Result Update
17th February 2025

Camlin Fine Sciences Ltd.
Specialty Chemicals

HOLD
Target Price
135

## Resilient Performance Amidst Challenging Conditions; Maintain HOLD

**Est. Vs. Actual for Q3FY25: Revenue – BEAT; EBITDA – BEAT; PAT – BEAT**

**Change in Estimates post Q3FY25**

**FY25E/FY26E: Revenue**: -4%/0%; **EBITDA**: 4%/1%; **PAT**: -7/5%

**Recommendation Rationale**

- **Strong Momentum in Blends Businesses:** The blends business has demonstrated strong growth momentum over the past few quarters, and the management expects it to sustain an annual growth rate of 15%-20% going forward.
- **Rising Vanillin Prices and Capacity Ramp-up:** The U.S. has imposed a provisional Anti-Dumping Duty on Vanillin imports from China, leading to a rise in Vanillin prices over the past few months, with further increases expected. CFS also plans to ramp up capacity utilisation gradually.
- **Margin Improvement:** CFS reported margin improvement at both the Gross Profit and EBITDA levels during the quarter. Additionally, the increasing contribution from the high-margin Blends business and rising Vanillin prices are expected to further enhance profitability going forward.
- **Uncertainities Persist:** The company saw an increase in finance costs during the quarter due to adverse currency movements. The management indicated that while the overall economic situation is gradually improving, the impact of China on pricing and supply remains a concern. While the Blends and Aroma businesses are expected to perform well, a clear recovery in Straights and Performance Chemicals remains uncertain.

**Sector Outlook: Cautiously Optimistic**

**Company Outlook & Guidance:** The management highlighted that the Blends business has maintained strong momentum and is expected to grow at a similar rate going forward. With rising Vanillin prices, the Aroma business is also set to ramp up. Vanillin prices have been trending higher since December 2024, driven by the Anti-Dumping Duty (ADD) in the U.S. Overall, the Blends business is projected to grow at 15%-20% over the next two years, while the Aroma business is anticipated to steadily increase capacity utilisation, targeting 75% in FY26. EBITDA margins are expected to see meaningful improvement over the next few quarters.

**Current Valuation: 12x FY27E** (Unchanged)

**Current TP: Rs 135/share** (Earlier TP: 115/share)

**Recommendation: We maintain our HOLD rating on the stock.**

**Financial Performance:** CFS's Q3FY25 performance exceeded expectations across all fronts. Revenue grew 12% YoY and 2% QoQ to Rs 433 Cr, surpassing our estimate of Rs 398 Cr. EBITDA came in at Rs 49 Cr, up 109% YoY and 13% QoQ, exceeding our estimate of Rs 41 Cr. The EBITDA margin improved by 521 bps YoY to 11.3%, compared to our estimate of 10.3%. However, the company reported a net loss of Rs 7 Cr, higher than our expected loss of Rs 0.4 Cr, primarily due to exceptionally high-interest expenses.

### Key Financials (Consolidated)

| (Rs Cr) | Q3FY25 | YoY (%) | QoQ (%) | Axis Est. | Variance |
|---|---|---|---|---|---|
| Net Sales | 433 | 12% | 2% | 398 | 8.9% |
| EBITDA | 49 | 109% | 13% | 41 | 19.0% |
| EBITDA Margin | 11.3% | 521bps | 103bps | 10.3% | 96bps |
| Net Profit | (7) | -48% | -94% | (0.4) | NM* |
| EPS (Rs) | (0.4) | -48% | -94% | (0.0) | NM* |

Source: Company, Axis Securities Research.
*NM: Not Meaningful

(CMP as of 14th February 2025)

| | |
|---|---|
| CMP (Rs) | 136 |
| Upside /Downside (%) | -1% |
| High/Low (Rs) | 146/78 |
| Market cap (Cr) | 2,574 |
| Avg. daily vol. (1m) Shrs. | 14,57,962 |
| No. of shares (Cr) | 18.8 |

### Shareholding (%)

| | Jun-24 | Sep-24 | Dec-24 |
|---|---|---|---|
| Promoter | 48 | 48 | 48 |
| FIIs | 1.0 | 0.8 | 0.8 |
| DIIs | 4.9 | 4.2 | 3.4 |
| Others | 46 | 47 | 48 |

