Date: 29 October 2021 Ref No:-TCPCL/SEC/2021-22/00037

To,

The General Manager, **Corporate relationship department,** **BSE Limited** Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai-400 001 Scrip Code: 543321 Through: BSE Corporate Compliance & Listing Centre	**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 Through: NEAPS

Dear Sir/Madam,

Sub: Transcript of Earnings call

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 25 October 2021 post announcement of financial results of the Company for the quarter and half year ended 30 September 2021. The Transcript has been uploaded on the Company's website www.tatvachintan.com.

This is for your information and records.

Yours faithfully,
For Tatva Chintan Pharma Chem Limited

TATVA CHINTAN PHARMA CHEM LIMITED GUJARAT

Apurva Dubey
Company Secretary and Compliance Officer
Membership No: A-41130

Tatva Chintan Pharma Chem Limited
(BSE: 543321, NSE: TATVA)

Transcript of earnings conference call
Q2 FY22

25 October 2021

MANAGEMENT: **MR. CHINTAN SHAH – MD, TATVA CHINTAN PHARMA CHEM LIMITED**
MR. DINESH SODANI – GM ACCOUNTS AND FINANCE, TATVA CHINTAN PHARMA CHEM LIMITED

MODERATORS: **MR. RANJIT CHIRUMALLA – B&K SECURITIES**

Moderator: Ladies and Gentlemen, Good day and welcome to the Q2 FY22 Earnings Conference call of Tatva Chintan Pharma Chem Limited hosted by Batlivala & Karani Securities India Private Limited. 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 assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ranjit Chirumalla from B&K Securities. Thank you and over to you, Sir.

Ranjit Chirumalla: Thank you Steven. Good evening everyone. We would like to thank the management of Tatva Chintan Pharma Chem Limited for giving us this opportunity to host the call. B&K Securities is pleased to invite everyone on the conference call of Tatva Chintan Pharma Chem Limited to discuss the Q2 FY22 Financial Performance. I would like to invite Mr. Chintan Shah to kind of a give us an opening remark post that we will take the Q&A session. Thank you and over to you, Sir.

Dinesh Sodani: Thank you Ranjit ji. This is Dinesh. Good afternoon everyone. We are pleased to welcome all of you, to our earning call for Q2 FY22. Please note that the copy of our disclosure is available on the investor section of our website as well as on the stock exchanges. Please do note that anything said on this call which reflect our outlook towards the future or which could be construed as a forward-looking statement must be reviewed in conjunction with the risks that the company faces.

With that, I would like to hand over the floor to our MD – Mr. Chintan Shah for his opening statement.

Chintan Shah: Thank you Dinesh ji. Good afternoon everyone. This is Chintan Shah. We heartily welcome you all to the earnings call of Tatva Chintan Pharma Chem Limited. I take this opportunity to wish each one of you a very Happy Diwali and a prosperous New Year in advance. Let us hope we all have a wonderful, successful and most importantly a very healthy year ahead. I shall highlight Tatva Chintan performance during the second quarter of current financial year.

I am pleased to inform you that we have a historically record-breaking quarter in terms of revenue as well as profits. During Q2FY22 we recorded more than 100% growth year-on-year, also in first half of current year we have exceeded the net profit of the whole of the last financial year. Most of the growth is attributable to a strong growth in sales of structured directing agent segment which is coincidently also enjoying better margins compared to the other product baskets. This quarter the SDA contributed 62% of the top line which resulted in better margins as well.

With the recent developments of having stringent emission control and also increasing focus on continuous flow chemistry globally, there is a continuously increasing demand for structured directing agents. Our consistent performance in terms of high purity and supply sustainability, has helped to build confidence among the customers and this is helping us to gradually increase our presence in the global market. During Q2 FY22 phase transfer catalysts contributed 17% to the top line, pharma and agro intermediates and other specialty chemical segment contributed 21%. These products are used in various industry applications including pharmaceutical, agro chemicals, paints and coatings, dyes and pigments, personal care, flavors and fragrance industry.

During Q2 FY22 the revenues from electrolyte salts for super capacitor is low. We have good ongoing orders on hand and deliveries are being made during the current quarter. So, revenue from this segment will be reflected in the coming quarter. As the erratic supply of semiconductor chips is having an impact on automobile productions globally and as major part of our SDA application is in auto emission control, we may see some impact on the demands of SDA over next two to three months.

Going forward the demand from SDA segment should see strong growth again. On longer term basis, with the global focus on Clean Environment and Green Chemistries, the demand for SDAs should continue to see good growth. Since most of our customers run their productions on campaign basis, you may at times see an oscillating demand of SDAs. Therefore, I shall again request you to evaluate us on yearly basis rather than on quarter-on-quarter basis. With balanced demand of all the four product verticals we believe sustainable EBITDA margins on a yearly basis should be around 24% to 27%.

With ongoing power crisis and other issues related to China we have been receiving more inquiries and potential newer product opportunities. With our strong focus on developing new products by deploying Green and Sustainable chemistry, i am confident that we shall create larger opportunities for us in the various segments including pharmaceutical and agro chemicals among others. We are aiming to identify and implement cutting edge technologies for process and product development, where we are deploying electrolysis and continuous flow chemistry with the goal of increasing productivity, quality and also cost efficiency as well as adding newer products portfolio with the aim to promote green chemistry.

