

**Aksharchem (India) Ltd.**

₹ 94

*Simple Mathematics***Buy**

Dec 27, 2013

**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**

- ➔ AksharChem India Ltd has informed BSE that the Board of Directors of the Company at its meeting held on December 19, 2013, has considered and approved Scheme of Arrangement between Asahi Songwon Colors Limited and AksharChem (India) Limited and their respective shareholders and creditors subject to the requisite approvals. The Scheme envisages Demerger of "Pigment Green" Division of Asahi Songwon Colors Limited to AksharChem (India) Limited having an appointed date as April 01, 2014. As per the Scheme, the Share Exchange Ratio would be 5 equity shares of AksharChem (India) Limited of Rs. 10/- each fully paid up for every 26 equity shares of Asahi Songwon Colors Limited of Rs. 10/- each fully paid up.
- ➔ 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.
- ➔ AksharChem has 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 of the Company.

**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

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**Info Codes**

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

**Market Data**

52 Wk Range (₹)	: 108 / 16
Shares in Issue (mn)	: 5.0
Mkt. Cap (₹ bn)	: 0.46
BSE 2 Wk Avg Vol	: 1606

**Share Holding Pattern (%)**

Promoters	: 73.01
DII's	: 0.09
FII's	: 0.00
Others	: 26.90

**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. Recently the Board of Directors of the company announced a scheme of merger between Aksharchem (India) Ltd. and Asahi Songwon Ltd. which is also a listed company. If we go as per the simple math of the transfer ratio the shareholders of Asahi Songwon will get 5 shares of Aksharchem for holding of each 26 shares in Asahi Songwon. Going by the current market price of both the shares. The market value of Aksharchem shares should be in an ideal correlation with that of Sungwon shares which translates into a price of Rs.354 for Asharchem shares. However the current market price of Aksharchem is Rs.93 leaving a large scope to rise.

**Buy at a 73% Discount**

## 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)

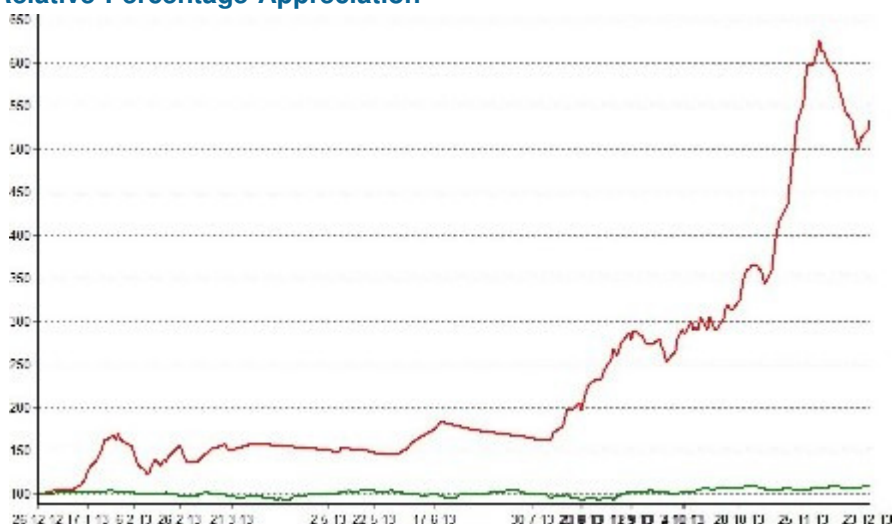
Balance Sheet as on 31 <sup>st</sup>	Mar 10	Mar 11	Mar 12	Mar 13
<b>SOURCES OF FUNDS</b>	<b>234.3</b>	<b>252.0</b>	<b>274.5</b>	<b>309.0</b>
Equity Share capital	34.0	34.0	49.5	49.5
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	46.9	110.6	84.9	120.0
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	5

## Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 12	Mar 13	Jun 13	Sep 13
Net Sales	269.20	279.10	307.60	421.20
Cost Of Sales	252.50	254.20	257.20	292.50
Operating Profit	16.70	24.90	50.40	128.70
Recurring Income	0.00	0.00	0.00	0.00
Adjusted PBDIT	16.70	24.90	50.40	128.70
Financial Expenses	4.40	4.70	3.60	2.20
Depreciation	3.00	2.90	3.00	3.00
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	9.30	17.30	43.80	123.50
Tax Charges	(0.50)	(2.50)	0.50	22.30
Adjusted PAT	9.80	19.80	43.30	101.20
Non Recurring Items	0.00	0.00	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	9.80	19.80	43.30	101.20

## 52 Week Index Relative Percentage Appreciation



## Aksharchem vs SENSEX

## The Math behind the Scheme of arrangement

## 1. The Scheme

As Per the details submitted by the company with the BSE about the Outcome of the meeting of its Board of Directors. The Company envisages Demerger of "Pigment Green" Division of Asahi Songwon Colors Limited to AksharChem and each Asahi Songwon share holder would be issued 5 equity shares of Aksharchem at Face Value of Rs 10 each for every 26 shares he holds in Asahi Songwon.

## 2. The Trend

As per the general trend in the market such demergers usually happen when the resulting cumulative value of both the shares to be extinguished and the new issued shares is same.

## 3. The Maths

The current market value of each share of Asahi Songwon is Rs.67.70 and the cumulative market value of 26 shares of Asahi Songwon is  $(67.70 \times 26)$  Rs.1760. The current market value of each share of Aksharchem is Rs.93.50 and the cumulative market value of 5 shares of Aksharchem is  $(93.50 \times 5)$  Rs.467. So it is simple math that to match the cumulative market value of Asahi Songwon shares the share of Aksharchem has to grow to at least Rs.352. Taking into consideration that the market value of Asahi may fall, it still leaves a lot of scope for Aksharchem to rise.

**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 31.03.2013 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 (Tiwan), 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.

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**Rating Interpretation**

<b>Buy</b>	: Expected to appreciate 20% or more over 12-months	<b>Reduce</b>	: Expected to depreciate up to 10% over 12-months
<b>Accumulate</b>	: Expected to appreciate 10% to 20% over 12-months	<b>Sell</b>	: Expected to depreciate 10% or more over 12-months
<b>Trade Buy</b>	: Expected to appreciate more than 10% over 45-days	<b>Trade Sell</b>	: Expected to depreciate more than 10% over 45-days

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