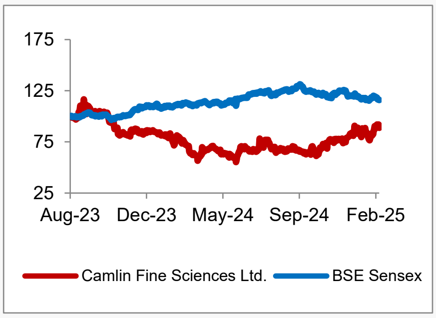
### Financial & Valuations

| Y/E Mar (Rs Cr) | FY24 | FY25E | FY26E |
|---|---|---|---|
| Net Sales | 1,613 | 1,747 | 2,261 |
| EBITDA | 74 | 183 | 328 |
| Net Profit | -105 | -131 | 131 |
| EPS (Rs) | -6.3 | -7.0 | 7.0 |
| PER (x) | -21.7 | -19.4 | 19.4 |
| P/BV (x) | 2.7 | 2.4 | 2.1 |
| EV/EBITDA (x) | 38.6 | 15.3 | 8.7 |
| ROE (%) | -12.2% | -13.8% | 12.2% |

### Change in Estimates (%)

| Y/E Mar | FY25E | FY26E |
|---|---|---|
| Sales | -4% | 0% |
| EBITDA | 4% | 1% |
| PAT | -7% | 5% |

### Relative Performance




Source: Ace Equity, Axis Securities Research

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## Outlook

CFS has delivered respectable revenue growth along with profitability improvements over the past two quarters. Following the impairment of its European and Chinese facilities, the company appears to be focusing on cost savings and sustainable revenue growth. Margins are expected to expand further, with an additional 400-500 bps improvement in EBITDA margins starting FY26. The company is also set to benefit from the implementation of anti-dumping measures in the U.S. and improving Vanillin prices. While steady performance improvement is expected, we will closely monitor end-market developments and internal execution efficiency.

## Valuation & Recommendation

We have revised our estimates upwards to account for the expected margin improvement, driven by the increasing contribution from high-margin Blends and rising Vanillin prices. We continue to value the company at 12x FY27E, resulting in a target price (TP) of Rs 135 per share (earlier Rs 115 per share). This TP implies a downside of 1% from the current market price (CMP), **and we maintain our HOLD rating on the stock.**

## Key Concall Highlights

***Performance Overview***

Revenue increased to Rs 433 Cr, up 12% YoY and 2% QoQ. Gross margins improved to ~50% from 48% in the previous quarter, with a similar improvement in EBITDA margins. Aroma and Blends remained the key growth drivers. PAT was impacted by higher finance costs due to currency fluctuations, including a forex loss of ~Rs 18 Cr. Following the impairment provision in the last quarter, the overall cost of CFS Europe declined in Q3FY25 and is expected to reduce further in the coming quarters.

***Operational Revenue Break-up***

Aroma sales increased to Rs 57 Cr, up from Rs 6 Cr in Q3FY24 and Rs 45 Cr in the previous quarter, with expectations of further ramp-up in the coming quarters. The company has increased Vanillin's output and is seeing better realisations. The Blends segment posted another strong quarter with revenue of Rs 225 Cr, compared to Rs 211 Cr in the previous quarter. CFS Vitafor reported revenue of Rs 36 Cr, up from Rs 27 Cr in the previous quarter. The performance of the Speciality Ingredients and Performance Chemicals segments remained weak, as anticipated.

***Capacity ramp-up/utilisation:***

The management stated that they are gradually ramping up Vanillin production at the Dahej plant and expect to reach around 70% capacity utilisation by the end of this year. Depending on market conditions and pricing, they plan to gradually scale up to 100% capacity utilisation.

***Vitafor:***

Following the Vitafor acquisition, CFS has applied for registrations in multiple countries, with some approvals already in place. The company is rolling out product launches in Mexico, Colombia, Peru, and India and anticipates substantial growth in the Vitafor business for FY26.

***Working Capital and Debt:***

CFS raised ~Rs 225 Cr through a rights issue in January 2025 and has utilised ~Rs 100 Cr to repay NCDs previously raised for working capital requirements. Following this repayment, the gross debt stands at around Rs 600 Cr. The company has earmarked Rs 68 Cr for further debt repayment and Rs 56 Cr for general corporate purposes. The improved liquidity from the rights issue is expected to support debt obligations in Europe and facilitate working capital funding.

***Outlook:***

The management noted that Vanillin prices have been rising due to the anti-dumping action against Chinese manufacturers in the U.S.A. and are likely to improve further. The company plans to gradually ramp up capacity utilisation, targeting 75% by FY26. The Blends business is expected to maintain its strong growth trajectory, with a sustained annual growth rate of 15-20% over the next few years. While the Performance Chemicals segment continues to face pricing pressures, the company is exploring opportunities in downstream Catechol products. The imposition of anti-dumping duty in the U.S. is expected to benefit the business by causing a 10-15% increase in Vanillin prices. Additionally, the cessation of losses from the European business (~Rs 15 Cr per quarter) starting FY26 could contribute to a 4-5% improvement in margins.

