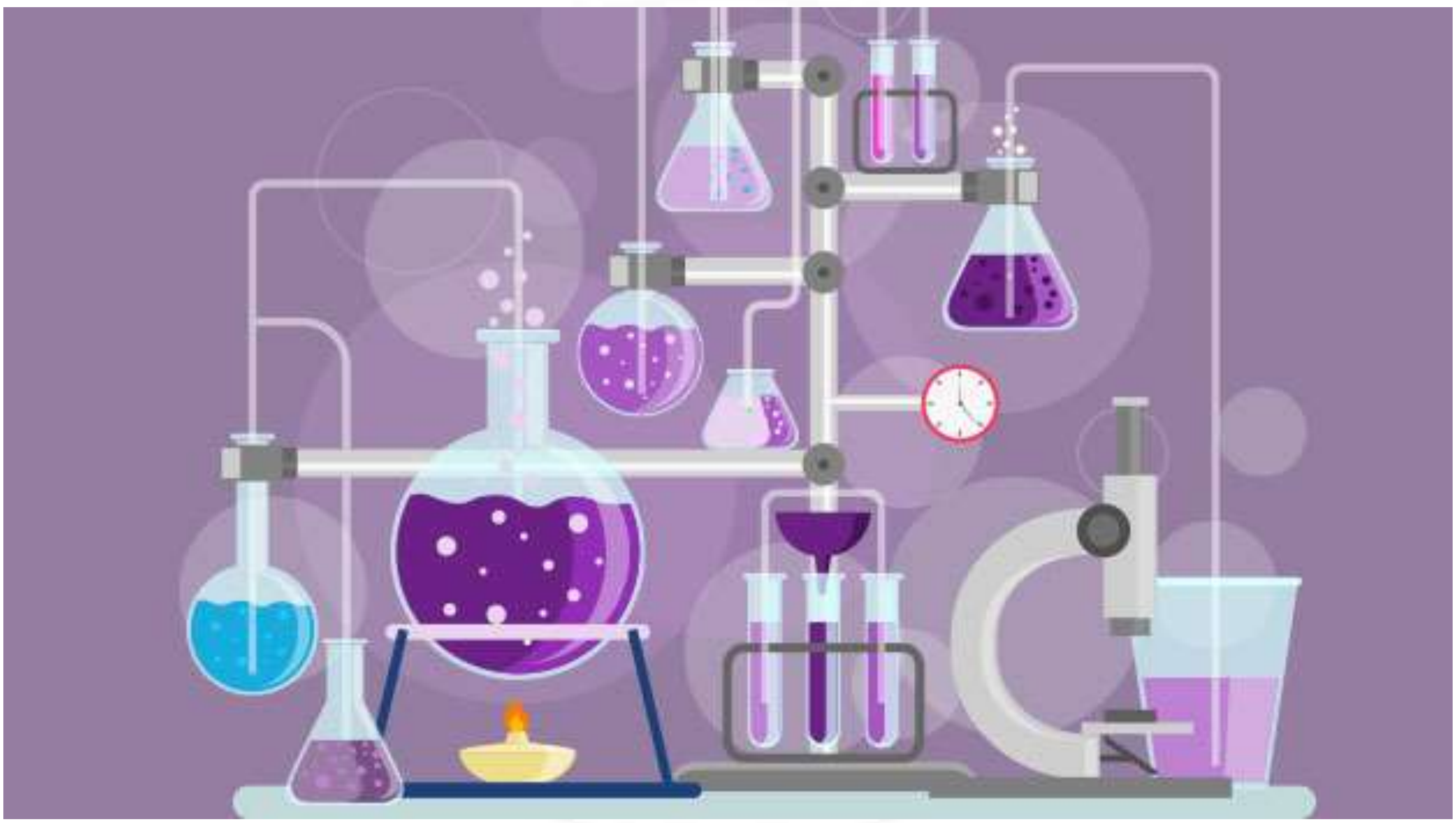
SIGACHI

Sigachi Industries Ltd

Value play with strong growth potential



VENTURA

Kyon ki bhaiya, sabse bada rupaiya.

TABLE OF CONTENTS

VENTURA
Kyon ki bhaiya, sabse bada rupaiya.

Sigachi Industries Ltd

SIGACHI

SUBSCRIBE at Upper Price Band of INR 163

Value play with strong growth potential

Sigachi Industries Ltd (SIGACHI), incorporated in 1989, is engaged in the manufacturing of Microcrystalline Cellulose (MCC) which is widely used in pharmaceutical, food & beverages, nutraceuticals, and cosmetic industries. The company manufactures MCC of various grades ranging from 15 to 250 microns under the brand name HiCel and AceCel for the domestic and export market. Exports contribute 70-75% of revenue (increased from 55% in FY18), while the rest 20-25% comes from domestic business.

SIGACHI has an in-house R&D division equipped with the necessary facilities to carry out all necessary trials to develop new molecules from concept to commissioning. The company operates 3 manufacturing units located at Hyderabad (capacity: 6,048 MTPA), Jhagadia (capacity: 2,400 MTPA) and Dahej (capacity: 4,680 MTPA). The company has also entered into an O&M agreement with Gujarat Alkalis & Chemicals Ltd (GACL) for operating & managing GACL's manufacturing facilities and for contract manufacturing of sodium chlorate, stable bleaching powder and poly aluminium chloride.

The company is in the process of expanding both the Jhagadia (by 3,600 MTPA) and Dahej (by 3,741 MTPA) facilities by FY23 at an estimated capex of INR 57-58 cr and also setting up a new brownfield facility at Kurnool to manufacture Croscarmellose Sodium (CCS, capacity: 4 MT per day), which would be ready by FY24 (capex of INR 32-33 cr). To fund this expansion, the management is looking to raise INR 125.4 cr through a maiden public offering.

The IPO pricing of INR 163/share (11.4X FY24 P/E) is not expensive, considering the upcoming expansion plan is expected to accelerate the top-line in the coming years. Dominant producer status, higher growth potential, sustainable high return ratios and strong balance sheet health should lead to a re-rating of the stock. We initiate coverage with a BUY and recommend SUBSCRIBE for long term investment.

Industry	Chemicals

Issue Details	
Listing	BSE & NSE
Open Date	1st Nov 2021
Close Date	3rd Nov 2021
Price Band	INR 161-163
Face Value	INR 10
Market Lot	90 shares
Minimum Lot	1 Lot

Issue Structure	
Offer for Sale	0%
Fresh Issue	100%
Issue Size (Amount)	INR 125 cr
Issue Size (Shares)	7,695,000
QIB Share (%)	≥ 50%
Non-Inst Share (%)	≤ 15%
Retail Share (%)	≤ 35%
Pre issue sh (nos)	23,047,500
Post issue sh (nos)	30,742,500
Post issue M Cap	INR 501 cr

Shareholding (%)	Pre (%)	Post (%)
Promoter	64.6	48.5
Institution	35.4	42.8
Public	0.0	8.7
TOTAL	**100**	**100**

Key Financial Data (INR Cr, unless specified)

