

Tatva Chintan Pharma Chem (TATVA)

Chemicals | Company Update

SELL

CMP: Rs1,163 | Target Price (TP): Rs1,000 | Downside: 14%

March 20, 2024

Delay in EU 7 implementation poses risk to SDA growth

Key Points

- As per [press reports](#), the European Parliament has recently approved the EU 7 norms (originally introduced in 2022) related to limiting vehicle emissions. The actual implementation of these norms is not likely any time before the start of FY28 (initial expectation of FY26).
- While the management has guided for strong growth in SDAs in FY25 (after two consecutive weak years), we believe that the EU 7 related incremental demand from USA and the EU will be pushed further down the line and overall SDA growth might moderate post FY25 till FY27.
- We believe that delay in scale-up of ex-SDA portfolio due to demand challenges, China dumping and lack of certainty on consistent growth in SDA might lead to consensus earnings downgrades over next two years. Maintain SELL after roll forward of valuation to FY26E.

EU 7 - delay in implementation, revised draft: When originally announced in 2022, EU 7 was expected to be in place by mid-CY25. The revised draft has been approved by the Parliament recently. After this, the rules are expected to be in place for vehicles undergoing type approval within 30 months while the legislation will be enforced for all vehicles available for sale 42 months of the approval. That means introduction of the new standard is planned for newly type-approved vehicles from Jan'27 and for newly registered vehicles from Jan'28. As per the revised version of EU 7 norms, For passenger cars, nothing will change initially, and the previous Euro 6 standards will continue to apply. However, buses and trucks (relevant for TATVA) are now subject to stricter limit values for NOx emissions.

Unfavourable trade-off between environmental impact and costs: A study by an Industry body (refer this [article](#)) suggests that the earlier version of EU 7 proposal would lead to direct manufacturing costs increase equivalent to 4x-10x higher than what has been quoted by European commission. Director General of the European Automobile Manufacturers' Association (ACEA) believes that Euro 7 proposal would have a relatively low environmental impact at an extremely high cost. On emission reduction front, Euro 7 is expected to deliver only additional 4% NOx reduction for cars, 2% for vans and heavy trucks and 9% for buses.

SDA growth trajectory uncertain: Since TATVA could not participate in the EU 6 implementation through SDA sales meaningfully, the current growth is largely driven by end-markets like China and India. EU 7 and equivalent norms are expected to open up developed markets for TATVA. While 70% YoY SDA growth in FY25E should help achieve normalcy (revenue crossing peak achieved in FY22), growth beyond FY25 till the implementation of EU 7 could be moderate.

Est Change	Downward
TP Change	Downward
Rating Change	No change

Company Data and Valuation Summary

Reuters:	TATV.BO
Bloomberg:	TATVA IN Equity
Mkt Cap (Rsbn/US\$bn):	27.3 / 0.3
52 Wk H / L (Rs):	1,888 / 1,150
ADTV-3M (mn) (Rs/US\$):	49.0 / 0.6
Stock performance (%) 1M/6M/1yr:	(10.5) / (28.9) / (34.2)
Nifty 50 performance (%) 1M/6M/1yr:	(0.4) / 2.6 / 27.5

Shareholding	1QFY24	2QFY24	3QFY24
Promoters	79.2	72.0	72.0
DII's	11.1	13.8	13.1
FII's	3.2	4.4	4.2
Others	6.6	9.8	10.7
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rsmn)	FY23	FY24E	FY25E	FY26E
Net Sales	4,236	3,823	6,298	7,937
Growth YoY%	-2.3	-9.8	64.7	26.0
Gross margin %	46.6	54.0	54.0	54.0
EBITDA	606	650	1,134	1,508
EBITDA margin %	14.3	17.0	18.0	19.0
Adj PAT	491	253	608	934
Growth YoY%	-48.8	-48.5	140.5	53.6
Adj EPS	22.2	10.8	26.0	39.9
Growth YoY%	-48.8	-51.2	140.5	53.6
RoCE (pre-tax)	8.0	5.6	10.2	12.9
RoCE	8.1	3.9	7.7	10.4
RoE	9.9	4.0	7.9	11.0
P/E	52.5	107.6	44.7	29.1
EV/EBITDA	44.6	38.8	23.2	17.7
P/BV	5.0	3.5	3.2	2.9

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Key Link(s) – [3QFY24 Presentation](#)

[3QFY24 result update](#)

Please refer to the disclaimer towards the end of the document.

