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Q1FY23 result review and
earnings revision

Specialty Chemicals

Target price: Rs2,730

Earnings revision

(%)	FY23E	FY24E
Revenue	↑ 0.9	↓ 1.8
EBITDA	↓ 0.8	↓ 4.6
PAT	↓ 0.8	↓ 5.0

Target price revision

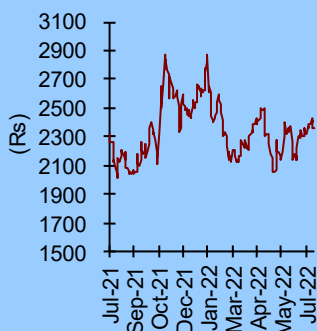
Rs2,730 from Rs2,875

Shareholding pattern

	Dec '21	Mar '22	Jun '22
Promoters	79.1	79.2	79.2
Institutional investors	10.8	11.2	14.3
MFs and others	7.5	7.5	10.3
Banks /FIs	0.0	0.0	0.0
Insurance Cos.	0.3	0.4	0.2
FIs	3.0	3.3	3.8
Others	10.1	9.6	6.5

Source: BSE

Price chart



Tatva Chintan Pharma Chem

BUY

Maintained

Non-SDA revenue zooms, SDA crashes

Rs2,364

Tatva Chintan's Q1FY23 revenue declined 17% YoY and EBITDA dropped 41% YoY, which seem very disappointing. But we believe many stories are concealed behind the numbers and note that the entire under-performance was due to the 89% crash in SDA revenue. However, non-SDA revenue (up 65% YoY, 37% QoQ) was the silver lining, which indeed is heartening. SDA revenue decline is transitory and should grow in parallel with CV demand growth in China and India, and re-inventorying by customers. Company is still guiding for flattish revenue in SDA for FY23 (worst case: 10% dip), and for non-SDA revenue to sustain a base of >Rs800mn for remainder of the year. This implies the strong non-SDA performance in FY23-TD to remain intact. Margin decline is purely due to lower overall revenues. Company's new project pipeline looks exciting with commercialisation of its first continuous flow plant when and flame retardant plant in FY23. The Dahej-2 plant is progressing well, and should commercialise in Dec'22 (this will potentially double the current capacity). We have trimmed our EPS estimates by 1-5% over FY23E-FY24E and accordingly cut the target price to Rs2,730 (from Rs2,875; 40x FY24E EPS, unchanged). **Maintain BUY.**

► **Non-SDA revenue shines; SDA collapsed.** Tatva Chintan's Q1FY23 revenue fell 17.3% YoY (10.3% QoQ even on the low base) to Rs884mn and came 12.9% below our estimates. SDA revenue crashed 89% YoY and 84% QoQ to Rs62mn on disruption in auto production due to chip shortage. Company said very high inventory at customers' end led to very low billing for Tatva Chintan. It expects revenue to bounce back from the next quarter itself, and H2FY23 to see major sales. It still believes SDA sales in FY23 may be same as in FY22 (Rs2.25bn), or conservatively 10% below the FY22 levels.

PTC revenue rose 78.6% YoY / 35.8% QoQ to Rs407mn led by addition of MNC customers where Tatva Chintan solved supply-chain issues. This was also helped by the additional capacity available due to lower SDA sales. Electronic chemicals revenue grew 6x YoY / 3.2x QoQ to Rs71mn. PASC revenue rose 27.5% YoY / 24.6% QoQ to Rs345mn. The inferior revenue mix (SDA contribution falling) led to gross profit margin dip of 470bps QoQ to 54.9%. Other expenses were down 9.5% QoQ to Rs333mn. EBITDA declined 41% YoY (31% QoQ) to Rs152mn. EBITDA margin contracted 17.2% (down 510bps). Net profit fell 58% YoY to Rs98mn largely due to higher tax rate of 28.5%.

► **SDA revenue dip transitory; new use case is evolving.** Company believes SDA revenue in worst case can dip by 10% from FY22 levels. Underlying demand remains strong, and the decline was only due to lower offtake. Chip supply is likely to ease from Oct-Nov'22 and the company expects SDA revenue to grow in tandem. Company is carrying one-quarter inventory, hence in the case of strong demand it should be able to satisfy customer requirements. SDA revenue should be strong in H2FY23. Further, Tatva Chintan's SDA has been approved by the sixth customer as well, and commercial scale piloting will be done in Q4FY23 with supply expected to start from FY24. Chinese buyer was severely impacted from lockdown and should normalise. Zeolite (made of SDA) is also being tested for recycling and the company has met success in this regard; this will open up a new use case for SDA.

