Balaji Amines Ltd (BAL)	
No. of shares (m)	32.4
Mkt cap (Rscrs/$m)	8721/1175
Current price (Rs/$)	2692/36.3
Price target (Rs/$)	3613/48.7
52 W H/L (Rs.)	2,958/445
Book Value (Rs/$)	272/3.7
Beta	1.1
Daily volume NSE (avg. monthly)	88770
P/BV (FY22e/23e)	7.2/5.5
EV/EBITDA(FY22e/23e)	16.8/14.6
P/E (FY22e/23e)	25.5/22.3
EPS growth (FY21/22e/23e)	127.2/43.5/14.3
OPM (FY21/22e/23e)	28.5/26.6/26.7
ROE (FY21/22e/23e)	31/32.7/28
ROCE(FY21/22e/23e)	26.3/30.7/27.3
D/E ratio (FY21/22e/23e)	0.1/0.1/0.1
BSE Code	530999
NSE Code	BALAMINES
Bloomberg	BLA IN
Reuters	BAMN.NS

Shareholding pattern%	
Promoters	53.7
MFs / Banks / FIs	0.5
Foreign Portfolio Investors	2.2
Govt. Holding	-
Public& Others	43.7
Total	**100.0**

As on 31st March 2021

Recommendation

BUY

Phone: + 91 (33) 4488 0011

E- mail: research@cdequi.com

Quarterly Highlights

- Bolstered by improved capacity utilization, BAL's income from operations rose apace in Q4 with the pharmaceuticals and agrochemical industry comprising more than 70% of the total demand. BAL clocked in revenues of Rs. 414.03 cr in the last quarter, up 60.5% y-o-y and 5.6% q-o-q. This robust top-line performance helped the company's operating profit advance to Rs. 128.92 cr (up 9.8% q-o-q) leading to a much improved operating leverage. On account of improved demand and price realization across most of the product portfolio, its amines and specialty chemicalsEBIT margins admirably advanced to 28.7%, the highest ever, from just 18.5% in the same quarter a year ago.
- However, Q4 volume offtake was adversely impacted on account of pandemic-related disruptions such as inadequate supply of industrial oxygen and logistical issues. Total Q4 sales volume stood at 24,878 mt, a 12.3% decline on a quarter-on-quarter basis. Of this specialty chemicals segment alone declined by 16.6% to 10497 mt.
- The pandemic has put little breaks on BAL's capex program not least due to little diminishing pharmaceutical demand. The company has earmarked capex of Rs. 70-75cr for the upcoming DMC plant in FY22 and plans to commission a separate methylamines plant with capacity of 40,000-50,000 TPA by next year owing to increased captive requirements.
- The stock currently trades at 25.5x FY22e EPS of Rs. 105.40 and 22.3x FY23e EPS of Rs. 120.44. ROE would improve to 32.7% in FY22 and 28% in FY23. Growth in the coming years would barely stymie not least due to planned debottlenecking of acetonitrile plant, increased capacity utilizations of both DMF and newly unveiled ethylamine plant. The strong demand for EDA shall also have a larger role to play. Better negotiating power and economies of scale arising out of future investments will improvise the company's cost structure and provide it with necessary economic moat. Free cash flows would rise not unremarkably this fiscal largely due to record profits. Weighing odds, we retain our buy rating on the stock with revise target of Rs 3613 (previous target: Rs 1104) based on 30x FY23 earnings.

