



“Vinati Organics Limited Q3 FY14 Earnings Conference Call”

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Moderator Ladies and gentlemen, good day and welcome to the Vinati Organics Limited, Q3 FY14 Earnings Conference Call. As a reminder, all participants' lines will be in the listen only mode. There will an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Vinati Mutreja. Thank you and over to you ma'am.

Vinati S Mutreja: Good afternoon everyone, and welcome to the Q3 FY14 Post Earnings Conference Call. I would like to share some operational highlights of the last quarter and would also brief you on the business outlook going forward. As compared to Q2 of FY14, we have seen lower sales of ATBS, and IBB in Q3 mainly due to the MNCs going low on their inventory due to the year-end. However, we are expecting a strong offtake in Q4 which should help the company in achieving a sales growth of 20%-25% on an annualized basis. Sale of Isobutylene on the other hand has significantly increased by more than 30% in Q3 as compared to Q2 due to addition of certain new customers. Going ahead we expect IB, High Purity MTBE, and other products to contribute in excess of Rs.120 crores. Over the years, VOL has always tried to grow its portfolio in synergistic products, and these efforts are showing in their results. Today, almost 20% of our sales are being derived from products which did not exist in our portfolio more than 5 years ago. With this same thought process we are looking to further diversify our portfolio by entering into other synergistic products. We have identified these products, and work is underway and we are expecting them to add about Rs.200 crores to our sales in the next 2 to 3 years. With this I request Mr. Goyal to discuss briefly some of the key financial highlights of the last quarter.

N.K. Goyal: Good afternoon, everyone. Compared to Q3 FY13, we have registered net income of Rs.170.18 thereby registering a growth of 22%. PBT stood at Rs.33.74 crores as against Rs.18.12 crores, registering an increase of 86%. For the 9 months ended we have grown our net income by 30% from Rs.379 crores to Rs.492 crores and out PAT has risen by 24% from Rs.47 crores to 59 crores.

Moderator: Thank you very much ma'am. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is Kiran Chheda of Value Quest Research. Please go ahead.

Kiran Chheda: Ma'am, I understand that ATBS is used for oil drilling in the shale gas sector, is it correct?

Vinati S Mutreja: That is correct.

Kiran Chheda: Could you tell me how exactly it is used and how much per well or whatever?

Vinati S Mutreja: I do not have the figures per well but the oil and gas is one of the uses of ATBS. It is actually used to make polymers. Those polymers in turn have various applications, whether it could be water treatment or personal care or oil and gas. I believe from the feedback that I get from our customers, these polymers are based on ATBS, which go into oil and gas. They are used in oil drilling as these polymers help in displacing the water underground so that the oil can come

up. So this is what I understand from our customers. Again, we do not sell to the oil and gas companies directly.

Kiran Chheda: So ATBS itself is directly not used? But it is only a raw material for those polymers?

Vinati S Mutreja: Correct.

Kiran Chheda: And what percentage of our sales would be used for oil drilling?

Vinati S Mutreja: I do not know, but I believe about 20%-30% of ATBS application goes in oil and gas.

Moderator: Thank you. Our next question is from Abhijeet Vora of Unify Capital. Please go ahead.

Abhijeet Vora: Ma'am in your initial remarks, you have mentioned that your target is about Rs.200 crores from new products in next 2-3 years. If you can just give the specifics of these products, which end industries are you targeting? And how long will it take for these products to develop? Whether anything is in launch mode in next 3-6 months? How will be the ramp up phase? Details on these would be appreciated.

Vinati S Mutreja: Most of these products are in development phase. So it would take about 2 years for the sales to materialize. They would be catering mainly to the industries we are already catering to like Agriculture, maybe Agrochemicals, Petrochemicals, Cosmetics, etc. It would entail CAPEX of about Rs.150 crores in the next 1.5-2 years from our end.

Abhijeet Vora: And one question on your market share and competition scenario. I understand limited players are there at present, and you want to grab a good market share, and these should be niche products as such. But how do we get a sense of the competition which might grow up in the near term, do you have a sense of that, when you talk to your customers, and how we investors can keep track of that particular data, these competitors can be in China or other parts of the world, is there any way we can keep track of this?

