

EQUITY RESEARCH

# Pick of the Week

Date: 30th December 2019



RETAIL RESEARCH

# Balaji Amines Ltd

## Key Highlights

- ▶ Diversified product portfolio and strong clientele
- ▶ First and only company in the world in Amines industry that has used indigenous technology to manufacture Amines
- ▶ Capacity expansion (Mega Project), new product launches and focus on export to help boost revenues
- ▶ Subsidiary Balaji Specialty Chemicals Pvt Ltd has started building capacity of Diamine and Piperazine (agro-chemical intermediates)

### INDUSTRY

Specialty Chemicals

### ADD ON DIPS TO

Rs 327-331

### CMP

Rs 362

### SEQUENTIAL TARGETS

Rs 398.50- 445.50 **RED FLAG** Rs 302

### RECOMMEND

Buy at CMP and add on declines

### TIME HORIZON

4 quarters

Investors may sell 60-65% of their holdings on first target being achieved and later keep a stop loss of first target for the balance holdings, in case the second target takes time to be achieved.  
Investors may also maintain Rs 302 as **RED FLAG** level below which investment position needs to be reviewed, including the possibility to exit

HDFC Scrip Code	BALAMIEQNR
BSE Code	530999
NSE Code	BALAMINES
Bloomberg	BLA IN
CMP Dec 27, 2019	362.0
Equity Capital (cr)	6.5
Face Value (Rs)	2.0
Eq- Share O/S(cr)	3.2
Market Cap(Rs cr)	1172.9
Book Value (Rs)	177.2
Avg.52 Wk Volume	40675
52 Week High	539.0
52 Week Low	210.0

#### Shareholding Pattern % (Sept 30, 2019)

Promoters	53.6
Institutions	1.9
Non Institutions	44.5
Total	100.0

#### FUNDAMENTAL ANALYST

Abdul Karim  
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#### Investment rationale:

- BAL is the first and only company in the world in Amines industry that has used indigenous technology to manufacture Amines. All other companies have either used US or German technology.
- Diversified portfolio of products and strong clientele
- Subsidiary Balaji Specialty Chemicals Pvt Ltd has started building capacity of Diamine and Piperazine (agro-chemical intermediates).
- Capacity expansion (Mega Project), new product launches and focus on export could add market share and incremental revenues
- Clampdown in China on Chemical production has created tailwinds for chemical manufacturers in India including for BAL

#### Concerns:

- Exchange rate volatility and Quality/Regulatory risks
- Global chemicals slowdown and impact of raw material price fluctuations
- Largely depends on the pharma and agrochemical sector

#### Company profile:

Balaji Amines Ltd (BAL), is world's largest producer of DMA-HCL (Di Methyl Amine Hydrochloride) and India's largest manufacturer of Aliphatic Amines. The company has expertise to cater the value based specialty chemicals. Broadly, the company is specialized in manufacturing Methylamines, Ethylamines, Derivatives of Specialty Chemicals and Natural Products. Its business is broadly classified into three segments, Amines, Specialty Chemicals and Derivatives. It has facilities for the manufacture of derivatives, which are downstream products for various Pharma /Pesticide industries apart from user specific requirements. BAL is also engaged in hospitality business, owning a five star hotel at Solapur in Maharashtra.

#### View and valuation:

BAL is engaged in manufacturing chemicals which are mainly used in Pharma/agrochem industries. Following a poor Q1FY20, it has reduced its revenue guidance for FY20.

However for FY21, expansion in capacities, venturing into derivative products and ramping up of new capacities in BAL and its subsidiary will provide decent growth in revenues and profits. Hotel business which was so far in losses has turned around and could contribute in a small way to the overall profitability instead of being a drag. Also, its efficient usage of plants, product mix, and increase in value chain and plant efficiencies could energize its earnings performance going forward.

We remain positive on the company's strategy of targeting new product capacities focused on import substitution. The next big growth lever for the company comes from its greenfield project which is likely to contribute meaningfully from FY22E onwards.

BAL has traditionally got lower valuations compared to its peers due to the unrelated diversification and lower value add manufacture. With the new ventures and expansions and decision to exit lamps and capsules business, the difference in valuation could narrow especially given the visibility in growth in top and bottomline and its consistently high operating margins and return ratios. Further, BAL will also be among the key beneficiaries of the corporate tax cut in India.

**We feel investors could buy the stock at the CMP and add on dips to Rs 327-331 band (7.0x FY22E EPS) for sequential targets of Rs 398.50 (8.5x FY22E EPS) and Rs 445.50 (9.5x FY22E EPS) in 4 quarters. At CMP of Rs 362 the stock quotes at 7.7x FY22E EPS.**

## Key Highlights

- ❖ *Balaji Amines Ltd (BAL), is world's largest producer of DMA-HCL (Di Methyl Amine Hydrochloride) and India's largest manufacturer of Aliphatic Amines. The company has expertise to cater the value based specialty chemicals.*
- ❖ *A large portion of its products is being exported to major customers worldwide and company has become one of the leaders in Specialty Chemicals among the International Specialty Chemical players.*
- ❖ *We remain positive on the company's strategy of targeting new product capacities focused on import substitution. The next big growth lever for the company comes from its greenfield project which is likely to contribute meaningfully from FY22E onwards.*
- ❖ *BAL has traditionally got lower valuations compared to its peers due to the unrelated diversification and lower value add manufacture. But this could soon change.*

Financial Summary									
YE March (Rs cr)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	FY19	FY20E	FY21E	FY22E
Net Sales	227.3	216.3	5.0%	223.0	1.9%	943.1	954.4	1227.2	1333.6
EBITDA	44.8	44.8	-0.1%	37.5	19.3%	193.4	188.0	236.8	254.1
APAT	28.7	31.0	-7.2%	18.5	55.4%	116.9	104.6	140.1	151.9
Diluted EPS (Rs)						36.1	32.3	43.3	46.9
P/E (x)						10.0	11.2	8.4	7.7
EV / EBITDA (x)						6.4	7.1	5.5	5.0
RoE (%)						20.4%	15.7%	17.6%	16.3%

(Source: Company, HDFC sec)

### Company profile:

Balaji Amines Ltd (BAL) a KPR group company, is world's largest producer of DMA-HCL (Di Methyl Amine Hydrochloride) and India's largest manufacturer of Aliphatic Amines. The company has expertise to cater the value based specialty chemicals. Broadly, the company is specialized in manufacturing Methylamines, Ethylamines, Derivatives of Specialty Chemicals and Natural Products. Its business is broadly classified into three segments, Amines, Specialty Chemicals and Derivatives. BAL has facilities for the manufacture of derivatives, which are downstream products for various Pharma /Pesticide industries apart from user specific requirements. BAL is also engaged in hospitality business, owning a five star hotel at Solapur in Maharashtra.

