

# Alkyl Amines

BSE SENSEX  
63,284

S&P CNX  
18,813

CMP: INR2,829

TP: INR3,025 (+7%)

Neutral



Alkyl Amines Chemicals Limited

## Stock Info

Bloomberg	AACL IN
Equity Shares (m)	51
M.Cap.(INRb)/(USDb)	144.6 / 1.8
52-Week Range (INR)	3865 / 2506
1, 6, 12 Rel. Per (%)	-8/-10/-19
12M Avg Val (INR M)	179
Free float (%)	28.0

## Financials Snapshot (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	15.4	18.5	22.2
EBITDA	3.3	4.2	5.6
PAT	2.2	2.9	3.9
EPS (INR)	44.0	55.9	75.6
EPS Gr. (%)	(24.0)	27.0	35.3
BV/Sh.(INR)	193.7	235.6	292.3

## Ratios

	FY22	FY23E	FY24E
Net D:E	(0.0)	(0.0)	(0.0)
RoE (%)	25.2	26.0	28.6
RoCE (%)	23.8	24.8	27.6
Payout (%)	22.7	25.0	25.0

## Valuations

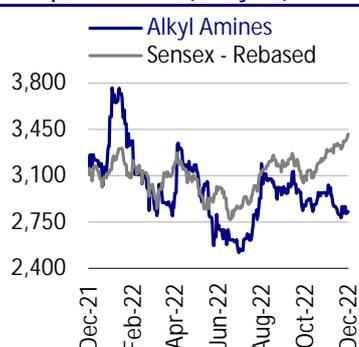
	FY22	FY23E	FY24E
P/E (x)	64.3	50.6	37.4
P/BV (x)	14.6	12.0	9.7
EV/EBITDA (x)	44.2	34.8	25.8
Div. Yield (%)	0.4	0.5	0.7
FCF Yield (%)	(0.3)	0.3	1.0

## Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	72.0	72.0	72.0
DII	1.1	1.3	1.1
FII	2.3	2.3	2.3
Others	24.6	24.5	24.6

FII Includes depository receipts

## Stock performance (one-year)



## Acetonitrile prices soften; demand expected to remain strong

- Acetonitrile demand is expected to stay strong, led by a recovery in demand from the Pharma sector. ACN is used as a solvent in the Pharma industry to produce antibiotics and insulin, apart from usage in the Textile and Plastic industry.
- Much of the acetonitrile produced globally is as a by-product of acrylonitrile. This makes the production of ACN dependent on the demand of acrylonitrile in the market. Only China and India produce ACN through the ammonolysis of acetic acid.
- AACL is the largest ACN player in India with a capacity of ~30ktpa. At present, the capacity of its closest competitor is one-third that of AACL. Its competitor is expanding capacity, with a new upgraded technology with cost advantages.
- We expect RoE to improve to 29% for FY24 from 25% in FY22. The stock is trading at 37x FY24E EPS and 26x EV/EBITDA. We reiterate our Neutral rating on the stock, and value it at 40x FY24E EPS to arrive at our TP of INR3,025.

## Expect demand to remain strong...

- Demand in the global acetonitrile market is pegged at USD277m in CY22. The same is expected to clock 5.5% CAGR to USD473m by CY32. The Indian market is expected to clock 6.7% CAGR over CY22-27. The increasing use of ACN in Pharma and analytical industry applications is one of the major growth drivers.
- This can be validated by the fact that INEOS Nitriles, the largest acetonitrile player globally, has decided to invest in a new ACN production facility at Köln, Germany. Capacity to the tune of 15ktpa will be built with INEOS' latest process technology. The company aims to cater to European demand, while enhancing its supply position in the region.
- Increased usage of ACN as a solvent to produce antibiotics and insulin is expected to boost demand. It is also used in perfumes, acrylic nail removers, batteries, and to extract fatty acids from animal and vegetable oils.

