RETAILRESEARCH

IPO Note

March 04, 2024

J G Chemicals Limited

HDFC securities
Click. Invest. Grow.
20 YEARS

Issue Snapshot:
Issue Open: March 05 – March 07, 2024

Price Band: Rs. 210 – 221

*Issue Size: Up to Rs 251.19 cr (Fresh issue of Rs 165 crore + Offer for sale of 3,900,000 shares)

Reservation for:

QIB	upto	50% eq sh
Non-Institutional	atleast	15% eq sh
((including 1/3rd for applications between Rs.2 lakhs to Rs.10 lakhs))		
Retail	atleast	35% eq sh

Face Value: Rs 10

Book value: Rs 68.68 (December 31, 2023)

Bid size: - 67 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs. 31.72 cr
*Post issue Equity:	Rs. 39.19 cr

Listing: BSE & NSE

Book Running Lead Managers: Centrum Capital Limited, Emkay Global Financial Services Limited, Keynote Financial Services Limited.

Sponsor Bank: Axis Bank Limited, HDFC Bank Limited

Registrar to issue: KFin Technologies Limited

Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	100.0	71.0
Public & Employees	0.0	29.0
Total	100.0	100.0

*=assuming issue subscribed at higher band

Background & Operations:

J G Chemicals Ltd. (JGCL) is India's largest zinc oxide manufacturer in terms of production and revenue for zinc oxide manufacturing through French process, which is the dominant production technology for producing zinc oxide and has been adopted by all the major producers in Americas, Europe and Asia (Source: CARE Report). The market share of JGCL is around 30% as on March 2022 (Source: CARE Report). JGCL sells over 80 grades of zinc oxide and are among the top ten manufacturers of zinc oxides globally (Source: CARE Report). Since JGCL's incorporation in 2001, they have expanded the business and scale of operations and have grown into a large, diversified zinc oxide player with a global footprint. JGCL's product caters to a wide spectrum of industrial applications, including in the rubber (tyre & other rubber products), ceramics, paints & coatings, pharmaceuticals & cosmetics, electronics & batteries, agro-chemicals & fertilizers, speciality chemicals, lubricants, oil & gas and animal feed.

Owing to JGCL's legacy of over four decades in manufacturing businesses, it benefits from their experience in catering to a wide array of customers and they have built a long-standing relationship with customers across end-user industries in the tyres, ceramics, rubber, paints, cosmetics and batteries industry. Over the last three years, JGCL marketed and sold the product to over 200 domestic customers and over 50 global customers in more than 10 countries.

In India, tyre industry accounts for 70% of rubber consumption (Source: CARE Report) and the companies in the tyre industry are the largest consumers of their product. Along with being suppliers to 9 out of top 10 global tyre manufacturers and to all of the top 11 tyre manufacturers in India, they also supply to leading paints manufacturers, footwear players and cosmetics players in India (Source: CARE Report). JGCL's Material Subsidiary, BDJ Oxides is the only zinc oxide manufacturing facility in India to have an IATF certification, which is preferred by tyre manufacturers supplying to original equipment manufacturers.

As a manufacturer of zinc oxide, it is a pre-requisite in most of the end-use industries for their products to be customised according to the specifications by customers, which usually acts as a significant entry barrier. Further, high cost of product development, complexity of the chemistry involved in innovating and tailoring the products to the customised needs of their customers, which requires necessary technical expertise and lengthy and stringent supplier qualification process are the other entry barriers in business.

JGCL procures raw materials from multiple domestic and global suppliers. The Company's primary raw materials are virgin zinc metal and Zinc Dross (which is a type of zinc scrap). JGCL procures virgin zinc metal and Zinc Dross from various domestic and global entities. Zinc Dross is primarily produced by steel galvanizers as a by-product of steel production. The availability of zinc scrap is a challenge and the biggest constraint for new entrants in the market is to build a global supply network. Most of the Zinc Dross which comes from western countries is through old and established trading houses who work based on long term relationships and refrain from doing business with new entrants due to a wide range of complexities associated with dealing in Zinc Dross (Source: CARE Report). JGCL's ability to utilise Zinc Dross for the production of zinc oxide helps in reducing the carbon footprint since a by-product is used for production of final product. Due to the difficult sourcing pattern of Zinc Dross, several zinc oxide facilities have faced supply side constraints due to which they have been forced to shut / curtail production and therefore, new players are often reluctant to enter the zinc oxide business (Source: CARE Report). JGCL has successfully built a strong network of domestic suppliers as well as a diverse & global supplier base having procured raw materials from over 100 global suppliers in the last three years. JGCL's extensive global supplier base enables them to evaluate the various available options and choose according to their commercial considerations. Some of these relationships have been nurtured over the years, enabling JGCL to be termed as a preferred customer for certain global suppliers of Zinc Dross.

Objects of Issue:

The Offer comprises of a Fresh Issue by JGCL and an Offer for Sale by the Selling Shareholders. The net proceeds of the Issue, i.e., gross proceeds of the Issue less the Issue related expenses ("Net Proceeds") are proposed to be utilised in the following manner:

- Investment in Material Subsidiary, viz. BDJ Oxides (i) repayment or pre-payment, in full or in part, of all or certain borrowings availed by JGCL's Material Subsidiary; (ii) funding capital expenditure requirements for setting up of a research and development centre situated in Naidupeta, Andhra Pradesh ("R&D Centre"); and (iii) funding its long-term working capital requirements;
- Funding long-term working capital requirements of the Company; and
- General corporate purposes.

In addition, JGCL expects to achieve the benefits of listing of the Equity Shares on the Stock Exchanges, including enhancement of Company's brand name and creation of a public market for Equity Shares in India.

