



Tatva Chintan Pharma Chem Limited

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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 20 January 2024 post announcement of financial results of the Company for the quarter and nine months ended 31 December 2023.

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

This is for your information and records.

Thanking You,

Yours Faithfully,
For Tatva Chintan Pharma Chem Limited

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

Encl.: As above



“Tatva Chintan Pharma Chem Limited Q3FY24
Earnings Call”

January 20, 2024



MANAGEMENT: **MR. CHINTAN SHAH - MANAGING DIRECTOR**
MR. ASHOK BOTHRA - CHIEF FINANCIAL OFFICER
MR. AJESH PILLAI - INVESTOR RELATIONS
MODERATOR: **MR. SANJESH JAIN - ICICI SECURITIES**



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Moderator: Ladies and gentlemen, good day and welcome to the Tatva Chintan Pharma Chem Limited Q3 FY24 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Sanjesh Jain: Thanks, Tushar. Good afternoon, everyone. Thank you for joining on Tatva Chintan Pharma Chem Limited Q3FY24 and 9MFY24 Results Conference Call.

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

I would like to invite Mr. Dinesh Sodani – GM (Finance) to initiate with opening remarks, post which we will have a Q&A session. Over to you, Dinesh ji.

Dinesh Sodani: Thank you, Sanjesh ji. Good afternoon, everyone.

On behalf of the management, I am pleased to welcome you all to Tatva Chintan's earnings call to discuss Q3FY24 & 9MFY24 financial results. Please note, a copy of all our disclosures are available in the Investors section of our website as well as on the stock exchange. 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 MD Sir for his opening remarks. Over to you, sir.

Chintan Shah: Thank you, Dinesh ji. Good afternoon, everyone and welcome to this Investor Call.

This time I am pleased to introduce you to Mr. Ajesh Pillai, who I am trying to delegate a lot of my responsibilities in terms of the investor relationship. Ajesh has worked with me for nearly a decade now and I don't have any doubts in his efficiency and I'm sure he's going to do a good job. And today's speech, whatever the management side commentary has been written by me, I'm sitting right next to Ajesh. So, whatever he is saying, it is his voice but written by me. And I am gradually trying to handover these responsibilities over to him over a period of time. Over to you, Ajesh.

Ajesh Pillai: Thank you, Sir. Good afternoon and wish you all a very happy new year. I feel privileged to take up this responsibility and hope I can serve the company and its investors to the best of my ability.



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Now, coming to the numbers, this quarter your company reported a revenue from operations of Rs.842 million, a degrowth of 30% YoY and 13% QoQ. As conveyed to you during last earning call the industrial challenge continued in third quarter too. The EBITDA for the quarter is Rs.110 million, a decline of 39% YoY and 46% QoQ. Revenue from operations for the three quarters of this financial year is Rs.2,952 million as compared to Rs.2,991 million for the same period in previous financial year recording a marginal decline of 1% whereas the corresponding EBDITA is Rs.526 million and Rs.443 million respectively depicting a growth of 19% YoY.

Further when we look at the product segment wise numbers, PTCs have registered a quarterly revenue of Rs.248 million, a growth of 7% QoQ and a decline of 24% YoY. The nine months revenue of PTCs stand at Rs.796 million registering a decline of 25% YoY.

Electrolyte Salts have registered a quarterly revenue of Rs.12 million, a growth of 2% QoQ and a degrowth of 71% YoY. The cumulative revenue of three quarters for the segment stands Rs.37 million declining by 77% YoY.

Pharma and Agro Intermediates and Speciality Chemicals have registered a quarterly revenue of Rs.254 million, a decline of 12% QoQ and 4% YoY. The revenue of the same for three quarters of this financial year stands at Rs.852 million registering a degrowth of 18% YoY.

SDAs registered a quarterly revenue of Rs.323 million, a decline of 24% QoQ and 43% YoY. The nine monthly figure for the same is at Rs.1,247 million registering a growth of 71% YoY.

I will now give you an overview of the business in the past quarter and the outlook over the mid-term.

We have travelled extensively in past few months & have met most of the key customers in person. Based on the discussion & their forecast for calendar year 2024, also looking at a slowly improving business sentiments, we are now quite confident to state that next two quarters we will observe gradually improving business sentiments and expect shifting of gears from August onwards i.e Q2FY25.

The Q3FY24 was expected to be a slow demand quarter because of the financial year end for our global customers and with their priority of controlling the inventory some of the dispatch schedule got postponed to next quarter. But considering the overall market & demand situation in Q3FY24, the overall achievement & numbers are satisfactory.

Let me brief you about the developments & outlook by each category.

Phase Transfer catalyst – We are happy to say that despite of aggressive competition, we are successful in retaining all the major export customers for PTC supplies for calendar year 2024 and also maintaining our margins.



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SDAs - Except for China, the demand situation has been steadily improving.

Of the ongoing validation at a new potential customer, during the quarter, we got formally approved on 3 different applications & we have received initial commercial orders from the customer. The 4th application is under validation & should get results by end of March 2024. We expect business to be modest in first half and eventually get to a decent volume from end of CY2024.

Our existing large customer has approved us on 2 products & we will have larger business on one product from July quarter & on second product from October quarter. The demand from this customer has been steadily growing.

In other development, we are now fully qualified with two other customers (no. 6 & 7) for automotive application. We will see onset of business from April quarter with these customers.

Overall SDA demands are improving & we shall see a robust next financial year in terms of SDA business.

