



IPO Report

SUBSCRIBE

31st Oct 21

Snapshot

Company was incorporated as a private limited company in 1989, with the business to manufacture chlorinated paraffin and hydrochloric acid in company’s manufacturing unit situated at Hyderabad. In the year 1990, company diversified its product portfolio to manufacture microcrystalline cellulose (“MCC”).

VALUATION

Company is bringing the issue at price band of Rs 161-163 per share at p/e multiple of 12 on FY21 eps.

Company being one of the leading manufacturers of MCC (cellulose-based excipient) in India with over 30 years’ experience has pan India and International market presence. Company with its well experienced management team with proven project management and implementation skills has comprehensive product portfolio that enables company to serve diverse end-use applications .Company with its presence across diverse industry verticals with long standing relationship with customers has growth led by continuous investment and focus on R&D .

Hence looking after all above, we recommend to “Subscribe” issue .

Price Band (Rs./Share)	161-163
Opening date of the issue	01st Nov 2021
Closing Date of the issue	03rd Nov 2021
No of shares pre issue	23047500 Eq Shares
Issue size (No)	7695000 Eq Shares
Fresh Issue (No)	7695000 Eq Shares
Face Value (Rs/ share)	10
Bid Lot	90

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 3847500 Eq Shares)
Non-Institutional	15% of the offer (Approx 1154250 Eq Shares)
Retail	35 % of the offer (Approx 2693250 Eq Shares)
Lead managers	Unistone Capital Pvt Ltd
Registrar to the issue	Bigshare Services Pvt. Ltd.

WHAT WE LIKE

Pan India and International market presence

With the help of company’s premium quality products, company have been able to create a long-standing market presence in India and internationally. Company’s foreign wholly owned subsidiary namely Sigachi U.S. Inc. has been incorporated in Virginia, USA which helps cater to the needs and requirements of company’s international customers. Company cater to various end users, merchants, distributors and exporters. Company export its products to forty-one (41) countries including Australia, USA, South America, U.K., Poland, Italy, Denmark, China, Colombia, Bangladesh, to name a few.

Government Incentives

Due to company’s export activities, company enjoys certain benefits of incentives under the “Merchandise Exports from India Scheme” (MEIS) and “Duty Drawback Scheme” provided by the Central Government of India. Under the MEIS scheme, a percentage of achieved FOB (Free on Board) value of 2%, 3%, or 5% of the exports, is paid as incentives. The incentives are paid as the MEIS duty credit scrip that will be used to pay for numerous taxes/duties along with the excise duty/customs tax. The duty credit scrips issued under MEIS are easily transferable and are to be used to pay excise duty, service tax, and customs duty. Further, under the Duty Drawback Scheme, the excise duty suffered on inputs, service tax paid for input service and customs duty paid on imported raw material during manufacturing of export goods are remitted after export of such goods. These incentives help company to promote its export activities and widen its international global footprint.

Presence across diverse industry verticals with long standing relationship with customers

Company have developed long-term relationships with its customers in various sectors including pharmaceutical, nutraceuticals, food, nutraceuticals and cosmetics. Company’s business with some of its more recent customers has increased, since company added them to its customer portfolio, reflecting company’s ability to develop and strengthen relationships with customers.



COMPANY BACKGROUND

Company commenced its export operations in the year 1996 by exporting its first order of MCC to Bangkok. Owing to the consistent efforts of company, the sale from company's export operations constituted 32% of company's total sales during the financial year ending March 31, 2004. In the year 2000, with an aim to diversify business activities, company started manufacturing premium grade microcrystalline cellulose by successfully commissioning a spray drier and a multi-fuel furnace, which in turn also increased company's manufacturing capacity from 720 metric tonnes per annum to 1,080 metric tonnes per annum. Presently, company manufacture 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 consistent focus on delivering premium quality product, company is one of the leading manufacturers of MCC (cellulose based excipients) in India. Company have 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.

