

July 15, 2021

Incorporated in 1996, Tatva Chintan 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). Apart from customers in India, the company also exports products to over 25 countries, including the US, China, Germany, Japan, South Africa, and the UK. As on March 31, 2021, it manufactured over 154 products.

Expand existing product portfolio

The company intends to further diversify into products with prospects for increased growth and profitability. Tatva Chintan plans to continue to increase offerings in current business segments as well as diversify into new products by tapping into segments, which in the view of the management, have attractive growth prospects. For instance, it intends to increase focus on products manufactured using continuous flow chemistry processes as well as electrolysis processes, as these will be more sustainable and are good value propositions.

Further developing R&D capabilities bodes well for future

The company has consistently invested in R&D capabilities and technologies and has successfully implemented most of them based on market/customer demand at manufacturing facilities over the years. In this regard, of the 2,787.00 square metre of land leased to the company at Vadodara, it now intends to expand R&D facility at Vadodara and utilise 1,887.00 square metre of the available land for the same. It intends to identify and adopt new-age technologies for process and product development to improve productivity, quality and cost effectiveness and help make products eco-friendlier. It is also aiming to develop technologies to produce conventional products using new-age technologies such as continuous flow chemistry and electrolysis processes. This will enable it to achieve better productivity, quality and cost effectiveness. In addition, it intends to further improve manufacturing processes to make it more environment friendly and sustainable.

Key risk & concerns

- Higher RMAT cost and inability to pass on to impact performance
- Loss of customer to impede performance
- Lower end user demand to impact performance

Priced at FY21 P/E of 45.9x on upper band

At ₹ 1083 (upper band), the stock is priced at 45.9x FY21 consolidated EPS.

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	CAGR FY19-21
Net Revenue	206.3	263.2	300.4	20.7%
EBITDA	33.8	55.0	65.7	39.4%
EBITDA Margins (%)	16.4%	20.9%	21.9%	
Adj.PAT	20.5	37.8	52.3	59.5%
Adj. EPS (₹)	9.3	17.0	23.6	
EV/EBITDA	66.5x	40.9x	34.2x	
P/E	116.9x	63.5x	45.9x	
ROE (%)	25.8	32.1	31.5	
ROCE (%)	20.0	26.2	26.8	

Source: RHP, ICICI Direct Research.



Particulars	
Issue Details	Amount
Issue Opens	July 16, 2021
Issue Closes	July 20, 2021
Issue Size (₹ Crore)	500
Price Band (₹)	1073-1083
No of Shares on Offer (Crore)	0.46
Minimum lot size	13
Face Value (₹)	10

Shareholding Pattern (%)		
	Pre IPO	Post IPO
Promoter	100.0%	79.2%
Public	0.0%	20.8%
Total	100.0%	100.0%

Objective of issue		₹ crore
Objects of the issue	₹ Crore	
Capex at Dahej	147	
For R&D facility at Vadodara	24	
General Corporate Purpose	54	
Total Fresh issue Proceeds	225	
Total OFS Proceeds	275	

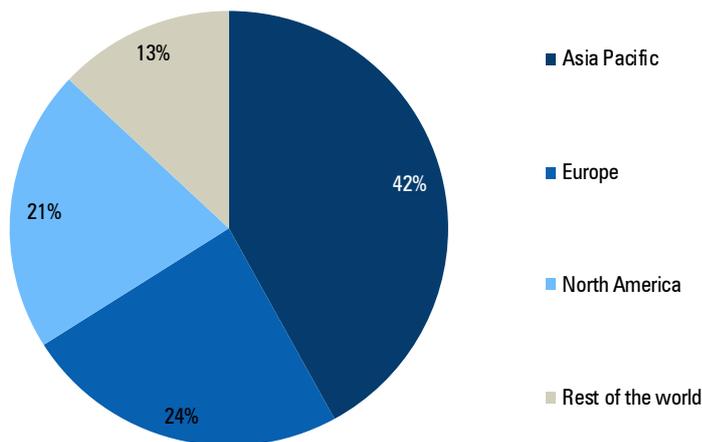
*Upper Band

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Industry Overview

The specialty chemicals market is characterised 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. The consolidation of companies has been a major trend and is expected to continue. 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. The overall market was at ~US\$800 billion (bn) in 2019 and is expected to showcase growth at 5-6% over the next five years.