Electrolyte salts business

The business has been slower than anticipated, primarily due to poor offtake in China market. The other large customer has started buying regularly. Due to their efforts in controlling the inventory, they are currently buying at a slower pace. But they are also setting up a fully automated Production line for energy storage battery. This will go online in August 2024 and will increase their demands drastically. Our approval with the large European customer has progressed very well and from October 2024 we shall see onset of business. So ,2025 is definitely going to be a very good growth year for Electrolyte business.

On another customer side, our electrolyte solution from lab scale was approved few months back, now we have been asked to go to pilot scale and submit electrolyte. This is another large opportunity where we are making steady progress.

PASC

On Pharma intermediates, 2 out of 3 products are approved by production trials. 3rd product will be kept under user test in March at customer's plant. Final formal validation of 3 products are expected to be in place by September and onset of commercial business is scheduled from beginning of 2025.

On Agro intermediates, 2 products have been fully approved & 3rd is under validation. We expect robust growth from Q2FY25 in this segment as 2 products get in commercial supplies from August & 3rd product from November.



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We are happy to share that we have received firm approval of our first Photochlorination product from pilot scale. The installation of commercial Photochlorination equipment has been completed at Dahej plant. We have been asked to supply one container of this product for final approval which we expect to ship out by end of March. This is again an Agro intermediate with very large application.

Our pilot trials apparently have been running smoothly, however we faced certain teething issues which we have now identified the potential reason for the issue & are now restarting the trials after necessary equipment modification. The good part is that the technology or catalyst is a success and once these operational issues have been sorted, we are moving towards commercialization in 2025.

The development work of various projects on continuous flow basis & a couple of projects on Electrolysis basis are progressing very well. We expect to scale up 3 products to pilot scale by June 2024.

We are adding 2 more continuous flow reactors at our lab. Adding 1 CFR at pilot. Our technical discussion & designing of plant scale CFR is nearing completion.

Flame Retardant - The market situation in this segment continues to remain very sluggish. So, we have not yet started commercial production. But we continue our development of products. This quarter, we have completed development of our second product meeting with all the required Specification.

Looking at the now sure timelines of commercialization of 6 products on PASC, we are sure of running out of plant capacity by end of 2024. To ensure smooth progress, we have decided to move forward with the plan of CAPEX of 700 Million INR and set up one plant with 150 KL Reactors & a separate distillation plant.

In December, we finally received the formal ENVIRONMENTAL CLEARANCE for the green field project at our land in Jolva, Dahej. First, we expand at our existing site which is quicker & then we will open the site construction at Jolva in 2025.

We expect to close FY24 with a revenue in the range of 400-410 Cr and EBIDTA at about 20% levels.

We continue to remain sure of FY25 to be the next phase of growth led by growing volume & new customers in SDA and by multiple new products commercialization in PASC.

To conclude, the chemical industry continues to face headwinds and the pain is not completely over yet. However, for us combination of focus, customer relationships and our R&D ability gives us underlying resilience to our business model. In addition, encouraging response from our



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customers and the manufacturing infrastructure in place will help the company get advantage of the change in industry trends. In the meantime, we expect to sustain these challenging times with grit and integrity.

With this, I hand over the call to our CFO, Mr. Ashok Bothra to take you through the financial results.

Ashok Bothra:

Thank you, Ajesh ji. Good afternoon to everyone present on our call today.

Now I would like to share the financial highlights for the Quarter and 9-months:

During Q3FY24, the company reported revenue from operations of ₹ 842 million, a de-growth of 30% YoY. Other Income during the quarter was at ₹ 12 million.

During the quarter, the company reported EBITDA of ₹ 110 million, a de-growth of 39% YoY. EBITDA margins were at 13.1% v/s 14.9% in the same period previous year.

During the quarter, the company reported PAT of ₹ 35 million, a de-growth of 70% YoY. PAT margins were at 4.1% v/s 9.6% in the same period previous year.

During 9MFY24, the company reported revenue from operations of ₹ 2,952 million, a de-growth of 1% YoY.

During 9MFY24, the company reported EBITDA of ₹ 526 million, a growth of 19% YoY. EBITDA margins were at 17.8% v/s 14.8% in the same period previous year.

During 9MFY24, the company reported PAT of ₹ 207 million, a de-growth of 27% YoY. PAT margins were at 7.0% v/s 9.5% in the same period previous year.

During 9MFY24, the employee expense was at 14% of revenues vs 9% during 9MFY23 due to new recruitments on account of newly commissioned facility at Dahej SEZ and New R&D facility at Vadodara.

During Q3FY24, exports stood at ₹ 525 million, comprising 62% of the revenue from operations and during 9MFY24 the export stood at ₹ 2,084 million, comprising 71% of the revenue from operations. The company has a customer base spanning over 25+ countries.

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:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Suruchi. Please go ahead.



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Suruchi Parmar: Just want to understand, because if I see SDA sales, more or less we have done the SDA sales of the last year in 9 months only. And what I remember, SDA was the highest margin product in our overall segments in 2022 is also the major driver of the margin. Is that the margin in SDA is going down in the last 18 months or something or not? Because we don't know the margin wise something because our margin profile has also gone down. Topline has gone down, I will come to that also. But the margin is also going down.

