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Analyst meet update: Camlin Fine Sciences Ltd. (CFS)

Nov. 17, 2018

We recently attended the analyst meet of Camlin Fine Sciences Ltd. held on Nov. 16, 2018. The following are the highlights of the meet:

- 1) CMP: Rs. 56
- 2) FV: Re. 1
- 3) Book value: Rs. 36
- 4) Market Cap: Rs. 681 crores
- 5) FY18 topline: Rs. 723 crores
- 6) H1FY19 topline: Rs. 383 crores
- 7) Equity Capital: Rs. 12.12 crores
- 8) Networth: Rs. 369 crores
- 9) Net Fixed Assets: Rs. 201 crores
- 10) Total Debt: Rs. 426 crores as on H1FY19..(Short term borrowings: Rs. 228 crores), Inventory: Rs. 291 crores
- 11) Turned profit making in Q2FY19...

Key participants from company side along with respective department heads:

Mr. Ashish Dandekar - MD, over 28 years of experience in Pharma..(Was silent in analyst meeting)

Mr. Nirmal Momaya - Non Executive Director - Qualified CA with over 25 years of experience in the field of finance, taxation, audit and management consultancy and has been advising the company on strategic matters since 2009, Founder of Pagoda Advisors, a consulting firm providing consultancy services to Chemicals, Healthcare, Real Estate, Pharmaceuticals, QSR, FMCG sectors etc. - **Was answering all the questions and presented all the key developments)**

- 1) **Mr. Santosh Parab, CFO, CA over 25 years of experience..**
- 2) **Dr. Massimo Cupello Castagna Managing Director - CFS Europe S.p.A**
- 3) **Jennifer Igou General Manager – CFS North America LLC**
- 4) **Gautum Sapute Head Operations (Vanillin) – CFS Wanglong Flavours (Ningbo) Co. Ltd**
- 5) **Luciano Monteiro General Manager – CFS Do Brasil (South America)**
- 6) **Arturo Paulin General Manager Sales – CFS Mexico**



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- a) Manufacturing facilities in India, Italy, Brazil, Mexico and China
- b) Over 30 years experience providing innovative solutions with a competitive advantage in fine sciences
- c) Unique producer of fully vertically integrated products - Global player in shelf-life solutions across food, feed, pet-food and Bio Diesel
- d) World's leading producer of food antioxidants: TBHQ & BHA
- e) Serving in more than 80 countries
- f) World's 3rd largest producer of Vanillin
- g) CFS markets its products in Europe, Asia Pacific (including India), North Africa, Middle East, South, Central and North America.
- h) Company is in transformation since last 2 - years..
- i) Demerged this business in 2006 from Camlin into Camlin Finesciences.
- j) 3 years back deconstructed the Company and structured it..
- k) Switched off from Antioxidant API supplier to Antioxidant blend..
- l) Acquired business in Italy to get new revenue stream..
- m) Co expects growth after restructuring of business model..
- n) Into this business for last 30 years as low cost Antioxidant supplier
- o) World's leading producer of Raw material of Antioxidants
- p) More than 1000 customers globally
- q) 3rd largest producer of Vanillin which is used in Ice-cream
- r) Today it is a Small MNC getting into other geographies
- s) Reliable supplier for large MNCs
- t) Competitors not very transparent as to what goes into the product
- u) Significant milestone 2011 - Acquired facility in Italy
- v) Started introducing several downstream products from 2013 -Diphenol
- w) In 2015, TBHQ blend business -Forward integration, take its Raw material, blend it and sell it to final user



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x) 2016 - Acquired 65 percent stake Of a Company based in Mexico which had a portfolio of animal feed, Antioxidants..

y) 2017 - Acquired 51 percent of Company in China having Vanillin product

z) Preferred partner for USA based Lockheed Martin for customised products and looking for new relationships..

ab) Forward integration - Antioxidant TBHQ blends ..

Business segments

Shelf life solutions

Lipid oxidation significantly impacts the flavour, odour and colour of your food. There are many factors which contribute to such an occurrence including the presence of oxygen, improper fatty acid composition and a variety of unsuitable processing, packing & storing conditions.

The addition of an antioxidant stops the chain reaction of oxidation from happening and engages the attention of attacking oxygen molecules through a process called 'scavenging free radicals'. So an antioxidant added to your food, does actually makes it taste better for longer.

Camlin Fine Sciences (CFS) has global expertise in the antioxidant industry and has been a trusted name for over 25 years. Today, it is a leading integrated manufacturer of TBHQ and BHA.

The Company's proficiency in technical and market expertise further leverages CFS' Vertically Integrated Platform to give complete traceability and transparency in the manufacturing process from raw material to finished product.

The Company's blends of food antioxidants helps it to retain the goodness in food by extending its shelf life.

Performance chemicals - 34 percent of topline

With a capacity increase of Diphenols by almost 100% at its CFS plant, Italy has opened its doors to reach out to wide array of industries, enhancing its applications and also considerable improvement in energy efficiency. With the start of our CFS Italy plant in 2011, Performance Chemicals could meet its captive requirements of key raw materials Hydroquinone and Catechol. The vertical integration has enabled access and supplies to Europe, United States, Latin America, China, Japan, Middle East, Korea and South East Asia. The Performance Chemicals Division provides specialty chemicals like Guaiacol, Veratrole, TBC, MEHQ, ODEB, CME, 4-MAP, TBHQ Technical, Hydroquinone and Catechol. With this portfolio of specialty chemicals, the Performance Chemicals Division caters globally to industries including Petrochemicals, Pharmaceuticals, Flavours & Fragrances, Agrochemicals & Dyes.

Aroma ingredients -15 percent of topline

- 1) 3 rd largest vanillin manufacturers in the world with 100% backward integration
- 2) CFS has its manufacturing base in China and India.
- 3) Leveraging the existing global presence in shelf life solutions for expanding the aroma business
- 4) Vanillin, one of the most popular flavours is widely used in bakery, confectionery and nutritional products



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5) Ethyl Vanillin, is 3 times more potent than vanillin and offers a more concentrated flavour profile

Upcoming capex:

Building 10,000 MT in Dahej for Hydroquinone and Cat..- learnings from Italy being implemented in Dahej.. investment Rs. 150 crores, Business potential from Dahej - Rs. 300 crores

Once Dahej comes up, and derivatives from Dahej can add upto Rs. 400-Rs. 500 crores topline

Value chain

- 1) Buying Phenol convert to Hydroquinone -TBHQ and their blends..
- 2) Buying Phenol and selling Vanillin..
- 3) Performance chemicals - entered with Lockheed Martin
- 4) Competitors - Large MNC Solvay
- 5) Volatility in business depends upon Benzene market (China new plants are coming which would make it balance)
- 6) For some clients, contractual agreements for yearly (pricing is not fixed, it is only the volume that is fixed, for pricing there is a formula)but not more than 2 years..

Growth strategy

- 1) Shift in focus from anti-oxidant ingredients to anti-oxidant blends and additives
- 2) Continue to grow the Vanillin business
- 3) Capacity expansion through new plant at Dahej SEZ
- 4) Increase revenue contribution from Performance Chemicals business
- 5) Integrate the strategic acquisitions for long term value growth
- 6) Improving market share and new product launches



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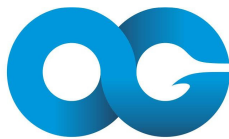
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