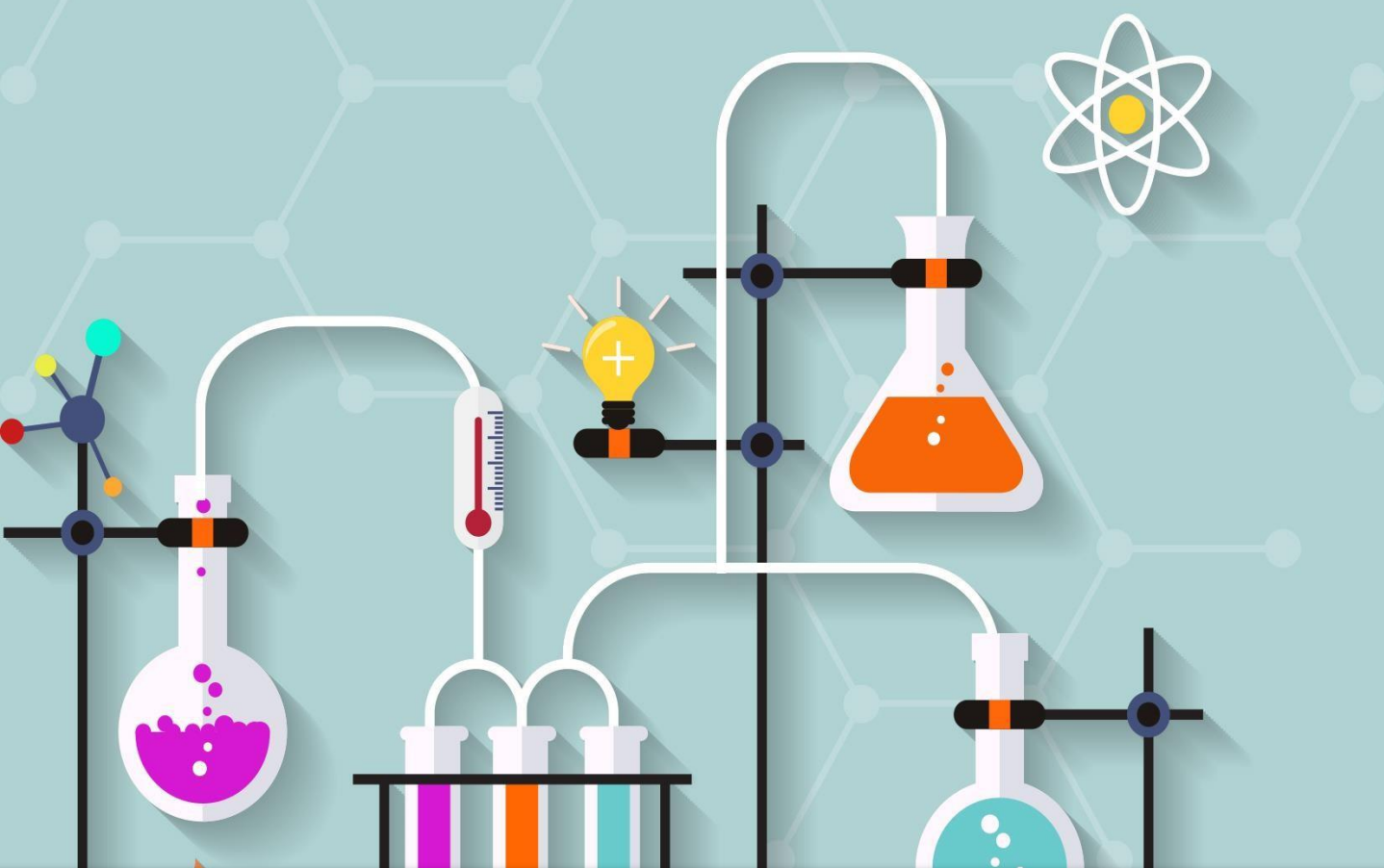




Tatva Chintan Pharma Chem Ltd



Tatva Chintan Pharma Chem Ltd.

