



Issue Details

Listing	BSE & NSE
Open Date	12 Mar 2021
Close Date	16 Mar 2021
Price Band	Rs.553-555
Market Lot	27 shares
Minimum Lot	1 Lot

Anupam Rasayan Ltd (ARL), established in 1984, is one of the leading companies engaged in the custom synthesis and manufacturing of speciality chemicals in India. It has two business verticals:

- **Life sciences (90% of the revenue), which caters to agrochemical, personal care and pharma**
- **Other speciality chemicals (10% of the revenue), which includes pigment & dyes, polymer additives, etc.**

Exports contribute over 60% of ARL’s total business, while the rest comes from the domestic market. The company operates 6 manufacturing facilities in Gujarat with an aggregate installed capacity of 23,438 metric tonnes (MT). ARL has a dedicated in-house R&D facility recognized by The Department of Scientific & Industrial Research. Benzene derivatives and phenol are the key raw materials used, of which 20-25% are imported.

Issue Structure

Offer for sale	0%
Fresh Issue	100%
Issue Size	Rs.760 cr
Total no of shares	13,693,693
QIB share (%)	≥ 50%
Non Inst share (%)	≤ 15%
Retail share (%)	≤ 35%

Life Sciences Speciality Chemicals

ARL manufactures a variety of intermediates and ingredients for insecticides, fungicides and herbicides for agrochemical companies. Besides it also manufactures anti-bacterial and ultraviolet protection ingredients for FMCG and pharma companies.

Shareholding Pattern

	Pre (%)	Post(%)
Promoters	75.8	65.4
Institutional	24.2	27.7
Public	0.0	6.9

Over the period of FY18-20, life sciences revenue grew at a CAGR of 26.3% to Rs.504 cr, while during 9MFY21, this segment posted YoY revenue growth of 40.7% to Rs.506 cr

The company has developed a strong long term B2B relationship with many MNCs, which enables the company to supply its products in domestic as well as in their respective international markets.

As a fallout of the pandemic, many global pharma and FMCG players are looking to India as a replacement vendor in place of China, which is a significant opportunity for Indian chemical companies, including ARL.

Key Financials (in ₹ crores)

	Sales	EBITDA	Net Profit	EBITDA (%)	Net Profit (%)	EPS ₹	BV ₹	RoE (%)	RoCE (%)	P/E (x)	P/BV (x)	EV/EBITDA (x)
FY19	501.5	93.1	49.2	18.6	10.0	4.9	50.8	9.7	4.5	112.6	10.9	66.6
FY20	528.9	134.9	53.0	25.5	10.0	5.3	59.4	8.9	5.6	104.7	9.3	47.0
FY21E	745.8	165.5	66.3	22.2	8.9	6.6	142.1	4.7	3.8	83.7	3.9	34.0
FY22E	896.1	212.4	97.6	23.7	10.9	9.8	151.9	6.4	6.4	56.8	3.7	26.9
FY23E	1050.2	269.0	153.4	25.6	14.6	15.4	167.3	9.2	8.4	36.1	3.3	21.0

ARL has significantly expanded its portfolio of chemical intermediates from 25 to 41, which has increased its product offerings.

Particulars	FY16	FY17	FY18	FY19	FY20	9MFY21
Number of products	17	20	25	30	34	41

We expect the revenues from this segment to grow at a CAGR of 23.7% to Rs.956 cr by FY23.

Other Speciality Chemicals

ARL's other speciality chemicals find applications in pigments, dyes and polymer additives. Although this segment contributes only 10% to the overall revenue, it has the potential to grow faster in the coming years. Increasing use of pigments and dyes in the textile and paint industry is expected to fuel growth in this segment.

Over the period FY18-20, revenues from this segment degrew at a CAGR of 1.4% to Rs.25 cr due to limited product offerings. But similar to the life sciences speciality chemical segment, revenues from this segment have catapulted to 34 cr (171.8% YoY) in 9MFY21. We expect the revenues from this segment to grow at a CAGR of 56.8% to Rs.95 cr by FY23.

