"Camlin Fine Sciences Limited Q1 FY25 Earnings Conference Call"

August 12, 2024

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MANAGEMENT: **MR. ASHISH DANDEKAR – CHAIRMAN & MANAGING DIRECTOR, CAMLIN FINE SCIENCES LIMITED**
MR. NIRMAL MOMAYA – MANAGING DIRECTOR, CAMLIN FINE SCIENCES LIMITED
MR. SANTOSH PARAB – CHIEF FINANCIAL OFFICER, CAMLIN FINE SCIENCES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Camlin Fine Sciences Limited Q1 FY25 Earnings Conference Call.

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As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference to Mr. Ashish Dandekar - Chairman and Managing Director. Thank you and over to you, sir.

Ashish Dandekar: Thank you. Welcome, ladies and gentlemen to this Quarterly Earnings Call of our Company.

As is our usual practice, our CFO – Santosh Parab will be first giving you a "Brief Synopsis" of the Quarter's Performance following which our MD – Nirmal Momaya will be there to answer your questions.

Over to you, Santosh.

Santosh Parab: Thanks, Ashish. Good afternoon everyone.

Let me start with the brief on the current business environment which we experienced during this quarter before diving into the performance:

The supply demand dynamics during the quarter have remained largely unchanged in the sectors in which our company is operating. Global industrial growth was stable but remained hampered by weaker global demand in many of our markets. Regional demand remains resilient in USA. China seems to be stagnant and struggling with its local economic weakness. Softness in Europe is more than evident as you know.

We are observing fast returning to normalcy in Latin and South American markets, which is reflecting in our performance, while the Asian and Middle Asian markets look a bit of a mixed bag. Traditionally, as you know, Quarter 1 is soft in our case, and it has panned out as expected. Though the demand seems to be recovering, there are strong pricing headwinds.

Despite all these issues, the topline revenues have been quite stable. The gross margins have improved with better product mix, even though increase in cost of some of our important raw materials have an adverse impact on the margins.

Consolidated revenue was reported at Rs. 395 crore, which is slightly lower by 1.5% as compared to Q4 FY24 and around 5.7% lower with respect to first quarter of last year. The last year's quarter, as you are aware, included the running operations of Diphenol facility in Europe and that revenue is not there in this quarter.

Gross margins are at 44.9% which is stable when we compare it to Q4FY24's adjusted margins of 44%. The margins have remained steadfast due to sustained momentum in our blends business. The revenue from blends have grown at a rate of 13.4% as compared to last quarter. We expect that this momentum continues during the year, resulting in strengthening the overall revenues. Revenue of performance chemicals remains muted due to pricing headwinds. Catechol remains at sub $1 sale price, which not only impacts topline but also our margins.

Coming to Aroma business that is Vanillin:

We have now liquidated almost the entire legacy inventory of Vanillin. The revenues of aroma were Rs. 13.42 crores in current quarter. The new campaign of Methyl Vanillin was commenced as we had declared in the last investor call also by the end of May. This new campaign has resulted in process stability as well as quality of the product.

As you are aware validation of this Vanillin aroma products is an ongoing process and response, we see that the response to our new product or the new production from all major customers are more than encouraging. We are observing that the same price of Vanillin is steadily moving up in last few weeks. As well the initiation of anti-dumping action by local manufacturers in US and Europe against the dumping and predatory pricing by Chinese manufacturers is likely to have a positive impact on our business whenever this anti-dumping regulation is promulgated by the US and European governments. Our European Diphenol facility in Italy remains under shutdown. As you are aware, we had planned to repossess the facility and we would apprise you of the development at the opportune time.

Operating costs have been largely stable. The major impact increase has been due to the foreign exchange volatility in our Brazilian subsidiary. The resultant EBITDA stood at 7.2%, which is a significant improvement as compared to the last quarter.

