

Camlin Fine Sciences

Refer to important disclosures at the end of this report

Dahej facility starts rolling; reiterate Buy

CMP: Rs 94 as of (September 22, 2020) | **TP: Rs 115 (■)** 12 months | **Rating: BUY (■)** | **Upside: 21.9 %**

- CFIN has commissioned the Diphenol manufacturing plant at Dahej, Gujarat, at a total cost of Rs1.8bn (as per estimates). CFIN has started production of Hydroquinone (HQ) and Catechol (CT), key raw materials for the business, at this facility.
- CFIN will produce HQ and CT at the lowest cost in the world at the Dahej facility, which shall benefit margins to the tune of \$1-1.5/kg (300-400bps). It also plans to gradually add downstream products such as MEHQ and Ethyl Vanillin. Such incremental capacity plans would enhance its addressable market share and expand its footprint globally.
- The commissioning of the Dahej plant would also lead to a structural reduction in inventory days, given that the bulk of HQ will be sourced from the India plant. CFIN currently imports HQ from Italy, which takes ~49 days to reach India.
- Dahej remains the key catalyst for margin expansion, while improvement at subsidiaries will maximize the benefits. We expect revenue/EBITDA/PBT to grow at 18%/27%/45% CAGR over FY20-23E. We retain Buy with a TP of Rs115 (15x Sept'22E) and OW in EAP.

Wait over, margin improvement to act as tailwind: CFIN has successfully commissioned its much-awaited Dahej facility on September 21. The primary reason to institute such a plant is to establish itself as a leading supplier of Diphenol products (Hydroquinone & Catechol; 10kmtpa capacity) and other downstream products globally in the Performance Chemicals segment. Till now, the company was importing key RM (HQ & CT) from its Italian facility. This led to a high FOB price for RM and stretched working cycle. The commencement of the Dahej facility will reduce various operating costs and is likely to deliver 300-400bps expansion in EBITDA margin. The new facility will also help CFIN scale-up many downstream products aggressively. CFIN plans to manufacture MEHQ, Ethyl Vanillin and other downstream products (additional capex of Rs600mn) at this facility, which would generate incremental revenues of ~Rs500-600mn annually. The plant was scheduled to commence last year but it was delayed due to heavy rains followed by the lockdown and a blast in the vicinity. The plant would achieve peak utilization in 4-5 months. The project was completed with Rs1.8bn of investment (vs. Rs1.3bn estimated earlier), funded through the QIP proceeds (raised in FY18) of Rs1.5bn in addition to internal accruals and IFC funding (\$15mn).

Growth momentum upgrade; reiterate Buy: We believe that the commencement of the Dahej plant will be a game-changer in the long run and would improve the margin profile going forward. Moreover, the consolidation of Mexico and China facility would strengthen CFIN's profitability. We expect revenue/EBITDA/PBT to grow at 18%/27%/45% CAGR over FY20-23E. We reiterate Buy with a TP of Rs115 (15x Sept'22) and OW in EAP.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Speciality Chemicals \(page 7\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	8,922	10,491	12,047	14,470	17,075
EBITDA	687	1,307	1,766	2,244	2,683
EBITDA Margin (%)	7.7	12.5	14.7	15.5	15.7
APAT	6	303	680	999	1,279
EPS (Rs)	0.1	2.5	4.3	6.4	8.2
EPS (% chg)	0.0	4,671.1	73.3	46.9	28.1
ROE (%)	0.2	7.8	12.9	14.3	15.9
P/E (x)	1,792.1	37.6	21.7	14.8	11.5
EV/EBITDA (x)	21.6	12.0	10.8	8.3	6.9
P/BV (x)	3.1	2.8	2.3	2.0	1.7

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	-/-
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	4.3	6.4
Consensus	5.9	8.1
Mean Consensus TP (12M)	Rs 128	

Stock Details

Bloomberg Code	CFIN IN
Face Value (Rs)	1
Shares outstanding (mn)	121
52 Week H/L	101 / 33
M Cap (Rs bn/USD bn)	11 / 0.16
Daily Avg Volume (nos.)	8,02,022
Daily Avg Turnover (US\$ mn)	0.8

Shareholding Pattern Jun '20

Promoters	22.7%
FIIs	1.2%
DIIIs	19.0%
Public and Others	57.1%

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	88	142	56
Rel. to Nifty	7	74	89	57

