

### IPO Details

<b>Opening Date</b>	Oct 31, 2022
<b>Closing Date</b>	Nov 03, 2022
<b>Stock Exchange</b>	NSE SME
<b>Lot Size</b>	1200 Shares
<b>Issue Price</b>	₹ 95-₹101per share
<b>Issue Size</b>	64,00,000Equity Shares
<b>Application Amount</b>	₹ 1,21,200

### IPO Objective

Funding Working Capital Requirement  
 General Corporate Purpose  
 To meet Public Issue Expenses

### Pre-Issue Shareholding

Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	1,75,51,500	100%
Public	-	-

### Promoter of the Company

- Mr. Vipul Jatashanker Bhatt
- Mrs. Sangeeta Vipul Bhatt

### Competitive Strengths

- Experienced Promoter and Management Team
- Prime Location of the Manufacturing Facility
- Long-standing relationships with a diversified customer base
- Focus on Quality, Environment, Health, and Safety
- Wide Application of Products.

### Company Background

- Company was incorporated in the year 2013 in Gujarat.
- Company is engaged in the business of manufacturing Phosphorus Derivatives Products.
- Company manufactures Phosphorus Trichloride (PCl<sub>3</sub>), Phosphorus Oxychloride (POCl<sub>3</sub>), Phosphorus Pentachloride (PCl<sub>5</sub>), Phosphorus Pentoxide (P<sub>2</sub>O<sub>5</sub>), Poly Phosphoric Acid (PPA) and Phosphorus Pentasulfide (P<sub>2</sub>S<sub>5</sub>) for customers across segment.
- Company also does trading of its Raw Material.
- The company has State of the Art Programmable Logic Controller (PLC) and Supervisory Control and Data Acquisition (SCADA) operated in integrated complex in PCPIR region of Dahej, Gujarat, India for manufacturing of phosphorus base chemicals.
- Company has recently started exporting to Saudi Arabia.
- As on May 31, 2022, the company had 50 employees on its payroll.

### Financial Summary

For the Period Ended	(In Lacs)		
	Apr-22	Mar-22	Mar-21
<b>Total Assets</b>	8,991.92	8,093.71	3,041.34
<b>Net Assets</b>	1,478.18	1,478.18	597.52
<b>Total Borrowings</b>	3,418.84	3,500.09	1,005.87
<b>Total Revenue</b>	1,080.07	14,391.24	4,768.46
<b>Profit After Tax</b>	135.18	1,455.44	293.78

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## Company Overview

Vital Chemtech Limited was incorporated in the year 2013 and is engaged in the business of manufacturing of Phosphorus Derivatives. The company has State of the Art Programmable Logic Controller (PLC) and Supervisory Control and Data Acquisition (SCADA) operated in integrated complex in PCPIR region of Dahej, Gujarat, India for manufacturing of phosphorus base chemicals. Company also does trading of its raw Material. Company has recently started exporting to Saudi Arabia. The company sells products on B2B to various industries such as Lifesciences, Crop Care, Specialty Chemicals, Textile Auxillaries, Dyes, Pigments and Plastic Additives.

## Analysis

Being incorporated in the year 2013, the company has a decent track record of existence and has been operating in the chemical sector which has a very bright prospect in the coming future

Company has robust growth and improvement in top line and bottom line on restated financial statement. The Company has half a decade of track record in manufacturing phosphorous based specialty chemicals. The company has been able to generate good amount of revenues and also expanded its manufacturing capacity which would further help the company to generate additional revenues. Currently the company is operating at a capacity of less than 50% of its total installed capacity. A summary of the same is given in the table below –

Particulars	FY 2020-21			FY 2021-22		
	Installed Capacity (MT)	Actual Production (in MT)	% Utilization	Installed Capacity (MT)	Actual Production (in MT)	% Utilization
Phosphorus Trichloride	7,200.00	4,051.66	56.27%	16,800.00	6,325.44	37.65%
Phosphorus Oxychloride	3,600.00	2,929.41	81.37%	9,000.00	3,966.53	44.07%
Phosphorus Pentachloride	1,200.00	129.75	10.81%	1,200.00	357.26	29.77%
Phosphorus Pentoxide	1,200.00	408.9	34.07%	1,200.00	639.24	53.27%
Poly Phosphoric Acid	-	-	-	600	203.68	33.95%

