Management Discussion & Analysis

An economic overview

World economy

Resurgence was the single theme that played through 2021 across the world despite multiple waves of the pandemic which put significant roadblocks on the path to economic progress. The global economy grew by 5.5% in 2021 after a 3.4% contraction in 2020.

While the economies of developed nations made considerable progress in recovering from the pandemic owing to sizeable fiscal stimulus and vaccination drives, economies in transition faced headwinds from time to time, positioning their growth in the unstable zone.

The major drivers of this growth were an increase in output, improved consumer spending, higher investments, and an unprecedented increase in trade of goods, exceeding pre-pandemic trade levels.

As per the United Nations Conference on Trade and Development, the overall value of global trade reached a record level of US$28.5 trillion in 2021 which was 13% higher than 2019, the year before the Covid-19 pandemic. According to United Nations Industrial Development Organisation, global manufacturing production increased by 9.4% in 2021, after a pandemic-related drop of 4.2% in 2020.

The world's economic progress was thwarted by the spread of Omicron, although its impact was short-lived.

Outlook: The outlook is clouded by the ongoing geopolitical tension between Russia and Ukraine. Disruptions, sanctions and higher commodity, fuel and food prices bear the potential of troubling global value chains. Global supplies are at risk and seem unlikely to be rescinded any time soon. The world economy is expected to slow a little with the GDP growth expected to drop to 4.1% in 2022.

Indian economy

Shadowing the global economic trend, India too registered a smart rebound to register a stellar economic growth with the GDP scaling by 8.9% in FY22 against a contraction of 6.6% in FY21. This resurgence positioned India as the fastest growing major economy in the world.

The economic resurgence was fueled by timely fiscal and policy-led support by the Government, vaccination drives across urban, semi-urban and rural India and supported by the private sector which continued to operate while adhering to Covid-protocols and restrictions.

What was important is that the economic growth was holistic with every segment making a handsome contribution to the economic resurgence. Agriculture and allied services increased by 3.9%, the Industrial segment increased by 11.8% as did the services sector which grew by 8.2%. Majority of the High-Performance Indicators crossed their pre-covid benchmark which reflected a more wholistic economic recovery.

Some of the other positives for FY22 were:

- India's merchandise exports increased to a record $419.65 billion, but imports increased higher to $611.89 billion, leaving a deficit of $192.24 billion
- India's total tax revenue in FY22 scaled by 34% to ₹27.07 lakh crore in FY22 – it was even higher than the budget estimate for FY22
- India's sovereign rating outlook by Moody's to "Stable" from "Negative" and affirmed the country's rating at "Baa3"

The growth-oriented and pro-development, Union Budget 2022-23 drew the contours of a progressive India for the next 25 years driven by a massive spend on infrastructure – it significantly uplifted the spirits of India Inc and every Indian.

However, even as India was poised to sustain its growth momentum well into FY23, geo-political tension and the stringent sanctions have impacted the global supply chain. This has resulted in a flare up in fuel, food and commodity prices. As such, the Government, to protect the nation from the adversities in the aftermath of war, had to undertake some to protectionist measures.

Outlook: In keeping with the prevailing volatility and inflationary pressures, the Government has had to rework on its estimates keeping in view all possibilities of the on-going war, its duration and its impact on Indian economy. The Reserve Bank of India has reduced its estimate for the India's GDP growth in FY23 – to 7.2% from the earlier 7.8%.

Indian Specialty Chemical Industry

Globally, the specialty chemical space is expected to witness healthy growth over the medium-term driven by growing demand from the Asian markets. Close to about a fifth of the overall chemical market, the specialty chemical industry is expected to grow from US$840 bn-plus to about US$1.2 trillion by 2025.

China, the leader in this space, is facing headwinds in recent times owing to stringent environment regulations, labour laws and the more recent pandemic apart from spiraling costs. As such, global majors are focused on broad-basing their vendor base. This trend is expected to open considerable opportunities for Indian players.

India occupies an important position in the global supply chain space, developing and delivering products across the world to leading global chemical majors. In the last five years (FY16-20) specialty chemicals accounted for more than 50% of total chemical exports from India.

India is expected to be major beneficiary of this strategic shift transpiring across the globe as it has established itself as a dependable supplier of quality products. As such experts suggest that the Indian specialty chemical market will grow at a 9% CAGR (FY20-26) against an estimated growth of 5.6% across the globe over the same period.

Indian Amines space

Amines are primarily derivatives of ammonia. If one or more than one hydrogen is replaced with alkyl substituents, then it is called Alkyl Amine. Based on the type, Alkyl Amine is segmented into Methyl Amine and Higher Alkyl Amines (Ethyl Amines, Propyl Amines, Butyl Amines and Cyclohexyl Amines). The end-use markets for Alkyl Amines include rubber processing, solvents, agrochemicals, explosives, pharmaceuticals, food additives, paper chemicals and water treatment, among others.

