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Dresen acquisition to boost the revenue growth

Camlin Fine Sciences Ltd. (CFS) is one of India's leading manufacturer & exporter of food grade antioxidants and industrial performance chemicals. In FY16, CFS derived maximum 56% of its turnover from Antioxidants followed by Performance Chemicals (22%) and others (Diphenols, Aroma chemicals) (22%).

Investment Rationale

☞ Holds dominant market share in food Antioxidant business

Food antioxidants help to extend the shelf life of products and are used in wide range of products including fried snack food, confectionery and dairy products. CFS is a leading producer and exporter of antioxidants TBHQ and BHA, having more than 45% of the market share in the ~USD3.2bn global antioxidants market. In the antioxidants business, CFS is uniquely positioned with both backward & forward linkages. While backward integration has provided captive access to raw materials, forward integration would help in expanding product pipeline.

☞ Dresen acquisition to further expand the revenue base

The recent acquisition of Mexico-based blender, Dresen Quimica will further diversify the revenue base. Dresen is involved in manufacturing and distributing antioxidant blends in Mexico, Central America and parts of Latin America. It has a large products portfolio of blends, strong distribution network, and proprietary technology. This strategic acquisition would expedite its progress into the high-margin operation of blends of antioxidants. Notably, for CSF, potential synergies will arise from cross-selling of CFS products as it has well regarded animal nutrition business across other geographies.

☞ Dahej expansion to contribute from FY19

The company has started a new project situated at Dahej SEZ in Gujarat. The plant would manufacture HQ & Catechol. The company would commission its plant in FY19. Dahej expansion is expected to result in huge savings as the cost of producing HQ & Catechol at CFS Europe (erstwhile Borregaard) is high. Once the Dahej plant gets operational, HQ produced over there (6,000 MT) would be used to manufacture TBHQ & BHA and has the potential to add Rs100-150cr to sales.

Valuation: We expect revenue and PAT to grow at a CAGR of 29.2 & 38.5% respectively over FY16-19E. Further, EBITDA margin is expected to improve by 20bps on account of increasing volumes in downstream products coupled with the commencement of Dahej plant. Hence, we initiate CFS with a BUY rating with a TP of Rs.106 based on 11.5x FY19E EPS.

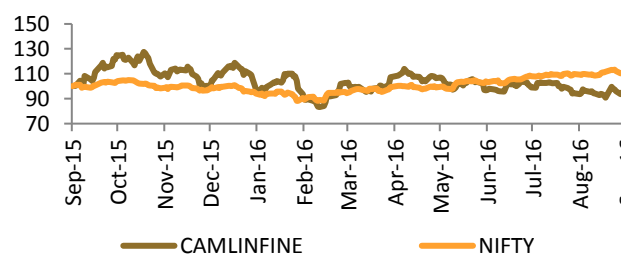
Market Data

Rating	BUY
CMP (Rs.)	88
Target (Rs.)	106
Potential Upside	20%
Duration	Long Term
Face Value (Rs.)	1.0
52 week H/L (Rs.)	121/76
Adj. all time High (Rs.)	121
Decline from 52WH (%)	27.3
Rise from 52WL (%)	15.8
Beta	0.4
Mkt. Cap (Rs.Cr)	910

Fiscal Year Ended

Y/E	FY16	FY17E	FY18E	FY19E
Net sales (Rs.Cr)	483	638	749	1,048
Adj. profit (Rs.Cr)	36	49	67	95
EPS (Rs.)	4.2	4.8	6.5	9.2
P/E (x)	21.1	18.5	13.6	9.6
P/BV (x)	4.8	3.3	2.7	2.1
ROE (%)	26.0	21.7	21.9	24.9

One year Price Chart

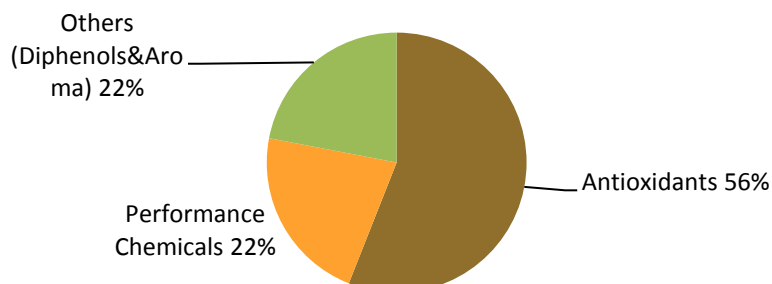


Shareholding Pattern	Jun-16	Mar-16	Chg.
Promoters (%)	39.8	39.8	0
Public (%)	60.2	60.2	0

Company Overview

Camlin Fine Sciences Ltd. (CFS) is one of India's leading manufacturer & exporter of food grade antioxidants and industrial performance chemicals. In FY16, CFS derived maximum 56% of its turnover from Antioxidants followed by Performance Chemicals (22%) and others (Diphenols, Aroma chemicals) (22%).

