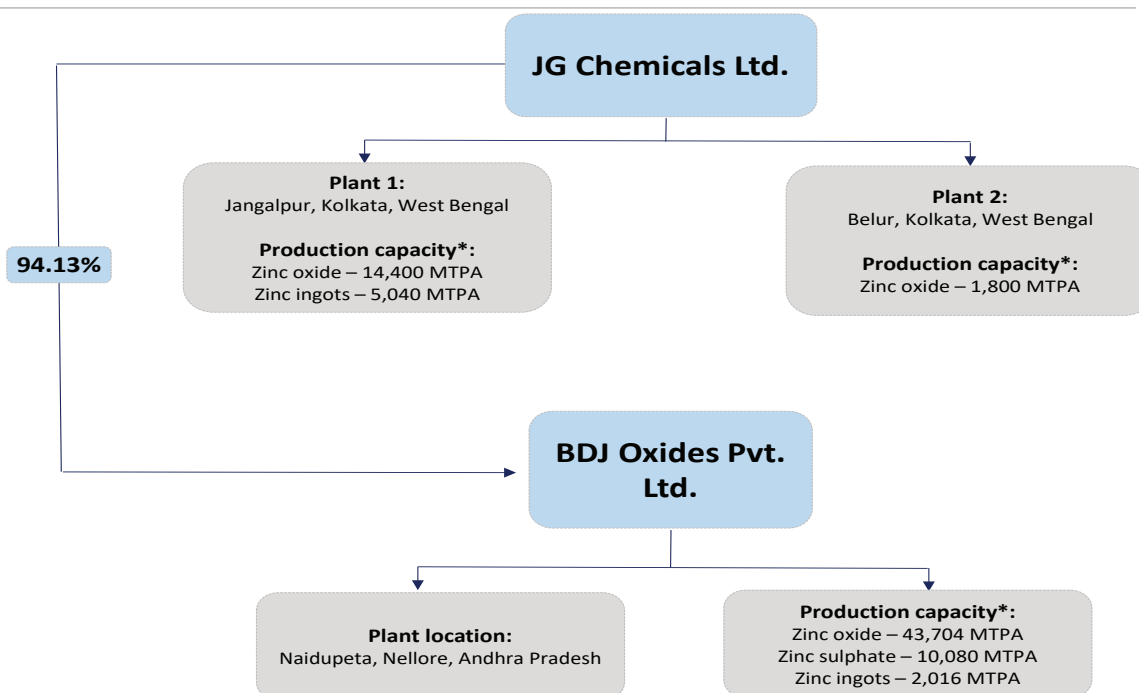
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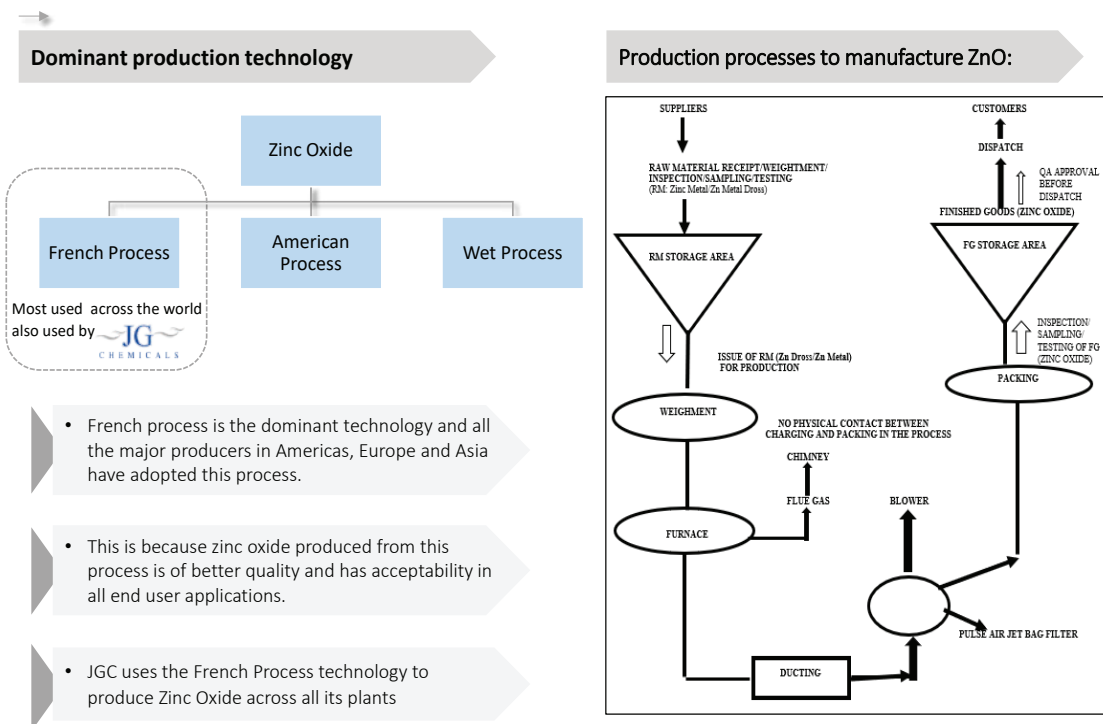
Exhibit 1: Corporate Structure