The company's five manufacturing facilities are located at Solapur in Maharashtra and Hyderabad in Telangana. BAL is the first Indian company that has set up dedicated plant for manufacturing of specialty chemicals like N-Methyl Pyrolidine (NMP), 2-Pyrolidine, N-Ethyl – Pyrolidine, Di Methyl Acetamide (DMAC), Di Methyl Amine Hydrochloride (DMAHCC), Tri Methyl Amine Hydrochloride (TMAHCL), and Di Ethyl Amine Hydrochloride (DEAHCL) and Tri Ethyl Amine Hydrochloride (TEAHCL), which are widely accepted by its clients across the geographies.

Balaji Speciality Chemicals Private Limited (BSCPL) is the only Subsidiary of the Company (55% stake by BAL, rest held by promoters), BSCPL is engaged in Manufacturing of Ethylenediamine (EDA), Piperazine (Anhydrous), Aminoethylpiperazine (AEP) and Diethylene triamine (DETA) and other Specialty Chemicals.

A large portion of its products is being exported to major customers worldwide and company has become one of the leaders in Specialty Chemicals among the International Specialty Chemical players.

### Company Overview



**Largest manufacturer of Aliphatic Amines in India**



**State-of-the-art manufacturing facilities fully equipped with latest DCS technology**



**25+ Product basket**



**Zero Liquid Discharge facilities**

**Only Company in the World to develop an Indigenous Technology to manufacture Amines**



**Stringent Domestic & International Quality Standards**

- ISO 9001: 2015 certified Company
- REACH certified products to regulated markets in Europe
- WHO-GMP certificate to export its products to regulated international markets



**Strong Global presence  
INDIAN MULTINATIONAL**



**Forward integrated suite of products**

Downstream products added based on strength of amine manufacturing which have value addition and cost advantage



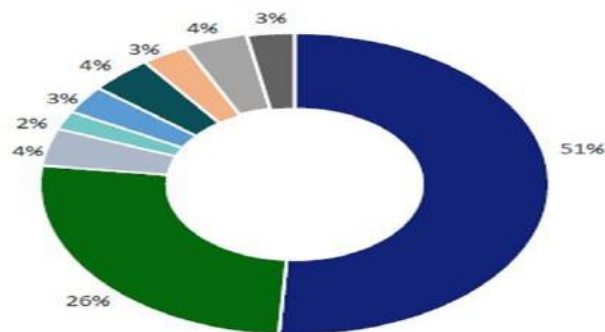
**Installed Capacity**

**1,90,900 MTPA**

(Source: Company, HDFC sec)

### Revenue Breakup

**INDUSTRY WISE – REVENUE BREAKUP**



- Pharma
- Agrochem
- Paints & Resins
- Animal Feeds
- Oil & Gas
- Rubber Cleaning Chemicals
- Water Treatment Chemicals
- Dye and Textiles
- Others



**PHARMA**



**AGRO-CHEMICALS**



**ANIMAL FEEDS**



**PAINTS & RESINS**



**OIL & GAS**



**RUBBER CLEANING CHEMICALS**



**WATER TREATMENT CHEMICALS**



**DYES & TEXTILES**

## Product Portfolio

	Amines	Amine Derivatives	Specialty & Other Chemicals
Description	<ul style="list-style-type: none"> <li>Aliphatic Amines find increasing consumption and applications in a Chemically mature Industry such as India, Europe, US, China and Japan</li> <li>The Aliphatic Amines industry is expected to grow at a CAGR of 5%-7%</li> </ul>	<ul style="list-style-type: none"> <li>Amine Derivatives are used to make further salts and other complex chemical Intermediates and API's</li> <li>In derivatives, Di-Methyl Amine Hydrochloride (DMA HCL) is one of BAL's key product offerings.</li> </ul>	<ul style="list-style-type: none"> <li>Albeit a small and fastest growing segment</li> <li>Within specialty chemicals, is the single-largest product in specialty chemicals.</li> </ul>
Products	<ul style="list-style-type: none"> <li>Mono Methyl Amine (MMA)</li> <li>Di-Methyl Amine (DMA)</li> <li>Tri-Methyl Amine (TMA)</li> <li>Mono-Ethyl Amine (MEA)</li> <li>Di-Ethyl Amine (DEA)</li> <li>Tri-Ethyl Amine (TEA)</li> <li>Di-Methyl Amino Ethanol (DMAE)</li> <li>Di-Ethyl Amino Ethanol (DEAE)</li> </ul>	<ul style="list-style-type: none"> <li>Di-Methyl Acetamide (DMAC)</li> <li>Di-Methyl Amine Hydrochloride (DMA HCL)</li> <li>Tri-Methyl Amine Hydrochloride (TMA HCL)</li> <li>Mono-Methyl Amine Hydrochloride (MMA HCL)</li> <li>Di-Ethyl Amine Hydrochloride (DEA HCL)</li> <li>Tri-Ethyl Amine Hydrochloride (TEA HCL)</li> <li>Mono-Ethyl Amine Hydrochloride (MEA HCL)</li> <li>Di-Methyl Urea (DMU)</li> <li>Choline Chloride</li> </ul>	<ul style="list-style-type: none"> <li>Morpholine</li> <li>Acetonitrile</li> <li>Dimethylformamide (DMF)</li> <li>N-Ethyl-2-Pyrrolidone (NEP)</li> <li>2-Pyrrolidone (2-P)</li> <li>Gamma Butyrolactone,</li> <li>N-Methyl-Pyrrolidone (NMP)</li> <li>Pharmapure Povidone (PVP K30 &amp; PVP K25)</li> </ul>
Application	<ul style="list-style-type: none"> <li>Pharma</li> <li>Agro</li> <li>Photographic chemicals</li> <li>Rocket fuel</li> <li>Dyestuff intermediates</li> <li>Rubber chemicals, etc</li> </ul>	<ul style="list-style-type: none"> <li>Pharma</li> <li>Pesticides</li> <li>Performance chemicals</li> <li>Specialty chemicals</li> <li>Animal/poultry feed additive etc.</li> </ul>	<ul style="list-style-type: none"> <li>Production of Water Treatment chemicals and pesticide formulations</li> <li>Solvents across industries like pharmaceuticals, petrochemicals, dyes, Agro- and paint industries</li> </ul>

