

25 July 2024

India | Equity Research | Q1FY25 results review

Tatva Chintan Pharma Chem

Speciality Chemicals

Margins impacted by high-cost inventory

Tatva Chintan Pharma Chem's (TATVA) revenue grew 7.3% QoQ, but gross profit margin collapsed to just 45.9% (vs 57.8% in Q4FY24) due to high-cost inventory, particularly in SDA, where it had to take 15-20% price cut based on prevailing raw material prices. It expects some impact to flow into Q2FY25. TATVA has guided to grow volume by ~40% in SDA, and total revenue by ~25% with EBITDA margin of 22-25% in FY25. It anticipates some delay in agro-intermediate supplies due to weak demand; otherwise, it continues to build strong product pipeline across agro, pharma, electrolyte salt, polymer, metal extraction and other segments. We cut our FY25 / 26E EPS by 28%/ 19% (anticipating a gradual recovery), and trim TP to INR 1,500 (earlier INR 1,850), with an unchanged PE multiple of 28x. Maintain **BUY**.

Segmental update

- **SDA:** Company has three products approved from existing customer, and it anticipates scheduled Euro-7 demand to start showing from late CY25. It has taken price cut of 15-25% in SDA as raw material prices have dropped effective Apr'24. However, it has not changed its pricing formula. It expects SDA volume to grow 40% in FY25. SDA volume has increased 12% QoQ.
- **Electrolyte salt:** An existing customer is upgrading plant from manual production to automated which will increase its capacity. The company expects sales volume uptick to start for this customer from Oct'24. The qualification with customer in Europe is progressing well, with application in hybrid car batteries. TATVA has also successfully developed a formulation for zinc batteries and secured lab stage approval. It anticipates segmental contribution jump to 25% of revenue in next 3-4years (from 1% currently).
- **PASC:** Agro-chemical intermediate - two products have been approved by customer, and TATVA is awaiting third product approval, which was delayed due to Red Sea issue. Agro-chemical intermediate production may see further delay in commissioning as customer remain cautious on market. Three pharmaceutical intermediate products have been approved with supplies, and it has developed a fourth product as well. Monoglyme had safety hiccups that may be resolved with new equipment design. Two products for metal extraction have been commissioned, and it is developing one more. It has developed two products for polymers, with one product validation production having started at plant scale; another one to start in Q2FY25.

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Market Data

Market Cap (INR)	25bn
Market Cap (USD)	299mn
Bloomberg Code	TATVA IN
Reuters Code	TATV BO
52-week Range (INR)	1,772 /957
Free Float (%)	28.0
ADTV-3M (mn) (USD)	0.6

Price Performance (%)	3m	6m	12m
Absolute	(14.6)	(21.3)	(36.3)
Relative to Sensex	(23.1)	(34.1)	(57.0)

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	4,236	3,935	5,099	7,023
EBITDA	606	682	968	1,845
EBITDA Margin (%)	14.3	17.3	19.0	26.3
Net Profit	491	304	632	1,255
EPS (INR)	22.1	13.0	27.0	53.7
EPS % Chg YoY	(52.6)	(36.8)	108.1	98.7
P/E (x)	52.2	82.5	39.6	19.9
EV/EBITDA (x)	41.2	36.4	25.6	13.9
RoCE (%)	8.1	4.1	7.3	13.5
RoE (%)	9.2	4.8	8.3	15.0

Earnings Revisions (%)	FY25E	FY26E
Revenue	(3.0)	(13.5)
EBITDA	(23.3)	(16.1)
EPS	(27.6)	(18.6)

Previous Reports

04-05-2024: [Q4FY24 results review](#)

21-01-2024: [Q3FY24 results review](#)

Update on guidance

- TATVA has reduced its guidance for revenue growth at 20-25% (from 35-40% earlier) as it anticipates delay in agro-intermediate supplies. It has maintained EBITDA margin guidance at 20-25% for FY25.
- Company's reactor capacity utilisation stood at 77%. It anticipates to commission distillation facility by Aug'24 which should release more reactor capacities for finished products.
- Company has ongoing capex of INR 350-400mn; another reactor block development is planned with capex of INR 500-700mn.

