October 11, 2024

To, **BSE Limited**, 25, P. J. Towers, Dalal Street, Mumbai – 400 001 **Ref:** Company Scrip Code: 532834	To, Listing Department, **National Stock Exchange of India Ltd**., Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai- 400051 **Ref:** Symbol: CAMLINFINE || Series: EQ

Sub: Intimation of revision in Credit Rating

Dear Sir/Madam,

Pursuant to Regulation 30(6) read with Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we would like to inform you that the credit rating agency, India Ratings & Research Pvt. Ltd. (Fitch Group), has revised the rating/outlook of the Company as follows:

Facility	Amount (in million)	Rating/Outlook	Rating Action
Term loan*	INR 1,380.05 (reduced from INR 1,464.02)	IND BBB/Negative	Downgraded
Fund-based limits	INR 2,200.00	IND BBB/Negative/IND A3+	Downgraded
Non-fund-based limits	INR 1,618.00	IND A3+	Downgraded

*Includes working capital term loan under guaranteed emergency credit line 2.0 of INR 398.15 million and capex term loan of INR 981.9 million.

The rating rationale and the reasons published by India Ratings & Research Pvt. Ltd. are enclosed herewith.

We request you to kindly take the above information on record.

Encl. a/a.
Thanking you,
For Camlin Fine Sciences Limited

Rahul Sawale

Digitally signed by Rahul Sawale
Date: 2024.10.11 15:33:46 +05'30'

Rahul Sawale
Company Secretary
& VP Legal

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Title

India Ratings Downgrades Camlin Fine Sciences' Bank Facilities to 'IND BBB'/Negative

India Ratings and Research (Ind-Ra) has downgraded Camlin Fine Sciences Limited's bank facilities' ratings to 'IND BBB' from 'IND A-'. The Outlook is Negative. The detailed rating actions are as follows:

Brief

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/Watch	Rating Action
Term loan*	-	-	FY31	INR1,380.05 (reduced from INR1,464.02)	IND BBB/Negative	Downgraded
Fund-based limits	-	-	-	INR2,200.0	IND BBB/Negative/IND A3+	Downgraded
Non-fund-based limits	-	-	-	INR1,618.0	IND A3+	Downgraded

*Includes working capital term loan under guaranteed emergency credit line 2.0 of INR398.15 million and capex term loan of INR981.9 million

Details of Instruments

Analytical Approach

Ind-Ra continues to fully consolidate CFSL's subsidiaries for arriving at the ratings because of the strong operating linkages among them.

Detailed Rationale of the Rating Action

The downgrade reflects the deterioration in CFSL's operating performance during FY24, as competition from Chinese players led to a decline in the realisations of key shelf-life and performance chemical products, losses at its EU subsidiary, and inventory write-offs. During 1QFY25, while EBITDA remained weak, gross margins improved compared to 4QFY24 levels. While Ind-Ra expects the credit metrics to improve during FY25-FY26 compared to FY24 levels owing to higher EBITDA, the metrics would continue to be weak in the near term. The blends business witnessed significant improvement in FY24, backed by the performance of CFSL's subsidiaries in Brazil, Mexico, and North America. Profitability in its blends and aroma chemicals business remains a key monitorable, in Ind-Ra's view. The weak realisations in its performance chemicals business might continue to impact the credit metrics in FY25.

The Negative Outlook reflects the uncertainty regarding CFSL's evolving liquidity situation, primarily at the standalone level, which remains a monitorable during FY25. The creditor days at the standalone business increased by over 14% yoy during FY24, leaving limited room for further financial support from creditors. CFSL expects to raise a minimum of INR750 million during 9MFY25 via a rights issue for addressing near-term liquidity challenges and funding its growth initiatives. Ind-Ra will revise the Outlook once it receives clarity on the sustained EBITDA trajectory on a consolidated/standalone basis, led by scale-up in the aroma business and improvement in standalone credit metrics/liquidity, led by realisation of receivables from its subsidiaries.

List of Key Rating Drivers

Strengths

- Strong presence in niche segments
- Geographical and end-user diversification

Weaknesses

- Financial performance impacted in FY24; recovery likely to be slow
- Stretched credit metrics
- High working capital results in weak standalone credit profile
- Exposure to forex fluctuations
- Macro-economic conditions

Detailed Description of Key Rating Drivers

Strong Presence in Niche Segments: CFSL mainly operates in three segments - shelf-life solutions (including blends) (FY24: 72%, FY23: 59%; FY22: 57%), performance chemicals (26%, 41%; 42%), and aroma chemicals (2.2%, 0%, 1%). Post the commissioning of the diphenol plant at Dahej in FY21, CFSL has became a significant player in the manufacturing of hydroquinone and catechol. Furthermore, CFSL is one of the few global players to have a fully integrated manufacturing capability to produce vanillin using catechol. According to the management, CFSL has a dominant position in the global antioxidant industry, with over 50% market share in tertiary butyl hydroquinone and butyl hydroxy anisole. It is also one of the top producers of vanillin(ethyl/methyl).