Relative price chart



Source: Bloomberg

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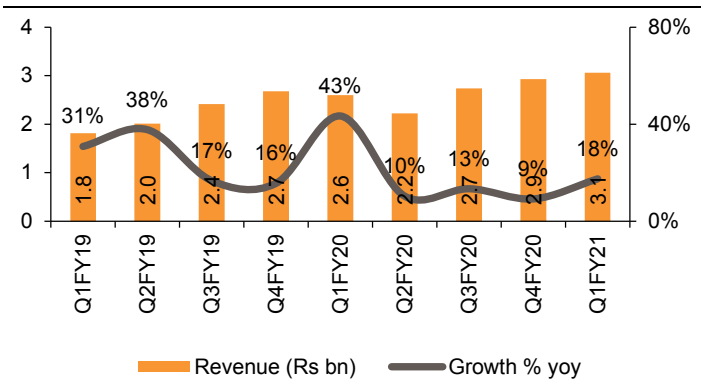
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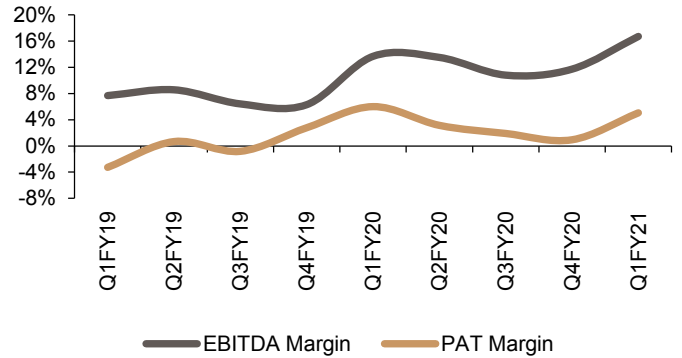
Story in Charts

Exhibit 1: Subsidiary key catalyst for revenues



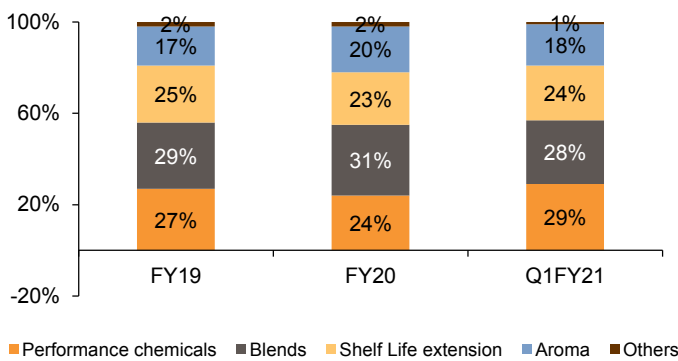
Source: Company, Emkay Research

Exhibit 2: Margins improvement on better product mix, primarily at domestic level