Market Cap	Rs52.5bn/US\$658mn	Year to Mar	FY21	FY22	FY23E	FY24E
Bloomberg	TATVA IN	Revenue (Rs bn)	3.0	4.3	5.3	7.7
Shares Outstanding (mn)	22.2	EBITDA	0.7	1.1	1.3	2.0
52-week Range (Rs)	2878/1083	Rec. Net Income (Rs bn)	0.5	1.0	1.0	1.5
Free Float (%)	20.8	EPS (Rs)	26.0	43.2	43.3	68.3
FII (%)	3.8	P/E (x)	91.1	54.8	54.8	34.7
Daily Volume (US\$'000)	852	CEPS (Rs)	29.4	46.9	51.1	81.0
Absolute Return 3m (%)	(5.2)	EV/E (x)	73.8	48.4	41.4	26.1
Absolute Return 12m (%)	NA	Dividend Yield (%)	0.1	0.1	0.4	0.7
Sensex Return 3m (%)	(0.7)	RoCE (%)	21.9	22.6	15.2	21.5
Sensex Return 12m (%)	6.6	RoE (%)	36.8	29.6	18.4	24.6

Please refer to important disclosure at the end of this report

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- ▶ **Promising developments in non-SDA businesses: 1) PTC** – Company remains optimistic on PTC, which has seen traction from new customer additions, and availability of capacity due to lower SDA production. The Q1FY23 performance is expected to sustain. **2) Electronic chemicals** – two new customers are working with Tatva Chintan to develop energy storage solutions. Tatva Chintan has developed an electrolyte solution for non-lithium batteries including sodium and zinc. **3) PASC** – Company expects to commercialise its continuous flow based plant by Q4FY23. This is for one of the four products on which it is working along with the innovator MNC. Monoglyme will also have a pilot plant operational in FY23. **4) Flame retardant** – Company is in the process of starting a pilot plant with 50-60te per month capacity, and large capacity expansion can be expected in Q4FY23.
- ▶ **Other highlights. 1)** Company expects Dahej-2 plant to start operations as expected in Dec'22 despite three weeks' strike Gujarat. **2)** Tax rate was higher due to higher profit mix from Ankleshwar plant, which is in full tax bracket. Dahel-1 is an export-oriented unit and has lower tax rates. Plant utilisation was low due to lower SDA revenue. Further, Dahej-1 plant has completed its 100% tax holiday and the benefit has dropped to 50%. Company estimates FY23 tax rate at 18-20%.

