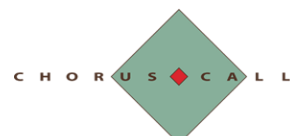




“Vinati Organics Limited
Q3 FY '24 Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Vinati Organics Limited Q3 FY24 Earnings Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal the operator by pressing star and then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Archit Joshi from Batlivala and Karani Securities. Thank you and over to you, sir.

Archit Joshi: Thank you, Dorwin. Hi, good afternoon everyone. On behalf of B&K Securities, I welcome you all for the Q3 FY24 earnings conference call of Vinati Organics Limited.

We thank the management for this opportunity to host their call and we welcome Ms. Vinati Saraf Mutreja, Managing Director and CEO, Mr. N.K. Goyal, Chief Financial Officer and Mr. Kaviraj Devaraj, Vice President, Corporate Finance. Without further ado, I'd like to hand over the call to Vinati ma'am for her opening remarks, post which we can have questions and answers. Over to you, ma'am. Thank you.

Vinati Mutreja: Good afternoon, everyone, and thank you for joining us on the results conference call. I'll first give a brief view of the financial performance for the quarter. During this quarter, NCLT sanctioned the scheme of amalgamation with Veeral Additives Private Limited. into Vinati Organics with effect from 1st April 2021. And accordingly, the comparative financial results and other financial information for the quarter year to date, as well as the year ending March 31, 2023, have been restated, taking into account the full effect of the merger.

Now coming to the Q3 FY24 results, on a merged basis, the total income for the quarter is about INR457 crores, as against INR473 crores during 30th September 2023, registering a 4% decline, while the EBITDA increased by 7% to about INR124 crores from INR115 crores. Again, as compared to the second quarter, there was a 6% increase in profit after tax from INR72 crores to INR77 crores. The EBITDA margin has also improved from about 24% to 27% in Q3 of this financial year.

Now I'll give you a brief on the operational performance and the current business environment. We expect Q4 numbers to slightly improve over Q3 or be in similar lines. I had mentioned about the de-stocking effect in the overall sales as well as in ATBS, which I believe now is almost over.

We are seeing sales of most products, including ATBS seeing pickup. Looking at this, I expect the demand to normalize in the coming months. Similarly, the butyl phenol business has also scaled up well and delivered decent growth this year, and we expect the momentum to continue next year as well.

As you might know, we make four types of butyl phenols. The mono-butyl phenols are used in the fragrance industry as well as the resin industry. The di-butyl phenols will now be used mostly captively in Veeral Additives to make the antioxidants.

The sales of IBB has also picked up starting the last quarter, and next year we are expecting to do higher numbers in IBB as compared to this financial year. Isobutylene as well as the high-purity MTBE continues to remain stable, along with our basket of customized products, the niche products, they all remain steady. Overall, these customized products have scaled up well in the last couple of years to almost double from INR75 crores to INR150 crores.

We also commissioned the ortho-sec butyl phenol as well as the di-sec butyl phenol plant in this quarter. These products find application in agrochemicals, polystyrene, perfumery. The DSBP is used in surfactants as well as in liquid dyes.

We are the only manufacturer of OSBP and DSBP in India and expect about INR80 crores revenue at full capacity. Now coming to the antioxidant business. In this financial year, the sales from antioxidants, we make five types of AOs.

The phenolic ones are the 1010, 1076, as well as 135. The phosphite one is 168. We also make 10-98.

They are used in different applications in polypropylene as well as plastics, lube additives, and the nylon industry. This year, the revenue from this business will be about INR100 crores to INR120 crores, which is at 25% capacity utilization. The antioxidant market world over is going through weakness in demand for the last 15 to 18 months.

In spite of this muted scenario, we have been able to make a meaningful penetration in the market. This reflects well on our inherent strength in this business on account of synergies accruing due to the double backward integration. We are focused on optimizing our efficiency and ramping up sales in the coming months in antioxidants, and we expect this business to be a growth driver for our company as the demand normalizes.

We expect to reach full capacity utilization in the next two to three years. We supply these AOs both in the domestic as well as the export market. We are also actively working on adding more antioxidants to our portfolio.

The long-term outlook remains positive. Now coming to VOPL, Veeral Organics Private Limited, which is a 100% owned subsidiary, a setup for manufacturing niche specialty chemicals. We have lined up a total capex of approximately INR 480 crores, mainly consisting of products, MEHQ, Guaiacol, 4-methoxyacetophenone, isoamylene derivatives, as well as anisole.

