



**NEUTRAL**

**IPO Report**

22<sup>nd</sup> Oct '24

**Snapshot**

Company is one of the manufacturers of ethanol based chemicals in India and is an integrated bio-refinery in India with an installed capacity of 570 KLPD for manufacturing ethanol as at June 30, 2024. Company is one of India’s largest producers of ethanol in terms of volume as of March 31, 2024 . As on March 31, 2024, company was also the largest manufacturer of MPO worldwide in terms of installed capacity, one of only two manufacturers of natural 1,3 butylene glycol and the only company in India to manufacture bio ethyl acetate. Company have also set up India’s first bio-based EVE manufacturing facility in India as on March 31, 2024.

**VALUATION**

Company is bringing the issue at price band of Rs 334-352 per share at p/e multiple of 146x on post issue annualized FY24 PAT basis.

Company is one of the manufacturers of ethanol-based chemicals in India and one of India’s largest producers of ethanol in terms of volume. Company has integrated biorefinery with an installed capacity of 570 KLPD for manufacturing ethanol as at March 31, 2024 . Company has diversified product portfolio and well-established relationship with a diversified marquee customer base across industries and geographies. Company has well-developed in-house research and development capabilities and member of the Somaiya group and experienced promoter, board of directors, key managerial personnel and senior management Hence Looking after all above along with high valuations at current level, we are “Neutral” on issue.

<b>Price Band (Rs./Share)</b>	<b>334-352</b>
<b>Opening date of the issue</b>	<b>23<sup>rd</sup> Oct '2024</b>
<b>Closing Date of the issue</b>	<b>25<sup>th</sup> Oct '2024</b>
<b>No of shares pre issue</b>	4,19,43,023 Eq Shares
<b>Issue Size</b>	Rs 543-555 Cr
<b>Fresh issue</b>	Rs 325 Cr
<b>Offer For Sale</b>	65,26,983 Equity Shares
<b>Face Value (Rs/ share)</b>	Rs 10/share
<b>Bid Lot</b>	42

**BIDDING DETAILS**

<b>QIBs (Including Anchor)</b>	50% of the offer (Approx 81,28,759 Eq Shares)
<b>Non-Institutional</b>	15% of the offer (Approx 24,38,629 Eq Shares)
<b>Retail</b>	35% of the offer (Approx 56,90,132 Eq Shares)
<b>Lead managers</b>	Equirus Capital, SBI Capital Markets
<b>Registrar to the issue</b>	Link Intime India Pvt. Ltd

**WHAT WE LIKE**

***Company is a manufacturer of Ethanol-based Chemicals and is one of the largest producers of Ethanol in terms of volume***

Company have also set up India’s first bio-based EVE manufacturing facility in India as on March 31, 2024. Company’s customers for ethanol include oil marketing companies pursuant to the ethanol blended petrol programme of the Government of India (the “EBP Program”). According to the Frost & Sullivan Report, the Indian ethanol market is projected to grow from USD 7.0 billion in 2023 to USD 17.5 billion by 2028, exhibiting a CAGR of 20.0% during 2023-2028, on the back of increasing ethanol use in applications such as fuel additives, disinfectants, and beverages.

***Diversified product portfolio and well-established relationship with a diversified marquee customer base across industries and geographies***

Company’s customers include marquee players such as Hershey India Pvt Ltd, Hindustan Coca-Cola Beverages Private Limited, M/s Karnataka Chemical Industries, M/s Techno Waxchem Pvt Ltd, LANXESS India Private Limited, IFF Inc., Khushbu Dye Chem Pvt Ltd, and Privi Speciality Chemicals Limited, as well as major oil marketing companies.

***Company is a member of the Somaiya group and have an experienced Promoter, Board of Directors, Key Managerial Personnel and Senior Management***

Company is a member of the Somaiya group, which has diversified interests in inter alia the biorefinery, agricultural research, education and healthcare industries. Company is able to leverage the experience, capabilities and reputation of the Somaiya group in company’s business operations. Company’s Individual Promoter, Samir Shantilal Somaiya, who is also Chairman and Managing Director, plays a significant role in the development of company’s business.