Chintan Shah: In late April this year, we started commercial production from the newly expanded capacities. So, our expenses in terms of recruitment, we have added nearly 130 people so far from April to December. Your terms of consumption of fuel, power, everything has shot up because we have nearly doubled the production capacity. The new capacity has practically, we have been utilizing only for production of this new 6 products that we did and supply to the customers for validation. And also, three of our large products where we needed again a prior approval from the customer that if we are going to change a plant to produce it, then we would need an approval. So, those were the three products which went to this new facility for again, practically on terms of validation purpose. So, apparently this new facility seems to be very busy. But ideally speaking, this new facility is really not generating any revenue so far. This is number one. So, the margins in SDAs are absolutely intact, but the issue is unabsorbed cost because of relatively low usage of the available capacities. In terms of topline, both in PTCs and SDAs, there is a similar drop in raw material pricing. And since most of the product pricing are linked with your raw material prices in equation with the customer, so when your raw material prices go down, typically the final product prices also have to be relatively adjusted. In terms of PTCs, I would say the relative drop in terms of finished good pricing has been nearly 25% to 30%. In terms of SDAs, the price realizations have dropped by nearly 20% to 30%, but there is no movement in terms of the actual price realization in terms of margin for the product. So, per kg basis, still the margins remain intact. The only thing is you see a lower topline in terms of value realization is going down.

Suruchi Parmar: Okay, got it. So, in terms of volume if we want to see, then how much we did as compared to last year 9 Months?

Chintan Shah: That I will have to give you the exact number but I assume it's a growth of about 30% compared to last year in terms of volume. Again, just to brief you what is the real situation on SDA. So, we have four commercial customers so far. Out of this, two are actively buying, our largest customer and the fourth new customer in a difficult geography, these two are the customers who are regularly buying. Our second largest customer is in China, who is yet to resume buying, who has not bought a single kg product since last one year. And the third customer from the European territory has started buying but is still on a very small volume. So, practically this growth, whatever numbers we are seeing in terms of SDA volumes and value is technically coming only from two customers who are now back to nearly normal volumes of what they used to buy pre-COVID levels. And now with this largest customer, we are now approved for two different products where we didn't have the prior opportunity. So, now we have been fully approved. One



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product goes into commercialization from June quarter and second product, we expect to start selling to them from the October quarter, coming June and coming October quarter. So, this will also push up the volumes. Another interesting development on SDA, as Ajesh already talked about, is out of the four applications we were under validation with one of a very large potential customer. We have been approved on three of them and we have already received the initial purchase orders for the current quarter from this customer. And the fourth application we expect to have final validation results out by March of this year. Again, their volumes are low for this year, but they expect to start a handsome commercialization for this volume beginning from October of 2024. So, definitely volumes and value in SDA is going to become very interesting. Again, we have two more customers. Of course, the business is not very large on those two new accounts, but we have been approved for the automotive application by these two customers. Potentially, we may see a value coming in at about \$2 to \$2.5 million from these customers. So, it's not a very large account, but these two customers are new addition, which were not there on our list. So, customer #6, customer \$7. So, all this put together, everything gets into commercialization beginning from April to October. So, I'm sure SDA is going to be a very interesting year. Next financial year is going to be quite interesting in terms of SDA.

Moderator: Thank you. The next question is from the line of Sudarshan Padmanabhan from JM Financial. Please go ahead.

Sudarshan Padmanabhan: Thank you for taking my question. Sir, my question is, has there been any kind of a deferral of sales in any of the business because it looks like the revenue run rate has substantially fallen or is it just that the lower demand that has driven this kind of business?

Chintan Shah: No. Padmanabhan ji, there were about 11 containers which were postponed to this quarter from the December quarter. So, there was some deferral because none of the major customers wanted any invoices to be raised, because it was their year-end. And they are probably trying to show good numbers in terms of their inventory values. So, they didn't want any invoices to be raised in December and everything got postponed to January. So, that is one part, but it is not a very significant amount. The large contribution is coming from the drop in prices, because if you see at 25% price drop in PTCs and SDA is really significant impacting your topline. So, that is one of the key reasons. I would not say that business has been improving steadily, but the only impacted segment I would say was the electrolyte salts where definitely demands were very low. But apart from that, I'm really happy with the performance that we have done in the last quarter. The major aspect is we have to raise these volumes and this is what we expect to start from August because once you start producing your PASCs, I'm sure we are going to run out of plant capacities August onwards. And that is the reason why we are kick starting a CAPEX immediately and investing about Rs. 70 crores on that. And once you have this plant getting fully occupied is when you will really see the numbers coming in because most of this cost goes unabsorbed in terms of the overhead cost goes, a lot of this overhead cost goes unabsorbed because of lower utilization.



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Sudarshan Padmanabhan: Any idea how much is these 11 containers in terms of sales, absolute sales, will it be decent enough?

Chintan Shah: It was roughly about Rs. 11.4 crores.

Sudarshan Padmanabhan: And sir, with respect to the ongoing tensions on the Red Sea, do we see any kind of impact specifically going forward on our business?

Chintan Shah: Logistic costs have shot up like anything. Of course, past quarter, we have not seen that impact, but logistic cost is going to be impacted in this current quarter. Freight rates to Europe, we have seen skyrocketed roughly about US \$900, a box container freight from India to main European port. The freight has gone up from \$900 to nearly us \$3,500. So, that's a significant cost that probably everyone is going to incur. Similar is the situation on the US route. But besides that, I mean, besides the marginal cost that you are going to incur, I don't see any other major impact coming in from that situation.

Sudarshan Padmanabhan: So, that will basically help reprice the product as well, right that way?

Chintan Shah: So, it will not happen immediately. It will happen over a time. So, one quarter you are going to absorb that cost more or less.

