



## Strong performance across subsidiaries/geographies; Maintain Buy

Camlin Fine Sciences (CFS) reported highest ever quarterly & half yearly revenues for Q2FY23. Consolidated revenues stood at Rs 483 Cr, up 55% YoY (our estimate: Rs 389 Cr). The company's EBITDA Margins contracted by 72 bps q-o-q to 11.4% (our estimate: 10.5%) to report absolute EBITDA of Rs55 Cr, up 143%/18% y-o-y/q-o-q, this included the net effect of 15 Cr from CFS Europe. Company reported PAT of Rs9.9 Cr up (est. 3.6 Cr). The company's long-term story remains intact supported by 1) Introduction of value-added downstream products, 2) the Lockheed Martin deal (FY24), and 3) Scaling up of capacity utilization at the Vanillin facility which will absorb Catechol production (currently margin non-accretive). **We maintain our Buy rating on the stock with TP of Rs 190/share valuing the company at 18x its FY24 earnings.**

### Key Concall Highlights

- Vanillin Facility to absorb Catechol margin pressure:** Company's Catechol production accounts for 50% of the total production which is currently margin non-accretive as the company is unable to pass the RM price hike in Catechol, with the new Vanillin facility is awaiting commercial operations which will help to use catechol produced in the production of vanillin. This would add approx~75 Cr to EBITDA, also improving company ability to pass RM price hikes via Vanillin as the final product. Currently, the price of Vanillin has increased from \$10 to \$15 in the international market. At its peak utilization levels, the Vanillin plant can generate a top line of 500 Cr with contributing EBITDA margin in the range of 14-16% on a conservative basis. The Plant will have to operate at 50% utilization levels as design constrain.
- CFS Europe Update:** The EBITDA Margins got affected to the tune of 22 Cr due to increasing gas prices, although the company received 7Cr subsidy from the Italian govt, company continues to sell HQ and Catechol in the open markets in Europe. Currently the entity is generating top line of 155 Cr & ~8% EBITDA margin.

### Key Financials (Consolidated)

(Rs. Cr)	FY21	FY22	FY23E	FY24E
Net Sales	1,187	1,412	1,861	2,451
Gross Profit	603.6	652.6	893.2	1218.2
Gross Margin	50.8%	46.2%	48.0%	49.7%
EBITDA	181.93	152.81	251.21	372.57
EBITDA margin	15.3%	10.8%	13.5%	15.2%
Net Profit	65	60	95	165
EPS (Rs )	5.3	3.8	6.1	10.5
P/E (x)	21.5	29.6	18.8	10.8

Source: Company, Axis Research

(CMP as of Nov 15, 2022)

CMP (Rs)	152
Upside /Downside (%)	25%
High/Low (Rs)	175/97
Market cap (Cr)	2,435
Avg. daily vol. (6m) Shrs.	1,86,961
No. of shares (Cr)	12

### Shareholding (%)

	Mar-22	Jun-22	Sep-22
Promoter	17.6	17.6	17.6
FIIs	10.5	10.7	10.6
MFs / UTI	13.7	13.5	12.9
Banks / FIs	0.0	0.0	0.0
Others	58.2	58.2	59.0

### Financial & Valuations

Y/E Mar (Rs. Cr)	2022	2023E	2024E
Net Sales	1,412	1,861	2,451
EBITDA	152.81	251.21	372.57
Net Profit	60	95	165
EPS (Rs )	3.8	6.1	10.5
P/E (x)	29.6	18.8	10.8
EV/ EBITDA (X)	15.1	9.9	6.7
P/BV (x)	2.3	2.3	1.9
RoE (%)	7.9%	12.1%	17.4%

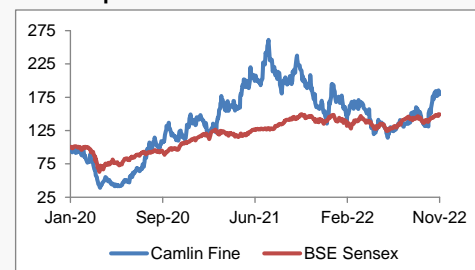
### ESG Disclosure Score

Environmental Disclosure Score	2.3
Social Disclosure Score	14.0
Governance Disclosure Score	39.3

