



## Worst Factored In; Upgrade to BUY

Est. Vs. Actual for Q3FY25: Revenue: **MISS**; EBITDA: **MISS**; PAT: **MISS**

### Changes in Estimates Post Q3FY25

**FY25E/FY26E/FY27E: Revenue:** -17%/-16%/-14%; **EBITDA:** -12/-13%/-11%; **PAT:** -11%/-15%/-12%

### Recommendation Rationale

- Subdued Volumes for Bromine & Industrial Salt:** During the quarter, the company witnessed a sequential degrowth in bromine and salt volumes. However, there was a slight improvement in price realisation for both products. The management expects a quarterly run rate of approximately 10 Lc for salt volumes, supported by healthy inquiries across its product lines. Additionally, the order book remains strong, with locked-in volumes for both bromine and salt for the next 6-12 months. Over the next few quarters, captive bromine consumption is expected to increase to 20-25% of total bromine production (from the current 5-7%), driven by increasing orders from Middle East customers.
- New Initiatives:** Archean's step-down subsidiary, SiCSem Pvt. Ltd., is set to establish a Compound Semiconductor Facility in Odisha with an estimated investment of up to Rs 3,000 Cr. The project will receive a capital expenditure subsidy from the state government. The facility will integrate the entire process of manufacturing power devices, including a Wafer Fabrication Plant, positioning the company strategically in the semiconductor space. Additionally, the company is progressing towards commissioning the Oren Hydrocarbon plants and conducting SoP trials. Investments are being made to expand its product portfolio and optimise costs, reinforcing its long-term growth strategy.

### Sector Outlook: Neutral

**Company Outlook & Guidance:** The company remains confident in its Bromine Derivatives project and the strategic acquisition of Oren, which is expected to contribute meaningfully to the topline in coming quarters. Additionally, the company anticipates sustained strong demand in the Industrial Salt segment and a recovery in the SOP segment beginning in FY26. Strategic investments have also been made in two UK- and US-based companies, which are projected to unlock new growth opportunities in semiconductors and energy storage.

**Current Valuation:** 9x FY27E (Earlier: 11x FY27E)

**Current TP:** Rs 520/share (Earlier: 730/share)

**Recommendation:** We change our rating on the stock from HOLD to BUY.

**Financial Performance:** Consolidated revenue stood at Rs 242 Cr, down 41% YoY and flat QoQ, missing our estimate by 15%. EBITDA was Rs 80 Cr, down 45% YoY and up 7% QoQ, falling short of our estimates by 10%. The EBITDA margin stood at 33%, down 225 bps YoY. The company's PAT was Rs 48 Cr, a significant drop of 53% YoY and up 204% QoQ, missing our estimate by 10%.

### Key Financials (Consolidated)

(Rs Cr)	Q3FY25	YoY %	QoQ%	Axis Est.	Var %
Net Sales	242	-41%	1%	285	-15%
EBITDA	80	-45%	7%	88	-10%
EBITDA Margin	33.00%	-225bps	192bps	31.00%	200bps
Net Profit	48	-53%	204%	53	-10%
EPS (Rs)	3.9	-53%	204%	4.3	-10%

Source: Company, Axis Securities Research

(CMP as of 12<sup>th</sup> February 2025)

CMP (Rs)	464
Upside /Downside (%)	12%
High/Low (Rs)	838/461
Market cap (Cr)	5,733
Avg. daily vol. (1M) Shrs.	5,20,138
No. of shares (Cr)	12.3

### Shareholding (%)

	Jun-24	Sept-24	Dec-24
Promoter	53.46	53.45	53.44
FII	9.53	10.17	10.65
DII	21.04	21.83	22.86
Retail	15.96	14.56	13.06

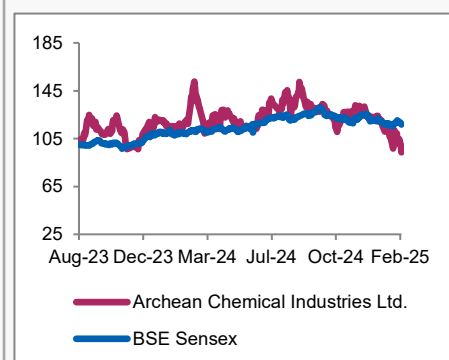
### Financial & Valuations

Y/E Mar	FY24	FY25E	FY26E
Net Sales	1,330	1,044	1,917
EBITDA	463	351	691
Net Profit	319	222	496
EPS (Rs)	25.9	18.0	40.3
PER (x)	17.9	25.7	11.5
EV/EBITDA (x)	12.3	16.3	8.3
RoA (%)	17%	10%	20%
ROE (%)	20%	12%	24%

