



“Balaji Amines Performance Review of FY2017 and Outlook Conference Call”

July 10, 2017



ANALYST: MR. ANKIT GOR –SYSTEMATIX SHARES & STOCKS LIMITED

MANAGEMENT: MR. RAM REDDY – JOINT MANAGING DIRECTOR - BALAJI AMINES LIMITED
MR. ARUN MASAL - FINANCE HEAD - BALAJI AMINES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Balaji Amines Performance Review of FY2017 and Outlook Conference Call, hosted by Systematix Shares & Stocks Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance, during the conference call, please signal the operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankit Gor from Systematix Shares & Stocks. Thank you and over to you Sir!

Ankit Gor: Thank you. I welcome all to the Conference Call of Balaji Amines to review the performance of FY2017 and its outlook. From the management side, we have Mr. Ram Reddy, The Joint Managing Director. He will brief us then we can take question and answer session. Over to you Sir! Thank you.

Ram Reddy: Good afternoon everybody. My name is Ram Reddy, Joint MD of Balaji Amines. Along with me Mr. Arun Masal, who is the Finance Head is here. First of all thank you all for being the part of Balaji Amines family.

Last year in spite of many hurdles in the chemical market, we have done substantially good 727 Crores gross sales as against 689 Crores of the same period last year around 5.56% growth in value and same way profit before tax has increased to 40% to 130 Crores as against 93 Crores and the EPS stood about 26.41 as against 18.91 and the EBITDA margins have increased to 21.69 as against 19 for FY2016.

Overall if you see there is a value growth of 10% and even exports also marginally by volume increased. Moving forward, we have recently received the environmental clearance for the Morpholine, acetonitrile, and Di-Methyl Amine Hydrochloride. As said earlier, we will be taking up around 7 tonnes of Morpholine for the existing capacity of 3000 in total taking it up to 10000 tonnes of Morpholine per annum and acetonitrile around 9000 tonnes initially and Di-Methyl Amine Hydrochloride will be adding around 7500 tonnes for the existing capacity.

Environmental clearance was pending for the long time because of the procedures from government it has come on the table in the month of April where it has actually approved. Now it is approved in the last month with some conditions. Probably in the couple of months, we should be in a position to come to commissioning well. Each of the facilities will be common that is why it will not take so much time; only three equipments will be under erection.

This is what I can say. Thank you very much. For any questions, please ask one by one. If it is briefly that will be great. Thank you.

- Moderator:** Thank you very much. Ladies and gentlemen we will now begin with the question and answer session. We will take the first question from the line of Pratik Chaudhary an Individual Investor. Please go ahead.
- Pratik Chaudhary:** Good afternoon Sir. Sir, do we have any other products other than Morpholine, acetonitrile, and Di-Methyl Amine Hydrochloride that we would be getting into with this expansion?
- Ram Reddy:** No immediately. Actually we will be doing these three products first and consolidating the capacities to the maximum utilization level then probably next coming financial years we may think of any new products.
- Pratik Chaudhary:** Sir, what is our existing DMAHCL capacity?
- Ram Reddy:** Around 80 tonnes we are doing presently per day and we may be adding another 25 tonnes.
- Pratik Chaudhary:** We are doing 80 tonnes per day you are saying?
- Ram Reddy:** Yes.
- Pratik Chaudhary:** This is our production or capacity?
- Ram Reddy:** We are doing actual production, about 80 to 84 tonnes is the capacity, but we are doing 2 to 3 tonnes here and there it is coming to around 75 to 80 tonnes.
- Pratik Chaudhary:** So it is almost at 90% to 95% utilization, you are saying?
- Ram Reddy:** Yes.
- Pratik Chaudhary:** Sir for acetonitrile I guess this is a new product that we are getting into right?
- Ram Reddy:** Yes.
- Pratik Chaudhary:** Do we have any customer tie-ups for this?
- Ram Reddy:** For this product may be new, but it is a solvent, which we are already, dealing and majority of the customers for the acetonitrile will be from the existing basket. We have many customers who are already using Amines and they will be using this acetonitrile also. So there should not be a big problem, but apart from this we have many of our distributors to whom we are exporting outside the country that are also dealing with the same products.

