JG CHEMICALS LTD.

March 04, 2024

Issue Details	
Issue Opens	March 05, 2024
Issue Closes	March 07, 2024
Issue Size (Rs. Cr)	Rs 251.19
Issue Size - OFS (Cr. Shares)	0.39
Issue Size – Fresh (Cr. Shares)	0.75
Authorized Shares	3.70 Cr
Issued, Subscribed and Paid Up Sh. Pre offer	3.17 Cr
Face Value	10.00
Lot Size (Sh)	67 Shares
Price Band	Rs 210 – Rs 221
Issue Type	Book Built Issue IPO
Book Value (As On 31/12/23)	71.26
BRLMs	Centrum Capital, Emkay Global Financial Service, Keynote Financial Services
Registrar	KFIN Technologies Ltd
Listing Venue	NSE, BSE
Finalization of Allotment	On or about 11/03/2024
Initiation of refund	On or about 12/03/2024
Credit to Demat Account	On or about 12/03/2024
Listing	On or about 13/03/2024

Issue Structure	
Categories	**Allocation**
QIBs	>50%
Non-Institutional	<15%
Retail Portion	<35%
Total	**100%**

Shareholding Pattern		
Categories	**Pre issue**	**Post Issue**
Promoter & Promoter Group	100.00	70.92
Public	-	29.08
Total	**100.00**	**100.00**

Recommendation
SUBSCRIBE

Company Background

JG Chemicals Ltd (JGCL) is India's largest zinc oxide manufacturer in terms of production and revenue through French process, which is said to be the dominant worldwide technology adopted by many producers across Europe, Americas and Asia. It has the distinction of being counted as amongst the top ten global manufacturers and has a domestic market share of 30%.

Objects of the Issue

- The issue is a combination of fresh issue of 0.75 Cr shares aggregating to Rs 165 Cr and offer for sale of 0.39 Cr shares aggregating to Rs 86.19 Cr. JGCL shall not receive any proceeds from the Offer for Sale and the proceeds received from the Offer for Sale will not form part of the Net Proceeds.
- The proceeds from the Fresh Issue is proposed to be invested in its Material Subsidiary, BDJ Oxides for loan repayment, capex for setting up an R&D center in Naidupeta, Andhra Pradesh and to fund its long term working capital requirements.
- Funding long-term working capital requirements of JGCL.
- General corporate purposes.

Key Points

- JGCL is currently manufacturing and selling 80 grades of zinc oxide to 200 domestic customers and 50 global customers across ten countries.
- The products find use in a variety of industrial application as rubber (tyre & other rubber products), ceramics, paints & coatings, pharmaceuticals & cosmetics, electronics & batteries, agro-chemicals & fertilizers, specialty chemicals, lubricants, oil & gas and animal feed.
- JGCL's material subsidiary, BDJ Oxides is the only zinc oxide manufacturing facility in India to have an IATF (International Automotive Task Force) certification which is preferred by tyre manufacturers supplying to original equipment manufacturers.
- The total installed capacity of JGCL as the end of December 2023 was 77,040 MTPA, spread across its' three manufacturing facilities located at (i) Jangalpur (Kolkata, West Bengal); (ii) Belur (Kolkata, West Bengal); and (iii) Naidupeta (Nellore District, Andhra Pradesh), which is its largest manufacturing facility, owned and operated by its Material Subsidiary.

