Edelweiss

Trading Buy: Balaji Amines (BAL) Ltd

High growth rider in the oligopolistic aliphatic amines industry

CMP INR 555 | Target INR 764

Rating: BUY | Upside: 38%

Date: 9th November, 2017

Strong demand-led volume growth coupled with steady margins

BAL has steadily built up capacity in methylamines and other specialty chemicals between FY10-FY14 riding on the strong demand potential from its key end-user industries — pharmaceuticals and agrochemicals. With limited competition (duopoly) and ability to substitute imports via competitive pricing, BAL is rapidly increasing utilisation levels and gaining operating efficiencies. While its methylamines and derivatives capacity is operating at blended 80% utilisation levels, its remaining portfolio is operating at near 65-70% levels. Methanol being a key raw material for methylamines, a substantial portion of revenues is from price-linked contracts that allow BAL to pass on the methanol price volatility without significantly impacting its gross margins.

Brownfield capacity expansion to add substantially to shareholders' returns and cash flows

The company is adding production capacity for DMA HCL, morpholine and acetonitrile in its existing facility, Unit III, from internal accruals. Whilst BAL's existing capacities in DMA HCL and morpholine are nearly fully utilised, the expansion is on account of strong: i) domestic demand for DMA HCL, and ii) potential for import substitution in morpholine. Further, acetonitrile will be a new addition to BAL's portfolio with healthy demand potential from exports and domestic markets. The additional infusion of INR 60 crore for the three products should add nearly INR 170 crore in incremental revenues by FY19 and up to INR 280 crore at the peak utilisation level. Resultantly, the company is expected to generate cumulative free cash flows of nearly INR 180 crore in FY18 and FY19 with higher asset turns and profitability sans any new investment allocation.

Inexpensive valuation makes it a compelling BUY

In our view, BAL is all set to benefit immensely from its capacities and client base built up historically coupled with incremental expansions. Ergo, we expect strong growth in revenues, improving margins with higher utilisation levels and product expansions. Our earnings estimates per share for FY18 and FY19 are INR35.1 and INR42.4 respectively. We value the company at 18x FY19 earnings estimate of INR42.4/share and initiate our 'BUY' recommendation with a target of INR764/share.

Year to March	FY15	FY16	FY17	FY18E	FY19E
Revenues (INR Cr)	619	643	670	814	960
Rev growth (%)	1.4	3.9	4.2	21.4	18.0
EBITDA (INR Cr)	102	127	153	200	238
Net Profit (INR Cr)	33	58	81	114	138
P/E (x)		31.2	22.3	15.8	13.1
EV/EBITDA (x)	20.1	15.5	12.4	9.5	7.6
RoACE (%)	15.8	20.8	26.2	31.7	33.8
RoAE (%)	15.5	22.7	26.0	28.0	26.4

Bloomberg:	BLA:IN
52-week range (INR):	599.30 / 273.10
Share in issue (cr):	3
M cap (INR cr):	1,799
Avg. Daily Vol. BSE/NSE :('000):	67
Promoter Holding (%)	54.55

Neha Agarwal
Research Analyst
nehap.agarwal@edelweissfin.com

Jigar Jani
Research Analyst
jigar.jani@edelweissfin.com

Balaji Amines is expected to deliver strong growth with margin accretion on the back of increasing utilization levels and product expansion. While revenue is expected to grow by 20% CAGR between FY17-19, profitability is expected to expand by as high as 230 bps during the same period. At an inexpensive valuation of 13x FY19 earnings estimates with augmenting ROE (expected to expand from 26% in FY17 to 34% in FY19), BAL provides high margin of safety to investors.

Expanding utilization of capacities on the back of high demand from pharma and agrochem industries

	FY15	FY16	FY17	FY18E	FY19E
Revenue	619	643	670	814	960
EBITDA	102	127	153	200	238
EBITDA Margin (%)	16.4	19.7	22.8	24.6	24.8
PAT margin (%)	5.4	9.0	12.0	13.96	14.32

Faster debt repayment with new capex being entirely funded by internal accruals

	FY15	FY16	FY17	FY18E	FY19E
ROACE (%)	15.8	20.8	26.2	31.7	33.8
Debt to equity ratio	1.1	0.6	0.3	0.2	0.2

Higher free cash flows to spur return ratios and give scope for further expansion

	Multiple	Price Target
BAL	15x	637
	18x	764

Entry = INR 555 + **PAT CAGR of 31% over FY17-19E** + **Free cash flow generation to lead to an exit multiple of FY19E 18x**

Upside of 38%

Price Target	**INR 764**	Our target price is arrived at by assigning an 18x P/E multiple to BAL on an EPS of INR 42.4 in FY19E on augmenting ROCE and margin expansion.
Bull 20x 2019E EPS	**INR 849**	BAL is on a rapid utilization stage with strong demand from both domestic and exports markets. Generation of high free cash flows can open further expansion opportunities to the company. This makes for a compelling bull case scenario with a potential rerating and upside of 53%
Base 18x 2019E EPS	**INR 764**	We value the company at 18x FY19 earnings estimate of INR42.4/share and initiate our 'BUY' recommendation with a target of INR764/share.
Bear 13x 2019E EPS 37	**INR 481**	In the bear case scenario, we have assumed a slow ramp up in new capacity utilization due to demand slowdown or regulatory hurdles. Assigning a lower multiple of 13x FY19E on an EPS of INR 37 gives us a target price of INR 481/share, downside limited to 13% from CMP.

Balaji Amines Ltd.

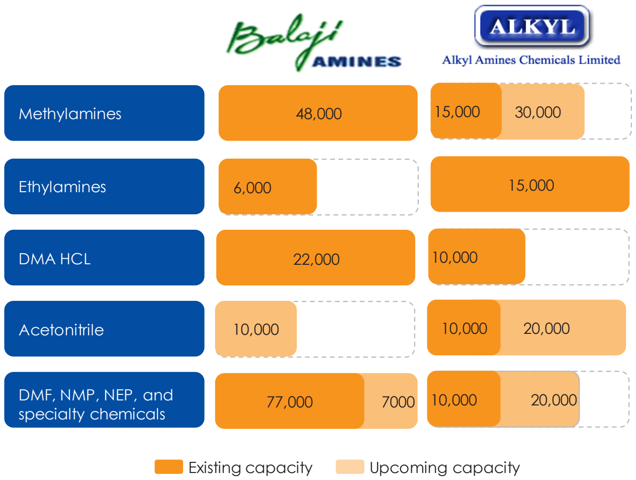
Average Daily Turnover (INR cr)			Stock Price (CAGR)				Sensex CAGR (%)			
3 months	6 months	1 year	1 year	2 years	5 years	10 years	1 year	2 years	5 years	10 years
4.3	2.8	2.1	80%	106%	61%	37%	26%	13.5%	11.7%	5.7%

Business Value Drivers

Nature of Industry	Domestic aliphatic-amines is an INR 1,200 cr industry with an oligopoly structure created by high barriers to entry due to limited technological know-how. The industry's growth potential is driven by its major end-user sectors pharmaceuticals and agro-chemicals. Over the past few years, the industry participants have also started exports to the European nations as well as other developing markets.
Opportunity Size	High quality and cost competitiveness has stretched opportunity size beyond the domestic amines industry. Expansion into specialty chemicals with import substitution potential and globally growing demand has open the industry participants to a much larger market.
Capital Allocation	Brownfield capex of INR 60 crore has been completed by the company in FY18 with internal accruals. BAL has also announced an investment of INR 66 crore into Balaji Specialty Chemicals limited for 51% stake in the firm.
Predictability	Regulatory hindrances and limited information from secondary markets may impact predictability
Sustainability	Very difficult to dislodge clients due to high switching cost; Scope to expand globally will ensure sustainability
Disproportionate Future	The shift from core methylamines to higher derivatives and specialty chemicals will ensure that the future performance in terms of return ratios will be better than the past as asset turnover and margins will steadily improve
Business Strategy & Planned Initiatives	Current focus is towards ramping up existing capacities and simultaneously looking out for expansion opportunities
Near Term Visibility	Strong visibility for 31% CAGR bottom line growth along with 230 bps improvement in operating margins from FY17-FY19E
Long Term Visibility	To remain one of the largest aliphatic amines capacity players with increasing regulated market presence

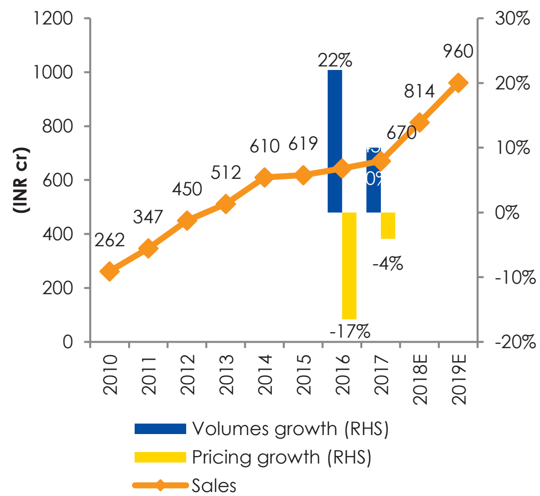
Focus Charts – Story in a nutshell

Highest capacity in methylamines and derivatives with rapid expansion plan within the duopolistic domestic industry

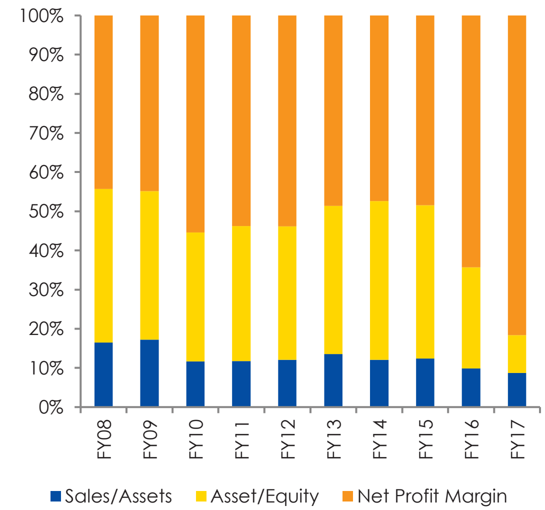


* all numbers in metric tonnes per annum (MTPA)

