

Balaji Amines

BUY

Strong volumes drive profitability

We maintain BUY on BAL, post its above expectation performance in Q2FY20, with a TP of Rs 488 (13x Sep-21E EPS). Strong volume traction in high margin Specialty chemicals and Amines Derivatives coupled with benign RMC, amplified its operating performance.

HIGHLIGHTS OF THE QUARTER

- Sales volume was 21.38kt (+22.7/6.1% YoY/QoQ). However, revenue was up merely 6.4% YoY and down 0.5% QoQ to Rs 2.30bn, owing to fall in product prices. Excessive rain adversely impacted Kharif crops as well as agrochemical consumption, resulting in lower demand for Amines from the Agrochemical industry.
- US FDA found that some ranitidine medicines contain Nitrosodimethylamine (NDMA), which is classified as a human carcinogen. Resultantly, several pharmaceutical manufacturers have stopped supplies of ranitidine medicines and, in some cases, recalled their products. BAL supplies ~10-12% of DMA-HCL to ranitidine manufacturers. This did not impact volumes in Q2 but is expected to affect them in Q3.
- EBITDA jumped 2.0/23.2% YoY/QoQ to Rs 457mn. The sequential jump in EBITDA is owing to correction in RMC by 9.4%. APAT was up 26.6% YoY and 73.9% QoQ

Financial Summary (Standalone)

Year Ending March (Rs mn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	FY19*	FY20E*	FY21E*	FY22E*
Net Sales	2,304	2,165	6.4	2,314	(0.5)	9,431	9,224	10,230	10,724
EBITDA	457	448	2.0	371	23.2	1,934	1,771	1,941	2,031
APAT	347	274	26.6	200	73.9	1,146	1,115	1,205	1,228
Diluted AEPS (Rs)	10.7	8.5	26.6	6.2	73.9	35.4	34.4	37.2	37.9
P/E (x)						9.1	9.4	8.7	8.5
EV / EBITDA (x)						6.5	6.5	6.1	6.1
RoE (%)						19.4	16.1	15.1	13.5

Source: Company, HDFC sec Inst Research | *Consolidated

to Rs 347mn, attributable to a lower tax rate of 19.8% as compared to 30.5%, the average for FY19.

- BLA's subsidiary, Balaji Specialty Chemicals, has commenced commercial production of Ethylene Diamine and Piperazine (agro-chemical intermediates). Production will ramp up over 2HFY20 and will reach full utilisation by FY21 end (plant capacity 25kt). The subsidiary should meaningfully add to the top-line from 1QFY21E. BLA owns 55% stake in the said subsidiary.
- BAL started manufacturing Acetonitrile and Tetrahydrofuran (THF) from Jul-19. Both these products can be manufactured on the same production line. Their domestic demand is ~15ktpa each. BAL is expected to manufacture 4-5kt of Acetonitrile in FY20. BAL being the sole manufacturer of THF in India is a key positive.
- Key monitorables:** Volume traction of new products.

STANCE

Owing to muted earnings growth prospects, and declining return ratios (ROE: 16.1/15.1/13.5%, RoIC: 22.5/21.7/18.8% in FY20E/21E/22E), we prefer Alkyl Amines over Balaji in the Amines space.

INDUSTRY	Chemicals
CMP (as on 1 Nov 19)	Rs 322
Target Price	Rs 488
Nifty	11,891
Sensex	40,165

KEY STOCK DATA

Bloomberg	BLA IN
No. of Shares (mn)	32
MCap (Rs bn) / (\$ mn)	10/145
6m avg traded value (Rs mn)	13

STOCK PERFORMANCE (%)

52 Week high / low	Rs 530/210		
	3M	6M	12M
Absolute (%)	42.5	(26.5)	(25.6)
Relative (%)	34.0	(29.4)	(42.3)

SHAREHOLDING PATTERN (%)

	Jun-19	Sep-19
Promoters	53.46	53.61
FIs & Local MFs	0.42	0.27
FPIs	1.43	1.59
Public & Others	44.69	44.53
Pledged Shares	0.00	0.00

Source : BSE

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Revenue was up 6.4% and down 0.5% QoQ owing to fall in product prices