Recommendation --

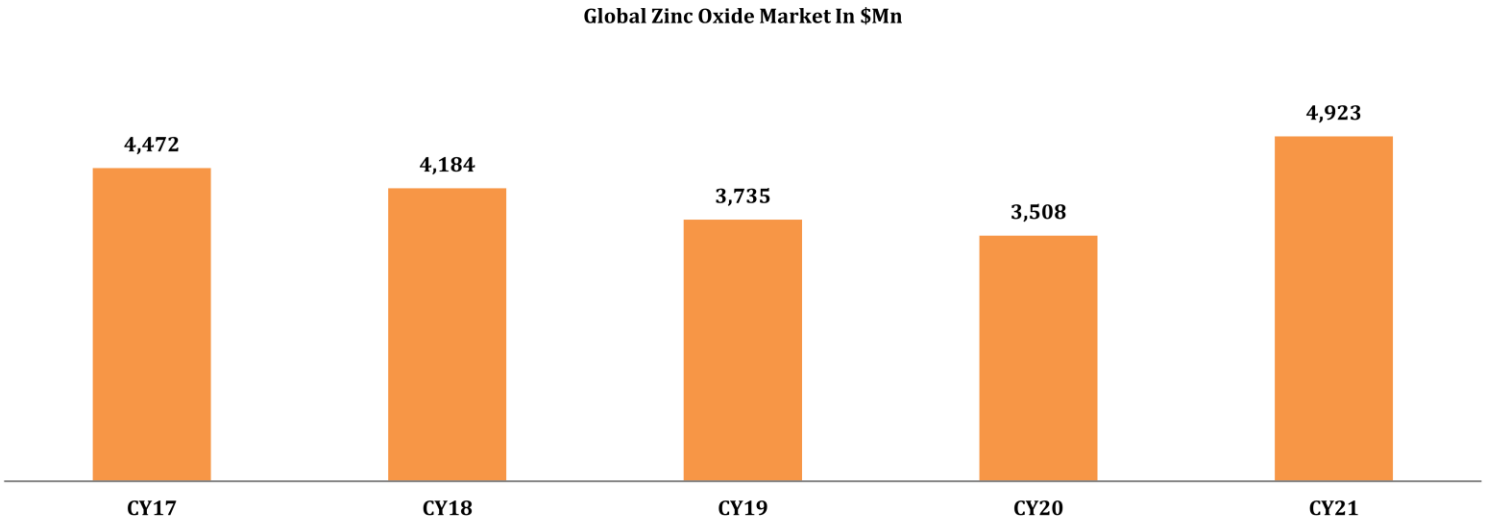
JG Chemicals Ltd is the leading zinc oxide manufacturer in India and is holds the distinction of being counted amongst the top ten manufacturers globally due to its sheer quality of products and deep rooted brand loyalty amongst its customers. Zinc Oxide is primarily consumed in rubber, used for tyre making for automobiles. India is now an automobile hub along with the presence of many large national and international tyre manufacturers who have set up shop in India. The growth in the automotive sector is expected to be robust in the times to come with the launch of new models from time to time specially in the EV space. This shall ultimately prove beneficial for reputed players like JGCL. We would hence recommend a "SUBSCRIBE" to the issue.

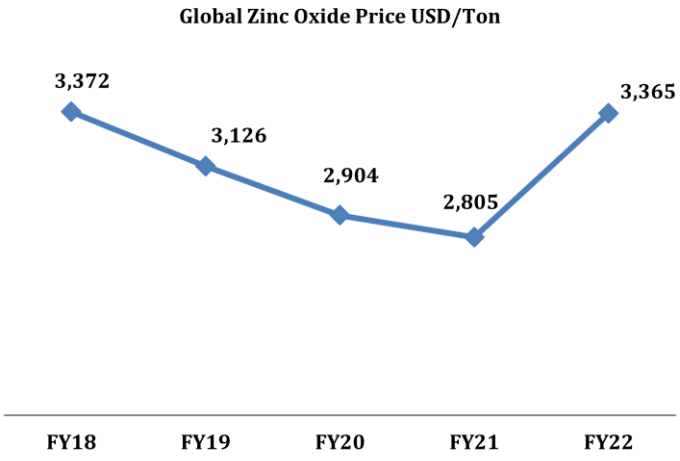
Consolidated Financials In INR Crs	9MFY24	FY23	FY22	FY21
Revenue from Operations	486.32	784.58	612.83	435.30
Operating Profit (excl OI)	28.17	85.49	66.95	48.87
Profit Before Tax (PBT)	24.95	76.69	57.45	41.20
Profit After Tax (PAT)	18.51	56.79	43.13	28.80
EPS	5.60	17.32	12.61	7.39
Equity	31.72	31.72	1.22	1.22

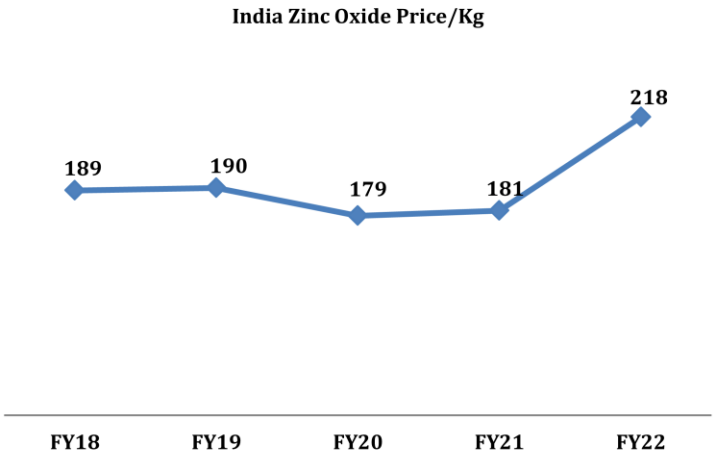
Source: Company's RHP, Ace Equity, AUM Research

Industry Overview

Zinc Oxide:- Zinc oxide is an inorganic compound, white in colour and insoluble in water. The chemical formula for zinc oxide is ZnO. Zinc oxide is present in the earth's crust as mineral zincite and usually contains manganese and other impurities. Hence for commercial use it is synthetically made. Zinc oxide has a lot of properties that makes it desirable to various end user industries. It is used as additives to various products like rubber, ceramics, cosmetics, food supplements, plastics, paints, sealants, batteries, animal feed, etc.







