

Balaji Amines Limited

CMP : ₹644

Target price: ₹1016

HP* : Upto 3 years

Our Vriddhi Pick for the month of February is Balaji Amines Limited (BAL). The company is engaged in the manufacturing of Aliphatic Amines, their derivatives and specialty chemicals. The company also operates a five-star hotel in Solapur. BAL has been playing a major role in offering value-added products with backward and forward integration of its plants to domestic customers. We see the company as a high growth stock based on its potential demand in the sector it operates and its constant endeavour for business expansion. Some key triggers that can lead to higher volume growth for the company are higher growth in the agro chemicals industry, possibility of anti-dumping duty on DMF and rising exports.

Investment Rationale

1. Strong Product Specifications : BAL caters to the industries including pharma, agro chemicals, refineries, rubber chemical, water treatment, paint, dye stuff and leather processing chemicals. The company is the largest producer of 'DMA BCL' (catering to pharma) in the world. Considering its 'Morpholine' product, BAL targets to cater 80% of the industry demand, which currently is 45%. Recent environmental concerns have led to multiple plant shutdowns in China, leading to increased import prices. Company which was struggling earlier with the dumping of Chinese imports is seeing stable margins and demand both domestically and internationally. Also, its subsidiary business is expected to become operational from October 2019, which will be India's first specialty chemicals manufacturing plant of its kind.

2. Catering to Global Demand : BAL has been awarded REACH certification for some of its products. This certification will aid company to garner the increasing demand in European markets. Though the Indian aliphatic amines industry is largely a duopoly with BAL and AACL (Alkyl Amines Chemicals) catering to more than 90% market, differentiated product offerings provides the company a near monopoly.

3. Major Expansion : Recently, the Maharashtra government has allotted 90 acres of land to the company. BAL will outlay a capex of Rs. 300 crore on the land for capacity expansion which will become operational from 2020-21. The company expects Rs. 180 crore bank funding and remaining through internal funding. This is expected to lead to higher volume growth and with capacity utilization kicking in, thus we expect higher earnings.

4. Hotel Business adding its Topline Growth : Started in 2014, the only 5-star hotel property located in Solapur has started adding to its topline from 2017. Balaji Sarovar Premiere's high depreciation expenses are expected to reduce the effective tax rate of its parent company. The current occupancy is at 70% and the company expects higher occupancy and better realizations going forward. This will be aided by national conferences of doctors held in the city and rising development of MIDC.

*HP : Holding Period

Company Details

Industry	Chemicals
Chairman	A Prathap Reddy
Managing Director	A Prathap Reddy
Company Secretary	Jimisha Parth Dawda
BSE Code	530999

Key Market Indicators (Standalone)

Latest Date	09-Feb-2018
Latest Price (Rs)	644.00
Previous Close (Rs)	637.95
1 Day Price Var%	0.95
1 Year Price Var%	84.32
52 Week High (Rs)	781.00
52 Week Low (Rs)	271.10
Beta	1.41
Face Value (Rs)	2.00
Industry PE	31.17
TTM Period	201712
TTM EPS(Rs)	30.21
TTM CEPS(Rs)	35.73
Price/TTM CEPS(x)	18.03
TTM PE (x)	21.32
Price/BV(x)	4.65
EV/TTM EBITDA(x)	11.85
EV/TTM Sales(x)	2.69
Dividend Yield%	0.34
MCap/TTM Sales(x)	2.57
Latest Book Value (Rs)	138.48
Market Cap (Rs. In Crores)	2086.62
EV (Rs. In Crores)	2186.29
Latest no. of shares (In Crores)	3.24

Share Holding Pattern as on 201712

Promoter No of shares (In Crores)	1.77
Promoter %	54.49
FII No of Shares (In Crores)	0.05
FII %	1.50
Total No of Shares (In Crores)	3.24
Free Float %	45.51

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CIN No. : CIN-U22120MH2003PTC139276 SEBI Registration No: INA000001142

DSJ INVESTMENT ADVISORY UNIT (CRU)

Valuations

The company is trading at TTM P/E of 21.32x with TTM EPS of Rs. 30.21. It has delivered ROE and ROCE of 25.92% and 30.82%, respectively, for FY17. Management is confident on achieving Rs. 850 crore in FY18 and Rs. 1,000 crore by FY19. We expect an increase in revenue share from Agro Chemical sector considering the favourable budget. The company with its continuous R&D driven process improvements, forward integrated suite of products is well positioned to take advantage of the opportunities. We expect PAT growth of ~31% CAGR over FY17-19E to Rs 138 crore. We see an upside of 51% with a target price of Rs. 1,016 over the next three years.

