

Camlin Fine Sciences

14 February, 2023

Reuters: CAMF.NS; Bloomberg: CFIN.IN

Operational performance below expectation

Camlin Fine Sciences' (CFIN) 3QFY23 EBITDA came in 11% below our estimate mainly on account of lower revenue growth due to correction in RM prices, shutdown in Europe Diphenol facility for three weeks, signs of global slowdown and de-stocking at customers' end. Sequential revenue decline of ~20% was mainly volume driven on account of the aforementioned headwinds. Gross margin improved both on YoY as well as QoQ basis. Higher share of downstream products, gradual easing of energy cost pressure in Europe and subsidy received to the tune of Rs156mn during the quarter led to gross margin expansion. Commercial production of composite vanillin plant commenced in January 2023. The management expects ~50% capacity utilization in FY24 and overall revenue potential at peak utilization remains Rs8bn, assuming constant pricing of Vanillin. It highlighted that while the industry growth is ~4%, there is no other capacity addition in Vanillin. Margin profile should improve from FY24 as catechol direct sales (at loss) should fall post Vanillin commercialization. Also, ongoing yield improvement in Dahej, higher share of downstream products & blends and moderation in cost pressures in Europe are some of the other key margin drivers, in our view. If CFIN executes all the existing projects well, its earnings trajectory can improve materially going forward, in our view. Overall, we are building in Revenue/EBITDA/APAT CAGR of 17%/37%/50% over FY22-FY25E. We believe that apart from the macro concerns, execution risk is a major factor behind CFIN's valuation multiple being at a significant discount to its peers. We maintain BUY with a revised Target Price (TP) of Rs170 (earlier Rs180) post earnings revision. We value CFIN at ~15x on Sept'24E earnings.

3QFY23 earnings performance: CFIN's consolidated revenue growth in 3QFY23 was flattish YoY. Shelf-life Solutions segment declined by ~3% YoY while the Blends segment grew by ~6% YoY. Performance Chemicals segment declined by ~1% YoY. Standalone revenue declined by 14% YoY due to slowdown challenges and inventory de-stocking by customers. Higher share of downstream products, gradual easing of energy cost pressure in Europe and subsidy received to the tune of Rs156mn during the quarter led to gross margin expansion. HQ prices have started to normalize and hence selling more downstream products makes sense. Catechol is still in excess supply and CFIN is making losses by selling in the open market. Ramp-up of the Vanillin facility should enable higher captive use of catechol, which in turn should improve operating margin FY24 onwards.

Diphenol & downstream derivatives and Vanillin are future growth drivers: CFIN has expanded Diphenol capacity at Dahej by ~50%, which can drive growth in both upstream as well as existing & upcoming downstream products. The management expects improved traction from FY24. Commercial production of composite vanillin plant commenced in January 2023, wherein peak revenue potential is Rs8bn. Ramp-up of Vanillin capacity and downstream products from Dahej would increase the company's blended margin profile.

BUY
Sector: Chemicals

CMP: Rs147

Target Price: Rs170

Upside: 16%

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Key Data

Current Shares O/S (mn)	157.1
Mkt Cap (Rsbn/US\$mn)	23.1/278.5
52 Wk H / L (Rs)	175/97
Daily Vol. (3M NSE Avg.)	510,151

Price Performance (%)

	1 M	6 M	1 Yr
Camlin Fine Sciences	(10.2)	25.1	7.5
Nifty Index	(0.1)	1.3	3.3

Source: Bloomberg

Particulars (Rsm)	3QFY22	2QFY23	3QFY23	YoY	QoQ	9MFY22	9MFY23	YoY
Net Sales	3,808	4,832	3,878	1.8%	-19.7%	10,229	12,549	22.7%
Gross margin	46.7%	50.7%	52.1%	539bps	148bps	45.6%	52.0%	644bps
Staff costs	400	390	417	4.3%	7.1%	1,073	1,218	13.5%
% of sales	10.5%	8.1%	10.8%	25bps	269bps	10.5%	9.7%	-78bps
Other expenses	828	1,506	1,107	33.7%	-26.5%	2,354	3,792	61.1%
% of sales	21.8%	31.2%	28.5%	679bps	-262bps	23.0%	30.2%	721bps
EBITDA	552	552	498	-9.8%	-9.9%	1,235	1,516	22.8%
EBITDA margin	14.5%	11.4%	12.8%	-166bps	140bps	12.1%	12.1%	1bps
Depreciation	132	140	162	22.2%	15.4%	400	446	11.4%
EBIT	419	412	336	-19.9%	-18.5%	834	1,070	28.3%
Interest	68	184	115	69.4%	-37.4%	260	487	87.3%
Other income	56	29	98	74.9%	239.5%	167	137	-18.4%
PBT	407	256	318	-21.9%	24.1%	742	719	-3.0%
PAT	272	99	229	-15.8%	131.6%	457	364	-20.3%

