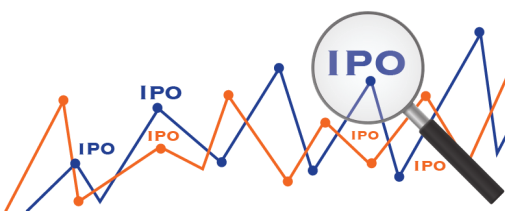




Tatva Chintan Pharma Chem Limited

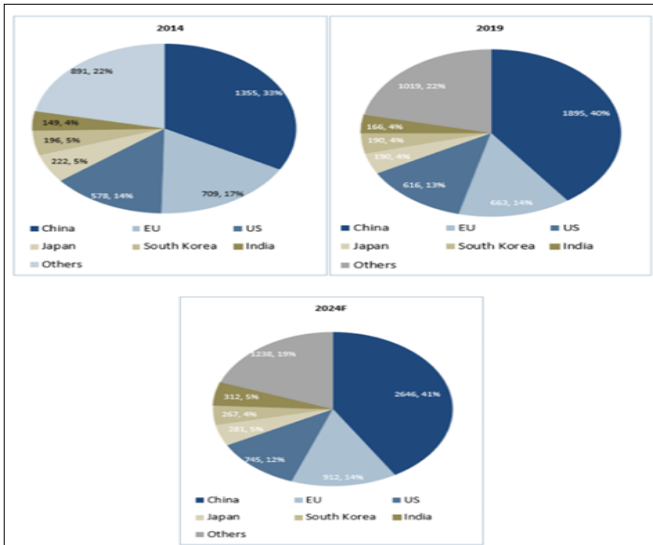
Issue Opens	Friday, July 16, 2021
Issue Closes	Tuesday, July 20, 2021
Price Band (in Rs)	1073/1083
Bid Lot	13 shares and multiples thereafter



IPO UPDATE
Tatva Chintan Pharma Chem Limited

Industry Overview: The global chemicals market is valued at around USD4,738bn with China accounting for major market share (37%) in the segment followed by European Union (17%) and US (14%). India accounts for ~3.5% market share in the global chemicals market. The global chemicals market is expected to grow at 6.2% CAGR; reaching USD6,400bn by 2024. The chemicals markets in Western Europe, North America, and Japan are relatively mature and hence would record slow growth rates of around 3-4%. The Indian chemicals market is valued at USD166bn (~4% share in the global chemical industry) while commodity chemicals account for almost 46%.

Exhibit 01: Global chemicals market from 2014 to 2024E



Source: Red Herring Prospectus

Global Phase Transfer Catalysts (PTC) Market: The catalyst functions as a detergent for solubilizing the salts into the organic phase. Phase-transfer catalysts, like ammonium salts among others have applications in Pharma and agrochemicals, which is likely to drive this market. PTCs 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. PTC are extensively used by the pharmaceuticals industry for synthesis, R&D, formulation, and laboratory applications. These catalysts also reduce the generation of industrial wastes. API makes up for the largest market share; the segment is also expected to show a significant growth in the market due to the demand for green chemistry as pharmaceutical ingredients. The growth of modern agricultural techniques and herbicides allows PTC to find huge applications in agro business; it is used to stop the growth of weed in some cases. They also promote herbicide production in an efficient manner with improved purity. India accounts for ~3.5% of the global PTC market. With the positive growth that the Indian Pharma industry experienced, the demand for PTCs has also grown in India. The demand for PTC is expected to grow owing to their advantages in realizing faster rate of reactions, achieving better yields or conversions, form a lesser number of by-products, eliminating the requirement for unsafe solvents and minimizing concerns associated with waste production. The increase in demand for the adoption of green chemistry in India will also boost this market. The growth of the Pharmaceutical and Agrochemical sector in India will drive the growth of the PTC market. The key manufactures in the Indian market are Tatva Chintan, Dishman Group, Delta Finocem, Pacific Organics Private Limited, Otto Chemie, TCI Chemicals and a few other smaller players.

