

JG CHEMICALS LIMITED

05-03-2024 TO 07-03-2024

Industry: Chemicals

Recommendation: Subscribe for listing gains

Price Band: ₹210-221

Post Implied Market Cap: -₹831-866 Cr

## Key Data

Issue Size (₹ Cr)	247 -251
Fresh (₹)	165
OFS (₹)	86.00
No of shares offered	1,17,57,142-1,13,66,063
Face Value (₹ /share)	10
Bid Lot	67

## Indicative Timetable

Activity	On or about
Finalisation of Basis of Allotment	11/3/2024
Refunds/Unblocking ASBA Fund	12/3/2024
Credit of equity shares to DP A/c	12/3/2024
Trading commences	13/3/2024

## Shareholding (No. of shares)

Pre-Issue	31,720,000
Post Issue (Lower price band)	39,577,142
Post Issue (Higher price band)	39,186,063

## Shareholding Pattern

<b>Promoters</b>	
Pre Issue	37.70%
Post Issue	30..52%

<b>Promoters Group</b>	
Pre Issue	62.30%
Post Issue	40.47%

<b>Public - Others:</b>	
Pre Issue	0.00%
Post Issue	29.01%

## Issue Breakup

QIB	50%
NIB	15%
Retail	35%

## Other Details

**BRLMs:** Centrum Capital Ltd., Emkay Global Financial Services, Keynote Financial Services

**Registrar:** KFin Technologies Ltd.

**Listing:** BSE & NSE

## Research Analyst

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## About the Company

JG Chemicals Ltd, a leading zinc oxide producer in India, boasts over four decades of industry experience and holds a dominant market share of approximately 30%. Utilizing the widely recognized French process, it offers a diverse portfolio of over 80 zinc oxide grades catering to various sectors such as rubber, ceramics, paints, pharmaceuticals, and electronics. Serving a vast clientele comprising over 200 domestic and 50 global customers across 10 countries, its Material Subsidiary, BDI Oxides, is India's sole zinc oxide manufacturing facility with coveted IATF certification, particularly favoured by tire manufacturers supplying OEMs. With a global footprint and strong client relationships, JG Chemicals Ltd continues to expand and diversify, solidifying its pivotal position in the zinc oxide market.

## Investment Rationales

- Leading market position with a diversified customer base:** The company is India's largest Zinc Oxide manufacturer, holding a significant 30% market share and servicing nine out of the top ten global tire manufacturers. Its client base extends to industries like Ceramics, Paints, Pharma, and Animal feed. With a remarkable 90% repeat order rate and no loss of key customers in the last two decades, the company relies heavily on the Tire and Rubber industry, which contributes 90.5% of its revenue, with 76% coming from its top ten customers. Over the past five years, the company has achieved a commendable 13.32% CAGR in sales.
- High entry barriers in key end-use industries:** JG Chemicals holds industry-leading certifications and licenses, positioning it favourably among tyre manufacturers and in pharmaceutical sectors. Despite industry challenges, the company leverages its global supplier base and strong relationships to navigate market complexities effectively. With no import issues from China, JG Chemicals strengthens its market position further.
- Diversification into New Segments:** In addition to its core zinc oxide business, J.G Chemicals has diversified its product portfolio to include zinc carbonate, zinc sulphite, and other chemicals. By expanding into new segments such as pharmaceuticals, cosmetics, and fertilizers, the company not only taps into lucrative markets but also stands to benefit from higher margins. This strategic diversification enhances revenue streams and mitigates risks associated with reliance on a single product line.
- Expansion of production facilities:** The company operates at a total capacity of 77,040 MTPA, with recent expansions at the Naidupeta facility contributing 36,960 MTPA. Average utilization stands at 65%, with plans to achieve full capacity within 3 years at Naidupeta. Additionally, a proposed greenfield facility in Gujarat targets the ceramics industry and non-tyre markets. Exploring growth in Southeast Asia, the company eyes organic and inorganic expansion, including potential acquisitions in Thailand to capitalize on opportunities in the tyre and rubber sector.

## Risk

- 1) Customer concentration
- 2) Higher dependency on overseas supplier for raw material.

## MView

We believe JG Chemicals Ltd gives investors an opportunity to invest in a prominent player in the zinc oxide industry, boasting over four decades of experience and commanding a significant 30% market share in India. As a dominant market player in the zinc oxide market and in the high entry barrier industry, ensures revenue stability and market resilience. We think expanding its product portfolio to include zinc carbonate, zinc sulphite, and other chemicals, JG Chemicals taps into lucrative markets and would benefit from higher margins, mitigating risks associated with reliance on a single product line. We also believe company capacity expansion and exploring options of organic and inorganic expansion opportunities in Southeast Asia would not only make it well positioned for growth but also enable them to capitalise on the growing tyre and rubber sector in the region. By looking at the financials the company has shown strong growth in revenue from operations / net profit with 41%/28% - 50%/32% in FY 2022 and FY 2023. On valuation parse at the upper band of ₹221/-, the issue is asking for a Market Cap of ₹866/- cr. Based on annualized FY 2024 earnings, a fully diluted post-IPO paid-up capital, the company is asking a P/E of 35x which seems the offer is fully priced in line with industry average of 35-40x. Given the company's strong market position, diversified client base and strategic growth initiatives, we believe JG Chemicals Ltd continues to solidify its pivotal position in the zinc oxide market. Hence, considering all parameters we recommend investors to "Subscribe" the JG Chemicals Ltd IPO for Listing gains only.

## CONSOLIDATED FINANCIAL TABLES

### BASIC FINANCIAL DETAILS

Particulars ₹ (in Cr)	As at Sept' 30	As at March' 31		
	2023 (06)	2023	2022	2021
Equity Share Capital	31.72	31.72	1.22	1.22
Net worth	217.86	199.89	147.66	108.48
Revenue from Operations	486.32	784.58	612.83	435.30
Total Income	491.10	794.19	623.05	440.41
EBITDA	32.94	85.12	66.38	48.61
EBITDA Margin % as stated	6.77%	10.85%	10.83%	11.17%
PAT	18.51	56.79	43.13	28.80
PAT Margin (%)	3.81%	7.24%	7.04%	6.62%
Operating Cash Flows	67.11	31.17	6.75	-7.35
Net Debt as Stated	-70.91	-42.15	-3.96	-13.62
Debt Equity Ratio (x)	0.11	0.34	0.62	0.69
ROCE	11.86%	29.38%	25.83%	25.27%
ROE (%)	8.20%	30.50%	30.64%	24.23%

Source: Company RHP

### COMPARISON WITH INDUSTRY LISTED PEERS ₹ (in Cr)

Companies	Mcap (in Cr)	Total Revenue FY 2023 (in Cr)	EPS	NAV	P/B	P/E	RoNW
J. G. Chemicals Ltd.	866	794.19	6.30	99.28	2.23	35.09	27.49%
Rajratan Global Wire Ltd	3,229	898.68	19.72	86.54	7.15	44.9	22.79%
NOCIL Ltd.	4,357	1,622.81	8.95	93.14	2.62	36.4	9.61%
Yasho Industries Ltd.	2,379	682.59	59.5	208.75	9.04	43	28.52%

Date as on 31st March 2023, Cline Mcap, PE, PB calculated as on 05-03-2024

J. G. Chemicals Ltd, EPS/PE, P/B, NAV calculated on annualised basis post money



# MSEARCH

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### **Msearch's Recommendation (Absolute Performance)**

**Buy: > 20% within the next 12 Months**

**Accumulate: 5% to 20% within the next 12 Months**

**Sell : < -20% within the next 12 Months**

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