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Balaji



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CIN : L24132MH1988PLC049387

AMINES LIMITED

REGD. OFF. : 'BALAJI TOWERS'
No. 9/1A /1, HOTGI ROAD,
AASARA CHOWK, SOLAPUR - 413 224.
MAHARASHTRA. (INDIA)

9th November, 2019

To,
The General Manager – Department of
Corporate Services,
BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai - 400 001.

The Manager – Listing Department
National Stock Exchanges of India Limited,
5th Floor, Exchange Plaza,
Plot No. C/1, G Block,
Bandra – Kurla Complex,
Bandra(East), Mumbai – 400 051.
Scrip Code : BALAMINES

Scrip Code : 530999

Dear Sir/Madam,

Sub: Intimation under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

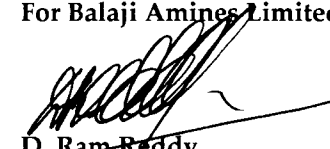
With reference to above cited subject, please find enclosed the transcript of the Conference Call held on Friday, 1st November, 2019.

This is for your information and record.

Thanking you,

Yours Faithfully

For Balaji Amines Limited


D. Ram Reddy
Managing Director

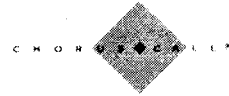
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“Balaji Amines Limited
Q2 FY2020 Earnings Conference Call”

November 01, 2019



ANALYST:

MR. ROHIT SINHA - EMKAY GLOBAL FINANCIAL SERVICES

MANAGEMENT:

MR. RAM REDDY – PROMOTER AND MANAGING DIRECTOR - BALAJI AMINES LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Balaji Amines Limited Q2 FY20 Earnings Conference Call, hosted by Emkay Global. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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 an 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. Rohit Sinha from Emkay Global. Thank you and over to you Sir!

Rohit Sinha: Good evening everyone. On behalf of Emkay Global, I welcome you all to the Q2 FY20 earnings conference call of Balaji Amines Ltd. We have with us today, Mr. Ram Reddy, Promoter and MD of Balaji Amines Limited. We request the management for their opening remarks, post which we will open the floor for the Q&A. Over to Sir!

Ram Reddy: Ladies and gentlemen, very good evening to all of you and welcome to the conference call to discuss the financial performance of the Q2 and H1 of financial year 2020 of the company Balaji Amines Ltd. I hope you have got a chance to go through the press release and financial statements submitted to the stock exchanges and uploaded on our website. Let me take you through the financial and operational performance. We recorded a total revenue of Rs. 230 Crore in Q2FY20 as against Rs. 216 Crore in the corresponding quarter of previous year. EBITDA came in at Rs. 46 Crore in Q2FY20 as compared to Rs. 45 Crore in the same period last year with EBITDA margin at 19.8% in Q2FY20. Profit after tax was at Rs. 35 Crore in the current quarter under review as against Rs. 31 Crore in Q2FY2019. PAT margin stood at 15.1%. Diluted EPS for Q2FY20 stood at Rs. 10.71 per equity share.

In Q2 FY20 Basic Amines constituted 21.7% of sales, Amines Derivatives constituted 42.2% and 36.1% of sales was from Specialty Chemicals. End-user industry wise API contributed about 50% to 56% of revenue followed by agrochemicals at 19%. Other segments like dyes, textile, animal feed, water treatment chemicals and refinery contributed about 5% each.

We had guided in Q1FY20 concall that we expected the performance to be better in Q2FY20 and we have largely been able to demonstrate that. On Q-o-Q basis, our volumes increased by 6% and EBITDA margin improved by 380 bps. Q2FY20 EBITDA margins improved viz-a-viz Q1FY20 margins on account of lower raw material prices and improved offtake. We were not able to pass on the prices to end consumers in Q1FY20 as we were inundated with higher price raw material from previous quarters. Improvement in PAT margins was on back of improved operating margins and reduced tax outgo.

Total volumes for Q2FY20 stood at 21,376 metric tonne as against 17,426 metric tonne in Q2FY19.

For Q2FY20, the Amines volumes stood at 4,631 metric tonnes, Amines Derivatives volume stood at 9,024 metric tonnes and Specialty Chemicals volume stood at 7,720 metric tonnes. Coming to our performance for H1FY20. Revenue from operations in H1FY20 stood at Rs. 462 Crore as compared to Rs. 476 Crore in H1FY19. EBITDA for H1FY20 was Rs. 83 Crore as compared to Rs. 104 Crore in H1FY19. EBITDA margin for H1FY20 was at 17.9%. PAT for H1FY20 was Rs. 54.7 Crore as compared to Rs. 64.8 Crore in H1FY19. Diluted EPS for H1FY20 stood at Rs. 16.87 per equity share.