❖ Key investment highlights

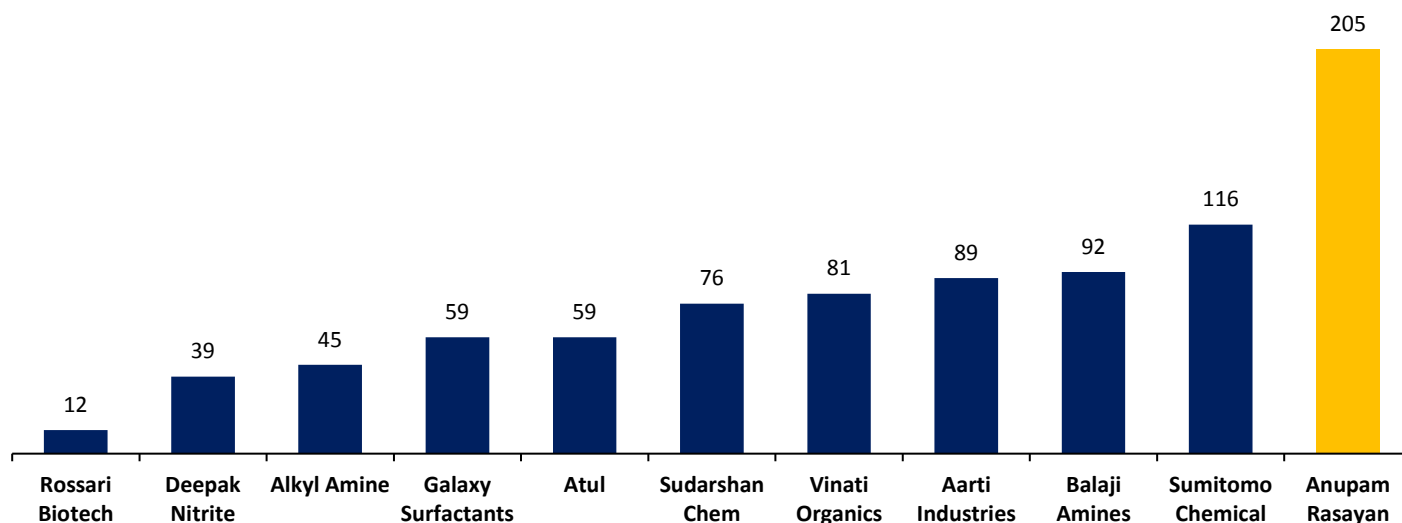
- **Research and Development** – The company has a dedicated team of 42 employees in its R&D facility. The objective is to regularly improve existing products, with the expectations of clients, and maintain a strong product pipeline for future business growth.
- **Premiumization in offerings** – Global agrochemical, FMCG and pharma companies are improving their product portfolio by adding premium products. This not only improves product realization but also enhances profitability. These products require better and high-value ingredients. ARL caters to these products.
- **Capital expenditure** – Over the past 3 years, the company undertook a capex of Rs.800 cr to expand its manufacturing capacity from 10,534 MT to 13,131 MT. The bulk of this capex was financed through debt. Currently, the debt of the company stands at Rs.842 cr (0.9X net debt to equity and 4.7X net debt to EBITDA). Out of the IPO proceeds, the company intends to repay the debt to the tune of Rs.564 cr. This will help to reduce the gearing and improve return ratios. Post this, we expect the net debt to decline to Rs.176 cr by FY22 (0.1X net debt to equity and 0.9X net debt to EBITDA) and Rs.131 cr by FY23 (0.1X net debt to equity and 0.5X net debt to EBITDA)

- **Long Term B2B relationship –** Despite the lockdown and pandemic, the company has not suffered or witnessed any major impact on its business due to its long term and sticky relationship with MNCs. ARL caters to 53 domestic and international companies, out of which 17 are MNCs.
- **Localization of raw material sourcing –** ARL sources 75-80% of its raw materials domestically while the rest come from imports. The company is looking to further reduce import dependency gradually and also increasing the number of vendors to lower the concentration risk.

We expect overall revenues / EBITDA / PAT to grow at a CAGR of 25.7% / 25.9% / 42.5% to Rs.1,050 cr / Rs.269 cr / Rs.153 cr, respectively, by FY23. EBITDA and net margins are expected to improve by 11 bps and 459 bps to 25.6% and 14.6%, respectively, over the same period. Consequently, return ratios RoE and RoCE are also expected to improve by 26 bps and 277 bps to 9.2% and 8.4%, respectively, by FY23.

Despite being a speciality chemicals company, ARL witnesses working capital pressure, compared to peers.

