

KEYNOTE I P O N O T E

Omkar Speciality Chemicals Ltd.

January 24, 2011

Price Band	: ₹95 - 98per share
Minimum Bid Lot Size	: 60 Equity Shares
Maximum Bid Lot Size	: 2040 Equity Shares
IPO open during	: January 24 - 27, 2011
Book Running Lead Managers	: Almondz Global Securities Ltd.
To list on	: NSE & BSE
IPO Grading	: 3 / 5 (CARE)
PE	: 21.35x (based on base price)*
	: 22.02x (based on cap price)*
Market Cap post-listing	: ₹192.35Cr or \$42.28mn (based on the cap price)
Market Cap of Free-Float	: ₹79.38Cr or \$17.45mn (based on the cap price)

*based on FY10 EPS

IPO of 8.1mn equity shares of ₹10 each, aggregating to ₹79.38Cr or \$17.45mn (at the cap price).

Shareholding Pattern

Shareholder Categories	Pre-Issue		Post-Issue	
	No. of Shares	% Holding	No. of Shares	% Holding
Promoters & Promoters Group	11,528,000	100.0	11,528,000	58.7
QIBs excl. Mutual Funds	0	0	8,100,000	41.3
Mutual Funds	0	0		
Non-Institutional Investors	0	0		
Public	0	0		
Total	11,528,000	100.0	19,628,000	100.0

Note: The portion of the Issue, being not less than 35% of the net issue, or 28,35,000 equity shares at the issue price, available for allocation to retail bidders while not more than 50% of the net issue or 40,50,000 equity shares available for allocation to QIBs.

Executive Summary

- Omkar Speciality Chemicals Ltd. (OSCL) is engaged in the manufacture and sale of speciality chemicals viz. selenium compounds, iodine compounds, molybdenum compounds etc. and pharma intermediates viz. Potassium Iodate, Bismuth Ammonium Citrate, Bromoform etc.
- The products manufactured by OSCL find applications in various industries like pharmaceutical industry, chemical industry, glass industry, cosmetics, ceramic pigments and cattle & poultry feeds. Iodine & Selenium derivatives are key category of products of OSCL and contributing 88.23% to its gross sales during the year 2009-10.
- OSCL has four units situated at Badlapur, Maharashtra. At present, the company carries out its manufacturing activities at its two units, viz. Unit 1 & Unit 2. OSCL has recently set up a new manufacturing facility, Unit 3, at Badlapur, Maharashtra with an installed capacity of 200 MT. The commercial production at Unit 3 is likely to start in the month of March 2011. With the set up of Unit 3, total installed capacity will increase to 950 MT.
- OSCL a diverse customer base from different industry segments like pharmaceutical, chemical, glass, cosmetics, ceramic pigments, etc. Further, the company exports its products to various countries in Europe, Asia, North America, South America and Australia.
- OSCL constantly try to address customer needs around a spectrum of products. OSCL has existing client relationships in domestic and international markets from whom it gets repeat orders and gave a competitive advantage in gaining new clients and increasing its business.

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- OSCL has developed processes for manufacture of products in a cost effective manner. Its R&D team is continuously working on the processes for its existing products in order to improve the production with optimum utilization of resources and cost saving.

Company Background

Omkar Speciality Chemicals Ltd. (OSCL) was incorporated in February 2005 as Omkar Speciality Chemicals Pvt. Ltd. OSCL converted into a public limited company and changed its name to Omkar Speciality Chemicals Ltd. in March 2010.

OSCL took over the business of Omkar Chemicals, a proprietary concern in June, 2005. At the time of takeover in June, 2005, the installed capacity of the company was 318 MT and the product range was cobalt, selenium & iodine derivatives in addition to molybdenum derivatives.

OSCL has recently set up a new manufacturing facility, Unit-3, at Thane, Maharashtra with an installed capacity of 200 MT. The commercial production at Unit-3 is likely to start in the month of March, 2011. With the set up of Unit-3, total installed capacity will increase to 950 MT.

