Date: 30 January 2023 Ref. No.: TCPCL/SEC/2022-23/00094

**To,**

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

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

**Subject: Transcript of Earnings Call**

Dear Sir/Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended, please find enclosed herewith the transcript of the earnings call held on 24 January 2023 post announcement of financial results of the Company for the quarter and nine months ended 31 December 2022.

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

This is for your information and records.

Thanking You,

Your Faithfully,
**For Tatva Chintan Pharma Chem Limited**

Ishwar Ramanbhai Nayi
Digitally signed by Ishwar Ramanbhai Nayi
Date: 2023.01.30 16:49:31 +05'30'

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

Encl.: As above

"Tatva Chintan Pharma Chem Limited

Q3 and 9M FY '23 Earnings Conference Call"

January 24, 2023

**MANAGEMENT:** **MR. CHINTAN SHAH – MANAGING DIRECTOR – TATVA CHINTAN PHARMA CHEM LIMITED**
**MR. ASHOK BOTHRA – CHIEF FINANCIAL OFFICER – TATVA CHINTAN PHARMA CHEM LIMITED**

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

**Moderator:** Ladies and gentlemen, good day, and welcome to the Tatva Chintan Pharma Chem Limited Q3 9MFY23 Earnings Conference Call, hosted by ICICI Securities. As a reminder, all participant's lines will be in the listen only mode there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanjesh Jain from ICICI Securities. Please go ahead, sir.

**Sanjesh Jain:** Thanks, Darwin. Good evening, everyone. Thank you for joining on for Tatva Chintan Pharma Chem Limited Q3 9MFY23 Results Conference Call. We have Tatva Chintan management on the call are represented by Mr. Chintan Shah, MD, Mr. Ashok Bothra, CFO. I would like to invite Mr. Dinesh Sodani, GM Finance to initiate with the opening remarks, post which we will have a Q&A session. Over to you, Dinesh ji. Thank you.

**Dinesh Sodani:** Thank you, Sanjay ji. Good evening, everyone. Please note that a copy of our disclosures is available on the Investors section of our website as well as the stock exchanges. Please do note that anything said on this call, which reflects our outlook towards the future or which could be construed as a forward-looking statement must be reviewed in conjunction with the risk that the company faces in terms of uncertainty.

With that, I would like to hand over the floor to our MD, Mr. Chintan Shah for his initial comments. Over to you, sir.

**Chintan Shah:** Thank you, Dinesh ji. Good evening, everyone. On behalf of the management of Tatva Chintan Pharma Chem Limited, I welcome you all to the Q3 9MFY23 earnings call of Tatva Chintan Pharma Chem Limited. Wishing you all a very happy healthy and prosperous 2023. I believe you've got a chance to go through the investor presentation uploaded on the stock exchanges as well as the company's website.

To start with, I would like to brief you with the **financial numbers**. During this quarter, the company reported the revenue from operations of ₹ 1,206 million, a growth of 15% YoY and 34% QoQ respectively. As anticipated, improved offtake in SDA segment is reflected in numbers of this quarter. EBITDA during this quarter was ₹ 179 million, a decline of 25% YoY and a growth of 60% QoQ respectively. EBIDTA includes forex gain of ₹ 0.7 million, so the operational EBIDTA during the current quarter is ₹ 178.43 million which translates into EBIDTA margin 14.79%. Net Profit after tax was ₹ 116 million, a decline of 49% YoY and a growth of 63% QoQ basis. There have been few positives for the business this quarter like a marginal decline in power and fuel costs, and a significant drop in shipping cost since mid-November. Also, since December, the solvent prices have started to rationalize. Though, the prices of basic chemicals and commodities still continue to remain very high. We have witnessed rampant currency fluctuations across various geographies this quarter, particularly adverse movements in Euro and Yen. Keeping in mind our long-term partnerships and associations with select key customers belonging to these geographies, we opted to support them during these adverse times and tried to return their favors from the past. In certain cases, we marginally reduced the prices and, in few cases, opted not to ask for price increase and absorbed certain increased costs ourselves. During the quarter, the inventory at consolidated levels have come down from ₹ 2,030 to ₹ 1,762 million.

Now let us talk about each of the product categories and the key developments that took place during this quarter.

**PTCs** have registered revenue of ₹ 325 million in this quarter and nine-months revenue of ₹ 1,054 million, contributing ~35% of the revenue and a growth of 55% YoY basis during 9MFY23. Demand for PTCs from various user industries continue to remain robust. Major supplies of PTCs are in overseas market.

**Electrolyte Salts** have registered revenue of ₹ 41 million in this quarter and nine-months revenue of ₹ 156 million, contributing ~5% of the revenue and a growth of 357% YoY basis during 9MFY23. As informed earlier, the off take from one of our large customers is on hold as they are working on debottlenecking their productivity and we expect them to resume their offtake from end of June 2023. We have supplied multiple electrolyte salts samples for approval to a new global potential customer and are awaiting their approval. During the quarter, we have some significant achievements in this area. We successfully got our first approval for high-purity electrolyte solution from R&D scale. In current month that is January 2023, we have shipped the first small scale trial order from the pilot plant successfully meeting with the most stringent quality requirements. We anticipate getting a formal approval followed by a plant scale trial order to be executed in June 2023. We have received yet another customer's request for supply of electrolyte solutions. We shall be sending out R&D scale samples in February 2023. With increasing demands for super capacitors and energy storage systems, we are confident to deliver exponential growth in this segment over next three years.