Net Working Capital Days of similar sized chemical companies

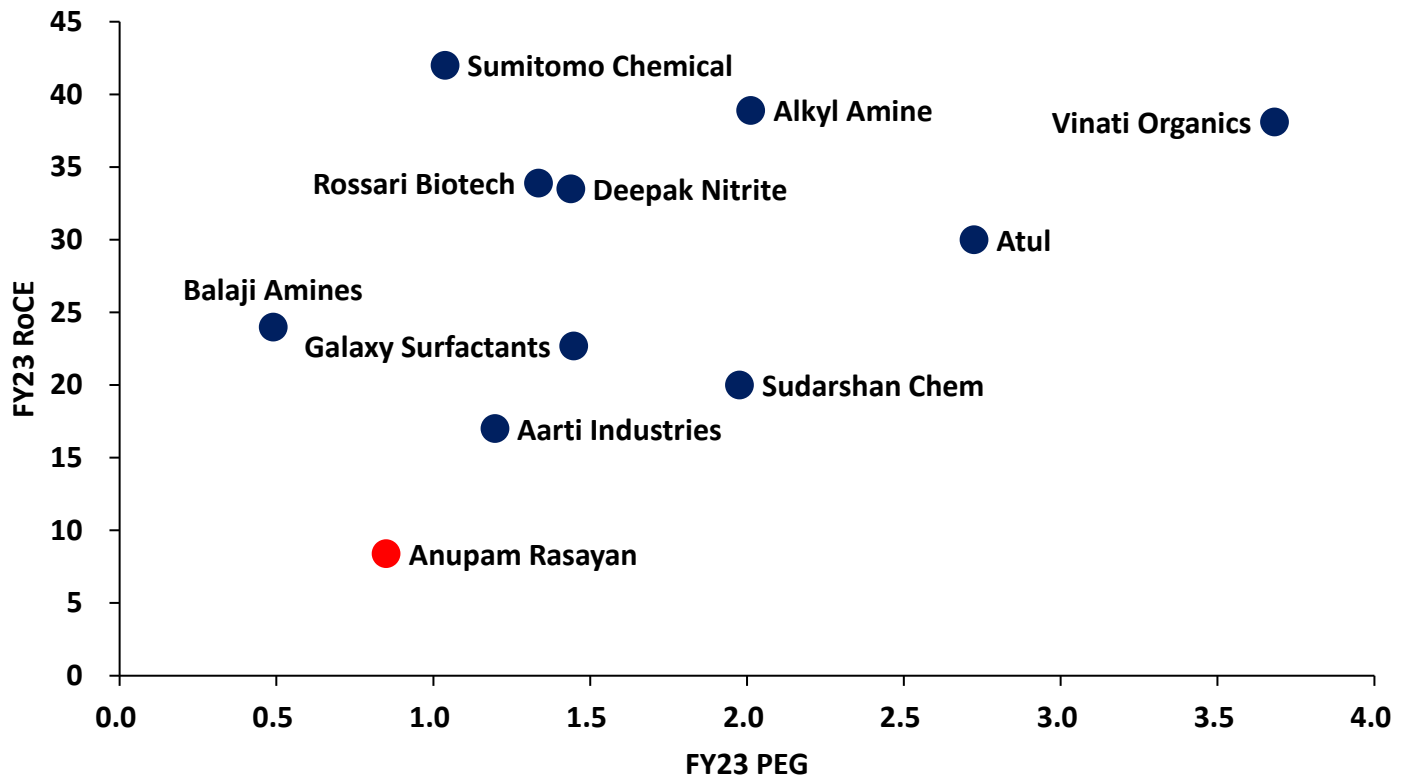


Source: Ventura Research

❖ Valuation

At the higher price band of Rs 555 per share, ARL is valued at 36.1X FY23 earnings. We recommend a SUBSCRIBE for listing gains.

