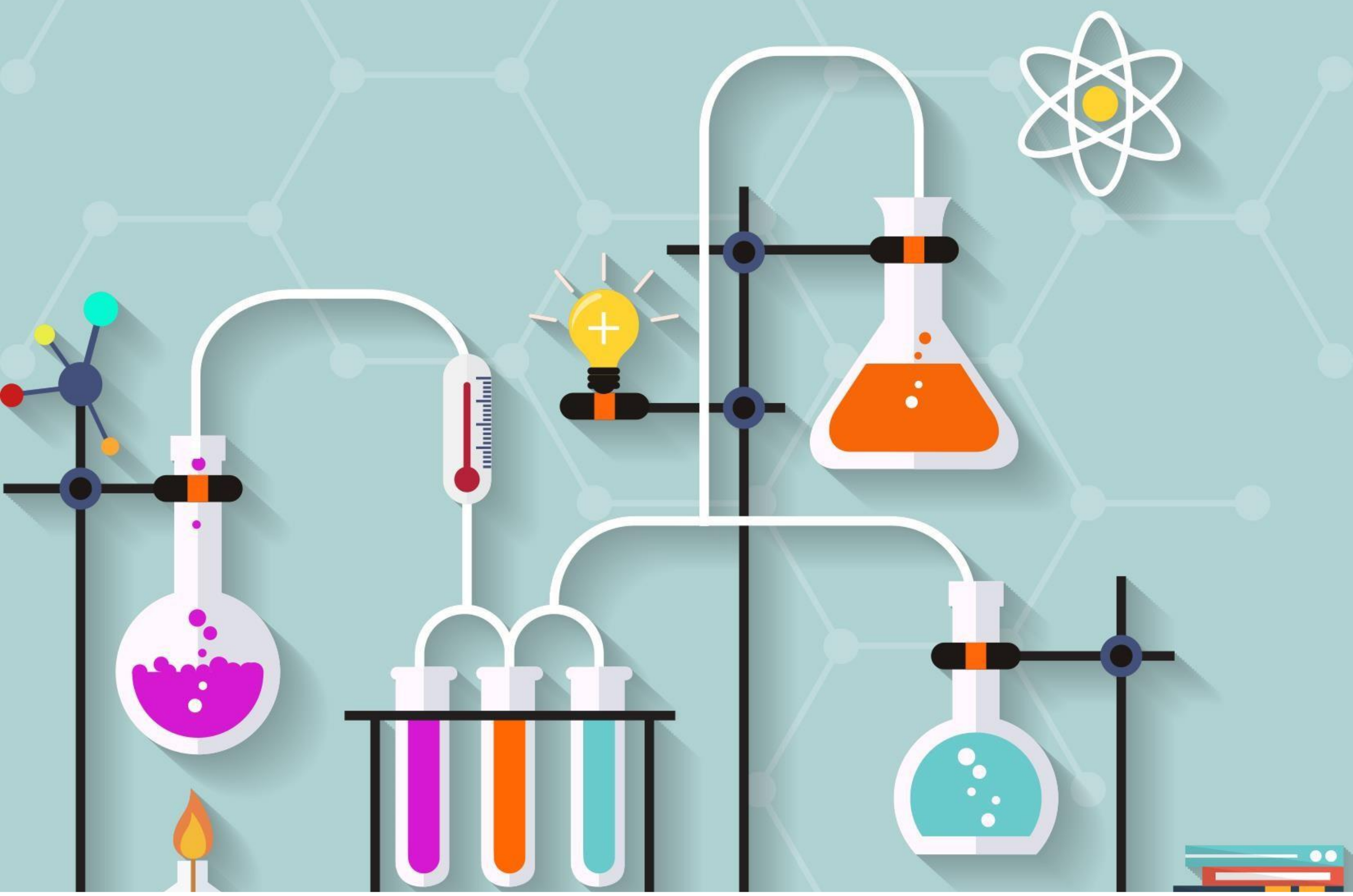
Q2FY25
Tatva Chintan Pharma Chem Ltd



Result update

28th October, 2024

Tatva Chintan Pharma Chem Ltd.

