

Camlin Fine Sciences

23 May, 2023

Reuters: CAMF.NS; Bloomberg: CFIN.IN

Vanillin remains the key growth driver for FY24

Camlin Fine Sciences' (CFIN) 4QFY23 EBITDA came in below NBIE estimate mainly on account of pricing pressure in key products and forex loss of ~Rs100mn. Revenue growth of ~10% on both YoY as well as QoQ basis was driven by Blends business and Performance Chemicals segment. Vanillin facility got commissioned during 4QFY23. HQ downstream derivatives along with Vanillin should drive growth in the coming quarters. While CFIN is also facing challenges on the de-stocking front from US-based clients, similar to other companies, the China re-opening has created a lot of pressure on RMs and end product pricing (mainly in Performance Chemicals segment). While the base business might witness margin contraction in an uncertain environment, Vanillin & new products should offset the adverse impact along with operating leverage. Margin profile should improve from FY24 as catechol direct sales (at loss) should fall post Vanillin commercialization. The management expects ~50% capacity utilization in FY24 for Vanillin and overall revenue potential at peak utilization remains ~Rs8bn, assuming constant pricing. It highlighted that while the industry growth is ~4%, there is no other capacity addition in Vanillin. 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%/35%/79% over FY23-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 on CFIN with an unchanged Target Price (TP) of Rs200 post earnings revision. We value CFIN at ~18x on FY25E earnings.

4QFY23 earnings performance: CFIN's consolidated revenue grew by ~10% both on YoY as well as QoQ basis. Weakness in Shelf-life Extension business continues which came flat on YoY basis. Blends business reported very strong revenue growth of ~19% YoY. Performance Chemicals segment's growth in 4QFY23 came in at ~10% YoY, lower than FY23 growth of ~17%. In terms of regions, North America reported strong growth on a favourable base followed by Mexico and Brazil. Subsidiaries reported a decline in revenue. Sequential pressure on gross margin was pertaining to the pricing pressure in end products prices, mainly in Performance Chemicals. EBITDA came in lower than estimate because of forex loss to the tune of ~Rs100mn in 4QFY23. CFIN has also provided for ~Rs97mn as impairment loss towards the loss of patent in manufacturing knowhow of Vanillin owned by CFS Wanglong (Chinese JV).

Diphenol & downstream derivatives and Vanillin are future growth drivers: CFIN has already expanded Diphenol capacity at Dahej by ~50%, which can drive growth in both upstream as well as existing & upcoming downstream products. While the pressure on FG prices (mainly in Performance Chemicals) due to demand challenges and China re-opening could be a cause for concern in the next few quarters, Vanillin should be a key growth driver, wherein the management expects ~50% utilization by FY24. Ramp-up of Vanillin capacity and downstream products from Dahej would increase the company's blended margin profile.

BUY

Sector: Chemicals

CMP: Rs174

Target Price: Rs200

Upside: 15%

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Key Data

Current Shares O/S (mn)	157.1
Mkt Cap (Rsbn/US\$mn)	27.5/331.7
52 Wk H / L (Rs)	180/97
Daily Vol. (3M NSE Avg.)	476,060

Price Performance (%)

	1 M	6 M	1 Yr
Camlin Fine Sciences	2.3	11.4	52.6
Nifty Index	4.4	0.7	13.4

Source: Bloomberg

Particulars (Rsm)	4QFY22	3QFY23	4QFY23	YoY	QoQ	FY22	FY23	YoY
Net Sales	3,892	3,878	4,267	9.6%	10.0%	14,121	16,816	19.1%
Gross margin	47.9%	52.1%	50.6%	265bps	-158bps	46.2%	51.6%	542bps
Staff costs	378	417	408	8.2%	-2.1%	1,450	1,626	12.1%
% of sales	9.70%	10.75%	9.57%	-13bps	-119bps	10.27%	9.67%	-60bps
Other expenses	1,244	1,107	1,311	5.4%	18.4%	3,598	5,103	41.8%
% of sales	31.96%	28.55%	30.72%	-124bps	217bps	25.48%	30.35%	487bps
EBITDA	243	498	438	80.1%	-11.9%	1,478	1,954	32.2%
EBITDA margin	6.25%	12.83%	10.27%	402bps	-256bps	10.47%	11.62%	116bps
Depreciation	159	162	179	12.5%	10.8%	560	625	11.7%
EBIT	84	336	259	208.7%	-22.9%	918	1,329	44.8%
Interest	98	115	98	0.2%	-15.3%	358	585	63.6%
Other income	213	98	20	-90.6%	-79.6%	381	157	-58.9%
Exceptional items	-	-	-97	-	-	-	-97	-
PBT	199	318	84	-57.7%	-73.5%	941	804	-14.6%
PAT	151	240	132	-13.1%	-45.3%	607	561	-7.5%