We are in the process of capacity expansion by setting up additional capacities at our Dahej SEZ plant and are also expanding our R&D capabilities at Vadodara from the IPO proceeds. The CAPEX plans are already in action and both projects are on schedule. This concludes my planned remarks and now I would like to hand over the call to Mr. Dinesh Sodani to take us through the financials before we open the floor for Q&A.

Dinesh Sodani: Thank you sir. Good afternoon everyone. I would like to briefly touch upon the key performance highlights for the quarter and half year ended September 2021 and then we will open the floor for question and answer.

On the revenue side,

- Q2 FY22 revenue from operations are at Rs.1,236 million vs Rs.600 million in Q2 FY21, a growth of 106% on year on year basis and a growth of 16% on quarter on quarter basis.
- SDA's contributed 62%, PTC contributed around 17% and PASC contributed around 21% and the rest was electrolyte salt and the other operating income.

Looking at the EBITDA,

- Q2 FY22 EBITDA (including other income) at Rs.387 million vs Rs.83 million in Q2 FY21 growth of around 365% on year on year basis and growth of 40% on quarter on quarter basis.
- Q2 FY22 EBITDA margin at 31% vs 14% in Q2 FY21 and 21% in Q1 FY22. The higher margin was the result of favorable product mix during the quarter.

- Coming to the profit after tax:Q2 FY22 PAT at Rs.324 million vs Rs.36 million in Q2 FY21, a growth of 811% on year on year basis and 40% on quarter on quarter basis.
- Q2 FY22 PAT margin at 26% vs 6% in Q2 FY21 and 21% in Q1 FY22. One of the main reason of higher PAT margin is the lower effective tax rate as the Dahej plant enjoys the benefit of the zero tax on the exports through the facility. This resulted in the earning per share being at Rs.15.02 per share during Q2 FY22 vs 1.77 in Q2 FY21.

Key highlights of H1FY22:

- Revenue from operation for the half year was Rs. 2,304 million higher by 107%,
- EBITDA for the half year was Rs.663 million higher by 242%
- Net profit for the half year was 556 million higher by 441%.
- EBITDA margin for the half year was at 29% and the PAT margin at 24%.

Out of our IPO net proceeds of Rs. 2,072.81 million, Rs.396.85 million has been utilized as on 30th September 2021. During the quarter under review, our exports constituted around 81% of our total revenue compared to 71% in financial year 2021. Our balance sheet remains strong with the cash and cash equivalent for the first half at Rs.1,794 million.

That concludes the update on financials and we will now open the discussions for question-and-answer session.

Moderator: Thank you very much. We will now begin the question-and-answer session. Any one wishes to ask question, may press '*' and then '1' on your touchtone phone. If you wish to remove yourself from the question que, you may press '*' and '2'. Participants are requested to use headsets while asking questions. The first question is from the line of Pushpendra Chand, an Individual Investor. Please go ahead.

Pushpendra Chand: Congratulation the entire team, for great set of results. So my question would be, since proportion of SDA is now increased to near 62%, what will be the normalized proportion of the SDA or the other components as well in a usual business condition?

Chintan Shah: Now just to explain you in brief, first we have to make phase transfer catalyst and then it is a forward integration of other processes to convert the phase transfer catalyst to an SDA. Due to a very strong demand growth in SDAs and with a fixed capacity at the plant, so we did comprise on sales of phase transfer catalyst and gave priority to the sale of SDAs. So, this is one of the key reasons why we are seeing little lower numbers on PTC sales, but in an ideal situation I would see the SDA's number to be in the range of above 50% to 55% in terms of sales.

Pushpendra Chand: And in your last call, I attended that and you said that the profit margin in SDA is higher, so can you expect that since SDA proportion comes down in subsequent quarter, will there be any pressure on the profitability margins?

Chintan Shah: Not really, that is the reason why I mentioned in my opening remarks, because we believe a sustainable product mix is essential for your business model to remain sustainable. So, because of that we are forecasting about 50% to 55% sale in terms of SDA and I would say a fair number on EBITDA would be about 24% to 27% which is sustainable. So, this quarter with a 31% plus EBITDA is something very exceptional.

Pushpendra Chand: And if I can just ask some more questions what are the near-term growth plans for the organization in the coming year in FY22 and FY23 onwards?

Chintan Shah: So, we are doing three major products with a large revenue potential, of course, these are all strong entry barriers areas where we are, so we may not see very immediate commercialization, but we are developing three key products using continuous flow chemistries and these are now almost through the R&D processes and now we are going for piloting of these products. So, the key areas where we are focusing with this continuous flow chemistry is into agro and pharmaceutical intermediates. This is our future, still we see few years of very strong growth with SDAs and then this should be coupled with a growth coming from the pharma and agro intermediates area.

Pushpendra Chand: Thank you and congratulation again to entire team

Moderator: Thank you. The next question is from the line of Sudarshan Padmanabhan from JM Financial. Please go ahead.

Sudarshan Padmanabhan: Sir, if you can give some color with respect to the mix of SDA the pharma and agro catalyst as well as PTC for the previous quarter and the previous year the same time?

Chintan Shah: So, basically PTC sales in previous quarter was about Rs.22 crore which is at Rs.20 crore in Q2 FY22, the SDA sales were at about Rs.56 crores and in Q2 FY22is at Rs.76 crores and the pharma and agro intermediate was at about Rs.27 crores which is at about Rs.26 crores in Q2 FY22. These numbers are on quarter-on-quarter basis.

