

Balaji Amines

Higher margins drive profitability

Our BUY recommendation on Balaji Amines with a TP of INR 560 owing to (1) Robust demand from pharma and agrochemical industry that comprise ~70% of its revenue mix, and (2) Faster than anticipated recovery in plant utilisation as demand bounces back post the Covid-19 pandemic.

- **View on the result:** Both EBITDA and APAT were 40% above our estimates largely due to better sales mix. Higher sales volumes of high margin amines derivatives and specialty products has resulted in better gross margin of 48.2% (est. 44.4%). Besides, sales volumes were 4.7% more than expected.
- **Volumes and realisations:** Amines sales volume was 22.15kt (+3/5% YoY/QoQ). Tabulated per kg realisation from the Amines segment come to INR 104.3, (-2/+2% YoY/QoQ). However, back calculated per kg EBIT improved by 9/15% YoY/QoQ to INR 22.3 (-4.1/-3.4% YoY/QoQ).
- **Margins:** Gross margins stood at 48.2% (vs. our estimate of 44.4%), -256/212bps YoY/QoQ. EBITDAM jumped by 255/310bps YoY/QoQ to 22.7% (est. 18.1%). For FY20, GM/EBITDAM stood at 44.4/19.6%, down 67/79bps YoY. Improvement in sequential EBITDAM was on account of increase in volume offtake and higher price realizations largely across all products, increase in operating leverage and benign raw material prices.
- **Outlook on consolidated EBITDA:** We expect consol EBITDA to improve by 6/24% in FY21/22 led by (1) Gradual rise in utilization of BAL's subsidiary, Balaji Specialty chemicals (stake 55%), post its commissioning in 2HFY20 (2) Sustainable demand for Amines from Pharma and Agrochemical customers (70% of customer mix), albeit lower demand from other customers in 1HFY21 owing to Covid-19 (3) Anticipation of sustainability of the current elevated prices of Acetonitrile that will continue to push EBITDA upwards.
- **Outlook on margins:** Current levels of Gross/EBITDA margins seem sustainable in FY21/22 led by subdued RMC and superior margins for Acetonitrile. We expect gross margins of 43.5% in FY21/22 vs. 45.1% in FY20 and EBITDA margins of 18.6/20.2% vs. 19.3% in FY20.
- **View on the consolidated balance sheet:** BAL's cash jumped 2.7x YoY to INR 206mn, in turn leading to a 10% YoY dip in Net debt to INR 1,851mn. Consequently, Net Debt/Equity and Net Debt/EBITDA reduced marginally to 0.3x and 1.0x vs. 0.4x/1.1x in FY19.
- **Change in estimates:** We raise our FY21/22 EPS estimate by 8% each to INR 35.7/46.0 in anticipation of (1) Better realisation, and (2) Subdued RMC.
- **DCF based valuation:** Our TP is INR 560 based on Sep-21E cash flows (WACC 10%, Terminal growth rate 3.0%). The stock is trading at 12.9/10.0x FY21/22 EPS.

Standalone Financial Summary

Year Ending March (INR mn)	4Q FY20	3Q FY20	QoQ (%)	4Q FY19	YoY (%)	FY19*	FY20P*	FY21E*	FY22E*
Revenues	2,355	2,218	6.2	2,348	0.3	9,431	9,358	10,264	11,740
EBITDA	535	435	23.0	473	13.0	1,934	1,807	1,907	2,368
APAT	324	267	21.0	270	19.8	1,146	975	1,156	1,492
AEPS (INR)	10.0	8.3	21.0	8.3	19.8	35.4	30.1	35.7	46.0
P/E (x)						13.0	15.3	12.9	10.0
EV/EBITDA (x)						8.8	9.7	8.4	6.6
RoE (%)						19.4	14.6	14.6	15.9

Source: Company, HSIE Research | * Consolidated

BUY

CMP (as on 23 Jun 2020)	INR 460
Target Price	INR 560
NIFTY	10,471

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 555	INR 560
	FY21E	FY22E
EPS %	+7.5	+7.8

