



Alkyl Amines Chemicals Limited

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November 30, 2017

To,

BSE Ltd.

P. J. Towers,
Dalal Street, Fort,
Mumbai – 400 023.

National Stock of India Ltd.

Exchange Plaza,
Bandra Kurla Complex, Bandra (E),
Mumbai – 400 051.

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

Dear Sirs,

With reference to our letter dt. November 21, 2017, please find enclosed the transcript of the earnings conference call held on Friday, November 24, 2017.

Kindly take note of the same on your records.

Thanking you,

Yours faithfully,

For ALKYL AMINES CHEMICALS LTD.

K. P. RAJAGOPALAN
General Manager (Secretarial & Legal)
& Company Secretary

Encl.: As above

Transcript

Conference Call of Alkyl Amines Chemicals Limited

Event Date / Time : 24th November 2017, 3:30 PM IST

Event Duration : 56 mins 54 secs

Presentation Session

Moderator: Good afternoon ladies and gentlemen, I am Honeyla, moderator for the conference call. Welcome to Alkyl Amines Chemicals second quarter FY18 post results conference call. We have with us today, Mr. Nilesh Ghuge from HDFC Securities and the management team from Alkyl Amines Chemicals. At this moment all participants are in 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 now would like to hand over the floor to Mr. Nilesh Ghuge from HDFC Securities. Thank you and over to you sir.

Nilesh Ghuge: Thank you Honeyla. A very good afternoon to everyone here. On behalf of HDFC Securities, I welcome all participants to the earnings call of Alkyl Amines. Today we have Mr. Kirat Patel, Executive Director, Mr. K. P. Rajagopalan, Company Secretary, and Mr. Pravin Tawle, General Manager. We will start with an opening remark from the management and post that the floor will be open for question and answer. Welcome sir and over to you.

Kirat Patel: Good afternoon everybody. I am Kirat Patel. Welcome to the investor call for the half year in '17-'18. This first half year has been fairly good for us in terms of sales volumes. Of course, there have been some difficulties, ups and downs, but between domestic and exports, sales volumes have grown in the half year by almost 18% and because of some price increases, the sales growth has been close to 22%. And this is after adjusting for the differences between the old excise and sales tax and the new GST system. So, generally, the company has done well for the first half year and even the profitability has been satisfactory. I am sure you are anxious to know something about our new project at Dahej, which was supposed to be commissioned in the quarter of October to December. We are likely to commission it by the end of December barring unforeseen circumstances. There have been some difficulties in the construction and commissioning due to the heavy rains in Gujarat during this monsoon where we have lost few weeks because of the flooding and the excessive rains, which prevented us from making construction progress. But now we are close to commissioning and hopefully we should commission by the end of December and the plant will stabilize in January, February. With these opening remarks, I would like to open the floor for questions. I think the first person who would like to ask, can you go ahead?

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your

telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

Sir, we have the first question from Anubhav Sahu from Money Control, please go ahead.

Anubhav Sahu: Hello?

Kirat Patel: Good afternoon Anubhav.

Anubhav Sahu: Sir, wanted to know about the present status of your capacity expansion. Earlier you had told us about your interest in methylamine and acetonitrile. So, what are the timelines, so plant will be operational say in the month of Feb next year for both the product lines sir?

Kirat Patel: The first part of the expansion is the methylamine plant, which we talked about in the last conference call. It is a plant, which will be manufacturing about 100 tons a day from our current capacity of 50 tons a day in Patalganga. This is likely to be commissioned by the end of December, it is almost ready to go, a few equipments or few processes are being set right and we should be ready to have product flowing out end of December and stabilization in January and February. So, that is the methylamines plant, which we have invested close to about Rs.150 crores. It is a Greenfield plant in Dahej on a 25-acre plot. As regards the expansion for the acetonitrile, at the moment it is in engineering stage and though we have got the environment clearance and everything, we shall break ground only after we have stabilized the methylamine plant and normally it would take 12 to 15 months to start up, but we haven't yet put a firm date on when we want to commission the acetonitrile plant yet, but more or less the engineering is almost completed.

Anubhav Sahu: So probably towards the end of next fiscal year, can it be expected?

Kirat Patel: No, I think that maybe a little too early. Perhaps the middle of fiscal year '19-'20 is probably the correct timing, probably, maybe June to September sometime maybe a better guess, though it is a little early to...we haven't yet done our project planning yet, the engineering is just getting over.

Anubhav Sahu: So, regarding sir, acetonitrile, sir wanted your views on the industry, because you are also going almost for a 100% expansion and your competitor is also entering into this in a big way. How big is the market? How big is the domestic market in this thing and what is the export potential you are looking at? If you can guide on that front.

Kirat Patel: The domestic market is approximately 16000 to 17000 tons. Growing at say 5% to 10%, it is a little fluctuating, but it is growing at that thing. At the moment we have a capacity of about 10000 tons, which we can expand in the next year or two by 10%, 15%, and the extra capacity, which we are looking at, is to balance both the domestic and exports because we need two sources, and to exploit some of the export markets. Obviously when we put up say about 20000 to 25000 tons capacity, we will be looking for exports besides the major share of the domestic market. Of course, there is competition, even today there is competition, in fact more than 50% of the

market is still with our competitors from abroad and there will be competition in the domestic market whenever our domestic competition starts up.

