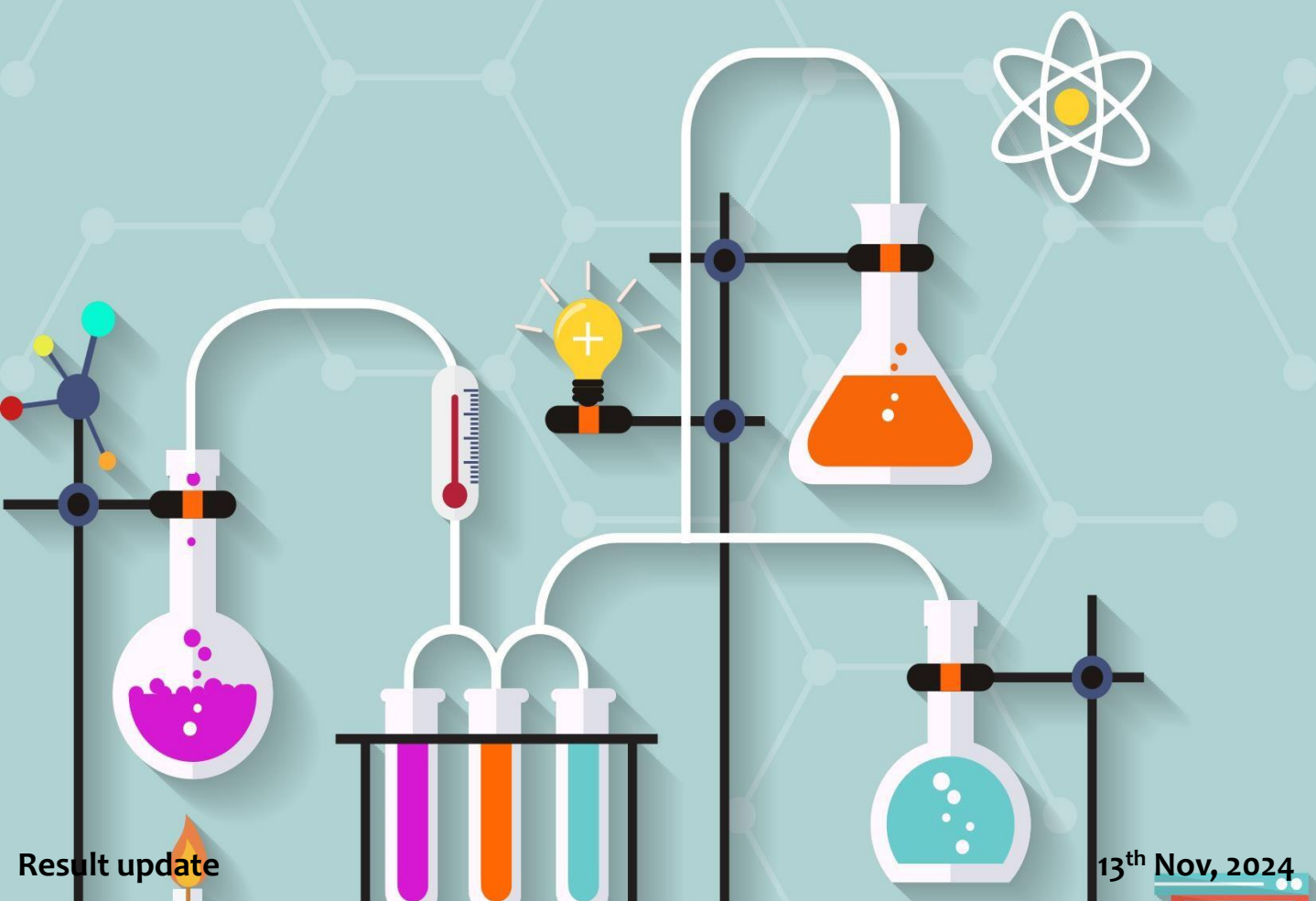




Q2FY25

Archean Chemical Industries Ltd



Archean Chemical Industries Ltd.

