



COMPANY NAME : **Alkyl Amines Chemicals**

BSE Code : **506767**

Time Duration : **1 year**

CMP : **₹769.55 (as on 19 Sept., 2019)**

Target Price : **₹988**

The Mid bridge recommendation for this month is Alkyl Amines Chemicals. The company is engaged in manufacturing and supplying amines and its derivatives. It has a global presence and one of the highest market shares for amines production in the domestic market. Moreover, it is the only manufacturer of ethylene amines in India. Headquartered in Mumbai, Alkyl Amines Chemicals is promoted by Yogesh Kothari and family. It has manufacturing plants located in Patalganga, Kurkumbh in Pune (Maharashtra) and Dahej in Gujarat. The company has installed capacity of around 80,000 tonnes.

Robust business model

The company is one of the largest players in the amines industry. The amines are widely used in areas such as pharmaceuticals, agro, rubber chemicals, foundry chemicals, polymers, specialty chemicals etc. The major part, though, is used by pharmaceutical industry, about 60 per cent in domestic market. Due to Alkyl Amine's manufacturing capacities which produce ethyl amines, dimethyl amines (DMA) and acetonitrile, the company has larger scope for growth. Its business model had already shown strong resilience to the slowdowns historically. It further strengthened its position in the industry with manufacturing of methyl amines in Dahej of Gujarat. And now, the new business has ability to cater dye and paint industry, along with traditional pharmaceuticals and rubber chemicals.

Sustainable Business

The company had performed exceptionally in terms of volumes as well as revenue growth historically. Owing to its strong product mix, based on advanced R&D center, it has sustained any market slowdown. As the industry is very price competitive, volume growth is strong point for the company. As of end of FY19, overall volume growth was driven by 2/3rd due to volumes and only 1/3rd from price appreciation. The company's capability to cater many industries drives the volume growth.

Good Industry Prospects

The amines industry has very high entry barriers. Even though the

competitive intensity is very high amongst the existing players, Alkyl Amines is better placed in comparison to other players. The methyl amines have a market size of approximately 60,000 TPA, while the company has installed capacity of 30,000 TPA, for which it has achieved 70 per cent utilization. Other major players such as Balaji Amines and RCF are already at their peak of utilization and also have no capacity addition plans in near future. In addition to this, Alkyl Amines has plans of debottlenecking in two stages which can take the total capacity to raise methyl amines production up to 45000 tonnes. This provides the company a scope to gain a larger market share.

In case of other amines, such as ethyl amines which has higher operating margin, the installed capacity of the company stands at 30,000 TPA. Here too, other major players, particularly Balaji Amines has maximum capacity of 6,000 TPA with capacity utilization levels of 95 per cent as of end of first quarter of FY20. The major industrial solvent, Acetonitrile has only one major manufacturer in India and that is Alkyl Amines Chemicals. Though, closest peer Balaji Amines has started the production, it is very new, thus has a very low market share. In such scenario, the company is well placed to gain on pricing power.

Changing dynamics for Methanol

The amines industry is a major consumer of methanol, which is also a key raw material for the company. It parts nearly 50 per cent of final product. Requirement for methanol, which is about 30 to 40 per cent of the total requirement, is sourced from Iran. In last few quarters, amines industry faced some issues as the trade policy of US to isolate Iran has become a major hurdle. Interestingly, methanol is manufactured in two ways - one by using natural gas and other by coal. With abundant coal supply in India and government pushing for higher methanol usage, local procurement of methanol is possible in near future. In FY19, Coal India has started executions for a new methanol capacity of nearly 6.75 lakh tonne. There is also a larger push from the government for higher methanol usage owing to its low polluting properties. Currently, India has methanol production capacity of 2 MT. The government is aiming to take the capacity to 20 MT by FY25. This is a positive cue for the company.

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DSJ Pvt. Ltd. : C - 305, Trade Center, North Main Road, Near Axis Bank, Opp. Lane no. 6, Koregaon Park, Pune - 411001 | For Customer Service : 020-49072626 OR service@dsj.in

Registered Office Address: 419-A, 4th Floor, Arun Chambers, Tardeo, Next to AC Market, Mumbai - 400034

CIN No. : CIN-U22120MH2003PTC139276 SEBI Research Analyst - INH000006396

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Low price procurement of key raw materials and consistent volume growth will give boost to the overall profit of the company.

Financial Performance

The Alkyl Amines Chemicals has performed exceptionally well at the financial front. Though faced with low pricing challenge, the higher volumes have led to a very strong revenue growth of the company. It has registered CAGR of 16 per cent for last 10 years. Since FY16, it has clocked 20 per cent CAGR growth till FY19. The growth in last three years was mostly due to lower output from China, which had cut down the production on account of environmental concerns raised by the local government. At the operating levels, it has maintained the margins in range of 18 per cent to 20 per cent. However, margins can remain flat due to higher business share of methyl amines that have lower margins as compared to other products.

