

Transcript

Conference Call of Alkyl Amines Chemicals Ltd

Event Date / Time : 9th November 2015, 4.30 P.M IST

Event Duration : 34 min 51 sec

Presentation Session

Moderator: Good evening ladies and gentlemen. I am Moumita, moderator for the conference call. Welcome to Alkyl Amines Chemicals second quarter FY16 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' lines 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 your conference is 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 Moumita. 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 Mr. Mishra. First of all let me again thank HDFC Securities for this opportunity. I am here with my team and most of you know about our company. This is of course the second quarter that we are discussing. We have already posted a lot of information on the website which hopefully you would have all read. If there are any questions maybe you can start asking them now.

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 Ms. Veena Patel from I Wealth Management. Please go ahead.

Veena Patel: Good evening everyone.

Yogesh Kothari: Good evening.

Veena Patel: I just wanted a bit of understanding on how is the sales of Amines looking like and very specifically what kind of volume growth have we done in

the second quarter, number one. Secondly, how is the competition from the side of global majors and how the prices have moved?

Yogesh Kothari: The sales in this quarter have been more or less flat, just a marginal increase has been there. The prices are of course down, mainly again because the overall global situation. We are trying to capture the local market as far as possible, but we had to reduce the prices because of that. So even though our tonnages have been more, our sales have been sort of moderately flat.

Veena Patel: Sir, how much was your volume growth?

Yogesh Kothari: About 15% for the half year.

Veena Patel: How was the break up between Q1 and Q2?

Yogesh Kothari: Q1 was a little better than Q2, but not a very significant difference, so almost half and half, though Q1 volume-wise was a little better than Q2.

Veena Patel: So Q1 it should be fair to assume we had a volume growth of about 18%?

Yogesh Kothari: Yeah the Q2 was about 10,179 tonnes and Q1 was about 10,690 tonnes. About a little less than 5% difference.

Veena Patel: Okay, what has been the production volume for acetonitrile for the first half?

Yogesh Kothari: I will have to get back to you on the exact numbers...

Veena Patel: Okay, how is competition looking like from global majors like BASF and others?

Yogesh Kothari: The competition has been quite active in the sense that we have some material coming in from Europe and also from China and in case of acetonitrile, we get material from Taiwan, China and to some extent from Korea also.

Veena Patel: Okay and sir one last question as far as our exports are concerned, how much we have the exposure towards Europe?

Yogesh Kothari: Europe has always been in the range of 45% to 55% range...

Veena Patel: Of our total exports?

Yogesh Kothari: Yes.

Veena Patel: Sir do we have any kind of hedging policy?

Kirat Patel: What we do is, normally when we export, we immediately convert that into a PCFC, which is the cheapest financing and we get it at the spot rate and whatever balance is there, we cover. The European exports were largely dollar

denominated. So our exposure is totally covered on the export side and the import side. That's the policy the company has.

Veena Patel: Okay so this kind of hedging you have been doing is on a rolling basis or how is it?

Yogesh Kothari: Yes on a rolling basis, consistently over the last two to three years.

Veena Patel: Okay thank you very much sir.

Moderator: Thank you. We have the next question from Rohit Chavan from Vallum Capital. Please go ahead.

Rohit Chavan: Hello sir, thanks for the opportunity. Firstly, a question related to the product acetonitrile. I would like to know what is our recent capacity, and utilization level as of now and the contribution to sales from this product.

Yogesh Kothari: Capacity currently is about 6,500 tonnes which is in the process of expanding further. We are waiting for some environmental clearances. That should come....we were supposed to have got it by now but we still have not got it. It will come maybe in the next couple of months.

Rohit Chavan: Okay. So how much would it be? How much expansion are we planning in acetonitrile?

Yogesh Kothari: We will go upto about 9000 to 10,000 tonnes.

Rohit Chavan: As of now we are running at full capacity or not?

Yogesh Kothari: We are going at about 80% to 85% capacity.

