IPO Note – Anupam Rasayan India Limited

10-March-2021

RETAIL RESEARCH

Issue Snapshot:
Issue Open: Mar 12 – Mar 16, 2021

Price Band: Rs. 553 –555 (discount of Rs.55 for eligible employees)

*Issue Size: 13,693,694 eq shares (including Employee Reservation of 220,000 Eq sh)

*Issue Size: Rs. 757.3 – 760.0 cr

Reservation for:

QIB	Upto	50% eq sh
Non Institutional	atleast	15% eq sh
Retail	atleast	35% eq sh

Face Value: Rs 10

Book value: Rs 95.64 (December 31, 2020)

Bid size: - 27 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs. 86.21 cr
Post issue Equity:	Rs. 99.90 cr

Listing: BSE & NSE

Book Running Lead Manager: Axis Capital Limited, Ambit Private Limited, IIFL Securities Limited, JM Financial Limited

Registrar to issue: KFin Technologies Private Limited

Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	75.8	65.4
Public & Employee	24.2	34.6
Total	100.0	100.0

*=assuming issue subscribed at higher band
Source for this Note: RHP

Background & Operations:

Anupam Rasayan India Ltd (ARIL) is one of the leading companies engaged in the custom synthesis and manufacturing of specialty chemicals in India. It commenced business as a partnership firm in 1984 as a manufacturer of conventional products and has, over the years, evolved into custom synthesis and manufacturing of life science related specialty chemicals and other specialty chemicals, which involve multi-step synthesis and complex technologies, for a diverse base of Indian and global customers. Its key focus in its custom synthesis and manufacturing operations is developing in-house innovative processes for manufacturing products requiring complex chemistries and achieving cost optimization.

It has two distinct business verticals (i) life science related specialty chemicals comprising products related to agrochemicals, personal care and pharmaceuticals, and (ii) other specialty chemicals, comprising specialty pigment and dyes, and polymer additives. In Fiscal 2020 and in the nine months ended December 31, 2020, revenues from its life science related specialty chemicals vertical accounted for 95.37% and 93.75%, respectively, of its revenue from operations, while revenue from other specialty chemicals accounted for 4.63% and 6.25%, respectively, of its revenue from operations, in such periods.

ARIL has developed strong and long-term relationships with various multinational corporations, including, Syngenta Asia Pacific Pte. Ltd., Sumitomo Chemical Company Limited and UPL Limited that has helped it to expand its product offerings and geographic reach across Europe, Japan, United States and India. In particular, it has been manufacturing products for certain customers for over 10 years. In the nine months ended December 31, 2020, it manufactured products for over 53 domestic and international customer, including 17 multinational companies. The Government of India has also recognized ARIL as a three star export house. It is also one of the leading companies in manufacturing products using continuous and flow chemistry technology on a commercial scale in India. Its R&D team has successfully carried out multi-step synthesis and scale-up for several new molecules in the area of life sciences related specialty chemicals and other specialty chemicals, and as a result, expanded its commercialized product portfolio from 25 products in Fiscal 2018 to 34 products in Fiscal 2020 and 41 products in the nine months ended December 31, 2020.

ARIL has a target driven approach to environment, sustainability, health and safety measures. It undertake hazard and operability studies before commencing commercial production of a new product and look to mitigate these hazards through process improvement, engineering controls, developing safe operating procedures and training of its employees. Further, its integrated model has allowed to develop insights across the entire value chain right from process innovation, process development and manufacturing to performing custom synthesis and manufacturing services for its customers. Its backward integrated Jhagadia Unit – 4 facility enables it to manufacture key raw materials for certain products, which has enabled to reduce reliance on imports, specifically from China, third party supplies and logistics costs..

On account of the COVID-19 pandemic, India had imposed a nationwide lockdown on March 24, 2020, however, since ARIL's life science related specialty chemicals operations were determined to be operating in an essential industry, it was allowed to resume operations in a phased manner and by April 15, 2020 all of its facilities restarted operations, subject to certain adjustments in working patterns and limited workforce. Despite the impact of the COVID-19 pandemic, ARIL's revenue from operations significantly increased by 45.03% from Rs 3,718.07 million in the nine months ended December 31, 2019 to Rs 5,392.20 million in the nine months ended December 31, 2020.

Objects of Issue:

The net proceeds of the Issue, i.e. Gross proceeds of the Issue less the Issue expenses ("Net Proceeds") are proposed to be utilised in the following manner:

- Repayment/prepayment of certain indebtedness availed by the Company (including accrued interest) Rs.563.7 cr; and
- General corporate purposes.

In addition, ARIL expects to achieve the benefit of listing of Equity Shares on the Stock Exchanges, including to enhance its visibility and its brand image among its existing and potential customers and creation of a public market for Equity Shares in India.