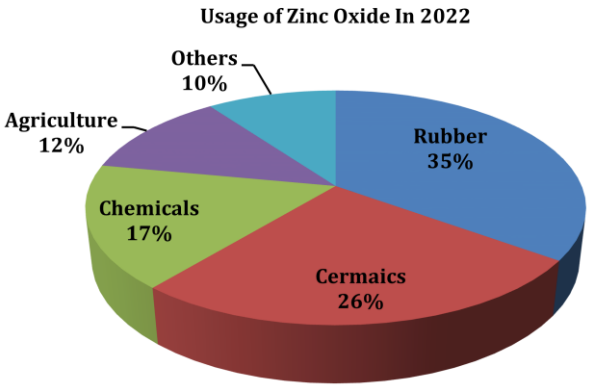
Source: Company's RHP, AUM Research

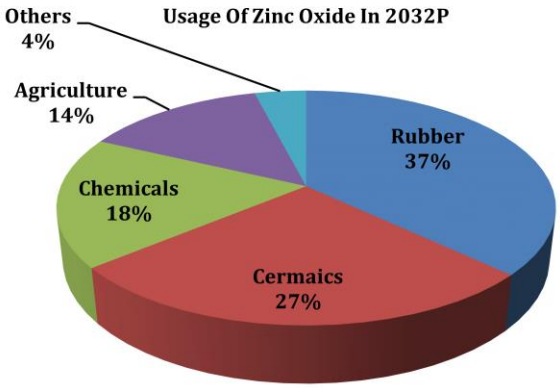
Major players in the world zinc oxide market:- Zinc Oxide LLC, EverZInc., Rubamin, Grupo Promax, Weifang Longda Zinc Industry Co. Ltd., Yongchang zinc industry Co. Ltd., Zochem, Suraj Udyog, **JG Chemicals**, Akrochem Corporation, Pan Continental Chemical, Lanxess, Upper India, Zinc Nacional S.

Technological Upgradation:- The development of ZnO (Zinc Oxide) nanoparticles has emerged as a key trend gaining popularity in the zinc oxide market. Major players in the zinc oxide market are concentrating on developing new technologies to maintain their market share.

Region wise concentration:- Asia-Pacific was the largest region in the zinc oxide market in 2022. At present, the global market is fragmented. The Indian zinc oxide industry includes organized players that are limited in number but constitute a major portion of the market, due to the high barriers of the entry into the industry like stringent vendor approval process by tyre manufacturers, raw-material tie ups, technological expertise, and large working capital requirements. **The Indian zinc oxide industry is constituted by key organized players like JG Chemicals Pvt Ltd, Rubamin Pvt. Ltd, Transpek-Silox Ltd that account for about 50% of the Indian zinc oxide market while rest of the market consists of various small zinc oxide producers** As a result, the industry is likely to see consolidation over the medium to long term.

End User Industries





Source: Chemanalyst.com, AUM Research

Indian Zinc Oxide Market Size

- **Production:-** Estimated to be around 1,00,000 – 1,15,000 tonnes over the last 5 years (FY18-22)
- **Market Value:-** Around Rs 18,000 – Rs 20,000 Cr.
- **Growth Estimates:-** At a CAGR of 10% - 12% from FY22-27.