## COMPANY BACKGROUND

Company's diversified product portfolio comprises of bio-based chemicals, sugar, different grades of ethanol and power. These products find application in a range of industries such as food, beverages, pharmaceuticals, flavours & fragrances, power, fuel, personal care and cosmetics. Company has the widest portfolio of bio-based products in India. Company utilise sugarcane as a feedstock to manufacture a wide range of products, including sugar, ethanol, bio-based chemicals and power and were among the first few companies in India to utilise sugarcane juice and syrup for the production of ethanol. Company continuously strive to improve the valorisation of sugarcane through development of down-stream products and increase the diversion of sugarcane towards value added products. For instance, company have been successful in manufacturing a wide range of bio-based chemicals such as ethyl acetate, bio-ethyl acetate, MPO, 1,3 butylene glycol, crotonaldehyde, acetaldehyde, bio-acetic acid, butanol, EVE, and paraldehyde. Company is also in the process of exploring the utilisation of grains to manufacture grain-based ethanol.

Company's Sameerwadi Manufacturing Facility with a crushing capacity of 18,000 TCD as on June 30, 2024, according to the Frost & Sullivan Report, Company's sugar mill, is among the top fifteen sugar complexes in India in terms of crushing capacity. Company also have an environmental clearance to expand crushing capacity up to 25,000 TCD. Through its long history of purchasing sugarcane and continued support provided to the farmers, company have established strong relationships and goodwill among the farmers. Further, company is one of India's largest producers of ethanol in terms of volume as of March 31, 2024 (source: Frost & Sullivan Report) with an installed capacity of 570 KLPD as at June 30, 2024.

The rectified spirits manufactured by company is converted into different grades of ethanol including fuel ethanol, pharma grade ethanol and extra neutral alcohol ("Ethanol"). In order to improve the valorisation of sugarcane and in light of the government initiatives for increasing fuel ethanol blending, company intend to expand its distillery capacity from 600 KLPD (as at June 30, 2024) to 1,000 KLPD and have obtained environmental clearance for such expansion. Further, Company proposes to commence the manufacturing of 2<sup>nd</sup> generation Ethanol from bagasse, a by-product of sugar, to further improve the utilisation of available feedstock for company's distillery. Company have entered into a memorandum of agreement with the Centre for High Technology, an administrative control of the Ministry of Petroleum & Natural Gas, Government of India in relation to grant of financial assistance to Company for a maximum amount of ₹150.00 million for the proposed installation of a 2G ethanol plant at its Sameerwadi Manufacturing Facility.

The chemicals manufactured by company comprise of Ethanol-based chemicals such as ethyl acetate, bio-ethyl acetate, MPO, 1,3 butylene glycol, crotonaldehyde, acetaldehyde, bio-acetic acid, butanol, EVE, and paraldehyde (collectively, the "Bio-based Chemicals"). The Bio-based Chemicals manufactured by company find application in various industries, including the personal care and cosmetics, flavour and fragrance, food, fuel, paints and coatings and pharmaceutical industries, while the Ethanol manufactured by company is sold to oil marketing companies and also find application in the beverages, pharmaceutical and chemical industries. Company have also received environmental clearance to expand its existing capacities and to manufacture a wider range of speciality chemicals including cellulose and its derivatives.

Company have consistently invested in R&D and technology and have pursuant to its assessment of demand in the market and its customers, sought to implement them at its Manufacturing Facilities. During the three months ended June 30, 2024 and Fiscals 2024, 2023 and 2022, company have incurred research and development expenditure aggregating to ₹24.84 million, ₹143.50 million, ₹170.06 million, and ₹133.62 million respectively, constituting 0.44%, 0.85%, 0.85% and 0.80%, respectively, of company's total expenses. Company have three research and development facilities (the "R&D Facilities") which are registered with the Department of Scientific and Industrial Research, Government of India ("DSIR"), with one R&D Facility located at the Sakarwadi Manufacturing Facility, one located at the Sameerwadi Manufacturing Facility and one located in Navi Mumbai, Maharashtra. As of June 30, 2024, company had engaged 52 permanent research employees including 8 scientists holding doctorates at its R&D Facilities, who seek to identify and develop new potential marketable products after carrying out a thorough study including product specifications, potential products costs and production timeline, based on the leads brought in by company's business development and marketing teams. Company also actively support the agricultural research conducted by the K.J. Somaiya Institute for Applied Agriculture Research ("KIAAR") and have entered into a memorandum of understanding dated September 9, 2021 with KIAAR to carry out joint research activities in various fields including soil testing, production of tissue culture settlings, production and supply of bio-fertilizers, transfer of technology to farmers, organic farming and energy cane. As on the date of this Red Herring Prospectus, company have patented 18 products/processes and received 53 registrations in relation thereto across different countries.

Over the years, company have significantly expanded its scale of operations and global footprint, and during the three months ended June 30, 2024 and Fiscals 2024, 2023 and 2022, company have catered to customers from over 20 countries including Australia, China, Germany, France, Italy Japan, Kenya, Netherlands, Singapore, United Kingdom, United Arab Emirates, Indonesia and United States of America. Company have also established offices in Hoofddorp (Netherlands) and Philadelphia (United States of America), which enables it to assess international demand and increase its customer outreach thereby bolstering its product development initiatives.



