Date: 08 November 2022 Ref No: TCPCL/SEC/2022-23/00074

To,

The General Manager,
Corporate relationship department,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai-400 001
Scrip Code: 543321

The Manager,
Listing department,
National Stock Exchange of India Limited
Exchange Plaza, C-1, Block-G,
Bandra-Kurla, Complex Bandra(E),
Mumbai-400 051
Scrip Symbol: TATVA

Subject: Transcript of Earnings Call

Dear Sir/Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended, please find enclosed herewith the transcript of the earnings call held on 04 November 2022 post announcement of financial results of the Company for the quarter and half year ended 30 September 2022.

The above information shall be made available on Company's website of at www.tatvachintan.com.

This is for your information and records.

Thanking You,

Your Faithfully,
For Tatva Chintan Pharma Chem Limited

Ishwar Ramanbhai Nayi
Digitally signed by Ishwar Ramanbhai Nayi
Date: 2022.11.08 13:47:44 +05'30'

Ishwar Nayi
Company Secretary and Compliance Officer
M. No.: A37444

Encl.: As above

"Tatva Chintan Pharma Chem Limited Q2 & H1FY23 Earnings Conference Call"

November 04, 2022

MANAGEMENT: **MR. CHINTAN SHAH – MANAGING DIRECTOR, TATVA CHINTAN PHARMA CHEM LIMITED**
MR. ASHOK BOTHRA - CHIEF FINANCIAL OFFICER, TATVA CHINTAN PHARMA CHEM LIMITED

MODERATORS: **MR. SANJESH JAIN – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Tatva Chintan Pharma Chem Limited Q2 & H1FY23 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanjesh Jain. Thank you and over to you, sir.

Sanjesh Jain: Thanks Michelle. Good evening everyone. Thank you for joining us on Tatva Chintan Pharma Chem Q2 H1 FY23 Results Conference Call. We have Tatva Chintan management on this call represented by Mr. Chintan Shah - MD and Mr. Ashok Bothra - CFO. I would like to invite Mr. Dinesh Sodani, GM Finance to initiate with his opening remarks post which we will have Q&A session. Over to you, Dineshji.

Dinesh Sodani: Thank you Sanjeshji. Good evening everyone. We are pleased to welcome you all to our Q2 & H1FY23 Earning call. Today, on call, we have with us Mr. Chintan Shah - Managing Director, Tatva Chintan and Mr. Ashok Bothra - Chief Financial Officer to discuss performance of the company during the quarter gone by followed by question and answer. Please note that a copy of our disclosure is available on the investor section of our website as well as stock exchanges. Please do note that anything said on this call which reflects our outlook towards the future or which could be construed as forward-looking statement must be reviewed in conjunction with the risks that the company faces in terms of uncertainty. With that I would like to hand over the floor to our MD, Mr. Chintan Shah for his opening statement.

Chintan Shah: Thank you Dineshji. Good evening and thank you to all the participants. We wish you all a happy and a prosperous year. Thank you for joining us on our Q2 and H1 FY23 earnings call. I trust everyone is back to work, more energized after a good break. I believe you have got a chance to go through the investor presentation uploaded on the stock exchanges as well as the company's website.

To begin with, let me brief you with the financial numbers on y-o-y and q-o-q basis. During this quarter, the Revenue from operations was at ₹ 901 million, a decline of 27% YOY and growth of 2% QOQ respectively. Please note that Q2FY22 was an outstanding quarter in terms of business performance and product mix, it being the last quarter before the onset of the effects of semi-conductor chip shortage across the world, hence, on a- y-o-y basis the numbers are showing considerable decline. EBITDA during this quarter was ₹ 112 million, a decline of 68% YOY and 27% QOQ respectively. EBIDTA includes forex loss of ₹ 31.85 million, so the actual operational EBIDTA during the current quarter is ₹ 143.62 million which translates into EBIDTA margin 16%. Forex loss is mainly because of MTM of forward contract due to depreciating rupee. Net Profit after tax was ₹ 71 million, a decline of 78% YOY and 27%

QOQ respectively. Comparing on QOQ basis, the profitability has dropped due to increase in costs such as power and fuel by 32%, packing cost by 36%, and employee cost by 7% during this quarter. In addition, changes in the product mix has also had some impact on profitability. Now let me explain each of the product categories and take you through the developments that took place in each of them during this quarter.

PTCs have registered quarterly revenue of ₹ 326 million in this quarter and half yearly revenue of ₹ 729 million, contributing ~41% of the revenue and a growth of 69% YoY basis. Demand for PTCs from various user industries continue to remain robust.

Electrolyte Salts registered a revenue of ₹ 45 million in this quarter and half yearly revenue of ₹ 115 million, contributing ~6% of the revenue and a growth of 846% YoY basis. During the quarter, we have been formally approved by one more customer and are awaiting an approval from another customer. Over the next two quarters, we anticipate dip in offtake by one of our existing customer, as they are working on debottlenecking their plant productivity to become ready for their upcoming large demands. With the strong increase in demand for energy storage systems globally, over the next three years, we anticipate exponential growth in this segment.

