

Transcript

Conference Call of Alkyl Amines Chemicals Ltd

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Presentation Session

Moderator: Good evening ladies and gentlemen. I am Raymond, moderator for the conference call. Welcome to Alkyl Amines Chemicals fourth quarter FY 15 results conference call. We have with us today Mr. Satish Mishra, from HDFC Securities and the management team from Alkyl Amines. 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 being recorded. I would now like to hand over the floor to Mr. Satish Mishra from HDFC Securities; thank you and over to you sir.

Satish Mishra: Thank you Raymond. A very good afternoon to all of you on behalf of HDFC Securities. I would like to welcome all the participants to the earnings call of Alkyl Amines. Today we have with us Mr. Yogesh Kothari, Chairman and Managing Director; Mr. Kirat Patel, Executive Director; and Mr. K.P. Rajagopalan Company Secretary. We will start with an opening remark from the management and post that, the floor will be opened for question and answer. Welcome and over to you sir.

Yogesh Kothari: Thank you. I want to thank HDFC Securities for arranging this. I want to thank all the people who are listening to this. First of all let me tell you that the year 2014-'15 was not up to our expectation because of various reasons and our performance, even though it is not bad, could have been much more positive, if it had not been for the Euro decline against the rupee due to which we got lower revenues from our export orders as well as recessionary trend in Euro resulting in reduction in our market in the Euro zone. Also, this year there were large imports which took place from China at rates which were lower than our market rates. This resulted in our reducing our prices to meet competition from China, thereby reducing our margins to some extent.

Before going further, I want to introduce our Company. Alkyl Amines Chemicals is a Company which has been in the business since 1982 in the manufacturing of Amines. Now we are leaders in the Amines and Amine based products and a large number of our products have been developed in-house in our own R&D. We have had a successful innings and we are continuously growing by adding new products which have been again developed within our own R&D. A large portion of our products go into the Pharma industry. A good portion goes into the agro-chemical industry. Other industries which consume our products are rubber chemicals, foundry chemicals and many other specialty businesses. We continuously try to increase capacities which we have and now we have come to a level where we are planning to put up a new plant in Dahej in Gujarat which will, of course, take two years before we do that.

We have been expanding in our existing set up also at the two locations which we have today based in Maharashtra. One of them is already saturated while in the case of the other one, which is at Kurkumbh, there is expansion going on. We are waiting for certain permissions from the Government which we hope, will be coming soon. We have also invested recently in a solar project in Maharashtra where we are putting up a two-megawatt solar based power plant and it is due to be commissioned any minute. This will help us in getting the electricity at a lower rate. From the tax point of view also, it will be useful for our company.

Maybe, if you would like to ask us any questions please go ahead and I will ask of my team to give the answers, wherever we can.

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 your question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

The first question is from Nisang Vakharia from Lucky Investment.

Nisar Vakharia: Good afternoon sir, this is Sachin (not clear) here. Congratulations on a good set of numbers. Can you give us some sense as to how has the acetonitrile went up during the year and what is the volumes we have done and what is the visibility for the current year?

Yogesh Kothari: As regards the acetonitrile plant, we have already expanded the capacity to almost about 4200 tons already and it will be further expanded now, once we get the permission from the Government. Capacity will be expanded to 6500 tons and then it will be increased to 9000 tons shortly.

Sachin: For this 6500 tons what are the key permissions which are pending and when do we expect to commission the capacity?

Yogesh Kothari: The environmental clearance has come; we are just waiting for the consent to operate from the Pollution Board. By June, July we should get it. Anything further on that?

Nisar Vakharia: As the year gone by, what are the volumes you have done on acetonitrile?

Yogesh Kothari: We have done....last year we produced and sold 4200 tons.

Nisar Vakharia: Capacity of 4500 tons

Yogesh Kothari: Yeah about 4.2 tons.

Nisar Vakharia: How are the spread now sir? Have they improved from where they were two, three, four months back because we (not clear) spread in acetonitrile in the market?

Yogesh Kothari: Sorry I didn't get your question?

Nisar Vakharia: Spreads in acetonitrile rates have they improved of late? I believe they had come under some pressure in the December, January period?

Yogesh Kothari: Are you talking about the prices of acetonitrile?

Nisar Vakharia: As in the spread in the raw material and finished good of acetonitrile?

