

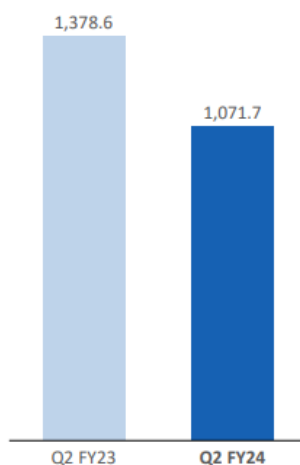
# q2 fy24

## Q2 FY24 Performance Highlights

Total Revenue (Rs. mn)



EBITDA (Rs. mn)



Profit After Tax (Rs. mn)



Particulars (Rs. in mn)	Q2 FY24	Q2 FY23	YoY %
<b>Total Income</b>	<b>3,020.4</b>	<b>3,126.5</b>	<b>(3.4)</b>
Cost of material consumed	119.4	84.7	
Change in Inventory	68.2	208.4	
Employee Cost	192.0	114.7	
Other Expenses	1,569.1	1,340.0	
<b>EBITDA</b>	<b>1,071.7</b>	<b>1,378.6</b>	<b>(22.3)</b>
<b>EBITDA Margin (%)</b>	<b>35.5%</b>	<b>44.1%</b>	
Depreciation	174.6	168.6	
<b>EBIT</b>	<b>897.1</b>	<b>1210.0</b>	
<b>EBIT Margin (%)</b>	<b>29.7%</b>	<b>38.7%</b>	
Finance Cost	20.0	349.7	
<b>Profit before Tax</b>	<b>877.1</b>	<b>860.3</b>	
Tax	213.6	221.2	
<b>Profit After Tax</b>	<b>663.5</b>	<b>639.1</b>	<b>3.8</b>
<b>Profit After Tax Margin (%)</b>	<b>22.0%</b>	<b>20.4%</b>	
EPS (in Rs.) - Basic	5.39	6.19	
EPS (in Rs.) - Diluted	5.37	6.19	



- » A leading Manufacturer of **Specialty Marine Chemicals** in India
- » Strong Clientele - 29 Global & 38 Domestic
- » Integrated production Facility located at Hajipir, Gujarat
- » Largest exporter of Bromine and Industrial Salt in India
- » 'Responsible Care' Certification is in process

