



## IPO Note

# Ambey Laboratories Limited

Recommendation: **AVOID!**

### Company Background -

- Ambey Laboratories, incorporated in 1985, manufactures agrochemical products for crop protection. The company has been serving the agrochemical sector for almost four decades.
- The company manufactures and supplies 2,4-D base chemicals.
- The company's manufacturing facility in Behror, Rajasthan, is certified with ISO 9001:2015 by the Quality Research Organization and ISO 14001:2015 by the United Accreditation Foundation.
- As of October 31, 2023, the company employs 220 people in various departments.

### Objects of the Issue -

- To meet Working Capital Requirements
- General Corporate Expenses.
- Issue related expenses

### Promoters Name -

Archit Gupta, Arpit Gupta, Sarina Gupta and Rishita Gupta.

### Rationale for recommendation -

- ✓ The company's management overview is not very satisfactory
- ✓ The company is operating in less margin compared to its peers in the same industry.
- ✓ The company has had Negative Operating Cashflow for period Ended Jan-2024
- ✓ The company has very high concentration of buyers.

### IPO Details

Opening Date	July 04, 2024
Closing Date	July 08, 2024
Allotment Date	July 09, 2024
Listing Date	July 11, 2024
Stock Exchange	NSE SME
Lot Size	2,000 Shares
Issue Price Per Share	₹65 to ₹68
Issue Size	44.68 Cr.
Fresh Issue	42.55 Cr.
Offer for Sale	2.12 Cr.
Application Amt	₹ 1,36,000 (2,000 shares)

### KPIs

KPI's	(Amt in Lacs)		
	FY 22	2023	Jan-24
Revenue	8,460.07	10,482.12	10,031.76
EBITDA	773.21	769.45	1,067.43
Net Profit	357.47	456.93	602.73
RoCE	13.86%	12.67%	15.92%
ROE	18.75%	19.33%	17.57%
P/E	9.60	26.46	20.42

### Promoter Share Holding Pattern

Pre-Issue	Post Issue
94.97%	69.90%

### Valuation Parameters

Particulars	Pre-Issue	Post Issue
EPS	3.86	2.89
BVPS	41.76	31.29
P/E	17.64	23.53
P/BV	1.63	2.17
Mkt Cap (In Cr)	127.08	169.64

### Lead Managers -

**Fast Track Finsec Private Limited**

### Registrar -

**Link Intime India Private Limited**

## Business Overview -

Originally Incorporated on March 20, 1985, Ambey Laboratories Limited has its registered office in New Delhi. Ambey Laboratories is engaged in the business of manufacturing of agrochemical products for the protecting of crops. The company manufactures and supplies '2,4-D base chemicals' with an emphasis on quality and strict compliance with Environmental, Health, and Safety (EHS) regulations, within the chemical industry.

### Manufacturing Facility –

The company's manufacturing Facility located in Behror, Rajasthan, has been certified with ISO 9001:2015 from Quality Research Organization and ISO 14001:2015, certificate of compliance from RoHS Directive (2015/863/EC) European Parliament and commission decision (2005/618/EC).



## Products -

### Agro-Chemical Products –

1. 2,4-D Amine Salt (480 gm. Liter SL)
2. 2,4-D Amine Salt (625 gm. Liter SL)
3. 2,4-D Amine Salt (720 gm. Liter SL)
4. 2,4-D Amine Salt (806 gm. Liter SL)
5. 2,4-D Amine Salt (840 gm. Liter SL)
6. 2,4-D Amine Salt (866 gm. Liter SL)
7. 2,4-D Acid Tech (98% min)
8. 2,4-D Ethyl Ester Tech (95% min)
9. 2,4-D 2-Ethylhexyl Ester Tech (96% min)
10. 2,4-D Sodium Salt (95% min)
11. Hexaconazole (5% min)

### Home Hygiene Products -

1. Black Phenyle
2. White Floor Cleaner
3. Toilet Cleaner
4. Surface & Floor Cleaner
5. Power Cleaner
6. Glass Cleaner
7. Moth Repellent Balls
8. Hand Wash
9. Bathroom Cleaner
10. Hand Sanitizer

Revenue Bifurcation as per category is as follows –  
(Amt in Lakhs)

Particulars	FY 2021		FY 2022		FY 2023		Jan-24	
	Amt	%	Amt	%	Amt	%	Amt	%
Agro-Chemical	7,008.55	85.74	7903.16	93.42	9122.31	87.03	9391.49	93.62
Home Hygiene Products	52.45	0.64	130.67	1.54	340.24	3.25	346.27	3.45
Others	1,112.93	13.62	426.23	5.04	1019.56	9.73	293.99	2.93
<b>Total</b>	<b>8,173.93</b>	<b>100.00</b>	<b>8460.06</b>	<b>100.00</b>	<b>10482.11</b>	<b>100.00</b>	<b>10031.75</b>	<b>100.00</b>

### Competition -

The chemical industry is highly competitive. The company faces competition from larger corporates.