Promoters and Management

Mr. Pravin Herlekar is one of the promoters of the company and is currently the Chairman and Managing Director of OSCL. He has an overall experience of 27 years in the field of product development, marketing and administration. He has been actively involved in the business of OSCL and has played a key role in the growth of the company with his inputs in strategic planning and business development. Over the years he has been successful in expanding its customer base especially in Europe, North America, Asia, South America & Australia.

Mr. Omkar Herlekar is one of the promoters and the Whole Time Director of OSCL. He has an overall experience of 3 years in OSCL and he looks after the Research & Development activities and supervises the entire factory operations of the company. He is actively involved in the setting up and implementation of the new manufacturing units.

Industry Overview

Indian Chemicals Industry

The chemical industry in India is one of the most diversified and matured of all industrial sectors with thousands of commercial products, which contributing approximately 3% to the India's GDP. The industry primarily consists of basic chemicals and its products, petrochemicals, agrochemicals, speciality chemicals, pharmaceuticals & biotech, paints & varnishes, dyestuff & inks, alco-chemicals, etc.

Based on inherent advantages like low cost labour and abundance of basic raw materials, Indian chemical players produces a large number of fine and speciality chemicals which have specific applications and find wide usage as food additives, pharmaceutical intermediates, toiletries, derivative products and anti-oxidants which can have multiple applications.

The overall chemical exports market from India grew at a CAGR of 21% from FY04 to FY09 while the overall chemical import market grew at a CAGR of 24.3% during the same period. The export growth over the period was quite impressive on the back of global economic slowdown and depreciation of the Indian Rupee vis-à-vis the USD.

Speciality Chemicals Industry

Speciality chemicals is generally described as a group of relatively high value, low volume chemicals known for their end user applications and catalysing properties. In India, the industry is recording a rapid growth of approximate 15% y-o-y which includes fine chemicals, organic chemicals and pharmaceutical intermediates. The usage of speciality chemicals is found in multitude of industries like textiles, paints, inks, plastics, adhesives, flavours/fragrances and also in paper industry. Extensive applications are also found in construction, automotive, electronics and water treatments whereas Active Pharmaceutical Ingredients (API) constitutes the largest segment of the speciality chemical industry.

The industry size is about US\$15 bn and this growth momentum is backed by cost efficiency and a large pool of engineers & scientists whose emphasis and expertise on R&D is leading to new discoveries.

API's are the key ingredients for making drugs and India's emergence as a hub for manufacturing of pharmaceuticals (APIs) has been the key driver for the growth in the speciality chemicals market. Approximately 90% of the total APIs produced in India is exported to Europe, the US and Japan. With the increase in outsourcing to India by MNCs, the exports market is expected to be the key growth driver of the Indian API market.

Speciality chemicals are primarily a group of high value and low volume chemicals that have a specific end use application and/ or catalyzing properties. The key characteristics are:

- High levels of customization of products are required due to very specific applications.
- Speciality chemicals industry is highly knowledge driven and continuous efforts are required to enhance product, process and application development to stay ahead in the industry.
- There needs to be flexibility and adaptability in manufacturing process as quick turnaround maybe required depending on different product orders or cost considerations.
- Price sensitivity in speciality chemicals industry is limited since it constitutes only a small portion of the customers total costs compared to the performance delivered.

Indian Pharmaceutical Industry

The Indian Pharmaceutical Industry (IPI) has grown to a \$20bn backed by robust growth in terms of infrastructure development, technology base and a wide range of products. It is now the 3rd largest in the world in terms of volume and 14th largest in terms of value thereby accounting for around 10% of world's production by volume and 2% by value due to lower prices. The industry now produces about 400 bulk drugs (APIs) and almost entire range of formulations belonging to all major therapeutic groups requiring complex manufacturing technologies.

The industry has been growing at a healthy rate of 11-12% y-o-y over the last few years with growth in exports outstripping steady growth in the domestic market. Export market which constitutes 41% of the total IPI/API sales in FY09 has shown a robust growth rate of nearly 22% y-o-y over the five year period ending FY09. Approximately 55% of the total exports constitute of formulations and the other 45% comprises of

bulk drugs. Indian exports are destined to more than 200 countries around the globe including highly regulated markets of US (21%), Europe (24%), Japan and Australia.