Rohit Chavan: Okay fine and sir I would like to know overall competitive scenario in this product globally as well as domestically and what kind of competition do we have in this product?

Yogesh Kothari: Internationally there are many players, few in China, few in Taiwan, in Korea, in Japan. Locally we are there and there is another party, they are also in this product. Internationally what is happening, as I have explained in the last conference call, is that acetonitrile is made by two routes, one is through acetic acid route which we follow. It is known as the synthetic route. The other is from byproduct of acrylonitrile route. Internationally acrylonitrile is currently under pressure because of the downstream product like acrylic fiber as well as ABS and other things even though the price of propylene is down; still the volumes are not that much. There is some sort of balance going on but still the pricing is competitive now.

Rohit Chavan: Prices are pretty competitive in global market as well as domestic market?

Yogesh Kothari: Well now everything is based on global prices only. If you are not competitive here competition would definitely sell into India.

Rohit Chavan: I would like to ask you that isn't there any anti dumping duty as of now on acetonitrile products?

Yogesh Kothari: No, no it is too early for that. We are in the production only in the last one or two years. I don't think Government will immediately do that.

Rohit Chavan: Yeah, because they take somewhere around three years' data if I am not wrong. So do we have any anti dumping duty on any other products as of now?

Yogesh Kothari: No, we don't meet that criteria.

Rohit Chavan: Okay, are we planning to have any protection from the Government on any of the products?

Yogesh Kothari: We will.....wherever if there is any need, provided if we meet those criteria for acetonitrile, but as a principle we are not really pushing towards that because we really like to be competitive and retain our market share. The justification for an anti-dumping and all this is, it is quite a tedious process as well as whether we qualify or not for this is a question mark always.

Rohit Chavan: Okay right, if we want to keep our margins intact, we have to keep cost of manufacture by controlling our cost, for that we need to have economic scale. So as far as the competitive scenario is concerned, are we on the larger side of thelarge producer of acetonitrile compared to other players?

Yogesh Kothari: Yes we are one of the, may be, the second or third largest producer in the world you know.

Rohit Chavan: Okay and if you don't mind, can you throw some light on the other two players who are above us?

Yogesh Kothari: These are in Taiwan and Korea and theirs is again based on acrylonitrile by product. Ineos in Europe also but just now they have been quiet because again it is based on competitiveness. They are selling a lot of their products to USA and other countries.

Rohit Chavan: Okay so how much do we sell, percentage wise?

Yogesh Kothari: We sell about 80% locally and 20% internationally.

Rohit Chavan: So we can say that the whole market, the Indian market has been captured by us....?

Yogesh Kothari: No, no, it is not like that because most of the customers don't want to depend on one supplier, so they always like to have a second supplier and that's why we have to be competitive.

Rohit Chavan: Right. And sir as far as acetonitrile is concerned, how much important does the quality factor comes.....

Yogesh Kothari: Quality is of course most important...but there are many grades. It depends on which target market you are looking at but we try to capture at least 80% of the market segment which are there and still we are going to further improve and try to capture rest of the market also because in some cases, the quality is also important. Some people don't use all of it in India. It is often repacked in India and exported out of the country also.

Rohit Chavan: Right sir. So you are saying about quality. I would like to ask you which will be the driving industry for this product?

Yogesh Kothari: Pharma and various solvent industries which apply directly to instruments like HPLC and others....these are called fine chemical industry and it has some use in agro chemicals also.

Rohit Chavan: I didn't get you sir?

Yogesh Kothari: The first is pharma industry, then is fine chemicals....

Rohit Chavan: Do we have new projects coming along in the next one year or two years new products any chances?

Yogesh Kothari: We are going ahead with our project which we have planned for Dahej in Gujarat for methylamine which we are making in one of our unit in Patalganga. For Dahej project, we have got the land, we have completed public hearing from the environment point of view, and we have started engineering work, so we hope that we will put the project by 2017...first half of 2017...

Rohit Chavan: This is for entirely a new project or you are talking about acetonitrile....?