## Key Risks to Our Estimates and TP

- Global slowdown may further affect demand in the coming quarters, leading to a slower ramp-up.
- Adverse outcome of geopolitical tension and Red Sea crisis on International Gas prices and 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 | FY27E | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E |
| Net Sales | 1,747 | 2,261 | 2,725 | 1,821 | 2,261 | 2,643 | -4% | 0% | 3% |
| EBITDA | 183 | 328 | 417 | 176.7 | 323.3 | 388.5 | 4% | 1% | 7% |
| PAT | -131 | 131 | 188 | -141.1 | 124.8 | 161.0 | -7% | 5% | 17% |
| EPS | -7.8 | 7.8 | 11.2 | -8.4 | 7.5 | 9.6 | -7% | 5% | 17% |

Source: Company, Axis Securities Research

## Q3FY25 Results Review

| | Q3FY24 | Q2FY25 | Q3FY25 Axis Est | Q3FY25 | YoY (%) | QoQ (%) | Axis Variance % |
|---|---|---|---|---|---|---|---|
| Sales | **386** | **423** | **398** | **433** | **12.3%** | **2.5%** | **8.9%** |
| Expenditure | | | | | | | |
| Net Raw Material | 213 | 219 | 202 | 216 | 103.9% | -1.3% | |
| Gross Profit | 173 | 204 | 196 | 217 | 25.3% | 6.5% | |
| *Gross Margin (%)* | *44.9%* | *48.2%* | *49.3%* | *50.1%* | 519bps | 189bps | 80bps |
| Employee Expenses | 45 | 52 | 50 | 52 | 14.2% | -0.6% | |
| Other Exp | 104 | 108 | 105 | 116 | 11.4% | 7.4% | |
| | | | | | | | |
| **EBITDA** | **23** | **43** | **41** | **49** | **109.2%** | **12.8%** | **19.0%** |
| *EBITDA Margin (%)* | *6.0%* | *10.2%* | *10.3%* | *11.3%* | 521bps | 103bps | 96bps |
| Oth. Inc | 2 | 12 | 3 | 1 | -19.7% | -89.0% | |
| Interest | 14 | 26 | 23 | 34 | 141.3% | 29.2% | |
| Depreciation | 21 | 21 | 21 | 14 | -29.6% | -30.0% | |
| PBT | (10) | (142) | (1) | (0) | -96.6% | -99.8% | |
| Tax | 5 | (26) | (0) | 7 | 57.1% | -127.3% | |
| **PAT** | **(14)** | **(116)** | **(0)** | **(7)** | **-47.7%** | **-93.6%** | **NM** |
| EPS | (0.8) | (7.39) | (0.02) | (0.45) | -47.5% | -94.0% | NM |

Source: Company, Axis Securities Research

# Financials (Consolidated)

## Profit & Loss

(Rs Cr)

| Y/E March | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| **Total Net Sales** | **1,682** | **1,613** | **1,747** | **2,261** | **2,725** |
| Sales Growth % | 19.1% | -4.1% | 8.3% | 29.4% | 20.5% |
| Total Raw Material Consumption | 813 | 914 | 901 | 1,153 | 1,390 |
| Staff costs | 163 | 179 | 208 | 226 | 259 |
| Other Expenditure | 500 | 447 | 454 | 554 | 659 |
| Total Expenditure | 1,476 | 1,539 | 1,563 | 1,933 | 2,308 |
| **EBITDA** | **205** | **74** | **183** | **328** | **417** |
| % Change | 34.3% | -64.0% | 148.2% | 78.7% | 27.2% |
| **EBITDA Margin %** | **12.2%** | **4.6%** | **10.5%** | **14.5%** | **15.3%** |
| Depreciation | 63 | 78.6 | 70.2 | 64.0 | 71.7 |
| EBIT | 143 | -5 | 113 | 264 | 345 |
| % Change | 47.4% | -103.3% | -2514.0% | 133.0% | 30.8% |
| EBIT Margin % | 8.5% | -0.3% | 6.5% | 11.7% | 12.7% |
| Interest | 59 | 60 | 113 | 100 | 108 |
| Other Income | 6 | 16 | 17 | 11 | 14 |
| PBT | 80 | -99 | -133 | 175 | 251 |
| Tax | 41 | 6 | -2 | 44 | 63 |
| *Tax Rate %* | *50.5%* | *-5.7%* | *1.5%* | *25.0%* | *25.0%* |
| **PAT** | **40** | **-105** | **-131** | **131** | **188** |
| PAT Growth % | -34.1% | -363.4% | 25.3% | -200.0% | 43.2% |

