Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Vinati Organics Ltd

Stellar Q4, solid growth outlook

Speciality Chemcials	Sharekhan code: VINATIORGA
Reco/View: Buy ↔	CMP: **Rs. 2,062**
	Price Target: **Rs. 2,450** ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 30.57

Updated Apr 08, 2022

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

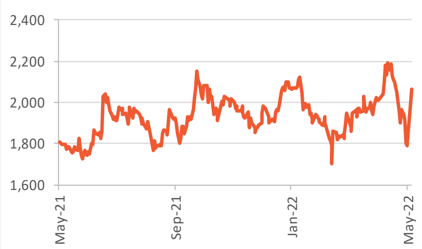
Company details

Market cap:	Rs. 21,198 cr
52-week high/low:	Rs. 2,290 / 1,675
NSE volume: (No of shares)	0.5 lakh
BSE code:	524200
NSE code:	VINATIORGA
Free float: (No of shares)	2.7 cr

Shareholding (%)

Promoters	74
FII	8
DII	5
Others	14

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.1	9.6	5.2	13.9
Relative to Sensex	6.1	15.6	14.1	5.7

Sharekhan Research, Bloomberg

Summary

- Vinati Organics ended FY22 on strong note with a massive beat of 24%/35%/21% in Q4FY22 revenue/operating profit/PAT at Rs. 486 crore/Rs. 139 crore/ Rs. 101 crore, up 32%/50%/22% q-o-q. We believe that robust growth was led by strong volume growth across products, ATBS margin recovery and ramp-up of Butyl Phenol.
- Improved growth outlook across products - ATBS to benefit given elevated oil prices, IBB to witness robust growth on low base of FY22 and sustained revenue ramp-up for butyl phenol. Margins to recover to 30-31% given operating leverage and a favourable base (FY22 OPM contracted by 1,070 bps y-o-y to 27%).
- The management had earlier guided to almost double its revenues to Rs. 3,000 crore by FY25 and sustainable margin of ~30% driven by optimum expansion of existing products (like ATBS) and ramp-up of new products (Butyl Phenol, anti-oxidants and five specialty intermediates).
- We maintain a Buy rating on Vinati Organics with a revised PT of Rs. 2,450 given our expectations of strong 33% PAT CAGR over FY22-24E, dominant market share in ATBS/IBB, entry into newer products and improvement in RoE/RoCE to 25%/32%.

Vinati Organics Limited's (Vinati Organics) reported robust consolidated revenue growth of 74%/32% y-o-y/q-o-q to Rs. 486 crore, a sharp beat of 24% versus our estimate of Rs. 392 crore. Moreover, OPM at 28.6% (up 341 bps q-o-q) beat our estimate by 235 bps led by benefit of operating leverage driven by sharp rise in revenues versus a 3% q-o-q decline in operating cost (as a percentage of revenues declined by 628 bps q-o-q to 17.5%). Resultantly, operating profit was up by 50% q-o-q to Rs. 139 crore, which was 35% above our estimate of Rs. 103 crore. We believe that a strong revenue/earnings growth was primarily driven by robust volume recovery across products segments (ATBS, IBB & Butyl Phenols), recovery in ATBS led by higher demand from oil & gas given elevated oil price and better prices and ramp-up of revenues from butyl phenol. PAT at Rs. 101 crore (up 42.7% y-o-y; up 21.5% q-o-q) was also 21% above our estimate led by robust revenue/margin performance partially offset by higher tax rate of 28.8%.

Key positives

- Sharply higher-than-expected revenue growth of 74%/32% y-o-y/q-o-q.
- Beat in OPM by 235 bps to 28.6%, up 341 bps q-o-q led by benefit of operating leverage.

Key negatives

- Lower-than-expected gross margin of 46.1%, down 287 bps q-o-q and miss of 93 bps versus our estimate of 47%.

Revision in estimates – We have fine-tuned our FY23 earnings estimate and increase FY24 earnings estimate to factor higher growth in ATBS and faster ramp-up of revenues from new products.

