



JOINDRE CAPITAL SERVICES LTD.

SEBI REGN NO. INH000002061 / INZ000174034

RESEARCH REPORT

27TH Sept 2018

AKSH OPTIFIBRE LIMITED

BSE : AKSHOPTFBR

Sector: TELECOM PRODUCTS

BSE: 532351

View - BUY

CMP : Rs. 27.05

Target Price: Rs 60 (In next 12 to 18 mths)

BUSINESS BACKGROUND

Aksh Optifibre Ltd (AOL) is a vertically integrated player with Optical Fibre and Optical Fibre Cable capacity housed under one single manufacturing facility & amongst the largest Optical Fibre Cable manufacturers in India. AOL's operations are also diversified with FRP rods, with a sizable capacity & coupled with the only Ophthalmic Lens manufacturing facility in India. AOL is also undertaking e-Governance services, which includes 10,000 plus e-Governance kiosks in the state of Rajasthan, India. AOL has 7 manufacturing plants located at Bhiwadi, Silvassa, Reengus, Kehrani in India & Jafza Dubai, Jiangsu China & Mauritius with a total capacity of 7 mn FKM for OF & 10.7 mn FKM for OFC, 4.2 mn Kms FRP capacity & 25mn nos pa for the Ophthalmic Lens capacity.

INVESTMENT HIGHLIGHTS

Strong Financial Performance for FY18 –

Aksh reported a strong set of FY18 numbers with net sales at Rs 624.81 crs as compared to a revenue of Rs 509.78 crs last year, with EBIDTA placed at Rs 74.15 crs from Rs 49.90 crs last year with the PAT placed at Rs 20.86 crs from Rs 9.51 crs up by 119% YoY. Aksh has declared a dividend of 6% for FY18.

For Aksh Q1FY19 was noteworthy with Sales up by 15% at Rs 139 crs with EBIDTA up by 182% at Rs 30.35 crs with PAT at Rs 13.05 crs up by 510% YoY. EBIDTA margins in Q1FY19 improved to 21.79% from 8.85% in Q1 last year.

Fresh Capacity Expansion in OF, OFC, FRP Rods to boost volumes & profitability ahead –

Aksh enjoys a strong business model as two key raw materials, optical fibre and FRP rod, which account for 70% of the cost of optical fibre cables are manufactured in house. Also AOL has recently completed increasing its OFC capacity to 10.7mn FKM in June 2018 from 9mn FKM in Oct 2017 via its expansion of 1mn FKM at Sivassa unit & 0.70mn FKM at its Mauritius facility.

Additionally OF capacity which is currently 3mn FKM at its Bhiwadi plant will increase to 7mn FKM by Jan 2019 via its expansion of 4mn FKM at its Dubai Jafza facility. The total capex for this expansion has been \$ 12 mn (Approx Rs 84 crs) and was funded by term loans of Rs 60 crs & balance from internal accruals respectively. We believe this expanded capacity is well timed for Aksh as demand for OFC continues to be very strong backed by large data consumption & increased govts focus on digitization. Hence we expect Aksh to rightly monetize this increased capacity wherein the full impact will be seen from FY20 onwards

KEY DATA

FACE VALUE	Rs	5.00
DIVID YIELD %		1.04
52 WK HI/LOW		46/22
NSE CODE		AKSHOPTFBR
BSE CODE		AKSHOPTFBR
MARKET CAP		RS 440 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	28%
BANKS, MFs & DIIs	-	2%
FIs	-	%
PUBLIC	-	70%

KEY FUNDAMENTALS

YE	FY19	FY20	FY21
Rev Gr%	20	32	20
EBIDTA Gr%	72	37	20
PAT Gr%	166	52	30
EPS Gr%	166	52	30
EPS (Rs)	3.41	5.18	6.79
ROE %	11	15	17
ROCE %	11	14	15
P/E(x)		5	4



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Aksh enjoys a diversified customer basket for OFC –

Some Key Customers include –



Aksh offers a wide range of **optical fibres** for a variety of applications in telecommunication networks. AKSH range of optical fibres delivers superior performance and are ready for long haul to **Fibre To The Home network**.

