

AKSHARCHEM (INDIA) LTD

31 July 2017

CMP

INR 790

Initiating Coverage (BUY)

Target Price

INR 946

Stock Details

Industry	SPECIALTY CHEMICALS
Bloomberg Code	ADCH:IN
BSE Code	524598
Face Value (Rs.)	10.00
Market Cap. (Rs. mn)	6171.5
52wk. Low/High (Adjusted) ((Rs.)	233.00/941.95

Shareholding Pattern June '17

Promoter (%)	70.33
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	29.67
No. of Share Outstanding (mn)	7.31

Valuation Summary

	FY 15A	FY 16A	FY 17P	FY 18P
P/E (x)*	07.85	34.73	34.00	32.00
EV/EBITDA (x)	4.30	17.65	14.65	13.85
P/BV (x)	1.76	6.89	6.08	5.73

*TTM for Current Year

Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

Rs. Mn	FY 15A	FY 16A	FY 17P	FY 18P
Net Sales	1,998	1,877	2,159	2,547
EBITDA	295	335	390	454
Net Profit	160	166	203	243
EPS (Rs.)*	21.9	22.8	27.8	33.1

*Un adjusted

Key Ratios

	FY 15A	FY 16A	FY 17P	FY 18P
EBITDA Margin (%)	14.6	17.7	18.1	17.9
EBIT Margin (%)	12.7	15.5	16.0	16.1
Net Pro. Margin (%)	7.9	8.8	9.3	9.5
Debt/Equity (x)	0.03	0.08	0.07	0.05
RoNW (%)	30.3	21.3	21.8	21.8
RoCE (%)	27.1	18.3	18.8	19.2

We recommend 'BUY' on AKSHARCHEM LTD for a target of INR 946 - valuing the company at P/E 32x of FY19E Earning.

INVESTMENT RATIONALE:

- Aggressive capacity expansion since 2004.
- Moreover, the Company's efforts towards enhancing production efficiency resulted in cost optimisation.
- Robust revenue generation from Exports: The Company's Exports accounts to 82% of total revenue.
- The company has supply agreements with esteemed clients across Japan, South Korea and other countries across Europe.
- AksharChem has been awarded the prestigious International Gold Star Award for excellence in Corporate Image and Quality by Business Initiative Directions of Spain.
- Strong Performance
- The increase in production capacity and sales volume
- Resulting in higher margins on one hand and maintaining customer base on the other.

VALUATIONS AND VIEW:

AksharChem is one of the leading manufacturers and exporters of vinyl sulphone. At AksharChem, they leveraged the power of knowledge to create an organization of repute using unique processes for manufacturing quality products with a concern for environment. Resulting in higher margins on one hand and maintaining customer base on the other. We value the business at 32x FY19E EPS and recommend a BUY rating on the stock with a target price of INR 946 per share.

One Year Price / Volume



RISK & CONCERNS:

In spite of all odds their efforts have been able to yield reasonable improvement in profitability however they accept that they have to make more rigorous efforts to improve their performance.

They are optimistic that pessimism in the global economy will be over in time to come and domestically sizable middle class and young population with intending towards consumption will give boost to textile and paint industry and they hope to have greater time in the years to come. Furthermore the management of the company is now focusing more on product development and research and making efforts to launch new products in coming period.

COMPANY BACKGROUND:

AksharChem India Ltd. Incorporated in 1989, has its office located in Mahesana. AksharChem India Ltd. engages in the production of dyes and intermediates. The company manufactures and exports Vinyl Sulphone. The Company was promoted by Mrs. Paru M. Jaykrishna in 1989. The Company's shares are listed in the BSE Limited (BSE) and Ahmedabad Stock Exchange Limited (ASE).

At AksharChem, they leveraged the power of knowledge to create an organization of repute using unique processes for manufacturing quality products with a concern for environment. Resulting in higher margins on one hand and maintaining customer base on the other.

AksharChem, headquartered in the chemical belt in Gujarat, is a global company dedicated in the production of Dyes and intermediates. The Company manufactures intermediate dye, para base ester of aniline (also known as vinyl sulphone), which is used as a raw material for manufacturing reactive dyes having application in the textiles colour pigments, paints, rubber, plastics and leather industry. Currently, AksharChem is one of the leading manufacturers and exporters of vinyl sulphone.

Products-

- Dye Intermediates
- Dyes
- Pigments

INDUSTRY OVERVIEW:

The chemical industry in India is a key constituent of Indian economy, accounting for about 2.11 per cent of the gross domestic product (GDP). In terms of volume of production, Indian chemical industry is the third largest producer in Asia and sixth largest in the world. India's growing per capita consumption and demand for agriculture-related chemicals offers huge scope of growth for the sector in the future. Lured by the size and returns of the Indian market, foreign firms have strengthened their presence in India.

The Government of India has been supportive to the sector. 100 per cent FDI is permissible in the Indian chemicals sector while manufacturing of most chemical products is de-licensed. The government has also been encouraging Research and Development (R&D) in the sector. Moreover, the government is continuously reducing the list of reserved chemical items for production in the small-scale sector, thereby facilitating greater investment in technology up-gradation and modernisation. The Government has launched the Draft National Chemical Policy, which aims to increase chemical sector's share in country's GDP.