Other highlights

- Company's performance in Q1FY25 was impacted by supply-chain issues, and unavailability of ships. It has led to lower procurement of raw materials, which delayed production of SDA. The delay in shipment further pushed revenue to Q2FY25 worth INR 110mn. Shipping prices have jumped sharply by 3-4x for US and Europe route from Jun'24 which will increase operating costs.
- Company was carrying high-cost raw materials particularly for SDA segment, but has dropped the final prices. SDA prices have dropped to ~USD 7 from USD 9 earlier and raw material prices have dipped from USD 21 to USD 9.

Q1FY25 result highlights

Revenue declined 7.8% YoY / up 7.3% QoQ

TATVA's Q1FY25 revenue dipped 7.8% YoY / up 7.3% QoQ to INR 1.1bn. Revenue was impacted by sharp price drop. The price drop was triggered by lower input cost. PTC revenue was down 5.9% YoY / +9.3% QoQ to INR 297mn where steady realisation drove sequential revenue growth. SDA was down 29.4% YoY / 14.2% QoQ to INR 350mn and was impacted by a sharp fall in prices from Apr'24. PASC's revenue was down 8.5% YoY / +1.3% QoQ to INR 284mn.

Gross profit margin down 1,185bp QoQ to 45.9%

Gross profit margin was impacted by high-cost inventory, while the company has not changed pricing formula for customers. Further, SDA contribution dropped to 33.2% in Q1FY25 vs 41.5% in Q4FY24, which has higher margin. Gross profit was down 14% YoY/14.7% QoQ to INR 485mn. EBITDA declined 41% YoY/19.2% QoQ to INR 126mn due to lower gross profit and unabsorbed cost of the newly commissioned facility. Net profit fell 45.3% YoY to INR 52mn.

Risks

- 1) Slower-than-expected revenue recovery; and 2) continued pressure on margins.

Exhibit 1: Tatva Chintan Pharma Chem result review (consolidated)

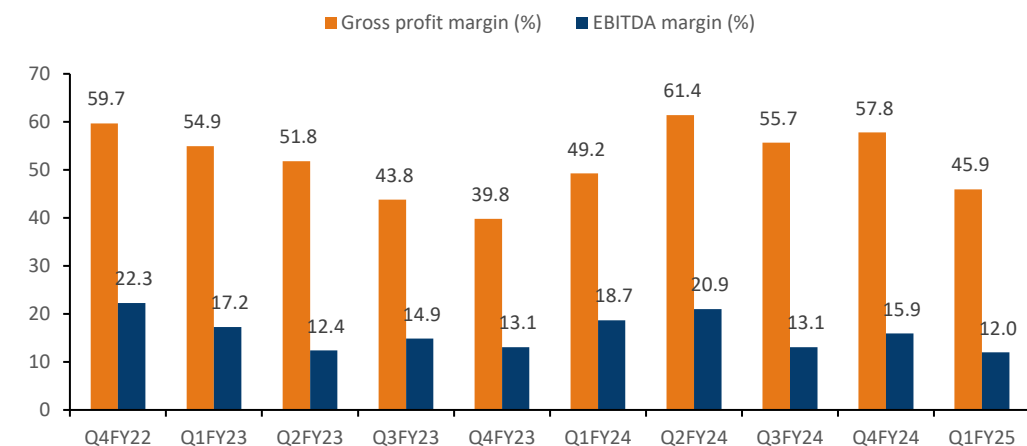
INR mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	QoQ (%)	YoY (%)
Revenue	1,144	967	842	983	1,055	7.3	(7.8)
COGS	580	373	373	415	570	37.4	(1.8)
Gross profit	563	594	469	568	485	(14.7)	(14.0)
GPM (%)	49.2	61.4	55.7	57.8	45.9		
Employee cost	116	141	148	144	127	(11.6)	9.8
% of revenue	10.1	14.6	17.5	14.6	12.0		
Other expenses	234	250	211	268	232	(13.6)	(1.1)
% of revenue	20.5	25.9	25.1	27.3	22.0		
Total expenses	350	391	359	412	359	(12.9)	2.5
EBITDA	213	202	110	156	126	(19.2)	(40.9)
EBITDA (%)	18.7	20.9	13.1	15.9	12.0		
Depreciation	60	68	66	62	67	6.9	10.9
EBIT	153	135	44	94	59	(36.6)	(61.2)
Other income	10	8	12	45	12	(74.1)	15.6
Finance cost	29	30	4	2	3		
PBT	134	112	52	137	68	(50.3)	(49.3)
Tax	39	34	18	41	16	(60.7)	(59.1)
ETR (%)	29.2	30.6	34.1	29.8	23.5		
Exceptional item							
Net profit	95	78	35	96	52	(45.9)	(45.3)
Net profit (%)	8.3	8.0	4.1	9.8	4.9		
EPS (INR)	4.3	3.5	1.6	4.3	2.3	(45.9)	(45.3)

