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INDO AMINES LIMITED

Date: 16th November, 2018

To,
Listing Department
BSE Limited
Phiroze Jeejeebhoy Towers,
25th Floor, Dalal Street, Fort,
Mumbai- 400001.

Dear Sir(s),

Subject: Transcript of the Conference Call held on 06th November, 2018
Ref: Indo Amines Limited Scrip Code: 524648

Please find enclosed the transcript of the Conference Call conducted by the Company on 06th November, 2018.

We request you to take the above information on your record.

Thanking You,
Yours truly
For, Indo Amines Limited

Tripti Sharma
Company Secretary & Compliance Officer
Mem. No: A39926

Encl as above.

INDO
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LIMITED

Indo Amines Limited
Q2FY19 Earnings Conference Call
November 06, 2018

MANAGEMENT: MR. VIJAY PALKAR – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

MR. RAHUL PALKAR – JOINT MANAGING DIRECTOR

INDO AMINES LIMITED MUMBAI

INDO AMINES LIMITED

Moderator: Good morning, ladies and gentlemen. I am Rayomand moderator for this conference. Welcome to the conference call of Indo Amines Limited, arranged by Concept Investor Relations, to discuss its Q2 FY 2019 results.

We have with us today Mr. Vijay Palkar – Managing Director &Chief Executive Officer; and Mr. Rahul Palkar – Joint Managing Director.

At this moment all participants are in the listen-only mode. Later, we will conduct a question-and-answer session. At that time, if you have a question, please press '*' and '1' on your telephone keypad. Please note this conference is recorded.

I would now like to hand over the floor to Mr. Vijay Palkar – Managing Director & CEO. Thank you and over to you, sir.

Vijay Palkar: Good afternoon, everybody present here. Indo Amines Limited was incorporated in 1992 and got listed in the year 1994. We are a significant world-wide manufacturer, developer and supplier of fine chemicals, specialty chemicals, performance chemicals. The products manufactured by us find application in various industries like pharmaceuticals, agrochemicals, fertilizers, petrochemicals, road construction, pesticides, perfumery chemicals, high performance polymers, paints, pigments, printing inks, rubber chemicals, dyes and intermediates.

The company has six manufacturing facilities: Baroda, Dombivali, Rabale , Dhule, Mahad and Tarapur.

We have an employee base of 700, out of which 190 are on contract basis. 55% of our revenues come from export and the rest from the domestic market. We export our products to more than 50 countries and, mainly to US, China, Europe, and Japan. They contribute a significant share.

We recently acquired Core Chemicals, which will help us strengthen our business even more in terms of operational synergies, revenue boost and profitability. We are open to more such acquisitions.

This was a short brief about our company.

Coming to our financial performance. Net revenues grew 38.2% year-to-year to Rs. 118 crore in quarter ended September 30, 2018. The company's EBITDA stood at Rs. 13.4 crore, EBITDA margin in the quarter stood at 11.36%.

Profit after tax stood at Rs. 6.17 crore in the quarter ended September 30, 2018. PAT margin stood at 5.23% for the current quarter.

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The diluted EPS for the current quarter stood at Rs. 1.8

In the half yearly year of FY19, net revenues stood at Rs. 217.74 crore. The company's EBITDA stood at Rs. 22.65 crore in the first half of FY19. EBITDA margin for the first half stood at 10.4%.

PAT is Rs. 11.59 crore in the first half of FY19. PAT margin stood at 4.78% for the first half of FY19. The diluted EPS for the first half of FY19 stood at Rs. 3.12.

For the year 2018-2019 our focus will be substantial growth by increasing our market share of existing product, creating new business with new products, both in domestic and export markets.

This brings me to the end of my comments. Now I would like to leave the floor open for questions. Thank you very much.

Moderator: Thank you very much. Ladies andGentlemen, we will now begin the question-and-answer session. We have the first question from the line of Nitin Dharamat from Aurum Capital. Please go ahead.