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Research Analyst

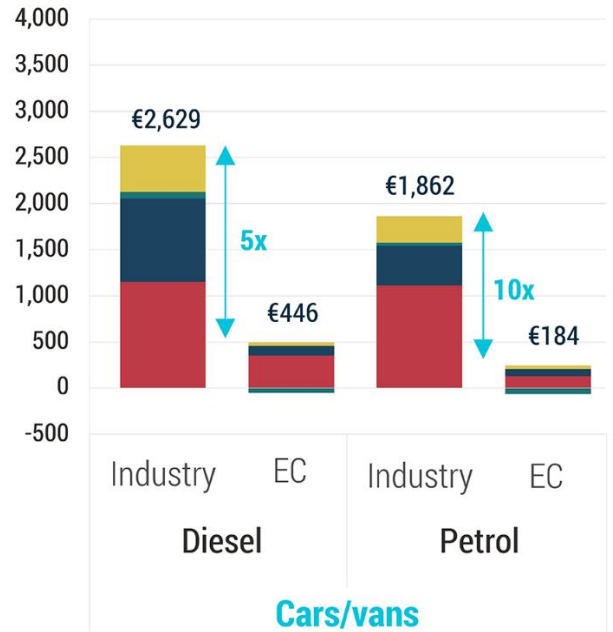
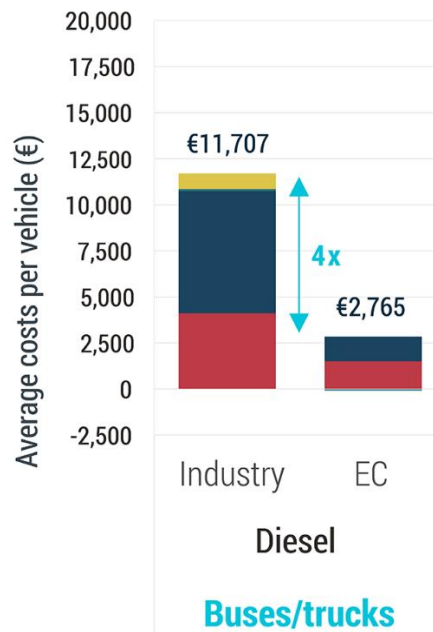
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Exhibit 1: Direct costs under EU 7 would be 4x-10x higher than the estimates quoted by European Commission

