IPO Flash

July 14, 2021

Index

Tatva Chintan Pharma Chem Limited

IPO Details:	
Issue opens	Friday, July 16, 2021
Issue closes	Tuesday, July 20, 2021
Issue size	up to Rs. 500 crore
Issue details	i) Fresh issue aggregating up to Rs 225 crore (ii) Offer for Sale aggregating up to Rs. 275 crore
Face Value	Rs. 10 per share
Price Band	Rs. 1,073-1,083 per equity share
Bid Lot	13 shares and in multiples thereof
Issue Structure	
QIB portion	Not more than 50% of the issue size
Non-Institutional portion	Not less than 15% of the issue size
Retail portion	Not less than 35% of the issue size
BRLMs	ICICI Securities, JM Financial

Source: Company RHP

Shareholding pattern

Shareholder	Pre-offer		No. of Shares offered*	Post-offer	
	Number of Equity Shares	% of Total Equity Share Capital		Number of Equity Shares	% of Total Equity Share Capital
Promoter & Promoter Group					
Promoters	1,61,75,850	80.53%	16,40,813	1,45,35,037	65.58%
Promoter Group	39,11,650	19.47%	8,98,431	30,13,219	13.59%
Total for Promoter and Promoter Group	**2,00,87,500**	**100.00%**	**25,39,244**	**1,75,48,256**	**79.17%**
Public	-	-	-	46,16,806	20.83%
Total - Public	**-**	**-**	**-**	**46,16,806**	**20.83%**
Total Equity Share Capital	**2,00,87,500**	**100.00%**	**25,39,244**	**2,21,65,062**	**100.00%**

*Source: Company RHP, * No. of shares offered at upper price band*

Object of the Issue

Particulars	Amount (Rs crore)
Funding capital expenditure requirements for expansion of company's Dahej Manufacturing Facility	Rs 147.1 cr
Funding capital expenditure requirements for upgradation at company's R&D facility in Vadodara	Rs 23.97 cr
General corporate purposes	-

Source: Company RHP

About the company:

Company Background:

TCPCL a player in the specialty chemicals segment that manufactures 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: Frost & Sullivan Report). In addition, 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 (Source: F&S Report). Apart from customers in India, TCTCL also export their products to over 25 countries, including USA, China, Germany, Japan, South Africa and the UK.

Key Products:

The company manufactures over 154 products which can be divided into the following four broad categories:

Structure directing agents (SDAs): SDAs are quarternary salts, which are chemicals which helps 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. For FY2019, FY2020, and FY2021, the company's revenue from sale of SDAs stood at Rs. 25 crore, Rs 102 crore and Rs 120 crore, respectively, which accounted for 12.30%, 38.62% and 40.03% respectively, of revenue from operations.

Phase transfer catalysts (PTC): PTCs facilitate the migration of a reactant from one phase into another where the reaction occurs, in a heterogeneous multi-phase system. PTCs are used for a variety of industrial processes. Phase transfer catalysts eliminate the need for costly and unsafe solvents that can dissolve all reactants in one phase, and costly raw materials, thus 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 (Source: F&S Report). For FY2019, FY2020, and FY2021, revenue from sale of PTCs was Rs 86 crore, Rs 75 crore, and Rs 82 crore, respectively, which accounted for 41.88%, 28.46% and 27.17% respectively, of revenue from operations.

Electrolyte salts for super capacitor batteries: Electrolyte salts used to manufacture of super capacitor batteries, which are used in automobile batteries and other batteries. TCPCL is the largest producer of electrolyte salts for super capacitor batteries in India (Source: F&S Report). For FY2019, FY2020, and FY2021, revenue from sale of electrolyte salts for super capacitor batteries was Rs 3 crore, Rs 4 crore and Rs 3 crore, respectively, which accounted for 1.55%, 1.76%, and 1.01% respectively, of revenue from operations.

Pharmaceutical and agrochemical intermediates and other specialty chemicals (PASCs): These products are used to manufacture various pharmaceutical and agrochemical products as intermediates, disinfectants and catalysts, and solvents. In addition, the company also manufactures specialty chemicals under this category that are used in dyes and pigments, personal care ingredients, flavour and fragrance sectors. For FY2019, FY2020, and FY2021, revenue from sale of PASCs was Rs. 87 crore, Rs. 76 crore and Rs. 91 crore, respectively, which accounted for 42.39%, 29.06%, and 30.37% respectively, of revenue from operations.

Manufacturing facilities and capacities

TCPCL currently has two manufacturing facilities situated at Ankleshwar and Dahej respectively. The manufacturing facilities employ various modern machinery and equipment, including reactors, Assembly Lines, ANFDs, centrifuges and RCVDs. These equipments enable the facilities to undertake various chemistry processes, such as, quaternisation, methylation, amination, phase transfer reactions, cyclization, halogenation, condensation, and electrolysis. The details of the installed production capacity, available capacity, actual production and capacity utilisation at the manufacturing facilities for FY2019, FY2020, and FY2021, are as below:

Fiscal	Ankleshwar Manufacturing Facility			Dahej Manufacturing Facility			Total		
	Installed production capacity at end of Fiscal	Available production capacity for the Fiscal	Capacity utilization	Installed production capacity at end of Fiscal	Available production capacity for the Fiscal	Capacity utilization	Installed production capacity at end of Fiscal	Available production capacity for the Fiscal	Capacity utilization
Fiscal 2021	Reactor capacity: 90 KL Assembly Lines: 3	Reactor capacity: 90 KLA ssembly Lines: 3	Reactors - 84.22% Assembly - 68.01%	Reactor capacity: 190 KL Assembly Lines: 14	Reactor capacity: 190 KL Assembly Lines: 11	Reactors – 61.57% Assembly – 50.72%	Reactor capacity: 280 KL Assembly Lines: 17	Reactor capacity: 280 KL Assembly Lines: 14	Reactors – 68.85% Assembly – 54.5%
Fiscal 2020	Reactor capacity: 90 KL Assembly Lines: 3	Reactor capacity: 90 KLA ssembly Lines: 3	Reactors - 94.82% Assembly - 34.58%	Reactor capacity: 190 KL Assembly Lines: 10	Reactor capacity: 90 KL Assembly Lines: 8	Reactors – 90.34% Assembly – 91.47%	Reactor capacity: 280 KL Assembly Lines: 13	Reactor capacity: 180 KL Assembly Lines: 11	Reactors – 90.34% Assembly – 91.47%
Fiscal 2019	Reactor capacity: 90 KL Assembly Lines: 3	Reactor capacity: 90 KLA ssembly Lines: 3	Reactors - 98.37% Assembly - 10.36%	Reactor capacity: 70 KL Assembly Lines: 7	Reactor capacity: 55 KL Assembly Lines: 7	Reactors – 77.34% Assembly – 18.87%	Reactor capacity: 160 KL Assembly Lines: 10	Reactor capacity: 145 KL Assembly Lines: 10	Reactors – 77.34% Assembly – 18.87%

Source: Company RHP

Management details

Brief Profiles of Directors

Chintan Nitinkumar Shah is the Managing Director. He holds a Bachelor's degree in engineering, with a specialisation in computer science from the Maharaja Sayajirao University of Baroda. He is responsible for, among others, business development and finance and information services. He has over 24 years of experience in the specialty chemicals industry.

