



Alkyl Amines Chemicals Limited

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May 31, 2019

To,
BSE Ltd.
P. J. Towers,
Dalal Street, Fort,
Mumbai – 400 023.
SCRIP CODE: 506767

National Stock of India Ltd.
Exchange Plaza,
Bandra Kurla Complex, Bandra (E),
Mumbai – 400 051.
SYMBOL: ALKYLAMINE

Sub.: Intimation under Regulation 30 of SEBI (listing Obligations & Disclosure Requirements) Regulations, 2015

Dear Sirs,

With reference to our letter dt. May 17, 2019, please find enclosed the transcript of the earnings conference call held on Wednesday, May 22, 2019.

Kindly take the same on your records.

Thanking you,

Yours faithfully,
For **ALKYL AMINES CHEMICALS LTD.**

Chintamani D. Thatte
General Manager (Secretarial) & Company Secretary
& Compliance Officer



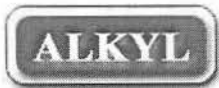
Encl.: As above



Alkyl Amines Chemicals Limited

“Alkyl Amines Chemicals Limited Q4 FY-19 Earnings Conference Call”

May 22, 2019



Alkyl Amines Chemicals Limited



MANAGEMENT: **MR. YOGESH M. KOTHARI – CHAIRMAN & MANAGING
DIRECTOR**
MR. KIRAT PATEL – EXECUTIVE DIRECTOR
**MR. CHINTAMANI THATTE – GENERAL MANAGER,
(SECRETARIAL) & COMPANY SECRETARY**
**MR. K. P. RAJAGOPALAN – GENERAL MANAGER
(LEGAL)**
**MR. RAHUL MEHTA – GENERAL MANAGER (FINANCE
& ACCOUNTS)**

MODERATOR: **MR. NILESH GHUGE – HDFC SECURITIES LIMITED**





- Moderator:** Ladies and gentlemen good day and welcome to the Alkyl Amine Q4 FY19 Earnings Conference Call hosted by HDFC Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing '**' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nilesh Gughe from HDFC Securities Limited. Thank you and over to you Mr. Ghuge.
- Nilesh Ghuge:** Thank you Bharat. Good afternoon all. On behalf of HDFC Securities I welcome everyone to the Alkyl Amines conference call to discuss the results for the year ended March 2019. We have the pleasure of having with other top management team from Alkyl Amines represented by Mr. Yogesh Kothari – Chairman and Managing Director, Mr. Kirat Patel – Executive Director, Mr. Chintamani Thatte – General Manager, Secretarial and Company Secretary, Mr. K. P. Rajagopalan – General Manager, Legal and Mr. Rahul Mehta – General Manager, Finance and Accounts. Without further ado I will now hand over the floor to the management for making the opening comments. Over to you sir.
- Yogesh Kothari:** Thank you Nilesh. I am Yogesh Kothari here. What I would like to do is what we did last time and, let the floor be open and let people start asking questions so that more people get a chance to ask. Thank you. Please go ahead with questions.
- Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Amandeep Singh from Ambit Capital.
- Amandeep Singh:** My first question was about volumes. So in terms of volumes can we get some sense on split between volume growth and value growth for FY19 and the overall volume sold in FY19.
- Kirat Patel:** The top line growth has been about 40% of which volume has been the larger portion and price has been the smaller portion. So mainly approx.. 2/3rd of that is volume and about 1/3rd is price.
- Amandeep Singh:** And about total volumes for FY19?
- Kirat Patel:** We don't give the actual tonnage numbers and our product details.
- Amandeep Singh:** Can the entire sequential and YOY decline in gross margins be attributed to steep correction in RM prices or is it also because of mix changing in favor of Amines as opposed to derivatives?
- Yogesh Kothari:** I think to a large extent the raw material price increases in previous quarters, especially in the last quarter and also there is a change in the mix of the products, for the combination of this too has led to this type of situation.



