

Oct 21, 2021

RE-INITIATING REPORT

VOL-7, NO-12

Industry: Commodity Chemicals

Sadhana Nitrochem Limited

BUY

CMP: Rs.39

TARGET PRICE: Rs.60

TIME : 12 months

### REINITIATION REPORT

We had initiated coverage on Sadhana Nitrochem Limited on 31st July, 2017 at the price of Rs67 for a target of Rs100 which was then revised to Rs125 before the call was closed on 9th January, 2018 at Rs128 which justified the valuations that time. The company has been under our soft coverage since then. There have been many encouraging events with regard to the corporate action as well on the business front. We feel that it is the appropriate juncture to get the company back on our radar. We thereby re-initiate coverage on the stock with a revised zeal and business outlook.

### About the Industry:

**Nitro Benzene (NB) Market:** NB is primarily used as a precursor for Aniline, its feedstock is benzene which on nitration produces NB and can also be selectively reduced to azobenzene, hydrazobenzene, azoxybenzene, nitrosobenzene, etc. Global NB market size was valued at USD9.3bn in 2019 and the total revenue is expected to grow at 5.6% through 2020 to 2026, to reach USD19.86bn by 2031. Factors that can lead to the development of market are expansion of the construction industry, increasing demand for rubber in the automotive industry, urbanization in developed and developing countries and the increasing demand for fertilizers in the agricultural industry. NB is primarily used in the manufacture of aniline and has many other applications in agricultural, polymers, leather, automotive, pharmaceutical and chemical industries (intermediate for dyes) etc. It is also used to produce lubricating oils used in motors and machinery and a small amount of NB is used in the manufacture of dyes, drugs, pesticides, and synthetic rubber. In the automotive segment, Methylene Diphenyl Diisocyanate (MDI) used to manufacture Polyurethane (PU) foams and synthetic rubber is derived from nitrobenzene (via aniline production), production of various automotive interiors and steering wheels, airbag covers, front and rear glass panes, waterproof floor materials etc. In fertilizers sector, NB is extensively used due to its ability to increase the crop yield, increasing their flowering capacity and maximizing the number of fruits per plant.

Globally, Asia-Pacific has the largest market for NB and is dominated by demand from countries like India and China. US has been dominating the North American market due to demand from the construction, automotive, and electronics sectors. Europe, too is a prominent player in the global market where Germany is a key player in the automotive industry driving the NB market in this region. Key players include The Chemours Company, The Dow Chemical Company, Huntsman International LLC, Connell, Bann Química Ltd, Covestro AG, SP Chemicals Holdings Ltd, Aromsyn Co., Ltd, Nanjing Chemical Material Corp, Kumho Mitsui Chemicals Corp, China Qingdao HongJin Chemical Co., Ltd, Anhui Bayi Chemical Industry Co., Ltd, Shanghai Yuanye Bio-Technology Co. Ltd, Shandong Jinling Chemical Co etc. The price of the product is correlated with the price trends of crude oil, demand-supply gap, fluctuations in the feedstock and market movement of the downstream sectors.

Cash-rich companies in the NB market are giving a tough competition to medium and small-scale players by introducing new technologies in terms of manufacturing, research, and packaging. Some chemical companies are also trying to establish a stable revenue stream via pharma applications in the production of analgesic acetaminophen or paracetamol. According to a recent research it is found, NB and its derivatives are highly toxic compounds and such findings are affecting growth of the NB market. Hence, stakeholders are increasing R&D in microbial degradation of nitrobenzene via either a reductive mode or an oxidative mode to reduce environmental impact pertaining to nitrobenzene and its derivatives.

