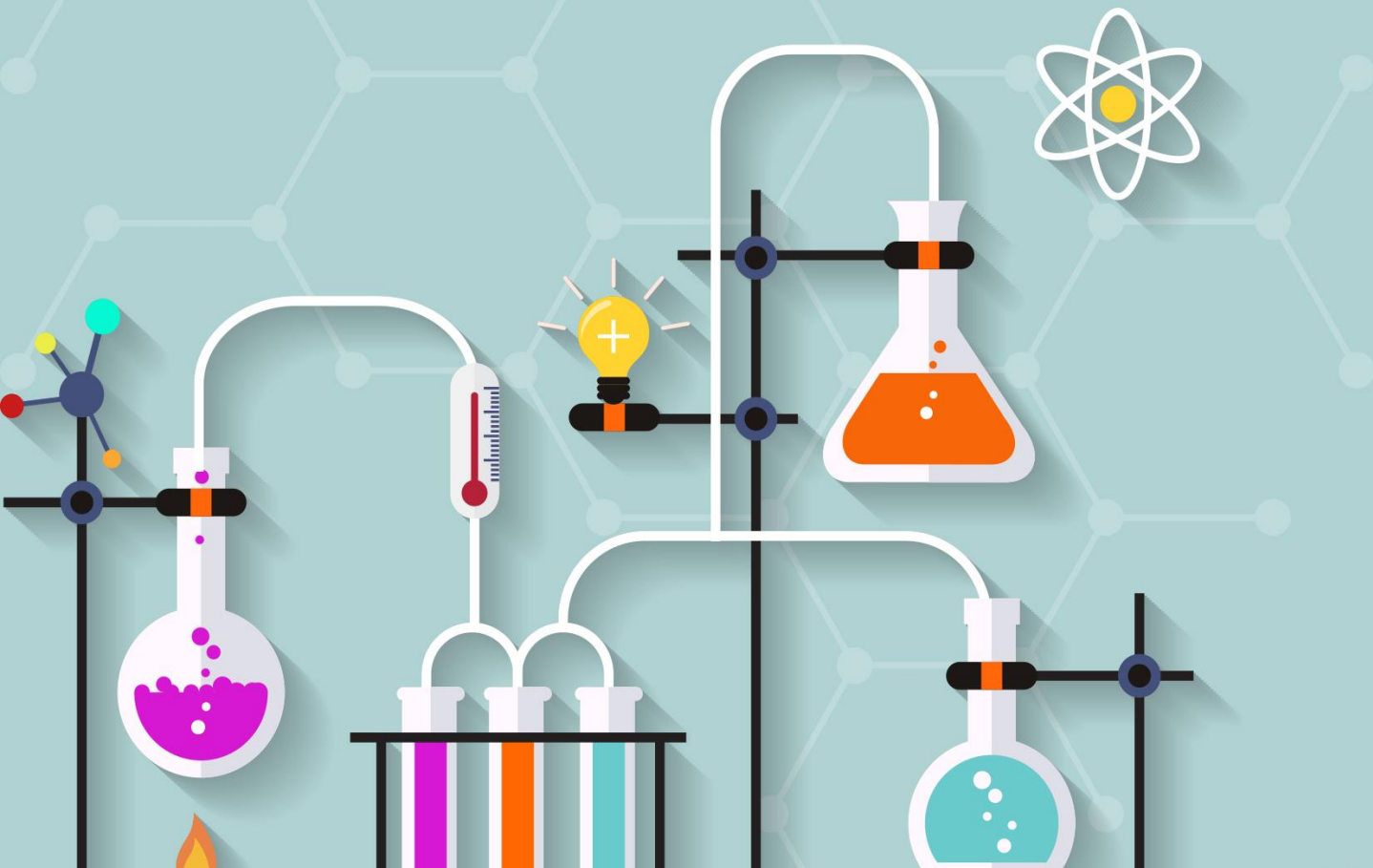


# Tatva Chintan Pharma Chem Ltd.



# Tatva Chintan Pharm Chem Ltd.

**Weak SDA impact partially offset by growth in other segments**

CMP INR 2,258	Target INR 2,548	Potential Upside 12.9%	Market Cap (INR Mn) INR 49,815	Recommendation <b>ACCUMULATE</b>	Sector <b>Specialty chemicals</b>
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## Result Highlights :