Source: I-Sec research, Company data

Exhibit 2: Tatva Chintan Pharma Chem segmental revenue breakup

INR mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	QoQ (%)	YoY (%)
Segment revenue							
PTC	316	231	248	272	297	9.3	(5.9)
SDA	496	428	323	408	350	(14.2)	(29.4)
Electronic Chemical	13	12	12	13	14	5.5	5.5
PASC	310	288	254	280	284	1.3	(8.5)
Total	1,144	967	842	983	1,055	7.3	(7.8)
Mix (%)							
PTC	27.6	23.9	29.5	27.7	28.2		
SDA	43.4	44.3	38.4	41.5	33.2		
Electronic Chemical	1.1	1.2	1.4	1.3	1.3		
PASC	27.1	29.8	30.2	28.5	26.9		

Source: I-Sec research, Company data

Exhibit 3: Gross profit and EBITDA margin trends

Source: I-Sec research, Company data

Exhibit 4: Earnings revision

INR mn	Revised		Earlier		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	5,099	7,023	5,256	8,123	(3.0)	(13.5)
Gross profit	2,726	3,956	3,069	4,459	(11.2)	(11.3)
GPM (%)	53.5	56.3	58.4	54.9		
EBITDA	968	1,845	1,262	2,200	(23.3)	(16.1)
EBITDA (%)	19.0	26.3	24.0	27.1		
PAT	632	1,255	873	1,543	(27.6)	(18.6)
EPS (INR)	27.0	53.7	37.3	66.0	(27.6)	(18.6)

Source: I-Sec research, Company data

Exhibit 5: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	72.0	72.0	72.0
Institutional investors	17.3	16.5	14.0
MFs and others	13.1	12.8	10.6
FIs/Banks	0.0	0.0	0.0
Insurance	0.0	0.0	0.0
FIIIs	4.2	3.7	3.4
Others	10.7	11.5	14.0

Source: Bloomberg

Exhibit 6: Price chart

Source: Bloomberg

Financial Summary

Exhibit 7: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	4,236	3,935	5,099	7,023
Operating Expenses	3,630	3,253	4,131	5,178
EBITDA	606	682	968	1,845
EBITDA Margin (%)	14.3	17.3	19.0	26.3
Depreciation & Amortization	96	256	281	378
EBIT	510	426	687	1,467
Interest expenditure	84	65	10	35
Other Non-operating Income	57	75	94	117
Recurring PBT	484	436	770	1,550
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	(7)	132	139	294
PAT	455	304	632	1,255
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	455	304	632	1,255
Net Income (Adjusted)	491	304	632	1,255

