

**IPO Details**

<b>Opening Date</b>	Oct 31, 2022
<b>Closing Date</b>	Nov 02, 2022
<b>Stock Exchange</b>	NSE SME
<b>Lot Size</b>	1600 Shares
<b>Issue Price</b>	₹ 75 per share
<b>Issue Size</b>	1,195,200 Equity Shares
<b>Application Amount</b>	₹ 1,20,000

**IPO Objective**

Funding Working Capital Requirement  
General Corporate Purpose  
To meet Issue Expenses

**Pre-Issue Shareholding**

Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	17,72,178	58.39%
Public	12,62,892	41.61%

**Promoter of the Company**

- 1 Mr. Bhavesh Babulal Bhandari
- 2 Mrs. Arti Bhavesh Bhandari

**Competitive Strengths**

- 1 Wide product portfolio with a focus on quality.
- 2 Asset Light business model with low fixed overheads.
- 3 Quality Assurance and customer satisfaction.
- 4 R&D set up for constant product improvement and new product development.
- 5 Longstanding customer relationships leading to increased business opportunities.
- 6 Existing committed workforce.

**Company Background**

- Company was established in the year 2015 in Thane, Maharashtra.
- Company is engaged in the business construction chemicals and concrete products.
- Company also deals in range of concrete products such as slump concrete, flowable concrete, self-compaction concrete (SCC), Light Weight Concrete etc.
- Company offers complete construction solution by supplying a complete range of various chemical products.
- Company has also tied up with concrete manufacturers in Maharashtra for production of concrete.
- As on the date of filing the prospectus, the company had 13 employees on its payroll.

**Financial Summary**

For the Period Ended	(In Lacs)		
	Sep-22	Mar-22	Mar-21
<b>Total Assets</b>	1,240.92	1,039.27	677.87
<b>Net Assets</b>	519.84	502.36	63.25
<b>Total Borrowings</b>	97.35	106.23	329.3
<b>Total Revenue</b>	1,036.34	565.73	384.20
<b>Profit After Tax</b>	17.48	26.2	0.69



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## Company Overview

Rite Zone Chemcon Limited was incorporated in the year 2015 in Thane, Maharashtra. Company deals in a range of construction chemicals and concrete products. Company offers complete construction solution by supplying a complete range of various chemical products related to civil construction, infrastructure, building & structure including pre-construction or post construction as well supplying all types of concrete required for construction and infrastructure developments. Company's range of products includes Concrete Admixture, Water Proofing Systems, Concrete Lubricator, Engineering Grouts, Industrial Flooring, Concrete Repairs, Curing Compound & Mould Release Agent, Surface Treatment, Tiling & Block Products. Company outsources chemical products production to third party manufacturer.

## Analysis

The company has been into the business line since 2015 and has a decent track record of existence. The company has been operating in the construction chemical industry and is therefore also dependent on the construction industry.

Company provides a wide range of construction chemical and concrete products. The company works on asset light model and its products are outsourced to outside manufacturers. The product portfolio of the company could be seen in the diagram below –

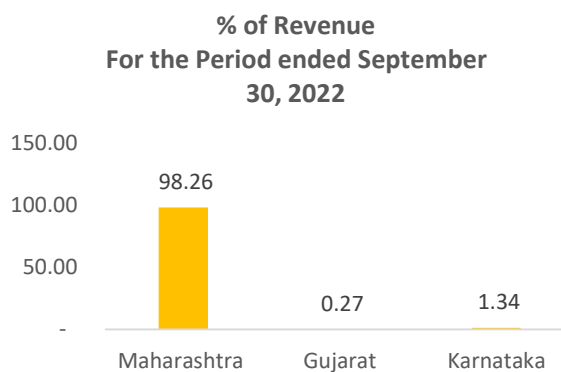


The primary raw material for producing these products are Sulphonated naphthalene formaldehyde condensate as well as Polycarboxylate ether. These raw materials are produced by the third party manufacturers itself or purchased by the third party manufacturers or purchased by the company directly. In coming times, the company plans to import the raw materials with a view to reduce cost and

therefore one must also keep a track on the prices of these raw materials and government regulations on chemicals as well as import duties.

