



## CAMLIN FINE SCIENCES - FINELY PRICED

We initiate coverage on Camlin Fine Sciences Ltd. (CFS) with a BUY recommendation and a Target Price of Rs. 155, which implies a 46% upside from current levels. We expect CFS to register Revenue/PAT CAGR of 20%/65% over FY20-23E driven by 1) Growth in the blends segment; 2) Increasing demand of vanillin worldwide; 3) Judicious expansion and focus on achieving worldwide presence; 4) Strategic vertical integration; 5) Step up in innovation/new launches; 6) Healthy margin profile and 7) Improving balance sheet. At CMP, the stock is trading at a fairly attractive valuation of 10x FY23E EPS and given a promising growth outlook from a medium to long term perspective, it offers an excellent upside potential. We value the stock at 14x its FY23E EPS to arrive at our target price of Rs.155/share.

## INVESTMENT THESIS

### Margin accretive blends segment to be a value creator

CFS has plans to evolve as a global food blender and has commissioned facilities in Mexico, Brazil, North America, Europe and India. Up until the Company was largely a commodity player selling antioxidants (within Shelf Life Extension Solutions) that formed a majority share of the revenue mix. Post FY16, however, the company successfully transitioned itself from being a commodity player to a reliable supplier of value-added blends selling antioxidants as a commodity to making blends a value added product. Blends margins in FY20 stood at 20% and the same is expected to improve further by 500 bps to 25% in the coming years. The top-line is expected to grow by ~22%-25% in the backdrop of new launches, expansion in new geographies, and growth in existing geographies.

### Dahej plant commercialization - a key growth catalyst

CFS has announced for a greenfield plant expansion in Dahej at a total cost of Rs. 180 crore, with a capacity of 10,000 MTPA to manufacture key raw materials such as diphenols like Hydroquinone and Catechol its major raw materials and the downstream products. The raw materials were erstwhile produced only in their Italy plant having a capacity of 10,000 MTPA. The said greenfield expansion will make CFS 2<sup>nd</sup> largest and lowest cost producers of Hydroquinone and Catechol as well as a leading vertically integrated player in the world. The backward integration in India is expected to provide the company with a significant cost advantage to the tune of \$1-1.5/kg and reduce inventory days as well given that the bulk of raw material will be sourced from the India plant.

### Continued focus on growth and expansion

CFS has announced to set up an additional multi-purpose plant entailing a capacity addition of 6,000 MTPA at a capital outlay of Rs. 185 crore. The plant will manufacture Guaiacol (raw material for Vanillin), Vanillin, Ethyl Vanillin, Methyl Vanillin and its derivatives and will make the facility entirely integrated. The planned capacity addition is expected to ramp up revenues of the Aromas segment significantly. Furthermore, the company plans to undertake de-bottlenecking at its Tarapur facility with an additional capacity of 2,500 MTPA to produce additional MEHQ, a performance chemical, at an investment of Rs. 25 crore and will drive revenue growth of the performance chemical segment, moving forward.

### Strategically Integrated Player

CFS is one of the world's leading and integrated manufacturers of the most preferred traditional antioxidants and vanillin and manufacture various other shelf life solutions, aroma ingredients and performance chemicals. The company has integrated backward through its facility in Italy and with the recently commissioned facility at Dahej, it stands 2<sup>nd</sup> largest and lowest cost producers of Hydroquinone and Catechol and is the 3<sup>rd</sup> largest producer of Vanillin in the world. CFS has also commercialized a plant to produce di-phenols at Dahej, thus mitigating the single location risk.

## FINELY PRICED – INITIATE WITH BUY

Initiate coverage with a BUY rating and TP of Rs. 155/Share, valuing the company at 14x P/E basis its FY23E EPS. We believe CFS's aggressive growth strategy, improving margin profile and balance sheet, and new product launches are key winning features in the market place over the medium to long term.

### Key Financials (Consolidated)

(Rs. Cr)	FY20	FY21E	FY22E	FY23E
Net Sales	1,049	1,257	1,540	1,805
EBITDA	131	180	234	296
Net Profit	30	65	98	138
EPS (Rs.)	2.5	5.4	8.1	11.4
PER (x)	43.9	20.1	13.3	9.5
EV/EBITDA (x)	13.4	10.0	7.8	6.2
P/BV (x)	2.8	2.1	1.7	1.5
ROE (%)	6.4%	10.5%	12.9%	15.3%

Source: Company, Axis Research

CMP as of Feb 18, 2021

CMP (Rs)	106
Upside /Downside (%)	46%
High/Low (Rs)	133.7/ 33.4
Market cap (Cr)	1,379
Avg. daily vol. (6m) Shrs.	665,876
No. of shares (Cr)	12.1

### Shareholding (%)

	Jun-20	Sept-20	Dec-20
Promoter	22.74	22.73	22.72
FII's	1.16	1.75	1.80
MFs / UTI	17.49	17.86	19.52
Banks / FI's	0.57	0.00	0.00
Others	58.04	57.66	55.96

### Financial & Valuations

Y/E Mar (Rs. bn)	2021E	2022E	2023E
Net Sales	1,257	1,540	1,805
EBITDA	180	234	296
Net Profit	65	98	138
EPS (Rs.)	5.4	8.1	11.4
PER (x)	20.1	13.3	9.5
EV/EBITDA (x)	10.0	7.8	6.2
P/BV (x)	2.1	1.7	1.5
ROE (%)	10.5%	12.9%	15.3%

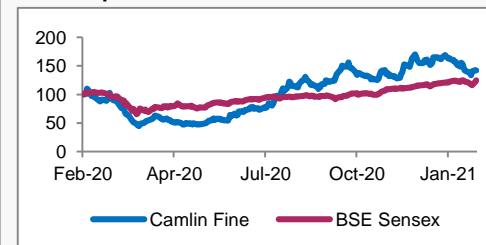
### Key Drivers (%)

Y/E Dec	FY21E	FY22E	FY23E
Sales Growth	3.9	9.0	10.6
Gross Margin	65.3	65.7	65.9
EBITDA Margin	26.8	27.5	28.0

### Axis Sec vs Consensus

EPS Estimates	FY21E	FY22E	FY23E
Axis Sec	5.4	8.1	11.4
Consensus	6.6	9.3	12.6
Consensus (Mean) TP			155

### Relative performance



Source: Capitaline, Axis Securities

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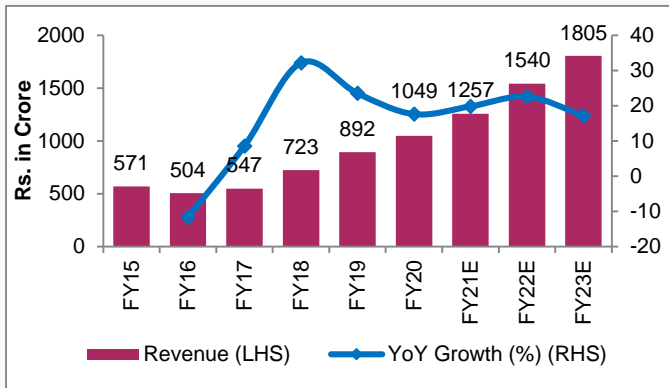
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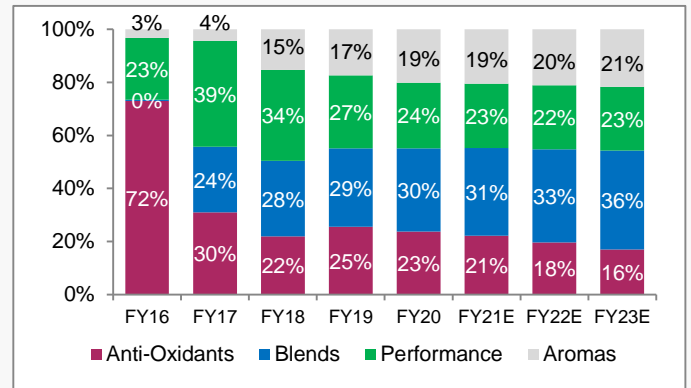
## Story in charts