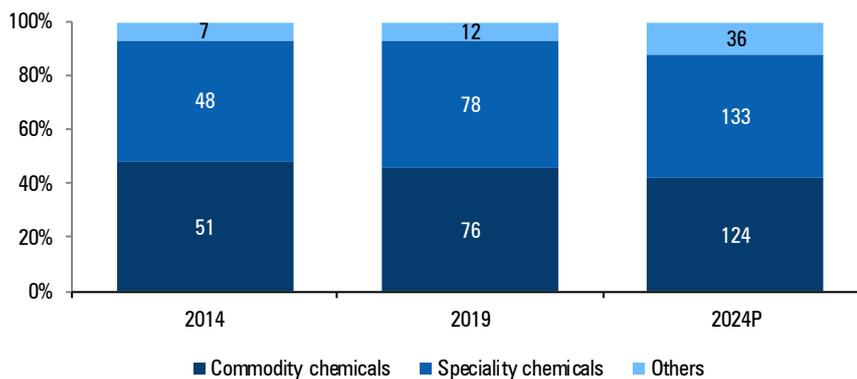
Exhibit 1: Global speciality chemical market by geography (US\$ 798 billion)



Source: RHP, ICICI Direct Research

The Indian chemicals market is valued at US\$166 bn (~4% share in the global chemical industry) with commodity chemicals accounting for almost 46%. It is expected to reach ~US\$280-300 bn in the next five years, with anticipated growth of ~12% CAGR. The specialty chemical industry forms ~47% of the domestic chemical market, which is expected to grow at a CAGR of ~11-12% over the same period. Agrochemicals and fertilisers account for 18-20% of the domestic chemicals market and ~38% of the specialty chemicals domain, which constitutes various differentiated chemicals used in the agro space including pesticides, herbicides, etc. Pharmaceutical API makes up the second largest share of ~20% of the specialty chemical market with an anticipated growth of over 11% by 2024F.

Exhibit 2: Indian chemical market size (US\$ billion)



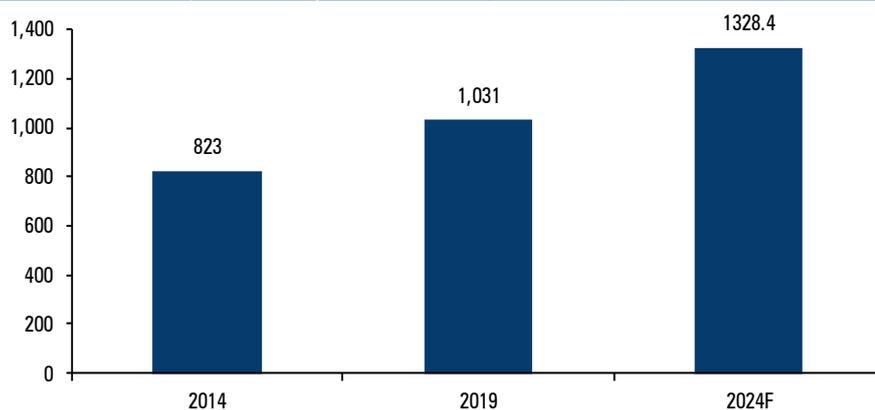
Source: RHP, ICICI Direct Research

Global Phase Transfer Catalysts (PTC)

A phase-transfer catalyst facilitates the migration of a reactant from one phase into another where the reaction occurs. The catalyst functions as a detergent for solubilising the salts into the organic phase. Phase-transfer catalyst offers faster reactions, higher conversions or yields make fewer by-products, eliminates the need for expensive or dangerous solvents, eliminates the need for expensive raw materials and minimises waste problems. Phase-transfer catalysts like ammonium salts among others have applications in pharmaceuticals and agrochemicals, which is likely to drive this market. During the forecast period, the global phase transfer catalyst market is projected to expand at a CAGR of more than 5% globally. Rising demand and adoption of green chemistry in organic synthesis is expected to drive the growth of the phase transfer catalyst market across the globe.

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.

