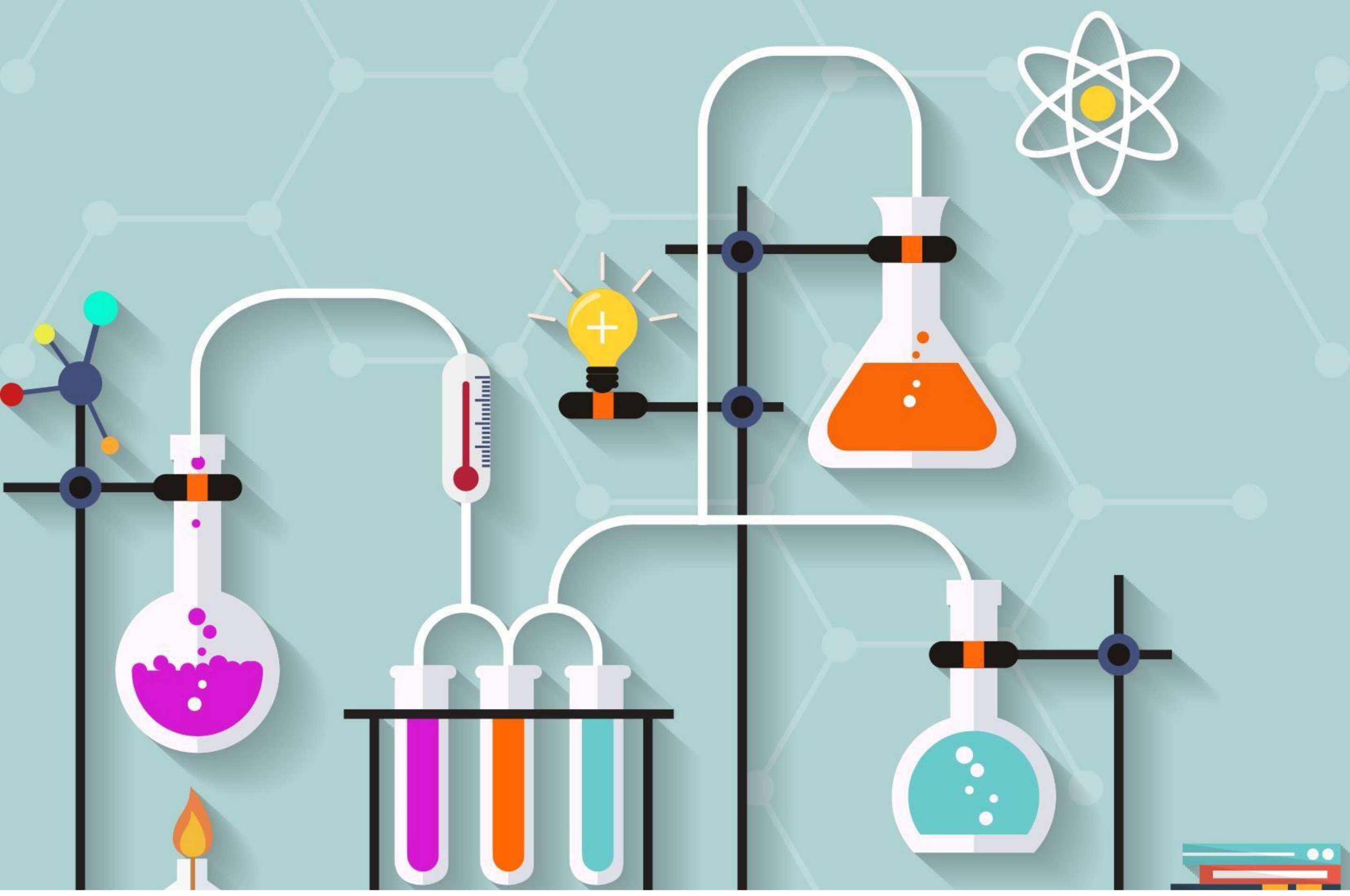
Tatva Chintan Pharma Chem Ltd
Q3FY25



Result update

30th Jan, 2025

Tatva Chintan Pharma Chem Ltd.