Yogesh Kothari: As far as we are concerned the margins have come down because the prices have come down internationally. When the capacity goes up further, our energy cost per ton will be coming down but still prices are not as good as what they were in the past.

Nisar Vakharia: Any insight you could provide us on this entire crude correction which has happened on the entire chemical industry which had gone for a complete chaos? Has all of that been sorted out? People have started booking orders because people were deferring from ordering from you right because the crude price had crashed and everybody expected lower prices? So we have not seen that kind of top line growth also in this quarter which we were expecting.

Yogesh Kothari: We are not directly affected so much by the crude like many other companies are affected because we are not in really the petro chemical areas. But we do get affected because some of our customers would get affected. What had happened was in our case the issue was because of the Euro having gone down and the rupee – Euro rates were not in our favor and that's why our exports to Europe, our contributions came down. As well as the same thing Euro zone also had got affected. The Euro had gone down practically from 79, 80 to 64, 65 which of course has now stabilized to 71, 72 but still it is not as good as it was earlier but we expect that things will improve.

Nisar Vakharia: Sir what has been the volume growth in Amines for this quarter as compared to the last quarter as compared to last year quarter?

Yogesh Kothari: It is in the range of 8% to 10% from the point of volume growth. The amines growth in value terms was only 2-1/2% because, the prices of amines also came down because of imports coming from China and a little bit from Europe also.

Nisar Vakharia: What is the outlook for this year? In terms of volume growth what sort of top line growth are we looking at totally in the company?

Yogesh Kothari: Well this is the question which is not so easy to answer but we hope that we will do anywhere from 5% to 10% growth.

Nisar Vakharia: Including acetonitrile?

Yogesh Kothari: You asked for amines right?

Nisar Vakharia: Everything combined?

Yogesh Kothari: Acetonitriles will be more because our capacity will be increasing so that will add to the overall additional growth in that. But the margins in acetonitriles have come down so overall the contribution wise we will have to see how we will land up in the end.

Nisar Vakharia: Sir any debt reduction next year, considering we have healthy cash flows in the business?

Yogesh Kothari: Yes. Every year debt is something which we go on reducing but we also have some CAPEX going on so we will have to see which is the best way to do that, whether we increase equity or we take more debt, that is still pending....no decision has been taken on that.

Nisar Vakharia: Thank you sir, I will come back if I have more questions. Thank you.

Yogesh Kothari: Sorry I didn't get your name?

Nisar Vakharia: Nisar Vakharia from Lucky Investment Managers.

Yogesh Kothari: Okay.

Moderator: Thank you sir. The next question comes from Pritesh Chheda from Emkay Global. Sir please go ahead.

Pritesh Chheda: Thanks for the opportunity. Sir if you could tell us the growth drivers for FY 16 also considering what kind of capacities do we have? Spare capacities in ethyl amine and methyl amine and what kind of utilization do we have today at this juncture? First we want to know the growth drivers for FY 16.

Yogesh Kothari: I think the growth drivers for FY 16 will be coming more from ethyl amines because there is some spare capacity remaining with us there. Then of course acetonitrile will be another good product where there will be growth driver. Methyl amines we are already at a 90% capacity utilization and that's why we are thinking of starting something in Dahej for methyl amines.

Pritesh Chheda: Okay so what we see in '16 is growth volume in ethyl amines and acetonitriles capacity coming on stream?

Yogesh Kothari: No acetonitrile capacity is already on stream, it is just that the further expansion which is going on will be adding more value and tonnages in the acetonitrile.

Pritesh Chheda: Okay that's the 6500 tons versus 4000 tons.

Yogesh Kothari: Yes roughly that maybe a little bit more than 6500 also because we will be de-bottlenecking further.

Pritesh Chheda: Okay my second question is you highlighted the price reduction happening in acetonitrile and even in the amines business. Could you tell us the range or the price variation that has come in both the parts of the business?

Yogesh Kothari: Prices are very dynamic. They have been changing on a month to month basis based also on the foreign exchange changes which are taking place. A lot of material is coming from south east Asia and China ; so it is difficult to say but the prices used to be in the range of about Rs.155, Rs.160 a little higher than that also but has come down to almost Rs.135, Rs.140 also, sometimes as low as Rs.130 also.

