

Balaji Amines

BUY

Bleak future ahead

Owing to a disappointing performance in Q4FY19, we cut our valuation multiple from 17x to 13x (Mar-21E consolidated EPS) and arrive at the target price of Rs 525/sh. This is on account of (1) Consistently poor volume growth, (2) Vagueness on imposition of Anti-dumping duty on Di-methyl Formamide (DMF), resulting in significantly low capacity utilizations (currently at ~45%), (3) Deferment of capacity augmentation projects to FY21.

HIGHLIGHTS OF THE QUARTER

- Reported sales were Rs 2.35bn, down 8.6% YoY. EBITDA grew 1.0% YoY to Rs. 473mn (against our estimated figure of Rs. 509mn). Revenue was affected owing to single digit volume growth but there was definite improvement on the margins front.
- Volumes:** With most (barring DMF) plants already running at full capacities, further volume growth can only come from capacity expansion. The future looks bleak as expansion projects in major products like Ethyl Amines, Mono Iso-propyl Amine and Iso Propyl Alcohol (Phase: I) will begin in Q2FY20, and be commissioned towards Q4FY21. Although moderate volume growth is expected in Morpholine and Acetonitrile in FY20.
- Commencement of the Methyl Amines capacity expansion project (Phase: II) has been pushed forward

(perhaps beyond FY21). We believe this is considering Alkyl Amines' recent expansion in Methyl Amines and the volatility in Methanol prices consequential to US sanctions on Iran.

- BLA's subsidiary, Balaji Specialty Chemicals has started building capacity for Ethylene Diamine and Piperazine (agro-chemical intermediates) and can expect the subsidiary to add to the topline from FY20E. BLA owns 55% stake in the subsidiary.
- Consol Debt:** BLA raised further debt of Rs 225mn in FY19 (Rs 575mn in FY18) for their subsidiary as well as the mega project. This led to a 44.1% YoY jump in the interest expense to Rs 130mn. Long-Term debt is expected to go up further in FY20/21E.
- Near-term outlook:** Moderate volume uptake expected from Morpholine and Acetonitrile. Margin pressure likely to continue owing to high Methanol prices.

STANCE

Given the (1) Muted earnings growth prospects, (2) Declining return ratios (ROE: 19.4/15.3/15.4%, RoIC: 30.0/26.3/26.9 in FY19/20E/21E), we prefer Alkyl Amines over Balaji in the Amines space.

Financial Summary (Standalone)

Year Ending March (Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY18*	FY19P*	FY20E*	FY21E*
Net Sales	2,348	2,569	(8.6)	2,388	(1.7)	8,612	9,431	10,661	11,948
EBITDA	473	469	1.0	426	11.2	1,895	1,934	2,112	2,503
APAT	270	332	(18.6)	263	2.8	1,128	1,146	1,117	1,309
Diluted AEPS (Rs)	8.3	10.2	(18.6)	8.1	2.8	34.8	35.4	34.5	40.4
P/E (x)						12.6	12.4	12.7	10.9
EV / EBITDA (x)						10.5	8.4	7.2	6.2
RoE (%)						23.2	19.4	15.3	15.4

Source: Company, HDFC sec Inst Research | *Consolidated

INDUSTRY CHEMICALS

CMP (as on 20 May 2019) Rs 439

Target Price Rs 525

Nifty 11,828

Sensex 39,353

KEY STOCK DATA

Bloomberg BLA IN

No. of Shares (mn) 32

MCap (Rs bn) / (\$ mn) 14/204

6m avg traded value (Rs mn) 17

STOCK PERFORMANCE (%)

52 Week high / low Rs 636/366

3M 6M 12M

Absolute (%) 16.6 (8.8) (30.7)

Relative (%) 6.6 (19.7) (43.6)

SHAREHOLDING PATTERN (%)

Dec-18 Mar-19

Promoters 53.34 53.38

FIs & Local MFs 1.58 1.07

FPIs 1.30 1.42

Public & Others 43.78 44.13

Pledged Shares 0.00 0.00

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RMC eased (-12.7% YoY) in Q4FY19 as the company was able to pass-on the Methanol price hikes to customers, leading the EBITDA to rise by 1% YoY

Q4FY19 PAT was dragged down (-18.6% YoY) by a jump in interest cost by 27% YoY that is due to the rise in Total Gross debt in FY19 by Rs 111mn on a standalone basis

We expect EBITDA Margins (consolidated) to drop from the current 20.5% to 19.8% in FY20E and rise to 20.9% in FY21E as capacities expand

Quarterly Financials Snapshot (Standalone)

(Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY19*	FY18*	YoY (%)
Net Sales	2,348	2,569	(8.6)	2,388	(1.7)	9,431	8,612	9.5
Material Expenses	1,277	1,463	(12.7)	1,395	(8.4)	5,154	4,641	11.0
Employee Expenses	108	111	(3.1)	121	(10.5)	483	451	7.1
Other Expenses	490	526	(6.9)	447	9.5	1,860	1,626	14.4
EBITDA	473	469	1.0	426	11.2	1,934	1,895	2.1
Depreciation	54	62	(12.3)	47	14.4	196	193	1.4
EBIT	420	407	3.1	379	10.8	1,739	1,702	2.1
Other Income & EO Items	18	13	39.5	11	52.9	78	47	66.6
Interest	33	26	27.0	35	(7.1)	130	90	44.1
PBT	404	394	2.7	355	13.9	1,686	1,658	1.7
Tax	134	62	116.5	92	45.6	515	527	(2.1)
RPAT	270	332	(18.6)	263	2.8	1,171	1,132	3.5
EO Items (Adj For Tax)	-	-	NA	-	NA	36	6	NA
APAT	270	332	(18.6)	263	2.8	1,146	1,128	1.7
AEPS (Rs/sh)	8.3	10.2	(18.6)	8.1	2.8	35.4	34.8	1.7

Source: Company, HDFC sec Inst Research | *Consolidated

Margin Analysis

Margin Analysis (% of Net Sales)	4QFY19	4QFY18	YoY (bps)	3QFY19	QoQ (bps)	FY19*	FY18*	YoY (bps)
Material Expenses as % of Net Sales	54.4	57.0	(257)	58.4	(401)	54.6	53.9	76
Employee Expenses as % of Net Sales	4.6	4.3	26	5.0	(45)	5.1	5.2	(12)
Other Expenses as % of Net Sales	20.9	20.5	38	18.7	213	19.7	18.9	85
EBITDA Margin (%)	20.2	18.2	193	17.8	233	20.5	22.0	(149)
Net Profit Margin (%)	11.5	12.9	(141)	11.0	50	12.2	13.1	(94)
Tax Rate (%)	33.2	15.8	1,747	26.0	723	30.6	31.8	(119)

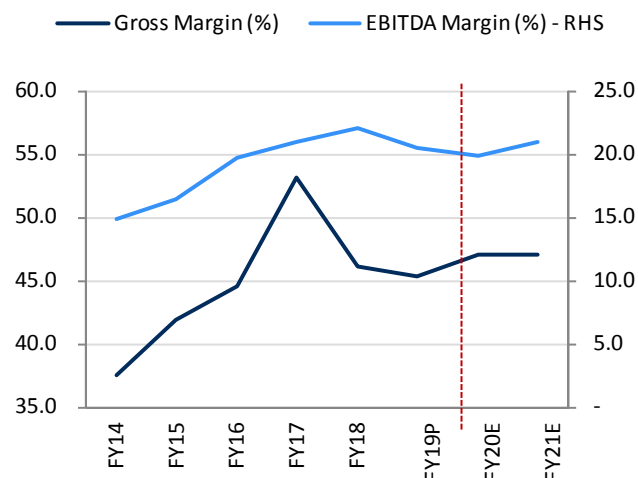
Source: Company, HDFC sec Inst Research | *Consolidated

Methanol, Ammonia and Ethanol are the key raw material to be tracked

Annual return ratios are on a decline (ROE: 19.4/15.3/15.4%, RoIC: 30.0/26.3/26.9 in FY19/20E/21E)

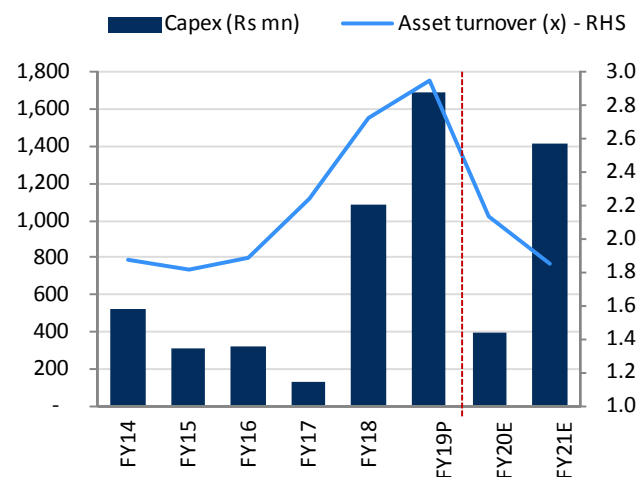
Annual Performance (Consolidated)