Pratik Chaudhary: For this 9000 new capacity of acetonitrile basically is it going to be sold in the domestic or the export market? What will it primarily cater to?

Ram Reddy: It should be both.

Pratik Chaudhary: Both combination.

Ram Reddy: Yes.

Pratik Chaudhary: Because I guess the domestic market is only 16000 tonnes if I am correct, so what sort of volumes would we be able to target in the coming years?

Ram Reddy: Even though initially we say that we are starting with 9000 tonnes actually if we do some debottlenecking we may add another 5000 to 6000 tonnes like that may be 15000 to 16000 tonnes. If you see our environmental clearance it is for 17000 tonnes. Even in this 9000 tonnes also I will not say that I am going from tomorrow. It may be in the first year we will be doing about 5000 to 6000 tonnes out of which may be 2000 to 3000 tonnes in the domestic market and may be 2000 to 3000 tonnes outside the country. This is first year of operation; I am talking in the conservative manner.

Pratik Chaudhary: Sir, for this expansion now that we have already applied for the wildlife clearance and in your opinion and as per for the information that you have will be eco-sensitive region of that area which is close to the Great Indian Bird Sanctuary that still not has been notified, so as per the information that you have what time is it likely to take for you to get this wildlife clearance?

Ram Reddy: Actually it is a notified area, industrial area. I do not know how the government has done this. We do not understand. The land which we have purchased, which we are talking about everything is MRDP. Government when they allot the land they should have done all these things. Presently small things since they have given this condition of NOC, which we have already applied, they have given some query for which we already replied, probably it should not take much time, may be in a couple of months' time, we hope that we should get.

Pratik Chaudhary: Post that then you will apply for consent to operate for the expanded capacity?

Ram Reddy: Actually we are trying to submit simultaneously the moment the commissioning is done then we will be submitting because this is in advance stages. Wildlife is already advanced. It is in the process. The moment we finish commissioning then we will submit this. In the meantime, we expect that it should come. This is our expectation. I do not know these are all government and for the environmental clearance we thought that it will be done in the last year but it took a lot of time.

- Pratik Chaudhary:** Sir, for these three products, what is the investment we are putting up for this projects?
- Ram Reddy:** First the acetonitrile will be around 18 to 19 Crores we are quoting. For Morpholine about 30 Crores is the total outlay and for Di-Methyl Amine Hydrochloride around 6 to 7 Crores because we have already constructed a building earlier only, installing the machinery that is all for that.
- Pratik Chaudhary:** Rs.6 Crores to Rs.7 Crores you said?
- Ram Reddy:** That is all. Only equipment setup is required, all other infrastructure is already there.
- Pratik Chaudhary:** Acetonitrile, you said around Rs.20 Crores?
- Ram Reddy:** Rs.18 Crores to Rs.20 Crores.
- Pratik Chaudhary:** Thank you so much. I will get back in the queue.
- Ram Reddy:** Thank you Mr. Chaudhary.
- Moderator:** Thank you. The next question is from the line of Sangita Puroshottam from Cogito Advisors. Please go ahead.
- Sangita Puroshottam:** Good afternoon Sir. Sir, my question was relating to the expansion, how much of the capex has already been incurred and how much more is there to be incurred? That is one question. The second is that in terms of the final environmental clearance from the National Wildlife Board, do you anticipate any issues there either in terms of incremental investment required or any specific concerns that there might be, which could delay this further? That is question two. The third question was that in terms of our subsidiaries, there is the hotel business, which I think is EBITDA breakeven if I am right, but is still making a loss at the PBT level by when do we anticipate that being PBT breakeven and the CFL business, have we completely closed down and is that a loss, which will not repeat next year?
- Ram Reddy:** Thank you Sangita Ji. See, your first question that investment point of view, the acetonitrile out of Rs.18 Crores to Rs.19 Crores, we have already invested about Rs.16 Crores to Rs.16.5 Crores on account of advances for the equipment suppliers and all, may be another Rs.2 Crores to Rs.3 Crores, we need to put and even for Morpholine also since they are the long delivery we have ordered all the equipments we might have spent almost more than Rs.20 Crores another Rs.10 Crores is required there all these from the internal accruals. Second question for this wild life; wild life, we have already applied. As I said the earlier question and answer also, we have done all; there should not be additional expenditure required on account of that because we are not establishing a new plant, it is an

