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February 26, 2021

The Stock Exchange, Mumbai
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National Stock Exchange of India Ltd.
Listing Department,
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Bandra (East), Mumbai – 400 051.

Scrip Code: 524200

NSE Symbol: VINATORGA / Series: EQ

Dear Sir/Madam,

Sub.: Transcript of Conference Call

Please find enclosed Transcript of Conference Call with Analysts and Investors for general business update and recent developments which was held on February 10, 2021.

You are requested to kindly take the same on record.

Thanking you,

Yours faithfully,
For **Vinati Organics Limited**

A handwritten signature in blue ink, appearing to read 'Milind Wagh', is written over a horizontal line.

Milind Wagh
Company Secretary/Compliance Officer

Encl: As above



“Vinati Organics Limited's Update Conference Call”

February 10, 2021



**MAIN SPEAKER: MS. VINATI SARAF – MANAGING DIRECTOR & CHIEF
EXECUTIVE OFFICER, VINATI ORGANICS LIMITED**

MODERATOR: MR. RITESH GUPTA, AMBIT CAPITAL

Moderator: Ladies and gentlemen, good day and welcome to the conference call with the management of Vinati Organics 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 operator by pressing 'star' then 'zero' on your touch tone phone. Please note that this conference is being recorded. I now turn the conference over to Mr. Ritesh Gupta from Ambit Capital. Thank you and over to you, sir.

Ritesh Gupta: Hi, everyone. Welcome to Vinati Organics call. I think the agenda to have this call was to discuss the recent updates from the Vinati Organics side and to talk about the way forward. I think they have done some interesting announcements over the last 12 months and probably we'll discuss it over the course of the call.

I would now ask briefly, Vinati who is the M.D. and CEO of the company to give her opening remarks and probably just take us through how she's looking at this company over next two, three years and, last one or two years have been a bit difficult from earnings growth standpoint, so what has been the key drivers of that, and then probably we can take Q&A.

Vinati Saraf: Thanks, Ritesh. Good morning, everyone. I am Vinati Saraf. To start with the business update, I'll go product-wise; ATBS, which is our large product, in fact, the first six months of this year, April to say November the sales were muted, especially because of the application in the oil and gas sector which was down while the other applications were doing fine, water treatment and personal care, but that was down. But December onwards that has picked up, in fact, as of today, we are back to pre-Covid levels in ATBS, we have sold out almost in April, the demand has just picked up, our expansion for ATBS will be completed by Feb-end and April onwards we should have capacity of 40,000MT.

Now coming to IBB, in general, this year has been a very good year in 1Q especially, there was a lot of stocking up happening when the BASF plant is also up and running, which is our large customer. IBB in fact, one would see a sales growth of more than 20% this year compared to FY20.

Then coming to our products, let's talk about isobutylene also, which we use captively for ATBS as well as for agrochemicals and that has been fairly stable this year, pesticide demand has been the same.

Now coming to the new projects, the butylphenol plant, we are already producing three out of the four butylphenol. It's also ramping up, there's a good traction in the market, we are mostly substituting imports, earlier these products are imported into India and there was no other manufacturer for these products. So, we are seeing good uptick and also we have started exporting a couple of these butylphenol. So, the demand in general is good, AO demand has gone up also.

Then coming to the other IB derivatives which also we have announced a CAPEX of close to about Rs.210 crores adding a new butylphenol as well a couple of IB derivatives, that is on track, should be ready somewhere of second half this year, we expect total revenues of 300 crores from that.

