

Neogen Chemicals Ltd : Good Issue

IPO Note: Good Growth, Fair price at reasonable margins. Medium Debt. Listing in T group : Ranking***



Issue details	
Price band (Rs)	Rs.212-215
IPO Opening Date	24/04/19
IPO Closing Date	26/04/19
Issue Size	Rs.132Cr.

Recommendation

Total revenue grew at a CAGR of 19.66% from Rs.80.31 Cr for the FY14 to Rs.164.67 Cr for the FY18. Net profit after tax grew from Rs.3.64Cr. for the FY14 to Rs.10.49 crore for the FY18. In the last four years net profit grew at a CAGR of 30.29% from FY14 to FY18. For the first nine months of current fiscal it has reported net profit of Rs. 12.22 cr. on a turnover of Rs. 159.68 cr. If we annualize this and attribute to the equity (that enhanced to Rs. 23.32 cr. post IPO) then the asking price is at a P/E of 30.80 against industry composite of 28 plus. Among the listed peer in the Chemical industry are Aarti Industries Ltd, Atul Industries Navin Flourine International Ltd, Paushak Ltd and Vinati Organics Ltd. trades at their TTM P/E of 33.05, 38.0, 19.70, 18.31 and 35.51 respectively. Offer at a PE of 30+ seems fairly priced. **The share will be listed in "T" Group hence there will be less speculative activities. The company has medium debt equity ratio of 1.86. It's being managed well. Company has been reporting consistent good growth in top and bottom line.**

Highlights

- Experienced promoters with domain knowledge
- Large and diverse array of products
- Diversified and stable customer base
- Growth led by continuous investment in R&D
- Specialised business model with high entry barriers
- Established and stable relationship with suppliers
- Augmenting growth in domestic and global markets

Company Introduction

Neogen Chemical is one of India's leading manufacturers of bromine-based, and lithium-based, specialty chemicals. Specialty chemicals are those chemicals that impart different properties to a variety of products (i.e. the effect that specialty chemicals have varies based on the product) and have a high degree of value addition. Specialty chemicals are, also generally, in the Indian context, manufactured in smaller volumes when compared to non-specialty chemicals. Specialty chemicals, including bromine and lithium-based compounds, comprise pharmaceutical intermediates, agrochemical intermediates, engineering fluids, electronic chemicals, polymers additives, water treatment chemicals, construction chemicals and flavours and fragrances chemicals, polymers additives, water treatment chemicals, construction chemicals and flavours and fragrances. It manufacture specialty organic bromine-based chemical compounds (Bromine Compounds) and other specialty organic chemical compounds as well as specialty inorganic lithium-based chemicals compounds (Lithium Compounds and together with the Bromine Compounds the Products).

Specialty chemicals product offerings comprise:

1. Organic chemicals – these are chemicals containing carbon in combination with hydrogen, and, or, other elements with a covalent bond (i.e. a chemical bond atoms sharing at least one pair of electrons between them). Our product offering in this segment comprises Bromine Compounds and other organic compounds containing chlorine, fluorine and iodine-based and combinations thereof. In addition, we also manufacture niche



NEOGEN
CHEMICALS LTD.

www.neogenchem.com

Financial Summary (Rs. In Crore)

Particulars	Nine Months Ended Dec. 18	FY2018	FY2017	FY2016
Total Income	159.68	164.67	121.77	1090.47
Net Profit	12.22	10.49	7.68	5.18
EPS (Rs)	5.24*	4.49	3.29	2.22

*EPS not annualize

Source: RHP and ACE Equity

RANKING METHODOLOGY

WEAK	*
AVERAGE	**
GOOD	***
VERY GOOD	****
EXCELLENT	*****

products such as Grignard reagents. Our specialty organic chemical compounds find use in application industries such as pharmaceutical, agrochemical, flavor and fragrance and electronic-chemical. We market and sell our Products in India and export our Products primarily to Europe, USA and Japan.

2. Inorganic chemicals – these are chemicals with an ionic bond (i.e. a chemical bond between a non-metal and a metal ion involving transfer of electron from one element to another, creating positively and negatively charged ions which together form the compound). Its product offering in this segment primarily comprises Lithium Compounds. The Lithium Compounds manufactured by it is used in eco-friendly Vapor Absorption Machines (VAM) for cooling air/water/process equipment and find application in industries such as heating ventilation and air-conditioning

(HVAC) and refrigeration, construction chemicals, pharmaceutical and specialty polymer. **It market and sell the Lithium compounds in India and export Products, in particular, to the USA, Europe and Japan.**

The object of the issue are to:

- Prepayment or repayment of all or a portion of certain borrowings availed by Company
- Early redemption of the 9.8% FRCPS
- Long term working capital
- General corporate purposes

IPO Issue Proceed

For listing gains and prepayment or repayment of all or a portion of certain borrowings and general corpus funds need, the company is coming out with a maiden IPO of approx. Rs. 132 crore consisting of fresh equity (approx 32.55 lakh shares) issue of Rs. 70.00 crore and offer for sale of 29.00 lakh shares by existing shareholders. Issue opens for subscription on 24.04.19 and will close on 26.04.19. Minimum application is to be made for 78 shares and in multiples thereon, thereafter. Post allotment shares will be listed on BSE and NSE. Post issue its paid up equity capital will be enhanced to Rs. 23.32 crore.

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