

Aksharchem (India) Limited

Stock Performance Details

Current Price	: ₹ 141.9[^]
Face Value	: ₹ 10 per share
52 wk High / Low	: ₹ 264.0 / 107.0
Total Traded Volume	: 72 shares [^]
Market Cap	: ₹ 103.8 crore [^]
Sector	: Specialty Chemicals
EPS (H1 FY16)	: ₹ 10.31 per share
Equity Share Capital	: ₹ 7.3 crore
P/E (TTM)	: 8.27 (x) [^]
P/BV (TTM)	: 1.45 (x) [^]
Financial Year End	: 1 st April - 31 st March
BSE Scrip Name	: AKSCHEM
BSE Scrip Code	: 524598

[^] as on 19th January, 2016

Shareholding Details - September 2015

Particulars	Shareholding	
	Nos.	(%)
Promoter & Promoter Group Holding	51,19,216	70.00
Total Institutional Holdings (FIIs & DIIs)	4,500	0.06
Public Holdings	21,89,184	29.94
Total	73,12,900	100.00

Background

- Aksharchem (India) Limited (AIL) formerly known as Audichem (India) Limited was promoted by Paru M. Jaykrishna and incorporated on 4th July, 1989 in the chemical belt of Mehsana, Gujarat. It is engaged in the production of dyes and intermediates. AIL manufactures and exports Vinyl Sulphone. It is used as a raw material for reactive dyes, which has an application in color pigments, paints, rubber, textiles, plastics and leathers. Vinyl Sulphone reacts chemically under suitable conditions with Cellulose based materials yielding different shades with good fastness properties.
- Vinyl Sulphone is a powdered material having pinkish to grey white colour. This material is soluble in hot water but does not dissolve in cold water. Normally, Vinyl Sulphones are marketed as their corresponding sulphonic acid esters e.g. Vinyl Sulphone is marketed as Beta Sulphato Ethyl Sulphones. These esters are mainly used in the manufacture of reactive dyes.
- The Company expanded the installed capacity of Dyes and Intermediates from 600 Metric Ton per annum in 1989 to over 9,240 Metric Ton per annum in FY15.
- In 2014-15, the Company added a new product line (CPC green division) to its bucket through demerger and transfer from Asahi Songwon Colors Limited. This will enable AIL to have access to a new customer base, new regions and higher market share resulting into increased sales.
- AIL's 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.

Financial Snapshot

Particulars	Standalone (₹ Million)	
	H1 FY16	H1 FY15
Income Statement		
Income from Operations	897.0	1,037.1
Y-o-Y Growth (%)	(13.5)	42.4
EBITDA	144.7	161.9
Y-o-Y Growth (%)	(10.6)	(9.2)
EBITDA Margin (%)	16.1	15.6
Net Profit	75.4	109.9
Y-o-Y Growth (%)	(31.4)	(23.9)
NPM (%)	8.4	10.6
Balance Sheet		
Fixed Assets	568.1	559.1
Cash and Bank Balances	9.4	10.9
Inventories	156.3	163.1
Net Working Capital	100.1	86.9
Net Worth	789.9	695.1
Balance Sheet Ratios		
ROCE (%)	18.6	22.6
RONW (%)	9.9	15.8