The revenue from operations of the company has grown substantially from Rs. 493.33 lacs to Rs. 1,034.08 lacs up to September'22 which shows that the company has generated more than double of its previous year's revenue in just 6 months of FY 23. Such a growth in coming times is highly improbable. The main market for the company has been Maharashtra. It is evident from the table below that the company is generating around 98% of its sales from a single region.

State	% of Revenue For the Period ended September 30, 2022	% of Revenue For the Fiscal 2022
Maharashtra	98.26	91.74
Gujarat	0.27	5.10
Karnataka	1.34	3.16



The company has concentrated its sales more in the state of Maharashtra up to September'22 than that was in FY 22 highlighting higher concentration risk.

To conclude, the company has been operating since 7 years and is in an industry which is expected to grow with the growth in the construction industry. But the revenue of the company is highly concentrated and also entirely depends upon third party manufacturers.

## Industry Charts

Exhibit 1: Key trends of Chemical Industry

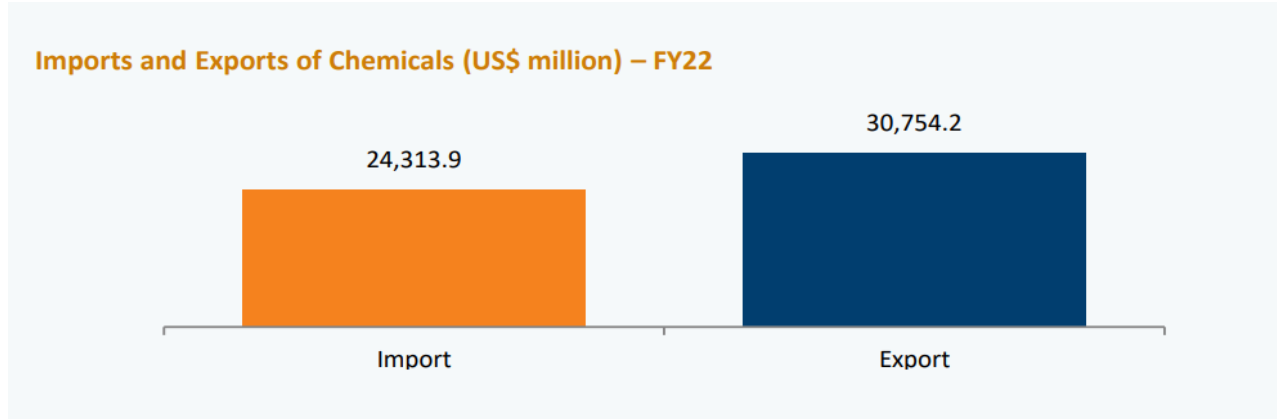


Exhibit 2: Production Capacity of chemicals ('000 MT)