Competitive Strengths

Strong and long-term relationships with diversified customers across geographies with significant entry Barriers: ARIL has developed strong and long-term relationships with various multinational corporations that has helped to expand its product offerings, processes and geographic reach. Its customers are typically engaged in various industries, including agrochemicals, personal care, pharmaceuticals, specialty pigments and dyes, and polymer additives, and spread across various geographies, which helps it mitigate risks resulting from customer, industry and geographic concentration. It has established relationships with various multinational corporations, such as, Syngenta Asia Pacific Pte. Ltd., Sumitomo Chemical Company Limited and UPL Limited, across Europe, Japan, United States and India. In the nine months ended December 31, 2020, ARIL manufactured products for over 53 domestic and international customer, including 17 multinational companies. In Fiscal 2020 and the nine months ended December 31, 2020, revenue from operations from exports accounted for 68.05% and 61.38%, respectively, of its total revenue from operations in such periods. Its customer relationships are led primarily by it ability to develop innovative processes, meet stringent quality and technical specifications and manufacture customers' products in a cost effective, safe and environment friendly manner. As result, ARIL has a history of high customer retention and has been manufacturing products for certain customers for over 10 years. The level of technical skill and expertise that is essential for developing in-house innovative processes, undertaking complex chemistries and handling some of the raw materials and intermediates, require a significant amount of training that can only be achieved over a period of time and thereby, create a further entry barrier for new entrants.

Core focus on process innovation through consistent research and development, value engineering and complex chemistries: ARIL focus on process innovation through continuous R&D and value engineering has been instrumental in the growth of its business and improved its ability to customize products for its customers as well as reduced its cost of goods while maintaining its margins. Its R&D is focused on enabling to perform multi-step synthesis as well as developing in-house processes and identifying complex chemistries. It has a dedicated 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 in pursuing efficiencies from the initial conceptualization up to commercialization of a product. Its R&D team has successfully carried out multi-step synthesis and scale-up for several new molecules in the area of life sciences related specialty chemicals and other specialty chemicals, and as a result, expanded its commercialized product portfolio from 25 products in Fiscal 2018 to 34 products in Fiscal 2020 and 41 products in the nine months ended December 31, 2020.

ARIL has also, over the years, successfully diversified ourselves in terms of process capability and expanded its expertise into multi-step synthesis capabilities and complex chemistries, such as, etherification, diazotization and hydrolysis, acylation, hydrogenation, fluorination, alkylation, nitration, amination, esterification, chlorination and bromination. Since it has been able to implement the continuous process technology in certain of its manufacturing operations, ARIL has become a preferred partner for various multinational companies for manufacturing products utilizing these chemical reactions.

Diversified and customized product portfolio with a strong supply chain: ARIL has, over the years, diversified, expanded and evolved its operations from a manufacturer of conventional products into custom synthesis and manufacturing of life science related specialty chemicals and other specialty chemicals, which has diverse applications across various industries. Its commercialized product portfolio has expanded from portfolio from 25 products in Fiscal 2018 to 34 products in Fiscal 2020 and 41 products in the nine months ended December 31, 2020, primarily consisting of products that it manufacture using in-house innovative processes, which enable to cater to a wide range of customers in domestic and international markets. In addition, its diversified product portfolio allows for limited dependence on individual products, helps counter seasonal trends and addresses different business cycles across industries where its products are used.

ARIL's integrated model that includes automated manufacturing infrastructure, complex chemical processes and R&D capabilities has allowed to develop insights across the entire value chain right from process innovation and process development to performing custom synthesis and manufacturing services for its customers. It also has a transparent cost model with the cost of, amongst others, raw materials, packaging, labour, utilities, insurance and taxes as well as a margin typically mentioned in the purchase order and/ or agreement. Further, the final purchase price is typically pre-determined and mutually agreed between customer and ARIL. In addition, its relationship with customers and repeat business from them has also allowed to develop a long-standing relationship with various raw materials suppliers.

Automated manufacturing facilities with strong focus on environment, sustainability, health and safety measures: ARIL's currently has six manufacturing facilities situated in Gujarat, with four facilities located in Sachin, Surat, Gujarat and two facilities located in Jhagadia, Bharuch, Gujarat. Its facilities has an aggregate installed capacity of 23,438 MT, as of December 31, 2020. In its manufacturing operations, it provide large-scale custom synthesis and manufacturing services, offer multi-step synthesis and undertake complex chemical reactions. ARIL's manufacturing facilities are highly automated and are equipped with glass-lined, titanium cladded and stainless steel reactors enabling to manufacture a diverse range of products, minimize the number of employees required, and as a result, reduce cost and human error. Further, its facilities are adequately supported with sophisticated analytical infrastructure, including, gas chromatography, reaction calorimeters and differential screening calorimeters, enabling to provide accurate analysis to its customers. ARIL has also made and expect to continue making capital expenditure in maintaining and growing its existing infrastructure, purchase equipment, and develop and implement new processes and technologies in its manufacturing facilities.

