

One Stop Investment Avenue



GEPL
CAPITAL

IPO Note

JG CHEMICALS LIMITED

March 05, 2024





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Details of the Issue

Price Band	₹ 210 to ₹ 221
Issue Size	₹ 251.91 Cr
Face Value	₹ 10
Bid Lot	67
Listing on	BSE, NSE
Post Issue Mcap	₹ 866.01Cr
Investment Range	₹ 14,070 - ₹ 14,807

Important Indicative Dates (2024)

Opening	05 - Mar
Closing	07 - Mar
Basis of Allotment	11 - Mar
Refund Initiation	12 - Mar
Credit to Demat	12 - Mar
Listing Date	13 - Mar

Lead Manager

Centrum Capital Ltd
Emkay Global Financial Services Ltd
Keynote Financial Services Ltd

Offer Details

Offer Size	₹ 251.19 Cr
Fresh Issue	₹ 165 Cr
OFS	₹ 86.19 Cr

Type	In Rs Cr	No of Shares (Mn)		% of Issue
		Upper	Lower	
QIB	125.55	5.68	5.98	50
NIB	38	1.70	1.79	15
Retail	88	3.98	4.19	35
Em-ploy.	-	-	-	-
Total	251	11.36	11.96	100

Invest Now**Company Profile**

Founded in 1975, JG Chemicals Limited is a prominent zinc oxide manufacturer utilizing the French process. With over 80 zinc oxide grades, the company caters to diverse industrial sectors such as ceramics, paints, pharmaceuticals, cosmetics, electronics, batteries, agrochemicals, fertilizers, specialty chemicals, lubricants, oil and gas, and animal feed. Operating three manufacturing facilities in Jangalpur and Belur (Kolkata, West Bengal) and Naidupeta (Nellore District, Andhra Pradesh), the largest facility is located in Naidupeta, owned by the Material subsidiary. All facilities boast ISO 45001:2018 and ISO 14001:2015 certifications, with ISO 9001:2015 accreditation.

JG Chemicals Limited has successfully served over 200 local and 50 international customers in more than 10 countries. As of December 31, 2023, the company employs 112 permanent employees along with over 100 workers and apprentices.

Highlighting financial performance, for the nine-month period ending December 31, 2023, and the fiscal years 2023, 2022, and 2021, the company achieved operating income of ₹4,863.22 million, ₹7,845.76 million, ₹6,128.30 million, and ₹4,352.98 million, respectively.

Business Highlights & Services

Company is the India's largest zinc oxide manufacturer in terms of production and revenue for zinc oxide manufacturing through French process, which is the dominant production technology for producing zinc oxide and has been adopted by all the major producers in Americas, Europe and Asia. The market share of the Company is around 30% as on March 2022. It sell over 80 grades of zinc oxide and are among the top ten manufacturers of zinc oxides globally. Since their incorporation in 2001, it have expanded their business and scale of operations and have grown into a large, diversified zinc oxide player with a global footprint. Their product caters to a wide spectrum of industrial applications, including in the rubber (tyre & other rubber products), ceramics, paints & coatings, pharmaceuticals & cosmetics, electronics & batteries, agro-chemicals & fertilizers, speciality chemicals, lubricants, oil & gas and animal feed.

With over four decades in manufacturing, their extensive experience serves a diverse customer base in industries such as tires, ceramics, rubber, paints, cosmetics, and batteries. Building lasting relationships, it has successfully marketed their products to 200+ domestic and 50+ global customers across 10+ countries in the last three years. In India, where the tire industry dominates rubber consumption (70%, CARE Report), company is a key suppliers to 9 of the top 10 global tire manufacturers and all top 11 in India. Company Material Subsidiary, BDJ Oxides, holds the exclusive IATF certification, a preferred choice for tire manufacturers supplying to original equipment manufacturers.

Their manufacturing facilities hold prestigious certifications such as ISO 9001:2015, ISO 45001:2018, and ISO 14001:2015. To cater to the European Union market, it has secured the REACH certification, allowing them to supply products seamlessly. Recognized as a 'Two Star Export House' until March 31, 2028, by the Director General of Foreign Trade, it has excelled in international trade. In 2021, company were honored with the Apollo Gold Partner Award-Quality Champion by Apollo Tyres Limited for their significant contribution to business partnership. As members of the All India Rubber Industries Association and the Merchant's Chamber of Commerce & Industry since September 5, 2018, it has maintain a strong industry presence.

Company's subsidiary, BDJ Oxides, holds the WHO GMP certificate for pharma-grade zinc oxide manufacturing. Regular audits by customers attest to the quality of their products and manufacturing processes.