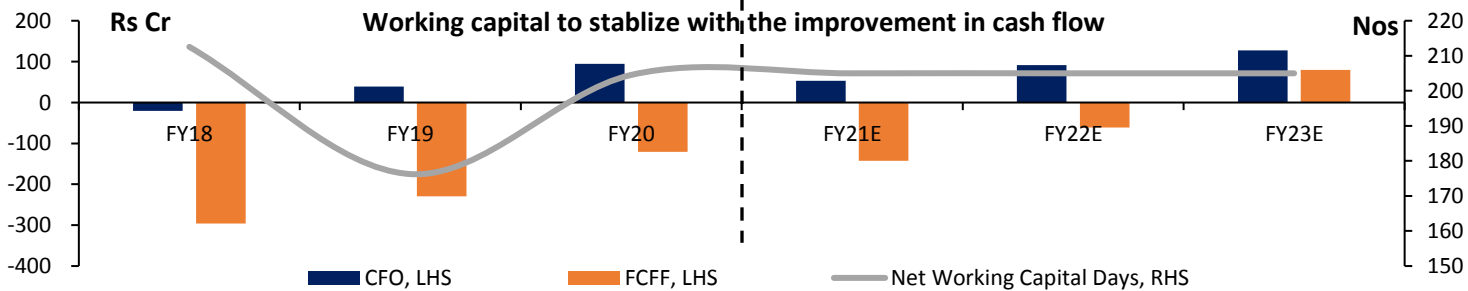
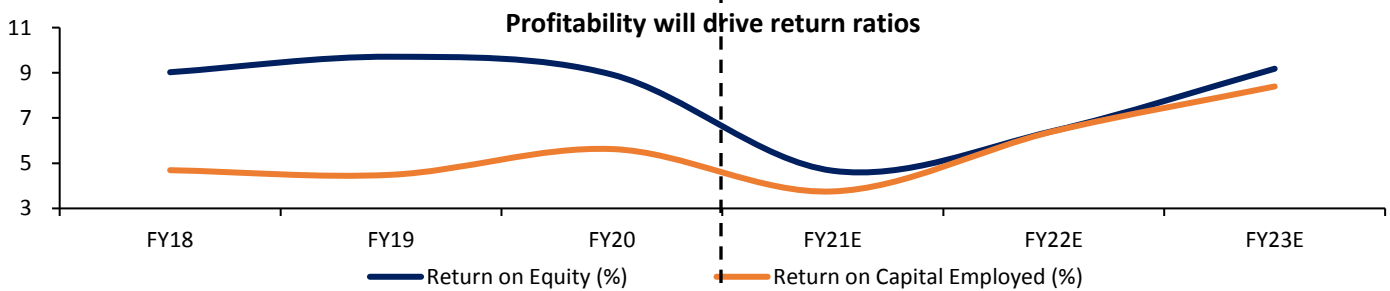
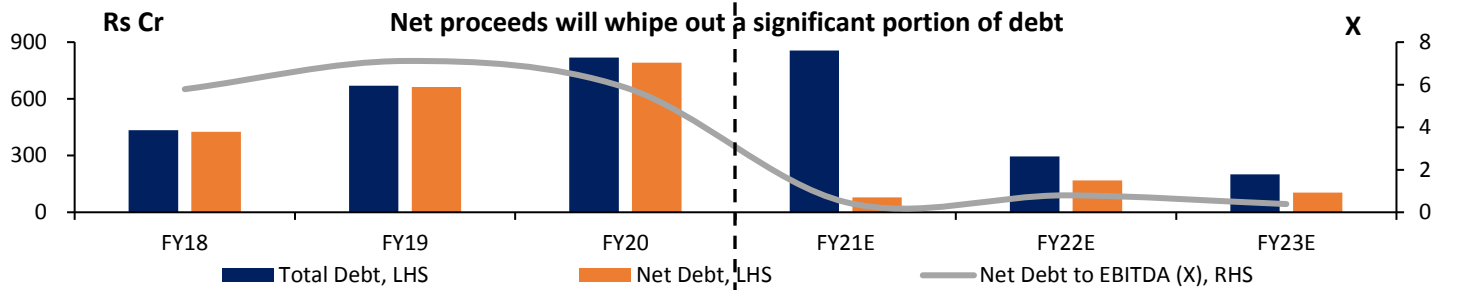
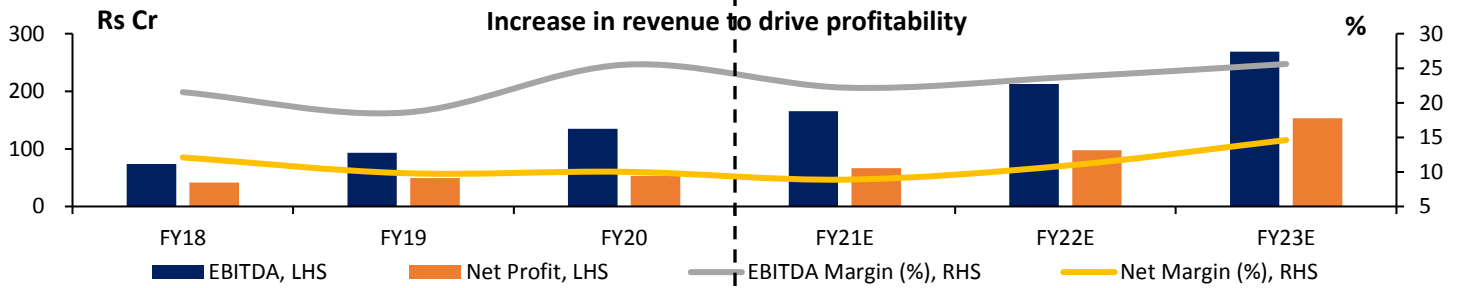
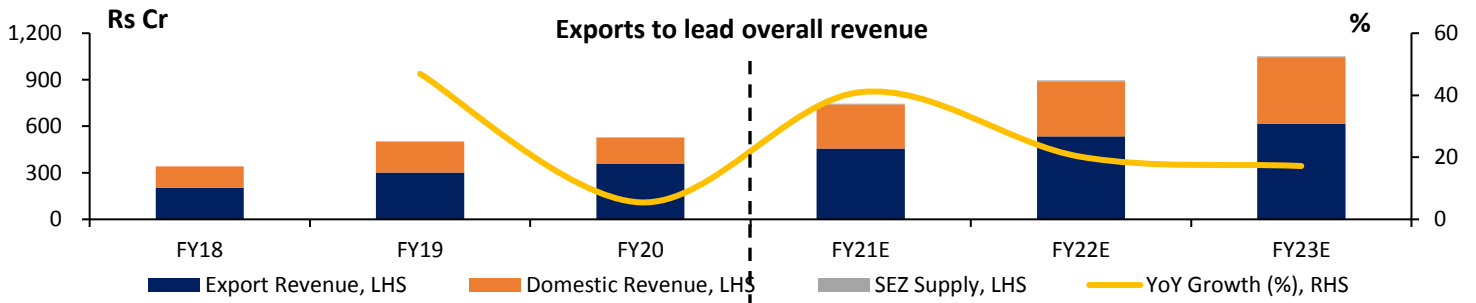
Anupam Rasayan – ROCE will take time to pickup after the recent capex and capital raising



