



SMC Ranking
★ ★ ☆ ☆ ☆ (2/5)

Issue Highlights

Industry	Chemicals
Offer for sale (Shares)	3,900,000
Fresh Issue (Shares)	7,466,063
Net Offer to the Public	11,366,063
Issue Size (Rs. Cr.)	238-252
Price Band (Rs.)	210-221
Offer Date	5-Mar-24
Close Date	7-Mar-24
Face Value	10
Lot Size	67 Shares

Issue Composition

	In shares
Total Issue for Sale	11,366,063
QIB	5,683,032
NIB	1,704,909
Retail	3,978,122

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	100.00%	70.99%
QIB	0.00%	14.50%
NIB	0.00%	4.35%
Retail	0.00%	10.15%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The company intends to utilize the Net Proceeds towards the following objects:

Investment in Material Subsidiary, viz. BDJ Oxides (i) repayment or pre-payment, in full or in part, of all or certain borrowings availed by its Material Subsidiary; (ii) funding capital expenditure requirements for setting up of a research and development center situated in Naidupeta, Andhra Pradesh (R&D Centre); and (iii) funding its long-term working capital requirements;

Funding long-term working capital requirements of the Company; and

General corporate purposes.

Book Running Lead Manager

- Centrum Capital Limited
- Emkay Global Financial Services Limited
- Keynote Financial Services Limited

Name of the registrar

- KFin Technologies Limited

About the company

JG Chemicals Limited was founded in 1975 and is a zinc oxide manufacturer using the French process. The company produces more than 80 grades of zinc oxide. This product is used in various industrial applications such as ceramics, paints and coatings, pharmaceuticals and cosmetics, electronics and batteries, agrochemicals and fertilizers, specialty chemicals, lubricants, oil and gas, and animal feed. The company operates three manufacturing facilities in Jangalpur and Belur, both in Kolkata, West Bengal and Naidupeta in Nellore District, Andhra Pradesh. Naidupeta is the largest facility, owned and operated by the Material subsidiary. All manufacturing facilities are ISO 45001:2018 and ISO 14001:2015 certified and ISO 9001:2015 accredited. The company has served the needs of more than 200 local and 50 international customers in more than 10 countries.

Strength

Leading market position with a diversified customer base: JG Chemicals Limited is the largest manufacturer of zinc oxides in India and among the top ten manufacturers of zinc oxides globally, with an installed capacity of 59,904 MTPA for zinc oxide, 7,056 MTPA for zinc ingots and 10,080 MTPA capacity for zinc sulphate and other allied chemicals. The installed capacity of its Naidupeta Facility has recently been augmented by 13,440 MTPA for zinc oxide and 10,080 MTPA for zinc sulphate and other allied chemicals. Production capacities, process of production, grades of ZnO and variety of application segments are some of the factors through which the key players control the market. It sells over 80 grades of zinc oxide, thereby enabling it to cater to a wide variety of customers, across various end-use industries. Despite slow growth of its biggest end-use industry customer, it has been able to grow primarily on account of (i) long term relationships with tyre companies which have been developed through its products it offers them; (ii) its ability to scale up production as per its customer requirements; (iii) certainty of and on time supply of its products to its customers; and (iv) its ability offer the right quality at the right price to its customers. Further, even though the demand in the automotive sector has been slow in the last few Fiscals, it also caters to the replacement market, which is around 55% of the total tyre demand. It believes that its leadership position in the Indian domestic markets is a consequence of (a) consistency of its product quality, which has resulted in the company being considered as a preferred supplier to certain marquee tyre manufacturers; (b) established infrastructure; and (c) the strategic location of manufacturing facilities near the demand of such products. Its leadership position offers it competitive advantages such as product pricing, economies of scale, and the ability to scale its business, increase customer loyalty and expand its client base, all of which have in turn resulted in the growth of revenues and profit over the last three Fiscals.

High entry barriers in key end-use industries: High barriers to entry protect this market due to the demanding nature of the industry. Products require the highest quality standards, rigorous approval processes, and meet strict impurity specifications. Switching suppliers is expensive and time-consuming for customers, since its finished products must comply with stringent regulations. This discourages them from changing vendors. The company has established a strong reputation for technical expertise, reliable deliveries, and consistent quality over many years. It has built long-lasting relationships with some key clients, who have been loyal for over 15 years.

Strong and consistent financial performance: The Company boasts consistent financial growth and a steadily improving balance sheet. Its net worth has also increased over the past three fiscal years. Notably, the rubber industry is a major contributor, generating over 90% of revenue for the past nine months and the previous three fiscal years. The company prioritizes a strong financial position with a focus on a healthy balance sheet and increasing profitability. This strong financial foundation, with low debt, allows it to

pursue future growth opportunities. Additionally, its high working capital needs are easily met on the back of the robust balance sheet, a critical factor for their business model. Ultimately, its financial strength and access to funding give it significant edge over competitors.

