

Parinee Crescenzo, 1102, 11th Floor,
"G" Block, Plot No. C38 & C39,
Behind MCA, Bandra Kurla Complex,
Bandra (E), Mumbai - 400 051, India.
Phone : 91-22-3948 4444 / 3948 4428
Fax : 91-22-3948 4438
E-mail : vinati@vinatiorganics.com
Website : www.vinatiorganics.com
CIN : L24116MH1989PLC052224

**VINATI
ORGANICS
LIMITED**



VOL/MUM/GSS/2013
August 14, 2014

The Stock Exchange, Mumbai
(Listing Department)
P. J. Towers, 21st Floor,
Dalal Street, Mumbai – 400 001.

Dear Sir/Madam,

Scrip Code: 524200

VINATI ORGANICS LIMITED – UPDATE

Please find enclosed Q1 FY15 Earnings Conference Call transcript for your perusal and record.

Thanking you,

Yours faithfully,
For **Vinati Organics Limited**

Singhi G.S.

G. S. Singhi
Company Secretary cum
Finance Controller

Encl: As above



**“Vinati Organics Limited Q1 FY15 Earnings
Conference Call”**

August 6, 2014



**MANAGEMENT: MS. VINATI SARAF MUTREJA – EXECUTIVE DIRECTOR
MR. N. K. GOYAL – CHIEF FINANCIAL OFFICER**

- Moderator** Ladies and gentlemen, good day and welcome to the Q1 FY15 Post-Result Conference Call of Vinati Organics Limited. As a reminder, all participants' lines will be in the listen only mode. There will an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Vinati Mutreja. Thank you and over to you ma'am.
- Vinati S Mutreja** Good afternoon everyone, and welcome to our Post Earnings Conference Call. I am happy to say that we continue with a growth moment and have clocked in 33% sales growth over the corresponding period and expect to keep a healthy growth in sales in the coming quarters as well. Demand for all our three key products, IBB, ATBS and Isobutylene remains strong. Now I hand over to Mr. Goyal who will discuss some key financial highlights.
- N. K. Goyal** Good afternoon everyone. The net sales for this quarter ended 30th June 2014, was Rs.196.11 crores as compared to Rs.147.87 crores for the period of the previous year thus showing a growth of 33%, EBITDA margin also grew by 56% from Rs.25.6 crores to Rs.40.46 crores and in terms of PAT we have done Rs.24.11 crores as compared to Rs.12.65 crores thus showing it 91% increase over the corresponding period. Now we can take questions and answers.
- Moderator** Thank you. We will now begin the question and answer session. The first question is from the line of Amit Kadam from LIC Nomura Mutual Fund. Please go ahead.
- Amit Kadam** Ma'am in this quarter if you have showed a growth of 32% year-on-year, can I have a break up of it how is it about ATBS, IBB and IB?
- Vinati Mutreja** Sure I can give you that. Approximately ATBS sales has grown by about 30% from year-on-year and Isobutylene sale have also shown a phenomenal increase year-on-year. IBB of course been a stable old product but that also has shown some growth of about 10% and other products like HP-MTBE have increased by 60% and some smaller products by 30%. These are the reasons for volume growth year-on-year.
- Amit Kadam** Okay, can you share an absolute number against it, does the product mix remains as it is or should, because regular if we have 40% of ATBS on other parts so is the product mix same so I don't ask for individual numbers.
- Vinati Mutreja** Yes, product mix IBB has come down slightly from about 35% to about 30%. ATBS has also come down from 44% to 40%. Isobutylene has increased to almost 17% to 18% and other products have also increased from 10% to 12%. Which shows that product mix is depending less-and-less on IBB and ATBS and shifting towards the other products.
- Amit Kadam** Okay. In the major category ATBS where we have posted 30% growth so how much is from the volume and have you taken any price increase in this?

