



Company Name : **AKSHARCHEM (INDIA)**

BSE Code : **524598**

Time Duration : **1 year**

CMP : **₹764 (as on 12 Oct., 2017)**

Target Price : **₹979**

The Value Pick for the month of October is AksharChem (India) Ltd. It is engaged in the business of manufacturing dyes and pigments, which are sold in India and exported in Europe, South East Asia, China and USA. The company accounts for 45% share in India's vinyl sulphone exports and 10% share in global CPC green pigment manufacturing. The share of exports in FY17 grew from 82% to 90%. The end-user industry is well-diversified and includes textiles, inks, rubber, plastics, leather and paints.

We see this company as our Value Pick as the company has shown robust growth since past few years. Its revenue has grown at a CAGR of 28.3% over FY13-17. Its PAT too grew at a robust CAGR of 93.34% during FY13-17. The growing demand for its products in the international market has led the company to go for capacity expansion which will strengthen its revenue generation and profitability.

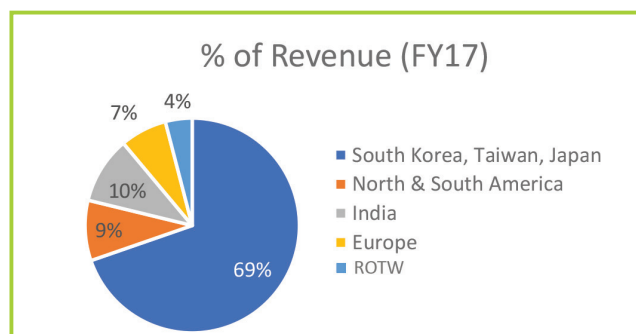
Robust capacity expansion

The company has planned a capex of Rs 175cr for capacity expansion and backward integration programme. This proposed expansion would be in the segments of organic pigments, dyes and intermediates and specialty chemicals. By investing Rs 85cr, the existing capacity of 4,320 TPA of CPC green pigments would increase to 8,400 TPA. Both dyes and intermediates and specialty chemicals segments have no capacity at present. The company will invest Rs 25cr in dyes segment (H Acid) and generate capacity of 1,200 TPA, while specialty chemicals capacity would be 10,000 TPA with capex of Rs 65cr. This plan is expected to be executed in 12 to 15 months. The company has raised QIP of Rs 69.04 cr to fund this capex. The production capacity of the company will take a huge leap and we expect this would aid the revenue of the company.

Demand of pigments outside India

As per FY17 data, the company earned 69% of its total revenue by exporting to countries like South Korea, Taiwan and Japan, while 20% revenue was earned by exporting to North & South America and some part of Europe. Only 10% of the revenue is generated from domestic sales. This shows that company's products have huge demand in the international market. One of the main reasons for this growing demand is that the

developing countries have reduced the production of pigments and dyes due to various environmental issues. Also, exporting to European countries has become difficult for new and small-scale companies due to complex compliance procedures. This has given a competitive edge to the company over other such chemical companies which are into exports. Currently, the company has presence in 20 countries and we expect it will expand into other countries as well.



Diversified end-user sectors

AksharChem manufactures vinyl sulphone (68% of revenue) and CPC green pigment (32% of revenue). Vinyl sulphone and H acid are major raw materials in producing dyes used in the textile industry. The company is starting production of H Acid with capacity of 1200 TPA. The textile industry in India is expected to grow at a CAGR of 10% over the next five years, while the pigment exports are estimated to grow at 15% over the next five years. CPC blue crude is the key raw material used in manufacturing green and blue pigments. This raw material is derived from aluminium chloride, copper scrap, phthalic anhydride which are the byproducts of crude oil. Going forward, we see crude oil prices consolidating and prices of metals like copper and aluminium are expected to stabilize. Thus, the company's raw material prices are expected to remain stable and profitability of the company is expected to rise post Q3FY17. Green pigment is used in printing inks, paints, plastics, rubber and leather industry. We have a positive outlook on the demand for such pigment in these sectors.

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Financial Performance

In FY17, the company has shown robust growth. Its sales volumes rose by 6% to 7760 metric tonnes. As the average prices of dye intermediates increased by 55%, the company could generate better margins. Its revenue in FY17 increased by 38% to Rs 259.65 cr from Rs 187.70 cr in FY16. Its EBITDA grew by 147% YoY to Rs 79.48 cr in FY17, while its EBITDA margin stood at 30.6%. The company's PAT too jumped by 212% YoY to Rs 51.91 cr in FY17, while PAT margin in FY17 was 20%. The current ratio of the company for FY17 was 1.9x and debt-equity ratio was 0.2x. For FY17, the company paid an interim dividend of Rs 3.5 per equity share.

Valuation

The company is trading at TTM P/E of 12.78x with TTM EPS of Rs 60.52. It has delivered ROE and ROCE of 47.4% and 57.2%, respectively, for FY17. We see company's initiation towards capacity expansion and focus towards adding more value-added products would strengthen its competency and help it stabilize in the long run. This capacity will aid revenue to grow by 10% in FY18E and EBITDA margin to be in the range of 25-25%. Considering this growth, we expect an upside of 28% from the current level with target price of Rs 979 over a period of one year.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201703	201603	201503	201403	201303
Net Sales	259.65	187.71	199.82	144.87	95.83
Total Income	265.46	189.00	203.21	145.00	95.90
Total Expenditure	180.17	155.48	172.54	112.16	89.73
PBIDT	85.29	33.52	30.67	32.84	6.17
PAT	51.92	16.64	16.00	20.04	3.79
Dividend %	35.00	35.00	35.00	50.00	5.00
Adj. EPS(Rs)	71.00	22.75	21.88	40.47	7.66

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201706	201703	Q on Q Var%	201606	Y on Y Var%
Net Sales	63.74	53.00	20.27	55.80	14.23
Total Expenditure	51.77	46.26	11.91	41.54	24.62
PBIDT (Excl OI)	11.97	6.74	77.68	14.25	-16.04
PAT	7.18	6.94	3.45	9.01	-20.38
PBIDTM% (Excl OI)	18.77	12.71	47.68	25.55	-26.54
PBIDTM%	19.78	22.11	-10.54	28.79	-31.30
PATM%	11.26	13.09	-13.98	16.15	-30.28
Adj. EPS(Rs)	9.81	9.49	3.37	12.32	-20.37

