

ARCHEAN CHEMICAL INDUSTRIES LTD.

RECOMMENDATION : BUY

MARKET PRICE : Rs.549.00 (As on 5th May 2023)

TARGET PRICE : Rs.687.00

FACE VALUE : Rs.2

BSE CODE : 543657

NSE CODE : ACI





ABOUT THE COMPANY

Archean Chemical Industries Ltd. is a leading specialty chemicals manufacturing company based in India with a wide presence in the global markets. The Company is the first of its kind integrated plant in India to produce Industrial Salt, Bromine and Sulfate of Potash.

The Company has integrated production Facility located at Hajipir, Gujarat. It is the largest exporter of Bromine and Industrial Salt in India. The Company has a strong clientele base with 27 global and 25 domestic clients.

Archean at Glance



»

A leading Manufacturer of **Specialty Marine Chemicals** in India

»

Strong Clientele - 27 Global & 25 Domestic

»

Integrated production Facility located at Hajipir, Gujarat

»

Largest exporter of Bromine and Industrial Salt in India

»

'Responsible Care' Certification is in process

Rs. 10,586.9 Mn
*9MFY23 Revenue

Bromine (~51%)

- Leadership position in Indian Bromine merchant sales
- ~48% Export Business

Industrial Salt (~49%)

- 100% Export business

Sulphate of Potash

- ~70% Export business
- Only Manufacturer from natural sea brine in India

1. Strong Product Portfolio

Product

Bromine

Industrial Salt

SOP

Overview

- Bromine is the only non-metallic element that is a liquid at standard conditions
- It is a member of the halogen family and is found naturally in seawater, underground brine deposits and other water reservoirs

- There are 14,000 commercial uses of Salt, a source of Sodium and Chlorine which are basic components of an array of materials – such as plastics, glass, synthetic rubber, cleansers, pesticides, paints, adhesives, fertilizers etc.

- Sulphate of Potash, also known as potassium sulphate, is a high-end, **specialty fertilizer** for chlorine-sensitive crops.

Archean's Position

- Leadership position in Indian Bromine merchant sales
- ~48% Export Business

- Produced using the solar evaporation method.
- 100% Export business

- Only Manufacturer of SOP from natural sea brine, in India
- ~70% Export business
- KTMS (kainite type mixed salt) had higher NaCl content (Sodium Chloride), which led to lower SOP production in the last few years