Sudarshan Padmanabhan: Sure, sir. And sir, coming to your guidance, earlier our guidance was the sales going about 70% to 100% in FY25. And if I go by our current guidance that we are going to run out of capacity now, which means that you are primarily looking at the FY25 numbers being very similar to what we had initially thought, or even slightly higher. But probably there could be one quarter of pain. So, is that the right way to look at it, sir?

Chintan Shah: I would assume at least a 70% growth is justifiable. That is considering primarily because we are going to see a lot of value erosion has already happened in terms of value of the products on PTCs and SDAs. Otherwise, the numbers would have been even better. And also, all the three agro products which we were actually scheduled to begin commercially from February or March of 2024. Because of their poor offtake and their demand and their constraints in terms of productivity, these have been gradually postponed and now been rescheduled to start commercialization from July and August. And now this is from it seems. So, now they have instructed us and they have started funding to place the POs and stuff like that. So, now I don't see this as a very firm timeline to start commercialization from August 2024.

Sudarshan Padmanabhan: And beyond FY25, we will also see the opportunity in the BS-7 on the SDA side, which is where I would assume the new capacity is also coming in?

Chintan Shah: Yes, again, unfortunately, the SDA BS-7 got shifted from 2025 to 2027. So, yes, so next year is not going to be the BS-7, but the year after that, so FY26 is when we will see actual



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commercialization of the BS-7 also happening. As I mentioned on my later on speech, we are also commercializing, so piloting three new products which are involving continuous flow chemistry and electrolysis. So, again these are very nice molecules, one of them is getting into the battery material, so the electrolyte part, and the rest two of them are getting into the polymer side of the chemistry. And these are very large size molecules and we see a good potential, each of these molecules carrying a worth value of about Rs. 50 crores in terms of revenue potential is what we are piloting in this June. Up to June we will pilot all these three new products.

Sudarshan Padmanabhan: And sir, one final thing before I join the queue is after the price erosion of products across the segment, the current capacity, now what do you think should be the asset turn and should be the optimum sales that one should expect? And also, if you can give some color on the margin, I mean, what should one expect in cycling design?

Chintan Shah: The asset turn is taking very interesting changes. Because with this newer chemistry and these are lengthier chemistry. So, far when we were involved into PTCs, SDAs and electrolyte salts, we were typically seeing an asset turn in excess of three. Now when we are looking at these all new PASC segment products, which are multi-stage chemistry, you require more number of reactors to achieve the desired product. So, the asset turn is now looking at 1:1.5, maximum 1:2, but realistically speaking, 1:1.5 is what we are looking at for all the new products that we have been doing. Because you may be doing one stage on electrolysis or one stage on continuous flow chemistry, but there will be another couple of stages which are conventional chemistries. This is where your reactors requirements, the CAPEX requirements become much higher compared to what we have been doing in all these last years. But typically, the asset turn is what we are looking at, this Rs. 70 crores what we are going to invest is going to be an add-on facility to what we have already done. And out of this, we are looking at, so if we don't invest this Rs. 70 crores, and what happens if we invest this Rs. 70 crores? So, by investing Rs. 70 crores, we will have only an additional revenue of about Rs. 95 crores to Rs. 100 crores. But if we don't do it, then we will lose a lot of opportunities and mismatch in terms of delivery timelines and stuff like that. So, that is the reason why we are moving so fast in investing this and creating one new block of products and plant at Dahej facility.

Sudarshan Padmanabhan: And sir, this 1.5x asset turn versus 3x asset turn, are we being adequately compensated by margins for lower asset turn? I mean, what could be the incremental margins if I can assume say in FY25?

Chintan Shah: Not realistically incremental margins, probably margins we are working on similar margin levels. But when we are looking at very large potential, for example, one of these Agro products that we are commercializing this year has an eventual potential to give you a Rs. 200 crore revenues. Now, when you are looking at those kinds of opportunities, then of course, there is a set off between volume and margin. But because we are introducing something in a different way, so at least we are able to retain the margins what we are doing on the other products in



terms of electrolytes, PTCs or SDAs. But despite of having double the CAPEX requirements, it is not necessarily translating into a much higher margin compared to SDAs or electrolyte salts.

Sudarshan Padmanabhan: And sir, on the steady-state margins side, on FY25, what should one look at because currently, there is underutilization of asset. And the newer chain of scale is yet to happen. So, probably this margin, what we have been seeing in the last few quarters is also not right representative. So, what should one realistically look at, sir? I mean, in terms of topline, we understand what you said. But in terms of margin, should it be not towards, say, 25%?

Chintan Shah: So, from October when the plant really will be running at a full capacity, I would say a realistic margin estimation of 25% would not go anywhere.

Moderator: Thank you. The next question is from the line of Sabyasachi Mukerji from Bajaj Finserv. Please go ahead.

Sabyasachi Mukerji: So, my first question is a bit of a clarification. You spoke about almost 25% to 30% price erosion in PTC and SDA. That has led to revenue kind of contraction. But you also mentioned that the absolute EBITDA per kg is somewhat intact, mathematically then your percentage margin should look better, right?

Chintan Shah: It is better and that is why we are not going in the red, otherwise we definitely would have been in the red with this kind of topline because if you look at the overhead increase that has happened in last nine months, periodically if you just compare it on a QoQ basis you will realize the steep rise in terms of your overhead costs and despite of that, at this topline, we are able to sustain is only the reason because we are seeing an artificial gain in terms of percentage margins on these products. Otherwise, we would definitely have been in trouble by now so far. So, the volumes have picked up, there is no doubt about it. But the values have eroded because the topline is going down and because the product pricing is linked to your raw material cost which is pushing the product cost down. But your per kg margin is fortunately remaining intact, which is helping you to sustain in this situation.

