

Estimate changes



TP change



Rating change



Bloomberg	AACL IN
Equity Shares (m)	51
M.Cap.(INRb)/(USDb)	129.7 / 1.6
52-Week Range (INR)	3230 / 2119
1, 6, 12 Rel. Per (%)	2/-11/-31
12M Avg Val (INR M)	109

## Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	16.8	21.0	25.2
EBITDA	3.4	4.7	5.9
PAT	2.3	3.3	4.1
EPS (INR)	44.7	63.6	80.0
EPS Gr. (%)	1.6	42.2	25.9
BV/Sh.(INR)	228.5	277.9	340.0

## Ratios

Net D:E	0.1	0.0	-0.0
RoE (%)	21.2	25.1	25.9
RoCE (%)	19.5	23.1	24.5
Payout (%)	22.4	22.4	22.4

## Valuations

P/E (x)	56.8	40.0	31.8
P/BV (x)	11.1	9.1	7.5
EV/EBITDA (x)	38.1	27.7	22.2
Div. Yield (%)	0.4	0.6	0.7
FCF Yield (%)	-0.4	0.9	1.1

## Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	72.0	72.0	72.0
DII	1.1	1.1	1.1
FII	2.8	2.7	2.2
Others	24.1	24.2	24.7

FII Includes depository receipts

**CMP: INR2,539**

**TP: INR2,400 (-5%)**

**Neutral**

## Long-term volume guidance remains intact

- Alkyl Amines (AACL) reported in-line revenue in 4QFY23. Gross margin contracted to 46.4%. EBITDA was also in line at INR769m with EBITDAM at 18.7% (+80bp QoQ). Operating expenses were higher due to elevated coal prices even as the company was able to maintain its market share in FY23.
- The pharma industry outlook appears positive after a couple of years of drag post-Covid due to de-stocking on account of inventory buildup during the pandemic. That being said, the management focus and long-term guidance of 10-15% volume growth remained intact.
- The average utilization of both the ACN plants was 60-65% in FY23 with current realizations being INR150/kg. In USD terms, it is one of the lowest values right now due to a glut in the market but the management expects the prices of ACN to rebound in FY24.
- Capacity expansion of Ethyl Amines** in Kurkumbh (100tpd capacity) is on track and is expected to be commissioned by Jul'23. Capex envisaged for the same is INR4b. The company had also commissioned Di-Ethyl Ketone in Feb'23, the plant of which has now stabilized with other four products set to be commissioned in the next 24 months.
- The stock is trading at 32x FY25E EPS and 22x FY25E EV/EBITDA. **We reiterate our Neutral rating on the stock, and value it at 30x FY25E EPS to arrive at our TP of INR2,400.**

## EBITDA in line; EBITDAM expands

- AACL's revenue stood at INR4.1b (est. INR4b, down 3% YoY, up 6% QoQ).
- Gross margin was at 46.4% with **EBITDAM at 18.7%** (v/s ~17.9% in 3QFY23).
- EBITDA was at INR769m (est. INR768m, up 5% YoY, up 11% QoQ) in 4QFY23.
- PAT stood at INR486m (est. INR512m, up 5% YoY, up 6% QoQ), primarily due to higher-than-estimated tax during the quarter.
- For FY23**, revenue was at INR16.8b (up 9% YoY), EBITDA was at INR3.4b (up 5% YoY) and PAT stood at INR2.3b (up 2% YoY).
- EBITDAM contracted to 20.4% (down 70bp YoY).
- The Board has declared a final dividend of INR10/sh for FY23.**

