

Company Overview

Incorporated in 1996, Tatva Chintan Pharma Chem Limited is a chemical manufacturing company that manufactures structure directing agents (SDAs), phase transfer catalyst (PTCs), pharmaceutical and agrochemical intermediates, and other specialty chemicals. The company serves customers across industries i.e. automotive, petroleum, agrochemicals, dyes and pigments, paints and coatings, pharmaceutical, personal care, and others. Its products are not only sold in India but also export to 25+ countries all over the world such as the USA, Germany, South Africa, China, and the UK. In FY 2021, total export contributed to 70.58% of total revenue from operations. Currently, it has two manufacturing facilities at Ankleshwar and Dahej in Gujarat. As of March 31, 2021, they offered 47 products under their SDA product portfolio, 48 products under the PTC product portfolio, 6 products under the electrolyte salts for super capacitor batteries portfolio and 53 products under their PASC portfolio.

Objects of the issue

- ⇒ The IPO proceed will be used towards the following purposes;
- ⇒ Funding expansion of its Dahej manufacturing facility
- ⇒ Up gradation at its R&D facility in Vadodara
- ⇒ General Corporate Purposes

Investment Rationale

Global market presence with a wide customer base across industries

Tatva Chintan's strong product portfolio has helped them build a wide customer base not only in India but also in more than 25 countries including the USA, China, Germany, Japan, South Africa, and the UK. During FY19, FY20 and FY21 exports of products accounted for 69.57%, 76.74% and 70.58% of their revenue from operations, respectively. They have two wholly owned subsidiaries in the USA and Netherlands, to facilitate their overseas operations. The company's clients include Merck, Bayer, Firmenich, Asian Paints, Otsuka, Divis Laboratories, Laurus Laboratories and others. They have served 508 clients and acquired 153 new clients in fiscal 2021. Further as on 31st March 2021, 53.14% of customers have been their customers for over 5 years.

Leading manufacturer of structure directing agents and phase transfer catalyst

Tatva Chintan is the largest and only commercial manufacturer of SDAs for zeolites in India and second-largest globally. Further, the 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 2020-25 with Korea and China dominating the market. However, with just 2-3 players in the domestic market, Tatva Chintan stands an opportunity to expand and explore the global market. The company has managed to build a market for itself in India and across the globe with its in-depth knowledge of the chemistry. They have developed their technology to ensure production of high purity SDAs with PPM level of impurities.

Valuation and Outlook

Tatva Chintan Pharma Chem Ltd. (TCPCL) is one of the leading global producers of an entire range of PTCs in India and one of the key producers across the globe. It is the largest and only commercial manufacturer of SDAs for zeolites in India. Considering the wide application of its products, it serves customers across various industries and geographies providing diversification benefits. Moreover its high quality product portfolio, strong R&D capabilities, strategically located manufacturing facilities and a focus on 'green' chemistry processes bodes well for the company. On the valuation front, considering the upper price band, diluted EPS and FY 21 earnings, the company is valued at 45.9x P/E which is at a discount when compared to its listed industry peers (i.e, Aarti Ind- 57.3x, Navin Fluorine- 75.2x and Alkyl Amines- 65.2x). Its stable financial performance and growth opportunities provides visibility for the long term. Considering all such factors, we give a "SUBSCRIBE" rating on this IPO issue for long term.

Issue Details

Offer Period	16th July 2021 to 20th July, 2021
Price Band	INR.1073 to INR.1083
Bid Lot	13
Listing	BSE&NSE
Issue Size (no. of shares in mn)	4.6
Issue Size (INR. in bn)	5
Face Value	10

Issue Structure

QIB	50%
Retail	35%
NIB	15%
BRLM	ICICI Securities, JM Financial
Registrar	Link Intime India Pvt. Ltd.

Particulars	Pre Issue %	Post Issue %
Promoter	100	79.17
Public	-	20.83
Total	100	100

(Assuming issue subscribed at higher band)

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Income Statement (In mn)

Particulars	FY19	FY20	FY21
Revenue			
Revenue From Operations	2,063	2,632	3,004
Total Revenue	2,063	2,632	3,004
Expenses			
Cost of Raw Materials Consumed	1,183	1,462	1,509
Purchase of Stock in Trade	3	25	25
Changes in Inventories of Traded Goods	(43)	(158)	(41)
Employee Benefit Expense	163	205	241
Other Expenses	420	550	611
Total Operating Expenses	1,725	2,083	2,347
EBITDA	338	550	657
Depreciation and Amortisation Expense	40	48	67
Other Income	5	14	59
EBIT	303	515	649
Finance Costs	36	39	42
Profit Before Exceptional Items and Tax	266	476	607
Exceptional Items	7	-	-
Profit Before Tax	274	476	607
Current Tax	53	80	108
Deferred Tax	16	18	(24)
Total Tax	69	98	84
Profit After Tax	205	378	523
Diluted EPS	9	17	24

Source: RHP, BP Equities Research

Cash Flow Statement (In mn)

Particulars	FY19	FY20	FY21
Cash Flow from operating activities	74	253	243
Cash flow from investing activities	(168)	(402)	(210)
Cash flow from financing activities	174	100	(88)
Net increase/(decrease) in cash and cash equivalents	80	(49)	(55)
Cash and cash equivalents at the beginning of the period	78	157	108
Cash and cash equivalents at the end of the period	157	108	53

Source: RHP, BP Equities Research



Balance Sheet (In mn)

Particulars	FY19	FY20	FY21
Equity			
Share Capital	80	80	201
Instruments entirely equity in nature	-	-	-
Other Equity	717	1,097	1,459
Equity Attributable to Equity Shareholders of the Parent	797	1,177	1,660
Net worth	797	1,177	1,660
Non-Current Liabilities			
Borrowings	315	387	268
Provisions	3	4	6
Other Non-Current Liabilities	33	45	35
Total Non-Current Liabilities	352	436	308
Current Liabilities			
Borrowings	399	405	493
Trade Payables	221	316	475
Other Financial Liabilities	57	117	143
Provisions	0	1	1
Other Current Liabilities	49	37	69
Total Current Liabilities	727	877	1,180
Total Equity & Liabilities	1,875	2,489	3,148
Assets			
Property, Plant & Equipment	545	992	1,085
Right of Use Assets	121	119	118
Capital Work in Progress	60	49	98
Intangible Assets	1	1	1
Other Non-Current Assets	4	2	3
Total Non-Current Assets	731	1,162	1,306
Current Assets			
Inventories	356	636	720
Investments	14	17	19
Trade Receivables	413	496	907
Cash and Cash Equivalents	151	102	45
Other Bank Balances	6	7	9
Other Financial Assets	90	11	11
Tax Assets (Net)	8	3	-
Other Current Assets	106	57	131
Total Current Assets	1,144	1,327	1,843
Net Current Assets	417	450	662
Total Assets	1,875	2,489	3,148

Source: RHP, BP Equities Research

Key Risks

- ⇒ The company derives significant portion of revenues from a few customers and the loss of one or more such customers, may adversely affect their business. Their top 10 customers accounted for 59.99%, 58.44%, and 46.99%, respectively, of revenue from operations in Fiscals 2021, 2020, and 2019.
- ⇒ The company depends on a limited number of suppliers for certain raw materials. The loss of one or more such suppliers could adversely affect their business operations.
- ⇒ Increase in the cost of raw materials could have a material adverse effect on their financial conditions.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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