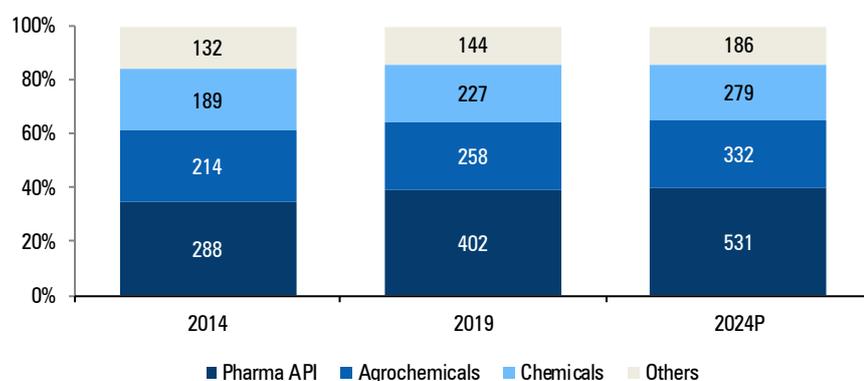
Exhibit 3: Global phase catalyst market size (US\$ million)



Source: RHP, ICICI Direct Research

Phase transfer catalysts are extensively used by the pharmaceuticals industry for synthesis, R&D, formulation and laboratory applications. The imposition of stringent regulations in the western regions on the use of harmful compounds in the pharmaceuticals industry is also leading to the increased consumption of phase transfer catalysts in the pharmaceuticals industry as they eliminate the requirement of using organic solvents and dangerous, inconvenient, and expensive reactants. These catalysts also reduce the generation of industrial wastes. Active pharmaceutical ingredients (APIs) comprise the largest market share. The segment is also expected to show significant growth in the market due to the demand for green chemistry as pharmaceutical ingredient. The growth of modern agricultural techniques and herbicides allows phase transfer catalysts to find huge applications in the agro business. It is used to stop the growth of weed in some cases. Phase transfer catalysts promote herbicide production in an efficient manner with improved purity.

Exhibit 4: Global phase catalyst market size by application (US\$ million)



Source: RHP, ICICI Direct Research

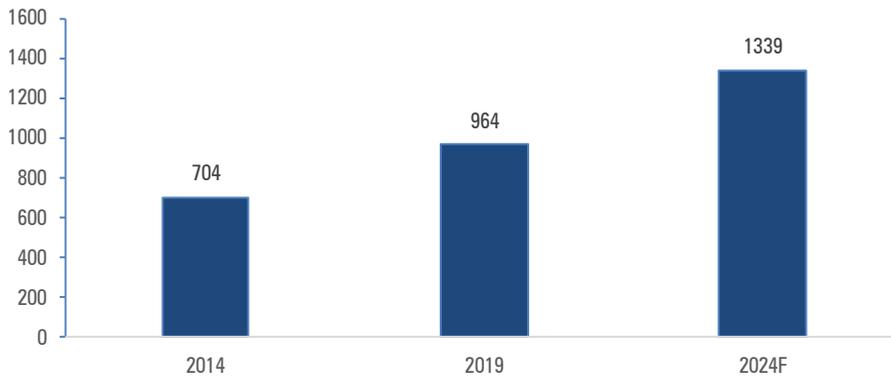
Structure directing agents

Highly prolific approach for synthesis of novel zeolites is the use of tailor-made structure-directing agents (SDA). This method resulted in many new and interesting zeolites. However, some of these large and exotic structure directing agents are rather expensive. To address this, a small amount of the particular structure-directing agent was used to drive the nucleation towards the desired structure and other structuring functions such as pore-filling and control of pH were fulfilled by an additional, low-cost SDA.

