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## IPO Snapshot – Chemcon Speciality Chemicals Ltd

19-September-2020

# Chemcon Speciality Chemicals Ltd

## Issue Snapshot:

Issue Open: Sept 21 – Sept 23, 2020

Price Band: Rs. 338 – 340

\*Issue Size: 9,352,941 eq shares  
(Fresh issue 4,852,941 + Offer for sale of 4,500,000 eq sh)

Issue Size: Rs. 316.13 – 318.00 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 44.91 (March 31, 2020)

Bid size: - 44 equity shares and in multiples thereof

100% Book built Issue

## Capital Structure:

Pre Issue Equity:	Rs. 31.78 cr
Post issue Equity:	Rs. 36.63 cr

Listing: BSE & NSE

Book Running Lead Manager: Intensive Fiscal Services Private Limited, Ambit Capital Private Limited

Registrar to issue: Link Intime India Private Limited

## Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	100.0	74.5
Public & Employee	0.0	25.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Source for this Note: RHP

\* = assuming pricing at higher end of band

## Background & Operations:

Chemcon Speciality Chemicals Limited is a manufacturer of specialized chemicals, such as HMDS and CMIC which are predominantly used in the pharmaceuticals industry, and inorganic bromides, namely Calcium Bromide, Zinc Bromide and Sodium Bromide, which are predominantly used as completion fluids in the oilfields industry (the "Oilwell Completion Chemicals"). It was the only manufacturer of HMDS in India and were the third largest manufacturer of HMDS worldwide in terms of production in the calendar year 2019. Further, it was the only manufacturer of Zinc Bromide and the largest manufacturer of Calcium Bromide in India, in terms of production in calendar year 2019.

CSCL supply its products to domestic customers and also export its products to countries including United States of America, Italy, South Korea, Germany, People's Republic of China, Japan, United Arab Emirates, Serbia, Russia, Spain, Thailand and Malaysia. In Fiscals 2020, 2019 and 2018, its revenue from exports (including Deemed Exports) contributed 39.78%, 31.99% and 47.84%, respectively of its revenue from operations. Revenues from exports (including Deemed Exports) has grown at a CAGR of 17.57% between Fiscals 2018 and 2020.

The key customers of CSCL includes Hetero Labs Limited, Laurus Labs Limited, Aurobindo Pharma Limited, Sanjay Chemicals (India) Private Limited, Lantech Pharmaceuticals Limited, Ind-Swift Laboratories Limited, Vivin Drugs & Pharmaceuticals Limited and Macleods Pharmaceuticals Limited and the key customers of its Oilwell Completion Chemicals include Shree Radha Overseas, Water Systems Specialty Chemical DMCC and CC Gran Limited Liability Company.

The Company's manufacturing facility is located at Manjusar near Vadodara in Gujarat. Currently it has seven operational plants of which two plants are dedicated to the manufacturing of HMDS and ancillary products (including one plant dedicated to the manufacturing of hi-purity HMDS), one multipurpose plant, currently being used for manufacturing of HMDS and other pharmaceutical chemicals, two plants are dedicated to the manufacturing of CMIC and two plants dedicated to the manufacturing of its Oilwell Completion Chemicals, along with three warehouses for the storage of products and raw materials. It also has an in-house laboratory at their Manufacturing Facility to test raw materials procured, as well as products at the various stages of the manufacturing process. Further, it has five leased warehouses located outside its Manufacturing Facility, in Manjusar, Vadodara. Their Corporate Office is located in Vadodara (Owned) and sales and marketing offices are located in Hyderabad and Mohali (Lease hold basis).

For Fiscals 2020, 2019 and 2018, revenue from operations was Rs. 2,620.52 million, Rs. 3,033.41 million and Rs. 1,576.42 million, respectively, growing at a CAGR of 28.93% between Fiscal 2018 and Fiscal 2020. EBITDA for Fiscals 2020, 2019 and 2018 was Rs. 702.61 million, Rs. 660.83 million and Rs. 450.96 million respectively, growing at a CAGR of 24.82% between Fiscal 2018 and Fiscal 2020, while PAT for Fiscals 2020, 2019 and 2018 was Rs. 488.53 million, Rs. 430.41 million and Rs. 263.81 million respectively, growing at a CAGR of 36.08% between Fiscal 2018 and Fiscal 2020.

