I will share here, in brief, my personal understanding and views on the company. Feel free to get back in case of any further clarifications.

My understanding makes me believe that Camphor & Allied (CAP) is a rare combination of impending positive triggers (that are likely to unfold over next few years) and good valuations (I can be wrong in case of a severe general market meltdown).

Following factors form basis of my understanding :

(1) Positioning of the Company in each of its segment,

(2) Strategy adopted by the management,

(3) Land Asset Value & High Replacement Cost which limits downsides,

(4) Valuations,

(5) Genuine, Ethical & Efficient Management.

Let me touch upon each aspect briefly :

(1) Positioning of the Company in each of its segment :

As you must be aware, CAP has three distinct businesses which are in a way inter-alligned with each other :

-- Camphor,

-- Aroma & Specialty Chemicals,

-- Fragrance & Flavour Blends (that is to be merged and resides in parent Oriental Aromatics).

-- CAP is the **third largest domestic player in Camphor segment** after Mangalam Organics (Dujodwala) and Saptagir, enjoying highest realisations for its product amongst all its peers because of its dominance in Pharmaceutical Grade camphor (meets >80 % of the supply for popular 'Vicks' brand).

-- CAP is the **fourth largest domestic player in Aroma Chemical space** after Privi, Eternis and Anthea.

-- CAP (via Oriental Aromatics that is to be merged with CAP) is the **second largest Indian-origin F&F player after SH Kelkar** and overall sixth largest F&F player in India.

Do refer following statistics of revenue CAGR of each of the CAP's businesses vis-a-vis each segment's peers :

Aroma Chemical Segment

	11 Years' CAGR in Revenues	5 Years' CAGR in Revenues	3 Years' CAGR in Revenues
Camphor & Allied (Aroma Chemical Business)	34.06 %	33.82 %	49.19 %
Privi Organics	18.56 %	11.47 %	13.36 %
Eternis	19.92 %	12.74 %	14.85 %
Anthea Group	38.19 %	26.64 %	14.23 %

F&F Blends Segment

	11 Years' CAGR in Revenues	5 Years' CAGR in Revenues	3 Years' CAGR in Revenues
Camphor & Allied (F&F Blends Business that is to be merged)	10.33 %	12.08 %	9.74 %
SH Kelkar	13.72 %	15.01 %	11.61 %

Camphor Segment

	11 Years' CAGR in Revenues	5 Years' CAGR in Revenues	3 Years' CAGR in Revenues
Camphor & Allied (Camphor Business)	9.78 %	3.41 %	5.24 %
Mangalam Organics	16.07 %	1.02 %	- (1.29) %
Saptagir	20.39 %	10.72 %	8.46 %

Note – With regards to F&F Blends business CAGR figures, here, consolidated figures of SHK and Oriental are considered which includes export operations too ; if you want to refer pure domestic (Indian) business CAGRs of both the companies then I have provided such figures in 'Industry_Details' pdf file posted alongside this file in this thread.

Now, after referring to CAP's each business' performance vis-a-vis each segment's peers, let's check how good are each of the businesses. For this I carried out an **'Indicative Gross Margin'** exercise for the years where company-specific product as well as RM realisations are available (from FY96 till FY11). Here, I simply extracted gross margin commanded by each of the business-category by simply deducting total per Unit RM value from per unit product-category realisation. This exercise is carried out on only two businesses viz., Aroma/Specialty Chemical & Camphor.