Zeolites are indispensable in many catalytic processes like fluid catalytic cracking, hydrocracking, dewaxing, production of octane boosters, hydrodesulphurisation, Fischer–Tropsch synthesis, methanol-to-olefin reaction, aromatic alkylation, nitration, halogenation, nucleophilic substitution & addition and many others. A number of hydrocarbon conversion processes stand out as instances where the appropriate selection of a zeolite catalyst for use with indirect liquefaction products could in future lead to more efficient conversion and/or improve on current refinery designs. Catalytic naphtha reforming using Pt/K/LTL zeolite catalysts benefit from the high linear hydrocarbon content and sulphur-free nature of indirect liquefaction products. Hydroisomerisation of distillate using Pt/AEL (SAPO-11) zeolite catalysts has the potential to increase the yield of jet fuel from Fischer–Tropsch refineries. Zeolite-based catalysts for wax hydrocracking hold promise but there is no clear zeolite type, or clear benefit derived from a specific zeolite type that stands out at present. However, sulphur-free wax with a high n-alkane content is an 'ideal' feed for hydrocracking. Hydrocracked distillate has desirable properties for jet fuel and diesel fuel but hydrocracked naphtha requires further extensive refining to have desirable properties for motor-gasoline. A zeolite that could regulate cracking position would constitute a breakthrough in hydrocracking catalysis.

More recently, zeolites have also been introduced for catalytic emission control, e.g. reducing the emission levels of nitrogen oxides (NO_x) from both stationary and mobile sources. In particular, zeolites promoted with transition metals such as copper and iron have been proven to be active for the selective catalytic reduction of NO_x by ammonia, which is currently considered as one of the preferred technologies for NO_x removal from lean exhaust gases in automotive applications.

Exhibit 5: Global quaternary ammonium compounds market (US\$ million)



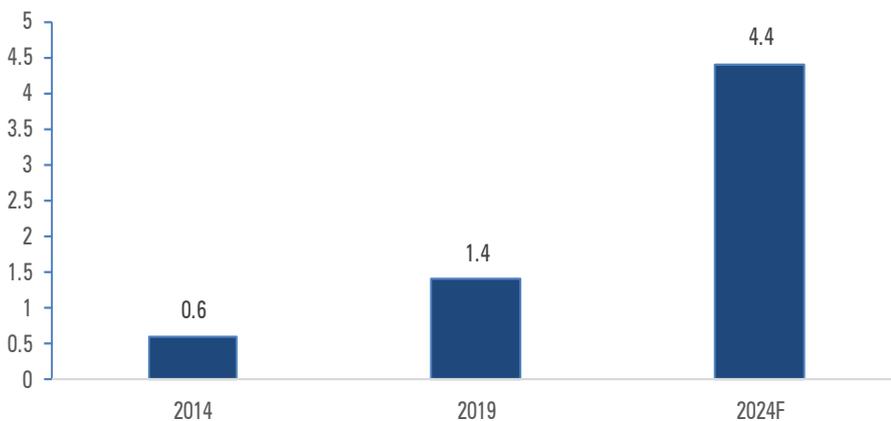
Source: RHP, ICICI Direct Research

Super-capacitor market

Super-capacitors are also known as ultra-capacitors or electrochemical capacitors, which utilise high surface area electrode materials and thin electrolytic dielectrics to achieve capacitances several orders of magnitude larger than conventional capacitors. In a conventional capacitor, energy is stored by moving charge carriers and electrons from one metal plate to the other metal. This charge separation creates a potential between the two plates that can be harnessed in an external circuit. The total energy stored in the circuit increases the amount of charge stored and also increases the potential between the plates.

The global super-capacitors market was valued at US\$1.4 bn in 2019 and is anticipated to grow at a CAGR of 26% to US\$4.4 bn by 2024F. This growth, which is, in turn, driving the electrolyte market, is primarily driven by the increased use of super-capacitors in energy harvesting applications, vehicles such as aircraft & trains and large storage capacity of the super-capacitor. The high prices of raw materials, availability of low priced substitutes, customer traditionalism and high level competition from established high capacity batteries vendors are posing a hindrance to the market.