**Pharma and Agro Intermediates and Specialty Chemicals** have registered a revenue of ₹ 264 million during the quarter and nine-months revenue of ₹ 1,036 million, contributing ~35% of the revenue and a growth of 36% YoY basis during 9MFY23. In Monoglyme, the final inspection of the pilot stage equipment for continuous flow chemistry is finally under process and we expect to receive the equipment by first week of February. After installation, we will be able to finally start the trials. As discussed earlier for our second product on continuous flow basis, we have received the quality approval from our small-scale plant trial material. Now we have been requested for a full plant scale trial material by the customer. This has happened much faster than we anticipated. We plan to supply the plant scale trial material by end of August 2023. Post successful trials, we strongly expect a very interesting opportunity to begin commercial supplies post April 2024. Regarding the new product in application area of metal extraction, the production has commenced for commercial supplies, and we expect the first shipment to happen in February 2023. As informed during my last call about the successful completion of development of our third product on continuous flow basis, which is the key base raw material for multiple agro chemical intermediates, I am pleased to inform you that we have been allotted projects to work on two downstream agrochemical intermediates. The work on these molecules have already been initiated in our R&D. Our team has a remarkable success in development of our fourth product on continuous flow basis. The development is nearing completion. We have undertaken development of two other products on continuous flow basis. By demonstrating our capabilities to run specialized chemistries, we are seeing a consistent rise in the confidence and comfort of large customers to work with your company. We are very confident about the strong growth in this product category over the coming years.

**SDAs** have registered revenue of ₹ 571 million during this quarter and nine-months revenue of ₹ 728 million, contributing ~24% of the revenue and a decline of 61% YoY during 9MFY23. As previously guided, the sale of SDA has seen an uptick in this quarter, with demands coming from few customers. The overall demand in the market is not back to normal levels yet. We expect the demand of SDAs to remain at nearly similar levels for the next 2 quarters. As China boundaries have finally opened up with curtailment of governments zero covid policy, the market expects the commercial vehicle sales in China to rebound, leading to growth in SDAs demand from late Q2FY24. During the quarter, we successfully supplied plant scale trial material of a new SDA to a new customer, about which I had mentioned in my last call. Now we have been offered an opportunity to supply second SDA on plant scale trial which shall be executed during Q4FY23. We expect the approvals for both the SDAs by September 2023. We are confident that the volumes in SDAs will rebound strongly from July onwards and we remain optimistic about increasing volumes over the coming years.

Regarding the **Flame Retardants,** after successful completion of plant trials, we are under process of approval with various customers. We have received formal approval from two customers and are awaiting approvals from few others. We are awaiting plant scale trial orders and expect to receive them by the end of this month. This will get us going commercially and eventually scale up the volumes from Q12024.

The **key watch areas** would remain how the European energy crisis roll out over the next few months and how the demand revival for heavy duty commercial vehicles pans out. Also, with the China economy opening up, it would be important to observe how quickly their business rebounds.

Looking at the challenging global macro-economic factors, it seems that businesses would be under demand and price pressure over the next 3-6 months' time. Your company is working relentlessly in optimizing the processes, working closely with key customers to enhance mutual benefits and creating a path for strong growth ahead. Despite of the challenging times, we expect flattish growth for next 2 quarters and are confident to deliver a decent growth for next financial year. As guided earlier, this financial year (FY23) has been a tough year, despite that we expect to close FY23 with revenue in excess of ₹ 400 crore though with subdued profitability as compared to FY22 due to the known global economic factors.

We are happy to inform that the **capex** at our Dahej SEZ plant is completed and trial runs are underway. Please note that nearly 93% of the IPO funds have been utilized so far. The expansion of R&D facility at Vadodara is on finishing stage.

With already completed or nearing completion R&D projects having promising business potential, dedicated infrastructure would be required to produce them commercially. Over the next few quarters, we might be looking to raise fresh capital for expansion at the new greenfield land. The environmental clearance of the same is expected to be in place over the next couple of months. It would take at least 24-27 months to execute a greenfield project.
We commit ourselves to scale up the already approved/developed products at a fast pace to turn them into profitable revenue. We shall continue to work hard in developing new products using latest technology to ensure that we continuously provide high purity products and innovative solutions to our customers.

With this, I conclude my remarks and hand-over the call to our CFO, Mr. Ashok Bothra for taking you through the financial numbers.

**Ashok Bothra:** Thank you, Chintan sir and good evening, everyone. I shall summarize the financial highlights for the quarter.

