



## IPO Report

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15<sup>th</sup> July 21

### Snapshot

Tatva Chintan is among the key players in the specialty chemicals segment, with its range of products finding applications among the high growth segments. Engaged in manufacturing of a variety of Disinfectants, Catalysts, Agro and Pharmaceuticals intermediates and other specialty intermediates, Tatva Chintan has a good product mix across sectors of Agrochemicals, Pharmaceuticals, Personal care, etc.

### VALUATION

Company is bringing the issue at price band of Rs 1073-1083 per share at p/e multiple of 42.06 on post issue FY21 basis. Company being one of the leading global producers of an entire range of PTCs in India and one of the key producers across the globe with wide customer base has strong future prospects. Looking after all above we recommend "Subscribe" this issue for listing gain & long term purpose.

<b>Price Band (Rs./Share)</b>	<b>1073-1083</b>
<b>Opening date of the issue</b>	16 <sup>th</sup> July'21
<b>Closing Date of the issue</b>	20 <sup>th</sup> July'21
<b>No of shares pre issue</b>	20087500 Eq Shares
<b>Issue size (Rs. Cr)</b>	Rs 500 Cr
<b>Fresh Issue</b>	Rs 225 Cr
<b>Offer For Sale (No)</b>	Rs 275 Cr
<b>Face Value (Rs/ share)</b>	10
<b>Bid Lot</b>	13

### BIDDING DETAILS

<b>QIBs (Including Anchor)</b>	50% of the offer (Approx 2308401 Shares)
<b>Non-Institutional</b>	15% of the offer (Approx. 692521 Shares)
<b>Retail</b>	35% of the offer (Approx. 1615882 Shares)
<b>Lead managers</b>	ICICI Securities, JM Financial Ltd
<b>Registrar to the issue</b>	Link Intime India Private Ltd.

## WHAT WE LIKE

### Strong Clientele

Company's customers include Merck, Bayer AG, Asian Paints Ltd., Ipox Chemicals KFT, Laurus Labs Ltd., Tosoh Asia Pte. Ltd., SRF Limited, Navin Fluorine International Limited, Oriental Aromatics Ltd., Atul Limited, Otsuka Chemical (i) Pvt Ltd., Meghmani Organics Limited, Divi's Laboratories Limited, Hawks Chemical Company Limited, Firmenich Aromatics Prod.(I) Pvt. Ltd., Jiangsu Guotai Super Power New Materials Co., Ltd. and Jade Chem Co. Ltd.

### Healthy Financials

Company have been able to increase its total revenue and profit after tax from Fiscal 2019 to Fiscal 2021 at a CAGR of 21.70% and 59.50% respectively. Company's EBITDA has grown to ₹ 716.35 million for Fiscal 2021 from ₹ 342.96 million for Fiscal 2019. In the Fiscals ended 2019, 2020, and 2021, company's ROCE was 26.36%, 31.96%, and 32.98%, respectively. In the Fiscals ended 2019, 2020, and 2021, company's ROE was 25.78%, 32.11%, and 31.49% respectively.

### Strong R&D capabilities

Company's R&D efforts are mainly focused on development of new products, improvement of company's existing production processes, adoption of advance production technology, and improvement of the quality of company's existing products. These capabilities enable company to explore, among others, green and continuous flow chemistry processes which may give company a competitive edge in future. Of the products developed in last 10 years, 82 products have been successfully commercialized so far. Further, 82 products have been developed by company since March 31, 2011, and these products have contributed to 23.65%, 20.75%, and 12.88% of company's total revenue, in Fiscals 2021, 2020, and 2019, respectively.



## COMPANY BACKGROUND

Tatva Chintan Ltd is a specialty chemicals manufacturing company engaged in the manufacture of a diverse portfolio of structure directing agents (“SDAs”), phase transfer catalysts (“PTCs”), electrolyte salts for super capacitor batteries and pharmaceutical and agrochemical intermediates and other specialty chemicals (“PASC”). Company is the largest and only commercial manufacturer of SDAs for zeolites in India. It also enjoys the second largest position globally. In addition, company is one of the leading global producers of an entire range of PTCs in India and one of the key producers across the globe.