Now coming to the merger scheme that the board has just approved, let me just give you a background on that. Veeral Additives Private Limited is a company which is 100% presently owned by the promoters of VOL. This company was set up to make three types of antioxidants; 1010, 1076 and 168. Presently, the demand for AOs in India is about 10,000 MT and our total capacity is 24,000 tons whereas the global demand is 3 lakh tons. From VOL perspective, this is the best investment or acquisition opportunity out there; a) there's a lot of synergy, two of the four butylphenol VOL is making will be completely consumed by these AOs itself, the 2,4 DTBP and 2,6 DTBP. So it's a case of vertical integration. Secondly, the AO demand has really picked up over the last one year and in general there is no such a size plant of AO in India. So, will be the only integrated AO and the largest manufacturer of these products in India. The demand is driven by plastics, it goes into LDPE, LLDPE and Polypropylene, etc., Also, the total revenue of these AOs, expected revenue is Rs.500 crores, but if you take the incremental revenue, because if you nullify the 2, 4 and 2, 6 DTBP which will be coming from butylphenol plant, then the incremental revenue is about Rs.300 crores and for this transaction VAPL is valued at just Rs.125 crores of equity and VOL is valued at the current market price. In fact, the promoters have decided not to take cash from the VOL for this transaction, instead, they are more comfortable taking VOL shares at the present market price and I think the promoter holdings increases marginally post merger, of course, subject to various approvals.

Given all these expansions and schemes in place, this year, of course, there will be a degrowth compared to FY'20, maybe about 10%-odd in revenue, a little less than that, but FY'22, '23 we expect a CAGR of 20%, 25%. So that's the general business update from my end. Open to Q&A now.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. First question is from the line of Dhananjay Sinha from Emkay Global. Please go ahead.

Dhananjay Sinha:

So, first question would be on the Veeral Additives angle. So, just wanted to know what kind of CAPEX was there for this 24,000 capacity or that 40,000 that we can say for capacity because 16,000 would be captive there also? And when we should see the utilization level reaching at optimum level for this capacity?

Vinati Saraf:

So the total CAPEX so far in Veeral Additives is close to 250 crores and maybe we have to do an incremental CAPEX of about 50-odd crores to optimize the operation. We expect the plant to be running by October. And capacity ramp up and utilization one can expect within two years to reach close to 90% utilization.

- Dhananjay Sinha:** And secondly, on this other new project which we announced earlier that 150 plus 60 crores CAPEX, roughly 210 crores CAPEX, what the development there and how we are seeing the ramp up in that segment, again that we could see the optimum utilization level reaching from that segment of that product?
- Vinati Saraf:** So, there we are doing the investment, I guess those expansions and the investments should be again completed somewhere around second half of this year and ramp up of that would take about one year because those are incremental products and most of them are not very large products, and spread across 3-4 different products.
- Dhananjay Sinha:** What the end user industry for that Rs.210 crores and how that is growing right now?
- Vinati Saraf:** They go into agro chemicals and dyes, plastic additive.
- Moderator:** Thank you very much. We have a next question from the line of Utsav Mehta. Please go ahead.
- Utsav Mehta:** If you could just for the new projects and for the acquisition which is basically butylphenol, IB derivatives and for Veeral Additives, just tell us what the margins on commissioning would be, and how do you expect those to ramp up?
- Vinati Saraf:** See, I don't know if it's correct to give product wise margins. But I think blended margins at a company level one can expect EBITDA margins of say 30%-35% for the next three, four years, or so.
- Utsav Mehta:** Let me rephrase that. Will the gross margins of these new products be higher or lower than what we're currently doing?
- Vinati Saraf:** It's different for different products. I'll just give you a rule of thumb. Smaller products, niche products generally have higher gross margins, the larger the product your gross margin is smaller, more of a revenue play. So depends.
- Utsav Mehta:** My second question was on the organic growth. So I think when I quickly add these up, it shows an incremental revenue of close to Rs.700 crores over the next two to three years as we ramp up. On the organic business outside of these, what kind of growth do you expect?
- Vinati Saraf:** I believe by organic you mean the existing product. ATBS is looking very good right now. But just to be conservative, maybe I would say you can expect 15% growth year-on-year or maybe a little more. Coming to IBB, this year, we saw a big jump, but it was also down for the previous two years. A lot of new ibuprofen manufacturers have come up in India, ibuprofen market is doing well. So maybe double digit growth on IBB as well. Isobutylene is fairly stable and butylphenol we are anyway ramping up, at least year-on-year growth will be 30%, 40%.
- Utsav Mehta:** Fair amount of cash on the book. Any plans of deployment, organic, or in terms of buybacks or dividends or anything on those lines?