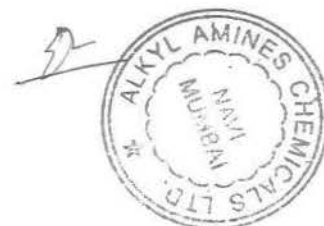


- Amandeep Singh:** What was the reason for sharp increase in tax rates in 4Q from 30%-31% to around 42% and is it fair to assume that the tax rate will revert to previous levels?
- Kirat Patel:** Tax rate has two components, current and deferred. The other issues that come up is the concession given for R&D and disallowances for CSR and there was an extra hit in this quarter because of the ESOP. So these are disallowances, so from the PBT you have to remove that before you calculate the tax. So the higher percentage was the because of that and partly because the Q3 deferred tax was underestimated because of various factors. So the overall number, current and deferred, has come to about 35% for the year of the PBT which is by company law as compared to income tax it's the 34.6% because of the disallowances of CSR and ESOP provisions.
- Amandeep Singh:** And with competition now set up to ramp up Acetonitrile production in the next couple of quarters. Will there be pressure on realization given domestic capacity post commissioning of 9000 tons per annum plant by competitor, now out ways the overall domestic demand?
- Yogesh Kothari:** Yes definitely it will make some difference.
- Amandeep Singh:** What was the blended fully year average capacity utilization for FY19 and the CAPEX guidance for next couple of years?
- Yogesh Kothari:** CAPEX of course we have already informed that it will be adding almost every year about 150 to 200 crores type of CAPEX. So the capital expenditure this year has been around 70 crores, next year it's about 100 crores and progressing to about 150 the year after. In terms of capacity utilization yes the average has more or less been in the 80% rate but that's a wide range from 95% to 45%, different plants because we have about 12 plants.
- Moderator:** The next question is from the line of Rahul Jain from Credence Wealth Management.
- Rahul Jain:** For last 10 to 12 years we have always remained in the region of about 50% gross margin, 48% to 50%. This time after long time our gross margins are down to almost 40% and you mentioned in the first answer that it is due to raw material prices going up and change in product mix. Can we understand currently how are the raw material placed and how do you look going forward for next year or two years or so?
- Kirat Patel:** The gross margin has two impact also, the selling prices of the finished goods and the raw material prices. Product mix also has a marginal impact and going forward yes, we expect that the prices are going to remain a little tight in the raw material front. But we expect that the finished goods prices will slowly catch up because these things happen in phase lag with the raw material prices go up and the finished goods prices take little time to catch up. So hopefully will be back to those gross margins of the old days.





- Rahul Jain:** Could you just share more details about which raw material prices have really led to this, is it due to more of Acetic Acid or Ethyl Alcohol or Ammonia?
- Yogesh Kothari:** There is Acetic Acid, a little bit of Ammonia and Ethyl Alcohol.
- Rahul Jain:** In terms of capacity utilization our new plant Methyl Amines which we started in March '18, what kind of capacity utilization that plant has reached and are we planning to start the next 20,000 tons which you had planned earlier?
- Kirat Patel:** We had said at the beginning of the year that we were hoping to reach about 70% utilization of that plant and we have managed to reach 70% utilization over the year, maybe a little more, a couple of percentage points more. About the expansion in Dahej of the same plant we are going to debottleneck a year down the line because we expect that this growth in Methyl Amines will certainly take place. So we are planning a little ahead of the time so we have at the moment as earlier stated 30,000 tonnes plant in Dahej which we shall debottleneck and we in two stages bring it to 45,000 tonnes.
- Rahul Jain:** And that should get completed by the year-end FY20?
- Kirat Patel:** No, the first stage will get completed by the year end.
- Rahul Jain:** Which is 45,500?
- Kirat Patel:** First stage will be half of that between 30 and 45, say about 37,000-38,000.
- Rahul Jain:** An earlier there were plans of engineering capacity at Acetonitrile which you have put on hold and deferred it. Do you still have the same view that you will defer this plant of Acetonitrile?
- Yogesh Kothari:** No, we have already done that part of debottlenecking and some portion is still remaining which will be done in the next 2-3 months.
- Rahul Jain:** If you could share some more details on the CAPEX program of next year, as you mentioned 100 crores for FY20 and 150 crores for FY21, so if you could share more details about where this CAPEX would be going in terms of how much of it would be for Derivatives and how much of it would be from Methyl Amines?
- Yogesh Kothari:** Almost all the CAPEX is for Derivatives and other infrastructure issue, safety and environment investments and the year after would be for Amines.
- Rahul Jain:** Some accounting questions, this time borrowings have gone down and your other current liabilities have gone up and trade payables have gone up sharply, so is there some reclassification of borrowings?





- Kirat Patel:** No, that's we are looking at the 31st March numbers, right?
- Rahul Jain:** Sure, yes.
- Kirat Patel:** Now what has happened is that we had imported a large consignment of our raw material which payment fell due in April first week, so the trade payables on 31st March look out of proportion to the normal. It happens on and off.
- Rahul Jain:** The other liabilities going up from almost 23 crores to 56 crores, anything specific or normal course?
- Kirat Patel:** No, I think nothing specific in that it's normal.
- Moderator:** The next question is from the line of Archit Joshi from Dolat Capital.
- Archit Joshi:** If you can just throw some more light on the trend within Methanol prices going ahead and also if you can tell us if you are trying to derisk in terms of your procurement options because of the current rally in Methanol prices.
- Yogesh Kothari:** We have been buying Methanol from shippers. The prices currently are quite stable but since things are going on regarding Iran we are not very sure how the prices will move. Maybe in the next one month or so we will get a better idea.
- Archit Joshi:** Earlier you had mentioned that bulk of our growth has come through volumes, so how do we get this, have we not been able to pass on the raw material inflation or has there been some sort of problems in terms of higher import from China within the Derivative segment because of which our MRPs have been a little muted?
- Yogesh Kothari:** What happens is that we cannot sell at a price higher than what the market price is. So often the market prices recommended by the imports and depending on the currency that time whatever is the landed values and all. So when we do not want to lose the market we would have no choice but to reduce our prices sometimes. But if it goes otherwise also we can increase the prices also when the trend is in our favor.
- Archit Joshi:** If you can just explain if on the Derivative side of that we typically get a bit more of margins, has there been any pressure on that, are we seeing any dumping or any import happening in some of the Derivatives within Amines?
- Yogesh Kothari:** We have not come across—at least with the type of Derivative as we make, we have not come across—any of these.
- Archit Joshi:** So the demand outlook within the Derivative segment remains stable although we are not sure of our margins, will it be safe to assume that.





