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Q4FY22 result review and
earnings revision

Specialty Chemicals

Target price: Rs2,875

Earnings revision

(%)	FY23E	FY24E
Revenue	↓ 11.3	↓ 1.4
EBITDA	↓ 21.1	↓ 2.9
PAT	↓ 22.9	↓ 4.1

Target price revision

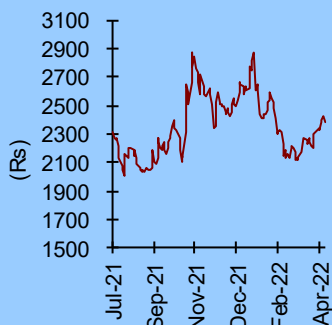
Rs2,875 from Rs3,000

Shareholding pattern

	Sep '21	Dec '21	Mar '22
Promoters	79.2	79.1	79.2
Institutional investors	10.9	10.8	11.2
MFs and others	6.8	7.5	7.5
Banks /FIs	0.0	0.0	0.0
Insurance Cos.	0.6	0.3	0.4
FII	3.5	3.0	3.3
Others	9.9	10.1	9.6

Source: BSE

Price chart



Tatva Chintan Pharma Chem

BUY

Maintained

Strong pipeline of high-value new products

Rs2,498

Tatva Chintan's Q4FY22 revenue declined 9.3% YoY and was 11% below our estimates on higher dip in SDA revenue. However, gross margin expansion of 280bps QoQ, despite inferior revenue mix, was a positive surprise. It anticipates SDA revival only in H2FY23, and has guided for flattish revenue for FY23. However, we expect an upside risk if auto production normalises, and benefits from pent-up demand and large inventory get liquidated. Despite lower SDA sales, Tatva Chintan expects good growth in FY23 contributed by other segments and start of flame retardant production. We are excited about its new product pipeline, which is niche, has high purity requirement and is thus, challenging. The company expects new facility (to be commissioned by Dec'22) to be utilised faster than earlier estimates, capex to continue and drive growth. We have cut our FY23E EPS estimate by 23% on lower SDA sales, but have cut only 4% for FY24E. We reduce target price to Rs2,875 (from Rs3,000; 40x FY24E EPS). Maintain BUY.

- **Our estimates miss from weakness in SDA; margin holds strong.** Tatva Chintan's Q4FY22 revenue fell 9.3% YoY to Rs985mn and came 11% below our estimates. SDA revenue dipped 27.7% QoQ to Rs385mn on disruption in auto production from chip shortage, while PASC and PTC revenues rose 18.3% and 21% QoQ to Rs277mn and Rs300mn, respectively; benefitted from more available capacity which was otherwise dedicated to SDAs. Electronic chemicals revenue was steady at Rs22mn. Despite inferior revenue mix (SDA contribution falling), gross profit margin improved 280bps QoQ to 59.7%. Other expenses were higher due to inflation in freight, packaging and power cost. EBITDA dipped 10.3% YoY (7.8% QoQ) to Rs220mn. Net profit was down 17.1% YoY to 175mn, which was impacted from lower other income.
- **Near-term outlook for SDA appears weak, but underlying demand is intact. 1) SDAs –** Tatva Chintan expects next two quarters to be weak due to continued chip shortage and anticipates revival only in H2FY23. It has added two new customers in SDA whose off-take should gradually improve and is in discussion with another potential large customer for SDAs. Though the company has guided for flattish revenue in FY23, we see an upside rise from pent-up demand if auto production normalises. The company is sitting on huge inventory, and new customers' addition should also add to demand; **2) PTC –** it has added two new customers in pharmaceuticals and agro-chemicals. The revenue growth should be at historical average of 20%; **3) electronic chemicals –** expects revenue to grow 4-5x in FY23 from supply of electrolyte salt for battery storage for solar power plant and on-going demand increase from EV side; and **4) PASC –** pharmaceutical side production ramp-up to drive growth.
- **Margins protected by pass through agreements.** Tatva Chintan's gross profit margin remains strong despite commodity inflation, due to pass-through agreement both from vendors and customers with a quarter lag. We also suspect inventory gains as the company is sitting on large inventory. In FY23, lower SDA should compress gross profit margin, but normalisation in operating cost should help protect EBITDA margin.

