Tatva Chintan Pharma Chem Limited

(CIN:L24232GJ1996PLC029894)

Date: 07 May 2024 Ref. No.: TCPCL/SEC/2024-25/00017

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 03 May 2024 post announcement of financial results of the Company for the quarter and financial year ended 31 March 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: 2024.05.07 12:29:02 +05'30'

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

Encl.: As above

"Tatva Chintan Pharma Chem Limited Q4 FY24 Earnings Conference Call"

May 03, 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 Parma Chem Limited Q4 FY24 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 assistance during the conference call, please signal the operator by pressing the "*" then "0" on your touchtone 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: Good evening, everyone. Thank you for joining the Tatva Chintan Pharma Chem Quarter 4 and FY24 Results Conference Call.

We have Tatva Chintan Management on the Call, represented by Mr. Chintan Shah - Managing Director; Mr. Ashok Bothra - Chief Financial Officer, and Mr. Ajesh Pillai - Investor Relations,

I would like to invite Mr. Dinesh Sodani - General Manager (Finance) to make the "Opening Remark", and from there we will take the call. Over to you, sir.

Dinesh Sodani: Thank you, Sanjesh ji. Good evening everyone.

On behalf of the management, I am pleased to welcome you all to Tatva Chintan's earnings call to discuss Q4FY24 & FY24 financial results. Please note, a copy of all our disclosures is available in the investors section of our website as well as on the stock exchange. Anything said on 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.

Now I shall hand over the call to our Ajesh Pillai, Investor Relations Officer for his opening remarks. Over to you, Ajesh Ji.

Ajesh Pillai: Thank you, Dinesh ji. Good evening, everyone. I welcome you to Tatva Chintan Pharma Chem Limited's Q4 and full-year earnings call.

Today, we are pleased to present our audited results, which we trust you've had the opportunity to review via the materials uploaded on the stock exchanges and our company's website.

Allow me to delve into the figures.

Our revenue from operations for Q4 stands at Rs. 983 million, demonstrating growth of 17% QoQ, while experiencing a 21% decline YoY. The EBIDTA for the period reached Rs. 156 million, marking a 42% increase QoQ and a 4% decrease compared to the same period last year.

For the full year, our revenue reached Rs. 3,935 million, depicting a 7% decline YoY with the corresponding EBDITA standing at Rs. 682 million, showcasing a 13% increase as compared to the previous year.

Now, let's walk through the performance of each product segment:

Phase Transfer Catalysts recorded quarterly revenue of Rs. 272 million, illustrating a 10% increase QoQ, yet experiencing a 28% decline YoY. Annual revenue from this segment stands at Rs. 1067 million, showing a 25% decline compared to the previous year.

Revenue from Electrolyte Salts amounted to Rs. 14 million, indicating a 16% growth QoQ and 48% growth YoY. Annual revenue from this segment totalled Rs. 50 million, reflecting a 70% decrease compared to the previous year.

Pharma and Agro Intermediates and Speciality Chemicals posted quarterly revenue of Rs. 280 million, marking a 11% increase QoQ, while witnessing a 6% decline YoY. The cumulative revenue for the year in this segment is Rs. 1132 million, demonstrating a 15% decline YoY.

SDAs achieved a quarterly revenue of Rs. 408 million, indicating a 26% increase QoQ, although experiencing a 26% decline YoY. The annual revenue for SDAs reached Rs. 1655 million, representing a 30% YoY growth.

In conclusion, I would like to pass the call to our respected Managing Director to provide insights into our business outlook. Over to you, sir.

Chintan Shah: Good evening and a warm welcome to everyone. Today, I will brief you about the business outlook and developments.

I am pleased to report that our business volumes have shown gradually improvement in Q4. We anticipate to continue a moderate growth over the next two quarters, with an uptick expected in Q3 and Q4. The improvement in business sentiment is quite evident, with a notable increase in serious inquiries with improved volumes.

Since mid-March, both of our plants have been operating with improving capacity utilisation, reflecting the growing demand. What is particularly encouraging is the shift in customer behavior. We're experiencing a notable increase in push for early shipments and urgent orders, indicating a marked improvement in demand within our industry. It is worth noting that, except for agrochemicals, all other chemical sectors we serve are reflecting improved business sentiments and a brighter outlook.

Contrary to our initial expectations, the prices of several chemicals continued to decline through Q4. In particular, raw material prices of SDAs have seen significant reduction and also certain key raw materials of few PASC products have reduced. This will impact price realization of major SDAs and certain PASC products. However, during the month of April, we have observed a stabilization in prices. With improving demands, we logically feel that the price of chemicals will turnaround within next couple of quarters.

