



“Vinati Organics Limited Q1 FY2019
Post Results Analyst and Investor Conference Call”

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Moderator: Ladies and gentlemen, good morning and welcome to the Vinati Organics Limited Q1 FY2019 post results analyst and investor conference call hosted by Ambit Capital. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ritesh Gupta from Ambit Capital. Thank you and over to you Sir!

Ritesh Gupta: Thanks Lizaan. Good morning. I welcome you all to the call. I think India Vinati Organics is having a call after fairly long time, so I thank the management for taking out time to kind of address in investor concerns. From the senior management team of Vinati Organics, we have with us Mrs. Vinati Saraf, Executive Director and CEO and Mr. Nand Kishor Goyal, Chief Financial Officer, and Mr. Kaviraj Devaraj, General Manager, Corporate Finance. With this, I would like to hand over the call to the management to take the proceeding further. Over to you madam!

Vinati Saraf Mutreja: Thanks Ritesh. This is Vinati Mutreja. I am the CEO of the company. You are right we are actually having this call after five years, so really appreciate every one taking out their time.

I would like to now give a brief business outlook of our company. ATBS as most of you know is our largest product and contributes to about 50% of our sales mix. As far as ATBS goes, we ended FY2018 with strong growth on back of increased usage. The application based on ATBS are growing as it is used to make polymers that go to water treatment, oil recovery, personal care, etc. Along with that the exit of one of our key competitors, Lubrizol has further added to the growth in ATBS for us.

ATBS grew by more than 35% on value basis and 25% on volume basis in FY2018 as compared to FY2017. Starting FY2019, we have further consolidated our leadership position in this product and now we command a global market share of more than 60%. This year, we expect to grow by more than 30% on volume basis. We have added new customers for ATBS and also renegotiated our pricing contracts in this product. Since it is a very difficult monomer to manufacture and we have a proprietary technology for this we do not see any new competitor entering the business and hence these sorts of margins are expected to be sustained over the coming years.

We are further undertaking a capacity expansion, which will increase our ATBS capacities from 26000 tonnes per annum to 40000 tonnes per annum. This is expected to be completed by April 2019 and will result in a capex of about Rs.75 Crores to Rs.80 Crores. Hence we expect to grow the ATBS volumes by 25% for the next two to three years.

Now coming to our second product, which is Isobutyl benzene, our Q1 sales were stable, but Q2 sales will be slightly lower on account of shutdown taking by one of our largest customers. However, we expect to make up for this in Q3 and Q4.

Our third biggest product stream, which is isobutylene and MTBE, these sales have fared well over the last few years and they keep growing year-on-year. Our customized products and isobutylene derivatives, which were launched across the FY2017 and FY2018, are also delivering as expected.

As far as the new products and projects go we expect to finish our butylphenol project by April 2019. This essentially consists of four main products para tertiary butyl phenol, ortho tert butyl phenol, 2,4-di tert butyl phenol and 2,6-di tert-butyl phenol. Now these PTBP and OTBP are the first two products that I mentioned are intermediates to be used in resins and perfumery industries whereas the 2,4 & 2,6-Di-tert-butylphenol go in raw material for making antioxidants, which are also used as additives in plastics like polyethylene, polypropylene, polystyrene, etc.

With the capex of Rs.240 Crores we are estimating to clock in sales of Rs.350 Crores to Rs.400 Crores from this project. With all of the above in place, we expect to keep growing at 25% with a CAGR for the next three years.

I think that will be all from my end and we can now open up for the Q&A session.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

Nitin Gosar: Thanks Madam for the briefing. I have two questions. One question is pertaining to the margins from here on how should we see them keeping in mind the change in dynamics that the business has seen over the last six months? And the second question is with regard to PAP where are we and by when we should see some indication on the promotion progress on this thing?