Source: Bloomberg & Ventura Research

❖ Key risk and concern areas

- **Delay in scaling up and capacity utilization** – Any delay in scaling up of the business will impact capacity utilization and earning visibility, which could also impact market valuations
- **Volatility in raw material prices** – Extreme volatility in the key raw material prices could impact the gross margins to some extent.



Source: Company Reports and Ventura Research

Management Team

Key Mangement Person	Designation	Details
Dr Kiran C Patel	Chairman	Dr. Patel served on the house staff of Jersey City Medical Center in the capacity as resident, internal medicine, from 1978 till 1980. He was elected as a fellow of the American College of Cardiology in 1993. He has been certified to practice medicine in the state of Florida by the Department of Professional Regulation, State of Florida. He is also a promoter director on the boards of Rudraksh Academy Pvt. Ltd. and Solace Healthcare Pvt. Ltd
Mrs Mona A Desai	Vice Chairman	She has been on the Board since the incorporation of the Company in 2003. She was the chairperson of the Board of the company from April 23, 2013 until 21 August, 2020. She is also a director on the board of RIRCPL. She has over 18 years of experience in the field of chemicals industry and has been actively involved in the day to day running of the company
Mr Anand S Desai	Managing Director	He has been associated with the company since 1992 and was one of the first Directors of the company. He has over 28 years of experience in the field of chemicals industry and has been actively involved in the day to day running of the company.
Mr Afzal Malkani	CFO	He holds a bachelor's degree in commerce from South Gujarat University, Surat. He is qualified as a chartered accountant from the Institute of Chartered Accountants of India. Mr. Afzal Malkani joined our Company on October 28, 2005 and was appointed as the Chief Financial Officer with effect from December 1, 2014. Mr. Afzal Malkani commenced his career with our Company. In Fiscal 2020, he received an aggregate compensation of ₹ 19.20 million on an individual basis for services rendered in all capacities, including ₹ 5.70 million as arrears accrued for Fiscal 2019.

