RC Capital Management is an Investment Advisory Firm specializing in identifying and investing in high quality companies that trade at a substantial discount to our conservative estimates of Intrinsic Value.

This report is a compilation of our analysis of Financial / Business performance "**Privy Speciality Chemicals Limited**" from an investment perspective

RC Capital Management is a SEBI Registered Investment Advisor

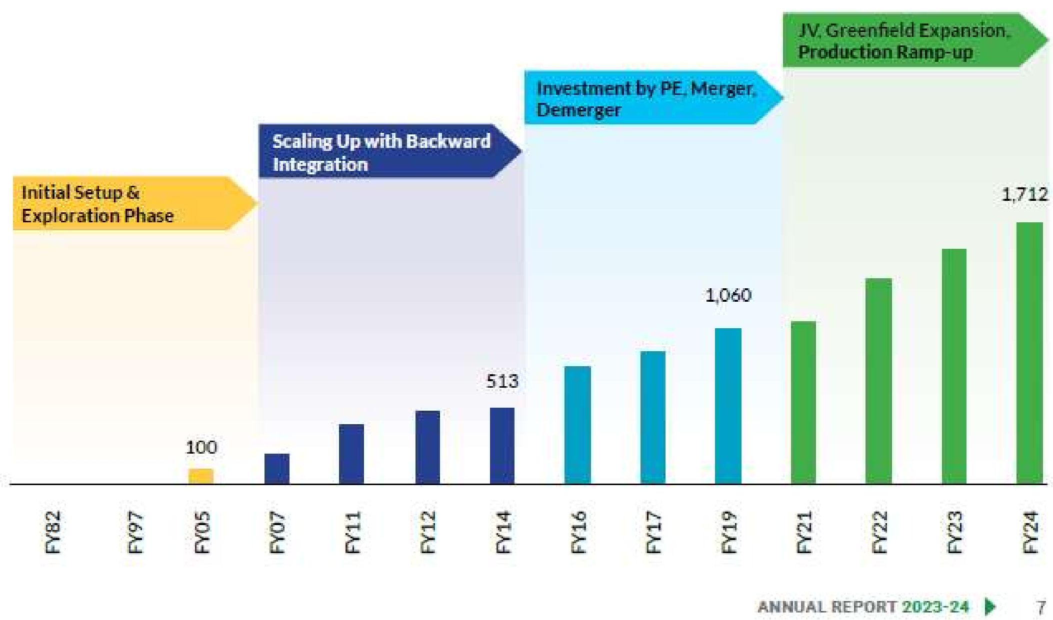
Registration Number – INA000004088

Company Analysis: Privy Speciality Chemicals Limited

Posted on 11th June 2025

Company Overview and History

Established in 1985 by Mahesh P. Babani and D. B. Rao, Privi Specialty Chemicals Ltd specializes in manufacturing aroma and fragrance chemicals. The company initially offered two products derived from pine trees, expanding its product portfolio to over 70 distinct aroma chemicals by 2025. This rapid growth was supported by equity investments from firms such as Avigo Capital, Standard Chartered, and Fairfax India, facilitating major expansion projects and backward integration to secure stable raw material supply



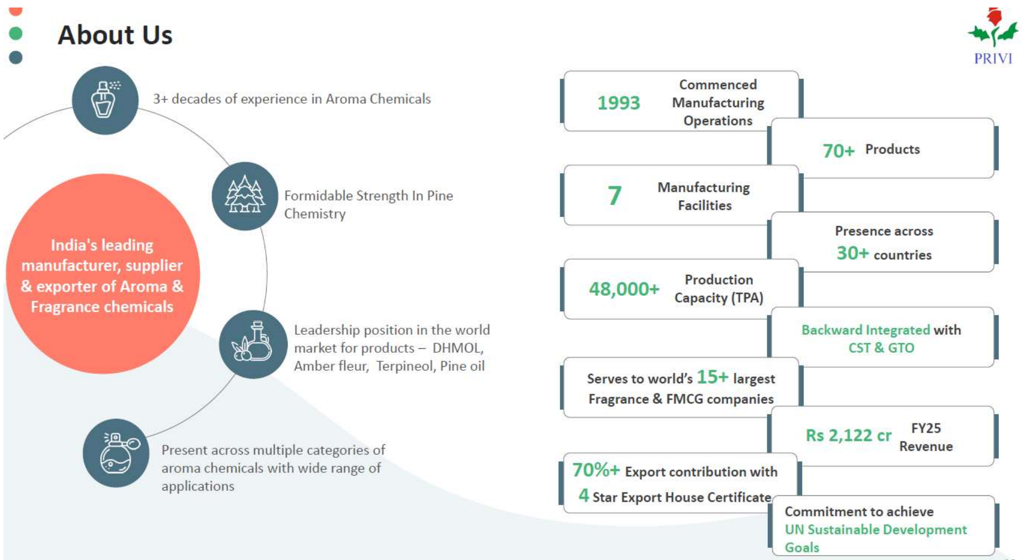
In 2017, Privi underwent significant restructuring through a reverse merger with Fairchem Speciality, which later led to a strategic demerger in 2019, carving out the oleochemicals division and allowing Privi to focus exclusively on aroma chemicals. In 2021, Mahesh Babani (CEO and promoter) bought Fairfax's 48.75% stake for approximately ₹1,220 crore