Industry versus European Commission (EC) cost estimates

- Brake emissions
- Type-approval costs
- Investment costs
- Equipment costs

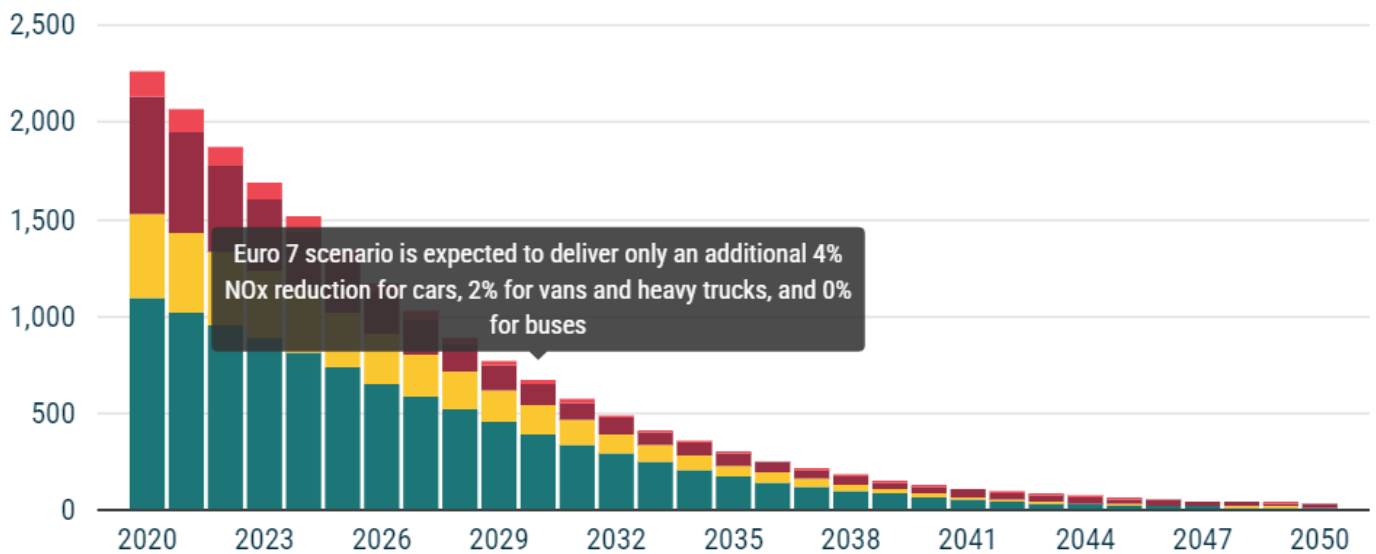


Source: Industry, Nirmal Bang Institutional Equities Research

Exhibit 2: Additional NOx emission reduction very low under Euro 7

- Cars
- Vans
- Heavy trucks
- Buses

NOx emissions (kta)