Weak H1 but recovery is expected ahead

CMP*	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 671	INR 890	32.6%	INR 82,605	BUY	Chemical

Result Highlights of Q2FY25:

- Archean chemical reported lower than expected revenue and earnings in Q2FY25 largely on account of lower volume in Industrial salt.
- The revenue and PAT (including exceptional item) for the company declined in Q2FY25 by -17%/-74% on YoY basis. The fall in PAT was sharply on account of inventory loss of industrial salt worth of INR 402 Mn (4.72 Lakh MTPA). However, the adjusted PAT also declined -15% during the quarter on account of lower volume offtake and reduced profitability.
- ACI's strategic investment in silicon carbide and zinc bromide battery technologies highlights the company's forward-looking vision and reflects a paradigm shift in its business dynamics. In light of the recent performance, **we have revised our FY25E and FY26E earnings estimates downward by 21% and 10%, respectively, due to softer demand in the export market for bromine and weaker volume offtake in industrial salt.**
- However, we recognize the potential in ACI's bromine derivatives business, which is expected to contribute meaningfully from H2FY25 onwards, positioning the company towards a more specialty and value-added product portfolio. Reflecting this shift, we have upgraded our forward P/E multiple by 5%, from 19x to 20x. We now value the stock on a revised FY26E EPS of INR 45 (previously INR 50), setting a target price of INR 890 (previously INR 943), indicating a potential upside of 32.6% from the CMP.**

MARKET DATA

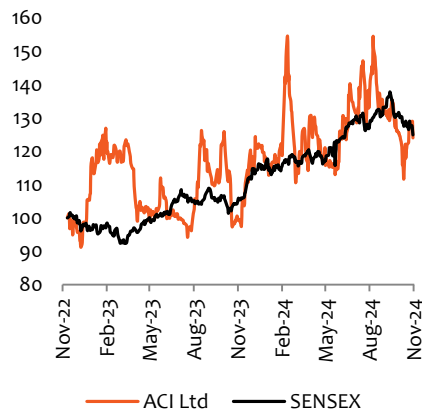
Shares outs (Mn)	123
Mkt Cap (INR Mn)	82,605
52 Wk H/L (INR)	838/516
Volume Avg (3m K)	496
Face Value (INR)	2
Bloomberg Code	ACI:IN

KEY FINANCIALS

Particulars (INR Mn) (x)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	14,411	13,301	15,214	21,675	27,061
EBITDA	6,340	4,627	5,093	7,675	9,635
EBITDA %	44%	35%	33%	35%	36%
PAT	3,826	3,190	3,597	5,506	6,894
PAT%	27%	24%	24%	25%	25%
P/E (X)	22	26	23	15	12

Source: Company, DevenChoksey Research

SHARE PRICE PERFORMANCE



Stable Volume offtake in Bromine but Industrial salt lagged due to cyclone impact

- ACI reported -17% (YoY) decline in revenue growth on account of -19% fall in industrial salt revenue which contributed 62% of the overall revenue for the quarter. Industrial salt business was impacted because of INR 40 crore worth of inventory loss took place due to cyclone.
- The adverse weather conditions created difficult transportation routes, slowing down the movement of inventory from production sites to export ports. ACI's operations rely heavily on a fleet of over 300 trucks for moving salt, and road conditions impacted these logistics, reducing quarterly export volumes to around 7.5 lakh tonnes.
- However, the bromine business recorded a YoY growth of +11% during the quarter on account of higher volume offtake at 4800 MT in Q2FY25 vs 3400 MT in Q2FY24 with improved realization at INR 246,576/MT vs INR 241,948/MT. The bromine business did well on account of stable demand from the domestic front but export prices remain under pressure given the evolving market dynamics.