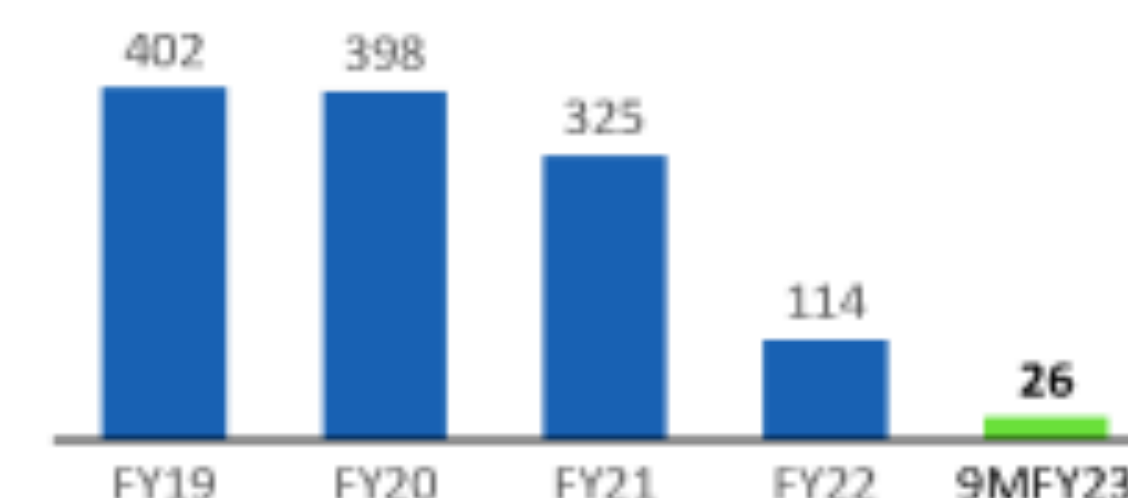
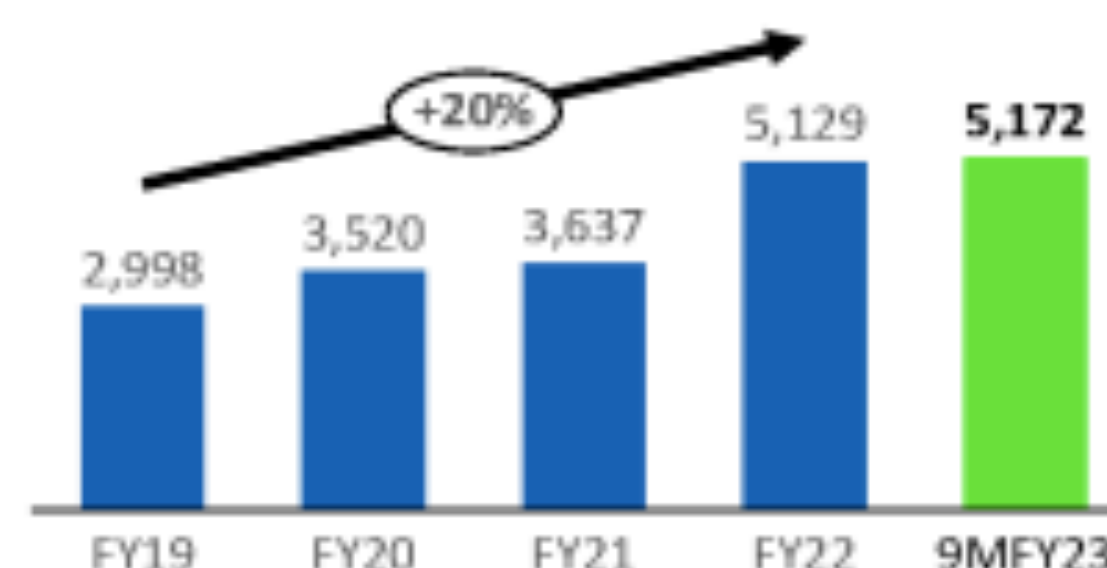
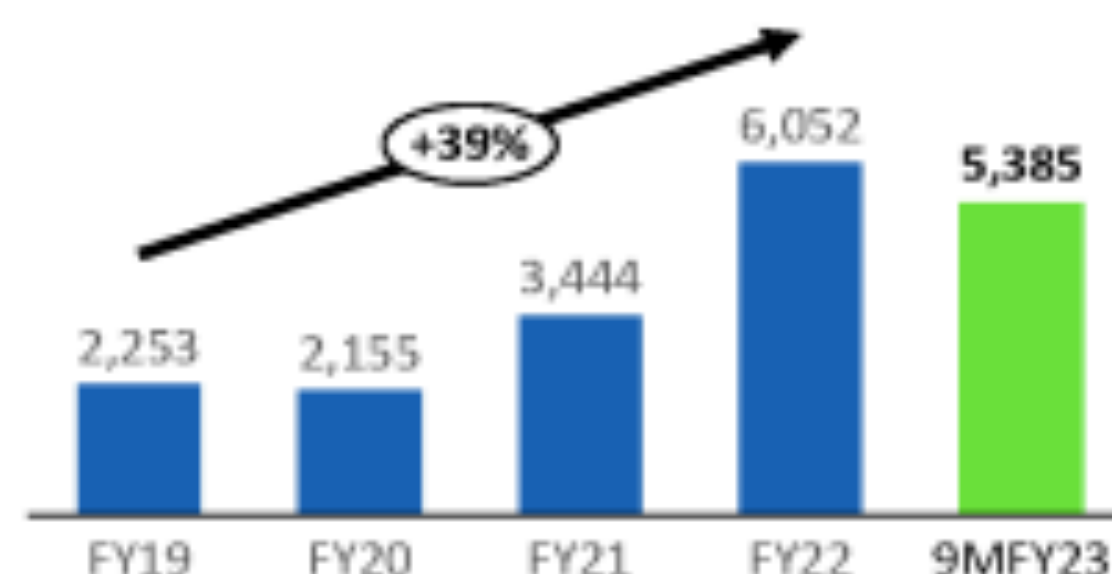
End User Industries

- Pharmaceuticals
- Agrochemicals
- Flame Retardants
- Water Treatment
- Oil & Gas & energy storage

- Chloralkali Chemicals
- Food & Beverage
- Water Treatment
- Oil & Gas

- Agrochemicals
- Various industries including glass, cosmetics etc.
- Medical uses

*Revenue Trend



2. Integrated Production Facility at Hajipir, Gujarat



Location Advantages

- The manufacturing facility is located in close proximity to the **Jakhau Jetty** and **Mundra Port**. The Jakhau Jetty is a fair-weather facility, operating for seven to eight months a year from October to May
- It has a designed capacity of 5 million MT per annum and a capacity to load 28,000 MT equipped with a twin conveyor system, diesel generator sets
- An **integrated manufacturing site** with **access to the Rann of Kutch reserves** and a close connectivity to ports, results in production process efficiency, deliver superior quality and timely products

Established Infrastructure

- Archean **use brine from own reservoirs** as raw material which include Industrial Salt, kainite and end bittern. Other raw materials are primarily sourced from third-party suppliers in India
- Globally, two most popular Bromine production sites are near the Dead Sea (Israel & Jordan) and the underground well in Arkansas region in the USA
- India is well placed with brine resources at the Great Rann of Kutch in Gujarat



