

# Camlin Fine Sciences

14 August 2021

Reuters: CAMF.NS; Bloomberg: CFIN.IN

## Expect growth acceleration from FY23

Camlin Fine Sciences' (CFIN) 1QFY22 consolidated EBITDA was 17% below our estimate mainly on account of RM inflation, higher logistics costs and supply chain related challenges. Gross margin contracted by 451bps QoQ; increased costs would be passed on with a quarter's lag. EBITDA margin adjusted for one-time expense in Wanglong subsidiary of Rs35mn stood at 14.8% i.e. down 190bps YoY. Dahej operated at 63% utilisation in 1QFY22 and the management expects it to clock optimum utilisation by the end of 2QFY22. Scale-up of Dahej and MEHQ sales should improve overall margin profile in 2HFY22, in our view. Vanillin facility in Dahej should start in April'22 and can contribute ~Rs2.5-3bn in FY23. We expect improvement in standalone margin on account of Dahej integration benefits and introduction of new downstream products. Blends business has been affected due to travel restrictions and the management expects it to resume the strong growth trajectory from next year; it can grow at more than ~25% YoY. We are cutting FY22 estimates mainly on account of pressure on gross margin. But, we expect CFIN to make a strong comeback in FY23 on the margin front considering the normalization of RM prices and scale-up of new products. We are building in Revenue/EBITDA/APAT CAGR of 26%/40%/75% over FY21-23E. Post the earnings revision, we maintain Buy on CFIN with an unchanged target price (TP) of Rs205, indicating an upside of ~15% from CMP. We value CFIN at 16x PE on FY23E EPS. Consistency in operational performance, timely commissioning & scale-up of new products and update on the Lockheed Martin deal could be re-rating triggers for CFIN, in our view.

**1QFY22 earnings performance:** CFIN's consolidated revenue grew by ~8% YoY, in line with our estimate. RM inflation and supply chain issues affected gross margin significantly. Increased costs should be passed on to the customers with a lag of one quarter. EBITDA margin (adjusted for one-time expense in Wanglong subsidiary) stood at 14.8% i.e., down 190bps YoY. APAT came in higher than our estimate mainly on account of higher other income, led by forex gain.

**Outlook and valuation:** We like CFIN's focus on backward as well as forward integration within the segments it operates in. We believe that earnings underperformance in the last 4-5 years was not on account of internal inefficiencies. AO blends business is at the cusp of strong growth, in our view. Also, with Dahej commercialization and new downstream products, we expect turnaround in earnings performance. While we currently value CFIN at 16x PE on FY23E EPS i.e. at a significant discount to sector valuation, consistency in operational performance, timely commissioning & scale-up of new products and update on the Lockheed Martin deal could be re-rating triggers for CFIN, in our view.

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## BUY

**Sector:** Chemicals

**CMP:** Rs178

**Target Price:** Rs205

**Upside:** 15%

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### Key Data

Current Shares O/S (mn)	127.6
Mkt Cap (Rsbn/US\$mn)	23.2/312.5
52 Wk H / L (Rs)	231/80
Daily Vol. (3M NSE Avg.)	1,186,559

### Price Performance (%)

	1 M	6 M	1 Yr
Camlin Fine Sci.	(16.9)	65.3	108.1
Nifty Index	3.8	7.9	47.9

Source: Bloomberg

[1QFY22 result update](#)  
[FY21 Annual Report](#)  
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Particulars (Rsm)	1QFY21	4QFY21	1QFY22	YoY	QoQ	FY20	FY21	YoY
<b>Net Sales</b>	<b>3,057</b>	<b>3,266</b>	<b>3,308</b>	<b>8.2%</b>	<b>1.3%</b>	<b>10,491</b>	<b>11,871</b>	<b>13.1%</b>
Gross margin	46.6%	49.2%	44.7%	-191bps	-451bps	49.1%	50.8%	172bps
Staff costs	254	351	328	29.0%	-6.7%	997	1,204	20.7%
% of sales	8.30%	10.75%	9.90%	160bps	-85bps	9.50%	10.14%	64bps
Other expenses	660	751	695	5.3%	-7.5%	2,862	3,013	5.3%
% of sales	21.58%	23.00%	21.01%	-57bps	-199bps	27.28%	25.38%	-190bps
<b>EBITDA</b>	<b>511</b>	<b>504</b>	<b>456</b>	<b>-10.8%</b>	<b>-9.7%</b>	<b>1,294</b>	<b>1,819</b>	<b>40.6%</b>
EBITDA margin	16.71%	15.44%	13.77%	-293bps	-167bps	12.34%	15.33%	299bps
Depreciation	95	118	134	41.5%	13.4%	328	443	35.0%
EBIT	416	386	322	-22.7%	-16.7%	966	1,376	42.5%
Interest	108	121	101	-5.8%	-16.2%	462	377	-18.4%
Other income	7	21	105	1476.9%	404.0%	78	52	-33.7%
PBT	315	286	326	3.4%	13.9%	582	1,051	80.6%
<b>PAT</b>	<b>154</b>	<b>143</b>	<b>224</b>	<b>45.5%</b>	<b>56.9%</b>	<b>303</b>	<b>510</b>	<b>68.1%</b>

