

Equity Research Desk



ALPHA

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Balaji Amines Limited – Largest Amine Player

Market Data	
CMP	Rs. 2889
Date	06-Dec-22
Target Price	Rs. 3515
Upside Potential	22.00%
52 Week High/Low	3935/2693
Market Cap	Small Cap
NSE Code	BALAMINES
Sector	Specialty Chemicals
Rating	Buy

Established in 1988, BAL is one of India's leading manufacturers of aliphatic amines and its derivatives, speciality chemicals and pharma excipients. It is a manufacturer of derivatives, which are downstream products for various Pharma /Pesticide industries apart from user specific requirements. It is also a sole producer for few specialty chemicals. The company's end-product selection policy is based on import substitution. Its diversified portfolio includes over 25 products, which has global presence. As of March 2022, the company operates manufacturing plants with an aggregate capacity of about 231,000 Metric Tonnes Per Annum (MTPA). BAL's subsidiary, BSCPL, manufactures specialty chemicals such as ethylene diamine (37,350 MTPA) and its by-products piperazine (about 4,050 MTPA), diethyl triamine (about 3,150 MTPA) and a mixture of Amines (780 MTPA).



Products & Services: The company's product portfolio consists of three segments namely Amines, Amine derivatives and Specialty & other chemicals.

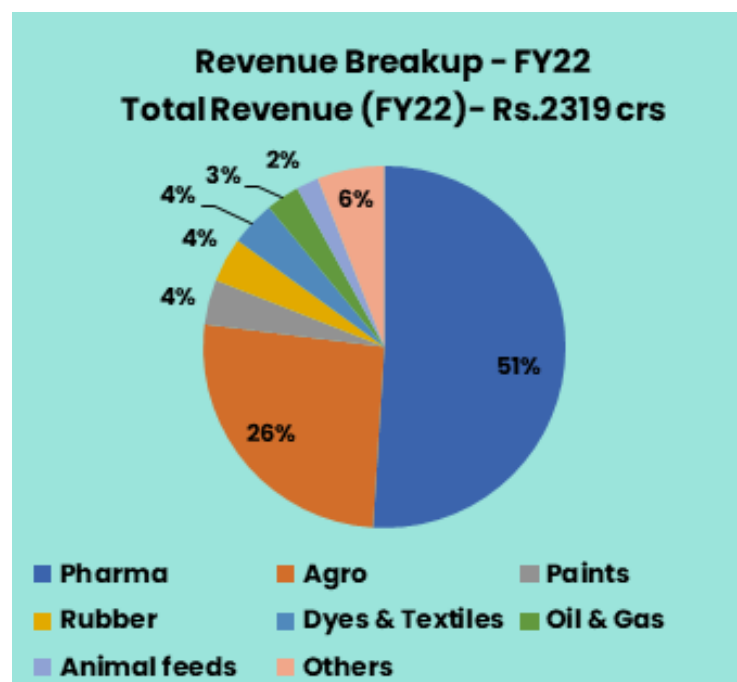
Amines – Mono Methyl Amine, Di-Methyl Amine, Tri-Methyl Amine, Mono-ethyl Amine, etc.

Amine Derivatives – Mono-Methyl Amine Hydrochloride, Di-Methyl Amine Hydrochloride, Tri-Methyl Amine Hydrochloride, etc.

Specialty & Others – Morpholine, Acetonitrile, Dimethylformamide, Gamma Butyrolactone, etc.

SHP	Sep - 22 (%)	Jun - 22 (%)	Change
Promoters	53.70	53.70	0.00
FPI	4.55	4.51	0.04
DII	0.24	0.18	0.06
Public & Others	41.51	41.61	-0.10
Pledged	0.00	0.00	0.00

Subsidiaries: Balaji Speciality Chemicals Private Limited (BSCPL) is the only Subsidiary of the Company as of Mar'22.





Key Rationale

- **Leadership Position in Oligopolistic Amines Industry** – BAL is the largest manufacturer of aliphatic amines and their derivatives in the country. The industry structure is oligopolistic, in line with the global industry structure, with only few manufacturers catering to the demand in a particular region. As BAL is the sole producer for a few speciality chemicals, it is insulated from the existing competition in the market. The company uses indigenous technology to manufacture amines, leading to lower manufacturing costs.
- **Stellar performance of BSC** – Consolidated revenue in Q2FY23 came in at Rs.628 crs, up 19% YoY but down 6% QoQ. EBITDA stood at Rs.173 crs, rising 32% YoY but falling 20% QoQ. For the quarter, EBITDA margin expanded ~285 bps YoY but contracted ~440 bps QoQ to 28%, with sequential compression mainly due to gross profit margin pressure. Consolidated PAT grew 35% YoY but fell 20% QoQ to Rs.119 crs. In Q2FY23, subsidiary Balaji Specialty Chemicals Ltd. (BSC) posted robust performance, with top line coming in at Rs.178 crs, up 89% YoY/13% QoQ. This growth was driven by strong realisation during the quarter at Rs.340/kg, up 71% YoY/6% QoQ, while volume stood at 5,245 MT, up 10% YoY/6% QoQ. Strong realisation, along with volume uptick, indicates a healthy demand environment for its products. The management is looking for independent listing of BSC and filed DRHP for the same, update on which is expected soon.
- **Capex** – The Phase 1 of 90-acre Greenfield Project (Unit IV) has been completed and the DMC/PC and PG Plant started the commercial production at the end of September 2022. This is with installed annual production capacity of 15,000 tons of Di-methyl Carbonate (DMC)/Propylene Carbonate (PC) and 15,000 tons Propylene Glycol (PG). Phase-2 expansion will involve capex for a new products Methylamine, N-Butylamines, Acetonitrile & DMF. Phase-2 expansion would involve capex of Rs.300-350 crore to be incurred over FY23 and FY24. This will be funded mostly by internal accruals. Capex in Greenfield project (Unit IV) to start substantially contributing to Revenues and profitability from FY23 onwards.
- **Financial Performance** – The company generated a Revenue and PAT CAGR of 28% and 36% over the period of 5 years (FY18-22). The company maintained an average EBITDA Margin of 20%+ for the past 7 years except FY20. The company's balance sheet is strong with a low Debt/Equity of 0.08x. Average 5-year ROE and ROCE is around 27% and 26% for FY18-22 period. The core chemical business ROCE is significantly higher at ~49% in FY22, depicting the inherent strength of the business and capabilities developed in product manufacturing.

