Date: 29 July 2024 Ref. No.: TCPCL/SEC/2024-25/00030

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 24 July 2024 post announcement of financial results of the Company for the quarter ended 30 June 2024.

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,

Yours Faithfully,
For Tatva Chintan Pharma Chem Limited

ISHWAR RAMANBHAI NAYI
Digitally signed by ISHWAR RAMANBHAI NAYI
Date: 2024.07.29 19:06:24 +05'30'

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

Encl.: As above

"Tatva Chintan Pharma Chem Limited

Q1 FY 25 Earnings Conference Call"

July 24, 2024

MANAGEMENT: **MR. CHINTAN SHAH – MANAGING DIRECTOR**
MR. ASHOK BOTHRA – CHIEF FINANCIAL OFFICER

MR. AJESH PILLAI – INVESTOR RELATIONS

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

Moderator: Ladies and gentlemen, good day and welcome to Tatva Chintan Pharma Chem Limited Q1 FY '25 Results Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need an assistance during the call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

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

Sanjesh Jain: Thanks, Shlok. Good afternoon, everyone. Thank you for joining on for Tatva Chintan Pharma Chem Limited Q1FY25 Results Conference Call. We have Tatva Chintan on call represented by Mr. Chintan Shah, Managing Director; Mr. Ashok Bothra, Chief Financial Officer; Mr. Ajesh Pillai, Investor Relations. I would like to invite Mr. Dinesh Sodani, GM Finance & Accounts, to initiate with 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 all of you to Tatva Chintan's earning call to discuss financial results of quarter ended June 2024.

Please note that, a copy of all the earning call related disclosures is available on both the stock exchanges i.e., NSE and BSE.

Any statement made or discussed during this call, which reflects our outlook for the future, or which could be construed as a forward-looking statement, must be reviewed in conjunction with the risks that the Company faces.

A detailed disclaimer in this regard has been included in the investor presentation that has been shared on both the stock exchanges i.e., NSE and BSE.

Now, I will hand over the call to our Investor Relations Officer Mr. Ajesh Pillai for his opening remarks.

Over to you, Ajesh Ji.

Ajesh Pillai: Thank you, Dinesh ji. Good evening, everyone. I extend a warm welcome to each of you to the Q1 earnings call of Tatva Chintan Pharma Chem Limited. It is my privilege to present our financial results, which we trust you have thoroughly reviewed through the investor presentation made available on the stock exchanges. Allow me to provide a detailed analysis of our performance metrics.

In the first quarter, our company achieved a revenue from operations amounting to Rs.1,055 million. This represents an 8% year-on-year decline and a 7% quarter-on-quarter growth. The EBITDA for this quarter stands at Rs.126 million, reflecting a 41% decrease year-on-year and a 19% decrease quarter-on-quarter.

Examining the performance across various product segments, our Phase Transfer Catalysts (PTCs) registered a quarterly revenue of Rs.297 million, indicating a 9% growth quarter-on-quarter and a 6% decline year-on-year.

Our Electrolyte Salts segment reported a quarterly revenue of Rs.13 million, marking a 3% decrease quarter-on-quarter and a 2% growth year-on-year.

The Pharma and Agro Intermediates and Specialty Chemicals segment recorded a quarterly revenue of Rs.389 million, showcasing a substantial 39% increase quarter-on-quarter and a 25% growth year-on-year.

Conversely, the Structure-Directing Agents (SDAs) segment reported a quarterly revenue of Rs.350 million, reflecting a 14% decline quarter-on-quarter and a 29% decrease year-on-year.

Now, I would now like to hand over the call to our respected Managing Director, who will provide deeper insights into our business outlook and strategic direction. Thank you. Over to you, sir.

Chintan Shah: Thank you, Ajesh.

Good evening, everyone. Allow me to guide you through our business outlook and recent developments.

The year has started on a positive note depicting improved demand. Yet the year continues to remain challenging on various fronts. Periodically, we are observing spikes of higher demands but as per our honest observation it still does not translate into consistently high demand scenario. It seems the industry is still wanting to run on minimum inventory levels which in turn keeps the demand under pressure and consequently the prices continue to remain at lower levels. The sentiment within the industry still remains to be cautious.

Q1 has brought challenges in terms of logistics with significant increase in shipping cost and severe shortage in terms of availability of vessels for India. This shortage is causing severe delays in arrival of imported raw materials leading to loss of production and also delays in delivering the finished products to customers on time.

Raw material prices continue to remain subdued but definitely they seem to have stabilised at these levels and not declining any further.

On brighter note, Tatva Chintan has successfully introduced number of new products over last two years. This gives us an optimism to grow even during these turbulent times. Most of the introduced products are matured enough to gradually get into commercialisation in coming quarters. Most of the products have been fully approved by the customers or are in the final stages of commercial approval. We take this opportunity to thank our R&D team for successfully developing all these products without seeing any single failure or adverse comments from the customer side.

