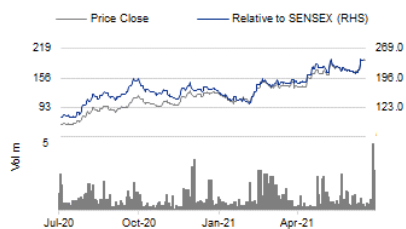


## India

**ADD** (Initiating coverage)

Consensus ratings*:	Buy 3	Hold 0	Sell 0
Current price:	Rs193		
Target price:	Rs225		
Previous target:	NA		
Up/downside:	16.6%		
InCred Research / Consensus:	0.8%		
Reuters:	CAMF.BO		
Bloomberg:	CFIN IN		
Market cap:	US\$331m		
	Rs24,663m		
Average daily turnover:	US\$1.8m		
	Rs132.9m		
Current shares o/s:	127.5m		
Free float:	83.3%		

\*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	8.9	40.2	244.9
Relative (%)	7.8	31.7	139.3

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

**Correction: Added fundamental reason for rating and amended the valuation for consistency.**

## Analyst(s)


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# Camlin Fine Sciences

## Backward integration to drive profit growth

- CFS's EPS grew 21.6% CAGR, due to backward integration, and revenue by 12.6% CAGR over FY21-24F, resulting in higher EBITDA margin.
- Manufacturing hydroquinone and catechol at its captive capacities will drive the bulk of CFS's savings.
- We value CFS at 22.5x Jun-23F EPS to arrive at our Jun-22F TP of Rs225. We initiate coverage on CFS with an Add rating.

### Specialty chemical company with resilient revenue growth

Camlin Fine Sciences (CFS) is a specialty chemicals company. CFS has three broad business segments – Aroma Products, Shelf-Life Solutions and Performance Chemicals. Shelf Life Solutions are essentially antioxidants used in food and beverages as well as in animal feed. In this segment, CFS has ascorbyl palmitate, tertiary butylhydroquinone (TBHQ), butylated hydroxy anisole (BHA), and blends of chemicals. Performance chemicals are used in dyes and pigments, pharmaceuticals, and the agrochemical industries. Hydroquinone monomethyl ether (MEHQ), guaiacol, veratrole, etc, fall in this segment. Aroma Chemicals, like vanillin, guethols, etc, are used in fragrances. Most of CFS's products are daily consumption items, hence demand for these products remains resilient. CFS's revenue growth CAGR was 19.4% CAGR over FY16-21, and we expect the company to deliver 12.6% revenue CAGR over FY21-24F.

### Backward integration to expand EBITDA margin, in our view

Until a few quarters ago, CFS depended on raw materials it purchased like HQ and catechol to manufacture its products. However, with the commissioning of a 10,000-tonne diphenol (base chemical) plant in Dahej in 4QFY21 (Source: Company website), CFS has captive raw materials which will help reduce its cost of production. Also, establishing vanillin capacity will result in value addition in guaiacol and EBITDA accretion of Rs330m in FY24F. On an overall basis, we expect backward integration and better product selection to result in the company's EBITDA margin expanding by 360bp over FY21-24F, driving EPS CAGR of 21.56%, in our view.

### We value CFS at 22.5x one-year forward EPS to arrive at TP of Rs225

We initiate coverage on CFS with an Add rating and value it at 22.5x Jun FY23F EPS to arrive at a TP of Rs225 as we believe 1) cost savings due to captive HQ and catechol will expand EBITDA margins by FY23F, 2) the company's vanillin capacity expansion will lead to sustained EPS growth in FY24F, and 3) cost savings due to captive HQ will ensure CFS is better placed vis-à-vis its competition in the domestic market **Risks:**1) A rise in prices of these commodities will lead to a decline in margins, hence EPS. 2) The delay in ramp up of already commissioned capacity in Dahej will be negative for our EPS estimates and target price. 3) Until now CFS and Clean Science and Technology (Not Rated, Unlisted) have competed for market share in MEHQ markets, but pricing competition could hurt CFS's profitability, and our EPS estimates could see downside.

### Financial Summary

	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (Rsm)	10,491	11,871	13,240	14,840	16,946
Operating EBITDA (Rsm)	1,307	1,819	2,180	2,614	3,199
Net Profit (Rsm)	298	514	870	1,161	1,595
Core EPS (Rs)	2.5	4.1	6.8	9.1	12.5
Core EPS Growth	892.3%	67.8%	65.3%	33.4%	37.3%
FD Core P/E (x)	78.57	46.81	28.32	21.22	15.45
DPS (Rs)	0.2	0.3	0.6	0.8	1.1
Dividend Yield	0.12%	0.22%	0.41%	0.53%	0.70%
EV/EBITDA (x)	22.54	15.86	13.41	10.82	8.45
P/FCFE (x)	50.25	2,166.91	(89.83)	22.56	17.58
Net Gearing	92.3%	49.3%	49.3%	32.8%	16.5%
P/BV (x)	5.81	3.83	3.42	2.99	2.55
ROE	7.7%	9.8%	12.8%	15.0%	17.8%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)			0.88	0.81	0.99

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS. PRICED AS AT 06 JUL 2021

# Backward integration to drive profit growth

## Business analysis

Camlin Fine Sciences has operations in India, China, Mexico, Europe, North America and Brazil. The company manufactures various products from phenol. Some of CFS's products are diphenols (hydroquinone and catechol), ascorbyl palmitate, blends, TBHQ (tertiary butylhydroquinone), BHA (butylated hydroxy anisole), MEHQ (hydroquinone monomethyl ether), guaiacol, vanillin, veratrole, guethol, etc.

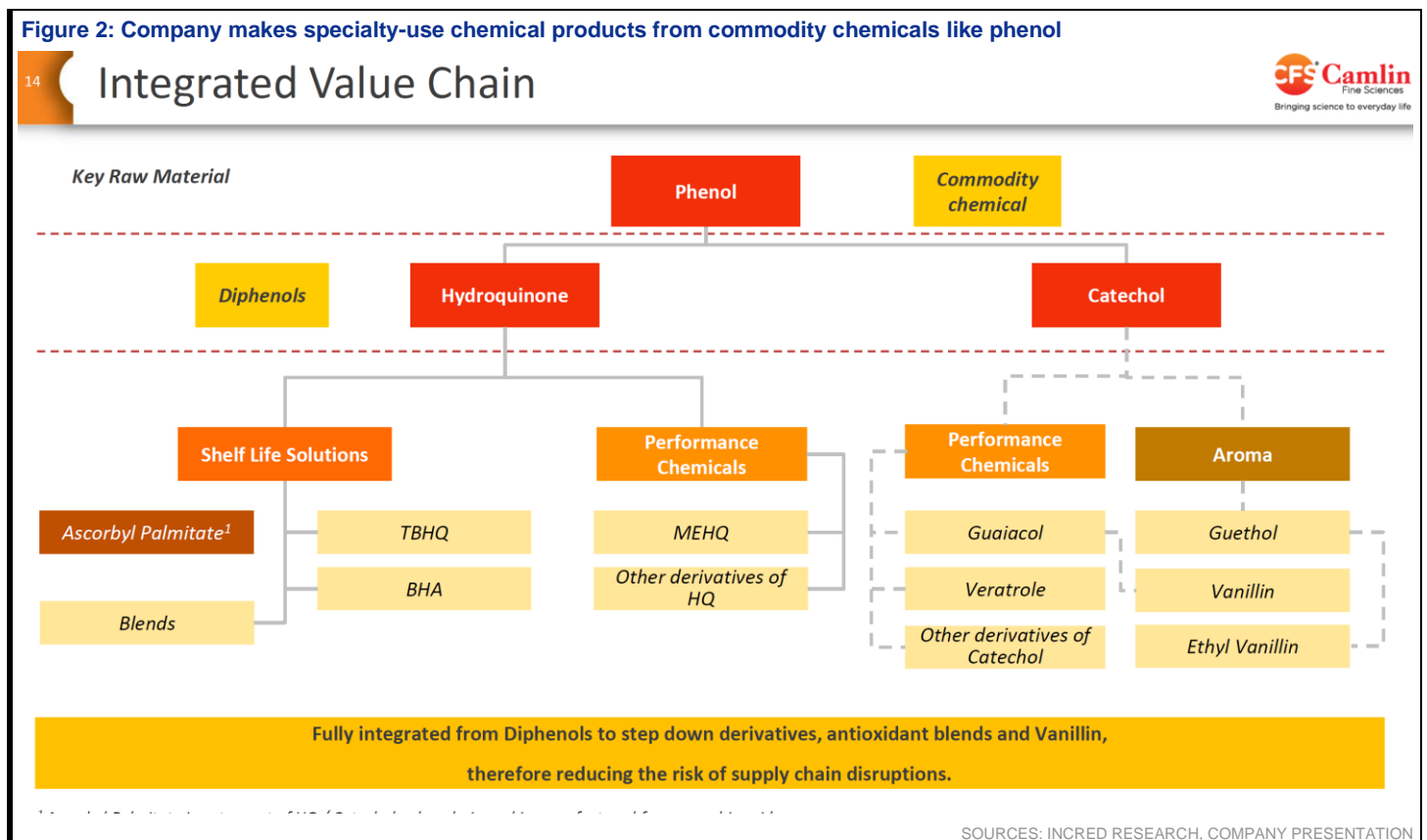
### Camlin Fine Sciences has wide geographical presence ➤

**Figure 1: CFS India commissioned a 10,000-tonne diphenol (base chemicals) plant in Dahej in 4QFY21**

Countries	CFS India	CFS Mexico	CFS Europe	CFS Brazil	CFS Wang long	CFS North America
Products	Shelf Life Solutions, Aroma and Performance Chemicals, Backward integration in diphenol	Shelf Life Solutions	Shelf Life Solutions, Performance chemicals	Shelf Life Solutions	Vanillin	Shelf Life Solutions
Capacities	15,000 tonnes for chemicals and 10,000 tonnes for diphenol	12,000 tonnes	12,000 tonnes	6,000 tonnes	4,200 tonnes	NA

SOURCES: COMPANY PRESENTATIONS, INCRED RESEARCH

### Camlin Fine Sciences makes value-added products from the base commodity chemical phenol ➤



**CFS's sales can be divided into three broad categories ➤**

Figure 3: CFS revenue can be divided into three broad segments



**Shelf Life Solutions**

Shelf Life Solutions are aimed at increasing the shelf life and preserving the colour, freshness and safety of food products. The addressable market caters to human food, pet food, animal nutrition, aquaculture and the biodiesel industry. These solutions are feed safety solutions and health and performance solutions which are made from synthetic antioxidants like TBHQ, BHA or natural antioxidants like rosemary extract and green tea. The addressable market caters to the human food, pet food, animal nutrition, aquaculture and biodiesel industries and is worth about US\$6bn-7bn globally in value terms as at FY21 (Source: Clean Science DRHP).