AKSH fibre is produced on state of the art machines from United Kingdom and glass preform which is a key raw material, is sourced from Shin-Etsu, Japan. The company is confident about sourcing Glass Preform going ahead based on its capacity expansion plans since it enjoys more than 25 years of relationship with Shin-Etsu (Japan) for the upcoming OF capacity expansion coming up at Dubai and has already arranged and firmed up long term sourcing plans here.

In the last 3 financial years strong demand for OFCs has led to higher production and sales volumes as shown below

Production Volumes	FY16	FY17	FY18
OFC	2030614	2562776	2983900
Gr%		26.21	16.43
Sales Volumes			
OFC	1941249	2406979	2815325
Gr%		23.99	16.97

Source – Company



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FRP & ARP Rods –

Fibreglass reinforced Plastic (FRP) rods are used as strength members in optical fibre cables. The round rods located in the centre of fibre optic cable combine the high performance properties of fibre glass reinforcements with unique resin formulation to produce strong and cost efficient cable reinforcement.

The Aramid Fibre Reinforced Plastic Rod (ARP) are particularly designed to meet the strength member requirement in most of FTTH drop cables, It provides tensile strength to the cable protecting it during installation and its rigidity prevents cable buckling during cable life.

ARP rods are non-metallic composites designed primarily for use as a central strength member in fiber optic cables. ARP rods offer high tensile strength & better bending properties with minimum weight. Thus, ARP rods are ideal for cable designs for FTTH application where the cables are subjected to sharp bends

Aksh is a pioneer in producing reinforcement solutions for Optical Fibre Cables and with a capacity to produce 4.2mn Kms Glass and Aramid fibre reinforced plastic rods (FRP Rods) annually, Aksh is now the largest producer in the world and is a leading supplier to top 10 Optical Fibre Cable manufacturing companies which include Corning, PrysmianDraka, Furukawa, Nexan, and Fujikura.

AKSH produces a wide array of sizes as per customer specifications with diameter ranging from 0.4mm to 6.5mm and AKSH FRP is available in various coatings including EAA (Ethylene Acrylic Acid) and HDPE, which allows easy handling and better grip to the cables.

The company's manufacturing facilities at Dubai, Silvassa, Reengus and China where AOL manufactures FRP Rods is ISO 9001:2008 & 14001:2004 UL certified and it has been exporting to over 70 countries across 6 continents.

North America and EU are major export markets for FRP rods for India followed by Asia, South America and Middle East region. USA is the single largest market for Indian FRP exports. Belgium, Spain, Germany, France and Italy are the major markets in EU region, whereas Russia, Japan, Brazil and Turkey are trading partners for Indian players in other markets. Further, UAE and Saudi Arabia are potential markets in Middle East region.

Germany, USA, Japan and China are the major exporters of FRP rods across the world covering almost 55% of total exports of FRP rods. India's share stands close to 2% and has potential to grow in double digits in the future.

Major Exporters of FRP Rods	Exports USD Mn	Mkt Share %
Germany	660	36.87
USA	371	20.73
Japan	274	15.31
China	203	11.34
Italy	128	7.15
UK	116	6.48
India	38	2.12
Total Market Size in CY2017 USD Mn	1790	100

Source – Company Annual Report FY18



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Having all its FRP Rods manufacturing facilities which are ISO 9001 and ISO 14001 certified, Aksh has emerged as one of the largest global FRP rod producer with a sizable market share, supplying its FRP rods to most of the major Optical Fibre Cable manufacturers across the globe. The biggest revenue generating market for FRP in sales in 2016-2017 has been North America, standing at 38% of the revenue mix, closely followed by Europe and Middle East.

Aksh sold FRP Rods worth Rs 175 crs in FY18 which was around Rs 124 crs three year ago in FY15.

Some Key Customers for FRP Rods include –



Domestic factors also look positive and will drive optic fibre demand in India

Key drivers for fiber demand in India are 1) Big projects like Bharat Net, 2) New 4G network roll out by Reliance Jio, 3) aggressive network expansion by other telco operators and 3) ongoing NFS project (Network for Spectrum from Government of India). Hence increasing data demand will drive network expansion and up gradation by telecom service providers, which will in turn, benefit optic fiber companies.