- Revenue from operations was at ₹ 1,206 million v/s ₹ 1,047 million in Q3FY22, increase of 15% on YoY basis largely due to recovery in the offtake of SDAs.
- Other Income declined by 67% during Q3FY23. Other income comprises of FD income, with the money being utilized towards capex, hence, the interest received has declined. Additionally, there was a gain of ₹ 28 million due to foreign currency translation during Q3FY22 which led to increase in other income in that quarter.
- EBITDA was at ₹ 179 million v/s ₹ 239 million in Q3FY22, decline of 25% on YoY basis. EBIDTA Margin was at 15% v/s 23% in Q3FY22. The margins have been impacted largely due to the change in product mix coupled with Pricing pressure and partly offset due to reduction in Other Exps.
- PAT was ₹ 116 million v/s ₹ 228 million in Q3FY22, decline of 49% on YoY basis. The impact is on account of higher finance cost due to higher utilization of working capital facilities and higher interest Rate and also due to higher tax on account of end of 100% tax holiday. Our Dahej SEZ facility is eligible for 50% tax exemption starting from Q1FY23 for a period of 5 years as against earlier 100% exemption.
- PAT Margin was at 10% v/s 22% in Q3FY22.
- During 9MFY23, exports stood at ₹ 2,095 million, contributing 70% of the revenue.

Out of the net IPO proceeds of ₹ 2,072.81 million, ₹ 1,927 million have been utilized i.e. 93% of the funds have been utilized as on 31 December 2022.

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

**Moderator:** The first question is from the line of Nikhil Rungta from Nippon India Mutual Fund.

**Nikhil Rungta:** So, two questions from my side. First is to start on the revenue side. You indicated that since China is opening, we might see good demand from SDA, two to three quarters down the line. But earlier, we had indicated that SDA demand to start post Q3FY23 itself. So why delay of two to three quarters more? Further, China is now opening up. So, wouldn't few of our customers who were not importing from us have started import?

**Chintan Shah:** Yes. So as indicated, see the uptick in demand of SDA is already visible. We have a decent sale of SDA happening in the last quarter, and we expect similar kind of performance even in the next two quarters as well. The issue is that we have one of our very large customers from the China geography, and they are still struggling with the demand and piled up inventory because of long shutdowns and very large drop in heavy-duty vehicle sales in China, which has impacted their sales.

So, they are still sitting on inventory and as indicated by them, we are expecting them to resume their procurements from May 2023. So, we anticipate from May or June onwards, we will have our strong sales also coming back. And rest of the customers are definitely coming back online as it was anticipated and going strong now.

So, I don't anticipate except for the China customer, most of the customers are now falling back on track and the demand is getting stronger. And this Chinese customer, we expect to resume sourcing from May 2023.

**Nikhil Rungta:** And sir, coming to the margin side, you indicated a few of pointers that we have absorbed few of the cost and not pass on to the customers. But by when do you think we would be in a position to start reporting our normalized margins?

**Chintan Shah:** Let me explain exactly what has happened. So, as you are aware, we were sitting on quite a piled-up inventory on the SDA side. In terms of not only finished goods, but also, it's a multistage chemistry. So, there are inventories lying at various stages in production. So, with the finished good inventory, we had no issue because the price has not been reduced or dropped for the selling price is concerned.

But when it came to converting the in-process materials to finished goods. That is where the higher solvent price in the commodities price definitely hurt us. And there was no significant reason actually going back to the customer for asking for a price rise for solvents or commodity chemicals kind of stuff.

So, we had to absorb those costs ourselves. We are sitting on this inventory even which should probably last until this quarter, the current quarter, the running quarter. And post that, now again, the solvent prices, everything is falling back in line and commodity prices also we are expecting to fall back in line.

Hence, even for the next quarter, i.e. Q4FY23, we expect similar kind of margins, maybe slightly increased margins than what we have reflected in this quarter, but more or less in the similar lines.

But from April onwards, we expect the margins to come back to a normal territory. Once we have consumed our old inventories, then we are again back to Zone 1. Also, a lot of our Phase Transfer Catalysts and also what's required for the SDA, these are bromine-based products. And there was a very rampant movement on bromine prices during this quarter.

So, until early November, the prices were pretty much stable. And then the prices shot up very sharply by nearly 25%, just in a span of six, seven days, so which was beyond our control, and it was a very short time to ask for any kind of a price corrections with the customer.

A lot of our revenues come out of bromine-based products. So that as well hurt our margins during this current quarter. But I think we will overcome this, particularly for the Phase Transfer Catalyst, we'll definitely overcome this issue. But SDAs, we will require one full quarter because we are sitting on inventory, piled up inventory of intermediate stages, which we need to convert to finished products. So there, we still continue to have some impact on profitability.

**Nikhil Rungta:** So, coming on to the revenue side, you indicated this year, we might close at approximately INR 400 crores of revenue. So, if I have to look at three years target for the revenue, what type of revenue are we expecting, say, in FY25, FY26? And in that with the share of electrolyte solutions increasing, what could be the share of electrolyte in those years as compared to 5% now?

**Chintan Shah:** As I told you, we have four projects on continuous flow basis, which are on floor now. So out of them, two are getting into commercialization. One is Monoglyme and the other one is the Agro intermediate, which we have recently received approval. We have necessary infrastructure and space at our existing plant to execute both of these projects. Then probably, we will start running short on executing any kind of future projects. And with the existing infrastructure, flame retardants, these two continuous flow products going on stream, we expect to fully consume our capacities by FY25 or FY26. So, I would estimate a revenue in a zone of upward of INR 800 crores to INR 850 crores by FY25/FY26.

**Nikhil Rungta:** Sir, these were the key things from my side, just one point from my side. I mean you indicated that trial runs have started in our Dahej facility by when the commercial production will start?