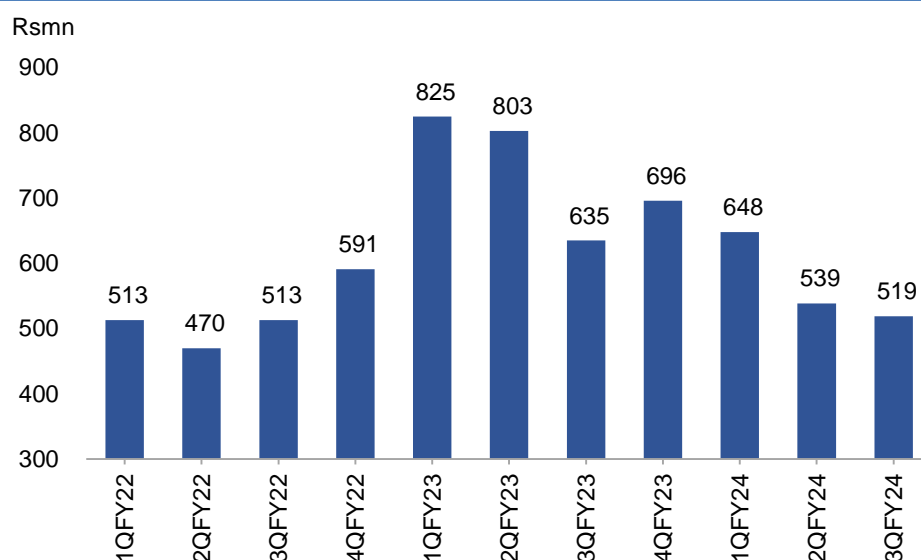


Source: Industry, Nirmal Bang Institutional Equities Research

Exhibit 3: Consolidated segment-wise quarterly details

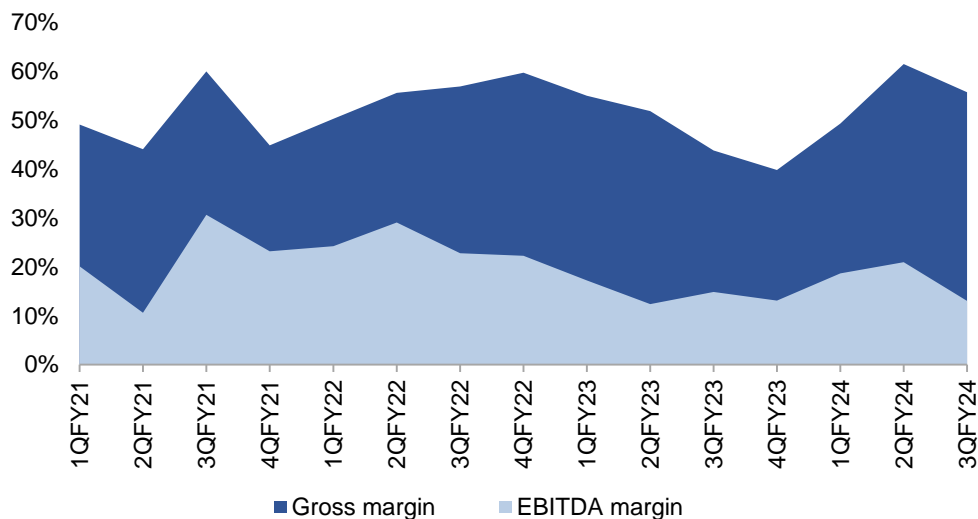
Consolidated (Rsmn)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Segment Revenue Break-up										
SDA	766	534	394	59	98	571	549	496	428	323
PTC	210	251	305	403	326	325	378	316	231	248
PASC	260	230	261	345	427	264	299	310	288	254
Electrolyte salts	-	21	20	70	45	41	9	13	12	12
Others	-	10	5	7	5	5	10	9	8	5
Total Revenue	1,236	1,047	985	884	901	1,206	1,245	1,144	967	842
Segment Break-up (%)										
SDA	62%	51%	40%	7%	11%	47%	44%	43%	44%	38%
PTC	17%	24%	31%	46%	36%	27%	30%	28%	24%	29%
PASC	21%	22%	27%	39%	47%	22%	24%	27%	30%	30%
Electrolyte salts	0%	2%	2%	8%	5%	3%	1%	1%	1%	1%
Others	-	1%	1%	1%	1%	0%	1%	1%	1%	1%
QoQ Growth %										
SDA	38%	-30%	-26%	-85%	66%	483%	-4%	-10%	-14%	-25%
PTC	-9%	20%	22%	32%	-19%	0%	16%	-16%	-27%	7%
PASC	-3%	-11%	13%	32%	24%	-38%	13%	4%	-7%	-12%
Electrolyte salts	-	-	-6%	255%	-36%	-9%	-78%	44%	-8%	0%
Others	-	-	-53%	42%	-30%	3%	103%	-16%	-11%	-34%
YoY Growth %										
SDA	-	-	-	-89%	-87%	7%	39%	741%	337%	-43%
PTC	-	-	-	75%	55%	29%	24%	-22%	-29%	-24%
PASC	-	-	-	29%	64%	15%	14%	-10%	-33%	-4%
Electrolyte salts	-	-	-	555%	-	96%	-54%	-81%	-73%	-71%
Others	-	-	-	-	-	-52%	109%	23%	57%	0%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Ex-SDA quarterly revenue trajectory


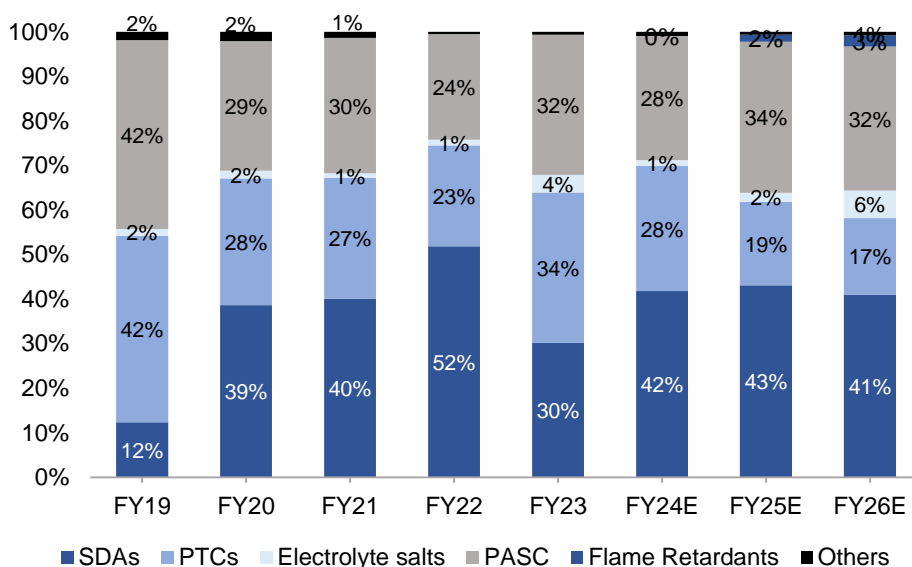
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Consolidated Gross margin & EBITDA margin quarterly trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Segmental revenue break-up