- Vinati Saraf:** Some cash will get consumed for VAPL during the merger, because of the VAPL I said was a CAPEX of Rs.250-odd crores. So there's a debt portion to it, about 150-odd crores, which will get repaid post that. Now, of course, we will also have accruals coming up till then. Our dividend payout policy remains the same, 20%. The idea is to keep coming up with more projects and keep investing on those. So given the CAPEX of Rs.210 crores and with the proposed VAPL merger, there is no buyback on our minds.
- Utsav Mehta:** So basically, it's fair enough to summarize that you see enough opportunities to deploy this cash but you're not thinking of paying it out right now?
- Vinati Saraf:** The normal dividend will be given, 20%.
- Moderator:** Thank you very much. We have a next question from the line of Dhruv from HDFC. Please go ahead.
- Dhruv:** So first on the Veeral Additives. Can you give some history into assets, I mean, why was the company being established outside the Vinati Organics domain? I believe will be there are some technology issue but if you can help us understand it better, please.
- Vinati Saraf:** Honestly, VOL never worked on these AOs and we were not aware of these products neither have we worked on the technology or developed it. Someone came to us, who had prior knowledge of these products mainly because VOL was into butyl phenol. It was a JV in which 20% was owned by this person who was expert of this market. And since the technology wasn't established as we weren't taking a license from anyone, we felt uncomfortable putting it in Vinati Organics at that point. Over the last three years, we have bought out that person's stake and is now 100% owned by the promoters of VOL. We have established the technology, the process that has been tested, the products have been approved by customers and we have good knowledge of the market and the industry right now. So we thought it's best to just merge it with VOL given the synergies in place. And if VOL is looking for outside acquisition opportunities, other opportunities are valued somewhere at 5x sales and 30x PAT. Given all of that we felt this is the best investment that VOL can do at this stage.
- Dhruv:** No, so my question was more from the point that this is a downstream for you, because this probably goes from butylphenol to forward integration product. So just wondering, why was it not originally part of the Vinati? But as you mentioned, because of the technology issue, you're not certain about the technology.
- Vinati Saraf:** And it's better now I think as the promoters are all concentrated just on VOL if the merger goes through, so all our interests is just in one company. So from that perspective also I think it makes a lot of sense.
- Dhruv:** And now the other 20% partner...?
- Vinati Saraf:** Yes, Yes, we have bought out the stake last year.

- Dhruv:** if you can share any particular reason, because that JV was established for the purpose of developing this product along with the technology partner, but now he's out, so any particular reason why he's out or he just wanted to cash out?
- Vinati Saraf:** Yes, he wanted to cash out and we saw value in it, we bought him out.
- Dhruv:** I was just browsing through, I was seeing a release by Caldic, it seems they have tied up with you for these products. So what is the arrangement, is it I mean, they have given you firm contracts in terms of volumes or pricing or what is it?
- Vinati Saraf:** It's too specific, it's a distribution contract for Europe. They are distributors for these products and they have good relations with customers. These products are used by refineries and in India it is used by Reliance, OPAL, ONGC etc.
- Dhruv:** And one last clarification, the investment required here is incrementally 50 crores what you have done and Rs.50 crores...?
- Vinati Saraf:** That is right.
- Dhruv:** So after this acquisition and once the ramp up happens, ATBS currently is about if I'm not wrong, probably around 60%, 65% of revenue, so probably would it go to about 40% or below in that range. 40% or below?
- Vinati Saraf:** ATBS maybe come down to 40%, 45%.
- Moderator:** Thank you. We have a next question from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** So on Veeral Additives, 120 is the equity value. What is the debt that is being taken away?
- Vinati Saraf:** Right now it's 150 crores.
- Dheeresh Pathak:** The total EV value is 270, right?
- Vinati Saraf:** Yes, maybe the debt is a little less right now or 140 crores, but there will be additional CAPEX of 40-odd crores. Yes, the EV value as of today is around 260 and additional CAPEX we will do up to October.
- Dheeresh Pathak:** I'm just going to summarize my understanding, so, there is Rs.300 crores of incremental revenue potential from Veeral, there is IB Derivative CAPEX which we will finish by second half, that is Rs.300 crores, then there is butylphenol which has not fully ramped up, which was supposed to be Rs.300 crores, maybe it is doing only Rs.100 crores right now, another Rs.200 crores revenue potential there. And then ATBS expanded capacity, and obviously ATBS volumes are down 20% this year, so, you're probably doing 20,000 versus capacity of 40,000,