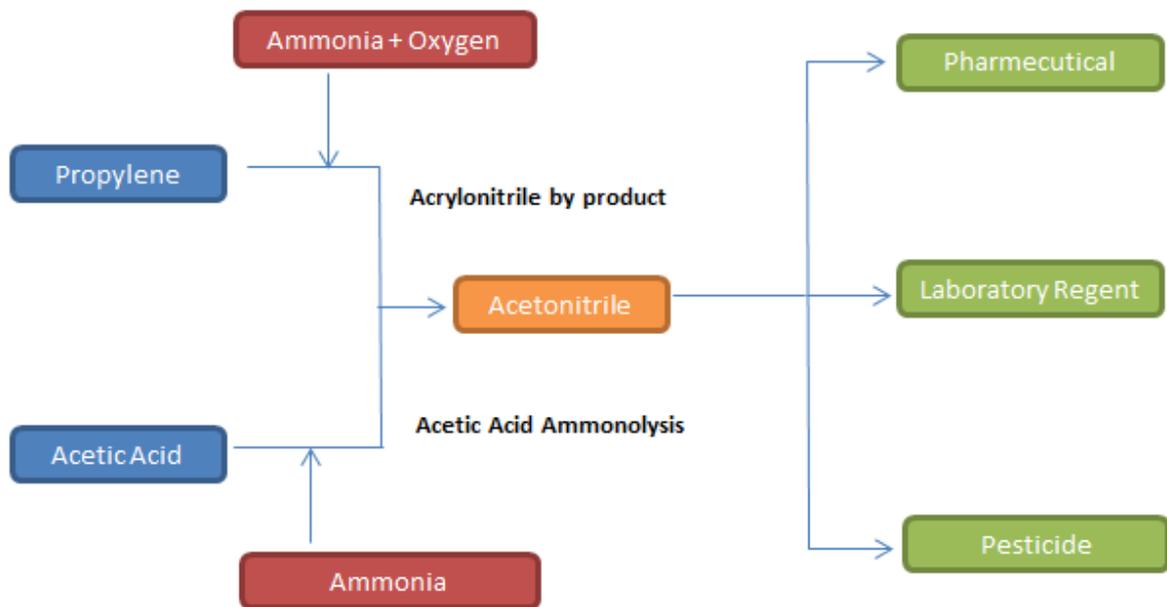
## ...but increased competition may negate its pricing power

- AACL is currently the largest player in India with a capacity of ~30ktpa (12ktpa/16-18ktpa at Kurkumbh/Dahej). Its closest competitor has one-third of AACL's current capacity, but has already announced debottlenecking of its existing ACN capacity and a further expansion by 6ktpa, which is expected to come on stream in FY24.
- Increased competition will result in reduced realization of ACN. The Indian market for ACN stood at 28-30ktpa in FY22. The same has declined in FY23 till date due to poor demand from the Pharma sector. However, demand from the global market stands at 100-150ktpa, which presents an export opportunity.
- AACL is one of the few players globally to produce ACN through the acetic acid route, and hence is not dependent on acrylonitrile market demand. ACN prices have fallen to INR190/kg in 3QFY23 till date from INR234/kg in 2QFY23. Acetic acid prices too have reduced, but at a lower rate, to INR60/kg in 3QFY23 till date from INR67/kg in 2QFY23 which indicates that there would be margin pressure in the near term.

**Valuation and view**

- Ongoing expansions will boost the capacity of Aliphatic Amines by ~30% (capex: INR4b, with completion expected by 1HFY24) from 90-100ktpa at present. Entry into newer specialty products can aid margin as the management sees strong demand for these products.
- We forecast ~20% revenue CAGR over FY22-24, with a 31% EPS CAGR over the same period. **The downside risks to our call can be increased competition**, wherein the market price is determined by the competitor, with little pricing power left for AACL to command.
- The stock is trading at 37x FY24E EPS and 26x EV/EBITDA. We value the company at 40x FY24E EPS of INR76 to arrive at our TP of INR3,025. We maintain our Neutral rating with a potential upside of 7%.

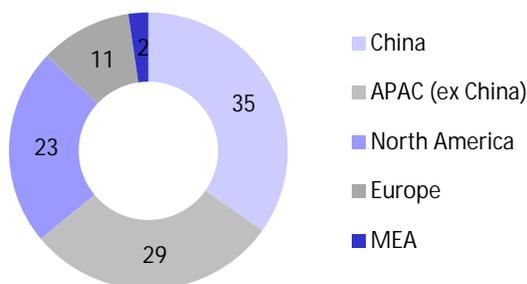
Exhibit 1: Value chain of acetonitrile and its end uses



Source: HDIN Research, MOFSL

Exhibit 2: Acetonitrile capacity share by region (%)

