# Tatva Chintan Pharma Chem Ltd. – Investment Thesis – BUY Call

**Dear Bajaj Capital Investors,**
**New Stock Recommendations for BUY on 9 Sept 2026**

**CMP -> 1695**
**Buying Range -> 1695 to 1730**
**Upside Potential-> 15%**
**Investment Horizon -> 6 to 9 Months**
**Target price -> 1950**

## 1. Business Model, Competitive Positioning & Diversified Specialty-Chemicals Platform

**PTC-led recurring business model:** Tatva Chintan is a specialty-chemicals manufacturer built around consumed chemistry rather than one-time equipment sales. Its four principal businesses—Phase Transfer Catalysts (PTC), Structure Directing Agents (SDA), Pharmaceuticals & Agrochemical Intermediates plus Specialty Chemicals (PASC) and Electrolyte Salts & Solutions (ESS)—serve multiple industrial value chains and create repeat procurement because several products are consumed during customers' manufacturing processes. The company has evolved from its original PTC franchise into adjacent higher-value and higher-qualification chemistries, reducing dependence on a single end-market.

**Moat from chemistry, qualification and customer relationships:** SDA is a particularly attractive franchise because customer qualification is lengthy and product purity requirements are stringent. Management has also built capabilities in electrochemistry and continuous-flow chemistry, while its R&D platform supports a broad product pipeline. The Q1 FY27 management commentary characterized the current period as an inflection point in which prior investments in "new chemistries," technology capabilities and manufacturing processes are beginning to generate tangible commercial outcomes across several verticals.

**Diversified applications and global exposure:** The company supplies customers across pharma APIs, agrochemicals, automotive applications, paints and coatings, flavours and fragrances and battery/energy-storage applications. The uploaded credit assessment notes that the group serves more than 25 countries and that exports account for approximately 70–75% of revenue, providing access to global specialty-chemical demand while also creating sensitivity to global trade, logistics, currency and geopolitical conditions.

## 2. Q1 FY27 Financial Performance: Strongest Evidence Yet of a Broad-Based Earnings Inflection

**Revenue growth has accelerated materially:** Q1 FY27 revenue increased to INR 167.1 crore, up 43% YoY and 25% QoQ, a significant acceleration from the subdued industry conditions of the preceding period. Importantly, management stated that the large impact was coming from volume growth rather than pricing, making the quarter more constructive from a demand-quality perspective.

**Profitability expanded faster than revenue:** Q1 FY27 EBITDA rose 86% YoY and 15% QoQ to INR 32.3 crore, implying an EBITDA margin of approximately 19.3%. The operating-margin recovery is important because the company had previously experienced substantial pressure from weaker SDA demand and input-cost volatility. The uploaded CRISIL assessment independently notes operating margins of approximately 18–19% in FY26 and Q1 FY27, versus only 9.5% in FY25, attributing the recovery to stabilising market pressures and improved operating efficiencies.

**The improvement is broad-based across core segments:** PTC revenue increased 47% YoY to INR 42.8 crore, PASC rose 25% to INR 58.4 crore and SDA increased 47% to INR 57.8 crore; ESS was up 76% YoY to INR 6.3 crore, although sequentially lower because of a temporary raw-material disruption. This broad participation is particularly positive because it reduces the risk that the headline revenue growth is being generated by only one product or customer.

## 3. Q4 FY26, FY26 Recovery & Management's FY27 Framework Support a Sustainable Earnings Cycle

**FY26 established the recovery base:** FY26 revenue reached approximately INR 506 crore, versus INR 383 crore in FY25, while operating margins recovered to the 18–19% range. The improvement was supported by renewed SDA demand, repeat orders and commercialisation of new products. Net cash accruals also improved to approximately INR 69–70 crore in FY26, strengthening the financial profile.

**Q4 FY26 confirmed operating leverage:** Revenue in Q4 FY26 was INR 134.1 crore, up 24% YoY, while EBITDA surged 214% YoY to INR 28.1 crore, with management explicitly attributing the improvement to better product mix and improved operating leverage. Q4 segment performance was led by SDA and, particularly, ESS, while the PASC sequential decline was explained as a temporary consequence of new-facility commissioning and production-streamlining issues rather than weak underlying demand. Management subsequently stated that these issues had been overcome and operations were moving smoothly.