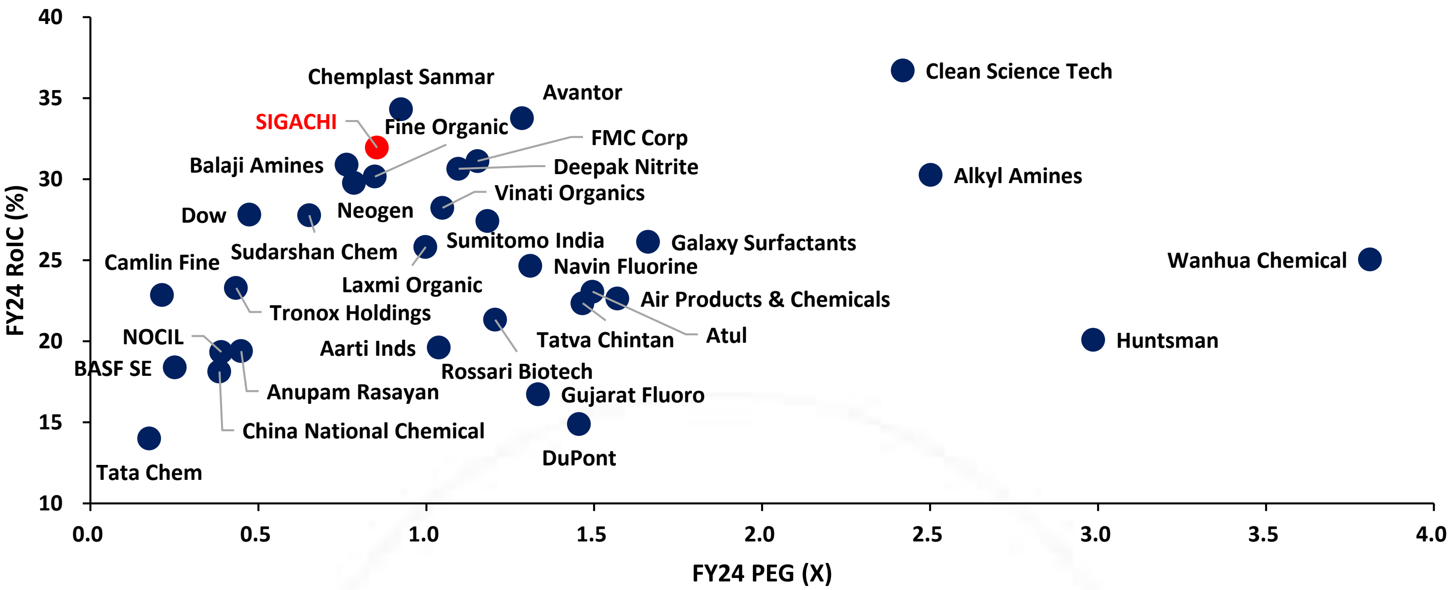
	Revenue	EBITDA	Net Profit	EBITDA (%)	Net Profit (%)	Adj EPS (₹)	BVPS (₹)	RoE (%)	RoIC (%)	P/E (X)	P/BV (X)	EV/ EBITDA (%)
FY20	139.1	24.8	20.3	17.8	14.6	6.6	21.0	37.1	30.6	24.7	7.8	21.0
FY21	192.8	38.8	30.3	20.1	15.7	9.8	30.6	38.1	40.7	16.6	5.3	13.0
FY22E	209.1	42.1	35.4	20.1	16.9	11.5	81.8	20.5	32.5	14.2	2.0	9.4
FY23E	217.4	44.8	38.3	20.6	17.6	12.5	91.8	14.4	26.7	13.1	1.8	8.6
FY24E	253.9	52.0	44.0	20.5	17.3	14.3	101.8	14.8	30.3	11.4	1.6	6.5

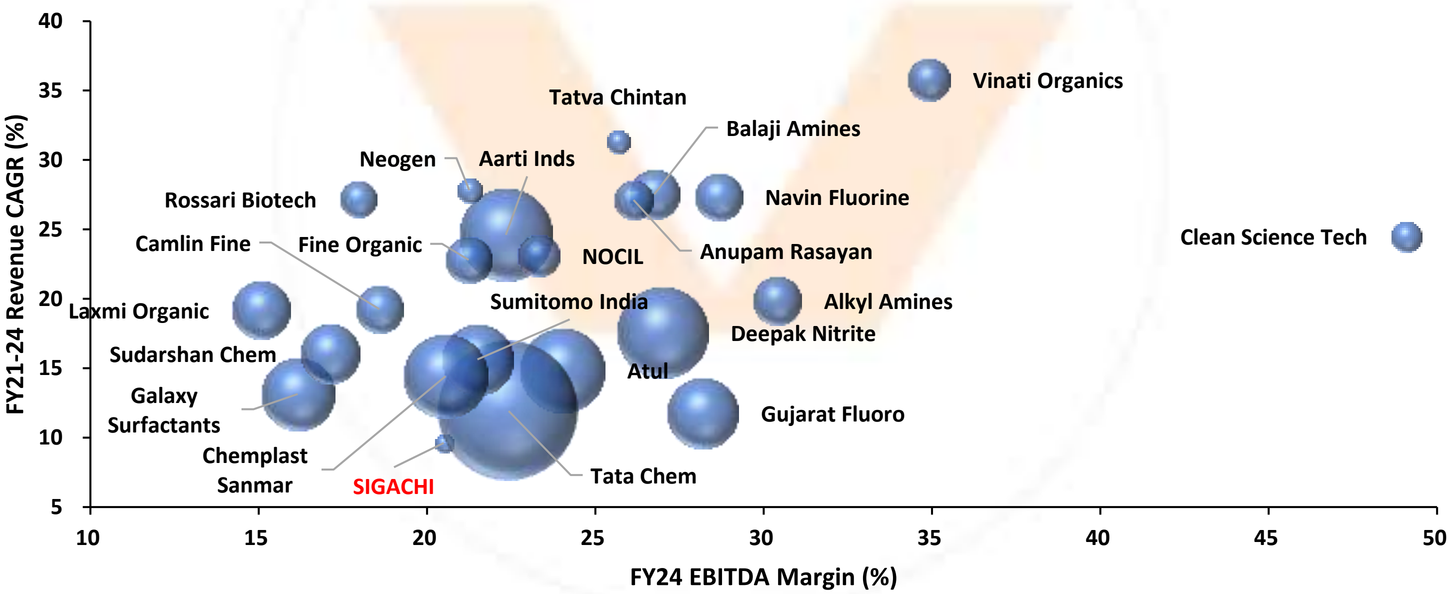
Valuation and Comparable Metrics of Domestic and Global Chemical Companies