so 2x, so, the guidance 20% CAGR for two years, looks on the lower side, given the lower base and the CAPEX and revenues that we've talked about.

- Vinati Saraf:** That may be correct. We are being conservative in our guidance.
- Dheeresh Pathak:** So when you said ATBS, we are being completely sold out in April, you meant on the expanded capacity sold out or on the earlier capacity of ...?
- Vinati Saraf:** The expanded capacity comes on stream only Feb end. So if we take that also in account, we are still quite comfortable with our sales up to March end.
- Dheeresh Pathak:** What I want to talk about that in the next one, two years, we expect to fully utilize this expanded capacity or you feel it will take some...?
- Vinati Saraf:** That will two to three years fully to ramp up from 20,000 to 40,000 tons, I would say, three years once we take in the projection.
- Dheeresh Pathak:** Just trying to understand the value add. So when you said that total revenue potential was 500, incremental was 300, what is the...
- Vinati Saraf:** Butyl phenol potential was 400. Okay? Now out of that 200 of those butylphenol will be going into VAPL into AO. So that is why I'm just reducing that. AO was a separate company for example, it was a subsidiary, and the revenue from VAPL will be Rs.500 crores, but my inter unit transfer will be Rs.200 crores of butyl phenol
- Dheeresh Pathak:** That I understood, but I'm just trying to understand the value addition, which was not captured earlier, that value addition, although we are knocking of the sale, but the value addition is being remained within the company, right?
- Vinati Saraf:** Yes, the value addition will be Rs.300 crores for VOL.
- Dheeresh Pathak:** So just trying to understand that, on an EV/EBITDA basis, what is the value that we've ascribed to...?
- Vinati Saraf:** Generally we expect EBITDA of about 20%, that can be a rule of thumb.
- Moderator:** Thank you. We have a next question from the line of Vrijesh Kasera from Mirae Asset. Please go ahead.
- Vrijesh Kasera:** On the opportunity that you shared in your opening remarks the market is of 3 lakh tonnes I just want to understand the competitive scenario in this market here, because majority of our products are kind of an oligopolistic structure, so how are we placed in this market?

- Vinati Saraf:** See, AOs globally is a large business. The largest players are BASF, SI Group, Songwon in Korea, company called Rianlon in China; there are a couple of others in America. Now, what the idea to put AO in India was right now there is no capacity for AO in India. And the reason being there was no butylphenol in India. We will be probably the only or the second other player globally to be doubly backward integrated in AO, we will not only have butylphenol, but we will also have IB which I don't think in fact anybody has. So that gives us a lot of advantage in these products, plus the local demand, plus globally this demand is growing, plastic demand in general, because of PP, LLDP has been growing plus, in general, these incremental growth of AOs is about 5% to 8% year-on-year. So just to capture all of that, it made a lot of sense for this plant to be set up in India.
- Vrijesh Kasera:** There are a lot of these competitors that you mentioned right now. So for the AO capacity, that is mainly for the India market or this is basically there will be tie up?
- Vinati Saraf:** It will be both for local as well as export.
- Vrijesh Kasera:** So you would basically get the excess of their clients immediately, right, so that's where the confidence of...?
- Vinati Saraf:** We have not tied up with anyone. I'm just saying there is a good demand for these products, and customers are interested in other manufacturers who have a plant in India. And we will get access to a lot of export to customers, which we are currently not serving. So this market just looks promising for us.
- Vrijesh Kasera:** And none of the existing competitors are expanding right now as per your understanding because considering this is such a good market and expanding?
- Vinati Saraf:** I'm not sure right now they're expanding or not, but incrementally, to keep up with the growing demand of 5%, 8%, if you see historically over the last 20-years, they keep making incrementally CAPEX to expand.
- Vrijesh Kasera:** The technology partner that we had, and we bought out, when buying out did we signed a kind of non-compete clause with them, he can't share that technology with somebody else?
- Vinati Saraf:** It is confidential for me also to share. If somebody wants to share, they can share the technology, but availability of 2,4 and 2,6 DTBP is a concern or they might have to buy from VOL.
- Moderator:** Thank you very much. We have a next question from the line of Tejas Sheth from Nippon India AMC. Please go ahead.
- Tejas Sheth:** In the opening remarks, you mentioned that the margins at the company level should be at around 30% versus the range of 38% to 40% which we do right now. So are we underplaying here as well versus in terms of growth?