EBITDA was Rs 457mn 23.2% QoQ on account of fall in RMC

APAT was up 26.6% YoY and 73.9% QoQ to Rs 347mn, consequential to a lower tax rate of 19.4% as compared to 30.5%, average for FY19

Quarterly Financials Snapshot (Standalone)

(Rs mn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	1HFY20	1HFY19	YoY (%)
Net Sales	2,304	2,165	6.4	2,314	(0.5)	4,618	4,767	(3.1)
Material Expenses	1,281	1,138	12.6	1,414	(9.4)	2,695	2,551	5.7
Employee Expenses	115	128	(10.4)	107	7.2	222	254	(12.7)
Other Expenses	451	451	0.0	423	6.7	874	928	(5.8)
EBITDA	457	448	2.0	371	23.2	827	1,035	(20.0)
Depreciation	58	47	22.8	50	17.3	108	94	14.1
EBIT	399	401	(0.5)	321	24.1	720	940	(23.4)
Other Income & EO Items	29	13	117.5	23	25.6	52	23	125.5
Interest	38	30	24.7	27	40.2	64	62	3.5
PBT	390	384	1.6	317	22.8	707	901	(21.5)
Tax	76	110	(30.9)	118	(35.8)	194	289	(32.9)
RPAT	347	274	26.6	200	73.9	547	612	(10.7)
EO Items (Adj For Tax)	-	36	NA	-	NA	-	36	(100.0)
APAT	347	274	26.6	200	73.9	547	612	(10.7)
AEPS (Rs/sh)	10.7	8.5	26.6	6.2	73.9	16.9	18.9	(10.7)

Source: Company, HDFC sec Inst Research | *Consolidated

Margin Analysis

	2QFY20	2QFY19	YoY (bps)	1QFY20	QoQ (bps)	1HFY20	1HFY19	YoY (bps)
Material Expenses as % of Net Sales	55.6	52.6	305	61.1	(547)	58.4	53.5	485
Employee Expenses as % of Net Sales	5.0	5.9	(94)	4.6	36	4.8	5.3	(52)
Other Expenses as % of Net Sales	19.6	20.8	(125)	18.3	131	18.9	19.5	(54)
EBITDA Margin (%)	19.8	20.7	(86)	16.0	380	17.9	21.7	(379)
Net Profit Margin (%)	15.1	12.7	240	8.6	644	11.8	12.8	(101)
Tax Rate (%)	19.4	28.5	(913)	37.1	(1,771)	27.4	32.0	(467)

Source: Company, HDFC sec Inst Research | *Consolidated

Revenue mix comprises 42.2% from Amine derivatives, 21.6% from Amines and 36.2% from Specialty Chemicals

Pharma and Agrochemicals contributed 55/19% to Q2 revenue respectively

Segmental Analysis (Standalone)

(Rs mn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	1HFY20	1HFY19	YoY (%)
Revenue								
Amines Division	2,247	2,117	6.1	2,262	(0.6)	4,509	4,671	(3.5)
Hotel Division	57	48	17.3	53	7.7	109	98	11.9
CFL Lamps and capsules	0	-	NA	-	NA	0	-	NA
Total	2,304	2,166	6.4	2,315	(0.5)	4,619	4,769	(3.1)

Revenue Mix (%)

Amines Division	97.5	97.8		97.7		97.6	98.0	
Hotel Division	2.5	2.2		2.3		2.4	2.0	
CFL Lamps and capsules	0.0	-		-		0.0	-	

Segment Results

Amines Division	429	423	1.6	347	23.9	776	974	(20.3)
Hotel Division	2	(5)	(139.8)	1	39.2	3	(3)	(196.5)
CFL Lamps	(4)	(4)	4.2	(4)	(0.2)	(8)	(7)	4.3
EBIT	428	414	3.3	344	24.2	772	963	(19.9)

Less: Interest

Amines	37	28	33.9	26	40.6	64	57	11.3
Hotel	0	2	(82.0)	0	15.5	1	5	(84.1)
CFL Lamps	-	-	NA	-	NA	-	-	NA
Total interest	38	30	24.7	27	40.2	64	62	3.5