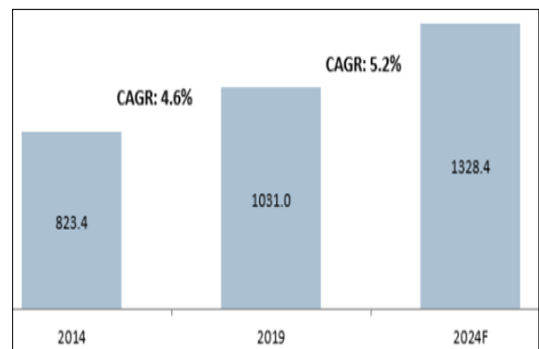
SNAPSHOT		
Issue Opens	Friday, July 16, 2021	
Issue Closes	Tuesday, July 20, 2021	
Price Band (Rs)	1073/1083	
Bid Lot	13 shares and multiples thereafter	
Face Value	Rs10	
Listing	BSE & NSE	
Type of Issue	Fresh Issue & OFS	
Offer Size (Rs Mn)	Fresh Issue	2,250
	OFS	2,750
	Total	5,000
*Implied Market Cap (Rs Mn)	24,005	
P/E (based on FY21 Earnings)*	45.93	

*Note: Implied Market Cap & P/E are calculated at upper price band of Rs1083

Issue Allocation	
Reservations	% of Net Issue
QIB	50
NIB	15
Retail	35
Total	100
Employee Reservation: NIL	

Object of the Offer
<ul style="list-style-type: none"> Funding capital expenditure requirements for expansion of the Dahej manufacturing facility and upgradation at the R&D facility in Vadodara General corporate purposes

Exhibit 02: Global PTC Growth Trend (2014 to 2024E)



Source: Red Herring Prospectus



IPO UPDATE

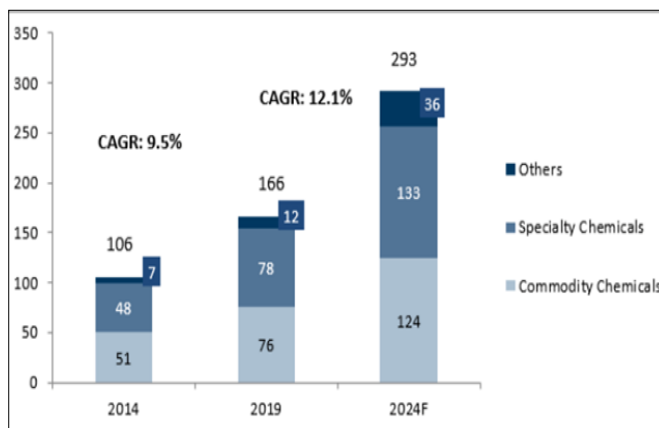
Tatva Chintan Pharma Chem Limited

Industry Overview (contd.):

Global Quats (Quaternary Ammonium Compounds)

Market: The global market for Quats (Quaternary Ammonium Compounds) is expected to grow at a CAGR of 6.8% from USD963.7mn in 2019 to USD1.4bn in 2024E. The growth in hospital-acquired infections, an increase in the geriatric population, growth in the prevalence of chronic disease, and the rise in the number of surgical procedures are fostering the demand for the Quats market. The market demand is driven by the increase in the prevalence of hospital-acquired infections (HAIs) and the introduction of strict regulations and favorable government policies on disinfection and sterilization. The developing economies are expected to give market players ample growth opportunities. India represents ~6% of the global Quats market standing at USD61mn. APAC represents ~28% of the market excluding India.

Exhibit 03: Global Quats Market by Geography



Source: Red Herring Prospectus

Applications-Refining Catalyst and Emission Control: Highly prolific approach for synthesis of novel zeolites is the use of tailor-made structure-directing agents (SDA). Areas in which zeolites show strong environmental potential are:

- Reduction of atmospheric NOx
- Reduction of atmospheric VOC's (including automotive cold start)
- Process improvements in the chemical industry

About the Company:

Tatva Chintan Pharma Chem Limited (Tatva) 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). It is the largest and only commercial manufacturer of SDAs for zeolites in India and 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). As a manufacturer of specialty chemicals, the company focuses on application of its products which form a key ingredient to the customers' manufacturing and industrial processes. Like the SDA and PTC products have various applications in green chemistry, which is pertinent considering the growing focus on green and sustainable technologies. Considering the wide application of its products, Tatva serves customers across various industries, including the automotive, petroleum, pharmaceutical, agro-chemicals, paints and coatings, dyes and pigments, personal care and flavour and fragrances industries. Apart from customers in India, it also exports products to over 25 countries, including the USA, China, Germany, Japan, South Africa and the UK. The company has set up its wholly owned subsidiaries in North America and Europe as their marketing & distribution arms which will allow it to cater to the demand of the domestic as well as the international markets.

Product Offerings: The 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.

