MANAGEMENT DISCUSSION AND ANALYSIS

Global Economy

The slowdown of 2019 owing to the US-China trade war, Brexit concerns and crises in Asia and Africa, was aggravated by the COVID-19 outbreak of early 2020. Protecting lives from the pandemic required lockdowns and isolation. But at the end, people learnt to cope, adapt and move on, sending a vibe of hope and positivity the world over.

For the global economy, 2020-21 was an unprecedented one. The year started with economic slowdowns, rising global crude prices and inflation in some economies, only to be further dampened by the COVID-19 outbreak. It literally put brakes on the economic growth owing to staggered lockdowns across economies, restricting cross-border transaction and movement, eventually leading a major technical recession post the Great Depression of 1929. The pandemic has not only caused economic losses, but also cost millions of lives. The governments and respective central banks have tried to provide financial cushion to fight the pandemic by injecting liquidity and cutting interest rates. During such tumultuous times, the International Monetary Fund (IMF) also extended some relief to 83 countries by providing US $100-Bn assistance.

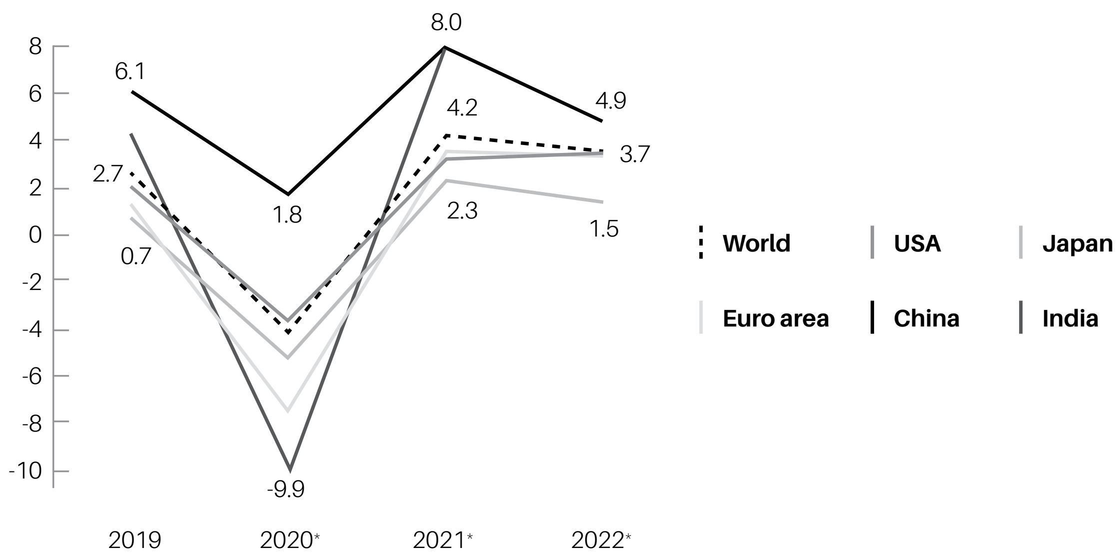
The slowdown also brought about drastic changes in crude prices. There was a sudden downturn in the global crude prices in the first half of 2020-21, but it started recovering once the lockdowns were being lifted. In such a year of volatility, there were continuing trade tension between US and China, which induced economic pain on both the sides and even some other economies, owing to the disruption in trade flows.

In the second half, there was a decline in the number of COVID-19 infections the world over. The change in the US Presidency was another marquee highlight for the year. The subsequent roll-out of vaccines, brought back some uptick in demand. However, despite some economies taking a few bold measures, the global economy contracted by 3.5% in 2020, i.e. 0.9% higher than the earlier projections, as per the data released by the International Monetary Fund (IMF). Since the outbreak of the pandemic, China was the first economy off the hooks to post positive GDP growth numbers for their third quarter (July-September) in 2020. There was an apparent domino impact on the investor confidence, which witnessed a decline in Foreign Direct Investments (FDIs) by 42% in 2020, over 2019, constituting to a decrease from US $1.5 trillion to an estimated US $859 Bn for the corresponding period. The strength of the recovery is projected to vary significantly across countries, depending on access to medical interventions and effectiveness of policy support. Also, many undeveloped countries ended on high debts because of the pandemic.