Long-term relationships with customers and suppliers & having robust supply chain: The Company prioritizes direct customer relationships. Over 95% of sales in the past three years have been direct, eliminating intermediaries and fostering strong customer bonds. This not only reduces costs but also improves profitability. Many of these relationships span several years, with around 90% of customers returning for repeat business. This customer loyalty translates into significant competitive advantages. Consistent revenue streams, industry goodwill, and the ability to showcase product quality are all benefits of these long-term partnerships. Furthermore, close customer relationships often lead to valuable insights into new product needs, allowing the company to strategically expand its product portfolio.

Focus on long term sustainability with environmental initiatives and safety standards: Sustainability is a core principle for the company, driving its commitment to various green initiatives. The company recognizes the importance of environmental responsibility, aligning perfectly with customer values. This translates into ongoing efforts to reduce emissions, recycle materials, and conserve natural resources. Its commitment to continual improvement is evident by achieving the ISO 14001:2015 Environmental Management System certification for all manufacturing facilities. The French process it utilizes for zinc oxide production is both efficient and environmentally friendly. Modern pulse jet bag filters and combustion systems ensure high productivity, low energy consumption, and compliance with emission regulations. Furthermore, its focus on sustainable manufacturing practices includes using over 90% recycled metal as raw material. This reliance on secondary zinc (dross, scrap, scrub) significantly reduces carbon dioxide emissions, air and water pollution, and water usage. Additionally, recuperators installed in most furnaces capture waste heat for further use, minimizing overall energy consumption.

Strategy

Expand production capacities and broadening the footprint of manufacturing operations: The company currently manufactures in eastern and southern India, supplying the whole country. To expand production and reach new markets, they recently increased zinc oxide and related chemical capacity at their Andhra Pradesh facility by 13,440 MTPA. This brings their total capacity to 77,040 MTPA. They're also planning a new facility in western India to serve the ceramics, pharmaceutical, and tire industries there. This will not only boost production but also capture market share. Looking abroad for growth, the company is exploring opportunities in Southeast Asia, particularly Thailand. Thailand's status as the world's largest rubber exporter, expansion by international tire manufacturers, and favorable regulations make it an attractive market. The company is confident its existing customer base and expertise in zinc oxide production will help them gain new customers.

Further diversify its product offerings and enter new verticals: The Company is investing in new zinc oxide products and applications, aiming to boost its product portfolio and capitalize on the growing demand in relevant industries. This strategy is expected to further improve its operational margins, which have already been increasing steadily. It believes that an expansion into new verticals of product offerings will lead to a further increase in its operational margin, which was 6.12%, 10.41%, 10.39% and 10.63% in nine months period ended December 31, 2023 and Fiscals 2023, 2022 and 2021, respectively.

Deep mining of existing customers and continued focus to expand customer base: Leveraging its strong market position and customer relationships, the company aims to grow wallet share with existing customers and expand its reach through new products and export markets.

Increasing focus on R&D to support complex chemistries, product innovation and cost efficiencies: The Company has a proven track record of developing customized zinc oxide products for specific customer needs. Currently, R&D happens directly at their manufacturing facilities. However, to drive further innovation, they plan to establish a dedicated R&D center. This will focus on complex innovations for industries like pharmaceuticals, agriculture, and batteries – including battery-grade zinc oxide. The company believes R&D is key to their success and will continue to be a priority to introduce new products, improve efficiency, and expand into new markets.

Risk factor

- The business is almost completely dependent on the sale of one principal product i.e. zinc oxide (in various grades) and any reduction in the demand of the same may have an adverse effect on its business and financial performance.
- The company is significantly dependent on the business operations of its material subsidiary i.e. BDJ Oxides Private Limited and any deterioration in the performance of its material subsidiary may adversely affect its business, financial condition and results of operations.
- The company derives a significant part of its revenue from select customers.
- The company operates in a competitive industry.
- The company's operations are heavily dependent on the rubber and tyre industry and there is a lack of diversification in its business across other

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
NOCIL	1480.89	119.78	7.19	37.01	2.69	99.05	10	266.10	4434.44
Rajratan Global	870.31	71.87	14.16	46.08	7.40	88.19	2	652.50	3312.81
Yasho Industries	573.24	55.67	48.84	42.18	8.91	231.23	10	2060.25	2348.52
J.G.Chemicals Limited	648.43	24.68	6.30	35.09	2.15	103.02	10	221.00	866.01

*Peer Comparison company financials are based on TTM.

**J.G Chemical Limited Financials are based on Estimated Annualised FY24

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.221, the stock is priced at pre issue P/E of 28.40x on estimated annualised FY-2024 EPS of Rs. 7.78. Post issue, the stock is priced at a P/E of 35.09x on its EPS of Rs. 6.30. Looking at the P/B ratio at Rs.221, pre issue, book value of Rs. 75.25of P/Bvx 2.94x. Post issue, book value of Rs. 103.02 of P/Bvx 2.15x.

