RESULT UPDATE

Jatin Damania
jatin.damania@kotak.com
+91 22 6218 6440

AKSHARCHEM (INDIA) LTD

PRICE: RS.730 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.800 **FY19E PE: 11.0X**

AksharChem Q1FY18 performance was in-line with estimates. Net sales during the quarter grew 14.6%/19.4% YoY/QoQ to Rs633 mn, driven by higher volume of CPC Green, which grew 28.8% YoY to 469MT. Vinyl Sulphone volume during the quarter stood at 1,688MT vs 1,659MT in 1QFY17. The growth in the revenue was restricted due to rupee appreciation, as the company derives ~75% of its revenue from the exports. However, EBITDA declined 16% YoY to Rs120 mn, with an EBITDA margin of 18.9%. PAT came in at Rs72 mn, down 20.4% YoY. As the company has undertaken aggressive capex plan, it provides long term earnings visibility. AksharChem raised Rs690.4bn through QIP in the month of August 2017 to fund the same. We expect the revenue contribution from pigment business to go up gradually from ~33% currently to 60%, on the back of higher production backed by expansion. Earnings growth should resume from FY19 onwards which could help improve valuations in future, as business transformation from cyclical to more stable earnings will change financial trajectory. Though, we continue to maintain our positive view on the stock, we have lowered our earnings estimate (on rising raw material costs) and target price factoring equity dilution. Our revised estimates now stands at Rs50.9 and Rs66.4 for FY18E and FY19E, respectively. We recommend ACCUMULATE rating, with a revised target price of Rs800 (earlier Rs960).

Summary table

(Rs mn)	FY17	FY18E	FY19E
S Sales	2,597	2,917	3,579
Growth (%)	38.3	12.4	22.7
EBITDA	795	645	823
EBITDA margin (%)	30.6	22.1	23.0
PBT	776	623	801
Net profit	519	418	544
Adj EPS (Rs)	71.0	50.9	66.4
Growth (%)	212.1	(19.6)	30.4
CEPS (Rs)	77.4	57.1	72.9
BV (Rs/share)	183	292	353
Dividend / share (Rs)	3.5	5.0	5.0
ROE (%)	38.8	17.4	18.8
ROCE (%)	45.8	22.4	23.6
Net cash (debt)	186	694	492
EV/EBITDA (x)	7.0	8.9	7.2
EV/Sales (x)	2.2	2.0	1.7
P/E (x)	10.3	14.3	11.0
P/CEPS (x)	9.4	12.8	10.0
P/BV (x)	4.0	2.5	2.1

Source: Company, Kotak Securities – Private Client Research

Quarterly Financials

Y/E March (Rsmn)	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
Net sales	**633**	**552**	**14.6**	**530**	**19.4**
Raw Materials	381	282		314	
% of sales	60.2	51.0		59.2	
Employee Expenses	14	16		25	
% of sales	2.2	2.9		4.7	
Total Expenditure	513	410		463	
EBITDA	**120**	**143**	**(16.0)**	**67**	**77.7**
EBITDA Matgin (%)	18.9	25.8		12.7	
Depreciation	13	11		12	
Interest	7	9		7	
EBT	**100**	**122**		**47**	
Other income	6	18		50	
PBT	**106**	**140**	**(24.1)**	**97**	**9.2**
Exceptional Item	-	-		-	
Provision for tax	35	50		28	
-effective tax rate	32.5	35.6		28.7	
PAT (reported)	72	90	(20.4)	69	3.4
NPM (%)	11.3	16.3		13.1	

Source: Company

Higher cost and rupee appreciation impacted EBITDA

Despite the higher contribution from CPC green (33% in Q1FY18) in the overall revenue mix, the operating performance was impacted by increase in key raw material costs. EBITDA was also impacted by rupee appreciation, as the company derives almost 75% of its revenue from the export market. With the recovery in VS prices and increased contribution from CPC green (backed by expansion), we expect EBITDA margin to remain in the range of 21-23% for the next two years, as the benefit of change in product mix will be offset by increase in raw material costs. Management revised it EBITDA margin guidance from 27% to 22% for the coming years.

