



IPO Note

Citicem India Limited

Recommendation: **AVOID!**

Company Background -

- **Incorporation:** Incorporated in 1992, the company's registered office is located in Mumbai, Maharashtra.
- **Business Activity:** Citicem India Limited is engaged in buying and supplying organic and inorganic chemicals, bulk drugs, and food chemicals to the the pharmaceutical industry.
- The company focuses on the direct supply of specialty chemicals, bulk drugs, and intermediate products that have a wide range of applications across industries such as aluminum, steel, textiles, paper, dairy, paints, dyes and intermediates, soap making, pharmaceuticals, food, and adhesives.
- **Revenue Stream:** Company derived 96.95% from Maharashtra with one customer contributing to 46.74% in FY 24.
- **Human Resource:** As of June 30, 2024, they had 9 whole-time employees on its payroll.

Objects of the Issue -

- For Capital expenditure for acquisition of Property
- For purchasing of Transportation Vehicles and accessories.
- General Corporate Purposes
- For meeting issue expenses

Promoters Name -

Arif Esmail Merchant, Hashim Arif Merchant, Fozia Arif Esmail Merchant and Saima Hashim Merchant.

Rationale for recommendation -

- ✓ 95.05% of FY24 revenue came from the top five customers, with one contributing 46.74%.
- ✓ Supplier dependency: 68.49% of purchases in FY24 came from one supplier.
- ✓ Negative cash flows in FY22 and the period ending June 2024.
- ✓ Regional focus: 96.95% of revenue is Maharashtra-based.
- ✓ Overvalued P/E.

IPO Details

Opening Date	Dec 27, 2024
Closing Date	Dec 31, 2024
Allotment Date	Jan 1, 2024
Listing Date	Jan 3, 2024
Stock Exchange	BSE SME
Lot Size	2,000 Shares
Issue Price Per Share	₹70
Issue Size	₹12.60 Cr.
Fresh Issue	₹12.60 Cr.
Offer for Sale	-
Application Amt	₹1,40,000 (2,000 shares)

Industry - Indian Chemical Industry

Average P/E of peers: 60.82

KPI's	KPIs (In Lakhs)			
	FY 22	FY 23	FY 24	Jun-24
Revenue	8,521.64	2,094.07	1,960.58	109.75
EBITDA	38.34	58.39	179.29	-10.93
Net Profit	23.93	36.25	111.83	19.95
RoCE	5.28%	7.98%	21.52%	-1.34%
ROE	4.15%	5.91%	15.42%	2.68%
P/E	32.56	86.42	31.25	43.62*

*Annualised

Promoter Share Holding Pattern

Pre-Issue	Post-Issue
83.25%	61.21%

Valuation Parameters

Particulars	Pre-Issue	Post Issue*
EPS	2.24	1.18
BVPS	14.50	30.37
P/E	31.25	59.32
P/BV	4.83	2.30
Mkt Cap (In Cr)	35.00	47.60

Lead Managers -

Horizon Management Pvt. Ltd.

Registrar -

Kfin Technologies Ltd.

Business Overview

The Company is primarily engaged in the buying, procuring, and supplying of organic and inorganic chemicals, bulk drugs, and food chemicals for the pharmaceutical industry. It also trades in specialty chemicals and intermediates, catering to diverse industries, including aluminium, steel, textiles, paper, dairy, paints, dyes, soap making, food, adhesives, and pharmaceuticals.

Branded Offerings and Distribution

The Company supplies food preservatives and chemicals under its own brand. These products are converted into sales by the distribution team, which ensures the safe and timely delivery of bulk supplies. Operations are managed from the leased Registered Office at Khand Bazar, Masjid Station, Mumbai, Maharashtra.