Procuring raw materials, including virgin zinc metal and Zinc Dross, from diverse domestic and global suppliers, it ensure a resilient supply chain. Zinc Dross, a key component, poses challenges due to its sourcing complexity, making it a barrier for new entrants. Despite this, Their robust network of over 100 global suppliers, built over the years, positions as a preferred customer in the Zinc Dross market. This strategic advantage allows to mitigate supply constraints and make informed choices based on commercial considerations, contributing to their success in the zinc oxide business and reducing their carbon footprint.

Manufacturing Capacity

As of December 31, 2023, their total installed capacity of 77,040 MTPA is distributed across three manufacturing facilities: Jangalpur and Belur in Kolkata, West Bengal, and Naidupeta in Nellore District, Andhra Pradesh. Notably, Naidupeta, their largest facility owned by Material Subsidiary, has recently expanded its capacity by 13,440 MTPA for zinc oxide and 10,080 MTPA for zinc sulphate and related chemicals. Their manufacturing processes prioritize modern engineering to minimize emissions, with recuperators in most furnaces to reduce carbon footprint.

Company hold necessary approvals, including the 'Orange Category' consent and hazardous waste authorization order from state pollution control boards, allowing to handle hazardous waste and emissions within permissible limits. Beyond these accreditations, Company is a members of industry associations such as the All-India Rubber Industries Association, India Lead Zinc Development Association, Bureau of International Recycling, Indo-German Chambers of Commerce, Material Recycling Association of India, Chemicals and Allied Products Export Promotion Council, and the International Zinc Association.

Financial Year / Date	Installed Capacity		
	Zinc Oxide	Zinc Ingot	Zinc Sulphate and other allied chemicals
December 31, 2023	59,904	7,056	10,080
2023	59,904	7,056	10,080
2022	46,464	5,040	NA
2021	38,832	NA	NA

Product Information

Zinc oxide, a white inorganic compound with the chemical formula ZnO, is insoluble in water and is commonly found in the earth's crust as mineral zincite, often with impurities like manganese. Commercially, it is synthetically produced due to impurities in natural sources. With diverse properties, zinc oxide varies in grades tailored for specific end-user industries, leading to a need for extensive customization in manufacturing processes and plant design. JG Chemicals Limited sells over 80 grades across its plants, serving industries such as rubber, ceramics, paints, pharmaceuticals, electronics, agrochemicals, and more, both domestically and internationally.

Commercial grades are categorized by purity (ranging from 98.50% to 99.90%) and particle size, reflecting differences in the manufacturing process. The production of zinc oxide relies on raw materials like zinc metal and Zinc Dross, with the availability impacting prices and production. Zinc oxide from zinc metal is preferred for high purity levels, while Zinc Dross, a by-product of steel galvanization, presents procurement challenges. JG Chemicals Limited also plans to utilize in-house zinc ash, a by-product, for zinc sulphate production.

Over the five years from CY17 to CY21, the global zinc oxide market witnessed growth from USD 4,472 million to USD 4,923 million at a 2.4% CAGR, driven by end-user industry demand. The global production of zinc oxide remained stable, ranging from 1.40 million tonnes to 1.60 million tonnes during this period.

Revenue Breakup

(as a % of our revenue from operations)

Industry	Nine months period ended December 31, 2023	Fiscal 2023	Fiscal 2022	Fiscal 2021
Rubber and tyres	90.50	90.46	90.10	89.20
Pharmaceuticals & chemicals	7.09	6.79	6.37	7.48
Agriculture	0.75	0.92	2.06	1.79
Others*	1.66	1.83	1.47	1.53
Total	100.00	100.00	100.00	100.00



High Entry Barriers

JG Chemicals faces robust entry barriers in its end-use industries:

1. Stringent Vendor Approval: Tyre manufacturers prioritize reliability and scalability, making supplier changes a time-consuming and expensive process, with approvals taking up to 5 years.
2. Raw Material Tie-ups: Limited Zinc Dross availability poses challenges for new entrants; however, JG Chemicals has built a diverse global supplier base, procuring from over 100 suppliers.
3. Technical Expertise: JG Chemicals overcomes the complexity of zinc oxide production from varying Zinc Dross grades by maintaining inventory and producing customized grades efficiently.
4. High Working Capital Requirements: Managing advance payments for raw materials while offering credit terms to customers helps address the significant working capital needs in the industry.
5. Supplier-Customer Relationship: Recognized as a preferred supplier, JG Chemicals emphasizes enduring relationships, leveraging technical expertise, timely deliveries, and consistent product quality.
6. Proven Customer Relations: Strong customer relationships, built on technical capabilities and consistent quality, have endured for over 15 years, showcasing JG Chemicals' commitment to customer satisfaction.

Utilization of IPO Proceeds

The company propose to utilize the Net proceeds of fresh issue towards funding of the objective:

- Repayment or pre-payment, in full or in part, of all or certain borrowings availed by their Material Subsidiary of INR 25 Cr.
- Funding funding capital expenditure requirements for setting up of R&D Centre of INR 6.05 Cr.
- Funding its long-term working capital requirements of INR 60 Cr.
- Funding long-term working capital requirements of the Company of INR 35 Cr.
- General corporate purposes.