Vinati Saraf Mutreja: As far as the margins go, this year we can expect EBITDA margins of about 35%. Now going forward ATBS is a higher margin product for us and as we increase ATBS capacity, the volumes of ATBS will go up, but having said that once butylphenol comes on stream, which has lower margins than ATBS, so blended margins for the next three years should remain at about 35% at EBITDA level. I hope that answers your question. Now as far as the PAP goes, we have set up a prototype pilot plant. The technology or proprietary technology developed by NCL has been successfully demonstrated at the lab level. We are now running trials on our pilot plant, which will take another three to six months and that is why I have not mentioned it in my capex plans because only once this pilot plant runs successfully for six months will we decide to take the decision whether to commercialize the product or no.

Nitin Gosar: Got it. If I can ask one more question. We have plans for ATBS going some 26000 to 40000?

Vinati Saraf Mutreja: Yes that is correct.

Nitin Gosar: Do you have plans to scale up or IBB once the customer comes up with new site or new capacity?

- Vinati Saraf Mutreja:** We have already increased IBB capacity from 16000 tonnes to 25000 tonnes last year, so that should take care of the IBB demand for the next three to five years.
- Nitin Gosar:** You also talked about butylphenol, which will add up around Rs.300 Crores to Rs.400 Crores over a period of time as we scale up, so beyond this, the immediate capex if at all will be PAP as and when we get confirmatory signals from the pilot project how it goes by?
- Vinati Saraf Mutreja:** That is right yes.
- Nitin Gosar:** Keeping in mind these three ATBS, IBB and butylphenol we can continue to grow at 20% to 25% run rate for the next two to three years?
- Vinati Saraf Mutreja:** Absolutely yes.
- Nitin Gosar:** Perfect. Thank you.
- Moderator:** Thank you. The next question is from the line of Pratik Poddar from ICICI Prudential Mutual Fund. Please go ahead.
- Pratik Poddar:** Madam two questions. One is on butylphenol how long will it take for the company to ramp this up to the through sales potential of Rs.350 Crores to Rs.400 Crores?
- Vinati Saraf Mutreja:** The plant is expected to come on stream by April 2019, so you know the first year that is FY2020 I would take sales at about 60% to 65% capacity utilization and then from FY2021 you take it at 100% utilization.
- Pratik Poddar:** Understood. Madam the second question was on IBB if you could give some bit of outlook because last year there was some debottlenecking by one of your customers, which led to a degrowth and this year again there has been a shutdown and we have already expanded our capacity from 17000 tonnes or 16000 tonnes to 25000 tonnes, so how should I look at volume ramp up of IBB if you could just scribble about that?
- Vinati Saraf Mutreja:** Last year, our customer took a shutdown to increase their capacity of Ibuprofen so essentially that should have meant that this year we would see a 25% volume growth on IBB levels, but unfortunately due to a technical failure, the customer had taken a long shutdown of three months hence this year on a volume basis, we will barely see a 3% to 5% growth on IBB, but because they have already expanded their capacity and in general the demand for ibuprofen is also growing worldwide, I would expect FY2020 to be at least double digit growth on volume basis over FY2019.
- Pratik Poddar:** Madam, I would have thought that this would be higher than when you say double-digit you mean high 20s or high 30s?
- Vinati Saraf Mutreja:** No, I would say on IBB you take about 15% is a fair assumption.