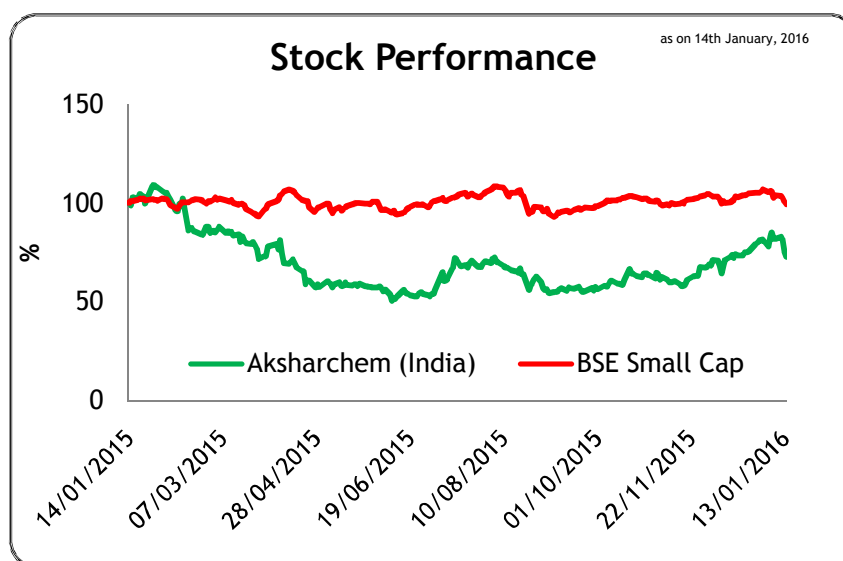
Source: Capitaline

From the Research Desk of LKW's Gurukshetra

- On a Standalone basis, Revenue from Operations stood at Rs. 897 million in H1 FY16 which reflects a decline from Rs. 1,037.1 million reported in H1 FY15. As per the Segmental Revenues, Sales from the Pigment Division fell by 8% y-o-y to Rs. 357.4 million in H1 FY16 from Rs. 388.5 million in H1 FY15. Sales from the Dyes and Intermediates Division fell by 17% y-o-y to Rs. 539.9 million in H1 FY16 from Rs. 650.5 million in H1 FY15.
- Material Cost decreased by 13.9% y-o-y to Rs. 537.3 million in H1 FY16 from Rs. 623.8 million in H1 FY15. Employee Benefit Expenses stood at Rs. 28 million in H1 FY16 as compared to Rs. 25.8 million in H1 FY15. Power & Fuel Expenses stood lower at Rs. 71.7 million in H1 FY16 as compared to Rs. 73.1 million in H1 FY15. Other Expenses decreased to Rs. 118.7 million in H1 FY16 from Rs. 127.7 million in H1 FY15. In line with the 13.5% drop in the Topline, EBITDA fell by 10.6% on a y-o-y basis to Rs. 144.7 million from Rs. 161.9 million in H1 FY15. EBITDA Margin stood at 16.1% in H1 FY16 as against 15.6% in H1 FY15.
- Depreciation Cost increased to Rs. 21 million in H1 FY16 from Rs. 19.5 million in H1 FY15. Interest Cost increased to Rs. 16.7 million in H1 FY16 from Rs. 16.4 million in H1 FY15. Other Income for H1 FY16 decreased by 61.7% y-o-y to Rs. 9 million from Rs. 23.5 million in H1 FY15. In line with the de-growth witnessed at the EBITDA level, Net Profit for H1 FY16 stood lower at Rs. 75.4 million as compared to Rs. 109.9 million in H1 FY15.

- Inventories decreased by 4.2% y-o-y to Rs. 156.3 million in H1 FY16 from Rs.163.1 million reported in H1 FY15. Whereas, Debtors decreased by 11.4% y-o-y to Rs. 184.7 million in H1 FY16 from Rs. 208.5 million in H1 FY15.
- Short Term Loans and Advances of the Company comprising increased from Rs. 221.9 million in H1 FY15 to Rs.279 million in H1 FY16.
- ALL informed the Stock Exchange on 9th October, 2015 that it has acquired 99.9% Equity Shares of Rs. 10 each of M/s. Akshar Pigments Pvt. Ltd. Also, it informed the Stock Exchange on 2nd December, 2015 that it has subscribed 51% Equity Shares of Rs. 10 each of M/s. Chhatral Environment Management System Private Limited.

Performance on the Bourses



Peer Comparison

The following table gives a snapshot view of the Company's performance vis-à-vis its closest peers for H1 FY16.

