

15 August 2023

India | Equity Research | Q1FY24 result review

Archean Chemical Industries

Speciality Chemicals

Muted bromine business; outlook improving

Archean Chemical's (ACI) Q1FY24 EBITDA dipped 16.3% YoY to INR 1.3bn due to lower volumes and prices for bromine (revenue dipped 33% YoY), while industrial salt revenue was steady, grew 3.2%. SOP shipment has also been pushed to the remaining quarters of FY24. ACI had seen early green shoots in bromine business which have been hurt by de-inventorisation. It expects volume recovery immediately; however, prices may follow later. It is working with German technology partner to improve the conversion of SOP from KTMS which should help improve production. Bromine derivative samples are produced in the lab, and it has started sending them for customer verification.

ACI's bromine derivatives are of high purity due to production from virgin bromine compared to peers' products that are made from reused bromine. It anticipates derivative plant commercialisation by end-FY24/ Q1FY25. We have cut our EPS estimates by 6% for FY24E. Our target price remains unchanged at **INR 750** with an unchanged FY25E PE multiple of 13x. Maintain **BUY**. Key risks: Continued weakness in demand for bromine, and a sharp drop in salt prices.

Muted bromine business; salt steady

In Q1FY24, ACI's revenue dipped 14.3% YoY to INR 3.4bn due to a drop in bromine business by 32.8% YoY to INR 1.4bn; industrial salt revenue was up 3.2% YoY to INR 2bn. Bromine volumes were down 25% YoY to 4.3kte due to weak demand from exports - China (largest geography) is undergoing destocking and weak demand; India bromine business was steady. Bromine prices also dipped 10% YoY to INR 321/kg (USD 3.9). ACI believes the worst for bromine is behind, and it has seen early signs of green shoots. It expects recovery in volumes immediately, followed by improvement in prices. Industrial salt volumes were up 10% YoY 1.1mn te, while prices dipped 6.5% to INR 1.91/kg (USD 23/te). SOP exports have been pushed to future quarters, and we anticipate to liquidate the entire 8.8kte in FY24E.

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	11,304	14,411	14,914	21,268
EBITDA	4,672	6,340	6,456	10,106
EBITDA Margin (%)	41.3	44.0	43.3	47.5
Net Profit	1,882	3,826	4,564	7,137
EPS (Rs)	19.5	31.1	37.1	58.0
EPS % Chg YoY	182.6	59.1	19.3	56.4
P/E (x)	27.6	17.3	14.5	9.3
EV/EBITDA (x)	12.8	10.1	9.8	5.8
RoCE (%)	28.9	33.1	25.5	30.9
RoE (%)	112.3	45.2	27.8	32.7

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Market Data

Market Cap (INR)	66bn
Market Cap (USD)	799mn
Bloomberg Code	ACI IN
Reuters Code	ARCN.BO
52-week Range (INR)	732 /440
Free Float (%)	44.0
ADTV-3M (mn) (USD)	1.6

Price Performance (%)	3m	6m	12m
Absolute	(1.3)	(15.4)	0.0
Relative to Sensex	6.4	8.2	11.4

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	(7.5)	(3.4)
EBITDA	(6.3)	(0.2)
EPS	(6.4)	0.0

Previous Reports

30-05-2023: [Q4FY23 results review](#)

14-02-2023: [Q3FY23 results review](#)

EBITDA dipped 16.3% YoY to INR 1.3bn

Employee cost was up 2.1x YoY on increased remuneration and ESOP. Other expenses were down 30% YoY at INR 1.6bn. EBITDA dipped 16.3% YoY to INR 1.3bn and EBITDA margin was 39.3% (vs guidance of 37-42%). Net profit rose 11.3% YoY to INR 0.9bn on lower finance costs, which dipped 92.3% YoY on repayment of NCDs from IPO proceeds.

