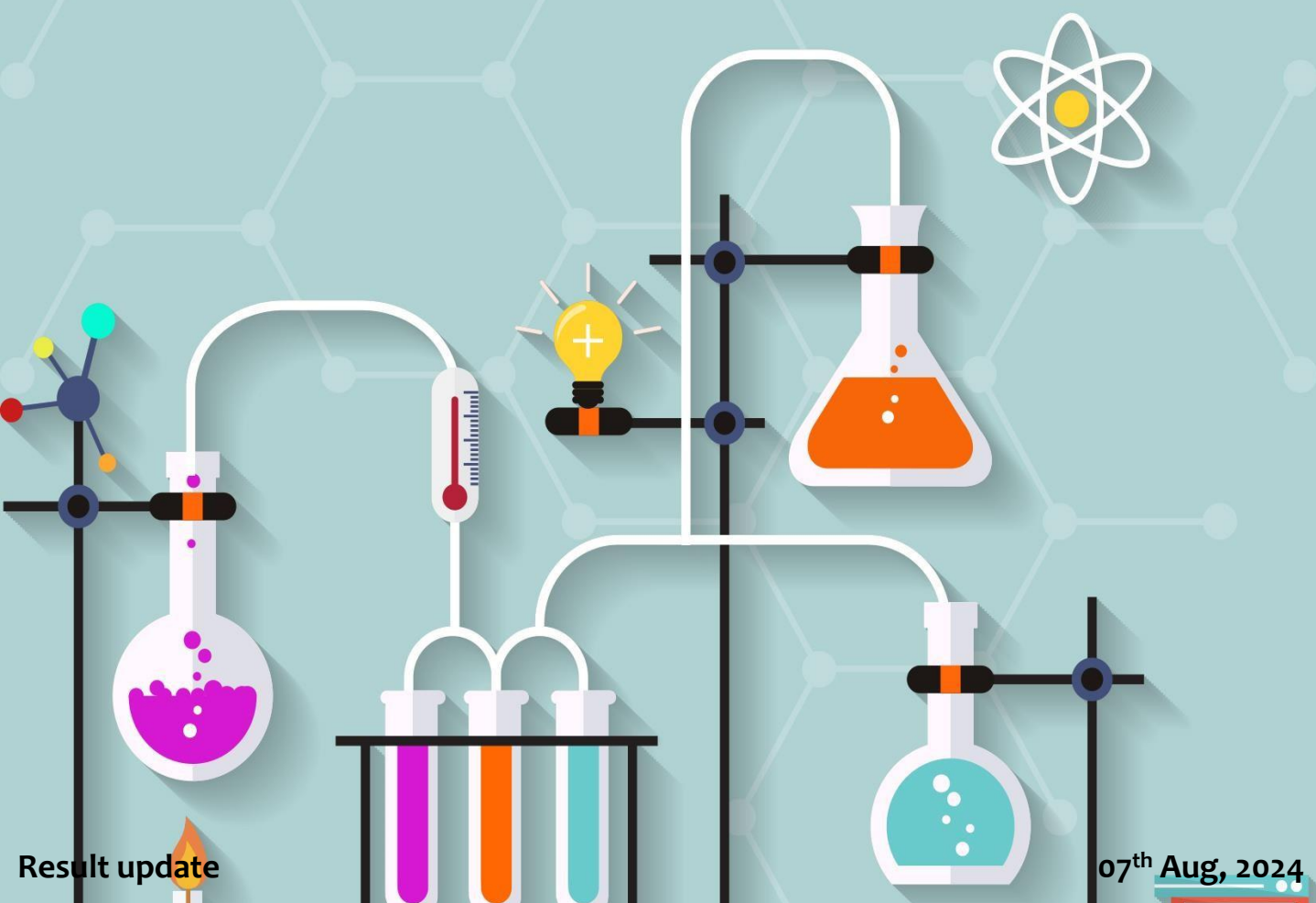




Q1FY25

Archean Chemical Industries Ltd



Archean Chemical Industries Ltd

Logistic issues impacted the Q1 but the timeline for downstream derivatives and volume recovery in existing products remains on track to drive growth

CMP INR 709*	Target INR 943	Potential Upside 33%	Market Cap (INR Mn) INR 87,493	Recommendation BUY	Sector Chemical
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Result Highlights of Q1FY25:

- Archean chemical reported lower than expected revenue and profits in Q1FY25. It recorded 25% fall in revenue on sequential basis largely due to loss of two weeks in the shipment movement during the quarter as the company shifted its logistics from Jakhau to Mundra as a regular practice during monsoon and it led to lower volume offtake in the quarter due to shipment challenges
- Despite the pressure on revenue, the EBITDA margin improved sequentially to 33.47% in Q1FY25 vs 30.69% in Q4FY24 on account of meaningful shift in power consumption from co-generation plant to grid system and other operational efficiencies
- The demand outlook remains steady in the domestic market and continues to improve on the export front while the extent of recovery remains contingent on various external factors. **We believe, the volume recovery in Industrial salt, meaningful contribution from bromine derivatives and Oren in H2FY25 should lead to material growth on the volume, revenue and profit front for FY25E. We maintain BUY rating with a target price of INR 943 at a P/E multiple of 17.5x on FY26E EPS.**

MARKET DATA

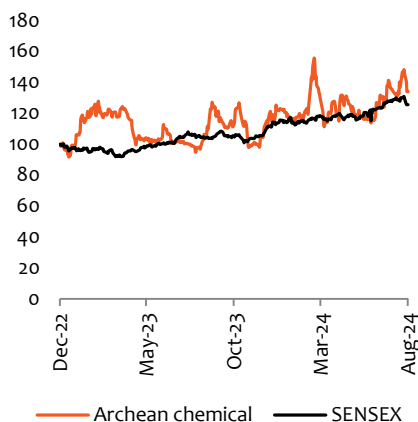
Shares outs (Mn)	123
Mkt Cap (INR Mn)	87,493
52 Wk H/L (INR)	838/502
Volume Avg (3m K)	221
Face Value (INR)	2
Bloomberg Code	ACI:IN

KEY FINANCIALS

Particulars (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	11,304	14,411	13,301	18,215	23,852
EBITDA	4,672	6,340	4,627	6,559	9,215
EBITDA %	41%	44%	35%	36%	39%
PAT	1,882	3,826	3,190	4,660	6,647
PAT%	17%	27%	24%	26%	28%
P/E	46	23	27	19	13

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Logistic issues posed challenge in Q1, but the demand scenario remains on a healthy footing

- ACI reported Q1 revenue of INR 2,127 million, marking a 25% QoQ decline due to logistical issues, with YoY comparisons impacted by a significant drop in bromine prices from Q1FY24.
- Revenue for bromine and industrial salt declined by -8% and -34% QoQ, respectively, due to lower volume uptake; however, export contribution improved to 72% in Q1FY25 from 69% in Q4FY24.
- Despite lower realizations for both products, management anticipates volume recovery in industrial salt, improved bromine demand and realizations in the coming quarters, supported by healthy export demand and long-term contracts.

Margins are on an improving trajectory and bromine derivatives on track for H2FY25

- The EBITDA margin increased by 278 basis points to 33.47% QoQ, driven by a switch to grid system from co-generation, which now contributes nearly half of the capacity.
- Margin expansion was also due to better turnaround time, improved downtime management, higher efficiency in raw material consumption, and plant management.
- Management is confident about bromine offtake, expecting FY25 volume to be around 22,000-25,000 metric tons, revised down from 25,000-28,000 metric tons, supported by successful deliveries to both new and existing customers.
- Beyond CBF and PTA synthesis, ACI has permissions for other specialty bromo-related derivatives as well.

MARKET INFO

SENSEX	78,593
NIFTY	23,993

SHARE HOLDING PATTERN (%)

Particulars	Jun-24 (%)	Mar-24 (%)	Dec-23 (%)
Promoters	53.5	53.5	53.5
FIIIs	9.5	5.9	4.2
DIIIs	21.1	27.1	28.7
Others	16.0	13.6	13.7
Total	100.0	100.0	100.0

*Based on previous closing

34%

Revenue CAGR between FY24 and FY26E

44%

Adj. PAT CAGR between FY24 and FY26E

Archean Chemical Industries Ltd

Key Concall Highlights:

- The management highlighted that it has spent INR 1400+ Mn on the bromine derivative products excluding flame retardants and it would be spending another INR 100 Mn (apprx) for producing the CBF & PTA synthesis plant.
- On the flame-retardant side, the management highlighted that capex for flame retardant would be subject to improvement in demand scenario. ACI should have better clarity on the flame-retardant related capex in the coming quarters with more progress in visibility.
- Archean Chemical has engaged with 60+ clients for bromine derivatives, with 10 approved customers which are mostly new clients. The company is focusing on delivering to approved clients first, aiming for higher traction and better leverage in marketing these products.
- ACI has also received the NCLT order on 9th July to acquire Oren Hydrocarbon and it has planned a deployment of refurbishment related capital at INR 400 Mn in a calibrated manner, and it is targeting to reach INR 2000+ Mn revenue in FY25.
- ACI will proceed in phases for the Oren Hydrocarbon project, deploying INR 400 million in phases for refurbishment purpose. Initially, the company will focus on starting two facilities, which will produce products like starch and barite, related to the oil and gas drilling industry. The revenue from Oren Hydrocarbon is expected to come in the second half of FY25.
- The management also highlighted that current quarter margin expansion on sequential basis is aligned with company's constant focus on margin expansion. The calibrated shift towards grid systems coupled with various other operational efficiencies is aiding to the EBITDA margin expansion for the company.

Operational Metrics:

Sales Volume (MT)	Q1FY24	Q4FY24	Q1FY25
Bromine	4,272	4,800	4,700
Industrial Salt	10,60,000	9,30,000	6,60,000
Realization (INR/MT)	Q1FY24	Q4FY24	Q1FY25
Bromine	3,21,249	2,12,543	1,99,116
Industrial Salt	1,910	1,925	1,772

Geographic exposure	Q1FY24	Q4FY24	Q1FY25
Domestic	34%	31%	28%
Export	66%	69%	72%
Revenue Split%	Q1FY24	Q4FY24	Q1FY25
Bromine	40%	36%	44%
Industrial Salt	59%	63%	55%

Valuation and view:

Archean Chemical remains on track to launch its bromine derivative products such as Clear Brine Fluids, PTA Synthesis, and specialty products in the second half of fiscal year 2025 (H2FY25). Concurrently, the recent acquisition of Oren Hydrocarbon is expected to become operational from H2FY25E, with management aiming to achieve revenue exceeding INR 2,000 million from this business. We believe the downward trend in bromine prices has been arrested and should continue to improve. The volume recovery in industrial salt, supported by fixed contracts with customers, is expected to offset the underperformance of the first quarter and contribute to healthy full-year growth. **As the contribution of non-commodity revenue increases in the second half of FY25E and throughout FY26E, there should be a probable re-rating case for this counter. We maintain BUY rating with a projected 34%/44% revenue/net profit compound annual growth rate (CAGR) during FY24-FY26E, driven by volume recovery in existing products and uptake in new derivative products. We maintain the target price of INR 943 valuing the stock at a P/E of 17.5x on FY26E EPS.**

Result Snapshot Q1FY25

Particulars (INR Mn)	Q1FY24	Q4FY24	Q1FY25	YoY	QoQ
Revenue From Operations	3,431	2,839	2,127	-38%	-25%
COGS	299	-79	-180		
Gross Profit	3,132	2,918	2,307		
Employee Exps	203	147	147		
Other Expenses	1,583	1,900	1,448		
EBITDA	1,346	871	712	-47%	-18%
EBITDA Margin %	39%	31%	33%	-577 bps	279 bps
Other Income	109	120	97		
Depreciation	175	177	186		
Finance Cost	30	17	17		
Profit Before Tax	1250	797	606	-52%	-24%
PBT%	36%	28%	28%		
Tax					
Total Tax	312	221	157		
Profit After Tax	939	576	448	-52%	-22%
Adjusted EPS	7.61	4.67	3.63		