Key attributes for the domestic growth of the Zinc Oxide market in India

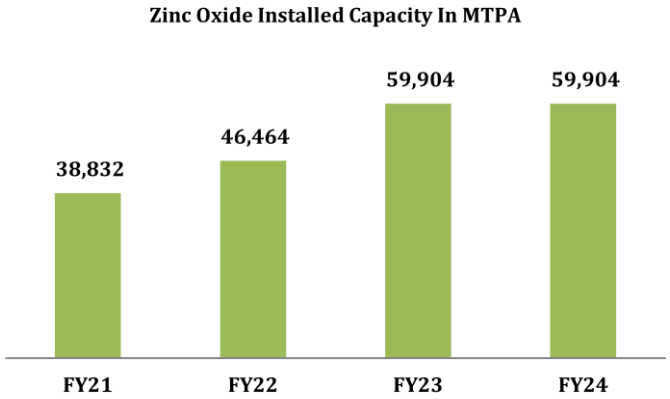
- **Automobile & Tyre Industry:-** The expected growth in project completions by automobile and tyre industries in the upcoming years with an improvement in demand and consumer sentiments is also likely to increase the consumption of zinc oxide.
- **Ceramics:-** In India, the real estate industry is one of the major sectors in terms of its direct, indirect and induced effects on the economy. With the overall real estate market in India witnessing a strong growth, ceramics industry also stands to benefit and observe a robust growth in the coming years.
- **Personal care/ cosmetic products:-** The beauty and personal care product market in India is currently valued at USD 26.8 billion and is expected to reach USD 37.2 billion in 2025. The reasons for the same being growing awareness, easier access, and changing lifestyle for the same.
- **Pharma:-** The factors that have been aiding the domestic pharma market includes growth in presence of chronic diseases, increasing per capita income, improvement in access to healthcare facilities and penetration of health insurance. Going forward, the Indian pharma market (including exports) is estimated to rise by around 10%.
- **Agrochemicals:-** Zinc oxide is widely used in agro chemicals industry due to its fertilizing property which adds micronutrient to soil in India which lacks such micronutrients. Zinc oxide helps in better yield and growth of food crops. In the long term, the Indian agrochemicals industry is likely to grow at a CAGR of 5%-6%.
- **Nutraceuticals:-** The market value of nutraceuticals sector in the year 2020 was USD 4 billion making India 2% of the global nutraceuticals market. The expected growth rate for 2019 - 2024 is around 7%.
- **Feed:-** The animal feed market in India has a potential of USD 6 billion by 2025 while the compound cattle feed had a market potential of USD 400-650 million growing at a CAGR of 16% over the next 5 years. This demand is driven by low organic feed market, penetratio and increasing formal offtake.
- **Paints:-** The growth drivers for the paints industry are its growing affordability, rise in demand from tier 2 and 3 towns, conversion of mud and clay houses to brick and mortar, affordable housing initiatives from government, rising disposable income, median age of population, urbanisation, rising demand from rural markets, etc. The paints market in India is estimated to rise in the range of around 7%-10% going ahead.
- **Batteries:-** India is currently at the nascent stage of creating domestic cell manufacturing ecosystem and negligible presence in the global market for manufacturing of advanced cell technologies. There is enormous potential for large scale battery manufacturing units.
- **Specialty Chemicals:-** The specialty chemicals sector is growing rapidly in India due to underlying end-market growth and increased usage intensity and new product standard and specifications. The intensity of usage of such chemicals is still at early stage compare and there is scope for growth.
- **PLI Scheme for EVs':-** In the Union Budget 2023-24, the government has allocated Rs. 35,000 Cr in order to achieve the energy transition, energy security and net zero objectives, which will help the EV industry.
- **PLI Scheme for Electronics Manufacturing:-** Approved Budgetary allocation is Rs 17,000 Cr.

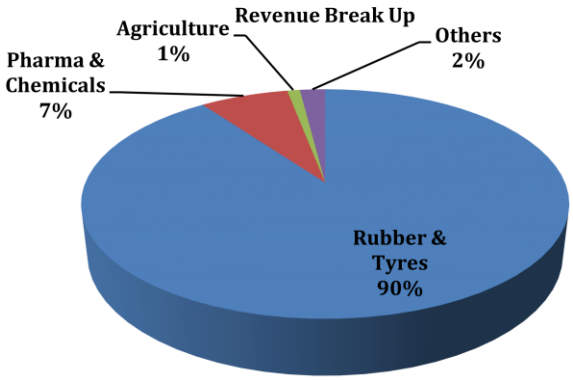
Company Overview

Installed Capacity

Installed Capacity In MTPA			
Financial Year	**Zinc Oxide**	**Zinc Ingot**	**Zinc Sulphate & Others**
Dec-23	59,904	7,056	10,080
FY23	59,904	7,056	10,080
FY22	46,464	5,040	NA
FY21	38,832	NA	NA

Plant Wise Installed Capacity In MTPA			
Plants	**Zinc Oxide**	**Zinc Ingot**	**Zinc Sulphate & Others**
Jangalpur	14,400	5,040	-
Belur	1,800	-	-
Naidupeta	43,704	2,016	10,080
Total	**59,904**	**7,056**	**10,080**





Source: Company's RHP, AUM Research

Customers

- **Customer Relationship:-** JG Chemicals, over a period of time has established a direct relationship with its customers and over 95% of its sales in the last three fiscals is directly to the customers without involvement of any intermediary/distributor, which helps to build a strong relationship directly with the customers along with lowering of costs and improvement in returns.
- **Long Term Association:-** It is catering to more than 250 customers of which around 90% customers are repeat customers Such long-term association with key customers offers significant competitive advantages such as revenue visibility, industry goodwill and enables the company to demonstrate its quality.