Pharmaceutical Intermediates Market

A pharmaceutical intermediate is defined as a substance produced during the steps in the synthesis of an API which undergoes further molecular changes or purification before it becomes an API. Every reaction step may give rise to one or more intermediates, which may or may not be isolated at that stage. Pharmaceutical intermediates include both basic intermediates (building block chemicals for the pharma industry) and advanced intermediates (those that are 2 to 3 steps away from the bulk drug). Pharmaceutical speciality chemicals typically constitute both API's and intermediates. Some of the key drivers for the increase in demand of pharma intermediates are:

- Growth in outsourcing of pharma intermediates production to India
- Large number of patent expiries leading to advent of generic drugs
- Higher spending on R&D leading to new demand
- Several new drug development in pipeline in different therapeutic areas
- Constant demand for innovative therapies and manufacturing technologies

Business Operations

Omkar Speciality Chemicals Ltd. (OSCL) is engaged in the manufacture and sale of speciality chemicals viz. selenium compounds, iodine compounds, molybdenum compounds etc. and pharma intermediates viz. Potassium Iodate, Bismuth Ammonium Citrate, Bromoform etc.

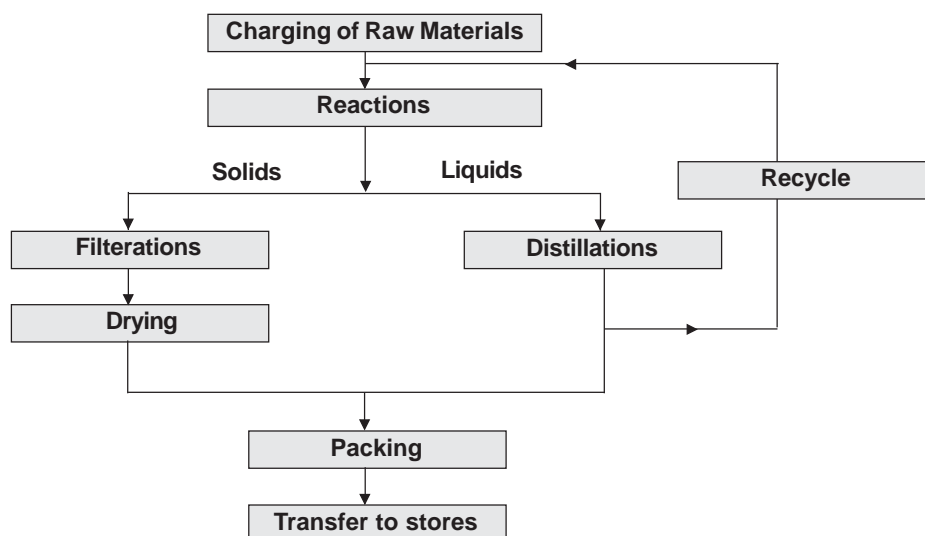
OSCL is primarily involved in the production of speciality chemicals and pharma intermediates. It manufactures a range of organic, inorganic and organo inorganic intermediates. The inorganic intermediates include Molybdenum derivatives, Selenium derivatives, Iodine derivatives, Cobalt derivatives, Bismuth & Tungsten derivatives and the organic intermediates include Tartaric acid derivatives and other intermediates. These products find applications in various industries like pharmaceutical industry, chemical industry, glass industry, cosmetics, ceramic pigments and cattle & poultry feeds. Iodine & Selenium derivatives are key category of products of OSCL and contributing 88.23% to its gross sales during the year 2009-10.

OSCL has four units situated at Badlapur, Maharashtra. At present, the company carries out its manufacturing activities at its two units, viz. Unit 1 & Unit 2. OSCL has recently set up a new manufacturing facility, Unit 3, at Badlapur, Maharashtra with an installed capacity of 200 MT. The commercial production at Unit 3 is likely to start in the month of March 2011. With the set up of Unit 3, total installed capacity will increase to 950 MT.

OSCL is exporting its products to Europe, North America, Asia, South America and Australia. The total exports constituted 8.69%, 12.35% and 7.97% of gross sales during FY08, FY09 and FY10, respectively.