	FY11	FY10	FY09	FY08	FY07	FY06	FY05	FY04	FY03	FY02	FY01	FY00	FY99	FY98	FY97	FY96
Aroma Chemicals Indicative Gross Margin %	61.66 %	70.66 %	73.79 %	77.74 %	76.58 %	78.41 %	81.19 %	84.77 %	85.94 %	82.31 %	86.24 %	87.66 %	86.09 %	82.28 %	85.75 %	n.a.
Specialty Chemicals Indicative Gross Margin %	60.55 %	63.52 %	66.78 %	73.05 %	71.57 %	74.27 %	79.46 %	86.96 %	86.29 %	85.15 %	88.91 %	88.76 %	87.59 %	78.64 %	71.04 %	n.a.
Camphor Indicative Gross Margin %	54.00 %	62.28 %	60.89 %	58.87 %	51.06 %	52.71 %	60.49 %	67.85 %	67.27 %	66.11 %	71.04 %	69.88 %	72.30 %	68.18 %	75.29 %	79.36 %

-- As can be seen from above, **products which form 40 % of the sales volume and 70 % of the sales value carry a consistent indicative GM of 60 %+** despite **RM prices rising by 362 %** over the same period. This signifies a reasonably healthy business to be in.

-- Here, if we add 'Pine Oil/Terpineols' , which are in a sense by-product coming out of manufacturing processes, and which forms on an average 10 % of the sales volume and more than 10 % of sales value, then , it carries an average indicative GM of 40 % + which means 50 % of the sales volume done carry an average indiactive GM of 55 % + on a consistent basis **(16 years – FY96-FY11 is a long study period to prove consistency)**.

-- Now, these above % contribution to sales volumes and sales value of respective business categories we referred to is as at FY11. If we check latest FY16 then sales value contribution of these four categories viz., 'Aroma Chemicals', 'Specialty Chemicals', 'Camphor' and 'PineOil/Terpineols' is at 89.43 % up from 86.80 % of FY11. (on a consolidated basis post merger, contribution is 69.10 %).

-- Also, since ARs now don't provide separate volume figures, so, if we carry out check of current ruling price of Aroma Chemicals (in which CAP is present), Camphor as well as Pine Oil then we find that :

'Aroma Chemical' prices are at 9.5 % higher level than FY11 realisation figure,

'Camphor' prices are down by 15.7 % than FY11 realisation figure, and

'Pine Oil' prices are 6.8 % higher than FY11 figure.

In contrast, key RMs' prices which form 40 % of the RM cost viz., Turpentine/Pinene are down by 20.1 % than FY11 levels.

(2) Strategy adopted by the management :

This is the most interesting part which attracts me towards this company.

As can be seen from the table given before, its the Aroma Chemical and F&F Blends business that is new management's focus and not the Camphor business. Now, the strategy adopted by the management to grow the said two business segments is worth noting :

Aroma Chemicals Strategy :

-- Post acquisition, new management sealed an arrangement with Agan Aroma in FY13. On the back of this arrangement, **management expanded capacity of Aroma Chemicals by 1.5x in FY13** (from 3300 MT to 8500 MT).

-- By doing this, it ensured **firm off-take of ~60 % of the newly expanded capacity**.

-- In FY15, management sealed an arrangement with MNC IFF (International Flavors & Fragrances).

-- Post this, it acquired Arofine Chemical group (Arofine+Vaishnavi) via which it acquired **technical know-how to manufacture high value specialty aroma chemicals**. In recently held AGM, management stated that Arofine is manufacturing ~200 aroma chemicals. Now, if we forget management claims and have a look at the real facts available -- **we have a list of 126 aroma chemicals that Arofine manufactures** and on doing a realisation-extraction exercise for all such products, we find that average **realisation of its products is 1.5x the current realisation value of existing aroma chemcials of CAP**.

-- **Arofine is an existing supplier to MNCs like IFF, Givaudan and Symrise.**

-- With this acquisition, there came a specialty chemical plant located at Ambernath that was recently started by Arofine under Vaishnavi Chemical. This plant is in close proximity to recently set-up plant of Oriental Aromatics and will, in all probability, work as a back-end for it. Now, whether this plant in entirety is taken under CAP or only toll-manufacturing arrangement is signed that we are not aware as on date.

-- However, **promoters of Arofine have joined CAP senior management** – as CEO of newly formed Specialty Chemical division and R&D Head of Specialty Chemical Division so it seems more of a management buy-out.