Company’s products can be divided into four primary product segments – (i) structure directing agents (ii) phase transfer catalysts; (iii) electrolyte salts for super capacitor batteries and (iv) pharmaceutical and agrochemical intermediates and other specialty chemicals. Company, which was incorporated on June 12, 1996, currently operates through two manufacturing facilities situated at Ankleshwar and Dahej in Gujarat, both of which are strategically located very close to the Hazira port. These manufacturing facilities have an annual installed reactor capacity of 280 KL and 17 Assembly Lines, as on March 31, 2021. As on March 31, 2021, company manufactured over 154 products which can be divided into the following four broad categories:

- **Structure Directing Agents:** Company’s SDAs are quarternary salts which are chemicals which helps in the formation of particular channels and pores during the synthesis of zeolites. Zeolites have varied applications including as catalysts and adsorbents. In particular, zeolites promoted with transition metals such as copper and iron have been proven to be active for the selective catalytic reduction, which is currently considered as one of the preferred technologies for emission control in automotive applications.

- **Phase Transfer Catalysts:** Company’s PTCs are used to facilitate the migration of a reactant from one phase into another phase where the reaction occurs, in a heterogeneous multi-phase system. PTCs are used for a variety of industrial processes. Phase transfer catalysts are widely used in green chemistry applications. Therefore, the increasing global focus of the chemical industry on reducing residual waste and reducing the use of organic solvents is boosting the market for catalysts for phase transfer.

- **Electrolyte salts for super capacitor batteries:** Company’s electrolyte salts are used in the manufacture of super capacitor batteries, which are used in automobile batteries and other batteries. Company is the largest producer of electrolyte salts for super capacitor batteries in India.

- **Pharmaceutical and agrochemical intermediates and other specialty chemicals:** The products manufactured by company under this category are used in the manufacture of various pharmaceutical and agrochemical products as intermediates, disinfectants and catalysts, and solvents. In addition, company also manufacture specialty chemicals under this category that are used in dyes and pigments, personal care ingredients, flavour and fragrance sectors.

Company have a dedicated R&D facility that is recognized by the Department of Scientific and Industrial Research (“DSIR”), Government of India, at Vadodara, Gujarat, with state-of-the-art research and development infrastructure

The table below sets out company’s total return / rejection of its products as a percentage of company’s consolidated sales attributable to such products, during the Fiscals 2019, 2020, and 2021:

	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>Average of Products</b>
SDAs	NIL	0.14%	0.00%	0.06%
PTCs	0.50%	0.72%	0.30%	0.50%
Electrolyte salts for super capacitor batteries	Nil	Nil	Nil	Nil
PASC	0.05%	0.34%	0.14%	0.17%
<b>Total products returned/rejected as a percentage of consolidated sales</b>	<b>0.23%</b>	<b>0.37%</b>	<b>0.13%</b>	<b>0.24%</b>



## INVESTMENT RATIONALE

### Leading manufacturer of structure directing agents and phase transfer catalysts, with consistent quality

Company's key chemistries and products are gaining importance in the global market. The global production of tetramethyl ammonium hydroxide was valued at around USD 1.2 billion in 2019. Having multiple applications, to inhibit nanoparticle aggregation, the tetramethyl ammonium hydroxide market is expected to grow at over 7% CAGR through 2020-25F with Korea and China dominating the market. However, with just 2-3 players in the domestic market, company stands an opportunity to expand and explore the global market. The SDA market remains highly consolidated with a handful of players operating at the global level. Opportunities in the automotive industry continue to grow, as compliance with the regulations regarding the emission control in commercial vehicles becomes a mandate worldwide. Company has managed to build a market for itself in India and across the globe with its in-depth knowledge of the chemistry. On a domestic level, the company is the only manufacturer in India. Company have developed its technology to ensure production of high purity SDAs with PPM level of impurities.

