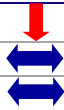


Alkyl Amines

Estimate changes

TP change

Rating change



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Bloomberg	AACL IN
Equity Shares (m)	51
M.Cap.(INRb)/(USD\$)	214.8 / 2.9
52-Week Range (INR)	4740 / 922
1, 6, 12 Rel. Per (%)	10/103/297
12M Avg Val (INR M)	425

Financials & Valuations (INR bn)

Y/E March	FY21	FY22E	FY23E
Sales	12.4	14.9	17.9
EBITDA	4.3	4.3	5.3
PAT	3.0	3.0	3.8
EPS (INR)	57.9	59.0	73.7
EPS Gr. (%)	57	2	25
BV/Sh.(INR)	155	197	248

Ratios

Net D:E	(0.1)	(0.0)	(0.1)
RoE (%)	44.4	33.5	33.1
RoCE (%)	39.5	31.7	31.7
Payout (%)	27.6	30.0	30.0

Valuations

P/E (x)	73.9	72.5	58.0
P/BV (x)	27.5	21.8	17.2
EV/EBITDA (x)	50.6	50.8	41.0
Div. Yield (%)	0.4	0.4	0.5
FCF Yield (%)	1.0	0.1	0.8

Kindly refer our detailed report on Specialty Chemicals



CMP: INR4,206

TP: INR3,665 (-12%)

Neutral

Continued capacity addition in the space to impact margins

- Alkyl Amines (AACL) reported revenue in line with our estimates, while EBITDA was 18% below our estimate due to margin contraction. The gross margin contracted QoQ (by 810bps) to 49% in 1QFY22 – the lowest level in the last eight quarters.
- Raw material price inflation is likely to continue over the next couple of quarters due to a demand-supply mismatch in the global commodity markets (as global economies revive to normal levels), coupled with high freight costs.
- In line with the same, **we cut our EBITDA margin forecast by 3–4%**, resulting in an estimate cut of 9%/12%/8% in EBITDA for FY22E/FY23E/FY24E.
- Our downward revision in margins also factors in capacity additions by domestic peers.** For example, Balaji Amines announced [capacity additions](#) of 16.5ktpa of Acetonitrile (ACN), over the next 12–18 months, which would take the total capacity to 25.5ktpa.
- India's demand for ACN stands at 35ktpa, of which ~60% is imported, presenting an import substitution opportunity. AACL is expanding its ACN capacity by 15ktpa to 27ktpa – making it the largest producer with expected commissioning by 3QFY22. **Although, with the aforementioned announcement of capacity additions by its peer (Balaji Amines), the domestic market would see increased competition for ACN, impacting AACL's margins.**
- We maintain a Neutral rating on the stock (valuing it at 45x Sep'23 EPS). That said, capacity expansion would facilitate the current high valuations – as even the company's RoEs would be the best among peers at 32–33% in FY24E.

Margins tumble after peaking in FY21

- Revenue was in line with our estimate at INR3.9b (+60% YoY; +3% QoQ).
- EBITDA came in 18% below our estimate at INR1.1b (+43% YoY; -17% QoQ), with the EBITDA margin at 28.3% (the lowest in the last six quarters).
- That said, conversion cost was down 50bps QoQ to 20.6% (the lowest ever) as operating efficiencies improved.
- PAT stood at INR785m (+49% YoY; -15% QoQ).

Valuation and view – maintain Neutral

- Ongoing expansions would boost the aliphatic amines capacity by ~30% (capex of INR3b, with expected completion by end-FY23).** Current capacity for aliphatic amines stands at 90ktpa, its derivatives account for 35ktpa, and ACN for ~12ktpa.
- We forecast a revenue CAGR of ~20% over FY21–24, with an EPS CAGR of 15% over the same period.** Closures of global capacities and a higher-than-expected revenue CAGR present an upside risk to our call, while there may be a downside risk from an increase in domestic competition.
- The stock is trading at 58x/48x FY23/24E EPS and 41x/34x FY23/24E EV/EBITDA – after clocking an upward run of ~15% last month.** We value the company at 45x Sep'23E EPS to arrive at TP of INR3,665.

