

TATVA CHINTAN LIMITED.

Incorporated in 1996, Tatva Chintan Pharma Chem Limited (Tatva Chintan) is a leading manufacturer of Structure Directing Agents (SDAs) and Phase Transfer Catalyst (PTCs) that have various applications in green chemistry. The company also manufactures Electrolyte Salts for super capacitor batteries (SCB) and Pharmaceutical & Agrochemical intermediates and other specialty chemicals (PASC). Its Product have application industries like automotive, petroleum, pharmaceutical, agrochemicals, paints and coatings, dyes and pigments, personal care and flavor and fragrances industries. As of FY21, they offered 47 products under their SDA, 48 products under the PTC, 6 products under the Electrolyte Salts for (SCB) and 53 products under their PASC portfolios.

Positives: (a) Leading manufacturer of structure directing agents and phase transfer catalysts, with consistent quality. (b) Global presence with a wide customer base across various industries having high entry barriers. (c) Diversified specialized product portfolio requiring strong technical know-how (d) Modern manufacturing facilities with a focus on 'green' chemistry processes. (e) Strong R&D capabilities.

Investment concerns: (a) Outbreak of the COVID-19 could have a significant effect on operations, and could negatively impact the business, revenues & financial condition (b) Unplanned slowdowns or shutdowns in manufacturing operations could have an adverse effect on business (c) Company is subject to quality requirements and strict technical specifications and audits by institutional customers. (d) Increase in the cost of raw materials.

Outlook & Valuation: Tatva Chintan's is the largest player in India for PTCs and the only manufacturer in India of SDAs for zeolites which have importance due to preference for green technologies. The company has shown good revenue and earnings growth and has healthy balance sheet with solid return ratios. It is raising funds for Capex and R&D requirements as they believe that there is strong growth opportunity available. Given the client additions, wide portfolio, its capabilities, and favorable outlook for the industry, we believe that Tatva Chintan can maintain healthy growth rates which justifies the ~46x FY21 EPS commanded by the company. Hence, we recommend "SUBSCRIBE" to the issue.

Key Financials

| Y/E March (₹ cr) | FY2019 | FY2020 | FY2021 |
|-------------------|------------|-------------|-------------|
| Net Sales | 206 | 263 | 300 |
| % chg | - | 27.6 | 14.1 |
| Net Profit | 21 | 38 | 52 |
| % chg | - | 84.0 | 38.3 |
| EBITDA (%) | 16.4 | 20.9 | 21.9 |
| EPS (₹) | 9.0 | 17.0 | 23.6 |
| P/E (x) | 120.4 | 63.5 | 45.9 |
| P/BV (x) | 30.1 | 20.4 | 14.5 |
| ROE (%) | 50.0 | 38.3 | 36.8 |
| ROCE (%) | 29.0 | 22.4 | 24.1 |
| EV/EBITDA | 72.8 | 45.1 | 37.8 |
| EV/Sales | 11.9 | 9.4 | 8.3 |

Source: Company, Angel Research.

Note: Valuation ratios at upper price band.

SUBSCRIBE

Issue Open: July 16, 2021

Issue Close: July 20, 2021

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹20.1 cr

Offer for Sale: 275 cr

Fresh issue: 225 cr

Post Eq. Paid up Capital: ₹22.2cr

Issue size (amount): ₹500 cr

Price Band: ₹1,073-1,083

Lot Size: 13 shares and in multiple thereafter

Post-issue mkt. cap: * ₹2,380 cr - ** ₹2,400 cr

Promoters holding Pre-Issue: 100%

Promoters holding Post-Issue: 79.17%

*Calculated on lower price band

** Calculated on upper price band

Book Building

| | |
|-------------------|--------------|
| QIBs | 50% of issue |
| Non-Institutional | 15% of issue |
| Retail | 35% of issue |

Post Issue Shareholding Pattern

| | |
|-----------|-------|
| Promoters | 79.2% |
| Others | 20.8% |

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Company background

Company was incorporated as 'Tatva Chintan Pharma Chem Private Limited' on June 12, 1996. The company was promoted by Ajaykumar Mansukhlal Patel, Chintan Nitinkumar Shah, and Shekhar Rasiklal Somani. Currently promoters hold 16,175,850 Equity Shares in aggregate, representing 80.53% of the issued, subscribed and paid-up Equity Share capital of the company. As of FY21, PTC, SDAs, and PASC accounted for 27%, 40%, and 30% of revenues from sale of products, respectively.