(Source: https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update

https://unctad.org/news/global-foreign-direct-investment-fell-42-2020-outlook-remains-weak)

Estimated Global GDP Growth (%)



(Source: https://www.dw.com/en/covid-vaccine-coronavirus-global-economic-recovery-for-2021/a-55775341)

**Forecast*

MANAGEMENT DISCUSSION AND ANALYSIS (Contd.)

For the global economy, 2020-21 was an unprecedented one. The year started with economic slowdowns, rising global crude prices and inflation in some economies, only to be further dampened by the COVID-19 outbreak. It literally put brakes on the economic growth owing to staggered lockdowns across economies, restricting cross-border transaction and movement, eventually leading a major technical recession post the Great Depression of 1929. The pandemic has not only caused economic losses, but also cost millions of lives. The governments and respective central banks have tried to provide financial cushion to fight the pandemic by injecting liquidity and cutting interest rates. During such tumultuous times, the International Monetary Fund (IMF) also extended some relief to 83 countries by providing US $100-Bn assistance.

Outlook

After a contraction in 2020, the IMF estimates a revival in the global GDP by 5.5% in 2021. The advanced economies are slared to grow by 4.3%, whereas the emerging and developing economies are expected to clock a 6.3% growth in 2021. The inoculation drives world over, are expected to play a vital role in sharing the overall outlook further, since the faster vaccine roll-outs are expected to boost consumer demands and bring the economic growths to pre-COVID levels. However, they have also cited cautious optimism on account of the second wave of the pandemic being witnessed across many countries globally, which may threaten the overall outlook.

Indian Economy

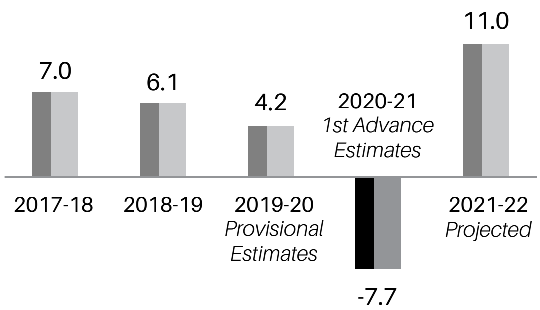
For India, the year 2020-21 started on a weaker note with growing inflation, rising unemployment and the already contracting GDP growth. Furthermore, the outbreak of the Covid-19 pandemic led to several lockdowns, thereby weakening the economic growth. India posted a GDP de-growth of 23.9% in the first quarter of 2020-21. The first nation-wide lockdown helped contain the virus to some extent and save lives, but the rising unemployment levels and halt in business activities, increased financial concerns and forced many smaller businesses to shut down. The Indian government tried to provide some relief by injecting liquidity into the system through various fiscal stimulus packages and even decreasing the interest rates, while also providing moratorium on loan to safeguard the economy. In line with the same, the Government had announced a special relief package of ₹ 20 Lacs Cr. under the Aatmanirbhar Bharat campaign in May 2020 to make India self-sufficient and self-reliant, while giving boost to the manufacturing units and exports.

In the second quarter, some revival was seen after the lockdowns were lifted in a staggered manner and the number of COVID cases went down. This helped in the resumption of manufacturing activities. This led to a surge in the Business Assessment Index (BAI) to 96.2 in Q2 of 2021 from a record low of 55.3 in Q1, 2020-21. Though the figures still suggest a contraction zone, a recovery was witnessed, with GDP also having contracted by 7.5% in Q2 2020-21 as compared to a contraction of 23.9% growth in Q1 2020-21 as per the official data released by the National Statistics Office (NSO).

The third quarter of 2020-21 was more about growth. Lifting of lockdown restrictions, festivities and the support provided by the Government with the roll-out of two vaccines helped the economy regain its tempo. There was a sudden spike in consumer confidence, which led India become the only the second country to post positive GDP numbers, also while BAI moved to the expansion zone, having stood at 108.6 for the quarter. India's GST collection also witnessed a record high indicating positive sentiments for the market. During this quarter, the IIP manufacturing data showed significant growth, with numbers better than China. However, there also was a marginal decline, with the growth in IIP standing at 129.3 for the month of February 2020 as compared to 136.1 in the previous month.

