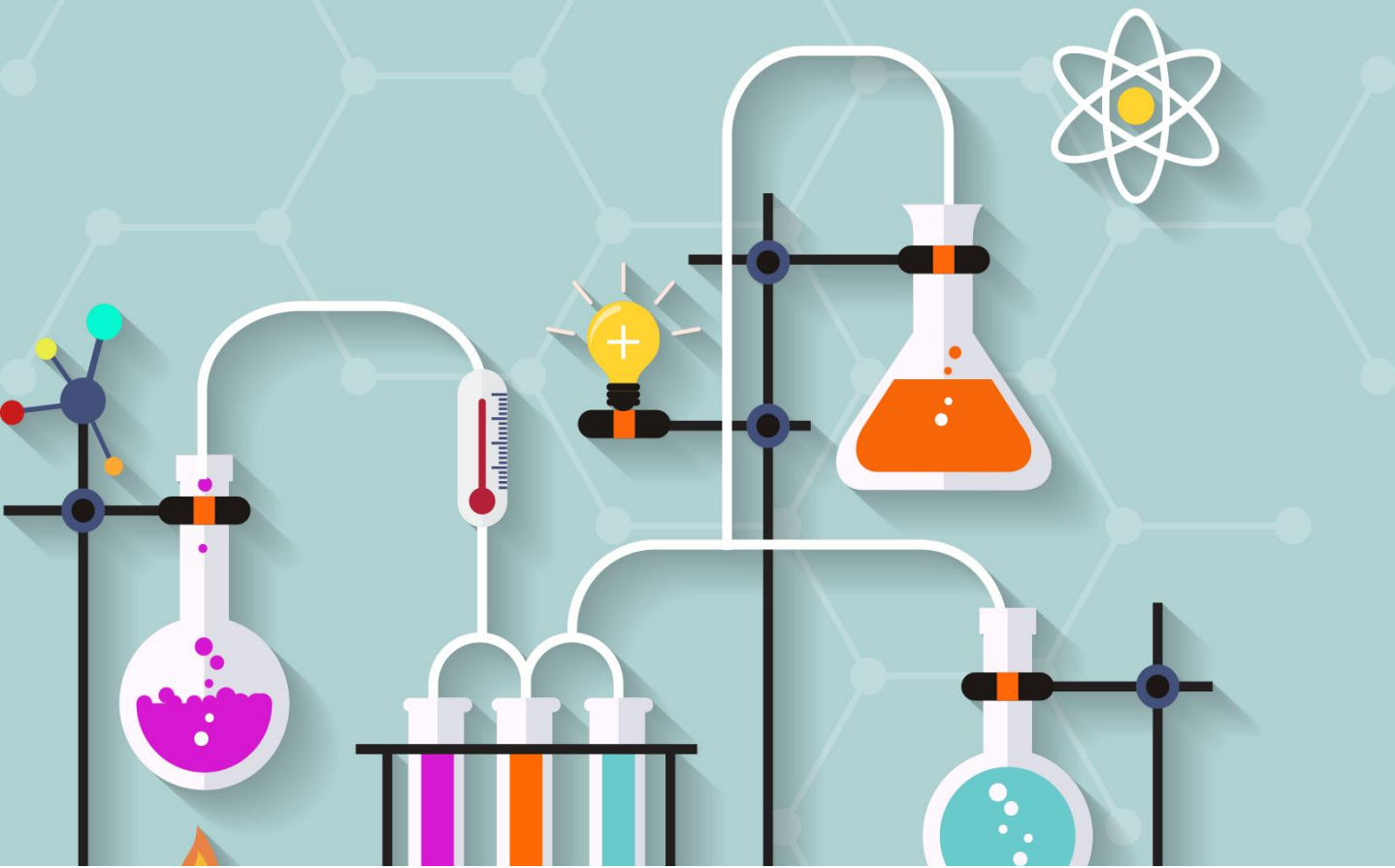


Alkyl Amines Chemicals Ltd.



Alkyl Amines Chemicals Ltd.

Enhancement in operating margins should sustain !