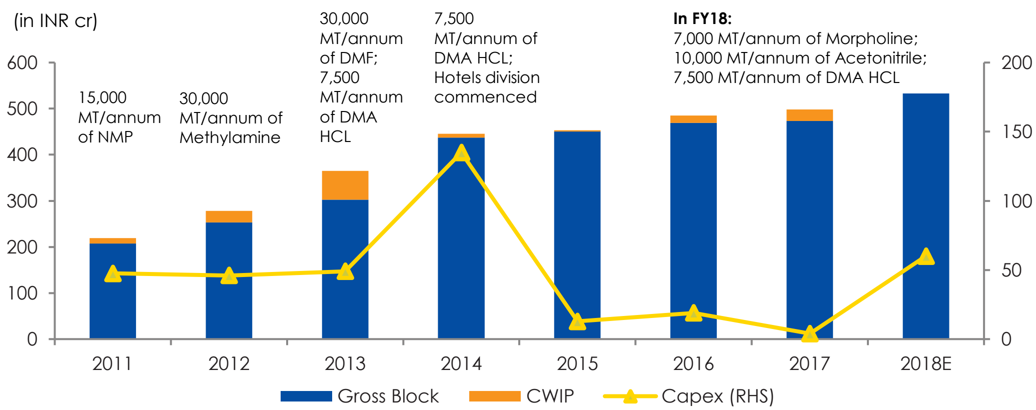
Higher capacity utilization with import substitution and exports to fuel revenue growth



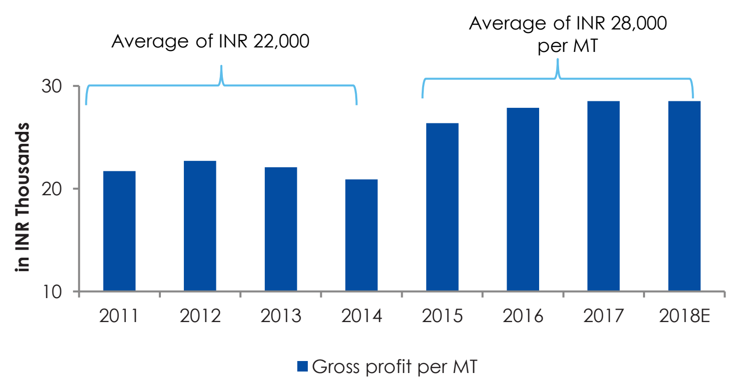
Contribution of profit margins to ROE consistently rising



Consistent capex towards high-value derivatives and specialty chemicals…..



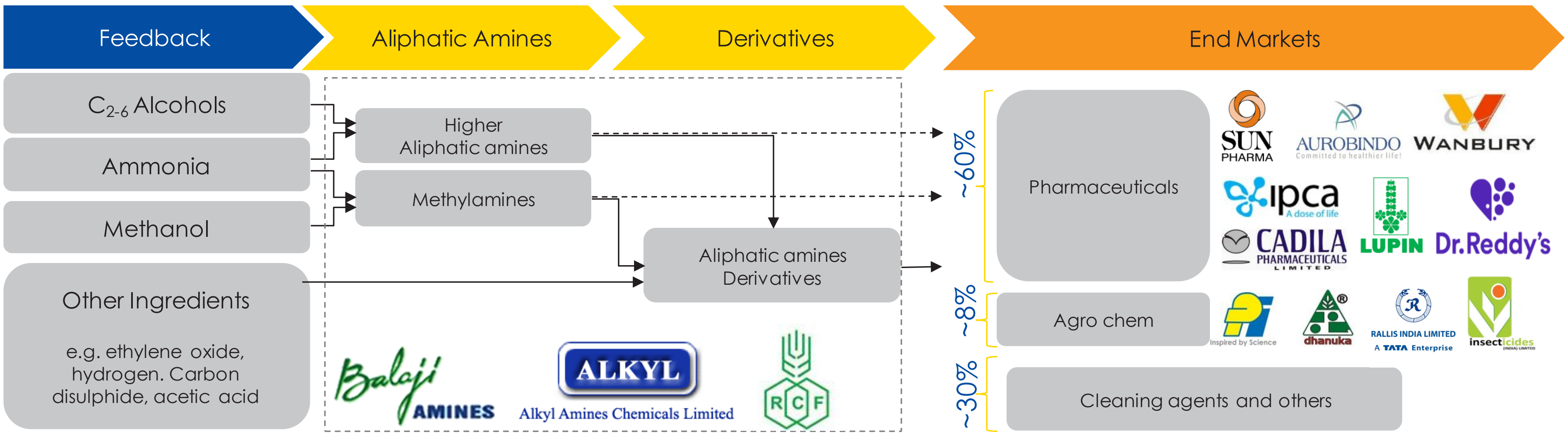
….materialized into higher margins



Source: Company, Edelweiss Investment Research

I. Aliphatic amines: Niche industry with strong demand potential

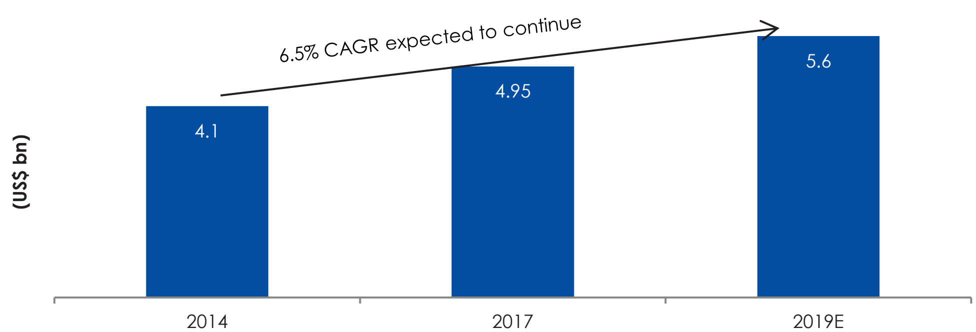
Industry value chain



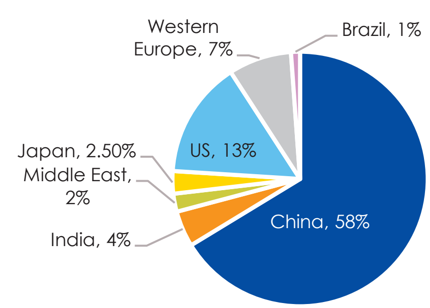
Source: Edelweiss Investment Research

The global aliphatic amines market is estimated to grow from $4.1 billion in 2014 to $5.6 billion by 2019, at a CAGR of 6.5% from 2014 to 2019. China is the largest single producer and consumer of alkylamines and has accounted for 56% and 55% of total world production and consumption, respectively in 2015. Overall, nearly 65% of the world demand in 2015 was from Asia, and this percentage is forecast to increase to 68% by 2019.

Consistent growth in aliphatic amines industry …



… with increasing demand from Asian markets



Source: Edelweiss Investment Research

Niche characteristics create natural entry barriers …

	Aliphatic Amines	Ehanol Amines	Ehylene Amines
Niche Industry	Very high	High	High
Not able to be transported easily	High	Moderate	Low
Player Vertical Integration	Very high	High	High
End Market Diversity	High	Moderate	High
High Rates of Customer Loyalty and High Switching Costs	Very high	Low	Moderate
Secular Growth	High	Moderate	Moderate

Level of Intensity **Very high** **High** **Moderate** **Low**

… leading to an oligopolistic market structure

Region	Key players	
Europe	BASF	Arkema
US	Eastman	Hintsman
Japan	Mitsubishi Gas	Koep Chemical
China	Feicheng Acid	Shandong Huala Hengsheng
India	Balaji (BAL)	Alkyl Amines (AACL)

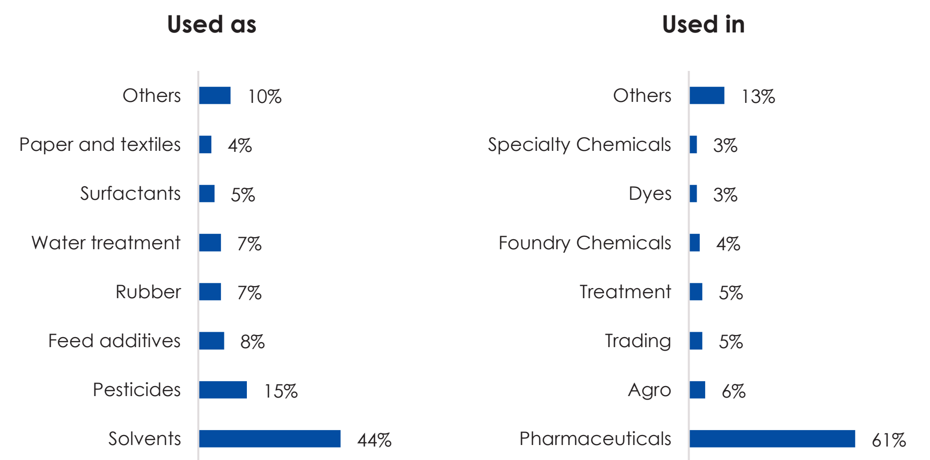
*Only key companies whose cumulative market share is nearly more than 75% have been mentioned

Source: Edelweiss Investment Research

While Indian players like AACL and RCF have procured the amines technology from Leonard Process Technology, BAL claims to have developed it indigenously.

II. End-user industries: Consistent growth to aid demand uptick for amines players

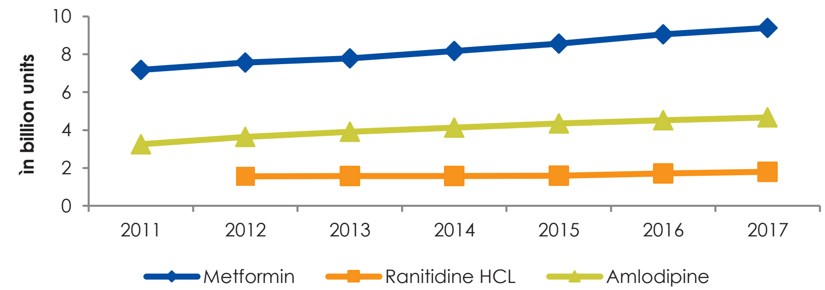
a. Extensive usage in solvents and pesticides has led to significant exposure in the pharma and agrochem segments



Source: Edelweiss Investment Research

Strong volume growth in pharma to support BAL's capex utilisation
Extensive utilisation of aliphatic amines as solvents is in the pharmaceutical industry. Solvents can be used as reaction agents or even extraction agents. Their high boiling points and varying densities are used for facilitating multiple reactions. Solvents account for 80%-90% of the mass utilised in a typical pharmaceutical chemical operation. Hence, we expect strong volume growth in these segments to continue to build demand for the underlying chemicals that are required.