**Rs. 6,563 Mn**  
\*H1 FY24 Revenue

**Bromine**

- Leadership position in Indian Bromine merchant sales

**Industrial Salt**

- 100% Export business

**Sulphate of Potash**

- Only Manufacturer from natural sea brine in India

## 1. Strong Product Portfolio



Product	Bromine	Industrial Salt	SOP																																										
<b>Overview</b>	<ul style="list-style-type: none"> <li>Bromine is the only non-metallic element that is a liquid at standard conditions</li> <li>It is a member of the halogen family and is found naturally in seawater, underground brine deposits and other water reservoirs</li> </ul>	<ul style="list-style-type: none"> <li>There are 14,000 commercial uses of Salt, a source of Sodium and Chlorine which are basic components of an array of materials – such as plastics, glass, synthetic rubber, cleansers, pesticides, paints, adhesives, fertilizers etc.</li> </ul>	<ul style="list-style-type: none"> <li>Sulphate of Potash, also known as potassium sulphate, is a high-end, <b>specialty fertilizer</b> for chlorine-sensitive crops.</li> </ul>																																										
<b>Archean's Position</b>	<ul style="list-style-type: none"> <li>Leadership position in Indian Bromine merchant sales</li> </ul>	<ul style="list-style-type: none"> <li>Produced using the solar evaporation method.</li> <li>100% Export business</li> </ul>	<ul style="list-style-type: none"> <li>Only Manufacturer of SOP from natural sea brine, in India</li> <li>KTMS (kainite type mixed salt) had higher NaCl content (Sodium Chloride), which led to lower SOP production in the last few years</li> </ul>																																										
<b>End User Industries</b>	<ul style="list-style-type: none"> <li>Pharmaceuticals</li> <li>Agrochemicals</li> <li>Flame Retardants</li> <li>Water Treatment</li> <li>Oil &amp; Gas &amp; energy storage</li> </ul>	<ul style="list-style-type: none"> <li>Chloralkali Chemicals</li> <li>Food &amp; Beverage</li> <li>Water Treatment</li> <li>Oil &amp; Gas</li> </ul>	<ul style="list-style-type: none"> <li>Agrochemicals</li> <li>Various industries including glass, cosmetics etc.</li> <li>Medical uses</li> </ul>																																										
<b>*Revenue Trend (mn)</b>	<table border="1" style="display: none;"> <tr><th>Year</th><td>FY19</td><td>FY20</td><td>FY21</td><td>FY22</td><td>FY23</td><td>H1FY24</td></tr> <tr><th>Revenue (mn)</th><td>2,253</td><td>2,155</td><td>3,444</td><td>6,052</td><td>7,084</td><td>2,195</td></tr> </table>	Year	FY19	FY20	FY21	FY22	FY23	H1FY24	Revenue (mn)	2,253	2,155	3,444	6,052	7,084	2,195	<table border="1" style="display: none;"> <tr><th>Year</th><td>FY19</td><td>FY20</td><td>FY21</td><td>FY22</td><td>FY23</td><td>H1FY24</td></tr> <tr><th>Revenue (mn)</th><td>2,998</td><td>3,520</td><td>3,637</td><td>5,129</td><td>7,281</td><td>3,868</td></tr> </table>	Year	FY19	FY20	FY21	FY22	FY23	H1FY24	Revenue (mn)	2,998	3,520	3,637	5,129	7,281	3,868	<table border="1" style="display: none;"> <tr><th>Year</th><td>FY19</td><td>FY20</td><td>FY21</td><td>FY22</td><td>FY23</td><td>H1FY24</td></tr> <tr><th>Revenue (mn)</th><td>402</td><td>398</td><td>325</td><td>114</td><td>31</td><td>173</td></tr> </table>	Year	FY19	FY20	FY21	FY22	FY23	H1FY24	Revenue (mn)	402	398	325	114	31	173
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\*On Standalone basis

### 3. High Entry Barriers



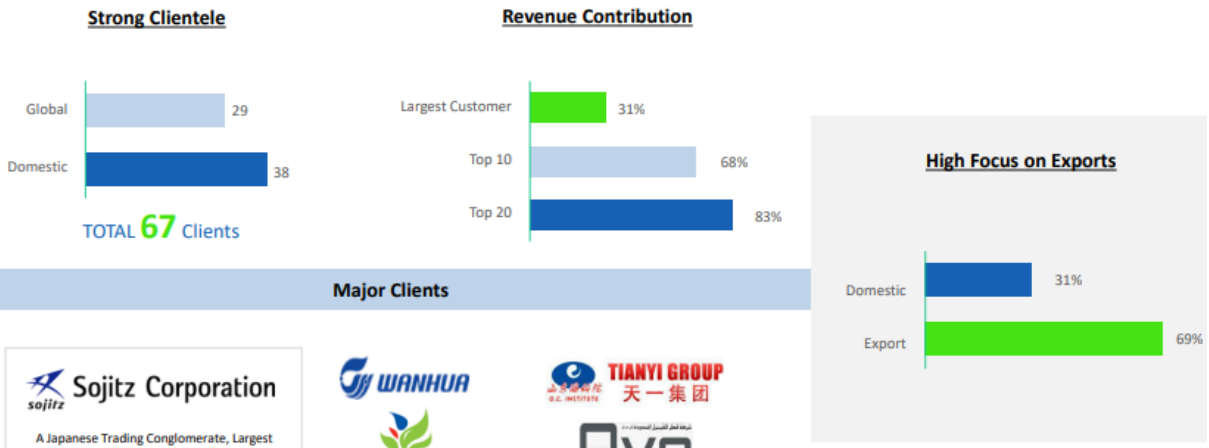
*Archean has proven to be a reputed producer with a track record of providing high quality products*



### 4. Deep Engagement with Clients



**Enduring customer relationships helped to expand product offerings and geographic reach**



#### Major Clients



- Sojitz is a Japanese Trading Conglomerate with diverse client base
- Enjoy relationships in **excess of five years** with seven out of top ten customers

The Brand Names and Logos mentioned are the property of their respective owners and are used here for identification purposes only

#### R&D Depth

- State of art R&D facility at plant location.
- Continuous effort undertaken to evaluate the brine chemistry.
- Recently, brand new R&D facility has been set up in Jhagadia for Bromine downstream project.