Coming to the Inorganic Growth:

As you are aware, we acquired Vitafor Invest NV, Belgium on June 11, 2024. This acquisition paves way to the group to extend its blends and related businesses in Northern Africa and other East European markets through the Vitafor subsidiary network. Vitafor has manufacturing facility near Antwerp, Belgium. It caters products mainly in animal feed, offers a complete range of feed ingredients, nutritional products, hygiene products and disinfectants. So, this has a synergy with our existing blend business. This offers an excellent avenue to the group for cross-synergy geographically as well as with respect to product. We are excited and confident that Vitafor will mirror the growth of its holding company CFS Mexico.

A bit on the Future Scenario:

Our endeavor remains to successfully stabilize the performance and revenue and consequently the margins. The economic cues are pointing towards enhanced demand and growth. We expect robust growth in blends to sustain. The temporary weakness in Aroma would be overcome in second half of this year with improved quality and quantity of the course, which augurs well for us in this year.

Thank you. I will now revert to the conductor to open the floor for question and answer session.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Tushar from KamayaKya Wealth Management. Please go ahead.

Tushar: Just wanted to know the EBITDA contribution from Europe facility and if you are trying out some new product in that facility, can you update on the same? Thank you.

Santosh Parab: So, as we disclosed in our results, the overall loss in Europe was around Rs. 15 crores for this quarter. And we had a negative operating EBITDA of Rs. 10 crores. We did have some revenue of Rs. 30 crores, which is mainly trading of some of our products and some blends were sold there. Negative EBITDA of around Rs. 10 crores in this quarter in Europe and a loss of 15%**.**

Tushar: Do you see that loss has narrowed down going forward in H2 also?

Santosh Parab: We are trying, as I said, these are their fixed costs because we are going to repurpose and we are working on the strategy to use this plant. It is likely that this negative EBITDA is going to continue at least for the next quarter.

Tushar: And sir any update on the new product which you are looking for in the Europe facility?

Santosh Parab: We are working on that as we told last time. It's a repurpose. There is a lot of work going on that. We are looking at the avenues, looking at the markets. We will come and revert. We will be closing this in next month or so and then we will come back and inform the stock exchange or the investors.

Tushar: Sir, my last question. Do you think from H2 onwards, there will be profitability?

Santosh Parab: It's too early because the repurpose activity itself is going to take six months. So, we think that there will be a negative drag for a couple of more quarters from this Company.

Moderator: Thank you. The next question is from the line of Surya Narayan Patra from PhillipCapital. Please go ahead.

Surya Narayan Patra: Sir, my first question is about the pricing situation. You have indicated. So, in fact, let's say for HVC, the Hydroquinone Value Chain products or our antioxidant value chain based products.

So, till last quarter, we have been seeing a kind of a stable pricing situation. This quarter, whether the pricing scenario is meaningfully different than what we have been witnessing till last quarter?

Nirmal Momaya: So, it's come down slightly, but there's not a very major swing on terms of pricing on the hydroquinone downstreams. The blends business, of course, continues to have the same margin profile. As Santosh mentioned earlier is that we are seeing in the last few weeks especially on the Vanillin side, there is some improvement in pricing.

Santosh Parab: But as you rightly asked, the other HQ chain, we are seeing a downward trend and it's also the other part is that raw material maybe because crude is going up, the raw material prices are going up. But Hydroquinone chain, the prices are in negative trend in last one month.

Surya Narayan Patra: Is it broad based? So, this is a China dumping kind of a trend again that market is witnessing that one should believe or it is just product specific because I think the aggression of the Chinese supplies have gone up in the recent times. So, is it a broad-based trend for the chemical industry as a whole or it could be specific to a certain segment?

Nirmal Momaya: So, I would say that China onslaught is yet continuous. It's not that it has changed significantly. The softening of pricing is like we said, it's small. It's not like we've seen in the past 12 months. It's not been that rapid. And I think it's like kind of at its bottom now. Demand also is slowly coming back that we see in some of the products. So, I would say that yes, the Chinese impact continues. Let us see now in the next quarter or two quarters what and how that will pan out.

