

Balaji Amines (BAL) posted record high results in Q3FY21 – consolidated revenue grew 72% YoY/39% QoQ to INR392cr (v/s est. 37% growth). Due to robust demand from pharma and agro-chemical sectors, both its standalone business and agrochemical manufacturing subsidiary, Balaji Specialty Chemicals (BSC), reported splendid numbers. In particular, Dimethyl Formamide (DMF) saw strong demand and price surge owing to the short-supply situation in countries (China and Saudi Arabia) that export to India. This, along with sustained price of Acetonitrile and improving profitability at BSC, helped BAL's consolidated gross margin, which improved by ~600bps YoY/111bps QoQ to 52%. Consolidated EBITDA was up 174% YoY/59% QoQ to INR117cr, while EBITDA margin was up 1,110bps YoY/383bps QoQ to 30%. Consolidated PAT surged 220% YoY/64% QoQ to INR75cr (after minorities). We expect BAL's strong performance to continue due to robust demand from pharma/agro sectors and capex pipeline. Maintain 'BUY' rating.

Swarnabha Mukherjee
Research Analyst
Swarnabha.Mukherjee@edelweissfin.com

CMP INR: 1,440
Rating: BUY
Target Price INR: 1,678
Upside: 17%

Record volumes in Base Amines business

BAL's Q3FY21 volumes were up 34% YoY/22% QoQ to 28,353MT on standalone basis, primarily driven by Specialty Chemicals (up 60% YoY/55% QoQ). While volume growth for Amines was flattish, Amines Derivatives grew 27% YoY/9% QoQ. Higher volumes of DMF and DMAC were the key drivers, which resulted in Base Amines recording 67% YoY/29% QoQ growth in revenue to INR362cr. Blended realizations were up 25% YoY/6% QoQ to INR128/kg, while blended EBIT was up 87% YoY/14% QoQ to INR36/kg. With increase in acetonitrile capacity to 18-20TPD from Q1FY22 and ramp-up in available DMF capacity, we expect volume growth to continue.

Bloomberg:	BLA IN
52-week range (INR):	200 / 1,515
Share in issue (cr):	3
M cap (INR cr):	4,748
Promoter Holding (%)	53.70

BSC seeing consistent growth and improving profitability

Subsidiary BSC contributed INR57cr to BAL's consolidated top line (up 78% higher QoQ). BSC recorded strong profitability, with EBIT at INR16cr, its best-ever contribution. EBITDA/EBIT margins stood at 34.1%/28.1% during the quarter along with higher prices of finished goods. BSC is seeing improved sales run-rate of INR12.5cr/month on the back of domestic and export demand (of EDA and DETA from China).

Confluence of strong demand and capex pipeline; Maintain BUY

We remain positive on BAL due to (a) continuous capex ramp-up, and (b) further announced capex plans that extend the company's growth trajectory in a duopoly market. Accounting for these factors and higher-than-expected profitability in 9MFY21, we have revised our FY22/23E EPS estimates (post model roll-forward) upwards to INR80/INR96. We maintain 'BUY' with a revised target price of INR1,678/share, valuing BAL at 17.5x FY23E EPS.

Year to March	Q3FY21	Q3FY20	% change	Q2FY21	% change	FY20	FY21E	FY22E	FY23E
Revenue	392	228	72.3	282	38.9	936	1,273	1,649	2,043
Revenue growth (%)	72.3%	5.0%		0.0%	38.9%	-1	36	30	24
EBITDA	117	43	174.0	74	59.3	181	353	425	504
EBITDA margin (%)	30	20		24	27.3%	19	28	26	25
Net Profit	75	23	220.1	46	63.8	105	210	258	311
Net profit margin (%)	19	14		15	16.7%	11	17	16	15
EPS (INR)	23.1	7.2	220.5	14.1	63.9	32	65	80	96
EPS growth (%)	0	0		0	45.3%	-10.4	100.8	22.6	20.5
P/E (x)						44.5	22.2	18.1	15.0
EV/EBITDA (x)						27.2	13.7	10.9	8.8
RoACE (%)						16.2	34.0	34.2	33.1
RoAE (%)						15.8	29.5	28.3	26.8

