

Archean Chemical Industries Ltd.

IPO ANALYSIS

Sector: Speciality Marine Chemicals
Issue Price: Rs 386 – 407
Issue Size: Rs 1,462 Crores
Issue Opens/Closes: 09th to 11th Nov'22

IPO Basics

Promoters:
Chemikas Speciality Llp, Ravi Pendurthi And Ranjit Pendurthi

Selling Shareholders:
Chemika Speciality LLP, India Resurgence Fund, Scheme I, India Resurgence Fund, Scheme II, Piramal Natural Resources Pvt Ltd

Lead Managers:
IIFL Securities, ICICI Securities, JM Financial

Registered Office: Tamil Nadu

Registrar: Link In Time India Pvt. Ltd.

Listing: NSE and BSE

IPO Capital Structure

Fresh Issue	Rs. 805.00 Cr.
Offer for Sale	Rs. 657.31 Cr.
Total Issue as % of total capital (Post-Issue)	29.20%
Post Issue No. of Shares (Cr.)	12.31
Post Issue Market Cap	Rs 5,008 Cr
Face Value	2
Issue Route	Book Build Issue
Bid Lot (Shares)	36
Minimum Bid Amount	Rs 14,652
<i>All values calculated at upper band</i>	

Financial Snapshot (Rs crs)

Y/E Mar	FY22	FY21	FY20
Equity Share Capital	19.27	19.27	19.27
Reserves	241.80	53.12	(13.28)
Net Worth as stated	261.07	72.38	5.99
Revenue	1,130.44	740.76	608.17
Growth (%)	52.61%	21.80%	-
EBITDA	479.54	276.25	156.83
Net Profit	188.58	66.61	(36.22)
Basic EPS	18.26	6.45	(3.51)
RONW (%)	72.24%	92.02%	(605.06%)
Net Asset Value	25.28	7.01	0.58

Shareholding Pattern

Holders	Pre-issue	Post Issue
Promoters	65.58	53.41
Public	34.42	46.59
Total	100.00	100.00

Company Background:

- Archean Chemical Industries Ltd (“Archean”) was incorporated on November 20, 2003.
- Archean 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.
- Archean is the largest exporter of bromine and industrial salt in India in Fiscal 2021 and has amongst the lowest cost of production globally in both bromine and industrial salt.
- The company produces their products from their brine reserves in the Rann of Kutch, located on the coast of Gujarat, and manufacture products at their facility near Hajipir in Gujarat. As of June 30, 2022, they marketed their products to 18 Global customers in 13 countries and to 24 domestic customers.
- Archean exported 100% of their industrial salt production, primarily to customers in Japan and China. Archean is the only manufacturer of sulphate of potash from natural sea brine in India.
- Archean has an integrated production facility for their bromine, industrial salt, and sulphate of potash operations, located at Hajipir, Gujarat

Issue Size

Particulars	No. of Shares		Rs. In Cr.		% Of Issue
	at Lower Band (Cr)	at Upper Band (Cr)	at Lower Band	at Upper Band	
QIB	2.78	2.70	1,071.29	1,096.73	75%
NIB	0.56	0.54	214.26	219.35	15%
Retail	0.37	0.36	142.84	146.23	10%
Employee	-	-	-	-	-
Shareholder	-	-	-	-	-
Total Issue	3.70	3.59	1,428.39	1,462.30	100%

Note: Employee Discount Not Applicable

An Indicative Timetable Post Issue Closing

Particulars	Tentative Date
Finalization of Basis of Allotment	16-Nov-2022
Refunds/un-blocking of ASBA Accounts	17-Nov-2022
Credit of Equity Shares to DP Ac	18-Nov-2022
Trading Commences	21-Nov-2022

DETAILED OBJECTS OF THE ISSUE

The net proceeds of the Issue are proposed to be utilized as:

Objects	Amount (Rs. Cr.)
Redemption or earlier redemption, in part or full of NCDs issued by the company	644
General Corporate Purposes	*
Total	*

