


**Weak Bromine Prices & Demand Recovery; Valuation Remains Attractive!**

**Est. Vs. Actual for Q4FY24:** Revenue –MISS; EBITDA– MISS; PAT – MISS  
**Revision in Estimates post Q4FY24**

**FY25E/FY26E:** Revenue: -14%/-8%; EBITDA:-16%/-11%;PAT: -17%/-12%

**Recommendation Rationale**

- **Rekindling of Bromine Derivatives Capex:** The company has identified 8-9 new bromine derivatives and started the testing and sampling for the same. It has also started exports of clear brine fluids through its subsidiary (Acume Chemicals Pvt. Ltd.). Currently, the company has received approval for samples from 10+ clients. The management anticipates revenue of ~200-300 Cr in FY25 with 15k-20k volumes from the bromine derivatives. The company has incurred a Capex of Rs 110 Cr for Phase 1, with plans to further invest an additional Rs 30-40 Cr in this phase. However, it has temporarily halted the Flame Retardants Capex, likely due to the impact of the weak Chinese economy.
- **Healthy volume offtake for Bromine but prices mostly remain weak in FY25:** Archean is witnessing a strong order book for the year. The company has ramped up supply and is seeing improved uptake from end-user industries such as Agrochem, with the monsoon season approaching, and gradually improving demand from the Pharma sector. The export market is also experiencing steady shipments. Consequently, Archean is optimistic about achieving better business in the bromine segment and anticipates robust volume growth of 30% in FY25, with 10-12,000 units designated for internal consumption in bromine derivatives.
- **Oren Hydrocarbons:** The company expects NCLT approval soon and anticipates a topline of Rs 100 Cr from the subsidiary in FY25. Archean has initiated groundwork to restart the plants. Additionally, Archean will be able to offer other specialized products for oil drilling beyond CBR bromine derivatives.

**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 to the topline in FY25. Given its smaller size and large addressable market, ACIL is optimistic about achieving 60-70% utilization from the new derivative plants. The company also anticipates continued strong uptake from the Industrial Salt segment and a recovery in the SOP segment.

**Current Valuation:** 13x FY26E (Earlier: 14x Sep'26E)

**Current TP:** Rs 865/share (Earlier: 885/share)

**Recommendation:** We maintain our BUY rating on the stock

**Financial Performance:** Archean Chemical Industries Ltd's performance in Q4FY24 fell short of our expectations across all key metrics. Consolidated revenue stood at Rs 284 Cr, reflecting a decrease of 26% YoY and 31% QoQ, missing our estimate by 25%. EBITDA amounted to Rs 87 Cr, down 55% YoY and 40% QoQ, falling short of our estimates by 38%. The EBITDA margin declined to 31%, down 456bps QoQ, primarily due to higher other expenses. The company's PAT stood at Rs 58 Cr, down 58% YoY and 43% QoQ, with the overall performance missing our estimate by 41%.

**Outlook:** Increased usage of Bromine in Agrochem and Pharma, forward integration into high-value business, Well-nurtured long-term relationships with customers, rising geopolitical tensions in the Middle East urging diligent diversification of supply chains by major global players, and reduction in earnings volatility as the company integrates into derivatives will help in locking customers and gaining market share. Moreover, ACIL will soon integrate Oren Hydrocarbons which shall provide significant synergies.

**Valuation & Recommendation:** We revise our estimates to factor in weaker-than-expected price recovery in Bromine and the company's FY25/26E estimates. **Consequently, we value the stock at 13x FY26E EPS with a target price of Rs 865/share, implying an upside of 39% from the CMP.** We maintain our BUY rating on the stock.

**Key Financials (Consolidated)**

(Rs Cr)	Q4FY24	YoY %	QoQ%	Axis Est.	Var %
Net Sales	284	-26%	-31%	380	-25%
EBITDA	87	-55%	-40%	140	-38%
EBITDA Margin	30.7%	-2015bps	-456bps	36.8%	-611bps
Net Profit	58	-58%	-43%	98	-41%
EPS (Rs)	4.7	-58%	-43%	8.0	-41%

Source: Company, Axis Research

(CMP as of 18<sup>th</sup> May 2024)

CMP (Rs)	622
Upside /Downside (%)	39%
High/Low (Rs)	838/494
Market cap (Cr)	7,765
Avg. daily vol. (6M)Shrs.	7,16,068
No. of shares (Cr)	12.3

**Shareholding (%)**

	Sept-23	Dec-23	Mar-24
Promoter	53.60	53.46	53.46
FII's	2.92	4.15	5.86
DII's	30.38	28.69	27.13
Retail	13.08	13.71	13.55