There is huge entry barrier in the industry when it comes to manufacturing technical.

The company competes with the competitors on a regional or product line basis.

The company believes that the principal factors affecting competition in the business include relative quality, client relationships, reputation, the abilities of employees, market focus, timely delivery and price of the services and products.

The company's major competitors are Atul Limited, and Meghmani Organics Limited.

### Business Strategies -

**Continue improving financial performance:** through a focus on operational and functional efficiencies. The company is also focused on improving the cost efficiency by optimizing the effective sourcing of raw materials.

**Backward integration:** The company intends to backwards integrate all Raw materials to the point of basic chemicals which will give the opportunity to increase the bottom line.

**Increase in Installed Capacity:** The company forecasts it will increase the capacity of current finished goods and in-house manufacturing of the raw material.

**Leveraging market expertise, relationships, and leadership position in 2,4-D:** This can effectively expand the installed capacity and capitalise on growth opportunities in the market.

### Risk Factors -

The Rajasthan State Pollution Control Board has directed the company to deposit the amount to the tune of Rs.1,92,02,400 towards environment compensation.

The company's Top 5 Customers contribute 98.63% revenue in the stub period and 98.88% in the Financial Year 2022-23.

The company, Promoters, Directors and group Companies are involved in certain litigations which if determined against the company, can affect financial conditions of the company.

The company has had negative operating cash flow for period ended Jan-2024.

The company has certain contingent liabilities amounting to Rs. 870.88 lakhs.

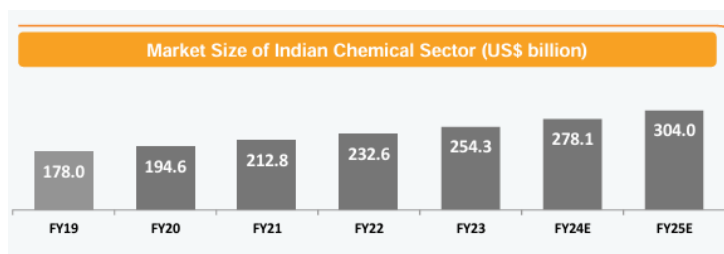
### PEER ANALYSIS

Particulars	Ambey Laboratories Limited			Atul Ltd			Meghmani Organics Ltd		
	FY 21	FY 22	FY 23	FY 21	FY 22	FY 23	FY 21	FY 22	FY 23
NP Margin	13%	4%	4%	17%	12%	9%	11%	12%	10%
EBITDA Margin	8%	9%	7%	28%	20%	16%	19%	19%	18%
RoCE	27%	23%	21%	22%	17%	14%	19%	24%	19%
ROE	-	19%	26%	17%	13%	11%	16%	21%	15%
EPS (INR)	21.12	7.08	2.57	221.17	204.23	174.15	7.28	12.11	9.85
P/E	3.22	9.60	26.46	31.74	50.40	39.96	-	8.61	7.89

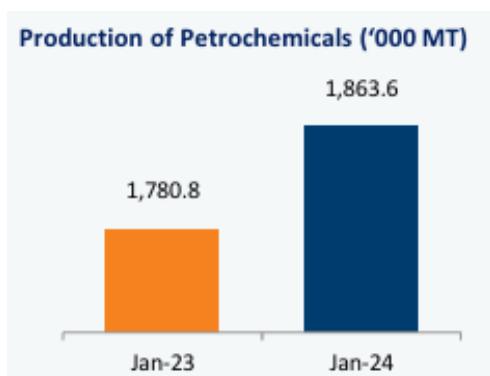
## Indian Chemical Industry -

### Introduction -

India is the 6th largest producer of chemicals in the world and 3rd in Asia, contributing 7% to India's GDP covering more than 80,000 commercial products and employing more than 2 million people. India's chemical industry is extremely diversified and can be broadly classified into bulk chemicals, specialty chemicals, agrochemical, petrochemicals, polymers, and fertilizers. A network of 200 national laboratories and 1,300 R&D centres provides a strong base to the Indian chemical industry to drive innovations.