				P/E (X)			P/BV (X)			EV/EBITDA (X)			RoE (%)			RoIC (%)			Sales			EBITDA Margin (%)			Net Margin (%)		
Company Name	**Mkt Cap**	**Price**	**PEG (X)**	**2022**	**2023**	**2024**	**2022**	**2023**	**2024**	**2022**	**2023**	**2024**	**2022**	**2023**	**2024**	**2022**	**2023**	**2024**	**2022**	**2023**	**2024**	**2022**	**2023**	**2024**	**2022**	**2023**	**2024**
Domestic Peers (fig in INR cr, unless specified)																											
Sigachi Industries Ltd	501	163.0	0.9	14.1	13.1	11.4	2.0	1.8	1.6	9.4	8.6	6.5	20.5	14.4	14.8	32.5	26.7	30.3	209	217	254	20.1	20.6	20.5	16.9	17.6	17.3
Aarti Industries Ltd.	34,956	964.3	1.0	43.4	33.5	30.7	6.2	5.4	4.5	27.6	21.8	19.8	14.3	16.1	14.6	19.3	21.1	19.6	5,809	7,285	8,718	22.8	23.0	22.3	13.9	14.3	13.1
Deepak Nitrite Ltd.	30,434	2,231.4	1.1	28.7	26.2	22.4	9.4	7.2	5.8	19.8	17.8	15.9	32.8	27.4	25.6	37.8	32.4	30.6	5,734	6,294	7,084	27.1	27.1	27.0	18.5	18.4	19.1
Atul Ltd.	27,014	9,130.3	1.5	35.5	30.6	25.6	6.1	5.0	4.6	24.4	20.9	19.3	17.2	16.5	18.1	22.2	21.5	23.1	4,524	5,280	5,652	24.1	23.8	24.0	16.8	16.7	18.6
Tata Chemicals Ltd.	22,970	901.7	0.2	23.4	19.5	14.6	1.6	1.5	1.3	11.6	9.4	7.7	6.7	7.6	9.0	11.7	12.6	14.0	11,948	13,322	14,298	19.5	20.2	22.4	8.2	8.8	11.0
Alkyl Amines Chemicals Ltd.	18,413	3,605.4	2.5	55.8	46.7	40.0	17.6	13.7	10.1	37.6	32.8	28.2	31.6	29.3	25.3	36.6	34.3	30.3	1,566	1,834	2,140	31.2	30.5	30.4	21.1	21.5	21.5
Sumitomo Chemical India Ltd.	18,795	376.6	1.2	46.0	36.6	28.5	9.9	8.1	6.4	31.8	25.5	19.9	21.6	22.0	22.4	26.6	27.0	27.4	3,041	3,491	4,090	18.7	20.0	21.5	13.4	14.7	16.1
Navin Fluorine Int Ltd.	16,523	3,335.9	1.3	61.1	40.3	32.8	9.0	7.6	6.5	45.0	29.0	23.0	14.6	18.9	19.7	19.6	23.9	24.7	1,390	2,019	2,436	26.0	27.7	28.7	19.4	20.3	20.7
Vinati Organics Ltd.	19,688	1,915.6	1.0	52.3	39.8	32.5	10.8	9.0	7.6	39.5	29.5	23.8	20.6	22.6	23.2	25.6	27.6	28.2	1,494	1,926	2,389	33.6	34.9	34.9	25.2	25.7	25.4
Gujarat Fluorochemicals Ltd.	19,983	1,819.2	1.3	41.8	36.4	31.4	4.7	4.2	3.7	27.1	23.6	20.1	11.3	11.5	11.7	16.3	16.5	16.7	2,871	3,244	3,702	27.3	27.6	28.2	16.6	16.9	17.2
Clean Science & Tech Ltd.	22,051	2,076.0	2.4	91.6	71.1	58.2	30.2	22.4	18.5	69.5	54.3	45.3	33.0	31.5	31.7	38.0	36.5	36.7	631	819	978	50.0	48.9	49.1	38.2	37.9	38.7
Balaji Amines Ltd.	11,212	3,460.6	0.8	34.2	27.5	22.0	9.9	7.7	5.7	23.1	18.9	15.5	28.9	28.0	25.9	33.9	33.0	30.9	1,813	2,211	2,720	26.9	27.0	26.7	18.1	18.4	18.7
Laxmi Organic Industries Ltd.	12,079	458.1	1.0	53.0	44.7	34.0	9.6	8.3	7.1	35.2	32.3	25.8	18.2	18.5	20.8	23.2	23.5	25.8	2,341	2,642	2,995	14.1	13.6	15.1	9.7	10.2	11.9
Galaxy Surfactants Ltd.	11,172	3,151.0	1.7	34.3	29.4	24.5	7.2	6.1	5.2	22.7	19.2	17.0	21.0	20.7	21.1	26.0	25.7	26.1	3,294	3,565	4,033	15.1	16.1	16.2	9.9	10.7	11.3
Fine Organic Industries Ltd.	10,078	3,287.2	0.8	58.5	42.8	32.0	11.8	9.9	8.1	38.2	28.4	21.8	20.1	23.2	25.2	25.1	28.2	30.2	1,445	1,702	2,099	17.8	20.0	21.2	11.9	13.8	15.0
Chemplast Sanmar Ltd.	10,298	651.3	0.9	15.4	14.3	14.2	6.7	5.0	4.2	9.5	9.9	9.8	43.3	34.8	29.3	48.3	39.8	34.3	5,605	5,486	5,547	21.4	20.7	20.5	12.0	13.1	13.1
Rossari Biotech Ltd.	7,783	1,413.7	1.2	71.6	48.2	40.6	9.4	7.9	6.6	44.0	31.2	29.4	13.1	16.4	16.3	18.1	21.4	21.3	1,030	1,374	1,459	17.0	17.9	18.0	10.5	11.8	13.1
Anupam Rasayan India Ltd.	8,026	803.2	0.4	50.0	32.7	24.9	4.5	4.1	3.6	31.9	23.3	18.2	9.0	12.4	14.4	14.0	17.4	19.4	1,036	1,340	1,659	24.5	25.7	26.1	15.5	18.3	19.4
Nocil Ltd.	4,430	267.0	0.4	23.3	17.3	17.0	3.1	2.8	2.4	15.1	11.1	10.1	13.4	16.0	14.3	18.4	21.0	19.3	1,408	1,687	1,725	20.5	22.7	23.3	13.5	15.2	15.1
Sudarshan Chemical Ind Ltd.	3,935	568.4	0.7	23.7	18.1	15.0	4.6	3.9	3.4	13.8	11.1	9.1	19.4	21.7	22.8	24.4	26.7	27.8	2,170	2,503	2,914	15.4	16.6	17.1	7.6	8.7	9.0
Tatva Chintan Pharma Chem Ltd.	5,554	2,505.6	1.5	67.7	58.4	43.9	11.4	9.4	7.6	55.7	42.6	32.2	16.9	16.0	17.4	21.9	21.0	22.4	429	534	680	23.5	24.7	25.7	19.1	17.8	18.6
Neogen Chemicals Ltd.	2,770	1,187.1	0.8	62.4	43.2	31.9	12.6	10.1	7.9	34.7	26.1	20.3	20.3	23.3	24.8	25.3	28.3	29.8	446	573	703	19.6	20.3	21.3	9.9	11.2	12.4
Camlin Fine Sciences Ltd.	2,112	165.6	0.2	22.8	15.5	11.5	3.1	2.6	2.0	10.1	7.5	6.2	13.6	16.5	17.9	18.6	21.5	22.9	1,380	1,714	2,013	17.4	18.5	18.6	6.7	7.9	9.2
Global Peers (fig in USD mn, unless specified)																											
FMC Corp (USA)	11,713	91.0	1.2	12.3	11.0	10.4	3.5	3.2	2.7	10.1	9.1	8.5	28.2	29.6	26.1	33.2	34.6	31.1	5,273	5,588	5,798	26.9	27.7	27.7	18.0	19.1	19.5
Avantor Inc (USA)	24,610	40.4	1.3	24.8	22.8	18.7	6.8	5.6	5.4	18.3	16.9	13.7	27.4	24.8	28.8	32.4	29.8	33.8	7,889	8,335	8,861	20.2	20.2	21.7	12.6	12.9	14.9
BASF SE (Germany)	65,985	71.8	0.3	11.3	10.9	10.2	1.5	1.4	1.4	6.4	6.2	5.7	13.4	13.3	13.4	18.4	18.3	18.4	85,676	87,195	92,471	14.7	14.9	14.9	6.8	7.0	7.0
DuPont De Nemours Inc (USA)	36,405	69.6	1.5	14.3	13.2	12.3	1.3	1.3	1.2	9.9	9.2	8.6	9.2	9.7	9.9	14.2	14.7	14.9	17,236	17,988	18,716	26.3	27.0	27.5	14.8	15.4	15.8
Dow Inc (USA)	41,396	56.0	0.5	8.9	9.3	8.6	2.1	2.1	2.0	5.0	5.0	4.3	23.9	22.1	22.8	28.9	27.1	27.8	52,421	52,404	54,452	18.7	18.3	18.6	8.9	8.5	8.9
Air Products & Chem (USA)	66,367	299.8	1.6	28.0	25.1	22.2	4.7	4.3	3.9	16.0	14.7	13.9	16.7	17.2	17.6	21.7	22.2	22.6	11,083	11,863	13,314	40.3	41.2	39.1	21.4	22.3	22.4
Huntsman Corp (USA)	7,230	32.6	3.0	10.1	10.5	10.5	1.6	1.7	1.6	6.2	6.4	6.6	16.1	15.9	15.1	21.1	20.9	20.1	8,022	8,124	8,260	15.9	15.1	15.4	9.0	8.5	8.3
Tronox Holdings PLC (USA)	3,588	23.3	0.4	8.9	7.7	6.5	1.6	1.5	1.2	5.5	4.7	3.8	17.9	19.3	18.3	22.9	24.3	23.3	3,828	3,984	4,230	26.8	28.0	28.7	10.6	11.8	13.1
Wanhua Chemical (China)	51,697	16.5	3.8	12.7	11.6	12.2	3.8	3.0	2.5	8.8	7.7	7.0	29.6	26.2	20.1	34.6	31.2	25.1	21,490	23,062	31,316	29.3	30.3	24.5	19.0	19.4	13.5
China National Chem (China)	10,024	1.6	0.4	10.6	8.6	7.9	1.2	1.1	1.0	(1.2)	(2.3)	(2.1)	11.6	12.5	13.1	16.6	17.5	18.1	24,670	28,351	31,187	5.7	5.9	5.9	3.8	4.1	4.1

Source: Ventura Research & Bloomberg

SIGACHI has amongst the best RoIC and growth potential





Source: Ventura Research, ACE Equity & Bloomberg

Our Bull and Bear Case Scenarios

We have prepared a Bull and Bear case scenario based on SIGACHI's FY24 Sales CAGR, EBITDA margins and P/E valuation.

- **Bull Case:** We have assumed a 15% revenue CAGR to INR 293 cr by FY24 and EBITDA margin of 22%, along with the valuation re-rating to 17X P/E, which will result in a Bull Case price target of INR 300 per share (an upside of 84% from the upper band IPO price of INR 163 per share).
- **Bear Case:** We have assumed a 5% revenue CAGR to INR 223 cr by FY24 and EBITDA margin of 18%, along with the valuation de-rating to 13X P/E, which will result in a Bear Case price target of INR 145 per share (a downside of 11% from the upper band IPO price of INR 163 per share).

Bull & Bear Case Scenario

Investment Triggers

- SIGACHI is one of the largest integrated producers of MCC and has long term B2B relationships with global Pharma and FMCG companies, which ensures stable revenue visibility.
- The upcoming expansion plan (through IPO proceeds) is expected to accelerate top-line performance in the coming years. A strong balance sheet and sustainable high return ratios augur well.

Catalysts

- The MCC market is a huge opportunity in India and globally and is likely to sustain the demand for the products of SIGACHI.
- Premiumization in the FMCG business, especially in developing markets of Asia Pacific, has significantly improved the demand for higher realization of MCC category products, which generates better margins.