Now, let me provide a detailed overview of our segments:

Phase Transfer Catalysts (PTC)

Our specialization in PTC positions us advantageously and we continue to enjoy our leadership position in this segment. We expect to continue to maintain a steady growth in this segment.

SDAs:

Finally, we began commercial supplies to three new key customers during this quarter. Periodically, with increasing confidence, we shall see volumes being stepped up gradually.

As informed in previous earning call, due to the reduction in key raw material prices, the price realisation of the SDAs has been proportionately adjusted. This has led to price reduction in various SDAs ranging between 15% to 25%. Despite of increased volumes in SDAs, the revenue is showing a degrowth. This phenomenon should fade away with eventual increase in raw material prices.

With full approvals from new customers and also three products being commercially approved by our existing customers, we will continue to grow in this segment and with scheduled implementation of EURO 7 norms in 2027, we shall see strong growth on SDAs from late 2025.

Electrolyte Salts:

There is a positive development in this segment. The first automated battery production line of our customer is finally getting operational from October. We will see a strong uptick in demand from Q3. Over the next two years, the customer is scheduled to set up three more automated production lines which will translate into exponential volume growth for us.

The qualification process with the customer working on batteries to be used in hybrid car is progressing very well. We expect commercialisation to begin from early 2025 and gradually pickup pace.

After successful qualification of our high purity lab scale samples, we are gearing up to produce high purity electrolytes for zinc battery on pilot scale. This is a large opportunity for us in the high growth segment of energy storage devices.

This segment makes us future ready and encourages us to maintain a very positive outlook.

PASC:

Of the three pharma intermediates, one has been fully approved and gradual commercial supply has started. The other two pharma intermediates are at penultimate stage of approval and scheduled for commercialisation from early 2025. We have completed development of one more pharma intermediate and sent lab scale samples for preliminary approval

Out of the three agro intermediates which are under approval, two products are nearing completion of approval process. The third intermediate whose delivery got delayed due to the Red Sea problem was eventually consumed by the customer on plant trial recently. Due to ongoing subdued demand within the agro chemical sector, we expect some delay in beginning of commercial supplies of these agro intermediates. We are progressing very well on development of other two agro intermediates which are involving continuous flow chemistry.

The newly designed pilot equipment to run continuous flow chemistry which will overcome the safety concerns has been received at the plant. This new equipment is under installation and the pilot trials of Monoglyme will begin from August and will be followed by pilot trials of two more products which are ready for trial.

The regular commercial supplies of metal extraction products have begun during Q1 with reasonable volumes. We are developing one more product in this application category. We expect to grow this application gradually in terms of volumes over the years.

After successful completion of pilot trials, we have begun plant trials for the new products having application into polymers. Currently, we are doing plant runs for two products. We expect to dispatch one product from plant scale for qualification purpose within Q2 and second product in Q3. The electrolytic process is working successfully on commercial scale in this chemistry.

Flame retardants:

We continue to face unrealistically low price in this segment. We will begin the commercial production at appropriate time. In the meantime, we continue to develop the portfolio of products under this segment.

Apart from the above updates on the product segments, I would like to share with you about the new distillation plant. It will be commercialised from end of August. This will help us to free production capacities at the existing plant and help us to optimise productivity. This will make the reactors available for production of major products and help us increase the revenue contribution which is currently is being blocked for purpose of recoveries.

Despite the chemical industry facing challenges on the short term, I visualise a continuous robust growth for Tatva Chintan on a longer term. The positives being advanced production facility, able team and a powerful Research and Development facility. The assurance lies in the fact that we have number of products to begin commercialisation in short term and various others nearing completion of development. With the existing products pipeline, we will see consistent growth for Tatva Chintan and shall also see construction of green field plant at the new site to begin in near future. The innovation and customer centric approach continue at Tatva Chintan which positions us to capitalise on opportunities and ensure growth of all those who are associated with us.

Thank you. Now, I handover the mike to our CFO Mr. Ashok Bothra.

Ashok Bothra: Thank you, Chintan Sir and good evening to everyone present on our call today.

The financial highlights for the current quarter Q1FY25 v/s Q1FY24 are as below:

• Revenue from operations of ₹ 1,055 million v/s ₹ 1,144 million in Q1FY24.

• Other income of ₹ 12 million v/s ₹ 10 million in Q1FY24. Other income comprises of gain on FOREX fluctuation of ₹ 5.6 million, Miscellaneous income of ₹ 4.0 million and Interest received of ₹ 1.4 million.

• EBITDA of ₹ 126 million v/s ₹ 213 million in Q1FY24.

• EBIDTA margin decreased by 670 bps YoY to 12.0% in Q1FY25 due to increase in COGS, employee benefit expenses & other expenses by 3.3%, 1.4% & 2% YoY respectively.

• PBT of ₹ 68 million v/s ₹ 134 million in Q1FY24.

• PAT of ₹ 52 million v/s ₹ 95 million in Q1FY24. PAT margins were at 4.9% v/s 8.3% in the same period previous year.