Sharp decline in revenue and profitability as weak demand continue

CMP INR 1,368	Target INR 1,487	Potential Upside 8.7%	Market Cap (INR Mn) INR 32,096	Recommendation ACCUMULATE	Sector Specialty Chemicals
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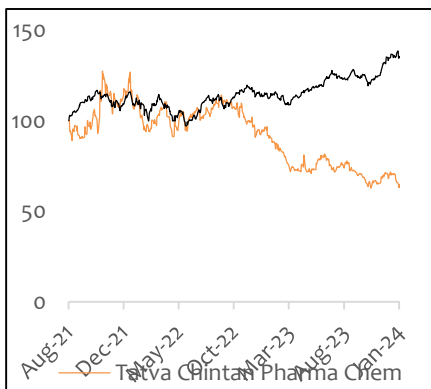
Result Highlights of Q3FY24:

- For Q3FY24, TATVA revenue was INR 842 Mn which declined by 30.2% YoY and 12.9% QoQ. The revenue missed our estimates by 23.1% due to continued subdued demand for the specialty chemical industry and financial year end for global end customers. The 9MFY24 revenue was INR 2,952 Mn which declined by 1.3% YoY.
- The EBITDA for the quarter was INR 110 Mn which declined by 38.6% YoY and 45.7% QoQ. The EBITDA was expected at INR 213 Mn but missed our estimates by 48.5% due to a significant increase in employee costs and other expenses and lower-than-expected revenue. The EBITDA margin for the quarter contracted by 180 bps YoY and 789 bps QoQ to 13.1%. We expected EBITDA margins to be 19.5% but it was lower by 640 bps. For 9MFY24, EBITDA was INR 526 Mn which grew by 18.7% YoY. The EBITDA margin expanded 300 bps YoY to 17.8%.
- Adj PAT for the quarter was INR 35 Mn which declined by 70.3% YoY and 55.6% QoQ. The Adj PAT was expected at INR 107 Mn but missed our estimates by 67.7% due to weak operating performance. The Adj PAT margin contracted by 553 bps YoY and 395 bps QoQ to 4.1%. We expected Adj PAT margin to be 9.8% but it was lower by 570 bps. For 9MFY24, Adj PAT declined by 27.3% YoY to INR 207 Mn. The Adj PAT margin contracted by 251 bps YoY to 7.0%.

MARKET DATA

Shares outs (Mn)	23
Equity Cap (INR Mn)	7,274
Mkt Cap (INR Mn)	32,096
52 Wk H/L (INR)	2,192/1,388
Volume Avg (3m K)	23
Face Value (INR)	10
Bloomberg Code	TATVA IN

SHARE PRICE PERFORMANCE



*Listed in 2021

MARKET INFO

SENSEX	70,371
NIFTY	21,239

SHARE HOLDING PATTERN (%)

Particulars	Dec-23 (%)	Sep-23 (%)	Jun-23 (%)
Promoters	72.0	79.1	79.2
FIIIs	4.2	3.2	3.5
DIIIs	13.1	11.1	11.7
Others	10.7	6.6	5.6
Total	100	100	100

KEY FINANCIALS

INR Millions	FY22	FY23	FY24E	FY25E	FY26E
Revenue	4,336	4,236	3,865	6,214	9,507
EBITDA	1,082	606	657	1,275	2,045
EBITDA margin (%)	25.0%	14.3%	17.0%	20.5%	21.5%
PAT	959	491	256	695	1,288
PAT margin (%)	22.1%	11.6%	6.6%	11.2%	13.5%
EPS	44.6	22.1	11.0	29.7	55.1
P/E (x)	32.2	70.0	131.1	48.3	26.1