Sabyasachi Mukerji: Essentially, what you're trying to say is that the kind of resource or capacity that we have added that is not yet utilized.

Chintan Shah: So, that's what I told on the previous question. See, in April, we started with another 200 KL being added. Now this additional 200 KL reactors is technically a whole new plant. And we have only produced the 6 products which have gone into validation on the pharma and the agro side. And only three of our existing products require revalidation from the customer because we are going to change a plant location where we are going to produce. So, besides these 9 product campaigns, we have practically not utilized this plant and we are incurring the cost 24 x 7 in terms of manpower, electricity, utilities. Even if you run 4 reactors out of 20 reactors, you are



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running your cooling plant, ceiling plant, brine plant, everything is just going on and on. So, unabsorbed cost is really very high which is detrimental for me.

Sabyasachi Mukerji:

Got it. My next question is on the demand revival commentary that probably you made that probably sometime in August we'll see the kind of shifting gears in business that you mentioned in the presentation as well. My question is, in an earlier call in Q2FY24 call, you mentioned this to be timeline was somewhere around June 2024. Now it has been postponed to August 2024. Do you see further postponing of this?

Chintan Shah:

At least as far as we are concerned. I can talk only personally about Tatva Chintan. Right now, I'm not talking in terms of the overall industry. But let us say if I first talk only about the Tatva Chintan, I don't see any further shifting to happen because now we have a given definitive fixed schedule. We have started procuring raw materials and started planning the production for those campaigns. So, now I don't see any possibility of any postponement of these timelines, at least for us. Now generally speaking about the overall industry per se, not only about Tatva Chintan, but general industry per se, then I would say agrochemicals, we would see a similar 2024 as we have seen in 2023. Demands are definitely not going to really pick up in terms of the agro product requirements. In terms of polymer, people are still skeptical. you know, there is a slight hope and a slight indication that things are improving, but this could be deceptive. So, at least 6 months from now, don't expect any major change in terms of polymers or epoxies to change in a big way. Apart from that, I think the SDA segment is doing well. The Pharma side products are doing pretty well. So, I think that the dyes and the pigment industry has started to pick up nicely now. So, I believe the overall indications are going towards a positive, but this is not going to happen very immediately. I would say be patient at least for next coming 2 quarters. And then overall per se in terms of general industry perspective also, we should see better sentiments beginning every 6 months down the line. But as far as we are concerned personally, I would say we would not have any potential shift in terms of shifting years. It has to happen from the month of August.

Sabyasachi Mukerji:

Got it. Last question from my side, but fundamental one on the SDA application. Now there is a lot of hue and cry about electric vehicle and in the commercial vehicle segment, if not EV then hydrogen may be used as a fuel. When it comes to SDAs, it goes especially into the emission control thing. So, what's your thought on this? If at all we see, I understand it is a time taking process, but then let's say 5 years down the line, if all the commercial vehicle turns into EV or let's say hydrogen, do you see any opportunity in SDA or do you kind of think of compensating it with other your product lines?

Chintan Shah:

So, no, if you say in terms of timelines, so let us say the EV cars i.e. the passenger cars. So, it is very hypothetical to state that in the next 5 years, everything will become EV. So, this is practically not possible. Again, as you rightly mentioned, large commercial vehicles getting into EVs still a way down the line. Potentially, it's not 5 years. I would say at least a timeline of 15



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to 20 years. Again, as EV technology has taken a couple of decades to really start showing penetration. Hydrogen is just being demonstrated on a pilot scale, I would say, not even pilot scale. So, it is still probably a potentially couple of decades away when we really talk of hydrogen, because again, this technology, there are a lot of concerns with related to safety and commercialization and making hydrogen available at various outlets in a safe manner. So, there are a lot of things that are getting into it. So, of course, I would say 20 years should be a definitive phase. It may lose its growth phenomena potentially over next 10 years down the line and then come to a stable phase and then gradual decline potentially 15 to 20 years down the line. Now this is also our personal thought process, how will we protect our business in case that, let us say hypothetically, if someone is feeling this can happen in next 10 years, what will you do after 10 years? And that is the reason why we moved into the electrolyte space on the battery space, where if you go from the fuels and get into any EV or any other mode of battery systems, you will require electrolytes. So, let us be present there. And we have made an entry in that very tight time. So, we have been working on this electrolyte space now nearly a decade. I believe it was 2011, the first time we got introduced to it and started developing the product. So, it's more than a decade when now we have established ourselves as a recognized player except for lithium battery. We are there in most of the segments where people come to us and check with us whether we can offer them the electrolyte salts or the electrolytes for these batteries. So, we made that conscious choice a lot of years back that what if the fuels are, as you are assuming that these things will die over a period of time, then what we will do. So, this is an alternative plan for us to keep the business alive and growing all the time.

Sabyasachi Mukerji:

Got it. So, directionally, let's say if not 5 years, 10 years or 15 years down the line, our mix of these segments will look a bit different. SDA will probably come down and then electrolytes also will go. That is the directionally the thought process, right?

