

Camlin Fine Sciences

Refer to important disclosures at the end of this report

Going in right direction; maintain Buy

CMP	Target Price
Rs 40	Rs 73 (▼)
as of (February 12, 2019)	12 months
Rating	Upside
BUY (■)	80.7 %

- Camlin Fine Sciences' (CFIN) Q3FY19 consolidated performance was above estimates on revenue and PAT front. Revenue up 17% yoy to Rs2.41bn (est. Rs2.29bn); EBITDA up 232% yoy to Rs154mn (est. Rs160mn); with net loss at Rs20mn (est. Rs36mn loss).
- CFIN's performance is headed in the right direction and well in line with our expectations. The key loss-making subsidiaries in Brazil and China are reaching a breakeven. Further, its US subsidiary is likely to reach above the break-even, driven by recent large client wins.
- We are trying to analyze the possible future events by considering alternative possible outcomes. Additionally we are also depicting possible impacts on the intrinsic value by using scenario analysis. Given the many moving parts in the business such as Dahej Project commencement and key subsidiaries turnaround, we are building three scenario analysis: (I) Bull-case – (Dahej on time+ Subsidiaries turn profitable), (II) Base-Case: Assumption (1.5 Qtr of Dahej benefit in FY20E+Subsidiaries breakeven), (III) Bear-case: (1.5 Qtr of Dahej benefit in FY20E+Subsidiaries in losses).
- We currently consider the base-case scenario and arrive at a TP of Rs73 (16x FY21E) relative to our earlier bull-case TP of Rs183. We continue to maintain Buy.

Strong growth seen in subsidiaries

Barring North America, all its subsidiaries reported strong revenue growth in Q3FY19. CFS Wanglong's revenue doubled to Rs629mn (Rs321mn in Q3FY18) on increasing utilization, while CFS Europe, CFS Mexico and CFS Brazil revenues grew 24%/34%/18% yoy, respectively. CFS North America revenue decreased by 36% yoy over some order delays.

Forex loss plays spoilsport; standalone hit the most

Due to dollar dominated standalone business, CFIN incurred a forex loss of Rs104mn for India operations as rupee appreciated against dollar during the quarter (at 69 vs. 73 in Q2FY19). Adjusting to forex, EBITDA stood at Rs28mn vs. loss of Rs46mn in Q3FY18. Similarly, on a consolidated basis, forex adjusted EBITDA was Rs208mn vs. Rs87mn in Q3FY18. Mexican Peso depreciated against dollar, which curtailed the operational profit.

Product launches and rise in utilization to boost subsidiaries' performance

In Q3FY19, CFIN launched new products in Brazil under its animal nutrition segment. Furthermore, CFS North America secured new orders during the quarter. CFS Wanglong is targeting new geographies. These initiatives together should translate into strong revenue growth in FY20. Moreover, with improvements in its utilization levels across subsidiaries, consolidated operational profit should surge significantly in the same period.

Improvement in operational performance; maintain Buy

CFIN's key segments reported strong revenue growth. In order to ascertain fluctuations in the timeline of key catalysts (Dahej project commencement and turnaround in the US, Brazil and China subsidiaries) on TP, we build in three scenarios. Grounded on the base-case scenario, we arrive at a TP of Rs73 (16x FY21E) and cut FY20E EPS by 77%. We reiterate our Buy.

Financial Snapshot (Consolidated)

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	5,339	7,206	8,950	11,590	13,908
EBITDA	282	126	750	1,250	1,931
EBITDA Margin (%)	5.3	1.7	8.4	10.8	13.9
APAT	(45)	(241)	(83)	227	594
EPS (Rs)	(0.4)	(2.0)	(0.7)	1.7	4.6
EPS (% chg)	(111.6)	0.0	0.0	0.0	161.8
ROE (%)	(2.3)	(8.3)	(2.4)	8.2	22.4
P/E (x)	(94.0)	(20.3)	(59.0)	23.2	8.9
EV/EBITDA (x)	25.2	63.6	12.2	8.1	5.2
P/BV (x)	2.0	1.3	1.5	2.2	1.8

