

Alkyl Amines

Estimate changes

TP change

Rating change


Bloomberg	AACL IN
Equity Shares (m)	51
M.Cap.(INRb)/(USDb)	142.4 / 1.8
52-Week Range (INR)	4740 / 2732
1, 6, 12 Rel. Per (%)	-6/-6/-32
12M Avg Val (INR M)	357

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	15.4	18.5	22.2
EBITDA	3.3	4.6	5.8
PAT	2.2	3.2	4.1
EPS (INR)	44.0	63.0	79.5
EPS Gr. (%)	(24.0)	43.2	26.1
BV/Sh.(INR)	193.7	241.0	300.6

Ratios

Net D:E	(0.0)	(0.0)	(0.1)
RoE (%)	25.2	29.0	29.4
RoCE (%)	23.8	27.7	28.4
Payout (%)	22.7	25.0	25.0

Valuations

P/E (x)	63.3	44.2	35.0
P/BV (x)	14.4	11.6	9.3
EV/EBITDA (x)	43.5	30.6	24.1
Div. Yield (%)	0.4	0.6	0.7
FCF Yield (%)	(0.3)	0.5	2.1

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	72.0	72.0	74.1
DII	1.1	1.3	2.0
FII	2.2	2.2	0.9
Others	24.7	24.5	23.0

FII Includes depository receipts

CMP: INR2,789
TP: INR3,180 (+14%)
Neutral
Margins continue to be subdued in a high RM cost environment

- Alkyl Amines (AACL) reported a beat in revenue v/s our estimate, with EBITDA being 15% above our estimate. Gross margin contracted in line with our estimate at 44% in 4QFY22 – the lowest in the last 11 quarters. Hence, the downward trend in margin continues.
- Raw material prices continue to rise along with an increase in other expenses that pose a challenge for AACL to resurrect its margins. Energy costs shot up sharply, especially in 2HFY22, with coal and ammonia being the major drivers of this price rise. However, the company did manage to pass on some costs to the end-customers.
- EBITDA margin was the lowest in the past 12 quarters at 17.3% in 4QFY22. That being said, capacity expansion in Methyl and Ethyl Amines and capacity utilization ramp up of the recently expanded Acetonitrile (ACN) plant should drive better margins in FY23-24E for AACL.
- The management has guided for a capex of INR3b for FY23E with a new plant of Ethyl Amines (capacity of 35ktpa) being set up that should be commissioned in 2HFY23E. It expects to set up another capacity in the next 2-3 years. The ACN plant, before expansion, was fully utilized. The total capacity for ACN stood at 30ktpa currently.
- AACL's ROE is estimated to improve to 29% for FY23-24. The stock is trading at 35x FY24E EPS and 24x FY24E EV/EBITDA. We maintain our **Neutral** rating on the stock, and value it at 40x FY24E EPS to arrive at our TP of INR3,180.

Margins in line; beat on absolute EBITDA

- AACL's revenue was at INR4.3b (+11% YoY, +13% QoQ) in 4QFY22. **Gross margin was flat QoQ and stood at 44% in 4QFY22 (in line with our estimate)**. EBITDAM stood at 17.3% (v/s ~17.7% in 3QFY22).
- EBITDA came in at INR736m (15% beat, -45% YoY, +10% QoQ). PAT stood at INR464m (7% beat, -50% YoY, flat QoQ)
- In FY22**, revenue was up 24% YoY to INR15.4b, with EBITDA declining 24% YoY to INR3.3b. PAT too declined 24% YoY and was at INR2.2b. The company declared a final dividend of INR10/share for FY22.

Valuation and View: Maintain Neutral

- The ongoing expansions will boost aliphatic amines capacity by ~30% (capex: INR3b, with expected completion by end-FY23)**. The current capacity stands at 90-100ktpa for aliphatic amines. AACL capitalized the ACN plant at its Dahej location in 3QFY22 that started production in 4QFY22.
- We forecast a ~20% revenue CAGR over FY22-24, with an EPS CAGR of 34% over the same period**. Closure of global capacities and higher-than-expected revenue CAGR are the upside risks to our call, while the downward risk could emanate from an increase in domestic competition.
- We maintain our Neutral rating on the stock, and value it at 40x FY24E EPS to arrive at our TP of INR3,180.**

