

Alkyl Amines

The good gets better

Our BUY recommendation on AACL with a TP of INR 2,500 is premised on (1) Robust demand from pharmaceutical and agrochemical industry that form 70% of revenue mix, (2) Rising market share in Methyl Amines, and (3) Impending capacity expansion for multiple products, including the high-margin Acetonitrile.

- **View on the result:** EBITDA/APAT were 53/86% above expectations, largely owing to (1) 4% lower raw material cost (2) Higher EBITDA margins than anticipated (28.8% vs. est. 20.3%), particularly led by Acetonitrile.
- **Value and volume led growth:** For FY20, sales jumped 17% to INR 10bn, led by 18%+ increase in volume. Tight supply of Acetonitrile in the global market bumped up EBITDA to INR 2,590mn (+59% YoY) and margins to 26.1% (19.3% in FY19). We expect the current elevated prices of Acetonitrile to sustain in the near term.
- **Gross margins improve:** Backed by Acetonitrile, AACL reported its highest ever gross margins of 51.2% for FY20 which is ~500 bps above its long term average gross margin. GM in 4Q jumped to 54.0% vs. 40.3% YoY. We expect GM to correct to 51.1/49.5% in FY21/22 in tandem with increase in RMC with increase in crude oil prices (methanol, and ammonia prices). Similarly, EBITDAM should cool off to 24.3/25.1% as demand reduces given Covid-19 and product prices come off.
- **Impending capacity expansion:** AACL is executing projects worth INR 3bn to expand its Methyl Amines (by 15kTPA), its derivatives and Acetonitrile (by 15kTPA) capacity at their Dahej and Kurkumbh facilities.
- **Outlook on EBITDA:** We expect EBITDA to dip by 4% YoY to INR 2,476mn in FY21 (impacted by the pandemic) and jump 23% YoY thereafter to INR 3,048mn backed by (1) Capacity augmentation for Acetonitrile and ramp up in production of Methyl Amines (2) Anticipation of sustainability of the current elevated prices of Acetonitrile that will continue to push EBITDA.
- **View on the consolidated balance sheet:** AACL's cash jumped 60% YoY to INR 323mn leading to a 89% YoY dip in Net debt to INR 157mn. Net Debt/Equity and Net Debt/EBITDA reduced to zero vs. 0.4x/0.9x in FY19. RoIC improved further to 32.6% vs. 18.2/15.9/15.9% in FY19/FY18/FY17.
- **Change in estimates:** We raise our FY22 EPS estimate by 13% to INR 109.0 due to a 22% tax rate guidance by the management vs. our earlier estimated 25%, and in anticipation of (1) Faster recovery in demand, and (2) Sustainability of elevated Acetonitrile prices given global supply constraints.
- **DCF based valuation:** Our TP is INR 2,500 based on Sep-21E cash flows (WACC 10%, Terminal growth rate 3.0%). The stock is trading at 18.7x FY22 EPS.

Standalone Financial Summary

Year Ending	4Q	3Q	QoQ	4Q	YoY	FY19	FY20P	FY21E	FY22E
March (INR mn)	FY20	FY20	(%)	FY19	(%)				
Revenues	2,348	2,569	(8.6)	2,375	(1.1)	8,464	9,929	10,185	12,128
EBITDA	676	726	(6.9)	384	76.1	1,644	2,590	2,476	3,048
APAT	492	550	(10.5)	176	180.3	837	1,798	1,740	2,225
AEPS (INR)	24.1	27.0	(10.5)	8.6	180.3	41.1	88.2	85.3	109.1
P/E (x)						49.6	23.1	23.9	18.7
EV/EBITDA (x)						26.2	16.1	16.5	13.0
RoE (%)						25.3	47.8	28.4	28.3

Source: Company, HSIE Research

BUY

CMP (as on 25 Jun 2020)	INR 2,045
Target Price	INR 2,500
NIFTY	10,289

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 2,300	INR 2,500
	FY21E	FY22E
EPS %	-1.0	+12.9

KEY STOCK DATA

Bloomberg code	AACL IN
No. of Shares (mn)	20
MCap (INR bn) / (\$ mn)	42/552
6m avg traded value (INR mn)	86
52 Week high / low	INR 2,285/653