Considering the P/E valuation, on the lower end of the price band of Rs.210, the stock is priced at pre issue P/E of 26.99x on estimated annualised FY-2024 EPS of Rs. 7.78. Post issue, the stock is priced at a P/E of 33.34x on its EPS of Rs. 6.30. Looking at the P/B ratio at Rs.210, pre issue, book value of Rs. 75.25 of P/Bvx 2.94x. Post issue, book value of Rs. 103.02 of P/Bvx 2.04x.

Industry Outlook

India ranked sixth in terms of global chemical sales with a contribution of USD 105 billion and accounted for a share of 2.7% during the year. In terms of volume, the zinc oxide production in India has been around 100 – 115 thousand tonnes in the past 5 years from Fiscal 2018 to 2022. During this period, the Indian zinc oxide market size is estimated at around Rs. 1800 crore to around Rs. 2000 crore. The Indian zinc oxide industry includes limited organized players, who constitute a major portion of the market due to high entry barriers for any new entrant.

Outlook

JGCL, a dominant player in India's zinc oxide market, leverages the industry-standard French process to produce high-quality zinc oxide. The company has grown into a globally recognized supplier, establishing strong, long-term relationships with its customers. Repeat orders account for over 90% of JGCL's revenue, reflecting the critical role its product plays in its clients' operations. Despite experiencing a temporary decline in revenue and profit (degrowth) for the first three quarters of fiscal year 2024 due to global zinc oxide price volatility, management assures this is a short-term setback. Positive trends are re-emerging, and the company is confident of achieving stability with margin growth. Historically strong customer relationships, with a 90% repeat order rate, demonstrate enduring consumer trust. While long-term investors might consider this opportunity, they should be aware of this potential risk.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	05-March-24
BID/ISSUE CLOSSES ON	06-March-24
Finalisation of Basis of Allotment with the Designated Stock Exchange	11-March-24
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	12-March-24
Credit of Equity Shares to Demat Accounts of Allottees	12-March-24
Commencement of trading of the Equity Shares on the Stock Exchanges	13-March-24

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Dec-23 (9 Months)	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-22 (12 Months)
Revenue from operations	486.32	784.58	612.83
Total expenditure	458.16	709.07	556.67
Operating Profit	28.17	75.50	56.16
OPM%	5.79	9.62	9.16
Other Income	4.78	9.61	10.22
PBDIT	32.94	85.12	66.38
Depreciation	3.18	3.44	2.68
PBIT	29.76	81.68	63.70
Interest	3.00	4.98	6.25
PBT	26.76	76.69	57.45
Less: Exceptional Item	1.80	0.00	0.00
Profit after Exceptional item	24.96	76.69	57.45
Total tax expenses	6.45	19.90	14.32
PAT	18.51	56.79	43.13

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Dec-23	As on 31-Mar-23	As on 31-Mar-22
Non-current assets			
Property, plant and equipment	37.69	35.27	22.37
Capital work-in-progress	3.43	0.92	7.38
Intangible Assets	0.02	0.01	0.02
Financial Assets			
Investments	6.13	2.96	8.49
Other Financial Assets	0.99	1.15	0.89
Deferred Tax Assets (Net)	0.00	0.00	0.03
Non-Current Tax Assets	0.00	0.01	0.02
Other Non-Current Assets	1.74	1.14	1.24
Total non-current assets	50.00	41.46	40.43
Current assets			
Inventories	76.44	103.85	88.27
Financial Assets			
Trade Receivables	94.32	115.61	94.77
Cash and cash equivalents	7.43	3.55	5.85
Bank balances other than (iii) above	0.02	1.31	2.21
Investments	6.18	0.00	0.00
Loans	0.00	1.84	1.76
Other Financial Assets	8.15	21.13	8.92
Current Tax Assets (net)	0.74	0.00	0.00
Other Current Assets	27.99	9.06	21.94
Total current assets	221.27	256.34	223.72
Total Assets	271.26	297.79	264.14
Non-current liabilities			
Financial liabilities			
Borrowings	4.59	6.72	5.60
Provisions	0.39	0.29	0.24
Deferred tax liabilities (net)	0.66	0.59	0.00
Total non-current liabilities	5.64	7.59	5.83
Current liabilities			
Financial Liabilities			
Borrowings	20.38	63.64	88.35
Trades Payable - MSME	0.57	0.77	0.98
Trade Payables - other than MSME	5.73	7.60	4.33
Other financial liabilities	3.79	2.31	3.89
Other current liabilities	1.40	0.46	2.11
Provisions	1.24	1.26	1.14
Current Tax Liabilities (net)	0.00	0.63	0.87
Total current liabilities	33.11	76.67	101.67
Total	38.75	84.26	107.50
Net worth represented by:			
Equity Share Capital	31.72	31.72	1.22
Other Equity	194.19	175.94	151.40
Non - Controlling interest	6.60	5.87	4.02
Net Worth	232.51	213.53	156.64

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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