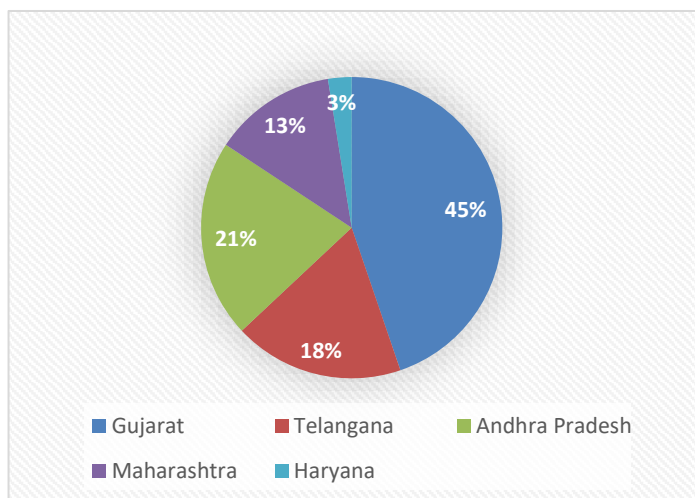
(₹ In Lakhs)

Particulars	For the period ended on April 30, 2022	November 25, 2021 to March 31, 2022	April 01, 2021 to November 24, 2021	FY 2020-21	FY 2019-20
Phosphorus Trichloride	345.81	1,322.67	2,512.46	1,060.59	1,378.44
Phosphorus Oxychloride	403.82	2,609.57	4,783.59	2,827.63	2,044.12
Phosphorus Pentoxide	64.64	970.27	809.06	593.21	560.33
Phosphorus Pentachloride	25.86	261.85	316.75	111.55	41.24
Poly Phosphoric Acid	200.13	512.68	57.74	6.29	3.17
Phosphorus Pentasulfide	0	0	0	0	0
	<b>1,040.26</b>	<b>5,677.04</b>	<b>8,479.61</b>	<b>4,599.27</b>	<b>4,027.30</b>

Product wise sales bifurcation of the company is shown in the table below:

### Geographical Sales Bifurcation (Top 5 Domestic sales)

Particulars	FY 21-22
<b>Domestic</b>	
Gujarat	5,941.15
Telangana	2,422.90
Andhra Pradesh	2,822.03
Maharashtra	1,751.63
Haryana	335.60



As evident from the table above, the company is primarily selling in the domestic market and has started exporting recently. The company at present is only exporting to Saudi Arabia but company intend to increase sales in export markets by increasing the wallet share of international customers. This shall subsequently increase export revenues and global reach.

To conclude, the company has fared very well in terms of revenue generation and expansion. The company has an established market and good customer base but they are into a high capital intensive industry and any change in the government policies may adversely affect the business as company manufactures only

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Phosphorus Derivatives. The competition is very high but the major edge over other competitors is that they offer full range of Phosphorus Derivatives.

