



## EQUITY RESEARCH REPORT

**CAMLIN FINE CHEMICALS LTD.**

**BSE CODE: 532834**

Industry: Chemicals

CMP: Rs. 60.50 (27/03/2011)

Market Cap: 563.01 (Million)

Target Price: Rs. 145

Date: Mar 27, 2011

Time Period: 18 – 24 months



**Saral Gyan Capital Services**

**[www.saralgyan.in](http://www.saralgyan.in)**

**An Independent Equity Research Firm**

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## 1. Company Background



Camlin Fine Chemicals Ltd is one of the India's leading manufacturers and exporters of Bulk Drugs, Fine Chemicals and Food Grade products. The company manufactures active pharmaceutical ingredients (API's), food antioxidants and sweeteners. They operate in two business divisions, namely Food Ingredients Division and Industrial products Division. The company's products have applications in processed foods, edible oils, paints, polymers, alternative fuels (biodiesel), rubber, health, and pharmaceuticals.

The company has a strong research and development which is focused on bringing in continual improvements on process and products, backward integration and developing innovative products. The research and development is equipped with comprehensive and updated instrumentation for conducting quality analysis, stability studies. The research and development also is equipped to conduct application studies on stability index of edible oils and Bio-diesel. Camlin Fine Chemicals Ltd was originally incorporated on November 30, 1993 as a private limited company with the name of Camlicon Consultants Pvt Ltd. In April 2006, the main object of the company was altered to enable the company to pursue business in Fine Chemicals.

They launched a new product namely, 'Sucralose' which is a synthetic sweetener with large demand and attractive price. In June 1, 2006, the name of the company was changed from Camlicon Consultants Pvt Ltd to Camlin Fine Chemicals Pvt Ltd. As per the scheme of arrangement, the fine chemicals division of Camlin Ltd was de-merged and transferred to the company with effect from July 01, 2006. In August 11, 2006, the company was converted into public limited company and the name was changed to Camlin Fine Chemicals Pvt Ltd. The company entered into a joint venture with Viachem LLC USA on 51:49 basis and set up a company namely, Dulcette Technologies LLC for marketing Sucralose, Aspartame and Acesulfame-K and their blends in USA, Canada and Mexico. In March 30, 2007, the equity shares of the company were listed on the Bombay Stock Exchange (BSE). During the year 2007-08, the company increased the production capacity of Chemical & Chemical Products from 1,636 Ltrs/Kgs to 2,476 Ltrs/Kgs.

The company acquired the control of Sangam Laboratories Ltd by acquiring 60% of the paid up equity share capital of the company. They invested Rs. 5 lakh for controlling interest in the Equity Share Capital of Chemolutions Chemicals Ltd. In February 2008,

the company entered into a joint venture agreement with Advanced Aerospace Technologies Inc., USA' to manufacture and market speciality fine chemicals primarily to cater to European and U.S markets. During the year 2008-09, the company expanded the production capacity of Chemical & Chemical Products from 2,476 Ltrs/Kgs to 2,548 Ltrs/Kgs. The company invested Rs. 25.50 lakh in Fine Lifestyle Brands Ltd and Rs.5.10 lakh in Fine Renewable Energy Ltd, which represents 51% of equity share capital of each of them. They further invested Rs. 92.32 lakh in the share capital of their present subsidiaries, namely Sangam Laboratories Ltd, Chemolutions Chemicals Ltd and Dulcette Technologies LLC, USA. During the year 2009-10, the company expanded the production capacity of Chemical & Chemical Products from 2,458 Ltrs/Kgs to 3,500 Ltrs/Kgs. They are entering the field of Bio technology products and first patented, biotechnology based Natural shelf life enhancing formula for increasing shelf life of Natural farm produce, like fruits, vegetables and flowers. The company decided to merge Sangam Laboratories Ltd, a wholly owned subsidiary with the company.

Camlin the corporate group was established in 1931 and is a pioneer in art & stationery material in India. Camlin diversified into Pharmaceuticals and Fine Chemicals two decades ago. Today Camlin Fine Chemicals is the world's second largest manufacturer and marketer of food grade antioxidants TBHQ and BHA. Company facilities are HACCP and ISO 9001 : 2000 certified.