Several pharmaceutical manufacturers have voluntarily stopped supplies of ranitidine to gauge the level of NDMA impurities and in some cases recalled products. While this has not impacted Q2FY20 performance, we expect little impact in Q3FY20. Irregular spells of excessive rain along with uneven distribution of rainfall across key agri-states adversely impacted kharif crops as well as agrochemical consumption in India.

Balaji Amine manufactures about 25 products in all. We are the first and only company in the world in Amines industry that has used indigenous technology to manufacture Amines. All other companies have either used US or German technology. All our products have a high entry barrier. In 60% of our products, we are the only manufacturers like NMP, NEP, GBL, 2P, Morpholine, DMAC, DMAE, DMU, and DMF.

The strength of Balaji Amines also lies in fact that if some products are not doing well, that is compensated by the performance of some other products. The major raw material used by us are methanol, ammonia, ethanol, BDO, acetic acid and DEG. There is no major dependence on China for raw materials. We have now started buying methanol from local traders on spot basis.

On end products, our selection policy is to either be the first or second manufacturer in India to substitute products that are being imported in the country. Our specialty is to identify and develop the technology and the raw material of the particular product and undertake R&D to develop the same in India.

We now have a capacity to manufacture 10,000 tonnes of Morpholine in FY20. In total, we will be manufacturing about 7,000 to 8,000 tonnes of Morpholine. Other than China, there are only three players making this product in the world. In India itself, there is a shortfall of 5,000 tons of supply in Morpholine. We have also started exporting Morpholine to other countries including China and USA.

We have started manufacturing of fungible products like Acetonitrile and THF. We have licensed capacity of 18,000 tons for these products. In FY20, we will be manufacturing around 4,000 to 5,000 tons of Acetonitrile and total demand of Acetonitrile in India is around 12,000 tons. Because of excess volatility in prices of Acetonitrile, we have developed another fungible product called THF (Tetrahydrofuran), which can be manufactured on the same manufacturing line as Acetonitrile. If the volatility persists, we plan to manufacture Acetonitrile for six months

and THF for six months. THF will be produced for first time in India and there is a demand for 15,000 tons per annum. Morpholine and Acetonitrile, are better margin products.

We have got clearance also for Di-Methyl Hydrochloride for additional 7,500 tonnes, however we are waiting for the market demand to improve to increase the capacity.

I am pleased to inform that Balaji Specialty Chemicals Private Limited, subsidiary of the company has commenced production of niche products like Ethylenediamine (EDA), Piperazine (PIP) and Diethylenetriamine (DETA) and we expect gradual ramp up going ahead. We these products, Balaji Amines would be substituting the products that are currently being imported in India. We undertook capex of Rs. 250 Crore for our subsidiary company and we have got "Mega Project" status for the same. At peak utilization level, the margin profile of the subsidiary company will be similar to that of Balaji Amines, but in initial stages it will be slightly lower.

India is currently importing 29,000 tons of Ethylenediamine (EDA), which basically goes in to end use industry of agro-chemicals. UPL, Coromandel and Indofil are the major consumers of EDA. The other two products are going to pharmaceutical, polymer, coatings, etc. Balaji Amines will be the only company in India manufacturing EDA, PIP and DETA. India is importing 7,000 to 8,000 tons of Piperazine and 3,000 to 4,000 tons of Diethylenetriamine (DETA). These two products have good demand in other countries also. All these years these three products used to be imported into India.

We are expecting environmental clearance for our 90 acres Greenfield project in the month of November 2019. Once we start the land digging for the construction of Greenfield project, it will take around 15 months, to commence production. This project has received "Mega Project" status. The total Capex involved in Greenfield project is in the first phase is about Rs. 200 Crore. Rs. 120 Crore will be borrowed from banks, while the rest will be financed by internal accruals. In the first phase, we will be manufacturing two products - 50 tons of Ethyl Amines per day and 50 tons of IPA (Iso Propyl Alcohol) or MIPA (Mono Iso-propyl Amine).

The hotel business is doing well and started contributing to the bottom line. The hotel business constituted 2.5% of the total revenue in Q2 FY20. The average revenue for room stood at Rs.3,381 and revenue per available room was Rs. 2,108. The occupancy rate in Q2 FY20 stood at 62.3%. The cash profit from hotel division in Q2 FY20 was Rs. 1.41 Crore, 10% the total room supply comes from our hotel in the Solapur.