3. High Entry Barriers



Archean has proven to be a reputed producer with a track record of providing high quality products

1

Access to Reserves

2

Limited number of locations globally with a suitable climate

3

Multi year Investment in Brine field Development

4

High cost and intricacy of product development

5

Rigorous product approval systems

6

Difficult customer acquisition

7

High degree of technical skill and specialized expertise for material handling

8

Development time of brine reservoirs

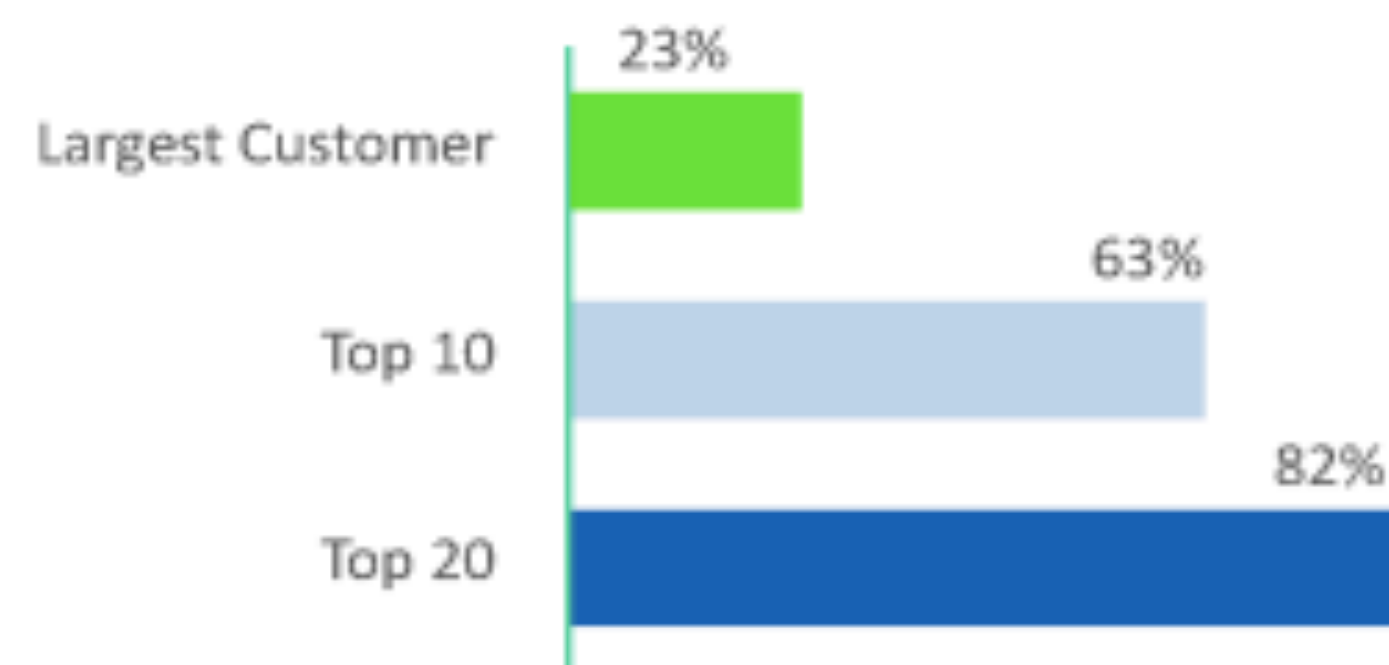
4. Deep Engagement with Clients

Enduring customer relationships helped to expand product offerings and geographic reach