In Fiscals 2020, 2019 and 2018, Pharmaceutical Chemicals, contributed 63.75%, 63.14% and 62.18% of total revenue from operations respectively, while Oilwell Completion Chemicals, contributed 33.47%, 35.30% and 35.63% respectively of total revenue from operations.

## Objects of Issue:

The Offer comprises of the Offer for Sale and the Fresh Issue.

## Offer for Sale

CSCL will not receive any proceeds from the Offer for Sale. The Selling Shareholder will be entitled to their respective portion of the proceeds of the Offer for Sale, net of their respective portion of the Issue related expenses.

## Fresh Issue

The Company proposes to utilise the net proceeds towards funding the following objects:

- Capital Expenditure towards expansion of manufacturing facility;
- To meet Working Capital requirements; and
- General corporate purposes

## Competitive Strengths

- Leading manufacturer globally of the Pharmaceutical Chemicals and Leading manufacturer in India of the Oilwell Completion Chemicals.
- Diversified customer base coupled with long standing relationships
- The specialty chemicals industry in which CSCL operates has high entry barriers
- Consistent financial performance with a strong financial position
- Manufacturing facility with dedicated plants for its products
- Experienced Senior management

## Business Strategy

- Expansion of total installed production capacity
- Augmenting growth in the current geographic markets and expanding into new geographic markets
- Exploring newer applications of existing products as well as focusing on new products that are in synergy with current operations
- Continue to strive for cost efficiency

## Key Concerns:

- The recent outbreak of the novel coronavirus could have a significant effect on operations, and could negatively impact the business, revenues, financial condition and results of operations.
- Any decrease in the utility of specialised chemical products may have an adverse impact on business, growth and results of operations.
- Limited product portfolio and if any of products do not continue to perform as expected or if competing products gain wider market acceptance. Further, if competitors are able to improve the efficiency of their manufacturing processes and there by offer their products at lower prices, revenues and profitability may decline.
- Derive a significant portion of revenue from a few 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 may adversely affect the business, results of operations, financial condition and cash flows.
- Factors affecting the level of oil and gas exploration, development and production activities would affect the commercial success of Oilwell Completion Chemicals as it is dependent on the level of oil and gas exploration, development and production activities.
- The commercial success of Pharmaceutical Chemicals depends to a large extent on the success of customers' products with end consumers. If the demand in which their products are used declines, this could have a material adverse effect.
- Any shortfall in the supply or an increase in raw material costs, or other input costs, may adversely affect the pricing and supply of products and have an adverse effect.
- Any adverse change in regulations governing products and the products of its customers, may adversely impact.
- If Improvising of existing products and/or introduction of new products could not succeed than it could adversely affect.
- Any significant fall in global prices of Company's products may have a material adverse effect.
- Several risks associated with the proposed expansion in Manufacturing Facility.
- Volatility in exchange rate fluctuations may adversely affect.
- Some of the raw materials as well as finished products are corrosive and flammable and require expert handling and storage, there is a risk of fire and other accidents, at Manufacturing Facility and warehouses. Any accidents may result in loss of property of Company and/or disruption in the manufacturing processes which may have a material adverse effect.
- Any disruption to power, water or fuel sources could adversely affect operations and increase production costs.
- Adverse consequences arising out of price hikes from third party transportation and logistics service providers as well as Disruptions of logistics could impair ability to procure raw materials and/or deliver its products on time.
- Failure to obtain or retain certain Licenses and Approvals in a timely manner may increase compliance cost and affect adversely.
- Exposed to execution risks and liability towards labourers for non-core tasks as they are recruited by contractors.
- Adverse consequences such as strikes, work stoppages, demands for increased wages or any other kind of employee dispute could affect operations.
- They have availed certain borrowings, which may be recalled by their lenders at any time.
- Government regulation of foreign ownership of Indian securities may have a material adverse effect on the price of the Equity Shares.

# Chemcon Speciality Chemicals Ltd

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