Date: 07 November 2023 Ref. No.: TCPCL/SEC/2023-24/00076

**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**

**<u>Subject: Transcript of Earnings Call</u>**

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 02 November 2023 post announcement of financial results of the Company for the quarter and half year ended 30 September 2023.

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,

Yours Faithfully,
**For Tatva Chintan Pharma Chem Limited**

ISHWAR RAMANBHAI NAYI

Digitally signed by ISHWAR RAMANBHAI NAYI
Date: 2023.11.07 14:49:32 +05'30'

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

Encl.: As above

# "Tatva Chintan Pharma Chem Limited Q2 & H1 FY24 Earnings Conference Call"

**November 02, 2023**

**MANAGEMENT: MR. CHINTAN SHAH – MANAGING DIRECTOR**
**MR. ASHOK BOTHRA – CHIEF FINANCIAL OFFICER**

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

**Moderator:** Ladies and gentlemen, good day and welcome to the Tatva Chintan Pharma Chem Limited Q2 FY24 Earnings Conference Call hosted by ICICI Securities.

As a reminder, all participants' 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sanjesh Jain from ICICI Securities. Over to you, sir.

**Sanjesh Jain:** Good evening, everyone. Thank you for joining for Tatva Chintan Pharma Chem Limited Q2 FY24 Results Conference Call.

We have Tatva Chintan management on the call represented by Mr. Chintan Shah – Managing Director and Mr. Ashok Bothra – Chief Financial Officer.

I would like to invite Mr. Dinesh Sodani – GM (Finance) to initiate with his opening remarks post which we will have opening remarks from MD and then we will move to the Q&A session. Over to you, Dinesh Ji.

**Dinesh Sodani:** Good evening, everyone. On behalf of the management, I am pleased to welcome all of you to Tatva Chintan's Earnings Call to discuss Financial Results for the quarter and half year ended September 2023.

Please note that a copy of all our disclosures is available in the investor section of our website as well as on the stock exchanges. Anything said on this call which reflects our outlook for the future or which could be construed as a forward-looking statement must be reviewed in conjunction with the risks that the Company faces.

Now I shall hand over the call to our Managing Director – Mr. Chintan Shah, for his opening remarks. Over to you, sir.

**Chintan Shah:** Thank you, Dinesh ji. Good evening, everyone and welcome to TATVA CHINTAN'S earnings conference call to discuss the Q2FY24 and H1FY24 financials results and performance. The results have been uploaded on the stock exchange; hope you had a chance to review the same.

In August 2023, the company raised ₹ 200 crore by the way of Qualified Institutional Placement. The funds raised will be utilized towards repayment in full or in part, of certain outstanding borrowings availed by the Company and for general corporate purpose. As on 31 July 2023, our utilized working capital limits were to the extent of Rs.165 crore which reduced to Rs.52.09 crore as on 30 September 2023 which have further reduced to ~ Rs.2 crore as on 31 October 2023.

The chemical industry continues to face several challenges. The demand has continued to remain low due to ongoing efforts of industry to reduce inventory to realistic levels. The anticipated increase in product pricing also remained short lived due to low-cost products being made available by Chinese companies. During Q2FY24, we witnessed few orders getting postponed. With the upcoming financial year end for our global customers, we expect a similar situation to continue until December 2023. With the new geopolitical situation in the middle east, the uncertainties continue to remain high. Until now, we have not felt any major implication of this event. Despite of these challenges, your company has performed reasonably well. The diversified portfolio of products has helped us sustain well during these difficult times.

During Q2FY24, the company reported revenue from operations of ₹ 967 million, a growth of 7% YoY. EBITDA during the quarter was at ₹ 202 million, a growth of 81% YoY. EBIDTA margins were at 20.9% v/s 12.4% in Q2FY23. During H1FY24, the company reported revenue from operations of ₹ 2,110 million, a growth of 18% YoY. EBITDA during the half year end was at ₹ 416 million, a growth of 58% YoY. EBIDTA margins were at 19.7% v/s 14.8% in H1FY23.

Now I shall share updates and key developments on each of our product categories:

PTCs have registered quarterly revenue of ₹ 232 million and half yearly revenue of ₹ 547 million, contributing ~26% of the revenue from operations and a de-growth of 25% YoY basis. PTC product category has been impacted the most in terms of demand leading to order postponement. This product category is facing most challenging times in terms of competition as well. Despite these challenges your company has maintained all its customers in global markets. Also due to transparent pricing policy we have been fairly successful in maintaining our margins. We expect similar situation in terms of demand to continue until March 2024.