• EPS stood at ₹ 2.23 v/s ₹ 4.29 in the same period previous year.

• During Q1FY25, exports stood at ₹ 657 million, contributing 62% of the revenue. The major countries include USA, UK, China, Germany, Japan and South Africa.

That concludes an update on the financial highlights of the company. I shall now request the moderator to open the floor for questions and answers session.

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

Sudarshan P.: Sir, my question is on the sales. When I look at timing, definitely there is an improvement on the PASC side, which you have spoken about. But on specifically the SDA and other businesses, have there been any kind of a shipment delays that you have seen in this quarter?

Chintan Shah: Okay. Let me first give certain insights into what has happened during this quarter. So, this will answer to lot of questions upfront. Number one is in SDAs particularly; we saw actually an increase in volumes of about 12% in sales compared to previous quarter I'm saying. But despite of that 12% increase in volumes, the revenue still dropped by 14%. So, if we calculate on a very precise basis, so the actual SDA revenue in terms of sales realization has dropped by nearly 23%.

This we very well knew in previous quarter that this is what is happening because the prices of key raw materials for all the 3 major SDAs, which we sell had dropped significantly and we were aware that now we are going to adjust the price in next quarter accordingly. Now this has led to a consumption of available inventory, but selling of SDAs at the new price. So, this is what has impacted a lot of pressure in terms of margins.

You can see this even in terms of our gross margins during this quarter. Possibly we still have an inventory of SDAs, which will have an impact of roughly about INR4.5 crores to INR5.5 crores in this Q2 as well. But that will end away all our old inventories and then we have newer raw materials coming in and selling at the new price. So, this is number one.

Number two is we are seeing a significant impact in terms of logistic cost that is coming in especially for the Europe and the U.S. sector. Again, the prices for shipments have skyrocketed. Europe is costing roughly about $5,000 per container and U.S.A. is roughly closing to close to about $6,500 to $7,500 per container. So now this is again coming into a proposition where they are eating away our margins in terms of few percentage points.

But the bigger concern for this logistics is non availability of vessels particularly for India. So, most of these vessels have been deployed from China to go to the Western countries particularly to U.S. because China is expecting some antidumping duty to be incurred on the goods being imported into U.S. and that is why to avoid this duty, they are trying to dump as much material as possible in the Western world.

So, this has taken away all the available resources and shipments being scheduled from India is becoming really a problem. So, this eventually is leading to unavailability of raw materials on time. In this particular quarter, we had nearly 14 reactors held up for production, which we could only run on and off again for 1 of the SDA products where the incoming raw materials kept on delaying and this is keeping your facilities occupied non-productively.

And because of this, we could also not deliver the product on time and this is to a tune of about INR11 crores of material, which will now be shipped through July and mid of August because materials are coming in late and for the U.S., we are not getting shipments for the next 3 weeks. So, first shipment available to us for booking is only in end of third week of July. So, this is nearly a 3 weeks gap when India can ship anything to U.S. on a hazardous chemical basis. So non-hazardous shipments availability is still little better; but for hazardous product, it is really a big challenge basis. So now you can ask me, Sudarshan ji, sorry to hold you. But this is the basic prime information which probably everyone will want to know what is happening and I wanted to come up with this upfront.

Sudarshan P.: Sure, sir. Regarding on the raw material side, I mean I understand that there is a fair amount of high-cost inventory that has impacted us because of the prices coming down sharply and also the availability of material not being there. Could you quantify if that issue was not there in this quarter, then should the margins be similar to the fourth quarter or how should we look at it, sir?

Chintan Shah: Ideal rates would happen and in fact slightly better because our production has gone up. So, if you see in terms of real productivity, the plant has produced more products. The only impact coming is from this consumption of high value inventory, which has impacted us. The way we sell the product to the customer, nothing has changed in terms of how we calculate the margins and how we offer to the customer. The arrangements with each big or large customer has not changed.

So ideally speaking, nothing has changed in terms of how we value our finished product. The only impact is coming in because of the sudden spike of sudden drop in raw material prices, which is impacting us. In this case since last few quarters, it is impacting us negatively. But I feel now the prices have really stabilized kind of, I would say, because I don't see there is any space to go below further. So, this is like a rock bottom prices, which we are seeing. In some of the cases, we have not seen such kind of prices in my 27 years of history. In my working in Tatva Chintan, we have never seen such kind of price drops.

So, I believe this is not kind of an unrealistically low price regime, which is continuing, but it's not too far when things should start to change over. If you take honest opinion in how the industry is perceiving as of today overall generally speaking. It may be different, very specific to some producer, it might be different. But generally speaking, if I talk of how the industry is being perceived today is everyone wants to be cautious. I'm talking in terms of all my major customers who I'm in contact with.