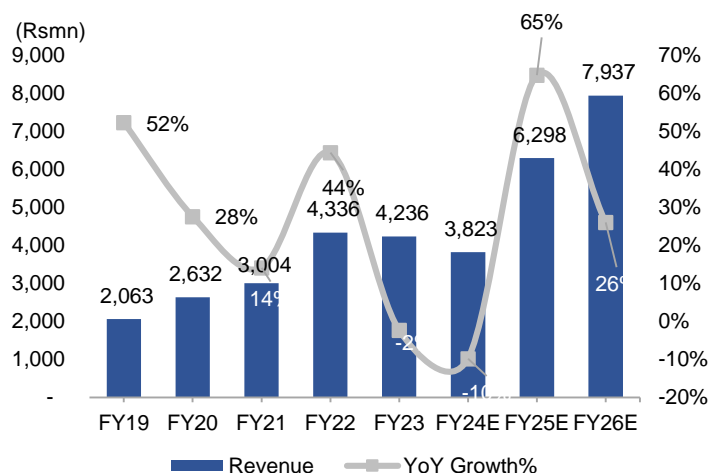
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Change in earnings estimates

Consolidated (Rsmn)	Old Estimates			New estimates			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	3,823	6,298	9,392	3,823	6,298	7,937	0.0%	0.0%	-15.5%
EBITDA	650	1,260	2,019	650	1,134	1,508	0.0%	-10.0%	-25.3%
EBITDA Margin%	17.0%	20.0%	21.5%	17.0%	18.0%	19.0%	-	-200bps	-250bps
APAT	253	703	1,296	253	608	934	0.0%	-13.4%	-28.0%

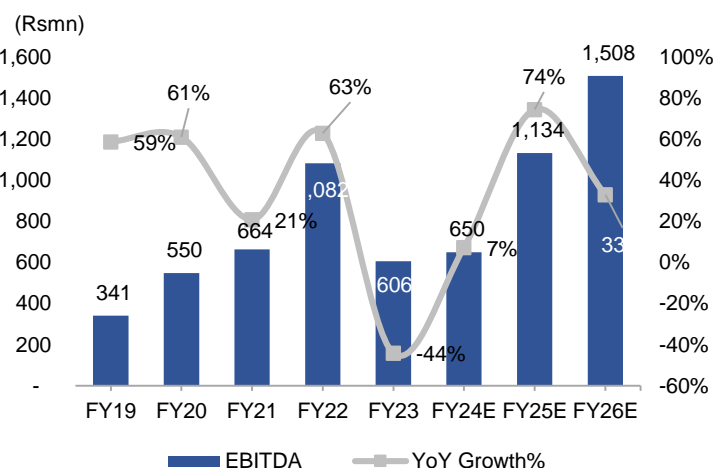
Source: Nirmal Bang Institutional Equities Research

Exhibit 8: Revenue growth - We are building in ~23% CAGR over FY23-26E



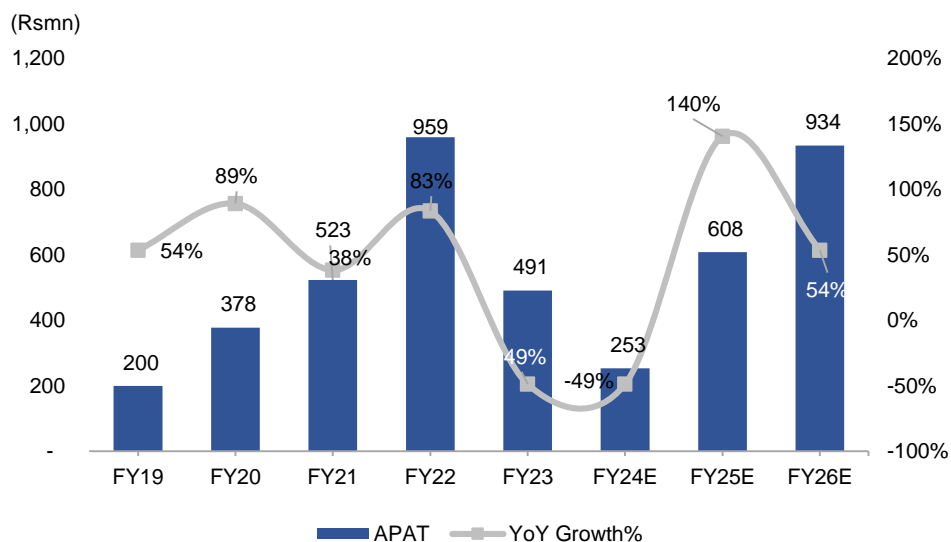
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: EBITDA growth - We are building in ~36% CAGR over FY23-26E