### Global presence with a wide customer base across various industries having high entry barriers

Company supply its products to customers in India and export its products to over 25 countries, including the USA, China, Germany, Japan, South Africa and the UK. Company also have two wholly owned subsidiaries in the USA and Netherlands, to facilitate company's overseas operations.

### Modern manufacturing facilities with a focus on 'green' chemistry processes

Company's 'green' chemistry are based on the principles of clean chemistry, minimum requirement of auxiliary substances, minimum waste and by-products and safe chemistry. In electrolysis process, apart from the single starting raw material, the process largely uses only water and electricity to produce the target product. Since company do not use any additional solvents or other chemicals in this process to make the target product, company do not generate any additional waste or by-products. By deploying electrolysis for the manufacture of its products, company achieve the lowest possible process mass intensity. In addition, company have successfully converted its Ankleshwar Manufacturing Facility into a 'zero liquid effluent discharge' facility from January 2020. Company have achieved this through various means, which includes recovering all the waste water generated by the facility and reusing it as required. Company's effluent treatment plant and multi-effect evaporators, supported by a reverse osmosis effluent treatment plant also helped the Ankleshwar Manufacturing Facility achieve the 'zero liquid effluent discharge' status. Company also use PNG as the boiler fuel at Ankleshwar Manufacturing Facility, and low sulphur LDO as boiler fuel at Dahej Manufacturing Facility. Company, over the years, has focused on sustainable supply chain solutions by managing the entire value chain. Its sustainability performance as audited by *Ecovadis* has been above the industry average score on their sustainability performance towards the environment and procurement.



## OBJECTS OF ISSUE

Company proposes to utilise the net proceeds from the fresh Issue towards funding the following objects:

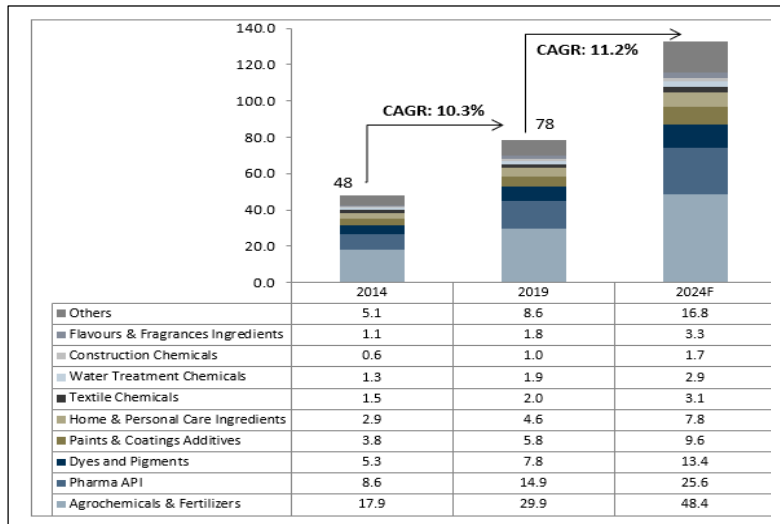
1. Funding capital expenditure requirements for expansion of company's Dahej Manufacturing Facility;
2. Funding capital expenditure requirements for upgradation at company's R&D facility in Vadodara;