Source Company data, I-Sec research

Exhibit 8: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	3,136	2,979	2,953	3,787
of which cash & cash eqv.	448	383	401	236
Total Current Liabilities & Provisions	701	660	858	1,186
Net Current Assets	2,434	2,319	2,095	2,601
Investments	-	101	-	-
Net Fixed Assets	4,270	4,998	5,717	6,840
ROU Assets	309	729	729	729
Capital Work-in-Progress	2,307	300	300	300
Total Intangible Assets	-	-	-	-
Other assets	34	87	96	105
Deferred Tax Assets	124	123	123	123
Total Assets	7,563	8,187	8,889	10,855
Liabilities				
Borrowings	1,703	143	143	843
Deferred Tax Liability	-	-	-	-
Provisions	11	13	15	16
Other Liabilities	-	-	-	-
Equity Share Capital	222	234	234	234
Reserves & Surplus	4,926	7,137	7,640	8,576
Total Net Worth	5,148	7,371	7,874	8,810
Minority Interest	-	-	-	-
Total Liabilities	7,563	8,187	8,889	10,855

Source Company data, I-Sec research

Exhibit 9: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	967	842	983	1,055
% growth (YOY)	7.3	(30.2)	(21.1)	(7.8)
EBITDA	202	110	156	126
Margin %	20.9	13.1	15.9	12.0
Other Income	8	12	45	12
Extraordinaries	-	-	-	-
Adjusted Net Profit	78	35	96	52

Source Company data, I-Sec research

Exhibit 10: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	562	623	829	1,551
Working Capital Changes	(284)	357	134	(680)
Capital Commitments	(2,031)	(1,285)	(1,000)	(1,500)
Free Cashflow	(1,753)	(303)	(37)	(629)
Other investing cashflow	1,020	80	194	117
Cashflow from Investing Activities	1,020	80	194	117
Issue of Share Capital	-	1,965	-	-
Interest Cost	(84)	(65)	(10)	(35)
Inc (Dec) in Borrowings	506	(1,548)	-	700
Dividend paid	(44)	(47)	(129)	(319)
Others	0	-	-	-
Cash flow from Financing Activities	378	305	(139)	346
Chg. in Cash & Bank balance	(356)	80	18	(165)
Closing cash & balance	273	353	401	236

Source Company data, I-Sec research

Exhibit 11: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	20.5	13.0	27.0	53.7
Adjusted EPS (Diluted)	22.1	13.0	27.0	53.7
Cash EPS	24.8	23.9	39.0	69.8
Dividend per share (DPS)	2.0	2.0	5.5	13.6
Book Value per share (BV)	232.3	315.1	336.6	376.6
Dividend Payout (%)	9.7	15.4	20.4	25.4
Growth (%)				
Net Sales	(2.3)	(7.1)	29.6	37.7
EBITDA	(44.0)	12.6	41.9	90.7
EPS (INR)	(52.6)	(36.8)	108.1	98.7
Valuation Ratios (x)				
P/E	52.2	82.5	39.6	19.9
P/CEPS	43.1	44.7	27.4	15.3
P/BV	4.6	3.4	3.2	2.8
EV / EBITDA	41.2	36.4	25.6	13.9
EV/SALES	5.9	6.3	4.9	3.7
Dividend Yield (%)	0.2	0.2	0.5	1.3
Operating Ratios				
Gross Profit Margins (%)	46.6	55.7	53.5	56.3
EBITDA Margins (%)	14.3	17.3	19.0	26.3
Effective Tax Rate (%)	(1.6)	30.3	18.0	19.0
Net Profit Margins (%)	11.6	7.7	12.4	17.9
NWC / Total Assets (%)	26.3	22.4	19.1	21.8
Net Debt / Equity (x)	0.2	0.0	0.0	0.1
Net Debt / EBITDA (x)	2.1	(0.4)	(0.3)	0.3
Profitability Ratios				
RoCE (%)	8.1	4.1	7.3	13.5
RoE (%)	9.2	4.8	8.3	15.0
RoIC (%)	9.8	4.4	7.6	14.0
Fixed Asset Turnover (x)	(13.4)	0.9	1.0	1.0
Inventory Turnover Days	140.0	141.7	91.7	92.2
Receivables Days	72.7	64.8	64.8	64.8
Payables Days	27.7	41.8	41.8	41.8

Source Company data, I-Sec research

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