Pritesh Chheda: Sir this is for acetonitrile sir?

Yogesh Kothari: Yes acetonitrile. In the amines, in ethyl amines it has come down from Rs.130 or so to Rs. 110, Rs.115 in that range. Again case to case it changes depending on the volumes. I am just giving you a rough idea because again it depends on the currency and who is importing what.

Pritesh Chheda: When you were talking about China competition, our assessment was that it was actually methyl amine which had more Chinese competition as compared to ethyl amine, but listening to this call, it is the other way around. Please correct me if I am wrong as well.

Yogesh Kothari: Just repeat what you said?

Pritesh Chheda: Our assessment was that it is methyl amine which was more competitive and ethyl had some lesser competition from Chinese but when I am listening to this call it is the other way round, so if you can correct our understanding as well?

Yogesh Kothari: Methyl amines are something which are not getting too much imported into the country. First of all because methyl amines are more difficult to handle, and transport and other things. Ethyl amines are also difficult to handle but less difficult than methyl amines. So whatever comes into India from China are Ethylamines. But let me tell you something, it is not a large quantity when you compare with other chemicals. But it is in a few thousand tons and market share when you look at the total Indian market it would be anywhere from 10% to 15% of the Indian market is getting imported. Out of this, some of this is also towards people who are using it for their export products.

Pritesh Chheda: Okay thank you sir, I will get back if I have other questions, thank you.

Moderator: Thank you sir. The next question comes from Veena Patel from I Wealth Management.

Veena Patel: Good afternoon everyone.

Yogesh Kothari: Good afternoon.

Veena Patel: Sir just an extension to the question asked by the previous participants; speaking about the two impacts we have because of the Chinese dumping

that is happening in certain chemicals and the Euro depreciation, so what percentage of exports goes to Europe?

Yogesh Kothari: In our total sales, exports are about 18% to 20% and of that Europe would be around 50%.

Veena Patel: Okay 50% is being exported to Europe.

Yogesh Kothari: No 50% of the total exports.

Veena Patel: Right; which would be the second major geography where you would be exporting?

Yogesh Kothari: USA, Japan, Middle-East...it is various countries but mainly it would be USA and Japan.

Veena Patel: Okay and sir you just mentioned about the Chinese dumping happening, is the situation still the same what you had experienced for the entire last year?

Yogesh Kothari: Let me put it this way....it is not really dumping, but they give it at a lower price and we have to match it at the lower price so we lose out on the margins so that is really what is happening. We get affected more because of that. It is difficult to understand them because sometimes they come suddenly and of course some of our customers also like it because then they get material at lower rates from us also then. So this is what is going on.

Veena Patel: Right but this was not the situation last year, for the past six months we have been facing....

Yogesh Kothari: Compared to last year this has increased this year, yes.

Veena Patel: Sir you just mentioned about the expansion happening in the acetonitrile capacity from 4500 to 6500, so the production will move from 4500 tons to how much with the new expanded capacity?

Yogesh Kothari: It will go up to 6000 plus.

Veena Patel: Okay and there has been no improvement in the acetonitrile prices from what they have dipped to around Rs.135?

Yogesh Kothari: Just now it does not look like, but it all depends on how the international supply happens because, some portion of the acetonitrile comes as a byproduct from acrylonitrile plant. This depends a lot on how acrylonitrile does which is why that it goes into ABS plastics, acrylic fiber and other things. If that economy is not doing well and some of the acrylonitrile plants remain shut; then this portion gets reduced down and then there is a possibility that prices could go up.

Veena Patel: Sir there has been news about certain capacities being added in south East Asia, of acetonitrile; so have they come on stream?

Yogesh Kothari: Yeah some have already come on stream. In south East Asia it is a by-product of acrylonitrile.

Veena Patel: Okay the one that has come up in Taiwan?

Yogesh Kothari: Taiwan, I think Korea also something was coming up.

Veena Patel: So has this been one of the reasons for the prices coming down?

Yogesh Kothari: Yes of course, any additional capacity anywhere in the world and India is always an attractive market for people so they do look at India. India was not producing much earlier. Suddenly more competitors are there in India and so they always like to try and drive you out or whatever it is.

Veena Patel: Right. Sir, any new products to be launched because in the last two years we have not made a launch of any product apart from acetonitrile?