**Industry Charts**

Exhibit 1: Key trends of Chemical Industry

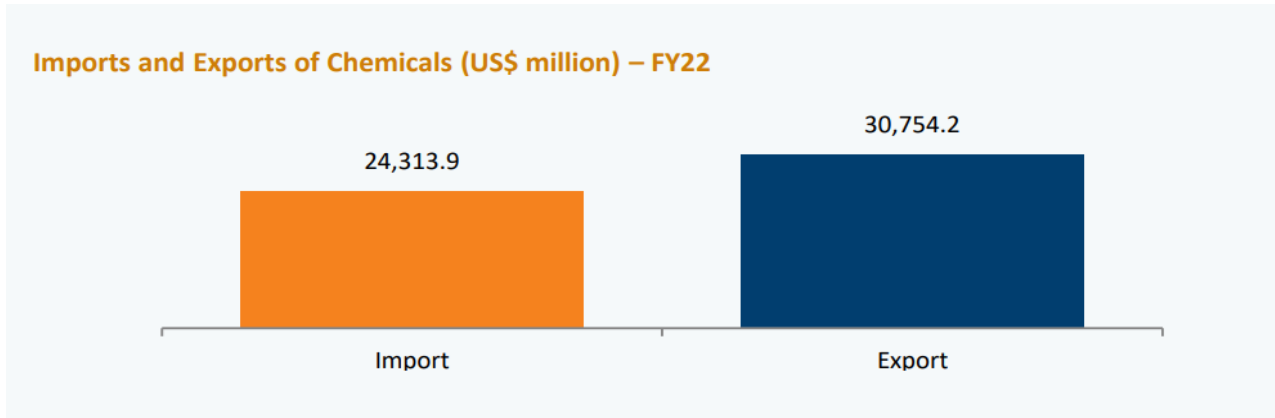


Exhibit 2: Production Capacity of chemicals ('000 MT)

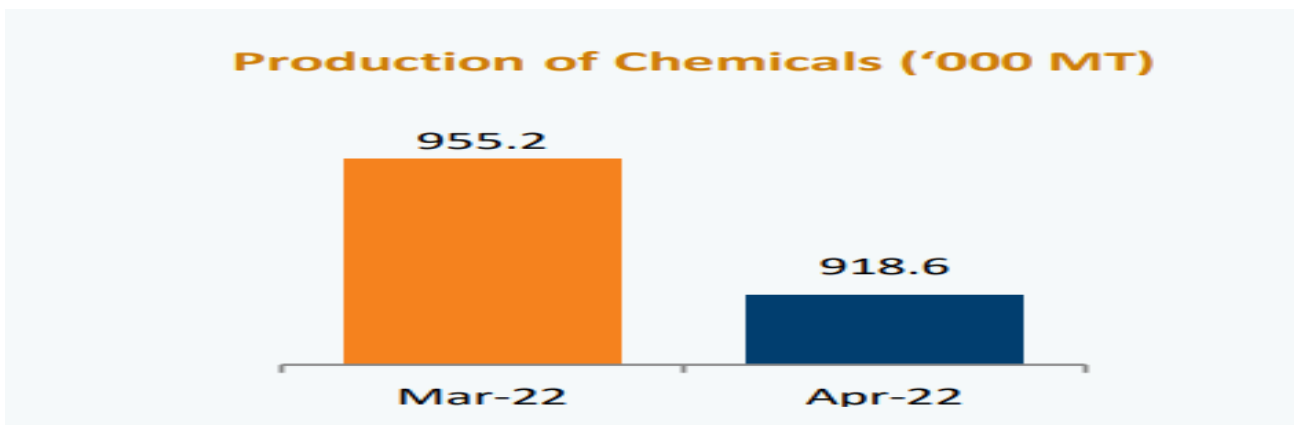
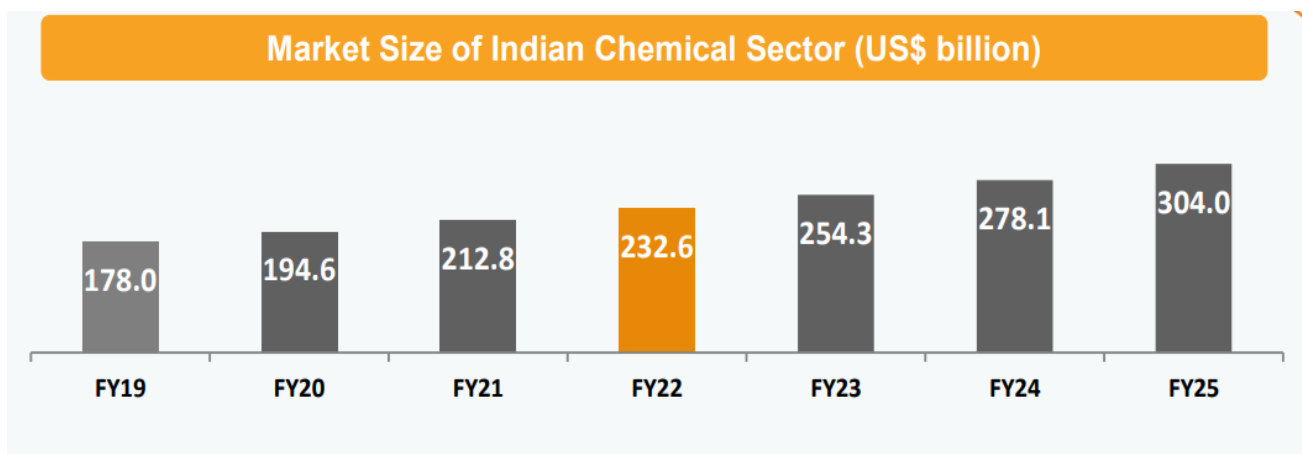