Other highlights

- 1) Bromine:** a) Export market remains challenging for bromine due to higher BFR inventory in China. ACI has seen early signs of recovery in bromine volumes; however, price recovery may be gradual; b) China's real estate market is suppressed, which is a risk for complete recovery in bromine;
- 2) Bromine derivatives:** a) ACI has started sampling bromine derivative products from R&D, and has received good response; b) sales and market efforts to begin from Nov'23; and c) clear brine fluid and PTA catalyst production to start by end-FY24, and BFR in Q1FY25;
- 3) Salt:** a) Stable demand for chlorine is driving healthy volumes for industrial salt; and b) addition of new washery line has been delayed due to heavy rainfall in Jul'23;
- 4) SOP:** a) ACI is marketing SOP in India where demand is healthy, and it expects to liquidate inventory in FY24; and b) it is working with German technology partner to improve conversion of SOP from KTMS.

Exhibit 1: Archean Chemical financials (consolidated)

INR mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	QoQ (%)	YoY (%)
Revenue	4,003	2,935	3,649	3,824	3,431	(10.3)	(14.3)
COGS	49	293	(64)	(251)	299	(219.1)	506.9
Gross profit	3,954	2,642	3,714	4,074	3,132	(23.1)	(20.8)
GPM (%)	98.8	90.0	101.8	106.6	91.3		
Employee cost	98	115	265	244	203	(16.5)	108.2
% of revenue	2.4	3.9	7.3	6.4	5.9		
Other expenses	2,245	1,341	1,850	1,887	1,582	(16.2)	(29.6)
% of revenue	56.1	45.7	50.7	49.3	46.1		
Total expenses	2,343	1,456	2,114	2,130	1,785	(16.2)	(23.8)
EBITDA	1,611	1,186	1,599	1,944	1,347	(30.7)	(16.3)
EBITDA (%)	40.2	40.4	43.8	50.8	39.3		
Depreciation	176	169	168	173	175	1.2	(0.7)
EBIT	1,434	1,017	1,431	1,771	1,172	(33.8)	(18.3)
Other income	85	189	75	83	109	31.2	27.9
Finance cost	392	350	194	34	30	(11.8)	(92.3)
PBT	1,128	856	1,312	1,820	1,251	(31.2)	10.9
Tax	284	221	331	455	312	(31.5)	9.7
ETR (%)	25.2	25.7	25.2	25.0	24.9		
Exceptional item	-	-	-	-	-		
Net profit	844	636	981	1,365	940	(31.2)	11.3
Net profit (%)	21.1	21.7	26.9	35.7	27.4		
EPS (INR)	6.9	5.2	8.0	11.1	7.6		

Source: I-Sec research, Company data

Exhibit 2: Archean Chemical financials (segmental)

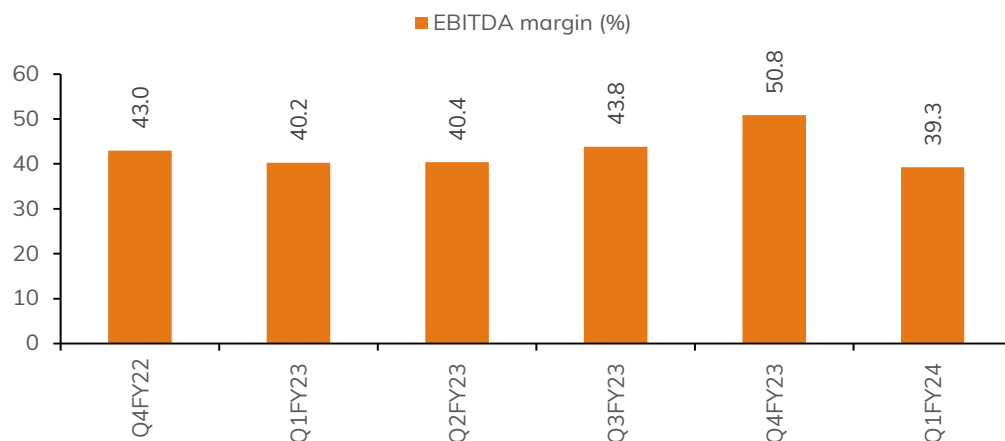
INR mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	QoQ (%)	YoY (%)
Revenue							
Industrial salt	1,961	1,173	2,044	2,103	2,024	(3.7)	3.2
Bromine	2,041	1,753	1,569	1,721	1,372	(20.2)	(32.8)
Sulphate of Potash	-	-	-	36	-	-	-
Total	4,003	2,926	3,613	3,860	3,397	(12.0)	(15.1)
Mix (%)							
Industrial salt	49.0	40.1	56.6	54.5	59.6		
Bromine	51.0	59.9	43.4	44.6	40.4		
Sulphate of Potash	-	-	-	0.9	-		