Source: Company, KRChoksey Research

Sharp decline in topline primarily led by subdued performance in the SDA segment

For Q3FY24, TATVA revenue was INR 842 Mn which declined by 30.2% YoY and 12.9% QoQ. This significant decline was due to continued subdued demand for the specialty chemical industry and financial year-end for global end customers. Structure Directing Agents (SDA) segment (38.0% of the revenue in Q3FY24) declined by 43.0% YoY to INR 323 Mn, due to weak demand in China and a decline in price realization. The management expects SDA segment business to be modest in the first half of CY24E and pick up to a decent volume by the end of CY24E. Phase Transfer Catalysts (PTC) segment (30.0% of revenue in Q3FY24) de-grew by 23.8% YoY to INR 248 Mn. Pharma and Agro Intermediates and Specialty Chemicals (PASC) segment (30.0% of revenue in Q3FY24) declined by 4.3% YoY to INR 254 Mn due to a decline in price realization. However, in agro intermediates, two products are fully approved and third is under validation. The robust growth is expected from Q2FY25E as two products get commercial from August-2024E. The 9MFY24 revenue was INR 2,952 Mn which declined by 1.3% YoY. For Q3FY24, exports contributed 62.0% of the revenue which was INR 522 Mn and domestic sales contributed 38.0% of the revenue which was INR 320 Mn. **The Company has given guidance for revenue of INR 4,000 Mn to 4,100 Mn for FY24E.**

Significant increase in operating expenses impacted profitability

Gross margin for the quarter expanded 1,187 bps YoY but contracted 575 bps QoQ to 55.7%. For 9MFY24 the gross margin expanded 557 bps YoY to 55.1%. The EBITDA for the quarter was INR 110 Mn which declined by 38.6% YoY and 45.7% QoQ. This sharp decline in EBITDA was due to a significant increase in employee costs, other expenses and lower-than-expected revenue. The 40.7% YoY increase in employee cost is due to new recruitment for a newly commissioned facility and recruitment for a new R&D facility. The EBITDA margin for the quarter contracted by 180 bps YoY and 789 bps QoQ to 13.1%. For 9MFY24, EBITDA was INR 526 Mn which grew by 18.7% YoY. The EBITDA margin expanded 300 bps YoY to 17.8%. The management has given an EBITDA margin guidance of around 20.0% for FY24E. Adj PAT for the quarter was INR 35 Mn which declined by 70.3% YoY and 55.6% QoQ. The decline was due to weak operating performance and an increase in depreciation. The Adj PAT margin contracted by 553 bps YoY and 395 bps QoQ to 4.1%. For 9MFY24, Adj PAT declined by 27.3% YoY to INR 207 Mn. The Adj PAT margin contracted by 251 bps YoY to 7.0%.

30.9%

Revenue CAGR between FY23 and FY26E

37.9%

Adj. PAT CAGR between FY23 and FY26E

Tatva Chintan Pharma Chem Ltd.

Key Concall Highlights:

- The management has met the end customers in-person and quite confident that there will be gradual improvement in business sentiments and shifting of gears from August -2024E.
- The Q3FY24 was a slow demand quarter because of global customers priority of controlling their inventory so dispatch got postponed.
- In PTC segment, the Company was able to retain the export customers for CY24E and maintain the margins despite the intense competition.
- In SDA segment, with the ongoing validation of new potential customers, the Company got approved for three different applications and received an initial commercial order from the customer.
- The fourth application is under validation and the result is expected by end of March-2024E.
- The existing large customer has approved one product and the management expects to have larger business from Q2FY25E and a second product from Q3FY25E. The demand from this customer is steadily growing.
- The electrolyte business was slower than anticipated primarily due to less sales in China market.
- With the large European customer, they are setting up a fully automated production line for energy storage battery, this will commence in August-2024E and increase the demand drastically.
- The electrolyte business will progress well in October 2024E and in 2025E expected to have higher growth for this segment.
- In Pharma intermediates, two out of three products are approved by production trials, final validation of three products is expected in September-2024E, and commercialization is expected by beginning of 2025E.
- The chemical industry continues to face headwinds and pain is not over yet.
- The FY25E is expected to be the next growth phase led by growing volumes, new cusomters in SDA, and multiple new products get commercialized in PASC segments.