Outlook remains uncertain with lack of visibility in the key SDA segment

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 778	**INR 761**	(2.2%)	**INR 18,129**	**REDUCE**	**Specialty Chemicals**

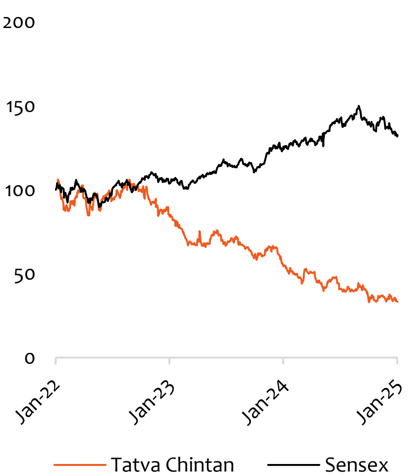
Result Highlights of Q3FY25:

- TATVA revenue missed our estimates due to significant decline in SDA segment. EBITDA beat our estimates due to lower-than-expected cost of goods sold and operating expenses. However, Adj PAT missed our estimates significantly due to higher-than-expected depreciation, lower than expected other income.
- We reduce our FY26E/FY27E by 56.4%/43.5% to 13.6/31.7, respectively due to continued struggle in SDA segment with no immediate signs of recovery, regulatory delays in Europe have dampened expected demand growth and with ongoing supply chain disruptions there is no clear catalysts for a strong recovery in the immediate future.
- We roll over our valuation multiple to FY27E and assign a PE multiple of 24.0x to arrive at a target price of INR 761 (previously: INR 809) reflecting the persisting pricing pressure, and weak end-market demand. Therefore, we maintain "REDUCE" rating.

MARKET DATA

Shares outs (Mn)	23.3
Mkt Cap (INR Mn)	18,129
52 Wk H/L (INR)	1,410/772
Volume Avg (3m K)	25
Face Value (INR)	10
Bloomberg Code	TATVA IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	76,533
NIFTY	23,163

KEY FINANCIALS

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Revenue	4,236	3,935	3,781	4,468	5,946
EBITDA	606	682	361	801	1,372
Adj PAT	491	304	72	317	741
Adj EPS (INR)	22.1	13.0	3.1	13.6	31.7
EBITDA Margin (%)	14.3%	17.3%	9.5%	17.9%	23.1%
PAT Margin (%)	11.6%	7.7%	1.9%	7.1%	12.5%

Source: Company, DevenChoksey Research

Top-line growth remains subdued due to weak SDA demand

- For Q3FY25, the revenue increased 2.0% YoY (+2.9% QoQ) to INR 859 Mn, the muted growth was led by decline in SDA segment which was offset by growth in other two segments.
- Revenue from SDA (Structure Directing Agents, 26.8% of revenue) segment declined 28.7% YoY (-14.9% QoQ) to INR 230 Mn, as major SDA customers had built up inventory in previous quarters, leading to lower procurement in Q3FY25. Restocking is expected in mid-to-late 2025E, but in Q3FY25, order volumes were weak.
- Revenue from PTC (Phase Transfer Catalysts, 34.2% of revenue) segment grew 18.5% YoY (+6.9% QoQ) to INR 294 Mn, as the company successfully onboarded two major MNC customers for a new application in specialty polymers. The business is expected to ramp up over the next few quarters.
- Revenue from PASC (Pharmaceutical and Agrochemical intermediates, 34.7% of sales) grew 17.3% YoY (+9.5% QoQ) to INR 298 Mn, driven by new product commercialization, increased customer orders, and expansion in domestic and export markets.

Unfavourable product mix and impact of high-cost inventory weigh on margins

- Gross margin contracted 401 bps YoY (+281 bps QoQ) to 51.6%. Although raw material prices stabilized in Q3FY25, the company was still consuming higher-cost inventory from previous quarters.
- Additionally, revenue mix shifted away from high-margin SDA segment towards lower-margin PASC segment.
- EBITDA decreased 35.8% YoY (+26.4% QoQ) to INR 71 Mn. EBITDA margin contracted 484 bps YoY (+153 bps QoQ) to 8.2%. Adj. PAT was INR 1.4 Mn as against INR 35 Mn in Q3FY24 (-96.0% YoY) and a net loss of INR 7 Mn in Q2FY25.