Vinati S Mutreja: No, unfortunately, I do not think there will be any published way, you can just type up the products name on the internet and see what manufacturers come up with. But as far as we know, talking to our customers, none of the other manufacturers are expanding their capacity. Some small capacity recently has come up in China, but their quality is not up to the mark, because we are exporting ATBS to China.

Abhijeet Vora: What are your CAPEX plan?

Vinati S Mutreja: I just mentioned about Rs.150 crores in two years.

Abhijeet Vora: This will be internally funded or you take debt?

Vinati S Mutreja: Yeah mostly, we may not take debt for this.

- Abhijeet Vora:** This will be used to support the new products also or you have to put up facilities for new products separately?
- Vinati S Mutreja:** The new products, they will be added mostly in our existing two facilities only.
- Abhijeet Vora:** One bookkeeping question from my side. What is the inventory position as of the quarter ended December and receivables?
- Kaviraj Devaraj:** Kaviraj this side. I do not have that figure as now with me. Can I revert to you by mail on this one?
- Abhijeet Vora:** No problem, but I just wanted to check there is no deterioration or anything in working capital cycle?
- Kaviraj Devaraj:** No, nothing of that sort.
- Moderator:** Our next question is from Srihari of PCS Securities. Please go ahead.
- Srihari:** I wish I had any guidance for the next fiscal?
- Vinati S Mutreja:** Yeah, we are maintaining revenue growth of 20%-25%.
- Srihari:** And I believe you are majorly to the IBB business. Can you please give me some industry highlights about it?
- Vinati S Mutreja:** IBB is about 40% of our sales & is used to make Ibuprofen, which is a bulk drug API used as a painkiller. Ibuprofen uses worldwide is growing about 4-5% annually.
- Srihari:** So it a kind of a mature industry and it continues to grow at a historical rate?
- Vinati S Mutreja:** Yeah, correct.
- Srihari:** And how is the pricing pressure?
- Vinati S Mutreja:** Because there are only a few manufacturers of IBB in the world, so we have contractual pricing with the customers. So as and when our raw material prices change, we pass on the price increase and decrease to our customers.
- Srihari:** You mentioned about new products. Could you please mention a few names?
- Vinati S Mutreja:** They are all synergistic with our existing products, for example. One could be a forward integration of IB's derivatives; there is another product, which is using similar raw materials – Toluene and Propylene. It is too early to mention the names yet.
- Srihari:** At least on the EBITDA margins front, would there be much higher value-added products?

- Vinati S Mutreja:** No, there would be similar EBITDA of about 20-25%.
- Srihari:** And could you share the adjusted PBT margins, for FOREX profits or losses as the case may be?
- Vinati S Mutreja:** I think this is adjusted; it is about 20%.
- Srihari:** That is for both Q2 and Q3?
- Vinati S Mutreja:** No, this is for Q3; Q2 was about 27-28%.
- Srihari:** Any particular reason for that?
- Vinati S Mutreja:** Q3 always our margins are lower than Q2, because I mentioned also earlier, one reason is the sales mix, exports are lower in Q3, because our MNC customers like to maintain low inventory. So that is one of the big reasons. And second reason also we have seen that generally in Q3 our raw material price also goes up, but subsequently our final price of the products, we are able to hike up only in Q4, because of a quarterly lag in the contract.
- Srihari:** So would the fiscal be the right parameter to look at?
- Vinati S Mutreja:** That is correct.
- Srihari:** For the fiscal, is 20% kind of an acceptable margin?
- Vinati S Mutreja:** It will be more that for the full year, but yeah...
- Srihari:** At the pre-tax level?
- Vinati S Mutreja:** Yeah, correct.
- Srihari:** Debt-equity ratio?
- Vinati S Mutreja:** Long term debt-equity is 0.54.
- Srihari:** Any inorganic plans?
- Vinati S Mutreja:** None as of now.
- Moderator:** Our next question is from Ranjit Cirumalla of B&K Securities. Please go ahead.
- Ranjit Cirumalla:** Ma'am, I just wanted to know that you are guiding for doubling of revenue from FY16. Does that also include the new product launches of Rs.200 crores or is it excluding that?

