

**Sharp Decline in Profitability; Uncertainty to Impact Growth Momentum**
**Est. Vs. Actual for Q2FY25:** Revenue: **BEAT**; EBITDA: **MISS**; PAT: **MISS**
**Changes in Estimates Post Q2FY25**
**FY25E/FY26E:** Revenue: -25%/-8%; EBITDA: -35%/-23%; PAT: -45%/-25%

**Recommendation Rationale**

- logistical adversaries and Heavy Monsoon Impacted the bottom line:** The company reported revenue of Rs 240 Cr in Q2FY25, marking a 17% YoY decline. This significant drop was primarily due to logistical challenges at the ports, which affected overall dispatches, shipments, and business momentum. Industrial salt volumes were also impacted by adverse weather conditions, including the Asna cyclone, resulting in a loss of approximately Rs 40 Cr in industrial salt. However, management noted that it expects a quarterly run rate of around 10 Lc for salt volume, supported by healthy inquiries across its product lines. The company is taking internal measures to manage rising costs and stabilize timely dispatches and has initiated an insurance claim for the industrial salt lost during the cyclone.
- Recovery awaited:** During the quarter, the company saw sequential growth in bromine volumes. However, bromine prices remained under pressure, and the export market continued to be soft. The management aims to achieve over 20k tonnes of bromine sales volumes for FY25. The ramp-up of Phase 1 of the capacity expansion, which includes producing bromine derivative products such as Clear Brine Fluids and catalysts for PTA synthesis, may take longer than initially expected due to the weakness in the oil and gas industry. The management noted that SOP development is ongoing, with significant contributions anticipated next year. Regarding Oren, two plants are expected to be fully operational within the next few weeks, contributing to performance from Q4FY25 onwards.

**Sector Outlook: Neutral**

**Company Outlook & Guidance:** The company remains confident in its Bromine Derivatives project and the strategic acquisition of Oren, which is expected to contribute meaningfully to the topline from Q4FY25 onwards. Additionally, the company anticipates sustained strong demand in the Industrial Salt segment and a recovery in the SOP segment beginning in FY26. Strategic investments have also been made in two UK- and US-based companies, which are projected to unlock new growth opportunities in the areas of semiconductors and energy storage.

**Current Valuation:** 11x FY27E (Earlier: 13x FY26E)

**Current TP:** Rs 730/share (Earlier: 829/share)

**Recommendation:** We change our rating on the stock from BUY to HOLD owing to expected delays in recovery due to prolonged weakness in the market.

**Financial Performance:** Consolidated revenue stood at Rs 240 Cr, down 17% YoY and an increase of 13% QoQ, exceeding our estimate by 3%. EBITDA was Rs 75 Cr, down 22% YoY and up 5% QoQ, falling short of our estimates by 3%. The EBITDA margin declined to 31.1%, down 179 bps YoY. The company's PAT was Rs 16 Cr, a significant drop of 76% YoY and 65% QoQ, missing our estimate by 72% primarily due to Rs 40 Cr of exceptional items.

**Outlook:** While weak market conditions are expected to persist for a few more quarters, Archean's long-term prospects remain intact, supported by its robust product portfolio and competitive positioning. The integration of Oren Hydrocarbons is progressing as planned and is anticipated to deliver substantial synergies starting FY26. Furthermore, the company is investing in new growth areas, which will aid in diversifying its revenue base and mitigating earnings volatility.

**Valuation & Recommendation:** We have revised our estimates for FY25E/FY26E to reflect the weaker-than-expected price recovery in bromine, short-term logistical challenges, and uncertainties surrounding the volume ramp-up. Additionally, we have rolled forward our estimates to FY27E. **As a result, we have downgraded our rating from BUY to HOLD, valuing the stock at 11x FY27E EPS, with a target price of Rs 730/share. This TP suggests a 7% upside from the current market price (CMP).**

**Key Financials (Consolidated)**

(Rs Cr)	Q2FY25	YoY %	QoQ%	Axis Est.	Var %
Net Sales	240	-17%	13%	233	3%
EBITDA	75	-22%	5%	77	-3%
EBITDA Margin	31.07%	-179bps	-240bps	33.20%	-213bps
Net Profit	16	-76%	-65%	57	-72%
EPS (Rs)	1.3	-76%	-65%	4.6	-72%