Strong volume growth in key pharma drugs from methylamines indicates higher ongoing demand

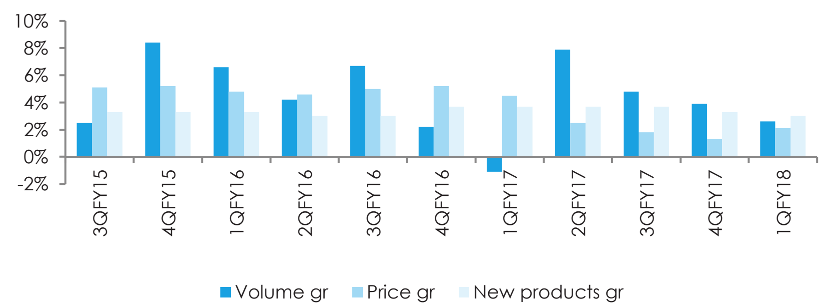


Source: Edelweiss Investment Research

Despite the rising pricing pressure in US generics, volume growth in basic generics continues to remain strong. Hence, methylamines and derivatives, being utilised at the lower end of the value chain by bulk drugs players or integrated formulations players, are expected to continue to see a surge in demand.

Further, in the domestic market, volume growth has exceeded price growth in seven of the past 11 quarters indicating a strong uptick in volumes at an aggregate level.

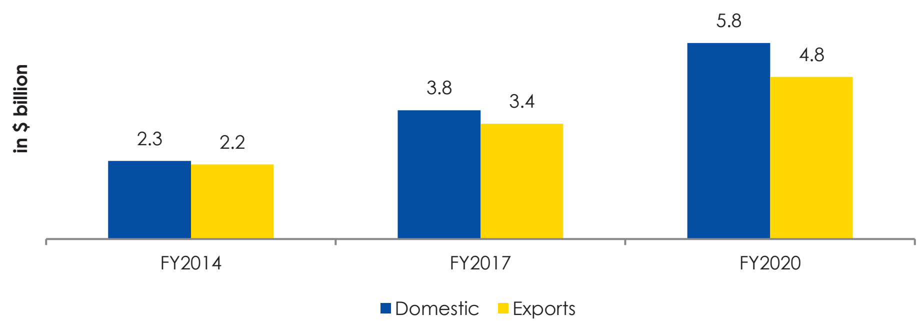
Domestic pharma growth vectors indicate a strong surge in volumes



Source: AIOCD, Edelweiss Investment Research

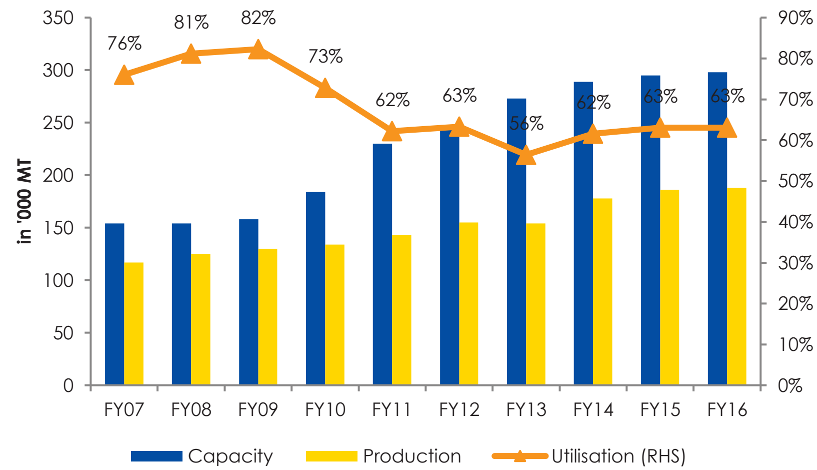
b. Agrochem industry to be fuelled by increasing generics consumption

The agrochemicals market in India is expected to be a $10.6 bn market by FY2020 with nearly 55% exports. Cotton (50%), paddy (18%) and horticulture (14%) crops account for 82% of the total demand for agrochemicals. We expect a steep rise in demand for pesticides in the domestic markets coupled with a strong surge in exports owing to higher demand for generics as multiple chemicals are expected to go off-patent.



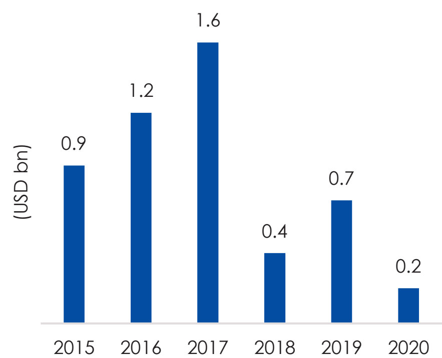
Source: Industry

Higher agrochem capacity expected to be followed by higher utilisation levels in the medium term

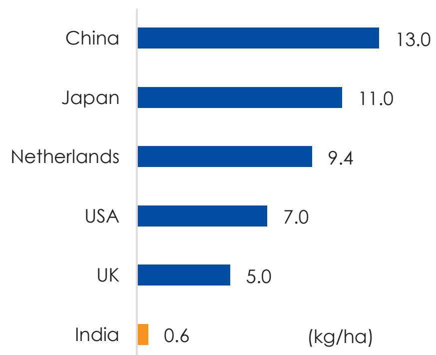


Source: Department of Chemicals, Govt. of India

Underpenetrated domestic consumption and multiple agrochemicals having gone off-patent are expected to fuel generics demand ahead



Agrochemicals going off-patent



Agrochemicals consumption

Source: Industry

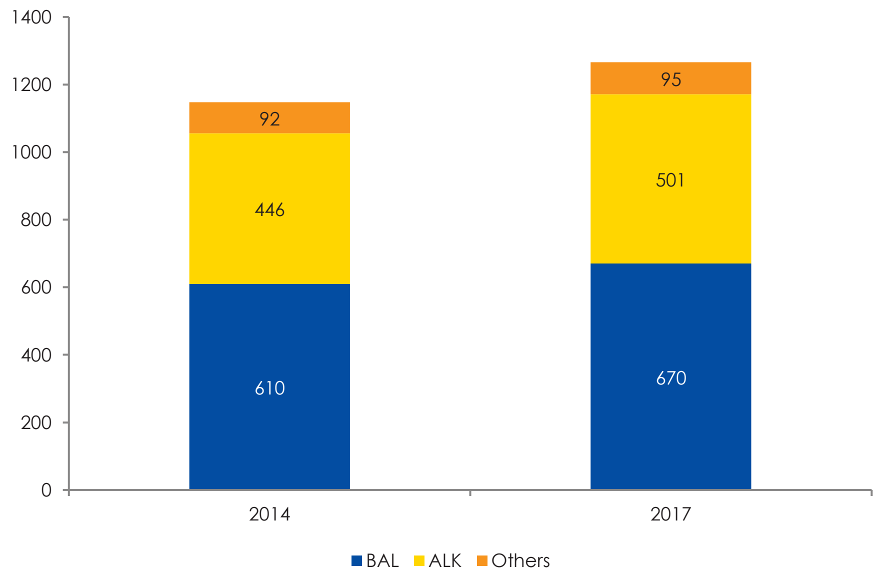
III. BAL: Dominant player in the Indian aliphatic amines industry

a. Near monopoly in specific products within the aliphatic amines industry

The Indian aliphatic amines industry is largely a duopoly with Balaji Amines (BAL) and Alkyl Amines Chemicals (AACL) comprising more than 90% of the market. Yet, the product portfolio of these two companies within the industry is varied with each being dominant in specific chemicals. This has made the industry structure appear closer to being a monopoly for each of the players with the key competition being, only imports.

However, with the scope of demand for each of their products increasing, both players are keenly expanding into higher derivatives and specialty chemicals, several such expansions also being an infringement into the other's portfolio.

BAL and AACL are dominant in the domestic aliphatic amines industry…



Source: Company

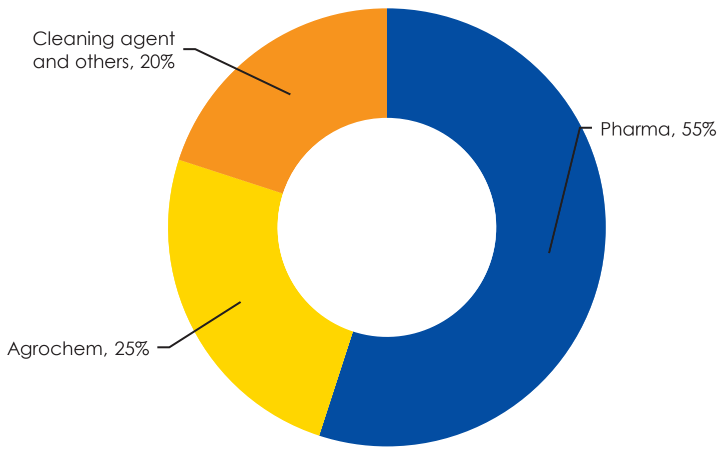
….with each expanding into the other's portfolio

* all numbers in metric tonnes per annum (MTPA)

Source: Company, Edelweiss Investment Research

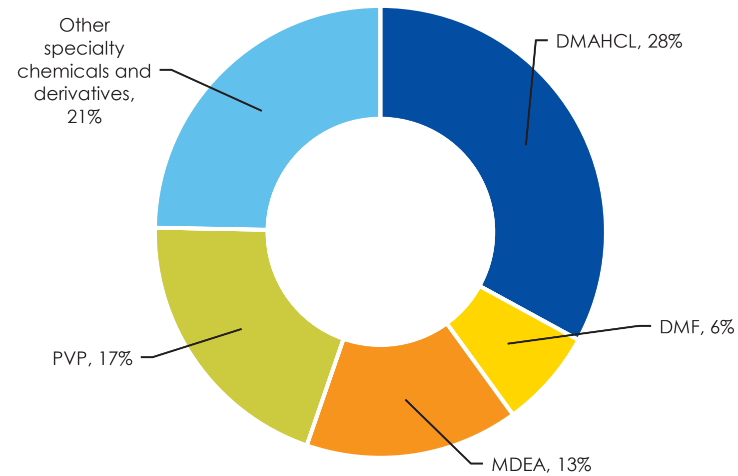
Currently BAL is the largest player in the domestic aliphatic amines market with significant exposure to the pharma and agrochem markets. It has the largest domestic capacity in methylamines (48,000 MTA) with nearly 75% captive consumption whilst the remainder is consumed by end-users.

