


**Blends Business Provides Cushion Against Headwinds; Revise to HOLD**
**Est. Vs. Actual for Q1FY25:** Revenue – **BEAT**; EBITDA – **MISS**; PAT – **MISS**
**Change in Estimates post Q1FY25**
**FY25E/FY26E:** Revenue: -6%/-7%; EBITDA: -16%/-7%; PAT: -36%/-11%

**Recommendation Rationale**

- Resilient Performance in Blends Business:** The blends business of CFS Mexico and CFS North America demonstrated sustained traction during the quarter, helping the company partially offset headwinds in other areas. This robust growth led to improved gross margins of 44.9%, up from 34.9% in the previous quarter. The company anticipates maintaining similar growth momentum and profitability in the blends business, further supported by inorganic growth following the acquisition of Vitafor Invest NV Belgium, which has a presence in the European and African feed and pet food markets.
- Vanillin Recovery Awaited:** The company's Vanillin Plant began operations at the end of May 2024 and expects to ramp up sales from the latter part of Q2FY25. Management indicated that CFS has nearly liquidated its entire legacy inventory of Vanillin, and prices appear to be bottoming out. The company expects weakness in the aroma business to subside in H2FY25.
- Repurposing Italy and China Facilities:** The plant in Italy remained shut during the quarter, impacting profitability. The company plans to redesign the facility to produce alternative products such as MEHQ and Guaiacol. Additionally, the CFS Wanglong facility will be repurposed to manufacture Heliotropin, an aromatic product downstream of Catechol. A meaningful contribution from these plants is expected from FY26, though the company may continue to incur losses related to these facilities in the interim.

**Company Outlook & Guidance:** Management highlighted that Q1 is a seasonally weaker quarter and that this performance does not impact the revenue growth guidance of 10-15% for FY25. The management had previously guided a contribution of around Rs. 1,000 Cr from blends, Rs. 200 Cr from Vanillin, and Rs. 600-700 Cr from Hydroquinone and other downstream products. EBITDA margin is expected to be in the range of 10-12%.

**Current Valuation:** 15x FY26E (Earlier: 15x FY26E)

**Current TP:** Rs. 107/share (Earlier TP: 120/share)

**Recommendation:** We revise our rating from **BUY** to **HOLD** on the stock primarily driven by the expected delay in the recovery of the aroma business and the facility in Europe.

**Financial Performance:** CFS reported Q1 numbers that significantly missed estimates for EBITDA and PAT. Consolidated revenue was Rs 396 Cr, which was 4% above our estimates but down 6% YoY and 1% QoQ. EBITDA declined sharply by 53% YoY to Rs 18 Cr, missing our estimate by 44%. The EBITDA margin fell to 4.6%, down from 9.2% in Q1FY24. The company reported a PAT of Rs (34) Cr due to the lacklustre overall performance.

**Outlook:** The company is concentrating on the levers within its control, including expanding its blends business in the American continents, recalibrating costs at loss-making subsidiaries, and optimizing its product mix. We believe a significant portion of the worst has already been priced in, with current prices at historically low and unsustainable levels. There is hope that macroeconomic challenges will ease, with the potential for anti-dumping measures to be implemented in the USA and Europe over the next 2-3 quarters. Additionally, we expect the prices of Vanillin to show an upward trajectory moving forward.

**Valuation & Recommendation:** We are revising the company's FY25/26E revenue and EBITDA estimates due to slower recovery in the prices of key chemicals, lower utilization in the Vanillin plant amid persistent oversupply-related challenges, and weaker demand. Given the anticipated delay in recovery and the margin drag from underutilized assets, we are downgrading the rating from **BUY** to **HOLD**. We value the company at 15x FY26E, resulting in a target price (TP) of Rs 107 per share. This TP implies a downside of 2% from the current market price (CMP).