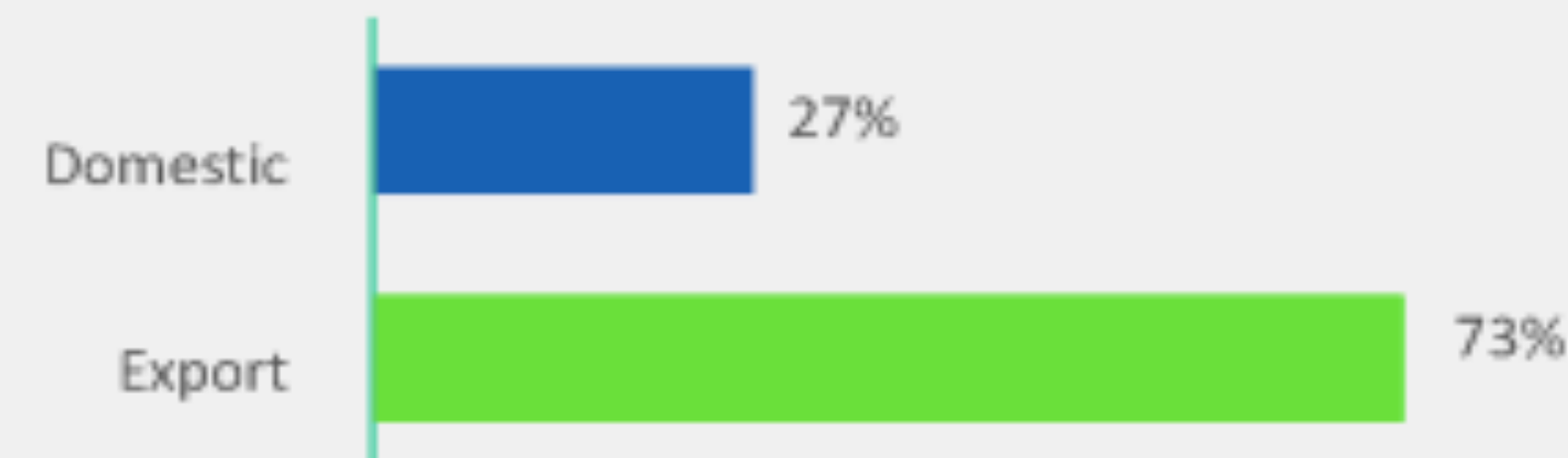
Strong Clientele




Revenue Contribution



High Focus on Exports



Major Clients

 **Sojitz Corporation**

A Japanese Trading Conglomerate, Largest Customer & Equity Shareholder

 **WANHUA**

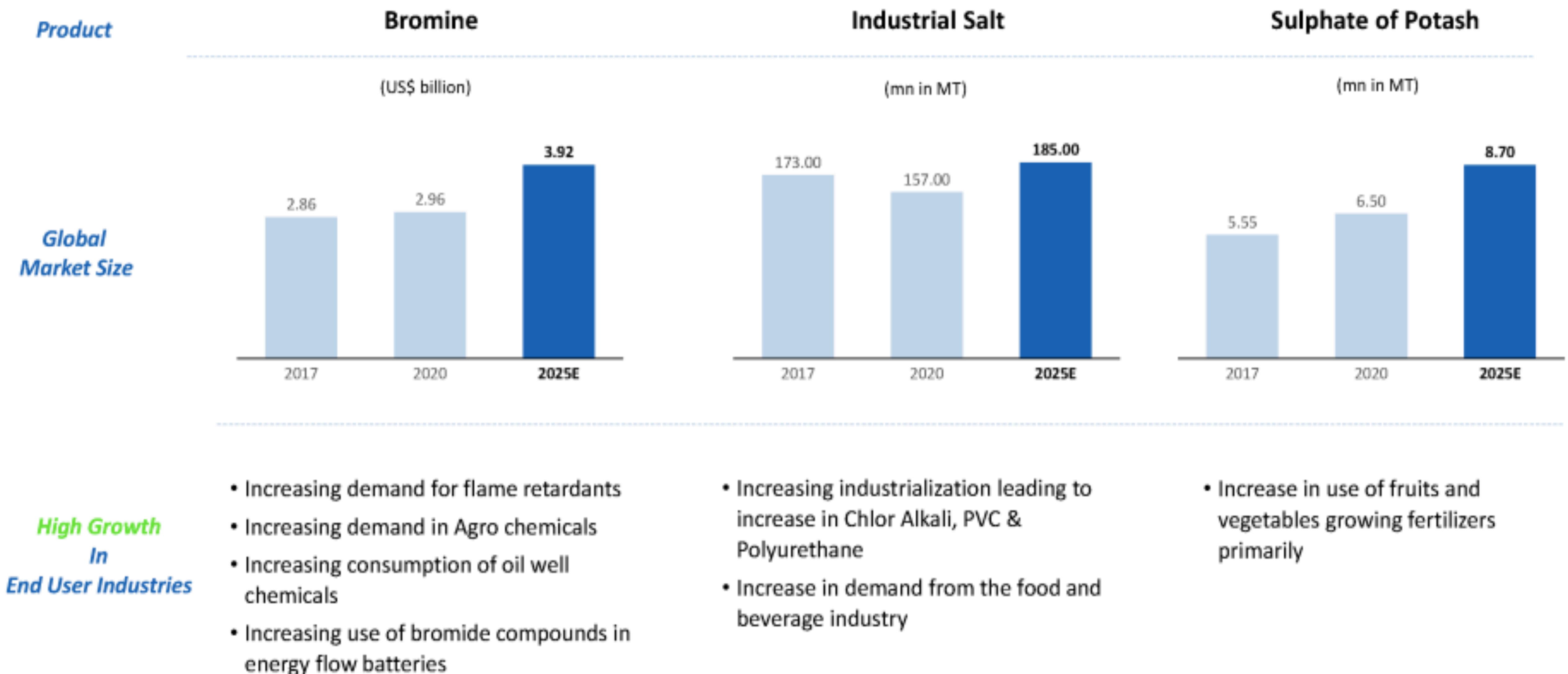
 **UNIBROM**

 **TIANYI GROUP**
天一集团

 **QVC**
QATAR VENTURE COMPANY LTD. LLC

- Sojitz is a Japanese Trading Conglomerate with **diverse client base**
- Enjoy relationships in **excess of five years** with seven out of top ten customers