That is all from our side. We now leave the floor open for questions and answers.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

- Riddhesh Gandhi:** Hi, I have a question on Piperazine just to understand how large the overall Indian market is? Our understanding is that the capacity that we have installed is about as large as the Indian market as a whole. Do you see, therefore, any price compression happening to gain incremental market share?
- Ram Reddy:** There is a demand in the country itself for more than 6000 to 7000 tonnes which is presently being imported. Whereas our capacity is hardly 7-8 tones per day, not even 50% of the country's consumption. So, as such, there should not be any problem in selling Piperazine. In present scenario, the prices have increased because of the short supply in the world market for this product.
- Riddhesh Gandhi:** The only comparative to that in India is actually Diethylenetriamine?
- Ram Reddy:** No, in India nobody is making diethylenetriamine from the base. They are bringing some crude and distilling. It is not the original product. We are manufacturing the product from the base.
- Riddhesh Gandhi:** Okay understand, alright that is all from me, thank you.
- Moderator:** Thank you. The next question is from the line of Jatin Damania from Kotak Securities. Please go ahead.
- Jatin Damania:** Sir Congratulations on good set of numbers. We have seen a sequential improvement in your volume. Is there any improvement in this capacity utilization for Morpholine and DMA HCL that has supported the volume? Or is there any other product which has contributed to the overall volume growth in the second quarter?
- Ram Reddy:** Yes, Morpholine naturally -- the volume will go up because it is started from the last quarter only. The Acetonitrile production also has just started. Even DMF has started contributing to the volume a little more. Earlier we used to sell only 500 to 600 tonnes. Now we have started competing in the market and we are giving almost 900 to 1000 tonnes per month. So these are the 3-4 products contributing to the volume growth. There was little improvement the DMA HCL volume also. But of late, because of ranitidine issue, I do not think the volume growth of DMA HCL will continue like this.
- Jatin Damania:** As far as the ranitidine issue is concerned what is the impact that can we assume in the third quarter, because in second quarter anyways we are immune from it?, Third quarter we will definitely see a significant impact and the capacity might come down, so will the utilization come down in the near future?
- Ram Reddy:** As far as Balaji Amines is concerned, out of my total selling of DMA HCL, hardly 10%-12% was going for the ranitidine. Majority of 85%-88% is going for the other products like Di-Methyl Hydrochloride, Metformin Hydrochloride and Tramadol. These are the two other products where the DMA HCL goes. Ranitidine is very little and has only 10-12% of the contribution.

- Jatin Damania:** So that means we do not see any significant impact of the same coming in?
- Ram Reddy:** You are right.
- Jatin Damania:** But the volume sequentially we will definitely see a growth because of the Acetonitrile coming in and ramp up in the DMF capacity?
- Ram Reddy:** You are right. And Morpholine also.
- Jatin Damania:** At what rate is DMF being imported?
- Ram Reddy:** It is coming somewhere between Rs.54 to Rs.56. We are selling at Rs.58 to Rs.59. Sometimes we are getting Rs.60 also.
- Jatin Damania:** So this run rate of 900 to 1,000 tonnes of DMF sales will continue in the near future as well?
- Ram Reddy:** I think it should continue. See Because of the other products contribution, even if a paise comes from the DMF that adds direct to the bottom line. While all other overheads goes to the many other 20-25 products. So that is the reason, we have taken a decision that we will continue.
- Jatin Damania:** Coming to your subsidiaries, can you help us with the volumes that you supplied during the quarter and what was the depreciation and interest rate? If you look at the consol numbers, because of the high depreciation and interest rate, the subsidiary has reported loss. So if you can help us, as to what is the capacity BSCPL had operated and what was the volume?
- Ram Reddy:** We have just undertaken operations for three months. I think we might have sold 400-500 tonnes in the last quarter. For this quarter, we have very good orders lined up. This quarter little improvement will be there, but next quarter there will be more robust growth. Next year we will definitely be adding into the bottom line.
- Jatin Damania:** Last time when we are discussing the EDA, we were looking for an approval from the agrochemical companies like UPL, Coromandel.
- Ram Reddy:** We have already started supplying to Coromandel and UPL. They are taking in bulks.
- Jatin Damania:** Ok I will come back to the queue. Thank you Sir.
- Moderator:** Thank you. Next question is from the line of Swarnabha Mukherjee from Edelweiss. Please go ahead.
- Swarnabha Mukherjee:** Good afternoon Sir. Thank you for the opportunity. Sir my question is on the volumes that you have provided. In the press release, the volumes that you have given does it also include the volumes of Balaji Specialty Chemical or is it for the standalone business?