Everyone thinks it's a time to be quite cautious. So there have been spikes in demands periodically, but they have turned out to be short lived. So honestly, I would not say that things have really turned around very well for the industry already. But it's probably not too far when the industry looks stuck. So, there are indicators on and on coming up, which suggests that industry performance should change suddenly, but this is yet to happen. It has not happened so far.

Sudarshan P.: Sure, sir. And going by your commentary, it looks like about INR12 crores to INR14 crores would be the impact on your raw material because if I add it, you typically get to the gross margins for the last quarter. And opex INR5 crores will probably slip and from that, it should become a ceteris paribus on the business? Sir, another question from my side is one is we have seen a volume increase of 12% Q-on-Q and our utilization given that the new plant, we have added fair amount of capacity. Between the fourth quarter and first quarter now, how is the utilization looking and how do we see the utilization improving over the next 2 to 3 quarters?

Chintan Shah: I may not be very precise on this number; it is not right in front of me. But if I'm not wrong, previous quarter we were at about 67% occupancy vis a vis this quarter we reached about 77% occupancy more or less. I may be 1% or 2% here and there, but this is what is occupancy at the reactor. Now what will happen when our distillation plant goes online, we will free a number of reactor capacities, number of reactors availability for production because right now we are occupying these reactors for recoveries of the by-products or recovery of the solvent, which we will start to do at our distillation facility or the recovery facility. So, this will free up lot of space within our plant. So that will be a good part that we should see availability of more reactors happening from end of August.

Sudarshan P.: One final question before I join the queue is we were of the belief that FY '25 should be a substantially better year compact FY '24 given that there is a little bit slippage in the second quarter as well and the first quarter, the numbers are right in front of us. How do we see this right now? Because earlier we thought that the margins should substantially be higher, I mean 25% to 30% and they would be in a pretty good J-curve as far as sales is concerned.

Chintan Shah: I would come up with this number shortly. I don't have that exact forecast as of today with me with this changing scenario. But still based on my basic numbers, I would say that still making a range of 20% to 25% in terms of EBITDA is not a big challenge. It's definitely not a big challenge. See, the only challenge what I perceive is the way the industry is going, it is new products which are now being validated.

Lot of them have already been validated and getting into commercialization. So, it may happen that a couple of months here or there, this might happen considering the situation within the industry. But otherwise, I still continue to maintain very high optimism in terms of achieving 20% to 25% growth as well as maintaining 20% to 25% margins in terms of EBITDA. Both these are still definitely on the cards.

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

Nirali Gopani: So Chintan bhai, we heard you loud and clear in your comments and in the answer that you just gave. But since last many quarters, every result is disappointing and after that, your commentary has always been very upbeat and it gives us hope that things will start to improve. But we are yet to see that in the numbers and I guess ultimately that will only matter. So, do you feel that this time what you are guiding this 20%, 25% of revenue growth and 22%, 25% of EBITDA margin is actually achievable? Because there has been a lot of...

Chintan Shah: Nirali ji, I will not come up with any fictitious numbers always. It is all pure based on calculations and forecast from each customer. A very detailed forecast revealing each customer the volumes they are committing to us. It's just purely the market or the industry is not working very well that is causing this kind of beats. So, I can say I'm 100% sure of at least 20% growth and can go up to 30%. So, this is what is there on the cards.

Nirali Gopani: Okay. Because Q4, we were sure we will do something around 35% to 40% of revenue growth in FY '25. So, this number has always kept changing. Every quarter there is a different number that we work with and I completely understand that chemical industry has been across, but we do see improvement somewhere else happening and we're very hopeful that we'll also see some improvement in our numbers. So Q2 should be much better than...

Chintan Shah: Personally, I am very confident of that front. It's just basically seen the auto industry where the SDAs are being applied is still not doing very well. The Agro industry where we have focused in last 2, 3 years of development and a lot of new revenues coming from that sector, that is not performing really very well. Polymer industry where we had lot of new product launches in last 3 years, that has also not been performing really very well. So unfortunately, the segments where we cater to has not performed well globally.

It's not only for Tatva, but it is true for globally these sectors have not performed very well and that is the only reason. And just to be sure, I may not consider these short-term things to bother me at all. What we are doing in terms of how we look at where the growth should be within next few years and that doesn't dishearten me because we have done a fantastic job in developing lot of products.

Most of them are nearing, I would say, completion of development, lot of products are already with the customers for approval and some of them have already been up. So, with this pipeline, I see a continuous very healthy growth for the company over next 5 years. There is no doubt on that. We are just waiting for the right turnaround for the industry and things will start to run. That is for sure.

Nirali Gopani: So Chintan bhai, even we do not doubt either your confidence on any of your products and we have been invested for quite some time now. It is just that we expect to see some positivity in numbers, that's it so nothing else. And just 1 clarification that this EBITDA number guidance that you're giving, that is for full year, right? Even after this disappointment in Q1, you still expect to achieve 20% to 25% for the full year?

Chintan Shah: Yes, for the full year.

Moderator: The next question is from the line of Aryan Oswal from Finterest Capital.