Nitin Dharamat: Sir, since we are a specialty chemical company, I just wanted to know why the EBITDA margins are just barely in two digit number, around 10% after compiling the first half. And what are we doing to increase this? And if you can guide us going forward EBITDA margins in the next half and the subsequent year? That will be helpful. And what is the sales growth target that you are targeting, if you can give some color on that it would be helpful.

Vijay Palkar: See, our EBITDA margins are slowly increasing since last, if you look at the previous year's balance sheet they were increasing. However, particularly if you look at the last quarter results, there were certain price increases and cost increases to the company which will not be passed on to the customers because we have, especially in the local market and export market also we have contract with the customers between three months to six months. Now, we are also trying to understand this and trying to reduce the contract periods, so these prices could not be passed, the incremental prices could not be passed on to the customers. So, that's why margins have not gone up to the sizable levels. The sales target now for the remaining year, we are trying to improve the sales target. And in the next six months we expect that the sales target will be still better. And we expect that it should be crossing about 30% to 35% more than what we are doing right now.

Nitin Dharamat: With slightly higher EBITDA margins as well sir? Because now crude I think is the biggest reason, if that is getting stabilized will that also help us?

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Vijay Palkar: Yes. Actually the crude prices have gone up substantially also, the local power prices also have gone up. So, these two have contributed to the incremental cost which was substantial in the last quarter. So, now if the crude comes down then possibly our margins will go up. And also, we are trying to pass on the incremental prices, we have already done with some of the customers, so we expect that the margins will go up in the next quarter and the next six months also.

Nitin Dharamat: Just one more question regarding the appointment of CFO. So, are we even considering the appointment of a professional CFO or we are continuing the same arrangement that we had taken some time ago?

Vijay Palkar: We are trying to find out a suitable CFO. And to find a suitable CFO it is not so easy, that is our earlier experience. Because you appoint a wrong person and then by the time the CFO understands the whole system it is already one or two years. So, that is the reason we are trying to really find out somebody or we may also try to make somebody from the company, from the staff also who is a suitable candidate. So, we are looking for next, till March we will find out a suitable CFO.

Moderator: Thank you. Our next question is from the line of Nikhil Oswal from Stallion Asset Management. Please go ahead. We seem to have lost the line for Nikhil, we will move to the next question. Our next question is from the line of Pankaj Gupta from Bamboo Capital. Please go ahead.

Pankaj Gupta: Sir, just wanted to understand business in more details and the products that we make. So, if we have to understand the breakup, do we make amines, like normal amines like ethyl and methyl amines and as well as derivatives of the amines? And if we make, how much is the contribution to the sales of this product?

Vijay Palkar: See, our amines are different products than what you find from other manufacturers in India. Our products are not really similar to what the other amine manufacturers make in India. And they are mainly the higher molecular weight amines, if you ask me. And what the other manufacturers make is the lower molecular weight amines. Our business is mainly focused on pharma, water treatment chemicals and agrochemicals, so this part of the application finds the biggest part, in our turnover it is contributing into biggest figures, we are more focused on these three applications. So if you look at our market share, most of the market share is coming from these three areas of pharma, intermediates, water treatment, chemicals and agrochemicals.

Pankaj Gupta: Can you name some of our competitors, domestic as well as China or some other, do you see competition from China and who are our domestic competitors?

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Vijay Palkar: See, for pharma intermediates, we normally select products where no competition is there, that means, not in India but there could be competitors in China, there could be competitors in Europe and other places. So, mainly import substitutes. So, most of our products if you look at, we have competition from the imports. So, we have to fight import, our prices are compared and we have to sell at prices matching the import price. So, in pharma intermediates that is one. In water treatment chemicals we sell some products which are also having similar strategy. And we manufacture some products which have large market demands, so that is how we are doing our product selection. Agrochemicals, we have some competition in the market and some of the competitors would be people who are into surfactantsbusiness. So, as you know surfactantsbusiness in India there are many players, but the leading players in the market were Unitop Chemicals and Core Chemicals, so Unitop Chemicals is one of our competitor, Core Chemicals we have now acquired, the process is on. So, you can say we have acquired major competitor in the market and that is going to boost our business also.