While 3G network requires 15-18% of the sites to be fiberised, 4G requires 65-75% of the network to be fiberised. Advent of 5G will require not only 100% of the network to be fiberised, but also significant densification of the network and fiberised fronthaul investments to support the Cloud Radio Access Network (C-RAN) architecture. Hence going ahead it is quite clear that almost every telecom player plans to increase investments towards fiberisation of networks to augment data capacity to meet future demand. The government also continues to invest in building networks to bridge the digital divide and strengthen the country's defence networks



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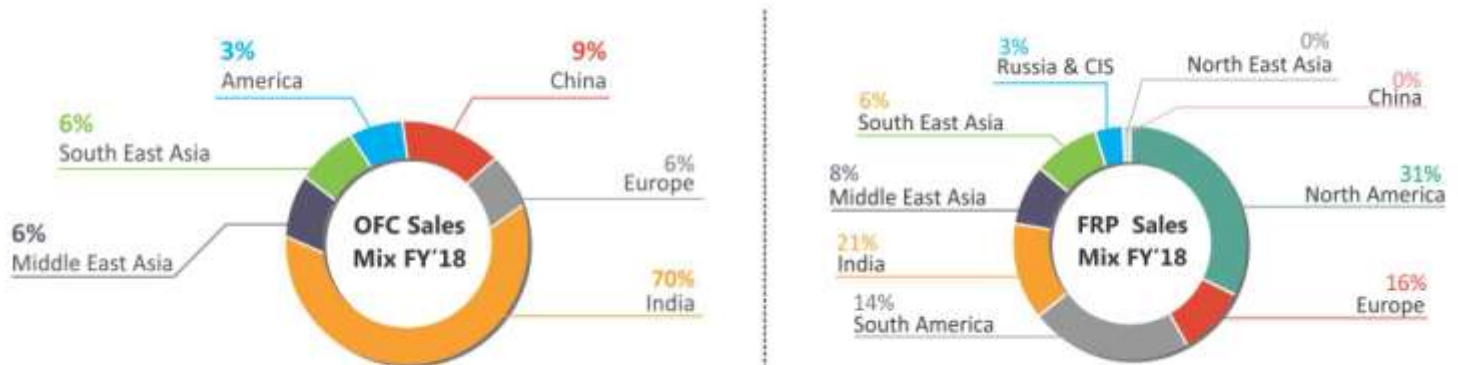
Currently, India has approximately 1.5 million kms of OFC, and less than one-fourth of the estimated 470000 towers are fibre-connected. In order to expand mobile and broadband connectivity across the country, it is necessary to explore and utilise the opportunities presented by next-generation-networks like 5G.

The global OF market has around 7-8 integrated players with end-to-end capabilities in the entire value chain of data network. The US\$4.2bn global OF market has a network of 534m fkm and has posted 15% CAGR over 2011 to 2017. In India the market size is estimated around 21-25 fkm annually.

Higher data usage is pressing the need for capacity expansion in OF. Factors such as high bandwidth communication, opportunities across sectors and government's focus on developing network infrastructure through higher funding are driving the global OF market. Hence demand in OF demand globally over the next 2-3 years is expected to grow @15% pa We expect India also to register 15%+ CAGR in OF/OFC demand over next 2 years on FTTH deployment and better execution of government's broadband infrastructure projects

OF and OFC demand in India is estimated to be equally split between private and public utilities/communication service providers. Private telecom service providers currently contribute around 35% to 40% of the total OF and OFC demand while government utilities, including BSNL, MTNL, Power Grid and BharatNet project (rural broadband project) account for another 35% of the OFC demand with the balance 25% accounted by MSOs, ISPs, CATVs players etc.

Aksh's OFC and FRP Customer Base is broadbased & positioned well to capitalize growth opportunities ahead



Source – Company

Bharat Net project can be the game changer for Indian optic fibre demand –

The broadband infrastructure is the backbone of the Government's 100 Smart Cities, BharatNet and Digital India missions. The thrust of the government towards the successful completion of these projects has opened up various opportunities for Aksh. BharatNet project is a very ambitious project with a vision to create a national broadband network. It has moved into a different format in the last couple of years, and brings last-mile connectivity between gram panchayat and block levels. The government has budgeted Rs 700 bn for the implementation of this project.