Margins impacted due to lower absorption and bromine derivative business on track

- The lower revenue for the quarter led to gross margin erosion for the quarter which further impacted the EBITDA margin for the company. The EBITDA margin reduced to 31% in Q2FY25 vs 33% in Q2FY24.
- ACI is focusing on Clear Brine Fluids (CBF) and PTA synthesis for the oil, gas, and petrochemical sectors. Initial customer feedback has been positive, with further trials underway, and revenue contributions expected in the coming quarters.

MARKET INFO

SENSEX	77,691
NIFTY	23,559

SHARE HOLDING PATTERN (%)

Particulars	Sep-24 (%)	Jun-24 (%)	Mar-24 (%)
Promoters	53.5	53.5	53.5
FII's	10.2	9.5	5.9
DII's	22.0	21.1	27.1
Others	14.3	15.9	13.5
Total	100.0	100.0	100.0

*Based on Today's closing

28%

Revenue CAGR between FY24 and FY26E

31%

Adj. PAT CAGR between FY24 and FY26E

Archean Chemical Industries Ltd.

Key Concall Highlights:

- ACI invested in OffGrid Energy Labs, a US-based firm specializing in zinc bromide battery technology, to expand into the battery energy storage market. Targeted at renewable and industrial applications, this technology aligns with ACI's bromine operations.
- Through this investment, ACI gains ownership access to innovative zinc bromide battery technology, enabling the setup of giga battery facilities. Additionally, ACI can license this technology internationally, potentially generating royalty income as other players adopt similar setups in different countries. The overarching goal is to establish a foothold in the growing energy storage market while monetizing its bromine expertise.
- ACI invested in Classic Wafer Fab Ltd., a UK-based company specializing in silicon carbide (SiC) devices, to enter the high-growth semiconductor market. SiC technology, essential for electric vehicles, industrial power electronics, and renewable energy systems, aligns with ACI's expansion into advanced materials. With a projected growth rate exceeding 25% CAGR, the global SiC market is expected to reach over \$10 billion by 2030, driven by demand for high-efficiency, high-temperature electronics.
- For industrial salt, ACI has set a volume guidance of over 1 million tonnes per quarter for the second half of FY25, following disruptions in the first half due to extended monsoon conditions and logistical challenges. Despite these setbacks, ACI expects to reach an annual target of around 4.5 million tonnes, with a potential 10% variance due to weather-related and logistical uncertainties
- ACI aims to produce over 20,000 tonnes of bromine in FY25, with this target encompassing both captive and third-party production. The company is working diligently to comfortably exceed this volume goal, driven by stable domestic demand and improved market conditions. The management also mentioned that it is targeting to reach 25,000 tonnes of bromine in FY26E.
- ACI has planned minimal CapEx of INR 50–75 crore through March 2025, primarily for existing initiatives such as Oren Hydrocarbon. Major CapEx for scaling new initiatives like zinc bromide batteries and silicon carbide will be evaluated later.

Operational Metrics

Sales Volume (MT)	Q1FY24	Q2FY24	Q4FY24	Q1FY25	Q2FY25
Bromine	4,272	3,400	4,800	4,700	4,800
Industrial Salt	10,60,000	9,76,000	9,30,000	6,60,000	7,92,000
Realization (INR/MT)	Q1FY24	Q2FY24	Q4FY24	Q1FY25	Q1FY25
Bromine	3,21,249	2,41,948	2,12,543	1,99,116	2,46,576
Industrial Salt	1,910	1,889	1,925	1,772	1,955

Geographic exposure	Q1FY24	Q2FY24	Q4FY24	Q1FY25	Q2FY25
Domestic	34%	72%	31%	28%	22%
Export	66%	28%	69%	72%	78%
Revenue Split	Q1FY24	Q2FY24	Q4FY24	Q1FY25	Q2FY25
Bromine	40%	28%	36%	44%	38%
Industrial Salt	59%	63%	63%	55%	62%

Source: Company, DevenChoksey Research

Valuation and view:

In the core operations, H1FY25 highlights risks surrounding the company's initial target of achieving a 4.5 MT volume in industrial salt. Additionally, a soft export market may place pressure on surpassing bromine volumes beyond 20,000-22,000 MT for the full year. Nevertheless, a meaningful contribution from the bromine derivatives business is expected to offset some of the existing weaknesses in core operations.