Revenue break-up (FY16)



Source: Company, In-house research

Antioxidants: Blends market offers huge growth opportunities

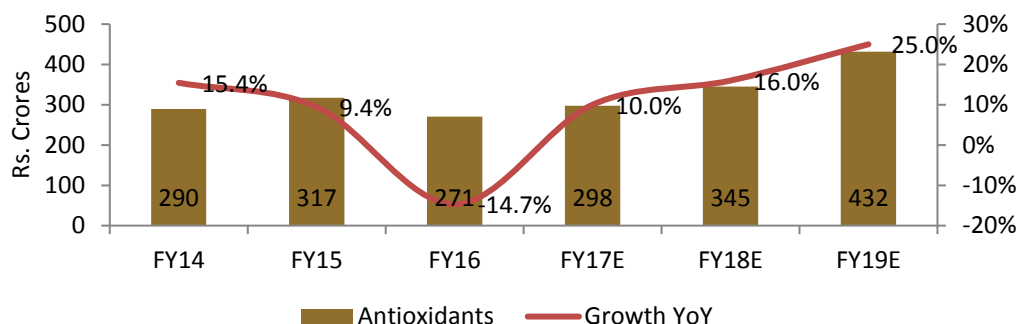
Food antioxidants help to extend the shelf life of products and are used in wide range of products including fried snack food, bakery, confectionery and dairy products. The global market for synthetic food antioxidants is about 11,000 to 11,500 MTPA, growing 3% YoY. CFS is a leading producer and exporter of antioxidants TBHQ and BHA, having more than 45% of the market share in the ~USD3.2bn global antioxidants market. The company is fully integrated with an assured supply of the key raw materials through its subsidiary CFS Europe (erstwhile Borregaard). However, in FY16 the sales de-grew 15% YoY as realisations got negatively impacted due to drop in crude oil prices.

Camlin has started a new project at Dahej to manufacture HQ & Catechol. The company would commission its plant in FY19. Dahej expansion is likely to result in huge savings since the cost of producing HQ and Catechol at CFS Europe is high. This would enable CFS to offer products at a competitive price. Once the Dahej capacity comes on stream, HQ produced over there (6,000 MT) would be used to manufacture TBHQ & BHA and has the potential to add Rs100-150cr to sales.

Establishing its presence into blends

Of late, CFS has started focusing on this segment and developed blends tailored to needs of specific industries/ clients under the brand name Xtendra and NaSure (plant based antioxidant products). In FY16, anti-oxidants (blends) accounted for 1% of overall revenue. Product portfolio consists of antioxidant blends for food, feed and pet food including animal nutrition segment (acquired as part of acquisition of Dresen, Mexico).

Antioxidants business to grow at a CAGR of 16.8% during FY16-19E



Source: Company, In-house research

Diversifying revenue base through acquisitions

The company acquired Italy's Borregaard's subsidiary which was engaged in the manufacturing of HQ and Catechol. The acquisition gave CFS a significant presence in the European market. It further enabled CFS in attaining backward integration by sourcing HQ and Catechol for global operations. Earlier, the CFS Europe plant had a capacity to manufacture 8,000 MTPA. Through de-bottlenecking, CFS successfully increased the plant capacity to 12,000 MTPA in FY15. Moreover, the recent acquisition of Dresen Quimica (Mexico) will further help in diversifying the revenue base as it is expected to gain market share in antioxidants blends market. Dresen Quimica posted revenues of USD16.5mn largely from Mexico, Central America & Latin America in CY15.