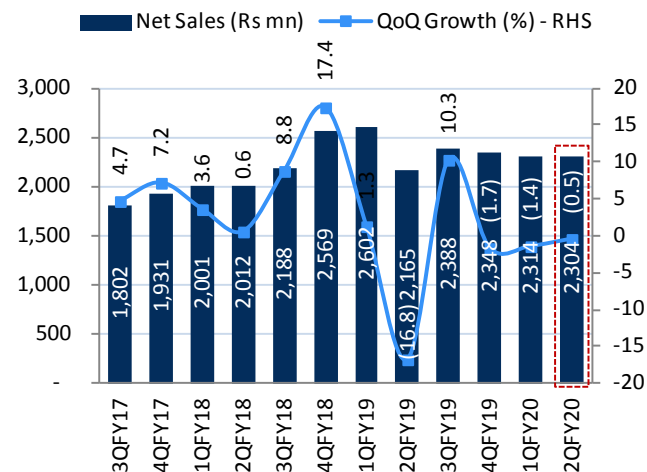
PBT

Amines								
Hotel	392	395	(0.6)	320	22.5	713	917	(22.3)
CFL Lamps	2	(7)	(120.8)	1	47.8	3	(9)	(130.0)
Total PBT	(4)	(4)	4.2	(4)	(0.2)	(8)	(7)	4.3

Source: Company, HDFC sec Inst Research

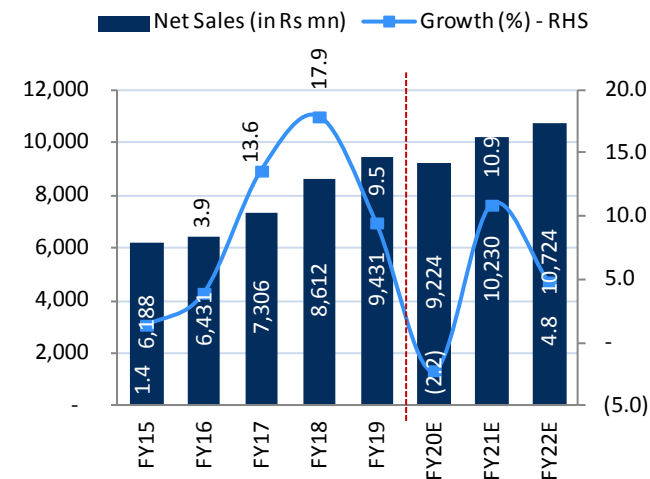
Financial Performance

Quarterly Turnover (Standalone)



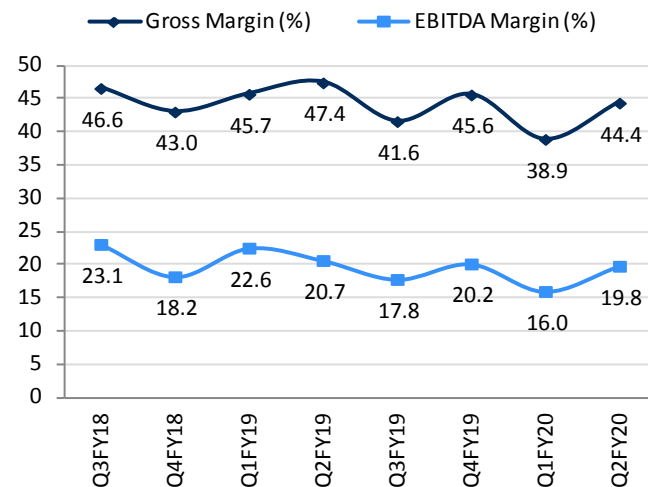
Source: Company, HDFC sec Inst Research

Yearly Turnover (Consolidated)



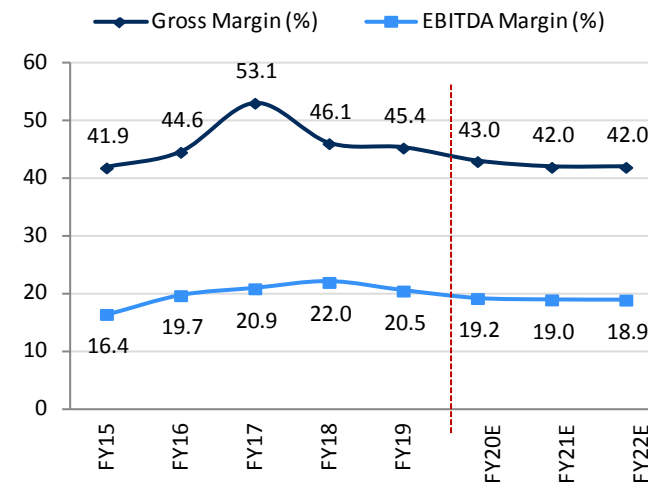
Source: Company, HDFC sec Inst Research

Quarterly Margin Profile (Standalone)