## Customers

Amines	Amine Derivatives	Specialty & Other Chemicals
    	    	      

## Product portfolio and application areas Balaji Amines Ltd

Product	Installed Capacity	Future Capacity	Application Areas
Methyl Amine	48,000		Pharma, Agro, Dye & Rubber
Ethyl Amine	6,000	18,250	Pharma, Agro, Dye & Rubber
DMAHCL	32,500	7,500	Pharma
DMAC	6,000		Pharma API
Choline Chloride 60% (Corn Cob)	2,400		Animal Feed
Choline Chloride 75% & 98%	1,500		Animal Feed
CC - Applied For Additional Consent	-		-
Choline Chloride 50% (Corn Cob)	-		Animal Feed
2P / NEP	33,000		Pharma, Agro, Petro, Dyes, Paints
NMP		Pharma, Agro, Petro, Dyes, Paints	
GBL		Pharma, Agro, Petro, Dyes, Paints	
DMU	1,000		Pharma, Textile, Agro
MMU			Pharma API
DMAE / DEAE	1,000		Cosmetics
Morpholine	10,000		Pharma, Agro, Dyes, Paints, Textile, Rubber
Other HCL'S	750		Animal Feed
DMF	30,000		Pharma, Agro, Polymers, Petro, Dyes, Paints
Acetonitrile	18,000		Pharma, Petro, Textile, Plastics
PVP K-30	750		Pharma, Agro, Cosmetics
Tetra Hydro Furan	-	8,000	Pharma API Agro
Methyl Di Ethanol Amine ( MDEA)	-		-
SHF	-		-
Di-methyl Carbonate (DMC)	-	10,950	Pharma, Polycarbonate, Automobiles
<b>Total</b>	<b>1,90,900</b>	<b>44,700</b>	

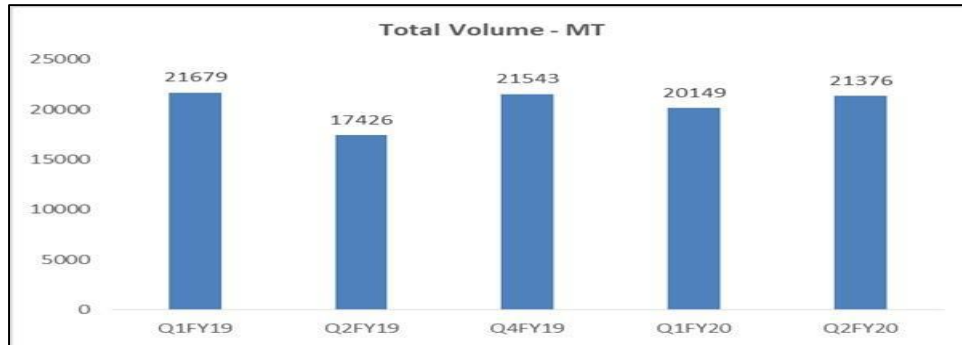
(Source: Company, HDFC sec)

## Balaji Specialty Chemicals Ltd

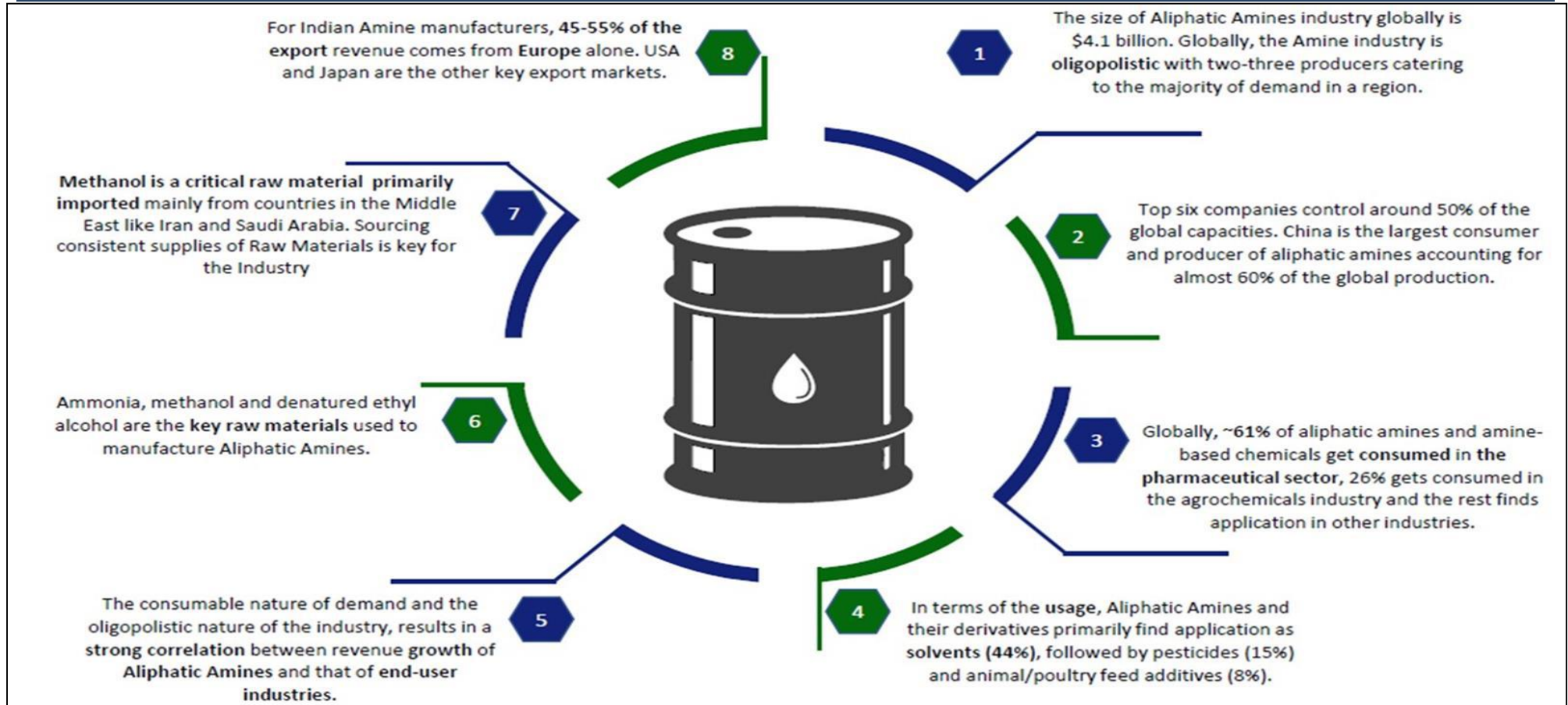
Product	Installed Capacity	Application Areas
Ethylenediamine	37,350	Pesticides, Polymers
Piprazine	4,050	Pharma, Oilfield
Diethyltriamine	3,150	Coatings, Polymers, Pharma
Mixture of Amines (Aminoethylpiperzine / Hydroxyethylpiperzine / Aminoethylethanolamine, etc.)	780	Multiple Industries
<b>Total</b>	<b>45,330</b>	

