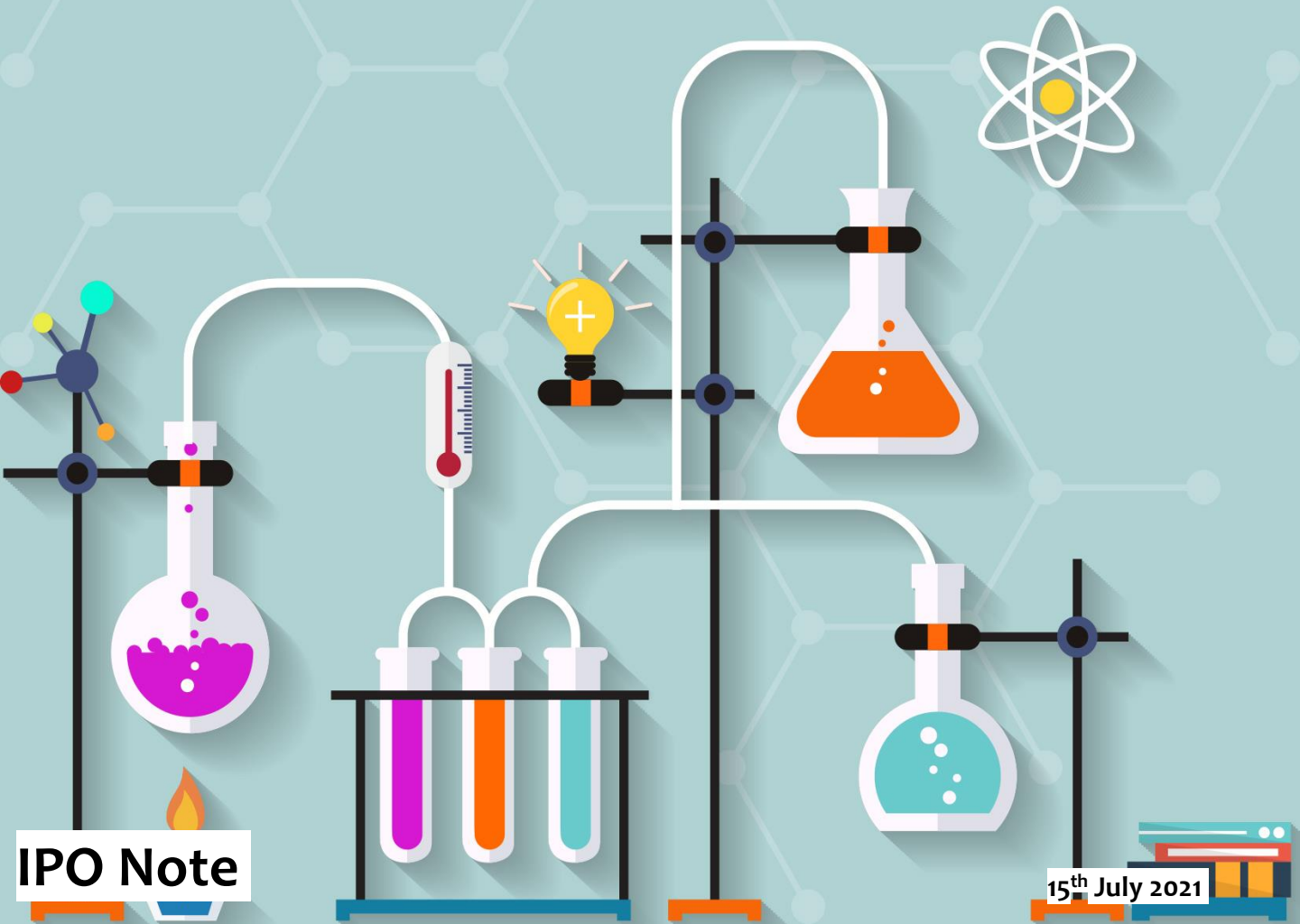


Tatva Chintan Pharma Chem Limited



Tatva Chintan Pharma Chem Limited

Issue Opens On
July 16, 2021

Issue Closes On
July 20, 2021

Price Band (INR)
1073 – 1083

Issue Size (INR Cr)
500

Rating
SUBSCRIBE

Tatva Chintan Pharma Chem Limited (“TCPC”) is a specialty chemicals manufacturer dealing with a variety of products including structure directing agents (“SDAs”), phase transfer catalysts (“PTCs”), pharmaceutical and agrochemical intermediates, and other specialty chemicals (“PASCs”). It is the largest and only commercial manufacturer of SDAs for Zeolites in India (second globally). TCPC’s products, totalling over 154, have wide applications across automotive, petroleum, agrochemicals, dyes and pigments, paints and coatings, pharmaceutical and personal care. It exports to over 25 countries which contributed over 70% of total revenues from operations for FY 2021. Revenues have grown at a CAGR of 21.7% over last 2 years, while the EBITDA margins have improved by 600bps to 23% over the same period.

OFFER STRUCTURE

Particulars	IPO Details
No. of shares under IPO (#)	46,16,805
Net offer (# shares)	46,16,805
Price band (INR)	1073-1083
Post issue MCAP (INR Cr.)	2400

Source: IPO Prospectus

Indicative Timetable	
Offer Closing Date	July 20, 2021
Finalization of Basis of Allotment with Stock Exchange	On or about 26 th July 2021
Initiation of Refunds	On or about 27 th July 2021
Credit of Equity Shares to Demat accounts	On or about 28 th July 2021
Commencement of Trading of Equity shares on NSE	On or about 29 th July 2021

Source: IPO Prospectus

Issue	# Shares	INR in Cr	%
QIB	23,08,403	250	50%
NIB	6,92,521	75	15%
Retail	16,15,882	175	35%
Net Offer	46,16,805	500	100%

Source: IPO Prospectus

Objects of the Offer: The net proceeds will be utilized for the following purpose
Funding capital expenditure for expansion of Dahej Facility (INR 147.1 Cr)
Funding capital expenditure for upgradation of Vadodara R&D facility (INR 23.9 Cr)
General corporate purposes

Shareholding Pattern	Pre-Issue (%)	Post-Issue (%)
Promoters & Promoters Group	100.0%	79.17%
Others	-	20.83%
Total	100.0%	100.0%

Source: IPO Prospectus

Particulars (In INR Cr)	FY19	FY20	FY21
Revenue	206	263	300
EBITDA	34	56	72
EBITDA Margin	16.6%	21.4%	23.8%
PAT	21	38	52
PAT Margin	10.0%	14.4%	17.4%
Net Worth	80	118	166
RONW	25.8%	32.1%	31.5%

Source: IPO Prospectus

Tatva Chintan Pharma Chem Limited

Company Overview