- Vinati Mutreja** (+90%) is from volume only, there is not much change in realization.
- Amit Kadam** Okay. So which means only 3% or 4% price growth here and there, mostly like it is a volume growth?
- Vinati Mutreja** Yes.
- Amit Kadam** And second question is on the other expenditure part, like it is 20% down year-on-year if I am not wrong. Any specific reason?
- N. K. Goyal** Rs.29 crores as compared to this Rs.21 crores you are referring this Rs.7 crores drop?
- Amit Kadam** Yes.
- N. K. Goyal** In June '13, there was an exchange loss in other expenditures as compared to June 14 quarter there is no loss as such
- Amit Kadam** So everything is attributable to the FOREX.
- N. K. Goyal** Yes
- Amit Kadam** Okay. The third if I can squeeze in, the one is on the interest cost has come down considerably year-on-year, in fact it is on quarter-on-quarter has also come down. So what was the debt reduction that happened in this particular course of time?
- N. K. Goyal** There is a debt that is coming down which was a major cost.
- Amit Kadam** Okay, so that component is also booked?
- N. K. Goyal** Yes
- Amit Kadam** So nothing on the debt reduction side only just that the FOREX component has actually made an impact here.
- N. K. Goyal** And an entire loan also, so that is also, saving will be more effective in coming quarters as well.
- Amit Kadam** So what is the current outstanding loan in our books?
- N. K. Goyal** Rs.114 crores is the long term and Rs.60 crores in short term as of 30th June.
- Moderator** Thank you. The next question is from the line of Abhijith V from Unifi Capital. Please go ahead.
- Abhijith V** I wanted to just get a sense from here on you wanted to introduce some new products apart from this HP-MTBE what is the road map as of now, by when can these new products start

- contributing to top line and secondly any change in your CAPEX plan which you have shared in the last conference call.
- Vinati Mutreja** The CAPEX plan remains the same as what we had shared last time and we expect the new cost to start contributing from next year onwards FY16 and FY17.
- Abhijith V** Last conference call you have mentioned that these new products you are targeting about Rs.200 crores top line in next two to three years.
- Vinati Mutreja** Yes, 600 top line growth, lot of that growth is also going to come from both in ATBS and Isobutylene which is on a growth track as well as HP-MTBE. So other than that the new products was Rs.200 crores that will start contributing from FY 16 onwards
- Abhijith V** And secondly, just wanted to get a clarity because of this Chinese currency versus Indian currency their currency is appreciating so may be relatively you are being more competitive in international arena because of which your exports might also be getting a flip is that statement correct?
- Vinati Mutreja** Yes, it is partly correct.
- Abhijith V** Okay, so exports what is the current revenue you get from exports if you can give me individually ATBS how much, IBB how much?
- Vinati Mutreja** ATBS is mostly at 90% export and IBB is about 70% export.
- Abhijith V** and IB?
- Vinati Mutreja** That is domestic.
- Abhijith V** Okay, and new products they will be domestic or exports?
- Vinati Mutreja** There will be a mix of export and domestic but 50%-70% will be domestic
- Abhijith V** And your EBITDA margin improvement it is mainly coming from FOREX loss which was there last year same quarter but it is not repeating but apart from that any.
- Vinati Mutreja** From last year-on-year our EBITDA has also improved because volumes have gone up so generally otherwise also, other than FOREX EBITDA has improved slightly.
- Abhijith V** Okay, because as per your earlier statement most of your growth was contributed by volume growth and not value as much. So in that case is it correct to read that may be operating efficiencies the capacity utilization might be going up which is helping the EBITDA margin is it right?
- Vinati Mutreja** Yes

Abhijith V So with the current capacity how much more can you add to top line?

Vinati Mutreja Current capacity we can be Rs.1,000 crores

Abhijith V With current capacity itself. Alright thank you ma'am I will get back into queue.

Moderator Thank you. The next question is from the line of Ashutosh Garud from Reliance Wealth. Please go ahead.

Ashutosh Garud So you mean to say that you are operating at around 60% to 70% of capacity utilization if I am not wrong.

Vinati Mutreja In ATBS yes.

Ashutosh Garud And how is the position in other products?