- Vinati S Mutreja:** No, FY16 is not going to include the new product launches, FY16 is just going to include revenues on our existing capacities.
- Ranjit Cirumalla:** That means Rs.1000 crores of guidance which you are giving it is excluding theRs.200 crores?
- Vinati Mutreja:** Because we have already just made CAPEX last year, so we are looking materializing that by FY16.
- Moderator:** Thank you very much. Our next question is from Basavraj Shetty of Mirae Asset. Please go ahead.
- Basavraj Shetty:** Just wanted to know how much is the impact for our sales because of this MNC offloading inventory, and should it wind up this quarter and next quarter there would not be any impact of this?
- Vinati S Mutreja:** Actually, compared to Q2, Q3 the sales were lower if you look at our export business overall by about Rs.10 crores, but there was a growth in our Isobutylene business ofRs.5 crores. So net-net our sales were lower by about Rs.5 crores. But we have already seen the export sales picking up from January onwards. So it is always made up in Q4.
- Basavraj Shetty:** And this Rs.10 crores is largely in ATBS or?
- Vinati S Mutreja:** This split between IBB and ATBS.
- Basavraj Shetty:** So Q4 would not be any impact of this is what... ?
- Vinati S Mutreja:** Yeah, the sales are picking up from Q3 because of certain new customers that have added.
- Basavraj Shetty:** And the previous participant has asked about doubling the number in '16, is that right ma'am?
- Vinati S Mutreja:** Yeah, that is right.
- Basavraj Shetty:** So Rs.1000 crores is the number?
- Vinati S Mutreja:** For FY16, yeah.
- Moderator:** Thank you very much. Our next question is from Naga Bramha, he is an individual investor. Please go ahead.
- Naga Brahma:** First question is how much of this top line growth is due to price rise, and how much is on volume terms?
- Vinati S Mutreja:** About 60% is due to volume and 40% is due to realization from Q1 compared to YoY.
- Naga Brahma:** Second question is what is the capacity utilization of ATBS?

Vinati S Mutreja: About 65%.

Naga Brahma: As per the current growth of demand, when do you think that this full capacity would be utilized?

Vinati S Mutreja: It is about 60%, and full capacity utilization we are looking at in the next 2-3 years.

Naga Brahma: Madam, again about ATBS, how much more capacity can be added by debottlenecking at the current facilities?

Vinati S Mutreja: Not much more.

Naga Brahma: We are at 26,000 MT, right?

Vinati S Mutreja: Capacity yeah. We will decide about bottlenecking after 2 years.

Naga Brahma: I know, but I am just asking is there any provision to do that so?

Vinati S Mutreja: No, actually, we do not have much space available there.

Naga Brahma: So that means in case if you want to expand ATBS capacity further, you will have to go for new location?

Vinati S Mutreja: Yes, we can buy a plot close by.

Naga Brahma: Another thing I want to know is there anything update on the PAP trials?

Vinati S Mutreja: No, PAP trials are ongoing and not much update.

Naga Brahma: So that means whatever this Rs.200 crores from the new products you had mentioned it is nothing from PAP segment, right?

Vinati S Mutreja: Not at all, it does not include PAP.

Naga Brahma: And lastly, about the FCNR loan we have taken, when is it due for repayment, madam?

Vinati S Mutreja: It will all be repaid by FY17.

Naga Brahma: So whatever the cash generated, where will that be used?

Vinati S Mutreja: In this CAPEX of Rs.150-160 crores that I mentioned.

Naga Brahma: So the new CAPEX would start from the next financial year?

Vinati S Mutreja: Yes, correct.