Aryan Oswal: Sir, based on the current performance, what adjustments are being made to the company's short-term and long-term strategic plan?

Chintan Shah: Honestly speaking, no change. So, we are going ahead. We have already given our plans for structure designing so we want to continue with our capex plan. It's just the final soil testing reports are out. The final structure designing is going on. Based on that decision, we will derive an amount which we can invest. So, we want to be as aggressive as far as possible to have maximum capacities on this particular plant itself.

And as I said in my speech, we will have to open up the new site, the greenfield project site in next year, that is also for sure. So, we are not changing plans in terms of our capex. So, we are currently optimistic that things what we have developed, which is already on the roll, they are moving ahead very nicely. So, short term this is not in our hand. The industry demands are on and off wavering a lot so this is what is the only concern in short term. But if we see midterm or long term, I don't see any challenges or there's no need to readjust or rethink of the policy or the strategies that we have followed.

Aryan Oswal: Okay, sir. And sir, how much of the total revenue is contributed by our Top 5 clients?

Chintan Shah: I can get to this number offline. Ashok ji, can you please respond? I'm sorry, what's your good name, sir?

Aryan Oswal: Aryan Oswal.

Ashok Bothra: You can drop us an email, we will revert to you.

Aryan Oswal: Okay, sir. And sir, one last question. Has there any noticeable change in consumer demand or order volume in this quarter compared to the previous one?

Chintan Shah: No, no, the demand has improved. In terms of volumes, the demand has improved practically in all the fronts in all the segments. So that is not a problem.

Aryan Oswal: Okay. And sir, what is the current value of your order book? Can you please go through that?

Chintan Shah: That also I will let you know on email. Please drop an e-mail to finance@tatvachintan.com, you will get this reply.

Aryan Oswal: Sir, can you please tell me the email ID again?

Chintan Shah: Finance@tatvachintan.com.

Moderator: The next question is from the line of Chintan from Abans Investment Managers.

Chintan Patel Sir, I want to understand on the flame retardant, what is the market size and the products line up? So when can we see a meaningful contribution to the revenue?

Chintan Shah: A difficult question to answer. Market size is huge. It's running into 600,000 to 700,000 tons a year. It's a huge market potential. The segment which we are in so we are also making a similar product, which is having this kind of a large volume, but we are synthesizing this product in a high purity form and specifically targeting applications getting into specific type of polymers going for electronic application.

So here I would assume a market size of close to about 40,000 to 50,000 tons a year. But of course, our products can be sold to the other normal segment as well, there is no doubt on that. The only thing is currently because of poor demand, the pricing of BFRs is at a rock bottom level. One of the key raw materials for this BFR is bromine and practically the product is being sold at a rate as if you are selling bromine, which has been consumed in the product.

So, it is really unrealistic to currently produce and sell these products. So that is why we are withholding the production so far. The only thing we are continuing to do in this segment is to develop and create a portfolio of products. Right now, we have completed 3 products and fourth product is right now on the floor for R&D.

Chintan Patel: And what is our capacity for the flame retardant?

Chintan Shah: We don't have a dedicated plant for flame retardants. All our facilities except for SDAs, all of our other products have a multipurpose facility. So, if we are not making flame retardants; we can make phase transfer catalysts, we can make PASC segment products. It's a fungible multipurpose facility what we have. But if at all, the plant which we had designed originally was for going up to 5,000 tons of flame retardant.

Chintan Patel Okay. Understood. And who are our close competitors in flame retardants.

Chintan Shah: These are large companies like ICL, Albemarle; LANXESS. So, these are the 3 global giants and who are key competitors in this area.

Moderator: The next question is from the line of Nitin Gandhi from Inoquest Advisors Private Limited.

Nitin Gandhi Please share some thoughts electrolytes on how do you see shaping up in 3 years' time from current low level of INR1 crore?

Chintan Shah: Sorry, sir. Can you please start the question again?

Nitin Gandhi Sure. So I wish to know some more clarity for Electrolyzers Salt. How is the business plan? You said certain commitments are there coming from '25 early and this could shape up as a big opportunity for us. So where do we see maybe 3 years down the line our optimal revenue, which can -- potential, I'm not asking actual; but what is the max potential, which we can do with existing setup? And how do you see this to be scaled thereafter? Because the demand is huge and you need to set up some more capacity in a pilot, which is 1 level?

Chintan Shah: I will give you a brief of which type of electrolyte we have. So basically, right now we are talking of 3 different verticals within the electrolyte. One is the electrolyte salts which we produce goes into super capacitor batteries, which are also used in the hybrid car systems, right? So this is one category. For this particular category, we are already preliminary approved and now getting into larger scale of approvals with the customer by November of this year.

And this is specifically for 2 large automobile companies, which are going to use these hybrid batteries from our customer and we are going to supply these electrolyte salts for these particular hybrid batteries. So this is purely going into the automotive segment. So here we are visualizing slow commercialization to begin from early 2025 and real scale of commercialization eventually in 1 to 2 years so '26 and hitting the peak at 2027. This is what we expect.

