


Price slump leads to Inventory write-offs, Worst priced-in, Cheap Valuations; Revise to BUY
Est. Vs. Actual for Q4FY24: Revenue –**BEAT**; EBITDA –**MISS**; PAT – **MISS**
Change in Estimates post Q4FY24
FY25E/FY26E: Revenue: -6%/-6%; **EBITDA:** -35%/-18%; **PAT:** -51%/-19%

Recommendation Rationale

- **Blends business is expected to remain resilient:** CFS North America, CFS Mexico and CFS Brazil are subsidiaries which predominantly sells blend, continue their growth momentum as top lines build and operational leverage leads to improved profitability. CFS North America topline grew to Rs. 255.2 cr in FY24 vs 85 Cr in FY23. Company expects CFS North America business to grow at ~25% in FY25. Expect similar strong momentum in other these American subsidiaries with profitability maintained in blends business.
- **Bottomed out prices:** With current price slump from excess inventory and continued Chinese dumping, prices of MeHQ have dropped from \$9 to \$4-4.5 and Vanillin prices have plummeted from \$14-15 to \$8-9, these prices remain unsustainable EBITDA post conversion costs remains abysmally low, so we expect the price recovery to start happening atleast by the end of current calendar year as inventory situation are expected to normalise, although China's over capacity will continue to remain a problem, we are conservatively building 20-30% price recovery. The company has also written of past high cost inventory so there is low probability of any further negative surprise.
- **Redesigning Italy and China Facility:** Plant in Italy remains shut, company is planning to redesign the plant to produce alternative products such as MEHQ and Guaiacol with an investment of \$2-3mn. Company is in the process of completing the designing of the repurpose plant and it is in process of achieving its final closure. CFS Wanglong facility to utilise to manufacture Heliotropin, an aromatic product which is downstream of Catechol. The management has initiated the process of redesigning the plant with an investment of Rs. 25 crs. Meaningful contribution from both the plants is expected from FY26.

Company Outlook & Guidance: Management highlighted 10-15% revenue growth guidance for FY25, With blends business contributing around Rs. 1,000 crs plus, Vanillin contributing around Rs. 200 crs and Hydroquinone & Other downstreams contributing another Rs. 600-700 crs considering current prices. Management Expects significant price improvement by the end of FY25. Ebitda Margin is expected to be in range of 10-12% at Rs. 180-200 crs of EBITDA Level (EBITDA Loss from europe and china would be at \$3 mn (25 crs)

Current Valuation: 15x FY26E (Earlier: 15x Sep'26E)

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

Recommendation: We revise our rating from HOLD to BUY on the stock as the valuations have factored in the worst case scenarios.

Financial Performance: CFS reported Q4 numbers majorly missed our estimates on EBITDA and PAT fornt. Consolidated revenue stood at Rs 402 Cr, up 9% from our estimates (down 6%/up 4% YoY/QoQ). EBITDA declined significantly by 130% YoY at Rs -13 Cr and majorly missed our estimate by 151%. EBITDA Margin declined to -3% (from 10%/6% in Q4FY23/Q3FY24). The company's PAT stood at Rs (82) Cr due to lacklustre overall performance. Exceptional Items stood at Rs. 50 crs, Exceptional Items includes , Impairment of Assets CFS Wanglong amounting to Rs. 27 crs, Ltd.(CFSWL) and Rs. 23 crs Impairment of Catalyst and other inventories of CFS Europe.

Valuation & Recommendation: We revise the company's FY25/26E Revenue and EBITDA estimates as we factor slower recovery in prices of key chemicals lower utilisation in the Vanillin plant as oversupply-related challenges and weaker demand leading hampers key products. We have rolled forward our estimates to FY26E valuing the company at 15x FY26E which translates to TP to Rs 120/share, implying a 24% upside from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q4FY24	YoY (%)	QoQ (%)	Axis Est.	Variance
Net Sales	402	-6%	4%	369	9.0%
EBITDA	(13)	-130%	-157%	26	-151.4%
EBITDA Margin	-3.3%	-1357bps	-934bps	7%	-1030bps
Net Profit	(81.8)	-2451%	-673%	(13.8)	-692%
EPS (Rs)	(4.9)	-2298%	-673%	(0.9)	-653%

Source: Company, Axis Research

(CMP as of 21st May 2024)

CMP (Rs)	97
Upside /Downside (%)	24%
High/Low (Rs)	186/88
Market cap (Cr)	1,616
Avg. daily vol. (1m)Shrs.	4,24,945
No. of shares (Cr)	16.8

Shareholding (%)

	Sept-23	Dec-23	Mar-24
Promoter	48	48	48
FIIIs	1.6	1.0	1.7
DIIIs	3.9	3.8	4.5
Others	46	47	46