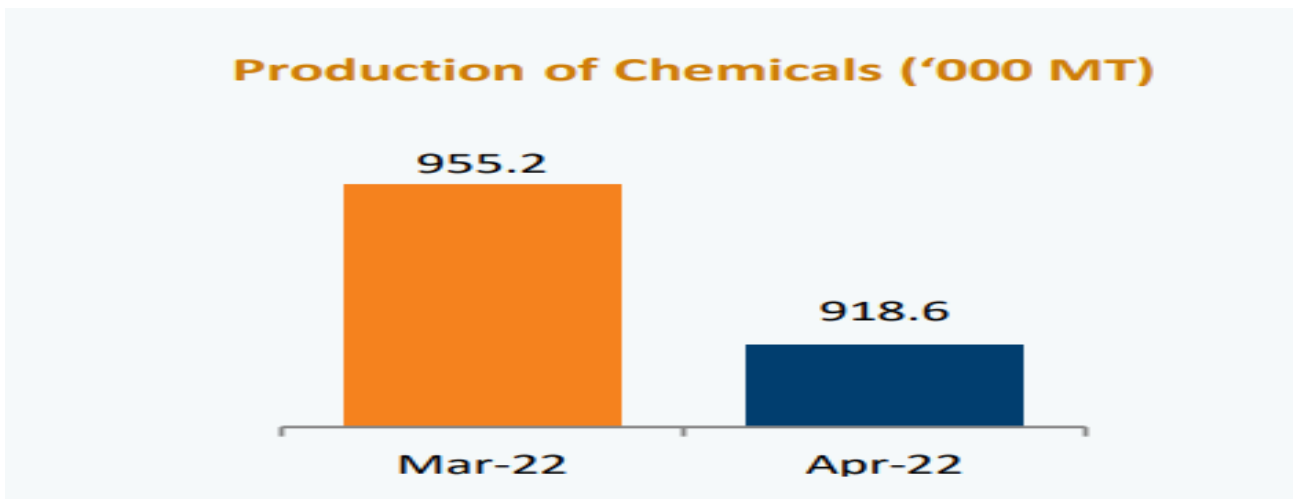
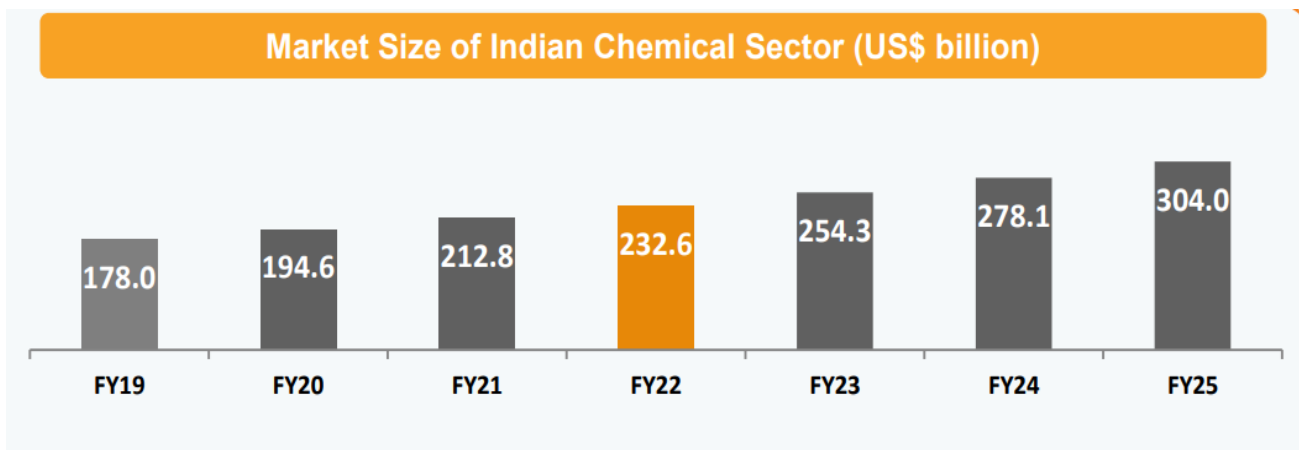


Exhibit 3: Market Size of Indian Chemical Sector



(Source: ibef.org)

## Investment Overview

### Chemical Industry

Covering more than 80,000 commercial products, India's chemical industry is extremely diversified and can be broadly classified into bulk chemicals, specialty chemicals, agrochemicals, petrochemicals, polymers and fertilisers.

Globally, India is the fourth-largest producer of agrochemicals after the United States, Japan and China. India accounts for ~16% of the world production of dyestuffs and dye intermediates. Indian colorants industry has emerged as a key player with a global market share of ~15%. The country's chemicals industry is de-licensed, except for few hazardous chemicals. India holds a strong position in exports and imports of chemicals at a global level and ranks 14th in exports and 8th in imports at global level (excluding pharmaceuticals). The domestic chemicals sector's small and medium enterprises are expected to showcase 18-23% revenue growth in FY22, owing to an improvement in domestic demand and higher realisation due to high prices of chemicals.

