

During our visit to Balaji Amines (BAL) plants (Unit 3, Unit 4 and Speciality Chemical division) at Solapur, we interacted with Mr. Ram Reddy (Managing director) and Mr. Pradeep Singh (Manager- Finance). These plants boast of complex chemistries in amines and its derivatives, with backward and forward integration and zero discharge. BAL is the largest manufacturer of Methyl amines in India and has gained ~70% global market share in DMAHCL. BALs strength in Methyl Amine derivatives coupled with a sizeable import substitution opportunity is expected to translate into earnings as BAL aims at expanding capacities.

#### Investment Rationale

#### Dominant player in the Indian amines industry

The Indian aliphatic amines industry is largely a duopoly with Balaji Amines (BAL) and Alkyl Amines Chemicals comprising more than 90% of the market. Yet, the product portfolio of these two companies within the industry is varied with each being dominant in specific chemicals. This has made the industry structure appear closer to being a monopoly for each of the players with the key competition being, only imports. BAL manufactures amines (methyl amines and ethyl amines) and their derivatives, speciality chemicals and pharma excipients. Overall, the company has a portfolio of over 25 products, which are supplied to domestic and foreign players (exports accounted for around 21% of the total sales in FY19). At present, BAL derives over 51% of its revenues from the pharma sector and 26% from agro industries. Some of its other end-user industries include Paints (4%) dyes and textiles (4%), water treatment chemicals (3%), animal feeds (2%) and oil and gas (4%). The company has been incurring capex to add new products to its portfolio and to also expand the capacities of existing products.

#### Meaningful contribution from BSC to be visible in FY21

BAL acquired a 55% stake in Balaji Speciality Chemicals (BSC) in FY18 for INR660 million. The acquisition, which was funded through internal accruals and unutilised working capital limits, has enable BAL to add new products that are in demand in both domestic and export markets to its portfolio. BAL's promoters and directors are shareholders in BSC, which has set up a plant to manufacture specialty chemicals such as ethylene diamine (EDA; 25,400 tonnes per annum (TPA)), piperazine (about 2,200 TPA) and diethyleneteramine (DETA; about 2,400 TPA). BSCPL, incorporated in 2010, has incurred capex of about INR2.4bn (with revenue potential of INR 3.5bn to INR 4bn at peak utilization level) for the project and has obtained all necessary approvals. The management expects the subsidiary to add INR700mn–INR750mn to the topline in FY20E and around INR 3.5bn to INR 4bn in FY21 at current product price. These products have import market giving quick ramp-up ability with import substitution.

#### Mega Project to drive next phase of growth from FY22 onwards

BAL expects to start work on its 'Mega Project' planed in MIDC, Solapur by H2FY20 as they are awaiting to get environment clearance (Expected in next 10-15 days), and be commissioned towards the fag end of FY21. The capital expenditure outlay for the first phase is around INR2bn (partially funded through borrowings), and will be focused on four products (50,000 tonne) -- Mono Isopropyl Amine, Isopropyl Amine (agri-end markets) and additional capacities for methyl and ethyl amines. We expect ramp-up in this project from FY22 onwards, with a revenue potential of INR 3.5bn-4bn at full utilization.

#### Valuation and Outlook

Utilising its in-house R&D strength and favorable demand scenario in existing products, BAL has undertaken a capex programme wherein it aims to clock a consolidated revenue of INR 15-16bn by FY23 (including BSC). This translates ~12-14% growth in the topline. We expect incremental revenue in the near term to be guided by ramp-up in capacity utilisation of projects for which the company has got the environmental clearance. Moreover, the start of contribution from its subsidiary would be an additional growth lever for the company. On the margins front, the company aims to maintain ~18-22% EBITDA margin profile. At the CMP, on FY19 numbers, BAL is trading at ~9.2x P/E, ~1.9x P/BV and ~6.5x EV/EBITDA, which we believe is inexpensive.

#### Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

#### Sector Outlook

Positive

#### Stock

CMP (Rs)	331
Target Price (Rs)	NA
BSE code	530999
NSE Symbol	BALAMINES
Bloomberg	BLA IN
Reuters	BAMN.BO

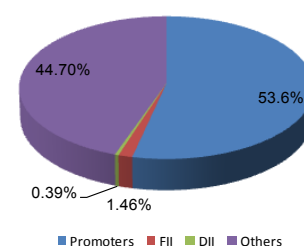
#### Key Data

Nifty	11,512
52 Week H/L (INR)	539/210
O/s Shares (Mn)	32.4
Market Cap (Bn)	10.7
Face Value (INR)	2

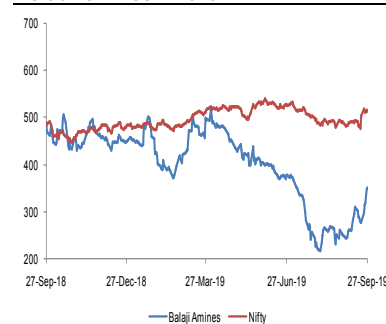
#### Average volume

3 months	46,990
6 months	41,200
1 year	38,550

#### Share Holding Pattern (%)



#### Relative Price Chart

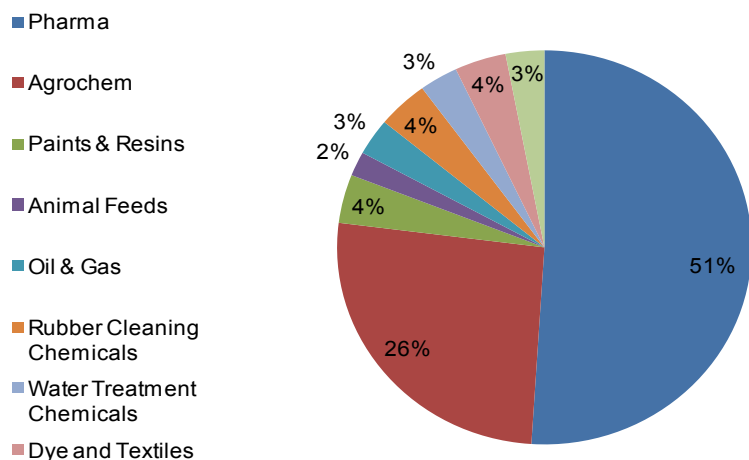


#### Research Analyst

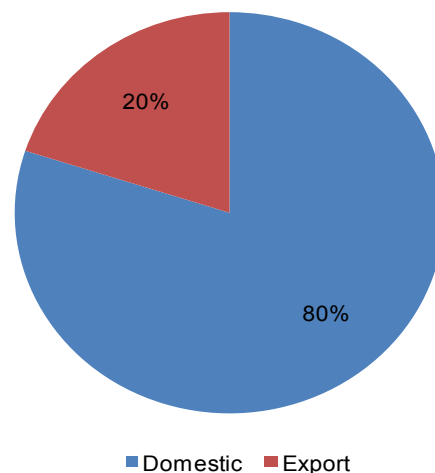
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## Industry wise revenue break up