Exhibit 5: Global super-capacitor market (US\$ bn)

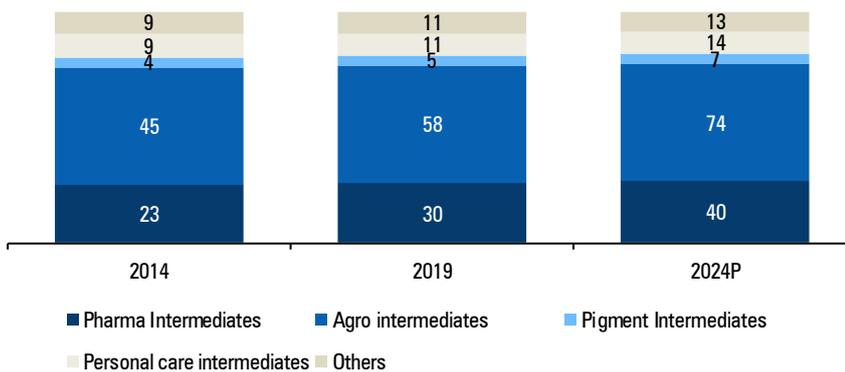


Source: RHP, ICICI Direct Research

Global pharma & agro intermediates and other specialty intermediates market

The global specialty intermediates market was at US\$115 bn in 2019 and is projected to grow at 5.2% CAGR by 2024F to US\$148 bn. This growth is primarily driven by high growth end-use segments such as pharmaceuticals, agrochemicals, paints and coatings, personal care, flavour & fragrances, etc. Some countries like China and India have been actively catering to export led demand in the application segments of specialty intermediates, which is making these regions attractive (within Asia Pacific) in the intermediates space. Intermediates refer to substances that are semi-finished products and used as catalysts. Chemical intermediates are generated during each and every step of the chemical reaction that is meant to change a reactant into a final product. Intermediates come in various forms like solid, liquid as well as gas. Specialty intermediates are highly consumed in application segments like manufacturing, API, crop protection active ingredients, paints and coatings, detergents, textiles, etc.

Exhibit 5: Global speciality intermediate market (US\$ billion)



Source: RHP, ICICI Direct Research

Company background

Incorporated in 1996, Tatva Chintan 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). The company is the largest and only commercial manufacturer of SDAs for zeolites in India. It also enjoys the second largest position globally (Source: F&S Report) In addition, it is one of the leading global producers of an entire range of PTCs in India and one of the key producers across the globe (Source: F&S Report).

Apart from customers in India, the company also exports products to over 25 countries, including the US, China, Germany, Japan, South Africa and the UK. During FY19, FY20, and FY21, exports of products were ₹ 144 crore, ₹ 202 crore and ₹ 212 crore, which accounted for 69.57%, 76.74% and 70.58%, of revenue from operations, respectively. As on March 31, 2021, it manufactured over 154 products that can be divided into the following four broad categories:

Structure directing agents: SDAs are quaternary salts, which are chemicals that help 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. With a great focus on green technology and a healthy environment, industries are evaluating new technologies by investing in R&D. New and innovative applications are driving the growth of the zeolite market, in turn, driving the quaternary ammonium compounds market (Source: F&S Report)

Phase transfer catalysts: 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 a type of catalyst that allows a reactant to be migrated from one phase to another where the reaction takes place, eliminating the need for costly and unsafe solvents that can dissolve all reactants in one phase and costly raw materials minimising the issue of waste. 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: Electrolyte salts are used in the manufacture of super capacitor batteries, which are used in automobile batteries and other batteries. The company is the largest producer of electrolyte salts for super capacitor batteries in India (Source: F&S Report).

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

Exhibit 5: Key business verticals...

Overview				
Particulars	SDAs	PTCs	Electrolyte Salts for SCB	PASC
Revenue in Fiscal 2021 (Rs. mn)	1,202.43	816.12	30.35	912.18
Contribution to Revenue ⁴ in Fiscal 2021	40.03%	27.17%	1.01%	30.37%
Number of Products ²	47	48	6	53
 (India) ¹	Largest and only commercial manufacturer of SDAs for Zeolites	Largest producer	Largest producer	NA
 (Globally) ¹	Second largest manufacturer of SDAs for Zeolites	One of the leaders	NA	NA
Key Applications / End Uses of the Product Segment¹	<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 intermediates • Agrochemical intermediates • Paints and coatings • Personal care and disinfectants • Flavours and fragrances

Source: RHP, ICICI Direct Research

The company currently operates through two manufacturing facilities in Ankaleshwar 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, respectively, as on March 31, 2021.