Surya Narayan Patra: Vanilla things that I think the initiatives for it has been taken by the Western world to have a dumping duty against the Chinese supplies. So, possibly the timelines for US and Europe would be different. But as per your understanding, when that we can think about or we can see some kind of benefits for our product and supply opportunity on that?

Nirmal Momaya: So, US anti-dumping will probably come before the EU. Typically, that is what we understand. Timeframes can be two months to six months for these to come. But in which ways, since this is an open public information and action, we are already seeing that impact of that, specifically more so in US and Europe, where the buyers know that this is impending and around the corner so are wanting to develop us as a supplier in the long term so that is kind of giving us a benefit already.

Surya Narayan Patra: Okay, because since we know that Vanilla is a largely three-fourth player in the market and Chinese used to have a kind of influential share also in the Western one, so if they will be curtailed then that could definitely lead to a significant volume opportunity, considering the current situation that we'll be having in terms of the volume that we'll be doing. So, should one think this is a kind of a big development, changing the earning trajectory in the near term for those reasons?

Nirmal Momaya: Yes, that is right. The volumes would be, in these markets, are significant. So, if the shift and we can see that slowly people are looking at that. And in the next few quarters, hopefully that should give us some positive results.

Surya Narayan Patra: My next point was about the acquisition, Vitafor acquisition. So, obviously, possibly that was the way it was acquired and the theoretical understanding whatever that is there, it complements our blends operation. But given the focus what we have in that space and the kind of defocused operation, the acquired operation was in. So, considering all that, the synergetic benefit in terms of the numbers, how that one should think about over the next quarters, I think this acquisition will be implemented or effective starting this quarter. Then how the numbers can be panned out post this integration?

Nirmal Momaya: So, basically the blends business, as you are aware, is predominantly in the countries where we have our own operations. About 80% of our business comes from subsidiaries. Keeping that in mind, the Vitafor acquisition is a good opportunity for us, not only in some of the markets where Vitafor has presence, but also their product portfolio opens up some new avenues and some new technologies for us. There's a mix of reasons why we actually made that acquisition. The idea is to use our existing distribution network and scale up the business which, you know, Vitafor has in some of the markets where we are present, they are not present. So, the synergistic effect of that, of course, it's not going to happen in one or two quarters, but these are new products, which will take some time to establish in markets. But we had in fact started this process in Mexico about a year ago of taking those products to the Mexico market, which is now started showing some results. So, in terms of impact, I think currently the run rate is about a million Euros a month, topline and low EBITDA margin. I think that will improve as we go along in the next few quarters to more like what we see in the other geographies.

Surya Narayan Patra: Just last one question if I may. In fact, there are so many things which are playing out currently, whether it is the Chinese pressure on certain market of our products or it is the opportunity on the Vanilla side or it is the acquisition of which potentially could contribute. And also the fluctuating crude and all this war situation and all that. So, obviously, the situation is dynamic. But is it possible to have a sense that, what is the likelihood of or is it possible to share some sort of a guidance about the business and the profitability for the full year?

Nirmal Momaya: Profitability is very difficult to really say in terms of where this can go to because a lot depends on what happens in the market. But certainly we should be going into the double digits for the EBITDA margin and growth of topline also will be healthy and substantial as we had guided for the year. So, we are on target for that, to get to that around 2,000 mark.

Moderator: Thank you. The next question is from the line of Sani Vishe from Axis Securities. Please go ahead.

Sani Vishe: So, sir, my question is around the increased finance cost. So, just wanted to understand the reason behind this in case you have explained it earlier. Will you repeat it? And also the tax expense has been higher for this quarter. What are the expectations for the year?

Santosh Parab: So, first the question on interest rate. The borrowing costs have not increased. Do you see there has been a foreign exchange hit in some of our geographies on finance cost because of the depreciation of their currencies. The interest portion includes foreign exchange and you can go and see in my results, you will see that finance cost includes consolidated around Rs. 6.5 crores of foreign exchange. And that has moved the increases. Mainly because of that, the overall finance cost has not increased. The second question was regarding, I just missed your second part of the question.