**Key Financials (Consolidated)**

(Rs Cr)	Q1FY25	YoY (%)	QoQ (%)	Axis Est.	Variance
Net Sales	396	-6%	-1%	382	3.7%
EBITDA	18	-53%	37%	32	-44.1%
EBITDA Margin	4.6%	-464bps	788bps	9%	-392bps
Net Profit	(35)	-388%	-58%	2	-2079%
EPS (Rs)	(2.2)	-388%	-55%	0.1	-2079%

Source: Company, Axis Securities Research

(CMP as of 12<sup>th</sup> Aug 2024)

CMP (Rs)	110
Upside /Downside (%)	-2%
High/Low (Rs)	186/80
Market cap (Cr)	1,840
Avg. daily vol. (12m) Shrs.	9,96,902
No. of shares (Cr)	16.8

**Shareholding (%)**

	Dec-23	Mar-24	June-24
Promoter	48	48	48
FII	1.0	1.7	1.0
DII	3.8	4.5	4.9
Others	47	46	46

**Financial & Valuations**

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	1,613	1,857	2,252
EBITDA	74	167	315
Net Profit	-105	32	120
EPS (Rs)	-6.3	1.9	7.2
PER (x)	-15.5	51.2	13.5
P/BV (x)	1.9	1.8	1.6
EV/EBITDA (x)	29.8	13.8	7.8
ROE (%)	-12.2%	3.6%	11.9%

**Change in Estimates (%)**

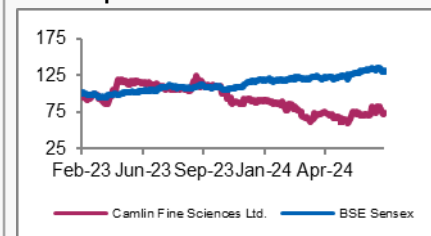
Y/E Mar	FY25E	FY26E
Sales	-6%	-7%
EBITDA	-16%	-7%
PAT	-36%	-11%

**ESG disclosure Score\*\***

Environmental Disclosure	N.A.
Social Disclosure Score	N.A.
Governance Disclosure Score	N.A.
Total ESG Disclosure Score	N.A.

Source: Bloomberg, Scale: 0.1-100

\*\*Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

**Relative performance**


Source: Ace Equity, Axis Securities Research

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## Key Presentation Highlights

- **Regional Performance:** The supply-demand dynamics during Q1 largely remain unchanged. The management stated that historically Q1 is a soft quarter, and it has panned out as expected. Regional demand remained resilient in the USA, while China was stagnant and struggling with its local economic weakness. Softness in Europe continues. The company is observing recovery in South American markets.
- **Performance Overview:** The management expects demand to recover going ahead. Although there were strong pricing headwinds, the topline has been stable. Gross margins improved with a better product mix even though an increase in the cost of raw materials may have an adverse impact on margins. EBITDA margins improved by 606 bps QoQ but remain under pressure. PAT was further impacted by foreign exchange volatility in South American subsidiaries. Consolidated PAT was also impacted by a higher effective tax rate as profits in South American subsidiaries could not be offset against losses made in Italy, as the company does not have deferred tax assets there.
- **Blends and Performance Chemical Business:** Growth momentum is expected to come from the blend business in the coming quarters. The drag in the performance chemical business was mainly due to a lack of production of Hydroquinone and Catechol in Europe. Catechol prices remained subdued.
- **Acquisition of Vitafor Invest NV:** The company acquired Vitafor Invest NV Belgium and its underlying subsidiaries/associates on June 11, 2024. Vitafor Invest NV has a manufacturing facility in Antwerp, Belgium. It manufactures and trades in products catering to the animal feed industry, offering a complete range of feed ingredients, nutritional products, hygiene products, and disinfectants. This has synergy with the company's existing blends business. The key rationale behind the acquisition is leveraging Vitafor's network to augment and grow in the European and African feed and pet food markets and synergy to grow the product lines of Vitafor with the existing customers.
- **Outlook:** The company has maintained its full-year guidance despite Q1, as it believes this was a seasonal trend. The company expects pricing pressure and excess supply-related challenges to persist in the near term but is confident of revenue growth driven by the initiatives taken. While the company maintains guidance of a double-digit EBITDA margin, the business in Italy is expected to continue making losses for at least a couple of quarters, impacting overall margins for the company. The company also anticipates growth coming from the recently acquired Vitafor business and is hopeful of anti-dumping regulations in the USA and Europe.

## Key Risks to Our Estimates and TP

- Global slowdown further affects demand in the coming quarters, leading to a slower ramp-up.
- Adverse outcome of geopolitical tension and Red Sea crisis on International Gas prices as well freight costs.
- Delays in approval from customers can slow the volume ramp-up of new products.