Electrolyte Salts have registered a quarterly revenue of ₹ 12 million and half yearly revenue of ₹ 25 million, contributing ~1% of the revenue and a de-growth of 79% YoY basis. Our existing large customer has completed their plant debottlenecking activities. They have resumed procurement of products at a slow pace as they are also parallelly consuming the piled-up inventory. At another large potential customer, their project is moving at a good pace towards commercialization. We maintain that FY25 will be the key turning point in this segment and remain certain of exponential growth in this segment over the next three years.

Pharma and Agro Intermediates and Specialty Chemicals registered a quarterly revenue of ₹ 288 million and half yearly revenue of ₹ 598 million, contributing ~28% of the revenue and a de-growth of 22% YoY basis. Despite tough times, most of our business within the pharma and Agro intermediate space has continued without any significant impact. During the quarter, lot of activities and developments took place in this product category. We successfully delivered two pharmaceutical intermediates from plant scale for final validation. In a short time, we expect to scale up the third intermediate to pilot levels. We expect commercialization of all three products by early 2025. We also successfully delivered one Agro intermediate for plant scale approval which is running successfully at the customers' end. We successfully completed production of a large potential Agro intermediate. The validation plan for this intermediate is postponed to January 2024 and commercialization is expected by H2FY25. Pilot scale approval of the third intermediate has been achieved. We are awaiting the plant scale equipment installation to commence production for final validation. We expect to receive this equipment by Q3FY24. Our strategy to work on alternative chemistry and offering greener options to customers have rewarded us eventually. With our success to implement these chemistries on plant scale, the morale and confidence of our team at TATVA CHINTAN is high. The launch pad of growth for this product category is ready and we expect this segment to take off.

SDAs registered quarterly revenue of ₹ 428 million and half yearly revenue of ₹ 924 million, contributing ~44% of the revenue in H1FY23 and a growth of 487% YoY. The commercial vehicle sales have been improving steadily, except for China market where the improvement has been much slower than anticipated. The de-inventorisation by catalyst producers has also kept the demand on the lower side. The sentiments within this segment have been improving steadily. Within this product category we have few exciting developments. We got formally approved on multiple product applications with a new large potential customer. We expect commercialization to begin from Q4FY24 and gradually expect to scale-up. The validation for few products or applications with our existing large customer is progressing well and nearing completion which will provide us with much larger business opportunity in the next financial year. With our newly added customer the business has been growing steadily and level of confidence is gradually building up. We expect FY25 to see a significant growth in revenue in this product category.

Flame Retardants: Manufacturing of Flame Retardants have been still kept on hold due to the market conditions prevailing within the segment. With the new geopolitical situation in the middle east, we foresee few things might change positively for us in this product category. During the quarter, we have received formal approval from a very important customer in the western hemisphere. It has taken us nearly 15 months to get this approval. We expect slow commercial production to begin in Q4FY24. Our development work on Ultra High Purity Chemicals for Electronic application is progressing steadily.

Within H1FY24, the overall headcount has increased by 116. These recruitments were largely on account of newly commissioned facility and also partly towards enhancing the R&D capabilities. During H1FY24, the employee expense has increased by 44% from Rs.18 crore to Rs.26 crore. During the quarter, the Dahej SEZ facility has moved to utilization of natural gas as a fuel. This is a slightly expensive option but an environmentally cleaner option. During H1FY24, the power and fuel cost has increased by 50% from Rs.12 crore to Rs.18 crore. From the high value inventory of March 2023, we consumed 11% of that high value inventory during the quarter. Most of the production done during the quarter was using the freshly procured raw materials leading to margin normalization. With anticipated increase in business volumes over next couple of quarters, the overheads will also start getting absorbed uniformly translating into better and realistic margins.

To summarize, the chemical industry is definitely going through a never seen before situation and the pain is yet not completely over. However, TATVA CHINTAN is well placed as we are diversified across product categories and our products find application in varied end industries as well as across geographies, hence an impact in demand in one product category is being offset by subsequent demand in another product category.

To conclude, we remain committed and assure you that we are working 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 hand-over the call to Mr. Ashok Bothra our Chief Financial Officer for the quarter and half years financial highlights.

**Ashok Bothra:** Thank you, Sir and good evening to everyone present on our call today. The financial highlights for the quarter and half year are as below:

Revenue from operations was at Rs. 967 million v/s Rs. 901 million in Q2FY23, a growth of 7% on YoY basis. Other Income during the quarter was at ₹ 8 million, a 61% YoY decline.