In Q2FY20 Basic Amines constituted 21.7% of sales, Amines Derivatives constituted 42.2% and 36.1% of sales was from Specialty Chemicals. End-user industry wise API contributed about 50% to 56% of revenue followed by agrochemicals at 19%. Other segments like dyes. Textile, animal feed, water treatment chemicals and refinery contributed about 5% each

Volume over the past few quarters (MT)



Amines Industry Overview





## Investment Rationale

### Diversified product portfolio

BAL is engaged in manufacturing (a) amines (methyl amines and ethyl amines) and their derivatives, (b) speciality chemicals and (c) pharma excipients. Overall, the company has a portfolio of over 25 products, which are supplied to domestic and foreign players (exports accounted for around 20% of the total sales in FY19). BAL is India's only producer of N-Methyl Pyrolidine (NMP) and it is the world's largest producer of Di-Methyl Amine Hydrochloride (DMAHCL), commanding near majority in the global market. The current installed capacity across all the products stands at 190,900 tonnes, operating at ~83% utilization.

As on 31st March 2019, 50-55% revenue come from API and pharma sector and 20-25% from agro chemical industries. Some of its other end-user industries include dyes and textiles, water treatment chemicals, animal industries and oil and gas. The company has been incurring capex to add new products to its portfolio and to also expand the capacities of existing products.

BAL is the first and only company in the world in Amines industry that has used indigenous technology to manufacture Amines. All other companies have either used US or German technology. All of BAL's products have a high entry barrier. In 60% of its products, BAL is the only manufacturers like NMP, NEP, GBL, 2P, Morpholine, DMAC, DMAE, DMU, and DMF

Now, the hotel business is doing well and has started contributing to the bottom line. The hotel business contributed 2.5% of the total revenue in Q2FY20. The average revenue for room stood at Rs 3,381 and revenue per available room was Rs 2,108. The occupancy rate in Q2FY20 stood at 62.3%. The cash profit from hotel division in Q2FY20 was Rs 1.41cr.

### Strong clientele to growth contribution

As on 30th Sept, 2019, about 70-80% of BAL's sales come from the pharma and agrochemicals sectors, while the rest is split amongst a number of other end-users like oil refineries, water chemicals, rubber chemicals etc. BAL has a strong presence in the domestic market, with major clients from the pharma sector, including the likes of Aurobindo, Aventis, Clariant, Dr Reddy's, Glaxo, Merck, Ranbaxy, Sun Pharma, Wyeth, Wockhardt, etc. Other clients include rubber chemical companies in Kerala, Gujarat and North India, and water companies like Ion Exchange and Thermax, and refineries like IOCL, HPCL etc. Lastly, agro chemical companies like Rallis, Meghmani and Gherda Chemicals are also part of its client list.

### Its subsidiary Balaji Specialty Chemicals Pvt Ltd has started building capacity of Diamine and Piperazine (agro-chemical intermediates to contribute growth

BAL owns 55% stake in its subsidiary, Balaji Specialty Chemicals Pvt Ltd (BSCPL) which has invested in Rs 180cr project, with 56% debt funding. BSCPL has received consent to operate by Maharashtra Pollution Control Board in June 2019. On Aug 28, 2019, BSCPL has completed REACH Registration process for ethylenediamine. The registration would allow the company to supply ethylenediamine to a large number of customers in the European region. EU REACH governs the registration, evaluation, authorisation and restriction of chemicals. EU REACH Product Registration, involves a lot of testing with regards to human and environmental toxicity and sets a high standard in chemical safety and management. Besides, it also means that the company is not using any SVHC (substances of very high concern) in their products.

The subsidiary has commenced production of niche products like Ethylenediamine (EDA), Piperazine (PIP) and Diethylenetriamine (DETA). India is currently importing 29,000 tons of Ethylenediamine (EDA), which basically goes in to end use industry of agro-chemicals. UPL, Coromandel and Indofil are the major consumers of EDA. The other two products Piperazine (PIP) and Diethylenetriamine (DETA) are going to pharmaceutical, polymer, coatings, etc. BAL will be the only company in India manufacturing EDA, PIP and DETA. India is importing 7,000 to 8,000 tons of Piperazine and 3,000 to 4,000 tons of Diethylenetriamine (DETA). These two products have good demand in other countries also.

With these products, BAL would be substituting the products that are currently being imported in India. We can expect the subsidiary to meaningfully add to the topline from Q4FY20E. BSCPL reported revenue of Rs 8.3cr in Q2FY20 vs Rs 1.86cr in Q1FY20 and EBIT stood at Rs -4.4cr in Q2FY20 vs. -0.5cr in Q1FY20.