Raw Materials

- **Procurement:-** Raw materials are procured from multiple domestic and global suppliers. The primary raw materials are virgin zinc metal and Zinc Dross (which is a type of zinc scrap).
- **Availability:-** Zinc Dross is primarily produced by steel galvanizers as a by-product of steel production. The availability of zinc scrap is a challenge and the biggest constraint for new entrants in the market is to build a global supply network. Most of the Zinc Dross which comes from western countries is through old and established trading houses that work based on long term relationships and refrain from doing business with new entrants due to a wide range of complexities associated with dealing in Zinc Dross.
- **Vendors:-** JG Chemicals has over a period of time built a strong network of domestic suppliers as well as a diverse & global supplier base having procured raw materials from over 100 global suppliers in the last three years. The extensive global supplier base enables it to evaluate the various available options and choose according to its commercial considerations. Having nurtured this relationship over the years has enabled it to be termed as a preferred customer for certain global suppliers of Zinc Dross.

Rationale For Investment

Leading market position with a diversified customer base

- **Largest manufacturer of zinc oxides in India:-** JGCL is 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.
- **Wide spectrum of industrial applications:-** JGCL's products cater to a wide spectrum of industrial application including rubber (tyre & other rubber products), ceramics, paints & coatings, pharmaceuticals & cosmetics, electronics & batteries, agro-chemicals & fertilizers, speciality chemicals, lubricants, oil and gas and animal feed. It is a preferred supplier to 9 out of top 10 global tyre manufacturers and to all of the top 11 Indian tyre manufacturers.
- **Global footprint:-** Effective diversification of its products portfolio from time to time has enabled JGCL to expand its business relationship both domestically and internationally. Average revenue from exports over the last 3 fiscals has been around 8%-9% of its sales.
- **Meticulous planning over a period of time:-** JGCL has attained the leadership position in the country through (a) consistency of 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 its manufacturing facilities near the demand of such products.
- **Competitive advantages:-** JGCL's 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 client base, all of which have in turn resulted in the growth of revenues and profit over the last three Fiscals.

High entry barriers make JGCL a supplier of choice

- **Stringent regulatory and industrial standards:-** Given the nature of the application of its products and the processes involved, its products are subject to, and measured against high quality standards and rigorous product approval systems with stringent impurity specifications. Any change in the vendor of the product may require significant time and expense on part of the customers, which acts an entry barrier and disincentives any such changes for them. The Indian zinc oxide market is fragmented with limited presence of organized players, who constitute a major portion of the market due to high entry barriers for any new entrant.
- **Stringent vendor approval process:-** Tyre manufacturers are under strict scrutiny from the OEM's (Original Equipment Manufacturer) for product quality. Over the last 15 years, they have changed their sourcing strategy from having low cost suppliers to focus on scalability, reliability of supplies, infrastructure, systems and product quality and systems. For any change in suppliers, tyre manufacturers have a lengthy and expensive process of testing the product to evaluate its impact on the tyre quality. Hence, there is resistance to change or add any new suppliers, since, the approvals take significant time of upto 5 years once initiated. JGCL is a supplier to 9 out of top 10 global tyre manufacturers and to all of the top 11 Indian tyre manufacturers.
- **Raw material tie-ups:-** Zinc dross is produced as a by-product of steel galvanization. The availability of zinc dross is a challenge and the biggest constraint for new entrants in the market is to build a global supply network. Since the availability of zinc dross is limited and traders prefer selling zinc dross to large buyers instead of small ones, due to advance payment requirement, it prevents new entrants into the market. Due to the difficult sourcing pattern for this product, new players are reluctant to enter zinc oxide business. Several zinc oxide facilities have faced supply side constraints due to which they have been forced to shut / curtail production.
- **Technical expertise:-** Most of the zinc oxide produced in India is from zinc dross. Zinc dross is a scrap and there is no uniform grade of zinc scrap. Every galvanizer generates zinc dross which is different in terms of quality and therefore the productivity and quality of zinc oxide which is derived from it, varies. The chemistry involved in making a consistent quality of zinc oxide using different types of zinc dross is a complex process. Understanding this and customising the zinc oxide manufactured in line with customer specifications across end-use industries is one of the key challenges as each buyer has a separate specification and there are no standard specifications accepted across any end user application. As a manufacturer of zinc oxide, it is a pre-requisite in most of its' end-use industries for the products to be customised according to the specifications by the customers, which usually acts as a significant entry barrier.
- **USP (Unique Selling Proposition) of JG Chemicals:-** It has a dedicated focus on developing products which are customized as per the specific needs and grades specified by its customers. Its ability to address the varied and stringent client requirements over long periods has enabled it to serve its customers at all times. It is presently selling over 80 grades of zinc oxide, thereby enabling us to cater to a wide variety of customers, across various end-use industries.