As a result, we have revised our FY25E/FY26E EPS estimates to INR 26/INR 45, down from INR 33/INR 50. However, we recognize that a meaningful contribution from bromine derivative products could enable ACI to transition from a commodity-centric business to a more value-added and specialty product focus business. Reflecting this positive development, we have adjusted our forward P/E multiple to 20x (up from 19x), yielding a target price of INR 890 (previously INR 943), which implies a 32.6% upside from the current market price (CMP).

Archean Chemical Industries Ltd.

KEY FINANCIALS

Result Snapshot Q2FY25

Particulars (INR Mn)	Q2FY24	Q1FY25	Q2FY25	Q-o-Q	Y-o-Y	H1FY24	H1FY25	Y-o-Y
Revenue from Operations	2,905	2,127	2,405	13%	-17%	6,336	4,531	-24%
Total Expenditure	1,950	1,415	1,657	17%	-15%	4,035	3,072	-24%
COGS	188	-180	137	-176%	-27%	486	7	-98%
Employee Cost	192	147	128	-13%	-33%	395	276	-30%
Other Expenses	1,570	1,448	1,392	-4%	-11%	3,153	2,840	-10%
EBITDA	955	712	747	5%	-22%	2,301	1,459	-37%
EBITDA Margins (%)	32.9%	33.5%	31.1%	-240 bps	-179 bps	36%	32.2%	-412 bps
Depreciation	175	186	195	4%	11%	350	381	9%
EBIT	780	526	553	5%	-29%	1,951	1,078	-45%
Other Income	112	97	109	13%	-2%	221	206	-7%
Interest Expense	19	17	32	89%	73%	49	49	1%
Exceptional Items	0	0	402				402	
Adjusted PBT (Before Exceptional Item)	873	606	630	4%	-28%	2,123	833	-61%
PBT with exceptional item	872.938	605.6	228	-62%	-74%	2,123	432	-80%
Tax	213	157	70	-55%	-67%	525	228	-57%
PAT	660	448	157	-65%	-76%	1,599	606	-62%
PAT Margin	23%	21%	6.5%	-1,454 bps	-1,618 bps	25%	13.4%	-1,186 bps
Adj PAT	660	448	559	25%	-15%	1,599	1,008	-37%
Adj PAT Margin	22.7%	21.1%	23.3%	217 bps	53 bps	25.2%	22.2%	-300 bps
EPS	5.3	3.6	1.3	-65%	-76%	13.0	4.9	-62%
Adj EPS	5.3	3.6	4.5	25%	-15%	13.0	8.2	-37%

Assumptions:

Particulars (INR Million)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Bromine	6,052	7,084	4,274	4,386	5,907	7,384
Industrial Salt	5,129	7,281	8,401	7,967	10,355	11,130
Sulphate of Potash	114	31	360	467	786	797
Flame retardants (BFR)	-	-	-	-	326	1,671
Clear brine fluids (CBR)	-	-	-	263	1,146	1,418
PTA Synthesis	-	-	-	132	205	442
Oren Hydrocarbon	-	-	-	2,000	2,950	4,220

