

March 10, 2021

Anupam Rasayan is one of the leading companies engaged in custom synthesis and manufacturing of specialty chemicals in India. The company had commenced business as a partnership firm in 1984 as a manufacturer of conventional products and has, over the years, evolved into a player in custom synthesis and manufacturing life science related specialty chemicals and other specialty chemicals, which involves multi-step synthesis and complex technologies, for a diverse base of Indian and global customers. The key focus in custom synthesis and manufacturing operations is developing an in-house innovative processes for manufacturing products requiring complex chemistries and achieving cost optimisation.

To expand business by capitalising on industry opportunities, organic, inorganic growth network

In 2019, the Indian market for custom synthesis and manufacturing was valued at US\$11.5 billion in 2019 for specialty chemicals accounting for ~6% of the global custom synthesis and manufacturing market. Custom synthesis manufacturing is on the rise in India while the contract research and manufacturing services market is expected to grow at 12% in the next five years, owing to strong growth from end-use demand. In addition, the 'China plus one' strategy and the shift in manufacturing operations and sourcing of raw materials from China on account of tightening of environmental protection norms in China since 2015, increase in operating and labour costs and trade dispute between China and the US, provides an opportunity for India to capture a larger market share.

To diversify product portfolio, expand chemistry expertise

Anupam Rasayan intends to offer a wide range of chemistry competency with emphasis on chemistries like Grignard and new group chemistries such as ethylene oxide, ammoxidation and isobutylene. Currently, only a few companies in India undertake such new group chemistries (Source: F&S Report). Further, these chemistries will enable it to manufacture more products in the life science related specialty chemicals vertical. The company also proposes to cater to customers across new industry segments and in new geographies to grow market share.

Key risk & concerns

- Client concertation remains a key risk
- Higher working capital cycle keeps FCF subdued
- Inability to pass on higher RMAT cost to impact bottomline

Priced at FY20 P/E of 104.7x on upper band

At ₹ 555, the stock is available at 104.7x FY20. We believe valuations are on the higher side given that it has been facing constraints towards generating FCF owing to higher working capital cycle, leading to a bloated balance sheet and thereby subdued return ratios. We expect lower probability of inventory cycle to get normalised and thereby WC cycle, going ahead.

Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	CAGR FY18-20
Net Revenue	341.4	501.5	528.9	24.5
EBITDA	73.5	93.1	134.9	35.4
EBITDA Margins (%)	21.5%	18.6%	25.5%	
Adj. PAT	40.3	50.2	53.0	14.6
Adj. EPS (₹)	4.0	5.0	5.3	
EV/EBITDA	75.5x	59.6x	41.1x	
P/E	137.4x	110.4x	104.7x	
ROE (%)	8.8	9.9	8.9	
ROCE (%)	8.7	9.2	10.0	

Source: RHP, ICICI Direct Research. Note: Valuation ratios are calculated based on post issue money.



Particulars

Issue Details	Amount
Issue Opens	March 12, 2021
Issue Closes	March 16, 2021
Issue Size (₹ Crore)	760
Price Band (₹)	553-555
No of Shares on Offer (Crore)	1.35
Minimum lot size	27
Face Value (₹)	10

Shareholding Pattern (%)

	Pre-issue	Post-issue
Promoters	75.8%	65.4%
Public	24.2%	34.6%
Total	100.0%	100.0%

Objective of issue

Objects of the issue	₹ Crore
Reayment of debt	564
General Corporate Purpose	NA
Total Fresh issue Proceeds	760

*Upper Band

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Company background

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

The company has developed strong and long-term relationships with various multinational corporations, including, Syngenta Asia Pacific Pte Ltd, Sumitomo Chemical Company and UPL that has helped it to expand product offerings and geographic reach across Europe, Japan, the US and India. In particular, the company has been manufacturing products for certain customers for over 10 years. In 9MFY21, it has manufactured products for over 53 domestic and international customer, including 17 multinational companies.