Business Verticals – Profit Centres as defined by the management:

Specialty Chemicals, Intermediates & API	<ul style="list-style-type: none"> • Indenting, sourcing, make to order outsource & Supply of Specility chemical, bulk drugs and API for domestic and international clients in Pharma, Paint & food industry
Food Chemicals	<ul style="list-style-type: none"> • Repackaging, Retail Distribution and Marketing of Food chemicals
Laboratory Chemicals	<ul style="list-style-type: none"> • Provide one stop solution for all kinds of Laboratory Chemicals

Summary of Revenue by Customers and Regions

Revenue from Top Customers (₹ in lakhs)

- **Stub Period:** Top 1 customer contributed ₹97.66 (88.98%), Top 5 ₹109.75 (100%), and Top 10 ₹109.75 (100%).
- **FY 23-24:** Top 1 customer contributed ₹916.37 (46.74%), Top 5 ₹1,863.48 (95.05%), and Top 10 ₹1,960.58 (100%).
- **FY 22-23:** Top 1 customer contributed ₹537.89 (25.69%), Top 5 ₹1,618.94 (77.31%), and Top 10 ₹1,992.95 (95.17%).
- **FY 21-22:** Top 1 customer contributed ₹2,599.60 (30.51%), Top 5 ₹6,746.32 (79.17%), and Top 10 ₹7,805.22 (91.59%).

State-wise Revenue Breakup (₹ in lakhs)

- **Maharashtra:** Dominates revenue with contributions of 100% (Stub Period), 96.95% (FY 23-24), 98.25% (FY 22-23), and 99.51% (FY 21-22).
- **Delhi:** Only contributed ₹41.65 (0.49%) in FY 21-22.
- **Gujarat:** Contributed 3.05% (₹59.84) in FY 23-24 and 1.75% (₹36.70) in FY 22-23.

Total revenue for all periods was concentrated primarily in Maharashtra and among top customers.

SWOT Analysis

Strength More than two decades experience of the Promoter in the line of activity Relation with customer Location Advantage	Weakness High Working Capital Requirement Lack of knowledge of Employees Family business Heavy dependence on the suppliers
Opportunity Develop new Composition of Products. Operational efficiency	Threats Tough competition Low margin business

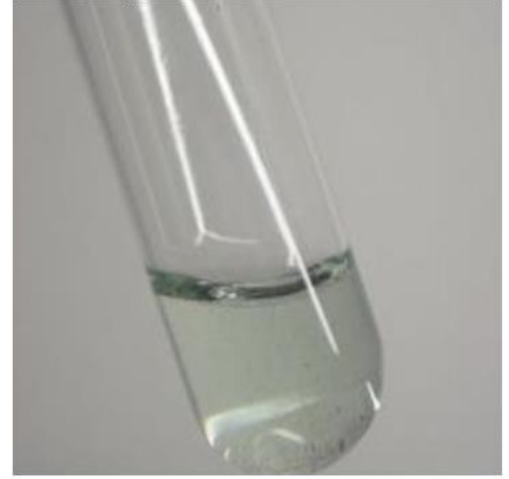
Product Portfolio



Caustic Soda Flakes



Caustic Soda Lye



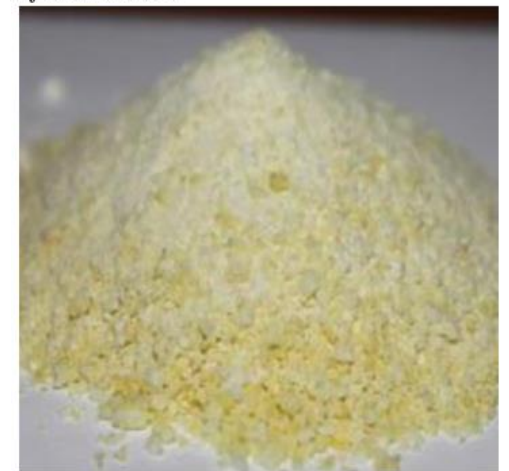
Hydrochloric Acid



Citric Acid Monohydrate



Hydrogen Peroxide



Aluminum Chloride Anhydrous



Urea Technical Grade



Soda Bicarb



Thiourea



Phthalic Anhydride



Maleic Anhydride



Pyrolysis Oil

Business Strategy**• Increase Market Presence**

The Company aims to expand in existing and new markets by supplying quality products. It seeks to strengthen its position in India while venturing into international regulated and semi-regulated markets to achieve sustainable growth, operational excellence, and enhanced brand value.

• Focus on Increasing Domestic Sales

The Company prioritizes direct supply of specialty chemicals, bulk drugs, and intermediates. Strong customer relationships built through quality offerings underpin this focus, though growth strategies will adapt to regulatory requirements.

