

ALKYL AMINES

BUY

Equity Research Report

20 September 2020

CMP: ₹ 3334.75
(20/09/2020)

TARGET PRICE: ₹ 4400
Months: 12 Months

RATING:
BUY

Upside:
32%

Company details

Market Cap ₹ 6802 Cr

52 Weeks High/Low ₹3600 / ₹ 800

Stock P/E 32.81

EPS 114.22

Dividend Yield 0.60

Price Charts



Price Performance (%)

1m 3m YTD 12m

Absolute 3.71 56.93 204.66 319.09

ShareHolding Pattern (%)

Promoter 74.19

DII 1.73

FII 0.67

Others 23.4

About the Company:

Alkyl Amines Chemicals is a global manufacturers and suppliers of amines, amine derivatives and other specialty chemicals.

Alkyl Amines Chemicals Ltd. engages in the manufacture of organic and inorganic chemical compounds. It operates through Within India and Outside India geographical segments. The firm's products include aliphatic amines, amine derivatives, and other speciality chemicals. The company was founded by Yogesh Mathuradas Kothari on October 17, 1979 and is headquartered in Mumbai, India.

Incorporated in 1979, Alkyl Amines Chemicals Ltd (AACL) is in the business of manufacturing and marketing various aliphatic amines, amine derivatives and other speciality chemicals. It has three manufacturing sites with 12 production plants and related utilities at Patalganga and Kurkumbh in Maharashtra and Dahej in Gujarat •

The company 's amines and amine derivatives are currently being manufactured in 9 production plants with a capacity exceeding 70000 MTPA. In 2018, it started on its Dahej site where amines are currently being manufactured in 1 production plant with a capacity exceeding 35000 MTPA.

Aliphatic amines industry is oligopolistic in nature with Alkyl holding 50% market share followed by Balaji amines (45%) and rest by RCF • Going ahead, increasing capacity by more than 35% to 150,000 MTPA should aid financial outlook of the company given that Pharma and Agrochem both constitute around 75% to the overall revenue presently.

I expect both pharma and agrochem segments should perform well in the years to come and thereby provides decent visibility to Alkyl amines • With Technocrat management along with strong balance sheet and business outlook in placed, we expect Alkyl is best placed among the other competitors in the amine industry

Quarterly Financials (Figures in Rs. Crores)

Report Date	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Sales	174.07	178.14	218.14	212.67	237.45	266.23	234.97	256.91	234.77	245.15
Expenses	133.68	141.2	168.89	174.09	199.08	207.08	177.26	184.34	167.19	167.77
Other Income	0.34	0.02	0.81	2.73	1.61	1.33	0.89	35.01	2.62	1.18
Depreciation	3.99	5.55	5.62	5.7	6.46	6.4	6.51	6.8	7.2	7.02
Interest	2.52	3.94	3.88	3.63	3.32	3.63	2.59	2.13	1.89	1.92
Profit before tax	34.22	27.47	40.56	31.98	30.2	50.45	49.5	98.65	61.11	69.62
Tax	10.93	9.8	14.14	9.86	12.65	15.36	-4.39	21.56	11.9	16.83
Net profit	23.3	17.67	26.42	22.11	17.55	35.09	53.89	77.09	49.21	52.78
Operating Profit	40.39	36.94	49.25	38.58	38.37	59.15	57.71	72.57	67.58	77.38

