Date: 10 May 2023 Ref. No.: TCPCL/SEC/2023-24/00018

To,

The General Manager,
Corporate relationship department,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai-400 001
Scrip Code: 543321

The Manager,
Listing department,
National Stock Exchange of India Limited
Exchange Plaza, C-1, Block-G,
Bandra-Kurla, Complex Bandra(E),
Mumbai-400 051
Scrip Symbol: TATVA

Subject: Transcript of Earnings Call

Dear Sir/Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended, please find enclosed herewith the transcript of the earnings call held on 05 May 2023 post announcement of financial results of the Company for the quarter and financial year ended 31 March 2023.

The above information shall be made available on Company's website of at www.tatvachintan.com.

This is for your information and records.

Thanking You,

Your Faithfully,
For Tatva Chintan Pharma Chem Limited

Ishwar Ramanbhai Nayi

Digitally signed by Ishwar Ramanbhai Nayi
Date: 2023.05.10 14:34:29 +05'30'

Ishwar Nayi
Company Secretary and Compliance Officer
M. No.: A37444

Encl.: As above

"Tatva Chintan Pharma Chem Limited

Q4 FY '23 Earnings Conference Call"

May 05, 2023

MANAGEMENT: **MR. CHINTAN SHAH – MANAGING DIRECTOR – TATVA CHINTAN PHARMA CHEM LIMITED**
MR. ASHOK BOTHRA – CHIEF FINANCIAL OFFICER – TATVA CHINTAN PHARMA CHEM LIMITED
MR. DINESH SODANI –GENERAL MANAGER – ACCOUNTS AND FINANCE – TATVA CHINTAN PHARMA CHEM LIMITED

MODERATOR: **MR. SANJESH JAIN: – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the Tatva Chintan Pharma Chem Limited Q4 and FY '23 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participants' lines will be in the Listen Only mode and there will be no opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sanjesh Jain: from ICICI Securities. Thank you, and over to you, sir.

Sanjesh Jain: Thanks, Lizaan. Good evening, everyone. Thank you for joining us on Tatva Chintan Pharma Chem Limited's Q4 and FY '23 Results Conference Call. We have Tatva Chintan management on the call represented by Mr. Chintan Shah, Managing Director; and Mr. Ashok Bothra, Chief Financial Officer. I would like to invite Mr. Dinesh Sodani, GM Finance, to initiate with the opening remarks, post which we will have a Q&A session. Over to you, Dinesh ji.

Dinesh Sodani: Thank you, Sanjesh ji. Good evening, everyone. On behalf of the management, I am pleased to welcome you all to Tatva Chintan's earning call to discuss results for quarter ended March 2023 and financial year ended March 2023. Please note, a copy of our disclosures are available in the Investors section of our website as well as on the stock exchanges.

Anything said on this call which reflects our outlook for the future or which could be construed as forward-looking statement must be reviewed in conjunction with the risk that the company faces. Today, from the management side, we have with us Mr. Chintan Shah, Managing Director; and Mr. Ashok Bothra, Chief Financial Officer. Now I shall hand over the call to Chintan sir for his opening remarks. Over to you, sir.

Chintan Shah: Thank you, Dinesh ji. Good evening, everyone and a warm welcome to the Q4 and full year earnings call of Tatva Chintan Pharma Chem Limited. We declared the audited results today, and we believe you have got a chance to go through the results and investor presentation uploaded on the stock exchanges as well as the company's website.

During this quarter, the company reported the revenue from operations of ₹ 1,245 million, a growth of 26% YoY whereas the full year revenue stood at ₹ 4,236, a decline of 2% YoY. Despite the challenging year, we are satisfied to have achieved this scale in terms of revenue due to sustained offtake in PTC, PASC segment and revival in SDA during H2FY23 which is reflected in numbers of this quarter. EBITDA during this quarter was at ₹ 163 million, a decline of 26% YoY whereas the full year EBIDTA was at ₹ 606 million, a decline of 44% YoY. The decline in profitability is largely on account of change in the product mix across business segments. During the quarter, the inventory (other than spares and packing materials) at consolidated levels have come down from ₹ 1,887 as on Sept.22 to ₹ 1,325 million as on Mar.23. With the orders in hand for Q1FY24, we will consume all the excess inventory of SDAs. In addition, the increase in finance cost during the year is largely on account of higher average cost of debt by 400 bps and due to increase in benchmark rates. The annual repayments are to the tune of ₹ 98 million.

Now, let me take you through our segmental performance during the quarter.

PTCs have registered revenue of ₹ 378 million in this quarter and full year revenue of ₹ 1,432 million, contributing ~34% of the revenue and a growth of 46% YoY basis during FY23. The offtake in PTCs continue to grow with major supplies in overseas market.

Electrolyte Salts have registered revenue of ₹ 9 million in this quarter and full year revenue of ₹ 165 million, contributing ~4% of the revenue and a growth of 191% YoY basis during FY23. The off take from one of our large customers which was on hold that customer has instructed us to resume supplies from June 2023. The pilot scale sample with another customer has been formally approved and we shall execute the plant scale trial order by October 2023. After receiving successful approval of our electrolyte solution from R&D scale, we are now working towards supplying material from the pilot scale. All the necessary set-up has been created and we shall begin the trial runs from the coming week. We also have an opportunity with two more customers on the electrolyte solutions space and we are in final stages of submitting the R&D scales samples. FY24 will be the year where couple of new customers shall go to the plant scale and FY25 is bound to witness robust growth in electrolyte space with these products going into commercialization.