- Ram Reddy:** It is for standalone business only.
- Swarnabha Mukherjee:** In the sales mix the proportion of the derivatives and the specialty chemicals have increased from what it was last quarter. So is this mix sustainable?
- Ram Reddy:** I think it should. There is very little improvement if you compare and these are sustainable numbers. As far the EBITDA is concerned, around 18% to 20% is sustainable.
- Swarnabha Mukherjee:** What I wanted to understand was that if you see higher traction in derivatives and specialty chemical going forward and assuming that these are higher margin products, so then can it breach the 20% EBITDA limit also?
- Ram Reddy:** Yes. Acetonitrile has got very good margins presently. If utilization increases and prices sustain, definitely it will breach.
- Swarnabha Mukherjee:** So, Acetonitrile is the reason because of the supply issue of Acrylonitrile. Is my understanding correct on that?
- Ram Reddy:** You are right. Acrylonitrile demand is not there, so Acrylonitrile plant is closed. Acetonitrile, which was coming as a byproduct of Acrylonitrile, is not available. That is the reason behind the short supply.
- Swarnabha Mukherjee:** Is there any news about whether the plant is coming back?
- Ram Reddy:** See in the past, what we have seen every time, we used to gain from these type of shortages it was for only one to two months. But this time, it has gone for a long period, and we do not know how long it will go. If this goes continuously for 6-8 months, then we should believe that it is natural, and will go continuously.
- Swarnabha Mukherjee:** If I calculate the realizations given your overall business revenue and the volumes that you have reported, then there is a bit of drop, while EBITDA per tonne has actually improved. So it is then fair to assume that this realization drop is more to do with your raw material prices coming down?
- Ram Reddy:** It is very difficult to say like that, because it is big basket of about 20-25 products mix. I cannot say what product has driven the EBITDA per tonne up or down. It is very difficult to say, as the next quarter may be different.
- Swarnabha Mukherjee:** If you could give me any kind of guidance on how do see the revenue firming up, given the ramp up that you have in mind for this year?
- Ram Reddy:** See, we were guiding more than Rs. 1,100 Crore revenue in FY20. But the raw material prices have come down and finished product prices also have come down, I do not see revenue being

more than Rs. 1,000 Crore. But bottom line, will definitely be in a better position. We will see volume growth rather than value growth because of the drop in prices.

Swarnabha Mukherjee: Okay Thank you so much Sir that is all from my side.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: In H1FY20 that we have reported, I want to know how much of Acetonitrile and Morpholine volumes you would have done?

Ram Reddy: We have a licensed capacity of 19,000 tonnes of Acetonitrile. We just started last quarter and it will take at least 6 months time to ramp up In FY20, we will be manufacturing about 4,000 to 5,000 tonnes of Acetonitrile, and around 7,000 to 8,000 tones of Morpholine.

Pritesh Chheda: And what total volumes you will be selling, not considering the Balaji Specialty? We were doing about 80-83000 tonnes of volume?

Ram Reddy: We should do whatever we have done last year, because of the poor first quarter impact. But there will at least 7-8% improvement in volume growth.

Pritesh Chheda: Over last year?

Ram Reddy: Yes, minimum.

Pritesh Chheda: So the whole volume growth will come from two products - Morpholine and Acetonitrile?

Ram Reddy: Yes, and DMF also.

Pritesh Chheda: What will be our total capacity on standalone basis, excluding the overlap that we have – like we produce Amines and then we produce derivatives - so offsetting everything what is the maximum volume that we can do?

Ram Reddy: It should be 1,00,000 to 1,20,000 tonnes at full capacity utilization. Dimethylformamide manufacturing capacity itself is 30,000 tonnes, where we are doing some 7,000 to 8000 tonnes. There is a room for additional 20,000 tonnes if we do full. Same way Acetonitrile, we have licensed capacity of 19000 tonnes and we have just started manufacturing. Same thing with Morpholine - earlier we used to do only 3000-4000 tonnes, but now we will be doing 7000-8000 tonnes.

Pritesh Chheda: So, basically excluding Dimethylformamide. (DMF), we can do about 1,00,000 tonnes of volume. With DMF, we have been struggling to do volumes?

Ram Reddy: Yes

- Pritesh Chheda:** Does Morpholine and Acetonitrile, have a similar or different profit operating margin profile as compared with the Amines business?
- Ram Reddy:** We have more than 20-24 products basket. It is very difficult to say that what is the EBITDA for total basket of the products. But yes as I told earlier, Morpholine and Acetonitrile are the better margin products.
- Pritesh Chheda:** Lastly on the Balaji Specialty subsidiary, when will you achieve peak utilization?
- Ram Reddy:** End of the year or first quarter will be operating in full swing.
- Pritesh Chheda:** Q1FY21 is when you will be operating at full capacity in Balaji Specialty?
- Ram Reddy:** We may also start operating at full capacity probably by the last quarter of this year.
- Pritesh Chheda:** And we have the corresponding orders for it?
- Ram Reddy:** Yes.
- Pritesh Chheda:** Thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Anand Bhavnani from Unifi Capital. Please go ahead.
- Anand Bhavnani:** As we are trying to ramp up our Acetonitrile utilization, do you see overall realization falling as we try to sell more volumes or any price competition?
- Ram Reddy:** We are not talking about the local competition, but for this product today we are talking about in global competition terms. There is short supply in the global market itself. So, definitely, as well sell more volume of Acetonitrile, it will not give any impact. As of today, a lot of product is being imported in to the country at higher price. So it will not have any impact on margins.
- Anand Bhavnani:** What is the Capex plan for rest of FY20 and FY21?
- Ram Reddy:** We have already undertaken 90-acre Greenfield project where we have planned around Rs. 200 Crore expansion for which we may do capex of about Rs. 80-90 Crore in FY20 and the rest will be done in the first half of FY21.
- Anand Bhavnani:** Of this Rs. 80-90 Crore capex this year, how much we have done in H1FY20?
- Ram Reddy:** As of now, it is only Rs. 30-35 Crore we have done for land and land development. We are going to start land digging foundations from this month onwards.