**INVESTMENT RATIONALE**

<p><i>Company is an integrated bio-refinery in India with an installed capacity of 570 KLPD for manufacturing ethanol as on March 31, 2024</i></p>	<p>Company is an integrated biorefinery company using sugarcane as a primary feedstock to manufacture a range of products across the value chain including sugar, Ethanol, chemicals, power and other products. According to the Frost &amp; Sullivan Report, among the peers analysed in the Frost &amp; Sullivan Report, Company has the widest portfolio of bio-based products in India. The sugarcane feedstock is processed at company’s Sameerwadi Manufacturing Facility for the manufacturing of sugar and Ethanol and press mud is intended to be utilised for the manufacturing of compressed biogas. The bagasse is also used for the generation of power. Company have the ability to divert syrup/juice to produce different grades of ethanol which helps company create optionality between production of sugar and ethanol. In Fiscals 2024, 2023 and 2022, company diverted 27.64%, 42.18% and 36.12% of sugar, either as syrup/ juice or as molasses, towards the manufacturing of Ethanol to take advantage of the EBP Program. According to the Frost &amp; Sullivan Report, only Brazilian mills have this degree of optionality. Such flexibility helps company adapt to changing market dynamics and modify its product mix to optimize realizations and margins.</p>
<p><i>Well-developed in-house research and development capabilities</i></p>	<p>The research and development of new products to meet company’s customers’ requirements is a key growth driver of company’s business. Company have three R&amp;D Facilities which are registered with the Department of Scientific and Industrial Research, Government of India (“DSIR”) comprising of one R&amp;D Facility located at the Sakarwadi Manufacturing Facility, one located at the Sameerwadi Manufacturing Facility and one R&amp;D Facility located in Navi Mumbai, Maharashtra. Each of company’s R&amp;D Facilities is equipped with research and development infrastructure which focuses on the development of new products as well as optimizing company’s manufacturing processes. Company regularly monitor and update its research and development capabilities. Company have consistently invested in R&amp;D and technology and have successfully implemented some of the process improvements and product developments at company’s Manufacturing Facilities over the years. During the three months ended June 30, 2024 and Fiscals 2024, 2023 and 2022, company have incurred research and development expenditure aggregating to ₹24.84 million, ₹143.50 million, ₹170.06 million and ₹133.62 million respectively, constituting 0.44%, 0.85%, 0.85% and 0.80%, respectively, of company’s total expenses.</p>
<p><i>Company is a manufacturer of Ethanol-based Chemicals and are one of the largest producers of Ethanol in terms of volume</i></p>	<p>As at June 30, 2024, company had an installed capacity of 570 KLPD for ethanol with capacity utilisation of 2.64%, 46.95%, 46.95% and 58.39% for the three months ended June 30, 2024, Fiscals 2024, 2023 and 2022, while company’s revenue from sale of ethanol based on Restated Consolidated Financial Statements during the three months ended June 30, 2024 and Fiscals 2024, 2023 and 2022 was ₹946.01 million, ₹4,821.30 million, ₹5,663.03 million and ₹4,283.48 million. Company’s customers for ethanol include oil marketing companies pursuant to the ethanol blended petrol programme of the Government of India (the “EBP Program”). According to the Frost &amp; Sullivan Report, the Indian ethanol market is projected to grow from USD 7.0 billion in 2023 to USD 17.5 billion by 2028, exhibiting a CAGR of 20.0% during 2023-2028, on the back of increasing ethanol use in applications such as fuel additives, disinfectants, and beverages. Company utilise its experience in Ethanol-based chemicals to manufacture a wide range of Bio-based Chemicals including ethyl acetate, bio-ethyl acetate, MPO, 1,3 butylene glycol, crotonaldehyde, acetaldehyde, bio-acetic acid, butanol, EVE, and paraldehyde. Company believe that the Bio-based Chemicals manufactured by its helps company’s customers substitute conventional materials without loss of functionality.</p>



## OBJECTS OF OFFER

The Offer comprises the Offer for Sale and the Fresh Issue.

### **The Objects of the Fresh Issue**

Company intends to utilise the Net Proceeds from the Fresh Issue towards funding the following objects (the "Objects"):

1. Repayment/pre-payment, in full or in part, of certain outstanding borrowings availed by Company; and
2. General corporate purposes

## RISKS

Company depend on a few suppliers for supply of a significant portion of raw materials (excluding sugarcane). Any failure to procure such raw materials from these suppliers may have an adverse impact on company's manufacturing operations and results of operations.