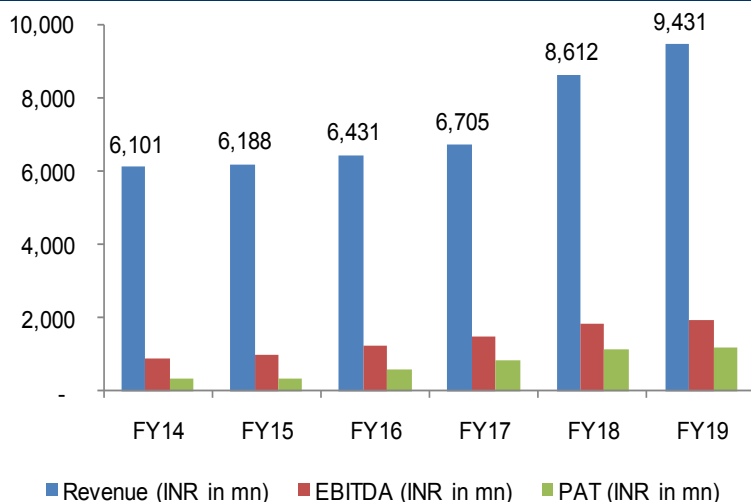


## Geography wise revenue break up

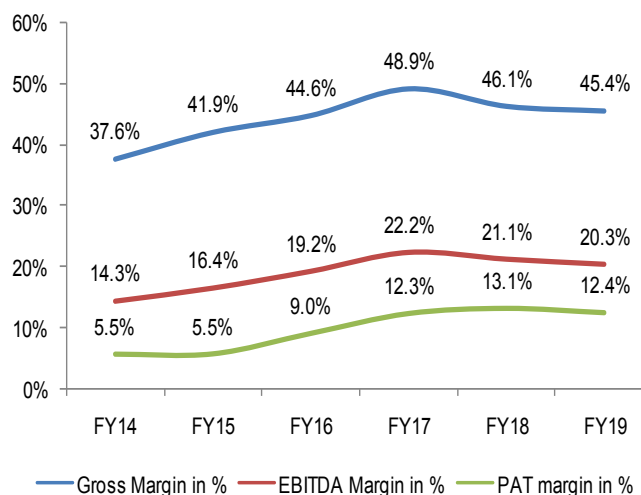


Source: Company, BP Equities Research

## Revenue /EBITDA/PAT Trend

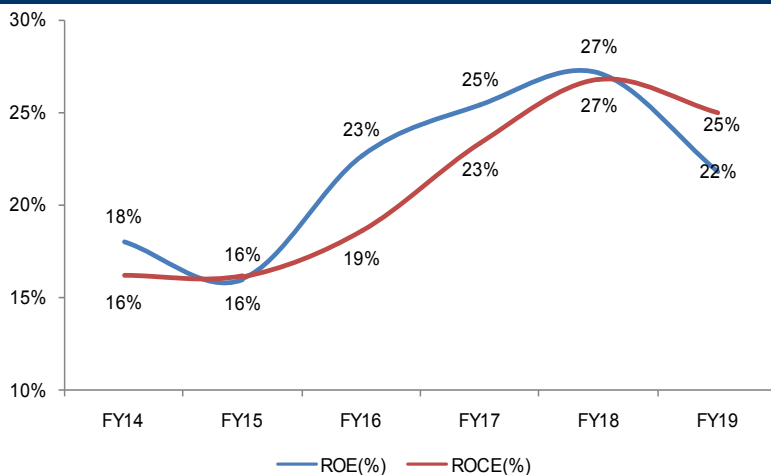


## Steady growth in margins



Source: Company, BP Equities Research

## Healthy return ratios



Source: Company, BP Equities Research

**Balaji Amines (In MTPA)**

Product	Installed Capacity	Future Capacity	Application Areas
Methyl Amine	48,000		Pharma,Agro,Dye & Rubber
Ethyl Amine	6,000	18,250	Pharma,Agro,Dye & Rubber
DMAHCL	32,500	7,500	Pharma
DMAC	6,000		Pharma API
Choline Chloride 60% (Corn Cob)	2,400		Animal Feed
Choline Chloride 75% & 98%	1,500		Animal Feed
CC-Applied For Additional Consent			-
Choline Chloride 50% (Corn Cob)			Animal Feed
2P / NEP			Pharma,Agro,Petro, Dyes, Paints
GBL	33,000		Pharma,Agro,Petro, Dyes, Paints
DMU	1,000		Pharma,Textile,Agro
MMU			Pharma API
DMAE / DEAE	1,000		Cosmetics
Morpholine	10,000		Pharma,Agro,Dyes,Paints,Textile & Rubber
Other HCL'S	750		Animal Feed
DMF	30,000		Pharma,Agro,Polymers,Petro, Dyes, Paints
Acetonitrile	18,000		Pharma,Petro, Textile, Plastics
PVP K-30	750		Pharma,Agro,Cosmetics
Tetra Hydro Furan		8,000	Pharma API Agro
Methyl Di Ethanol Amine ( MDEA)			-
SHF			-
IPA		20,000	-
MIPA			-
<b>Total</b>	<b>190,900</b>	<b>53,750</b>	

