

Looking for the Right Blend; Maintain HOLD
Est. Vs. Actual for Q2FY25: Revenue – **INLINE**; EBITDA – **BEAT**; PAT – **MISS**
Change in Estimates post Q2FY25
FY25E/FY26E: Revenue:-2%/0%; EBITDA: 6%/3% ; PAT: NA/4%

Recommendation Rationale

- Decisive Steps on Italy and China Facilities:** For the past few quarters, CFS has been incurring significant costs in its Italian (Diphenol) and Chinese facilities without any corresponding revenues. The company has now concluded that repurposing these facilities is not economically feasible and has entirely impaired these assets. While this has impacted the profit during the quarter (exceptional expenses of Rs 151 Cr), it provides much-needed clarity on the future plans. As per the management, the European facilities had a ~Rs 15 Cr drag on EBITDA every quarter, which is now expected to reduce to ~Rs 1 Cr per quarter. Notably, the company continues to generate revenues in the European blends business which are expected to grow at a steady rate.
- Blends and Aroma Businesses to the rescue:** The blends business continued to demonstrate robust performance during the quarter, which was accompanied by a strong momentum in the Aroma business. While Catechol prices remain under pressure, strong margins and growth in these businesses helped the company deliver positive numbers at the PBT level. The company is also looking to expand offerings in downstream Catechol. As the performance chemicals business is expected to remain muted over the next few quarters, CFS will rely heavily on its blends and aroma business to generate the cash flows necessary for meeting its working capital needs. Management indicated that working capital requirements remain high, and the company is considering a rights issue primarily aimed at funding these needs.

Sector Outlook: Cautiously Optimistic

Company Outlook & Guidance: The management expects the Blends and Aroma businesses to maintain strong growth momentum. It believes that the imposition of Anti-Dumping Duty (ADD) in America will be beneficial for the business when implemented. Overall, the Blends business is projected to grow at a rate of 15-20% over the next two years, while the Aroma business is anticipated to steadily increase capacity utilization. EBITDA margins are expected to see meaningful improvement starting from FY26.

Current Valuation: 12x FY27E (Earlier: 15x FY26E)

Current TP: Rs 115/share (Earlier TP: 107/share)

Recommendation: We maintain our HOLD rating on the stock.

Financial Performance: CFS' Q2 revenue increased by 4% YoY and 7% QoQ to Rs 423 Cr, in line with our estimate of Rs 428 Cr. EBITDA stood at Rs 43 Cr, up 72% YoY and 138% QoQ, surpassing our estimate of Rs 31 Cr. The EBITDA margin improved to 10.2% compared to the previous quarter's low of 4.6%. The company reported a net loss of Rs 116 Cr, primarily due to exceptional expenses of approximately Rs 151 Cr related to various one-off items, including the impairment of assets in Europe and China.

Outlook: By impairing the European and Chinese facilities, the company may have reduced any prospects of reclaiming value from those assets but has gained much-needed clarity around its growth plans. The resulting cost savings are expected to contribute an additional 400-500 bps to EBITDA margins starting FY26. We believe that macroeconomic challenges and pricing pressures may begin to ease moving forward, and the potential implementation of anti-dumping measures could serve as key growth drivers for the company. Overall, while we remain hopeful for a rebound in performance, we will closely monitor end-market developments as well as internal execution efficiency.

Valuation & Recommendation: We have revised the company's FY25/26E estimates and rolled forward projections to FY27E, incorporating recent developments. We now value the company at 12x FY27E (previously 15x FY26E), resulting in a target price (TP) of Rs 115 per share. This TP implies a downside of 1% from the current market price (CMP). We maintain our HOLD rating on the stock.

Key Financials (Consolidated)

(Rs Cr)	Q2FY25	YoY (%)	QoQ (%)	Axis Est.	Variance
Net Sales	423	4%	7%	428	-1.2%
EBITDA	43	72%	138%	31	38.3%
EBITDA Margin	10.2%	403bps	564bps	7%	292bps
Net Profit	(116)	NA	NA	(8)	NA
EPS (Rs)	(7.4)	NA	NA	(0.5)	NA

Source: Company, Axis Securities Research

 (CMP as of 11th November 2024)

CMP (Rs)	116
Upside /Downside (%)	-1%
High/Low (Rs)	138/87
Market cap (Cr)	1,952
Avg. daily vol. (1m) Shrs.	9,57,270
No. of shares (Cr)	16.8

Shareholding (%)

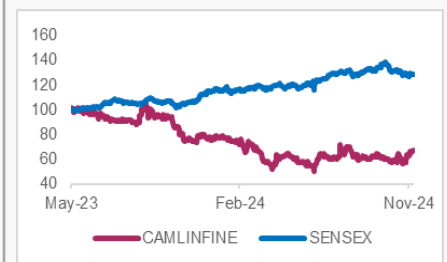
	Mar-24	Jun-24	Sep-24
Promoter	48	48	48
FIIs	1.7	1.0	0.8
DIIIs	4.5	4.9	4.2
Others	46	46	47