Source: Company, Axis Securities Research

 (CMP as of 12<sup>th</sup> November 2024)

CMP (Rs)	685
Upside /Downside (%)	7%
High/Low (Rs)	838/516
Market cap (Cr)	8,457
Avg. daily vol. (1M) Shrs.	6,11,086
No. of shares (Cr)	12.3

**Shareholding (%)**

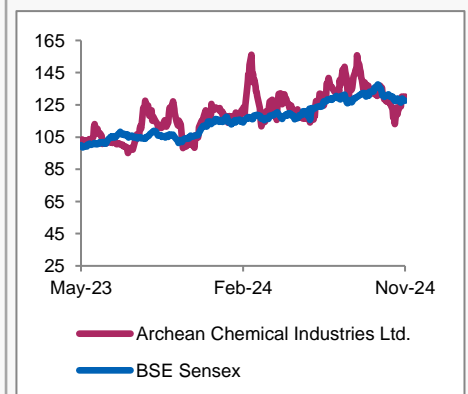
	Mar-24	Jun-24	Sept-24
Promoter	53.46	53.46	53.45
FIIs	5.86	9.53	10.17
DIIIs	27.13	21.04	21.83
Retail	13.55	15.96	14.56

**Financial & Valuations**

Y/E Mar	FY24	FY25E	FY26E
Net Sales	1,330	1,262	2,293
EBITDA	463	397	798
Net Profit	319	250	585
EPS (Rs)	25.9	20.3	47.6
PER (x)	28.7	33.7	14.4
EV/EBITDA (x)	19.8	21.2	10.6
RoA (%)	17%	12%	23%
ROE (%)	20%	14%	27%

**Change in Estimates (%)**

Y/E Mar	FY25E	FY26E
Sales	-25%	-8%
EBITDA	-35%	-23%
PAT	-45%	-25%

**Relative Performance**


Source: AceEquity, Axis Securities Research

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## Key Concall Highlights

- **Financial Performance:** Revenue declined primarily due to logistics-related challenges. Exports contributed 77% and domestic sales accounted for 23%. Bromine contributed around 38%, while the remainder came from industrial salt. The company reported an exceptional item due to the impact of Cyclone Asna in Gujarat, which occurred at the end of August and the beginning of September. This resulted in a loss of approximately 472,000 metric tons of industrial salt, amounting to around Rs 40.18 Cr. The company has initiated the necessary claim process with insurance companies.
- **Bromine:** For bromine, management is observing a broad demand recovery in the domestic market. However, demand from the export market remains soft. The company expects steady demand for bromine, with end-user applications either stable or recovering. It aims to produce over 20,000 tons of bromine for FY25, including for captive consumption, and estimates production of 20,000-25,000 tons for FY26.
- **Industrial Salt:** During the quarter, the industrial salt business was impacted primarily by the monsoon season and difficult road conditions, which hindered exports from the site to the ports. Operations were further disrupted by Cyclone Asna, resulting in a loss of salt stock. However, H2 is historically stronger for salt, and management anticipates more than 10 Lc tons of volume run rate in the coming quarters, with a focus on enhancing processes and cost efficiencies.
- **SOP:** The company continues to see encouraging results in its trials for SOP (Sulfate of Potash) and has taken steps to produce a second grade of SOP. It has begun receiving inquiries from both global and domestic markets, and management anticipates meaningful contributions next year.
- **Oren Hydrocarbons:** The company has received NCLT approval and initiated refurbishments and renovations at various production sites. Initially, two plants are expected to be fully operational within the next few weeks, with significant contributions anticipated from Q4FY25 onwards. The company is focusing on products related to the oil and drilling industry, as well as Clear Brine Fluids (CBF).
- **Strategic Acquisition of Clas-Sic Wafer Fab Ltd:** During the quarter, the company acquired a 21.33% stake in Clas-Sic Wafer Fab Ltd through a primary subscription investment of GBP 10 Mn and a secondary purchase involving GBP 5 Mn. According to the company, this is India's first investment of its kind in a company producing Silicon Carbide (SiC) MOSFETs and devices. This acquisition supports the company's broader strategy to expand in the compound semiconductor space. Arcean aims to produce high-quality SiC power devices within the next 24-36 months (first phase) to serve both domestic and international markets.
- **Strategic Acquisition of Offgrid Energy Labs:** Arcean also invested in Offgrid Energy Labs, a company specializing in zinc bromide battery technology. The company is investing nearly \$12 Mn in Series A funding for a 21% stake. This investment aligns with Arcean's broader strategy to enter the energy storage sector, focusing on renewable energy applications, industrial storage, and grid stability. Management highlighted the synergy between the bromine business and zinc gel batteries, which use bromide chemistry. Arcean will initially support the establishment of a pilot manufacturing facility in the UK, with plans to scale up to a gigafactory in India in the near future.
- **Capex:** Management does not expect significant capex over the next six months apart from Oren-related capex, estimated at around Rs 50-75 Cr over the period.
- **Logistics Mix:** FOB: 92%, CIF: 5-8%.