Source: Company, HDFC sec Inst Research

Yearly Margin Profile (Consolidated)

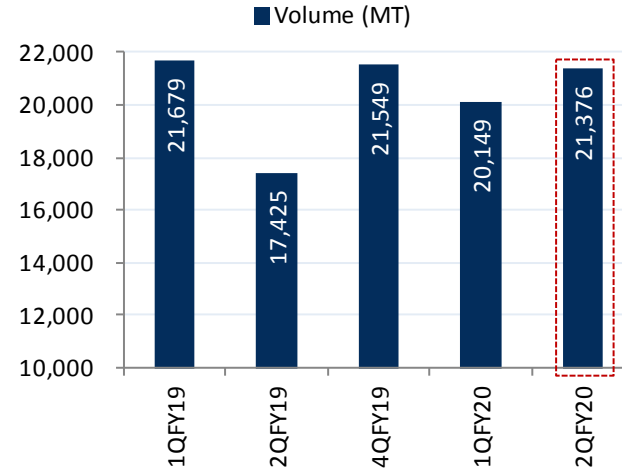


Source: Company, HDFC sec Inst Research

We expect annual EBITDA margins to remain under pressure in the range of ~19%

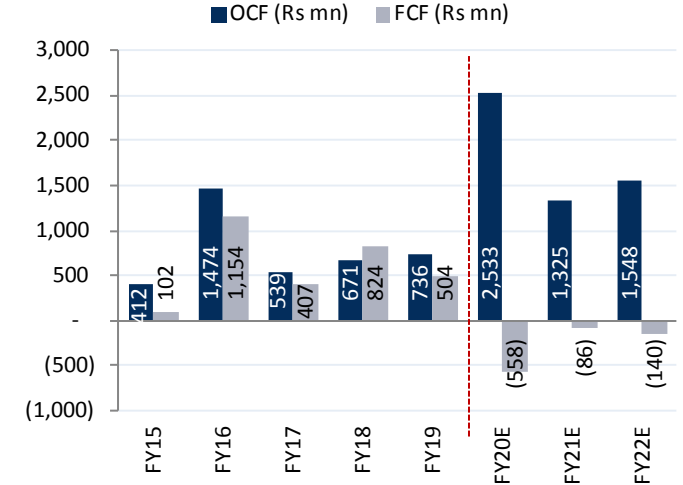
**Volume was up 6.1/22.7%
QoQ/YoY**

Standalone Volume Trend



Source: Company, HDFC sec Inst Research

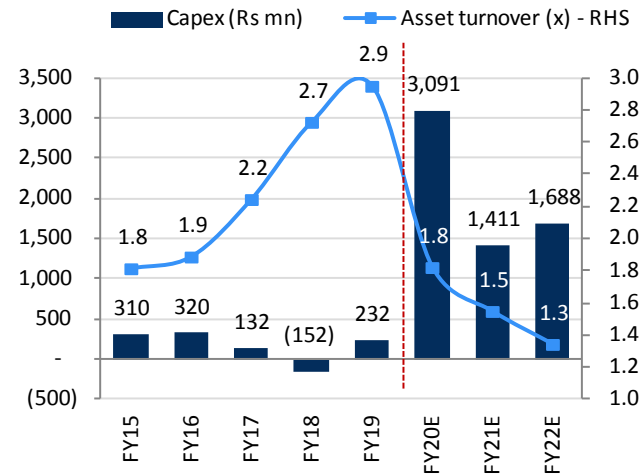
OCF And FCF Trend (Consolidated)