- Vinati Saraf:** No, the ATBS share will come down and butylphenol, AO, they are not high margin products and are more competitive. So just to be safe, to be conservative, to be practical, I would say you reduce the margins to 30%, 35% over the next three to four years.
- Tejas Sheth:** But wouldn't be the ATBS operating leverage will also play out considering that we are doubling our capacity and it's more like a Brownfield expansion, so the margin profile of ATBS itself will...?
- Vinati Saraf:** But, we will also become aggressive in selling ATBS maybe presently the lower price customer that we are not targeting, we will target. So, just I would not recommend taking 40% in projections for the next four years.
- Tejas Sheth:** On the AO side, you mentioned that the global demand is around 3 lakh tons and our capacity is 24,000. So, typically we are 8% of the market share in terms of capacities. Whenever we have entered a product, we have really ramped up our capacity killing the competition. So, would that kind of opportunity prevail here as well where we can be 30%, 40% of the global capacity and demand meeting?
- Vinati Saraf:** It's too early to comment, the idea behind it is synergy, integration, import substitution. So let's see how it plays out.
- Tejas Sheth:** How we see the ramp up of butylphenol for next two, three years? I think this year, it was below our expectation.
- Vinati Saraf:** See, we were supposed to be ready fully with butylphenol in April and then the lockdown happened and we lost some labor in the butylphenol plants and consultants were not showing up. So we saw a delay of about two quarters especially also because the new project became sort of less of a priority and we were firefighting on our existing operations and existing products. But October onwards, November onwards is doing okay. Like I mentioned, we are making three out of the four butylphenols, the fourth one also we will start in February. So give it two years for ramping up, there is good demand... in fact, we are seeing good demand from export market also. Because we use a big chunk of butylphenol goes in AOs. And because the AO market has grown in the last one year, we're seeing good demand for butylphenol in the export market right now.
- Tejas Sheth:** New products under development over the next two, three years, how is the pipeline, any highlights, insights into this?
- Vinati Saraf:** So we have announced quite a few new products, but they are much smaller products, niche chemicals used for personal care and dyes and agro, etc., we are working in our R&D on larger products also. So, let's see something shapes up. We have to be 100% sure of the CAPEX before announcing it.