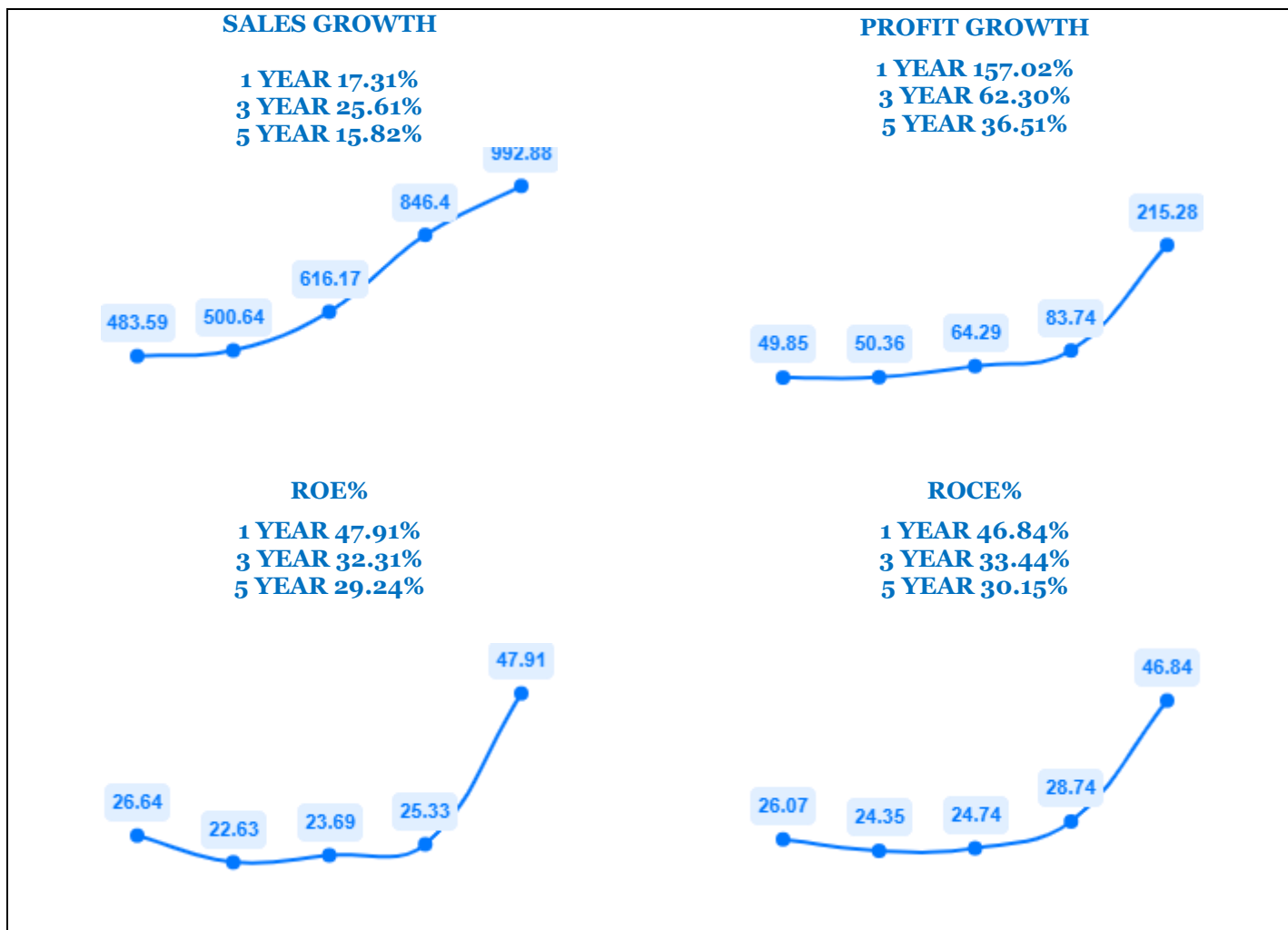
Sales growth of 4% QoQ to INR 2.5bn was primarily realisation-led, as volume remained flat. Volume dip dragged sales by 8% YoY. Yet, gross margins rose to 55.9% given a better product mix and higher margins courtesy the robust pharma demand. Backed by operating leverage and the high margin Acetonitrile, EBITDA margins grew to 31.6%. Tight supply of Acetonitrile in the global market continues to drive realisation and we expect the currently elevated prices to sustain in the near to mid-term.

Cash Flows Annual (Figures in Rs. Crores)

Report Date	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20
Cash from Operating Activity	24.43	35.62	22.48	45.94	60.65	101.39	63.48	101.6	144.21	187.72
Cash from Investing Activity	-17.51	-19.1	-27.46	-25.87	-30.73	-35.14	-64.87	-132.18	-66.79	-40.68
Cash from Financing Activity	-8.75	-12.68	5.18	-13.42	-35.85	-68.18	-1.6	32.47	-60.32	-135.14
Net Cash Flow	-1.83	3.84	0.2	6.65	-5.94	-1.94	-2.99	1.89	17.1	11.9

Balance Sheet (Figures in Rs. Crores)

