

Neogen Chemicals Limited

Issue Snapshot:

Issue Open: Apr 24 – Apr 26, 2019

Price Band: Rs. 212 – 215

Issue Size: *6,155,814 (Fresh issue of 3,255,814 eq sh + offer for sale of 2,900,000 eq sh)

Offer Size: Rs.130.05 crs – 132.35 crs

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

Face Value: Rs 10

Book value: Rs 30.62 (Dec 31, 2018)

Bid size: - 65 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity: Rs. 20.08 cr
 Post issue Equity: Rs. 23.34 cr

Listing: BSE & NSE

Co - Book Running Lead Manager: Batlivala & Karani Securities India Private Limited

Book Running Lead Manager: INGA Advisors Private Limited

Registrar to issue: Link Intime India Private Limited

Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	95.79	70.00
Public & Employee	4.21	30.00
Total	100.0	100.0

Source for this Note: RHP

*Assuming pricing at the higher end of band

Background & Operations:

Neogen Chemicals Ltd is one of India's leading manufacturers of bromine -based, and lithium-based, specialty chemicals. Specialty chemicals are those chemicals that impart different properties to a variety of products (i.e. the effect that specialty chemicals have varies based on the product) and have a high degree of value addition. Specialty chemicals are, also generally, in the Indian context, manufactured in smaller volumes when compared to non-specialty chemicals. Specialty chemicals, including bromine and lithium-based compounds, comprise pharmaceutical intermediates, agrochemical intermediates, engineering fluids, electronic chemicals, polymers additives, water treatment chemicals, construction chemicals and flavours and fragrances. Specialty chemicals are widely used for specialised applications to meet industry-specific requirements and can be classified based on application industries. Additionally, certain specialty chemicals find application in multiple industries. It manufactures specialty organic bromine-based chemical compounds (Bromine Compounds) and other specialty organic chemical compounds as well as specialty inorganic lithium-based chemicals compounds (Lithium Compounds and together with the Bromine Compounds the Products). It commenced its business operations in 1991, at its Mahape, Navi Mumbai manufacturing facility with a few Bromine Compounds and Lithium Compounds. Over the years NCL has expanded its range of products and, presently, manufactures an extensive range of specialty chemicals which find application across various industries in India and globally. As on February 28, 2019, it has manufactured an aggregate of 198 products comprising 181 organic chemicals and 17 inorganic chemicals.

NCL's specialty chemicals product offerings comprise of Organic chemicals and Inorganic chemicals. In addition to manufacturing standard products, it also undertakes custom synthesis and contract manufacturing. In custom synthesis the product is developed and customized primarily for a specific customer, but process know-how and technical specifications are developed in-house by it. Further, it has more recently, also commenced contract manufacturing where, the product is developed under confidentiality for a single customer using the process know-how and the technical specifications provided by the customer. It operates out of its manufacturing facilities located in Mahape, Navi Mumbai in Maharashtra (Mahape Facility) and Karakhadi, Vadodara in Gujarat (Vadodara Facility). It is presently, developing a green-field manufacturing unit in Dahej SEZ, in Gujarat (Proposed Dahej Facility) and are also proposing to expand its operations in Karakhadi, Vadodara (Proposed Vadodara Facility). As on February 28, 2019, it employed 152 full time, 45 fixed term contract employees (generally a 5-year contract) and 4 retainers.

NCL's restated total income on consolidated basis for 9-month period December 31, 2018, Fiscal 2018, Fiscal 2017 and Fiscal 2016 was Rs 1596.87 million, Rs 1646.75 million, Rs 1217.75 million and Rs 1090.46 million respectively. Its profit for the year on a consolidated basis for the 9-month period December 31,2018, Fiscal 2018, Fiscal 2017 and Fiscal 2016 was Rs 122.21 million, Rs 104.97 million, Rs 76.83 million and Rs 51.80 million, respectively. Its total income and profit for the year on a consolidated basis, grew at a CAGR of 19.69% and 30.29%, respectively, between the Fiscals 2014 and 2018.

Objects of Issue:

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

Offer for Sale

Each of the Selling Shareholders will be entitled to the proceeds of the Offer for Sale after deducting their portion of the Offer related expenses and relevant taxes thereon. NCL shall not receive any proceeds from the Offer for Sale.

