Balaji Amines

BSE Sensex: 8,634	BLOOMBERG BLA IN	30 September 2005	Buy
S&P CNX: 2,601	REUTERS CODE BAMN.BO		Rs402

BAL is amongst the leading manufacturers of methyl and ethyl amines, which are specialty intermediates finding applications in various chemical industries. Over the last few years, it has gradually broadened its product profile and currently markets around 10 derivatives and 1 natural product.

Business segments

Natural Products to drive the bottomline:

In 2003, it had acquired Bhagyanagar Chemicals Ltd where it has set up a natural products (herbal extracts) division with capex of around Rs 100mn. The company is currently working on 9 products, out of which 8 products will cater to the needs of pharmaceutical sector. It has successfully commercialized a product called Solanesol, which is extracted from tobacco, and is the starting material for many high value bio-chemicals such as Vitamin-K analogues, Vitamin-E and Coenzyme Q10. Based on the acceptance from the user industry the company successfully expanded its capacity from 33MT to 48MT. Capacity utilisation is expected to be at 60% for FY06 and 83% for FY07. EBIDTA margins are expected to be stable at c. 50-60%.

Other Products to kick start in FY06

BAL has recently developed two new value added products, which are currently imported. The company is setting up dedicated plant for these products- viz N-Methyl-2-Pyrrolidone (NMP) and Morpholine. (Both NMP and Morpholine are imported substitutes to be manufactured for the first time in India). Commercial production of NMP is expected to start from 3QFY06, while that of Morpholine is expected to commence from 1QFY07. Validation batches have been approved by the user industry. The market for NMP and Morpholine is 2000 TPA each.

Amines, the traditional business

Globally, amines technology is closely guarded. BAL is first company in India, to test an indigenously developed technology, as compared to its peers, viz- Alkyl Amines Chemicals Ltd and RCF, who preferred technical collaboration with foreign players. Currently BAL is the market leader in Methyl Amines with a market share of c. 50% followed by RCF at c. 30% and Alkyl Amines at c. 20%. As for Ethyl Amines Alkyl Amines is the market leader with c. 60% share while BAL is at c. 40%. EBIDTA margins have stabilized at c.14% and C. 10% for Methyl and Ethyl Amines respectively.

Choline Chloride: losing its sheen

It has also set up capacity to manufacture Corn Cob base Choline Chloride (CC). The production capacity is at 12,000 MT pa. The commercial production of has started in the month of October 04 and its domestic customers are Godrej Foods and Western Hatcheries. EBIDTA margins however have shrunk to c. 8.5% due to intense competition.

Earnings and valuation

PAT degrew by 31% in FY05 mainly due to increase in the raw material cost for its amines products and delay in the production of Solanesol, However with the stabilization of Solanesol in 1QFY06 and commercial production of NMP in 3QFY06, we expect the company to record net sales of Rs1350m and Rs2000m, a growth of 53% and 48% for FY06 and FY07, respectively. PAT is likely to be Rs130m and Rs200m, respectively.

The current valuations of the company look attractive, considering the high growth potential of the company. The stock is currently discounted at a P/E of 9.3x and 6.1x and EV/Sales of 1.2x and 0.9x FY06E and FY07E. We recommend a Buy with a 15month price target of Rs698, which discounts FY07E EPS of Rs66 by 10.5x.

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INCOME STATEMENT (Rs M)

Y/E MARCH	2003	2004	2005E	2006E	2007E
Net Sales	**451**	**709**	**877**	**1,350**	**2,000**
Change (%)	*23.3*	*57.3*	*23.7*	*53.9*	*48.1*
EBITDA	**93**	**139**	**126**	**296**	**442**
Change (%)	*4.4*	*49.9*	*-9.4*	*134.3*	*49.2*
% of Net Sales	*20.6*	*19.7*	*14.4*	*21.9*	*22.1*
Depreciation	15	22	28	40	60
EBIT	**78**	**117**	**99**	**256**	**382**
Interest	17	24	28	60	80
Other Income	2	10	2	0	0
PBT	**63**	**103**	**73**	**196**	**302**
Tax	22	36	26	66	102
Rate (%)	*34.7*	*34.7*	*36.2*	*33.7*	*33.8*
PAT Before Extraordinary Items	**41**	**67**	**47**	**130**	**200**
ExtraOrdinary Items	0	0	0	0	0
REPORTED PAT	**41**	**67**	**47**	**130**	**200**
Change (%)	*7.7*	*63.6*	*-31.0*	*179.2*	*53.5*
EBITDA Margin (%)	*20.6*	*19.7*	*14.4*	*21.9*	*22.1*
PAT Margin (%)	*9.1*	*9.5*	*5.3*	*9.6*	*10.0*