Financial Analysis and Projections

During FY18-21, SIGACHI's MCC production volumes and revenues grew at a CAGR of 12.7% (to 11,240 MT) and 19.9% (to INR 176 cr), respectively. Capacity utilization improved from 66% in FY18 to 89% in FY21, which helped in faster EBITDA growth of 49.0% CAGR to INR 39 cr, while the EBITDA margin improved by 848bps (to 20.1%). Higher operating cash flow helped in the reduction of total debt from INR 28 cr in FY18 to INR 20 cr in FY21 and simultaneously increased the cash balance from INR 3 cr to INR 11 cr over the same period. It reduced the net interest burden and positively impacted the bottom-line. As a result, PAT grew at a CAGR of 63.5% to INR 30 cr, while PAT margins improved by 883bps to 15.7% in FY21. Average return ratios, RoE and RoIC stood at 38.1% (+1184bps) and 40.7% (+2085bps), respectively, in FY21.

SIGACHI's Financial Summary

Fig in INR Cr (unless specified)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
Total Installed Capacity (MTPA)	**11,880**	**11,880**	**11,880**	**12,588**	**12,588**	**12,588**	**19,929**	**21,389**	**21,389**	**21,389**	**28,389**	**28,389**	**28,389**
Total Production Volume (MT)	**7,848**	**8,941**	**9,101**	**11,240**	**12,178**	**12,588**	**14,790**	**16,697**	**18,457**	**19,850**	**23,197**	**24,670**	**26,143**
Avg Capacity Utilization (%)	*66.1*	*75.3*	*76.6*	*89.3*	*96.7*	*100.0*	*74.2*	*78.1*	*86.3*	*92.8*	*81.7*	*86.9*	*92.1*
MCC Domestic Revenue	45	52	54	48	51	53	62	71	78	84	99	105	111
MCC Export Revenue	57	76	85	128	139	144	169	191	212	228	267	284	301
MCC Total Revenue	**102**	**128**	**139**	**176**	**190**	**197**	**231**	**262**	**290**	**313**	**365**	**389**	**412**
MCC Avg Realization (INR/MT)	*129,888*	*143,059*	*152,538*	*156,361*	*156,361*	*156,361*	*156,361*	*156,977*	*157,289*	*157,569*	*157,542*	*157,541*	*157,540*
Other Operating Revenue	(1)	1	0	17	19	21	23	25	27	30	33	36	40
Revenue from Operations	**101**	**129**	**139**	**193**	**209**	**217**	**254**	**287**	**318**	**343**	**399**	**425**	**452**
YoY Growth (%)		*28*	*8*	*39*	*8*	*4*	*17*	*13*	*11*	*8*	*16*	*7*	*6*
EBITDA	**12**	**26**	**25**	**39**	**42**	**45**	**52**	**60**	**67**	**73**	**85**	**92**	**100**
Margin (%)	*11.6*	*20.1*	*17.8*	*20.1*	*20.1*	*20.6*	*20.5*	*20.8*	*21.0*	*21.4*	*21.3*	*21.7*	*22.1*
EBITDA per MT (INR)	*14,948*	*29,037*	*27,205*	*34,510*	*34,538*	*35,595*	*35,183*	*35,689*	*36,208*	*37,005*	*36,676*	*37,380*	*38,139*
PAT	**7**	**19**	**20**	**30**	**35**	**38**	**44**	**51**	**55**	**59**	**64**	**69**	**75**
Margin (%)	*6.9*	*14.7*	*14.6*	*15.7*	*16.9*	*17.6*	*17.3*	*17.6*	*17.4*	*17.3*	*16.0*	*16.3*	*16.6*
PAT per MT (INR)	*8,820*	*21,265*	*22,322*	*26,922*	*29,076*	*30,421*	*29,777*	*30,308*	*29,975*	*29,954*	*27,414*	*28,037*	*28,690*
Adjusted EPS (INR)	**2**	**6**	**7**	**10**	**12**	**12**	**14**	**16**	**18**	**19**	**21**	**22**	**24**
P/E (X)	*72.4*	*26.4*	*24.7*	*16.6*	*14.2*	*13.1*	*11.4*	*9.9*	*9.1*	*8.4*	*7.9*	*7.2*	*6.7*
Adjusted BVPS (INR)	**9**	**15**	**21**	**31**	**82**	**92**	**102**	**112**	**121**	**129**	**136**	**143**	**148**
P/BV (X)	*19.0*	*11.2*	*7.8*	*5.3*	*2.0*	*1.8*	*1.6*	*1.5*	*1.4*	*1.3*	*1.2*	*1.1*	*1.1*
Enterprise Value	**527**	**522**	**519**	**503**	**396**	**386**	**338**	**323**	**349**	**373**	**369**	**357**	**348**
EV/EBITDA (X)	*44.9*	*20.1*	*21.0*	*13.0*	*9.4*	*8.6*	*6.5*	*5.4*	*5.2*	*5.1*	*4.3*	*3.9*	*3.5*
Net Worth	**26**	**45**	**65**	**94**	**251**	**282**	**313**	**343**	**371**	**397**	**419**	**440**	**456**
Return on Equity (%)	*26.3*	*53.4*	*37.1*	*38.1*	*20.5*	*14.4*	*14.8*	*15.4*	*15.5*	*15.5*	*15.6*	*16.1*	*16.8*
Capital Employed	**55**	**68**	**94**	**114**	**251**	**282**	**313**	**343**	**371**	**397**	**419**	**440**	**456**
Return on Capital Employed (%)	*13.5*	*31.4*	*22.8*	*29.0*	*17.7*	*12.8*	*13.2*	*13.8*	*13.8*	*13.7*	*13.8*	*14.3*	*14.9*
Invested Capital	**52**	**66**	**83**	**96**	**147**	**167**	**150**	**166**	**219**	**269**	**287**	**295**	**303**
Return on Invested Capital (%)	*19.8*	*41.1*	*30.6*	*40.7*	*32.5*	*26.7*	*30.3*	*34.9*	*31.2*	*26.4*	*27.2*	*28.3*	*29.9*
Cash Flow from Operations	6	14	12	30	28	39	38	46	54	62	58	72	78
Cash Flow from Investing	(4)	(6)	(7)	(11)	(42)	(21)	23	(11)	(52)	(52)	(12)	(11)	(11)
Cash Flow from Financing	(3)	(9)	3	(11)	101	(8)	(13)	(20)	(28)	(34)	(41)	(49)	(59)
Net Cash Flow	**(1)**	**(0)**	**8**	**7**	**87**	**11**	**48**	**15**	**(26)**	**(24)**	**5**	**12**	**9**
Free Cash Flow	**2**	**9**	**6**	**20**	**(17)**	**(21)**	**13**	**37**	**4**	**12**	**49**	**63**	**69**
FCF to Net Profit (%)	*26*	*45*	*31*	*67*	*(49)*	*(55)*	*30*	*73*	*7*	*19*	*77*	*91*	*92*
FCF to Net Worth (%)	*7*	*19*	*10*	*22*	*(7)*	*(7)*	*4*	*11*	*1*	*3*	*12*	*14*	*15*
Total Debt	**28**	**23**	**29**	**20**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net Debt	**26**	**21**	**18**	**2**	**(105)**	**(115)**	**(163)**	**(178)**	**(152)**	**(128)**	**(133)**	**(145)**	**(153)**
Net Debt to Equity (X)	*1.0*	*0.5*	*0.3*	*0.0*	*(0.4)*	*(0.4)*	*(0.5)*	*(0.5)*	*(0.4)*	*(0.3)*	*(0.3)*	*(0.3)*	*(0.3)*
Net Debt to EBITDA (X)	*2.2*	*0.8*	*0.7*	*0.1*	*(2.5)*	*(2.6)*	*(3.1)*	*(3.0)*	*(2.3)*	*(1.7)*	*(1.6)*	*(1.6)*	*(1.5)*

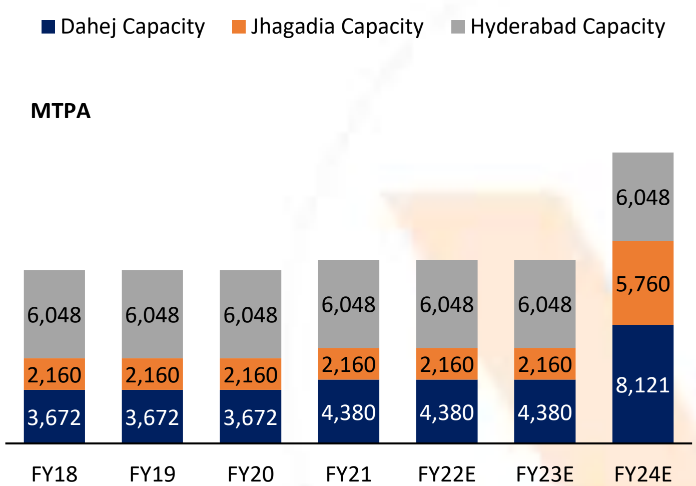
Source: Company Reports

Further improvement in capacity utilization of existing facilities along with additional volumes from enhanced capacities is expected to improve the overall production volumes and revenues at a CAGR of 9.6% each to 14,790 MT and INR 254 cr, respectively, by FY24. Similarly, EBITDA and PAT are expected to grow faster, at a CAGR of 10.3% (to INR 52 cr) and 13.3% (to INR 44 cr), over the same period due to better asset sweating on higher capacity utilization and faster debt repayment.