Pharma and Agro Intermediates and Specialty Chemicals registered a revenue of ₹ 427 million and half yearly revenue of ₹ 772 million, contributing ~43% of the revenue and a growth of 45% YoY basis. In Monoglyme, the delivery of pilot stage equipment for continuous flow chemistry has been delayed by supplier and is rescheduled to arrive at our facility in Dec.22. Post receipt, the trial runs will commence. As discussed earlier for another product on continuous flow basis, the trial runs have been successfully completed. We are now awaiting to receive quality approval from the customer. Commercial supplies should take about 15-18 months' time to materialize. Regarding the new product in application area of metal extraction, commercial supplies are set to begin from Q4FY23. We are pleased to inform that we have successfully completed the lab development of one new product based on continuous flow chemistry which is the key base raw material for multiple agro chemical intermediates. We are progressing steadily with the development of few other products using continuous flow application. Demand in this sector continue to remain robust and we see strong growth under this product category over the coming years.

SDAs registered revenue of ₹ 98 million and half yearly revenue of ₹ 157 million, contributing ~9% of the revenue in H1FY23 and a decline of 88% YoY. The sale of SDA is gradually picking up. We will see a better number on SDA revenue in Q3FY23 and strong numbers in Q4FY23. Some of the customers are coming back on track with good demand. But still the overall demand is not back to normal levels. They key reason behind this being about 50% drop-in heavy-duty diesel engine commercial vehicles sales in China due to the on-going lockdown situation in the country. Industry is expecting the Chinese demand to revive from late Q4FY23. Now we have been formally given opportunity to cater plant scale trial material by a new customer. The trial material will be supplied in the end of Q3FY23. This may take 6-9 months to convert into commercial business post successful trials. We continue to remain optimistic on this product category and anticipate larger volumes over the coming years.

Regarding another product category of **Flame Retardant,** we are pleased to inform that we have successfully established the product on plant scale very recently. I will be honest that we have struggled a lot over the last couple of months to achieve the desired quality and yields on plant scale. But now we can confidently announce that our product quality can meet global standards.

The key factors we require to monitor is how the European energy crisis is rolling out over the next few months and about the Chinese and European demand revival for heavy duty commercial vehicles pans out.

Despite of all possible adversities we have faced during the current financial year, we expect to close the current financial year with the top line in excess of Rs.400 crore with subdued profitability as compared to previous year due to change in product mix and underutilization of SDA facility.

The on-going capacity expansion of setting up additional facilities at our existing Dahej SEZ is underway and we target to commission the facility by end of Q3FY23. The expansion of R&D facility at Vadodara is underway and same is expected to be completed by the end of FY23.
During this quarter, we have successfully completed various projects which will have positive impact in our performance going forward. Just to name a few:

- Began re-using a large volume solvent at Dahej Sez by deploying a latest technology. This will ensure competitiveness & cost saving in few products.
- We have formulated plans to set-up this similar technology at our Ankleshwar plant.
- We have successfully completed plant scale trials of flame retardants.
- We have successfully supplied from plant scale a new pharma intermediate to a new customer for validation. This product is expected to commercialize in 2024.
- We successfully completed plant scale trial runs of a new product using continuous flow chemistry. This product is expected to be commercialized by 2024.
- We successfully completed lab scale development of a very important starting material for agro chemical intermediate.

We assure you that we shall focus and work hard in developing new products using latest technology to ensure that we can continuously provide good products and solutions to our customers.

With this, I conclude my remarks and hand-over the call to our CFO, Mr. Ashok Bothra.**Ashok Bothra:** Thank you, sir and good evening everyone. I shall summarize the financial highlights for the quarter.

- Revenue from operation was Rs. 901 million versus Rs. 1,236 million in Q2 FY22, decline of 27% on Y-on-Y basis. Due to lower offtake in demand of SDA and also as base year i.e. Q2FY22 was the best performing in our company's history.
- EBITDA was at Rs. 112 million versus Rs. 355 million in Q2 FY22, decline of 68% on Y-on-Y basis due to Forex loss and change in product mix.
- EBITDA margin was at 12% versus 29% in Q2 FY22. The EBITDA number include Forex loss of ~Rs. 32 million, so the actual operational EBITDA during the current quarter comes to Rs. 144 million which translates into EBITDA margin of 16%. In addition, the margin has got impacted due to change in product mix by drop in demand of SDAs which is our high margin accretive product category.
- PAT was at Rs. 71 million versus Rs. 324 million in Q2 FY22, decline of 78% on Y-on-Y basis. PAT margin was at 8% versus 26% in Q2 FY22. The impact is also on account of higher tax. Earlier, our Dahej facility has enjoyed tax holiday of 100% and now we are enjoying 50% tax exemption for the next 5 years.
- During Q2 FY23, export stood at Rs. 594 million contributing 66% on the revenue. The export declined during the quarter by 41% Y-on-Y due to drop in sale of SDA which is our major export contributor.
- Total debt as on 30th September 2022 stood at Rs. 1,397 million with debt equity ratio of 0.29 times, out of which 85% is on account of working capital debt.
- Our of our net IPO proceed of Rs. 2,072 million, Rs. 1,338 million have been utilized as on 30th September 2022.

That concludes my update on financial performance of Tatva Chintan. Dear moderator, now we can open the floor for question-and-answer session.

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Mr. Sudarshan Padmanabhan from JM Financial. Please go ahead.

Sudarshan Padmanabhan: So, just want to understand, I mean you had talked about Rs. 400 crores for this year as a guidance in sales for the full year for FY23?