SNAPSHOT				
52 week H / L		Mcap (INR mn)		
53 / 13		7638		
Face value: 1				
BSE Code		NSE CODE		
506642		NA		
Annual Performance				
(Rs mn)	FY19	FY20	FY21	FY22E
Total Revenue	2,670	1,061	1,031	1,515
EBITDA	1,205	290	234	379
EBITDA (%)	45.1	27.4	22.7	25.0
Other Income	12	20	49	19
Interest	120	28	34	49
Depreciation	29	58	62	72
PBT	1,069	223	187	277
PAT	758	147	159	206
Equity (Rs mn)	93	93	140	196
EPS (INR)	40.7	7.9	1.1	1.1
Quarterly Performance				
Parameters (Rs mn)	Sept-20	Dec-20	Mar-21	June-21
Sales (Net)	206	265	395	285
EBITDA	23	20	172	47
EBITDA (%)	11.1	7.5	43.6	16.6
Other Income	8	46	-13	5
Interest	8	7	11	8
Depreciation	16	16	15	15
PAT	5	34	114	23
Equity (Rs mn)	140	140	140	140
Ratio Analysis				
Parameters (Rs mn)	FY19	FY20	FY21	FY22E
EV/EBITDA (x)	6.3	27.9	35.7	22.1
EV/Net Sales (x)	2.9	7.6	8.1	5.5
M Cap/Sales (x)	2.9	7.2	7.4	5.0
M Cap/EBITDA (x)	6.3	26.3	32.7	20.2
Debt/Equity (x)	0.2	0.6	0.8	0.7
ROCE (%)	141.8	20.7	14.9	18.0
Price/Book Value (x)	0.7	0.6	4.2	4.9
P/E (x) TTM	1.0	5.0	34.3	37.1
Shareholding Pattern as on 30th June, 2021				
Parameters	No of Shares	%		
Promoters	103,421,983	74.02		
Institutions	317,715	0.23		
Public	35,987,537	25.76		
<b>TOTAL</b>	<b>139,727,235</b>	<b>100.0</b>		

Source: Annual Report, \*Note corporate actions in Financials; Adj SHP FY22E  
Note: All the data is calculated as per Market Price on 20th Oct, 2021

**About the Industry (contd):**

**Aniline:** As per verifiedmarketresearch.com, the aniline market size was valued at 7.38MT in 2020 and is projected to reach 11.23MT by 2028, growing at a CAGR of 4.93% from 2021 to 2028. The market by application is bifurcated into dyes and pigments, MDI, plant protecting products, rubber chemical, pharmaceuticals, others. Some of the major triggers propelling the growth of demand for aniline include its use as a raw material in the production of several end-products (end-use industries), rapid industrialization in developed as well developing countries, increasing R&D activities in the petroleum industry, increasing automotive sales, high adoption by automotive manufacturers for the production of MDI foams etc. Aniline is widely used in the manufacture of textile dyes and intermediates of textile dyes; in the rubber industry, its derivatives are used as accelerators, reinforcement and strength of rubber and antioxidants; in the pharma industry, it is used in the manufacture of sulfanilamide drugs and synthetic sweeteners; manufacturing gelatin, nitrotoluene, nitrogen benzene and some more applications in the explosive industry. Some of the major players in the market include Covestro, SABIC, BASF SE, The Dow Chemical Company, Mitsui Chemical, First Chemical Corporation, Sumitomo Chemical, Mitsubishi Chemicals, Tosoh Corporation, Petrochina Co. Ltd etc.

**Meta Amino Phenol (MAP) Market:** MAP is known by various names such as 3-aminophenol, M-hydroxyaniline, and 3-hydroxyaniline and is an organic aromatic amine which is the meta isomer of 2-aminophenol and 4-aminophenol. It is used in a number of cosmetic products with applications for permanent hair dyes, tints, colors, optical bleaches, fluorescent agents etc. One key feature to note is the production of MAP is less as compared to the demand in cosmetic industries. In addition to this MAP is also used in drug industries, agricultural chemicals and high-performance polymers. The major production of MAP is done in North America, Asia Pacific, and Europe. Growing awareness and consciousness towards beauty, hair care, grooming, personal care etc. coupled with technological advancements in personal care & beauty product formulations are anticipated to boost the demand and create an unlimited opportunity to the manufacturers. The production of MAP is less as compared to its demand; thus, many manufacturers could focus on producing and exporting across the globe by targeting the cosmetic industry. Thus, the global MAP market is expected to have a positive outlook in the near future. Some of the major manufacturers and suppliers include Chemieliva Pharmaceutical Co. Ltd, AHH Chemical Co. Ltd., Sarchem Laboratories, Sumitomo Chemical Co., Hindustani Organic Chemicals Ltd., Aurora Fine Chemicals LLC, Sheetal Chemicals, Narada Trading Co., A. S. Joshi & Company, Emco Dyestuff Pvt Ltd, Sigma-Aldrich Corporation etc. The market segments are also distinguished on the basis of manufacturers like Hebei Jianxin, Sadhana Nitro Chem, EMCO dyestuff etc.