- Pratik Poddar:** That is fair. Thank you so much and one more question, was IBB getting converted to IBAP, which was forward integration any indications about that where we are on that?
- Vinati Saraf Mutreja:** No that project is actually on hold as of now because the IBAP was to be made for a particularly customer and that customer as of now is not interested in sourcing IBAP from us.
- Pratik Poddar:** Understood and sorry just going back to ATBS at least in the press release my understanding was you are going from 26 to 30, so you have kind of now increased it from 26 to 40?
- Vinati Saraf Mutreja:** Yes that is absolutely right because even from a technical perspective while ordering new equipments, it makes sense with a marginal new investment, we could increase it to 40 and also keeping in our mind the demand for ATBS, I think we should for the next three to four years 40000 tonnes is what we will need to service the market.
- Pratik Poddar:** We would have reasonable visibility of consuming this kind of capacity because Lubrizol has existed the market?
- Vinati Saraf Mutreja:** Yes one is Lubrizol exiting the market and also secondly the overall market size is growing because applications polymer based on ATBS their applications are growing mainly coming from oil and gas, Shale recovery, water treatment and these kind of industries and that is why we think 40000 tonnes for the next five years seems to be achievable.
- Pratik Poddar:** Thank you so much Madam and all the best.
- Moderator:** Thank you. The next question is from the line of Sagar Arya from White Oak Capital. Please go ahead.
- Sagar Arya:** I have a couple of questions. Firstly on butylphenol could you give us a sense of the overall size of the market and what is your traceable market that we are looking at for the molecules especially that you are present in and what is the kind of margins that you do in these products?
- Vinati Saraf Mutreja:** Butylphenol presently are mostly imported into India from Korea and Singapore, so mostly we are looking at imports substitution. It is not made in India these products simply because they do not have the necessarily raw materials isobutylene. Now since we are the largest manufacture of IB in India, it makes sense for us to further integrate and start making these products in India. As far as the margins go, we work at a 15% to 20% ROI basis, so when I say an investment of Rs.240 Crores, you calculate the margins. The margins will definitely be lower than ATBS, but we still expect a payback within five years.
- Sagar Arya:** The reason I am asking this is historically what we have see in Vinati is that you come up with a much cleaner and a better process and then you increase capacity and you enter the market share of that particular product, so for butylphenols at Rs.400 Crores what would be our market share in India?

- Vinati Saraf Mutreja:** It would be 80% to 90% because already about 24000 tonnes or 25000 tonnes of butylphenols are imported into the country and we are going for a larger capacity of about 37000 tonnes, so we will also be exporting some butylphenols outside India.
- Sagar Arya:** Globally what would be the market size for this?
- Vinati Saraf Mutreja:** Globally we have a huge product. Globally the market size would go in lakhs of tonnes.
- Sagar Arya:** In terms of processors and costs are we comparative globally as well?
- Vinati Saraf Mutreja:** Absolutely and that is why we are fairly confident that we would be able to substitute the imports. Again you need to understand that the biggest reason is because we are backward integrated. We will have our own key raw material of isobutylene, so that gives us a good cost advantage.
- Sagar Arya:** Once you reach this revenue of Rs.400 Crores from butylphenols and all there is scope of further expansion there in terms of capacity and selling your products outside India? Is my understanding correct there?
- Vinati Saraf Mutreja:** Yes.
- Sagar Arya:** In terms of customized products are you seeing more enquiries from customers outside India for similar transactions or products?
- Vinati Saraf Mutreja:** Yes we do because a lot of our chemistries can be replicated to make other smaller products, so customers do show interest of such products. Of course they are small in terms of revenue share, but they are much higher in terms of profit share because being highly specialized, we get good margins here.
- Sagar Arya:** Thanks.
- Moderator:** Thank you. The next question is from the line of Vrijesh Kasera from Mirae Asset. Please go ahead.
- Vrijesh Kasera:** Good morning. Congrats for a great set of numbers. It is really encouraging to hear that the next three years you would be growing at around 25% odd continue products and obviously growth from the existing products. Just wanted to understand on after the butylphenol plants get commissioned next year and hopefully PAP comes on stream after that, so we are quite well protected for the next three to five years in terms of growth and in terms of delivering this high growth numbers? Beyond PAP just wanted to understand what is the next product where you are working all? What is the kind of pipeline of products that you are working on? I am not asking you the name of the products, but at least two or three if you could number them that these are the numbers of products and these are the kind of opportunities you are looking at, so it would be really helpful to understand the longer term view for the next say beyond five years?

Vinati Saraf Mutreja: You have to understand that for us to commercialize one product we have probably studied at least 10 to 15 different products at various stages of the R&D pipeline. At presently, at any given time we are always working on say 15 to 20 products, developing new chemistries and new processes or seeing where there is integration. One such example is we could further integrate forward from butylphenols and make antioxidants out of it. It is too premature to name these products like you rightly mentioned because they are in such early stage for us that we cannot name them. Similarly there are other products also that we are working on, but this is what keeps us busy most of the time because of our products have limited market size or limited potential, so to keep growing we do have to keep adding new products to our portfolio.