The amines market in Asia-Pacific (APAC) is expected to grow by USD$ 4.69 billion from 2021 to 2026 progressing at a CAGR of 9.58% as per the estimates of Technavio. This growth will be driven by increasing compound applications from several industries and the rising demand from Pharma, Agrochemicals, personal care and cosmetic industries

The Chinese Government's clampdown on polluting industries and shutting down of many smaller units have created a disruptive discrepancy between demand and supply. This curb on polluting companies has prompted Indian Pharma and Agrochemical companies to depend on local Indian suppliers. Also, other countries which used to import from China are considering India as a preferred nation thereby adding to the export revenue of the Indian Amine industry.

Company overview

Balaji Amines is a leading name in India's Aliphatic Amines & Specialty chemicals sector. Recognised for its ability to offer a superior value-proposition to its customers, the Company's products find acceptance with leading global companies across the globe.

The Company's state-of-the-art manufacturing facilities near Solapur (Maharashtra state, India), and Hyderabad (Telangana India) are fully equipped with the cutting-edge technology and computer-controlled, fully automated operating systems. Its manufacturing capability is ably supported by its R&D competence which assists the Company in developing import-substitute products and novel processes that optimise the cost of manufacture and improve quality of existing products.

Balaji has clients across different segments like pharmaceuticals, agrochemicals, paints, textiles, water treatment etc. Exports account for more than 20% of its overall revenue.

Financial performance

(Commentary based on Consolidated Financials)

Revenue from Operations for FY22 stood at ₹2,327.60 crore, up by 76.66%, as compared to ₹1,317.53 crore in FY21. The revenue growth was on account of improved volume offtake (total volumes stood at 115,349 MT for FY22 against 106,057 MT in FY21) better capacity utilisation.

EBITDA for FY22 was ₹637.39 crore, up by 68.04%, as compared to ₹379.30 crore in FY21. EBITDA margin dropped marginally in FY22 to 27.38% from 28.79% in FY21. Despite the difficult inflationary environment, the Company was able to limit the fall due to better operating leverage on account of increase in volume and improved price realisation for some of its products.

Net Profit for the year stood at ₹417.90 crore against ₹243.50 crore – a jump of 71.62%. On a standalone basis, Balaji Amines is a zero-debt company. On a consolidated basis, its gross debt stood at ₹100.64 crore and net debt stood at ₹49.08 crore as on 31st March 2022.

Key ratios	FY22	FY21	Change (%)
Current Ratio	2.47	2.43	1
Debtors Turnover	5.41	5.30	2
Inventory Turnover	12.85	13.05	(2)
Debt-Equity Ratio	-	-	NA
Interest Coverage Ratio	61.10	59.10	3
Operating Profit Margin (%)	28.67	32.51	(12)
Net Profit Margin (%)	16.05	18.87	(15)
Return on Net Worth (%)	25.83	25.82	0

Product wise performance

Particulars	As at 31st March, 2022		As at 31st March, 2021		Growth (%)
	Quantity (MT)	Amount (₹ crore)	Quantity (MT)	Amount (₹ crore)	
Aliphatic Amines	24,999	367.68	18,728	234.06	57.09
Specialty Chemicals	36,010	1,005.88	37,102	533.89	88.41
Derivatives of Amines	37,171	523.29	38,857	449.05	16.53
Total	98,180	1,896.85	94,687	1,217.00	55.86

Revenue from Aliphatic Amines products in FY22 was ₹367.68 crore against ₹234.06 crore in FY21 - up by 57.09% Revenue from Specialty Chemicals stood at ₹1,005.88 crore in FY22 - up by 88.41% - against ₹533.89 crore in FY21. Revenue from Derivatives of Amines increased by 16.53% from ₹449.05 crore in FY21 to ₹523.29 crore in FY22.

Expansion plans

As a proactive enterprise, the Company has planned a capex blueprint which includes 1) increase its presence in existing products through debottlenecking and technology upgradation and 2) enter new spaces that hold promise for sustained long-term growth.

DMF Debottlenecking: As a result of the completion of the debottlenecking exercise, the capacity utilisation of this plant has increased substantially, the full impact of which is likely to be visible in the next financial year. The Company expects the capacity utilisation of DMF plant to increase to ~75% in FY23 from ~42% in FY22.

