

Company Overview

JG Chemicals Ltd is India's largest zinc oxide manufacturer, employing the French (indirect) production process, the dominant production technology for producing zinc oxide, and has been adopted by all the major producers in the Americas, Europe, and Asia. It holds a 30% market share in India and is among the top ten global manufacturers. The company sells over 80 grades of zinc oxide and is among the top ten manufacturers of zinc oxides globally. The company products serve diverse industries, including rubber (tyre & other rubber products), ceramics, paints & coatings, pharmaceuticals & cosmetics, electronics & batteries, agro-chemicals & fertilizers, specialty chemicals, lubricants, oil & gas, and animal feed. With decades of experience, it has built strong relationships with customers worldwide. Its subsidiary, BDJ Oxides, holds the coveted IATF certification, making it a preferred supplier for tyre manufacturers. The company caters to 200 domestic and 50 global customers across more than 10 countries. As of December 31, 2023, JG Chemicals' aggregate installed capacity of 77,040 MTPA is spread across our three manufacturing facilities located at (i) Jangalpur (Kolkata), (ii) Belur (Kolkata), and (iii) Naidupeta (Nellore District, Andhra Pradesh), which is company largest manufacturing facility and is owned and operated by Material Subsidiary.

Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

- ⇒ Repayment/ pre-payment, in full /part, of all or certain borrowings availed by the Material Subsidiary ;
- ⇒ Funding long-term working capital requirements of the Company;
- ⇒ General corporate purposes.

Investment Rationale

Leading market position along with a well-established relationship with a marquee customer base

The company is India's largest zinc oxide manufacturer, among the top ten manufacturers globally. The company enjoys a dominant position in a growing market. 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. The company sells over 80 grades of zinc oxide, enabling it to cater to various customers across various end-use industries. With a focus on export markets, particularly in the SAARC region and Southeast Asia, the company has reduced dependency on the domestic market. The company emphasizes customer-driven marketing, wherein Promoters take a personal interest in sales, marketing, and customer development activities with key customers, which has helped them create a strong presence in the global zinc oxide industry. The management believes this is one of the key factors for JG Chemicals being a supplier to 9 out of the top 10 global tyre manufacturers and all of the top 11 Indian tyre manufacturers. The company also caters to industries like Ceramics, Paints, Pharma, Animal feed, etc. It has maintained a 90% repeat order rate due to its strong relationship with its customers and has not lost any key customers in the last 20 years. Currently, 90.5% of revenue comes from the Tyre and Rubber industry with 76% of total revenue coming from the Top 10 customers. The company's leadership position established infrastructure and strategic manufacturing facility locations, providing competitive advantages and increased customer loyalty.

High entry barriers in key end-use industries

The company benefits from significant entry barriers in key end-use industries, including stringent vendor approval processes and technical expertise requirements. This creates a durable competitive advantage, positioning the company as a trusted and preferred supplier. The raw material tie-ups, the company has built a diverse global supplier base of over 100 suppliers and is a preferred customer for certain global suppliers. The company's strength lies in its ability to produce and supply a variety of grades with minimum downtime and maximum efficiency. Further, the Material subsidiary, BDJ Oxides, is the only zinc oxide manufacturing facility in India to have an IATF certification and has requisite licenses to manufacture zinc oxide by Indian Pharmacopoeia/ British Pharmacopoeia/ US Pharmacopoeia/ European standards. The company believes that such certifications enable it to cater to the varying needs of the industry and open new areas of growth in the pharmaceutical industry. Over the years, the company has built strong relationships with customers who recognize technical capabilities & timely deliveries and associate the company with good and consistent quality products.

Issue Details

Offer Period	05th Mar, 2024 - 07 th March, 2024
Price Band	Rs. 210 to Rs. 221
Bid Lot	67
Listing	BSE & NSE
Issue Size (no. of shares in mn)	11.3
Issue Size (Rs. in bn)	2.51
Face Value (Rs.)	10

Issue Structure

QIB	50%
NIB	15%
Retail	35%

BRLM	Centrum Capital Ltd, Emkay Global Financial Services, Keynote Financial Services
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Registrar	KFin Technologies Ltd.
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Particulars	Pre Issue %	Post Issue %
Promoter & Promoter Group	100.00%	70.99%
Public	0.00%	29.01%
Total	100.00	100.00

(Assuming issue subscribed at higher band)

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JG Chemicals Ltd.