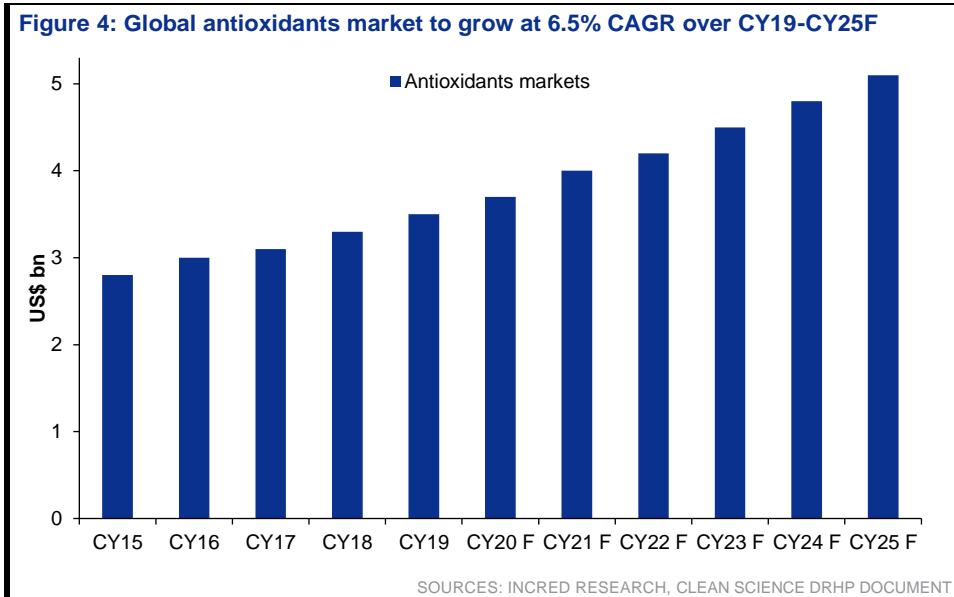
**Shelf Life Solutions are essentially antioxidants ➤**

Antioxidants are man-made or natural substances that may prevent or delay some types of cell damage. Antioxidants are found in many foods, including fruits and vegetables. They are also available as dietary supplements.

**Global antioxidants market in CY19 was US\$3.5bn in size ➤**

Global antioxidant market was US\$3.5bn in size in CY19 and grew at 5.8% CAGR over CY15-CY19. It is projected to grow at 6.5% CAGR over the next six years, i.e., CY19-CY25F.

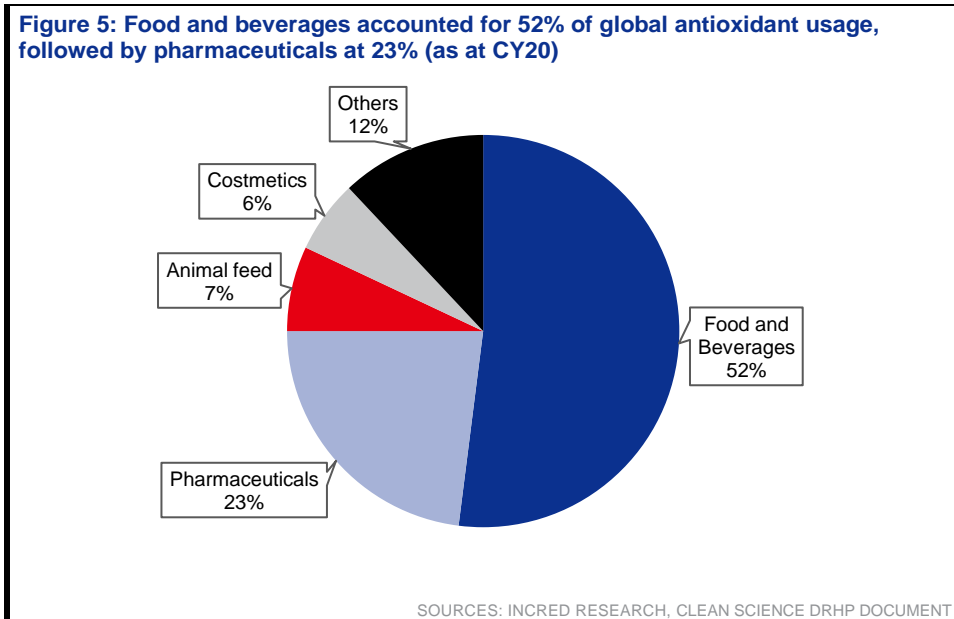
**Figure 4: Global antioxidants market to grow at 6.5% CAGR over CY19-CY25F**



**Primary application of antioxidants is in food and beverages, pharmaceuticals and animal feed >**

Food and beverages have the lion’s share of the global antioxidants market. Animal feed is a growing segment, particularly in Asia-Pacific (APAC) countries.

**Figure 5: Food and beverages accounted for 52% of global antioxidant usage, followed by pharmaceuticals at 23% (as at CY20)**



**TBHQ and BHA are the main chemicals for CFS in the antioxidants segment >**

Globally, BHT (butylated hydroxytoluene), TBHQ and BHA are the principal antioxidants for Camlin. Camlin Fine Sciences manufactures TBHQ and BHA. BHA and BHT are two structurally-related lipophilic compounds generally used as antioxidants. EQ, the third compound, is one of the best-known feed antioxidants for domestic animal and fish feed. Its advantage is its high antioxidant capacity and low production costs. CFS intends to use BHA as an antioxidant in feed for all animal species and categories, except dogs. TBHQ is primarily used in food preservatives.

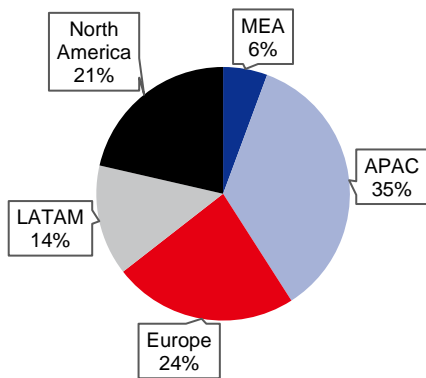
**TBHQ is used in F&B, while BHA is used in animal feed ➤**

TBHQ is a preservative used in food and beverages. BHA is primarily used in the animal feed industry. TBHQ growth is likely to be driven by the increase in packaged food demand in a post COVID-19 world, whereas BHA is likely to be driven by animal feed demand growth.

**APAC likely to lead animal feed demand growth at 6% CAGR, but India market growth likely to be 14% CAGR for CY19-25 ➤**

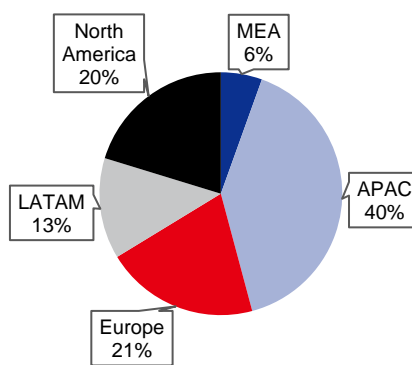
APAC is likely to be the key growth driver of the global animal feed market. It is likely to grow at 6% CAGR, while the global market is likely to grow at 3.7% CAGR over CY19-25 (Source: Clean Science DRHP). Indian market growth at 14% CAGR over CY19-25 is projected to outshine APAC's (Source: Clean Science DRHP). As BHA is primarily used in animal feed antioxidants, it is likely to do well for Camlin Fine Sciences.

**Figure 6: Global animal feed market was US\$425bn in CY19, with APAC forming 35% of global demand**



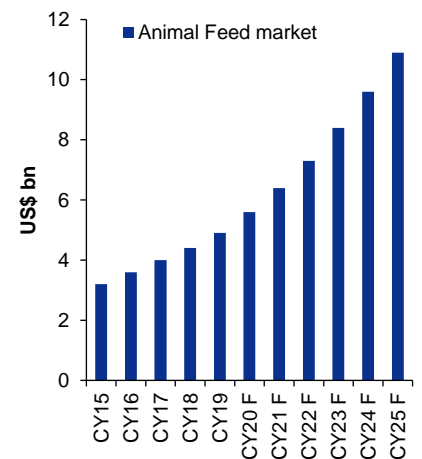
MEA = MIDDLE EAST REGION  
SOURCES: INCRED RESEARCH, CLEAN SCIENCE DRHP

**Figure 7: APAC is likely to contribute 60% of incremental demand over CY19-25 (6% CAGR)**



SOURCES: INCRED RESEARCH ESTIMATES, CLEAN SCIENCE DRHP

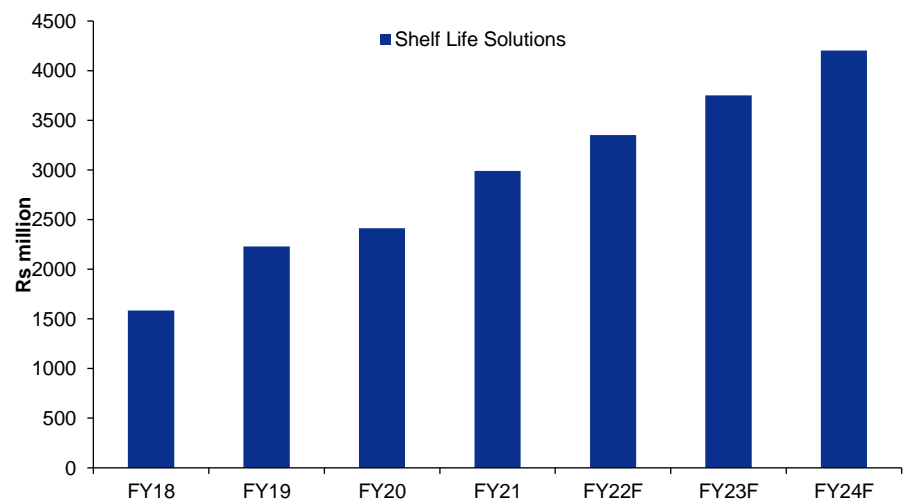
**Figure 8: Indian animal feed market is likely to grow faster at 14% CAGR**



SOURCES: INCRED RESEARCH ESTIMATES, CLEAN SCIENCE DRHP

**CFS is well positioned in TBHQ and BHA, Shelf Life Solutions segment to grow at 12% CAGR over next 3 years ➤**

**Figure 9: Driven by tailwinds in TBHQ and BHA, CFS's Shelf Life Solutions division is likely to clock 12% CAGR in revenue over FY21-24F**



