

Alkyl Amines

Estimate changes

TP change

Rating change

Bloomberg	AACL IN
Equity Shares (m)	51
M.Cap.(INRb)/(USDb)	148.2 / 1.8
52-Week Range (INR)	3865 / 2506
1, 6, 12 Rel. Per (%)	-6/-12/-15
12M Avg Val (INR M)	183

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	15.4	18.5	22.2
EBITDA	3.3	4.2	5.6
PAT	2.2	2.9	3.9
EPS (INR)	44.0	55.9	75.6
EPS Gr. (%)	(24.0)	27.0	35.3
BV/Sh.(INR)	193.7	235.6	292.3

Ratios

Net D:E	(0.0)	(0.0)	(0.0)
RoE (%)	25.2	26.0	28.6
RoCE (%)	23.8	24.8	27.6
Payout (%)	22.7	25.0	25.0

Valuations

P/E (x)	65.8	51.8	38.3
P/BV (x)	15.0	12.3	9.9
EV/EBITDA (x)	45.2	35.6	26.4
Div. Yield (%)	0.3	0.5	0.7
FCF Yield (%)	(0.3)	0.2	0.9

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	72.0	72.0	72.0
DII	1.1	1.3	1.1
FII	2.3	2.3	2.3
Others	24.6	24.5	24.6

FII Includes depository receipts

CMP: INR2899
TP: INR3025 (+4%)
Neutral

New capacity additions to drive volume growth

- AACL reported lower-than-estimated revenue. Gross margin contracted in 2QFY23 to 49% (down 190bp QoQ). Some raw material prices have started falling, which would help improve margins. EBITDA also came in below our estimate at INR813m with EBITDAM at 19.9% (down 460bp QoQ).
- Capacity expansion of Ethyl Amines** in Kurkumbh (100tpd capacity) is on track and is expected to be commissioned by May/Jun'23, with mechanical completion planned in Apr'23. Capex envisaged for the same is INR4b.
- AACL also **announced that it would be manufacturing four to five new products in the specialty segment**, which would be developed in its own R&D labs. The new products are expected to execute import substitution play. The company expects **peak revenue of INR 7-8b from these products** (market opportunity is much greater) over the next three to four years. One of the products is expected to start by end-Dec'22.
- The long-term guidance of 10-15% volume growth remains intact with the growth expected to be less than 10% in FY23, given the ensuing challenges. The management believes it can defend its margins in FY23 but it would be difficult to provide any guidance as such.
- AACL's ROE is estimated to improve to 29% for FY24 from 25% in FY22. The stock is trading at 38x FY24E EPS and 26x FY24E EV/EBITDA. We reiterate our Neutral rating on the stock, and value it at 40x FY24E EPS to arrive at a target price of INR3025.

EBITDA and margin missed estimates

- AACL's 2QFY23 revenue was at INR4.1b (up 17% YoY, down 14% QoQ).
- Gross margin contracted QoQ and was at 49%**. EBITDAM stood at 19.9% (v/s ~24.5% in 1QFY23).
- EBITDA came in at INR813m (est. of INR1.1b; up 8% YoY, down 30% QoQ). PAT stood at INR524m (est. of INR756m, down 3% YoY, down 36% QoQ).
- AACL announced that it is **setting up plants for adding new products** in both specialty chemicals and amine derivatives businesses (**capacity of 25-30ktpa**) at its existing facilities at Kurkumbh and Dahej.
 - This is **considering the growing demand** for the company's products in the **domestic market** and to increase its product base.
 - Capex** to be undertaken would be to the tune of **INR2-2.5b** (funded by internal accruals) with plants getting set up over the next 3-24 months.
- For 1HFY23**, revenue was at INR8.8b (up 19% YoY), EBITDA was at INR2b (up 6% YoY), and PAT was at INR1.3b (flat YoY).
- EBITDAM contracted to 22.3% YoY (v/s 25.2% in 1HFY22).