Chintan Shah: Yes. We are expecting the Chinese demand revival by February, so if that happens we may exceed that forecast, but as a precaution, I will prefer to remain as I guided for excess of Rs. 400 crores.

Sudarshan Padmanabhan: Just to understand the anecdotes, one is that we are getting new capacity coming in the second half of this year and we basically used to run at around Rs. 55 to Rs. 60 crores on a quarterly run rate last year, so just to understand with that capacity coming in and what should be the kind of SDA that one should look at as far as revival is concerned and from an ongoing basis, the kind of demand that we can see beyond FY23?

Chintan Shah: Basically, the SDA demand is now reviving back, so one of our customers has gone back to almost full scale demand scale and another customer is yet to revive. The third customer is now slowly starting and they have started putting in demand, so I believe by end of this financial year the demand should be back to normal. In that scenario, we should see a strong growth coming in the next financial year and also with these new capacities, we will commercialize the Flame Retardants products, so that will also have an enhanced impact on the revenues of next financial year.

Sudarshan Padmanabhan: But the newer capacities, I mean we should be able to utilize the newer capacities as well, so the number should be better than what we had done in the last year given that number one, there would be some kind of pent-up demand of this year and probably that should kind of move ahead?

Chintan Shah: Yes.

Sudarshan Padmanabhan: Sir, on this Flame Retardants side now that we were able to get the product characterization more or less in line with the quality, again should we expect some kind of revenues to trickle down by this year and what is the kind of utilization that one can expect say in the next 2 years?

Chintan Shah: We should expect revenue in this product category from December and revenue actually picking up from January when the new facility will start operating. So, we should see a decent demand for this in Q4 from the Flame Retardant category. We are about to execute the first full scale order from two customers, so this should be in a range of couple of 100 tons of this product, so that would be a good beginning to start and then we are approaching other customers as well. So, we are in queue in terms of approving our product.

Sudarshan Padmanabhan: And sir, with respect to glyme getting the purity levels, where are we in terms of the electrolyte as well as glyme decline?

Chintan Shah: Yes, so that is also one good development I forgot to mention that we did is, we actually now achieved the lower moisture levels, so we are submitting the samples to the customer and so we also had to work a lot of packaging issues, so as we are able to transport this product to the customer. So, all those issues we could resolve during this quarter and now we are actually about to just send the sample out to the two customers for approving the MonoGlyme for battery applications with very low moisture levels and high purities. So, we are through with kind of that.

So, ideally speaking, we should take about 5 to 6 months to get a formal approval and then of course the start should be slow because they would not want to transfer lot of their demands to us, so beginning probably a year should be a slow, gradually picking up and then we should see about in a year and a half to go to a full-scale demand in the battery application area.

Moderator: Thank you very much. We take the next question from the line of Mr. Sanjesh Jain from ICICI Securities. Please go ahead, sir.

Sanjesh Jain: Few from my side, first again starting with the SDA, the real revival will happen only once Chinese heavy duty truck sale start, is that the right assumption?

Chintan Shah: That is absolutely the right assumption when it will actually start growing up the demand, so right now what I am saying is that two of our customer have revived and one is still not reviving, the one which is not reviving is particularly because of lack of demand in the Chinese market.

Sanjesh Jain: And this is despite we adding one customer last year and we are in a process to add another customer, right in the SDA segment?

Chintan Shah: Yes. so, the new customer which we are adding up is going to consume this product into multiple application area, so we are submitting two different SDAs to this customer, so we are about to execute that order actually. By end of November, we expect to dispatch both these products and these are into automotive application area and plastic refining area.

Sanjesh Jain: Just on the guidance of Rs. 400 crores in this context, because in first half we have done close to Rs. 175 crores and we are talking of Rs. 400 crores which really doesn't suggest that we are looking at a significant jump from all this, so basically most of the benefit will come starting SDA sales only in FY24, right?

Chintan Shah: No, we will see a significant rise in SDA sales beginning from Q4FY23, so offcourse Q3FY23 will also not be that bad as what we have seen in Q1FY23 and Q2FY23, but significant growth in SDA demand will be seen coming back in Q4FY23 as firm orders have been set for Q4FY23, so there is no reason not to believe that we will not achieve this number.

Sanjesh Jain: From the inventory perspective, I also see that we are carrying close to Rs. 200 crores of inventory and most of it should be SDA, right?

Chintan Shah: Right, I am estimating about Rs.60 to Rs.65 crores reduction in inventory by end of this financial year because we will be able to sell the inventory with all these existing orders that we have on hand.

Sanjesh Jain: There is no risk of write-off in this inventory, right, you can store it over the longer period of time?

Chintan Shah: Yes, these have been tested to be stable for more than 5 years.

Sanjesh Jain: More than 5 years, got it, that is on the SDA, second on the opportunities that we have disclosed are lot more on the product validation, new product, your pharma intermediate, your agrochemical intermediate, new agrochemical product in the continuous flow, can you help us understand what is the total addressable market or what is the revenue size, all these products put together can be achieved at the peak, I am not talking in the year one or year two, what is the potential of this product to add to our revenue to our next 3 years or 4 years timeframe?