Vinati Mutreja We are close to 100%

Ashutosh Garud And can you just throw some light on the traction you are seeing, you mentioned the 90% most of the growth has come from the volumes itself so what kind of traction you are expecting going ahead let say next three to four quarters, for each of the segments which you are in?

Vinati Mutreja We continue to remain bullish ATBS, Isobutylene, HP-MTBE or we see good demand for these products, we see a good volume growth.

Ashutosh Garud But you expect these kind of almost 20%, 25% plus volume growths to continue in these segments I mean to say.

Vinati Mutreja Yes annualized 20% growth

Ashutosh Garud And can you share the CAPEX plan, what are the CAPEX plan in the next couple of years and which segment you would be spending and how much.

Vinati Mutreja About Rs.150 crores expenditure we want to do for co-generation and mostly for adding some new products.

Ashutosh Garud And this would be over next two years or one year?

Vinati Mutreja One and a half year, 18 months.

Ashutosh Garud And what is the normal asset turnover you expect from new plant by the time it is fully up and running?

Vinati Mutreja 1.5x.

Moderator Thank you. The next question is from the line Sameer Shah from Value Quest. Please go ahead.

Sameer Shah Just wanted to check on the FCCB, have we tried to buy it back?

Vinati Mutreja No.

Sameer Shah So when is it schedule to convert?

Vinati Mutreja There is no schedule as such but we are just working on the logistics on the regulations or what we have to do since it is the first time we are doing it.

Sameer Shah But there are no thoughts, now that the price has gone up there is no possibility.

Vinati Mutreja Of what?

Sameer Shah Of buying it back or repaying the FCCB so to say.

Vinati Mutreja I do not think there is any terms of repayment of FCCB.

Sameer Shah Okay, so it will get converted for sure

Vinati Mutreja Yes.

Sameer Shah So then we would have not provided for interest?

N. K. Goyal No we have not provided in the books.

Moderator Thank you. The next question is from the line of Rohan Gupta from Emkay Global. Please go ahead.

Rohan Gupta This first question is on this CAPEX, I think earlier our CAPEX plan was close to Rs.100 crores so have we revised it upwards to close another Rs.50 crores.

Vinati Mutreja No, it was always Rs.100 crores for new product and Rs.50 crores for co-generation power plants.

Rohan Gupta Okay, so you included co-generation Rs.50 crores. And you just mentioned ma'am that asset turnover of 1.5x on new products, which is slightly lower than what we are doing close to (+2x) on our existing products.

Vinati Mutreja On maximum level it could be up to two times also.

Rohan Gupta Even in new products also?

Vinati Mutreja Yes.

Rohan Gupta Okay, so it will be 2x roughly and not 1.5x at maximum level.

Vinati Mutreja Rs.50 crores is for co-gen which is not going to add any revenue.

Rohan Gupta Okay, the second question is on this ATBS, the utilization level we have reached almost 60% to 70% so do we expect that by yearend or next year we will be able to achieve 100% and then what is the plan going forward for ATBS only?

Vinati Mutreja 100% for ATBS will take another two years.

Rohan Gupta Another two years, but this quarter we have seen as you mentioned roughly 19% growth in ATBS.

Vinati Mutreja Year-on-year.

Rohan Gupta So do we see 20% growth...

Vinati Mutreja It will be 26, 000 metric ton for ATBS we are looking at least FY17.

Rohan Gupta Okay. And other products revenue contribution you mentioned is roughly 12% if I am not wrong for the quarter?

Vinati Mutreja Yes, correct.

Rohan Gupta So it was earlier 9%. IB I think used to contribute 8%, you mentioned 18% revenue contribution in the current quarter.

Vinati Mutreja It has gone up quite a lot, has almost doubled probably to 16% to 17%

Rohan Gupta So now in IB we are almost fully utilizing our capacities or still some spare capacities are there.

Vinati Mutreja We are fully utilizing but we will be doing some debottlenecking there, we will have to do it.

Rohan Gupta Can you just discuss the scope of debottlenecking and IB plant and with the investment.

Vinati Mutreja Investment will be marginal, it is included in the Rs.100 crores investment that I am talking about.