## Valuation and View

- Ongoing expansions will boost aliphatic amines capacity by ~30% (capex of INR4b, with completion expected by 2QFY24).** The current capacity stands at 90-100ktpa for aliphatic amines. Entry into new specialty products is also likely to boost margins as the management sees strong demand for these products, which are a mix of amine derivatives and specialties.
- We forecast an ~18% revenue CAGR over FY23-25, with an EPS CAGR of 22% over the same period.** Downside risks to our call could be intensified competition, wherein the market price is determined by the competitor with little pricing power left for AACL to command.
- The stock is trading at 32x FY25E EPS and 22x FY25E EV/EBITDA. **We reiterate our Neutral rating on the stock, and value it at 30x FY25E EPS to arrive at our TP of INR2,400.**

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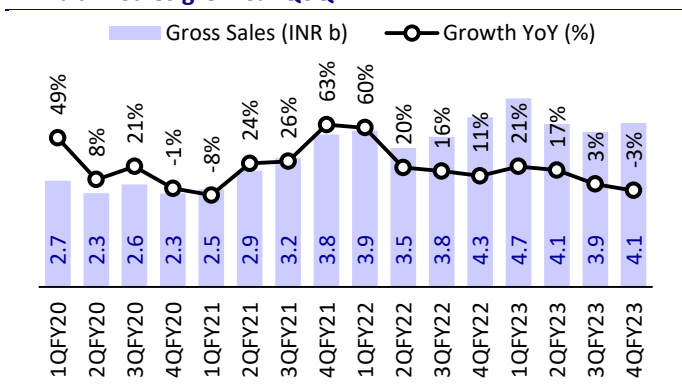
Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

Standalone - Quarterly Snapshot

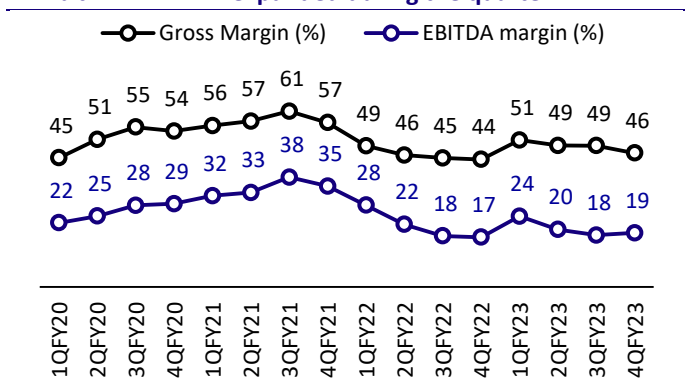
Y/E March	FY22				FY23				FY22	FY23	FY23E	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	
<b>Gross Sales</b>	<b>3,918</b>	<b>3,487</b>	<b>3,767</b>	<b>4,254</b>	<b>4,735</b>	<b>4,089</b>	<b>3,884</b>	<b>4,117</b>	<b>15,426</b>	<b>16,824</b>	<b>3,992</b>	<b>3%</b>
YoY Change (%)	59.8	19.7	16.3	11.3	20.8	17.3	3.1	-3.2	24.2	9.1	-6.2	
<b>Gross Margin (%)</b>	<b>48.9%</b>	<b>45.7%</b>	<b>44.7%</b>	<b>44.2%</b>	<b>50.9%</b>	<b>49.0%</b>	<b>48.9%</b>	<b>46.4%</b>	<b>45.8%</b>	<b>48.9%</b>	<b>49.4%</b>	<b>-3.0%</b>
<b>EBITDA</b>	<b>1,109</b>	<b>755</b>	<b>666</b>	<b>732</b>	<b>1,158</b>	<b>813</b>	<b>696</b>	<b>769</b>	<b>3,262</b>	<b>3,436</b>	<b>768</b>	<b>0%</b>
Margins (%)	28.3	21.6	17.7	17.2	24.5	19.9	17.9	18.7	21.1	20.4	19.2	-0.6
Depreciation	76	77	79	116	118	112	107	116	348	452	113	
Interest	11	10	10	6	8	11	7	11	37	37	8	
Other Income	20	42	46	36	42	23	45	28	144	138	36	
<b>PBT before EO expense</b>	<b>1,043</b>	<b>709</b>	<b>623</b>	<b>646</b>	<b>1,075</b>	<b>714</b>	<b>626</b>	<b>671</b>	<b>3,021</b>	<b>3,085</b>	<b>684</b>	<b>-2%</b>
<b>PBT</b>	<b>1,043</b>	<b>709</b>	<b>623</b>	<b>646</b>	<b>1,075</b>	<b>714</b>	<b>626</b>	<b>671</b>	<b>3,021</b>	<b>3,085</b>	<b>684</b>	<b>-2%</b>
Tax	258	169	164	182	256	189	169	185	772	799	172	
Rate (%)	24.7	23.8	26.3	28.2	23.8	26.5	27.0	27.5	25.6	25.9	25.2	
<b>Reported PAT</b>	<b>785</b>	<b>541</b>	<b>459</b>	<b>464</b>	<b>819</b>	<b>524</b>	<b>457</b>	<b>486</b>	<b>2,249</b>	<b>2,286</b>	<b>512</b>	<b>-5%</b>
YoY Change (%)	48.8	-17.4	-45.7	-49.9	4.3	-3.1	-0.4	4.8	-23.8	1.6	10.2	
Margins (%)	20.0	15.5	12.2	10.9	17.3	12.8	11.8	11.8	14.6	13.6	12.8	-1.0