- **High working capital requirements:-** The traders who sell zinc dross, the raw material for zinc oxide production, prefer advance payments from zinc oxide manufacturers Also, sales made by zinc oxide manufacturers to customers are mostly on credit. These credit terms may vary depending on the customer, industry and the bargaining power of the suppliers and customers, leading to a high working capital requirement in the zinc oxide industry which acts as a major deterrent for entry of new players. JGCL procures its raw materials on an advance basis in cash and the sales made by the company to its customers are mostly on credit.
- **Preferred supplier status:-** In the speciality chemicals industry, customers select their suppliers after critically evaluating them and therefore choose to have a long-term relationship with them as the cost to change the suppliers is significant. Majority of JGCL's customers have conferred it the status of preferred supplier, primarily due to its focus on building long term relationships which helps it in achieving higher profits with increase in order volumes.

Capacity expansion to further fortify its presence

- **Recent expansions:-** Last year, JGCL expanded its existing manufacturing facility located in Naidupeta, District Nellore in the state of Andhra Pradesh by 23,520 MTPA of which 13,440 MTPA is proposed to be utilised for zinc oxide and 10,080 MTPA to be utilised for producing zinc sulphate and other allied chemicals. With this expansion, its cumulative installed capacity, along with its subsidiary, has increased to 77,040 MTPA.
- **New capex proposed:-** JGCL plans to establish a greenfield manufacturing facility in the state of Gujarat. It believes that establishing a presence in the western part of India by setting up or acquiring a new manufacturing facility will, in addition to augmenting its manufacturing capacity, also enable it, to capture market share by catering to the needs of the ceramics, pharmaceuticals and tyre industries, which have a presence in the western part of India. Setting up manufacturing operations in the western part of India will also provide it easier access to cater to the needs of such industries and increase sales due to the proximity of various manufacturing facilities in these industries in this part of India.
- **Scouting for suitable acquisitions abroad**:- JGCL is an approved vendor to most of the large global tyre companies having a significant presence in South-east Asia, which has seen a strong increase in tyre production due to availability of natural rubber, good port connectivity enabling exports and shifting of tyre capacity from China to South-east Asia to circumvent the antidumping duties put on Chinese tyre producers by USA. It aims to augment its' sales in the foreign markets where it sells its products, thereby, increasing its market share in the existing geographies. With a view of undertaking such expansion, it is exploring both organic and inorganic growth opportunities in South-east Asian countries, thus enabling it to increase market share in the overseas market. Thailand, amongst the other south-east Asian countries has emerged as an attractive market for JGCL since (a) the area is the largest rubber exporter in the world; (b) expansion of capacities by international tyre manufacturers and (c) favourable regulatory regime supportive of tyre manufacturers.

Diversifying its product offerings

- **Stand out amongst competitors:-** JGCL is constantly looking to introduce new product verticals and develop its product capabilities to distinguish ourselves from its competitors to enhance its product portfolio. Going forward, growth in the end user industries is expected to fuel the increase of zinc oxide which has properties like high chemical stability, high electrochemical coupling coefficient, broad range of radiation absorption and high photo stability.
- **Growth in the speciality chemicals industry:-** The past two decades have seen a significant shift in the speciality chemicals industry specifically due to growth in end-use industries like automotive, rubber industry, ceramics, pharmaceuticals & cosmetics, paints & coatings, agrochemicals, nutraceuticals, animal feed and batteries in the Indian market which is expected to fuel the increase in demand for zinc oxide.