The company carries out its research & development activities at Badlapur, Maharashtra for improving the quality of existing products and development of new processes for the existing products.

Manufacturing Process



Strengths

Multi product capability

OSCL has a diverse product range comprising a mix of organic, inorganic and organo inorganic intermediates. Its product portfolio comprises of more than 90 products in these segments. The products include inorganic intermediates like derivatives of Molybdenum, Selenium, Iodine, Cobalt, Bismuth and Tungsten; organic intermediates like Tartaric acid derivatives and various other organo inorganic intermediates like Iodobenzene Diacetate, Dess Martin Periodinane, Vanadyl Sulphate etc. The company has manufacturing facilities which can produce multiple products using a combination of processes. The manufacturing infrastructure helps the company to change its product mix in response to changes in market demand. The diverse product mix enables the company to address a larger base of potential new customers in addition to its existing customers.

Customer base

OSCL a diverse customer base from different industry segments like pharmaceutical, chemical, glass, cosmetics, ceramic pigments, etc. Further, the company exports its products to various countries in Europe, Asia, North America, South America and Australia. OSCL focus on expanding its customer base by catering to the requirements of customers from various industry segments.

Existing Client Relationship

OSCL constantly try to address customer needs around a spectrum of products. OSCL has existing client relationships in domestic and international markets from whom it gets repeat orders and gave a competitive advantage in gaining new clients and increasing its business.

Cost advantage

OSCL has developed processes for manufacture of products in a cost effective manner. Its R&D team is continuously working on the processes for its existing products in order to improve the production with optimum utilization of resources and cost saving. This provides the company a competitive edge over others and helps the company to widen its customer base.

Quality control

OSCL has quality control departments at its Unit 1 and Unit 2 each, the activities of which comprise of collection and preparation of samples, testing of raw materials and other process inputs inspection, testing and quality certification of finished products, preparation of technical information sheet and issue of certificate of analysis. The quality control laboratory is equipped with various equipments such as high performance liquid chromatographs (HPLC), gas chromatographs (GCs), vacuum dryer, sonicator, atomic absorption spectroscopy (AAS), spectrophotometer, etc. Unit 2 of the company has been granted ISO 9001:2008 for its quality management systems.

Experienced management team

OSCL is managed by a team of experienced and professional personnel with exposure in various aspects of speciality chemicals and pharma intermediates including production, research & development, marketing and finance.

Objects of the Issue

The objects of the issue are:

- Setting up of new manufacturing facility at Unit 4 at Badlapur, Maharashtra;
- Expansion of existing manufacturing facilities at Unit 1, Unit 2 & Unit 3 at Badlapur, Maharashtra;
- Meeting Working Capital requirements;
- General corporate purposes and
- Issue expenses

Utilisation of Net Proceeds	(₹Cr)
Setting up of new manufacturing facility at Unit 4 at Badlapur, Maharashtra	32.16
Expansion of existing manufacturing facilities at Unit 1, Unit 2 & Unit 3 at Badlapur, Maharashtra	14.62
Meeting Working Capital requirements	10.00
General corporate purposes	[•]
Issue expenses	[•]
Total	[•]

Investment Risks

(Please refer to the RHP for a complete listing of risk factors)

- OSCL has not entered into any supply agreement for the major raw materials required for manufacturing of its products and are exposed to risks relating to fluctuation in global commodity prices and shortage of raw material.
- Any delay or non-receipt of certain regulatory licenses or approvals by the company could adversely affect the implementation schedule which may adversely affect its growth plans.
- The business of OSCL is subject to high working capital requirements and inability to fund these requirements in a timely manner may adversely impact the financial performance of the company.

K E Y N O T E

- All present and proposed manufacturing facilities of OSL are geographically located in one area and therefore, any localized social unrest, natural disaster or breakdown of services or any other natural disaster in and around could have material adverse effect on its business and financial condition.
- Any inability to maintain quality standards or keep pace with the technological development could adversely impact OSL's business, results of operations and financial conditions.