Source: Company, Nirmal Bang Institutional Equities Research

Financial summary

Particulars (Rsm)	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	11,871	14,121	15,862	19,732	22,746
Growth YoY%	13.1	19.0	12.3	24.4	15.3
Gross margin %	50.8	46.2	53.1	54.0	53.6
EBITDA	1,819	1,528	1,921	2,971	3,905
EBITDA margin %	15.3	10.8	12.1	15.1	17.2
Adj PAT	510	607	629	1,417	2,046
Growth YoY%	70.8	19.1	3.6	125.4	44.3
Adj EPS	4.0	3.9	4.0	9.0	13.1
RoCE %	13.3	7.6	9.8	17.2	21.2
RoE %	9.7	8.7	8.1	16.1	19.4
P/E	36.8	38.0	36.6	16.3	11.3
EV/EBITDA	12.9	18.4	14.1	9.1	6.8
P/BV	2.9	3.1	2.8	2.4	2.0

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 1: Change in earnings estimates

Particulars (Rsmn)	Old Estimates			New estimates			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	15,331	19,609	22,295	15,862	19,732	22,746	3%	1%	2%
EBITDA	1,923	2,971	3,604	1,921	2,971	3,905	0%	0%	8%
EBITDA margin	12.5%	15.2%	16.2%	12.1%	15.1%	17.2%	-43bps	-10bps	100bps
APAT	917	1,710	2,047	629	1,417	2,046	-31%	-17%	0%

Source: Nirmal Bang Institutional Equities Research

Exhibit 2: Actual performance v/s NBIE & Consensus estimates

Particulars (Rsmn)	3QFY23	3QFY23e (NBIE)	Variance	3QFY23e (Consensus)	Variance
Revenue	3,878	4,951	-22%	4,028	-4%
EBITDA	498	559	-11%	544	-9%
EBITDA margin	12.8%	11.3%	153bps	13.5%	-68bps
APAT	229	99	131%	228	0%

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 3: Quarterly segment wise and subsidiary wise performance

Consolidated revenue mix (%)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Performance Chemicals	29%	20%	17%	29%	29%	27%	25%	37%	44%	43%	36%	44%	43%	42%	35%
Blends	29%	33%	31%	31%	28%	28%	31%	27%	25%	31%	32%	28%	32%	27%	33%
Shelf Life Extension	21%	25%	26%	20%	24%	28%	23%	24%	24%	24%	31%	27%	24%	30%	30%
Aroma	20%	13%	31%	15%	18%	16%	20%	12%	2%	1%	1%	0%	1%	0%	0%
Others	1%	8%	-4%	5%	1%	1%	1%	0%	5%	1%	0%	0%	1%	1%	2%
Consolidated revenue (Rsmn)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Performance Chemicals	754	452	458	854	887	688	748	1,183	1,476	1,331	1,377	1,687	1,636	2,021	1,369
Blends	754	741	849	908	856	719	920	850	909	971	1,208	1,086	1,243	1,296	1,274
Shelf Life Extension	546	563	706	598	734	729	689	753	809	759	1,192	1,056	913	1,450	1,156
Aroma	520	300	844	434	550	406	593	386	64	32	25	14	21	9	10
Others	26	167	-117	134	31	26	30	-1	50	19	6	-1	25	56	69
Total	2,601	2,223	2,739	2,929	3,057	2,568	2,979	3,171	3,308	3,112	3,808	3,842	3,838	4,832	3,878
Subsidiaries Revenue break-up (%)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
CFS India	38%	43%	41%	41%	31%	41%	42%	42%	40%	39%	48%	45%	37%	45%	42%
Global	62%	57%	59%	59%	69%	59%	58%	58%	60%	61%	52%	55%	63%	55%	58%
CFS Europe	28%	23%	14%	22%	29%	26%	18%	25%	29%	31%	21%	30%	31%	29%	24%
CFS Mexico	15%	18%	17%	22%	19%	17%	18%	17%	21%	21%	22%	17%	21%	17%	21%
CFS Brazil	3%	4%	5%	5%	4%	4%	5%	5%	6%	6%	5%	6%	6%	6%	7%
CFS Wanglong	12%	8%	20%	8%	15%	9%	15%	9%	-	-	-	-	-	-	-
CFS North America	3%	3%	2%	2%	2%	3%	2%	2%	5%	3%	3%	2%	4%	3%	6%
Subsidiaries Revenue break-up (Rsmn)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
CFS India	1,436	1,435	1,532	1,395	1,212	1,468	1,636	1,685	1,457	1,382	2,002	2,014	1,554	2,431	1,727
Global	2,303	1,926	2,170	2,030	2,678	2,123	2,239	2,326	2,181	2,197	2,142	2,495	2,660	2,947	2,415
CFS Europe	1,031	787	533	739	1,119	951	697	996	1,060	1,117	874	1,343	1,323	1,552	993
CFS Mexico	568	610	645	748	723	607	710	695	751	762	913	772	899	901	884
CFS Brazil	119	149	173	176	157	159	183	218	203	197	221	282	266	332	291
CFS Wanglong	463	283	728	291	591	309	570	347	-	-	-	-	-	-	-
CFS North America	122	97	91	76	88	97	79	70	167	121	134	98	172	162	247
Less: Implied inter-party transactions	1,138	1,138	963	496	833	1,023	896	840	330	467	336	667	376	546	264
Total Revenue	2,601	2,223	2,739	2,929	3,057	2,568	2,979	3,171	3,308	3,112	3,808	3,842	3,838	4,832	3,878

