

# Alkyl Amines

## Pricing in positives

We downgrade Alkyl Amines from ADD to SELL with the revised target price of INR 2,655. The downgrade is largely on the back of ~85% increase in the stock price in the past three months. The stock is currently trading at 49.1x FY23E EPS (EPS CAGR of 15% over FY21-24E, RoE will be 34.7/32.4/28.5% in FY22/23/24) while Balaji Amines is trading at 31.5x FY23E EPS (EPS CAGR of 12.4% over FY21-24E, RoE will be 22.1/20.3/19.1% in FY22/23/24). We like Alkyl Amines owing to (1) robust demand from pharma and agrochemical industry that comprise more than 75% of its revenue mix; (2) doubling of Acetonitrile capacity to ~26ktpa in FY22; (3) 30-40% additional capacities (of the current 80-90 ktpa) of Aliphatic amines by FY23; and (4) production linked incentive scheme that provides the right tailwinds for long-term volume growth. However, we believe the current stock price is pricing in these positives.

- Financial performance:** Sales grew 18/63% QoQ/YoY to INR 3.8bn. Sales grew in FY21, mainly due to value with better realisations and not volumes. Two-thirds of the revenue growth is attributable to higher realisation, and the remaining to volume growth. Gross margins corrected to 57.0% (-390/+294bps QoQ/YoY) in 4Q as the benefit of benign raw material prices wore off in the quarter. EBITDA margin came in at 34.9% (-310/+611bps QoQ/YoY) and witnessed a fall sequentially mainly due to the trickle-down effect of lower gross margins in 4Q. However, the current EBITDA margin does not seem sustainable and should cool off to 31.6/32.0% in FY22/23E.
- Call takeaways:** (1) Capex spent in FY21 was INR 1.5bn. Capex guidance for FY22/23 is INR 2.0/2.0bn. (2) AACL completed the subdivision of its equity shares of face value of INR 5 each fully paid up into equity shares of face value of INR 2 each fully paid up in May'21. (3) The Board has declared a final dividend at 300% i.e., INR 6/sh for FY21. (4) AACL holds 40% market share domestically in acetonitrile and the remaining share is mainly imported. The expansion of the acetonitrile plant is to be completed in 2HFY22 and the company sees a big opportunity in this product. (5) Even with the hit of the second wave of COVID-19, the company's production remains on track to meet the normal levels. (6) Specialty products are gaining a lot of traction and are performing well which is the reason for higher margins in FY21. (7) Volume growth guidance for a medium term is 10-15% YoY.
- Change in estimates:** We raise our FY22/FY23E EPS estimates by 13.1/23.6% to INR 62.6/77.1 per share to factor in overall performance in FY21 and the positive guidance of the management, going forward.
- DCF-based valuation:** Our price target is INR 2,655 (WACC 10%, terminal growth 4%). The stock is trading at 49.1x FY23E EPS.

### Financial Summary

YE Mar (INR mn)	4Q FY21	3Q FY21	QoQ (%)	4Q FY20	YoY (%)	FY19	FY20	FY21P	FY22E	FY23E
Net Sales	3,821	3,239	18.0	2,348	62.8	8,464	9,929	12,424	14,465	17,617
EBITDA	1,334	1,231	8.3	676	97.3	1,644	2,590	4,291	4,568	5,638
APAT	926	845	9.6	492	88.2	837	1,798	2,953	3,197	3,938
Adj. EPS (Rs)	18.1	16.6	9.6	9.6	88.2	16.4	35.2	57.9	62.6	77.1
P/E (x)						231.0	107.6	65.5	60.5	49.1
EV/EBITDA(x)						118.6	74.7	44.8	41.9	33.6
RoE (%)						25.3	47.8	44.4	34.7	32.4

Source: Company, HSIE Research | Number of shares are the existing number of shares post subdivision

## SELL

CMP (as on 28 May 2021)	INR 3,795
Target Price	INR 2,655
NIFTY	15,436

KEY CHANGES	OLD	NEW
Rating	ADD	SELL
Price Target	INR 2,504	INR 2,655
EPS %	FY22E +13.1%	FY23E +23.6%

### KEY STOCK DATA

Bloomberg code	AACL IN
No. of Shares (mn)	51
MCap (INR bn) / (\$ mn)	194/2,603
6m avg traded value (INR mn)	567
52 Week high / low	INR 3,987/730

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	87.8	136.3	373.4
Relative (%)	83.1	119.8	314.9

### SHAREHOLDING PATTERN (%)

	Dec-20	Mar-21
Promoters	74.13	74.13
FIs & Local MFs	1.78	2.00
FPIs	0.95	0.90
Public & Others	23.14	22.97
Pledged Shares	0.00	0.00

Source: BSE

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### Change in estimates

YE Mar	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch
EBITDA (INR mn)	4,002	4,568	14.1	4,550	5,638	23.9
Adj. EPS (INR/sh)	55.4	62.6	13.1	62.4	77.1	23.6

Source: Company, HSIE Research | Number of shares are the existing number of shares post sub-division.

### Quarterly Financial Snapshot

INR mn	4QFY21	3QFY21	QoQ (%)	4QFY20	YoY (%)
<b>Net Sales</b>	<b>3,821</b>	<b>3,239</b>	<b>18.0</b>	<b>2,348</b>	<b>62.8</b>
Raw Material Expenses	1,644	1,267	29.8	1,079	52.4
Employee Expenses	275	240	14.7	170	62.2
Other Expenses	569	501	13.5	423	34.4
<b>EBITDA</b>	<b>1,334</b>	<b>1,231</b>	<b>8.3</b>	<b>676</b>	<b>97.3</b>
<b>EBITDA Margin (%)</b>	<b>34.9</b>	<b>38.0</b>		<b>28.8</b>	
<b>Depreciation</b>	<b>73</b>	<b>76</b>	<b>(4.0)</b>	<b>72</b>	<b>0.9</b>
EBIT	1,261	1,155	9.1	604	108.8
<b>Other Income</b>	<b>14</b>	<b>17</b>	<b>(12.9)</b>	<b>26</b>	<b>(44.8)</b>
Interest Cost	14	14	3.3	19	(25.2)
EO Items	-	-	NA	-	NA
<b>PBT</b>	<b>1,261</b>	<b>1,158</b>	<b>8.9</b>	<b>611</b>	<b>106.4</b>
Tax	335	313	7.0	119	181.8
<b>RPAT</b>	<b>926</b>	<b>845</b>	<b>9.6</b>	<b>492</b>	<b>88.2</b>
EO Items (Adj for Tax)	-	-	-	-	-
<b>APAT</b>	<b>926</b>	<b>845</b>	<b>9.6</b>	<b>492</b>	<b>88.2</b>
AEPS	18.1	16.6	9.6	9.6	88.2

	4QFY21	3QFY21	QoQ (bps)	4QFY20	YoY (bps)
Raw Material Expenses (as a % of Net Sales)	43.0	39.1	390	46.0	(294)
Employee Expenses (as a % of Net Sales)	7.2	7.4	(21)	7.2	(2)
Other Expenses (as a % of Net Sales)	14.9	15.5	(59)	18.0	(315)
EBITDA Margin (%)	34.9	38.0	(310)	28.8	611
Tax Rate (%)	26.6	27.0	(47)	19.5	711
APAT Margin (%)	24.2	26.1	(185)	21.0	327

Source: Company, HSIE Research | Number of shares are the existing number of shares post sub-division.

## Financial

### Income Statement

(INR mn)	FY16	FY17	FY18	FY19	FY20	FY21P	FY22E	FY23E
<b>Net Revenues</b>	<b>4,836</b>	<b>5,006</b>	<b>6,162</b>	<b>8,464</b>	<b>9,929</b>	<b>12,424</b>	<b>14,465</b>	<b>17,617</b>
<i>Growth (%)</i>	<i>1.5</i>	<i>3.5</i>	<i>23.1</i>	<i>37.4</i>	<i>17.3</i>	<i>25.1</i>	<i>16.4</i>	<i>21.8</i>
Material Expenses	2,519	2,633	3,342	4,605	4,845	5,231	6,793	8,696
Employee Expenses	347	372	420	528	696	927	1,020	1,101
Other Operating Expenses	1,060	1,050	1,235	1,688	1,797	1,975	2,085	2,182
<b>EBITDA</b>	<b>910</b>	<b>951</b>	<b>1,164</b>	<b>1,644</b>	<b>2,590</b>	<b>4,291</b>	<b>4,568</b>	<b>5,638</b>
<b>EBITDA Margin (%)</b>	<b>18.8</b>	<b>19.0</b>	<b>18.9</b>	<b>19.4</b>	<b>26.1</b>	<b>34.5</b>	<b>31.6</b>	<b>32.0</b>
EBITDA Growth (%)	5.1	4.6	22.4	41.1	57.6	65.7	6.4	23.4
Depreciation	129	143	157	233	269	291	347	432
<b>EBIT</b>	<b>781</b>	<b>809</b>	<b>1,008</b>	<b>1,410</b>	<b>2,321</b>	<b>4,001</b>	<b>4,221</b>	<b>5,206</b>
Other Income (Including EO Items)	24	11	32	39	379	70	72	75
<b>Interest</b>	<b>80</b>	<b>81</b>	<b>81</b>	<b>148</b>	<b>103</b>	<b>63</b>	<b>25</b>	<b>24</b>
PBT	725	739	958	1,302	2,597	4,007	4,268	5,257
Tax	226	236	315	465	444	1,054	1,071	1,320
<b>RPAT</b>	<b>499</b>	<b>504</b>	<b>643</b>	<b>837</b>	<b>2,153</b>	<b>2,953</b>	<b>3,197</b>	<b>3,938</b>
<i>Minority Interest</i>								
<b>EO (Loss) / Profit (Net Of Tax)</b>					<b>355</b>			
<b>APAT</b>	<b>499</b>	<b>504</b>	<b>643</b>	<b>837</b>	<b>1,798</b>	<b>2,953</b>	<b>3,197</b>	<b>3,938</b>
PAT Growth (%)	9.8	1.0	27.7	30.3	157.1	37.2	8.2	23.2
AEPS	10	9.9	12.6	16.4	35.2	57.9	62.6	77.1
<b>AEPS Growth (%)</b>	<b>9.8</b>	<b>1.0</b>	<b>27.7</b>	<b>30.3</b>	<b>114.7</b>	<b>64.3</b>	<b>8.2</b>	<b>23.2</b>

Source: Company, HSIE Research | Number of shares are the existing number of shares post sub-division.

### Balance Sheet

(INR mn)	FY16	FY17	FY18	FY19	FY20	FY21P	FY22E	FY23E
<b>SOURCES OF FUNDS</b>								
Share Capital	102	102	102	102	102	102	102	102
Reserves	1,874	2,354	2,869	3,548	5,264	7,822	10,391	13,701
<b>Total Shareholders Funds</b>	<b>1,976</b>	<b>2,456</b>	<b>2,972</b>	<b>3,650</b>	<b>5,366</b>	<b>7,925</b>	<b>10,493</b>	<b>13,803</b>
Long-term Debt	448	662	1,082	790	479	216	141	141
Short-term Debt	652	522	717	852	0	-	50	50
<b>Total Debt</b>	<b>1,099</b>	<b>1,185</b>	<b>1,799</b>	<b>1,642</b>	<b>480</b>	<b>216</b>	<b>191</b>	<b>191</b>
<i>Minority Interest</i>								
Long-term Provisions & Others	27	71	117	61	47	81	61	61
Net Deferred Tax Liability	286	327	405	507	404	414	434	456
<b>TOTAL SOURCES OF FUNDS</b>	<b>3,389</b>	<b>4,039</b>	<b>5,292</b>	<b>5,859</b>	<b>6,296</b>	<b>8,635</b>	<b>11,179</b>	<b>14,511</b>
<b>APPLICATION OF FUNDS</b>								
<b>Net Block</b>	<b>1,871</b>	<b>2,201</b>	<b>3,552</b>	<b>3,764</b>	<b>4,235</b>	<b>4,580</b>	<b>6,178</b>	<b>7,690</b>
CWIP	161	348	184	432	449	1,376	1,431	1,488
<i>Goodwill</i>								
Investments	29	14	14	14	-	-	-	-
LT Loans & Advances	4	254	174	90	139	126	126	126
Other Non-Current Assets	164	55	62	75	70	91	96	100
<b>Total Non-current Assets</b>	<b>2,230</b>	<b>2,872</b>	<b>3,987</b>	<b>4,376</b>	<b>4,892</b>	<b>6,174</b>	<b>7,832</b>	<b>9,405</b>
Inventories	632	1,114	852	1,057	837	1,219	1,419	1,728
Debtors	903	973	1,238	1,526	1,642	2,280	2,654	3,137
Cash & Equivalents	43	30	32	202	323	1,563	2,362	3,974
ST Loans & Advances	2	2	1	2	2	1	1	1
Other Current Assets	256	131	260	322	138	216	238	262
<b>Total Current Assets</b>	<b>1,834</b>	<b>2,250</b>	<b>2,384</b>	<b>3,109</b>	<b>2,941</b>	<b>5,279</b>	<b>6,675</b>	<b>9,103</b>
Creditors	438	809	672	1,240	708	1,790	2,084	2,538
Other Current Liabilities	237	274	406	386	830	1,028	1,244	1,459
<b>Total Current Liabilities</b>	<b>675</b>	<b>1,083</b>	<b>1,078</b>	<b>1,626</b>	<b>1,538</b>	<b>2,818</b>	<b>3,327</b>	<b>3,997</b>
<b>Net Current Assets</b>	<b>1,160</b>	<b>1,167</b>	<b>1,306</b>	<b>1,484</b>	<b>1,404</b>	<b>2,461</b>	<b>3,348</b>	<b>5,106</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>3,389</b>	<b>4,039</b>	<b>5,292</b>	<b>5,859</b>	<b>6,296</b>	<b>8,635</b>	<b>11,179</b>	<b>14,511</b>

Source: Company, HSIE Research

## Cash Flow Statement

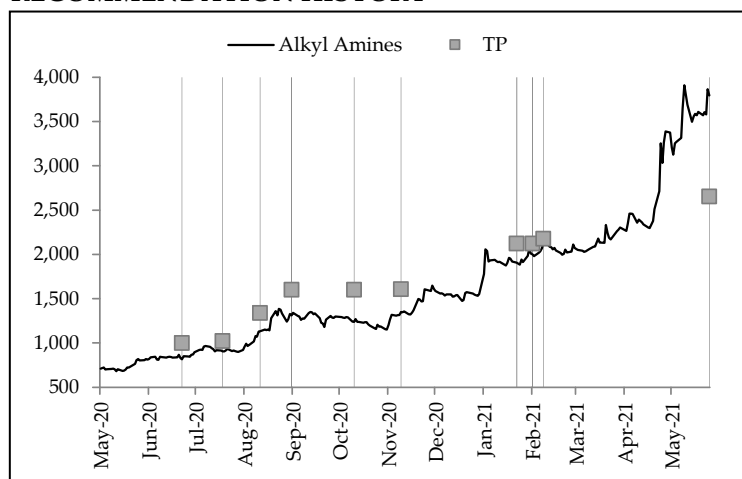
(INR mn)	FY16	FY17	FY18	FY19	FY20	FY21P	FY22E	FY23E
Reported PBT	725	739	958	1,302	2,597	4,007	4,268	5,257
EO items					(355)			
Interest Expenses	80	81	81	148	103	63	25	24
Depreciation	129	143	157	233	269	291	347	432
Working Capital Change	(88)	(21)	(136)	(9)	201	183	(87)	(146)
Tax Paid	(148)	(195)	(237)	(363)	(547)	(1,043)	(1,051)	(1,298)
<b>OPERATING CASH FLOW ( a )</b>	<b>698</b>	<b>747</b>	<b>823</b>	<b>1,312</b>	<b>2,267</b>	<b>3,500</b>	<b>3,502</b>	<b>4,269</b>
Capex	(345)	(659)	(1,344)	(693)	(757)	(1,564)	(2,000)	(2,000)
Free Cash Flow (FCF)	353	89	(521)	618	1,510	1,937	1,502	2,269
Investments	(6)	15	-	-	14	-	-	-
<b>INVESTING CASH FLOW ( b )</b>	<b>(352)</b>	<b>(644)</b>	<b>(1,344)</b>	<b>(693)</b>	<b>(742)</b>	<b>(1,564)</b>	<b>(2,000)</b>	<b>(2,000)</b>
Debt Issuance/(Repaid)	(66)	85	615	(157)	(1,162)	(264)	(25)	-
Interest Expenses	(80)	(81)	(81)	(148)	(103)	(63)	(25)	(24)
FCFE	207	93	12	314	245	1,609	1,452	2,245
Share Capital Issuance	-	-	-	-	-	0	-	-
Dividend	(45)	(126)	(123)	(201)	(502)	(628)	(628)	(628)
Others	(191)	4	114	57	363	259	(25)	(5)
<b>FINANCING CASH FLOW ( c )</b>	<b>(382)</b>	<b>(117)</b>	<b>524</b>	<b>(449)</b>	<b>(1,404)</b>	<b>(696)</b>	<b>(703)</b>	<b>(656)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(36)</b>	<b>(13)</b>	<b>3</b>	<b>169</b>	<b>121</b>	<b>1,240</b>	<b>799</b>	<b>1,612</b>
EO Items, Others								
Closing Cash & Equivalents	43	30	32	202	323	1,563	2,362	3,974

## Key Ratios

KEY RATIOS	FY16	FY17	FY18	FY19	FY20	FY21P	FY22E	FY23E
<b>PROFITABILITY (%)</b>								
GPM	47.9	47.4	45.8	45.6	51.2	57.9	53.0	50.6
EBITDA Margin	18.8	19.0	18.9	19.4	26.1	34.5	31.6	32.0
EBIT Margin	16.6	16.4	16.9	17.1	24.1	32.8	29.7	30.0
APAT Margin	10.3	10.1	10.4	9.9	21.7	23.8	22.1	22.4
RoE	26.8	22.7	23.7	25.3	47.8	44.4	34.7	32.4
RoIC	17.7	15.9	15.9	18.2	35.2	46.0	40.5	40.9
RoCE	17.3	15.7	15.7	17.7	37.9	40.2	32.5	30.8
<b>EFFICIENCY</b>								
Tax Rate (%)	31.2	31.9	32.9	35.7	17.1	26.3	25.1	25.1
Asset Turnover (x)	1.5	1.3	1.2	1.5	1.6	1.4	1.3	1.2
Inventory (days)	48	81	50	46	31	36	36	36
Debtors (days)	68	71	73	66	60	67	67	65
Other Current Assets (days)	19	10	15	14	5	6	6	5
Payables (days)	33	59	40	53	26	53	53	53
Other Current Liab & Prov (days)	15	22	32	21	3	4	4	3
Cash Conversion Cycle (days)	87	80	68	51	67	53	52	50
Net Debt/EBITDA (x)	1.2	1.2	1.5	0.9	0.1	(0.3)	(0.5)	(0.7)
Net D/E	0.5	0.5	0.6	0.4	0.0	(0.2)	(0.2)	(0.3)
Interest Coverage	10.0	10.2	12.8	9.8	23.3	64.3	168.8	221.3
<b>PER SHARE DATA</b>								
EPS (Rs/sh)	9.8	9.9	12.6	16.4	35.2	57.9	62.6	77.1
CEPS (Rs/sh)	12.3	12.7	15.7	21.0	47.4	63.6	69.4	85.6
DPS (Rs/sh)	0.7	2.0	2.8	3.2	8.0	10.0	10.0	10.0
BV (Rs/sh)	38.7	48.1	58.2	71.5	105.1	155.3	205.6	270.4
<b>VALUATION</b>								
P/E	388.0	384.1	300.9	231.0	107.6	65.5	60.5	49.1
P/BV	97.9	78.8	65.1	53.0	36.1	24.4	18.4	14.0
EV/EBITDA	213.8	204.5	167.7	118.6	74.7	44.8	41.9	33.6
OCF/EV (%)	0.5	0.3	0.4	0.7	1.4	1.8	1.8	2.2
FCF/EV (%)	0.3	(0.0)	(0.3)	0.3	1.0	1.0	0.8	1.2
FCFE/MCAP (%)	0.3	(0.0)	0.0	0.1	0.4	0.8	0.7	1.1
Dividend Yield (%)	0.0	0.1	0.1	0.1	0.2	0.3	0.3	0.3

Source: Company, HSIE Research | Number of shares are the existing number of shares post sub-division.

## RECOMMENDATION HISTORY



Date	CMP	Reco	Target
26-Jun-20	818	BUY	1,000
21-Jul-20	918	BUY	1,025
17-Aug-20	1,134	BUY	1,342
3-Sep-20	1,264	BUY	1,604
13-Oct-20	1,239	BUY	1,604
12-Nov-20	1,312	BUY	1,610
25-Jan-21	1,950	ADD	2,124
4-Feb-21	2,008	ADD	2,124
11-Feb-21	2,042	ADD	2,180
31-May-21	3,795	SELL	2,655

## Rating Criteria

BUY: &gt;+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: &gt; 10% Downside return potential

**Disclosure:**

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