AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

IPO note: Anupam Rasayan Limited - "Good industry prospects but steep valuations is uncomforting" - "AVOID" March 12, 2021

Background..

Anupam Rasayan is one of the leading companies engaged in the custom synthesis and manufacturing of specialty chemicals in India (Source: F&S Report). 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 and dyes, and polymer additives. In FY20 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. As of Dec. 31, 2020, the company operated through six multi-purpose manufacturing facilities based in Gujarat, India; four located at Sachin, Surat, Gujarat and two located at Jhagadia, Bharuch, Gujarat. The Company has a combined aggregate installed capacity of around 23,396 metric tonne, of which 6,726 metric tonne was added in March 2020.

Industry characterized by high entry barriers

According to the F&S Report, there exist significant entry barriers in the custom synthesis and manufacturing industry including customer validation and approvals, high quality standards, stringent specifications, and expectation from customers for process innovation and cost reduction. Further, the acquisition of a customer is a long process since the end-customer is required to register the manufacturer with the regulatory bodies as a supplier of intermediate products or active ingredients (Source: F&S Report). The Company 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 expand the product offerings and geographic reach across Europe, Japan, United States and India. In particular, the Company 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 our Company as a three star export house.

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.

Global firms looking to shift from China to India..

China's weakened position can be beneficial for India. Global manufacturers have initiated talks with Indian firms to explore the possibility of shifting a part of their supply chains from China as they seek to diversify their operations following the COVID-19 outbreak. In order to capitalize on this opportunity, the Government of India has undertaken various policy interventions to attract companies looking to shift their manufacturing base to India in the post COVID-19 scenario. The tightening of environmental protection norms in China since January 2015 resulting in increase in operating costs, closure and relocation of manufacturing facilities along with rising labour costs and the recent trade dispute between China and United States have reduced Chinese exports and resulted in shifting the source of key raw materials from China to India. Local sourcing and global companies are shifting base to India, which is expected to increase the manufacturing sector of India.

Established long term relationships with marquee customers..

The Company has long-term relationships with Syngenta Asia Pacific, Sumitomo Chemical and UPL that helped the company expand its product offerings and geographic reach across Europe, Japan and the US.

Issue date	March 12 - 16, 2021
Listing date	March 24, 2021
Price Band	Rs. 553 - Rs. 555 (Face value: Rs. 10)
Bid lot	27 equity shares and in multiples thereof
Issue type	Fresh Issue : Rs. 760 crores
Issue structure	QIB - 50 %, NIB - 15%, Retail - 35%
Employee reservation	220,000 equity shares
Post issue shares	9.99 crore equity shares
Promoter holding	Pre issue: 75.8 %/Post issue: 65.4%
Post issue market cap	Rs. 5,544 crores
BRLM	Axis Capital, Ambit, IIFL
Registrar to the issue	KFin Technologies Pvt. Ltd.

Particulars (Rs. crores)	9MFY21	FY20	FY19	FY18
Topline	539	529	502	341
EBITDA	155	135	93	74
EBITDA (%)	28.7	25.5	18.6	21.5
Profit after tax	48	53	50	40
PAT margin (%)	8.5	9.83	9.59	11.46
Equity share cap.	86.2	50	50	50
Networth	825	594	584	458
Post IPO EPS (Rs.)	6.4#	5.3	5	4
P/E (x)	86	105	110	137
RoE (%)	-	8.9	9.9	8.8

Source: RHP, # denotes P/E on annualised 9MFY21 numbers

Decent financial performance..

From FY18 to FY20, the company's total revenue grew 24.29 per cent annually while EBITDA for FY20 stood at Rs. 135 crore.