existing plant where it is running for years together. We have been adding these capacities, so that is all. As regards to your next question for this hotel; hotel, I think it is already started if you do not consider the depreciation, it is already adding to the bottomline. If you see in detail, it has started contributing more than 40 lakhs to 50 lakhs every month to the bottomline and as regards to your CFL lamps, yes we already closed all the activities in the CFL lamp plant. This machine is idle. The land and building is still there. Machine, we are looking to sell it out and for the land and building, we are trying to utilize; we have put up some papers to the Government of India to start some chemical industry in that, so that we may take a year or two years' time to come into the shape.

Sangita Puroshottam: Okay, so that loss will not come at all in FY2018 now?

Ram Reddy: No.

Sangita Puroshottam: Thank you.

Moderator: Thank you. The next question is from the line of Jatin K from GS Investments. Please go ahead.

Jatin k: Thanks for taking my question. My first question was on acetonitrile. Since this is a new product for us and domestic demand is also less and one of our biggest competitor listed competitor is also expanding its capacity in acetonitrile, so how confident are we that we will be able to sell the capacity that we are putting up?

Ram Reddy: Thank you dear. Your question itself is giving answer for me that somebody is investing money means there is an opportunity in the product. So, for you to say acetonitrile is a product is new but we are not new to the market. As I said in the earlier question that most of the customers in India, they are using existing customers. They are already using other amines and secondly all of my distributors outside country, they are all dealing with this product. So, as I said, I am not talking about very big pictures, I am talking about my first year operation, it should not be more than 5000 tonnes or 6000 tonnes and there should not be any problem for me to sell this 6000 tonnes for 3000 tonnes domestically or 3000 tonnes outside the country; so there should not be any problem.

Jatin K: Once we achieve this full capacity of all these three products, what kind of revenue do we expect as in at full utilization, what kind of revenue at current commodity prices we expect?

Ram Reddy: It should be Rs.1000 Crores to Rs.1100 Crores. If all these three are fully utilized after installing; all the installed capacities are utilized, it should be with the current prices it should be Rs.1050 Crores to Rs.1100 Crores.

- Jatin K:** Okay and in how many years as we planned to do that?
- Ram Reddy:** Maybe next two years to two and a half years. This year half year will come and after next two years. I am talking of 2021 it should be Rs.1100 Crores.
- Jatin K:** Okay and Sir we were talking about some moderation in our EBITDA margins in the last one or two calls. So what kind of EBITDA as in because we were saying that it will reduce 1% or 2%, so do we stick to that kind of guidance?
- Ram Reddy:** Yes and still but is not in my hand, I told that it will be 18%, 19% but actually it has come to 21.69% precisely. So in the same current year also I am talking because my calculations, my thing says that it should be market never allowed us to go beyond 18% to 19%. This reason I was all the time telling it should be 18%. So it will be between 18% and 21%.
- Jatin K:** Thank you Sir. That is it from me. Thank you.
- Moderator:** Thank you. The next question is from the line of Nikunj Doshi from Bay Capital. Please go ahead.
- Nikunj Doshi:** Good evening. Thanks for the opportunity. Just wanted to understand revenue split as per the major product, so can you just give us some idea as to which product is contributing to the revenue, do you mean in what proportion during FY2017?
- Ram Reddy:** It is very difficult but you can send a mail I can send but I may not be having it handy. You can just drop a mail you will get the reply.
- Nikunj Doshi:** Another thing is if you look at the financials, during FY2012 to FY2014, we had seen growth in revenue but profit had declined, during FY2014 to FY2017, revenue is more or less flat, but profit has seen the significant increase. So, what has been the reason for this?
- Ram Reddy:** Number one, capacity utilization because when initially we have created bigger capacities by investing huge money; we were utilizing lower capacities. The times past we have started utilizing higher capacities and financials have come down; interest part has come down. If you see in the next one-year to two years it will become debt free.
- Nikunj Doshi:** But margins wise, as you mentioned earlier also means 18% to 21% is the range we should assume?
- Ram Reddy:** Yes, that is what I feel. Until and otherwise if the major thing happens.