(i) Structure Directing Agents (SDAs): SDAs are quaternary salts which are chemicals which 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). During FY19/20/21, the revenue from sale of SDAs was Rs253.83mn, Rs1,016.54mn and Rs1,202.43mn, respectively, which accounted for 12.30%, 38.62% and 40.03% respectively, of the revenue from operations.

(ii) Phase Transfer Catalysts (PTCs): 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. These 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 minimizing 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 (Source: F&S Report). During FY19/20/21, the revenue from sale of PTCs came in at Rs864.06mn, Rs749.11mn and Rs816.12mn respectively, which accounted for 41.88%, 28.46% and 27.17% respectively, of the revenue from operations.



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Tatva Chintan Pharma Chem Limited

Product Offerings (contd.):

(iii) **Electrolyte Salts:** are used in the manufacture of super capacitor batteries, which are used in automobile batteries and other batteries. Tatva is the largest producer of electrolyte salts for super capacitor batteries in India (Source: F&S Report). During FY19/20/21, revenue from sale of electrolyte salts for super capacitor batteries was Rs32.02mn, Rs46.29mn and Rs30.35mn which accounted for 1.55%, 1.76%, and 1.01% respectively, of the revenue from operations.

(iv) **Pharma, Agrochem intermediates and other specialty chemicals:** The products manufactured by the company 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. During FY19/20/21, the revenue from sale of PASC stood at Rs874.58mn, Rs764.91mn and Rs912.18mn; which accounted for 42.39%, 29.06%, and 30.37% respectively, of the revenue from operations.

The 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.

Opportunities:

1. With the recent developments in emission control and refining catalyst applications, Tatva Chintan's deep knowledge about the SDA for Zeolites market helps it to gain the market position. Tatva Chintan's key chemistries and products are gaining importance in the global market. The global production of Tetramethyl Ammonium Hydroxide was valued at around USD1.2bn in 2019. Having multiple applications, to inhibit nanoparticle aggregation, the Tetramethyl Ammonium Hydroxide market is expected to grow at over 7% CAGR through 2020-25E with Korea and China dominating the market, however, with just 2-3 players in the domestic market, Tatva stands an opportunity to expand and explore the global market.

2. Tetrapropylammonium bromide and Tetraethyl Ammonium Hydroxide, Tatva's key products are used as reagents in the synthesis of zeolite. Tatva Chintan's products are critical in the manufacturing of zeolites as the charge distribution and the size and geometric shape of a template are the causes of including structure-directing agents. This growth in the demand for zeolites as a catalyst is in turn driving the growth of these products. Tatva is the only company which manages the entire value chain across the globe.

3. Tatva is among the key players in the battery electrolyte segment. With a growth in the Automobile and Electronics segment, the battery electrolyte segment across the globe is expected to witness a huge growth. Tatva, with its expertise in organic battery electrolytes has witnessed upward sales over 21% in FY20 as compared to FY19. Tatva is the largest producers of organic battery electrolytes for super capacitors in India.

4. Tatva is among the key players in the specialty chemicals segment, with its range of products finding applications among the high growth segments mentioned earlier. Engaged in manufacturing of a variety of disinfectants, catalysts, agro and pharmaceuticals intermediates and other specialty intermediates, the company has a good product mix across sectors of agrochemicals, pharmaceuticals, personal care, etc.

5. Tatva is one of the largest producers of Glymes across the globe. It is the largest producer of Glymes in India and third largest in the world. In terms of sales, Tatva has managed to see a positive double digit growth in sales of pharma, agro Intermediates & other specialty chemicals in the past 3 years. Having surpassed a sales figure of ~4.9KT in FY20, Tatva managed to clock 11% y-o-y growth.

6. Tatva is best positioned to reap the benefits of the on-going government incentives and initiatives to revive the agrochemicals and pharmaceutical API industry and decrease over reliance on Chinese imports.

7. Ethyltriphenylphosphonium Bromide (ETPB) is a phase transfer catalyst that is used to speed up the treatment of epoxy resins based on phenolics, some fluoroelastomer resins and powder coatings. During the forecast era, a decent growth in the automotive and construction industry in the country is expected to drive the epoxy resin market and thereby the demand for ETPB. Benzyl Trimethyl Ammonium Chloride (BTMAC) is used as a cellulose solvent, a polyester resin gel inhibitor, a chemical intermediate, a rubber industry paint dispersant, and as an acrylic dyeing assistant. Growing demand from the construction industry, coupled with rising infrastructure activities, is driving the demand for paints and coatings thereby benefitting BTMAC.