Chintan Shah: I would say on a 4 years' time, because this will take about a year and a half for these products to actually get approved and go to the commercial state and of course the start, first year would be a slow because they would be trying us and then it would go to a full stage. On a four year horizon, this product opportunities, the four products what I am talking about can lead to a revenue in the range of Rs. 800 to Rs. 1,000 crores.

Sanjesh Jain: These also include the BFR, right?

Chintan Shah: No, I am not talking on the BFR side, I am just talking on the PASC.

Sanjesh Jain: This is purely on the continuous flow chemistry opportunity?

Chintan Shah: Yes.

Sanjesh Jain: And a significant portion of it comes from MonoGlyme or it will be equal in all these products?

Chintan Shah: No, the new product that we have launched, the ones which we have completed successfully and there is one more product which we are now just about to complete where the catalyst has worked very successfully. The only issue we are currently facing is separation of the product which probably we are very close to the solution as well. So, these 4 products put together is what I am saying that this has very large potential opportunities.

Sanjesh Jain: So, just to clarify the four products, the two agrochemical intermediates and two pharma intermediate and the one new agrochemical intermediate, these are the products are we talking, this doesn't include MonoGlyme, this doesn't include the BFR, right?

Chintan Shah: Yes, out of these two products, have already submitted for approval basis and now we are working on the three products, so this intermediate what we have developed on continuous flow basis becomes my own key raw material and then I have to synthesize the forward integration into agrochemical intermediate.

Sanjesh Jain: So, we are doing intermediate as well as AI in this entire value chain?

Chintan Shah: No, not AI, but advanced stage intermediate.

Sanjesh Jain: And what is the potential opportunity in MonoGlyme?

Chintan Shah: MonoGlyme, we believe that we can hit about 2500 to 3000 tons of volume over next 3 to 4 year's timeframe and that is what is the capacity we are looking to set up once these pilot trials are done.

Sanjesh Jain: So, we will go with that kind of a scale from day 1, 2500 to 3,000 metric tons?

Chintan Shah: So, in continuous flow chemistry, you don't have option to kind of buildup capacity gradually, so it has to happen at one go.

Sanjesh Jain: And then we will start selling, but any initial test that we have done on the product now that we said that we have achieved the low moisture?

Chintan Shah: Yes, we are running this continuously in our R&D since probably now almost 9 months, continuously, day and night operation done since last 9 months. This is unfortunate that this pilot equipment is getting delayed, which we have to import from Germany which is causing this delay. So, once this is in place, we will continuously again run the product for the next 3 to 4 months on pilot basis and then go for commercialization.

Sanjesh Jain: And you said that in the BFR we face that in challenges what were those challenges which we faced and now that we are said that this could have been resolved and our expansion plant is also commissioning in end of Q3FY23, so what is the potential volume we are looking in for FY24 in BFR?

Chintan Shah: FY24, we are looking anywhere between 1400 to 1800 metric tons a year.

Sanjesh Jain: And what was the challenge?

Chintan Shah: Challenges what we were facing is basically the first set of challenges we faced when we went from R&D scale to pilot scale, so there was some mismatch in terms of the yields or in terms of certain quality parameters, so it took us a while to resolve those issues. Then, when we went from pilot to plant scale, so that was the final scaleup that we did, so again we had lot of challenges that we faced in terms of operating at a different volume scale which led to certain impurity profile changes or certain yield losses, so again we have to do a lot of, probably we have taken 16-17 odd batches to overcome all these issues and now we are very confident that we are through with launching this product on a commercial scale.

Sanjesh Jain: And that commercial product has been approved by the customer, right?

Chintan Shah: Yes, we have received two formal approvals from the sample and now we are said to receive commercial supply orders. We have sent is 5 to 10 kg scale of samples from the plant and now we will execute few container loads of products which will go actually from our production scale and basically that will be intended for their full plant scale trial.

Sanjesh Jain: One last question from my side, on this PTC side, this year has been phenomenal 50%, what should be the steady run rate, I know that we were not having capacity previously and that was de-prioritized, but what should be a steady run rate from FY24 onwards in the PTC?

Chintan Shah: So, we are steadily also adding few customers in PTC segment also, some new application areas into which we were able to identify new customers, so this has been growing and this is what is happening that year-on-year basis we have been growing at 15-20% rate and that is what I expect, so this we can consider as a benchmark and grow from here at that rate.

Moderator: Thank you very much. We take the next question from the line of Mr. Gaurav Chopra from Union AMC. Please go ahead.

Gaurav Chopra: Firstly, on the SDA, sir, in one of the previous concall, you have mentioned that the contribution from the non-automotive segment is roughly 20-25%, so if you look at the first half number of SDAs, I think you have done Rs. 15-Rs. 16 crores so is the decline also coming in the non-automotive segment because based on the revenues of Rs. 225 crores in FY22, you probably would have contribution of Rs. 50-Rs. 60 crores from non-automotive segment itself?

Chintan Shah: Typically, the revenue mix is kind of 80:20 between automotive and the other segment and the automotive segment is such where there is a continuous demand whereas in the other segments, it is always kind of a campaign run basis, so demands will continue to fluctuate, so most of this whatever we have catered during this Q1 and Q2, most of this is going for the other application, nonautomotive applications.

Gaurav Chopra: So, automotive would be zero?

Chintan Shah: Almost, fair to say that yes, it is almost zero in last two quarters and that is what is now reviving.