-- With this expertise under its belt, CAP has also taken on an expansion project in its existing facilities at Nandesari, Baroda at a cost of INR 40 cr. that will be commissioned by Q1FY18. **Aroma Chemical capacity is getting expanded from current 8500 MT to 10,000 MT**.

-- Interesting thing to note is that this **entire expansion is into high value products with average realisation almost double to that of CAP's existing products** (average 6.5 lakh per MT as compared to existing 3.2 lakh per MT). Company will be producing high value products like **Safranal and Macrocyclic Musks** (like Ambrettolide) inhouse post this expansion.

-- As per our understanding, almost 45 % of the products produced with expanded capacity as well as Arofine acquisition will go for captive consumption in F&F business which will **improve gross margins of F&F business by 1000 basis points (10 %)** over next two years. Aroma Chemicals forms 80 % of the RM used for F&F business and CAP (alongwith Arofine) might satisfy 75-80 % of the total aroma chemical requirement.

-- Balance high value aroma chemicals might be supplied to MNCs like IFF and Givaudan as these MNCs are major users of them.

F&F Blends Business Strategy :

-- People get deceived by single-digit marketshare of CAP's F&F Blends business in Indian market but there is no denying of the fact that Oriental Aromatics (in which F&F Blends business resides and which is going to be merged with CAP post regulatory approvals) **is the strongest player in the segment after MNCs and SH Kelkar.** It has maintained its position in the segment when almost all other Indian players except SH Kelkar suffered severely and almost got wiped out because of emergence of many small players as well as rising strength of MNCs.

-- What the management seems to be doing is plugging the gaps it internally has, to closely match growth and margin profile of the only other largest and efficient Indian-origin player viz., SH Kelkar. Hardly few people are aware that **Oriental Aromatics had one of the best margin profile in the industry, matching that of SH Kelkar**, consistently for a long time post which it lost its way. Let's first refer historical margin profile of SH Kelkar as well as Oriental below :

	FY15	FY14	FY13	FY12	FY11	FY10	FY09	FY08	FY07	FY06	FY05	FY04
EBITDA of Oriental v/s SH Kelkar												
Oriental Aromatics EBITDA %	11.62 %	10.93 %	8.56 %	5.52 %	9.35 %	14.58 %	18.26 %	22.54 %	25.83 %	24.89 %	22.83 %	21.44 %
SH Kelkar EBITDA %	14.25 %	17.99 %	17.71 %	18.31 %	18.22 %	20.58 %	21.09 %	16.87 %	20.93 %	24.15 %	23.94 %	24.27 %
Raw Material Cost as % of Sales of Oriental v/s SH Kelkar												
Oriental Aromatics RM cost as % of Sales	n.a.	75.44 %	74.07 %	76.85 %	79.84 %	77.59 %	75.24 %	68.89 %	67.50 %	66.51 %	66.40 %	67.68 %
SH Kelkar RM cost as % of Sales	55.63 %	52.42 %	52.68 %	52.41 %	53.24 %	n.a.	60.25 %	62.09 %	61.35 %	62.33 %	62.58 %	59.56 %

	FY15	FY14	FY13	FY12	FY11	FY10	FY09	FY08	FY07	FY06	FY05	FY04

Effect of Gross Margin Difference on EBITDA of Oriental v/s SH Kelkar

Difference in GM % (Advantage SHK)	n.a.	23.02 %	21.39 %	24.44 %	26.60 %	n.a.	14.99 %	6.80 %	6.15 %	4.18 %	3.82 %	8.12 %
Difference in EBITDA % (Advantage SHK)	2.63 %	7.06 %	9.15 %	12.79 %	8.87 %	6.0 %	2.83 %	-(5.67) %	-(4.90) %	-(0.74) %	1.11 %	2.83 %