Ajaykumar Mansukhlal Patel is a Whole-Time Director. He holds a Bachelor's degree in engineering, with a specialisation in chemical engineering from the Maharaja Sayajirao University of Baroda. He is responsible for, among others, project engineering and the development and implementation of new technology. He has over 26 years of experience in the specialty chemical manufacturing industry. He was previously associated with Sun Pharmaceutical Industries Limited as Officer – Chemical Engineering.

Shekhar Rasiklal Somani is a Whole-Time Director. He holds a Bachelor's degree in pharmacy from the Maharaja Sayajirao University of Baroda. He is responsible for business development, production controlling, quality, and supply chain management. He has over 24 years of experience in the specialty chemical manufacturing industry.

Manher Chimanlal Desai is an Independent Director. He holds a Bachelor's degree in science, a master's degree in science (specialising in organic chemistry), and a doctorate in science from the University of Mumbai. He has previously been associated with Indian Dyestuff Industries Limited, Metrochem Industries Limited, Alaknanda Organics Limited, and Heubach Colour Private Limited.

Subhash Ambubhai Patel is an Independent Director. He holds a Bachelor's degree in commerce from The Maharaja Sayajirao University of Baroda. He is a fellow of the Institute of Chartered Accountants of India. He has over 33 years of experience in accountancy and audit. He is currently a partner at M/s S.A. Patel & Co, Chartered Accountants.

Avani Rajesh Umatt is an Independent Director. She holds a Bachelor's degree in science and a Master's Degree in Science (specialising in applied chemistry) from the Maharaja Sayajirao University of Baroda and a Doctorate in philosophy for Chemistry from the Sardar Patel University. She is currently associated with TeamLease Skills University as Associate Professor, Dean Academics, HOD, Department of Health, Life and Applied Sciences. She has previously been associated with the Sardar Patel University, Indiamalt Private Limited, Bharatiya Vidya Bhavan's Sardar Patel College of Engineering, The Maharaja Sayajirao University of Baroda, Global Discovery Academy, and GSFC University.

Key Managerial Personnel

Mahesh Tanna is the Chief Financial Officer. He has been associated with TCPCL since December 22, 2020. He is responsible for the finance, accounting, secretarial, legal, and banking functions. He holds a bachelor's degree in commerce from Saurashtra University, a bachelor's degree in law from the University of Mumbai, and a Master's degree in financial management from the University of Mumbai. He is also an associate member of the ICSI and has previously qualified in the ICAI's intermediate (integrated professional competence) examination. He has experience of over 21 years and has been previously associated with Esskay International, Overseas Infrastructure Alliance (India) Private Limited, Gold Star Corporate Solutions Private Limited, Indo Count Industries Limited, and Neogen Chemicals Limited.

Apurva Dubey is the Company Secretary and Compliance Officer. She has been associated with the Company since February 25, 2021. She is responsible for the company secretarial and compliance work. She holds a bachelor's degree in management studies from the University of Mumbai and a Bachelor's degree in law from The Maharaja Sayajirao University of Baroda. She is also an associate member of the ICSI. She has experience of over four years and has been previously associated with Pan Drugs Limited, BTW Atlanta Transformers India Private Limited, and Haver and Boecker India Private Limited.

Industry overview

Global Chemical Industry Overview

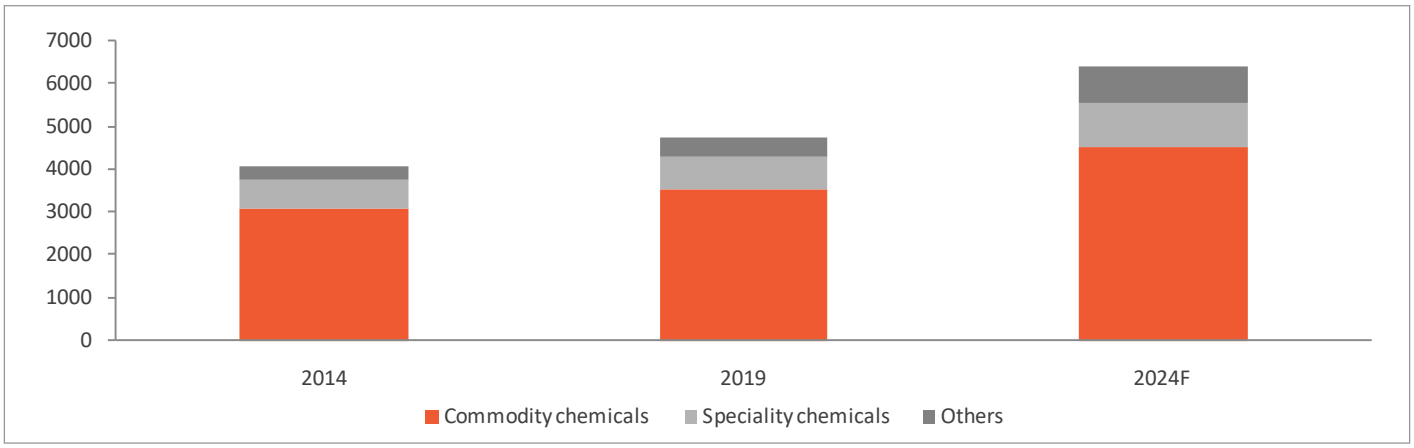
Global Chemicals Market

The global chemicals market is valued at around $4,738 billion with China accounting for major market share (37%) followed by the European Union (17%) and the US (14%). India holds a ~3.5% market share in the global chemicals market. The global chemicals market is expected to clock a 6.2% CAGR; reaching $6,400 billion by 2024. Going forward the APAC is anticipated to grow at the fastest rate of 7-8% during the forecast period (2019-24F). The chemicals markets in Western Europe, North America, and Japan are relatively mature and hence would record slow growth rates of around 3-4%.