SHARE HOLDING PATTERN (%)

Particulars	Dec-24 (%)	Sept-24 (%)	Jun-24 (%)
Promoters	72.0	72.0	72.0
FIIs	3.4	3.3	3.4
DIIs	6.3	6.8	10.6
Others	18.2	17.8	14.0
Total	**100**	**100**	**100**

Note: All the market data is as of previous closing

14.8%

Revenue CAGR between FY24 and FY27E

34.7%

Adj. PAT CAGR between FY24 and FY27E

RESEARCH ANALYST
Dipak Saha, research5@krchoksey.com, +91-22-6696 5408

Tatva Chintan Pharma Chem Ltd.

Key Concall Highlights:

- **Underutilization of key plants led to inefficient cost absorption**, which affected margins. **Logistics & freight costs remained elevated,** which affected input costs.
- In Flame Retardants, **first commercial supply** to a customer will begin in Q4FY25E. The market remains challenging in terms of pricing, and full commercialization will depend on market conditions.
- The company believes it is at the bottom of the pricing cycle, with finished product prices and raw material prices near their historic lows over the last decade.
- **Longer shipping times** affected revenue recognition and working capital. **Shipments to the U.S. took 8 to 9 weeks** instead of the usual 6 to 7 weeks. European shipments faced 7 to 8 weeks delays (even though the distance is shorter).
- Delays were caused by ongoing **global shipping issues**, including: 1) **Red Sea crisis** & geopolitical disruptions 2) **Increased freight congestion** & logistical bottlenecks 3) Port delays in key export markets.
- **China is a major market for SDAs**, as they are used in **emission control catalysts** for **heavy-duty commercial vehicles (HCVs).**
- The **Chinese commercial vehicle market remained subdued**, leading to **lower demand for SDAs**. Customers **reduced orders and delayed procurement** due to slow economic recovery in China.
- The **heavy-duty vehicle market** is historically **cyclical**, and **demand was in a downturn phase** during 2024. Downturns, like the current phase, can last multiple quarters.
- In SDA segment, despite early demand signs, prices remained **stable but weak**. The **industry is not engaging in price wars**, but recovery is **still slow.**
- **Euro 7 emission norms**, which will require **higher use of SDAs**, are still in the **early stages of implementation. Delayed regulatory enforcement** meant **lower-than-expected orders from European customers**.

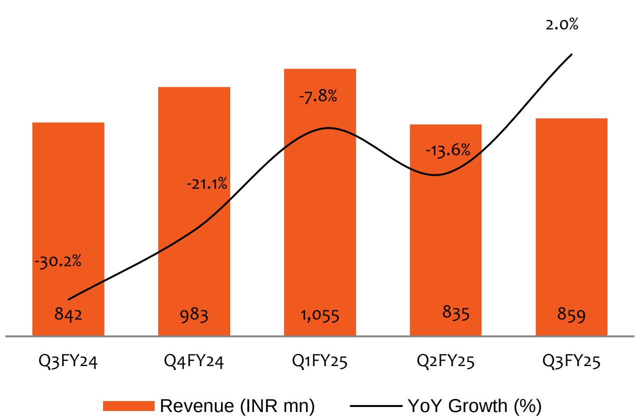
Valuation and view:

The company faced a challenging Q3FY25, with muted revenue growth driven by a steep decline in the SDA segment. Weak demand from key customers, particularly in China, weighed heavily on performance, as inventory overhang and sluggish economic recovery led to lower order volumes. While the PTC and PASC segments managed to grow, it was not enough to offset the sharp drop in SDA revenue. Margins took a significant hit due to an unfavorable product mix, higher-cost inventory consumption, and underutilization of key plants, leading to poor cost absorption. Elevated freight and logistics costs, combined with shipping delays, further strained operations, delaying revenue recognition and tightening working capital.