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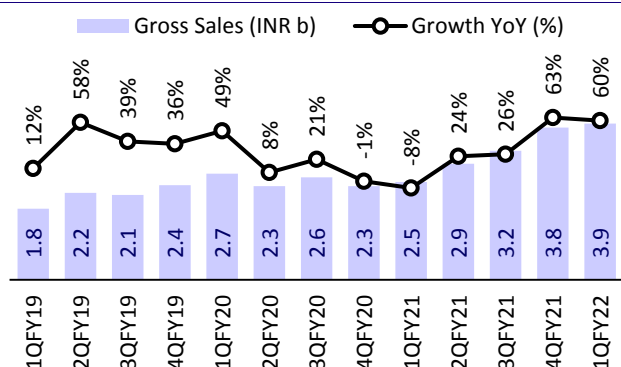
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Standalone - Quarterly Snapshot

Y/E March	FY21				FY22				FY21	FY22E	FY22	Var(%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			1QE	
Gross Sales	2,452	2,913	3,239	3,821	3,918	3,722	3,759	3,510	12,424	14,909	4,127	-5%
YoY Change (%)	-7.9	24.0	26.1	62.8	59.8	27.8	16.1	-8.2	25.1	20.0	68.3	
Gross Margins (%)	56%	57%	61%	57%	49%	50%	50%	51%	58%	50%	53%	
EBITDA	774	953	1,231	1,334	1,107	1,067	1,104	1,011	4,291	4,289	1,346	-18%
Margins (%)	31.6	32.7	38.0	34.9	28.3	28.7	29.4	28.8	34.5	28.8	32.6	
Depreciation	70	72	76	73	75	78	80	82	291	316	76	0%
Interest	19	16	14	14	11	11	11	11	63	43	10	9%
Other Income	12	27	17	14	22	23	25	21	70	91	16	43%
PBT before EO expense	696	891	1,158	1,261	1,043	1,002	1,038	938	4,007	4,022	1,276	-18%
PBT	696	891	1,158	1,261	1,043	1,002	1,038	938	4,007	4,022	1,276	-18%
Tax	168	237	313	335	258	252	261	241	1,054	1,012	321	-20%
Rate (%)	24.2	26.5	27.0	26.6	24.7	25.2	25.2	25.7	26.3	25.2	25.2	
Reported PAT	528	655	845	926	785	750	777	697	2,953	3,009	955	-18%
YoY Change (%)	50.4	21.5	64.3	88.1	48.8	14.5	-8.1	-24.7	55.7	1.9	80.9	
Margins (%)	21.5	22.5	26.1	24.2	20.0	20.1	20.7	19.9	23.8	20.2	23.1	

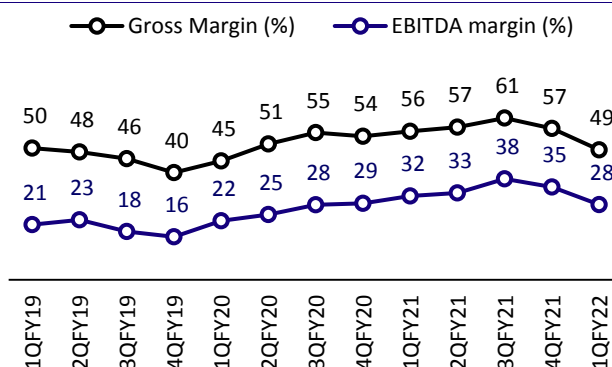
E: MOFSL Estimates

Exhibit 1: Sales up 3% QoQ (in line with estimate)