**Chintan Shah:** By 1st of February, that is what is targeted.

**Nikhil Rungta:** Perfect. That's all from my side. And all the best for the future.

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

**Sanjesh Jain:** First, on the SDA part of it. Is there any price correction in the SDA, which we have taken or the end prices are stable as it peaked now?

**Chintan Shah:** So far, all the prices are still very much stable. And we are also working on see, basically, these are lengthy chemistry. So, we are working on some backward integration so that we can also optimize our margins further as well as pass on part of those benefits to the customer and optimize their cost as well.

So, these are one some of very good backward integration projects that we have completed on R&D scale and which we intend to start. We have completed plant scale trials as well for this, and we have submitted samples to our final customers for SDAs. We are awaiting their approval. Probably, it might take three or four months to get those approvals. I mean it's really time-consuming affair to get these approvals in place. But once we have these approvals, we might even see slightly upper movement in terms of margins with SDAs going probably five to six months down the line.

**Sanjesh Jain:** And second, we are almost into FY23 nearing to FY24. How is the sanction on the Euro VII norms? And are we working anything on that? That's number one. Number two, China was supposed to adopt China VI emission norm, should this drive the higher SDA volume growth over the next two years?

**Chintan Shah:** Yes, just recently, during my speech, I mentioned about getting an opportunity to approval of a second SDA, which we expect we are going to supply this commercial lot, a full container lot in this month, and we expect to have this if we are going through with the approval, then this approval should be in place in September 2023. And this is particularly for the Euros VII application.

Also, our existing large customer has already approved our product and started buying the SDAs for the Euro VII application. Of course, the volumes are much lower compared to the Euro VI but the Euro VII application has already kicked in. And with happening of this and also with the BS VI, full implementation happening in China, yes, we expect this will have a very positive impact. And that is why I mentioned on my speech that we expect the sales to be robust over the next few years. This is particularly the key reason why I mentioned that.

**Sanjesh Jain:** Second, can you help us understand segment by segment, what are the new products we are working? And what is the time line? So, let's start with SDA, are we working on Euro VII, which should start in a year or so.

**Chintan Shah:** We have completed the development part and also the commercial scale-up of the Euro VII SDAs. And I mean, we supplied one of them and the second one is now about to get dispatched. So, with that, all potential candidates for Euro VII SDAs are in place with Tatva Chintan as of now.

**Sanjesh Jain:** And we did mention a few more products in SDA bucket. One is high purity product. When are we expected to see some?

**Chintan Shah:** So that is what we executed in December. So that is for a plastic application, which I talked about recycling plastics. So that SDA has already been sent out for a commercial scale plant trial. And this also we expect to hear back from the customer by August or September 2023.

**Sanjesh Jain:** And in the PASC, how many products we expect to commercialize over next two years, say, in FY24 and FY25.

**Chintan Shah:** So, one large product, as I mentioned, is already getting into commercial mode. We have a second product as I had mentioned on a continuous flow chemistry basis. For the second product, the samples have been submitted, we expect the results of the samples by end of January 2023, just within the next ten days' time. And if these are approved, then we will have an opportunity to supply for a plant scale trial by July or August of this year.

And this will again go into commercialization in FY24. We have already submitted plant scale trial material for one pharmaceutical intermediate in the last quarter. So that we expect to have commercialization by end of 2024. It's a little long shot because the pharma approvals are a little time consuming. So, we expect this to happen by the end of 2024.

And the one which I'm talking about, the new success in the continuous flow chemistry part, under which we have got opportunity to develop two Agro intermediates. So, we have just begun our work on developing and we have completed our work on the continuous flow part.

So now we are working on the downstream products, which we expect to start sending samples within next six months' time frame. So, this we can expect by end of FY24 or early FY25. And that should be the time when we should also be ready with our continuous flow equipment in place. So, the timing would be more or less precise for us.

**Sanjesh Jain:** I was just asking because considering that we are speaking of INR 8 billion to INR 9 billion kind of a revenue by FY25. I just wanted to understand, are we being more conservative on the revenue guidance?

**Chintan Shah:** So basically, I don't expect everything to go at a full scale in next two years. When a customer says, let us say, for example, a potential of 1,000 metric tons. We don't anticipate to reach 1,000 metric tons in a span of two years. So, it will be a gradual ramp up in next three to four years' time frame. So of course, the opportunity is much larger in terms of revenue, but we are looking at FY25, FY26, then this, I would say, is a very fair number to estimate.

Though it is conservative, but it is a very fair estimate to put in place -- and in any case, we will not have enough plant capacities to go beyond that. So, for that, the Greenfield project has to be developed and then only it can take us further beyond INR 900 crores, INR 950 crores revenue. So, to have that Greenfield project, we may require 30 months time to have that in place.

**Sanjesh Jain:** And Chintan bhai, on the margin side, last time when we did 500-plus million in the revenue on the SDA side. We did an EBITDA margin in excess of 22%. Do you think on a steady state when we go back to, say, with the solvent issue getting resolved, do you expect the company to go back to this 22%, that kind of a margin?

**Chintan Shah:** We expect to do that. And to even overcome the fluctuating prices in these certain solvents, which we are using on a very large scale. So, as I had mentioned, last quarter, we successfully implemented a technology where we could recover and release one of our large solvents by which potentially, we will reduce an effective usage of about 800 metric tons a year for this particular solvent.