5. High Industry Growth



Moving up the Value Chain



01. Brownfield Expansion

Expanded Bromine and Industrial
Salt capacities

Bromine

- Added a feed enrichment section at the site in Hajipir, Gujarat which increased Bromine capacity by 18,000 MT per annum.
- Added an additional 14,500 MT per annum capacity in FY23 which will be used for producing Bromine Derivatives in the upcoming greenfield project

Industrial Salt

- Intend to expand the manufacturing capacities for Industrial Salt production by adding one additional washery of 250 tons per hour

02. Greenfield Expansion



To expand into downstream Bromine
derivative performance products

Bromine Derivatives

- To set up a new facility at Jhagadia, GIDC through Acume Chemicals Private Limited (Subsidiary) to manufacture Bromine Performance Derivatives
- Primarily Brominated flame retardants, Clear Brine Fluids & Bromine Catalysts

Greenfield Expansion of Bromine Derivatives



Bromine Derivatives	High-end Flame Retardant 10,000 MTPA	Clear Brine Fluids 13,000 MTPA	Pure Terephthalic Acid (PTA) Synthesis 5,000 MTPA
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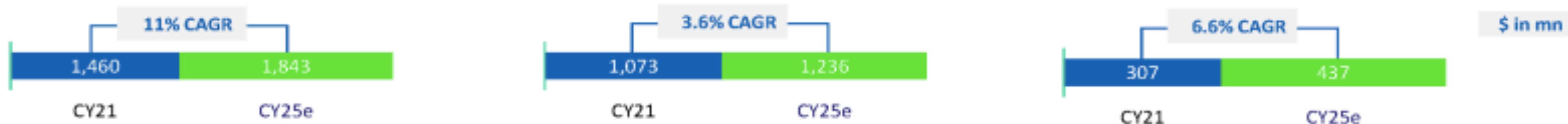
Overview

- | | | |
|--|--|---|
| <ul style="list-style-type: none"> Globally, properties worth billions of dollars are lost due to fire-related accidents every year. This makes anti-inflammatory agents or flame retardants crucial chemicals Entered into an agreement to design, engineer, construct, commission and operate the plant to produce with a Chinese technology provider | <ul style="list-style-type: none"> A chemical compound used with additives in Well completion operations to make the solids free from brines These fluids are extensively used in the oil & gas well-drilling industry The technology tie up also includes buyback of minimum of 90% of the produced quantity by the Chinese technology provider at mutually agreed pricing terms | <ul style="list-style-type: none"> Primarily used to produce polyester A majority of PTA is consumed in the development of polyester resins, such as polyester films, polyester fibre and yarn, and PET material bottles Brominated catalyst is used for production of PTA |
|--|--|---|

End User Industries

- | | | |
|---|---|--|
| <ul style="list-style-type: none"> Electronics industry, wire and cable compounds and in everyday commodities such as rubbers etc. | <ul style="list-style-type: none"> Produce calcium bromide which is used in Oil drilling and organic synthesis and flow batteries. | <ul style="list-style-type: none"> Polyester resins, such as polyester films, polyester fibre and yarn, and PET material bottles. |
|---|---|--|

Global Market



Utilisation of Net IPO Proceeds

Particulars (Rs in Mn)	Original Cost	Utilisation	Amounts un - utilised
Redemption or earlier redemption, in part or full, of NCDs	6,440.0	6,440.0	-
General corporate purposes (*)	1,243.2	-	1,243.2
Total	7,683.2	6,440.0	1,243.2

- (*)As per prospectus, the General Corporate purpose was Rs. 1,259.7 mn, the revision in GCP amount was on account of estimated offer related expenditure being higher by 16.5 mn. Consequently, there is a difference between the net proceeds as per prospectus and actual proceeds.