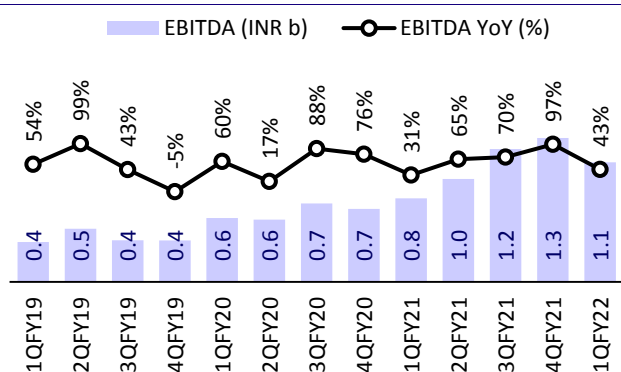
Source: Company, MOFSL

Exhibit 2: Margins contract after peaking in FY21



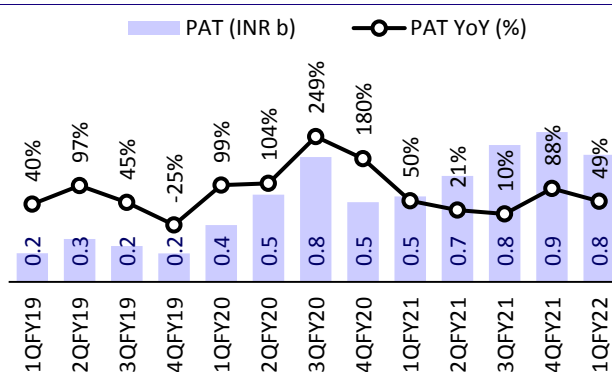
Source: Company, MOFSL

Exhibit 3: EBITDA down 17% QoQ (margins at 28.3%)



Source: Company, MOFSL

Exhibit 4: PAT at -15% QoQ (margins at 20.0%)

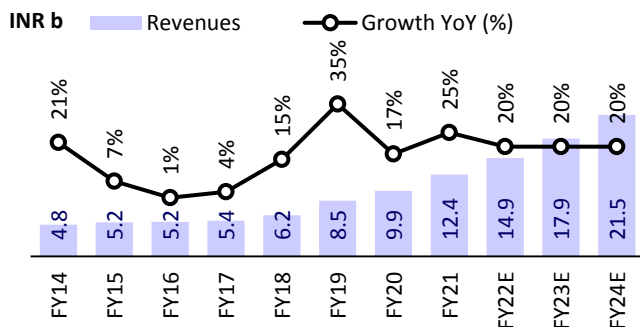


Source: Company, MOFSL

Financials story in charts

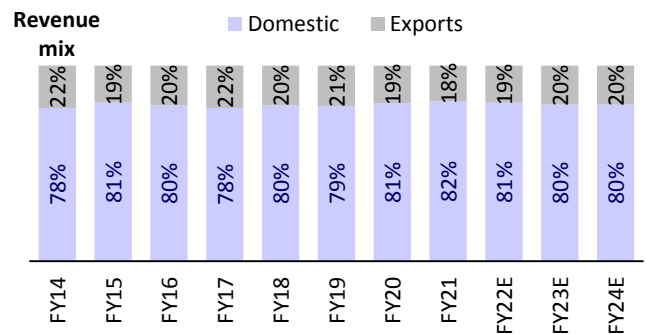
Next leg of growth to facilitate current high valuations

Exhibit 1: Expect ~20% revenue CAGR over FY21–24...