Source: Company

**Balaji Speciality Chemicals (In MTPA)**

Product	Installed Capacity	Application Areas
Ethylenediamine	37,350	Pesticides, Polymers
Piprazine	4,050	Pharma, Oilfield
Diethyltriamine	3,150	Coatings, Polymers, Pharma
Mixture of Amines (Aminoethylpiperzine Hydroxyethylpiperzine Aminoethylethanolamine,etc)	780	Multiple Industries
<b>Total</b>	<b>45,330</b>	

Source: Company

**BAL is facing issue of dumping of DMF by other countries. India imported 46,000 tons of DMF last year. Company's manufacturing only about 6,000-7,000 tons of DMF while having capacity of 30,000 tons**

## Balaji Amines Ltd - Management Committee Details

Name	Designation	Details
Mr. A. Prathap Reddy	Executive Chairman	He is a civil engineer by qualification, started Balaji Amines Ltd (BAL) in the year 1988 for the manufacture of Methyl Amines and Ethyl Amines. His impeccable entrepreneurial skills, endurance and passion has brought glory to the firm, making BAL one of the leading manufacturers and exporters of specialty chemicals, aliphatic amines and derivatives in the chemical industry.
Mr. D. Ram Reddy	Managing Director	He has three decades of experience in the management sector and his contribution to the rise of Balaji Amines is incomparable. Since 1988, he is hugely responsible for the procurement, marketing and logistics activities of the company. He has taken on a central part in setting up customer and supplier relationships with leading buyers and providers of specialty chemicals, both in the state and also overseas. He has been instrumental in achieving the first of its kind large scale supply contract arrangement with the world's leading company in specialty chemicals.
Mr. N. Rajeshwar Reddy	Joint Managing Director	He is the Joint M.D joined the BAL director's team in the year 1988. He was initially appointed as an Executive Director in Balaji Cement Pvt Ltd. for the implementation of a project, which he successfully completed. His main responsibilities are to oversee the routine operations of the plant in Solapur. With his 30 years of expertise, his marvellous skills have made it possible to execute the projects at a lower cost within the specified time.
Mr. G. Hemanth Reddy	Whole Time Director & CFO	He is a Post graduate in management with Finance and Marketing as his specialization, has more than 25 years of experience in the business sector. He has been influential in implementing various projects globally such as water supply projects, solar projects, rural electrification and global sourcing of material in Africa to name a few. His primary responsibilities are to manage operations, finance and administration of Unit-II of the company
Mr. A. Srinivas Reddy	Whole Time Director	He commenced his career in one of largest management consulting firms in USA, Capgemini as a management consultant, and worked in several capacities in different countries. He has worked as a project manager on multiple projects at Fortune 100 US companies including Sprint, Goodyear, Agilent Technologies Cummins Inc, etc. Currently, he is responsible for essential projects at the firm.

## ⇒ Key Risks and Concerns

**Sharp changes in raw material prices could adversely impact profitability:** With over 2/3rd of its revenues arising from methylamines and derivatives, BAL's exposure to methanol prices is significant. Although the company has entered into price-linked contracts in order to hedge against methanol price fluctuations, any major volatility could dampen gross margins to some extent.

**Regulatory concerns:** While all expansion plans of chemical companies are pre-approved for environmental clearances, any further changes in the regulatory stance or in the environmental norms, could impact BAL adversely.

