

## Acetonitrile steals the show

AACL beat our EBITDA/APAT estimates by 29.1/55.5% in Q3FY20. We bump-up our FY20 EBITDA estimate by 25.1% to factor in the 9MFY20 performance. We maintain BUY with a revised TP of Rs 1,840 (22x Dec-FY21 EPS).

### HIGHLIGHTS OF THE QUARTER

- Gross margins improve:** GM of 55.4% (+979/427bps YoY/QoQ) came as a positive surprise, considering that GM over FY15-19 has remained in the range of 45.6-47.9%. The sharp improvement in GM is owing to higher realization for Acetonitrile (~Rs 250/kg vs Rs 150 in Q3FY19).
- Volume led growth:** Ex-Acetonitrile, volume grew 15-18% while realisation across products fell by 1-2%. Tight supply of Acetonitrile in the global market bumped up EBITDA margins to 28.2% (+1,011/284bps YoY/QoQ) in Q3 and we believe these prices may sustain in the near term.
- China may impact demand for Acetonitrile:** Pharma and Agro companies source RM for their products from China. Acetonitrile is used as a solvent for many of these products. If the sourcing of RM for these products gets disrupted due to Corona virus, it may in

turn, hurt Acetonitrile's demand in the near term.

- Impending capacity expansion:** AACL plans to spend Rs 3.0bn to expand its Methyl Amines (by 15kTPA), its derivatives and Acetonitrile (by 15kTPA) capacity and derivatives of Methyl Amines over FY20-22E at their Dahej and Kurkumbh facilities. This will help AACL garner market share and support volume growth.
- Interim dividend of Rs 10/sh was declared at a payout of 12.3% on 9MFY20 earnings. Final dividend payout for FY18/19 stood at 22.2/19.5% each.
- Key monitorable:** Prices of Acetonitrile.

### STANCE

**We remain constructive on AACL owing to healthy product demand from the Pharma/Agro industries, impending capacity expansion for multiple products and rising market share in Methyl Amines. Owing to better (1) Margin profile (EBITDA margin of 22-25% in FY20-22E vs ~19% for Balaji amines), (2) Return ratio (RoE of 38.5/29.8/25.4 in FY20/21/22E vs 16.1/15.1/13.5% for Balaji amines), we ascribe a valuation multiple of 22x Dec-21 EPS to Alkyl amines as against 13x for Balaji Amines.**

### Financial Summary (Standalone)

Rs mn	3QFY20	3QFY19	YoY (%)	2QFY20	QoQ (%)	FY19	FY20E	FY21E	FY22E
Net Sales	2,569	2,127	20.8	2,350	9.3	8,464	10,148	11,150	12,240
EBITDA	726	386	88.1	597	21.5	1,644	2,551	2,559	2,709
APAT	550	221	148.8	405	35.8	837	1,642	1,642	1,723
AEPS (Rs)	27.0	10.8	148.8	19.9	35.8	41.1	80.5	80.5	84.5
P/E (x)						35.0	17.9	17.9	17.0
EV / EBITDA (x)						18.7	11.9	11.6	10.8
RoE (%)						25.3	38.5	29.8	25.4

Source: Company, HDFC sec Inst Research

INDUSTRY	CHEMICALS
<b>CMP (as on 6 Feb 2020)</b>	<b>Rs 1,443</b>
<b>Target Price</b>	<b>Rs 1,840</b>
Nifty	12,138
Sensex	41,306

### KEY STOCK DATA

Bloomberg	AACL IN
No. of Shares (mn)	20
MCap (Rs bn) / (\$ mn)	29/413
6m avg traded value (Rs mn)	19

### STOCK PERFORMANCE (%)

52 Week high / low	Rs 1,480/653		
	3M	6M	12M
Absolute (%)	51.5	78.4	90.9
Relative (%)	49.5	66.7	79.2

### SHAREHOLDING PATTERN (%)

	Sep-19	Dec-19
Promoters	74.19	74.19
FIs & Local MFs	0.70	1.10
FPIs	0.38	0.38
Public & Others	24.73	24.28
Pledged Shares	0.00	0.00