Table 1: Tatva Chintan (consolidated) financials

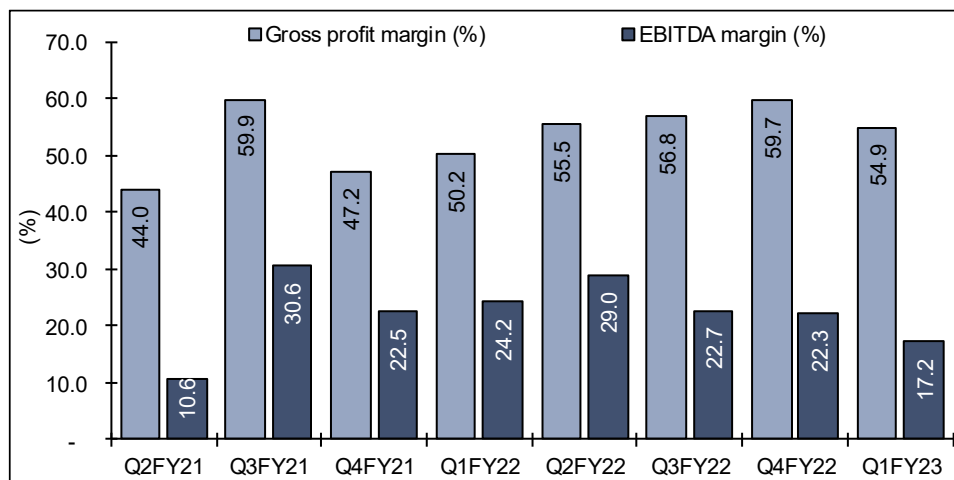
Rs mn	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	QoQ (%)	YoY (%)
Revenue	1,068	1,236	1,047	985	884	(10.3)	(17.3)
COGS	532	550	452	397	399	0.3	(25.1)
Gross profit	536	686	595	588	486	(17.4)	(9.5)
<i>GPM (%)</i>	50.2	55.5	56.8	59.7	54.9		
Employee cost	71	75	82	82	86	4.0	20.4
<i>% of revenue</i>	6.7	6.0	7.9	8.4	9.7		
Other expenses	207	253	275	286	248	(13.4)	19.8
<i>% of revenue</i>	19.3	20.4	26.2	29.0	28.0		
Total expenses	278	327	357	368	333	(9.5)	19.9
EBITDA	258	359	238	220	152	(30.7)	(41.1)
<i>EBITDA (%)</i>	24.2	29.0	22.7	22.3	17.2		
Depreciation	19	21	21	21	23	8.6	22.9
EBIT	239	338	217	198	129	(34.9)	(46.2)
Other income	30	28	47	4	18	416.7	(38.4)
Finance cost	26	12	10	12	10		
PBT	243	354	255	190	137	(27.8)	(43.6)
Tax	11	30	27	15	39	165.7	249.6
<i>ETR (%)</i>	4.6	8.5	10.4	7.7	28.5		
Exceptional item							
Net profit	231	324	228	175	98	(44.0)	(57.7)
<i>Net profit (%)</i>	21.7	26.2	21.8	17.8	11.1		
EPS (Rs)	10.4	14.6	10.3	7.9	4.4	(44.0)	(57.7)

Source: Company data, I-Sec research

Table 2: Tatva Chintan segmental revenue breakup

Rs mn	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	QoQ (%)	YoY (%)
Segment revenue							
PTC	228	210	247	300	407	35.8	78.6
SDA	570	766	533	385	62	(83.9)	(89.1)
Electronic Chemical	12	0	22	22	71	219.1	503.5
PASC	270	260	234	277	345	24.6	27.5
Total	1,068	1,236	1,047	985	884	(10.3)	(17.3)
Mix (%)							
PTC	21.3	17.0	23.6	30.4	46.0		
SDA	53.4	62.0	50.9	39.1	7.0		
Electronic Chemical	53.4	62.0	50.9	39.1	7.0		
PASC	1.1	0.0	2.1	2.2	8.0		

Source: Company data, I-Sec research

Chart 1: Gross profit and EBITDA margins

Source: Company data, I-Sec research

Table 3: Earnings revision

Rs mn	Revised		Earlier		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	5,270	7,696	5,222	7,837	0.9	(1.8)
Gross profit	2,849	4,163	2,859	4,261	(0.3)	(2.3)
GPM (%)	54.1	54.1	54.7	54.4		
EBITDA	1,253	2,003	1,263	2,101	(0.8)	(4.6)
EBITDA (%)	23.8	26.0	24.2	26.8		
PAT	959	1,515	967	1,595	(0.8)	(5.0)
EPS (Rs)	43.3	68.3	43.6	71.9	(0.8)	(5.0)

Source: Company data, I-Sec research

Financial summary

Table 4: Profit & Loss statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Operating Income (Sales)	3,004	4,336	5,270	7,696
Gross profit	1,510	2,405	2,849	4,163
<i>Gross profit margin (%)</i>	<i>50.3</i>	<i>55.5</i>	<i>54.1</i>	<i>54.1</i>
Operating Expenses	853	1,330	1,596	2,160
EBITDA	657	1,075	1,253	2,003
<i>% margins</i>	<i>21.9</i>	<i>24.8</i>	<i>23.8</i>	<i>26.0</i>
Depreciation & Amortisation	67	82	174	281
Net Interest	42	60	45	30
Other Income	59	109	136	156
Recurring PBT	607	1,041	1,170	1,848
Add: Extraordinaries	-	-	-	-
Less: Taxes	84	82	211	333
- Current tax				
- Deferred tax				
Share from JV/associate				
Net Income (Reported)	523	959	959	1,515
Recurring Net Income	523	959	959	1,515