Source: I-Sec research, Company data

Exhibit 3: Archean Chemical segmental KPIs

	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	QoQ (%)	YoY (%)
Volume (te)							
Industrial salt	9,60,000	6,93,000	11,00,000	9,97,000	10,60,000	6.3	10.4
Bromine	5,730	4,604	4,000	4,391	4,272	(2.7)	(25.4)
Sulphate of Potash	65	-	582	104	382	267.3	487.7
Realisation (INR /kg)							
Industrial salt	2.04	1.69	1.86	2.11	1.91	(9.5)	(6.5)
Bromine	356	381	392	392	321	(18.0)	(9.8)
Sulphate of Potash	-	-	63	-	90		

Source: I-Sec research, Company data

Exhibit 4: EBITDA margin trend

Source: I-Sec research, Company data

Exhibit 5: Earnings revision

INR mn	Revised		Earlier		% change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	14,914	21,268	16,124	22,025	(7.5)	(3.4)
EBITDA	6,456	10,106	6,893	10,122	(6.3)	(0.2)
EBITDA (%)	43.3	47.5	42.8	46.0		
PAT	4,564	7,137	4,877	7,135	(6.4)	0.0
EPS (INR)	37.1	58.0	39.6	58.0	(6.4)	0.0

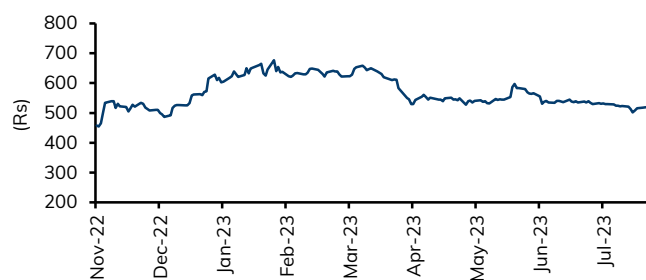
Source: I-Sec research, Company data

Exhibit 6: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	53.6	53.6	53.6
Institutional investors	35.8	35.7	34.8
MFs and others	15.4	15.0	14.5
FIs/Banks	12.1	12.8	13.0
Insurance	2.3	2.5	3.2
FIIIs	6.0	5.5	4.1
Others	10.6	10.7	11.6

Source: Bloomberg

Exhibit 7: Price chart



Source: Bloomberg

Financial Summary

Exhibit 8: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	11,304	14,411	14,914	21,268
Operating Expenses	6,633	8,071	8,458	11,162
EBITDA	4,672	6,340	6,456	10,106
EBITDA Margin (%)	41.3	44.0	43.3	47.5
Depreciation & Amortization	669	686	766	999
EBIT	4,003	5,654	5,690	9,107
Interest expenditure	1,617	970	39	39
Other Non-operating Income	-	-	-	-
Recurring PBT	2,510	5,117	6,105	9,545
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	628	1,291	1,541	2,409
PAT	1,882	3,826	4,564	7,137
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	1,882	3,826	4,564	7,137
Net Income (Adjusted)	1,882	3,826	4,564	7,137