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	1,613	1,821	2,261
EBITDA	74	177	323
Net Profit	-105	-141	125
EPS (Rs)	-6.3	-8.4	7.5
PER (x)	-15.5	-13.8	15.6
P/BV (x)	1.9	2.7	2.3
EV/EBITDA (x)	29.8	15.3	8.6
ROE (%)	-12.2%	-19.7%	14.8%

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-2%	0%
EBITDA	6%	3%
PAT	NA	4%

Relative performance


Source: Ace Equity, Axis Securities Research

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Key Concall Highlights

- **Performance Overview:** Revenue increased to Rs 423 Cr, reflecting a 6.9% growth compared to the last quarter. Gross margins improved primarily due to strong performance in the Aroma business. Aroma and Blends were the key growth drivers. EBITDA margins improved to 10.2%, up from 7.2% in the previous quarter. PAT was impacted by exceptional items amounting to Rs 151 Cr, of which Rs 116.5 Cr were related to the impairment of the European Diphenol business.
- **Operational Revenue Break-up:** Aroma sales increased to Rs 45 Cr, up from Rs 13 Cr in the previous quarter, with expectations of further growth in the coming quarters. The Blends business showed strong growth, with revenue of Rs 223 Cr during the quarter, as previously guided. Specialty ingredients revenue stood at Rs 321 Cr, partially impacted by a decline in straights. Revenue from the Performance Chemicals segment declined to Rs 54 Cr, compared to Rs 65 Cr in the previous quarter, with performance expected to remain subdued in the coming quarters.
- **Impairments:** The management mentioned that the current economic situation is not conducive to repurposing the Diphenol facility in Europe, and it has decided to keep the plant shut for a prolonged period while focusing on blending and other businesses in Europe. As a result, the company recorded an impairment of approximately Rs 116 Cr. Similarly, repurposing/restarting the unit in China will take much longer than expected, so the company has impaired the entire business of CFS Wanglong, recording a loss of approximately Rs 30 Cr. Total exceptional items (expenses) of Rs 151 Cr also include expenditure related to the Vitafor acquisition and the demolition of certain assets. No further impairments are anticipated in the near future.
- **Europe:** The Diphenol plant has been completely impaired, but the Blends business continues to generate revenue (approximately Rs 18 Cr for this quarter, or ~Rs 100 Cr annually). The company is looking to restructure the debt of approximately Rs 80 Cr. The Diphenol business, which has been incurring losses of around Rs 15 Cr per quarter, will reduce its losses to about Rs 1 Cr per quarter over the next couple of quarters as operations are fully shut down. The European Blends business is expected to grow at a robust rate.
- **Working Capital and Debt:** The company's liquidity position remains challenging, with a strong focus on working capital management. The management is considering launching a rights issue, primarily to support working capital needs. While the company acknowledged that current debt levels are high (~Rs 740 Cr gross debt) and there are no immediate plans to reduce the debt, it intends to maintain these levels. Short-term borrowings of around Rs 400 Cr are mainly related to working capital.
- **Outlook:** While the Performance Chemicals business is expected to continue facing pricing pressures, the company is looking at other downstream Catechol products. The company anticipates 15-20% growth in value-added products. The Blends and Aroma businesses are expected to continue their strong growth momentum. The potential imposition of Anti-Dumping Duty in America is expected to benefit the business when enacted (likely around the second quarter of calendar 2025). The Blends business is projected to grow at a rate of 15-20% over the next two years, while the Aroma business is expected to reach 75-80% capacity utilization by FY26. Overall, EBITDA margins are expected to remain at similar levels to Q2 in the next two quarters. However, the losses from the European business (~Rs 15 Cr per quarter) will cease starting FY26, potentially leading to a 4-5% increase 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 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	1,821	2,261	1,857	2,252	-2%	0%
EBITDA	177	323	167	315	6%	3%
PAT	(141)	125	32	120	NA	4%
EPS	(8.4)	7.5	1.9	7	NA	4%

Source: Company, Axis Securities Research

Q2FY25 Results Review

	Q2FY24	Q1FY25	Q2FY25 Axis Est	Q2FY25	YoY (%)	QoQ (%)	Axis Variance %
Sales	406	396	428	423	4.2%	6.9%	-1.2%
Expenditure							
Net Raw Material	224	218	233	219	89.2%	0.5%	
Gross Profit	182	178	195	204	11.9%	14.7%	
Gross Margin (%)	44.9%	44.9%	45.5%	48.2%	330bps	329bps	271bps
Employee Expenses	43	51	49	52	20.9%	2.1%	
Other Exp	114	109	114	108	-4.8%	-0.1%	
EBITDA	25	18	31	43	72.1%	138.4%	38.3%
EBITDA Margin (%)	6.2%	4.6%	7.3%	10.2%	403bps	564bps	292bps
Oth. Inc	2	2	3	12	587.0%	547.7%	
Interest	20	23	22	26	33.6%	13.0%	
Depreciation	19	20	20	21	7.8%	2.9%	
PBT	(12)	(23)	(7)	(142)	NA	NA	
Tax	9	11	1	(26)	-399.6%	-334.6%	
PAT	(21)	(35)	(8)	(116)	NA	NA	NA
EPS	(1.3)	(2.21)	(0.49)	(7.39)	NA	NA	NA