Anubhav Sahu: Right sir. Sir, so who are the major global players in this thing, who are...from where the...

Kirat Patel: Yeah, there are Chinese, the Taiwanese, the Europeans, most of them are making it from the acrylonitrile plants. Most acrylonitrile manufacturers would be making acetonitrile. So, it is a global market.

Anubhav Sahu: Okay sir. So, sir, margin, if you can give some guidance in that how, I mean, as far as the specialty chemical acetonitrile is concerned, I suppose it is a high margin accretive compared to methylamine and other amine derivative. So, what could be the delta we should be looking at, in terms of, I mean, the...

Kirat Patel: First thing, I think the definition of acetonitrile as a specialty, is little bit of a misnomer, because it is 100,000 plus tons global market, it is not really a speciality, it is more of a solvent, not a specialty. Yes, there are grades within that and various end use specification, so it is not in the same category as say a pharma intermediate or an API or something like that. So, it's margins are fairly ordinary, like any other chemical, and it tends to vary quite a bit, because the processes which we use are slightly different from the people with the acrylonitrile plant. You know, for them propylene is the route and we are using acetic acid and ammonia. So, our margins depend on the prices of acetic acid and ammonia while the global selling prices tend to fluctuate too. So, margins can drop to as low as 10%, 15% to go as high as 40%, I am talking about gross margins. So, this can vary very widely.

Anubhav Sahu: Okay. And sir, I couldn't pick up on the capacities you are looking at in the acetonitrile. Once you get all the clearance done, so what is the capacity you are looking at?

Kirat Patel: Clearances are all there. We have environment clearance for Dahej, there is no issue on that, it is only the question of our implementing the plant, which of course requires engineering and all. And there being a market and our ability to capture the market as soon as possible. Obviously, it will take some time. If today the market is 16000 to 17000 tons, we already have 10000 tons, the logical thing would be to put up 6000 to 7000 tons, but you do not put up 6000 to 7000 tons, because you have to look a little into the future and put up a plant, which will take care for at least the next five years, you know. So, you put up a slightly extra capacity to take care of the future.

Anubhav Sahu: Right sir. And sir, my last question, if I may ask, there has been good margin traction sequentially and YOY basis, so what are your views on that, I mean, for the current year as well as the next year, can this margin be sustained, how do you look at things?

Kirat Patel: I think we have been a little fortunate, because we have been able to sustain these margins over a longer period. Though our volume growth in the last couple of years have been a little sluggish, because of the pharma industry, but they have caught up this year, so my expectations are if past is any indication, we will be able to maintain margins. But, of course, given the fact that we are coming up with a

methylamine capacity and there will be some pressures on prices in methylamines as we go forward, because we will be adding substantial capacity to an existing market.

Anubhav Sahu: Right sir. Okay, that's all from my side. Thanks for taking my questions sir. Thanks.

Kirat Patel: Thank you.

Moderator: Thank you sir. The next question comes from Pranay K. Kurian from Ambit Investments, please go ahead.

Pranay K. Kurian: Yeah, thanks for taking my question. My question was regarding your addressable market size. So, if you could you give me a broad estimate of what the addressable market size would be in amines and say derivatives and acetonitrile?

Kirat Patel: See, amines has a wide variation from methyl all the way to octile and pentile. So, if you look at the domestic market alone, I would say, the amines market maybe up to Rs. 750 to 900 crores. There are three players in this, RCF, Balaji and us, but all of us have other businesses which are not related to pure aliphatic amine sales or production in different ways. Derivatives is a very different ball game, because depending on which derivative you talk about, it can be very small or large. you can't really give an estimate of the derivatives market.

Pranay K. Kurian: Okay, but then if you are saying that the derivatives market is very broad, then how come the amines market will also be large, right?

Kirat Patel: Yes, the amines goes into what we call the derivatives, so our customers, basically, are also people who make derivatives. So, some of our derivatives are what our customers used to make. It applies to RCF, Balaji and us, all three of us. So, if some day we decide that okay we will make the material and give it to them as a finished product, that becomes the derivatives business.

Pranay K. Kurian: So, you think that would be what Rs. 1000 to 2000 crores something like that, domestically?

Kirat Patel: I think it would be larger, because there is a value add there. So, it could be larger than that. But frankly, I don't have a real answer to that. Very large addressable market.

Pranay K. Kurian: Okay. And acetonitrile would be around?

Kirat Patel: Acetonitrile, as I said, in the earlier question, that the domestic market is about 16000 to 17000 tons and...

Pranay K. Kurian: Globally you said it was about 100000 tons, right?

Kirat Patel: Maybe about 100000 tons, maybe more.

Pranay K. Kurian: So how much would that be in...