Source: Company, Emkay Research

Change in Estimates

EPS Chg FY19E/FY20E (%)	-(81)
Target Price change (%)	(60)
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY19E	FY20E
Emkay	(0.7)	1.7
Consensus	0.3	7.9
Mean Consensus TP (12M)	Rs 162	

Stock Details

Bloomberg Code	CFIN IN
Face Value (Rs)	1
Shares outstanding (mn)	121
52 Week H/L	133 / 36
M Cap (Rs bn/USD bn)	5 / 0.07
Daily Avg Volume (nos.)	2,89,674
Daily Avg Turnover (US\$ mn)	0.2

Shareholding Pattern Dec '18

Promoters	22.6%
FIIIs	1.4%
DIIIs	19.0%
Public and Others	57.1%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(22)	(31)	(54)	(69)
Rel. to Nifty	(22)	(33)	(51)	(70)

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Exhibit 1: Actual vs. Estimates (Q3FY19)

(in Rs Mn)	Actual	Emkay Estimate	% Variation	Comment
Sales	2414	2293	5.3	Marginally above estimates due to higher revenue growth on a standalone basis.
EBITDA	154	160	-3.6	In line with our estimates
EBIT margin %	6.4	7.0	-60bps	
APAT	-20	-36	-43.5	Marginally ahead of our estimates due to better subsidiary performance

Source: Company, Emkay Research

Exhibit 2: Changes in estimates to adjust base case assumption

All fig in Rs mn	FY19E			FY20E			FY21E
(Ex Margin/EPS)	Old	New	% Change	Old	New	% Change	New
Revenues	9,188	8,950	-2.6	11,898	11,590	-2.6	13,908
EBITDA	661	750	13.5	2,402	1,250	-48.0	1,931
EBITDA margins %	7.2	8.4	16.4	20.2	10.8	-46.6	13.9
Net profits	26	-83	-419.3	1,196	227	-81.0	594
EPS	0.2	-0.7	-442.3	9.2	1.7	-81.1	4.6

Source: Company, Emkay Research

Scenario Analysis

CFIN's investment thesis revolves around: the commencement of Dahej facility, and a turnaround in its loss-making subsidiaries in China, the US and Brazil. Hence, we are using scenario analysis to predict the impact on TP due to a shift in different timeline for the aforementioned factors.

Base-Case Assumption (1 month delay in Dahej + Subsidiaries above breakeven)

- Dahej facility's commencement and stabilization by the end of Q3FY20. As a result, margin improvement due to Dahej facility is only going to contribute for one quarter in FY20E.
- Expecting loss-making subsidiaries in Brazil, the US and China reaching to mid-to-high single-digit EBITDA margin.
- EPS estimate FY19/20/21 of -Rs0.69/Rs1.66/Rs4.47, respectively.
- We value the stock at 16x FY21E earnings and arrive at a TP of Rs73/share.

Exhibit 3: Base Case

Rs mn	FY19E	FY20E	FY21E
Revenue			
Standalone	5,516	7,340	9,250
Subsidiary	7,522	9,592	11,075
Less: Inter segment	4,088	5,034	6,048
Total Revenue	8,950	11,898	14,278
EBITDA			
Standalone	300	734	1,025
Subsidiary	565	808	1,202
Less: Inter segment	115	292	296
Total EBITDA	750	1,250	1,931
Margin	8.4%	10.5%	13.5%
PAT	-83	217	583
EPS (Rs)	-0.69	1.66	4.57
TP (Rs)			73

Source: Company, Emkay Research

Bull-Case Assumption (Dahej on time + Subsidiaries turns profitable)

- Dahej facility's commencement and stabilization by the end of Q2FY20. As a result, margin improvement due to Dahej facility is going to contribute for two quarters in FY20E. In this case, EBITDA margin improvement will be significant in FY20/21E to 16.1%/20.0%.
- Expecting subsidiaries to report strong revenue growth, with substantial improvement in EBITDA performance – Brazil, the US and China likely to reach to mid double-digit margin.
- Expecting FY19/20/21E EPS to be Rs-0.69/6.04/11.46, respectively.
- Value the stock at 16x FY21E earnings and arrive at TP of Rs183.