Restated Profit & Loss Statements

(₹Cr)

Period ended on	31-Mar-06	31-Mar-07	31-Mar-08	31-Mar-09	31-Mar-10	30-Sep-10
Income						
Products manufactured	26.17	38.71	42.12	52.07	69.34	47.22
Products traded	0.28	2.28	3.59	2.29	2.97	7.40
Gross Sales	26.45	40.99	45.71	54.36	72.31	54.62
Excise Duty	2.48	3.95	4.26	3.35	3.96	3.51
Net Sales	23.97	37.04	41.46	51.01	68.35	51.11
Other Income	0.06	0.27	0.25	0.02	0.27	0.04
Inc./ (Dec.) stock of Finished Goods	0.00	0.00	1.59	-0.39	0.30	0.41
Total Income	24.03	37.32	43.29	50.65	68.92	51.56
Expenditure						
Materials Consumed	17.38	25.77	27.14	31.66	44.02	29.40
Other Manufacturing Overheads	1.62	2.63	3.28	3.81	4.03	2.47
Employee Costs	1.31	1.37	2.53	2.79	3.41	1.42
Cost of Goods Traded	0.23	1.85	3.00	1.69	2.17	6.82
Admin. Selling & Dist. Costs	0.58	0.93	1.04	1.71	2.21	1.29
Interest / Financial Charges	0.82	1.57	2.10	3.60	3.74	1.93
Depreciation and Amortization	0.05	0.15	0.26	0.51	1.81	0.89
Total Expenditure	21.98	34.27	39.35	45.78	61.39	44.22
Net Profit before tax	2.05	3.05	3.94	4.87	7.53	7.34
Provision for Taxation	0.69	1.12	1.34	1.55	2.12	2.19
Provision for Fringe Benefit Tax	0.01	0.01	0.01	0.02	0.00	0.00
Provision for Deferred Tax	-0.01	-0.01	0.01	0.17	0.28	0.10
Net Profit after tax	1.37	1.94	2.58	3.13	5.13	5.05
EBITDA margin (%)	8.56	8.23	9.50	9.55	11.02	14.36
EPS (₹)	1.19	1.68	2.24	2.72	4.45	4.38
Book Value (₹)	3.29	4.97	7.22	9.93	13.81	17.74

Restated Balance Sheets

(₹Cr)

As at,	31-Mar-06	31-Mar-07	31-Mar-08	31-Mar-09	31-Mar-10	30-Sep-10
Fixed Assets						
Gross Block	0.91	1.55	2.65	15.89	18.39	18.96
Less : Depreciation	0.05	0.20	0.46	0.97	2.79	3.67
Add: Capital Work In Process	0.00	0.92	4.51	0.00	0.58	3.88
Net Block	0.86	2.28	6.70	14.91	16.18	19.17
Investments	0.00	0.00	0.00	0.00	0.00	1.30
Current Assets Loans and Advances						
Inventories	4.63	8.24	7.93	15.24	19.48	27.21
Receivables / Sundry Debtors	7.05	5.00	7.92	14.97	16.58	24.47
Cash and Bank Balances	0.05	0.40	0.34	0.21	0.42	0.38
Loans and Advances	1.94	5.53	4.93	5.05	8.58	9.26
Total	13.68	19.18	21.12	35.47	45.06	61.31
Total Assets	14.54	21.46	27.82	50.38	61.24	81.78
Liabilities and Provisions						
Secured Loans	7.22	7.80	10.10	19.92	25.19	24.71
Unsecured Loans	0.44	3.27	3.96	6.17	1.58	8.62
Current Liabilities and provisions	3.10	4.68	5.45	12.70	18.12	27.47
Deferred Tax Liability/Asset	-0.01	-0.03	-0.02	0.15	0.43	0.53
Total	10.75	15.73	19.50	38.93	45.32	61.33
Net Worth	3.79	5.73	8.32	11.45	15.92	20.45
Net Worth, represented by						
Share Capital	0.26	0.26	0.26	0.26	11.53	11.53
Reserve & Surplus	3.54	5.48	8.06	11.19	4.40	9.44
Miscellaneous Exp. not W/O	0.01	0.01	0.01	0.00	0.00	0.52
Net Worth	3.79	5.73	8.32	11.45	15.92	20.45

Keynote Capitals Ltd.

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