Commodity Chemicals: The commodity chemicals market includes companies that manufacture basic chemicals in large volumes. These include plastics, synthetic fibres, films, certain paints and pigments, explosives and petrochemicals. There is limited product differentiation within the sector; products are sold for their composition. The commodities market is highly fragmented. The end user markets include other basic chemicals, specialties, and other chemical products; manufactured goods such as textiles, automobiles, appliances, and furniture; and pulp and paper processing, oil refining, aluminium processing, and other manufacturing processes. The markets also include some non-manufacturing industries. The sector is presently valued at ~$3,700 billion and is expected to grow at 5-6% globally in the next five years.

Specialty Chemicals: 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. Consolidation of companies has been a major trend in this market and is expected to continue. Similar to the commodity chemicals sector, the specialty chemicals 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 stood at ~$800 billion in 2019, and is expected to grow by 5-6% in the next five years.

Growth trends in global chemicals market

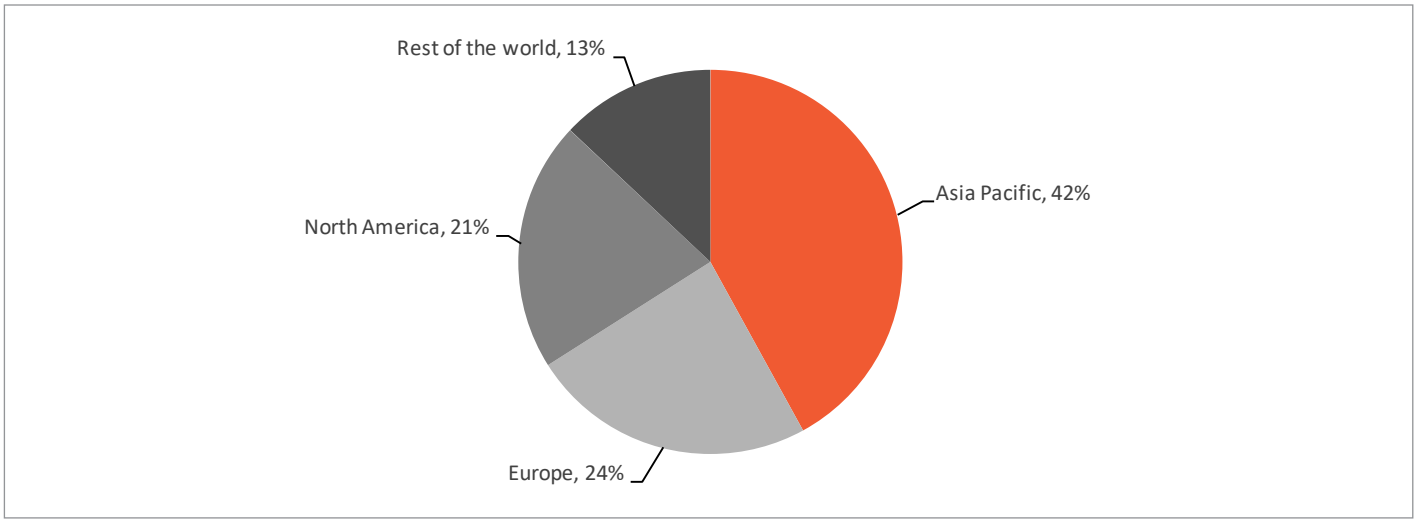


Source: Company RHP

Global specialty chemicals

Specialty chemicals are low-volume and high-value products, which are sold on the basis of quality or utility, rather than composition. Thus, they may be used primarily as additives or to provide a specific attribute to the end-products. Specialty chemicals are more likely to be prepared and processed in batches. The focus is on value addition to the end-product and the properties or technical specifications of the chemical.

Market by Geography



Source: Company RHP

Growth drivers

The COVID-19 pandemic has had an unprecedented impact on the global economy. Chemical companies in North America and Europe have specifically started focusing on operational efficiency, asset optimisation and cost management. On a short term basis, most companies are considering to implement a series of targeted, strategic initiatives across major functional areas such as R&D and technology. Companies are also keen on addressing long-term opportunities like investing in innovation, emerging applications, adopting new business models that generate sustained growth, analysing temporary versus permanent customer buying behaviour patterns across geographies.

The industry is expected to see the following trends in the next 2-5 years:

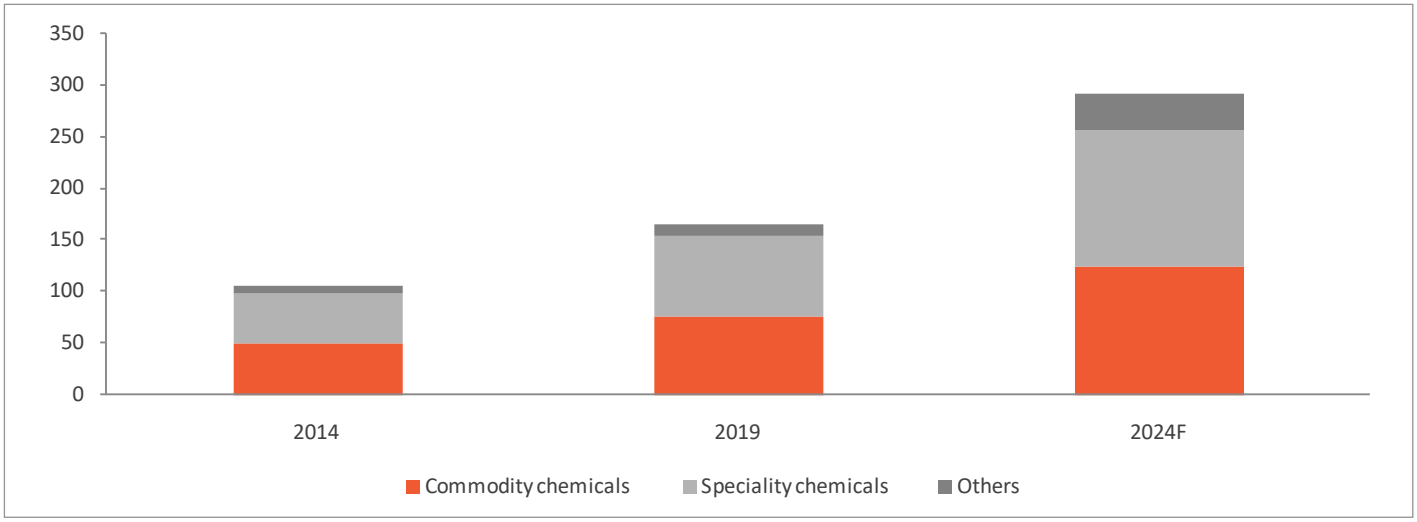
- Companies will try and shift their focus toward new value streams and growing end markets, such as healthcare and electronics.
- Most governments have announced policy proposals related to regulation, trade, and sustainability which could prove beneficial in shifting the dependence of the industry from China.
- Chemical companies are now experiencing significant changes in the way they operate and serve their customers by leveraging on remote and digital sales channels