These products are used as polymerization inhibitors, pharmaceuticals, fragrances, personal care. The MEHQ-Guaiacol plant is expected to be commissioned first by March of 2024. The other products will be commissioned during the second half of FY25.

Our long-term view on ATBS remains unchanged, and the ATBS expansion is expected to be completed by December 2024. With sustainability being a core part of our value proposition, we had commissioned about 15 megawatts of solar power plant during fiscal year '23. Then we added another 11 megawatts this year in FY24, and we will be adding another 7 megawatts in the fourth quarter of FY25.

This will further help us in reducing emissions and also help us in reducing the energy dependence on non-renewable sources. We expect our revenue to have about 15% to 20% CAGR over the next three years, growth coming mainly from antioxidants, the new products in DOPL, as well as growing demand in ATBS. That's all from my side.

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

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Surya Patra from PhillipCapital. Please go ahead.

Surya Patra: Thanks for the opportunity, ma'am, and congratulations to have achieved the amalgamation of Veeral Additives also. My first question is on the gross margin post the amalgamation. So, in fact, considering the fact that Veeral Additives is a forward integrated operation of butylphenols. So, on amalgamation, the understanding was that that would have added at least positively to the gross margin of the consolidated entity.

But the comparative numbers, if we see, it looks like that the gross margin has to some extent impacted. So, could you please clarify?

Vinati Mutreja: Let me explain two or three things. Now, prior to the merger, till September 23, we had invested INR300 crores in Veeral Additives. Now, when the companies were two separate entities, this INR300 crores was booked as a loan in Vinati Organics. So, I was also adding interest payment towards that loan from Veeral Additives. So, that entire amount of INR32 crores gets knocked off in the last two years of interest income which we were accruing in Vinati Organics.

Secondly, the depreciation of -- because now the assets are owned, so the whole loan gets knocked off. Secondly, the depreciation on account of Veeral Additives is also adding to about INR15 crores per year. That also impacts. Thirdly, the sales of butylphenols, the butylphenols which we were supplying to Veeral Additives was booked at market value in Vinati Organics.

But now that gets knocked off because it becomes an inter-unit transfer and now Veeral Additives becomes a captive unit. Finally, you must take into account that Veeral Additives right now is running only at 25% capacity and the run rate is the sales are increasing month on month.

So, eventually, this from being value diluting, we hope for it to become value-attractive in the next six months or so.

- Surya Patra:** Okay. Ma'am, just one more query to this. Likewise, in case of ATBs, in the manufacturing process of antioxidants, is there a scope of cost optimization through recovery process? Whether anything of that sort is possible going ahead, if not now?
- Vinati Mutreja:** See, we are investing in a co-generation power unit which will reduce our cost of manufacturing in Veeral Additives, now in the antioxidant business. Also, we are working on adding more AOs to our basket which will not require additional capex. So, that will again lead to our fixed expenses getting spread over a higher volume and higher capacity utilization.
- Surya Patra:** Okay. Just for the quarter-specific query, ma'am. See, could you share what is the revenue mix for this quarter in terms of at least ATBS, IBB?
- Vinati Mutreja:** Yes, sure. So, ATBS this quarter was about 30%. IBB was 20%. Butylphenols and IB derivatives were 20%. Then, isobutylene was about 10%. And antioxidant and other products combined would be another 20%.
- Surya Patra:** Okay. And here the new product would be captured under which category, ma'am? The customized product, I mean.
- Vinati Mutreja:** Yes, correct. That will come in the other products which I said, the AO and the other customized products.
- Surya Patra:** Yes, okay. And just one question from my side, ma'am. We have been anticipating that antioxidant revenue in the second half of the current financial year could be in the range of around INR100 crores.
- Vinati Mutreja:** No, no, no. This INR100 to INR120 crores will be the antioxidant revenue in this entire financial year FY24. Then, next year I expect this revenue to double from INR120 to about INR250 crores.
- Surya Patra:** Okay. So, now at least again on the base business front. So, when we compare the amalgamated number top line for this quarter versus the revenue number reported in the previous quarter without amalgamation. There is no change practically. So, also the VAPL number, whatever that has been added. But still -- so, that means there is a sequential decline that is what we are witnessing.
- Is it because of any particular segment underperforming sequentially or seeing any pricing pressure or any kind of volume listing?
- Vinati Mutreja:** Yes, so the pricing -- raw material prices have been declining Q-on-Q. And so the product prices have been declining and that is why you see a slight improvement in the margins also.
- Surya Patra:** Okay. Sure, ma'am. Yes, thank you. Wish you all the best.
- Vinati Mutreja:** Thank you.