Consistent track record of financial performance*:* ARIL has demonstrated consistent growth in terms of revenues and profitability. Its revenue from operations has increased at a CAGR of 24.29% from Rs. 3,491.82 million in Fiscal 2018 to Rs. 5,393.87 million in Fiscal 2020. The value of exports has grown at a CAGR of 32.94% from Rs. 2,036.64 million in Fiscal 2018 to Rs. 3,599.22 million in Fiscal 2020. Further, it it has been able to continue its robust growth despite the impact of the COVID-19 pandemic and the nation-wide lockdown which was announced on March 24, 2020 in India, and its revenue from operations significantly increased by 45.03% from Rs 3,718.07 million in the nine months ended December 31, 2019 to Rs. 5,392.20 million in the nine months ended December 31, 2020. In addition, the value of its exports increased by 27.87% from Rs. 2,588.09 million in the nine months ended December 31, 2019 to Rs. 3,309.50 million in the nine months ended December 31, 2020.

Experienced promoters and strong management team*:* ARIL is led by experienced Promoters, some of whom have significant experience in the chemical industry. Its industry experience enables to anticipate and address market trends, manage and grow its operations, maintain and leverage customer relationships and respond to changes in customer preferences. ARIL will continue to leverage on the experience of its management team and their understanding of the life science related specialty chemicals and other specialty chemicals. In addition, it is supported by its committed employee base and believe it has a mutually beneficial relationship with its employees. ARIL had an attrition rate of 5.00% in Fiscal 2020. Its employee base has been growing consistently over the years and it had 1,291 permanent employees, as of December 31, 2020.

Business Strategy:

Continue to focus on custom synthesis and manufacturing by developing innovative processes and value engineering: By offering value engineering, developing innovative processes and undertaking complex chemistries in ARIL's custom synthesis and manufacturing operations allows it to enter into long-term contracts with customers that provide assured product off-take and better margins, thereby helping improve profitability. The Company aims at differentiating its operations from other custom synthesis and manufacturing companies by developing inhouse innovative processes, which provides with a better leverage in terms of pricing with the customers. Accordingly, it intends to continue developing in-house innovative processes for new complex chemistries, such as, hydrogenation and photo chlorination. It continuously seeks to try and explore which products or processes can be converted to continuous process for which it develop in-house processes. Further, it is currently in the process of developing a few products for customers by undertaking photo chemistry technology and intends to advance this technology to take it to a commercial scale. Further, ARIL intends to focus on early stage process innovation and development that will enable it to capitalize on the complete lifecycle of these products and give the opportunity to be the initial suppliers for such customized specialty chemicals and strengthen its relationships with multinational corporations.

Expand business by capitalizing on industry opportunities and organic and inorganic growth: India's specialty chemicals industry is expected to grow at a CAGR of approximately 10% to 11% over the next five years, due to rising demand from end-user industries, along with tight global supply on account of stringent environmental norms in China. Further, India accounts for approximately 1% to 2% of the global exportable specialty chemicals, indicating a large scope of improvement and widespread opportunity. In 2019, the India market for custom synthesis and manufacturing was valued at US$ 11.5 billion in 2019 for specialty chemicals accounting for approximately 6% of the global custom synthesis and manufacturing market. Custom synthesis manufacturing is on the rise in India and contract research and manufacturing services market is expected to grow at a rate of 12% in the next five years, owing to strong growth from end-use demand. The Government of India's ‘Make in India’ campaign is also expected to act as a stimulus to the emergence of India as a manufacturing hub for the chemicals industry. This offers significant growth opportunities for custom synthesis and manufacturers of specialty chemicals, including ARIL. It has and intends to continue to participate in various domestic and international industry specific exhibitions, including, the Chemspec exhibition held in Europe, through which it aims to explore new business opportunities with existing and prospective customers. Its business development and R&D teams regularly participate in such chemical exhibitions and apprise customers of its new in-house innovative processes. It also aims to strengthen its leading market position in custom synthesis and manufacturing operations in India and achieve better economies of scale by organic and inorganic growth.

Diversify product portfolio and expand chemistry expertise: ARIL's focus continues to remain on manufacturing specialty chemicals that are intermediates of key molecules manufactured by its end customers. It intends to continue to focus on its ability to customize its products according to the specific requirements of customers and broaden its portfolio through innovation, focus on sustainable solutions, undertake new chemistries and perform multi-step synthesis of niche products. ARIL's R&D team is focused on building knowledge-based value added products, new innovative processes, scaling up the capacity of existing products while lowering the cost of production and improving the existing design parameters to increase the yields and thus the overall product quality. It aims to focus on molecules which (i) are patented; (ii) are in the early stages of life cycles; (iii) are of high or medium value and low volume; (iv) involve complex chemistries; and (iv) would lead to high growth rates on commercialization across geographies. ARIL also proposes to cater to customers across new industry segments and in new geographies to grow its market share. Such steps would enable ARIL to offer higher value addition, generate higher margins and increase profitability.

Continue to focus on cost efficiency and improving productivity: Increased competition and stringent regulations have encouraged the players in specialty chemicals industry to find innovative ways to reduce cost and increase the overall efficiency. ARIL intends to focus on keeping its operating costs low, which is critical for remaining profitable, by implementing measures to reduce its operating costs and improve operational efficiencies. ARIL intends to continue further integration of its manufacturing facilities and carry out most of the processes in-house to maximize its efficiencies. Its focus on developing cost-reduction strategies and implementing more sustainable methods in its operations will enable ARIL to maintain cost leadership position.

