



“Balaji Amines Q3 FY17 Earnings Conference Call”

February 14, 2017



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

**MODERATOR: MR. ANKIT GOR – SYSTEMATIX SHARES & STOCKS
LIMITED**



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Moderator: Ladies and gentlemen good day and welcome to the Balaji Amines Q3 FY17 Earnings Conference Call hosted by Systematix Shares & Stock 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 for an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference to Mr. Ankit Gor, from Systematix Shares & Stock. Thank you and over to you.

Ankit Gor: Thank you Zaid. Welcome all for Q3 FY17 Earnings Call of Balaji Amines. I would like to thank management of Balaji Amines for giving us opportunity to host this call. From the management side we have Mr. Ram Reddy and he will start with his opening remarks post which we can start Q&A session. Over to you sir. Please go ahead.

Ram Reddy: Good afternoon everybody. I am Ram Reddy – Joint MD, Balaji Amines. Along with me Mr. Arun Masal – our Financial Head is with me. Welcome you all. For this nine months ended we have done gross sales of about 534.16 crores as against last year for the same period of nine months of 509.07, there is a slight increase of about 4.93% increase by value wise. Profit before tax is increased around 62% for this nine months ended Rs. 97.96 crores as against 60.82 crores for the corresponding year of 2015 nine months period. And same way profit after tax also increased around 78% to 67.70 as against 37.94. In exports we have done well for these nine months so there is about 13% growth in the exports comparably for the last year nine months this year nine months period. Not only that even if we take for the three-month comparably for the last year and this year so there is the increase in the exports also. We are seeing some grow growth in the amines and specialty chemicals specifically in intermediates for the agrochemical industry and the API industry. So we hope that whatever we have done maybe 1% or 2% here and there we should maintain the same thing for the end of the...we expect we should maintain the same numbers. As far as expansion plans are concerned as informed earlier there is little delay in the Acetonitrile but yes it is in the pipeline. Maybe by end of the year the Acetonitrile should start and the same way morpholine after first quarter of the next year it should go into the stream so the things are taking shape. As far as the Dimethyl Formamide is concerned it was concerned for all of our stakeholders, investors. It is giving some improvement in the pricing of the imported material which is giving some positive results. It may give good contribution in the current year. Any questions please go ahead asking one by one. Thank you very much.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin with the question and answer session. The first question is from Runjhun Jain from Nirmal Bang. Please go ahead.

Runjhun Jain: Can you just breakup the growth in terms of volume and value?



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Ram Reddy: By value I think I already mentioned 4.93 for this nine month period comparably last and this month. And value wise it is 10% growth by volume wise.

Runjhun Jain: 10% for the nine-month so three months?

Ram Reddy: Nine months I'm telling.

Runjhun Jain: And for the three months?

Ram Reddy: Three months you are talking about the last three months?

Runjhun Jain: For Q3 which we have reported the number.

Ram Reddy: Yes 2015 third quarter versus current third quarter is about 13% growth.

Runjhun Jain: Volume wise?

Ram Reddy: Yes.

Runjhun Jain: So that means we have seen the stabilization of pricing which we were seeing that double-digit decline in prices earlier now that has been pretty stabilized?

Ram Reddy: Looks like.

Runjhun Jain: We have seen the improvement in the gross margins but those improvements have not been able to fully come to the EBITDA margins and what is your outlook on EBITDA margin going forward?

Ram Reddy: EBITDA margin that is not major change. If you see the three months quarter ended is about 20.76 and nine months ended is 22.58, so there is 1% or 2% difference. As I said earlier also there is some increase in the Methanol prices. And there are some additional cost is incurred in the particular quarter.

Runjhun Jain: So that should also impact our gross margins. We have not seen that kind of an increase or anything in gross margins. Gross margins are actually improved on sequential as well as YOY basis. So is there anything other expenses which is kind of one off or which is...

Ram Reddy: Not like that. There are some additional costs incurred like employee cost has gone a crore of rupees extra which is accounted for the bonus which is Diwali period this quarter has come. And there is fuel cost has gone up in the country that coal prices have gone which is accounted more than a crore of rupees additional cost in this quarter. Comparatively there are improved exports, in the overall turnover there is an increase in the export and this freight cost will be more when more export so there. That is also accounted more than crores of rupees. So like



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that even packing cost for the steel drums and all, these costs are also involved. And like that there is some maintenance cost has come during this period about 1.5 to 2 crores worth plant maintenance and tools and spares all this is accounted for some additional cost.

