

India

ADD (no change)

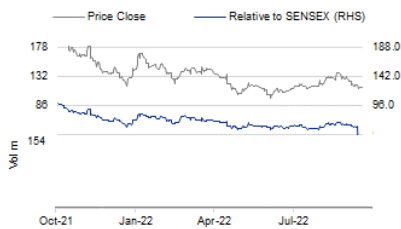
Consensus ratings*: Buy 3 Hold 0 Sell 0

Current price: Rs115
 Target price: ▼ Rs180
 Previous target: Rs225
 Up/downside: 56.5%
 InCred Research / Consensus: -2.7%

Reuters: CAMF.BO
 Bloomberg: CFIN IN
 Market cap: US\$249m
 Rs18,055m

Average daily turnover: US\$0.6m
 Rs42.2m
 Current shares o/s: 157.0m
 Free float: 83.3%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(11.8)	6.9	(41.5)
Relative (%)	(9.4)	0.1	(39.6)

Major shareholders	% held
Promoter & Promoter Group	16.7
ICICI Prudential Midcap Fund	6.8
SBI Magnum Multicap Fund	6.1

Camlin Fine Sciences

Improving product portfolio

- Camlin Fine Sciences is engaged in the specialty chemicals business. Commissioning of vanillin capacity may add ~Rs1bn to FY23F gross profit.
- The nimble decision to change product portfolio as per market conditions will help generate more profit by selling HQ rather than making MEHQ, in our view.
- We cut our EPS estimates to account for sub-optimal EPS in 1QFY23. Reiterate ADD rating on the stock with a target price of Rs180 (Rs225 earlier).

Vanillin will add to the bottom line

Profitability in hydroquinone (HQ) is good for Camlin Fine Sciences or CFS as traditional suppliers in Europe are struggling because of scarce power supply. Making MEHQ from HQ doesn't make sense for CFS as selling MEHQ will not even recover the market price of HQ. Hence, CFS has taken the correct decision of manufacturing minimum quantity of MEHQ. CFS has also commissioned its 6ktpa vanillin plant at Dahej in Gujarat by investing Rs1.85bn to produce guaiacol (key raw material for vanillin), ethyl vanillin, & methyl vanillin and its derivatives. Vanillin is a high gross profit product and can add around Rs1bn in gross profit to CFS in coming 5.5 months. HQ prices are also on the rise in Europe which shall benefit its Italian subsidiary. TBHQ prices and spreads are steady, which also bode well for profitability. We have cut our EPS estimates to account for the worse-than-expected 1QFY23 performance and introduce FY25F fully diluted EPS estimate.

European energy crisis is an opportunity for CFS

The European energy crisis is an opportunity for CFS as it is leading to higher prices for HQ. Some of the biggest producers of HQ globally (like Solvay) are in Europe and because of higher energy cost they are struggling, which is leading to higher HQ prices. Rising prices of HQ lead to gross profit growth of around 70% or Rs300/kg. The rational decision of making very small quantity of MEHQ in 2QFY23F, in our view, will lead to better profitability for CFS in coming quarters as well.

We value CFS at 20x FY25F EPS to arrive at our target price of Rs180

CFS has been a serial disappointer in the recent past. Despite the recent dismal performance, we retain our ADD rating on it because our interactions with its management indicated 1) that CFS is nimble footed when it comes to product portfolio selection (making MEHQ in limited quantity and instead selling HQ), 2) commissioning of vanillin capacity to add Rs2bn in gross profit per annum, and 3) the energy crisis in Europe likely to increase HQ prices and hence, profitability of its Indian HQ division. We have valued CFS at 20x FY25F EPS to arrive at our target price of Rs180.