Kirat Patel: These are priced at about Rs.120 right now; it used to be priced closer to Rs.200 at that time, so if you look at pure value terms, it has shrunk, but that is over a three-year period, but in volume terms, it has been growing.

Pranay K. Kurian: Okay, fine. So, what I wanted to understand is that when you see your addressable market, clearly things like the derivatives are where you can see growth, right, greater than industry growth. So, what is your new product development and pipeline in this category?

Kirat Patel: As a policy we don't talk about our new products till they are launched, so today we have a list of derivatives. In the last half year, we have not introduced any new derivatives. Perhaps in the next year or so we will have a couple of new derivatives and other products, which we may talk about.

Pranay K. Kurian: Okay. So, I am saying, say in the next five years...

Kirat Patel: Oh yes, we have a pipeline of products, which we would like to launch and put a plan for, both in Kurkumbh and Dahej, but it is a bit premature to talk about it just now.

Pranay K. Kurian: Okay. But right now, in your current portfolio, your derivatives are around 20% to 25%, something around that?

Kirat Patel: Of our turnover?

Pranay K. Kurian: Yeah.

Kirat Patel: Yes, I would say that it is about that, 25% to 30% of our turnover.

Pranay K. Kurian: So, all this 25% is being developed over the last 10 years, something like that?

Kirat Patel: Well, initially we started in the 90s, '92 to '94, somewhere in that region, our first derivative was launched. But it was an ethylamine derivative, so it has been over a period of some 20 years, and it has got a profile of may be about 20, 30 products, of which maybe 15 are selling regularly.

Pranay K. Kurian: Okay, fine. And so, what I am trying to get at is, what's the potential for us to say expand via new product development, that's what I am trying to get at actually.

Kirat Patel: I would say it is as much as our R&D can turn out, you know.

Pranay K. Kurian: Okay. So are we trying to expand R&D, I mean, what is the strategy broadly, if you could...?

Kirat Patel: As I mentioned earlier, that we already have some products to be launched in amine, but as I said, I can't talk about it, because that's our policy, don't talk about specific products.

Pranay K. Kurian: Sir, and another thing is you know, these new products, not just the specific ones, I am saying broadly, are they...do they have the same...you know, are they the same type as the amines, I mean, are they dangerous to transport and...

Kirat Patel: You see, by and large, the derivatives tend to be less hazardous than the aliphatic amines. But even in the aliphatic amines, say, methylamine is a lot more volatile than say a cyclohexylamine. The heavier the amine gets the less volatile and gaseous it is. So, the derivatives are certainly a little less hazardous as we go along, but that blanket statement may not apply to all derivatives, because some are liquid, some are powders, some are gaseous, so...

Pranay K. Kurian: No, because, again what I am trying to say is that the more dangerous the product is, the less likely you can cross borders and sell them, similarly it is less likely someone else can come in and sell in your markets, right?

Kirat Patel: Yeah, I think the derivatives are much more easier to transport than amines. By and large, I would say, if you wanted general statement that is true, but of course there are exceptions.

Pranay K. Kurian: And it is probably less hazardous, and it is more competitive also right, probably these derivative segments?

Kirat Patel: Yes, because many more players are there in the derivatives. They don't have to have a mother aliphatic amines plant to make the derivatives.

Pranay K. Kurian: Okay, okay. And I think, just, you know, when you set up these plants; do you require some special consulting expertise from outside, an outside player?

Kirat Patel: See, in alkyl amines, we have had the good fortune of having the technical strength to develop most of our products in-house, we have had an R&D since 1984, '85 with a small team and except for the original technology, which we bought from an American company, we have never bought technology, it has always been R&D in-house and projects put up in-house. We do hire consultants for detail engineering and putting up the plant and engineering consultants, but by and large on the chemistry and the process side, we do most of it ourselves. Of course, that's not to say that we are against buying technology, we are always open to it, and there may come a time when we may look at a specific product or a specific chemistry and we say it is much better to just buy it from wherever, European, American, Chinese source or Japanese source.

Pranay K. Kurian: No sir, I was just trying to say, would that be your key competitive edge then, or would it be the chemistry...

Kirat Patel: I think our competitive edge is engineering and technology. We think, in some of these amines, we are probably the lowest cost manufacturers, among the lowest cost manufacturers in the world. Over a period of time we have developed our technical strengths to do it. For example, the acetonitrile is an in-house

technology, which we have developed ourselves and struggled of course, to get it to work, and it is a tough technology. We are fairly proud of our engineers.

Pranay K. Kurian: Alright, thanks a lot.

Moderator: Thank you sir. The next question comes from Mr. Trilok Agarwal from Birla Life Insurance, please go ahead.

Trilok Agarwal: On a couple of things, one, what led to this good volume growth, because last year we had a tough time in terms of volume growth, so what is the driver of growth and second is, just to reconfirm, this December is the time when you said the plant will come, that is December '17, right?

Kirat Patel: Yes, December, within next month.

Trilok Agarwal: Okay. And what is the, story sir, can you just comment on volume growth and also about what is the potential of the revenue after the new plant commission?