Source: Company, Nirmal Bang Institutional Equities Research

Financials (Consolidated)

Exhibit 4: Income statement

Y/E March (Rsm)	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	11,871	14,121	15,862	19,732	22,746
Growth YoY%	13.1	19.0	12.3	24.4	15.3
COGS	5,835	7,595	7,445	9,086	10,552
Gross margin %	50.8	46.2	53.1	54.0	53.6
Staff costs	1,204	1,450	1,566	1,915	2,135
Other expenses	3,013	3,547	4,931	5,760	6,154
EBITDA	1,819	1,528	1,921	2,971	3,905
Growth YoY%	39.2	(16.0)	25.7	54.7	31.5
EBITDA margin %	15.3	10.8	12.1	15.1	17.2
Depreciation	443	560	623	688	780
EBIT	1,376	968	1,298	2,283	3,126
Interest	375	358	587	509	442
Other income	50	330	151	173	129
PBT (bei)	1,051	940	862	1,947	2,812
PBT	1,051	940	862	1,947	2,812
ETR	38	36	27	27	27
PAT	510	607	629	1,417	2,046
Adj PAT	510	607	629	1,417	2,046
Growth YoY%	70.8	19.1	3.6	125.4	44.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Cash flow

Y/E March (Rsm)	FY21	FY22	FY23E	FY24E	FY25E
PBT	1,051	940	862	1,947	2,812
Depreciation	443	560	623	688	780
Interest	375	358	587	509	442
Other adjustments	323	(162)	(148)	(170)	(126)
Change in Working capital	(659)	64	(543)	(1,714)	(1,621)
Tax paid	(359)	(304)	(236)	(532)	(770)
Operating cash flow	1,174	1,454	1,145	727	1,518
Capex	(839)	(2,138)	74	(689)	(755)
Free cash flow	335	(683)	1,219	38	762
Other investing activities	(490)	(353)	405	376	291
Investing cash flow	(1,329)	(2,491)	478	(313)	(464)
Issuance of share capital	757	948	-	-	-
Movement of Debt	229	761	(1,625)	(303)	(242)
Dividend paid (incl DDT)	-	-	-	-	-
Other financing activities	(600)	(349)	(227)	(489)	(442)
Financing cash flow	386	1,360	(1,853)	(792)	(685)
Net change in cash flow	232	323	(229)	(378)	369
Opening C&CE	524	755	1,078	849	471
Closing C&CE	755	1,078	849	471	840