Source: Company, HDFC sec Inst Research

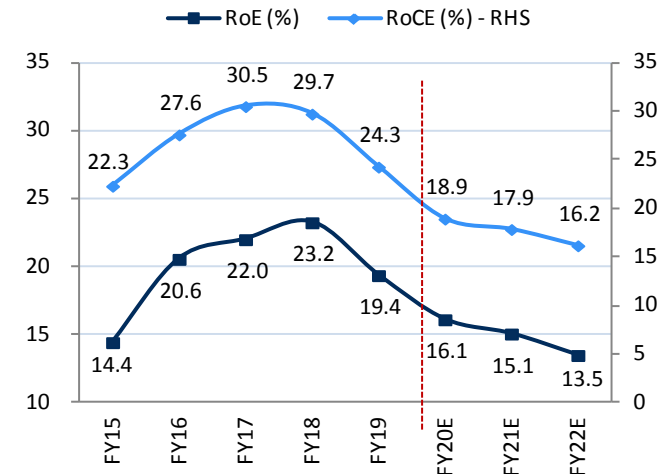
**Annual return ratios are on a
decline (ROE: 16.1/15.1/13.5,
RoCE 18.9/17.9/16.2% for
FY20E/21E/22E)**

Capex And Asset Turns (Consolidated)



Source: Company, HDFC sec Inst Research

Return Ratios (Consolidated)



Source: Company, HDFC sec Inst Research

During Q1, the company received the clearance for manufacturing additional capacity of 7KTPA of Morpholine, leading to total capacity of 10KTPA

BAL also received clearance for manufacturing of Acetonitrile and THF for which it has installed capacity of 19KTPA

Assumptions

	FY20E	FY21E	FY22E
Methyl Amines			
Revenues (Rs mn)	2,853	2,890	2,948
Growth (%)	(16.9)	1.3	2.0
Ethyl Amines			
Revenues (Rs mn)	697	704	704
Growth (%)	1.0	1.0	-
Morpholine			
Volumes(MTPA)	6,000	7,200	7,200
Revenues (Rs mn)	780	1008	1008
Growth (%)	(2.3)	29.2	-
Acetonitrile			
Volumes(MTPA)	5800	7500	7500
Revenues (Rs mn)	754	900	900
Growth (%)	24.6	19.4	-
Dimethyl Formamide			
Volumes(MTPA)	6,500	6,500	6,500
Revenues (Rs mn)	377	377	377
Growth (%)	(2.1)	-	-
DMAC			
Volumes(MTPA)	5,200	5,500	5,500
Revenues (Rs mn)	624	660	660
Growth (%)	15.6	5.8	-
NMP/NEP/2-P			
Revenues (Rs mn)	1,863	1,863	1,863
Growth (%)	-	-	-

Source: Company, HDFC sec Inst Research

We lower our estimates to factor in lower opex and higher employee costs in 1H FY20

Change In Estimates

(Rs bn)	FY20E Old	FY20E New	% Chg.	FY21E Old	FY21E New	% Chg.
Net Sales	9,224	9,224	-	10,230	10,230	-
EBIDTA	1,632	1,771	8.5	1,853	1,941	4.7
APAT	1,011	1,115	10.3	1,140	1,205	5.7
EPS	31.2	34.4	10.3	35.2	37.2	5.7

Source: HDFC sec Inst Research

Peer Set Comparison

	MCap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	Upside %	EPS (Rs/sh)				P/E (x)				P/BV (x)				ROE (%)			
						FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E
Vinati Organics	111.67	2173	NEU	2,237	2.9	55.0	73.3	85.7	100.8	39.5	29.7	25.4	21.6	10.6	7.9	6.1	4.8	30.6	30.5	27.1	24.8
Galaxy Surfactants	52.89	1492	BUY	1,834	22.9	53.9	66.9	77.6	89.1	27.7	22.3	19.2	16.7	6.0	4.9	4.0	3.4	23.9	24.3	23.1	21.9
Navin Fluorine International Ltd	44.01	892	BUY	870	(2.5)	30.2	36.0	41.3	45.6	29.6	24.8	21.6	19.6	4.1	3.7	3.3	2.9	14.5	15.7	16.1	15.9
Alkyl Amines	17.72	868	BUY	1,380	59.0	41.1	48.4	59.7	71.7	21.1	17.9	14.5	12.1	4.9	4.0	3.3	2.8	25.3	24.5	25.1	24.9
Balaji Amines	10.43	322	BUY	488	51.6	35.4	34.4	37.2	37.9	9.1	9.4	8.7	8.5	1.8	1.5	1.3	1.1	19.4	16.1	15.1	13.5