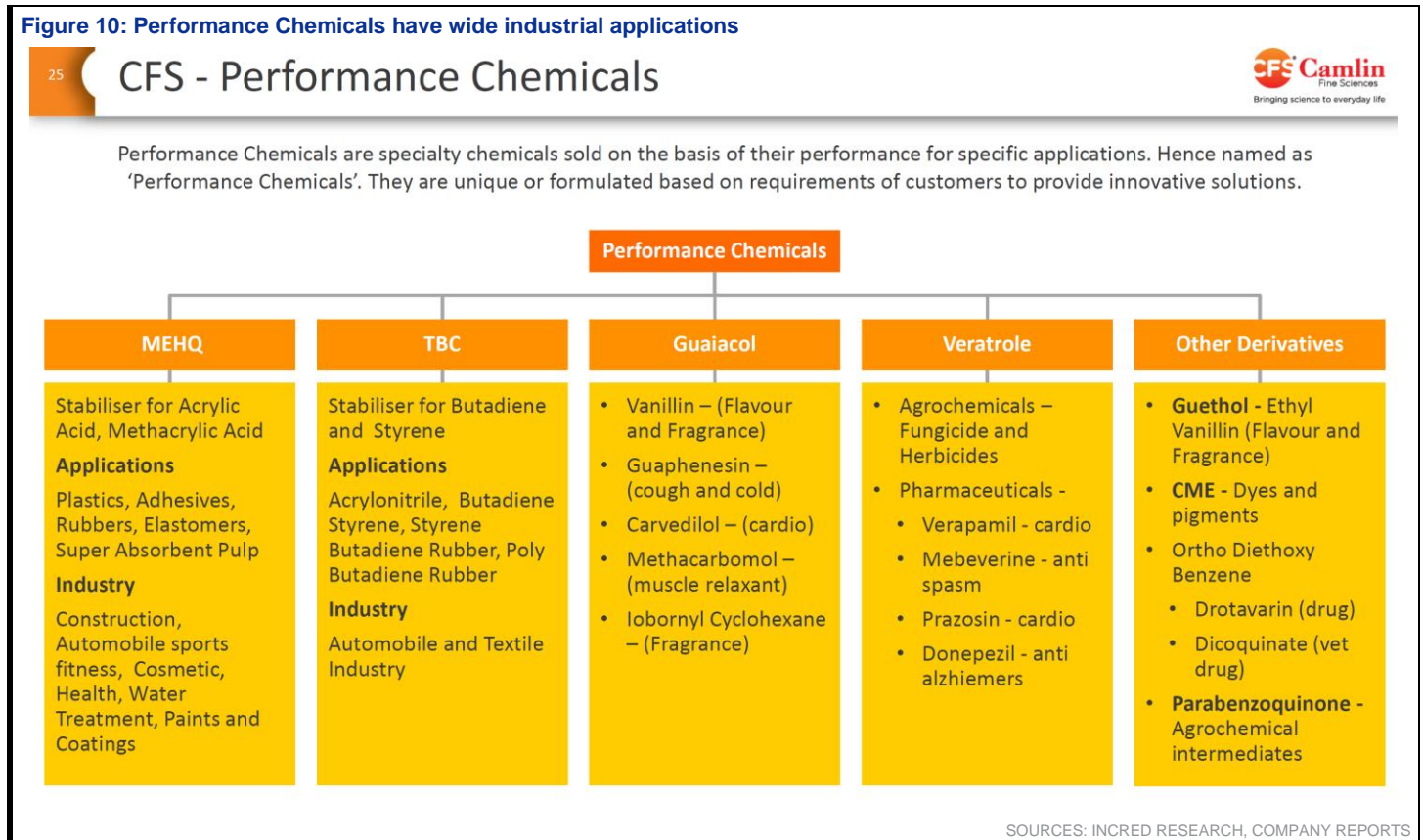
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

## Performance Chemicals

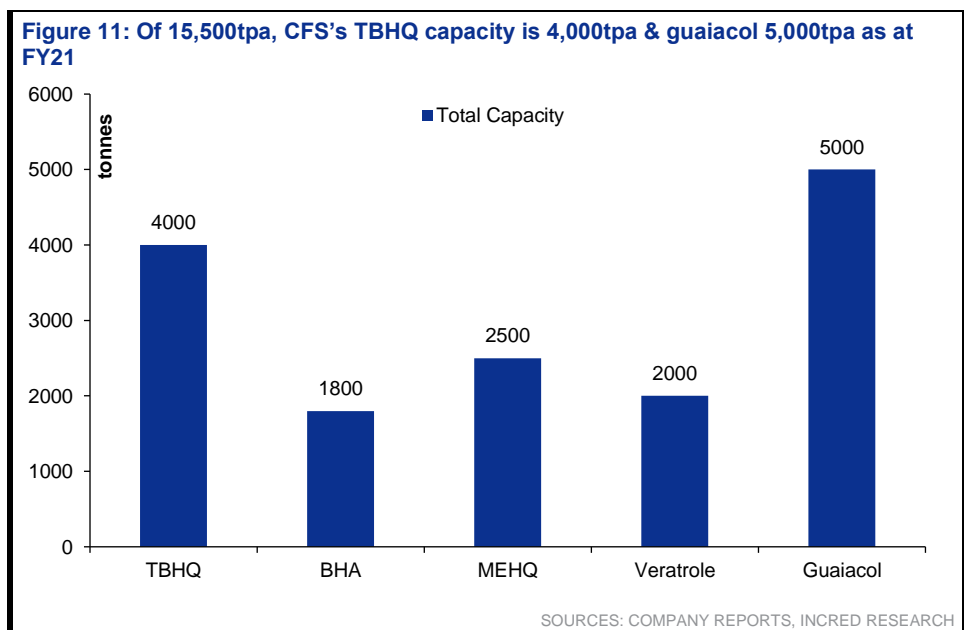
CFS's Performance Chemicals are HQ (hydroquinone), catechol and their downstreams. CFS's main chemicals in this segment are TBC (4-tert-Butylcatechol), veratrole, HQEE (hydroquinone bis (2-hydroxyethyl) ether), MEHQ (4-methoxyphenol), guaiacols, PDMB (1-4 di methoxy benzene), TBHQ (tertiary butylhydroquinone), guethols, and PBQ (1,4-benzoquinone).

**Performance Chemicals are used in larger industrial applications ➤**

Figure 10: Performance Chemicals have wide industrial applications



**CFS's overall Performance Chemical capacity is 15,500 tpa ➤**



**Backward integration in HQ & catechol could be margin accretive ➤**

CFS manufactures diphenol (hydroquinone and catechol) at its Dahej facility. Its manufacturing capacity is ~10,000 tonnes per annum (tpa). CFS makes HQ and catechol using phenol, acetone, hydrogen peroxide, phosphoric acid, methyl isobutyl ketone, and catalysts. Using the spot price of all ingredients, we have calculated CFS's potential savings using captive catechol output over the years. On an average CFS would have saved Rs40/kg annually because import substitution could be worth Rs120m over FY21F.

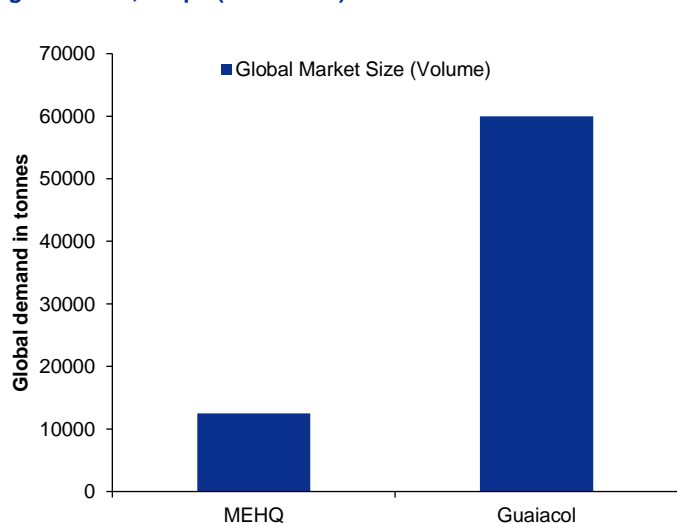
**Figure 12: Cost savings from backward integration in HQ and catechol could be Rs40/kg on average**



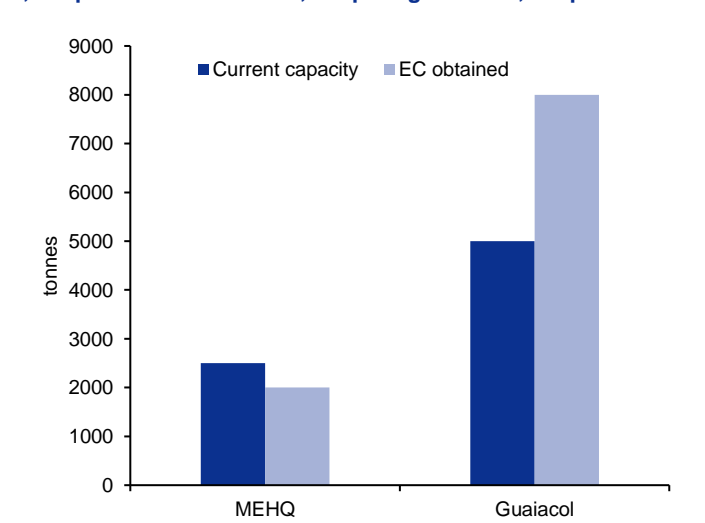
**Indian companies like CFS are leading the field in guaiacol, MEHQ-like performance chemicals manufacturing ➤**

CFS has an MEHQ capacity of 2,500tpa and guaiacol capacity of 5,000 tpa. It has obtained environmental clearances (EC) for 2,000tpa of MEHQ and 8,000tpa of guaiacol capacity. The company now has the capability to manufacture diphenol 10,000tpa in India and 10,000tpa in Italy. It has obtained an EC to expand diphenol capacity by a further 8,000tpa.

**Figure 13: Global market size of MEHQ is 12,500tpa and guaiacol 60,000tpa (as at CY19)**



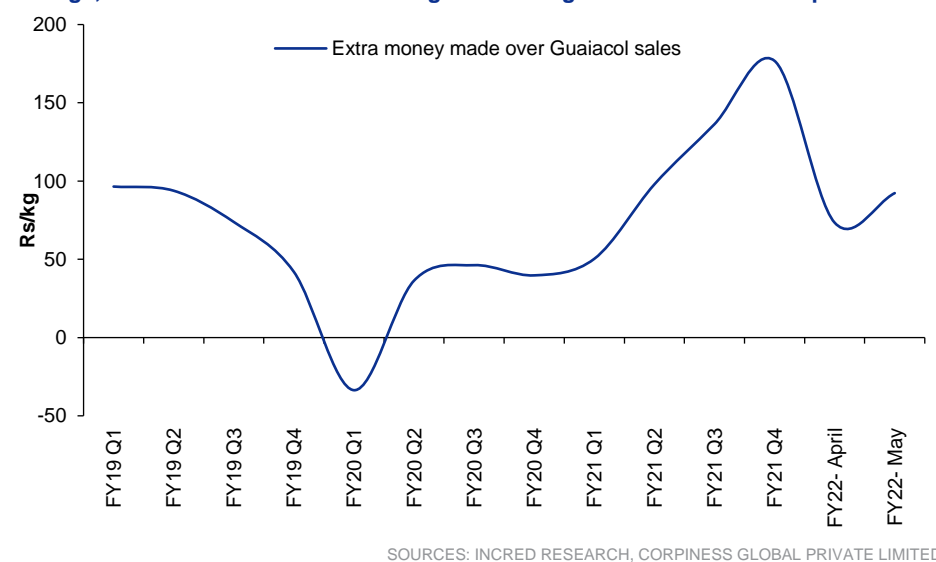
**Figure 14: Current capacity of MEHQ is 2,500tpa & of guaiacol 5,000tpa. EC for MEHQ is 2,000tpa & guaiacol 2,000tpa**



### Guaiacol is primarily used to manufacture vanillin; increase in vanillin capacity likely to be margin accretive again ►

Vanillin is a more value-added product than guaiacol. Vanillin can be manufactured with guaiacol, caustic soda, glyoxylic acid, sulphuric acid, fresh toluene, and fresh IPA.