Vrijesh Kasera: When you mentioned most of the products have limited market size so are the new products that we are looking at right now are those in the similar range of butylphenols and PAP where individual products could be say Rs.300 Crores to Rs.400 Crores kind of an opportunity or it could be lower also?

Vinati Saraf Mutreja: All types. There could be niche chemicals, which have only a potential revenue size of say Rs.50 Crores to Rs.100 Crores. There are products that have revenue potential of Rs.400 Crores to Rs.500 Crores, but our criteria we have two to three set rules. One, is there should be a ROI of 20%. Secondly, it should be a clean and green process. Third there should be a barrier to entry. Either we have a unique process, which is different from the others or there is an integration for us that they are backward, forward, horizontal, etc.

Vrijesh Kasera: The last on this, so any one or two products we are closer to meeting our end point where in the next couple of years we can hear from you that we have heard about butylated phenols or probably hopefully on PAP, so are we close to getting that in planned stage of communalization stage? We would be in the final stage of discovery or whatever?

Vinati Saraf Mutreja: Right now our biggest endeavour would be to first close in on PAP. Then make a decision one way or the other and then once we have decided upon that then we will probably make a pilot plan for the other products also and then decide, so may be any new product you can think of is at least one year away from announcement.

Vrijesh Kasera: Thanks a lot Madam. That is all from my side.

Moderator: Thank you. The next question is from the line of Jigar Jani from Edelweiss. Please go ahead.

Jigar Jani: Thank you for taking my question and congratulations on a great set of numbers. Just wanted to understand what is our capacity utilization both on ATBS and IBB for the last year?

Vinati Saraf Mutreja: As of now ATBS we are running at 100% capacity, so the immediate need is to increase this capacity as soon as possible. IBB if you take a 25000 then we are running at about 60% also.

Jigar Jani: 60% and Madam we are not converting any ATBS into NATBS now right?

- Vinati Saraf Mutreja:** NATBS is just the liquid form of ATBS, so ATBS is sold in both the solid and liquid form.
- Jigar Jani:** We still have NATBS sales?
- Vinati Saraf Mutreja:** Yes absolutely.
- Jigar Jani:** Madam, regarding the PAP projects, so that is around Rs.600 Crores project, so what kind of asset turns and margins are we expecting from PAPI once it is commercialized?
- Vinati Saraf Mutreja:** Asset turn is of 1:1 and margins of about say 20%.
- Jigar Jani:** On EBITDA?
- Vinati Saraf Mutreja:** Yes.
- Jigar Jani:** One more question that I had was for your butylphenols plant if I heard correctly that is about Rs.250 Crores capex?
- Vinati Saraf Mutreja:** Yes Rs.240 Crores, yes.
- Jigar Jani:** Rs.240 Crores understood. That answers all my questions. Thank you. I will come back in queue.
- Moderator:** Thank you. The next question is from the line of Amol Kotak from Max Life Insurance. Please go ahead.
- Amol Kotak:** Good afternoon. What is our IB capacity currently?
- Vinati Saraf Mutreja:** 30000 tonnes.
- Amol Kotak:** What percentage of it is consumed in-house and sold outside?
- Vinati Saraf Mutreja:** Actually this capacity has been increased to cater to butylphenols, so right now we are running at less than 50% about 50% of this capacity, which is presently catering to ATBS as well as the outside demand for IBB.
- Amol Kotak:** Once this phenol butylphenol starts can you explain what will be the outside sales or IBB versus in house consumption just to understand how this product grows?
- Vinati Saraf Mutreja:** For every kilo of ATBS you need about 0.35 of one-third of IB and so you can calculate how much IB we use in house and the overall we sell about 6000 tonnes to 7000 tonnes of isobutylene to the domestic market.
- Amol Kotak:** The second question was on PAP. We have seen some deferment in terms of the way commercial production would have started, so where exactly are we facing some limitation or something like that?