Geographical and End-user Diversification: CFSL has a significant global presence, with nine manufacturing facilities spread across Asia, Europe, South America and Central America. The company has strong regional sales teams that cater to the requirements of their respective regions. At the consolidated level, CFSL derives around 85% of its revenue from exports and from overseas subsidiaries, with over 100 products sold in around 80 countries. Domestic sales in India contributed only 15% to the consolidated revenue in FY24 (FY23: 15%). The company caters to diverse end user industries such as food, feed, animal and pet nutrition, flavours and fragrances, pharma, agrochemicals, and petrochemicals among others. This helps the company avoid dependence on any single industry and provides potential for expansion. Moreover, the vertically integrated operations and the regional sales team enables CFSL to customise product offerings as per the client's requirements, which has helped it develop longstanding relations with its customers.

Financial Performance Impacted in FY24; Recovery Likely to Be Slow: CFSL's consolidated revenue declined 4.1% yoy to INR16,131 million in FY24 on account of a substantial decline in price realisations in straights (a type of food antioxidant), performance chemicals and aroma businesses and the closure of its Italy plant. The consolidated EBITDA declined sharply to INR739 million (FY23: INR2,053 million; FY22: INR1,528 million), and the EBITDA margin fell to 4.6% in FY24 (12.2%; 10.8%) due to losses incurred at subsidiaries' levels, and inventory write-offs. As per the management, the EBITDA declined because of the following factors: i) write-down of inventory by INR368.1 million at the standalone level on account of a sharp reduction in the prices of catechol and its downstream product, vanillin; and ii) forex loss of INR394.7 million owing to devaluation of the Argentinian Peso by over 50%. Any improvement in the operating profitability in the near term will depend on the ability of the company to scale up the aroma and blends businesses and improved performance of its overseas subsidiaries. However, the losses caused by the shutdown of its Italy-based facility is likely to offset the strong performance in its US, Mexico, and Brazilian subsidiaries; its Brazil and US-based subsidiaries turned profitable in FY24, while the Mexico subsidiary has been profitable even before its acquisition in FY17. Ramp-up in sales from the vanillin facility in Dahej along with profitability in its blends and aroma chemicals businesses remains a key monitorable.

Stretched Credit Metrics: CFSL's consolidated credit metrics deteriorated in FY24 because of the fall in the consolidated EBITDA and continued high debt levels in foreign subsidiaries. The consolidated net adjusted leverage (adjusted net debt/annualised EBITDA) deteriorated to 8.2x in FY24 (FY23: 3.4x) and the interest coverage (EBITDA/interest expenses) weakened to 1.2x(FY23: 3.5x). Ind-Ra expects the credit metrics to remain stretched in FY25.

CFSL's subsidiary, CFS Europe SpA, which was shut down in August 2023, had term debt of INR867.9 million as on 30 September 2024; the management plans to restructure the same in the near term. No corporate guarantee (CG) has been extended for this debt by CFSL.

High Working Capital results in Weak Standalone Credit Profile: CFSL's standalone operational performance was weaker than expected in FY24, with the revenue declining by 2% yoy to INR7,732 million and the EBITDA falling to INR271 million (FY23:INR1,275 million). CFSL's standalone net leverage (including CG of INR932 million extended to its Mexican subsidiaries) increased to 22x in FY24 (FY23: 5.5x) due to the 70% drop in EBITDA. Excluding the corporate guarantee, the standalone net leverage stood at 18.8x in FY24 (FY23: 4.7x). Ind-Ra expects CFSL's standalone net leverage to remain at elevated levels over the medium term. The interest coverage deteriorated to 0.5x in FY24 (FY23: 2.2x) on lower profitability and high interest expense on account of the rise in working capital and the impact of mark-to-market valuation of foreign currency borrowings. The high working capital was funded through an elongation in the payables period; the trade payables stood at INR2,842 million in FY24 (FY23: INR2,488 million) The company also utilises purchase bill discounting and factoring limits of INR1200 million for the same, of which 28% had been utilised as on 31 March 2024. Working capital debt constituted 46% of the gross total outstanding debt (excluding CG) of INR5,114 million at the standalone level at FYE24, as the operations are working capital intensive.