Throughout the fourth quarter, freight charges remained persistently high. While there has been a slight reduction in freight charges in the US sector recently, the European sector continues to face elevated costs.

Now let me take through the outlook of each segment:

Phase Transfer Catalyst:

We expect a stable revenue in this segment for FY 25. We have managed to retain all of our major customers for PTCs. The recent addition of new business within the segment will offset the continued subdued demand of PTCs from agrochemical sector in FY 25.

In this segment, the raw material price reduction was the most during FY24 which led to reduction in its revenue realization.

SDAs:

SDAs have exhibited strong recovery of business across various applications. I am pleased to inform you that we have been formally qualified in all ongoing applications with various customers. Commercial supplies in most of these cases have also begun. Only one application is still under qualification.

With onboarding of new customers coupled with improved demands, we foresee a handsome growth in volumes of SDAs in FY25 but the significant reduction in raw material prices during Q4 will translate into lower price realization of SDAs in FY25. So, the revenue growth will not be proportionate to the volume growth.

Electrolyte Salts:

The poor offtake in Chinese markets has led to lower levels of business for Electrolyte Salts in FY24. However, there are promising developments on the horizon. The progress of our existing customer, setting up a fully automated production line for energy storage batteries, is proceeding as planned. We anticipate a significant uptick in demand starting from August 2024.

Furthermore, our ongoing qualification process with another customer is progressing smoothly. This customer represents a significant application of batteries in hybrid cars with our type of organic electrolytes and which will lead to large volumes in coming years with potential commercialization beginning from end of 2024.

In another major development, we have successfully developed formulation of Electrolyte for the Zinc Batteries. We are in process of submitting samples to the potential customer.

With a thrust among car manufacturers to move to hybrid cars and increasing demand for energy storage systems continues to keep this segment exciting.

We maintain a positive outlook for significant growth in this segment in the coming years.

PASC:

Validation of 3 pharma and 2 Agro products have progressed positively. So-far we have not received any adverse comments and we expect formal validation within due time.

Due to the ongoing red sea problem leading to extremely long transit time to Europe, delivery of our third Agro product got delayed by 45 to 60 days which will translate into delay in formal validation and consequent commercialization.

As we can foresee that we will run very tight on production capacities, we have already commenced production of two new PASC Agro products for which commercial supplies will begin in late Q2/ early Q3. This strategic decision allows us to accumulate sufficient inventory to meet the potential committed demands.

We have begun commercial production of our first photochlorination product. We have faced lot of initial challenges and few break downs but each of them has been resolved successfully and the production has resumed.

In Monoglyme continuous flow chemistry, we had run into major safety concerns on pilot scale trials. Now, finally, the correct solution to the problem has been identified. We are completely revamping the pilot equipment and redesigning a new one as per the identified solution. With necessary safety and control measures in place in the newly designed pilot equipment, we are confident to run Monoglyme successfully as the catalyst has already performed very well in earlier trials. Similarly, catalyst of two other products on CFR application have given satisfactory results on pilot scale but we shall do piloting again after getting the new pilot equipment.

We have successfully developed and piloted four new products of common family having large volume applications into polymer industry. We have developed the key intermediate of this product range with an innovative electrolysis technology replacing the conventional high-risk technology. This makes the process much safer and price competitive. We are now gearing up to do plant scale trials.

Flame Retardants:

Market continues to remain at unrealistic low price. We observe a positive change in terms of inquiry flow from number of different customers with improved volumes. This indicates an improvement in demand scenario for flame retardants but unfortunately this is not reflecting in pricing. We continue to wait for the right moment to begin commercial production. We have successfully completed development of 3rd BFR on lab scale.

In view of the improved business sentiments and various product approvals and their commercialization, we expect FY 25 to be robust and we shall see high plant occupancy. Though this demand growth will not reflect proportionately in topline growth due to reduced prices of product led by reduction in raw material prices. Despite of this we expect to achieve topline growth of 35% to 40%. This is considering that raw material prices continue to remain at such low levels. Any positive changes in pricing will have a direct impact on the topline growth.

With our unwavering commitment to innovation, quality and customer satisfaction, I am confident that we are well-positioned to capitalize on upcoming opportunities and drive further success in the coming quarters and years. Thank you. Now, I hand over the mike to Mr. Ashok Bothra.

Ashok Bothra: Thank you, Chintan Sir and good evening to everyone present on our call today. The financial highlights for the quarter and year end are as below:

• During Q4FY24, the company reported revenue from operations of ₹ 983 million v/s ₹ 1,245 million in Q4FY23.