BALANCE SHEET (Rs M)

Y/E MARCH	2003	2004	2005E	2006E	2007E
Equity Share Capital	**30**	**30**	**30**	**30**	**30**
Reserves	**124**	**182**	**218**	**331**	**510**
Networth	**154**	**212**	**248**	**361**	**540**
Loans	247	346	414	500	600
Net Deffered Tax Liability	56	79	89	80	80
Capital Employed	**457**	**637**	**751**	**941**	**1,220**
Gross Fixed Assets	407	526	609	690	730
Less: Depreciation	94	116	143	183	243
Net Fixed Assets	**313**	**410**	**466**	**507**	**487**
Capital WIP	0	0	0	0	0
Investments	1	7	7	40	80
Curr. Assets	**193**	**334**	**457**	**629**	**933**
Inventory	50	96	157	220	330
Debtors	98	169	223	300	420
Cash & Bank Balance	10	29	21	19	50
Loans & Advances	36	40	56	90	133
Current Liab. & Prov.	**50**	**114**	**178**	**235**	**280**
Creditors	37	91	152	190	210
Provisions	13	23	27	45	70
Net Current Assets	**143**	**220**	**278**	**394**	**653**
Misc. Exp. (not written off)	2	2	0	0	0
Application of Funds	**459**	**638**	**751**	**941**	**1,220**

E: Estimates

RATIOS

Y/E MARCH	2003	2004	2005E	2006E	2007E
Basic (Rs)					
EPS	13.8	22.5	15.5	43.3	66.5
Growth (%)	*7.7*	*63.6*	*-31.0*	*179.2*	*53.5*
Cash EPS	18.8	29.9	24.7	56.7	86.5
Book Value	51.3	70.6	82.7	120.4	180.1
DPS	2.5	3.0	3.5	5.0	6.0
Payout (incl. Div. Tax.) (%)	18.2	13.3	25.4	13.0	10.2
Valuation (X)					
P/E	29.3	17.9	25.9	9.3	6.1
Cash P/E	21.4	13.5	16.3	7.1	4.7
Price/Book Value	7.8	5.7	4.9	3.3	2.2
EV/Sales	3.2	2.2	1.8	1.2	0.9
EV/EBITDA	15.6	11.1	12.8	5.6	3.9
Dividend Yield (%)	0.6	0.7	0.9	1.2	1.5
Profitability Ratios (%)					
RoE	26.8	31.9	18.8	36.0	36.9
RoCE	17.5	19.9	13.4	27.2	31.3
Turnover Ratios					
Debtors (Days)	79	87	93	81	77
Inventory (Days)	82	83	101	102	108
Creditors. (Days)	30	47	63	51	38
Asset Turnover (x)	1.0	1.1	1.2	1.4	1.6
Leverage Ratio					
Debt/Equity (x)	1.6	1.6	1.7	1.4	1.1

CASH FLOW STATEMENT (Rs M)

Y/E MARCH	2003	2004	2005E	2006E	2007E
PBT before EO Items	**63**	**103**	**73**	**196**	**302**
Add : Depreciation	15	22	28	40	60
Interest	17	24	28	60	80
Less : Direct taxes paid	22	36	26	66	102
(Inc)/Dec in WC	-54	-57	-67	-118	-228
CF from operations	**20**	**56**	**35**	**113**	**112**
EO and Misc. Items	0	0	2	0	0
CF from Oper. incl. EO Items	**20**	**57**	**37**	**113**	**112**
(Inc)/Dec in FA	-117	-119	-83	-81	-40
(Pur)/Sale of Investments	-1	-6	0	-33	-40
CF from investments	**-118**	**-125**	**-83**	**-114**	**-80**
Issue of Shares	0	0	0	0	0
Inc/(Dec) in Debt	124	122	77	77	100
Less : Interest Paid	-17	-24	-28	-60	-80
Dividend Paid	-8	-9	-12	-17	-20
CF from Fin. Activity	**100**	**90**	**38**	**0**	**0**
Inc/Dec of Cash	**1**	**21**	**-9**	**-2**	**31**
Add: Beginning Balance	9	10	29	21	19
Closing Balance	**10**	**30**	**20**	**19**	**50**

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Disclosure of Interest Statement	**Balaji Amines**
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No

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