

Alkyl Amines

Blockbuster quarter!

Our ADD recommendation on AACL with a target price of INR 5,310 is premised on (1) robust demand from pharmaceutical and agrochemical customers that form ~70% of AACL's revenue mix, (2) rising domestic market share in Methyl Amines, (3) impending capacity expansion for (high-margin) Acetonitrile, and (4) production-linked incentive scheme that provides the right tailwinds for long-term volume growth. 3Q EBITDA/APAT was 53/54% above estimates, owing to a 20% rise in revenue, lower-than-anticipated raw material costs, offset by a higher-than-anticipated tax outgo.

- Margins surprise positively:** Sales grew 11/26% QoQ/YoY to INR 3.2bn. Sales grew in 9MFY21 mainly due to value with better realisations, and not volumes. Gross margins rose to a record high of ~60.9% (+343/550bps QoQ/YoY) in 3Q, given benign raw material prices, better product mix, and higher margins, courtesy the robust pharma demand. Backed by high gross margins, operating leverage and well-rounded performance by all products, EBITDA margins shot up to 38.0% (+530/976bps QoQ/YoY). Ethylamines and its derivatives performed well in 3Q and helped drive realisation. Tight supply of Acetonitrile in the global market continues to drive realisation, and we expect the currently elevated prices to sustain in the near to mid-term. However, the current EBITDA margin does not seem sustainable and should cool off to 29.6/29.7% in FY22/23E as COVID-induced pharma demand and, in turn, product prices come off.
- Call takeaways:** (1) The Board has approved an investment of INR 3.0-3.5bn to set up 30-40% additional capacities (of the current 80-90 ktpa) of Aliphatic amines at Kurkumbh and Patalganga in anticipation of increasing demand in the domestic and export market. Capex guidance for FY22/23 is INR 1.5/2.0bn. (2) The Board has declared an interim dividend at 200% i.e., INR 10/sh for FY21. (3) Average capacity utilisation of all plants in 3Q was 80-90%.
- Change in estimates:** We raise our FY21/FY22E EPS estimates by 5.1/1.7% to INR 118.2/131.1 per share to factor in better realisation from Ethylamines and its derivatives, and to account for the overall performance in 9MFY21.
- DCF-based valuation:** Our price target is INR 5,310 (WACC 10%, terminal growth 3.5%). The stock is trading at 34.3x FY23E EPS.

Financial Summary

YE Mar (INR mn)	3Q FY21	2Q FY21	QoQ (%)	3Q FY20	YoY (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	3,239	2,913	11.2	2,569	26.1	8,464	9,929	11,293	12,873	14,459
EBITDA	1,231	953	29.2	726	69.6	1,644	2,590	3,579	3,810	4,287
APAT	845	655	29.0	550	53.6	837	1,798	2,411	2,675	2,978
Adj. EPS (Rs)	41.4	32.1	29.0	27.0	53.5	41.1	88.2	118.2	131.1	146.0
P/E (x)						122.1	56.9	42.4	38.2	34.3
EV/EBITDA(x)						63.1	39.6	28.4	26.5	23.3
RoE (%)						25.3	47.8	37.3	30.5	26.3

Source: Company, HSIE Research

Change in estimates

YE Mar	FY21E Old	FY21E New	% Ch	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch
EBITDA (INR mn)	3,259	3,579	9.8	3,724	3,810	2.3	4,195	4,287	2.2
Adj. EPS (INR/sh)	112.5	118.2	5.1	128.9	131.1	1.7	145.5	146.0	0.3

Source: Company, HSIE Research

ADD

CMP (as on 3 Feb 2021)	INR 5,020
Target Price	INR 5,310
NIFTY	14,790

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 5,310	INR 5,310
EPS %	FY21E +5.1%	FY22E +1.7%

KEY STOCK DATA

Bloomberg code	AACL IN
No. of Shares (mn)	20
MCap (Rs bn) / (\$ mn)	102/1,404
6m avg traded value (Rs mn)	287
52 Week high / low	Rs 5,610/1,021

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	74.3	118.2	271.7
Relative (%)	49.5	82.2	245.6

SHAREHOLDING PATTERN (%)

	Sept-20	Dec-20
Promoters	74.19	74.13
FIs & Local MFs	1.84	1.78
FPIs	0.38	0.95
Public & Others	23.64	23.14
Pledged Shares	0.00	0.00

Source : BSE

Nilesh Ghuge

nilesh.ghuge@hdfcsec.com
+91-22-6171-7342

Harshad Katkar

harshad.katkar@hdfcsec.com
+91-22-6171-7319

Rutvi Chokshi

rutvi.chokshi@hdfcsec.com
+91-22-6171-7356

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities**Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com