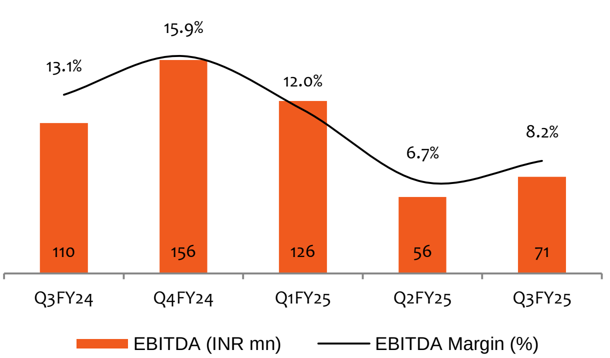
We reduce our FY26E/FY27E by 56.4%/43.5% to 13.6/31.7, respectively due to continued struggle in SDA segment with no immediate signs of recovery, regulatory delays in Europe have dampened expected demand growth and with ongoing supply chain disruptions there is no clear catalysts for a strong recovery in the immediate future. We expect the revenue to grow at 14.8% CAGR and Adj. PAT to grow at 34.7% CAGR over FY24-FY27E. Currently, the stock is trading at PE multiple of 57.7/24.7 based on FY26E/FY27E EPS, respectively. We roll over our valuation multiple to FY27E and assign a PE multiple of 24.0x to arrive at a target price of INR 761 (previously: INR 809) reflecting the persisting pricing pressure, weak end-market demand and operating deleverage taking significant hit to the margins. Therefore, we maintain our "REDUCE" rating on the stock with downside potential of 2.8%.

Quarterly trend in charts

Weak revenue growth led by decline in SDA segment



Contraction in EBITDA margins (YoY) due to unfavourable product mix



Source: Company, DevenChoksey Research

Tatva Chintan Pharma Chem Ltd.

Result Snapshot

Particulars (Mn)	Q3FY25	Q2FY25	Q3FY24	QoQ	YoY	9MFY25	9MFY24	YoY
Revenue from Operations	**859**	**835**	**842**	**2.9%**	**2.0%**	**2,749**	**2,952**	**-6.9%**
Total Expenditure	**788**	**779**	**732**	**1.2%**	**7.7%**	**2,496**	**2,427**	**2.9%**
Cost of Raw Materials	450	393	418	14.6%	7.8%	1,258	1,353	-7.0%
Purchase of Stock	11	5	11	112.4%	4.4%	22	28	-22.2%
Changes in Inventories	-46	29	-55	-259.6%	-15.8%	132	-54.8	-340.9%
Employee Cost	132	129	148	2.3%	-10.4%	389	404.0	-3.8%
Other Expenses	241	222	211	8.2%	14.0%	695	695.5	-0.1%
EBITDA	**71**	**56**	**110**	**26.4%**	**-35.8%**	**253**	**526**	**-52.0%**
EBITDA Margin (%)	8.2%	6.7%	13.1%	153 bps	-484 bps	9.2%	17.8%	-862 bps
Depreciation	69	68	66	1.6%	5.2%	204.0	193.7	5.3%
EBIT	**1**	**-12**	**44**	**-111.2%**	**-96.9%**	**49**	**332**	**-85.4%**
Other Income	0	4	12	-88.3%	-96.4%	15.9	29.8	-46.5%
Interest Expense	4	2	4	141.9%	10.3%	9.0	63.2	-85.7%
Share of Associates	0	0	0	NA	NA	0.0	0.0	NA
PBT before Exceptional	**-2**	**-10**	**52**	**NA**	**NA**	**56**	**299**	**-81.4%**
Exceptional Items	0	0	0	NA	NA	0.0	0.0	NA
PBT	**-2**	**-10**	**52**	**NA**	**NA**	**55.53**	**299**	**-81.4%**
Tax	-4	-4	18	NA	NA	9	91	-90.5%
Minority interest	0	0	0	NA	NA	0.0	0.0	NA
PAT	**1**	**-7**	**35**	**NA**	**-96.0%**	**47**	**207**	**-77.4%**
PAT Margin (%)	0.2%	-0.8%	4.1%	NA	-394 bps	1.7%	7.0%	-532 bps
EPS	**0.1**	**-0.3**	**1.5**	**NA**	**-95.9%**	**2.0**	**9.2**	**-78.3%**
Adj. PAT	**1.4**	**-7**	**35**	**NA**	**-96.0%**	**47**	**207.4**	**-77.4%**
Adj. PAT Margin (%)	0.2%	-0.8%	4.1%	NA	NA	1.7%	7.0%	-532 bps
Adj. EPS	**0.1**	**-0.3**	**1.5**	**NA**	**-96.0%**	**2.0**	**9.1**	**-78.0%**

Source: Company, DevenChoksey Research

RESEARCH ANALYST
Dipak Saha, research5@krchoksey.com, +91-22-6696 5408

Tatva Chintan Pharma Chem Ltd.