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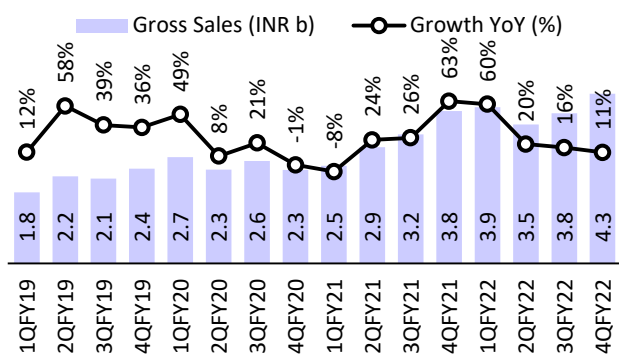
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Standalone - Quarterly Snapshot

(INR m)

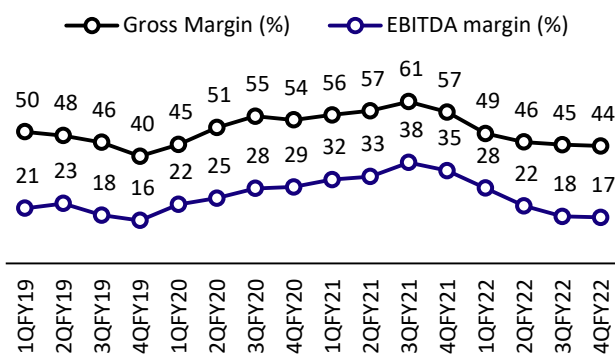
Y/E March	FY21				FY22				FY21	FY22	FY22	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		4QE	(%)	
Gross Sales	2,452	2,913	3,239	3,821	3,918	3,487	3,767	4,256	12,424	15,428	3,738	14%
YoY Change (%)	-7.9	24.0	26.1	62.8	59.8	19.7	16.3	11.4	25.1	24.2	-2.2	
Gross Margin (%)	56%	57%	61%	57%	49%	46%	45%	44%	58%	46%	45%	-0.4%
EBITDA	774	953	1,231	1,334	1,109	755	666	736	4,291	3,265	641	15%
Margins (%)	31.6	32.7	38.0	34.9	28.3	21.6	17.7	17.3	34.5	21.2	17.2	0.1
Depreciation	70	72	76	73	76	77	79	116	291	348	84	38%
Interest	19	16	14	14	11	10	10	8	63	38	8	-7%
Other Income	12	27	17	14	20	42	46	34	70	142	31	12%
PBT before EO expense	696	891	1,158	1,261	1,043	709	623	646	4,007	3,021	579	12%
PBT	696	891	1,158	1,261	1,043	709	623	646	4,007	3,021	579	12%
Tax	168	237	313	335	258	169	164	182	1,054	772	146	25%
Rate (%)	24.2	26.5	27.0	26.6	24.7	23.8	26.3	28.2	26.3	25.6	25.1	
Reported PAT	528	655	845	926	785	541	459	464	2,953	2,249	434	7%
YoY Change (%)	50.4	21.5	64.3	88.1	48.8	-17.4	-45.7	-49.9	55.7	-23.8	-53.2	
Margins (%)	21.5	22.5	26.1	24.2	20.0	15.5	12.2	10.9	23.8	14.6	11.6	-0.7