Kirat Patel: Okay. The first half volume growth compared to the similar half last year, has been about 17%, 18% and value add you can see is about 22%, the difference being, of course, slight price increases in some of the products. So, that has been the immediate story of this half year and what drives the bottom line, as you were asking....what's the basis, basically it is the volume growth and the sales growth. Of course, there have been pressures on prices of raw materials, which have been rising. We have noticed over a long period that our raw material tends to track the crude oil prices, so as the crude strengthens, some of our alcohols, you know, methanol and all, do tend to go up. So, that's the story of the past. And you are looking at Dahej which commissions in December, it will take us maybe January, February, before the plant stabilizes and gets to the rated capacity. Of course, it is not given that we were at 50 tons a day, and suddenly you put on 100 tons a day, it doesn't mean we can sell all 100 tons. So, it will take a little time for the volume to go through the market, but given that methylamine is a market, which is growing, we foresee that after the initial little struggle to get market share, the market growth will itself take care of our capacity utilization. But, at the moment, I cannot hazard a guess what the next year will be like.

Trilok Agarwal: Sure. But at peak utilization, or whatever, the peak level, what is the potential revenue that you can generate?

Kirat Patel: The Dahej plant, if you look at it, will produce 100 tons a day, which is about 30000 to 33000 tons and the product sells for about Rs.70, Rs.75, so about Rs. 200 to 220 crore turnover can be produced. Of course, you must remember that a lot of it is self-consumed into our own derivatives; so, which adds a little more value. So, it will not come out like Rs.220 crores of methylamines as against the Rs.100 crores or so of today, which we are making. Another Rs100 crores to Rs.120 crores extra can come on the topline just because of the Dahej plant over a period of time.

Trilok Agarwal: So, at peak utilization, it can actually be a four-year payback.

Kirat Patel: Sorry, what did you say, I am sorry, I didn't get what you said.

Trilok Agarwal: It could be a four-year payback depending on the margins that you end up making currently, so...

Kirat Patel: Yeah, payback also depends on margins, so yes; you could say between three to five years, somewhere along the line, it should be. But we have also some in-built engineering we have done, so that if we have to move from 100 tons to 150 tons with marginal debottlenecking, we can do that after the fourth year or fifth year, or whenever it becomes necessary.

Trilok Agarwal: Okay. And so that in the initial remarks you highlighted about acetonitrile plant, you will only finalize, which will probably come in June to September '19, that's correct? And there is no other capex, which you guys are planning, right, apart from these two that you highlighted?

Kirat Patel: No, we are. There are some debottlenecking exercises and some normal capex and couple of other products, which today I cannot talk to you about, maybe the next quarter or the quarter after that we may be announcing some new products, which we may launch and some capexes coming up. But at the moment, those plans are a little hazy, so I cannot really comment on that at the moment. We are still... first we will commission the methylamine plant and at the moment all those are in planning stage and then we will look at the new projects and prioritize them. But certainly, there will be capital expenditure and there will be new product launches over the next two, three years.

Trilok Agarwal: But the magnitude will not be as large as Dahej, is what I am trying to understand.

Kirat Patel: No, no. You see, in aliphatic amine plants, normally you won't do one more than once a decade, because they are the mother plants, you know.

Trilok Agarwal: So, I just wanted to... (not clear) is okay, but the large capexes is probably what I am trying to understand.

Kirat Patel: Yeah, I don't think there will be anything as large as this capex.

Trilok Agarwal: Okay sir, I will come back in queue. Thank you very much.

Kirat Patel: Thank you.

Moderator: Thank you sir. The next question comes from Mr. Karan Khanna from Ambit Capital, please go ahead.

Karan Khanna: Good afternoon sir.

Kirat Patel: Good afternoon.

Karan Khanna: Yeah, hi. Sir, first question I had on the gross margins, in this quarter gross margins are around 48.9%, which is around 475 bps sequential and YOY decline, so wanted some clarity on since, I think, your competitors reported around

30 bps gross margin expansion during the quarter, so what is it that has been driving this gross margin compression?

Kirat Patel: Okay. First thing, Karan, I think your gross margin definition may vary from mine, so the second question is whether the gross margin we have improved upon it in this quarter compared to the last quarter, is that the first question?

Karan Khanna: Yeah, yeah, that's right. Compared to the last quarter I think it has come up.

Kirat Patel: About 2-3 percentage point it has improved partly because of the mix and partly because of the raw material selling price movements, but we have 40 products, some goes up, some goes down, but on the average, yes, we have had a 2%-3% improvement in the gross margin.

Karan Khanna: Okay. And secondly on our EBITDA margin, if I'm looking at the EBITDA margin expansion it was largely driven by lower other expenses, so I just wanted to understand what was there in the other expenses, why was it so low during the quarter, if you could just throw some light on it?

Kirat Patel: This is your comparing last quarter with this quarter?

Karan Khanna: I am comparing on a YoY basis, the EBITDA margins are...

Kirat Patel: Half year to half year?

Karan Khanna: No, this is quarter. I am looking at 2QFY18, this 17.5% during this quarter was just 14.9% same quarter last year, so around 260 bps expansion.