80% sales in pharma and agrochem



Source: Company, Edelweiss Investment Research

60% from methylamines and derivatives



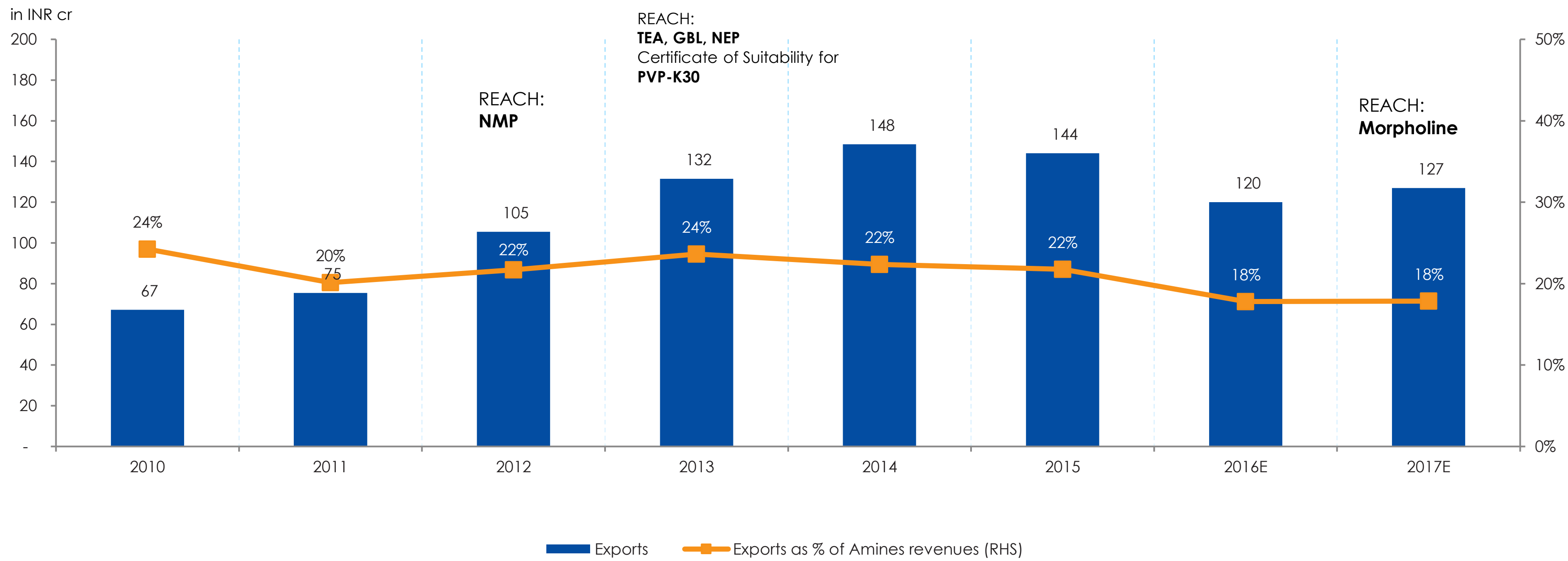
Source: Company, Edelweiss Investment Research

Over the past five years, the company has doubled its methylamines derivates capacity and expanded from basic methylamines in favour of higher value-added derivatives. Such vertical integration has enabled BAL to maintain a dominant position in a majority of its products through the dual advantage of cost competitiveness and product switching flexibility. This, coupled with industry attributes that create natural entry barriers, ensure a strong and continuous demand potential for BAL's offerings.

b. Export potential tailwind driven by global reputation and superior production quality

BAL's growth has historically been driven by both the domestic and exports markets with equivalent contribution from both. In fact, exports have been accounting for nearly 20% of the company's annual revenues over the past five years.

REACH certificate for newer products to foster exports growth



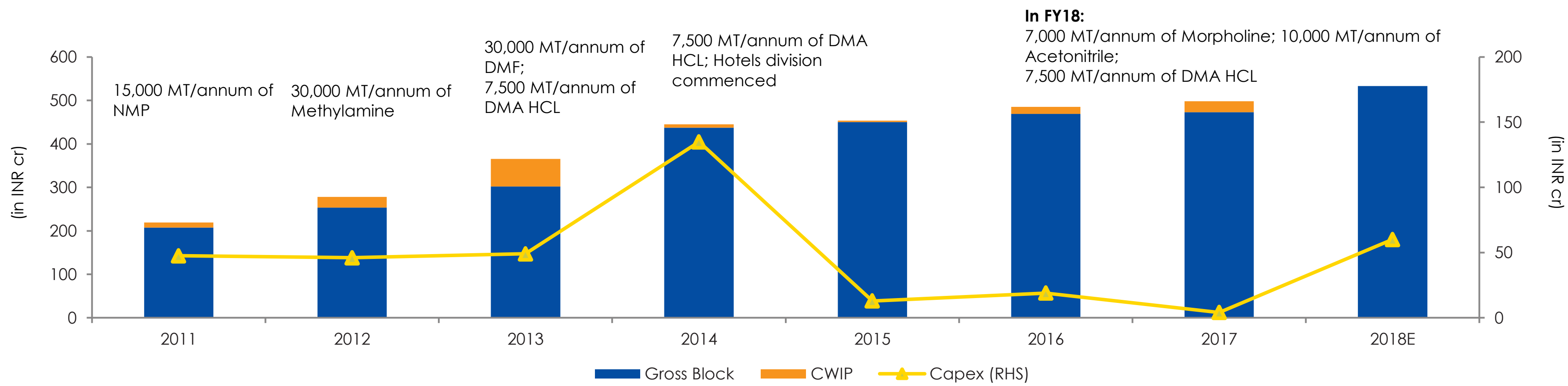
Source: Edelweiss Investment Research

In the recent two years, the company witnessed lower export realisations in line with its domestic realisations due to global methanol pricing pressure. Going forward, we expect a modest surge in export realisations on the back of recovery in methanol prices coupled with higher volumes from new approvals like morpholine. Overall, exports are estimated to grow at 15-18% CAGR over the next three years to FY21.

IV. Derivatives expansion leads to upward revision in gross margins

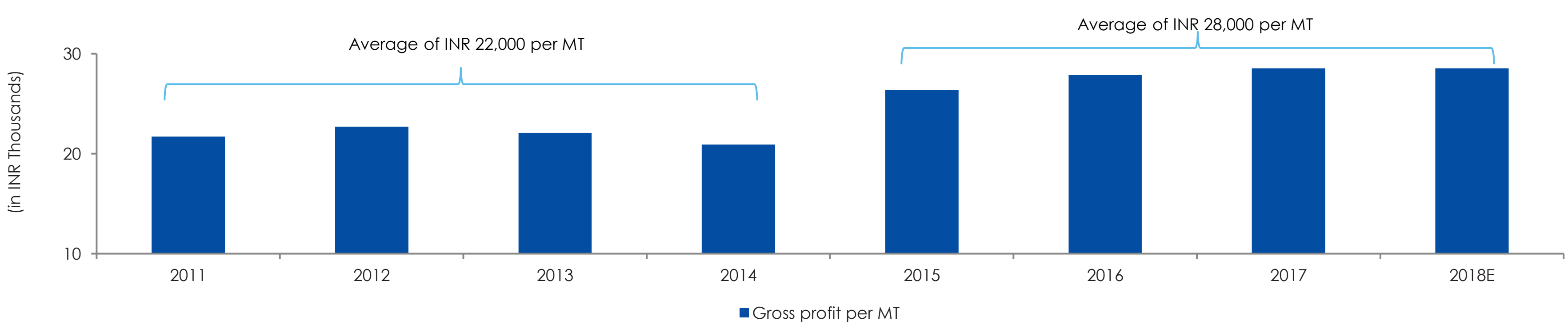
BAL has expanded its capacity across all major products since FY2011. The company has doubled the capacity of its core product — methylamines, to 60,000 MT/annum in FY2012. Further, it has set up large capacities for N-methyl-2-pyrrolidone (NMP), Di methyl formamide (DMF) and DMA HCL with the expectation of capturing the likely high demand over a decade. These derivatives, with high value addition, have uplifted BAL's margins notwithstanding the slowdown impact of global commodity prices.

With high capex in derivatives and specialty chemicals…



Source: Company filings, Edelweiss Investment Research

…..Average gross margins of BAL expanded by ~30%



Source: Company, Edelweiss Investment Research

V. BAL: On the cusp of a profitable trajectory from new capex

With its ability to produce high-quality products which can substitute imports coupled with its efforts in the direction of leveraging upon its methylamines and GBL capacity, BAL has been successful in increasing the utilisation levels of its facilities at a fast pace. With most of its methylamines and derivatives capacity at near optimal utilisation levels, BAL is now expanding its key derivative products alongside entering newer specialty chemicals to gain from both vertical integration and operating efficiencies.

Products (Broad Categories)	Existing capacity	End-market utilisation	Expansion	Comments
Methylamines	48k	18% (total utilisation 70%)	-	Expect higher captive utilisation into derivatives
Methylamine derivatives				
DMA HCl	22k	90%	7.5k	Excess demand with limited capacity
Di Methyl Formamide (DMF)	33k	15%	-	Import substitution due to plant shutdowns in China
Di Methyl Acetamide (DMAc)	7.5k	80%	-	Strong product with steady growth
GBL, 2-P and linked products				
N-Methyl-2-Pyrrolidone (NMP)	22k	50%	-	High-value specialty chemicals with consistent growth potential
N-Ethyl Pyrrolidone (NEP)	11k	50%	-	
Ethylamines and derivatives	6k	80%	-	Limited capacity with low focus
Morpholine	3k	80%	7k	High growth focus due to import substitution tendency
Acetonitrile	0	0	10k	Major product of AACL; steady domestic and export demand expected from existing clients

Key highlights of product specific cases

DMF

- Nearly 50% of production and over 70% of consumption by China
- There is global oversupply with no scope to increase capacity; Nearly 75% of domestic demand is met through imports
- **CASE POINT** – Multiple plant shutdowns in China due to environmental concerns has increased import prices and subsequently brought domestic suppliers into the field. BAL has increased production from 300 MT/month to 1,000 MT/month from Aug-Sept 2017 onwards

DMA HCL

- Widely used as an intermediate in a few of the most common pharma drugs such as metformin and ranitidine; consistent volume growth in each of these drugs
- BAL is the largest manufacturer in the world with leading Indian pharma companies as customers
- **CASE POINT** – Extant capacity of 22,000 MT/annum is already optimally utilised; BAL is confident of strong demand for the additional 7,500 MT/annum being set up

Morpholine

- Only three major players globally ex China: Huntsman, BASF Germany and Balaji
- India's consumption is 7,000 MT/month while Balaji is providing 45%, the remainder is imported from China and Saudi Arabia
- BAL's prices are highly competitive versus imports; this makes its product highly preferred over imports
- Current capacity is nearly optimally utilised; hence tendency for high import substitution exists
- **CASE POINT** – Going forward, BAL expects to meet ~80% of domestic demand in the medium term. Additonally, it has received the REACH certificate for the product and can start exporting

