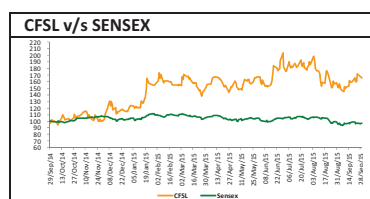


Current	Previous
<b>CMP: Rs.107</b>	
<b>Rating: BUY</b>	<b>Rating: NR</b>
<b>Target: Rs.136</b>	<b>Target: NR</b>

Units Rs/Mn.	FY15	FY16e	FY17e
Net Sales	5,583	6,197	7,188
EBITDA	838	992	1,223
EBITDA Margin (%)	15.0	16.0	17.0
PAT	547	521	683
PAT Margin (%)	9.8	8.4	9.5
EPS	5.7	5.4	7.1
ROE (%)	40.5	28.5	27.7
P/E	18.8x	19.7x	15.0x
EV/EBITDA	13.7x	11.6x	9.4x

SHAREHOLDING PATTERN	%
(as on Jun. 2015)	
Institutions	1.3
Others, Incl Public	46.7
Promoters	52.0

Source: BSE



Source: Capitaline, IndiaNivesh Research

Camlin Fine Sciences Ltd (CFSL) is one of the India's leading manufacturers & exporters of Food antioxidant, Fine Chemicals, and Food Grades Products. The company has emerged as niche specialty chemical company with global market leadership in key food antioxidants like TBHQ and BHA. Additionally, its breakthrough into water based synthetic (Solvent Free) technology to manufacture GUAIACOL (Raw Material for Vanillin) gathered attention of many MNC blenders and key manufacturer. The products portfolio offered by CFSL is not available with any domestic player and globally also very few competitors exist. We recommend BUY with target price of Rs.136 on CFSL.

## Investment Rationale

### Inorganic Action Created Significant Moat...

- Borregaard Industries Ltd acquisition created significant technology moat around CFSL business. The acquisition also mitigated raw material risk. CFSL was dependent on Rhodia for supply of raw materials (Hydroquinone & Catechol), which was not available in right quantity and price. This edge also led to launch of various downstream products like MEHQ, TBC, Veratrole, Catechol, and Guaiacol. Additionally, the technology to manufacture Vanillin was also developed on back of this edge. In last four years (FY12-15), Borregaard delivered 26.5% revenue CAGR on consolidated level. However, on an average 45% of the total sales are only reported and remaining adjusted through internal sale and purchase.

### Emerging Blend Company...

- In order to device customize solutions for food industry; CFSL commissioned blending facility with application laboratory in India at two places [Tarapur on Apr-2014 and Mumbai on Feb-2015]. Further, the blending facility is also commissioned in Indaiatuba, Brazil on Sep-2014. Additionally, CFSL is setting up subsidiary in China, Mexico & US to service these markets closely. The company offers these food formulations/food blends solutions under 'Xtendra' brand name. Major legal approvals like Fragrance & Flavours Association of India (FAFAI) and Federation of Essential Oil & Aroma Traders (IFEAT) are also in place. We forecast contribution of 0.3%/3.0% (Rs 20 mn/Rs.250 mn) to total revenue from antioxidant blend business in FY16E/FY17E.

### Dahej Capacity Expansion Margin Accretive...

- CFSL is setting up an integrated chemical manufacturing facility at Dahej with a total Capex of ~Rs 1,810 mn. The company already acquired 64,407 sq. meters (worth Rs.80 mn) of land in Dahej SEZ. This integrated plant will manufacture 9,000 MTPA Hydroquinone, 6,000 MTPA Catechol and 6,000 MTPA Vanillin. In our view, commencement of Dahej facility would improve sales-to-raw-material ratio further. Additionally, Borregaard can sell Hydroquinone (~4900 MTPA) and Catechol (~2000 MTPA) in Europe & US markets. The Company has already appointed Project management Consultant of international repute and project is expected to be commissioned during 2HFY18 and full-scale manufacturing/commercial operations should start from FY19.