Valuation and view:

The Company experienced a sharp decline in revenue primarily led by subdued performance in the SDA segment due to weak demand in China and a decline in price realization; this segment is expected to post modest growth for the next couple of quarters. Overall, Q3FY24 witnessed slower demand as global customers prioritized controlling their inventory. We expect the business to gradually recover from August 2024E due to multiple new products getting commercialized in PASC segments, new customers in SDA, and a pick-up in volumes. **Currently, the stock is trading at PE multiples of 48.3x/26.1x based on FY25E/FY26E EPS estimates, respectively. We have introduced FY26E estimates and expect the revenue to grow at 30.9% CAGR over FY23-FY26E, with PAT growing at 37.9% CAGR over FY23-FY26E, with growth expected to pick up from FY25E. We arrive at a target price of INR 1,487/share (P/E multiple of 27x to FY26E EPS) and we maintain our rating to accumulate. We factor the significant uncertainty which persists over the ability of the Company to get back on track as revenue growth and margins remain under pressure.**

Q3FY24 Analysis

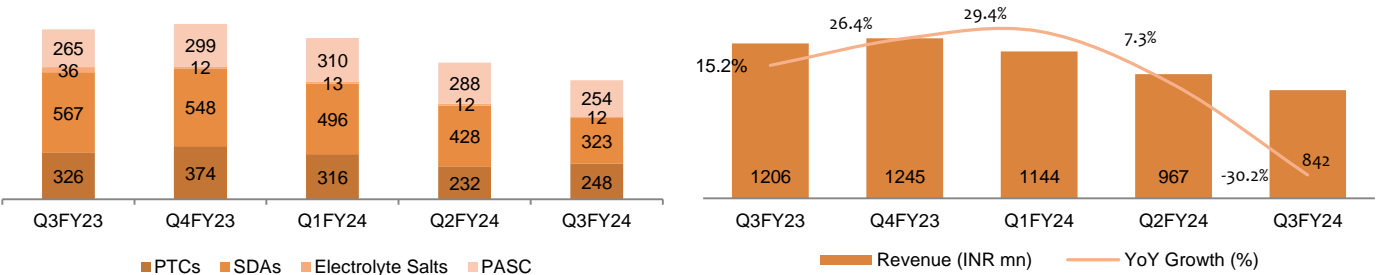
Particulars (INR Mn)	Q3FY24	Q2FY24	Q3FY23	Q-o-Q	Y-o-Y	9MFY24	9MFY23	Y-o-Y
Revenue from Operations	842	967	1,206	-12.9%	-30.2%	2,952	2,991	-1.3%
Total Expenditure	732	764	1,027	-4.2%	-28.7%	2,427	2,548	-4.8%
Cost of Raw Materials	418	464	569	-9.9%	-26.6%	1,353	1,654.0	-18.2%
Purchase of Stock	11	9	14	18.1%	-22.8%	28	37.4	-24.2%
Changes in Inventories	-55	-100	95	-44.8%	-158.1%	-55	-180.5	-69.6%
Employee Cost	148	141	105	5.0%	40.7%	404	282.7	42.9%
Other Expenses	211	250	244	-15.7%	-13.5%	696	754.3	-7.8%
EBITDA	110	202	179	-45.7%	-38.6%	526	443	18.7%
EBITDA Margin (%)	13.1%	20.9%	14.9%	-789 bps	-180 bps	17.8%	14.8%	300 bps
Depreciation	66	68	24	-2.9%	176.2%	194	70.2	175.8%
EBIT	44	135	155	-67.3%	-71.6%	332	373	-10.9%
Other Income	12	8	11	60.1%	12.3%	30	49	-39.1%
Interest Expense	4	30	24	-87.5%	-84.2%	63	52	21.4%
Share of Associates	0	0	0	NA	NA	0.0	0.0	NA
PBT before Exceptional	52	112	142	-53.2%	-63.1%	299	370	-19.2%
Exceptional Items	0	0	0	NA	NA	0.0	0.0	NA
PBT	52	112	142	-53.2%	-63.1%	299	370	-19.2%
Tax	18	34	26	-47.9%	-31.2%	91	84	8.2%
Minority interest	0	0	0	NA	NA	0.0	0.0	NA
PAT	35	78	116	-55.6%	-70.3%	207	285	-27.3%
PAT Margin (%)	4.1%	8.0%	9.6%	-395 bps	-553 bps	7.0%	9.5%	-251 bps
EPS	1.5	3.3	5.2	-55.6%	-71.8%	9.1	12.9	-29.4%
Adj. PAT	35	78	116	-55.6%	-70.3%	207	285	-27.3%
Adj. PAT Margin (%)	4.1%	8.0%	9.6%	-395 bps	-553 bps	7.0%	9.5%	-251 bps
Adj. EPS	1.5	3.3	5.2	-55.6%	-71.8%	9.1	12.9	-29.4%