Sani Vishe: It was about tax.

Santosh Parab: Yes. So, in tax, again, if you see on an overall basis, we have also mentioned in our results, and there are some geographies where we have not done a deferred tax conservatively. For example, Europe has churned out of Rs. 15 crores loss, but there is no deferred tax made. And there are profit-making subsidiaries like Mexico and US where there is a 30% tax. So, the net effect, because in some sovereignties, we have lost, we don't have a deferred tax conservatively done, the tax expense looks at 47%. But overall, tax expense should be in the range of 25% to 30%.

Moderator: Thank you. The next question is from the line of Shikhar Mundra from Vivog Commercial Limited. Please go ahead.

Shikhar Mundra: So, just wanted to understand, since you're facing pricing headwind and we have a disappointing quarter in terms of March since, so how are we confident of keeping our guidance intact for the full year of FY25? I mean, are we seeing any green shoots in pricing or some increase in price rebounding?

Nirmal Momaya: Yes, in some of the products we are seeing, like in Vanillin, as we mentioned earlier that there is a green shoot in pricing and volumes. Also on the operating side, operating efficiencies, we are working on a program to improve the operating efficiencies, which should give us a few percentage points improvement. So, a combination of some green shoots and operating efficiencies is what we are looking at, to say that we probably end up at where want it to be for the year.

Shikhar Mundra: I mean for last quarter when we were targeting 10%-12% margins for the whole year, where we anticipating Quarter 1 to be this way?

Nirmal Momaya: Yes. Quarter 1 was going to be soft.

Santosh Parab: Additionally, Quarter 1s are a bit softer.

Moderator: Thank you. The next question is from the line of Shantanu Pawar, an individual investor. Please go ahead.

Shantanu Pawar: So, my first question is about our Heliotropin business in China. Could you please provide an update on the required CAPEX to repurpose the existing plan, as well as the market size and margin profile of this business?

Santosh Parab: So, we are expecting cost between Rs 20 to Rs 30 crores on repurposing the plant. These costs have to be borne by our partner. This will not be to the company. He is working on it. So, it will be Rs. 20 to Rs. 30 crores is the expectation. No cash flow to us. It's a fairly aromatic product of around 2,500 tons market. We are looking at 1,000 tons on this, and we expect a margin, because it's a catechol derivative. We're looking at a margin of at least 10% at the current prices.

Shantanu Pawar: And my second question is about the Lockeed Martin**.** So, can you give us any details on the current order book as well as the expected timeline of this business to materialize, and its contribution to our topline over the next couple of years and margin profile sequentially?

Nirmal Momaya: Well, Lockeed Martin is actually, they are commissioning their first commercial battery, which will happen during this year. Thereafter, they will look at commercializing, in a sense, try and scale it up. I think it's too early in the day to estimate what that business will look like in the near future. Yes, but two to three years out, the kind of numbers that could potentially be substantial. But at this point of time, it is difficult to pinpoint because they have to commercialize, they have to launch the battery, get success. So, it's in the pipeline.

Shantanu Pawar: Thank you, sir. And my last question before I head into the queue is about the projected loss from the Italy operations in FY25, as well as what will be the CAPEX requirement and timeline to repurpose the Italy plant, and what are the revenue potential margins for the same as well?

Santosh Parab: It's an anticipated cost of Rs 2 to Rs 3 million on CAPEX. It will take six to nine months to complete the project. And the revenues will start from the next year. The minimum expected EBITDA is around 10% to 12%. But the pricing and the current situation may change.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Ashish Dandekar – Chairman and Managing Director, for closing comments. Thank you.

Ashish Dandekar: Thank you, ladies and gentlemen, for giving us your valuable time and interacting with us. We look forward to communication with you again at the next quarterly review. Until then, wish you safe journeys wherever you are. Thank you.

Moderator: On behalf of Camlin Fine Sciences Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.