Exhibit 3: Market Size of Indian Chemical Sector



(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.

### **Addressable Market for Vital Chemtech Limited**

The company is operating from Gujarat, which is amongst the major chemical hub of India. The company is currently supplying its product PAN India and has also targeted the export market. Company has recently started exporting to Saudi Arabia. The company in coming times would like to increase its global presence along with increasing its presence in India.

### **Competition**

Company operates in a highly competitive environment. Price is the main factor in most cases for client making decisions. Competition emerges not only from small but also from big Regional and National and International players. Moreover, there are minimal entry barriers in this industry and any expansion in capacity of existing producers would further intensify competition.



## Peer Analysis

As Mentioned in the prospectus, the company has mentioned only 1 listed company as its peer viz. Neogen Chemicals Limited. A summary on the key financial parameters of the company is given in the table below –

<b>Company</b>	<b>Vital Chemtech Limited</b>	<b>Neogen Chemicals Limited</b>
Net Profit (INR Cr)	14.55	44.63
EBITDA (INR Cr)	25.32	87.84
Return on Capital Employed	67.98%	13.10%
Return on Equity	98.46%	10.16%
EPS (INR)#	6.27	19.40
P/E* (Times)	16.10	83.67

\*PE as on 21/10/2022

#EPS is based on Post-IPO

## Promoters' Profile and Management Analysis

### Mr. Vipul Jatashanker Bhatt



- **Mr. Vipul Jatashanker Bhatt** is Promoter-Chairman and Managing Director of the Company
- He has over 28 years of experience in the chemical manufacturing and trading industry.
- He is graduated in Diploma in Chemical Engineering from Government Engineering College, Bharuch.

### Mrs. Sangeeta Vipul Bhatt



- **Mrs. Sangeeta Vipul Bhatt** is the Whole Time Director of the Company.
- She is having more than five years of experience in the Administration of Company.
- She holds degree of Bachelor of Commerce from Osmania University, Hyderabad.

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

**Mr. Vipul Jatashanker Bhatt** aged 50 years is Promoter-Chairman and Managing Director of the Company. He is Diploma in Chemical Engineering from Government Engineering College, Bharuch. He is having about 28 years of experience in the chemical manufacturing and trading industry.

**Mr. Jay Vipul Bhatt** aged 26 years is Whole Time Director of the Company. He Holds Degree of Bachelor of Chemical Engineering from Gujarat Technological University. He is having more than four years of experience in the Business Development and Marketing.

**Mrs. Sangeeta Vipul Bhatt** aged 51 years is Promoter - Whole Time Director of the Company. She holds degree of Bachelor of Commerce from Osmania University, Hyderabad. She is having more than five years of experience in the Administration of the Company

**Mr. Deepakkumar Kushalchandrara Chaubisa** aged 32 years is an Independent Director of the Company. He has been appointed as an Additional Non-Executive Independent Director of the Company w.e.f. June 03, 2022 to hold office till the conclusion of the next Annual General Meeting. He holds the degree of Company Secretary from the Institute of Company Secretaries of India. He is having more than 5 years of experience in the field of Secretarial and Compliance related activities.

**Mr. Hetalkumar Jayantilal Shah** aged 53 years is an Independent Director of the Company. He has been appointed as an Additional Non-Executive Independent Director of the Company w.e.f. June 03, 2022 to hold office till the conclusion of the next Annual General Meeting. He holds the degree of Chartered Accountant from the Institute of Chartered Accountants of India. He is having more than 10 years of experience in the field of Auditing, Finance, and Taxation etc.