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	1,613	1,980	2,431
EBITDA	74	198	340
Net Profit	-105	50	134
EPS (Rs)	-6.3	3.0	8.0
PER (x)	-15.5	32.4	12.1
P/BV (x)	1.9	1.8	1.6
EV/EBITDA (x)	29.8	11.8	7.3
ROE (%)	-12.2%	5.5%	12.9%

Change in Estimates (%)

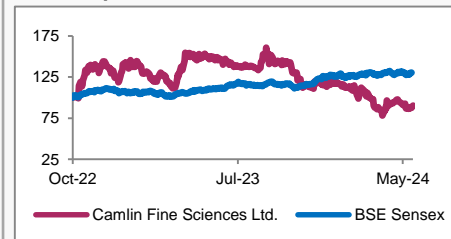
Y/E Mar	FY25E	FY26E
Sales	-6%	-6%
EBITDA	-35%	-18%
PAT	-51%	-19%

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

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Outlook

- The company is focusing on the levers that are in its control, trying to grow its blends business in American continents, recalibrating costs at loss-making subs and optimising its product mix. We believe large part of the worst has been priced in with the prices at all time low at extremely unsustainable level and inventory writeoff, with the hope of macro challenges receding from in 2-3 quarters we expect prices of Hydroquinone and Vanillin start to see upwards trajectory,

Key Presentation Highlights

- On Vanillin facility:** Production of vanillin augurs well for the company and the cost of catechol get absorbed in Vanillin, leading to lower probability of further writeoff in Catechol. In FY25 management expects Vanillin facility to operate at 40-50% utilisation level, with improvement in the market conditions and new customer contracts. Management targets Rs. 190-200 crs of revenue from Vanillin. CFS also addressing indian market for vanillin, and this year company expects to take decent market share in india with targeting 400-500 tones of sales atleast.
- Exceptional Items:** PAT during the quarter was also impacted by Rs. 50 crs of Exceptional Items, Which includes Impairment of Assets CFS Wanglong of Rs. 27 crs and Impairment of Catalyst and other inventories of CFS Europe Rs. 23 crs. Management doesn't expect further write off or unaccounted losses.
- Blends and Performance Chemical Business:** Growth Momentum is expected to come from blend business in coming quarters, The drag in Performance chemical business was mainly due to lack of production of Hydroquinone and catechol in europe.
- Debt:** Company Don't expect significant reduction in debt level, it will be repaying around Rs. 25 crs of loan, and not planning any fresh loan at the moment.

Key Risks to our Estimates and TP

- Global slowdown further affects demand in coming quarters, leading to a slower ramp-up
- Adverse outcome of the ongoing Russia-Ukraine crisis on International Gas prices
- Delays in approval from customers which 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	1,980	2,431	2,106	2,580	-6%	-6%
EBITDA	198	340	305	413	-35%	-18%
PAT	50	134	103	165	-51%	-19%
EPS	3.0	8.0	6.1	10	-35%	-18%

Source: Company, Axis Securities

Q4FY24 Results Review

	Q4FY23	Q3FY24	Q4FY24 Axis Est	Q4FY24	Y-o-Y (%)	Q-o-Q (%)	Axis Variance %
Sales	427	386	369	402	-5.9%	4.1%	9.0%
Expenditure							
Net Raw Material	211	213	195	262	90.4%	23.1%	
Gross Profit	216	173	173	140	-35.1%	-19.2%	
Gross Margin (%)	50.6%	44.9%	47.0%	34.9%	-1569bps	-1004bps	-1213bps
Employee Expenses	41	45	44	46	13.1%	1.5%	
Other Exp	131	104	103	107	-18.2%	2.6%	
EBITDA	44	23	26	(13)	-130.2%	-156.8%	-151.4%
EBITDA Margin (%)	10.3%	6.0%	7.0%	-3.3%	-1357bps	-934bps	-1030bps
Oth. Inc	2	1.7	1.2	5.8	188.7%	246.3%	
Interest	10	14.1	15.4	16.2	65.3%	14.4%	
Depreciation	18	20.6	21.8	20.0	11.8%	-2.6%	
PBT	8	(9.7)	(10.2)	(93.5)	-1209.5%	861.0%	
Tax	5	4.5	3.7	(11.7)	-336.8%	-357.7%	
PAT	3	(14.3)	(13.8)	(81.8)	-2450.8%	472.8%	-691.6%
EPS	0.2	(0.85)	(0.88)	(4.87)	-2298.2%	472.8%	-653.2%