**Total ESG Disclosure Score** 13.6

\*\*Note: this score measures the amount of ESG data a company reports publicly, and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

### Relative performance



Source: Capitaline, Axis Securities

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## Other Key Concall Takeaways

- **Update on China Facility:** Operations at the China facility that produces Vanillin remained shut as the matter relating to alleged infringement of intellectual property (process for manufacturing Vanillin) remains sub-judice. Judgment regarding the retrial filed by the JV Partner Wanglong is expected to come by in the next couple of months.
- **Outlook:** Global demand for CFS products remains robust despite the ongoing global volatility as 80-85% of CFS products are directly or indirectly used in Human food consumption the demand for which is relatively inelastic. CFS is also working towards developing new downstream products to enhance its product basket. The management indicates reporting relatively stronger growth in H2FY23 by initiatives on downstream products and ramp-up of Dahej facility besides taking price hikes.
- **Vanillin Plant & Business:** Incremental revenues of Rs 500 Cr are expected from the new Vanillin business. The market size is 6,000 tons with the US being the largest consumer of Vanillin followed by China and Europe which are followed by India and other developing markets. The demand for vanillin is driven by the flavour, fragrance and pharma industry. The vanillin prices have been on rise, trading in the zone of 15\$-20\$ across the globe. This will benefit CFS once the Vanillin plant starts commercial production in coming quarters.
- **Hydroquinone Prices:** Currently HQ have moderated from 12\$ to 10\$. The prices are expected to remain strong as most of the HQ producing competitors are affected by increased gas prices in the Euro region.
- **Key Subsidiary Performance:**
  - ✓ CFS Mexico reported turnover of 95 Cr compared to 76 Cr last quarter
  - ✓ CFS Brazil reported turnover of 33 Cr compared to 20 Cr last quarter
  - ✓ CFS NA reported turnover of 16 Cr compared to 12 Cr last quarter
  - ✓ CFS Europe reported of 155 Cr compared to 110 Cr last quarter
- Companies Net Debt stood at 637 Cr & D/E Ratio of 1.2x

**Q2FY23 Financial Highlights (Consolidated)**

(Rs.Cr.)	Quarterly Performance						
	Q2FY23	Q2 FY23E Axis Estm	Var (%)	Q1FY23	% Change (Q-o-Q)	Q2FY22	% Change (Y-o-Y)
Sales	483	389	24.2%	384	25.9%	311	55.3%
Expenditure							
Net Raw Material	238	187	27.5%	178	33.9%	171	39.5%
Gross Profit	245	202	21.2%	206	19.0%	140	74.5%
Gross Margin (%)	50.7%	51.9%	-127bps	53.6%	-293bps	45.1%	557bps
Employee Expenses	39	42	-7.2%	41	-5.3%	35	12.8%
Other Exp	151	119	26.6%	118	27.8%	83	81.4%
<b>EBITDA</b>	<b>55</b>	41	34.7%	<b>47</b>	18.4%	<b>23</b>	143.1%
EBITDA Margin (%)	11.4%	10.5%	88bps	12.1%	-72bps	7.3%	413bps
Oth. Inc	2.9	1	187.6%	1.0	180.4%	1	364.0%
Interest	18.4	18	2.5%	18.7	-1.5%	9	103.7%
Depreciation	14.0	15	-6.5%	14.4	-2.4%	13	4.9%
PBT	25.6	9	184.6%	14.5	76.1%	1	2722.5%
Tax	15.7	3	424.8%	10.9	43.8%	5	238.9%
<b>PAT</b>	<b>9.9</b>	6	64.5%	<b>3.6</b>	174.3%	<b>(4)</b>	-364.0%
EPS	0.63	0	64.5%	0.37	69.9%	(0.2)	-364.0%

Source: Company; Axis Securities

**Valuation & Outlook**

While attributes such as CFSs strategy to focus on expansion, worldwide presence, and addressing key chemical segment with good prospects due to demand supply mismatch. CFS long-term story remains intact supported by 1) Introduction of value-added downstream products, 2) Lockheed Martin deal, 3) Scaling up of capacity utilization at Vanillin facility which will absorb Catechol production (currently margin non-accretive). **We maintain our Buy rating on stock with TP of Rs 190/share valuing the company at 18x its FY24 earnings.** Key risks – a) Slower-than-expected ramp-up in commissioning of Capex projects, b) Volatility in RM prices and forex with the Euro Crisis, c) negative outcome on ongoing China legal case.