Capex provides long term visibility, but comes with dilution

The company has undertaken an aggressive capex plan of Rs1.75bn, to expand its capacity in organic pigments, dyes intermediates and also strengthen its value chain. The capex includes increasing Brownfield capacity and setting up Greenfield capacity at Dahej. The capex is likely to get completed by end of 1HFY19, which would support growth in revenue from 2HFY19 onwards. The company's focus is to increase its high/stable margin pigment business share, as it is doubling CPC Green pigment capacity in next two years and foraying into Violet23 pigment (expected to launch in 2HFY18). In between, better utilisation of Vinyl Sulphone from 73% to 85% by the end of FY19E and brownfield expansion of CPC Green should drive the volume growth. To fund the capex, the company raised Rs690.4mn in 2QFY17 and remaining fund are expected through internals accruals (Rs810 mn) and debt (Rs250 mn).

Capital Expenditure Plan

Projects	Existing (TPA)	Expansion (TPA)	Post Expansion (TPA)	Approx. Cost of Project (Rs Mn)
ORGANIC PIGMENTS				
CPC Green (Phase 1)	1,920	480	2,400	850
CPC Green (Phase 2)	2,400	1,800	4,200	
CPC Blue		1,800	1,800	
DYES & INTERMEDIATES				
H Acid		1,200	1,200	250
SPECIALTY CHEMICALS				
Precipitated Silica		10,000	10,000	650
TOTAL				1,750

Source: Company

Lowered earnings; recommend Accumulate

We recommend ACCUMULATE on Aksharchem (India) Ltd with a price target of Rs.800

The business transformation from a cyclical business (2 products) to more stable (diversifying into value added products) in the next 12-18 months, would help the company to expand its market. In addition, expansion into CPC green would help the company to report EBITDA margin in the range of 21-23%, At CMP, the stock is trading at 14.3x/11.0X revised FY18E/FY19E earnings, which in our view is fairly valued and offers a limited upside. Hence, we recommend ACCUMULATE (earlier BUY) with a revised target price of Rs800 (earlier Rs960).

Key Risk

Currency appreciation, increase in crude price and delay in execution of expansion plan

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 12% returns over the next 9 months
ACCUMULATE	–	We expect the stock to deliver 5% - 12% returns over the next 9 months
REDUCE	–	We expect the stock to deliver 0% - 5% returns over the next 9 months
SELL	–	We expect the stock to deliver negative returns over the next 9 months
NR	–	Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
RS	–	Rating Suspended. Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a Sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	–	Not Available or Not Applicable. The information is not available for display or is not applicable
NM	–	Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 9-month perspective. Returns stated in the rating scale are our internal benchmark.

FUNDAMENTAL RESEARCH TEAM

Sanjeev Zarbade
Capital Goods, Engineering
sanjeev.zarbade@kotak.com
+91 22 6218 6424

Ruchir Khare
Capital Goods, Engineering
ruchir.khare@kotak.com
+91 22 6218 6431

Amit Agarwal
Logistics, Paints, Transportation
agarwal.amit@kotak.com
+91 22 6218 6439

Nipun Gupta
Information Technology
nipun.gupta@kotak.com
+91 22 6218 6433

K. Kathirvelu
Production
k.kathirvelu@kotak.com
+91 22 6218 6427

Teena Virmani
Construction, Cement
teena.virmani@kotak.com
+91 22 6218 6432

Ritwik Rai
FMCG, Media
ritwik.rai@kotak.com
+91 22 6218 6426

Jatin Damania
Metals & Mining
jatin.damania@kotak.com
+91 22 6218 6440

Jayesh Kumar
Economy
kumar.jayesh@kotak.com
+91 22 6218 5373

Arun Agarwal
Auto & Auto Ancillary
arun.agarwal@kotak.com
+91 22 6218 6443

Sumit Pokharna
Oil and Gas
sumit.pokharna@kotak.com
+91 22 6218 6438

Pankaj Kumar
Midcap
pankajr.kumar@kotak.com
+91 22 6218 6434

Ashini Shah
Midcap
ashini.shah@kotak.com
+91 22 6218 5438

TECHNICAL RESEARCH TEAM

Shrikant Chouhan
shrikant.chouhan@kotak.com
91 22 6218 5408

Amol Athawale
amol.athawale@kotak.com
+91 20 6620 3350

DERIVATIVES RESEARCH TEAM

Sahaj Agrawal
sahaj.agrawal@kotak.com
+91 79 6607 2231

Malay Gandhi
malay.gandhi@kotak.com
+91 22 6218 6420

Prashanth Lalu
prashanth.lalu@kotak.com
+91 22 6218 5497

Prasenjit Biswas
prasenjit.biswas@kotak.com
+91 33 6625 9810

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