Industry Outlook

The Indian chemicals industry boasts a wide array of over 80,000 commercial products, encompassing basic chemicals, petrochemicals, fertilizers, paints, varnishes, gases, soaps, perfumes, toiletries, and pharmaceuticals. This sector plays a crucial role in India's agricultural and industrial development, acting as a foundational element for downstream industries such as textiles, papers, paints, soaps, detergents, pharmaceuticals, and more. As per the Government of India's Department of Chemicals and Petrochemicals, the chemical and chemical products sector (industry division 20 of NIC 2008) contributed 1.42% to the Gross Value Added (GVA) for all economic activities in 2020-21, with a GVA share of 7.98% in the manufacturing sector. The Indian chemical industry's output value in 2020-21 was approximately Rs 9.87 lakh crore (USD 132 billion), while the combined chemical and pharmaceutical industry reached around Rs 14.3 lakh crore (USD 193 billion). Over the six years from 2014-15 to 2019-20, the real growth rate in the output of the chemical industry, excluding pharmaceuticals, was 8.1%, and for the entire chemical industry, including pharmaceuticals, it was 8.2%. In terms of trade, India ranked 12th in global chemical exports and 5th in imports in 2021. The specialty chemicals sector accounts for 20%-25% of the total industry size in India, and it is expected to grow at a faster rate than the overall chemical industry due to increased demand from various segments such as agrochemicals, food additives, construction chemicals, electronic chemicals, water chemicals, polymer additives, dyes, pigments, and surfactants. In 2021-22, major chemical production in India reached 12.5 million tonnes, and petrochemicals output stood at 44.5 million tonnes.

Peers Comparison

Name of the company	Face Value (₹)	Total Income (₹ Cr)	EPS	NAV (₹)	P/E	RoNW(%)
JG Chemicl's Ltd	10	794	17.32	63	NA	27.49%
Peers Group						
Rajratan Globle Wire Ltd	2	899	19.72	86	33.34	22.79%
NOCIL Ltd	10	1,623	8.92	93.14	30.97	9.61%
Yasho Industries Ltd	10	683	59.54	209	30.03	28.52%



Companies Competitive Strength :

- Leading market position with a diversified customer base.
- High entry barriers in key end-use industries.
- Strong and consistent financial performance.
- Long-term relationships with customers and suppliers & having robust supply chain.
- Experienced and dedicated management team.
- Focus on long term sustainability with environmental initiatives and safety standards.

Key Strategies Implemented by Company

- Expand their production capacities and broadening the footprint of manufacturing operations.
- Further diversify their product offerings and enter new verticals
- Deep mining of existing customers and continued focus to expand customer base.
- Increasing focus on R&D to support complex chemistries, product innovation and cost efficiencies.

Particulars (INR Cr)	9MFY24	FY23	FY22	FY21
Equity Share Capital	31.0	31.7	1.2	1.2
Reserves	194.0	176.0	151.0	107.0
Net Worth as Stated	226.0	208.0	153.0	107.0
Revenue From Operations	486.0	785.0	613.0	435.0
Revenue Growth%		28%	41%	
EBITDA	24.6	65.3	51.9	36.3
EBITDA Margins%	5%	8%	8%	8%
Net Profit/Loss for the Period	1.9	5.7	4.3	2.9
Net Profit/Loss %	0%	1%	1%	1%
EPS (Rs)	1.78	7.03	4.33	0.69
ROCE%	12%	29%	26%	25%
ROE%	8%	31%	31%	24%

Valuations and Recommendation:

- Based on annualized FY24 earnings to post-IPO paid-up equity capital of the company, The issue is priced at a P/E of 35x times earnings. Thus the issue appears fairly priced compared to peers.
- JG Chemicals stands as the largest manufacturer of zinc oxide, leading both in terms of production and revenue derived from zinc oxide. The company strategically aims to establish greenfield manufacturing facilities in Gujarat, thereby diversifying its product offerings to meet the increasing demands in the ceramics industry and non-tyre markets. With a prominent market share in zinc oxide, JG Chemicals boasts a robust customer base, maintaining long-lasting customer relationships and achieving a high retention rate. Furthermore, the company is an approved vendor for most major global tyre companies, holding a significant presence in Southeast Asia. JG Chemicals has demonstrated consistent growth, achieving a CAGR of 34.3% during FY21-23. Despite facing high entry barriers, the company's certifications and global supplier base contribute to its continuous growth. The favourable outlook for demand in the automotive, rubber, and ceramics sectors, coupled with the anticipated revival of the chemical industry in FY25, positions JG Chemicals for sustained and substantial growth. Hence, We recommend "Subscribe" rating to the issue.



Notes

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