- Tejas Sheth:** Even if we build a conservative estimate to your cash balance in the books for next three years would be I think upwards of 1,000 crores which we can in a way kind of invest big in some large production if I am not wrong?
- Vinati Saraf:** You're right, absolutely, we are constantly on the lookout for that and those kinds of products.
- Tejas Sheth:** Is there any inorganic on the plate in terms of the rising opportunity of this API manufacturing in India, are we looking at any n-minus two, n-minus three kind of opportunity in the pharma space?
- Vinati Saraf:** Nothing inorganic, we have evaluated opportunities in the past. I just find them too expensive, any company that is doing well wants at least six, seven time's sales and 40x times EBITDA and I'm unable to justify those acquisitions. But yes, if there is a synergy, if there is some value addition that we can bring, if it makes operational sense for us to buy it, then we would consider it but given the nature of our products, it's difficult to find such options. It has to be strategic in nature.
- Moderator:** Thank you very much. We have the next question from the line of Pavas Pethia from Enam AMC, please go ahead.
- Pavas Pethia:** When you talk about 20% margins that's on the incremental revenue or you're seeing Rs.100 crores or gets added in EBITDA just because of this Veeral Additives?
- Vinati Saraf:** 20% EBITDA margin is on incremental revenue.
- Pavas Pethia:** So, had Veeral Additives continued as a separate entity, they would be doing EBITDA of Rs.60 crores or Rs.100 crores?
- Vinati Saraf:** You are right, 60 on 300.
- Pavas Pethia:** Then they would have clocked a revenue of Rs.500 crores na?
- Vinati Saraf:** Yes.
- Pavas Pethia:** On that they would have been earning Rs.100 crores?
- Vinati Saraf:** Yes, correct, Rs.100 crores.
- Pavas Pethia:** The second part is, are there any other sizable entities at promoter level or this was just one off because...
- Vinati Saraf:** This is only one, there is no other sizable entity on the promoter level into any sort of manufacturing or chemical business or any other business for that matter.

- Moderator:** Thank you very much. We have next question from the line of Sudarshan from Sundaram Mutual Fund. Please go ahead.
- Sudarshan:** Ma'am, if I understood correctly, there are Rs.150 crores of debt that is also there in Veeral, right, that will also be coming into our books once the consolidation happens?
- Vinati Saraf:** Yes, yes, correct.
- Sudarshan:** From ROC perspective, if I today look at our company, with over one and a half times kind of an asset turn and even if you're assuming that the margins come down kind of 30 to 35% kind of margins, we will have a pre-tax ROC of over 50%. But, I mean, can you give some matrices with respect to what would be the ROC's asset turn on Veeral? I understand that 20% margins is there, but would it be compensated by higher asset turn?
- Vinati Saraf:** In Veeral, the asset turn is actually 1:1, right, the incremental turnover is 300, the assets would be about 300 again and...
- Sudarshan:** So, we are looking at about 20% pre-tax kind of ROC on that business?
- Vinati Saraf:** Yes, correct.
- Sudarshan:** Wouldn't that be our ROC dilutive as and when it comes into our business?
- Vinati Saraf:** It is but the problem with us is right now the cash on hand, right, if you have 500 crores cash on the books which we are investing and getting 4%, 5% we have to reduce our expectations of ROC, it's very difficult to find projects with ROC as high as our existing business, right, 40%, and that happens over the years as you ramp up, as you gain scale, as you gain traction in the market, as you become better and a more significant player, your ROC increases and improves. But just to take that estimate from the beginning is not advisable I would say especially when entering into a new market.
- Sudarshan:** Would have been more wise to have taken it instead of a share swap rather than doing it directly with cash because you would be getting higher ROC on cash and cash would also come down on books. So from that perspective, it would be a little bit more better as far as the ROCs are concerned or the share swap in your opinion is the right way to go about it?
- Vinati Saraf:** And the promoters what do we do with the cash, I mean as an owner of VAPL, I had two choices, right, either to take cash of 120 crores or take VOL shares and I see more value in VOL share. Our holding will increase from 74.1% to 74.3%.
- Sudarshan:** One final question from my side is among the projects. I think what we've been hearing from is the PAP project, which I think is more relevant given that the government is talking about Make in India and more focused and I think Paracetamol is one of the names in the list. Where

are we in the development, I mean, do you think that in the next couple of years we should see the PAP coming on marketing side?

Vinati Saraf: You're right; PAP is a product that is imported into India largely from China. A lot of the Paracetamol manufacturers in India are keen that a big PAP plant should be set up with a clean process and it's also under falling under the PLI scheme that is where the government has given some sops for it. Our technology is novel. We had dropped the pilot plant trials about a year and a half back and we were focusing on butyl phenol and the ATBS ramp up but now because of this new PLI scheme, we are again restarting the trials but it will take six months to one year to at least fully know if we can go ahead with the investment or no.