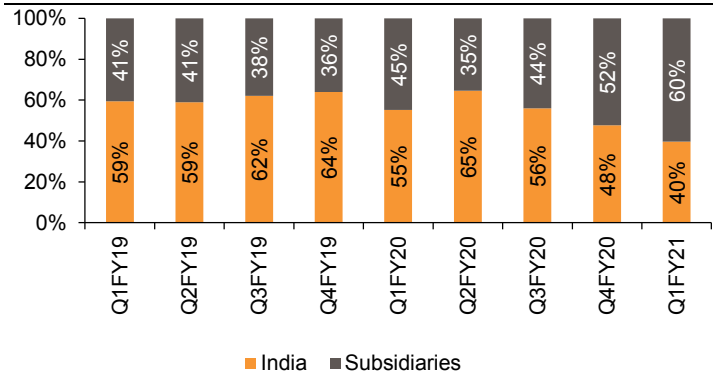
Source: Company, Emkay Research

Exhibit 3: Margins improved on better product mix at domestic level



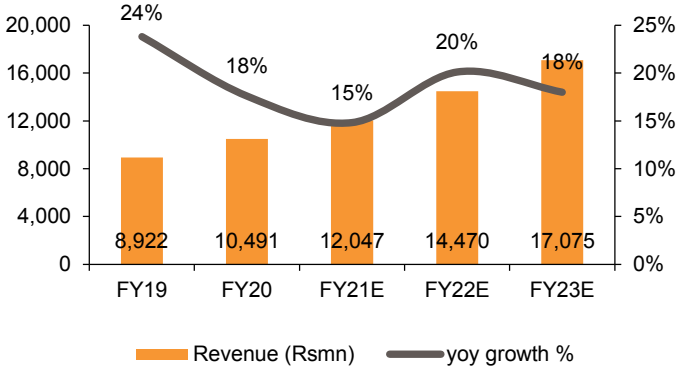
Source: Company, Emkay Research

Exhibit 4: Subsidiaries gained share on weak domestic performance



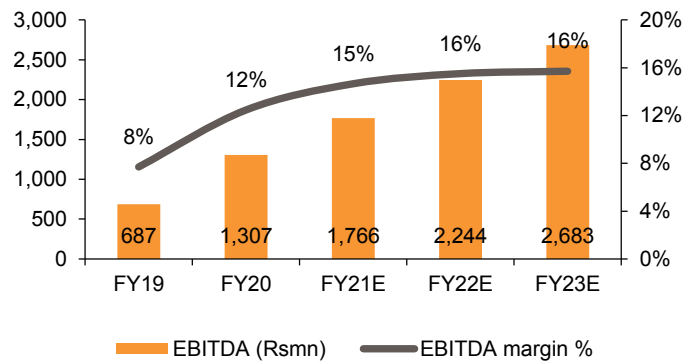
Source: Company, Emkay Research

Exhibit 5: Strong revenue growth lying ahead, on incremental capacities



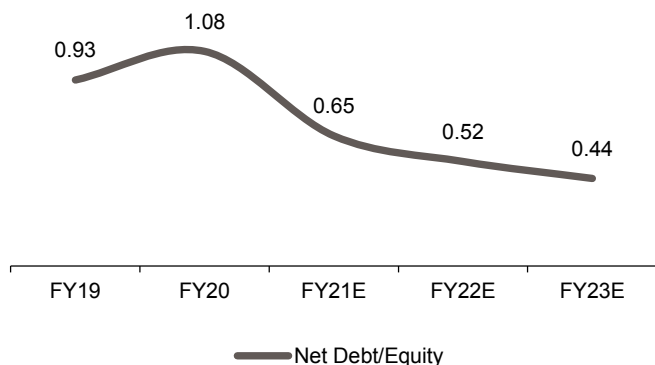
Source: Company, Emkay Research

Exhibit 6: Dahej commencement to accelerate margin profile on low cost benefits



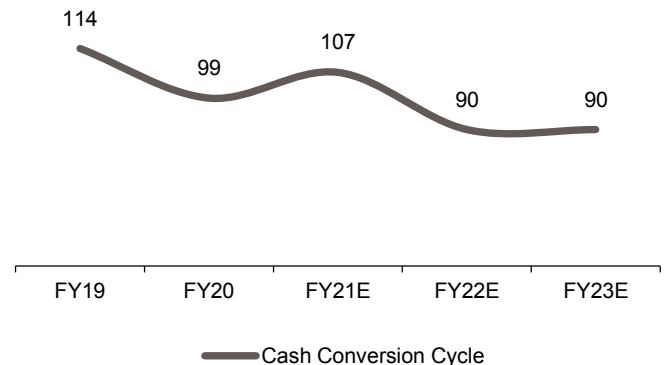
Source: Company, Emkay Research

Exhibit 7: Strong cash generation on reduced working capital to normalize debt levels