Yogesh Kothari: No, no we are talking about methylamines. This is a larger plant...

Rohit Chavan: You are also expanding into the acetonitrile products so when will this new capacity be commercialized?

Yogesh Kothari: The expansion of acetonitrile? It will be done in three or four months' time. From 6500 tonnes currently to about 9000 tonnes it will be.

Moderator: Sir we will move on with the next question now. The question comes from Mr. Pritesh Vora from Incedo. Please go ahead sir.

Pritesh Vora: Good afternoon sir, thank you for taking my question sir. My question was how much capacity expansion is there and how much capacity expansion you are doing in the next two years and what are the CAPEX plans for that?

Yogesh Kothari: You are talking only for acetonitrile?

Pritesh Vora: The whole company.

Yogesh Kothari: As I mentioned, we are going ahead with the methylamine project in Dahej which will come on stream most likely in the first half of 2017. There the CAPEX would be somewhere around Rs. 150 crores to Rs.170 crores. Our current project which are like de-bottlenecking or expansion of our acetonitrile, those kind of projects we expect the CAPEX to be around Rs.50 crore rupees.

Pritesh Vora: Okay. And what will be the asset turnover ratio of the Dahej project?

Kirat Patel: The turnover would be around 240 crores at full capacity, so it would be about 1.5 I would say.

Pritesh Vora: So basically it is not yielding the same kind of asset turnover of your present capacity?

Yogesh Kothari: Yeah, because the current capacity is old capacity, all practically depreciated also. Plus the whole purpose of getting into a new methylamine plant was that our existing capacity is getting saturated. We use a lot of methylamines in-house also, so we need to create more capacity, add some additional capacity based on methylamines later on.

Pritesh Vora: Right and what sort of working capital cycle you have in methylamine?

Kirat Patel: Normally, we have debtors of about 60 days but against that we also have credit periods of 60 to 90 days on our raw materials so the inventory block up is not much, maybe a month....it is fast moving.

Pritesh Vora: Right and receivables?

Kirat Patel: Receivables is about 60 days.

Pritesh Vora: Okay and what kind of...the current projects you mentioned and expansion projects of Rs. 50 crores, what kind of incremental turnover we can get out of this Rs.50 crore expansion project?

Yogesh Kothari: One is the acetonitrile expansion, at full capacity of that would be Rs. 40 crores on acetonitrile and there are two others which may lead to another Rs.10 , 12 crores more, so about Rs.50 to 60 crores...

Pritesh Vora: You are spending on the CAPEX right?

Yogesh Kothari: We are spending CAPEX not only on expansion, we are also spending on other like utilities and on the environmental plant, ETP etc. The CAPEX is on the extra boiler which adds almost a month of production capacity for all our plants in Kurkumbh. If you add that on then there would be another Rs.40 crores of turnover. So you might say another Rs.80 to 100 crores of turnover addition on that Rs.50-crore expenditure.

Pritesh Vora: Okay but you are saying that you are spending on power and utility, does it increase the turnover?

Yogesh Kothari: No, what happens is, it increases efficiency and it gives you....because when the boiler goes down for inspection, we cannot have production from the site. But now with the new boiler we will have a standby arrangement. So we can run a production plant while one of the boilers is being revamped or inspected and maintained. So that is how we will get an additional capacity of three to four weeks.

Pritesh Vora: So this Rs.80 to 100 crores incremental revenue what sort of EBITDA margin? Your current EBITDA will prevail there or you think....

Yogesh Kothari: Yeah, because it is the same product. Of course this is applicable when we reach full capacity utilization of all these.... It may happen gradually over two, three years.

Pritesh Vora: Right. And what sort of EBITDA margin methylamine, project enjoy?

Kirat Patel: Well if the current prices of methanol and methyl amines are concerned, they enjoy also the same kind of EBITDA margins of 18% to 19%. This is at the current methanol and methylamine prices.

Pritesh Vora: But this is getting commissioned in the first half of 2017 right?