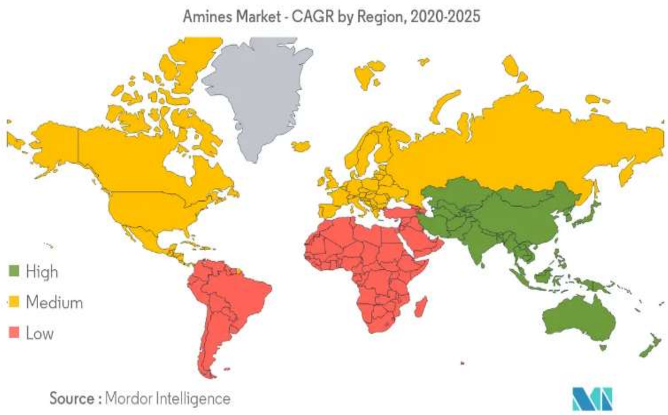
Consolidated (Rs crs)	FY19	FY20	FY21	FY22e	FY23e
Income from operations	943.05	935.77	1311.46	1931.94	2186.95
Other Income	4.23	5.01	6.07	9.40	18.50
EBITDA (other income included)	197.64	185.76	379.30	524.23	603.01
PAT after EO	117.53	104.76	238.04	341.50	390.25
EPS(Rs)	36.27	32.33	73.47	105.40	120.44
EPS growth (%)	4.2	-10.9	127.2	43.5	14.3

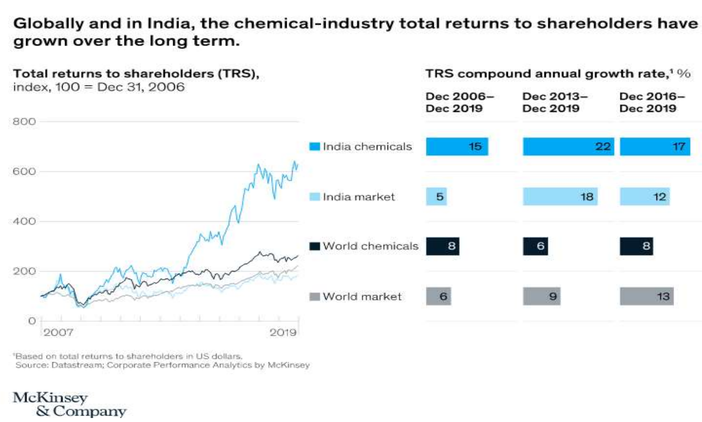
Outlook & Recommendation

Industry Outlook

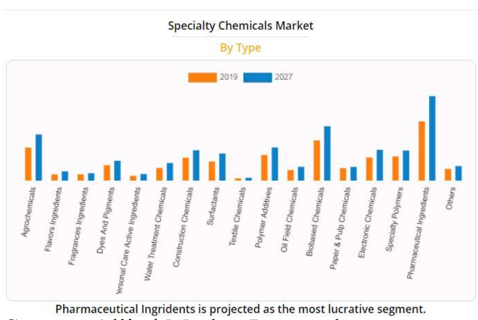
According to MRFR analysis, the global amines industry is estimated to reach $20.8 billion by 2025, registering a robust CAGR of 3.6%.The current size of global aliphatic amines market is itself around $4.9 billion. Oligopolistic nature of the industry leaves a country with just a handful of producers catering to the majority of demand in the region. The industry is characterized by heavy capex requirements, stringent government regulations and complex manufacturing processes that create high entry barriers paving way for sustain growth in the future.

Increasing trend of industrialization and expanding manufacturing sector, coupled with factors such as growing population and rapid urbanization are likely to have a positive impact on the demand for amines. The Asia Pacific Region holds the highest market in the aliphatic amines market, and rapidly growing end-user industries such as manufacturing, pharmaceuticals, construction, FMCG and agricultural will help the region keep its dominance over the forecast period.

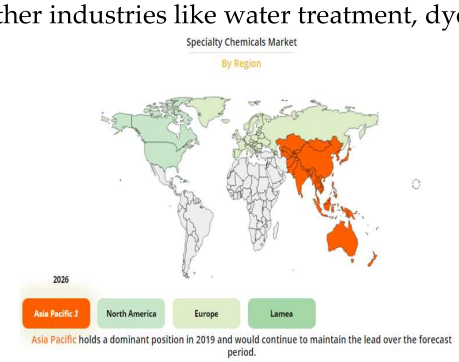




Among these industry segments, pharmaceutical is leading the market. The aliphatic amines market is growing in the pharmaceutical industry, due to increasing awareness regarding health issues, increasing pervasiveness of medical ailments including diabetes and gastrointestinal issues and in anti-diabetic drug manufacturing as it helps in regulating insulin levels. Globally, ~61% of aliphatic amines and amine-based chemicals get consumed in the pharmaceutical sector, 16% gets consumed in the chemicals industry (i.e. agrochemicals, foundry chemicals, specialty chemicals, fine chemicals and rubber chemicals) and ~23% finds application in other industries like water treatment, dyes, etc.



