

**Aksharchem (I) Ltd.**

₹ 163

**Growing Further !****Accumulate**

Aug 8, 2014

**Company Background**

AksharChem (India) Ltd. (Aksharchem) (formerly Audichem (India) Ltd.), is dedicated in the production of dyes and intermediates. Established in 1989 on a small scale in the chemical belt of Gujarat at 600 MT per annum capacity, the quality of the product has created tremendous demand ultimately leading to continuous expansion in production capacities. Today, it has grown to the capacity of manufacturing 6000 MT per annum. The Company excels as one of the leading manufacturer and exporters of Vinyl Sulphone. Vinyl Sulphone is used as raw material for reactive dyes, which is having application in color pigments, paints, rubber, textiles, plastics and leathers. They react chemically under suitable conditions with Cellulose based materials yielding brilliant shades with good fastness properties. This demand has generated some good global sales for the company and earned a sound standing in Export with Aksharchem having established business relations with Chemical majors of the World.

**Key Highlights**

- ➔ The rise in prices of the products manufactured by Aksharchem is good enough to sustain the growth further. Products like Vinyl Sulphone which form a base of sale of Aksharchem have appreciated more than 300% in the market.
- ➔ AksharChem has emerged to be one of world's largest and most reputed Vinyl Sulphone manufacturers exporting over 4000 metric tonnes per annum to three of the worlds leading chemical companies. It manufactured 5,642 MT of Vinyl Sulphone in 2012-2013 a whopping 53% rise in production over previous FY and operated at a capacity utilization of 94% in 2012-13 the highest ever in the history The figures are expected to be better this year.
- ➔ The recent environmental policy changes in China pertaining to the Chemical segment as an aftermath of 3 consecutive large scale chemical disasters in less than a years time have made china to initiate a comply or perish regime to a stricter set of environmental laws this will ensure that the cost effectiveness of most companies who survive will vanish whereas the existence of the remaining is in danger. This will benefit the dyes & intermediate chemical companies in India which is expected to dominate the segment hereon.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 11	Mar 12	Mar 13
Revenue (INR mn)	904.3	519.7	959.0
Rev. growth (%)	10.00	(42.53)	84.53
EBITDA (INR mn)	86.4	(17.4)	61.6
Net profit (INR mn)	63.7	(38.9)	37.9
Shares outstanding (mn)	3.4	5.0	5.0
EPS (INR)	18.7	(7.9)	7.7
EPS growth (%)	321.85	(141.95)	(197.43)
P/E (x)	0.8	(2.1)	3.5
RONW (%)	56.5	(27.6)	25.0
ROCE (%)	26.2	(14.6)	13.0

**Nishant Chopra**

nishantc@indiratrade.com

**Info Codes**

Reuters	: AKSH.BO
Bloomberg	: ADCH@IN
NSE	: -
BSE	: 524598

**Market Data**

52 Wk Range (₹)	: 30 / 184
Shares in Issue (mn)	: 5.0
Mkt. Cap (₹ bn)	: 0.79
BSE 2 Wk Avg Vol	: 1607

**Share Holding Pattern (%)**

Promoters	: 73.68
FII's	: 0.00
DII's	: 0.09
Others	: 26.23

**Investment Theme**

Aksharchem has been a company with a speciality productline and a significant growth margin. Over the years of its steady business it has expanded its production capacity by 10 times. Over the last year after China decided to phase out small & medium size polluting factories, the prices of dyes and dye intermediaries have suddenly shot up to almost 300% of their cost 1 year back. This spells out a lot of opportunity with price rise and less competition coming in. Further there is opening up of a new market "China" as China is a net importer of Chemicals and now has decided to shut off small scale polluting units.. The company appreciated mote than 100% after our last buy call in Dec 2013 however we still feel that there is a lot more scope in the company further. We therefore initiate an accumulate call on the company.