Source: Company, KRChoksey Research

Tatva Chintan Pharma Chem Ltd.

QUARTERLY FINANCIAL PERFORMANCE

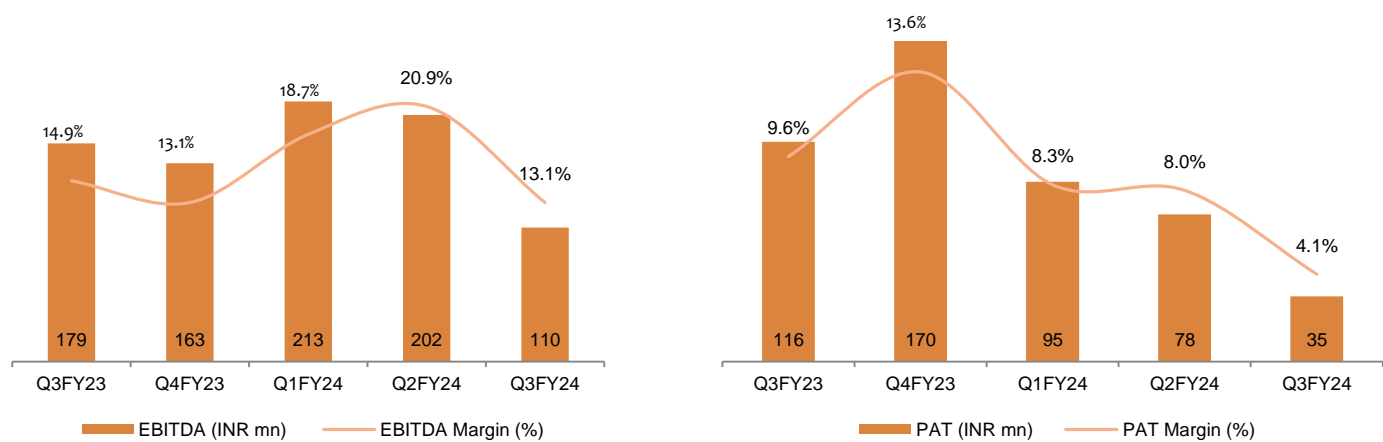
Weak performance in the SDA segment led to de-growth of revenue



Source: Company, KRChoksey Research
SDA – Structure Directing Agents
PASC - Pharma and Agro Intermediates and Specialty Chemicals
PTC - Phase Transfer Catalysts

Source: Company, KRChoksey Research

Decline in margins due to increase in operating expenses



Source: Company, KRChoksey Research

Source: Company, KRChoksey Research

Tatva Chintan Pharma Chem Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY22	FY23	FY24E	FY25E	FY26E
Revenues	4,336	4,236	3,865	6,214	9,507
COGS	1,946	2,261	1,738	2,690	4,020
Gross profit	2,390	1,975	2,128	3,524	5,487
Employee cost	308	386	567	1,069	1,635
Other expenses	1,000	983	904	1,181	1,806
EBITDA	1,082	606	657	1,275	2,045
Depreciation & amortization	82	96	241	317	335
EBIT	1,001	510	416	958	1,710
Interest expense	48	84	89	74	93
Other income	89	57	43	56	100
PBT	1,041	448	370	940	1,718
Tax	82	-7	113	244	429
PAT	959	455	256	695	1,288
EPS (INR)	44.6	20.5	11.0	29.7	55.1

