

New facilities to strengthen Camlin, Vinati Organics cost leadership

DATE : 201-01-08

To maintain profitability and earnings momentum, specialty chemical firms Camlin Fine Sciences Ltd and Vinati Organics Ltd are strengthening their cost leadership by building new facilities and entering new product categories.

Camlin is entering the food ingredients business. According to IndiaNivesh Securities Ltd, it has launched four new products.

The company is expanding facilities at Dahej, which, once completed, will help it attain scale, further lowering costs.

"Camlin's capacity expansion in Dahej-SEZ (special economic zone) should lead to a significant reduction in sales to raw material ratio," IndiaNivesh said in a note. "Further, Europe subsidiary selling Hydroquinone in the open market will result in high realization. As a result, the commencement of the Dahej facility would have two-ways margin expansion."

Vinati Organics is building a co-generation power plant and debottlenecking the existing facilities. Once operational, the power plant is estimated to lower the company's electricity expenses by up to Rs.8 crore per year, Motilal Oswal Securities Ltd said in a note.

"Debottlenecking of the existing capacities and new capacities for IB (Isobutylene)-based derivatives could contribute Rs.200 crore (25% of revenue in FY15) once they reach full utilization," Motilal Oswal adds.

After completion, the new facilities will help Camlin and Vinati Organics strengthen their competitive scenario and improve profitability.

"Vinati Organics is likely to maintain the margins above 28% during FY16E-FY17E, a margin expansion of 4% in comparison with FY15," Karvy Stock Broking Ltd said in a note.

That could help bring solace to investors.

Tracking the downtrend in commodities, the sales of both the companies slackened in the first half of the current fiscal year.

Camlin's consolidated sales are down 14% and Vinati Organics' by 24%. The companies use crude derivatives as raw materials and the falling crude prices lower sale prices. But the companies were able to maintain margins due to low raw material prices and control over costs.

The companies depend on exports for a significant part of their business. So, a deeper slowdown in the global economy can put pressure on sales and profitability.

While this risk increased in recent weeks, proof that new facilities are delivering intended benefits-sales and cost reduction-will provide support.

SOURCE HNMINT