-- As can be seen from above, it is the acquisition of PFW Aroma (an Aroma chemical player) in 2010 that made significant difference to SH Kelkar by improving its RM Cost to Sales by almost 700 basis points. **Till FY08, Orietnal and SHK were operating with similar EBITDA margins despite SHK's GM being superior to that of Oriental**. Infact, consistently for 3 years – FY06 to FY08, Oriental's EBITDA was higher than even SHK. However, **from FY09 onwards, GM for Oriental declined by almost 1000 basis points whereas over the years, because of acquisition of one of the most efficient Aroma Chemical company – PFW – SHK improved on its GM and therefore maintained its EBITDA margin.**

-- It is only now, in FY16, with acquisition of Arofine and brownfield expansion in Baroda plant that CAP will start manufacturing almost similar products manufactured by PFW and therefore to expect **Oriental regaining pre-FY08 GM % level should not be unreasonable two years down the line.**

-- Secondly, management over past many years was trying hard to penetrate into atleast one of the major MNC FMCG player operating in India. However, its efforts have not been successful so far. So, now, what management has done is it has **created a world-class infrastructure in Ambernath and consolidated entire F&F Blends operations at one place. It has already obtained necessary certifications like ISO 9001:2008, ISO 22000:2005, Halal & Kosher which are prime necessities for MNC clientle**.

(3) Land Asset Value & High Replacement Cost which limits downsides :

This is the factor which makes me feel that downsides are almost capped w.r.t. this company. Let's first refer to the current conservative market value of land/area in possession of the company :

	Area Under Possession	Existing Market Rate	Total Value of the Asset as per CMP as on August 2016
Nadesari, Baroda	1,60,000 sq. mts.	Rs. 8000 /- per sq. mt.	Rs. 128 cr.
Kala Ghoda, Fort, Mumbai	580 sq. mts.	Rs. 4.30 lakh per sq. mt.	Rs. 25 cr.
Bareilly, Uttar Pradesh	n.a	Rs. 6500 /- per sq. mt.	NA

Total Value without Bareilly = Rs. 153 cr.

-- In addition to this land/area value, it has 20,000 MT p.a. RM processing plant for Camphor segment in Bareilly as well as 32,000 MT p.a. RM processing plant for Fine Chemcials (Aroma+Specialty) in Nandesari, Baroda + world-class Fine Chemicals' R&D centre named Malti Chem Research Centre in Baroda and recently set-up F&F plant as well as world-class F&F R&D centre in Ambernath. If a new entrant had to set-up plants and R&D infra with such capacity today from scratch, it will cost another atleast 220 cr. minimum (as per today's prevailing project costs) without any land cost involved, forget here the value of long-standing client relationships CAP enjoys today with majority of its clientle.

-- So, if tomorrow, company goes for liquidation, INR 373 cr. is the minimum value it will get as compared to its fully diluted post-merger EV of 684 cr. at CMP of 670 per share.

-- Another advantage lying with the company, especially because of its Baroda asset, is the scope for significant future expansions without worrying about incurring any land cost. This is because, at Nandesari, Baroda, even after the current expansion, company has almost 50 % vacant area (**to be precise, 82,000 sq. mts. out of total 1,60,000 sq. mts. in possession is still vacant**) which can take care of almost all future expansions for many years to come.

(4) Valuations :

This is the second most important factor I have looked at to assess the possible downsides. Here, what I have done is, instead of looking and valuing CAP as a consolidated entity, I have segregated each major segment viz., Aroma/Specialty Chemical, F&F Blends and Camphor and have looked at **valuations commanded by listed peers in each of the segment and/or valuations applied in M&As done in the respective segment.** Based on this I have arrived at minimum **SOTP valuation** for the company.