## Products

Company range of products includes

### A] FOOD INGREDIENTS

- i) Antox TBHQ (HACCP Certified) FCC V / FAO / WHO (Tertiary Butyl Hydroquinone)
- ii) Antox BHA (HACCP Certified) FCC V / FAO / WHO / EEC ( Butyl Hydroxy Anisole)

### B} SWEETENER

- i) Sucralose FCC V

### C} ACTIVE PHARMACEUTICAL INGREDIENTS

- i) Miconazole Nitrate B.P. / USP
- ii) Clotrimazole B.P. / USP
- iii) Amlodipine Besilate E.P
- iv) Amlodipine Salts
- v) Advance intermediate of Amlodipine
- vi) Intermediate of Miconazole Nitrate

### i) Antox TBHQ

#### Salient features of TBHQ

- ANTOX (TBHQ) gives excellent antioxidant potency to edible oils and fats
- Minimizes nutritional losses in edible oils
- Maintains freshness and quality of crude oils during long distance transportation
- Broadens the range of oils in food processing
- Offers carry through protection to fried foods, thus enhancing their storage life and freshness
- Facilitates use of saturated oils, thus preventing excess levels of cholesterol in oils and fats

#### Applications of TBHQ

- |                      |                                   |                         |
|----------------------|-----------------------------------|-------------------------|
| • Cotton Seed Oil    | • Olive Oil                       | • Olive Oil             |
| • Soyabean Oil       | • Sunflower Seed Oil              | • Sunflower Seed Oil    |
| • Mustard Oil        | • Palm Oil                        | • Palm Kernel           |
| • Coconut Oil        | • Corn Oil                        | • Rice Bran Oil         |
| • Safflower Seed Oil | • Animal Fats & Lards             | • Lemon Oil             |
| • Canola Oil         | • Citrus and other essential oils | • Orange Oil            |
| • Peanut Oil         | • Palm Olein                      | • Peppermint Oil        |
| • Tallow (Beef) Lard | • Butter Fat (Anhydrous)          | • Cereals & Grains      |
| • Margarine          | • Mixed Nuts                      | • Fried Nuts            |
| • Fried Potato Chips | • Other Fried Foods               | • Peanut Paste (Butter) |
| • Instant Noodles    |                                   |                         |

### ii) ANTOX BHA

#### Salient Features of Antox BHA

- The most effective antioxidant, imparting excellent stability for an array of food products, fats, shortenings, vitamins, pet foods, cosmetics pharmaceutical products and packaging materials
- ANTOX BHA, reduces the oxidative deterioration of edible oils and fats, loss of flavour, colour and nutritive value of foods

- ANTOX BHA, THE BETTER ANTIOXIDANT: BHA normally is a mixture of 2 isomers, 2 tert butyl and 3 tert butyl isomers 3 tert butyl isomer has better antioxidant property
- White free flowing crystalline Flakes
- Stable to heat and mildly alkaline conditions
- 20% colorless solution in propylene glycol remains colorless even when heated at 1940F for 1hr.
- ANTOX BHA SYNERGISTIC EFFECT: ANTOX BHA gives greater synergistic effect with TBHQ, BHT and propyl gallate than that which might be expected from contribution of each individual antioxidant

### Applications of Antox BHA

- |                              |                   |                      |
|------------------------------|-------------------|----------------------|
| • Hydrogenated vegetable oil | • Meat Products   | • Mineral Oils       |
| • Oil                        | • Animal Feed     | • Citrus Oil         |
| • Margarine                  | • Pet Feed        | • Crackers           |
| • Shortenings                | • Pharmaceuticals | • Cookies            |
| • Lard's                     | • Flavour's       | • Biscuits           |
| • Suet's                     | • Sausages        | • Inedible Fats      |
| • Drippings                  | • Rice Cereals    | • Waxes              |
| • Tallow's & Fats            | • Essences        | • Packaging Material |
| • Vitamins                   | • Fish Liver Oil  | • Cosmetic Bases     |

### iii) SUCRALOSE

#### Salient Features of Sucralose

- Sucralose is made from sugar, is approximately 600 times sweeter than sugar. Sucralose is extremely stable, and maintains its sweetness even when exposed to high temperature food processing such as pasteurization, sterilization, UHT processing and baking.
- Sucralose remains stable in food products throughout extended periods of storage, even at low pH.
- The excellent stability of Sucralose in combination with its high quality sweetness means that is a versatile sweetener that can be used in a broad range of product categories.