## Sales Volumes

Sales Volumes (in MT)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Bromine	3,400	5,000	4,800	4,700	4,800
Industrial salt	10,00,000	13,00,000	9,30,000	6,60,000	7,92,000
Sulphate of Potash (SOP)	3,800	4,300		66	27

Source: Company, Axis Securities Research

## Key Risks to Our Estimates and TP

- The emergence of non-halogenated flame retardants may pose a threat to the growth of the Bromine market in the future
- Any delay in capacity in the expansion of Bromine Derivatives or existing projects may affect ROCE negatively
- The global slowdown and logistical challenges may affect volumes and value growth.

## Change in Estimates

	New		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	1,262	2,293	1,683	2,490	-25%	-8%
EBITDA	397	798	610	1,035	-35%	-23%
PAT	250	585	453	785	-45%	-25%

Source: Company, Axis Securities Research

## Q2FY25 Result Review

Particulars	Q2FY24	Q1FY25	Axis Sec Estm (Rs cr)	Q2FY25	% Change (YoY)	% Change (QoQ)	Variance (%)
Revenue	290	213	233	240	-17%	13%	3%
Net Raw Material consumed	19	-18	12	14	-27%	-176%	
Gross Profit	272	231	221	227	-17%	-2%	
Gross Margin %	93.5%	108.5%	95.0%	94.3%	77bps	-1417bps	-69bps
Employee	19	15	16	13	-33%	-13%	
Other Expenses	157	145	128	139	-11%	-4%	
Total Expenditure	195	141	156	166	-15%	17%	
EBIDTA	95	71	77	75	-22%	5%	-3%
EBITDA Margin	32.9%	33.5%	33.2%	31.1%	-179bps	-240bps	-213bps
Less: Depreciation	18	19	20	19	11%	4%	
EBIT	78	53	58	55	-29%	5%	
Less: Net Interest	2	2	1	3	73%	89%	
Add: Other income	11	10	19	11	-2%	13%	
Profit Before Extraordinary Items and Tax	87	61	75	63	-28%	4%	
Less: Extraordinary Expense (net)	-	-	-	40			
Profit Before Tax	87	61	75	23	-74%	-62%	
Less: Total Tax	21	16	18	7	-67%	-55%	
Profit After Tax	66	45	57	16	-76%	-65%	-72%
Reported EPS (Rs)	5.36	3.64	4.64	1.28	-76%	-65%	-72%

Source: Company, Axis Securities Research

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
<b>Net Revenue</b>	<b>1,441</b>	<b>1,330</b>	<b>1,262</b>	<b>2,293</b>	<b>2,854</b>
COGS	3	88	42	131	157
Staff costs	72	72	70	125	157
Operating Exp.	732	707	753	1,239	1,455
Total Expenditure	807	867	865	1,495	1,769
<b>EBITDA</b>	<b>634</b>	<b>463</b>	<b>397</b>	<b>798</b>	<b>1,085</b>
<b>EBITDA Margin %</b>	<b>44.0%</b>	<b>34.8%</b>	<b>31.5%</b>	<b>34.8%</b>	<b>38.0%</b>
Depreciation	69	70	77	82	87
EBIT	609	436	356	791	1,092
Interest	97	8	10	11	6
Other Income	43	43	36	75	94
PBT	512	427	341	780	1,086
Tax	129	108	91	195	271
<i>Tax Rate %</i>	<i>25.2%</i>	<i>25.3%</i>	<i>26.6%</i>	<i>25.0%</i>	<i>25.0%</i>
<b>PAT</b>	<b>383</b>	<b>319</b>	<b>250</b>	<b>585</b>	<b>814</b>
<b>EPS</b>	<b>31.1</b>	<b>25.9</b>	<b>20.3</b>	<b>47.6</b>	<b>66.2</b>

