

- ◆ Archean Specialty Chemicals Ltd (ACIL) is a leading specialty marine chemical manufacturer in India. It manufactures three major product categories such as bromine (Br), industrial salts (NaCl) and sulphate of potash (SOP). It has a strong clientele of 29 global and 37 domestic customers.
- ◆ **Leading player with limited competition:** It is one of the India's largest exporters of both bromine and industrial salts (Q1FY24: exported 48% of Br/ 100% of NaCl production) with one of the lowest cost of production across the globe.
  - The **demand for bromine and bromine derivatives performance products** is expected to grow on account of rise in demand for flame retardants, increase in consumption of oil well chemicals and use of hydrogen bromide in flow batteries. Also, China's bromine production is declining steadily on account of stricter environmental regulations and less land available for bromine production.
  - While the growth in food and beverage industry, chlor-alkali sector in the chemical industry, water treatment, agriculture and de-icing to **drive the demand for industrial salts**.
  - Low Potassium levels have been linked to cancer and certain cardiovascular diseases, thus, **SOP market** is expected to grow with its use in fertilizers mainly for horticulture and medical uses.
  - There is a limited availability of raw materials with limited number of locations having a suitable climate and access to reserves. Also, it requires a high degree of technical skill and specialized expertise to handle these chemicals, as bromine and certain raw materials are hazardous chemicals in nature. All these aspects acts as an entry barrier in this industry.

## Investment in CAPEX driving the growth:

- **Downstream expansion with bromine derivative performance products:** Ongoing greenfield expansion for a downstream project (through Subsidiary Acume Chemicals Pvt Ltd) commissioning will be done in a phased manner where 1<sup>st</sup> phase of Brominated Clear Brine Fluids (13,000 TPA) and Bromine Catalysts (PTA Synthesis - 5,000 TPA) plant to be commissioned in Q4FY24 and 2<sup>nd</sup> phase of High-end Flame Retardant (10,000 TPA) to be commissioned in Q1FY25. It expects 100% utilization in bromine derivatives by FY25. It has received good response for Phase 1, as it has started groundwork on the marketing side.
- **Brownfield expansion in bromine and industrial salt capacities:** In FY21, it has expanded its Bromine capacity from 10,000 MTPA to 28,500 MTPA. Further, it has added incremental 14,500 MTPA in FY23 (Total Bromine Capacity: 43,000 MTPA). This incremental capacity will be captively used for derivatives downstream products. Also, it intends to expand the manufacturing capacities for Industrial Salt production by adding one additional washery of 250 tons/hour.
- ✔ **Cost Efficient model:** The production cost for Industrial salt from sea water brine is about US\$12-15 per MT, while ACIL's costs are in the range of US\$5.5-6 per MT. Further its Grade 1 quality of salt is in demand by chlor-alkali producers. This has enabled it to be a competitive salt exporter to South East Asian markets and West Asia. In bromine production, India is among the top five cost competitive producers globally with China and Japan being more expensive and the US (Arkansas), Israel and Jordan less expensive than India.

**Valuation:** During Q1FY24, overall de-stocking scenario in chemical industry led to downward pricing pressure on bromine. However, demand remained strong and many customers has liquidated large part of their inventory. Thus, one can expect a good quarter with demand revival in the medium-term. In Industrial salts, demand was primarily driven by Chlorine in Asian markets where many players expanded their production that led to uptick in chlorine usage and downstream product capacity; hence, demand continues to remain robust. The nature of long term contracts business limits the impact of pricing volatility in spot for industrial salt. In SOP, it has observed traction from few clients where it expects volumes to pick up in FY24. ACIL has delivered revenue / EBITDA growth of 39.5% / 55.5% between FY21-23. It has improved EBITDA margin from 35% in FY21 to 44% in FY23. The management expects EBITDA margin to be in the range of 37%-42% in the medium term. We expect ACIL to witness topline growth of ~20% between FY23-25E led by its existing segments as well as upcoming bromine derivative products' capacity. **We assign a PE valuation of 13x to FY25E EPS to arrive at a target of Rs. 792/share.**

*Figures in Rs Cr*

Year	Revenues	Growth	EBITDA	Margin	PAT	Growth	EPS	PE	EV/EBITDA	ROE
FY22	1,130	52.6%	467	41.3%	189	183.2%	19.58	29.9x	15.5x	113.1%
FY23	1,441	27.5%	634	44.0%	383	102.8%	31.09	18.8x	11.4x	44.5%
FY24E	1,743	21.0%	683	39.2%	492	28.6%	51.07	11.5x	10.6x	28.9%
FY25E	2,064	18.4%	801	38.8%	587	19.2%	60.90	9.6x	9.0x	26.2%

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