Industry

Chemicals - The Recovery Driver

The following developments are forecasted in the chemical industry over the next two to three years:

Specialty chemicals to drive growth with agro-chemicals and pharma-chemicals to be the focus areas Post the opening of the lockdown across major global economies, the specialty chemical industry was amongst the first to recover, given the increasing need for its inputs towards essential supplies, such as, pharmaceuticals, personal health and hygiene, and fertilizers and other agricultural needs. Agrochemicals and pharma-chemicals were the first one to revive owing to their application in essential products, such as food and medicines, respectively. The major agrochemical companies have shown approximately 38% improvement in stock prices since the initial lock down started on March 24, 2020, compared to approximately 23 % by the Sensex in general. The Government of India's initiatives, western countries focusing on 'China plus one' strategy and companies moving away from China present opportunities for India to recover. Additionally, agrochemical manufacturing represents a highly profitable and lucrative opportunity. In order to meet the rising diversified food demand, the commercial cultivation of high-value crops is increasing rapidly in recent years. Farmers are demanding superior quality agrochemicals which are balanced and nutritive, which is one of the key drivers. In the API sector, there have been significant private equity investment and international funds being allocated. If the situation with China continues, India will have to invest significantly and focus on API manufacturing moving from China to India. India is focusing on finding alternative sources in the immediate term and develop domestic capabilities.

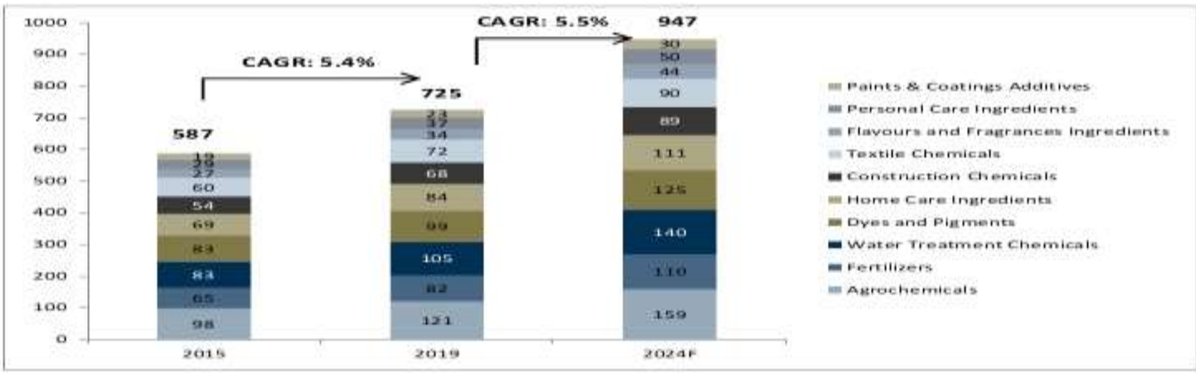
GLOBAL SPECIALTY CHEMICAL INDUSTRY OVERVIEW

Specialty chemicals are low-volume and high-value products which are sold on the basis of their quality or utility, rather than composition. Thus, they may be used primarily as additives or to provide a specific attribute to the end product. Specialty chemicals are more likely to be prepared and processed in batches. The focus is on value addition to the end-product and the properties or technical specifications of the chemical. Rapid industrialization in India and China is expected to drive demand for specialty chemicals. The Asia-Pacific region dominates the market across the world, with a share of 44%, owing to the large customer base, leading to high demand for specialty chemicals, increasing industrial production, and robust growth of the construction sector in the region. The Asia-Pacific region is followed by Europe and North America. Out of the total international chemical industry, the global specialty chemicals industry only constituted approximately 12% in Fiscal 2018, and is expected to grow at a CAGR of approximately 13% from Fiscal 2018 to Fiscal 2025.

Market Segmentation– by Industry and Application Type

Specialty chemicals industry can be categorized into a mix of end-use driven segments and application-driven segments.

Global Specialty Chemicals Market, Value (US$ billion): (2015, 2019 and 2024F)



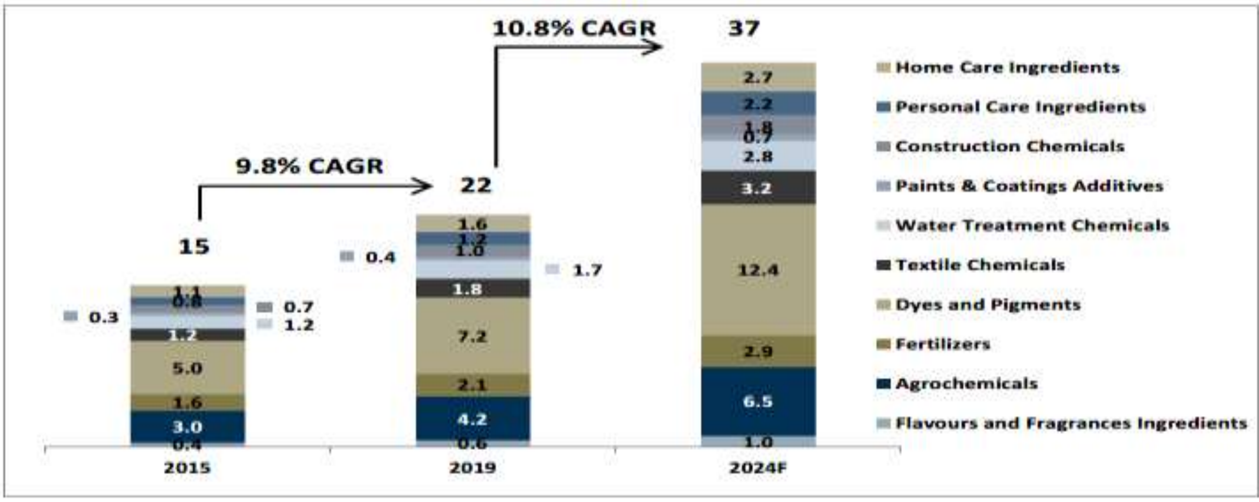
India Specialty Chemical Industry Overview