- Yogesh Kothari:** We have local producers who also produce the same Derivatives so often because of the demand of the end use not going up the way it was thought of it often happens with over a few months there is a pressure on the prices of our Derivatives. So we do have to bring down the price to some extent. But this all settles down at some stage.
- Archit Joshi:** On the CAPEX plan from the previous participant asked you, if you can throw some more light on the CAPEX plan, so this year we have said we will be debottlenecking and next year the CAPEX will be more in the Amines space, so any particular segment that we are targeting with an expansion?
- Yogesh Kothari:** We are adding one or two Derivative products which have been not ourselves producing but getting it produced by others, now we are doing this in house so we are putting up those plants and that will come during this year.
- Archit Joshi:** And what would be the implicit returns or asset turns on the CAPEX that you are envisaging?
- Kirat Patel:** We said approximately 100 crores is the CAPEX to be planned over these 3 plants plus the infrastructure, so the total is about 100 crores.
- Archit Joshi:** I'm asking on the revenue front, so from 100 crores I'm sure that some of that is going towards infrastructure, so from the machinery and plant and from that angle I'm asking what can we generate in terms of...?
- Kirat Patel:** Normally these Derivative plants normally the turnover ratio that is sales to capital expenditure is normally 1.5 to 2 but that is at full capacity utilization, so it may take 2 to 3 years for full capacity utilization of these plants.
- Moderator:** The next question is from the line of Ankit Gupta from Bamboo Capital.
- Ankit Gupta:** Can you give us how has been the growth in the Derivatives, Amines and Specialty Chemical segment in FY19?
- Kirat Patel:** Is more or less similar to what was there in FY18. The only differences because we have more Methyl Amines that downstream Derivatives of Methyl Amines have also grown, so both Amines and Amines Derivatives have grown.
- Ankit Gupta:** Will the growth in Amine Derivatives be in double-digit for this year FY19?
- Kirat Patel:** Yes I told you the whole growth has been largely on volume and the total growth if you see the top line is 40%, so price rise has been not so important as much as the volume growth.
- Ankit Gupta:** We have been saying that the CAPEX that you will be undertaking, a significant part of the CAPEX will also go in for producing Derivatives and Specialty products which will be





introduced by us for the first time, so it will be the new products which will be launched by us. So if you can just give was briefly the color about those products how big is the market segment and all?

Kirat Patel: I have a correction, not all the products are new, there are two of them which are existing already which we are already supplying but we are putting up our own new plant or expanding in existing one while product will be a new one.

Ankit Gupta: So these two new products they are already being supplied by some of our competitors in domestic market or it's an import substitute that we will be doing?

Yogesh Kothari: Two of the products which we are selling today already, we are expanding capacity and transferring capacity from our subcontractors to us with a much larger capacity but in the new product. It's available in the market from imports and domestic manufacture but....

Ankit Gupta: If you can also talk about our product pipeline, some of the products that we planned to launch over the next 2-3 years, so how many products are we planning to launch, new products that we are planning to launch over the next 2-3 years and any broad color on the markets we will be addressing and the market size for these products?

Yogesh Kothari: At this stage we can't disclose this. Whenever the opportunity comes maybe we will disclose that.

Ankit Gupta: Just a broad color like which area will we be targeting or something on that side.

Yogesh Kothari: Our core markets have always been Pharma and Agro chemicals, possibly this also maybe going into...

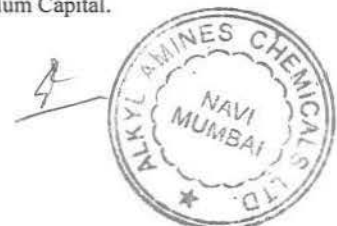
Ankit Gupta: Lastly on Acetonitrile prices, so have we seen any significant improving prices of Acetonitrile over the past few months?

Yogesh Kothari: Actually what is happening is that Acetonitrile prices move internationally because some plant is closed, shut down for some reasons and that reflects the overall international pricing now and that helps us but there is the time lag always.

Ankit Gupta: But what we have been hearing is that the prices have increased quite a bit in international market, it has jumped 2.5x, so is that right thing?

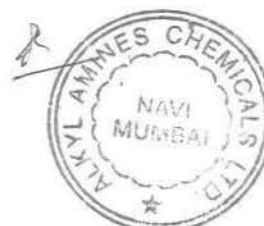
Yogesh Kothari: Yes I think the international prices have risen. This is what you are saying is true but how long it will last is thing questionable plus we entering into agreement with our customers so we may not get all the advantage out of that.