**Exhibit 1: Top-line to grow at 20% CAGR top-line over FY20-23E**



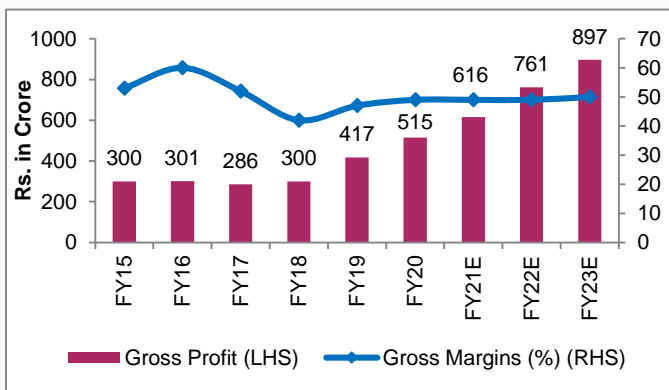
Source: Company, Axis Securities

**Exhibit 2: CFS's Revenue Mix**



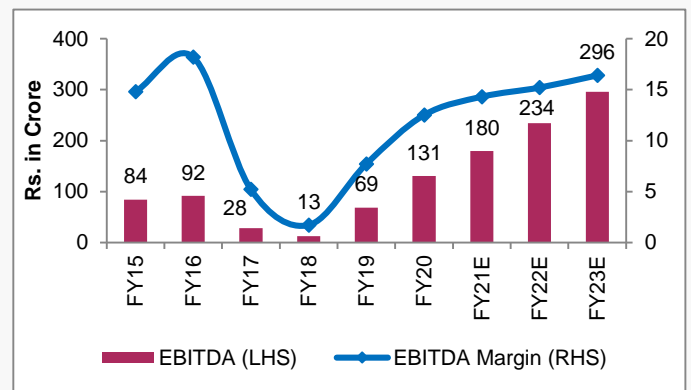
Source: Company, Axis Securities

**Exhibit 3: Access to cheap RMs to support Gross Margins**



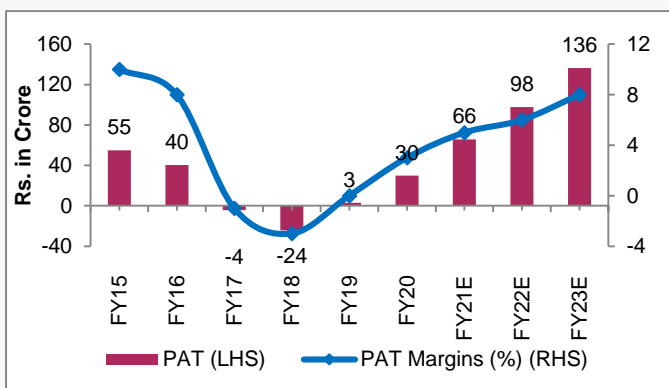
Source: Company, Axis Securities

**Exhibit 4: Cost control and better mix to support EBITDA Margin**



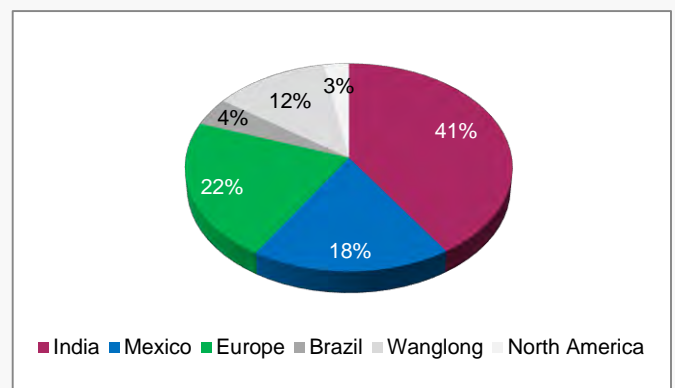
Source: Company, Axis Securities

**Exhibit 5: Op. performance to drive 65% PAT CAGR over FY20-23E**



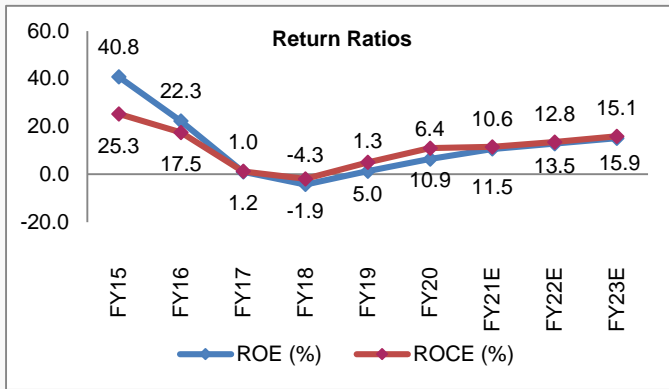
Source: Company, Axis Securities

**Exhibit 6: Wide-spread geographical presence**



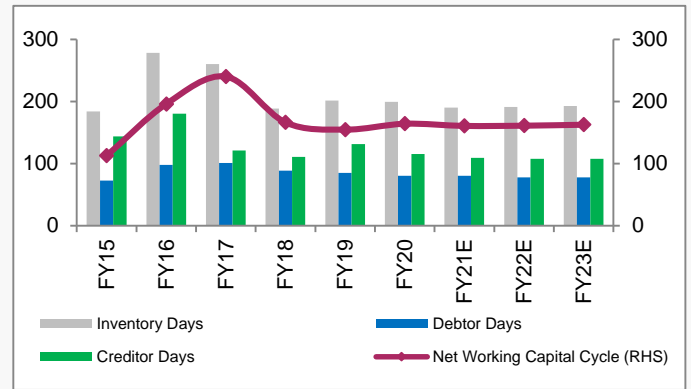
Source: Company, Axis Securities

**Exhibit 7: Improving Return Ratios over FY20-23E**



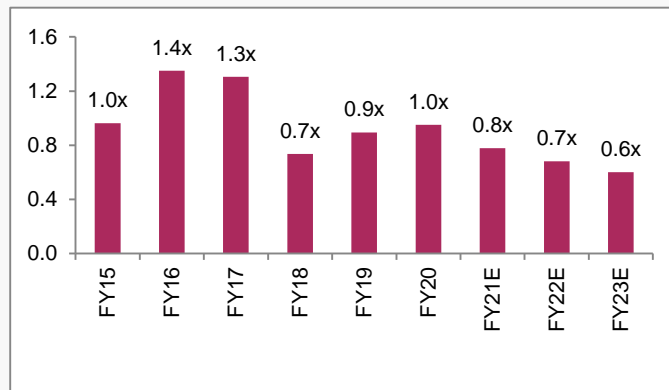
Source: Company, Axis Securities

**Exhibit 8: Stabilizing Working Capital Cycle**



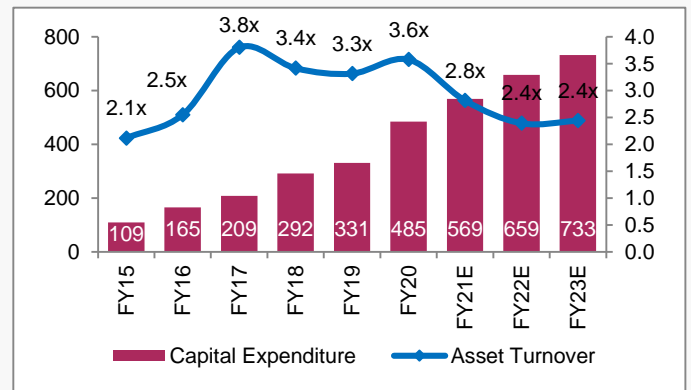
Source: Company, Axis Securities

**Exhibit 9: Improving Net Debt to Equity**



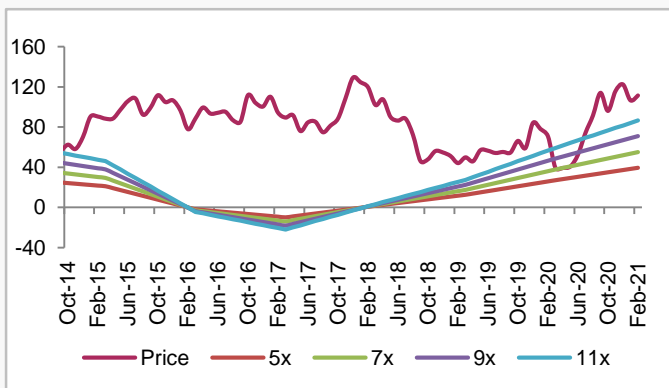
Source: Company, Axis Securities

**Exhibit 10: Pursuing aggressive growth strategy**



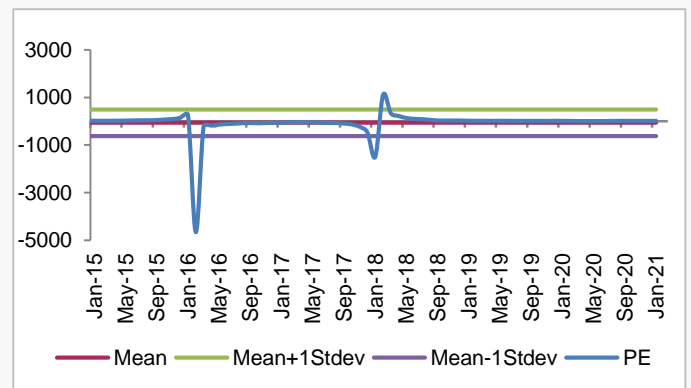
Source: Company, Axis Securities

**Exhibit 11: 12M FWD PE CHART(x)**



Source: Company, Axis Securities

**Exhibit 12: 12M FWD PEBAND CHART**



Source: Company, Axis Securities

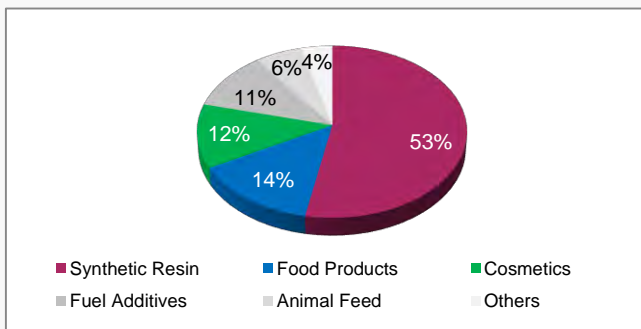
## Key Investment Arguments

### Margin accretive blends segment to be a value creator

Camlin Fine Sciences Ltd(CFS) manufactures traditional antioxidants like TBHQ, BHA and Ascorbyl Palmitate which have been the key growth drivers of Camlin's Shelf Life Solutions portfolio. Adding Antioxidants to packaged food items makes the taste better and helps extend the shelf life of the products as it delays of the oxidation process. Besides food and feed, Shelf life Solutions cater to a wide array of industries such as Pet food, Rendering, Biodiesel, Aquaculture/Fishmeal etc. The Global Food Antioxidants Market is expected to reach USD 1.73 Bn by 2025, from USD 1.16 Bn in 2017 implying a CAGR of 6.1% over 2018 to 2025. Fruits and vegetables are the top sources of naturally occurring antioxidants, a few of which include rosemary extract, tocopherols, and green tea. While the Natural Antioxidant Market is expected to grow at a CAGR of 7.5%, Synthetic Antioxidants Market is expected to post a CAGR growth of 5.3% during 2016-22. The Shelf Life Extension Solution segment accounts for 54% of the company's total revenue and includes more than 100+ products. CFS currently enjoys ~45% market share (in the antioxidant market i.e. TBHQ and BHA.) Within Shelf Life Extension Solutions, the antioxidants segment was the major contributor until FY16 post which the company transitioned itself from selling antioxidants as a commodity to making blends. Blends are a combination of various anti-oxidants like THBQ, BHA, BHT, Ascorbyl Palmitate and Propyl Gallate.

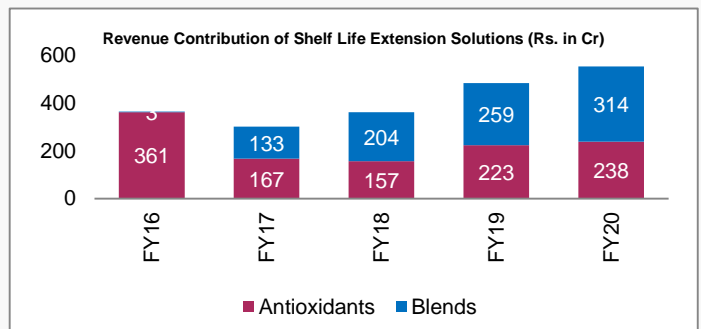
The company is now directly selling to its customers instead of selling to blenders, thereby increasing the customer base from 40 to 1000 customers since 2014. The company integrated forward into blends segment in light of the high margins it offers and currently forms a major part of the Shelf Life Extension business. In FY20, blends margins were at 20% and the management has guided for 25-30% margins in the coming years, with the blends business top-line growing by 22%-25%. The segment growth will largely be driven by new launches, expansion in new geographies and growth in existing geographies.

**Exhibit 13: Antioxidants applications**



Source: Company, Axis Securities

**Exhibit 14: Post FY16 rising contribution of Blends business**



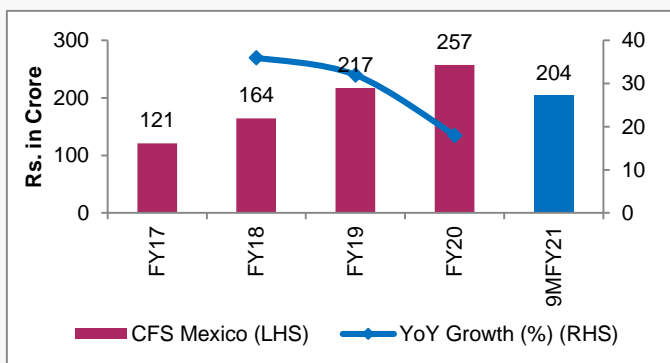
Source: Company, Axis Securities

CFS envisages evolving into a global food blender and has commissioned facilities in Mexico, Brazil, North America, Europe and India.

### CFS Mexico

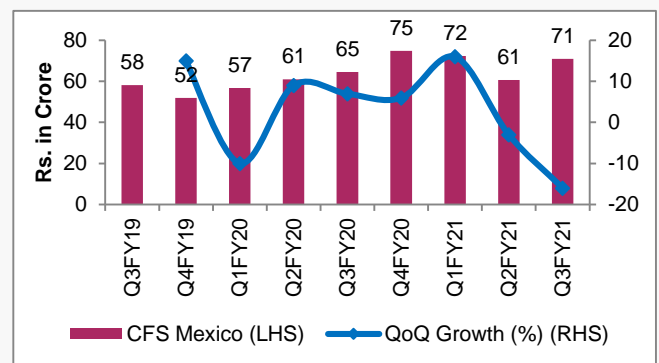
CFS Mexico was formed after acquiring 65% stake in Dresen Quimica SAPI De CV, Mexico in May 2016 that primarily manufactures blends and additives and has cutting-edge technology in this product segment. Thereafter from February 1, 2019, the holding company CFS Antioxidantes De Mexico S.A. de CV, Mexico was merged into Dresen Quimica SAPI de CV Mexico. Dresen operates in 5 different countries namely Mexico, Guatemala, Cuba, Colombia, Peru and the Dominican Republic and caters to ~400+ customers. These include clients from segments including oil, poultry, dairy, rendering, aqua, pet food, swine, and pre-vitamin mix to name a few. Mexico now contributes 18% to the consolidated top-line of CFS. The Mexico Blends Market size is pegged at \$200 mn and the company has captured a 15% of this market by leveraging the Mexico plant's capacity of 12,000 MT.

