



“Vinati Organics Limited Q4 FY14 Earnings Conference Call”

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**MANAGEMENT: Ms. VINATI SARAF MUTREJA – EXECUTIVE DIRECTOR
 Mr. NANDKISHORE GOYAL – CHIEF FINANCIAL OFFICER**

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY14 Earnings Conference Call of Vinati Organics Limited. As a reminder, all participants' 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 the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Vinati Mutreja. Thank you. And over to you, Ms. Mutreja.

Vinati S. Mutreja: Good Afternoon, everyone, and welcome to our Post Earnings Conference Call. As plans, the company has continued its strong growth during the fiscal year ending FY14. This year we have seen strong growth in all of our product segments. We have maintained our growth momentum and have realized the strong and healthy rise of 27% in net sales coupled with 25% rise in our PAT as compared to FY13. Out of the 27% growth in the revenues a little more than 60% can be attributed to volume and remaining little less than 40% is due to increase in price realization. Also, all our product segments have grown, such as IBB business has grown by 20% this year, ATBS sales grew by approximately 30% and Isobutylene sales grew by more than 50% last year. HB NBB as well as other products also rose by about 30%. We are confident of maintaining this growth over the next year and expect to grow by 20% while sustaining our present margin level. We are planning CAPEX of about Rs.150 crores spread over a period of the next 18 months. The CAPEX entails introducing new products as well as setting up of captive cogeneration plant at our Lote facility. With this I hand over to Mr. Goyal – our CFO to discuss some of the key financial highlights of the performance during last year.

Nandkishore Goyal: Good Afternoon, everyone. Net income for the fourth quarter ended 31st March 2014 was Rs.195 crores as against Rs.163 crores during corresponding period of the previous year, registering 18% growth. PAT level also stood at Rs.28 crores as against Rs.21 crores registering a growth of 29%.

In terms of annualized figure for the financial year 2014, we have clocked net income of Rs.696 crores as against Rs.548 crores in previous year, registering a 27% growth. Our EBITDA for financial year '14 has grown up by 37% to Rs.158 crores from the level of Rs.115 crores previous year. PAT also increased from Rs.69 crores to Rs.86 crores registering a strong growth of 25%. We are open for Q&A now.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Vipul Mehta from Lucky Investment Managers. Please go ahead.

Vipul Mehta: Ma'am, I had a couple of questions; one is you did mention the growth in your various product categories like IBB, IB and ATBS. In terms of tonnage can you give us the number as to how much did we do this year in all the three products?

- Vinati S. Mutreja:** I cannot give a break up but I had mentioned that of about 27% growth in revenue, more than 60% is volume-driven, so overall we have seen about 17-8% growth in terms of volume across all our products segment.
- Vipul Mehta:** No, I am saying in terms of tonnages, would you be able to share for the full year as to how much was IBB, how much was ATBS and how much was IB?
- Vinati S. Mutreja:** We stopped giving those numbers.
- Vipul Mehta:** Coming to the ATBS, if you can just give us some broad understanding as to where the demand is coming from? As far as the capacity of ATBS goes, where we are currently? And how do you see this going forward?
- Vinati S. Mutreja:** We are at about 60% capacity of ATBS
- Vipul Mehta:** So, we are at about 15,000 in terms of actual production for ATBS?
- Vinati S. Mutreja:** Going forward we expect to achieve close to 100% capacity utilization in the next three years. Growth in the ATBS is coming from all across segments such as water treatment, oil and gas and personal care. In ATBS volume terms also more than 20% growth year-on-year.
- Vipul Mehta:** If we recollect in your earlier conference call you did mention that the global demand for ATBS could rise very sharply, there is some research which has....
- Vinati S. Mutreja:** That is based on Enhanced Oil Recovery polymer.
- Vipul Mehta:** Any factual data that is supporting this?
- Vinati S. Mutreja:** No, there is no data, we are just basing it on what our customers have indicated to us, and let me put a caveat that these EUR projects are taking some time. So that exponential increase in growth I would say maybe after two years.
- Vipul Mehta:** This Rs.150 crores CAPEX announcement over 18 months, if you could just broadly help us to understand as to where....?
- Vinati S. Mutreja:** Broadly, it is about Rs.50 crores is for the Cogen and Rs.100 crores is for debottlenecking our existing capacity as well as adding some new products.
- Vipul Mehta:** When you say new products means these would be the derivatives of...?
- Vinati S. Mutreja:** Yeah, the derivatives of our existing products.
- Vipul Mehta:** So, these are very small products or are they...?
- Vinati S. Mutreja:** All the CAPEX will total result in revenues of about Rs.200 crores in the next...