Multiple headwinds across demand and supply sides persist

CMP*	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 819	INR 809	(1.2%)	INR 19,082	REDUCE	Specialty Chemicals

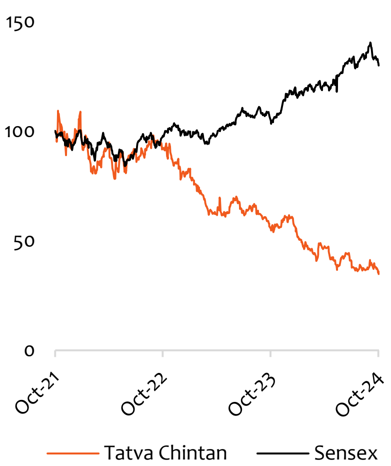
Result Highlights of Q2FY25:

- Tatva Chintan Pharma Chem's revenue and profitability missed our estimates significantly due to muted demand across business segments, lower price realization, and an increase in fixed costs.
- We believe short term pain will persist as Q3FY25E is expected to have similar performance; However, mid-term may improve gradually with a pick-up in global demand and commercialization of new products.
- **We have revised our estimates on the lower side due to slowdown in recovery, logistical challenges, and Chinese competition affecting the company's MNC customers. We reduce the P/E multiple to 26.0x (previously: 28.0x) on FY26E EPS of INR 31.1 (previously: INR 36.5) to arrive at a target price of INR 809/share (previously: INR 1,021/share),**

MARKET DATA

Shares outs (Mn)	23.3
Mkt Cap (INR Mn)	19,082
52 Wk H/L (INR)	1,651/908
Volume Avg (3m K)	69
Face Value (INR)	10
Bloomberg Code	TATVA IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	80,005
NIFTY	24,339

KEY FINANCIALS

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Revenue	4,236	3,935	4,291	6,280	9,402
EBITDA	606	682	358	1,305	2,157
Adj PAT	491	304	110	728	1,312
Adj EPS (INR)	22.1	13.0	4.7	31.1	56.1
EBITDA Margin (%)	14.3%	17.3%	8.3%	20.8%	22.9%
PAT Margin (%)	11.6%	7.7%	2.6%	11.6%	14.0%

Source: Company, KRChoksey Research

Subdued demand across major segments led to weak top-line growth

- For Q2FY25, the revenue decreased 13.6% YoY (-20.8% QoQ) to INR 835 Mn. This YoY decline was due to a significant decline in the SDA segment and weak demand in the PASC segment.
- SDA (Structure Directing Agents) which contributed 32.4% of revenue declined by 36.8% YoY (22.7% QoQ) to INR 271 Mn, due to decline in heavy-duty commercial vehicle sales globally. Additionally, there have been supply shortages of a key raw material for SDAs, further hindering the revenue.
- PASC (Pharmaceutical and Agrochemical Intermediates) which contributed 32.6% of revenue declined by 5.5% YoY (-30.1% QoQ) to INR 272 Mn, due to weak global demand across major end-user sectors, including the agrochemical sector.
- PTC (Phase Transfer Catalysts) which contributed 32.9% of revenue grew by 18.4% YoY (-7.6% QoQ) to INR 275 Mn, due to stable demand and new customer acquisition.
- The weak demand is expected to persist for Q3FY25E, and gradual demand recovery will happen from Q4FY25E with global demand improving in subsequent quarters.

Lower price realization and operating deleverage impacted profitability

- In Q2FY25, gross margin contracted 1,257 bps YoY (-20.8% QoQ) to 48.8%, due to lower price realization led by a notable decline in raw material costs and increased competition.
- EBITDA decreased 72.4% YoY (-55.7% QoQ) to INR 56 Mn. EBITDA margin contracted 1,425 bps YoY (-527 bps QoQ) to 6.7%, due to increased fixed expenses as the revenue base was low.
- The company reported a net loss of INR 7 Mn as against net profit of INR 78 Mn in Q2FY24 and INR 52 Mn in Q1FY25.

SHARE HOLDING PATTERN (%)

Particulars	Sept-24 (%)	Jun-24 (%)	Mar-24 (%)
Promoters	72.0	72.0	72.0
FIIs	3.3	3.4	3.7
DIIs	6.8	10.6	12.8
Others	17.8	14.0	11.5
Total	**100**	**100**	**100**

*Based on the Today's closing
Note: All the market data is as of Today's closing

26.3%
Revenue CAGR between FY24 and FY26E

54.9%
Adj. PAT CAGR between FY24 and FY26E

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Tatva Chintan Pharma Chem Ltd.

Key Concall Highlights:

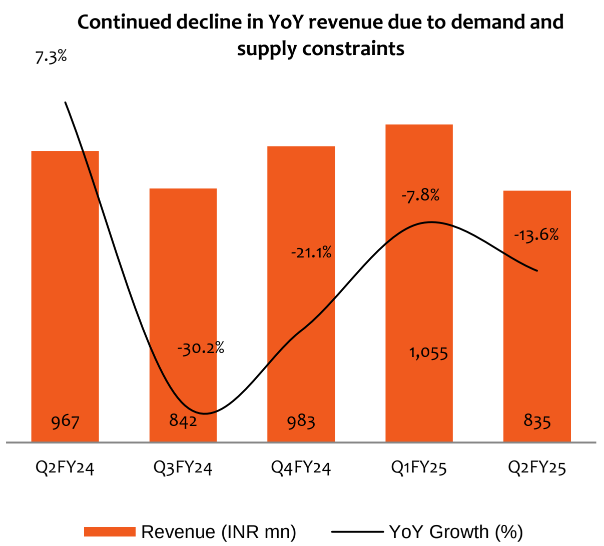
- **Weakening demand for heavy-duty commercial vehicles** is impacting demands of SDA segment, with sales of commercial vehicles in **China, the U.S., and EU** down by 22.0%, 9.0%, and 5.0% YoY, respectively.
- The company's customers, mainly **large MNC companies**, have been **struggling in terms of demand** and competition from Chinese suppliers, which has hurt the company's growth in the last two years.
- The **competition** from **Chinese supplies is not directly with the company**, but rather with its **customers**, which are large MNC companies.
- The management believes that **raw material prices** have stabilized at **unrealistically low levels** and are likely to increase from here.
- A **new product** opportunity with a new customer in the **Phase Transfer Catalyst segment** is being developed, with piloting ongoing, and **commercialization expected in 2026E.**
- The **piloting of the fourth pharma intermediate** is scheduled to begin post Diwali (mid- November) and to complete in early January.
- **Destocking** by customers is nearly **ending**, which is a **positive trend for the company**.
- The **company's healthy pipeline of products** in various stages of development, suggesting a **potential for revenue growth in the long term.**
- Tatva Chintan Pharma Chem faced significant **logistics challenges** primarily due to prolonged **transit times** for shipments, particularly to **key markets like the U.S. and Europe.**
- These delays have been attributed to ongoing **geopolitical issues**, which have disrupted traditional supply routes and extended transit times.

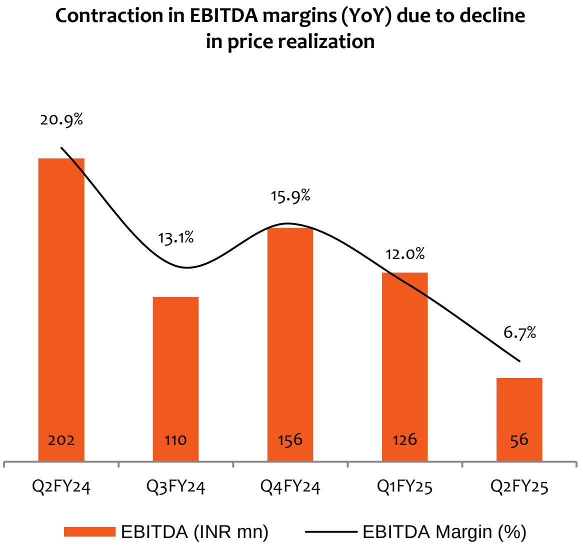
Valuation and view:

For Q2FY25, Tatva Chintan Pharma Chem reported a revenue decline, driven by weak demand in major segments and challenges in end-user markets. The SDA segment, affected by declining heavy-duty commercial vehicle sales globally and raw material shortages, saw the steepest drop. The PASC segment also struggled due to weak agrochemical demand, while PTC showed some resilience, bolstered by stable demand and new customers. We believe short term pain will persist as Q3FY25E is expected to have similar performance; However, mid-term may improve gradually with a pick-up in global demand and commercialization of new products.

We lower our FY26E EPS estimates by 14.7% due to a significant drop in profitability. We expect the revenue to grow at 26.3% CAGR and PAT to grow at 54.9% CAGR over FY24-FY26E. We assign a P/E multiple of 26.0x (previously: 28.0x) on FY26E EPS of INR 31.1 (previously: INR 36.5) to arrive at a target price of INR 809/share (previously: INR 1,021/share), due to slowdown in recovery, logistical challenges, and Chinese competition affecting the company's MNC customers. Consequently, we downgrade our rating to "REDUCE" from "HOLD" on the stock with a downside of -1.2% from CMP.

Quarterly trend in charts





Source: Company, KRChoksey Research

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Tatva Chintan Pharma Chem Ltd.