KEY STOCK DATA

Bloomberg code	BLA IN
No. of Shares (mn)	32
MCap (INR bn) / (\$ mn)	15/197
6m avg traded value (INR mn)	44
52 Week high / low	INR 489/200

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	113.2	30.9	22.6
Relative (%)	76.8	45.8	32.2

SHAREHOLDING PATTERN (%)

	Mar-20	Dec-19
Promoters	53.67	53.64
FIs & Local MFs	0.28	0.25
FPIs	1.72	1.64
Public & Others	44.33	44.47
Pledged Shares	0.0	0.0

Source : BSE

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Takeaways from the earnings conference call:

- **Balaji Specialty Chemicals (BSCPL):** The company commenced the commercial production of Ethylene Diamine (EDA) and Piperazine in Q2FY20. 4QFY20 revenue/EBITDA from BSCPL stood at INR 210/9mn representing 2.2/0.5% of consol Sales/EBITDA. The plant's utilisation is expected to rise to 30-40% by Mar-22. At full utilization, the subsidiary should contribute INR 2.5bn to the BAL's consolidated topline, i.e. 27% of BAL's sales in FY20.
- **Gross debt:** Compared to INR 1bn in short term debt taken by the standalone entity, consol debt stands at INR 2.4bn. This is largely owing long term borrowings of INR 1.3bn taken by BSCPL.
- **The Greenfield project:** The commercial production has been pushed back to Mar-21 (earlier, Dec-20).
- **Capex:** BAL has spent INR 720mn on the Greenfield project and plans to incur an additional INR 700-750mn in FY21.
- **1QFY21:** Plant utilisation stood at 70-75% in April, 80-85% in May and at pre-Covid-19 levels in June. BAL's hotel continues to remain inoperative in the current environment. Fixed cost from this business stand at INR 2.2mn/month.
- **Acetonitrile:** BAL is currently producing ~5-6ktpa of Acetonitrile, whose prices are expected to remain elevated in the near term as the alternate process to produce acetonitrile is currently economically unviable.

Quarterly Financial Snapshot (Standalone)

(INR mn)	4QFY20	3QFY20	QoQ (%)	4QFY19	YoY (%)	FY20	FY19	YoY (%)
Net Sales	2,355	2,218	6.2	2,348	0.3	9,191	9,503	(3.3)
Material Expenses	1,221	1,196	2.0	1,277	(4.4)	5,112	5,222	(2.1)
Employee Expenses	134	140	(4.2)	108	24.2	496	483	2.8
Other Expenses	465	446	4.3	490	(5.0)	1,785	1,864	(4.3)
EBITDA	535	435	23.0	473	13.0	1,798	1,934	(7.1)
Depreciation	77	57	35.7	54	43.1	242	196	23.7
EBIT	458	378	21.0	420	9.1	1556	1739	(10.5)
Other Income & EO Items	28	23	20.2	18	56.8	103	52	96.7
Interest	28	29	(3.7)	33	(14.8)	121	130	(6.9)
PBT	458	372	22.9	404	13.2	1,537	1,660	(7.4)
Tax	124	103	20.7	134	(7.9)	420	515	(18.5)
RPAT	324	267	21.0	270	19.8	1,138	1,181	(3.7)
EO Items (Adj For Tax)	-	-	NA	-	NA	-	36	NA
APAT	324	267	21.0	270	19.8	1,138	1,145	(0.7)
AEPS (INR/sh)	10.0	8.3	21.0	8.3	19.8	35.1	35.3	(0.7)

Source: Company, HSIE Research

Margin Analysis (Standalone)

	4QFY20	3QFY20	QoQ (bps)	4QFY19	YoY (bps)	FY20	FY19	YoY (bps)
Material Expenses as % of Net Sales	51.8	53.9	(212)	54.4	(256)	55.6	54.9	67
Employee Expenses as % of Net Sales	5.7	6.3	(62)	4.6	110	5.4	5.1	32
Other Expenses as % of Net Sales	19.8	20.1	(36)	20.9	(110)	19.4	19.6	(20)
EBITDA Margin (%)	22.7	19.6	310	20.2	255	19.6	20.4	(79)
Net Profit Margin (%)	13.7	12.1	168	11.5	224	12.4	12.1	33
Tax Rate (%)	27.1	27.6	(50)	33.2	(617)	27.3	31.0	(371)