Chintan Shah:

Right. And these are all, see, basically now there is this new application they are working on in terms of plastic reprocessing. So, this was never heard of probably 5 years back where the SDA could be used. Now this is something new that has come up. So, there are a lot of things that people are working on. So, these are all zeolite based applications. And when it comes to precision, they require SDA. So, if not this application, what will be the next big thing? So, there are a lot of companies who are working on these things in day in, day out, and nobody is going to let their business die. So, from Euro-6 to Euro-7 again changes a lot of equations in terms of SDA consumptions. The products that are required in terms of SDAs are going to change. So, a lot of changes are going to happen, and all these things are being pushed so that the large catalyst companies can continue to have their businesses intact and continue to grow. And they are also simultaneously working on this variety of different applications where they can synthesize new zeolites for new applications.

Moderator:

Thank you. The next question is from Sanjesh Jain from ICICI Securities. Please go ahead, sir.



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- Sanjesh Jain:** Thanks for taking my question. I got three of them. First on this CAPEX of Rs. 70 crore what we have announced today, when are we expecting the commercialization of this plant?
- Chintan Shah:** October 2024.
- Sanjesh Jain:** October 2024. So, we will be able to put this plant in next, say, 7-8 months?
- Chintan Shah:** Yes. So, we have already completed the design part. All the vendors are already coming in from the same supply chain what we have utilized in our past expansion. Even our construction company which we are going to utilize remains the same. And we have just inducted on board a new PMC team, which is something different. So, we have brought in a multinational PMC team to take care of this project. And this purposely we have taken in account because it's more professional in terms of the earlier PMC we were using. And we will also have a feel whether we want to utilize the same PMC for our upcoming new Greenfield project. So, it would be a good handholding and a kind of an experience sharing with this new PMC team.
- Sanjesh Jain:** What is the PMC team?
- Chintan Shah:** CBRE is what we are inducted.
- Sanjesh Jain:** And will we require this to get again audited because this will be technically a separate plant, right?
- Chintan Shah:** Only if we want to produce SDAs from there, but we are not going to produce the SDAs. For the Agro-intermediates, specifically, we are bringing in this for the three new AG intermediates that we are commercializing and there we will not require any kind of revalidation of the product.
- Sanjesh Jain:** Fair enough. Second on the SDA, you said that the price erosion is 25%-30% and YoY revenue growth decline is 40% plus.
- Chintan Shah:** I'll just correct this. So, not all SDAs we have seen, but our largest SDA has seen this kind of a correction in terms of value because the raw material prices came down from \$18 to \$10.8. And that is what is leading to the price drop from \$12 to \$9 in that particular SDA. So, this is when the raw material price was \$12, now it has gone down to \$10.8. We are expecting the further price to go down to \$8.5. But it is purely the conversion of what quantity of raw material per kg we are using to make this SDA and this is the drop in the raw material price, so it is pure mathematics. So, if \$3 is reduced and our consumption is equivalent to \$2 then we have to reduce \$2 from the product price. It is a very simple mathematics that we follow with the customer.
- Sanjesh Jain:** So, with this fall in the raw material, does it still make sense to be a backward integration, which we were talking earlier?



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- Chintan Shah:** Yes. So, this is the product that we have already backward integrated. Now with this kind of a price drop, if you are able to buy at the same price at which you are able to produce, then why would you want to produce? So, we are going for a strategic 30% production in-house. So, that is, we continue to do that because that is our strategy and that is what we have presented to the customers that non Chinese origin raw material, absolutely indigenized, made in India and this is what a non-China supply chain is what we are offering and that is what has got them interested and we have got this opportunity with the large customer. So, we continue to produce 30% in-house, but balance, we don't even see a reason why we should unnecessarily occupy your plant.
- Sanjesh Jain:** Next coming to the PASC segment, now that all the products are in place and we are telling that we are very confident of production, when should the real revenue recognition start? Will it start in June quarter, or you expect something to come in
- Chintan Shah:** Yes, it will begin from the month of August, the quarter of July to September. So, full quarter if you say, then it will be October to December. This will be a part quarter and October to December will be a full quarter where you will recognize the revenue from PASC.
- Sanjesh Jain:** And on the SDA, you said that we are now approved for the Pilot, Production approval is awaited. When should we start the revenue recognition?
- Chintan Shah:** I will say a realistic revenue recognition from October 2024 when these large customers and the second product with our largest existing customer, both we expect to have commercialization from September or October, full scale commercialization. So, I would say October. Of course, the revenues in SDAs will continue to and it has already begun, and it will continue to grow from today until September. But October, we will start seeing a real shift in that phenomena.
- Sanjesh Jain:** One on the guidance you gave for this year, you said that Rs. 400 crores to Rs. 425 crores if I look at the lower end, we are talking of Rs. 105 crores of sales next Quarter 230, so anywhere between 105 to 130 and in first 9 months we have done an EBITDA margin of 17.6, so technically we are talking that next quarter we will be hitting a margin of course of 20% to 23%. You're saying that this Rs. 11 crores what is got delayed will get recognized and then there will be a growth sequentially.
- Chintan Shah:** Correct.
- Sanjesh Jain:** That's a fair understanding, right?
- Chintan Shah:** Yes, perfect.
- Sanjesh Jain:** One last before I get back onto the queue. More on the electrolyte side, what's our talk on the customer side? When are they computing their automation project? When we can really expect



our offtake to happen? Will it happen in CY24, it will take one year for them and for us it's only a CY25 story?