EBITDA was at Rs. 202 million v/s Rs. 112 million in Q2FY23, a growth of 81% YoY. EBIDTA margin increased by 849 bps YoY to 20.9% in Q2FY24 due to optimization of internal cost measures as reflected in decline in COGS & other expenses by 9.63% & 3.26% YoY respectively. However, the impact was offset by increase in employee benefit expenses by 4.3% YoY.

PAT was at Rs. 78 million v/s Rs. 71 million in Q2FY23, a 9% YoY growth. PAT Margin was at 8.05% v/s 7.89% in Q2FY23. The finance cost during the quarter increased by 72%, going forward, the finance cost will substantially decline on account of reduction in working capital utilisation from QIP proceeds.

During Q2FY24, exports stood at Rs. 671 million, comprising 69% of the revenue from operations. The company has a customer base spanning over 25 countries including USA, UK, China, Germany, Japan and South Africa.

Out of the net IPO proceeds of Rs. 2,072.81 million, Rs. 2,027 million have been utilized so far i.e. 98% of the funds have been utilized as on 30 September 2023. During the quarter, Rs. 25 million was utilized.

Regarding Qualified Institutional Placement Rs. 2,000 million, Rs. 1,840 million have been utilized so far i.e 95% of the funds have been utilized as on 30 September 2023.

That concludes an update on the financial highlights of the company. I shall now request the moderator to open the floor for questions and answers session.

**Moderator:** We will now begin with the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

We'll take the first question from the line of Mr. Sudarshan Padmanabhan from JM Financial. Please go ahead, sir.

**Sudarshan Padmanabhan:** Thank you for taking my question. Sir, my question is to understand that the first half is over and we have seen an average of Rs. 40 crores to Rs. 45 crores a quarter on the SDA side. The new capacity is in place and we talked about onboarding new customers, which will give a fillip in terms of growth in the second half. We did talk about a fair amount of traction that could happen in the second half and in FY25. If you can give a little bit more color about how we see the next couple of quarters. Is the onboarding process giving us that kind of confidence in terms of growth, or is there any change in the outlook on that perspective?

**Chintan Shah:** With the formal approval now in place, which we just received 3 or 4 days back, within this week itself. with this formal approval in place, this opens up the door with one of the largest potential SDA customers globally. Of course, you can understand that the first year i.e. calendar year 2024 would not be a big start. So, we expect the first commercialization to begin in February 2024 and ramping up potentially from the second half of 2024. So, July onwards is when we will start realizing the full potential of this customer gradually increasing. Also, we expect a very decent rise in terms of volumes from our existing large customer, where we are in an approval stage nearly completed, almost successful so far. This gives us an opportunity for an application into automotive but also a large application into the refining catalyst side. This opens up new doors for us to increase the business volumes with our existing customers as well. And the last customer which we added in the last few months, this customer we have seen gradual increase in business volumes happening there and we expect FY25 to see a significant rise in volumes from this customer as well. Let us say, significantly we will see the volumes to rise from April 2024 and I expect FY25 to be exciting in terms of SDA volumes. We expect at least 80% to 100% growth in this segment in terms of value. We have done some significant work in terms of optimizing certain values where we are giving them benefits in terms of indigenized production of certain key raw materials which we were largely dependent on imports. This gives them a coverage in terms of supply of having a Non-Chinese origin product completely. This is where we are bringing in value for both customers, our existing and for this large new potential customer. We intend to backward integrate this, and that is where the qualification right now is going on. We successfully did this on plant scale, supplied them the product, and now that is under final stages of qualification. Giving them an option of having an independent-of-China supply chain, which is going well with both these customers and we expect to have very decent volumes from them from next financial year.

**Sudarshan Padmanabhan:** In this context, we are seeing scale-ups happening in PASC and in BFR. Are we still sticking to the guidance that we had started with for FY25 as far as the top line is concerned?

**Chintan Shah:** More or less, yes. We should see at least a growth of anywhere between 70% to 100% in terms of growth in revenues for next financial year.

**Sudarshan Padmanabhan:** I'm talking about FY24.

**Chintan Shah:** In FY24, we see nearly flattish growth. Maybe 5% to 7% in terms of revenue growth is what we see in terms of top line. In terms of bottom line, we will see quite a decent growth. We expect to end with an EBITDA anywhere close to about Rs. 100 crores.