Source: Allied Market Research



Source: Allied Market Research

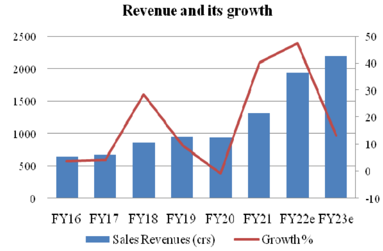
Strong tailwinds like rising technological advancements and increasing demand is providing a decent growth momentum to the specialty chemicals market in the Asian emerging economies. This market in India, on the other hand, was valued at Rs. 2,357 billion in FY18 and is expected to reach a value of Rs. 4,527 billion by FY24, expanding at a CAGR of about 11.9% during the FY19-FY24 period (source: Netscribes). Be it an alternative source of supply to China or rising demand from end-user industries such as food processing, agriculture and pharmaceuticals, Indian specialty chemical companies have gained a substantial clout in global chemical market. The Government of India, over the years, has also pivoted its focus on import reduction and growing domestic demand.

Due to stricter environmental norms, tighter financing, and consolidation, the structure of China's chemical industry is changing causing uncertainty for international players that source chemicals from China. This has created opportunities for Indian chemical companies in certain value chains and segments to ensure uninterrupted supply. This coupled with stringent Policies in regulatory norms, slow economic growth and rising cost of labor across globe has also improved the sales volume of domestic specialty chemical manufacturers.

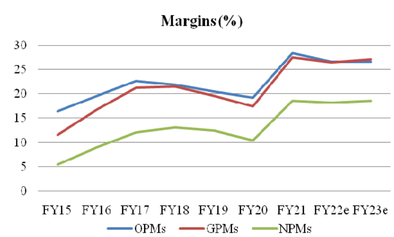
Financials & Valuation

In spite of the grueling impact of second wave of Covid-19 on consumer demand and sentiment, Balaji Amines continued with its expansion plans under Phase-I greenfield project –purchase of fixed assets (excluding capital advances) in FY21 amounted to some Rs 131 crs from Rs 52 crs in the same period a year before. The company has earmarked capex of Rs. 70-75cr for the upcoming DMC plant in FY22. Moreover, owing to increased captive requirements, separate methylamines plant with capacity of 40,000-50,000 TPA will be commissioned by next year under Phase-II of greenfield expansion after undertaking a capex of around Rs. 250 cr. Further top-line would be galvanized by the de-bottlenecking of the acetonitrile plant, post which the production will be ramped up to about 16 - 18 TPD (from earlier 9 TPD). The company also plans to expand its export market over the medium to long term, given the eagerness of global companies to reduce their exposure to Chinese supply chains.

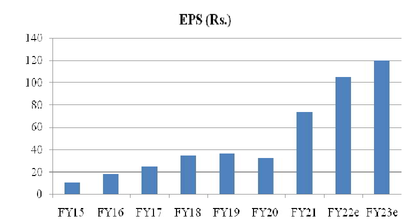
BAL's primary focus to explore newer specialty chemicals from both vertical integration and operating efficiencies is boding well for the company from a growth perspective. However, pandemic-related disruptions of both inbound and outbound logistics support, as well as lack of adequate supply of industrial oxygen due to diversion to healthcare, has impacted volumes off late. Earlier, unavailability of skilled labor due to covid-19 delayed the debottlenecking process of acetonitrile. But the debottlenecking process is now expected to get over within a few weeks.