Financial Performance

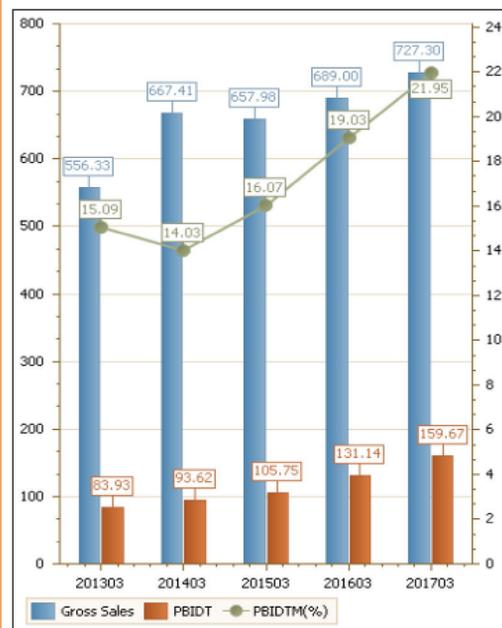
Balaji Amines has reported a 7% CAGR and 29% CAGR in its topline and bottomline over FY13-17 respectively. For 9MFY18 period, its turnover came in at Rs. 620.10 crore, registering a 16.09% YoY growth. BAL's EBITDA was at Rs. 142.67 crore, a 22.38% YoY increase, and its PAT grew by 18.18% YoY to Rs. 80 crore. For Q3FY18 alone, its PAT grew by 43% YoY. Considering 6MFY18 financials, the company's total borrowings reduced by 73%, thereby making it virtually debt free (D/E at 0.11x). The company maintains its solvency ratio at an optimal level (current ratio at 1.44x)

Quarter On Quarter (Standalone) (Rs in Crore)

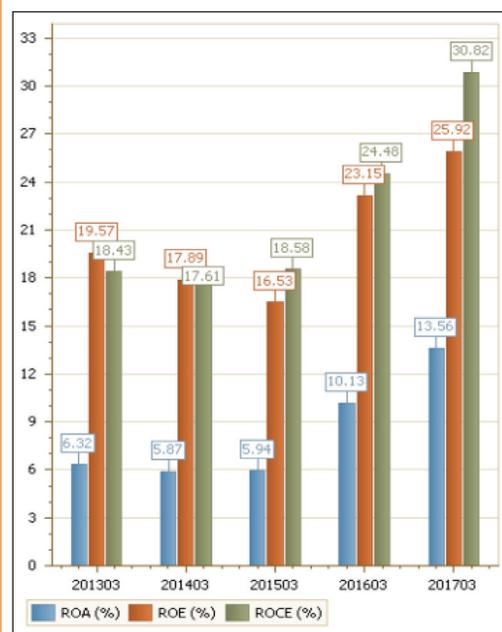
Particulars	201712	201709	Q on Q Var%	201612	Y on Y Var%
Net Sales	218.84	201.19	8.77	180.22	21.43
Total Expenditure	168.27	149.67	12.42	143.63	17.15
PBIDT (Excl OI)	50.57	51.52	-1.84	36.59	38.22
PAT	28.09	29.16	-3.69	19.63	43.09
PBIDTM% (Excl OI)	23.11	25.61	-9.76	20.30	13.84
PBIDTM%	23.37	26.24	-10.94	20.63	13.28
PATM%	12.83	14.50	-11.52	10.89	17.81
Adj. EPS(Rs)	8.67	9.00	-3.67	6.06	43.07

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

Description	201703	201603	201503	201403	201303
Net Sales	667.53	634.92	604.86	610.13	511.80
Total Income	676.03	640.61	608.25	616.40	516.39
Total Expenditure	516.36	509.47	502.50	522.78	432.47
PBIDT	159.67	131.14	105.75	93.62	83.93
PAT	85.57	61.27	36.36	33.52	31.18
Dividend %	110.00	100.00	60.00	50.00	65.00
Adj. EPS(Rs)	26.41	18.91	11.22	10.35	9.62



Source: Ace Equity

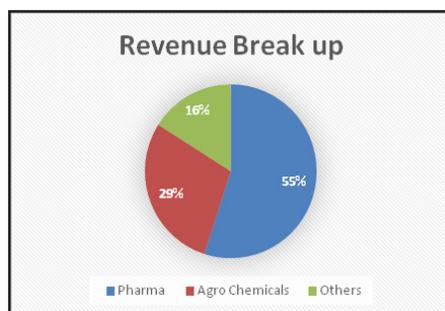


Source: Ace Equity

Company in Detail:

1. Strong Product Specifications : BAL caters to different industrial verticals where 80% of its sales are from Pharma and Agro Chemicals sector. Other verticals to which the company caters also includes refineries, rubber chemical, water treatment, paint, dyestuff and leather processing chemicals. The company is the largest producer of 'DMA BCL' (catering to pharma) in the world. The company's product 'Morpholine' is amongst the product which is manufactured by only three companies across the globe. It currently caters only 45% of domestic demand and is expected to meet 80% in near term. China is the largest producer of product 'DMF'. Nearly 75% of total demand is met through imports.