Source: Company, Axis Securities Research

### Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	25	25	25	25	25
Reserves & Surplus	1,406	1,677	1,884	2,367	3,040
<b>Net Worth</b>	<b>1,431</b>	<b>1,702</b>	<b>1,908</b>	<b>2,392</b>	<b>3,065</b>
Financial Non-Current Liability	37	91	91	91	91
Other Non-current Liability	-	-	-	-	-
Deferred Tax Liability	115	124	124	124	124
<b>Total Non-Current Liability</b>	<b>152</b>	<b>219</b>	<b>219</b>	<b>219</b>	<b>219</b>
Current Financial Liability	148	131	134	225	281
Other Current Liability	21	3	3	3	3
Provisions	3	-	-	-	-
<b>Total Current Liability</b>	<b>172</b>	<b>135</b>	<b>138</b>	<b>229</b>	<b>284</b>
<b>Total Equity &amp; Liability</b>	<b>1,755</b>	<b>2,056</b>	<b>2,266</b>	<b>2,840</b>	<b>3,568</b>
<b>Application Of Funds</b>					
<b>PPE</b>	<b>1,065</b>	<b>1,118</b>	<b>1,120</b>	<b>1,188</b>	<b>1,401</b>
Capital Work in Progress	36	46	46	46	46
Right Use Of Assets	45	42	42	42	42
Intangible Assets	0	2	2	2	2
<b>Non- Current Financial Assets</b>	<b>22</b>	<b>16</b>	<b>16</b>	<b>16</b>	<b>16</b>
Other Non-Current Assets	10	100	100	100	100
<b>Total Non-Current Assets</b>	<b>1,178</b>	<b>1,330</b>	<b>1,331</b>	<b>1,400</b>	<b>1,613</b>
Inventories	168	127	156	295	391
Current-Financial Assets	361	552	732	1,098	1,518
Other Current Assets	32	32	32	32	32
<b>Total Current Assets</b>	<b>577</b>	<b>726</b>	<b>934</b>	<b>1,440</b>	<b>1,955</b>
<b>Total Assets</b>	<b>1,755</b>	<b>2,056</b>	<b>2,265</b>	<b>2,840</b>	<b>3,568</b>

Source: Company, Axis Securities Research

**Cash Flow**

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
PBT	512	427	341	780	1,086
Depreciation & Amortization	69	70	77	82	87
Finance Cost	97	8	10	11	6
Chg in Working cap	-157	6	-6	-193	-148
Direct tax paid	-21	-109	-91	-195	-271
<b>Cash flow from operations</b>	<b>496</b>	<b>379</b>	<b>331</b>	<b>485</b>	<b>758</b>
Chg in Gross Block	-100	-131	-80	-150	-300
Chg in Investments	-195	-117	-	-	-
Other Investments	-1	14	-	-	-
<b>Cash flow from investing</b>	<b>-290</b>	<b>-307</b>	<b>-80</b>	<b>-150</b>	<b>-300</b>
Fresh Issue Proceeds	789	0	-	-	-
Proceeds / (Repayment) of ST Borrowings (Net)	-4	-55	-	-	-
Finance Cost paid	-163	-3	-10	-11	-6
Dividends paid	-	-	-43	-102	-141
<b>Cash flow from financing</b>	<b>-212</b>	<b>-33</b>	<b>-54</b>	<b>-113</b>	<b>-147</b>
<b>Chg in cash</b>	<b>-6</b>	<b>40</b>	<b>198</b>	<b>222</b>	<b>311</b>
Cash and cash equivalents at the beginning of the year	12	6	45	243	465
Cash and Cash equivalents at the end of the year	<b>6</b>	<b>45</b>	<b>243</b>	<b>465</b>	<b>776</b>