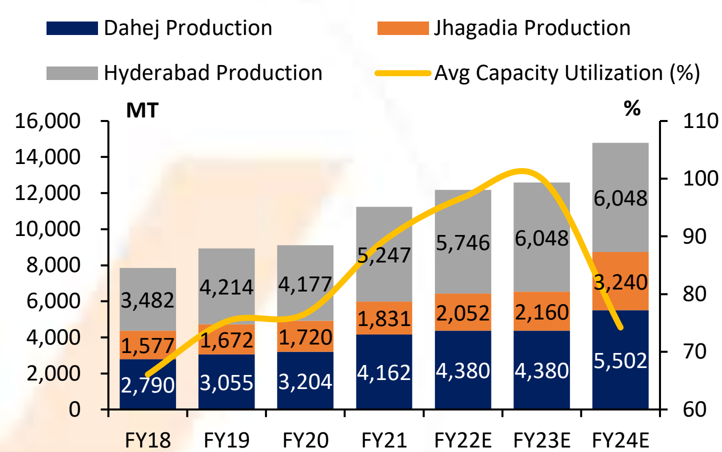
However, average return ratios, RoE and RoIC, are expected to decline by 2331bps (to 14.8%) and 1044bps (to 30.3%), respectively, due to a significant rise in share capital on account of equity flows from the IPO proceeds.

SIGACHI's Financial Performance

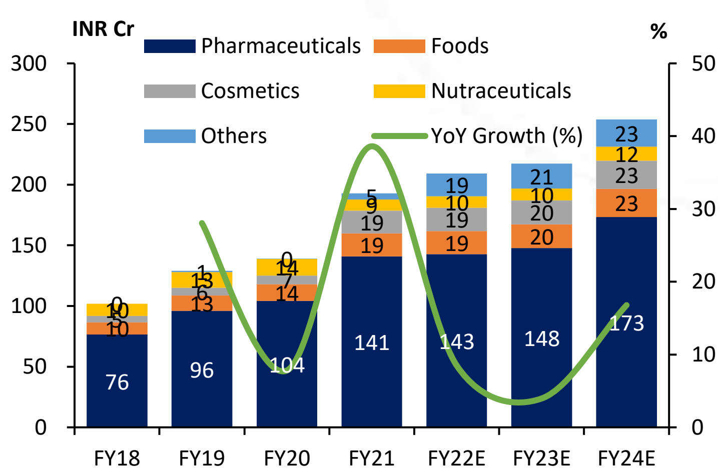
Significant capacity expansion plans in FY24



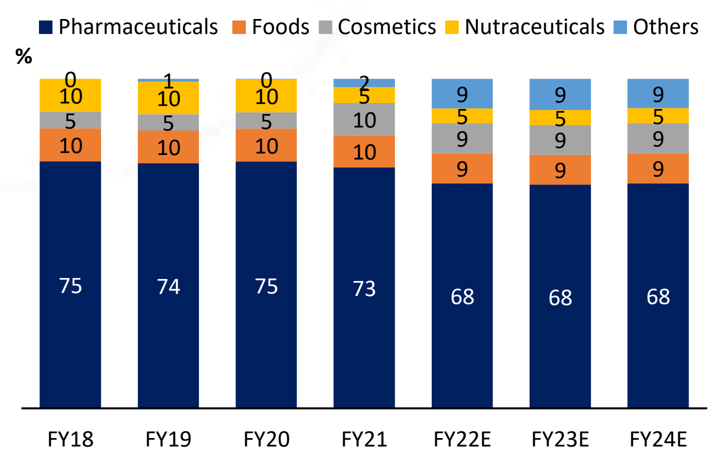
Short term drop in utilization is expected due to commencement of new facilities



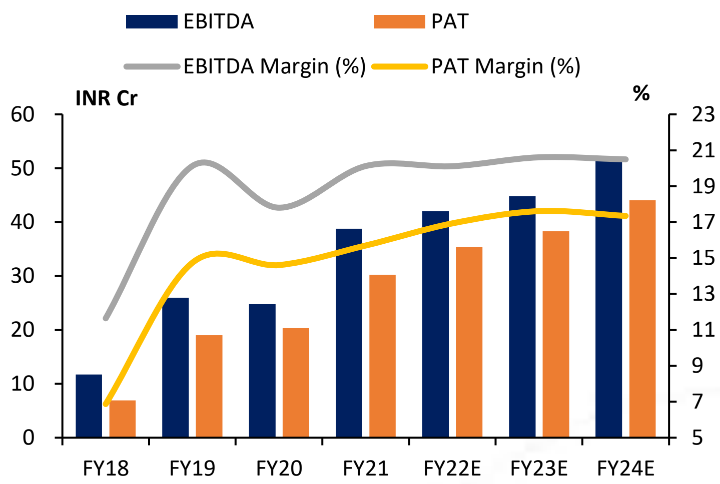
Pharma and FMCG (food & cosmetics) will continue to lead



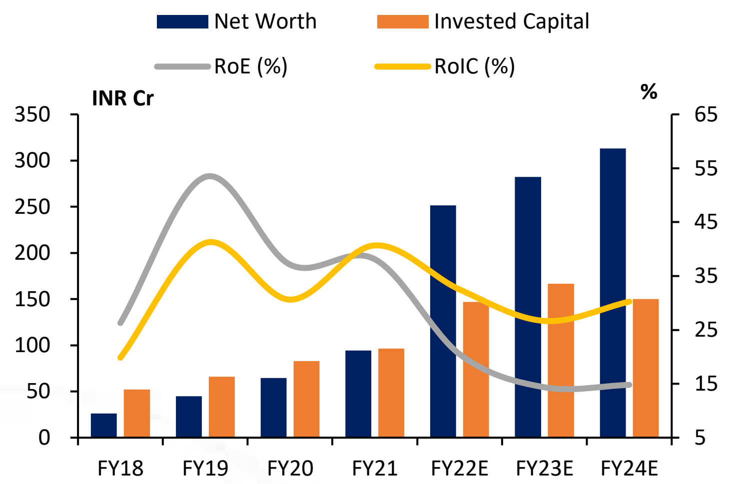
Share of Food & Cosmetics in SIGACHI's revenue to improve in coming years



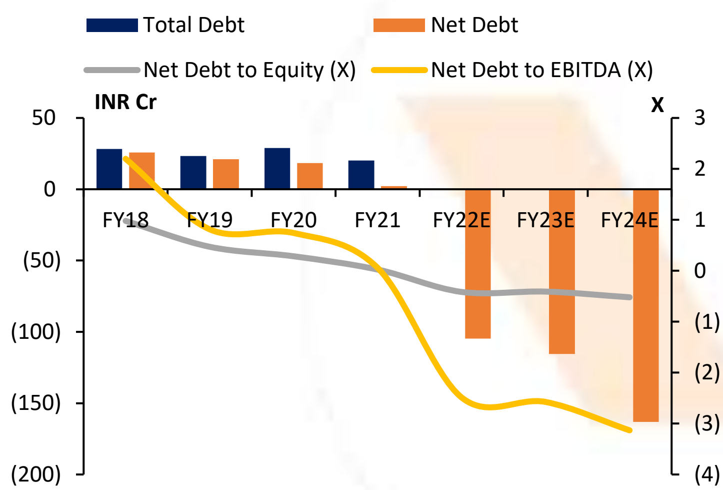
Operating leverage to benefit profitability