**Financial & Valuations**

Y/E Mar	FY24	FY25E	FY26E
Net Sales	1,330	1,788	2,581
EBITDA	463	710	1,071
Net Profit	319	516	818
EPS (Rs)	25.9	41.9	66.5
PER (x)	23.9	14.8	9.3
EV/EBITDA (x)	16.5	10.7	7.1
RoA (%)	17%	22%	27%
ROE (%)	20%	26%	31%

**Change in Estimates (%)**

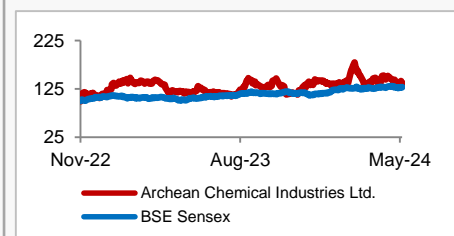
Y/E Mar	FY25E	FY26E
Sales	-14%	-8%
EBITDA	-16%	-11%
PAT	-17%	-12%

**ESG disclosure Score\*\***

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure Score	NA
Total ESG Disclosure Score	NA

Source: Bloomberg, Scale: 0.1-100

\*\*Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

**Relative performance**


Source: AceEquity, Axis Securities

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## Key Concall Highlights

- **Bromine:** Overall demand from bromine compounds was slower than anticipated and saw a decline in business compared to last year. The price of bromine stood around USD \$3 Mark.
- **Industrial Salt:** Industrial salt accounted for ~65% of total revenue. Over the year, the company surpassed the 4 Mn tons volume mark. Despite some price moderation in the last quarter, overall volume and long-term contracts remain robust. Archean also remains optimistic about its salt segment. It expects to maintain its growth momentum in FY25.
- **Sulphate of Potash (SOP):** Archean is observing promising results on the trials and the Lab test by a technology partner in Europe and expects it to contribute significantly to H2FY25.
- **Greenfield Project:** The bromine derivatives facility at Jhagadia (Gujarat) has been undertaken through a subsidiary Acume Chemicals Pvt. Ltd. and was successfully commissioned in Mar24. This phase is dedicated to manufacturing bromine performance derivatives and clear brine fluids. The company received a great response from customers and samples have been tested and approved in certain cases. The next phase of the current Phase 1 is scheduled to be commissioned by the end of H1FY25. The company incurred close to ~Rs 110 Cr of Capex Out of Rs 250 Cr.
- **Final Dividend:** The Board recommended a final dividend of Rs 1/per equity share.

## Sales Volumes

Sales Volumes (in MT)	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Bromine	4,273	3,400	5,000	4,800
Industrial salt	10,60,000	10,00,000	13,00,000	9,30,000
Sulphate of Potash (SOP)	382	3,800	4,300	

Source: Company, Axis Securities

## Key Risks to our Estimates and TP

- 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 may affect volumes and value growth

## Change in Estimates

	New		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	1,788	2,581	2,070	2,821	-14%	-8%
EBITDA	710	1,071	845	1,200	-16%	-11%
PAT	516	818	624	927	-17%	-12%

Source: Company, Axis Securities

**Q4FY24 Result Review**

Particulars	Q4FY23	Q3FY24	Axis Sec Estm (Rs cr)	Q4FY24	% Change (YoY)	% Change (QoQ)	Variance (%)
Revenue	382.4	412.6	380.4	283.9	-26%	-31%	-25%
Net Raw Material consumed	-25.1	47.0	29.3	-7.9	-68%	-117%	
Gross Profit	407.4	365.7	351.1	291.8	-28%	-20%	
Gross Margin %	106.6%	88.6%	92.3%	102.8%	-377bps	1417bps	1049bps
Employee	24.4	18.2	24.7	14.7	-40%	-19%	
Other Expenses	188.7	202.0	186.4	190.0	1%	-6%	
Total Expenditure	188.0	267.2	240.4	196.8	5%	-26%	
EBIDTA	194.4	145.4	140.0	87.1	-55%	-40%	-38%
EBIDTA Margin	50.8%	35.2%	36.8%	30.7%	-2015bps	-456bps	-611bps
Less: Depreciation	17.3	17.7	17.7	17.7	2%	0%	
EBIT	177.1	127.8	122.3	69.5	-61%	-46%	
Less: Net Interest	3.42	1.90	1.90	1.70	-50%	-10%	
Add: Other income	8.33	9.24	9.24	11.96	44%	29%	
Profit Before Extraordinary Items and Tax	182.0	135.1	129.7	79.7	-56%	-41%	
Less: Extraordinary Expense (net)	0	0	0	0			
Profit Before Tax	182.0	135.1	129.7	79.7	-56%	-41%	
Less: Total Tax	45.5	33.6	31.8	22.1	-51%	-34%	
Profit After Tax	136.5	101.5	97.9	57.6	-58%	-43%	-41%
Reported EPS (Rs)	11.09	8.25	7.96	4.68	-58%	-43%	-41%