Exhibit 1: Sales grew 13% QoQ



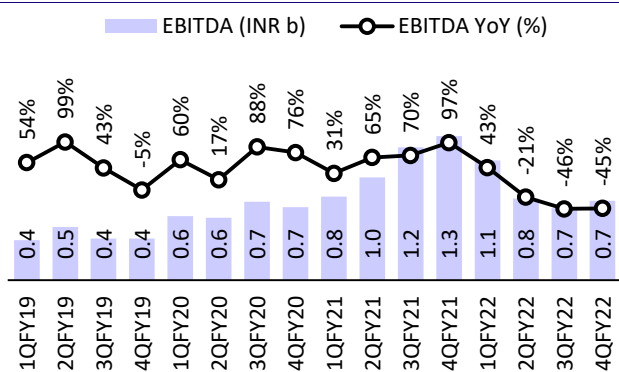
Source: Company, MOFSL

Exhibit 2: Margins continued to shrink after peaking in FY21



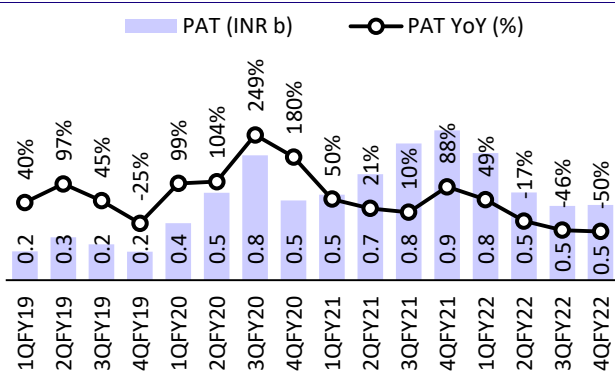
Source: Company, MOFSL

Exhibit 3: EBITDA was up 10% QoQ (margin at 17.3%)



Source: Company, MOFSL

Exhibit 4: PAT was flat QoQ (margin at 10.9%)



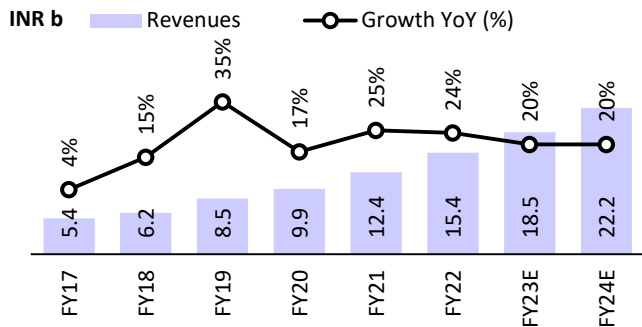
Source: Company, MOFSL

Highlights from the management commentary

- Most of the raw material and energy costs were on the higher side (especially coal and ammonia) particularly in the last six months
 - AACL managed to pass on some costs but not enough to rein in the increase in RM costs.
 - Although, prices of key raw materials have started to come down
- AACL already expanded capacity of ACN by 18ktpa and production has started in 4QFY22.
- The ACN demand is increasing in India and the management does not foresee contribution from the segment being hampered by competition (have also expanded capacity).
- AACL is also in the process of setting up a new plant for Ethyl Amines in Kurkumbh and expects it to get commissioned in 2HFY23
 - Current capacity stands at 22ktpa, which would increase by 35ktpa once the new plant comes up
 - Capex of INR3.5b is likely to be undertaken for the plant
- The company is also planning to set up a new plant for Methyl Amines in the next two years
- Gross margin in FY23 is expected to improve as AACL is able to pass on the increase in raw material and operating costs to the end-customers.
- The company spent INR2.4b as against the budgeted INR2.1b capex due to price escalations that happened in FY22. Capex guidance for FY23E stands at of INR3b.
- A new ACN plant is coming up in Germany with a capacity of 30ktpa, which has come on stream after two years of announcement. AACL is at an advantage as the technology that it uses to produce ACN is much cleaner without any significant by-products (through Acetic Acid and Ammonia)
 - Management is positive on the prospects of ACN (India's demand is 30ktpa)
- Management expects volume growth of 10-15% in the coming 3-4 years
- Current capacity of Amines stands at 90-100ktpa; at the end of FY23 another 30ktpa capacity will be added and subsequently another 45ktpa capacity will be added in the next three years.
- Currently, there is ADD on one product: Mono-Isopropyl Amine

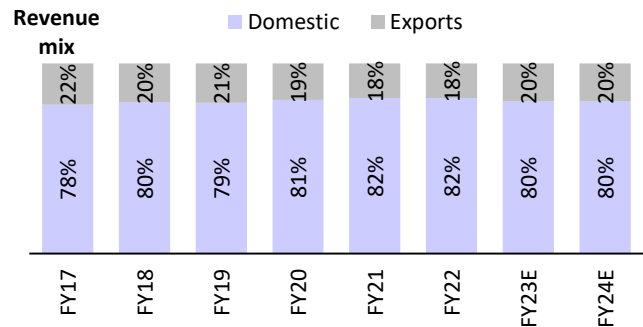
Financial story in charts

Exhibit 5: Expect ~20% revenue CAGR over FY22-24E...