Moderator: The next question is from the line of Kunal Mehta from Vallum Capital.





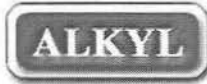
- Kunal Mehta:** I was trying to just reconcile your revenues, so as compared to last year on account of the expansion we have grown from a revenue base of around 640 crores to around 830 crores that's a 220 crores increase. And our Methyl Amine capacity expansion was around 50 tonnes per day. So as you have guided in the earlier calls that should amount to revenue of roughly 120 crores. So the balance 100 crores what would you attribute that to in terms of the total absolute increase of 220 crores in revenues?
- Kirat Patel:** Some part of it is the Derivatives of the Methyl Amines because there is a value add. The others is the natural growth of the other products also.
- Kunal Mehta:** So for 50 tonnes per day capacity, you had around 120 crores of base Amines revenue and then plus you will have more Derivatives to add to that, is that the right way to look at it?
- Kirat Patel:** Plus also some of the other products have done well in this phase, so that has also helped.
- Kunal Mehta:** This quarter the gross margin reduction would you attribute that majorly to Ethyl Alcohol prices being high, so we had a high cost inventory this quarter?
- Kirat Patel:** You must understand that when you are looking at the gross margins that's a product mix impact plus the impact of the raw material. The product mix is twisted more towards the Methyl Amines and Methyl Amines traditionally are as a percentage a lower margin than the higher Amines. So and the product mix changes this happens but the volume of course goes up, so the absolute amounts are going up.
- Kunal Mehta:** I just want to understand since we have now reached to 50 tonnes per day capacity in Methyl Amine in the range and you mentioned that you are trying to debottleneck the capacity by another 7500 tons in the near future, so can you just put us date as to when you would like this Phase I of this debottlenecking to be completed?
- Kirat Patel:** One correction, we have not yet reached 30,000 tonnes as I said 70%...so that would be about 20,000 to 23,000 tons. So maybe this year 19-20 we will probably improve that performance and towards the end of this year that is March 20 to early part of next year we will have the debottlenecking equipment in place. Of course we may not reach full capacity at the first phase because there is no need but we will have the capabilities in place.
- Kunal Mehta:** So assuming that the new capability or the capacity to manufacture post once you put the machinery in place and then if you get it operationalize by second half of financial year 21, so implicitly that would mean that your volumes in Methyl Amines would at least grow for 20% CAGR for the next 2 years. So now those growth prospects would you attribute it to a superior demand—of course there would be superior demand which you are seeing which is the reason why you are doing it—but it would also be just because there is in available market which your capacity M. utilized, so I I'm just trying to understand the reasons?





- Kirat Patel:** You must put in perspective that there are three players of Methyl Amines in the market and we are only one of them. Now the total market even if it grows at about 8% to 10% the other two players are not adding capacity. In fact RCF has reduced capacity last year, one of their Chembur plant has shut down. So, some of that natural growth all comes to us because we are the only ones who have some headroom in our capacity and therefore it appears little high, ambitious.
- Kunal Mehta:** With respect to the industry growth, so we are seeing both the end user industries now accelerating your utilization level, so Pharma is doing well after a 2-3 years slump and Agro chemicals doing fairly well especially on the export side. So would you see that the industry as a whole volumes have the potential to grow more than the historical growth rates of around 8%-10% in next two years?
- Yogesh Kothari:** It is possible but again there are ifs and but because lot depends on... I'm quite confident about the Pharma side, on the Agro side we have to see it depends on monsoon and other conditions. But I feel that it is possible.
- Kunal Mehta:** On the Agro side lot of Amines will be going in for the projects which are catered to the export market because I think the production for export markets have increased a lot in the last 2 years.
- Yogesh Kothari:** But in exports also the products go to some geographical region, there also it's not always in best of the health to take all the material. So that's why I'm not very specific that it will do well or not well.
- Moderator:** The next question is from the line of Dhwanil Desai from TurtleCapital.
- Dhwanil Desai:** Two questions, so one is that we have had a very strong volume growth on back of the Dahej expansion. So what would be our view on the volume growth going forward in next 2 years? Is it fair to assume 10% to 15% volume growth going forward if you can throw light on that?
- Yogesh Kothari:** We are hoping it will grow like that but again there are so many ifs and buts in this.
- Dhwanil Desai:** I'm saying that in terms of positioning ourselves. I understand there are external factors and variables that always come into play but in terms of positioning are we positioning ourselves for 12% to 15% volume growth in next couple of years?
- Yogesh Kothari:** Yes of course because we have increased capacities also most of our plants, so definitely we will be ready with that.
- Dhwanil Desai:** And second question is I think we were to switch the Patalganga Methyl Amine capacity to other Amines, so have we completed that and have that started contributing to our P&L?