Date: February 11, 2021

Key takeaways from Q3FY21 results

Base Amines

- BAL's product portfolio is witnessing continuously high demand due to requirements from domestic pharma industry and China+1 strategy. This has led to better price realization for majority of products.
- Price of DMF registered sharp uptick on account of reduced imports and supply-demand mismatch. DMF plant utilization stands at 45% (historically underutilized at 20% due to dumping from China and Saudi Arabia). Domestic DMF demand should grow 7-10% p.a.
- Debottlenecking of acetonitrile will be completed by March 2021, with total capacity coming in at 18-20TPD. Despite new capacities coming up, management expects pricing to remain elevated as customers prefer acetonitrile through the direct route. BAL is also looking to lower the cost of acetonitrile through R&D activities.
- 80% methylamines are captively used to manufacture value-added products.
- BAL is experiencing an increase in methanol prices as methanol from Iran is not procurable.
- Sustainable EBITDA margin is 20-22%. While margins may decline due to higher raw material prices, sales from new capacities are expected to offset the fall.
- Strong margin development is an outcome of product mix.
- Most plants are operating at full capacity (apart from DMF).

Balaji Specialty Chemicals

- BSC had an improved run-rate of INR12.5cr per month.
- The company is exporting EDA and DETA to China.
- EBITDA margin stood at 34.1% for Q3FY21 (24% for 9MFY21), driven by some increase in FG prices v/s raw material prices. Guidance remains at 20-22%.

Capex

- Ethylamines capacity will be commissioned by end-FY21.
- Dimethyl carbonate capacity should be commissioned by Q2FY22. DMC volumes are expected at 12,000-13,000MT.
- Of total INR150cr capex, INR128cr capex has been completed in greenfield project.
- Methylamines capacity of 40,000-50,000MT will be set up as phase-2 of greenfield project (to be completed by November 2021).
- Plans are afoot to set up a DMF plant.

Others

- Inventory liquidation of CFL has been completed. The land could potentially fetch INR25-30cr in the future and is currently on rent.
- Not facing challenges in procuring raw materials as they are transported in ISO tanks. However, container issue has impacted exports. Management expects the situation to improve by March 2021.

Particulars	Q3FY21	Q3FY20	% change	Q2FY21	% change	FY20	FY21E	FY22E	FY23E
Income from operations	392	228	72	282	39	936	1,273	1,649	2,043
Cost of goods sold	187	122	53	137	36	514	623	797	1,021
Employee expenses	19	14	33	16	23	34	65	75	86
Other expenses	69	48	42	56	24	241	297	427	518
Total operating expenses	275	185	49	209	32	755	920	1,224	1,539
EBITDA	117	43	174	74	59	181	353	425	504
Depreciation and amortization	9	8	9	9	-6	32	34	41	46
EBIT	109	35	212	64	69	149	319	384	458
Interest expenses	5	6	-24	5	-11	23	22	20	20
Other income	1	1	-13	1	-26	5	4	4	4
PBT	104	29	258	60	75	131	301	369	442
Provision for tax	25	8	201	16	64	34	79	95	114
Core profit	79	21	281	44	79	97	223	274	329
Extraordinary items	0	0	-	0	-	0	0	0	0
Adjusted net profit	75	23	220	46	64	105	210	258	311
No. of shares (Cr)	3	3		3		3	3	3	3
Diluted EPS (INR)	23	7	220	14	64	32	65	80	96