**Exhibit 15: Operational Revenue of CFS Mexico**



Source: Company, Axis Securities

**Exhibit 16: Quarterly Revenue of CFS Mexico**



Source: Company, Axis Securities

### CFS Brazil

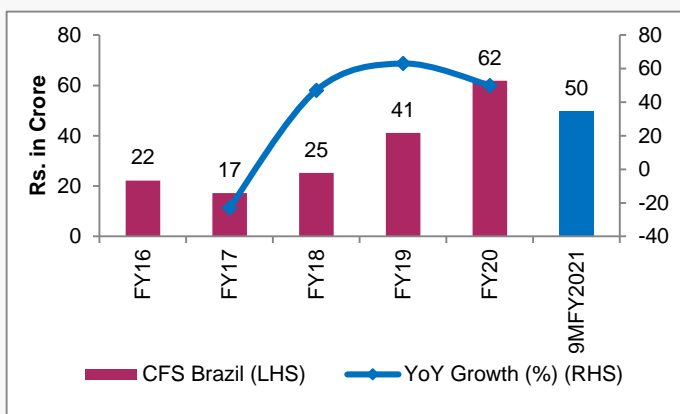
The company formed a Brazil subsidiary in 2013 specifically for Blends which was commercialized in 2015. CFS Brazil has a lab in Indaiatuba for customizing blends for Shelf Life Extension Solutions. Its key customers operate in diverse segments like oil, bio-diesel, animal nutrition of cattle, poultry, swine, goat, sheep as well as aquaculture. The subsidiary also handles the distribution of bulk antioxidants and vanillin and has a dedicated facility for animal feed and pet food additives. The company expects the segment to deliver an encouraging revenue growth aided by new product launches in the animal nutrition segment and increasing market penetration. The blends brands Xtendra and Nasure for synthetic and natural antioxidants were developed in the Brazil unit.

CFS Brazil contributes 4% to the consolidated top-line of the company. The plant has a capacity of 6000 MT with 85+ customers.

### CFS India

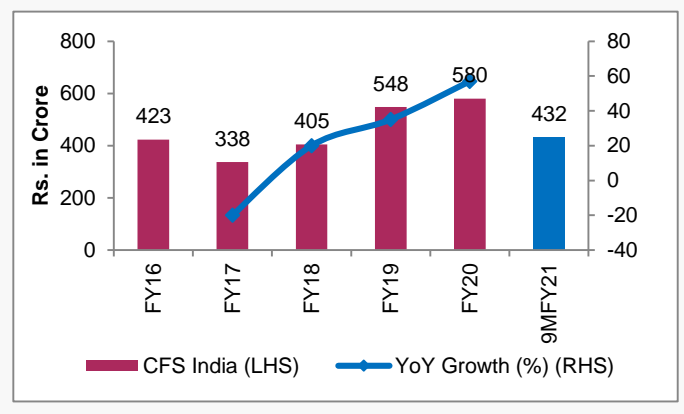
CFS India has an R&D center at Tarapur having a manufacturing capacity of 10,000 MT for development of di-phenol downstream products and 5,000 MT for the production of anti-oxidant ingredients. CFS recently did a greenfield expansion of di-phenols in Dahej setting up a manufacturing capacity of 10,000 MTPA. It also has Shelf Life Solutions Development, Testing and Applications Lab at Mumbai that works on testing formulations and blends for the food, pet food and animal nutrition industries.

**Exhibit 17: Operational Revenue of CFS Brazil**



Source: Company, Axis Securities

**Exhibit 18: Operational Revenue of CFS India**

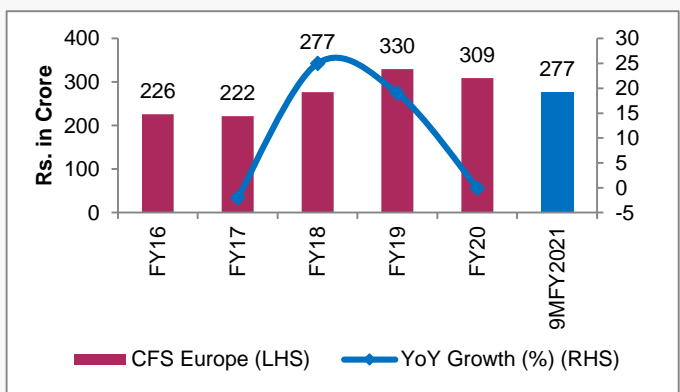


Source: Company, Axis Securities

### CFS Europe and North America

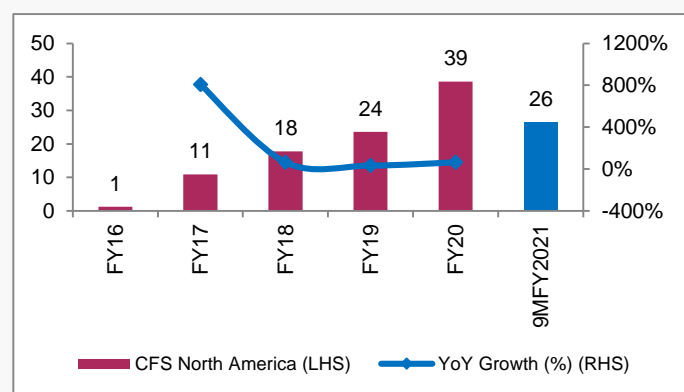
CFS acquired a manufacturing facility in Ravenna, Italy in 2011 which provides key raw materials, Hydroquinone and Catechol for captive use. The acquisition made CFS one of the world's leading and 100% vertically integrated chemical companies. The Company achieved capacity utilization of 95% in FY19 and expects considerable growth in EBITDA Margins and profits due to favourable price and better yields. CFS Europe commenced an application lab in October 2018 and a blending plant in March 2019 dedicated to the European market which now has 5 customers on board. CFS was formed as a wholly-owned subsidiary in 2015 for Shelf Life Extension Products. The company has launched several new products in the natural anti-oxidants and animal nutrition segment and has a portfolio of 40+ products in diverse segments like bulk oils, meat & poultry, pet food, animal feed, mould inhibitors and guy health probiotics for animal feed to name a few.

**Exhibit 19: Operational Revenue of CFS Europe**



Source: Company, Axis Securities

**Exhibit 20: Operational Revenue of CFS North America**



Source: Company, Axis Securities

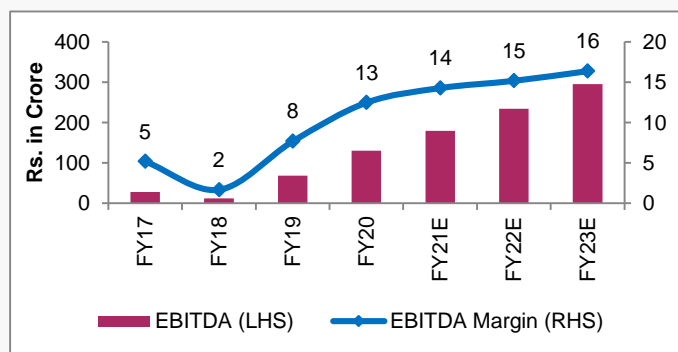
## Dahej Plant commercialization – a key growth catalyst

CFS had announced a greenfield plant expansion in Dahej at a total cost of Rs. 180 crore, with a capacity of 10,000 MTPA to manufacture diphenols like Hydroquinone and Catechol its major raw materials and the downstream products. The raw materials were erstwhile produced only in its Italy plant having a capacity of 10,000 MTPA. The said greenfield expansion will make CFS 2nd largest and lowest-cost producer of Hydroquinone and Catechol as well as a leading vertically integrated player in the world. The Dahej plant construction was completed by the end of January 2020 and was successfully commercialized in September 2020. The backward integration in India will enable the company to reduce procurement from its Italian facility. This will minimize its logistics, power, and labour cost and provide significant cost advantage to the company. At full capacity utilization the company expects saving to the tune of \$1-\$1.5 per kg which translates into incremental EBITDA of Rs. 60-70 crore. Furthermore, procuring the bulk of raw material from the India plant will lower inventory days and consequently reduce working capital requirements. The integration will help CFS produce more downstream products by procuring raw materials at the cheapest rates. The Dahej plant was operating at 60% capacity utilization as on Q2FY21 and is expected to gradually ramp up to 90% by the end of FY21. This greenfield expansion is not only expected to have a positive impact on EBITDA Margins but also open up avenues to further diversify into the Performance and Aromas chemicals segment for which the company has announced expansion as well.

Hydroquinone consumption is primarily driven by non food-grade antioxidants, which account for ~86% of total demand of hydroquinone (food-grade antioxidants consumption share is fairly low at >9% globally). Hydroquinone is an essential compound used in the speciality chemical industry. It is a derivative (Phenol) of crude oil and is primarily used for manufacturing TBHQ and BHA which, in turn, are mainly used as food antioxidants. Hydroquinone supply in the market has been curtailed in China owing to a pollution crackdown over the last few years creating an opportunity for CFS to step in and fill in the gap. The market for hydroquinone is expected to register a CAGR of 4% during the period 2019-24. With the presence of only limited hydroquinone manufacturers globally, CFS is well positioned to and grow its market share by expanding in various untapped geographies while not compromising on the prices.

Catechol which is another industrial product used in the food and flavour industry is manufactured from crude-based derivatives. Global catechol demand is expected to increase driven by a strong growth outlook for end-use industries like construction chemicals, colourants, Active Pharmaceutical Ingredients (APIs), personal care chemicals, and flavours & fragrances.

**Exhibit 21: Improving Margin trend**



Source: Company, Axis Securities

**Exhibit 22: Limited no. of hydroquinone producers worldwide**

Peers	Country
Eastman, USP	US
Solvay (Rhodia)	Belgium
Mitsui Chemicals	Japan
UBE Industries	Japan
YanChengFengYang Chemical	China
Jiangsu Sanjili	China

Source: Company, Axis Securities

## Continued focus on growth and expansion

The company has decided to set up an additional multi-purpose plant with a capacity of 6,000 MTPA at a cost of Rs. 185 crore to manufacture Guaiacol (raw material for Vanillin), Vanillin, Ethyl Vanillin, Methyl Vanillin and its derivatives to ramp up the revenues of the aromas segment, making the facility entirely integrated. The basic engineering of Ethyl Vanillin is already in progress and the construction of the plant will commence CY21 with commercial production starting from Q1FY23. The earlier plan was to consolidate its assets and move out of China. However, the same was put on hold due to political uncertainties. CFS produces Vanillin through the Catechol route and currently stands as a leading Vanillin producer globally. The low cost Catechol acquired from the Dahej Facility will drive up the EBITDA margins thus providing CFS a huge competitive advantage over its peers.

Vanillin is an essential aromatic compound extensively used to enhance the fragrance and flavour of different end-use products. It is widely used as a flavouring agent in food products and aromatic additives for incense, perfumes, medicines, candles, and air fresheners. Demand for Vanillin particularly from the food & beverage segment is anticipated to increase overtime due to its flavour enhancing characteristics, low-calorie content, and high availability of antioxidants. The growth of the market has been driven by a growing population, mounting penetration of vanillin in the pharmaceutical sector, increasing use to reduce psoriatic skin inflammation, accelerating packaged food sales, expanding urbanization and rising disposable income levels.