# Moving up the Value Chain



## 01. Brownfield Expansion

Expanded Bromine and Industrial Salt capacities

- Bromine**
  - Added a feed enrichment section at the site in Hajjipir, Gujarat which increased Bromine capacity by 18,000 MT per annum.
  - Added an additional 14,500 MT per annum capacity in FY23 which will be used for producing Bromine Derivatives in the upcoming greenfield project
- Industrial Salt**
  - Intend to expand the manufacturing capacities for Industrial Salt production by adding one additional washery of 250 tons per hour

## 02. Greenfield Expansion

To expand into downstream Bromine derivative performance products

- Bromine Derivatives**
  - Setting up a new facility at Jhagadia, GIDC through Acume Chemicals Private Limited (Subsidiary) to manufacture Bromine Performance Derivatives
  - Primarily Brominated flame retardants, Clear Brine Fluids & Bromine Catalysts

# Greenfield Expansion of Bromine Derivatives



	Acume Chemicals Pvt. Ltd. Subsidiary	~Rs. 2,520 Mn CAPEX	Jhagadia, GIDC Location	Q1FY25e Timeline
Bromine Derivatives	<b>High-end Flame Retardant</b> 10,000 MTPA	<b>Clear Brine Fluids</b> 13,000 MTPA	<b>Pure Terephthalic Acid (PTA) Synthesis</b> 5,000 MTPA	
Overview	<ul style="list-style-type: none"> <li>Globally, properties worth billions of dollars are lost due to fire-related accidents every year. This makes anti-inflammatory agents or flame retardants crucial chemicals</li> </ul>	<ul style="list-style-type: none"> <li>A chemical compound used with additives in Well completion operations to make the solids free from brines</li> <li>These fluids are extensively used in the oil &amp; gas well-drilling industry</li> </ul>	<ul style="list-style-type: none"> <li>Primarily used to produce polyester</li> <li>A majority of PTA is consumed in the development of polyester resins, such as polyester films, polyester fibre and yarn, and PET material bottles</li> <li>Brominated catalyst is used for production of PTA</li> </ul>	
End User Industries	<ul style="list-style-type: none"> <li>Electronics industry, wire and cable compounds and in everyday commodities such as rubbers etc.</li> </ul>	<ul style="list-style-type: none"> <li>Produce calcium bromide which is used in Oil drilling and organic synthesis and flow batteries.</li> </ul>	<ul style="list-style-type: none"> <li>Polyester resins, such as polyester films, polyester fibre and yarn, and PET material bottles.</li> </ul>	
Global Market				\$ in mn
Source: Frost & Sullivan Report				

concall notes

## 1. growth -

1. seeing more customers and due to israel conflict the customers would want to diversify from there so that can act as an additional tailwind and added new customers as well in the quarter

## 2. capex-

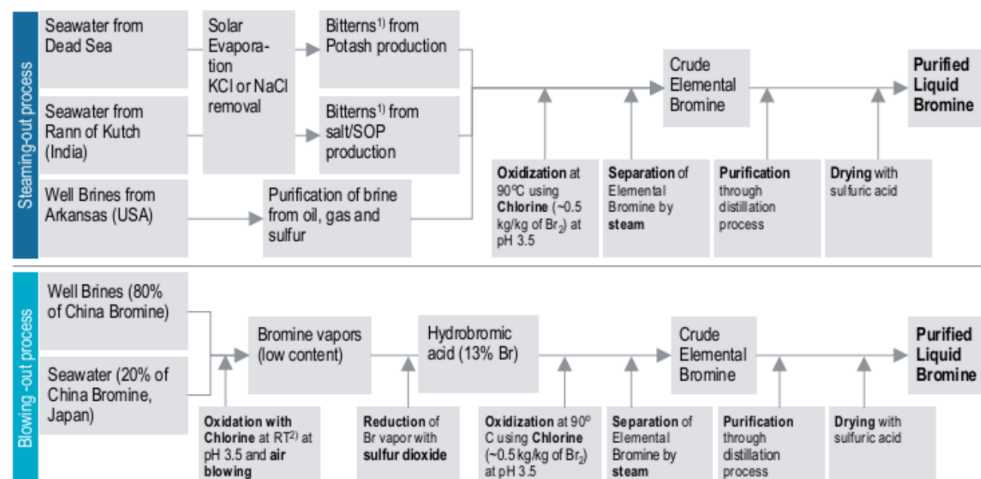
1. **bromine derivative** - recieved multiple request from customers for various products **timeline of completion by q4 fy24 / q1 fy25 , sampling started at RND center** will start sending samples to customer in january maybe
2. as this facility come online this will lead to bromine consumption and uptick in volumes of bromine - they expect to consume **13-14K tonnes of bromine capacity for full utilisation** and 40% of this to be consumed in flame retardant
3. **started smaple production of PTA and clear brine fluids \**
4. **fire retardant will come online in phase 2** after the PTA and brine facility is up and running