• Increasing Operational Efficiency

Improved operational efficiencies are vital for profitability. Measures include minimizing disposable consumption, reducing wastage, and enhancing integration and supply chain management.

• Targeting Unexplored Markets

Expanding into regulated markets and reinforcing presence in existing geographies is a key strategy. The Company plans to explore new markets, product opportunities, and potential acquisitions.

• Expanding Product Scope

The Company intends to broaden its product range, catering to diverse customer segments and maximizing resource utilization through goodwill and existing relationships.

• Cost Efficiency

Maintaining cost efficiency through supply chain optimization, strategic agreements, and economies of scale remains a priority.

• Branding and Promotion

The Company seeks to strengthen brand awareness through digital presence, promotional activities, and distribution networks, supported by a robust in-house database for tracking tenders.

• Asset-Light Model

Adopting an asset-light approach, the Company plans to rent warehouses, enabling focus on R&D, strategic alliances, and outsourcing non-critical functions to enhance revenue and profitability.

Risk Factors –

There are outstanding criminal, tax, statutory, and civil litigations filed by the company and against the Company, its Promoters, and Directors, totalling ₹19,573.45 lakhs. Adverse outcomes may harm the Company's reputation, financial condition, operations, and equity share value.

Approximately 95.05% of revenues in FY 2023-24 came from the top 5 customers. This significant concentration risk exposes the Company to potential financial volatility if any major customer reduces purchases or terminates contracts.

In FY 2023-24, 68.49% of purchases came from one supplier. This dependency on a single supplier heightens risks of supply disruptions, pricing volatility, or quality issues, potentially impacting the Company's operations and financial performance.

Company had negative cashflows in FY 22 and period ended June 24.

Competition Analysis

Technological Influences:

Advancements in manufacturing and supply chain technologies improve efficiency. Larger competitors often have better resources for adopting such innovations.

Social Influences:

Demand for eco-friendly and sustainable chemicals is rising, with industries like pharma and food focusing on health and safety compliance.

Macroeconomic Influences:

Economic policies, industrial growth, and initiatives like “Make in India” drive demand, though raw material price volatility remains a challenge.

Porter’s Five Forces:

Competitive Rivalry: High, with fragmented markets and competition on pricing, quality, and range.

Threat of New Entrants: Moderate, due to capital and regulatory barriers.

Supplier Power: Moderate, as raw material suppliers influence costs.

Customer Power: High, with clients demanding competitive pricing.

Threat of Substitutes: Low, given the specialized applications of chemicals.

Life Cycle & Experience Curve:

The industry is in a growth phase, with established players benefiting from cost advantages through scale and efficiency.

Success depends on innovation, client relationships, and operational excellence amid intense competition.

Peer Analysis

Particulars	Citichem India Limited			Shankar Lal Rampal DyeChem Ltd			Vinyl Chemicals (I) Ltd		
	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24
NP Margin	0.28%	1.73%	5.70%	8.93%	4.91%	2.26%	4.02%	3.51%	3.63%
EBITDA Margin	0.45%	2.79%	9.14%	12.29%	6.94%	3.36%	5.40%	4.83%	4.96%
RoCE	5.28%	7.98%	21.52%	48.50%	24.25%	9.74%	48.41%	42.85%	25.30%
ROE	4.15%	5.91%	15.42%	35.27%	17.24%	6.60%	36.28%	31.46%	18.71%
EPS (INR)	2.15	0.81	2.24	4.23	2.49	1.02	18.99	19.43	11.91
P/E	32.56	86.42	31.25	13.24	56.00	102.11	14.14	17.16	26.53

Industry Overview- Indian Chemical Industry

The Indian chemical industry is a significant component of the country’s economic landscape, contributing ~7% to India’s GDP and 16% to the manufacturing sector’s GDP. Globally, India ranks 6th in chemical production, and the sector is forecasted to grow from \$178 billion in 2020 to \$304 billion by 2025 at a CAGR of 9.3%. India’s proximity to key markets, cost advantages, and an established regulatory framework position it as an emerging global manufacturing hub for chemicals.