DMC plant: Capex for the DMC plant under Phase 1 of our 90-acre Greenfield Project (Unit IV) is almost complete and the Company looks forward to commencing operations by the end of Q1FY23. With some refinements in the manufacturing process, this plant will have capacity to manufacture about 15,000 tons of DMC per annum. This will also result in an annual production capacity of 15,000 tons per annum of Propylene Glycol. The Company would be the sole manufacturer of DMC in India and currently the annual domestic demand stands at about 8,000 to 9,000 tons which is completely met by imports.

Future plans: The Company will initiate the following capex initiatives in FY23-24:

1) A new N-Butylamine plant with a capacity of 15,000 TPA
2) An acetonitrile plant with a capacity of 15,000 TPA
3) A methylamine plant with a capacity of 40,000 TPA
4) A DMF plant with a capacity of 30,000 TPA

The total capex is estimated to be about ₹300-350 crore. The production of above plants will commence between mid FY24 till end of FY25.

Hotel division

Balaji Sarovar Premiere represents the Company's foray in the hospitality space. Established in 2013 at Solapur, this 129-key property is managed by the Sarovar Group on a management fee + revenue-sharing model.

The Solapur city is located in the south-western region of India, and it shares its border with Karnataka. This city is located on major highway, rail routes between Mumbai, Pune, Bengaluru and Hyderabad, which provide a great connectivity to the city. Besides, with the presence of many corporates in the region, the hotel occupancy rates tend to remain higher.

The hotel segment contributes ~2% to the Company's consolidated revenue.

Another pioneering effort

The reactor installed at the facility is unique for its creation. This is the first instance of such a reactor being assembled, for it was done by conducting simulation of all design parameters such as selecting best metallurgy, operating parameters, process parameters and how it behaves under certain catalytic reactions. The reactor is operating seamlessly in high temperature with high pressure.

Balaji Specialty Chemical Limited (BSCL), our subsidiary

Incorporated in 2010, Balaji Specialty Chemicals Limited (BSCL), a subsidiary of Balaji Amines Limited, is the sole manufacturer in India for niche chemicals such as Ethylenediamine (EDA), Piperazine (PIP), Diethylenetriamine (DETA) and Aminoethylpiperazine etc., the products have REACH Certification from Europe for exports.

These products cater to diverse and high-growth industries like Specialty Chemicals, Agrochemicals, Pharma, Oil Well Drilling, Paints & Coatings, Rubber Processing, Textile Industries, Plastic Lubricants, Elastomeric Fibres, Bleach Activator, Fungicides, Lube Oil Additives, etc.

The Company has a state-of-the-art manufacturing facility located on an 11-acre plot at Solapur, Maharashtra which is proximate to major highway and rail routes between Mumbai, Pune, Bangalore and Hyderabad. The facility has installed capacity of 30,000 MTPA and an in-house ETP which positions the facility as a Zero-Liquid Discharge unit. The reactor installed at the unit is unique for its operating parameters and par excellence in its capabilities. It operates seamlessly in high temperature and high pressure.

About 25% of the Company's revenue accrues from exports to regulated and developing nations such as the US, Europe, China, Turkey, Korea, Malaysia, Kuwait etc.

In FY22, the Company reported a stellar performance as demand for its product increased significantly from domestic and global customers. It will help in strengthening price realisation. As a result, business profits and profitability shall scales higher.

Unavailability of key raw materials dissuaded the Company from operating the plant at full capacity in FY22. However, the supply bottlenecks have eased, and the Company expects to substantially increase the utilisation levels in FY23. The Company also aims to increase the share of exports to about 30% going forward from about 25% in FY22.

(₹ in Crore)

Particulars	FY22	FY21
Total Revenue	516	181
Cost of goods sold	265	105
Gross Profit	251	76
Gross Margin (%)	49	42
Employee Expense	3	2
Other Expense	65	27
EBITDA	183	47
EBITDA (%)	35	26
Depreciation	13	11
Finance Cost	15	19
PBT	155	17
Tax	45	5
PAT	110	12
Net worth	190	80
Total Debt	167	204
Cash and Bank	3	2
Net Block	187.87	200.30
Return on Equity (ROE) (%)	58	15
Return on Capital Employed (ROCE) (%)	46	13

Human resource

Balaji is cognizant of the role of its intellectual capital in its successful journey this far. As such the Company has created a conducive environment for its people to grow professionally. The employees are sufficiently empowered, which inspires them to channelise their talent and unlock their true potential in accomplishing the set goals for the organisation.