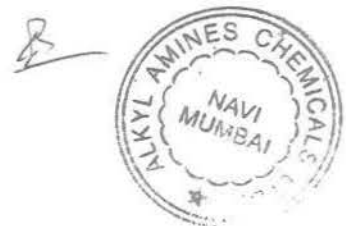


- Yogesh Kothari:** We have already done that but at the same time we have kept the Methyl Amines production option also still on. We are producing some other Amines as part of that but that has been done already. But we can always go on adding new equipments to it for making some more Specialty types of Amines.
- Dhwanil Desai:** In Acetonitrile I think you had mentioned in last call that because of the rising Acetone prices there was a pressure on margins or the gross level and although the realizations were not inching up. So barring the spike in Acetonitrile prices because of the shutdown how do you see the scenario on gross margin side for Acetonitrile?
- Yogesh Kothari:** I think so far the scenario looks quite encouraging because the Acetic Acid prices have been quite I mean they are better than what they used to be earlier and hopefully it will remain like this for the next few months or the next quarter or so. It also again depends on what happens between China and USA because that it takes a lot of these type of bulk chemicals prices so far it doesn't is quite ok.
- Moderator:** The next question is from the line of Viraj Mehta from Equirus PMS.
- Viraj Mehta:** At the start of the year you have mentioned around 100 crores CAPEX for the full year. We are short by around 30-35 crores, is this on lack of demand that we see or approvals are getting delayed? I just wanted to get a sense that it will delay the CAPEX because the demand was lesser or external factors at play?
- Kirat Patel:** No, we had budgeted about 80 to 85 crores of expenditure. We have done about 70 and that is mainly because of one plant there has been a slippage because of the delivery of an equipment, nothing to do with the demand.
- Viraj Mehta:** What will be the exact utilization for our Dahej plant?
- Kirat Patel:** About 70% to 72% in that region.
- Viraj Mehta:** That's the exact, that's not the average for the nine-month, that's the exact run rate.
- Kirat Patel:** No, except for the first month where we were starting up in April the rest of the months have been reasonably steady.
- Viraj Mehta:** If I look at our current revenue of around 240 crores odd per quarter and we running at 80% utilization as you mentioned so let's say if at max we can do 90 slightly north of that, is it safe to assume that with our current utilization, with our current capacity we can at best touch 1050-1100 crores revenue?
- Kirat Patel:** Yes, if the mix remains the same, prices remain the same; it's a mathematical equation.





- Viraj Mehta:** I am assuming in that current conditions?
- Kirat Patel:** I know the current conditions but we are adding capital expenditure so we are hoping to push that top line even further.
- Viraj Mehta:** In last call 6 months back, you had just mentioned that and this is one statement which has stayed with us is that every company goes through an inflection point in terms of what they see in terms of demand and market positioning and CAPEX. There is absolutely no change in how you feel about that thing 6 months, 8 months down the line from there, is that correct?
- Yogesh Kothari:** Yes, we are still in the same frame of mind and we have lots of projects on our drawing board and one by one we are clearing them and once the approvals and all those things are done, we will set them up so the direction remains the same basically.
- Moderator:** The next question is from the line of Ashutosh Garud from Avendus Wealth Management.
- Ashutosh Garud:** You mentioned about the volume growth on the full year basis for Q4, the growth and your top line was around 36%-37%, so amongst what was the volume and value growth?
- Kirat Patel:** You are referring to Q4 growth compared to the previous Q4?
- Ashutosh Garud:** Yes.
- Kirat Patel:** I would say that the volume growth has been the major component of that and price has been the secondary.
- Ashutosh Garud:** So that two-third, one-third which you mentioned for the full year would more or less be true for Q4 as well.
- Kirat Patel:** Yes, of course this price I must say that there is a product mix change also happens; product mix plays a role also.
- Ashutosh Garud:** Since this Dahej plant had commenced in March 2018 and it actually might have taken may be some time to get into its almost 70% utilization level so do you think we might see a few quarters where we might not see much of a y-o-y growth in volumes, is that the scenario or you are confident of 15%-20% growth in volumes because we can notch up the utilization levels on overall basis for FY20?
- Kirat Patel:** I referred to this similar question earlier that our 15% growth is when you look at the total market is something like a 7%-8% market growth. It's just that the other competitors are reaching their peak capacities. RCF has no capacity to add and Balaji is almost nearly full that is why it looks like we are adding 15% when the market is growing at 7%.





Ashutosh Garud: What I am trying to understand this given the total capacity which is around 80,000 tonnes?

Kirat Patel: Of all the players?

Ashutosh Garud: In your case I am saying.

Kirat Patel: You mean of Methyl Amines? You are referring to Methyl Amines?

Ashutosh Garud: Yes.

Kirat Patel: No, our Methyl Amine capacity is 30,000 tonnes.

Ashutosh Garud: Your total capacity across all products is around 80,000?

Kirat Patel: Little more than that probably but it varies because we have multipurpose plants which swing from products which are low per day production to high per day production so the mix changes but yes you can say (+80,000).

