

17th August 2022

CMP – ₹413.75/-

View – **Accumulate on Dip**

Q1FY23 Key Highlights

- During Q1FY23, the company reported revenue growth of 56% yoy & flat in qoq to ₹89Cr v/s ₹57Cr, supported by production volume growth in CMIC & oil well product line as well as healthy demand across the product portfolio. EBITDA for the quarter stood at ₹34Cr v/s ₹18Cr, up by 88% yoy& 18% qoq. Despite increase in all overhead, EBITDA margins improved to 38% v/s 31% yoy. PAT grew by 90% yoy&20% qoq to ₹25Cr, PAT margins stood at 25% v/s 23% in Q1FY22.
- CMIC product volume up by 35% yoy & 33% qoq at 504 MTPA. Oilwell production volume grew by 123% yoy& 8% qoq at 1,035 MTPA. However, HMDS production volume declined by 14% yoy& 6% qoq at 512 MTPA.
- The company is gaining traction in both HMDS and CMIC.
- Bromide chemical posted a strong growth on account of a high order book. The company anticipates consistent performance from chemical in the coming months.
- The company has started commercialization of CMIC & TMCS at (P8) Manjusr facility and added 2,400 MTPA of TMCS and 1,200 MTPA of CMIC. Post this commercialization total capacity of CMIC stands at 3000 MTPA and the production is expected to ramp up in the coming quarters.
- Commercial production of P9 unit is expected to commence by end of Q2FY23 whereas P10 unit to commence by Q4FY23. 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 (₹ Cr)	1,515
52week H/L (₹)	569.40/261.00
NSE Code	CHEMCON
BSE Code	543233

Shareholding Pattern (%)	June'22
Promoter Holding	74.47
FII	0.02
DII	0.27
Public	25.24

Financials

Particulars	FY20	FY21	FY22	FY23
Net Sales	262	244	257	308
EBITDA	70	81	82	100
EBITDA Margin	27%	33%	32%	33%
PAT	49	56	63	74
EPS (₹)	15.37	15.45	17.14	20.34
P/E (₹)	26.8	26.7	24.1	20.3
EV/EBITDA	21.95	17.20	16.20	13.51
ROE	34%	16%	15%	15%
ROCE	35%	21%	19%	19%
D/E	0.20	0.01	0.09	0.08

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

Outlook

The Company reported CAGR of 13% in revenue, 16% in EBITDA and 24% PAT over FY18-FY22. During FY22, the Company reported revenue growth of 6% YoY to ₹257Cr, growth led by continued business momentum in pharma chemicals and moderate recovery of bromide business. EBITDA margins stood at 32% v/s 33% in FY21. The company is well positioned to substitute imports, innovative product development, explore newer applications (rubber, semiconductors), upcoming facility by end of FY23 and will maintain growth trajectory. Company's strong return ratios and healthy balance sheet strengthens our confidence on the stock.

At CMP of ₹412 Company is trading at ~11x EV/EBITDA & 17x PE on FY24E. Considering attractive valuation, hence, **we recommend Accumulate on dip rating on stock.**

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Consolidated Quarterly Performance

(₹ cr)					
Particulars	Q1FY23	Q1FY22	YoY %	Q4FY22	QoQ %
Net sales	89	57	56%	89	0%
Other operating income					
Total Income	89	57	56%	89	0%
Consump of raw material	38	27	39%	45	-16%
Employees cost	6	4	32%	5	10%
other expenses	12	8	59%	11	7%
Total Expenditure	56	39	42%	62	-9%
EBITDA	34	18	88%	27	22%
EBITDA margins %	38%	31%		31%	
Depreciation	2	2	27%	2	14%
EBIT/ Operating Profit	32	16	93%	26	23%
Interest	0	0	-30%	0	91%
Other income	3	2	38%	3	-1%
PBT	34	18	89%	28	20%
Provision for current tax	9	5	87%	7	17%
Provision for Deffered Tax	0	0	167%	0	-113%
PAT	25	13	90%	21	20%
PAT margins %	28%	23%		24%	
EPS (Basic &dilluted)	6.95	3.66	90%	5.81	20%

Source: Company, Way2wealth Research

Production volumes (MTPA)	Q1FY23	Q1FY22	YoY %	Q4FY22	QoQ %
CMIC	504	372	35%	380	33%
HMDS	512	592	-14%	544	-6%
Oilwell	1035	464	123%	959	8%
total production volume (MTPA)	2,051	1,428	44%	1,883	9%

Source: Company, Way2wealth Research

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Disclosure of Interest Statement Chemcon Specialty Chemicals Ltd. (Chemcon) as on August 17th, 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
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