Business Segments and Operations

Privi primarily manufactures bulk aroma chemicals used in consumer products like soaps, detergents, cosmetics, shampoos, air fresheners, and perfumes. Its products include pine derivatives such as Dihydromyrcenol, Amber Fleur, aromatic acetates, ionones, nitriles, and synthetic camphor, and innovative molecules like Galaxmusk (a musk analog).

The company operates seven manufacturing facilities, six in Mahad, Maharashtra, and one in Jhagadia, Gujarat, with a total annual capacity surpassing 48,000 tons. Approximately 70% of its revenue is derived from exports, mainly targeting markets in Europe, North America, and Asia.

Privi's integrated "waste-to-wealth" production approach improves cost efficiency and supports its competitive position globally



Industry Overview and Competitive Landscape

The global aroma chemicals industry is controlled by major fragrance corporations like Givaudan, DSM-Firmenich, International Flavors & Fragrances (IFF), and Symrise. These giants compete and also partner with smaller, specialized firms like Privi. Privi faces direct competition from niche suppliers such as DRT (France) and Renessenz (USA), particularly in pine-derived aroma chemicals

Demand for aroma chemicals remains strong, driven by increased consumer usage of fragranced products, premiumization trends, and expanding markets in emerging economies. The shift toward sourcing away from China ("China+1") and Europe ("Europe+1") has benefited Privi, creating new business opportunities and export growth.

Financial Performance and Analysis

Between FY2020 and FY2025, Privi's revenue increased from ₹1,324 crore to ₹2,101 crore, CAGR of approximately 9.7%. Revenue growth was mainly driven by expanded production volumes and enhanced product mixes featuring high-margin offerings.

Operating margins experienced volatility, initially decreasing from 17% to 12% due to higher raw material costs and fixed expenses during the expansion phase. Subsequently, margins recovered, reaching 21.6% in FY2025 as input costs normalized, the product portfolio improved, and higher plant utilization rates were achieved

Profit & Loss

Consolidated Figures in Rs. Crores / View Standalone

RELATED PARTY PRODUCT SEGMENTS

	Mar 2017	Mar 2018	Mar 2019	Mar 2020	Mar 2021	Mar 2022	Mar 2023	Mar 2024	Mar 2025
Sales +	597	1,024	1,341	1,324	1,277	1,404	1,608	1,752	2,101
Expenses +	525	894	1,128	1,104	1,067	1,209	1,420	1,423	1,648
Operating Profit	**72**	**130**	**213**	**221**	**210**	**195**	**188**	**329**	**454**
OPM %	12%	13%	16%	17%	16%	14%	12%	19%	22%

Net profit improved from ₹21 crore in FY2023 to ₹187 crore in FY2025, mainly due to improved operating efficiencies and better control of debt levels.

Return on Capital Employed (ROCE) rose to 16.3% in FY2025, matching management's target of surpassing 20% in the coming years. However, leverage remains on the higher side, with the net debt-to-EBITDA ratio at 2.3x. Privi plans to raise QIP funds to reduce this leverage.