Company operate three manufacturing units namely, Unit I situated at Hyderabad and two manufacturing units, Unit II and Unit III are situated at Jhagadia and Dahej, respectively located in Gujarat. Unit I manufactures both HiCel and AceCel and caters to the domestic and international customers such as end users, merchants, distributors and exporters. Unit II manufactures AceCel and supplements the sale in the domestic market. Unit III is situated at Special Economic Zone ("SEZ") at Dahej and is engaged in the manufacture of HiCel and special grades which is exported to overseas customers and distributors.

Company have quality control and assurance division ("Quality Division") in all its manufacturing units which carries out all the required tests on the materials received including raw materials which are used in the manufacturing process and also on the final products. Company's Quality Division also carries out tests on all the stages of its manufacturing processes to ensure that the quality is built through the process. Company ensure adherence to the domestic and international standards laid down for its products. Company has received various certifications for the manufacturing process, managements systems implemented and the raw materials used during the manufacture of the products. Company have received an attestation of conformity for complying with the COSMOS standard of the non-organic raw materials granted by ECOCERT Greenlife. Company also received a certificate of suitability from European Directorate for the Quality of Medicines and HealthCare in December 4, 2020. Company have also been awarded with certifications for maintenance of quality management system in production of Micro Crystalline Cellulose / Powdered Cellulose as per EXCiPACTTM, HACCP, ISO 22000:2005, ISO/TS 22002-1:2009 and ISO 9001:2015. Comany have received certifications for quality manufacturing process of MCC and co-processed excipients from Jamiat Ulama Halal Foundation and Keneseth Eliyahoo Synagogue. In 2020, Company received a certificate of registration from United Registrar of Systems for recognizing the quality management systems of all company's manufacturing units which are in compliance with ISO 9001:2015.