The end of the fourth quarter of 2020-21 witnessed a resurgence in COVID-19 cases, which had repercussions on the economy, thereby having entered in 2021-22 on an uncertain note. However, the massive inoculations happening across the country are likely to hold good the forecasts.

GDP Growth (At constant process) - India (%)



Source: PIB India

MANAGEMENT DISCUSSION AND ANALYSIS (Contd.)

Outlook

India has seen a bounce back from the lows it had touched in Q1, 2020-21 and considering the current scenario, it is estimated by the IMF that India is expected to grow by 12.5% for financial year 2021. It would become the fastest growing economy with rising consumer demand, along with a low base effect too. Vaccination drives are expected to remain a major growth driver. But the rising number of COVID cases and its deadlier mutants could dampen the growth momentum and spirit.

(Source: https://indianexpress.com/article/business/economy/imf-projects-indias-growth-rate-to-jump-to-impressive-12-5-per-cent-in-2021/

https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=20323

https://www.thehindu.com/business/Economy/indian-economy-contracts-by-75-in-q2/article33193753.ece)

Industry Structure and Deveolpments

Indian Specialty Chemical Industry

India is one of the fastest growing markets in the global specialty chemicals industry. The sector contributes 21% of the overall chemical industry and the size of which is estimated to be around US $40 Bn. Seen from where it stands now, the industry has only good things to fall back on.

As we are probably aware, specialty chemicals influence the performance and processing of the end product through its single chemical entities or the composition of its formulations. The industry's end users comprise pharma, agrochemicals, dyes and pigments, personal care ingredients, polymer additives, water chemicals, textile chemicals and application-driven segments. These segments contribute to about 80% of the total specialty chemicals business. Besides, India continues to be one of the fastest growing markets in the global specialty chemicals industry. The sector contributes 21% of the overall chemical industry and the size of which is estimated to be around US $40 Bn, with ~50% of total chemical exports done by India. In the last five years, the industry is estimated to have grown by 11.7%.

China continues to hold the biggest market share contributing to around 25% of the global market. Of late, the trends suggest a demand shift from China to India. The factors contributing to this shift include strong demand from pharmaceutical and agrochemical industries, stringent laws made by the Chinese Government to tackle environmental issues, which led to cost increases and also impacted supply in a big way from China. Besides, the COVID-19 outbreak has also disrupted supplies, with buyers looking for more reliable alternatives. Keeping these trends in mind, the Indian manufacturers have increased their capital expenditures (CAPEX) to cater the expected demand flows, with an aggregate increase of 17% between 2015 and 2020. Around ₹ 90 Bn CAPEX was incurred in 2019-20 alone.

Outlook

The industry is estimated to grow at 13% between 2017-18 and 2022-23, reaching US $ 60 Bn. Increased CAPEX towards facility set-ups to scale up capacities, higher production of petrochemical products and increased R&D spending to cater the growing demand are likely to lead to increase in new product launches. Ongoing supply side issues from China are also expected to drive the future growth of market share for India.

(Source: https://www.hdfcsec.com/hsl.docs/Indian%20Chemical%20-%20Sector%20Thematic%20-%20HSIE-202009040850150137062.pdf)

Indian Amines Industry

Amines are ammonia derivatives, having one or more hydrogen atoms being replaced by a carbon-containing substitute. The size of the global amines market, as per the latest estimates stands at US $16.8 Bn in CY 2020. It is expected to grow to US $ 26.6 Bn at a CAGR of 6.8% from 2020-2027.

The major amines market is segmented by Ethyleneamines, Alkylamines, Fatty Amines, Specialty Amines, and Ethanolamines which find uses in various industries such as dyes, agrochemicals, pharmaceuticals, rubber, textiles and many other allied industries. Besides, aliphatic amines are widely used in pharmaceutical APIs and a large number of medicines. These are one of the core product offerings from the companies in the amines industry.