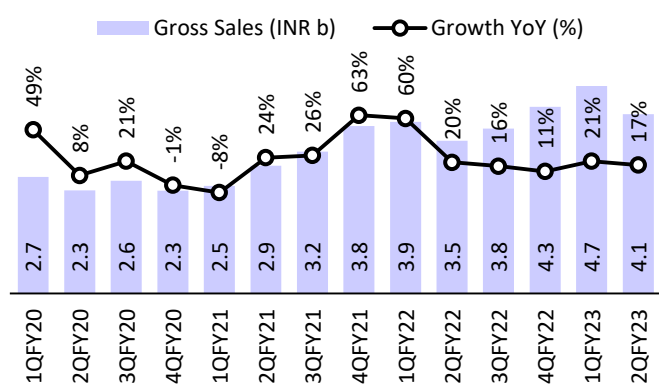
Valuation and View

- **Ongoing expansions will boost aliphatic amines capacity by ~30% (capex: INR4b, with completion expected by 1HFY24).** The current capacity stands at 90-100ktpa for aliphatic amines. Entry into new specialty products could also boost margins as management sees strong demand for these products.
- **We forecast a ~20% revenue CAGR over FY22-24, with an EPS CAGR of 31% over the same period.** Downside risks to our call could be increased competition, wherein the market price is determined by the competitor with little pricing power left for AACL to command.
- We reiterate our Neutral rating on the stock, and value it at 40x FY24E EPS to arrive at a target price of INR3025.

Standalone - Quarterly Snapshot

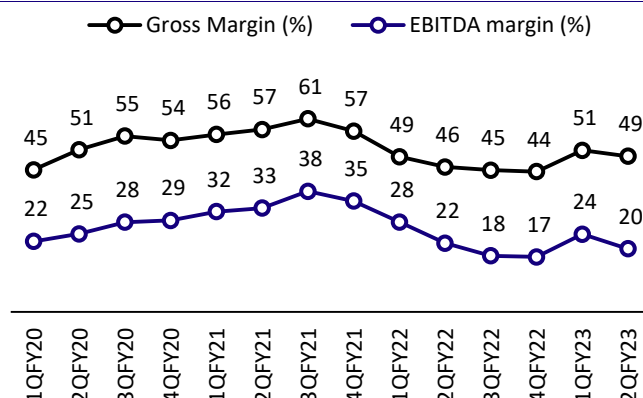
Y/E March	FY22				FY23				FY22	FY23E	FY23E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE
Gross Sales	3,918	3,487	3,767	4,256	4,735	4,089	4,582	5,108	15,428	18,514	4,536
YoY Change (%)	59.8	19.7	16.3	11.4	20.8	17.3	21.7	20.0	24.2	20.0	30.1
Gross Margin (%)	48.9%	45.7%	44.7%	44.2%	50.9%	49.0%	49.5%	50.4%	45.8%	50.0%	50.2%
EBITDA	1,109	755	666	736	1,158	813	994	1,196	3,265	4,161	1,099
Margins (%)	28.3	21.6	17.7	17.3	24.5	19.9	21.7	23.4	21.2	22.5	24.2
Depreciation	76	77	79	116	118	112	122	121	348	472	119
Interest	11	10	10	8	8	11	8	10	38	38	9
Other Income	20	42	46	34	42	23	42	48	142	155	41
PBT before EO expense	1,043	709	623	646	1,075	714	906	1,112	3,021	3,806	1,011
PBT	1,043	709	623	646	1,075	714	906	1,112	3,021	3,806	1,011
Tax	258	169	164	182	256	189	228	284	772	958	255
Rate (%)	24.7	23.8	26.3	28.2	23.8	26.5	25.2	25.6	25.6	25.2	25.2
Reported PAT	785	541	459	464	819	524	677	828	2,249	2,848	756
YoY Change (%)	48.8	-17.4	-45.7	-49.9	4.3	-3.1	47.6	78.3	-23.8	26.6	39.8
Margins (%)	20.0	15.5	12.2	10.9	17.3	12.8	14.8	16.2	14.6	15.4	16.7