• During Q4FY24, the company reported EBITDA of ₹ 156 million v/s ₹ 163 million in Q4FY23. EBIDTA margins were at 15.9% v/s 13.1% in the same period previous year.

• During Q4FY24, the company reported PAT of ₹ 96 million v/s ₹ 170 million in Q4FY23. PAT margins were at 9.8% v/s 13.6% in the same period previous year.

• During FY24, the company reported revenue from operations of ₹ 3,935 million v/s ₹ 4,236 million in FY23.

• During FY24, the company reported EBITDA of ₹ 682 million v/s ₹ 606 million in FY23. EBIDTA margins were at 17.3% v/s 14.3% in the same period previous year.

• During FY24, the company reported PAT of ₹ 304 million v/s ₹ 455 million in FY23. PAT margins were at 7.7% v/s 10.7% in the same period previous year.

• During FY24, the employee expense was at 13.9% of revenues vs 9.7% during FY23 due to new recruitments on account of newly commissioned facility at Dahej SEZ & R&D facility at Vadodara.

• During FY24, exports stood at ₹ 2,769 million, contributing 70% of the revenue. The major countries include USA, UK, China, Germany, Japan and South Africa.

• Out of the net IPO proceeds of ₹ 2,072.81 million, 100% of the funds have been utilized as on 31 March 2024. During the quarter, ₹ 10 million was utilized.

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: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sudarshan Padmanabhan from JM Financial. Please go ahead.

Sudarshan Padmanabhan: My question is to understand more on the EBITDA side. See, I understand that today capacity utilization is very less and the new plant is significantly underutilized. As far as your topline is concerned, you had clearly explained that the 30% decrease was due to the price decrease. In some parts of the business, we pass through the raw material, which means that the margin looks optically high. I would assume that this also played a role in this quarter. So, what should the EBITDA look like? We used to think 75% to 100%. This is possible due to operating leverage and the volume growth. If the topline growth is 40%, what should it look like in terms of expectations for EBITDA?

Chintan Shah: Sudarshan ji, , we are at about 16% or 17% EBITDA this year and see basically our gross margins are very satisfactory even as of today despite of this price scenario. The challenge is to absorb the overhead costs.. So, as your volume increases , your revenues increase and your general overheads costs will start to decrease, which will reflect into your EBITDA margins, so if you see the employee cost, it is now in the range of about 14% to 15% , as a % of sales. Whereas if I look at a year before it was in the range of 7% to 9% and which is a realistic number. So, when your volumes increase automatically your general overhead cost start to decrease and it starts reflecting your better EBITDA margins. So, still we continue to remain confident with these increasing volumes, we should hit EBITDA in the range of 22% to 24% next year.

Sudarshan Padmanabhan: And sir, from the operational perspective, we were very optimistic about the commercialization of PASC and we were also targeting newer clients on SDA and we expected them to start contributing in the second half. Can you provide some color on this? We talked about some improvements in the first half and then a sharper improvement in second half. What could that entail beyond second half? What is the ramp up that we should expect from this newer contract? And also, can you provide a bit more color on this because when we move into FY26, I think we should start to talk about this BS VII opportunity. Where are we with this opportunity? Do you think we should be able to capitalize this opportunity in 2-3years?

Chintan Shah: Right now, the scenario in SDA is in terms of volume, we are expecting to grow nearly 50% in FY25. So, we have been in different validations with different customers, so four different customers with number of different applications where we have been under validation which we have now successfully completed and with the exception of one customer we have started commercial supplies with them. Of course it will take time, 6-12 months to build up volumes with each of these customers. But all the commercial supplies with all of these customers except for one have already started. The one customer which has not yet started we are waiting for certain registrations to happen which is already in process, so it should happen within the next 2 months. So, we are looking forward to see an exciting year in terms of SDAs, but the issue is price. So, of course you will continue to enjoy your defined margins, but the problem is that there has been a significant reduction in raw material Prices in SDA in the last quarter. So, prices continue to slide and at least fortunately now we see that in April, we have not seen any further reduction in price. So, I have enough raw material inventory to carry me through this quarter till which I will be able to maintain my prices at earlier levels, but then in Q2, prices of SDAs will have to be made proportionate to the prevailing raw material prices. So, though our volume growth will be 50%, I expect the maximum revenue growth to cross only 25%. So, this is the irony. So, unless and until the raw material prices start to increase, this is going to be a tough scenario. So, the revenue increase will be visible as soon as your prices start to improve. So, everyone would wish the raw material price should start to improve. We are now expecting this raw material price to go up, which can directly impact our topline and also our overall EBITDA margins. And so, we see next year should be an exciting year for SDA to begin with and this when you say FY26, we will have enhanced volumes coming from EUR 7 as well. So, this will again further enhance volumes for another 30% to 40%. So, this is turning out to be now exciting in terms of SDAs, but now I expect the price revival to happen.