Sudarshan Padmanabhan: And the previous year sir?

Chintan Shah: During FY21, revenue from PTC was at Rs.81 crores ,so about 27% revenue from PTC, 40% from SDA, 1% from electrolyte salts and about 31% from the pharma and agro intermediate which is now looking like 17% from PTC about 62% from SDA almost less than 1% from electrolyte salts and 21% from the pharma and agro intermediates.

Sudarsan Padmanabhan: From what I understand by the commentary you pointed out that chip side ,we might basically see a little slowdown in the SDA more on the PTC side which would be the right way probably in the second half and that is where I think 24% to 27% EBIDTA margin of the company?

Chintan Shah: So, we would definitely see some reductions in terms of SDA sales, but not a very significant drop, but of course because the way chips availability is erratic. So, most of the customers are guiding to go little slow on this segment. So, of course we will see some reduction in terms of sales over the next quarter for sure. I am not sure of the fourth quarter, but this may continue till the fourth quarter, but going forward the demand looks quite strong.

Sudarshan Padmanabhan: Sir, I mean this incremental demand that we are seeing in the SDA almost like Rs.20 crore, why not China is enforcing a fair amount of admarance given to exports, is it largely on account of sales to directly to China or entirety to China?

Chintan Shah: No, a part of the sales goes directly into China, see unfortunately we do not have any major zeolite producers in our country. So, predominantly what we produce is being exported and then part of it is definitely getting re-imported as a finished product back into India. So, a part of this application goes into China and rest part comes back to India. So, these are two current market areas where the final product is being sold what we are producing.

Sudarshan Padmanabhan: Sir with respect to the new capacity coming in, is that on schedule given that we have pandemic and there has been delays in some of our capex and secondly what kind of working capital we have historically been having?

Chintan Shah: Sir, can you please repeat this question again your voice is cracking a lot.

Sudarshan Padmanabhan: With respect to our CAPEX coming on stream, is that as per the guided timelines and second is with the new CAPEX coming in and that gives us an additional legs to growth specifically on the SDA side, should the working capital remain similar in terms of phase or would there be a change in the working capital and also if you can give some color on the tax rate guidance?

Chintan Shah: So, yes the CAPEX plan is on schedule so far so if we do not have anything like COVID or something unusual, then we are pretty confident that we will complete the CAPEX as per the schedule. Secondly, with the new CAPEX going online from the end of next year, the need for new working capital, we are generating decent cash flows, which should take care of the additional working capital requirement. So, we should not see an increase in terms of debt from the previous year levels and thirdly this is our last year in terms of 100% tax waiver from the Dahej facility. So, from next financial year we will be charged at 50% of the applicable taxes.

Moderator: Thank you. The next question is from the line of Manish Poddar from Nippon India. Please go ahead.

Manish Poddar: So, I am just trying to understand what is the growth rate for SDA let us say any number either globally or for the industry?

Chintan Shah: We are seeing a growth of almost 25% and beyond that is happening with the demands of SDAs. So, now going forward also with the whole geography getting involved into the BS-VI equivalent of norms and going forward we should see a BS-VII equivalent of norms setting in. So, this growth rate is quite significantly strong.

Manish Poddar: So, what explains let us say the conversion of EBITDA to cash flow has not really happened we have not been getting that much creditor days as an extension, so can you probably explain that, is the demand environment is so buoyant where are we missing let us say in the convergent to cash flow?

Chintan Shah: So, basically we are paying on a little shorter terms in terms of credit and trying to avail better prices from the suppliers. If you see our overall creditors has gone down drastically during this quarter despite of having very strong sales and stronger purchases, but despite of that we are negotiating in terms of pricing because we have better liquidity so why not take some advantage in terms of price increase.

Manish Poddar: Just one last what is the blended utilization which we have now at the company level?

Dinesh Sodani: Working capital would be roughly around Rs.50 crore.

Manish Poddar: No sorry, I am talking about capacity utilization?

Chintan Shah: Technically speaking on books it should be as about 70%, but in reality when you see the recoveries and all included then I would say capacity utilization in previous quarter was close to 90%.

Manish Poddar: And this CAPEX project that supposed to come by Q4 of this year?

Chintan Shah: November 2022 of the next year, the capex began after the IPO .

Manish Poddar: So, there is a possibility that there might be a mismatch between demand and supply from our side?

Chintan Shah: That is strongly possible yes.

Manish Poddar: So, just one last feedback if you could probably share segment wise performance this broad four segments or internally how you look at, let us say on a quarterly basis that will be really helpful to understand the number is much better so that is the only thing?

Chintan Shah: So, what exactly you are looking for sir?

Manish Poddar: No, I am just saying let us say the four broad segments which you divide the business internally if you could probably put it in a press release every quarter that would be helpful for us to understand the numbers much better?

Chintan Shah: Fine, noted. Thank you

Moderator: Thank you. The next question is from the line of Raj Shekar an Individual Investor. Please go ahead.

Raj Shekar: Good afternoon, My question is whatever I gathered I think you export about 80% of your production abroad, how was your freight rates, how are you managing the freight rate, is it inbuilt or you collect it from the customers? Thank you.