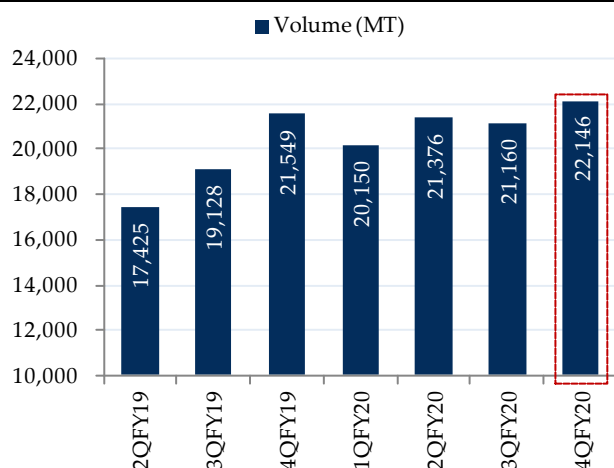
Source: Company, HSIE Research

Standalone Segment Wise Performance

INR mn	4QFY20	3QFY20	QoQ (%)	4QFY19	YoY (%)	FY20	FY19	YoY (%)
Revenue								
Amines Division	2,310	2,169	6.5	2,293	0.8	8,988	9,294	(3.3)
Hotel Division	45	49	(8.9)	56	(19.3)	204	213	(4.1)
CFL Lamps and capsules	-	0	(100.0)	0	NA	0	0	NA
Total	2,355	2,218	6.2	2,349	0.3	9,192	9,506	(3.3)
Revenue Mix (%)								
Amines Division	98.1	97.8		97.6		97.8	97.8	
Hotel Division	1.9	2.2		2.4		2.2	2.2	
CFL Lamps and capsules	-	0.0		0.0		0.0	0.0	
Segment Results								
Amines Division	493	408	20.8	439	12.3	1,678	1,806	(7.1)
Hotel Division	(3)	(3)	5.1	2	(244.4)	(3)	(0)	1,515.5
CFL Lamps	(4)	(4)	12.2	(5)	(3.8)	(16)	(16)	2.1
EBIT	485	401	21.0	437	11.1	1,658	1,791	(7.4)
Less: Interest								
Amines	28	29	(3.4)	32	(12.9)	120	122	(1.8)
Hotel	0	0	(22.2)	1	(69.0)	2	8	(81.2)
CFL Lamps	-	-	-	0	NA	-	0	NA
Total interest	28	29	(3.7)	33	(14.8)	121	130	(6.9)
PBT								
Amines	466	380	22.6	408	14.2	1,558	1,685	(7.5)
Hotel	(4)	(4)	1.9	1	(388.6)	(5)	(9)	(42.4)
CFL Lamps	(4)	(4)	12.2	(5)	(4.2)	(16)	(16)	1.9
Total PBT	458	372	22.9	404	13.2	1,537	1,660	(7.4)

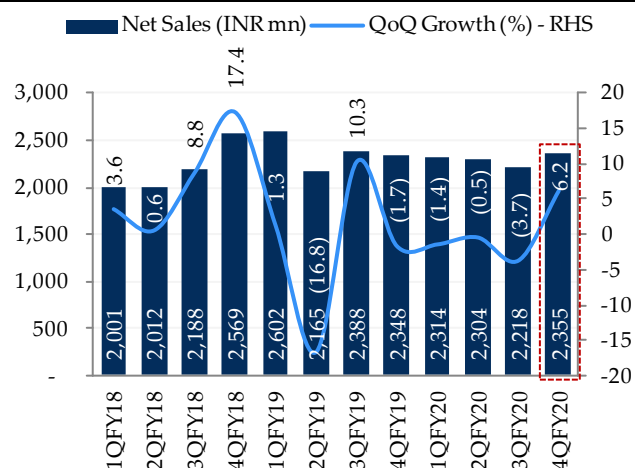
Source: Company, HSIE Research

Historical Volume trend- Standalone



Source: Company, HSIE Research

Historical Sales and QoQ growth trend- Standalone



Source: Company, HSIE Research

Change in estimates (Consolidated)