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Tatva Chintan Pharma Chem Limited

Strengths:

- ⇒ **Leading manufacturer of structure directing agents and phase transfer catalysts, with consistent quality:** With very few players in the Indian and global market, Tatva is the largest and only commercial manufacturer of SDAs for zeolites in India.
- ⇒ **Global presence with a wide customer base across various industries having high entry barriers:** The company supplies products to customers in India and exports to over 25 countries, including the US, China, Germany, Japan, South Africa & UK.
- ⇒ **Diversified specialised product portfolio requiring strong technical know-how:** Tatva has over the years, diversified, expanded, and evolved operations into manufacturing of pharmaceutical and agrochemical intermediates and other specialty chemicals, which have diverse applications across various industries.
- ⇒ Modern manufacturing facilities with a focus on 'green' chemistry processes.
- ⇒ **Strong R&D capabilities:** The R&D efforts are mainly focused on development of new products, improvement of existing production processes, adoption of advance production technology and improvement of the quality of existing products.

Strategies:

- Expand the existing product portfolio
- Further develop the R&D capabilities
- Increase wallet share with existing customers and continued focus to expand customer base
- Expand the existing manufacturing capacities to capitalise on industry opportunities

Financials:

The company had an installed production capacity of 280KL and 13 assembly lines at its manufacturing facilities (as of Dec-20). Pursuant to the proposed expansion, it intends to enhance the installed capacity by 200KL and 14 assembly lines. For FY21, the company reported a revenue of Rs3,004mn against Rs2,632mn a year ago. Net profit stood at Rs523mn v/s Rs378mn. It does not face any seasonality for revenue generation and Q4FY21 had seen a regular natural growth. The RONW stood at 31.5%. Gross margins have gradually moved to ~50% from the earlier 44-46% due to product mix change and higher concentration on SDA business. Tatva has been successful in passing through the price hikes if any to its customers. It enjoys certain tax benefits due to the Dahej plant which will come to an end next year, (50%) MAT tax to continue for next 3-4 years. Going forward, once the capacities are in place, the revenues are expected to increase by 18-19%. The company is focused on improving the margins going forward. Currently, Tatva has Rs1,019mn of loans and is looking at becoming debt free by FY24-25E. It is trading at a PE of 46x on the upper price band; discount to the industry average of 56x for other players in the specialty chemical market.

Exhibit 4: Financial Snapshot

Revenues (Rs mn)	FY19	FY20	FY21
Sales	2,063	2,632	3,004
EBITDA	338	550	657
EBITDA Margin %	16.4	20.9	21.9
Net Profit After Tax	205	378	523
Net Profit Margin %	10.0	14.4	17.4
Earning Per Share	10.2	18.8	26.0
RoNW (%)	25.8	32.1	31.5

Source: RHP, Progressive Research

Risks and Concerns:

- Unplanned slowdowns or shutdowns at manufacturing operations. Failure to comply with the quality standards and technical specifications prescribed by such customers may lead to loss of business.
- Increase in the cost of raw materials as well as dependency on limited number of suppliers for certain raw materials.
- Significant portion of the revenue comes from a few customers and the loss of one or more such customers would lead to deterioration of financial condition or prospects.
- The manufacturing facilities are concentrated in a single region and any adverse development would impact revenues.
- Any adverse changes in regulations governing the business.
- The company is subject to risks resulting from foreign exchange rate fluctuations.
- Competition from existing players and new entrants and consequent pricing pressure

Outlook and Recommendations: Products manufactured by Tatva are basically export oriented as the product category is not that matured in India as compared to other developed markets. The company has deliberately not applied for patents as they intend to keep the technology guarded with themselves. There is no direct peer comparison for the company in India. The other companies in the specialty chemicals division which are niche in their own domain are to be taken as a reference point only. Tatva has deliberately chosen to park the IPO proceeds for further growth and capex, rather than choosing the option to retire debt. This is also a smart move as the company is running at almost full capacity. The management is confident of generating good cash from the upcoming expansion and thereby has indicated to retire debt over the next 3-4 years. There are many strong barriers to entry and is a good moat for the company. Tatva intends to work further towards the chemistries related to NOx i.e. nitrogen oxides and its disintegrations. Currently there is no other technology to reduce Nox. Zero wastage or green chemistry/ technology is a good business where many chemical players will gradually have to move to and Tatva is already playing its role in this domain. **We would recommend a Subscribe to the IPO from a long term perspective.**



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Tatva Chintan Pharma Chem Limited

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