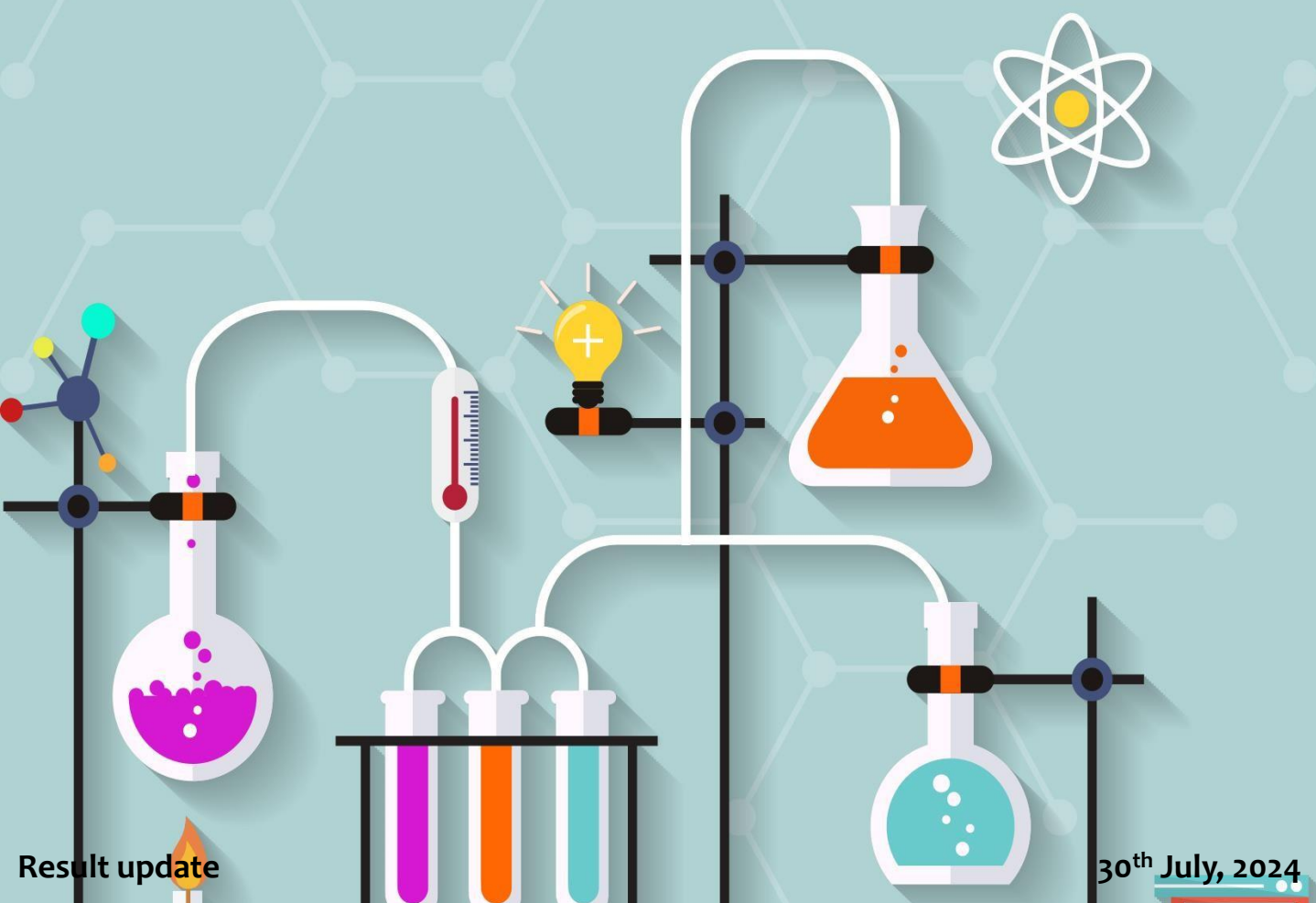




Q1FY25

Tatva Chintan Pharma Chem Ltd



Tatva Chintan Pharma Chem Ltd

Fall in price realization impacted topline and profitability

CMP INR 1,000*	Target INR 1,021	Potential Upside 2.1%	Market Cap (INR Mn) INR 23,579	Recommendation HOLD	Sector Specialty Chemicals
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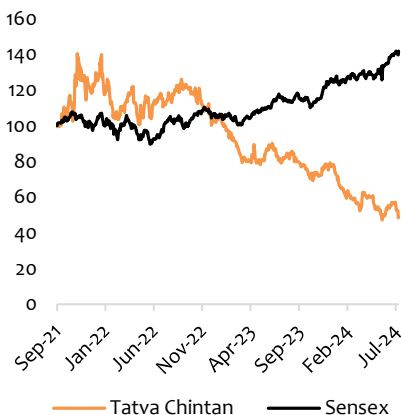
Result Highlights of Q1FY25:

- Tatva Chintan Pharma Chem's revenue missed our estimates (-32.7%) due to a steep decline in price realization. EBITDA missed our estimate (-58.1%) due to better-than-expected operating expenses.
- We believe short-term pain will persist as the industry is operating at minimum inventory levels which results in lower price realization. However, the demand in Agro-chemical sector will pick up in couple of quarters, and the approval for three agro-intermediates is expected in the near term.
- Currently, the stock is trading at PE multiples of 49.8x/27.4x, based on FY25E/FY26E EPS, respectively. We assign a P/E multiple of 28.0x (previously: 33.5x) on FY26E EPS of INR 36.5 (maintained) to arrive at a target price of INR 1,021/share (previously: INR 1,223/ share) due to continued short term challenges but demand recovery is expected in the medium-term.

MARKET DATA

Shares outs (Mn)	23.3
Equity Cap (INR Mn)	7,371
Mkt Cap (INR Mn)	23,579
52 Wk H/L (INR)	1,772/957
Volume Avg (3m K)	47
Face Value (INR)	10
Bloomberg Code	TATVA IN

SHARE PRICE PERFORMANCE



*Since listed

MARKET INFO

SENSEX	81,333
NIFTY	24,835

KEY FINANCIALS

INR Millions	FY22	FY23	FY24	FY25E	FY26E
Revenue	4,336	4,236	3,935	5,228	7,630
EBITDA	1,082	606	682	891	1,519
EBITDA margin (%)	25.0%	14.3%	17.3%	17.0%	19.9%
Adj. PAT	959	491	304	469	853
PAT margin (%)	22.1%	11.6%	7.7%	9.0%	11.2%
Adj. EPS	44.6	22.1	13.0	20.1	36.5
P/E (x)	22.4	48.7	75.4	49.8	27.4

Source: Company, KRChoksey Research

Lowered revenue guidance indicates sluggish demand

- For Q1FY25, Tatva Chintan revenue declined 7.8% YoY (+7.3% QoQ) to INR 1,055 Mn. This was due to significant decline in performance of Structure Directing Agents (SDA) and Phase Transfer Catalysts (PTC).
- SDA, which contributed 33.2% of revenue, declined by 29.4% YoY (-13.1% QoQ) to INR 350 Mn. PTC, which contributed 28.2% of revenue, fell by 5.9% YoY (+8.1% QoQ) to INR 297 Mn.
- This was partially offset by the Pharmaceutical and Agrochemical Intermediates (PASC) segment, which contributed 36.9% of revenue, grew by 25.5% YoY (+36.6% QoQ) to INR 389 Mn.
- The Company has proportionately adjusted the price realization of Structure Directing Agents (SDAs) due to the reduction in key raw material prices, resulting in a price reduction ranging between 15.0% to 25.0%.
- The Company expects at least 20.0% revenue growth, with potential for up to 30% growth for FY25E. This guidance was reduced from 35.0% to 40.0% mentioned in Q4FY24.

Significant decline in price realization impacted margins

- EBITDA declined 40.9% YoY (-19.2% QoQ) to INR 126 Mn. EBITDA margins contracted 670 bps YoY (-392 bps QoQ) to 12.0%. This was due to a decline in gross margins as the price realization dropped. Additionally, employee expenses and other expenses have increased.
- Net profit declined 45.2% YoY (-45.8% QoQ) to INR 52 Mn. Net profit margin contracted 337 bps YoY (-484 bps QoQ) to 4.9%.
- The Company expects to meet a range of 20.0% to 25.0% EBITDA margin for FY25E, which is not considered a big challenge.

SHARE HOLDING PATTERN (%)

Particulars	Jun-24 (%)	Mar-24 (%)	Dec-23 (%)
Promoters	72.0	72.0	72.0
FIIIs	3.4	3.7	4.2
DIIIs	10.6	12.8	13.1
Others	14.0	11.5	10.7
Total	100	100	100