Source : BSE

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*The 20.8% YoY jump in revenues was largely driven by volumes. Ex-Acetonitrile, volume growth was 15-18% while realisations across products were down 1-2%*

*PAT has been adjusted for Rs 328mn realised as profit on sale of investment in its associate Diamines and Chemicals Ltd*

*The company moved to the lower tax rate of 25.2% in Q2FY20*

### Quarterly Financials Snapshot (Standalone)

Rs mn	3QFY20	3QFY19	YoY (%)	2QFY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
<b>Net Sales</b>	<b>2,569</b>	<b>2,127</b>	<b>20.8</b>	<b>2,350</b>	<b>9.3</b>	<b>7,581</b>	<b>6,090</b>	<b>24.5</b>
Raw Material Expenses	1,146	1,157	(0.9)	1,149	(0.2)	3,766	3,187	18.2
Employee Expenses	190	135	40.6	170	12.3	527	401	31.3
Other Expenses	507	448	13.0	434	16.7	1,374	1,253	9.6
<b>EBITDA</b>	<b>726</b>	<b>386</b>	<b>88.1</b>	<b>597</b>	<b>21.5</b>	<b>1,914</b>	<b>1,248</b>	<b>53.5</b>
<b>EBITDA Margin (%)</b>	<b>28.2</b>	<b>18.1</b>		<b>25.4</b>		<b>75.9</b>	<b>61.4</b>	
<b>Depreciation</b>	<b>68</b>	<b>57</b>	<b>19.3</b>	<b>65</b>	<b>4.6</b>	<b>197</b>	<b>169</b>	<b>16.8</b>
EBIT	658	329	100.1	532	23.6	1,717	1,079	59.2
<b>Other Income</b>	<b>22</b>	<b>27</b>	<b>(20.6)</b>	<b>9</b>	<b>142.8</b>	<b>44</b>	<b>36</b>	<b>23.3</b>
Interest Cost	21	36.3	(41.2)	26	(17.7)	84	114.5	(27.0)
Nonrecurring item	328	-	NA	(20)	NA	308	-	NA
<b>PBT</b>	<b>986</b>	<b>320</b>	<b>208.5</b>	<b>495</b>	<b>99.3</b>	<b>1,986</b>	<b>1,000</b>	<b>98.6</b>
Tax	216	98.7	118.5	(44)	(590.9)	325	338.1	(3.8)
<b>RPAT</b>	<b>771</b>	<b>221</b>	<b>248.7</b>	<b>539</b>	<b>43.0</b>	<b>1,661</b>	<b>662</b>	<b>150.9</b>
EO Items (Adj For Tax)	221	-	-	134	-	355	-	-
<b>APAT</b>	<b>550</b>	<b>221</b>	<b>148.8</b>	<b>405</b>	<b>35.8</b>	<b>1,306</b>	<b>662</b>	<b>97.3</b>
<b>AEPS (Rs/sh)</b>	<b>27.0</b>	<b>10.8</b>	<b>148.8</b>	<b>19.9</b>	<b>35.8</b>	<b>64.0</b>	<b>32.5</b>	<b>97.3</b>

Source: Company, HDFC sec Inst Research

### Margin Analysis

	3QFY20	3QFY19	YoY (bps)	2QFY20	QoQ (bps)	9MFY20	9MFY19	YoY (bps)
Raw Material Expenses % Net Sales	44.6	54.4	(979)	48.9	(427)	49.7	52.3	(267)
Employee Expenses % Net Sales	7.4	6.4	105	7.2	19	6.9	6.6	36
Other Expenses % Net Sales	19.7	21.1	(136)	18.5	124	18.1	20.6	(246)
<b>EBITDA Margin (%)</b>	<b>28.2</b>	<b>18.1</b>	<b>1,011</b>	<b>25.4</b>	<b>284</b>	<b>25.3</b>	<b>20.5</b>	<b>477</b>
<b>Tax Rate (%)</b>	<b>21.9</b>	<b>30.9</b>	<b>(901)</b>	<b>21.2</b>	<b>66</b>	<b>23.1</b>	<b>33.8</b>	<b>(1,068)</b>
<b>APAT Margin (%)</b>	<b>21.4</b>	<b>10.4</b>	<b>1,101</b>	<b>17.2</b>	<b>418</b>	<b>17.2</b>	<b>10.9</b>	<b>636</b>

Source: Company, HDFC sec Inst Research

*The YoY expansion in GM is owing to sharp rise in Acetonitrile prices*

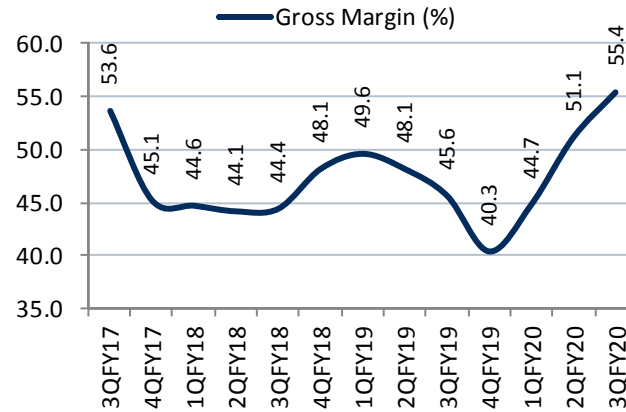
*Primarily consequential to higher GM, EBITDA margins rose to 28.2% (+284bps QoQ)*

*We expect EBITDA margins to hover between 22-23% over FY21-22E*

*AACL plans to spend Rs 3.0bn to expand its Methyl Amines and Acetonitrile capacity and derivatives of Methyl Amines over FY20-22E at their Dahej and Kurkumbh facilities*

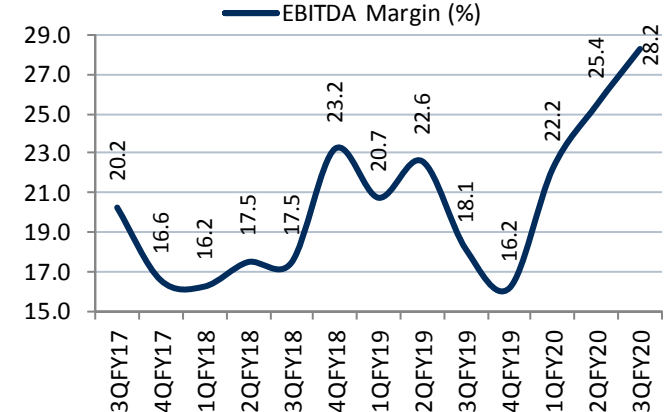
**Standalone Performance**

**Gross Margin Trend**



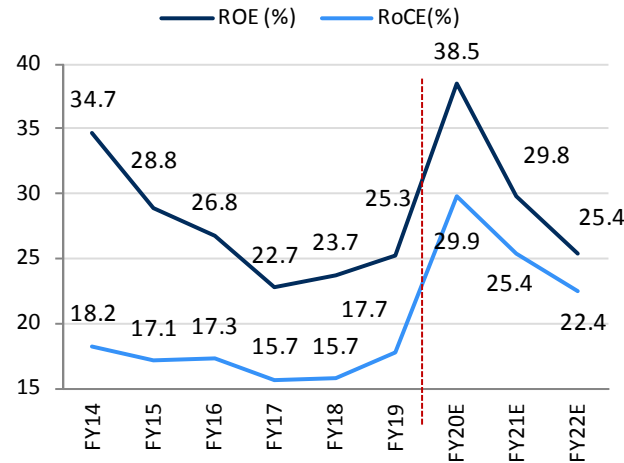
Source: Company, HDFC sec Inst Research

**EBITDA Margin Trend**



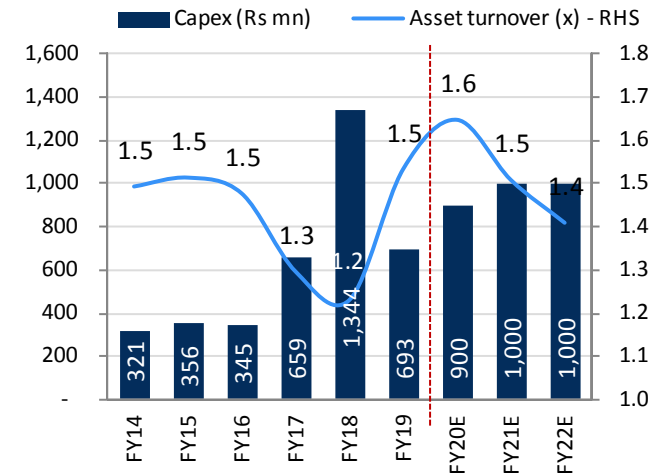
Source: Company, HDFC sec Inst Research

**Return Ratios**



Source: Company, HDFC sec Inst Research

**Capex and Asset turns**



Source: Company, HDFC sec Inst Research

*We are assuming a higher growth in Methyl Amines and derivatives due to the current capacity addition*

### Assumptions

Product Group	FY18	FY19	FY20E	FY21E	FY22E
Methyl Chain(Rs mn)	1,653	1,874	2,453	2,953	3,432
<i>Growth (%)</i>	<i>35.7</i>	<i>13.4</i>	<i>30.9</i>	<i>20.4</i>	<i>16.2</i>
Ethyl Chain (Rs mn)	1,827	2,056	2,387	2,630	2,934
<i>Growth (%)</i>	<i>(7.6)</i>	<i>12.5</i>	<i>16.1</i>	<i>10.2</i>	<i>11.6</i>
Acetonitrile (Rs mn)	1,683	2,228	2,977	2,872	2,705
<i>Growth (%)</i>	<i>44.5</i>	<i>32.4</i>	<i>33.6</i>	<i>(3.5)</i>	<i>(5.8)</i>
<b>Raw Material</b>					
Methanol (Rs/kg)	31.4	35.6	28.5	29.9	31.4
Ethanol (Rs/kg)	29.4	35.3	31.8	33.3	35.0
Acetic Acid (Rs/kg)	33.1	37.2	37.2	36.4	38.0
Ammonia (Rs/kg)	29.4	35.3	31.8	33.3	35.0

Source: Company, HDFC sec Inst Research

### Change in estimates

Rs mn	FY20 Old	FY20 New	YoY Gr (%)	FY21 Old	FY21 New	YoY Gr (%)	FY22 Old	FY22 New	YoY Gr (%)
Net Sales	9,733	10,148	4.3	10,982	11,150	1.5	12,283	12,240	(0.3)
EBIDTA	2,039	2,551	25.1	2,347	2,559	9.0	2,695	2,709	0.5
APAT	1,259	1,642	30.4	1,484	1,642	10.7	1,713	1,723	0.6

Source: HDFC sec Inst Research

### Peer Set Comparison

	MCap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	Upside %	EPS (Rs/sh)				P/E (x)				P/BV (x)				ROE (%)			
						FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E
Vinati Organics	108.95	1,060	NEU	1,020	(3.8)	27.5	30.9	35.7	42.5	38.6	34.3	29.7	24.9	10.4	8.0	6.4	5.1	30.6	26.4	24.0	22.8
Galaxy Surfactants	56.76	1,601	BUY	1,811	13.1	53.9	63.8	72.9	85.5	29.7	25.1	22.0	18.7	6.5	5.3	4.4	3.7	23.9	23.3	22.0	21.4
Navin Fluorine	56.65	1,148	SELL	1,011	(11.9)	30.2	37.3	46.8	51.8	38.1	30.8	24.5	22.2	5.3	4.7	4.2	3.7	14.5	16.2	18.1	17.6
<b>Alkyl Amines</b>	<b>29.37</b>	<b>1,443</b>	<b>BUY</b>	<b>1,840</b>	<b>27.9</b>	<b>41.1</b>	<b>80.5</b>	<b>80.5</b>	<b>84.5</b>	<b>35.0</b>	<b>17.9</b>	<b>17.9</b>	<b>17.0</b>	<b>8.0</b>	<b>6.0</b>	<b>4.8</b>	<b>4.0</b>	<b>25.3</b>	<b>38.5</b>	<b>29.8</b>	<b>25.4</b>
Balaji Amines	13.64	421	BUY	490	16.5	35.4	34.4	37.2	37.9	11.9	12.2	11.3	11.1	2.3	2.0	1.7	1.5	19.4	16.1	15.1	13.5

Source: HDFC sec Inst Research

**Standalone Income Statement**

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>6,162</b>	<b>8,464</b>	<b>10,148</b>	<b>11,150</b>	<b>12,240</b>
<b>Growth (%)</b>	<b>23.1</b>	<b>37.4</b>	<b>19.9</b>	<b>9.9</b>	<b>9.8</b>
Material Expenses	3,342	4,605	5,133	5,925	6,645
Employee Expenses	420	528	607	668	734
Other Operating Expenses	1,235	1,688	1,857	1,998	2,151
EBITDA	1,164	1,644	2,551	2,559	2,709
<b>EBITDA Margin (%)</b>	<b>18.9</b>	<b>19.4</b>	<b>25.1</b>	<b>22.9</b>	<b>22.1</b>
<b>EBIDTA Growth (%)</b>	<b>22.4</b>	<b>41.1</b>	<b>55.2</b>	<b>0.3</b>	<b>5.9</b>
Depreciation	157	233	266	307	357
<b>EBIT</b>	<b>1,008</b>	<b>1,410</b>	<b>2,285</b>	<b>2,252</b>	<b>2,352</b>
Other Income (Including EO Items)	32	39	43	48	53
<b>Interest</b>	<b>81</b>	<b>148</b>	<b>134</b>	<b>104</b>	<b>101</b>
PBT	958	1,302	2,195	2,195	2,303
Tax	315	465	553	553	580
<b>RPAT</b>	<b>643</b>	<b>837</b>	<b>1,642</b>	<b>1,642</b>	<b>1,723</b>
<b>APAT</b>	<b>643</b>	<b>837</b>	<b>1,642</b>	<b>1,642</b>	<b>1,723</b>
<b>APAT Growth (%)</b>	<b>27.7</b>	<b>30.3</b>	<b>96.0</b>	<b>0.0</b>	<b>4.9</b>
<b>AEPS</b>	<b>31.5</b>	<b>41.1</b>	<b>80.5</b>	<b>80.5</b>	<b>84.5</b>
<b>AEPS Growth (%)</b>	<b>27.7</b>	<b>30.4</b>	<b>96.0</b>	<b>0.0</b>	<b>4.9</b>

Source: Company, HDFC sec Inst Research

**Standalone Balance Sheet**

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>					
Share Capital	102	102	102	102	102
Reserves	2,869	3,548	4,786	6,024	7,323
<b>Total Shareholders Funds</b>	<b>2,972</b>	<b>3,650</b>	<b>4,888</b>	<b>6,126</b>	<b>7,425</b>
Long-term Debt	1,082	790	590	515	440
Short-term Debt	717	852	602	652	702
<b>Total Debt</b>	<b>1,799</b>	<b>1,642</b>	<b>1,192</b>	<b>1,167</b>	<b>1,142</b>
Minority Interest					
Long-term Provisions & Others	117	61	61	61	61
Net Deferred Tax Liability	405	507	358	376	395
<b>TOTAL SOURCES OF FUNDS</b>	<b>5,292</b>	<b>5,859</b>	<b>6,498</b>	<b>7,729</b>	<b>9,022</b>
<b>APPLICATION OF FUNDS</b>					
<b>Net Block</b>	<b>3,552</b>	<b>3,764</b>	<b>4,080</b>	<b>5,020</b>	<b>5,643</b>
CWIP	184	432	750	503	523
Goodwill					
Investments	14	14	14	14	14
LT Loans & Advances	174	90	90	90	90
Other Non Current Assets	62	75	136	143	150
<b>Total Non-current Assets</b>	<b>3,987</b>	<b>4,376</b>	<b>5,070</b>	<b>5,770</b>	<b>6,420</b>
Inventories	852	1,057	1,267	1,392	1,528
Debtors	1,238	1,526	1,807	1,986	2,180
Cash & Equivalents	32	202	309	772	1,352
ST Loans & Advances	1	2	4	4	4
Other Current Assets	260	322	226	248	273
<b>Total Current Assets</b>	<b>2,384</b>	<b>3,109</b>	<b>3,613</b>	<b>4,402</b>	<b>5,337</b>
Creditors	672	1,240	1,487	1,633	1,793
Other Current Liabilities	406	386	699	809	942
<b>Total Current Liabilities</b>	<b>1,078</b>	<b>1,626</b>	<b>2,185</b>	<b>2,442</b>	<b>2,735</b>
<b>Net Current Assets</b>	<b>1,306</b>	<b>1,484</b>	<b>1,428</b>	<b>1,959</b>	<b>2,602</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>5,292</b>	<b>5,859</b>	<b>6,498</b>	<b>7,729</b>	<b>9,022</b>

Source: Company, HDFC sec Inst Research

**Standalone Cash Flow**

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	958	1,302	2,195	2,195	2,303
Adjustments					
Interest Expenses	81	148	134	104	101
Depreciation	157	233	266	307	357
Working Capital Change	(64)	62	103	(75)	(70)
Tax Paid	(315)	(465)	(553)	(553)	(580)
<b>OPERATING CASH FLOW ( a )</b>	<b>818</b>	<b>1,281</b>	<b>2,144</b>	<b>1,978</b>	<b>2,111</b>
Capex	(1,344)	(693)	(900)	(1,000)	(1,000)
Free Cash Flow (FCF)	(526)	587	1,244	978	1,111
Investments	-	-	-	-	-
<b>INVESTING CASH FLOW ( b )</b>	<b>(1,344)</b>	<b>(693)</b>	<b>(900)</b>	<b>(1,000)</b>	<b>(1,000)</b>
Debt Issuance/(Repaid)	615	(214)	(450)	(25)	(25)
Interest Expenses	(81)	(148)	(134)	(104)	(101)
FCFE	7	226	660	849	985
Share Capital Issuance	-	-	-	-	-
Dividend	(123)	(201)	(404)	(404)	(424)
Others	119	88	(149)	18	19
<b>FINANCING CASH FLOW ( c )</b>	<b>529</b>	<b>(474)</b>	<b>(1,137)</b>	<b>(515)</b>	<b>(531)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>3</b>	<b>113</b>	<b>108</b>	<b>463</b>	<b>580</b>

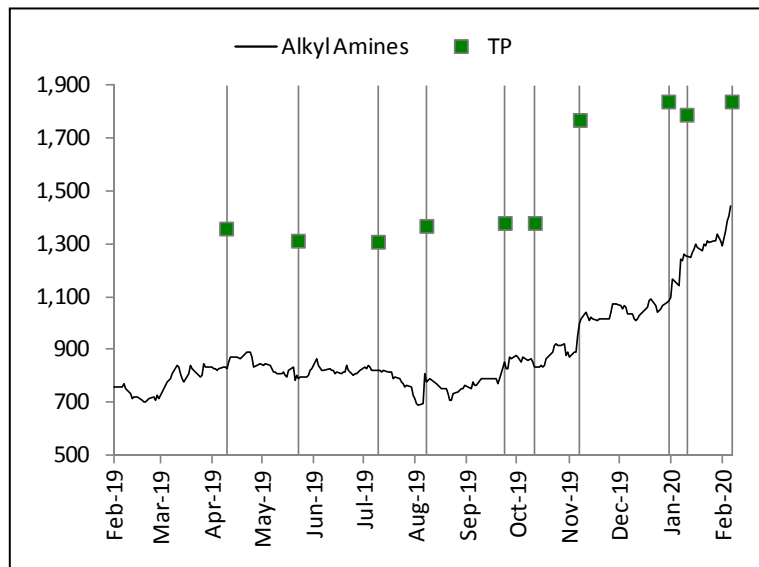
Source: Company, HDFC sec Inst Research

**Standalone Key Ratios**

	FY18	FY19	FY20E	FY21E	FY22E
<b>PROFITABILITY (%)</b>					
GPM	45.8	45.6	49.4	46.9	45.7
EBITDA Margin	18.9	19.4	25.1	22.9	22.1
EBIT Margin	16.9	17.1	22.9	20.6	19.6
APAT Margin	10.4	9.9	16.2	14.7	14.1
RoE	23.7	25.3	38.5	29.8	25.4
RoIC	15.9	18.2	31.3	27.7	25.9
RoCE	15.7	17.7	29.9	25.4	22.4
<b>EFFICIENCY</b>					
Tax Rate (%)	32.9	35.7	25.2	25.2	25.2
Asset Turnover (x)	1.2	1.5	1.6	1.5	1.4
Inventory (days)	50	46	46	46	46
Debtors (days)	73	66	65	65	65
Other Current Assets (days)	15	14	8	8	8
Payables (days)	40	53	53	53	53
Other Current Liab & Prov (days)	32	21	18	16	15
Cash Conversion Cycle (days)	68	51	48	49	51
Net Debt/EBITDA (x)	1.5	0.9	0.3	0.2	(0.1)
Net D/E	0.6	0.4	0.2	0.1	(0.0)
Interest Coverage	12.8	9.8	17.4	22.1	23.8
<b>PER SHARE DATA</b>					
EPS (Rs/sh)	31.5	41.1	80.5	80.5	84.5
CEPS (Rs/sh)	39.2	52.5	93.5	95.6	102.0
DPS (Rs/sh)	7.0	8.0	16.1	16.1	16.9
BV (Rs/sh)	145.6	178.9	239.6	300.3	364.0
<b>VALUATION</b>					
P/E	45.7	35.0	17.9	17.9	17.0
P/BV	9.9	8.0	6.0	4.8	4.0
EV/EBITDA	26.7	18.7	11.9	11.6	10.8
OCF/EV (%)	2.6	4.2	7.1	6.6	7.2
FCF/EV (%)	(1.7)	1.9	4.1	3.3	3.8
FCFE/MCAP (%)	0.0	0.8	2.2	2.9	3.4
Dividend Yield (%)	0.5	0.6	1.1	1.1	1.2

Source: Company, HDFC sec Inst Research

**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
9-Apr-19	830	BUY	1,359
23-May-19	799	BUY	1,313
9-Jul-19	820	BUY	1,309
7-Aug-19	778	BUY	1,369
22-Sep-19	750	BUY	1,380
11-Oct-19	852	BUY	1,380
8-Nov-19	996	BUY	1,770
30-Dec-19	1,069	BUY	1,840
10-Jan-20	1,256	BUY	1,790
6-Feb-20	1,443	BUY	1,840

**Rating Definitions**

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

**INSTITUTIONAL RESEARCH**
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