Pharma and Agro Intermediates and Specialty Chemicals have registered a revenue of ₹ 299 million during the quarter and full year revenue of ₹ 1,335 million, contributing ~32% of the revenue and a growth of 31% YoY basis during FY23. I am happy to inform that for the new product in the application area of metal extraction, the commercial supplies have been formally approved and we are now negotiating the contract for commercial supplies.

In Monoglyme, we could finally start the pilot trials with continuous flow chemistry. The initial results are encouraging but we are facing initial teething troubles as this is our firsthand experience in the continuous flow chemistry. The issues have been identified and necessary modifications are underway. We expect to start a smooth pilot trial by end of May 2023.

As far as our second product on continuous flow basis is concerned, we have formally received the quality approval and have begun production of a full-scale plant trial material. We plan to supply the plant scale trial material by the end of August 2023. We expect to begin commercial supplies from January 2024.

Now regarding our third product on continuous flow chemistry, which is the key base raw material for multiple agro chemical intermediates, we are steadily progressing on the development of the downstream agrochemical intermediates. We plan to execute pilot runs on these new intermediates from December 2023 and commercialize these products by July 2024.

We have received formal approval for yet another intermediate and are now executing the plant scale trial order for which the production has begun. We expect commercialization from December 2023.

The above mentioned three products are getting into commercialization in Q4FY24 which will provide opportunity of steep increase in revenue in PASC segment.

SDAs have registered revenue of ₹ 549 million during this quarter and full year revenue of ₹ 1,277 million, contributing ~30% of the revenue and a decline of 43% YoY during FY23. The demand for SDA is steadily coming back. We expect almost all the customers to come to a decent level by H2FY24. During the quarter, we supplied commercial trial orders for four different applications to one of the large customers. The initial feedback is promising, and we expect a formal approval for two products by September 2023 and for the other two products by December 2023. Thereafter, the commercial supplies to begin from January 2024.

Regarding the **Flame Retardants,** now we have formal approvals from three large customers. Due to low demand and drastically reducing raw material prices, most of the customers are adopting cautious approach, so we expect this segment to be slow in the coming two quarters. Development of two new advanced flame retardants are progressing well and we expect to pilot these products post Q1FY24.

In April 2023, the company has successfully commenced its commercial production from the new expanded facility at Dahej SEZ.

Over the past decade, the Indian chemical sector has been growing rapidly. FY23 had been a roller coaster year for most of the chemical industries. Despite of all geopolitical uncertainties, the Indian Chemical industry showed good resilience. Many of the challenges are set to persist in 2023. Against a backdrop of fear of global recession and expectation of muted demand till H1FY24, Tatva Chintan continues to remain fairly optimistic on achieving reasonable growth. Most of the key raw material prices have dropped by 15%-25% which is also translating into reduced prices of the finished products. So, this becomes a big challenge for us to achieve revenue growth. Also due to muted global demand across most of the sectors, we are seeing continuous cost pressures coming from customers which would translate into slightly lower spreads on margins. I feel Tatva Chintan is fortunate with the timing of launch of new products on commercial scale during this financial year and also with the gradual rebound in the SDAs demand. Despite of the challenging year ahead and even with the reduced product pricing we anticipate to grow by 20%-30% in FY24. Also, we anticipate to slightly improve the EBIDTA margins due to forecasted change in the product mix.

To conclude, I would like to mention that our entire team at Tatva Chintan are working rigorously with the commitment to scale up the already approved/developed products at a fast pace to turn them into profitable revenue. We shall strive to develop newer products using technology to ensure that we continuously provide high purity products and innovative solutions to our customers.
With this, I hand-over the call to Mr. Ashok Bothra our Chief Financial Officer for financial highlights.

Ashok Bothra: Thank you, sir, and good evening, everyone. I shall now discuss the financial updates for the quarter.

- Revenue from operations was at ₹ 1,245 million v/s ₹ 985 million in Q4FY22, increase of 26% on YoY basis. Other Income during the quarter was at ₹ 8 million increased by 1.7 times v/s Q4FY22. During the corresponding previous quarter Q4FY22, the MTM forex loss was to the extent of 15 million which was set-off against other income of 18 million.
- EBITDA was at ₹ 163 million v/s ₹ 220 million in Q4FY22, decline of 26% on YoY basis. EBIDTA Margin was at 13% v/s 22% in Q4FY22. The profitability has had an impact during the quarter and the year as a whole largely due to Higher COGS, Employee Cost, etc , & partly offset due to reduction in logistics cost, Power/Fuel cost.
- PAT was ₹ 170 million v/s ₹ 175 million in Q4FY22, decline of 3% on YoY basis. PAT Margin was at 14% v/s 18% in Q4FY22. The impact is on account of higher finance cost due to higher working capital requirement and increase in benchmark rates during the year.
- On the working capital side, our total sanctioned working capital limits are ₹ 2,200 million, utilizing 71% of the limits.
- During FY23, exports stood at ₹ 3,042 million, contributing 72% of the revenue. Tatva has a customer base spanning over 25 countries including USA, UK, China, Germany, Japan ,South Africa etc.
- During FY23, the R&D expenditure was higher by 2.65x due to capital expenditure on account of the recently completed R&D facility.
- Out of the net IPO proceeds of ₹ 2,072.81 million, ₹ 1,953 million have been utilized so far i.e. 94% of the funds have been utilized as on 31 March 2023. During the quarter, ₹ 26 million was utilized.