Pankaj Gupta: Sir, my next question was on gross margin. Despite having low competition our gross margins have broadly remained in the range of around 32% to 35% over past many quarters and past years, and our EBITDA margins have remained around 10% - 12%. So, why have the margins remained low despite having low competition in domestic market?

Vijay Palkar: See, we have number of products where, in some products the margins are higher. But in some products like agrochemicals there is quite a lot of competition, in the sense that there are bigger competitors and smaller also. So, on an average, if you separate the three segments then the margins would look different. But since this is a combined business that we are doing, the average margins are not increasing. However, now we are focusing for future on pharma intermediates and water treatment chemicals where the margins would be bigger and more. So, in future you can expect with the growth of the company we can expect little more increase in the margins slowly. These are not going to be very abrupt and very big change, but it will be going up slowly and definitely it is going to help the company.

Pankaj Gupta: And sir, if I have to look at apart from amines any other chemistry where we have expertise and we have products which are core expertise, any other chemistry where we have expertise?

Vijay Palkar: See, we have very good R&D and the company is spending a sizable amount on R&D and we are employing now a lot of PhDs also in the company to boost up our R&D. We have a lot of chemistries also but now we are mainly focusing on some of the backward integrations where if we go in for backward integration of some of the major products, especially for pharma intermediates and all, then the margins are definitely going to increase. And we have a lot of chemistries working on with us, in our R&D we have lot of chemistry work going on. And in

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next two years to run you will find a lot of new products have been developed by the company which were not there in India. And you will see lot of things happening in the market as far as our market share is concerned.

Pankaj Gupta: And what are the capex plans of the company for the next two years?

Vijay Palkar: See, we have a steady capex plan between Rs. 10 crore to Rs. 20 crore for a regular growth. However, we have a capex plan going on in Dhule, we have a new unit starting up in Dhule by next year, and in next four years we are going to invest around Rs. 100 crore in the Dhule unit. The first stage we will be investing about Rs. 30 crore. Now, this is the capex for the new unit, however, for the regular units we have a capex between Rs. 10 crore to Rs. 20 crore where we go for debottlenecking on process improvements through technology. Now, we are mainly working on process improvement through technology wherein the same type of equipments could give more than 25% to 30% of more production with the same manpower. So this is what the company is doing. So you can look forward that even though capex may not go up sizably, there will be a growth coming up every year because already the investment has been done and only we need to do the debottlenecking in most of the cases.

Moderator: Thank you. Our next question is from the line of Jiten Parmar from Aurum Capital. Please go ahead.

Jiten Parmar: My question is on the results, three line items I wanted to talk about. One is, other expenses have gone up, employees cost have gone up and the tax expenses are much higher for same EBITDA. Can you explain why these are so?

Rahul Palkar: What is the first part?

Jiten Parmar: The other expense. And then employee cost has gone up substantially. And the tax expense is much higher for same amount of PBT.

Vijay Palkar: Power and fuel cost has gone up by Rs. 3 crore, so this particular cost has gone up and it could not be transferred into the product cost. The reason is, we normally have three to six months contract going on with the fixed price with the foreign buyers. The local buyers we generally work with one to three months contract. But we are already now in beginning of last month, October, we already started putting the cost to the customers. And I think the things will improve. The reason for the other expenses going up is what I have explained to you.

Jiten Parmar: The employee cost and the tax expense?

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Vijay Palkar: The director's remuneration has gone up and also appointment of foreign staff, we have appointed in many countries people in anticipation of the growth that is taking place in those countries, particularly USA, China and Japan. We expect very good business to come up from these countries, so we have appointed staff in these countries, so that is the reason the other expenses and salaries have gone up.

Jiten Parmar: And tax expense is higher, almost similar profit before tax, tax expense was Rs. 4.15 crore whereas last year it was Rs. 2.90 crore.

Vijay Palkar: Can you come back again?

Jiten Parmar: See, the profit before tax which is Rs. 9.92 crore against last year of Rs. 9.30 crores, the tax expense last year was Rs. 2.90 crore and this year it is Rs. 4.15 crore. So, less than 7%- 8% of profit before tax has increased but more than 30% increase in tax expense. What is the reason for that?