Yogesh Kothari: Not just now, we don't have any big product....big product in the sense like acetonitrile, but we always had small, small products which are specialty products, but we don't do large volumes, a few tons here and there.

Veena Patel: Okay but such products will definitely be there in the research pipeline?

Yogesh Kothari: We are looking for good products. There are things going on but I can't disclose that.

Veena Patel: Sir finally what has been the progress happening on the Dahej plant?

Yogesh Kothari: We have got the land from the GIDC. The environmental clearance process is going on. We are simultaneously going ahead with the detailed engineering work. If everything goes well, we will start actual work in maybe in the next 10 months' time or so.

Veena Patel: Okay and after that how long will it take for the plant to get commissioned?

Yogesh Kothari: We are hoping....trying to do it by February 2017.

Veena Patel: Okay. And sir, apart from the Dahej happening, any other CAPEXes that you would be doing to any of the existing plants?

Yogesh Kothari: Normal CAPEX which is going on is....of course there is acetonitrile expansion because we do hydrogenation and make the specialty products so that capacity is getting increased; we make a product called diethyl hydroxyl amine which is a very specialty product going to water treatment and polymer products, there we are expanding our capacity. Those things are going on...

Veena Patel: Okay so how much is the CAPEX for this year, FY16 and FY17?

Yogesh Kothari: Two years will be about 50 crores.

Veena Patel: Okay excluding what has happened at Dahej?

Yogesh Kothari: Without Dahej.

Veena Patel: Okay. Thank you very much sir, wish you good luck.

Yogesh Kothari: Thank you.

Moderator: Thank you ma'am. The next question is from Mr. Pritesh Chheda from Emkay Global. Please go ahead sir.

Pritesh Chheda: Sir if you could throw more light on the growth driver in specialties because if I look at your presentation, last three years, aliphatic amines haven't grown much. So my guess is that specialty part which seems to be growing, so what forms a part of specialty? Is acetonitrile considered here?

Yogesh Kothari: Can you just repeat your question? I am not quite clear about what you asked.

Pritesh Chheda: I said I am looking at your presentation. If you just see the last three years' numbers as you said the specialty part of the numbers which seems to be growing. Aliphatic amines don't seem to be growing. So my first question is, do you include the acetonitrile in the specialty part? Second, what kind of products are included in specialty and what growth outlook do you have in specialty and why is it that the aliphatic amines haven't grown in the last three years now?

Yogesh Kothari: There are two separate questions. One is about what is included in the specialties which is growing. There are products like acetonitrile, which is the biggest of the lot in terms of volume and value, but there are three other products which are smaller in value but their growth rates are faster because their base is very small. The specialties are growing fast. As we mentioned earlier, acetonitrile will go from 4000 to 6500 tons which is almost kind of 40% growth rate. So specialties will grow because they are newer in the basket. Aliphatic amines are the larger of the group because it is almost 30,000 tons compared to 4000 and 5000 tons of specialties. They are growing and the last two years there has been less growth because of the pharma industry having slowed down. So they are growing at about 5% to 7% when previously they were growing at approximately 8% to 10%. We expect that pharma industry feels that it will improve over the next two, three years as more and more molecules come out of patent. So when that happens, the aliphatic amines business will also grow fast. Does that cover all the points you had asked?

Pritesh Chheda: Yes it does. I will just extend one question here. On the methyl amines part and ethyl amine's part in terms of the industry's structure, we know that methyl amine has a far high over capacity in India also and there are lot of plants, so what's your take there? And also about ethyl amine, if you could talk a little bit on the industry status today on capacities etc on India and global, both?

Yogesh Kothari: As regards, Methyl amines, you are right, it appears that there is an over capacity just now. Our plans are also to get into more methyl amines which will be coming up in Dahej. This will of course come up after two years. But what we are going to do is partly use our current plant....I mean what we are going to do is shift our existing business into Dahej from our Patalganga location and in that plant we will produce some other amines. So we will be adding capacity which will be adding to the growth which is taking place. When you say that methyl amines over capacity is there, just now it looks like that, because the derivatives from methyl amines which some of our co-producers are manufacturing, have still not come properly into the market. Once that happens, then the methyl amine itself will be sort of utilized to the full. We have our own issues because whatever capacity which we have of methyl amines, we are using a lot of it internally for our own derivatives, so we have no choice but to go for additional capacities in that. But, you are right that, it appears that, there is a large over capacity just now on the methyl amine sector. In ethyl amines the capacity overall are quite balanced. I would say because we have the capacity and one of our co-producers also has the capacity and between the two of us and plus some imports also take place, so it has taken care of the local Indian market.