The Indian chemicals market is valued at approximately US $ 200 billion in 2019 with basic chemicals, also known as commodity chemicals or bulk chemicals, accounting for majority share of 56%. The specialty chemicals industry is driven by both domestic consumption and exports. India's specialty chemical companies are gaining favour with international multinational companies on account of the geo-political shift after the outbreak of COVID-19 as the world looks to reduce its dependence on China. Currently, China accounts for approximately 17% to 18% of the world's exportable specialty chemicals, whereas India accounts for only 1% to 2%, indicating that India has a large scope of improvement and widespread opportunity. It is anticipated that specialty chemicals will be the next great export pillar for India. Overall, the specialty chemicals industry is likely to continue to perform well in the near to medium term and is expected to capitalize on the 'Make in India' benefits to assume leadership position in the market.

India – Racing Ahead of China

Exports are on the rise, as India is becoming a central manufacturing hub for such chemicals. Tightening of environmental norms, such as, Registration, Evaluation, Authorisation and Restriction of Chemicals regulations, in developed countries and the slowdown of China are contributing to the growth of exports. China's specialty chemicals market has seen a downturn in recent years due to various factors. Most prominent being the introduction of stringent environmental norms. Tightening environmental protection norms added additional operating costs and led to factory closures in high-polluting sectors, which weighed on industrial production. Stricter environment regulations have negatively impacted industrial output since 2017. Stringent environment norms: The Chinese government started implementing stricter environmental protection norms from January 2015. In 2018, an estimated 40% of the chemical manufacturing capacity in China was temporarily shut down for safety inspections, with over 80,000 manufacturing units charged and fined for breaching emission limits. China's Ministry of Environmental Protection enforced strict penalties on polluting industries, including chemicals.

In 2016, the Government of Jiangsu, China, issued a development plan for the Yangtze River Delta Economic Belt. As per the plan, the government set a goal of shutting down or relocating nearly 1,000 chemical plants, which use older technology or are located near the Yangtze River, within three years (2018 – 2020). By 2020, 134 chemical firms are expected to shut down, be relocated or renovated. No factories will be allowed within 1 kilometer of the river. The Chinese government has also mandated the construction of compulsory effluent treatment plants and imposed green tax on the chemicals industry to combat pollution. As a result, the overall cost of production is likely to go up with capital expenses incurred towards effluent treatment as well rise in compliance cost. The cost is expected to be higher for the smaller non-integrated plants operated by medium and small scale players. This is likely to impact production in the medium term and thereby overall chemical exports.



The domestic chemicals industry in China is also experiencing a slowdown, as a result of slower economic growth. China's economic growth is expected to slow down further in the coming years, thus resulting in reduced domestic demand and several plants shutting down in the last three years. This has also resulted in China's overall exports of chemicals growing at a slower rate than India. There is significant replaceable export market for India to capitalize on, and weave a strong growth story for chemicals, primarily led by specialty chemicals. Cost and Availability of Skilled Labour in India and China: The labour cost (hourly cost of compensation) in China was lower than that of India till 2007. However, over 2005-2015, the average labour cost in China increased at a CAGR of approximately 19% to 20% as compared to a CAGR of approximately 4% to 5% in India. Further, over the last five years, this cost has more than doubled compared with India, rendering Chinese manufacturers' uncompetitive vis-à-vis India in terms of labour cost.

Apart from the low cost of labour, India also offers lower operating costs, competitive infrastructure, special economic zones (SEZs) that offer duty free exports among other benefits, incentives to boost domestic manufacturing, and business-friendly policies. Plus, while China is engulfed in a trade war with the US, India has a comparatively good relationship with the US with both countries currently engaged in bilateral trade talks. Further, businesses in India have started building up local supply chain capacity in order to de-risk from China and lower manufacturing costs.

Low corporate tax rate: In 2019, the corporate tax rate was reduced in India for the first time in three decades, and the manufacturing sector benefited the most from the reduced tax rate. For manufacturing firms incorporated after October 1, 2019 and commencing operations before March 31, 2023, the corporate tax rate has been reduced from 25% to 15% (this will amount to an effective tax rate at near 17%, including surcharge and cess). This lower tax rate has allowed India to compete with ASEAN's emerging economies like Vietnam, Thailand, and Indonesia for foreign investment more effectively. India, however, has an edge over these nations due to its larger market, cheap labour pool and availability of labour.