Vijay Palkar: We will come back to you on this, I am also not sure about the answer. But just keep on hold for some time, I will come back to you before the end of the call with you. Or Concept will clear you on this.

Jiten Parmar: Okay. So, my next question is basically on the dollar strengthening and rupee weakening. Doesit help us more or is it neutral for us or it impacts us negatively, maybe because if our raw material is imported. So, basically, what is the color on export percentage of our revenue?

Vijay Palkar: See, the dollar revenue versus the imports, imports is almost 60% of the dollar revenue. So, it is like some natural hedging it goes away and the remaining part we do some type of coverage and hedging, but that is not our core business. So we just take our safety margin and work on it.

Jiten Parmar: No, what I mean to say, my question is basically rupee depreciating, does it help us, is it positive for us or negative for us?

Vijay Palkar: Yes, definitely it is helping us, it helps us to some extent, not very large extent. Because as I said, we have to pay for the imports 60%, so it is helping us in some way.

Jiten Parmar: So, what is the percentage of exports?

Vijay Palkar: Export is 55%. Your last question, we will come back to you on the current tax. So, last year we had taken over one company called Sigma Solvents, which was a loss making company.

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Because of that we had to pay lower tax of almost Rs. 2.9 crore, whereas this year it is not so. So we had to pay lower tax because of the losses carried forward in that particular company.

Jiten Parmar: So, our percentage of exports is 55% of revenue?

Vijay Palkar: Yes.

Jiten Parmar: And percentage of imports of the total raw material we use, what is the percentage of import in that?

Vijay Palkar: See, it is 60% of the revenue that we get from exports. So, if you are getting $100 from exports our imports is $60. And if you want to ask me overall how much it is, it could be around 30% to 35%.

Moderator: Thank you. Our next question is from the line of Chaitali Shah, who is an individual investor. Please go ahead.

Chaitali Shah: Sir, tell me about your current order book, what is the figure? Because last quarter it was Rs. 125 crore plus, you had mentioned.

Rahul Palkar: The current order book is in the same and increasing format, so we are looking forward in the range of between Rs. 125 crore and Rs. 150 crore for the next quarter.

Chaitali Shah: And sir, how about your status of the six products registered for EU?

Rahul Palkar: Four products are already registered, there is a fifth one which has already come in, registered just last week. Because of the registration we are getting a lot of enquiries for the European market now, so we are establishing and going ahead with some contracts and new customers for the European markets. So, probably, the increase in part of the sale is also coming because of the reach efforts already we have done.

Chaitali Shah: So, when do we expect the full fledged production?

Rahul Palkar: We are looking forward that in the coming two quarters and the next year the impact of reach investments will be higher in terms of the sales in that region.

Chaitali Shah: Year-on-year that would be improving?

Rahul Palkar: We will try to have a good number. Right now our exports in European regions are very low, because the reach was not there. But hopefully because of the reach the exponential ratio

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	would be quite higher in the beginning stages. (Vijay Palkar) You can expect better figures in the next quarter to come.
Chaitali Shah:	And sir for the last four products production has already started?
Vijay Palkar:	Yes.
Chaitali Shah:	And my line got disconnected, can you repeat about your capex figures for next four years?
Vijay Palkar:	See, actually we have a new plant coming up in Dhule for which we have already planned Rs. 100 crore capex. The first year it will be around Rs. 30 crore and slowly maybe in four years time it will be Rs. 100 crore altogether. The other plants also have some capex going on between Rs. 10 crore to Rs. 20 crore per year, these are mainly for technological improvement and debottlenecking. So, with the small capexes the existing capacities will give better production to the extent of more than 25%. So that is the capex we intend to do.
Moderator:	Thank you. Our next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.
Rohit Nagraj:	Sir, pardon me for my limited knowledge. Can you just provide our value chain from what raw materials we start and which all reactions we do in the intermediate stages and for producing the final products?
Rahul Palkar:	Normally the chemistry which we handle is from C3 to C22 carbon chains. And the chemistry we handle for these kind of carbon chains is more in terms of say five kinds of chemistries are kind of core chemistries which are hydrogenation, esterification, ethoxylation which is called alkoxylation as well, and greenyards and other chemistries as well. But we also do a lot of supporting chemistries like cyclizations, sulfonations, michal additions all kind of high-pressure chemistry. There is a substantial mix on chemistry part, but the carbon chain which we handle is all about the CP.
Rohit Nagraj:	But you said the focus is on relatively smaller carbon chains, right? Not on the larger carbon chains?
Rahul Palkar:	We do anything above C3, so C2 and C1 is not handled, which is methane and ethane chemistry. But C3 starts from petrochemicals and the higher Cs are from the vegetable base.
Rohit Nagraj:	And in terms of the C3 to C20, how much would be the proportion of fatty carbons and the petrochemical carbons?