**Sudarshan Padmanabhan:** Sir, my second question is on the BFR side. With this Israel-Hamas war happening, do we see an opportunity for us? In terms of on the ground, are we hearing clients coming up and talking to us in terms of advancing the supplies at an earlier stage? Do we see things to relatively be much better on this part of the business?

**Chintan Shah:** Not really. Except for this new customer where we have now got qualified, they are very anxious to hand over at least 30% of their demands to us. But apart from that, in the eastern hemisphere, we are not seeing that kind of encouraging feedback. Primarily, still it seems there's a lot of inventory and also the demands within that polymer sector is really-really low. The interest levels in doing something new is really missing. That is the reason why we are not kicking off the commercial production so far. We are already all set. With this new customer coming in and giving us assured volume is when we intend to start production of BFRs.

As far as the PASC segment is concerned, I think all the hard work has paid off.. Any skeptical points about whether we will be successful in scaling up this new technology or the processes at a larger scale, all those things we have overcome. We have successfully delivered products, produced them on a plant scale, and now we are just waiting for the business to start. So, we expect Q1 or Q2 of next year to actually see a strong ramp-up in the PASC segment in terms of product off-take on the Agro side. And on the pharma side, we will see that happening in early 2025.

**Sudarshan Padmanabhan:** But going by your commentary, progressively we should start seeing the benefit in the second half. I mean, the second half should be better than the first half and FY25 should be significantly better than FY24.

**Chintan Shah:** Not on the Agro side. On the Agro side, product 1 has been delivered, which is right now under qualification. The second product we will deliver between 7th and 15th of January as they have scheduled it. We completed the production in October; we are sitting on that product, but they want us to deliver it not before December. They don't want to see it in their inventory. So, we will deliver it in the first or second week of January 2023. This actually had to happen at the end of September, but then they wanted to postpone it because they took a longer shutdown in the plant. Typically, they have a plant shutdown which runs for almost 2 weeks, which actually got extended to 6 weeks. So, they did not want to take up this product for qualification within this quarter but which is now scheduled for the next quarter. This again postpones your commercialization by 1 quarter more. This is what has happened. We expect that commercialization to happen in May or June of next year. This is a significantly large product for us. The one which is right now under qualification and the second one which we will now deliver in January, both put together can give us a significant impact in terms of top line for the PASC segment.

**Sudarshan Padmanabhan:** Sir, one question before I join back the queue is on the tax rate. Where do we see the tax rate coming down to? Because as the scale increases from the new plant, I would assume that the tax rate would basically get absorbed as well. Can you throw some color on that, sir?

**Dinesh Sodani:** Right now, we have a CAPEX of around Rs. 250 crores this year. Effectively, we are sitting on the deferred tax liability. That's why this year we are likely to have an effective tax rate of around 29% to 30%.

**Sudarshan Padmanabhan:** And that should come down drastically once this deferred tax basically gets completely utilized?

**Dinesh Sodani:** Maybe in the financial year '25, it will be drastically down.

**Chintan Shah:** Padmanabhanji, we have this 50% tax rate for the Dahej plant running for the next 5 years. Right now, we are in the second year of that. So, still 3 more years for a 50% tax rate at Dahej. Once this depreciation gets consumed, then we will see an impact of lower taxation provisions happening in the books; potentially, FY25 should see that.

**Moderator:** We'll take the next question from the line of Mr. Ajit Motwani from Dymon Asia. Please go ahead, sir.

**Ajit Motwani:** Good evening, Sir, the first question is the size of the SDA market. You said it's still lower globally. The second is, you said that you've got a new client in this because of a new process chemistry that you developed and have passed on the benefit. Does this mean that you will be able to garner a bigger market share as and when the market revives?

**Chintan Shah:** Basically, this large customer which we now have been approved by, this is an existing customer where we had no presence. So, this is definitely acquiring the market share in a bigger way. And this is coming because of adopting the concept of providing them a solution to have a security of supply by having a non-Chinese origin supply chain. This concept has paid off. The hard work which we did in developing this complex chemistry at our plant has really moved the customer to get us into the supply chain. This is definitely nothing new that we are doing for them. This is their existing product which they are buying from the competition and where we will see a significant contribution coming from Tatva from next financial year. This, of course, opens up doors for us for a larger market share. Again, with my existing customer, in one of the products, it is exactly the similar thing – it's a different product though – and this product also, it is a way of backward integration that we are providing them some significant benefits in terms of security of supply. Not only that, but also in terms of pricing. Because this also gives us some distinct advantage in controlling the cost of the final product by getting into backward integration of raw materials. It's a win-win situation for us as well as for the customer. This is again an existing product for them where we are just having a minority supply situation which we intend to convert into a majority supplier for them once this product is qualified. This, again, will happen in the next financial year going from April.