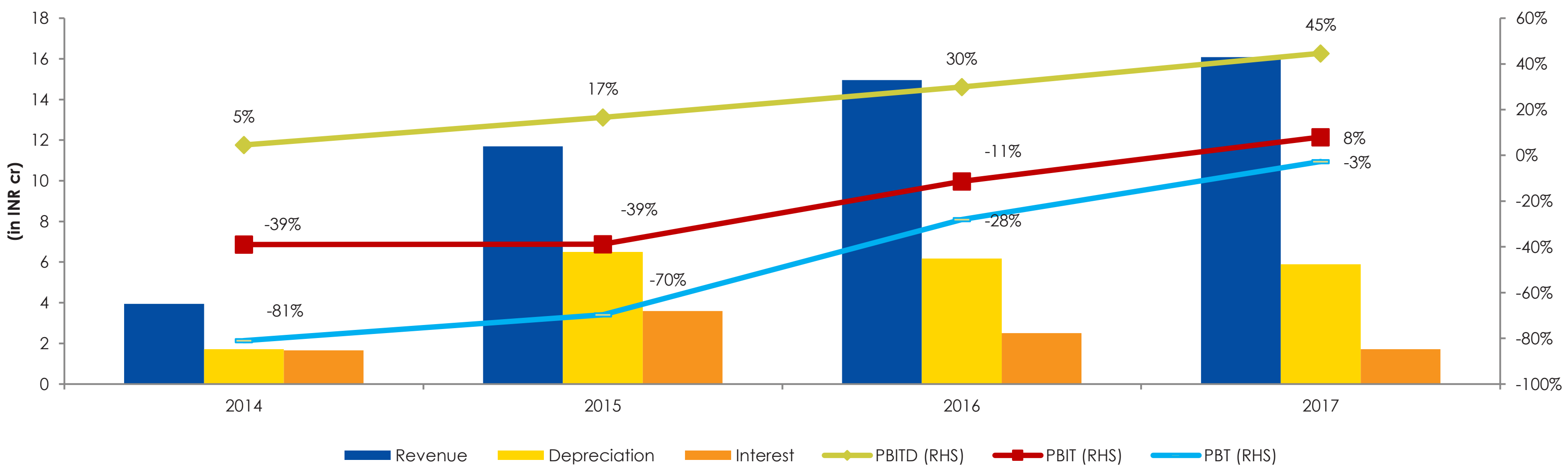
Acetonitrile

- Substantially used in pharma with an annual estimated demand of 15,000 MT/annum
- AACL is the largest player in this product with 10,000 MT/annum capacity, operating at near optimal levels and has plans to expand to 30,000 MT/annum over the next 3-5 years
- BAL has got the EC for 20,000 MT/annum but will start with a 10,000 MT/annum set up
- **CASE POINT** – BAL has already secured some export demand from its existing clients and is confident of achieving ~60% utilisation level by end-FY19 through both domestic and exports exposure

VI. Hotel business turning profitable

BAL started its hotel business in Q3FY14 with an investment of INR 110 crore. The hotel, named Balaji Sarovar. is a 129-room 5-star property managed by the Sarovar group. In the three years of its operations, Balaji Sarovar has hosted multiple conferences for doctors as well as for other professionals. Additionally, the rapid growth of industries in Solapur's MIDC area is only expected to increase the requirement of a premium space for corporate purposes.

With over two full years of operations, the business has turned cash profitable. However, superior depreciation costs continue to keep net profits negative. Going forward, we expect the hotel business to turn fully profitable while continuing to provide tax benefits to the parent entity to the extent of its depreciation levels.

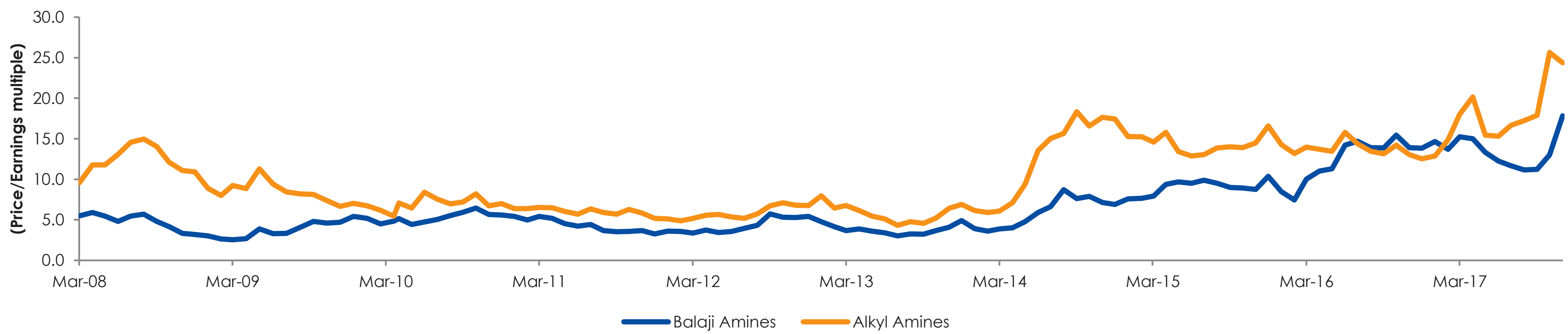


Source: Company, Edelweiss Investment Research

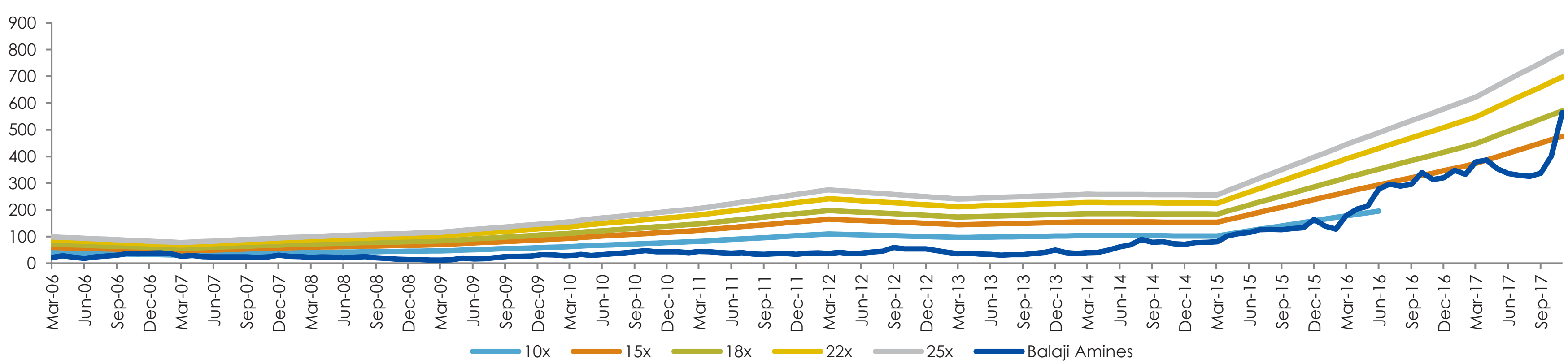
VII. Valuation

In our view, BAL is all set to benefit immensely from its capacities and client base built up historically coupled with incremental expansions. Ergo, we expect strong growth in revenues, improving margins with higher utilisation levels and product expansions. Our earnings estimates per share for FY18 and FY19 are INR35.1 and INR42.4 respectively. We value the company at 18x FY19 earnings estimate of INR42.4/share and initiate our 'BUY' recommendation with a target of INR764/share.

BAL is at a discount to peers at current valuations



Price/Earnings multiple bands

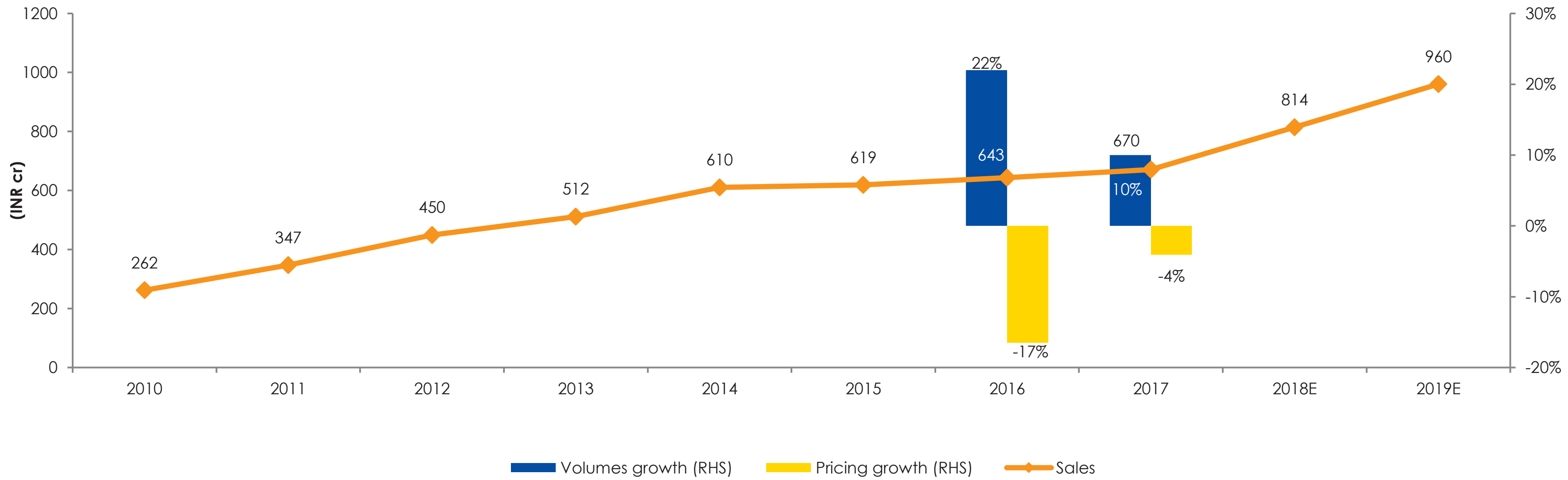


Source: Edelweiss Investment Research

VIII. Financial Analysis

a. Production volumes on the rise, sales dampened on lower commodity prices

Revenues of BAL have been flat over the past three years owing to commodity pricing pressures despite consistent volume growth. However, we expect prices to bottom out in FY17. This, coupled with increasing volumes from new product introductions as well as its existing portfolio, will likely lead to positive revenue growth for the company in the medium term.