- The industry is expected to reach US\$ 304 billion by 2025 at a CAGR of 9.3%, driven by rising demand in the end-user segments for speciality chemicals and petrochemicals segment.
- Chemicals and petrochemicals demand in India is expected to nearly triple and reach US\$ 1 trillion by 2040.
- The petrochemical demand is expected to record a 7.5% CAGR between 2019 and 2023, with the demand for polymers growing at 8%.
- Chemicals and Chemical Products gross bank credit grew by 15.6% in May 2022.
- The agrochemical market in India is expected to register an 8.6% CAGR to reach US\$ 7.4 billion between 2021 and 2026.



## Key Growth Driver -

- Rise in Domestic Demand

The growing middle class and increasing urbanisation is driving the demand for personal care, agrochemicals, food, paints & coatings resulting into higher consumption of chemicals per capita.

- Government aims to boost manufacturing share in GDP to 20% by 2025

The government plan includes 2-3 autonomous zones which does not have labor and land laws. ~300 companies are actively pursuing production plans in mobiles, electronics, medical devices and textiles.

- Rise in Disinfectant demand post Covid-19

With increasing demand for disinfection of personal and public places post COVID-19, the chloro-alkali, ethanol, personal care, and surfactant industry is expected to record significant growth in near future.

- Foreign Investment

Presence of prominent global players, such as BASF, Dow Chemicals, Bayer and others, 100% FDI in the chemicals sector and stringent laws on anti-dumping to drive the Indian chemical market.

## Government Initiatives -

- The government plans to implement production-link incentive system with 10-20% output incentives for the agrochemical sector; to create an end-to-end manufacturing ecosystem through the growth of clusters.
- 100% FDI is allowed in the chemical sector under automatic route with exception to few hazardous chemicals.
- The Indian Government supports the industry in research & development, reduced the basic customs duty on several products and offers support through the 'Make in India' campaign.

**Key Management -**

<b>Key Management Persons Name -</b>	<b>Sarina Gupta</b>
<b>Age</b>	42
<b>Designation and No. of years of experience</b>	Promoter, and Whole-Time Director, 15 Years of experience
<b>Qualification</b>	Bachelor of Arts (Hons.) in Psychology
<b>Roles and Responsibility</b>	Handling Human Resource Management of the company
<b>Other Directorships</b>	Dhansa Consumers Private Limited

<b>Key Management Persons Name -</b>	<b>Abdul Quadir</b>
<b>Age</b>	33
<b>Designation and No. of years of experience</b>	Independent Director, 6 years of experience
<b>Qualification</b>	Company Secretary
<b>Roles and Responsibility</b>	Handles Property Laws, Listing Agreement and SEBI Regulation Compliance of the company
<b>Other Directorships</b>	-

<b>Key Management Persons Name -</b>	<b>Rishita Gupta</b>
<b>Age</b>	36
<b>Designation and No. of years of experience</b>	Promoter, and Non-Executive Director, 11 years of experience
<b>Qualification</b>	Bachelor of Science Management
<b>Roles and Responsibility</b>	Handling Administration of the company
<b>Other Directorships</b>	Aromatic Rasayan Private Limited and Dhansa Consumers Private Limited

<b>Key Management Persons Name -</b>	<b>Sandeep Bansal</b>
<b>Age</b>	43
<b>Designation and No. of years of experience</b>	Non-Executive Director, 15 years of experience
<b>Qualification</b>	B. Com Degree
<b>Roles and Responsibility</b>	Handling Business Development and Marketing of the company
<b>Other Directorships</b>	Aromatic Rasayan Private Limited, SG Reftech Private Limited and Fission Pharmaceuticals Private Limited

<b>Key Management Persons Name -</b>	<b>Roni Soni</b>
<b>Age</b>	36
<b>Designation and No. of years of experience</b>	Independent Director, 9+ years of experience
<b>Qualification</b>	CS, LLB, B. Com
<b>Roles and Responsibility</b>	-
<b>Other Ventures</b>	Senior Consultant at his own practicing firm.

**FINANCIAL SNAPSHOT**

**Statement of Profit and Loss**

Amt in Lakhs.