Segment	Market Share (%)	Value (USD Billion)
Petrochemicals	40	121.6
Specialty Chemicals	20	60.8
Bulk Chemicals	19	57.5
Agrochemicals	16	48.6
Other Chemicals	5	15.2

Strengths of the Industry

- **Cost Efficiency:** Low-cost labor and raw materials.
- **Export Potential:** India’s chemical exports reached \$23.6 billion in FY23.
- **Strategic Location:** Proximity to major Asian markets.

Recommendation: **AVOID**

- **Policy Support:** 100% FDI allowed in most chemical sectors, with several government initiatives to boost production.
- **Market Growth:** A strong domestic demand driven by agriculture, pharmaceuticals, textiles, and automotive industries.

Government Initiatives

Initiative	Description
BIS Certification Mandate	Certification for imported chemicals to prevent dumping of substandard products.
National Medical Devices Policy, 2023	Approved to encourage domestic medical devices production.
PLI Scheme	Promotes Bulk Drug Parks with a budget of ₹1,629 crore (\$213.81 million).
PCPIR Policy, 2020-35	Targeted investment of ₹10 lakh crore (\$142 billion) by 2025, with total employment of ~33.83 lakh people.
FDI Allowance	100% FDI under automatic route for most chemicals, attracting \$21.48 billion between April 2000-June 2023.
Tax Exemptions for SEZ Units	Income tax exemption of 100% for five years, 50% for the next five years, and 50% of reinvested profit for five more years.

Growth Drivers

- **Shift in Global Supply Chains:** Supply chain disruptions in China and anti-pollution measures have created opportunities for India.
- **Demand from Downstream Industries:** Pharmaceuticals, textiles, and agriculture continue to drive demand.
- **Government Support:** Incentives such as PLI schemes and investments in PCPIR regions.
- **Urbanization and Consumerism:** Growing urban population and demand for high-quality products.
- **Technology Advancements:** Increasing adoption of automation and sustainable practices.

Challenges

- **Regulatory Compliance:** Stringent environmental regulations.
- **Infrastructure Gaps:** Need for improved logistics and infrastructure.
- **Competition:** Stiff competition from global players, particularly China.
- **Raw Material Dependency:** Heavy reliance on imports for raw materials.

Road Ahead

The Indian chemical industry is poised for significant growth, leveraging its cost advantages and expanding domestic market. Key areas for development include:

- **Focus on Petrochemicals:** Transition to crude-to-chemical complexes to reduce reliance on fuel transportation.
- **Sustainability:** Investment in eco-friendly manufacturing processes.
- **Cluster Development:** Integrated manufacturing hubs under the PCPIR policy, targeting investments of ₹20 lakh crore (\$276.46 billion) by 2035.
- **R&D Expansion:** Developing new molecules and specialty chemicals for global markets.
- **Export Boost:** Enhancing competitiveness through infrastructure upgrades and policy reforms.

Recent Developments (FY24 Onwards)

- **Investment Plans:** India aims to attract \$87 billion in investments in the petrochemicals sector over the next decade to meet the growing demand for petrochemical products.
- **Refinery Expansions:** Indian Oil Corporation plans to complete the expansion of its Panipat, Gujarat, and Barauni refineries by December 2025, increasing capacities to meet domestic and export demands.
- **Financial Performance:** Companies like BASF India and Coromandel International reported declines in profits in recent quarters due to rising input costs and market challenges.

Key Management -

Key Management Persons Name -	Arif Esmail Merchant
Age	62
Designation	Promoter and Managing Director, 30+ years of experience in sourcing and supply of organic, inorganic and speciality chemicals.
Qualification	Completed Higher Secondary
Other Directorships	HM Megabrand Private Limited, IPAYQUIK Technologies Private Limited etc.

Key Management Persons Name -	Hashim Arif Merchant
Age	38
Designation and No. of years of experience	Promoter and Executive Director, 10+ years of experience
Qualification	Completed Higher Secondary
Other Directorships	HM Megabrand Private Limited, IPAYQUIK Technologies Private Limited etc.