Source: Company, DevenChoksey Research

Archean Chemical Industries Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue From Operations	14,843	13,734	15,655	22,241	27,582
Raw Material Expenses	27	877	1,186	1,915	2,391
Gross Profit	14,383	12,424	14,029	19,760	24,669
Gross Profit Margin%	100%	93%	92%	91%	91%
Employee Benefit Expenses	720	724	754	1,051	1,311
Other expenses	7,323	7,073	8,182	11,033	13,724
Operating Expenses	8,071	8,674	10,121	14,000	17,426
EBITDA	6,340	4,627	5,093	7,675	9,635
EBITDA %	44%	35%	33%	35%	36%
Finance Cost	970	85	80	73	67
Depreciation	686	703	763	810	875
Total Expenses	9,727	9,462	10,963	14,883	18,368
Profit Before Taxes	5,117	4,272	4,692	7,359	9,214
Total Tax Expenses	1,291	1,082	1,095	1,853	2,320
Profit After Tax	3,826	3,190	3,597	5,506	6,894
PAT Margin %	27%	24%	24%	25%	25%
Adj. Diluted EPS (INR)	31.00	25.85	29.15	44.62	55.87

Source: Company, DevenChoksey Research

Exhibit 2: Balance Sheet

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Property, plant and equipment	10,649	11,180	12,067	12,257	12,382
Capital work in progress	362	462	412	437	424
Investments	0	0	0	0	0
Deferred tax assets (Net)	3	11	7	9	8
Income tax assets (Net)	0	54	27	40	34
Current Assets					
Financial assets :	0	0	0	0	0
Investments	2,101	3,499	2,800	3,149	2,974
Trade receivables	1,177	1,564	1,516	2,354	2,818
Loans	4	4	4	4	4
Current Tax Assets	0	0	0	0	0
Other current assets	317	321	319	320	319
Total current assets	5,767	7,262	10,043	14,990	21,401
Equity					
Equity Share Capital	246	247	247	247	247
Other Equity	14,064	16,769	19,962	24,793	30,867
Financial Liabilities	0	0	0	0	0
Borrowings	8	594	336	465	401
Deferred tax liabilities (Net)	1,155	1,238	1,196	1,217	1,207
Financial liabilities					
Outstanding dues of creditors other than above	776	0	0	0	0
Total Trade Payable	956	998	1,075	1,579	1,942
Derivative liabilities	0	3	1	2	2
Provisions	3	6	4	5	5
Total current liabilities	1,724	1,349	1,635	2,034	2,449
Total Liabilities	3,244	3,543	3,527	4,078	4,417
TOTAL EQUITY AND LIABILITIES	17,554	20,558	23,736	29,118	35,532

Source: Company, DevenChoksey Research

Archean Chemical Industries Ltd.

Exhibit 3: Ratios

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Profitability					
Return on Assets	23%	17%	16%	21%	21%
Return on Capital	44%	24%	23%	30%	31%
Return on Equity	45%	20%	19%	24%	25%
Margin Trend					
Gross Margin	100%	93%	92%	91%	91%
EBITDA margin	44%	35%	33%	35%	36%
Net Profit margin	27%	24%	24%	25%	25%
Liquidity					
Current Ratio	3.3	5.4	6.1	7.4	8.7
Debtor Days	30	43	36	40	38
Inventory Days	42	35	37	34	34
Creditors Days	24	27	26	27	26
Asset turnover	0.9	0.7	0.7	0.8	0.8
Working Capital Days	5.8	46.4	54.2	94.7	130.5
Valuation Ratio					
EV/EBITDA	13.5	18.5	16.8	11.1	8.9
P/E	22.3	26.8	23.7	15.5	12.4
P/B	6.0	5.0	4.2	3.4	2.7

Source: Company, DevenChoksey Research

Exhibit 4: Cash Flow Statement

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Net cash generated from operating activities	4,961	3,794	5,407	4,954	7,518
Net cash (used in) investing activities	-2,903	-3,073	-1,607	-1,074	-1,015
Net cash generated from / (used in) financing activities	-2,120	-326	-538	-607	-854
Cash & Cash Equivalents at the end of the year	60	455	3,716	6,989	12,638

Source: Company, DevenChoksey Research

Archean Chemical Industries Ltd.

Archean Chemical Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
13-Nov-24	671	890	BUY
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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