**The Vinyl Smile.**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 11	Mar 12	% Chg	Mar 13	% Chg
Total Sales + Excise	847.6	515.4	(39.19)	953.1	84.92
Other Income	61.7	7.6	(87.68)	15.8	107.89
Change in Stocks	48.6	(40.1)	(182.51)	(5.5)	(86.28)
Raw Material Con.	641.0	370.3	(42.23)	701.1	89.33
Employee Exp.	13.7	15.1	10.22	17.0	12.58
Indirect Taxes	5.0	3.7	(26.00)	10.0	170.27
Other Exp.	212.1	111.5	(47.43)	174.0	56.05
Operating Exp.	823.2	540.7	(34.32)	907.6	67.86
Operating Profit	24.4	(25.3)	(203.69)	45.5	(279.84)
Total Interest	15.5	15.7	1.29	15.9	1.27
Gross Profit	70.6	(33.4)	(147.31)	45.4	(235.93)
Net Dep.	8.5	8.9	4.71	11.6	30.34
Total Taxation	(1.6)	(3.4)	112.50	(4.1)	20.59
Net Profit/Loss	63.7	(38.9)	(161.07)	37.9	(197.43)

### 4 Years Balance Sheet

(₹ mn)

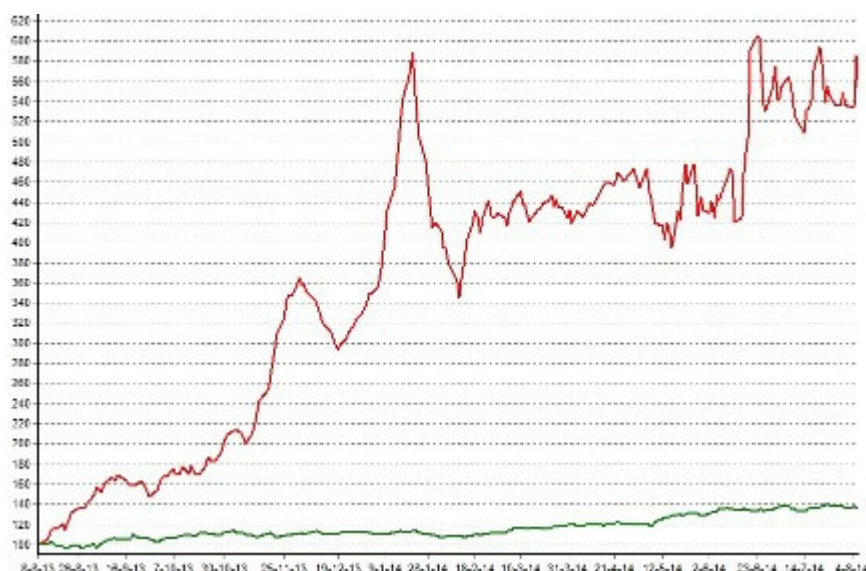
Balance Sheet as on 31 <sup>st</sup>	Mar 10	Mar 11	Mar 12	Mar 13
<b>SOURCES OF FUNDS</b>	<b>234.3</b>	<b>252.0</b>	<b>274.5</b>	<b>309.0</b>
Equity Share capital	34.0	34.0	49.5	49.5
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	46.9	110.6	84.9	120.0
Long Term Loans	34.4	17.8	23.9	8.4
Short Term Loans	119.0	89.6	116.2	131.1
<b>USES OF FUNDS</b>	<b>234.3</b>	<b>252.0</b>	<b>274.5</b>	<b>309.0</b>
Gross Block	202.3	207.5	263.6	264.8
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	80.6	89.6	98.3	109.6
Net Block	121.7	117.9	165.3	155.2
Capital Work in Progress	0.0	9.4	0.0	0.0
Investments	10.5	0.6	0.6	0.6
Current Assets	281.1	317.1	247.0	308.7
Less : Current Liabilities	179.0	193.0	138.4	155.5
Total Net Current Assets	102.1	124.1	108.6	153.2
Misc. Expenses not written	0.0	0.0	0.0	0.0
<b>NOTE</b>				
Bk Val Unquoted Investments	0.1	0.1	0.1	0.1
Mkt Val. Quoted Investments	45.6	0.9	1.0	1.0
Contingent Liabilities	47.9	26.2	19.6	12.8
Dividend (%)	0	0	5	50

## Quarterly Income Sheets

(₹ mn)