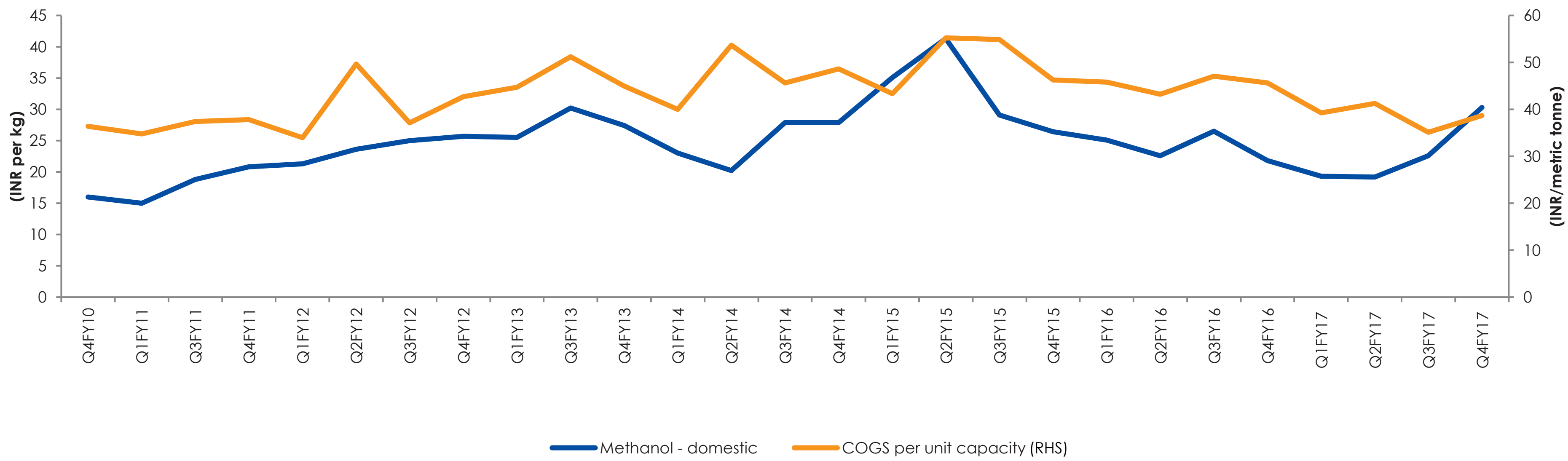


Source: Company, Edelweiss Investment Research

b. Gross margins consistent owing to price-linked contracts

BAL relies on methanol and ammonia as its key raw material, with methanol accounting for more than 50% of its raw material costs. With over 70% of its revenues arising from methylamines and its derivatives, BAL is closely impacted by any volatility in methanol prices. Hence, the company has entered into multiple price-linked contracts in order to safeguard its margins.

However, only about 64% of the cost of goods sold (COGS) per unit production is explained by domestic methanol prices.



Source: Company, Edelweiss Investment Research

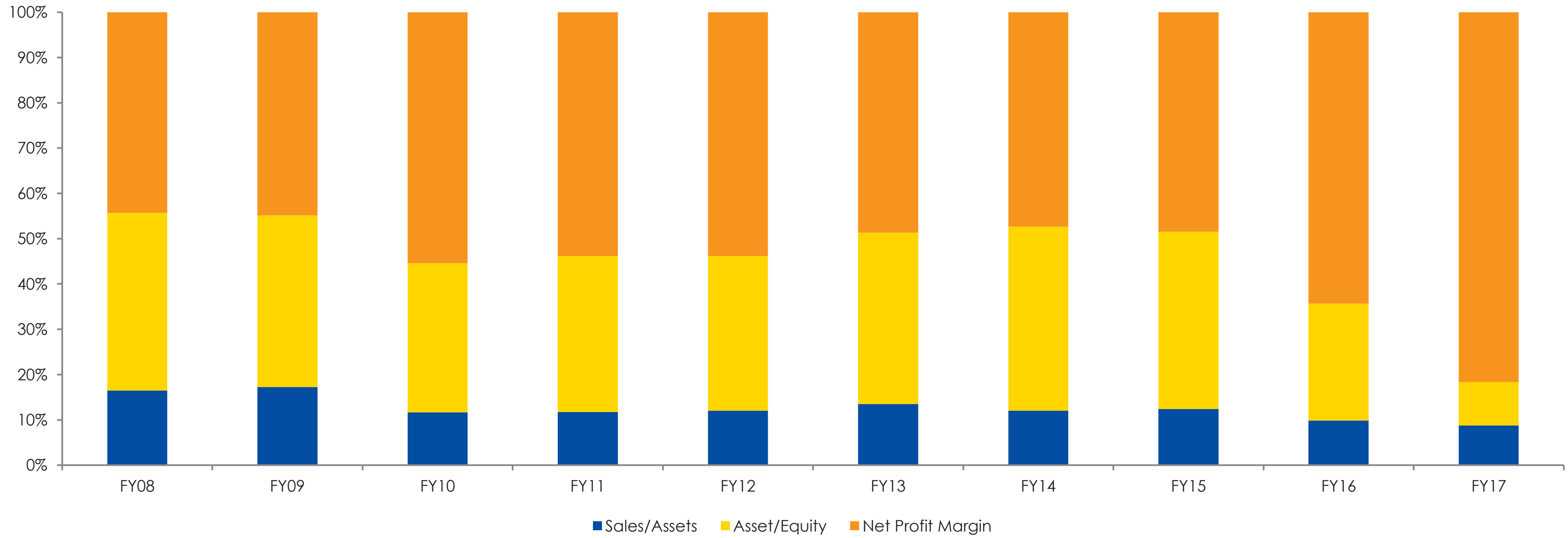
Changing product mix towards higher value-added products explains for the remaining volatility in COGS and consequent gross margins. The upward revision in gross margins discussed in section IV is concluded from this phenomenon.

Going forward, we expect methanol demand from China to increase due to the steep increase in methanol-to-olefins (MTO) plants. However, owing to multiple region exposure as well as the high level of uncertainty, we estimate gross margins to remain stable at the current levels of 40%.

c. Contribution of profit margins to ROE consistently rising

Having set up significant capacity between FY11 and FY14, BAL has been enjoying higher margins by improving utilisation levels as well as operating leverage. Whilst optimal capacity utilisation levels in several products is still a long way away, the company's brownfield expansion into allied specialty chemicals and high-demand derivatives is expected to further enhance margins.

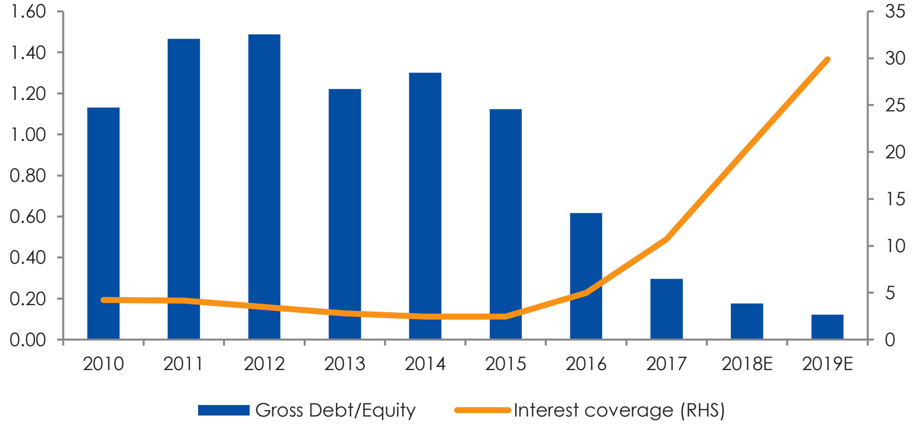
Going forward we expect a steep rise in sales and profitability with merely a small increase in asset base. Subsequently, the strong effect of higher margins is expected to continue over the medium term, on the back of the continuous increase in utilisation levels driven by consistent demand growth and geographical diversification by the company.



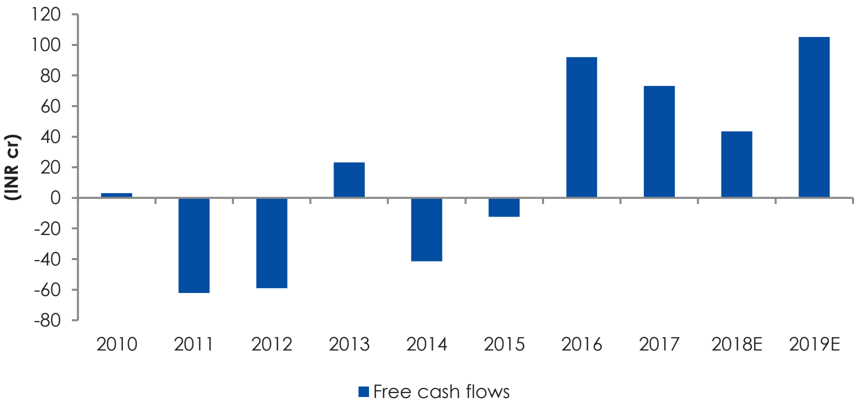
Source: Company, Edelweiss Investment Research

d. Financial deleveraging to benefit expansion plans ahead

BAL has been reducing debt levels post its major expansion span between FY11 and FY14. Allocation of cash flows towards debt repayment has subsequently reduced the interest outgo and benefitted the company's equity stakeholders. Going forward, we expect the company to continue to generate large free cash flows from the existing business, allowing the company to invest ahead in expansion plans from internal accruals.



Source: Company, EdelInvest Research



Source: Company, Edelweiss Investment Research

Details of subsidiary companies

Balaji AMINES

Bhagyanagar Chemicals

- Wholly-owned subsidiary from FY05
- Company earns lease rentals from BAL for its plant in Bollaram, Hyderabad

Balaji Greentech

- Majorly owned subsidiary from FY09
- Manufactures, supplies a comprehensive range of Compact Fluorescent Lamps (CFL);
- Loss making entity; the company closed operations in FY18

Balaji Specialty Chemicals

- To acquire 55% stake for INR 66cr by end of FY18
- Environmental clearance received for Ethylenediamine (EDA) , Piparezine (PIP) and Diethylenetriamine (DETA)
- Operations expected to began from H2FY19

Risks and Concerns

Methanol price volatility: With over 70% of its revenues arising from methylamines and derivatives, BAL's exposure to methanol prices is significant. Although the company has entered into price-linked contracts in order to hedge against methanol price fluctuations, any major volatility could dampen gross margins to some extent.

Wildlife Santuary clearance: The incremental capex plan of BAL for DMA HCL, Acetonitrile and Morpholine is pending for Wildlife Sanctuary clearance. The compant expects to receive the same by Q3FY18. However, in case of delays, it could have some negative impact on our forward estimates.

Rising competition: The Indian aliphatic amines industry is merely 5% the size of the global aliphatic amines industry but has been posting healthy growth. Although the industry is subject to technological barriers, entry of new domestic players or even large overseas players is likely to impact dynamics of the industry.