#### **Capacity expansion, new product launch and focus on export could add market share and incremental revenue ahead**

- BAL has started to manufacture fungible products, namely, Acetonitrile and Tetrahydrofuran (THF). Recently, company got the environmental clearance for the capacity expansion of key products – Acetonitrile, Morpholine and Di Methylamines HCl (DMA HCL), along with other offerings. The company plans to manufacture Morpholine (capacity: 10,000 tonnes) at 80 percent and Acetonitrile (capacity: 9,000 tonne) at 50 percent utilization. Other than China, there are only three players, manufacturing Morpholine in the world. In India itself, there is a consumption of 5000 tons of Morpholine. BAL has also started exporting Morpholine to other countries including China.
- BAL has added another product namely Acetonitrile with license capacity of 18,000 tons and installed capacity of 10,000 tons. Company has started the manufacturing of Acetonitrile from July 2019 onwards. Company expects to manufacture 4000 to 5000 tons of Acetonitrile in FY20. Total demand of Acetonitrile in India is about 12,000 tons and one of its peer manufactures about 10,000 tons. Because of excess volatility in prices of Acetonitrile, BAL has developed another fungible product called Tetrahydrofuran (THF, capacity: 8000 tonne), which can be manufactured on the same manufacturing line as Acetonitrile. If the volatility persists, Company plans to manufacture Acetonitrile for six months and Tetrahydrofuran for six months. Tetrahydrofuran will be produced for first time in India and there is a demand of 15,000 tons per annum.
- Acetonitrile and Morpholine, which are used for end-market antibiotic drugs and rubber chemicals, respectively, are the two key products that would add to incremental sales in FY20.
- BAL got clearance for additional capacity of 7,500 tons of Di Methylamines HCl (DMA HCL). DMA HCL is used as a pharma ingredient for Ranitidine and Metformin (diabetic drug). However, new capacity of DMA HCL would be utilised later when the market situation improves. Company is waiting for the market demand to improve this capacity. The margins in Morpholine, Acetonitrile, and THF are likely to be on the higher side.
- An entry into Ethylenediamine, piperazine and Diethylenetriamine through an investment in BSCPL could boost volume led growth through new product streams.

#### **Investment in ‘Mega Project’ plans to drive next leg of growth**

- BAL has also procured the status of ‘Mega Project’ for its expansion project plan in the 90-acre land allotted to it in MIDC, Chincholi (Dist Solapur). This status entitles the company to various incentives, subject to the compliance of Package Scheme Incentives (PSI) 2013.
- BAL received environmental clearance from the Ministry of Environment, Forests & Climate Change and Government of India, for setting up the proposed organic and specialty chemicals manufacturing unit of capacity 874.20 tons per day in Solapur, Maharashtra. It also involves installation of captive power plant of total capacity of 10 MWh (megawatt hours).
- In the first phase, the company is adding capacity for ethyl amines (18,250 tonnes). It is also ramping up capacity for either Mono Isopropyl Amine (MIPA) or Isopropyl Amine (IPA, 20,000 tonnes). India has a heavy import dependency for Isopropyl Amine, which is used for herbicides/pesticides and pharma drugs for the treatment of cardiovascular ailments. The total capex involved in Greenfield product in first phase is about Rs 200-250cr, out of which Rs. 120cr will be borrowed from banks while the rest will be infused by internal accruals. A capex of Rs 80-90cr is planned for FY20 and the rest will be deployed in H1FY21. The company plans to start construction of the greenfield project soon. Production is likely to start fifteen months later.
- In the first phase, Company will manufacture two products mainly 50 tons of Ethyl Amine per day and 50 tons of MIPA (Mono Iso-propyl Amine) or IPA Iso Propyl Alcohol). Commercialisation of each phase is expected to be operational in Q4FY21 and it is likely to contribute meaningfully from FY22 onwards. The project is expected to add about Rs 400cr to sales in FY23.

### Clampdown in China on Chemical production has created tailwinds for chemical manufacturers in India including BAL

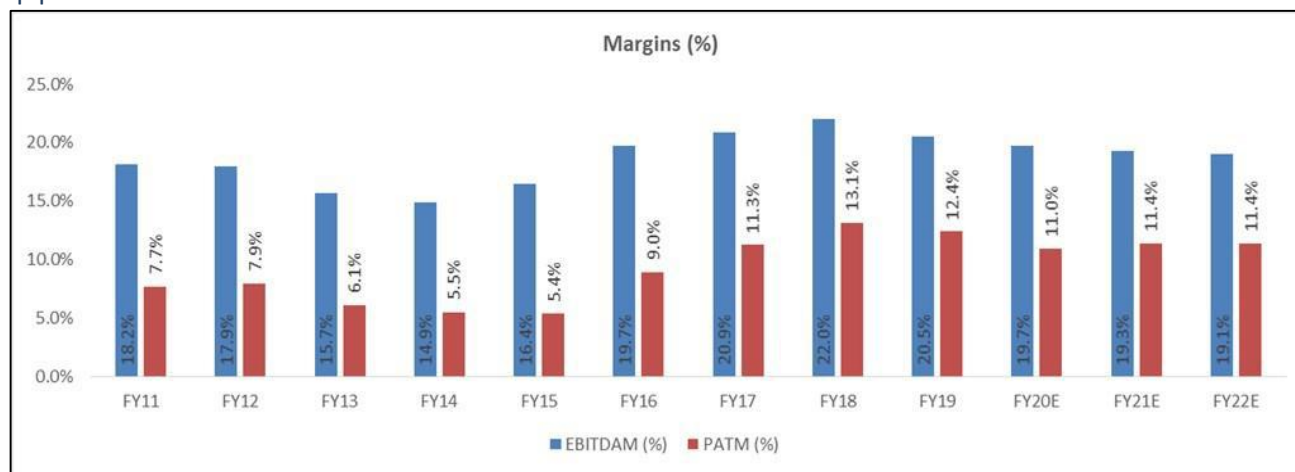
China has seen an immense cut down in the production of chemicals in the past 24-30 months. This comes on the back of a crackdown initiated by the Chinese government on polluting Chinese plants.

Indian chemicals industry faces structural tailwind due to china's pollution problem. Effluent treatment mechanism has become a pre-requisite to carry on business and to receive export incentives. This has substantially affected the cost structure of dye and dye intermediate producing firms in China and has therefore nullified the cost-efficiency advantage to these Chinese firms. These changes in the global dye intermediates industry has had a significant impact on the companies in India who are engaged in the same business.

This shift in the prices on account of global changes have led to increase in company's turnover over past 8-9 quarters. The price levels are expected to stay elevated with the production levels being same from China and global MNCs de-risking their sourcing by shifting the sourcing to Indian markets.

### Stable margins and ability to generate operating cash flow to remain strong

BAL has consistent positive free cash flow generation over FY14-18 driven by sustained operating margins and improvement in the working capital cycle. We expect BAL to report 18-20 percent EBITDA margins in the medium term. Debt levels could marginally rise but later again fall once the projects start production and repayment picks up pace.