(₹ In millions)

Particulars	Aksharchem (India)	Shree Puskar Chemicals &Fertilizers	Sudarshan Chemicals
Income from Operations	897.0	1,207.1	6,141.3
EBIDTA	144.7	170.5	796.6
Net Profit	75.4	14.1	365.5
EBIDTA Margins (%)	16.1	106.3	13.0
PAT Margins (%)	8.4	8.8	6.0
Book Value Per Share	97.7	42.6	40.5
P/E (x)	7.26 [^]	10.46 [^]	14.08 [^]
P/BV (x)	1.28 [^]	1.27 [^]	2.56 [^]
RONW (%)	9.9	0.9	11.5

Source: Capitaline ; Financials on Standalone Basis ; [^] On a Standalone Basis as on September, 2015 (TTM Basis)

About the Industry

The Chemical industry in India is a key constituent of Indian economy, accounting for about 2.1% of the Gross Domestic Product (GDP). In terms of volume of production, the Indian chemical industry is the third largest producer in Asia and sixth largest in the world.

The diversification within the chemical industry is large and covers more than 80,000 commercial products. This Industry occupies a pivotal position in meeting basic needs and improving quality of life.

The Indian Chemical industry generated business worth US\$ 118 billion in 2014. Bulk chemicals account for 39% of the Indian chemical industry, followed by Agrochemicals (20.3%) and Specialty Chemicals (19.5%). Lured by the size and returns of the Indian market, foreign firms have strengthened their presence in India. From April 2000 to May 2015, total Foreign Direct Investment (FDI) inflows into the Indian chemicals industry (excluding fertilisers) stood at US\$ 10.49 billion. The Government of India has been supportive to the sector by permitting 100% FDI in the Indian chemicals sector while manufacturing of most chemical products is de-licensed.

Specialty chemicals play a key role in the development of new products as these chemicals help in creating product differentiation enabling the manufacturers to compete in the marketplace with unique features and benefits. A case in point is paints and coatings. While, 80% of raw materials in all paints are the same and are commodity chemicals, what differentiates one company's paint from the others is the remaining 20% (that is predominately specialty chemicals). The Specialty segment is one of the fastest growing sectors in chemical industry with about 15% per annum growth rate. Despite this fact, the per capita consumption of specialty chemicals in India is one of the lowest in comparison to developed and other emerging markets.

The Government has also been encouraging Research and Development (R&D) in the sector. Moreover, the Government is continuously reducing the list of reserved chemical items for production in the small-scale sector, thereby facilitating greater investment in technology up-gradation and modernisation. The Government has launched the Draft National Chemical Policy, which aims to increase chemical sector's share in the country's GDP.

Management Outlook

India's specialty chemicals potential is increasingly being recognised at the global level. India's share in global specialty chemical industry is estimated to grow from about 2.8% in 2013 to 6-7% in 2023 with market size in the range of \$80-100 billion.