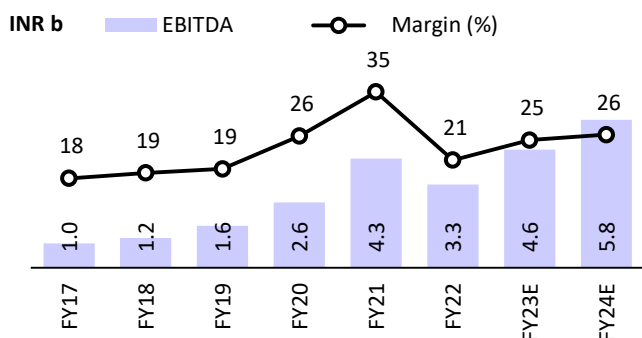
Source: Company, MOFSL

Exhibit 6: ...with revenue mix remaining constant



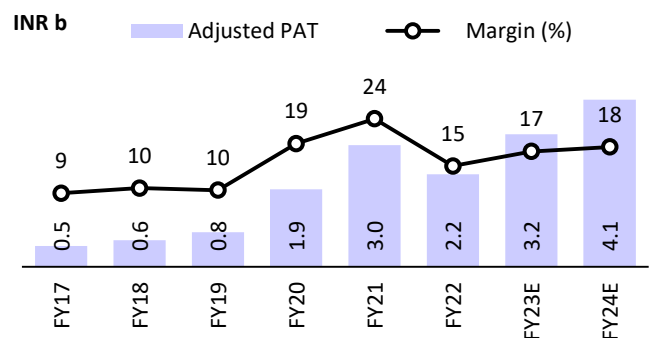
Source: Company, MOFSL

Exhibit 7: Expect EBITDA margin to be at ~26%...



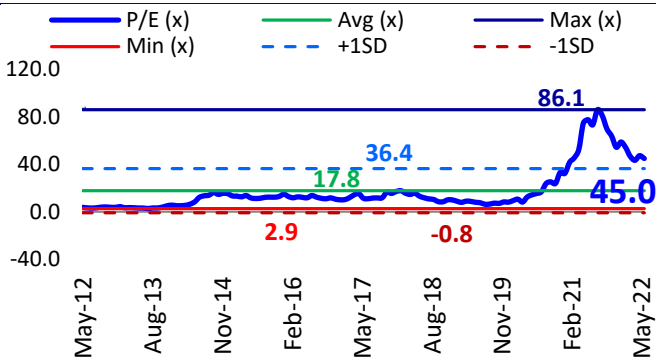
Source: Company, MOFSL

Exhibit 8: ...with PAT margin expanding by FY24E



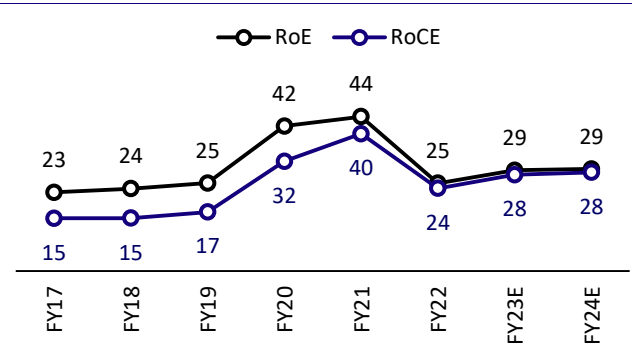
Source: Company, MOFSL

Exhibit 9: One-year forward P/E trades at 45x...