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## New product launch – key growth driver

CFSL as a part of its growth strategy has progressed towards expanding its product portfolio in Food Ingredients and Industrial Products Divisions. On the same line, the company launched four new products (HQMME, MDB-Methylene, 1-Chloro-2,5-DI methoxy Benzene, and MDB-Methylen) in FY16. Given the cost and quality advantage, we expect these products to gain sizeable market share and likely to deliver higher revenue growth over near-to-medium-term. Additionally, the company's launch of Vanillin & Ethi-Vanillin and capacity expansion of Hydroquinone and Catechol in Q2FY18 should bode well on the company's revenue and profitability. On back of proven R&D capabilities, we believe the company is well placed to launch series of new products (25-30) from Diephenol derivatives. The company also expanded its sales team in Latin America, India and China to increase customer reach and penetrate global markets.

## Opportunity to expand market-share in existing portfolio

In most of the company's performance product portfolio only two manufacturer (CFSL & Rhodai) exist globally. As a result, we believe products like HQMME, Catechol, Veratrole, TBC, MDB-Methylene Dioxybenzene, 1-Chloro-2, 5-Dimethoxy, 4-Methoxy Aceto could command huge market share (MS) going-ahead. The market shares of these products are very low (0% to 24% of the total MS). The capacity expansion of HQMME from 100 MTPA to 1200 MTPA should further facilitate in expanding market share. Additionally, increase in TBHQ capacity from 2,400 to 3,600 and enhancement of Europe facility (HQ and Catechol) from 600 MT/ p.m to 1000 MT/ p.m will further expand the market share.

## Global Expansion – Long-term growth Engine...

In order to improve service, shorten supply time and grow blends business, CFSL established manufacturing facility in Mexico. The plant capacity is at 310 MT/p.m of antioxidant blend. The facility is spread across 11,000 sq. ft. (Kosher facility) equipped with cutting edge technology. CFSL also appointed experienced marketing professionals in Europe to expand food antioxidant blend business. CFSL has appointed a Global Technical Head as part of its initiative to develop food antioxidant blend and other products. In our view, these initiatives will bring more focus and expand revenue in global markets over long-term.

## Risk & Concern

- Elongation in stabilization of Dahej facility
- Increase in Debt level & Interest expenditure
- EBITDA margin deterioration due to production loss

## Valuation

At CMP of Rs.107, the stock is trading at EV/EBITDA multiple of 11.6x FY16E and 9.4x FY17E estimates. Given the technology led moat in business and ability to expand in various diphenol derivatives, CFSL is well positioned to deliver higher revenue and margin over medium-to-long-term. Considering the healthy ROE and ROCE, CFSL is in for re-rating, in-line with other listed Indian chemical players. We value CFSL at EV/EBITDA multiple of 13.0x (Industry average 13.4x) FY17E and arrive at target price of Rs.136 on the stock. Additionally, increasing focus on international subsidiary should bode well on revenue and profitability.

Company (Rs Mn)	Sales (Rs Mn)			Y/Y Gr%			EBITDA			EBITDA %			ROE %			ROCE %			EV/EBITDA (x)			P/E (x)		
	FY15	FY16e	FY17e	FY15	FY16e	FY17e	FY15	FY16e	FY17e	FY15	FY16e	FY17e	FY15	FY16e	FY17e	FY15	FY16e	FY17e	FY15	FY16e	FY17e	FY15	FY16e	FY17e
PI Industries Ltd	19,403	23,105	28,130	21.6	19.1	21.7	3,803	4,617	5,775	19.6	20.0	20.5	30.9	28.4	28.9	27.6	26.9	27.5	22.0	19.2	15.3	35.5	29.0	22.1
Rallis India Ltd	18,218	20,424	23,545	4.3	12.1	15.3	2,824	3,176	3,846	15.5	15.6	16.3	22.7	20.9	22.5	19.0	17.9	19.5	16.1	14.2	11.8	27.0	23.7	18.8
BASF India Ltd	46,949	52,850	59,944	6.3	12.6	13.4	1,637	3,564	4,694	3.5	6.7	7.8	-5.5	6.8	12.4	NA	4.8	10.4	38.6	17.5	13.3	NA	52.7	25.4
Camlin Fine Science Ltd	5,583	6,197	7,188	9.8	11.0	16.0	882	992	1,223	15.8	16.0	17.0	36.2	28.5	27.7	31.0	30.0	29.5	11.3	10.9	8.9	17.5	18.4	14.0