Aroma Chemical Segment Peers

	EV/EBITDA TTM	EV/Sales TTM	P/E TTM	P/BV TTM
Privi Organics (valuation at which Fairfax acquired 51 % stake in FY17)	9.60	1.30	33.82	2.78
Fairchem Specialty **@ CMP = Rs. 425** (which has 80.4 % of its consolidated revenues and 78.6 % of its consolidated EBITDA coming from Aroma Chemical business of Privi that is to be merged)	12.93	1.79	40.66	2.67
Anthea (ICICI Ventures acquired 23 % stake in FY17 – April'2016)	12.90	1.22	15.66	1.83

F&F Blends Segment Peers

	EV/EBITDA TTM	EV/Sales TTM	P/E TTM	P/BV TTM
SH Kelkar **@ CMP = Rs. 290**	27.01	4.51	49.56	5.49
Sonarome (Frutarom acquired 60 % stake in FY16 – May'2015)	13.45	2.62	21.20	3.87

Camphor Segment Peers

	EV/EBITDA TTM	EV/Sales TTM	P/E TTM	P/BV TTM
Mangalam Organics **@ CMP = Rs. 35**	EBITDA Loss	0.49	Loss	0.76
Kanchi Kapooram **@ CMP = Rs. 31**	10.18	0.51	19.74	2.10

Now, based on this above reference points, let's attempt SOTP valuation of CAP's each business segment. Here, we will attempt only EV calculation based on EV/EBITDA and EV/sales references of peers since PAT and therefore P/E value as well as P/BV value is difficult to arrive on SOTP basis.

Aroma/Specialty Chemical Segment Valuation for the company

	EV/EBITDA TTM	EV/Sales TTM
Muliples Applied	11.81 (average of 3 peers)	1.44 (average of 3 peers)
Aroma/Specialty Chemical Business EV Based on Applied Multiples	376.2 cr.	272.8 cr.

Conservative Minimum Aroma/Specialty Chemical business

Enterprise Value = 324.50 cr

(average of EVs arrived via EV/EBITDA & EV/Sales methods)

F&F Blends Segment Valuation for the company

	EV/EBITDA TTM	EV/Sales TTM
Muliples Applied	13.45	2.62
	(51 % discount to SH Kelkar and at par with valuation of Sonarome which has its consolidated FY15 revenues at 70.1 cr. as compared to 108.2 cr. of F&F Blends business of CAP – Oriental)	(42 % discount to SH Kelkar and at par with valuation of Sonarome which has its consolidated FY15 revenues at 70.1 cr. as compared to 108.2 cr. of F&F Blends business of CAP – Oriental)
F&F Business EV Based on Applied Multiples	201 cr.	301.3 cr.

Conservative Minimum F&F Blends business

Enterprise Value = 251.15 cr

(average of EVs arrived via EV/EBITDA & EV/Sales methods)

Camphor Segment Valuation for the company

	EV/EBITDA TTM	EV/Sales TTM
Muliples Applied	10.18	0.50
	(at par with valuation of Kanchi Kapooram which has its consolidated FY16 revenues at 63.5 cr. as compared to 161.9 cr. from Camphor & its Byproducts business of CAP)	(average of two peers)
Camphor Business EV Based on Applied Multiples	181.2 cr.	80.9 cr.

Conservative Minimum Camphor business

Enterprise Value = 131.05 cr

(average of EVs arrived via EV/EBITDA & EV/Sales methods)

Conservative Minimum Consolidated EV
for Camphor & Allied Products Ltd.
= 706.70 cr.

(Sum of EVs of all three businesses)

(5) Genuine, Ethical & Efficient Management :

This is the most indispensable part in any investment decision as no matter how good the business strategy is or how compelling the valuations at which a stock is trading at, if its not in the hands of an able and genuine management, all things are one day going to end in a disaster as far as investors are concerned.

So, let's look at this aspect closely :

-- Bodani family enjoys very high credibility in F&F segment.

-- Despite huge cash lying in Oriental Aromatics – the holding company-- which is 100 % owned by Bodani family, **promoters never took a single paisa dividend over last 11 years** and used entire cash-- first for acquiring CAP in FY09 and then on building state-of-the-art F&F Blends Formulation & R&D infrastructure in Ambernath over last few years (FY13-FY15).
[This is as per data available till FY14 – whether any hefty dividend is paid in FY15 or FY16 that needs to be seen.]