Incorporated in 1996, Tatva Chintan Pharma Chem Limited (“TCPC”) is a specialty chemicals manufacturer engaged in diverse product portfolio including structure directing agents (“SDAs”), phase transfer catalysts (“PTCs”), pharmaceutical and agrochemical intermediates, and other specialty chemicals (“PASCs”). It is the **largest and only commercial manufacturer** of SDAs for Zeolites in India (second globally). TCPC’s products, totalling over 154, have wide applications across automotive, petroleum, agrochemicals, dyes and pigments, paints and coatings, pharmaceutical and personal care. It exports to over 25 countries which contributed over 70% of total revenues from operations for FY 2021.

TCPC is the largest and only commercial manufacturer of SDAs in India which find applications in the manufacture of Zeolites, which are used in Emission control and Refining catalysts. It is also the **largest producer of PTCs in India** and one of the leading global producers for an entire range of PTCs. End use segment for PTCs are primarily pharmaceutical intermediates and agrochemical intermediates. PASCs have applications in multiple industries including Pharmaceuticals intermediates, Agrochemical intermediates, Paints and coatings, Personal care and disinfectants, and Flavours and fragrances. Company is also manufacturing Electrolytes for Super Capacitor Batteries (SCBs) which are used in Organic battery electrolytes, Automotive Transportation and Consumer Electronics. TCPC operates in product segments which have high entry barriers owing to nature of the applications and the complex processes involved, ensuring continuity of revenues and high margins.

It has large, modern manufacturing capacity, consisting of one facility in Ankleshwar (operational since 1996, 90 KL) and another in Dahej (started in 2017, 190 KL). The **ongoing capex** is coming up at the Dahej facility, which will increase the total aggregate capacity of TCPC by **200 kilo liters** to 480 kilo liters (an increase of 71.4%). Both facilities are equipped with reactors, Assembly Lines, ANFDs, centrifuges, and RCVDs, with the necessary supporting infrastructure and utilities. These facilities also employ advanced analytical equipment that indicate impurities up to PPM levels, which enables to certify products as ‘ultra-pure’ grade. Both the facilities enjoy major certifications for quality management, environment and health & safety systems.