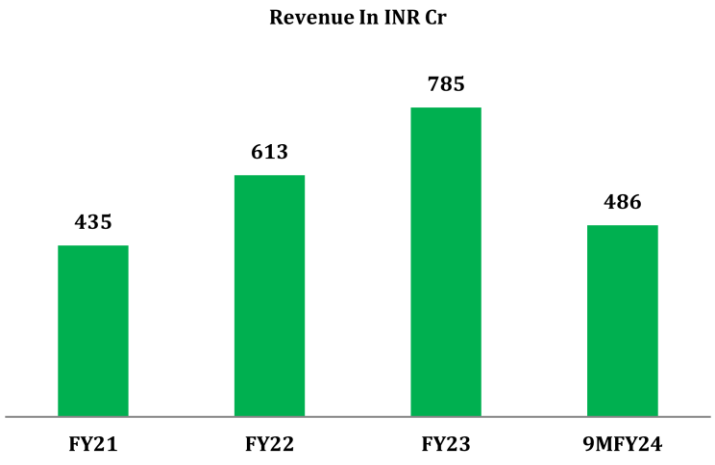
Focus on R&D to support complex chemistries, product innovation and cost efficiencies

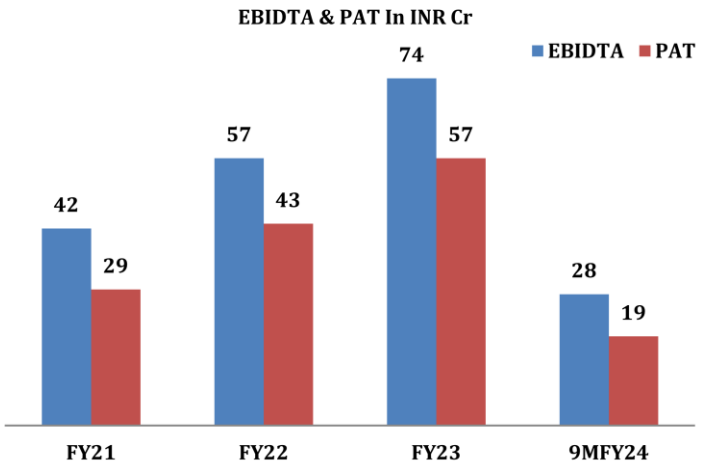
- **Present scenario:-** JGCL's R&D processes focus on manufacturing zinc oxide with varied specifications suited for its end-use industries, on the floor of its manufacturing facilities itself, without there being a need for a separate R&D facility for such advances.
- **Proposed plan:-**JGCL aims to establish a separate R&D facility to undertake complex innovations in its products for making the same available to pharmaceuticals, agro-chemicals and battery end-use industries, among others.

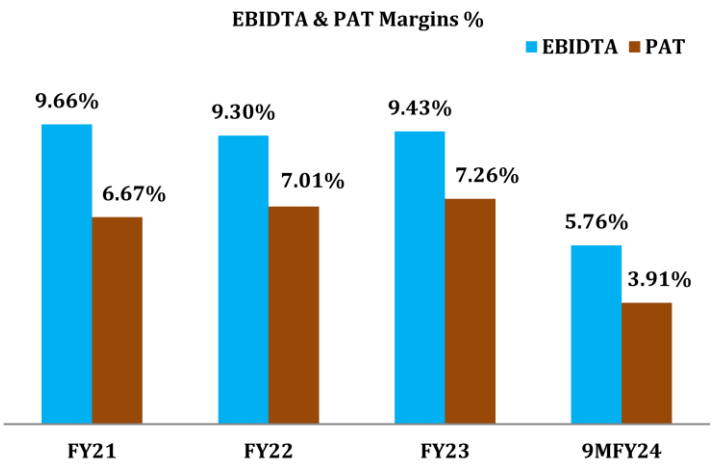
Automobile industry to be the main revenue driver

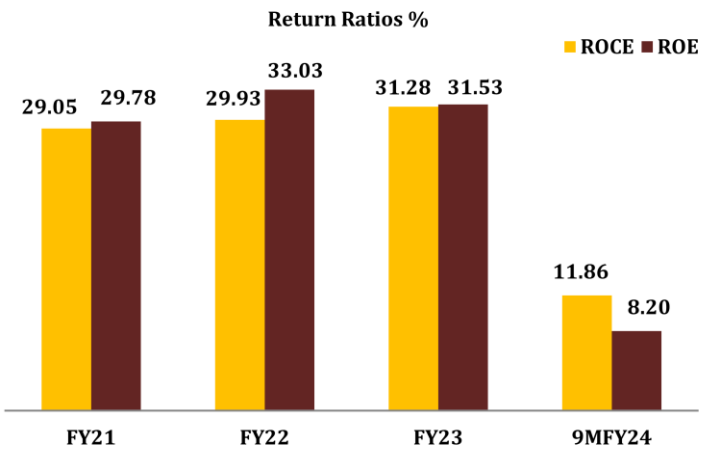
- **Growth in automobiles:-** The tyres used in the automotive industry are the largest consumer of rubber. In India, tyre industry accounts for 70% of rubber consumption. The increased production in automotive industry supported by high disposable income and rise in demand for electric vehicles will drive the growth of rubber industry. This is expected to increase the demand for zinc oxides and thus benefit established companies like JGCL who command a well-entrenched position in the market.