Alongside, the company also has plans to undertake debottlenecking at its Tarapur facility with an additional capacity of 2,500 MTPA to produce additional MEHQ at an incremental investment of Rs. 25 crores. This is expected to provide further growth impetus to the Performance Chemical segment, going forward.



### Forward Integration in Vanillin Business

In 2017, CFS along with CFS Europe acquired 51% stake in Ningo Wanglong making CFS the third-largest producer of Vanillin globally. With the capacity expansion in Guaiacol, the company is 100% covered of primary raw material and produces Vanillin through the environment friendly Catechol route. Vanillin has wide-spread applications in ice creams, chocolates, bakery, biscuits, candy, fragrance and perfume manufacturing, personal care and cosmetics, household care solutions, and incense sticks. In addition, Vanillin is also used in the Pharmaceuticals industry, to mask the unpleasant taste in livestock fodder or medicines. It also acts as an intermediate during the manufacturing of certain Agrochemicals and Pharmaceuticals.

The low-cost Catechol acquired from the Dahej facility will benefit the EBITDA margins which will provide a huge competitive advantage to CFS. Recently, the company decided to set up an additional multi-purpose plant with a capacity of 6,000 MTPA at a cost of Rs. 185 crore to manufacture Guaiacol (raw material for Vanillin), Vanillin, Ethyl Vanillin, Methyl Vanillin and its derivatives to ramp up the revenues of the Aromas segment, making the facility entirely integrated. The basic engineering of Ethyl Vanillin is already in progress and the construction of the plant will commence in CY21. The mechanical completion is expected to be achieved by Q4FY22, and the commercial production will commence in full swing in Q1FY23.

The global vanillin market size is anticipated to reach US\$706.15 million in 2024, growing at a CAGR of 5.12% over 2020-2024. In volume terms, the global vanillin demand stood at 18,654 tons in 2016 and is expected to grow at a CAGR of 6.2% over the period of 2017-25. Globally, the Synthetic Vanillin Market size represents over 97% of the overall demand and is forecasted to grow at more than 7% up to 2023E. The realisations for synthetic vanillin are in the range of \$10-14 per kg. Natural vanillin market size derived from orchid pods represents less than 1% of the overall industry size and demand was over 60 tons in 2015. The naturally sourced product is priced at a significant premium to synthetic vanillin owing to its fine quality and authenticity. Extraction of natural vanillin involves a production process that is a highly labour-intensive production process with limited yields and hence is unable to meet the growing global demand for the flavours market.

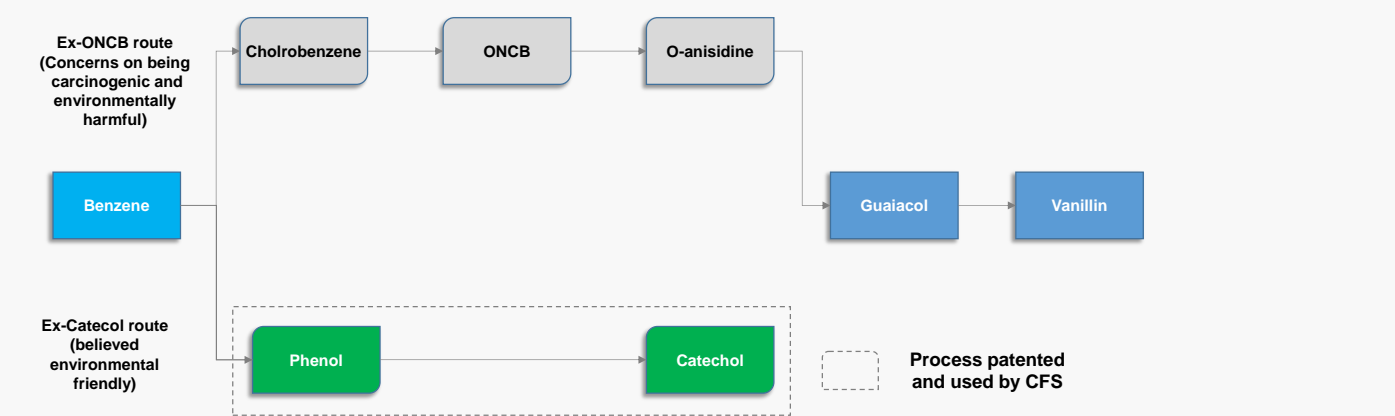
#### Exhibit 23: Handful players globally manufacturing synthetic vanillin through Catechol route

Peers	Vanillin Type	Country
Solvay Rhodia	Synthetic + Natural	Belgium
JiayingZonghua Chemical Industry	Synthetic	China
Apple Flavor and Fragrance Group Co. Ltd.	Synthetic	China
Prinova Group LLC	Synthetic	US
UBE Industries	Synthetic	Japan
Lianyungang Sanjili Chemical Industry	Synthetic	China
Shanghai Xinjia	Synthetic	China
Evolva Holdings S.A.	Natural	Switzerland
Ennloys	Natural	France
Camlin Fine Sciences	Synthetic	India

Source: Company, Axis Securities

CFS uses a unique, patented and environment friendly route to produce Vanillin from Guaiacol which is one of the most favoured routes of synthesis. An alternative process involves manufacturing using chlorobenzene as input but concerns have been raised regarding the process being carcinogenic and environmentally harmful. The in-house access of Catechol from the Dahej facility give the company a significant cost advantage providing CFS a competitive edge in the market.

**Exhibit 24: CFS has a patent for an environmentally friendly ex-Catechol process- preferred approach for manufacturing Vanillin**



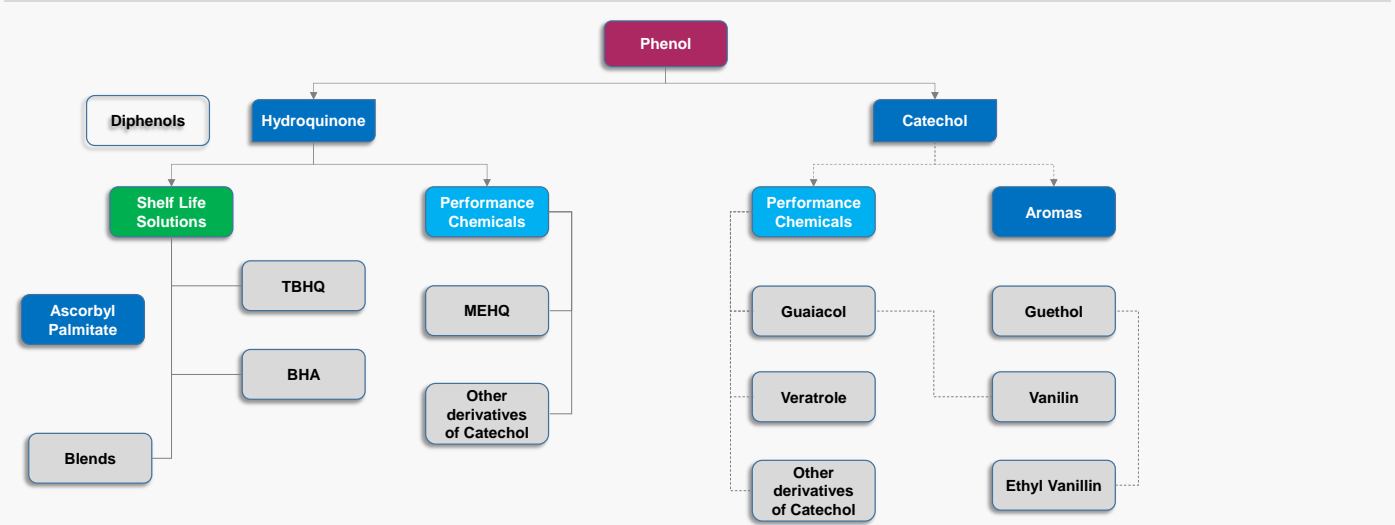
Source: Company, Axis Securities

### Strategically Integrated Player

CFS is one of the world’s leading integrated manufacturers of the most preferred traditional antioxidants and vanillin. It also manufacture various other shelf life solutions, aroma ingredients and performance chemicals. The company is backwards integrated through its facility in Italy and recently commissioned Dahej facility that manufactures di-phenols like Hydroquinone and Catechol. CFS is thus the 2<sup>nd</sup> largest and lowest cost producers of Hydroquinone and Catechol and is the 3<sup>rd</sup> largest producer of Vanillin in the world.

The strategic move of procuring from the Dahej plant will help CFS produce more downstream products by procuring raw materials at competitive rates that will give CFS a significant cost advantage over peers. The integration will also help the company in gaining further control over the price and availability of the raw materials and gradually reduce dependence on the Italy plant. With the commercialization of the Dahej plant to produce di-phenols, the company has successfully mitigated single location risk. The integration will thus give CFS an exceptional opportunity to grow both revenues and margins.

**Exhibit 25: CFS's robust and vertically integrated manufacturing process**



Source: Company, Axis Securities



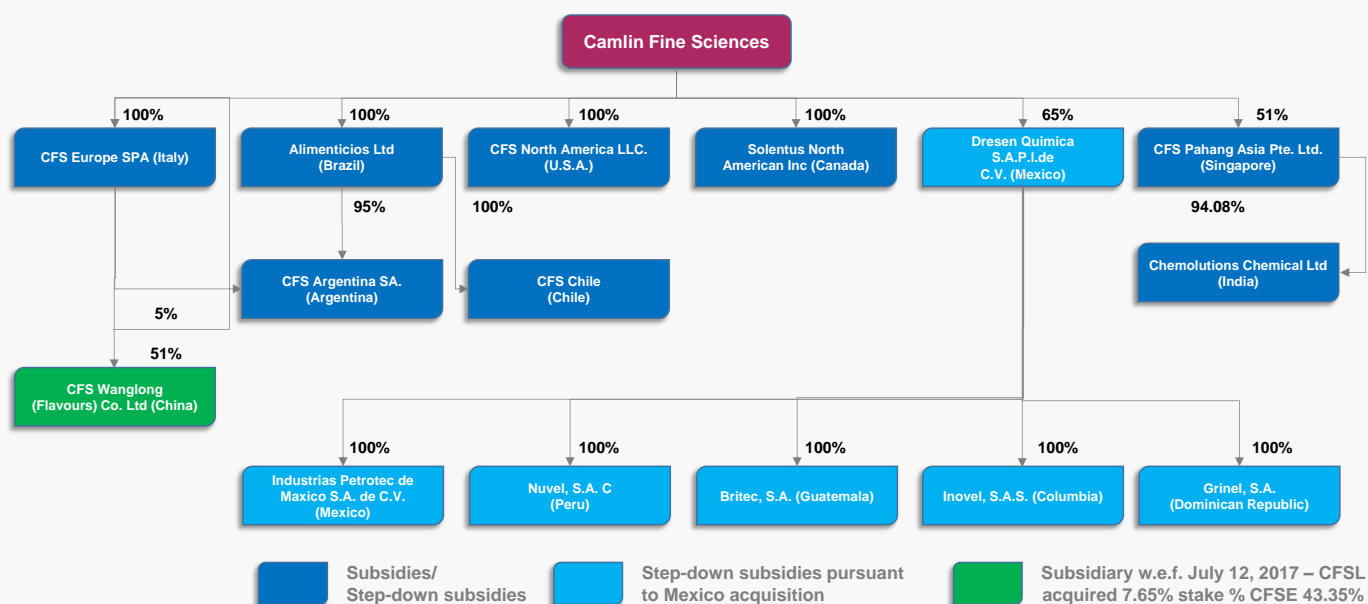
**Exhibit 26: Geographically diversified revenue base**