The government's plans to implement Bharat Net envisages laying of 39m fkm of optic fiber cables under the 'Digital India' program, to connect 250lac village blocks with broadband connectivity. As of December 2017, 54,895 km of OFC was laid in the first phase of Bharat Net Programme, covering 1, 09,926 Gram Panchayats out of which 1,01,370 Gram Panchayats were made service ready.



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The second phase of the project has been initiated for connecting the remaining 1.5 lakh gram panchayats. As of 11th February 2018, 2,62,947 km of OFC was laid covering 1,12,049 Gram Panchayats out of which 1,02,546 Gram Panchayats were made service ready as reported by Bharat Broadband Network Limited.

The government expects to complete Phase II by December 2018, ahead of the original timeline of March 2019. Further, the third phase involves proofing the network as per the requirement of IoT and 5G.

India is amongst the fastest growing OF markets globally –

India’s optical cable demand grew at around 20% CAGR over CY2005-16, which was primarily driven by Growing smart phone penetration, growing media content and surge in applications, Mobile business solutions and by the Internet of Things (IoT). Last year that is CY2017 however, was a transformational year for the telecom industry, which saw continued growth in subscribers, higher adoption of data services, aided by spurt in smartphone penetration and deeper coverage of data networks.

During the year, the Government successfully auctioned spectrum across multiple bands (1800, 2100, 2300 and 2500 MHz) and also saw the launch of Reliance Jio (RJIO) services that triggered the much-awaited consolidation in the industry

However despite strong demand headwinds India remains an unexploited long term underserved market –

Despite featuring among the top 3 countries in terms of absolute size of the OF and OFC market, India is ranked among the lowest in terms of fibre deployed to population ratio, at only 0.1x versus 1.7x in the US and 1.1x in China.

Fibre Deployed to Population %	% Deployed
USA	1.70%
Japan	1.70%
Spain	1.40%
France	1.30%
China	1.10%
Germany	0.80%
UK	0.80%
Taiwan	0.70%
Turkey	0.40%
Middle East	0.20%
India	0.10%
Latin America	0.10%

Source CRU International



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India – Rural Urban Divide is quite huge and presents a big opportunity ahead –

India currently has around 450 million internet subscribers making it the second largest online market in the world, ranked only behind China. However, the overall internet penetration is still at 34%, skewed in favour of urban India, which has 76% internet penetration.

Rural India is still underpenetrated with only 15% penetration. With a total rural population of 906 million, approximately 750 million users still do not use internet. This is clear from the table shown below –

Period Ended	2015	2015	2016	2016	2017	2017
Population Profile	Urban	Rural	Urban	Rural	Urban	Rural
Internet Users in Mn	246	129	263	157	269	163

Source - TRAI

Further, the Indian Internet of Things (IoT) market is estimated to rise by about 28% during CY 15-20, driven by key initiatives of the government like Digital India, Smart Cities, and Make in India. Around 1.9 billion devices are likely to be connected in India by 2023, further increasing the demand of data consumption across these connected devices.

Moreover, growing technological advancements and rise in the number of data centers is expected to positively influence Indian OFC market over the next few years. In line with this reported rise in requirement for fiber connectivity, the Indian OFC volumes are expected to reach 35.93 mn FKM by CY21 growing at a CAGR of over 13% during CY16-21. In tandem with this, the OF demand is also expected to grow supported by a historic 5-year growth of 36.3% (between CY 16-21) and a projected double-digit OFC growth.

In value terms, the domestic OFC market is expected to reach USD 424 million by 2020 which means demand here is expected to grow at a healthy rate in the next 3-4 years. In line with this, the the outlook for OF and FRP markets in India is also expected to be positive supporting the rising domestic OFC market

Global Demand for OF and OFC also continues to remain strong –

In CY2017, global OF and OFC demand stood at 534m fkm and 493m fkm, respectively, with China accounting for 62% and 59% of the total OF and OFC demand globally. CRU International has pegged global OF and OFC demand at 14.7% & 14.6% CAGR over CY2011-17

The Chinese government is targeting high broadband penetration and has planned a capex of US\$112bn over the next two years, which will boost demand for fibre in China. As a result, we expect global demand for OF to remain strong, driven by continued spends by China.