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Assets				
Total Current Assets	1,845	4,249	4,067	4,734
<i>of which cash & cash eqv.</i>	<i>53</i>	<i>1,279</i>	<i>1,244</i>	<i>591</i>
Total Current Liabilities & Provisions	565	822	999	1,459
Net Current Assets	1,280	3,427	3,068	3,276
Investments	-	-	-	-
<i>of which</i>				
<i>Strategic/Group</i>	-	-	-	-
<i>Other Marketable</i>	-	-	-	-
Net Fixed Assets	1,303	2,123	3,049	3,778
Goodwill				
Total Assets	2,583	5,550	6,117	7,053
Liabilities				
Borrowings	902	702	502	302
Deferred tax liability	21	21	21	21
Other financial liabilities	-	-	-	-
Equity Share Capital	201	222	222	222
<i>Face Value per share (Rs)</i>	<i>10.0</i>	<i>10.0</i>	<i>10.0</i>	<i>10.0</i>
Reserves & Surplus	1,459	4,605	5,372	6,509
Net Worth	1,660	4,827	5,594	6,730
Total Liabilities	2,583	5,550	6,117	7,053

Source: Company data, I-Sec research

Table 6: Quarterly trend

(Rs mn, year ending March 31)

	Sep-21	Dec-21	Mar-22	Jun-22
Net sales	1,236	1,047	985	884
<i>% growth (YoY)</i>	<i>105.9</i>	<i>30.6</i>	<i>(9.3)</i>	<i>(17.3)</i>
EBITDA	359	238	220	152
<i>Margin (%)</i>	<i>29.0</i>	<i>22.7</i>	<i>22.3</i>	<i>17.2</i>
Other income	28	47	4	18
Add: Extra ordinaries	-	-	-	-
Net profit	324	228	175	98

Source: Company data

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Operating Cash flow	621	992	1,042	1,671
Working Capital Changes	(378)	(921)	324	(861)
Capital Commitments	(210)	(902)	(1,100)	(1,010)
Free Cash Flow	33	(831)	267	(200)
Cash flow from				
Investing Activities	(0)	109	136	156
Issue of Share Capital	-	2,253	-	-
Inc (Dec) in Borrowings	(4)	(200)	(200)	(200)
Dividend paid & Others	(84)	(105)	(237)	(409)
Chg. in Cash & Bank				
balance	(55)	1,226	(35)	(653)

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY21	FY22	FY23E	FY24E
Per Share Data (in Rs.)				
Recurring EPS	26.0	43.2	43.3	68.3
Reported EPS	26.0	43.2	43.3	68.3
Recurring Cash EPS	29.4	46.9	51.1	81.0
Dividend per share (DPS)	2.1	2.0	8.7	17.1
Book Value per share (BV)	82.6	217.7	252.3	303.6
Growth Ratios (%)				
Operating Income	14.1	44.4	21.5	46.0
EBITDA	19.6	63.6	16.6	59.9
Recurring Net Income	38.3	83.4	0.0	58.0
Diluted Recurring EPS	38.3	66.2	0.0	58.0
Diluted Recurring CEPS	38.5	59.8	8.9	58.6
Valuation Ratios (x)				
P/E	91.1	54.8	54.8	34.7
P/CEPS	80.7	50.5	46.4	29.3
P/BV	28.7	10.9	9.4	7.8
EV / EBITDA	73.8	48.4	41.4	26.1
EV / Operating Income	16.1	12.0	9.8	6.8
EV / Operating FCF	1,463.3	(72.0)	128.8	(1,184.9)
Operating Ratio				
Other Income / PBT (%)	9.8	10.4	11.6	8.4
Effective Tax Rate (%)	13.9	7.9	18.0	18.0
NWC / Total Assets (%)	47.5	38.7	29.8	38.1
Inventory Turnover (days)	87.5	145.0	90.0	90.5
Receivables (days)	110.3	85.0	85.5	86.0
Payables (days)	57.7	58.2	58.2	58.2
Net Debt/EBITDA Ratio (x)	1.3	(0.5)	(0.6)	(0.1)
Capex % of sales	7.0	20.8	20.9	13.1
Return/Profitability Ratio (%)				
Recurring Net Income Margins	17.4	22.1	18.2	19.7
RoCE -post tax	21.9	22.6	15.2	21.5
RoIC	22.6	27.1	19.4	25.0
RoNW	36.8	29.6	18.4	24.6
Dividend Yield	0.1	0.1	0.4	0.7
Gross Margins	50.3	55.5	54.1	54.1
EBITDA Margins	21.9	24.8	23.8	26.0

Source: Company data, I-Sec research

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