Moderator: Thank you very much. We have a next question from the line of Amol Kotak from Karma Capital Advisors. Please go ahead.

Amol Kotak: One is there is this product called IBAP which you were looking at some few years ago. Any update on that or...?

Vinati Saraf: IBAP is basically put-on hold. We were working on a new technology based on HF. We realize there are safety concerns with handling HF. Also our customers have not shown much interest because it would mean they would have to change their drug master file because of impurity profile changes, etc., so as of now it's on hold.

Amol Kotak: And we will be looking to export to BASF Germany plant whenever it comes up, right, for the Ibuprofen thing, that's also in the future as and when it happens?

Vinati Saraf: Yes, if BASF puts up a plant anywhere, we would be very happy to partner with them.

Amol Kotak: Just one clarification. So, butylated phenol and antioxidants, both put together has a revenue potential of Rs.700 crores; 400 was earlier butylated phenol, of which 50% will be consumed in-house and VAPL on a standalone basis would have Rs.500 crores, these two put together will be Rs.700 crores with a margin profile of 20%, 25?

Vinati Saraf: Yes, that's correct, 400 plus 300.

Moderator: Thank you. We have a next question from the line of Shantanu Bhowmik from Pinebridge Investment. Please go ahead.

Shantanu Bhowmik: I just wanted a clarification. Most of my questions have been answered. In a number of interviews, you mentioned that for incremental investment, typically we look at 15% to 20% return on capital. Based on this if you say invest 100 crores, is it that we expect 15, 20 crores of profit?

Vinati Saraf: No pre-tax.

- Shantanu Bhowmik:** At pre-tax level we expect 15% to 20%, if you put in 100 crores we expect 15, 20 crores of pre-tax profit.
- Vinati Saraf:** Yes.
- Shantanu Bhowmik:** Secondly, what percentage of ATBS demand goes in for oil and related because going by...?
- Vinati Saraf:** About 30%.
- Moderator:** Thank you. We have a next question from the line of Bhavnani Anand from White Oak Capital. Please go ahead.
- Bhavnani Anand:** I have three questions. First is when we say Veeral can do 500 crores revenues, this is for the 24,000 or the 40,000 capacity?
- Vinati Saraf:** This is for 24,000 capacity.
- Bhavnani Anand:** Eventually this will be ramped up to 40,000?
- Vinati Saraf:** Early to say, depends on how the products pick up.
- Bhavnani Anand:** In general in existing product lines, we have advantage of having a green chemistry root. Is the same advantage available in these new antioxidants under Veeral?
- Vinati Saraf:** Yes, absolutely, that also is one of our filters other than ROI and synergy and strategy; it has to be clean and green, non-polluting process. In fact, that's one of the reasons we've never ventured into Ibuprofen because the process available to make Ibuprofen creates a lot of effluent and we as a company stay away from these kinds of products and processes.
- Bhavnani Anand:** With AO the domestic market is 10,000 tons per annum. Fair to assume that we will be able to garner around 50% of it in due course let's say first full year of operation?
- Vinati Saraf:** Yes, correct, actually the AO present market is maybe close to 12000 and 50% market share is a fair assumption.
- Bhavnani Anand:** With this 24,000 capacity, are we expecting it to get commercialized all the 24,000 in one go or it will be in stages?
- Vinati Saraf:** It's a continuous plant. So it will be ready in one go like all our other plants; the sales pick up takes time.
- Bhavnani Anand:** With regard to the tax for this particular plant, I mean, last year in September 2019, you have some new scheme for 15% corporate tax for new plants. So would this fall under that or would it be under the older tax regime?