TCPC’s diverse portfolio of specialty chemicals constitute a key ingredient in the manufacturing and chemical processes of their clients, with most products currently focused on export markets. At the same time, it is seeing rise in domestic demand with Indian companies gradually getting equipped to consume a higher number of it’s products in their chemical processes. Company has been able to develop long standing relationships with respected names across industries and geographies, including Merck, Bayer AG, Asian Paints, Laurus Labs, Tosoh Asia Pte., SRF Ltd, Navin Fluorine, Atul Ltd., Divi’s Laboratories and Firmenich Aromatics to name a few.

Business Verticals

Particulars	SDAs	PTCs	Electrolyte Salts for SCB	PASC
Revenue contribution	40%	27%	1%	30%
No. of Products	47	48	6	53
Leadership status (India / globally)	Largest in India for SDAs for Zeolites, 2 nd largest globally	Largest in India; one of the leading producers globally	Largest Producer in India	-
Key Applications / End Uses of the Product Segment	<ul style="list-style-type: none"> •Manufacture of zeolites, which are used in emission control •Refining catalysts 	<ul style="list-style-type: none"> •Pharmaceutical intermediates •Agrochemical intermediates 	<ul style="list-style-type: none"> •Organic battery electrolytes •Automotive •Transportation •Consumer Electronics 	<ul style="list-style-type: none"> •Pharmaceuticals, Agro-chemical intermediates •Paints and coatings •Personal care •Flavours and fragrances
Details	SDAs are quarternary salts which are chemicals helping in the formation of particular channels and pores during the synthesis of zeolites. New and innovative applications are driving the growth of the zeolite market, in turn creating demand for quaternary ammonium compounds market.	PTCs are used to facilitate migration of a reactant from one phase into another phase where the reaction occurs, in a heterogeneous multi-phase system; eliminating the need for costly & unsafe solvents that can dissolve all reactants in one phase, and costly raw materials minimizing the issue of waste; widely used in green chemistry applications.	Electrolyte salts are used in the manufacture of super capacitor batteries, which are used in automobile batteries and other batteries	PASC are used in the manufacture of various pharmaceutical and agrochemical products as intermediates, disinfectants and catalysts, and solvents

Source: IPO Prospectus

Tatva Chintan Pharma Chem Limited

INVESTMENT RATIONALE

Leading manufacturer of SDAs and PTCs, with consistent quality:

SDAs used in zeolites are highly specialised products and hence not manufactured by large number of players, helping TCPC become the largest and the only commercial manufacturer in India. Globally too they rank second currently. PTC market is expected to grow further given the rising demand globally and also due to adoption of green chemistry in organic synthesis. TCPC is expected to capture a large share of this demand being one of the leading manufacturers of PTCs locally and globally.

Catering to a global, wide customer base across various industries with high entry barriers:

Company's products have applications in a wide variety of industries, with most products currently focused on export markets. TCPC's wide and global customer base spans over 25 Countries including the USA, the UK, China, Germany, Japan and South Africa. Exports have consistently contributed over 70% of revenues over the last 3 years. TCPC first set up a wholly owned subsidiary in the US in 2015 along with a warehousing facility in Netherlands. Subsequently, it incorporated another subsidiary in Netherlands in 2019.

The products are subject to rigorous and sensitive approval process given the nature of the complex processes involved. Hence approvals are long drawn and time consuming typically taking a few years. As a result, costs involved in evaluating a new supplier are high and companies (buyers) are generally disincentivised against change in suppliers. The high entry barriers ensures stickiness of customers and higher revenue visibility for TCPC.

TCPC's product portfolio is specialised and diversified, requiring strong technical know-how

TCPC product portfolio is highly specialised which entails a high level of technical skill and expertise. Developing innovative processes in-house, undertaking complex chemistry processes and specialised handling needed for some raw materials and intermediates, all necessitate a considerable investment in training over a significant period of time. Also, TCPC's operations have over time diversified, expanded, and evolved, helping its portfolio to enjoy diverse applications across various industries. This in turn both requires and drives various R&D investments and initiatives to be undertaken to ensure high degree of capabilities. Given that most of their products are key ingredients to base raw materials for their customers, they need to constantly evolve and adapt to client's processes and products. These efforts have enabled expansion of product offerings from 72 products 10 years back to over 154 products currently.