- Vinati Saraf Mutreja:** Yes it is at the pilot plant. The pilot plant we have started it. We ran it for some time. There is some teething issue going on right now, which we have ordered new equipment and trying to rectify it, so I will have a more clear answer for you after three to six months.
- Amol Kotak:** One last question is on the cash flow, so given that we have a good amount of cash flows, so any thoughts on the payout or something because as of now what has been announced as and when we spend on PAP, so what about because we do not have any debt on the books or something?
- Vinati Saraf Mutreja:** You are absolutely right and this year we will have cash flows of about Rs.400 Crores or so on 1000 Crores revenues and what we would like is management and our shareholders is to keep reinvesting this in our business because we get the maximum return on the capital in our business itself. These future projects that we have announced including PAP we can fund all of this by internal accruals without taking any further debt, so we expect to maintain a payout ratio of about 20%.
- Amol Kotak:** Thank you.
- Moderator:** Thank you. The next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.
- Rohit Nagraj:** For butylated phenol project what would be the phenol requirement and how are we going to solve the same?
- Vinati Saraf Mutreja:** For butylated phenol, we need about for every kilo of that approximately two-thirds phenol and one-third isobutylene and phenol is readily available in our country by manufacturers as well as imported, so we will source it mostly locally.
- Rohit Nagraj:** Fair enough and in terms for ATBS and IBB the raw materials sourcing is completely from domestic market or do we have any dependence from any of the other geographies my question pertains particularly from China perceptively?
- Vinati Saraf Mutreja:** Luckily we do not import anything from China, but most of our raw materials we buy in combination of domestic as well as imports and mostly the imports are coming from USA, Korea those kind of countries places, Middle East.
- Rohit Nagraj:** Thank you so much. I understand that.
- Moderator:** Thank you. The next question is from the line of Dhiresh Pathak from Goldman Sachs. Please go ahead.
- Dhiresh Pathak:** Thank you. The PAP you mentioned 1:1 20% EBITDA then assuming certain working capital days, which are similar to your current business it does not look very good? It does not cross the 20% hurdle that you talked about?

- Vinati Saraf Mutreja:** While I said an investment of an asset turnover of 1:1, which means revenue potential of Rs.600 Crores means investment of Rs.600 Crores and 20% EBITDA margins translates into 20% ROI.
- Dhires Pathak:** Then you will have depreciation Madam and then you will have working capital of about Rs.150 Crores? You have 30% of revenue as working capital I am assuming similar working capital days here?
- Vinati Saraf Mutreja:** I think you better do not take PAP in your projection. Even we are not taking PAP in our projection excluding PAP also this year you will see an increase in bottomline by 35% to 40%. For the next three years, you will see our profits growing at 25% to 30%, so you better do not take PAP on your projection.
- Dhires Pathak:** I did not mean for this?
- Vinati Saraf Mutreja:** I am just saying this for all the analysts that since everybody is asking me about PAP and I myself and none of us over here are taking PAP on our projections for the next three to five years also because we are not sure if we are going to do this, so let us not use this platform to discuss something, which are not even sure we are going to do.
- Dhires Pathak:** That is helpful. Thank you.
- Moderator:** Thank you. The next question is from the line of Varun Daga from Girik Capital. Please go ahead.
- Varun Daga:** I had a couple of questions. One, is I wanted to understand the reason for Lubrizol shutdown and how does that impact your margins and also is the margin expansion a function of crude or anything else or one of the big reason is Lubrizol?
- Vinati Saraf Mutreja:** Lubrizol had about 20% market share and from what I understand and I think the main reason they exited this business is because it was a very, very small percentage of their overall revenues. They did not even contribute to 1% of their sales, so it was not a core product for them, so what this has resulted in us of course our market share has increased from 45% to 6%, but also the new customers that we had tapped into we are able to sell ATBS to them at better prices. Overall right now, earlier there was a supply capacity surplus. Right now, there is almost a supply shortage sort of situation in the industry, which is likely to increase margins and we think that these margins are sustainable because there is no new players that can come into ATBS simply because it is such a difficult product to manufacture. As far as crude prices go, we have formula based pricing contract with our customers, so as crude prices goes up so do our raw material prices and so do our final end product prices, but the margins are not affected by crude price.
- Varun Daga:** Madam just one other question if you see your gross margins trend over the last four or five years the gross profit margin has trended from the early to mid 40s to close to 50% now, is that largely the product mix change to more ATBS?

