



“Vinati Organics Limited Q1 FY2024 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY2024 Earnings Conference Call of Vinati Organics Limited hosted by Batlivala & Karani Securities India Private Limited. 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. Ladies and gentlemen kindly note the duration of the call will be for 30 minutes only. I now hand the conference over to Mr. Archit Joshi from Batlivala & Karani Securities India Private Limited. Thank you and over to you Mr. Joshi.

Archit Joshi: Thanks Michelle. On behalf of B&K Securities, I welcome all participants for Q1 FY2024 Earnings Conference Call of Vinati Organics Limited. We have discussed today the Senior Management of the company represented by Ms. Vinati Saraf Mutreja - Managing Director & CEO; Mr. N. K. Goyal – Chief Financial Officer; and Mr. Kaviraj Devaraj – Vice President – Corporate Finance. Without further ado I would like to hand over the floor to Vinati madam for her opening remarks post which we can have a Q&A round. Over to you madam. Thank you.

Vinati Saraf Mutreja: Thank you and good morning everyone and welcome to our Q1 post earnings conference call. Let me just first start with a brief view of our financial performance in the last quarter. Revenue from operations for the quarter ending 30th June was about 430 Crores as against 500 Crores during the corresponding period of the previous year. Similarly EBITDA and PAT also registered a decline to the tune of 15% to 17%. EBITDA closed at 109 Crores versus 130 Crores where PAT was at 83 Crores versus 101 Crores.

Despite the various challenges faced, we delivered a robust performance and ended FY2023 on a high note. The revenues crossed Rs.2000 Crores for the first time and we ended FY2023 with a highest ever EBITDA and PAT. While we ended FY2023 on a strong note, entering FY2024 we knew we were entering with our own set of challenges. As you are aware, the second half of FY2023 experienced a very high off take from most of our customers particularly the MNCs, which overstocked ATBS. I think given the care of COVID and high freight costs, people just bought too much ATBS in the second half of FY2023, which resulted in high sales. However this is being normalized in the first half of FY2024 and that is why this major destocking that is happening across the industry. We expect the ATBS demand to normalize somewhere in the second half of this year. Our other major products like IBB grew strongly in FY2023 versus a low FY2022. The demand for IBB is expected to remain steady in FY2024. Butyl phenols have shown good growth over the last two years and is expected to grow well in FY2024 as well. Our customized product portfolio containing niche products with lower volumes continues to perform very well.

During FY2024 we expect these products to provide revenue in the range of 150 to 175 Crores. We continue to remain market leaders in our main products ADDBS and IBB, in fact almost 90% of the revenue decline that we saw in the first quarter is on account of lower volumes while only 10% is attributable to the prices. As you can observe, we have been able to maintain our EBITDA margins at around 28% even in Q1 of this year.

Now a brief update on Veeral Additives Private Limited. We have received the necessary approvals from our shareholders as well as creditors regarding the amalgamation scheme. We are currently just awaiting the final approval from NCLT. Meanwhile VAPL has started commercial production and sales and we expect the revenues in this year to be around 150 Crores. The antioxidant business is a new segment, and we are determined to make the most of it considering the value synergies accruing to us due to the backward integration, in fact it is doubly backward integrated with butyl phenols as well as isobutylene. The AO industry at present is seeing demand pressure and hence the plant is operating at around 25% of its capacity. We feel this is a transient period and the long-term outlook for AOs continues to remain strong. We are targeting both the local and export market with a overall addressable markets for VAPL being around in excess of 10000 Crores.

Now coming to Veeral Organics Private Limited. It is a 100% owned subsidiary of VOL for manufacturing niche specialty chemicals. In VOPL we are doing a Capex of about 260 Crores mainly consisting of MEHQ, Guaiacol, Iso Amylene derivatives as well as Anisoles. These products were used in polymerization inhibitors, flavors, fragrances, pharmaceuticals, and pesticides. The plants is expected to be commissioned by end of this year around March 2024. Apart from this the work on the ATBS expansion the new line which will take our capacity from 40000 to 60000 metric tons per annum is proceeding satisfactory. It is scheduled to become completed somewhere in early next fiscal or end of FY2024 when we expect the demand to normalize. We have always put sustainability as a core part of a value proposition and this is in line with the fact that we have commissioned around 15 megawatts of solar power plant. In fact 55% of our electrical consumption last year was met through renewable sources. We are now adding additional 11 megawatts of solar plant and this is expected to be commissioned by September 2023. This will further help us in reducing emissions and also help in reducing the energy dependence on conventional sources. We believe we are on track with our long-term strategy by delivering growth through our unique product portfolio, world-class operations, reduction facilities, as well as global market leadership and our long-standing relationships with our customers.