Revised Estimates

(INR Cr)	FY21E			FY22E			FY23E		
	Previous	Revised	%Change	Previous	Revised	%Change	Previous	Revised	%Change
Sales	1,068	1,273	19%	1,324	1,649	25%	1,526	2,043	34%
EBITDA	258	353	37%	327	425	30%	370	504	36%
EBITDA margin	24%	28%	358 bps	25%	26%	107 bps	24%	25%	42 bps
PAT	158	210	33%	205	258	26%	227	311	37%
EPS	49	65	33%	63	80	26%	70	96	37%

Exhibit 1: New capacities to drive growth in FY22/FY23 - Revenue (INR cr)

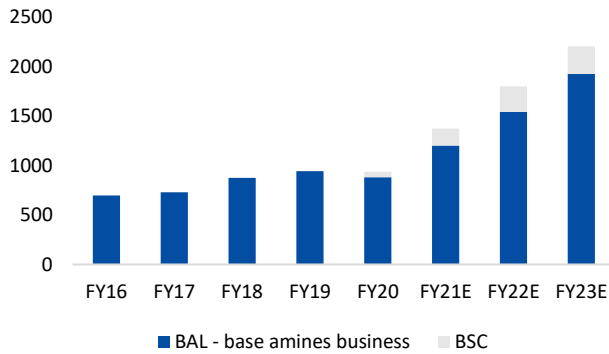


Exhibit 2: Volume and volume mix for BAL's products (in MT)

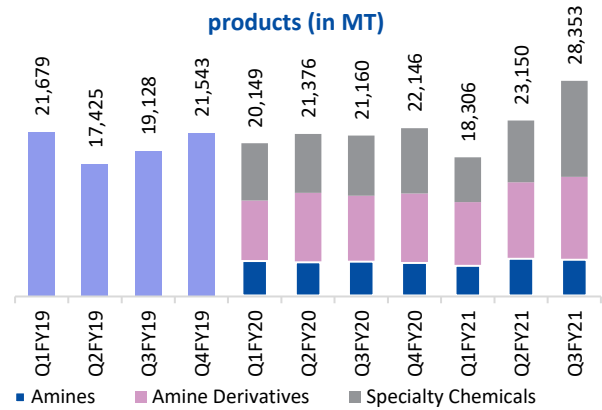


Exhibit 3: Unit level realisation and EBIT for BAL is on an improving trend

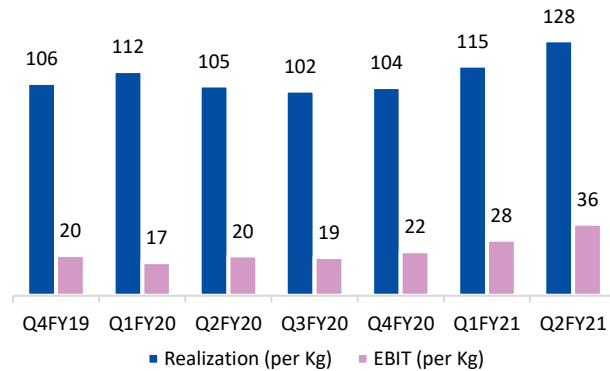


Exhibit 4: PAT CAGR expected to be robust over FY21-23E (INR cr)

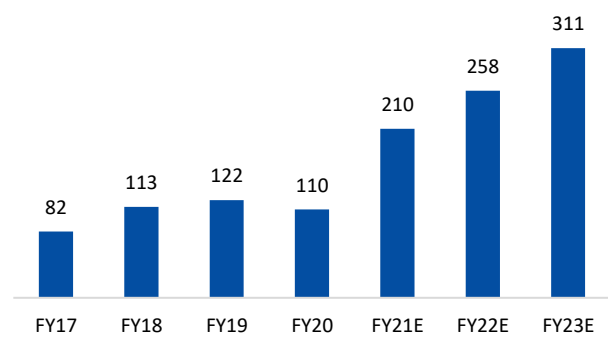


Exhibit 5: RoAE (%)