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Rahul Palkar: More C3s to C8s are the petrochemical chains after that it could be natural chains. The volume base is driven on the market size, so it is nothing to do with like what we do more and what we do less. But if you ask me, in general, it is a balance mix of the market requirement.

RohitNagraj: And sir you have said that

Vijay Palkar: See, if you want a simple answer, I would say that 40% of our business is depending onoleochemicals. And the remaining 60% on other petroleum based or other chemicals. So, oleochemicals will be 40% and 60% will be other chemicals based on C3 to higher chain lengths.

Rohit Nagraj: So, probably that is the reason performance has been relatively muted, which is the cost of petrochemicals has gone up in the last couple of quarters due to higher crude oil prices, is it right to assume?

Vijay Palkar: Yes.

Rohit Nagraj: And sir you said that we will be focusing more on higher margin segments like pharma, water treatment and agrochemicals. So, what is the maximum margins that we can expect from these segments? So currently we are trending at around 10-11%., once we focus more on the specialty kind of products what are the margins that we expect from these?

Vijay Palkar: See, like the pharma and water treatment chemicals have better margins, agrochemicals will have lower margins, however now it also depends on what country you are doing business. See, what happens is in China there is an import duty of 22%, the Chinese cost for importing and clearing goods is much higher than the other countries. So, if we have to fight the Chinese market then in case we have to sell at 22% cheaper to match the Chinese price. So, if we are doing business in China, we have to match their prices, we have to give at lower prices, so sometimes the average price of the product also goes down, margins also go down. So, we are trying to balance all this by doing business in China and also trying to do more business with other countries where we can get better prices. Now, you can get better prices in the US, Japan and Europe. So, by doing a balanced business we are trying to average out the margins and come to a certain level. But we cannot avoid the Chinese market because it is a weak market. So, maybe someday a time will come when the Chinese people reduce their internal duties for imports or match with the Indian duty. So, in that case if we keep on doing the business our margins will shoot up also.

Rohit Nagraj: And sir you talked about backward integration, particularly or pharma intermediates. So, these intermediates are focused on a particular therapeutic area or is it a general pharma intermediates used across manufacturing for different API?

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Vijay Palkar: See, we look at the pharma intermediate products and then we compare whether our chemistry will go with that. Because we do not want to enter each and every field of chemistry, we have certain eight to ten type of chemistries going on in our company. So in that case we do not want to go away do something more than that, there are so many things, there could be 40 or 100 type of reactions that could be happening. But we want to restrict ourselves to a certain chemistry only right now. So when we are selecting a product we look at its chemistry, we look at the prices and we look at the probable margins, and then we start the work. So, before starting a work in R&D these are the things which we look into and then start the work in R&D, then we will see where we land up and then we form all the product.

Rohit Nagraj: And one last question on the Chore Chemicals acquisition, if you could give some more information about how it is aligning with our business or what are the synergies that we expect from this acquisition? And how it will help us in terms of growth over the next couple of years?

Vijay Palkar: See, they are into this particular agro chemical business and they have approvals of many multinational companies. They were our customers for some of the products and then they used to do the further value-added business. Now, their activity is limited only to Indian markets, they have not been in the foreign markets at all. So, how we are going to help them is we are trying to grow the business in 50 countries where we are exporting our products. See, we have a market for all products, we have direct, indirect, through distributors market in 50 countries all over the world, and we are trying to increase the number of countries also, maybe in two, three year's time our target is to reach 100 countries. So, this is going to help Core Chemicals in increasing their business. And also internally when we supply products for agro chemicals internally, our production is also going to go up. And so that is also going to help Indo Amines by increasing the internal production and also going to newer markets and different countries, as far as Core is concerned.