Margin Profile



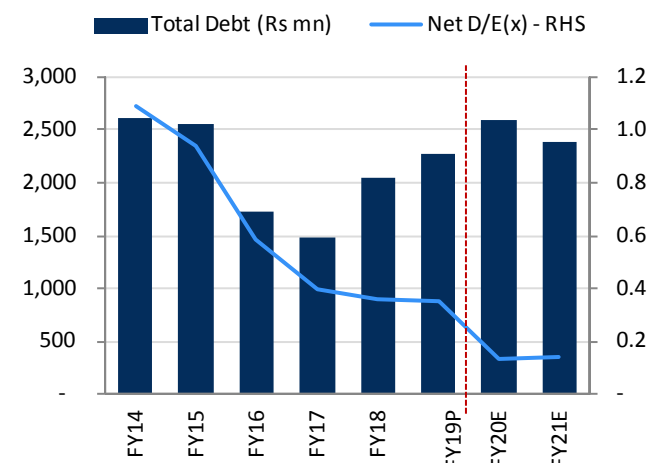
Source: Company, HDFC sec Inst Research

Capex and Asset Turns



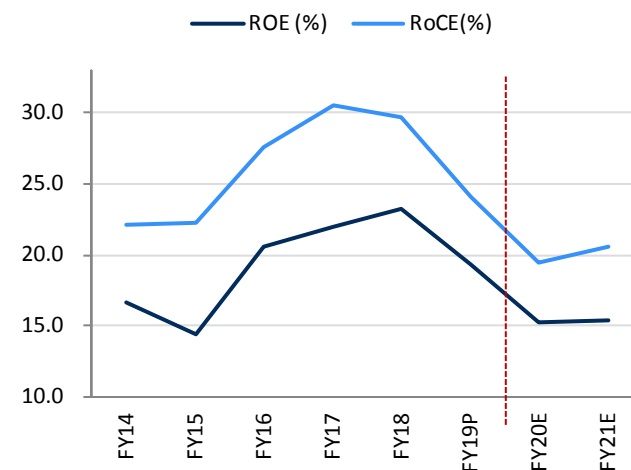
Source: Company, HDFC sec Inst Research

Debt Profile



Source: Company, HDFC sec Inst Research

Return Ratios



Source: Company, HDFC sec Inst Research

Recently, the DGTR has denied recommending imposition of anti-dumping duty on DMF which if approved by CBEC could keep capacity utilizations lower

Acetonitrile plant has received clearance from the Wild life authorities in Q4FY19

Anti-dumping duty on Mono Isopropyl Amine too has been imposed, which is a likely product for BLA in the Greenfield expansion

We cut our estimates on account of (1) Consistently poor volume growth, (2) Vagueness on imposition of Anti-dumping duty on Dimethyl Formamide (DMF), (3) Deferment of capacity augmentation projects to FY21

Assumptions

	FY18	FY19E	FY20E	FY21E
Methyl Amines				
Revenues (Rs mn)	3,043	3,433	3,660	3,901
Growth (%)	5.5	12.8	6.6	6.6
Ethyl Amines				
Revenues (Rs mn)	684	684	697	704
Growth (%)	15.2	1.9	1.0	1.0
Morpholine				
Volumes(MTPA)	4,000	5,700	6,000	7,200
Revenues (Rs mn)	600	798	840	1008
Growth (%)	60.0	33.0	5.3	20.0
Acetonitrile				
Volumes(MTPA)	2000	5500	5800	7500
Revenues (Rs mn)	220	605	754	900
Growth (%)	NA	175.0	24.6	19.4
Dimethyl Formamide				
Volumes(MTPA)	6,000	5,500	6,500	6,500
Revenues (Rs mn)	390	385	397	397
Growth (%)	20.0	(1.3)	3.0	-
DMAC				
Volumes(MTPA)	2,500	4,500	5,200	5,500
Revenues (Rs mn)	300	540	624	660
Growth (%)	100.0	80.0	15.6	5.8
NMP/NEP/2-P				
Revenues (Rs mn)	1,440	1,863	1,863	1,863
Growth (%)	-	29.4	-	-

Source: Company, HDFC sec Inst Research

Change In Estimates

(Rs bn)	FY20E Old	FY20E New	% Chg.	FY21E Old	FY21E New	% Chg.
Net Sales	11,673	10,661	(8.7)	12,762	11,948	(6.4)
EBIDTA	2,465	2,112	(14.3)	2,653	2,503	(5.7)
APAT	1,443	1,117	(22.6)	1,535	1,309	(14.8)
EPS	44.5	34.5	(22.6)	47.4	40.4	(14.8)