Source: Company, Nirmal Bang Institutional Equities Research

Financial summary

Particulars (Rsm)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	11,871	14,121	16,816	20,444	23,190
Growth YoY%	13.1	19.0	19.1	21.6	13.4
Gross margin %	50.8	46.2	51.6	52.5	52.3
EBITDA	1,819	1,528	2,053	2,900	3,744
EBITDA margin %	15.3	10.8	12.2	14.2	16.1
Adj PAT	510	607	569	1,079	1,824
Growth YoY%	70.8	19.1	(6.2)	89.6	69.1
Adj EPS	4.0	3.9	3.6	6.5	10.9
RoCE %	13.3	7.6	9.6	12.7	17.6
RoE %	9.7	8.7	7.3	12.4	17.9
P/E	43.5	45.0	48.0	26.9	15.9
EV/EBITDA	14.8	21.1	16.7	11.2	8.5
P/BV	3.4	3.7	3.3	2.9	2.5

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 1: Change in earnings estimates

Consolidated (Rsmn)	Old Estimates		New estimates		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	19,732	22,746	20,444	23,190	4%	2%
EBITDA	2,971	3,905	2,900	3,744	-2%	-4%
EBITDA margin	15.1%	17.2%	14.2%	16.1%	-87bps	-102bps
APAT	1,417	2,046	1,079	1,824	-24%	-11%

Source: Nirmal Bang Institutional Equities Research

Exhibit 2: Actual performance v/s NBIE estimates

Particulars (Rsmn)	4QFY23	4QFY23e (NBIE)	Variance
Revenue	4,267	4,200	2%
EBITDA	438	590	-26%
EBITDA margin	10.3%	14.0%	-378bps
APAT	132	295	-55%

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 3: Quarterly segment-wise and subsidiary-wise performance

Consolidated revenue mix (%)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Performance Chemicals	29%	27%	25%	37%	44%	43%	36%	44%	43%	42%	35%	43%
Blends	28%	28%	31%	27%	25%	31%	32%	28%	32%	27%	33%	30%
Shelf Life Extension	24%	28%	23%	24%	24%	24%	31%	27%	24%	30%	30%	25%
Aroma	18%	16%	20%	12%	2%	1%	1%	0%	1%	0%	0%	0%
Others	1%	1%	1%	0%	5%	1%	0%	0%	1%	1%	2%	1%
Consolidated revenue (Rsmn)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Performance Chemicals	887	688	748	1,183	1476	1,331	1,377	1,687	1,636	2,021	1,369	1,855
Blends	856	719	920	850	909	971	1,208	1,086	1,243	1,296	1,274	1,291
Shelf Life Extension	734	729	689	753	809	759	1,192	1,056	913	1,450	1,156	1,058
Aroma	550	406	593	386	64	32	25	14	21	9	10	14
Others	31	26	30	-1	50	19	6	-1	25	56	69	49
Total	3,057	2,568	2,979	3,171	3,308	3,112	3,808	3,842	3,838	4,832	3,878	4,267
Subsidiaries Revenue break-up (%)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
CFS India	31%	41%	42%	42%	40%	39%	48%	45%	37%	45%	42%	48%
Global	69%	59%	58%	58%	60%	61%	52%	55%	63%	55%	58%	52%
CFS Europe	29%	26%	18%	25%	29%	31%	21%	30%	31%	29%	24%	22%
CFS Mexico	19%	17%	18%	17%	21%	21%	22%	17%	21%	17%	21%	19%
CFS Brazil	4%	4%	5%	5%	6%	6%	5%	6%	6%	6%	7%	5%
CFS Wanglong	15%	9%	15%	9%	-	-	-	-	-	-	-	-
CFS North America	2%	3%	2%	2%	5%	3%	3%	2%	4%	3%	6%	6%
Subsidiaries Revenue break-up (Rsmn)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
CFS India	1,212	1,468	1,636	1,685	1,457	1,382	2,002	2,014	1,554	2,431	1,727	2,182
Global	2,678	2,123	2,239	2,326	2,181	2,197	2,142	2,495	2,660	2,947	2,415	2,374
CFS Europe	1,119	951	697	996	1,060	1,117	874	1,343	1,323	1,552	993	1,015
CFS Mexico	723	607	710	695	751	762	913	772	899	901	884	849
CFS Brazil	157	159	183	218	203	197	221	282	266	332	291	240
CFS Wanglong	591	309	570	347	-	-	-	-	-	-	-	-
CFS North America	88	97	79	70	167	121	134	98	172	162	247	270
Less: Implied inter-party transactions	833	1,023	896	840	330	467	336	667	376	546	264	289
Total Revenue	3,057	2,568	2,979	3,171	3,308	3,112	3,808	3,842	3,838	4,832	3,878	4,267