Utilisation of Net Proceeds:

The Net Proceeds are proposed to be utilised in the following manner:

Sr No	Particulars (Rs in million)	Total estimated amount/ expenditure to be funded from the Net Proceeds	Schedule of Implementation		
			Fiscal 2025	Fiscal 2026	Fiscal 2027
1	Investment in JGCL's Material Subsidiary, viz. BDJ Oxides for:				
(i)	repayment or pre-payment, in full or in part, of all or certain borrowings availed by the Company's Material Subsidiary	250.00	250.00	-	-
(ii)	funding capital expenditure requirements for setting up R&D Centre;	60.58	17.36	43.22	-
(iii)	funding its long-term working capital requirements;	600.00	250.00	150.00	200.00
2.	Funding long-term working capital requirements of the Company	350.00	-	200.00	150.00
3.	General corporate purposes				
	Total				

Competitive Strengths

Leading market position with a diversified customer base: JGCL is the largest manufacturer of zinc oxides in India and among the top ten manufacturers of zinc oxides globally, with an installed capacity of 59,904 MTPA for zinc oxide, 7,056 MTPA for zinc ingots and 10,080 MTPA capacity for zinc sulphate and other allied chemicals. The installed capacity of JGCL's Naidupeta Facility, has recently been augmented by 13,440 MTPA for zinc oxide and 10,080 MTPA for zinc sulphate and other allied chemicals. Production capacities, process of production, grades of ZnO and variety of application segments are some of the factors through which the key players control the market (Source: CARE Report). They sell over 80 grades of zinc oxide, thereby enabling JGCL to cater to a wide variety of customers, across various end-use industries.

In terms of volume, the zinc oxide production in India has been around 100 thousand tonnes – 115 thousand tonnes in the past 5 years from Fiscal 2018 to Fiscal 2022. During this period, the Indian zinc oxide market size is estimated at around ₹ 18,000 million to around ₹ 20,000 million. The Indian zinc oxide market is fragmented with limited presence of organized players, who constitute a major portion of the market due to high entry barriers for any new entrant (Source: CARE Report). In terms of the export market, the top countries where India exported zinc oxide were mainly countries in the SAARC region and in South East Asia, (Source: CARE Report) which is also JGCL's primary export market, constituting 99.25% of the Company's total exports in Fiscal 2022. JGCL's emphasis on customer driven marketing, wherein Promoters take personal interest in sales, marketing and customer development activities with their key customers, which has helped them create a strong presence in the global zinc oxide industry. JGCL believes that this is one of the key factors for them being a supplier to 9 out of top 10 global tyre manufacturers and to all of the top 11 Indian tyre manufacturers (Source: CARE Report). JGCL products cater to a wide spectrum of industrial application including rubber (tyre & other rubber products), ceramics, paints & coatings, pharmaceuticals & cosmetics, electronics & batteries, agro-chemicals & fertilizers, speciality chemicals, lubricants, oil and gas and animal feed. JGCL caters to a diverse customer base across various end-use industries and have long-standing relationship with a few marquee customers in such industries. Diversification of their customer base across the domestic and global markets, has enabled them to further diversify and expand JGCL's business relationships. The sales from exports for nine months period ended

December 31, 2023 and Fiscals 2023, 2022 and 2021, have been ₹ 462.42 million, ₹727.07 million, ₹ 545.08 million and ₹ 386.90 million, respectively, comprising of 9.51%, 9.27%, 8.90% and 8.92%, of sale of finished goods for the corresponding period. JGCL's long-term association with key customers also offers significant advantages such as revenue visibility, industry goodwill and quality assurance. They believe that their ability to diversify into new markets, lack of dependence on any specific market and efficient operating process is a key strength in their business operations.

JGCL believes that their leadership position in the Indian domestic markets is a consequence of (a) consistency of product quality, which has resulted in JGCL being considered as a preferred supplier to certain marquee tyre manufacturers; (b) JGCL's established infrastructure; and (c) the strategic location of their manufacturing facilities near the demand of such products. JGCL's leadership position offers the competitive advantages such as product pricing, economies of scale, and the ability to scale business, increase customer loyalty and expand client base, all of which have in turn resulted in the growth of revenues and profit over the last three Fiscals.

High entry barriers in key end-use industries: JGCL's end-use industries have significant entry barriers due to specific factors unique to such end-use industries. Given the nature of the application of the products and the processes involved, their products are subject to, and measured against high quality standards and rigorous product approval systems with stringent impurity specifications. Further, because end products manufactured by the customers are typically subject to stringent regulatory and industry standards, any change in the vendor of the product may require significant time and expense on part of the customers, which acts an entry barrier and disincentives any such changes for them.

Some of the entry barriers for end-use industries are:

- Stringent vendor approval process
- Raw material tie-ups
- Technical expertise
- High working capital requirements
- Supplier customer relationship

JGCL believes that they have, over the years, built strong relationships with their customers, who recognise their technical capabilities and timely deliveries and associate the Company with good and consistent quality products. Further, some of the largest customers have been procuring the products from them for over 15 years.

Strong and consistent financial performance: JGCL has experienced sustained growth with respect to the various financial indicators as well as a consistent improvement in the balance sheet position. Further, in the last three Fiscals, they have seen an increase in the net worth. JGCL's customers in the rubber industry have contributed ₹ 4,401.21 million, ₹ 7,097.27 million, ₹ 5,521.60 million and ₹ 3,882.86 million constituting 90.50%, 90.46%, 90.10% and 89.20% of their revenue from operations for nine months period ended December 31, 2023 and Fiscals 2023, 2022 and 2021, respectively. During Fiscals 2017 to 2021, the tyre industry has grown at a CAGR of 0.32%, (Source: CARE Report) whereas in the same period, JGCL has grown volumes at a significantly higher CAGR of 13.32%.