Rohan Gupta IB I think we have roughly 12, 000 tons of capacity.

Vinati Mutreja IB for the new product also that I am talking about and so this Rs.100 crores CAPEX include some debottlenecking for Isobutylene and it is not much may be about Rs.5 crores to Rs.6 crores single digit.



- Rohan Gupta** Okay, and with its significant portion coming down of IBB I think has come down significantly, so do we share similar margins in IB and ATBS or margins were higher or lower in IBB?
- Vinati Mutreja** Our margins are highest in ATBS.
- Rohan Gupta** Okay, so with the continuous growth in ATBS can we expect this margin is going forward will improve further?
- Vinati Mutreja** Growth is also going to come from the new product, in the new products do not necessarily have such high margins, so blended margins we expect to maintain.
- Rohan Gupta** Okay, and here you will likely to maintain that 20% is a volume growth guidance which you are looking for or is it total overall growth including product mix and price increase.
- Vinati Mutreja** It is total overall growth but because in our projections we take the price as stable so it means volume growth and overall growth.
- Rohan Gupta** Are there any chances of price increase in any of the products which we are making?
- Vinati Mutreja** We do not have any projection on that because it changes on market dynamics.
- Rohan Gupta** Okay and ma'am the debt which you have, you mentioned long term is Rs.140 crores and short terms is Rs.68 crores
- N. K. Goyal** It is not Rs.140 crores it is Rs.114 crores.
- Rohan Gupta** Okay, and the 150 which we project to invest. Will we take any further loans or it will be just generated by internal accruals?
- N. K. Goyal** So far we have planned for internal approval and accumulated cash which we have
- Rohan Gupta** So our debt level may not likely to cross probably Rs.190 crores something, so current debt is our peak debt?
- N. K. Goyal** No, this is not the peak basically. The total outstanding after this CAPEX you want to understand that thing?
- Rohan Gupta** Yes, I just want to know what can be our peak level of debts.
- N. K. Goyal** It will not going to go up, it will remain in the same range
- Rohan Gupta** Same level. Even includes working capital also right?
- N. K. Goyal** Yes.

- Rohan Gupta** Even including working capital our peak debt will remain at the current level right?
- N. K. Goyal** Yes.
- Moderator** Thank you. The next question is from the line of Paras Adenwala from Capital Portfolio. Please go ahead.
- Paras Adenwala** I just wanted to check on the margin thing. You mentioned that the margins on a blended basis remain the same, largely because of increase in margins from ATBS is being kind of balanced by the launch of new products. So when you launch new products are the margins slower initially, and do the margins improve as they keep on maturing, how does it really work?
- Vinati Mutreja** It depends from product-to-product. Sometimes the margins remain the same, sometimes they improve because of better utilization of capacity overtime so.
- Paras Adenwala** As we move along the contribution of, the newer products will keep on increasing in the turnover right, so would it be fair to assume that it is possible that there could be some dilution in margins because of that.
- Vinati Mutreja** May be after three years depending, because the three year plan that we have, we feel that the margins should remain the same, even the product mix now beyond that depends on the products that we add after that they could be better in terms of margin or they may not be adequate. But our criteria for product sections is mainly ROI, which we should be around 20%.
- Paras Adenwala** ROI is around 20%?
- Vinati Mutreja** Yes for new product selection.
- Paras Adenwala** Okay, because as we move along again currently your ROI is around 31% so as the contribution of the newer product keeps on increasing the turnover, does it mean that your ROI will keep on slipping?
- Vinati Mutreja** It could happen, because so far lot of growth has also come from brown field expansion, now when we do a full new product, new sight, third sight Greenfield expansion then yes ROI might slip little bit.
- Paras Adenwala** Okay, any threshold ROI that you would work around with?
- Vinati Mutreja** 20%.
- Paras Adenwala** That is far off; there is a huge gap between 30% and 20%
- Vinati Mutreja** Yes we are okay with anything that gives us 20% return on our investment five year payback.
- Paras Adenwala** Second question is on the working capital, receivables how are you placed right now?