Particulars	CFS India	CFS Mexico	CFS Europe	CFS Brazil	CFS Wanglong	CFS North America
Products	Di-Phenols, Shelf Life Solutions, Aromas & Performance Chemicals	Shelf Life Solutions	Di-Phenols, Performance Chemicals & Shelf Life Solutions	Shelf Life Solutions	Vanillin (Aromas)	Shelf Life Solutions
Contribution to top-line	41%	18%	22%	4%	12%	3%
Capacity (in MT)	25,000	12,000	12,000	6,000	4,200	N/A
Customers	500+	400+	15+	85+	15+	15+
Employee Strength	350+	130+	50+	30+	75+	10+

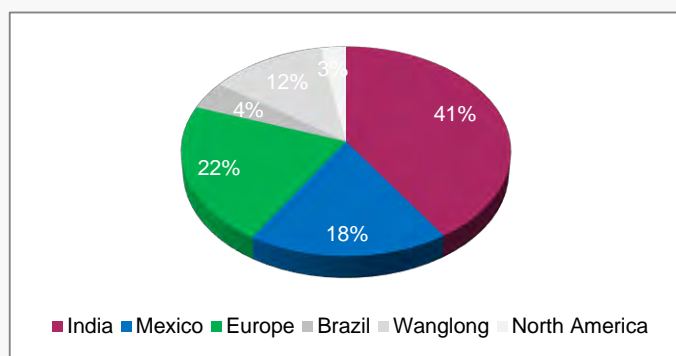
Source: Company, Axis Securities

**Widespread presence across various geographies**

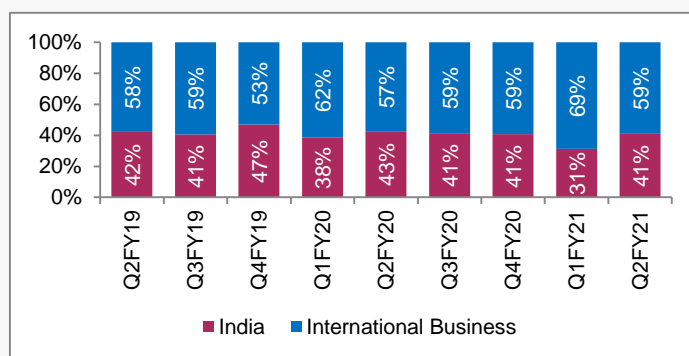
CFS has a global presence with subsidiaries across various geographies. The company's commitment to expand globally will help them acquire more customers as it helps them deliver value to their clients by providing customized services, products and technological upgrade. In a business like blends, customization plays an important role as the requirement may vary from client to client. Thus having a worldwide presence can help CFS serve their existing clients well while onboarding more clients under its fold. The taste and fragrance preferences differ in different geographies and having a widespread presence coupled with a deep market-specific knowledge could help CFS in providing value-added solutions based on unique regional requirements.

**Exhibit 27: Current Entity Structure**


Source: Company, Axis Securities

**Exhibit 28: Geographical Split of Revenues as on FY20**


Source: Company, Axis Securities

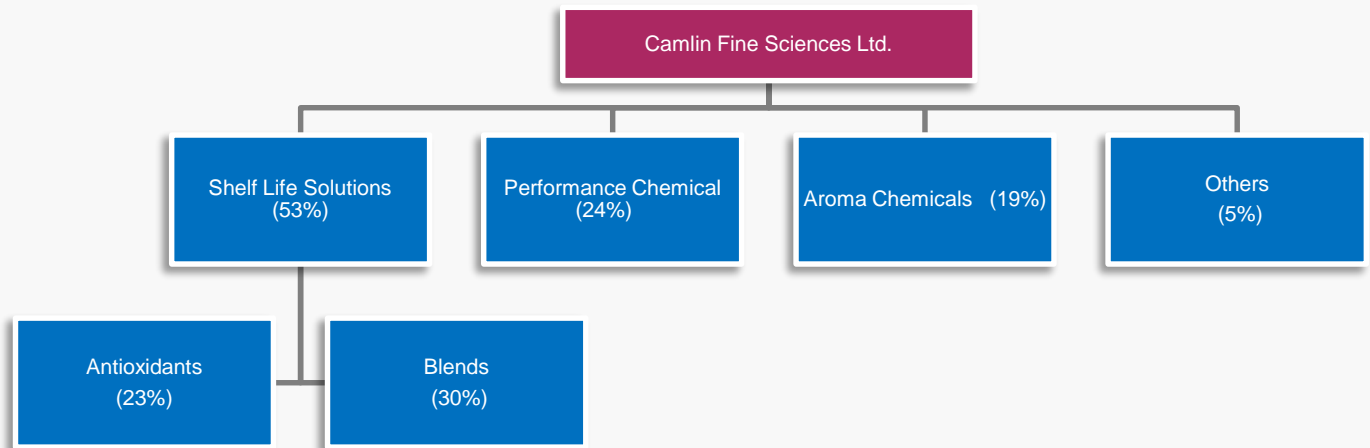
**Exhibit 29: International business accounts for a sizeable share**


Source: Company, Axis Securities

### Company Overview

Camlin Fine Sciences (CFS) was formed after de-merging the fine chemical business of Kokoyu Camlin (erstwhile Camlin Ltd) in 2006. The company is vertically integrated and engaged in research, development, manufacturing, commercializing and marketing of specialty chemicals and blends. These find applications in a wide array of sectors such as food, feed and pet nutrition,pharma, petro chemicals, polymers, flavours and fragrances, agro chemicals, dyes and pigments and bio diesel among others. The business is categorised into 3 different verticals based on the product profile namely:

**Exhibit 30: Product Profile**



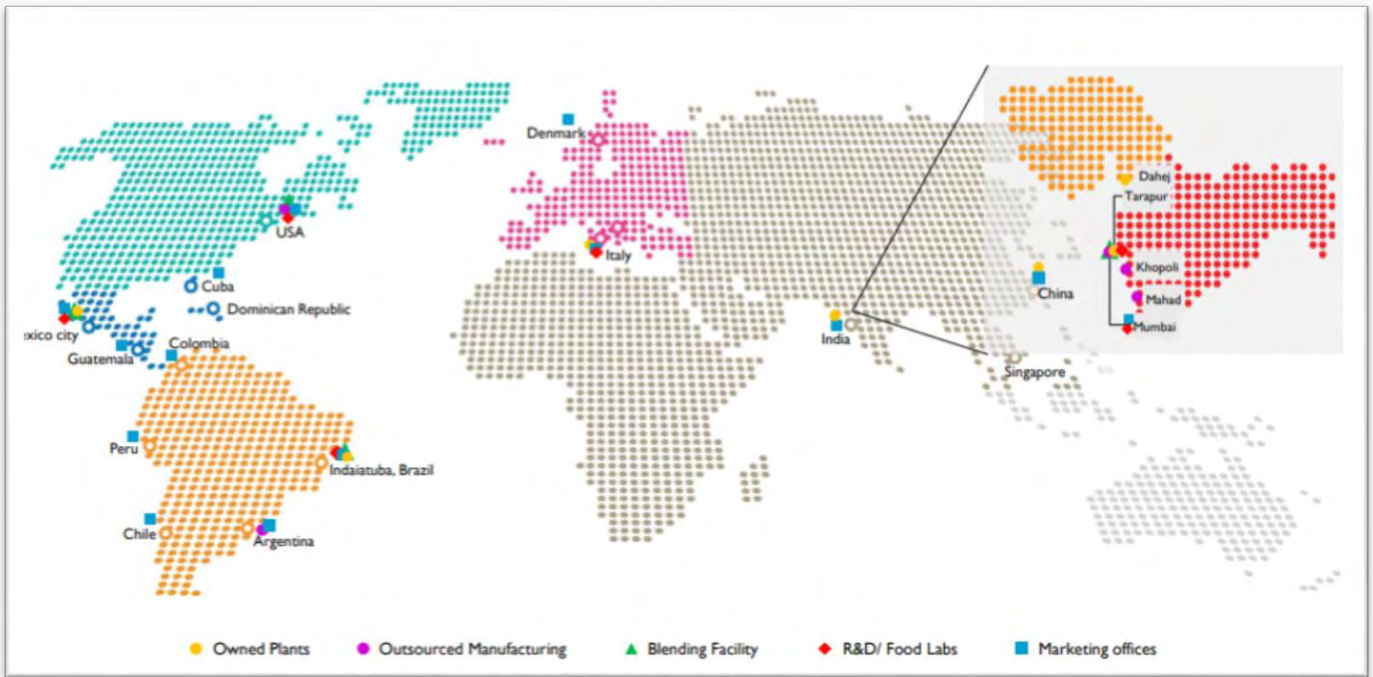
Source: Company, Axis Securities

**Exhibit 31: Key Customers**



Source: Company, Axis Securities

**Exhibit 32: Geographical Presence**



Source: Company, Axis Securities

## Key Risks

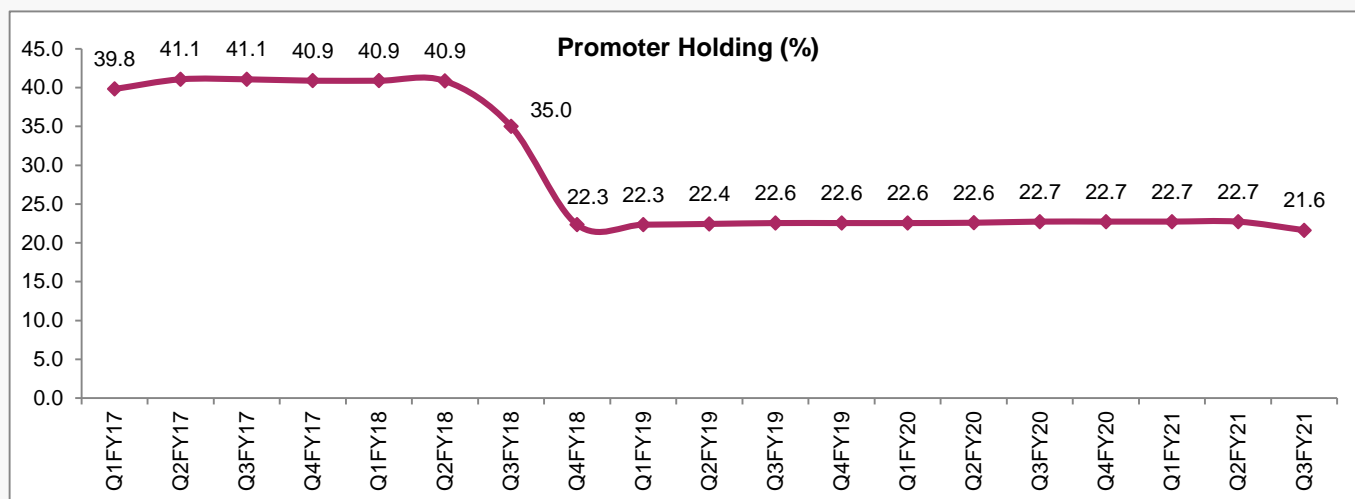
### Raw Material Risk

CFS imports Phenol a base raw material used for producing di-phenols TBHQ and BHA. The price movements in crude oil affect the prices of Phenol and CFS's inability to pass on the crude price volatility to its customers may significantly impact its gross margins and overall profitability.