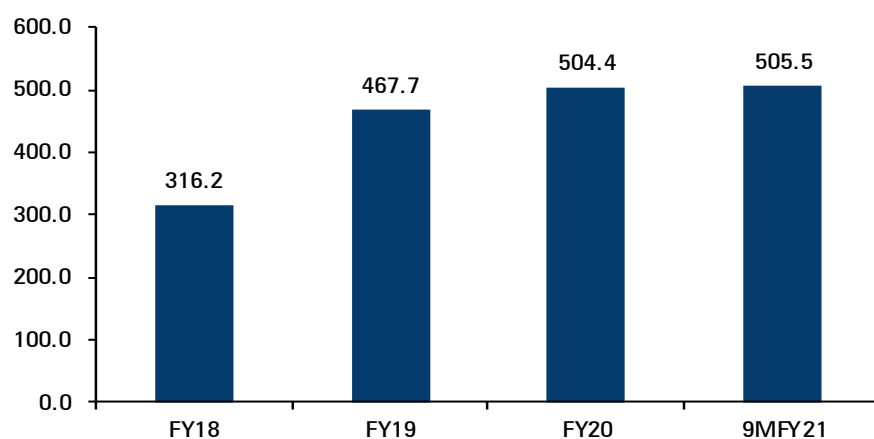
Business segments

The company 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 & dyes and polymer additives. In FY20 and 9MFY21, revenues from life science related specialty chemicals vertical accounted for 95.37% and 93.75%, respectively, of overall revenue, while revenue from other specialty chemicals accounted for 4.63% and 6.25%, respectively.

Life science related specialty chemicals

The company manufactures a variety of life science related specialty chemicals comprising products related to agrochemicals, personal care and pharmaceuticals. It manufactures agro intermediates and agro active ingredients for the agrochemicals industry that are used in the manufacture of, among others, insecticides, fungicides and herbicides. For the personal care industry, the company provides, among others, anti-bacterial and ultra violet protection intermediates and ingredients. In the pharmaceutical segment, it focusses on developing intermediates and 'key starting materials' for active pharmaceutical ingredients and may also be used in, among others, material sciences and surface chemistry.

Exhibit 1: Life science segment revenue (₹ crore)

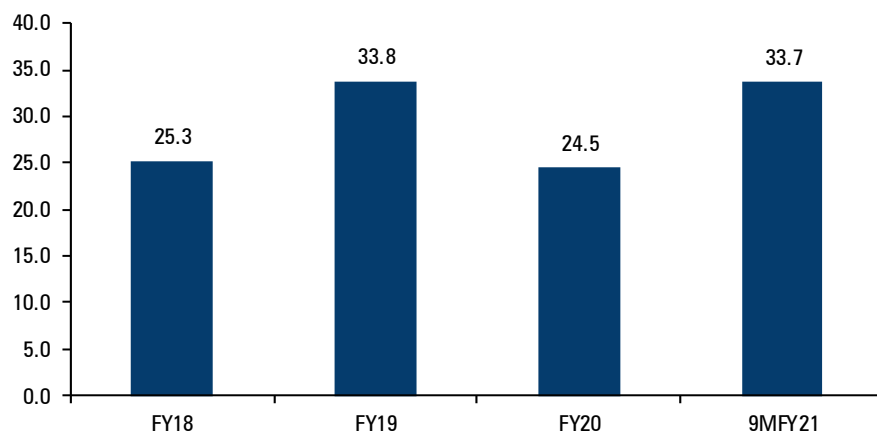


Source: RHP, ICICI Direct Research

Other specialty chemicals

Other specialty chemicals are used in diverse end-user segments, comprising specialty pigments, specialty dyes and polymer additives.

Exhibit 2: Other specialty segment revenue (₹ crore)



Source: RHP, ICICI Direct Research

Manufacturing facility

The company operates six manufacturing facilities in Gujarat, with four facilities in Sachin, Surat, Gujarat and two in Jhagadia, Bharuch, Gujarat, as of December 31, 2020. The facilities had an aggregate installed capacity of 23,438 MT, as of December 31, 2020. Each manufacturing facility has the ability to manufacture a wide range of products while products can be interchanged to address the requirements of customers. Further, given that operations are primarily export oriented, it has close proximity to Adani Hazira Port. In addition, the power requirements for facilities are met through local state power grid through interstate open access while water is procured from Gujarat Industrial Development Corporation.

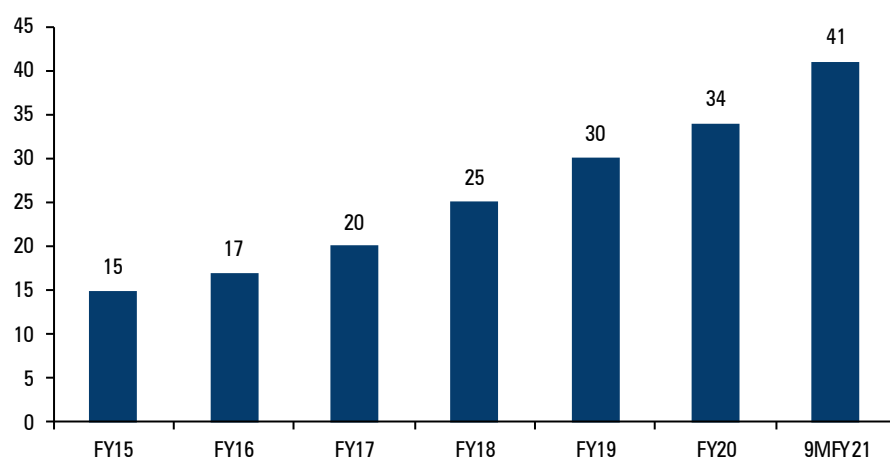
Exhibit 3: Total installed capacity, capacity utilisation based on different facility