India's proximity to the Middle East, the world's source of petrochemicals feedstock, enables it to benefit on economies of scale.

### Market's Size

The Indian chemicals industry stood at US\$ 178 billion in 2019 and is expected to reach US\$ 304 billion by 2025 registering a CAGR of 9.3%. The demand for chemicals is expected to expand by 9% per annum by 2025.

The chemical industry is expected to contribute US\$ 300 billion to India's GDP by 2025. 96 An investment of Rs. 8 lakh crore (US\$ 107.38 billion) is estimated in the Indian chemicals and petrochemicals sector by 2025. Chemical production reached 903,002 MT in December 2021, while petrochemical production reached 1,877,907 MT. In December 2021, production levels of various chemicals were as follows: Soda Ash: 257,199 MT, Caustic Soda: 277,638 MT, Liquid Chlorine: 190,492 MT, Formaldehyde: 22,794 MT and Pesticides and Insecticides: 22,110 MT.

The specialty chemicals constitute 22% of the total chemicals and petrochemicals market in India. The demand for specialty chemicals is expected to rise at a 12%



CAGR in 2019-22. Indian manufacturers have recorded a CAGR of 11% in revenue between FY15 and FY21, increasing India's share in the global specialty chemicals market to 4% from 3%, according to the Crisil report. A revival in domestic demand and robust exports will spur a 50% YoY increase in the capex of specialty chemicals manufacturers in FY22 to Rs. 6,000-6,200 crore (US\$ 815-842 million). From April 2021 to February 2022, exports of organic & inorganic chemicals increased 33.75% YoY to reach US\$ 26.48 billion. Revenue growth is likely to be 19-20% YoY in FY22, up from 9-10% in FY21, driven by recovery in domestic demand and higher realisations owing to rising crude oil prices and better exports.

(Source: ibef.org)



## **Addressable Market for Rite Zone Chemcon India Limited**

The company has been generating revenues from Maharashtra, Gujarat and Karnataka. The revenue from Maharashtra has contributed to around 98% of its revenue from operations. The company in coming times should look to target other states of India as well. Currently the company is operating in the B2B segment but in the coming times it has plans to cater the retail segment of the market as well.

## **Competition**

Company operates in a highly competitive environment. The industry is filled with various organized and unorganized players in the industry. The industry is very fragmented which makes the bargaining power of the company very low. The threat of new entrant is also high in this segment.

## **Peer Analysis**

As mentioned in the prospectus, the company has no listed peers.



## Promoters' Profile and Management Analysis

### Mr. Bhavesh Babulal Bhandari



- Mr. Bhavesh Babulal Bhandari is the Chairman, Managing Director of the company.
- He has been associated with our Company since Inception.
- He has 18 years of experience in the concrete chemical products in construction industry in India.
- He holds a bachelor's degree in Commerce from the University of Mumbai.

### Mrs. Arti Bhavesh Bhandari



- Mrs. Arti Bhavesh Bhandari aged 43 years, is the Promoter and Director of the Company.
- She been associated with the Company since its incorporation.
- She holds a bachelor's degree in Commerce from S.I.W.S.'s Swamy College of Commerce and Economics and Smt. Thirumalai College of Science affiliated with University of Mumbai and a Diploma in Personnel Management from Prin. L.N. Welingkar Institute of Management Development & Research.
- She formally worked as project officer at Sightsavers till May 30, 2022. She has previously worked with Avert Society- A joint project of NACO, Govt of Maharashtra and USAID as Secretary and was later appointed as Program Assistant.