## RISKS

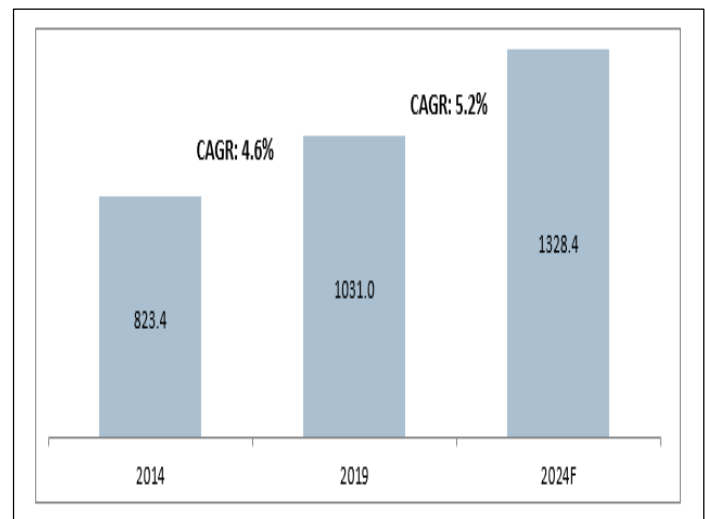
Company's manufacturing facilities are located in Ankleshwar and Dahej in Gujarat. Consequently, any significant social, political or economic disruption, or natural calamities or civil disruptions in this region, or changes in the policies of the state or local governments of this region or the Government of India, may require company to suspend its operations, either temporarily or permanently, incur significant capital expenditure and change company's business strategy.

## INDUSTRY OVERVIEW

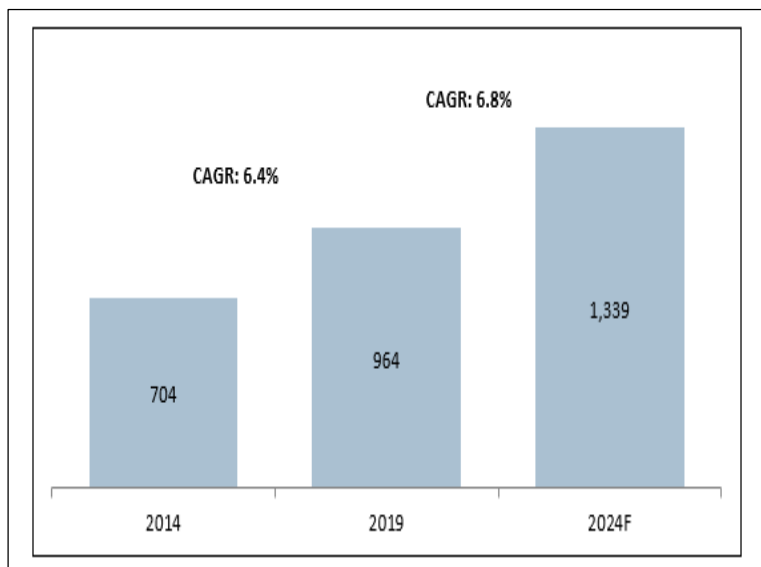
**Indian Specialty Chemicals Market, Value (USD Bn), 2014, 2019 and 2024F**



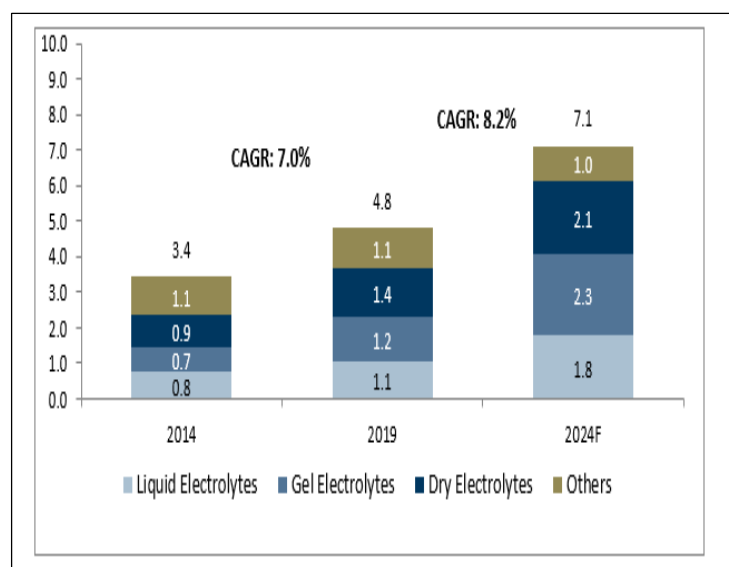
**Global Phase Transfer Catalysts, Growth Trend, 2014, 2019, 2024F (USD Mn)**