Growth prospects and risks

Privi's growth strategy is focused product innovation, backward integration, and joint ventures, notably its JV with Givaudan named PRIGIV. Through these initiatives, Privi is targeting higher-margin, niche market segments. Recent product launches, including high-value aroma chemicals like Evernyl (Prionyl), Florovane, and Amber Woody Xtreme, reflect its ambition to go up the value chain and cater to premium markets

There are additional tailwinds driving growth for the company. First, rising global demand for fragranced personal care and home products continues to provide substantial market growth potential. Second, the "China+1" supply chain shift presents opportunities, with Privi well-placed to benefit from global manufacturers diversifying away from China.

Third, Privi's continuous innovation pipeline of niche and high-margin aroma chemicals provides sustainable revenue streams. Fourth, long-term customer relationships with contracts and joint ventures like PRIGIV, ensure revenue stability and visibility.

Lastly, improvements in operational leverage, working capital efficiency, and margin management should improve the quality of its earnings and the strength of its balance sheet.

Privi faces several risks such as volatility in raw material pricing, customer concentration risks due to dependence on a few major fragrances and FMCG companies, foreign exchange fluctuations, and intense competition from international manufacturers, especially from China.

Additional concerns include the company's high leverage and potential execution risks in future expansions. Management has managed these risks in the past by executing several projects on time and further improved the competitive position of the company in the last 5 years

Management

- **Management Team Summary**

  Privi Speciality Chemicals Ltd.'s leadership is headed by Chairman and Managing Director Mahesh Babani, who co-founded the company in the mid-1980s. Mr. Babani, a commerce graduate from the University of Delhi, assumed leadership in 1989 and is credited for expanding the company's product line from 2 to over 70 products today. Mr. Babani has built strong relationships globally with customers and suppliers, facilitating strategic ventures like the joint venture with Givaudan.

  Co-founder Mr. Bhaktavatsala D. Rao, serving as Executive Director, complements Mr. Babani with technical expertise, overseeing operations, R&D, and raw material sourcing. His capability is in executing large projects efficiently and cost-effectively.

  Compensation for the management team is reasonable. The CEO's annual remuneration, for example, is around ₹1.44 crore (under 1% of PAT).

- **Capital Allocation Skills**

  The management has consistently demonstrated prudent capital allocation, prioritizing organic growth, product innovation, and backward integration. Recent capital expenditure, including significant capacity expansions and new product launches. Management is focused on improving operating margins via premium products and operating leverage and increasing the ROCE to 20%+ range

- **Communication and transparency**

  Privi has proactively improved transparency and investor engagement through regular updates and detailed investor presentations

Valuation/scenario analysis

We have the following range of scenarios for the company and corresponding range of valuations for the company for 2028

- **Hypothesis 1**: Management expects 20% CAGR growth and delivers 20%+ operating margin as in the past.
- **Hypothesis 2**: Management expects 20%+ CAGR growth. In the optimistic scenario, we are assuming growth will be around 24% CAGR and the margin will improve from current levels by 1%
- **Hypothesis 3**: Pessimistic scenario where management is not able to grow as per plan and grows at 14% growth as in the last few years. Also in this scenario, operating margin drops to the long-term average from the past

Current + Yr 3	H1	H2	H3
Sales	3650	4200	3100
OPM	22%	23%	18%
NPM	11%	11%	8%
Net profit	383	473	233
PE	50	55	30
Mcap	19163	25988	6975
Multiple	2.15	2.9	0.78

Conclusion

The company has a longstanding expertise in aroma and fragrance chemicals, particularly through its “pine-to-perfume" model, has established it as a key global player with significant market shares in key fragrance molecules.

The strategic initiatives undertaken by management, notably backward integration, aggressive capacity expansions, and entry into high-margin specialty molecules, has improved the company's competitive edge. The recent joint venture with fragrance leader Givaudan (PRIGIV) offers a predictable revenue stream with enhanced margins

Privi successfully recovered from temporary margin compression during significant expansion phases and challenging macroeconomic conditions. Recent financial results have shown a sharp recovery, with EBITDA margins improving significantly and much higher cash flows. Capital allocation has been disciplined, focusing on core business expansions and reasonable debt levels

There are risks from raw material price volatility, customer concentration, competitive pressures, and execution risks associated with future expansion projects. Privi's management has managed through these risks in the past.