Sudarshan Padmanabhan: Sir, once the clarification from your side is earlier when we talked about it, today we are talking about 22% to 24% margin, earlier it was closer to 20%. So, from an EBITDA side, a significant drop in prices might not necessarily impact the significant downturn in your EBITDA because if you are supplying on an EBITDA per KG basis, then mathematically your margins will look higher because on a lower base EBITDA per KG?

Chintan Shah: What you're going to see is Rs. 400 crores, how much you made, 20%, let us say Rs. 80 crores, same numbers of 20% on Rs. 600 crores look very different, right? So, that the issue. Let us say 50% of my plant electricity cost is fixed, your cooling tower, your general electricity plant, lighting, buildings, everything is running which is common whether you run your plant at 5% capacity or 90% capacity. So, when your volume starts increasing, your values start increasing proportionally per KG costs of all these things start decreasing drastically. And as I told you about the manpower cost, I don't have the ability to change that unless and until we start sending people home, which we don't intend to do. So, your manpower cost is fixed at maybe let us say my cost would be Rs. 40 - Rs. 45 crores in the next financial year as an employee cost. So, when my volumes increase, the percentage of employee costs versus my revenue will start coming to a realistic number, which is today at the very unrealistic level of 14% to 15%.

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

Pritesh: With the 30% revenue growth in SDA, whatever price decline you have seen in towards the exist month, right?

Chintan Shah: Towards the existing last quarter, so really price reduction we will see from, I believe by end of May or early June. So, still that reduction is not evident really in these numbers. In Phase Transfer Catalyst, these numbers are clearly evident that volume remains constant, but price realization goes by 20%-22%. And the same thing we will expect to happen in SDAs from next quarter, I meanQ2.

Pritesh: So, PTC, you mentioned that the volume growth was nil in FY24 for that 25% revenue?

Chintan Shah: Clearly, I mean there was some 5% to 7% drop, but nearly stable, but value degradation was quite evident.

Pritesh: For the 500 KL capacity that we have when you were mentioning about this employee costs rise and what is the capacity you would like to?

Chintan Shah: Just to give you a fair idea and a good understanding, we have two large volume phase transfer catalyst where our key raw material is common which is Tributylamine. And if you look at the pricing in March '23, we did our last import in March '23 at $4.2, and if you're looking at the imports in March 24, you're going to see that the price has dropped to $1.6. So essentially, this raw material is our main raw material, which is the largest raw material that we import for phase transfer catalyst and that goes into our 2 large products as a phase transfer catalyst, if you look at that drop, it's almost 60-65% in raw material cost, and that translates into a lower price realization of the finished product. So you're maintaining your margins, but you're seeing a dramatic drop in per daily price realization.

Pritesh: What will be the capacity utilization of your Company in FY24?

Ashok Bothra: So, it was around 70% as far as reactor capacity is concerned, for assembly it was around 30%.

Chintan Shah: So, we have two parts in the plant. One is where you have reactors, which is a conventional chemical reactor and then you have another portion where we do this specialized chemistry for SDAs. So, we did a major expansion in SDA capacities and reactor capacity both. So, the reactor occupancy was about 68%, whereas the SDA plant occupancy was about 30%. And which is now increasing. So, we are seeing an increase in the occupancy of both these facilities from mid-March.

Pritesh: So, when you say 50% volume growth basically, which means the SDA assembly size in the next two years will easily head to about 70%-80% capacity utilization?

Chintan Shah: Exactly, So, even if I talk of today, even just I am saying improvement beginning in March and we are sitting in end of April, early May, our occupancy in assemblies have crossed 55%.

Pritesh: The way you said that the PTC for the -25% revenue decline FY24 largely was price led, in Pharma and Agro Intermediate for the 15% revenue decline, would it be priceless?

Chintan Shah: It is partially price led, but not significantly price led.

Pritesh: And I did not understand your outlook which you mentioned in the Pharma and Agro Intermediate side where you said there were three new products to be developed, two were done, one had a delayed process?

Chintan Shah: No, there are six products, three on the pharma side, three on the Agro side. Out of these five products have been into qualification and the qualifications are running smoothly. We have not heard any negative comments, and all these are expected to begin commercialization from September up to early 2025. Now there was one Agro product which we dispatched after the Red Sea issue. So, this got stuck up in transit and it got delayed by about 45-50 days in transit because of this Suez Canal problem. And now it is getting into validation. So, we had expected to receive that validation by August, but now we expect to get it by November.