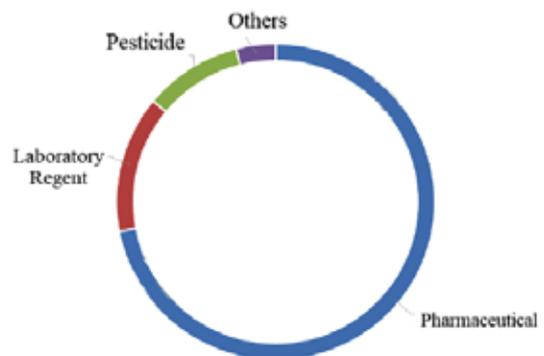
Acetonitrile capacity share by region (CY18 %)



Source: Industry, MOFSL

Exhibit 3: End-user industries of acetonitrile

Global Acetonitrile Demand Share by Application (2018)



Source: HDIN Research, MOFSL

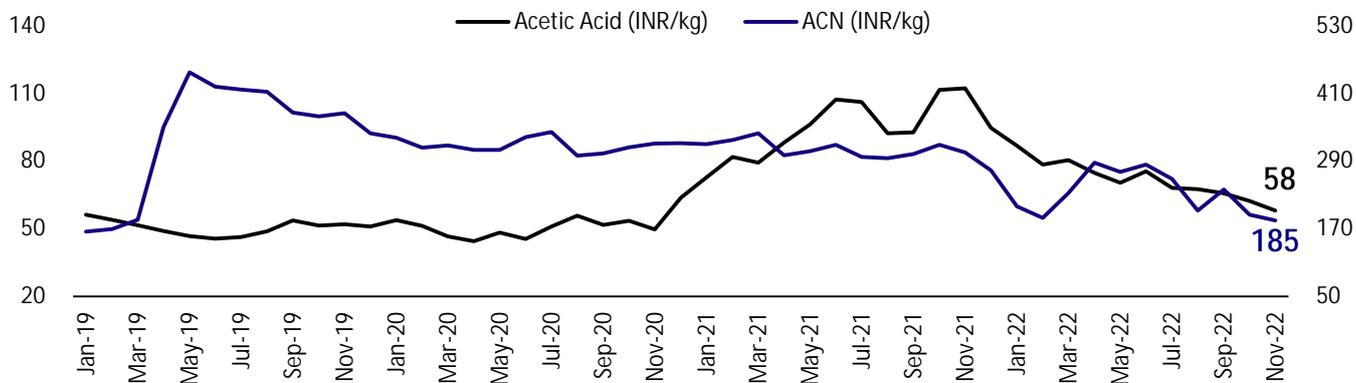
Exhibit 4: Only Chinese and Indian players produce ACN through the acetic acid route globally

Region	Total Capacity	Country/Region	Company	Technology	Capacity	Region	Total Capacity	Country/Region	Company	Technology	Capacity				
APAC (exclude China)	76,700	Japan	AsahiKASEI	Tech. 1	6,000	APAC	76,700	India		Tech. 2	500				
		Japan		Tech. 1	6,000			India		Tech. 2	1,500				
		Japan		Tech. 1	1,700			Europe	28,000	Netherlands		Tech. 1	8,800		
		Japan		Tech. 1	1,600					Germany		Tech. 1	5,600		
		South Korea		Tech. 1	16,000					UK		Tech. 1	5,800		
		South Korea		Tech. 1	9,000					Russia		Tech. 1	5,800		
		Taiwan, China		Tech. 1	8,600					Belarus		Tech. 1	2,000		
		Taiwan, China		Tech. 1	8,600					North America	60,100	USA		Tech. 1	26,600
		Thailand		Tech. 1	6,000							USA		Tech. 1	23,000
		India		Tech. 1	1,200							USA		Tech. 1	7,400
		India		Tech. 2	10,000							Mexico		Tech. 1	3,100
		India		Tech. 2	10,000 (2019)							MEA	6,000	Turkey	
China		Tech. 1	16,000	Iran		Tech. 1	3,000								
China		Tech. 1	10,000	China		Tech. 2	10,000								
China		Tech. 1	16,000	China		Tech. 2	5,000								
China		Tech. 1	13,000	China		Tech. 2	2,000								
China		Tech. 1	4,000	China		Tech. 2	10,000								
China		Tech. 1	4,000	China		Tech. 2	5,000								

Tech 1: Acrylonitrile by-product; Tech 2: Acetic Acid Ammonolysis

Source: Industry, MOFSL

Exhibit 5: ACN prices decline by 19% QoQ in 3QFY23 till date with acetic acid prices



Source: Industry, MOFSL

Story in charts

Exhibit 6: Expect ~20% revenue CAGR over FY22-24...