And now in this quarter, we have successfully run trials to recover and reuse our second largest solvent, which is in place. And this could also potentially have an impact of about 700 metric tons to 800 metric tons a year consumption. So instead of having to dispose of those solvents after use, we'll be able to recover reuse at the same efficiency levels as a fresh solvent. So that is the technology has been working very well for us.

**Sanjesh Jain:** So probably Q1 FY24, we will be back to that normal margin run rate what we were doing?

**Chintan Shah:** Yes. But as of today, we have only one system in place which can run one solvent at a time. With our current capex plan, which is getting over and starting trials, so by mid of February 2023, we'll have the second system in place, which is already installed at this new plant. So, then we can simultaneously effectively recover and reuse both the large volumes solvents, from the Dahej plant.

**Sanjesh Jain:** And have we started working on the new plant? I guess we have acquired a large land in a non-SEZ, have you started the process of getting the Environmental Clearance and all those things?

**Chintan Shah:** EC, we expect to have EC in place in probably next two months' time frame. So, most of the groundwork of EC is done. We expect to have this in place by March 2023. And internally also, we have started applying designing concepts of how this plant should be and what kind of infrastructure we want in place. So, all those discussions have already begun.

**Sanjesh Jain:** No, because I thought you said it will take 30 months. Now, it looks like we are running far ahead of the 30 months?

**Chintan Shah:** No, that is because it's a Greenfield project. So, once we have EC only then we can break that ground, So, post completion of this existing infrastructure going on. Once we are free from there, then we actually start seriously designing parameters for what kind of infrastructure precisely we need at the new location. So, all those discussions have primarily begun, but the serious talk, I presume should happen from mid of February onwards.

**Moderator:** The next question is from the line of Nirali Gopani from Unique Asset Management LLP.

**Nirali Gopani:** Sir, I just wanted to share my thoughts on the margin side. In the last call, we had mentioned that we are not passing the energy cost and the freight cost and we are bearing this cost, to maintain the long-term relationships that we have with our customers. So, my concern is how will be deliver on the margins? Because this quarter, the chemicals and other raw materials, that is of a price increase. So, if you can just share some thoughts on this.

**Chintan Shah:** There are multiple factors associated to that. So, one of the good part is the freight cost has started coming down, from early December. So, that is one very good part. So, wherever we have not passed on the freight increases, we'll have leverage in terms of margin in those cases.

Again, the solvent prices have started to kind of rationalize. So, we have seen a sharp peak in certain solvent prices, and then we have seen a drop in solvent prices beginning from December as well. And this seems to be a continuous process and now solvent prices are kind of coming down to the normal levels. So, that is one very good aspect because where you calculate the cost of the product or you negotiate the product pricing for a large volume product to a customers, typically your pricing formula normally involves only the key raw materials, right?

So, the commodities which you use, for example, let us say, you are using caustic somewhere to maintain your PH standards or certain acids or stuff like that, for example solvents. So, these are all kind of ancillary requirements to the main process. So, this normally don't become a part of your pricing protocol with the customer.

And unfortunately, the raw material prices more or less, except for bromine is one exception. Most of the raw material prices remain pretty much stable, whereas this commodity and solvent prices just shot up by probably more than 200% in So, many cases, which had a definitive impact. Now with these prices of solvents at least coming back will be a big relief for us. So, with this, we are pretty confident that we'll be able to again recover our margins back without actually going back to the customer for a price increase.

And we have a very important customer base coming out from adversely impacted foreign currency zone. So, typically, the Eurozone and the Yen and they have seen a sharp appreciation, in their currencies and which made it pretty difficult for them since they were import-dependent for certain products, particularly for our SDA as well.

So, the cost was shooting up like anything. So, it was definitely a goodwill gesture from our side as well. Based on their request, we would have liked to support them. It's a long-term relationship we are looking at and building up a good strength, strong relationship with these customers for a long term.

So, it was also kind of a moral responsibility from our part, to kind of absorb. And they have always supported us in our past issues, whenever we had pricing issues, they have been upfront in supporting us. So, now it was a time for us to step up and support them, and we did that.

**Nirali Gopani:** Actually sir, the disappointment is because in November, we have guided for H2 margins to be in range of 20% to 22%. And the difference from what was guided is pretty huge.

**Chintan Shah:** We will not disappoint you, post April 2023. That is for sure. And see, certain short-term sharp price movements are always very difficult for any manufacturer to handle. If you go through my list of products, a lot of products are based on bromines, in the bromine chemistry. So,a very sharp movement in a very short span of time. Typically, it was roughly about a 20% to 25% spike in bromine prices, which came as a big surprise. And this is where it became difficult for us to manage certain things. But once we know that these are the stable high price mechanism, then you have an opportunity to go back to the customer and negotiate for the next quarter.

Typically, pricing are the ones more or less on a quarterly basis in most of the cases.so, any sharp movements, during the quarters, always becomes difficult to manage. So, sometimes you are in a tough spot. So, this quarter, we were in a tough spot, unfortunately.