That concludes an update on the financial highlights of Tatva Chintan. We shall now open the floor for Q&A.

Moderator: The first question is from the line of Nirali Gopani from Unique PMS.

Nirali Gopani: Chintan Sir, when I look at the company, I do understand that we are in a very dynamic industry, and we have 3 great leaders managing the company at the top of it. But recently, what is happening is that every quarter we feel like this is the bottom, and from here on it will only improve. But we always get negative surprises. So if you can share some thoughts on this?

Chintan Shah: Sure. Yes, you are absolutely correct that we have given a few negative surprises quarter-on-quarter basis. And I can assure you probably this was our last surprise. So, we are seeing a robust demand coming back for the SDA. So if you understand, we had nearly about 50% revenue coming from SDAs in the previous financial year, which in this year has dropped to 30%. So that was a significant drop in that particular segment and which was the highest profitable segment for us. Even as of today, it is the most significant in terms of profitability.

So, with the drop in sales in SDA demand, which is for the known factors, that is why all the surprises were coming on and on for the last few quarters. But now I can assure you that the demand has come back quite steadily, and we will see a robust Q1. Also, please note that the current demand is coming only from 2 customers, and we expect all the 4 customers to resume buying at a decent level from the second half of this financial year. So probably this is the last surprise, and we hope to give you better surprises in coming quarters.

Nirali Gopani: Right. But remember the last quarter, you had explained that we had some inventory, maybe intermediate, and that was the reason that we were seeing this pressure on the margin. So is the inventory entirely consumed in Q4 or a part of it will be also be continuing in Q1?

Chintan Shah: The balance inventory entirely will be consumed within this month. So, whatever we produce from end of May 2023 will be coming in from the newly procured materials. So we are consuming all the piled up inventory on SDA in this month. So probably the last dispatch we expect it to happen in last week of May from that inventory.

Nirali Gopani: Okay. And obviously, your commentary on FY '24 revenue growth is very, very encouraging. But what you mentioned is that slight improvement in EBITDA margin. So can you give a range like what will be the EBITDA margin?

Chintan Shah: It should be in the range of between 18% to 20%.

Nirali Gopani: Okay. Because last quarter, you had guided about 22%. So you feel a risk to that number?

Chintan Shah: Not necessarily because now the prices are getting adjusted on quarter-on-quarter basis instead of a year-on-year basis even for the SDA. So we can remain dynamic. See what has happened actually in this last 1.5 months, the price of two specific SDAs, which have prominent sales among all the product category, the key raw material prices started coming down from $19, today, it is being quoted at $13.5. So of course, the customer will also expect you to reduce the price based on the pricing formula that you have.

So when you are sitting on an old inventory, there are very less things that you can do about it but to accept the new pricing because it is based on the latest pricing of key raw materials where you have linked your prices. So this is something which is beyond anyone's control. But once we are through with this inventory, then we are coming back with higher margins on this. So in terms of profitability or the EBITDA, the range remains the same and the pricing model that we adopt also continues to remain the same.

Nirali Gopani: Right. And you are also talking about the new capex that we will need in quarter twoor you will start investing. So when will we start thinking on that line?

Chintan Shah: We should begin by end of December 2023. So we have actually already started planning and designing for the new facility. But we have time until the end of the year, and then we should start thinking about the execution of that project. Again, these plans got on back burner because of the current situation that the industry is in since the last few months.

And again, I have been traveling a lot since last 2.5 months and meeting most of the customers in person. And what I feel is the market is set to rebound from the July or August of this year. Until then, people expect this downward trend in pricing to continue. So demand is not stable as of now. But we are fortunate that at this juncture, the SDA demand is coming back. So, it will kind of set off with this abnormal circumstances that the market are right now.

Nirali Gopani: Right. And flame retardants will also start contributing to the revenue meaningfully from this year?

Chintan Shah: Yes. From second quarter, yes. That is what most of the customers are expecting. So we already have certain orders in hand, which have been put on hold because if you follow the pricing of certain raw materials, the prices have dropped by nearly 35%. So, the customers are also getting into a wait and watch mode. They are awaiting for these prices to stabilize until then we are consuming their existinginventory pipeline. So we are also watchful about procuring new products.

And in any case, the polymer industry is suffering with lower demand. So they have already a good pile up of inventory pipeline. So they are just in a wait and watch mode, that once this raw material prices stabilizes at some point in time, then they want to start procuring. So hopefully, this quarter, we may have very less demand in the particular category, but we expect Q2 to begin actual commercial sales on this.

We are set to go. We have 3 customers who have formally approved, 3 large customers, actually. So we have been approved by 6 or 7 different customers, but 3 of them are notable customers. So we are set to go. As soon as the demand revives, we will start commercial production of flame retardants.