Investment Rationale

Expand existing product portfolio

Since inception, the company has consistently sought to diversify portfolio of products, which could cater to customers across segments, sectors and geographies. In accordance with this, while it seeks to continue to strengthen existing product portfolio, it intends to further diversify into products with prospects for increased growth and profitability. The company plans to continue to increase offerings in current business segments as well as diversify into new products by tapping into segments which in the view of management have attractive growth prospects. For instance, it intends to increase focus on products manufactured using continuous flow chemistry processes as well as electrolysis processes, as these will be more sustainable and are good value propositions.

Further develop R&D capabilities bodes well for future

The company has consistently invested in R&D capabilities and technologies and successfully implemented most of them based on market/customer demand at manufacturing facilities over the years. In this regard, of the 2,787.00 square metre of land leased to the company pursuant to agreements with the GIDC for its premises at Vadodara, it now intends to expand R&D facility at Vadodara and utilise 1,887.00 square metre of the available land for the same. It intends to identify and adopt new-age technologies for process and product development to improve productivity, quality & cost effectiveness and help make products eco-friendlier. It is also aiming to develop technologies to produce conventional products using new-age technologies such as continuous flow chemistry and electrolysis processes. This will enable it to achieve better productivity, quality and cost effectiveness. In addition, it intends to further improve manufacturing processes to make it more environment friendly and sustainable.

Expand existing manufacturing capacities to capitalise on industry opportunities

It has over the years, consistently grown manufacturing and production capabilities. The company seeks to capitalise on growth opportunities in the specialty chemicals industry based on well positioned operations and being led by an experienced management team. Its aggregate manufacturing capacity has increased at a CAGR of 20.59% from an aggregate reactor capacity of 82 KL and zero assembly lines as of March 31, 2010 to 280 KL reactor capacity and 17 assembly lines as of March 31, 2021. Consistent with past practice, it will look to add capacity in a phased manner to ensure that it utilises capacity at optimal levels. For instance, out of the 51,822.64 square metre of land sub-leased to company pursuant to agreements with Dahej SEZ Ltd for the Dahej manufacturing facility, it now intends to expand manufacturing facility at Dahej and utilise 31,724.19 square metre of the available land for the same. The company believes expansion plans and strategy will allow it to meet the anticipated increase in demand for products in future, enable it to supply growing markets more efficiently and drive profitability.

Key risks & concerns

- **Higher RMAT cost, inability to pass on to impact performance:** The company's primary raw materials include tertiary amines, alkyl halides, general solvents and other general and fine chemicals. It does not have long term agreements with most raw material suppliers. The company's inability to correctly forecast demand and supply may have a material adverse impact on working capital, business and results of operations
- **Loss of customer to impede performance** – Top 10 customers contribute 60% to overall revenue. Loss of customer or lower business growth from large customers owing to intense competition can impede the growth of the business
- **Lower end user demand to impact performance** – The company does not have firmly committed long-term supply agreements with most customers and instead relies on short term purchase orders for volume and other terms of sales of products, from customers. If any amendment or cancellation takes place, it may adversely impact revenue and production schedules

Financial summary

Exhibit 6: Profit and loss statement		₹ crore		
Year end March	FY19	FY20	FY21	
Total Operating Income	206.3	263.2	300.4	
Growth (%)	-	27.6	14.1	
Raw Material Expenses	114.2	132.8	149.4	
Gross Profit	92.1	130.5	151.0	
Employee Cost	16.3	20.5	24.1	
Other Operating Expenses	42.0	55.0	61.1	
EBITDA	33.8	55.0	65.7	
Growth (%)	-	62.6	19.6	
Other Income	0.5	1.4	5.9	
EBITDA, including OI	34.3	56.3	71.6	
Depreciation	4.0	4.8	6.7	
Net Interest Exp.	3.6	3.9	4.2	
Other exceptional items	0.7	0.0	0.0	
PBT	27.4	47.6	60.7	
Total Tax	6.9	9.8	8.4	
Tax Rate	25.0%	20.6%	13.9%	
PAT	20.5	37.8	52.3	
Adj. PAT after Minority interest	20.5	37.8	52.3	
Adj. EPS (₹)	9.3	17.0	23.6	
Shares Outstanding	2.2	2.2	2.2	