**Global Quats (Quaternary Ammonium Compounds) Market, 2014, 2019, 2024F (USD Mn)**

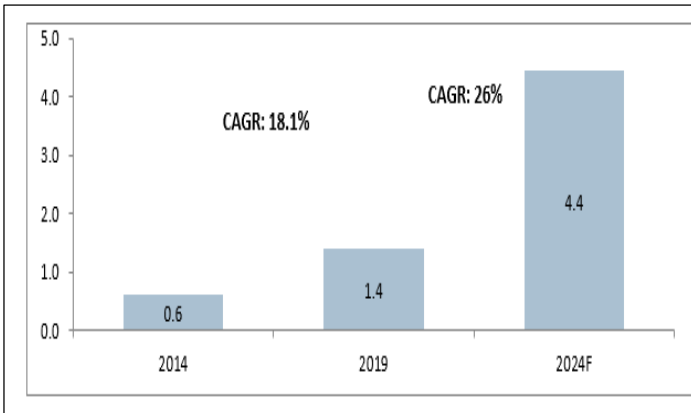


**Global Battery Electrolyte Market, Growth Trend, 2014, 2019, 2024F (USD Bn)**

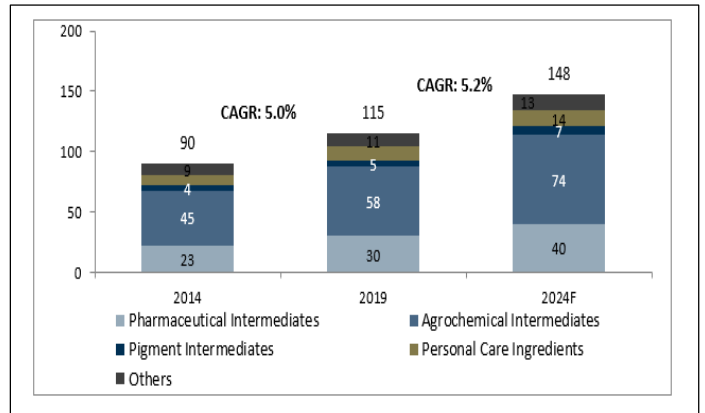




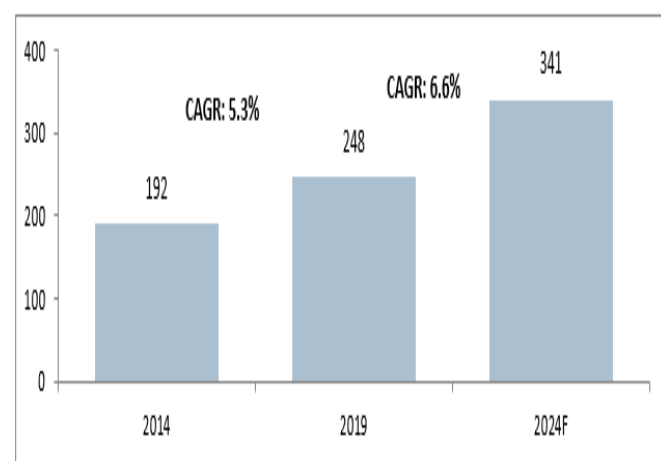
**Global Super-Capacitor Market, Growth Trend, 2014, 2019, 2024F (USD Bn)**