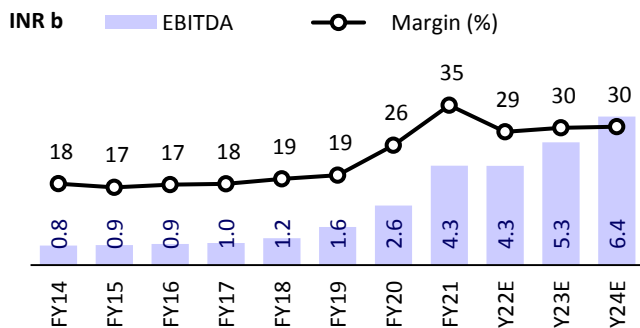
Source: Company, MOFSL

Exhibit 2: ...with revenue mix remaining constant



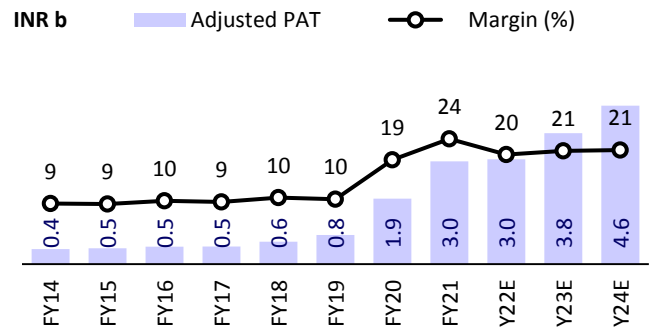
Source: Company, MOFSL

Exhibit 3: Expect EBITDA margin to sustain at ~30%...



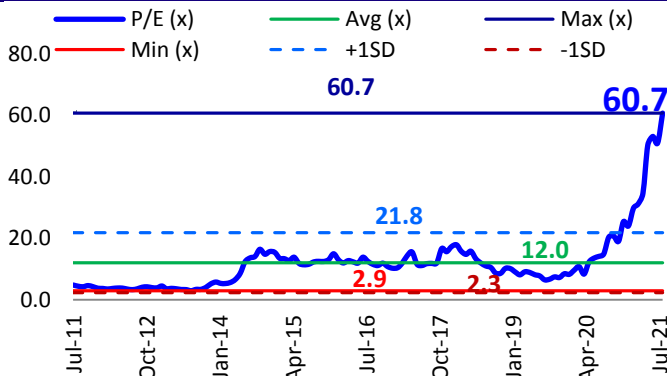
Source: Company, MOFSL

Exhibit 4: ...along with normalization in PAT margins



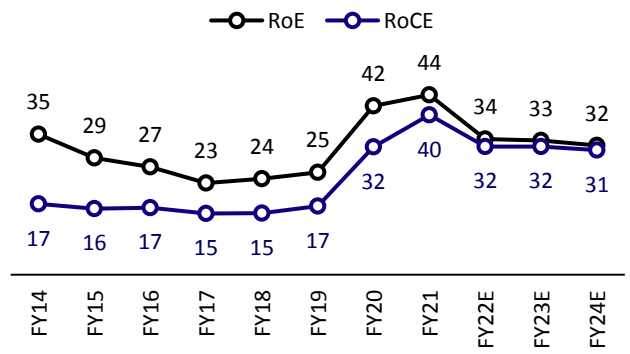
Source: Company, MOFSL

Exhibit 5: One-year forward PE trades at 60.7x...