Kirat Patel: Okay. Yeah, my colleague tells me that the difference is partly because of excise duty, the reclassification because of IND AS.

Karan Khanna: Okay.

Kirat Patel: So the excise duty seems to have come in the, about Rs.12 crores difference, you know, you're talking about Other expdpenses of Rs.26 crores in September 30, 2017 and Rs.44 crores in last June, right?

Karan Khanna: Rs.26 crores in September 2017, that's right, and Rs.36 crores in September 2016.

Kirat Patel: Okay. So the Rs.36 crores and the Rs. 44 includes excise duties while Rs.26 crores of September 2017 doesn't include because now the GST has come so GST goes above the line. If you see our website and the slide over there, there is a little note at the bottom explaining that, and I think this is happening to all companies because of the difference between the two quarters and IND AS has classified them differently, but it will vanish as you go along.

Karan Khanna: Sure, sure. And, sir, what would be the share of specialty products in our overall revenue in this quarter, I mean has it been increasing sequentially?

Kirat Patel: Yes, I think in terms of a percentage, yes, probably the specialties and the derivatives are slowly increasing compared to the amines because we are consuming more and more of our own products at Alkyl Amines and we are trying to push our derivatives and specialties more.

Karan Khanna: Okay. Any ballpark number as in how much would that be?

Kirat Patel: I would be making a wild guess. It won't be dramatic. If we were at say, 50, 30, and 20, it could be 48, 31, 21 something like that a couple of percentage points.

Karan Khanna: Okay.

Kirat Patel: It won't be very dramatic. Slowly it is changing more and more towards derivatives and specialty. Of course, it will go back a bit when Dahej starts because there we will have more aliphatic amines coming out.

Karan Khanna: Okay. Sure. And just a couple of more questions, so you mentioned we have seen 17-18% volume growth in 1H, so which sector would that be, is it pharma, agro chemical, or is it some other sector that has been driving this growth?

Kirat Patel: Well 60% of our business, is pharma which has also started picking up, Yes, agro has done well so has the automobile sector, so I think it is, I would say secular.

Karan Khanna: Okay. Sure. And finally on exports, how much would that be of revenue in 1H FY18?

Kirat Patel: The exports are little more than 20% for the first half year, but that happens because of some seasonality of a couple of our export customers, so in the end it would settle down to about 20% for the full year of our turnover.

Karan Khanna: Okay. Sure.

Kirat Patel: The rupee has been very strong, which doesn't make us very happy.

Karan Khanna: That's right. Okay. Fair enough, sir. I'll be in the queue in case there is anything else?

Kirat Patel: Yeah.

Moderator: Thank you, sir. The next question comes from Mr. Kunal Shah from K R Choksey Securities. Please go ahead.

Kunal Shah: Hello?

Kirat Patel: Hello, Kunal.

Kunal Shah: Yeah. Sir, just a continuation of previous question, so with our peer group company coming up with both DMAHCL and acetonitrile capacity and you guided that there will be margin pressure, so could you quantify that as to what extent that can be on our overall margin?

Kirat Patel: I think neither he or I can actually comment on what margin pressures will be because as we get into the marketplace we will know what will happen. But certainly I think since at the moment in the last few years both Alkyl and RCF have not had much methylamine availability and the prices have been fairly stable and fairly remunerative in methylamine. Going forward as we put in more capacity into the market there is going to be price pressures both for him and us I think. I can't say where it will, I mean how much it will take place, but both of us are I think sensible people who want to look at our bottom line, so hopefully it will stabilize somewhere.

Kunal Shah: Okay. And, sir, one specific question regarding one of our products that is dimethylaminopropylamine or DMAPA, so we have come across articles that there is going to be exponential growth for this particular product because of the end-user segments, so what's your view on the same, sir?

Kirat Patel: Well, DMAPA we've been manufacturing for some time now, it is about 15 years and it has been growing and recently, you are right, in the last few years it has grown quite a bit and mostly it is the personal care market, which is showing a growth. So what used to be a campaign product has now become for us kind of a continuous campaign. So it is a product, which is growing.

Kunal Shah: Okay. So as a percentage of revenue can we quantify it, is it large enough?

Kirat Patel: No, I can't really talk about the numbers on that, individual product wise.

Kunal Shah: But there is going to be a good growth for this particular product.

Kirat Patel: We think so. I think as India grows, most of the end users, all our end users are toward more the specialty and the performance chemicals region and that's the area, which grows faster than GDP when a country grows from the lower development to the higher. People start using more personal care products. People stop using fertilizer, they start using pesticides and weedicides. The structure changes and that's where the higher end of the chemicals need to come in use, so our derivatives do much better. In the next 5 to 10 years our country will be looking very different and, therefore, the kind of structure will be different.

Kunal Shah: Okay. Thank you, sir. That's all from my side.

Kirat Patel: Yeah.

Moderator: Thank you, sir. The next question comes from Mr. Rajesh Kothari from Alpha Securities. Please go ahead.