## Balaji Amines Ltd

## Management Meet Note

Profit & Loss A/c (Consolidated)						
YE March (Rs. mn)	FY14	FY15	FY16	FY17	FY18	FY19
<b>Revenue</b>	<b>6,101</b>	<b>6,188</b>	<b>6,431</b>	<b>6,705</b>	<b>8,612</b>	<b>9,431</b>
<i>Growth %</i>	<i>19.2%</i>	<i>1.4%</i>	<i>3.9%</i>	<i>4.3%</i>	<i>28.4%</i>	<i>9.5%</i>
<b>Total Revenue</b>	<b>6,101</b>	<b>6,188</b>	<b>6,431</b>	<b>6,705</b>	<b>8,612</b>	<b>9,431</b>
<b>Less:</b>						
Raw Material Consumed	3,810	3,595	3,562	3,424	4,641	5,154
Employee Cost	158	209	216	245	269	295
Other Expenses	1,260	1,366	1,420	1,546	1,882	2,067
<b>Total Operating Expenditure</b>	<b>5,228</b>	<b>5,170</b>	<b>5,199</b>	<b>5,214</b>	<b>6,792</b>	<b>7,515</b>
<b>EBITDA</b>	<b>874</b>	<b>1,018</b>	<b>1,233</b>	<b>1,491</b>	<b>1,820</b>	<b>1,916</b>
<i>Growth %</i>	<i>10.1%</i>	<i>16.5%</i>	<i>21.1%</i>	<i>20.9%</i>	<i>22.1%</i>	<i>5.2%</i>
Less: Depreciation	165	201	194	197	193	196
<b>EBIT</b>	<b>709</b>	<b>817</b>	<b>1,039</b>	<b>1,294</b>	<b>1,627</b>	<b>1,720</b>
<i>Growth %</i>	<i>6.4%</i>	<i>15.3%</i>	<i>27.2%</i>	<i>24.5%</i>	<i>25.8%</i>	<i>5.7%</i>
Interest Paid	315	349	222	129	90	130
Non-operating Income	63	43	62	85	115	61
Extraordinary Income	0	0	0	7	6	36
<b>Profit Before tax</b>	<b>456</b>	<b>511</b>	<b>880</b>	<b>1,257</b>	<b>1,658</b>	<b>1,686</b>
Tax	121	179	303	433	527	515
<b>Net Profit</b>	<b>335</b>	<b>321</b>	<b>576</b>	<b>824</b>	<b>1,132</b>	<b>1,171</b>
<b>Adjusted Profit</b>	<b>335</b>	<b>343</b>	<b>576</b>	<b>816</b>	<b>1,126</b>	<b>1,135</b>
<b>Reported Diluted EPS Rs</b>	<b>10.3</b>	<b>10.6</b>	<b>17.8</b>	<b>25.4</b>	<b>34.9</b>	<b>36.1</b>
<i>Growth %</i>	<i>7.5%</i>	<i>2.3%</i>	<i>68.1%</i>	<i>42.9%</i>	<i>37.4%</i>	<i>3.5%</i>
<b>Adjusted Diluted EPS Rs</b>	<b>10.3</b>	<b>10.6</b>	<b>17.8</b>	<b>25.2</b>	<b>34.7</b>	<b>35.0</b>
<i>Growth %</i>	<i>7.9%</i>	<i>2.3%</i>	<i>68.1%</i>	<i>41.7%</i>	<i>37.9%</i>	<i>0.8%</i>