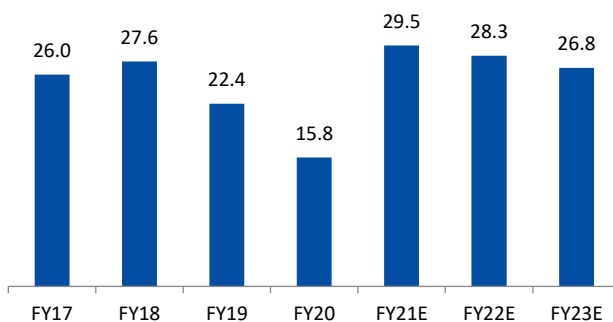
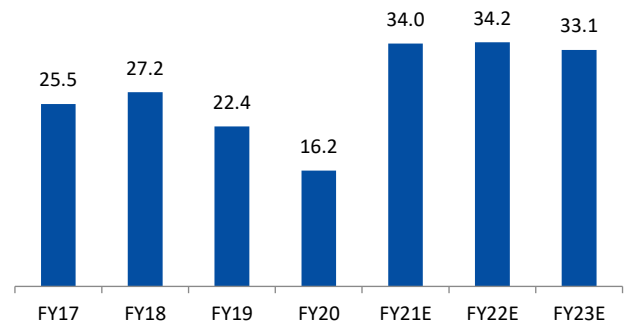


Exhibit 6: RoACE (%)



Source: Edelweiss Wealth Research

Income statement (Consolidated)
(INR crs)

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Income from operations	943	936	1273	1649	2043
Total operating expenses	750	755	920	1224	1539
EBITDA	193	181	353	425	504
Depreciation and amortisation	20	32	34	41	46
EBIT	174	149	319	384	458
Interest expenses	13	23	22	20	20
Profit before tax	165	131	301	369	442
Provision for tax	49	34	79	95	114
Core profit	117	97	223	274	329
Minority interest	0	7	-12	-16	-18
Extraordinary items	0	0	0	0	0
Profit after tax	117	105	210	258	311
Adjusted net profit	117	105	210	258	311
Equity shares outstanding (mn)	3	3	3	3	3
EPS (INR) basic	36	32	65	80	96
Diluted shares (Cr)	3	3	3	3	3
EPS (INR) fully diluted	36	32	65	80	96
Dividend per share	0	3	6	7	9
Dividend payout (%)	0	9	9	9	9

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

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Operating expenses	79.5	80.7	72.3	74.2	75.3
Depreciation	2.1	3.4	2.6	2.5	2.2
Interest expenditure	1.4	2.5	1.7	1.2	1.0
EBITDA margins	20.51	19.32	27.7	25.8	24.7
Net profit margins	12.40	11.20	16.53	15.64	15.21

Growth metrics (%)

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Revenues	9.5	(0.8)	36.0	29.5	23.9
EBITDA	6.3	(6.6)	95.4	20.3	18.6
PBT	(0.5)	(20.6)	129.9	22.3	20.0
Net profit	3.0	(16.4)	128.5	22.9	20.0
EPS	2.8	(10.4)	100.8	22.6	20.5

Balance sheet (Consolidated)

As on 31st March	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	6	6	6	6	6
Preference Share Capital	0	0	0	0	0
Reserves & surplus	568	652	844	1,079	1,361
Shareholders funds	574	658	851	1,085	1,367
Secured loans	213	244	195	195	195
Unsecured loans	14	16	13	13	13
Borrowings	227	260	208	208	208
Minority interest	18	10	7	7	7
Sources of funds	819	928	1,066	1,300	1,583
Gross block	502	786	787	787	787
Depreciation	182	213	247	247	247
Net block	320	573	540	540	540
Capital work in progress	269	45	99	99	99
Total fixed assets	589	618	639	639	639
Unrealised profit	0	0	0	0	0
Investments	0	48	0	0	0
Inventories	163	110	202	217	269
Sundry debtors	167	207	324	348	431
Cash and equivalents	21	9	39	251	460
Loans and advances	99	88	148	148	148
Other current assets	0	0	0	0	0
Total current assets	450	415	713	964	1,308
Sundry creditors and others	86	64	237	254	315
Provisions	79	61	18	18	18
Total CL & provisions	165	125	255	272	333
Net current assets	285	290	458	692	975
Net Deferred tax	-46	-44	-41	-41	-41
Misc expenditure	-9	16	10	10	10
Uses of funds	819	928	1,066	1,300	1,583
Book value per share (INR)	177	203	263	335	422