Fresh Issue

The objects of the Fresh Issue are:

- Prepayment or repayment of all or a portion of certain borrowings availed by the Company;
- Early redemption of 9.8% FRCPS;
- Long term working capital; and
- General corporate purposes.

Requirement of funds and Utilisation of the Net Proceeds:
(Rs in million)

Particulars	Amount to be funded from the Net Proceeds
Prepayment or repayment of all or a portion of certain borrowings availed by the Company	205.00
Early redemption of the 9.8% FRCPS	115.00
Long term working capital	200.00
General corporate purposes*	*
Net Proceeds*	*

Competitive Strengths

- Experienced promoters with domain knowledge
- Large and diverse array of products
- Diversified and stable customer base
- Growth led by continuous investment in R&D
- Management expertise
- Specialised business model with high entry barriers
- Established and stable relationship with suppliers

Business Strategy:

- Expanding production capacities
- Increasing contract manufacturing portfolio
- Augmenting growth in domestic and global markets
- Improving financial performance through focus on operational efficiencies and functional excellence
- Focus on advanced specialty intermediates which offer higher value addition

Key Concerns:

- Neogen Corporation has filed a commercial intellectual property suit against NCL which if determined against NCL may have an adverse effect on this Offer, its business and results of operations.
- Increased capacity due to future capacity augmentation;
- Loss of one or more of significant customers or a significant reduction in production and sales of, or demand for production from NCL's significant customers;
- Strict quality checks and a consequent requirement to incur significant expenses to maintain such product quality;
- Absence of any firm commitment long-term agreements with customers;
- Significant reliance on certain select customers and customers in application industries, in particular customers in the sectors such as pharmaceutical, agro-chemicals, refrigeration and construction chemicals;
- Availability of raw materials on commercially acceptable terms.
- Failure to identify and understand evolving industry trends and preferences and to develop new products to meet customers' demands;
- Changes in the value of the Indian rupee and other currencies;
- Inability to accurately forecast demand for products, and accordingly manage inventory or plan capacity increases;
- Indebtedness and the conditions and restrictions imposed on NCL by its financing agreements;
- Increased costs on account of compliance with various law and regulations, in jurisdictions where NCL operates, including environmental and health and safety laws and regulations; and
- Dependence on a number of key management personnel and senior management personnel.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 3075 3450 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600 SEBI Registration No.: INZ000186937 (NSE, BSE, MSEI, MCX) | NSE Trading Member Code: 11094 | BSE Clearing Number: 393 | MSEI Trading Member Code: 30000 | MCX Member Code: 56015 | AMFI Reg No. ARN -13549, PFRDA Reg. No - POP 04102015, IRDA Corporate Agent Licence No.-HDF2806925/HDF C000222657 HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purposes without prior written approval of HSL.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

Disclaimer : HDFC securities Ltd is a financial services intermediary and is engaged as a distributor of financial products & services like Corporate FDs & Bonds, Insurance, MF, NPS, Real Estate services, Loans, NCDs & IPOs in strategic distribution partnerships. Investment in securities market are subject to market risks, read all the related documents carefully before investing. Customers need to check products & features before investing since the contours of the product rates may change from time to time. HDFC securities Ltd is not liable for any loss or damage of any kind arising out of investments in these products. Investments in Equity, Currency, Futures & Options are subject to market risk. Clients should read the Risk Disclosure Document issued by SEBI & relevant exchanges & the T&C on www.hdfcsec.com before investing. Equity SIP is not an approved product of Exchange and any dispute related to this will not be dealt at Exchange platform.

This report is intended for non-Institutional Clients only. The views and opinions expressed in this report may at times be contrary to or not in consonance with those of Institutional Research or PCG Research teams of HDFC Securities Ltd. and/or may have different time horizons. Mutual Fund Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

Disclaimer: HDFC Bank (a shareholder in HDFC Securities Ltd) is associated with this issue in the capacity of one of the Escrow Collection Bank, Public Offer Bank, Refund Bank and Sponsor Bank and will earn fees for its services. This report is prepared in the normal course, solely upon information generally available to the public. No representation is made that it is accurate or complete. Notwithstanding that HDFC Bank is acting for Neogen Chemicals Ltd, this report is not issued with the authority of Neogen Chemicals Ltd. Readers of this report are advised to take an informed decision on the issue after independent verification and analysis.