Source: Company, Axis Securities Research

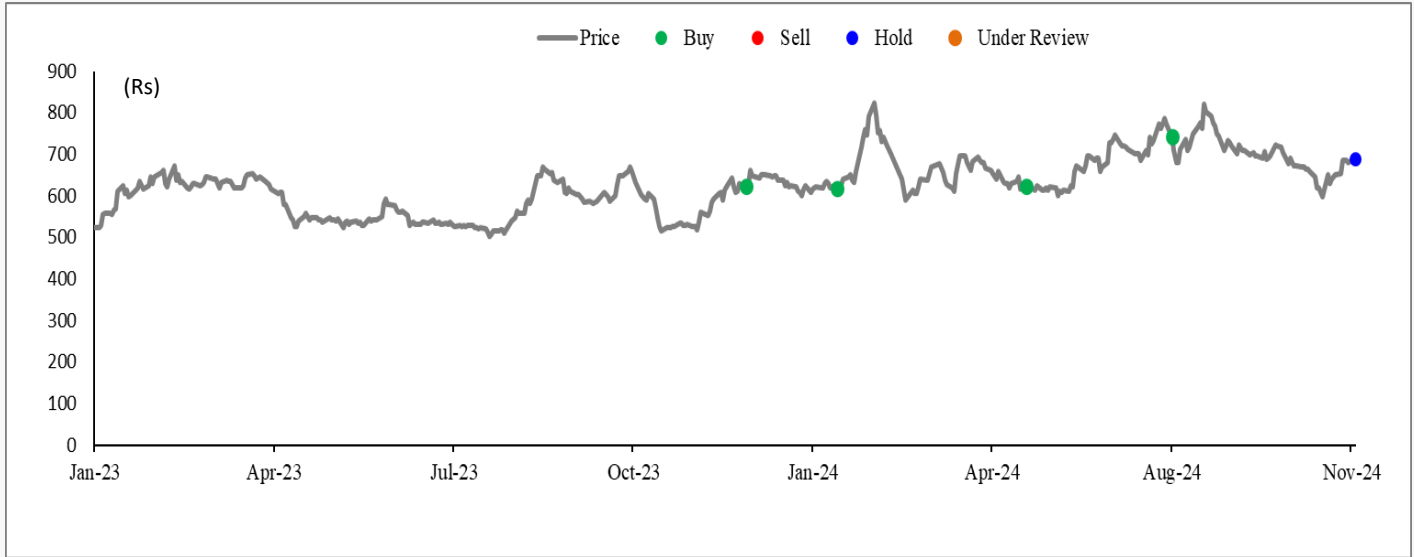
**Ratio Analysis**

(%)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
<b>Efficiency Ratios</b>					
Asset Turnover (x)	0.88	0.70	0.58	0.90	0.89
Inventory Turnover(x)	0.02	0.59	0.29	0.58	0.46
Sales/Total Assets	0.82	0.65	0.56	0.81	0.80
Receivable days	34	38	43	34	43
Inventory Days	37	40	41	36	44
Payable days	26	27	29	24	28
<b>Financial Stability Ratios</b>					
Total Debt/Equity(x)	0.0	0.0	0.0	0.0	0.0
Total Asset/Equity(x)	1.2	1.2	1.2	1.2	1.2
Current Ratio(x)	3.3	5.4	6.8	6.3	6.9
Quick Ratio(x)	2.4	4.4	5.6	5.0	5.5
Interest Cover(x)	6.5	-	-	-	-
<b>Operational &amp; Financial Ratios</b>					
Earnings Per Share (Rs)	31	26	20	48	66
Book Value (Rs)	116	138	155	194	249
Tax Rate(%)	25.2%	25.3%	26.6%	25.0%	25.0%
<b>Performance Ratios</b>					
ROA (%)	23.3%	16.7%	11.6%	22.9%	25.4%
ROCE (%)	41.4%	24.9%	17.6%	33.4%	37.0%
ROE (%)	45.2%	20.4%	13.9%	27.2%	29.8%

Source: Company, Axis Securities Research

## Archean Chemical Industries Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
19-Dec-23	BUY	885	Initiating Coverage
07-Feb-24	BUY	885	Result Update
21-May-24	BUY	865	Result Update
06-Aug-24	BUY	829	Result Update
13-Nov-24	HOLD	730	Result Update

Source: Axis Securities Research

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<b>Ratings</b>	<b>Expected absolute returns over 12 – 18 months</b>
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.