-- Post acquisition of CAP in FY09, the new management could have easily merged Oriental Aromatics at that time itself and shared the risk of greenfield Ambernath project development as well as funding onus with CAP shareholders ; but, **it completed the entire project, commercialised it (in FY15) and then only merged the company with CAP.**

-- Also, post acquisition of CAP, new management could have easily used CAP infrastructure to manufacture Oriental's RM thereby making CAP a low-cost manufacturing hub and by doing this earned significant profits in 100 % owned company and posting nominal profits in 58 % owned listed entity. Instead, **it provided separate focus to each of the businesses by treating them separate and infact made CAP a robust profit making entity by using their F&F expertise** to venture into highly profitable polycyclic musk and clinching tie-ups with Agan and IFF to make revenue-stream highly predictable and certain.

-- While making CAP a robust profit-making entity post acquisition, did the new management extract something special to fill their own pockets out of listed entity's rising profits ?? It is interesting to note that **<u>for the first five fiscals post acquisition (FY09-FY13), new promoters, in entirety</u>** (including salaries, dividends, interest, rent, etc.), **<u>pocketed less than even the previous old promoters did.</u> This is despite combine PAT of FY09-FY13** (under new promoters) **being 3x higher**

(excluding asset sale – including asset sale 4x higher) **than FY04-FY08** (under old promoters). **This we are talking of absolute value including dividends and not relative value w.r.t PAT.**

To add, after five fiscals, if we take PAT as reference point, new promoters are still pocketing significantly less than that pocketed by old promoters each year over their entire ruling period.

-- Just to make a note, one can refer belowmentioned parameters I have extracted of CAP under new management and old management :

	Under New Management	**Under Old Management**	
	8 Years' (FY09 to FY16)	**8 Years' (FY01 to FY08)**	**16 Years' (FY93 to FY08)**
RoE Average	12.95 %	3.94 %	6.69 %
RoCE Average	13.06 %	3.49 %	10.03 %
EBITDA Margin Average	10.94 %	4.81 %	7.86 %
Gross Margin Average	31.89 %	37.66 %	38.08 % (13 Years' Average – FY96 to FY08)
Operating Cash Flow Generation	INR 73.25 cr.	INR 30.24 cr.	INR 53.32 cr. (13 Years' – FY96 to FY08)
Total Gross Block Addition (without considering Forex losses & Interest	INR 107.46 cr.	INR 13.22 cr.	INR 25.87 cr.

costs capitalised in GB)

Revenue CAGR	16.33 %	4.38 %	2.91 %
EBITDA CAGR	45.37 %	- (14.06) %	- (8.96) %
PAT CAGR	61.50 %	- (25.36) %	- (10.53) %

Key points to note from above are :

-- Despite an almost 600 basis points decline in Gross Margins, new management enabled an improvement in EBITDA margin of more than 600 basis points which **signifies an efficient management of available resources as well as focus on profitability.**

-- New management added Gross Block worth INR 107 cr. in 8 years which is 3x that added by old management in 16 years which **signifies management's aggressive approach towards expansion and topline growth.**

-- Promoters have only one business and one company and that is Oriental Aromatics which they are now merging with CAP. MD is director in only one outside company and that is TCFC Finance Ltd. and that is because of promoter family's close proximity to Bobby Deol Family (our evergreen celebrity Dharmendra's son).

-- Promoter family runs India's one of the most respected and renowned schools for special children --- Gateway School – in mumbai. Many few people are aware that current MD's elder son is a special child with learning and other disabilities and his entire family relocated to USA for treatment and education purpose and came back to India only in 2009. Gateway School is the result of this suffering of the family and entire Bodani family's dedication towards running this school is a well known fact amongst elite classes of south mumbai.

Note : -

This is part of a general discussion and is not a Buy/Sell/Hold recommendation of any kind. Here, Factual Statistics regarding varied sectors like Aroma Chemicals, Flavors & Fragrance & Camphor are presented and discussed and in no way this should be considered or interpreted as recommendation or advice of any kind. This discussion is to be used only for further analysis purpose of each of the segment discussed and not otherwise.