

# IPO Note: Sigachi Industries Ltd.

**Industry: Microcrystalline**
**Reco: Subscribe**
**Date: November 01, 2021**

Issue Snapshot		Issue Break up		
Company Name	Sigachi Industries Ltd.	QIB ex Anchor	20%	1,539,000
Issue Opens	November 01, 2021 to November 03, 2021	Anchor Investor	30%	2,308,500
Price Band	Rs. 161 to Rs. 163	HNI	15%	1,154,250
Bid Lot	90 Equity Shares and in multiples thereof.	RII	35%	2,693,250
The Offer	Public issue of 76,95,000 Equity shares of Face value Rs. 10 each, (Comprising of fresh issue).	<b>Total Public</b>	<b>100%</b>	<b>7,695,000</b>
Issue Size	Rs. 123.89 – 125.43 Crore			
IPO Process	100% Book Building	Equity Share Pre Issue (Nos. Cr.)		2.3
Face Value	Rs. 10.00	Fresh Share (Nos. Cr.)		0.8
Exchanges	NSE & BSE	Equity Share Post Issue (Nos. Cr.)		3.1
BRLM	Unistone Capital Private Limited	Market Cap (Rs. Cr.)		501.1
Registrar	Bigshare Services Private Limited	Equity Dilution		25.0%

## Objects of the Offer

### Fresh Issue

- For expansion of production capacity for microcrystalline cellulose at Dahej, Gujarat (Rs. 28.16 cr.);
- For expansion of production capacity for microcrystalline cellulose at Jhagadia, Gujarat (Rs. 29.24 cr.);
- To manufacture Croscarmellose Sodium, a modified cellulose used as excipient at Kurnool, Andhra Pradesh (Rs. 32.30 cr.); and
- General corporate purposes.

## Company Highlights

- Sigachi Industries Ltd. (SIL) is in the business to manufacture chlorinated paraffin and hydrochloric acid in its manufacturing unit situated in Hyderabad. In the year 1990, the Company diversified its product portfolio to manufacture microcrystalline cellulose (MCC). SIL commenced its export operations in the year 1996 by exporting its first order of MCC to Bangkok. Owing to the consistent efforts of, the sale from export operations constituted 32% of total sales during FY04. In the year 2000, with an aim to diversify business activities, the Company started manufacturing premium grade microcrystalline cellulose by successfully commissioning a spray drier and a multi-fuel furnace, which in turn also increased manufacturing capacity from 720 metric tonnes per annum to 1,080 metric tonnes per annum.
- SIL is engaged in manufacturing microcrystalline cellulose (MCC) which is widely used as an excipient for finished dosages in the pharmaceutical industry. The inert non-reactive, free-flowing and versatile nature of MCC has varied applications in the pharmaceutical, food, nutraceuticals and cosmetic industries. It manufactures MCC of various grades ranging from 15 microns to 250 microns. The major grades of MCC manufactured and marketed by the Company are branded as HiCel and AceCel. These products are distinguished with the help of different drying techniques employed during the manufacturing process. HiCel is a spray dried product and is considered premium in quality due to the physical properties of the product such as particle size, density, flow, tableting properties, etc. AceCel on the other hand is manufactured through the bulk drying process. SIL also manufactures various grades of this product in combination with various chemicals like colloidal silicon dioxide, carboxy cellulose sodium, mannitol etc. to cater to the growing market of the co-processed excipients.
- The company has an in-house R&D division equipped with the necessary facilities to carry out all necessary trials to develop new molecules from concept to commissioning.

- Presently, it manufactures 59 different grades of MCC at its manufacturing units, situated at Hyderabad and Gujarat with an aggregate installed capacity of 11,880 MTPY. With over 30 years of continuous growth, three multi-locational manufacturing facilities and a consistent focus on delivering premium quality products, SIL is one of the leading manufacturers of MCC (cellulose-based excipients) in India (Source: Research Report on Microcrystalline Cellulose (MCC) & Croscarmellose Sodium (CCS) Industry). The company also entered into operations and management agreements with Gujarat Alkalies and Chemicals Limited (GACL) for operating and managing the manufacturing units owned by GACL and for contract manufacturing of sodium chlorate, stable bleaching powder and poly aluminum chloride in the said units.