Rajesh Kothari: Hi, sir, this is Rajesh Kothari from Alpha Security Advisors. Just a few questions from my side. One is can you give the broad sales mix between basic amines, specialty chemicals and other derivatives for last year?

Kirat Patel: I would just give you a kind of percentage, maybe about 40%-50% would be aliphatic amine, about 30% would be derivatives and about 15%-20% would be specialties, in that range I think.

Rajesh Kothari: Thirty percent is derivatives and 15% specialty. Over the next three years how do you see this sales mix?

Kirat Patel: Well, the immediate year probably the aliphatic amines will grow a bit faster because we have methylamines coming on stream, but over a longer period, perhaps the derivatives and the specialties will be more in the portfolio than the amines. So it could have a kind of an increase in aliphatic amines and then a little more growth in the derivatives and specialties as we go along.

Rajesh Kothari: Okay. My second question is in methylamines you mentioned the total India demand is 60,000 tons per annum and...

Kirat Patel: That was last time when we I think talked, yes, approximately that is what we estimate 60,000 tons or so.

Rajesh Kothari: And of these 60,000 tons whether India is right now importing?

Kirat Patel: I think there is a small amount of imports coming in from the Middle East where the Saudis have a plant, but it is not significant, may be 3%-5%.

Rajesh Kothari: Okay. So Alkyl Amine is how much of this 60,000 tons till last year, 10,000 tons?

Kirat Patel: When we say 60,000 tons that is the capacity, I mean it is the kind of tonnage produced in the country, not all of it is sold, in fact 50% of that 60,000 tons is self-consumed by the three manufacturers themselves in making derivatives. So when you say 60,000 tons you are referring to the production estimates of the country.

Rajesh Kothari: Okay.

Kirat Patel: And about half of that doesn't even leave the factories or the sites of the manufacturers, RCF consumes 50% of its own – Balaji I think consumes I think more than 50%. We also consume about 50% of our methylamines.

Rajesh Kothari: I see. So when you say last year your capacity was about 50 tons per day, which is about 18,000 tons on annualized basis...

Kirat Patel: No, no, actually it was about 15,000 tons. 50 tons a day is the ideal capacity if the mix is exactly right. In methylamines you have mono/di and tri-methylamines, which come out in a certain proportion. Unfortunately the market proportion and the production proportions don't always match. So sometimes you are

forced to recycle one or the other. So when you reach about 80%-85% capacity utilization of a methylamine plant you can say that it is fully utilized. If you hit 90% you are lucky.

Rajesh Kothari: Okay. So off the 15,000 tons production, let me put it this way, forget capacity, in terms of the production last year was 15,000?

Kirat Patel: Yes, approximately.

Rajesh Kothari: Of which how much would be captively consumed?

Kirat Patel: About half.

Rajesh Kothari: About 7500 tons. Okay. And with the new capacity, which you are coming up, which is 100 tons per day; so, one can assume about 36,000 kind of tons?

Kirat Patel: No, no, you can't run the plant 365 days. So you can assume about 33,000 tons at peak, but the mix is always a problem, so you may never hit 33,000 tons because you may not be able to sell as much MMA as you can of DMA or TMA.

Rajesh Kothari: So about 85% kind of utilization one should assume about 28,000-30,000 tons kind of production at the peak utilization?

Kirat Patel: Yes. I mean, when you hit about 27,000-28,000 tons you'll know that is time to de-bottleneck.

Rajesh Kothari: I understand. And so, you know, of this 28,000-30,000 peak utilization how much will you captively consume?

Kirat Patel: Well, it depends on the products, which we plan to make later, but I would say given the past records we probably consume 50% or more.

Rajesh Kothari: And that would be, of course, over a period of time, initially it may not be that high.

Kirat Patel: Yeah, initially it may not be that high, but, you know, you would always like to add value to your own products and then sell it, you know, to add value from your own product and sell it to the market so you get more value-added products.

Rajesh Kothari: So is it safe to assume about 60%-70% CAPEX utilization for FY19 of the new plant?

Kirat Patel: Sixty-seventy percent utilization would be about – yeah I think that would be, that would be I think safe. I suppose you can make a guess.

Rajesh Kothari: About 19,000 tons of production basically, that was what I was trying to work out.

Kirat Patel: Yes, I think if you want to make projections, I mean, you are welcome to.

Rajesh Kothari: So off that 19,000 close to about 9000 kind of thing captively consumed, 8000 to 9000, and then, you know, depending upon the mix will be sold outside.

Kirat Patel: Yeah, it's a complicated problem, I mean it's a complicated answer. I think you are making some judgments here but for your projection if you have to yes, I think you are welcome to.

Rajesh Kothari: Perfect. Sir, the second question is in terms of the Chinese impact, there is so much noise, which is going on in China, whether to any extent does it help us because there might be some capacities, which probably you may not be running last so many years because of China issues and with this cost, which is going up in China, can you give some color on that?