Source: Company, Axis Securities Research

## Balance Sheet

**(Rs Cr)**

| Y/E March | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| **Share Capital** | **16** | **17** | **17** | **17** | **17** |
| Reserves & Surplus | 804 | 848 | 941 | 1,073 | 1,261 |
| **Total Share Holders Funds** | **824** | **857** | **950** | **1,082** | **1,270** |
| Non-Current Liabilities | | | | | |
| Long Term Borrowings | 408 | 333 | 367 | 461 | 540 |
| Deferred Tax Liability (Net) | 15 | 7 | 7 | 7 | 7 |
| ***Total Non-Current Liabilities*** | ***443*** | ***362*** | ***422*** | ***518*** | ***598*** |
| Current Liabilities | | | | | |
| Short Term Borrowings | 371 | 325 | 275 | 346 | 405 |
| Trade Payables | 288 | 325 | 296 | 379 | 457 |
| Other Financial Liability | 64 | 32 | 88 | 113 | 136 |
| Other Current Liability | 38 | 33 | 18 | 23 | 28 |
| ***Total Current Liability*** | ***793*** | ***732*** | ***697*** | ***884*** | ***1,051*** |
| ***Total Liabilities*** | ***1,236*** | ***1,095*** | ***1,119*** | ***1,402*** | ***1,649*** |
| **Total Equity & Liability** | **2,060** | **1,952** | **2,070** | **2,484** | **2,919** |
| *Assets* | | | | | |
| **PP&E** | **753** | **712** | **766** | **842** | **910** |
| Intangible assets | 66 | 60 | 71 | 81 | 89 |
| Capital Work in Progress | 41 | 46 | 46 | 46 | 46 |
| *Total Non-Current Assets* | *972* | *951* | *1,005* | *1,092* | *1,170* |
| Current Assets: | | | | | |
| Inventories | 568 | 513 | 431 | 527 | 620 |
| Trade Receivable | 305 | 285 | 302 | 372 | 411 |
| **Cash and Cash Equivalents** | **94** | **80** | **121** | **227** | **403** |
| Bank Balance | 5 | 13 | 13 | 13 | 13 |
| Other Current Assets | 102 | 97 | 186 | 241 | 291 |
| ***Total Current Assets*** | ***1,088*** | ***1,001*** | ***1,065*** | ***1,391*** | ***1,749*** |
| **Total Assets** | **2,060** | **1,952** | **2,070** | **2,484** | **2,919** |

Source: Company, Axis Securities Research

**Cash Flow** (Rs Cr)

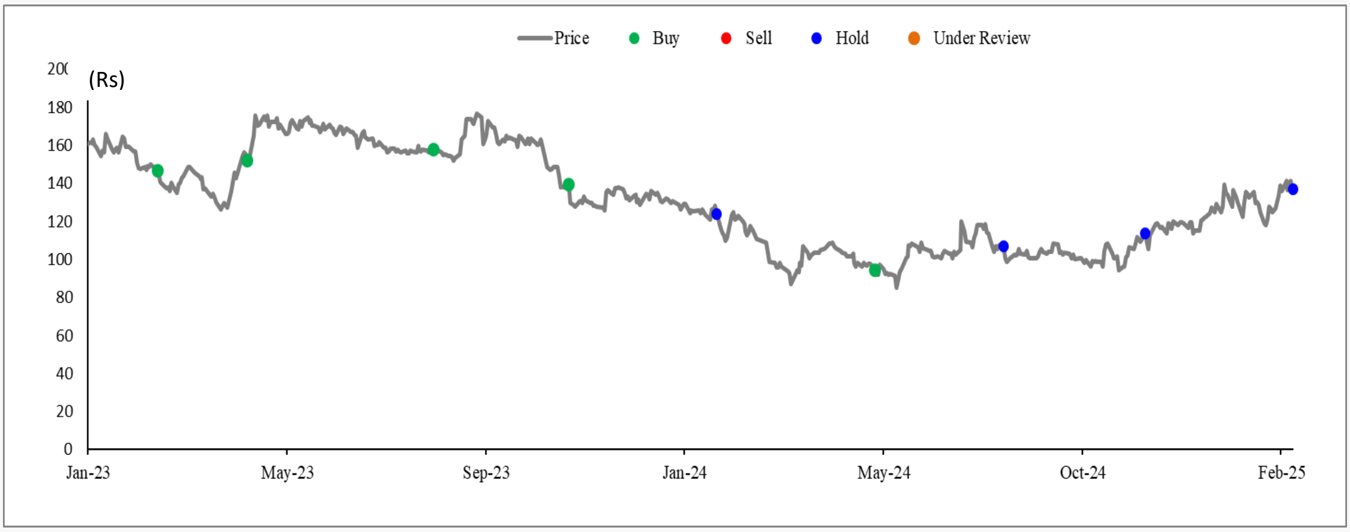
| Y/E March | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| PBT | 80 | -99 | -133 | 175 | 251 |
| Depreciation & Amortization | 63 | 79 | 70 | 64 | 72 |
| Chg in Working cap | -139 | 32 | -8 | -105 | -73 |
| Direct tax paid | -20 | -48 | 2 | -44 | -63 |
| **Cash flow from operations** | **51** | **139** | **2** | **179** | **281** |
| | | | | | |
| Chg in Gross Block | -144 | -61 | -99 | -150 | -148 |
| Chg in Investments | 29 | -8 | 0 | 0 | 0 |
| Proceeds on redemption of Fin. Assets | 0 | 0 | 0 | 0 | 0 |
| **Cash flow from investing** | **-125** | **-66** | **-82** | **-141** | **-136** |
| | | | | | |
| Proceeds / (Repayment) of Short Term Borrowings (Net) | 52 | 0 | -50 | 71 | 59 |
| Proceeds from the issue of Equity Instruments of the company | 1 | 1 | 225 | 0 | 0 |
| Loans | 81 | 25 | 34 | 94 | 78 |
| Finance Cost paid | -52 | -73 | -113 | -100 | -108 |
| Dividends paid | -14 | -28 | 0 | 0 | 0 |
| **Cash flow from financing** | **60** | **-86** | **121** | **67** | **31** |
| **Chg in cash** | **-14** | **-13** | **41** | **105** | **176** |
| Cash at start | 108 | 94 | 80 | 121 | 227 |
| **Cash at end** | **94** | **80** | **121** | **227** | **403** |