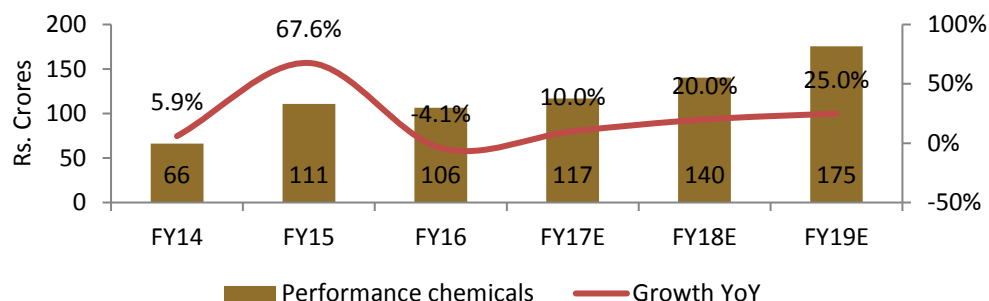
Performance chemicals business to grow at 18.2% CAGR over FY16-19E

The product portfolio of the performance chemicals business consists of Guaiacol, Veratrole, TBC and MEHQ. TBC and MEHQ are important polymerization inhibitors for the petrochemical industry. While Guaiacol is used for manufacturing vanillin and guaiphenesin (a pharma intermediate), Veratrole is an important intermediate having application in pharma and agrochemical industry.

The acquisition of CFS Europe and subsequent de-bottlenecking has enabled the company to expand its product portfolio to a range of downstream products such as Guaiacol, Veratrole, Tertiary Butyl Catechol (TBC), and MEHQ. Both Guaiacol and TBC have a market size of 5,000 MTPA. Likewise, Veratrole has market size of 2,000 MTPA. Veratrole is an important downstream product developed & commercialized by the company. Interestingly, it has garnered 70% market share in 2015-16 & it is well accepted in India and international markets. Given, the growing market size of Veratrole & MEHQ, the focus on deeper market penetration (distribution hubs are created in North America, Asia, LATAM etc.) will provide the opportunity to scale up the business.

Notably, the company is expanding the capacity at Dahej to meet the growing demand globally for HQ, Catechol and Vanillin. We expect revenue to increase from Rs106cr to Rs175cr at 18.2% CAGR by FY19 on account of increasing production in Veratrole, MEHQ, TBC, Guaiacol.

Performance chemicals revenue to grow at 18.2% CAGR over FY16-19E



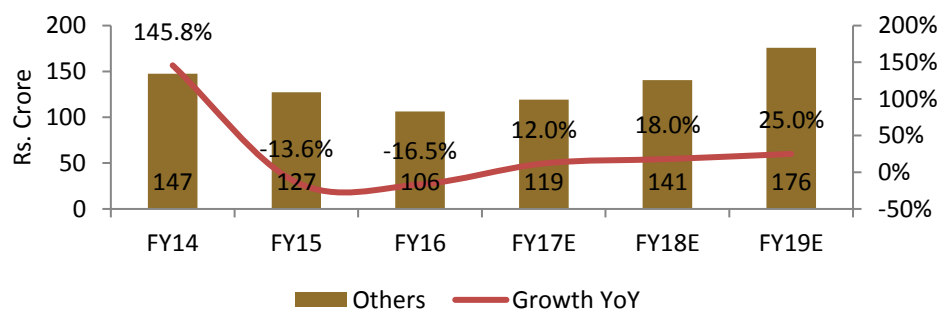
Source: Company, In-house research

Aroma business: Poised for growth

Other business of CFS includes Diphenols, Aroma and other products used across Agrochemicals, Pharma, and Cosmetics industry. In FY16, Diphenols & Aroma contributed 18% & 3% respectively to the total revenues. CFS ventured into aroma segment in FY14 and gained traction on Vanillin & Ethyl Vanillin under the brand name Vanesse and Evanil respectively. The company recently launched Ethyl Vanillin, under the brand name 'Evanil' produced from Catechol, Guethol. Ethyl Vanillin is two to three times more potent than vanillin. It offers more concentrated flavor profile with added advantage to certain segments and applications. The basic raw material to manufacture vanillin is Guaiacol, which in turn is produced from Catechol. CFS Europe produces Catechol at its manufacturing plant in Ravenna, Italy. As one of the leading manufacturers and the only Indian manufacturer of these products from Catechol origin, CFS uses an environment friendly and clean process trusted by the food and flavor industry.