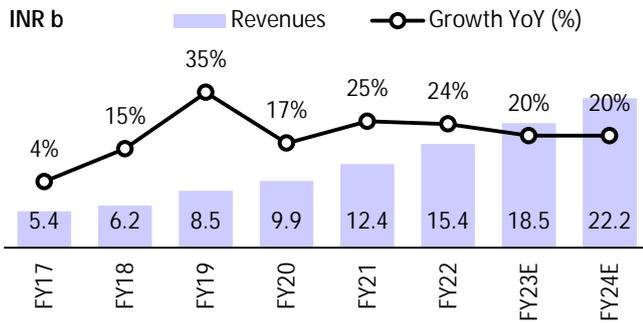


Exhibit 7: ...with revenue mix remaining constant

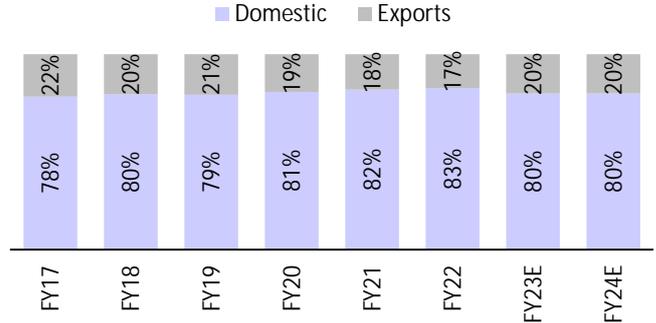


Exhibit 8: Expect EBITDA margin to improve to ~25%...

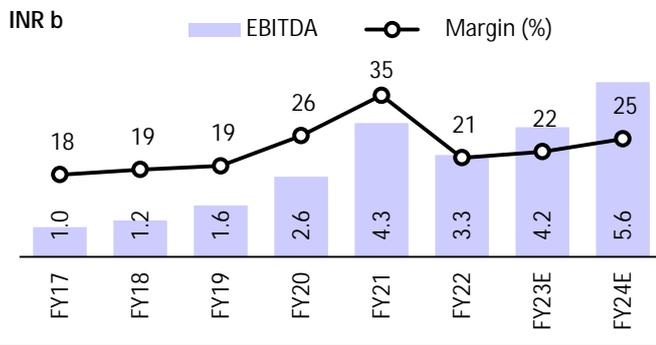


Exhibit 9: ...with PAT margin expanding by FY24

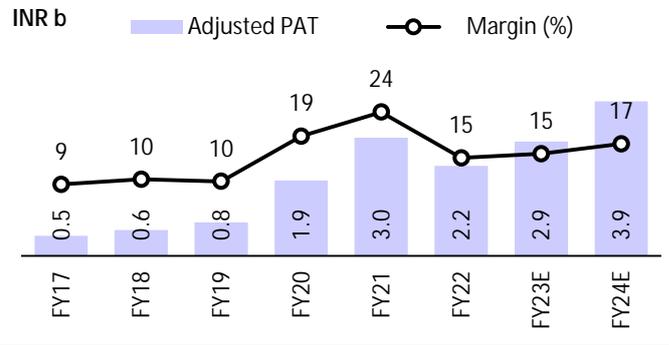


Exhibit 10: One-year forward P/E ratio trades at 43.2x...