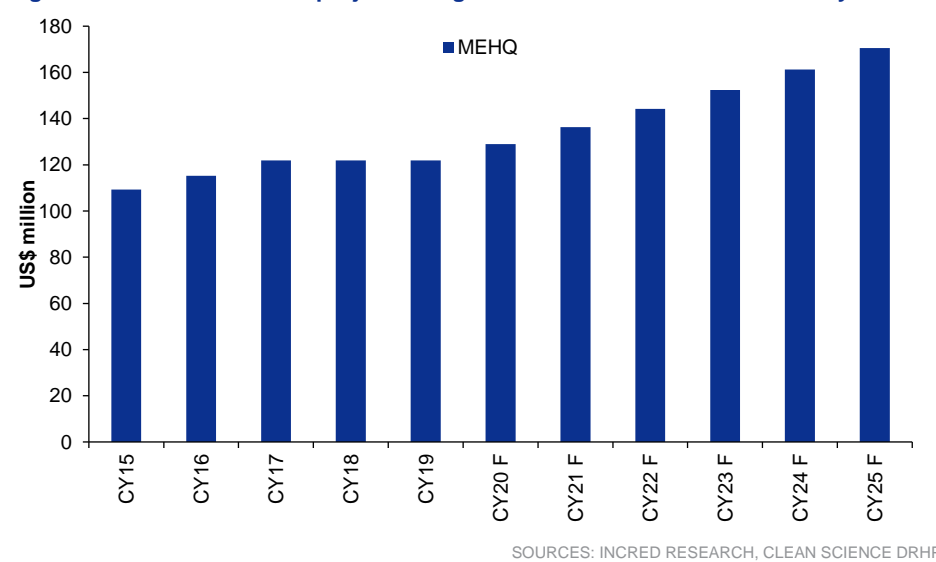
**Figure 15: Making vanillin could be a margin-accretive transaction for CFS. On average, CFS would have made Rs73/kg extra over guaiacol in the last 13 quarters**



If CFS converts all its existing guaiacol capacities to vanillin, then it could make an extra Rs337 p.a. in coming years.

### MEHQ has multiple uses and its demand could grow at 5-6% CAGR (CY20-CY25F) globally ►

**Figure 16: MEHQ demand is projected to grow at 5-6% CAGR over the next 6 years**



Mono methyl ether of hydroquinone or MEHQ is an organic compound and synthetic derivative of hydroquinone. CFS manufactures MEHQ through hydroquinone routes. There are multiple applications for MEHQ.

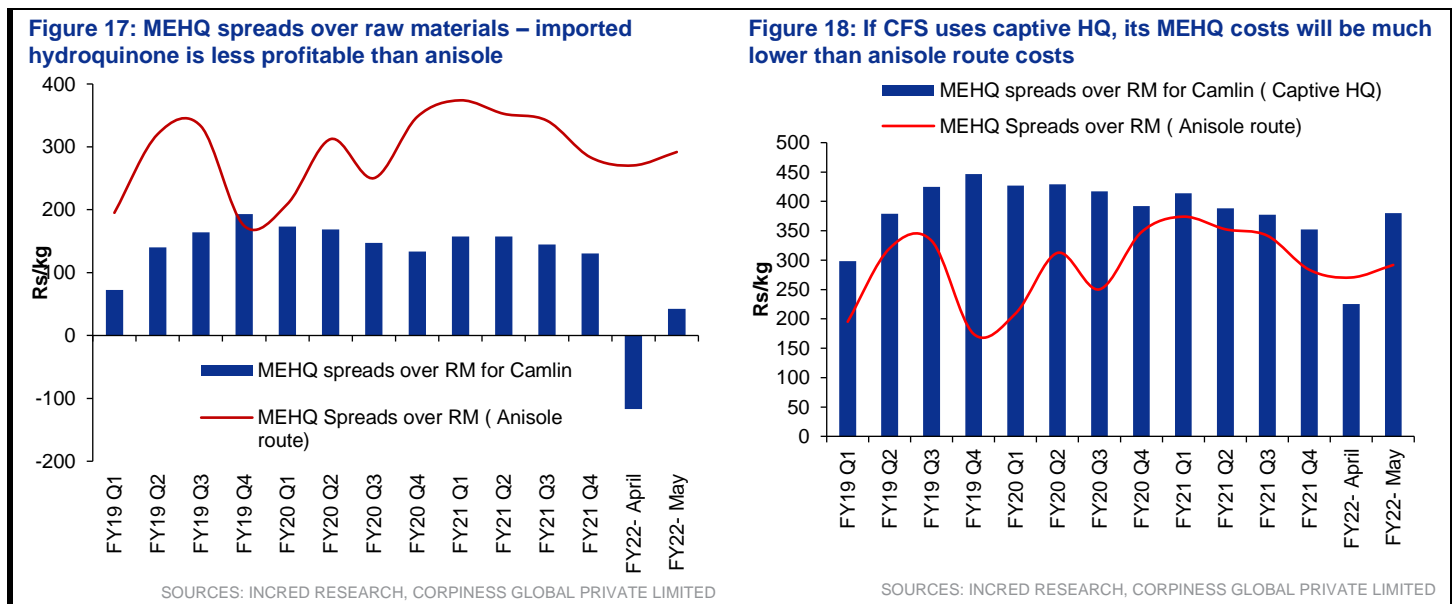
1. Dermatology
2. Polymers & Monomers
3. Ink
4. Agrochemicals
5. MEHQ is also used as an intermediate to manufacture BHA



On a geographic basis, the APAC region dominated the market in 2019 and is likely to grow at a rate of 6.2% over CY19-25 (Source: Clean Science DRHP). The APAC region's market dominance is due to the growing demand for MEHQ in countries such as China and India, due to the growth of end-user industries that include agrochemicals, polymers, and cosmetics industries, among others.

### MEHQ spread over raw material is better with HQ than anisole route ➤

CFS uses the hydroquinone route to manufacture MEHQ, but the anisole route could be used too. Pure MEHQ spreads over raw materials for CFS (using captive HQ) is at least 30% above the anisole route. We have assumed guaiacol credits for the anisole route but are unable to ascertain the benefits of better catalyst and gaseous phase reactions.



### Backward integration for HQ will be EBITDA accretive for TBHQ ➤

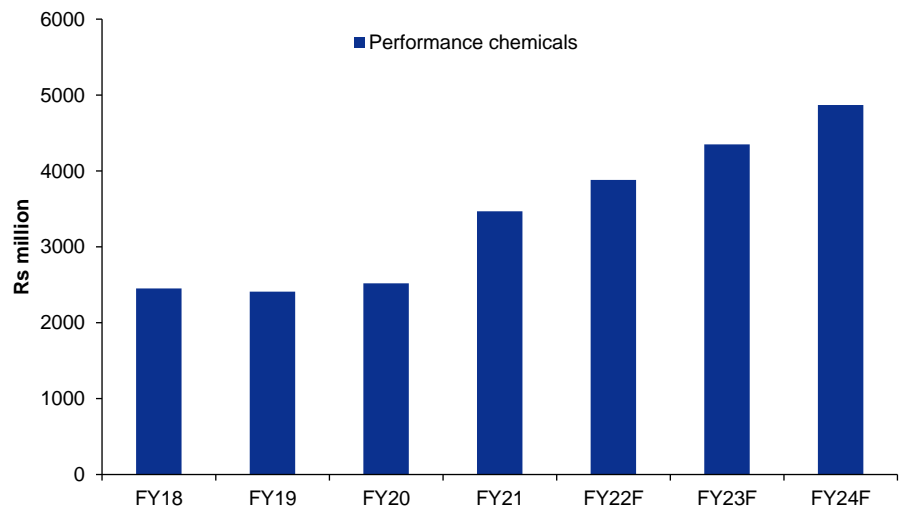
Using captive hydroquinone is essential for TBHQ's economic operations. Captive hydroquinone will lead to significant savings for the company as captive HQ costs are at least Rs200/kg lower than imported HQ. Overall savings because of captive HQ could be about Rs500m per annum.

### Volume growth Performance Chemicals could be ~12% over FY21-24F, but profitability could be higher than past years ➤

While volume growth in this segment will be limited to the early double digits, profitability could be higher due to:

- Backward integration to diphenol, which could eliminate the need to import/purchase catechol. Captive catechol could add Rs130m in savings to EBITDA.
- Selling 6,000tpa of vanillin instead of 4,500tpa of guaiacol could incrementally add at least Rs300m to EBITDA. However, we believe the full benefit of vanillin could accrue only from FY24F.

**Figure 19: We expect Performance Chemicals to deliver ~12% CAGR revenue growth over FY21-24F**

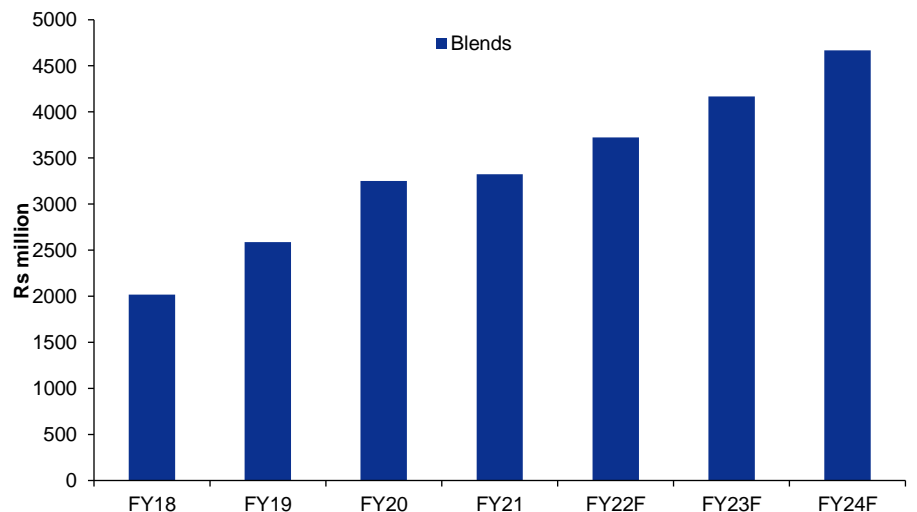


SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Growth rate of blends to be similar to Shelf Life segment’s ➤**

Blends are essentially shelf life products in different mixtures. Hence, growth in the blends segment will be similar to that of the shelf-life segment. Therefore, we have assumed 12% topline growth CAGR over FY21-24F, in line with the shelf-life segment’s volume growth assumptions.