### Change in Estimates (%)

Y/E Mar	FY25E	FY26E	FY27E
Sales	-17%	-16%	-14%
EBITDA	-12%	-13%	-11%
PAT	-11%	-15%	-12%

### Relative Performance



Source: Ace Equity, Axis Securities Research

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## Outlook

While Archean faced multiple challenges in the past two quarters, weather conditions have improved, and demand is expected to pick up going forward. The company's long-term prospects remain intact, supported by its robust product portfolio and competitive positioning. The integration of Oren Hydrocarbons is progressing as planned and is anticipated to deliver substantial synergies starting FY26. Furthermore, the company is investing in new growth areas, which will aid in diversifying its revenue base and mitigating earnings volatility.

## Valuation & Recommendation

We have revised our estimates for FY25E/FY26E/FY27E downwards to reflect the weaker-than-expected price recovery in bromine and uncertainties surrounding the volume ramp-up. We now rate the stock at 9x FY27E (earlier 11x FY27E), considering a slowdown in growth. However, we believe the recent correction in the stock has factored in the worst and is now attractively valued. **Accordingly, we are upgrading our rating from HOLD to BUY, with a target price of Rs 520/share. This TP suggests a 12% upside from the current market price (CMP).**

## Key Concall Highlights

- **Financial Performance:** Exports contributed 76%, while domestic sales accounted for 24%. Bromine contributed around 38%, while 61% came from industrial salt. Forex gains for 9MFY25 stood at Rs 7 Cr. The company continues to remain debt-free.
- **Bromine:** The bromine business is showing early signs of recovery, and management expects a gradual pickup in demand, especially with China's recent stimulus measures. The company is witnessing some improvement in construction activity and other projects in China. While bromine volumes remained stable, realisation was slightly improved during the quarter. Management aims to produce nearly 20,000-25,000 tons of bromine in FY26, including captive consumption.
- **Industrial Salt:** The industrial salt business was previously impacted by the monsoon season, Cyclone Asna, and difficult road conditions. However, dispatch processes have improved with better weather conditions. Management anticipates a 10 Lc+ ton volume run rate in the coming quarters, focusing on enhancing processes and cost efficiencies.
- **SOP:** The company continues to see encouraging results in its SOP trials. It has begun receiving inquiries from both global and domestic markets, and management anticipates meaningful contributions next year and improved performance from this vertical in the near future.
- **Strategic Acquisition of Clas-Sic Wafer Fab Ltd:** The company earlier acquired a 21% stake in Clas-Sic Wafer Fab Ltd. The primary subscription investment of GBP 10 Mn and a secondary purchase involving GBP 2.5 Mn are completed, with the balance of GBP 2.5 Mn to be executed later. According to the company, this is India's first investment of its kind in a company producing Silicon Carbide (SiC) MOSFETs and devices. This acquisition supports the company's broader expansion strategy in the compound semiconductor space.
- **Strategic Investment in Offgrid Energy Labs:** Archean invested in Offgrid Energy Labs, a company specialising in zinc bromide battery technology. The company is investing nearly \$12 Mn in Series A funding for a 21% stake. This investment aligns with Archean's broader strategy to enter the energy storage sector, focusing on renewable energy applications, industrial storage, and grid stability. Management highlighted the synergy between the bromine business and zinc gel batteries, which use bromide chemistry.
- **Oren Hydrocarbons:** The company has received NCLT approval and initiated refurbishments and renovations at various production sites. Two plants are expected to be fully operational shortly, with another two plants coming online in the next few months. The company is focusing on products related to the oil and drilling industry and Clear Brine Fluids (CBF).
- **Investment in the Semiconductor Manufacturing Business:** Archean's step-down subsidiary, SiCSem Pvt. Ltd., is developing a compound semiconductor facility with an estimated investment of up to Rs 3,000 Cr, which would support Odisha's industrial progress. The state government has allotted 14 acres of land at Infovalley II, Bhubaneswar, for this project and has approved it under the Odisha Semiconductor & Fabless Policy – 2023.
- **Steady Development in Bromine Derivatives:** The bromine derivatives facility at Jhagadia is being developed through a subsidiary, Acume Chemicals Pvt. Ltd. The ramp-up of the bromine derivatives plant is progressing steadily, and management anticipates meaningful revenue growth in FY26. The company has successfully dispatched a few trial shipments of Clear Brine Fluids and is working closely with clients to refine their specific requirements.