(Source: Company, HDFC sec)

## Concerns

### Exchange rate volatility

BAL derives ~ 21% of sales from exports to several countries such as UK, USA, Canada, Latin America, Germany, Italy, Middle East, South Africa, France, Brazil, Mexico etc, as on 31st March, 2019. The company sells directly to its customers in India, while in the case of exports it goes through distributors' channel. Therefore, adverse currency movement could impact its revenues and profitability. The prices of raw materials are entirely based on US\$ rates, even if they are manufactured in India.

**Quality/Regulatory risks**

Being a part of the chemical industry, BAL is acclaimed for its quality-consciousness. It enjoys 'GMP' (Good Manufacturing Practice, for facility and practices) and WHO GMP (for products) certifications for some of its products. BAL follows the norms of USFDA, DMF (Drug Master File), and various audit agencies of countries, where the product is going for export. Any regulatory delay/action could be a hurdle in the way of BAL's earnings and profitability.

**Global chemicals slowdown**

Given the ongoing global trade slowdown and a softness in the growth outlook for few end markets for specialty chemicals, BAL has reduced its revenue and margin guidance for FY20. BASF has warned that CY19 sales could "slightly" decline compared to CY18 vis-à-vis earlier guidance of 1- 5 percent growth. Few chemical value chains such as those of isocyanate (implications for GNFC), polyethylene (adverse impact on polymer majors such as RIL) are witnessing pricing pressure due to oversupply.

**Impact of raw material fluctuations**

Apart from ammonia and ethanol, methanol is a key raw material for BAL. Prices of these products are linked directionally to crude oil prices. Although fluctuations in these are largely passed on to customers, there is a lag period involved during which the margins of BAL could be impacted. Price volatility in methanol remains the key concern for the industry as bulk of it is sourced from the crisis-ridden Iran. BAL sees Qatar, Saudi Arabia and Malaysia as alternative sources for methanol sourcing for India.

**Largely depends on the pharma and agrochemical sector**

Almost 70% -80% of BAL's sales come from the pharma and agrochemical sector, while the rest depends on other end users like oil refineries, water chemicals, rubber chemicals etc. Company could see minor impact because of recent ban on Ranitidine. Several pharmaceutical manufacturers have voluntarily stopped supplies of ranitidine to gauge the level of NDMA impurities and in some cases recalled products. While this has not impacted Q2FY20 performance, BAL expects little impact in Q3FY20. Therefore, sector-specific slowdowns and concerns could impact the company's revenue.

Irregular spells of excessive rain along with uneven distribution of rainfall across key agri-states adversely impacted kharif crops as well as agrochemical consumption in India.

**Promoter's involvement in BAL's subsidiary - Balaji Speciality Chemicals**

The promoters of BAL hold 45% stake in BAL's subsidiary Balaji Speciality Chemicals Pvt Ltd (PSCPL), when BAL could have made this a 100% subsidiary. Land in the name of promoters (which cannot be transferred) is the justification given for the promoter's stake in the subsidiary.

**Delay in commissioning projects due to environmental NOC and other reasons could postpone growth in revenues/profits****Diversification into unrelated businesses**

Promoters have entered the Hotel, CFL/LED lamps, and capsules businesses in BAL (and hinted at entering the engineering business) in the past, which has pulled down financial ratios and impacted valuations. Some of these businesses have been closed.

**View and valuation**

BAL is engaged in manufacturing chemicals which are mainly used in Pharma/agrochem industries. Following a poor Q1FY20, it has reduced its revenue guidance for FY20.

However for FY21, expansion in capacities, venturing into derivative products and ramping up of new capacities in BAL and its subsidiary will provide decent growth in revenues and profits. Hotel business which was so far in losses has turned around and could contribute in a small way to the overall profitability instead of being a drag. Also, its efficient usage of plants, product mix, and increase in value chain and plant efficiencies could energize its earnings performance going forward.

We remain positive on the company's strategy of targeting new product capacities focused on import substitution. The next big growth lever for the company comes from its greenfield project which is likely to contribute meaningfully from FY22E onwards.

BAL has traditionally got lower valuations compared to its peers due to the unrelated diversification and lower value add manufacture. With the new ventures and expansions and decision to exit lamps and capsules business, the difference in valuation could narrow especially given the visibility in growth in top and bottomline and its consistently high operating margins and return ratios. Further, BAL will also be among the key beneficiaries of the corporate tax cut in India.

**We feel investors could buy the stock at the CMP and add on dips to Rs 327-331 band (7.0x FY22E EPS) for sequential targets of Rs 398.50 (8.5x FY22E EPS) and Rs 445.50 (9.5x FY22E EPS) in 4 quarters. At CMP of Rs 362 the stock quotes at 7.7x FY22E EPS.**

Peer Comparison	Company	Mkt Cap, Cr	EPS (Rs)			P/E (x)			RoE-%		
			FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
	Balaji Amines	1172.9	36.1	32.3	43.3	10.0	11.2	8.4	20.4%	15.7%	17.6%
	Alkyl Amines	2172.2	41.1	48.4	59.7	25.9	22.0	17.8	25.3%	24.5%	25.1%