Exhibit 1: Sales grew 6% QoQ



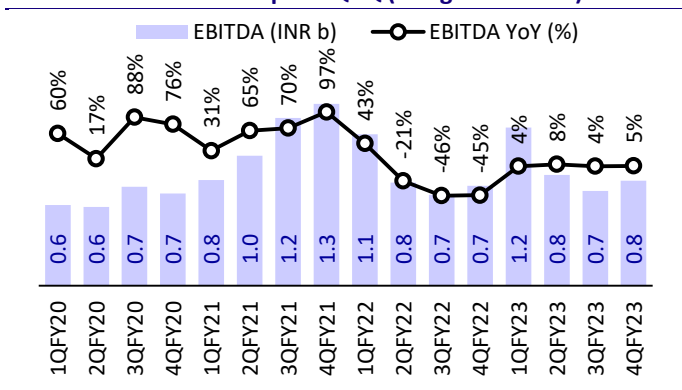
Source: Company, MOFSL

Exhibit 2: EBITDAM expanded during the quarter



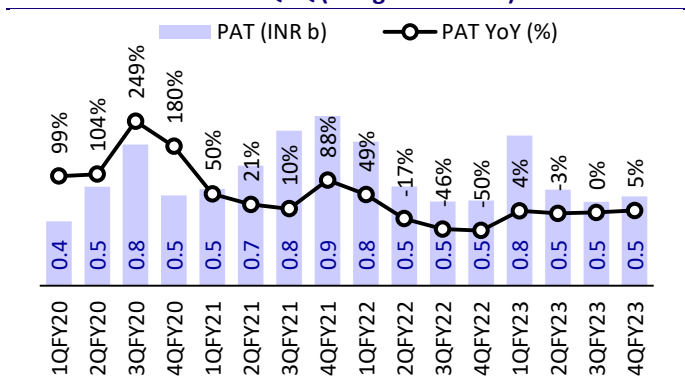
Source: Company, MOFSL

Exhibit 3: EBITDA was up 5% QoQ (margin at 18.7%)



Source: Company, MOFSL

Exhibit 4: PAT rose 6% QoQ (margin at 11.8%)



Source: Company, MOFSL



## Highlights from the conference call

### Operational performance

- The company has been able to maintain its market share in FY23.
- Some industries showed volatility, especially Pharma, with input prices also being on elevated levels. However, most of the issues appear to have settled as of now.
- Volumes grew 10% YoY in FY23 and expected to be on the higher side of 10-15% YoY in FY24.
- Operating expenses were higher because of elevated coal prices; at INR14,000/t in FY23 and currently at INR11,000/t.
- Ethylamines has also been disappointing in terms of performance in FY23
- Average ACN plant utilization stood at 60-65% for FY23.