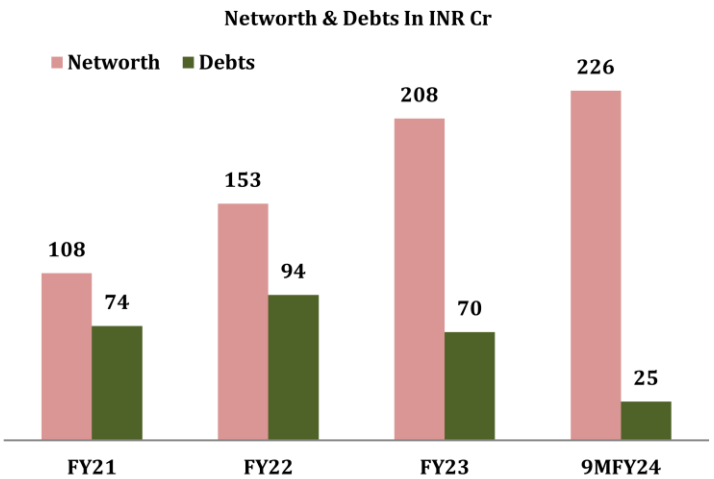
Financials

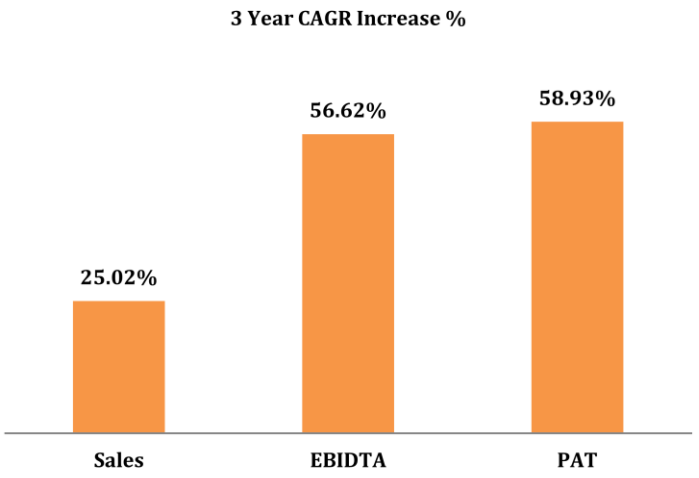












Source: Company's RHP, Ace Equity, AUM Research

Consolidated Financials – Value in Rs. Crs	9MFY24	FY23	FY22	FY21
Gross Sales	486.32	784.58	612.83	435.30
Total Income	491.09	795.92	623.07	442.18
Total Expenditure	464.34	710.43	556.12	393.31
Gross Profit	81.08	150.51	116.98	86.28
PBIDT	28.17	85.49	66.95	48.87
PBIT	24.99	82.05	64.27	46.53
PBT After Exceptional Items	24.95	76.69	57.45	41.20
PAT	18.51	56.79	43.13	28.80
EPS	5.60	17.32	12.61	7.39

Sources of Funds	FY23	FY22	FY21
Equity Paid Up	31.72	1.22	1.22
Reserves and Surplus	175.94	151.40	107.26
Net Worth	207.66	152.62	108.48
Total Debt (Long Term plus Short Term)	70.35	93.94	74.45
Capital Employed	278.01	246.56	182.93
Application of Funds			
Gross Block	45.31	29.04	27.12
Investments	2.96	8.49	8.63
Cash and Bank balance	4.86	8.06	5.15
Net Current Assets (Including Current Investments)	179.66	122.05	90.62
Total Current Liabilities	76.67	101.67	84.96
Total Assets	297.79	264.11	209.94
Cash Flow			
Cash Flow from Operations	31.17	6.75	-7.35
Cash Flow from Investing activities	-4.90	-5.42	-5.60
Cash Flow from Finance activities	-28.57	-0.19	16.96
Key Ratios			
Debt to Equity(x)	0.34	0.62	0.69
Current Ratio(x)	3.34	2.20	2.07
ROCE(%)	31.28	29.93	29.05
RONW(%)	31.53	33.03	29.78
GPM(%)	19.18	19.09	19.82
PBIDTM(%)	10.90	10.92	11.23
PATM(%)	7.24	7.04	6.62

Source: Company's RHP, Ace Equity, AUM Research

Aum Capital RESEARCH DESK

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