Exhibit 1: Profit & Loss Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Revenues	**4,236**	**3,935**	**3,781**	**4,468**	**5,946**
COGS	2,261	1,742	1,913	2,039	2,433
Gross profit	**1,975**	**2,193**	**1,868**	**2,429**	**3,513**
Employee cost	412	548	544	536	714
Other expenses	957	964	963	1,091	1,427
EBITDA	**606**	**682**	**361**	**801**	**1,372**
Depreciation	96	256	274	354	366
EBIT	**510**	**426**	**87**	**447**	**1,006**
Finance Costs	84	65	18	30	42
Other Income	57	75	21	64	65
PBT	**448**	**436**	**90**	**481**	**1,030**
Tax	(7)	132	18	163	288
PAT	**455**	**304**	**72**	**317**	**741**
EPS (INR)	20.5	13.3	3.1	13.6	31.7

Exhibit 3: Cash Flow Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
CFFO	278	980	538	421	717
CFFI	(1,011)	(1,205)	(479)	(436)	(435)
CFFF	378	305	236	224	212
Net Inc/Dec in cash	**(357)**	**80**	**294**	**208**	**494**
Opening Cash	630	274	354	648	857
Adjustment	0	(1)	0	0	0
Closing Cash	**274**	**353**	**648**	**857**	**1,351**

Exhibit 4: Key Ratio

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
EBITDA Margin (%)	14.3%	17.3%	9.5%	17.9%	23.1%
Net Profit Margin (%)	11.6%	7.7%	1.9%	7.1%	12.5%
RoE (%)	9.5%	4.1%	1.0%	4.1%	8.9%
ROA (%)	6.0%	3.7%	0.9%	3.5%	7.2%
RoCE (%)	10.9%	6.8%	1.5%	6.6%	12.8%
Current Ratio	1.3	3.7	3.1	2.6	2.4
P/E(x)	38.2	59.0	253.8	57.7	24.7

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	7,151	7,422	8,116
Total Equity	**5,148**	**7,371**	**7,385**	**7,656**	**8,350**
Non-Current Liabilities					
Borrowings	42	6	6	6	6
Long term provisions	3	4	3	4	5
Other Non-Current Liabilities	8	10	10	12	16
Total Non-Current Liabilities	**54**	**20**	**20**	**23**	**28**
Current Liabilities					
Borrowings	1,660	136	436	736	1,036
Trade Paybles	322	450	311	367	570
Other current liabilities	405	210	207	222	256
Total Current Liabilities	**2,387**	**797**	**954**	**1,326**	**1,862**
Total Liabilities	**2,441**	**816**	**974**	**1,349**	**1,890**
Non-Current Assets					
Property Plants and Equipments	1,648	3,965	4,197	4,350	4,491
Capital work-in-progress	2,307	729	729	729	729
Other Non-current assets	510	513	509	517	535
Total Non-Current Assets	**4,466**	**5,208**	**5,436**	**5,596**	**5,756**
Current Assets					
Inventories	1,625	1,528	1,191	1,347	1,629
Trade Receivables	844	699	694	771	977
Cash and Bank	448	383	678	886	1,381
Oher current assets	206	370	360	404	497
Total Current Assets	**3,123**	**2,979**	**2,924**	**3,408**	**4,485**
Total Assets	**7,589**	**8,187**	**8,359**	**9,004**	**10,240**

Source: Company, DevenChoksey Research

Tatva Chintan Pharma Chem Ltd.

Tatva Chintan Pharma Chem Ltd			
Date	CMP (INR)	TP (INR)	Recommendation
30-Jan-25	778	761	REDUCE
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

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%

In case of any grievances, please write to grievance@krchoksey.com
Visit us at www.krchoksey.com
KRChoksey Shares and Securities Pvt. Ltd.
CIN-U67120MH1997PTC108958
Registered Office: 1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.
Phone: 91-22-6633 5000; Fax: 91-22-6633 8060
Corporate Office: 701-702, DLH Plaza, Opp Shoppers Stop, S V Road, Andheri (W), Mumbai 400 058
Phone: 91-22-66535000
Compliance Officer: Varsha Shinde
Email: varsha.shinde@krchoksey.com

DIPAK SAHA

Digitally signed by DIPAK SAHA
Date: 2025.01.30 12:31:23 +05'30'