Our Call

Valuation – We maintain Buy on Vinati Organics with a revised PT of Rs. 2,450: Vinati Organics' dominant global market share in ATBS/IBB segments, niche product portfolio and a massive export opportunity in the specialty chemical sector would drive sustained long-term high double-digit earnings growth. Likely higher ATBS margin and ramp-up of butyl phenol would drive strong 33% PAT CAGR over FY2022-FY2024E along with solid RoE of 24.7%. Potential incremental earnings contribution from integration of Veeral Additives (VAPL) would further aid earnings growth. Hence, we maintain Buy on Vinati Organics with a revised PT of Rs. 2,450 (reflects upward revision in FY24 earnings estimate). Stock is trading at 43.9x its FY2023E EPS and 34.5x its FY2024E EPS.

Key Risks

- Lower demand due to economic slowdown and delay in the completion of expansion projects might affect revenue growth.
- Higher raw-material prices and delay in the ability to pass on price hikes adequately and adverse forex fluctuations might affect margins.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	954	1,616	2,101	2,629
OPM (%)	36.9	26.9	30.4	30.9
Adjusted PAT	269	347	482	614
y-o-y growth (%)	*(19.3)*	*28.7*	*39.2*	*27.3*
Adjusted EPS (Rs.)	26.2	33.7	46.9	59.8
P/E (x)	78.7	61.2	43.9	34.5
P/BV (x)	13.7	11.6	9.5	7.7
EV/EBITDA (x)	59.6	48.9	32.5	25.1
RoCE (%)	22.5	25.2	30.2	31.6
RoE (%)	19.1	20.6	23.8	24.7

Source: Company; Sharekhan estimates

Robust Q4; revenue/PAT beat estimate by 24%/21%

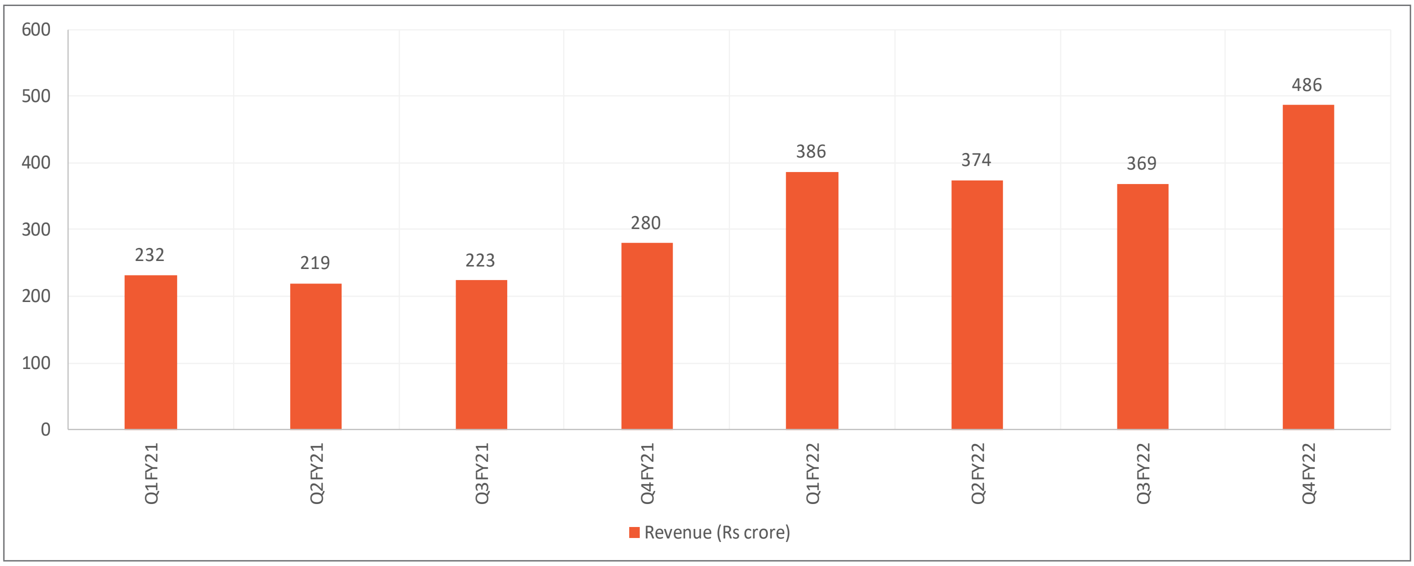
Robust Q4FY22 consolidated revenue growth of 74%/32% y-o-y/q-o-q to Rs. 486 crore, sharp beat of 24% versus our estimate of Rs. 392 crore. Moreover, OPM at 28.6% (up 341 bps q-o-q) beat our estimate by 235 bps led by benefit of operating leverage driven by sharp rise in revenues versus 3% q-o-q decline in operating cost (as percentage of revenues declined by 628 bps q-o-q to 17.5%). Resultantly, operating profit was up by 50% q-o-q to Rs. 139 crore, which was 35% above our estimate of Rs. 103 crore. We believe that strong revenue/earnings growth was primarily driven by robust volume recovery across products segments (ATBS, IBB & Butyl Phenol), a recovery in ATBS led by higher demand from oil & gas given elevated oil price and better prices and ramp-up of revenues from butyl phenol. PAT at Rs. 101 crore (up 42.7% y-o-y; up 21.5% q-o-q) was also 21% above our estimate led by robust revenue/margin performance partially offset by higher tax rate of 28.8%.