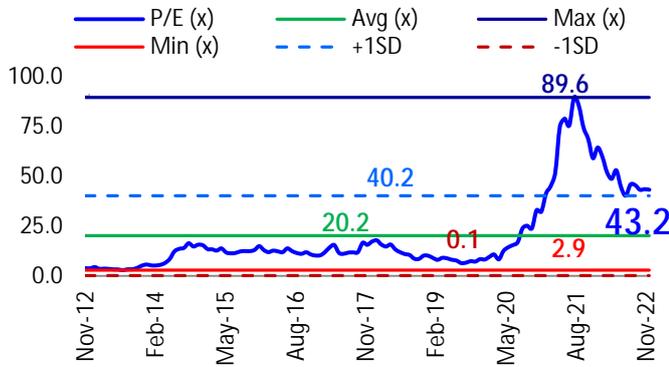


Exhibit 11: ...with return ratios stabilizing at 26-29%

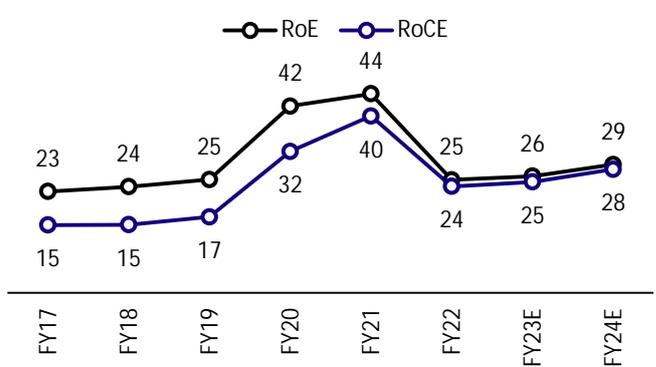


Exhibit 12: Expect strong FCF generation over FY23-24

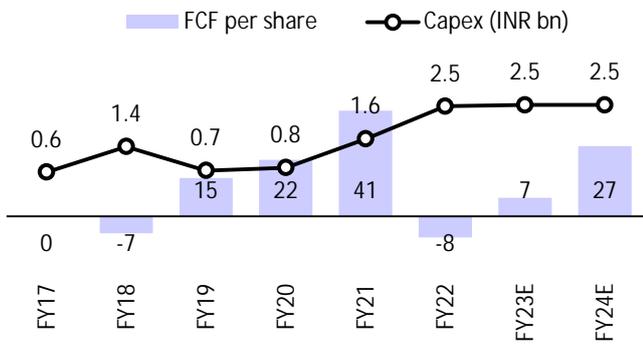
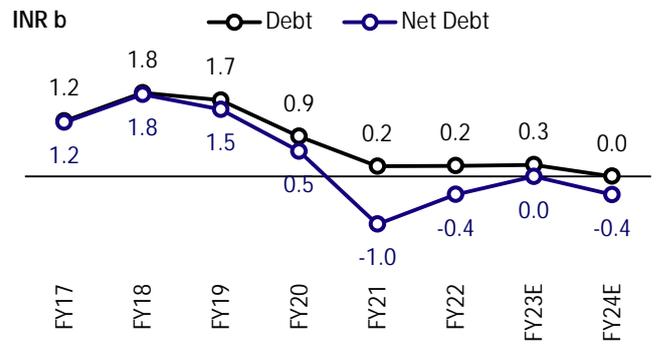


Exhibit 13: Expect AACL to remain net cash positive



Source: Company, MOFSL

Source: Company, MOFSL

## Financials and valuations

### Standalone Income Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Total Income from Operations</b>	<b>5,418</b>	<b>6,248</b>	<b>8,464</b>	<b>9,929</b>	<b>12,424</b>	<b>15,428</b>	<b>18,514</b>	<b>22,216</b>
Change (%)	3.5	15.3	35.5	17.3	25.1	24.2	20.0	20.0
Gross Margins (%)	51.4	46.5	45.5	51.2	57.9	45.8	50.0	47.0
<b>EBITDA</b>	<b>951</b>	<b>1,164</b>	<b>1,644</b>	<b>2,570</b>	<b>4,291</b>	<b>3,265</b>	<b>4,161</b>	<b>5,601</b>
Margin (%)	17.6	18.6	19.4	25.9	34.5	21.2	22.5	25.2
Depreciation	143	157	233	269	291	348	472	609
<b>EBIT</b>	<b>809</b>	<b>1,008</b>	<b>1,410</b>	<b>2,301</b>	<b>4,001</b>	<b>2,918</b>	<b>3,689</b>	<b>4,991</b>
Int. and Finance Charges	81	81	148	103	63	38	48	25
Other Income	11	32	39	70	70	142	176	198
<b>PBT bef. EO Exp.</b>	<b>739</b>	<b>958</b>	<b>1,302</b>	<b>2,269</b>	<b>4,007</b>	<b>3,021</b>	<b>3,817</b>	<b>5,164</b>
EO Items	0	0	0	328	0	0	0	0
<b>PBT after EO Exp.</b>	<b>739</b>	<b>958</b>	<b>1,302</b>	<b>2,597</b>	<b>4,007</b>	<b>3,021</b>	<b>3,817</b>	<b>5,164</b>
Total Tax	236	315	464	444	1,054	772	961	1,300
Tax Rate (%)	31.9	32.9	35.7	17.1	26.3	25.6	25.2	25.2
<b>Reported PAT</b>	<b>504</b>	<b>643</b>	<b>837</b>	<b>2,153</b>	<b>2,953</b>	<b>2,249</b>	<b>2,856</b>	<b>3,864</b>
<b>Adjusted PAT</b>	<b>504</b>	<b>643</b>	<b>837</b>	<b>1,881</b>	<b>2,953</b>	<b>2,249</b>	<b>2,856</b>	<b>3,864</b>
Change (%)	1.0	27.6	30.3	124.5	57.0	-23.9	27.0	35.3
Margin (%)	9.3	10.3	9.9	18.9	23.8	14.6	15.4	17.4