**Ajit Motwani:** So, net-net, our margins should be better off even after passing on some benefits to the client on these two things?

**Chintan Shah:** We are nearly passing on 70% of the benefits to them. Yes, our margins will also slightly increase. But if you consider the raw material cost, it is not significant. There are multiple raw materials and multiple stages through which this product goes through to sell as final SDA. And if you see the overall raw material consumption in SDA, it is anywhere in the range of about 40% to 45%. When you say there's a benefit in this, it's not going to be a very huge number in terms of percentages compared to the final selling price of the product, but still there will be some expansion in terms of margins for those particular products.

**Ajit Motwani:** And in terms of the market size of SDAs, are they back to what they were on a lower?

**Chintan Shah:** Earlier, we had 2 large customers; in fact, three. Currently, most of the volumes come only from one single customer and the newly added 4th customer. The second and third customers were dead so far. Second customer still continues to remain almost at zero volumes, and we don't expect them to resume buying at least until February. The third customer has now come back to life, and they have started placing smaller volume orders, but at least they are back to life. So, still the market is not back to normal scenario, but it is gradually moving towards that. We can see that the floor of discussion has been opened up. Multiple inquiries about the timing of deliveries, lead times, and all those things have started to happen. We see that life is coming back for these 2 customers as well. Still the market is not really at the same levels what it was at just in the post-COVID times. But we are expecting this to come back to life within a very short span of time. We see a lot of movement and a lot of activity happening within this area now.

**Ajit Motwani:** And if I heard it correctly, on the agro side, you are saying you are working on 3 products, one of which has started

**Chintan Shah:** One is under final qualification running at the customer. One is ready with us. We are asked to make the supplies in the first week of January, so this will go into final qualification. The third product is approved on pilot scale. We are waiting for the necessary equipment. It requires special equipment to produce it on a commercial scale. This equipment we expect to be delivered by November, within this month. And then, we will produce on a commercial scale and supply the qualification material. All these 3 products, we expect commercialization to happen between April and June of next year.

**Ajit Motwani:** At various levels or sizes, all the three will be in the revenue generation space from June 2024 is what you are saying?

**Chintan Shah:** June 2024, yes.

**Ajit Motwani:** On a steady state basis on a full year, what kind of revenue potential these 3 products have for us?

**Chintan Shah:** Basically we have 3 Agro products and 3 pharma products. From our existing revenue, we expect nearly 200% growth at least to happen. And at high volumes, this can go up to 300% to 350% of growth in this segment, just with these 6 new product introductions.

**Ajit Motwani:** Six means 3 in Agro and 3 in pharma, basically, you are saying?

**Chintan Shah:** Three in Agro, Three in pharma, yes.

**Ajit Motwani:** How much time do you visualize to achieve these potentials?

**Chintan Shah:** In FY2026, we should hit the full potential. Because, first year, even we don't want to move very aggressively because it's going to be our first attempt to that kind of a commercialization. These are all varied technologies by which these are being produced, which we have never done historically, and we have not handled products at such large volumes in multiple-stages chemistry. A variety of chemistries are involved in each of these products. So, even if we want to move slowly and of course the customer is not going to impact with all their volumes at one go. They will also time and test us in terms of how consistent and in terms of delivery and quality. And we expect that FY'25 will be a learning curve for us as well as for the customer building up that confidence. Once we deliver, let us say, 30% to 40% of potential in this next financial year, then FY26 would take us to the fuller potential of these products.

**Ajit Motwani:** As far as the headcount increase is concerned, is it related to these 6 products and the other things that you talked about, or there is more headcount that can come?

**Chintan Shah:** Theoretically, you can say yes, because we commercialized the facility – the new expansion. In order to run that plant, you need manpower. That is what has caused the increase in headcount.

**Ajit Motwani:** But by and large, the heavy lifting on the employee addition is done this year?

**Chintan Shah:** Addition is already there in place; there are people. When we are doing all this validation production as well, you need manpower to run this new facility. And that is what is causing a very disproportionate cost in terms of manpower. If I see my numbers of this particular quarter, then my employee cost is contributing nearly 15% of the overall revenue, which is disproportionately higher compared to your normal values of being between 6% to 8%. This will also get normalized in the next financial year when you hit the required volumes.

**Ajit Motwani:** And your R&D also will normalize? In a sense, the revenues will come and maybe the R&D might not grow at that rate?