Source: Company, BP Equities Research

Cash Flows (Consolidated)						
YE March (Rs. Mn)	FY14	FY15	FY16	FY17	FY18	FY19
<b>PAT</b>	<b>335.1</b>	<b>342.7</b>	<b>576.1</b>	<b>823.5</b>	<b>1,131.8</b>	<b>1,170.9</b>
(Less)/Add: Extraordinary Income/Expense	0.0	0.0	0.0	(7.2)	(6.0)	(35.6)
Less: Non Operating Income	(62.7)	(42.6)	(62.1)	(85.4)	(115.3)	(60.8)
Add: Depreciation	164.9	200.8	193.8	197.1	192.9	195.5
Add: Interest Paid	315.1	348.8	221.5	129.4	90.4	130.3
Tax Adjustment	0.0	0.0	0.0	0.0	0.0	0.0
<b>Operating Profit before Working Capital Changes</b>	<b>752.4</b>	<b>849.7</b>	<b>929.4</b>	<b>1,057.4</b>	<b>1,293.8</b>	<b>1,400.3</b>
(Inc)/Dec in Current Assets	(235.2)	276.4	(23.0)	(183.6)	(643.7)	(243.9)
Inc/(Dec) in Current Liabilities	502.6	(353.4)	65.4	184.4	241.6	441.6
Changes in Inventory	(338.8)	(217.4)	343.5	(209.5)	98.8	(740.6)
<b>Net Cash Generated From Operations</b>	<b>681.0</b>	<b>555.2</b>	<b>1,315.2</b>	<b>848.6</b>	<b>990.5</b>	<b>857.4</b>
<b>Cash Flow from Investing Activities</b>						
(Inc)/Dec in Fixed Assets	(1,118.5)	(325.8)	(204.9)	71.7	(173.6)	(227.8)
(Inc)/Dec in Capital Work In Progress	548.0	48.0	(129.4)	(88.2)	(980.5)	(1,463.3)
(Inc)/Dec in Investment (Strategic)	(2.5)	(0.6)	(2.1)	(25.7)	(408.9)	410.8
(Inc)/Dec in Investment (Others)	0.0	0.0	0.0	0.2	0.0	0.0
Add: Non Operating Income	62.7	42.6	62.1	85.4	115.3	60.8
(Inc)/Dec in Intangible Assets	0.3	0.2	2.0	0.0	(70.8)	62.9
<b>Net Cash Flow from/(used in) Investing Activities</b>	<b>(510.0)</b>	<b>(235.5)</b>	<b>(272.3)</b>	<b>43.3</b>	<b>(1,518.4)</b>	<b>(1,156.7)</b>
<b>Cash Flow from Financing Activities</b>						
Inc/(Dec) in Total Loans	208.8	88.7	(746.6)	(704.1)	660.6	469.4
Inc/(Dec) in Reserves & Surplus	(5.3)	(16.1)	(8.2)	70.3	167.6	(16.1)
Inc/(Dec) in Equity	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Paid	(32.4)	(38.9)	(64.8)	(71.3)	(84.2)	(90.7)
Less: Interest Paid	(315.1)	(348.8)	(221.5)	(129.4)	(90.4)	(130.3)
Adjustments	43.6	(32.2)	14.0	(115.4)	74.9	(4.6)
Exceptional Item	0.0	0.0	0.0	7.2	6.0	35.6
<b>Net Cash Flow from Financing Activities</b>	<b>(100.3)</b>	<b>(347.2)</b>	<b>(1,027.2)</b>	<b>(942.7)</b>	<b>734.6</b>	<b>263.3</b>
<b>Net Inc/Dec in cash equivalents</b>	<b>70.7</b>	<b>(27.5)</b>	<b>15.7</b>	<b>(50.8)</b>	<b>206.7</b>	<b>(36.0)</b>
<b>Opening Balance</b>	<b>26.8</b>	<b>97.5</b>	<b>70.0</b>	<b>85.7</b>	<b>34.9</b>	<b>241.6</b>
<b>Closing Balance Cash and Cash Equivalents</b>	<b>97.5</b>	<b>70.0</b>	<b>85.7</b>	<b>34.9</b>	<b>241.6</b>	<b>205.7</b>