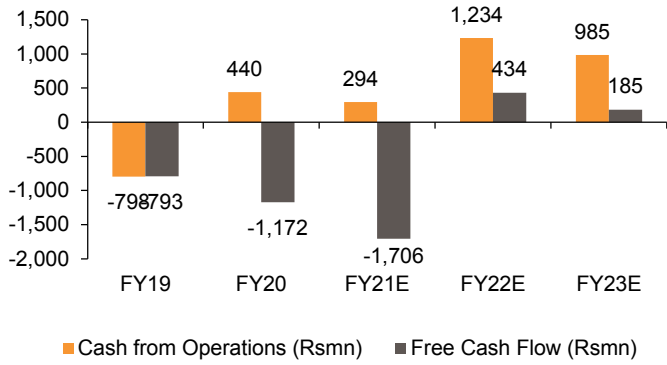
Source: Company, Emkay Research

Exhibit 8: Cash conversion period to improve on refined inventory days



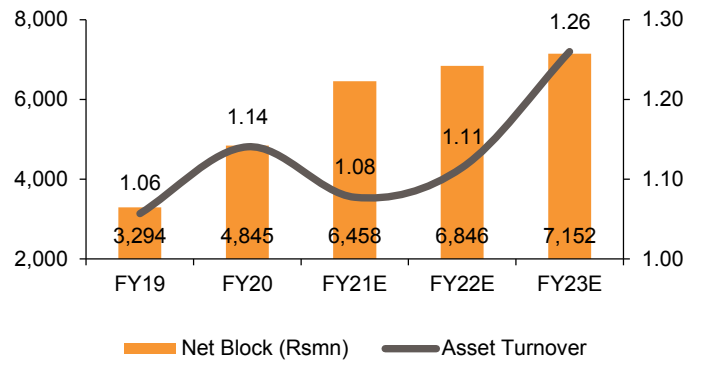
Source: Company, Emkay Research

Exhibit 9: With major capex projects concluded, FCF generation to pick up from FY22



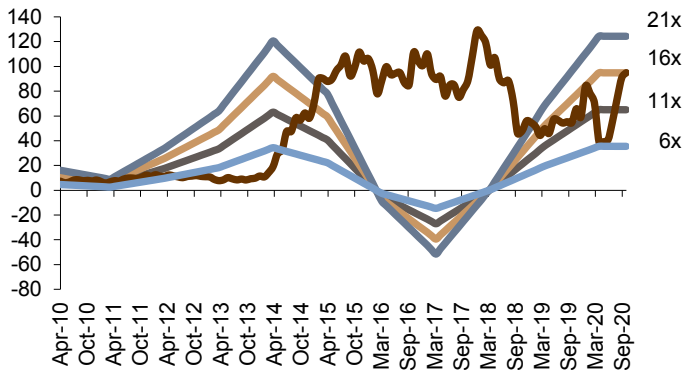
Source: Company, Emkay Research

Exhibit 10: Asset base to see expansion on further downstream projects



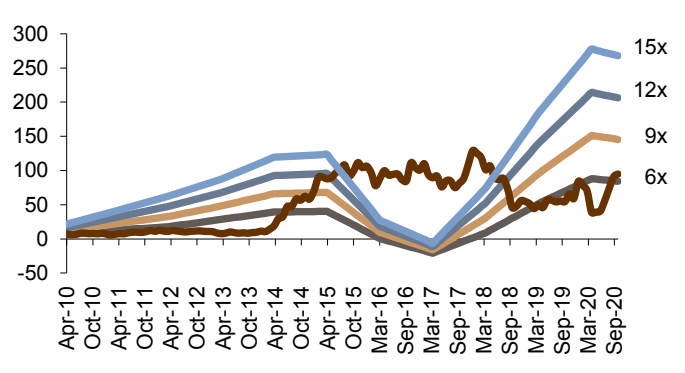
Source: Company, Emkay Research

Exhibit 11: PE(x) band



Source: Company, Emkay Research

Exhibit 12: EV/EBITDA(x) band



Source: Company, Emkay Research

Exhibit 13: Peer comparison

Company Name	Price (Rs)	Mkt Cap (Rs bn)	Reco	TP (Rs)	PE			PB (x)			EV/EBITDA		
					FY20	FY21e	FY22e	FY20	FY21e	FY22e	FY20	FY21e	FY22e
Advanced Enzyme Tech	222	25	Buy	238	19.2	18.8	15.7	3.0	2.6	2.2	12.0	11.4	9.3
Apcotex Industries	145	8	Hold	115	45.4	51.9	24.2	3.0	3.0	2.7	23.6	23.3	13.8
BASF India	1454	63	Hold	1484	123.5	87.6	38.8	4.5	4.4	3.9	25.4	24.1	17.3
Camlin Fine Sciences	94	11	Buy	115	37.6	21.7	14.8	2.8	2.3	2.0	12.0	10.8	8.3
GHCL	158	15	Buy	170	3.8	6.1	3.8	0.7	0.6	0.6	3.4	3.7	2.7
Navin Fluorine	1979	98	Buy	1925	24.0	46.3	36.6	6.9	6.2	5.5	36.2	32.5	26.2
SRF	4127	237	Buy	4156	25.9	28.3	19.8	4.8	4.2	3.5	18.5	15.8	11.6
Tata Chemicals	279	71	Hold	302	1.0	10.3	7.9	0.6	0.5	0.5	6.4	6.8	5.7
Vinati Organics	1230	126	Buy	1206	37.8	42.2	33.0	9.9	8.4	6.9	30.4	31.6	24.2