The market size of vanillin is at 20,000 MTPA and is growing at 10% pa. Dahej expansion would enable CFS to increase the volumes of the Vanillin (6,000 MT Catechol capacity at Dahej would be utilized for manufacturing Vanillin). CFS is well placed to capitalize on the high growth Vanillin market (currently dominated by China) owing to the preference of US and European customers to have Vanillin produced via Guaiacol, Catechol process.

Other businesses to report 18.2% CAGR over FY16-19E



Source: Company, In-house research

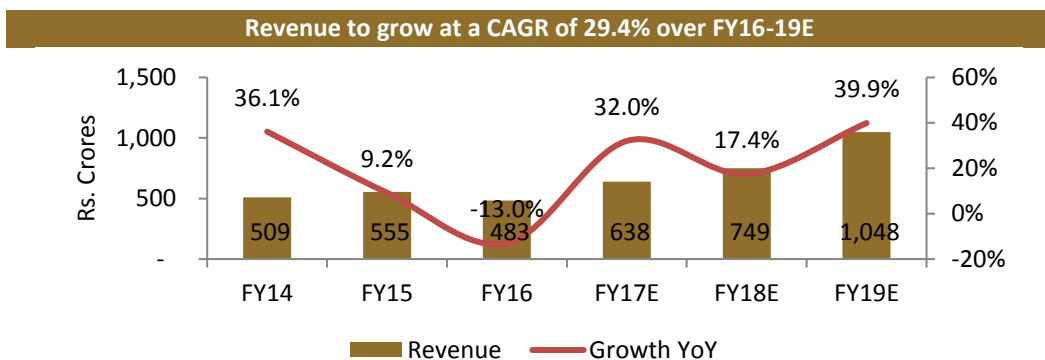
Key Risks:

- Fluctuations in global commodity prices.
- Adverse movement of exchange rate as major sales is in the form of exports.

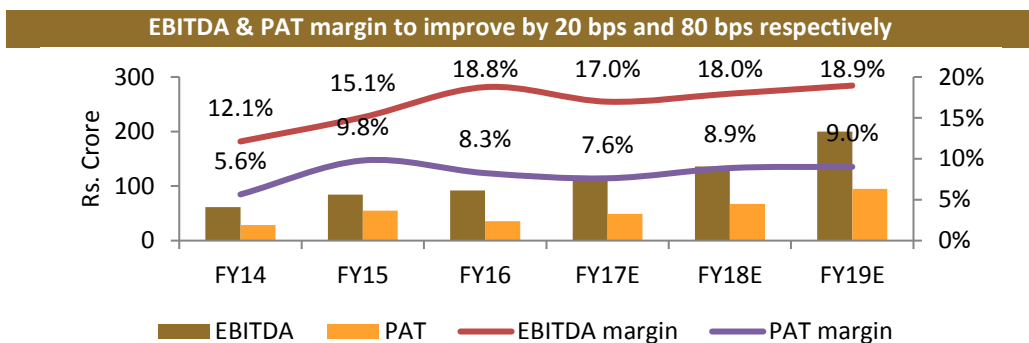
Financials

Revenue to grow at CAGR of 29.4% with EBITDA margin expansion of 20 bps

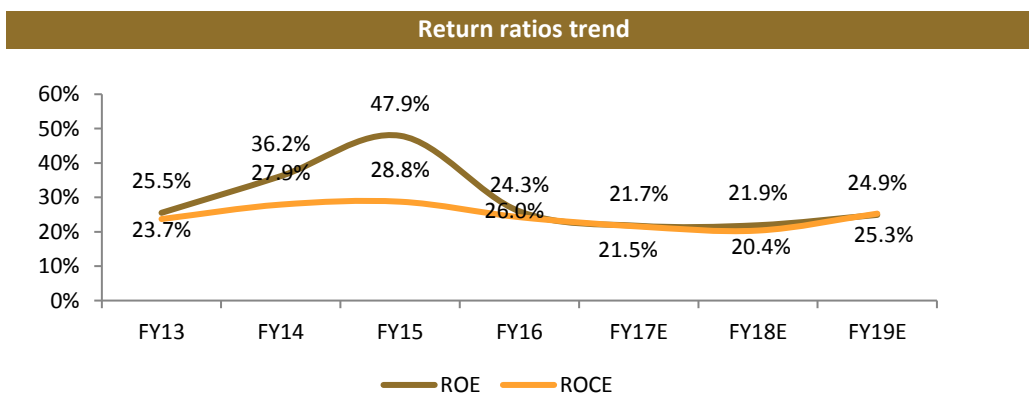
We expect revenue to grow at a CAGR of 29.4% over FY16-19E on account of three factors: 1) synergies from Mexican acquisition, 2) significant contribution from Aroma business, 3) rising revenues from performance chemicals due to higher volumes of downstream products. Further, we expect EBITDA margin to sustain over FY16-19E led by backward integration & shift in product mix. Hence, we expect PAT to grow at a CAGR of 38.5% over FY16-19E.