### Standalone Balance Sheet

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	102	102	102	102	102	102	102	102
Total Reserves	2,354	2,869	3,548	5,264	7,822	9,796	11,938	14,836
<b>Net Worth</b>	<b>2,456</b>	<b>2,972</b>	<b>3,650</b>	<b>5,366</b>	<b>7,924</b>	<b>9,898</b>	<b>12,040</b>	<b>14,938</b>
Total Loans	1,201	1,813	1,653	866	216	227	250	0
Deferred Tax Liabilities	327	405	507	404	414	472	472	472
<b>Capital Employed</b>	<b>3,984</b>	<b>5,189</b>	<b>5,810</b>	<b>6,636</b>	<b>8,554</b>	<b>10,598</b>	<b>12,762</b>	<b>15,411</b>
Gross Block	2,329	3,846	4,280	4,971	5,315	7,377	9,877	12,377
Less: Accum. Deprn.	129	295	515	736	1,026	1,374	1,846	2,455
<b>Net Fixed Assets</b>	<b>2,201</b>	<b>3,552</b>	<b>3,764</b>	<b>4,235</b>	<b>4,288</b>	<b>6,003</b>	<b>8,030</b>	<b>9,921</b>
Capital WIP	348	184	432	449	1,376	1,426	1,426	1,426
<b>Total Investments</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>0</b>	<b>302</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Curr. Assets, Loans, and Adv.</b>	<b>2,559</b>	<b>2,621</b>	<b>3,275</b>	<b>3,150</b>	<b>5,486</b>	<b>6,283</b>	<b>7,044</b>	<b>8,550</b>
Inventory	1,114	852	1,057	837	1,219	1,645	1,974	2,369
Account Receivables	973	1,238	1,526	1,642	2,280	2,767	3,321	3,985
Cash and Bank Balance	30	32	202	323	1,260	626	255	402
Cash	22	22	193	312	961	379	8	155
Bank Balance	8	10	8	10	299	247	247	247
Loans and Advances	442	499	490	349	727	1,245	1,494	1,793
<b>Curr. Liability and Prov.</b>	<b>1,139</b>	<b>1,182</b>	<b>1,676</b>	<b>1,198</b>	<b>2,899</b>	<b>3,116</b>	<b>3,739</b>	<b>4,486</b>
Account Payables	886	848	1,304	748	1,790	2,285	2,742	3,290
Other Current Liabilities	213	250	264	354	1,002	730	876	1,052
Provisions	41	84	107	97	107	101	121	145
<b>Net Current Assets</b>	<b>1,421</b>	<b>1,439</b>	<b>1,599</b>	<b>1,952</b>	<b>2,587</b>	<b>3,168</b>	<b>3,306</b>	<b>4,063</b>
<b>Appl. of Funds</b>	<b>3,984</b>	<b>5,189</b>	<b>5,810</b>	<b>6,635</b>	<b>8,554</b>	<b>10,597</b>	<b>12,762</b>	<b>15,411</b>