To conclude, the company's promoters are the main driving force of the company and are very well experienced in the business line. The Non-Executive Directors and Independent Directors are well experienced and might help the company grow with their valuable inputs, though not taking part in day-to-day operations directly.

## Financial Snapshot

(Amount in Lacs)

Particulars	As at 31st March, 2021	As at 31st March, 2022	As at 30th April, 2022
<b>Profit and Loss</b>			
Revenue from operation	4,739.65	14,320.26	1,054.77
Other income	28.81	70.98	25.30
<b>Total Revenue</b>	<b>4,768.46</b>	<b>14,391.24</b>	<b>1,080.07</b>
Expenses	4,095.46	11,859.56	888.42
Depreciation and Amortisation Cost	91.88	136.28	15.49
Finance Cost	110.33	120.55	0.61
<b>Total Expenses</b>	<b>4,297.67</b>	<b>12,116.39</b>	<b>904.52</b>
PBT	470.79	2,274.85	175.55
PBT Margin	9.93%	15.89%	16.64%
EBITDA	673	2,531.68	191.65
EBITDA Margin	14.20%	17.68%	18.17%
Net Profit	293.78	1,455.44	135.18
Net Profit Margin	6.20%	10.16%	12.82%
<b>Balance Sheet</b>			
Total Borrowings	1,005.87	3,500.09	3,418.84
Net Worth	597.52	1,478.18	1,478.18
Fixed Assets	796.98	2,610.34	3,339.91
Net Working Capital	1,784.61	913.49	280.52
<b>Financial Measures</b>			
Inventory Turnover Ratio	14.60	8.85	0.79
Receivables Turnover Ratio	3.47	3.43	0.27
Payables Turnover Ratio	2.72	2.92	0.23
Fixed Assets Turnover Ratio	5.95	5.49	0.32
Return on Capital Employed	40.71%	67.98%	4.87%
Return on Equity	49.17%	98.46%	11.88%
Debt-Equity Ratio	1.68	2.37	2.31

(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 grown from Rs. 673 lacs in 2021 to Rs. 2,531.68 lacs in 2022 and on 30<sup>th</sup> April 2022 it was Rs.191.65 lacs and if we annualise the same it would be around Rs. 2,298.8 lacs. The EBITDA on annualised basis has grown at a CAGR of 84.86%. The EBITDA margin in 2021 was 14.20%, 17.68% in 2022 and 18.17% on 30<sup>th</sup> April 2022.

### **Net Profit**

The net profit of the company has grown from Rs 293.78 lacs in 2021 to Rs. 1,455.44 lacs in 2022 and on 30<sup>th</sup> April 2022 it was Rs. 135.18 lacs and if we annualise the same it would be around Rs. 1,622.16 lacs growing at a CAGR of 135% which seems quite astonishing. The net profit margin in 2021 was 6.2%, 10.16% in 2022 and 12.82% in April, 2022. Again, due to increase in revenue and decreases in expenses the net profit margins have increased.

### **Finance Cost.**

The company's finance cost mainly seems to be from secured long term and short term borrowings from bank.

### **Financial Measures/Ratios**

RoCE of the company upto 30<sup>th</sup> April 2022 is 4.87% vs 67.98% in 2022 and 40.71% in 2021. If we annualise the ROCE of FY 2022-2023, the ROCE is expected to be around 20%. Return on Capital Employed is increased significantly because sales are increased and other fixed overheads are not increased in that proportion.

ROE of the company in 2021 was 49.17%, 98.46% in 2022 and 11.88% in April 2022, if annualised, ROE would be around 17%. The ROE is estimated to fall due to new capital being brought in by the company through IPO.

The company's Inventory turnover ratio in 2021 was 14.6 times vs 8.85 times in 2022 and 0.79 times in April, 2022. The Inventory Turnover Ratio has decreased significantly due to increase in Work-in Progress and Bigger size of Consignments.