**Financials (Consolidated)**
**Profit & Loss**
**(RsCr)**

Y/E March	FY21	FY22	FY23E	FY24E
<b>Total Net Sales</b>	<b>1,187</b>	<b>1,412</b>	<b>1,833</b>	<b>2,421</b>
% Change	13.1%	19.0%	29.8%	32.1%
Total Raw material Consumption	583	759	925	1,210
Staff costs	120	145	192	254
Other Expenditure	301	355	440	581
Total Expenditure	1,005	1,259	1,558	2,046
<b>EBITDA</b>	<b>182</b>	<b>153</b>	<b>275</b>	<b>375</b>
% Change	39.2%	-16.0%	79.9%	36.5%
<b>EBITDA Margin %</b>	<b>15.3%</b>	<b>10.8%</b>	<b>15.0%</b>	<b>15.5%</b>
Depreciation	44	56	62	61.8
EBIT	138	97	213	313
% Change	40.6%	-29.6%	120.0%	47.1%
EBIT Margin %	11.6%	6.9%	11.6%	12.9%
Interest	38	36	51	68
Other Income	5	33	9	12
PBT	105	94	171	258
Tax	40	34	60	90
<i>Tax Rate %</i>	<i>37.8%</i>	<i>35.8%</i>	<i>35.0%</i>	<i>35.0%</i>
<b>APAT</b>	<b>65</b>	<b>60</b>	<b>111</b>	<b>168</b>
% Change	119.1%	-7.6%	84.0%	50.8%

Source: Company, Axis Securities

**Balance Sheet**
**(RsCr)**

Y/E March	FY21	FY22	FY23E	FY24E
<b>Share Capital</b>	<b>13</b>	<b>16</b>	<b>16</b>	<b>16</b>
Reserves & Surplus	631	732	768	935
<b>Total Share Holders Funds</b>	<b>713</b>	<b>765</b>	<b>801</b>	<b>968</b>
Non-Current Liabilities				
Long Term Borrowings	273.2	387.6	439.8	581.0
Defered Tax Liability (Net)	6.3	10.3	10.3	10.3
<b>Total Non-Current Liabilities</b>	<b>290.8</b>	<b>439.8</b>	<b>457.1</b>	<b>600.3</b>
Current Liabilities				
Short Term Borrowings	216.9	234.9	293.2	387.3
Trade Payables	158.4	233.8	240.9	315.0
Other Financial Liability	68.7	69.7	87.0	118.6
Other Current Liability	20.2	34.8	18.5	24.2
<b>Total Current Liability</b>	<b>477.6</b>	<b>595.3</b>	<b>663.7</b>	<b>872.9</b>
<b>Total Liabilities</b>	<b>768.5</b>	<b>1,035.0</b>	<b>1,120.8</b>	<b>1,473.1</b>
<b>Total Equity &amp; Liability</b>	<b>1,481.6</b>	<b>1,800.1</b>	<b>1,921.4</b>	<b>2,441.3</b>
Assets				
PP&E	481.8	481.8	411.4	349.6
Intangible assets	68.6	76.0	79.1	82.5
Capital Work in Progress	23.7	214.7	214.7	214.7
Right-of-Use Assets	31.3	43.7	32.5	32.5
Non Current Tax Assets (net)	33.0	36.4	36.4	36.4
Income Tax Assets	8.7	13.4	13.4	13.4
Other Non Current Assets	17.1	15.7	20.3	26.8
<b>Total Non-Current Assets</b>	<b>686.9</b>	<b>906.5</b>	<b>832.7</b>	<b>780.9</b>
Current Assets:				
Inventories	320.0	370.9	451.9	596.9
Trade Receivable	270.7	299.7	376.6	464.3
Cash and Cash Equivalents	75.5	107.8	41.6	293.8
Bank Balance	62.8	34.3	34.3	64.3
Other Current Assets	54.6	73.2	176.7	233.4
<b>Total Current Assets</b>	<b>794.7</b>	<b>893.5</b>	<b>1,088.7</b>	<b>1,660.4</b>
<b>Total Assets</b>	<b>1,481.6</b>	<b>1,800.1</b>	<b>1,921.4</b>	<b>2,441.3</b>