Source: HDFC sec Inst Research

Income Statement (Consolidated)

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	8,612	9,431	9,224	10,230	10,724
Growth (%)	17.9	9.5	(2.2)	10.9	4.8
Material Expenses	4,610	5,410	5,258	5,933	6,220
Change In Inventories	31	(257)	267	-	-
Employee Expenses	269	295	443	440	461
Other Operating Expenses	1,808	2,048	1,752	1,916	2,012
EBITDA	1,895	1,934	1,771	1,941	2,031
EBITDA Margin (%)	22.0	20.5	19.2	19.0	18.9
EBITDA Growth (%)	24.1	2.1	(8.4)	9.5	4.6
Depreciation	193	196	225	268	312
EBIT	1,702	1,739	1,546	1,673	1,719
Other Income (Including EO Items)	41	42	70	74	77
Interest	90	130	126	135	155
PBT	1,658	1,686	1,491	1,611	1,641
Tax	527	515	376	406	414
RPAT	1,132	1,171	1,115	1,205	1,228
EO (Loss) / Profit (Net Of Tax)	6	36	-	-	-
APAT	1,128	1,146	1,115	1,205	1,228
APAT Growth (%)	41.4	1.7	(2.7)	8.1	1.9
AEPS	34.8	35.4	34.4	37.2	37.9
EPS Growth (%)	41.4	1.7	(2.7)	8.1	1.9

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
SOURCES OF FUNDS					
Share Capital	64.8	64.8	64.8	64.8	64.8
Reserves	4,786	5,855	6,852	7,932	9,034
Total Shareholders' Funds	4,851	5,920	6,917	7,997	9,099
Long-term Debt	425	833	842	957	1,107
Short-term Debt	1,094	1,439	1,254	1,208	1,167
Total Debt	1,518	2,272	2,096	2,165	2,273
Minority Interest	-	-	-	-	-
Long-term Provisions & Others	133.4	163.7	166.8	170.0	173.1
Net Deferred Tax Liability	502	458	458	458	458
TOTAL SOURCES OF FUNDS	7,005	8,813	9,637	10,789	12,003
APPLICATION OF FUNDS					
Net Block	3,161	3,197	5,064	6,607	7,983
CWIP	1,231	2,695	1,000	600	600
Investments	-	-	0	0	0
LT Loans & Advances	501	31	-	-	-
Other Non Current Assets	38	40	38	38	38
Total Non-current Assets	4,931	5,963	6,102	7,245	8,621
Inventories	891	1,632	1,081	1,198	1,256
Debtors	1,727	1,672	1,849	2,051	2,150
Cash & Equivalents	242	206	996	721	412
ST Loans & Advances	688	986	661	733	768
Total Current Assets	3,547	4,496	4,587	4,704	4,587
Creditors	718	853	843	951	997
Other Current Liabilities	755	793	209	209	209
Total Current Liabilities	1,474	1,645	1,052	1,160	1,206
Net Current Assets	2,074	2,850	3,535	3,544	3,381
TOTAL APPLICATION OF FUNDS	7,005	8,813	9,637	10,789	12,003

Source: Company, HDFC sec Inst Research

Cash Flow Statement (Consolidated)

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	1,658	1,686	1,491	1,611	1,641
Interest Expenses	90	130	126	135	155
Depreciation	193	196	225	268	312
Working Capital Change	(661)	(716)	1,067	(283)	(146)
Tax Paid	(609)	(560)	(376)	(406)	(414)
OPERATING CASH FLOW (a)	671	736	2,533	1,325	1,548
Capex	152	(232)	(3,091)	(1,411)	(1,688)
<i>Free Cash Flow (FCF)</i>	<i>824</i>	<i>504</i>	<i>(558)</i>	<i>(86)</i>	<i>(140)</i>
Investments	24	-	(0)	-	-
Others	(13)	(2)	2	-	-
INVESTING CASH FLOW (b)	163	(234)	(3,090)	(1,411)	(1,688)
Debt Issuance/(Repaid)	39	754	(176)	69	109
Interest Expenses	(90)	(130)	(126)	(135)	(155)
<i>FCFE</i>	<i>772</i>	<i>1,127</i>	<i>(860)</i>	<i>(152)</i>	<i>(186)</i>
Share Capital Issuance	-	-	-	-	-
Dividend	(86)	-	(117)	(125)	(125)
Other long term liabilities	70	4	3	3	3
Others	94	(101)	(1)	(1)	(1)
FINANCING CASH FLOW (c)	27	526	(417)	(189)	(169)
NET CASH FLOW (a+b+c)	861	1,028	(973)	(275)	(309)