Source: Balaji Amines Ltd., CD Equisearch



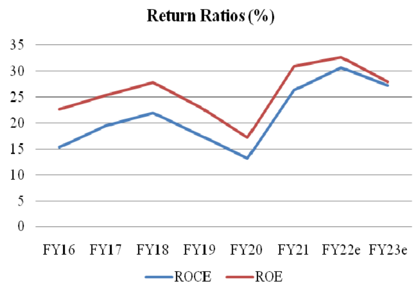
Source: Balaji Amines Ltd., CD Equisearch



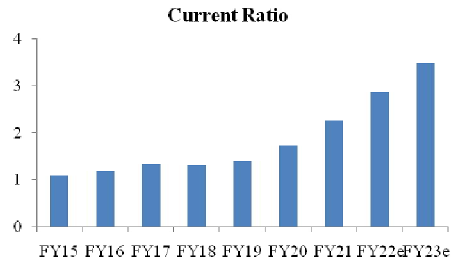
Source: Balaji Amines Ltd., CD Equisearch

BAL's subsidiary company further witnessed increase in demand for ethylenediamine (EDA) that led to substantial ramp up in capacity utilization. The management expects the subsidiary production to ramp up to 1,800-2,000 tonnes/month in the coming quarters from current 1,300-1,500 tonnes/month depending upon the raw material supply. This also includes other products of subsidiary like Piprazine and DETA, which are in short supply due to robust demand. Overall BSC capacity utilization during Q4FY21 stood at 40%.

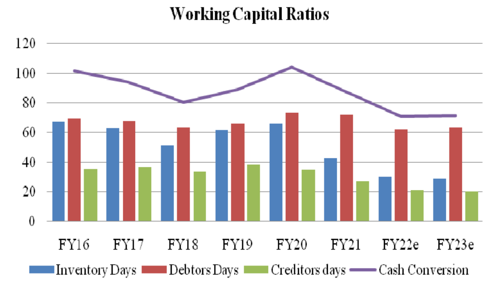
The company has been able to benefit from the dual advantage of cost competitiveness and product switching flexibility by successfully maintaining a forward integrated suite of products – imparts no-small competitive advantage. Given its ability to ramp-up DMF production and boost sales velocity of its so-far struggling subsidiary, we revise our FY22 top-line growth by over 43% (Rs. 1932 cr vs. Rs. 1350 cr earlier). We further expect sales to grow by 13.2% to some Rs. 2186.95 cr in FY23, partially accentuated by commencement of DMC plant and further production ramp-up of subsidiary.



Source: Balaji Amines Ltd., CD Equisearch



Source: Balaji Amines Ltd., CD Equisearch



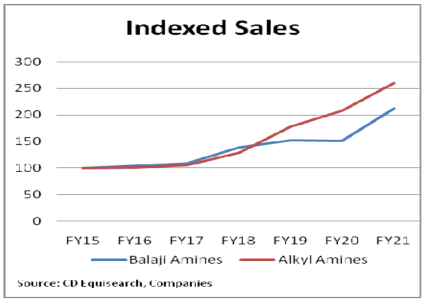
Source: Balaji Amines Ltd., CD Equisearch

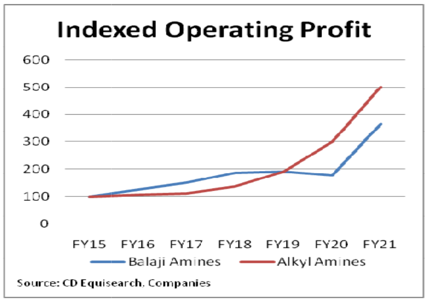
The stock currently trades at 25.5x FY22e EPS of Rs. 105.40 and 22.3x FY23e EPS of Rs. 120.44. It saw rerating last fiscal not least due to near phenomenal rise in earnings (up 127.2%) despite of subdued Q1 when national lockdown bulldozed consumer demand. Earnings would jump by a scarcely unimpressive 43.5% this fiscal and 14.3% next one, pulling-up ROE to 32.7% in FY22. Higher DMF utilization coupled with markedly increased realizations acted as a catalyst to business growth last fiscal. Balancing odds, we retain our buy rating on the stock with revise target of Rs 3613 (previous target: Rs 1104) based on 30x FY23 earnings. For more info refer to our August report.