Pritesh: But what is the sales potential of these six products?

Chintan Shah: This 6th product, which I am talking of is the largest of all the six and overall revenue potential of all these products together is above Rs. 200 crores.

Pritesh: And the 6th product itself?

Chintan Shah: Sixth product itself is above Rs. 100 crores.

Pritesh: Do you have this capacity, let us say this 30% reactor capacity that you have?

Chintan Shah: We will run into shortfall. That is what I said. We know that we are going into shortfall. So, that is the reason why we want to build up a new plant. We ran into a bit of a problem because our soil testing report did not meet the requirement. We are planning to build a multi-story plant. We have now one plot within the existing site which we had identified that this is the last plot that we can make on the head side. And when we got the soil testing report, it did not meet the criteria which is required for a seven-floor plant building. So, we have two options with this. We can either downsize the plant. We really don't want to downsize the plant because this will be our last chance of growth at dahej plant or we need to move to a new site. So, right now we are undergoing soil testing at three another optional locations. If this doesn't work well, then we will be left with no option but to reduce the plant design. So, instead of seven floors, we might have to go down to four floors. So, instead of originally designed 150 KL reactors, we might have to scale it down to about 80 or 90 KL reactors.

Pritesh: So, you need these reactors for these six products as well, right? So, you are constrained by capacity?

Chintan Shah: Yes, you'll see that we're expanding into a variety of products at the same time, but there's a lot more to solvent recovery than that. We've set up a dedicated solvent recovery & distillation plant that's scheduled to be commissioned by end of May, early June. Some of the products that we have, the massive recovery of bromine, we're setting up a bromine recovery plant that I think will be up and running by August or early September. And you're going to need these reactors. Some of these reactors are for chemistry, some of these are for recoveries, so without these reactors, we'll suffer, but we won't suffer badly. Some of these things you can outsource on contract manufacturing, and that's a cost that can impact your profit but your work won't grind to a halt for the moment.

Pritesh: So, sir, the 35% revenue growth which you are mentioning in FY25, you are constrained by capacity thereafter itself, right? Because you are at 70% utilization reactor?

Chintan Shah: Yes, we will run into 85%-90% occupancy by the end of the year.

Pritesh: With this 35% growth itself?

Chintan Shah: Yes.

Moderator: Thank you. The next question is from the line of Rahil Dasani from Mittal Analytics. Please go ahead.

Rahil Dasani: In SDA, we are the only one in India and globally we have the second largest capacity considering that we should already be having a significant market share. So, on that perspective, if you can help me understand the total market size since you are guiding for a 50% volume growth on your already significant market share?

Ashok Bothra: So, this is a very special type of chemical and the data is not easily available. There are only two players, SACHEM is the largest player having 85% of the market share and the rest is with TATVA CHINTAN. So, with the induction or implementation of EUR 7, the volume growth will be around 50% per vehicle. And moreover, when this EUR 6 got implemented, by that time, Europe, US and Japan already implemented the same. So, we were left with the market other than these three top major markets. Now with EUR 7 will come into place there will be phenomenal growth in this segment for Tatva and for other player also, i.e. SACHEM.

Rahil Dasani: So, just to confirm it, there are only two players in the market. One of them has 85% market share and then next one is Tatva?

Ashok Bothra: Yes.

Rahil Dasani: My second question is, we were approved by new large customers largest if I am not wrong for multiple applications, how does the off take go there and how large is this customers in terms of volume and who is the current largest customer?

Chintan Shah: So, we have begun commercial supplies, so of course it will take time. So, we expect full scale opportunities from this customer by the end of this year. However, we have delivered a couple of 100 tonne deliveries to this customer in the last couple of months and off take is good and today this is negligible in comparison to our existing largest customer but we expect this new customer to become as big as total of our all three major customers at present. That is the kind of volumes we are looking for them but this will take about 1-1/2 to 2 years to build up to that kind of quarter.

Rahil Dasani: And also, the big existing customer, we got approved two products from them, so in terms of volumes how will it add up for us?

Chintan Shah: So, this will increase our volume by approximately 40%-45% with this existing customer. Commercial orders for the new applications that we have been approved for two applications, orders have been booked, and for the third application, we expect this to commence commercial deliveries by the end of Q3 approximately, I would say between October and December when we should commence commercial deliveries.

Rahil Dasani: And any particular reason for these players to shift from the dominant supplier to us?