India chemicals industry –An overview

The Indian chemicals market is valued at $166 billion (~4% share in the global chemical industry) with the commodity chemicals accounting for ~46%. It is expected to reach ~$280-300 billion in the next five years, with an anticipated growth of ~12% CAGR. The specialty chemicals industry forms ~47% of the domestic chemical market, which is expected clock 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 constitute of various differentiated chemicals used in the agro-space including pesticides, herbicides etc. Pharmaceutical APIs make up for the second largest share of ~20% of the specialty chemical market with an anticipated growth of over 11% by 2024F.

The specialty chemicals industry is driven by both domestic consumption and exports. India's specialty chemical companies are gaining favour with global MNCs because of the geopolitical shift after the outbreak of COVID-19 as the world looks to reduce dependence on China. Currently, China accounts for ~15-17% of the world's exportable specialty chemicals, whereas India accounts for just 1-2%, indicating that the country has large scope of improvement and widespread opportunity. It is anticipated that Specialty chemicals will be the next great export pillar for India.

Indian chemicals market:

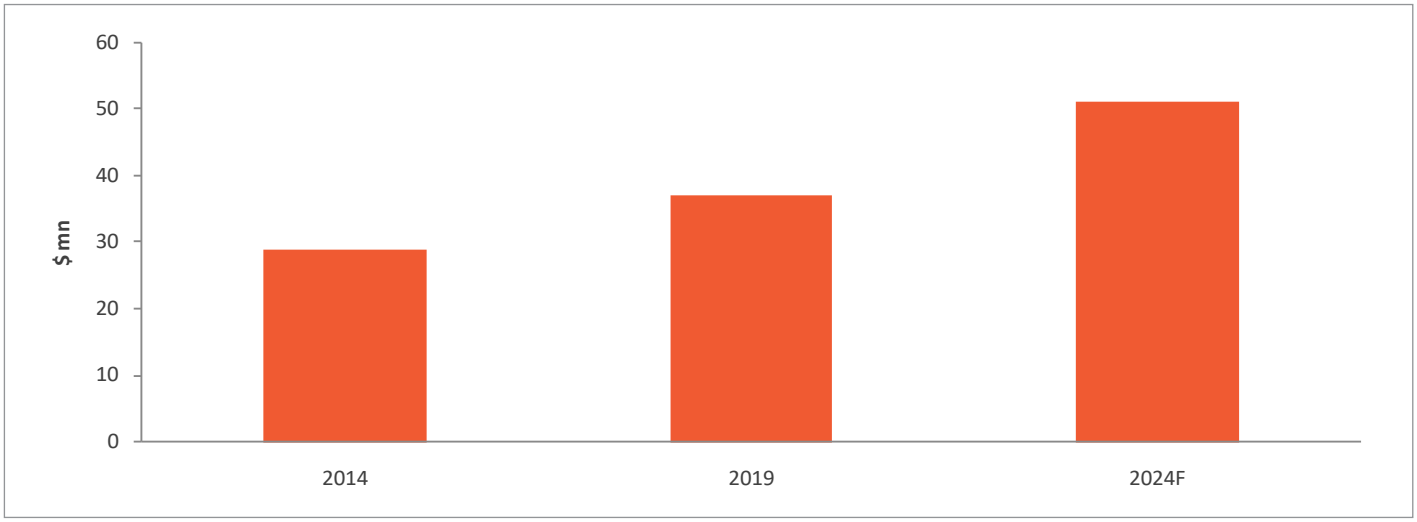


Source: Company RHP

Indian Phase Transfer Catalyst Market – An Overview

The growth of end-industries like pharmaceuticals and agrochemicals are driving the development of the PTC market in India. India accounts for ~3.5% of the global PTC market. With a few large manufacturers in India, India is keen on exports thereby aiming to improve its market share. With multiple initiatives from the government favourable for the growth of the pharmaceutical and agrochemical industries, India will see a growth in demand for PTCs at a CAGR 6.6% thereby increasing its market share to ~4% by 2024F. The Indian Phase Transfer Catalyst market is currently valued at a little over $37 million.