There is another segment, which is energy storage devices where also we supply the electrolyte salts again right now. Now this is a segment where I talked about an automated battery plant being set up by my key customer. And currently they are manufacturing batteries manually so they can only make certain number of batteries at the time and now they are scaling it up and they have completed the setup of the automated line which is beginning production from early October.

And this is their first automated line and they have funding for 3 more. So totally 4 automated lines is what they will set up and this is like consuming huge volume of electrolytes for this particular segment. And the customer is also sitting on large order backups and they are not able to supply to the demand on time because of lack of production capacity, which now they are overcoming. And this will also have a strong push in terms of the business for us.

So, this is already beginning from Q3 is what we expect the volume to suddenly pick up in this particular segment. Now there is another segment which involves zinc batteries for energy storage systems and this is where we are coming up with a complete solution of providing a fully formulated electrolyte. For this, the key requirement is to have high purity zinc salts, which we have now successfully produced.

We have sent lab-scale samples for this, which got approved for the finally fully formulated electrolyte, and now we have to scale up this to a scale to pilot scale. So, this is what we intend to do in coming months in next couple of months where we want to scale up this technology from R&D scale to pilot scale. So, this is still going to take, let's say, about 1 year, 1.5 years to eventually go to our plant scale. Now this high purity zinc salts also involves electrolysis. So, this is how we purify for. So, it is the similar kind of technologies which we use to make the high purity SDAs, it's the similar kind of technologies we have deployed to produce high purity zinc sales.

And if not using this technology, it is very cumbersome to produce high purity zinc salts. And we don't have any producer within India offering this grade of zinc salts as of today. And we have come up with a solution where we will make this high purity zinc salts and we also make the organic electrolyte powders. So, these all things will be mixed up and make a full formulated electrolyte solution, which will be directly fed into the battery.

Right now what our business line is we are supplying electrolyte salts only and then we supply to someone who will formulate this electrolyte and then they will supply to the battery producer. Whereas now we are getting into a position where we have our own electrolyte which goes into the battery directly. So, these are the 3 parts. We see an exponential growth of this segment happening in next coming 3 years. It has to grow significantly large and I assume 3 years down the line, this should contribute anything between 20% to 25% in terms of our overall revenue at that point in time.

Nitin Gandhi Can we have some number of that? 20%, 25% revenue, so if you can say some volume number at current price?

Chintan Shah: Volumes will reach a couple of million tons of volume.

Nitin Gandhi Maybe so we can say 1.5 million to 2 million?

Chintan Shah: This is only the potential for the zinc battery electrolyte. It is such a massive potential. Of course, we cannot cater to that kind of a demand or we don't even envisage because we don't only intend to sell the zinc salts. We intend to sell the formulated so for that, we also need our organic electrolyte to be fed into it. So, this would lead to somewhere between 8,000 to 10,000 tons a year of volume for us in terms of electrolytes.

Moderator: The next question is from the line of Hussain Bharuchwala from Carnelian Capital.

Hussain Bharuchwala: So, I wanted to understand what is the capex that you are planning to do in FY '25 and what is the current capacity utilization currently across plants?

Chintan Shah: You asked about capex?

Hussain Bharuchwala: Correct. What is the capex that we are planning for FY '25 in terms of the amount?

Chintan Shah: Right now, what the capex is going on is to a tune of about INR35 crores to INR40 crores and right now we have given a new plant block for structure designing. So, there is some ambiguity in terms of the quality of soil at our plant. So, we have got the final test report for that soil and now the structural engineer is working on what is the size of plant or the height of plant; ground plus 1, ground plus 2, ground plus 3; what we can construct on this given soil testing. So that is what is currently going on. If everything falls in place, we are looking at an additional capex anywhere between INR50 crores to INR70 crores.

Hussain Bharuchwala: Okay. Got it. So apart from the INR70 crores that you said, which is currently going on, the additional INR70 crores will be there. So total INR140 crores if the soil gets approved.

Chintan Shah: No, no, no. Currently, what we are spending is INR35 crores to INR40 crores and then additional INR50 crores to INR70 crores.

Hussain Bharuchwala: Got it. And what is the current capacity utilization gross of plants?

Chintan Shah: As I told, our reactor occupancy is close to about 77% as of today and a part of this will get unblocked the moment, we start our distillation facility. So, when we start the distillation facility, then as of today if you consider that it is already in place, then we are occupying nearly 60% of the plant. I would not say 100%, but we expect across 85% utilization of the plant by Q3.

Hussain Bharuchwala: Got it. And last one thing. Sir, are electrolytes, I remember during the IPO time when I was hearing about electrolytes, basically you were telling based on the IPO times, you said electrolytes is a very big opportunity for you and that's the reason why you were highlighted as a separate segment for your company. And it was just 1% at the moment of time, it's still 1% as of today. And so, what is the reason that we are not able to drive?