- Moderator:** Thank you. The next question is from the line of Abhijit Akella from Kotak Securities. Please go ahead.
- Abhijit Akella:** Yes, good afternoon. Thank you so much for taking my questions. First one was just with regard to the revenue mix while you kindly gave us the three-month numbers, is it possible to share the year-to-date numbers as well in terms of product size?
- Vinati Mutreja:** Sure. Actually the nine months numbers are very similar. Maybe slightly like ATBS instead of 30% is 32% and IBB is 18%. But butyl phenols, IB, antioxidant, customized, more or less the same as this quarter.
- Abhijit Akella:** Okay, understood. The second one was just with regard to the amalgamation itself. So in terms of the gross block addition on the balance sheet, would it be somewhere in the ballpark of INR300 crores? Is that the number we should work with?
- Vinati Mutreja:** Yes, that's right.
- Abhijit Akella:** Okay.
- Vinati Mutreja:** Earlier that was as a loan, loan in VOL and now that becomes the assets that we are getting from Veeral Additives.
- Abhijit Akella:** Yes, sure. And the half yearly balance sheet for September had shown some reduction in CWIP. So was that basically related to this OSBP and DSBP commissioning?
- Vinati Mutreja:** Yes, that's right.
- Abhijit Akella:** Understood. And last thing from my side is with regard to the commissioning timeline for the new projects. I'm sorry, I didn't catch which plant comes up first by March...
- Vinati Mutreja:** Sure. The MEHQ & Guaiacol plant comes up first in March and the others will come up in the second half of this financial year between say around December.
- Abhijit Akella:** So in the initial phases, we'll be buying anisole from outside and making MEHQ?
- Vinati Mutreja:** Yes, that's right.
- Abhijit Akella:** Okay. Any sort of comment on the margin profile of these projects, ma'am? Given the fact that the initial year's utilization might be a bit low.
- Vinati Mutreja:** Sure. The total capex for these projects is about INR480 crores, which includes all the basket of these entire 5-6 products. And I expect ROI to be in the range of 15% to 20%. And similarly, because the revenue potential also on a blended level is 1:1, you know, the asset turnover on these projects. So one can assume again a blended margin of around 20% or so.
- Abhijit Akella:** Okay, got it. And finally, on ATBS, while you spoke about the market recovery, any signs of new competition that might be starting to sort of make inroads into the market there?

Vinati Mutreja: For ATBS, we have not lost market share, mainly because of our long-term contracts that we have in place with our customers, which we've had for the last 15 to 20 years. So as the market -- as the demand is recovering, as the destocking effect is coming to an end, I'm seeing a good pickup in ATBS sales starting this month, rather. So I'll be able to give you a better picture next quarter.

Abhijit Akella: Got it. Thank you so much. All the best.

Moderator: Thank you. We have the next question from the line of Natraj Shankar from DSP Mutual Fund. Please go ahead.

Natraj Shankar: Yes, hi. Two questions. One is on the last comment that you made about the changing scenario in terms of destocking. Obviously, as the quarter unfolds, you'll be able to get a better color. What is the level of confidence that that part is in the final leg? That's one. And secondly, the 20% growth assumptions over the next three years is based on what kind of macro variables that is assumed in that growth? Thanks.

Vinati Mutreja: Sure. See, now customers are -- it's coming -- the confidence in ATBS pickup is mainly coming from what our customers are indicating. And to be honest, if they were sitting on nine months in inventory or one year inventory, at some point that inventory has to end.

I think based on the demand outlook as well as the order book, you will see recovery, if not from Feb, March, definitely from April. As far as the 15% to 20% overall growth numbers for the next three years, they're coming mainly on account of higher capacity utilization in the antioxidant business.

We are a new player, new entrant in that business. We are working towards getting our product approved. We are the only significant Indian manufacturer of antioxidant, and there's a good domestic demand for this product in India.

There's a good demand in Middle East, and we are best placed to service that demand. So I'm taking into account higher utilization of antioxidants as well as butyl phenols and ATBS picking up this year. For example, just in FY'25, I expect ATBS to be at least 30% higher than what it was in FY'24. Similarly, IBB was also a bit muted in FY'24 and based on the indications from the customers, I think FY'25 will be slightly better for IBB as well.