- Vipul Mehta:** So broadly we can hope to achieve about 2x out of the total investment?
- Vinati S. Mutreja:** Yeah, you can say that.
- Vipul Mehta:** So Rs.50 crores of courses for the power plant? So this is for the Rs.100 crores debottlenecking or this Rs.50 crores would actually feed all the other Lote [ph] plant which we are currently buying from outside?
- Vinati S. Mutreja:** Yeah, correct.
- Vipul Mehta:** So what kind of saving do you anticipate out of this?
- Vinati S. Mutreja:** From the Cogen we anticipate a saving of Rs.8 crores.
- Vipul Mehta:** And going further into your large CAPEX, we have been always targeting certain niche chemicals where we have competitive advantage and cost advantage. So have we zeroed into any such products?
- Vinati S. Mutreja:** We have shortlisted a couple, but again too early to name them.
- Vipul Mehta:** So these were at the R&D space currently?
- Vinati S. Mutreja:** Yeah.
- Vipul Mehta:** In your balance sheet we seem to have done an excellent cash flow management whereby we were able to pay down debt to the tune of Rs.80-85 crores, and post that we have announced this Rs.150 crores CAPEX. So, how do you plan to fund this – is still going to be...?
- Vinati S. Mutreja:** Through internal accruals.
- Vipul Mehta:** Entire money we are going to spend it through internal accruals?
- Vinati S. Mutreja:** Yeah.
- Vipul Mehta:** And this Rs.100-110 crores debt that we currently have on the books, this would be more or less the peak debt or we would still look to kind of add?
- Vinati S. Mutreja:** No, as of now, there are no plans, but if we do those bigger projects, then we may add.
- Vipul Mehta:** And 21% EBITDA margin that you seem to be sustaining for now fairly longer period of time are there some levers that we could improve upon this or this is like optimal?
- Vinati S. Mutreja:** No, I think we expect to maintain this only going forward.
- Vipul Mehta:** As far as the ATBS capacity goes, are the other two players spending or they are...?

- Vinati S. Mutreja:** We would not know.
- Vipul Mehta:** What kind of feedback do you get from your customers in terms of expansion of these products?
- Vinati S. Mutreja:** They have not told us about anybody else is expanding.
- Moderator:** Thank you. The next question is from the line of Purvi Shah from Dalal & Broacha. Please go ahead.
- Purvi Shah:** Just wanted clarity; one was if you could just tell the net debt figure that is on the book again? And the other thing that we wanted to know was also the inventory levels, how have they been, because in the last...?
- Vinati S. Mutreja:** So the total FCNR debt is about \$25 million and we have inventory of Rs.46 crores.
- Purvi Shah:** On the tax rate front, if you could guide?
- Vinati S. Mutreja:** Tax rate is 33%.
- Purvi Shah:** We continue to be....?
- Vinati S. Mutreja:** Yeah.
- Purvi Shah:** Also, we had said that we will be repaying the debt by FY17 completely. So, we continue to do the same, until and unless we have some major CAPEX come in, right?
- Vinati S. Mutreja:** Yeah, correct.
- Purvi Shah:** And the Cogen thing that you said, if you could give some more details as in...?
- Vinati S. Mutreja:** Rs.50 crores investment, 8 MW Cogeneration would give saving of about Rs.8 crores per year.
- Moderator:** Thank you. The next question is from the line of Abhijeet Vora from Unifi Capital. Please go ahead.
- Abhijeet Vora:** I have two questions; firstly, could you give us updated market shares for your major products – IBB and ATBS?
- Vinati S. Mutreja:** Market share for IBB we have about 60-70%, ATBS we have about 35-40%.
- Abhijeet Vora:** Has it improved over last couple of quarters?
- Vinati S. Mutreja:** Market is also growing in ATBS.