**PLI Schemes:** The Indian Pharma industry is the 3rd largest in the world (by volume) with a high market presence in several advanced economies in the US and EU. The industry is well known for production of affordable medicines in the generics space; however, India is dependent on the import of basic raw materials, i.e. bulk drugs used to produce medicines where the import dependence on some drugs is 80 to 100%. Thus, the main aim of the PLI scheme is meant to promote domestic manufacturing by setting up greenfield plants. In order to attain self-reliance and reduce import dependence in some critical bulk drugs, key starting materials (KSMs), drug intermediates and active pharmaceutical ingredients (APIs) in the country, the Department of Pharmaceuticals had launched PLI scheme for promotion of domestic manufacturing by setting up greenfield plants. With a total outlay of ~Rs69.4bn (period 2020-21 to 2029-30), the vision was to fetch value addition in four different target segments i.e. in two fermentation based (at least 90%) and two chemical synthesis based (at least 70%) projects. In November, 2020, a total of 215 applications had been received for the 36 products where five applications with a committed investment of Rs37.6bn had been approved under Target Segment I. Eligible products under Target Segment II and Target Segment III (fermentation based niche KSMs/drug intermediates/APIs) were considered and the applications of following companies, which had committed minimum/more than the minimum proposed annual production capacities and fulfill the prescribed criteria have been approved, as under:

The setting up of these plants will lead to total committed investment of Rs8.62bn, an employment generation for about 1763 while making the country self-reliant to a large extent in respect of these bulk drugs. With this, a total of 19 applications with committed investment of Rs46.23bn have been approved by the Government.

**Exhibit 01: PLI Target Segment**

Applicant	Eligible Product	Committed Production Capacity (MT)	Committed investment (Rs mn)
M/s Saraca Laboratories Ltd	1,1 Cyclohexane Diacetic Acid (CDA)	3000	500.0
M/s Emmennar Pharma Private Ltd		1500	219.4
M/s Hindys Lab Private Ltd		3000	376.0
M/s Aarti Speciality Chemicals Ltd	2-Methyl-5Nitro-Imidazole (2-MNI)	4000	778.7
M/s Meghmani LLP	Para Amino Phenol	13500	550.6
M/s Sadhana Nitro Chem Ltd		36000	1972.7

Source: pib.gov.in/PressReleasePage.aspx?PRID=1701048 , Progressive Research

**OVERVIEW:**

**PAP Market:** PAP is also known as 4-aminophenol or p-aminophenol which is used as a developer, intermediate, raw material, reagents etc with a wide range of applications such as azo dyes, drug (paracetamol), acid dyes, sulphur dyes, fur dyes, antioxidants, petroleum additives etc. Based on the applications, PAP market is segmented into pharmaceutical, cosmetics, coatings, rubber/plastic industry, textile industry, and others. PAP is the key raw material for paracetamol which is one of the most widely used analgesic (pain reliever) and antipyretic (anti-fever) drugs. More than 80% of PAP worldwide is used to manufacture paracetamol while ~7% is used as a rubber antioxidant and ~5% in dyes.

APIs are chemical compounds that are the most important raw material to produce a medicine while producing the intended effects to cure diseases, for instance, paracetamol is the API which gives relief from body ache and fever. Indian drug makers import ~70% of their total bulk drug requirements from China. It is a fact that China has been increasing the prices of some of the key raw materials and also adopting dumping methodology. Prices of many chemicals are clearly influenced by the Chinese markets, surging prices of crude oil and disruption in free movement of trade. The reason for the rise in raw materials prices is due to the rise in prices from China where one of the largest suppliers of PAP in China had shut supplies temporarily since December 2020-January 2021. In the current scenario, as the prices keep fluctuating, the end users who buy the bulk drugs are willing to pay a higher price as long as they have continuity of supplies. The industry expects prices of paracetamol raw materials and the bulk drug to revert back to normal in a couple of quarters. Asia Pacific is anticipated to witness the highest growth in the PAP market due to rising product demand as an intermediate in the pharmaceutical industry, rapid growth in the cosmetic industries in North America and due to increasing use of the product in the coating industry in Europe, and owing to the rising product adoption as a precursor in the rubber industry in the Middle East & Africa. Some of the top manufacturers of PAP include Abhilash Chemicals Industries, Feipeng Chemical, Jayvir Dye Chem, Taizhou Nuercheng Fine Chemical, Narada Trading Co, Sri Krishna Pharma, Crystal Quinone Pvt Ltd, MaheshRaj Chemicals, Anqiu Lu'an Pharmaceutical Co., Ltd., Bharat Chemicals, Liaoning Shixing Pharmaceutical, Luan Pharm, Alfa Aesar, Granules India, Aarti Industries Ltd, Xinyu, J.B.Khokani and Company, Taixing YangZi Pharm Chemical, Sadhana Nitro Chem Limited, Nirmal Oils, Jay Organics, Triveni Chemicals, Mark Enterprises, Chang-Yu Chemical, Farmson, Lianyungang Taisheng Chemical, Anhui Bayi Chemical etc.