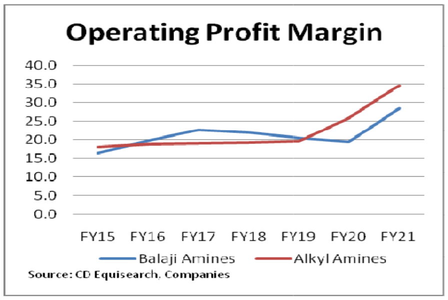
Cross Sectional Analysis

Company	Equity*	CMP	MCAP*	Sales*	Profit*	OPM (%)	NPM (%)	IntCov	ROE (%)	Mcap/Sales	P/BV	P/E
Balaji Amines	6	2692	8721	1311	238	28.5	18.6	18.8	31.0	6.6	9.9	36.6
Alkyl Amines	10	3609	18426	1242	295	34.5	23.8	64.3	46.2	14.8	24.2	62.4

Alkyl Amines (AIL) had a reasonably good FY21. It clocked in a 25.1% yearly growth in its top-line largely attributed to both high realizations and volume growth. Q4 sales grew by 62.8% y-o-y to Rs. 382.13 cr. Operating profits shot up toRs. 133.36 cr from Rs. 67.58 cr in the same quarter last year, resulting in some 611 bps expansion in OPMs, though its sustainability is not certain. The company has incurred around Rs. 150 cr. capex in FY21 and earmarked Rs. 200 cr for this year. The expansion of the acetonitrile plant is expected to be commissioned this year. The company is expected to benefit from buoyancy in pharmaceutical industry.







Financials

Consolidated Quarterly Results

Figures in Rs crs

	Q4FY21	Q4FY20	% chg.	FY21	FY20	% chg.
Income From Operations	**414.03**	**258.03**	**60.5**	**1311.46**	**935.77**	**40.1**
Other Income	3.60	1.56	131.2	6.07	5.01	21.1
Total Income	**417.63**	**259.58**	**60.9**	**1317.53**	**940.79**	**40.0**
Total Expenditure	285.11	202.39	40.9	938.23	755.02	24.3
EBITDA (other income included)	**132.52**	**57.19**	**131.7**	**379.30**	**185.76**	**104.2**
Interest	3.78	6.30	-39.9	18.29	23.03	-20.6
Depreciation	8.47	10.12	-16.4	34.41	31.62	8.8
PBT	**120.27**	**40.77**	**195.0**	**326.60**	**131.10**	**149.1**
Tax	31.46	11.21	180.7	83.10	33.63	147.1
PAT	**88.81**	**29.56**	**200.4**	**243.50**	**97.47**	**149.8**
Minority Interest	4.31	-1.26		5.30	-7.33	
PAT after Minority Interest	**84.50**	**30.82**	**174.2**	**238.19**	**104.80**	**127.3**
EO	-	-		0.15	0.04	
Adjusted Net Profit	**84.50**	**30.82**	**174.2**	**238.04**	**104.76**	**127.2**
EPS(Rs)	26.08	9.51	174.2	73.47	32.33	127.2

Consolidated Income Statement

Figures in Rs crs

	FY19	FY20	FY21	FY22e	FY23e
Income From Operations	**943.05**	**935.77**	**1311.46**	**1931.94**	**2186.95**
Growth (%)	9.5	-0.8	40.1	47.3	13.2
Other Income	4.23	5.01	6.07	9.40	18.50
Total Income	**947.28**	**940.79**	**1317.53**	**1941.34**	**2205.46**
Total Expenditure	749.64	755.02	938.23	1417.11	1602.45
EBITDA (other income included)	**197.64**	**185.76**	**379.30**	**524.23**	**603.01**
Interest	13.03	23.03	18.29	12.84	10.58
Depreciation	19.55	31.62	34.41	38.76	46.95
PBT	**165.06**	**131.10**	**326.60**	**472.64**	**545.48**
Tax	47.97	33.63	83.10	120.26	138.79
PAT	**117.09**	**97.47**	**243.50**	**352.38**	**406.69**
Minority Interest	-0.44	-7.33	5.30	10.87	16.43
PAT after Minority Interest	**117.53**	**104.80**	**238.19**	**341.50**	**390.25**
EO	-	0.04	0.15	-	-
Adjusted Net Profit	**117.53**	**104.76**	**238.04**	**341.50**	**390.25**
EPS (Rs)	36.27	32.33	73.47	105.40	120.44