JGCL strives to maintain a robust financial position with emphasis on having a strong balance sheet and increased profitability. Its strong balance sheet coupled with low levels of debt enables it to pursue opportunities for further growth. In addition, its business has high working capital requirements and the Company's strong balance sheet allows it to meet such requirements and is a factor critical to the business. JGCL's financial strength and access to financing provides it a valuable competitive advantage over its competitors.

Long-term relationships with customers and suppliers & having robust supply chain: JGCL believes in establishing a direct relationship with customers and over 95% of sales in the last three Fiscals is directly to their customers without involvement of any intermediary/distributor, which helps them build a strong relationship directly with their customers along with lowering of costs and improvement in returns. With many of their customers, the relationship extends to several years. In the last three Fiscals, they catered to more than 250 customers, of which around 90% customers were repeat customers. Such long-term association with key customers also offers significant competitive advantages such as revenue visibility, industry goodwill and enables them to demonstrate the quality. As a result of deep-rooted association with the customers, JGCL often receives new product requirements from such customers which in turn, helps them to expand the product base.

On the procurement side, most of the Zinc Dross which comes from overseas is through old and established trading houses who work based on long term relationships and refrain from doing business with new entrants due to a wide range of complexities associated with dealing in Zinc Dross (Source: CARE Report). JGCL has built a diverse global supplier base having procured raw materials from over 100 global suppliers in the last three Fiscals. JGCL's extensive global supplier base enables them to evaluate the various available options and choose according to their commercial considerations. Some of these relationships have nurtured over the years, enabling them to be termed as a preferred customer for various global suppliers of Zinc Dross. JGCL's long-standing relationship with the suppliers and customers envisioning a partnership approach together with their internal processes, including exercise of supplier quality assurance system has enabled them to ensure a robust supply chain. They are committed to providing high quality products to the customers and to meet this commitment, they have implemented good manufacturing practices across their manufacturing sites, encompassing all areas of business processes right from supply chain to product delivery. This enables them to maintain consistent quality, efficiency and product safety.

JGCL always maintains a reasonable amount of inventory across all their facilities and have a stable supply of raw materials, which enables them to blend different compositions of Zinc Dross to produce the required grade of zinc oxide and supply the same as per the customer specifications. JGCL's ability to address the varied and stringent client requirements over long periods enables them to serve the customers better. This has helped them to obtain additional business from existing customers as well as nurture new customer relationships in an industry marked by high entry barriers.

Experienced and dedicated management team: JGCL is led by qualified and experienced Promoters and management team, that they believe has the expertise and vision to manage and grow the business. Promoters, Suresh Jhunjhunwala, Anirudh Jhunjhunwala and Anuj Jhunjhunwala have a cumulative experience of over 8 (eight) decades in the industry and have been instrumental in Company's growth and development. Suresh Jhunjhunwala, one of Promoters, has been at the helm of the Company since 2001, prior to which he was involved in various manufacturing businesses which has led to him forging strong ties with their customers. Anirudh Jhunjhunwala and Anuj Jhunjhunwala are second generation entrepreneurs and bring their acumen in finance and process chemistry to the business. In addition to the commercial acumen that they bring to the business, they also take personal interest in customer development activities. They strive to maintain regular contacts with customers and monitor monthly reviews and market research reports of customer's monthly performance in the business. They have also been instrumental in identifying and initiating dialogue with new customers and existing customers for development of new products.

Promoters are ably supported by the management team's collective experience and capabilities which enables them to understand and anticipate market trends, manage the business operations and growth, leverage customer relationships, and respond to changes in customer preferences. The management team continues to focus on production, marketing and new growth areas. They believe that the knowledge and experience of the Promoters, along with team of skilled personnel, provides the Company with a significant competitive advantage, as the Company seeks to expand the production capacities and product portfolio, as well as in existing markets and new markets.

Focus on long term sustainability with environmental initiatives and safety standards: JGCL has a strong focus on sustainability in all aspects of the operations and over the years have adopted various green initiatives. Caring for the environment and sustainable development along with being the core principles that drive the organization is also desired by the customers and accordingly, JGCL constantly strives to reduce emissions and recycle and reuse to conserve natural resources. As a part of their initiatives towards continual improvement, they have also obtained the Environment Management System certification under the new standard of ISO 14001: 2015 for each of the manufacturing facilities.

JGCL uses the French process to produce various grades of zinc oxide, and use modern pulse jet bag filters and combustion systems which ensures high productivity, low energy consumption and maintains required standards with respect to emission norms. They believe in adopting a sustainable manufacturing process and use over 90% recycled metal, i.e. secondary zinc (dross/ scrap/ scrub) as raw material, instead of virgin metal, which helps them in lowering the emission of carbon dioxide, reduces air and water pollution and also reduces water use by considerable quantity. JGCL has also installed recuperators in most of furnaces. Recuperators are a special purpose counter-flow energy recovery heat exchanger that recover the waste heat from the manufacturing process and help in reducing the carbon footprint and the energy consumption.

JGCL's ability to utilise Zinc Dross for the production of zinc oxide, also helps them in reducing the carbon footprint since a by-product is used for the production of the final product. They believe that having such a strong focus on sustainability is beneficial for business operations as environmental concern has become a major challenge in the 21st century and, therefore, sustainable development and use of eco-friendly products has increased in the past few years across all major industries (Source: CARE Report).