### Outlook

- The pharma industry seems to be more optimistic after couple of years of drag because of overproduction during Covid
- Now it is back to the normal curve at pre-pandemic levels
- Pharma penetration is also low in India that provides a huge opportunity to grow
- Current realizations of ACN stand at INR150/kg. In terms of USD, this is the lowest value observed due to glut in the market
- Expect ACN prices to bounce back in FY24
- Ammonia is 15-20% of overall RM cost and company could save 5-6% if prices remain at current level

### Project updates

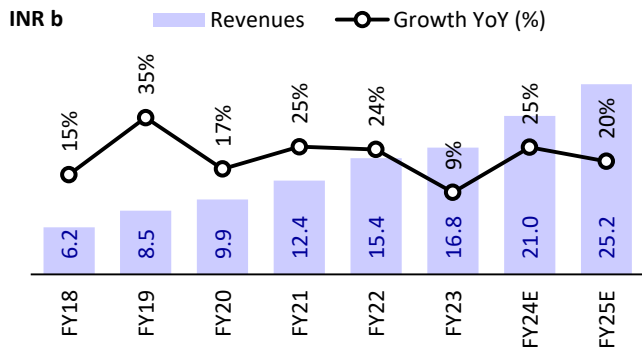
- Capex for FY24 would be INR2b and INR3b for FY25
- Ethylamines expansion plant is almost ready for commissioning in 2QFY24 (by Jul'23)
- Di-Ethyl Ketone (one of the five new products announced in 2QFY23) plant has stabilized now (it was started in Feb'23); it is not part of the amine family
- A couple of other products would be derivatives and the rest would be specialties, which are yet to be commissioned
- The market for DEK is small although growing and AACL would look to capture 50-60% market share in the next 18 months
- DEK would contribute 3-5% of the overall revenue
- The new 4-5 products would be value-driven rather than volume-driven and would contribute 20-25% of AACL's revenue

### Other highlights

- Other amine chains (C4-C6) comprise less than 5% of the total revenue for AACL
- These are majorly imported from both China and Europe
- They are niche products and therefore go for niche usages (for e.g. rubber chemicals)
- Methylamines is hardly imported into the country while 30-40% of ACN consumed is imported
- Average 10-15% of the total products of AACL are imported into India.

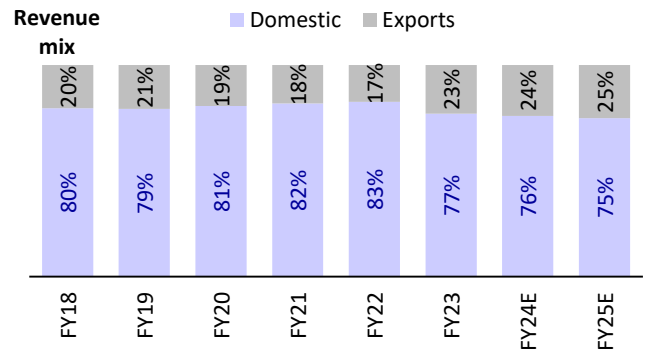
Financials story in charts

Exhibit 5: Expect ~18% revenue CAGR over FY23-25...