- **Wasim Nisar Rizvi**, aged **40**, has over **5 years of experience** in sourcing and supply of organic, inorganic, and specialty chemicals. – Independent Director
- **Valentina Priyanka Creado**, aged **30**, holds a **Bachelor's in Mass Media** and brings 10+ years of experience in business development and administration. - **Independent Director**
- **Vijay Kumar Bhatt**, the youngest at **24**, has **2+ years of experience** in accounts and taxation, supported by his **B.Com degree**. - **Independent Director**
- **Farheen Ansari**, aged **29**, is the CFO and has 5 years of experience in the field of finance, accounts and taxation. – **Independent Director**

FINANCIAL SNAPSHOT
Statement of Profit and Loss

Amt in Lakhs.

Particulars	FY 22	FY 23	FY 24	June-24
Revenue from Operations	8,521.64	2,094.07	1,960.58	109.75
Other Income	6.37	-	-	39.32
Total Income	8,528.01	2,094.07	1,960.58	149.07
Expenses				
Purchase of stock-in-Trade	9,033.24	2,250.48	881.81	128.84
Changes in inventories of finished goods, work-in-progress and Stock-in-Trade	-668.56	-344.4	728.57	-24.53
Employee Benefit Expenses	52.59	63.44	81.4	7.28
Finance Cost	10.3	6.36	13.1	0.08
Depreciation and Amortization Expense	2.21	1.17	1.63	0.41
Other expenses	66.03	66.16	89.51	9.09
Total Expenses	8,495.81	2,043.21	1,796.02	121.17
EBITDA	38.34	58.39	179.29	-10.93
EBITDA Margin	0.45%	2.79%	9.14%	-9.96%
Profit/(Loss) before tax	32.20	50.86	164.56	27.90
Tax Expense				
Current tax	8.53	14.5	52.49	7.78
Deferred Tax	-0.26	0.11	0.24	0.17
Total Tax	8.27	14.61	52.73	7.95
Profit/(Loss) for the year	23.93	36.25	111.83	19.95
Net Profit Margin	0.28%	1.73%	5.70%	13.38%

Statement of Assets and Liabilities

Amt in Lakhs.

Particulars	FY 22	FY 23	FY 24	Jun-24
EQUITY AND LIABILITIES				
1. Shareholders' funds				
Share Capital	500.00	500.00	500.00	500.00
Reserves and surplus	77.01	113.27	225.11	245.06
Total Equity	577.01	613.27	725.11	745.06
2. Non-current liabilities				
Long-Term borrowings	107.54	104.1	100.6	99.54
Total Non-current liabilities	107.54	104.10	100.60	99.54
3. Current liabilities				
Short Term Borrowings	3.08	5.55	7.61	8.66
Trade Payables				
(i) Total outstanding dues of MSME	80.41	80.41	-	-
(ii) Total outstanding dues of creditors other than MSME	8,347.23	7,116.14	5,950.02	5,837.53
Other Current Liabilities	18.89	28.45	72.41	75.95
Short-term provisions	8.52	24.61	77.04	84.82
Total Current liabilities	8,458.13	7,255.16	6,107.08	6,006.96
Total Liabilities	8,565.67	7,359.26	6,207.68	6,106.50
Total Equity and Liabilities	9,142.68	7,972.53	6,932.79	6,851.56
ASSETS				
1. Non-current assets				
Property, Plant & Equipment	7.78	10.23	9.79	9.38
Deferred Tax Assets (net)	0.52	0.41	0.17	0.17
Other Non-Current Assets	3.19	11.51	10.88	10.88
Total Non-Current assets	11.49	22.15	20.84	20.43

Particulars	FY 22	FY 23	FY 24	Jun-24
2. Current assets				
Inventories	4,132.84	4,477.24	3,748.68	3,773.20
Trade Receivables	4,639.93	3,418.49	3,058.43	2,992.13
Cash & Cash equivalents	2.64	19.27	59.8	16.43
Other Current Assets	355.78	35.38	45.04	49.37
Total Current assets	9,131.19	7,950.38	6,911.95	6,831.13
Total Assets	9,142.68	7,972.53	6,932.79	6,851.56