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Total Net Sales	1,682	1,613	1,980	2,431
Sales Growth %	19.1%	-4.1%	22.7%	22.8%
Total Raw Material Consumption	813	914	1,029	1,191
Staff costs	163	179	208	243
Other Expenditure	500	447	544	656
Total Expenditure	1,476	1,539	1,782	2,090
EBITDA	205	74	198	340
% Change	34.3%	-64.0%	167.8%	71.9%
EBITDA Margin %	12.2%	4.6%	10.0%	14.0%
Depreciation	63	78.6	79.8	87.3
EBIT	143	-5	118	253
% Change	47.4%	-103.3%	-2619.9%	114.1%
EBIT Margin %	8.5%	-0.3%	6.0%	10.4%
Interest	59	60	66	76
Other Income	6	16	25	29
PBT	80	-99	77	206
Tax	41	6	27	72
Tax Rate %	50.5%	-5.7%	35.0%	35.0%
PAT	40	-105	50	134
PAT Growth %	-34.1%	-363.4%	-147.8%	167.1%

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Share Capital	16	17	17	17
Reserves & Surplus	804	848	898	1,032
Total Share Holders Funds	824	857	907	1,041
Non-Current Liabilities				
Long Term Borrowings	408.1	332.7	415.7	481.3
Deferred Tax Liability (Net)	15.1	6.8	6.8	6.8
Total Non-Current Liabilities	443.0	362.5	471.6	538.3
Current Liabilities				
Short Term Borrowings	371.5	324.9	277.1	320.8
Trade Payables	288.4	324.6	282.0	326.3
Other Financial Liability	63.9	31.9	100.9	116.7
Other Current Liability	37.9	32.8	20.6	23.8
Total Current Liability	793.0	732.3	701.9	810.9
Total Liabilities	1,236.0	1,094.8	1,173.5	1,349.2
Total Equity & Liability	2,060.1	1,951.7	2,080.6	2,390.2
Assets				
PP&E	752.5	712.2	756.5	809.2
Intangible assets	66.2	59.9	71.2	81.3
Capital Work in Progress	40.8	45.6	45.6	45.6
Total Non-Current Assets	972.3	951.1	995.8	1,060.2
Current Assets:				
Inventories	568.1	512.7	488.1	599.3
Trade Receivable	304.6	285.2	352.5	432.8
Cash and Cash Equivalents	93.7	80.3	(22.1)	(46.5)
Bank Balance	5.5	13.3	43.3	73.3
Other Current Assets	101.6	97.4	211.1	259.1
Total Current Assets	1,087.8	1,000.7	1,084.7	1,329.9
Total Assets	2,060.1	1,951.7	2,080.6	2,390.2

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
PBT	80	-99	77	206
Depreciation & Amortization	63	79	80	87
Chg in Working cap	-139	32	-169	-204
Direct tax paid	-20	-48	-27	-72
Cash flow from operations	51	139	-22	64
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
Cash flow from investing	-125	-66	-76	-122
Proceeds / (Repayment) of Short Term Borrowings (Net)	52	0	-48	44
Proceeds from issue of Equity Instruments of the company	1	1	0	0
Loans	81	25	83	66
Finance Cost paid	-52	-73	-66	-76
Dividends paid	-14	-28	0	0
Cash flow from financing	60	-86	-5	34
Chg in cash	-14	-13	-102	-24
Cash at start	108	94	80	-22
Cash at end	94	80	-22	-47

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY23	FY24	FY25E	FY26E
Growth (%)				
Net Sales	19.1%	-4.1%	22.7%	22.8%
EBITDA	34.3%	-64.0%	167.8%	71.9%
APAT	-34.1%	-363.4%	-147.8%	167.1%
Per Share Data (Rs)				
Adj. EPS	2.5	-6.3	3.0	8.0
BVPS	52.5	51.2	54.2	62.2
DPS	0.0	0.0	0.0	0.0
Profitability (%)				
EBITDA Margin	12.2%	4.6%	10.0%	14.0%
Adj. PAT Margin	2.4%	-6.5%	2.5%	5.5%
ROCE	12.3%	-0.4%	8.5%	15.7%
ROE	4.8%	-12.2%	5.5%	12.9%
ROIC	12.3%	-0.4%	8.5%	15.7%
Valuations (X)				
PER	50.1	-15.5	32.4	12.1
P/BV	2.4	1.9	1.8	1.6
EV / EBITDA	13.1	29.8	11.8	7.3
EV / Net Sales	1.6	1.4	1.2	1.0
Turnover Days				
Asset Turnover	1.9	1.6	1.8	2.0
Inventory days	101.9	122.3	90.0	90.0
Debtors days	65.6	66.7	65.0	65.0
Creditors days	117.2	122.4	100.0	100.0
Working Capital Days	50.3	66.6	55.0	55.0
Gearing Ratio				
Total Debt to Equity (x)	0.8	0.7	0.8	0.8

Source: Company, Axis Securities

Camlin Fine Sciences PriceChart 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

Source: Axis Securities

About the analyst



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Sector: Chemicals, & Mid-Cap Opportunities

Analyst Bio: Prathamesh is a CFA charter holder with 7 years of experience in Equity Research & Valuation.



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Analyst Bio: Shivani is CFP starting her career in Equity Research.

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