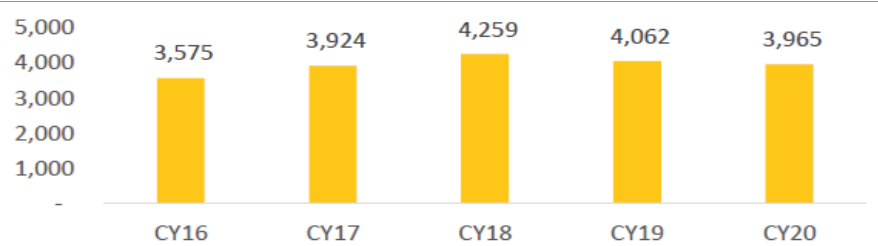
*production capacity as on December 31, 2023

Source: RHP

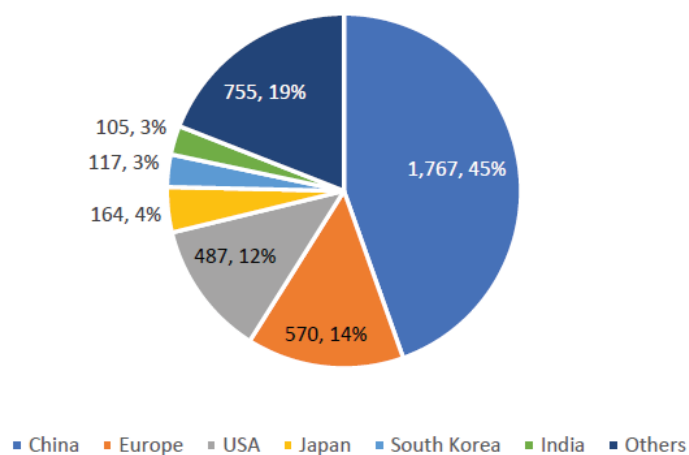
Exhibit 2: Manufacturing Process



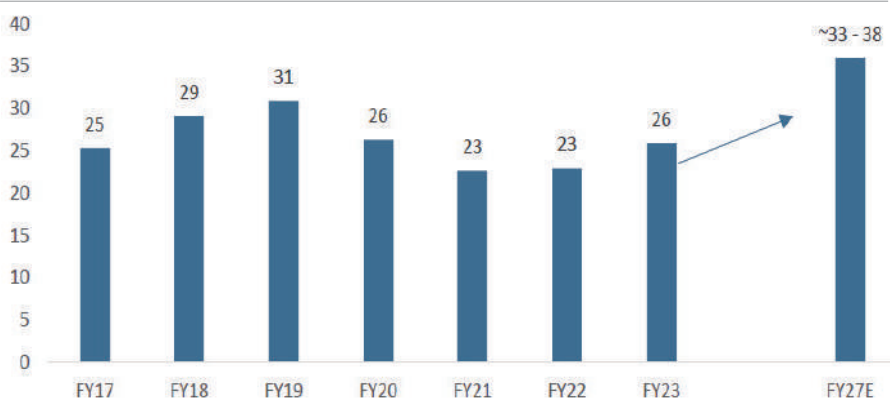
Source: RHP

Exhibit 3: Trend in global chemical sales (USD billion)


Source: RHP, CEFIC, CareEdge Research

Exhibit 4: Country-wise international chemical sales (USD billion)


Source: RHP, CEFIC, CareEdge Research

Exhibit 5: Outlook for Indian automobile industry production (in million units)


Source: RHP, CareEdge Research estimates and SIAM

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