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	70.7	96.3	153.9
Relative (%)	48.6	112.3	165.5

SHAREHOLDING PATTERN (%)

	Mar-20	Dec-19
Promoters	74.19	74.19
FIs & Local MFs	1.73	1.10
FPIs	0.67	0.38
Public & Others	23.41	24.28
Pledged Shares	0.0	0.0

Source : BSE

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Takeaways from the earnings conference call:

- **Sales mix:** Amines form 50% of revenue mix for AACL, Derivatives and Other Specialty Chemicals each form 25% of the mix. Geographical mix: exports 15-20%, domestic sales balance 80-85%.
- **Plant utilisation in FY20:** Overall 80-85% for 12 plants. Some plants however, operated at slightly higher utilisation, namely acetonitrile and Methyl Amines.
- **Delays in capacity augmentation projects:** Manpower shortage and delays in equipment delivery have postponed AACL's Amines derivative plant at Dahej to 2QFY21 (earlier, 1QFY21). Similarly, commencement of the Acetonitrile plant has been pushed from 4QFY21 to FY22. At peak utilisation, both plants put together are expected to contribute INR 4-5bn to the topline at current prices.
- **1QFY21:** The lockdown affected plant utilisation level through Apr and May-20. However, in June, utilisation is back to near normal levels.
- **Acetonitrile:** Domestic capacity additions are not a threat for AACL as the product has a ready export market. As there are global buyers of the product, India does not have the ability to dictate prices. Prices are expected to remain elevated as the global capacity additions are largely for Acrylonitrile, a by-product of which is Acetonitrile. However, this process produces Acetonitrile of a slightly inferior quality than what AACL produces via Acetic acid route.

Quarterly Financial Snapshot (Standalone)

(INR mn)	4QFY20	3QFY20	QoQ (%)	4QFY19	YoY (%)	FY20	FY19	YoY (%)
Net Sales	2,348	2,569	(8.6)	2,375	(1.1)	9,929	8,464	17.3
Raw Material Expenses	1,079	1,146	(5.9)	1,417	(23.9)	4,845	4,605	5.2
Employee Expenses	170	190	(10.9)	126	34.1	696	528	31.9
Other Expenses	423	507	(16.5)	447	(5.3)	1,797	1,700	5.7
EBITDA	676	726	(6.9)	384	76.1	2,590	1,631	58.8
EBITDA Margin (%)	28.8	28.2		16.2		26.1	19.3	
Depreciation	72	68	5.9	65	11.4	269	233	15.3
EBIT	604	658	(8.2)	319	89.2	2,321	1,398	66.0
Other Income	26	22	20.9	16	63.1	70	52	35.7
Interest Cost	19	21	(11.3)	33	(43.0)	103	147.7	(30.6)
EO Items	-	328	NA	-	NA	308	-	NA
PBT	611	986	(38.1)	302	102.3	2,597	1,302	99.5
Tax	119	216	(44.8)	126	(5.9)	444	464.5	(4.4)
RPAT	492	771	(36.2)	176	180.3	2,153	837	157.1
EO Items (Adj For Tax)	-	221	-	-	-	354.8	-	-
APAT	492	550	(10.5)	176	180.3	1,798	837	114.7
AEPS	24.1	27.0	(10.5)	8.6	180.3	88.2	41.1	114.7

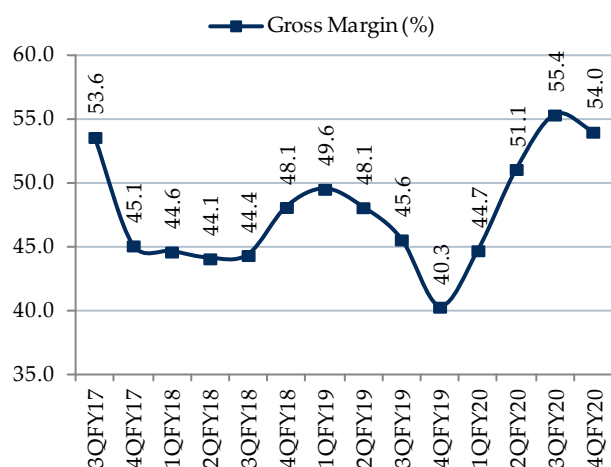
Source: Company, HSIE Research

Margin Analysis (Standalone)