Source: Emkay Research, Company

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	8,922	10,491	12,047	14,470	17,075
Expenditure	8,235	9,184	10,281	12,226	14,392
EBITDA	687	1,307	1,766	2,244	2,683
Depreciation	290	328	387	412	493
EBIT	397	979	1,379	1,832	2,189
Other Income	138	34	50	50	50
Interest expenses	367	431	491	488	448
PBT	168	582	938	1,394	1,791
Tax	137	284	263	390	501
Extraordinary Items	(1)	0	0	0	0
Minority Int./Income from Assoc.	24	(5)	(5)	5	10
Reported Net Income	6	303	680	999	1,279
Adjusted PAT	6	303	680	999	1,279

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	121	121	157	157	157
Reserves & surplus	3,588	3,910	6,355	7,275	8,476
Net worth	3,709	4,031	6,511	7,432	8,633
Minority Interest	594	570	565	570	580
Loan Funds	4,498	4,993	5,693	5,193	4,693
Net deferred tax liability	0	0	0	0	0
Total Liabilities	8,800	9,593	12,768	13,193	13,904
Net block	3,294	4,845	6,458	6,846	7,152
Investment	606	338	338	338	338
Current Assets	6,692	6,749	8,537	9,147	9,929
Cash & bank balance	1,034	648	1,441	1,297	903
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	1,792	2,340	2,566	3,138	3,516
Net current assets	4,901	4,410	5,972	6,009	6,413
Misc. exp	0	0	0	0	0
Total Assets	8,800	9,593	12,768	13,193	13,904

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	30	548	888	1,344	1,741
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(460)	104	(769)	(182)	(798)
Operating Cashflow	(798)	440	294	1,234	985
Capital expenditure	5	(1,612)	(2,000)	(800)	(800)
Free Cash Flow	(793)	(1,172)	(1,706)	434	185
Investments	672	267	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	677	(1,345)	(2,000)	(800)	(800)
Equity Capital Raised	(52)	(20)	1,800	0	0
Loans Taken / (Repaid)	727	537	700	(500)	(500)
Dividend paid (incl tax)	0	0	0	78	78
Other Financing Cash Flow	367	431	491	331	292
Financing Cashflow	675	518	2,500	(578)	(578)
Net chg in cash	554	(387)	794	(145)	(394)
Opening cash position	481	1,035	647	1,441	1,297
Closing cash position	1,035	647	1,441	1,297	903

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	7.7	12.5	14.7	15.5	15.7
EBIT Margin	4.4	9.3	11.4	12.7	12.8
Effective Tax Rate	81.7	48.7	28.0	28.0	28.0
Net Margin	0.3	2.8	5.6	6.9	7.6
ROCE	6.3	11.0	12.8	14.5	16.5
ROE	0.2	7.8	12.9	14.3	15.9
RoIC	5.9	12.4	14.1	16.3	18.1

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	0.1	2.5	4.3	6.4	8.2
CEPS	2.4	5.2	6.8	9.0	11.3
BVPS	30.6	33.2	41.5	47.4	55.1
DPS	0.0	0.0	0.0	0.5	0.5

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	1,792.1	37.6	21.7	14.8	11.5
P/CEPS	38.5	18.1	13.8	10.4	8.3
P/BV	3.1	2.8	2.3	2.0	1.7
EV / Sales	1.7	1.5	1.6	1.3	1.1
EV / EBITDA	21.6	12.0	10.8	8.3	6.9
Dividend Yield (%)	0.0	0.0	0.0	0.5	0.5

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	0.9	1.1	0.7	0.5	0.4
Net Debt/EBIDTA	5.0	3.3	2.4	1.7	1.4
Working Cap Cycle (days)	158.2	130.9	137.3	118.9	117.8

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	23.8	17.6	14.8	20.1	18.0
EBITDA	344.2	90.4	35.1	27.1	19.5
EBIT	0.0	146.8	40.8	32.9	19.5
PAT	0.0	5,157.0	124.1	46.9	28.1

Quarterly (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Revenue	2,601	2,223	2,739	2,929	3,057
EBITDA	356	300	296	343	511
EBITDA Margin (%)	13.7	13.5	10.8	11.7	16.7
PAT	156	69	52	27	154
EPS (Rs)	1.3	0.6	0.4	0.2	1.3

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoters	22.6	22.6	22.7	22.7	22.7
FIIIs	1.1	0.9	0.9	1.2	1.2
DIIs	19.1	21.2	21.4	21.1	19.0
Public and Others	57.3	55.3	55.0	55.0	57.1