Increasing demand from pharmaceutical, personal care, agrochemical, agriculture, water treatment, paint, coating and petroleum industries are the key growth drivers of the market. The trend was evident during the COVID-19 outbreak, which led to an uptick in demand from the pharmaceutical industry and eventually pushed the demand for the amines industry.

Aliphatic amines are hazardous in nature. Hence, special care is given during the Manufacturer and transportation of these amines. These amines were imported from China, but now they are being manufactured in India to reduce the risks associated with it. In many cases, specialised vehicles are required to be used for transport, which effectively reduce the distances over which it can be transported, thereby curbing the risk of spillage. As a result of which, customers prefer sourcing it locally.

The Asia-Pacific region is the highest producer and consumer of amines. China is the biggest player, followed by India. At

MANAGEMENT DISCUSSION AND ANALYSIS (Contd.)

present, there are limited players in the market and there is a balance between demand and supply. The market is segregated region-wise, with limited players in each region. Considering the higher logistical costs and the subsequent raw material price spikes, the consumer industries are deterring from importing, thereby enabling the local players to cater the stable demands.

The amines industry in India is also expected to face an increased demand from pharma and agrochemical markets, in line with the global demands. Besides, owing to the complex logistical costs involved, there's a likelihood of reduction in import, which will eventually propel the Indian players to step in, to cater the demands. In line with this shift, a double-digit growth is expected for the Indian amines market in the next three to five years The overall outlook for the Asia-Pacific region remains positive. The region being the largest producer and consumer of amines, owing to its manufacturing capabilities, large consumption patterns and export avenues are likely to move ahead at a brisk pace.

(https://www.globenewswire.com/news-release/2020/08/18/2080312/0/en/Global-Amines-Industry.html)

Company Overview

Balaji Amines Limited is a Company with a global presence in the space of amines, specialty chemicals and derivatives. Having commenced the business since the year 1988, with specialty chemicals, today BAL is one of the leading manufacturers of aliphatic amines and its derivatives in India. With a diversified portfolio of more than 25 different products, catering to the large client base, BAL is highly focused on innovation. It continuously adds new products to diversify its product range and make its manufacturing unit more efficient through technological advancements.

The Company generates around 20% of revenue through exports. Many companies in India were importing specialty chemicals and their derivatives from China and other countries however, with BAL's presence, they can now rely on an BAL, which will enable them in reducing their costs. The Company today serves diversified industries such as pharmaceuticals, agrochemicals, paints, textiles, water treatment etc., among others. The Company's state-of-the-art manufacturing facilities near Solapur (Maharashtra state, India), is fully equipped with latest technologies, including computerised-controlled systems, which facilitate the control of operations from the control room. In addition, BAL's excellent R&D facilities and pilot plants, ensure our teams to carry out basic research and fine tune processes to ensure quality products with economies of scale to customers across the Globe.

Opportunities and Threats

As we have been looking at various opportunities for adding new products, which are import substitutes and have fairly large volumes for growth. The product identification is very critical element of our business. We have been studying various models of expanding, one of the many is common raw materials, forward and backward integrated plants for value addition and better realisation of margins.

There are certain threats in these times of uncertain which we are addressing by studying associated threats and turning them in to opportunities.

Risks and Concerns

BAL has been taking calculated risks in identifying the products and processes which are commensurate with present industry standards. BAL is always looking out for perceived risks and address them from root cause itself and work.

Risk Management and Mitigation

BAL assesses risks on a regular basis, while formulating new strategies according to the changing market scenarios. The Company always believes in mitigating the risk at early stages, so that business can run without disruptions. The audit committee and management are working in tandem to identify the risks and mitigate them. Following are some of the risks and mitigatory responses for the Company:

Risks	Impact	Mitigation
Economic Slowdown	An economic slowdown in India can plummet revenues for the Company, which may lead to decreased profitability.	BAL is selling its products to Various sectors of the economy pharma, Agrochemical, Dyes, Paints etc. Domestically and Exports to a wide geographical presence, which minimises the risk.
Raw Material	Unavailability of raw material or sudden increase in price can affect manufacturing.	The Company maintains sufficient safety-stock of strategic raw materials and finished goods to mitigate any potential risks. BAL also focuses on securing and maintaining multiple sources of supply for some of the raw materials.

