

ALKYL AMINES CHEMICALS LTD.**August 14, 2015****Recommended/Current Price : Rs.265**

Alkyl Amines Chemicals is a manufacturer and supplier of amine-based chemicals, aliphatic amines and amine derivatives. The company has two manufacturing sites, one at Patalganga and the other at Kurkumbh. Between these two sites, the company has 9 plants. It manufactures several speciality chemicals like Acetonitrile and its own products ALDEGA and ALKAN. The company has an R&D centre at Pune.

Alkyl Amines manufactures and supplies the following products :

▶ Aliphatic Amines

- Methylamine
- Ethylamine
- Isopropylamine
- Butylamine
- Ethylhexylamine
- Cyclohexylamine

▶ Amine Derivatives

- Amides
- Hydrochlorides
- Mixed Amines

▶ Fine Chemicals

- Monoamines
- Diamines
- Polyamines
- Amine Hydrochlorides

► **Speciality chemicals**

- Acetonitrile
- Monomethyl Urea
- Dimethyl Propylene Urea
- Dimethyl Urea
- Dimethylimidazolidone
- N,N-Dimethyl Glycine

These products find application in broadly the following industries :

► **Agrochemicals**

Used in Insecticides, Weedicides, Herbicides, Fungicides, Pesticides, Plant growth regulator, Insect repellents and Animal Feeds.

► **Pharmaceuticals**

Used in Bronchodilator, Vasodilator, Antibacterial, Antiulcer, Anaesthetic, Anesthetics, Antimalarial, Antibiotics, Disinfectant, Cardiac drugs, Antileprotic, Antirheumatic, Anti-hypertensive, Antiulcer and Antidiabetics.

► **Rubber Chemicals**

Products are used in Antiozonant, Stabilising & Preservative agent in natural rubber latex Vulcanisation accelerator and Primary accelerator.

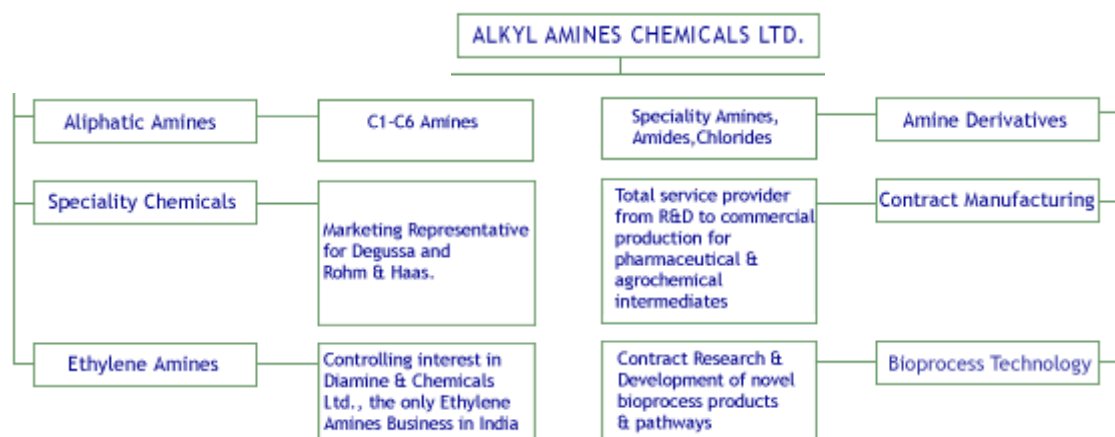
► **Paints & Dyes**

Used in Purification of Phthalocynaine pigments, Acid dyes, Blue solvent dyes, Blue shades of solvent and disperse dyes and Pigments.

► **Water Treatment**

Used as an Antifungal agent, Corrosion inhibitor in hydraulic fluids, Vapour phase corrosion inhibitor, flocculant and Oxygen scavenges in water treatment chemical formulations.