Thank you very much and we are now open for Q&A.

Moderator:

Thank you very much. We will now begin the question-and-answer session. We will take the first question from the line of Rohit Nagraj from Centrum Broking. Please go ahead.

- Rohit Nagraj:** Thanks for the opportunity rather thanks for giving project wide details and the Capex's. Now given that most of these Capex's are coming to fruition by end of FY2024. What are the new product pipeline that we are looking at and how do we plan for the next leg of Capex from FY2025 onwards and will these be in the similar areas or probably we will be diversifying into some other application areas, your thoughts on this madam. Thank you.
- Vinati Saraf Mutreja:** Yes, absolutely. Our first aim is always to look at synergies. So first diversification or adding new products begins with our existing product portfolios I briefly tell you what we are looking at right now like for example the antioxidant industry, there are many other antioxidants that we can get into especially the niche ones, which are lower volume, but higher value products. We are working on those, and those are in our R&D pipeline. Similarly when you look at the Anisole chemistry, the MEHQ, the Guaiacol, we can add products in that segment as well, and those are what we are working on, but it is still in the R&D space, and hence we are not announcing the Capex yet onboard.
- Rohit Nagraj:** Sure, this is helpful. Second question is on ATBS. We believe that the other comparator has also started manufacturing of ATBS. So have we seen any competition during this quarter, and what is our perspective in terms of we are also expanding the capacity. So how does the comparative landscape look like over the next two, three years. Thank you.
- Vinati Saraf Mutreja:** See, I have not seen any product from any other Indian manufacturer in the market yet. Our long-term view on ATBS remains as is, the Capex has been done because our customers have committed to a long-term offtake from us and hence we are going ahead with the Capex.
- Rohit Nagraj:** Sure. Thanks for answering the questions and best of luck madam.
- Moderator:** Thank you. We will take the next question from the line of Surya Narayan Patra from Phillip Capital India Private Limited. Please go ahead.
- Surya Narayan Patra:** Thank you for this opportunity. My first question is on the ATBS. Is it possible to share the kind of a slowdown what we seeing, the inventory rationalization what we are currently seeing. Is it relating to any specific particular application let us say the water treatment one which is the major one now something like that or... So basically any particular industry application which is facing this challenge, and secondly on this point particularly again is whether you have seen any kind of impact to the pricing also for the ATBS specifically.
- Vinati Saraf Mutreja:** See ATBS actually mostly the decline is from the oil and gas sector, but that does not mean the demand has come down, I think the customers who use ATBS in that sector purchased too much last year. I think there is some sort of a panic post COVID because they are

depending on us or on an Indian supplier. So they just built up too much inventory, they thought their freights were unpredictable, but now and it is in line with the global slowdown, they are seeing that, they are sitting on too much inventory on ATBS and hence the starting April the next six months is just gone in destocking. There has been no pricing impact of this because our contracts are in place, the formulas are in place, and in fact the RMC for ATBS did not go down much overall in the last six months, and hence the prices also not fluctuated too much.

Surya Narayan Patra: Then on this month this inventory situation, what is the level of inventory that would be there and how long the destocking can continue. You also mentioned that okay, second half could be seeing recovery, but whether this entire year we will see some kind of a challenge because of the inventory situation that is currently created by the customer.

Vinati Saraf Mutreja: We were told that in March that six months the destocking will go on. So I expect some recovery from October onwards.

Surya Narayan Patra: My second question is on the IBB the second leading product. So there what is the trend when in fact we have seen in the API industry generally that similar like ATBS inventory rationalization in the API industry as a whole, and we have seen also the price impact. So here are you seeing anything, and that is one in terms of the revenue expectation and in terms of the margin expectation for this product have you seen any kind of correction in the input prices, so irrespective of the demand situation again for this particular product we will see a kind of improvement.

Vinati Saraf Mutreja: See, IBB actually has done well for us. IBB FY2022 was a down year for that product, 2023 the sales picked up and we continue to see it doing well this quarter as well. In fact one of our competitors exited this business an Indian manufacturer hence there has been very little margin impact. Raw material fluctuations have not been significant and even if they are there they are just passed on to our customers.

Surya Narayan Patra: Just one clarification. In the previous question I think you have mentioned that you have not announced the capex about the VOLs Anisole based product. So whatever Capex that we have so far announced for VOL, so whether we have plans for further capex in those lines of products.

Vinati Saraf Mutreja: Yes, absolutely right, that is what I meant in my previous question. Right now the capex has been announced for ATBS expansion for MEHQ, Guaiacol, Anisole, as well as Isoamylene derivatives and we are working on products in similar lines in the antioxidants which is in VAPL as well as products that could fall under the basket in VOPL, which we will announce once our trials are complete.