Source: Company, Axis Securities

**Cash Flow**
**(RsCr)**

Y/E March	FY21	FY22	FY23E	FY24E
PBT	105	94	171	258
Depreciation & Amortization	44	56	62	62
Chg in Working cap	-66	0	-251	-204
Direct tax paid	-36	-30	-60	-90
<b>Cash flow from operations</b>	<b>117</b>	<b>145</b>	<b>-36</b>	<b>81</b>
Chg in Gross Block	-84	-214	-77	-88
Chg in Investments	-50	28	0	0
Proceeds on redemption of Fin. Assets	0	0	0	0
<b>Cash flow from investing</b>	<b>-133</b>	<b>-249</b>	<b>-72</b>	<b>-83</b>
Proceeds / (Repayment) of Short Term Borrowings (Net)	-61	-30	58	94
Proceeds from issue of Equity Instruments of the company	0	1	0	0
Loans	84	106	52	141
Finance Cost paid	-48	-25	-51	-68
Dividends paid	-5	-1	0	0
<b>Cash flow from financing</b>	<b>39</b>	<b>136</b>	<b>62</b>	<b>170</b>
<b>Chg in cash</b>	<b>23</b>	<b>32</b>	<b>-46</b>	<b>167</b>
Cash at start	52	76	108	42
Cash at end	76	108	42	294

Source: Company, Axis Securities

**Ratio Analysis**
**(%)**

Y/E March	FY21	FY22	FY23E	FY24E
<b>Growth (%)</b>				
Net Sales	13.1%	19.0%	29.8%	32.1%
EBITDA	39.2%	-16.0%	79.9%	36.5%
APAT	119.1%	-7.6%	84.0%	50.8%
<b>Per Share Data (Rs.)</b>				
Adj. EPS	5.3	3.8	7.1	10.7
BVPS	57.8	48.7	51.0	61.7
DPS	0.0	0.0	0.0	0.0
<b>Profitability (%)</b>				
EBITDA Margin	15.3%	10.8%	15.0%	15.5%
Adj. PAT Margin	5.5%	4.3%	6.1%	6.9%
ROCE	15.2%	9.0%	17.9%	25.3%
ROE	9.2%	7.9%	13.9%	17.3%
ROIC	15.2%	9.0%	17.9%	25.3%
<b>Valuations (X)</b>				
PER	29.3	40.3	21.9	14.5
P/BV	2.7	3.2	3.0	2.5
EV / EBITDA	12.8	19.3	11.4	8.3
EV / Net Sales	2.0	2.1	1.7	1.3
<b>Turnover Days</b>				
Asset Turnover	2.5	2.1	2.7	3.5
Inventory days	95.0	89.3	90.0	90.0
Debtors days	80.5	73.7	75.0	70.0
Creditors days	103.9	94.2	95.0	95.0
Working Capital Days	71.6	68.8	70.0	65.0
<b>Gearing Ratio</b>				
Total Debt to Equity (x)	0.6	0.7	0.9	0.7

Source: Company, Axis Securities

## Camlin Fine Sciences Price Chart and Recommendation History



Date	Reco	TP	Research
19-Feb-21	BUY	155	Initiating Coverage
03-May-21	BUY	184	Top Picks
17-May-21	BUY	184	Event Update
01-Jun-21	BUY	215	Top Picks
01-Jun-21	BUY	215	Result Update
01-Jul-21	BUY	215	Top Picks
02-Aug-21	BUY	215	Top Picks
13-Aug-21	BUY	215	Result Update
20-Sep-21	BUY	215	AAA
01-Oct-21	BUY	215	Top Picks
15-Nov-21	BUY	200	Result Update
23-May-22	BUY	190	Result Update
15-Nov-22	BUY	190	Result Update

Source: Axis Securities

**About the analyst**

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Sector: Chemicals & Midcap Opportunities

Analyst Bio: Prathamesh is a CFA charter holder with over 6 years of experience in Equity Market/Research.

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