- Abhijeet Vora:** From the FOREX perspective are you getting better market share because of rupee depreciation over last 1-1.5 years, and if rupee appreciates from here on, will those market share gains come down or your market share might saturate, that is the larger question...?
- Vinati S. Mutreja:** No, I think this rupee appreciation or depreciation has no connection to market share, because we are charging our customers in dollars only, so they do not care what the exchange rate is. As long as our realization is positive we will continue supplying to them. And we are also exchange rate-neutral because our inputs are also priced in dollars. So it really does not affect the market share.
- Abhijeet Vora:** The new products which you are trying to introduce where R&D is currently going on, when will it start contributing to the top line?
- Vinati S. Mutreja:** FY16.
- Abhijeet Vora:** You maintain Rs.200 crores top line on new products?
- Vinati S. Mutreja:** Yeah.
- Moderator:** Thank you. The next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.
- Chirag Dagli:** How do we split our gross block between the two manufacturing sites that we have?
- Vinati S. Mutreja:** We will get back to you on that.
- Chirag Dagli:** The working capital requirement between the three segments – IB, IBB and ATBS, how different is it?
- Nandkishore Goyal:** Working capital cycle for all three segments we can divide into two – one is IBB as well as ATBS and other product, and another is Isovo-tavin IB, IB have a little bit almost 15 to 20 days more working capital cycle as compared to others.
- Chirag Dagli:** Okay, and what would be the average week, I am sorry I should have known this, but what would be the average working capital cycle.
- Nandkishore Goyal:** Average working capital cycle as of this is known almost 80 days.
- Chirag Dagli:** Okay, average is 80 days and IB is higher by 20 days.
- Nandkishore Goyal:** IB is a little bit higher.
- Chirag Dagli:** I am sorry I joined in late, these new products are based on what chemistry.

- Nandkishore Goyal:** Basically new products are derivatives from the existing products and a little bit debottlenecking of the existing facilities.
- Chirag Dagli:** So these are all based on the same family.
- Nandkishore Goyal:** It is in the same family.
- Moderator:** The next question is from the line of Ankit Jain from Equirus Securities. Please go ahead.
- Ankit Jain:** Yes, thanks for the opportunity, from a 3-year point of view, how is the product mix shift is going to be there from hereon.
- Nandkishore Goyal:** From here on, basically if we see the mix of the products in sales, and it has been going to be a little bit almost same in the next year, but ATBS will be going up as compared to other products.
- Ankit Jain:** But Sir, I mean, is it going to be significantly different from hereon.
- Nandkishore Goyal:** No not much significant.
- Ankit Jain:** So, what I am asking is that as we know that growth in IBB is going to be far lower in comparison to other segments, so that is what I wanted to understand, that from a 3-year timeframe point of view, how significant change in our product mix is going to be?
- Nandkishore Goyal:** Basically IBB no doubt, it is not that much picking up as compared to ATBS, but at the same time we are also working on other products, based on this IBBs a little bit on down the stream, so that will add some value, our ATBS no doubt it is going to be in the range of 20% growth.
- Ankit Jain:** That 20% means volume.
- Nandkishore Goyal:** Yes, we are talking about the volume.
- Ankit Jain:** Okay, and how much volume growth during fiscal year 2014 in ATBS, we might have done.
- Nandkishore Goyal:** Basically we are not talking about the numbers, actual number what is the volume.
- Moderator:** The next question is from the line of Aksh Vora from Praj Investments. Please go ahead.
- Aksh Vora:** I miss out the growth numbers in the initial remarks, IBB was 20%, IB more than 50%, what was ATBS and others.
- Vinati S. Murteja:** ATBS was 30% and others was also 30%.
- Aksh Vora:** Sorry was,