CMP INR 582	Target INR 762	Potential Upside 31%	Market Cap (INR mn) 12,083	Recommendation Buy	Sector Specialty Chemicals
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Result highlights

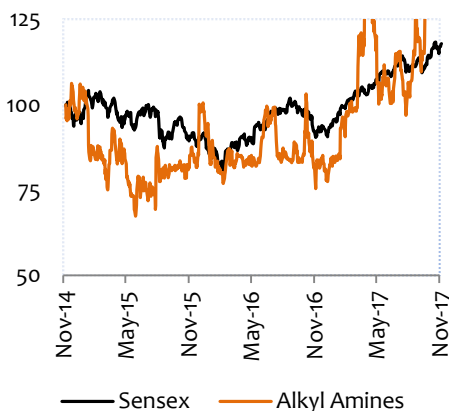
Net Income for Q2FY18 came in at INR 1381 mn as against INR 1241 mn for Q2FY17 and INR 1474 mn for Q1FY18; which grew by 11.3% y-o-y but de-grew by 6.3% q-o-q. EBIDTA during the quarter stood at INR 241 mn; up by 20.7% y-o-y and 3.8% q-o-q, while EBITDA margins surged to 17.5%. Operating margins increased by 135 bps y-o-y and 170 bps q-o-q assisted by margin lucrative product mix.

Further, PAT for the quarter came in at INR 134 mn up 28% y-o-y and 6.2% q-o-q while PAT margin stood at 9.7% witnessing an increase of 127 bps y-o-y and 114 bps q-o-q.

MARKET DATA

Shares outs (mn)	20
Equity Cap (INR mn)	102
Mkt Cap (INR mn)	12083
52 Wk H/L (INR)	649/287
Volume Avg (3m K)	33.8
Face Value (INR)	5
Bloomberg Code	AACL IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	33679
NIFTY	10390

Robust earnings outlook: Alkyl Amines Chemicals Limited (AACL) is one of the leading manufacturers and global suppliers of various aliphatic amines and amine derivatives accounting for ~84% of its total revenue while the balance is contributed by specialty chemicals. During Q2FY18, net sales came in at INR 1381 mn which was up by 11.3% y-o-y while the same for H1FY18 stood at INR 2976 mn growing by 23% y-o-y aided by higher volume growth (up 18% y-o-y).

Forthcoming capacity addition plans of AACL to set up methylamines plant and acetonitrile plant of ~30,000 Metric Tons Per Annum (MTPA) and ~15,000 MTPA respectively is expected to be operational by end of Q3FY18E and H1FY20E. Post commencement of the same coupled with growing demand from end user segments – pharmaceuticals and agrochemicals, we believe, AACL should clock a volume CAGR of 18.7% over FY17-FY20E from ~42,572 MTPA to ~71,250 MTPA.

Sturdy margins led by favorable product mix: EBIDTA for Q2FY18 stood at INR 241 mn; growing by 20.7% y-o-y and 3.8% q-o-q with operating margins at 17.5%. AACL witnessed enhancement in margins by 135 bps y-o-y and 170 bps q-o-q owing to shift in product mix with higher sales of margin lucrative products. With Balaji Amines Ltd (BAL) coming up with capacity addition of DMA HCL and setting up new capacity for acetonitrile, the company expects margin pressure for the above said products. However, we believe that overall margins should sustain owing to increase in procurement of ethyl alcohol domestically (anticipation of robust sugar-cane production) and higher sales of amine derivatives. Consequently, we estimate EBITDA margins to increase from 18.3% in FY17 to 19.9% in FY20.

Valuation & Outlook: With more than 100 products in its portfolio, AACL has changed its product mix and strategically entered into specialty segments that observed robust revenue CAGR of 38% over FY13-FY17 in the said segment. Going forward, with the company's plan to augment its capacity for methylamines and acetonitrile coupled with anticipation of a turnaround in pharma industry and agrochemical industry, we expect the revenue/EBITDA/PAT to grow at 20.3%/23.7%/26.7% CAGR over FY17-FY20E. Additionally, with management's constant focus on higher amines derivatives segment and specialty segment, we expect EBITDA/PAT margins to rise steadily touching 19.99% / 11.9% by FY20E.

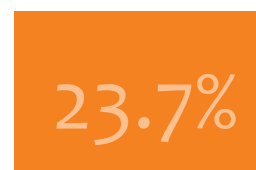
Further, we expect the total debt for the company to remain steady at INR ~1126 mn by FY20E from INR ~1026 mn in FY17 despite factoring a capex of INR ~1500 mn. Consequently, we estimate total debt/equity ratio to improve to 0.26x by FY20E from 0.40x in FY17. Further, we believe ROE/ROCE for the company should scale to 23.9%/28.2% by FY20E. We maintain our **"BUY"** rating on the stock with target price of INR 762 assigning a P/E of 15x on FY20E EPS of 50.8 resulting into an upside of 31.5%.