Particulars	FY 21	FY 22	FY 23	Jan-24
Revenue from Operations	8,173.94	8,460.07	10,482.12	10,031.76
Other Income	67.60	51.12	261.35	11.93
<b>Total Income</b>	<b>8,241.54</b>	<b>8,511.19</b>	<b>10,743.47</b>	<b>10,043.69</b>
<b>Expenses</b>				
Cost of Material Consumed	6,447.80	6,991.03	9,294.15	8,871.50
Change in Inventories	187.55	-101.34	-302.97	-518.83
Employee Benefit Expenses	191.02	195.03	241.50	170.27
Finance Cost	409.53	305.11	183.73	158.10
Depreciation and Amortisation	322.22	297.03	296.26	283.29
Other expenses	374.57	341.26	408.06	241.39
<b>Total Expenses</b>	<b>7,932.69</b>	<b>8,028.12</b>	<b>10,120.73</b>	<b>9,205.72</b>
<b>EBITDA</b>	<b>615.82</b>	<b>773.21</b>	<b>769.45</b>	<b>1,067.43</b>
<b>EBITDA Margin</b>	<b>7.53%</b>	<b>9.14%</b>	<b>7.34%</b>	<b>10.64%</b>
<b>Profit/(Loss) before exceptional items and tax</b>	<b>308.85</b>	<b>483.07</b>	<b>622.74</b>	<b>837.97</b>
Exceptional Items	-	-	0.83	-
<b>Profit/(Loss) before tax</b>	<b>308.85</b>	<b>483.07</b>	<b>621.91</b>	<b>837.97</b>
<b>Tax Expense</b>				
Current tax	51.55	80.63	103.81	139.87
Deferred Tax Expenses/(credit)	-724.83	125.60	164.98	235.24
MAT credit entitlement	-51.55	-80.63	-103.81	-139.87
<b>Total Tax</b>	<b>-724.83</b>	<b>125.60</b>	<b>164.98</b>	<b>235.24</b>
<b>Profit/(Loss) for the year</b>	<b>1,033.68</b>	<b>357.47</b>	<b>456.93</b>	<b>602.73</b>
<b>Net Profit Margin</b>	<b>12.54%</b>	<b>4.20%</b>	<b>4.25%</b>	<b>6.00%</b>

**Statement of Assets and Liabilities**

Amt in Lakhs.

Particulars	FY 21	FY 22	FY 23	Jan-24
<b>EQUITY AND LIABILITIES</b>				
<b>1. Shareholders' funds</b>				
Share Capital	489.35	1,774.94	1,774.94	1,868.88
Reserves and surplus	-1,275.74	131.73	588.66	1,562.46
<b>Total Equity</b>	<b>-786.39</b>	<b>1,906.67</b>	<b>2,363.60</b>	<b>3,431.34</b>
<b>2. Non-current liabilities</b>				
Long-term borrowings	2,959.74	1,430.55	1,273.35	1,394.31
Other Non-Current Liabilities	48.97	46.93	46.93	46.93
Long Term Provisions	47.11	50.60	50.47	53.66
<b>Total Non-current liabilities</b>	<b>3,055.82</b>	<b>1,528.08</b>	<b>1,370.75</b>	<b>1,494.90</b>
<b>3. Current liabilities</b>				
Short -term borrowings	333.24	374.31	91.87	611.13
Trade Payables	1,619.44	1,487.48	1,623.04	2,606.26
Other Current Liabilities	135.44	110.44	98.16	195.01
Short-term provisions	104.25	185.96	214.43	282.20
<b>Total Current liabilities</b>	<b>2,192.37</b>	<b>2,158.19</b>	<b>2,027.50</b>	<b>3,694.60</b>
<b>Total Liabilities</b>	<b>5,248.19</b>	<b>3,686.27</b>	<b>3,398.25</b>	<b>5,189.50</b>
<b>Total Equity and Liabilities</b>	<b>4,461.80</b>	<b>5,592.94</b>	<b>5,761.85</b>	<b>8,620.84</b>
<b>ASSETS</b>				
<b>1. Non-current assets</b>				
Property, Plant and Equipment	1,457.38	2,411.08	2,421.84	2,170.58
Intangible Assets	127.47	97.73	99.88	75.88
Work-In-Progress	95.12	-	-	133.58
Deferred Tax Assets (Net)	722.59	596.99	432.01	196.77
Long Term Loans and Advances	56.15	55.12	55.83	64.71
<b>Total Non-Current assets</b>	<b>2,458.71</b>	<b>3,160.92</b>	<b>3,009.56</b>	<b>2,641.52</b>