Source:RHP

## INDUSTRY OVERVIEW

### **Growth Drivers**

Increased demand from packaging, pharma, and paints, increasing popularity of bio-based products, and excellent solvent properties are key drivers for Ethyl Acetate usage in India.

The growing market for flexographic and rotogravure printing market: Ethyl acetate has applications as a solvent in inks for flexographic and rotogravure printing, owing to favorable market conditions of flexographic and rotogravure printing the demand for printing inks would increase thereby increasing demand for ethyl acetate.

Growing demand for relevant APIs: Ethyl Acetate is used as an extraction solvent and intermediate in the manufacture of drugs such as sulphamethoxazole, rifampicin, etc.

Bio-based origin helping in 'green solvent' identity: Ethyl Acetate is commercially manufactured using ethanol and acetic Acid. Both raw materials, being obtained from natural sources, ethyl acetate acts as a green solvent. Acetic acid is obtained by bacterial fermentation and ethanol is obtained from molasses.

Optimal properties of the solvent: Ethyl acetate has one of the higher evaporation rates among the solvents. The higher evaporation rate property helps ethyl acetate in reducing the drying time significantly compared to peer solvents. Moreover, it fits in solvent blend mixtures forming azeotropes with fellow solvent blends.

### **Global and India Ethyl Vinyl Ether Market Overview**

**Product Overview** Ethyl vinyl ether (EVE) is a colorless unsaturated monomer with an ether like odor and low boiling point. With high reactivity, exceptional quality, and good consistency, it is the best choice for a wide range of synthesis including polymerization, addition, and electro cyclic reactions. It can be used as monomer for polymerization, cross-linking monomers, and reactive diluents for UV curing. It is used as a building block for aroma, agrochemicals, lube oil additives, and pharmaceuticals.

**Global Market Overview** In terms of volume, the global market size for ethyl vinyl ether market was 46.1 KT in 2023 with APAC being the largest consuming region. The market is expected to reach 61.6 KT by 2028 growing with a CAGR of 6.0% from 2023 to 2028. G



**Consolidated Financials**

(Rs in Mn)

Financials	FY22	FY23	FY24	Q1 FY 2025
Total Revenue (A)	4011.25	4011.25	4011.25	4011.25
Total Expenditure (B)	15694.43	18684.63	15531.3	5347.61
EBIDTA	1328.86	1462.31	1335.35	-122.36
EBIDTA Margin	7.81	7.26	7.92	-2.34
Other Income	76.48	83.85	143.99	27.48
Depreciation	480.25	500.76	599.25	125.72
EBIT	925.09	1045.40	880.09	-220.60
Interest	604.40	727.90	755.63	195.74
PBT	320.69	317.50	124.46	-416.34
Share of profit in Asso	0.00	0.00	0.00	0.00
PBIT	320.69	317.50	124.46	-416.34
Exceptional	0.00	0.00	0.00	0.00
PBT	320.69	317.50	124.46	-416.34
Tax	129.72	121.14	1.47	-155.29
PAT	190.97	196.36	122.99	-261.05
NPM	1.12	0.97	0.73	-5.00
ROE%	8.21	7.89	4.73	--11.16
EPS	4.55	4.68	2.93	-6.22
Eq Cap	419.43	419.43	419.43	419.43
Net Worth	4,733.04	4,894.48	5,006.80	4,742.78

(Source: RHP)

**Peer Comparison**

Company Name	Face Value	EPS	P/E	ROE %	NAV
<i>Godavari Biorefineries Limited</i>	<i>10</i>	<i>2.93</i>	<i>--</i>	<i>4.73</i>	<i>62.05</i>
<b>Peers</b>					
Alkyl Amines Chemicals Limited	2.00	29.13	78.84	11.75	247.87
Jubilant Ingrevia Limited	1.00	11.55	64.10	6.68	171.86
Laxmi Organic Industries Limited	2.00	4.46	65.11	6.71	65.18
EID Parry (India) Limited	1.00	50.68	16.69	12.75	397.61
Triveni Engineering and Industries Limited	1.00	18.05	26.06	13.62	132.52
Balrampur Chini Mills Limited	1.00	26.49	24.72	15.72	168.57
Dalmia Bharat Sugar & Industries Limited	2.00	33.66	15.83	9.29	362.27
Dhampur Sugar Mills Limited	10.00	20.27	11.20	12.21	168.28
Dwarikesh Sugar Industries Limited	1.00	4.44	17.30	10.16	43.66

(Source: RHP)



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