Chintan Shah: One of the very important reasons is that the raw materials for these two major SDAs were always dependent on China. So, there were three suppliers. But all three suppliers were geographically based out of China. So, we came up with in-house production. We successfully developed this raw material in-house. And that's where we gave them the option to get non-China product, Non-Chinese origin material and completely Indian made. So, that's how we got the opportunity. I would call it China Plus One. It's not a reality, but it's a safeguard that if something does happen in China, what's our option then.

Rahil Dasani: And in terms of cost, how do we compare with them?

Ashok Bothra: We are very much competitive and without compromising the quality.

Chintan Shah: Honestly speaking, if I have to take a pure decision only as an investor, I will not produce these raw materials because we are not saving more than 10% to 15% in terms of cost of these raw materials compared to what we can already buy from China. But had we not done this, then we would not have seen this business. That is also a reality.

Rahil Dasani: My second question is around the PASC segment. So, previously we were guiding for 70% to 80% utilization in our Dahej unit, but then last quarter we guided that we would fully utilize it and also complete the CAPEX by August to October and I understand the products have been approved, but if you could explain the confidence, especially when this is a different technology being used to produce, which we have never done at these large volumes, do we have some sort of a verbal or some signed contract?

Chintan Shah: Out of these five products, as I have already mentioned, we have already started commercial production and build up inventory for two products. So, you can understand the level of confidence we have in the initial comments and you see that these validation processes are quite lengthy. First, they make the product that use my raw material, they will make their active and then this active is convert into a formulation and then put into stability study, which takes around 5 to 6 months, but you get the basic approval as soon as they make the active. So, using your material, whatever product they are going to make. As soon as they make it, they give you an informal intimation that your product looks good. We don't see any problem and now we are taking it for formulation. So, these kind of feedbacks we have already received for five products. Out of this, we have already started manufacturing two products because we know that right now we do have spare capacity at the plant, but we know that as the year goes by, we are going to get occupied. So, we already started producing 2 products and started building up inventories. So, that we don't miss on the opportunity because of lack of availability of plant, we want not to miss on volumes of these products.

Rahil Dasani: So, what I am trying to understand is, in 2023 also we expected a similar thing in SDA where we created a huge inventory, but the customer didn't come through for us. So, for PASC, how do we cover our downside if there is something like that again?

Chintan Shah: Your question is very valid, but this customer is not new to us. It is our existing customer. These are the two products that I am talking about. Both of these customers are known to us, and we have a very long-term relationship with them of 12-15 years. Therefore, I do not see any risk in the fact that they are giving us 7-8% of their total sourcing volume in the first year, which is a trial year, and it is nothing to them

. Ashok Bothra: Adding to Chintan Sir point, so in 22-23 there was chip shortage resulting in the lower production of the automobile. So, it was not because of some bad intent on the part of our customers, but it was the business decision they have taken in view of the chip shortage.

Rahil Dasani: And lastly, if you can talk a bit on these six products, who will assist selling these products, how complex are they to manufacture? How did we get our clients to shift from previous suppliers and why did they shift exactly?

Chintan Shah: If I try to give you a very common answer for this all products is we show them a saving in terms of environmental cost. So, we are giving you a cleaner or a greener product. But we cannot do that on all every stage of chemistry. Let us say that each product involves 3 or 4 stages of chemistry. Then we have done some good work in one or two stages of this chemistry where we have either utilized continuous flow, some catalytic separations, or we have gone with an electrolytic process which gives them significant savings in terms of waste what we generate. And this is what we indicate to them that this is much more vernal chemistry we come up with. So, we are not necessarily giving you any price advantage coming as a new supplier, but we are bringing in a potential that's sustainable chemistry. So, the current product which you are buying by XYZ root is highly polluting. So, whether it is really sustainable for a long term, we are trying to give you a more sustainable solution. So, this is the theory on which we are working.

Rahil Dasani: And who else is selling this product?

Chintan Shah: We are launching 4 new products, a family of four products for polymer industry. So, we are getting into plant trials from next month and even in this there was one of these key intermediates of these four products. So, the first stage of these four products is involving a hazardous high temperature catalytic reduction which is, one is high temperature and secondly it is catalytic reduction where you are using hydrogenation. So, it is again a safety concern. This we have replaced by our electrolytic technology which is running in water and using electricity as the source. So, we basically split water into generating hydrogen and this hydrogen is used for hydrogenating the designed molecule. So, this is where we could successfully establish this technology and now we are coming into commercialization from next month. Of course, this is very large opportunity, very large volume, but again it will take us time because again longer lead times in terms of getting ourselves qualified with and these customers again globally spread and it is not a very familiar segment for us. So, of course, we know few of them because of Flame Retardants introduction, but we don't have any commercial business even as of today on Flame Retardants. So, introduction is going to be tough, but this is a very promising and an interesting segment where we have entered with this kind of an innovative technology. Actually we have not even seen any patents being filed for what we have already done, so it is something really innovative that we come out with.