- Vinati Mutreja** Near about 60 days.
- Paras Adenwala** So it is very much in control right now.
- Vinati Mutreja** Yes.
- Moderator** Thank you. The next question is from the line of Amit Kadam from LIC Nomura. Please go ahead.
- Amit Kadam** To talk about our long term strategy goal may be three years and above, how do we build other portfolio story in our, may be what would be the FY17-18 kind of thing portion, now other products in to our portfolio. So right now we are at somewhere around 10% to 12% so what will be that portion?
- Vinati Mutreja** In FY17 other products will contribute how much to the Rs.1, 200 crores, do you have that. It will be around 20% to 25%.
- Amit Kadam** And we are saying because this other product will be slightly lower in terms of EBITDA margin, relative to ATBS because ATBS has become benchmark for comparing all your products. But still can you spare guidance on what kind of EBITDA we can make in the next may be FY16-17 kind of thing, once the facility comes up and if there are other product which contribute almost 20% of our portfolio then.
- Vinati Mutreja** We will maintain EBITDA. What will happen is the share of IBB will come down, so the other product EBITDA margin will be similar to that of IBB that is why blended EBITDA margin will not change and ATBS share will remain almost the same.
- Amit Kadam** Okay, so basically it would be forward-integrated into the products the IBB.
- Vinati Mutreja** No, that is not correct, what I am saying is that going forward after three years as the percentage of other products increases in the sales mix. The percentage of IBB will come down in the sales mix. The other products and IBB you can say share similar EBITDA margin and essential ATBS share will remain the same in the sales mix. So the blended EBITDA margins will also remain the same.
- Amit Kadam** So can you give any like approx. number against it, we are just making a relative case here but any specific number against it, for the other product portfolio?
- Vinati Mutreja** No. Blended EBITDA margin is 22%.
- Amit Kadam** Okay, that is what we are aiming at
- Vinati Mutreja** Yes.
- Moderator** Thank you. The next question is the line of Rohan Gupta from Emkay Global. Please go ahead.

- Rohan Gupta** I have a follow-up question asked by some other colleagues. Did you mention that our ROE probably you are currently working on a ROE of 20% that is the benchmark so if we do roughly 2x sort of category product that we can generate 2x turnover and margins are remaining same at 20% that is what EBITDA margin is they are looking for so then our ROI and ROC at least should be 30%, so are we looking for a lower margin product going forward or low asset turnover?
- Vinati Mutreja** As you say, we look for a minimum ROI of 20% now it would be better than that and we would rather give conservative estimates over here, so you can do your calculation.
- Rohan Gupta** Okay, but right now none of our products follow in that category, that 20% of all of them are almost 25% to (+27%) am I right?
- Vinati Mutreja** Yes you are correct.
- Rohan Gupta** Okay. The new product line which you are looking for and you also just mentioned some Greenfield capacity also, so have we started seriously looking in that direction and what can be that product line going forward, with a similar chemistry which we are following right now or completely different.
- Vinati Mutreja** We are very seriously looking at other product, but it is too early to tell you, talk about the product line but it will definitely be something that fits our philosophy so far of better technology and all
- Rohan Gupta** And the other product which we are looking, will we follow the same philosophy of being the world leader or at least top three in the world, in those products also?
- Vinati Mutreja** Yes, correct.
- Rohan Gupta** Okay. Ma'am on this IB front we have seen a huge growth so from where this growth is coming is it mainly coming from food additives or agro base chemicals growth, what is the driving factor.
- Vinati Mutreja** It is coming mainly from agro based chemical.
- Rohan Gupta** And in IB what kind of margins we enjoy similar to ATBS or lower than that?
- Vinati Mutreja** Less than ATBS
- Rohan Gupta** Similar to ATBS.
- Vinati Mutreja** Less than ATBS.
- Moderator** Thank you. As there are no further questions I would now like to hand the floor over to Ms. Mutreja for closing comments. Over to you ma'am.

Vinati Mutreja Thank you everyone for attending our conference call.

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