Issue details

The issue comprises of offer for sale of upto ₹275 crore and Fresh issue of 225 Cr in the price band of ₹1073-1083.

Pre and post IPO shareholding pattern

| No of shares | (Pre-issue) | % | (Post-issue) | % |
|--------------|-------------------|--------------|-------------------|--------------|
| Promoter | 20,087,500 | 100.0 | 17,548,256 | 79.2 |
| Public | 0 | 0.0 | 4,616,806 | 20.8 |
| Total | 20,087,500 | 100.0 | 22,165,062 | 100.0 |

Source: Company, Angel Research & RHP.

Objectives of the Offer

- Funding capital expenditure requirements for expansion of the Dahej Manufacturing Facility.
- Funding capital expenditure requirements for upgradation at the R&D facility in Vadodara, and
- General corporate purposes.

Key Management Personnel

Chintan Nitinkumar Shah is the Managing Director on the Board and has over 24 years of experience. He is responsible for, among others, business development and finance and information services, in the company.

Ajaykumar Mansukhlal Patel is the Whole Time Director on the Board and has over 26 years of experience. He is responsible for, among others, project engineering and the development and implementation of new technology, in the company.

Shekhar Rasiklal Somani is the Whole Time Director on the Board and has over 24 years of experience. He is responsible for business development, production controlling, quality, and supply chain management, in the company.

Mahesh Tanna is the Chief Financial Officer of the company. He has been associated with the company since December 22, 2020 and has experience of over 21 years

Subhash Ambubhai Patel is the Independent Director on the Board and has over 33 years of experience in accountancy and audit.

Exhibit 1: Consolidated Profit & Loss Statement

| Y/E March (₹ Cr) | FY2019 | FY2020 | FY2021 |
|---|------------|-------------|-------------|
| Total operating income | 206 | 263 | 300 |
| % chg | - | 27.6 | 14.1 |
| Total Expenditure | 173 | 208 | 235 |
| Cost of materials consumed | 118 | 146 | 151 |
| Purchases of stock-in-trade | 0 | 2 | 3 |
| Changes In Inventories | (4) | (16) | (4) |
| Employee benefits expense | 16 | 21 | 24 |
| Other expenses | 42 | 55 | 61 |
| EBITDA | 34 | 55 | 66 |
| % chg | - | 62.6 | 19.6 |
| (% of Net Sales) | 16.4 | 20.9 | 21.9 |
| Depreciation & Amortization | 4 | 5 | 7 |
| EBIT | 30 | 50 | 59 |
| % chg | - | 68.4 | 17.6 |
| (% of Net Sales) | 14.4 | 19.1 | 19.6 |
| Finance costs | 4 | 4 | 4 |
| Other income | 0 | 1 | 6 |
| (% of Sales) | 0.2 | 0.5 | 2.0 |
| Recurring PBT | 26 | 46 | 55 |
| % chg | - | 76.7 | 18.5 |
| Exceptional item | (1) | - | - |
| Tax | 7 | 10 | 8 |
| PAT (reported) | 21 | 38 | 52 |
| % chg | - | 84.0 | 38.3 |
| (% of Net Sales) | 10.0 | 14.4 | 17.4 |
| Basic & Fully Diluted EPS (Rs) | 9.0 | 17.0 | 23.6 |

