

# Tatva Chintan Pharma Chem Ltd.

Chemical | India

IPO | 15 July 2021

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## Niche Presence in Specialty Chemical Augurs Well

### About the Company

Tatva Chintan Pharma Chem Ltd. (TCPC), incorporated in 1996, is a specialty-chemical manufacturing company engaged in the manufacturing of a diverse portfolio of Structure Directing Agents (SDAs), Phase Transfer Catalysts (PTCs), Electrolyte Salts (for super capacitor batteries) and Pharmaceutical & Agrochemical Intermediates & Other Specialty Chemicals (PASC). TCPC is the largest and only commercial manufacturer of SDAs for zeolites in India and enjoys the second largest position globally. Additionally, 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. Notably, the company's SDA and PTC products also have various applications in the green chemistry, which is pertinent considering the growing focus on green and sustainable technologies. Owing to wider application of its products, TCPC serves customers across various industries, including Automotive, Petroleum, Pharmaceutical, Agro Chemicals, Paints & Coatings, Dyes & Pigments, Personal Care and Flavours & Fragrances industries. It has 2 manufacturing facilities at Ankleshwar and Dahej in Gujarat and both these units are strategically located very close to Hazira port. These manufacturing facilities have an annual installed reactor capacity of 280 KL and 17 Assembly Lines as of March 31, 2021.

### Financials in Brief

TCPC has reported impressive financial performance over last two years. While its revenue has clocked 21% CAGR over FY19-FY21, EBITDA and PAT recorded robust 44% and 60% CAGR, respectively during the same period. EBITDA margin has expanded from 16.6% in FY19 to 23.8% in FY21. Further, OCF generation has been steady for the company, while working capital cycle has deteriorated from 97 days in FY19 to 140 days in FY21 mainly due to sharp increase in receivables. However, D/E at 0.43x and asset turnover at 2.4x in FY21 offer comfort.

### Our View: SUBSCRIBE

The IPO is valued at 41.6x of FY21 earnings, which looks attractive considering peers' valuations and unique presence in specialty chemical business segment. Further, the company's return ratio is superior compared to peers, with RoE sanding at ~32% as of FY21. Further, current capacity utilization at 55-69% for both plants offers scope for sustained growth in the medium-term. We believe the company has a robust earnings growth potential in the long-run led by strong market share, capacity expansion and long-standing relationship with the key customers. **Hence, we recommend SUBSCRIBE to the IPO.**

#### IPO Details

Pice Band	Rs1,073-1,083
Face Value (Rs)	10
Issue Open/Closing Date	16th / 20th Jul'21
Fresh Issues (mn)	2.1
OFS (mn)	2.5
<b>Total Issue (mn)</b>	<b>4.6</b>
Minimum Bid Qty. (Nos)	13
<b>Issue Size (Rs bn)</b>	<b>5.0</b>
QIB / HNI / Retail	50% / 15% / 35%
<b>Implied Market Cap (Rs bn)</b>	<b>24.0</b>

#### Object of the Issue

- ▶ Capex requirements for expansion of Dahej Facility
- ▶ Capex for upgradation at R&D facility in Vadodara
- ▶ General corporate purposes

#### Key Risks

- ▶ High dependence on top 10 clients
- ▶ Volatile raw material prices

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	100.0%	79.2%
Public	0.0%	20.8%

#### Key Financials

(Rs bn)	FY19	FY20	FY21
Revenue	2.1	2.6	3.0
EBITDA	0.34	0.56	0.72
EBITDA Margin (%)	16.6	21.4	23.8
PAT	0.21	0.34	0.52
PAT Margin (%)	9.9	12.8	17.4
EPS (Rs)	10.2	18.8	26.0
P/E (x)	105.9	57.6	41.6
EV/EBITDA (x)	72.2	44.1	34.5
EV/Sales (x)	12.0	9.4	8.2
Net Worth	0.80	1.18	1.66
RoE (%)	25.7	28.7	31.5
OCF	0.07	0.25	0.24
OCF Yield (%)	0.31	1.05	1.01
FCF	(0.02)	(0.23)	0.03
Gross Debt	0.90	0.91	0.77
Net Debt/Equity (x)	0.94	0.68	0.43
Gross Block	0.61	1.10	1.26
Asset Turnover (x)	3.38	2.39	2.38
WCC (Days)	97	114	140

Source: RHP

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