Particulars	FY 21	FY 22	FY 23	Jan-24
<b>2. Current assets</b>				
Current Investments	-	-	60.44	78.12
Inventories	873.23	1,075.09	1,712.03	2,210.57
Trade Receivables	696.68	852.44	356.51	2,844.50
Cash & Cash equivalents	51.10	28.90	41.09	23.22
Short term loans and advances	237.08	275.02	284.44	329.23
Other Current Assets	145.00	200.57	297.78	493.68
<b>Total Current assets</b>	<b>2,003.09</b>	<b>2,432.02</b>	<b>2,752.29</b>	<b>5,979.32</b>
<b>Total Assets</b>	<b>4,461.80</b>	<b>5,592.94</b>	<b>5,761.85</b>	<b>8,620.84</b>

**Cash Flow Statement**

Amt in lakhs.

Particulars	FY 21	FY 22	FY 23	Jan-24
Net Cash Flow from Operating Activities	274.31	560.73	944.11	-823.46
Net Cash Flow from Investing Activities	-116.71	-75.30	-308.55	-141.55
Net Cash Flow from Financing Activities	-149.02	-507.64	-623.37	947.13

**Key Ratios**

<u>Per Share Data</u>	FY 22	FY 23	Jan-24*	<u>Valuation Ratios (x)</u>	FY 22	FY 23	Jan-24*
Diluted EPS	7.08	2.57	5.52	EV/EBITDA	4.76	4.79	6.10
BV per share	32.97	35.42	43.42	Market Cap / Sales	2.01	1.62	1.41
<b><u>Operating Ratios</u></b>				P/E	9.60	26.46	17.63
EBITDA Margins	9.14%	7.34%	10.64%	Price to Book Value	2.06	1.92	1.63
PAT Margins	4.20%	4.25%	6.00%	<b><u>Solvency Ratios</u></b>			
Inventory days	46.38	59.61	60.82	Debt / Equity	0.95	0.58	0.26
Debtor days	36.78	12.41	78.26	Current Ratio	1.13	1.36	1.62
Creditor days	87.02	69.24	87.03	Quick Ratio	0.73	1.18	0.85
<b><u>Return Ratios</u></b>				Asset Turnover	1.51	1.82	1.16
RoCE	13.86%	12.67%	13.88%	Interest Coverage Ratio	1.56	2.58	4.42
RoE	18.75%	19.33%	9.24%				

\*Jan-24 data are annualized

### LEAD MANAGER TRACK RECORD -

The lead manager to the issue is Fast Track Finsec Private Limited. A table has been set below highlighting the details of the IPO of the last companies handled by the Lead Manager in recent times –

#### Fast Track Finsec Private Limited –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Enser Communications Limited	16.17	70.00	March 22, 2024	172.85
2.	Sungarner Energies Limited	5.31	83.00	Aug 31, 2023	389.50
3.	Pearl Green Clubs and Resorts Limited	11.72	186.00	July 07, 2022	155.95
4.	Globesecure Technologies Limited	10.13	29.00	June 02, 2022	44.20
5.	Jeena Sikho Lifecare Limited	55.50	150.00	April 19, 2022	1,077.35
6.	SBL Infratech Limited	2.37	111.00	Sep 28, 2021	36.10
7.	Trekkingtoes.com Limited	4.54	105.00	Aug 28, 2020	29.2
8.	Ascom Leasing & Investments Limited	6.32	30.00	Dec 06, 2019	110.60
9.	Goblin India Limited	15.20	52.00	Oct 15, 2019	42.29
10.	Kranti Industries Limited	8.58	37.00	Feb 28, 2019	68.44

The company has handled 6 mandates in the past three years.

\*CMP for the above-mentioned companies is taken as of 2<sup>nd</sup> July 2024.

As per the offer document, from the above-mentioned mandates 2 have opened at discount and the remaining have opened at premium on the listing day.



**Recommendation -**

The company has been in the industry since 1985 and has vast experience in the industry. The management overview of the company is not very satisfactory.

The P/E on a post-IPO and annualised basis is around 17.64 times which makes it fairly priced by looking at the performance of the company and sector. The Sector P/E is 50.4 times.

The company has seen a dip in its bottom line for FY 2022. The company operates in a very competitive segment. The companies in the same industry are operating with better margins. The company has had negative operating cash flow for the period ended Jan-2024. The company has a very high concentration of buyers which is not a very satisfactory thing for the company. Thus, we recommend **AVOID** applying to this company and would not be missing out on the investment.

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