- Vinati S. Murteja:** IB was 50%, IBB was 20 and ATBS and others was 30%.
- Aksh Vora:** Okay, and what would be the revenue mix rate in the four, IBB, IB, ATBS and ...
- Vinati S. Murteja:** IBB is about 40%, ATBS is 40%, IB and other products is the remaining 20%.
- Aksh Vora:** Okay, and if I am not wrong, Lubrizol is one of the players for ATBS, right. So do they also supply in India.
- Vinati S. Murteja:** Lubrizol does not supply ATBS in India.
- Aksh Vora:** Okay, actually currently Lubrizol is coming up with this plant in Gujarat for CPVC, so can we see Lubrizol also coming up with..
- Nandkishore Goyal:** We will not make ATBS there.
- Aksh Vora:** Okay, so there is no threat from Lubrizol as per our domestic consumption. Okay, thanks a lot.
- Vinati S. Murteja:** We are actually, we are in the US, and we are exporting ATBS to the US.
- Aksh Vora:** How much would be the export percentage in ATBS.
- Vinati S. Murteja:** It will be around 90% exported.
- Moderator:** Thank you. Our next question is from the line of Nikhil Moryani who is an individual investor.
- Nikhil Moryani:** I just wanted some clarity on the synergy that you have, as now majority of the growth is coming from IBB, ATBS, those are the ones that contribute max to the sales profile. Going ahead if we see that ATBS is going to grow big time and the other new products that you added will not contribute much so do we see any cost synergies eroding because ATBS would contribute max?
- Vinati S. Murteja:** Let me first of all, the growth is going to come from ATBS and isobutylene and the new products that we are having, so as a result the market share of IBB will slightly come down, and ATBS will continue to remain at around 40 to 45% in the remaining IB and other products of course will increase to about 25% or 30%.
- Nikhil Moryani:** Okay, so the cost effectiveness will remain and we will be the lowest cost producer in the international market?
- Vinati S. Murteja:** Yes, that does not affect the cost effectiveness in any way.
- Moderator:** The next question is from the line of Vipul Mehta from Lucky Investment Managers. Please go ahead.

- Vipul Mehta:** Yes Mam, just wanted to understand the quarterly variation as far as the product mix is concerned. Typically ATBS is uniform across four quarters, or there is always a variation?
- Vinati S. Murteja:** Mostly difference in ATBS sales in Q3 and Q4, Q3 there is a slight dip, and Q4 there is a makeup.
- Vipul Mehta:** Q1 and Q2?
- Vinati S. Murteja:** That is almost stable. It is like average.
- Vipul Mehta:** And whenever we freeze on a particular investment, let us say this 100 crores is typically would be a ...
- Vinati Murteja:** We look at minimum payback period of 5 years that is ROCE of 20%.
- Vipul Mehta:** This also would be on a Greenfield right?
- Vinati S. Murteja:** Yes, I mean that.
- Vipul Mehta:** But the Brownfield would be much better.
- Vinati S. Murteja:** Generally it is, yes, but even if it is 20% we do it, but usually it is better Brownfield.
- Vipul Mehta:** As far as the growth of the company, of course you have guided for a 20% growth, but is there any reason to believe that there could be a step up once we have a complete product portfolio once we introduce new products? Is there a possibility that this growth number could get a step up?
- Vinati S. Murteja:** These are conservative estimates that we should be able to achieve. Beyond that, there is always a possibility that it might be better.
- Vipul Mehta:** In terms of the debt that we currently have, could there be a further debt write-down.
- Vinati S. Murteja:** Write-down means we will continue repaying the debt.
- Vipul Mehta:** Yes sure, I mean, but because this 80 to 85 crores debt comes as a surprise to us, pay down of 80, so I am just wondering if we can kind of ...
- Vinati S. Murteja:** No I don't think you can expect such a significant write down now.
- Vipul Mehta:** Just to understand your working capital, do we get some advances from customers for our ATBS material that we sell.
- Vinati S. Murteja:** We don't get any advance payment.

Vipul Mehta: No advance payment.

Vinati S. Murteja: No.

Moderator: Thank you, ladies and gentlemen, as there are no further questions, I now hand the conference over to Ms Vinati Mutreja for closing comments.

Vinati S. Mutreja: Okay thank you everyone.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of Vinati Organics Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.