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Balance sheet

Y/E March (Rsm)	FY21	FY22	FY23E	FY24E	FY25E
Share Capital	127	157	157	157	157
Reserves & Other Equity	6,307	7,322	7,951	9,369	11,415
Net worth	6,434	7,479	8,108	9,526	11,572
Minority Interest	697	171	171	171	171
Long term debt	2,732	3,876	2,630	2,630	2,630
Short term debt	2,647	2,349	1,971	1,668	1,425
Total debt	5,379	6,226	4,601	4,298	4,055
Other non-current liabilities	176	521	538	558	558
Total Equity & Liabilities	12,686	14,398	13,418	14,553	16,356
Gross block	6,298	6,712	7,132	8,152	9,172
Accumulated depreciation	1,481	1,894	2,517	3,205	3,985
Net Block	4,818	4,818	4,615	4,947	5,188
CWIP	237	2,147	1,654	1,323	1,058
Intangible and others	241	760	760	760	760
Other non-current assets	1,481	1,268	1,014	811	649
Investments	93	72	72	72	72
Trade receivables	2,707	2,997	3,204	3,985	4,594
Inventories	3,200	3,709	3,694	4,595	5,297
Cash & Cash equivalents	1,383	1,421	849	471	840
Other current assets	656	809	809	1,213	1,819
Total current assets	7,947	8,936	8,556	10,264	12,550
Trade payables	1,584	2,338	2,203	2,740	3,159
Other current liabilities	546	1,265	1,050	886	763
Total current liabilities	2,130	3,603	3,253	3,626	3,922
Total Assets	12,686	14,398	13,418	14,553	16,356

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Key ratios

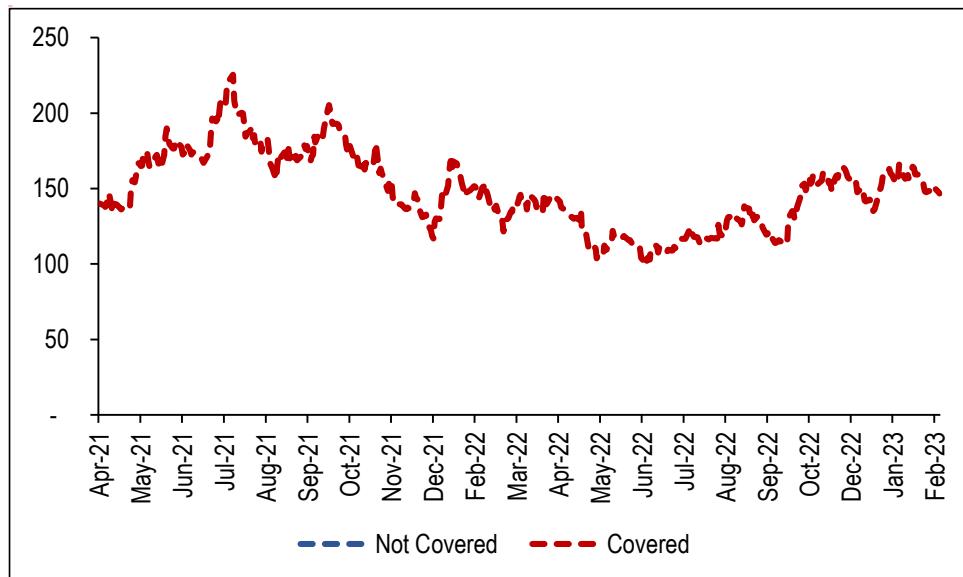
Y/E March (Rsm)	FY21	FY22	FY23E	FY24E	FY25E
Per share (Rs)					
Adj EPS	4.0	3.9	4.0	9.0	13.1
Book value	50.5	47.6	51.7	60.7	73.7
Valuation (x)					
P/Sales	1.6	1.6	1.5	1.2	1.0
EV/sales	2.0	2.0	1.7	1.4	1.2
EV/EBITDA	12.9	18.4	14.1	9.1	6.8
P/E	36.8	38.0	36.6	16.3	11.3
P/BV	2.9	3.1	2.8	2.4	2.0
Return ratios (%)					
RoCE	13.3	7.6	9.8	17.2	21.2
RoE	9.7	8.7	8.1	16.1	19.4
Profitability ratios (%)					
Gross margin	50.8	46.2	53.1	54.0	53.6
EBITDA margin	15.3	10.8	12.1	15.1	17.2
PAT margin	4.3	4.2	3.9	7.1	8.9
Liquidity ratios (%)					
Current ratio	1.7	1.5	1.6	1.9	2.3
Quick ratio	1.0	0.9	0.9	1.1	1.4
Solvency ratio (%)					
Debt to Equity ratio	0.8	0.8	0.6	0.5	0.4
Turnover ratios					
Fixed asset turnover ratio (x)	4.8	4.7	4.8	6.3	7.3
Debtor days	80	74	74	74	74
Inventory days	95	89	85	85	85
Creditor days	51	51	51	51	51
Net Working capital days	124	112	108	108	108

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
23 September 2021	BUY	185	215
12 November 2021	ACCUMULATE	180	200
8 February 2022	BUY	152	200
22 May 2022	BUY	112	170
12 August 2022	BUY	117	170
19 September 2022	BUY	129	170
13 November 2022	BUY	156	180
14 November 2022	BUY	147	170

Rating track graph



DISCLOSURES

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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