- Revenue reported at INR 884Mn (-17.3% yoy / -10.3% qoq) on account of decline in demand for SDAs which has contributed 7% of total revenue as against 52% in Q1FY22. The de-growth in SDAs demand was partly offset by robust growth in other segments.
- EBITDA reported at INR 152Mn (-41.1% yoy / -30.7% qoq) which is including the effect of foreign exchange (forex) loss worth INR 49.7Mn and EBITDA margin stood at 17.2%. However, EBITDA margin excluding forex loss stood at 22.83% at INR 201.9Mn which is largely in the range of historical performance.
- Net Profit reported at INR 98Mn (-57.7% yoy / -44.0% qoq), net margin reported at INR 11.1% (-1058bps yoy / -669bps qoq).
- EPS stood at INR 4.42 in Q1FY23 compared to INR 7.90 in Q1FY22.

## MARKET DATA

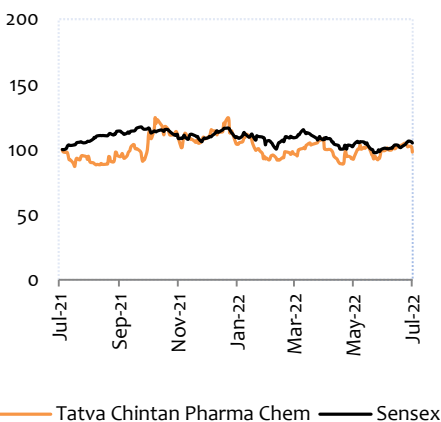
Shares outs (Mn)	22
Equity Cap (INR Mn)	222
Mkt Cap (INR Mn)	49,815
52 Wk H/L (INR)	2976/2001
Volume Avg (3m K)	28
Face Value (INR)	10
Bloomberg Code	TATVA IN

## Key Financials

Particulars (INR mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue	2,632	3,004	4,336	5,448	6,802
EBITDA	550	657	1,082	1,307	1,803
PAT	378	523	959	1,041	1,448
PAT margin (%)	14.4%	17.4%	22.1%	19.1%	21.3%
EPS	18.81	26.02	43.25	46.98	65.34
P/E (x)	48.0x	86.8x	52.2x	48.1x	34.6x

Source: Company data, KRChoksey Research

## SHARE PRICE PERFORMANCE



## Change in product mix due to SDAs subdued performance

- As it was earlier indicated regarding shortage of semiconductors in H1FY23 due to continued geopolitical issues and lockdown in China on account of COVID outbreak, it has an impact on the overall performance, a decline of 89% yoy in SDAs revenues in Q1FY23. However, overall revenue de-grew by 17% yoy, partly offset by rise in revenue growth from other product categories. Revenue reported by 3 product segments (PTCs, Electrolyte salts & PASC) grew by 60% at INR 818Mn compared with INR 515Mn of average quarterly revenue in FY22.
- We estimate PTCs / SDAs / Electrolyte salts and PASC revenue to grow at a CAGR of 47.1% / 5.4% / 180.1% / 28.1% over FY22-24E.

## Weak Margins for the quarter; margins to advance in the full year FY23

- During the quarter, EBITDA margins declined by 697bps yoy at 17.2% largely on account of low contribution from SDAs revenue being a highest margin product across all segments. Further, the forex loss of INR 49.7Mn on account of rupee depreciation had an impact on margins during the quarter, excluding which EBITDA margin stood at 22.8%. Further, lower SDA revenues from dahej facility had an impact on overall tax rate, it rose to 28% in Q1FY23. We believe improvement in SDA revenues by H2FY23 will further enhance margin profile in the range of 22-27% in the long run.