Results (Consolidated) Rs cr

Particulars	Q4FY22	Q4FY21	Y-o-Y %	Q3FY22	Q-o-Q %
Revenue	**486.1**	**279.8**	**73.7**	**369.0**	**31.7**
Total expenditure	347.3	180.6	92.3	276.2	25.8
Operating profit	**138.8**	**99.1**	**40.0**	**92.8**	**49.6**
Other Income	15.1	6.6	130.7	14.6	3.6
Depreciation	11.7	48.8	(76.1)	11.5	1.5
Finance Cost	0.2	10.7	(97.8)	0.0	NA
PBT	142.0	94.8	49.7	95.8	48.2
Tax	40.9	24.0	70.5	12.6	224.0
PAT	**101.1**	**70.8**	**42.7**	**83.2**	**21.5**
EPS (Rs)	9.8	6.9	42.7	8.1	21.5
Margin (%)			**bps**		**bps**
OPM	28.6	35.4	(688)	25.1	341
NPM	20.8	25.3	(453)	22.6	(176)
Tax rate	28.8	25.3	351	13.2	1,563

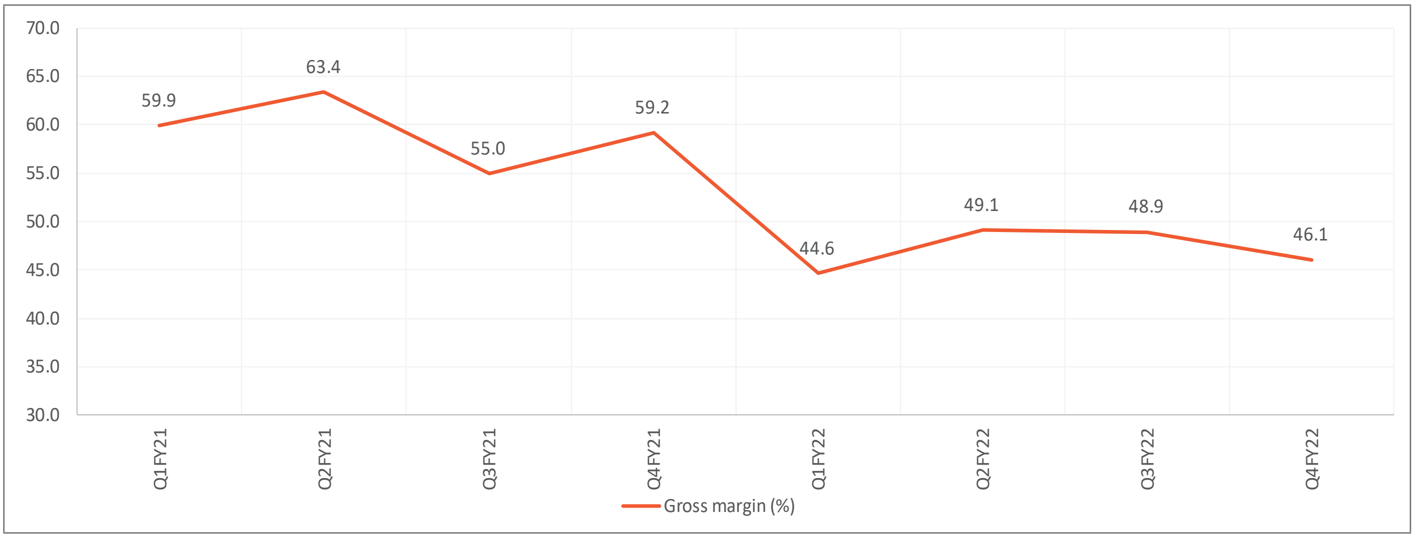
Source: Company; Sharekhan Research

Robust Q4FY22 revenues



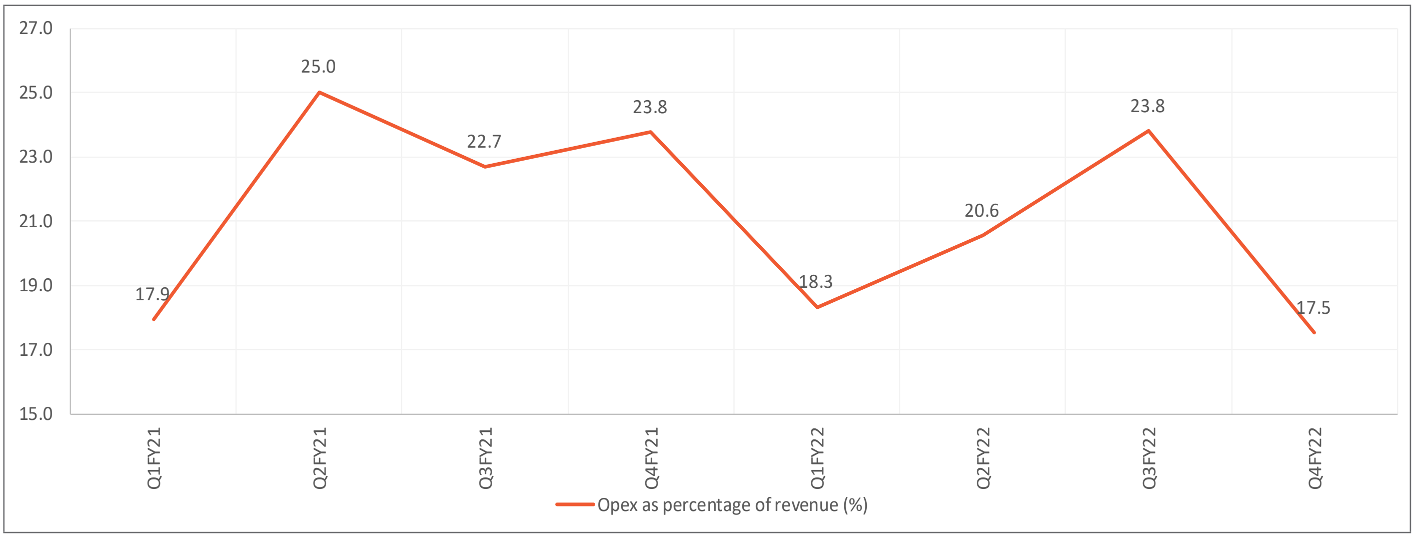
Source: Company; Sharekhan Research

Gross margin remain muted



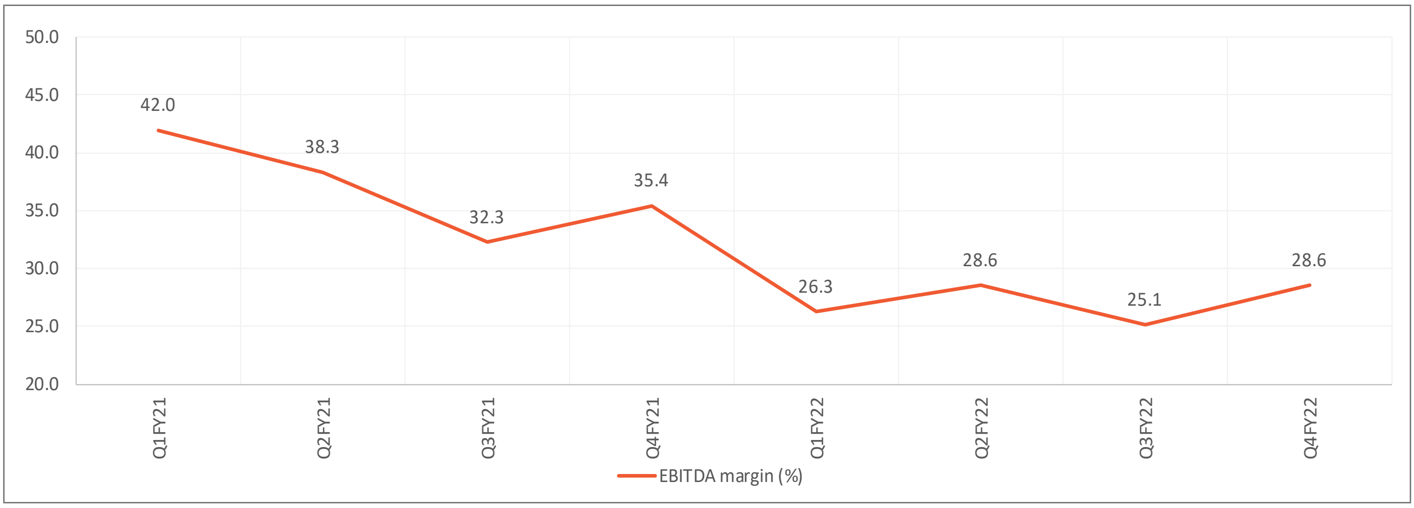
Source: Company; Sharekhan Research

Sharp decline in opex as percentage of revenue in Q4FY22



Source: Company; Sharekhan Research

EBITDA margin improves q-o-q on operating leverage



Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view – Structural growth drivers to propel sustained growth for the specialty chemicals sector in the medium to long term

We remain bullish on the medium to long-term growth prospects of specialty chemicals sector, given a massive revenue opportunity from the perspective of import substitution (India's total specialty chemical imports are estimated at $56 billion), potential increase in exports given China Plus One strategy by global customers, and favourable government policies (such as tax incentive and production-linked incentive scheme). In our view, conducive government policies, product innovation, a massive export opportunity, and low input prices would help the sector witness a sustained high double-digit earnings growth trajectory in the next 2-3 years.