- Anand Bhavnani:** Since you have mentioned that capex will be complete in H1FY21, is it fair to assume that we will be able to start trials for commercial production in H2FY21?
- Ram Reddy:** Yes, by End of FY21. Or maybe in Q3FY21.
- Anand Bhavnani:** In terms of tonnage, how much would this Capex add in terms of capacity?
- Ram Reddy:** We are adding capacity of 1,00,000 tonnes.
- Anand Bhavnani:** Okay it will almost, close to double our capacity?
- Ram Reddy:** Yes, but I cannot say immediately we are going to double the capacity. Over a period of time, if we utilize in the full capacity, maybe in the next 6 to 7 years, we will be adding 100,000 tonnes to the existing 100,000 tonnes.
- Anand Bhavnani:** Okay this Capex of Rs. 200 crore would itself lead to additional 1,00,000 tonnes of capacity or we will need additional Capex to get to that?
- Ram Reddy:** May be a little here and there.
- Anand Bhavnani:** Okay. Fine I will come back in the queue for additional questions.
- Moderator:** Thank you. The next question is from the line of Puneet Mittal from Global Core Capital. Please go ahead.
- Puneet Mittal:** You mentioned in your last call that Balaji Specialty Chemical would be able to do about Rs. 90 Crore this year. At that level would we break-even this year or we would not be able to break even this year?
- Ram Reddy:** No. It will not be break-even. Even that Rs. 90 Crore also what we guided earlier may not be possible, because of the delay and also because the prices what we expected of the end product have corrected. Even raw material prices have also come down. So we may do little less than what we guided.
- Puneet Mittal:** In your financials there is a loan of Rs. 78 Crore from the standalone business. I understand that is given to Balaji Specialty Chemicals. Any reason why Balaji Specialty Chemicals is not taking loans directly from the banks?
- Ram Reddy:** It is already in the pipeline. For short time it has been given as a temporary arrangement., So, Balaji Specialty will be getting loan from bank and they will be paying back.
- Puneet Mittal:** You said next year Balaji Specialty Chemicals may be operating at full capacity. At full capacity what is the volume and value that we can approximately do?

- Ram Reddy:** At full year of operation, we expect top-line of Rs. 350 to 400 Crore. 25,000-30,000 tones is the total capacity.
- Puneet Mittal:** And we should be able to do that next year right?
- Ram Reddy:** We should if everything goes well. Country is importing 29,000 tonnes of EDA, about 8000-10000 tonnes of Piperazine and about 3000 tonnes of DETA. , We are going to produce all these products. Even if we have a share of some 70% from the total imports of these products, it will be around 20,000 to 25,000 tonnes.
- Puneet Mittal:** Given the situation of Acetonitrile shortage, is it possible to ramp up capacity faster and take advantage of this situation?
- Ram Reddy:** These are all very sensitive products. These are all catalyst and technology driven products. We should not take any decisions in the hefty manner. We will improve our capacity gradually. By end of this year, we will come to conclusion whether the present price trend of the Acetonitrile will continue or not. If the present price trend continues, then we can continue to ramp up and bring up the capacity of the Acetonitrile. Otherwise we have the alternate product of THF.
- If Acetonitrile price trend continues, then we may go for other plant for manufacturing THF. Or else we will manufacture Acetonitrile for six months and THF for six months.
- Puneet Mittal:** What would be the total debt on the book in FY21, after we have completed the Greenfield project and this specialty chemical?
- Ram Reddy:** In Specialty Chemicals subsidiary, as of now, we have about Rs. 80 Crore to 87 Crore as the term loan. Out of total Rs. 120 Crore loan, taken for Specialty Chemicals subsidiary, we have paid back about Rs. 30-35 Crore. As far as Balaji Amines is concerned, as on today we have no loans on book and this year we do not expect that we will be borrowing anything from the banks. Loans will come on the books of Balaji Amines only in the next year.
- Puneet Mittal:** Next year we are expecting Rs. 120 Crore for the Greenfield project. So the end of FY21 maybe the company would have loans about Rs. 200 Crore?
- Ram Reddy:** If things go well and the cash flow improves, we will be using our internal accruals and probably reduce the loans amount to be borrowed from banks from Rs. 120 crore to Rs. 78 crore.
- Puneet Mittal:** I think the company and management is really taking lot of right decisions, so thank you very much and all the very best.
- Moderator:** Thank you. The next question is from the line of Sachin Kasera from Svan Investments. Please go ahead.