### Low Promoter Holding

In the last 3 years, the promoter holding has reduced by 12% to 22.7%, post the QIP issue in November 2017. The warrants issued to Convergent Finance LLP can lead to the promoter holding falling to 17% which could have a bearing on the overall stock performance. It also makes CFS a candidate for a hostile takeover.

**Exhibit 33: Promoter holding has fell from 41% to 21% throughout the years**



Source: Company, Axis Securities

### Currency Risk

With 90% of CFS's business being conducted in USD terms, the company carries an exchange rate risk in case of depreciation in USD against INR. This may adversely impact the profitability of the company. With no hedging policy in place, volatility in forex could have an impact on the overall business. However, most of the company's basic raw material i.e. phenol is denominated in USD terms and exports contribute 60% to the top-line which acts as a natural hedge.

### Execution Risk

Considering the delays and unforeseen shutdowns with the Dahej facility, CFS faces an execution risk which may hamper its future expansion plans as well. Additionally, political/economic uncertainties in 6 countries where the company has established manufacturing units may lead to production disruption and loss of business opportunity. International business contributes 60% to the top-line and any execution delays could affect the overall performance of CFS in the export segment.

**Exhibit 34: Shareholding Pattern**

Shareholder's Name	% of holding
Promoter & Promoter Group	21.63%
FII's	1.71%
DII's	20.33%
Government	0.00%
Public	56.33%

\*As on Dec'2020

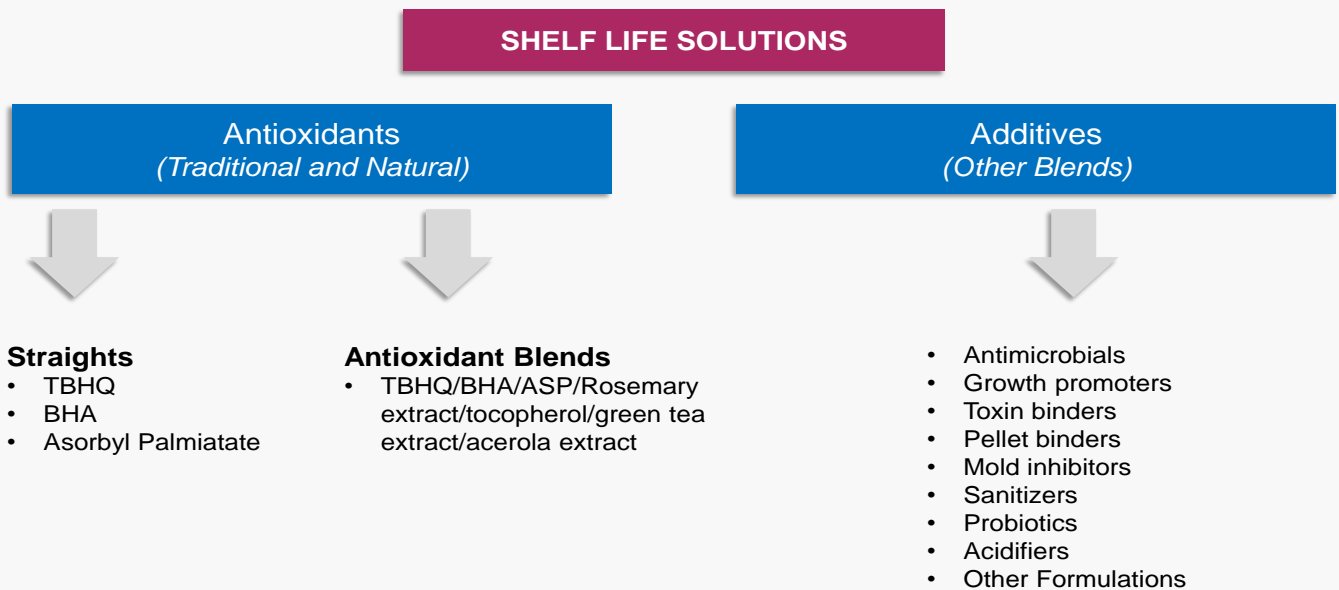
## Segmental Revenue

### Shelf Life Extension Solutions

Shelf Life Solutions are solutions used to increase product shelf life as well as preserving food colour, freshness and product safety. The Shelf Life Solutions products find applications in human food, pet food, animal nutrition, aquaculture and bio-diesel industry. As per Global Markets Insights Market of Food antioxidants from processed food is estimated to surpass USD 750 million by 2025, while industry size from fats and oil applications alone is likely to grow at over 5% in the next five years. The products are also utilized in processed food industries for improving products' shelf life.

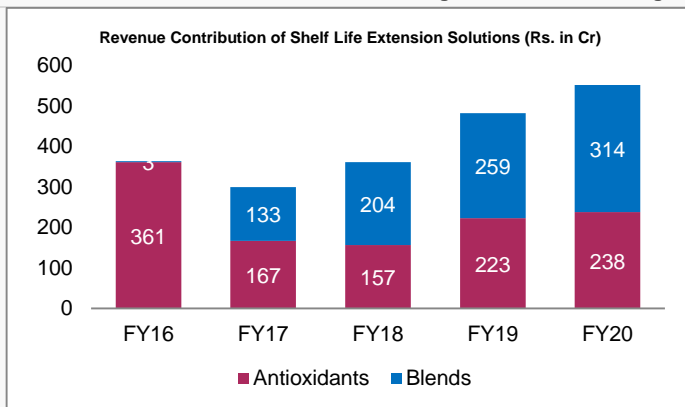
CFS manufactures traditional antioxidants like TBHQ, BHA and Ascorbyl Palmitate which are marketed under the brand names 'Xtendra' and 'NaSure'. Antioxidants have been the key growth driver of the CFS shelf life solutions portfolio. However, since 2016, CFS has expanded its shelf life solutions business and transitioned into the blends business. Blends are a customized combination of various antioxidants with others including shelf life studies, microbiology, toxin analysis, feed mill sanitation, etc. The company expanded its shelf life business with feed additives (blends), apart from antioxidant as the demand for feed additives in the Animal Nutrition industry which has been thriving extensively with rising consumption of meat and poultry food products worldwide. CFS has 5 applications labs in different geographies to study the local market and approach customers with tailor-made solutions. Thus, the company now sells directly to customers, instead of selling to blenders and has increased its customer base from mere a 40 to 1000 since 2014.

**Exhibit 35: Shelf Life Solutions**



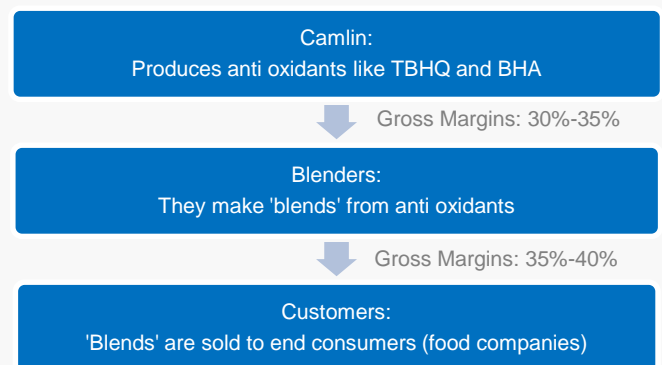
Source: Company, Axis Securities

**Exhibit 36: Contribution of blends to the segment has been rising**



Source: Company, Axis Securities

**Exhibit 37: Transition from antioxidants to blends to drive Gross Margins by 500 bps**



Source: Company, Axis Securities

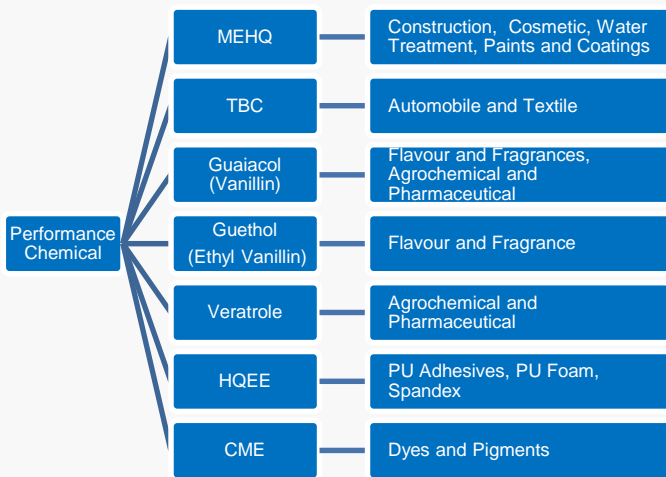
The Shelf Life Extension Solutions segment accounts for 53% of the total revenues and includes more than 100+ products. CFS currently enjoys ~45% of market share in the antioxidant market. Blends, the major revenue contributor is a margin lucrative segment for the company and going forward CFs expects to expand its blends portfolio with the segment likely growing by 25%-30% annually.

### Performance Chemicals

CFS started its Performance Chemical segment in 2011 with the manufacturing of diphenols i.e. Hydroquinone and Catechol through its 100% subsidiary, CFS Europe SpA. Thereafter, the company started the development and production of various downstream products like TBC, Veratrole, MEHQ, Guaiacol, Guethol, PBQ, and HQEE, among others. for which the capacities were built in India. These downstream products find application in industries like petrochemicals, agrochemicals, dyes, pigments, pharmaceuticals, and polymers to name a few. Alongside, CFS signed a preferred supplier agreement with Lockheed Martin Advanced Energy (LM) in 2017 for the supply of speciality chemicals for flow battery systems. LM provides a global security and aerospace solutions is engaged in research, design, development, manufacture, integration and sustainment of Advanced Energy Storage technology. With the recent commercialization of the Dahej facility for di-phenols, the company will have additional capacity to grow its Performance Chemical business. Alongside, the company also has plans of undertaking debottlenecking at its Tarapur facility with a capacity of 2,500 MTPA to produce additional MEHQ at an investment of Rs. 25 crore which could incrementally aid to the segmental revenue contribution.

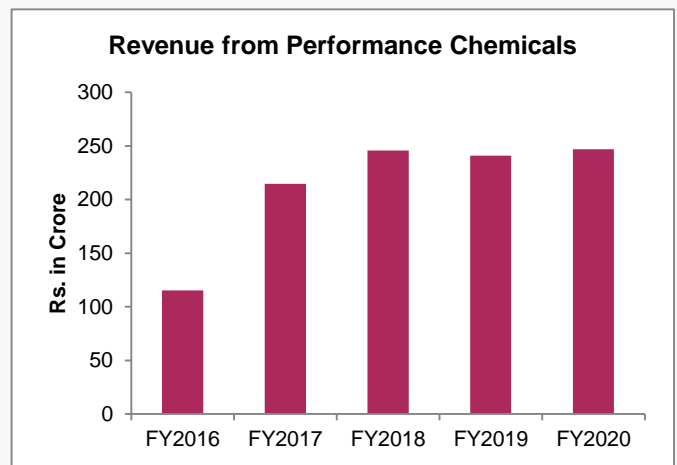
On February 9<sup>th</sup>, 2021 CFS received a notice from the Mahaashtra Pollution Control Board for closure of its Tarapur plant that produces various diphenol downstream and performance chemicals, on account of alleged violations of the provisions of the Water (Prevention and Control of Pollution) Act, 1974 and Air (Prevention and Control of Pollution), 1981 which according to the company were not based on facts and not legally tenable. The operations at the facility were being continued as before and CFS plans to be a zero discharge facility by the end of March 2021.