Exhibit 4: Bull Case

Rs mn	FY19E	FY20E	FY21E
Revenue			
Standalone	5,516	7,512	9,766
Subsidiary	7,522	9,838	11,708
Less: Inter segment	4,088	5,158	6,389
Total Revenue	8,950	12,192	15,084
EBITDA			
Standalone	300	773	1,306
Subsidiary	565	1,306	1,825
Less: Inter segment	115	115	115
Total EBITDA	750	1,964	3,016
EBITDA Margin (%)	8.4%	16.1%	20.0%
PAT	-83	786	1,492
EPS (Rs)	-0.69	6.04	11.46
TP (Rs)			183

Source: Company, Emkay Research

Bear-Case Assumption (1 month delay in Dahej + Subsidiaries remain in losses)

- Dahej facility's commencement and stabilization by the end of Q3FY20. As a result, margin improvement due to Dahej facility is only going to contribute for one quarter in FY20E.
- Expecting loss-making subsidiaries in Brazil, the US and China to report losses without any major improvement in the three subsidiaries' overall performance.
- Expecting FY19/20/21E EPS to be Rs-0.69/Rs0.57/Rs2.87, respectively.
- Valuing the stock at 16x FY21E earnings, we arrive at a TP of Rs46.

Exhibit 5: Bear Case Scenario

Rs mn	FY19E	FY20E	FY21E
Revenue			
Standalone	5,516	6,895	8,274
Subsidiary	7,522	9,037	10,119
Less: Inter segment	4,088	4,737	5,473
Total Revenue	8,950	11,196	12,921
EBITDA			
Standalone	300	408	868
Subsidiary	565	766	959
Less: Inter segment	115	115	115
Total EBITDA	750	1,058	1,712
EBITDA Margin (%)	8.4%	9.5%	13.2%
PAT	-83	75	374
EPS (Rs)	-0.69	0.57	2.87
TP (Rs)			46

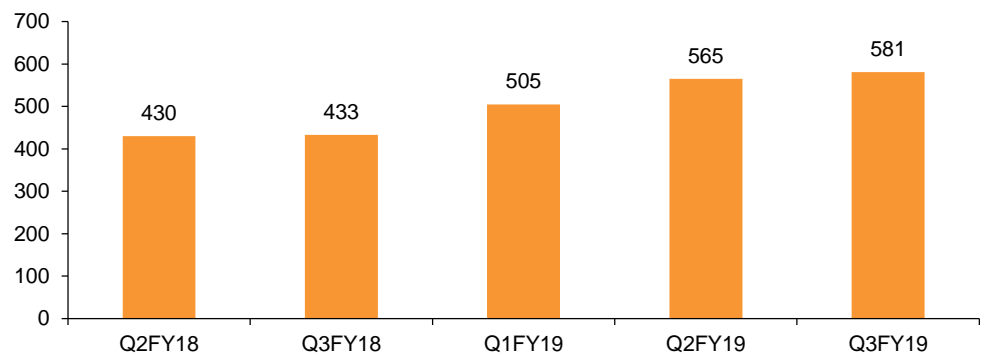
Source: Company, Emkay Research

Conference call highlights

CFS Mexico – Blends business; delivered 34% yoy revenue growth

- CFS Mexico continues to remain the top-performing unit for CFIN, with improving profitability. Revenue grew 34% yoy, with 17% EBITDA margin in Q3FY19.
- Margins were marginally impacted as Peso depreciated against dollar during the quarter.
- CFS Mexico caters to the whole of Central America through its six subsidiaries based in Peru, Guatemala, Cuba, the Dominican Republic, Colombia, and Mexico. The company has its own plant and a blending facility in Guatemala, through which, it serves the entire region.
- Management plans to improve the market share by expanding its distribution network and launching new products in the future.