- Sachin Kasera:** Yes congratulations for a good set of numbers. Sir, just wanted to clarify one thing - you mentioned that for this full year we are looking around Rs. 1,000 Crore of revenues.
- Ram Reddy:** Yes.
- Sachin Kasera:** So we have done roughly around Rs. 400 plus some Crore in the first half..
- Ram Reddy:** In the first half we have not done very well. Entire last quarter we didn't do well. So these are all expectations what I am telling. This quarter what we have done is little better than previous quarter. In, third quarter, we are expecting it to be well off as compared to the second quarter and the fourth quarter will be much better than all these quarters. If that goes as per our assumptions, then we will be doing top-line of Rs. 1,000 Crore.
- Sachin Kasera:** Because while you said that it is obviously a futuristic comment, but obviously....
- Ram Reddy:** There is only 100 Crores difference between you and me.
- Sachin Kasera:** Yes.
- Ram Reddy:** With incremental sales of Morpholine and Acetonitrile, which was not there last year, so naturally our expectation is that we should do top-line of Rs. 1000 Crore.
- Sachin Kasera:** How many tonnes of Morpholine sales we expect to do this year?
- Ram Reddy:** Around 8000 tonnes.
- Sachin Kasera:** For the next year, what is your expectation from Acetonitrile and Morpholine? Would these plants be working at full capacity?
- Ram Reddy:** Morpholine will be doing almost 90% capacity utilization next year and Acetonitrile we should reach to minimum 10,000 tonnes next year.
- Sachin Kasera:** The Balaji Specialty loan that you mentioned, is that including the loan given from the parent company to the subsidiary or that is the third party loan?
- Ram Reddy:** Third party loan. See third party loan we were having Rs. 120 Crore, out of which have repaid about Rs. 30-35 Crore. We now loan of about Rs.87 Crore from the banks.
- Sachin Kasera:** And from Rs. 75 Crore from the parent company, so it is roughly around Rs. 160 Crore?
- Ram Reddy:** Yes and out of this Rs. 75 crore, Rs. 35 crore is paid to the banks. Actually, we thought that we will commission the plant on time that is reason we had Rs. 20 crore out of total Rs. 120 crore, on a very short-term repayment basis. But we miscalculated and which we are correcting now by

taking the regular loan. The next quarter you will see that regular loan and the subsidiary company will be paying back to the parent company.

Sachin Kasera: At approximately what level of revenue does Balaji Specialty break-even at the net level?

Ram Reddy: It should be Rs. 150 Crore.

Sachin Kasera: So, do you hope that in the March quarter at least it should have a net break-even, if not major contribution?

Ram Reddy: If you calculate only quarter yes. If you calculate accumulated losses and all, then no.

Sachin Kasera: No, I am just saying for the quarter four itself which would have net break-even?

Ram Reddy: Definitely.

Sachin Kasera: Other than this additional growth from Morpholine and Acetonitrile in next financial year, what else can drive volume growth for us? Are there any other products where you are seeing volume growth in next year?

Ram Reddy: We have Dimethylformamide, where we are expecting it to do more than 18,000-20,000 tonnes next year, which is about 8,000-9,000 tonnes only this year. And from the Greenfield project products like Ethylamines, IPA and others should give at least 8,000-10,000 tonnes additionally next year, even if we take just 10% of the total capacity of 1,00,000 tonnes that we are creating..

Sachin Kasera: Next year, are we looking say around 25,000 to 30,000 tonnes of extra production over this year, going by what you are indicating?

Ram Reddy: Yes, we are talking about total volume of about 1,00,000 tonnes in the next financial year.

Sachin Kasera: Okay Thank you Sir.

Moderator: Thank you. The next question is from the line of Ashwin Reddy from Samatva Investments. Please go ahead.

Ashwin Reddy: Good evening thank you for the opportunity. My first question is on the raw material front. Can you spend some more time talking about the current situation and what you believe will happen in the next one-two quarters because you have already mentioned that you are buying on the spot because right now.. But what is the longer term arrangements and how do you secure that?

Ram Reddy: See methanol presently it is about Rs. 17 to Rs.18. Sometimes it has gone below Rs. 17 also. For more than 3 months in the current financial year, the prices are hovering around Rs.17 to Rs.18 which looks prominent for the methanol point of view. In the same way, ethanol is at the same as that of last year, maybe 1% or 2% here and there. And BDO, which is again another big raw

material for us, is at lower prices than what we bought in the last year - where we think that it is stable - if not this level may be up by 5%-10% from current price levels - but not as per the last year prices., Ammonia price is also stable, which is somewhere between Rs.30,000-33,000 per tonne currently, which has gone below Rs. 23,000-24,000 per tonne and which went up to Rs. 44,000 per tonne also. I think this level of Rs.30,000-33,000 per tonne is average level and sustainable.

Ashwin Reddy:

Okay. Right now, on all the raw material you are fairly comfortable.

Ram Reddy:

Yes.

Ashwin Reddy:

My second question is on the export front. So for this year, what is the broad guidance in terms of export volume growth that you believe you can achieve?