Source: Company, KRChoksey Research

Archean Chemical Industries Ltd

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

Particulars (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue From Operations	11,304	14,411	13,301	18,215	23,852
Raw Material Expenses	393	27	877	1518	1943
Gross Profit	10,911	14,383	12,424	16,697	21,909
Gross Profit Margin%	97%	100%	93%	92%	92%
Employee Benefit Expenses	378	720	724	937	1,153
Other expenses	5,861	7,323	7,073	9,201	11,541
Operating Expenses	6,633	8,071	8,674	11,656	14,637
EBITDA Profit	4,672	6,340	4,627	6,559	9,215
EBITDA %	41%	44%	35%	36%	39%
Finance Cost	1,617	970	85	63	73
Depreciation	669	686	703	759	781
Total Expenses	8,918	9,727	9,462	12,478	15,490
Profit Before Taxes	2,510	5,117	4,272	6,227	8,883
Total Tax Expenses	628	1,291	1,082	1,568	2,236
Profit After Tax	1,882	3,826	3,190	4,660	6,647
PAT Margin %	17%	27%	24%	26%	28%
Adj. Diluted EPS (INR)	15.25	31.00	25.85	37.76	53.86

Source: Company, KRChoksey Research

Exhibit 2: Balance Sheet

Particulars (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
(a) Property, plant and equipment	10,455	10,649	11,180	12,067	11,984
(b) Capital work in progress	172	362	462	412	437
(c) Right-of-use assets	406	450	416	433	424
(ii) Other financial assets	18	222	155	187	171
j) Other non current assets	274	99	998	549	773
Total non-current assets	11,327	11,787	13,297	13,694	13,856
Inventories	1,208	1,678	1,273	1,835	2,226
(i) Investments	111	2,101	3,499	2,800	3,149
(ii) Trade receivables	1,530	1,177	1,564	1,815	2,590
(iii) Cash and cash equivalents	122	60	455	4,205	9,137
(vi) Other financial assets	146	163	146	155	151
(d) Other current assets	400	317	321	319	320
Total current assets	3,986	5,767	7,262	11,132	17,577
Total Assets	15,313	17,554	20,559	24,826	31,433
(a) Equity Share Capital	193	246	247	247	247
(b) Other Equity	2,430	14,064	16,769	20,840	26,949
TOTAL EQUITY	2,623	14,310	17,016	21,086	27,196
i. Borrowings	8,428	8	594	336	465
ii. Lease liabilities	455	357	312	335	323
Total non-current liabilities	10,934	1,520	2,194	1,893	2,043
i. Borrowings	21	207	2	104	53
Total Trade Payable	1,123	956	998	1,287	1,738
iv. Other financial liabilities	49	214	241	228	234
(a) Other Current Liabilities	486	194	28	111	70
Total current liabilities	1,756	1,724	1,349	1,847	2,193
Total Liabilities	12,690	3,244	3,543	3,740	4,236
TOTAL EQUITY AND LIABILITIES	15,313	17,554	20,559	24,826	31,433

Source: Company, KRChoksey Research

Arcean Chemical Industries Ltd

Exhibit 3: Ratios

Particulars	FY22	FY23	FY24	FY25E	FY26E
Profitability					
Return on Assets	13%	23%	17%	21%	24%
Return on Capital	39%	44%	24%	30%	34%
Return on Equity	112%	45%	20%	24%	28%
Margin Trend					
Gross Margin	97%	100%	93%	92%	92%
EBITDA margin	41%	44%	35%	36%	39%
Net Profit margin	17%	27%	24%	26%	28%
Liquidity					
Current Ratio	2.3	3.3	5.4	6	8
Debtor Days	49	30	43	36	40
Inventory Days	39	42	35	37	34
Creditors Days	36	24	27	26	27
Asset turnover	0.8	0.9	0.7	0.8	0.8
Working Capital Days	52	48	50	47	47
Valuation Ratio					
EV/EBITDA	18.7	13.8	18.9	13.4	9.5
P/E	46.5	22.9	27.4	18.8	13.2
P/B	33.3	6.1	5.1	4.1	3.2

Source: Company, KRChoksey Research

Exhibit 3: Cash Flow Statement

Particulars (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
Net cash generated from operating activities	3,145	4,961	3,794	6,080	6,173
Net cash (used in) investing activities	-1,101	-2,903	-3,073	-1,607	-771
Net cash generated from / (used in) financing activities	-2,237	-2,120	-326	-723	-470
Cash & Cash Equivalents at the end of the year	122	60	455	4,205	9,137

Source: Company, KRChoksey Research

Archean Chemical Industries Ltd

Archean Chemical Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
07-Aug-24	709	943	BUY
31-Jul-24	762	943	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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