**Ratio Analysis** (%)

| Y/E March | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| **Growth (%)** | | | | | |
| Net Sales | 19.1% | -4.1% | 8.3% | 29.4% | 20.5% |
| EBITDA | 34.3% | -64.0% | 148.2% | 78.7% | 27.2% |
| APAT | -34.1% | -363.4% | 25.3% | -200.0% | 43.2% |
| **Per Share Data (Rs)** | | | | | |
| Adj. EPS | 2.5 | -6.3 | -7.0 | 7.0 | 10.0 |
| BVPS | 52.5 | 51.2 | 56.7 | 64.6 | 75.8 |
| DPS | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Profitability (%)** | | | | | |
| EBITDA Margin | 12.2% | 4.6% | 10.5% | 14.5% | 15.3% |
| Adj. PAT Margin | 2.4% | -6.5% | -7.5% | 5.8% | 6.9% |
| ROCE | 12.3% | -0.4% | 9.2% | 19.4% | 23.8% |
| ROE | 4.8% | -12.2% | -13.8% | 12.2% | 14.8% |
| ROIC | 12.3% | -0.4% | 9.2% | 19.4% | 23.8% |
| **Valuations (X)** | | | | | |
| PER | 53.7 | -21.7 | -19.4 | 19.4 | 13.6 |
| P/BV | 2.6 | 2.7 | 2.4 | 2.1 | 1.8 |
| EV / EBITDA | 13.7 | 38.6 | 15.3 | 8.7 | 6.8 |
| EV / Net Sales | 1.7 | 1.8 | 1.6 | 1.3 | 1.0 |
| **Turnover Days** | | | | | |
| Asset Turnover | 2.0 | 1.6 | 1.6 | 1.8 | 2.0 |
| Inventory days | 101.9 | 122.3 | 90.0 | 85.0 | 83.0 |
| Debtors days | 65.6 | 66.7 | 63.0 | 60.0 | 55.0 |
| Creditors days | 117.2 | 122.4 | 120.0 | 120.0 | 120.0 |
| Working Capital Days | 50.3 | 66.6 | 33.0 | 25.0 | 18.0 |
| **Gearing Ratio** | | | | | |
| Total Debt to Equity (x) | 0.8 | 0.7 | 0.5 | 0.5 | 0.4 |

Source: Company, Axis Securities Research

## Camlin Fine Sciences Price Chart and Recommendation History




| Date | Reco | TP | Research |
|---|---|---|---|
| 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 |
| 12-Nov-24 | HOLD | 105 | Result Update |
| 17-Feb-25 | HOLD | 135 | Result Update |
| | | | |

*Source: Axis Securities Research*

**Disclosures:**

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|---|---|
| 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.