Runjhun Jain: So you think that this cost whatever you have said like there is Diwali bonus and all that this should normalize in Q4 and incoming quarters?

Ram Reddy: Yes it should be. By normal means by whatever the increase in raw materials and the expenses come we should transmit in the end price which we are trying. It may be transit period for this quarter, maybe by next quarter it should be in proper...

Runjhun Jain: I agree for the methanol prices and things. But like whatever is seen in the employee cost or fuel cost, fuel cost also you can....

Ram Reddy: If you are well aware about methanol prices, there is a huge change in methanol. But still it did not impact much on us. We were in a position to pass on to some extent and we are trying to come to the par by the end of the year.

Runjhun Jain: So just what is your outlook for EBITDA margins for the year and next year?

Ram Reddy: This year it should be somewhere 19% to 20%, not below 20. As I said earlier also it is between 20% and 23% but any problems comes for this methanol we cannot go further in increasing. It may be 1% or 2% minus...

Runjhun Jain: Assuming today's value.

Ram Reddy: (+20).

Runjhun Jain: Even for next year it is...

Ram Reddy: Year it is very difficult. We feel that actually it should improve more than this...

Runjhun Jain: Even if it is not increased at least we can assume that it can remain at this level.

Ram Reddy: Yes definitely we should because all other costs will come down in directly finance cost and all things will come down. And then when we increase there are many things which we were talking about to increase in those are coming then definitely there will be some change.

Runjhun Jain: Any outlook on the Hotel business?

Ram Reddy: Hotel yes, it is added. Started adding the profit I think it is added some 90-93 lakhs of cash profit to the bottom line. Of course depreciation it doesn't work but I'm talking about cash



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profits. Earlier we were not making this also but we are now doing the positive. They are happy with that.

Moderator: Mr. Gor you can ask you questions while the question queue assembles.

Ankit Gor: My only question remains with what is the status... you mentioned that Acetonitrile has been delayed. But what is the real reason and if you can highlight that time if you can highlight them off-line status also from when we can expect that to come.

Ram Reddy: We are just expecting the environmental clearances actually. We are waiting for only environmental clearance which is with the government of India. We are expecting, there is a second stage meeting has concluded last month only. Probably before March we should be in a position to get these approvals. And that is done then everything comes into place.

Ankit Gor: And that capacity would be how much Acetonitrile capacity?

Ram Reddy: It is about 18,000 tons per annum.

Ankit Gor: And if you can just give us scenario of India's demand in terms of Acetonitrile, are we able to sustain that or not?

Ram Reddy: Actually India is not having that great demand. India must be having between 6000 to 10,000 tons in India. But outside country there is a great demand where our existing customers wherever it is going. We are looking something better export opportunities outside country. I don't think that we have been in a position to do entire 18,000 immediately. We have planned actually 8000 to 9000 tons for the first year of operations.

Ankit Gor: With regards to Morpholine when is it expected?

Ram Reddy: By end of first quarter, maybe in May-June we should come into the stream.

Ankit Gor: What kind of revenues we are expecting from this Morpholine, 7000 capacity if I'm right, right we are having 7000?

Ram Reddy: Yes.

Ankit Gor: And what kind of revenues we are expecting?

Ram Reddy: I don't think that we will be in a position to run 100% that 7000 will come to the stream. If you take about 5000 tons also it will be around 70 to 75 crores will add into the top line.

Ankit Gor: This Morpholine you said in the first year itself can we expect kind of 50%, not Morpholine, Acetonitrile can we expect some 50% kind of utilization levels?



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Ram Reddy: Not 50%, even we are talking our target is starting itself is 9000, in that 9000 we can take 50%-60% maybe 5000 to 6000 tons we can start. It's very difficult Ankit, this product if you see the earlier history of this product you can't say. There is the cycle that every year comes. The product has danced and the price rise between Rs. 120 to Rs. 200. So there is a cycle worldwide then if that opportunity comes in this period then definitely nothing like it will go to any extent. Because the reason we are creating the bigger capacities even though there is no consumption in the country.

Moderator: Thank you. As there are no questions I now hand the conference over to Mr. Reddy for closing comments. Over to you sir.

Ram Reddy: Thank you Ankit. So I think we have given whatever the things rate in details. Even we have kept on the website and we have given the list also. People must be having everything in handy. There is not much question but still if anything you have your always welcome to send a mail where we will love to reply to all your queries. Thank you very much.

Moderator: Thank you very much members of management. Ladies and gentlemen on behalf of Systematix Shares & Stock Limited that concludes this conference call. Thank you all for joining us and you may now disconnect your lines.