

10<sup>th</sup> December 2020

CMP – ₹440/-

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**Company Background**

Incorporated on December 15, 1988, Chemcon Speciality Chemicals Ltd (Chemcon) is a manufacturer of specialized chemicals, such as Hexamethyldisilazane / Hexamethyldisilane (HMDS) and Chloromethyl Isopropyl Carbonate (CMIC) which are predominantly used in the pharmaceuticals industry (Pharmaceutical Chemicals), and inorganic bromides, namely Calcium Bromide, Zinc Bromide and Sodium Bromide, which are predominantly used as completion fluids in the oilfields industry (Oil-well Completion Chemical). Pharmaceutical chemical segment constitutes 64% to overall revenue, oilfield chemicals contribute ~30% and rest comes from others.

The company has 7 manufacturing plants at a single location – Manjusar in Gujarat, having volumetric reactor capacity of 374kl as of July 2020.

Its key customers include Hetero Labs, Laurus Labs, Aurbindo Pharma, Macleod pharmaceuticals, Sanjay Chemicals Ltd etc. in pharmaceuticals and Shree Radha Overseas, DMMC, CC Gran Liability, etc. in oil-well completion chemicals.

**Why we like the company**

- Market leadership in its products such as HMDS and CMIC.
- Anti-China sentiment globally to benefit the company.
- Expansion in pharmaceutical chemicals and focus on exports to expand margins.
- Superior return ratios and healthy balance sheet.

**Important Statistics**

Mcap (₹ mn)	16,600
52week H/L (₹)	743.8/398.1
NSE Code	CHEMCON
BSE Code	543233

**Financials**

(₹ mn)			
Particulars	FY18	FY19	FY20
Net Sales	1576	3033	2621
EBITDA	451	661	703
EBITDA M	28.7%	21.8%	26.8%
PAT	264	430	489
EPS (₹)	8.3	13.5	15.4
P/E (₹)	53.0	32.5	28.6
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

**Shareholding pattern (%) Sep'20**

Promoter holding	74.47
FII	3.21
DII	8.03
Public & Others	14.29

**Investment Thesis**

- **Leading manufacturer globally of the Pharmaceutical Chemicals and in India for the Oil-well Completion Chemicals** – India is currently a net importer of HMDS, with about 40% of India's current domestic demand being catered by imports majorly from China and Germany. India is expected to witness a demand growth for HMDS of 10.6% CAGR between CY19-CY23 according to Frost & Sullivan Report. Chemcon is the only manufacturer of HMDS in India and well positioned to capitalize on the potential growth of the HMDS market.

India and China are the only countries that produce CMIC. Company's share in the global CMIC manufacturing capacity has increased from 7.07% in CY14 to 26.16% in CY19. India is a net importer of CMIC, with about 62% of India's current domestic demand being catered by imports from China. India, a major CMIC consumer market, is expected to witness a demand growth at a CAGR of 11% between CY19-CY23. We believe Chemcon is well positioned to substitute the imports from China and hence has an opportunity to grow at a CAGR of more than 25% from CY19-CY23.

- **Anti-China sentiments likely to aid performance for Chemcon** – China being the largest player into HMDS and CMIC with total capacity to the tune of 50-60% of the global market, is one of the major exporters of these two chemicals across the world. However, India imports to the tune of ~40% of HMDS (Demand of ~4000 MT) and ~60% of CMIC (Demand of 2530 MT), which majorly comes from China. Post Covid-19, there has been Anti-China sentiments across the world, which we expect to benefit Chemcon given that it

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has already expanded capacity for HMDS and likely to increase capacity for CMIC by FY22E. It is evident that the company could likely capture import share in the years to come in a view that it maintains pricing dynamics in line with the Chinese players.