Quarterly Financials: Income Statement- Cons	Particulars (Rs Cr)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	H2FY20	H2FY19	YoY (%)
	<b>Net Sales</b>	<b>227.3</b>	<b>216.3</b>	<b>5.0%</b>	<b>223.0</b>	<b>1.9%</b>	<b>450.2</b>	<b>476.2</b>	<b>-5.5%</b>
	Raw Material Consumed	101.6	117.6	-13.6%	141.7	-28.3%	243.4	267.7	-9.1%
	Stock Adjustment	23.0	-3.7	715.3%	-11.5	299.4%	11.4	-12.6	190.6%
	Purchase of Finished Goods	0.0	0.0	-	0.0	-	0.0	0.0	-
	Employee Expenses	11.9	12.8	-7.4%	10.8	10.2%	22.7	25.4	-10.9%
	Other Expenses	46.0	44.9	2.5%	44.5	3.6%	90.5	92.3	-1.9%
	Total Expenditure	182.5	171.6	6.4%	185.5	-1.6%	368.0	372.8	-1.3%
	<b>EBITDA</b>	<b>44.8</b>	<b>44.8</b>	<b>-0.1%</b>	<b>37.5</b>	<b>19.3%</b>	<b>82.3</b>	<b>103.5</b>	<b>-20.5%</b>
	Depreciation	7.8	4.7	65.3%	5.7	37.0%	13.5	9.4	43.3%
	<b>EBIT</b>	<b>36.9</b>	<b>40.1</b>	<b>-7.8%</b>	<b>31.8</b>	<b>16.2%</b>	<b>68.7</b>	<b>94.0</b>	<b>-26.9%</b>
	Other Income	1.5	1.3	9.8%	1.4	3.5%	2.9	2.3	24.2%
	Interest	7.2	3.0	137.4%	3.3	120.6%	10.4	6.2	67.3%
	<b>PBT</b>	<b>31.2</b>	<b>38.4</b>	<b>-18.6%</b>	<b>30.0</b>	<b>4.2%</b>	<b>61.2</b>	<b>90.1</b>	<b>-32.1%</b>
	Tax Paid	2.5	7.4	-66.3%	11.5	-78.3%	14.0	25.3	-44.8%
	<b>Reported Profit After Tax</b>	<b>28.7</b>	<b>31.0</b>	<b>-7.2%</b>	<b>18.5</b>	<b>55.4%</b>	<b>47.2</b>	<b>64.8</b>	<b>-27.1%</b>
	Minority Interest After NP	0.0	0.0	-	0.0	-	0.0	0.0	-
	Profit/Loss of Associate Company	0.0	0.0	-	0.0	-	0.0	0.0	-
	<b>PAT after Min- Int &amp; P/L Asso.Co.</b>	<b>28.7</b>	<b>31.0</b>	<b>-7.2%</b>	<b>18.5</b>	<b>55.4%</b>	<b>47.2</b>	<b>64.8</b>	<b>-27.1%</b>
	<b>EPS (Adj) (Unit Curr.)</b>	<b>9.7</b>	<b>9.6</b>	<b>1.5%</b>	<b>5.7</b>	<b>70.2%</b>	<b>15.4</b>	<b>20.0</b>	<b>-23.0%</b>

(Source: Company, HDFC sec)

## Segment wise Performance

Particulars, Rs in cr	Q2FY20	Q1FY20	Q4FY19	Q3FY19	Q2FY19	Q1FY19
<b>Revenue</b>						
Amines Division	224.7	226.2	229.3	233.0	211.7	255.4
Hotel Division	5.7	5.3	5.6	5.9	4.8	4.9
CFL Lamps and Capsules	0.0	0.0	0.02	0.0	0.0	0.0
<b>PBIT</b>						
Amines Division	42.9	34.7	43.9	39.3	42.3	55.2
Hotel Division	0.2	0.1	0.2	0.1	-0.5	0.1
CFL Lamps and Capsules	-0.4	-0.4	-0.45	-0.4	-0.4	-0.4

(Source: Company, HDFC sec)

## Financials: Income Statement

Particulars, Rs in Cr	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	861.2	943.1	954.4	1227.2	1333.6
Materials Cost	461.0	541.0	513.0	666.4	725.5
Change in Inventory	3.1	-25.7	13.4	11.7	15.3
Employee Cost	45.1	48.3	47.7	60.7	64.7
Other Expenditure	162.6	186.0	192.3	251.6	274.1
Total Expenditure	671.7	749.6	766.4	990.3	1079.6
<b>EBITDA</b>	<b>189.5</b>	<b>193.4</b>	<b>188.0</b>	<b>236.8</b>	<b>254.1</b>
Depreciation	19.3	19.6	28.9	31.5	33.8
<b>EBIT</b>	<b>170.2</b>	<b>173.9</b>	<b>159.1</b>	<b>205.3</b>	<b>220.3</b>
Other Income	4.1	4.2	5.2	5.5	5.5
Interest	9.0	13.0	23.0	20.2	19.2
<b>EBT</b>	<b>165.2</b>	<b>165.1</b>	<b>141.4</b>	<b>190.7</b>	<b>206.7</b>
Tax	52.7	51.5	36.8	50.5	54.8
<b>Reported Profit (before minority interest)</b>	<b>112.6</b>	<b>113.5</b>	<b>104.6</b>	<b>140.1</b>	<b>151.9</b>
Exceptional Items	-0.6	-3.4	0.0	0.0	0.0
<b>Adjusted Profit</b>	<b>113.2</b>	<b>116.9</b>	<b>104.6</b>	<b>140.1</b>	<b>151.9</b>

(Source: Company, HDFC sec)

## Cash Flow

Particulars, Rs in Cr	FY18	FY19	FY20E	FY21E	FY22E
<b>EBT</b>	<b>174.9</b>	<b>181.6</b>	<b>164.4</b>	<b>210.9</b>	<b>225.8</b>
Depreciation and Amortization	19.3	19.6	28.9	31.5	33.8
Other Adjustment	-4.1	-4.2	-10.5	-7.5	-15.1
(Inc)/Dec in working Capital	-7.1	-49.5	-67.7	-86.8	-29.8
Tax Paid	-43.0	-53.3	-36.8	-50.5	-54.8
<b>CF from Operating Activities</b>	<b>140.0</b>	<b>94.2</b>	<b>78.3</b>	<b>97.5</b>	<b>159.9</b>
Capital expenditure	-110.7	-169.8	-110.0	-95.0	-100.0
Proceeds from sale of fixed assets	2.8	0.2	0.5	0.3	0.3
(Purchase)/Sale of Investment	-49.0	46.2	9.2	2.5	11.4
Others	22.1	4.2	5.2	5.5	5.5
<b>CF from Investing Activities</b>	<b>-134.9</b>	<b>-119.1</b>	<b>-95.1</b>	<b>-86.7</b>	<b>-82.8</b>
Inc/(Dec) in Share capital	0.0	0.0	0.0	0.0	0.0
Inc/(Dec) in Debt	33.2	43.9	80.0	-10.0	-5.0
Dividend and Interest Paid	-17.6	-23.2	-34.7	-32.8	-32.8
<b>CF from Financing Activities</b>	<b>15.6</b>	<b>20.7</b>	<b>45.3</b>	<b>-42.8</b>	<b>-37.8</b>
<b>Net Cash Flow</b>	<b>20.7</b>	<b>-4.2</b>	<b>28.6</b>	<b>-32.0</b>	<b>39.3</b>
<b>Opening Balance</b>	<b>3.5</b>	<b>24.2</b>	<b>20.0</b>	<b>48.5</b>	<b>16.5</b>
<b>Closing Balance</b>	<b>24.2</b>	<b>20.0</b>	<b>48.5</b>	<b>16.5</b>	<b>55.8</b>