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

Company has 2 facilities, one in Ankleshwar and second in Dahej. Both the facilities employ advanced analytical equipment that indicate impurities up to PPM levels, enabling the company to certify chemistry. They utilize the latest available technology such as ANFDs enabling improvement in productivity and product quality. They use only water and electricity in their electrolysis process to make the target product, apart from using the material only in the initial process. This enables no by-products or wastages, and resulting products are 'ultra-pure' grade. Company has been using PNG as the boiler fuel at Ankleshwar, and low sulphur LDO at Dahej, in addition to converting Ankleshwar unit to a 'zero liquid effluent discharge facility' in 2020. The company's 'green' chemistry is based on the principles of clean chemistry, minimum requirement of auxiliary substances, minimum waste and by-products and safe chemistry. TCPC's facilities enjoy all the required certifications, while it's sustainability performance towards the environment and procurement has been above industry average as audited by Ecovadis.

Strong R&D capabilities:

Company has strong R&D capabilities, being majorly focused on new product development, improvement of existing production processes, technology adoption, and quality improvement of existing products. TCPC has a DSIR-approved R&D facility at Vadodara, including a modern analytical department laboratory to support and improve R&D capabilities. It has a dedicated R&D team of 20 employees currently, of which 7 hold doctorate degrees in various fields relating to the Company's industry. R&D capabilities have enabled expansion of product offerings from 72 products 10 years back to over 154 products currently. Historical R&D spend by the company has been in the range of 1.5%-2% of revenues, which is expected to increase to 3%-3.5% in future. This includes nearly 10% or ~INR 24 Cr of share proceeds to be utilised for planned capital expenditure towards up gradation of the R&D Facility.

Robust financial performance:

TCPC has recorded strong growth in terms of revenues and profitability in recent years. Revenues have grown at a CAGR of 21.7% over last 2 years, while the EBITDA margins have improved by 600bps to 23% over the same period. Profit after tax has grown at a CAGR of 59.50% from FY2019 to FY2021. Return ratios have also been strong and rising with RoE and RoCE for FY2021 at 31.5% and 33% respectively compared to 25.8% and 26.4% in FY2019. The strong financial position and balance sheet has also allowed to invest in capital expenditure including towards R&D and technology development. Looking to cater to the increasing demand for majority of its products portfolio, the company is targeting a planned capex of ~INR 160 Cr, which is expected to be operational by November 2022. This will further augment capacity and also improve margins over the long term.

Tatva Chintan Pharma Chem Limited

Future Growth Strategies

Expand Existing product portfolio:

TCPC's product portfolio enjoys considerable demand and company intends to further diversify into products with prospects for increased growth and profitability. As in the past, it will continue to add offerings in their current and new business segments holding attractive growth prospects. For instance, the company plans to raise their focus on products manufactured using continuous flow chemistry and electrolysis processes, as these are expected to be more sustainable and are good value propositions. Also, the sectors in which company operates in, undergo continuous innovation and evolution, leading to higher scope for portfolio expansion to meet the needs of existing clients. For instance, demand for emission control mechanisms in automobiles is bound to grow as environmental initiatives gain importance.

Further develop R&D capabilities

Company intends to expand the R&D facility at Vadodara through a planned capex of INR 23.9 Cr. It is looking to identify and adopt new-age technologies for development of both process and product, thereby seeking to improve productivity, quality and cost effectiveness and also help make products eco-friendlier. TCPC is also planning to develop technologies to produce conventional products using new-age technologies, besides improving manufacturing processes to make it more environment friendly and sustainable.

Expand existing manufacturing capacities to capitalise on industry opportunities

TCPC is looking to further leverage its strong operations and customer relationships to capitalize on the growth opportunities. Historically, it has grown its aggregate manufacturing capacity at a CAGR of 20.59% from reactor capacity of 82 KL and zero Assembly Lines in 2010, to 280 KL Reactor Capacity and 17 Assembly Lines presently. Treading on the same path, the ongoing capex is coming up at the Dahej facility, which will increase the total aggregate capacity of TCPC by 200 KL to 480 KL (an increase of 71.4%).