Source: HDFC sec Inst Research

Peer Set Comparison

COMPANY	Mcap (Rsbn)	CMP (Rs)	RECO	TP (Rs)	EPS (Rs/sh)			P/E (x)			P/B (x)			ROE (%)		
					FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Vinati Organics	96.31	1874	BUY	2,034	55.0	65.9	81.4	34.1	28.4	23.0	9.2	7.0	5.4	30.6	27.9	26.5
Navin Fluorine International Ltd	33.75	684	BUY	812	30.2	35.5	40.6	22.7	19.3	16.8	3.2	2.8	2.5	14.5	15.5	15.9
Alkyl Amines	16.94	830	BUY	1,359	43.7	50.4	61.8	19.0	16.5	13.4	4.6	3.8	3.2	27.0	25.5	25.8
Balaji Amines	14.22	439	BUY	525	35.4	34.5	40.4	12.4	12.7	10.9	2.4	2.0	1.7	19.4	15.3	15.4

Source: HDFC sec Inst Research

Income Statement (Consolidated)

(Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net Revenues	7,306	8,612	9,431	10,661	11,948
Growth (%)	13.6	17.9	9.5	13.0	12.1
Material Expenses	3,473	4,641	5,410	5,650	6,332
Change In Inventories	(50)	-	(257)	-	-
Employee Expenses	245	451	483	554	621
Other Operating Expenses	2,111	1,626	1,860	2,345	2,492
EBITDA	1,527	1,895	1,934	2,112	2,503
EBITDA Margin (%)	20.9	22.0	20.5	19.8	20.9
EBITDA Growth (%)	20.5	24.1	2.1	9.2	18.5
Depreciation	197	193	196	299	367
EBIT	1,329	1,702	1,739	1,813	2,136
Other Income (Including EO Items)	31	41	42	70	90
Interest	129	90	130	245	307
PBT	1,257	1,658	1,686	1,638	1,919
Tax	433	527	515	521	610
RPAT	824	1,132	1,171	1,117	1,309
EO (Loss) / Profit (Net Of Tax)	26	6	36	-	-
APAT	798	1,128	1,146	1,117	1,309
APAT Growth (%)	38.5	41.4	1.7	(2.6)	17.1
AEPS	24.6	34.8	35.4	34.5	40.4
EPS Growth (%)	38.5	41.4	1.7	(2.6)	17.1

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

(Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	64.8	64.8	64.8	64.8	64.8
Reserves	3,560	4,790	5,855	7,226	8,408
Total Shareholders' Funds	3,625	4,855	5,920	7,290	8,473
Long-term Debt	168	425	833	1,533	1,433
Short-term Debt	1,311	1,629	1,446	1,050	950
Total Debt	1,479	2,054	2,279	2,583	2,383
Minority Interest	-	-	-	-	-
Long-term Provisions & Others	58.3	133.4	163.7	213.7	213.9
Net Deferred Tax Liability	508	502	458	458	458
TOTAL SOURCES OF FUNDS	5,670	7,545	8,820	10,545	11,528
APPLICATION OF FUNDS					
Net Block	3,255	3,161	3,197	4,990	6,435
CWIP	251	1,237	2,695	1,000	600
Investments	24	425	-	0	0
Other Non Current Assets	25	38	71	43	43
Total Non-current Assets	3,555	4,860	5,963	6,034	7,078
Inventories	990	891	1,632	1,249	1,400
Debtors	1,243	1,727	1,672	2,137	2,396
Cash & Equivalents	35	315	206	1,592	1,154
ST Loans & Advances	528	688	986	764	856
Total Current Assets	2,796	3,620	4,496	5,742	5,805
Creditors	515	716	853	903	1,012
Other Current Liabilities	165	220	786	327	343
Total Current Liabilities	680	936	1,639	1,230	1,355
Net Current Assets	2,116	2,684	2,857	4,511	4,450
TOTAL APPLICATION OF FUNDS	5,670	7,545	8,820	10,545	11,528

Source: Company, HDFC sec Inst Research

Cash Flow Statement (Consolidated)

(Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
Reported PBT	1,257	1,658	1,686	1,638	1,919
Interest Expenses	129	90	130	245	307
Depreciation	197	193	196	299	367
Working Capital Change	(441)	(348)	(657)	1	(392)
Tax Paid	(603)	(483)	(460)	(521)	(610)
OPERATING CASH FLOW (a)	539	1,111	895	1,662	1,590
Capex	(132)	(1,084)	(1,690)	(397)	(1,411)
<i>Free Cash Flow (FCF)</i>	<i>407</i>	<i>26</i>	<i>(796)</i>	<i>1,265</i>	<i>179</i>
Investments	(23)	(401)	425	(0)	-
Others	(2)	(13)	(33)	28	-
INVESTING CASH FLOW (b)	(158)	(1,499)	(1,298)	(369)	(1,411)
Debt Issuance/(Repaid)	(248)	575	225	304	(200)
Interest Expenses	(129)	(90)	(130)	(245)	(307)
<i>FCFE</i>	<i>30</i>	<i>510</i>	<i>(701)</i>	<i>1,324</i>	<i>(328)</i>
Share Capital Issuance	-	-	-	-	-
Dividend	(78)	(94)	(203)	(16)	(109)
Other long term liabilities	(62)	75	30	50	0
Others	85	200	375	(1)	(1)
FINANCING CASH FLOW (c)	(432)	666	297	93	(617)
NET CASH FLOW (a+b+c)	(51)	278	(107)	1,386	(438)
Closing Cash & Equivalents	35	312	206	1,592	1,154

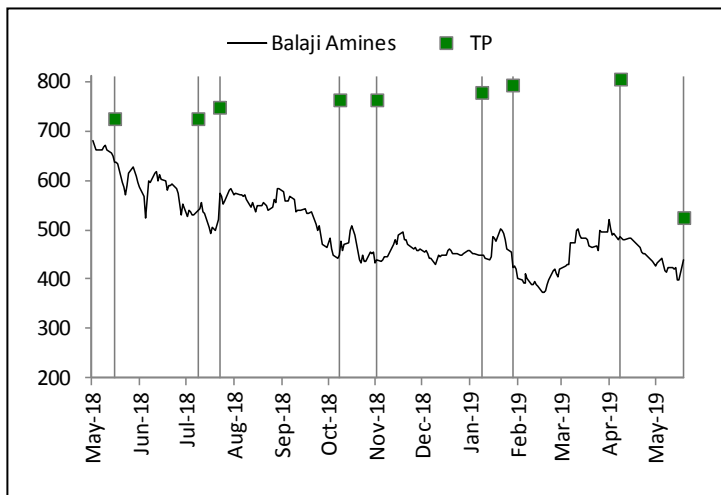
Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

	FY17	FY18	FY19P	FY20E	FY21E
PROFITABILITY (%)					
GPM	53.1	46.1	45.4	47.0	47.0
EBITDA Margin	20.9	22.0	20.5	19.8	20.9
EBIT Margin	18.2	19.8	18.4	17.0	17.9
APAT Margin	10.9	13.1	12.2	10.5	11.0
RoE	22.0	23.2	19.4	15.3	15.4
RoIC	34.4	37.3	30.0	26.3	26.9
RoCE	30.5	29.7	24.2	19.5	20.5
EFFICIENCY					
Tax Rate (%)	34.5	31.8	30.6	31.8	31.8
Asset Turnover (x)	2.2	2.7	2.9	2.1	1.9
Inventory (days)	49	38	43	43	43
Debtors (days)	62	73	73	73	73
Payables (days)	55	56	58	58	58
Cash Conversion Cycle (days)	57	55	58	58	58
Net Debt/EBITDA (x)	0.9	0.9	1.1	0.5	0.5
Net D/E	0.4	0.4	0.4	0.1	0.1
Interest Coverage	0.1	0.1	0.1	0.1	0.1
PER SHARE DATA					
EPS (Rs/sh)	24.6	34.8	35.4	34.5	40.4
CEPS (Rs/sh)	30.7	40.8	41.4	43.7	51.7
DPS (Rs/sh)	2.2	2.6	2.8	3.0	3.2
BV (Rs/sh)	111.9	149.8	182.7	225.0	261.5
VALUATION					
P/E	15.4	16.1	12.4	12.7	10.9
P/BV	3.9	2.9	2.4	2.0	1.7
EV/EBITDA	9.0	10.5	8.4	7.2	6.2
OCF/EV (%)	3.9	5.6	5.5	10.9	10.3
FCF/EV (%)	3.0	0.1	(4.9)	8.3	1.2
FCFE/MCAP (%)	0.2	3.6	(4.9)	9.3	(2.3)
Dividend Yield (%)	0.5	0.6	0.6	0.7	0.7

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
16-May-18	635	BUY	725
9-Jul-18	531	BUY	725
23-Jul-18	519	BUY	748
9-Oct-18	444	BUY	763
3-Nov-18	443	BUY	763
9-Jan-19	450	BUY	778
29-Jan-19	423	BUY	793
9-Apr-19	487	BUY	805
21-May-19	439	BUY	525

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12-month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12-month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12-month period

INSTITUTIONAL RESEARCH
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