Chintan Shah: Freight is definitely a big challenge since last four to five months, fortunately we have been successful in pushing on those freight increases to the customers. Though it has been a challenge no doubt, but more or less we have been successful in passing on the freight increase to the customer. Again, if you see the recent challenges in terms of raw material, because of whatever is happening in China. So, lot of raw materials are getting into kind of short supply, prices are moving left, right and center, but now it is a market knowledge everyone knows that this is what is reality, so no one is trying to earn extra margins by pushing the price, just trying to recover the addition of cost. So, hopefully and very truly the market has gone through to absorb of this kind of price increases, so that is a good part of it.

Raj Shekar: My second question is you have told that your capacity utilization is almost 90% that means your turnover should remain the same up till your next capacity, capacity comes up we cannot expect an increase in turnover over every quarter?

Chintan Shah: So, up to October of next year more or less in this range is what we see because we cannot produce more than what we are doing currently. So, there would be a change in sort of we can optimize that, but not to a very large extent. So, we would opt to sell higher margins products or higher value products, but this would not be a significant increase for sure. Thank you very much sir

Moderator: Thank you. The next question is from the line of Dhruv from HDFC Asset Management. Please go ahead.

Dhruv: Sir, the first question is on the tax rate, let us just understand it better so Dahej has a tax exemption and from next year onwards you said that the tax rate will be 50% of the normal tax rate?

Chintan Shah: Yes true, and Ankleshwar facility already has normal tax rate.

Dhruv: So, 50% of the normal tax rate you mean the normal 25% tax rate so 50% of that is what you will pay?

Chintan Shah: Absolutely.

Dhruv: And sir for long is this 50% rate applicable?

Chintan Shah: For next five financial years and beyond that another five financial year so there are certain conditions to meet in terms of CAPEX infusions and if we meet that criteria then we will have an extension of another five years for 50% tax benefits. So, in all the potential to have a 10-year discounted taxes.

Dhruv: Sir the expansion that we are doing is also coming in range?

Chintan Shah: That's true.

Dhruv: That benefit will continue for the increment recoveries also?

Chintan Shah: Right.

Dhruv: So, on a blended basis our tax rate should overall remain here Ankleshwar is full tax rate, Dahej is lower tax rate, on a blended basis it should be sub 20%?

Chintan Shah: Right sir, The growth is coming only from the Dahej plant because Ankleshwar facility is already saturated since 2016. So, there if you see the revenue mix between the two plants technically Ankleshwar contribute anywhere between Rs.100 to Rs.125 crore a year and all the incremental future sale will come only from the Dahej plant.

Dhruv: I was just wondering you even have deferred tax rate because your tax rate I understand cash backs would be lower, but deferred tax rate is also you do not have to charge. So, your effective tax rate what is seen on P&L for first half is about 10% so I am just wondering there is even deferred tax is it I mean as an accounting entry?

Dinesh Sodani: Yes it is there, because earlier we have a deferred tax liability.

Dhruv: And sir just the second question was we have seen this power and fuel cost increasing significantly yours is a electrolysis process I believe electricity will be a decent portion so how does it impact you and if there is any significant impact for us?

Chintan Shah: I would not say it is going to be a significant impact because on an average the electricity cost would for an SDA would be in the range of about two units of production and so let us say the unit cost today in Dahej is at about Rs. 4.3 a unit and even goes up by 100% and still also the impact would be about Rs.4 a unit and Rs.8 a kilo an additional impact on power cost should not be a very significant number. When you consider an average revenue of about $10 to $12 a kilo so an increase of Rs.7, Rs.8 a kilo even if 100% power price are increased it is not really significant.

Dhruv: So, on a blended basis, on an overall basis what would be power cost for us power and fuel cost overall all-inclusive as percentage of sales?

Dinesh Sodani: 4% to 5%.

Dhruv: ok got it, sure sir that's all. Thank you

Moderator: Thank you. The next question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: Good afternoon Chintanbhai and thanks for taking question. Couple of questions, first on the raw material side if we see across the specialty chemical company there is a general sort of raw material pressure and there is delay in the prices getting passed on, are we seeing any raw material pressure probably in the coming quarter for any of our raw material, way the pass through has a lag effect?

Chintan Shah: That was definitely a challenge, see basically if you observe we are carrying significantly higher inventories in terms of imported raw material. So, this is actually comes to our benefit because then we had that leverage of certain days where we could negotiate the new prize with a customer and till that point in time we were able to consume the inventory which was at a lower price. So, now the price increases have been negotiated and passed on, so I would say we were lucky enough to survive during this kind of volatile price situations in terms of raw material. So, that buffer inventory has come to our rescue I would say that.

Sanjesh Jain: And next quarter also you do not see on a overall blended basis except that we will have an inferior mix probably in next quarter with SDA having lower sales and PTC having a higher sales in general on the underlying basis we do not expect any gross profit margin pressure?

Chintan Shah: Right.

Sanjesh Jain: Got it, second thing on the trade payable side we said that we have cautiously decrease the days from 48 to 24 to avail the better pricing, is that one of the factor through which we are managing or increasing the margins?

Chintan Shah: So, that impact, based on these grounds we are renegotiating the pricing with the suppliers and with the suppliers and we may see some marginal improvements in terms of pricing on some key raw material to happen from coming quarter and because of certain suppliers are also under pressure because of increased prices of their products. So, in certain cases the increase in the price is nearly 100% so they are also struggling in terms of managing their working capital requirement. So, this is a good chance for us to negotiate the prices and whatever benefits we can avail by paying at a shorter credit period is always helpful.