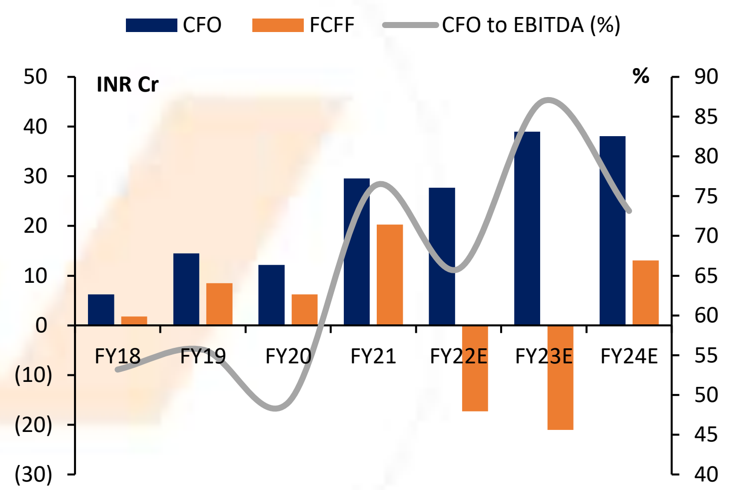
Return ratios to improve gradually after FY23



Balance sheet to become debt free in FY22



Better profitability ensures strong cash flow



Source: Company Reports

Key Growth Drivers

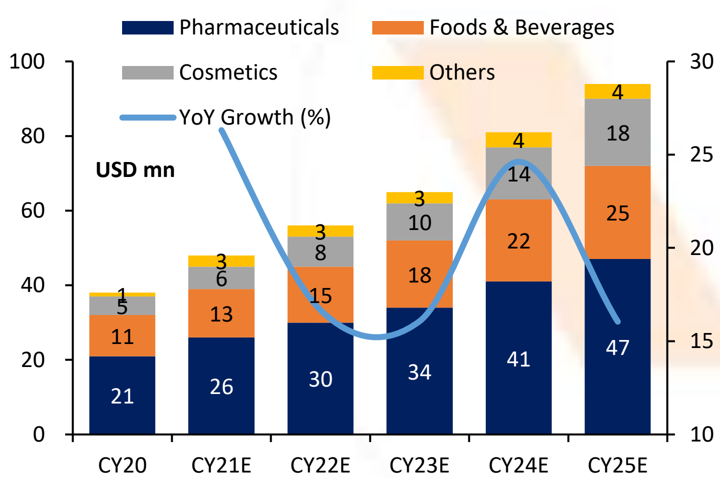
Stable industry outlook and growth opportunities

The global MCC market size is forecast to reach USD 1.4 bn by CY25, growing at a CAGR of 7.3% during CY20-25. The growth of the MCC market is mainly driven by the rising demand for packaged food, pharmaceutical, cosmetic & personal care products.

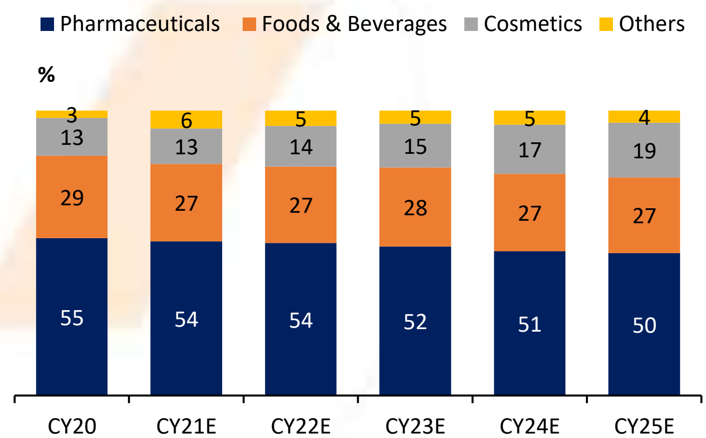
Among end-user industries, the pharmaceutical segment accounted for a dominant share, owing to the high use of MCC in tablets. This is due to its chemical inertness and dry binding properties. Food and beverage segments are expected to exhibit substantial growth in the global MCC market owing to its wide application in various food and beverages, including desserts, frozen food, dairy products, and baked goods. In addition to this, it is also used as a fat replacer and helps maintain food consistency.

Steady and Sustainable growth opportunity in domestic and global MCC market

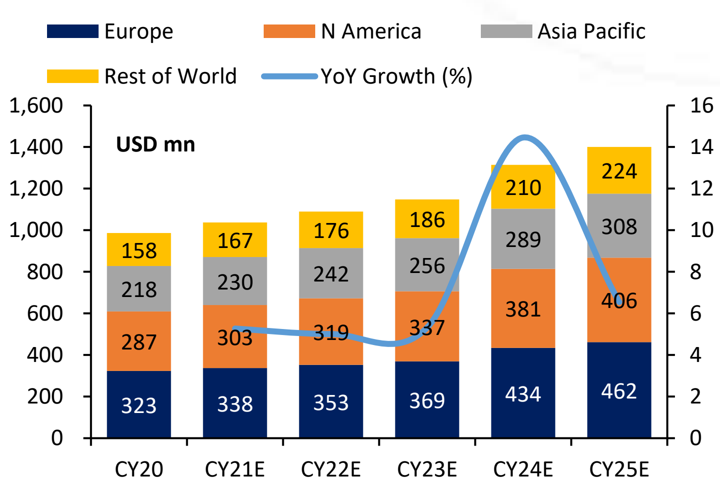
Segmental market size of MCC industry in India



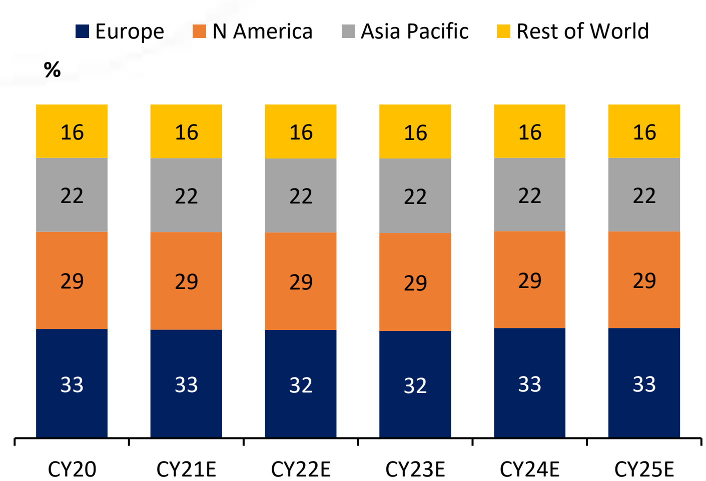
Cosmetics business to expand its share in Indian MCC market



Regional MCC market size



Regional shares to remain stable



Source: Company Reports

Microcrystalline Cellulose (MCC)

Source Type: Wood-based pulp. Produced through the hydrolysis of wood pulp. Approx. 1,100 kg of wood pulp is required to produce 1,000 kg of MCC.

End-Use Industry: Food & Beverage, Pharmaceutical, Cosmetics and Personal Care.

Application

- **Pharmaceuticals:** It is used in every form of oral dosage, which includes pellets, capsules, tablets and sachets due to its chemical inertness and dry binding properties.
- **Food & Beverages:** It is used as a substitute for unhealthy fat and adds texture to desserts, frozen food, dairy products, and baked goods. It contains a significant number of fibers that help to enhance digestion.

Key triggers

- An increase in lifestyle diseases due to rapid urbanization in developing countries has accelerated the growth of the pharmaceutical industry, especially oral dosages and tablets.
- Increasing demand for good quality food products and premium cosmetics from rapidly developing countries, like India, China and South-East Asia

SIGACHI: One of the leading manufacturers of MCC in India

SIGACHI is one of the early participants in the MCC industry in India. Since entering the market, the company has developed 50 grades of MCC, ranging from 15 microns to 250 microns having varied applications. A comprehensive product portfolio enables the company to serve diverse end-use applications

Global peers in key MCC markets

America	Europe	India	China
Du Pont	DFE Pharma	Sigachi Industries	Huzhou City LinghuXinwang Chemical
FMC Group	Friesland Campina	Libraw Pharma	Shandong Xinda Biotechnology
JRS Pharma			
Avantor			
Rayonier Advanced Materials			

Source: Company Reports

Being an integrated manufacturer, the company has a competitive advantage, to customize its products with variations as per the specifications of its customers. This distinguishes it from the other players in the industry and has been able to create a presence in India and internationally. SIGACHI exports its products to 41 countries including Australia, the USA, South America, the UK, Poland, Italy, Denmark, China, Colombia and Bangladesh.

Diversification in Croscarmellose Sodium (CCS) will be margin accretive

SIGACHI is further diversifying its product portfolio by adding Croscarmellose Sodium (CCS), which is used as a disintegrant in pharmaceutical formulations and provides long term stability. It is also used in the formulation of pharmaceutical tablets, pellets, and capsules which are manufactured by dry granulation, wet granulation or by direct compression.