## View

- Sigachi Industries is engaged in manufacturing of Microcrystalline Cellulose (MCC) which is widely used as an excipient for finished dosages in the pharmaceutical industry. MCC has varied applications in the pharmaceutical, food, nutraceuticals, and cosmetic industries. It manufactures MCC of various grades ranging from 15 microns to 250 microns.
- The company has entered into operations and management agreements with Gujarat Alkalies and Chemicals Ltd. for operating & managing the manufacturing units owned by GACL & for contract manufacturing of sodium chlorate, stable bleaching powder & poly aluminum chloride in the said units.
- With the help of premium quality products, SIL has been able to create a long-standing market presence in India and internationally. The company cater to various end users, merchants, distributors and exporters. SIL export products to 41 countries including Australia, USA, South America, U.K., Poland, Italy, Denmark, China, Colombia, Bangladesh, to name a few. Revenue from domestic and export sales of products is in the ratio of 70:30.
- Owing to the inert non-reactive, free flowing and versatile nature of MCC, SIL is in a position to customize the usage and application of products to various industries including but not limited to pharmaceutical, food, nutraceuticals and cosmetics. To serve the diverse industries, the polymer is available in several grades which varies in the average particle size and bulk density.
- With a view to strategically expand operations and ensure market presence in domestic and international markets, SIL has set up three multi locational manufacturing units namely, Hyderabad, Telangana, Jhagadia, Gujarat and Dahej, Gujarat which helps to provide timely, efficient and customized delivery of products in terms with the specific demographic needs. Multi-location facilities have aided in market penetration and developing a strong presence in India and abroad.
- SIL intend to expand the production capacity of MCC by increasing the manufacturing capacity of units situated in Dahej and Jhagadia as well as setting up of the Proposed Unit which will result in an increase in revenues and profitability. The strategic decision to expand manufacturing units will increase ability to cater to the expected increase in demand of our products.
- Over FY19-21, SIL has reported a robust growth in the business with significant improvement in the profitability. On the back of higher demand of its products, the company has reported a 22.3% CAGR rise in consolidated top-line. Thereby leading to a 22.2% CAGR rise in consolidated EBITDA. EBITDA margin has remain constant at 20%. Reported PAT was higher by 26.2% CAGR. Debt-to-equity ratio declined from 0.5x in FY19 to 0.2x in FY21. Average RoIC and RoE stood at 17% and 35%, respectively, over FY19-21.
- In terms of the valuations, on the higher price band, SIL demands P/E multiple of 13.9x based on Q1FY21 post issue fully diluted EPS. The company does not have any listed peers to compare with.
- Sigachi has a market share of over 65% in MCC products. Sustained demand for MCC from various industries and the expansion programme, earnings growth momentum looks sustainable. It has been paying a dividend consistently for the last three years, which bodes well. Given that the company has pan-India and international market presence, experienced management team and investment led future growth with high RoNW and reasonable valuation, we have a positive view on the company from the long term perspective. Hence, it is recommended to "SUBSCRIBE" the issue.

## Financial Statement

(In Rs. Cr)	FY19	FY20	FY21	Q1FY21	Q1FY22
Share Capital	3.1	7.7	7.7	7.7	7.7
Net Worth	44.9	64.6	94.2	70.6	103.2
Long Term Borrowings	1.2	1.9	1.9	2.4	1.8
Other Long Term Liabilities	3.2	3.6	5.1	4.4	5.6
Short-term borrowings	22.0	27.0	18.3	24.4	23.2
Other Current Liabilities	20.1	12.1	13.9	13.8	17.2
Fixed Assets	30.8	34.7	41.7	35.2	45.1
Non Current Assets	32.2	2.3	4.6	2.7	6.6
Current Assets	59.3	72.1	87.1	77.6	99.8
Total Assets	91.5	109.1	133.4	115.6	151.4
Revenue from Operations	129.0	139.1	192.8	43.8	55.0
Revenue Growth (%)		7.8	38.6		25.5
EBITDA	26.0	24.8	38.8	8.9	12.2
EBITDA Margin (%)	20.1	17.8	20.1	20.3	22.2
Net Profit	19.0	20.3	30.3	6.1	9.0
Net Profit Margin (%)	14.7	14.6	15.7	13.8	16.4
Earnings Per Share (Rs.)	8.3	8.8	13.1	2.6	3.9
Return on Networth (%)	42.4	31.5	32.1	8.6	8.7
Net Asset Value per Share (Rs.)	19.5	28.0	40.9	30.6	44.8

Source: RHP, Ashika Research

## Cash Flow Statement

(In Rs. Cr)	FY19	FY20	FY21	Q1FY21	Q1FY22
Cash flow from Operations Activities	14.5	12.1	29.6	5.7	(3.6)
Cash flow from Investing Activities	(6.0)	(6.8)	(11.4)	(1.4)	(6.0)
Cash flow from Financing Activities	(8.9)	3.1	(10.7)	(2.9)	4.6
Net increase/(decrease) in cash and cash equivalents	(0.4)	8.5	7.4	1.4	(4.9)
Cash and cash equivalents at the beginning of the year	2.6	2.1	10.6	10.6	18.0
Cash and cash equivalents at the end of the year	2.1	10.6	18.0	12.0	13.1

Source: RHP

## Comparison with listed industry peers

There are no listed companies in India whose business portfolio is comparable with that of the company business and comparable to the scale of operations.

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