Nirali Gopani: And my last question also -- I got disconnected in between. So did you comment on the tax rate? Like what happened? What was the adjustment in the quarter that we did?

Ashok Bothra: It was lower taxes due to the completion of our R&D facility resulting in a lower tax rate.

Chintan Shah: We just started operating from our new R&D facility in Baroda...

Ashok Bothra: And commissioning of admin building at our Dahej facility before March.

Nirali Gopani: Okay. So that was a tax benefit that we had in the quarter?

Ashok Bothra: Yes.

Nirali Gopani: Okay. And for FY '24, what will be the tax rate for us?

Ashok Bothra: So detailed working needs to be worked out. Ignoring this capital expenditure, effective tax rate will be around 17% to 18%, assuming profit from the Dahej and Ankleshwar plant will be in the ratio, say, 2:1.

Chintan Shah: Basically, Ankleshwar plant, we are under full tax, whereas Dahej plant, we'll continue to enjoy 50% tax benefits for the next 5 years. And all the growth that we perceive over coming years is only going to come from the Dahej plant because Ankleshwar facility is already supersaturated. So the Ankleshwar revenue will remain constant where it is, whereas the incremental revenues will only come from the Dahej facility. So on that incremental profits coming from Dahej, we will continue to enjoy 50% tax benefits for next 5 years.

Nirali Gopani: Okay. Thank you, Chintan ji, for answering all the questions.

Moderator: The next question is from the line of Sudarshan Padmanabhan from JM Financial PMS.

Sudarshan Padmanabhan: Sir, my question is to understand a bit more granular on the guidance. You see if I look at the first half, we have lost close to about INR100-odd crores on the SDA side, which we have regained in the second half. And even if I assume that the 2 customers continue at the same run rate, I mean, that should give us additionally about 20% to 25% growth straight away.

So are we being conservative in terms of our guidance?

Chintan Shah: See, honestly speaking, as of today, this is the correct guidance because most of the prices with the reduction in raw material prices, your product prices are also going down, right? You cannot remain at the same levels. So your product pricing is also going down. So even within the month of April, we are seeing that typically, there is a reduction of 15% to 20% in most of the products that is happening. That doesn't mean that it is a reduction in your margins.

It is just because the raw material prices are going down, you are also parallelly reduced or forced to reduce your product pricing as well. So when I say this year we did a revenue of let us say INR400 crores, so next year to do that, considering today's pricing, we potentially have to have 20% higher sales to achieve the same revenue. So that is the bigger challenge. And despite of that, I'm saying that we will grow by 20% to 30%. So, on a realistic basis, if considering that we are selling the products at the same price as what we did in March 2023, and typically, we are forecasting roughly about 40% to 50% growth.

Sudarshan Padmanabhan: Sure, sir. And the margins, I understand that you will be having high cost inventory at least in the immediate term. But I'm just trying to understand if the 18% to 20% is the run rate that you're talking about for the full year, shouldn't the EBIDTA run rate be much higher than the 18% to 20%, say, in the fourth quarter of the second half? Because you would have depleted all the raw materials?

Chintan Shah: There are 4 large things that are happening typically from November onwards. So we will have 4 SDAs with a new customer going into commercialization, which is a large volume. Secondly, we have probably one of our largest products in terms of intermediates going into commercialization from January 2024. This is, again, considering that our plant scale trial material of 1 container gets approved, which we are expected to dispatch by July or August of this year. So, assuming that the product gets approved, we don't see much challenges. But considering that, then we are getting into commercialization of one of our largest intermediate products, which will get into commercialization from January. So that is what we are negotiating right now with the customer for a contract for 2024..

Again, we are currently producing one of the newly approved products we are producing on full container load of material. And this will again go into a plant scale approval basis. And this also we expect to have commercial orders beginning from November or December of this year. So most of these events are happening near the end of the financial year.

So probably in next 7 to 8 months, we are just seeing incremental growth that would happen from the increase in sales in SDAs that we are anticipating. The real sales that we will expect and that we are forecasting to really grow in terms of real new business to happen, everything is happening post November 2023.

Moderator: The next question is from the line of Padma Raju Mathi from SBI Life Insurance.

Padma Raju Mathi: Chintan ji, just a few questions on the margins trend. Now if I see our gross margin sequentially, they have dropped by 400 bps. So just wanted to get some sense how much of this would you attribute it to the inventory loss? That is one. And with respect to this initial teething problems that we are talking in this continuous flow chemistry, has there been any cost associated with that in this particular quarter?

Chintan Shah: I would not have a very precise number about the impact on margin because of the older inventory. But to give you a ballpark figure, I would say to a tune of about INR7 crores to INR9 crores is what would be a rough estimate. So, this doesn't necessarily include the products in inventory. Of course, the product is in inventory, but certain stages at the intermediate stages. And this, you have to reprocess the product, I mean, to do the further stages of chemistry with the increased raw material, solvent prices that was happening.

And now we have a different dimension beginning from end of March where suddenly the raw material prices have dropped. The solvent prices still continue to remain almost at the same level with 5%, 7% decline, but the raw material prices have declined sharply. So again, in this quarter, we have a number which is about INR6 crores to INR7 crores of impact on the profitability because of this inventory, which we'll selloff at a new price. In the current one.

Padma Raju Mathi: And any cost...