Business Strategy:

Expand production capacities and broadening the footprint of manufacturing operations: JGCL has existing manufacturing facilities in the eastern and southern part of India. While they have been delivering the products to all parts of India, they intend to increase their production capacities and broaden their manufacturing operations. The Company has recently expanded the existing manufacturing facility located in Naidupeta, District Nellore in the state of Andhra Pradesh by 23,520 MTPA of which 13,440 MTPA will be utilised for zinc oxide and 10,080 MTPA will be utilised for producing zinc sulphate and other allied chemicals. With this expansion, their cumulative installed capacity, along with the subsidiary, has increased to 77,040 MTPA.

Further, they propose to establish a greenfield manufacturing facility in the state of Gujarat. They believe that establishing a presence in the western part of India by setting up or acquiring a new manufacturing facility will, in addition to augmenting the manufacturing capacity, also enable them, to capture market share by catering to the needs of the ceramics, pharmaceuticals and tyre industries, which have a presence in the western part of India.

Setting up manufacturing operations in the western part of India will also provide easier access to cater to the needs of such industries and increase their sales due to the proximity of various manufacturing facilities in these industries in this part of India.

JGCL is an approved vendor to most of the large global tyre companies having a significant presence in South-east Asia, which has seen a strong increase in tyre production due to availability of natural rubber, good port connectivity enabling exports and shifting of tyre capacity from China to South-east Asia to circumvent the antidumping duties put on Chinese tyre producers by USA. With a view to further diversify their overseas customer base, they intend to augment their sales in the foreign markets where they sell the products, thereby, increasing their market share in the existing geographies. With a view of undertaking such expansion, they are currently exploring both organic and inorganic growth opportunities in South-east Asian countries, enabling them to increase the market share in the overseas market. Thailand, amongst the other south-east Asian countries has emerged as an attractive market for the Company since (a) the area is the largest rubber exporter in the world; (b) expansion of capacities by international tyre manufacturers and (c) favourable regulatory regime supportive of tyre manufacturers (Source: CARE Report). JGCL believes their existing relationships with strong customer base in the region and demonstrated expertise in manufacturing of zinc oxide and specialty products, will facilitate the process and will enable them to acquire new customers.

Further diversify product offerings and enter new verticals: JGCL constantly seeks to introduce new product verticals and develop the product capabilities to distinguish themselves from the competitors to enhance the product portfolio. Going forward, growth in the end user industries is expected to fuel the increase of zinc oxide which has properties like high chemical stability, high electrochemical coupling coefficient, broad range of radiation absorption and high photo stability (Source: CARE Report). The past two decades have seen a significant shift in the speciality chemicals industry and as the specialty chemical applications increases; specifically due to growth in end-use industries like automotive, rubber industry, ceramics, pharmaceuticals & cosmetics, paints & coatings, agrochemicals, nutraceuticals, animal feed and batteries in the Indian market, the demand for zinc oxide will grow exponentially (Source: CARE Report). JGCL believes that an expansion into new verticals of product offerings will lead to a further increase in their operational margin, which was 6.12%, 10.41%, 10.39% and 10.63% in nine months period ended December 31, 2023 and Fiscals 2023, 2022 and 2021, respectively.

- Zinc Sulphate
- Pharmaceutical Grade Zinc Oxide
- Specialized Zinc Oxide/Activated Zinc Oxide (Zinc Carbonate)
- Zinc based agri-chemicals and nutrients

Deep mining of existing customers and continued focus to expand customer base: JGCL believes that their leading market position within the various markets where they are present, as well as their longstanding relations with their customers positions them well to increase wallet share with the existing customers, and to continue focusing on expanding the customer base.

Over the years, JGCL has become a preferred supplier for many global & domestic tyre companies, which have gradually started moving towards the concept of a local vendor base and reduce reliance on imports to rationalise inventory. They believe having a local manufacturing presence in such countries in South-East Asia, which are strong bases of the tyre companies, will help them address the sourcing requirements of the existing customers as well as engaging in deep mining of the current product portfolio across new spectrum of customers. Harnessing their global footprint and experience, they intend to increase the reach of their specialty products to the existing customers and expand their wallet share with them and also have deeper penetration in the markets.

JGCL intends to continue to leverage their direct marketing and distributor network and their industry standing to establish relationships with new export and local customers and expand their customer base. It intends to increase the export contribution to revenue by adding more new and customised products to their product portfolio.

Increasing focus on R&D to support complex chemistries, product innovation and cost efficiencies: JGCL has a dedicated focus on developing specialty products, customized to the specific needs of the customers, which has been demonstrated by their long-term customer relationships. Presently, JGCL's R&D processes focus on manufacturing zinc oxide with varied specifications suited for the end-use industries, on the floor of their manufacturing facilities itself, without there being a need for a separate R&D facility for such advances. However, as one of their objects of the Offer, they intend to establish a separate R&D facility to undertake complex innovations in their products for making the same available to pharmaceuticals, agro-chemicals and battery end-use industries, among others. Presently, they Restated Consolidated Financial Information included in this Red Herring Prospectus, does not have a separate line item for expense on R&D activities.

JGCL is also exploring ways to develop battery grade zinc oxide and chemicals. Zinc oxide battery helps to play a major role in semiconductor ceramic elements for operation at elevated temperatures or high voltages (Source: CARE Report). JGCL is already catering to some existing battery manufacturers and is working on developing certain tailor-made products for the battery sector. The battery industry is emerging as a critical sector in the transition to a more sustainable future and this industry is expected to grow since the market is shifting to renewable technologies (Source: CARE Report). India is currently at the nascent stage of creating domestic cell manufacturing ecosystem and has a negligible presence in the global market for manufacturing of advanced cell technologies. But there is an enormous potential for large scale battery manufacturing units which could allow domestically produced batteries to cater to demand of grid storage applications, consumer electronics, and other uses. It is estimated that in accelerated case, the annual demand for batteries by 2030 will be around 106GWh to 260 GWh. In terms of market size, the annual market for stationery and mobile batteries could surpass ₹ 1.12 trillion by 2030 (Source: CARE Report).