Indian PTC market

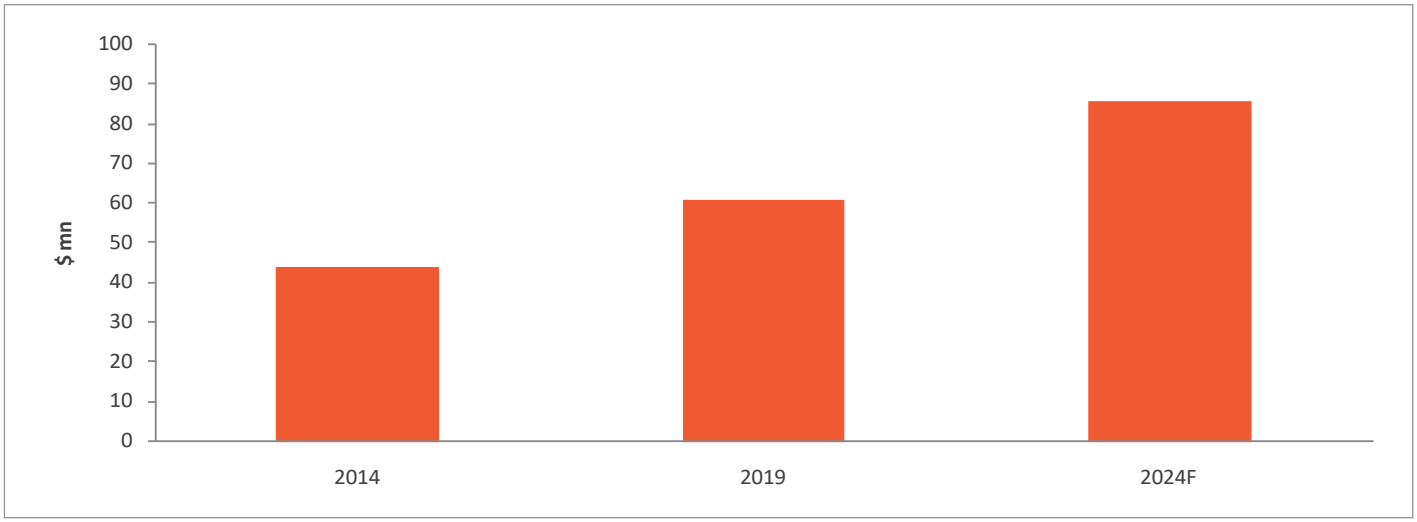


Source: Company RHP

India Quats market

The demand for quaternary ammonium compounds (QACs) is growing in the Asia-Pacific region owing to the increasing disposable incomes of people in China, and India, which is increasing the sales of personal care products. India is forecasted to grow with a CAGR of 7.1% during the forecast period . Quaternary ammonium compounds are usually used in personal care products, as conditioning agents during the production of the skin, cloth, and hair softeners and also as disinfectants in the food industry. With a rising concern over health & hygiene in addition to the support from the government in numerous ways to focus on disinfection, the market for QACs in India will see a boom.

India Quats Market

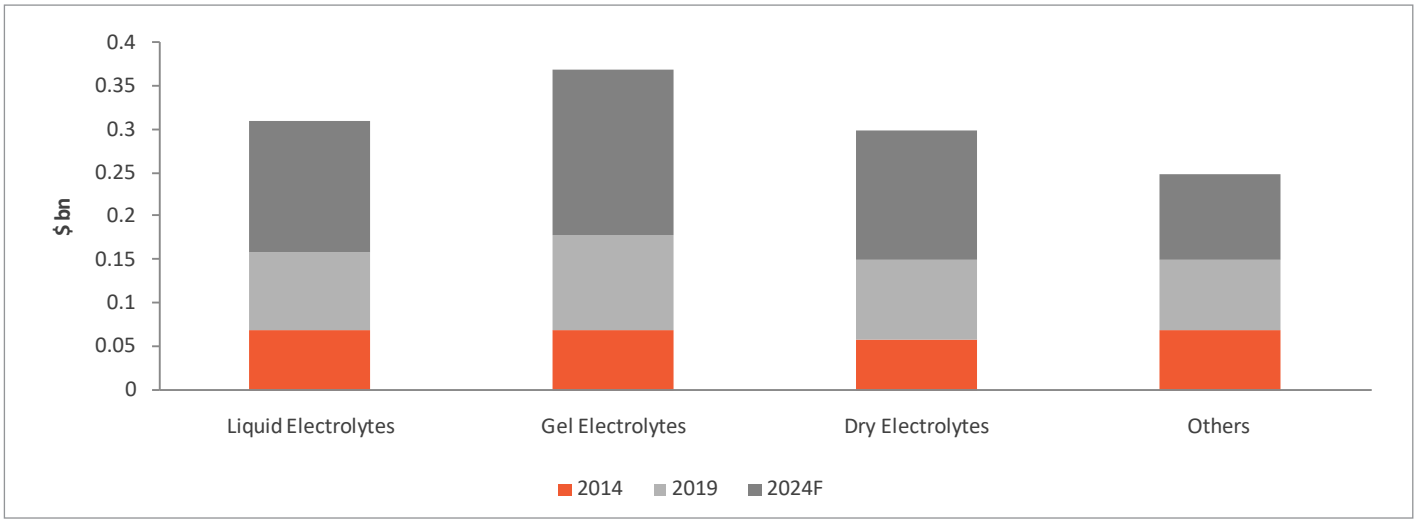


Source: Company RHP

Indian Battery Electrolyte market

India Battery Electrolyte market stands at $0.35-0.4 billion in 2019 projected to grow at 8-9% CAGR over the next half decade to reach $0.55-0.65 billion by 2024. The Indian battery electrolyte market is approximately 6-8% of the global market. The automotive and consumer electronics segments comprise more than half of India's market . The Automotive segment saw a drop in sales in the last 2 years; it is however, expected to bounce back and grow exponentially. The demand for Hybrid vehicles and Electric Vehicles will in turn boost the demand from the automotive and transport industry. With growing technological savvy population and better standards of living, the demand for consumer electronics in forms of phones, mobiles, laptops, music players, audio assistants and reading tablets among others is driving the Consumer Electronics market.