SHARE HOLDING PATTERN (%)

Particulars	Sep 17	Jun 17	Mar 17
Promoters	74.19	74.19	74.19
FIIIs	1.35	1.56	1.08
DIIIs	0.08	0.1	0.04
Others	24.38	24.15	24.69
Total	100	100	100



Revenue CAGR between FY17 and FY20E



EBITDA CAGR between FY17 and FY20E

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Alkyl Amines Chemicals Ltd.

Exhibit 1: Key Financials

Particulars	FY15	FY16	FY17	FY18E	FY19E	FY20E
Revenue	4,763.7	4,835.9	5,006.4	5,962.4	7,483.9	8,713.1
EBITDA	868	910	917	1,072	1,373	1,737
PAT	451	500	510	562	760	1,038
EBITDA Margin	18.2%	18.8%	18.3%	17.9%	18.3%	19.9%
PAT Margin	9.5%	10.3%	9.9%	9.4%	10.1%	11.9%
EPS	22	25	25	28	37	51
P/E	14	13	18	22	17	12

Source: Company, KRChoksey Research

Exhibit 2: Result Snapshot

Particulars	Q2FY18	Q1FY18	Q2FY17	Q-o-Q change %	Y-o-Y change %
Net Sales	1381	1474	1241	-6.3%	11.3%
Total Expenditure	1140	1241	1041	-8.2%	9.5%
Cost of Raw Materials	772	816	675	-5.4%	14.4%
Employee Benefit Expenses	103	105	99	-1.4%	4.0%
Other Expenses	265	321	267	-17.5%	-0.8%
EBIDTA	241	233	200	3.8%	20.7%
EBITDA Margins (%)	17.5%	15.8%	16.1%	170.08 bps	135.44 bps
Depreciation	39	39	34	-1.6%	14.9%
Other income	13	6	4	126.6%	233.8%
EBIT	216	199	170	8.3%	26.6%
Interest	15	12	16	22.9%	-8.0%
PBT	201	187	154	7.4%	30.1%
Tax	67	61	50	9.8%	34.4%
PAT	134	126	105	6.2%	28.0%
PAT Margin (%)	9.7%	8.6%	8.4%	114.35 bps	126.79 bps
EPS	6.57	6.18	5.13	6.2%	28.0%

Source: Company, KRChoksey Research

Key takeaways from Q2FY18 Concall :

- Dahej green field capacity expansion project for methylamines is experienced delay owing to adverse rainfalls in Gujarat. The same is now expected to be operational by end of December 2018.
- Assuming peak utilizations, the plant is expected to produce 100 tons per day resulting in revenue potential of INR ~2,100 mn. The company plans to utilize ~50% of the volume for captive consumption thereby adding value to overall top-line on account of higher sales of margin lucrative amine derivatives.
- In case of acetonitrile, expansion is currently under engineering phase with the aim to get the plant running in next 15 months. With the current capacity of ~10,000 MTPA and domestic demand standing at ~16,000 MTPA, going forward, the company envisions to cater to domestic as well as international markets. The domestic market is expected to grow at 5-10% for the next 2-3 years.
- At present, ~55% of the total turnover is contributed by aliphatic amines, ~30% by amine derivatives and the balance is by specialty chemicals with key end user industries being pharmaceuticals, agrochemicals and automobile/automotive.
- On the raw material front, globally prices for a few chemicals (methanol, acetic acid) have increased in the last 4-5 months. However, prices of ethanol are anticipated to remain stable on account of sugar production rising.

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Alkyl Amines Chemicals Ltd.

Exhibit 3: Financials

Income Statement (INR mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues	4,764	4,836	5,006	5,962	7,484	8,713
Cost Of Revenues (incl Stock Adj)	2,591	2,519	2,633	3,100	3,892	4,444
Gross Profit	2,172	2,317	2,373	2,862	3,592	4,269
Employee Cost	312	347	382	478	573	659
Other Operating Expenses	992	1,060	1,074	1,312	1,646	1,873
EBITDA	868	910	917	1,072	1,373	1,737
Other Income	20	26	11	14	17	20
EBITDA, including OI	888	935	928	1,086	1,390	1,757
Depreciation	114	129	143	186	209	213
Net Interest Exp.	102	80	56	97	95	62
EBT	672	726	729	803	1,086	1,482
Taxes	221	226	219	241	326	445
Other Comprehensive Income	-	-	-	-	-	-
Net Income	451	500	510	562	760	1,038
Diluted EPS (INR)	22	25	25	28	37	51