## Applications of Sucralose

- Carbonated soft drinks
- Still beverages
- Baked goods
- Confectionery
- Canned fruits & vegetables
- Breakfast cereals
- Ice creams
- Chewing gum
- Pickles and sauces
- Jams
- Dairy products

## Research & Development

"Camlin Fine Chemicals Ltd has a strong research and development which is focused on bringing in continual improvements on process and products, backward integration and developing innovative products".

The research and development is equipped with comprehensive and updated instrumentation for conducting quality analysis, stability studies. It is equipped to conduct application studies on stability index of edible oils and Biodiesel.

The kilo lab facility is installed in the laboratory to bridge the gap between laboratory and pilot plant. The pilot plant at Tarapur is designed for scale up and development of new products and processes, as well as commercial manufacture to support small volume requirement of customers.

The R& D specializes in synthesis of basic molecules for drug development, synthesis of high quality laboratory chemicals, synthesis of drug metabolites.

## Company facilities

- Kilo lab
- Pilot plant
- Comprehensive instrumentation for food application testing

## Certifications





## Manufacturing Plants



BHA/TBHQ manufacturing Facility



Sucrolose Manufacturing Facility



Sucrolose reaction area



Sucrolose final completion area



ISO 9001:2000, HACCP approved manufacturing facility overview



## 2. Recent Developments

### **i) Camlin Fine Chemical Ltd closes deal for acquiring Borregaard – March 09, 2011.**

Camlin Fine Chemicals Ltd has closed the deal on March 09, 2011 for acquiring Borregaard, Italy S.p.A.

Borregaard, Italy S.p.A. is one of the five global producers of Hydroquinone, which is the key raw material for the Company's major product, due to this acquisition the Company shall have assured & steady supply of key raw material which at times remains in short supply in the global market.

### **ii) Camlin Fine Chemical's board approves to form a subsidiary company in UAE – November 22, 2010**

The board of Camlin Fine Chemicals in its meeting on 22 November 2010 has approved proposal for acquisition of an Italian company manufacturing fine chemicals through its wholly owned subsidiary to be set up in Mauritius. The board also approved formation of subsidiary company in UAE for facilitating its business through Middle East

### **iii) Camlin Fine Chemical's board approves scheme of merger - October 11, 2010**

The board of Camlin Fine Chemicals in its meeting on 11 October 2010 has approved the merger of Sangam Laboratories, a wholly owned subsidiary with the company subject to all necessary statutory approvals

### 3. Financial Performance

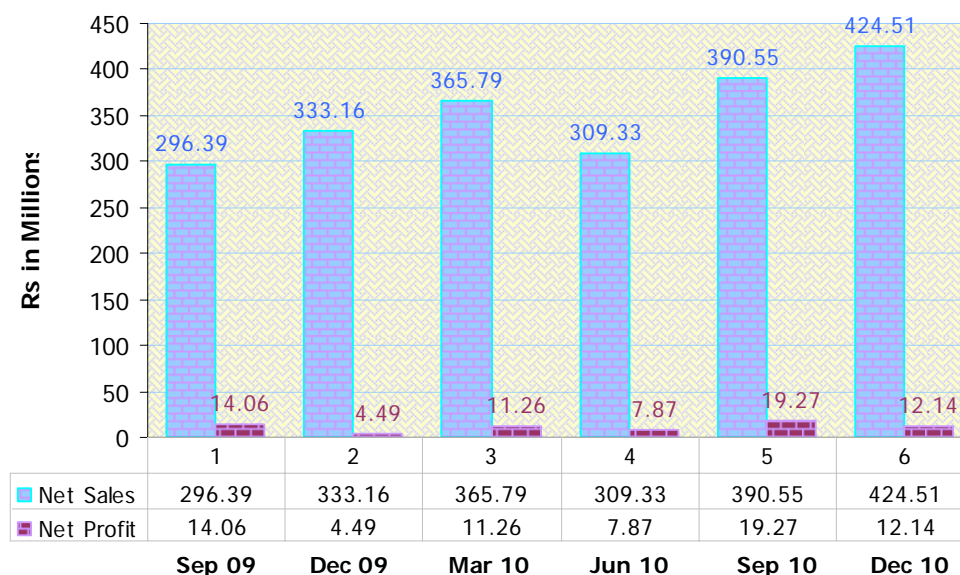
#### Camlin Fine Chemical net profit rises 168.89% in the December 2010 quarter

