

Archean Chemical Industries Limited

Incorporated in 2009, Archean Chemical is a leading specialty marine chemical manufacturer in India and focused on producing and exporting bromine, industrial salt, and sulphate of potash to customers around the world. Company is the largest exporter of bromine and industrial salt by volume in India in Fiscal 2021. Its marine chemicals business is predominately conducted on a business-to-business basis both in India and internationally. The key geographies to which it exports its products include China, Japan, South Korea, Qatar, Belgium and the Netherlands. As of June 30, 2022, company marketed its products to 18 global customers in 13 countries and to 24 domestic customers.

Positives: (a) Leading market position, expansion and growth in bromine and industrial salt. (b) Established infrastructure and integrated production with cost efficiencies. (c) Strong and consistent financial performance. (d) Experienced management team, promoters and financial investors and stakeholders.

Investment concerns: (a) Company is subjected to certain risks in its manufacturing processes. (b) Inability to comply with repayment and other covenants in its financing agreements. (c) Manufacturing facility exposing to regulatory and other geography specific risks such as weather and natural occurrence.

Outlook & Valuation: In terms of valuations, the post-issue P/E works out to 22.3x FY22 EPS (at the upper end of the issue price band) which is in line with its peers like Tata Chemicals Limited, Aarti Industries Limited and Deepak Nitrite Limited. Further, Archean Chemical has better revenue growth of CAGR of 36% and average EBITDA margin of 33% over 3 years. As the future growth of the company is currently factored in its price, we believe this valuation is at reasonable levels. Thus, we recommend a **NEUTRAL** rating on the issue.

Key Financials

Y/E March (₹ cr)	FY2020	FY2021	FY2022
Net Sales	608.2	740.8	1,130.4
% chg	-	21.8	52.6
Net Profit	-36.2	66.6	188.6
% chg	-	-283.9	183.1
EBITDA (%)	24.3	35.4	41.3
EPS (Rs)	(2.9)	5.4	15.3
P/E (x)	-	63.1	22.3
P/BV (x)	836.7	69.2	19.2
ROE (%)	-	25.5	72.2
ROCE (%)	8.1	16.4	29.5
EV/EBITDA	39.5	22.3	12.5
EV/Sales	9.6	7.9	5.2

Source: Company RHP, Angel Research

NEUTRAL

Issue Open: November 09, 2022
Issue Close: November 11, 2022

Issue Details

Face Value: ₹2

Present Eq. Paid up Capital: ₹ 20.7cr

Offer for Sale: ₹ 657.31cr

Fresh issue: ₹ 805cr

Post Eq. Paid up Capital: ₹ 24.6cr

Issue size (amount): ₹ 1462.31cr

Price Band: ₹ 386 - ₹407

Lot Size: 36shares and in multiple thereafter

Post-issue mkt. cap: * ₹4,791cr - ** ₹5,008cr

Promoters holding Pre-Issue: 65.6%

Promoters holding Post-Issue: 53.4%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	75% of issue
Non-Institutional	15% of issue
Retail	10% of issue

Post Issue Shareholding Pattern

Promoters	53.4%
Public	46.6%

Amit Ranjan

+91 022-4000 3600, Extn: 6810
amit.ranjan@angelbroking.com

Company background

The Company was originally formed as a partnership firm under the name of “Archean Chemical Industries” at Chennai, pursuant to a partnership deed dated November 20, 2003. Subsequently, the partnership firm was converted into private limited company with the name “Archean Chemical Industries Private Limited” with certificate of incorporation dated July 14, 2009. Company is in business of specialty marine chemical manufacturer in India and focused on producing and exporting bromine, industrial salt, and sulphate of potash to customers around the world.

Its product has a high demand due to the diversity of applications in the oil & gas industry, chlor-alkali industry, and de-icing chemical industry. Company have an integrated production facility for bromine, industrial salt, and sulphate of potash operations, located at Hajjipir, Gujarat.

Issue details

The IPO Size for the company is ₹1,462.31 Cr, which include fresh offering of ₹805.00 Cr and offer for sale (OFS) aggregated upto ₹657.31 Cr.

Pre & Post Shareholding

No of shares	(Pre-issue)	%	(Post-issue)	%
Promoter & Promoter Gp.	67,724,755	65.6%	65,724,755	53.4%
Public	35,549,365	34.4%	57,328,235	46.6%
Total	103,274,120	100.0%	123,052,990	100.0%

Source: Company, Angel Research

Objectives of the Offer

- Redemption or earlier redemption, in part or full, of NCDs issued by the Company.
- General corporate purposes.

Key Management Personnel

- **Ranjit Pendurthi** is the Managing Director of the Company. He has been associated with the Company since incorporation. He holds a degree of MBA from University of Chicago, USA & has 21 years of experience in the chemical business.
- **Ravi Pendurthi** is a Non-Executive Director on the Board of the Company. He has 14 years of experience in the chemical industry.
- **Subrahmanyam Meenakshisundaram** is a Non-Executive Director on the Board of the Company. He has approximately four decades of experience in accounting, finance and tax.
- **Padma Chandrasekaran** is an Independent Director on the Board of the Company. She holds a post graduate diploma in business administration from Indian Institute of Management, Ahmedabad

Financial Summary

Income Statement (Consolidated)