**Ratios - FY22**

ROE	33%
ROCE	44%
Div. Yield	0.20%
PE Ratio	25.00
Face Value	2.00
EPS	Rs. 113.71

Industry Analysis

The Indian chemicals industry stood at US\$ 178 billion in 2019 and is expected to reach US\$ 304 billion by 2025 registering a CAGR of 9.3%. The demand for chemicals is expected to expand by 9% per annum by 2025. The chemical industry is expected to contribute US\$ 300 billion to India's GDP by 2025. The specialty chemicals constitute 22% of the total chemicals and petrochemicals market in India. The size of Aliphatic Amines industry globally is \$4.9 billion. Globally, the Amine industry is oligopolistic with two-three producers catering to the majority of demand in a region. China is the largest consumer and producer of aliphatic amines accounting for almost 60% of the global production. Globally, ~61% of aliphatic amines and amine-based chemicals get consumed in the pharmaceutical sector, 26% gets consumed in the agrochemicals industry and the rest finds application in other industries. For Indian Amine manufacturers, 45-55% of the export revenue comes from Europe alone. USA and Japan are the other key export markets.

Growth Drivers

100% FDI is allowed under the automatic route in the chemicals sector with few exceptions that include hazardous chemicals. FDI inflows in the chemicals sector (other than fertilisers) reached US\$ 20.41 billion between April 2000-June 2022.

The US-China Trade war and Covid-19 pandemic have propelled companies across the globe towards adopting the "China plus one" strategy to diversify supply risk. This has served as a great opportunity for Indian manufacturers in gaining cost advantage over their Chinese counterparts.

The Government of India is considering launching a production linked incentive (PLI) scheme in the chemical sector to boost domestic manufacturing and exports.



Peer Analysis

Competitors: Alkyl Amine Chemicals

The industry is oligopolistic with 2 major listed players. In comparison, the return ratios of Balaji Amines is more than Alkyl Amine chemicals but trading at a low P/E than Alkyl Amine. PEG ratio of Balaji amines is also less than 1 which puts the stock in the undervalued category.

Company	CMP	Mcap.	ROE	ROCE	P/E	EPS
Balaji Amines	2889	9396	33.00%	44.00%	25	113.71
Alkyl Amines	2817	14372	24.00%	32.00%	64	44.04

Outlook

Balaji Amines derives much of its competitive advantage from vertical integration; wide basket of finished products; cost efficiencies from specialisation of products; bulk sourcing of materials and harnessing low-cost technology. The DMC/PC and PG plant started operations by the end of September; though slightly delayed, it is expected to see a quick ramp-up to optimum capacity by FY23-end with a revenue potential of Rs.250-300 crs. Over FY23-25, BAL's performance to be chiefly driven by volume growth coming from DMC and PG plant, n-Butyl amine, Dimethyl Formamide, Acetonitrile and Methylamine plants. With the operationalisation of these plants, the management aims to achieve the Rs.4000 crs mark in top line. The company also in plan to deploy Indigenous technology resulting in higher Asset Turns; Established customer base for products leading to faster break-even.

Margins - FY22	
Gross	47%
EBITDA	27%
PAT	18%



Valuation

BAL is available at a discounted multiple compared to its peer from the long-term perspective taking into consideration its leading position in aliphatic amine manufacturing and its strategic investments towards products which are substantial imports or products with limited competition. Hence, we recommend a BUY rating in the stock with the target price (TP) of Rs.3515, 23x FY24E EPS.

Risks

- **Production Risk** – Delay in the commissioning of the new projects may lead to cost overruns and higher interest costs, adversely impacting the credit profile.
- **Raw Material Risk** – The main raw material for BAL includes methanol, ammonia, ethanol and denatured ethyl alcohol. Historically there has been very high volatility in these products. Higher volatility in raw material prices can impact the spread and profitability of the company in short to medium term as the company has inherent advantage of passing on the high RM prices albeit with a lag.
- **Competitive Risk** – Aliphatic amines is an oligopolistic industry mainly dominated by 2 large players in India. A sharp rise in competition intensity either from cheap imports or aggressive pricing by competition can impact overall operational performance of the company.

Source – Tickertape, Company's Website, BSE Website.

Thanks & Regards

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