Date – 31/08/2016 **Aksharchem (India) Ltd.** **Target Price Rs.476.00**

Company Details

CMP:	Rs.334.00
Face value:	Rs.10.00
Market cap:	Rs.256.10Crs.
TTM EPS	Rs.22.76
52 week high:	Rs.385.90
52 week low:	Rs.114.60
BSE Code:	524598
Sector	Dyes & Pigments

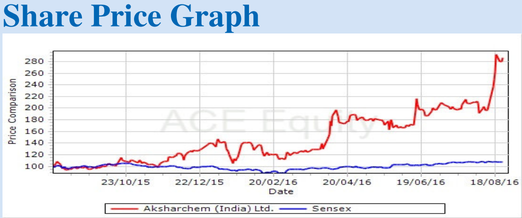
Financial Highlights (YoY)

			Rs. In crores
	FY16	FY15	% Var
Net Sales	187.83	200.13	-6.15
Total Expend	155.48	172.61	-9.92
PBDIT	32.35	27.52	17.55
Op.Profit	33.52	29.52	13.55
OPM(%)	17.85	14.75	20.99
PBT	25.93	23.51	10.29
PAT	16.64	16.00	4.00
EPS (Rs.)	22.76	21.89	4.00
Equity	7.31	7.31	0.00

Quarterly Performance (YoY)

			Rs. In crores
	Q1FY17	Q1FY16	% Var
Net Sales	59.31	47.90	23.82
Total Expendi	42.81	40.87	4.75
PBDIT	16.50	7.03	134.71
Op.Profit	16.50	7.07	133.38
OPM(%)	27.82	14.76	88.48
PBT	14.44	5.11	182.58
PAT	9.45	3.24	191.67
EPS (Rs.)	12.93	4.43	191.67

Share Price Graph



Company Background

AksharChem (India) Ltd., an Ahmedabad-Company incorporated in 1989, is engaged in the manufacture of dyes & pigments and intermediates. It is one of the India's leading dye and pigments manufacturers with a production capacity of over 9240 metric tonnes per annum. It has earned export house status and has established an international presence. It exports its products to Germany, USA, England, Thailand and Argentina. It has received many export awards from various Government agencies. The exports business account for 87% of its total sales of the company.

Financial Performance

The net sales of the Company during FY16 at Rs.187.83 crores were down by 6% but **PAT at Rs.16.64 crores was up by 4% compared to that during FY15**. The EPS, on face value of Rs.10, had increased from Rs.21.89 for FY15 to Rs.22.76 for FY16. **The Company has paid dividend of 35% for FY15 and FY16.**

The Company has reported a vastly improved performance during Q1FY17 where its net sales and PAT at Rs.59.31 crores and Rs.9.45 crores, respectively, **are up by 23.8% and 191.7% over those during Q1FY16. The operating profit margin has improved from 7.1% for Q1FY16 to 27.8% for Q1FY17. The EPS has gone up from Rs.4.43 for Q1FY16 to Rs.12.93 for Q1FY17.**

Investment Rationale

- India has emerged as a strategic alternate source for manufacturing of speciality and commodity chemicals due to softening Chinese exports after new policy framework in China. China is cleaning its environment by shutting down or shifting 1,000 plants to a 'green belt'. It has offered India a huge opportunity to increase its market shares in commodity chemicals, particularly for manufacturers of polymers, dyes & pigments, textile chemicals, and agro chemicals.
- The Profit margin of the industry was under pressure but the Company has taken remedial measures to meet the challenges with its strategic planning, productivity improvement and cost reduction exercise. Additionally, it is focusing on new grades and new applications to expand the share in the existing market. It is also spending more on product safety and sustainability to meet regulatory compliance.
- The Company has a wide marketing network for export business and also manufactures other value added products.
- Its plant is situated in the chemical belt of Mehsana (Gujarat) in close proximity to raw material resources, downstream chemical companies and major textile manufacturers of India. The unit being well connected with rail and national highway enables faster turnaround of inbound and outbound logistics. Also, the close proximity to Ahmedabad International Airport and major sea-port in the western belt facilitates business development and exports.
- It has temporarily shut down its Vinyl Sulphone (VS) Plant to carry out major repairs and maintenance. This may affect to some extent Vinyl Sulphone Production revenues during Q2FY17 but outlook for long term production is positive.
- The Company has acquired 99.9% equity Shares of Rs.10 each of M/s. Akshar Pigments Pvt. And 51% Equity Shares of Rs.10 each of M/s. Chhatral Environment Management System Private Ltd. during FY16. **These subsidiaries are expected to contribute to total revenues of the Company from the coming quarters**.
- Its international clients include Everlight Chemical Corporation, Taiwan, Kyung-in Synthetic Corporation, South Korea, Oh Young, South Korea, Sumitomo Corporation, Japan, Eastwell Co. Ltd., South Korea, Sun Chemicals, USA and Europe, DIC Corporation, Japan, BASF, Germany/Asia, SIEGWERK, Europe and LANSCO, USA.
- Its debt:equity works out to 0.33:1.
- The promoters hold 70% equity capital of the Company, followed by institutions and non-promoter corporates that hold 0.1% and 1.9%, respectively, and the balance 28% shares are held by the public.

Concerns

Slowdown in domestic economy, exchange rate fluctuations, increase in expenditure costs and policy changes are some of the main concerns.

Valuation

The share of the Company is trading at a lower P/E of 6.96x based on estimated EPS on Rs.48 for FY17 against that of industry at 19.7x. Keeping in view the positive outlook for chemical industry, **improved performance of the Company particularly in Q1FY17**, shutting down of chemical manufacturing plants in China, on increasing demand for its products and close proximity to raw material resources & users of products we recommend a buy on share of this Company with an expected price appreciation of over 40% over the next 12 months.