Increase wallet share with existing customers and focus on expanding customer base

Company majorly operates in industries and sectors which need specialised skills and have high entry barriers. It has invested significant time and costs to create and nurture these longstanding relationships. And over time earned the status of being a preferred supplier to their customers. Forward strategy is to leverage these relationships by capitalizing on the cross-selling opportunities that their diversified product portfolio offers. Company will look to further expand geographical footprint to address the sourcing requirements of existing multinational customers, besides also engaging with customers at early stages of product development to benefit from the potential growth following commercialisation possibilities.

Management

Chintan Nitinkumar Shah, Managing Director

Chintan is responsible for business development, R&D initiatives and finance and information services. He has over 24 years of experience and holds a Bachelor's degree in engineering, with a specialisation in computer science from the Maharaja Sayajirao University of Baroda.

Ajaykumar Mansukhlal Patel, Whole Time Director

Ajaykumar is responsible for project engineering and development and implementation of new technology. He has over 26 years of experience and was earlier associated with Sun Pharmaceutical. He holds a Bachelor's degree in engineering, with a specialisation in chemical engineering from the Maharaja Sayajirao University of Baroda.

Shekhar Rasiklal Somani, Whole Time Director

Shekhar is responsible for business development, production controlling, quality, and supply chain management. He has over 24 years of experience and holds a Bachelor's degree in pharmacy from the Maharaja Sayajirao University of Baroda.

Mahesh Tanna, Chief Financial Officer

Mahesh has over 21 years of experience and was previously associated with Indo Count Industries and Neogen Chemicals. He is an associate member of the ICSI, besides holding a Bachelor's in Commerce and Law plus Master's in financial management.

Ajay Singh Rawat, General Manager (R&D)

Ajay was previously associated with IPCA, Unichem, and Merck. He holds a master's in science (specialising in chemistry) from the Doctor Harisingh Gour Vishwavidyalaya, Sagar and a doctorate in chemistry from the University of Mumbai.

Harish Laljibhai Patel, General Manager (Operation)

Harish is responsible for production planning, quality maintenance of products, and safety of employees. He holds a bachelor's in science from Gujarat University. He was previously associated with Champa Purie-Chem Industries.

Tatva Chintan Pharma Chem Limited

Outlook and Valuation:

TCPC has recorded strong growth in terms of revenues and profitability in recent years. Revenues have grown at a CAGR of 21.7% over FY2019-21, while the EBITDA margins have improved by 600bps to 23% over the same period. Profit after tax has grown at a CAGR of 59.50%. Return ratios have also been strong and rising with RoE and RoCE for FY2021 at 31.5% and 33% respectively compared to 25.8% and 26.4% in FY2019. Balance sheet is strong and well capitalised, with low external debt.

TCPC's growth prospects are bright owing to its leadership status in the various product categories of specialty chemicals and significant presence in export markets. Also, given that it operates in segments which could see rise in environmentally sustainable products, the growth potential is further higher. On the upper price band of INR 1083 and EPS of INR 26.02 for FY21, the P/E multiple works out to be 41.6x, which is at a significant discount compared to the industry average of ~56x. On account of strong growth potential, dominant manufacturer status, potential play on 'green chemistry' and discounted valuation compared to its peers, **we recommend a 'SUBSCRIBE' rating for long term gains for TCPC IPO.**

Peer Comparison:

Company Name	CMP (INR)	Sales (INR Cr)	EPS (INR)	P/E (x)	RoNW (%)
Tatva Chintan	(•)	306	26.0 [^]	41.6 [*]	31.49
Aarti Industries Limited	855	4506	30.0	28.4	15.2
Navin Fluorine International Limited	3850	1258	51.9	74.0	15.7
Alkyl Amines Chemicals Limited	3774	1249	144.3	26.1	37.2
Vinati Organics Limited	1924	980	26.2	73.4	17.4
Fine Organics Industries Limited	3011	1150	39.2	76.7	16.4

Source: Bloomberg, IPO Prospectus, KRChoksey Research

[^]TCPC EPS calculated without considering fresh issue of INR 225cr under IPO; ^{*} Considering the upper Band Price of INR 1083

Risks and concerns:

- TCPC is dependent on limited number of suppliers including imports for certain raw materials. Loss of one or more such suppliers could have a material impact on the business.
- Increase in raw material costs could have a material adverse effect on the company's operations.
- Customer concentration with top 10 clients accounting for 59.99% of FY 2021 revenues. Loss of one or more such clients could have a material impact on operations.
- Company operates in segments which demand high standards of quality and precision. Failure to comply with quality standards and technical specifications could lead to loss of revenues.