And secondly, you just highlighted that apart from electrolyte salt, you are also building electrolytes going forward. So, is the technology for electrolytes being built in-house or have your sources from someone? One of your competitors have actually sourced this from a Japanese partner per se. So, what is your strategy and how are you building it? And because you see a large part of the growth coming from your electrolytes once they start getting commercialized and being used. So, can you give us some sense on that?

Chintan Shah: So, the competitor that you are conveying is actually not a competitor because they are venturing into IC electrolytes and battery electrolytes if I'm not wrong. The segment where we are into is a different kind of batteries, which leads to energy solar systems practically leading into zinc batteries and secondly is the super capacitor batteries. So now we are at a point where we see the actual commercialization happening for these batteries. So, we'll see these numbers gradually and very rapidly ramping up in next 2 years' time frame beginning from October of this year.

Hussain Bharuchwala: Got it. And sir, what was the reason since I think it was is 1% of the total revenue during the IPO time?

Chintan Shah: It is just the slow penetration in the market. It has just taken its own time. It's a new technology, which has come up, and it is just taking its own time to gradually pick up pace. But now it is at that influx point where we see the real expectation getting into pace.

Hussain Bharuchwala: Got it. And since you said about the electrolytes so have you already electrolytes are ready and you've supplied it, it has been tested and the clients have approved it. Is the product has gone to the client or is it at the lab level?

Chintan Shah: No, no. So that's what I said. The lab-scale sample was fully approved and now we are scaling it up to pilot scale. And the part of the question which remain unanswered is this is the in-house part of development. We have not taken technology from anybody.

Hussain Bharuchwala: Got it. So how big this opportunity size can be let I can say, supplying electrolytes.How do you see that where it can be a bigger play for the company going forward?

Chintan Shah: This is a very large volume business. What we perceive as of now is to be able to cater roughly about 8,000 to 10,000 tons of formulated electrolytes is what we can say. It will now involve inorganic chemistry, which is not our project. So, we are going to produce high purity zinc salts. So, this is something new for the company. So, this is using electrolysis technology to produce high purity zinc salts and then also involving high purity electrolyte salts organic, which we are already producing. So, then it becomes a combination which gets into a formulated electrolyte.

Hussain Bharuchwala: And the electrolyte for each battery is different so the type of electrolyte which is there.

Chintan Shah: We are currently working with 2 specific customers and the lab-scale samples for electrolyte has been approved by 1 customer. We are still trying to meet the requirements. So these are all typical technical requirements in terms of how many battery cycles, charging cycles, what is the battery life we can achieve using our electrolyte and things like that. So that is what is going on for the second customer as well. But we have electrolyte approved for 1 customer on lab-scale and now we are trying to pilot it.

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

Sanjesh Jain: A couple of questions. First on the SDA side, what kind of a volume growth are we expecting this year because you said there is a price decline of 15% to 25%? So, what kind of volume growth are we anticipating?

Chintan Shah: I hear your question. I don't have that answer upfront, but I can get that answer to you tomorrow. I can send you an email on it. There are 3 new significant customers, 3 new large customers that we added during Q1. So, 2 customers are buying, very regularly they have started buying. The third customer, which is the largest customer, we have already supplied commercially during the quarter and now we have been invited to discuss in terms of supply contract for next 2 years.

So, this will happen in October, which will give us a fair idea of what is the volume coming from that last customer. In terms of forecast, we are expecting the forecasted quantity-wise , going from roughly about 40% in terms of volume.

Sanjesh Jain: Roughly around 30%.. Got it.

Chintan Shah: These numbers will get very much clear from October. So, once I have this meeting in terms of having volume contracts for next 2 years from this large customer, then there will be a lot more clarity on this. Automotive is about 40% volume growth is what we expect in terms of SDAs.

Sanjesh Jain: And in the polymer segment, we said that we have done one product on the electrolysis process and we are testing another one, right? When are we expected to book revenue from the polymer segment?

Chintan Shah: Please repeat the question.

Sanjesh Jain: So, on polymer segment, when we do expect the submission scale to start in 1 of these 2 products or both of these products?

Chintan Shah: So, we are currently executing a plant trial order 1 metric ton. So, this is actually the electrolysis is currently being as of now when we are talking, it is being running on the plant right now. And as soon as this material we expect to dispatch this material by end of August and once this is approved, it's an immediate commercialization. So, by end of this 2024 is when we expect to start having commercialization of the product. And there are 2 more products, which are now piloted. We have sent the samples and we are waiting for the approval from that. So totally 4 products within the segment is what we are looking at.

Sanjesh Jain: And what will be the opportunity size for all these 3 products put together?

Chintan Shah: In terms of revenue, I would say we can cross INR200 crores. But honestly speaking, this is again a very large volume segment, very large, massive segment. But looking at our capacities in terms of electrolysis available at the plant and the number of electrolyzers which we can expand, I would say INR250 crores is a realistic number to it from this facility. But it will take 2 years to 3 years to reach that kind of a volume, but this is what we are looking at as in terms of product segment.