Gaurav Chopra: Sir, in the last conference call, you had of course mentioned that the SDA sales could be similar to FY23 level that of course is not?

Chintan Shah: That is what we were expecting, but because of this drop in demands from the Chinese market which has led to revise my forecast on that, but this would again be, once this Chinese situation is back to normal. So, what I would say, there is no lack of confidence in terms of whether this demand will ever happen or not, so in the backdrop, the demand continues to remain strong. Customer keeps on talking to us now quite frequently as well, but everyone is just waiting for that cycle to restart. So, it is just a matter of time and patience. So, out of three odd customers, two of them have already revived and started putting in orders and one customer is yet to revive, so still they are not budging at all and they expect to have some demands beginning at the end of Q4FY23.

Gaurav Chopra: But we are from visibility for the fourth quarter of fiscal 23?

Chintan Shah: Yes, absolutely.

Gaurav Chopra: So, with the expanded capacity also coming online, is it fair to assume that fiscal 24 we can touch base the revenue base of SDAs of Rs. 225 crores in FY22 or is it still?

Chintan Shah: That is what I am expecting to happen.

Gaurav Chopra: Sir, secondly on the PTC side, in the first quarter I think what we have seen is the revenue from the PTC picked up sharply and I think the understanding was that the SDA facility is kind of fungible, so we can cater to the additional demand of PTC, but in the second quarter, we have seen sequential drop from I think Rs. 41 crores to close Rs. 33 crores in the PTC, is it due to seasonality or anything?

Chintan Shah: Some of these customers, for example, let us say, an agro customer who would run their products on a campaign basis, so when they put in orders, it is continuous order for 6 months and then virtually no orders for may be next 3 months, so it depends on how they are running them, but the demand, overall demand continues to remain very strong and we are also seeing very good next financial year demand for PTC as well.

Gaurav Chopra: So, lastly sir, on the Electrolyte Salts, there also we have seen sequential drop in the revenues, anything on that how does the rest of the year looks like for Electrolyte Salts?

Chintan Shah: So, that is what I already told that we may see certain drop because one of our large customers is struggling to meet the overall demand from their existing plant, so they are kind of trying to debottleneck their plant and they are going into a shutdown, so just from this month, or mid of November we have been asked to stop supplies until early February or late January 2023, so maybe we will lose some sales in next 2.5 months' timeframe and then we expect this demand to come back much more strongly than what we have been doing in the past quarters and overall if you look that demand for energy storage systems is now increasing very rapidly, so our customers have been discussing about certain projects which are in queue to get approvals for supplies for their battery storage system. I would say 2025 is the year when we may see huge, so gradually from FY23, FY24, FY25, we may see an exponential growth happening over next 3 years in this particular sector.

Moderator: Thank you. We take the next question from the line of Nirali Gopani from Unique Asset Management. Please go ahead.

Nirali Gopani: Sir, question is on the EBITDA margin for the quarter, so if we see sequentially the EBITDA margin has dropped from 17% to roughly 12%, now when we see the last quarter i.e. Q1 also had a Forex loss of Rs. 5 crore and the other expenses are not that significantly high, so my understanding is that this is largely because of raw material, so if you can elaborate on the same?

Chintan Shah: Not really raw material because if you see the raw material consumption might have increased by probably 1% number in terms of consumption of raw material, so that is not the factor, the key factor that has raised is significant rise in energy cost, so our electricity cost as well as our fuel cost, that has gone up significantly and that is probably not only for me as a unique case, but probably across the industry everyone is facing that challenge. Second challenge we really faced was in terms of packaging material because with some of our very sensitive products, we are compelled to use the imported packing materials and with very high freight rate cost the suppliers had to adjust their prices for packing material accordingly so as to observe these increase in freight cost, so we had been paying very significantly higher price on packaging products which also led to a severe raise in terms of packing material cost. So, these two I would say are the key elements which have given rise to this kind of drop. Secondly, a good part of this is that particularly from month of November, this very month compared to October and now coming into November, there is a very significant drop in terms of ocean freight, so typically just to put a number, last month for the 45 feet container, typically we were paying for the European sectors somewhere close to $8,000 which has now dropped to below $3,000 and again in the US sector where you are paying close to $9,000 to $10,000 has come down to about $6,500 to $7,000. So, now we will see a consistent drop in freight cost as well as in terms of packing material cost because we will have to readjust the price to lower levels considering lower freight cost, but fuel and energy crisis, we don't expect to drop in a short term or a medium term, so that we will continue to absorb because for these kind of factors we also honestly cannot approach customers asking for a price raise because these are not actually significant part of the overall costing model which we normally discuss with customers. So, unless and until there is a significant movement in prices of raw material, it really is not taking any sense to approach or disturb the customers, so we continue to observe that cost for next few months. That probably now from November, we feel that we are coming into a comfort zone and also if you consider we have virtually not been operating our SDA facility since last few months. So, that is also an unexpected cost that is piling up, so that is also leading to stress on your profit ability. So, now since the SDA demand is coming up, the plant utilization starts picking up that will also reflect in our profitability numbers again coming back to normal levels.

Nirali Gopani: Sir, this Rs. 400 crores revenue that we are guiding, what kind of margin can we expect?