Sanjesh Jain: So, is this a working capital days steady state from here onwards or we may saw further increase in the working capital days?

Chintan Shah: Actually if you see our working capital has also gone down significantly that is purely because of the profits that have been infused back into the system. So, that has helped us to actually reduce our working capital requirement as well simultaneously.

Sanjesh Jain: No, I am talking about the working capital days so we have 109 days of working capital in the first half this going forward should remain steady?

Chintan Shah: I should think so that is the fair estimate Yes.

Sanjesh Jain: On the new opportunities on greener and cleaner chemistry we spoke about which is coming our way with China crisis and our ability to innovate, can you just highlight some of the opportunities or the areas or the sector where we are seeing increased traction and are we significantly moving into producing by a continuous flow chemistry given that we have an edge on understanding the zeolite?

Chintan Shah: That is true. So, basically if I put it correctly we will see this strong opportunities coming from the pharma intermediate and the agro intermediate side and primarily the larger concern for the multinational customers is to identify an Indian supplier who can produce it or develop it in a environmentally sustainable manner so that is where our efforts in terms of doing things on continuous flow or the electrolysis basis is really helping us out and putting us forward in the race to getting this kind of products under development. So, today we have about four large opportunities in pharma and agro intermediate side, where we are working on continuous flow chemistry and this can open up really big doors for opportunities in the near future I would say.

Sanjesh Jain: And in terms of new Greenfield CAPEX, we are doing what is the kind of reactor capacity and the assembly line we are planning to add and what is the present capacity and the assembly line that we have?

Chintan Shah: Total between Ankleshwar and Dahej, today we have about 280,000 liters of reaction capacity and we are increasing by 200,000. From 280 KL we are going to 480 KL post this expansion. When we came up with an IPO I think that time we had about 17 assembly lines for the SDAs and we were talking of increasing that by about 10 assembly lines further, but instead of that we have already commissioned 12 assembly lines. So, as of today we are sitting on 29 assembly lines and going forward we still continue to intend to add those committed additional 10 assembly lines. So, post expansion we will see 39 assembly lines in terms of SDA production.

Sanjesh Jain: So, what we are telling is that we can potentially double the revenue from way we are today considering that the new entire Greenfield capacity is online, will that be a fair assumption?

Chintan Shah: Not on the same day when it goes online. But eventually yes

Sanjesh Jain: No, not on the same day, at a full optimal utilization?

Chintan Shah: Yes.

Sanjesh Jain: So, that visibility we have and what is the timeframe we look to use that new facility coming on board.

Chintan Shah: Production trial should begin by December of next year and commercialization I mean actual commercial production we target to have from January 2023. So, the last whole quarter of next financial year we should be able to utilize the full expanded capacities and probably I should say as a fair estimate we should take about two years from there to fully saturate that capacity.

Sanjesh Jain: Got it. Couple of questions on the battery side, where we have a good exposure both glyme and electrolyte salt, what is the traction we are looking at considering that there is a lot of enthusiasm or there is lot of growth in the battery segment how does it translate as an opportunity for Tatva Chintan both at the electrolyte salt opportunity as well as the glyme opportunity?

Chintan Shah: Right so, as of last quarter we had one commercial customer and one was under approval process. As of today we have one commercial customer and our products are in approval process under approval with three customers. We have identified two good opportunities in terms of the electrolyte salt and where we are working with these two customers and none of them is from China. So, it is coming from different geographies across the world.

Sanjay Jain: Got it, and glyme?

Chintan Shah: Glyme we see an potentially increasing demand. So, we are right now in negotiations with a customer for an application into EV battery. So, Glyme into EV battery I am sure this is not going to happen overnight it may take about year , year and half to eventually get a commercial approval, but now we are already in the process of going into approval with glyme application in EV battery.

Sanjay Jain: One last question from my side. Ya this is last one.

Moderator: Sorry to interrupt sir, but we have participants waiting in que for their turn, for any follow up, may we request you to rejoin the que.

Moderator: The next question is from the line of Mulesh Savla from Shah & Savla LLP. Please go ahead.

Mulesh Savla: Thanks for taking my questions, Chintanbhai my complements to you on a very long strong friendship with Ajaybhai and Shekharbhai and also heartiest congratulations on good sets of numbers in this challenging times of higher freight, higher input cost and supply chain disrruptions. Most of my questions are answered, but sir I just wanted to know that our facilities can produce different SDA and PTC interchangeably on the same line or there are separate lines for each product?

Chintan Shah: No, these are multi-product assembly lines. So, we can interchangeably produce different products on the same assembly line. Though, there are very rigorous change over processes because we are talking of very high purity substances. So, a typical change over takes about 6 to 7 days to clean up and then to use that assembly for the next product. So, we normally prefer to use it in a dedicated manner so that we do not lose those 5 or 6 days of production by way of product changeover.

Mulesh Savla: Correct, and especially when we are running at almost about 90% capacity it makes sense not to waste time in changing the lines?

Chintan Shah: Perfect Yes.

Mulesh Savla: And sir you said that some of the new products you are selling to existing customers whereas some new customers are also under pipeline and you said there are three more customers in pipeline for electrolyte salt, are there any customer in India also who is trying to source electrolyte salt from us?