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Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	11,871	14,121	15,714	17,767	19,607
Operating EBITDA (Rsm)	1,819	1,528	2,233	2,711	3,016
Net Profit (Rsm)	654	604	888	1,198	1,413
Core EPS (Rs)	5.3	4.2	5.7	7.6	9.0
Core EPS Growth	113.6%	(19.2%)	33.3%	34.9%	18.0%
FD Core P/E (x)	21.87	27.08	20.32	15.07	12.77
DPS (Rs)	0.3	0.3	0.5	0.7	0.8
Dividend Yield	0.37%	0.34%	0.57%	0.74%	0.86%
EV/EBITDA (x)	10.18	13.96	10.53	8.24	7.22
P/FCFE (x)	1,288.60	(44.86)	(21.46)	26.34	25.43
Net Gearing	49.3%	62.8%	47.3%	29.0%	21.4%
P/BV (x)	2.28	2.41	1.93	1.55	1.34
ROE	12.5%	8.7%	10.5%	11.4%	11.2%
% Change In Core EPS Estimates			(37.90%)	(39.01%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Improving product portfolio

Stabilization of phenol production capacity, tactical withdrawal from MEHQ market (as HQ is making more money for CFS) and commissioning of vanillin capacity bode well for the earnings growth of CFS. We reiterate ADD rating on the stock with a reduced target price of Rs180 (Rs225 earlier).

Commissions vanillin capacity

CFS has commissioned vanillin capacity at its SEZ facility and will ramp up production in the current month. Its total production capacity is ~6,000t and we expect production of around 1,800-2,000t in FY23F.

Vanillin is used in multiple products➤

1. The largest use of vanillin is as a flavouring agent, usually in sweets. Ice-cream and chocolate industries together account for 75% of the market for vanillin as a flavouring agent, with smaller amounts being used in confectionary and baked foods.
2. Vanillin is also used in the fragrance industry, i.e. in perfumes, and to mask unpleasant odour or taste of medicines, livestock fodder, and cleaning products. It is also used in the flavour industry, as a key input for different flavours, especially creamy profiles such as cream soda.
3. Additionally, vanillin can be used as a general purpose stain for visualizing spots on thin-layer chromatography plates. This stain yields a range of colours for different components.
4. Vanillin-HCl staining can be done to visualize the localization of tannins in cells.
5. Vanillin has been used as a chemical intermediate in the production of pharmaceuticals, cosmetics, and other fine chemicals.
6. In 1970, more than half the world's vanillin production was used in the synthesis of other chemicals. Since 2016, vanillin usage has expanded to include perfumes, as a flavouring agent and aromatic masking in medicines, various consumer and cleaning products, and livestock foods.

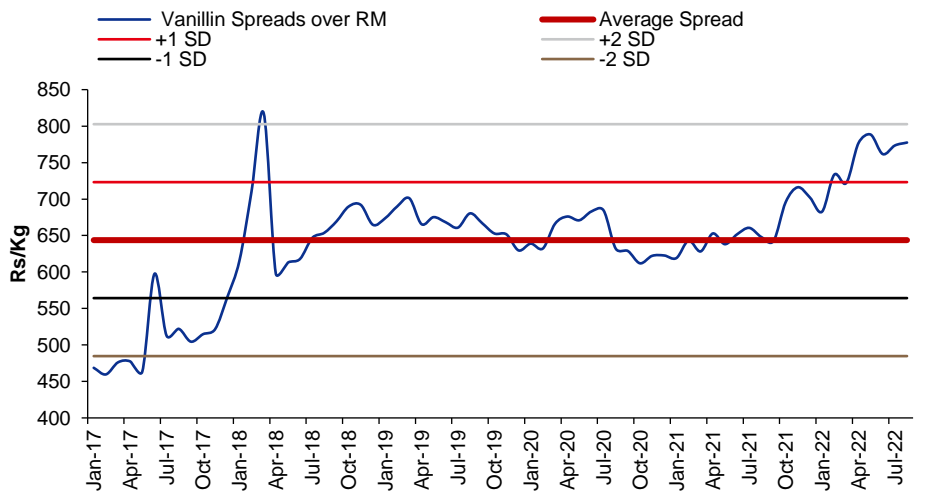
Vanillin is manufactured from guaiacol ➤

Vanillin is synthesized using guaiacol, glyoxylic acid, toluene, and caustic soda. While CFS will have in-house guaiacol supply for manufacturing vanillin, it will be importing glyoxylic acid while the procurement of toluene will be done locally.

Vanillin is a high-margin product ➤

We believe that over the next few months, CFS should register higher-than-average historical margin. However, effective FY24F, we have built in historical average gross profit/t in our estimates.