## MARKET INFO

SENSEX	55,268
NIFTY	16,484

## SHARE HOLDING PATTERN (%)

Particulars	Jun 22	Mar 22	Dec 21
Promoters	79.2	79.2	79.2
FIIIs	3.5	3.0	2.9
DIIIs	10.8	8.1	7.9
Others	6.6	9.7	10.1
Total	100.0	100.0	100.0

## Valuation

Tatva Chintan has a major focus on high purity products and green chemistry. Short term challenges led by semiconductor shortage are expected to fade by Q2FY23 end, that is expected to improve revenue for SDAs in H2FY23 delivering decline of ~10% yoy of total revenue of FY22 in FY23E. Overall tax rate is expected to be in the range of 18-20% for the full year on account of 50% tax holiday for its Dahej facility. Accordingly, our revenue and PAT estimates to grow at a CAGR of 25.7% / 44% over FY22-24E.

Tatva Chintan is currently trading at PE multiples of 48.1x / 34.6x based on our FY23E / FY24E EPS, respectively. We are positive on the business growth across other product categories, as it has started commercialization of multiple products during the quarter. Further, expected completion of capacity expansion (2x of current capacity) has potential to generate revenues at 2.0x. We estimate Q2FY23E to deliver muted performance due to weak outlook on the semiconductors supply. **We revise our target price at INR 2,548/share (39.0x FY24 EPS) and retain our ACCUMULATE recommendation (12.9% upside).**

# Tatva Chintan Pharm Chem Ltd.

## Key Concall Highlights

### Revenue growth drivers

- The major impact on SDA revenue was due to China lockdown, as Tatva Chintan has a large customer from China.
- Revenue **from Phase Transfer Catalysts (PTCs)** stood at INR 403Mn (79% yoy) and maintained its leadership position in the global market. During Q1FY23, it has started commercial sale from recently approved MNC.
- **Electrolyte salts** revenue grew at INR 69Mn compared to INR 20Mn / INR 11Mn in Q4FY22 / Q1FY23, respectively. It has contributed ~8% of overall revenue as against 1-2% in previous quarters. It has started commercial sale for a new customer which has energy storage device application. There is a rise in the commercial application of super capacitor, sodium and zinc batteries.
- **Pharma and Agrochemicals Specialty Chemicals (PASC)** segment reported revenue of INR 345Mn (28% yoy). It has started commercialization of new product in this quarter where it expects incremental volume growth over the next few years.
- It has completed pilot trials for the **flame retardants** and full scale trial will start from this week. It will start the production with 50-60MT/month and it has planned production of 5000MT/year FY24 onwards, post capacity expansion. The total market size stands at 160K-170K MT per year. In flame retardants, there are no competitors in India. However, there are major international players such as ICL, Lanxess and albemarle which are dealing in flame retardants.
- The product with regards to **metal extraction** is expected to commercialize from Q4FY23E. The team is developing ultra high purity products using specialized technology.

### Margins

- Improvement in SDA revenue in H2FY23 lead to uptick in margins for the year.
- Tatva Chintan has completed its 5 year of 100% tax holiday from Dahej facility and it will have **50% tax holiday FY23 onwards over the next 5 years**. The management expects overall tax in the range of 18-20% for the year.

### Other Key points:

- Except SDAs, all other product categories are fungible in nature. Only SDAs production requires unique capacity.

### Key Risks:

- Changes in product mix is likely to have an impact on company's margin performance.
- Challenges faced in SDAs demand may get extended on account of semiconductor chips availability issues that may have a negative impact on company's revenue growth.