JGCL believes strategic focus on R&D has been critical to the success and is a differentiating factor in becoming one of the key suppliers of their products. Accordingly, they intend to continue to focus on R&D and undertake product innovation to enable them to introduce new products, increase their productivity and operating efficiency, deepen penetration in existing markets and serve as the cornerstone to the success in new markets. They intend to diversify the existing product portfolio by adding new products which are synergistic with the existing products and chemistries.

Industry:

Industry – Chemicals and Specialty Chemicals Industry

The importance of chemical industry has resulted in proliferation of chemicals across the globe with the industry sales growing at a Compounded Annual Growth Rate (CAGR) of 4.3% from USD 3,575 billion in (Calendar Year) CY16 to USD 4,062 billion in CY19 1and is estimated to grow at a CAGR of 5% to 6% through CY27. This growth will largely be driven by developing markets like Asia Pacific (APAC) which are likely to grow at a higher CAGR of around 7%-8% compared to the growth in more matured markets like US and Europe which will be lower at around 2%-4%.

The industry sales are led by a handful of countries. Of USD 3,965 billion sales reported by the global chemicals industry during CY20, sales from 10 countries accounted for a significant share of 86.6% representing USD 3,434 billion of sales during the year. Sales from rest of the world contributed to 13.4% of the total sales in CY20. For CY21, the industry sales is estimated to have crossed around USD 4,100 billion and is yet to breach its CY18 high of USD 4,259 billion.

India ranked sixth in terms of global chemical sales with a contribution of USD 105 billion and accounted for a share of 2.7% during the year. The other nations that formed part of the top 10 countries in global chemical sales were Taiwan, Brazil, Russia and UK with a share of 1.9%, 1.6%, 1.2% and 1.0%, respectively.

Segment-wise sales: The global chemical industry is primarily divided into two broad segments:

• Commodity chemicals
• Specialty chemicals

Commodity chemicals segment typically comprises for the largest share in global chemical sales and contributed around 75%-80% of the total sales. Commodity chemicals are common chemicals that can be produced in bulk quantities by a large number of chemical manufacturers. Commodity chemicals include plastics, synthetic fibers, films, certain paints and pigments, explosives, and petrochemicals. There is limited product differentiation within the sector; products are sold for their composition. The commodities market is highly fragmented. The end user markets include other basic chemicals, specialties, and other chemical products; manufactured goods such as textiles, automobiles, appliances, and furniture; and pulp and paper processing, oil refining, aluminum processing, and other manufacturing processes. Markets also include some non-manufacturing industries.

Specialty chemicals segment comprises about 20%-25% of the aggregate global chemical sales. These chemicals are low-volume but high-value compounds and are used for specific purposes rather than general applications. Some of the specialty chemicals involve agrochemicals and fertilizers, paints and coatings, dyes and pigments etc. The specialty chemicals market is characterized by high value-added, low volume chemical production. These chemicals are used in a wide variety of products, including fine chemicals, additives, advanced polymers, adhesives, sealants and specialty paints, pigments, and coatings. The specialty market is extremely fragmented.

Similar to the commodity sector, the specialty sector is affected by high costs of energy and feedstock. Intangible value issues include heightened emphasis on research, customer migration to alternative products, and the impact of regulations on products. Production of specialty chemicals involves the usage of zinc oxide and thus growth in demand for specialty chemicals will augur well for the zinc oxide industry. Zinc oxide is an inorganic compound, white in colour and insoluble in water and finds its applications in various end user industries like rubber, rubber made products (like tyre, footwear, gloves, eraser etc.), ceramics, paints, fertilizers, pharma, personal care, cosmetics, agrochemicals, nutraceuticals, batteries, additives, feed, specialty chemicals among others.

Key trends in global chemicals industry

- Shift in preference from China to India
- Growth in environment friendly chemicals

Indian chemicals industry overview

The Indian chemicals industry is widely diversified to include more than 80,000 commercial products. This includes basic chemicals and its products, petrochemicals, fertilizers, paints, varnishes, gases, soaps, perfumes and toiletry and pharmaceuticals. Chemicals industry is significantly important for agricultural and industrial development of India. The industry serves as a building block for several downstream industries, such as textiles, papers, paints, varnishes, soaps, detergents, pharmaceuticals, etc

The size of the Indian chemical industry (industry division 20 of NIC 2008), in terms of value of output in the year 2020-21 was around Rs 9.87 lakh crore (about USD 132 billion). The size of chemical industry, including pharmaceuticals, in terms of value of output in the year 2020-21 was around Rs 14.3 lakh crore (about USD 193 billion). During last six years, i.e. within 2014-15 to 2019-20, real growth rate in output of chemical industry excluding pharmaceuticals industry was 8.1% which was 8.2% for chemical industry including pharmaceutical industry. Growth in value of output for manufacturing sector during the same period was 6.3%.

Chemical sector in India broadly includes major chemicals and petrochemicals. During 2021-22, major chemical production stood at 12.5 million tonnes and petrochemicals output was at 44.5 million tonnes, respectively, as per the Government of India's Department of Chemicals and Petrochemicals.

Of the total chemical market size in India, specialty chemicals account for about 20%-25% of the industry size. The specialty chemicals industry is expected to grow at a faster rate compared to that of overall chemical industry size in India. This will be on account of demand of specialty chemicals from segments like agrochemicals, food additives, construction chemicals, electronic chemicals, water chemicals, polymer additives, dyes and pigments, surfactants among others.