Net profit of Camlin Fine Chemical rose 168.89% to Rs. 12.1 million in the quarter ended December 2010 as against Rs. 4.5 million during the previous quarter ended December 2009. Sales rose 27.4% to Rs. 424.5 million in the quarter ended December 2010 as against Rs. 333.2 million during the previous quarter ended December 2009.

#### Camlin Fine Chemical net profit rises 36.88% in the September 2010 quarter

Net profit of Camlin Fine Chemical rose 36.88% to Rs 19.3 million in the quarter ended September 2010 as against Rs 14.1 million during the previous quarter ended September 2009. Sales rose 31.7% to Rs 390.5 million in the quarter ended September 2010 as against Rs 296.4 million during the previous quarter ended September 2009.

**Last 6 Quarters Net Sales & Profit**



## Current &amp; Expected Earnings:

Particulars (Rs in Millions)	Mar 2010	Jun 2010	Sep 2010	Dec 2010	Mar 2011 E	Jun 2011 E
<b>Audited / Un Audited</b>	UA	UA	UA	UA	UA	UA
Net Sales	296.39	333.16	365.79	309.33	383.98	409.78
Total Expenditure	250.68	298.6	331.97	276.06	332.45	347.43
PBIDT (Excl OI)	45.71	34.56	33.82	33.27	51.53	62.35
Other Income	1.19	4.49	4.54	6.05	5.12	6.11
Operating Profit	46.81	39.05	38.36	39.32	56.65	68.46
Interest	16.69	14.13	14.6	14.98	19.12	22.21
Exceptional Items	0	0	0	0	0	0
PBDT	30.12	24.92	23.76	24.34	37.53	46.25
Depreciation	9.26	10.79	12.61	12.62	13.12	12.92
Profit Before Tax	20.86	14.13	11.15	11.72	24.41	33.33
Tax	6.8	9.64	-0.11	3.85	8.81	10.51
Provisions and contingencies	0	0	0	0	0	0
Profit After Tax	14.06	4.49	11.26	7.87	15.60	22.82
Extraordinary Items	0	0	0	0	0	0
Prior Period Expenses	0	0	0	0	0	0
Other Adjustments	0	0	0	0	0	0
Net Profit	14.06	4.49	11.26	7.87	15.60	22.82
Equity Capital	58	58.06	58.15	58.15	58.15	58.15
Face Value (IN RS)	10	10	10	10	10	10
Reserves					0	0
Calculated EPS	2.42	0.77	1.94	1.35	2.68	3.92
Calculated EPS (Annualised)	9.7	3.09	7.75	5.41	10.72	15.68
No of Public Share Holdings	2126779	2852579	2860859	2860859	2860859	2860859
% of Public Share Holdings	36.67	49.13	49.2	49.2	49.2	49.2