SHAREHOLDING PATTERN

Shareholder	Pre-offer		Approx. No. of Shares offered*	Post-offer	
	Number of Equity Shares	% of Total Equity Share Capital		Number of Equity Shares	% of Total Equity Share Capital
Promoter	6,77,24,755	65.58%	20,00,000	6,57,24,755	53.41%
Promoter Group	0	0.00%	0	0	0.00%
Total Promoter	6,77,24,755	65.58%	20,00,000	6,57,24,755	53.41%
Public Selling Shareholders	3,30,49,365	32.00%	1,41,50,000	1,88,99,365	15.36%
Public Others	25,00,000	2.42%	0	3,84,28,870	31.23%
Total Public	3,55,49,365	34.42%	1,41,50,000	5,73,28,235	46.59%
Total Equity Shares	10,32,74,120	100%	1,61,50,000	12,30,52,990	100%

*Calculated on Upper Price Band

OFFER DETAILS

The Offer*	No. of Shares	
Fresh Issue (Rs. 805 Cr.)	2,08,54,922 – 4,97,78,870 Shares	
Offer for Sale :	No. of shares (in Lacs)	Weighted Average Cost of Acquisition per Equity Share on a fully diluted basis (Rs.)
Name of Selling Shareholder		
<u>Promoters</u>		
Chemika Speciality LLP	20	9.68
<u>Others</u>		
India Resurgence Fund, Scheme I	38	11.8
India Resurgence Fund, Scheme II	65	11.8
Piramal Natural Resources Pvt Ltd	38	11.86

*Calculated on Upper Price Band

Management Profile/KMP/Top Management

Sr. No.	NAME	Profile, Designation & Career History
1	Ranjit Pendurthi	Promoter and Managing Director of the company. He has been associated with the company since incorporation. He has 21 years of experience in the chemical business
2	Ravi Pendurthi	Promoter and Non-Executive Director of the company. He has 14 years of experience in the chemical industry.
3	Subrahmanyam Meenakshisundaram	Non-Executive Director on the Board of the company. He has been associated with the company since incorporation. He has approximately 4 decades of experience in accounting, finance and tax. He was previously associated with Muljibhai Madhvani & Co. Limited, Chemplast Sanmar Ltd, Electronics Corporation of India Ltd and Mohan Breweries and Distilleries Ltd
4	Padma Chandrasekaran	Independent Director on the Board of the company. She has several years of experience in various fields such as information technology and financial services. She is associated with various companies, including PNB Metlife India Insurance Co Ltd, Adani Capital Pvt Ltd and SKYFI Education Labs Pvt Ltd.
5	Chittoor Ghatambu Sethuram	Independent Director on the Board of the company. He has over 3 decades of experience in chemical industry. He has been associated with Polyolefins Industries Ltd, Sanmar Speciality Chemicals Ltd, Pidilite Industries Ltd and Thirumalai Chemicals Ltd.

BUSINESS OVERVIEW

- Archean Chemical Industries Ltd (“**Archean**”) 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.
- Archean is the largest exporter of bromine and industrial salt in India in Fiscal 2021 and has amongst the lowest cost of production globally in both bromine and industrial salt.
- They produce their products from their brine reserves in the Rann of Kutch, located on the coast of Gujarat, and manufacture products at their facility near Hajipir in Gujarat. As of June 30, 2022, they marketed their products to 18 Global customers in 13 countries and to 24 domestic customers.
- They are one of the few companies having received certification under the Registration, Evaluation, Authorisation and Restriction of Chemicals (“**REACH**”), a European Union regulation enacted to address the production and use of chemical substances. Their REACH certification allows them to export their sulphate of potash products to their European customers.