- Moderator:** We have a follow up question from Srihari of PCS Securities. Please go ahead.
- Srihari:** Can you mention anything that is in the value chain ahead of it?
- Vinati S Mutreja:** No.
- Srihari:** In terms of complexity, would it involve multi-step kind of products, or normal 2-3 stage products?
- Vinati S Mutreja:** Some of them will have similar processes to our existing process.
- Srihari:** And you mentioned the products could also use the Solvent that you already use. So what is the logic for that, would that help?
- Vinati S Mutreja:** The logic is even for these raw materials sourcing, you need to have good supplier contracts in place, which we already do, and you also need to have facilities of handling raw materials such as Propylene, MTBE & ACN which we do. So in the same facility we can manufacture some products using similar inputs.
- Srihari:** So would bulk sourcing fetch you better prices?
- Vinati S Mutreja:** That too to some extent.
- Srihari:** I am sorry, I still did not get it, I mean if pricing is not the issue, then what is the other issue?
- Vinati S Mutreja:** No, it is product handling like raw material handling also involves a lot of cost, such as handling a raw material such as sourcing it.
- Srihari:** Spread over the larger base
- Vinati S Mutreja:** Yeah.
- Moderator:** Thank you, our next question is from Chintan Sheth of SKS Capital and Research, please go ahead.
- Chintan Sheth:** You mentioned that you have a long-term debt- equity is 0.54 times currently as of December. Is there any increase in long-term debt in this quarter?
- Vinati S Mutreja:** No, we have not taken any debt in this quarter.
- Chintan Sheth:** As I recall the last quarter, that is September end balance sheet, the debt-equity works out to be 0.5 times. So I am just wondering any addition in the borrowings or not.
- Management:** There is no increase.

- Chintan Sheth:** The long term debt as of September was Rs.136.5 crores against net worth of Rs.276 crores, so ...?
- Management:** Are you getting that Rs.136 crores from the balance sheet extract that was given in the results?
- Chintan Sheth:** Unaudited September numbers.
- Management:** In that Rs.36 crores is reflected in the current liabilities as per the term loans which are paid in ...
- Chintan Sheth:** In other current liabilities Rs.36 crores are included, as they are matured before one year?
- Management:** Those are supposed to be reflected in the current liabilities, which is why.
- Vinati S Mutreja:** It is Rs.163 crores, and Rs.40 crores out of that is falling within one year.
- Chintan Sheth:** This is the total debt including short term and long term current maturities?
- Vinati S Mutreja:** Current maturities, correct, yeah.
- Chintan Sheth:** So it comes around Rs.200 odd crores of gross debt that we are having currently? And again coming back to your guidance of 20-25% growth this full year, we have reported Rs.550 crores of revenue last year, and if we see the nine months ended that is around Rs.500 odd crores of revenue we have posted, how much we expect in Q4, and you are saying already that by FY16, we are going to double our revenues. So if I take a higher end of your guidance of 25% for FY14, then also, we have to grow higher than 25-30%, so...
- Vinati S Mutreja:** So I am just saying FY16 we should touch Rs.1,000 crores, that if you take 20-25% you will get it.
- Chintan Sheth:** That is 20% CAGR growth you are expecting over FY14-16 period. Of which you are saying that Rs.200 odd crores of revenue is coming from the new products apart from that is not being developed currently, the CAPEX for the new products which are going to be launched post FY16 will be Rs.150 odd crores?
- Vinati S Mutreja:** And that will add additional Rs.200 crores post FY16.
- Chintan Sheth:** That is a new CAPEX you are seeing for the new products Rs.150 crores, annual revenue can be garnered from those capacities, or those new products will be Rs.200 crores annually post FY16, once they are ramped up and being commercialized?
- Vinati S Mutreja:** You are correct.
- Moderator:** Thank you. Our next question is from Ankit Kumar of Equirus Securities. Please go ahead.

Ankit Kumar: Ma'am regarding that CAPEX of Rs.150 odd crores in next 2 years, is it pertaining to new products other than DAAM and TOA?

Vinati S Mutreja: Yes.

Ankit Kumar: So what kind of capacity we are trying to set it up for it?

Vinati S Mutreja: It is various products. Total capacity of all of them would be about 20,000 MT or so.

Ankit Kumar: And ma'am, what is the update on supply of DAAM and TOA as of now? It is expected to start during this financial year itself. So has it been started?

Vinati S Mutreja: The plant has been started; right now samples are under quality testing by the customer. TOA happens on campaign basis. So next year there will be some campaign may be.

Moderator: Thank you. As there are no further questions from the participants, I now hand the floor back to Ms. Vinati Mutreja for closing comments. Over to you ma'am.

Vinati S Mutreja: Thank you very much for joining us on the call. Bye.

Moderator: Thank you on behalf of Vinati Organics Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.