**Expected Earnings for 4<sup>th</sup> Qtr FY 2010-11 & 1<sup>st</sup> Qtr FY 2011-12:**

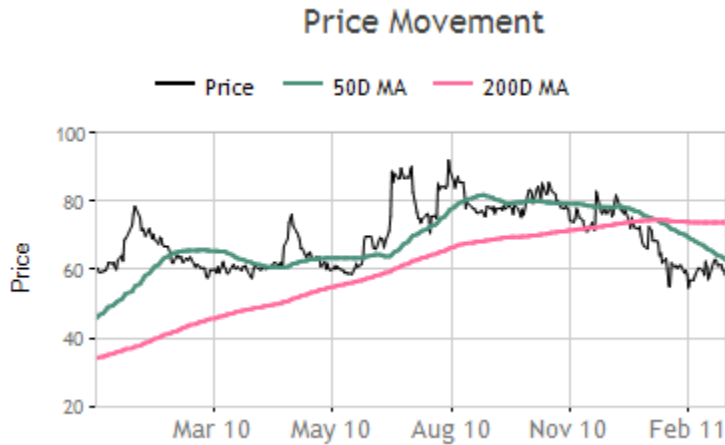
Based on recent developments, we expect Camlin Fine Chemicals Ltd will deliver robust growth in revenues and profitability in last quarter of FY 2010-11 and for full FY 2011-12. Company has recently acquired subsidiary of Borregaard which manufacturing Hydroquinone. This acquisition will ensure the easy availability of raw material and help to improve its margin.

In financial front, company's performance improved and it has posted 30% growth in turnover which is expected to increase further because of backward integration with subsidiary of Borregaard.

## 4. Charts & Graphs

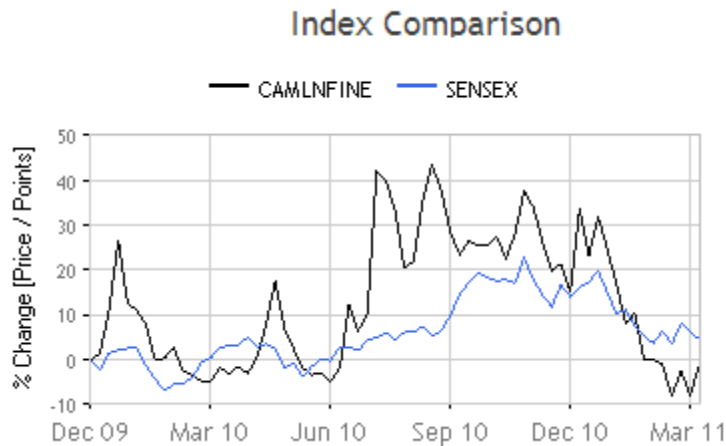
### i) Share Price Moving Average:

Camlin Fine Chemical Ltd is currently trading near to its 200 days price moving average and is having a very strong support at 55 Rs levels.

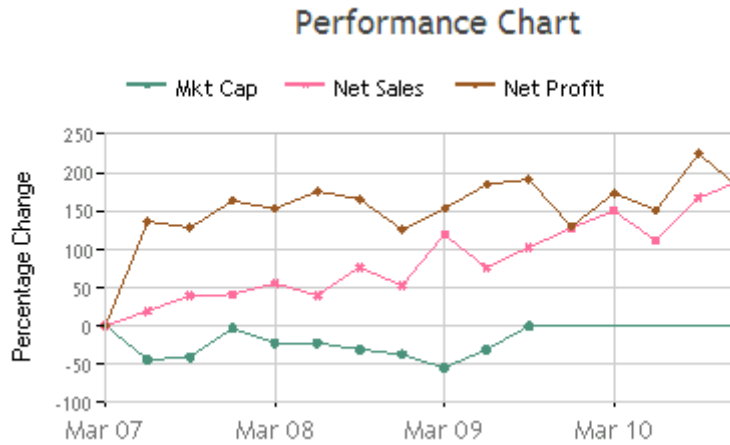


### ii) Comparative Graph:

Camlin Fine Chemical Ltd has outperformed Sensex and gave returns of 64.18% against Sensex returns of 15.21% in last three year.