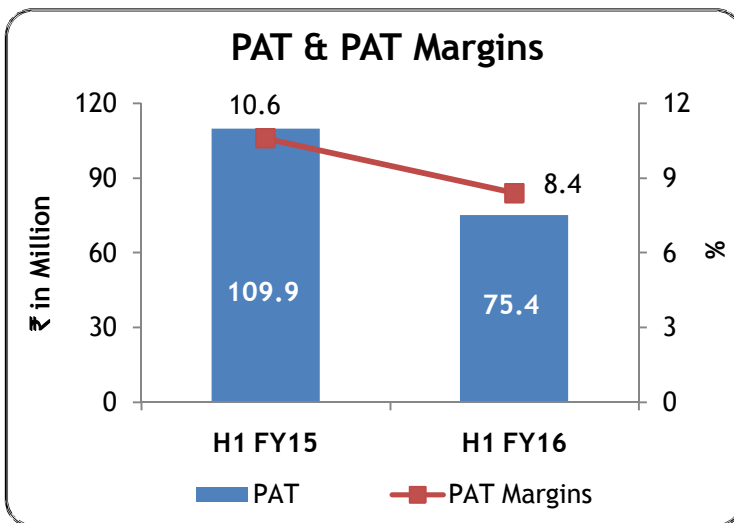
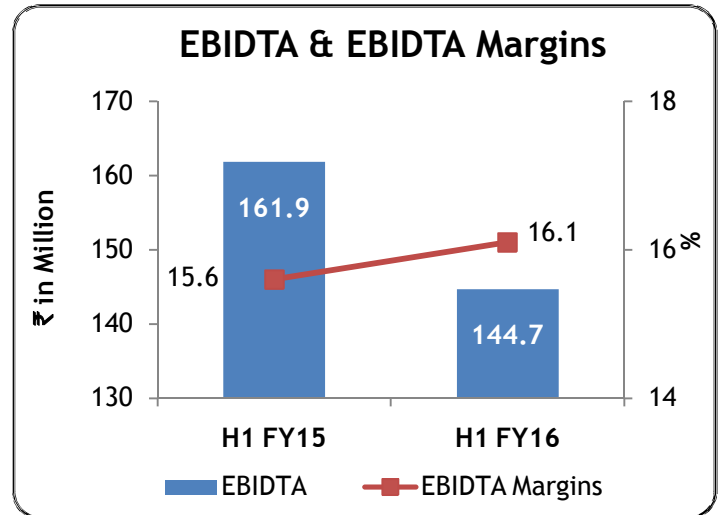
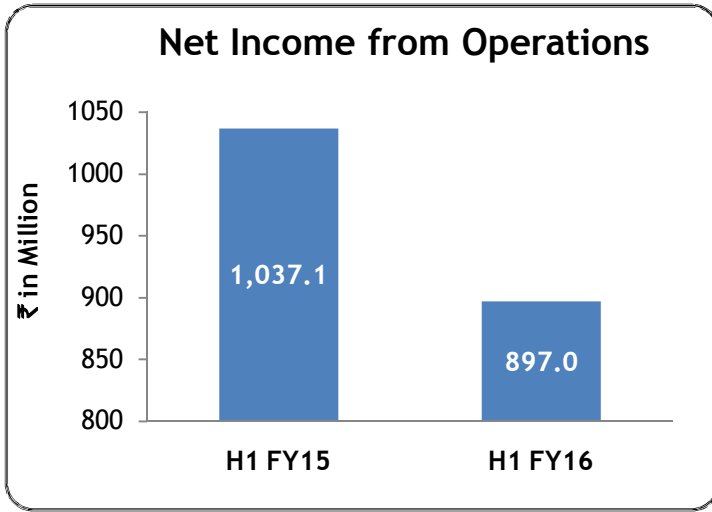
Countries with economies in transition witness increase in consumption of specialty and fine chemicals. This gradual shift is visible in countries like China, India and the Middle East. With focus on improving products and usage intensity of specialty chemicals, experts feel the industry is poised for strong growth in India.

Further, being largely an intermediate product, strong economic growth is an important factor in sustaining demand for chemical products. Per capita consumption of most of the finished products under chemicals sector is far below the world average, thus this seems to the vast potential for growth in the industry.

With specialty chemicals becoming obsolete very fast due to high competition, companies have to invest heavily in R&D to develop applications to meet the evolving consumer needs. Companies have to adopt inter-disciplinary approach to research. Today, micro-organisms are helping develop specialty chemicals of unique nature in environmentally friendly way. Indian companies can find a way to collaborate with global firms to jointly manufacture specialty chemicals in the country. This will act as an enabling factor for the Make in India initiative.

Majority of the Company's products are exported to different markets in Asia. The China factor, fluctuations in the Indian Rupee, rising inventory prices and higher competition continue to affect the industry. However, the overall performance of AIL seems to be satisfactory on account of various plans such as exploring market opportunities in new regions like Middle East, South East Asia and Africa and focus on product safety and suitability. Also, owing to high manufacturing costs and stringent environment control regulations Pigment manufacturers in the developed countries are shifting their manufacturing bases to developing countries. This provides an opportunity to Indian manufacturers to get exposed to world class manufacturing practices.

Financial Graphs



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Disclosure

Each member of the team involved in the preparation of this report, hereby affirms that there exists no conflict of interest.



The report has been sponsored and published as part of Initiative of BSE's Investors' Protection Fund

About Us

LOTUS KNOWLWEALTH (LKW) commenced business in 1991 and is currently engaged in providing **CAPITAL MARKET RESEARCH, INVESTMENT ADVISORY and STRATEGY** services.

GURUKSHETRA is the Research and Training arm of LKW.

LKW Investment Advisers is the SEBI registered Investment Advisory arm of LKW.

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