

Aksharchem (I) Ltd.

₹ 147

Now with a Green Pigment !**Buy**

Apr 17, 2015

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 7500 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 has emerged to be one of world's largest and most reputed and the fastest growing Vinyl Sulphone manufacturers, exporting over 90% of its production to 3 of the worlds leading chemical companies. It manufactured nearly 6500 MT of Vinyl Sulphone in 2013-2014 at a significant rise in production over previous. The figures are expected to be better this year.
- ➔ The rise in prices of vinyl sulphone is good. After appreciation of 300% last year the prices have kept steady with less fluctuation & consistent demand.
- ➔ Strict environmental and pollution norms by regulating authorities around the world have resulted in closure of many small units which has created demand for vinyl sulphone. Aksharchem has already commissioned a globally compliant Effluent Treatment Plant at the cost of Rs. 52 mn to stay afloat in the turbulent regulatory environment. This keeps it compliant to domestic environmental regulations for manufacture & global permits for supply.
- ➔ Aksharchems last annual figures show a rise of 44% in exports reaching Rs.1168 mn and 54% in total sales reaching Rs.1390 mn thereby narrating the business status and export potential clearly.

Key Financials

Year Ended 31 st	Mar 12	Mar 13	Mar 14
Revenue (INR mn)	519.7	959.0	1,450.0
Rev. growth (%)	(42.5)	84.5	51.2
EBITDA (INR mn)	(17.4)	61.6	328.3
Net profit (INR mn)	(38.9)	37.9	200.4
Shares outstanding (mn)	5.0	5.0	5.0
EPS (INR)	(7.9)	7.7	40.5
EPS growth (%)	(198.2)	(197.4)	428.8
P/E (x)	(2.1)	3.5	3.1
RONW (%)	(27.6)	25.0	78.8
ROCE (%)	(14.6)	13.0	54.2

Nishant Chopra

nishantc@indiratrade.com

Info Codes

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

Market Data

52 Wk Range (₹)	: 111 / 303
Shares in Issue (mn)	: 5.0
Mkt. Cap (₹ bn)	: 1.06
BSE 2 Wk Avg Vol	: 15000

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 product & a superb growth margin. Over years of business it has expanded its capacity by more than 10 times. In the last year after China decided to phase out small & mid size polluting units, prices of dyes & intermediaries suddenly shot up to almost 300% of their cost. They have been keeping steady due to the continued closure of non-compliant units & the constant demand. This spells out a lot of opportunity with price rise and less competition coming in. The markets have always honoured our calls on the company with the prices appreciating nearly 100% in less than 9 months of our calls given in Dec 2013 and August 2014 and we feel the story is not yet fully covered. We still feel that there is a lot more scope in the company further. We therefore upgrade the call from Accumulate to Buy.

Now with added capacity.

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 12	Mar 13	% Chg	Mar 14	% Chg
Total Sales + Excise	515.4	953.1	84.92	1458.1	52.98
Other Income	7.6	15.8	107.89	17.4	10.13
Change in Stocks	(40.1)	(5.5)	(86.28)	43.0	(881.82)
Raw Material Con.	370.3	701.1	89.33	859.1	22.54
Employee Exp.	15.1	17.0	12.58	39.3	131.18
Indirect Taxes	3.7	10.0	170.27	26.4	164.00
Other Exp.	111.5	174.0	56.05	266.0	52.87
Operating Exp.	540.7	907.6	67.86	1147.8	26.47
Operating Profit	(25.3)	45.5	(279.84)	310.3	581.98
Total Interest	15.7	15.9	1.27	10.8	(32.08)
Gross Profit	(33.4)	45.4	(235.93)	316.9	598.02
Net Dep.	8.9	11.6	30.34	27.4	136.21
Total Taxation	(3.4)	(4.1)	20.59	89.1	(2273.17)
Net Profit/Loss	(38.9)	37.9	(197.43)	200.4	428.76

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 11	Mar 12	Mar 13	Mar 14
SOURCES OF FUNDS	252.0	274.5	309.1	432.4
Equity Share capital	34.0	49.5	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	110.6	84.9	120.0	291.4
Long Term Loans	17.8	23.9	8.4	0.9
Short Term Loans	89.6	116.2	131.2	90.6
USES OF FUNDS	252.0	274.5	309.1	432.4
Gross Block	207.5	263.6	264.8	325.5
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	89.6	98.3	109.6	119.1
Net Block	117.9	165.3	155.2	206.4
Capital Work in Progress	9.4	0.0	0.0	3.5
Investments	0.6	0.6	0.6	76.9
Current Assets	317.1	247.0	308.9	425.5
Less : Current Liabilities	193.0	138.4	155.6	279.9
Total Net Current Assets	124.1	108.6	153.3	145.6
Misc. Expenses not writtenoff	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	0.1	0.1	0.1	16.5
Mkt Val. Quoted Investments	0.9	1.0	1.0	90.5
Contingent Liabilities	26.2	19.6	12.8	7.2
Dividend (%)	0	0	5	50

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 14	Jun 14	Sep 14	Dec 14
Net Sales	367.6	386.3	477.0	459.7
Cost Of Sales	305.2	317.7	393.4	409.0
Operating Profit	62.4	68.6	83.6	50.7
Recurring Income	0.0	0.0	12.0	4.1
Adjusted PBDIT	62.4	68.6	95.6	54.8
Financial Expenses	3.2	3.7	8.3	7.7
Depreciation	3.0	3.9	9.8	9.6
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	56.2	61.0	77.5	37.5
Tax Charges	26.6	20.1	20.3	13.2
Adjusted PAT	29.6	40.9	57.2	24.3
Non Recurring Items	(16.0)	0.0	11.6	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	13.6	40.9	68.8	24.3

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). Today 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 (Tiwari), 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 merger of Aksharchem with Asahi Songwon's Pigment Green Division and the strict regulations coming up for manufacturers in China will benefit the company in long term and makes it a great buy at 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

Administrative Office : 204-205 "Amardarshan" 28/2 Old Palasia, Indore (MP) 452018
Tel : 0731-4097170 **Fax** : 0731-4215999 **Email** : 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

Rating Interpretation

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

Disclaimer

This document has been prepared by Indira Group of Companies (Indira). Indira and its associate companies are a full fledged retail and institutional broking group. Our research analysts and sales persons provide important input into our investment broking activities. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. Indira or any of its affiliates shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or have other potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Indira and affiliates to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Indira reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Indira is under no obligation to update or keep the information current. Nevertheless, Indira is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither Indira nor any of its affiliates, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. The Analyst does not have any holding in this stock.