Kirat Patel: I think we are expecting some effect of it in our higher amines and not in methylamine where there may be some change in the ethyl isopropyl, those kind of products, but at the moment we don't seem to have seen too much reaction to that. Our end users I think are, pharma end users are definitely I think looking at it differently than us because they seem to have been the first people to be affected, they want to buy more Indian. So obviously we will become a preferred supplier to the Chinese soon, because they always have two or three suppliers, our customers, and it tends to be the Chinese is also the second source, but as the Chinese get more difficult to buy from we will have the advantage. So we are hoping to get a better market share from each of the customers than we have had in the past.

Rajesh Kothari: I see. And in methylamine what is Balaji's capacity?

Kirat Patel: I am making a bit of a guess but they have two plants and I think they must be in the region of 35,000-40,000 tons, but I wouldn't go by that number. You'll have to ask them.

Rajesh Kothari: Yeah, sure. And acetonitrile, coming to acetonitrile you said that India demanded 16,000 tons per annum and who will be the major players, so you are of course one of them and what is your, last year was about, what, 9000 kind of a capacity?

Kirat Patel: No, last year because – we were still ramping up the production last year, so now we are at about 9000-10,000 tons this year; this quarter we have reached that capacity and there is Reliance, which used to make it through its acetonitrile plant, Reliance's IPCL, Baroda and they used to make about 2000-3000 tons, but currently I think that plant is shut. There is Deepak Nitrite, but they have a smaller capacity. If I remember right it was about a 1000 or 2000 tons per year.

Rajesh Kothari: Okay. So 9000 you, Reliance is out, 3000, Deepak Nitrite 1000, so who are the other players then?

Kirat Patel: There is nobody at the moment.

- Rajesh Kothari:** Sorry?
- Kirat Patel:** There is nobody else, everything is coming through imports.
- Rajesh Kothari:** Oh only the imports. Okay. Is there any anti-dumping duty?
- Kirat Patel:** No.
- Rajesh Kothari:** I see. So do you see because of no Indian producers is there a pricing power here because in the last conference call you were talking about price was about 102 to 110, this time you are talking about 120.
- Kirat Patel:** That's because the global prices have gone up.
- Rajesh Kothari:** I see.
- Kirat Patel:** We track the global prices and we get a small premium on the global price through our domestic suppliers, which is for all products. Indian consumer will always pay you one or two percent more because of the convenience; no opening of LCs, product will arrive as you want it in smaller lots, no clearing from the docks, all those conveniences are there.
- Rajesh Kothari:** Okay. And with your new plant, which is coming up are you seeing any major benefit in terms of the total power cost and freight cost as a percentage of the revenue, do you think how much you can benefit from that?
- Kirat Patel:** In the new plan, benefit for what?
- Rajesh Kothari:** Yeah, yeah. Basically freight can be one of the benefit, because of your new plant location, so would you like to give some.... quantifying that number?
- Kirat Patel:** There is benefit of freight input, that means methanol and ammonia, which is closer in Gujarat, but, of course, it is compensated by the freight output because the markets are also in Maharashtra and elsewhere, so it kind of balances. So in terms of freight I think there is a small advantage, but not significant, but it is an advantage because the raw materials are closer to the site. The power and, I think....other utility costs are not very different from Maharashtra and Gujarat, neither are I think manpower also. I don't think there is much of a difference in these things. The only thing is that it's getting land for chemical, especially hazardous chemical units is getting to be more and more difficult in India and Dahej is a very good site because it has a full cluster of chemical companies. At the moment not totally developed, but as it grows it may become the largest chemical site in India and maybe on this side of the world. It is huge.
- Rajesh Kothari:** I see. And are you by any chance; are you by any chance into morpholine?
- Kirat Patel:** Well, we have the product in our portfolio and we always are looking at making it, but at the moment we are not in the market with it. That doesn't

mean that in the future we won't get into it because we had the homolog of it, we also make it and in fact we have a patent on that homolog, a proper patent.

Rajesh Kothari: And do you have dimethylamine hydrochloride, DMAHCL?

Kirat Patel: Yes, we are the – I would say that Balaji and us probably have 70%-80% of the world market of DMAHCL between the two of us. They may be a little larger than us.

Rajesh Kothari: So you would about, what, 100-crore revenue in this?

Kirat Patel: No, I think less than that, a little less than that.

Rajesh Kothari: Little less, but it is a very high, I mean, a good profitable product, right?

Kirat Patel: Yeah. We've been manufacturing this for 15 years now I think, or more.

Rajesh Kothari: I see. And are you doing any capacity increase in this?

Kirat Patel: Yes, we just did it. In Kurkumbh we have just expanded one plant and we are looking at expanding further as soon as the Dahej plant comes on scene after that.

Rajesh Kothari: Oh, I see. So this basically you classify under which ?

Kirat Patel: Derivative, it's a derivative.

Rajesh Kothari: So when you talk about acetonitrile increase does it increase all these things automatically because there are a lot of derivative products, which are part of this?

Kirat Patel: No, no acetonitrile has nothing to do with our aliphatic amines. It is made from acetic acid and ammonia. It is not an amine-based product at all. So that is classified in what you might call specialties. Specialties are bit of a, as I said earlier, a bit of a misnomer because, well, it is not typical specialty, but because of lack of a better label we are calling it specialty, better to call it intermediate.