ALKYL AMINES PRODUCT CHART

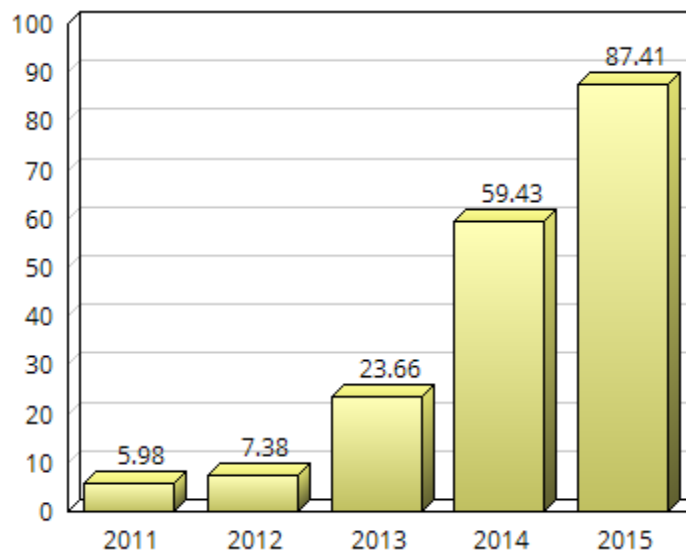


Sales Break-Up

The company's sales of speciality chemicals has been growing at a brisk pace over the years. Speciality chemicals command very high operating margins.