Pritesh Chheda: Can you give me numbers for the global capacity for both methyl and ethyl and the utilization?

Yogesh Kothari: Global capacity of methyl amine is very large, it is spread also all around the world like Europe, USA, Japan, China; China being now really large. A lot of these capacities are for manufacturing of some of the derivatives; especially these are solvents which are being used for many applications. Now, the capacities, off hand, I am not aware but I can give you this information later on.

Moderator: Thank you sir. The next question comes from Mr. Satish. Please go ahead sir.

Satish Mishra: Sir you gave some idea related to the product prices. Is it possible to get some idea about what are the key raw materials and how their prices had behaved over the last two quarters, just to understand the spread between product price and raw material price.

Kirat Patel: The key raw materials are ethyl alcohol, methanol, ammonia. These are the key raw materials and acetic acid. These are the three, key raw materials. Ethyl alcohol, as you all know, is sugar-based in India and is seasonal, so it was six months ago as low as Rs.25 per litre and is now around Rs.30, Rs.31 per litre but that is very common phenomenon. This is the only raw material we store for four, five months during season. We have lots of storage capacity at Kurkumbh. Where methanol is concerned, it has been a little volatile. It had gone upto as high as Rs.34 at the beginning of the year. In January it had come down to almost Rs.17, Rs.18 and now it is back at about Rs.25 a kg. Ammonia has been fairly stable at about Rs.30 to Rs.35 a kg during the course of the year, though it is higher than the traditional price about Rs.20 to Rs.25 a kg over the previous few years. Acetic acid has also been reasonably steady throughout the year. It has not been affected by the crude oil prices as methanol had. I think that covers the key raw materials. The fifth one is coal. Coal has shown a small decline in the last three to four months.

Satish Mishra: Sir in the opening remarks you mentioned the solar project. Can you just elaborate on that, to what kind of saving we will achieve from that?

Kirat Patel: It is a two-megawatt solar project which should give us about 30 to 35 lakh units at our factory. We are paying at the moment about Rs.8 to Rs. 9 per unit at Kurkumbh. The variable cost of this is 55 paise. So we are hoping to save at least Rs.7.50 to Rs.8 a unit on 30 lakh unit which is about...it is a little over 2 crores to 2-1/2 crores per year.

Satish Mishra: And when will it start?

Kirat Patel: In fact the solar site is ready; some permissions from MSEB are expected any moment, maybe next week.

Satish Mishra: Okay. And sir, you also talked about so much volatility in product prices as well as raw material prices. So are you seeing the situation improving now or is it still what it was a quarter back? Are they stabilized?

Kirat Patel: To the extent that crude also seems to have....still not stabilized but at least slowed down their volatility. I think the raw materials will also steady off now. That is the expectation. Of course nobody can predict what is going to happen.

Satish Mishra: Good, fine sir. Raymond you can take another call in the queue.

Moderator: Sure sir, the next question is again from Mr. Pritesh Chheda, please go ahead sir.

Pritesh Chheda: Sir, you gave the acetonitrile realization range of Rs.116 to Rs.130, can you also give what would have been the contribution range.

Yogesh Kothari: Contribution of acetonitrile is something I would not like to talk about.

Pritesh Chheda: Okay thank you.

Moderator: Thank you sir. Sir there are no further questions, and now I hand over the floor to Mr. Satish Mishra for closing comments.

Satish Mishra: Thank you Raymond. Thank you everyone for your participation in the call. We are thankful to the Alkyl Amines management for giving us the opportunity and your valuable time. Sir, would you like to make any closing comments?

Yogesh Kothari: I want to thank HDFC Securities for arranging this teleconference. This is the first time we are doing it. I hope people who logged in would have got some idea about our company. We are a small company but we hope to do well in the years to come.

Satish Mishra: Good sir. Thank you sir.

Moderator: Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you, have a pleasant evening.

Note:

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