Key trends in Indian chemicals industry

- Increase in capital expenditure
- Growth in research and development by chemical companies
- Rise of environment-friendly chemicals
- Growth in application of specialty chemicals

High entry barriers in Indian specialty chemicals industry

- Complex manufacturing process
- Stringent vendor approval process
- Supplier customer relationship
- Stringent quality requirement

Zinc Oxide Industry

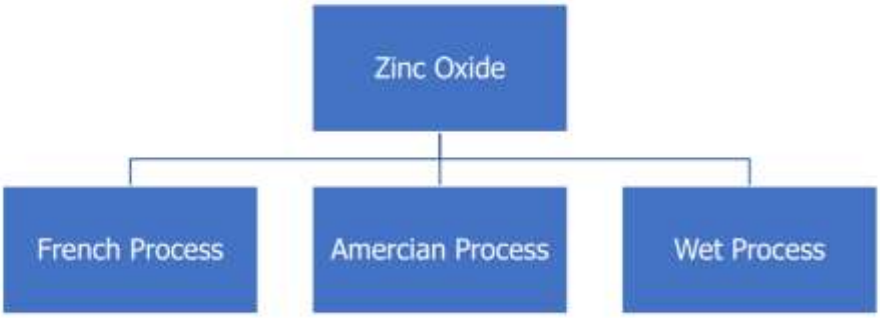
Zinc oxide is an inorganic compound, white in colour and insoluble in water. The chemical formula for zinc oxide is ZnO. Zinc oxide is present in the earth's crust as mineral zincite and usually contains manganese and other impurities. Hence for commercial use it is synthetically made. Zinc oxide has a lot of properties that makes it desirable to various end user industries. It is used as an additives to various products like rubber, ceramics, cosmetics, food supplements, plastics, paints, sealants, batteries, animal feed, etc.

Zinc oxide is the best activator for sulphur vulcanization for rubber companies and without the use of zinc oxide, rubber products cannot meet safety standards. Apart from rubber, the properties of zinc oxide make it an essential component in various other applications like paints, pharmaceuticals and agriculture etc. Various experiments have taken place globally to reduce zinc oxide usage in some applications. However, the efficiency of the alternatives is still in study phase and not yet implemented. Zinc oxide is produced from two types of raw materials namely zinc metal and zinc scrap (dross). The availability of raw materials impacts zinc oxide prices and production.

Zinc oxide produced from zinc metal is of high quality and is the preferred material for production of zinc oxide for purity level of 99.9%. This raw material is used to produce high quality of zinc oxide for end user industries like pharmaceuticals and other specialty applications.

Zinc scrap includes two main types: Zinc Dross and Zinc ash

Production Process



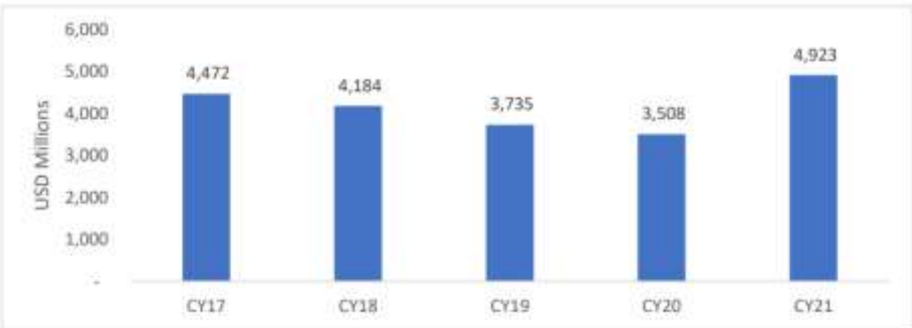
Grades of Zinc Oxide
Commercial grades of zinc oxide are divided by purity and by particle size. These categories are due to the difference in the manufacturing process.

Zinc Oxide is not a plain vanilla product where one size fits all. Each industry segment has its own peculiarities in terms of specifications and within each industry, each customer also has different specifications and requirements. The purity range of zinc oxide ranges from 98.50% to 99.90% and within this range various customers have various other specifications with respect to impurities.

Hence, there is an extremely high degree of customization which is required not just in operating parameters but also in plant design and engineering which has to be factored while building new plants.

The usage of Zinc Dross is gradually reducing in the West (like Europe and North America) and is shifting towards Asia. Thus, the zinc oxide manufacturers in Asia who has the ability to use scrap material for majority of end user segments adds as an advantage as it helps in lowering costs. This ability requires technological expertise and demands higher Research & Development by such zinc oxide manufacturers.

Global market size of zinc oxide (USD Million)



Source: CareEdge Research

Factors driving growth

- Growth in automobile and rubber industry
- Ceramics
- Personal care/ cosmetic products
- Paints and coatings with zinc oxide

Other growth drivers

- Pharmaceuticals

- Agrochemicals
- Nutraceuticals
- Feed
- Batteries
- Specialty Chemicals
- Additives
- Concrete
- Research and development in zinc oxide nanoparticles

Price Trends

Zinc oxide price tend to move in line with that of zinc prices which is the primary raw material for zinc oxide chemical. A deficit in zinc market has caused the zinc prices to average high in FY18 which thus is believed to have resulted in high zinc oxide prices during the year at USD 3,372 per tonne.

The price of zinc oxide is linked to the prices of zinc metal which is traded on the London Metal Exchange. This is because, the key raw material i.e. Zinc Dross and zinc metal prices are also a derivative of the zinc prices on the London Metal Exchange. Therefore, the producers generally do not have a price risk as the same can be passed to the end user industries except for cases where the producer has inventories back to back locked in prices with customers.