# Tatva Chintan Pharm Chem Ltd.

## Q1FY23 Financial Result Performance

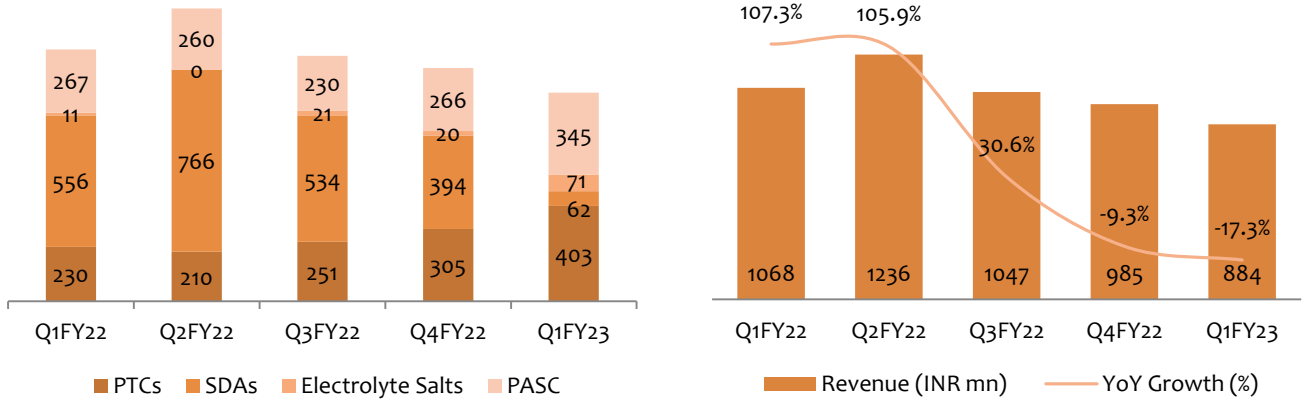
Particulars (INR mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)
<b>Revenue from operations</b>	<b>884.0</b>	<b>1,068.3</b>	<b>-17.3%</b>	<b>985.3</b>	<b>-10.3%</b>
Cost of Materials consumed	512.7	516.6	-0.8%	627.6	-18.3%
Purchase of Stock-in-trade	11.4	12.0	-5.5%	7.3	55.5%
Changes in Inventories	-125.5	3.4	-3759.5%	-237.5	-47.1%
COGS	398.5	532.1	-25.1%	397.4	0.3%
<b>Gross Profit</b>	<b>485.5</b>	<b>536.3</b>	<b>-9.5%</b>	<b>587.9</b>	<b>-17.4%</b>
<b>GPM</b>	<b>54.9%</b>	<b>50.2%</b>	<b>473bps</b>	<b>59.7%</b>	<b>-474bps</b>
Employee cost	85.8	71.3	20.4%	82.5	4.0%
Other Expenses	247.6	206.7	19.8%	285.9	-13.4%
<b>EBITDA</b>	<b>152.2</b>	<b>258.3</b>	<b>-41.1%</b>	<b>219.5</b>	<b>-30.7%</b>
<b>EBITDA Margin</b>	<b>17.2%</b>	<b>24.2%</b>	<b>-697bps</b>	<b>22.3%</b>	<b>-507bps</b>
Depreciation & amortization	23.3	19.0	22.9%	21.5	8.6%
EBIT	128.8	239.4	-46.2%	198.0	-34.9%
Other Income	18.3	29.7	-38.4%	3.5	416.7%
Finance Cost	10.2	26.4	-61.5%	11.8	-13.9%
EBT	137.0	242.6	-43.6%	189.8	-27.8%
Tax expense/(credit)	39.0	11.2	249.6%	14.7	165.7%
<b>PAT</b>	<b>98.0</b>	<b>231.5</b>	<b>-57.7%</b>	<b>175.1</b>	<b>-44.0%</b>
<b>PAT Margin</b>	<b>11.1%</b>	<b>21.7%</b>	<b>-1058bps</b>	<b>17.8%</b>	<b>-669bps</b>
<b>EPS</b>	<b>4.42</b>	<b>10.44</b>	<b>-57.7%</b>	<b>7.90</b>	<b>-44.0%</b>