Rahil Dasani: Secondly, one of the previous calls, you have mentioned that one of these six products will be your Rs. 200 crores products, but in this concall you have mentioned it is Rs. 100 crores products. So, first of all, if you can explain what has changed? And second of all?

Chintan Shah: This product has the potential to grow beyond Rs. 500 crores. But for this year and for next year, so till we have our new plant which we expected to start by September, October, but still we have not broken the ground as we ran into soil test reports were not favorable to build a seven storey plant there, so either we have to scale down the plant to four floors or alternatively, we are trying to identify another site or a plot within the premises where we can go up to seven floor. So, this is what has delayed the plan. This is the reason why I am saying we have lesser opportunity because we will have lesser months to operate even in next year. While the size remains same and it is vastly growable and again in this six product, we have successfully done a catalytic separation of impurities which is quite unique and this is an in-house developed and produced catalyst that we have used and we have run up to plant scale we have supplied them about a couple of containers of product for plant validation basis and this technology has run really nicely. So, currently the route through which they are buying the product also generates a byproduct to a tune of about 20%. And today that byproduct has a good market. So, that is why they are competitive. But this byproduct seems where it is being used that product seems to get banned in Europe, so this is the key problem for all the customers using this product where because today the byproduct price is getting offset in this product cost, but once the byproduct they are not able to sell then the product cost has to go up. And we have a completely different innovative route through which we make this product which is sustainable. We don't have byproduct, we clean it up to 100%. So, that is a benefit for the customer on a very long run.

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

Sanjesh Jain: Due to the interest of time, I will just ask one question. We said that we will soon run into a capacity constraint. Just wanted to understand that we had this spare capacity and we were doing all this solvent recovery and these stuff to keep the plant occupied and have the cost at least under the control. But in a long run, keep these things in-house and create more capacity or constrain by capacity, do we have the flexibility to see that we can able to produce more and push these cost items outside, because once we have margin which is coming up from producing the final product vis-a-vis lower cost, the call generally is to take the business ahead?

Chintan Shah: Until now, all these solvent recovery processes have been done in the main plant, but as I mentioned earlier, we have already set up, and it's almost complete, so we expect this to be commercialized in the next couple of months. We have set up a separate dedicated distillation & recovery plant, which will be up and running in a few months.

Sanjesh Jain: So, if I exclude that, then what is the actual underlying utilization for the manufacturing because recovery is not?

Chintan Shah: These pairs roughly about 15% of the capacities again.

Sanjesh Jain: On the reactor?

Chintan Shah: Yes, on the reactor part. And there are still a couple of waste treatments that we do within the main plant because this needs to be done in specialized reactors and stuff like that, so that is another thought process which is going on where we can allocate a small site within the premises and take all these waste treatments to this particular dedicated base instead of blocking the main reactors for this, so these are the ideas how we can optimize the plant utilization to increase the revenues.

Sanjesh Jain: But then the 68% is not an identical number to think so it is actually 68%?

Chintan Shah: As of today, it is 68%, but if you remove these recoveries from there then it comes down to about 50% or maybe even slightly less.

Sanjesh Jain: That is the whole point, right? You cannot block the main reactor for recovery.

Chintan Shah: But any place, you will need some place to do it, some equipment to do it.

Sanjesh Jain: You can always outsource, right? It is cost minus the growth, right?

Chintan Shah: Solvent recovery you can outsource, but waste treatment you cannot outsource unfortunately, because that GPCB will not allow you to send your waste outside for treatment.

Sanjesh Jain: At least that 15% free up, right? So, that is the capacity?

Chintan Shah: But that we have already created a distillation and again see as you know Sanjesh ji that our distillation is not simple distillation. We have certain solvents if you remember I had explained you on one of the calls that we have one solvent which is mixed with 2% of another solvent which is inseparable because they both had similar boiling points. Then we came up with a specialized catalytic separation technology where one of the solvents that reacted and absorbed on the catalyst. So, we can recover the main solvent at 99 plus purity and then we reuse this and this is what reduced our consumption of ethyl acetate by nearly 700 to 800 metric tons per year.

Now this, you have to do in-house, you cannot give it to someone else because we will not have this catalytic separation facility.

Sanjesh Jain: No, technically then telling that once we move to a solvent plant, which is what, 2-3 months away?

Chintan Shah: Maximum two months.