## Financials and valuations

### Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Basic (INR)</b>								
EPS	9.9	12.6	16.4	36.9	57.9	44.0	55.9	75.6
EPS Growth (%)	1.0	27.6	30.3	124.5	57.0	-24.0	27.0	35.3
Cash EPS	12.7	15.7	21.0	42.1	63.6	50.8	65.1	87.5
BV/Share	48.1	58.2	71.5	105.2	155.3	193.7	235.6	292.3
DPS	0.0	2.4	3.4	8.7	16.0	10.0	14.0	18.9
Payout (%)	0.0	19.1	20.6	20.6	27.7	22.7	25.0	25.0
<b>Valuation (x)</b>								
P/E ratio	287	225	172	77	49	64	51	37
Cash P/E ratio	223	181	135	67	45	56	43	32
P/BV ratio	59	49	40	27	18	15	12	10
EV/Sales ratio	27	23	17	15	12	9	8	6
EV/EBITDA ratio	153	126	89	56	33	44	35	26
Dividend Yield (%)	0	0	0	0	1	0	0	1
FCF per share	0	-7	15	22	41	-8	7	27
<b>Return Ratios (%)</b>								
RoE	23	24	25	42	44	25	26	29
RoCE	15	15	17	32	40	24	25	28
RoIC	16	16	18	35	51	31	28	30
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	2.7	2.2	2.3	2.5	2.9	3.0	2.6	2.5
Asset Turnover (x)	1.4	1.2	1.5	1.5	1.5	1.5	1.5	1.4
Inventory (Days)	75	50	46	31	36	39	39	39
Debtor (Days)	66	72	66	60	67	65	65	65
Creditor (Days)	60	50	56	27	53	54	54	54
<b>Leverage Ratio (x)</b>								
Current Ratio	2.2	2.2	2.0	2.6	1.9	2.0	1.9	1.9
Interest Coverage Ratio	10.0	12.4	9.5	22.4	63.2	76.2	77.3	199.7
Net Debt/Equity ratio	0.5	0.6	0.4	0.1	-0.1	0.0	0.0	0.0

### Standalone Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>(INR m)</b>								
OP/(Loss) before Tax	739	958	1,302	2,597	4,007	3,021	3,817	5,164
Depreciation	129	154	233	269	291	348	472	609
Interest Expenses	81	81	148	103	63	38	48	25
Others	-11	-6	51	-308	1	-31	0	0
Direct Taxes Paid	-198	-198	-356	-581	-1,012	-744	-961	-1,300
(Inc.)/Dec. in WC	-105	26	64	-193	290	-585	-508	-610
<b>CF from Operations</b>	<b>635</b>	<b>1,016</b>	<b>1,442</b>	<b>1,886</b>	<b>3,640</b>	<b>2,047</b>	<b>2,868</b>	<b>3,889</b>
(Inc.)/Dec. in FA	-645	-1,350	-689	-771	-1,561	-2,462	-2,500	-2,500
<b>Free Cash Flow</b>	<b>-10</b>	<b>-334</b>	<b>753</b>	<b>1,115</b>	<b>2,079</b>	<b>-415</b>	<b>368</b>	<b>1,389</b>
Change in Investments	-17	16	0	343	-587	369	0	0
Others	26	-6	21	22	21	36	0	0
<b>CF from Investments</b>	<b>-636</b>	<b>-1,340</b>	<b>-668</b>	<b>-407</b>	<b>-2,127</b>	<b>-2,057</b>	<b>-2,500</b>	<b>-2,500</b>
Issue of Shares	0	0	0	0	4	7	0	0
Inc./(Dec.) in Debt	39	547	-268	-797	-381	-228	23	-250
Interest Paid	-78	-83	-150	-107	-68	-40	-48	-25
Dividend Paid	0	-123	-172	-443	-408	-306	-714	-966
Others	23	-16	-13	-13	-11	-6	0	0
<b>CF from Fin. Activity</b>	<b>-16</b>	<b>325</b>	<b>-603</b>	<b>-1,360</b>	<b>-864</b>	<b>-573</b>	<b>-739</b>	<b>-1,241</b>
<b>Inc./Dec. in Cash</b>	<b>-17</b>	<b>1</b>	<b>171</b>	<b>119</b>	<b>649</b>	<b>-583</b>	<b>-371</b>	<b>147</b>
Opening Balance	39	22	22	193	312	961	379	8
<b>Closing Balance</b>	<b>22</b>	<b>22</b>	<b>193</b>	<b>313</b>	<b>962</b>	<b>379</b>	<b>7</b>	<b>155</b>

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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