MANAGEMENT DISCUSSION AND ANALYSIS (Contd.)

Risks	Impact	Mitigation
COVID-19	The first wave of COVID-19 resulted in lockdown, which derailed the economy and jeopardised lives, bringing production to a standstill. The second wave can disrupt economic activities further.	BAL is taking all precautionary measures to protect its sites and manufacturing units to restrict the spread of COVID-19. It is also maintaining all the protocols rules and regulations prescribed by the Government and local authorities on a regular basis and so far all the safety measures are in place and all the plants are operating at reasonable capacities.
Environment and Safety	The risk of chemical incidents pose a threat to the environment, health and safety of society and in turn business continuity.	Robust safety systems and processes are in place at the various sites to mitigate this risk. In addition, the Company is disposing its hazardous waste safely as per the compliances.
Presence of Unorganised Market	A parallel grey market in the form of an unorganised sector exists in India, and the extent of its market share is unknown.	The Company is delivering since 1990. Its long-term presence and quality of products, and customers service continue to help build a reputation in the market which testifys its credibility.

Internal Control Systems and their Adequacy:

Your Company has appropriate internal control systems for business processes, efficiency in its operations, and compliance with all the applicable laws and regulations. Regular internal checks and audits ensure that the responsibilities are being effectively executed. In-depth review of internal controls, accounting procedures and policies of Company is conducted. Your Company has adopted adequate internal control and audit system commensurate with its size and nature of business.

Financial Performance with respect to operational performance

The Company has been constantly posting good results, with sustainable growth in revenues and profits. The revenue for the year 2020-21 stood at ₹ 1,227.78 Cr. registering an increase of 33.59% over the previous year. Whereas, the PAT for 2020-21 stood at ₹ 231.71 Cr. which is an increase of 103.70% over the corresponding period last year. Besides, BAL has also incurred a Capital Expenditure to the tune of ₹ 131.94 Cr. targeting capability and capacity enhancements.

Let's look at some of the key financial ratios and changes witnessed in 2020-21 vis-à-vis 2019-20:

Key Ratio	2020-21	2019-20	% change	Reason for change
Current Ratio	2.43	1.77	37.29%	Reduction in Borrowings as the retained earnings are ploughed back
Debtors Turnover	5.35	5.19	3.08%	we have tightened the credit terms and able to reduce the credit cycle
Inventory Turnover	6.62	4.35	52.18%	Growth in Sales & Lower levels of Inventory at Hand
Debt Equity Ratio	0.00	0.15	-100.00%	Reduction in Borrowings, with better utilisation of funds
Interest Coverage Ratio	59.10	13.67	332.33%	Reduction in Borrowings, with better utilisation of funds
Operating Profit Margin (%)	32.51%	25.91%	25.47%	Better price realisations and increase in operating leverage due to surge in volume offtake
Net Profit Margin (%)	18.69%	12.24%	52.70%	Better price realisations and increase in operating leverage due to surge in volume offtake
Return on Net Worth (%)	25.82%	17.04%	51.53%	Better utilisisation of funds invested in expansion

MANAGEMENT DISCUSSION AND ANALYSIS (Contd.)

Product-wise performance:

Product	As at 31st March, 2021		As at 31st March, 2020		Growth %
	Qty. (MT)	₹ in Cr	Qty. (MT)	₹ in Cr	
Aliphatic Amines	18728	234.06	18669	184.58	26.81%
Speciality Chemicals	37102	533.89	31708	392.78	35.93%
Derivatives of Amines	38857	449.05	34455	315.7	42.24%
	94687	**1217.00**	**84832**	**893.06**	**36.27%**

Revenue from Aliphatic Amines products in 2020-21 is ₹ 234.06 Cr. up by 26.81% as compared to ₹ 184.58 Cr. in 2019-20.

Revenue from Speciality Chemicals was up by 35.93% in 2020-21 at ₹ 533.89 Cr. as compared to ₹ 392.78 Cr. in 2019-20.

Revenue from Derivatives of Amines in 2020-21 is ₹ 449.05 Cr. as compared to ₹ 315.70 Cr. in 2019-20 resulting in the growth by 42.24%.