Regulatory concerns: While all expansion plans of chemical companies are pre-approved for environmental clearances, any further changes in the regulatory stance or in the environmental norms, could impact Balaji Amines adversely.

Peer Comparison

	ROE (%)			Asset Turnover			EBITDA margin (%)		
	FY15	FY16	FY17	FY15	FY16	FY17	FY15	FY16	FY17
BAL	**15.5**	**22.7**	**26.0**	**1.4**	**1.4**	**1.4**	**16.4**	**19.7**	**22.8**
AACL	27.3	25.4	19.8	1.7	1.5	1.4	18.2	18.8	18.1

Financials

Income statement (Standalone) (INR crs)

Year to March	FY15	FY16	FY17	FY18E	FY19E
Income from operations	619	643	670	814	960
Total operating expenses	517	516	518	614	722
EBITDA	102	127	153	200	238
Depreciation and amortisation	20	19	20	22	25
EBIT	82	107	133	178	213
Interest expenses	35	22	13	10	9
Profit before tax	51	88	126	173	210
Provision for tax	18	30	43	60	72
Core profit	33	58	82	114	138
Extraordinary items	0	0	-2	0	0
Profit after tax	33	58	81	114	138
Adjusted net profit	33	58	81	114	138
Equity shares outstanding (mn)	3	3	3	3	3
EPS (INR) basic	10	18	25	35	42
Diluted shares (Cr)	3	3	3	3	3
EPS (INR) fully diluted	10	18	25	35	42
Dividend per share	1	2	2	3	4
Dividend payout (%)	12	11	9	9	9

Common size metrics- as % of net revenues (INR crs)

Year to March	FY15	FY16	FY17	FY18E	FY19E
Operating expenses	83.6	80.3	77.2	75.4	75.2
Depreciation	3.2	3.0	2.9	2.7	2.6
Interest expenditure	5.6	3.4	1.9	1.2	1.0
EBITDA margins	16.4	19.7	22.8	24.6	24.8
Net profit margins	5.4	9.0	12.0	13.96	14.32

Growth metrics (%)

Year to March	FY15	FY16	FY17	FY18E	FY19E
Revenues	1.4	3.9	4.2	21.4	18.0
EBITDA	11.8	24.6	20.5	31.3	18.8
PBT	11.9	72.4	42.9	38.0	21.0
Net profit	(1.0)	73.7	42.9	38.0	21.0
EPS	(1.1)	73.8	39.9	41.0	21.0

Balance sheet (INR cr)

As on 31st March	FY15	FY16	FY17	FY18E	FY19E
Equity share capital	6	6	6	6	6
Preference Share Capital	0	0	0	0	0
Reserves & surplus	221	274	347	451	577
Shareholders funds	228	280	354	458	583
Secured loans	247	162	99	99	89
Unsecured loans	9	10	6	6	6
Borrowings	256	173	105	105	95
Minority interest	2	0	0	0	0
Sources of funds	**486**	**453**	**459**	**563**	**678**
Gross block	450	469	473	584	604
Depreciation	109	128	147	170	194
Net block	341	341	325	414	410
Capital work in progress	3	16	25	0	0
Total fixed assets	344	357	351	414	410
Unrealised profit	0	0	0	0	0
Investments	0	0	0	0	0
Inventories	112	78	99	125	147
Sundry debtors	119	124	124	156	184
Cash and equivalents	7	9	3	3	90
Loans and advances	37	34	55	55	55
Other current assets	0	0	0	0	0
Total current assets	276	245	282	339	477
Sundry creditors and others	57	55	68	83	97
Provisions	18	34	52	54	57
Total CL & provisions	75	89	120	137	154
Net current assets	201	156	162	202	323
Net Deferred tax	-45	-50	-51	-51	-51
Misc expenditure	-14	-10	-3	-3	-3
Uses of funds	**486**	**453**	**459**	**563**	**678**
Book value per share (INR)	70	86	109	141	180

Cash flow statement (INR crs)

Year to March	FY15	FY16	FY17	FY18E	FY19E
Net profit	33	58	84	114	138
Add: Depreciation	20	19	20	22	25
Add: Misc expenses written off	11	(4)	(6)	0	0
Add: Deferred tax	3	5	0	0	0
Gross cash flow	67	78	98	136	162
Less: Changes in W. C.	49	(46)	11	41	33
Operating cash flow	18	124	86	95	129
Less: Capex	31	32	13	86	20
Free cash flow	**(13)**	**92**	**73**	**9**	**109**

Ratios

Year to March	FY15	FY16	FY17	FY18E	FY19E
ROAE (%)	15.5	22.7	26.0	28.0	26.4
ROACE (%)	15.8	20.8	26.2	31.7	33.8
Debtors (days)	70	71	68	70	70
Current ratio	3.7	2.7	2.4	2.5	3.1
Debt/Equity	1.1	0.6	0.3	0.2	0.2
Inventory (days)	66	44	54	56	56
Payable (days)	34	31	37	37	37
Cash conversion cycle (days)	103	84	85	89	89
Debt/EBITDA	2.5	1.4	0.7	0.5	0.4
Adjusted debt/Equity	1.1	0.6	0.3	0.2	0.0

Valuation parameters

Year to March	FY15	FY16	FY17	FY18E	FY19E
Diluted EPS (INR)	10.2	17.8	24.9	35.1	42.4
Y-o-Y growth (%)	*(1.1)*	*73.8*	*39.9*	*41.0*	*21.0*
CEPS (INR)	16	24	32	42	50
Diluted P/E (x)	54.2	31.2	22.3	15.8	13.1
Price/BV(x)	7.9	6.4	5.1	3.9	3.1
EV/Sales (x)	3.3	3.1	2.8	2.3	1.9
EV/EBITDA (x)	20.1	15.5	12.4	9.5	7.6
Diluted shares O/S	3.2	3.2	3.2	3.2	3.2
Basic EPS	10.2	17.8	24.9	35.1	42.4
Basic PE (x)	54.2	31.2	22.3	15.8	13.1
Dividend yield (%)	0.2	0.4	0.4	0.5	0.7

Appendix A: Global amines industry

Amines are derivatives of ammonia (NH3) wherein, the hydrogen atoms in ammonia are replaced one at a time by hydrocarbon groups (termed as 'R'). Amines are classified based on the number of hydrogen atoms in the ammonia molecule that have been replaced. They can be classified as primary amines, secondary amines and tertiary amines. They can be produced by the reaction of alcohol and ammonia..

A. Primary Amines

In primary amines, only one of the hydrogen atoms in the ammonia molecule is replaced with a carbon group.

Methyl Amine	Ethyl Amine	1-aminopropane	2-aminopropane
CH_3-NH_2	CH_3-CH_2-NH_2	CH_3-CH_2-CH_2-NH_2	CH_3-CH(NH_2)-CH_3

B. Secondary Amines

In secondary amines, two of the hydrogen atoms in the ammonia molecule are replaced

CH_3-N(H)-CH_3

dimethylamine

CH_3-CH_2-N(H)-CH_2-CH_3

diethylamine

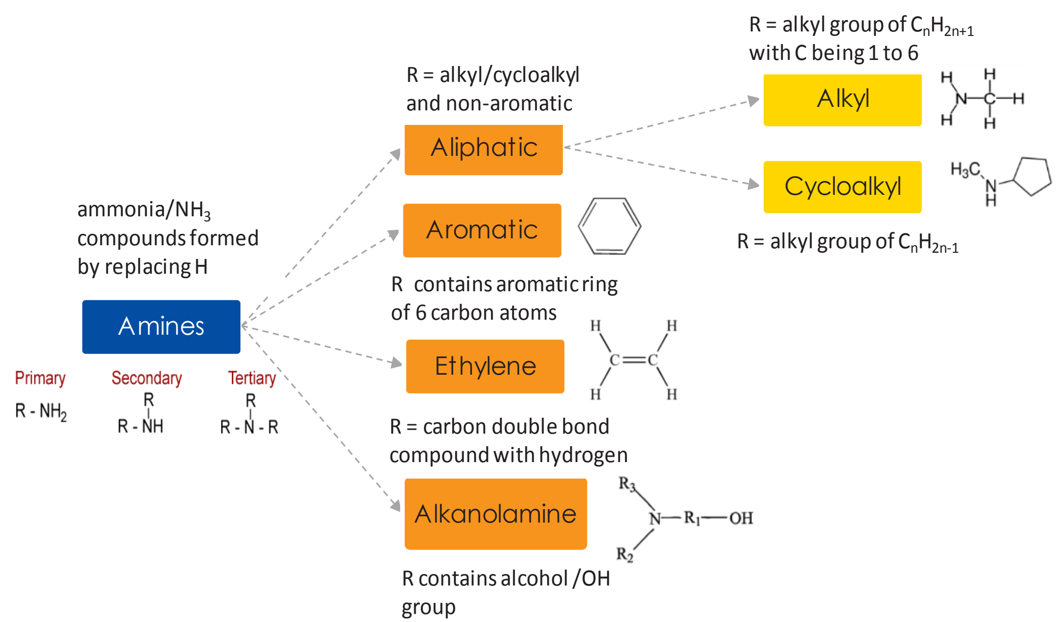
C. Tertiary Amines

In a tertiary amine, all of the hydrogen atoms in an ammonia molecule have been replaced by hydrocarbon groups.

CH_3-N(CH_3)-CH_3

trimethylamine

Amines: based on the structure of 'R'



Source: Company, Edelweiss Investment Research

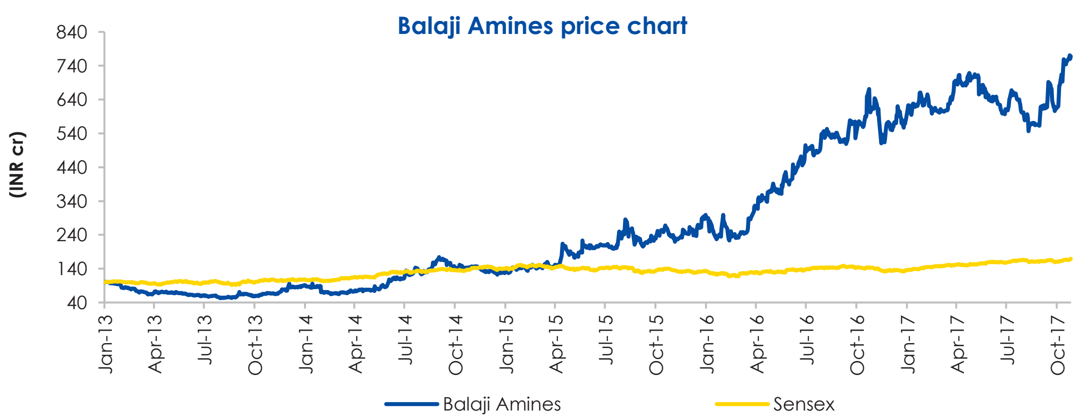
Edelweiss Broking Limited, 1st Floor, Tower 3, Wing B, Kohinoor City Mall, Kohinoor City, Kirol Road, Kurla(W)
Board: (91-22) 4272 2200

Vinay Khattar

Head Research

vinay.khattar@edelweissfin.com

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



Disclaimer

Edelweiss Broking Limited (“EBL” or “Research Entity”) is regulated by the Securities and Exchange Board of India (“SEBI”) and is licensed to carry on the business of broking, depository services and related activities. The business of EBL and its Associates (list available on www.edelweissfin.com) are organized around five broad business groups – Credit including Housing and SME Finance, Commodities, Financial Markets, Asset Management and Life Insurance.