- Surya Narayan Patra:** Thank you. Wish you all the best.
- Moderator:** Thank you. We will take the next question from the line of Abhijit Akella from Kotak Securities. Please go ahead.
- Abhijit Akella:** Good morning and thank you for taking my questions. Just a couple from my side. One is on the VOPL capex products. For Anisole we intend to be fully backward integrated to the manufacture of MEHQ, Guaiacol, and Isoamylene, that is one, and if you could also just comment about the technology that we are using for Anisole product is that the same as one of our leading competitors uses or if there is something that we have developed uniquely for ourselves and how do we see our competitiveness in that market segment.
- Vinati Saraf Mutreja:** Let me explain the process to you. One by phenol and when I had methanol and from phenol you make Anisole and from Anisole you make MEHQ and Guaiacol. This is the route that we will be following because this is the most cost-effective route in the market right now. The other routes to manufacture MEHQ those are based on hydroquinone and not Anisole and hydroquinone is a more expensive raw material than Anisole and hence we are going with this process.
- Abhijit Akella:** In terms of our market share aspirations and maybe margin profile on these products which you could please share some color.
- Vinati Saraf Mutreja:** See our total capacity for Anisole will be 5000 tons per annum for MEHQ and Guaiacol combined would be about 3000 tons per annum. I think with that we are expecting maybe a 25% market share initially or 30%.
- Abhijit Akella:** Understood that is really helpful, and just one last thing from my side on the butyl phenols and antioxidants business, at peak for both product categories combined, how much would be the revenue potential we could expect and maybe the margin profile on the overall basket.
- Vinati Saraf Mutreja:** Total revenue potential of butyl phenols plus antioxidants combined is about 900 Crores to 1000 Crores, those are competitive products both of them the margin profile I would say EBITDA margin somewhere around 15% to 20%.
- Abhijit Akella:** Thank you so much. Wish you all the best.
- Moderator:** Thank you. The next question is from the line of Nilesh Ghuge from HDFC Securities. Please go ahead.

- Nilesh Ghuge:** Good morning madam. Just one bookkeeping question. Can you give us the details about the ATBS, IBB, IB, and butyl phenol revenue contribution in 1Q FY2024.
- Vinati Saraf Mutreja:** You want for last year or for this quarter.
- Nilesh Ghuge:** Q1 2024.
- Vinati Saraf Mutreja:** See IBB was around 20%, ATBS was about 40%, and the remaining of all the other products butyl phenols was around 17%.
- Nilesh Ghuge:** My second question on the butyl phenol on Monday's interview with the CNBC you mentioned that 500 Crores of a market revenue you expect from butyl phenol. So just one clarification we had, when you are talking about the 500 Crores of a butyl phenol you are mentioning the external sales. On top of that there will be butyl phenol used for your antioxidant. Is it the correct way to understand?
- Vinati Saraf Mutreja:** No actually the external sales butyl phenol is around 300 Crores, and the external sales of antioxidants is around 600 Crores. So when I say 500 from butyl phenols maybe I am not assuming the amalgamation of VAPL.
- Nilesh Ghuge:** Okay, got it. Thank you.
- Moderator:** Thank you. The next question is from the line of Nitesh Dhoot from Dolat Capital. Please go ahead.
- Nitesh Dhoot:** My question was that on the RMs we see any of these with the RMs Acrylonitrile, Toluene, Propylene the prices have gone down by 20% to 30% on a year-on-year basis. However for us the lower revenues that we have seen in Q1 is more led by volume contracts on account of destocking etc. What I am trying to understand is that it is also be followed by price corrections going forward and if you could also give some color on the contracts that we have with our customers particularly around prices.
- Vinati Saraf Mutreja:** See first of all the pricing is mostly followed with a quarterly lag. So if the RM prices fall in Q1 you will see the effect in Q2. Secondly one of our main raw materials MTB that has not gone down and today that is actually our largest raw material because IB made from MTB and from IB we make butyl phenol, ATBS and so on hence there has not been much price corrections.
- Nitesh Dhoot:** This is helpful and thank you so much.

Moderator: Thank you. We will take the next question from the line of Lakshminarayanan from Tunga Investments. Please go ahead.

Lakshminarayanan: Your primary product, it is linked to O&G, Oil and gas segment right and what percentage of your revenues come from that segment for you and what are the leading indicators you have ahead in terms of planning for the business, and when you talk about confirm contracts and you are actually expanding from X to Y in terms of capacity what gives you confidence and who are you taking market share away from if that is the case.