Further, the large zinc oxide producers who cater to major institutional and quality conscious buyers can command a better price on account of specific grades of zinc oxide produced by them which meet the requirements of customers. The specific grade zinc oxide tends to have a high price compared to that of average grade of zinc oxide.

Key Concerns

- JGCL's business is almost completely dependent on the sale of one principal product i.e. zinc oxide (in various grades) and any reduction in the demand of the same may have an adverse effect on its business and financial performance.

- JGCL is significantly dependent on the business operations of its material subsidiary i.e. BDJ Oxides Private Limited and any deterioration in the performance of material subsidiary may adversely affect its business, financial condition and results of operations.

- The Company derive a significant part of their revenue from select customers. If one or more of such customers choose not to source their requirements from them, the business, financial condition and results of operations may be adversely affected

- JGCL logo is not registered as a trademark. If they are unable to protect the intellectual property rights, the business, financial condition and results of operations may be adversely affected.

- JGCL operates in a competitive industry. Any inability to compete effectively may lead to a lower market share or reduced operating margins

- Company's operations are heavily dependent on the rubber and tyre industry and there is a lack of diversification in the business across other Application Industries

- JGCL's business is heavily dependent on procurement of raw materials from overseas suppliers. The do not have long-term agreements with their suppliers of raw material and any increase in the cost of, or a shortfall in the availability of, such raw materials could have an adverse effect on the business and results of operations.

- A part of their manufacturing facility and the registered office premises, are being utilised by them on leasehold basis and they are subject to terms and conditions imposed on them by the lessor. In any event they are unable to renew such leasehold rights, the business, financial condition and results of operations may be adversely affected.

- JGCL is subject to certain risks consequent to the operations involving the manufacture, usage and storage of various hazardous substances.

- If any new products that they produce are not as successful as they anticipate, their business, cash flows, results of operations and financial conditions may be adversely affected.

- As a part of JGCL's Objects of the Offer, they intend to set up an R&D center at their Naidupeta Facility. JGCL has not incurred any identifiable expenses towards R&D in Fiscal 2023, Fiscal 2022 and Fiscal 2021 and the nine months period ended December 31, 2023.

- The extent to which the outbreak of COVID – 19 could have an impact on the business, results of operations and financial condition will depend on future developments, which are uncertain and cannot be predicted.

- There are pending litigations against the Company, their Subsidiary and certain of their directors. Any adverse decision in such proceedings may render the Company liable to liabilities/penalties and may adversely affect the business, results of operations and financial condition.

- Non-compliance with and changes in safety, health, environmental and labour laws and other applicable regulations, may adversely affect the business, financial condition and results of operations. Further, they may not be able to renew or maintain the statutory and regulatory permits and approvals required to operate the business.

- JGCL's manufacturing operations may be materially adversely affected by strikes, work stoppages or increased wage demands by the employees or those of their suppliers.

- JGCL had negative cash flows used in operating activities in the financial year ended March 31, 2021.

- Procurement of raw materials from overseas countries exposes the Company to risks relating to foreign exchange fluctuation and commodity pricing.

- Conditions and restrictions imposed on them by the agreements governing their indebtedness and their inability to meet the obligations, including financial and other covenants under their debt financing arrangements could adversely affect the business, results of operations and cash flows.

- JGCL's Promoters have provided guarantees in connection with their borrowings. Its business, financial condition, results of operations and prospects may be adversely affected by the revocation of all or any of the guarantees provided by their Promoters in connection with their Company's borrowings.

- JGCL had availed moratorium on their financial facilities.

- The demand of the products in foreign countries is subject to international market conditions and regulatory risks that could adversely affect their business, financial condition and results of operations.

- JGCL's Promoters and Promoter Group will, even after the culmination of this Offer, continue to be the largest Shareholders and can influence the outcome of resolutions, which may potentially involve conflicts of interest with the other Equity Shareholders.

- JGCL's success largely depends upon the knowledge and experience of their Promoters, Directors and the Senior Management as well as their ability to attract and retain skilled personnel. Any loss of their Directors, Senior Management or their ability to attract and retain them and other skilled personnel could adversely affect their business, financial condition and results of operations.

- JGCL requires various licenses and approvals for undertaking the businesses and the failure to obtain or retain such licenses or approvals in a timely manner, or at all, may adversely affect its operations.

- There has been an instance of delay in PF payment for the employees by their Company. They may be subject to regulatory actions or penalties for any such delay and its business, financial condition and reputation may be adversely affected.

- Any non-compliance or delay in RoC filings may expose them to penalties from the regulators.

- JGCL does not have long term agreements with their customers and relies on purchase orders for delivery of its products. Loss of one or more of their customers or a reduction in their demand for the products could adversely affect their business, results of operations and financial condition.

- JGCL is heavily dependent on machinery for their manufacturing operations. Any unscheduled, unplanned or prolonged disruption or break-down of their machinery could adversely affect the business, financial results and growth prospects.

- JGCL may experience loss of, or a decrease in, revenue due to lower manufacturing levels.

- The Company is dependent on third party transportation and logistics service providers. Any increase in the charges of these entities could adversely affect the business, results of operations and financial condition.

- JGCL is subject to strict quality requirements, regular inspections and audits, and sales of the product is dependent on the quality control and standards. Any failure to comply with quality standards may adversely affect its business prospects and financial performance, including cancellation of existing and future orders.

- Any adverse changes in regulations governing the business operations or products or the products of their end customers, may adversely impact their business, prospects, and results of operations.

- The objects of the Offer include funding long-term working capital requirements of the Company and investment in Material Subsidiary for its long-term working capital requirements which are based on certain assumptions and estimates.