Sanjesh Jain: One last question on this capex. You said you have INR35 crores to INR40 crores of ongoing capex. What are we spending on this capex?

Chintan Shah: One is this ongoing distillation facility that is coming up and then we have bromine recovery plant that is coming up and some temp plants is what we are building up. Temp plant for raw material and finished goods storage.

Moderator: The next question is from the line of Krishan Parwani from JM Financial.

Krishan Parwani: Just a couple of clarifications. I think you mentioned that there has been a price drop of almost 15% to 25% Q-o-Q basis in your SDAs. But if I look at the price of this adamantyl trimethylammonium hydroxide, has come down from $12 in F '21 to $9 in F '24. So, there's only about a 25% drop over the last 3 years in USD terms or probably about 15% in INR terms. So, what are we missing here?

Chintan Shah: So which database you are comparing from which year to which year?

Krishan Parwani: So, let's say in FY '21 the pricing was around $12 and let's say in...

Chintan Shah: That was the pricing even in beginning of FY '23-'24, which has now come down to $9. It was $12, from which it has started to come down to $9.

Krishan Parwani: Okay. And you expect it to sustain here or you expect it to go up?

Chintan Shah: This is what we expect. No, no. So, from $9, it is going down to $7 point-something. So this is what is the effect that we will have in coming quarters. So, 2 points you will be able to see if you keep tracking. So, this is the rock bottom where it has hit. The raw material prices have come down from nearly $21 to about $9. And this is what is in the finished product pricing.

Krishan Parwani: Understood. And sir, on the freight rates, I think you highlighted that it has impacted our margins. Is that correct?

Chintan Shah: Again, the freight cost has again significantly started picking up. So, pricing has gone for Europe, it is now in excess of $5,000 per container, which has come down to nearly $1,600, $1,800. Now it is back to more than $5,000. U.S. freight had dropped down to below $2,000, which is now nearing $7,000 again. So, it definitely eats away our margin because $3,000 to $4,000 per container, we are normally shipping about let us say, 16 tons to 18 tons of product in a container. They're eating away $0.25, $0.30 per kg, which is significant.

Krishan Parwani: Understood. But you record this freight in other expenses, right? So other expenses have come down actually by INR4 crores on a quarterly basis. So, is there any other or what is the reason for this reduction in the other expense in the quarter despite the freight?

Chintan Shah: So, you are talking about June versus March? So, in the March quarter, there was a forex loss of around INR3 crores. If you exclude that, then it is at the same level in absolute terms.

Krishan Parwani: Okay. So even then there is no increase in the freight, right? I mean '23 to '23, it looks the same.

Chintan Shah: But there may be some increase on account of freight, but that has been compensated by other saving in other expense. Krishan ji, the freight is impacting, but the major impact has started from end of June. Nearing 15th of June when this phenomenon has started. Because when government announced that anti-dumping duty on Chinese product particularly for electric cars and EV batteries and that is when they started dumping all this material on U.S. So, all the shipments were moved from globally. It's only a one-way traffic going from China to U.S. All the ships are being deployed on that route, which is causing this havoc.

Krishan Parwani: Yes, noted. So basically, it has not impacted in this particular to a large extent, but next quarter the impact will be large. That is fair to say, correct?

Chintan Shah: Correct. Now if I understand currently talking to the logistics department, this impact should get over by beginning of September because that is when the duty application will already begin. So, the number of shipments again will come down to realistic numbers going from China to U.S.A. So that is when they are expecting that from September again the freight rate should start to normalize.

Krishan Parwani: Understood. That's fair. Just last clarification, if I may. So, I think you mentioned your capacity utilization or rather the occupancy, as you mentioned, was 77% during the quarter. So, let's say if you can reach 85%, 90% at peak utilization so the peak quarterly run rate that we could do could be about INR130 crores, INR140 crores till the next capacity come on stream. Is that correct?

Chintan Shah: Not absolutely correct. Again, it depends on the product mix. And this number looks like INR120 to 130 crores because the values have eroded so drastically.

Krishan Parwani: I mean let's say these prices remain at this level?

Chintan Shah: Prices remain at this level, we can reach up to INR650 crores, INR670 crores of revenue depending on the product mix. About INR150 crores, INR160 crores is what we can do.

Moderator: Thank you. This was the last question for today. I would now like to hand the conference over to Mr. Ashok Bothra, CFO of Tatva Chintan Pharma Chem Limited, for closing comments.

Ashok Bothra: Thank you. On behalf of the management of TATVA CHINTAN, thank you for joining us on our earnings call today. We hope we have been able to address majority of your queries. You may reach out to Ajesh Pillai or our investor relation partner – Ernst and Young for any further queries that you may have, and they would connect with you offline.

Thank you, Mr. Sanjesh Jain for hosting our call. Thank you all

Moderator: Thank you, sir. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.