Exhibit 6: CFS Mexico Performance

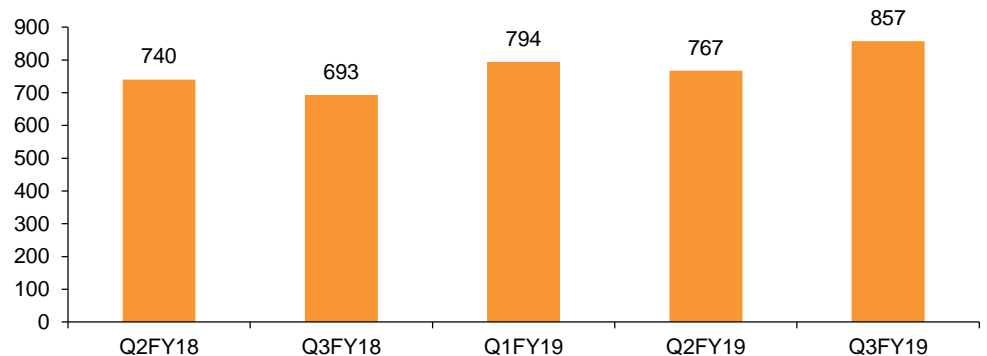


Source: Company, Emkay Research

CFS Europe – performance product and blends; improved profitability

- CFS Europe remains vital for the company for the availability of key raw materials such as Hydroquinone (HQ) and Catechol (CT). In addition, the company is now going to start the blending facility from March 2019, which will provide more revenue visibility for future growth.
- CFS Europe reported strong 24% yoy revenue growth and improved EBITDA margins. Stable currency, higher utilization (95%) and cost-cutting measures resulted in better profitability.
- The company is expanding its product sales team with two new additions

Exhibit 7: CFS Europe Performance

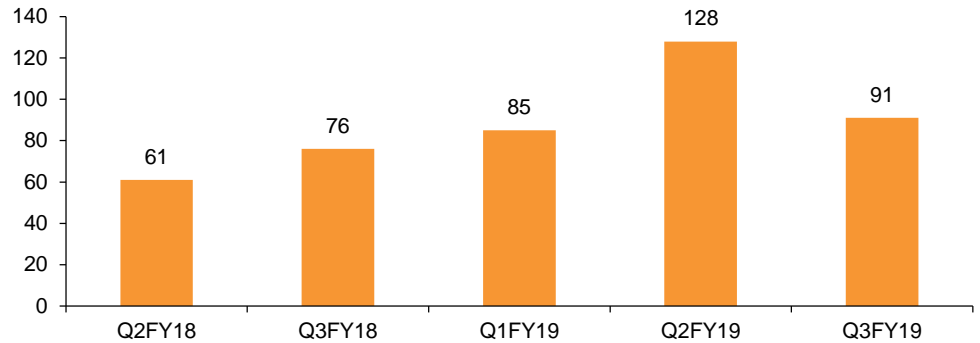


Source: Company, Emkay Research

CFS Brazil - blends business; new product launches aided growth

- The subsidiary has improved significantly in the recent quarters and turned EBITDA positive in the last quarter. Seasonally, Q3 being a lower sales quarter, the company reported 20% yoy growth on new product launches in its animal nutrition business.
- Management expects 40% growth in this subsidiary in FY20E.