- **Exploring newer applications of the existing products as well as focusing on new products that are in synergy with the current operations** – Chemcon currently supplies HMDS largely to the pharmaceuticals industry and aims to market their products for end-use applications in other industries including the rubber and semiconductor manufacturing industry. Company recently commissioned plant with capacity to manufacture 600MTPA of high purity HMDS which find application in pharmaceuticals, silicon/rubber as well as semiconductor industries. They aim to undertake the development and manufacture of newer products, largely focusing on chemicals used in the pharmaceuticals, semiconductors and rubber industries. Chemcon currently supplies the Oil-well Completion Chemicals largely to customers in India, the Middle East, Serbia and Russia. They aim to expand the sales of the Oil-well Completion Chemicals in existing and new geographies including Nigeria, Malaysia, China and Ghana. Also company is focusing on developing new products such as CBC and 2,5DHT to diversify its products basket and improve topline.
- **Healthy balance sheet and strong financials** – Over FY18-20, Chemcon's revenue/EBITDA/PAT grew at a CAGR of 29%/25%/36%, led by volume and realizations growth. Its EBITDA margins stood strong at 20-25% over FY18-FY20 given the leadership position and complex nature of products. Given continuous capex incurred over the last three years, the return ratios have tapered down, though healthy with ROE/ROCE at 40%/33% in FY20.
- **Q2FY21 marked demand recovery and sales volume growth QoQ basis** – Net Sales were up QoQ to ₹615.4mn in Q2FY21. This was on the back of sales volume and realizations growth in pharmaceutical chemicals especially CMIC. Management indicated oil-well field chemicals reported lower revenues in Q2FY21 but they saw significant recovery from October 2020 in the segment.  
  
EBITDA was up by 67% QoQ and 19% YoY to ₹233 mn in Q2FY21. EBITDA margins stood at 37.9% vs. 29.9% in Q2FY20.  
  
PAT for Q2FY21 stood at ₹197mn up 17.5% YoY and 84% QoQ while PAT margins stood at 32% in mentioned quarter.

### 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
- 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.

10<sup>th</sup> December 2020

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## View

Chemcon has been performing on persistent basis showcasing ~28.9% topline CAGR, ~24.5% EBITDA CAGR & 36.1% PAT CAGR over FY18-FY20. 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. Further, superior return ratios, healthy balance sheet, higher operating margins and company's leadership status provides us confidence. **At CMP of ₹440/- Chemcon Speciality Chemicals is commanding ~28.5x P/E on FY20 EPS which is in-line to its peers such as Fine Organics Ltd, Galaxy Surfactants, Aarti Industries etc. which trade at FY20 P/E multiplies of ~25x-35x, thus advice investors to accumulate stock on dips.**

## Financial Performance

₹ mn)

Particulars	Q2FY21	Q1FY21	Q2FY20	YoY	QoQ
Net Revenues	615.4	456.67	653.4	-5.8%	34.8%
EBITDA	233.3	139.5	195.5	19.3	67.3%
EBITDA Margin	37.9%	30.5%	29.9%	799.1bps	737bps
Depreciation	13.9	13.2	11.6	20%	5.5%
EBIT	219.37	126.26	183.8	19.3%	73.7%
EBIT Margin	35.6%	27.6%	28.1%	750.5bps	799bps
Interest	11.8	11.2	11.8	0.7%	5.9%
Other Income	1.4	3.4	7.4	-80.1%	-58.7%
PBT	208.9	118.5	179.5	16.4%	76.3%
Tax	11.8	11.2	11.8	0.7%	5.9%
PAT	197.12	107.34	167.75	17.5%	83.6%
PAT Margin	32.0%	23.5%	25.7%	635.9bps	852.6bps
EPS (₹)	4.89	2.78	4.29	14%	75.9%

Source: Company Filing, Way2wealth Research

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**Disclosure of Interest Statement Chemcon Speciality Chemicals Ltd. (Chemcon) as on December 10<sup>th</sup>, 2020**

Name of the Security	Chemcon Speciality 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
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