Peer Comparison

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
Pidilite Inds.	788	49.4	40,394.3	0.53	226.5	(16.77)	1,528.9	(2.58)	11.22
Solar Inds.	166	20.3	8,136.0	0.22	54.9	26.80	442.1	7.56	5.24
Vinati Organics	1,030	38.1	5,311.8	-	40.6	3.34	195.0	26.28	7.81
Bodal Chemicals	180	15.6	1,962.2	0.33	32.2	60.03	290.5	41.35	5.32
NOCIL	138	19.6	2,268.5	-	34.6	46.08	214.8	11.44	3.61
Kiri Indus.	299	8.6	832.1	-	25.4	68.92	240.6	10.99	3.28
AksharChem (I)	800.0	34.0	5,856.0	0.37	6.9	72.21	53.0	9.53	6.89

*TTM

FINANCIAL OVERVIEW

Q4 FY16 Performance Highlight

(in Million)	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	YoY (%)	QoQ (%)
Revenue	484.72	593.13	757.88	717.27	529.95	9.33%	-26.12%
Other Income	0.67	--	--	6.57	49.82		
Total Income	485.39	593.13	757.88	723.84	579.77	19.44%	-19.90%
Expenditure	-403.86	-428.14	-467.72	-443.22	-470.06		
<i>As a % of Sales</i>	83.32%	72.18%	61.71%	61.79%	88.70%		
Interest	-8.28	-9.38	-7.32	-6.05	--	#VALUE!	#VALUE!
PBDT	73.24	155.61	282.85	274.57	97.3		
<i>As a % of Sales</i>	15.11%	26.24%	37.32%	38.28%	18.36%		
Depreciation	-10.84	-11.26	-11.48	-11.72	--		
PBT	62.4	144.35	271.37	262.85	97.3	55.93%	-62.98%
<i>As a % of Sales</i>	12.87%	24.34%	35.81%	36.65%	18.36%		
Tax	-22.08	-49.85	-91.61	-87.29	-27.93	26.49%	-68.00%
Net Profit	40.32	94.5	179.76	175.57	69.37	72.05%	-60.49%
<i>As a % of Sales</i>	8.32%	15.93%	23.72%	24.48%	13.09%		
Equity	73.13	73.13	73.13	73.13	73.13	0.00%	0.00%
EPS (Rs)	5.51	12.92	24.58	24.01	--	#VALUE!	#VALUE!
CEPS (Rs)	7	14.46	26.15	25.61	9.49		
OPM %	16.82	27.82	38.29	39.12	18.36		
NPM %	8.32	15.93	23.72	24.48	13.09		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17P	FY 18P
Net Sales	958	1,449	1,998	1,877	2,159	2,547	3,006
Other Operating Income	1	1	23	13	20	18	26
Expenditure	897	1,122	1,726	1,555	1,788	2,112	2,491
EBITDA	62	328	295	335	390	454	541
Depreciation	12	12	39	42	45	46	48
EBIT	50	316	256	293	346	407	493
Interest Expenses	16	11	33	33	37	44	52
PBT	34	306	224	259	309	363	441
Tax	(4)	89	75	93	108	125	149
Other Income	-	-	12	-	3	5	7
Extraordinary Items	-	(16)	-	-	-	-	-
Net Income Before Adjustment	38	200	160	166	203	243	299
Minority Int./Income from Assoc.	-	-	-	-	-	-	-
Adjusted PAT	38	200	160	166	203	243	299

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17P	FY 18P
Equity share capita	50	50	73	73	73	73	73
Reserves & surplus	120	291	641	777	941	1,137	1,379
Share Warrants	-	-	-	-	-	-	-
Net worth	170	341	715	850	1,014	1,210	1,452
Minority Interest	-	-	-	-	-	-	-
Loan Funds	-	-	21	65	67	65	63
Net deferred tax liability	-	23	67	83	83	83	83
Other Long-term Liabilities	-	-	-	-	-	-	-
Long-term Provisions	1	1	15	-	-	-	-
Total Liabilities	171	366	819	1,000	1,166	1,360	1,600
Net block	155	210	567	605	594	585	577
Investment, Loan & Adv.	8	85	199	240	17	20	24
Total Current Assets	275	406	699	706	1,269	1,581	1,957
Current Liabilities & Provisions	268	336	647	553	715	829	961
Net Current Assets	7	70	52	153	554	753	997
Total Assets	171	366	819	1,000	1,166	1,360	1,600

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16E	FY 17P	FY 18P
Operating Cash Flow	133	290	251	297
Cash Flow from Investments	(109)	187	(41)	(43)
Cash Flow from Financing	(24)	(7)	(40)	(46)
Net Changes in Cash	(0)	471	170	208
Opening Cash	6	6	477	647
Closing Cash Balance	6	477	647	855

Research Analyst Details

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