The company's receivables turnover ratio in 2021 was 3.47 times vs 3.43 times in 2022 and 0.27 times in April, 2022. In the year 2022, The Trade Receivables Turnover Ratio is decreased due to increased credit period allowed to customers by

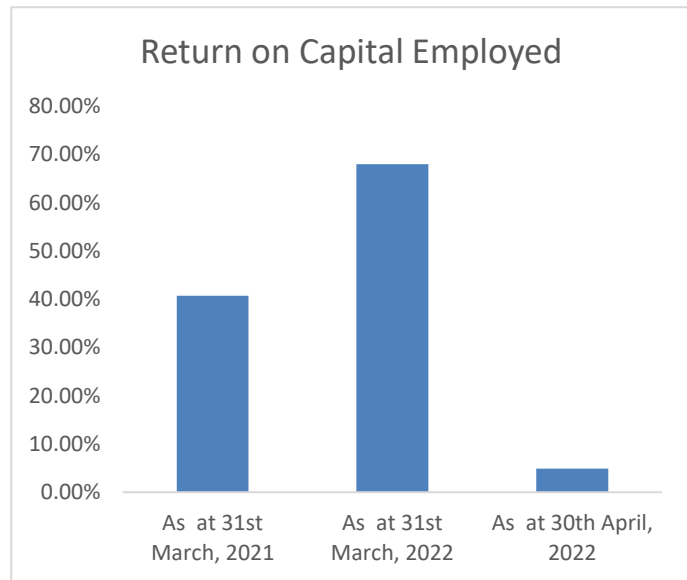
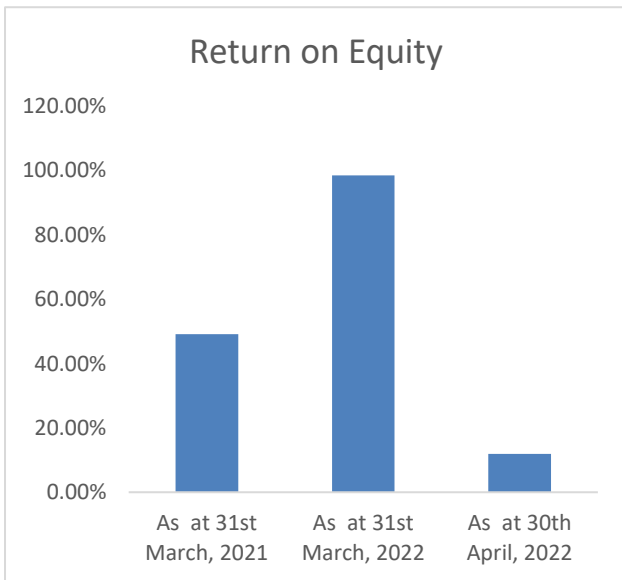
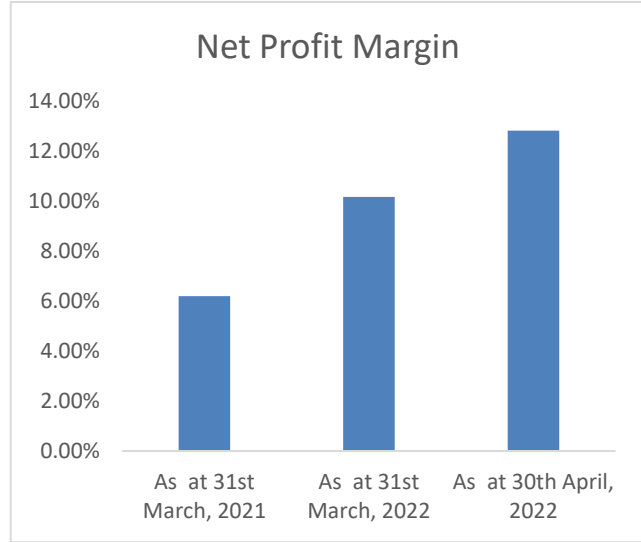
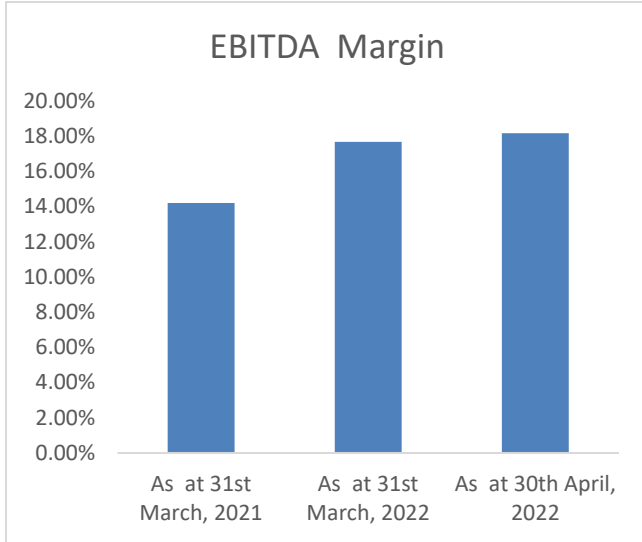
company. Further, the same has been increased in the preceding period due to non-realization of credit sales as on the closing of financials