## Sales Volumes

Sales Volumes (in MT)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Bromine	3,400	5,000	4,800	4,700	4,800	4,600
Industrial salt	10,00,000	13,00,000	9,30,000	6,60,000	7,92,000	7,58,000
Sulphate of Potash (SOP)	3,800	4,300		66	27	82

Source: Company, Axis Securities Research

## Key Risks to Our Estimates and TP

- The emergence of non-halogenated flame retardants may pose a threat to the growth of the Bromine market in the future
- Any delay in capacity in the expansion of Bromine Derivatives or existing projects may affect ROCE negatively
- The global slowdown and logistical challenges may affect volumes and value growth.

## Change in Estimates

	New			Old			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	1,044	1,917	2,458	1,262	2,293	2,854	-17%	-16%	-14%
EBITDA	351	691	964	397	798	1,085	-12%	-13%	-11%
PAT	222	496	714	250	585	814	-11%	-15%	-12%

Source: Company, Axis Securities Research

## Q3FY25 Result Review

Particulars	Q3FY24	Q2FY25	Axis Sec Estm (Rs cr)	Q3FY25	% Change (YoY)	% Change (QoQ)	Variance (%)
Revenue	413	240	285	242	-41%	1%	-15%
Net Raw Material consumed	47	14	16	-16	-134%	-215%	
Gross Profit	366	227	269	258	-29%	14%	
Gross Margin %	88.6%	94.3%	94.3%	106.5%	1790bps	1222bps	1222bps
Employee	18	13	17	14	-24%	8%	
Other Expenses	202	139	164	164	-19%	18%	
Total Expenditure	267	166	197	162	-39%	-2%	
EBIDTA	145	75	88	80	-45%	7%	-10%
EBITDA Margin	35.2%	31.1%	31.0%	33.0%	-225bps	192bps	200bps
Less: Depreciation	18	19	20	20	14%	4%	
EBIT	128	55	69	60	-53%	8%	
Less: Net Interest	2	3	3	3	53%	-9%	
Add: Other income	9	11	7	9	-4%	-19%	
Profit Before Extraordinary Items and Tax	135	63	74	66	-51%	4%	
Less: Extraordinary Expense (net)	-	40	-	-			
Profit Before Tax	135	23	74	66	-51%	189%	
Less: Total Tax	34	7	21	18	-47%	154%	
Profit After Tax	102	16	53	48	-53%	204%	-10%
Reported EPS (Rs)	8.25	1.28	4.32	3.89	-53%	204%	-10%

Source: Company, Axis Securities Research

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
<b>Net Revenue</b>	<b>1,441</b>	<b>1,330</b>	<b>1,044</b>	<b>1,917</b>	<b>2,458</b>
COGS	3	88	-2	107	130
Staff costs	72	72	59	103	135
Operating Exp.	732	707	636	1,016	1,229
Total Expenditure	807	867	693	1,226	1,495
<b>EBITDA</b>	<b>634</b>	<b>463</b>	<b>350.7</b>	<b>691.2</b>	<b>963.6</b>
<b>EBITDA Margin %</b>	<b>44.0%</b>	<b>34.8%</b>	<b>33.6%</b>	<b>36.1%</b>	<b>39.2%</b>
Depreciation	69	70	78	82	87
EBIT	609	436	309	672	957
Interest	97	8	10	11	6
Other Income	43	43	36	63	80
PBT	512	427	294	661	951
Tax	129	108	72	165	238
<i>Tax Rate %</i>	<i>25.2%</i>	<i>25.3%</i>	<i>24.5%</i>	<i>25.0%</i>	<i>25.0%</i>
<b>PAT</b>	<b>383</b>	<b>319</b>	<b>222</b>	<b>496</b>	<b>714</b>
<b>EPS</b>	<b>31.1</b>	<b>25.9</b>	<b>18.0</b>	<b>40.3</b>	<b>58.0</b>