Cash Flow Statement				Amt in Lakhs.
Particulars	FY 22	FY 23	FY 24	Jun-24
Net Cash Flow from Operating Activities	-597.08	27.56	55.14	-43.34
Net Cash Flow from Investing Activities	-1.05	-3.61	-0.07	-
Net Cash Flow from Financing Activities	595.14	-7.34	-14.54	-0.08

Key Ratios

Per Share Data	FY 22	FY 23	FY 24	Jun 24	Valuation Ratios (x)	FY 22	FY 23	FY 24	Jun 24
Diluted EPS	2.15	0.81	2.24	0.4	EV/EBITDA	17.79	12.05	4.31	-76.56
BV per share	11.54	12.27	14.50	14.90	Market Cap / Sales	0.56	2.27	2.43	43.37
Operating Ratios					P/E	32.56	86.42	31.25	175.00
EBITDA Margins	0.45%	2.79%	9.14%	-9.96%	Price to Book Value	6.07	5.71	4.83	4.70
PAT Margins	0.28%	1.73%	5.70%	13.38%	Solvency Ratios				
Inventory days	177.02	780.39	697.89	12,548.68	Debt / Equity	0.19	0.18	0.15	0.15
Debtor days	198.74	595.85	569.39	2,480.95	Current Ratio	1.08	1.10	1.13	1.14
Creditor days	360.97	1,167.19	2,462.84	16,537.55	Quick Ratio	0.59	0.48	0.52	0.51
Return Ratios					Asset Turnover	0.93	0.26	0.28	0.02
RoCE	5.28%	7.98%	21.52%	-1.34%	Interest coverage Ratio	0.69	9.00	13.56	-141.75
RoE	4.15%	5.91%	15.42%	2.68%					

LEAD MANAGER TRACK RECORD –

The lead manager to the issue is Horizon Management 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 –

Horizon Management Private Limited –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Abha Power and Steel Limited	38.54	75.00	Dec 04, 2024	48.90
2.	Onyx Biotec Limited	29.34	61.00	Nov 22, 2024	64.65
3.	Osel Devices Limited	70.66	160.00	Sep 24, 2024	282.70
4.	Forcas Studio Limited	37.44	80.00	Aug 26, 2024	98.05
5.	Tunwal E-Motors Limited	115.64	59.00	July 23, 2024	50.45
6.	Veritas Advertising Limited	8.48	114.00	May 21, 2024	118.00
7.	Shree Karni Fabcom Limited	42.49	227.00	Mar 14, 2024	620.00
8.	M.V.K. Agro Food Product Limited	65.88	120.00	Mar 07, 2024	40.45
9.	Baba Food Processing India Limited	33.00	76.00	Nov 15, 2023	59.50
10.	Cosmic CRF Limited	57.21	314.00	Jun 30, 2023	1,668.45

The company has handled 10 mandates in the last three years (including current year).

*CMP for the above-mentioned companies is taken as of 27th Dec 2024.

As per the offer document, the above-mentioned mandates all have opened at a premium on the listing day.

Recommendation -

Company Overview

Established in 1992, Citichem has significant industry presence. While its management has extensive experience, they lack formal education in chemical sciences. Bringing on board professionals with relevant academic and industry expertise could improve strategic direction and operational efficiency.

Financial Performance

The company has exhibited a volatile performance, with a negative CAGR of 51% over the last three years and fluctuating profitability margins. Although peers have consistently outperformed Citichem across last three years, the company reported better profitability in FY24.

However, at a post-issue annualized P/E of 59.32, Citichem is overvalued, offering little upside potential for investors.

Sector Potential

India's chemical industry contributes ~7% to GDP and ~16% to the manufacturing sector. Globally ranked 6th in chemical production, the sector is expected to grow at a CAGR of 9.3%, from \$178 billion in 2020 to \$304 billion by 2025. Despite industry tailwinds, Citichem's challenges outweigh its prospects.

Key Risks

Revenue concentration: 95.05% of FY24 revenue came from the top five customers, with one contributing 46.74%.

Supplier dependency: 68.49% of purchases in FY24 came from one supplier.

Negative cash flows in FY22 and the period ending June 2024.

Regional focus: 96.95% of revenue is Maharashtra-based.

Recommendation: Investors should **avoid** this IPO.

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