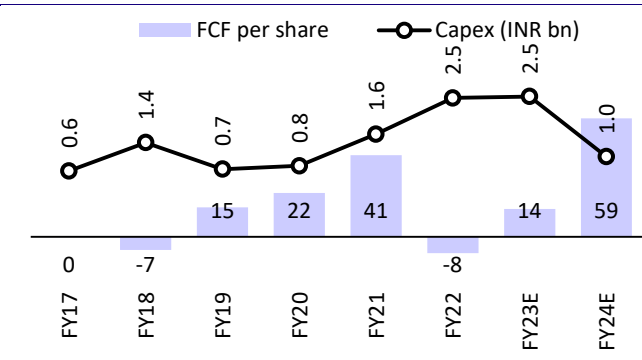
Source: Company, MOFSL

Exhibit 10: ...with return ratios stabilizing at ~28-29%



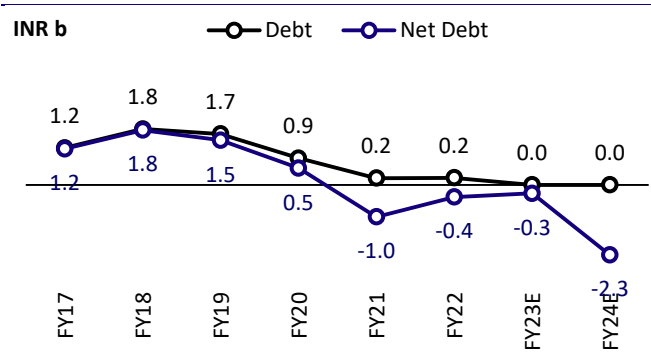
Source: Company, MOFSL

Exhibit 11: Expect strong FCF generation over FY23-24



Source: Company, MOFSL

Exhibit 12: Expect AACL to remain net cash positive



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement

	(INR m)							
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	5,418	6,248	8,464	9,929	12,424	15,428	18,514	22,216
Change (%)	3.5	15.3	35.5	17.3	25.1	24.2	20.0	20.0
Gross Margins (%)	51.4	46.5	45.5	51.2	57.9	45.8	47.5	47.5
EBITDA	951	1,164	1,644	2,570	4,291	3,265	4,641	5,807
Margin (%)	17.6	18.6	19.4	25.9	34.5	21.2	25.1	26.1
Depreciation	143	157	233	269	291	348	472	568
EBIT	809	1,008	1,410	2,301	4,001	2,918	4,169	5,239
Int. and Finance Charges	81	81	148	103	63	38	23	0
Other Income	11	32	39	70	70	142	158	190
PBT bef. EO Exp.	739	958	1,302	2,269	4,007	3,021	4,304	5,428
EO Items	0	0	0	328	0	0	0	0
PBT after EO Exp.	739	958	1,302	2,597	4,007	3,021	4,304	5,428
Total Tax	236	315	464	444	1,054	772	1,083	1,366
Tax Rate (%)	31.9	32.9	35.7	17.1	26.3	25.6	25.2	25.2
Reported PAT	504	643	837	2,153	2,953	2,249	3,221	4,062
Adjusted PAT	504	643	837	1,881	2,953	2,249	3,221	4,062
Change (%)	1.0	27.6	30.3	124.5	57.0	-23.9	43.2	26.1
Margin (%)	9.3	10.3	9.9	18.9	23.8	14.6	17.4	18.3

Standalone - Balance Sheet

	(INR m)							
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	102	102	102	102	102	102	102	102
Total Reserves	2,354	2,869	3,548	5,264	7,822	9,796	12,211	15,258
Net Worth	2,456	2,972	3,650	5,366	7,924	9,898	12,314	15,360
Total Loans	1,201	1,813	1,653	866	216	227	0	0
Deferred Tax Liabilities	327	405	507	404	414	472	472	472
Capital Employed	3,984	5,189	5,810	6,636	8,554	10,598	12,786	15,833
Gross Block	2,329	3,846	4,280	4,971	5,315	7,377	9,877	10,877
Less: Accum. Deprn.	129	295	515	736	1,026	1,374	1,846	2,414
Net Fixed Assets	2,201	3,552	3,764	4,235	4,288	6,003	8,030	8,462
Capital WIP	348	184	432	449	1,376	1,426	1,426	1,426
Total Investments	14	14	14	0	302	0	0	0
Curr. Assets, Loans&Adv.	2,559	2,621	3,275	3,150	5,486	6,283	7,068	10,430
Inventory	1,114	852	1,057	837	1,219	1,645	1,974	2,369
Account Receivables	973	1,238	1,526	1,642	2,280	2,767	3,321	3,985
Cash and Bank Balance	30	32	202	323	1,260	626	278	2,283
Loans and Advances	442	499	490	349	727	1,245	1,494	1,793
Curr. Liability & Prov.	1,139	1,182	1,676	1,198	2,899	3,116	3,739	4,486
Account Payables	886	848	1,304	748	1,790	2,285	2,742	3,290
Other Current Liabilities	213	250	264	354	1,002	730	876	1,052
Provisions	41	84	107	97	107	101	121	145
Net Current Assets	1,421	1,439	1,599	1,952	2,587	3,168	3,329	5,944
Appl. of Funds	3,984	5,189	5,810	6,635	8,554	10,597	12,786	15,833