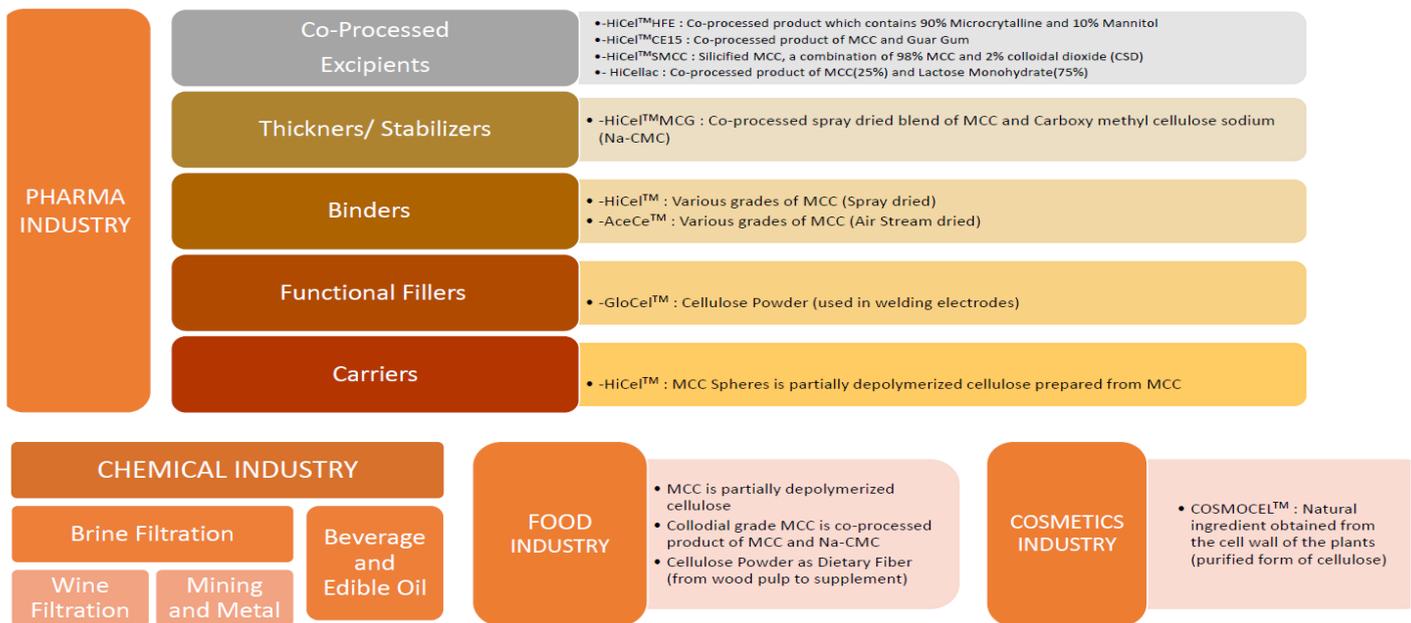
Source:RHP



INVESTMENT RATIONALE	
<i>One of the leading manufacturers of MCC (cellulose based excipient) in India with over 30 years' experience</i>	Company manufacture MCC of various grades and market them under its brand names, such as HiCel, AceCel, HiCel MCG, AceFibre, HiCel SMCC, etc. Consumers have a strong loyalty to company's brands, which has enabled growth. The R&D Division is augmented by niche research skills along with promoters' extensive experience and technical capabilities. Company have made advancements in development of MCC and are positioned as one of the key manufacturing players globally in manufacturing of MCC based excipients. In the domestic market, company is one of the leading manufacturers of MCC .
<i>Growth led by continuous investment and focus on R&D.</i>	Company's Promoters, who form part of company's executive management have inculcated a culture of innovation and instilled a firm belief that R&D is a key element of company's growth and, will continue to be so. Company has over the years made regular investments in R&D to expand its bouquet of product offerings and to streamline manufacturing process. Company have two R&D Division and two in-house laboratories, in Unit II and Unit III respectively. Company's laboratory in its Unit II R&D Division has been approved and has received an accreditation from DSIR to undertake research and development activities.
<i>Comprehensive product portfolio enables company to serve diverse end-use applications.</i>	Owing to the inert non-reactive, free flowing and versatile nature of MCC, company is in a position to customize the usage and application of company's products to various industries including but not limited to pharmaceutical, food, nutraceuticals and cosmetics. MCC is a white, insoluble, neutral, non-reactive, free flowing, versatile excipient. Its physical, chemical and rheological properties dictate its performance in a broad range of applications in food, pharmaceuticals, nutraceuticals, cosmetic and other industries. To serve these diverse industries, the polymer is available in several grades which varies in their average particle size and bulk density. Company manufacture MCC in various grades ranging from 15 microns to 250 microns. Company have an in-house R&D Division, which is responsible for expanding its product portfolio and its application across industries by regularly interacting with customers to understand demand for new products. Company will also offer CCS, an excipient used in oral pharmaceutical formulations as a super disintegrant for capsules, tablets and granules formulations, post manufacturing of CCS at the Proposed Unit.



Industry-wise product bifurcation of Company:



Source : RHP

OBJECTS OF ISSUE

Company proposes to utilize the Net Proceeds from the Issue towards the following objects:

1. Funding capital expenditure:
 - a. for expansion of production capacity for microcrystalline cellulose (“MCC”) at Dahej, Gujarat;
 - b. for expansion of production capacity for microcrystalline cellulose (“MCC”) at Jhagadia, Gujarat; and
 - c. to manufacture Croscarmellose Sodium (“CCS”), a modified cellulose used as excipient at Kurnool, Andhra Pradesh
2. General Corporate Purposes

RISKS

Company’s primary product MCC is used as a raw material in the pharmaceutical, food, nutraceuticals and the cosmetic industries, with supplies to the pharmaceutical industry at approximately 75% of company’s revenues for the quarter ended June 30, 2021 and for the Financial Years 2019, 2020 and 2021. Company’s revenues generated with supplies to the pharmaceutical industry for the quarter ended June 30, 2021 and for the fiscals 2019, 2020 and 2021 are ₹3785.77 Lakhs, ₹8,914.65 lakhs, ₹9,637.41 lakhs and ₹13,181.26 lakhs respectively. Company’s revenues are highly dependent on its customers from the pharmaceutical industry and the loss of any of its customers from any industry which company cater to may adversely affect its sales and consequently on its business and results of operations.