Source: Company, Axis Securities Research

### Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	25	25	25	25	25
Reserves & Surplus	1,406	1,677	1,860	2,270	2,859
<b>Net Worth</b>	<b>1,431</b>	<b>1,702</b>	<b>1,885</b>	<b>2,294</b>	<b>2,884</b>
Financial Non-Current Liability	37	91	91	91	91
Other Non-current Liability	-	-	-	-	-
Deferred Tax Liability	115	124	124	124	124
<b>Total Non-Current Liability</b>	<b>152</b>	<b>219</b>	<b>219</b>	<b>219</b>	<b>219</b>
Current Financial Liability	148	131	116	193	246
Other Current Liability	21	3	3	3	3
Provisions	3	-	-	-	-
<b>Total Current Liability</b>	<b>172</b>	<b>135</b>	<b>120</b>	<b>197</b>	<b>250</b>
<b>Total Equity &amp; Liability</b>	<b>1,755</b>	<b>2,056</b>	<b>2,225</b>	<b>2,711</b>	<b>3,354</b>
<b>Application Of Funds</b>					
<b>PPE</b>	<b>1,065</b>	<b>1,118</b>	<b>1,120</b>	<b>1,188</b>	<b>1,401</b>
Capital Work in Progress	36	46	46	46	46
Right Use Of Assets	45	42	42	42	42
Intangible Assets	0	2	2	2	2
<b>Non- Current Financial Assets</b>	<b>22</b>	<b>16</b>	<b>216</b>	<b>416</b>	<b>616</b>
Other Non-Current Assets	10	100	100	100	100
<b>Total Non-Current Assets</b>	<b>1,178</b>	<b>1,330</b>	<b>1,531</b>	<b>1,800</b>	<b>2,213</b>
Inventories	168	127	129	247	337
Current-Financial Assets	361	552	518	618	757
Other Current Assets	32	32	32	32	32
<b>Total Current Assets</b>	<b>577</b>	<b>726</b>	<b>693</b>	<b>912</b>	<b>1,141</b>
<b>Total Assets</b>	<b>1,755</b>	<b>2,056</b>	<b>2,225</b>	<b>2,711</b>	<b>3,354</b>

Source: Company, Axis Securities Research

**Cash Flow**

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
PBT	512	427	294	661	951
Depreciation & Amortization	69	70	78	82	87
Finance Cost	97	8	10	11	6
Chg in Working cap	-157	6	27	-163	-138
Direct tax paid	-21	-109	-72	-165	-238
<b>Cash flow from operations</b>	<b>496</b>	<b>379</b>	<b>336</b>	<b>425</b>	<b>669</b>
Chg in Gross Block	-100	-131	-80	-150	-300
Chg in Investments	-195	-117	-	-	-
Other Investments	-1	14	-	-	-
<b>Cash flow from investing</b>	<b>-290</b>	<b>-307</b>	<b>-280</b>	<b>-350</b>	<b>-500</b>
Fresh Issue Proceeds	789	0	-	-	-
Proceeds / (Repayment) of ST Borrowings (Net)	-4	-55	-	-	-
Finance Cost paid	-163	-3	-10	-11	-6
Dividends paid	-	-	-39	-86	-124
<b>Cash flow from financing</b>	<b>-212</b>	<b>-33</b>	<b>-49</b>	<b>-97</b>	<b>-130</b>
<b>Chg in cash</b>	<b>-6</b>	<b>40</b>	<b>8</b>	<b>-22</b>	<b>39</b>
Cash and cash equivalents at the beginning of the year	12	6	45	53	31
Cash and Cash equivalents at the end of the year	<b>6</b>	<b>45</b>	<b>53</b>	<b>31</b>	<b>70</b>