Source: Company, KRChoksey Research

Balance Sheet (INR mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS						
Share Capital	102	102	102	102	102	102
Reserves	1,741	1,989	2,451	2,878	3,455	4,243
Total Shareholders Funds	1,843	2,091	2,553	2,980	3,557	4,345
Long Term Borrowings	560	447	662	1,146	1,114	727
Net Deferred Tax liability	208	286	327	327	327	327
Other long term liabilities	-	-	38	38	38	38
Long term provisions	22	27	32	32	32	32
Current Liabilities and Provisions						
Short term borrowings	605	533	364	630	612	399
Trade Payables	387	438	805	680	800	852
Other Current Liabilities	378	331	466	555	696	811
Short Term Provisions	112	8	8	10	13	15
Total Current Liabilities	1,482	1,310	1,643	1,874	2,120	2,077
Total Liabilities	4,115	4,160	5,256	6,398	7,189	7,546
APPLICATION OF FUNDS :						
Net Block	1,505	1,871	2,201	3,115	3,506	3,394
Capital Work in Progress	310	161	348	348	348	348
Intangible asset under development	1	1	-	-	-	-
Non-current investments	99	100	104	104	104	104
Deferred tax assets	171	142	283	283	283	283
Long term loans and advances	27	29	4	4	4	4
Current Assets, Loans & Advances						
Current Investments	-	-	-	-	-	-
Inventories	705	632	1,114	1,019	1,173	1,278
Sundry Debtors	989	903	973	1,160	1,456	1,695
Cash and Bank	94	60	52	154	52	134
Loans and Advances	194	247	165	196	246	287
Other Current assets	20	16	12	14	18	20
Total Current Assets	2,002	1,857	2,316	2,544	2,944	3,414
Total Assets	4,115	4,160	5,256	6,398	7,189	7,546

Source: Company, KRChoksey Research

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Exhibit 5: Cash flow statement

Cash Flow Statement (INR mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
PBT & Extraordinary	672	726	729	803	1,086	1,482
Depreciation	114	129	143	186	209	213
(Inc) / Dec in Working Capital	(63)	205	(119)	(161)	(239)	(219)
Taxes	(216)	(148)	(194)	(241)	(326)	(445)
Others	-	(1)	0	97	95	62
Cash from Operations	609	1,014	623	684	825	1,093
Purchase of Fixed Assets	(410)	(353)	(756)	(1,100)	(600)	(100)
Others	12	2	2	-	-	-
Cash from Investing	(312)	(353)	(755)	(1,100)	(600)	(100)
Proceeds from issue of shares	-	-	487	-	-	-
Borrowings (Net)	(153)	(242)	137	750	(50)	(600)
Others	(198)	(430)	4	(233)	(277)	(311)
Cash from Financing	(359)	(682)	125	517	(327)	(911)
Net Change in Cash	(62)	(20)	(8)	102	(103)	82
BF cash	120	59	60	52	154	52
END Cash	59	60	52	154	52	134

Source: Company, KRChoksey Research

Ratio Analysis	FY15	FY16	FY17	FY18E	FY19E	FY20E
Growth (%)						
Total Sales	6.8%	1.5%	3.5%	19.1%	25.5%	16.4%
EBITDA	2.3%	4.8%	0.8%	17.0%	28.0%	26.5%
APAT	4.3%	10.9%	1.9%	10.2%	35.2%	36.5%
Profitability (%)						
EBITDA Margin	18.2%	18.8%	18.3%	18.0%	18.3%	19.9%
Adj. Net Profit Margin	9.5%	10.3%	10.2%	9.4%	10.2%	11.9%
ROCE	26%	26%	22%	19%	22%	28%
ROE	24%	24%	20%	19%	21%	24%
Per Share Data (Rs.)						
AEPS	22.1	24.5	25.0	27.5	37.2	50.8
BVPS	90	102	125	146	174	213
Valuations (x)						
PE(x)	14.2	12.7	18.1	21.4	15.8	11.6
P/BV (x)	3.5	3.0	3.6	4.0	3.4	2.8
Turnover days						
Debtor Days	76	68	71	71	71	71
Inventory Days	99	92	154	120	110	105
Payable Days	54	63	112	80	75	70
Gearing Ratio						
D/E	0.63	0.47	0.40	0.60	0.49	0.26

Source: Company, KRChoksey Research

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Alkyl Amines Chemicals Ltd.

Alkyl Amines Chemicals Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
27-Nov-17	582	762	BUY	Buy	More than 15%
01-Nov-17	617	762	BUY	Accumulate	5% – 15%
				Hold	0 – 5%
				Reduce	-5% – 0
				Sell	Less than – 5%

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