Rohit Nagraj: Just one question on this, so the MNCs have registration with Core Chemicals, but when we are merging this company are there any delays in terms of product supplies because of the change in entity?

Vijay Palkar: See, we have already informed the customers that this process is on and they are also looking into whether they need to intimate to any principals or anything like that. However, what they look forward is whether we are changing the manufacturing sites, which we are not, because Core Chemicals has got its own manufacturing sites and we are not trying to change any of their manufacturing sites. So, particularly, the product approvals are not only for the company but also for the manufacturing sites. So, the Core Chemical management, earlier management has already informed their customers that they are in a process and the customers have not raised any type of objection. And also, these customers have will also

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inform their foreign entities or foreign companies or foreign branches that Core Chemical is willing to export their goods through Indo Amines to all other different countries where they have the manufacturing sites.

Moderator: Thank you. Our next question is from the line of Dhiral Shah from Asit C Mehta. Please go ahead.

Dhiral Shah: Sir, my question is, do you source any kind of your input from China?

Vijay Palkar: We do.

Dhiral Shah: So, are you finding any kind of turbulence?

Vijay Palkar: In what way?

Dhiral Shah: Because we have been heard that lots of API sourcing has been under trouble because of these Chinese related issue.

Vijay Palkar: We do not import any APIs. And so we have no problem. But other products we never had any problem or we do not have any problem. And now since last six months we have office also and Chinese staff working for us for Indo Amines in China in a place called Changzhou. So absolutely that has helped us in procurement and distribution of our products in China.

Dhiral Shah: So, what is our sourcing percentage from China?

Vijay Palkar: Sourcing percentage is not much, it would be less than 10%.

Dhiral Shah: And second question, what is the fixed asset turnover, what is your current capacity utilization rate and fixed asset turnover?

Vijay Palkar: Current capacity utilization could be around 60%. And fixed asset turnover 2.35times

Dhiral Shah: And sir you just talked about your next four years of capex plans, so how do you want to fund this capex?

Vijay Palkar: Right now we are planning to fund the capex through bank finance only term loan.

Dhiral Shah: What would be the percentage?

Vijay Palkar: It will be 75:25, 75% bank gives and 25% from our internal accruals.

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Dhiral Shah:	So, here if you want to fund this capex through this bank finance, so your debt to equity ratio is also moving up. So, is there any plan to reduce the debt?
Vijay Palkar:	See, over a period of time we have been funding through the bank if you look at last 10 years or 15 years, and we have been always repaying them on a very stable basis. So, we generally only take funding to the extent that the company can repay without any problem. So, I do not think there should be any problem having similar funding from the bank in future.
Dhiral Shah:	So, it is currently above 1x debt to equity, so at what level you are confident of maintaining this debt to equity?
Vijay Palkar:	It will be maintained.
Dhiral Shah:	And if you can give me your capacity, what is the capacity in terms of volume metric ton?
Vijay Palkar:	Capacity in terms of metric tons right now would be about 50,000 tons overall total. And as I told you, we are doing around 60%.
Dhiral Shah:	And with this Rs. 100 crore capex how much capacity will go up then?
Vijay Palkar:	See, these are new line of activity that we are going to do. But overall we expect that it should be double.
Dhiral Shah:	So, in next three to four years the capacity would be double, from 50,000 tons to let's say 1,00,000 tons, right?
Vijay Palkar:	Yes.
Moderator:	Due to time constraints, we will take that as the last question. I would now like the hand the conference back to the management for closing comments.
Vijay Palkar:	We thank you for arranging this concall. We are open for more questions also, so if anybody has any question we are there to answer them. And you can also get in touch with us or through Concept for any more questions. Thank you.
Moderator:	Thank you very much, sir. Ladies and gentlemen, on behalf of Indo Amines Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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