Consolidated Balance Sheet

Figures in Rs crs

	FY19	FY20	FY21	FY22e	FY23e
Sources of Funds					
Share Capital	6.48	6.48	6.48	6.48	6.48
Reserves	567.98	651.66	887.91	1216.45	1592.45
Total Shareholders' Funds	**574.46**	**658.14**	**894.39**	**1222.93**	**1598.93**
Minority Interest	17.56	10.23	15.53	26.40	42.84
Long Term Debt	83.33	119.91	88.85	68.85	48.85
Total Liabilities	**675.34**	**788.28**	**998.77**	**1318.19**	**1690.62**
Application of Funds					
Gross Block	501.88	786.40	790.36	963.63	1288.63
Less: Accumulated Depreciation	182.14	213.40	247.44	286.20	333.15
Net Block	**319.75**	**573.00**	**542.92**	**677.43**	**955.49**
Capital Work in Progress	269.46	46.27	173.28	125.00	0.00
Investments	0.00	47.50	0.00	0.00	0.00
Current Assets, Loans & Advances					
Inventory	163.15	108.81	109.94	120.93	133.02
Trade receivables	167.22	207.44	305.66	351.51	404.23
Cash and Bank	20.40	8.81	19.64	210.14	383.81
Short term loans (inc. OCA)	98.63	88.05	141.84	165.11	179.60
Total CA	**449.40**	**413.11**	**577.08**	**847.69**	**1100.67**
Current Liabilities	286.01	243.28	202.79	238.54	256.84
Provisions-Short term	22.42	21.06	40.02	42.02	44.12
Total Current Liabilities	**308.43**	**264.34**	**242.81**	**280.56**	**300.96**
Net Current Assets	140.98	148.77	334.28	567.13	799.71
Net Deferred Tax Liability	-45.75	-43.73	-47.24	-48.18	-57.99
Net long term assets (net of liabilities)	-9.09	16.47	-4.46	-3.20	-6.59
Total Assets	**675.34**	**788.28**	**998.77**	**1318.19**	**1690.62**

Key Financial Ratios

	FY19	FY20	FY21	FY22e	FY23e
Growth Ratios(%)					
Revenue	9.5	-0.8	40.1	47.3	13.2
EBITDA	2.1	-6.0	104.1	38.3	15.0
Net Profit	4.2	-10.9	127.2	43.5	14.3
EPS	4.2	-10.9	127.2	43.5	14.3
Margins (%)					
Operating Profit Margin	20.5	19.3	28.5	26.6	26.7
Gross profit Margin	19.6	17.4	27.5	26.5	27.1
Net Profit Margin	12.4	10.4	18.6	18.2	18.6
Return (%)					
ROCE	17.6	13.2	26.3	30.7	27.3
ROE	23.0	17.2	31.0	32.7	28.0
Valuations					
Market Cap/ Sales	1.7	0.9	4.4	4.5	4.0
EV/EBITDA	9.2	5.5	15.4	16.8	14.6
P/E	13.7	7.8	24.0	25.5	22.3
P/BV	2.9	1.2	6.5	7.2	5.5
Other Ratios					
Interest Coverage	13.7	6.7	18.8	37.8	52.6
Debt Equity	0.4	0.4	0.1	0.1	0.1
Net Debt-Equity Ratio	0.4	0.3	0.1	-0.1	-0.2
Current Ratio	1.4	1.7	2.3	2.9	3.5
Turnover Ratios					
Fixed Asset Turnover	3.0	2.1	2.4	3.2	2.7
Total Asset Turnover	1.6	1.3	1.5	1.7	1.5
Inventory Turnover	5.9	5.6	8.6	12.3	12.6
Debtors Turnover	5.5	5.0	5.1	5.9	5.8
Creditor Turnover	9.6	10.5	13.8	17.6	18.1
WC Ratios					
Inventory Days	61.4	65.7	42.5	29.7	28.9
Debtor Days	65.8	73.1	71.4	62.1	63.1
Creditor Days	38.2	34.9	26.5	20.8	20.2
Cash Conversion Cycle	89.0	103.9	87.5	71.0	71.8