Broking services offered by Edelweiss Broking Limited under SEBI Registration No.: INZ000005231; Name of the Compliance Officer: Mr. Brijmohan Bohra, Email ID: complianceofficer.ebl@edelweissfin.com Corporate Office: Edelweiss House, Off CST Road, Kalina, Mumbai - 400098; Tel. 18001023335/022-42722200/022-40094279

This Report has been prepared by Edelweiss Broking Limited in the capacity of a Research Analyst having SEBI Registration No.INH000000172 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject EBL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. EBL reserves the right to make modifications and alterations to this statement as may be required from time to time. EBL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. EBL is committed to providing independent and transparent recommendation to its clients. Neither EBL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance .The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The information provided in these reports remains, unless otherwise stated, the copyright of EBL. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of EBL and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders.

EBL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of the EBL to present the data. In no event shall EBL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the EBL through this report.
We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

EBL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of 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 subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance. EBL may have proprietary long/short position in the above mentioned scrip(s) and therefore should be considered as interested. The views provided herein are general in nature and do not consider risk appetite or investment objective of any particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with EBL.

EBL or its associates may have received compensation from the subject company in the past 12 months. EBL or its associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. EBL or its associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. EBL or its associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. EBL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research analyst or his/her relative or EBL's associates may have financial interest in the subject company. EBL, its associates, research analyst and his/her relative may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.
Participants in foreign exchange transactions may incur risks arising from several factors, including the following: (i) exchange rates can be volatile and are subject to large fluctuations; (ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs and Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Research analyst has served as an officer, director or employee of subject Company: No
EBL has financial interest in the subject companies: No

EBL's Associates may have actual / beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report.
Research analyst or his/her relative has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

EBL has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No
Subject company may have been client during twelve months preceding the date of distribution of the research report.

There were no instances of non-compliance by EBL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years.

Disclaimer

A graph of daily closing prices of the securities is also available at www.nseindia.com

Analyst Certification:
The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Additional Disclaimer for U.S. Persons
Edelweiss is not a registered broker – dealer under the U.S. Securities Exchange Act of 1934, as amended (the"1934 act") and under applicable state laws in the United States. In addition Edelweiss is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by Edelweiss, including the products and services described herein are not available to or intended for U.S. persons.

This report does not constitute an offer or invitation to purchase or subscribe for any securities or solicitation of any investments or investment services and/or shall not be considered as an advertisement tool. "U.S. Persons" are generally defined as a natural person, residing in the United States or any entity organized or incorporated under the laws of the United States. US Citizens living abroad may also be deemed "US Persons" under certain rules.

Transactions in securities discussed in this research report should be effected through Edelweiss Financial Services Inc.

Additional Disclaimer for U.K. Persons
The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA").
In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "Order"); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons").

This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person.

Additional Disclaimer for Canadian Persons
Edelweiss is not a registered adviser or dealer under applicable Canadian securities laws nor has it obtained an exemption from the adviser and/or dealer registration requirements under such law. Accordingly, any brokerage and investment services provided by Edelweiss, including the products and services described herein, are not available to or intended for Canadian persons.
This research report and its respective contents do not constitute an offer or invitation to purchase or subscribe for any securities or solicitation of any investments or investment services.

Disclosures under the provisions of SEBI (Research Analysts) Regulations 2014 (Regulations)
Edelweiss Broking Limited ("EBL" or "Research Entity") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services and related activities. The business of EBL and its associates are organized around five broad business groups – Credit including Housing and SME Finance, Commodities, Financial Markets, Asset Management and Life Insurance. There were no instances of non-compliance by EBL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years. This research report has been prepared and distributed by Edelweiss Broking Limited ("Edelweiss") in the capacity of a Research Analyst as per Regulation 22(1) of SEBI (Research Analysts) Regulations 2014 having SEBI Registration No.INH000000172.

One Stop Investment Avenue GEPL CAPITAL

Sales Note

Balaji Amines Ltd.

14 November, 2017

BUY

CMP (₹)	Target (₹)
574	725
Potential upside	**Absolute Rating**
26%	BUY

Market Info *(as on 13th November 2017)*	
BSE Sensex	33,034
Nifty S&P	10,225

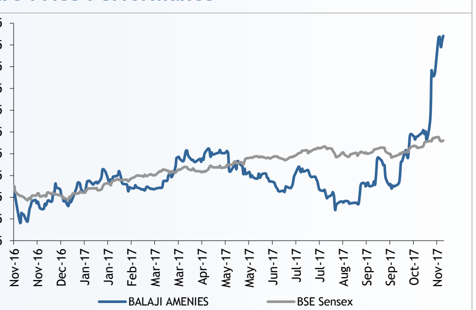
Stock Detail	
BSE Group	B
BSE Code	530999
NSE Code	BALMINES
Bloomberg Code	BLA IN
Market Cap (₹bn)	182.3
Free Float (%)	46%
52wk Hi/Lo	599 / 271
Avg. Daily Volume (NSE)	56,128
Face Value / Div. per share (₹)	2.00 / 2.20
Shares Outstanding (mn)	325

Shareholding Pattern (%)	
Promoters	Public
54.5	45.4

Financial Snapshot (₹mn)

Y/E March	FY14	FY15	FY16	FY17E
Net Sales	6,431	7,306	8,475	9,831
EBITDA	1,267	1,527	1,864	2,163
Net Profit	576	824	932	1,081
P/E(x)	20.5	22.5	19.7	16.9
ROE (%)	21%	23%	22%	27%
EPS	17.8	25.4	29.2	33.9

Share Price Performance



Rel. Perf.	1Mth	3 Mths	6Mths	1Yr
BFL (%)	0.31	6.9	7.2	36.6
Sensex (%)	(2.2)	3.9	11.6	5.8

Source: Company data, Retail Research

Company Snapshot

Balaji Amines Ltd.,is an ISO 9001: 2008 certified company, specialized in manufacturing Methylamines, Ethylamines, Derivatives of Specialty Chemicals and Natural Products. These have been the main products; it also has facilities for the manufacture of derivatives, which are downstream products for various Pharma /Pesticide industries apart from user specific requirements. Balaji Amines Limited (BAL), is one of the leading manufacturers of Aliphatic Amines in India was set up in the year 1988 to cater to the growing requirements of value based Specialty Chemicals. BAL commenced manufacture of Methyl Amines in the year 1989 and subsequently added facilities for manufacture of Ethyl Amines and other derivatives of Methyl Amines and Ethyl Amines.

Investment Rationale

Unique business structure provides an edge over its peer

Balaji Amines has unique business structure. It is one of the leading manufacturers of Aliphatic Amines. It specialized in manufacturing Methylamines, Ethylamines and derivatives of them. The company enjoys leadership position in many of its products like Monomethylamine (MMA), Dimethyl amine (DMA), Trimethylamine (TMA), Dimethyl Amino Ethanol (DMAE), Mono Methyl Amino Ethanol etc. It caters to host of industries like Pharma (51% of revenues), , Agro Chemicals (26%), Paint Stripping & Resins, Rubber cleaning etc. The company has three state of the art units – two near Solapur and one near Hyderabad. In addition Balaji possess a fully furnished Laboratory which helps the company in development

Of newer products. It also operates a 5 start hotel in Solapur – Balaji Sarovar, the only 5 star properties in the city.

Niche play provides high growth momentum in the upcoming period

Worldwide Amines technology is a closely guarded process with only few handful companies having access to such technology. For the first time in India, Balaji tests on a indigenously developed products and over the years has become a leading player in the segment and commands healthy market share of 60-70% in domestic region for various products. Balaji has mastered the complex process which we believe, would act as a major entry barrier for domestic competitors and would provide revenue visibility and stable profitability.

Robust Financials makes Balaji Amines lucrative

Consistent growth in the top line also backed by operating margin improvement makes Balaji Amines more lucrative. Consolidated EBITDA margins have improved to 20.9% in FY17 from 16.4% in FY13. This shows that company has improved in operating efficiency. A net profit margin has also improved to 12.8% in FY17 from 6.1% in FY13. Return on equity has improved from 18.3% in FY13 to 23% in FY 17. ROCE has shown strong growth of 9.6% in FY13 to 19.1% in FY17. This makes Balaji Amines a safer bet as compared to others. We believe that this will create a great opportunity for the investor for longer term horizon.

Valuation

At CMP of ₹574, Balaji Amines Ltd. is trading at 22.5 xs at its FY17 earnings of ₹25.4 .With strong margin improvement and strong Business perspectives; We expect stock to trade at 21.4x its FY19E earnings of ₹33.9. We assign a **BUY** rating on the stock with a price target of ₹725 which is more than 26% upside from current levels.

Balaji Amines Ltd.

NOTES

Name	Designation	Email	Contact
Omkar Tanksale	Sr. Analyst - Fundamental Research	omkar@geplcapital.com	91 (22) 6614 2692

I, Mr. **Omkar Tanksale** (Research Analyst of GEPL), having Education Qualification **MBA Finance**, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I, also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Analyst Certification:

The views expressed in this research report reflect the personal views of the analyst(s) about the subject securities or issues. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

GEPL Capital Private Limited is a SEBI registered Research Analyst entity bearing SEBI Reg. No. “INH000000081” under SEBI (Research Analysts) Regulations, 2014.

Reg./Corp. Office : D-21 Dhanraj Mahal, CSM Marg, Colaba, Mumbai 400 001 Contact No +91 22 66182400

SEBI Reg.No. NSE/NSE F&O/CD - INB230993934, INF230993934 & INE230993934. BSE/BSE F&O- INF010993934,

For more information visit us at : : www.geplcapital.com
For research related queries email at research@geplcapital.com