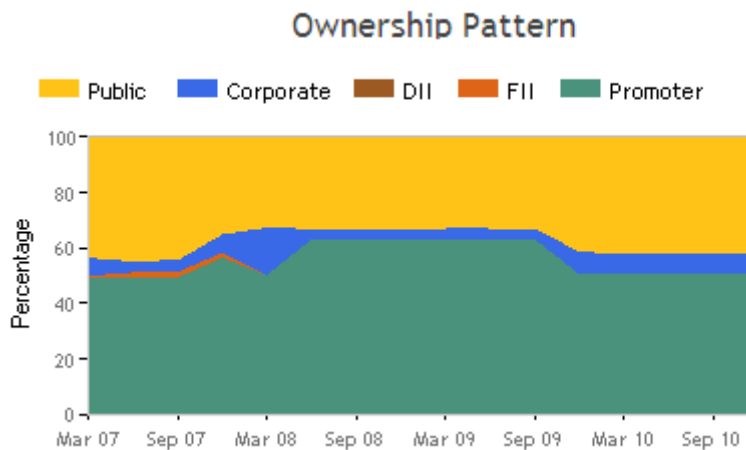


iii) Performance Chart:



iv) Share holding Pattern:

Promoters share holding is 50.8%. Mutual Funds and FII currently do not have any holding in the stock



## 5. Peer Group Comparison

PEER GROUP	Camlin Fine Chemicals	Aksharchem India	Cochin Mineral&Rutile	Metrochem Industries	Poddar Pigments
CMP	60.50	15.50	52.00	42.75	41.05
52 W H/L	99/48.92	27.45/12.25	84.30/51.15	67.50/36.00	64.95/34.50
Market Cap	563.01	52.74	407.16	488.77	435.54
<b>Results (in Mn)</b>	<b>Dec-2010</b>	<b>Dec-2010</b>	<b>Dec-2010</b>	<b>Dec-2010</b>	<b>Dec-2010</b>
Sales	424.51	231.70	354.86	158.20	476.63
PAT	12.14	5.22	-40.35	57.00	21.28
Equity	93.03	34.03	155.24	114.30	106.10
EPS	5.43	0.88	5.78	45.84	14.39
P/E	11.14	17.69	8.99	0.93	2.85

## 6. Key Concerns / Risks

- The performance and profitability of our products depend on the petroleum prices as they directly affect the overall costs and realizations, considering the current petroleum pricing fluctuations which have only seen an upward movement
- Competition from China and other Indian manufacturers which can put price pressure and impact the company's global business.
- Any economic downturn / recession or unforeseen events like terrorist attacks, floods can dampen sales.

## 7. Saral Gyan Recommendation

i) Camlin Fine Chemicals has steadily increased its sales and market share in previous years and its turnover improved from Rs. 470 million in 2006-2007 to Rs. 1250 million in 2009-2010. Bottom line improved from a loss of Rs. 20 million to a profit of Rs. 43 million in this period.

ii) Currently, Camlin Fine Chemicals is trading with a P/E multiple of 9. The parent company, Camlin Ltd with FV Rs. 1 is trading with a P/E multiple of 24 which is positive for Camlin Fine Chemicals Ltd.

iii) Recently acquired subsidiary of Borregaard will help Camlin Fine Chemicals in realizing better operating and profit margins in coming quarters. This acquisition will ensure the easy availability of raw material Hydroquinone manufactured by Borregaard for Camlin Fine Chemicals Ltd.

iv) Company has introduced new products and continuously strengthening its marketing activities throughout Europe and USA.

v) At current market price of Rs 60.50, dividend yield works out to be 2.21%. On equity of Rs. 93.03 million the estimated annualized EPS works out to Rs. 15 and the Book value per share is Rs. 45.85. At a CMP of Rs. 60.50, stock price to book value is 1.32. Currently, the scrip is trading at 4 X FY 2011-12 estimated earnings which make it an attractive buy at current market price.

**Saral Gyan Team recommends “BUY” for [Camlin Fine Chemicals Ltd.](#) for a target price of Rs. 145 over a period of 18-24 months.**

**We recommend buying in small quantities by entering in the stock at lower level at a price range of Rs. 55 – 57.**



## 8. Disclaimer

**Important Notice:** Saral Gyan Capital Services is an Independent Equity Research Company.

**Disclosure:** The author of this article does not hold shares in the recommended company.

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