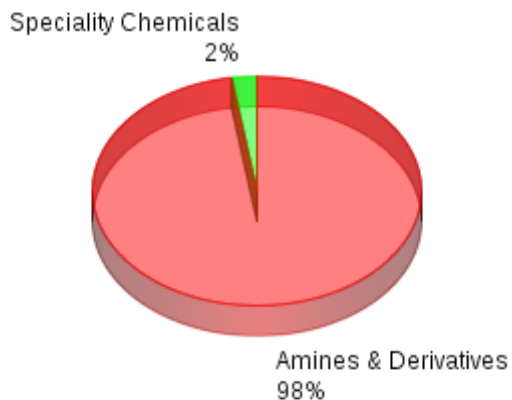
Speciality Chemicals

Figures in INR Crores



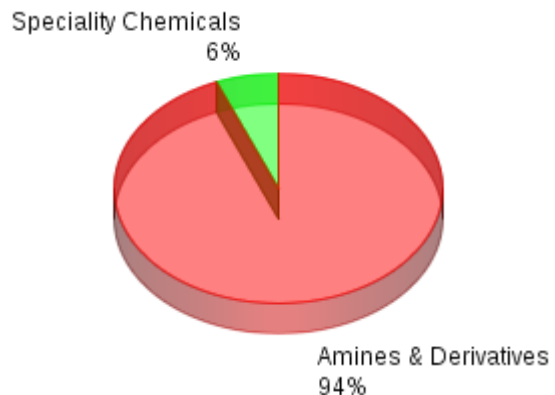
Sales Break-up FY2012

Figure in Rs.Crores

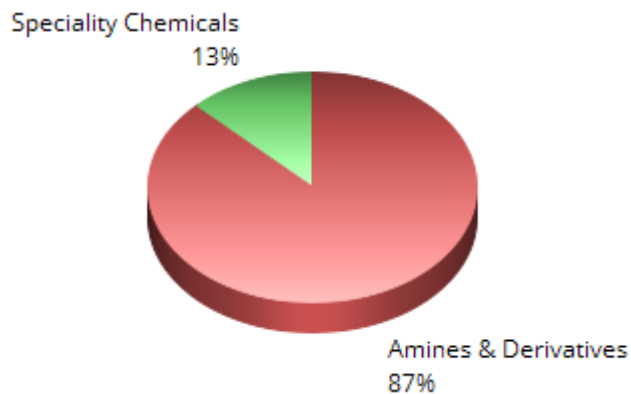


Sales Break-up FY2013

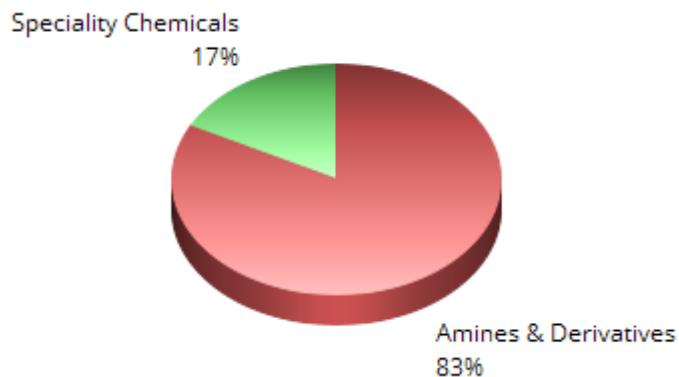
Figure in Rs.Crores



Sales Break-Up FY 2014



Sales Break-Up FY 2015

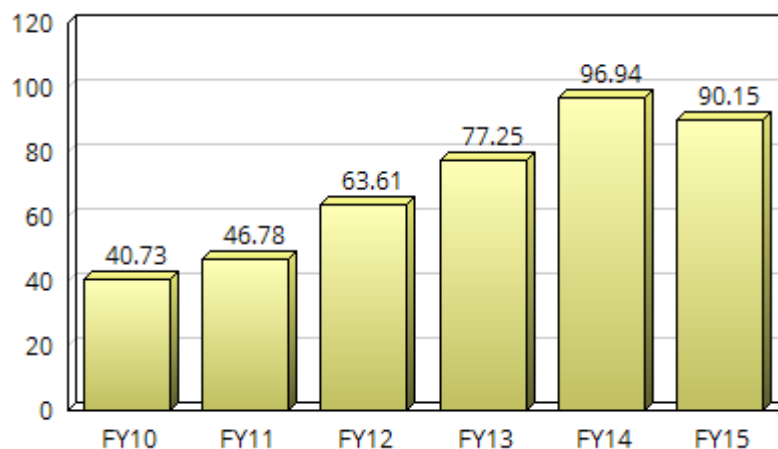


EXPORTS

Alkyl Amines Chemicals has been increasing its export sales at a CAGR of 17% for the last five years. Exports in FY 2015 constitutes 19% of the total sales. While there was volume growth in exports in FY 14-15, the value fell due to decline in the Euro.

Exports

Figures in INR Crores



OUTLOOK

The company usually operates at optimal capacity. Owing to the demand for its products increasing, the company has been expanding each year and adding new products to its profile.

FY 2011

It introduced two products. ALDEGA, which has applications in oil refinery and ALKAN, which has applications in pharma and agro sectors. The production of these chemicals reached full capacity by FY13.

FY 2012

In March 2012, it commissioned a new plant to commercially produce Acetonitrile, a chemical which has applications in pharma and agrochemical sectors. (Acetonitrile is used mainly as a solvent in the purification of butadiene in refineries. It is also used in battery applications because of its relatively high dielectric constant and its ability to dissolve electrolytes. Industrially, it is used as a solvent for the manufacture of pharmaceuticals and photographic film).

The company also debottlenecked the existing capacities to produce enhanced quantities of various amines (Methylamines & Ethylamines) and amine derivatives.

FY 2013

During the year 2012-13, it added some balancing equipments to the Acetonitrile plant thus increasing its capacity. Acetonitrile is fetching the company much higher margins than other amines in its product portfolio. The company commissioned a new Boiler at Kurkumbh at a cost of around Rs.6 crores which has helped the company reduce its utility costs. The company has been able to reduce power cost by 5-7%.