Chintan Shah: No only on R&D scale, but nothing on commercial scale so far.

Mulesh Savla: Sir when we are almost at this capacity, we did not plan capacity expansion little early because almost one year from here you will be having additional capacity not immediately, so is there any opportunity to get things done outsourced from some other manufacturer?

Chintan Shah: We are trying to identify those kind of thongs, but the only constraint that comes our way is the quality of products that we have to offer. So, we have tried to identify couple of contract manufacturers where we can do some of the things on contract basis, but we have honestly we have not come across a very good facility who can handle this ultra-pure kind of products in their plant. So, we are working in that direction and I would personally say I am not hopeful to find someone, but we are working hard in that direction.

Mulesh Savla: But we may not be keen also, right or we want to find if we can find?

Chintan Shah: So, today we are looking to find someone, but surprisingly we are failing to find someone.

Mulesh Savla: I think my other questions are answered. So, if you can just update us on order book position for next 6 month also, that will be helpful?

Chintan Shah: We see a good demand in terms of ,quite a stable demand so based on this earlier two quarter numbers we can say that we would probably more or less remain in the same region. So, we have a good order book on hand as well.

Mulesh Savla: Right, and you maintain your EBITDA guidance of 24% to 27% even after commercial production of electrolyte salts or you want to increase it little further if those products are kicked in?

Chintan shah: No, I think this is a fair estimate what I am suggesting and this is pretty much sustainable. So, if we give some absurd number probably it may be true for couple of quarters, but in terms of sustainability I will reiterate that 24% to 27% is a good number.

Mulesh Savla: Great, thank you.

Moderator: The next question is from the line of Gaurav Chopra from Union AMC. Please go ahead.

Gaurav Chopra: Thanks for taking my question, I just had two questions where you spoke about this electrolytes salts and glyme, so could you help us understand like what is the opportunity sides for the Tatva Chintan and is there something that the capacities for the super capacitor has to come in India, for us to have a larger revenue contribution from these products or you are competitive globally as well to electrolyte salts and glyme, so if you could throw some light from three or five year outlook like what contribution we can have from these products?

Chintan Shah: In terms of electrolyte salts, this is still a very new technology area where real commercialization of the technologies is just beginning phase. So, we may see a larger commercialization in terms of our opportunities for selling the super capacitor batteries, is probably two or three years down the line. Though it is growing very fast, but still in terms of numbers or values it is still too low. So, we may see about two to three years when you will see a lot of applications of super capacitors coming in our day-to-day life basis. So, this is a kind of a destructive technology it may take few hours to really go to a full scale, but that has begun to happen. Secondly, in terms of glymes today we are making it using a conventional chemistry so that is where we are feeling restricted in terms of increasing the productivity because of limited capacities in the plan and to overcome this, to go on a mass scale, we are actually quite successful in developing this using a continuous flow chemistries at R&D scale and now we are into detail engineering mode to take it to the pilot scale. So, probably two years down the line we will see Tatva Chintan getting into a continuous flow chemistry-based line. This is where we can actually start pitching in for larger demand. So, the opportunities can increase multifold, once we are in that area of continuous flow chemistry.

Gaurav Chopra: Got it so, this glyme is what you are talking about will go into lithium ion batteries ?

Chintan Shah: There are two major applications, one the glyme is used as a solvent in a lot of APR production processes and second application is as a solvent for dissolving the lithium salts in the Li battery. So, these are the two key applications to set glyme free dominantly.

Gaurav Chopra: So, there would be globally or existing players in this business product?

Chintan Shah: Yes.

Gaurav Chopra: And from our perspective, it will make sense probably when we have some domestic manufacturing capacity for Lithium batteries or super capacitors.

Chintan Shah: Right.

Gaurav Chopra: Got it, that's it from my side.

Chintan Shah: Thank you.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: So, I just wanted to reconfirm the capacity that we have in SDA today and via the expansions that we are doing in the Dahej phase 2 and phase 3, what kind of capacity expansions are we taking in SDA and in the PASC area? So you mentioned certain way in kilo liter form and then you mention SDA lines, I just want to correlate with the tonnage, and the 20 SDA lines or 29 SDA lines

Chintan Shah: As of today, 29 assembly lines are operational. As on 31st March 2021, we had assembly 17 lines, we started adding and today we are at 29 lines. Now this is kind of a saturation where we do not have additional space to install more assembly line till we have the new CAPEX going commercially. So, from 29 we will go up to 39 when the new CAPEX line gets operational. In terms of SDAs, basically SDA's are quite complex, so each SDA sales depends on application and depends upon customers, so each SDA has a variety in terms of price as well as in terms of concentration, so something sales at right from 10% up to 55% in terms of concentration. So, it is again the molecular rates are significantly different for different SDA. So, it is very difficult to put in terms of absolute number. So, it is better to go in terms of rather than tonnage, in terms of capacities in number of assembly lines and reactors again is same like SDA's production in assembly lines, reactors also are multipurpose. So, you can make variety of products, who have different reaction times and different segments catering to those reactor capabilities. So, I would say usual practice should be better to see it in terms of kiloliters rather than individual product capacity.

Pritesh Chheda: So, what you are doing in terms of incremental CAPEX?