*Based on previous closing

39.3%

Revenue CAGR between FY24 and FY26E

67.7%

Adj. PAT CAGR between FY24 and FY26E

Tatva Chintan Pharma Chem Ltd

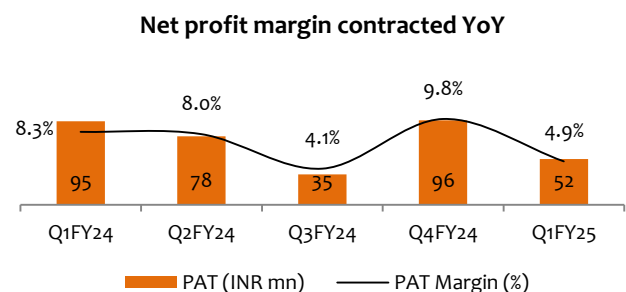
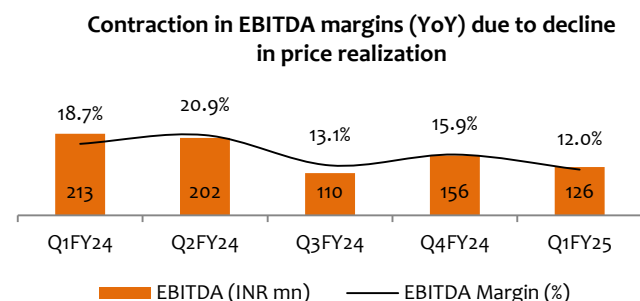
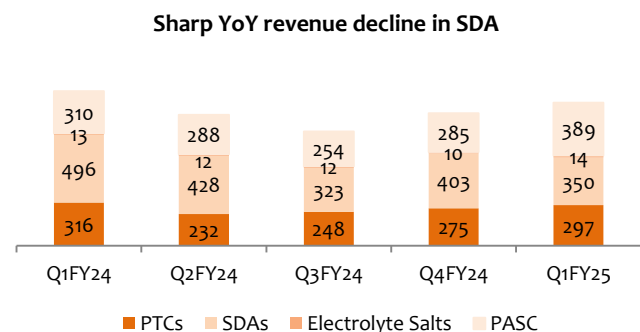
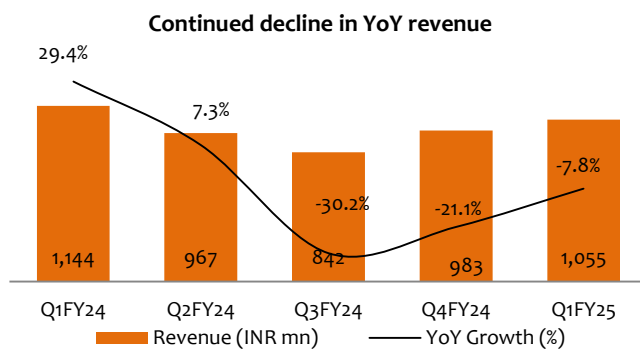
Key Concall Highlights:

- The year has begun positively, showing signs of improved demand; however, this has **not yet resulted in a consistently high demand scenario**.
- The industry continues to operate with **minimal inventory levels**, which keeps **demand suppressed**. As a result, **prices remain low due to the reduced demand**.
- The Company reported ongoing **subdued demand in the agro-chemical sector**, signaling a **decline in consumer interest** in their products.
- The Company is currently dealing with unrealistically low prices in the Flame Retardants segment but intends to commence commercial production at a suitable time.
- The Company anticipates that the **current decline in revenue from SDAs** will diminish as **raw material prices eventually rise**.
- In the **Electrolyte segment**, the first automated battery production line of the Company's customer is set to **become operational in October 2024**.
- **Commercialization** in the Electrolyte segment is expected to begin in **early 2025** and gradually gain momentum.
- **Recovery in the SDA segment is anticipated in Q4FY25E**, driven by **approvals from new customers** and the commercial approval of three products by an existing customer.
- Out of the **three agro-intermediates** awaiting approval, two products are nearing the end of the approval process. The third intermediate, whose delivery was delayed due to the Red Sea issue, was recently used by the customer on plant soil.
- There were **logistical challenges**, including a **significant rise in shipping costs** and a **severe shortage of available vessels for India**.
- This shortage resulted in **severe delays** in the **arrival of imported raw materials**, causing a **loss of production** and **delays in delivering finished products** to customers on time.

Valuation and view:

Tatva Chintan Pharma Chem experienced a high single digit revenue decline in Q1FY25 due to subdued performance in SDA and PTC segments. The EBITDA margins contracted significantly due to the drop in price realization and increase in employee expenses, other expenses. We believe short-term pain will persist as the industry is operating at minimum inventory levels which results in lower price realization. However, the demand in Agro-chemical sector will pick up in couple of quarters, and the approval for three agro-intermediates is expected in the near term. **We lower our FY25E/FY26E EPS by 20.3% and 0.1%, respectively due to reduced guidance from management and weak demand in end customer segments.** The stock has declined 16.2% since our last update. Currently, the stock is trading at PE multiples of 49.8x/27.4x, based on FY25E/FY26E EPS, respectively. We expect the revenue to grow at 39.3% CAGR and PAT to grow at 67.7% CAGR over FY24-FY26E. We assign a P/E multiple of 28.0x (previously: 33.5x) on FY26E EPS of INR 36.5 (maintained) to arrive at a target price of INR 1,021/share (previously: INR 1,223/ share) due to continued short term challenges but demand recovery is expected in the medium-term. Given the 2.1% upside, we maintain our rating of HOLD on the stock.