Source Company data, I-Sec research

Exhibit 9: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	3,986	5,770	7,065	13,276
of which cash & cash eqv.	587	327	1,348	5,749
Total Current Liabilities & Provisions	1,735	1,517	1,157	1,016
Net Current Assets	2,251	4,253	5,908	12,260
Investments	112	2,101	2,101	2,101
Net Fixed Assets	11,033	11,461	13,598	13,400
ROU Assets	406	450	450	450
Capital Work-in-Progress	172	362	362	362
Total Intangible Assets	-	-	-	-
Other assets	291	318	336	444
Deferred Tax assests	-	3	3	3
Total Assets	15,313	17,554	21,004	27,124
Liabilities				
Borrowings	8,449	215	215	215
Deferred Tax Liability	92	1,155	1,155	1,155
Provisions	3	0	1	1
Other Liabilities	1,952	-	(447)	(638)
Equity Share Capital	193	246	246	246
Reserves & Surplus	2,434	14,064	18,321	24,773
Total Net Worth	2,627	14,310	18,567	25,019
Minority Interest	-	-	-	-
Total Liabilities	15,313	17,554	21,004	27,124

Source Company data, I-Sec research

Exhibit 10: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	2,935	3,649	3,824	3,431
% growth (YOY)	-	18.7	2.6	(14.3)
EBITDA	1,186	1,599	1,944	1,347
Margin %	40.4	43.8	50.8	39.3
Other Income	189	75	83	109
Extraordinaries	-	-	-	-
Adjusted Net Profit	636	981	1,365	940

Source Company data, I-Sec research

Exhibit 11: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	4,793	6,531	4,916	7,697
Working Capital Changes	(1,648)	(1,570)	(1,099)	(2,249)
Capital Commitments	(966)	(999)	(2,904)	(800)
Free Cashflow	2,179	3,962	913	4,648
Other investing cashflow	(135)	(1,905)	454	477
Cashflow from Investing Activities	(135)	(1,905)	454	477
Issue of Share Capital	-	7,886	-	-
Interest Cost	(1,977)	(1,626)	(39)	(39)
Inc (Dec) in Borrowings	(135)	(8,234)	-	-
Dividend paid	-	-	(308)	(685)
Others	(124)	(146)	-	-
Cash flow from Financing Activities	(2,237)	(2,120)	(347)	(724)
Chg. in Cash & Bank balance	(193)	(62)	1,021	4,401
Closing cash & balance	122	60	1,348	5,749

Source Company data, I-Sec research

Exhibit 12: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	19.5	31.1	37.1	58.0
Adjusted EPS (Diluted)	19.5	31.1	37.1	58.0
Cash EPS	26.5	36.7	43.3	66.1
Dividend per share (DPS)	-	2.5	5.6	20.3
Book Value per share (BV)	27.3	116.3	150.9	203.3
Dividend Payout (%)	-	8.0	15.0	35.0
Growth (%)				
Net Sales	52.6	27.5	3.5	42.6
EBITDA	78.1	35.7	1.8	56.5
EPS (INR)	182.6	59.1	19.3	56.4
Valuation Ratios (x)				
P/E	27.6	17.3	14.5	9.3
P/CEPS	20.4	14.7	12.4	8.2
P/BV	19.8	4.6	3.6	2.7
EV / EBITDA	12.8	10.1	9.8	5.8
EV/SALES	5.3	4.4	4.2	2.8
Dividend Yield (%)	-	0.5	1.0	3.8
Operating Ratios				
Gross Profit Margins (%)	96.5	99.8	97.8	93.8
EBITDA Margins (%)	41.3	44.0	43.3	47.5
Effective Tax Rate (%)	25.0	25.2	25.2	25.2
Net Profit Margins (%)	16.6	26.5	30.6	33.6
NWC / Total Assets (%)	10.1	10.4	11.7	16.3
Net Debt / Equity (x)	3.0	(0.2)	(0.2)	(0.3)
Net Debt / EBITDA (x)	1.7	(0.3)	(0.5)	(0.8)
Profitability Ratios				
RoCE (%)	28.9	33.1	25.5	30.9
RoE (%)	112.3	45.2	27.8	32.7
RoC (%)	16.1	26.7	30.8	26.0
Fixed Asset Turnover (x)	1.0	1.3	1.1	1.6
Inventory Turnover Days	39.0	42.5	44.5	46.5
Receivables Days	49.4	29.8	31.8	33.8
Payables Days	36.3	24.2	14.2	4.2

Source Company data, I-Sec research

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