Source:RHP



INDUSTRY OVERVIEW

Indian MCC Market (Pre-Covid)

The microcrystalline cellulose (MCC) market size in India during CY 2020 is USD 38 million, estimated at USD 49 million in CY 2021 and is projected to reach USD 93 million by CY 2025, registering a CAGR of 13.84% from CY 2021 to CY 2025. The growth of the MCC market is primarily triggered by the increasing demand for processed food and growing production of pharmaceutical and cosmetic & personal care products.

Croscarmellose Sodium Industry (CCS)

Croscarmellose sodium is a modified sodium carboxymethyl cellulose and is also known as cross-linked sodium carboxymethylcellulose or modified cellulose gum. CCS is a grayish white or white powder and has no odor. The global CCS market during CY 2019 & CY 2020 is USD 76.46 & USD 81.96 million, estimated at USD 87.86 million in CY 2021 and is projected to reach at USD 116.04 million by CY 2025, registering a CAGR of 5.96 % from CY 2021 to CY 2025. The growth of the CCS market is primarily triggered by the increasing demand for processed food and growing production of pharmaceutical and cosmetic & personal care products.

Indian Food & Beverage Industry

The food and beverage market was estimated at US\$ 142 billion in CY 2020 and is expected to reach US\$ 516 billion by CY 2025 with a compounded annual growth rate of 29.48%. The sector is dominated mainly by traditional operators. The brands and restaurant chains of both Indian origin and multinationals have not optimally penetrated the market so far. The food and beverage sector has evolved over the past decade, giving rise to exciting new concepts in food and beverage offerings and new and innovative service elements.

Indian Cosmetic Industry

The Indian cosmetics industry is majorly categorized into skin care, hair care, oral care, fragrances, and colour cosmetics segments. It currently has an overall market standing of USD 10 billion in CY 2020 and is expected to grow to USD 31 billion by CY 2025 with a CAGR of 31%. In comparison, the global cosmetics market is growing steadily at 3.28% CAGR and will reach USD 488 billion by CY 2025. This means that by CY 2025, India will constitute around 3% to 4% of the total global cosmetics market and become one of the top 5 global markets by revenue.



(Rs in Lac)

Financials	Q1FY22	FY21	FY20	FY19
Total Revenue (A)	5495.39	19275.58	13906.26	12898.81
Total Expenditure (B)	4273.9	15396.62	11430.34	10302.65
EBIDTA	1221.49	3878.96	2475.92	2596.16
EBIDTA Margin	22.23	20.12	17.80	20.13
Other Income	16.85	325.48	488.64	388.96
Depreciation	59.76	231.09	195.70	167.19
EBIT	1178.58	3973.35	2768.86	2817.93
Interest	23.52	124.97	234.47	345.09
PBT	1155.06	3848.38	2534.39	2472.84
Tax	256.09	822.35	502.83	571.56
PAT	898.97	3026.03	2031.56	1901.28
NPM	16.36	15.70	14.61	14.74
ROE %	8.71	32.12	31.46	42.36
EPS	3.90	13.13	8.81	8.25
Eq Cap	230.48	230.48	230.48	230.48
Net Worth	10323.87	9419.94	6458.52	4488.27



DISCLAIMER

HEM Securities Limited (“Research Entity or HSL”) is regulated by the Securities and Exchange Board of India (“SEBI”) and is licensed to carry on the business of broking, depository services, merchant banking services, Portfolio Management Services and other related activities. Broking services offered by HEM Securities Limited are under SEBI Registration No.: INZ000168034.

This Report has been prepared by HEM Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH100002250 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. This should not be construed as invitation or solicitation to do business with HSL. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject HSL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. HSL reserves the right to make modifications and alterations to this statement as may be required from time to time. HSL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. HSL is committed to providing independent and transparent recommendation to its clients. Neither HSL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

HSL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company(ies), mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Investments in securities market are subject to market risks, read all the related documents carefully before investing.