Particulars	Unit	As of and for the financial year ended March 31,			As of and for the nine months ended December 31, 2020
		2018	2019	2020	
A. Sachin Unit -1					
Installed capacity ⁽¹⁾	MT	2,778	3,362	4,542	4,542
Actual Production ⁽²⁾	MT	2,168	1,784	3,691	3,089
Capacity utilization ⁽³⁾	(%)	78.03%	77.16%	81.27%	90.68%
B. Sachin Unit -2					
Installed capacity ⁽¹⁾	MT	2,220	2,520	2,520	2,520
Actual Production ⁽²⁾	MT	2,134	1,795	1,986	1,428
Capacity utilization ⁽³⁾	(%)	96.13%	71.25%	78.82%	75.54%
C. Sachin Unit -3					
Installed capacity ⁽¹⁾	MT	4,760	5,950	6,088	6,130
Actual Production ⁽²⁾	MT	4,216	4,587	4,971	3,997
Capacity utilization ⁽³⁾	(%)	88.58%	77.10%	81.65%	86.93%
D. Jhagadia Unit -4					
Installed capacity ⁽¹⁾	MT	2,420	3,050	3,520	3,520
Actual Production ⁽²⁾	MT	2,009	2,240	2,766	2,235
Capacity utilization ⁽³⁾	(%)	83.02%	73.46%	78.60%	84.66%
E. Jhagadia Unit -5⁽⁴⁾					
Particulars	Unit	As of and for the financial year ended March 31, 2018	2019	2020	As of and for the nine months ended December 31, 2020
Installed capacity ⁽¹⁾	MT	-	-	5,520	5,520
Actual Production ⁽²⁾	MT	-	-	441	1,777
Capacity utilization ⁽³⁾	(%)	-	-	7.99%	42.93%
F. Sachin Unit -6⁽⁴⁾					
Installed capacity ⁽¹⁾	MT	-	-	1,206	1,206
Actual Production ⁽²⁾	MT	-	-	88	604
Capacity utilization ⁽³⁾	(%)	-	-	7.29%	66.75%
Total					
Installed capacity ⁽¹⁾	MT	12,178	14,882	23,396	23,438
Actual Production ⁽²⁾	MT	10,527	11,217	13,944	13,130
Capacity utilization ⁽³⁾	(%)	86.45%	75.38%	59.59%	74.65%

Research & Development

The company has a dedicated in-house R&D facility in Sachin Unit – 6, which is equipped with laboratories engaged in process development, process innovation, new chemical screening and engineering that assists in pursuing efficiencies from the initial conceptualisation up to commercialisation of a product. In addition, it has a pilot plant at Sachin Unit – 6 that has the capability to support customer needs for pre-commercial production for product development by employing new production technology and performing large number of complex chemical reactions. As of December 31, 2020, it has a dedicated team of over 42 employees in R&D department. The company has a commercialised product portfolio of 41 products as on December 31, 2020.