Exhibit 8: CFS Brazil's performance

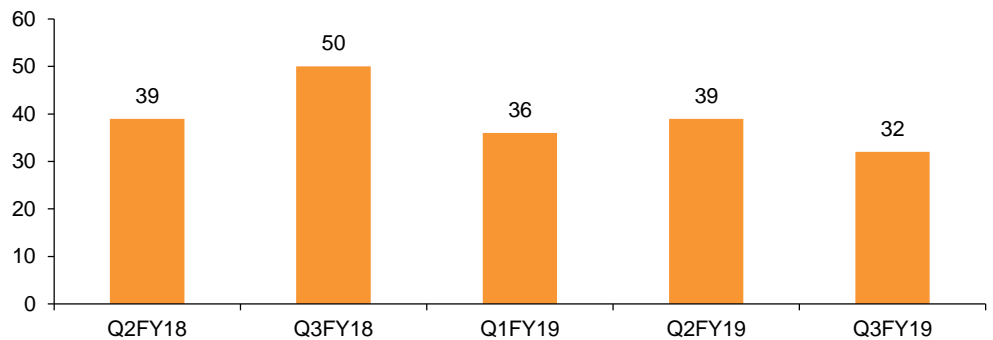


Source: Company, Emkay Research

CFS North America - blends business; Q4FY19 to be better with new order wins

- The company reported a 36% yoy decline due to delay in some orders. However, it has launched new products in natural antioxidants and animal nutrition segments. Benefits of these will be visible from the next quarter.
- The company has secured new orders; the supply of which will commence from Q4FY19. Hence, it expects better growth from Q4FY19.

Exhibit 9: CFS North America Performance

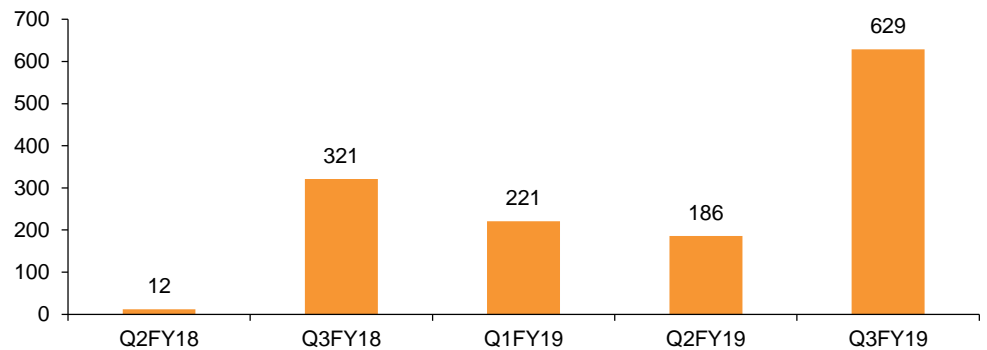


Source: Company, Emkay Research

CFS Wanglong (China) - Aroma business; scaling business

- CFS Wanglong's (China) sales doubled to Rs629mn compared to Rs321mn. However, due to higher raw material prices, EBITDA remained under pressure. It reported EBITDA loss of Rs10mn (flat yoy). Q3 normally is better for the business.
- Debottlenecking is going on and will see better profitability from Q4FY19. The current capacity utilization stood at 63% level (72% is breakeven). Management expects the capacity utilization to reach 100% next year.
- CFS Wanglong is expanding consistently and looking to add five more geographies over the next year.

Exhibit 10: CFS Wanglong's performance



Source: Company, Emkay Research

Dahej project update: To start from Q2FY20

- Installations are in full swing. Mechanical completion slightly delayed due to some reason but will be completed by June 2019.

Other Highlights

- Other expenses include forex losses of Rs50mn on a consolidated basis and Rs104mn on a standalone basis. Dollar depreciated against rupee during the quarter, which has resulted in a forex loss (against gain in Q2FY19). Furthermore, other expenses also include tolling charges to the tune of Rs50mn, which increased due to higher volumes at Khopoli and Mahad.
- New product HEQ will be launched in March 2019. The recently launched MEHQ and TBC are gaining traction.
- The facility at Mahad will be expanded to 350tons from 275tons by Q1FY20.
- Lockheed Martin's contract is on track and the first scheduled supply will commence from Q3FY21.