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Earnings growth - We are building in ~22% CAGR over FY23-26E



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 11: Income statement

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	4,336	4,236	3,823	6,298	7,937
Growth YoY%	44.4	-2.3	-9.8	64.7	26.0
COGS	1,946	2,261	1,758	2,897	3,651
Gross margin %	55.1	46.6	54.0	54.0	54.0
Staff costs	308	386	535	882	1,032
Other expenses	1,000	983	879	1,385	1,746
EBITDA	1,082	606	650	1,134	1,508
Growth YoY%	62.9	-44.0	7.3	74.4	33.0
EBITDA margin %	25.0	14.3	17.0	18.0	19.0
Depreciation	82	96	248	315	317
EBIT	1,001	510	401	819	1,191
Interest	50	84	71	58	64
Other income	90	57	31	50	41
PBT (bei)	1,041	484	361	811	1,167
PBT	1,041	448	361	811	1,167
ETR	7.9	-1.6	30.0	25.0	20.0
PAT	959	455	253	608	934
Adj PAT	959	491	253	608	934
Growth YoY%	83.4	-48.8	-48.5	140.5	53.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Balance sheet

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	222	222	234	234	234
Reserves & Surplus	4,509	4,926	7,167	7,775	8,709
Net worth	4,731	5,148	7,401	8,009	8,943
Long term debt	131	42	21	25	25
Short term debt	1,068	1,660	20	500	900
Total debt	1,199	1,703	41	525	925
Other non-current liabilities	7	11	11	11	11
Total Equity & Liabilities	5,937	6,862	7,453	8,546	9,880
Gross block	1,856	2,318	2,918	3,718	4,218
Accumulated depreciation	260	355	486	652	851
Net Block	1,596	1,962	2,431	3,065	3,367
CWIP	515	2,307	2,307	2,307	2,307
Intangible and others	-	-	-	-	-
Other non-current assets	113	158	158	158	158
Investments	-	-	-	-	-
Trade receivables	566	844	1,128	1,507	2,081
Inventories	1,700	1,625	1,976	3,109	4,265
Cash & Cash equivalents	1,770	448	582	23	72
Other current assets	321	219	175	175	175
Total current assets	4,356	3,136	3,862	4,814	6,593
Trade payables	445	322	944	1,260	1,738
Other current liabilities	199	379	360	539	807
Total current liabilities	644	701	1,305	1,799	2,545
Total Assets	5,937	6,862	7,453	8,546	9,880

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Cash flow

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	1,041	448	361	811	1,167
Depreciation	82	96	248	315	317
Interest	50	84	71	58	64
Other adjustments	-15	28	-31	-50	-41
Change in Working capital	-771	-284	12	-1,018	-984
Tax paid	-184	-93	-108	-203	-233
Operating cash flow	202	278	554	-87	291
Capex	-892	-2,031	-600	-800	-500
Free cash flow	-689	-1,753	-46	-887	-209
Other investing activities	-1,075	1,020	31	50	41
Investing cash flow	-1,967	-1,011	-569	-750	-459
Issuance of share capital	2,111	-	2,000	-	-
Movement of Debt	289	506	-1,661	484	400
Dividend paid (incl DDT)	-	-44	-	-	-
Other financing activities	-50	-84	-189	-207	-183
Financing cash flow	2,350	378	150	277	217
Net change in cash flow	586	-356	135	-560	49
Opening C&CE	45	1,770	448	583	23
Closing C&CE	1,770	448	582	23	72