Natraj Shankar: Okay. And lastly, in the longer term, normalized operating margin, if there is a guidance on that, that would be helpful.

Vinati Mutreja: Sure. I think on a blended level, EBITDA margins of 25% to 27% is what is sustainable.

Natraj Shankar: Got it. Thank you. Appreciate it.

Moderator: Thank you. The next question is from the line of Dhara from ValueQuest. Please go ahead.

Dhara: Yes. Am I audible?

- Moderator:** Yes.
- Dhara:** So you have alluded earlier to a 10,000 ton of demand for the Indian market for additive business. So we have a 24,000 ton capacity as I understand. So we do have an opportunity to export.
- So where are we in terms of customer validation? Or do we have any pipeline for a contract, long-term contract? And how competitive are we in this space given that there are already established players in the market?
- Vinati Mutreja:** So actually, the demand for antioxidants in India itself is around 12,000 to 14,000 metric tons. Now, we expect to service, say, only about 60% of that or 70%. So you are right. My target out of the 24,000 tons is to sell about 8,000 tons domestically and 16,000 tons is for the export market. Now, there are antioxidant business. Our product basket has an upstream application in polypropylene.
- That is where the approvals take longer and takes time. But then there is a downstream demand used in plastics and master batches where the approvals are not so long. And there we have distributors.
- Each customer size is smaller, so you typically have distributor agreements which we have in place for different regions with different distributors. Coming to our cost effectiveness or how competitive we are, we are one of the few A.O. manufacturers, maybe only the second A.O. manufacturer or only A.O. manufacturer which is not only backward integrated into butyl phenols but also in the isobutylene. So this double backward integration gives us a lot of inherent strength and makes us a competitive player globally.
- Dhara:** So I have a follow-up here. Is there any other player that you are alluding to in the market for additives in India?
- Vinati Mutreja:** So there is a company called HPL, Hindustan Polyamides based in North. I believe their total A.O. capacity is around 5,000 tons or something like that.
- Dhara:** Okay. Then I have a second question on your MEHQ business. If you can share what sort of technology are we getting into for backward integrating to anisole and what is the timeline for this project?
- Vinati Mutreja:** So MEHQ will be ready. We are making from anisole, anisole plus hydrogen peroxide. It will be ready in March.
- And then anisole, we will be making from phenol. It will be phenol plus methanol and that will be ready somewhere around December, January next year.
- Dhara:** Around December, January next year?
- Vinati Mutreja:** So December '24 or January '25.

- Dhara:** Okay. Thanks. That answers all my questions. Thank you.
- Moderator:** Thank you. We have the next question from the line of Abhijit Akela from Kotak Securities. Please go ahead.
- Abhijit Akela:** Thank you for taking the follow-up. Just on the new projects, for MEHQ and guaiacol, which are getting commissioned first, in terms of total capacity, what number can we work with? Is it 3000 tons per annum, both combined?
- Vinati Mutreja:** Yes, that's right. And you get about 2,000 tons MEHQ and 1,000 guaiacol.
- Abhijit Akela:** And right from the get-go, you know, in March 24, we expect to start with this level of capacity?
- Vinati Mutreja:** Well, again, no. Again, the first two, three months will go in stabilization of the plant. Again, sample testing, product approvals, etcetera. So I wouldn't expect much sales coming in, at least in the first quarter, or maybe even in the first six months. And then the sale ramp-up happens, you know, six months post that.
- Abhijit Akela:** Got it. And the other products in that basket, you know, isoamylene, 4-MAP and I think these two. So those also come up in December along with the Anisole plant?
- Vinati Mutreja:** That's right. That's right.
- Abhijit Akela:** And if you could please help us with the capacity over there as well, please, ma'am.
- Vinati Mutreja:** So the Anisole capacity is about 5,000 tons. The 4-MAP will be about 1000 tons. The [TAA and PTAP] is total about 10,000 tons.
- Abhijit Akela:** Okay, got it. Yes, and just with regard to the, you know, there seems to have been a little bit of a delay in the timeline for commissioning of these projects, both these as well as the ATBS expansion. So is that primarily just market conditions?
- Vinati Mutreja:** Yes, ATBS primarily because of the market. The other projects, there's not much delay in MEHQ, but the others may be just optimizing the process and longer lead times of the equipment.
- Abhijit Akela:** Okay, understood. Thanks a lot, ma'am. All the best.
- Moderator:** Thank you. The next question is from the line of Amol Kotak from Techpro Ventures. Please go ahead.
- Amol Kotak:** Is there any leveraged position in the company?
- Vinati Mutreja:** No, no. My CFO is saying there is no long-term debt and no working capital. So there is no debt on the books right now.