Source: Company data, KRChoksey Research

# Tatva Chintan Pharm Chem Ltd.

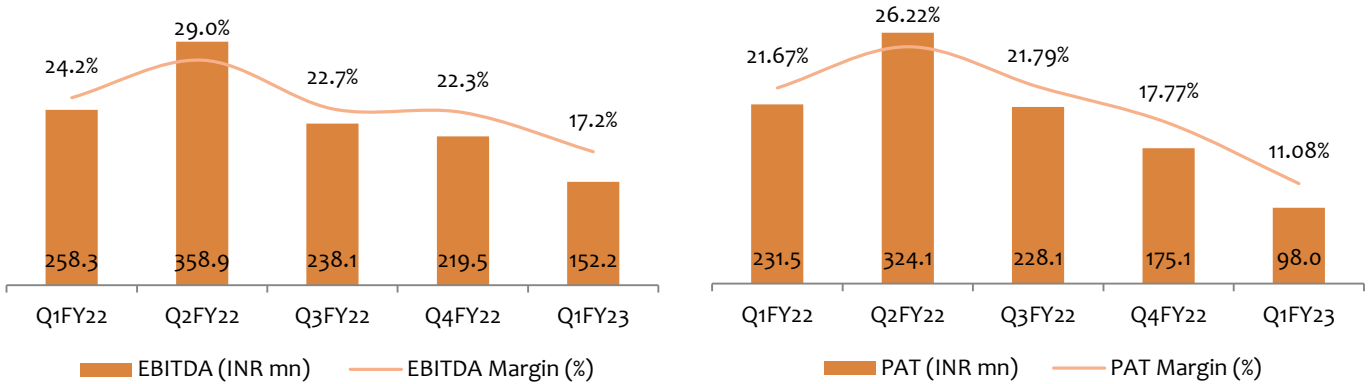
## QUARTERLY FINANCIAL PERFORMANCE

**Topline Performance: change in product mix led to sequential de-growth (SDAs contributed 7% in Q1FY23 v/s 40% in Q4FY22)**



Source: Company data, KRChoksey Research

**Margin Performance: Q1FY23 margins impacted due to drop in SDA revenue contribution**



Source: Company data, KRChoksey Research

# Tatva Chintan Pharm Chem Ltd.

## KEY FINANCIALS

Income Statement (INR mn)	FY20	FY21	FY22	FY23E	FY24E
<b>Revenues</b>	<b>2,632</b>	<b>3,004</b>	<b>4,336</b>	<b>5,448</b>	<b>6,802</b>
COGS	1,328	1,494	1,946	2,479	3,061
<b>Gross profit</b>	<b>1,305</b>	<b>1,510</b>	<b>2,390</b>	<b>2,969</b>	<b>3,741</b>
Employee cost	205	241	308	409	510
Other expenses	550	611	1,000	1,253	1,428
<b>EBITDA</b>	<b>550</b>	<b>657</b>	<b>1,082</b>	<b>1,307</b>	<b>1,803</b>
Depreciation & amortization	48	67	82	92	102
<b>EBIT</b>	<b>502</b>	<b>590</b>	<b>1,001</b>	<b>1,215</b>	<b>1,700</b>
Interest expense	39	42	48	52	63
Other income	14	59	89	107	129
<b>PBT</b>	<b>476</b>	<b>607</b>	<b>1,041</b>	<b>1,270</b>	<b>1,766</b>
Tax	98	84	82	229	318
<b>PAT</b>	<b>378</b>	<b>523</b>	<b>959</b>	<b>1,041</b>	<b>1,448</b>
<b>EPS (INR)</b>	<b>18.81</b>	<b>26.02</b>	<b>43.25</b>	<b>46.98</b>	<b>65.34</b>

Source: Company data, KRChoksey Research

Balance Sheet (INR mn)	FY20	FY21	FY22	FY23E	FY24E
Property, plant and equipment (PPE)	992	1,085	1,279	1,575	1,734
Right-of-use assets	119	118	314	417	525
Capital work-in-progress	49	98	515	472	520
Other intangible assets	1	1	3	0	0
Other non-current assets	2	3	5	5	7
<b>Total non-current assets</b>	<b>1,162</b>	<b>1,306</b>	<b>2,224</b>	<b>2,470</b>	<b>2,786</b>
Inventories	636	720	1,700	1,642	1,677
Trade receivables	496	907	566	866	1,267
Cash and bank balance	108	53	1,770	2,702	4,004
Loans	17	1	2	109	136
Other current assets	57	131	288	277	278
<b>Total current assets</b>	<b>1,327</b>	<b>1,843</b>	<b>4,359</b>	<b>5,649</b>	<b>7,428</b>
<b>TOTAL ASSETS</b>	<b>2,489</b>	<b>3,148</b>	<b>6,583</b>	<b>8,119</b>	<b>10,214</b>
Equity share capital	80	201	222	222	222
Other equity	1,097	1,459	4,509	5,493	6,897
<b>Total equity</b>	<b>1,177</b>	<b>1,660</b>	<b>4,731</b>	<b>5,715</b>	<b>7,119</b>
Borrowings	387	268	131	131	131
Long term provisions	1	1	2	2	3
Deferred tax / other non current liab	45	35	0	0	0
<b>Total non-current liabilities</b>	<b>436</b>	<b>308</b>	<b>138</b>	<b>140</b>	<b>142</b>
Borrowings	405	635	1,068	1,368	1,668
Trade payables	316	475	445	597	839
Other financial liabilities	117	1	4	4	6
Other current liabilities	37	62	185	278	417
Provisions	1	1	2	2	3
Current tax liabilities (Net)	0	7	10	15	22
<b>Total current liabilities</b>	<b>877</b>	<b>1,180</b>	<b>1,714</b>	<b>2,265</b>	<b>2,954</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2,489</b>	<b>3,148</b>	<b>6,583</b>	<b>8,119</b>	<b>10,214</b>