Indian battery electrolyte market



Source: Company RHP

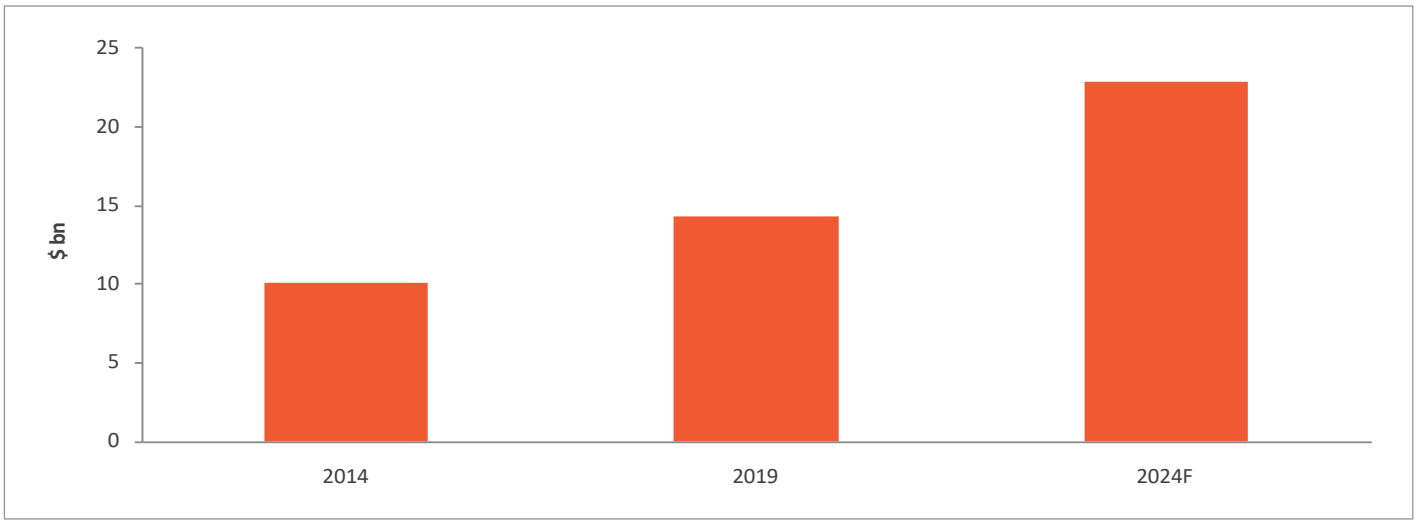
Indian specialty Intermediates market

Indian specialty intermediates market stands at $6.7 billion in 2019 and is projected to grow at 10.2% CAGR over the next half decade to reach $10.8 billion by the year 2024F. The Indian specialty intermediates market is approximately 5-6% of the global market. Pharmaceutical intermediates market comprise of more than half of the India specialty intermediates market. Some large-volume specialty intermediates used in pharmaceutical application are amides, chlorides, organic acids, hydrochlorides, amines, hydroxides, etc. Pharmaceutical and agrochemical segments are expected to grow exponentially in India leading to a growth in the market size of these application segments as well.

Indian Personal Care Market

The personal care industry in India is pegged at $14.3 billion, and expected to grow at a CAGR of 9.8% to reach $25 billion by 2025 . The personal care industry is one of the fastest growing consumer products sectors in India with a strong potential for foreign companies. From increasing shelf space in retail stores and boutiques in India to stocking products from around the world, the personal care sector in India has shown continued strong growth. Increasing disposable income and young rising middle class are significant factors driving the market in the country. The overall market is moving towards premiumisation, with the premium segment growing at 6.3%. Indian brands have a sizeable presence in the mass category, while premium segment is largely dominated by the international brands.

Indian personal care market

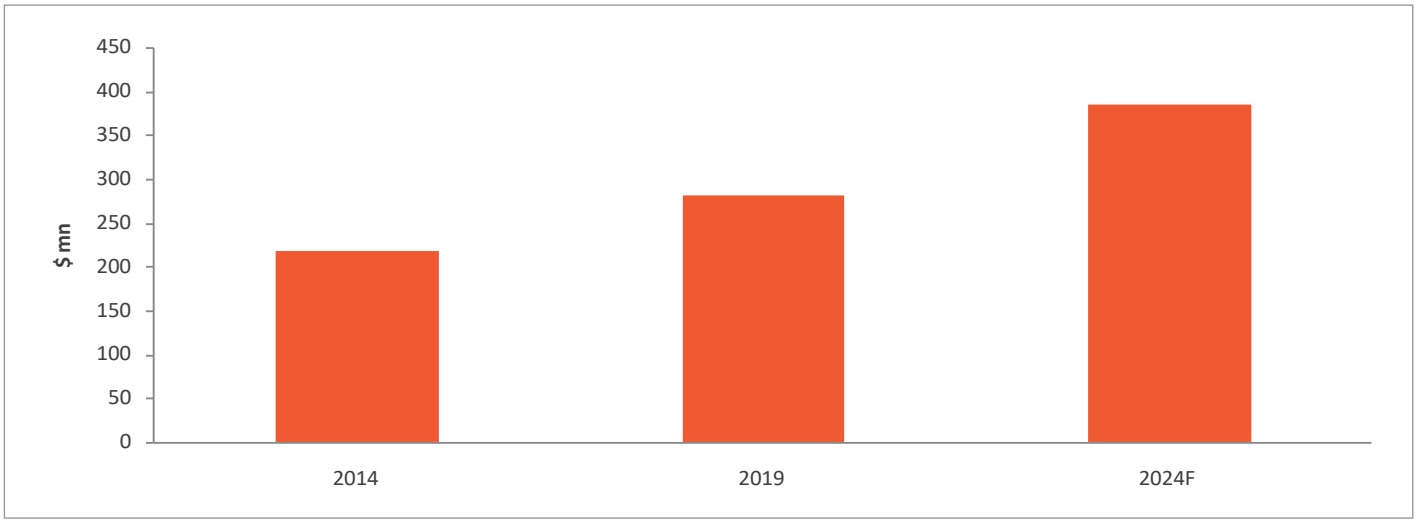


Source: Company RHP

India speciality amines

The Indian specialty amines market size was valued at over $280 Mn in 2019 and is estimated to grow over 6.5% CAGR between 2019 and 2025 owing to increasing awareness regarding personal health and hygiene and use of high-quality personal care products. The Indian specialty amines industry is broadly oligopolistic with Alkyl Amines Chemicals and Balaji Amines being two of the leading players in the market.

Market size trends



Source: Company RHP

Investment Rationale:

Leading manufacturer of structure directing agents and phase transfer catalysts, with consistent quality

With very few players in the Indian and global market, TCPCL 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). The company's strategically located manufacturing facilities and robust and technically sound R&D capabilities have enabled it to maintain the quality of their products. The global production of tetramethyl ammonium hydroxide was valued at around $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 2020-25F with Korea and China dominating the market. However, with just 2-3 players in the domestic market, TCPCL has an opportunity to expand and explore the global market. The SDA market remains highly consolidated with a handful of players operating at the global level. Opportunities in the automotive industry continue to grow, as compliance with the regulations regarding the emission control in commercial vehicles becomes a mandate worldwide. On a domestic level, the company is the only manufacturer in India (Source: F&S Report). In addition, the versatile applications as well as the non-regenerative nature of PTC products, helps in creating recurring demand for them. During the forecast period (2019-24F), 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. It is anticipated that the global phase transfer catalyst market will cross $1.4 billion by 2025F . The growth of the market is driven by a growing appetite for catalysts that can achieve faster reactions, higher yields and generate lower by-products (Source: F&S Report).

Global presence with a wide customer base across various industries having high entry barriers

TCPCL supplies products to customers in India and export to over 25 countries, including the USA, China, Germany, Japan, South Africa and the UK. During FY2019, FY2020, and FY2021, exports of products accounted for 69.57%, 76.74% and 70.58% of revenue from operations, respectively. The company has two wholly owned subsidiaries in the US and Netherlands, to facilitate the company's overseas operations. The company has established long-standing relationships with marquee players across various industries. Their 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. Of the entire customer base as of March 31, 2021, 46.86% have been customers for less than five years and 53.14% have been customers for over five years.