Market Cap	Rs55.4bn/US\$722mn	Year to Mar	FY21	FY22P	FY23E	FY24E
Bloomberg	TATVA IN	Revenue (Rs bn)	3.0	4.3	5.2	7.8
Shares Outstanding (mn)	22.2	EBITDA	0.7	1.1	1.3	2.1
52-week Range (Rs)	2878/1083	Rec. Net Income (Rs bn)	0.5	1.0	1.0	1.6
Free Float (%)	20.8	EPS (Rs)	26.0	43.2	43.6	71.9
FII (%)	3.3	P/E (x)	96.1	57.8	57.3	34.8
Daily Volume (US\$'000)	2668	CEPS (Rs)	29.4	46.9	51.5	84.6
Absolute Return 3m (%)	3.8	EV/E (x)	77.8	51.0	43.3	26.2
Absolute Return 12m (%)	NA	Dividend Yield (%)	0.1	0.1	0.3	0.7
Sensex Return 3m (%)	(2.1)	RoCE (%)	21.9	22.6	15.4	22.6
Sensex Return 12m (%)	19.4	RoE (%)	36.8	29.6	18.6	25.7

Please refer to important disclosure at the end of this report

Research Analysts:

Sanjesh Jain

sanjesh.jain@icicisecurities.com
+91 22 6807 7153

Akash Kumar

akash.kumar@icicisecurities.com
+91 22 6807 7637

- ▶ **New product pipeline strong which increases growth visibility for company in medium term.** Tatva Chintan is in the process to commission many new products over the next 24 months. **1) Flame retardant** – it is in process to commercialise brominated flame retardant from June'22 from existing facility (80-100te per month), and can scale up to 4-5ktpa post commissioning of new plant in Dec'22. These are high purity flame retardant and find application in polymers, which is used in electronic and electrical industry. The addressable market is US\$1bn, and the company aims to sell the entire capacity in next few years; **2) high purity products** through electrolysis process. These products find application in chips and printed circuits, and products are tested by a large MNC; **3) monoglyme** – it is in process to come with low moisture monoglyme which finds application in lithium-ion battery to prepare electrolyte solution. The target is to sell 3ktpa of high purity monoglyme; **4) agro-chemical and pharmaceuticals intermediate** with at least one stage of continuous flow chemistry.
- ▶ **Capex investment to rise with new product introduction.** The company expects immediate capex requirement over the next two years of only Rs750mn for commercialisation of continuous flow chemistry. A large part of other products will use new facility which is expected to be commissioned by Dec'22. However, it is likely to exhaust new plant sooner than expected and unit-4 development can now start in next 18-24 months.

Table 1: Tatva Chintan (consolidated) financials

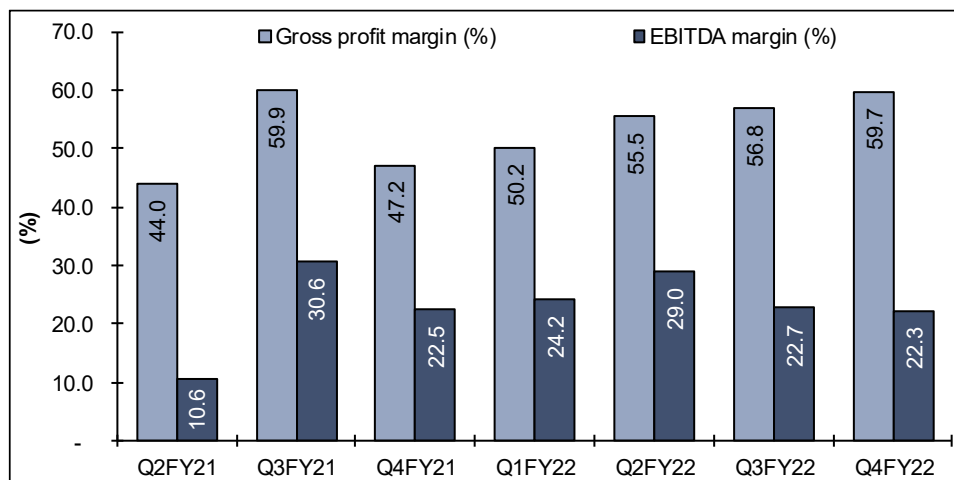
(Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	QoQ (%)	YoY (%)
Revenue	1,087	1,068	1,236	1,047	985	(5.9)	(9.3)
COGS	574	532	550	452	397	(12.0)	(30.8)
Gross profit	513	536	686	595	588	(1.2)	14.7
GPM (%)	47.2	50.2	55.5	56.8	59.7		
Employee cost	69	71	75	82	82	0.3	19.7
% of revenue	6.3	6.7	6.0	7.9	8.4		
Other expenses	199	207	253	275	286	4.1	43.6
% of revenue	18.3	19.3	20.4	26.2	29.0		
Total expenses	268	278	327	357	368	3.3	37.5
EBITDA	245	258	359	238	220	(7.8)	(10.3)
EBITDA (%)	22.5	24.2	29.0	22.7	22.3		
Depreciation	18	19	21	21	21	3.5	21.0
EBIT	227	239	338	217	198	(8.9)	(12.7)
Other income	26	30	28	47	4	(92.5)	(86.3)
Finance cost	10	26	12	10	12		
PBT	242	243	354	255	190	(25.5)	(21.7)
Tax	31	11	30	27	15	(44.9)	(53.0)
ETR (%)	12.9	4.6	8.5	10.4	7.7		
Exceptional item							
Net profit	211	231	324	228	175	(23.2)	(17.1)
Net profit (%)	19.4	21.7	26.2	21.8	17.8		
EPS (Rs)	10.5	10.4	14.6	10.3	7.9	(23.2)	(24.9)