The increasing demand for PAP from the pharmaceutical and cosmetics industries will aid sustainable market growth. In pharma industry, PAP is used as an intermediate or raw material in the manufacturing of acebutolol, paracetamol, ambroxol, sorafenib, and gefitinib. In the cosmetic industries, PAP is used in sulfur red-brown coloration and as a precursor in hair dyes. Apart from being used as an intermediate for pharma applications, PAP has other application in dyes and other fine chemicals where it can be used for the production of azo dyes, sulfur dyes, acid dyes, fur dye and developer, antioxidants as well as oil additive. PAP can be used for the production of Sulphur Blue FBG and weak acid dyes such as yellow 5G. It can also be used as reagents for the analysis and for gold assay as well as determination of copper, iron, magnesium, vanadium, nitrite and cyanate, antioxidants.

There has been a lack of commercial PAP suppliers in India which is the same reason why India has very high imports here. As per market reports, till FY21, there was no major domestic commercial supplier of PAP and the demand for the same was met through imports from China. Post the blue-sky strategy in China followed by the pandemic, there were disruptions in the supply chain of PAP. In addition to this, some key production players were relocating their plants due to environmental concern. This naturally led to a sharp surge in prices of PAP owing to reduced availability of raw material and directly impacting the production of paracetamol. Thus, the Indian players realized the importance of the same, and many started entering in the same via expansion plans. In India, players like Meghmani LLP, Valiant Organics and Sadhana Nitrochem have lined up capex for PAP manufacturing facilities with capacities of 13,500MTPA, 12,000MTPA and 36,000MTPA respectively depending upon the chemistries they excel in. These capacities are anticipated to come on stream in a phased manner and be partially operational in FY22; with gradual ramp-up over the 18-24 months. While some other players are looking at utilizing the capacities for captive consumption, some players are looking at it as an absolute import substitute and some at the export opportunities.

**About the Company:** Sadhana Nitrochem Limited (SNCL) is engaged in the manufacturing of chemical intermediates, heavy organic chemicals and performance chemicals focused primarily on benzene-based compounds like nitro benzene, metanilic acid, MAP, etc. Since its inception in 1973, SNCL has built a strong reputation of manufacturing quality products along with excellence to service its clients on a global level. The company has been following production of intermediates under strict quality standards which has been propelling its vast customers base across the globe. The company is highly committed to produce high quality chemicals which have diverse applications in several industries including paper, pharma, agrochemicals, thermal dyes, light stabilizers, aerospace dyes and dye intermediates. The company had two wholly owned subsidiaries i.e. a. Spidigo Net Private Limited (India) and AnuChem B.V.B.A, (Belgium). SNCL is in the process of merging the Indian subsidiary. AnuChem (Belgium) was set up with the objective of providing immediate and assured service to the European clients. SNCL is headquartered in Mumbai and has its manufacturing facility in Roha (Dist. Raigad), Maharashtra. Mr. Asit D. Javeri is the Chairman and Mr. Abhishek Javeri is the Managing Director and CFO of the company.

**Investment Rationale:**

**(A) Products Profile:** SNCL is primarily engaged in one business segment i.e. manufacturing of chemical intermediates, heavy organic chemicals and performance chemicals. The products list includes a number of chemicals like Nitrobenzene (NB), Meta Amino Phenol (MAP), Para Amino Phenol (PAP), 3,3 Dinitro Diphenyl Sulphone (3,3 DNDS), Metanilic Acid (MA), Aniline (ANI), Ortho Aminophenol (OAP), Aniline 2,5 Disulphonic Acid (ANDS 2,5), 4,4 Diamino Diphenyl Ether (ODA), Ammonium Sulphate (AMS), 1,2,3,4 Butane Tetra Carboxylic Acid (BTCA), Dibutyl Keto Acid (DBKA), 2-Anilino-6-Dibutylamino-3-Methylfluoran (ODB2), Diethyl Keto Acid (DEKA) etc. The product mix keeps changing according to the requirements of the market as well as the clients. The company is constantly striving to develop new application products while also continuously improving the existing product profile. While the forward integration continues, diversification and expansion for establishing innovative customer designed processes is also a part of the ongoing developmental operations of the company. Thus, rigid quality standards, customized R&D efforts coupled with flexibility of supply and speed of delivery are some of the attributes which ensure reliability and dependability for its customers.