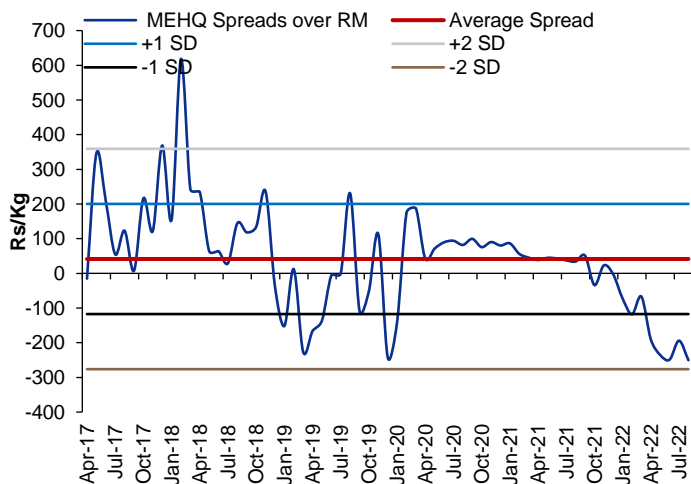
Figure 1: Contribution margin (Rs/kg) of vanillin has been highly stable over the past 60 months



SOURCE: COMPANY REPORTS, INCRED RESEARCH

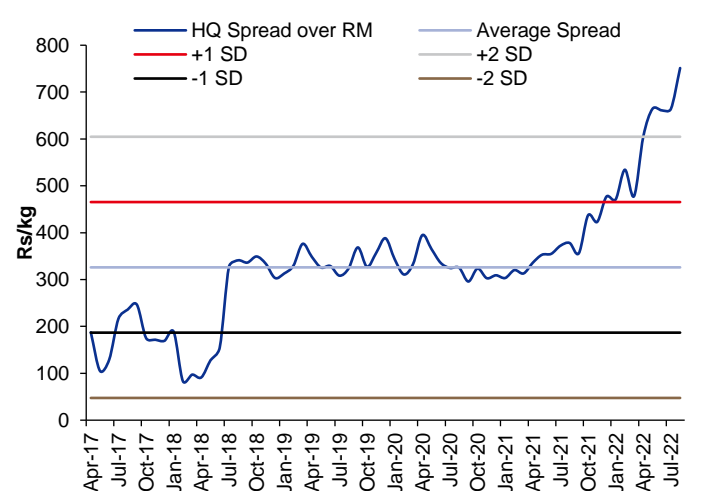
Hydroquinone (HQ) is fetching better margins than MEHQ

Figure 2: MEHQ's spread over HQ is negative - this fact alone has hit margins of CFS since last two quarters



SOURCE: COMPANY REPORTS, INCRED RESEARCH

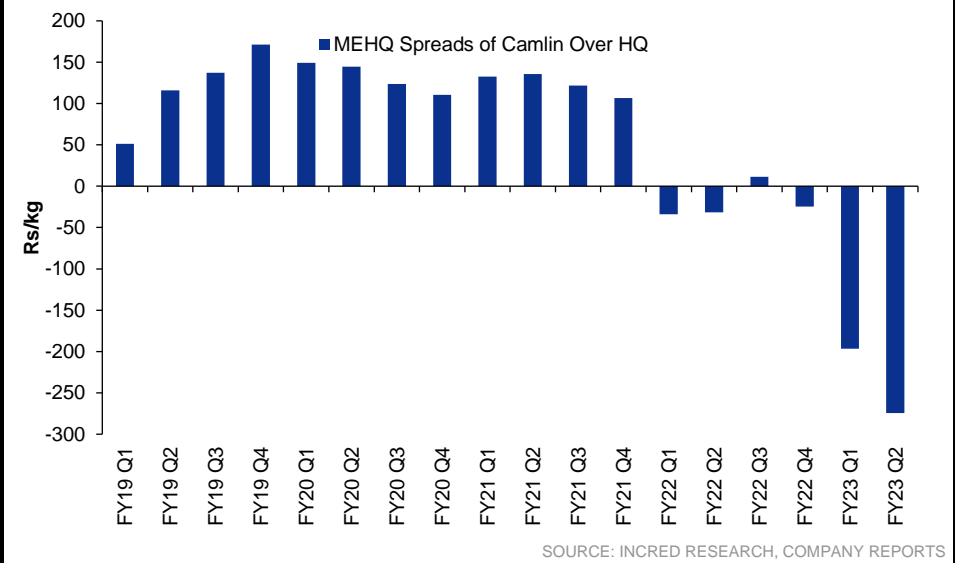
Figure 3: As of now, selling HQ makes more sense as its margins are way better than that of MEHQ