COMPANY’S MAIN PRODUCTS

- Bromine
- Industrial Salt
- Sulphate of Potash
- Marine Chemical Salts

MANUFACTURING FACILITIES

- Archean has an integrated production facility for their bromine, industrial salt, and sulphate of potash operations, located at Hajipir, Gujarat, which are located in close proximity to the captive Jakhau Jetty and Mundra Port.
- Their facility and its surrounding salt fields and brine reservoirs span approximately 240 sq.km.
- As of June 30, 2022, their manufacturing facility had an installed capacity of 28,500 MTPA of bromine, 3,000,000 MTPA of industrial salt and 130,000 MTPA of sulphate of potash.
- Their facility is equipped with its own quality department, central quality assurance and quality control department, co-generation power plant, desalination plant, effluent treatment plant, sewage treatment plant and warehouse.

Relationship with Sojitz Corporation

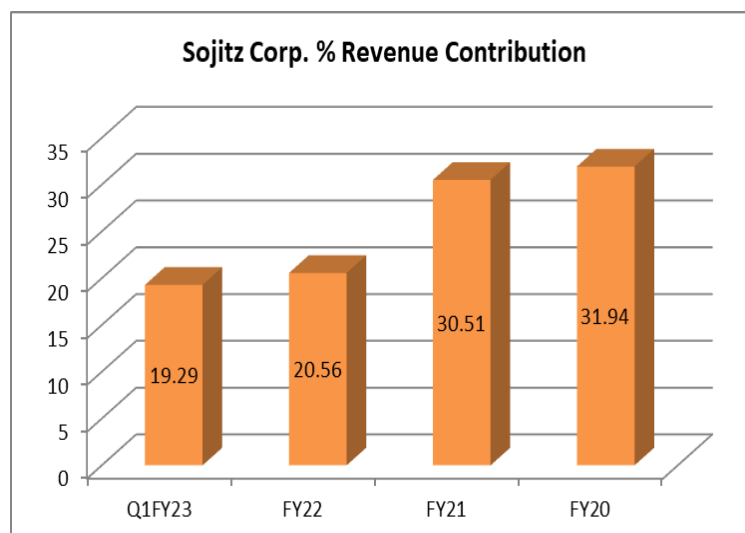
- Company's sales across geographies are augmented by their sales and marketing team, including their relationship with **Sojitz Corporation**, which are instrumental in effective supply-chain management as well as monitoring exposures to risks that may arise from customer or geographical concentration.
- In 2011, they established their relationship with Sojitz Corporation, a Japanese trading conglomerate and a major customer, which allowed them to develop new solar evaporation ponds in India based on the growing demand in Asia and offtake by Sojitz. In 2018, India Resurgence Fund, a joint venture between Piramal Enterprises Ltd and Bain Capital Credit ("IndiaRF") invested US \$156 million in the company in year 2018, which allowed the company to refinance their debt, offer capital investment to optimize output across product lines, and provided working capital.

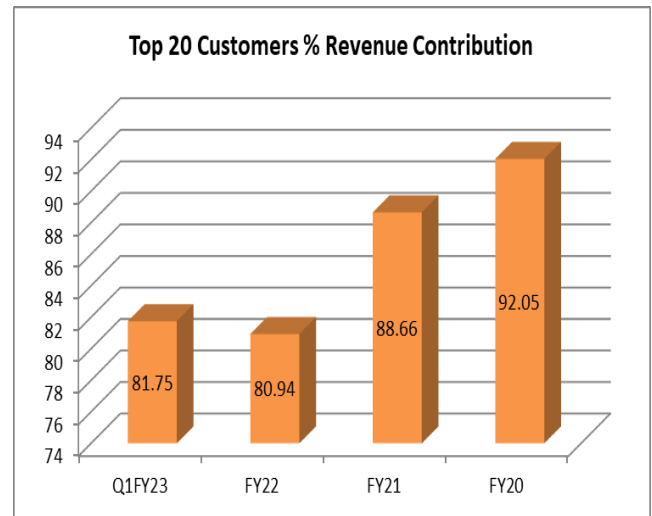
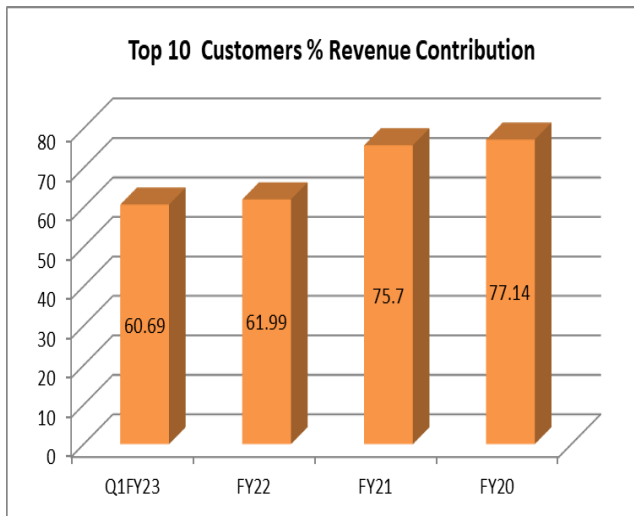
COMPETITION