Yogesh Kothari: Yes.

Pritesh Vora: So it can be 2018 financial year for full commissioning.

Yogesh Kothari: Yeah we will get about half a year of 2017-18 and the full year of 18-19.

Pritesh Vora: Right. Alright sir wish you all the best.

Moderator: Thank you sir. Our next question comes from Mr. Dhaval Seth from Ishare Securities Limited.

Dhaval Seth: All my questions have already been answered. Thank you so much.

Yogesh Kothari: Okay thank you.

Moderator: Thank you sir. We have the next question from Mr. Satish Mishra from HDFC Securities. Go ahead sir.

Satish Mishra: Sir just to understand....Our power and fuel cost has reduced by around Rs.4 crores Q on Q, so I believe this is because of the solar project we were doing?

Kirat Patel: No there were two impacts on that. The solar plant has been commissioned in July and it is not yet reached its value, yes there is some part of that. There is also....we have initiated a turbine synchronization project which is like a co-

generation project from our steam, using waste steam. So almost 2/3rds of our electricity which Kurkumbh uses is what I call self-generated. About 30 lakhs grid from solar and another 60 lakh unit from the cogen turbine, so you have about 90 lakh units and utilization of about 1.2 crores units. So almost 2/3rds of the things will be self-generated in a full year. So we are seeing the benefits of that generating the electricity.

Satish Mishra: And this solar benefit? Full benefit we will see in the next quarter?

Yogesh Kothari: Yes, probably in the next three to five months when the sun shines....because when we commissioned in July it was the rainy season, so the sunshine is not at its peak. So October onwards, I hope to see the full benefits of this plant.

Satish Mishra: Correct. And sir my second question is related to ethanol pricing, so what we are seeing, that because of these OMCs demand for ethanol, ethanol prices is rising very sharply. So what is the situation for us? Are we getting sufficient ethanol and how has the prices moved for ethanol?

Yogesh Kothari: The availability of ethanol is not a difficulty but the prices have definitely moved up slightly and we normally try to cover for the future. We pay in advance and book ethanol so that we are covered for at least five to six months and those prices are normally more competitive than current prices.

Satish Mishra: Fine sir. Will it be possible to share those numbers or will it be confidential?

Yogesh Kothari: Just now I would not like to because we are competing in the market place for buying ethanol.

Satish Mishra: Fair enough sir. And sir last question from my side sir. We have other raw materials which are more or less crude dependent. So how are we seeing the pricing over there? Have they stabilized or still the volatilities are there?

Yogesh Kothari: Yes, they are still a little bit volatile, but it is good for us that the prices have come down like methanol has come down, even acetic acid has come down, ammonia has been steady, isopropanol has come down, 2ethylethanol has come down, so that way it is helping us.

Satish Mishra: So more or less in a stable situation we should expect 17%, 18% kind of EBITDA margin.

Yogesh Kothari: I suppose so, yes.

Satish Mishra: Fine sir. I will come back again in the queue.

Moderator: Thank you sir. The next question comes from Mr. Nirav Jimudia from Anvil share and stock broking. Please go ahead sir.

Nirav Jimudia: Hello? Sir I just wanted to understand more on the Indian market for methylamine? How is the current capacity in India and where we are placed

in terms of the Indian capacity sir and how the demand is growing in India so far as the methylamine is concerned?

Yogesh Kothari: See, methylamine capacity, the inbuilt capacity today is more than actual demand, but in the case of methylamine what happens is, one process mono, di and tri methylamine come in fixed ratios with some flexibility and the demand in India is more for di-methylamine and mono-methylamine. So there is always a situation when one is short and the other is a little bit on the long side and that makes the operations of the methylamine plant a little bit tricky and unless you are able to sell all the products. So we use a lot of the di-methylamine and so what happens is often we are short of that material because our plant capacity is restricted to some portion only. That is one of the reasons why we are putting up another plant. But currently in India, there is a large plant belonging to Balaji Amines which is about 30,000 tonnes capacity. Our existing capacity is around 16,000 tonnes and Rashtriya Chemical and Fertilizer has got plants in Chembur and at Thal where I think the total capacity must be around 15,000, 16,000 tonnes also. But all of these plants together are not working at full capacity and to the best of our understanding the Balaji Amines plant is sort of linked to their production of di-methyl formamide which is a solvent. The basic need for di-methyl amine is more over there. So an imbalance often takes place in these things.