Report Date	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20
Equity Share Capital	10.21	10.21	10.21	10.21	10.21	10.21	10.21	10.21	10.21	10.21
Reserves	66.26	78.68	96.65	129.98	164.61	189.26	235.36	286.95	354.79	526.39
Borrowings	120.08	123.41	146.01	150.65	134.56	111.45	120.06	181.26	165.33	86.58
Other Liabilities	52.64	61.03	79.06	97.57	92.65	95.47	146.57	158.63	218.19	160.21
Total	249.19	273.33	331.93	388.41	402.03	406.39	512.2	637.05	748.52	783.39
Net Block	97.92	122.34	126.1	154.8	150.54	187.13	220.09	355.17	376.43	423.48
Capital Work in Progress	23.28	5.64	8.93	2.59	31.07	16.14	34.76	18.4	43.15	44.88
Investments	2.34	2.34	2.34	2.26	2.26	2.26	1.44	1.44	1.44	
Other Assets	125.65	143.01	194.56	228.76	218.16	200.86	255.91	262.04	327.5	315.03
Total	249.19	273.33	331.93	388.41	402.03	406.39	512.2	637.05	748.52	783.39
Receivables	47.33	60.36	75.97	89.8	98.93	90.3	97.34	123.78	152.63	164.22
Inventory	51.96	49.73	72.69	82.72	70.54	63.16	111.41	85.18	105.69	83.67
Cash & Bank	1.26	11.07	15.44	22.86	7.86	4.27	2.96	3.23	20.17	32.26

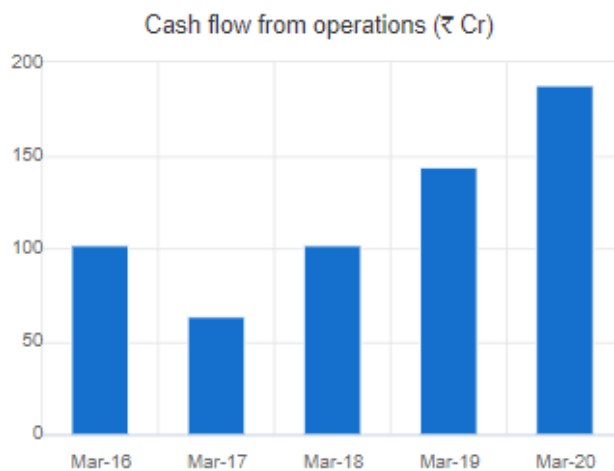
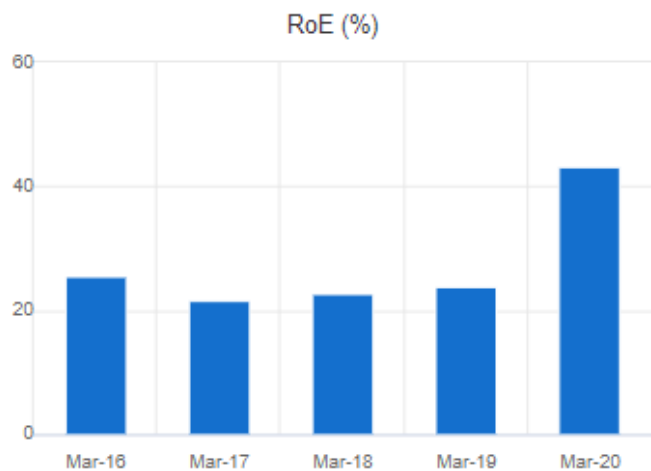
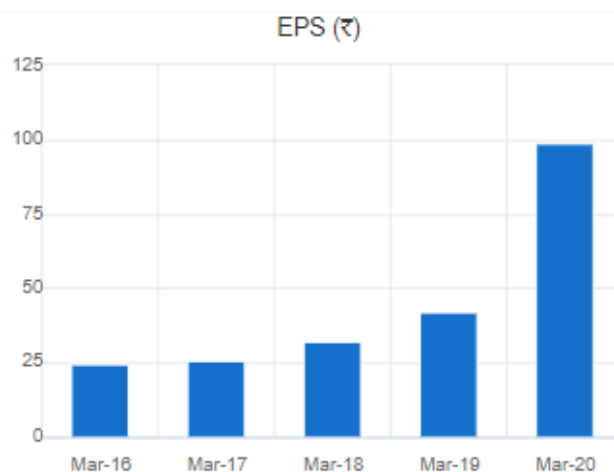
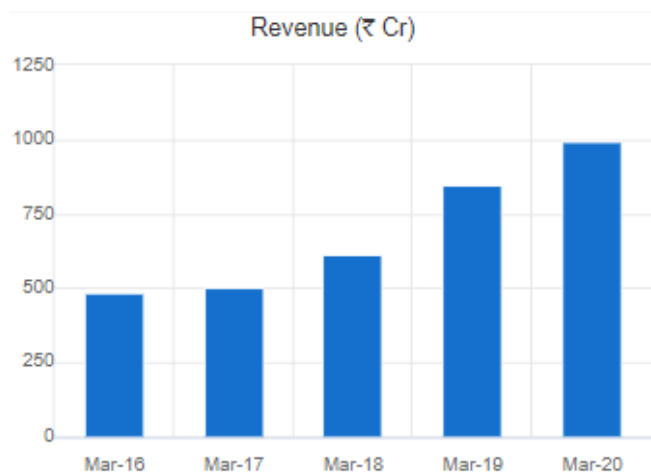