Investment recommendation and rationale

At the upper end of the price band of Rs. 555, the Company's IPO is valued at P/E of 86x on 9MFY21 annualised EPS, 105x on FY20 EPS and 94x on trailing 12 months EPS which is very expensive and steep as against its peers who have a much better ROE profile. We are not comfortable with the aggressive pricing done in this IPO. Hence, we recommend "AVOIID" to the issue. However, the Company business prospects are good due to the following factors: a) global firms looking to shift from China to India is beneficial to the Company, b) core focus on process innovation through consistent research and development, value engineering and complex chemistries, c) diversified and customized product portfolio with a strong supply chain, d) automated manufacturing facilities, e) continue to focus on custom synthesis and manufacturing by developing innovative processes and value engineering, f) expand its business by capitalizing on industry opportunities and organic and inorganic growth, g) low dependence on raw material imports from China, h) established relationships with multinational corporations, i) automated manufacturing infrastructure, j) decent financial and operational performance, k) positive operating cashflow, high single digit return ratios,l) investors fancy for speciality chemical companies in COVID-19 era and strong market conditions amidst high FPI liquidity can surprise us too post listing; the Company has already raised nearly Rs. 225 crore from 15 anchor investors.

Research report written by - Akash Jain, MBA (Financial Markets), Vice – President Research

Background

The group commenced business as a partnership firm in 1984 as a manufacturer of conventional products and have, 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. The Company's key focus in custom synthesis and manufacturing operations is developing in-house innovative processes for manufacturing products requiring complex chemistries and achieving cost optimization.

Mr. Anand S Desai, Dr. Kiran C Patel, Ms. Mona A Desai, KPI LLC (Kiran Pallavi Investments LLC)and RIRCPL (Rehash Industrial and Resins Chemicals Private Limited) are the promoters of the company. KPI LLC is an investment holding company and does not carry on any active business. KPI LLC is jointly promoted by Dr. Kiran C Patel which holds 99.99% percentage interest and and Dr. Pallavi Patel holds 0.1% percentage interest. RIRCPL was incorporated as a private company limited by shares and is involved in the business of trading of chemicals. Mr. Anand S Desai, is the promoter of RIRCPL and holds 98.89% of the equity share capital of RIRCPL.

Peer comparison

Particulars	PI Industries	Navin Fluorine	Astec Life Sciences
CMP (Rs.)	2,291	2,690	1,049
Market Cap. (Rs. crores)	34,740	13,321	2,054
Net Sales (Rs. crores)	3,366	1,061	522
PAT (Rs. crores)	455	401	47
EPS (TTM) - Rs.	44.1	92	36.9
ROE (%)	17.43	28.93	19.26
P/E (x)	52	29	28

Objects of the issue

a) To make pre-payment/repayment of Company's debt including accrued interest. The company intends to repay the debt to the tune of Rs. 564 crore (existing total debt Rs. 842 crores) out of IPO proceeds.
b) To meet general corporate purposes

Key concerns

1) **Steep valuations** of 105x on FY20 EPS and FY20 EV/EBITDA multiple of 47x is pricing beyond reality as compared to its peers in agrochemicals space which does not provide any comfort on th margin of safety front for investors. The ROE profile and growth does not commensurate with the aggressive pricing.
2) **High client concentration risk**: Revenues generated from sales to top 10 customers represented 86.65 percent and 84.01 percent of revenue from operations in Fiscal 2020 and in the nine months ended December 31, 2020, respectively. The loss of one or more of these significant customers or a significant decrease in business from any such key customer may materially and adversely affect business, results of operations and financial condition.
3) The Company operates in **a highly competitive market** and the Company faces competition from both domestic and multinational corporations which affects pricing power.
4) The Company's recent heavy capital expenditure programme will cap the improvement in ROEfor sometime unless there is significant improvement in capacity utilisation owing to spurt in demand for its products. According to management, with the completion of major capex programmed of Rs. 800 crore in the last three years for expansion of capacities; the company has already started yielding benefits with a CAGR of 24.29% in total revenue from FY18 to 9M-FY21 and trends are expected to continue. The interest saving on debt repayment post IPO would offset the pressure on ROE to some extent.

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