Source: Company, Axis Securities Research

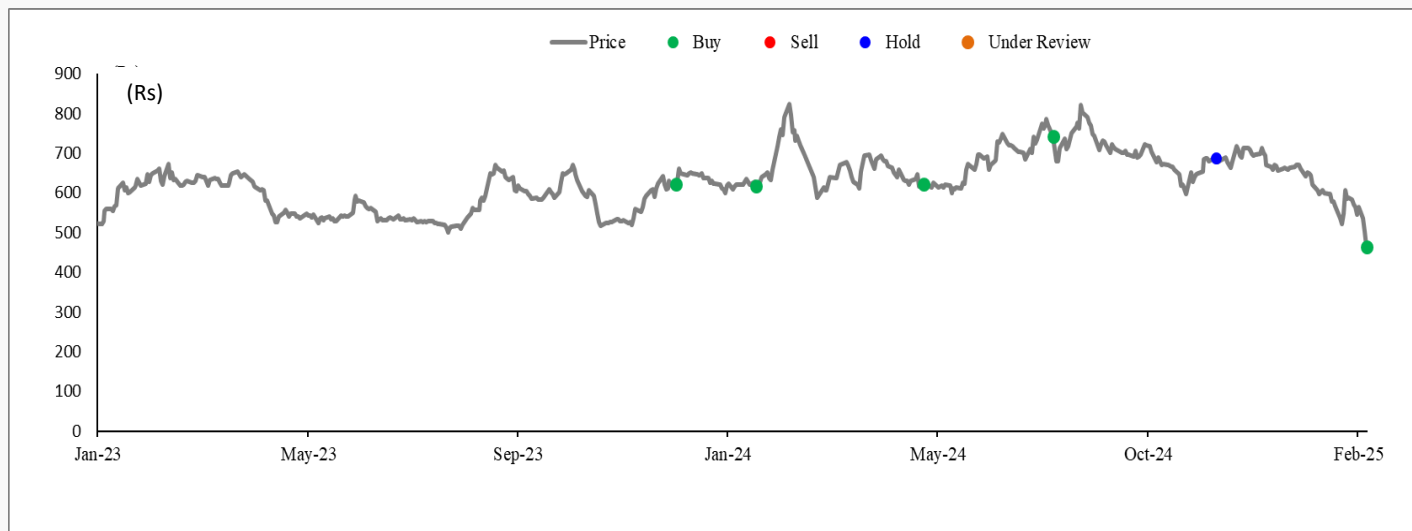
**Ratio Analysis**

(%)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
<b>Efficiency Ratios</b>					
Asset Turnover (x)	0.88	0.70	0.49	0.78	0.81
Inventory Turnover(x)	0.02	0.59	-0.01	0.57	0.45
Sales/Total Assets	0.82	0.65	0.47	0.71	0.73
Receivable days	34	38	47	33	43
Inventory Days	37	40	45	36	43
Payable days	26	27	32	24	28
<b>Financial Stability Ratios</b>					
Total Debt/Equity(x)	0.0	0.0	0.0	0.0	0.0
Total Asset/Equity(x)	1.2	1.2	1.2	1.2	1.2
Current Ratio(x)	3.3	5.4	5.8	4.6	4.6
Quick Ratio(x)	2.4	4.4	4.7	3.4	3.2
Interest Cover(x)	6.5	-	-	-	-
<b>Operational &amp; Financial Ratios</b>					
Earnings Per Share (Rs)	31	26	18	40	58
Book Value (Rs)	116	138	153	186	234
Tax Rate(%)	25.2%	25.3%	24.5%	25.0%	25.0%
<b>Performance Ratios</b>					
ROA (%)	23.3%	16.7%	10.4%	20.1%	23.5%
ROCE (%)	41.4%	24.9%	15.3%	29.1%	34.1%
ROE (%)	45.2%	20.4%	12.4%	23.7%	27.6%

Source: Company, Axis Securities Research

## Archean Chemical Industries Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
19-Dec-23	BUY	885	Initiating Coverage
07-Feb-24	BUY	885	Result Update
21-May-24	BUY	865	Result Update
06-Aug-24	BUY	829	Result Update
13-Nov-24	HOLD	730	Result Update
13-Feb-25	BUY	520	Result Update

Source: Axis Securities Research

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<b>Ratings</b>	<b>Expected absolute returns over 12 – 18 months</b>
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.