**Figure 20: We estimate blends will deliver 12% revenue CAGR over FY21-24F**



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Aroma Chemicals**

CFS manufactures vanillin, ethyl vanillin and guethol in this segment. Vanillin is the key product in this segment. CFS manufactures vanillin through the guaiacol route, while producing it through anisole is an alternative method.

**Vanillin is used in Aroma Chemical products, but has widespread pharmaceutical applications too ➤**

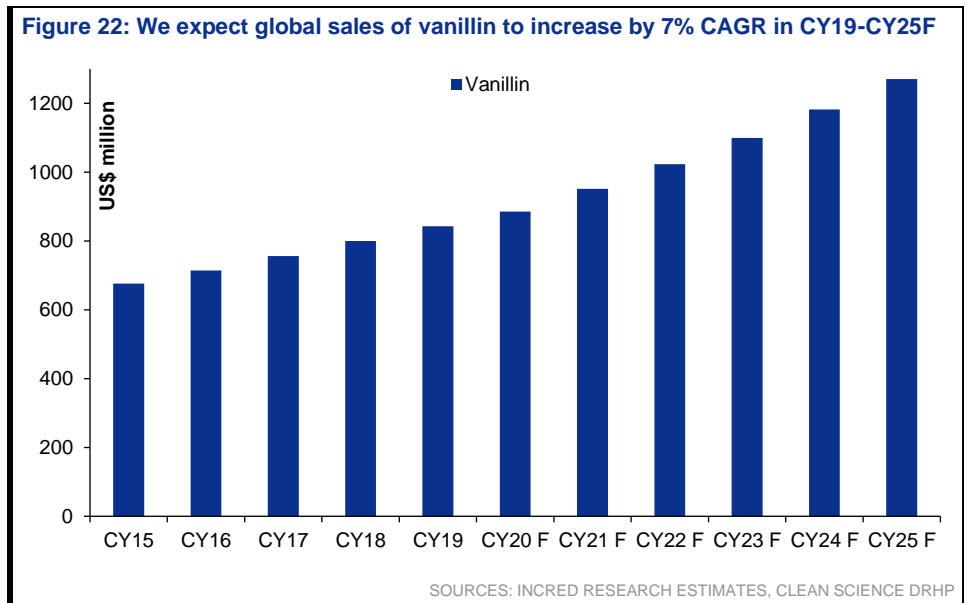
Vanillin has widespread usage in the pharmaceutical segment. It is used as an intermediary for various agrochemicals as well.

**Figure 21: Vanillin has widespread applications in pharmaceuticals**

Formulations	API	Application	CY15	CY19	Growth CAGR
Aldomet and similar	Methyldopa	Aldomet is a prescription medicine used to treat symptoms of high blood pressure (hypertension), renal impairment and hypertensive crisis. Methyldopa is the active ingredient in Aldomet.	9	30	-13.0%
L-dopa, L- methyldopa and similar	Dopamine	Levodopa (L-Dopa) is an amino acid precursor of dopamine and is the most effective and commonly used drug in the treatment of Parkinson's disease.	19	1	-11.8%
Trimethoprim and similar	Trimethoprim	Trimethoprim is an antibiotic used to treat bacterial infections. It works by stopping the growth of bacteria. Trimethoprim eliminates bacteria that causes urinary tract infections.	174	201	-18.5%
-	Berberine	Berberine is the most commonly drug taken for diabetes, high levels of cholesterol or other fats (lipids) in the blood (hyperlipidaemia), and high blood pressure. Ortho vanillin (o-vanillin) is a kind of isomers of vanillin that can be used to synthesise berberine.	-	-	-
Injectable and oral doses	Papaverine	Papaverine is an opium alkaloid antispasmodic drug used primarily to treat visceral spasms and vasospasms (especially those involving the intestines, heart, or brain), and occasionally in the treatment of erectile dysfunction.	46	0.2	32.7%

API = ACTIVE PHARMACEUTICAL INGREDIENTS  
SOURCES: INCRED RESEARCH, CLEAN SCIENCE DRHP

**Vanillin showed robust growth of 5.6% over the last 4 years ➤**



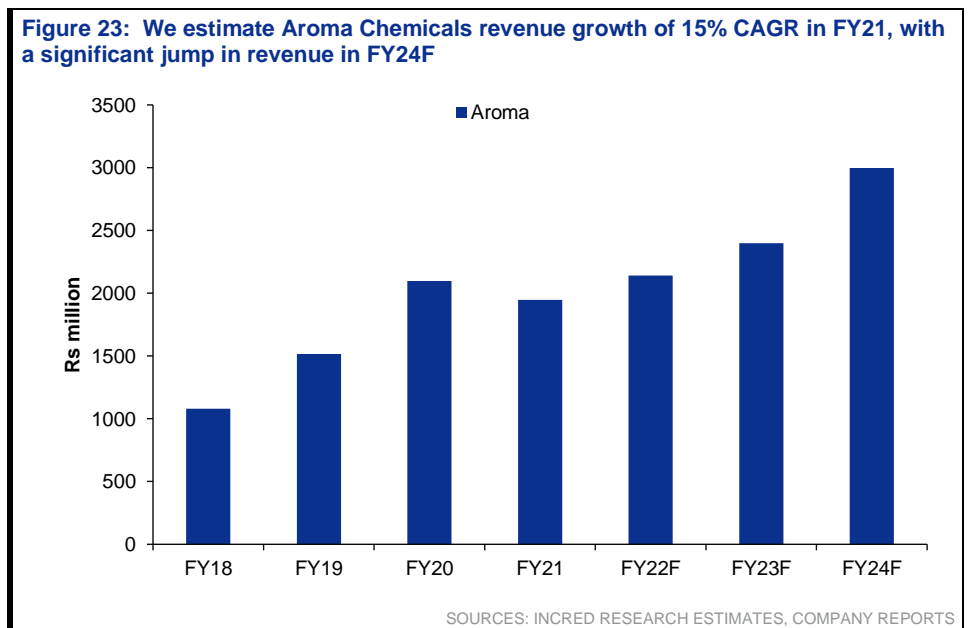
**CFS is one of the top global manufacturers of vanillin ➤**

These companies are key manufacturers of vanillin globally:

1. Solvay (Belgium),
2. Jiaying Zhonghua (China),
3. Camlin Fine Sciences (India),
4. Borregaard (Norway),
5. Thrive Fine Chemical Company (Chongqing, China)

**Apart from its Wanglong capacity, CFS is raising its vanillin capacity in India by 6,000 tonnes ➤**

CFS has a 4,200-tonne vanillin manufacturing capacity in China. It is also expanding its guaiacol-based vanillin making capacity in India by 6,000 tonnes. We expect the full benefit of capacity expansion to accrue in FY24F.

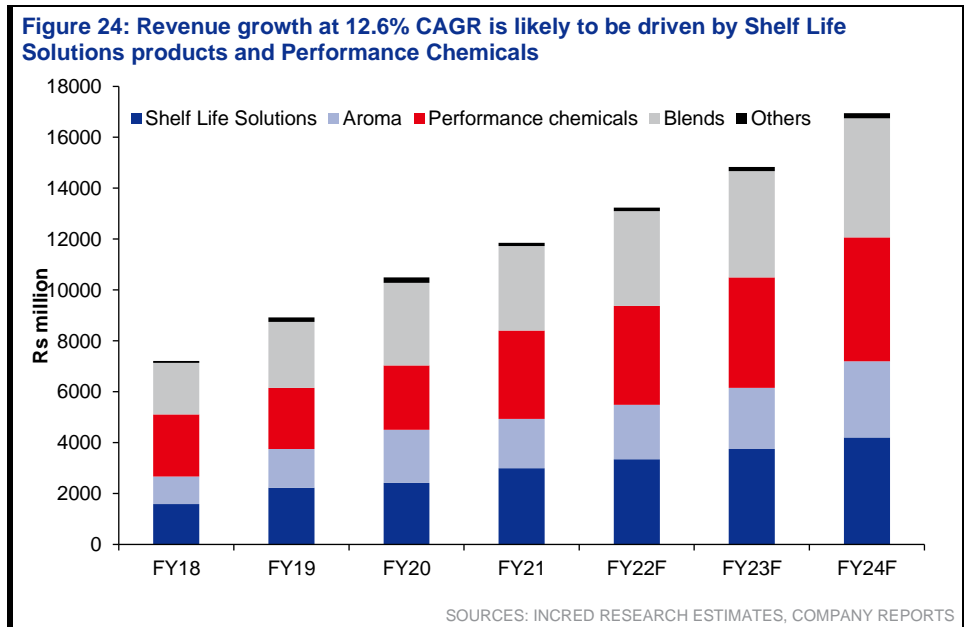


## Earnings and valuation

We forecast revenue CAGR of 12.6% over FY21-24F. However, because of cost savings due to using captive hydroquinone and catechol, EBITDA margins will expand from 15.3% in FY21 to 18.7% in FY24F, in our view. Consequently, we expect EPS to grow at 38.5% CAGR over FY21-24F.