Diversified specialised product portfolio requiring strong technical know-how

TCPCL has over the years, diversified, expanded, and evolved its operations into manufacturing of pharmaceutical and agrochemical intermediates and other specialty chemicals, which have diverse applications across various industries. The expansion of product portfolio is primarily driven by the continuously evolving needs and R&D initiatives undertaken by customers, which is further supplemented by R&D capabilities. Most products form part of base raw materials required for the manufacture of products by customers. As of March 31, 2021, the company offered 47 SDA products, 48 PTC products, 6 electrolyte salts products for super capacitor batteries portfolio and 53 PASC products. Production of SDAs and electrolyte salts for super capacitor batteries requires strong technical know-how and sound technical expertise.

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

The company operates through two manufacturing facilities situated at Ankleshwar and Dahej. The manufacturing facilities are strategically located close to the Hazira port thereby enabling export and import operations and offering a cost and logistics advantage. The Ankleshwar Manufacturing Facility and Dahej Manufacturing Facility, which was established in 1996 and 2017 respectively comprises reactors, Assembly Lines, ANFDs, centrifuges, and RCVDs, with the necessary supporting infrastructure and utilities. They have also employed the latest available technology such as ANFDs which has helped improve productivity and the quality of the products manufactured. These facilities employ advanced analytical equipment that indicate impurities up to PPM levels, which enable them to certify products as 'ultra-pure' grade. In addition, they continuously strive to improve processes and infrastructure and help reduce impact

on the environment. In this regard, the company undertakes various 'green' chemistry processes such as electrolysis. The 'green' chemistry is based on the principles of clean chemistry, minimum requirement of auxiliary substances, minimum waste and by-products and safe chemistry. For instance, in the electrolysis process, apart from the single starting raw material, the process largely uses only water and electricity to produce the target product. The company's integrated model that includes manufacturing infrastructure, complex chemical processes and R&D capabilities has allowed to develop insights across the entire value chain right from process innovation and process development to performing manufacturing services for customers. The forward integration in operations enables to innovate processes, customize products and broaden product offering to meet the needs of customers.

Strong R&D capabilities

TCPCL's R&D efforts are mainly focused on development of new products, improvement of the company's existing production processes, adoption of advance production technology, and improvement of the quality of existing products. Of the products developed in last 10 years, 82 products have been successfully commercialized so far. Further, 82 products have been developed since March 31, 2011, and these products have contributed to 23.65%, 20.75%, and 12.88% of total revenue, in FY2021, FY2020, and FY2019, respectively. The company has a dedicated DSIR-approved R&D facility situated at Vadodara equipped with glass assemblies, continuous flow reactors, and high pressure autoclaves set-up with the ability to run reactions at temperatures ranging from -10°C to +300°C, and up to pressure conditions measuring up to 100 bar. They believe that continued focus on R&D helps maintain and increase market share by developing new products to cater to the evolving needs of its customers and also build and increase efficiencies in its manufacturing processes, thus helping produce high-quality products. This will also help them to maintain a cost advantage over competitors.

Business strategies:

Expand existing product portfolio

The company has consistently sought to diversify their portfolio of products which could cater to customers across segments, sectors, and geographies. They also intend to further diversify into products with prospects for increased growth and profitability. TCPCL 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, they intend 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. In addition, given the increasing number of environment conservation initiatives being undertaken by governments across the world, they believe that the demand for automotive emission control mechanisms is going to grow.

Further develop R&D capabilities

The company has consistently invested in R&D capabilities and technologies and have successfully implemented most of them based on market/customer demand at the company's manufacturing facilities over the years. During the Fiscals ended March 31, 2019, 2020, and 2021, TCPCL has incurred research and development expenditure aggregating to Rs 4 cr, Rs 4 cr, and Rs 5 cr, respectively. Their research and development capabilities have enabled them to expand product offerings from 72 products as at March 31, 2011 to more than 154 products as at March 31, 2021. In this regard, of the 2,787.00 square meters of land leased to the Company pursuant to agreements with the GIDC for premises at Vadodara, the company now intends to expand their R&D facility at Vadodara and utilise 1,887.00 square meters of the available land for the same. They are also aiming to develop technologies to produce conventional products using new-age technologies such as continuous flow chemistry and electrolysis processes.

Increase wallet share with existing customers and continued focus to expand customer base

TCPCL's customer base currently comprises a host of marquee companies including, inter alia, 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. The long standing relationships that they have enjoyed with customers over the years and the repeat and increased orders received from them are an indicator of their position as a preferred supplier to customers. Further,

the company plans on utilizing expanded geographical footprint to address the sourcing requirements of existing multinational customers as and when they enter new markets, thereby consolidating their position as a preferred supplier across geographies. Several global players prefer a "China + 1 offshore strategy", with capacities shifting to cost efficient markets with strong technology capabilities like India.

Expand existing manufacturing capacities to capitalise on industry opportunities

TCPCL has over the years, consistently grown their manufacturing and production capabilities. The Company's 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, they will look to add capacity in a phased manner to ensure to utilize capacity at optimal levels. For instance, out of the 51,822.64 square meters of land sub-leased to the Company pursuant to agreements with Dahej SEZ Limited for Dahej Manufacturing Facility, they intend to expand manufacturing facility at Dahej and utilise 31,724.19 square meters of the available land for the same.

Key concerns:

Failure to comply with the quality standards and technical specifications

Given the nature of the products, customers have high standards for product quality as well as delivery schedules. Adherence to quality standards is a critical factor in manufacturing process as any defects in the products manufactured by the Company or failure to comply with the technical specifications of customers may lead to cancellation of the orders placed by customers. Further, any failure to make timely deliveries of products in the desired quantity as per customers' requirements could also result in the cancellation of orders placed by customers and may adversely affect reputation and goodwill. As a result, they are required to incur expenses to maintain quality assurance systems such as periodic checking by the operators to ensure there is no defect from the previous stage operator, forming a separate team of engineers responsible for quality and assurance both in the manufacturing facility and machineries, and in the manufacturing processes.

Increase in the cost of raw materials

TCPCL's primary raw materials include tertiary amines, alkyl halides, general solvents and other general and fine chemicals. Cost of raw materials consumed was 50.24%, 55.52%, and 57.34% of revenue from operations in FY2021, FY2020, and FY2019, respectively. Expenditure incurred in respect of top 10 suppliers contributed 48.64%, 58.40%, 48.57%, respectively, to the purchases of raw materials and components during the year in FY2021, FY2020, and FY2019. The company does not have long term agreements with most of their raw material suppliers and acquire such raw materials pursuant to purchase orders from suppliers as a result of which, they are required to forecast supply and demand. Their inability to correctly forecast demand and supply may have a material adverse impact on working capital, business and results of operations.