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	1,821	2,261	2,643
Sales Growth %	19.1%	-4.1%	12.9%	24.1%	16.9%
Total Raw Material Consumption	813	914	956	1,169	1,361
Staff costs	163	179	208	226	264
Other Expenditure	500	447	481	543	629
Total Expenditure	1,476	1,539	1,645	1,938	2,254
EBITDA	205	74	177	323	388
% Change	34.3%	-64.0%	139.0%	83.0%	20.1%
EBITDA Margin %	12.2%	4.6%	9.7%	14.3%	14.7%
Depreciation	63	78.6	74.4	69.8	78.2
EBIT	143	-5	102	254	310
% Change	47.4%	-103.3%	-2279.6%	148.0%	22.4%
EBIT Margin %	8.5%	-0.3%	5.6%	11.2%	11.7%
Interest	59	60	92	77	78
Other Income	6	16	36	16	16
PBT	80	-99	-105	192	248
Tax	41	6	37	67	87
Tax Rate %	50.5%	-5.7%	-35.0%	35.0%	35.0%
PAT	40	-105	-141	125	161
PAT Growth %	-34.1%	-363.4%	34.6%	-188.5%	28.9%

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	707	832	993
Total Share Holders Funds	824	857	716	841	1,002
Non-Current Liabilities					
Long Term Borrowings	408	333	481	516	523
Deferred Tax Liability (Net)	15	7	7	7	7
Total Non-Current Liabilities	443	362	536	572	581
Current Liabilities					
Short Term Borrowings	371	325	361	387	392
Trade Payables	288	325	314	384	447
Other Financial Liability	64	32	94	115	133
Other Current Liability	38	33	19	23	27
Total Current Liability	793	732	808	932	1,026
Total Liabilities	1,236	1,095	1,344	1,504	1,607
Total Equity & Liability	2,060	1,952	2,060	2,345	2,609
Assets					
PP&E	753	712	762	832	894
Intangible assets	66	60	71	81	89
Capital Work in Progress	41	46	46	46	46
Total Non-Current Assets	972	951	1,001	1,082	1,153
Current Assets:					
Inventories	568	513	449	545	637
Trade Receivable	305	285	314	372	434
Cash and Cash Equivalents	94	80	77	79	77
Bank Balance	5	13	13	13	13
Other Current Assets	102	97	194	241	282
Total Current Assets	1,088	1,001	1,060	1,263	1,455
Total Assets	2,060	1,952	2,060	2,345	2,609

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
PBT	80	-99	-105	192	248
Depreciation & Amortization	63	79	74	70	78
Chg in Working cap	-139	32	-22	-103	-107
Direct tax paid	-20	-48	-37	-67	-87
Cash flow from operations	51	139	-57	154	195
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	-64	-136	-133
Proceeds / (Repayment) of Short Term Borrowings (Net)	52	0	36	26	6
Proceeds from the issue of Equity Instruments of the company	1	1	0	0	0
Loans	81	25	148	35	8
Finance Cost paid	-52	-73	-92	-77	-78
Dividends paid	-14	-28	0	0	0
Cash flow from financing	60	-86	117	-15	-64
Chg in cash	-14	-13	-3	3	-2
Cash at start	108	94	80	77	79
Cash at end	94	80	77	79	77

Source: Company, Axis Securities Research

Ratio Analysis

(%)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Growth (%)					
Net Sales	19.1%	-4.1%	12.9%	24.1%	16.9%
EBITDA	34.3%	-64.0%	139.0%	83.0%	20.1%
APAT	-34.1%	-363.4%	34.6%	-188.5%	28.9%
Per Share Data (Rs)					
Adj. EPS	2.5	-6.3	-8.4	7.5	9.6
BVPS	52.5	51.2	42.7	50.2	59.8
DPS	0.0	0.0	0.0	0.0	0.0
Profitability (%)					
EBITDA Margin	12.2%	4.6%	9.7%	14.3%	14.7%
Adj. PAT Margin	2.4%	-6.5%	-7.7%	5.5%	6.1%
ROCE	12.3%	-0.4%	8.8%	19.2%	20.8%
ROE	4.8%	-12.2%	-19.7%	14.8%	16.1%
ROIC	12.3%	-0.4%	8.8%	19.2%	20.8%
Valuations (X)					
PER	50.1	-15.5	-13.8	15.6	12.1
P/BV	2.4	1.9	2.7	2.3	1.9
EV / EBITDA	13.1	29.8	15.3	8.6	7.2
EV / Net Sales	1.6	1.4	1.5	1.2	1.1
Turnover Days					
Asset Turnover	1.9	1.6	1.6	1.8	1.9
Inventory days	101.9	122.3	90.0	88.0	88.0
Debtors days	65.6	66.7	63.0	60.0	60.0
Creditors days	117.2	122.4	120.0	120.0	120.0
Working Capital Days	50.3	66.6	33.0	28.0	28.0
Gearing Ratio					
Total Debt to Equity (x)	0.8	0.7	1.1	1.0	0.8

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
12-Nov-24	HOLD	115	Result Update

Source: Axis Securities Research

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