Source: Company Reports

Issue Structure and Offer Details

The proposed issue size of Anupam Rasayan's IPO is Rs.760 cr and the entire amount is a fresh issue. The price band for the issue is in the range of Rs.553-555 and the bid lot is 27 shares and multiples thereof.

Issue Structure		
Category	No. of shares offered	No of shares Offered
QIB	At least 6,747,748	At least 50% of public issue
Non-Institutional Bidders	Not more than 2,024,324	Not more than 15% of public issue
Retail	Not more than 4,723,423	Not more than 35% of public issue
Employees	At least 220,000	Not the part of public issue

* No of shares based on higher price band of Rs.555

Source: Company Reports & SEBI

Shareholding Pattern		
Category	Pre-issue	Post-issue
Promoters	75.8%	65.4%
Institutions	24.2%	27.7%
Public	0.0%	6.9%

Source: Company Reports and SEBI

Financial Projections

Figures in Rs Cr	FY19	FY20	FY21E	FY22E	FY23E	Figures in Rs Cr	FY19	FY20	FY21E	FY22E	FY23E
Income Statement						Per Share Data & Yields					
Net Revenue	501.5	528.9	745.8	896.1	1,050.2	Adjusted EPS	4.9	5.3	6.6	9.8	15.4
<i>YoY Growth (%)</i>	<i>46.9</i>	<i>5.5</i>	<i>41.0</i>	<i>20.2</i>	<i>17.2</i>	Adjusted BVPS	50.8	59.4	142.1	151.9	167.3
Raw Material Cost	257.1	210.5	302.3	362.9	420.1	CFO per share	3.9	9.5	5.3	9.2	12.7
<i>YoY Growth (%)</i>	<i>67.5</i>	<i>-18.1</i>	<i>43.6</i>	<i>20.0</i>	<i>15.7</i>	CFO Yield (%)	0.7	1.7	1.0	1.7	2.3
Employee benefits expense	18.6	21.0	41.4	43.9	46.1	FCF per share	-23.0	-12.1	-14.3	-6.1	8.0
<i>YoY Growth (%)</i>	<i>16.8</i>	<i>12.7</i>	<i>97.6</i>	<i>6.0</i>	<i>5.0</i>	FCF Yield (%)	-4.1	-2.2	-2.6	-1.1	1.4
Other Operating Expenses	132.7	162.5	236.5	276.9	315.0	Solvency Ratio (X)					
<i>YoY Growth (%)</i>	<i>34.8</i>	<i>22.5</i>	<i>45.5</i>	<i>17.1</i>	<i>13.8</i>	Net Debt to Equity	1.3	1.3	0.1	0.1	0.1
EBITDA	93.1	134.9	165.5	212.4	269.0	Net Debt to EBITDA	7.1	5.9	0.5	0.8	0.4
<i>YoY Growth (%)</i>	<i>-26.6</i>	<i>-44.8</i>	<i>22.7</i>	<i>28.3</i>	<i>26.6</i>	Interest Coverage Ratio	2.9	2.3	2.3	4.4	14.0
<i>Margin (%)</i>	<i>18.6</i>	<i>25.5</i>	<i>22.2</i>	<i>23.7</i>	<i>25.6</i>	Working Capital Ratios					
Depreciation & Amortization	22.5	28.7	51.4	56.9	58.9	Payable Days	54	90	70	70	70
EBIT	70.6	106.2	114.1	155.5	210.0	Receivable Days	88	89	75	75	75
<i>YoY Growth (%)</i>	<i>-26.2</i>	<i>-50.4</i>	<i>7.4</i>	<i>36.3</i>	<i>35.1</i>	Inventory Days	142	205	200	200	200
<i>Margin (%)</i>	<i>14.1</i>	<i>20.1</i>	<i>15.3</i>	<i>17.3</i>	<i>20.0</i>	Net Working Capital Days	176	205	205	205	205
Other Income	19.5	10.5	26.9	10.0	10.0	Return Ratios (%)					
Finance Cost	24.4	45.3	50.0	35.0	15.0	Return on Equity	9.7	8.9	4.7	6.4	9.2