Balaji's care for its people was reflected during the multiple waves of the pandemic during FY22. The Leadership connected with team members to allay fears and motivate them. The HR team ensured that Covid-related protocols were strictly adhered to even as business operations continued and ensured all the communities were vaccinated so that the Company's staff and their family are safe and secure

Internal Control Systems and their Adequacy

Your Company has appropriate internal control systems for business processes, efficiency in its operations, and compliance with all the applicable laws and regulations. Regular internal checks and audits ensure that the responsibilities are being effectively executed. The Company conducts In-depth review of internal controls, accounting procedures and adherance to Company policies. Your Company has adopted adequate internal control and audit systems commensurate with its size and nature of business.

Risk management

Business is all about taking risks with the objective of capitalising on emerging opportunities. As such, Balaji takes calculated risks in identifying the products and processes which are commensurate with present industry standards. The Company identifies risks which could impact business operations and address them ahead of time leveraging root cause analysis.

The Company focuses on early identification of probable risks based on the dynamic and evolving external ecosystem and believes in mitigating risk early with the objective of minimising business disruptions. The Audit Committee and Management team work in tandem to identify the risks and mitigate them. Following are some of the risks and mitigatory responses for the Company:

1) Economic risk

A slowdown in economic progress would impact the Company's business prospects.

Mitigation measure: The Company has a strong presence in domestic and international markets – wide spread usage of its products mitigate the risk; it is not entirely dependent on the progress of a single economy. A slowdown in any one nation will not significantly impact the prospects of the Company.

2) Competition risk

Competitive intensity could impact business profitability.

Mitigation measure: Balaji, since inception, has focused on developing products that are import-substitutes. As such it has created market spaces which did not exist hitherto. Further, it continued to improve its processes to strengthen its competitive edge. For half a dozen products, Balaji is the only manufacturer in india. This planning has ensured that Balaji remains relevant to its customers who are from varied industries.

3) Raw material risk

Non-availability of key inputs could impact the Company's operations and customer commitments.

Mitigation measure: The Company maintains sufficient stock of all key inputs used in the manufacturing process. Additionally, it enjoys healthy business relations with all its vendors for decades. This facilitates in securing the required quantity of inputs.

4) Cost risk

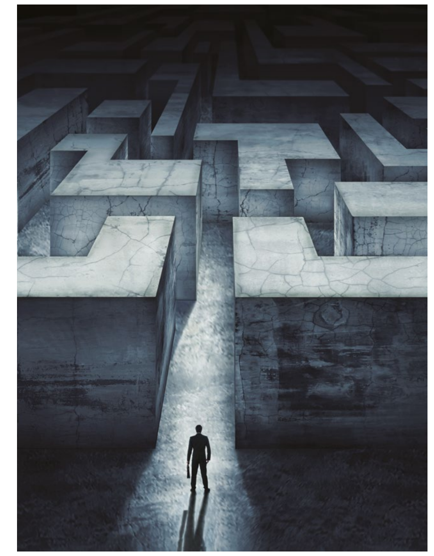
A sudden spike in input costs (some of which are crude/Gas oil derivatives) could dampen business profitability.

Mitigation measure: This would impact the industry. Balaji would not be an exception; Balaji will be passing on the incremental costs to its customers with a minimum lag so that it will not impact the profitability. Where the Company stands out is its ability in reducing cost of manufacture through technology and process improvements. This niche allows the Company to stand out of the crowd.

5) Environment risk

The Company's business operations could adversely impact the environment.

Mitigation measure: Environment management has been an important priority for the Company. It has, over its multi-decadal journey ensures that its environment standards are well within those prescribed by the Pollution Control Board. It has invested in infrastructure, systems and processes to have as a zero-liquid discharge facility.



Material Developments in Human Resources/Industrial Relations front. Development including number of people employed

BAL considers its human resource as the major strength to achieve its objectives. Keeping this in view, the Company undertakes all the care to attract new talent, provide all the necessary trainings, while retaining well-qualified and deserving employees. Owing to the current pandemic, BAL has adopted all the necessary measures required to keep the employees safe. The employees are sufficiently empowered, and the Company provides friendly environment workplace that inspires them to channelise their talent and unlock the potential, which leads to higher performance levels. BAL appreciates the contribution of its dedicated team with accolades being showered year-round.

Disclosure of Accounting Treatment

The financial statements have been prepared in accordance with all applicable accounting standards.

Disclaimer

Statement made in the Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations may be 'forward looking statements' within the meaning of applicable laws and regulations. Actual results could differ from those expressed or implied. Important factors that could make a difference to the Company's operations include economic conditions affecting demand supply and price conditions in the domestic and overseas markets in which the Company operates, changes in the government regulations, tax laws, other statutes and other incidental factors. These forward-looking statements represent only the Company's current intentions, beliefs or expectations, and any forward-looking statement speaks only as of the date on which it was made. The Company assumes no obligation to revise or update any forward-looking statements, whether because of new information, future events, or otherwise.