**Chintan Shah:** Whatever new we are doing or whatever new we will do in the future is only going to come out of R&D. Honestly, I don't consider R&D expenses as an expense because without this, we are not going to grow ever. So, I would not say this is an expense. I would say this is practically an investment that we are making.

**Ajit Motwani:** And the capacities to generate these revenues are in place?

**Chintan Shah:** With minor bottlenecking, Rs. 30 crores to Rs. 40 crores of expenses in terms of debottlenecking certain things is what we foresee over the next 6 to 8 months' time. But once that is done, then we are ready to go to 100% growth level within this new facility.

**Moderator:** The next question is from the line of Nirali Gopani from Unique PMS. Please go ahead.

**Nirali Gopani:** Siryour commentary on SDA for the next year is very-very encouraging. But to understand PTC and pharma and agro chemicals a bit in detail for this quarter, we have seen quite some decline on a YoY basis. And you mentioned in your opening commentary a few of the reasons. If you can elaborate on the same. Because, when you say that you have maintained your customers, is it only competition from China that has impacted us or there is a general slowdown in the demand?

**Chintan Shah:** First, let us talk about the pharma & Agro and specialty. This particular product category has 3 different versions – pharma, Agro intermediates, and specialty chemicals. On the agro-intermediate side, we don't see any challenges in terms of demand except for our large product where we are supplying this to a customer who was in a shutdown for 4 weeks. That is where we had absolutely zero demand for 4 weeks during the quarter, which reflected in lower revenues during this particular quarter in the pharma & Agro side. The real impact in that category is coming from the other specialty chemicals where a lot of catalysts and products we are supplying into the polymer industry. This continues to remain impacted since the last 2 or 3 quarters, and prices have been declining very sharply. It is not impacting the margins, but pricing per se in terms of raw material prices have dropped by more than 50% in most of the cases, which is involving this polymer application catalyst. On that segment, I'm not worried at all.

The segment which is actually under pressure is the PTC segment. In terms of demand, yes, because all the product postponements that we have seen are only and only coming from this particular segment on the PTCs. Where the applications of PTC are happening is, pharma & agro intermediates is our largest customer base when we talk of PTC and this is where we have taken the most hit in terms of demand for the PTC. Fortunately, we have not seen any order cancellations happening. Potentially I believe that it is a good relationship that we share with the customer, which has led to postponement. But the postponement of deliveries had led to a lot of cost because there are a few containers which are already on the water or which have already landed in the foreign territory or the foreign ports, and now the customer wants to delay the delivery, which leads for us to pick up this container and put it into a storage somewhere within that foreign territory, and which leads to a lot of demurrage approvals and stuff like that. And this is how we are managing the situation since last 3 months. And again, we are in the same spot for this quarter as well. There are about 7 containers on ports or in water, which now need to be delivered in January-February-March 2024. This is one challenging time, but the good part is we have not lost a single customer despite whatever challenges have come through. Margins have remained fairly intact. The biggest challenge that we are seeing is in the domestic area in terms of PTC, where we have a lot of Chinese products coming in. We have a lot of local competitions as well here. And unfortunately, the market is very price sensitive. So, here the value of having a good catalyst is not as important as having a good value or a good price. To keep up in this domestic area is what is turning out to be quite challenging. We definitely lost a lot of volume of PTCs within the domestic area. Also, the erosion in terms of margin in the domestic market has been significantly high in the PTC. Of course, I see PTC is quite challenging within the domestic area, but as far as exports are concerned, I am not really worried on that part because we have proven and we have established contracts with this customer. Even we have started building up new contracts for the next calendar year 2024. Two of our large customers have already contracted the volumes for the next calendar year with us. In terms of consistency of business in the export market, we are absolutely in good shape. The challenges are arising from the domestic market. Among all the segments that we are into, I believe PTC is the only segment where we potentially see a challenge in terms of competition only by way of pricing in the domestic market, whereas the other segments, because of very strong entry barriers, lengthy procedures in terms of qualification, very expensive qualification processes, which has helped us to retain our customers and also helped us to retain the market share and the margins in the other product categories.

**Nirali Gopani:** I was talking about the gross margin. We have seen significant improvement there. This is one of the highest we have seen in a few quarters and given your commentary on maintaining an

EBITDA of Rs. 100 crores for the full year, do you feel this number is sustainable – the gross margin – because you have seen good improvement there?