Cash flow statement

(INR crs)

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Net profit	117	105	210	258	311
Add: Depreciation	20	32	34	41	46
Add: Misc expenses written off	42	-26	7	0	0
Add: Deferred tax	-4	-2	-3	0	0
Gross cash flow	174	109	248	299	357
Less: Changes in W. C.	81	17	138	21	74
Operating cash flow	93	92	110	277	282
Less: Capex	169	60	55	41	46
Free cash flow	-76	32	55	236	237

Ratios

Year to March	FY19	FY20	FY21E	FY22E	FY23E
ROAE (%)	22.4	15.8	29.5	28.3	26.8
ROACE (%)	22.4	16.2	34.0	34.2	33.1
Debtors (days)	65	81	93	77	77
Current ratio	2.7	3.3	2.8	3.5	3.9
Debt/Equity	0.4	0.4	0.2	0.2	0.2
Inventory (days)	63	43	58	48	48
Payable (days)	33	25	68	56	56
Cash conversion cycle (days)	95	99	83	69	69
Debt/EBITDA	1.2	1.4	0.6	0.5	0.4
Adjusted debt/Equity	0.4	0.4	0.2	0.0	-0.2

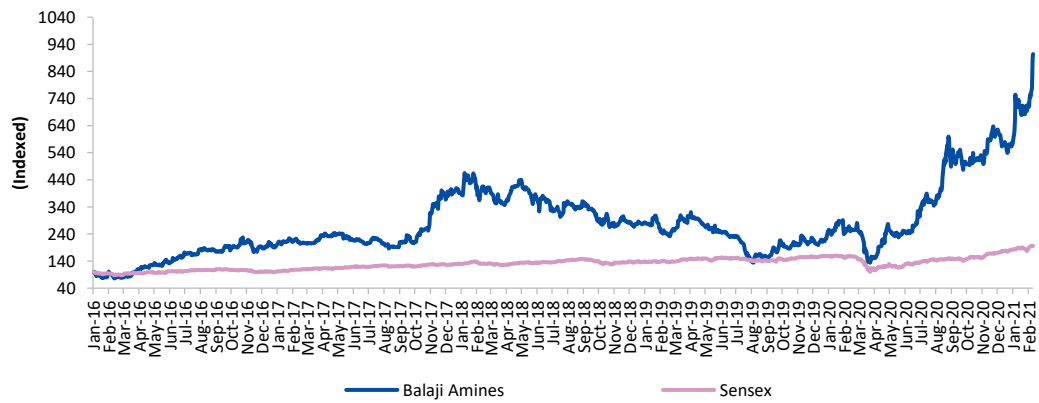
Valuation parameters

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Diluted EPS (INR)	36.1	32.3	64.9	79.6	95.9
Y-o-Y growth (%)	2.8	(10.4)	100.8	22.6	20.5
CEPS (INR)	42.0	39.8	79.2	97.1	115.6
Diluted P/E (x)	39.9	44.5	22.2	18.1	15.0
Price/BV(x)	8.1	7.1	5.5	4.3	3.4
EV/Sales (x)	5.2	5.3	3.8	2.8	2.2
EV/EBITDA (x)	25.2	27.2	13.7	10.9	8.8
Diluted shares O/S	3.2	3.2	3.2	3.2	3.2
Basic EPS	36.1	32.3	64.9	79.6	95.9
Basic PE (x)	39.9	44.5	22.2	18.1	15.0
Dividend yield (%)	0.0	0.2	0.4	0.5	0.6

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
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