Ease of business: India's rank in the 'Ease of Doing Business' index has progressed due to the pro-business reforms which has put India among top 20 'improvers' according to a list by the World Bank on top 20 economies that have improved the most on ease of doing business core. The country's ranking rose to 63 from 130 in 2016. It improved its rank in 6 out of 10 indicators with the biggest change in the 'Construction Permits' and 'Trading across Borders'. Five years ago, China ranked 90th in the report. While in 2019, its ranking climbed to 31st. External Debt: On comparing debt portion of both the countries, India has low amount of debt as compared to Chin and even USA. As of December 2019, India owes approximately US$ 564 billion whereas China owes approximately US$2 trillion dollars. This indicates India is a more debt-ridden country as compared to China.

Covid-19 Impact on Chinese Chemicals Market: The pandemic has compounded the situation further as companies across the world are looking for alternate supply solutions. Japan announced that it will offer economic stimulus package to encourage companies to shift manufacturing back to Japan. This further proves that increasing number of countries want to reduce dependence on China and develop either local supply chain or alternative chain. As a result, several Indian players have witnessed order inflows from global chemical players to meet the short-term supply disruptions from China, which is a positive remark for Indian market.

Future trends in India specialty chemicals trade (Imports-Exports) scenario

Specialty chemicals are a $22 billion industry already in India and in the next six to seven years, it is expected to become a $44 billion industry. Specialty chemicals, such as, agrochemicals and APIs are seeing an upward shift in the manufacturing. For agrochemicals, domestic consumption and export market were approximately equal in 2019. Although domestic demand is growing with single digit growth rate for agrochemicals, a double digit growth rate is being experienced in the exports of agrochemicals from India. The exports led demand from these specialty chemical segments which comprise, amongst others, pesticides, active pharmaceutical ingredients and personal care ingredients, are expected to increase manufacturing in India. Contract manufacturing is gaining huge momentum in India primarily on account of cost effective labour force, research and development capabilities, and Government policies. This is going to increase the exports of specialty chemicals from India. In addition, multinational companies are finding an alternative to China with their 'China plus one' strategy. India, being a preferred destination after China, is expected to benefit due to this move. Further, all the sub-segments of specialty chemicals continue to show significant exports growth. As a result of growing exports from specialty chemicals, imports have reduced significantly over the last half decade and the trend is expected to continue as exports of specialty chemicals rise from India which is further fueled by selfreliant India initiative by the Government of India.

INDIAN AGROCHEMICAL INDUSTRY

India crop protection industry overview

Indian crop protection chemicals exports have grown at a CAGR of almost 9% between 2015 – 2019. The actual export contribution of crop protection chemicals was 50% of total domestic production (by value) in the year 2019. Exports are projected to grow to almost 55% in the year 2024 (by value). US$ 2.1 billion worth of goods was exported from India and an equal amount of crop protection chemicals were meeting domestic demand in 2019. In 2024, exports are expected to grow to US$ 3.1billion contributing 55% of total domestic production which is valued at US$ 5.7 billion. India ranks 13th in terms of imports of pesticides internationally with Brazil leading the imports of crop protection chemicals having 7% market share in the world imports by volume in 2018. Brazil is followed by France and Canada with 5% market share each, United States, Germany and Thailand with 4% market share each, Australia, Belgium, United Kingdom, Nigeria, Spain and Italy with 3% market share each and India with 2% market share in 2018. India was the world's third largest pesticide exporter by volume in 2018. China leads the exports of pesticides with 27% market share in the world exports followed by Germany with a market share of 8.3% and India with a market share of 8% in 2018. India has been ranked fourth globally in the production of agrochemicals (crop protection chemicals/ pesticides) after the United States, Japan and China, as per IBEF report 2019. Indian crop protection chemicals market is valued at US $ 2.1 billion which is anticipated to grow at a CAGR of 4% in the next five years to US $ 2.6 billion by 2024.

Growth potential of custom synthesis and manufacturing and contract research and manufacturing services

Custom synthesis and manufacturing needs more research and development efforts compared to contract research and manufacturing services on account of patented products being manufactured by contract manufacturers, where each patented product manufacturing can be unique (requiring unique infrastructure). Custom synthesis and manufacturing is more of niche segment within contract manufacturing space and attracts higher margins compared to contract research and manufacturing services of generic molecules. With the increasing infrastructure of contract synthesis in India, more foreign players with patented products are expected to manufacture active molecules. As a result, the valuation for custom synthesis and manufacturing or patented business is relatively higher, resulting in higher growth potential of custom synthesis and manufacturing services in the contract synthesis sector.

Pharmaceuticals industry is one of the major customers of Indian contract research and manufacturing services market, which contributes around half the market share in the total contract research and manufacturing services market. Agrochemicals contract manufacturing in India accounts for 35% market share with export-led demand predominantly. Other industries, such as, personal care ingredients and specialty chemicals also contribute a significant market share.