Recent environmental concerns have led to multiple plant shutdowns in China, leading to increased import prices. BAL lacks pricing power due to dumping by Chinese companies eroding the margins. Due to this company has initiated an anti-dumping investigation for DMF. If the probe rules in favour of Balaji then it can lead to considerable volume growth and pricing power. RCF was the only player in India manufacturing the same and it had to close its facility.



BAL is well poised to cater the industry along with its capacity expansion. Its subsidiary is expected to become operational from October 2019 producing specialty chemicals which the management believes will be the first of its kinds manufacturing plant in India. The chemical will primarily cater to Agro Chemical industry.

2. Catering to Global Demand : BAL export revenue stood at 17.75% of total revenue. The company has been awarded REACH certification for some of its products. This has garnered the company to achieve export growth and to compete with MNC's in European markets. The Indian aliphatic amines industry is largely a duopoly with Bal and AACL (Alkyl Amines Chemicals) comprising more than 90% market. As the both company's product portfolio is varied with each being dominant in specific chemicals. This makes BAL operate in near monopoly.

3. Major Expansion: Recently, the Maharashtra government has allotted 90 acres of land to the company for capacity expansions in Solapur. BAL expects a capital outlay of Rs. 300 crore for this project. This will be funded by Rs. 180 crore bank loan and Rs. 120 crore of internal funding. The company expects the project to become operational from 2020-21. Current capacity utilization stands at 90% and BAL expects to operate at full capacity in FY19.

4. Hotel Business adding its Topline Growth : BAL had started its hotel business in Solapur in FY14 with a Capex of Rs. 110 crore. For last two years, the hotel remained in losses unlike in 2017, where it turned cash profitable. The 5-star property has been considered as an active venue for large national conferences of doctors as well other professionals. Solapur is among the fastest developing city in Maharashtra along with fast growing



**Revenue in FY19
expected at Rs. 1,000
crore**



**REACH certification to
increase its Export
growth**



**Expected to cater 80%
of demand vs current
45% in Morpholine
product**

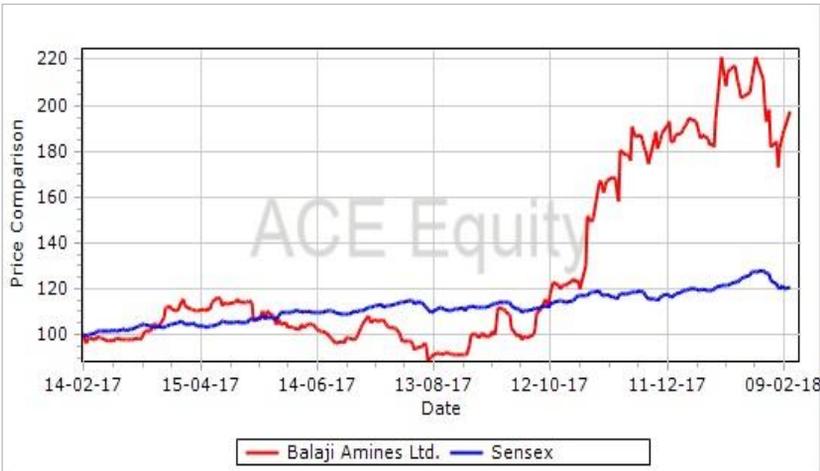


**Operating in sectors
with near monopoly**

MIDC area which is expected to help the hotel gain higher occupancies and better realizations. Going forward, we expect this segment to add to its topline. The company's high depreciation expenses are expected to provide tax benefits to its parent entity.

About the Company

Balaji Amines Limited is engaged in the manufacturing of Aliphatic Amines, their derivatives and specialty chemicals. The company is running a five-star hotel, Balaji Sarovar Premiere. It operates through two segments: Amines & Specialty Chemicals, and Hotel. The company manufactures methylamines, ethylamines, derivatives of specialty chemicals and natural products. BAL's revenue from Pharma and Agro Chemicals sector grew by from 50% to 55% and 26% to 29% in FY17, respectively.



**Hotel business
occupancy expected
at more than 70%**



**Expansion plans in
Solapur to aid its
volume growth**