Key Global OF & OFC Players –

Key Global Integrated Players Capa Mn FKM	OF Capa	OFC Capa
Corning USA	55 Mn FKM	20Mn FKM
YOFC China	52 Mn FKM	25 Mn FKM
Prysmian Europe	50 Mn FKM	35 Mn FKM
Furukawa Japan	34 Mn FKM	30 Mn FKM
Sterlite Tech India	30 Mn FKM	15 Mn FKM
Hengtong Japan	25 Mn FKM	23 Mn FKM
Sumitomo Japan	NA	NA
Shin-Etsu Japan	NA	NA

Source - CRU International

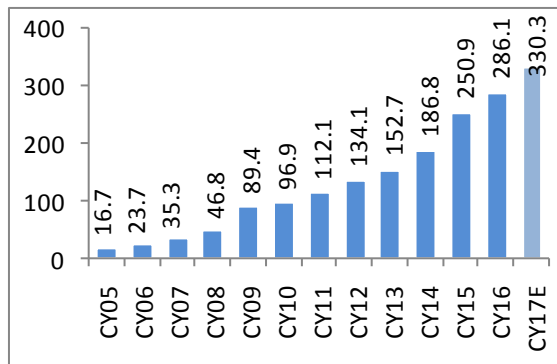


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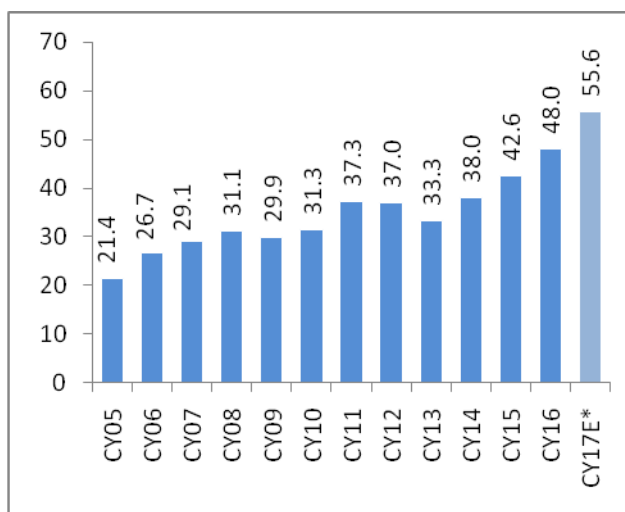
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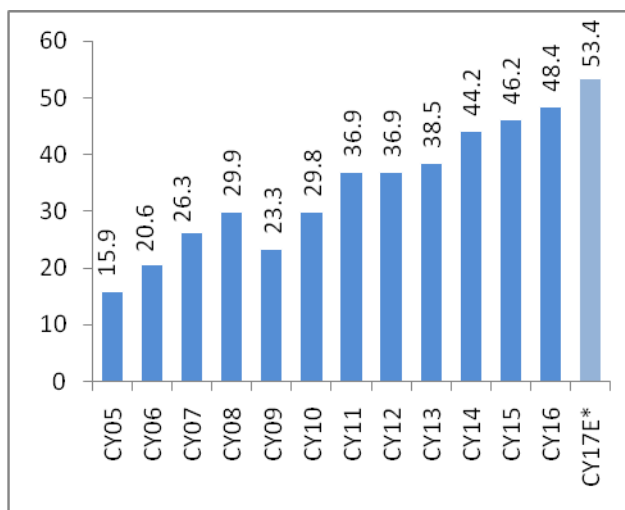
China - OF Demand in China over CY05 – CY16 (mnFKM)



USA - OF Demand in US over CY05 – CY16 (mn FKM)



Europe - OF Demand in Europe over CY05 – CY16 (mn FKM)





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Aksh Jaipur Smart City Project – another trigger under government initiatives

In Budget 2014–15, GoI allocated Rs70.6bn (US\$1.2bn) for smart cities. The budget for every Smart City is broken into pan city and area based. While the proposal for pan city is to be submitted for the entire city, area-based proposal can be further split into Retrofit area (Min 500 acres), Redevelopment area (Min 50 acres) and Greenfield area (Min 250 acres). Of the Rs50bn budget that has been allocated for 20 cities,

Further, development of Surveillance and Intelligent Management Systems, vehicle number plate reading, traffic signal violation detection, information kiosks, etc. will also require high speed data connectivity. Therefore, making optic fibre essential in this breakthrough initiative by the government. Aksh has successfully designed & implemented the Jaipur smart city project. The project is likely to get completed within the planned timelines and the entire network will be delivered soon and is expected to go live by third quarter of FY19.