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Hence, for the first time in several quarters, CFS has made a smart decision of selling minimum quantity of MEHQ

MEHQ was a money-losing proposition for CFS since the past several quarters. However, apparently to maintain its market share, CFS had taken the financially unwise decision.

Figure 4: MEHQ was a not a money-making proposition for CFS since the last five quarters and, at last, good sense prevails

HQ has multiple other usages apart from making MEHQ - CFS will do well to address that market ➤

Hydroquinone or HQ is extensively used as:

1. a reducing agent,
2. as a photographic developer,
3. as an antioxidant for many oxidizable products,
4. as a stabilizer or polymerizing inhibitor for certain materials that polymerize in the presence of free radicals,
5. as a chemical intermediate for the production of antioxidants, antiozonants, agrochemicals, and polymers, and
6. as a skin-lightening agent used in cosmetics, hair dyes, and medical preparations.

HQ is a relatively small market, but its manufacturing is highly power-intensive ➤

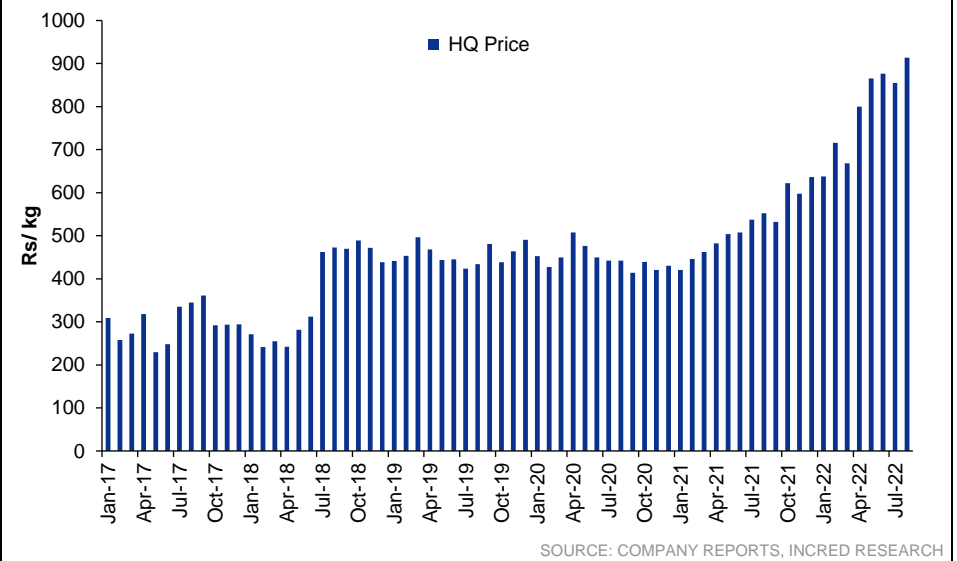
The global market size of HQ is approximately 50,000t, and CFS is one of the biggest players globally. The players in this market are:

1. Solvay
2. Eastman
3. Mitsui Chemicals
4. UBE
5. Camlin Fine Sciences.

Approximately, 1t of HQ will need ~2,000 units of power. Hence, in power-scarce Europe, manufacturing of HQ is becoming difficult. This is leading to a rise in manufacturing cost and thus, HQ prices.

Worsening power scenario in Europe is leading to higher prices ➤

Figure 5: Worsening power supply scenario in Europe led HQ prices to rise rapidly since Oct 2021. In the past five months, HQ prices have risen by 50%



TBHQ has been doing well for the company ➤

Figure 6: TBHQ prices are on the upswing...