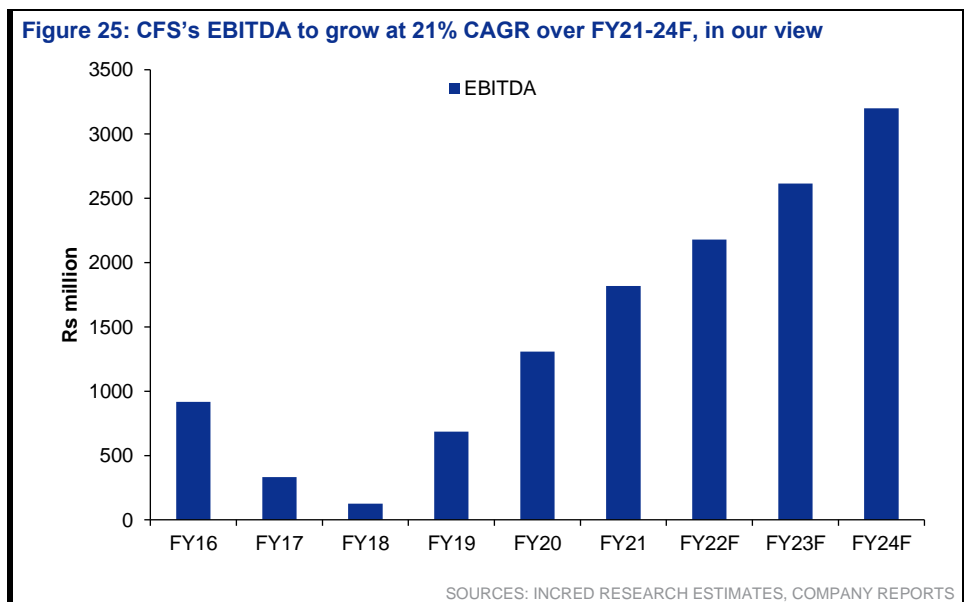
### We forecast revenue growth at 12.6% CAGR over FY21-24F ➤

All segments are likely to contribute to the company’s revenue growth. We forecast Shelf Life Solutions and blends revenue CAGR over FY21-24F to grow at 12%, Aroma Chemicals at 15.5%, and Performance Chemicals at 12%.



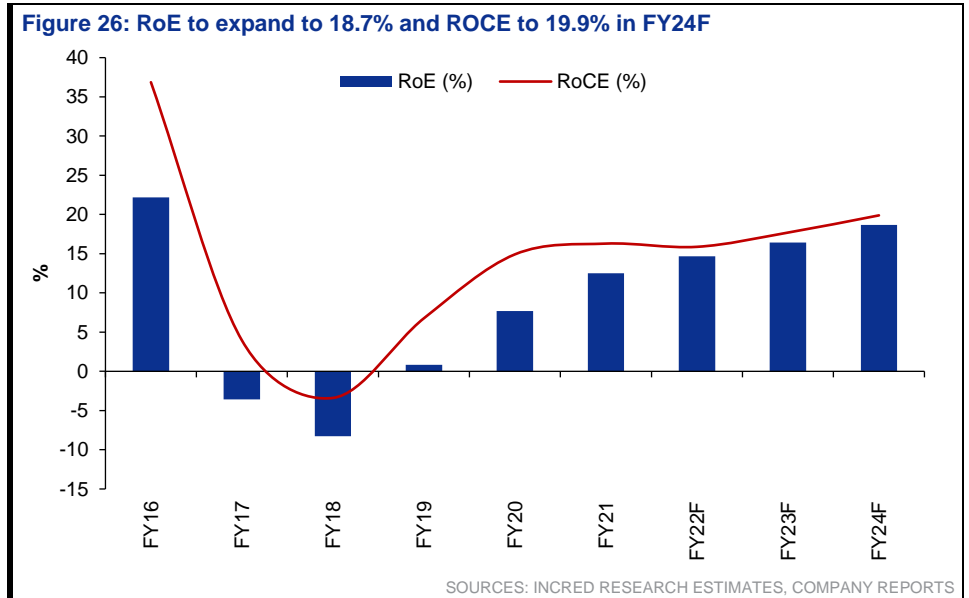
### Cost savings because of captive HQ/ catechol is likely to drive EBITDA growth of 21% CAGR over FY21-24F ➤

Captive HQ will lower production costs for TBHQ by Rs500m and catechol costs by Rs130m. These cost savings will drive overall EBITDA growth of 21% CAGR over FY21-24F, in our view.



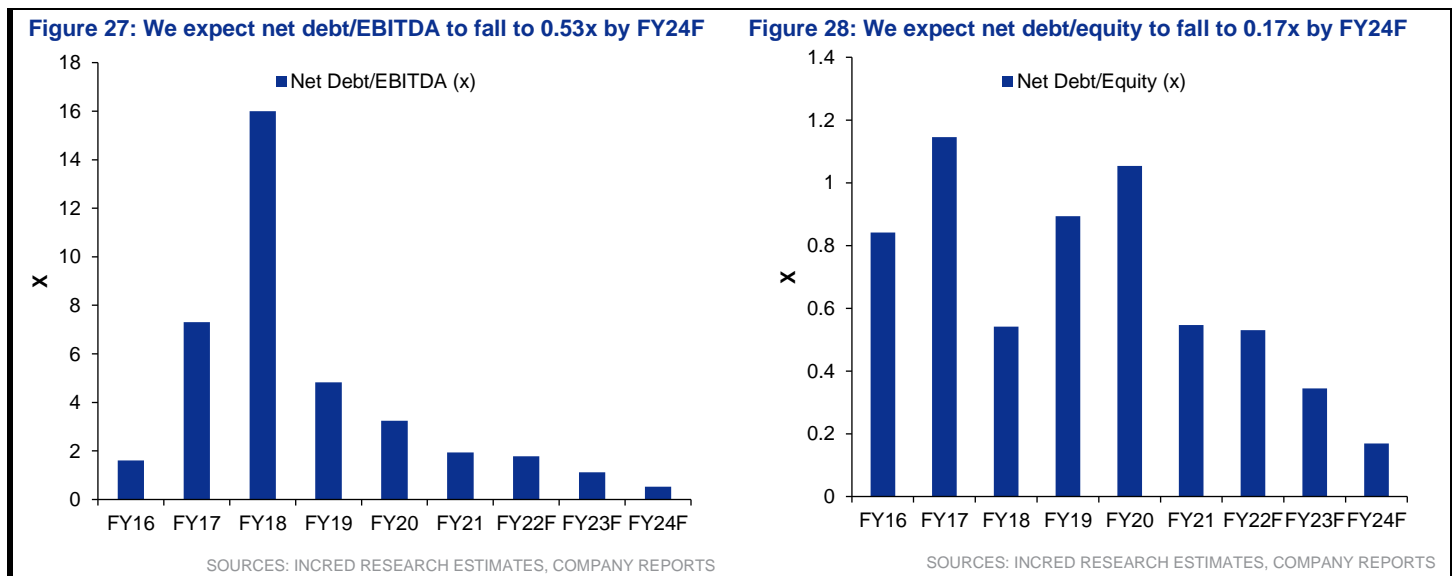
### RoE and ROCE will expand going forward, in our view ➤

We believe higher EBITDA margins will drive RoE and ROCE expansion going forward.



### Balance sheet to deleverage, in our view ➤

Higher cash generation and profitability will likely lead to deleveraging of the balance sheet in coming years. We expect net debt/EBITDA to fall to 0.53x by FY24F and net debt/equity to fall to 0.17x by FY24F.

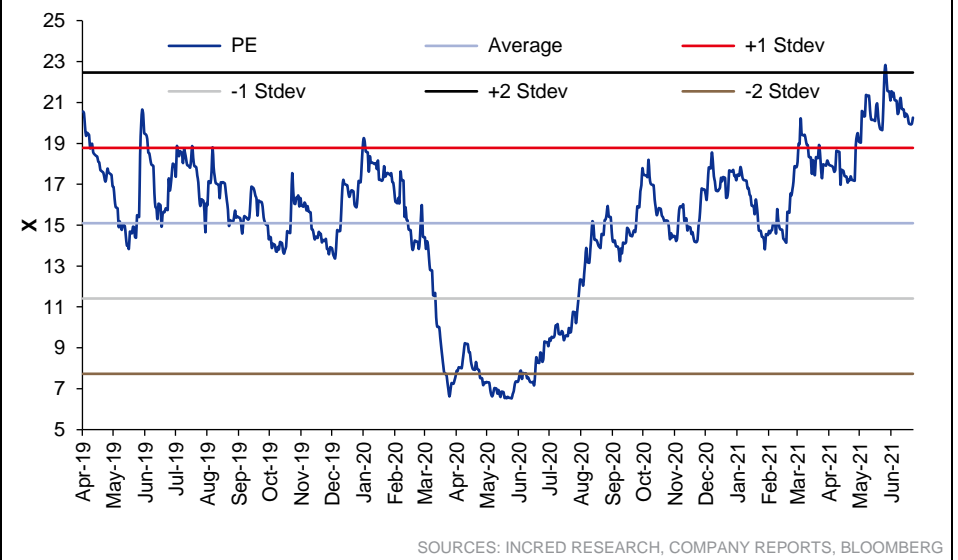


### We believe P/E is best method to value chemical companies ➤

We value Camlin Fine Science on a P/E basis as we consider it a more appropriate valuation method for chemical companies than the DCF or EV/EBITDA. In our view, DCF is not a suitable valuation method because the earnings of chemical companies are highly cyclical as forecasting long-term earnings reliably is difficult. We think a balance sheet-based valuation is inappropriate as short-term debt may rise because of inventory cycles or delay in subsidy payments which could distort the balance sheet for a short period (in many cases, for only one quarter).

**Average P/E of last 2 years has been 15x one-year forward, however barring the risk-off period the stock has traded at ~18-20x one-year forward EPS ➤**

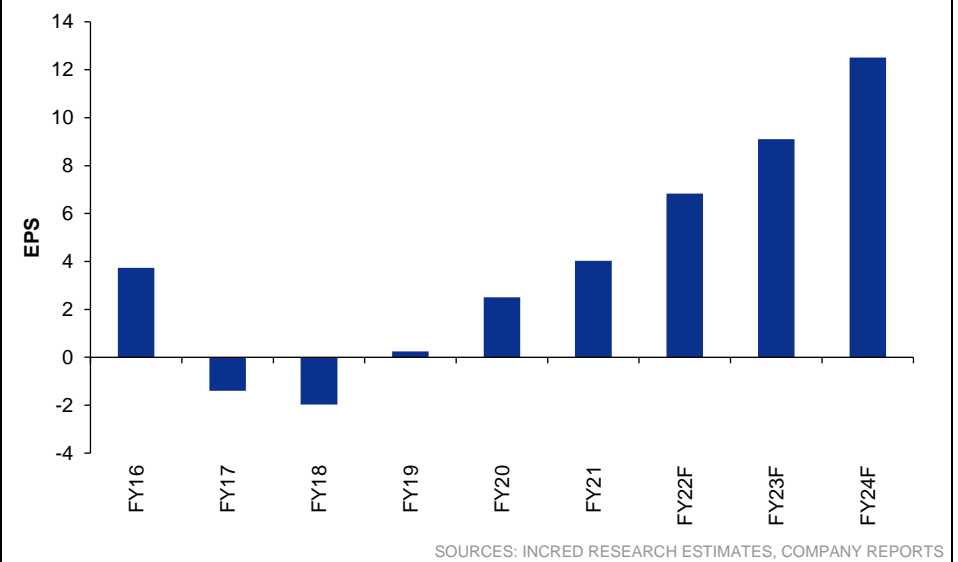
**Figure 29: Average P/E of last 2 years has been 15x, but barring risk-off periods CFS has traded around 18-20x one-year forward EPS**



**However, we believe CFS’s earnings growth profile will change for the better over the next 3 years, which we believe deserves a higher-than-historical P/E ➤**

Camlin’s earnings were quite volatile in FY16-20. The company made losses in FY17 and FY18. However, its earnings profile is changing for the better from FY21, in our view.