	4QFY20	3QFY20	QoQ (bps)	4QFY19	YoY (bps)	FY20	FY19	YoY (bps)
Raw Material Expenses % Net Sales	46.0	44.6	135	59.7	(1,372)	48.8	54.4	(561)
Employee Expenses % Net Sales	7.2	7.4	(19)	5.3	190	7.0	6.2	78
Other Expenses % Net Sales	18.0	19.7	(170)	18.8	(80)	18.1	20.1	(199)
EBITDA Margin (%)	28.8	28.2	54	16.2	1,263	26.1	19.3	681
Tax Rate (%)	19.5	21.9	(238)	21.2	(173)	17.1	35.7	(1,857)
APAT Margin (%)	21.0	21.4	(45)	7.4	1,357	18.1	9.9	821

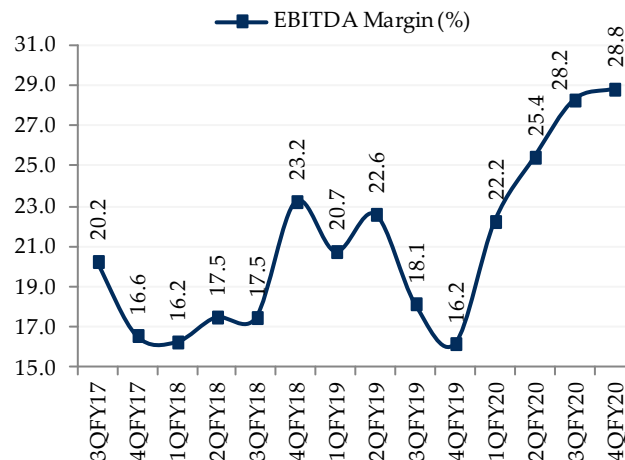
Source: Company, HSIE Research

Historical Gross margin trend



Source: Company, HSIE Research

Historical EBITDA margin trend



Source: Company, HSIE Research

Change in estimates

INR mn	FY21E			FY22E		
	Old	New	% Ch	Old	New	% Ch
Net Sales	11,150	10,185	(8.6)	12,240	12,128	(0.9)
EBIDTA	2,715	2,476	(8.8)	3,040	3,048	0.3
APAT	1,759	1,740	(1.0)	1,970	2,225	12.9
EPS (INR/sh)	86.2	85.3	(1.0)	96.6	109.1	12.9

Source: Company, HSIE Research

Peer Set Comparison (Consolidated)

Company	Mcap (INR bn)	CMP (INR/sh)	Reco	TP	EPS (INR/sh)			P/E (x)			P/BV (x)			RoE (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Vinati Organics	102.37	996	SELL	825	32.5	29.5	32.1	30.7	33.7	31.0	8.0	7.2	6.3	28.6	22.4	21.6
Navin Fluorine	76.83	1,557	ADD	1,721	82.6	46.9	65.0	18.8	33.2	24.0	5.5	4.9	4.3	32.9	15.5	19.0
Galaxy Surfactants	49.95	1,409	BUY	1,889	53.6	44.0	85.9	26.3	32.1	16.4	4.8	4.3	3.5	19.9	14.1	23.5
Alkyl Amines	41.60	2,045	BUY	2,500	88.2	85.3	109.1	23.1	23.9	18.7	7.7	6.0	4.7	47.8	28.4	28.3
Balaji Amines	14.77	456	BUY	561	30.1	35.7	46.0	15.2	12.8	9.9	2.2	1.9	1.6	14.6	14.6	15.9

Source: Company, HSIE Research

Financials

Consolidated Income Statement

YE Mar (INR mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Revenues	5,006	6,162	8,464	9,929	10,185	12,128
<i>Growth (%)</i>	3.5	23.1	37.4	17.3	2.6	19.1
Material Expenses	2,633	3,342	4,605	4,845	4,982	6,126
Employee Expenses	372	420	528	696	766	843
Other Operating Expenses	1,050	1,235	1,688	1,797	1,962	2,112
EBITDA	951	1,164	1,644	2,590	2,476	3,048
EBITDA Margin (%)	19.0	18.9	19.4	26.1	24.3	25.1
EBITDA Growth (%)	4.6	22.4	41.1	57.6	(4.4)	23.1
Depreciation	143	157	233	269	311	361
EBIT	809	1,008	1,410	2,321	2,165	2,686
Other Income (Including EO Items)	11	32	39	379	125	221
Interest	81	81	148	103	58	55
PBT	739	958	1,302	2,597	2,231	2,852
Tax	236	315	465	444	491	627
RPAT	504	643	837	2,153	1,740	2,225
EO (Loss) / Profit (Net Of Tax)				355		
APAT	504	643	837	1,798	1,740	2,225
APAT Growth (%)	1.0	27.7	30.3	157.1	(19.2)	27.8
AEPS	24.7	31.5	41.1	88.2	85.3	109.1
AEPS Growth (%)	1.0	27.7	30.4	114.7	(3.2)	27.8

Source: Company, HSIE Research

Consolidated Balance Sheet

YE Mar (INR mn)	FY17	FY18	FY19	FY20P	FY21E	FY22E
SOURCES OF FUNDS						
Share Capital	102	102	102	102	102	102
Reserves	2,354	2,869	3,548	5,264	6,779	8,752
Total Shareholders Funds	2,456	2,972	3,650	5,366	6,881	8,854
Long-term Debt	662	1,082	790	479	404	329
Short-term Debt	522	717	852	0	50	100
Total Debt	1,185	1,799	1,642	480	455	430
Minority Interest						
Long-term Provisions & Others	71	117	61	47	61	61
Net Deferred Tax Liability	327	405	507	404	424	445
TOTAL SOURCES OF FUNDS	4,039	5,292	5,859	6,296	7,820	9,790
APPLICATION OF FUNDS						
Net Block	2,201	3,552	3,764	4,235	5,289	5,908
CWIP	348	184	432	449	503	523
Goodwill						
Investments	14	14	14	-	-	-
LT Loans & Advances	254	174	90	139	139	139
Other Non Current Assets	55	62	75	70	73	77
Total Non-current Assets	2,872	3,987	4,376	4,892	6,004	6,646
Inventories	1,114	852	1,057	837	1,272	1,515
Debtors	973	1,238	1,526	1,642	1,814	2,160
Cash & Equivalents	30	32	202	323	1,109	2,296
ST Loans & Advances	2	1	2	2	4	4
Other Current Assets	131	260	322	138	151	166
Total Current Assets	2,250	2,384	3,109	2,941	4,351	6,141
Creditors	809	672	1,240	708	1,492	1,777
Other Current Liabilities	274	406	386	830	1,042	1,220
Total Current Liabilities	1,083	1,078	1,626	1,538	2,535	2,997
Net Current Assets	1,167	1,306	1,484	1,404	1,816	3,144
TOTAL APPLICATION OF FUNDS	4,039	5,292	5,859	6,296	7,820	9,790

Source: Company, HSIE Research

Consolidated Cash Flow

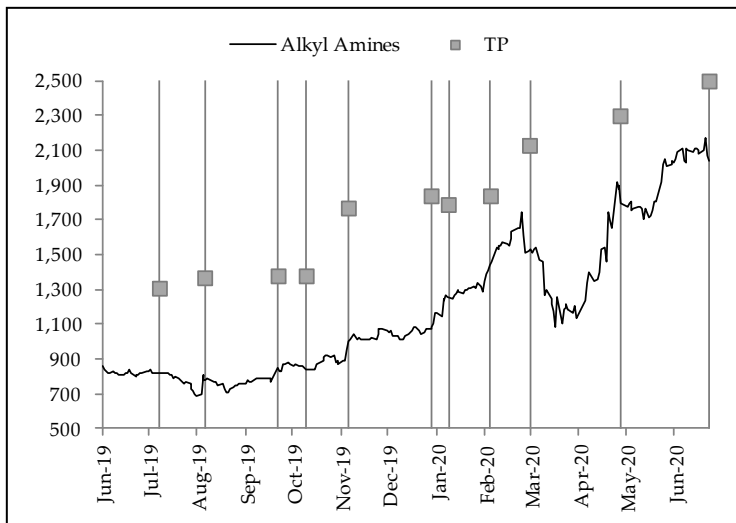
YE Mar (INR mn)	FY17	FY18	FY19	FY20P	FY21E	FY22E
Reported PBT	739	958	1,302	2,597	2,231	2,852
EO items				(355)		
Interest Expenses	81	81	148	103	58	55
Depreciation	143	157	233	269	311	361
Working Capital Change	(21)	(136)	(9)	201	375	(142)
Tax Paid	(195)	(237)	(363)	(547)	(471)	(606)
OPERATING CASH FLOW (a)	747	823	1,312	2,267	2,504	2,521
Capex	(659)	(1,344)	(693)	(757)	(1,419)	(1,000)
Free Cash Flow (FCF)	89	(521)	618	1,510	1,085	1,521
Investments	15	-	-	14	-	-
INVESTING CASH FLOW (b)	(644)	(1,344)	(693)	(742)	(1,419)	(1,000)
Debt Issuance/(Repaid)	85	615	(157)	(1,162)	(25)	(25)
Interest Expenses	(81)	(81)	(148)	(103)	(58)	(55)
FCFE	93	12	314	245	1,002	1,441
Share Capital Issuance	-	-	-	-	-	-
Dividend	(126)	(123)	(201)	(502)	(226)	(251)
Others	4	114	57	363	10	(4)
FINANCING CASH FLOW (c)	(117)	524	(449)	(1,404)	(299)	(335)
NET CASH FLOW (a+b+c)	(13)	3	169	121	787	1,186
EO Items, Others						
Closing Cash & Equivalents	30	32	202	323	1,109	2,296

Consolidated Key Ratios

	FY17	FY18	FY19	FY20P	FY21E	FY22E
PROFITABILITY (%)						
GPM	47.4	45.8	45.6	51.2	51.1	49.5
EBITDA Margin	19.0	18.9	19.4	26.1	24.3	25.1
EBIT Margin	16.4	16.9	17.1	24.1	22.5	24.0
APAT Margin	10.1	10.4	9.9	21.7	17.1	18.3
RoE	22.7	23.7	25.3	47.8	28.4	28.3
RoC	15.9	15.9	18.2	32.6	28.2	31.9
RoCE	15.7	15.7	17.7	37.8	25.3	25.8
EFFICIENCY						
Tax Rate (%)	31.9	32.9	35.7	23.2	22.0	22.0
Asset Turnover (x)	1.3	1.2	1.5	1.6	1.3	1.2
Inventory (days)	81	50	46	46	46	46
Debtors (days)	71	73	66	65	65	65
Other Current Assets (days)	10	15	14	5	5	5
Payables (days)	59	40	53	53	53	53
Other Current Liab & Prov (days)	22	32	21	3	6	5
Cash Conversion Cycle (days)	80	68	51	59	57	57
Net Debt/EBITDA (x)	1.2	1.5	0.9	0.1	(0.3)	(0.6)
Net D/E	0.5	0.6	0.4	0.0	(0.1)	(0.2)
Interest Coverage	10.2	12.8	9.8	23.3	39.2	52.6
PER SHARE DATA						
EPS (Rs/sh)	24.7	31.5	41.1	88.2	85.3	109.1
CEPS (Rs/sh)	31.7	39.2	52.5	118.7	100.6	126.8
DPS (Rs/sh)	5.0	7.0	8.0	20.0	9.0	10.0
BV (Rs/sh)	120.3	145.6	178.9	263.1	337.3	434.1
VALUATION						
P/E	18.3	64.7	49.6	23.1	23.9	18.7
P/BV	3.7	14.0	11.4	7.7	6.0	4.7
EV/EBITDA	10.9	37.2	26.2	16.1	16.5	13.0
OCF/EV (%)	5.5	1.9	3.0	6.6	5.9	6.3
FCF/EV (%)	(0.9)	(1.2)	1.4	4.8	2.4	3.8
FCFE/MCAP (%)	(1.0)	0.0	0.5	1.7	2.2	3.4
Dividend Yield (%)	1.1	0.3	0.4	1.0	0.4	0.5

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
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
2-Mar-20	1,511	BUY	2,130
29-Apr-20	1,871	BUY	2,300
26-Jun-20	2,045	BUY	2,500

From 2nd March 2020, we have moved to new rating system

Rating Criteria

- BUY: >+15% return potential
 ADD: +5% to +15% return potential
 REDUCE: -10% to +5% return potential
 SELL: >10% Downside return potential

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