**Nirali Gopani:** So, Q4, the margin would also be in this range? Or we will see around 20% of EBITDA margin?

**Chintan Shah:** We should see a couple of percentage gain in terms of EBITDA margins in Q4 because still we have certain orders in hand, which will clear up our old SDA inventory in terms of finished goods as well as in-process material. And we will be completely done with all the inventories that we have been holding. So, we may not have that significant margin of 22%, 23% in Q4, but this is what we expect to assume from Q1FY24.

**Nirali Gopani:** And sir, my next question is on the guidance that you are giving for FY26. So in the last call you had mentioned that this four new products in pharma and Agro side, do you have a potential to reach INR 800 crores to INR 1,000 crores in the next four years? So, am I missing something?

**Chintan Shah:** No. So, this products at a full-scale potential is at INR 1,000 crores revenue. But you don't achieve this in one year, So, it will be a gradual ramp-up to that levels in next three to four years time-frame.

**Nirali Gopani:** Then your guidance will be too conservative, right?

**Chintan Shah:** Not conservative, it is very practical, because I have only enough infrastructure in-place, where I can reach probably INR 850 crores, INR 900 crores, INR 950 crores at max. Then we will run short on the infrastructure. So, we'll need a new plan to be able to achieve larger volumes and newer products to be manufactured. So, that is what now we have seriously started considering. And with the kind of markets that we have seen over the last six months, So, it's little jittery, so we are also very cautious in going ahead with our decision to that, but probably we have no choice, but we have to move ahead with that decision and go for a new capex, probably in next couple of quarters is what we should definitely consider.

**Nirali Gopani:** And sir, in the last question, you just mentioned that the stable margins would go back to 22%, maybe in FY24. But can we go back to the earlier level of 25%, in a year or two?

**Chintan Shah:** Basically, see, even the issue when we say the drop-in margins, so even if this quarter if you realistically see, we have cleared lot of our inventories, rather than actually having larger volume of production. So, once you have the rampant production in place, which is occupying your facilities, probably 80%, 85% that is when you actually see a real margin settling in. So, again, the reason why I'm saying Q4 we will have some subdued margin is again because we are going to clear off most of the inventories and plant capacities would still remain idle.

And that would not be the case from Q1, because then we have cleared all the backlog inventories, and then we'll actually see a rampant production happening in place. So, of course, when your plant start getting occupied beyond 80% capacities is when your real margin start kicking. Most of the overheads, a lot of overheads, both. some of them kind of direct cost, but Most part of those direct cost are also kind of a fixed cost.

So, when your productivity goes up, that is where the cost starts getting distributed over various products and that is where the beauty of margin set in.

**Nirali Gopani:** And sir, just last question from my side. Sir, you said that you have to raise funds for the Greenfield capex. So, will it be equity, assuming that you'll have to bring down your stake also to 75%?

**Chintan Shah:** That is probably the most relevant answer because we will be required to dilute stake by mid of the next year, So, that is definitely the option, which we would like to explore.

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

**Padma Mathi:** Sir, my first question is, like out of our total SDA sales, directly or indirectly, how much of that is dependent on China?

**Chintan Shah:** I would say, indirectly, roughly about 40% to 50% is my best guess. Honestly speaking, I would not really know the geographies where the end product would be going. So, we are the first in the chain, we make the SDA, my customer makes the zeolite, his customer makes the final catalyst, and then this catalyst goes to the to the automobile company, getting fit into the catalytic converter. So, honestly speaking, I would not know the answer precisely, but my best guess would be roughly 40% to 50% dependence on the China market as of now.

See, when we started producing and when we started getting approvals, we were shielded from the US, Europe, Japan market, because those approvals were already in-place with my competitor. So, honestly speaking, we were left with other Markets mainly China, India etc which is where we also got the opportunity when the India and China market opened up. So, probably 90% to 100% of the products, eventually made using our SDAs are finding an applications in these two geographies.

And this geographical barrier should go away when we move from BS-VI to BS-VII, So, we are already in queue for BS-VII approvals, getting few approvals already in-place and commercial supplies already started. So, BS-VII will remove all the geographical barriers for us.

**Padma Mathi:** So, from the solvent costing perspective, you mentioned that solvents have shot up towards last quarter. So, out of the total cost, these solvents will form how much portion, approximately?

**Chintan Shah:** See, basically the challenge is, we are into high-purity products. So, when you say solvents typically is not a part of your product, it's not a part of your key raw material, it's an ancillary that you require to produce, but after one-time use your solvent gets contaminated with certain unwanted impurities, which because by virtue we want to produce high-purity substances, we are unable to reuse these solvents.

So, when I talked about the technology, which we have now in-place for one solvent and which now we have successfully established for the second solvent as well. See, this could be done by anyone, but the key part in these technology is, whether we can recover and make the solvent equally pure than we are buying fresh. So, that is what we could establish and we could have our final or the finished product with the same purity levels and that was the biggest challenge which we overcame. So, ideally speaking, normally, we would say about 8% to 10% cost or 12% cost is the solvent cost, but when you are not able to reuse these solvents, then this becomes a significant part of your raw-material cost.

**Padma Mathi:** Sir, the reason why I was asking this question is, out-of-the 800 bps gross margin impact quarter-on-quarter, how much would you actually quantify to inventory loss?

**Chintan Shah:** I would have to work out that number precisely and I can give you that answer offline, probably tomorrow.