- Amol Kotak:** And for the entire consolidated entity, what is the capex we have done in the current year?
- Vinati Mutreja:** This year the capex we have done is about INR240 crores, -- INR300 crores.
- Amol Kotak:** Okay. And what will be the capex for FY25?
- Vinati Mutreja:** That will be another INR450 crores to INR500 crores. Because that will include the balance on the previous expansion as well as the VOPL project.
- Amol Kotak:** Just one point, on the margin, your earlier guidance used to be around closer to 30%. So in the current communication, you are saying that it's anywhere between 25% to 27%
- Vinati Mutreja:** Yes, those margins were never sustainable. That is, you come across those golden periods few times as a manufacturer in any manufacturing business. And I always have maintained that on a long-term basis, margins around 27% for any manufacturing business is a decent margin.
- Also, it's a function of raw material prices. If raw material prices are low, the margins will look high. If input prices are high, then the margins look low.
- Amol Kotak:** Right, yes. So, the long-term guidance, basically, this year we will close it at somewhere around INR2200 crores revenue. And the 15%-20% kind of approach will probably take 3-4 years down the line with INR3.5 thousand crores revenue. Which is just a ballpark number.
- Vinati Mutreja:** Your voice is not clear.
- Amol Kotak:** I think your 15%-20% revenue guidance, over the next 3-4 years, should kind of take the revenues closer to doubling in the next 4-5 years.
- Vinati Mutreja:** Yes, that will take us to INR3,000 crores, right? In 4-5 years.
- Amol Kotak:** Fair enough. Thank you.
- Vinati Mutreja:** Yes.
- Moderator:** Thank you. The next question is from the line of Priyank Chheda from Valum Capital. Please go ahead.
- Priyank Chheda:** Ma'am, what would be our utilization for ATBS over the last 9 months, given that we have added capacity? So, on the expanded capacity, what would be the utilization?
- Vinati Mutreja:** No, so the capacity has not yet been added. The new capacity will come in December. On the present capacity, we are running at, in this 9 months, at about 60%-65%.
- Priyank Chheda:** So, the current capacity would be 60,000 tonnes, right?
- Vinati Mutreja:** No, no. It's 40,000 tonnes. Then, after the expansion in December, it will become 60,000.

- Priyank Chheda:** Got it. And on the industry dynamics, if you can help me, given the price correction that we have seen for ATBS from as high as around \$3-\$3.5 to now around \$2-\$2.5, how does this demand scenario look for ATBS? And are there any other players who are adding any capacity in ATBS?
- Vinati Mutreja:** Well, I don't think the price correction is as drastic as you are suggesting it to be. The \$3.8 of ATBS, there were a lot of reasons. One was increased RMC prices, increased freight costs.
- All this has come down. And so, I would say the ATBS price now is, given all that, has come to somewhere in the range of 3.2-3.3. Again, the freights are going up. So, you know, this, whatever is the present margin profile is what I am expecting to remain or taking in my assumptions over the next one year, two years, three years.
- Priyank Chheda:** And would there be any other capacity that is getting added by any other player?
- Vinati Mutreja:** Well, the players keep announcing their capacities. And you can do more research and find out. But I know we have not lost market share because we have contracts with our customers in place. And you can maybe check their export data also. And then get a more informed answer yourself.
- Priyank Chheda:** And we have around 65% market share, ma'am. Is this correct?
- Vinati Mutreja:** That's right.
- Priyank Chheda:** And on the other projects, if you can help me on the utilizations for IBB and for Isobutylene. Isobutylene, I suppose, we are running at 100%. Does that continue?
- Vinati Mutreja:** So, Isobutylene is used a lot of it in captives for ATBS, for butyl phenols as well as other derivatives. And we have expanded that capacity. IBB also we are running at about 65% this year capacity utilization.
- Priyank Chheda:** Got it. And just to clarify.
- Moderator:** Sorry to interrupt, but in the interest of time, we will need to proceed. Thank you. Ladies and gentlemen. I would now like to hand the conference over to the management for closing comments. Over to you, ma'am.
- Vinati Mutreja:** Thank you everyone for joining this call. I appreciate your presence. Bye. Goodbye.
- Moderator:** Thank you. On behalf of Batlivala & Karani Securities, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.