Exhibit 4: Product portfolio

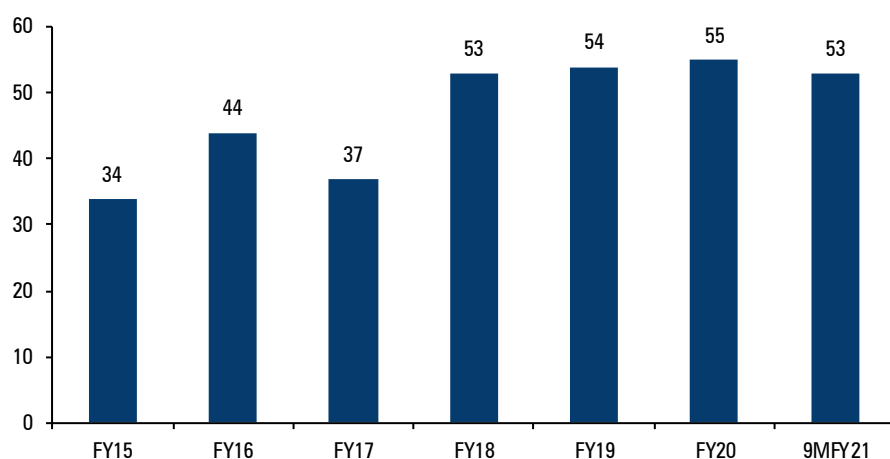


Source: RHP, ICICI Direct Research

Customer profile

The company's customer base currently comprises a number of multinational, regional and local companies including many multinational corporations like Syngenta Asia Pacific Pte Ltd, Sumitomo Chemical Company and UPL Ltd. In the nine months ended December 31, 2020, Anupam Rasayan manufactured products for over 53 domestic and international customer, including 17 multinational companies.

Exhibit 5: No of customers



Source: RHP, ICICI Direct Research

Investment Rationale

Continues to focus on custom synthesis manufacturing by developing innovative processes

The company intends to continue developing in-house innovative processes for new complex chemistries like hydrogenation and photo chlorination. It continuously seeks to try and explore which products or processes can be converted to continuous process for which it develops in-house processes. Further, the company is currently in the process of developing a few products for customers by undertaking photo chemistry technology and intend to advance this technology to take it to a commercial scale. Photo chemistry technology provides various benefits, including, shorter and simplified multi-step synthesis of complex molecules, increased accessibility to a portfolio of novel compound families and large potential for automation (Source: F&S Report). In addition, it also seeks to continue to enhance continuous and flow chemistry capabilities by exploring opportunities to manufacture active ingredient products.

Expand business by capitalising on industry opportunities, organic & inorganic growth

According to the F&S Report, India's specialty chemicals industry is expected to grow at a CAGR of ~10-11% 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 ~1-2% 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 ~6% of the global custom synthesis and manufacturing market. Custom synthesis manufacturing is on the rise in India while the contract research and manufacturing services market is expected to grow at 12% in the next five years, owing to strong growth from end-use demand. In addition, the 'China plus one' strategy and the shift in manufacturing operations and sourcing of raw materials from China on account of tightening of environmental protection norms in China since 2015, increase in operating and labour costs, and trade dispute between China and the US, provides an opportunity for India to capture a larger market share.

To diversify product portfolio, expand chemistry expertise

The company intends to continue to focus on its ability to customise products according to the specific requirements of customers and broaden portfolio through innovation, focus on sustainable solutions, undertake new chemistries and perform multi-step synthesis of niche products. Its 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. The company is focused on expanding chemistry expertise and entering into new value chains by adding new reaction capabilities at manufacturing facilities. It intends to offer a wide range of chemistry competency with emphasis on chemistries like Grignard and new group chemistries like ethylene oxide, ammoxidation and isobutylene. Currently, only a few companies in India undertake such new group chemistries (Source: F&S Report). Further, these chemistries will enable it to manufacture more products in the life science related specialty chemicals vertical. It also proposes to cater to customers across new industry segments and in new geographies to grow its market share.

Key risks & concerns

- **Client concentration remains key risk:** Top five clients constitute ~50% of overall revenue while top 10 clients contribute to the tune of ~84%. Since the company has different major customers in its business profile, any loss in customer can impact order backlog and thereby revenue performance
- **Higher working capital cycle keeps FCF subdued** – The company enters into fixed price annual contract with buyers at the end of calendar year. Similarly, it keeps higher inventory to offset any price fluctuation. This leads to higher working capital cycle and limits FCF generation. This has enabled the company to fund capex through external borrowing in the past. Continuance of this can bloat the balance sheet if it intends to increase the scale of the business
- **Inability to pass on higher RMAT cost to impact bottomline** – The company's key RM are para chloro phenol and meta dichloro benzene, whose prices have remained volatile in the past. Anupam Rasayan does not enter into long-term supply contracts with any raw material suppliers while purchase prices for customers are pre-determined either annually or for the duration of the agreement. Accordingly, any subsequent variation in price of raw materials may not be passed on to customers and can impact gross margins of the business