**Padma Mathi:** Last question from my side. I think I missed the status on the flame retardants project. Can you throw some color there, with regarding our commercialization?

**Chintan Shah:** Yes, So, now we have got full scale approval from two customers. Now, we are negotiating the pricing with them. And we are awaiting four more approvals. So, we'll start commercially producing them in this quarter, the current quarter Q4, and that would be to execute their plant scale trial materials. So, it would be a full-scale trial supply that would happen to these two customers in the current quarter, and then we should see commercialization happening from Q1FY24.

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

**Yash Shah:** Sir, my first question was regarding margins itself. Sir, since we have such high gestation period, wherein we start from lab scale then pilot scale and then plant trials, very-high gestation period. So, are we already in talks with few of our major customers to basically shift from three months to six months campaign orders and move to cost-plus model, since the fluctuation in the solvent prices hampers our margins significantly, So, are we already in talks for that?

**Chintan Shah:** No, most of our large customers business is already driven by a certain price model. But usually solvents or the ancillary chemicals or the commodities never become a part of it or not even the freight cost. So, freight cost or packaging material cost of the solvents or the commodities don't become a part of their pricing formula. Usually, –only the key raw materials is what becomes a part of the pricing formula. So, whenever you have such severe adverse movement in solvent pricing, only then we are able to go back to the customer and request for price increase.

So, even as of today, despite of having this experience of last eight, nine months of having adverse pricing cycles in solvents or commodities, still it's not a fair practice to include them in a part of your pricing formula. So, usually the pricing is governed by a two or three key raw materials, which contribute, let us say, about 60% of the RMC, total RMC and that what you were negotiating platform which is set. And this prices can be probably governed or monitored on some internationally platforms, where it's a fair play for us.

So, it's not that I go and say that the price is increased, for example, the bromine price. And it is visible at most of the exchanges, chemical exchanges or prices is fairly available globally that what is a price increase in bromine kind of stuff. So, still solvents or the commodities are not part of the pricing formula and probably it's never going to be that way. And not with us only, probably be with most of the chemical companies, Speciality chemical companies, yes.

**Yash Shah:** So, the only way we can mitigate that is by acquiring technologies like how we've done for the two key solvents and large solvents, right? My another question was regarding the PASC segment. Now if you see quarterly, the segment looks under pressure. From which end-user industry did we face this pressure or is it just cyclical in nature?

**Chintan Shah:** It is not actually cyclical, we are second supplier to one of the two key products where we have seen some impact. One of them is a US customer into pharmaceutical segment, which have postponed their orders up to April, So, the November-December orders have been postponed up to April. And there is another large agrochemical customers who had some pending orders from their key Chinese supplier. This containers got stuck because of this lockdowns and stuff. So, unfortunately, all these containers, about six or seven containers of product hit the Indian shores at that time in October, So, then they had to actually stopped buying from us in November and December, which has again come back to a normal pace.

So, our suppliers, as well as our competitors, Chinese competitors supplies are now streamlined, So, now we are seeing kind of a streamlined business have been back from January. It was just a timing phenomenon that was causing this little up and down.

**Yash Shah:** So, we can expect to basically the revenue to go back to INR40 crores, INR45 crores in H1 FY24, right, and that understanding will be right, sir?

**Chintan Shah:** Perfect, yes.

**Yash Shah:** Sir, my next question was regarding electrolyte salts. Previous quarter we had mentioned that we had gotten approval from one customer which was from super capacitor batteries and we were in talks with another customer for energy storage, has there been any kind of update on that part?

**Chintan Shah:** So, the energy storage customer, we have already supplied the plant trial material to them. And we expect them to run these products into their energy storage systems and we should have a feedback in probably the next couple of months. And see, basically, they have been awarded certain projects by the US government to setup certain energy storage plants across multiple locations in the US.

And they are also running their trials with whatever the US Energy Department, and they expect their approvals to be in-place from July or August of this current year. So, post that, they will have these projects in-place and this should start their own. So, we are expecting very good business from this customer post-approval, probably from September onwards.

And the second customer where we supplied the electrolyte salts which got fortunately approved. And they actually liked the quality and they insisted whether Tatva Chintan can actually help them to supply the electrolyte solution. So, it's the same customer where we got approval for the electrolyte salts for the super capacitor application is where we have now successfully supplied electrolyte solution.

So, this is the first time where we have successfully made and achieved the desired quality of this electrolyte solution. So, until now, we have only been into the salt, never made any kind of solutions, and this is the first time where we have now successfully produced the desired quality of the electrolyte solution. And based on that, now we have a request from yet another customer in Far East, where they are also looking at the products from Tatva Chintan in the solution form, not the salt form.

**Yash Shah:** So, we had expertise in the salt, now all we need is solvent?

**Chintan Shah:** I would say we require a super special handling systems, because we are talking of absolute dry products. We are talking about moistures below 10 parts per million, even if you let it expose for five seconds to the atmosphere, then these products will not meet the quality requirements.

So, that is the kind of systems we have already successfully deployed on the pilot scale and now we are working on converting this into a plant scale, because we are expecting –that once we have this approval of the pilot material, which we have recently supplied and we are expecting to have a plant scale trail order for about 8 metric tons to 10 metric tons of this electrolyte solution, but we don't have the necessary infrastructure in-place as of today and we are working in that direction.