- The amount of non-controlling interest in the audited consolidated Ind AS financial statements for the financial year ended March 31, 2022, has been revised in the Restated Consolidated Financial Information.

- JGCL's performance may be adversely affected if they do not manage their inventory or working capital successfully.

- Company's inability to successfully implement some or all the business strategies in a timely manner or at all could have an adverse effect on their business. Further, the inability to effectively manage any of these issues may adversely affect their business growth and, as a result, impact the businesses, financial condition and results of operations.

- If JGCL is unable to establish and maintain an effective internal controls and compliance system, their business and reputation could be adversely affected.

- Significant disruptions of information technology systems or breaches of data security could adversely affect their business.

Profit & Loss

Particulars (Rs in million)	9MFY24	FY23	FY22	FY21
Revenue from operations				
Revenue from operations	4863.2	7845.8	6128.3	4353.0
Interest Income				
Net gain on fair value changes				
Other Income	47.8	96.1	102.2	51.1
Total Income	**4911.0**	**7941.9**	**6230.5**	**4404.1**
Total Expenditure	**4581.6**	**7090.7**	**5566.7**	**3918.0**
Cost of Material Consumed consumed	4083.8	6369.0	5062.8	3454.5
Changes in inventories of Stock-in-trade	-31.4	-28.4	-109.3	30.5
Purchases of stock-in-trade	-	-	5.0	5.2
Employee Benefits Expenses	121.6	148.1	133.1	103.0
Other Expenses	407.5	602.0	475.1	324.8
PBIDT	**329.4**	**851.2**	**663.8**	**486.1**
Interest	30.0	49.8	62.5	50.7
PBDT	**299.4**	**801.3**	**601.3**	**435.4**
Depreciation and amortization	31.8	34.4	26.8	23.4
Exceptional Item				
PBT	**267.6**	**766.9**	**574.5**	**412.0**
Exceptional items	18.0			
Tax (incl. DT & FBT)	**64.5**	**199.0**	**143.2**	**124.0**
Current tax	65.7	192.8	145.1	105.1
Adjustment of tax relating to earlier periods	0.2	0.3	-0.1	16.9

Deferred tax Credit				
Deferred tax	-1.4	5.9	-1.8	1.9
PAT	**185.1**	**567.9**	**431.3**	**288.0**
EPS (Rs.)	5.6	17.3	12.6	7.4
Face Value	10.0	10.0	10.0	10.0
OPM (%)	5.8	9.6	9.2	10.0
PATM (%)	3.8	7.2	7.0	6.6

Balance Sheet

Particulars (Rs in million) As at	9MFY24	FY23	FY22	FY21
Non-current assets				
Property, plant and equipment	376.9	352.7	223.7	223.9
Capital work-in-progress	34.3	9.2	73.8	0.4
Right of use assets				
Goodwill	-	-	-	5.6
Intangible assets	0.2	0.1	0.2	0.3
Intangibles under development				
Goodwill				
Financial assets				
Investments	61.3	29.6	84.9	86.3
Other investments				
Loans				
Other financial assets	9.9	11.5	8.9	7.7
Deferred tax assets (net)	-	-	0.3	-
Income tax assets (net)	-	0.1	0.2	4.6
Other non-current assets	17.4	11.4	12.4	15.0
Total non-current assets	**500.0**	**414.6**	**404.3**	**343.6**
Current assets				
Inventories	764.4	1,038.5	882.7	486.4
Financial assets				
Investments	61.8	-	-	-
Trade receivables	943.2	1,156.1	947.7	898.0
Cash and cash equivalents	74.3	35.5	58.5	47.1
Other balances with Banks	0.2	13.1	22.1	4.5
Loans	-	18.4	17.6	19.5
Other financial assets	81.5	211.3	89.2	51.4
Other current assets	279.9	90.6	219.4	248.9
Current tax assets (net)	7.4	-	-	-
Total current assets	**2,212.7**	**2,563.4**	**2,237.2**	**1,755.7**
Assets held for sale				
Total assets	**2,712.6**	**2,977.9**	**2,641.4**	**2,099.4**
EQUITY & LIABILITIES				
Equity				
Equity share capital	317.2	317.2	12.2	12.2
Instruments entirely equity in nature				
Non Controlling interests	66.0	58.7	40.2	105.3
Other equity	1,941.9	1,759.4	1,514.0	1,072.6
Total equity	**2,325.1**	**2,135.3**	**1,566.4**	**1,190.0**
Liabilities				
Non-current Liabilities				
Financial Liabilities				
Borrowings	45.92	67.15	55.95	54.79
Lease liabilities	-	-	-	
Other financial liabilities	-	-	-	2.0
Provisions	3.9	2.9	2.4	1.8
Deferred tax liabilities (net)	6.6	5.9	-	1.2
Other non-current liabilities	-	-	-	-
Total non-current liabilities	**56.4**	**75.9**	**58.3**	**59.8**
Current liabilities				
Financial liabilities				

Borrowings	203.8	636.4	883.5	689.7
Lease liabilities				
Trade payables				
total outstanding dues of micro enterprises and small enterprises	5.7	7.7	9.8	2.7
total outstanding dues of creditors other than micro enterprise and small enterprise	57.3	76.0	43.3	69.2
Other financial liabilities	37.9	23.1	38.9	20.6
Other current liabilities	14.0	4.6	21.1	32.0
Provisions	12.4	12.6	11.4	9.5
Current tax liabilities (net)	-	6.3	8.7	25.8
Total current liabilities	**331.1**	**766.7**	**1,016.7**	**849.6**
Total liabilities	**387.5**	**842.6**	**1,075.0**	**909.3**
Total equity and liabilities	**2,712.6**	**2,977.9**	**2,641.4**	**2,099.4**