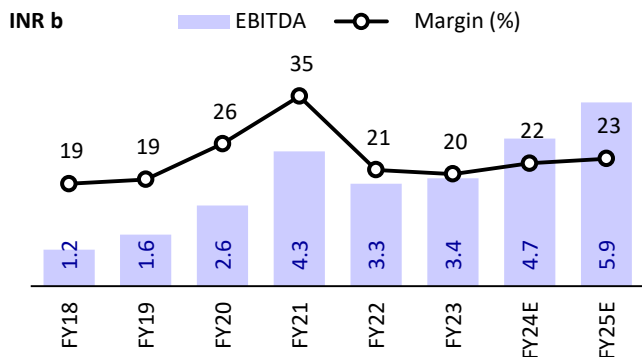
Source: Company, MOFSL

Exhibit 6: ...with export rising to 25% by FY25



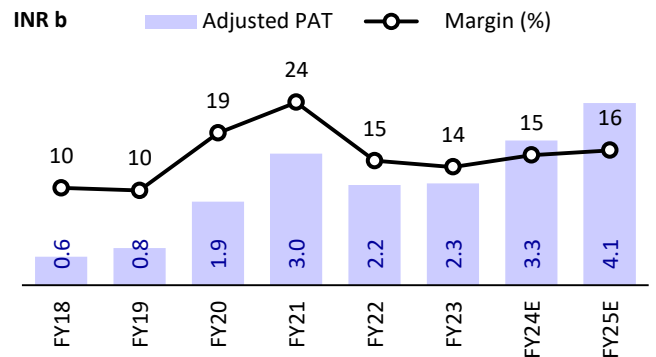
Source: Company, MOFSL

Exhibit 7: Expect EBITDA margin to be at ~23%...



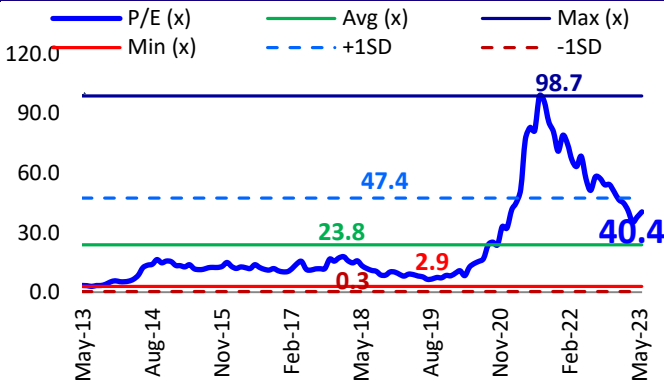
Source: Company, MOFSL

Exhibit 8: ... with PAT margin expanding by FY25



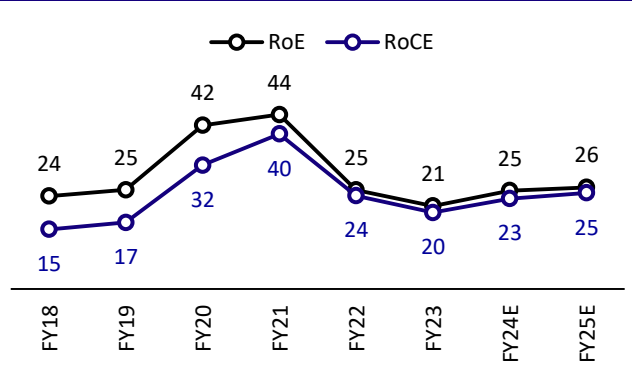
Source: Company, MOFSL

Exhibit 9: One-year forward P/E trades at 40.4x...



