

16th November 2022

CMP – ₹310.80/-

View – Accumulate on Dip

Q2FY23 Result Update

- During Q2FY23, the company reported revenue de-growth of 5% yoy & 35% qoq to ₹58cr v/s ₹61cr, the growth sluggish due to lower volume offtake from pharmaceutical manufacturers. EBITDA for the quarter stood at ₹10cr v/s ₹19cr, declined by 49% yoy & 71% qoq. EBITDA margins declined to 17% v/s 31% yoy on account of higher key RM prices, logistics freight cost and supply chain disruption. PAT declined by 46% yoy & 69% qoq to ₹8cr, PAT margins stood at 14% v/s 24% in Q2FY22.
- CMIC product volume up by 158% yoy & declined 23% qoq at 389 MTPA. Oilwell production volume declined by 20% yoy & 44% qoq at 584 MTPA and HMDS production volume declined by 5% yoy & 13% qoq at 447 MTPA. The both HMDS & CMIC has underperformed in the domestic market whereas robust performance in the export market which has partially negated by subdued performance.

Key highlights:

- The management said that most of clients are facing challenges due to adverse pricing scenario across formulation and softening demand. Also, inorganics bromides has affected due to inconsistent sourcing of key RM bromine. The company has witnessed stable demand for CMIC & HMDS in Q2FY23 compared to Q2FY22 which is marginally growing but not recovered 100%.
- Capex Update:**
 - The company has successfully commenced the commercial production of Bromo benzene at P9 facility which will cater to agrochemical industry across the global market. With this expansion of Bromo benzene, the company will be adding organic bromides in product basket. The company is waiting for approval from regulatory authorities for another pharma chemical, Guanine at P9 unit.
 - Expansion at P10 unit: the company will be adding few other chemicals which are currently imported in India and this expansion is expected to commence production by Q1FY24.
 - Recently, the company has purchased a land parcel at Gothda, new Vododara for future leg of expansion and also invested in solar power plant for captive purpose which will help to reduce power cost.
 - Post expansion, the company will be able to grab upcoming opportunities for existing products as well as for the new products in pharmaceutical industry. The new products pipeline includes imported substitutions.
- The management is expecting asset turnover of 4x, targeting sales of ₹1000cr in the next 4-5 years and will maintain EBITDA margins at 30-31%.

Important Statistics

| | |
|-----------------|------------|
| MCAP (₹ bn) | ~11.40 |
| 52 week H/L (₹) | 478/261.00 |
| NSE Code | CHEMCON |
| BSE Code | 543233 |

| Shareholding Pattern (%) | Sep'22 |
|--------------------------|--------|
| Promoter Holding | 74.47 |
| FII | 0.14 |
| DII | 0.27 |
| Public & Others | 25.12 |

Financials

| | (₹ cr) | | | | |
|---------------|--------|-------|-------|-------|-------|
| Particulars | FY20 | FY21 | FY22 | FY23E | FY24E |
| Net Sales | 262 | 244 | 257 | 308 | 375 |
| EBITDA | 70 | 81 | 82 | 100 | 122 |
| EBITDA Margin | 27% | 33% | 32% | 33% | 33% |
| PAT | 49 | 56 | 63 | 74 | 90 |
| EPS (₹) | 15.37 | 15.45 | 17.14 | 20.34 | 24.65 |
| P/E (₹) | 20.5 | 20.4 | 18.4 | 15.5 | 12.8 |
| EV/EBITDA | 16.84 | 12.77 | 11.81 | 9.92 | 8.15 |
| ROE | 34% | 16% | 15% | 15% | 16% |
| ROCE | 35% | 21% | 19% | 19% | 19% |
| D/E | 0.20 | 0.01 | 0.09 | 0.08 | 0.07 |

Source: Company, Way2wealth Research

Key Risks

- 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.
- The 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.
- Promoter 's court dispute remains an overhang on the stock

16th November 2022

CMP – ₹310.80/-

 View – **Accumulate on Dip**
Outlook

The Company reported CAGR of 13% in revenue, 16% in EBITDA and 24% PAT over FY18-FY22. The company is well positioned to substitute imports, innovative product development, will explore newer applications (rubber, semiconductors), upcoming facility by end of FY23/Q1FY24 and maintain growth trajectory. Company's strong return ratios and healthy balance sheet strengthens our confidence on the stock.