The speciality marine chemicals industry presents significant entry barriers, including customer validation and approvals, expectation from customers for process innovation and cost reduction, high quality standards and stringent specifications. Company's competition varies by market, geographic area, and type of product. As a result, to remain competitive in their markets, they must continuously strive to reduce their costs of production, transportation and distribution and improve their operating efficiencies. They face competition primarily from international manufacturers, especially producers in Israel (Dead Sea area), and North America. They compete primarily on the basis of product quality, technology, cost, delivery, and service, as well as quality and depth of senior level relationships.

MAJOR CUSTOMERS

- As of June 30, 2022, Archean had 18 global customers and 24 domestic customers. In the 3 months ended June 30, 2022 and in Fiscal 2022, Fiscal 2021 and Fiscal 2020, their largest customer, Sojitz Corporation, contributed 19.29%, 20.56%, 30.51% and 31.94%, respectively, of their revenue from operations;
- In the 3 months ended June 30, 2022 and in Fiscal 2022, Fiscal 2021 and Fiscal 2020, their industrial salt sales to Sojitz Corporation accounted for 39.38%, 45.29%, 61.95% and 54.98%, respectively, of their total salt sales, while no customer accounted for more than 20% of their total bromine sales.
- The company has an export-oriented business, and their revenue from operations were attributed to export sales. Some of the key geographies to which they export their products include China, Japan, South Korea, Qatar, Belgium, and the Netherlands.
- They enjoy relationships in excess of 5 years with 7 out of their Top-10 customers.
- Their long-term relationships and on-going active engagements with customers also allow them to plan their capital expenditure, enhance their ability to benefit from increasing economies of scale with stronger purchasing power for raw materials and a lower cost base.





COMPETITIVE STRENGTHS

- Leading market position, expansion and growth in bromine and industrial salt
- High entry barriers in the specialty marine chemicals industry
- Established infrastructure and integrated production with cost efficiencies
- Focus on environment and safety
- Largest Indian exporter of bromine and industrial salt with global customer base
- Strong and consistent financial performance
- Experienced management team, promoters and financial investors and stakeholders

KEY BUSINESS STRATEGIES

- Expand into downstream bromine derivative performance products
- Expand the bromine and industrial salt capacities
- Continue to build the global customer base and enter new geographical markets
- Continue to focus on quality, environment, health, and safety

COMPARISON WITH LISTED INDUSTRY PEERS (AS ON 31ST MARCH 2022)

Name of the Company	FV	Total Income for FY 2022 (₹ Cr)	EPS (Basic)	NAV	P/E*	RoNW
Archean Chemical Industries Ltd	2	1,142.83	18.26	25.28	[•]	72.24%
<u>Peer Group</u>						
Tata Chemicals Ltd	10	1,287.81	49.17	716.5	24.16	6.89%
Deepak Nitrite Ltd	2	6844.8	78.2	244.8	28.88	31.95%
Aarti Industries Ltd	5	7,000.76	36.06	163.2	19.18	22.10%
Neogen Chemicals Ltd	10	488.32	18.7	176.1	79.79	10.16%

**P/E Ratio has been computed based on the closing market price of the equity shares on October 27, 2022*

Source: RHP

For additional information & risk factors please refer to the Red Herring Prospectus.

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