

Analysis of Shiv Texchem Limited

1. Business Overview

Shiv Texchem Limited is engaged in the import and distribution of hydrocarbon-based chemicals, which serve as essential raw materials for a wide variety of industries. These chemicals include Acetyls, Alcohols, Aromatics, Nitriles, Monomers, Glycols, Phenolics, Ketones, and Isocyanates.

The company plays a critical role in providing these chemicals to industries such as Paints and Coatings, Printing Inks, Agrochemicals, Specialty Polymers, Pharmaceuticals, and Specialty Industrial Chemicals. The company operates primarily in a trading business model, connecting international suppliers with domestic chemical companies.

2. Growth and Revenue

Shiv Texchem Limited has demonstrated strong growth over the past three years:

- FY22 Total Revenue: ₹858 Crores

- FY24 Total Revenue: ₹1,534 Crores

This represents a 2x growth over three years, translating to a 36% CAGR (Compound Annual Growth Rate). This significant growth indicates that the company has been successful in expanding its operations, possibly due to a growing customer base, increased demand, and efficient execution of its trading model.

3. Business Characteristics

Trading Business Model: Shiv Texchem's core business revolves around trading chemicals rather than manufacturing. The trading model has inherent characteristics:

- **Low EBITDA Margins:** The company's EBITDA margins are around 3-4%, which is typical for trading companies that operate with thin profit margins due to high competition and the nature of buying and reselling products. The low margins reflect limited pricing power, and a large portion of revenue is often passed on to suppliers.

- **Working Capital Intensive:** The trading business is inherently working capital-intensive because of the need to maintain large inventory levels and extended credit terms to customers. This means that cash is tied up in inventory and receivables, increasing the working capital requirement.

4. Fundraising and Capital Requirements

Shiv Texchem Limited plans to raise ₹100 Crores, which appears to be driven by the need to manage its working capital requirements:

- The trading business requires substantial working capital to finance inventory purchases and provide credit to buyers.

- Raising funds will help the company sustain its growth trajectory and improve liquidity. The infusion of capital is expected to reduce pressure on working capital, allowing the company to maintain its trading volume and potentially explore expansion opportunities.

5. Valuation Analysis

IPO Valuation: ₹380 Crores

P/E Ratio: The company is priced at a P/E (Price to Earnings) of 13x based on FY24 numbers.

Comparative Valuation:

- A P/E ratio of 13x can be considered moderate within the chemical trading industry. This valuation suggests that the market is recognizing the company's growth potential but also factoring in the inherent risks of low-margin trading operations.

- The valuation appears attractive considering the 36% CAGR in revenue. However, investors need to consider the low EBITDA margins and the working capital-intensive nature of the business, which could limit profitability and lead to cash flow constraints during periods of market volatility.

6. Management Quality

The quality of management is highlighted as a significant positive factor for Shiv Texchem:

- **Strong Management Team:** The management team's ability to achieve 2x revenue growth over three years is a testament to their strategic direction and execution capabilities.

- **Operational Efficiency:** Operating in a low-margin business requires efficient inventory management, good relationships with suppliers and customers, and effective cost control. The fact that the company has been able to achieve strong growth while maintaining its operations suggests that the management is adept at navigating these challenges.

7. Key Risks

- **Low Profit Margins:** The trading nature of the business means that the company operates with very thin profit margins, which could be further compressed in case of price volatility or increased competition.

- **Working Capital Dependency:** The company's reliance on external funding to manage its working capital needs is a concern. As the business grows, the need for more working capital will increase, which might necessitate additional fundraising, either through debt or equity.

- **Market Volatility:** The company's performance is highly dependent on global supply and demand dynamics for chemicals. Price fluctuations in raw materials, changes in foreign exchange rates, or disruptions in the supply chain could have a significant impact on profitability.

8. Conclusion

Shiv Texchem Limited operates in a crucial space within the chemicals distribution industry, providing raw materials for a diverse range of end industries. The company's growth in revenue from ₹858 Crores in FY22 to ₹1,534 Crores in FY24, indicating a 36% CAGR, is impressive, and it highlights the effective management and growing demand for the chemicals it trades.

However, the business model has certain limitations, particularly the low EBITDA margins of 3-4% and the high dependency on working capital, which are characteristic of trading companies. These factors result in low profitability despite significant revenue growth. The upcoming IPO, valued at ₹380 Crores with a P/E ratio of 13x, suggests that investors need to weigh the growth prospects against the risks of low margins and high capital requirements.