Source: Company data, I-Sec research

Table 2: Tatva Chintan segmental revenue breakup

(Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	QoQ (%)	YoY (%)
Segment revenue							
PTC		228	210	247	300	21.3	
SDA		570	766	533	385	(27.7)	
Electronic Chemical		12	0	22	22	0.7	
PASC		270	260	234	277	18.3	
Total		1,068	1,236	1,047	985	(5.9)	
Mix (%)							
PTC		21.3	17.0	23.6	30.4		
SDA		53.4	62.0	50.9	39.1		
Electronic Chemical		53.4	62.0	50.9	39.1		
PASC		1.1	0.0	2.1	2.2		

Source: Company data, I-Sec research

Chart 1: Gross profit and EBITDA margins

Source: Company data, I-Sec research

Table 3: Earnings revision

Rs mn	Revised		Earlier		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	5,222	7,837	5,886	7,945	(11.3)	(1.4)
Gross profit	2,859	4,261	3,225	4,224	(11.4)	0.9
GPM (%)	54.7	54.4	54.8	53.2		
EBITDA	1,263	2,101	1,601	2,164	(21.1)	(2.9)
EBITDA (%)	24.2	26.8	27.2	27.2		
PAT	967	1,595	1,254	1,663	(22.9)	(4.1)
EPS (Rs)	43.6	71.9	56.6	75.0	(22.9)	(4.1)

Source: Company data, I-Sec research

Financial summary

Table 4: Profit & loss statement

(Rs mn, year ending March 31)

	FY21	FY22P	FY23E	FY24E
Operating Income (Sales)	3,004	4,336	5,222	7,837
Gross profit	1,510	2,405	2,859	4,261
<i>Gross profit margin (%)</i>	<i>50.3</i>	<i>55.5</i>	<i>54.7</i>	<i>54.4</i>
Operating Expenses	853	1,330	1,596	2,160
EBITDA	657	1,075	1,263	2,101
<i>% margins</i>	<i>21.9</i>	<i>24.8</i>	<i>24.2</i>	<i>26.8</i>
Depreciation & Amortisation	67	82	174	281
Net Interest	42	60	45	30
Other Income	59	109	136	156
Recurring PBT	607	1,041	1,179	1,945
Add: Extraordinaries	-	-	-	-
Less: Taxes	84	82	212	350
- Current tax				
- Deferred tax				
Share from JV/associate				
Net Income (Reported)	523	959	967	1,595
Recurring Net Income	523	959	967	1,595