**Way
Forward**

Augment Capacity

The company has recently expanded capacity through debottlenecking of Bromine & Industrial Salt and will play vital role in growth trajectory

Greenfield Expansion

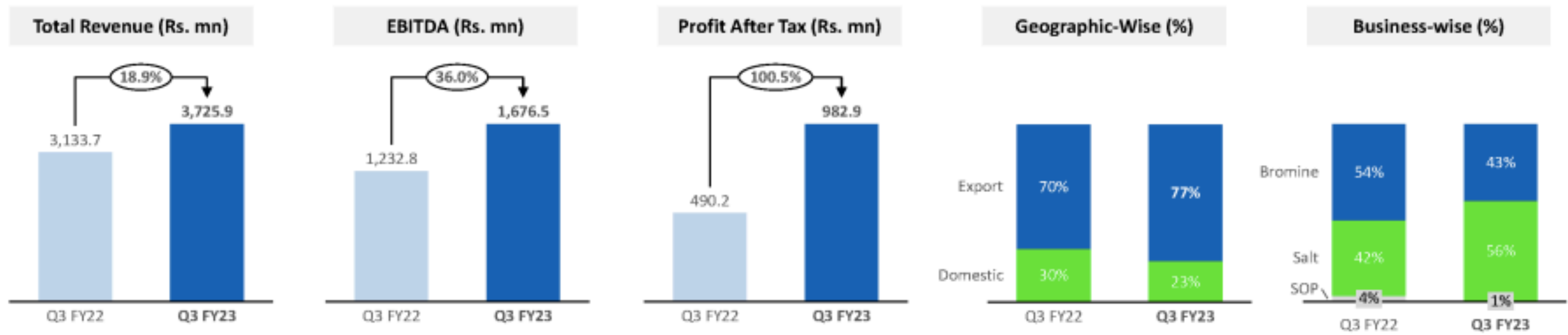
New Bromine Derivatives capacity is expected to be commercialized by FY24 at Jhagadia, GIDC which will improve product offerings

Enhancing Global Footprint

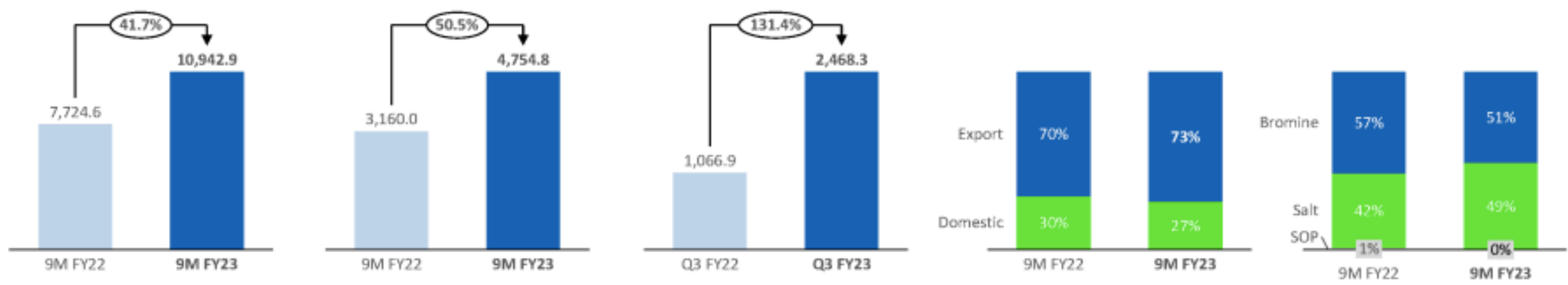
Focus on expanding the customers base and expand global footprint.