Exhibit 11: Consolidated Quarterly Performance

Rs Mn	Q3FY18	Q2FY19	Q3FY19	YoY (%)	QoQ (%)	9MFY18	9MFY19	YoY %
Revenue	2,067	2,013	2,414	16.8	19.9	4,915	6,241	27.0
Operating Expenditure	1,227	1,048	1,271	3.6	21.3	2,920	3,197	9.5
Gross Profit	840	966	1,143	36.1	18.4	1,995	3,044	52.6
as % of sales	40.7	48.0	47.4			40.6	48.8	
SG&A expenses	794	794	989	24.6	24.6	2,024	2,579	27.4
as % of sales	38.4	39.4	41.0			41.2	41.3	
EBITDA	46	172	154	232.5	(10.4)	-29	465	-1691.4
Depreciation	60	76	68	13.0	(11.1)	169	217	28.5
EBIT	-14	96	86	-725.0	(9.8)	-198	249	-225.6
Other Income	21	99	8	(60.6)	(91.5)	67	145	115.7
Interest Expenses	91	95	111	22.0	16.7	230	293	27.6
PBT	-83	100	-16	NA	NA	-361	100	-127.8
Total Tax	-33	80	-8	NA	NA	-164	133	-181.4
Adjusted PAT	-50	19	-8	NA	NA	-197	-33	NA
(Profit)/Loss from JV/Ass/MI	-	6	12	NA	101.3	17	34	
APAT after MI	-50	13	-20	NA	NA	-214	-67	NA
Extra ordinary items	-	-	-			-	-	
Reported PAT	-50	13	-20	NA	NA	-214	-67	NA
Reported EPS	-0.5	0.1	-0.2	NA	NA	-2.2	-0.7	NA
Margins (%)				(bps)	(bps)			(bps)
EBITDA	2.2	8.5	6.4	415	-216	-0.6	7.5	805
EBIT	-0.7	4.8	3.6	424	-118	-4.0	4.0	801
EBT	-4.0	5.0	-0.7	336	-561	-7.3	1.6	894
PAT	-2.4	0.6	-0.8	158	-149	-4.4	-1.1	329
Effective Tax Rate	39.8	80.7	50.7	1089	-3001	45.4	132.8	8744

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	5,339	7,206	8,950	11,590	13,908
Expenditure	5,058	7,081	8,200	10,340	11,977
EBITDA	282	126	750	1,250	1,931
Depreciation	218	267	323	392	439
EBIT	64	(141)	427	858	1,492
Other Income	145	116	100	120	120
Interest expenses	269	284	407	500	520
PBT	(60)	(309)	120	478	1,092
Tax	(16)	(68)	157	191	437
Extraordinary Items	0	2	0	0	0
Minority Int./Income from Assoc.	0	0	46	60	61
Reported Net Income	(44)	(240)	(83)	227	594
Adjusted PAT	(45)	(241)	(83)	227	594

Balance Sheet

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Equity share capital	104	121	121	130	130
Reserves & surplus	2,022	3,590	3,064	2,248	2,799
Net worth	2,126	3,712	3,185	2,378	2,929
Minority Interest	176	622	668	728	789
Loan Funds	3,212	3,570	4,570	5,070	5,070
Net deferred tax liability	0	0	0	0	0
Total Liabilities	5,514	7,904	8,424	8,177	8,789
Net block	2,085	2,917	3,094	3,602	3,614
Investment	542	1,824	1,424	424	424
Current Assets	3,857	5,028	5,591	6,583	7,731
Cash & bank balance	312	481	292	234	228
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	970	1,865	1,686	2,433	2,981
Net current assets	2,887	3,163	3,906	4,150	4,751
Misc. exp	0	0	0	0	0
Total Assets	5,514	7,904	8,424	8,177	8,789

Cash Flow

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
PBT (Ex-Other income) (NI+Dep)	(205)	(425)	20	358	972
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(861)	(107)	(932)	(302)	(607)
Operating Cashflow	(586)	1,502	(646)	377	487
Capital expenditure	(1,164)	(2,381)	(900)	(1,900)	(450)
Free Cash Flow	(1,750)	(879)	(1,546)	(1,523)	37
Investments	512	(1,282)	400	1,000	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(652)	(3,663)	(500)	(900)	(450)
Equity Capital Raised	(23)	1,971	0	9	0
Loans Taken / (Repaid)	1,390	358	1,000	500	0
Dividend paid (incl tax)	3	0	43	43	43
Other Financing Cash Flow	263	284	321	414	434
Financing Cashflow	1,364	2,329	957	466	(43)
Net chg in cash	126	168	(189)	(58)	(6)
Opening cash position	186	312	481	292	234
Closing cash position	312	481	292	234	228