## 3. profitability

1. **realisation** - ebitda drop by 22% due to **bromine realisation decline**
2. **margins** - at 35% opposed to 40% plus (due to realisation increase in last year)
3. **even in tough time management remains confident that they can maintain the margins of 37-40% and this Q they have maintained 35%**
4. **bromine derivatives** - margin of 20-25% on taking prices of bromine prices in market

## 4. competitive advantages - MGT on capacity coming in laos and djibouti will be less of a worry due to production via seawater which is less in concentration

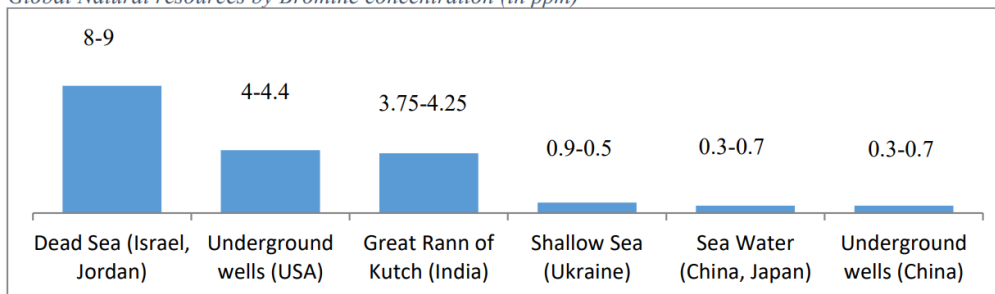
1. The below graphic summarizes the two primary processes:



1) The bittern liquid remaining after salt (in this case sodium chloride or potassium chloride) has been crystallized out of sea water; 2) RT = room temperature

1. **FLAME RETARDANT** - upcoming capacity already tied up with the Chinese firm (this is like a less risky capex where you get certainty that the goods produced are sold (unlike Tatva where they are finding and taking time to ramp up their capacities) thus it is safe to say that Archein ramp up would be fast
2. (now if you say Archein is a commodity so how is it doing 35%+ margins) yes it is a commodity in a way but the thing is that the company has a RM geographical moat of high concentration of brine in Rann of Kutch

Global Natural resources by Bromine concentration (in ppm)



Source: Albemarle investor presentation, Frost & Sullivan Analysis; Company Commissioned F&S Report

### 1. risks-

1. **lease** - WIP and no confirmation (although through this article we see that the promoter of the company is an ally of BJP govt so it is less of a worry) <https://timesofindia.indiatimes.com/city/ahmedabad/hc-rejects-pil-against-land-allotment-to-archean-chemicals/articleshow/14496434.cms>