Tatva Chintan Pharma Chem Limited

Financials:

Income Statement (INR Cr)	FY19	FY20	FY21
Total Revenue from Operations	206	263	300
EBITDA	34	56	72
EBITDA Margin (%)	16.6%	21.4%	23.8%
Depreciation	4	5	7
EBIT	30	52	65
Interest expense	4	4	4
Exceptional Item	-1	0	0
PBT	27	48	61
Tax	7	10	8
Share of Profit / MI	0	0	0
PAT	21	38	52
EPS (INR)	10.2	18.8	26.0

Balance Sheet (INR Cr)	FY19	FY20	FY21
ASSETS			
Fixed Assets	67	111	120
Capital work-in-progress	6	5	10
Other Intangible Assets	0	0	0
Goodwill	-	-	-
Investments	-	-	-
Other Non-Current Assets	0	0	0
Inventories	36	64	72
Trade Receivables	41	50	91
Cash & Cash Equivalents	16	11	5
Other Current & Financial Assets	22	9	16
Total Assets	188	249	315
LIABILITIES			
Equity Share Capital	8	8	20
Reserves	72	110	146
Net Worth	80	118	166
Non-controlling interest	-	-	-
Borrowings	32	39	27
Other Non-current Liabilities	0	0	2
Deferred Tax Liabilities (net)	3	4	2
Total Current Liabilities	73	88	118
Total Equity and Liabilities	188	249	315

Cashflow Statement (INR Cr)	FY19	FY20	FY21
Net cash flow from operating activities	7	25	24
Net cash flow used in investing activities	-17	-40	-21
Net cash flow generated from / (used in) in financing activities	17	10	-9
Net increase / (decrease) in cash and cash equivalents	8	-5	-5
Opening Cash and cash equivalents	8	16	11
Closing Cash and cash equivalents	16	11	5

Tatva Chintan Pharma Chem Limited

ANALYST CERTIFICATION:

I, Parvati Rai (MBA-Finance, M.com), Head Research, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & Conditions and other disclosures:

KRChoksey Shares and Securities Pvt. Ltd. (hereinafter referred to as KRCSSPL) is a registered member of National Stock Exchange of India Limited and Bombay Stock Exchange Limited. KRCSSPL is a registered Research Entity vide SEBI Registration No. INH00001295 under SEBI (Research Analyst) Regulations, 2014.

We submit that no material disciplinary action has been taken on KRCSSPL and its associates (Group Companies) by any Regulatory Authority impacting Equity Research Analysis activities.

KRCSSPL prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst covers. The information and opinions in this report have been prepared by KRCSSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KRCSSPL. While we would endeavor to update the information herein on a reasonable basis, KRCSSPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent KRCSSPL from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or KRCSSPL policies, in circumstances where KRCSSPL might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KRCSSPL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. KRCSSPL accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

Associates (Group Companies) of KRCSSPL might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of brokerage services or specific transaction or for products and services other than brokerage services.

KRCSSPL or its Associates (Group Companies) have not managed or co-managed public offering of securities for the subject company in the past twelve months.

KRCSSPL encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. KRCSSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither KRCSSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that, Parvati Rai (MBA-Finance, M.com), Head Research of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific brokerage service transactions.

KRCSSPL or its associates (Group Companies) collectively or its research analyst do not hold any financial interest/beneficial ownership of more than 1% (at the end of the month immediately preceding the date of publication of the research report) in the company covered by Analyst, and has not been engaged in market making activity of the company covered by research analyst.

It is confirmed that, Parvati Rai (MBA-Finance, M.com), Head Research do not serve as an officer, director or employee of the companies mentioned in the report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other Jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KRCSSPL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform them of and to observe such restriction.

Please send your feedback to research.insti@krchoksey.com

Visit us at www.krchoksey.com

KRChoksey Shares and Securities Pvt. Ltd.

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.