**Guidance remains constructive despite volatility:** Management has retained an FY27 revenue-growth framework of approximately 25–30%, while maintaining an EBITDA-margin range of approximately 20–22%. Importantly, management believes the Q1 revenue run-rate is broadly maintainable and stated that it does not foresee major obstacles to FY27 guidance, with demand visibility described as strong. The earlier Q4 FY26 call had also indicated approximately 25% growth and 20–22% EBITDA margins, with customer price adjustments and higher plant occupancy expected to offset input-cost inflation.

## 4. Growth Catalyst I: SDA/Euro 7 and PTC Create the Most Visible Near-Term Revenue Engines

**SDA is entering a structural demand upcycle:** Q1 FY27 SDA revenue reached INR 57.8 crore, rising 47% YoY and 10% QoQ. Management stated that Euro 7 implementation has now begun translating into revenue, with very visible customer demand and a gradual geographic rollout expected to sustain growth. The company expects SDA revenue of approximately INR 250–300 crore in FY27, representing a potentially significant contribution to consolidated growth.

**Euro 7 offers a multi-year rather than one-quarter catalyst:** Management highlighted that Euro 7 removes some of the geographic limitations previously associated with Euro 6, potentially expanding addressable opportunities across Europe and eventually other global markets. Tatva also has an advantage from entering Euro 7 programs earlier, while customer qualification and dual-sourcing requirements make displacement largely opportunity-driven rather than purely price-driven. Management further indicated that order cadence had been rising as customers switch from Euro 6 to Euro 7 programs.

**PTC provides recurring demand and strategic vertical integration:** PTC grew 47% YoY in Q1 FY27, supported by broader adoption of PTC chemistry across the chemical industry. Importantly, Tatva is increasingly consuming PTC internally for SDA and ESS, which may moderate reported external PTC sales but economically improves downstream value capture. Management explicitly stated that as SDA and ESS demand rises, more PTC will be consumed internally rather than sold into the external market.

## 5. Growth Catalyst II: PASC Commercialisation, New Pharma Molecules & Jolva Greenfield Expansion

**Pharma intermediates represent a largely incremental revenue pool:** Q1 FY27 PASC revenue grew 25% YoY and 63% QoQ, indicating recovery from the Q4 commissioning disruption. One new pharma molecule entered commercial production in Q1, while two additional molecules are expected to commercialise from Q3. Management expects these new molecules to contribute approximately INR 70–80 crore in FY27, with a potential of around INR 200 crore at full utilisation, making them a meaningful add-on to the existing revenue base rather than merely replacing mature products.

**Agro intermediates add another visible growth layer:** Two important agrochemical products commercialised earlier are seeing consistent production and dispatches, supported by repeat orders. Management indicated good visibility into demand through the end of the calendar year and expects this to continue into the following year. The company's development pipeline also includes several R&D-ready molecules moving toward pilot-scale production, supporting continued product additions beyond the currently commercialised portfolio.

**Jolva solves the physical capacity constraint and creates the next growth platform:** Management approved approximately INR 200 crore for a multipurpose, multiproduct greenfield facility, with groundbreaking scheduled for July 2026. The facility is designed for approximately 1.2–1.5x asset turnover, implying potential peak revenue of roughly INR 300 crore. The strategic importance is high because Dahej is approaching saturation; management indicated that without new infrastructure, growth could begin stagnating beyond approximately INR 800–850 crore of revenue. The new facility is therefore not merely capacity addition but an enabler of the company's medium-term 20–25% compounded growth aspiration.

## 6. Growth Catalyst III: ESS, Semiconductor Chemicals & Continuous-Flow Technology Expand the Future Earnings Opportunity

**ESS can transition from a small business to a meaningful contributor:** Q1 ESS revenue fell sequentially to INR 6.3 crore because severe shortages of certain raw materials caused production delays, but management explicitly maintained FY27 ESS revenue guidance of INR 40–60 crore and described customer demand as "very crystal clear." Stationary energy-storage systems currently represent the major demand base, while a hybrid-battery customer is expected to enter commercial supply around October–November 2026, creating a potentially important catalyst over the next few quarters.

**Semiconductor chemicals are a high-value, long-duration option:** A first commercial plant-scale batch was successfully delivered and qualified by the customer in Q1 FY27, representing a major technical and commercial milestone. Management highlighted stringent purity requirements and expects several additional plant-scale trials over the next two years, while meaningful commercialisation is not expected before Q4 2028. The opportunity is therefore not a near-term earnings driver for a 6 to 9 months horizon, but successful qualification materially increases the company's long-term addressable market and demonstrates the strength of its high-purity chemistry capabilities.