### 2. industry tailwinds -

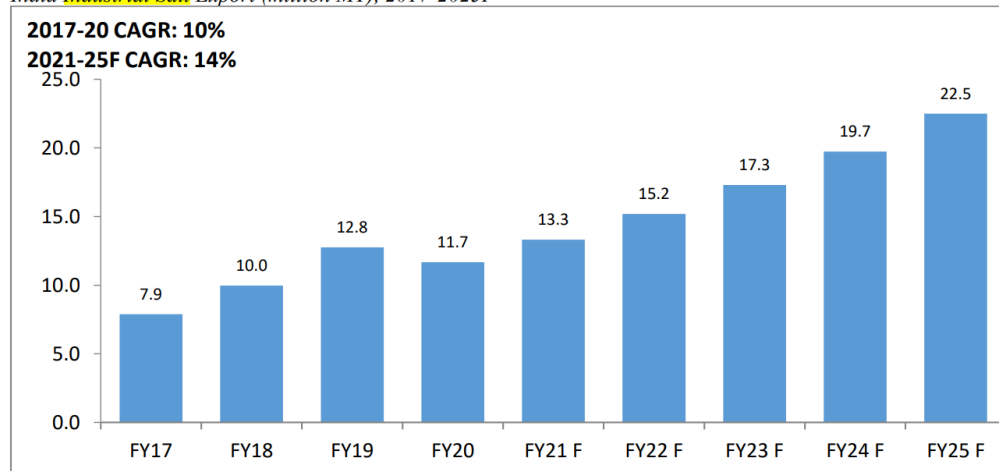
1. bromine demand to rise as stricter fire safety norms in smartphones, tv, cables and other electric projects (especially in China as they have major capacities in this)
2. but on the same lines as mfg move out of China this can play a **key risk too** (interesting data point now the thing is that electronics mfg won't move out of China in a whiff it needs time and even it moves India is one of the options so can Archein supply these chemicals in India (probably yes))
3. supply chain diversification from Israel and Jordan can play a role in getting demand from customers

### 3. industry structure -

1. **bromine** - is around 3 billion dollars annually expected to grow around mid single digits
2. **industrial salt** - used in mostly chlorine chemistry
4. **management** -
  1. **demand**- foresee demand coming back in h2 and this is more on restocking than demand supply mismatch
  2. even in tough time management remains confident that they can maintain the margins of 37-40%
  3. would be able to maintain this 35% as this is the bottom level
5. **business details**
  1. **Inventory destocking** - there are deferral in purchases from some customers as they are going through inventory destocking in bromine
    1. sold 3400 by volume (before they were 4000-4500)
  2. **domestic demand** also weak due to slow agro chem
  3. **industrial salt** - maintaining 1 mn tonnes per quarter even in this environment and momentum to continue as long term contracts are there
  4. Q3 and q4 are the strongest quarter
  5. **inventory** - holding inventory has 2 reason a) that is due to not selling at lower margins B) opportunity to export due to west asia crisis that is leading to customer demand urgently products
  6. **POS (pottasium of sulphate)** - started doing meaningful business this quarter and this they looking for further product diversification and would be able to serve domestic customers in next year, seeing good demand here as well in end uses
    1. sold 3800 in the quarter
    2. **team going for sample production to technology partner(germany) which will see sample production after that changes will be made on ground infra**
  7. **long term contracts** - a portion of revenue come from these and this provides them predictability of doing business
  8. **geographical mix** - 72% export 28% domestic
  9. **Bromine demand** has seen an uptick but realisation similar as no demand supply mismatch

10. -Industrial salt has been used in wide end user industries they serve mostly chlorine and chlorine-derivative manufacturers in the Asian market. (now the interesting part is Indian chemical industry is expected to grow and industrial salt consumption in india will even grow and the need for more purer salt will be required (assuming that archean is exporting all of its industrial salt there must be something better in their production and cost that their customers are buying from india and for such long time )

India **Industrial Salt** Export (million MT), 2017-2025F



Source: Indian Bureau of Mines, Frost and Sullivan analysis

11. expanded their client base with a balanced mix of domestic and global customers. Went into longer term contracts with larger customers also
12. inventory is high due to 2 things 1.they do not want to sell below what they want 2. Keeping inventory can help with what's happening in West aisa . Customers will suddenly want raw material . They think they're the only ones who have the abilityto supply from the inventory they have. So it's worked in their favor in that context. And as they said, some of the export customers have come back online, and I think we're able to meet that demand pretty quickly when someone's asking for shipments immediately. So I think in that context, the holding inventory is helping them.

#### 6. **one time events**

1. **israel hamas** - no effect seem on business due to conflict in bromine industry ( dead sea pits in israel makes it one of the major and lower cost producer of bromine

#### 7. **mental models - forward integration, low cost producer, make in india and export to china,capex , supply side dominance(rann of kutch brine )**

#### **key variables to track**



- industrial salt prices
- bromine prices
- sop prices
- flame retardants (phasing out of bromine based retardants)
- china electronics market
- oil and gas industry capex as brine fluids will be used in them
- PTA prices

**technicals**

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