- Nikunj Doshi:** The user segment wise, which is the largest user segment for us?
- Ram Reddy:** AP and pharma around 50% to 54% is going into the AP and pharma around 25% to 28% is in the agrochemical industry and the rest is other sectors.
- Nikunj Doshi:** Okay, thanks and can you share your e-mail ID please so I can?
- Ram Reddy:** ram@balajiamines.com or you can send it to finance@balajiamines.com.
- Nikunj Doshi:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Shekhar Singh from Excelsior Capital. Please go ahead.
- Shekhar Singh:** Yes Sir, I just wanted to know like you just now mentioned that by 2020 to 2021, your new plant would be at full capacity. So, if I understood you correctly it basically mean from the Rs.670 Crores of revenues, which you have reported this year, it will be somewhere close to Rs.670 Crores plus Rs.1100 Crores. Is that correct that as Rs. 1700 Crores or something by 2020 to 2021?
- Ram Reddy:** No, I am talking about total Rs.1100 Crores I am talking.
- Shekhar Singh:** Total Rs.1100 Crores, you are saying?
- Ram Reddy:** Yes.
- Shekhar Singh:** As the new plant comes on stream, so initially the margins will fall I suppose because right now your margins are at historic highs; going forward, do we expect the margins will actually come before rising again?
- Ram Reddy:** It should not come down because it should add because we are not taking any finance. This is entire internal accruals. No finance cost, even a rupee coming into the profit that is added to the bottomline.
- Shekhar Singh:** No, but the way I am thinking is like say when you start a new capacity initially when the capacity utilization is 20%, 30%, 40% your overheads are not fully covered and therefore the margins for that incremental businesses actually on the lower side?
- Ram Reddy:** That is what I am telling. This is not a new plant in standalone. It is a part of total expansion, right. We are having Rs.850 Crores to existing and adding Rs.250 Crores, it does not add any overheads

sharing to these new capacities; probably may be 5% here and there but there should not be any problem.

Shekhar Singh: Sir lastly like your cash flow from operations has been pretty strong and that has helped you to repay debt, you made a passing comment that in the coming year or year after, you are expecting to repay the entire debt, is that right?

Ram Reddy: Yes, you are right. By end of this year, it will be left only with Rs.10 Crores to Rs.15 Crores of the total long-term loan. That will be paid here in the next financial year.

Shekhar Singh: Next financial year, okay. Great Sir. Thanks a lot.

Ram Reddy: That is including hotels because actually hotels we have taken Rs.33 Crores plant, we do not have anything. You can say this is only hotel part only Rs.15 Crores left.

Shekhar Singh: Okay, great Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Sameer Chedda under Individual Investor. Please go ahead.

Sameer Chedda: Hello, good evening Sir. Just wanted to know what is the progress on antidumping duty, which was investigation on DMA?

Ram Reddy: Actually it is DMAC, which is in advanced stage. They say that next week the investigating officer should be visiting our plant and the other plant also. The other competitor both plants they will visit. Then probably by month end if everything goes well, they should initiate initial antidumping for the one product, which is dimethylacetamide. After that, we will start going on the DMF because actually DMF there is a lot of improvement in the pricing because the reason we have taken little bit backbench.

Sameer Chedda: Okay and what about methanol prices, are they stable now or they are still?

Ram Reddy: Methanol, I cannot say is stable. If I say today, tomorrow it can go down. It is very volatile. Yesterday somebody was selling at Rs.19 today somebody is talking about Rs.20. It has become very volatile market. But it will not take very major step like earlier months about four to five months back it went up to Rs.30 to Rs.34, but I do not think, it will stay between Rs.20 to Rs.24 it should stay that is what we expect.