**(i) NB:** SNCL is engaged in the manufacture and marketing of NB, its downstream derivatives and other intermediates which have applications in aerospace, pharma, agrochemicals, optical brightening agents, plastic additives, special fibers, epoxy resin hardeners, dyes, performance chemicals etc. As mentioned earlier, NB is an organic compound which is used in the manufacturing of aniline and acts as a predecessor for the production of chemicals and a number of derivatives used in cosmetics, agriculture, pharmaceuticals, pesticides, synthetic rubber, lubrication oil and other types of industrial applications. Some of the key factors which will lead to the growth of this market include, the rising demand for rubber in the automotive industry, expansion of the construction industry, rapid urbanization in developing economies like India and China, growth of the agriculture industry coupled with the mounting demand for fertilizers on a global level and growth in the pharma industry. On a global, as well as on a domestic level, the increasing use of NB for polyurethane foam is increasing gradually which is basically due to its use in the automotive, transportation, bedding and furniture industries. As and when these industries begin to start operations on pre-pandemic levels, the demand is bound to bounce back. Another booster to the increasing demand would be revival of the aniline market. In addition to this, once the triggers related to economic development come back on track some of the major end-user industries including automotive, aerospace, defense, building & construction, electrical and electronics, construction etc. too will begin to seek demand from the NB market. This will subsequently drive the growth of the market which was sluggish during the pandemic.

**(ii) MAP:** There has been consistent turmoil in the market of MAP both in terms of production in China as well as start and stop mechanism followed by the customers, competitors and many other players. MAP capacities across the globe were under pressure and are anticipated to continue to be under pressure due to the issues in China. Due to the issues related to the pandemic and also the aviation, printing, oil & gas companies, the revenues of the company were under stress as the clients were not able to generate revenues as well. However, things seem to be opening up and can be an added booster to the turnover as and when these clients start returning to the company.

**(iii) PAP:** Ibuprofen which is used to relieve pain from various conditions like headache, dental pain, menstrual cramps, muscle aches, arthritis etc. can also cause side effects like constipation, diarrhea, gas or bloating, dizziness, nervousness, ringing in the ears etc. Many players, chemists and doctors are realizing the side effects of ibuprofen and are relying on the safe usage of paracetamol (key ingredient is PAP). There are various ways for production of PAP as mentioned below:

1. Iron reduction
2. Phenol nitrosation method, reduction and acid precipitation
3. The coupling reduction; it can be made using aniline which goes through diazotization, coupling, and reduction through iron powder
4. The catalytic hydrogenation of nitrobenzene and reduction of nitrobenzene into phenylhydroxylamine in sulfuric acid aqueous solution and then further converted to PAP
5. The electrolytic reduction of NB in sulphuric acid solution; it further undergoes transposition via phenylhydroxylamine into PAP

PAP is the key raw material to manufacture paracetamol. The widely used ways to manufacture paracetamol are via (a) PNCB (para nitro chloro benzene) route and (b) the Nitrobenzene (NB) route. PNCB to PAP is the established route while NB to PAP is difficult to manufacture but is a more environmentally friendly production method. Many players in the chemical market have tried to manufacture PAP via NB route, however they have failed to do so owing to the complicated technology involved. The process via the NB route which is also a shorter process involves hydrogenation of nitrobenzene in a single step reaction to PAP using certain noble metals at catalyst. SNCL is looking at manufacturing PAP via the NB route. The company has already been a major player in the production of NB since last 4 decades and is looking at making use of this backward integration processes for production of PAP.