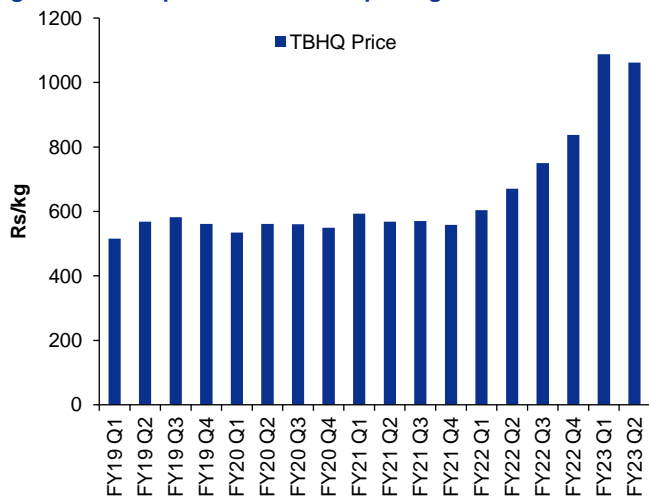
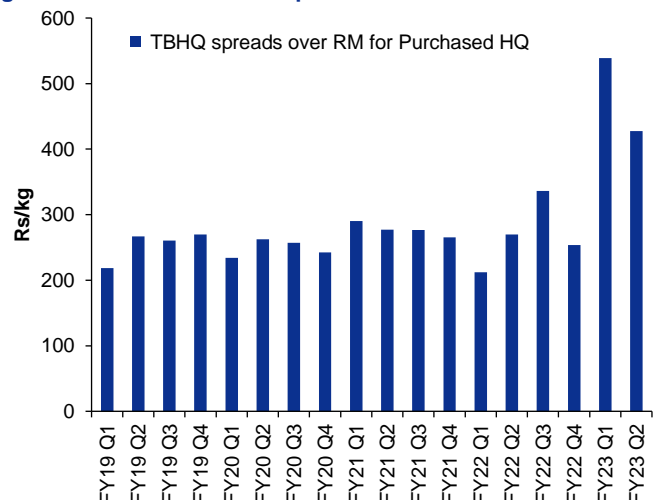
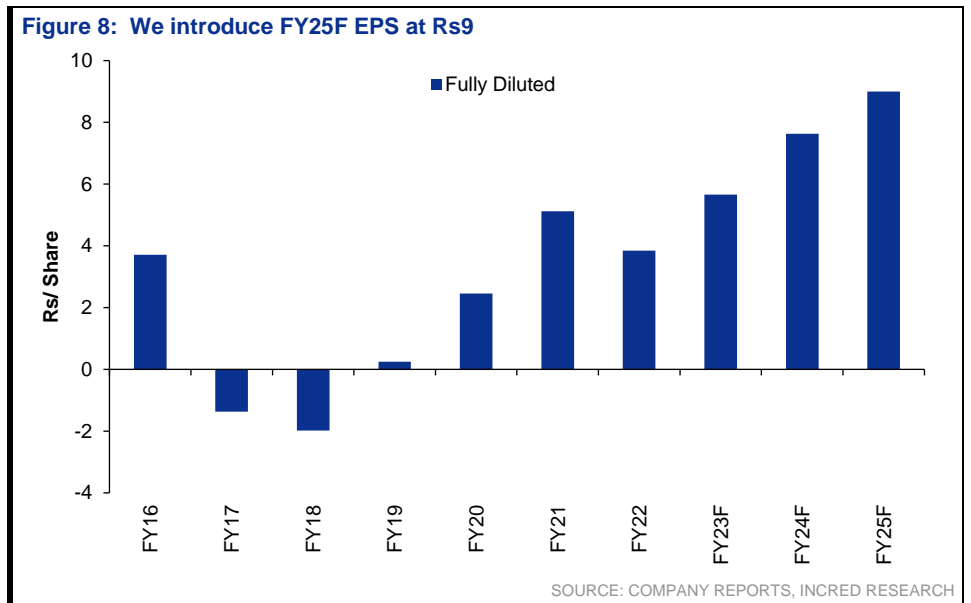