## **Analysis on the Company's Promoter and Board of Directors**

**Mr. Bhavesh Babulal Bhandari** is the Chairman, Managing Director and has been associated with the Company since Inception i.e. March 10, 2015. He holds a bachelor's degree in Commerce from the University of Mumbai. He previously worked with Rheoplast Technology Pvt. Ltd. a construction chemical Company as Chief Commercial Head. He has 18 years of experience in the concrete chemical products in construction industry in India.

**Mrs. Arti Bhavesh Bhandari** is Executive Director and has been associated with the Company since its incorporation i.e. March 10, 2015. She holds a bachelor's degree in Commerce from S.I.W.S.'s Swamy College of Commerce and Economics and Smt. Thirumalai College of Science affiliated with University of Mumbai and a Diploma in Personnel Management from Prin. L.N. Welingkar Institute of Management Development & Research. She formally worked as project officer at Sightsavers till May 30, 2022. She has previously worked with Avert Society- A joint project of NACO, Govt of Maharashtra and USAID as Secretary and was later appointed as Program Assistant where she managed filing and storing of documents and correspondence relating to Targeted Intervention Project.

**Mr. Siddharth Banerjee** is Non-Executive Director and has been associated with the Company since May 11, 2022. He holds bachelor's degree in Commerce from MMK College, Bandra. He also holds a Post Graduate Degree in Sales and Marketing. He has a 30+ years' experience in the field of Sales and Marketing in the field of construction and Infrastructure Industries. He has previously handled the projects of IPS Storm water pumping station in Versova and Malvani and several other projects. He was formally associated with R.K. Madhani & Co., Dadar. He is presently working with the Company and M/s Maruti Infrachem Solutions [Bhavesh Babulal Bhandari HUF] for Sales and Marketing of concrete and Chemicals in construction and Infrastructure Industries.

To conclude, the company's management is well educated and is experienced. The Managing Director has 18 years of experience in the related business line, but the executive director's experience does not seem to be properly relevant to the company's line of operations. The Non-Executive Director is also vastly experienced but would not indulge in the day to day operations of the business.

## Financial Snapshot

(Amount in Lacs)

Particulars	As at 31st March, 2021	As at 31st March, 2022	As at 30th Sep, 2022
<b>Profit and Loss</b>			
Revenue from operation	379.74	493.33	1,034.08
Other income	4.46	72.40	2.26
Total Revenue	384.20	565.73	1,036.34
Expenses	353.63	478.34	981.90
Depreciation and Amortisation Cost	17.93	23.24	18.22
Finance Cost	11.69	10.30	4.64
Total Expenses	383.25	511.88	1,004.76
PBT	0.95	53.85	31.58
PBT Margin	0.25%	10.92%	3.05%
EBITDA	26.11	14.99	52.18
EBITDA Margin	6.88%	3.04%	5.05%
Net Profit	0.69	26.20	17.48
Net Profit Margin	0.18%	5.31%	1.69%
<b>Balance Sheet</b>			
Total Borrowings	329.30	106.23	97.35
Net Worth	63.25	502.36	519.84
Tangible Fixed Assets	212.59	208.89	191.39
Net Working Capital	165.8	391.99	421.6
<b>Financial Measures</b>			
Inventory Turnover Ratio	0.15	0.17	0.33
Receivables Turnover Ratio	0.86	0.63	1.05
Payables Turnover Ratio	1.004	0.96	1.48
Tangible Fixed Assets Turnover Ratio	1.79	2.36	5.40
Return on Capital Employed	2.11%	-1.38%	5.61%
Return on Equity	1.09%	5.22%	3.36%
Debt-Equity Ratio	5.21	0.21	0.19

(The data has been taken and calculated from the financials given in the prospectus)

### **Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)**

The EBITDA of the company has fallen from Rs. 26.11 lacs in 2021 to 14.99 lacs in 2022 and rose again to 52.18 lacs up to September 2022 which if annualised would be around 104.36 lacs growing at a CAGR of 99.92%. The EBITDA margin in September 2022 was 5.05%, 3.04% in 2022 and 6.88% in 2021. The cost of materials consumed has been rising for the company from 71% in 2021, 77% in 2022 and 82% up to September 2022.