**Continuous-flow and electrochemistry can improve both capacity and margins:** Two products are already commercially using continuous-flow technology, while approximately 7–8 products are expected to enter commercial or pilot phases using electrochemistry or continuous-flow processes. Management highlighted higher productivity, lower cost and the ability to compress multiple production stages into fewer stages. This could effectively increase output from existing assets without proportionate greenfield investment, providing a potentially attractive operating-leverage mechanism over the next several quarters.

## 7. Capex, Capacity Utilisation & Operating Leverage: The Earnings Upside Is Not Dependent Only on New Plants

**Existing capacity still has significant headroom:** The new production block at Dahej is already fully operational on a commercial scale, while management has indicated current utilisation of approximately 80–85%. Existing facilities are expected to reach their full potential of approximately INR 850–900 crore of revenue, with relatively modest debottlenecking capex of around INR 10–12 crore annually. This is favourable from a capital-efficiency perspective because incremental revenue can increasingly come from utilisation and debottlenecking rather than large additions to the asset base.

**Jolva creates a second leg of operating leverage:** The approximately INR 200 crore greenfield investment is designed as a flexible multiproduct facility rather than a single-product plant. Its fungibility across sectors should allow management to allocate capacity toward products with stronger demand and superior economics, potentially reducing concentration risk and improving asset productivity. With a targeted 18–21 months commissioning period, the major earnings contribution should emerge from FY28–FY29 rather than the immediate 6–9 months period, but expectations can begin to influence valuation well before commissioning.

**Margin expansion can come from mix, utilisation and process innovation simultaneously:** Q4 FY26 already demonstrated the model, with EBITDA increasing 214% YoY against revenue growth of 24% YoY. Management attributed the improvement to better product mix and operating leverage, while the Q1 FY27 margin remained around 19% despite raw-material volatility. With higher SDA contribution, PASC scale-up, ESS recovery, increased utilisation and more continuous-flow deployment, the company has multiple routes toward the upper end of the 20–22% FY27 EBITDA margin framework rather than relying solely on price increases.

## 8. Balance Sheet, Cash-Flow Conversion, Debt Capacity & Capital Allocation Support the BUY Case

**Cash generation is a major strength and should receive high weight in the investment thesis:** CFO-to-PAT conversion was approximately 75% in FY26, versus a range of roughly 75–434% over the last three financial years. This indicates that reported earnings have translated into cash at a strong rate and materially strengthens confidence in the quality of the earnings recovery. CFO-to-operating-profit conversion of approximately 42% in FY26, broadly within the 42–157% range of the preceding three years, suggesting healthy operating cash conversion despite the working-capital intensity of the business.

**Leverage remains manageable even with growth capex:** As of March 31, 2026, net worth was approximately INR 775 crore, while total outside liabilities to tangible net worth stood at only 0.3x. Interest coverage was a robust 30x in FY26. The group's bank-limit utilisation averaged only 50% during the 12 months through July 2026, while annual cash accrual is expected at approximately INR 75–80 crore, providing substantial debt-servicing headroom even as upcoming capacity expansion is partly debt-funded.

**Working capital is the principal balance-sheet monitor, not solvency:** Gross current assets stood at approximately 249 days as of March 31, 2026, comprising around 174 days of inventory and 87 days of receivables. This is meaningful because rapid growth can absorb cash into inventory and receivables; however, the credit assessment notes timely collections and long-standing customer relationships, while liquidity remains strong and internal accruals, cash and unutilised bank lines are expected to cover debt obligations and incremental working-capital needs.

**Rating Upgraded:** On 8 September 2026, CRISIL upgraded Tatva Chintan Pharma Chem's Long-Term Rating to 'Crisil A-/Stable' from 'Crisil BBB+/Stable' and Short-Term Rating to 'Crisil A2+' from 'Crisil A2', reflecting the company's improving operating performance, profitability, cash accruals and overall financial-risk profile; CRISIL highlighted that revenue increased to INR 506 crore in FY26 from INR 383 crore in FY25, operating margins recovered to approximately 18–19% in FY26 and Q1 FY27 from 9.5% in FY25, while net cash accruals rose to approximately INR 69–70 crore in

FY26, with liquidity supported by unutilised bank lines and moderate repayment obligations. The rating upgrade provides an important independent confirmation of the strengthening balance sheet and credit profile, particularly as the company enters a higher-growth capex phase; as of March 31, 2026, net worth stood at approximately INR 775 crore, total outside liabilities to tangible net worth was only 0.3x, and interest coverage was a strong 30x, while average bank-limit utilisation was around 50% through July 2026.