The company's payables turnover ratio in 2021 was 2.72 times vs 2.92 times in 2022 and 0.23 times in April, 2022.

The company has a debt-equity ratio of 2.31times out of which Rs. 3 crores is from Secured Borrowings and around 31 crores is from unsecured means. The company is highly leveraged from unsecured loans which is not a stable source of finance.

## Financial Charts

**\*The charts are not annualised**



## Key Risk Factors

1. Company, Promoters, Directors and group Companies are involved in certain litigations including tax related litigations amounting to Rs. 0.69Cr, which if determined against the company, can affect financial conditions of the company
2. Business is working capital intensive. If the Company experiences insufficient cash flows from operations or are unable to borrow to meet the working capital requirements, it may materially and adversely affect the business and results of operations
3. Company has certain contingent liabilities of ₹ 1,725.39 Lakh, which, if materialized, may affect financial condition.
4. The top 10 suppliers of the company contribute to around 96% of its total purchase which makes the company dependent of a very few suppliers.
5. The raw materials that Company use as well as the finished products are hazardous, corrosive, and flammable and require expert handling and storage, as applicable.



## Track Record of Lead Manager

The lead manager to the issue is Beeline Capital Advisors Pvt Ltd and this is the 5<sup>th</sup> mandate in 2022. A table has been set below highlighting the details of the IPO of some of the companies handled by the Lead Manager in recent times –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing date	CMP# (INR)
1.	Trident Lifeline Limited	35.34	101.00	October 10, 2022	151.2
2.	Kandarp Digi Smart BPO limited	8.10	30.00	September 28, 2022	15.4
3.	Viviana Power Tech Limited	8.80	55.00	September 16, 2022	88.75
4.	Jay Jalaram Technologies Limited Viviana Power Tech Limited	10.80	36.00	September 08, 2022	91.4

### CMP is taken as on 21<sup>st</sup> October 2022

Out of the last 4 listings, 1 opened at discount, 1 at par, and the rest with premiums ranging from 4.94% to 49.12% on the day of listing.

## Recommendation

Being incorporated in the year 2013, the track record of the company is good. The industry in which the company is operating has a very good prospect as it has applications over numerous products.

The company's management has a good outlook as they have relevant educational background and are very well experienced in their respective field of business.

The sector PE is around 56 times and the company is getting listed at a PE of around 16 times which makes it a fairly priced issue.

**The company is in requirement of Rs. 8,942.06 lacs as working capital. The company plans to finance the same through IPO Proceeds (Rs. 4,500 lacs), Internal Accruals (Rs. 2,983.47) and Borrowings (Rs. 1,458.59 lacs). To facilitate the same, the company has estimated its Receivables to increase from 3.50 months in 2022 to 4.50 months in 2023 and its Payables to decrease from 4.11 months in 2022 to 2.00 months in 2023. These changes seem to be major and might give an indication of having aggressive stand to match up the fund requirement.**

To conclude, the company is operating in a good industry, the company has good experience and has performed well in its top line as well as keeping the profit margins growing. Except for the fact of aggressive requirement estimation and being currently leveraged with unstable means of finance, the company looks good to have a bet on. Since the above mentioned factors make it a risky investment, it is advised that the **risk takers should apply** and **risk averse should wait** for some time.



## 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.**