Expansion Plans

Greenfield Project - Phase I

The Plant for manufacture of Ethylamine under the first phase of our 90-acre Greenfield Project has commenced commercial operation on 21st May, 2021. The commencement of the production of Di-Methyl Carbonate (DMC) is expected in the last quarter of 2021-22.

Under Phase I, the Company has installed additional capacities of 16,500 TPA of Ethylamine, which has moved our company to be the largest manufacturer of Ethylamines in India . (Additionally, the Company is also installing capacity of 9,900 TPA of DMC). There is a supply shortfall of about 9,000 TPA of Ethylamine in India, which is expected to be fulfilled by the Company owing to production increase.

Hotel Division

BAL commenced its hotel business in the year 2013, with an investment of ₹ 110 Cr. The hotel named Balaji Sarovar, is a 5-star hotel located in Solapur. The hotel has 129 rooms and BAL has tied-up with Sarovar Group for the management of the hotel on management fee + revenue-sharing model. The hotel segment constitutes to about 2.20% of total revenue.

Solapur city is located in the south-western region of India and it shares border with Karnataka. This city is located on major highway, rail routes between Mumbai, Pune, Bengaluru and Hyderabad, which provide a great connectivity to the city. Besides, with the presence of many corporates in the region, the hotel occupancy rates tend to remain higher.

Balaji Speciality Chemical Private Limited (BSCPL)

BSCPL is a subsidiary company of BAL, where it owns 55% of the share capital of Company. It was incorporated in the year 2010, and involved in the production of niche products such as Ethylenediamine (EDA), Piperazine (PIP) and Diethylenetriamine (DETA). With this extensive product line, the Company is serving its end users with cost benefits, since these products had to be imported earlier.

The plant is located at Plot No. E-8/1, Chincholi M.I.D.C., Tal. Mohol, Dist. Solapur – 413 255, with a total licensed capacity to produce 45,330 metric tons per annum (MTPA). Out of this it can manufacture 37,350 MTPA of EDA, 4,050 MTPA of PIP and 3,150 MTPA of DETA, while 780 MTPA is produced as mixture of other amines. The Company is now more inclined towards the agricultural sector, which bodes well for the agrochemicals industry. It is likely to enable BSCPL to gradually increase capacity utilisation levels as well. Also, the Company is witnessing demand from China for its products such as EDA and Piperzines, DETA, which are likely to bode well for the future.

The Company has also started manufacturing some additional products under EDA, PIP and DETA to provide strong boost to its portfolio. BSCPL has also received REACH Certification from Europe for export of Di-Ethylene Tri Amine (DETA).

Material Developments in Human Resources/Inudstrial Relations front. Development including number of people employed

BAL considers its human resource as the major strength to achieve its objectives. Keeping this in view, the Company undertakes all the care to attract new talent, provide all the necessary trainings, while retaining well-qualified and deserving employees. Owing to the current pandemic, BAL has adopted all the necessary measures required to keep the employees safe. The employees are sufficiently empowered, and the Company provides friendly environment workplace that inspires them to channelise their talent and unlock the potential, which leads to higher performance levels. BAL appreciates the contribution of its dedicated team with accolades being showered year-round.

MANAGEMENT DISCUSSION AND ANALYSIS (Contd.)

Disclosure of Accounting Treatment

The financial statements have been prepared in accordance with all applicable accounting standards.

Disclaimer

Certain statements in the MD&A section, concerning future prospects, may be forward-looking statements which involve a number of underlying identified/non-identified risks and uncertainties that could cause actual results to differ materially. In addition to the foregoing changes in the macro environment, global pandemic like COVID-19 may pose an unforeseen, unprecedented, unascertainable and constantly evolving risk(s), inter-alia, to the Company and the environment in which it operates. The results of these assumptions made, relying on available internal and external information, are the basis for determining certain facts and figures stated in the Report. Since the factors underlying these assumptions are subject to change over time, the estimates on which they are based, are also subject to change accordingly. These forward-looking statements represent only the Company's current intentions, beliefs or expectations, and any forward-looking statement speaks only as of the date on which it was made. The Company assumes no obligation to revise or update any forward-looking statements, whether as a result of new information, future events, or otherwise.