**Yash Shah:** That was going to be my next question, sir. Right now, say in SDA, we have about four products, which are mostly in approval stage, which are in lab and pilot-scale, right. So, do we have it in electrolyte salts and SDAs well, a couple of products? As we are going to basically commercialize new R&D facility, So, that will accommodate the newer products where do you want to work on the newer products, wherein you will get a request from the customers.

So, don't you see this becoming a challenge when you have to convert it to a plant scale from lack of infrastructure, because we targeted to basically raise money after a couple of quarters and then the commissioning will start which will take about -- Greenfield expansion will take about another year or so, eight months to 10 months. So, that will be…

**Chintan Shah:** So, not for the SDAs, not for SDAs or electrolyte salts, that is not a challenge. We have enough capacities already in-place. The challenge is only for running the newer type of chemistries, particularly the continuous flow chemistry that we are talking about. So, we will have enough space in our current plant location, the existing Dahej plant location where we are. So, we have enough space, probably to just include two continuous flow chemistries at a full-scale. So, there could be a possibility to include a third one, but then this continuous flow chemistry products are not the final product that we are going to sell. So, this becomes the key starting raw materials for the downstream products. That is where we will start facing challenges. That is the reason why we will have to start looking for a new infrastructure, which you cannot probably accommodate on this existing site.

**Yash Shah:** Last question from my side, sir. If you can tell me the name of the solution, sir, the electrolyte solution, which we will be making. If you can provide some information on the chemistry and the additives and solvent if possible?

**Chintan Shah:** No, that is not possible. It's basically an NDA with our customer as well. So, it's a the kind of the additives that they require, it's a shared information that we have from them, the solvents which is being used, So, it's a coded solution that we are selling to them.

**Yash Shah:** Is it, sir, like in the case of…

**Chintan Shah:** This involves, for example, just to give you a brief, this involves chemistries like Quaternary compounds, which is then eventually converted to high purity SDAs. These high purity SDAs then converted into a high purity electrolyte salts, then this salt is converted into a formulation, which is electrolytic solution.

**Yash Shah:** Actually, I was trying to understand from the lines of the electrolyte salts, like LiPF6, which we make for lithium batteries. So, I was trying to understand on those lines like which chemistry will be used. I understood, sir. Thank you so much sir.

**Chintan Shah:** And the challenge which you have in LiPF6 is a salt and then you have an LiPF6 electrolyte solution. So, few companies would be able to make the salt, but very selective companies would be able to make the desired quantity of solutions. So, we are talking right now we are talking of venturing into electrolyte solution part.

**Moderator:** We have the next question from Rohit Nagraj from Centrum Broking.

**Rohit Nagraj:** Sir, my first question is, we have indicated about INR 400 crores to INR 450 crores of additional revenues over the next three years, what would be the expected composition of the same across our four segments, PTC, Electrolyte Salts, PASC and SDA?

**Chintan Shah:** I'll have to work that out precisely and give you a number offline, but typically the Electrolyte business is expected to pick-up really very fast, followed by a pick up in the PASC segment. So, with PASC segments, we are on the approval stages, we will be supplying few containers of products for plant scale trial, plant scale approval during this year of 2023.

So, probably by mid of '24 is when we kick-in the commercial supplies and this would be a stage where this increase is going there, whereas in PASC, we see a very strong demand growing exponentially over the years. So, this is something very difficult to digest, but that is what actually the industry is looking for. So, that is one of the segment that will grow very fast over the next three years and PASC is another segment, which will grow. And of course the SDA is bound to grow with the new approvals and the BS-VII kicking in. So, we will also see a decent growth in that area as well.

**Rohit Nagraj:** Sir, second question is in terms of the potential new Greenfield project. So, what would be our focus area at least in the initial part? And any ballpark estimate in terms of the size of the project and maybe investments across different segments?

**Chintan Shah:** Probably, this is more, we will have some kind of a safety production facility, offering the security of supply to customers for all the segments. So, a part of this facility will have SDAs as well, electrolyte salts as well, but more, the most focused area for these facilities would be to have continuous flow chemistries and downstream products made out of there. So, that is what would be the key area of focus in the new facility.

**Rohit Nagraj:** And here again from an overall customer point-of-view, will it be predominantly for the exports market or will it be a combination of both domestic and exports?

**Chintan Shah:** Combination of both, and that is the reason why we opted to buy a land, this new piece of land is not within the SEZ, it is out it is in the Dahej Industrial Park, but it is outside of the SEZ. But the idea behind that was, we the products that we are into have potentials both in exports, as well as into the domestic area.

**Moderator:** Thank you. Ladies and gentlemen, that was our last question for today. I would now like to hand the conference over to the Managing Director, Mr. Chintan Shah for the closing comments. Over to you, sir.

**Chintan Shah:** On behalf of the management, I thank you all for joining us on our earnings call. We appreciate your continuous support and trust on Tatva Chintan. We commit to deliver and see the markets for our products improve going forward. We hope that we have been able to address most of your queries. You may reach out to Mr. Ashok Bothra, our CFO or our Investor Relation partners EY for any further queries that you may have. And they will connect with you offline.

Thank you, Mr. Sanjesh ji for hosting our call. Thank you and have a great evening, everyone.

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