Ram Reddy:

We are going to export additional Morpholine in this year. We may also export Acetonitrile because of the short supply in the world market. From Balaji Speciality point of view, there is an opportunity for the EDA and Piperazine. We already exported couple of containers of these products from Balaji Speciality Chemical. We have got the REACH registration for the Balaji Speciality Chemicals to export into the European market. From all these, we are expecting good growth for the exports.

Ashwin Reddy:

From the Balaji Speciality, is there any plan to further increase the number of products that you have right now?

Ram Reddy:

Additional two products are in the pipeline which are not separate.. They were forming and we were not taking those products, which we may take from this quarter onwards - a product called AEP and AEEA, - which have got little demand in the country, but has good demand outside the country.

Ashwin Reddy:

I am just trying to understand, because as of now Balaji Speciality Chemicals is not fully consolidated with the company.. Is there a plan to merge it with the company in the near future or how do you have any timeline when the Balaji Speciality Chemicals will be consolidated with the parent company?

Ram Reddy:

Telling the timeframe is very difficult. But long term, yes, it is going to be merged with the parent company.

Ashwin Reddy:

Okay. The long term would be after three-four years or two years?

Ram Reddy:

At the appropriate time, both the companies will be merged into one.

Ashwin Reddy:

Okay. Thank you so much and good luck.

- Moderator:** Thank you. The next question is from the line of Kunal Mehta from Vallan Capital. Please go ahead.
- Kunal Mehta:** Thank you very much for the opportunity. Sir the first question is in reference with Valsartan and Ranitidine, and the problems that have happened in the US and Europe., If the key reason for that is the excess level of NMDA which is a carcinogenic substance in those APIs and the NMDA is coming from DMF which is being procured from Chinese manufacturers - so with this background I have a query. Whether there is an opportunity for us to actually market our DMF as a more safer DMF to the pharmaceutical customers because they are already in the process of changing their process - so the new process they can acquire a new manufacturer for DMF?
- Ram Reddy:** Well, Mr. Kunal, I do not know. You are talking about the DMF or DMA HCL
- Kunal Mehta:** Sir DMF, Dimethylformamide.
- Ram Reddy:** You say that because of the DMF, it has happened?
- Kunal Mehta:** Yes, the reports are mentioning that the DMF was the main reason why there was high carcinogenic levels in the NMDF.
- Ram Reddy:** If you give more publicity for this, then definitely there will be big opportunity for the Balaji Amines, because I am hearing first time., You are right about nitrogen content, because something comes from the USA, everybody will be alert. Nowadays, not only Ranitidine, every pharma company, for every product, other than Ranitidine also, are taking a declaration from us. It is very preliminary situation and more needs to be known about what is the reason, where it is happening, why it is happening. If these things which you mentioned is 100% correct, then definitely there will be huge opportunity for Balaji Amines.
- Kunal Mehta:** Sir, the second question I have is on the Speciality business. Can you just mention at what prices we are invoicing EDA at the present, if you could just can give us a range?
- Ram Reddy:** It is very difficult to say the price. We are competing with the import. We are matching them and still we are comfortable.
- Kunal Mehta:** Sir MEA, the pricing is around \$1.2, is that the number correct?
- Ram Reddy:** No, this is very old price. It is presently below \$1.
- Kunal Mehta:** Okay. If I just take the normalized price for the EDA, assuming that I take out the lower price, which you have to lower in order to compete with the import guys for the first few months.,

You are mentioning that at the peak utilization you are expecting the margin to be around 18-20%, which is what we have in the Balaji Amines business.

Ram Reddy: I am telling, by considering all these things. EDA, the prices have come down. Relatively the price of MEA also has come down to that extent. So, nothing has impacted for the bottom line of the EDA manufacturers.

Kunal Mehta Just because we do not have any overheads in this part of the company and so the margin at peak utilization should be much higher than what we are having in Balaji Amines?

Ram Reddy: I cannot say. It is very difficult to say today, until we run the plant for at least three four quarters and examine the margins.

Kunal Mehta: Any idea you can give us on the operating cost of this plant? What will be the power cost and the other manufacturing cost?

Ram Reddy: All these things, until otherwise we run for about two quarters, it is difficult to say. Your answers to all the questions right from the cost price, overheads, everything can be determined once you run the plant for minimum six months.

Kunal Mehta: Understood Sir.

Ram Reddy: You come here, we will show you.

Kunal Mehta: Indofil are we having any progress. Indofil, Coromandel, as you mentioned...

Ram Reddy: We have supplied in bulk to both – UPL and Coromandel. Indofil, we are just going to start now.

Kunal Mehta: All three have looked at the plants and they have approved our purity?

Ram Reddy: Yes.

Kunal Mehta: Are we seeing any improvement in NMP and NEP, because there is a strong competition from the other global suppliers?

Ram Reddy: As of now, we are comfortable.

Kunal Mehta: The volume growth is restricted, is that assessment, right?