Source: Company data, KRChoksey Research

# Tatva Chintan Pharm Chem Ltd.

Cash Flow Statement (INR mn)	FY20	FY21	FY22	FY23E	FY24E
Operating Cash Flow	253	195	204	979	1,393
Investing Cash Flow	(402)	(206)	(1,968)	(474)	(589)
Financing Cash Flow	100	(46)	2,350	199	224
Net Inc/Dec in cash equivalents	(49)	(57)	585	704	1,028
<b>Closing Balance Cash &amp; Cash Equiv.</b>	<b>108</b>	<b>51</b>	<b>637</b>	<b>1,341</b>	<b>2,369</b>

Source: Company data, KRChoksey Research

Key Ratios (%)	FY20	FY21	FY22E	FY23E	FY24E
<b>Margins and Return Ratios (%)</b>					
EBITDA Margin (%)	20.9%	21.9%	25.0%	24.0%	26.5%
Net Profit Margin (%)	14.4%	17.4%	22.1%	19.1%	21.3%
RoE (%)	32.1%	31.5%	20.3%	18.2%	20.3%
ROA (%)	15.2%	16.6%	14.6%	12.8%	14.2%
RoCE (%)	32.0%	33.0%	22.4%	22.6%	25.2%
<b>Per Share Data</b>					
EPS	47.0	26.0	43.3	47.0	65.3
DPS	1.8	5.0	2.0	2.0	2.0
BVPS	146.5	82.6	213.4	257.8	321.2
<b>Growth (%)</b>					
Revenue	27.6%	14.1%	44.4%	25.6%	24.9%
EBITDA	62.6%	19.6%	64.7%	20.8%	37.9%
PAT	84.0%	38.3%	83.4%	8.6%	39.1%
EPS	84.0%	-44.7%	66.3%	8.6%	39.1%
<b>Valuation (x)</b>					
P/E	48.0	86.8	52.2	48.1	34.6
P/BV	15.4	27.3	10.6	8.8	7.0
<b>Liquidity</b>					
Debt/Equity	0.7	0.5	0.3	0.3	0.3
Current Ratio	1.5	1.6	2.5	2.5	2.5
Debtor Days	69	110	48	58	68
Inventory Days	88	88	143	110	90
Creditors Days	44	58	37	40	45
Working Capital Days	113	140	153	128	113

Source: Company data, KRChoksey Research

# Tatva Chintan Pharm Chem Ltd.

Tatva Chintan Pharma Chem Ltd				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
27-Jul-22	2,258	2,548	ACCUMULATE	<b>Buy</b>	More than 15%
26-Apr-22	2,498	2,791	ACCUMULATE	<b>Accumulate</b>	5% – 15%
19-Jan-22	2,610	2,902	ACCUMULATE	<b>Hold</b>	0 – 5%
26-Oct-21	2,310	2,620	ACCUMULATE	<b>Reduce</b>	-5% – 0
1-Oct-21	2,150	2,379	ACCUMULATE	<b>Sell</b>	Less than – 5%

#### ANALYST CERTIFICATION:

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