Contract manufacturing of patented molecules constitute of one quarter of the total market with balance three fourth of the market captured by generic molecules. Pharmaceutical industry has larger share in the contract synthesis of generic molecules in India, with agrochemicals genetic molecules ranking #2 in the total market (by value). Moreover, products worth US$ 4.2 billion are expected to go off-patent by the year 2020 – 2023, globally. This will be presenting a great opportunity for contract manufacturers post-pandemic. The global exports from India of agrochemicals are expected to rise from 9% current to 13% in 5 years.

Key Concerns:

- ARIL has incurred significant indebtedness, and an inability to comply with repayment and other covenants in its financing agreements could adversely affect the business, financial condition, cash flows and credit rating.
- If ARIL experiences insufficient cash flows to meet required payments on its debt and working capital requirements, its business and results of operations could be adversely affected.
- All ARIL's manufacturing facilities are operated on industrial land allotted to it by industrial development corporations on a leasehold basis. Failure to comply with the conditions of use of such land could result in an adverse impact on its business and financial condition.
- ARIL may become involved in claims concerning intellectual property rights, and it could suffer significant litigation or related expenses in defending its own intellectual property rights or defending claims that it infringed the rights of others.
- ARIL has had 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.
- Failure to maintain confidential information of customers could adversely affect the results of operations and, or, damage its reputation.
- The specialty chemicals industry provides for significant entry barriers. It faces competition from both domestic as well as multinational corporations and its inability to compete effectively could result in the loss of customers.
- ARIL depends on the success of its relationships with customers most of whom are multinational corporations.
- Inability to collect receivables and default in payment from customers could result in the reduction of profits and affect thee= cash flows.
- Newly developed products may replace existing products and its research and development efforts may not yield new products, processes and solutions consistently to enable ARIL to remain competitive.
- Significant disruptions of information technology systems or breaches of data security could adversely affect the business.
- Restrictions on import of raw materials and an increase in shipment cost may adversely impact ARIL's business and results of operations.
- Ability to pay dividends in the future will depend on earnings, financial condition, working capital requirements, capital expenditures and restrictive covenants of financing arrangements.
- Business is dependent on manufacturing facilities and is subject to certain risks in its manufacturing process. Any unscheduled, unplanned or prolonged disruption of manufacturing operations could materially and adversely affect the business, financial condition and results of operations.
- Derives a significant portion of revenue from certain customers, and the loss of one or more such customers, the deterioration of their financial condition or prospects, or a reduction in their demand for its products could adversely affect the business, results of operations, financial condition and cash flows.
- Operations are dependent on research and development, and inability to identify and understand evolving industry trends, technological advancements, customer preferences and develop new products to meet customers' demands may adversely affect the business.
- ARIL is subject to risks arising from interest rate and foreign currency exchange rate fluctuations, which could adversely affect the business, financial condition and results of operations.

- ARIL does not have long-term agreements with suppliers for raw materials and an increase in the cost of, or a shortfall in the availability or quality of such raw materials could have an adverse effect on the business and results of operations.
- Derives a significant portion of revenues from operations from a limited number of markets and any adverse developments in these markets could adversely affect the business.
- The specialty chemicals industry is capital intensive, and ARIL may need to seek additional financing in the future to support growth strategies.
- ARIL is subject to strict quality requirements, regular inspections and audits, and the success and wide acceptability of its products is largely dependent upon the quality controls and standards.
- If any of the products of customers cause, or are perceived to cause, severe side effects, ARIL's reputation, revenues and profitability could be adversely affected.
- ARIL's manufacturing facilities are concentrated in a single region and the inability to operate and grow business in this particular region may have an adverse effect on its business, financial condition, results of operations, cash flows and future business prospects.
- Increasing use of alternative pest management and crop protection measures such as bio technology products, pest resistant seeds or genetically modified crops may reduce demand for products and adversely affect the business and results of operations.
- Dependent on third party transportation providers for the supply of raw materials and delivery of products.
- Exchange rate fluctuations may adversely affect results of operations as its sales from exports and a significant portion of expenditures are denominated in foreign currencies.
- ARIL operates in a hazardous industry and are subject to certain business and operational risks consequent to its operations, such as, the manufacture, usage and storage of various hazardous substances.
- Any adverse changes in regulations governing business, products and the products of customers, may adversely impact ARIL's business, prospects and results of operations.
- The demand of products in foreign countries is subject to international market conditions and regulatory risks that could adversely affect the business and results of operations.
- A significant proportion of revenues are derived from life science related specialty chemicals segment and any reduction in the demand for such life sciences products could have an adverse effect on the business, results of operations and financial condition.
- An inability to effectively manage growth and expansion may have a material adverse effect on the business prospects and future financial performance.
- Agrochemicals related business is subject to climatic conditions and is cyclical in nature.
- The continuing impact of the COVID-19 pandemic on business and operations is uncertain and it may be significant and continue to have an adverse effect on the business, operations and future financial performance.
- Commercial success depends on the success of customer's products with end consumers.
- Inability to accurately forecast demand or price for products and manage inventory may adversely affect the business, results of operations and financial condition.
- Growth strategy includes augmenting organic growth by pursuing selective acquisitions and strategic alliances that provide ARIL access to better infrastructure, industry knowledge, technology expertise and geographical reach and allows to expand its product offerings and customer base. If it is unable to successfully identify and integrate acquisitions, its growth strategy, business, financial condition, results of operations and prospects may be adversely affected.
- Operations are labour intensive and its manufacturing operations may be materially adversely affected by strikes, work stoppages or increased wage demands by employees or those of ARIL's suppliers.
- Ability to access capital at attractive costs depends on credit ratings.