The company is setting up a new brownfield facility at Kurnool (capacity: 4.0 MT per day, capex: INR 32-33 cr) to manufacture CCS, which will be operational in Dec 2023.

CCS generates better EBITDA margins of 24-25%, compared to 20-21% in CCS. With the commencement of the new capacity in FY25 we estimate the blended EBITDA margins to be in the range of 22-23%.

Croscarmellose Sodium (CCS)

Source Type: Crude cellulose (extracted from wood-based pulp).

End-Use Industry: Food & Beverage, Pharmaceutical, Cosmetics and Personal Care.

Application

- **Pharmaceuticals:** It is used as a disintegrant in pharmaceutical formulations which ensure the rapid break down into their primary particles, facilitating the dissolution or release of the active ingredients.

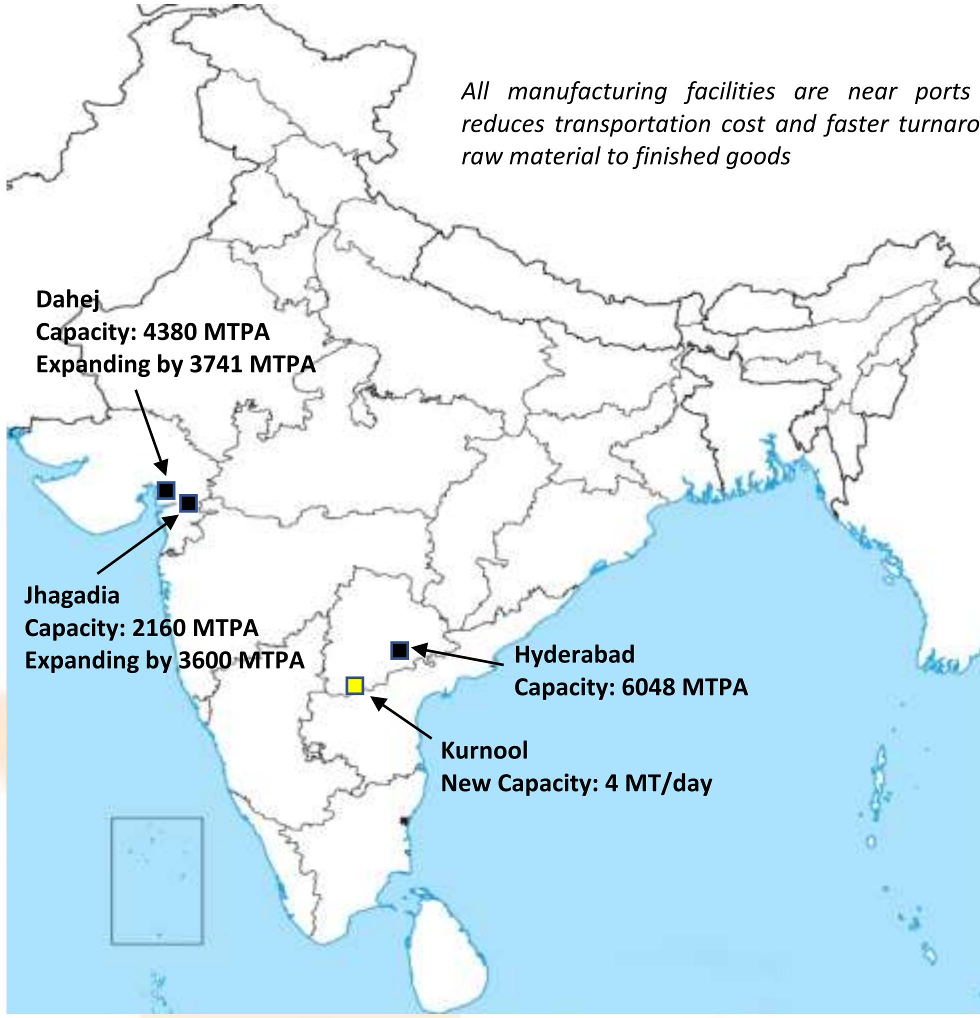
Key triggers

- Generic drug manufacturers use disintegrants in their formulations to match the efficiency of their generic drug with the patented drugs. The rapidly growing generic drug market provides significant opportunities.

Strategically located manufacturing facilities

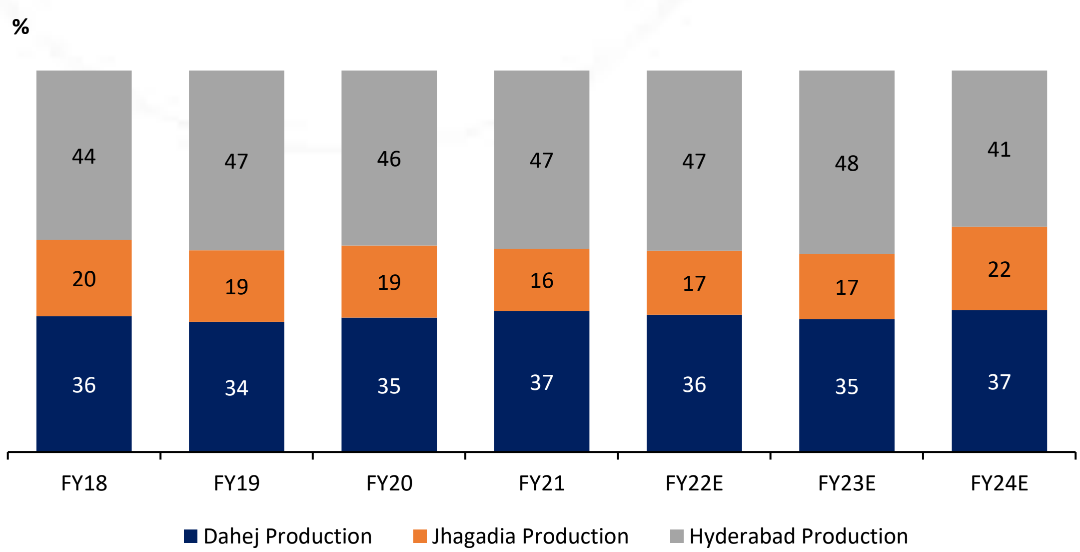
With three units located across Gujarat and Telangana, Sigachi has an aggregate installed capacity of 11,880 MTPA. The facilities house equipment and systems and comply with the norms of USFDA and WHO-GMP. The production facility at Dahej – SEZ, with next door 'Dahej Port', gives added advantages in terms of tax benefits, reduced transportation costs and faster turn-around of raw material to finished goods.

SIGACHI's plant locations



Source: Company Reports & Ventura Research

Share of Revenue from Manufacturing Facilities



Source: Company Reports & Ventura Research

Management Team

Key Person	Designation	Details
Mr Swami Das Nigam	Chairman of the Board and Non-Executive Director	He holds a bachelor's degree in Engineering (Electrical) from Birla Engineering College, Pilani. He has been associated with the company since 2014
Mr Rabindra Prasad Sinha	Whole-time Director, Chairperson & Promoter	He holds a bachelor's degree in science (chemical engineering) from Bihar Institute of Technology and a master's degree in chemical engineering from Banaras Hindu University. He has an experience of over three decades in the cellulose and fine chemicals industry.
Mr Chidambarnathan Shanmuganathan	Whole-time Director, Chairperson & Promoter	He holds a bachelor's degree in science from University of Madras. He has qualified the PGDBM from Annamalai University and the national certificate examination in supervision held by National Productivity Council, New Delhi. He has an experience of more than five decades in the field of variety of chemicals and derivatives of cellulose.
Mr Amit Raj Sinha	MD, CEO & Promoter	He is an ex-member of the naval forces and is an alumnus of the Naval College of Engineering. He holds a bachelor's degree in technology with a specialization in mechanical engineering from the Jawaharlal Nehru University, New Delhi and is a fellow member of the Institute of Engineers. He has qualified the MBA program for senior executives from the ISB.
Mr Vijaykumar Amrutlal Bhavsar	Whole-time Director	He holds a bachelor's degree in engineering from Gujarat University. He has an experience of more than two decades in chemical and pharmaceutical industry.
Mr Subbarami Reddy Oruganti	CFO	He holds a bachelor's degree in commerce from Nagarjuna University and a master's degree in business administration from Sikkim Manipal University.

Source: Company Reports

Key Risks & Concerns

- SIGACHI is yet to place orders for 83% of the equipment for its new facilities. Any delay in placing orders or procurement of such plant and machinery may delay the schedule of implementation and possibly increase the cost of commencing operations.