Chintan Shah: So, our large customer is automizing their battery assembly plant and this will go online from August 2024. And typically, the number of batteries that they assemble today manually and the number of batteries that they will assemble by this automated line is going to become 4x. And this is their first automated line, which they will become operational in August of 24 and they have got subsidized and low-cost funding from the government of the US, where they will eventually set up 4 such assembly lines. This will not happen, additional 3 more assembly lines will be set up over a span of next 2 years. So, from 24 to 26, they will eventually set up 4 assembly lines. So, your X demand of today virtually translates into 14 to 16 X in the next 3 years' time. Considering they even produce at 50% of their capacities, then also this will translate into a very large business over a period of next 2 to 2.5 years' time.

Sanjesh Jain: And that product is verified successful, that is it?

Chintan Shah: That we have been supplying since last 1.5 years. Almost 2 years now, I think.

Moderator: Thank you. The next question is from Krishan Parwani, JM Financial. Please go ahead.

Krishan Parwani: Just two clarifications from my side. So, the first is, I think since you mentioned about 1.5x asset turns, so on your capacity expansion, which you did at about Rs. 150 odd crores, you'd be able to do Rs. 225 crores of incremental revenue. So, that means about Rs. 625 crores of next year.

Chintan Shah: Which Rs. 150 crores are you talking?

Krishan Parwani: The one that you did during the IPO.

Chintan Shah: No, so that was a mix of having PTCs, SDAs and the PASC altogether. So, there definitely we had in about CAPEX of Rs. 250 crores. So, of course, from the IPO proceeds, it was maybe Rs. 150 crores or Rs. 160 crores that was promised and we did about Rs. 250 crores of CAPEX in that and there we see an asset turn of about 2. So, that definitely takes us from Rs. 400 crores to Rs. 900 crores in terms of revenue. Now what I'm trying to say is these new product launches that are coming in, the PASC where the pharma and the Agro intermediates, these are all coming in as multi-stage chemistries. So, let us say if I produce X kgs of a product, theoretically I'm producing 3x or 4x kgs of total chemicals to eventually come down to X because multi-stage, stage one, stage two, stage three, everywhere you are producing X, X to go to the X product. Theoretically you are producing three X but ultimately selling only one X out of it. That is what is causing the asset turn if I only say on top in terms of PASC and which will be our focus of next 3 years in terms of any development and this is going to be our large growth driver over next 3 years. Then I would say asset turn of 1.5 is what we are looking at. So, the new Rs. 70



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crores that we are intending to invest right now is specifically for this PASC, the agro intermediates. That is where we are looking only at 1.5 asset turn.

Krishan Parwani: Understood. So, basically earlier of that the initial CAPEX or the IPO CAPEX that you had incurred, so there you had probably guided about 3x asset turn, which you have lowered it to 2x, correct and then the incremental for PASC, it is 1.5x that is correct, right?

Chintan Shah: Right.

Krishan Parwani: Just one last clarification. So, in terms of whatever incremental revenue that you're going to do from let's say FY24 onwards So, could you break it down, like let's say, what percentage of incremental revenue would be from PASC and let's say if the incremental revenue is Rs. 300 crores – Rs. 400 crores over the next 3 years, and the breakup between the PASC and the SDAs, that's it?

Chintan Shah: Primarily, the growth is going to come from PASC and SDA, 60% from PASC and 40% from SDA. So, all these 6 products are going into commercialization. So, all this will take impact from month of August. So, the first 4 months if we exclude, then if on a whole year basis we are talking, then we are looking at about Rs. 200 crores in terms of revenue from the PASC segment and about an additional revenue of incremental revenue of Rs. 80 crores to Rs. 100 crores on the SDA side.

Krishan Parwani: I am sorry, what number did you say for the incremental for the PASC?

Chintan Shah: Rs. 200 crores.

Krishan Parwani: And for SDA, it is Rs. 80 crores, so roughly about Rs. 680 crores more or less?

Chintan Shah: Correct.

Moderator: Thank you. The next question is from the line of Vipin Goel from Mirabilis Investment, please go ahead.

Vipin Goel: I had one question on the flame retardant segment. So, at one point we were expecting Rs. 200 crores peak sales for the product that we were developing, which now we have decided not to produce because of the market conditions. So, I mean, what are our plans here? And also, if you could talk about the second product that you are developing in this segment, which you talked about earlier in the call.

Chintan Shah: So, all the clients in this segment are basically polymer manufacturers. It is not that we are never going to produce, it is purely because of the current market situations and the price at which these products are available, which are ridiculously low. It doesn't make any commercial sense