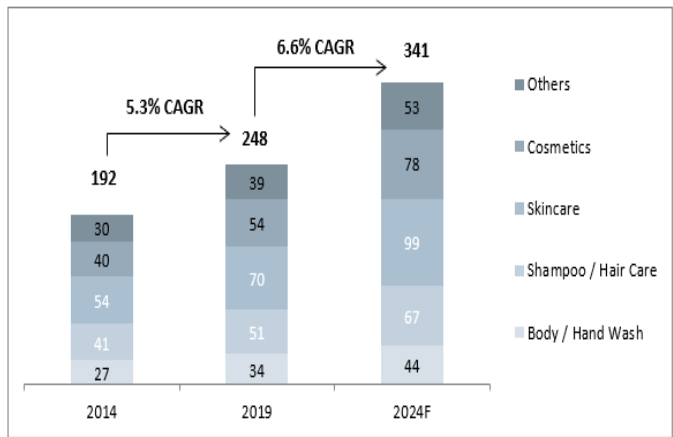
**Global Specialty Intermediates Market, Growth Trend, 2014, 2019, 2024F (USD Bn)**



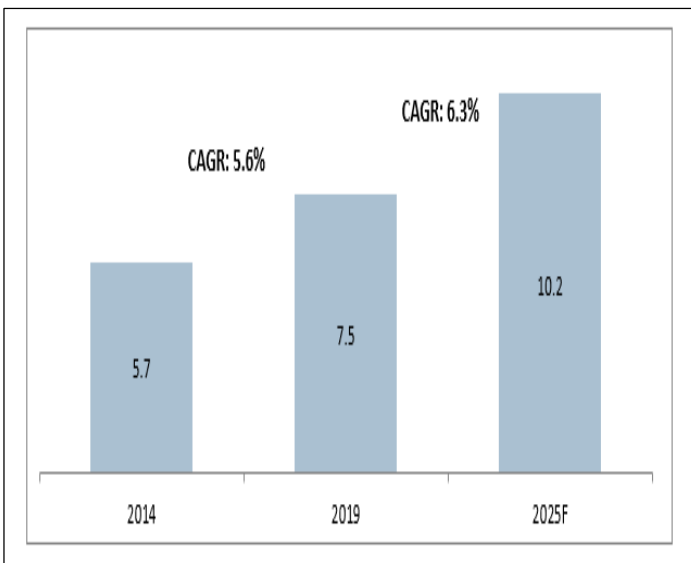
**Global Personal Care Market Overview (USD Bn)**



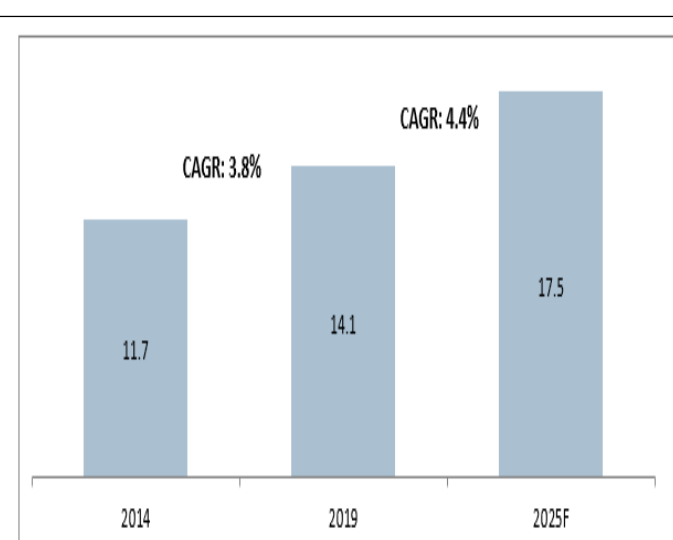
**Global Personal Care Market Forecast, Value (USD Bn), 2014, 2019 and 2024F**



**Global Epoxy Resin Market, Growth Trend, 2014, 2019, 2024F (USD Bn)**



**Global Speciality Amines Market, Growth Trend, 2014, 2019, 2024F (USD Bn)**



Source :RHP


**Financials**

(Rs. In Mn)