- Vinati Saraf Mutreja:** Yes, you can say that yes.
- Varun Daga:** You are running at 100% capacity, you said on ATBS so this is 26000, which will go to 40?
- Vinati Saraf Mutreja:** That is right.
- Varun Daga:** 26000 is 100% and when we do we get to 40? You are already moving to 40 or that would take time?
- Vinati Saraf Mutreja:** The new line will be ready by April 2019 and then to reach running at full capacity will take at least three years as and how the market grows for ATBS.
- Varun Daga:** Thank you so much. Just a last question on butylphenol what is the usage of this product? What is the end use?
- Vinati Saraf Mutreja:** There are four types of butylphenols that we will be making. Now they go into different industries. One goes into resins, one into fragrances, couple of them into antioxidants and latest for plastics.
- Varun Daga:** Great Madam. Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Bharti Mundra from CD Equisearch. Please go ahead.
- Bharti Mundra:** Good morning Madam. Madam just wanted to know will, oil price fluctuation have any impact on your capex?
- Vinati Saraf Mutreja:** No not on our capex because the demand for products it does not depend on oil price or anything like that.
- Bharti Mundra:** What kind of inventory buildup are we witnessing by our ATBS clients of late?
- Vinati Saraf Mutreja:** None, I would say because given the present situation in the market nobody has inventory.
- Bharti Mundra:** Thank you.
- Moderator:** Thank you. The next question is from the line of Pratik Poddar from ICICI Prudential. Please go ahead.
- Pratik Poddar:** Madam just one small followup on the butylated phenols you talked about being fully backward integrated, would our cost structures be kind in the lowest quartile in the world as of now for making butylated phenols in your assessment?
- Vinati Saraf Mutreja:** In our assessment, it will be similar to the other manufactures of butylphenol. It is just that the Indian users have to pay on freight as well and import duty, etc., because they are importing it

from outside, so they much rather have a domestic source in terms of sustainability and ease of service, etc.

Pratik Poddar: Understood. I was just thinking about exports. You talked about that you can even export this, but if the cost competitiveness is almost the same is there any other advantages, which would help you kind of gain market share?

Vinati Saraf Mutreja: The usage of product made out of butylphenols is growing, so that is why we feel that we will have surplus capacity to export to cater to the increasing demand of butylphenol.

Pratik Poddar: Madam the organic market also has been growing like a 10%, 12% or 15% as was the case with the ATBS?

Vinati Saraf Mutreja: Well ATBS is completely exported, but you are right the market for ATBS grows at 15% to 20%. In the case of butylphenol it might be slightly lower than that at about 10% to 12%.

Pratik Poddar: Great. Thank you so much Madam.

Moderator: Thank you. The next question is from the line of Pragya Vishwakarma from Edelweiss. Please go ahead.

Pragya Vishwakarma: Thank you for the opportunity. Madam my first question is on your ATBS capacity, so as you said you are operating at 100% capacity utilization so when you give this guidance of around 25% to 50% growth in the current year from where like the growth will be driven by volume or by realization?

Vinati Saraf Mutreja: Actually this is mostly volume growth and you have to realize that ATBS 100% we have only started running from say April of this year because Lubrizol exited in January, so even on a year-on-year basis you can assume 25% volume growth as far as ATBS growth. In fact this year, it will be 30% over FY2018.

Pragya Vishwakarma: The expansion, which we are doing, it is a Greenfield or a Brownfield expansion for us from 26000 to 40000? I was asking the expansion, which you are doing for ATBS from 26000 tonnes to 40000 tonnes that is a Brownfield expansion for us or new facility?