## Balance Sheet

Particulars, Rs in Cr	FY18	FY19	FY20E	FY21E	FY22E
<b>EQUITY &amp; LIABILITIES</b>					
Share Capital	6.5	6.5	6.5	6.5	6.5
Reserves & Surplus	460.6	567.5	660.5	788.0	926.3
<b>Shareholder Fund</b>	<b>467.1</b>	<b>574.0</b>	<b>667.0</b>	<b>794.5</b>	<b>932.8</b>
Minority Interest in subsidiaries	18.0	18.0	18.0	18.0	18.0
Long Term borrowings	42.5	83.3	153.3	133.3	118.3
Deferred Tax Liabilities (Net)	50.2	45.8	48.0	50.4	53.0
Other Long Term Liabilities	13.3	16.4	17.2	18.0	18.9
<b>Non - current liabilities</b>	<b>106.1</b>	<b>145.4</b>	<b>218.5</b>	<b>201.8</b>	<b>190.2</b>
Short Term Borrowings	99.7	107.2	117.2	127.2	137.2
Trade Payables	71.8	85.3	78.4	100.9	109.6
Other Current Liabilities	63.2	93.3	46.7	42.0	37.8
Short Term Provisions	22.0	22.6	21.5	20.4	19.4
<b>Current Liabilities</b>	<b>256.7</b>	<b>308.4</b>	<b>263.8</b>	<b>290.5</b>	<b>304.0</b>
<b>Total Equity and Liabilities</b>	<b>847.8</b>	<b>1045.9</b>	<b>1167.3</b>	<b>1304.8</b>	<b>1445.0</b>
<b>II. ASSETS</b>					
<b>Non-Current Assets</b>	<b>493.1</b>	<b>596.3</b>	<b>676.7</b>	<b>740.5</b>	<b>807.1</b>
<b>Fixed Assets</b>	<b>439.2</b>	<b>589.2</b>	<b>670.3</b>	<b>733.8</b>	<b>800.1</b>

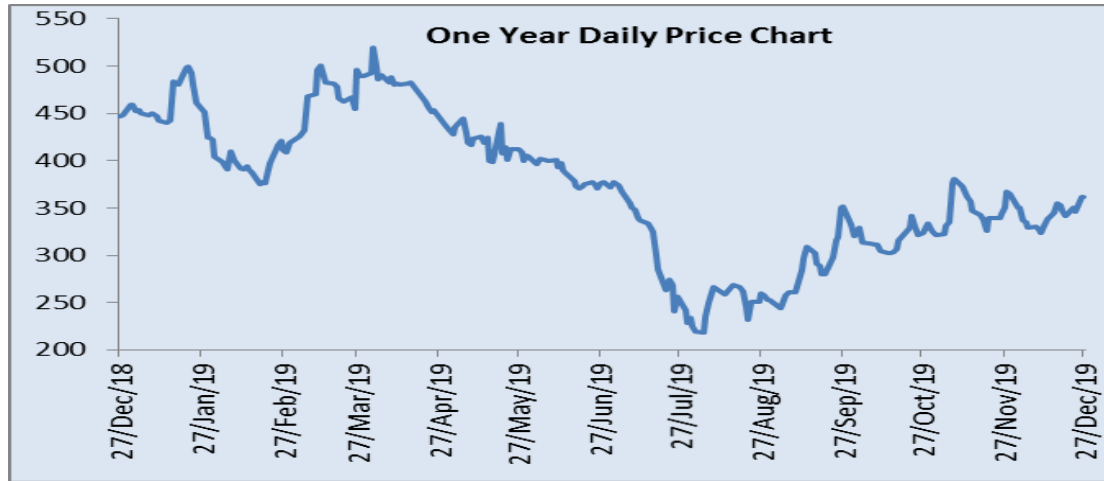
Non Current Investments	3.8	4.0	3.6	3.8	4.0
Deferred Tax Assets (Net)	0.0	0.0	0.0	0.0	0.0
Long -term Loans and Advances	0.0	0.0	0.0	0.0	0.0
Other Non-Current Assets	50.1	3.1	2.8	2.9	3.1
Current Investments	0.0	0.0	0.0	0.0	0.0
Inventories	89.1	163.2	156.9	201.7	219.2
Trade Receivables	172.7	167.2	177.8	235.4	241.1
Cash & Cash Equivalents	24.2	20.6	47.4	16.5	55.8
Short Term Loans & Advances and other current assets	68.8	98.6	108.5	110.7	121.7
<b>Current Assets</b>	<b>354.7</b>	<b>449.6</b>	<b>490.6</b>	<b>564.2</b>	<b>637.9</b>
<b>Total Assets</b>	<b>847.8</b>	<b>1045.9</b>	<b>1167.3</b>	<b>1304.8</b>	<b>1445.0</b>

## Key Ratios

Particulars, Rs in Cr	FY18	FY19	FY20E	FY21E	FY22E
No of Equity Shares-cr	3.2	3.2	3.2	3.2	3.2
Enterprise Value-cr	1201.9	1246.5	1338.8	1293.3	1276.5
EPS	34.9	36.1	32.3	43.3	46.9
Cash EPS (PAT + Depreciation)	40.9	42.1	41.2	53.0	57.3
Book Value Per Share(Rs.)	144.2	177.2	205.9	245.2	287.9
PE(x)	10.4	10.0	11.2	8.4	7.7
P/BV (x)	2.5	2.0	1.8	1.5	1.3
Mcap/Sales(x)	1.4	1.2	1.2	1.0	0.9
EV/EBITDA	6.3	6.4	7.1	5.5	5.0
EBITDAM (%)	22.0%	20.5%	19.7%	19.3%	19.1%
EBITM (%)	19.8%	18.4%	16.7%	16.7%	16.5%
PATM (%)	13.1%	12.4%	11.0%	11.4%	11.4%
ROCE (%)	28.6%	23.3%	17.5%	20.0%	19.0%
RONW (%)	24.2%	20.4%	15.7%	17.6%	16.3%
Payout (%)	8.9%	9.3%	11.1%	9.0%	9.0%
Div Yield(%)	0.7%	0.8%	0.8%	0.9%	1.0%
Current Ratio	1.4	1.5	1.9	1.9	2.1
Quick Ratio	1.0	0.9	1.3	1.2	1.4
Debt-Equity	0.3	0.3	0.4	0.3	0.3



One Year Daily Closing Price Chart



(Source: Company, HDFC sec)

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