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	9.9	12.6	16.4	36.9	57.9	44.0	63.0	79.5
EPS Growth (%)	1.0	27.6	30.3	124.5	57.0	-24.0	43.2	26.1
Cash EPS	12.7	15.7	21.0	42.1	63.6	50.8	72.3	90.6
BV/Share	48.1	58.2	71.5	105.2	155.3	193.7	241.0	300.6
DPS	0.0	2.4	3.4	8.7	16.0	10.0	15.8	19.9
Payout (%)	0.0	19.1	20.6	20.6	27.7	22.7	25.0	25.0
Valuation (x)								
P/E	282	221	170	76	48	63	44	35
Cash P/E	220	178	133	66	44	55	39	31
P/BV	58	48	39	26	18	14	12	9
EV/Sales	26	23	17	14	11	9	8	6
EV/EBITDA	151	124	87	56	33	43	31	24
Dividend Yield (%)	0	0	0	0	1	0	1	1
FCF per share	0	-7	15	22	41	-8	14	59
Return Ratios (%)								
RoE	23	24	25	42	44	25	29	29
RoCE	15	15	17	32	40	24	28	28
RoIC	16	16	18	35	51	31	32	34
Working Capital Ratios								
Fixed Asset Turnover (x)	2.7	2.2	2.3	2.5	2.9	3.0	2.6	2.7
Asset Turnover (x)	1.4	1.2	1.5	1.5	1.5	1.5	1.4	1.4
Inventory (Days)	75	50	46	31	36	39	39	39
Debtor (Days)	66	72	66	60	67	65	65	65
Creditor (Days)	60	50	56	27	53	54	54	54
Leverage Ratio (x)								
Current Ratio	2.2	2.2	2.0	2.6	1.9	2.0	1.9	2.3
Interest Cover Ratio	10.0	12.4	9.5	22.4	63.2	76.2	183.4	NA
Net Debt/Equity	0.5	0.6	0.4	0.1	-0.1	0.0	0.0	-0.1

Standalone - Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	739	958	1,302	2,597	4,007	3,021	4,304	5,428
Depreciation	129	154	233	269	291	348	472	568
Interest Expenses	81	81	148	103	63	38	23	0
Others	-11	-6	51	-308	1	-31	0	0
Direct Taxes Paid	-198	-198	-356	-581	-1,012	-744	-1,083	-1,366
(Inc)/Dec in WC	-105	26	64	-193	290	-585	-508	-610
CF from Operations	635	1,016	1,442	1,886	3,640	2,047	3,208	4,020
(Inc)/Dec in FA	-645	-1,350	-689	-771	-1,561	-2,462	-2,500	-1,000
Free Cash Flow	-10	-334	753	1,115	2,079	-415	708	3,020
Change in Investments	-17	16	0	343	-587	369	0	0
Others	26	-6	21	22	21	36	0	0
CF from Investments	-636	-1,340	-668	-407	-2,127	-2,057	-2,500	-1,000
Issue of Shares	0	0	0	0	4	7	0	0
Inc/(Dec) in Debt	39	547	-268	-797	-381	-228	-227	0
Interest Paid	-78	-83	-150	-107	-68	-40	-23	0
Dividend Paid	0	-123	-172	-443	-408	-306	-805	-1,016
Others	23	-16	-13	-13	-11	-6	0	0
CF from Fin. Activity	-16	325	-603	-1,360	-864	-573	-1,055	-1,016
Inc/Dec of Cash	-17	1	171	119	649	-583	-348	2,005
Opening Balance	39	22	22	193	312	961	379	31
Closing Balance	22	22	193	313	962	379	31	2,036

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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