Ram Reddy: It is not like that. NEP is subdued but NMP has improved.

Kunal Mehta: The utilization in these plants will be how much?

Ram Reddy: It is around 70%.

- Kunal Mehta:** That is it. Thank you very much for the answers.
- Moderator:** Thank you. The next question is from the line of Sunil Kothari from Unique Investments. Please go ahead.
- Sunil Kothari:** Thank you very much Sir. Congratulations for better numbers. Sir, broadly to understand we are manufacturing so many products. Most of them are import substitutes. We are two or three manufacturers - may be India or globally. So how is the pricing competition situation currently - looking at China - whether they are coming back? Because you mentioned that some prices that has fallen from \$1.2 to less than \$1. So can you just guide us, make us understand how this products pricing are changing?
- Ram Reddy:** See, out of our 20 to 25 products, there may be one or two products we see the competition from China. As I said in my opening remarks, we do not import a single raw material from China. Rather we do not like to depend for the export to China also, because it is very volatile with China. Sometimes they give one product on certain price and immediately they will ask to import for them the same products. So that is the volatility with China. I will give you one example of the morpholine. We used to get a lot of competition from China – but now because of the environmental issue, the hazardous nature of the products, the technical things involved in the product, they are no more competitive for this product with us. So, like that happened in many other products like NMP. Even if they are competitive, they cannot manage the quality, which we are producing.
- Sunil Kothari:** Our average realization per kg is also falling down, because of the raw material cost is going down, So the reason for the fall in realization is mainly raw material cost lowering or any other competition or any other factor.
- Ram Reddy:** Majority factor is the raw material cost. And again I shall repeat which I said many times, as we are having more than 23-25 products, I cannot judge and calculate immediately per ton basis price., Because in one quarter, one product might have done very good, one product in other quarter might have done little different, so that is the reason it is very difficult., For example, in this six months almost 55% to 56% our products has gone to be pharma and API. Last year was same. And agrochemical, last year had done 28%, for the first full year of operation. But this half year, we have done only 19% to 20%. So it depends upon how a particular sector is doing.
- Sunil Kothari:** Thanks a lot Sir.
- Moderator:** Thank you. Ladies and gentlemen due to time constraints, we will be able to take one last question from the line of Rajiv Rupani as an Individual Investor. Please go ahead.
- Rajiv Rupani:** I had a question on DMF. We had applied for antidumping duty and we did not get it., So last con-call you had said we are going to reapply for the same, so could you...

- Ram Reddy:** Last con-call I said that we have appealed in the tribunal, but again, the legal point is that even if I win this appeal I will not get anything - because it was for the particular period. So we have to withdraw that appeal and we have to re-file the application with the authority again. Probably we will do it in this month. We needed at least six months, and only yesterday we have finished the six months. We are allowed to resubmit the six months data. But we are not depending on that., We have decided to fight and we will try to gain something by improving the technical process, raw material consumptions and all. As I said before, we are already getting contribution of Rs. 1 to Rs. 2 in this product. So, we will be continuing without depending on the antidumping.
- Rajiv Rupani:** I think last year the price of DMF was around Rs.90 per kg and now you informed us it is around Rs.60 per kg, so...
- Ram Reddy:** It was never Rs.90
- Rajiv Rupani:** Around Rs.80 in April, May?
- Ram Reddy:** For two months of November and December in last year the prices were about Rs. 80 to Rs. 84. After that, immediately January onwards, it has fallen sharply. It has gone down to Rs. 43/42 also.
- Rajiv Rupani:** Just now you have informed us the next year we could do about 17000, 18000 tonnes of DMF sales. Am I correct?
- Ram Reddy:** Yes.
- Rajiv Rupani:** I think DMF was launched around 2014-2015 and over the last three-four years, we have not gone above 8000 to 9000 tonnes. So on what basis, are you guiding for doubling of capacity utilization?
- Ram Reddy:** Total capacity is already there. The overheads are already completed. Now this has also become the zero plant. Even if I get 50 paise on my cost price, this is going to add to the bottomline. That is the reason, we have taken a decision to compete and we are going to gain that. Over last two months, we have done more than 900 tonnes. So this will continue and this year itself we should cross more than 10,000 tonnes.
- Rajiv Rupani:** Okay, thank you.
- Moderator:** Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to the management for their closing comments. Thank you and over to you.
- Ram Reddy:** At Balaji Amines we have created a sound portfolio of products, we are continuously driving to better the product profile and innovate on manufacturing front to compete effectively and efficiently in the end markets. We expect H2FY20 to be better than H1FY20. We are very



Balaji Amines Limited

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focused on next level of growth and up skill of Balaji Amines over the next three, four years.
Thank you very much for joining the call today.

Moderator:

Thank you very much. Ladies and gentlemen on behalf of Emkay Gobal Financial Services that concludes today's conference. Thank you all for joining us and you may now disconnect your lines.