Aksh is in a sweet spot as growth in OF & OFC will stay strong ahead also –

We expect the launch of 5G from 2020-2021 onwards will have a positive impact on fibre deployment in the corresponding years. Most telecom providers are already preparing for 5G connectivity, which requires higher fiber count in cables. Typically, 5G networks would require fiber count of 200-300 fibers per cable as a result we expect the move to 5G networks to propel the demand for fiber, as network specifications require ramp up in fiber backhauling, which would be used widely and deeply in the network.

Even the most conservative estimates of fiber deployment for 5G network factor in a jump in fiber consumption of at least 2.5x compared with 3x for 4G and hence fibre demand is likely to remain strong for another 3-5 years.

Aksh has recently diversified in the Ophthalmic Lens business segment –

Aksh has plans here to be a pioneer in manufacturing Ophthalmic Lenses in the country and has rolled out the first batch of lens into the market which has been well accepted in the markets.

The current Indian spectacle lens market is estimated at Rs 8,230 crs and is expected to grow at a CAGR of 15% for the next five years. This product has mass appeal as almost 28% of Indian population need vision correction of 350 million units of market size

At present around 77% of the organized sector vision care comprises of spectacle lenses. Out of this market, the organized sector comprises of 25% and remaining 75% of market is with the unorganized sector. Aksh via its make in india initiative has introduced a high quality product which is far superior than Chinese imported products here and where Aksh plans to capitalize and capture a sizeable market share here largely by converting the unorganized market here which is a big business opportunity for organized sector players like Aksh.

Aksh is presently moving here in slowly by offering better margins to Wholesalers and is utilizing its existing distribution network via E-mitra for better reach. Aksh plans to offer high quality “A” Grade Lens at competitive Prices thus ensuring that customers get value for money.

Aksh has invested around Rs 40 crs for its Ophthalmic lens facility with a capacity of 25 mn pieces pa at Kehrani India and it expects to scale up this opportunity in a sizeable way in the next 2-3 years.



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Aksh also runs a Services vertical which comprises of 4 different business segments –

The 4 Business segments include

1. StopAksh Kiosk Services
2. FTH Services
3. Turnkey Services

Stop Aksh Kiosk Services –

Stop Aksh is a public private partnership model between the Rajasthan government and Aksh Optifibre Limited, where in complete E-Governance solutions are being provided to the public in a regulated, transparent and efficient manner. The citizens can avail all the Government 2 Citizen (G2C) and Business 2 Citizen (B2C) services at their doorstep, under a single roof, through an E-platform using the software created by the Government of Rajasthan.

These services are being provided in the rural as well as urban areas, empowering people, and allowing them to utilize all these services from the comfort of their localities. Presently there are around 10000 Kiosks which the company runs in various locations.

Also Aksh has recently been successful in getting empanelled as a National Level bank Correspondent for Bank of Baroda. Under this programme, Aksh plans to set up banking kiosks primarily in rural areas through its 1 STOP AKSH, an e governance initiative. The key focus area under this will be to create awareness and educate rural habitants about banking, micro finance solutions and offer banking solutions to customers here.

Fibre to Home Segment – AKSH has started Fibre to the Home (FTTH) in Rajasthan with BSNL, wherein

customers can realize the speed of Internet up to 100 Mbps, Multiple IPTV connections, VoIP based Telephone service.

Turnkey Projects Segment – Aksh also provides **Turnkey Key** solutions which includes providing an integrated set of components, systems, engineering and installations for turn-key projects in the field of Premises, leading the transition from copper to optical fibre. Aksh has taken up network installation as prime contractors or as a turnkey supplier, provide assistance in designing and building Local Area Networks, Private & Public Networks. In fibre cable installations, **AKSH** provides services in designing power budgets, fusion splicing of optical fibres, fibre optic terminations, post installation testing, cable installation and cable installation supervision.