Source: Company, Nirmal Bang Institutional Equities Research

## Financial summary

Y/E March (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	8,922	10,491	11,871	13,531	18,972
Growth YoY%	23.8	17.6	13.1	14.0	40.2
Gross margin %	46.8	49.1	50.8	47.5	51.1
EBITDA	687	1,307	1,819	2,141	3,563
EBITDA margin %	7.7	12.5	15.3	15.8	18.8
Adj PAT	6	298	654	947	2,008
Growth YoY%	NA	5,071.7	119.1	44.8	112.1
Adj EPS	0.0	2.5	4.2	6.0	12.8
RoCE %	5.2	11.5	13.6	13.6	23.3
RoE %	0.2	7.7	12.5	13.7	24.0
P/E	NA	72.4	42.7	29.5	13.9
EV/EBITDA	37.2	20.2	14.2	12.1	7.3
P/BV	5.8	5.4	3.4	2.9	2.3

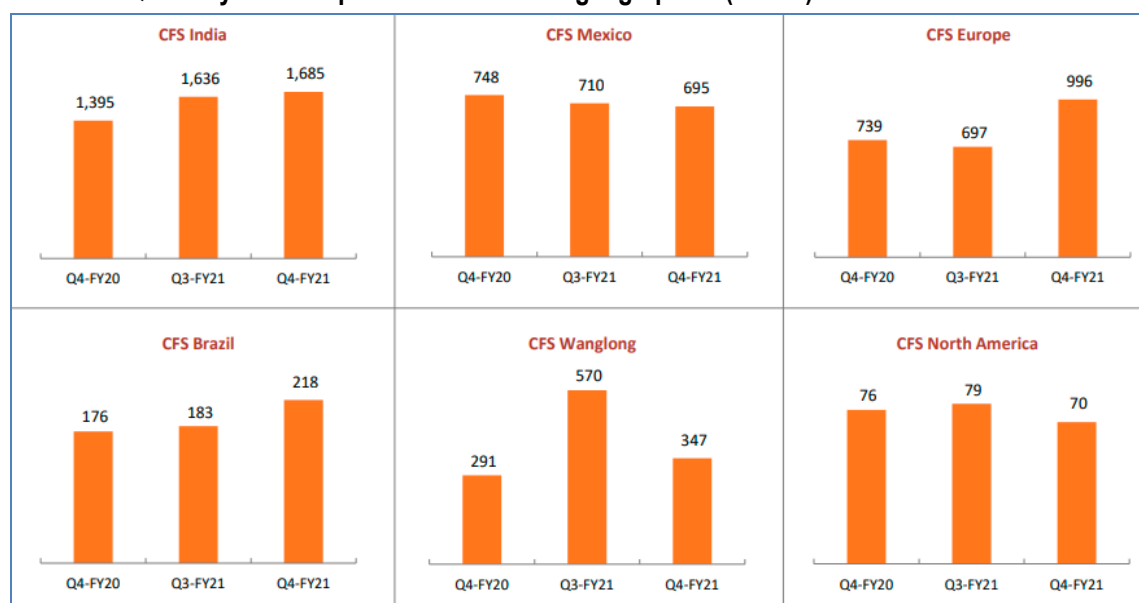
Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

## Exhibit 1: Change in earnings estimates

Particulars (Rsmn)	Old Estimates		New estimates		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	14,177	18,801	13,531	18,972	-5%	1%
EBITDA	2,517	3,644	2,141	3,563	-15%	-2%
EBITDA margin	17.8%	19.4%	15.8%	18.8%	-198bps	-62bps
APAT	1,209	2,003	947	2,008	-22%	0%