Ashutosh Garud: Given that capacity and since we don't have any major expansion coming in near future I am just trying to gauge if we can grow volume on total basis on total volume basis for the company at the rate of 15%-20% for FY20, that is what I am trying to say.

Kirat Patel: For FY20 as we already have headroom as we said we are only reaching about 80% on an average.

Ashutosh Garud: On the total capacity you are saying?

Kirat Patel: Yes, maybe some of the critical plants 70%, so Methyl Amine we are debottlenecking, quite a bit so that is a large volume product.

Ashutosh Garud: What is the maximum utilization you can go up to?

Kirat Patel: About 95% we have reached in many plants and what we keep doing is we keep debottlenecking these plants. I give you an example of older plant which started at 15 years ago at some 15 tonnes a day is now giving us 40 tonnes a day over some 10 debottlenecking exercises.

Ashutosh Garud: What is the trend on gross margin front do you think that the margins will again notch up to, on the EBITDA level to around 20%-22% or you think that the current margins are the ones which will going ahead will see more of the current quarter margins or do you think the pressure has been eased out or will ease out?





- Kirat Patel:** It's very difficult to predict what is going to happen in the future but if you have seen the historical past between EBITDA margins of 19% to 21% have been fairly consistent, sometimes going up sometimes going down.
- Moderator:** The next question is from the line of Rajat Sethia from VRDDHI Capital.
- Rajat Sethia:** Just wanted to understand we are putting a lot of CAPEX so where this demand really coming from, is it same sector, same kind of applications, same kind of clients or something helps just wanted to understand on that part.
- Kirat Patel:** Mr. Kothari had already mentioned the little earlier that we are aiming towards the Pharma and the Agro. Basically, the life sciences those are markets which we cater to and we are hopeful that at least the Pharma market will remain aggressive and has overcome its problems which were there 2 years ago and hopefully the Agro will also what they had last year will continue.
- Rajat Sethia:** Is it the same set of clients that we are catering or same set of product application that our product is going into is it domestic or exports what is really driving the growth, the end clients of our products are seeing lot of growth or what exactly is driving that growth?
- Kirat Patel:** We are in the intermediate business, so our growth comes from the growth of our clients. We don't drive actually the growth so it is our client's growth that helps us grow and our clients mainly in the Pharma. If you take this big sector we have been growing both exports and domestically because they are a lot in this Generics and we have a very strong Pharma Industry in the country. So there volume growth have been good except for the couple of years they suffered earlier but this year they seem to have been catching up and it looks like they are going to continue in that trend.
- Rajat Sethia:** Our own revenue mix and we also seeing any revenue mix would change in the favor of exports going forward?
- Kirat Patel:** Yes, in fact it is changing a little more in the favor. We were on an average about 20% of our sales were exports they are slowly going up to may be about 22% to 25%.
- Rajat Sethia:** We have decided to put up 100-150 crores kind of annual CAPEX so this is only supply that we are going to be ready but from the demand side do we get some sort of assurance from our clients or we are just anticipating and are quite positive demand will be there.
- Kirat Patel:** Nobody actually gives you any guarantees. We don't have such contracts but as a business risk we think yes, it's a reasonably good risk to take to expand.
- Moderator:** The next question is from the line of Avinash Balasubramaniam, an Individual Investor.





- A. Balasubramaniam:** Broadly with regards to the CAPEX plan when you are saying we are adding 100 to 150 crores for the next 4 years, just broadly to understand that 4 years hence we would have at least how many times the capacities that we have now?
- Kirat Patel:** That is a bit difficult to answer because we haven't really projected 4 years from now.
- A. Balasubramaniam:** In terms of the CAPEX that you are saying about 100-150 crores.
- Kirat Patel:** If you look forward we will add at least 30% to 40% capacity both in debottlenecking and additional plants in terms of pure tonnage, of course the products vary very widely in terms of prices and volumes. But yes on an average in tonnage I would say 30%-40% capacity increase over the next 3 years is very realistic to look at.
- A. Balasubramaniam:** I was also reading within the Pharma what I am given to understand this that one of the your end product goes into this diabetic medicines like Metformin, so are you getting into different kind of medicines? I am just trying to understand how are you making various products in terms of becoming capacity which you haven't been making so far.
- Kirat Patel:** Almost 60% of our sales to various Pharmaceuticals Industry and we must be supplying at least 10 different products to the Pharma Industry which goes into at least 20 different APIs. Metformin is just one of them. Penicillin, Cephalosporin, the Statins, you have these blood pressure, Atenolol various products like this.
- A. Balasubramaniam:** What I'm trying to understand this are you getting into different making new products which you weren't catering to until now that was what I was trying to understand.
- Kirat Patel:** New APIs?
- A. Balasubramaniam:** Yes, to new APIs to other APIs.
- Kirat Patel:** That's always happening because we are following our customers and when they are launching new APIs they come to us for the Amine requirements and Amine being a molecule which is very versatile one it is used in a large number of these medicines so whenever they are launching new APIs and if there is a requirement for Amine and Amine Derivatives we are among the first to be in queue to ask to be supplying and get our names registered and be ready for the growth.
- Moderator:** The next question is from the line of Bhargav Buddhadev from Kotak Mutual Fund.
- Bhargav Buddhadev:** Is it possible to know what is the share of Derivatives this year and whether it is fair to assume that the shares will only go up as we add capacity?