- The company's business depends on the demand from the global pharmaceutical and FMCG industry for a significant portion of its revenue. Any downturn in the global pharmaceutical or FMCG industry could adversely affect business performance.

- The company imports 100% of its raw materials. Though it usually passes on the price fluctuations to its clients, however, in any event, if it fails to transfer the cost, it will directly impact the operating profitability of the company.

Issue Structure and Offer Details

The proposed issue size of SIGACHI's fresh issue IPO is INR 125.4 cr. The price band for the issue is in the range of INR 161-163 and the bid lot is 90 shares and multiples thereof.

Issue Structure

Category	No of Share Offered	Allocation
QIB	At least 3,847,500	At least 50% of publilc issue
Non Institutional Bidders	Not more than 1,154,250	Not more than 15% of public issue
Retail	Not more than 2,693,250	Not more than 35% of public issue

Number of shares based on higher price band of INR 163

Source: Company Reports

Shareholding Pattern

Category	Pre Issue Holding (%)	Post Issue Holding (%)
Promoters & Promoter Group	64.6	48.5
Institution	35.4	42.8
Public	0.0	8.8
Total	100.0	100.0

Source: Company Reports

Financial Analysis & Projections

Fig in INR Cr (unless specified)	FY20	FY21	FY22E	FY23E	FY24E
Income Statement					
Revenue	**139.1**	**192.8**	**209.1**	**217.4**	**253.9**
YoY Growth (%)	*7.8*	*38.6*	*8.5*	*4.0*	*16.8*
Raw Material Cost	72.1	100.7	109.1	112.8	132.5
RM Cost to Sales (%)	*51.8*	*52.3*	*52.2*	*51.9*	*52.2*
Employee Cost	14.9	17.4	20.9	21.5	24.9
Employee Cost to Sales (%)	*10.7*	*9.0*	*10.0*	*9.9*	*9.8*
Other Expenses	27.3	35.9	37.0	38.3	44.4
Other Exp to Sales (%)	*19.6*	*18.6*	*17.7*	*17.6*	*17.5*
EBITDA	**24.8**	**38.8**	**42.1**	**44.8**	**52.0**
Margin (%)	*17.8*	*20.1*	*20.1*	*20.6*	*20.5*
YoY Growth (%)	*(4.6)*	*56.7*	*8.4*	*6.5*	*16.1*
Depreciation & Amortization	2.0	2.3	2.5	3.0	4.1
EBIT	**22.8**	**36.5**	**39.5**	**41.8**	**47.9**
Margin (%)	*16.4*	*18.9*	*18.9*	*19.2*	*18.9*
YoY Growth (%)	*(6.1)*	*60.0*	*8.3*	*5.8*	*14.5*
Other Income	4.9	3.3	4.2	4.9	5.8
Finance Cost	2.3	1.2	0.5	0.0	0.0
Interest Coverage (X)	*9.7*	*29.2*	*76.9*	*NA*	*NA*
Exceptional Item	0.0	0.0	0.0	0.0	0.0
PBT	**25.3**	**38.5**	**43.2**	**46.7**	**53.7**
Margin (%)	*18.2*	*20.0*	*20.6*	*21.5*	*21.2*
YoY Growth (%)	*2.5*	*51.8*	*12.2*	*8.2*	*15.0*
Tax Expense	5.0	8.2	7.8	8.4	9.7
Tax Rate (%)	*19.8*	*21.4*	*18.0*	*18.0*	*18.0*
PAT	**20.3**	**30.3**	**35.4**	**38.3**	**44.0**
Margin (%)	*14.6*	*15.7*	*16.9*	*17.6*	*17.3*
YoY Growth (%)	*6.9*	*49.0*	*17.0*	*8.2*	*15.0*
Min Int/Sh of Assoc	0.0	0.0	0.0	0.0	0.0
Net Profit	**20.3**	**30.3**	**35.4**	**38.3**	**44.0**
Margin (%)	*14.6*	*15.7*	*16.9*	*17.6*	*17.3*
YoY Growth (%)	*6.9*	*49.0*	*17.0*	*8.2*	*15.0*
Balance Sheet					
Share Capital	7.7	7.7	30.7	30.7	30.7
Total Reserves	56.9	86.5	220.8	251.4	282.2
Shareholders Fund	**64.6**	**94.2**	**251.5**	**282.1**	**313.0**
Long Term Borrowings	1.9	1.9	0.0	0.0	0.0
Long Term Provisions	0.7	0.8	0.9	1.0	1.1
Deferred Tax Liabilities	2.9	4.4	4.4	4.4	4.4
Total Liabilities	**70.1**	**101.2**	**256.8**	**287.5**	**318.4**
Net Block	31.2	37.6	40.1	47.1	67.9
Capital WIP	3.1	3.7	40.0	50.0	0.0
Other Intangible Assets	0.4	0.3	0.3	0.3	0.3
Non Current Investments	0.0	0.2	0.2	0.2	0.2
Other LT Financial Assets	1.3	1.8	1.9	2.0	2.3
Other Non Current Assets	1.0	2.7	2.9	3.0	3.5
Net Current Assets	33.0	54.9	171.4	184.9	244.2
Total Assets	**70.1**	**101.2**	**256.8**	**287.5**	**318.4**

Fig in INR Cr (unless specified)	FY20	FY21	FY22E	FY23E	FY24E
Per share data & Yields					
Adjusted EPS (INR)	6.6	9.8	11.5	12.5	14.3
Adjusted Cash EPS (INR)	7.2	10.6	12.3	13.4	15.7
Adjusted BVPS (INR)	21.0	30.6	81.8	91.8	101.8
Adjusted CFO per share (INR)	3.9	9.6	9.0	12.7	12.4
CFO Yield (%)	2.4	5.9	5.5	7.8	7.6
Adjusted FCF per share (INR)	2.0	6.6	(5.6)	(6.8)	4.2
FCF Yield (%)	1.2	4.0	(3.5)	(4.2)	2.6
Solvency Ratio (X)					
Total Debt to Equity	0.4	0.2	0.0	0.0	0.0
Net Debt to Equity	0.3	0.0	(0.4)	(0.4)	(0.5)
Net Debt to EBITDA	0.7	0.1	(2.5)	(2.6)	(3.1)
Return Ratios (%)					
Return on Equity	31.5	32.1	14.1	13.6	14.1
Return on Capital Employed	19.7	26.3	12.9	12.2	12.5
Return on Invested Capital	27.5	37.8	26.9	25.1	31.9
Working Capital Ratios					
Payable Days (Nos)	19	15	15	15	15
Inventory Days (Nos)	73	40	45	45	45
Receivable Days (Nos)	72	68	75	75	75
Net Working Capital Days (Nos)	127	93	105	105	105
Net Working Capital to Sales (%)					
Valuation (X)					
P/E	24.7	16.6	14.2	13.1	11.4
P/BV	7.8	5.3	2.0	1.8	1.6
EV/EBITDA	21.0	13.0	9.4	8.6	6.5
EV/Sales	3.7	2.6	1.9	1.8	1.3
Cash Flow Statement					
PBT	25.3	38.5	43.2	46.7	53.7
Adjustments	1.7	(0.0)	3.4	3.1	4.5
Change in Working Capital	(9.9)	(0.7)	(11.1)	(2.4)	(10.5)
Less: Tax Paid	(5.0)	(8.2)	(7.8)	(8.4)	(9.7)
Cash Flow from Operations	**12.1**	**29.6**	**27.7**	**39.0**	**38.1**
Net Capital Expenditure	(5.9)	(9.3)	(45.0)	(60.0)	(25.0)
Change in Investments	(0.9)	(2.1)	2.7	39.5	47.8
Cash Flow from Investing	**(6.8)**	**(11.4)**	**(42.3)**	**(20.5)**	**22.8**
Change in Borrowings	5.8	(8.7)	(20.2)	0.0	0.0
Less: Finance Cost	(2.3)	(1.2)	(0.5)	0.0	0.0
Proceeds from Equity	0.0	0.0	125.4	0.0	0.0
Dividend Paid	(0.4)	(0.8)	(3.5)	(7.7)	(13.2)
Cash flow from Financing	**3.1**	**(10.7)**	**101.2**	**(7.7)**	**(13.2)**
Net Cash Flow	**8.5**	**7.4**	**86.6**	**10.8**	**47.6**
Opening Balance of Cash	2.1	10.6	18.0	104.6	115.4
Closing Balance of Cash	**10.6**	**18.0**	**104.6**	**115.4**	**163.0**

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Corporate Office: I-Think Techno Campus, 8th Floor, ‘B’ Wing, Off Pokhran Road No 2, Eastern Express Highway, Thane (W) – 400608