INR mn	FY21E			FY22E		
	Old	New	% Ch	Old	New	% Ch
Net Sales	9,769	10,264	5.1	11,277	11,740	4.1
EBIDTA	1,767	1,907	8.0	2,239	2,368	5.8
APAT	1,075	1,156	7.5	1,383	1,492	7.8
EPS (INR/sh)	33.2	35.7	7.5	42.7	46.0	7.8

Source: Company, HSIE Research

Peer Set Comparison (Consolidated)

Company	Mcap (INR bn)	CMP (INR/sh)	Reco	TP	EPS (INR/sh)			P/E (x)			P/BV (x)			RoE (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Vinati Organics	103.81	1010	SELL	825	32.5	29.5	32.1	31.1	34.2	31.4	8.1	7.3	6.4	28.6	22.4	21.6
Navin Fluorine	80.33	1628	ADD	1,721	82.6	46.9	65.0	19.7	34.7	25.1	5.7	5.1	4.5	32.9	15.5	19.0
Galaxy Surfactants	51.86	1,463	BUY	1,889	53.6	44.0	85.9	27.3	33.3	17.0	5.0	4.4	3.6	19.9	14.1	23.5
Alkyl Amines	44.95	2202	BUY	2,300	80.6	73.0	104.1	27.3	30.2	21.2	9.2	7.5	5.9	38.5	27.3	31.2
Balaji Amines	14.90	460	BUY	560	30.1	35.7	46.0	15.3	12.9	10.0	2.2	1.9	1.6	14.6	14.6	15.9

Source: Company, HSIE Research

Financials

Consolidated Income Statement

YE Mar (INR mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Revenues	7,306	8,612	9,431	9,358	10,264	11,740
<i>Growth (%)</i>	<i>13.6</i>	<i>17.9</i>	<i>9.5</i>	<i>(0.8)</i>	<i>9.7</i>	<i>14.4</i>
Material Expenses	3,473	4,610	5,410	4,980	5,799	6,633
Change In Inventories	(50)	31	(257)	267	-	-
Employee Expenses	245	269	295	510	535	562
Other Operating Expenses	2,111	1,808	2,048	1,902	2,022	2,176
EBITDA	1,527	1,895	1,934	1,807	1,907	2,368
<i>EBITDA Margin (%)</i>	<i>20.9</i>	<i>22.0</i>	<i>20.5</i>	<i>19.3</i>	<i>18.6</i>	<i>20.2</i>
<i>EBITDA Growth (%)</i>	<i>20.5</i>	<i>24.1</i>	<i>2.1</i>	<i>(6.5)</i>	<i>5.5</i>	<i>24.2</i>
Depreciation	197	193	196	316	253	275
EBIT	1,329	1,702	1,739	1,491	1,654	2,094
Other Income (Including EO Items)	31	41	42	50	53	55
Interest	129	90	130	230	162	155
PBT	1,257	1,658	1,686	1,311	1,545	1,994
Tax	433	527	515	336	389	503
RPAT	824	1,132	1,171	975	1,156	1,492
EO (Loss) / Profit (Net Of Tax)	26	6	36	-	-	-
APAT	798	1,128	1,146	975	1,156	1,492
<i>APAT Growth (%)</i>	<i>38.5</i>	<i>41.4</i>	<i>1.7</i>	<i>(15.0)</i>	<i>18.6</i>	<i>29.1</i>
AEPS	24.6	34.8	35.4	30.1	35.7	46.0
<i>EPS Growth (%)</i>	<i>38.5</i>	<i>41.4</i>	<i>1.7</i>	<i>(15.0)</i>	<i>18.6</i>	<i>29.1</i>