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Key ratios

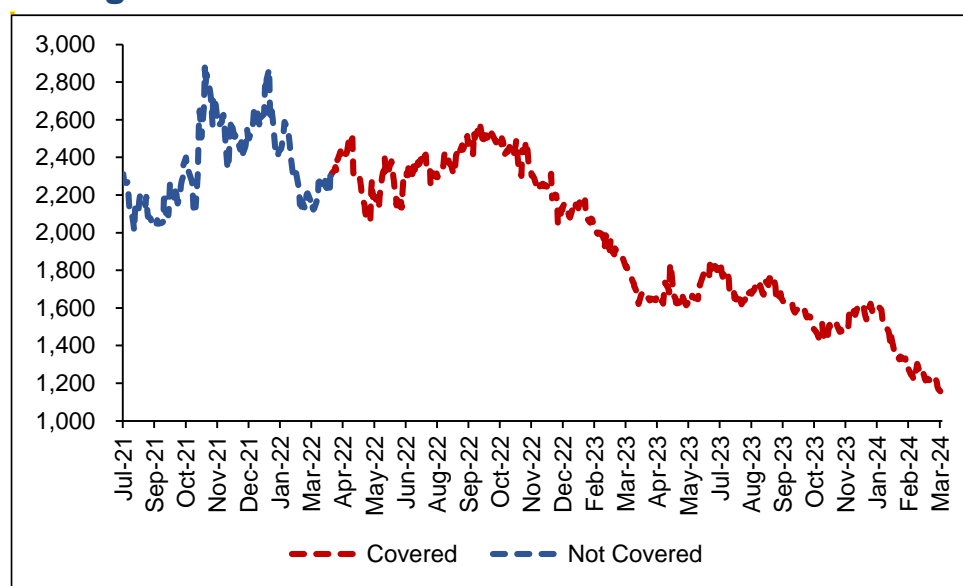
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Per share (Rs)					
Adj EPS	43.3	22.2	10.8	26.0	39.9
Book value	213.4	232.3	333.9	361.3	403.5
Valuation (x)					
P/Sales	5.9	6.1	6.7	4.1	3.2
EV/sales	5.8	6.4	6.6	4.2	3.4
EV/EBITDA	23.3	44.6	38.8	23.2	17.7
P/E	26.9	52.5	107.6	44.7	29.1
P/BV	5.4	5.0	3.5	3.2	2.9
Return ratios (%)					
RoCE	21.7	8.1	3.9	7.7	10.4
RoCE (pre-tax)	23.6	8.0	5.6	10.2	12.9
RoE	30.0	9.9	4.0	7.9	11.0
Profitability ratios (%)					
Gross margin	55.1	46.6	54.0	54.0	54.0
EBITDA margin	25.0	14.3	17.0	18.0	19.0
PAT margin	21.7	11.4	6.6	9.6	11.7
Liquidity ratios (%)					
Current ratio	2.5	1.3	2.9	2.1	1.9
Quick ratio	1.6	0.6	1.4	0.7	0.7
Solvency ratio (%)					
Debt to Equity ratio	0.3	0.3	0.0	0.1	0.1
Net Debt to Equity Ratio	-0.1	0.2	-0.1	0.1	0.1
Turnover ratios					
Fixed asset turnover ratio (x)	2.7	2.0	1.5	1.9	2.0
Debtor days	62	61	94	76	82
Inventory days	102	143	172	147	170
Creditor days	39	33	60	64	69
Net Working capital days	125	171	206	160	183

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
31 March 2022	Buy	2,300	2,650
25 dApril 2022	Accumulate	2,498	2,650
25 July 2022	Accumulate	2,371	2,650
19 September 2022	Accumulate	2,488	2,400
6 November 2022	Accumulate	2,498	2,500
25 January 2023	Accumulate	2,176	2,100
07 May 2023	Sell	1,823	1,600
29 June 2023	Sell	1,805	1,600
06 August 2023	Sell	1,686	1,600
03 November 2023	Accumulate	1,439	1,400
20 January 2024	Sell	1,443	1,200
20 March 2024	Sell	1,160	1,000

Rating Chart



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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