We estimate CAGR of 21%/22%/20% in Revenue/EBITDA/PAT over FY22-24E and sustain EBITDA/ PAT margins at 33%/24% respectively. **At CMP of ₹310.80 Chemcon Specialty Chemicals Ltd. is trading at ~8x EV/EBITDA &13x PE on FY24E. Considering attractive valuation, hence, we recommend Accumulate on dip rating on stock.**

16th November 2022

CMP – ₹310.80/-

View – Accumulate on Dip

Consolidated Quarterly Performance

(₹ cr)

| Particulars | Q2FY23 | Q2FY22 | YoY % | Q1FY23 | QoQ % | 1HFY23 | 1HFY22 | YoY % |
|---|--------|--------|-------|--------|-------|--------|--------|-------|
| Net sales | 57.92 | 61.24 | -5% | 89.41 | -35% | 147.33 | 118.45 | 24% |
| Other operating income | | | | | | | 0.00 | |
| Total Income | 57.92 | 61.24 | -5% | 89.41 | -35% | 147.33 | 118.45 | 24% |
| (Increase)/Decrease in stock in trade & WIP | -11.31 | 3.59 | | | | -18.68 | 3.86 | -584% |
| Consump of raw material | 46.31 | 26.92 | 72% | 38.21 | 21% | 91.88 | 54.15 | 70% |
| Employees cost | 4.92 | 4.76 | 3% | 5.64 | -13% | 10.56 | 9.03 | 17% |
| other expenses | 8.42 | 7.02 | 20% | 12.01 | -30% | 20.43 | 14.60 | 40% |
| Selling & Distribution exp | | | | | | | 0.00 | |
| Total Expenditure | 48.33 | 42.29 | 14% | 55.86 | -13% | 104.19 | 81.63 | 28% |
| EBITDA | 9.59 | 18.95 | -49% | 33.55 | -71% | 43.14 | 36.82 | 17% |
| EBITDA margins % | 17% | 31% | | 38% | | 29% | 31% | |
| Depreciation | 2.05 | 1.50 | 37% | 1.93 | 6% | 3.98 | 3.02 | 32% |
| EBIT/ Operating Profit | 7.54 | 17.45 | -57% | 31.63 | -76% | 39.17 | 33.80 | 16% |
| Interest | 0.25 | 0.15 | 64% | 0.16 | 54% | 0.41 | 0.38 | 8% |
| Other income | 3.29 | 2.25 | 46% | 2.68 | 23% | 5.97 | 4.19 | 42% |
| PBT | 10.58 | 19.55 | -46% | 34.15 | -69% | 44.73 | 37.61 | 19% |
| Provision for current tax | 2.59 | 4.92 | -47% | 8.64 | -70% | 11.23 | 9.55 | 18% |
| Provision for Deffered Tax | 0.16 | 0.04 | 298% | 0.04 | 298% | 0.20 | 0.06 | 262% |
| PAT | 7.83 | 14.59 | -46% | 25.47 | -69% | 33.30 | 28.01 | 19% |
| PAT margins % | 14% | 24% | | 28% | | 23% | 24% | -4% |
| | | | | | | | 0.00 | |
| Reported PAT | 7.83 | 14.59 | -46% | 25.47 | -69% | 33.30 | 28.01 | 19% |
| No. of Shares | 3.66 | 3.66 | 0% | 3.66 | 0% | 3.66 | 3.66 | 0% |
| EPS (Basic & dilluted) | 2.14 | 3.98 | -46% | 6.95 | -69% | 9.09 | 7.65 | 19% |

Source: Company, Way2wealth Research

| Production volumes (MTPA) | Q2FY23 | Q2FY22 | YoY % | Q1FY23 | QoQ % | 1HFY23 | 1HFY22 | YoY % |
|---------------------------------------|-------------|-------------|-----------|--------------|-------------|-------------|-------------|------------|
| CMIC | 389 | 151 | 158% | 504 | -23% | 893 | 523 | 71% |
| HMDS | 447 | 472 | -5% | 512 | -13% | 959 | 1064 | -10% |
| Oilwell | 584 | 729 | -20% | 1035 | -44% | 1619 | 1193 | 36% |
| Total production volume (MTPA) | 1420 | 1352 | 5% | 2,051 | -31% | 3471 | 2780 | 25% |