Source: Nirmal Bang Institutional Equities Research

## Exhibit 2: Quarterly revenue performance across geographies (Rs Mn)



Source: Company, Nirmal Bang Institutional Equities Research

## Financials (Consolidated)

### Exhibit 3: Income statement

Y/E March (Rsm)	FY19	FY20	FY21	FY22E	FY23E
<b>Net Sales</b>	<b>8,922</b>	<b>10,491</b>	<b>11,871</b>	<b>13,531</b>	<b>18,972</b>
Growth YoY%	23.8	17.6	13.1	14.0	40.2
COGS	4,748	5,338	5,835	7,106	9,271
<b>Gross margin %</b>	<b>46.8</b>	<b>49.1</b>	<b>50.8</b>	<b>47.5</b>	<b>51.1</b>
Staff costs	879	997	1,204	1,333	1,840
Other expenses	2,608	2,850	3,013	2,951	4,297
<b>EBITDA</b>	<b>687</b>	<b>1,307</b>	<b>1,819</b>	<b>2,141</b>	<b>3,563</b>
Growth YoY%	447.0	90.4	39.2	17.7	66.4
<b>EBITDA margin %</b>	<b>7.7</b>	<b>12.5</b>	<b>15.3</b>	<b>15.8</b>	<b>18.8</b>
Depreciation	290	328	443	578	574
EBIT	397	979	1,376	1,564	2,989
Interest	367	431	375	357	342
Other income	138	34	50	92	56
PBT (bei)	167	582	1,051	1,298	2,703
PBT	167	582	1,051	1,298	2,703
ETR	82	49	38	27	26
PAT	6	298	654	947	2,008
<b>Adj PAT</b>	<b>6</b>	<b>298</b>	<b>654</b>	<b>947</b>	<b>2,008</b>
<b>Growth YoY%</b>	<b>(101.9)</b>	<b>-</b>	<b>119.1</b>	<b>44.8</b>	<b>112.1</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 5: Balance sheet

Y/E March (Rsm)	FY19	FY20	FY21	FY22E	FY23E
Share Capital	121	121	127	127	127
Reserves & Other Equity	3,588	3,910	6,307	7,253	9,261
<b>Net worth</b>	<b>3,709</b>	<b>4,031</b>	<b>6,434</b>	<b>7,381</b>	<b>9,389</b>
Long term debt	1,936	2,115	2,732	1,627	2,630
Short term debt	2,443	2,781	2,169	2,571	2,089
<b>Total debt</b>	<b>4,380</b>	<b>4,896</b>	<b>4,901</b>	<b>4,198</b>	<b>4,719</b>
Other non-current liabilities	(388)	(261)	176	176	176
<b>Total Equity &amp; Liabilities</b>	<b>8,295</b>	<b>9,236</b>	<b>12,209</b>	<b>12,304</b>	<b>14,843</b>
Gross block	3,570	4,340	6,564	8,584	9,004
Accumulated depreciation	867	1,303	1,746	2,324	2,897
<b>Net Block</b>	<b>2,704</b>	<b>3,037</b>	<b>4,818</b>	<b>6,260</b>	<b>6,106</b>
CWIP	573	1,760	237	184	148
Intangible and others	17	27	241	241	241
Other non-current assets	343	265	1,481	1,076	1,454
Investments	126	94	93	93	93
Trade receivables	2,093	2,528	2,707	2,984	4,183
Inventories	2,854	2,981	3,200	3,337	4,418
Cash & Cash equivalents	1,034	648	1,383	470	866
Other current assets	710	592	656	528	789
<b>Total current assets</b>	<b>6,725</b>	<b>6,750</b>	<b>7,947</b>	<b>7,319</b>	<b>10,256</b>
Trade payables	1,646	1,737	1,584	1,893	2,654
Other current liabilities	514	960	1,023	977	801
<b>Total current liabilities</b>	<b>2,161</b>	<b>2,698</b>	<b>2,607</b>	<b>2,870</b>	<b>3,455</b>
<b>Total Assets</b>	<b>8,295</b>	<b>9,236</b>	<b>12,209</b>	<b>12,304</b>	<b>14,843</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 4: Cash flow