**Chintan Shah:** Really, the margins will be visible from next financial year when your plant occupancy goes to its peak. As I told you, at these volumes, we are seeing nearly 15% employee cost which is absolutely unrealistic. This starts getting realistic when your volumes and revenues start to build up. What I am expecting is that Q4 is to be a handsome quarter among all the 4 quarters of this financial year. In Q4, we are expecting very decent growth, and from next financial year, I am super optimistic about the way we are going to grow.

**Nirali Gopani:** Largely, to summarize, you see that FY24 should be the bottom year when we see consolidation revenue-wise, and we will obviously be reaching Rs. 100 crores of EBITDA which we had seen in FY22. So, FY25 should look very different, and we should be on the normal growth trajectory from there.

**Chintan Shah:** Yes, that is what I am confident of. All these product development, qualifications, and validations that have already happened during this year are going to show us the fruits in the next financial year.

**Moderator:** We'll take the next question from the line of Mr. Sanjesh Jain. Please go ahead, sir.

**Sanjesh Jain:** First question on the auto side. If you look at the BASF India results release this week, the segment where they are most bullish is the auto segment. I think inventory is also done because heavy metal prices, which is the other component in the emission which goes, there has been a steep fall and that I think is now stabilizing, and that is one bright segment in terms of volume growth. Is that the same thing which they are talking about with you? And how does this help us in reviving the SDA segment?

**Chintan Shah:** Generally speaking, not only one particular Company, but that is what I just talked about on one of the prior questions. Generally, we feel that life is coming back within this product category. SDA is where now there's a lot of chatter happening, a lot of email exchanges have started happening within this particular product category. So, life is coming back. People are seeing renewed interest. Volumes are steadily picking up. Overall, the year has been really challenging for the chemical industry. The volumes for us in terms of SDAs have started to pick up and this pickup is only from my customer number 1 and newly added customer number 4. Yet customer number 2 has still not revived at all. And customer #3 has now started reviving slowly. It shows that this segment has now started to build up again back. So, probably de-inventorization activities are now almost true. People are wanting more products regularly, putting up inquiries. So, I think what the larger industries are saying in terms of de-inventorization has completed; now I feel that it is a reality. So, we see good growth in this sector coming back.

**Sanjesh Jain:** And second, on the revenue side, it appears to be very soft. Can you help us what was the volume and pricing mix? Is it more of a factor of pricing? How is the volume trending for us?

**Chintan Shah:** Except for PTCs, we have not seen any significant price movements. I may point out 1 or 2 specific products, but generally speaking, except for PTC, we have not seen any kind of major price movements in any of the 3 other product categories. Our SDAs continue to remain almost at the same levels. Of course, the price changes slightly with changes in raw materials, but it is not a very significant change, whereas in terms of PTCs, we have seen price movements ranging to 20-25 in cases. In large products, it has even gone down by 30%. But besides PTCs, I cannot really say that there is any major impact in terms of price. Volumes are reflecting what volumes were years back. Maybe with 5% to 10% price changes here or there, it is not really significant to talk about .

**Sanjesh Jain:** And on the PASC segment….

**Chintan Shah:** Of course, when we go to a backward integrated product, passing on certain benefits to customers is when we will see some price reduction happening there because we will have a significant saving in cost for the customer as well. We will pass on these benefits to the customer. So, we will see some drop in prices happening, but, in fact, logically speaking, that would push my margins a little bit higher

**Sanjesh Jain:** This quarter's gross profit margin, which is your revenue minus cost of goods sold, has gone up very sharply to 61%. We used to be in the range of 50%.

**Chintan Shah:** There is one key factor to that. We have hardly used any inventory which is lying from the old inventory because those products have still not started to move. So, whatever is there is there, which has not moved. High value inventory we have hardly consumed anything. Maybe Rs. 5 crores or Rs. 6 crores of that inventory is what we consumed. But the rest of the inventories what we bought within the last 4 or 5 months is what is consumed during this quarter. And this all has come at significantly lower prices. Yet, passing on the benefit to the customer is to happen from this quarter. Q2 has given us some benefit in terms of low raw material cost and selling the finished product at almost the same price levels as earlier. That is some, I would say, disproportionate gain in a few of the products. Also, the product mix has slightly moved in our benefit. There are 3 products which I could identify today. In these 3 products, we had significantly higher volumes that happened during this quarter. And these 3 products are the best products for us in terms of margins. One is coming from the SDA side. And two are coming from the PASC side; one is an agro intermediate and one is a specialty chemical. These 3 products actually moved to larger volumes, which gave us unexpected margins coming for the overall quarter.