- Kirat Patel:** I don't have the exact numbers but the trend has been--this year there has been a little more Amine sale because of the Methyl Amine but as we go back that 30% Amines and 30% Derivatives and about 20% Specialties is the kind of mix that is settled at for the immediate future.
- Bhargav Buddhadev:** On this CAPEX which you mentioned of about 100 crores in '20 and 150 in '21, all this will be incurred at the Dahej facility or any other facility?
- Kirat Patel:** No, Kurkumbh and Dahej.
- Bhargav Buddhadev:** So, Derivatives will be added at Kurkumbh and Methyl Amine added at Dahej?
- Kirat Patel:** You are looking at the 100 and 115?
- Bhargav Buddhadev:** Right.
- Kirat Patel:** Both side there is Amines Dahej and in Kurkumbh and both sides there is Derivatives.
- Bhargav Buddhadev:** I was under an impression that the Methyl Amine is being shifted to Dahej?
- Yogesh Kothari:** No, we can make Methyl Amines at Patalganga also.
- Bhargav Buddhadev:** On a strategic perspective is it fair to say that Dahej as a location is more favorable for our customers, so in the event if any new capacity is added the competitors, we will continue to remain much more competitive?
- Kirat Patel:** In the Western zone meaning the Gujarat customers obviously will benefit but some of our higher Amines are used in the South also, so it is West and the South where most of our market is, a little bit is in the North but hardly anything in the East. So yes there is a marginal advantage but nothing spectacular.
- Moderator:** The next question is from the line of Kashyap Karthik from Tabletree Capital.
- Kashyap Karthik:** Just zooming out a little just on a strategic perspective we have seen a lot of Chemical, Agrochemical companies announcing a lot of CAPEX from 100s of crores to 1000s of crores so you think like the new trend because of China. So two questions that I have; one is from a Chemical and Agrochemical perspective given that there is a lot of CAPEX announcement; on the ground do you actually see these announcements turning into reality and have the companies come in and talk to you about enhancing their raw material procurement? The second question is we have seen in the Pharma segment which is 60% of our revenue. We have seen a CAPEX drop off because of multiple issues, FDA issues of the Sun Pharma and that issues, multiple issues we have seen CAPEX drop off in the Generic manufacturing. So two questions one is from a Chemical-Agrochemical do you really see that announcements turning





into reality or it is just announcement like any political promise and two from a Pharma perspective do we see any concern in terms of this new CAPEX not happening and therefore our revenue stagnating the Pharma space?

- Yogesh Kothari:** On Pharma side I don't think there is any issue as far as our products are concerned because it is not only new CAPEX but overall growth, the requirements of the products themselves to our Indian population is also increasing as well as the exports which they are doing. This is without even considering any new product being introduced where our Amines are needed. We have mentioned that 60% and this thing in Pharma and Agrochemical but our usage of our products are also in many other things like Water Treatment as well as in the making Shampoos and other types of things. I would say another 20% of the market is in all the Specialty usage which in India is something which is growing and it will continue to grow because there is more money in the hands of the people, so they are going for a better type of products.
- Kashyap Karthik:** On the Chemical, Agrochemical because of all those CAPEX announcements are you actually think traction on the ground or it's just hope for now that China will not recover and we will continue to have more demand?
- Yogesh Kothari:** China is not an issue, in fact sometimes China becomes a problem when our customers don't have other intermediary, they need from China then there is effect on our usage, our product usage also. It's a question how our customers are making use of the other intermediary they need by sourcing it from maybe other countries or from even other Indian suppliers which they now started developing also but hopefully that all will come through in the next may be a year or two.
- Moderator:** The next question is from the line of Prateek Chaudhary an Individual Investor.
- Prateek Chaudhary:** On the CAPEX that you have mentioned, could you breakup that with the CAPEX required for capacity addition and the CAPEX which you spoke about for creating infrastructure for the 100 crores that you mentioned?
- Kirat Patel:** We would not like to disclose that.
- Prateek Chaudhary:** On the margins given that bulk of the capacity additions that you would do would be for Methyl Amine Derivatives and you mentioned that since the product mix has got changed this time around which is why maybe your margins have reduced, so do you see a slightly structural change in your margins towards a lower level?
- Kirat Patel:** There is a mix of product mix plus some raw material and finished goods prices moving in different directions. So sooner or later that rights itself as Mr. Kothari pointed out that there is a phase-lag between price adjusting between quarters. One is hopeful that the margins will





restore to its normal state. Sometimes it goes of course it overshoots on the other side also it can happen as you have seen in Q2.