Y/E March (Rsm)	FY19	FY20	FY21	FY22E	FY23E
<b>PBT</b>	<b>167</b>	<b>582</b>	<b>1,051</b>	<b>1,298</b>	<b>2,703</b>
Depreciation	290	328	443	578	574
Interest	367	431	375	357	342
Other adjustments	47	106	323	(92)	(56)
Change in Working capital	(798)	(408)	(659)	(22)	(1,957)
Tax paid	(38)	(11)	(104)	(105)	(243)
<b>Operating cash flow</b>	<b>(90)</b>	<b>860</b>	<b>1,174</b>	<b>1,767</b>	<b>911</b>
Capex	(694)	(1,341)	(839)	(1,968)	(383)
<b>Free cash flow</b>	<b>(784)</b>	<b>(481)</b>	<b>335</b>	<b>(201)</b>	<b>528</b>
Other investing activities	674	440	(490)	1,124	(322)
<b>Investing cash flow</b>	<b>(19)</b>	<b>(901)</b>	<b>(1,329)</b>	<b>(844)</b>	<b>(705)</b>
Issuance of share capital	2	-	757	-	-
Movement of Debt	887	507	229	(704)	521
Dividend paid (incl DDT)	(62)	(28)	-	-	-
Other financing activities	(569)	(447)	(600)	(505)	(332)
<b>Financing cash flow</b>	<b>257</b>	<b>33</b>	<b>386</b>	<b>(1,208)</b>	<b>189</b>
<b>Net change in cash flow</b>	<b>147</b>	<b>(8)</b>	<b>232</b>	<b>(285)</b>	<b>395</b>
Opening C&CE	385	532	524	755	470
Closing C&CE	532	524	755	470	866

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 6: Key ratios

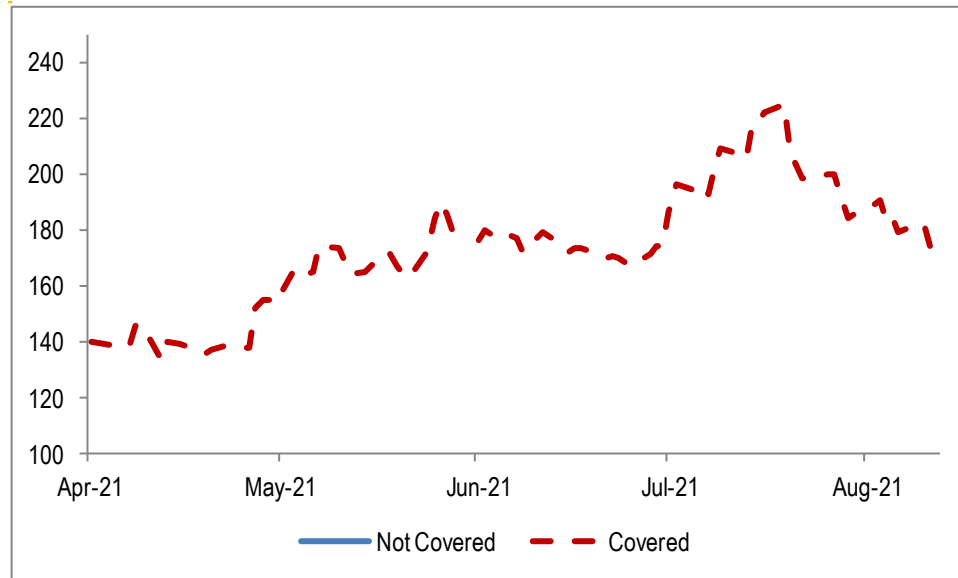
Y/E March (Rsm)	FY19	FY20	FY21	FY22E	FY23E
<b>Per share (Rs)</b>					
Adj EPS	0.0	2.5	4.2	6.0	12.8
Book value	30.6	33.2	53.1	60.9	77.4
<b>Valuation (x)</b>					
P/Sales	2.4	2.1	1.8	1.6	1.1
EV/sales	2.9	2.5	2.2	1.9	1.4
EV/EBITDA	37.2	20.2	14.2	12.1	7.3
P/E	NR	72.4	42.7	29.5	13.9
P/BV	5.8	5.4	3.4	2.9	2.3
<b>Return ratios (%)</b>					
RoCE	5.2	11.5	13.6	13.6	23.3
RoE	0.2	7.7	12.5	13.7	24.0
<b>Profitability ratios (%)</b>					
Gross margin	46.8	49.1	50.8	47.5	51.1
EBITDA margin	7.7	12.5	15.3	15.8	18.8
PAT margin	0.1	2.8	5.5	6.9	10.6
<b>Liquidity ratios (%)</b>					
Current ratio	1.5	1.2	1.7	1.3	1.9
Quick ratio	0.8	0.7	1.0	0.7	1.1
<b>Solvency ratio (%)</b>					
Debt to Equity ratio	1.2	1.2	0.8	0.6	0.5
<b>Turnover ratios</b>					
Fixed asset turnover ratio (x)	5.8	5.2	4.8	4.7	6.0
Debtor days	85	80	80	80	80
Inventory days	107	102	95	90	85
Creditor days	70	59	51	51	51
Net Working capital days	122	123	124	119	114

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
1 April 2021	BUY	140	180
31 May 2021	BUY	178	205
13 August 2021	BUY	178	205

## Rating Chart



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SELL < -5%

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