Chintan Shah: If I put it correctly I would say that the capacity at Dahej facility is increasing from 200 KL to 400 KL. So, almost doubling the reactor capabilities so you can understand the volume of PTC and the rest of the things where we are targeting and in terms of assembly lines we started with 17 in the beginning of this financial year and when the CAPEX plans are over we will end up with about 39 assembly lines which is more than double is what we are expanding in terms of SDA product.

Pritesh Chheda: So, SDA production will only rise 50% from what you are today because you already have 29 SDA lines as on Q2?

Chintan Shah: It will improve by 50% in terms of SDA production.

Pritesh Chheda: And bulk of CAPEX is then outside SDA which is basically in PASC.

Chintan Shah: Yes.

Pritesh Chheda: Ok and what is the CAPEX amount that you have, so I have phase two and phase three at Rs.150 crore I am confuse is it Rs.150 crore combined for phase 2, phase 3 or it is Rs.150 crore individually for phase 2 and then phase 3?

Chintan Shah: Basically it is not phase 2, phase 3, but Dahej capacity expansion is where we are spending about Rs.150 crore which is related to expanding our production capabilities and then we are spending about Rs.24-25 crore for expanding our R&D capabilities at Vadodara.

Pritesh Chheda: Ok, and this Rs.150 crore, what should be the asset turn?

Chintan Shah: Ideally in the beginning we see at about 2.5 when it comes to near saturation somewhere between 3.5-3.6. So, on an average we can say at about 3.

Pritesh Chheda: Thank you

Chintan Shah: Thank you

Moderator: Thank you. The next question is from the line of Rohit Nagraj from Emkay Global. Please go ahead.

Rohit Nagraj: Thanks for the opportunity and congrats on good set of numbers. So, the first question is in terms of the CAPEX, so you indicated by January 2023 the CAPEX will be in commercial phase and probably in the next two years we will be able to utilize it at saturation levels. So, for the next lag of CAPEX what is the early timeline that we will have to decide upon, based on the lead time of items as well as other areas?

Chintan Shah: We have actually started looking for a piece of industrial land where we can setup a chemical plant. So, that process has been initiated as of now and we intend to close that probably within next three to six months' time frame and then typically you take about a year to year and half to get environment clearance. So, let us say today we are in October 2021 we can say we can complete this within 1.5 years to 2 years of time frame. So, let us say about April to October of 2023 is when we should start doing our next round of CAPEX. So, first buy the piece of land in next 3 to 6 months, take about a year and year and half to get your environmental clearances done and after that you can actually dig the ground. So, probably somewhere a fair estimate would be somewhere between April to October of 2023. It will take around one and half to two years to complete that facility. So, by the time we see a near saturation coming to Dahej existing expanded site, by that time we should be in a pretty good shape to kick off production from the new side.

Rohit Nagraj: And normally is there any leeway, in terms of further debottlenecking from the existing capacity?

Chintan Shah: Sorry I did not get your question sir

Rohit Nagraj: So, we will be putting the Dahej capacity and once we come to probably 70%, 75% of utilization, is there any possibility of debottlenecking the capacity to get another say 10%, 15% to the interim?

Chintan Shah: No, We have left small piece of land unutilized post this CAPEX plan, but it would not definitely impact to a extent of 10% to 15%, but nominal emergency probably 3% to 5% of expansions we can look at.

Rohit Nagraj: Sir, the second questions is in terms of margins for four segments, so individually just to arrange them in terms of the highest margin segment to lowest margin segment, so how would we classify that?

Chintan Shah: From highest to lowest would be SDA, followed by PASC, followed by electrolyte salts they are almost same as electrolyte salts and then followed by phase transfer catalyst.

Rohit Nagraj: Right sir, and incrementally since we are adding the capacity for SDA the margins should certainly look better because the highest margin product will be added?

Chintan Shah: Right.

Rohit Nagraj: Thank you, Understood sir

Chintan Shah: Thank you

Moderator: Thank you. The next question is from the line of Pushpendra Chand an Individual Investor. Please go ahead.

Pushpendra Chand: Thank you for taking my question. Chintan ji one question since capacity utilization now has reached nearl 90% and you said you have hardly any scope to take it forward, are you also conducting any sort of productivity utilization, productivity improvement or kind of debottlenecking of the existing facility, because as I understand the next new facility is coming up in another 5-quarter time, so till that time to improve top line are you taking up any initiative which will improve your revenue?

Chintan Shah: We are doing whatever best is possible, so like I said we increase this assembly lines so this we could do by vacating our small warehouse and then we rented out a warehouse on outside premises, move the products. So, out of the three warehouses we vacated one of the warehouse converted into a plant and set up assembly lines there and then we had to rent out a place outside our plant to stock up the products that were already there in the warehouse. So, this is what we try to do in terms of optimizing our production capabilities, but I think we are now near almost there. There is no further scope of increasing in any way. So I think this is what is fair number. So, the way we can increase our revenue or things is by optimizing what we want to make and what we do not want to make, so a better product a larger revenue products larger margin products. So, those kind of priorities can increase slightly, but not in a very big way.

Pushpendra Chand: So, what I understand then in that case the SDA margins is say higher than the other products if a demand is high for SDA so in that case in a multi-product assembly lines then you can offer more percentage of contribution from SDA which is currently at 52% and if I see from Q4 and then to Q1 and Q2 the proportion of SDA has increased so in that case if you want to improve your bottom line so SDA proportion can still go up, right, is my understanding correct?