PBT	65.7	71.4	91.0	130.5	205.0	Return on Capital Employed	4.5	5.6	3.8	6.4	8.4
<i>YoY Growth (%)</i>	<i>32.1</i>	<i>8.6</i>	<i>27.5</i>	<i>43.3</i>	<i>57.2</i>	Return on Invested Capital	4.5	5.7	5.7	6.9	8.9
<i>Margin (%)</i>	<i>13.1</i>	<i>13.5</i>	<i>12.2</i>	<i>14.6</i>	<i>19.5</i>	Valuation (X)					
Tax	15.5	18.4	24.8	32.8	51.6	P/E	112.6	104.7	83.7	56.8	36.1
<i>Tax Rate (%)</i>	<i>23.6</i>	<i>25.8</i>	<i>27.2</i>	<i>25.2</i>	<i>25.2</i>	P/BV	10.9	9.3	3.9	3.7	3.3
PAT	50.2	53.0	66.3	97.6	153.4	EV/EBITDA	66.6	47.0	34.0	26.9	21.0
Share of associates	-1.0	0.0	0.0	0.0	0.0	Cash Flow Statement					
Net Profit	49.2	53.0	66.3	97.6	153.4	Profit Before Tax	65.7	71.4	91.0	130.5	205.0
<i>YoY Growth (%)</i>	<i>24.5</i>	<i>5.5</i>	<i>25.1</i>	<i>47.3</i>	<i>57.2</i>	Add: Depreciation	22.5	28.7	48.4	53.9	55.9
<i>Margin (%)</i>	<i>10.0</i>	<i>10.0</i>	<i>8.9</i>	<i>10.9</i>	<i>14.6</i>	Add: Finance Cost	24.4	45.3	50.0	35.0	15.0
Balance Sheet						Other assets & liabilities	-3.1	7.0	10.8	-10.4	-10.7
Share Capital	50.0	50.0	99.9	99.9	99.9	Change in working capital	-58.1	-48.2	-122.5	-84.4	-86.5
Total Reserves	457.1	543.7	1,320.1	1,417.7	1,571.1	Less: Tax Paid	-12.5	-9.2	-24.8	-32.8	-51.6
Shareholders' Fund	507.1	593.7	1,420.0	1,517.6	1,671.0	Cash Flow from Operations	38.9	94.9	53.0	91.7	127.1
Long Term Borrowings	462.3	524.2	516.2	0.0	0.0	Net Capital Expenditure	-248.1	-179.9	-154.8	-150.0	-50.0
Other Financial Liabilities	0.0	33.0	33.2	33.2	33.2	Change in other investments	1.4	0.0	111.2	3.0	3.0
Deferred Tax Liabilities	13.7	19.2	27.0	32.5	38.1	Other bank balance & cash	-3.5	1.7	0.0	0.0	0.0
Total Liabilities	983.1	1,170.1	1,996.5	1,583.3	1,742.3	Cash Flow from Investing	-250.2	-178.2	-43.7	-147.0	-47.0
Gross Block	766.9	1,043.7	1,198.5	1,348.5	1,398.5	Payment of lease liabilities	0.0	-7.1	0.0	0.0	0.0
Less: Accumulated Dep	99.3	118.4	166.9	220.8	276.7	Change in other liabilities	230.1	152.4	797.0	-560.0	-95.0
Net Block	667.7	925.3	1,031.6	1,127.7	1,121.8	Less: Interest Paid	-24.4	-43.8	-50.0	-35.0	-15.0
Right of Use Assets	0.0	39.3	37.3	35.4	33.4	Cash Flow from Financing	205.7	101.4	747.0	-595.0	-110.0
Intangible Assets	13.2	12.8	11.7	10.7	9.7	Net Cash Flow	-5.6	18.2	756.3	-650.3	-29.9
Capital Work in Progress	190.6	100.9	0.0	0.0	0.0	Opening Balance of Cash	7.4	1.8	20.0	776.4	126.1
Investments	0.4	0.4	0.0	0.0	0.0	Closing Balance of Cash	1.8	20.0	776.4	126.1	96.2
Other Long Term Fin Assets	3.8	3.0	7.5	9.0	10.5						
Other Non Current Assets	23.3	30.9	43.5	52.3	61.3						
Net Current Assets	84.1	57.6	864.8	348.3	505.7						
Total Assets	983.1	1,170.1	1,996.5	1,583.3	1,742.3						

Source: Company Reports & Ventura Research

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