Chintan Shah: In terms of continuous flow chemistry, no. There are operational issues that we face as it's the first-time experience running certain chemistry at very high temperatures in a continuous flow basis. So certain pumping solutions had to be altered, certain heaters had to be replaced because of not giving you the constant high temperature requirements, etc. . So these are minor costs involved, the major cost involved is your time and opportunity.

Padma Raju Mathi: Okay. And my next question is related to -- initially, you talked about customers being in wait and watch mode in both SDAs as well as flame retardants...

Chintan Shah: Not in SDA, only in flame retardants.

Padma Raju Mathi: Yes, flame retardants fall in raw material prices. How is the demand outlook in the other 2 segments in the PTCs and PASC?

Chintan Shah: PTC, PASC and SDA, we see a very good demand, and most of the businesses for up to December '23 have been locked. Most of them with the large customers. So I don't see much challenges on that part. The only challenging part remains is the flame retardant product. And then also most of the customers we have been talking to actively, they expect this to be quite decent demand mode from second half of this financial year. So probably by August or September is when we anticipate this to come back to a normalcy levels.

Padma Raju Mathi: Okay. Last question from my side. Like from a capex point of view, how we should see this particular year? I mean, what would be the kind of capex spend?

Chintan Shah: Yes, so for the new Agro intermediate that I talked to you about which goes into commercialization in '24 in a big way. So currently, we have infrastructure in place which cannot handle this volume, we have certain missing parts on that. Again, as you are aware that this product also forms a part of our second product, which is on a continuous flow basis. So this product involves a part of the chemistry on a continuous flow basis. So we have to invest in 2 columns and maybe a couple of reactors. We are looking at about INR16 crores to INR17 crores of capex.

And probably a running capex that keeps on happening, certain old equipment is being replaced or some things being discarded because of age and those factors. So potentially, we are looking at about INR30 crores to INR35 crores of capex during this financial year.

Padma Raju Mathi: Okay, thank you.

Moderator: The next question is from the line of Dhruv Muchhal from HDFC Mutual Fund.

Dhruv Muchhal: It seems you are seeing some good development in the second and third quarter and most of the commercialization seems to be happening from November and December 2023. So sir, how can we look at FY '25? Probably that would be a good year to look at for that segment. So probably if you can give some sense of what can be the revenue run rate then? Because it seems you have decent visibility on some of the products. So what can be the revenue run rate then be for the PASC segment?

Chintan Shah: So at current pricing levels -- probably this question a couple of months back if you had asked, I would have said 100% growth is what we anticipate. But today, I would say around 75% to 80% growth from the recently completed financial year basis.

Dhruv Muchhal: All right. And it should gradually ramp up in FY '25, '26 to reach the full run rate in FY26 probably?

Chintan Shah: So by that time, we should be pretty much close to consuming our new capacities as well, very close to that. We will be running at about 85% of occupancy levels by that time. That is why I'm saying that we'll have to think about starting the capex, at least by the end of 2023 or early '24.

Dhruv Muchhal: Got it. And sir, the second thing is you mentioned about margins that are about 18%, 20%. And underlying revenue growth adjusting for the pricing of about 40-odd percent. So revenue growth of about 40%, adjusting for the pricing impact, which does not impact your EBITDA, but of course, impacts your revenue. So sir, because the next year, in FY '24, probably your mix for SDAs will also improve versus what it was in FY '23. So shouldn't it be that the revenue growth and the EBITDA growth should probably be similar, 40%each. Shouldn't the EBITDA growth be much better?

Chintan Shah: This is a very logical question that you have asked. And the real answer to that is some of these EBITDA margins will be consumed by the Flame Retardants products because these are not very high margin product what we have launched recently. So this is the starting kind of a base product in terms of Flame Retardants. So when we go to the next stage is when the EBITDA margins becomes decent. So these products will consume some of the EBITDA margins of our other product categories.

Dhruv Muchhal: Got it. And sir, quickly, on flame retardants, what kind of utilization are you expecting in FY24 and FY25? I think the capacity is 5,000-odd tons?

Chintan Shah: We expect about 40% utilization.

Moderator: The next question is from the line of Yash Shah from Investec.

Yash Shah: Sir, my first question was regarding the new products which we are launching in the current financial year. In FY '24, we have about 5 to 6 products which we are launching, which will basically contribute to majority of our incremental revenue. So sir, I just wanted to understand our thinking whether we develop a new product or are commercializing it, what is the market size that we target? Or what are the internal parameters we have before we start developing a new product for a customer? So I wanted to understand that since majority of our value unlocking is going to come from commercialized products?

Chintan Shah: So whatever we now undertake as a project has to have a market size of at least INR40 crores to begin with. So we are picking basically something which can give us a 10% growth. And the product should have a good long life and also a growth opportunity down the line. So of course, when you say the customer only gives you 20% or 30% of its overall demand as a new supplier, and then you have an opportunity to ramp it up to maybe 50% or 60% to their overall business requirements. So that is how we identify a product.

So typically, when we talk of a new product, we intend with a minimum revenue of INR40 crores. And of course, there is no limit on the upper side. But now whatever we are picking is with a far more higher revenue potentials. So this what we are going to commercialize now is not a work of today. It is the work has been going on since probably last 2.5 years or 3 years and which is now getting into a mode of commercialization.