**Sanjesh Jain:** Last question – I think we are running out of time – is on the other product like Monoglyme, our rare-earth chemical. Where are we on all those?

**Chintan Shah:** Rare-earth chemical extraction products we supplied during this quarter. That supply has happened. We are waiting for my customers' customer approval now. So, we are looking at a good next year. Beginning from January 2024, we are expecting very good volumes to begin for the rare-earth metal extraction products. Monoglyme, the continuous flow piloting is going on smoothly, of course, with few hiccups here and there in terms of separation in that. But overall, the plant is running very successfully. We have already kicked up the designing of plant-scale equipment based on whatever data has now been accumulated. We expect this new plant-scale production to begin probably in the next 12 months' time frame.

**Sanjesh Jain:** And that will be our first continuous flow

**Chintan Shah:** Yes. And the moment Monoglyme comes out of this piloting, we have 2 products already waiting in queue for that pilot equipment.

**Moderator:** The next question is from the line of Mr. Krishan Parwani from JM Financial. Please go ahead.

**Krishan Parwani:** Just a couple of questions, sir. I didn't hear it. What is the overall top line growth that you mentioned in FY25?

**Chintan Shah:** Anywhere between 70% to 100%.

**Krishan Parwani:** On that, I just wanted to check if you have any POs in place because there could be a continued demand slowdown scenario.

**Chintan Shah:** It is not about POs. Except for PTCs, usually we don't have POs and that too only large customers of PTCs. Otherwise, it is purely on forecast. Basically you are investing something in some specialized equipment for a customer. It is based on some commitment from their side. It may not be a documentary commitment; it may be a moral commitment. That is how things are working out.

**Krishan Parwani:** Just a last bit on that front. From which quarter do you expect to see a steep jump in revenues?

**Chintan Shah:** From June of '24.

**Moderator:** We'll take the next question from the line of Mr. Yash Shah from Investec India. Please go ahead, sir.

**Yash Shah:** Sir, my first question was regarding this quarter's gross margins. You just said that we were able to sell higher volumes of the higher-margin product and also, we consumed very less of the higher-cost inventory. Does this mean for the rest of the year or even in FY25 when the higher-cost inventory will be consumed, at that point of time, our gross margins could be under pressure? Just wanted some clarification on that end first.

**Chintan Shah:** Now, practically we are sitting on that inventory pre-March to a tune of about Rs. 24 crores to Rs. 26 crores. I'm not exactly on that number but anywhere in that range. We have consumed almost 75% of that old inventory, let us say, anywhere between 70% to 75%. That impact will be there in any particular quarter where we use that inventory, but it's not going to be very significant. In a layman's language, because I am not an accounts or finance guy, but if I put it very simply, I would say I am looking at potentially to absorb a loss of about Rs. 7 crores to Rs. 8 crores from this inventory. This is what I am expecting to happen, but it may happen in 1 quarter, or it may spread over 3 quarters because now these are some of the products which we have not produced in the last 3 or 4 months. So, when this particular product comes up, its inventory gets consumed; in that quarter, we will get some hit. It may not happen at one go. It may happen in multiple quarters; that is a strong possibility.

**Yash Shah:** Sir, the second question which I had was, you guided on the FY25 growth which could be somewhere between 70% to 100%. Also, you guided that SDAs would also grow around the same range. That would mean SDA's contribution would slightly increase as compared to the other segment which is also the higher margin segment. So, would it be fair to assume that on a base of Rs. 100 crores which you are expecting to do in FY24, the EBITDA will also increase by more than 70% to 100% as the SDA's contribution will increase?

**Chintan Shah:** Ideally, yes.

**Yash Shah:** On the basis of the trends which you are witnessing in the different segments, any broad numbers would you have in mind of what the mix would look like by the end of FY25 or FY26 across the segments?

**Chintan Shah:** Roughly about between 30% to 35% coming from SDA, about 40% to 45% coming from the PASC segment, and about 3% to 4% coming from electrolyte salts at the increased revenue levels, I'm saying.

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

**Chintan Shah:** On behalf of the management of Tatva Chintan, firstly, thank you all for joining us on the earnings call today. And wishing you all a very happy Diwali and Saal Mubarak in advance. We hope we have been able to address the majority of your queries. You may reach out to our CFO, Mr. Ashok Bothra, or our investor relationship partner, Ernst & Young, for any further queries that you may have, and they will connect with you offline. Thank you, Mr. Sanjesh, for hosting our call. Once again, thank you all and a Happy Diwali.

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