Rajesh Kothari: Understood. My last question, sir.

Moderator: Sorry to interrupt, sir...

Rajesh Kothari: Yeah, this is the last question, if you don't mind. Sir, what is your typical asset turnover, which one should, you know, assume in your industry? Do you think that can increase, you know, last five years compared to next five years, do you see asset turnover increasing?

Kirat Patel: If you look at a longer period, a 10-year period our asset turnover has gone from 0.58 to a peak of 1.6 and is now down to – obviously when we put up Dahej plant our asset turnover will drop a bit because it's a 150-crore investment.

So this goes up and down, but I would say on an average about 1.5 times of your investment is a good thumb rule to apply because we are a relatively capital intensive industry.

Rajesh Kothari: Great. Thank you, sir. Thank you very much. I will take more questions offline. Thank you.

Moderator: Thank you, sir. The last question for the day comes from Parth Desai from HCN. Please go ahead.

Parth Desai: Yeah, thank you for the opportunity. I had a couple of questions. So one is you all mentioned about the price increases, like, what were the drivers of these price increases?

Kirat Patel: I just said that on the average the price has increased. Now, different products have different drivers. Sometimes there is a shortage, sometimes the global market becomes a little tight, sometimes it is just driven by cost because all our competitors and us have similar technologies, so if the cost affect me it affects him also, so none of us like losing money. So all of us within one quarter or another will change our prices.

Parth Desai: Got it. And what are some of the prices of the raw material, so let's say methanol, ammonia, coal? I know methanol has come down.

Kirat Patel: Yeah. If you are looking at, say, methanol it was around 22 rupees, but it has climbed up recently. Last quarter, in Q2, it was about 22 rupees average. Ethanol, which is the sugar-based, now the season is beginning so we hope the prices will drop, but we have had to import the ethanol this year, so it is in the region of about 32, 33 rupees is what it is quoting at just now in the market. And coal has seen an increase globally and, of course, the Australians and the Indonesians seem to be forming some kind of a cartel to push prices up again, but I think that with rise in crude oil, they don't like losing advantage. So these are the three raw materials, which have – the other is acetic acid, which has shown a dramatic increase over the last four-five months globally. So, of course, I think it may be just a temporary blip, but it has shown an increase.

Parth Desai: Okay. And from the margins it seems like you all are able to at least pass on some of these rises to the customers, right?

Kirat Patel: Yeah, it is a phase lag. Sometimes you have to absorb some cost increase, sometimes you can pass it on, but over a period of time you do manage to pass it on because your competition also suffers the same shortcomings as you do. It's just a difference of whether he has more stock or more in the pipeline booked at old costs or something like that, but sooner or later everybody has to catch up with the market.

Parth Desai: Okay. And then finally, are there any new capacities coming up in the industry for methylamines, let's say over the next two years?

Kirat Patel: Not that I know of, because the Chinese had a huge amount of capacity, which I think they are winding down, but in terms of domestic I don't think there is anybody thinking of it.

Parth Desai: Okay. Perfect. And then one last question, at some point you mentioned from the Dahej plant we could get Rs.200 to 300 crores of revenue, now is that, that's obviously incremental revenue, right?

Kirat Patel: No, the incremental would be about Rs. 100 crores because shutting down the methylamine plant in Patalganga, which was producing 50 tons a day and making 100 tons a day in Dahej. Of course, the Patalganga plant will be then diverted to make other amines. So incrementally the Dahej plant will add Rs.100 crores or so, 100 or 120 crores on the top line incrementally.

Parth Desai: Okay. That is at peak capacity? Yeah, incrementally.

Kirat Patel: At peak.

Parth Desai: Okay. To me that seems a bit low because you came up with that number based on just methylamine prices, but assuming that you used 50% for derivatives that number should be slightly higher, right?

Kirat Patel: Correct, correct, because if you add the derivative value added products, which we will make out of that, yes, certainly it will be more than Rs.120 crores.

Parth Desai: Okay. Perfect. Thank you. Thank you so much and also thank you for the methylamine one on one chemistry class.

Kirat Patel: I am sorry if it sounded a bit like chemistry.

Parth Desai: No, no. It was very helpful.

Moderator: Thank you, sir. That will be the last question for the day. I now would like to hand over the floor to Mr. Nilesh Ghuge from HDFC Securities for closing comments. Over to you, sir.

Nilesh Ghuge: Yeah. Thank you, sir. And we will end the call now. We would again like to thank all the participants for being here. Would you like to make any closing comments, sir?

Kirat Patel: Yes. I would like to just thank all the investors and the analysts who have taken interest in our company, and we hope that with the Dahej start-up the future is even brighter than what we have seen in the past. Thank you for joining us on this occasion. Thank you very much.

Nilesh Ghuge: Thank you, sir.

Moderator: Thank you, sir. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's

conference call service. You may all disconnect your lines now. Thank you and have a good day everyone.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.