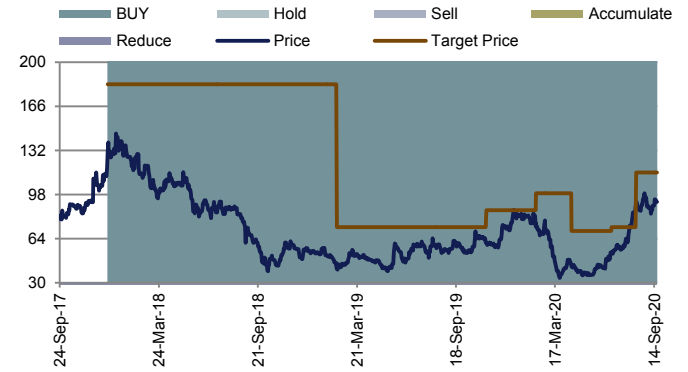
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
12-Aug-20	93	115	12m	Buy	Rohit Sinha
28-Jun-20	54	73	12m	Buy	Rohit Sinha
16-Apr-20	43	70	12m	Buy	Rohit Sinha
11-Feb-20	76	99	12m	Buy	Rohit Sinha
07-Feb-20	82	86	12m	Buy	Rohit Sinha
06-Jan-20	80	86	12m	Buy	Rohit Sinha
12-Nov-19	61	86	12m	Buy	Rohit Sinha
23-Sep-19	61	73	12m	Buy	Rohit Sinha
05-Aug-19	60	73	12m	Buy	Rohit Sinha
28-May-19	58	73	12m	Buy	Amar Mourya
12-Feb-19	41	73	12m	Buy	Amar Mourya
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 Alpha Portfolio – Speciality Chemicals



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Sector

Speciality Chemicals

Analyst bio

Rohit Sinha holds a CFA degree and comes with total four years of experience in the Specialty Chemicals sector. He currently covers nine stocks in the Specialty Chemicals space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Speciality Chemicals	0.18	0.18	0%	0	100.00
Advanced Enzyme Tech	0.00	0.01	NA	1	3.43
ApcoTex Industries	0.00	0.00	NA	0	1.81
BASF India	0.00	0.00	NA	0	0.96
Camlin Fine Sciences	0.00	0.01	NA	1	7.94
GHCL	0.00	0.01	NA	1	3.91
Navin Fluorine	0.00	0.05	NA	5	25.47
Orient Refractories	0.00	0.01	NA	1	3.86
SRF	0.18	0.08	-54%	-10	45.76
Tata Chemicals	0.00	0.01	NA	1	4.45
Vinati Organics	0.00	0.00	NA	0	2.42
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

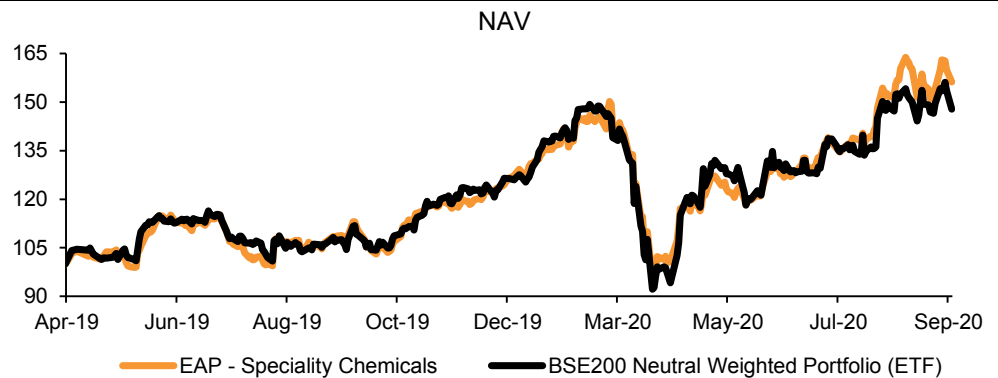
Sector portfolio NAV

	Base					Latest
	1-Apr-19	20-Dec-19	23-Mar-20	22-Jun-20	21-Aug-20	21-Sep-20
EAP - Speciality Chemicals	100.0	123.5	95.3	130.8	160.4	156.3
BSE200 Neutral Weighted Portfolio (ETF)	100.0	122.9	92.2	128.6	152.4	147.8

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 23 Sep 2020 10:19:43 (SGT)

Dissemination Date: 23 Sep 2020 10:20:43 (SGT)

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