#### Investment Rationale (contd):

The global demand of PAP pre-pandemic was 160,000TPA where nearly 150,000TPA came from China and nearly 60,000TPA has been stopped in China (some plants being shut, some to be relocated). All the production in China was via the PNCB route. SNCL is in an expansion mode for PAP products to move from 6,000TPA to 36,000TPA which translates into 23-25% of the market share and aims to reach 36,000TPA within 18-24 months of launching the first phase of the plant. SNCL's process for manufacturing of PAP uses a unique green chemistry where the conversion of all effluents into saleable by-products is possible, thus resulting in an effluent free, zero-discharge plant. The company has already received certification for the same from ICT, Mumbai (formerly UDCT). Further, as intimated by SNCL on 3rd March 2021, the company has received approval under the government PLI scheme launched by the Department of Pharmaceuticals, Central Government and will be the first manufacturer to go live with a greenfield plant after the announcement of the GOI PLI scheme. As mentioned earlier as well, there is shortage for PAP in the local market. In addition to several top Indian companies, enquiries may also come from, European and Japanese players. SNCL will be entering the market while looking at market driven price mechanism, but will slowly translate into long term contracts for better sustainability and stability. Delays in commencing the plant were basically due to the heavy rains in the Raigad region and the company is looking at starting the production in Q3FY22 which is anticipated to enhance the overall performance of the company.

**(B) The Strategy:** SNCL has been in the chemical industry since last 48 years while having high degree of operating synergy and maintaining high quality standards. The products have diverse uses and have their applications in various industries ranging from paper, pharma, electronic chemicals, agrochemicals, thermal dyes, light stabilizers, aerospace, dyes, hair dyes etc. The company enjoys a client base which is well diversified globally. Recently the company has started exploring and developing products or chemistries which have wide applications and are having a long-term vision in terms of the revenues that could be earned in the future from MAP and PAP. Many of these recently developed products are having very high levels of purity. The economic activities were affected on a global level impacting the revenues of the FY21 and Q1FY22, however, with the recovery and revival in the industry, the company is anticipated to gather momentum and come back on track to revert to previous levels of revenues earned. Emphasis of SNCL is on vertical integration which will lead to emergence of the company as a strong player in the chemical market. SNCL is currently working and focused towards PAP which has application in pharma (paracetamol- world's largest pain killer) cosmetic, aerospace and other pharma products. With many companies trying to explore the chemistries involved for production of PAP, there is a possibility of overcapacity in the country, however the applications of PAP are not just restricted to paracetamol, there are many more applications of PAP in pharma as well as non-pharma segments. The extended use of PAP apart from usage in paracetamol are many and can also be used in manufacturing various molecules used to lower high levels of cholesterol, treat high blood pressure, respiratory tract disorders associated with viscid mucus, treat non-small cell lung cancer that has spread to other parts of the body in people with certain types of tumors, treat kidney, liver, and thyroid cancer etc. In recent times, the market demand is expected to tilt towards India instead of China. India has emerged as one of the major sources for chemical intermediates. As per the recent annual report, the company has a strong order book position, and is trying to re-secure orders which were lost during or due to pandemic as lot of customers have restarted their plant productions. There is traction seen towards the operations to normalize which may take 6-9 months to reach to previous levels of production. SNCL continues to look at stable and long-term opportunities in order to create value while de-bottlenecking the existing plant. Focused efforts on greener technologies and choosing products with high operating synergies, vertical integration or downstream derivatives, the company has been gradually transforming into globally cost competitive manufacturer with focus on R&D and quality processes with strong long-term fundamentals. The company is looking towards unique product offering along with competitive strength to form a strong pipeline of products and create a sustainable operational entity with strong cashflows in the future and improve the overall performance of the company. SNCL is working towards several downward derivatives. Better product mix, operational efficiency and stringent control on the cost will contribute towards achieving better operating margins.

**Risk and Concerns:** Some of the major threats faced by the company are escalating raw material prices, crude oil prices and volatile foreign exchange market. Macro-economic factors like the slowdown, sluggish demand, unforeseen political and social upheavals, natural calamities etc. may affect the business of the company as also the industry. With intense competition in all segments of the industry, increasing the market share and the consumer base is a continuous challenge to all the players in the chemical and chemical intermediate market. There are issues related to freight charges and exports which the entire industry continues to face and may continue for some more time. Prices of many chemicals are clearly influenced by the Chinese markets, surging prices of crude oil and disruption in free movement of trade are some more potential risks to the business. There is always a possibility of delay in the project timelines, and SNCL has already seen a delay by 4-6 months (for the PAP plant). Delays in commencing the plant were basically due to the heavy rains in the Raigad region and the company is looking at starting the production in November-December 2021. PAP is toxic in nature, since it has the double toxicity of aniline and phenol. Absorption of it through the skin can cause dermatitis, contact of its hydrochloride with the skin can cause severe itching or eczema as well as can cause methemoglobinemia and asthma. Immense care has to be taken while handling these chemical processes. SNCL is a highly illiquid stock and listed only on the BSE.