Source: Company, In-house research



Source: Company, In-house research



Source: Company, In-house research

Profit & Loss Account (Consolidated)

Y/E (Rs. Cr)	FY16	FY17	FY18E	FY19E
Total operating Income	489	645	756	1,055
Raw Material cost	203	274	322	440
Employee cost	40	53	62	89
Other operating expenses	154	208	236	327
EBITDA	92	109	136	200
Depreciation	17	22	23	34
EBIT	75	87	112	166
Interest cost	24	26	26	42
Other Income	4	8	8	8
Profit before tax	55	69	94	132
Tax	14	20	27	37
Profit after tax	40	49	67	95
Minority Interests	-	-	-	-
P/L from Associates	-	-	-	-
Adjusted PAT	40	49	67	95
E/o income / (Expense)	(5)	-	-	-
Reported PAT	36	49	67	95

Balance Sheet (Consolidated)

Y/E (Rs. Cr)	FY16	FY17	FY18E	FY19E
Paid up capital	10	10	10	10
Reserves and Surplus	167	265	327	416
Net worth	176	275	337	426
Minority interest	-	-	-	-
Total Debt	180	250	320	290
Other non-current liabilities	2	8	8	8
Total Liabilities	358	534	665	725
Total fixed assets	140	188	185	355
Capital WIP	25	105	205	30
Goodwill	-	-	-	-
Investments	1	1	1	1
Net Current assets	179	223	258	322
Deferred tax assets (net)	12	15	15	15
Other non-current assets	2	2	2	2
Total Assets	358	534	665	725

Cash Flow Statement (Consolidated)

Y/E (Rs. Cr)	FY16	FY17E	FY18E	FY19E
Pretax profit	55	69	94	132
Depreciation	17	22	23	34
Chg. in Working Capital	(15)	(34)	(29)	(59)
Others	27	18	18	34
Tax paid	(12)	(20)	(27)	(37)
Cash flow from operating activities	72	55	79	103
Capital expenditure	(67)	(150)	(120)	(30)
Chg. in investments	-	-	-	-
Other investing cashflow	1	8	8	8
Cash flow from investing activities	(66)	(142)	(112)	(22)
Equity raised/(repaid)	3	56	-	-
Debt raised/(repaid)	-	70	70	(30)
Dividend paid	(4)	(6)	(6)	(6)
Other financing activities	(5)	(26)	(26)	(42)
Cash flow from financing activities	(7)	94	38	(77)
Net chg in cash	(1)	8	5	4

Key Ratios (Consolidated)

Y/E	FY16	FY17E	FY18E	FY19E
Valuation(x)				
P/E	21.1	18.5	13.6	9.6
EV/EBITDA	11.0	10.4	8.8	5.8
EV/Net Sales	2.1	1.8	1.6	1.1
P/B	4.8	3.3	2.7	2.1
Per share data (Rs)				
EPS	4.2	4.8	6.5	9.2
DPS	0.5	0.5	0.5	0.5
BVPS	18.2	26.7	32.6	41.3
Growth (%)				
Net Sales	-13.0	32.0	17.4	39.9
EBITDA	9.1	19.2	24.1	47.2
Net profit	-26.2	21.6	36.7	41.8
Operating Ratios				
EBITDA Margin (%)	18.8	17.0	18.0	18.9
EBIT Margin (%)	15.3	13.5	14.9	15.7
PAT Margin (%)	8.3	7.6	8.9	9.0
Return Ratios (%)				
RoE	26.0	21.7	21.9	24.9
RoCE	24.3	21.5	20.4	25.3
Turnover Ratios (x)				
Net Sales/GFA	1.5	1.6	1.7	1.9

Rating Criteria

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Upside or downside is less than 10%	Accumulate*	Upside between 10% & 15%
Reduce	Less than equal to -10%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

* CFS is a small-cap company

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