Source: Company, HSIE Research

Consolidated Balance Sheet

YE Mar (INR mn)	FY17	FY18	FY19	FY20P	FY21E	FY22E
SOURCES OF FUNDS						
Share Capital	64.8	64.8	64.8	64.8	64.8	64.8
Reserves	3,560	4,786	5,855	6,619	7,859	9,319
Total Shareholders Funds	3,625	4,851	5,920	6,684	7,924	9,383
Long-term Debt	168	425	833	1,199	957	1,107
Short-term Debt	1,311	1,094	1,439	1,215	1,208	1,167
Total Debt	1,479	1,518	2,272	2,414	2,165	2,273
Minority Interest	-	-	-	-	-	-
Long-term Provisions & Others	58.3	133.4	163.7	167.6	152.6	155.8
Net Deferred Tax Liability	508	502	458	437	437	437
TOTAL SOURCES OF FUNDS	5,670	7,005	8,813	9,702	10,679	12,250
APPLICATION OF FUNDS						
Net Block	3,255	3,161	3,197	5,730	6,045	6,561
CWIP	251	1,231	2,695	446	669	803
Investments	24	-	-	0	0	0
LT Loans & Advances	-	501	31	-	-	-
Other Non-Current Assets	25	38	40	332	38	38
Total Non-current Assets	3,555	4,931	5,963	6,509	6,752	7,402
Inventories	990	891	1,632	1,104	1,202	1,375
Debtors	1,243	1,727	1,672	2,074	2,058	2,354
Cash & Equivalents	35	242	206	563	1,099	1,583
ST Loans & Advances	528	688	986	881	735	841
Total Current Assets	2,796	3,547	4,496	4,622	5,095	6,154
Creditors	515	718	853	594	959	1,098
Other Current Liabilities	165	755	793	835	209	209
Total Current Liabilities	680	1,474	1,645	1,429	1,168	1,306
Net Current Assets	2,116	2,074	2,850	3,194	3,926	4,847
TOTAL APPLICATION OF FUNDS	5,670	7,005	8,813	9,702	10,679	12,250

Source: Company, HSIE Research

Consolidated Cash Flow

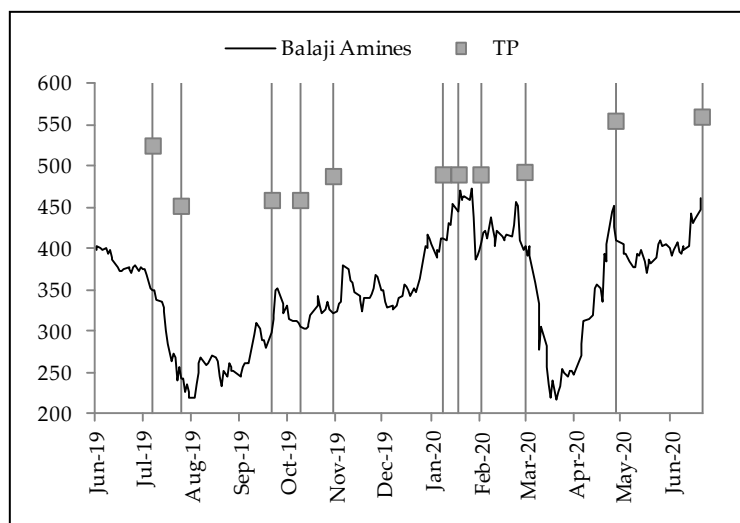
YE Mar (INR mn)	FY17	FY18	FY19	FY20P	FY21E	FY22E
Reported PBT	1,257	1,658	1,686	1,311	1,545	1,994
Non-operating & EO Items	(57)	(47)	(78)	(50)	(53)	(55)
Interest Expenses	129	90	130	230	162	155
Depreciation	197	193	196	316	253	275
Working Capital Change	(606)	249	(813)	14	(197)	(437)
Tax Paid	(430)	(533)	(560)	(357)	(389)	(503)
OPERATING CASH FLOW (a)	490	1,611	561	1,465	1,322	1,429
Capex	(132)	(1,079)	(1,696)	(600)	(791)	(925)
Free Cash Flow (FCF)	358	532	(1,134)	864	530	504
Investments	(23)	24	-	(0)	-	-
Others	29	(473)	511	(211)	347	55
INVESTING CASH FLOW (b)	(127)	(1,529)	(1,185)	(812)	(444)	(870)
Debt Issuance/(Repaid)	(248)	39	754	142	(249)	109
Interest Expenses	(129)	(90)	(130)	(230)	(162)	(155)
FCFE	(19)	481	(511)	776	120	458
Share Capital Issuance	-	-	-	-	-	-
Dividend	(71)	(71)	(84)	(175)	(19)	(26)
Other long term liabilities	(62)	75	30	4	(15)	3
Others	96	171	18	(36)	104	(6)
FINANCING CASH FLOW (c)	(414)	124	588	(296)	(341)	(75)
NET CASH FLOW (a+b+c)	(51)	207	(36)	357	536	484
EO Items, Others						
Closing Cash & Equivalents	35	242	206	563	1,099	1,583