Source: Company, Nirmal Bang Institutional Equities Research

Financials (Consolidated)

Exhibit 4: Income statement

Y/E March (Rsm)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	11,871	14,121	16,816	20,444	23,190
Growth YoY%	13.1	19.0	19.1	21.6	13.4
COGS	5,835	7,595	8,132	9,713	11,051
Gross margin %	50.8	46.2	51.6	52.5	52.3
Staff costs	1,204	1,450	1,626	2,144	2,325
Other expenses	3,013	3,547	5,004	5,687	6,069
EBITDA	1,819	1,528	2,053	2,900	3,744
Growth YoY%	39.2	(16.0)	34.3	41.3	29.1
EBITDA margin %	15.3	10.8	12.2	14.2	16.1
Depreciation	443	560	625	927	988
EBIT	1,376	968	1,428	1,973	2,757
Interest	375	358	585	684	558
Other income	50	330	58	22	141
PBT (bei)	1,051	940	901	1,310	2,340
PBT	1,051	940	804	1,310	2,340
ETR	38	36	50	27	27
PAT	510	607	521	1,079	1,824
Adj PAT	510	607	569	1,079	1,824
Growth YoY%	70.8	19.1	(6.2)	89.6	69.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Cash flow

Y/E March (Rsm)	FY21	FY22	FY23	FY24E	FY25E
PBT	1,051	940	804	1,310	2,340
Depreciation	443	560	625	927	988
Interest	375	358	585	684	558
Other adjustments	323	(162)	85	101	(18)
Change in Working capital	(659)	64	(1,388)	(174)	(1,672)
Tax paid	(359)	(304)	(202)	(354)	(639)
Operating cash flow	1,174	1,454	509	2,495	1,556
Capex	(839)	(2,138)	(1,443)	(337)	(775)
Free cash flow	335	(683)	(934)	2,158	781
Other investing activities	(490)	(353)	197	235	312
Investing cash flow	(1,329)	(2,491)	(1,246)	(102)	(463)
Issuance of share capital	757	948	5	-	-
Movement of Debt	229	761	1,331	(2,075)	(499)
Dividend paid (incl DDT)	-	-	-	-	-
Other financing activities	(600)	(349)	(740)	(662)	(558)
Financing cash flow	386	1,360	597	(2,737)	(1,057)
Net change in cash flow	232	323	(141)	(344)	36
Opening C&CE	524	755	1,078	937	593
Closing C&CE	755	1,078	937	593	629

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Balance sheet

Y/E March (Rsm)	FY21	FY22	FY23	FY24E	FY25E
Share Capital	127	157	157	157	157
Reserves & Other Equity	6,307	7,322	8,037	9,116	10,940
Net worth	6,434	7,479	8,194	9,273	11,097
Minority Interest	697	171	47	47	47
Long term debt	2,732	3,876	4,081	2,630	2,630
Short term debt	2,647	2,349	3,715	3,091	2,592
Total debt	5,379	6,226	7,796	5,721	5,222
Other non-current liabilities	176	521	349	371	371
Total Equity & Liabilities	12,686	14,398	16,386	15,412	16,737
Gross block	6,298	6,712	10,044	10,564	11,384
Accumulated depreciation	1,481	1,894	2,519	3,447	4,434
Net Block	4,818	4,818	7,525	7,118	6,950
CWIP	237	2,147	408	225	180
Intangible and others	241	760	662	662	662
Other non-current assets	1,481	1,268	1,068	855	684
Investments	93	72	134	134	134
Trade receivables	2,707	2,997	3,046	3,673	4,167
Inventories	3,200	3,709	5,681	4,761	5,400
Cash & Cash equivalents	1,383	1,421	937	593	629
Other current assets	656	809	1,138	1,671	2,466
Total current assets	7,947	8,936	10,857	10,753	12,717
Trade payables	1,584	2,338	2,884	3,174	3,600
Other current liabilities	546	1,265	1,331	1,107	936
Total current liabilities	2,130	3,603	4,215	4,281	4,536
Total Assets	12,686	14,398	16,386	15,412	16,737