Result Snapshot

Particulars (Mn)	Q2FY25	Q1FY25	Q2FY24	QoQ	YoY
Revenue from Operations	**835**	**1,055**	**967**	**-20.8%**	**-13.6%**
Total Expenditure	**779**	**928**	**764**		
Cost of Raw Materials	393	415	464		
Purchase of Stock	5	5	9		
Changes in Inventories	29	149	-100		
Employee Cost	129	127	141		
Other Expenses	222	232	250		
EBITDA	**56**	**126**	**202**	**-55.7%**	**-72.4%**
EBITDA Margin (%)	**6.7%**	**12.0%**	**20.9%**	**-527 bps**	**-1425 bps**
Depreciation	68	67	68		
EBIT	**-12**	**60**	**135**		
Other Income	4	12	8		
Interest Expense	2	3	30		
Share of Associates	0	0	0		
PBT before Exceptional	**-10**	**68**	**112**		
Exceptional Items	0	0	0		
PBT	**-10**	**68**	**112**		
Tax	-4	16	34		
Minority interest	0	0	0		
PAT	**-7**	**52**	**78**	**NA**	**NA**
PAT Margin (%)	**-0.8%**	**4.9%**	**8.0%**	**NA**	**NA**
EPS	**-0.3**	**2.2**	**3.4**	**NA**	**NA**
Adj. PAT	**-7**	**52**	**78**		
Adj. PAT Margin (%)	**-0.8%**	**4.9%**	**8.0%**		
Adj. EPS	**-0.3**	**2.2**	**3.3**		

Source: Company, KRChoksey Research

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Tatva Chintan Pharma Chem Ltd.

Exhibit 1: Profit & Loss Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Revenues	**4,236**	**3,935**	**4,291**	**6,280**	**9,402**
COGS	2,261	1,742	2,227	2,530	3,865
Gross profit	**1,975**	**2,193**	**2,064**	**3,751**	**5,537**
Employee cost	412	548	622	816	940
Other expenses	957	964	1,085	1,630	2,440
EBITDA	**606**	**682**	**358**	**1,305**	**2,157**
Depreciation	96	256	236	350	362
EBIT	**510**	**426**	**122**	**955**	**1,795**
Finance Costs	84	65	15	30	42
Other Income	57	75	50	66	69
PBT	**448**	**436**	**157**	**991**	**1,822**
Tax	(7)	132	48	263	510
PAT	**455**	**304**	**110**	**728**	**1,312**
EPS (INR)	20.5	13.3	4.7	31.1	56.1

Exhibit 3: Cash Flow Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
CFFO	278	980	373	265	728
CFFI	(1,011)	(1,205)	(450)	(434)	(431)
CFFF	378	305	239	224	212
Net Inc/Dec in cash	**(357)**	**80**	**162**	**54**	**509**
Opening Cash	630	274	354	516	570
Adjustment	0	(1)	0	0	0
Closing Cash	**274**	**353**	**516**	**570**	**1,079**

Exhibit 4: Key Ratio

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
EBITDA Margin (%)	14.3%	17.3%	8.3%	20.8%	22.9%
Net Profit Margin (%)	11.6%	7.7%	2.6%	11.6%	14.0%
RoE (%)	9.5%	4.1%	1.5%	9.0%	14.0%
ROA (%)	6.0%	3.7%	1.3%	7.5%	11.2%
RoCE (%)	10.9%	6.8%	2.3%	12.5%	19.8%
Current Ratio	1.3	3.7	3.1	2.7	2.6
P/E(x)	44.6	69.0	195.4	29.4	16.3

Exhibit 2: Balance Sheet

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Equity					
Equity Capital	222	234	234	234	234
Other Equity	4,926	7,137	7,189	7,870	9,135
Total Equity	**5,148**	**7,371**	**7,423**	**8,104**	**9,369**
Non-Current Liabilities					
Borrowings	42	6	6	6	6
Long term provisions	3	4	4	6	9
Other Non-Current Liabilities	8	10	12	17	24
Total Non-Current Liabilities	**54**	**20**	**22**	**29**	**39**
Current Liabilities					
Borrowings	1,660	136	436	736	1,036
Trade Paybles	322	450	353	516	902
Other current liabilities	405	210	218	262	331
Total Current Liabilities	**2,387**	**797**	**1,007**	**1,515**	**2,269**
Total Liabilities	**2,441**	**816**	**1,029**	**1,543**	**2,308**
Non-Current Assets					
Property Plants and Equipments	1,648	3,965	4,135	4,292	4,437
Capital work-in-progress	2,307	729	729	729	729
Other Non-current assets	510	513	509	531	565
Total Non-Current Assets	**4,466**	**5,208**	**5,374**	**5,552**	**5,732**
Current Assets					
Inventories	1,625	1,528	1,352	1,893	2,576
Trade Receivables	844	699	788	1,084	1,546
Cash and Bank	448	383	546	600	1,109
Oher current assets	206	370	392	518	716
Total Current Assets	**3,123**	**2,979**	**3,078**	**4,095**	**5,946**
Total Assets	**7,589**	**8,187**	**8,452**	**9,647**	**11,678**

Source: Company, KRChoksey Research

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Tatva Chintan Pharma Chem Ltd.

Tatva Chintan Pharma Chem Ltd			
Date	CMP (INR)	TP (INR)	Recommendation
28-Oct-24	819	809	REDUCE
27-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

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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