FY 2014

The company had invested Rs.18 crores to further increase the production capacity of the Acetonitrile plant. It also spent Rs.13 crores to enhance the capacity of some of its products which were in high demand and the production of which was reaching full capacity.

It had laid the foundation for another large expansion. The company had acquired land at a cost of Rs.12 crores at the chemical hub Dahej, Gujarat.

FY 2015 & FY 2016

Company has expanded its Acetonitrile capacity from 4200 tonnes to 6000 tonnes recently. Once this stabilises, the company will increase the capacity to 9000 tonnes.

Alkyl Amines has commissioned a 2 MW Solar Power Plant at Maharashtra, for generation of electricity for the Company's captive use. Company plans to save around Rs.2-3 crores annually in energy costs with the commissioning of this plant.

Company is also increasing its DMAHCL production capacity which is used in Hydrogenation.

It is incurring a total capital expenditure Rs.50 crores in the next two years for the expansions (excluding Dahej plant).

While the company is working out the intricacies of the new plant at Dahej, it plans to commission this plant by February 2017. This upcoming plant will produce high margin speciality chemicals.

FINANCIALS

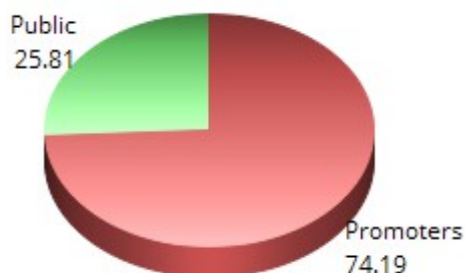
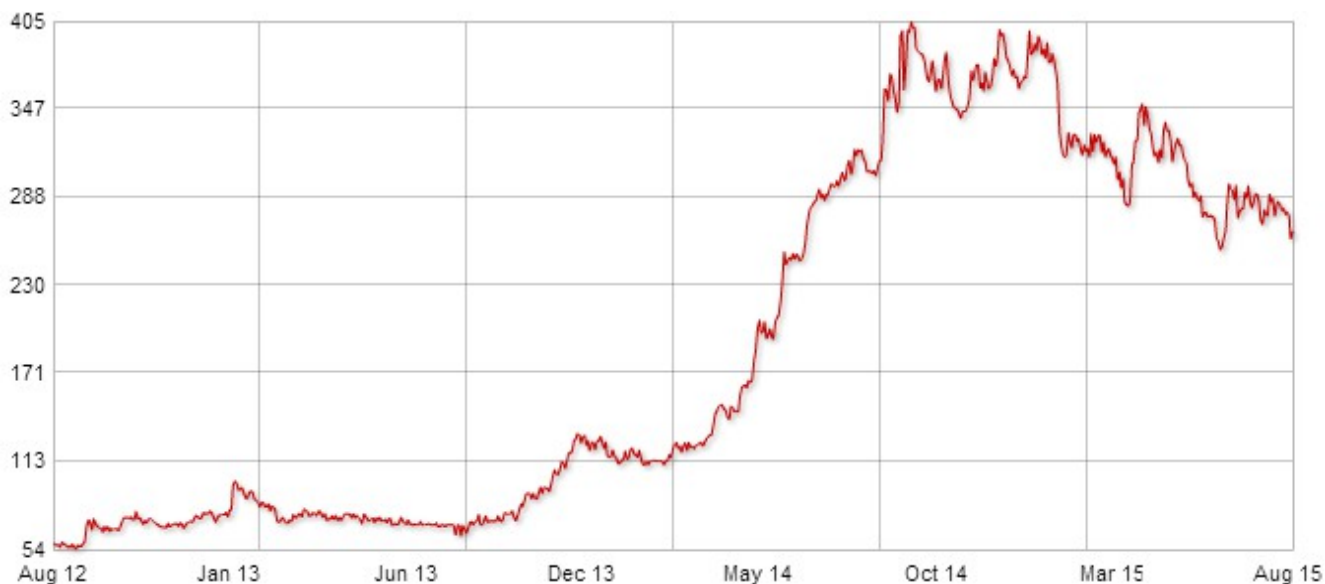
Figures in Rs.Crores