## 9. Industry Tailwinds, Short-Term Risks & BUY Conclusion: Favourable Risk-Reward for 6–9 Months

**Structural industry tailwinds are increasingly visible:** Tatva participates in specialty-chemical value chains linked to automotive emission-control systems, pharma and agrochemical manufacturing, advanced materials, energy storage and semiconductor-related chemistry. Euro 7 is already translating into SDA revenue, global supply-chain diversification can support Indian specialty-chemical vendors and customer demand for qualified, high-purity and technically differentiated products can support longer-term pricing and relationship stickiness. Management's medium-term aspiration of 20–25% compounded growth reinforces the view that the current expansion cycle is intended to extend well beyond FY27.

**Short-term risks and headwinds remain material:** The principal near-term risks are raw-material-price volatility, working-capital intensity, customer price-pass-through delays, temporary supply disruptions and execution risk on capacity expansion. The Q1 ESS setback demonstrates that geopolitical disruptions can have immediate operational consequences, while MONOGLYME has faced severe China-driven price pressure and flame-retardant commercialisation remains weak. The company is also exposed to the automotive cycle, agrochemical and pharmaceutical ordering cycles and global export demand, so quarter-to-quarter performance can remain uneven even when the underlying medium-term thesis is intact. The credit assessment specifically identifies raw-material volatility and high working-capital requirements as key weaknesses.

**Geopolitical/regulatory risk and investment conclusion:** A volatile global environment involving wars, Middle East disruptions, trade-policy changes, China policy shifts, freight disruption, energy-price movements or changes in environmental/emission regulations could affect customer demand, raw-material availability and margins. Management has nevertheless indicated that customer price increases are being progressively accepted and that plant occupancy and efficiency gains can absorb part of the cost shock. For a 6–9 month horizon, the BUY thesis rests on the combination of 43% Q1 FY27 revenue growth, 86% EBITDA growth, approximately 19% current EBITDA margin, strong SDA/Euro 7 momentum, PASC commercialisation, ESS recovery, improving utilisation and high cash-flow conversion, with further upside from the Jolva expansion and continuous-flow productivity. In my view, the risk-reward remains favourable provided the company sustains approximately 20–22% EBITDA margins, converts the new PASC/ESS opportunities into repeat commercial volumes and avoids material cost overruns or working-capital deterioration. The strongest near-term earnings drivers are SDA/Euro 7, PASC pharma molecules, agrochemical repeat orders, utilisation-led operating leverage and ESS normalisation, making Tatva Chintan an attractive BUY for a medium-term 6 to 9 months investment horizon.

**Overall investment view: BUY** The key thesis is shifting from "recovery from a weak cycle" to multi-engine growth supported by volume recovery, higher-margin businesses, new product commercialisation, capacity debottlenecking and strong cash generation. The next 2–4 quarters should be particularly important for confirming whether the Q1 FY27 inflection develops into a sustained earnings-upgrade cycle.

# Recommendation Timeline & Performance Summary:

**1. 19 July 2026 – Initial BUY Recommendation**: The BUY call was initiated at a price of 1428 with a target price of 1642, implying an upside potential of 15% over a 6 to 9 months investment horizon.

**2. 20 July 2026 – Target Achieved:** The stock achieved our target price of 1,428 on 20 July 2026, within a single trading day of our recommendation. It subsequently maintained its strong upward momentum, touched an intraday high of 1,714 on the same day and was locked in the 20% upper circuit. Consequently, the stock delivered a return of 28.5% in one week of our recommendation (stock price reached to 1836 on 27 July 2026, significantly outperforming our envisaged medium-term investment horizon of 6 to 9 months.

**3. 9 Sept 2026 – Re-Initiation of BUY Call:** We have re-initiate the BUY call at the CMP of 1695 with a target price of 1950, indicating an envisaged upside potential of 15% over the next 6 to 9 months.

Happy Investing!

Thank you and best regards,

On behalf of Bajaj Capital's Research Team