**Financials:** SNCL is primarily an export driven company where bulk of exports goes to America, multiple European countries and Japan. The top 5 customers keep changing from a quarter to quarter perspective and is also based on seasonality. The company intended to conserve liquidity and hence did not announce any dividend in FY21; however, considering the reserves the company had announced bonus shares to the shareholders. The company has seen a reduction in capacity utilizations during the pandemic as many of the customers (aerospace, military applications, cosmetics, developers and colofomers etc) also faced issues due to drop in demand. The economic activities were affected on a global level impacting the revenues of FY21 and Q1FY22. With the recovery and revival, the company is anticipated to gather momentum and come back on track to revert to previous levels. As per the AGM held recently in September 2021, the company was working at 55-60% (blended) and will try to reach 80-90% in next few months or so. The Management has a vision to try and reach 36,000TPA within 18-24 months of launching the first phase of the plant; this will be funded through 50:50 debt and internal accruals; and equity route if any or required. Since the company is involved in green chemistry process, the margins fetched here can be slightly healthier as compared to the PNCB route. Better product mix, operational efficiency and stringent control on the cost will contribute towards achieving better operating margins. SNCL has been putting continuous efforts to control and reduce the costs related to energy and raw material consumption. As and when the customers which SNCL caters to return back on track, sharp uptick in the revenues earned can be anticipated; however, the cost of basic raw materials and freight costs is something that has to be monitored.

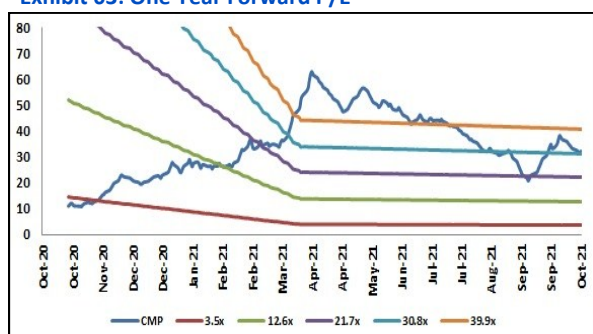
**Exhibit 02: Corporate Actions**

Ex- Date	Corporate Action
1/29/2019	Stock Split From Rs10 to Rs5
5/2/2019	Interim Dividend - Rs1.25
9/17/2019	Final Dividend - Rs0.75
4/3/2020	Stock Split From Rs5 to Rs1
9/17/2020	Bonus issue 1:2
7/19/2021	Bonus issue 2:5

Source: bseindia.com, Progressive Research

**Outlook and Recommendation:** SNCL has been gradually transforming into a globally cost competitive manufacturer with focus on R&D and quality processes with strong long-term fundamentals. The company is gradually exploring opportunities in forward as well as backward integrated products while making maximum utilization of the available chemistries for e.g. PAP which is an import substitute. In recent times, SNCL is trying to become competitive with the Chinese players and is well positioned to leverage the advantage of better-quality products. The company is looking towards unique product offering along with competitive strength to form a strong pipeline of products and is trying to create a sustainable operational entity with strong cashflows while improving the overall performance of the company. SNCL is focused on green technologies and choosing products with high operating synergies, by vertical integration or downstream derivatives. The company is working towards several downward derivatives which will also be beneficial chemistry when the products are ready. The success of PAP, as and when it happens, can make propel the performance in a progressive manner. The company has a strong order book position and is in the process of re-securing orders which were lost during or due to pandemic; lot of customers have started or re-commenced their plant productions and started approaching Indian chemical players like SNCL. There is traction seen towards the operations to normalize which may take 6-9 months to reach to previous levels of productions. The new operations at the plant which is anticipated to be completed in the next 2 years or so will be an important milestone for the company. While the customers begin to return to SNCL, focus on better technologies, operational efficiencies, profitability without compromising the margins, indicate better times to resurface for SNCL, thus we re-initiate a BUY on the stock with a target price of Rs60 with a horizon of 12 months.

**Exhibit 03: One Year Forward P/E**



Source: Ace Equity, Progressive Research

**Exhibit 04: Price v/s Sensex**



Source: Ace Equity, Progressive Research

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