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY17	FY18	FY19E	FY20E	FY21E
EBITDA Margin	5.3	1.7	8.4	10.8	13.9
EBIT Margin	1.2	(2.0)	4.8	7.4	10.7
Effective Tax Rate	26.1	21.9	130.8	40.0	40.0
Net Margin	(0.8)	(3.4)	(0.4)	2.5	4.7
ROCE	4.6	(0.4)	6.5	11.8	19.0
ROE	(2.3)	(8.3)	(2.4)	8.2	22.4
RoIC	1.6	(2.7)	6.9	12.1	19.1

Per Share Data (Rs)	FY17	FY18	FY19E	FY20E	FY21E
EPS	(0.4)	(2.0)	(0.7)	1.7	4.6
CEPS	1.7	0.2	2.0	4.8	7.9
BVPS	20.5	30.6	26.3	18.3	22.5
DPS	0.0	0.0	0.4	0.3	0.3

Valuations (x)	FY17	FY18	FY19E	FY20E	FY21E
PER	(94.0)	(20.3)	(59.0)	23.2	8.9
P/CEPS	27.2	219.7	23.0	9.6	5.7
P/BV	2.0	1.3	1.5	2.2	1.8
EV / Sales	1.3	1.1	1.0	0.9	0.7
EV / EBITDA	25.2	63.6	12.2	8.1	5.2
Dividend Yield (%)	0.1	0.0	0.9	0.8	0.8

Gearing Ratio (x)	FY17	FY18	FY19E	FY20E	FY21E
Net Debt/ Equity	1.4	0.8	1.3	2.0	1.7
Net Debt/EBIDTA	10.3	24.6	5.7	3.9	2.5
Working Cap Cycle (days)	176.0	135.8	147.4	123.3	118.7

Growth (%)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	9.1	35.0	24.2	29.5	20.0
EBITDA	(67.7)	(55.4)	497.6	66.6	54.5
EBIT	(90.9)	(321.4)	0.0	100.9	73.9
PAT	(112.4)	0.0	0.0	0.0	161.8

Quarterly (Rs mn)	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Revenue	2,067	2,317	1,814	2,013	2,414
EBITDA	46	133	139	172	154
EBITDA Margin (%)	2.2	5.8	7.7	8.5	6.4
PAT	(50)	(31)	(60)	13	(20)
EPS (Rs)	(0.4)	(0.3)	(0.5)	0.1	(0.2)

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Promoters	35.0	22.3	22.3	22.4	22.6
FII's	2.3	2.8	4.3	1.3	1.4
DII's	16.8	19.0	19.2	19.8	19.0
Public and Others	45.9	55.8	54.3	56.4	57.1

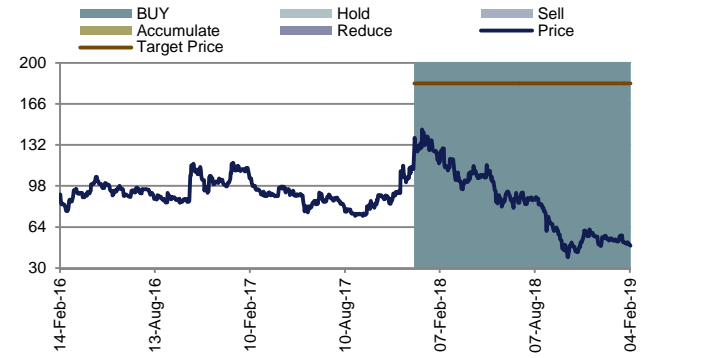
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
19-Nov-18	62	183	12m	Buy	Amar Mourya
14-Aug-18	83	183	12m	Buy	Amar Mourya
09-Jul-18	87	183	12m	Buy	Amar Mourya
25-May-18	85	183	12m	Buy	Amar Mourya
16-Feb-18	114	183	12m	Buy	Amar Mourya
20-Dec-17	131	183	12m	Buy	Amar Mourya

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

Completed Date: 12 Feb 2019 23:05:14 (SGT)

Dissemination Date: 12 Feb 2019 23:06:14 (SGT)

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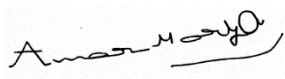
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