**Exhibit 38: Performance Chemicals products and their application**



Source: Company, Axis Securities

**Exhibit 39: Performance Chemical contributes 24% to the top-line**



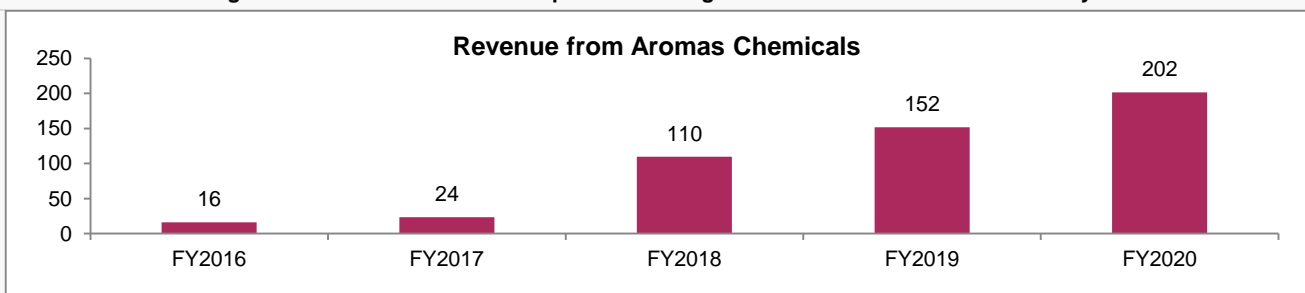
Source: Company, Axis Securities

### Aroma Chemical

Aroma ingredients and aroma chemicals play a key role in food and fragrances. CFS is the third-largest Vanillin manufacturer in the world with 100% backward integration. The company is one of the leading producers of Vanesse<sup>TM</sup> (Vanillin) and Evani<sup>TM</sup> (Ethyl Vanillin), used in ice creams, chocolates, bakery, biscuits, candy, fragrance, pharmaceuticals and perfume manufacturing, personal care and cosmetics, household care solutions and incense sticks. There are two types of synthetic vanillin produced from Catechol route – methyl vanillin and ethyl vanillin. The former is produced in its 3500 sq.m dedicated facility in Yuyao, China. In 2017, Camlin Fine Sciences Ltd. acquired Ningbo Wanglong Flavors and Fragrances Company Limited, China along with its subsidiary CFS Europe SpA, through the joint acquisition of 51% stake.

The company has decided to set up an additional multi-purpose plant with a capacity of 6,000 MTPA at a cost of Rs. 185 crore to manufacture Guaiacol (raw material for Vanillin), Vanillin, Ethyl Vanillin, Methyl Vanillin and its derivatives to ramp up the revenues of the aromas segment, making the facility entirely integrated. The basic engineering of Ethyl Vanillin is already in progress and the construction of the plant will commence CY21. The mechanical completion is expected to be achieved by Q4FY22, and the commercial production will commence in full swing in Q1FY23.

**Exhibit 40: Aromas Segment contributes 19% to the top-line and has grown at a CAGR of 88% in the last 4 years**



Source: Company, Axis Securities

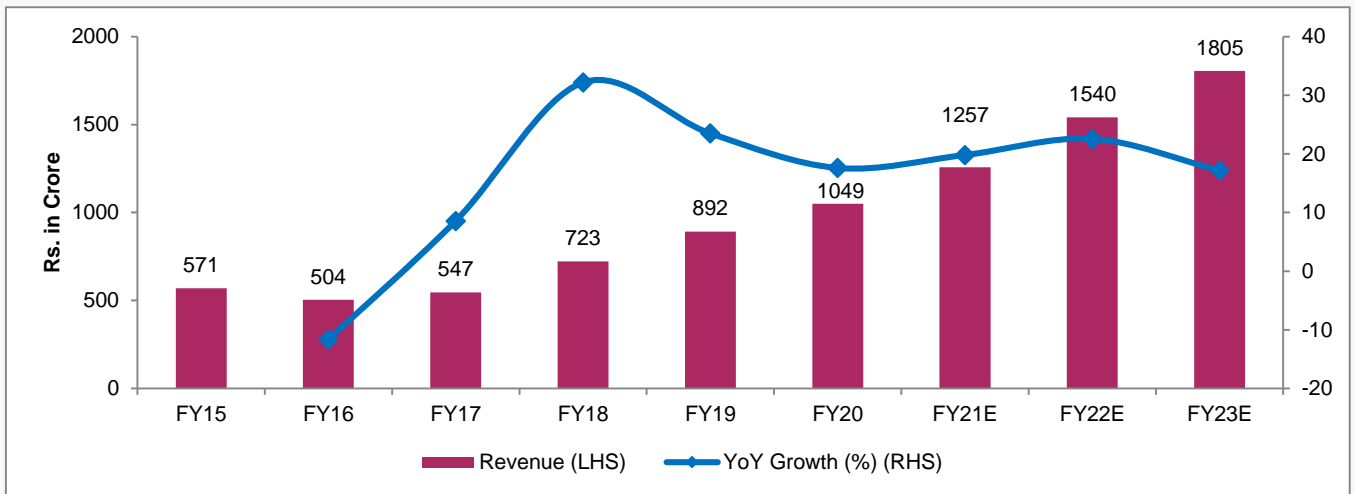


## Financial Commentary

### Strong revenue growth, expected to post CAGR of ~23% over FY20-23E

CFS posted a revenue CAGR of 13% over the last 5 years (FY15-20) largely driven by expansion in new business vertical i.e. blends and acquisition of Mexico and China plant. However, the benefits of the acquisition are expected to contribute to CFS's top-line over the next couple of years. We expect the revenues to grow at a faster clip of 20% CAGR over FY21-23E with strong 20% growth estimated in the blends segment, a high revenue generating segment. Additionally, due to its ability to enhance flavour in food products coupled with low-calorie content and high availability of antioxidants in vanillin, demand for vanillin from the food & beverage segment is anticipated to increase over time. This will also aid CFS in driving up CFS's top-line.

**Exhibit 41: Revenues to grow at strong 20% CAGR with expansion in blends**

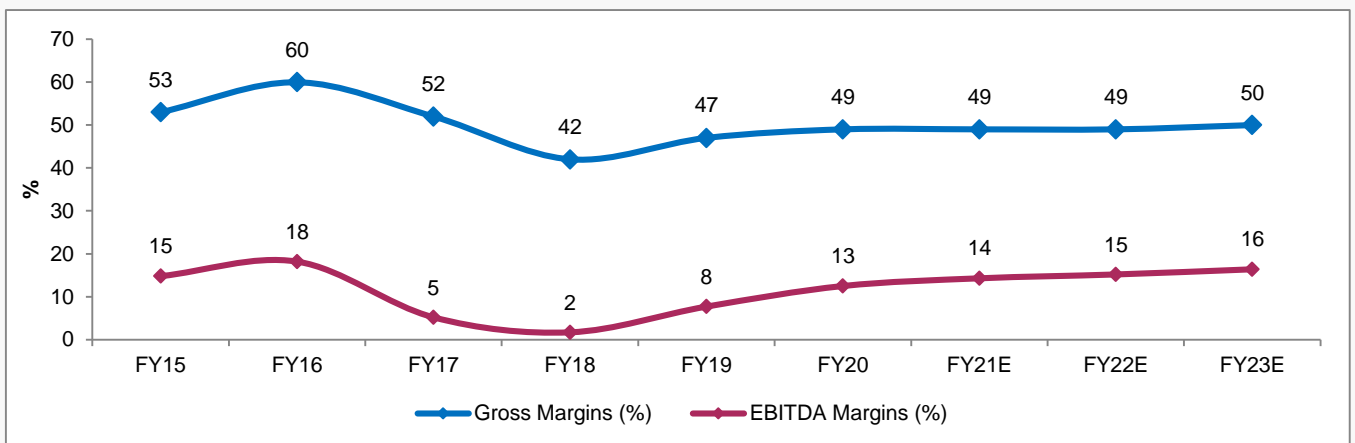


Source: Company, Axis Securities

### Margin profiles to improve with EBITDA expected to register CAGR of ~31% over FY20-23E

With the commercialization of the Dahej facility, CFS will now procure its major raw materials Hydroquinone and Catechol at the lowest rates globally. These raw materials will further be captively consumed at CFS's plants in India. This will in turn reduce various costs like transportation, power & fuel and labour as reliance on sourcing raw materials from Italy reduces. The blends segment is expected to grow at 20% CAGR and is expected to generate EBITDA Margins in the range of 25%-30% in the next 3-4 years. The expectation of a strong EBITDA growth is on the back of 1) strong revenue growth driven by new client addition and diversified product portfolio, 2) Healthy operating leverage owing to scale benefits and overall cost savings.

**Exhibit 42: Access to cheap RMs and better cost control measures will result in Gross Margins and EBITDA Margins growing**

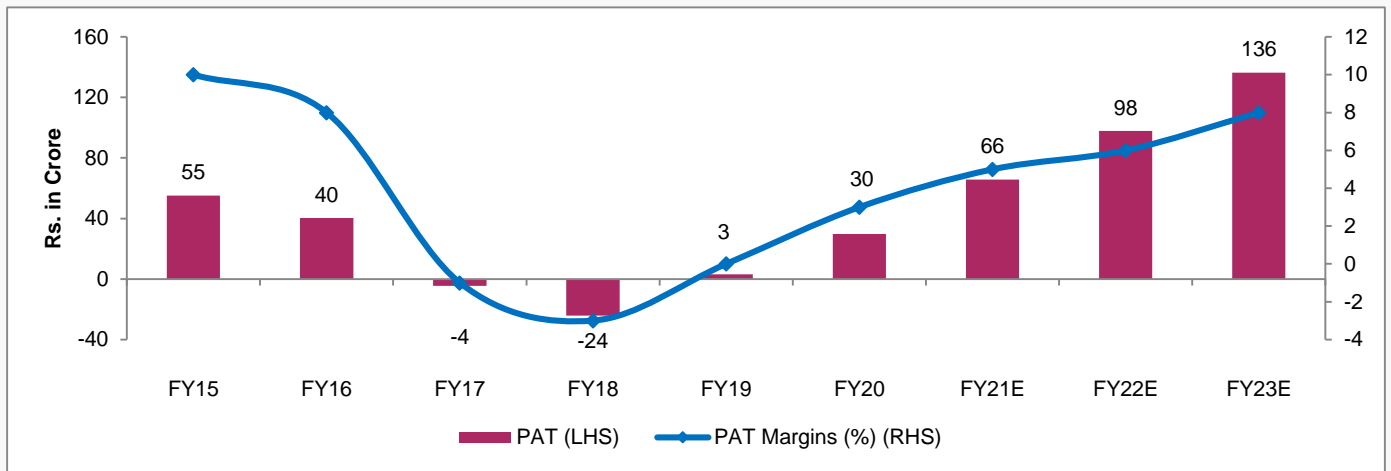


Source: Company, Axis Securities

### PAT to post ~68% CAGR over FY20-23E

CFS has cemented a strong position in the blending segment and has 200+ products and is widespread across various geographies. Being the cheapest producer of TBHQ and BHA will only help the company maintain its EBITDA Margins and thus translate into sustainable PAT Margins. In the last few years, the company overtook greenfield and brownfield expansion funded mainly through borrowings. This resulted in higher interest cost and depreciation cost, which had a direct impact on the PAT Margins. However, now as the operating efficiency has started to kick in, we expect PAT to grow at a CAGR of 67% over FY20-FY23E.