## Change in Estimates

	New Estimates		Old Estimates		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Sales	1,857	2,252	1,980	2,431	-6%	-7%
EBITDA	167	315	198	340	-16%	-7%
PAT	32	120	50	134	-36%	-11%
EPS	1.9	7.2	3.0	8	-35%	-11%

Source: Company, Axis Securities Research

**Q1FY25 Results Review**

	Q1FY24	Q4FY24	Q1FY25 Axis Est	Q1FY25	YoY (%)	QoQ (%)	Axis Variance %
Sales	420	402	382	396	-5.7%	-1.5%	3.7%
Expenditure							
Net Raw Material	216	262	208	218	83.5%	-16.7%	
Gross Profit	204	140	174	178	-12.8%	27.0%	
Gross Margin (%)	48.6%	34.9%	45.5%	44.9%	-365bps	1005bps	-58bps
Employee Expenses	44	46	40	51	16.7%	10.8%	
Other Exp	121	107	101	109	-10.5%	1.3%	
<b>EBITDA</b>	<b>39</b>	<b>(13)</b>	<b>32</b>	<b>18</b>	<b>-53.1%</b>	<b>36.9%</b>	<b>-44.1%</b>
EBITDA Margin (%)	9.2%	-3.3%	8.5%	4.6%	-464bps	788bps	-392bps
Oth. Inc	6	6	3	2	-70.7%	-67.6%	
Interest	10	16	16	23	128.7%	44.6%	
Depreciation	19	20	18	20	7.1%	0.3%	
PBT	16	(94)	2	(23)	-246.0%	-74.9%	
Tax	4	(12)	0	11	175.1%	-195.3%	
<b>PAT</b>	<b>12</b>	<b>(82)</b>	<b>2</b>	<b>(35)</b>	<b>-388.4%</b>	<b>-57.6%</b>	<b>-2079.0%</b>
EPS	0.8	(4.87)	0.11	(2.21)	-388.4%	-54.7%	-2079.0%

Source: Company, Axis SecuritiesResearch

**Quarterly Segment-wise Revenue Performance**
**(Rs. Crs)**

Particulars	FY23				FY24				FY25
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
<b>Revenue Mix</b>									
<b>Performance Chemicals</b>	<b>164</b>	<b>202</b>	<b>137</b>	<b>186</b>	<b>151</b>	<b>92</b>	<b>64</b>	<b>93</b>	<b>65</b>
% of total Revenue	43%	42%	35%	43%	36%	23%	17%	23%	16%
<b>Blends</b>	<b>124</b>	<b>130</b>	<b>127</b>	<b>129</b>	<b>161</b>	<b>196</b>	<b>189</b>	<b>184</b>	<b>215</b>
% of total Revenue	32%	27%	33%	30%	38%	48%	49%	46%	54%
<b>Shelf Life Extension</b>	<b>91</b>	<b>145</b>	<b>116</b>	<b>106</b>	<b>98</b>	<b>104</b>	<b>107</b>	<b>102</b>	<b>98</b>
% of total Revenue	24%	30%	30%	25%	23%	26%	28%	25%	25%
<b>Aroma</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>8</b>	<b>3</b>	<b>6</b>	<b>17</b>	<b>13</b>
% of total Revenue	1%	0%	0%	0%	2%	1%	2%	4%	3%
<b>Others</b>	<b>3</b>	<b>6</b>	<b>7</b>	<b>5</b>	<b>2</b>	<b>11</b>	<b>20</b>	<b>6</b>	<b>4</b>
% of total Revenue	1%	1%	2%	1%	0%	3%	5%	1%	1%
<b>Total</b>	<b>384</b>	<b>483</b>	<b>388</b>	<b>427</b>	<b>420</b>	<b>406</b>	<b>386</b>	<b>402</b>	<b>396</b>

Source: Company, Axis Securities Research

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
<b>Total Net Sales</b>	<b>1,682</b>	<b>1,613</b>	<b>1,857</b>	<b>2,252</b>
Sales Growth %	19.1%	-4.1%	15.1%	21.3%
Total Raw Material Consumption	813	914	984	1,103
Staff costs	163	179	195	225
Other Expenditure	500	447	511	608
Total Expenditure	1,476	1,539	1,690	1,937
<b>EBITDA</b>	<b>205</b>	<b>74</b>	<b>167</b>	<b>315</b>
% Change	34.3%	-64.0%	126.1%	88.6%
<b>EBITDA Margin %</b>	<b>12.2%</b>	<b>4.6%</b>	<b>9.0%</b>	<b>14.0%</b>
Depreciation	63	78.6	79.8	87.3
EBIT	143	-5	87	228
% Change	47.4%	-103.3%	-1962.7%	160.9%
EBIT Margin %	8.5%	-0.3%	4.7%	10.1%
Interest	59	60	62	71
Other Income	6	16	23	27
PBT	80	-99	49	184
Tax	41	6	17	65
Tax Rate %	50.5%	-5.7%	35.0%	35.0%
<b>PAT</b>	<b>40</b>	<b>-105</b>	<b>32</b>	<b>120</b>
PAT Growth %	-34.1%	-363.4%	-130.3%	277.6%