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22P	FY23E	FY24E
Assets				
Total Current Assets	1,845	4,249	4,064	4,827
<i>of which cash & cash eqv.</i>	<i>53</i>	<i>1,279</i>	<i>1,267</i>	<i>609</i>
Total Current Liabilities & Provisions	565	822	990	1,485
Net Current Assets	1,280	3,427	3,075	3,342
Investments	-	-	-	-
<i>of which</i>				
<i>Strategic/Group</i>	-	-	-	-
<i>Other Marketable</i>	-	-	-	-
Net Fixed Assets	1,303	2,123	3,049	3,778
Goodwill				
Total Assets	2,583	5,550	6,124	7,120
Liabilities				
Borrowings	902	702	502	302
Deferred tax liability	21	21	21	21
Other financial liabilities	-	-	-	-
Equity Share Capital	201	222	222	222
<i>Face Value per share (Rs)</i>	<i>10.0</i>	<i>10.0</i>	<i>10.0</i>	<i>10.0</i>
Reserves & Surplus	1,459	4,605	5,379	6,575
Net Worth	1,660	4,827	5,600	6,797
Total Liabilities	2,583	5,550	6,124	7,120

Source: Company data, I-Sec research

Table 6: Quarterly trend

(Rs mn, year ending March 31)

	Jun-21	Sep-21	Dec-21	Mar-22
Net sales	1,068	1,236	1,047	985
<i>% growth (YoY)</i>	<i>107.3</i>	<i>105.9</i>	<i>30.6</i>	<i>(9.3)</i>
EBITDA	258	359	238	220
<i>Margin (%)</i>	<i>24.2</i>	<i>29.0</i>	<i>22.7</i>	<i>22.3</i>
Other income	30	28	47	4
Add: Extra ordinaries	-	-	-	-
Net profit	231	324	228	175

Source: Company data

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22P	FY23E	FY24E
Operating Cash flow	621	992	1,050	1,751
Working Capital Changes	(378)	(921)	341	(926)
Capital Commitments	(210)	(902)	(1,100)	(1,010)
Free Cash Flow	33	(831)	291	(186)
Cash flow from				
Investing Activities	(0)	109	136	156
Issue of Share Capital	-	2,253	-	-
Inc (Dec) in Borrowings	(4)	(200)	(200)	(200)
Dividend paid & Others	(84)	(105)	(239)	(429)
Chg. in Cash & Bank				
balance	(55)	1,226	(12)	(659)

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY21	FY22P	FY23E	FY24E
Per Share Data (in Rs.)				
Recurring EPS	26.0	43.2	43.6	71.9
Reported EPS	26.0	43.2	43.6	71.9
Recurring Cash EPS	29.4	46.9	51.5	84.6
Dividend per share (DPS)	2.1	2.0	8.7	18.0
Book Value per share (BV)	82.6	217.7	252.6	306.6
Growth Ratios (%)				
Operating Income	14.1	44.4	20.4	50.1
EBITDA	19.6	63.6	17.5	66.4
Recurring Net Income	38.3	83.4	0.9	64.9
Diluted Recurring EPS	38.3	66.2	0.9	64.9
Diluted Recurring CEPS	38.5	59.8	9.6	64.5
Valuation Ratios (x)				
P/E	96.1	57.8	57.3	34.8
P/CEPS	85.2	53.3	48.6	29.5
P/BV	30.3	11.5	9.9	8.2
EV / EBITDA	77.8	51.0	43.3	26.2
EV / Operating Income	17.0	12.7	10.5	7.0
EV / Operating FCF	1,542.1	(76.0)	128.0	(1,845.2)
Operating Ratio				
Other Income / PBT (%)	9.8	10.4	11.5	8.0
Effective Tax Rate (%)	13.9	7.9	18.0	18.0
NWC / Total Assets (%)	47.5	38.7	29.5	38.4
Inventory Turnover (days)	87.5	145.0	90.0	90.5
Receivables (days)	110.3	85.0	85.5	86.0
Payables (days)	57.7	58.2	58.2	58.2
Net Debt/EBITDA Ratio (x)	1.3	(0.5)	(0.6)	(0.1)
Capex % of sales	7.0	20.8	21.1	12.9
Return/Profitability Ratio (%)				
Recurring Net Income Margins	17.4	22.1	18.5	20.4
RoCE -post tax	21.9	22.6	15.4	22.6
RoIC	22.6	27.1	19.7	26.3
RoNW	36.8	29.6	18.6	25.7
Dividend Yield	0.1	0.1	0.3	0.7
Gross Margins	50.3	55.5	54.7	54.4
EBITDA Margins	21.9	24.8	24.2	26.8

Source: Company data, I-Sec research

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