Sanjesh Jain: We can actually double the capacity, right? We are at 50% utilization if I say even 85%-90% that means we are talking of a good 80%-90% jump in the volume which is possible from the existing plant?

Chintan Shah: Yes. And still there are certain ideas where we can do a small setup for waste treatment as well, and we can free up still further space. Maybe another 5%-10% is what we can still enhance, but this will do in a due course of time when we find the correct place to set up this kind of setup. Our first priority is to identify where we are going to build the plant. So, we still insist that we want to go for the multi-story building and have the maximum possible number of reactors within that plant. But if the soil test doesn't come favorable for any of the three identified locations, then only we will scale down those plants.

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

Krishan Parwani: So, I wanted to know like the incremental revenue that you plan to achieve in FY25, can you please give segment wise breakup of the same?

Ajesh Pillai: As far as Electrolyte Salts are concerned, we would find somewhere around the 150% to 160% of increase in revenue. And PASC's are concerned we will grow by around 80% to 90%. With PTC, we will be growing somewhere around 8% to 10% and for SDAs we will be growing somewhere between 15% and 20%.

Krishan Parwani: And given that you mentioned that you might need some CAPEX, So, what will be our CAPEX for FY25 and FY26?

Ajesh Pillai: Rs. 70 crores.

Krishan Parwani: For FY25?

Ajesh Pillai: Yes. We had already mentioned that in our earlier earning call also and as per rightly mentioned that we hit a roadblock in the process because we failed with the soil testing of the indented site. And it is just postponed by a couple of quarters and then as soon as we find a suitable location for the same, we will again be restarting the CAPEX, so that would be around Rs. 70 crores.

Krishan Parwani: So, would you have any capacity available to achieve topline growth in FY26?

Ajesh Pillai: Yes.

Krishan Parwani: And just clarification on the number side. So, there has been some restatement on the employee cost and other expenses and also on the other current assets and financial assets for FY23, so can you please explain what is the rationale behind it?

Ashok Bothra: So, employee cost, staff welfare expense has been moved from other expenses to employee cost. So, that is one of the regrouping we have done. And regarding other point there were minor changes. We will get back to you on the remaining query.

Moderator: Thank you. The next question is from the line of Vipin Goel from Mirabilis Investment. Please go ahead.

Vipin Goel: Just some quick questions on SDA. So, first one is that the second largest customer, the Chinese customer that is somehow not coming back that is what we established, so what would be the large part of the incremental growth in the next year?

Chintan Shah: We expect it to happen, but the promise keeps coming to us that after they run out of inventory, they expect it to come back by x month, then y month, then z months, but that hasn't happened, and the new promise is August but I wouldn't go with that and I'm going to visit in July or August to see what's really going on and why this customer is suddenly quiet. And we also have another relationship with this customer. So, we have some other relationship with this customer besides SDA and that business is going well. So, there's no reason to worry that this customer is going to stop buying from us and start buying from somebody else. That's not the problem. The problem is exactly what I want to know what's going on with them.

Vipin Goel: So, large part of the next year's growth is because of the new customer that we just talked about, the largest customer potential largest?

Chintan Shah: And our existing largest customers where we got approvals to another product. So, this is where we see the volume growth coming from. But the larger part of the growth in terms of volume is coming from the new customers.

Vipin Goel: And sir, if you can just give us some idea on what are the current realizations of the SDA product, like I have to reach like lower than $8 kind of number or where are they as of now?

Chintan Shah: In SDAs, each of these categories has a large basket of products. So, giving you one number is difficult, but if I say as an average from the cheapest to the costliest product and the average mix at which we are selling, you can say the average realization is about $8.5 to $9.

Vipin Goel: And sir, last one, last quarter we had talked about some two new customers in the auto applications, some potential business from them as well. So, have they like started coming in at least?

Chintan Shah: Out of two customers we have started commercial supplies with one customer and second customer, approval everything is completed. We are waiting for a REACH registration to begin business with them. So, that is already under process. We expect this to be in place within next two months.

Vipin Goel: What is the potential business that we can expect from them?

Chintan Shah: These are the world's largest automotive catalyst suppliers. So, volume potentials are huge, but I am not sure as of today, how much percentage of that business will come to us, but because it is a new relationship, so it will take a couple of years to build that relationship, but we are estimating a decent volume to begin from first year itself. But let us say we are estimating about 15% volume of their existing business to begin within this year.

Moderator: Thank you. Ladies and gentlemen, that will be the last question for today's call. I would now like to hand the conference over to Mr. Ashok Bothra sir 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: On behalf of ICICI securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.