Valuation

JG Chemicals is India's largest zinc oxide manufacturer in production and revenue for zinc oxide manufacturing through the French process. The company plans to establish a greenfield manufacturing facility in Gujarat. Moreover, the company is an approved vendor to most large global tyre companies, with a significant presence in Southeast Asia. Presently, the company's manufacturing process leads to the generation of zinc ash, which it sells in the market. The company plans to utilize the in-house availability of zinc ash in producing zinc sulphate. The company also intends to continue to leverage its direct marketing and distributor network and its industry standing to establish relationships with new export and local customers and expand the customer base. The company also has a record of sustained consolidated revenue from operation, growing at a CAGR of 34.3% during FY21-23. With a leading market position and strong customer base, the company maintains high customer retention rates and explores growth opportunities in Southeast Asia. Despite high entry barriers, its certifications and global supplier base ensure continued growth. As we advance, the favorable demand outlook in automotive, rubber, and ceramics, along with the expected revival of the chemical industry in early FY25, positions JG Chemicals for sustained growth and market leadership. **The issue is valued at a P/E of 29.6x on the upper price band based on FY24 earnings, which is fairly valued. We, therefore, recommend an "SUBSCRIBE" rating for the issue.**

Key Risks

- ⇒ The company's business is almost wholly dependent on the sale of one principal product, i.e. zinc oxide (in various grades), and any reduction in the demand for the same may harm business and financial performance.
- ⇒ The company is significantly dependent on the business operations of the material subsidiary, i.e. BDJ Oxides Private Ltd., and any deterioration in the performance of the material subsidiary may adversely affect business, financial condition, and results of operation.
- ⇒ The company has derived a significant part of its revenue from select customers. If one or more of such customers choose to refrain from sourcing their requirements, the company's business, financial condition, and results of operations may be adversely affected.

JG Chemicals Ltd.

Income Statement (Rs. in millions)

Particulars	FY21	FY22	FY23	9MFY24
Revenue				
Revenue from Operations	4,353	6,128	7,846	4,863
Total Revenue	4,353	6,128	7,846	4,863
Expenses				
Cost of raw materials consumed	3,454	5,063	6,369	4,084
Purchases of Stock-in-Trade	5	5	0	0
Changes in inventory	31	-109	-28	-31
Employee benefit expenses	103	133	148	122
Other expenses	325	475	602	408
Total Operating Expenses	3,918	5,567	7,091	4,582
EBITDA	435	562	755	282
Depreciation and Amortization expenses	23	27	34	32
Other income	51	102	96	48
EBIT	463	637	817	298
Finance costs	51	63	50	30
Exceptional Item	0	0	0	18
PBT	412	574	767	286
Total tax	124	143	199	64
PAT	288	431	568	221
Diluted EPS	7	13	17	6

Source: RHP, BP Equities Research

Cash Flow Statement (Rs. in millions)

Particulars	FY21	FY22	FY23	9MFY24
Cash Flow from operating activities	-73	68	312	671
Cash flow from investing activities	-56	-54	-49	-151
Cash flow from financing activities	170	-2	-286	-481
Net increase/(decrease) in cash and cash equivalents	40	11	-23	39
Cash and cash equivalents at the beginning of the period	7	47	59	35
Cash and cash equivalents at the end of the period	47	59	35	74

Source: RHP, BP Equities Research

JG Chemicals Ltd.

Balance Sheet (Rs. in millions)

Particulars	FY21	FY22	FY23	9MFY24
Equity and Liabilities				
Equity Share Capital	12	12	317	317
Other Equity	1,178	1,554	1,818	2,008
Total Equity	1,190	1,566	2,135	2,325
Non-Current Liabilities				
Financial Liabilities				
(i) Borrowings	55	56	67	46
(ii) Lease Liabilities				
Provisions	2	2	3	4
Other financial liabilities	2	0	0	0
Deferred tax liabilities (net)	1	0	6	7
Other non-current liabilities				
Current Liabilities				
Financial Liabilities				
(i) Borrowings	690	883	636	204
(ii) Lease Liabilities				
(iii) Trade Payable	72	53	84	63
(iv) Other financial liabilities	21	39	23	38
Current tax liabilities	26	9	6	0
Provisions	9	11	13	12
Other current liabilities	32	21	5	14
Total Current Liabilities	850	1,017	767	331
Total liabilities	909	1,075	843	388
Total Equity and Liabilities	2,099	2,641	2,978	2,713
Assets				
Non-Current Assets				
Property, plant and equipment	224	224	353	377
Capital work in Progress	0	74	9	34
Goodwill on Consolidation	6	0	0	0
Intangible Assets	0	0	0	0
(i) Investments	86	85	30	61
(ii) Other financial assets	8	9	11	10
Non-Current Tax Assets	5	0	0	0
Deferred tax assets (net)	0	0	0	0
Other non current assets	15	12	11	17
Total Non current assets	344	404	415	500
Current Assets				
Inventories	486	883	1,038	764
Current Tax Assets (Net)	0	0	0	7
(i) Trade Receivables	898	948	1,156	943
(ii) Cash and cash equivalents	52	81	49	74
Loans	20	18	18	62
(iii) Other Current Financial Assets	51	89	211	82
Other current assets	249	219	91	280
Total Current Assets	1,756	2,237	2,563	2,213
Total Assets	2,099	2,641	2,978	2,713

Source: RHP, BP Equities Research



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Disclaimer Appendix**Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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