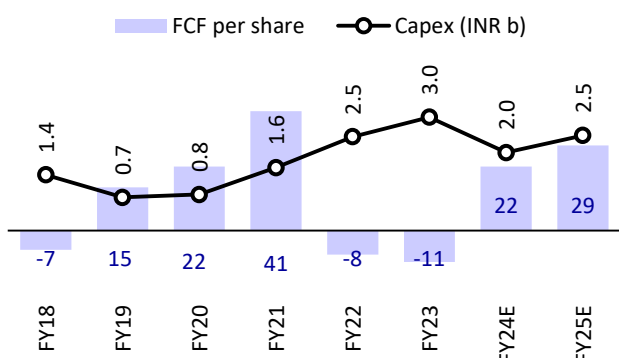
Source: Company, MOFSL

Exhibit 10: ...with return ratios stabilizing at ~23-26%



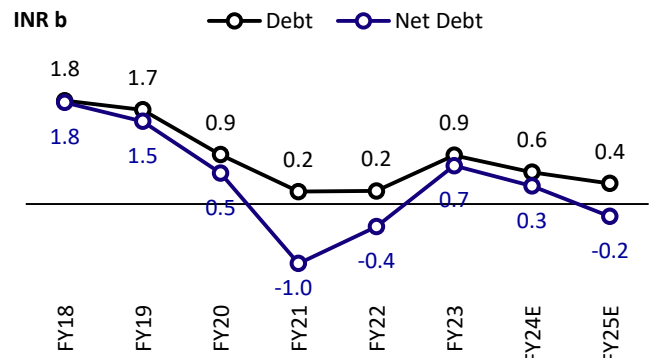
Source: Company, MOFSL

Exhibit 11: Expect strong FCF generation over FY24-25



Source: Company, MOFSL

Exhibit 12: Debt profile of AACL



Source: Company, MOFSL

## Financials and valuations

### Standalone - Income Statement

	(INR m)							
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Total Income from Operations</b>	<b>6,248</b>	<b>8,464</b>	<b>9,929</b>	<b>12,424</b>	<b>15,428</b>	<b>16,823</b>	<b>21,029</b>	<b>25,235</b>
Change (%)	15.3	35.5	17.3	25.1	24.2	9.0	25.0	20.0
Gross Margin (%)	46.5	45.5	51.2	57.9	45.8	48.9	50.2	50.7
<b>EBITDA</b>	<b>1,164</b>	<b>1,644</b>	<b>2,570</b>	<b>4,291</b>	<b>3,265</b>	<b>3,431</b>	<b>4,699</b>	<b>5,850</b>
Margin (%)	18.6	19.4	25.9	34.5	21.2	20.4	22.3	23.2
Depreciation	157	233	269	291	348	452	461	484
<b>EBIT</b>	<b>1,008</b>	<b>1,410</b>	<b>2,301</b>	<b>4,001</b>	<b>2,918</b>	<b>2,980</b>	<b>4,238</b>	<b>5,366</b>
Int. and Finance Charges	81	148	103	63	38	33	35	40
Other Income	32	39	70	70	142	139	142	143
<b>PBT bef. EO Exp.</b>	<b>958</b>	<b>1,302</b>	<b>2,269</b>	<b>4,007</b>	<b>3,021</b>	<b>3,086</b>	<b>4,344</b>	<b>5,469</b>
EO Items	0	0	328	0	0	0	0	0
<b>PBT after EO Exp.</b>	<b>958</b>	<b>1,302</b>	<b>2,597</b>	<b>4,007</b>	<b>3,021</b>	<b>3,086</b>	<b>4,344</b>	<b>5,469</b>
Total Tax	315	464	444	1,054	772	799	1,093	1,377
Tax Rate (%)	32.9	35.7	17.1	26.3	25.6	25.9	25.2	25.2
<b>Reported PAT</b>	<b>643</b>	<b>837</b>	<b>2,153</b>	<b>2,953</b>	<b>2,249</b>	<b>2,287</b>	<b>3,251</b>	<b>4,093</b>
<b>Adjusted PAT</b>	<b>643</b>	<b>837</b>	<b>1,881</b>	<b>2,953</b>	<b>2,249</b>	<b>2,287</b>	<b>3,251</b>	<b>4,093</b>
Change (%)	27.6	30.3	124.5	57.0	-23.9	1.7	42.2	25.9
Margin (%)	10.3	9.9	18.9	23.8	14.6	13.6	15.5	16.2