Prateek Chaudhary: Which is your product which contributes the highest for your revenues, any one single product?

Yogesh Kothari: We can't disclose.

Moderator: The next question is from the line of Aman Vij from Astute Investment Management.

Aman Vij: You said the revenue split is 30-30-20 between Amines, Derivatives and the Speciality?

Kirat Patel: Yes, approximately I am not 100% sure

Aman Vij: 20% less, what is that? 30-30-20 is 80% what is the...?

Kirat Patel: Between 40% and 50%, it could be 45-35-20...like that. I am just giving you a wild guess because I haven't really broken it up to see what this thing is but I can get back to you on the exact this thing if required. It is within that region, it's about the same.

Aman Vij: The two questions that I have is first question the price of Acetonitrile if you can give me current and what was it in FY19 average?

Yogesh Kothari: Our price of Acetonitrile is as I said earlier also that we entered into an agreement with our customers so we would not disclose the price further.

Aman Vij: The market price is available?

Yogesh Kothari: Market price varies day to day and traders sell it at even Rs.500 per kilogram.

Aman Vij: This was around 150-100 last year?

Yogesh Kothari: Yes, but we are not traders.

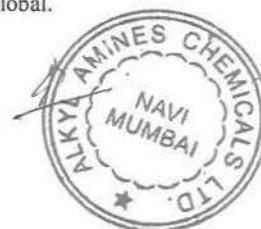
Aman Vij: You will have contracts and these contracts gets revised every year or?

Yogesh Kothari: Average 2 months, 3 months like that.

Aman Vij: If you don't get the whole benefit but you will still get some benefit of this.

Yogesh Kothari: Normally.

Moderator: The next question is from the line of Amar Maurya from MK Global.





- Aman Maurya:** If you can help us understand how your capacities are going to move because currently you have a 80,000 total capacity out of that 30,000 is Methyl and I believe rest is the it Ethyl Amines and the Derivatives so how this 80,000 is going to move for the next 3 years because you indicated some 30% capacity growth, is that a yearly growth or is that a 3 years grow you are talking about?
- Kirat Patel:** 3 year growth.
- Aman Maurya:** So, meaning additional 25,000 kind of the capacity which will be adding for the next 3 years?
- Kirat Patel:** Yes.
- Aman Maurya:** If I see your overall growth for 10 years period normally it is like a 3 year cycle 2012 to 2014 was a bumper growth year then there was a single digit growth and then there 2 years growth so is that now the capacity addition part is taming down and we will again see a tapering down in a growth, how it is going to move, then how the growth will be driven?
- Kirat Patel:** It's difficult to predict the volume growth because this volatility in the volume growth sometimes is beyond our control. For a longer period, it does settle at between 8% to 12% per annum. There are few years you are at 5% and 7%, there are a few years when you are at 15% and 20%.
- Aman Maurya:** Is that some kind of higher capacity addition phase and the lower capacity addition phase because bulk of that your 20% kind of a growth which had been driven in 2012 to 2014 would be driven by the volume as well as the value?
- Kirat Patel:** What happens is when we do Aliphatic Amines plant like we have done last year which is a once in a decade kind of situation, a bump comes because you push more Amines available and that normally happens because of a suppressed demand, so this jump of 30%-40% kind of thing is once in a while, once and 4-5 years.
- Aman Maurya:** In the '19 and '18 average volume growth would be how much?
- Kirat Patel:** As I said earlier that top line growth has gone about 40%, the large portion of that is volume.
- Aman Maurya:** Can we see volume growth of similar kind of volume growth in 20 is not possible because we are already at a 70%-75% kind of a capacity and we are now going to add a significant capacity next year?
- Kirat Patel:** Yes, it's not the capacity, it's the market. We will have the capacity as I said because of we are still at about 80% utilization, so it's not capacity it's also the market. But yes it is a bit difficult to repeat the 30%-40% growth every year.





- Aman Maurya:** But at least 20% is favorable in the order that is also not possible?
- Kirat Patel:** Possible.
- Aman Maurya:** With this current kind of capacity you can grow at 20% for 2 years?
- Kirat Patel:** Yes.
- Aman Maurya:** Given the demand and other things?
- Kirat Patel:** Yes.
- Aman Maurya:** This is without the value growth; this is purely the volume growth you are talking about?
- Kirat Patel:** Yes, because values will vary upon prices which, it's very difficult to predict which way to go. Sometimes as you can see volatile prices with oil such a large commodity, goes up and down which nobody can predict.
- Moderator:** Ladies and gentlemen due to time constraint that was the last question for today. I would like to hand the conference over to the line of management for closing comments.
- Yogesh Kothari:** Thank you very much Nilesh and HDFC Securities for giving us this opportunity to explain our views and our working, what is there and what are our plans in future. Finally, we can't answer all the questions because sometimes we have to keep some of the things secret so we did not answer everything but at the same time hope we have been able to give justice to the questions asked. Thank you.
- Moderator:** Thank you. On behalf of HDFC Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