| | FY2010 | FY2011 | FY2012 | FY2013 | 2014 | 2015 |
|--------------------|--------|--------|--------|--------|--------|--------|
| Share Outstanding | 1.02 | 1.02 | 1.02 | 1.02 | 1.02 | 2.04 |
| Net Worth | 74.08 | 85.25 | 98.05 | 116.23 | 140.19 | 174.82 |
| Debt | 113.58 | 120.07 | 110.59 | 133.14 | 135.40 | 116.49 |
| Gross Block | 174.94 | 180.16 | 214.76 | 228.21 | 264.61 | 272.19 |
| Investments | 5.96 | 10.35 | 10.45 | 10.5 | 2.26 | 2.26 |
| Net Current Assets | 69.66 | 73.25 | 70.21 | 104.14 | 115.95 | 107.43 |
| Sales | 215.79 | 235.86 | 288.10 | 365.86 | 446.10 | 476.37 |
| Depreciation | 8.53 | 9.01 | 8.91 | 10.03 | 9.74 | 11.35 |
| Net Profit | 11.74 | 10.37 | 17.46 | 24.21 | 42.88 | 45.42 |
| Dividend (Rs.) | 3 | 3 | 4 | 5 | 8 | 4 |
| ROCE (%) | 15.19 | 12.00 | 16.94 | 19.67 | 27.89 | 26.48 |
| RONW (%) | 15.84 | 12.16 | 17.8 | 20.82 | 30.58 | 25.98 |

- ▶ Alkyl Amines's sales have risen at a CAGR of 17% over the last 5 years and at 14% per annum for the last 2 years. Its Net Profit rose at a CAGR of 31% over the past 5 years and 37% for the last 2 years. Higher growth in net profits over sales reflects the company's changing product profile towards high margin products.
- ▶ The debt to equity ratio at 0.66:1 is at the lowest band in the six year period in spite of various expansions. Future expansions will be financed by internal accruals and debt.
- ▶ The company has invested around Rs.97 crores in the last five years in expanding capacities which resulted in **additional** sales of Rs.260 crores (up 120.75%) and Rs.33 crores in net profits (up 286.96%).
- ▶ Company has increased dividend every other year. The current dividend payout works out to about **21%** of profits.
- ▶ The return ratios have started improving and are likely to head higher in FY 15-16 and can be substantially higher post the expansion at Dahej.

SHAREHOLDING PATTERN

The promoters hold 74.19% stake in the company. This stake has remained stable over the last one year. The balance 25.81% is widely held by the public.

SHARE PRICE PERFORMANCE

The stock has fallen by 40% from the high of Rs.444 touched few months back to **Rs.265** presently.

- All time high : Rs.444.90
- All time low : Rs.2.10

VALUATION

“Valuing a business is part art and part science” - Warren Buffett

At **Rs.265** per share, Alkyl Amines Chemicals is available at a market capitalization of Rs.540 crores. The expected EPS of Rs.33 for FY 16-17 discounts the current market price by P/E (price to earnings) of **8 times**. This is low for a company that has been displaying secular growth, which is likely to further accelerate going forward. Buy is recommended at **Rs.265**.

Portfolio Allocation : 8% of total portfolio value can be allocated to this stock.

Holding Period : Stock has the potential to double in 2 years.

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Disclosures :

1. At the time of writing this article, the analyst does not have a position in the stock covered by this report.
2. The analyst has not traded in the recommended stock in the last 30 days
3. The research analyst does not have any material conflict of interest at the time of publication of the research report
4. The research analyst has not received any compensation from the subject company in the past twelve months
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6. The research analyst has not served as an officer, director or employee of the subject company.
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9. The analyst does not own more than 1% equity in the said company.