Source: Company, KRChoksey Research

Exhibit 4: Balance Sheet

INR Millions	FY22	FY23	FY24E	FY25E	FY26E
Non-current assets					
Property, plant and equipment (PPE)	1,279	1,648	2,065	2,453	2,924
Right-of-use assets	314	309	309	309	309
Capital work-in-progress	515	2,307	2,307	2,307	2,307
Other intangible assets	3	5	5	5	5
Other non-current assets	5	6	4	6	9
Total non-current assets	2,224	4,427	4,842	5,251	5,749
Inventories	1,700	1,625	1,324	1,873	2,865
Trade receivables	566	844	770	1,192	1,823
Cash and bank balance	630	274	402	121	141
Bank Balance	1,140	174	174	174	174
Loans	2	2	2	3	4
Other current assets	286	129	161	254	386
Total current assets	4,356	3,136	2,917	3,720	5,522
TOTAL ASSETS	6,581	7,563	7,759	8,971	11,270
Equity share capital	222	222	222	222	222
Other equity	4,509	4,926	5,139	5,790	7,034
Total equity	4,731	5,148	5,360	6,011	7,255
Borrowings	131	42	42	42	42
Long term provisions	2	3	3	5	7
Deferred tax / other non current liab	0	0	0	0	0
Total non-current liabilities	138	54	53	59	68
Borrowings	1,068	1,660	1,660	1,810	2,285
Trade payables	445	322	294	472	722
Other financial liabilities	0	297	271	436	667
Other current liabilities	187	77	115	172	259
Provisions	2	3	3	5	7
Current tax liabilities (Net)	10	2	3	4	6
Total current liabilities	1,712	2,361	2,346	2,900	3,947
TOTAL EQUITY AND LIABILITIES	6,581	7,563	7,759	8,971	11,270

Source: Company, KRChoksey Research

Tatva Chintan Pharma Chem Ltd.

Exhibit 2: Cash Flow Statement

INR Millions	FY22	FY23	FY24E	FY25E	FY26E
Operating Cash Flow	202	278	818	332	381
Investing Cash Flow	(1,967)	(1,011)	(557)	(644)	(700)
Financing Cash Flow	2,350	378	(133)	32	338
Net Inc/Dec in cash equivalents	585	(357)	128	(280)	19
Adjustments	45	630	274	402	121
Closing Balance Cash & Cash Equivalents	630	274	402	121	141

Source: Company, KRChoksey Research

Key Ratio	FY22	FY23	FY24E	FY25E	FY26E
Margins and Return Ratios (%)					
EBITDA Margin (%)	25.0%	14.3%	17.0%	20.5%	21.5%
Net Profit Margin (%)	22.1%	11.6%	6.6%	11.2%	13.5%
RoE (%)	20.3%	9.5%	4.8%	11.6%	17.8%
ROA (%)	14.6%	6.0%	3.3%	7.8%	11.4%
RoCE (%)	22.4%	10.9%	8.5%	16.7%	24.7%
Liquidity					
Debt/Equity	0.3	0.3	0.3	0.3	0.3
Current Ratio	2.5	1.3	1.2	1.3	1.4
Debtor Days	48	73	73	70	70
Inventory Days	143	140	125	110	110
Creditors Days	37	28	28	28	28
Working Capital Days	153	185	170	152	152

Source: Company, KRChoksey Research

Tatva Chintan Pharma Chem Ltd.

Tatva Chintan Pharma Chem Ltd			
Date	CMP (INR)	TP (INR)	Recommendation
22-Jan-24	1,436	1,487	ACCUMULATE
22-Nov-23	1,480	1,555	ACCUMULATE
08-May-23	1,681	1,934	BUY
27-Jan-23	2,072	2,526	BUY
27-Jul-22	2,258	2,548	ACCUMULATE
26-Apr-22	2,498	2,791	ACCUMULATE
19-Jan-22	2,610	2,902	ACCUMULATE

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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