- Sameer Chedda:** Best of luck for the future projects. Thank you.
- Ram Reddy:** Thank you dear.
- Moderator:** Thank you. The next question is from the line of Pratik Chaudhary an Individual Investor. Please go ahead.
- Pratik Chaudhary:** Sir, for our competitor Alkyl Amines they are putting up this plant in Dahej, so could you give some qualitative comments on how this plant would change our positioning in the market?
- Ram Reddy:** I do not know what capacity, how they are coming with, what I see, there is a huge gap coming up in the methylamines market. For me the competitiveness I can say my plant is nil, as I said in earlier questions, it is a zero debt. There is no interest cost and all, that itself is enough for me to compete with any competition.
- Pratik Chaudhary:** Could you elaborate more on, what you said that there is a huge gap in the methylamines market?
- Ram Reddy:** Actually, there is a shortage in the worldwide if you see the methylamines it can accommodate easily another 30 tonnes to 35 tonnes capacity per day may be in the nearby countries market I can say, presently the India is exporting this methylamines?
- Pratik Chaudhary:** Okay, do we also export this?
- Ram Reddy:** Yes, we are exporting. Mr. Chaudhary, secondly I would like to say for everybody the most important thing is methanol is the cheapest in the world in India. You can ask me how it is because for Iran, Saudi, overseas producer the favorite destination is India. Any point of time you see, if you go to the past 15 years to 20 years India is the ruler I can say for the methanol market. So for the methylamines, the major raw material is methanol and ammonia. Ammonia is always we have the surplus for fertilizer to the industry purpose. We have good locational advantage I can say. The reasons at any point of time you calculate India's cost point of view, cheap for the methylamines if you compare with any country in the world. This much I can tell with my past experience. So the reason there should not be any problem for the capacities coming up even from the competitors also.
- Pratik Chaudhary:** So it will easily get absorbed in the market?
- Ram Reddy:** It should because two to three years back when we have started with 100 tonnes per day capacity, initially we used to run only, there after six months, we have started running 15 days, then 20 days,

today we are running full. The same thing will come by the time the other capacities come, this gap will definitely will be there.

Pratik Chaudhary: So, our capacity right now methylamines is 100 tonnes per day Sir?

Ram Reddy: No, second plant. First plant is already 70 tonnes to 80 tonnes and this is about 90 tonnes to 100 tonnes. Around 160 tonnes to 170 tonnes per day methylamines capacity is there now.

Pratik Chaudhary: For Balaji Amines and what would be our utilization for the same?

Ram Reddy: Now we are using almost to 80% to 90%.

Pratik Chaudhary: Okay, great and Sir so do we have any plans for expanding this capacity?

Ram Reddy: Not immediately, not atleast next one to two years.

Pratik Chaudhary: Thank you.

Moderator: Thank you. The next question is from the line of Varij Bangur from Pico Capital. Please go ahead.

Varij Bangur: First of all congratulations for the annual results, Balaji Amines placed Sir.

Ram Reddy: Thank you.

Varij Bangur: I just wanted to know that the very widest empanel what are the terms of contract like it is a one month contract or three month contract and when does this contract come?

Ram Reddy: For me, we have signed annual contract with one company with whom we are working for almost 15 years to 20 years. We signed an annual contract with a formula basis, which is used worldwide, that is call ICIS, West Coast India we call it. For us it is applicable. See, this is published all over the world area wise. So, we sign a contract for about certain quantity saying that my price is applicable, the week up shipment and the week before shipment ICIS West Coast India plus some percentage or minus some percentage depends upon the contract to contract.

Varij Bangur: So the price keeps on fluctuating week wise?

Ram Reddy: Now every Friday it is published and it is published from Singapore.