Consolidated Key Ratios

	FY17	FY18	FY19	FY20P	FY21E	FY22E
PROFITABILITY (%)						
GPM	53.1	46.1	45.4	45.1	43.5	43.5
EBITDA Margin	20.9	22.0	20.5	19.3	18.6	20.2
EBIT Margin	18.2	19.8	18.4	15.9	16.1	17.8
APAT Margin	10.9	13.1	12.2	10.4	11.3	12.7
RoE	22.0	23.2	19.4	14.6	14.6	15.9
RoIC	34.4	35.5	28.9	21.4	21.1	24.6
RoCE	30.5	29.7	24.3	17.9	17.7	19.1
EFFICIENCY						
Tax Rate (%)	34.5	31.8	30.6	25.7	25.2	25.2
Asset Turnover (x)	2.2	2.7	2.9	1.8	1.7	1.8
Inventory (days)	49	38	43	43	43	43
Debtors (days)	62	73	73	73	73	73
Other Current Assets (days)	-	-	-	-	-	-
Payables (days)	55	57	60	60	60	60
Other Current Liab & Prov (days)						
Cash Conversion Cycle (days)	57	54	56	56	56	56
Net Debt/EBITDA (x)	0.9	0.7	1.1	1.4	0.6	0.3
Net D/E	0.4	0.3	0.4	0.4	0.1	0.1
Interest Coverage	0.1	0.1	0.1	0.2	0.1	0.1
PER SHARE DATA						
EPS (Rs/sh)	24.6	34.8	35.4	30.1	35.7	46.0
CEPS (Rs/sh)	30.7	40.8	41.4	39.8	43.5	54.5
DPS (Rs/sh)	2.2	2.2	2.6	5.4	0.6	0.8
BV (Rs/sh)	111.9	149.7	182.7	206.3	244.6	289.6
VALUATION						
P/E	15.4	16.1	13.0	15.3	12.9	10.0
P/BV	4.1	3.1	2.5	2.2	1.9	1.6
EV/EBITDA	9.0	10.3	8.8	9.7	8.4	6.6
OCF/EV (%)	3.6	8.3	3.3	8.4	8.3	9.2
FCF/EV (%)	2.6	2.7	(6.7)	4.9	3.3	3.2
FCFE/MCAP (%)	(0.1)	3.2	(3.4)	5.2	0.8	3.1
Dividend Yield (%)	0.5	0.5	0.6	1.2	0.1	0.2

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
9-Jul-19	350	BUY	525
29-Jul-19	242	BUY	452
22-Sep-19	260	BUY	459
11-Oct-19	309	BUY	459
2-Nov-19	322	BUY	488
10-Jan-20	412	BUY	490
20-Jan-20	443	BUY	490
3-Feb-20	390	BUY	490
2-Mar-20	409	BUY	493
29-Apr-20	451	BUY	555
24-Jun-20	460	BUY	560

From 2nd March 2020, we have moved to new rating system

Rating Criteria

- BUY: >+15% return potential
 ADD: +5% to +15% return potential
 REDUCE: -10% to +5% return potential
 SELL: >10% Downside return potential

Disclosure:

We, Nilesh Ghuge, MMS, Harshad Katkar, MBA & 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.

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Any holding in stock –No

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