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Aksh's balance sheet looks good with the OFC business being the main largest Revenue and Profit contributor –

Aksh runs a strong business model covering multiple product segments across multi locations while it continues to invest on a sustained basis both from internal accruals and debt.

Aksh has added fresh debt in FY18 to the tune of Rs 123 crs largely to fund its capex for both OF, OFC and FRP Rods and Ophthalmic Lens projects taking its total debt to Rs 238 crs as on March 2018 as compared to a tangible networth of Rs 461.61 crs. The management expects that a major portion of the large capex is now complete after this exercise and would be enough for the company to fuel future growth over the next 3-4 years. However despite the fresh debt taken up, the D:E is yet pretty comfortable at 0.51:1 as on Mar 2018 on a consolidated level.

Going ahead we expect that overall bottomline growth in the next 3 years (From FY19 to FY21) starting FY18 onwards should increase at a CAGR of 25-30% and with future routine capex funded largely from internal cash flows. This is despite the fact that the services & turnkey business of Aksh is loss making for the last 5 years since FY2014 onwards as shown below –

Segment Sales Rs Crs	FY14	FY15	FY16	FY17	FY18
Telecom	208.79	331.58	409.97	468.91	581.16
Services	8.94	15.12	35.00	24.67	26.33
Trading	21.00	9.33	3.80	17.57	21.37
Segment Profits					
Telecom	39.04	54.00	56.34	40.78	59.32
Services	-12.32	-6.71	-11.09	-9.83	-14.10
Trading	2.04	2.22	0.06	2.96	5.35
Segment Cap Employed					
Telecom	147.48	221.23	236.83	339.97	524.66
Services	272.86	272.84	273.55	238.2	241.23
Trading	45.99	37.53	43.58	54.34	55.92
Segment Profitability %					
Telecom	18.70	16.29	13.74	8.70	10.21
Services	-137.81	-44.38	-31.69	-39.85	-53.55
Trading	9.71	23.79	1.58	16.85	25.04

Source Company Annual Reports

As evident from the above table the Services Business of Aksh which runs the E Commerce vertical and Turnkey projects has been a loss making proposition and is largely responsible to bring down the operating ratios for Aksh. Going ahead with better control on costs especially for the OF division, we expect sustainable OPMs for the core Telecom business to average atleast 18-20% in the next 2-3 years and wherein company has already recorded a composite EBIDTA margins of 21.79% in Q1 FY19 which have largely come in from savings in material costs & integration benefits of the OF in to OFC. Hence going ahead we expect the ROCE to scale upwards to 14% and ROE to 15% by FY20 from 8% and 5% earlier respectively as on FY18.



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What is Aksh's key USP –

Firstly Aksh is a large player in the OF, OFC and FRP Rods market

Secondly Aksh has completed a large expansion plan to increase both OF, OFC and FRP capacity significantly which will be reflected fully in FY20 numbers

Thirdly Aksh enjoys global customers like Corning, Singtel, Prysmian, Furukawa, Samsung, Sumitomo and several other large global OFC players

Also Aksh is a large approved OEM vendor to large global and domestic OFC players like Sterlite, BSNL. Idea, Aircel, Reliance Jio and Powergrid

Exports accounted for 30% of revenues in 2017-18 and key markets for Aksh exports include the US, Europe, Russia, Middle East and Chinese markets.

Overall the OFC market both in the Global and Domestic markets look good over the next 2-3 years –

We expect the domestic and export market to remain in a healthy shape with growth remaining in strong double digits.

Aksh is intending to be a strong focused player focusing on the OFC opportunity both in the domestic and export markets where it has a strong customer base and where it enjoys good profitability margins. New technology changes in Telecom industry directly impact OF, OFC and FRP players like Aksh and since the Telecom industry is the main customer for the OF, OFC and FRP sector, the industry's continuous efforts in upgrading technologies and diversifying product range has enabled it to expand its base of customers to foreign markets

Key Triggers for Aksh ahead –

Aksh expects strong improvement in the demand of OF, OFC and FRP Rods from both the domestic & global Markets

Also with the domestic Telecom industry doing well and in high capex mode should reflect in good domestic demand going ahead

Experienced Management and Skilled Employee Base:

Promoters of the company have an average of approximately 28 years' experience in Telecom and the Key Management Personnel are also experienced in the telecom product industry. The majority of company's Key Management Personnel have been employed with the company for over ten years and have contributed towards growth of the company through their commitment and experience

The company places strong emphasis on research and product development to enhance its product range and improve its manufacturing processes. The company has offered a number of cost reduction and value engineering proposals to its customers on the basis of in-house improvements in manufacturing processes which resulted in low input cost and low operation costs.