Management has projected 20%+ CAGR growth and improvement in ROCE over the next few years. If management can walk the talk, returns for investors should be above average

You can find the financials of the company at Privi Speciality Chemicals Ltd Financial Results – Quarterly & Annual, Quarterly Trends, Annual Trends |BSE

Q2- 2026 Results Analysis

Posted on 27th November 2025

Revenue increased to ₹678 Cr, up 26% YoY. Export share stable at ~70%. EBITDA grew to ₹182 Cr, up 59% YoY and margin improved to 26.8%. Net profit was ₹90.2 Cr, nearly 2x YoY (₹44.8 Cr in Q2 FY25). Working capital was at 124 days which was the target for the management

In summary, management is executing better than what they shared in prior quarters. The company was able to reduce debt by 70 Cr and improve the ROCE to 23.6%

Plants are running at optimal utilization. Debottlenecking and conversion to continuous process has improved efficiency and was the primary reason for improvement in operating margin. The company is also converting by-products into value added products such as Cineol, Terpinen-4-ol, Limonene which continues to add to the margin

The company has several super-speciality aroma chemicals developed at lab/pilot stage and expects commercial launch post current capacity expansion in March 2026. The JV with Givaudan (PRIGIV) is still in ramp-up phase; approvals and customer qualification are ongoing. Contribution in FY26 expected to be modest (<₹100 Cr), but long-term outlook is strong with multiple expansion phases under discussion.

Phase I of capex (~₹280–300 Cr) is progressing with results to start reflecting from Q3 FY26. Total ~₹1,100 Cr capex is planned over 2–3 years to achieve "5K–1K vision" (₹5,000 Cr revenue, ₹1,000 Cr EBITDA in 3–5 years) and management expects to fund this via internal accruals and debt

Demand is steady with around 70% of FY26 revenues already contracted, insulating against near-term macro volatility and management expects 20% revenue growth with operating margin at 20%+. The main growth drivers is China + 1 strategy of key customers, introduction of new value-added products, and finally gross margin expansion from operating leverage and higher margin products

We are raising the fair value to 2800 and buy price to 2600. There is no change to the position size

Q3 - 2026 Results Analysis

Posted on 13th March 2026

Revenue was ₹611 Cr, up 24% YoY, though lower sequentially from ₹679 Cr in Q2 due to the usual seasonal slowdown in export markets during November-December. EBITDA grew to ₹158 Cr, up 37% YoY, and margin remained at 25.8%, marking the third straight quarter above 25%. PAT was ₹78 Cr, up 76% YoY, though reported profit was impacted by a one-time labour code cost of ~₹3.9 Cr. Net working capital was 135 days on an annualized 9M FY26 basis.

In summary, management continues to execute broadly in line with plans. Net debt remained around ₹1,047 Cr despite ongoing capex, while debt/EBITDA improved to 1.63x and ROCE to 24.35%. Management reiterated that leverage should remain below 2.5x debt/EBITDA.

Plants are running at 85-90% utilization. Improvement in operating margin continues to come from better yields, lower utility costs, product mix, by-product valuation and state incentives. Management also said that if cumulative Maharashtra investment crosses ₹1,500 Cr by March 2027, the company should qualify for full 9% GST incentive for 20 years. A key change versus last quarter is that the benefits from Phase I are now tied to commercialization of existing-product expansion from 48,000 MT to 54,000 MT by end-March/April 2026

The company's new-product pipeline is moving beyond lab-stage discussion. Maltol, Ethyl Maltol and Ethylene Brassylate are under execution, while Cyclopentanone is being developed through a renewable route. Beyond this, management is also working on converting biomass/corn cob into value-added products and building IP around these technologies, with pilot and demonstration work expected over the next 12-18 months.

PRIGIV is the main change versus last quarter. The JV reported positive EBITDA in Q3 and management expects it to turn net profitable next year. Givaudan will provide a ₹150 Cr non-interest-bearing trade advance to reduce debt and interest cost, and the JV will also see a further ₹50 Cr equity infusion for immediate expansion. Management also said the current 5K-1K plan excludes PRIGIV revenues, so improvement at the JV is extra upside.

The company is guiding for ~₹1,200 Cr over 2-3 years across ₹300 Cr of existing-product expansion, ₹600 Cr of multi-speciality products and ₹300 Cr of high-end speciality products. Existing-product expansion should complete in Q4 FY26, while the larger new-product blocks are targeted for FY28, implying FY28 may be a commissioning and stabilization year and FY29 should see a larger step-up in revenues.

Demand remains steady with around 70% of the business under contract. management expects EBITDA margins above 20%, and the main growth drivers remain China+1, new product additions, state incentives and operating leverage.

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