

Initial Public Offering – Conceptual study on Chemcon Speciality Chemical Company

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Abstract

The global Initial public offering of a leading manufacturing company Chemcon speciality chemical company, came in September 2020 with price of Rs338-Rs340, was oversubscribed 79.35 times in the primary market. The study was conducted to understand how the IPO operates and why it has been oversubscribed. The article also explores the cause of the company's value, including whether it was due to the IPO or for any other reason. In order to understand about IPO operation the following study has been conducted. The Chemcon speciality chemical company has been used as a case study and analysis was done for two financial year starting from 2019-2021.

Key words:- *IPO, valuation, oversubscribed, primary market.*

INTRODUCTION

An initial public offering (IPO) is the procedure of selling fresh shares of a private firm to the general public. IPOs provide businesses the chance to raise money by selling shares on the primary market. For a company to undertake an IPO, the Securities and Exchange Commission (SEC) and exchange standards must be satisfied. IPO gives an opportunity to smart investors to earn a high return on their investment.

Functioning of an Initial Public Offering (IPO)

A business is regarded as private before going public. The firm has developed as a pre-IPO private company with a very limited number of owners, comprising early investors like the founders, family, and friends as well as qualified investors like venture capitalists or angel investors. An IPO is a big step for a business since it gives it access to a large source of funding

COMPANY PROFILE

History of company

Chemcon Speciality chemical company was incorporated in the year 1988 in Gujrat, the same promoters established one more company by name Chemcon Engineers Pvt.Ltd. in the year 1996. Both these companies got amalgamated in the year 2004 and named it as Chemcon Speciality Chemical Pvt. Ltd.

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Chemcon focuses on two chemical market segments: -

1. Pharmaceutical
2. Oil well completion chemical

Under pharmaceutical they produce 2 chemicals namely HMDC and CMIC. HMDC help to make Antibiotics and CMIC help to make Anti (AIDS) and Antibiotics B drugs. Under oil well completion chemical they manufacture calcium bromide, zinc bromide, sodium bromide.

Company is the only manufacturer of HMDS in India and were the third largest manufacturer of HMDS worldwide in terms of production in the calendar year 2019.

Company was the largest manufacturer of CMIC in India and the second largest manufacturer of CMIC worldwide, in terms of production and capacity in calendar year 2019.

Further, Company was the only manufacturer of Zinc Bromide and the largest manufacturer of Calcium Bromide in India, in terms of production in calendar year 2019.

MEHODOLOGY

There are several reasons to do case studies. Case studies are typically used as a research methodology to provide conclusions that are applicable to more than just the specific situations.

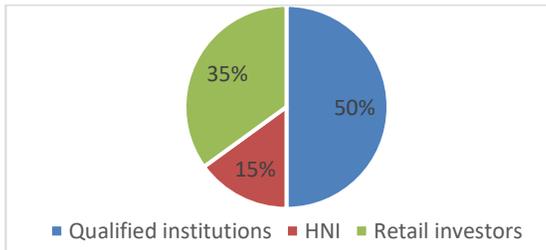
Conceptual case study is conducted on the company named Chemcon Speciality Chemical. To obtain the information, company's financial records from 2019 to 2021 is been used.

The company named Chemcon Speciality Chemical is the subject of a conceptual case study. To obtain the information, we used the company's financial records from 2019 to 2021.

OBJECTIVES

1. To study the functioning of an IPO- Our objective is to study how an IPO works in an company and why company's come up with an IPO whether its for expansion, or for paying off debt or any other reasons.
2. To study the influence of capital subscription in IPO- To study what might be the reasons for the oversubscription or undersubscription of the IPO.
3. To evaluate the value of company, post and pre-IPO- We want to know if the IPO is the only factor affecting the company's valuation or if there are other factors that affect the valuation of the company.

Chemcon speciality chemical company come up with an IPO in September 2020, and IPO was oversubscribed 79.35 times in the primary market. IPO price was between Rs338-Rs 340. The issue size of the IPO was 9,352,940 Equity share aggregating up to Rs 318 crore. From the issue size 165 crore was raise through fresh issue and 153 crores by offer for sale thus, the percentage of the promoters' holding decreased from 100% to 74.5%.



The offer is 50 per cent available for qualified institutional buyers (QIBs), 15 per cent for non-institutional investors (NIIs) also called as High net worth individuals, and 35 per cent for retail investors.

- **Company come up with an IPO for several reasons: -**

They intend to build two additional plants with a total volumetric reactor capacity of 251.00 KL. These extra facilities will be utilized to produce chemicals, which are mostly employed in the pharmaceutical business. With the extension, the production facility's capacity will rise from 374.85 KL to 625.85 KL, which will allow company to greatly benefit from economies of scale.

The company's earnings may be put toward clearing its debt. The Chemcon Company used some of the funds it had raised to settle its debt. Their debt was 1459.93 crore in 2020; however, by 2021, it had decreased to 60.22 crore.

Managing the need for operating cash was another factor in the company's decision to go public. They will be able to appropriately manage their working capital

- **Oversubscribed**

Due to the company's position as the industry leader in every product they produced, the IPO received a lot of interest. The sole business in India that produces HDMS and Zinc Bromide. It is the second-largest producer of CMIC worldwide.

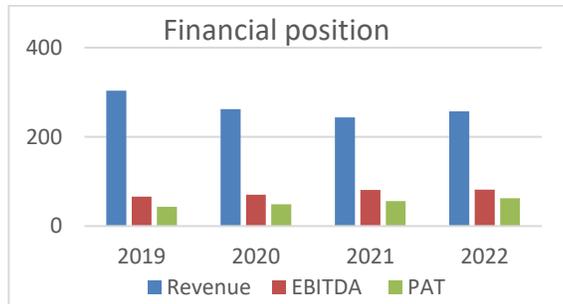
Because there was a chance for a product to have a worldwide market, it was oversubscribed. Another factor might be that the IPO occurred shortly after COVID, which raised demand for medicinal ingredients.

- **Valuation**

Sometimes IPO is not the only reason for increasing the valuation of the company. The consistent growth, Returns and future potential can also lead to the increase in valuation of the company. Wide product growth and customer base give sustainability and growth of the business.

As we can see that the company is the only producer of HMDC chemicals which is use in pharmaceutical industries and Chemcon is the leading producer of chemicals for pharmaceutical globally.

On more reason is that the good financial track record of the company we can see that In the COVID period also the company gives consistent returns to their stakeholders.



In the above graph, we can see that the company's revenue is falling while its PAT and EBITDA are rising. This is due to the fact that, at the time of the COVID, there was only a specific chemical or drug that was needed to make the vaccine, so demand for that chemical increased while it decreased for other chemicals. Additionally, EBITDA has increased as a result of the firm paying down its debt, which reduces the cost of interest.

CONCLUSION

When a company launches an IPO, it usually has one of two goals in mind: to pay off debt or to expand. If neither of these goals is not achieved or if they have not able to utilized the raised fund properly then there is no justification for the IPO and they may occur losses.

The company has been able to develop its business remarkably, as can be seen in the points above. The company's financial performance reflects this as well. We might infer that the reason for Chemcon Specialty Chemical Company to raise IPO was achieved, as they have aims to set up three additional plants, Another significant point to be aware of is that Chemcon is reconstructing one of the facilities that was damaged in a fire accident in January 2018. Additionally, they have paid off their debt, which has decreased from 1459.93 crore to 60.22 crore, and they have maintained a healthy working capital.

Bibliography

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