Yash Shah: Understood, sir. So basically, our understanding is that earlier it used to be to reduce the concentration we had more products. But now since we've been developing a higher, bigger market products, now going forward as well, we'll reduce the amount of launching of new products and focus on the bigger total addressable market products. The understanding is right, right?

Chintan Shah: Absolutely. Then there are certain different ideologies as well that we are working on, which is you develop one chemistry, and based on that chemistry, you develop a portfolio of products. – So let us say, the third product on a continuous flow basis becomes a key raw material for multiple different products.

So you invest for a few years in developing that particular product and that becomes a key raw material for you, and then you develop a family of products around that product. So that is another way where we are also working on. So that necessarily doesn't mean that each product will bring you INR40 crores in revenue. But probably your main precursor of that, which we have developed internally, this can have a potential of at least INR80 crores to INR100 crores in terms of revenue. But it may come from 3 or 4 different products.

Yash Shah: And sir, you earlier clarified that the margins will be only 18% to 20% for the whole year because of the brominated flame retardants will consume some of your margins. So is it safe to assume by FY '25, we will go back to our peak margins of 23%, 24% since the higher cost inventory will be out and the ramp-up of flame retardants will also have increased? So is it safe to assume to go back to 23%/24% by FY '25?

Chintan Shah: I would say a safer number would be 20% to 22%.

Moderator: The next question is from the line of Sanjesh Jain: from ICICI Securities.

Sanjesh Jain: Continuing with the margin, again, this year, margin of 18% to 20% is also because that we have commercialized this new plant and there will be costs related to that...

Chintan Shah: Yes. So that is one of the key factors because we will operate the plant, but it will be operated at a much lesser capacity. But the cost eventually associated with them, most of the cost associated remains fixed. And that was one of the key reasons why we also saw a lesser EBITDA margins during the current financial year because of lower operation of the plant, which was barely -- I mean, for the first 6 months, we never operated that facility, maybe 5%, 10%.

But operating that facility is still far below compared to what you would normally have to if you want to operate at this revenue level. So most probably 60%, 70% of the products being sold during the second half of this financial year was coming -- most of this was coming from the piled up inventory.

Sanjesh Jain: Got it. following with the margins. When we say that we are taking a 20% cut in the realization while we maintain the spread, effectively mathematically, the margin goes up because we are dropping the revenue from 100% to 80%, but assuming the spread, which remains at 20%, we go from a margin of 20% to 25%. What we are doing...

Chintan Shah: No, not exactly. So I'd just like to correct you there. So when you are dropping the prices because of raw material consumptions, so customer has certain base formulas that this is a product, this is the conversion cost, and this is your margin. So the moment you say that raw material cost is reducing, they want to also put the reduction in those fixed numbers. So that is where potentially you may increase by a percent or so, but your spread also starts coming down proportionately. So, you are not having a pricing formula on a per kg basis. It is all linked on a percentage basis. So more or less, your spread remains constant in terms of percentages. So we worked on 2 large customers pricing models where we are seeing that the spread will increase by about 2% because of reduction in overall price, but it's not like the prices dropped by 20% and spread will increase by 5%, it doesn't happen.

Sanjesh Jain: Got it. That means the falling raw material price is in fact bad for us, rising raw material prices is in fact a much better situation for us?

Chintan Shah: Both the situations are not good for manufacturers. I can tell you that. We have passed through both the cycles. And when it's an increasing pricing cycle, customer wants you to hold the prices till you have executed all their pending orders. And when it's a falling pricing market, then customer wants a price change to happen from tomorrow. So you are always in trouble in both the scenarios.

Sanjesh Jain: Got it. Now taking this to FY '25, we have a negative impact of brominated flame retardant in FY '24, which will partly reverse in FY '25. Operating leverage will go up because we will be operating the new plant probably at a much higher range. We will be starting a lot of product on the continuous flow chemistry. We anticipated that the margins would be better than what we do on the company average. So this 20% to 22% then looks like a significantly a conservative number in that scenario. Are we being too conservative/cautious from what is happening in a very near term? Is that the phenomenon?

Chintan Shah: Honestly, I don't have anticipation for FY '25. But see, basically, what will happen is when we commercialize these products in end of December or January of this year, that is when we will be utilizing only 1 quarter for that plant. And I'm sure when it begins, it is not going to be at a full scale. But 3 months or 6 months down the line when you really hit the volumes that is required by the customer is when your plant actually starts getting occupied at a very high level.

And that will have an impact on your EBITDA margins because technically, your operational cost on per kg basis starts coming down. So I would say by July 2024 is when your plant is beginning to get almost fully occupied at a level of 75%, 80% plus. That is when you start kicking in the real EBITDA margins that you forecast.

Sanjesh Jain: Chintanji, just correct me if I'm wrong. I thought continuous flow chemistry, you're running on a very small quantity on a very high temperature while conventionally you're using larger drum. And if utilization is lower, your power cost really doesn't come. So that really plays out in the conventional manufacturing. In the continuous flow manufacturing, if you are not manufacturing, you're keeping this plant shut, you cannot operate at a lower level, right? So that leverage thing really doesn't work in a continuous flow. What you are telling you is the conventional business model.