Quarter Ended	Jun 13	Sep 13	Dec 13	Mar 14
Net Sales	307.6	421.2	353.5	367.6
Cost Of Sales	257.2	292.5	266.4	305.2
Operating Profit	50.4	128.7	87.1	62.4
Recurring Income	0.0	0.0	0.0	0.0
Adjusted PBDIT	50.4	128.7	87.1	62.4
Financial Expenses	3.6	2.2	1.9	3.2
Depreciation	3.0	3.0	3.0	3.0
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	43.8	123.5	82.2	56.2
Tax Charges	0.5	22.3	39.8	26.6
Adjusted PAT	43.3	101.2	42.4	29.6
Non Recurring Items	0.0	0.0	0.0	(16.0)
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	43.3	101.2	42.4	13.6

## 52 Week Index Relative Percentage Appreciation



Aksharchem vs SENSEX

## Risks Associated

## ➔ Risk of Environmental Laws

Since the company operates in the chemical sector the most important risk is of the Environmental Laws, Any change in the environmental laws of the state or country of the country of export would damage the current business position.

## ➔ Increase in Raw Material Prices

Major raw materials to the company are always under inflationary pressure this is usually due to supply and demand of the raw materials coupled with the fact that 90% of the competition is locally confined to just 2 states in India Gujarat & Maharashtra.

## ➔ The Fluctuating Rupee

Considering the fact that some of its raw materials are imported the risk return of purchase is tied up to the fluctuating Rupee any depreciation in the Currency would bring in pressures on margins.

## ➔ Competition

Being a global player, the company is also exposed to competition not only from domestic players but also large international players. Cheap imports especially from countries like China could pose problems, which would have to be faced appropriately.

**In a Nutshell**

AksharChem is leading global company engaged in the manufacture of dye intermediate, para base ester of aniline (also known as vinyl sulphone). It started operations in 1989, with a humble capacity of 600 metric tonnes per annum (MTPA). As on 31.03.2014 Aksharchem is one of the largest manufacturers of Vinyl Sulphone in India with an installed capacity of 6000 MTPA. For over two decades it has continued to focus on this segment. Avoiding any distractions and deviations. Strengthening, widening and deepening its presence in this sector. Today AksharChem has emerged to be one of world's largest and most reputed Vinyl Sulphone manufacturers exporting over 4000 metric tonnes per annum to three of the worlds leading chemical companies. The business story of Aksharchem is all about vinyl sulphone. It specializes in the manufacture of Vinyl Sulphone – a chemical used as a raw material for manufacturing reactive dyes having application mainly in textiles. The Company enjoys long term relationships with some of the world's leading chemical companies like Everlight Chemical Corporation (Tiwana), Kyung-in Synthetic Corporation (Korea) and Oh Young Industrial Co. Ltd (Korea). Most of the customers have been engaged with Aksharchem for over 15 years. The Company derives almost 90% of its revenues from its top customer. The recent news of China making its environmental laws stricter for dye intermediary manufacturers makes Aksharchem a great buy at the current prices.

**Indira Group Offices**

**Registered Office** : 5, Indira House, 3rd Floor, Topiwala Lane, Lamington Road, Mumbai – 400007

**Tel** : 022-66224202 **Fax** : 022-66224201 **Email** : [im@indiratrade.com](mailto:im@indiratrade.com)

**Administrative Office** : 204-205 "Amardarshan" 28/2 Old Palasia, Indore (MP) 452018

**Tel** : 0731-4097170 **Fax** : 0731-4215999 **Email** : [customercare@indiratrade.com](mailto:customercare@indiratrade.com)

**Institutional Dealing Unit** : 5, Indira House, 3rd Floor, Topiwala Lane, Lamington Road, Mumbai – 400007

**Tel** : 022-66224209 **Fax** : 022-66224201 **Email** : [ie@indiratrade.com](mailto:ie@indiratrade.com)

**Rating Interpretation**

**Buy** : Expected to appreciate 20% or more over 12-months

**Accumulate** : Expected to appreciate 10% to 20% over 12-months

**Trade Buy** : Expected to appreciate more than 10% over 45-days

**Reduce** : Expected to depreciate up to 10% over 12-months

**Sell** : Expected to depreciate 10% or more over 12-months

**Trade Sell** : Expected to depreciate more than 10% over 45-days

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