Source: Company Filings; IndiaNivesh Research

## Current Product &amp; Capacities

Products	Location	Capacity				Current Rate Per/Kg USD	Usage	Customers	Rev Mix		Category	Global Market Size (MTPA)	Market Growth %
		FY15 MTPA	FY16E MTPA	FY17E MTPA	FY18E MTPA				Import	Export			
<b>Hydroquinone</b>													
+	ITALY (Ravenna)	5,000	5,000	5,000	5,000	6.5	Antioxidant, Polymers, Rubber, Inhibitors	Germany, Europe, UK	70%	30%	Bulk	60000	4%
+	India (Dahej)			9,000	9,000	6.5							
- Tert-Butyl Hydroquinone(TBHQ)	Tarapur	2,400	3,600	3600	3600	10.0	BULK Chemical: Palm Oil Industry, Packaged Beef Industry, Fast Food Industry	Blend Maker, Oil Processors	20%	80%	Food Application: Antioxidant	6000	3%
- Hydroquinone Mono Methyl Ether (HQMME)	Tarapur	100	1,200	1200	3000	10.0	BULK Chemical: Standard Stabilizer to Acrylate Industry	Plastic & Polymerization	10%	90%	Industrial Monomoro	8000	4%
- Butylated Hydroxyanisole(BHA)	Tarapur	2,000	2,400	2400	2400	15.0	Bulk Chemicals: Fish Liver Oil, Biscuits, Cosmetic, Oils, Pharma, Flavour's, Pet Feed	Blend Maker, Oil Processors	10%	90%	Food Application: Antioxidant	4000	3%
- Ascorbyl Palmitate	Tarapur	0	200	200	200	30.0	Bulk Chemicals: Vitamin C Chemical	Blend Maker, Pharma	0%	100%	Food Application: Antioxidant	300	2%
<b>Catechol</b>													
+	ITALY (Ravenna)	6,000	6,000	6,000	6,000	3.3	Pharma, Agrochem, Food, Dyes, Dyestuff	US, Europe, (India Internal ~3000 MTPA)	60%	40%	Bulk	40000	3%
+	India (Dahej)				6,000	3.3							
- Veratrole	Tarapur	600	1,000	1000	1000	6.0	Agrochemical, Pharma	Synthesis	20%	80%	Performance Chemical	4000	5%
- TBC	Khopali	1,200	1,200	1,200	1,200	5.5	Used in Butadiene, Styrene, VAM & VCM	Stablizer	20%	80%	Industrial Monomoro	6000	10%
- MDB- Methylene Dioxybenzene	Tarapur	Trial Launch (NA)				6.0	Pharma, Agrochem, Fragrance Ind.	Stablizer	0%	0%	Industrial Monomoro	5000	3%
- 1-Chloro-2,5-Dimethoxy Benzene	Tarapur	Trial Launch (NA)				6.0	Specialized Product in Dyestuff Ind	Stablizer	0%	0%	Performance Chemical	5000	4%
- Guaiacol	Tarapur	2,000	4,000	4000	10000	5.5	Food & Flavoring Industry, Pharma Industry	Flavoring & Fragrance Ind	20%	80%	Performance Chemical	50000	4%
<b>Guaiacol</b>													
- 4-Methoxy Acetophenone	Mahad	Trail Launch (NA)				7.0	Pharma, Cosmetics, & Flavoring Agent	Intermediate Chemical	0%	0%	Performance Chemical	4000	3%
- Vanillin & Ethyl Vanilli	Dahej	6000				13.0					Aroma & Flavours	20000	4%
<b>Blends</b>													
- Brazil	Indaiatuba	-	3,410	3,410	3,410		Food Industry	Antioxidant Blends		100%	Aroma & Flavours		