Cumulative Financial Data

Figures in Rs. crs	FY18-20	FY21-23e
Income from operations	2740	5430
Operating profit	564	1473
EBIT	506	1386
PBT	461	1345
PAT	335	970
Dividends	33	43
OPM (%)	20.6	27.1
NPM (%)	11.9	18.5
Interest coverage	11.2	33.2
ROE (%)	22.1	28.9
ROCE (%)	17.3	26.2
Debt-Equity*	0.4	0.1
Fixed asset turnover	2.0	2.4
Debtors turnover	5.5	5.9
Inventory turnover	7.0	10.9
Creditors turnover	13.1	17.3
Debtor days	66.3	61.7
Inventory days	52.3	33.5
Creditor days	27.9	21.1
Cash conversion	90.7	74.1
Dividend payout ratio (%)	9.9	4.4

FY18-20 implies three year period ending fiscal 20
*as on terminal year

Revenues for the cumulative period FY21-FY23e is expected to improve by 98.2% on account of better capacity utilization and higher realizations across most of its product portfolio. High realizations, particularly in DMF and product portfolio of Balaji Specialty Chemicals, in FY21 is likely to boost the OPM from 20.6% in FY18-20 to 27.1% in FY21-23e. Higher margins coupled with subdued interest costs will support cumulative post tax earnings (Rs970 crs Vs Rs335 crs in FY18-20 period), which will prop-up ROE to record levels of 28.9% during FY21-23e period compared to 22.1% in the three year ended FY20 (see table).

Lower debt in the projected period would admirably improve interest coverage which is expected to rise to 33.2 from 11.2 in the previous three year period. Cash conversion cycle will dip to some 74 days in FY21-23e period from 90.7 days not least due to glaring reduction in inventory days (see table).

Financial Summary- US Dollar denominated

million $	FY19	FY20	FY21	FY22e	FY23e
Equity capital	0.9	0.9	0.9	0.9	0.9
Shareholders' funds	81.5	87.0	119.9	162.9	213.3
Total debt	32.9	34.5	17.7	13.4	10.8
Net fixed assets (incl. CWIP)	85.2	82.1	97.4	108.1	128.7
Investments	0.0	6.3	0.0	0.0	0.0
Net current assets	18.8	19.5	43.7	74.5	105.7
Total assets	96.1	104.3	134.1	175.7	225.7
Revenues	134.9	132.0	176.7	260.3	294.7
EBITDA	28.3	26.2	51.1	70.6	81.2
EBDT	26.4	23.0	48.6	68.9	79.8
PBT	23.6	18.5	44.0	63.7	73.5
PAT	16.8	14.8	32.1	46.0	52.6
EPS($)	0.52	0.46	0.99	1.42	1.62
Book value ($)	2.51	2.69	3.70	5.03	6.58

Income statement figures translated at average rates; balance sheet at year end rates; projections at current rates (Rs 74.22/$).
All dollar denominated figures are adjusted for extraordinary items.

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Registered Office: 37, Shakespeare Sarani, 3rd Floor, Kolkata – 700 017; Phone: +91(33) 4488 0000; Fax: +91(33) 2289 2557 Corporate Office: 10, Vasawani Mansion, 5th Floor, DinshawWachha Road, Churchgate, Mumbai – 400 020. Phone: +91(22) 2283 0652/0653; Fax: +91(22) 2283, 2276 Website: www.cdequi.com; Email: research@cdequi.com

buy: >20%	accumulate: >10% to ≤20%	hold: ≥-10% to ≤10%	reduce: ≥-20% to <-10%	sell: <-20%

Exchange Rates Used- Indicative

Rs/$	FY18	FY19	FY20	FY21
Average	64.45	69.89	70.88	74.20
Year end	65.04	69.17	75.39	73.50

All $ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.