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Key ratios

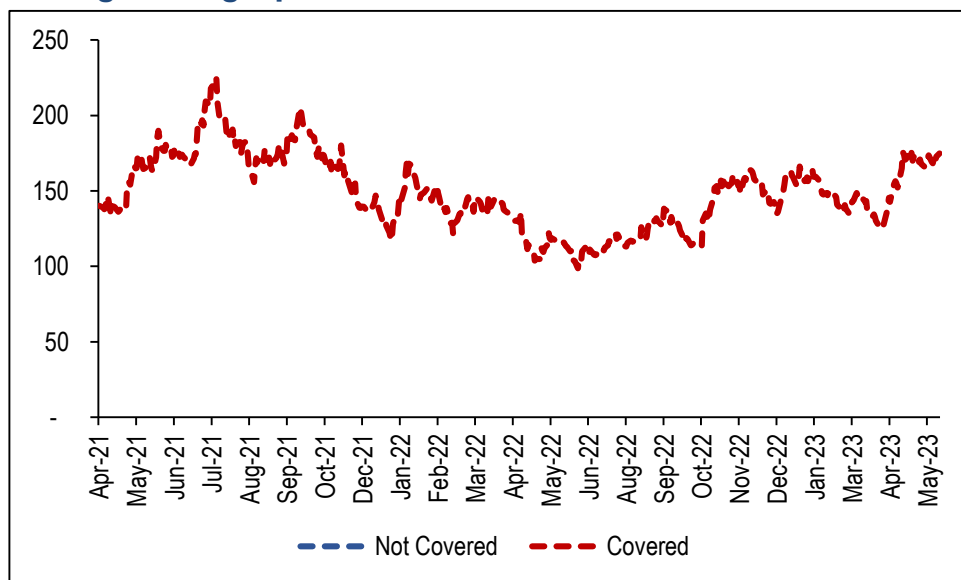
Y/E March (Rsm)	FY21	FY22	FY23	FY24E	FY25E
Per share (Rs)					
Adj EPS	4.0	3.9	3.6	6.5	10.9
Book value	50.5	47.6	52.2	59.1	70.7
Valuation (x)					
P/Sales	1.9	1.9	1.6	1.3	1.2
EV/sales	2.3	2.3	2.0	1.6	1.4
EV/EBITDA	14.8	21.1	16.7	11.2	8.5
P/E	43.5	45.0	48.0	26.9	15.9
P/BV	3.4	3.7	3.3	2.9	2.5
Return ratios (%)					
RoCE	13.3	7.6	9.6	12.7	17.6
RoE	9.7	8.7	7.3	12.4	17.9
Profitability ratios (%)					
Gross margin	50.8	46.2	51.6	52.5	52.3
EBITDA margin	15.3	10.8	12.2	14.2	16.1
PAT margin	4.3	4.2	3.4	5.3	7.8
Liquidity ratios (%)					
Current ratio	1.7	1.5	1.4	1.5	1.8
Quick ratio	1.0	0.9	0.7	0.8	1.0
Solvency ratio (%)					
Debt to Equity ratio	0.8	0.8	1.0	0.6	0.5
Turnover ratios					
Fixed asset turnover ratio (x)	4.8	4.7	4.5	5.4	6.4
Debtor days	80	74	66	66	66
Inventory days	95	89	102	85	85
Creditor days	51	51	57	57	57
Net Working capital days	124	112	111	94	94

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 February 2023	BUY	147	170
22 March 2023	BUY	134	170
17 April 2023	BUY	152	200
23 May 2023	BUY	174	200

Rating track graph



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ACCUMULATE -5% to 15%

SELL < -5%

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