Source: Company, BP Equities Research



Balance Sheet (Consolidated)						
YE March( Rs. mn)	FY14	FY15	FY16	FY17	FY18	FY19
<b>Liabilities</b>						
Equity Capital	65	65	65	65	65	65
Reserves & Surplus	1,946	2,214	2,737	3,560	4,606	5,675
<b>Equity</b>	<b>2,011</b>	<b>2,279</b>	<b>2,802</b>	<b>3,625</b>	<b>4,671</b>	<b>5,740</b>
<b>Net Worth</b>	<b>2,011</b>	<b>2,279</b>	<b>2,802</b>	<b>3,625</b>	<b>4,671</b>	<b>5,740</b>
Minority Interest	0	20	0	0	180	180
Net Deferred tax liability/(Asset)	475	615	625	566	636	621
<b>Total Loans</b>	<b>2,284</b>	<b>2,233</b>	<b>1,476</b>	<b>830</b>	<b>1,422</b>	<b>1,906</b>
<b>Capital Employed</b>	<b>4,770</b>	<b>5,146</b>	<b>4,903</b>	<b>5,021</b>	<b>6,908</b>	<b>8,447</b>
<b>Assets</b>						
Gross Block	4,158	4,484	4,689	4,617	4,791	5,019
Less: Depreciation	905	1,073	1,281	1,363	1,630	1,821
<b>Net Block</b>	<b>3,254</b>	<b>3,411</b>	<b>3,408</b>	<b>3,255</b>	<b>3,161</b>	<b>3,197</b>
Capital WIP	81	33	163	251	1,231	2,695
<b>Investments</b>	<b>21</b>	<b>21</b>	<b>23</b>	<b>49</b>	<b>463</b>	<b>58</b>
Others - A	0	0	0	0	0	0
<b>Current Assets</b>						
Inventories	906	1,124	780	990	891	1,632
Sundry Debtors	1,315	1,194	1,243	1,243	1,727	1,672
Cash and Bank Balance	97	70	86	35	242	206
Current Investments	199	0	0	0	0	0
Loans and Advances	310	357	334	518	662	911
Other Current Assets	16	13	10	10	26	75
<b>Total Current Assets</b>	<b>2,844</b>	<b>2,758</b>	<b>2,453</b>	<b>2,796</b>	<b>3,547</b>	<b>4,496</b>
<b>Less: Current Liabilities &amp; Provisions</b>						
Sundry Creditors	863	476	485	515	718	853
Provisions	142	180	328	593	753	786
Other Current Liabilities	427	424	332	221	100	373
<b>Total Current Liabilities &amp; Provisions</b>	<b>1,433</b>	<b>1,079</b>	<b>1,144</b>	<b>1,329</b>	<b>1,570</b>	<b>2,012</b>
<b>Capital Applied</b>	<b>4,770</b>	<b>5,146</b>	<b>4,903</b>	<b>5,021</b>	<b>6,908</b>	<b>8,447</b>

Source: Company, BP Equities Research

Key Ratios (Consolidated)						
YE March (Rs. mn)	FY14	FY15	FY16	FY17	FY18	FY19
<b>Key Operating Ratios</b>						
EBITDA Margin (%)	14.3%	16.4%	19.2%	22.2%	21.1%	20.3%
Tax / PBT (%)	26.6%	35.0%	34.5%	34.5%	31.8%	30.6%
Net Profit Margin (%)	5.5%	5.5%	9.0%	12.3%	13.1%	12.4%
RoE (%)	18.0%	16.0%	22.7%	25.4%	27.1%	21.8%
RoCE (%)	16.2%	16.1%	18.6%	23.3%	26.8%	25.0%
Current Ratio (x)	2.0x	2.6x	2.1x	2.1x	2.3x	2.2x
Dividend Payout (%)	9.7%	11.3%	11.2%	8.7%	7.4%	7.7%
Book Value Per Share (Rs.)	62.1	70.3	86.5	111.9	144.2	177.2
<b>Financial Leverage Ratios</b>						
Debt/ Equity (x)	1.1x	1.0x	0.5x	0.2x	0.3x	0.3x
Interest Coverage (x)	2.8x	2.9x	5.6x	11.5x	20.1x	14.7x
<b>Growth Indicators %</b>						
Growth in Net Block (%)	38.8%	4.8%	(0.1%)	(4.5%)	(2.9%)	1.2%
Sales Growth (%)	19.2%	1.4%	3.9%	4.3%	28.4%	9.5%
EBITDA Growth (%)	10.1%	16.5%	21.1%	20.9%	22.1%	5.2%
Net Profit Growth (%)	7.5%	2.3%	68.1%	42.9%	37.4%	3.5%
Diluted EPS Growth (%)	7.5%	2.3%	68.1%	42.9%	37.4%	3.5%
<b>Turnover Ratios</b>						
Debtors Days	79	70	71	68	73	65
Creditors Days	52	28	28	36	39	41
Inventory Days	54	66	44	54	38	63

Source: Company, BP Equities Research



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Disclaimer Appendix

**Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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