Chintan Shah: Right so, that is a natural choice to do, because we have better margins, better volumes, better demand so why not do that.

Pushpendra Chand: Exactly so, why I was asking is that your guidance was around 50% to 52% of SDA as part of our overall revenue, but in case if the demand is high if the market is good then in that case SDA can also inch up?

Chintan Shah: Like how it happened in this quarter, the SDA contributed almost 62%.

Pushpendra Chand: Thank you and all the best for coming quarters

Chintan Shah: Thank you.

Moderator: Thank you. The next question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: Just one or two questions which I could not ask last time, one on the R&D side what is the number of people we have today and what are we increasing post this expansion in the R&D facility that is number one and number two if you can give some color on the R&D pipeline which we have either in terms of number of molecules that we are looking good and post the expansion how the R&D will look like say for next 5 years?

Chintan Shah: So, as of today we have 8 doctorates, so that is a significant and I would say in terms of R&D personnel it is always to gaze someone's capability this will identify the number of doctorates working with us. So, to focus on that today we have about 8 doctorates working for us and this is what we intend to expand between 20 to 25 doctorates working with us post the expansion plans and it does not mean that we have stopped recruiting more doctorate. So, we are still undergoing interviews to recruit better and better talent so that is an ongoing process even till the expansion happens. Secondly, we have in fact we have issued a appointment letter to bring in a cheif technology officer, so very senior level person who would eventually coordinate between R&D, production, projects and also bring in new technologies kind of things. So, a very senior level person has been given an appointment letter in terms of to induct him as a CTO chief technology officer. So, that is another new big addition in terms of our talent. In terms of products being in the pipeline, it is an ongoing process so let us say in terms of SDA today we are doing about 24-25 SDA. The last quarter, we had sent samples in 1 kg, 5 kg of product at that scale, about 6 different products have been shipped out from our R&D facilities, but these are all long term, because of the entry barriers, the development plans are longer. So, this is an ongoing process. So, the last quarter we did ship out about 6 new samples of SDA and as of today also we have about 25 SDA under development plans, PTC is also again a similar thing which is an ongoing based on certain new developments or new requests, it is an ongoing process. Now what we are doing on active mode is on continuous flow chemistry, where today we are very actively doing the four products using continuous flow chemistry and then we have about pipeline of 6 identified another additional products which will take up one after another. So, today we have restrictions in terms of number of projects we can handle using continuous flow chemistry. So, when we went for IPO we had just capabilities to handle two products at a time which we have now increased to be able to handle four products. Our continuous flow department had only 2 doctorates and today now we have 4 doctorates working for the department. It is an ongoing process of increasing our R&D capabilities.

Sanjesh Jain: Just one last bit of question on the SDA side, how is the competition intensity on SDA side are we seeing Chinese player trying to get into SDA or any other people trying to get into SDA it looks like a very lucrative opportunity with an extended benefit of getting into a continuous flow chemistry, are we seeing many people trying to get into SDA or you think it will take a longer period of time for people to get into the position where the Tatva Chintan is today?

Chintan Shah: Sanjesh Ji, i would definitely say that anyone buying new would see a timeframe of at least 4 years to 5 years to get into it at a commercial scale where we are today at least and not less than that and of course when these demands are increasing globally, everyone knows that this sector is quite lucrative, the demand growth is very fast, that is coming up. So, I am sure there might be companies trying to venture into this, but the strong entry barrier remains for everyone. So, what we have faced in last 8 years, I probably think anyone trying to venture would also face a similar thing.

Sanjesh Jain: So, what will be the key entry barrier in SDA whether it is a level of purity, cost of manufacturing, getting approval from the customer, what would be the biggest challenge for anybody getting into this segment?

Chintan Shah: The first and key challenge is the technological challenge, to do this kind of ultra-pure products. Number two is also your capabilities to produce the prerequisites, so that is the phase transfer catalyst or the quaternary compound that needs to be produced in an ultra-pure way. So, that is a number two challenge and of course the biggest challenge out of all these I would say the biggest challenge is to get this approvals and to get the customer convinced, because the cost in terms of approving someone or some product is very high. So, you will be surprised where our competitor is already approved before we actually setup our Dahej plant, as of today we have not been able to get approval for an ongoing commercial product so far, despite supplying to the same customer with any other application after we created the Dahej facility. So, where we are approved with the same customer, but the same customer is not interested to approve us on older products which they are using already before our Dahej plant was established. So, this is the kind of big challenge that you see in this particular area.

Sanjesh Jain: Fair enough, that was very clear. Thanks Chintanbhai for answering all the questions and best wishes for the coming quarters

Chintan Shah: Thank you

Moderator: Thank you. Ladies and gentlemen due to time constraint, that was the last question. I now hand the conference over to the management for their closing comments. Over to you, sir.

Chintan Shah: Thank you everyone for participating and for your lovely questions. We hope we have been able to answer most of your queries and satisfactorily. If we have missed out on any of your questions kindly reach out to our IR advisor Christensen and we will get back to you offline. Once again wishing you all a very Happy Diwali and a prosperous New Year. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Batlivala & Karani Securities that concludes this conference call. Thank you all for joining us and you may now disconnect your lines.

***Please note: This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings**