

Alkyl Amines

BUY

Hold on tight

Despite an underwhelming Q4FY19 performance, we urge investors to keep their faith intact in AACL owing to the **(1) Impending gain in market share in the Methyl Amines space, (2) Expanding margins as the share of derivatives in the total product mix increases. Maintain BUY.**

HIGHLIGHTS OF THE QUARTER

- Alkyl Amines (AACL) reported Q4 Sales/EBITDA/PAT of Rs 2.38bn/384mn/176mn respectively. Of the total sales growth of 36.4%, ~66% was attributable to jump in volumes. Gross margins cracked by 528bps QoQ to 40.3% consequential to high methanol, ethanol and ammonia prices. Increase in utilization triggered operative leverage (oplev) that resulted in mere 198bps QoQ fall in the EBITDA margins. **Though a bounce back from these Q4 levels in ensuing quarters is likely with stability in RM prices and ability to pass on these cost fluctuations with a lag.**
- On one hand where AACL's competitors who are either running at chock-a-block Methyl Amines capacity or have shut their facilities, **Alkyl with (1) 30% idle capacity at Dahej, (2) Debottlenecking of 15kTPA by FY21, will burgeon market share on the back of robust demand from the pharma industry.**

Financial Summary (Standalone)

(Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY18	FY19P	FY20E	FY21E
Revenues	2,375	1,741	36.4	2,127	11.7	6,162	8,464	9,682	10,927
EBITDA	384	404	(5.0)	386	(0.5)	1,164	1,644	1,802	2,289
APAT	176	233	(24.7)	221	(20.6)	643	837	931	1,217
EPS (Rs)	8.6	11.4	(24.6)	10.8	(20.5)	31.5	41.1	45.6	59.7
P/E (x)						25.4	19.5	17.5	13.4
EV/EBITDA (x)						15.5	10.8	10.0	7.8
RoE (%)						23.7	25.3	23.3	25.3

Source: Company, HDFC sec Inst Research

- AACL plans to spend Rs 2.5bn to expand its Methyl Amines capacity, N-Ethyl-2-Pyrrolidone (NEP) and N-Methyl Pyrrolidone (NMP) and a derivatives plant over FY20/21 at their Dahej and Kurkumbh facility. Of this, ~Rs 1bn will be expensed largely on expanding Methyl Amines capacity by ~7.5kTPA, product derivatives, development of utility facilities and effluent treatment plant in FY20. The rest ~7.5kTPA capacity will be added in FY21.
- The product mix is likely to remain polarised towards the low margin amines, which will keep EBITDA margins muted in FY20E (18.6% from 19.4% in FY19). **FY21 will witness a bump-up in margins to ~21% as (1) The share of derivatives increase in the mix, (2) Higher utilization prompts oplev.**
- Near term outlook:** Ramp-up in utilization of the Methyl Amines facility at Dahej.

STANCE

Strong return ratios (RoIC to improve from 18.9% in FY19 to 19.8% in FY21E), gain in market share in Methyl Amines and its derivatives and a prudent management make AACL an attractive bet at current valuations (trading at 13.4 FY21E EPS). We are valuing AACL at 22x Mar'21E EPS and maintain a BUY rating with a TP of Rs 1,313.

INDUSTRY	CHEMICALS
CMP (as on 22 May 2019)	Rs 799
Target Price	Rs 1,313
Nifty	11,738
Sensex	39,110
KEY STOCK DATA	
Bloomberg	AACL IN
No. of Shares (mn)	20
MCap (Rs bn) / (\$ mn)	16/234
6m avg traded value (Rs mn)	6
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 916/525
	3M 6M 12M
Absolute (%)	12.6 7.3 17.3
Relative (%)	3.6 (4.5) 4.4
SHAREHOLDING PATTERN (%)	
	Dec-18 Mar-19
Promoters	74.19 74.19
FIs & Local MFs	0.01 0.11
FPIs	1.55 0.59
Public & Others	24.25 25.11
Pledged Shares	0.00 0.00

Source : BSE

Nilesh Ghuge

 nilesh.ghuge@hdfcsec.com
 +91-22-6171-7342

Divya Singhal

 divya.singhal@hdfcsec.com
 +91-22-6639-3038

EBITDA margins cracked to 16.2% (down 705/198bps YoY/QoQ). EBITDA margins were down 198bps QoQ though gross margins were down 528bps on account lower employee expense (down 104bps) and Other expenses (down 226bps) as a percentage of net sales.

The Dahej unit was operating at 70% utilisation in FY19

The company imports Methanol from local shippers. The US sanctions on Iran will not impact AACL as the imports from Iran are merely 5% to their RM cost

Quarterly Financials Snapshot (Standalone)

(Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY19	FY18	YoY (%)
Net Sales	2,375	1,741	36.4	2,127	11.7	8,464	6,162	37.4
Raw Material Expenses	1,417	903	57.0	1,157	22.5	4,605	3,342	37.8
Employee Expenses	126	111	13.4	135	(6.6)	528	420	25.7
Other Expenses	447	322	38.6	448	(0.3)	1,688	1,235	36.7
EBITDA	384	404	(5.0)	386	(0.5)	1,644	1,164	41.1
EBITDA Margin (%)	16.2	23.2		18.1		19.4	18.9	
Depreciation	65	40	62.1	57	13.4	233	157	48.9
EBIT	319	364	(12.3)	329	(2.9)	1,450	1,039	39.5
Other Income	16	3	374.7	27	(41.2)	39	32	25.0
Interest Cost	33.2	25.2	31.5	36.3	(8.5)	147.7	81.5	81.2
PBT	302	342	(11.8)	320	(5.6)	1,302	958	35.9
Tax	126.5	109.3	15.7	98.7	28.1	464.5	314.8	47.5
RPAT	176	233	(24.7)	221	(20.6)	837	643	30.3
EO Items (Adj For Tax)	-	-	-	-	-	-	-	-
APAT	176	233	(24.7)	221	(20.6)	837	643	30.3
AEPS	8.6	11.4	(24.6)	10.8	(20.5)	41.1	31.5	30.4

Source: Company, HDFC sec Inst Research

Margin Analysis

Margin Analysis (% of Net Sales)	4QFY19	4QFY18	YoY (bps)	3QFY19	QoQ (bps)	FY19	FY18	YoY (bps)
Raw Material Expenses % Net Sales	59.7	51.9	782	54.4	528	54.4	54.2	16
Employee Expenses % Net Sales	5.3	6.4	(108)	6.4	(104)	6.2	6.8	(58)
Other Expenses % Net Sales	18.8	18.5	30	21.1	(226)	19.9	20.0	(10)
EBITDA Margin (%)	16.2	23.2	(705)	18.1	(198)	19.4	18.9	52
Tax Rate (%)	41.9	31.9	995	30.9	1,101	35.7	32.9	280
APAT Margin (%)	7.4	13.4	(599)	10.4	(300)	9.9	10.4	(54)

Source: Company, HDFC sec Inst Research

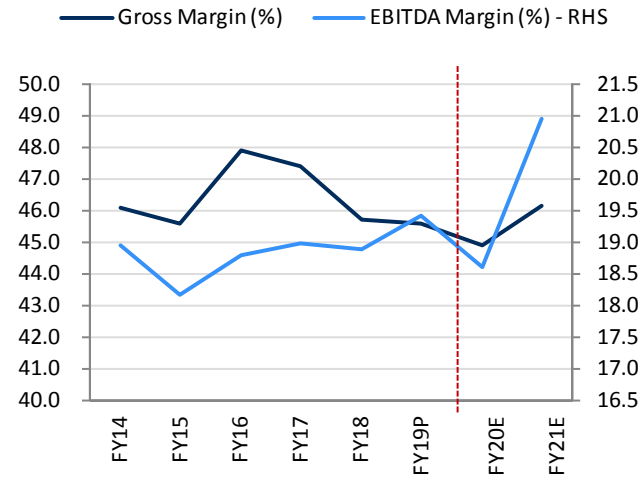
We are expecting a cumulative capex of ~Rs 2.5 bn, over FY20-21E.

RoIC to improve from 18.9% in FY19 to 19.8% in FY21E

We expect Debt gradually to reduce over FY19-21, expecting a total debt reduction of Rs 110mn over the same period

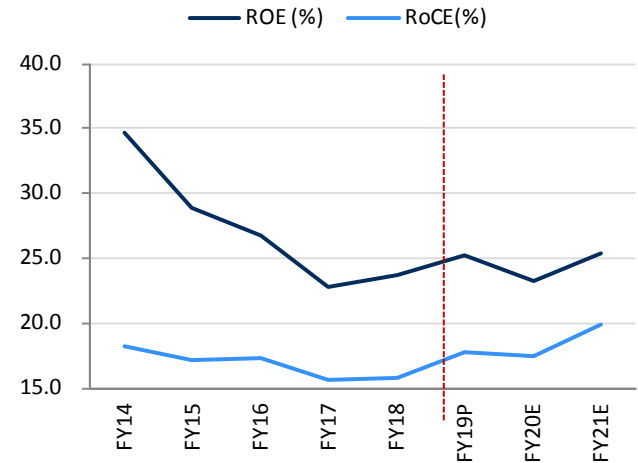
Annual Performance (Standalone)

Margin Profile



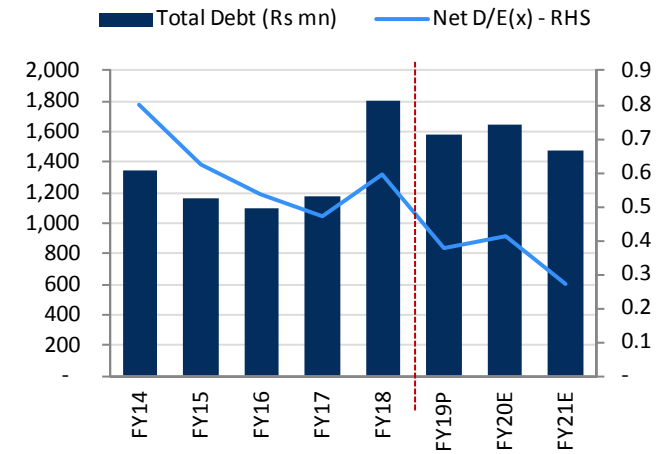
Source: Company, HDFC sec Inst Research

Return Ratios



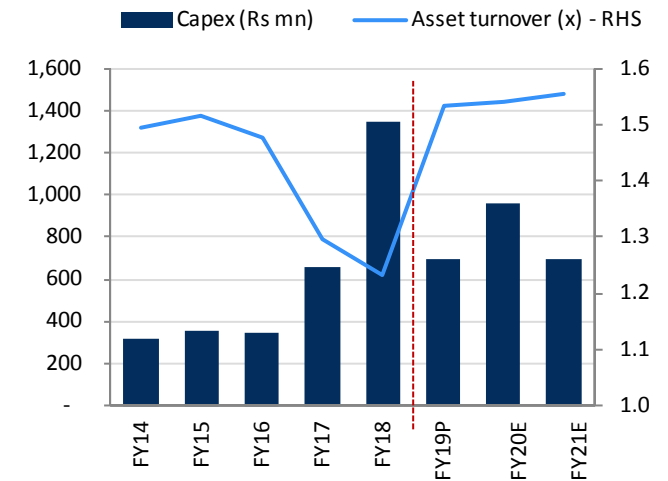
Source: Company, HDFC sec Inst Research

Debt Profile



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

There is more headroom for expansion in Methyl Amines, the company has received an environmental clearance of 45,000 TPA while the current capacity is at 30,000 TPA

Balaji Amines has been trading at a discount to Alkyl Amines owing to its improper capital allocation (in the hotels business)

Assumptions

Product Group	FY17	FY18	FY19E	FY20E	FY21E
Methyl Chain(Rs mn)	1,218	1,653	1,874	2,540	3,058
Growth (%)	-	35.7	13.4	35.5	20.4
Ethyl Chain (Rs mn)	1,977	1,827	2,056	2,563	2,907
Growth (%)	(3.6)	(7.6)	12.5	24.7	13.5
Acetonitrile (Rs mn)	1,165	1,683	2,228	2,475	2,600
Growth (%)	27.4	44.5	32.4	11.1	5.0
Raw Material					
Methanol (Rs/kg)	18.5	31.4	35.6	35.6	34.9
Ethanol (Rs/kg)	34.0	29.4	35.3	35.3	34.6
Acetic Acid (Rs/kg)	32.7	33.1	37.2	37.2	36.4
Ammonia (Rs/kg)	23.1	29.4	35.3	35.3	34.6

Source: Company, HDFC sec Inst Research

Change in estimates

	FY20 Old	FY20 New	YoY Gr (%)	FY21 Old	FY21 New	YoY Gr (%)
Net Sales	9,701	9,682	(0.2)	11,368	10,927	(3.9)
EBIDTA	2,015	1,802	(10.6)	2,428	2,289	(5.7)
APAT	1,074	931	(13.3)	1,311	1,217	(7.1)

Source: HDFC sec Inst Research

Peer Set Comparison

Particulars	Mcap (Rs bn)	CMP (Rs/sh)	Rating	TP	EPS (Rs)			P/E (x)			P/BV (x)			RoE %		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19P	FY20E	FY21E	FY19P	FY20E	FY21E
Vinati Organics	97.54	1898	BUY	2,034	55.0	65.9	81.4	34.5	28.8	23.3	9.3	7.1	5.5	30.6	27.9	26.5
Navin Fluorine International Ltd	33.55	680	BUY	812	30.2	35.5	40.6	22.6	19.2	16.8	3.1	2.8	2.5	14.5	15.5	15.9
Alkyl Amines	16.31	799	BUY	1,313	41.1	45.6	59.7	19.5	17.5	13.4	4.5	3.7	3.1	25.3	23.3	25.3
Balaji Amines	13.45	415	BUY	525	35.4	34.5	40.4	11.7	12.0	10.3	2.3	1.8	1.6	19.4	15.3	15.4

Source: HDFC sec Inst Research

Standalone Income Statement

(Rs bn)	FY17	FY18	FY19	FY20E	FY21E
Net Revenues	5,006	6,162	8,464	9,682	10,927
Growth (%)	3.5	23.1	37.4	14.4	12.9
Material Expenses	2,633	3,342	4,605	5,336	5,882
Employee Expenses	372	420	528	570	627
Other Operating Expenses	1,050	1,235	1,688	1,975	2,129
EBITDA	951	1,164	1,644	1,802	2,289
EBITDA Margin (%)	19.0	18.9	19.4	18.6	20.9
EBIDTA Growth (%)	4.6	22.4	41.1	9.6	27.0
Depreciation	143	157	233	310	360
EBIT	809	1,008	1,410	1,492	1,929
Other Income (Including EO Items)	11	32	39	43	48
Interest	81	81	148	146	159
PBT	739	958	1,302	1,389	1,817
Tax	236	315	465	458	600
RPAT	504	643	837	931	1,217
APAT	504	643	837	931	1,217
APAT Growth (%)	1.0	27.7	30.3	11.1	30.8
AEPS	24.7	31.5	41.1	45.6	59.7
EPS Growth (%)	1.0	27.7	30.4	11.1	30.8

Source: Company, HDFC sec Inst Research

Standalone Balance Sheet

(Rs bn)	FY17	FY18	FY19P	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	102	102	102	102	102
Reserves	2,354	2,869	3,548	4,250	5,169
Total Shareholders Funds	2,456	2,972	3,650	4,352	5,271
Long-term Debt	662	1,082	790	790	590
Short-term Debt	522	717	795	860	885
Total Debt	1,185	1,799	1,586	1,651	1,476
Long-term Provisions & Others	71	117	61	61	61
Net Deferred Tax Liability	327	405	507	507	507
TOTAL SOURCES OF FUNDS	4,039	5,292	5,803	6,570	7,314
APPLICATION OF FUNDS					
Net Block	2,201	3,552	3,764	4,093	4,683
CWIP	348	184	432	750	500
Investments	14	14	14	14	14
LT Loans & Advances	254	174	90	90	90
Other Non Current Assets	55	62	75	75	75
Total Non-current Assets	2,872	3,987	4,376	5,023	5,363
Inventories	1,114	852	1,057	1,326	1,497
Debtors	973	1,238	1,526	1,724	1,946
Cash & Equivalents	30	32	202	(155)	27
ST Loans & Advances	2	1	2	4	4
Other Current Assets	131	260	322	258	258
Total Current Assets	2,250	2,384	3,109	3,157	3,732
Creditors	809	672	1,240	1,326	1,497
Other Current Liabilities	274	406	442	284	284
Total Current Liabilities	1,083	1,078	1,682	1,610	1,780
Net Current Assets	1,167	1,306	1,427	1,547	1,951
TOTAL APPLICATION OF FUNDS	4,039	5,292	5,803	6,570	7,314

Source: Company, HDFC sec Inst Research

Standalone Cash Flow

(Rs bn)	FY17	FY18	FY19P	FY20E	FY21E
Reported PBT	739	958	1,302	1,389	1,817
Adjustments	102	(4)	42	-	-
Interest Expenses	81	81	148	146	159
Depreciation	143	157	233	310	360
Working Capital Change	(162)	(64)	222	(352)	(222)
Tax Paid	(236)	(315)	(465)	(458)	(600)
OPERATING CASH FLOW (a)	667	813	1,482	1,035	1,515
Capex	(659)	(1,344)	(693)	(957)	(700)
<i>Free Cash Flow (FCF)</i>	8	(531)	789	78	815
Investments	15	-	-	-	-
INVESTING CASH FLOW (b)	(644)	(1,344)	(693)	(957)	(700)
Debt Issuance/(Repaid)	85	615	(214)	65	(175)
Interest Expenses	(81)	(81)	(148)	(146)	(159)
<i>FCFE</i>	13	2	427	(3)	481
Dividend	(126)	(123)	(201)	(228)	(299)
Others	85	123	46	(0)	(0)
FINANCING CASH FLOW (c)	(36)	533	(516)	(309)	(633)
NET CASH FLOW (a+b+c)	(13)	3	273	(231)	182

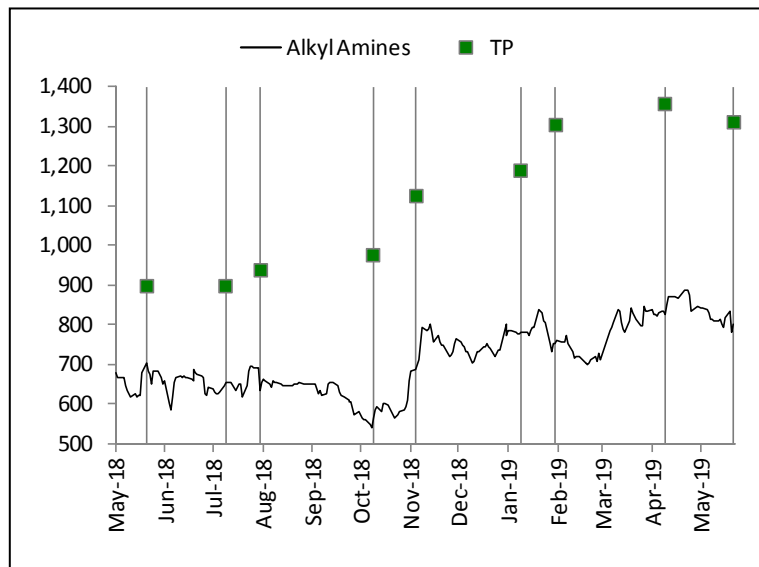
Source: Company, HDFC sec Inst Research

Standalone Key Ratios

	FY17	FY18	FY19P	FY20E	FY21E
PROFITABILITY (%)					
GPM	47.4	45.8	45.6	44.9	46.2
EBITDA Margin	19.0	18.9	19.4	18.6	20.9
EBIT Margin	16.4	16.9	17.1	15.9	18.1
APAT Margin	10.1	10.4	9.9	9.6	11.1
RoE	22.7	23.7	25.3	23.3	25.3
RoIC	15.9	15.9	18.9	17.6	19.8
RoCE	15.7	15.7	17.8	17.4	19.9
EFFICIENCY					
Tax Rate (%)	31.9	32.9	33.0	33.0	33.0
Asset Turnover (x)	1.3	1.2	1.5	1.5	1.6
Inventory (days)	81	50	50	50	50
Debtors (days)	71	73	65	65	65
Other Current Assets (days)	10	15	14	10	9
Payables (days)	59	40	50	50	50
Other Current Liab & Prov (days)	22	32	29	21	18
Cash Conversion Cycle (days)	80	68	50	54	55
Net Debt/EBITDA (x)	1.2	1.5	0.8	1.0	0.6
Net D/E	0.5	0.6	0.4	0.4	0.3
Interest Coverage	10.2	12.8	9.8	10.5	12.4
PER SHARE DATA					
EPS (Rs/sh)	24.7	31.5	41.1	45.6	59.7
CEPS (Rs/sh)	31.7	39.2	52.5	60.8	77.3
DPS (Rs/sh)	5.0	7.0	8.0	9.1	11.9
BV (Rs/sh)	120.3	145.6	178.9	213.4	258.4
VALUATION					
P/E	18.3	25.4	19.5	17.5	13.4
P/BV	3.7	5.5	4.5	3.7	3.1
EV/EBITDA	10.9	15.5	10.8	10.0	7.8
Dividend Yield (%)	1.1	0.9	1.0	1.1	1.5

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
21-May-18	702	BUY	900
9-Jul-18	633	BUY	900
31-Jul-18	634	BUY	940
9-Oct-18	549	BUY	978
5-Nov-18	685	BUY	1,127
9-Jan-19	780	BUY	1,191
31-Jan-19	752	BUY	1,306
9-Apr-19	830	BUY	1,359
23-May-19	799	BUY	1,313

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

Disclosure:

We, **Nilesh Ghuge, MMS & Divya Singhal, CA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

Any holding in stock –No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purposes without prior written approval of HSL.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE-INB/F/E 231109431, BSE-INB/F 011109437, AMFI Reg. No. ARN: 13549, PFRDA Reg. No. POP: 04102015, IRDA Corporate Agent License No.: HDF 2806925/HDF C000222657, SEBI Research Analyst Reg. No.: INH000002475, CIN - U67120MH2000PLC152193

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