Nirav Jimudia: But sir, imports do happen in India or mostly....?

Yogesh Kothari: Very, very less quantity. Sometimes some material comes from Saudi and that also I would feel in percentage terms it would not be that large.

Nirav Jimudia: Because the imports generally doesn't happen, because they use water also to import along with methylamine so import sometimes because of that is not feasible, I understood, correct. And sir since we are putting up a large plant in Dahej the size is about 30,000, 35,000 tonnes, so how confident are we that our capacity will be utilized in terms of demand which is probably coming up. So if you can share some view on the demand side, like any feedback on that side that will be very helpful.

Yogesh Kothari: What is going to happen is when we start the Dahej plant, our own manufacturing of methylamines at our Patalganga unit we will slow down and we will stop it at some stage and that particular plant at Patalganga will be used for another amine which either it will be ethylamine or some other specialty amine. So that's why from the new capacity, 50% of the capacity the market is already with us, so we are just going to add another 50% at Dahej for which also we will be adding some capacities for downstream units over there but we are quite confident that by the time we get into the market, which would be sometimes maybe, if we are going to commission the plant middle of 2017, by the end of 2017, we would have sort of come to a level where we would have captured a lot of the market also.

Nirav Jimudia: Sir in terms of the downstream products which you just mentioned, are we planning to go into the production of NMP and GBL also which is also into the forward integration if I understood it correctly?

Yogesh Kothari: Yeah we may go into NMP because that is something we have already done in the past, we have the technology and everything. GBL whether we

do it or not we are not taking a call just now, because GBL is available internationally at reasonable prices.

Nirav Jimudia: Sir how is the market for NMP in India? If we are planning to go into forward integration for NMP so like what sort of capacity we are planning in NMP or if you can throw some light on the Indian market for NMP?

Yogesh Kothari: The NMP market in India is not that large. Of course the pharma industry and the refineries and other things, but it will mainly take care of some of the exports.

Nirav Jimudia: Sir we also produce DMAHCL from methylamines. So how has been the situation in DMAHCL currently sir?

Yogesh Kothari: DMAHCL is a steady product, it goes for metformin and ranitidine. Metformin is an anti-diabetic drug and ranitidine is an anti ulcer drug. Both these products of course in India they have a large demand as well as we export the DMAHCL to Europe where there is a market for them for the same metformin and others.

Nirav Jimudia: Thanks a lot sir.

Moderator: Thank you sir. Ladies and gentlemen if you have any questions, please press * and 1 on your telephone keypad.

Satish Mishra: This is Satish here. Sir on Dahej CAPEX, so far how much have we invested out of the total Rs.150, 170 crores you said?

Yogesh Kothari: We have bought the land, we have started the engineering, for water also we have pay in advance over there. Almost Rs.15 to, Rs.16 crores we have already spent.

Satish Mishra: Okay fine sir. Thank you Moumita. Now we will close the call. Thank you everyone for your participation in the call. We are very thankful for Alkylamine's management for giving us this opportunity and their valuable time. Sir would you like to make any closing comments?

Yogesh Kothari: I also again like to thank HDFC Securities for giving us this opportunity as well as all the investors who have shown interest in our company. Our performance in the last quarter has been a little bit on the flatter side, and this is because of the international situation but we hope that it would be better but it is difficult to just now judge exactly how it is going to turnout.

Satish Mishra: Thanks sir.

Yogesh Kothari: Okay thank you very much.

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 disconnect your lines now, thank you and have a good day everyone.

Note:

1.This document has been edited to improve readability.