Moderator: Ladies and gentlemen, the line for the management seems to have got disconnected. Please stay connected while we reconnect the management. Ladies and gentlemen, thank you for patiently holding. We now have the line for the management reconnected. Over to you Madam!

Vinati Saraf Mutreja: Do we have more questions?

Moderator: Yes. We have Pragya Vishwakarma in the queue. Pragya please go ahead.

Pragya Vishwakarma: I was asking the expansion, which you are doing is ATBS from 26000 tonnes to 40000 tonnes that is a Brownfield expansion for us or it is an entirely new facility?

- Vinati Saraf Mutreja:** No it is a Brownfield. It is a new line in our existing facility.
- Pragya Vishwakarma:** My last question is on the butylphenol core derivates, so are there the margins better compared to IBB, which delivers around 15% kind of a margin 15% to 20%?
- Vinati Saraf Mutreja:** No. I think it is similar to IBB.
- Pragya Vishwakarma:** In general, what is criteria for payback for any new investments, which we make?
- Vinati Saraf Mutreja:** Five years 20% ROI.
- Pragya Vishwakarma:** Thank you. For further questions, I will get back in the queue.
- Moderator:** Thank you. The next question is from the line of Sagar Arya from White Oak Capital. Please go ahead.
- Sagar Arya:** What was the market share in ATBS before Lubrizol exited?
- Vinati Saraf Mutreja:** 45%.
- Sagar Arya:** In a quarter, we have increased our share from 45% to 65% right?
- Vinati Saraf Mutreja:** Lubrizol exited in January in fact December.
- Sagar Arya:** December to January and Lubrizol has 20% market share?
- Vinati Saraf Mutreja:** Yes.
- Sagar Arya:** Here 26000 tonnes capacity, we have a market share of 65%, which means the total size of the market is 40000 tonnes right and once we increase the capacity from 26000 tonnes to 40000 tonnes increase assuming that the market is increasing by 15% next year, would we have like around 85% market share by next year on full utilization levels?
- Vinati Saraf Mutreja:** No. Do not take full utilization next year itself. Take full utilization after three years. When you are making an expansion we keep in mind the potential for three years at least.
- Sagar Arya:** Who are the other players in each ATBS that you are compete against?
- Vinati Saraf Mutreja:** There is a Japanese manufacturer and there is also Chinese manufacturer.
- Sagar Arya:** They are not increasing this capacity right that is what you said?
- Vinati Saraf Mutreja:** That is to our knowledge.
- Sagar Arya:** You expect market share to increase further?

- Vinati Saraf Mutreja:** Yes the overall size of market is increasing so in that case yes.
- Sagar Arya:** In butylphenols are we going to take any raw material risk or will our contracts be priced like how other products are?
- Vinati Saraf Mutreja:** Most of our raw materials whether it is for butylphenols or ATBS or IB coming from refineries and most refineries whether it is Reliance, IOC, or GAIL, we have fixed monthly they change their price based on their input prices and we follow the same structure with our customers as well, so I do not see any risk in terms of pricing.
- Sagar Arya:** Understood. Thanks.
- Moderator:** Thank you. The next question is from the line of Dhiresh Pathak from Goldman Sachs. Please go ahead.
- Dhiresh Pathak:** Thanks again. For butylated phenol what is our capacity?
- Vinati Saraf Mutreja:** 36000 metric tonnes to 37000 metric tonnes.
- Dhiresh Pathak:** Just to understand the IB capacity is 30000 at ATBS capacity of 40000, we will consume about 12000 of IB for ATBS and some of it then we will also use to make butylated phenol?
- Vinati Saraf Mutreja:** Yes.
- Dhiresh Pathak:** About 10000 or something right so the last part of IB capacities would then get consumed captively?
- Vinati Saraf Mutreja:** No. The remaining IB gets sold in the market. Today, we are selling about 6000 tonnes to 7000 tonnes of IB in the market.
- Dhiresh Pathak:** IB would also be used to make butylated phenol right?
- Vinati Saraf Mutreja:** Yes correct.
- Dhiresh Pathak:** I am saying when we have the butylated phenol capacity ramped up?
- Vinati Saraf Mutreja:** Out of 30000, 12000 you we will use for ATBS, 12000 we will use for butylated phenols and all, and the remaining 8000 you will sell in the market.
- Dhiresh Pathak:** For IBB, the largest customer is like what 30% to 40% of IBB. Is that correct understanding?
- Vinati Saraf Mutreja:** No. We cannot say, but I can say in IBB there are total only five to six customers.
- Dhiresh Pathak:** The top one customer exposures can you share what percentage?