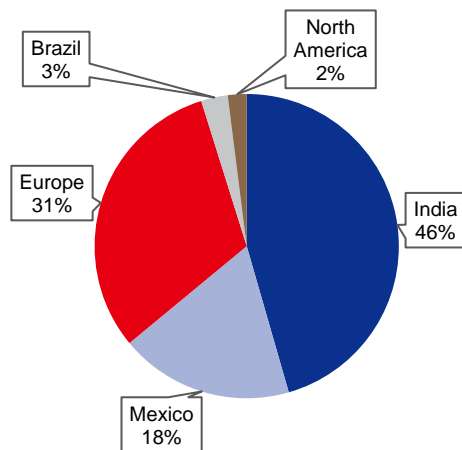
**Figure 30: We expect CFS’s previously volatile EPS to improve in the coming period**



The reasons for changing its earnings profile are.

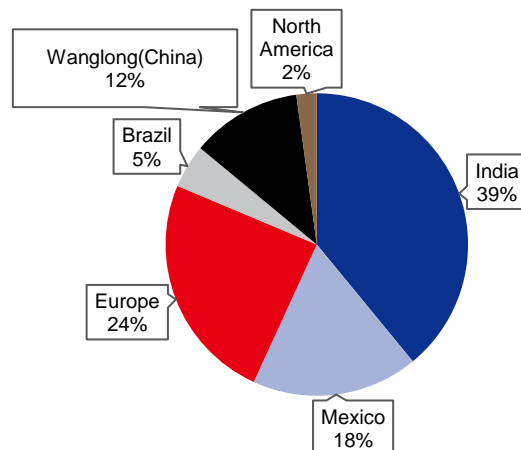
1. The company is backward integrated for key raw materials HQ and catechol, ruling out input cost volatility.
2. During FY17/18, the company lost a major customer in America, which disrupted its products sales chain, hence lowering its margins. However, as of now, the company’s customer base is well diversified across the globe, which shows in its geographical revenue mix.

**Figure 31: Company's revenue base was concentrated in India, Europe and Mexico in FY18 (95% of total revenue)**



SOURCES: COMPANY REPORTS, INCRED RESEARCH

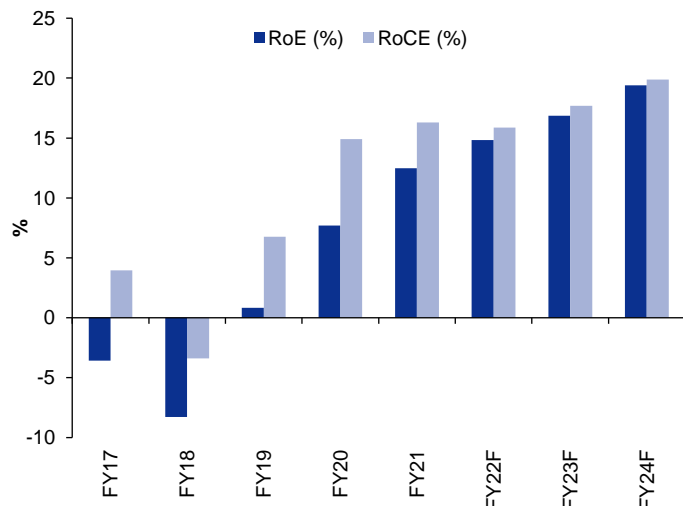
**Figure 32: CFS's revenue base is diversified. India, Europe and Mexico account for 80% of its overall revenue (FY21)**



SOURCES: COMPANY REPORTS, INCRED RESEARCH

**Its RoE and RoCE were in the double digits in FY21 for the first time in the last 5 years and will improve, in our view ➤**

**Figure 33: CFS's ROE and RoCE became double digits during FY21 (over FY17-21), and will likely improve further**



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 34: CFS's peers currently trade at higher P/Es despite lower projected RoEs**

	RoE	P/E (x)
SRF Limited	17.6	25.8
PI Industries Limited	15.6	38.0
Vinati Organics Ltd	23.3	39.0
Dhanuka Agritech	22.7	16.8
Heranba Industries Ltd	24.9	25.4
Anupam Rasayan India Ltd	6.7	53.4
Laxmi Organics Ltd	10.5	32.3
Aarti Industries	13.1	22.0
Navin Fluorine International Ltd	15.4	48.6
Insecticide India Ltd	9.9	12.0
Coromandel International Ltd	22.6	17.2
Average	16.3	30.0

SOURCES: INCRED RESEARCH, BLOOMBERG

**We value CFS at 22.5x 1-yr forward EPS to arrive at TP of Rs225 ➤**

We value CFS at 22.5x 1-yr forward EPS, which is still at a 25% discount to its peers because of its volatile PAT history. We do not expect earnings volatility going forward, hence we are valuing CFS at a 50% premium (average one-year forward P/E is trading at 15x) to the historical P/E average. Having said that, we believe market perception on reduced earnings volatility will improve on earnings delivery, which could come only with time. Hence, we have valued CFS at a discount to its peers for the near term.

We initiate coverage on Camlin Fine Sciences with an Add rating as we believe:

- Cost savings due to captive HQ and catechol will expand EBITDA margins by FY23F.
- Cost savings due to captive HQ will ensure Camlin is better placed vis-à-vis its competition in the domestic market.
- The company's vanillin capacity expansion will lead to sustained EPS growth in FY24F.



**Figure 35: Target price calculation**

FY23F EPS (Rs/ share)	9.1
FY24F EPS (Rs/ share)	12.5
P/E (x)	22.5
One-year forward EPS (Rs)	10.0
One-year forward TP (Rs)	225

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

## Risks

1. CFS depends on open market purchases for phenol, glyoxylic acid, methanol, and caustic soda. A rise in prices of these commodities will lead to decline in margins, hence EPS. A decline in EPS is negative for stock prices.
2. We have factored in the captive feedstock benefit of HQ and catechol. A delay in ramping up already commissioned capacity in Dahej will be negative for our EPS estimates and target price.
3. CFS is commissioning vanillin capacity in India, which will use guaiacol as feedstock. The benefit of selling vanillin in lieu of guaiacol is about Rs337m. Apart from this, we have rolled forward our numbers to FY24F. Any delay in ramping up vanillin capacity will be negative for our FY24F EPS estimates.
4. Until now CFS and Clean Science (Not Rated, Unlisted) have competed for market share in the MEHQ market. If pricing competition occurs, it will hurt CFS's profitability, and our EPS estimates might have a downside.

## Peer comparison

**Figure 36: Peer universe trades at one-year forward P/E of 21.5x**

Company	Bloomberg Ticker	Closing Price (LC)	Target Price (LC)	% Upside	Rating	Market cap (US\$ m)	EV/EBITDA (x)		P/BV (x)		RoE (%)		P/E (x)	
							CY21F	CY22F	CY21F	CY22F	CY21F	CY22F	CY21F	CY22F
UPL Ltd	UPLL IN	791	578	-27%	HOLD	8,150	9.3	8.4	2.0	1.7	14.4	13.9	18.3	15.1
Rallis India Ltd	RALI IN	346	355	3%	ADD	907	13.2	12.0	3.3	3.0	16.6	16.0	21.2	19.6
SRF Limited	SRF IN	6,956	6,227	-10%	ADD	5,560	18.9	16.3	4.9	4.2	18.8	17.6	29.8	25.8
PI Industries Limited	PI IN	2,828	2,505	-11%	ADD	5,789	30.6	23.2	6.2	5.7	17.9	15.6	45.2	38.0
Vinati Organics Ltd	VO IN	1,799	1,603	-11%	ADD	2,494	40.9	29.7	10.0	8.4	20.1	23.3	53.2	39.0
Dhanuka Agritech	DAGRI IN	963	689	-28%	REDUCE	605	13.0	11.9	4.2	3.5	26.3	22.7	17.1	16.8
Heranba Industries Ltd	HERANBA IN	722	457	-37%	REDUCE	390	17.5	17.8	6.0	4.9	34.5	24.9	24.2	25.4
Anupam Rasayan India Ltd	ANURAS IN	738	379	-49%	REDUCE	994	44.1	40.8	3.8	3.4	3.7	6.7	136.8	53.4
Laxmi Organics Ltd	LXCHEM IN	228	110	-52%	REDUCE	812	15.9	16.5	3.6	3.2	12.3	10.5	38.6	32.3
Aarti Industries	ARTO IN	887	1,087	23%	REDUCE	4,170	23.2	21.7	6.2	5.0	16.1	13.1	34.6	22.0
Navin Fluorine International Ltd	NFIL IN	3,369	2,599	-23%	HOLD	2,250	41.7	33.5	7.9	7.1	12.8	15.4	54.0	48.6
Insecticide India Ltd	INST IN	760	461	-39%	HOLD	202	7.3	6.8	1.2	1.1	10.7	9.9	12.2	12.0
Coromandel International Ltd	CRIN IN	912	1,000	10%	ADD	3,608	11.8	11.4	4.2	3.6	25.9	22.6	17.8	17.2
Atul Ltd	ATLP IN	8,877	6,640	-25%	REDUCE	3,543	24.8	22.1	5.7	5.5	16.7	16.2	38.4	34.4
Camlin Fine Science	CFIN IN	195	225	16%	ADD	298	14.0	12.1	3.4	3.0	12.5	14.7	32.4	21.5
Solvay SA	SOLB BB	108	NR	NR	NR	13,606	7.4	6.9	1.3	1.3	3.2	3.2	15.4	13.2
Bayer	BAYN GR	52	NR	NR	NR	61,199	7.7	7.1	1.2	1.1	7.7	7.7	9.1	8.3
BASF	BAS GR	66	NR	NR	NR	72,107	8.6	8.4	1.5	1.5	2.8	2.8	16.5	15.5
Corteva	CTVA US	43	NR	NR	NR	32,051	13.0	11.5	1.4	1.3	3.4	3.4	25.0	21.0
<b>Average</b>							<b>19.4</b>	<b>17.0</b>	<b>4.1</b>	<b>3.6</b>	<b>14.7</b>	<b>13.6</b>	<b>33.7</b>	<b>25.4</b>
<b>Median</b>							<b>14.6</b>	<b>14.1</b>	<b>4.0</b>	<b>3.5</b>	<b>15.2</b>	<b>14.7</b>	<b>24.6</b>	<b>21.5</b>

NR COMPANY ESTIMATES ARE FROM BLOOMBERG CONSENSUS

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG. PRICED AS AT 06 JUL 2021

## SWOT Analysis

**Figure 37: SWOT Analysis**

Strengths	Weaknesses
Leader in MEHQ, BHA and TBHQ space. Backward integration provides very low-cost prediction opportunities.	Camlin buys phenol from refineries hence is exposed to raw material price volatility.
Opportunities	Threats
It can enter downstream product of MEHQ and TBHQ like super absorbent polymer which has US\$50m market in India (Source: Clean Science DRHP).	Price competition from Clean Science in MEHQ is the biggest risk.