Chintan Shah: Let us say, my plant has a capacity to produce 3,000 tons, for example. And I have a demand of 1,500 metrics tons. Then you will operate that continuous flow plant also on a kind of a campaign basis. You operate for 4 months and take a break. Then you again regenerate your catalyst and operate for another 4 months kind of a way. The ideal situation is when you can actually run it 365 days for 3,000 metric tons. It will take you a couple of years to buildup the market to that extent.

Sanjesh Jain: Got it. Coming to the revenue growth guidance, you are talking of 20% to 30% for FY '24. If I take the SDA revenue itself for FY '22, we did some INR260 crores of revenue. If I knockoff, say, 10%, 15%, 20% of pricing, which is reducing now that will come down to, say, INR200 crores level. And what we are talking is a growth from the exit, we are already at INR200 crores from only 2 customers. And we are awaiting orders from 4 customers and we have signed the fifth customer.

Again, and we will be preparing for Euro 7 sooner. And we have a host of new products coming in, the electrolyte solution and PASC and flame retardants. Flame retardant itself will take a significant amount of revenue growth because the kind of margin contraction we are taking, I don't know how are we compensating that on the revenue. Are we really being realistic on the revenue or we have just become too conservative considering what has happened in the last 3 quarters? Mathematically, it's not adding up.

Chintan Shah: So basically, this is definitely a conservative forecast. But when my customer is saying that we will start buying from July or August 2023 and this makes me alert that I'm making conservative statements. When for the 2 customers who have already started buying, then I have a very clear picture of what is happening with these 2 customers. The large customer where we have approval, they have also indicated a volume to us that if your containers get approved, then this is the volume that we are looking from you. And it's an ongoing business from them.

So when someone is on a hold and he says I'm going to start buying from July or August, then I start considering this to take it in a conservative mode. This July and August can become September or October. So we take that conservative stance so that we don't go wrong massively.

Moderator: We move on to the next question that is from the line of Krishan Parwani from JM Financial.

Krishan Parwani: A couple of questions from my side. So, the first is you said I think PASC revenues would increase steeply in Q4 FY '24 given you have a couple of products coming in, one of the largest intermediate in the Jan to December '24 quarter. So this would be on account of 2 new agro intermediates. Is that correct? Or did I hear something wrong?

Chintan Shah: No, you heard it perfectly.

Krishan Parwani: Okay. And have we received the POs for this already or the POs are awaited?

Chintan Shah: So both these, we are executing, we have PO only for the plant scale approval material, so that is what we are executing. One product in July and one product in August. So this has been going on probably since last 1 year when the lab scale samples got approved, then a pilot scale sample got approved, then mini plant scale sample got approved, 3-4 metric tons kind of a thing. And now we are at a full-scale plant trial. So I don't expect anything to go wrong. The product has been performing very nicely. So based on this full-scale commercial -- so when you say full-scale plant trial means the customer is going to actually use it for their mainstream products. Going to use my product along with maybe the competitors' product and then using it at the same time and seeing the performance.

Krishan Parwani: Understood. So probably, you will get the POs probably towards the September month, I guess, so that you have timing of 3 months.

Chintan Shah: Yes, 2-3 months for that.

Krishan Parwani: So, on the utilization level for the new Dahej facility that you have commercialized last month. So what kind of utilization level you are expecting in FY '24 from this new facility that you have commercialized?

Chintan Shah: Close to about 30%, 35%.

Krishan Parwani: 30%, 35%. So is that the reason why you have given kind of a 40% sales growth because you are almost at your peak utilization level in your current facility? Because I think you had mentioned in one of the calls that peak utilization or peak revenue from current facility is around INR130 crores, INR140 crores?

Chintan Shah: Yes. So we are very close to that. We have already started using facilities from the new plant as well. And with all these new products that are being launched, that will start occupying the facility almost kind of 75%, 80% from January 2024 of this financial year.

Chintan Shah: Then probably it will be at 30%, 35%.

Krishan Parwani: Got it, sir. Two small clarifications. So on the sales growth that you mentioned like 30%, 40% sales growth in FY '24, could you like break it up in terms of category wise as, doesn't necessarily have to be exact numbers. But what kind of growth in SDA and what kind of growth in the other categories in terms of sales?

Chintan Shah: SDA, we expect to potentially hit the same number as FY '22. That is what we are expecting. And electrolyte salts is where we may see probably about 50%, 100% growth in that segment. Maybe close to 100% is what I anticipate. And phase transfer catalyst, yes, it is pretty much stable. So this year, we'll expect maybe 10% growth here, not much.

So we are in an approval phase for a new application of phase transfer catalysts, but the project is not going on as smoothly for the customer as they would have anticipated. And these are very innovative applications where our product is being utilized as a phase transfer catalyst. So one of the application is in manufacturing of recyclable plastic. So it's a synthetic, not like the plastic what we see. It's kind of a green plastic being synthetically or chemically made.

And another application is in the area of wood preservation. So when you have these large logs of woods and this is a new application where they expect -- I mean it's a large volume demand for this particular application. Our product has been approved. We have already supplied a couple of metric tons of product for that. But the project is not going on smoothly with the customer. So they anticipate probably 6 months to a year of a lag. So if it happens in this year, we may have a good growth in PTCs as well. But right now, it's not a part of my forecast. It's doubtful.