- Vinati Saraf Mutreja:** No.
- Dhiresh Pathak:** This ATBS line extension of 10000 how much are you spending on that?
- Vinati Saraf Mutreja:** About Rs.75 Crores to Rs.80 Crores.
- Dhiresh Pathak:** Rs.75 Crores to Rs.80 Crores, so the first debottlenecking of 4000 happened in September 2018 and then the next line comes in March 2019, is that correct?
- Vinati Saraf Mutreja:** Actually we have changed our plan. Now we are straightaway going for 40000 tonnes and we will not do that 30000 tonnes in the middle.
- Dhiresh Pathak:** Understood. Can you just put a number to the full year capex of FY2019 and FY2020?
- Vinati Saraf Mutreja:** FY2019 you can expect a capex of about Rs.300 Crores, mostly on account of butylphenols and the ATBS expansion and as of now the FY2020, we do not have the numbers because that is dependent on the PAP project.
- Dhiresh Pathak:** But if that does not happen then it will be maintenance mainly right?
- Vinati Saraf Mutreja:** Yes and hopefully some other projects.
- Dhiresh Pathak:** Thank you.
- Moderator:** Thank you. The next question is from the line of Sagar Jethwani from Karvy PMS. Please go ahead.
- Sagar Jethwani:** Congratulations on a good set of numbers. Just want to know the capex amount you guided for ATBS can you just repeat please?
- Vinati Saraf Mutreja:** I said it is about Rs.75 Crores to Rs.80 Crores.
- Sagar Jethwani:** Thank you. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Jigar Jani from Edelweiss. Please go ahead.
- Jigar Jani:** Thanks for the followup. Just a clarification butylphenols ramp up would be 65% in the first year and 100% in the next year right?
- Vinati Saraf Mutreja:** That is correct yes.
- Jigar Jani:** Thank you.
- Moderator:** Thank you. The next question is from the line of Abhinav Mehrotra from Stoic Capital. Please go ahead.

- Abhinav Mehrotra:** Good afternoon. Thank you for this opportunity. Madam, I would like to know whether the management is planning to come out with investor presentation on quarterly basis?
- Vinati Saraf Mutreja:** I think we cover everything on the call, so IR is needed it. We will think about it.
- Abhinav Mehrotra:** Madam I want to ask a question about the history of PAP? In your FY2009 annual report it has been mentioned that your company has started pilot plant for PAP back then also, so what was the status of that project at that time?
- Vinati Saraf Mutreja:** That pilot plant was built on a slightly different technology and then the market situation for PAP changed and so did our process. In fact, now they have further enhanced the process and improvised it more and then again the lab trials were run and that pilot plant was a 4 Crores investment. In fact, this is a brand new pilot plant at a different location with Rs.20 Crores investment. It is different than the one in 2009.
- Abhinav Mehrotra:** Beyond the market forces that forced that plant to close down, were we successful in that process or not?
- Vinati Saraf Mutreja:** We were successful in that process yes.
- Abhinav Mehrotra:** Thank you so much. That is all from me.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments.
- Vinati Saraf Mutreja:** Thank you everyone for attending the call. I hope it was helpful and could give some further insights in our company. That will be all from our end.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Amit Capital that concludes today's conference. Thank you for joining us. You may now disconnect your lines. Thank you.