

4<sup>th</sup> March 2021

CMP – ₹437/-

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**Q3FY21 Update**

Chemcon specialty Chemicals reported ~16.3% Y-o-Y and ~5% Q-o-Q increase in topline to ₹648mn on account of sales volume growth up by 25% YoY.

EBITDA for the quarter stood at ₹228mn up ~70% Y-o-Y basis however on Q-o-Q basis, it de-grew 2%. EBITDA margins grew by ~1000bps to 35.2% in Q3FY21.

PAT grew by ~77% Y-o-Y and ~6% Q-o-Q to ~₹165mn from ₹93mn in Q3FY20 on the back of higher operating profitability. PAT margins stood at 25.4% in the quarter compared to 16.7% in Q3FY20 and 25% in Q2FY21.

**Important Statistics**

Mcap (₹ mn)	16601
52week H/L (₹)	743.8/398.1
NSE Code	CHEMCON
BSE Code	543233

**Key Concall Highlights**

- Chemcon specialty Chemicals reported ~16.3% Y-o-Y and ~5% Q-o-Q increase in topline to ₹648mn on account of sales volume growth up by 25% YoY. EBITDA for the quarter stood at ₹228mn up ~70% Y-o-Y basis however on Q-o-Q basis, it de-grew ~2%. EBITDA margins grew by ~1000bps to 35.2% in Q3FY21.
- HMDS contributed 51% to total revenue of which 82% contributed from domestic and around 18% from exports. CMIC contributed 36% to total revenues with domestic and export market contributing equally to the market.
- Both Pharma chemicals and Oilwell completion chemicals businesses has reported a decent performance during this quarter. There has been meaningful demand in pharmaceutical industry which has elevated its CMIC & HMDS chemicals business.
- While oilwell completion chemical segment has recovered during the quarter on back of rebound in oil & gas industry expansion activities which has partially negated muted performance in H1FY21. Company faced shortage of bromine which is one of the key raw material for manufacturing bromide and therefore had lower than anticipated production.
- Total capital expenditure incurred for the 9MFY21 has been ₹250mn of which ₹210mn has been done through internal accrual and balance from IPO proceeds. From IPO proceeds, ₹43mn has been utilized for expansion of manufacturing facilities whereas ₹400mn has been incurred for working capital requirement.
- Company's new chemical business 4CBC has been successfully commercialized and has started contributing to the topline. The endeavor is to shift to more value-added solutions which will help to sustain the business and create new leap of growth.
- Management indicated it is expecting 15-20% growth in HMDS and around 30% in CMIC over 2-3years.

**Financials**

Particulars	₹ mn		
	FY18	FY19	FY20
Net Sales	1576	3033	2621
EBITDA	451	661	703
EBITDA Margin	28.7%	21.8%	26.8%
PAT	264	430	489
EPS (₹)	8.3	13.5	15.4
P/E (₹)	52.65	32.27	28.43
EV/EBITDA	37.8	25.9	24.4
ROE	49.2%	44.9%	34.2%
ROCE	61.5%	48.9%	34.6%
D/E	0.27	0.21	0.20

**Key Risks**

- Mr Naresh Goyal, member of Promoter group has filed appeal in relation to criminal proceeding filed against him which if determined adversely may negatively impact operations, reputation, and prospects of the company.
- A significant portion of its revenue comes from a few customers and the loss of one or more such customers or a reduction in their demand for products may adversely affect its business and financials

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- Company imports majority of its key RM for HMDS from China, which has been its key revenue-contributing segment. Any import related issues due to anti-china movement can affect the supply chain of the business and thereby financials.

**View**

Chemcon reported better numbers across topline and bottom-line with higher operating margins in Q3FY21 on account of improved demand in main user industry - pharmaceuticals. We believe company's growth to spur post FY21E on account of specialized product offerings, increasing demand for its products in domestic and global markets, innovative product development etc. **At CMP of ₹437/- Chemcon Specialty Chemicals is commanding a ~28.43x P/E on FY20 EPS which is at discount to peers such as, Galaxy Surfactants, Aarti Industries etc, thus advice investors to accumulate stock on dips.**

**Financial Performance**

	(₹ mn)				
	Q3FY21	Q2FY21	Q3FY20	Y-o-Y	Q-o-Q
Revenue	648.1	615.4	557.3	16.3%	5.3%
<b>EBITDA</b>	<b>228.4</b>	<b>233.3</b>	<b>134.0</b>	<b>70.4%</b>	<b>-2.1%</b>
<b>EBITDA Margins</b>	<b>35.2%</b>	<b>37.9%</b>	<b>24.0%</b>	<b>1119.9bps</b>	<b>-266.32 bps</b>
Depreciation	14.1	13.9	10.7	31.6%	1.6%
<b>EBIT</b>	<b>214.28</b>	<b>219.37</b>	<b>123.28</b>	<b>73.8%</b>	<b>-2.3%</b>
<b>EBIT Margin</b>	<b>33.1%</b>	<b>35.6%</b>	<b>22.1%</b>	<b>1094.5 bps</b>	<b>-258.24 bps</b>
Interest	6.3	11.8	9.1	-30.2%	-46.4%
Other Income	12.2	1.4	7.8	56.2%	756.3%
PBT	220.10	208.9	121.98	80.4%	5.3%
Tax	6.3	11.8	9.1	-30.2%	-46.4%
<b>PAT</b>	<b>213.76</b>	<b>197.1</b>	<b>112.90</b>	<b>89.3%</b>	<b>8.4%</b>
<b>PAT Margins</b>	<b>33.0%</b>	<b>32.0%</b>	<b>20.3%</b>	<b>1272.5 bps</b>	<b>95.15 bps</b>
EPS (₹)	4.81	4.88	2.90	65.9%	-1.4%

Source: Company Filing, Way2wealth Research

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**Disclosure of Interest Statement Chemcon Specialty Chemicals Ltd. (Chemcon) as on March 4<sup>th</sup>, 2021**

Name of the Security	Chemcon Specialty Chemicals Ltd. (Chemcon)
Name of the analyst	Yogita Desai
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
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