Exhibit 1: Sales grew 17% QoQ

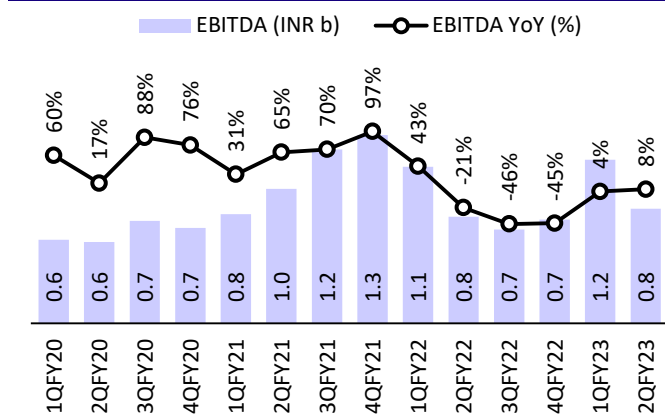


Source: Company, MOFSL

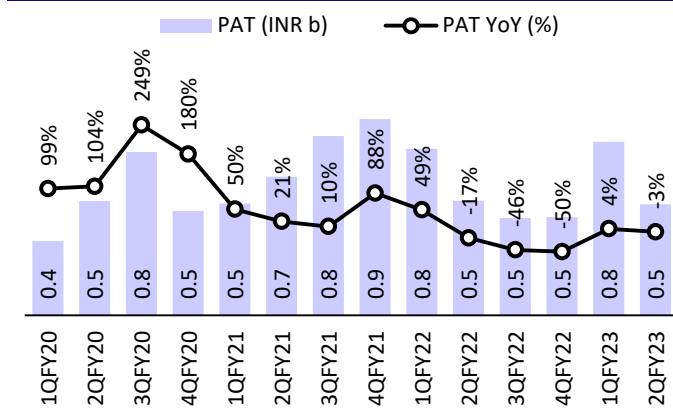
Exhibit 2: Both GM and EBITDAM contracted in 2Q



Source: Company, MOFSL

Exhibit 3: EBITDA was down 30% QoQ (margin at 19.9%)

Source: Company, MOFSL

Exhibit 4: PAT declined 36% QoQ (margin at 12.8%)

Source: Company, MOFSL

Key highlights from the management commentary

Operational highlights

- Decline in topline in 2QFY23 is value driven and not volume driven. Prices of some products declined and were also adversely impacted from increased competition. Volumes have been flat in 2QFY23.
- 1/3rd of the growth in 1HFY23 is volume driven and 2/3rd is value driven
- There are 15 plants, with some working at full capacity and some at reduced capacity. On an average, utilization stands at 70-80%. The company has headroom in most products.
- The company is setting up a solar power plant, which would help reduce costs
- Coal requirement is mainly for generation of steam (which is one of the main inputs of the company).

New capex announced

- The company has announced four to five new products, which are developed within its own R&D labs. These products are largely import substitution play.
- Some of them are derivatives of Amines, but most of them are new products.
- At full capacity, the plants would add INR7-8b to the topline (market opportunity is greater) over the next three to four years
- The company would serve the same industries to which it caters to currently.
- One of the new products is expected to start by end-Dec'22
- New products could be 20-25% of the revenues going forward.

Expansion of existing products

- High capacity Ethylamines plant is coming up in Kurkumbh by May-Jun'23 with a capex of INR4b
- The plant is on schedule with mechanical completion being planned in Apr'23
- The current capacity of Methylamines stands at 150tpd at Kurkumbh and 50tpd can be produced in Patalganga. New Methylamines plant is expected to be added after sometime.
- Ethylamines current capacity stands at 50tpd in Kurkumbh (would become free after expansion to 100tpd and after some modification would be able to use it for the new products)

- 25tpd capacity at MPP is capable of making Ethylamines in Patalganga.
- The company is currently adding 100tpd plant of Ethylamine in Kurkumbh.