- Varij Bangur:** If any major change as far as the prices of ethanol, so there is no probability even for if you can pass on the price to the customers, right?
- Ram Reddy:** Yes, but not like unlike other manufacturers because mine is a contract, so I will not go for any market advantages like something comes down, I cannot jump and do the 100% buying from the market and if something goes wrong in the open market, it is not effect me. So the reason more than 50% to 60% is of my consumption is covered in this contract.
- Varij Bangur:** Regarding this Morpholine industry is importing Morpholine, so and you have been thinking of **(inaudible) 30.41**, and I think your competitor is also coming up with sponsoring of it? So we shall face in some competition in the segment. So how confident you are that you are going to organise 9000 to 10000 tonnes Morpholine in the coming years?
- Ram Reddy:** Presently we are producing 3000 tonnes, 3300 tonnes for several years and the country's consumption is almost 6000 tonnes. Outside country, definitely there are big numbers in various areas of the world, which we have not touched because of the capacity consistency earlier and where we are already there in the muster with various customers outside the country, so those will be reviewed and renewed and can be increased the moment we start these new capacities. So I should think there should be any problem.
- Varij Bangur:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Sangita Puroshottam from Cogito Advisors. Please go ahead.
- Sangita Puroshottam:** What I wanted to check was with the new capacity coming in, what you really indicated is that the topline growth over the last three years would end up being somewhere between 15% and 20% or would that be a right interpretation?
- Ram Reddy:** Yes, it should be. Again, Sangita Ji, we cannot say today value wise. On some of the existing capacity, which are not utilised fully can be more than 20% also like the DMF we are using very small capacity and now we have started utilizing bigger capacity.
- Sangita Puroshottam:** Okay so the DMF could provide an upside, but based on whatever we are utilizing now because that is where we are doing the expansion, that could give us about 15% to 20%, right?
- Ram Reddy:** Right.

- Sangita Puroshottam:** Volume growth?
- Ram Reddy:** Yes.
- Sangita Puroshottam:** In terms of margins we expect margins to be more or less stable right, in that range or hint that you have indicated, 18% to 21%?
- Ram Reddy:** That is what we expect and we dream.
- Sangita Puroshottam:** Okay, and interest costs will keep coming down till you repay the debt and your tax rate will remain stable or is that likely to change in anyway?
- Ram Reddy:** It will go up. The moment your profit is increased you will have to pay more from your pocket. So that what happened in the current year also.
- Sangita Puroshottam:** But in percentage terms?
- Ram Reddy:** No, percentage will be same, but more profit you will have to pay more tax.
- Sangita Puroshottam:** What I meant was your tax rate?
- Ram Reddy:** Why I am telling Sangita Ji since we have not done any great expansion in the earlier years, there will be after hotel there will not be any big depreciation advantage. The moment we commission at least these two plants these advantages will come to some extent to save the tax part.
- Sangita Puroshottam:** So, Sir with the cash flows improving significantly as we go along because bulk of our capex is over and you will be paying debt, are you likely to utilise this to pay more dividend or would there be further expansion or any thoughts on capital allocation.
- Ram Reddy:** This is too early to talk. That is why I am telling the moment we finish this, we will be doing all the consolidation and it will take a year's time to finish this existing term loan. Maybe I was telling the same thing, may be next one two years time, we have many products in the pipeline, which you have done R&D and kept ready. I cannot disclose those things right now, but may be after one or two years once this is consolidated definitely there will be something for the expansion.
- Sangita Puroshottam:** Thank you.
- Moderator:** Thank you. The next question is from the line of Jatin K from GS Investments. Please go ahead.

- Jatin K:** On methylamines I had a question. What is the total worldwide demand of methylamines?
- Ram Reddy:** I am too small for such a big question because I can only say what is in the country's part, but outside I do not know what will be the demand, but one thing only I can guarantively say that there is a growth in the methylamines between 12% and 18%. Basically the last year it will end up to more than 10% to 12%. In the last two years it is growing very fast.
- Jatin K:** What is our revenue per share from this product, methylamines?
- Ram Reddy:** It is around, but I do not have the figures handy, but around it is 141. 140 Crores to 150 Crores, I can say.
- Jatin K:** Thank you Sir. That is it from me. Thank you.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Ankit Gor for his closing comments.
- Ankit Gor:** Thank you. Thank you for participating. Thank you Ram Sir for giving us an opportunity to host this call. I would like to hand over the call to the management for the closing comments if any. Thank you.
- Ram Reddy:** Thank you very much all my friends to show the confidence on the company. We are definitely to the welfare of all the stakeholders and investors, as we said in the session, there are definitely good times is there after one or two years once we finish this consolidation of whatever the expansions we are doing and definitely there will be new things be coming up so there will be fruits for all these investments be coming in full swing. So thank you once again. Thank you all and especially Ankit for you organizing this call. Thank you very much.
- Moderator:** Thank you. Ladies and gentlemen with that we conclude today's conference. Thank you for joining us. You may now disconnect your lines. Thank you.