- Vinati Saraf:** This is under the older tax regime because it was formed before that scheme.
- Moderator:** Thank you very much. We have next question from the line of Ayaz Motiwala from Nivalis Partners. Please go ahead.
- Ayaz Motiwala:** I have one question on the ATBS technology. Is there some sort of sunset on the IPR or the license that we have which is coming up?
- Vinati Saraf:** We had renewed the license and we will be doing it again at least to protect our IP. But having said that, over the last 20-years since we started ATBS we have created moats around our business, which is not just restricted to IP. We have backward integrated into isobutylene, and forward integrated into manufacturing IB derivatives, we are the largest manufacturer of ATBS in the world, we have tie-up, long term contract with our customers and we will be having surplus capacity to fulfill the demand over the next three years at an incremental cost with brownfield expansion. So there are a lot of strengths that we have created around this business and are not just restricted to IP.
- Ayaz Motiwala:** The other question was partly sort of asked and you have alluded to the fact that you have this integration capability for the butylphenol and forward into antioxidants side of the business which is coming up for which you've just done this acquisition. Can you sort of explain in a broad fashion like we know about ATBS, which you also refer to on your strength in terms of the backend on butylphenol itself, which is a fairly new project?
- Vinati Saraf:** So the reason we are making butylphenol is because we are backward integrated. The main product of butyl phenols is phenol and IB and we make on our own IB. Phenol is available domestically as well as it can be imported. And now we will be forward integrated from butylphenol into AOs pursuant to the merger.
- Ayaz Motiwala:** So the PAP project that you talked about especially in the light of PLI which is coming up, are these sort of large interchangeable project, how do you look at these two opportunities?
- Vinati Saraf:** PAP will be a large opportunity product, at least 500-600 crores CAPEX and revenue potential.
- Ayaz Motiwala:** And lastly, you did talk about saying we have initiated with some small products and you'll see how they grow and then we will commit CAPEX, like the way you do, to sort of build a large national scale and then probably at a global market or the other way around. Can you talk about one or two of the new products beyond butylphenol that you have?
- Vinati Saraf:** I can only talk about what is announced. Now we have announced PTBBA expansion. PTBBA is made from IB and toluene. It is used in personal care in avobenzene and is growing, and is also used in alkyd resins and plastics. We have announced other butyl phenol OSBP, DSBP, TBOC which are used in dyestuffs, intermediate agrochemicals. The total potential is of 300 crores.

- Moderator:** Thank you. The last question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** Just on AOs, can you just help me understand the other competitors how backward integrated are they, and what sort of scale do they have versus we have per annum?
- Vinati Saraf:** I would say that between BASF, Songwon and SI, they have more than 70% or so. The rest is coming from Chinese, Taiwan and American companies. In our knowledge maybe 1 or 2 of the competitors are backward integrated.
- Dheeresh Pathak:** So of the three large players, two are backward integrated and will have a larger scale. So compared to their cost structure, is our process efficiency better that at a lower scale we will be able to compete?
- Vinati Saraf:** I don't know. It's early to say. I would say similar. They don't have manufacturing in India.
- Dheeresh Pathak:** One last thing on PLI. So is my understanding correct that we have applied for the PAP PLI? When is the outcome expected?
- Vinati Saraf:** We are waiting to hear from them. It takes few months. But more importantly for us is to get our technology because even if it gets approved in PLI, our trials have to be successful.
- Dheeresh Pathak:** Did we get encouraged by that incentive? What is it in this case? Is it like 10% 15%, how much of the revenue being built?
- Vinati Saraf:** It's actually not that much. I believe on a long-term basis, it will be somewhere around 5%. But we got encouraged not just by that, but also because our customers approached us as they were facing issues in importing it from China. But more importantly, for us, the technology has to be viable and we will not be making the investment purely because of a scheme or an incentive given.
- Dheeresh Pathak:** But when we get approved, then we will have an obligation right now to go ahead or we can still give up after getting approved in the PLI?
- Vinati Saraf:** No, there is no obligation to go ahead. It will just go away to someone else if we give up.
- Moderator:** Thank you. Participants, that was the last question for today. I would now like to hand the conference over to Mr. Ritesh Gupta. Over to you, sir.
- Ritesh Gupta:** Thanks, everyone, for joining us onto the call. And thanks, Vinati for patiently answering so many questions. Thanks so much for again for attending this call.
- Vinati Saraf:** Thank you. Bye.



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Moderator: Thank you very much. On behalf of Ambit Capital, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.