Source: Company, Angel Research

Exhibit 2: Consolidated Balance Sheet

| Y/E March (₹ Cr) | FY2019 | FY2020 | FY2021 |
|--------------------------------|------------|------------|------------|
| SOURCES OF FUNDS | | | |
| Equity Share Capital | 8 | 8 | 20 |
| Other equity | 72 | 110 | 146 |
| Shareholders' Funds | 80 | 118 | 166 |
| Total Loans | 77 | 91 | 90 |
| Other liabilities | 4 | 5 | 4 |
| Total Liabilities | 160 | 213 | 260 |
| APPLICATION OF FUNDS | | | |
| Property, Plant and Equipment | 54 | 99 | 109 |
| Right-of-use assets | 12 | 12 | 12 |
| Capital work-in-progress | 6 | 5 | 10 |
| Intangible assets | 0 | 0 | 0 |
| Non-Current Investments | - | - | - |
| Current Assets | 114 | 133 | 184 |
| Inventories | 36 | 64 | 72 |
| Investments | - | - | - |
| Trade receivables | 41 | 50 | 91 |
| Cash and Cash equivalents | 16 | 11 | 5 |
| Loans & Other Financial Assets | 10 | 3 | 3 |
| Other current assets | 11 | 6 | 13 |
| Current Liability | 27 | 36 | 55 |
| Net Current Assets | 87 | 97 | 130 |
| Other Non-Current Asset | 0 | 0 | 0 |
| Total Assets | 160 | 213 | 260 |

Source: Company, Angel Research

Exhibit 3: Consolidated Cash flows

| Y/E March (₹cr) | FY2019 | FY2020 | FY2021 |
|--|-------------|-------------|-------------|
| Operating profit | 27 | 48 | 61 |
| Net changes in working capital | (22) | (23) | (38) |
| Cash generated from operations | 13 | 34 | 34 |
| Direct taxes paid (net of refunds) | (6) | (8) | (10) |
| Net cash flow from operating activities | 7 | 25 | 24 |
| Purchase of Assets | (10) | (48) | (21) |
| Interest received | 0 | 1 | (0) |
| Others | (7) | 7 | 0 |
| Cash Flow from Investing | (17) | (40) | (21) |
| Repayment (long term borrowings) | 13 | 13 | (9) |
| Repayment (short term borrowings) | 8 | 1 | 9 |
| Proceeds from issue/repayment debentures | - | - | - |
| Interest paid | (4) | (4) | (4) |
| Interest on Lease liabilities | - | - | - |
| Others | (0) | (0) | (4) |
| Cash Flow from Financing | 17 | 10 | (9) |
| Inc./(Dec.) in Cash | 8 | (5) | (5) |
| Opening Cash balances | 8 | 16 | 11 |
| Closing Cash balances | 16 | 11 | 5 |

Source: Company, Angel Research

Key Ratios

| Y/E March | FY2019 | FY2020 | FY2021 |
|------------------------------|--------|--------|--------|
| Valuation Ratio (x) | | | |
| P/E (on FDEPS) | 120.4 | 63.5 | 45.9 |
| P/CEPS | 100.2 | 56.4 | 40.7 |
| P/BV | 30.1 | 20.4 | 14.5 |
| EV/Sales | 11.9 | 9.4 | 8.3 |
| EV/EBITDA | 72.8 | 45.1 | 37.8 |
| Per Share Data (Rs) | | | |
| EPS (Basic) | 9.0 | 17.0 | 23.6 |
| EPS (fully diluted) | 9.0 | 17.0 | 23.6 |
| Cash EPS | 11 | 19 | 27 |
| Book Value | 36 | 53 | 75 |
| Returns (%) | | | |
| ROE | 50.0 | 38.3 | 36.8 |
| ROCE | 29.0 | 22.4 | 24.1 |
| Turnover ratios (x) | | | |
| Receivables (days) | 73 | 69 | 110 |
| Inventory (days) | 75 | 111 | 112 |
| Payables (days) | 47 | 55 | 74 |
| Working capital cycle (days) | 101 | 125 | 148 |

Source: Company, Angel Research

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