The return on equity (ROE) in FY19 stood at 25 per cent. It has maintained the returns at these levels for more than 5 fiscals. Even the 10-year average ROE stands at 24 per cent, showing company's consistent performance.

For recently concluded quarter, the company had reported revenue growth of 49 per cent on YoY basis, while, the operating margin stood at 22 per cent, expanding by 140 basis points on YoY basis. Net profit almost doubled to Rs. 35.09 crore from Rs. 17.67 crore of same period last year. In comparison, its closest peer Balaji Amines reported a decline in top line during the quarter.

The robust financial performance, when the overall economy is facing slowdown concerns, is noteworthy.

Valuation and Financials

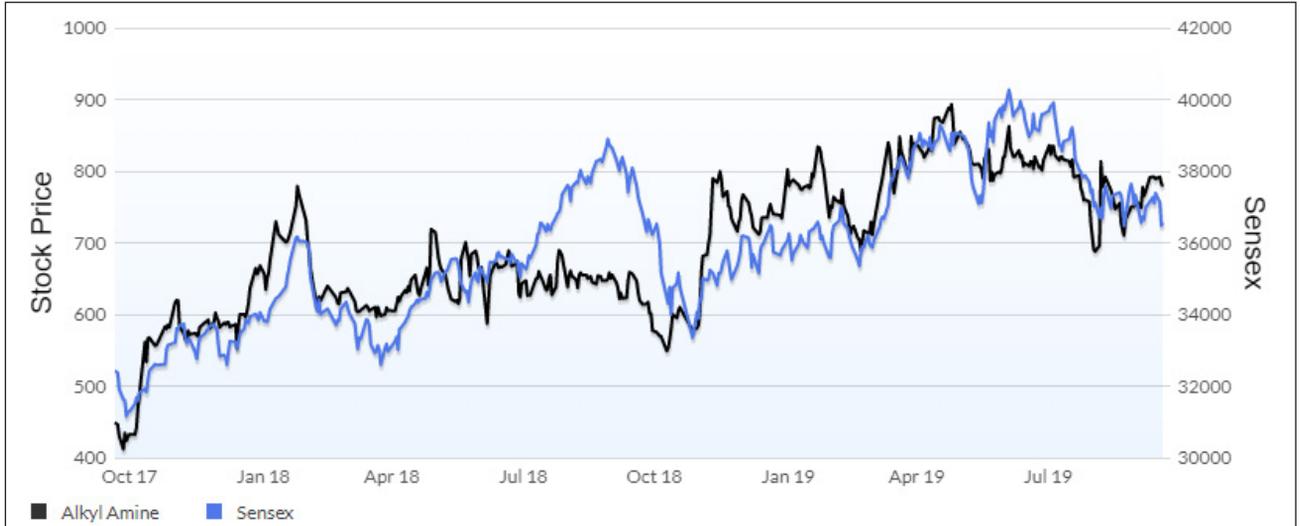
The stock is currently trading at TTM EPS of Rs. 49.60 and TTM PE multiple of 15.68x. By virtue of its diversified product mix and consistent demand from pharma sector, we see a further 20 per cent growth in FY20E revenues. The operating margins, though, may remain flat due to its larger focus on methyl business (which is low margin business when compared to other historical products of the company). This implies to estimated EPS of Rs. 50 for FY20E. Hence, looking at reasonable valuations, strong volume growth and stable margins of Alkyl Amines Chemicals, we recommend a BUY, with a price target of Rs. 988.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201903	201803	201703	201603	201503
Net Sales	846.40	616.17	500.64	483.59	476.37
Total Income	850.35	619.63	501.77	486.01	479.22
Total Expenditure	682.05	498.57	405.50	392.61	390.73
PBIDT	168.30	121.06	96.27	93.41	88.49
PAT	83.74	64.29	50.36	49.85	45.42
Dividend %	160.00	140.00	100.00	200.00	80.00
Adj. EPS(Rs)	41.06	31.52	24.69	24.44	22.27

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201906	201903	Q on Q Var%	201806	Y on Y Var%
Net Sales	266.23	237.45	12.12	178.14	49.45
Total Expenditure	207.08	199.07	4.02	141.22	46.64
PBIDT (Excl OI)	59.16	38.38	54.14	36.93	60.20
PAT	35.09	17.55	99.93	17.67	98.66
PBIDTM% (Excl OI)	22.22	16.16	37.50	20.73	7.19
PBIDTM%	22.72	16.84	34.92	20.74	9.55
PATM%	13.18	7.39	78.35	9.92	32.86
Adj. EPS(Rs)	17.21	8.61	99.88	8.66	98.73



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