Profit & Loss

Particulars (Rs in million)	9MFY21	FY20	FY19
Income			
Revenue from operations	5392.2	5,288.8	5,015.0
Other income	239.4	105.1	194.6
Total revenue from operations	**5,631.6**	**5,393.9**	**5,209.6**
Expenses			
Cost of materials consumed	3,139.4	2,956.4	2,551.0
Purchase of stock in trade	0.0	5.2	83.8
Changes in Inventories of Finished Goods, Work-in-Progress and Stock-in-Trade	-962.9	-856.2	-64.0
Employee Benefits Expense	204.0	209.5	185.9
Finance Costs	496.3	453.2	243.5
Depreciation and Amortisation Expenses	383.2	287.1	225.3
Other Expenses	1,704.0	1,625.0	1,326.9
Total expenses	**4,964.0**	**4,680.2**	**4,552.4**
Profit/ (Loss) before exceptional items and tax	**667.6**	**713.7**	**657.2**
Exceptional Items	**0.0**	**0.0**	**0.0**
Profit before Tax	**667.6**	**713.7**	**657.2**
Tax expense			
Current tax	119.2	129.2	120.0
Deferred tax (credit) / charge	67.4	54.8	35.1
Short Provision of Tax Expenses of earlier year(s)	0.1	0.0	0.0
Total Tax Expenses	**186.7**	**184.0**	**155.1**
PAT	**481.0**	**529.8**	**502.1**
Share of net Profit/(Loss) of associates	0.0	0.0	-9.6
Profit after tax and share of profit of associates	**481.0**	**529.8**	**492.5**
EPS	5.6	10.6	10.0
Equity	862.1	500.0	500.0
FV	10	10	10
PATM (%)	8.5	9.8	9.5

(Source:RHP)

Balance Sheet

Particulars (Rs in Million)	9MFY21	FY20	FY19
Assets			
NON CURRENT ASSETS			
Property, Plant and Equipment’s	9726.4	9252.7	6676.6
Capital Work-in-Progress	1152.5	1009.5	1906.2
Right of Use Assets	379.8	392.8	0.0
Intangible Assets	117.7	127.9	132.3
Financial Assets			
Investments	0.2	4.0	4.0
Other Financial Assets	62.2	29.8	38.1
Other Non Current Assets	322.1	308.6	233.2
TOTAL NON CURRENT ASSETS	**11760.9**	**11125.3**	**8990.4**
CURRENT ASSETS			
Inventories	4212.9	2970.4	1953.7
Financial Assets			
Trade Receivables	1414.2	1294.9	1205.9
Cash and Cash Equivalents	697.5	200.2	18.5
Other Bank Balance	82.8	68.1	52.2
Loans	288.0	251.7	213.9
Other Financial Assets	204.3	158.7	150.7

Other Current Assets	531.6	571.3	639.7
TOTAL CURRENT ASSETS	**7431.3**	**5515.3**	**4234.6**
TOTAL ASSETS	**19192.2**	**16640.7**	**13225.0**
LIABILITIES			
EQUITY AND LIABILITIES			
Equity Share Capital	862.1	500.0	500.0
Other Equity	7383.1	5437.2	4571.1
TOTAL EQUITY	**8245.2**	**5937.2**	**5071.1**
NON CURRENT LIABILITIES			
Financial Liabilities			
Borrowings	5162.1	5242.4	4623.0
Other Financial Liabilities	332.4	329.6	0.0
Deferred Tax Liabilities (Net)	259.1	191.7	136.9
TOTAL NON CURRENT LIABILITIES	**5753.6**	**5763.7**	**4759.9**
CURRENT LIABILITIES			
Financial Liabilities			
Borrowings	1,869.4	2,371.1	1,544.1
Due to Micro and Small Enterprises	0.0	0.0	2.2
Due to other than Micro and Small Enterprises	1,367.5	1,301.5	735.8
Current maturities of long term borrowings	1,388.3	566.7	530.4
Other Financial Liabilities	71.5	96.6	15.5
Provisions	50.1	7.9	25.2
Other Current Liabilities	364.6	528.7	530.8
Current Tax Liabilities (Net)	82.1	67.2	10.0
TOTAL CURRENT LIABILITIES	**5,193.4**	**4,939.8**	**3,394.0**
TOTAL EQUITY AND LIABILITIES	**19,192.2**	**16,640.7**	**13,225.0**

(Source: RHP)

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