Krishan Parwani: Okay. So last point. Since you mentioned you expect SDA sales at similar level to FY '22, that was around INR226 crores. If you look at the SDA run rate of your Q4, it's almost like INR55 crores. So that means you are expecting this to continue. But I guess, you mentioned that one of your large customers would start taking from June '23. So are you not expecting any growth from this quarter in terms of SDA sales?

Chintan Shah: There is a growth in terms of volume, but the prices will be down by roughly about 20%, 22%. So when you're seeing only in terms of revenue numbers, this is what I'm predicting. So it's a good growth. But the growth in terms of revenue will not reflect because of reduced pricing.

Moderator: The next question is from the line of Piyush, an individual investor.

Piyush: Chintanji, I just want to understand, on SDA sales, we have dropped 30% and still SDA sales, whatever our margin has gone down to around 10%, 12%, something in there, compared to last year, we did some around 22% margin. And what you are saying is maybe June, July, you will start supplying to another 2 customers also. So if assuming H2, it will be complete recoup of SDA sales. So what type of margin we can generate on SDA sales?

Chintan Shah: I'm sorry, I'm not clear about the question.

Piyush: What I'm trying to understand, what we said earlier also, SDA is our high-margin product. And over the last 2, 3 years, we have done a margin of 22% to 25% trajectory. This year, we are down with 30% Y-o-Y sales in SDA. Assuming we recoup in SDA in FY '24 and assuming the same level of FY '22 or something like that, then still the margin guidance of SDA looks on the lower side. So are we saying this has not achieve the past trend of SDA margin in FY '24?

Chintan Shah: The margin guidance is not only for the SDA. It is the overall margin. So in terms of spread, the margin remains the same with the SDA which was in FY '22. It will continue to remain the same. It's only because you are operating your plants at a lower occupancy levels, that is what is pushing down your EBITDA margins because most of your costs associated with plants are fixed. A lot of them. So whether you operate the plant at 30% or you operate at 80%, most of the cost remains the same. So that is what is causing the EBITDA to look at a lower number. But in terms of an individual spread, when you consider, let us say, for example, raw material cost vis-a-vis the selling price, then the spread remains the same in terms of percentages.

Piyush: But will it help to achieve a 20% type of margin in '24 or H2 or '25? Or we are keeping the guidance at 18% only?

Chintan Shah: I said 18% to 20%.

Piyush: Yes. And second question on, electrolyte sales. This Q4, I think we didn't have any significant number of electrolyte sales. Any specific reason? Till Q3, I think we did have 15 or 16?

Chintan Shah: We have 2 commercial customers right now for this. And we are in queue with 4 other customers at multiple stages. Somewhere we have supplied lab scale samples, somewhere we have got lab scale approval and we have supplied pilot scale samples, and we are also into approval mode with 2 more products right now. Out of these, 2 already commercialized customers. So one customer was on hold since probably last 4 months.

And now we have got a confirmation to start supplies from June. So they were basically debottlenecking and expanding their manufacturing capacities. So now we have got a go ahead to start supplies from June of '23. And the other customer probably is sitting on an inventory which they procured in last quarter. So we went dry on orders from that particular customer. Again, we have orders from there for this quarter.

Piyush: What is the growth we are expecting in electrolyte because it is a very small size of the overall?

Chintan Shah: We expect 100% growth, nearly about 100% growth in that segment in this year compared to the previous year. Whatever new products that are -- most of them will hit a stage of commercial supply by the end of the financial year. So really, 2025 should see the real sales in the electrolytes coming back. I mean, to actually start grow and become a decent part of our overall revenue.

Piyush: Okay. Got it, sir. And this electrolyte salts is also a similar margin profile product around 20%-something? Or it's a high margin ?

Chintan Shah: More or less like an SDA margin, yes.

Piyush: Okay. The next question is on flame retardant. I think when we first time announced flame retardant, I think we have made some comments that it can be the similar size of like what Tatva Chitan is right now. So maybe INR300 crores to INR400 crores of opportunity. So what can be the number we can think for FY '25, specifically in flame retardant?

Chintan Shah: So this year, we expect somewhere between INR40 crores to INR50 crores in terms of revenue. And next financial year, we expect it to hit about INR200 crores in terms of revenue.

Chintan Shah: The same brominated flame retardant six months back, the selling price was about $8. With the reducing raw material prices, now the product cost has come down to $4.5. So nearly a 50% drop in the product cost. So this is quite a dynamic thing to forecast as of today because of such a huge volatility in that particular segment. The raw material prices are fluctuating wildly. So it's very difficult to project an exact revenue number.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Chintan Shah for his closing comments.

Chintan Shah: On behalf of Tatva Chintan's management, I thank you all for joining us today for our earnings call. We appreciate your support and trust in our company. We commit to deliver and see the market for our products improve going forward. We hope that we have been able to address most of your queries. You may reach out to Mr. Ashok Bothra, our CFO; or our Investor Relations partner, EY, for any further queries that you may have, and they will connect with you offline. Thank you, Sanjesh ji, for hosting our call. And thank you, everyone, and have a great evening.

Moderator: Thank you, members of the management team. Ladies and gentlemen, on behalf of ICICI Securities, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.