### **Net Profit**

The net profit of the company has grown from Rs. 0.69 lacs in 2021 to Rs. 26.20 lacs in 2022 and 17.48 lacs up to September 2022 which if annualised would be around 34.96 lacs growing at a CAGR of 762.57%. The net profit margin of the company was 0.18% in 2021, 5.31% in 2022 and 1.69% up to September 2022. The net profit includes the revenue from other income which if removed, the company would be incorporating losses in FY 21 and FY 22.

### **Finance Cost.**

The company has incurred finance cost mainly towards the short-term and long-term facilities availed from the Banks.

### **Financial Measures/Ratios**

RoCE of the company was 2.11% in 2021 vs -1.38% in 2021 and 5.61% up to September 2022 which if annualised would be around 4.50%. The RoCE has been quite low despite of substantial increase in operating profit up to September 2022. The RoCE in 2021 was negative due to negative operating profit of the company.

ROE of the company in 2021 was 1.09% vs 5.22% in 2021 and 3.36% up to September 2022 which if annualised would be around 2.44%. The ROE would again be negative in FY 21 and FY 22 if we remove the other income from revenues of the company.

The company has been able to manage its inventory and receivables in a better way in recent years but has to look more into managing its payables.

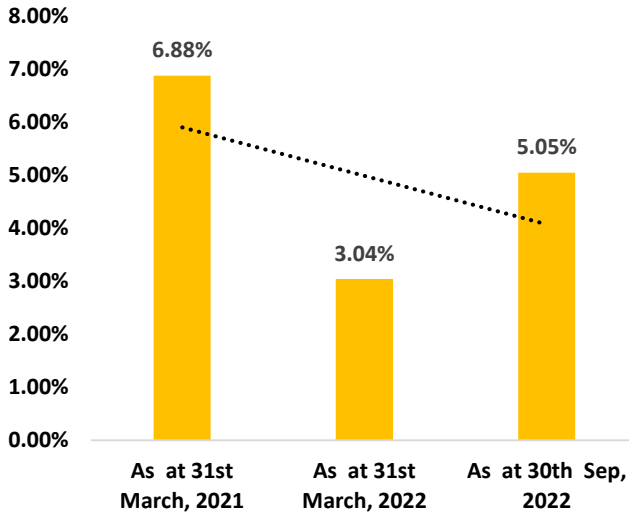


The company has debt-equity ratio of around 0.19 times. The ratio has been decreasing from the level of FY 21. With more equity capital coming in, the ratio is expected to dip further.