Source: RHP, ICICI Direct Research

Exhibit 7: Cash flow statement		₹ crore		
Year end March	FY19	FY20	FY21	
PBT & Extraordinary	27.4	47.6	60.7	
Depreciation	4.0	4.8	6.7	
After other adjustments				
(Inc) / Dec in Working Capital	-21.7	-22.6	-37.8	
Taxes	-6.0	-8.2	-9.8	
Others	3.6	3.8	4.5	
CF from operating activities	7.4	25.3	24.3	
Purchase of Fixed Assets	-9.8	-48.2	-21.0	
Others	-7.0	8.0	0.0	
CF from investing activities	-16.8	-40.2	-21.0	
Proceeds from issue of shares	0.0	0.0	0.0	
Borrowings (Net)	21.0	13.5	-0.4	
Others	-3.6	-3.6	-8.4	
CF from financing activities	17.4	10.0	-8.8	
Net cash flow	8.0	-4.9	-5.5	
Effects of foreign currency translation				
Opening Cash & Bank	7.8	15.7	10.8	
Closing Cash & Bank	15.7	10.8	5.3	

Source: RHP, ICICI Direct Research

Exhibit 8: Balance sheet		₹ crore		
Year end March	FY19	FY20	FY21	
Liabilities				
Share Capital	8.0	8.0	20.1	
Reserves	71.7	109.7	145.9	
Total Shareholders Funds	79.7	117.7	166.0	
Minority Interest	0.0	0.0	0.0	
Long Term Borrowings	31.5	38.7	26.8	
Net Deferred Tax liability	3.3	4.5	2.8	
Other long term liabilities	0.0	0.0	1.4	
Long-term provisions	0.3	0.4	0.6	
Current Liabilities and Provisions				
Short term borrowings	39.9	40.5	49.3	
Trade Payables	22.1	31.6	47.5	
Other Current Liabilities	10.6	15.5	20.4	
Short Term Provisions	0.0	0.1	0.1	
Total Current Liabilities	72.7	87.7	117.3	
Total Liabilities	187.5	248.9	314.8	
Assets				
Net Block	54.6	99.3	108.6	
Capital Work in Progress	6.0	4.9	9.8	
Non-current investments	0.0	0.0	0.0	
Other Non Current Assets	13.3	12.4	12.1	
Current Assets, Loans & Advances				
Current Investments	0.0	0.0	0.0	
Inventories	35.6	63.6	72.0	
Sundry Debtors	41.3	49.6	90.7	
Cash and Bank	15.7	10.8	5.3	
Loans and Advances	1.4	1.7	1.9	
Other Current assets	19.6	6.8	14.2	
Current Assets	113.6	132.4	184.3	
Total Assets	187.5	248.9	314.8	

Source: RHP, ICICI Direct Research

Exhibit 9: Key ratios				
Year end March	FY19	FY20	FY21	
Per share data (₹)				
Adj. EPS	9.3	17.0	23.6	
Adj. Cash EPS	11.1	19.2	26.6	
BV	137.5	154.6	176.4	
DPS	0.0	0.0	0.0	
Operating Ratios (%)				
Gross Margin (%)	44.6	49.6	50.3	
EBITDA Margin (%)	16.4	20.9	21.9	
PAT Margin (%)	10.0	14.4	17.4	
Debtor Days	73	69	110	
Inventory Days	63	88	88	
Creditor Days	39	44	58	
Cash Conversion Cycle	97	113	140	
Return Ratios (%)				
Return on Assets (%)	11.0	15.2	16.6	
RoCE (%)	20.0	26.2	26.8	
Core RoIC (%)	22.0	27.0	24.9	
RoE (%)	25.8	32.1	31.5	
Solvency Ratios				
Total Debt / Equity	0.9	0.7	0.5	
Interest Coverage	8.3	13.1	15.4	
Current Ratio	1.6	1.5	1.6	
Quick Ratio	1.1	0.8	1.0	
Valuation Ratios (x)				
EV/EBITDA	66.5	40.9	34.2	
P/E	116.9	63.5	45.9	
P/B	7.9	7.0	6.1	
EV/Sales	10.9	8.5	7.5	

Source: RHP, ICICI Direct Research

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Avoid: Do not apply for the IPO

Subscribe only for long term: Apply for the IPO only from a long term investment perspective (>two years)



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