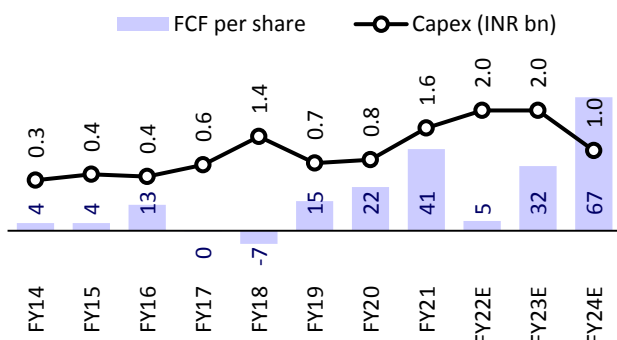
Source: Company, MOFSL

Exhibit 6: ...with return ratios stabilizing at 32–33%



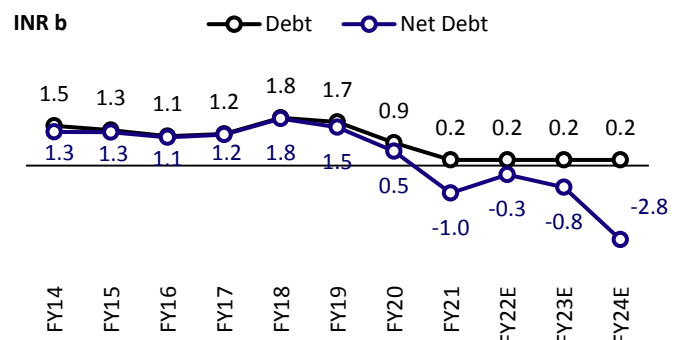
Source: Company, MOFSL

Exhibit 7: Expect strong FCF generation over FY22–24



Source: Company, MOFSL

Exhibit 8: Expect AACL to remain net cash positive



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement

	(INR m)								
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Income from Operations	5,233	5,418	6,248	8,464	9,929	12,424	14,909	17,891	21,469
Change (%)	1.4	3.5	15.3	35.5	17.3	25.1	20.0	20.0	20.0
Gross Margins (%)	51.9	51.4	46.5	45.5	51.2	57.9	50.0	49.0	47.5
EBITDA	910	951	1,164	1,644	2,570	4,291	4,289	5,306	6,415
Margin (%)	17.4	17.6	18.6	19.4	25.9	34.5	28.8	29.7	29.9
Depreciation	129	143	157	233	269	291	316	333	393
EBIT	781	809	1,008	1,410	2,301	4,001	3,974	4,974	6,022
Int. and Finance Charges	80	81	81	148	103	63	43	43	43
Other Income	24	11	32	39	70	70	91	96	102
PBT bef. EO Exp.	725	739	958	1,302	2,269	4,007	4,022	5,027	6,081
EO Items	0	0	0	0	328	0	0	0	0
PBT after EO Exp.	725	739	958	1,302	2,597	4,007	4,022	5,027	6,081
Total Tax	226	236	315	464	444	1,054	1,012	1,265	1,531
Tax Rate (%)	31.2	31.9	32.9	35.7	17.1	26.3	25.2	25.2	25.2
Reported PAT	499	504	643	837	2,153	2,953	3,009	3,761	4,550
Adjusted PAT	499	504	643	837	1,881	2,953	3,009	3,761	4,550
Change (%)	9.8	1.0	27.6	30.3	124.5	57.0	1.9	25.0	21.0
Margin (%)	9.5	9.3	10.3	9.9	18.9	23.8	20.2	21.0	21.2

Standalone - Balance Sheet

	(INR m)								
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	102	102	102	102	102	102	102	102	102
Total Reserves	1,893	2,354	2,869	3,548	5,264	7,822	9,929	12,562	15,747
Net Worth	1,995	2,456	2,972	3,650	5,366	7,924	10,031	12,664	15,849
Total Loans	1,115	1,201	1,813	1,653	866	216	216	216	216
Deferred Tax Liabilities	286	327	405	507	404	414	414	414	414
Capital Employed	3,396	3,984	5,189	5,810	6,636	8,554	10,661	13,294	16,479
Gross Block	3,213	2,329	3,846	4,280	4,971	5,315	7,315	9,315	10,315
Less: Accum. Deprn.	1,342	129	295	515	736	1,026	1,342	1,675	2,067
Net Fixed Assets	1,871	2,201	3,552	3,764	4,235	4,288	5,973	7,640	8,247
Capital WIP	161	348	184	432	449	1,376	1,376	1,376	1,376
Total Investments	23	14	14	14	0	302	302	302	302
Curr. Assets, Loans&Adv.	2,008	2,559	2,621	3,275	3,150	5,486	4,809	6,134	9,144
Inventory	632	1,114	852	1,057	837	1,219	1,256	1,508	1,809
Account Receivables	903	973	1,238	1,526	1,642	2,280	2,466	2,959	3,551
Cash and Bank Balance	43	30	32	202	323	1,260	563	1,039	3,030
Cash	39	22	22	193	312	961	264	741	2,731
Bank Balance	3	8	10	8	10	299	299	299	299
Loans and Advances	431	442	499	490	349	727	524	628	754
Curr. Liability & Prov.	668	1,139	1,182	1,676	1,198	2,899	1,800	2,159	2,591
Account Payables	468	886	848	1,304	748	1,790	1,123	1,347	1,617
Other Current Liabilities	166	213	250	264	354	1,002	531	638	765
Provisions	34	41	84	107	97	107	146	175	210
Net Current Assets	1,340	1,421	1,439	1,599	1,952	2,587	3,009	3,975	6,553
Appl. of Funds	3,395	3,984	5,189	5,810	6,635	8,554	10,661	13,294	16,479