Source: Company, Axis Securities

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
<b>Net Revenue</b>	<b>1,441</b>	<b>1,330</b>	<b>1,788</b>	<b>2,581</b>
COGS	3	88	116	168
Staff costs	72	72	116	181
Operating Exp.	732	707	846	1,162
Total Expenditure	807	867	1,078	1,510
<b>EBITDA</b>	<b>634.0</b>	<b>462.7</b>	<b>710.0</b>	<b>1,071.2</b>
<b>EBITDA Margin %</b>	<b>44.0%</b>	<b>34.8%</b>	<b>39.7%</b>	<b>41.5%</b>
Depreciation	69	70	78	81
EBIT	609	436	687	1,069
Interest	97	8	6	6
Other Income	43	43	55	79
PBT	512	427	681	1,063
Tax	129	108	165	244
<i>Tax Rate %</i>	<i>25.2%</i>	<i>25.3%</i>	<i>24.2%</i>	<i>23.0%</i>
<b>PAT</b>	<b>383</b>	<b>319</b>	<b>516</b>	<b>818</b>
<b>EPS</b>	<b>31.1</b>	<b>25.9</b>	<b>41.9</b>	<b>66.5</b>

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Share Capital	25	25	25	25
Reserves & Surplus	1,406	1,677	2,193	3,011
<b>Net Worth</b>	<b>1,431</b>	<b>1,702</b>	<b>2,217</b>	<b>3,036</b>
Financial Non-Current Liability	37	91	91	91
Other Non-current Liability	-	-	-	-
Deferred Tax Liability	115	124	124	124
<b>Total Non-Current Liability</b>	<b>152</b>	<b>219</b>	<b>219</b>	<b>219</b>
Current Financial Liability	148	131	179	244
Other Current Liability	21	3	3	3
Provisions	3	-	-	-
<b>Total Current Liability</b>	<b>172</b>	<b>135</b>	<b>182</b>	<b>247</b>
<b>Total Equity &amp; Liability</b>	<b>1,755</b>	<b>2,056</b>	<b>2,619</b>	<b>3,502</b>
<b>Application Of Funds</b>				
<b>PPE</b>	<b>1,065</b>	<b>1,118</b>	<b>1,110</b>	<b>1,099</b>
Capital Work in Progress	36	46	46	46
Right Use Of Assets	45	42	42	42
Intangible Assets	0	2	2	2
<b>Non- Current Financial Assets</b>	<b>22</b>	<b>16</b>	<b>16</b>	<b>16</b>
Other Non-Current Assets	10	100	100	100
<b>Total Non-Current Assets</b>	<b>1,178</b>	<b>1,330</b>	<b>1,321</b>	<b>1,310</b>
Inventories	168	127	176	255
Current-Financial Assets	361	552	1,074	1,891
Other Current Assets	32	32	32	32
<b>Total Current Assets</b>	<b>577</b>	<b>726</b>	<b>1,297</b>	<b>2,192</b>
<b>Total Assets</b>	<b>1,755</b>	<b>2,056</b>	<b>2,619</b>	<b>3,502</b>

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
PBT	512	427	681	1,063
Depreciation & Amortization	69	70	78	81
Finance Cost	97	8	6	6
Chg in Working cap	-157	6	-17	-89
Direct tax paid	-21	-109	-165	-244
<b>Cash flow from operations</b>	<b>496</b>	<b>379</b>	<b>583</b>	<b>816</b>
Chg in Gross Block	-100	-131	-70	-70
Chg in Investments	-195	-117	-	-
Other Investments	-1	14	-	-
<b>Cash flow from investing</b>	<b>-290</b>	<b>-307</b>	<b>-70</b>	<b>-70</b>
Fresh Issue Proceeds	789	0	-	-
Proceeds / (Repayment) of ST Borrowings (Net)	-4	-55	-	-
Finance Cost paid	-163	-3	-6	-6
Dividends paid	-	-	-	-
<b>Cash flow from financing</b>	<b>-212</b>	<b>-33</b>	<b>-6</b>	<b>-6</b>
<b>Chg in cash</b>	<b>-6</b>	<b>40</b>	<b>507</b>	<b>740</b>
Cash and cash equivalents at the beginning of the year	12	6	45	553
Cash and Cash equivalents at the end of the year	<b>6</b>	<b>45</b>	<b>553</b>	<b>1,293</b>