### Standalone - Balance Sheet

	(INR m)							
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	102	102	102	102	102	102	102	102
Total Reserves	2,869	3,548	5,264	7,822	9,796	11,587	14,111	17,288
<b>Net Worth</b>	<b>2,972</b>	<b>3,650</b>	<b>5,366</b>	<b>7,924</b>	<b>9,898</b>	<b>11,689</b>	<b>14,213</b>	<b>17,390</b>
Total Loans	1,813	1,653	866	216	227	855	556	361
Deferred Tax Liabilities	405	507	404	414	472	560	560	560
<b>Capital Employed</b>	<b>5,189</b>	<b>5,810</b>	<b>6,636</b>	<b>8,554</b>	<b>10,598</b>	<b>13,104</b>	<b>15,328</b>	<b>18,311</b>
Gross Block	3,846	4,280	4,971	5,315	7,377	8,713	10,713	13,213
Less: Accum. Deprn.	295	515	736	1,026	1,374	1,825	2,287	2,771
<b>Net Fixed Assets</b>	<b>3,552</b>	<b>3,764</b>	<b>4,235</b>	<b>4,288</b>	<b>6,003</b>	<b>6,887</b>	<b>8,426</b>	<b>10,441</b>
Capital WIP	184	432	449	1,376	1,426	3,520	3,520	3,520
<b>Total Investments</b>	<b>14</b>	<b>14</b>	<b>0</b>	<b>302</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>2,621</b>	<b>3,275</b>	<b>3,150</b>	<b>5,486</b>	<b>6,283</b>	<b>5,493</b>	<b>6,878</b>	<b>8,544</b>
Inventory	852	1,057	837	1,219	1,645	1,837	2,296	2,755
Account Receivables	1,238	1,526	1,642	2,280	2,767	2,584	3,230	3,876
Cash and Bank Balance	32	202	323	1,260	626	182	240	579
Cash	22	193	312	961	379	172	230	568
Bank Balance	10	8	10	299	247	11	11	11
Loans and Advances	499	490	349	727	1,245	890	1,112	1,334
<b>Curr. Liability &amp; Prov.</b>	<b>1,182</b>	<b>1,676</b>	<b>1,198</b>	<b>2,899</b>	<b>3,116</b>	<b>2,797</b>	<b>3,496</b>	<b>4,195</b>
Account Payables	848	1,304	748	1,790	2,285	1,897	2,372	2,846
Other Current Liabilities	250	264	354	1,002	730	772	965	1,158
Provisions	84	107	97	107	101	128	160	191
<b>Net Current Assets</b>	<b>1,439</b>	<b>1,599</b>	<b>1,952</b>	<b>2,587</b>	<b>3,168</b>	<b>2,696</b>	<b>3,382</b>	<b>4,350</b>
<b>Appl. of Funds</b>	<b>5,189</b>	<b>5,810</b>	<b>6,635</b>	<b>8,554</b>	<b>10,597</b>	<b>13,103</b>	<b>15,328</b>	<b>18,311</b>

## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Basic (INR)</b>								
EPS	12.6	16.4	36.9	57.9	44.0	44.7	63.6	80.0
EPS Growth (%)	27.6	30.3	124.5	57.0	-24.0	1.6	42.2	25.9
Cash EPS	15.7	21.0	42.1	63.6	50.8	53.5	72.6	89.5
BV/Share	58.2	71.5	105.2	155.3	193.7	228.5	277.9	340.0
DPS	2.4	3.4	8.7	16.0	10.0	10.0	14.2	17.9
Payout (%)	19.1	20.6	20.6	27.7	22.7	22.4	22.4	22.4
<b>Valuation (x)</b>								
P/E	201.7	154.8	68.9	43.9	57.7	56.8	40.0	31.8
Cash P/E	162.1	121.1	60.3	40.0	50.0	47.5	35.0	28.4
P/BV	43.6	35.5	24.2	16.4	13.1	11.1	9.1	7.5
EV/Sales	21.0	15.5	13.1	10.4	8.4	7.8	6.2	5.1
EV/EBITDA	112.9	79.8	50.7	30.0	39.6	38.1	27.7	22.2
Dividend Yield (%)	0.1	0.1	0.3	0.6	0.4	0.4	0.6	0.7
FCF per share	-6.5	14.8	21.8	40.7	-8.1	-10.7	21.9	29.1
<b>Return Ratios (%)</b>								
RoE	23.7	25.3	41.7	44.4	25.2	21.2	25.1	25.9
RoCE	15.2	17.0	31.6	39.5	23.8	19.5	23.1	24.5
RoIC	15.8	17.9	34.6	51.4	30.7	24.6	30.2	31.2
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	2.2	2.3	2.5	2.9	3.0	2.6	2.7	2.7
Asset Turnover (x)	1.2	1.5	1.5	1.5	1.5	1.3	1.4	1.4
Inventory (Days)	50	46	31	36	39	40	40	40
Debtor (Days)	72	66	60	67	65	56	56	56
Creditor (Days)	50	56	27	53	54	41	41	41
<b>Leverage Ratio (x)</b>								
Current Ratio	2.2	2.0	2.6	1.9	2.0	2.0	2.0	2.0
Interest Cover Ratio	12.4	9.5	22.4	63.2	76.2	89.8	120.2	135.3
Net Debt/Equity	0.6	0.4	0.1	-0.1	0.0	0.1	0.0	0.0

### Standalone - Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	958	1,302	2,597	4,007	3,021	3,086	4,344	5,469
Depreciation	154	233	269	291	348	452	461	484
Interest Expenses	81	148	103	63	38	33	35	40
Others	-6	51	-308	1	-31	61	0	0
Direct Taxes Paid	-198	-356	-581	-1,012	-744	-714	-1,093	-1,377
(Inc)/Dec in WC	26	64	-193	290	-585	-434	-628	-628
<b>CF from Operations</b>	<b>1,016</b>	<b>1,442</b>	<b>1,886</b>	<b>3,640</b>	<b>2,047</b>	<b>2,484</b>	<b>3,119</b>	<b>3,989</b>
(Inc)/Dec in FA	-1,350	-689	-771	-1,561	-2,462	-3,030	-2,000	-2,500
<b>Free Cash Flow</b>	<b>-334</b>	<b>753</b>	<b>1,115</b>	<b>2,079</b>	<b>-415</b>	<b>-546</b>	<b>1,119</b>	<b>1,489</b>
Change in Investments	16	0	343	-587	369	237	0	0
Others	-6	21	22	21	36	22	0	0
<b>CF from Investments</b>	<b>-1,340</b>	<b>-668</b>	<b>-407</b>	<b>-2,127</b>	<b>-2,057</b>	<b>-2,771</b>	<b>-2,000</b>	<b>-2,500</b>
Issue of Shares	0	0	0	4	7	12	0	0
Inc/(Dec) in Debt	547	-268	-797	-381	-228	616	-299	-194
Interest Paid	-83	-150	-107	-68	-40	-31	-35	-40
Dividend Paid	-123	-172	-443	-408	-306	-511	-727	-916
Others	-16	-13	-13	-11	-6	-7	0	0
<b>CF from Fin. Activity</b>	<b>325</b>	<b>-603</b>	<b>-1,360</b>	<b>-864</b>	<b>-573</b>	<b>80</b>	<b>-1,062</b>	<b>-1,150</b>
<b>Inc/Dec of Cash</b>	<b>1</b>	<b>171</b>	<b>119</b>	<b>649</b>	<b>-583</b>	<b>-207</b>	<b>57</b>	<b>339</b>
Opening Balance	22	22	193	312	961	379	172	230
<b>Closing Balance</b>	<b>22</b>	<b>193</b>	<b>313</b>	<b>962</b>	<b>379</b>	<b>172</b>	<b>229</b>	<b>568</b>

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Explanation of Investment Rating	
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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
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