E: MOFSL Estimates

Financials and valuations

Ratios									
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)									
EPS	9.8	9.9	12.6	16.4	36.9	57.9	59.0	73.7	89.2
EPS Growth (%)	9.8	1.0	27.6	30.3	124.5	57.0	1.9	25.0	21.0
Cash EPS	12.3	12.7	15.7	21.0	42.1	63.6	65.2	80.2	96.9
BV/Share	39.1	48.1	58.2	71.5	105.2	155.3	196.6	248.2	310.6
DPS	4.8	0.0	2.4	3.4	8.7	16.0	17.7	22.1	26.8
Payout (%)	49.2	0.0	19.1	20.6	20.6	27.6	30.0	30.0	30.0
Valuation (x)									
P/E	438	433	339	261	116	74	73	58	48
Cash P/E	348	338	273	204	102	67	66	53	44
P/BV	109	89	73	60	41	28	22	17	14
EV/Sales	42	41	35	26	22	17	15	12	10
EV/EBITDA	241	231	189	134	85	51	51	41	34
Dividend Yield (%)	0	0	0	0	0	0	0	1	1
FCF per share	13	0	-7	15	22	41	5	32	67
Return Ratios (%)									
RoE	27	23	24	25	42	44	34	33	32
RoCE	17	15	15	17	32	40	32	32	31
RoIC	18	16	16	18	35	51	42	39	40
Working Capital Ratios									
Fixed Asset Turnover (x)	3.1	2.7	2.2	2.3	2.5	2.9	2.9	2.6	2.7
Asset Turnover (x)	1.5	1.4	1.2	1.5	1.5	1.5	1.4	1.3	1.3
Inventory (Days)	44	75	50	46	31	36	31	31	31
Debtor (Days)	63	66	72	66	60	67	60	60	60
Creditor (Days)	33	60	50	56	27	53	27	27	27
Leverage Ratio (x)									
Current Ratio	3.0	2.2	2.2	2.0	2.6	1.9	2.7	2.8	3.5
Interest Cover Ratio	9.7	10.0	12.4	9.5	22.4	63.2	92.0	115.2	139.5
Net Debt/Equity	0.5	0.5	0.6	0.4	0.1	-0.1	0.0	-0.1	-0.2

Standalone - Cash Flow Statement							(INR m)		
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	725	739	958	1,302	2,597	4,007	4,022	5,027	6,081
Depreciation	129	129	154	233	269	291	316	333	393
Interest Expenses	80	81	81	148	103	63	43	43	43
Direct Taxes Paid	-148	-198	-198	-356	-581	-1,012	-1,012	-1,265	-1,531
(Inc)/Dec in WC	204	-105	26	64	-193	290	-1,119	-489	-587
CF from Operations	1,013	635	1,016	1,442	1,886	3,640	2,249	3,648	4,399
(Inc)/Dec in FA	-352	-645	-1,350	-689	-771	-1,561	-2,000	-2,000	-1,000
Free Cash Flow	661	-10	-334	753	1,115	2,079	249	1,648	3,399
CF from Investments	-352	-636	-1,340	-668	-407	-2,127	-2,000	-2,000	-1,000
Inc/(Dec) in Debt	-242	39	547	-268	-797	-381	0	0	0
Interest Paid	-80	-78	-83	-150	-107	-68	-43	-43	-43
Dividend Paid	-344	0	-123	-172	-443	-408	-903	-1,128	-1,365
CF from Fin. Activity	-681	-16	325	-603	-1,351	-864	-946	-1,172	-1,408
Inc/Dec of Cash	-20	-17	1	171	128	649	-697	476	1,991
Opening Balance	59	39	22	22	193	312	961	264	741
Closing Balance	39	22	22	193	323	961	264	741	2,731

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

*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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