SOURCES: INCRED RESEARCH

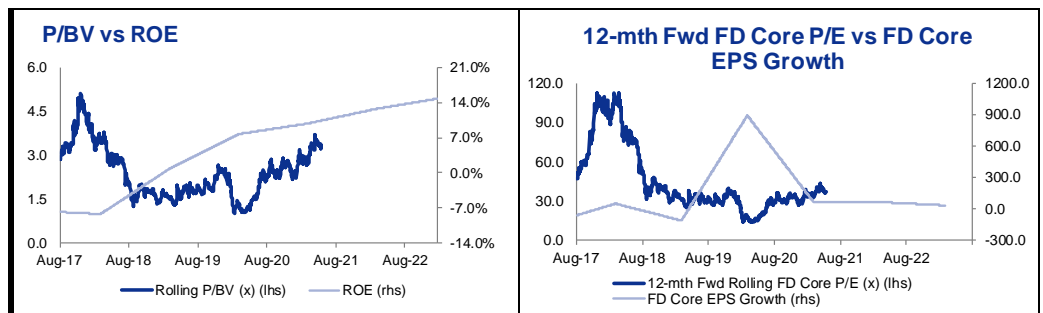
## Annexure

Camlin Fine Sciences started as an ink and colour company, but has transitioned now to a fine sciences firm.

**Figure 38: Key management profiles at CFS as at FY21**

<p>Nirmal Vinod Momaya Managing Director</p>	<p>Mr. Momaya, 54 years, has over 25 years of experience in finance, taxation, audit, and management consultancies. He holds a Bachelor of Commerce and is a chartered accountant. He is a founder of Pagoda Advisors Pvt. Ltd and has been involved in several consulting assignments for businesses like quick-service restaurants, FMCGs, pharmaceuticals, weight loss &amp; health centres, chemicals, engineering, infrastructure, biomedical waste treatment, real estate, agriculture, and luxury retail.</p>
<p>Ashish S. Dandekar Managing Director</p>	<p>Mr. Dandekar, 52 years, has a B.A. in Economics, and has a post graduate degree in Management Studies from Temple University, USA. He has 30 years of experience in pharmaceuticals and fine chemical products, including business planning, information systems, research &amp; development, product development and marketing.</p>
<p>Arjun Dukane Executive Director, Technical</p>	<p>Mr. Dukane is a chemical engineer with more than three decades of experience in the chemicals industry, and has been associated with Camlin Fine Sciences for about 12 years.</p>

SOURCE: COMPANY WEBSITE

**BY THE NUMBERS**

**Profit & Loss**

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
<b>Total Net Revenues</b>	<b>10,491</b>	<b>11,871</b>	<b>13,240</b>	<b>14,840</b>	<b>16,946</b>
<b>Gross Profit</b>	<b>5,154</b>	<b>6,036</b>	<b>6,818</b>	<b>7,717</b>	<b>8,812</b>
<b>Operating EBITDA</b>	<b>1,307</b>	<b>1,819</b>	<b>2,180</b>	<b>2,614</b>	<b>3,199</b>
Depreciation And Amortisation	(328)	(443)	(514)	(574)	(634)
<b>Operating EBIT</b>	<b>979</b>	<b>1,376</b>	<b>1,666</b>	<b>2,041</b>	<b>2,566</b>
Financial Income/(Expense)	(431)	(375)	(375)	(375)	(375)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	34	50	60	74	129
<b>Profit Before Tax (pre-EI)</b>	<b>582</b>	<b>1,051</b>	<b>1,351</b>	<b>1,740</b>	<b>2,320</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>582</b>	<b>1,051</b>	<b>1,351</b>	<b>1,740</b>	<b>2,320</b>
Taxation	(284)	(397)	(340)	(438)	(585)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>298</b>	<b>654</b>	<b>1,010</b>	<b>1,301</b>	<b>1,735</b>
Minority Interests		(140)	(140)	(140)	(140)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>298</b>	<b>514</b>	<b>870</b>	<b>1,161</b>	<b>1,595</b>
Recurring Net Profit	298	514	870	1,161	1,595
<b>Fully Diluted Recurring Net Profit</b>	<b>298</b>	<b>514</b>	<b>870</b>	<b>1,161</b>	<b>1,595</b>

**Cash Flow**

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
<b>EBITDA</b>	<b>1,307</b>	<b>1,819</b>	<b>2,180</b>	<b>2,614</b>	<b>3,199</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(408)	(659)	(498)	(583)	(767)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	34	324			
Other Operating Cashflow	537	425	60	74	129
Net Interest (Paid)/Received	(431)	(375)	(375)	(375)	(375)
Tax Paid	(179)	(359)	(340)	(438)	(585)
<b>Cashflow From Operations</b>	<b>860</b>	<b>1,174</b>	<b>1,026</b>	<b>1,292</b>	<b>1,602</b>
Capex	(1,341)	(839)	(1,300)	(200)	(200)
Disposals Of FAs/subsidiaries	1	1			
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	439	(490)			
<b>Cash Flow From Investing</b>	<b>(901)</b>	<b>(1,329)</b>	<b>(1,300)</b>	<b>(200)</b>	<b>(200)</b>
Debt Raised/(repaid)	507	166			
Proceeds From Issue Of Shares		299			
Shares Repurchased					
Dividends Paid	(28)	(54)	(101)	(130)	(173)
Preferred Dividends					
Other Financing Cashflow	(447)	(25)			
<b>Cash Flow From Financing</b>	<b>33</b>	<b>386</b>	<b>(101)</b>	<b>(130)</b>	<b>(173)</b>
Total Cash Generated	(8)	232	(375)	962	1,228
<b>Free Cashflow To Equity</b>	<b>466</b>	<b>11</b>	<b>(274)</b>	<b>1,092</b>	<b>1,402</b>
<b>Free Cashflow To Firm</b>	<b>390</b>	<b>221</b>	<b>101</b>	<b>1,468</b>	<b>1,777</b>

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-20A</b>	<b>Mar-21A</b>	<b>Mar-22F</b>	<b>Mar-23F</b>	<b>Mar-24F</b>
Total Cash And Equivalents	648	1,383	1,008	1,970	3,198
Total Debtors	2,528	2,707	3,019	3,384	3,864
Inventories	2,981	3,200	3,569	4,000	4,568
Total Other Current Assets	592	656	656	656	656
<b>Total Current Assets</b>	<b>6,750</b>	<b>7,947</b>	<b>8,252</b>	<b>10,011</b>	<b>12,287</b>
Fixed Assets	4,159	5,369	6,155	5,781	5,347
Total Investments	94	94	94	94	94
Intangible Assets	666	684	684	684	684
Total Other Non-Current Assets	672	722	722	722	722
<b>Total Non-current Assets</b>	<b>5,591</b>	<b>6,869</b>	<b>7,655</b>	<b>7,282</b>	<b>6,848</b>
Short-term Debt	2,781	2,169	2,169	2,169	2,169
Current Portion of Long-Term Debt					
Total Creditors	1,737	1,584	1,767	1,980	2,261
Other Current Liabilities	960	1,023	1,023	1,023	1,023
<b>Total Current Liabilities</b>	<b>5,478</b>	<b>4,776</b>	<b>4,959</b>	<b>5,172</b>	<b>5,453</b>
Total Long-term Debt	2,115	2,732	2,732	2,732	2,732
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	97	84	84	84	84
<b>Total Non-current Liabilities</b>	<b>2,212</b>	<b>2,817</b>	<b>2,817</b>	<b>2,817</b>	<b>2,817</b>
Total Provisions	49	91	91	91	91
<b>Total Liabilities</b>	<b>7,740</b>	<b>7,685</b>	<b>7,867</b>	<b>8,081</b>	<b>8,362</b>
Shareholders Equity	4,031	6,434	7,203	8,234	9,656
Minority Interests	570	697	697	697	697
<b>Total Equity</b>	<b>4,601</b>	<b>7,132</b>	<b>7,901</b>	<b>8,932</b>	<b>10,353</b>

<b>Key Ratios</b>					
	<b>Mar-20A</b>	<b>Mar-21A</b>	<b>Mar-22F</b>	<b>Mar-23F</b>	<b>Mar-24F</b>
Revenue Growth	17.6%	13.1%	11.5%	12.1%	14.2%
Operating EBITDA Growth	90.4%	39.2%	19.8%	19.9%	22.4%
Operating EBITDA Margin	12.5%	15.3%	16.5%	17.6%	18.9%
Net Cash Per Share (Rs)	(35.03)	(27.59)	(30.54)	(22.99)	(13.36)
BVPS (Rs)	33.25	50.46	56.50	64.59	75.73
Gross Interest Cover	2.27	3.67	4.44	5.44	6.84
Effective Tax Rate	48.7%	37.8%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	9.4%	10.5%	11.6%	11.2%	10.9%
Accounts Receivables Days	80.39	80.48	78.93	78.75	78.06
Inventory Days	199.52	193.34	192.38	193.93	192.24
Accounts Payables Days	115.68	103.88	95.23	95.99	95.16
ROIC (%)	6.6%	9.6%	11.6%	12.7%	15.7%
ROCE (%)	10.8%	12.7%	13.3%	15.2%	17.6%
Return On Average Assets	4.5%	6.5%	8.4%	9.5%	11.1%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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## Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2020, Anti-Corruption 2020

**ADVANC** – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Excellent, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENTEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Very Good, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Very Good, n/a, **DELTA** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, n/a, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – Excellent, Declared, **JMT** – Very Good, Declared, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – n/a, n/a, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – n/a, n/a, **OR** – n/a, n/a, **ORI** – Excellent, Certified, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RBF** – Good, n/a, **RS** – Excellent, n/a, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – n/a, n/a, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – n/a, n/a, **SHR** – Very Good, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Declared, **SPRC** – Excellent, Certified, **SSP** – Good, Declared, **STEC** – n/a, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, n/a, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, n/a, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TMB** – Excellent, Certified, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2020 from Thai Institute of Directors Association (IOD)

- Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of January 30, 2021) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.

### Recommendation Framework

#### Stock Ratings

Definition:

<b>Add</b>	The stock's total return is expected to exceed 10% over the next 12 months.
<b>Hold</b>	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
<b>Reduce</b>	The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

#### Sector Ratings

Definition:

<b>Overweight</b>	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
<b>Neutral</b>	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
<b>Underweight</b>	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

#### Country Ratings

Definition:

<b>Overweight</b>	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
<b>Neutral</b>	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
<b>Underweight</b>	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.