Chintan Shah: So, I would say slightly better margin than H1FY23 because we will have decent size of SDA sales in the Q3 and Q4 put together, but not the kind of margins that we have seen in the last financial year, of course, so EBIDTA margins in H2 should be in the range of 20%/22% is what I am expecting.

Nirali Gopani: And sir, if you can just talk about what will be the growth drivers for our SDA business over the next 2, 3, 4 years, obviously you have increased the capacity by roughly 50%, so we do expect a strong growth, so what will be the different growth drivers for the same?

Chintan Shah: I have already talked about this in the past because now we are gradually moving from BS6 to BS7, Euro 6 to Euro 7, so we are currently, see the major impact of SDA is which is currently happening to us is because we are also locked into technically geography of India and China and with China suffering in terms of demand, we are also suffering simultaneously. When going from BS6 to BS7, our geographical barrier is bound to go away because we are already in queue for approvals for all the applications for BS7, so this geographical barrier once it has gone, so this will have a good impact in terms of our getting larger market share, so that will automatically become a driver to push demands for that project and secondly with the new applications for these SDA products coming in the newer application areas like plastic refining, so this is again going to become a large growth driver for this particular segment.

Nirali Gopani: I was just saying that we are doing a number of new initiatives, new products, so what kind of growth at the company level can we expect over the next 2-3 years or any revenue guidance that you would give for FY26?

Chintan Shah: I would not go that long, but I can tell you very confidently that the products that have been successfully developed and which are about to be developed in a very short span of time, all these products have a large potential downside application area, very large, in both application areas, in agrochemical as well as one in pharmaceutical area. So, these are all large potential products which we are getting into and some of these molecules have applications into multiple, so this becomes a key raw material for 3 to 4 different intermediate products, so that is what we are focusing on.

Moderator: Thank you very much. We take the next question from the line of Mr. Krishan Parwani from JM Financial. Please go ahead.

Krishan Parwani: Sir, just 2 or 3 clarification from my side, so the first is that you have lowered sales guidance from around Rs. 520 to Rs. 530 crores, to almost Rs. 400 crores now, so this entire drop is only on account of SDA sales, is that understanding correct?

Chintan Shah: See, if you see all the other three sectors have grown very handsomely and that continues to grow, but the whole of this guidance is coming in because we were expecting only Q1, Q2 to be subdued that now coming to Q3, Q4, of course we are going to see very good numbers on

SDAs, but not what we were anticipating because one of the key customers is still not reviving. So, that is what is bringing in this kind of forecast in terms of SDA that we should see very handsome numbers of SDAs going into the next financial year. That is for sure.

Krishan Parwani: Sir, just to kind of elaborate on that, so we are also going to have some newer capacities, right which are coming on stream from this month, so are we on track on that on those capacities?

Chintan Shah: Yes, we expect to start water trials between 7th and 15th of December 2022.

Krishan Parwani: So, are we expecting any kind of growth from those numbers because I think we are already?

Chintan Shah: Technical commercially of this facility will start and the facility will start to generate revenue from Q4FY23.

Krishan Parwani: And would we have, let us say, in the beginning months we ideally, we normally see the utilization rates at lower?

Chintan Shah: Of course, it will gradually pickup, but we expect certain portion of the plant to be fully occupied with Flame Retardant products, so that is one part which has been locked in, so lot of capacities we will start getting consumed from beginning of FY24.

Krishan Parwani: Sir, the question that I had was that because of the lower utilization would our margins be impacted in the next two quarters as well?

Chintan Shah: I am pretty sure that we will almost consume the existing capacities in Q4FY23 for sure. For Q3FY23 also, we are getting pretty much busy, so Q3 in terms of capacity utilization is better and Q4 we will be operating the existing capacities at full scale and the new capacities will start getting busy with the Flame Retardant products and that again depends on if the Chinese demands revival comes up as we are anticipating by February 2023, so if that happens then the new plant also starts becoming occupied.

Krishan Parwani: And I think, a small clarification here, did you guide for 22% EBITDA for the full year?

Chintan Shah: Not for the full year, I am saying for the coming half year.

Krishan Parwani: And for the other expense, I think you mentioned that there was an increase, but I think it is almost the same as the last quarter, Rs. 25 crores last quarter, Rs. 26 crores this quarter, so I think is there anything that we are missing here?

Chintan Shah: No, what I am saying is this consistent increase, now, basically when your plant is less occupied doesn't mean that your power cost is going down because most of your boilers, your cooling towers, your chilling plant, they are all continuously under operation, right, so percentage of the power cost to the product, individual product or this is the kind of impact you start taking earlier, so the more your plans get occupied, all these numbers start getting coming back to the realistic level and if you see the power cost in Dahej SEZ since we are in a SEZ we have lesser electricity duty, so earlier our power cost was Rs. 4.4 per unit and today it is at Rs. 6.6 per unit, so nearly 50% raise in power cost that has slowly and steadily it has built up over last 6 months' time frame. Also, the fuel cost, the LDO, probably let us take the scenario of December or January or maybe February of 22 was in the range of Rs. 48 to Rs. 50 a liter and today it is in the range of Rs. 82 a liter, so that is also very significant raise and hit that we are taking.

Moderator: Thank you. We take the next question from the line of Padma Raju Mathi from SBI Life Insurance. Please go ahead.