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to produce this right now. Just to give you an example, one of the first products that we have introduced in this flame retardant category. Let us say my raw material cost comes to \$2.8, the product is available at \$2.9 today. Nobody can make, see if you add one kg plus one kg, you can make maximum 2 kgs. You cannot make 3 kgs, right. And this product pricing is in such a way as if people are able to make one kg out of only 500 kg raw material, which is unrealistic. And my key competitors in this area are the people who have large capacities to produce bromine, which is the key raw material for that. So, I believe product pricing is happening globally in a way where they are only getting rid of the bromine that they produce. So, they are just valuating their bromine and not evaluating the product per se in terms of flame retardants which they are selling. If I say in terms of raw material cost, if 60% cost comes from bromine in this particular product. So, if let us say a \$3 product, \$1.8 is coming out of bromine as a raw material cost. Now this product is available at \$2.8. So, practically they are trying to sell bromine and not actually considering any overheads or margins on the rest of the chemistries that they are putting. So, as of today, the same product was available at \$4.5, \$5, \$6, \$6.5 and went up to \$8, but a standard pricing of this product is about \$5-\$5.5. And that is where it has any economic sense to produce, but because the demand is very low, it's probably not even 50% then it used to be a year and a half back. And that is what has caused this price to drop. People are sitting on large piece of inventories, trying to just get rid of it at whatever price they are able to. As of today, it doesn't make sense to produce this product and that is why we are holding off. But we have very interesting negotiation going on with one of the customers in the Western World. It's a very large potential customer where we have been fully approved right now. And of course, the business is not happening per se, because of the pricing situation that persists. Now, this customer has slowly and steadily come to a point where they have agreed on a pricing mechanism irrespective of what the market price would be. So, based on the global raw material pricing and a conversion model, that what would be the overheads to produce at Tatva and let us say Tatva has a 10% margin overhead and what is the product cost. So, this is the kind of a mechanism which they have nearly agreed. I am not announcing this today because they have not formally agreed or it is not 100%. But they are moving in this direction where they understand that today it's an artificially low pricing. But when the market turns and suddenly these prices start to rise, the availability becomes a question mark and you have to pay very high spot prices. And which people have done in last 3 years, paying abnormally very high prices in terms of spot buying. So, they don't want to get into that situation and virtually we are very near to closing this argument with them to have a contract in place, which will be governed in terms of a fixed margin for Tatva and fixed overhead. And the price of the product varies in terms of the raw material pricing as and when it changes. The second product which we introduced, again it comes from the same category, which is a flame retardant getting into polymers and similar set of customers which we are working.

Vipin Goel:

Sure, sir. This really helps. Sir, one more thing on the on the SDA front, what we understand that the first and the fourth customer are back to pre-COVID levels. So, I mean, just to



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understand what portion of the pre-COVID pieces that we are doing in terms of volume, what would they be?

Chintan Shah: The thing is that the customer #2, the China customer, which is not buying since probably last 14 or 15 odd months, was buying nearly 90% of what my customer 1 used to buy, maybe 80%. So, not very less than my customer #1. And this customer has literally vanished from the scene in the last 14 or 15 months. That is a kind of demand situation within China where they are selling very less quantum of their own products within their own territory. Now, despite of that, we are seeing this growth. So, you can understand what the customer #1 and customer #4 are bringing in terms of volumes, nearly offsetting what the Chinese customer is not off taking.

Vipin Goel: Again, if you have to map the fifth customer on the backdrop of this.

Chintan Shah: This is the largest potential customer, even potentially much larger than my largest customer today.

Vipin Goel: And sir on the SDA front again, you alluded some quarters back that there's a high cost inventory sitting. So, is that all being utilized? Has it been utilized or is it still you're holding some part of it?

Chintan Shah: No, we still have a lot of idle capacities flying around. And this I expect we should overcome this scenario from July or August is what I strongly feel and I'm very confident of that in fact.

Vipin Goel: So, will that also be flowing into the margins, I mean, our margins?

Chintan Shah: Of course, yes, because this is idle cost is a huge cost. It's an unbearable cost. It's a huge burden for us because as I explained repeatedly, all your equipment facilities are running but producing hardly anything. It's a huge cost for you. Just imagine bringing people from Bharuch to Dahej, it is a distance of 50 kilometers. We have 12 buses across the shift. And now we have just doubled that, right, from 6 to 12. So, even if you produce or not produce, you are paying for 6 buses on a daily basis to transport your employees from Bharuch to Dahej and back. And this is what a cost of 24 lakhs a month. So, this is the kind of cost that you keep on adding if your plant is not operating at full capacity. So, once this becomes fully operational, your revenue recognition starts happening, and all this cost automatically starts getting absorbed in a decent way. And that is where you will see a decent growth in terms of EBITDA as well.

Vipin Goel: One last question. Again on the SDA front, since now we are seeing picking up in volumes. So, how do you think about the PTC segment? How should we think about in the future? And what kind of growth can be?

Chintan Shah: PTC segment actually there is no real drop in terms of volumes, okay. The volumes are nearly the same, of that there may not be a growth. There is a significant erosion in terms of pricing.



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Just for an example, our largest selling phase-transfer catalyst is TBAB. Let us say about by last March of 2023, we were selling this product at Rs. 425 in Indian market. Today, this product is selling at Rs. 250 and Rs. 275. Now, how do you compensate your topline growth when your product prices, this is not necessarily I'm talking the margins have dropped, only your product prices have dropped so drastically. But in PTC, we have also seen margin erosion because there is very fierce competition in PTC in domestic market. Our margins and customers in exports have been very well protected. But here, that scenario is a bit different when we talk of domestic customers. It's not that it's a catalyst and people say that it's a very critical component of reaction, so we don't want to change the source. That is a philosophy which most of the MNC customers live with, but it is not the scenario when we talk of the domestic customers. So, here, people tend to change source of catalyst even for a Rs. 5 change in the product pricing. Here, we have erosion of margins on the domestic front, but at least on the export front, well, 70% of our PTC revenue again comes from the exports. But those margins have remained pretty much intact.

Vipin Goel:

The volumes for PTCs to still remain at these levels?

Chintan Shah:

PTC has never been a very exponential growth business for us. So, PTC has been organically growing at 10% to 15% per year. And so this year may be an exception to that, that there may not be a volume growth. It's a topline degrowth because of the product prices gone down. So, we see a topline degrowth in that segment. But in terms of per se the business, it remains very much stable. In fact, for the upcoming 2024 year, we have already business in place for most of my existing large MNC customers. So, those businesses have been secured. So, I am pretty much relaxed in terms of PTC sales for the calendar year 2024 already.

Moderator:

Thank you. That was the last question. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.