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Business Outlook & Stock Valuation –

On a rough cut basis, in FY19, Topline will see a steady rise wherein Topline is expected to touch Rs 750 crs in FY19E.

On the bottomline level we expect the company to record a PAT of Rs 55.50 crs in FY19E. Thus on a conservative basis, Aksh should record a EPS of Rs 3.41 for FY19E. For FY20E and FY21E our expectation is that earnings traction for Aksh would continue to be strong wherein we expect a EPS of Rs 5.18 and Rs 6.79 respectively.

Also another attractive point for Aksh is that EPS growth over the next three years between FY18 to FY21 is expected to average 25% plus YoY but valuation multiples look quite low at 6x on FY20E.

To add to this at the current market cap of Aksh at Rs 419 crs, the Aksh stock trades a market cap to sales multiple of just 0.55x on FY19E and a EV/EBIDTA multiple of 5.25x whereas the potential revenue and EBIDTA over the next 2 years is estimated at over Rs 1188 crs & Rs 200 crs plus respectively

The company management is confident of maintaining EBIDTA margins in current year at around 19-20% via operational efficiency and better product mix.

Aksh is a play on domestic/global data consumption growth. Also we believe that the freshly added expanded capacity is well timed for Aksh as demand for OFC continues to be very strong backed by large data consumption & increased govts focus on digitization. This would give a strong impetus to earnings growth over the next 2-3 years. Hence we expect Aksh to optimally monetize this increased capacity wherein the full impact will be seen from FY20 onwards

Hence we believe that the Aksh stock should be purchased at the current price for a price target of around Rs 60 over the next 12 to 18 months. Our TP is based on a EV/EBITA of 5.5x on FY20 EBIDTA and a target PE of 12x FY20E which we believe looks comfortably achievable



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FINANCIALS

For the Year Ended March RsCr	FY17A	FY18A	FY19E	FY20E	FY21E
Net Sales	509.78	624.81	750.00	990.00	1188.00
EBIDTA	49.9	74.15	127.50	175.23	213.84
EBIDTA %	9.79	11.87	17.00	17.70	18.00
Interest	14.55	19.53	23.00	25.00	26.00
Depreciation	21.66	23.55	25.00	27.00	29.00
Non Operational Other Income	4.34	2.19	2.00	2.00	2.00
Profit Before Tax	18.03	32.56	81.50	125.23	160.84
Profit After Tax	9.51	20.86	55.50	84.30	110.40
Diluted EPS (Rs) FV Rs 5	0.58	1.28	3.41	5.18	6.79
Equity Capital	81.34	81.34	81.34	81.34	81.34
Reserves	358.73	380.27	426.77	539.00	634.40
Borrowings	115.00	237.99	252.99	272.99	287.99
GrossBlock	284.69	419.21	444.21	474.21	504.21
Investments	0.05	0.05	0.05	0.05	0.05

Source Company our Estimates

KEY CONCERNS

Postponement in government expenditure for Bharat Net project, which is expected to boost optic fibre demand.

Pressure on global optic fibre pricing, and increased competition from Chinese companies.

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CONTACT DETAILS

Mr. Avinash Gorakshakar (Research Head)	Tel.: 4033 4766,	Email: avinashg@joindre.com
Mr. Vikas Khandelwal (Research Sr. Executive)	Tel.: 4033 4900	Email: vikas@joindre.com

COMPLIANCE TEAM

Mr. A. P. Shukla (President & COF)	Tel.: 4033 4723	Email: shuklaap@joindre.com
Mrs. Sujata Poojary (Sr. Executive)	Tel. : 4033 4567	Email: compliance@joindre.com
Mrs. Nikita Shah (Sr. Executive)	Tel. : 4033 4567	Email: compliance@joindre.com