**Exhibit 43: Improving operational performance will lead to better profitability and PAT margin**

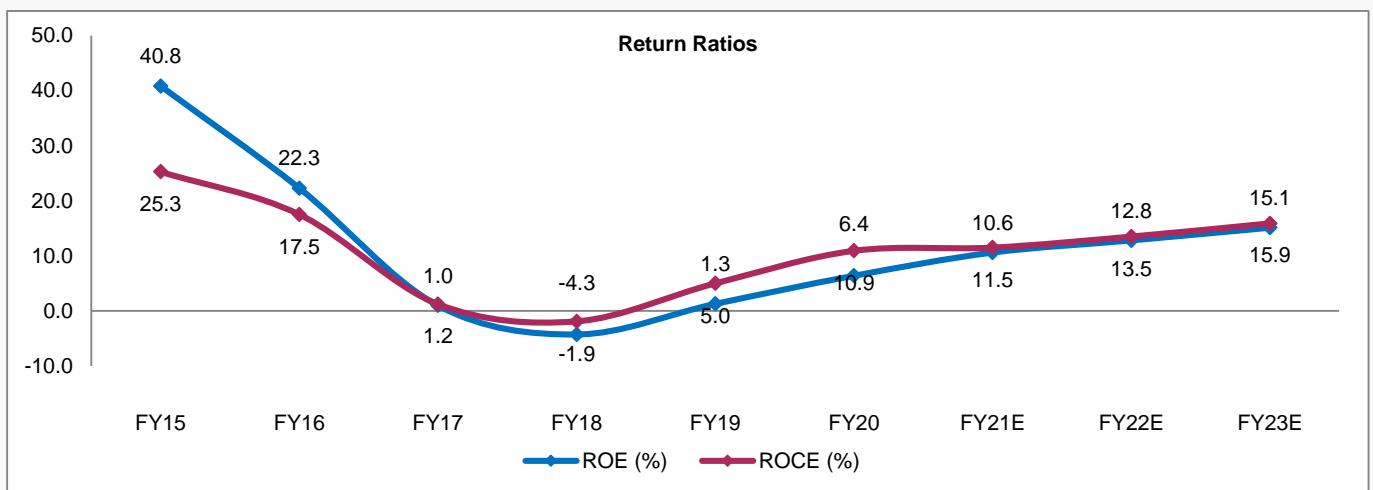


Source: Company, Axis Securities

### Return Ratios (ROE & ROCE) to improve gradually as the benefits reap in

The return ratios have been sub-par as compared to its peer, both same-sized and large companies in India. The attractiveness of the antioxidants like THBQ and BHA market has been questioned in the past few years, and CFS' strategy to focus on downstream products and make a transition into blending to mitigate the risk of competitive pressure and saturation of the market has helped the company to report improvement in ROCE's from -1.8% in FY18 to 10.2% in FY20. Further commercialization of the Dahej plant will lead to a further improvement in its working capital cycle thus leading to an improving ROE and ROCE.

**Exhibit 44: Return ratios to improve as benefits reap in**

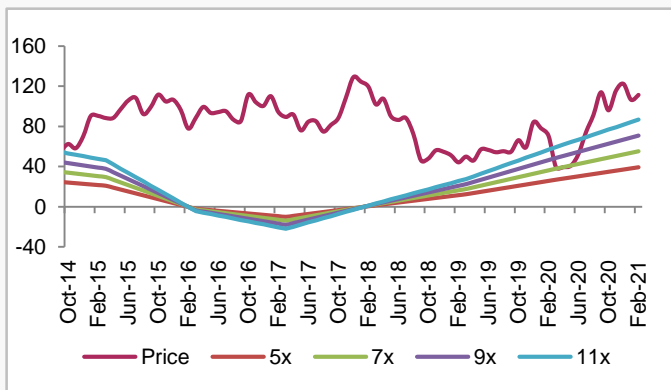


Source: Company, Axis Securities

## Valuations and Outlook

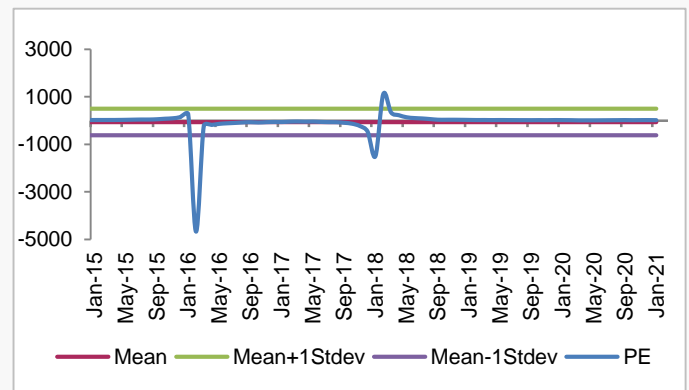
We initiate coverage on **Camlin Fine Sciences (India) Ltd** with **BUY** and **Target Price of Rs. 155/share** implying an **upside of 44%** as we value the stock at **14x P/E** its **FY23E EPS** which is reasonable given the **strong growth prospects and improving profitability of the business going ahead**. We believe, CFS's strategic focus on expansion and having worldwide presence, expected growth in blends segment, increasing demand of vanillin worldwide, strategic vertical integration, step up in innovation/new launches, healthy margin profile and improving balance sheet are some of the key features from a long term perspective that are likely to support and strengthen the business. Thus initiating coverage with a **BUY** rating.

**Exhibit 45: 12M FWD PE CHART(x)**



Source: Company, Axis Securities

**Exhibit 46: 12M FWD PE BAND CHART**



## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Particulars	FY20	FY21E	FY22E	FY23E
<b>Net sales</b>	<b>1,049</b>	<b>1,257</b>	<b>1,540</b>	<b>1,805</b>
% change	17.6	19.8	22.6	17.2
Raw material expenses	534	641	779	908
Employee expenses	100	122	146	171
Other Operating expenses	285	314	380	430
<b>Total Expenditure</b>	<b>918</b>	<b>1,077</b>	<b>1,306</b>	<b>1,509</b>
<b>EBITDA</b>	<b>131</b>	<b>180</b>	<b>234</b>	<b>296</b>
% change	90.4	37.5	30.3	26.4
<b>EBITDA Margin %</b>	<b>12.5</b>	<b>14.3</b>	<b>15.2</b>	<b>16.4</b>
Depreciation	32.8	55.0	62.5	69.9
<b>EBIT</b>	<b>98</b>	<b>125</b>	<b>172</b>	<b>226</b>
% change	146.8	27.4	37.6	31.8
EBIT Margin %	9.3	9.9	11.1	12.5
Interest paid	43	41	42	42
Other Non-Operating Income	3	9	11	13
<b>PBT</b>	<b>58</b>	<b>93</b>	<b>140</b>	<b>197</b>
Tax	28	28	42	59
Tax %	<b>48.7</b>	<b>30.0</b>	<b>30.0</b>	<b>30.0</b>
<b>Net Profit</b>	<b>30</b>	<b>65</b>	<b>98</b>	<b>138</b>
% change	873.4	118.3	50.7	40.3

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
<b>Share Capital</b>	<b>12</b>	<b>12</b>	<b>12</b>	<b>12</b>
Reserves & Surplus	391	551	694	832
Net Worth	460	620	763	901
Total Loan funds	490	540	562	560
Deferred Tax Liability	2	2	2	2
Long Term Provisions	3	4	5	6
<b>Capital Employed</b>	<b>964</b>	<b>1,167</b>	<b>1,333</b>	<b>1,469</b>
Net Fixed Assets	485	569	659	734
Investments	17	19	21	23
Sundry Debtors	253	300	359	410
Cash & Bank Bal	52	61	55	54
Inventory	298	386	448	497
Other Current Assets	46	63	77	90
Total Current Assets	675	822	952	1,064
Current Liabilities & Provisions	270	300	356	409
Net Current Assets	405	522	596	655
<b>Total Assets</b>	<b>964</b>	<b>1,167</b>	<b>1,333</b>	<b>1,469</b>

Source: Company, Axis Securities

**Cash Flow**
**(Rs Cr)**

Y/E March	FY20	FY21E	FY22E	FY23E
PBT	58	93	140	197
Depreciation & Amortization	34	55	63	70
Chg in Working cap	-41	-121	-80	-60
Direct tax paid	-18	-28	-42	-59
<b>Cash flow from operations</b>	<b>86</b>	<b>31</b>	<b>112</b>	<b>177</b>
Chg in Gross Block	-134	-139	-153	-145
Chg in Investments	38	0	0	0
Proceeds on redemption of Fin. Assets	0	0	0	0
<b>Cash flow from investing</b>	<b>-90</b>	<b>-132</b>	<b>-144</b>	<b>-134</b>
Proceeds / (Repayment) of Short Term Borrowings (Net)	34	46	13	-2
Proceeds from issue of Equity Instruments of the company	0	0	0	0
Loans	17	15	9	-1
Finance Cost paid	-39	-41	-42	-42
Dividends paid	-3	0	0	0
<b>Cash flow from financing</b>	<b>3</b>	<b>97</b>	<b>26</b>	<b>-44</b>
<b>Chg in cash</b>	<b>-1</b>	<b>-4</b>	<b>-6</b>	<b>-1</b>
<b>Cash at start</b>	<b>53</b>	<b>52</b>	<b>48</b>	<b>42</b>
<b>Cash at end</b>	<b>52</b>	<b>48</b>	<b>42</b>	<b>41</b>

Source: Company, Axis Securities

**Ratio Analysis**
**(%)**

Particulars	FY20	FY21E	FY22E	FY23E
<b>Growth (%)</b>				
Net Sales	17.6%	19.8%	22.6%	17.2%
EBITDA	90.4%	37.5%	30.3%	26.4%
APAT	873.4%	118.3%	50.7%	40.3%
<b>Per Share Data (Rs.)</b>				
Adj. EPS	2.5	5.4	8.1	11.4
BVPS	37.9	51.2	63.0	74.3
DPS	2.5	0.0	0.0	0.0
<b>Profitability (%)</b>				
EBITDA Margin	12.5%	14.3%	15.2%	16.4%
Adj. PAT Margin	2.8%	5.2%	6.4%	7.6%
ROCE	10.9%	11.3%	13.5%	16.1%
ROE	6.4%	10.5%	12.9%	15.3%
<b>Valuations (X)</b>				
PER	43.9	20.1	13.3	9.5
P/BV	2.8	2.1	1.7	1.5
EV / EBITDA	13.4	10.0	7.8	6.2
EV / Net Sales	1.7	1.4	1.2	1.0
<b>Turnover Days</b>				
Asset Turnover	3.6	2.8	2.4	2.4
Inventory days	199.5	194.9	195.5	190.1
Debtors days	80.4	80.2	78.0	77.8
Creditors days	115.7	109.5	107.8	107.7
Working Capital Days	164.2	165.6	165.6	160.2
<b>Gearing Ratio</b>				
Total Debt to Equity (x)	1.0	0.8	0.7	0.6

Source: Company, Axis Securities

**About the analyst****Analyst:** Darshita Shah**Contact Details:** darshita.shah@axissecurities.in**Sector:** Specialty Chemicals, Mid-Caps**Analyst Bio:** Darshita Shah is CFA Level III candidate and has over a year experience in Equity Market and Research.**About the analyst****Analyst:** Suvarna Joshi**Contact Details:** suvarna.joshi@axissecurities.in**Sector:** FMCG, Consumption sector, Mid-Caps**Analyst Bio:** Suvarna Joshi is MBA (Finance) from Mumbai University with about 10 years of experience in Equity market and research**Disclosures:**

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<b>SELL</b>	Less than -10%
<b>NOT RATED</b>	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
<b>UNDER REVIEW</b>	We will revisit our recommendation, valuation and estimates on the stock following recent events
<b>NO STANCE</b>	We do not have any forward looking estimates, valuation or recommendation for the stock

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