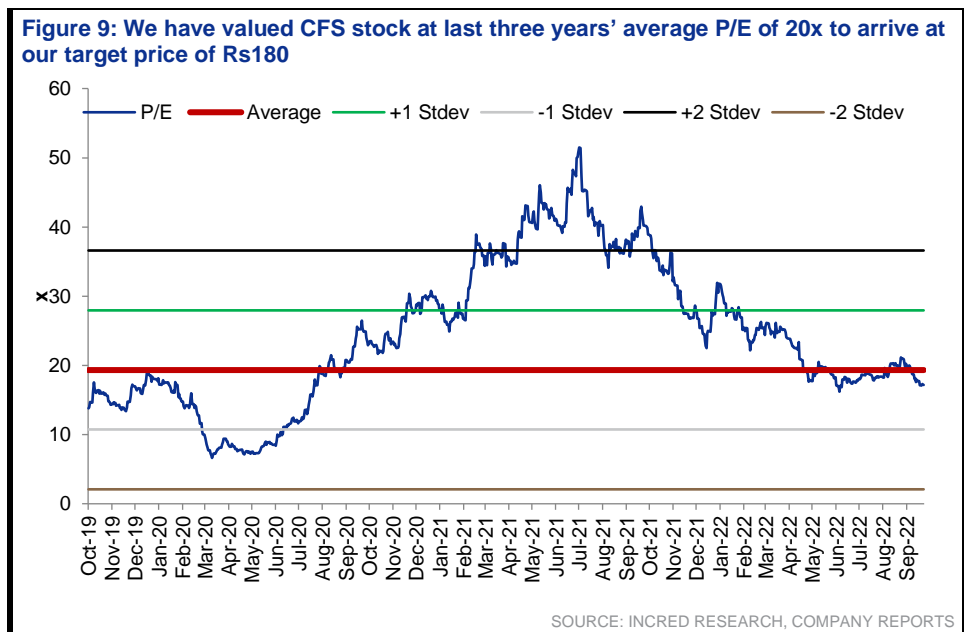
Figure 7: ...and so does its spread over raw material



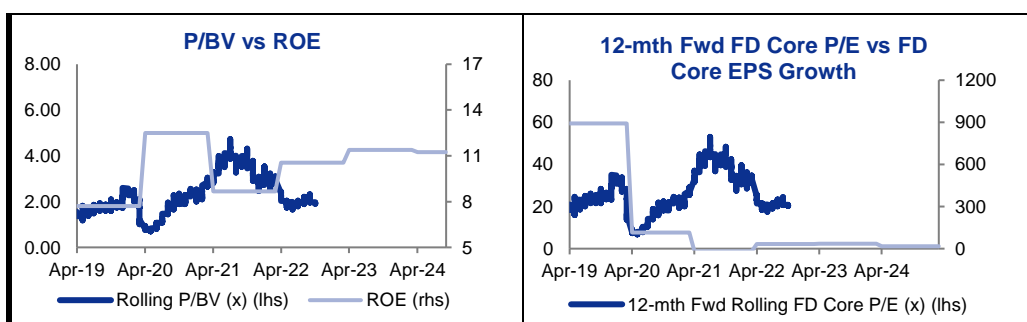
We introduce FY25F EPS at Rs9 ➤



We value CFS stock at 20x FY25F EPS to arrive at our TP of Rs180 ➤



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	11,871	14,121	15,714	17,767	19,607
Gross Profit	6,036	6,526	8,328	9,417	10,392
Operating EBITDA	1,819	1,528	2,233	2,711	3,016
Depreciation And Amortisation	(443)	(560)	(633)	(698)	(715)
Operating EBIT	1,376	968	1,599	2,014	2,301
Financial Income/(Expense)	(375)	(358)	(375)	(375)	(375)
Pretax Income/(Loss) from Assoc.		(1)			
Non-Operating Income/(Expense)	50	330	150	150	150
Profit Before Tax (pre-EI)	1,051	940	1,374	1,788	2,076
Exceptional Items					
Pre-tax Profit	1,051	940	1,374	1,788	2,076
Taxation	(397)	(336)	(346)	(451)	(523)
Exceptional Income - post-tax					
Profit After Tax	654	604	1,028	1,338	1,553
Minority Interests			(140)	(140)	(140)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	654	604	888	1,198	1,413
Recurring Net Profit	654	604	888	1,198	1,413
Fully Diluted Recurring Net Profit	654	604	888	1,198	1,413