Other highlights and guidance

- The pharma industry in India has been going through a dull phase over the past few quarters. Several RM and coal prices were substantially elevated that adversely impacted performance.
- While some prices have started falling, some still remain high
- The management believes it can defend its margins in FY23 but it will be difficult to provide guidance as such.
- Volume growth would be less than 10% in FY23, given the challenges in this year. The long-term guidance of ~10% remains intact.
- The company is not expecting many opportunities with respect to Europe +1.
- Acetonitrile current capacity stands at Kurkumbh (12ktpa) and Dahej (16-18ktpa)
- The Indian market was 28-30kmtpa last year; it could have declined due to poor performance of the pharma sector
- The global market is at ~100-150kmtpa
- With RM prices stabilizing to reasonable levels, the ACN price is steady now, recovering from cost pressures from a quarter ago.

Financials story in charts

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

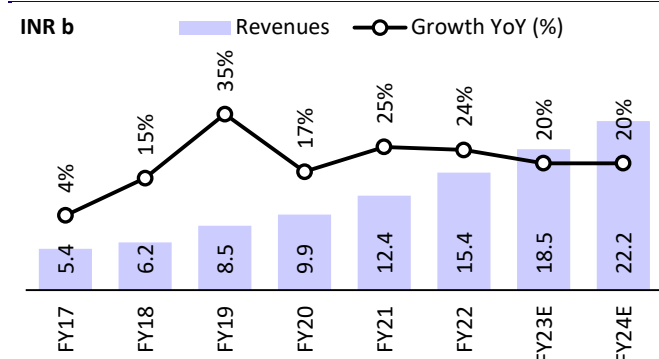


Exhibit 6: ...with revenue mix remaining constant

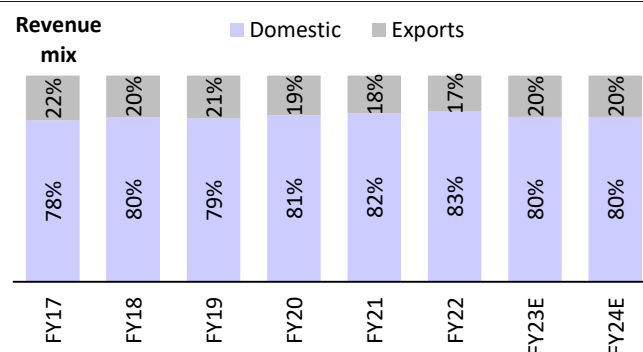


Exhibit 7: Expect EBITDA margin to be at ~25%...

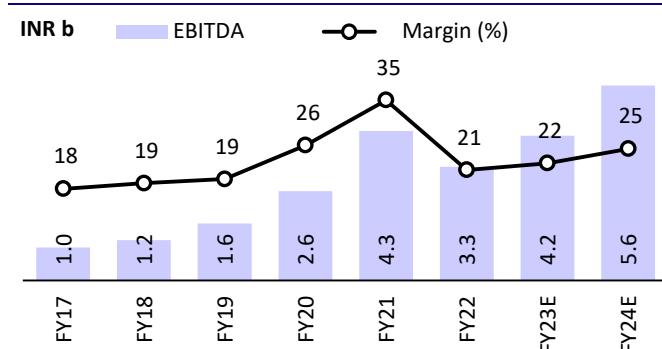


Exhibit 8: ... with PAT margin expanding by FY24E

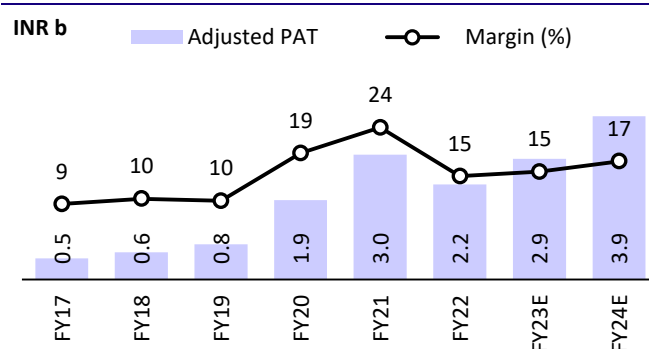


Exhibit 9: One-year forward P/E trades at 43.2x...