Source: Company, Axis Securities Research

### Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
<b>Share Capital</b>	<b>16</b>	<b>17</b>	<b>17</b>	<b>17</b>
Reserves & Surplus	804	848	880	1,000
<b>Total Share Holders Funds</b>	<b>824</b>	<b>857</b>	<b>889</b>	<b>1,009</b>
Non-Current Liabilities				
Long Term Borrowings	408	333	390	446
Deferred Tax Liability (Net)	15	7	7	7
<b>Total Non-Current Liabilities</b>	<b>443</b>	<b>362</b>	<b>446</b>	<b>502</b>
Current Liabilities				
Short Term Borrowings	371	325	260	297
Trade Payables	288	325	324	363
Other Financial Liability	64	32	96	108
Other Current Liability	38	33	20	22
<b>Total Current Liability</b>	<b>793</b>	<b>732</b>	<b>720</b>	<b>812</b>
<b>Total Liabilities</b>	<b>1,236</b>	<b>1,095</b>	<b>1,166</b>	<b>1,315</b>
<b>Total Equity &amp; Liability</b>	<b>2,060</b>	<b>1,952</b>	<b>2,055</b>	<b>2,323</b>
Assets				
PP&E	753	712	756	809
Intangible assets	66	60	71	81
Capital Work in Progress	41	46	46	46
<b>Total Non-Current Assets</b>	<b>972</b>	<b>951</b>	<b>995</b>	<b>1,060</b>
Current Assets:				
Inventories	568	513	458	543
Trade Receivable	305	285	321	370
Cash and Cash Equivalents	94	80	28	25
Bank Balance	5	13	43	73
Other Current Assets	102	97	198	240
<b>Total Current Assets</b>	<b>1,088</b>	<b>1,001</b>	<b>1,059</b>	<b>1,264</b>
<b>Total Assets</b>	<b>2,060</b>	<b>1,952</b>	<b>2,055</b>	<b>2,323</b>

Source: Company, Axis Securities Research

**Cash Flow**

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
PBT	80	-99	49	184
Depreciation & Amortization	63	79	80	87
Chg in Working cap	-139	32	-58	-152
Direct tax paid	-20	-48	-17	-65
<b>Cash flow from operations</b>	<b>51</b>	<b>139</b>	<b>68</b>	<b>99</b>
Chg in Gross Block	-144	-61	-99	-150
Chg in Investments	29	-8	0	0
Proceeds on redemption of Fin. Assets	0	0	0	0
<b>Cash flow from investing</b>	<b>-125</b>	<b>-66</b>	<b>-77</b>	<b>-124</b>
Proceeds / (Repayment) of Short Term Borrowings (Net)	52	0	-65	37
Proceeds from the issue of Equity Instruments of the company	1	1	0	0
Loans	81	25	57	56
Finance Cost paid	-52	-73	-62	-71
Dividends paid	-14	-28	0	0
<b>Cash flow from financing</b>	<b>60</b>	<b>-86</b>	<b>-44</b>	<b>23</b>
<b>Chg in cash</b>	<b>-14</b>	<b>-13</b>	<b>-53</b>	<b>-2</b>
Cash at start	108	94	80	28
Cash at end	94	80	28	25