Padma Raju Mathi: I just wanted to check on this gross margins level, so this quarter SDA and PASC contribution has gone up sequentially, despite that our gross margins and gross profits have come down sequentially, so just wanted to check whether there is any element of inventory loss in this particular quarter or I am missing something?

Chintan Shah: I would not say an inventory loss, but as i already mentioned we took about 16-17 odd batches for the Flame Retardants at a plant scale where we were struggling with the quality and so we had to do lot of rework to bring it back to the desired quality levels to make it sellable product, so all those kind of added cost was definitely involved during this quarter. Also, we did a very good product in terms of piloting that product, so that also involved lot of modifications at the pilot scale level and new raw materials coming in, so when you are bringing in lesser volumes less than container load we are paying significantly higher prices, but these I would say are very significant, so probably it may lead to 1 or 2% of your raw material cost going up, but not more than that considering the overall 90 days' timeframe for the time.

Padma Raju Mathi: Most of the modifications with respect to this Flame Retardants everything getting stabilized and all, is it that most of these stabilized?

Chintan Shah: Gradually we had to do modifications to adapt to this process and that is the reason why we had to take so many batches to stabilize the product because that modification at plant scale also had to be done simultaneously. So, we were losing lot of hours in terms of productivity as well, so one of our plant remain occupied with these kind of trials for almost I believe 60-65 days and now everything is in place and the last three validation batches we went through with what we were expecting a similar growth in the R&D levels.

Moderator: Thank you very much. We take the next question from the line of Mr. Rohit from Progressive Shares. Please go ahead.

Rohit: Chintan bhai, few queries, you did touch upon energy storage and devices plus the applications and if I do a market research, some of these have been picking up already, I think some Lexus and Merc GLC with turbo hydro tech models, your thoughts on that? By when do you think that it can start rolling out for TCPCL?

Chintan Shah: This has already started rolling, so one of our large customers, presently we are now commercially selling this product to two different customers. We have been recently approved with the third customer and the fourth customer we are in queue of approval, so we have submitted our samples. Now, when I say one customer is from a super capacitor application, one customer is coming from the energy storage application. So, this energy storage application customer, so the next two customers are also coming in from the energy storage sector and these people are talking of very exponential growth over next 3 years. So, basically what is happening is, now various governments across the world are setting up these energy storage devices systems and they are talking of kind of let us say 100-megawatt kind of energy storage systems for park. So, now depending on what kind of order scales my customer would get and that would translate directly into demand for our electrolytes also. We expect very significant, significant is probably not the right word, we expect exponential growth in this area in next 3 years.

Rohit: So, can this contribute around Rs. 100 crores or Rs. 150 crores run rate over the next year plus the exponential factor that you are saying?

Chintan Shah: So, up to 2025, I would say the number would be much larger than that.

Rohit: The metal Acetylacetonate or Glycidyl Esters if Tatva Chintan is thinking or working on those lines?

Chintan Shah: No, not as of now.

Rohit: You did mention about Electrolyte Salts, so currently how many customers are there in pipeline?

Chintan Shah: Totally, we have commercially already working with two, the third customer has just placed their plant scale trial order which we are about to start production and execute and the fourth customer we are in queue for approval. So, we have submitted the samples and awaiting approval decisions. So, we have been working currently with four customers in practicality and we are discussing with 2-3 other customers, so it is still in a very primitive stage, but the kind of spectrum that is now getting in terms of application area for this geographically, so that geographic spectrum is growing very rapidly in terms of energy storage device applications.

Rohit: And by when do you think that we should start in the P&L just an assumption or some industry and other phase if you can share that?

Chintan Shah: No, so I would say from next financial year, we will see this as a quite decent number in terms of percentage of revenue and FY24-25 it may become a significant number in terms of overall revenue percentage.

Rohit: My last question is related to MonoGlyme and the related products, so by when do you think that these will be commercially sold in the market to the customers by us?

Chintan Shah: So, we are now about to send samples for this battery application area of MonoGlyme applications, so we expect probably in 9 to 12 months timeframe when we should actually start commercial supplies. I mean approval would typically take 5 to 6 months from this type of customers, then probably another 4 months for commercialization.

Rohit: And this can also add around Rs. 100-Rs. 150 crores for us?

Chintan Shah: That would take time, probably it should take about 2 to 3 years to scale up to that level.

Rohit: But the assumption is right, Rs. 100-Rs. 150 crores after 2 years or so for MonoGlyme?

Chintan Shah: Rs. 100 crores definitely, yes.

Moderator: Thank you very much. We take the next question from the line of Ms. Isha from VT Capital. Please go ahead.

Isha: My question is regarding continuous forex loss that we are witnessing, so is there any strategy that the company would take to hedge the contracts going forward or would we have any hedging strategy?

Chintan Shah: So, this loss is happening because of the hedging strategy, so typically once you have certain committed orders from customers, let us say, over a span of next 6 months or you have certain export sales estimates for a period of next 6 months, so typically we hedge incoming foreign currency over a span of coming 6 months, future 6 months, so that is what it translates to. So, theoretically I would say of course in terms of accounts, I agree that this reflects as a loss, but if you see from an entrepreneurs' point of view, I have sold my dollars at the point in time when I have negotiated a certain price with my customer, so for me basically I am securing my sale price at the point when I am about to get the order, so in a depreciating rupee arena this translates into a loss because even as of today, we have hedging done up to March 2023. So, if the rupee continues to depreciate, we continue to have this MTM losses, but in case of let us say the rupee starts appreciating and if you are not covered, then you actually have a hit on your margins because sales realization will start dropping directly, so at least as a strategy, we are securing our next 6 months of sales in forward contracts. That is what the strategy we typically do, 80% of our expected revenue is always there.