Source: Company, Way2wealth Research

16th November 2022

CMP – ₹310.80/-

 View – **Accumulate on Dip**
Financial Performance

| | (₹ cr) | | | | | |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Financial | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E |
| Net sales | 303.34 | 262.05 | 243.49 | 257.11 | 307.60 | 374.70 |
| COGS | 184.90 | 148.90 | 122.87 | 122.31 | 147.65 | 179.86 |
| Employees cost | 24.10 | 14.10 | 15.88 | 19.11 | 21.53 | 26.23 |
| other expenses | 28.20 | 28.80 | 23.60 | 34.08 | 38.45 | 46.84 |
| Total Expenditure | 237.20 | 191.80 | 162.35 | 175.50 | 207.63 | 252.92 |
| EBITDA | 66.14 | 70.25 | 81.14 | 81.61 | 99.97 | 121.78 |
| EBITDA margins % | 22% | 27% | 33% | 32% | 33% | 33% |
| Depreciation | 2.86 | 4.62 | 6.08 | 6.26 | 8.71 | 9.16 |
| EBIT/ Operating Profit | 63.28 | 65.63 | 75.07 | 75.35 | 91.26 | 112.62 |
| Interest | 4.00 | 4.68 | 3.63 | 0.57 | 0.60 | 0.60 |
| Other income | 1.99 | 3.97 | 4.64 | 9.24 | 10.00 | 10.00 |
| PBT | 61.27 | 64.92 | 76.07 | 84.02 | 100.66 | 122.02 |
| Provision for current tax | 18.20 | 16.10 | 19.55 | 21.47 | 26.17 | 31.73 |
| Provision for Deffered Tax | | | -0.07 | -0.24 | | |
| PAT | 43.07 | 48.82 | 56.59 | 62.78 | 74.49 | 90.30 |
| PAT margins % | 14% | 19% | 23% | 24% | 24% | 24% |
| EPS (Basic & dilluted) | 11.80 | 13.38 | 15.45 | 17.14 | 20.34 | 24.65 |

Source: Company, Way2wealth Research

Disclaimer

Analyst Certification: I, Ashwini Sonawane, the research analyst and author of this report, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s), principally responsible for the preparation of this research report, receives compensation based on overall revenues of the company (Way2Wealth Brokers Private Limited, hereinafter referred to as Way2Wealth) and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

It is confirmed that Ashwini Sonawane, the author of this report has not received any compensation from the companies mentioned in the report in the preceding 12 months. Our research professionals are paid in part based on the profitability of Way2Wealth, which include earnings from other business. Neither Way2Wealth nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information contained in this report.

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Way2Wealth is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. The contents of this material are general and are neither comprehensive nor appropriate for every individual and are solely for the informational purposes of the readers. This material does not take into account the specific objectives, financial situation or needs of an individual/s or a Corporate/s or any entity/s.

This research has been prepared for the general use of the clients of the Way2Wealth and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient, you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Way2Wealth will not treat recipients as customers by virtue of their receiving this report. The distribution of this document in other jurisdictions may be restricted by the law applicable in the relevant jurisdictions and persons into whose possession this document comes should inform themselves about, and observe any such restrictions.

The report is based upon information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up to date and it should not be relied upon as such. Way2Wealth or any of its affiliates or employees makes no warranties, either express or implied of any kind regarding any matter pertaining to this report, including, but not limited to warranties of suitability, fitness for a particular purpose, accuracy, timeliness, completeness or non-infringement. We accept no obligation to correct or update the information or opinions in it. Way2Wealth or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. The recipients of this report should rely on their own investigations. In no event shall Way2Wealth be liable for any damages of any kind, including, but not limited to, indirect, special, incidental, consequential, punitive, lost profits, or lost opportunity, whether or not Way2Wealth has advised of the possibility of such damages.

This material contains statements that are forward-looking; such statements are based upon the current beliefs and expectations and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. These uncertainties include but are not limited to: the risk of adverse movements or volatility in the securities markets or in interest or foreign exchange rates or indices; adverse impact from an economic slowdown; downturn in domestic or foreign securities and trading conditions or markets; increased competition; unfavorable political and diplomatic developments; change in the governmental or regulatory policies; failure of a corporate event and such others. This is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. No part of this material may be copied or duplicated in any form by any means or redistributed without the written consent of Way2Wealth. In no event shall any reader publish, retransmit, redistribute or otherwise reproduce any information provided by Way2Wealth in any format to anyone. Way2Wealth and its affiliates, officers, directors and employees including persons involved in the preparation or issuance of this report may from time to time have interest in securities / positions, financial or otherwise in the securities related to the information contained in this report.

To enhance transparency, Way2Wealth has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement Chemcon Specialty Chemicals Ltd. (Chemcon) as on November 16th, 2022

| | |
|--|--|
| Name of the Security | Chemcon Specialty Chemicals Ltd. (Chemcon) |
| Name of the analyst | Ashwini Sonawane |
| 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 |
| Investment Banking relationship with company covered | NIL |

This information is subject to change without any prior notice. Way2Wealth reserves at its absolute discretion the right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, Way2Wealth is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.