Q3 & 9M FY23 Performance Highlights

Q3FY23



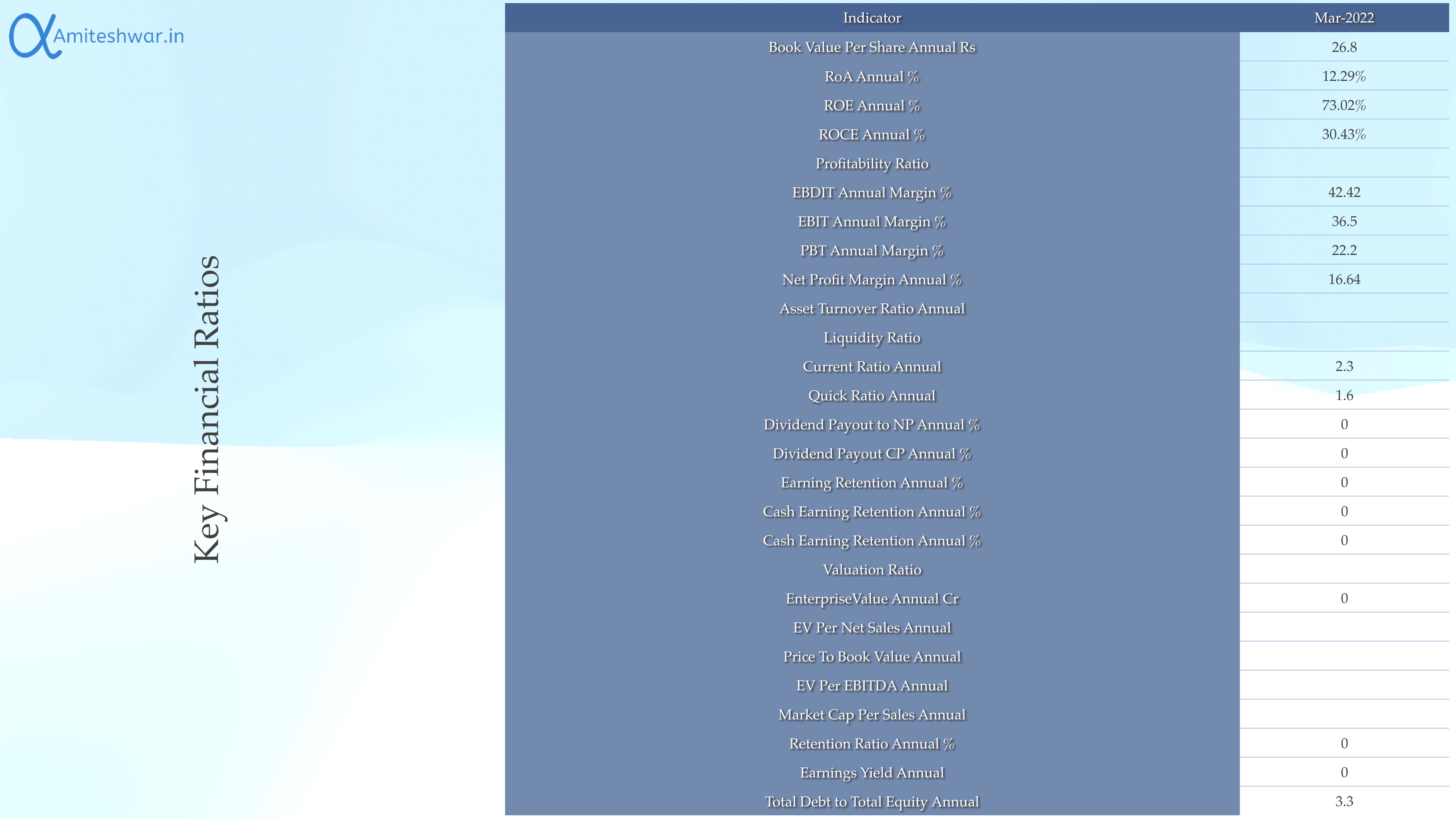
9MFY23





Yearly Results

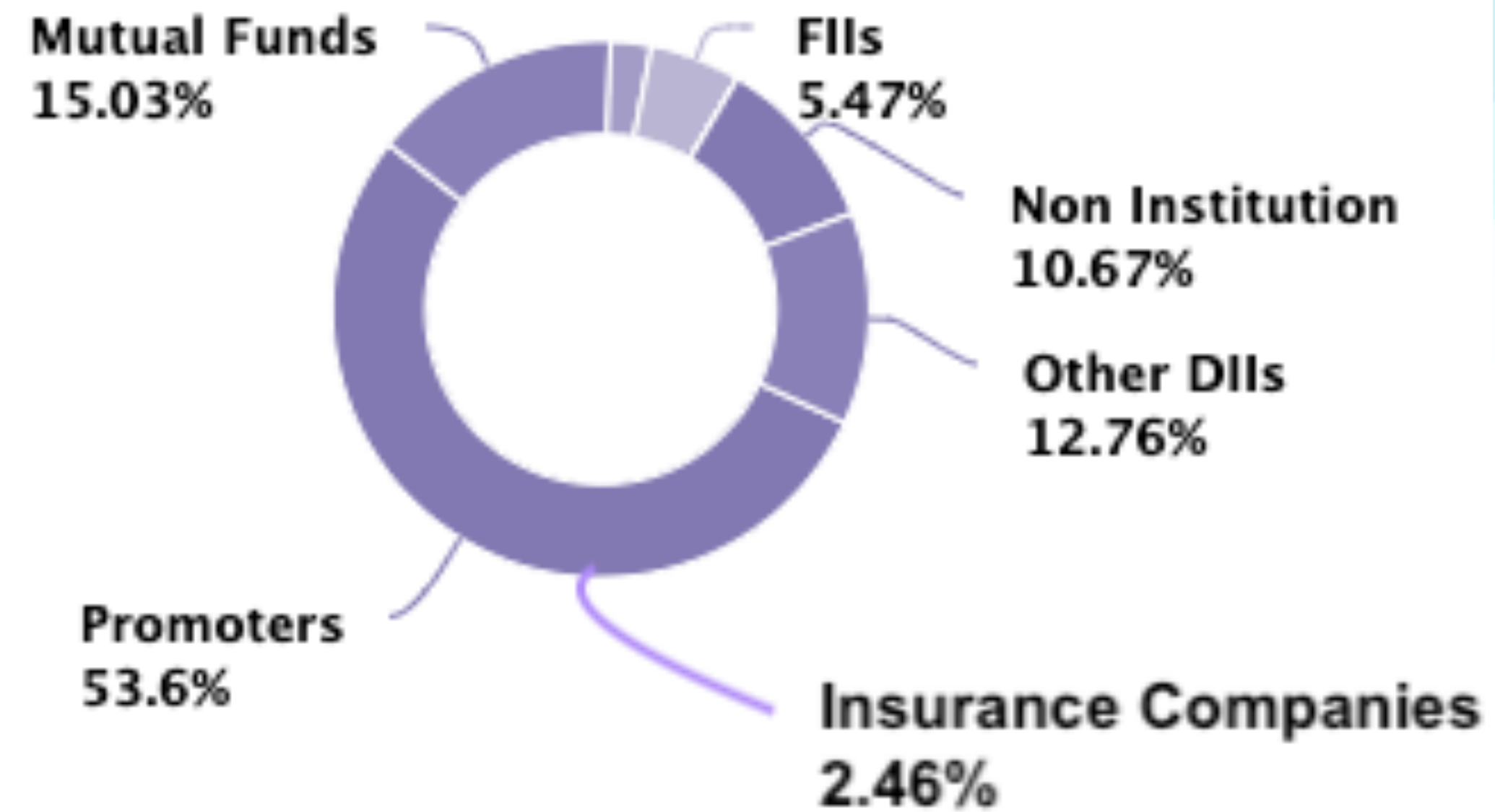
Indicator	Mar-2022
Total Revenue Annual Cr	1142.8
Operating Revenues Annual Cr	1130.4
Other Income Annual Cr	12.4
Operating Expenses Annual Cr	663.3
Operating Profit Annual in Cr	467.2
Operating Profit Margin Annual %	40.88%
Total Expenses Annual Cr	891.8
Other Expenses Annual Cr	586.1
Employee Expenses Annual Cr	37.8
Cost Of Power Purchased Annual Cr	0
Cost Of Fuel Annual Cr	0
EBIDT Annual Cr	479.5
EBIDT Annual margin %	41.96%
Interest Annual Cr	161.7
Depreciation Cr	66.9
Profit Before Tax Annual Cr	251
Tax Annual Cr	62.8
PAT Before ExtraOrdinary Items Annual Cr	188.2
Minority Interest Income Annual Cr	0
Net Profit Annual Cr	188.2
Net Profit Margin Annual %	16.64%
Basic EPS Annual Rs	18.2



Key Financial Ratios

Indicator	Mar-2022
Book Value Per Share Annual Rs	26.8
RoA Annual %	12.29%
ROE Annual %	73.02%
ROCE Annual %	30.43%
Profitability Ratio	
EBDIT Annual Margin %	42.42
EBIT Annual Margin %	36.5
PBT Annual Margin %	22.2
Net Profit Margin Annual %	16.64
Asset Turnover Ratio Annual	
Liquidity Ratio	
Current Ratio Annual	2.3
Quick Ratio Annual	1.6
Dividend Payout to NP Annual %	0
Dividend Payout CP Annual %	0
Earning Retention Annual %	0
Cash Earning Retention Annual %	0
Cash Earning Retention Annual %	0