Vinati Saraf Mutreja: See I think you are talking about ATBS, now ATBS about 30% of its application is in oil and gas. So that means overall for a company as a whole about 15% of our revenues are dependent on that segment. Now we are going ahead with the expansion of ATBS because we have confirmed our contracts with our customers for off take given the increase in the application of ATBS, and that is again from the oil and gas segment which means that this six months is an anomaly looking at from a destocking perspective, the five-to-ten-year outlook for ATBS from the oil and gas segment and other segments remain strong.

Lakshminarayanan: How much of that business is actually repeat business and how much is actually new customers in case of your top two products.

Vinati Saraf Mutreja: About 80% to 90% will be repeat customers.

Lakshminarayanan: My second question is what is the margin you would like to operate in because for an earlier participant you mentioned that some of your products will be in the range of 15% to 20% in terms of margin, which is lower than your company average, so what is the long-term margin band you like to operate or if not margin band if you are looking at ROC or ROE metric right we would love to hear from you how you think about profitability or ROE metrics.

Vinati Saraf Mutreja: Very good question I think margin as a percentage of sales is very irrelevant because prices also fluctuate, when the price is low, what is fixed really the dollar per kg. So margin as a percentage of sales increases, but in a high price environment when RMCs are increasing margin as a percentage of sales comes down. So that is really not the right metric to look at our business, we look at it more from an ROE or ROCE perspective that when we are making a new investment was return on capital we expect and frankly we look at, we do projects at about 20% ROCE margins.

Lakshminarayanan: Thank you so much.

Moderator: Thank you. We will take the next question from the line of Prakash A, an individual investor. Please go ahead.

Prakash A: Thanks a lot, wish everyone a good morning. Firstly I want to thank the management for reinforcing the earning call this time. It is a great practice especially for investors like me who have been with this company for a while. I feel it gives me a lot of guidance and transparency with respect to the company and the industry as a whole. So thanks for that and I hope this is a recurring process moving forward as well. Now with respect to my question, I think some of it is already answered, I just wanted to understand more about the products, which guidance is the company formulation right for the next maybe a couple of years. That would be helpful.

Vinati Saraf Mutreja: I did not get your question, can you repeat.

Prakash A: My question is more with your product mix as percentage of revenues, do you really have a guidance in place for the next few years. If you could share that.

Vinati Saraf Mutreja: See the product mix I already discussed ATBS is this quarter was 40% this year will be similar, IBB is about 20, butyl phenols is 17%. Now as ATBS picks up the share of butyl phenols will also increase and AOs will also start adding to the product mix after the amalgamation. This year we expect the sales to close provided the amalgamation the merger goes through when it should be around 2000 Crores about 150 Crores coming from antioxidants. Next year I expect the antioxidant business to double and add in maybe about 300 Crores to the sales. So next year I would expect a sales growth of around 20% given the ATBS recovery as well as AO and butyl phenol.

Prakash A: Thank you so much for all this and wish you all the best.

Moderator: Thank you. Ladies and gentlemen, this will be the last question for today, which is from the line of Amol Kotak from Techpro. Please go ahead.

Amol Kotak: Good morning Vinati. I just had one procedural question. This NCLT approval has probably been delayed for quite some time. When we are exactly expect it to happen.

Vinati Saraf Mutreja: Even I do not know the answer to that, because every time we get a new date for the next month and I am told there are lot of merger cases pending with NCLT. I hope it comes through before December, if not we are very committed to VAPL and there are other ways we can withdraw the scheme and just do an acquisition, there are other ways we can lease out the plant but, VAPL from our perspective is a part of VOL and we will do everything we can to make it a part of VOL.

- Amol Kotak:** Just on the current year and next year. Current year given the first quarter has been a little muted because of the environment. For the full year, if you could guide on the revenue as well as margins for the current year, and next year margin guidance, you mentioned sales growth of 20% next year.
- Vinati Saraf Mutreja:** Q2 will be similar to Q1, we are already in the middle of Q2, and this will be similar to Q1. Expecting recovery from Q3 given the amalgamation goes through, we expect to close sales at around 2000 Crores end of this year, and next year I would expect a 20% to 25% growth given AO pickup, butyl phenol pickups as well as the ATBS pickup and demand.
- Amol Kotak:** On the margins in the current year, full year as a whole.
- Vinati Saraf Mutreja:** Margins in Q1 were about 28%. So you can maybe extrapolate that for the whole year. Butyl phenols and AOs have lower margins this year. So I would be more conservative and take below 28%.
- Amol Kotak:** Thank you so much.
- Moderator:** Thank you. As that was the last question for today. I will now hand the conference over to the management for closing comments. Over to you.
- Vinati Saraf Mutreja:** Thank you very much for the call. This is all from my side.
- Moderator:** Thank you madam. Thank you members of the management. Ladies and gentlemen, on behalf of Batlivala & Karani Securities that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.