Isha: Sir, my next question would be since the company is export oriented, so globally the fear of recession that is coming up, so are we seeing any impact on the demand like on the SDA front it is visible, but on the rest of the segments, is our visibility positive or we do see any curtailment in the order book going ahead?

Chintan Shah: Typically from European sector, we are seeing that kind of a phenomena happening where we see certain order postponements happening for few months, altogether directly for few months, and for delivery schedule for December, now the customer is asking to deliver in March, so those kind of scenarios are happening with European customers, but I would say we are little fortunate because at the good time the SDA demand is now reviving back and also very good and fortunate part for us is typically the agrochemical demand is holding up quite well, so that particular sector is not seeing kind of any recessionary mode as of now. So, these two are very good signs or kind of by grace of God, we shall remain protected even during this time of crisis. So, of course from the pharmaceutical and let us say the resin or the epoxy resin kind of industries, polymer industries we are seeing this kind of frequent phenomena happening as of now where particularly the European sector customers are postponing the orders very frequently.

Moderator: Thank you very much. We take the next question from the line of Dhruv Muchhal from HDFC MF. Please go ahead.

Dhruv Muchhal: Sir, just a bit clarification on the previous point, the forex impact is because you had already hedged and now that you selling, so your sales are also higher and there is an offseting impact of forex, so on an EBITDA basis the forex item is not impacting you?

Chintan Shah: We are showing forex loss of around Rs. 3.2 crores, otherwise our profit would have been higher, EBITDA would have been higher.

Dhruv Muchhal: Yes, but the hedging is a normal practice, I am trying to understand?

Chintan Shah: In any time, whether it is appreciating, depreciating, we don't look at that. As a policy, we continue to hedge our future sales.

Dhruv Muchhal: And the second point was, the MonoGlyme that we are developing, if I am not wrong, this also had some pharma application and we were working with the pharma customer?

Chintan Shah: That is already ongoing.

Dhruv Muchaal: I think that was also yet to approve because I think the grade and because this was a different route, so any development there, any progress there?

Chintan Shah: Yes, in terms of development part on the different route, the development work has been done since quite few months now. We are just expecting the delivery of that equipment which is being steadily delayed by the supplier, so equipment supplier is struggling with some electrical part which is importing from Germany, so this equipment is getting delayed. Now, he has promised to deliver this equipment before 15th of December 2022, so once this is in place, we will start highlighting of that product on a larger scale.

Dhruv Muchhal: I might have missed this, the battery application for MonoGlyme is different in the?

Chintan Shah: Pharma application, they are two different things, basically pharma in terms of purity levels they are more or less the same, but when you talk of battery applications, there are certain impurity profiles which change and also you have very specific requirement of very low moisture product, so that is one part of the challenge which I am happy to tell you that we overcome during this quarter. So, there was lot of work involved in doing that multiple trials, not multiple, I would say lot of trials to ultimately arrive at a moisture level of below 15 PPM levels. So, that was a big task, big challenge which I am happy that we could do this and now we are submitting our samples for the battery application area with this specific quality requirements.

Dhruv Muchhal: And sir, in brief if you can help whether this MonoGlyme go in the battery or probably we can take it later in a separate call, but whatever is comfortable?

Chintan Shah: Basically, MonoGlyme becomes a solvent for dissolving the Electrolyte Salts, so it goes into the like how in our conventional car batteries you have acids into your battery, so let us say in a lithium battery you have Electrolyte Salts for this, you cannot fill up with solid electrolyte salt, so you have to dissolve them into something, so there are certain solvents like Dimethyl carbonate and Propylene carbonate, so one of the similar solvent is MonoGlyme which is we use in application.

Dhruv Muchhal: And this is the product which, I mean if this is Electrolyte Salt dissolution, this has already been used, but we are developing the product in a separate route or is this, just trying to understand what is the different?

Chintan Shah: So, far we were not meeting that specific quality requirement for the battery application, now we have successfully completed the development product.

Dhruv Muchhal: And in terms of production cost and the other things it is comparable or probably better than the conventional MonoGlyme that is available in the market for that product quality?

Chintan Shah: Yes, with this continuous application that we have developed for that, we will have better saving in terms of raw material cost in operating this product.

Dhruv Muchhal: So, this would be a very different route than what it is conventionally currently what is there in the market?

Chintan Shah: Yes, completely different than what we are doing currently.

Moderator: Thank you. Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to Mr. Chintan Shah - MD for closing comments.

Chintan Shah: Once again, thank you everyone for joining us and for your continued support and trust on Tatva Chintan. We hope to deliver and see the SDA product category see improvement. We hope that we have been able to address most of your queries. You may reach out by writing to Mr. Ashok Bothra, our CFO or our Investor Relation Advisor, E&Y for any further queries that you may have and they will connect with you offline. Thank you Mr. Sanjesh Jain for hosting our call today. Everyone, please have a great evening. Thank you.

Moderator: On behalf of ICICI Securities, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.