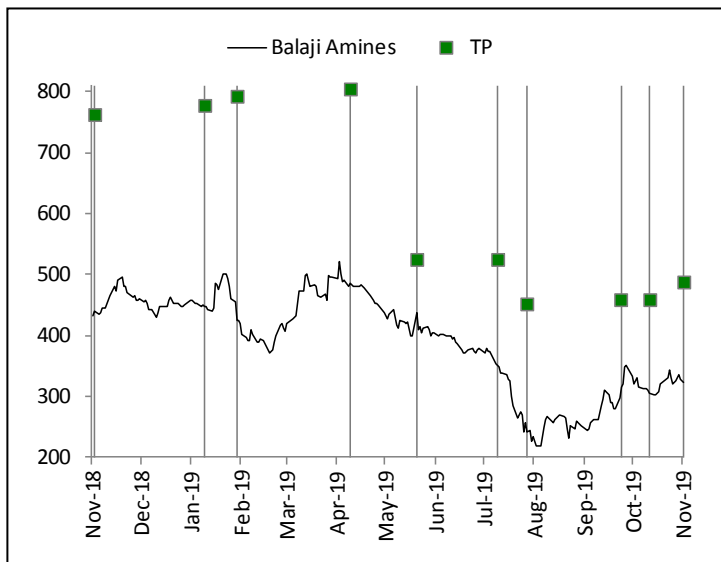
Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

	FY18	FY19	FY20E	FY21E	FY22E
PROFITABILITY (%)					
GPM	46.1	45.4	43.0	42.0	42.0
EBITDA Margin	22.0	20.5	19.2	19.0	18.9
EBIT Margin	19.8	18.4	16.8	16.4	16.0
APAT Margin	13.1	12.2	12.1	11.8	11.4
RoE	23.2	19.4	16.1	15.1	13.5
RoIC	35.5	28.9	22.5	21.7	18.8
RoCE	29.7	24.3	18.9	17.9	16.2
EFFICIENCY					
Tax Rate (%)	31.8	30.6	25.2	25.2	25.2
Asset Turnover (x)	2.7	2.9	1.8	1.5	1.3
Inventory (days)	38	43	43	43	43
Debtors (days)	73	73	73	73	73
Payables (days)	57	59	59	59	59
Cash Conversion Cycle (days)	54	57	57	57	57
Net Debt/EBITDA (x)	0.7	1.1	0.6	0.7	0.9
Net D/E	0.3	0.4	0.2	0.2	0.2
Interest Coverage	0.1	0.1	0.1	0.1	0.1
PER SHARE DATA					
EPS (Rs/sh)	34.8	35.4	34.4	37.2	37.9
CEPS (Rs/sh)	40.8	41.4	41.4	45.5	47.5
DPS (Rs/sh)	-	-	3.0	3.2	3.2
BV (Rs/sh)	149.7	182.7	213.5	246.8	280.8
VALUATION					
P/E	16.1	9.1	9.4	8.7	8.5
P/BV	2.2	1.8	1.5	1.3	1.1
EV/EBITDA	10.3	6.5	6.5	6.1	6.1
OCF/EV (%)	3.4	5.9	22.0	11.2	12.6
FCF/EV (%)	4.2	4.0	(4.8)	(0.7)	(1.1)
FCFE/MCAP (%)	7.4	10.8	(8.2)	(1.5)	(1.8)
Dividend Yield (%)	-	-	0.9	1.0	1.0

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
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
9-Jul-19	350	BUY	525
29-Jul-19	242	BUY	452
22-Sep-19	260	BUY	459
11-Oct-19	309	BUY	459
2-Nov-19	322	BUY	488

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

Disclosure:

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