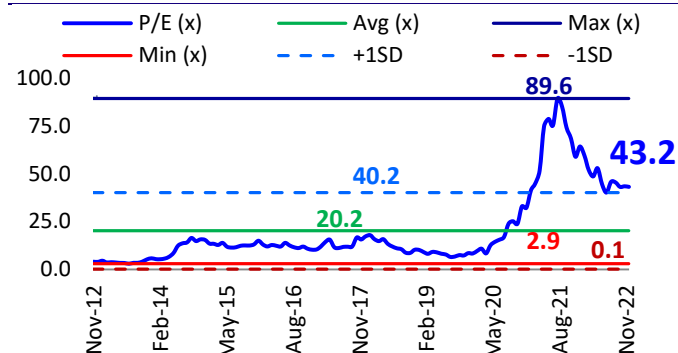


Exhibit 10: ...with return ratios stabilizing at ~27-29%

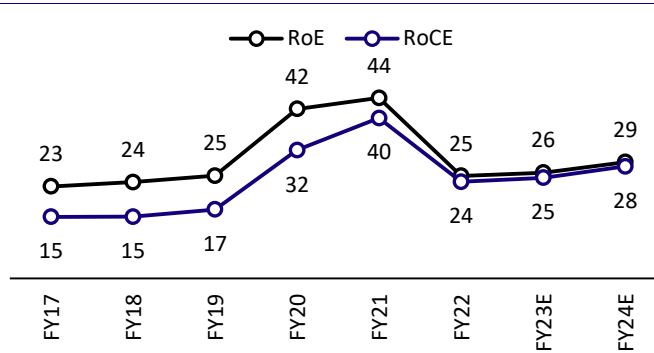


Exhibit 11: Expect strong FCF generation over FY23-24E

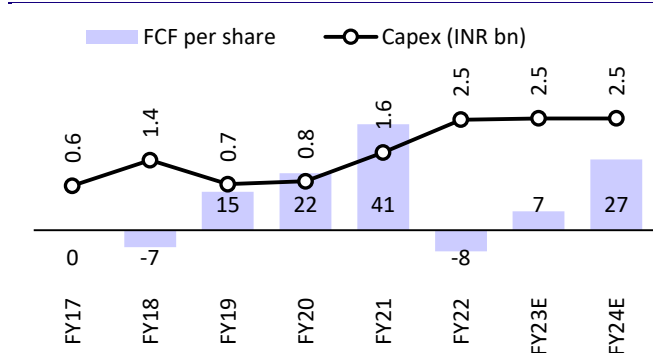
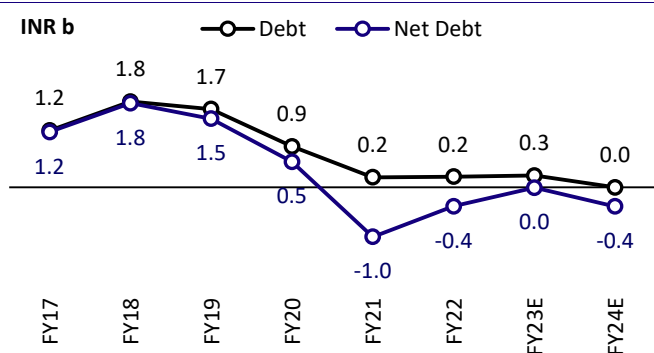


Exhibit 12: Expect AACL to remain net cash positive



Source: Company, MOFSL

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	50.0	47.0
EBITDA	951	1,164	1,644	2,570	4,291	3,265	4,161	5,601
Margin (%)	17.6	18.6	19.4	25.9	34.5	21.2	22.5	25.2
Depreciation	143	157	233	269	291	348	472	609
EBIT	809	1,008	1,410	2,301	4,001	2,918	3,689	4,991
Int. and Finance Charges	81	81	148	103	63	38	48	25
Other Income	11	32	39	70	70	142	176	197
PBT bef. EO Exp.	739	958	1,302	2,269	4,007	3,021	3,817	5,163
EO Items	0	0	0	328	0	0	0	0
PBT after EO Exp.	739	958	1,302	2,597	4,007	3,021	3,817	5,163
Total Tax	236	315	464	444	1,054	772	961	1,300
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	2,856	3,864
Adjusted PAT	504	643	837	1,881	2,953	2,249	2,856	3,864
Change (%)	1.0	27.6	30.3	124.5	57.0	-23.9	27.0	35.3
Margin (%)	9.3	10.3	9.9	18.9	23.8	14.6	15.4	17.4