Source: Company, Axis Securities

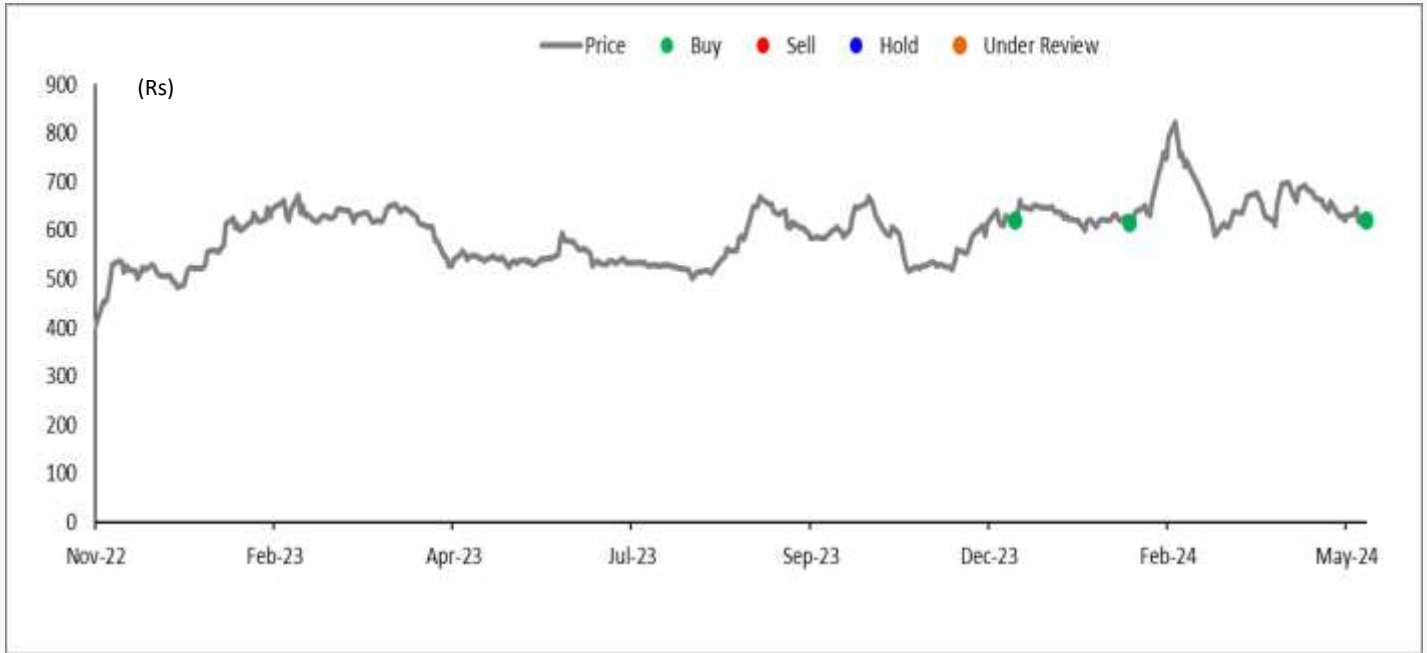
**Ratio Analysis**

(%)

Y/E March	FY23	FY24	FY25E	FY26E
<b>Efficiency Ratios</b>				
Asset Turnover (x)	0.88	0.70	0.77	0.84
Inventory Turnover(x)	0.02	0.59	0.77	0.78
Sales/Total Assets	0.82	0.65	0.68	0.74
Receivable days	34	38	33	30
Inventory Days	37	40	31	30
Payable days	26	27	25	25
<b>Financial Stability Ratios</b>				
Total Debt/Equity(x)	0.0	0.0	0.0	0.0
Total Asset/Equity(x)	1.2	1.2	1.2	1.2
Current Ratio(x)	3.3	5.4	7.1	8.9
Quick Ratio(x)	2.4	4.4	6.2	7.8
Interest Cover(x)	6.5	-	-	-
<b>Operational &amp; Financial Ratios</b>				
Earnings Per Share (Rs)	31	26	42	67
Book Value (Rs)	116	138	180	247
Tax Rate(%)	25.2%	25.3%	24.2%	23.0%
<b>Performance Ratios</b>				
ROA (%)	23.3%	16.7%	22.1%	26.7%
ROCE (%)	41.4%	24.9%	31.5%	37.6%
ROE (%)	45.2%	20.4%	26.3%	31.2%

Source: Company, Axis Securities

## Archean Chemical PriceChart 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

Source: Axis Securities

**About the analyst**

Analyst: Prathamesh Sawant

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Sector: Chemicals, & Mid-Cap Opportunities

Analyst Bio: Prathamesh is a CFA charter holder with 7 years of experience in Equity Research & Valuation.



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Analyst Bio: Shivani is CFP starting her career in Equity Research.

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