Outlook

1. Our BUY recommendation on Alkyl Amines with a Target Price of INR 4400 is premised on
2. Robust demand from pharmaceutical and agrochemical customers that form 70% of AACL's revenue mix,
3. Rising domestic market share in Methyl Amines,
4. Impending capacity expansion for (high-margin) Acetonitrile,
5. Production linked incentive scheme that provides the right tailwinds for long-term volume growth
6. Margins are largely driven by three products, viz. pharma grade-Acetonitrile, DMA-HCL and Isopropyl amine.

Positives	Negative
<ul style="list-style-type: none"> PAT (HY) At Rs 101.99 cr has Grown at 93.75 % PAT (9M) At Rs 153.42 cr has Grown at 105.24 % Good quality company basis long term financial performance. Size - Ranks 11th out of 137 companies in Chemicals sector 	<ul style="list-style-type: none"> Company's Valuation parameters have become very high compared to its past Stock is trading at 12.68 times its book value

- Company has reduced debt
- Company has delivered good profit growth of 33.04% CAGR over last 5 Years
- Company has a good return on equity (ROE) track record with 32.07% over 3 years



My Call:

The size of the Indian chemical industry is estimated to be around \$165 billion, representing a market share of 3.4% in the global chemical market. The chemical industry is segregated among different segments such as bulk chemical, speciality chemicals, petrochemicals, fertilisers, pharmaceuticals API and agrochemicals • Bulk chemicals lead the share with 25% in domestic chemical market followed by specialty chemical (22%), petrochemicals (19%), fertilisers (14%), pharmaceuticals API (9%), agrochemicals around 3% and rest from others

I maintain a BUY position on Alkyl Amines with a upside potential of 32% over 1 year due to strong business prospective and robust demand for chemical sector.

OPPORTUNITIES

India is steadily moving up the ranks as a global economic power and a business magnet for investment. Key drivers for success in the chemical sector include proximity to strong growth markets, greater ease in doing business, and the continued development of petroleum, chemicals and petrochemical investment.

Backed by one of the strongest GDP growth rates in the world, the future looks bright for the Indian chemical industry. The Chemical Industry is critical for the economic development of our country, providing products and enabling technical solutions in virtually all sectors of the economy. The Company has the advantage of having a product range of speciality chemicals, covering a broad spectrum of applications. The demand for the company's products is driven by a wide range of end use industries.

The Company is ready to take the challenges of increased demand by continuously investing in upgradation and expansion of its manufacturing capacities. The in-house R&D Department has been developing quality products and is also striving for achieving cost efficiencies.

The industries in which the company's products have application, like pharmaceuticals, agrochemicals, rubber chemicals etc. are growing at a reasonable pace. Company enjoy leadership position in some of the products in domestic market, driven by strong in-house technology, diversified product portfolio and customer base.

Capex guidance for FY21 is revised to INR 1.5-1.8bn from INR 2.5bn as commissioning of the Acetonitrile capacity has been pushed to 2QFY22 (earlier, 4QFY21). The Amines derivatives plant should commission in 2HFY21. At peak utilisation, both plants put together should contribute INR 4-5bn to the topline at current prices.

AACL has 40% of the domestic Acetonitrile market share, and the increased pharma demand has widened margins for the product. Export market and increase in domestic demand would be met by the expanded capacity of 15ktpa.

Demand across products is back at pre-COVID levels from July.

DMAHCL capacity to be doubled by Dec-20, given the current pharma demand