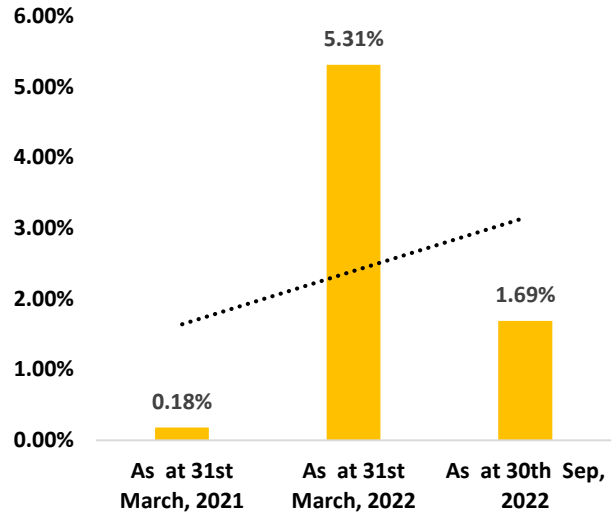
## Financial Charts

\*The charts have not been annualised

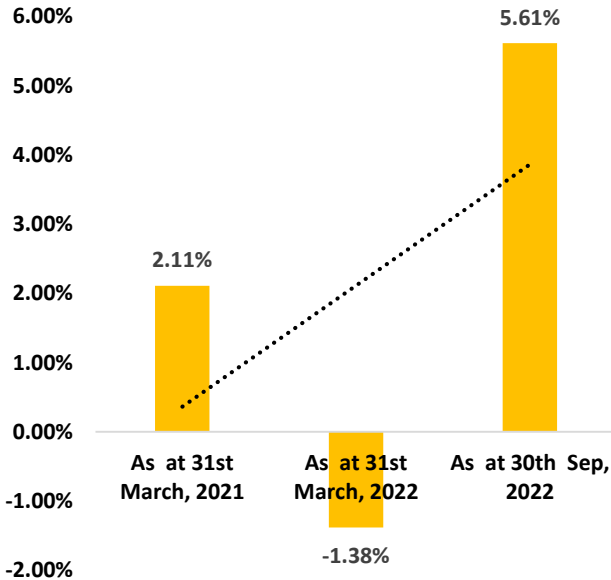
### EBITDA Margin



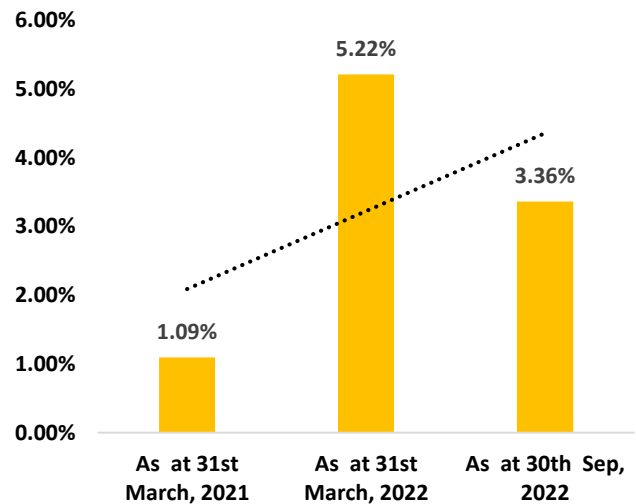
### Net Profit Margin



### Return on Capital Employed



### Return on Equity





## Key Risk Factors

1. Company, Promoters, Directors and Group Companies are involved in certain litigations amounting to Rs. 95.78 lacs, which if determined against the company, can affect financial conditions of the company.
2. Company's reliance on third party for the business, including the products exposes them to certain risk. 100% of the manufacturing is outsourced to the suppliers.
3. Company's top 10 suppliers delivered 97.36%, 100.0%, 100.0%, and 99.4% of the purchases for the period ended September 30, 2022, Fiscal 2022, Fiscal 2021, and Fiscal 2020 respectively.
4. Company has been generating around 98% of its sales only from Maharashtra.



## **Track Record of Lead Manager**

The lead manager to the issue is Expert Global Consultants Private Limited and this is their 1<sup>st</sup> mandate.



## Recommendation

Being incorporated in the year 2015, the company has a decent track record of existence and has been operating in the chemical and concrete industry. The company has shown some extra-ordinary growth in its top line up to September 2022.

The management of the company is experienced and also well educated.

The company's financial performance is not promising at all. If we remove Other Income from Total Revenue, the company has not been able to generate positive returns for its stakeholders.

The company is getting listed at a PE of around 84 times on Post-IPO basis which makes the issue very aggressively priced.

To conclude, although the construction industry in India might have good prospect, the company has not been able to generate enough returns and therefore one **should avoid** applying in the IPO.



## **Disclaimer**

We are not SEBI registered and not a certified Research Analyst. The information provided here is for education purposes only. We will not be responsible for any of your profit/loss with these suggestions. Consult your financial advisor before taking any decisions.

**We believe an SME company needs 2-3 years to show its true potential and therefore our recommendations are for Long-term investment and not for listing gains.**