Quarterly trend in charts



Source: Company, KRChoksey Research

Tatva Chintan Pharma Chem Ltd

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY22	FY23	FY24	FY25E	FY26E
Revenues	4,336	4,236	3,935	5,228	7,630
COGS	1,946	2,261	1,742	2,643	3,670
Gross profit	2,390	1,975	2,193	2,585	3,960
Employee cost	308	412	548	544	763
Other expenses	1,000	957	964	1,150	1,679
EBITDA	1,082	606	682	891	1,519
Depreciation & amortization	82	96	256	325	427
EBIT	1,001	510	426	566	1,091
Interest expense	48	84	65	27	60
Other income	89	57	75	71	48
PBT	1,041	448	436	610	1,079
Tax	82	-7	132	141	226
PAT	959	455	304	469	853
EPS (INR)	44.6	20.5	13.3	20.1	36.5

Source: Company, KRChoksey Research

Exhibit 2: Balance Sheet

INR Millions	FY22	FY23	FY24	FY25E	FY26E
Non-current assets					
Property, plant and equipment (PPE)	1,279	1,648	3,965	4,327	4,706
Right-of-use assets	314	309	336	336	336
Capital work-in-progress	515	2,307	729	729	729
Other intangible assets	3	5	4	4	4
Other non-current assets	5	6	8	5	8
Total non-current assets	2,224	4,466	5,208	5,560	5,957
Inventories	1,700	1,625	1,528	1,719	2,509
Trade receivables	566	844	699	1,074	1,568
Cash and bank balance	630	274	353	702	948
Bank Balance	1,140	174	30	30	30
Loans	2	2	2	2	3
Other current assets	286	155	239	215	311
Total current assets	4,356	3,123	2,979	3,905	5,451
TOTAL ASSETS	6,581	7,589	8,187	9,465	11,408
Equity share capital	222	222	234	234	234
Other equity	4,509	4,926	7,137	7,499	8,308
Total equity	4,731	5,148	7,371	7,733	8,542
Borrowings	131	42	6	42	42
Long term provisions	2	3	4	4	6
Deferred tax / other non current liab	0	0	0	1	1
Total non-current liabilities	138	54	20	57	64
Borrowings	1,068	1,660	136	760	1,460
Trade payables	445	322	450	358	523
Other financial liabilities	0	297	82	367	535
Other current liabilities	187	102	123	185	277
Provisions	2	3	4	4	6
Current tax liabilities (Net)	10	2	1	1	2
Total current liabilities	1,712	2,387	797	1,675	2,803
TOTAL EQUITY AND LIABILITIES	6,581	7,589	8,187	9,465	11,408

Source: Company, KRChoksey Research

Tatva Chintan Pharma Chem Ltd

Exhibit 3: Cash Flow Statement

INR Millions	FY22	FY23	FY24	FY25E	FY26E
Operating Cash Flow	202	278	980	389	403
Investing Cash Flow	(1,967)	(1,011)	(1,205)	(629)	(752)
Financing Cash Flow	2,350	378	305	588	596
Net Inc/Dec in cash equivalents	585	(357)	80	349	246
Cash and cash equivalents at the beginning of the year	45	630	274	354	702
Adjustments	0	0	(1)	(1)	(1)
Closing Balance Cash & Cash Equivalents	630	274	353	702	948

Source: Company, KRChoksey Research

Exhibit 4: Key Ratios

Key Ratio	FY22	FY23	FY24	FY25E	FY26E
Margins and Return Ratios (%)					
EBITDA Margin (%)	25.0%	14.3%	17.3%	17.0%	19.9%
Net Profit Margin (%)	22.1%	11.6%	7.7%	9.0%	11.2%
RoE (%)	20.3%	9.5%	4.1%	6.1%	10.0%
ROA (%)	14.6%	6.0%	3.7%	5.0%	7.5%
RoCE (%)	22.4%	10.9%	6.8%	8.2%	13.2%
Liquidity					
Debt/Equity	0.3	0.3	0.0	0.1	0.2
Current Ratio	2.5	1.3	3.7	2.3	1.9
Debtor Days	48	73	73	75	75
Inventory Days	143	140	125	120	120
Creditors Days	37	28	28	25	25
Working Capital Days	153	185	170	170	170

Source: Company, KRChoksey Research

Tatva Chintan Pharma Chem Ltd

Tatva Chintan Pharma Chem Ltd			
Date	CMP (INR)	TP (INR)	Recommendation
30-July-24	1,000	1,021	HOLD
08-May-24	1,193	1,223	HOLD
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

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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