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	11,938	14,836
Net Worth	2,456	2,972	3,650	5,366	7,924	9,898	12,040	14,938
Total Loans	1,201	1,813	1,653	866	216	227	250	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	12,762	15,410
Gross Block	2,329	3,846	4,280	4,971	5,315	7,377	9,877	12,377
Less: Accum. Deprn.	129	295	515	736	1,026	1,374	1,846	2,455
Net Fixed Assets	2,201	3,552	3,764	4,235	4,288	6,003	8,030	9,921
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	7,044	8,549
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	255	402
Cash	22	22	193	312	961	379	8	155
Bank Balance	8	10	8	10	299	247	247	247
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	3,306	4,063
Appl. of Funds	3,984	5,189	5,810	6,635	8,554	10,597	12,762	15,410

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	55.9	75.6
EPS Growth (%)	1.0	27.6	30.3	124.5	57.0	-24.0	27.0	35.3
Cash EPS	12.7	15.7	21.0	42.1	63.6	50.8	65.1	87.5
BV/Share	48.1	58.2	71.5	105.2	155.3	193.7	235.6	292.3
DPS	0.0	2.4	3.4	8.7	16.0	10.0	14.0	18.9
Payout (%)	0.0	19.1	20.6	20.6	27.7	22.7	25.0	25.0
Valuation (x)								
P/E	294	230	177	79	50	66	52	38
Cash P/E	229	185	138	69	46	57	44	33
P/BV	60	50	41	28	19	15	12	10
EV/Sales	28	24	18	15	12	10	8	7
EV/EBITDA	157	128	91	58	34	45	36	26
Dividend Yield (%)	0	0	0	0	1	0	0	1
FCF per share	0	-7	15	22	41	-8	7	27
Return Ratios (%)								
RoE	23	24	25	42	44	25	26	29
RoCE	15	15	17	32	40	24	25	28
RoIC	16	16	18	35	51	31	28	30
Working Capital Ratios								
Fixed Asset Turnover (x)	2.7	2.2	2.3	2.5	2.9	3.0	2.6	2.5
Asset Turnover (x)	1.4	1.2	1.5	1.5	1.5	1.5	1.5	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	1.9
Interest Cover Ratio	10.0	12.4	9.5	22.4	63.2	76.2	77.3	199.7
Net Debt/Equity	0.5	0.6	0.4	0.1	-0.1	0.0	0.0	0.0

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	3,817	5,163
Depreciation	129	154	233	269	291	348	472	609
Interest Expenses	81	81	148	103	63	38	48	25
Others	-11	-6	51	-308	1	-31	0	0
Direct Taxes Paid	-198	-198	-356	-581	-1,012	-744	-961	-1,300
(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	2,868	3,888
(Inc)/Dec in FA	-645	-1,350	-689	-771	-1,561	-2,462	-2,500	-2,500
Free Cash Flow	-10	-334	753	1,115	2,079	-415	368	1,388
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	-2,500
Issue of Shares	0	0	0	0	4	7	0	0
Inc/(Dec) in Debt	39	547	-268	-797	-381	-228	23	-250
Interest Paid	-78	-83	-150	-107	-68	-40	-48	-25
Dividend Paid	0	-123	-172	-443	-408	-306	-714	-966
Others	23	-16	-13	-13	-11	-6	0	0
CF from Fin. Activity	-16	325	-603	-1,360	-864	-573	-739	-1,241
Inc/Dec of Cash	-17	1	171	119	649	-583	-371	147
Opening Balance	39	22	22	193	312	961	379	8
Closing Balance	22	22	193	313	962	379	7	155

NOTES

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

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