Balance Sheet	FY19	FY20	FY21
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' Funds</b>			
Share Capital	80.35	80.35	200.88
Reserves & Surplus	716.65	1096.59	1458.76
<b>Total (A)</b>	<b>797</b>	<b>1176.94</b>	<b>1659.64</b>
<b>Non-Current Liabilities</b>			
Long Term Borrowings	315.19	387.09	267.63
Deferred Tax Liabilities (Net)	33.08	44.55	20.78
Provisions	2.94	4.04	5.52
Other Non Current Liabilities	0.35	0.26	14.31
<b>Total (B)</b>	<b>351.56</b>	<b>435.94</b>	<b>308.24</b>
<b>Current Liabilities</b>			
Short Term Borrowings	399.09	404.89	492.94
Trade Payables	221.34	316.13	474.77
Other Current Liabilities	105.74	154.86	204.47
Short Term Provisions	0.35	0.62	1.09
<b>Total (C)</b>	<b>726.52</b>	<b>876.5</b>	<b>1173.27</b>
<b>Total (A+B+C)</b>	<b>1875.08</b>	<b>2489.38</b>	<b>3141.15</b>
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, Plant & Equipment	544.61	991.65	1085.08
Capital WIP	60.36	48.92	98.11
Rights of use assets	121.14	118.95	118.43
Intangible Assets	1.38	1.2	0.95
Other Non-Current Assets	3.75	1.67	2.96
<b>Total (A)</b>	<b>731.24</b>	<b>1162.39</b>	<b>1305.53</b>
<b>Current Assets</b>			
Investments	0	0	0
Trade Receivables	412.57	495.71	907.43
Cash and Cash equivalents	151	101.56	44.1
Other Financial Assets	96.28	17.683	19.96
Short-Term Loans and Advances	14.45	16.79	19.03
Inventories	355.9	635.55	720.19
Other Current Assets	113.64	59.73	131.08
<b>Total (B)</b>	<b>1143.84</b>	<b>1327.023</b>	<b>1841.79</b>
<b>Total (A+B)</b>	<b>1875.08</b>	<b>2489.41</b>	<b>3147.32</b>



(Rs in Mn)

P&L	FY19	FY20	FY21
Total Revenue (A)	2063.07	2632.39	3003.59
Total Expenditure (B)	1725.05	2082.87	2346.57
EBIDTA	338.02	549.52	657.02
EBIDTA Margin	16.38	20.88	21.87
Other Income	4.94	13.83	59.33
Depreciation	40.18	47.93	67.32
EBIT	302.78	515.42	649.03
Interest	36.34	39.45	42.07
PBT	266.44	475.97	606.96
E/O Items	-7.49	0.00	0.00
Tax	68.50	98.08	84.34
PAT	205.43	377.89	522.62
NPM	9.96	14.36	17.40
ROE %	25.78	32.11	31.49
EPS	10.23	18.81	26.02
BV	39.67	58.58	82.62

## PEERS ANALYSIS

Following is peer group analysis:

Company	Total Income (Rs Mn)	EPS	RONW	NAV Per Share
<b>Tatva Chintan</b>	<b>3062.92</b>	<b>26.02</b>	<b>31.49</b>	<b>82.62</b>
Aarti Industries	45068.00	30.04	15.23	96.97
Navin Flourine	12584.37	51.96	15.76	33.01
Alkyl Amines	12493.89	144.30	37.27	38.82
Vinati Organics	9801.02	26.20	17.45	15.02
Fine Organics	11503.16	39.25	16.45	23.86

Source: RHP



(Rs in Mn)

<b>Cash Flow Statement</b>	<b>FY19</b>	<b>FY20</b>	<b>FY19</b>
<b>(A) Cash Flow from operating Activities:</b>	73.56	253.12	243.19
<b>B) Cash Flow From Investing Activities:</b>	(167.70)	(401.80)	(210.06)
<b>C) Cash Flow From Financing Activities:</b>	173.99	99.52	(88.01)
Net increase/(Decrease) in cash & cash equivalents(A+B+C)	79.85	(49.16)	(54.88)
Cash equivalents at the beginning of the year	77.6	157.45	108.29
<b>Cash equivalents at the end of the year</b>	<b>157.45</b>	<b>108.29</b>	<b>53.41</b>





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**Tatva Chintan Pharma Chem Ltd**