Source: Company Filings; IndiaNivesh Research

## Consolidated Financials

## Income Statement

Y E March (Rs m)	FY15	FY16e	FY17e	FY18e	FY19e
Net sales	5,583	6,197	7,188	8,303	12,952
Y/Y Ch %	9.8	11.0	16.0	15.5	56.0
COGS	3,609	3,944	4,503	5,118	7,854
SG&A	1,136	1,261	1,463	1,690	2,636
<b>EBITDA</b>	<b>838</b>	<b>992</b>	<b>1,223</b>	<b>1,495</b>	<b>2,462</b>
Y/Y Ch %	35.9	18.4	23.2	22.3	64.7
EBITDA Margin %	15.0	16.0	17.0	18.0	19.0
Depreciation	163	187	205	253	309
<b>EBIT</b>	<b>675</b>	<b>805</b>	<b>1,017</b>	<b>1,243</b>	<b>2,153</b>
EBIT Margin %	12.1	13.0	14.2	15.0	16.6
Interest	238	254	270	302	445
Other Income (Inc Forex)	87	77	77	77	77
Extra Ordinary Exps/(Income)	-	-	-	1	2
<b>PBT</b>	<b>525</b>	<b>628</b>	<b>824</b>	<b>1,017</b>	<b>1,783</b>
Tax	-22	107	141	179	314
Effective tax rate %	-4.2	17.1	17.1	17.6	17.6
<b>Reported PAT</b>	<b>547</b>	<b>521</b>	<b>683</b>	<b>838</b>	<b>1,470</b>
Y/Y Ch %	90.3	-4.8	31.3	22.6	75.4
Minority	0	-	-	-	-
<b>Adj. PAT (APAT)</b>	<b>547</b>	<b>521</b>	<b>683</b>	<b>838</b>	<b>1,470</b>
RPAT Margin %	9.8	8.4	9.5	10.1	11.3
Y/Y Ch %	90.4	-4.7	31.3	22.6	75.4

Source: Company filings; IndiaNivesh Research

## Cash Flow

Y E March (Rs m)	FY15	FY16e	FY17e	FY18e	FY19e
Operating Profit	675	805	1,017	1,243	2,153
Depreciation	163	187	205	253	309
Changes in Working Capital	-520	-143	-247	-270	-1,183
Interest Paid	-238	-254	-270	-302	-445
<b>Cash Flow After Chang in WC</b>	<b>80</b>	<b>594</b>	<b>706</b>	<b>924</b>	<b>834</b>
Tax	22	-107	-141	-179	-314
Others	87	77	77	77	77
<b>Cash flow from operations</b>	<b>189</b>	<b>564</b>	<b>642</b>	<b>822</b>	<b>597</b>
Capital expenditure (net)	-229	-500	-900	-900	-450
<b>Free Cash Flow</b>	<b>-39</b>	<b>64</b>	<b>-258</b>	<b>-78</b>	<b>147</b>
Other income	0	0	0	0	0
Investments	0	0	0	0	0
<b>Cash flow from investments</b>	<b>-229</b>	<b>-500</b>	<b>-900</b>	<b>-900</b>	<b>-450</b>
Long-Term Debt (Decrease) Increase	116	100	200	900	0
Dividend paid (incl tax)	-43	-43	-43	-43	-43
Share Issue / Repurchase & Others	2	0	0	0	0
<b>Cash flow from Financing</b>	<b>74</b>	<b>57</b>	<b>157</b>	<b>857</b>	<b>-43</b>
<b>Net change in cash</b>	<b>35</b>	<b>121</b>	<b>-101</b>	<b>779</b>	<b>104</b>
<b>Cash at the beginning of the year</b>	<b>158</b>	<b>193</b>	<b>314</b>	<b>213</b>	<b>992</b>
<b>Cash at the end of the year</b>	<b>196</b>	<b>314</b>	<b>213</b>	<b>992</b>	<b>1,096</b>