Y/E March (₹ cr)	FY2020	FY2021	FY2022
Total operating income	608.2	740.8	1,130.4
% chg	-	21.8	52.6
Total Expenditure	460.2	478.5	663.3
Cost of materials consumed	25.00	16.75	44.88
Purchases of stock-in-trade	11.12	-	-
Changes in Inventories	-35.78	-7.85	-5.56
Employee benefits expense	34.47	35.32	37.84
Other expenses	425.38	434.32	586.12
EBITDA	148.0	262.2	467.2
% chg	-	77.2	78.1
(% of Net Sales)	24.3	35.4	41.3
Depreciation & Amortisation	51.8	55.4	66.9
EBIT	96.2	206.8	400.3
% chg	-	114.9	93.5
(% of Net Sales)	15.8	27.9	35.4
Finance costs	121.8	130.4	161.7
Other income	8.8	14.0	12.4
(% of Sales)	1.5	1.9	1.1
Recurring PBT	-16.7	90.5	251.0
% chg	-	-642.0	177.4
Share of reinstated	-	-	-
Exceptional item	-	-	-
Tax	19.5	23.9	62.4
PAT (reported)	-36.2	66.6	188.6

Source: Company, Angel Research

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY2020	FY2021	FY2022
SOURCES OF FUNDS			
Equity Share Capital	19.3	19.3	19.3
Other equity (Retained Earning)	-13.3	53.1	241.8
Shareholders' Funds	6.0	72.4	261.1
Non-Controlling interest	-	-	-
Total Loans	857.3	858.4	844.9
Other liabilities	320.8	331.4	250.2
Total Liabilities	1,184.1	1,262.2	1,356.1
APPLICATION OF FUNDS			
Property, plant and equipment	882.3	1,007.2	1,045.5
Capital work in progress	158.2	18.9	17.2
Right-of-use assets	33.1	33.4	38.9
Intangible assets	0.1	0.1	0.1
Intangible assets under development	-	-	0.0
Current Assets	262.2	300.6	398.6
Inventories	98.8	110.6	120.8
Investments	47.1	41.2	11.1
Trade receivables	44.5	68.1	153.0
Cash and cash equivalents	24.5	31.5	12.2
Bank balances Other	0.3	0.3	46.5
Loans	0.4	0.5	0.5
Other financial assets	0.7	14.2	14.4
Current Tax Assets	-	-	-
Other current assets	46.0	34.3	40.2
Current Liability	244.5	170.3	173.5
Net Current Assets	17.7	130.3	225.1
Other Non-Current Asset	92.7	72.2	29.2
Total Assets	1,184.1	1,262.2	1,356.1

Source: Company, Angel Research

Cashflow Statement (Consolidated)

Y/E March (₹ cr)	FY2020	FY2021	FY2022
Operating profit before working capital changes	167.4	287.4	479.3
Net changes in working capital	-19.6	-168.3	-164.8
Cash generated from operations	147.8	119.1	314.5
Direct taxes paid (net of refunds)	-0.3	0.0	0.0
Net cash flow (used in)/from operating activities (A)	147.6	119.1	314.5
Interest received	1.1	0.9	1.4
Purchase of / proceeds from sale of Mutual funds	-46.1	7.3	31.3
Others	-151.6	-9.9	-142.8
Cash Flow from Investing (B)	-196.7	-1.8	-110.1
Proceeds from borrowings	117.8	10.1	2.0
Repayment from borrowings	-1.3	-9.1	-15.5
Change in working capital borrowing	-	-	-
Repayment towards lease liabilities	-7.5	-11.0	-12.4
Interest paid - Others**	-82.6	-100.3	-197.7
Cash Flow from Financing (C)	26.4	-110.3	-223.7
Inc./ (Dec.) in Cash	-22.8	7.0	-19.3
Opening Cash balances	47.2	24.5	31.5
Exchange benefit	0.0	0.0	0.0
Closing Cash balances	24.5	31.5	12.2

Source: Company, Angel Research

Key Ratios

Y/E March	FY2020	FY2021	FY2022
Valuation Ratio (x)			
P/E (on FDEPS)	(116.1)	63.1	22.3
P/BV	836.7	69.2	19.2
EV/Sales	9.6	7.9	5.2
EV/EBITDA	39.5	22.3	12.5
Per Share Data (Rs)			
EPS (Basic)	(3.5)	6.4	18.3
EPS (fully diluted)	(2.9)	5.4	15.3
Book Value	0.5	5.9	21.2
Returns (%)			
ROE	(13.9)	25.5	72.2
ROCE	8.1	16.4	29.5
Turnover ratios (x)			
Receivables (days)	26.7	33.5	49.4
Inventory (days)	59.3	54.5	39.0
Payables (days)	100.3	55.1	36.3
Working capital cycle (days)	(14.3)	33.0	52.1

Source: Company, Angel Research;

Research Team Tel: 022 - 40003600

E-mail: research@angelbroking.comWebsite: www.angelone.in

DISCLAIMER

Angel One Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and Metropolitan Stock Exchange Limited. It is also registered as a Depository Participant with CDSL and Portfolio Manager and investment advisor with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel One Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Angel or its associates or research analyst or his relative may have actual/beneficial ownership of 1% or more in the securities of the subject company at the end of the month immediately preceding the date of publication of the research report. Neither Angel or its associates nor Research Analysts or his relative has any material conflict of interest at the time of publication of research report.

Angel or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business. Angel or its associates did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with the research report. Neither Angel nor its research analyst entity has been engaged in market making activity for the subject company.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel One Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel One Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel One Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel One Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information. Angel or its associates or Research Analyst or his relative might have financial interest in the subject company. Research analyst has not served as an officer, director or employee of the subject company.