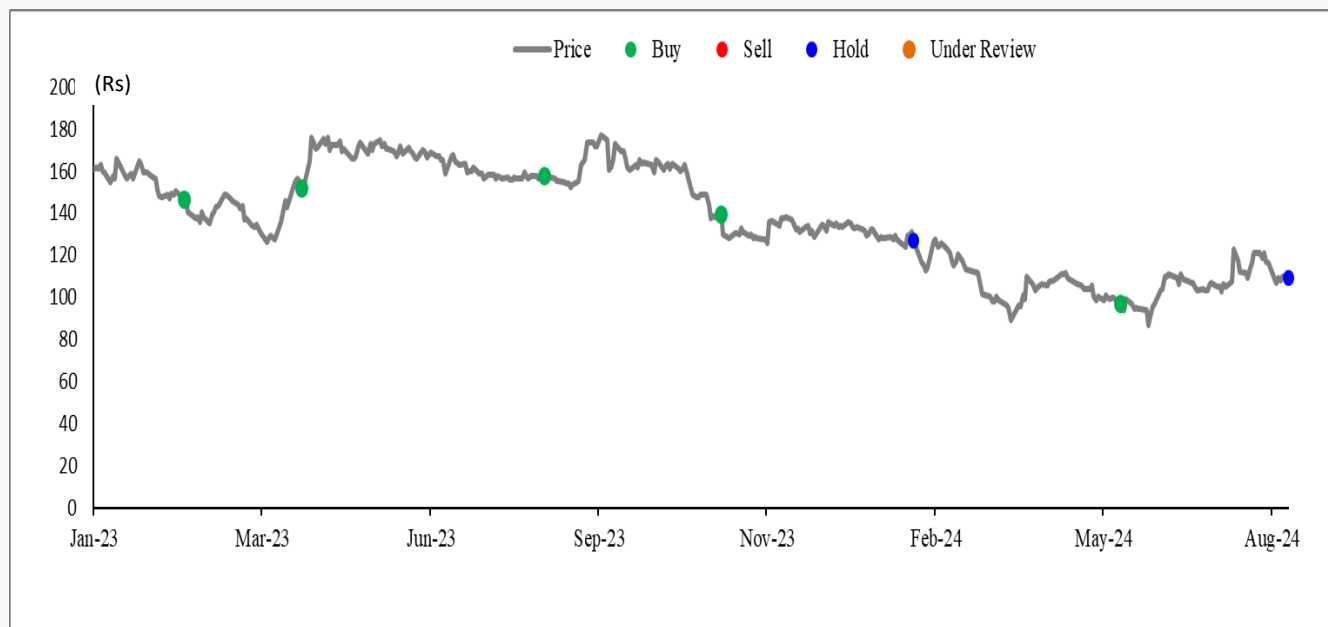
**Ratio Analysis**

(%)

Y/E March	FY23	FY24	FY25E	FY26E
<b>Growth (%)</b>				
Net Sales	19.1%	-4.1%	15.1%	21.3%
EBITDA	34.3%	-64.0%	126.1%	88.6%
APAT	-34.1%	-363.4%	-130.3%	277.6%
<b>Per Share Data (Rs)</b>				
Adj. EPS	2.5	-6.3	1.9	7.2
BVPS	52.5	51.2	53.1	60.2
DPS	0.0	0.0	0.0	0.0
<b>Profitability (%)</b>				
EBITDA Margin	12.2%	4.6%	9.0%	14.0%
Adj. PAT Margin	2.4%	-6.5%	1.7%	5.3%
ROCE	12.3%	-0.4%	6.8%	15.5%
ROE	4.8%	-12.2%	3.6%	11.9%
ROIC	12.3%	-0.4%	6.8%	15.5%
<b>Valuations (X)</b>				
PER	50.1	-15.5	51.2	13.5
P/BV	2.4	1.9	1.8	1.6
EV / EBITDA	13.1	29.8	13.4	7.4
EV / Net Sales	1.6	1.4	1.2	1.0
<b>Turnover Days</b>				
Asset Turnover	1.9	1.6	1.7	1.8
Inventory days	101.9	122.3	90.0	88.0
Debtors days	65.6	66.7	63.0	60.0
Creditors days	117.2	122.4	120.0	120.0
Working Capital Days	50.3	66.6	33.0	28.0
<b>Gearing Ratio</b>				
Total Debt to Equity (x)	0.8	0.7	0.7	0.7

Source: Company, Axis Securities Research

## Camlin Fine Sciences Price Chart and Recommendation History



Date	Reco	TP	Research
23-May-22	BUY	190	Result Update
15-Nov-22	BUY	190	Result Update
15-Feb-23	BUY	190	Result Update
17-Apr-23	BUY	150	Event Update
14-Aug-23	BUY	194	Result Update
07-Nov-23	BUY	150	Result Update
12-Feb-24	HOLD	120	Result Update
22-May-24	BUY	120	Result Update
13-Aug-24	HOLD	107	Result Update

Source: Axis Securities Research

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Ratings	Expected absolute returns over 12 – 18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.

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