Source: Company filings; IndiaNivesh Research

## Balance Sheet

Y E March (Rs m)	FY15	FY16e	FY17e	FY18e	FY19e
Share Capital	96	96	96	96	96
Reserves & Surplus	1,253	1,730	2,371	3,166	4,595
<b>Net Worth</b>	<b>1,349</b>	<b>1,826</b>	<b>2,466</b>	<b>3,262</b>	<b>4,691</b>
Minority	0	0	0	0	0
Long-term loans	1600	1700	1900	2800	2800
Others	15	15	15	15	15
<b>Total Liabilities</b>	<b>2,963</b>	<b>3,541</b>	<b>4,381</b>	<b>6,077</b>	<b>7,505</b>
Gross Block	2,979	3,479	4,379	5,279	5,729
Less Depreciation	1,887	2,074	2,279	2,532	2,841
<b>Net Block</b>	<b>1,092</b>	<b>1,405</b>	<b>2,100</b>	<b>2,747</b>	<b>2,888</b>
Long Term Inv & Others	53	53	53	53	53
<b>Current Assets</b>	<b>2,987</b>	<b>3,358</b>	<b>3,704</b>	<b>4,979</b>	<b>7,208</b>
Sundry Debtors	1,134	1,256	1,438	1,638	2,448
Cash & Bank Balance	193	314	213	992	1,096
Inventories	1,364	1,477	1,694	1,933	3,016
Others	296	310	359	415	648
<b>Current Liabilities</b>	<b>1,169</b>	<b>1,274</b>	<b>1,475</b>	<b>1,701</b>	<b>2,643</b>
Trade Payables	1,151	1,256	1,457	1,683	2,626
Provisions	18	17	17	17	17
<b>Net Current Assets</b>	<b>1,818</b>	<b>2,084</b>	<b>2,229</b>	<b>3,278</b>	<b>4,565</b>
<b>Total assets</b>	<b>2,963</b>	<b>3,541</b>	<b>4,381</b>	<b>6,077</b>	<b>7,505</b>

Source: Company filings; IndiaNivesh Research

## Key Ratios

Y E March	FY15	FY16e	FY17e	FY18e	FY19e
Adj. EPS (Rs)	5.7	5.4	7.1	8.7	15.3
Cash EPS (Rs)	7.4	7.4	9.3	11.4	18.6
DPS (Rs)	0.45	0.45	0.45	0.45	0.45
BVPS	14.1	19.0	25.7	34.0	48.9
ROCE %	31.0	30.0	29.5	25.5	34.7
ROE %	40.5	28.5	27.7	25.7	31.3
ROIC %	17.1	13.5	14.7	13.1	19.0
EBITDA Margin %	15.0	16.0	17.0	18.0	19.0
Net Margin %	9.8	8.4	9.5	10.1	11.3
PER (x)	18.8x	19.7x	15.0x	12.2x	7.0x
P/BV (x)	7.6x	5.6x	4.2x	3.1x	2.2x
P/CEPS (x)	14.5x	14.5x	11.5x	9.4x	5.8x
EV/EBITDA (x)	13.7x	11.6x	9.4x	7.7x	4.7x
Dividend Yield %	0.42	0.42	0.42	0.42	0.42
m cap/sales (x)	1.8x	1.6x	1.4x	1.2x	0.8x
net debt/equity (x)	1.0x	0.8x	0.7x	0.6x	0.4x
net debt/ebitda (x)	1.7x	1.4x	1.4x	1.2x	0.7x
Debtors (Days)	73	74	73	72	69
Creditors (Days)	74	74	74	74	74
Inventory (Days)	88	87	86	85	85

Source: Company filings; IndiaNivesh Research