Valuation Ratio	
EnterpriseValue Annual Cr	0
EV Per Net Sales Annual	
Price To Book Value Annual	
EV Per EBITDA Annual	
Market Cap Per Sales Annual	
Retention Ratio Annual %	0
Earnings Yield Annual	0
Total Debt to Total Equity Annual	3.3

Shareholding Pattern an on Mar'23



Summary

- ❖ In Q3 of FY'23, the Company delivered good set of numbers, with Net Sales as Rs.364.92 crs in Dec'22. However, the Net Profits stood as Rs.98.06 crs in Dec'22.
- ❖ As per fine financials and sound fundamentals, the Company is available at a good price of Rs.549.00 with its 52 week low at Rs.407.00 and its 52 week high at Rs.731.80.
- ❖ In view of the Promoters holding majority stake around 53.60% as well as its consistent performance, indicates that the Management is growth oriented.
- ❖ In Public Shareholding as on Mar'23, the FIIs and the Other DIIs altogether stood with 18.23% stake. Whilst, the Mutual Fund Houses held 15.03% holdings in the Company.
- ❖ As a reaffirming fact, Archean Chemical Industries Ltd. is held by SBI MF, DSP MF, NIPPON INDIA MF, HDFC MF, ICICI PRU MF, QUANT MF, KOTAK MF, MOSL MF, BARODA BNP PARIBAS MF, EDELWEISS MF and a few more.
- ❖ On consolidated basis, the Company registered Return on Equity (ROE) and Return on Capital Employed (ROCE) around 73.02% & 30.43% respectively as on Mar'22.

Disclosure

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