Significant portion of revenue from a few customers

The success of business is accordingly significantly dependent on the company maintaining good relationships with customers and suppliers. The company depends on a limited number of customers for a significant portion of revenue. Their top 10 customers accounted for 59.99%, 58.44%, and 46.99%, respectively, revenue from operations in FY2021, FY2020, and FY2019. The loss of one or more of these significant customers or a reduction in the amount of business they obtain from them could have an adverse effect on business, results of operations, financial condition and cash flows.

Valuation and view

At IPO price band of Rs. 1,073-1,083 per share, the offer is valued at 45.5/45.9x its FY2021 EPS at lower and upper price band. TCPCL posted strong performance in FY2021 with revenues growing by 14% y-o-y and the operating profit growing by 20% y-o-y (OPM expansion of 100bps y-o-y at 22%). The reported PAT grew by 38% y-o-y to R52 crore in FY2021. TCPCL has a strong earnings track record with 60% PAT CAGR over FY2019-FY2021 and RoE of 31%. The company has a robust earnings growth outlook with strong market share, consistent focus on R&D, greater control over cost and strong long-standing relationships with key customers.

Peer comparison

Company	FY21 Revenue (Rs cr)	FY21 EPS (Rs)	RoE (%)	P/E (x)
Tatva Chintan Pharma Chem Limited upper band	300	23.6	31	45.9
Tatva Chintan Pharma Chem Limited lower band				45.5
Aarti Industries	4506.8	30	15	29
Navin Fluorine	1258.4	52	16	73
Alkyl Amines	1249.4	145	37	26
Vinati Organics	980.1	26	17	77
Fine Organics	1150.3	39	16	75

Source: Company RHP; Sharekhan Research Note: TCPCL's EPS is calculated using additional fresh equity of Rs. 225 crore at upper price band

FINANCIALS

Profit & Loss Account (re-stated) **Rs crore**

Particulars	FY19	FY20	FY21
Revenue from operations	206.31	263.24	300.36
Total revenue	206.31	263.24	300.36
Expenses			
Cost of materials consumed	118.29	146.16	150.91
Purchases of stock-in-trade	0.28	2.45	2.54
Changes In Inventories of WIP & Finished Goods	-4.33	-15.84	-4.06
Cost of good sold	114.24	132.77	149.39
Gross Profit	92.07	130.47	150.97
Gross Profit Margin	45%	50%	50%
Employee Benefit Expenses	16.31	20.53	24.13
Other expenses	41.95	54.99	61.13
Total expenses	172.51	208.29	234.66
EBITDA	33.80	54.95	65.70
EBITDA Margin	16%	21%	22%
Depreciation and amortization expense	4.02	4.79	6.73
EBIT	29.78	50.16	58.97
EBIT Margin	14%	19%	20%
Other income	0.49	1.38	5.93
Finance costs	3.63	3.95	4.21
Profit/(Loss) before exceptional and tax	26.64	47.60	60.70
Exceptional, Non-recurring items	-0.75	-	-
Profit / (loss) before tax	27.39	47.60	60.70
Tax expense			
Current tax	5.28	8.00	10.81
Deferred tax	1.69	1.15	-2.38
Tax for earlier years	-0.13	0.66	-
Tax	6.85	9.81	8.43
Profit/(Loss) after tax	20.54	37.79	52.26
PAT Margin	10%	14%	17%

Source: Company RHP

Cash flow statement (Re-stated) **Rs crore**

Particulars	FY19	FY20	FY21
Cash Generated from Operations after tax	7.36	25.31	24.32
Cash Generated from Investing activities	-16.77	-40.18	-21.01
Cash Generated from Financing activities	17.40	9.95	-8.80
NET INCREASE/ DECREASE IN CASH	**7.99**	**-4.92**	**-5.49**
Opening Balance	**7.76**	**15.75**	**10.83**
Closing Balance	**15.75**	**10.83**	**5.34**

Source: Company RHP

Balance Sheet (Re-stated) **Rs crore**

Particulars	FY19	FY20	FY21
Assets			
Non-current assets			
Property, plant and equipment	54.46	99.17	108.51
Right-of-use assets	12.11	11.90	11.84
Capital work-in-progress	6.04	4.89	9.81
Intangible assets	0.14	0.12	0.10
Other non current assets	0.38	0.17	0.30
Total non current assets	73.12	116.24	130.55
Current assets			
Inventories	35.59	63.56	72.02
Financial assets			
(i) Investments	-	-	-
(ii) Trade receivables	41.26	49.57	90.74
(iii) Cash and cash equivalents	15.10	10.16	4.48
(iv) Bank balances other than (iii) above	0.65	0.67	0.86
(v) Loans and Advances	1.45	1.68	1.90
(vi) Other financial assets	8.98	1.09	1.14
Current tax assets (net)	0.77	0.31	-
Other current assets	10.59	5.66	13.11
Total current assets	114.38	132.70	184.25
Total Assets	**187.51**	**248.94**	**314.80**
Equity and liabilities			
Equity			
Equity share capital	8.04	8.04	20.09
Other equity	71.67	109.66	145.88
Equity Attributable to Owners	79.70	117.69	165.96
Non-Controlling Interest			
Total equity	**79.70**	**117.69**	**165.96**
Liabilities			
Non-current liabilities			
Financial Liabilities			
(i) Borrowings	31.52	38.71	26.76
(ii) Other financial liabilities	-	-	-
Provisions	0.29	0.40	0.55
Deferred tax liabilities (net)	3.31	4.46	2.08
Other non-current liabilities	0.04	0.03	1.43
Total non current liabilities	35.16	43.59	30.82
Current liabilities			
Financial Liabilities			
(i) Borrowings	39.91	40.49	49.29
(ii) Trade payables			
(A) Total outstanding dues of micro enterprises and small enterprises	7.34	5.25	12.91
(B) Total outstanding dues of creditors other than micro enterprises and small enterprises	14.79	26.37	34.56
(iii) Other financial liabilities	5.72	11.75	14.25
Other current liabilities	4.85	3.74	6.20
Provisions	0.04	0.06	0.11
Current tax liabilities (net)	-	-	0.69
Total current liabilities	72.65	87.65	118.02
Total equity and liabilities	**187.51**	**248.94**	**314.80**

Source: Company RHP

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