Financial summary

Exhibit 6: Profit and loss statement		₹ crore		
Year end March	FY18	FY19	FY20	
Total Operating Income	341.4	501.5	528.9	
Growth (%)	-	46.9	5.5	
Raw Material Expenses	153.5	257.1	210.5	
Gross Profit	187.9	244.4	318.3	
Employee Cost	15.9	18.6	21.0	
Other Operating Expenses	98.4	132.7	162.5	
EBITDA	73.5	93.1	134.9	
Growth (%)	-	26.6	44.8	
Other Income	7.8	19.5	10.5	
EBITDA, including OI	81.3	112.6	145.4	
Depreciation	17.6	22.5	28.7	
Net Interest Exp.	14.0	24.4	45.3	
Other exceptional items	0.0	0.0	0.0	
PBT	49.8	65.7	71.4	
Total Tax	9.4	15.5	18.4	
Tax Rate	18.9%	23.6%	25.8%	
PAT	40.3	50.2	53.0	
Adj. PAT after Minority interest	40.3	50.2	53.0	
Adj. EPS (₹)	4.0	5.0	5.3	
Shares Outstanding	10.0	10.0	10.0	

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement		₹ crore		
Year end March	FY18	FY19	FY20	
PBT & Extraordinary	49.8	65.7	71.4	
Depreciation	17.6	22.5	28.7	
After other adjustments				
(Inc) / Dec in Working Capital	-93.8	-58.1	-48.2	
Taxes	-8.5	-12.5	-9.2	
Others	-2.3	-3.7	33.8	
CF from operating activities	-20.3	38.9	94.9	
Purchase of Fixed Assets	-255.6	-248.3	-180.4	
Others	0.5	-1.9	2.2	
CF from investing activities	-255.1	-250.2	-178.2	
Proceeds from issue of shares	167.9	0.0	35.4	
Borrowings (Net)	120.9	230.1	117.0	
Others	-14.0	-24.4	-51.0	
CF from financing activities	274.8	205.7	101.4	
Net cash flow	-0.5	-5.6	18.2	
Effects of foreign currency translation				
Opening Cash & Bank	7.9	9.1	7.1	
Closing Cash & Bank	9.1	7.1	26.8	

Exhibit 8: Balance sheet		₹ crore		
Year end March	FY18	FY19	FY20	
Liabilities				
Share Capital	50.0	50.0	50.0	
Reserves	407.6	457.1	543.7	
Total Shareholders Funds	457.6	507.1	593.7	
Long Term Borrowings	267.8	462.3	524.2	
Net Deferred Tax liability	10.2	13.7	19.2	
Other long term liabilities	0.0	0.0	33.0	
Current Liabilities and Provisions				
Short term borrowings	123.0	154.4	237.1	
Trade Payables	62.1	73.8	130.2	
Other Current Liabilities	77.0	108.7	125.9	
Short Term Provisions	3.5	2.5	0.8	
Total Current Liabilities	265.6	339.4	494.0	
Total Liabilities	1,001.2	1,322.5	1,664.1	
Assets				
Net Block	382.2	680.9	938.1	
Capital Work in Progress	256.1	190.6	100.9	
Non-current investments	2.6	0.4	0.4	
Other Non Current Assets	15.5	27.1	73.1	
Current Assets, Loans & Advances				
Current Investments	0.0	0.0	0.0	
Inventories	172.5	195.4	297.0	
Sundry Debtors	88.4	120.6	129.5	
Cash and Bank	9.1	7.1	26.8	
Loans and Advances	16.4	21.4	25.2	
Other Current assets	58.4	79.0	73.0	
Current Assets	344.7	423.5	551.5	
Total Assets	1,001.2	1,322.5	1,664.1	

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
Year end March	FY18	FY19	FY20	
Per share data (₹)				
Adj. EPS	4.0	5.0	5.3	
Adj. Cash EPS	5.8	7.3	8.2	
BV	120.9	125.8	134.5	
Operating Ratios (%)				
Gross Margin (%)	55.0	48.7	60.2	
EBITDA Margin (%)	21.5	18.6	25.5	
PAT Margin (%)	11.8	10.0	10.0	
Debtor Days	94	88	89	
Inventory Days	184	142	205	
Creditor Days	66	54	90	
Cash Conversion Cycle	213	176	205	
Return Ratios (%)				
Return on Assets (%)	4.0	3.8	3.2	
RoCE (%)	8.7	9.2	10.0	
Core RoIC (%)	6.7	6.3	8.0	
RoE (%)	8.8	9.9	8.9	
Solvency Ratios				
Total Debt / Equity	0.9	1.2	1.3	
Interest Coverage	4.6	3.7	2.6	
Current Ratio	1.3	1.2	1.1	
Quick Ratio	0.6	0.7	0.5	
Valuation Ratios (x)				
EV/EBITDA	75.5	59.6	41.1	
P/E	137.4	110.4	104.7	
P/B	4.6	4.4	4.1	
EV/Sales	16.3	11.1	10.5	

Source: Company, ICICI Direct Research

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