According to the management, efforts are being made towards reducing the standalone working capital intensity with a gradual improvement in the cashflow from the subsidiaries, which was observed in FY24. CFSL received about INR940 million from its US and Brazilian subsidiaries during FY24 and expects to receive similar inflows in FY25. Ind-Ra continues to monitor the receipt of pending receivables from its subsidiaries and CFSL's standalone liquidity profile. CFSL received INR400 million from its subsidiaries during 1HFY25.

Exposure to Forex Fluctuations: On a standalone level, CFSL is exposed to forex risks because exports contribute around 68% to the company's revenue. Also, as the raw material is largely procured domestically, the company has limited natural hedge . CFSL has a documented, boardapproved forex policy that ensures adequate hedging to protect the profitability of the company.

Macro-Economic Conditions: CFSL shut down its Italian plant as the key products manufactured by the unit became unviable owing to competition from Chinese suppliers and weak macro-economic conditions. As per CFSL's management, the Italy-based plant will be mothballed in a bid to reduce the fixed costs currently being incurred at the plant.

Liquidity

Stretched: CFSL's consolidated cash flow from operations increased to INR1389 million in FY24 (FY23: INR508 million) on account of improved realisation of receivables from its subsidiaries. Further improvement in the cash flow from operations in FY25 will be contingent upon healthy EBITDA generation and receipt of overdue receivables from overseas subsidiaries, as per the agency. The company had unencumbered cash and bank balances of INR803 million at FYE24 (FYE23: INR937 million). The consolidated debt repayments stand at INR891 million for FY25 and INR1,043 million in FY26, which would be met through infusion of liquidity from the rights issue, which is estimated at INR750 million, and improved realisation of overdue receivables from its subsidiaries.

At the standalone level, the unencumbered cash and bank balance stood at INR6.7 million at FYE24 (FYE23: INR43.3million; FYE22: INR427.1 million). During the 12 months ended June 2024, CFSL's utilisation of fund-based limits was around 90% while that of the non-fund-based limits was around 37%. The standalone repayments amount to INR311 million in FY25 and INR 527 million in FY26. The management intends to maintain unutilised limits of over INR200 million at the standalone level over the medium term to further support CFSL's liquidity. CFSL's net working capital cycle remained elongated at 218 days in FY24(FY23: 245 days), primarily due to an increase in the payable days to 134 days (115 days)

Rating Sensitivities

Positive: Successful ramp-up of the new facilities, improvement in the standalone profitability and the working capital cycle, along with an improvement in the consolidated net adjusted leverage to below 3.5x, all on a sustained basis, could result in positive rating action.

Negative: Following could individually or collectively lead to a negative rating action:

- weaker-than-expected operating performance.
- any deterioration in liquidity due to further stretch in the net working capital cycle
- consolidated net adjusted leverage remaining above 3.5x, on a sustained basis.

Disclosures for CE Rating

Disclosures for Provisional Rating

ESG Issues

Any Other Information

About the Company

CFSL is one of the leading manufacturers of antioxidants and vanillin in the world. The company categorises its business into three different verticals based on its product portfolio: shelf-life solutions (which include antioxidants, its blends and additives), performance chemicals and aroma chemicals.

Key Financial Indicators

Particulars	FY24	FY23
Revenue (INR million)	16,131	16,816
EBITDA (INR million)	739	2,053
EBITDA margin (%)	4.60	12.2
EBITDA gross interest coverage (x)	1.2	3.5
Net adjusted leverage (x)	8.2	3.4
Source: CFSL, Ind-Ra		

Applicable Criteria

- Evaluating Corporate Governance
- Short-Term Ratings Criteria for Non-Financial Corporates
- Corporate Rating Methodology
- The Rating Process

Status of Non-Cooperation with Previous Rating Agency

NA

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings/Outlook	Historical Rating/Outlook			
				27 September 2023	22 September 2023	5 August 2022	6 July 2021
Issuer rating	Long-term	-	-	-	WD	IND A-/Stable	IND A-/Stable
Fund-based working capital limit	Long-term/Short-term	INR2,200.0	IND BBB/Negative/IND A3+	IND A-/Stable/A2+	-	IND A-/Stable / IND A2+	IND A-/Stable / IND A2+
Non-fund-based working capital limit	Short-term	INR1,618.0	IND A3+	IND A2+	-	IND A2+	IND A2+
Term loan	Long-term	INR1,380.05	IND BBB/Negative	IND A-/Stable	-	IND A-/Stable	IND A-/Stable

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Fund-based Limits	Low
Non-fund-based Limits	Low
Term loan	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity- indicators.

Annexure

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India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has six branch offices located at Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad and Kolkata. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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