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	1,819	1,528	2,233	2,711	3,016
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(659)	64	(2,752)	(1,600)	(1,808)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	324	(126)	300	300	300
Other Operating Cashflow	425	650	300	300	300
Net Interest (Paid)/Received	(375)	(358)	(375)	(375)	(375)
Tax Paid	(359)	(304)	(346)	(451)	(523)
Cashflow From Operations	1,174	1,454	(641)	885	910
Capex	(839)	(2,138)	(200)	(200)	(200)
Disposals Of FAs/subsidiaries	1				
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(490)	(353)			
Cash Flow From Investing	(1,329)	(2,491)	(200)	(200)	(200)
Debt Raised/(repaid)	166	672			
Proceeds From Issue Of Shares	299	948			
Shares Repurchased					
Dividends Paid	(54)	(7)	(103)	(134)	(155)
Preferred Dividends					
Other Financing Cashflow	(25)	(254)			
Cash Flow From Financing	386	1,360	(103)	(134)	(155)
Total Cash Generated	232	323	(944)	551	554
Free Cashflow To Equity	11	(364)	(841)	685	710
Free Cashflow To Firm	221	(679)	(466)	1,060	1,085

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	1,383	1,421	134	1,314	1,868
Total Debtors	2,707	2,997	3,583	4,052	4,471
Inventories	3,200	3,709	4,236	4,789	5,285
Total Other Current Assets	656	809	1,964	2,817	3,955
Total Current Assets	7,947	8,935	9,918	12,971	15,579
Fixed Assets	5,369	7,406	6,848	6,350	5,835
Total Investments	94	72	94	94	94
Intangible Assets	684	757	684	684	684
Total Other Non-Current Assets	722	831	722	722	722
Total Non-current Assets	6,869	9,065	8,349	7,851	7,336
Short-term Debt	2,169	2,349	2,169	2,169	2,169
Current Portion of Long-Term Debt					
Total Creditors	1,584	2,338	2,097	2,371	2,616
Other Current Liabilities	1,023	1,265	1,023	1,023	1,023
Total Current Liabilities	4,776	5,953	5,289	5,563	5,809
Total Long-term Debt	2,732	3,876	2,732	2,732	2,732
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	84	385	84	84	84
Total Non-current Liabilities	2,817	4,261	2,817	2,817	2,817
Total Provisions	91	136	91	91	91
Total Liabilities	7,684	10,350	8,197	8,471	8,717
Shareholders Equity	6,434	7,479	9,371	11,653	13,501
Minority Interests	697	171	697	697	697
Total Equity	7,132	7,651	10,069	12,351	14,198

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	13.1%	19.0%	11.3%	13.1%	10.4%
Operating EBITDA Growth	39.2%	(16.0%)	46.1%	21.4%	11.2%
Operating EBITDA Margin	15.3%	10.8%	14.2%	15.3%	15.4%
Net Cash Per Share (Rs)	(27.59)	(30.61)	(30.37)	(22.86)	(19.32)
BVPS (Rs)	50.46	47.65	59.70	74.23	86.00
Gross Interest Cover	3.67	2.71	4.26	5.37	6.13
Effective Tax Rate	37.8%	35.8%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	8.3%	10.0%	11.6%	11.2%	11.0%
Accounts Receivables Days	80.48	73.72	76.42	78.43	79.33
Inventory Days	193.34	166.01	196.31	197.24	199.52
Accounts Payables Days	103.88	94.24	109.58	97.63	98.76
ROIC (%)	9.6%	5.8%	9.3%	10.1%	10.7%
ROCE (%)	12.7%	7.4%	11.0%	12.4%	12.6%
Return On Average Assets	6.5%	5.1%	7.2%	8.3%	8.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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