

Anupam Rasayan India Ltd

Sector: Chemicals | IPO Note

SUBSCRIBE

March 12, 2021

Background: Surat-based Anupam Rasayan commenced business as a partnership in 1984 to manufacture and sell chemicals. It was converted into a public limited company in September 2003. Over the years, it expanded to undertake custom synthesis and manufacturing of life science-related and other specialty chemicals. The company derives 68% of its revenue from exports—the key regions being Europe (35.97%), Singapore (17.23%), Japan (5.83%) and the U.S. (3.69%). India accounts for 31.95% of its revenue. It has six multi-purpose manufacturing facilities in Gujarat, with four located in industrial estate at Sachin, close to Adani's Hazira Port. Two units are located in the industrial estate at Jhagadia. The facilities have a combined aggregate installed capacity of 23,396 metric tonnes, of which 6,726 metric tonnes was added in March last year.

Issue Opening Date	12 th March 2021
Issue Closing Date	16 th March 2021
Face Value (₹)	10
Price Band (₹)	553-555
Minimum Bid Lot	27 shares
Fresh (mn. shares)	13.7
Issue Size (₹ bn)	7.6

Shareholding Pattern	As a % of total shares
Pre-Issue	
Promoters	75.8
Public	24.2
Others	0.0
Post-Issue	
Promoters	65.4
Public	34.6
Others	0.0

Offer break-up	₹ bn	% of Net issue
QIB	3.8	50%
NIB	1.2	15%
Retail	2.6	35%
Total	7.6	100%

Probable listing schedule	Tentative dates
Finalization of allotment basis	19/03/2021
Initiation of Refunds	22/03/2021
Credit of equity shares to demat	23/03/2021
Listing day	24/03/2021

Object of the Offer

- Fresh Issue of Equity shares aggregating up to ₹7.6bn. The total issue size will be ₹7.6bn.
- To make prepayment/repayment of company's indebtedness including accrued interest.
- To meet general corporate purposes.
- To Enhance visibility and brand image among existing and potential customers

Chola Securities recommendation: Subscribe from long-term perspective

- ARIL is custom synthesis and manufacturer of specialty chemicals, primarily focused on agro-chemicals. The company has two distinct business verticals; (i) Life sciences- Specialty chemicals comprising products related to agrochemicals, personal care and pharmaceuticals (ii) Other specialty chemicals, comprising of specialty pigment, dyes, and polymer additives. The company competes with leading players like PI Industries and Aarti Industries
- The company has strong and long-term relationships with various multinational corporations (MNCs), including, Syngenta Asia Pacific, Sumitomo Chemical and UPL, which has helped it expand product offerings and geographic reach across Europe, Japan, United States and India.
- The company operates 6 multi-purpose manufacturing facilities in Gujarat with 4 facilities located at Surat and 2 units located at Jhagadia, Bharuch and an aggregate installed capacity of 23,438 MT.

ARIL's Financial Performance

- For the past 3 years (FY18-FY20) the company posted consolidated revenues of ₹3.4bn, ₹5.0bn and ₹5.3bn, and ₹5.4bn for 9MFY21, registering CAGR growth of 24.3% (FY18-FY20), EBITDA and net profit clocked 35% and 13% CAGR, respectively during the same period (FY18-FY20). Net profit stood at ₹410mn, ₹492mn and ₹530mn respectively. For the last three fiscals, ARL has posted an average EPS of Rs.6.77.
- The ROE for FY18, FY19 and FY20 stood at 9.0%, 9.7% and 8.9% respectively.
- In FY20 and in the nine months ended December 2020, company's life-sciences vertical accounted for 95.4% and 93.8%, of revenue from operations. Revenue from other specialty chemicals contributed 4.6% and 6.3%, respectively.
- ARIL has generated cumulative OCF to the tune of ₹1.3bn while FCF remain negative of ₹6.7bn, FY18-9MFY21.
- The IPO is valued at 80x and 69x EPS for FY20 and annualized FY21, respectively. Though the valuations looks expensive on P/E multiple, we expect these to moderate in future on account of lower finance cost in future as the issue proceeds will be utilized for debt reduction.

Key Positives

- Despite the impact of the COVID-19 pandemic, company has posted revenue growth of 45.0% for the nine month period ending December 2021.
- ARIL has strong and long-term relationships with various multinational corporations, including, Syngenta Asia Pacific Pte. Ltd., Sumitomo Chemical Company Limited and UPL Limited.
- ARIL has dedicated an in-house R&D facility and a pilot plant located at Sachin Unit – 6, which is equipped with laboratories engaged in process development, process innovation, new chemical screening and engineering, which assists them in pursuing efficiencies from the initial conceptualization up to commercialization of a product. Given that ARIL's operations are primarily export-oriented, the close proximity to Adani Hazira Port of its facilities located at Sachin (Gujarat) helps in reducing freight and logistics costs.
- Over the years, Company has diversified, expanded and evolved their operations from a manufacturer of conventional products into custom synthesis and manufacturing of life science related specialty chemicals and other specialty chemicals, which have diverse applications across various industries.

Risks

- Significant indebtedness (₹8.4bn) and an inability to comply with repayment and other covenants in its financing agreements could adversely affect its business, financial condition, cash flows and credit rating.
- ARIL is exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to the US dollar.
- Negative cash flows from operating activities in the past and a consequent net decrease in cash and cash equivalents in some of the recent years

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CIN U65993TN1994PLC028674

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