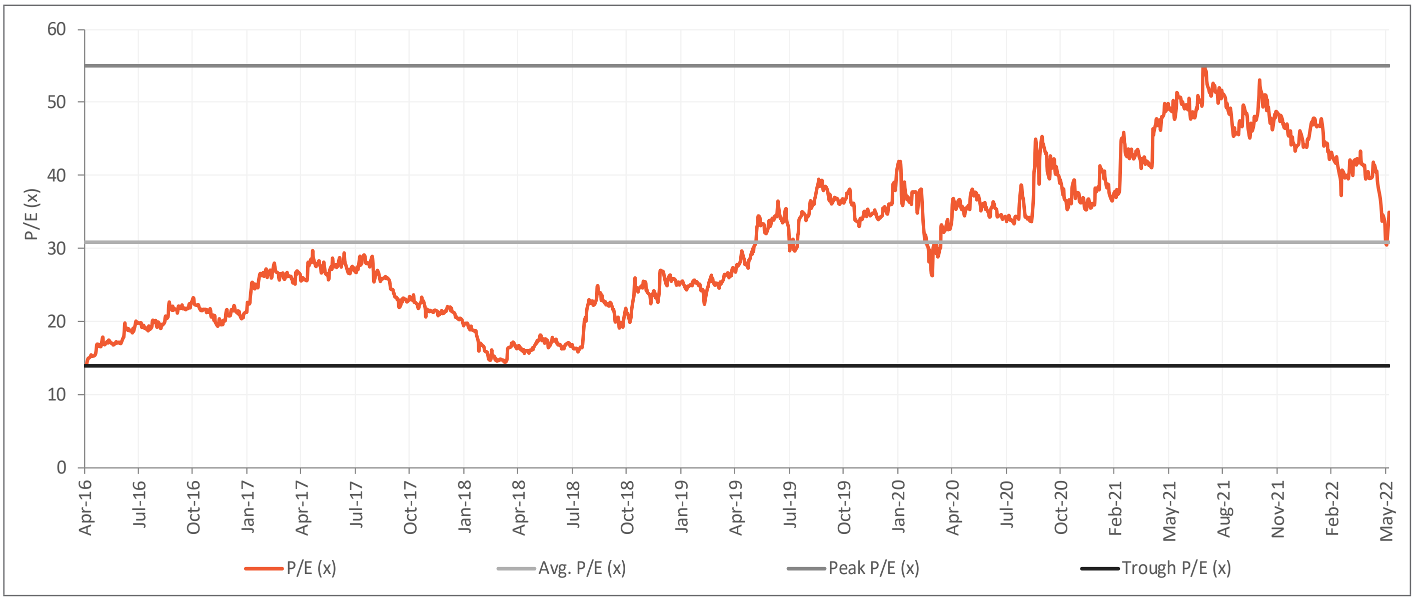
■ Company outlook – Niche business with significant market share, improvement in ATBS demand bodes well for earnings recovery:

Vinati Organics operates in niche segments and has an exceptional product basket that holds a significant market share globally. Hence, the company is able to generate significantly higher margins. This coupled with a debt-free balance sheet helps Vinati Organics generate superior return ratios. A potential recovery in ATBS margins and demand and ramp-up of butyl phenol would lead to a 33% PAT CAGR over FY2022-FY2024E.

■ Valuation – We maintain a Buy on Vinati Organics with a revised PT of Rs. 2,450

Vinati Organics' dominant global market share in ATBS/IBB segments, niche product portfolio and a massive export opportunity in the specialty chemical sector would drive sustained long-term high double-digit earnings growth. Likely higher ATBS margin and ramp-up of butyl phenol would drive strong 33% PAT CAGR over FY2022-FY2024E along with solid RoE of 24.7%. Potential incremental earnings contribution from integration of Veeral Additives (VAPL) would further aid earnings growth. Hence, we maintain Buy on Vinati Organics with a revised PT of Rs. 2,450 (reflects upward revision in FY24 earnings estimate). Stock is trading at 43.9x its FY2023E EPS and 34.5x its FY2024E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

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About company

Incorporated in 1989, Vinati Organics is one of India's leading manufacturers and exporters of specialty organic intermediaries, monomers, and polymers. Vinati Organics is the world's largest manufacturer and seller of Isobutyl Benzene (IBB) and 2-Acrylamido 2-Methylpropane Sulfonic Acid (ATBS) having a significant market share in both the product categories. The company currently has a capacity of 25,000 TPA for IBB and 26,000 TPA for ATBS. Vinati Organics is an export-oriented company, as 70-75% of its overall revenue are derived from export markets.

Investment theme

Vinati Organics operates in niche segments and have an exceptional product basket with a significant market share in its products globally. Hence, the company is able to generate significantly higher margin profile. This coupled with a lean balance sheet (debt-free company) helps Vinati Organics to generate superior return ratios. Vinati Organics is expected to see increased volumes in ATBS (2-Acrylamido 2 Methylpropane Sulfonic Acid) due to capacity expansion, while IB (Isobutylene) volumes are expected to rise due to enhancement of capacity utilisation and a gradual ramp-up in utilisation levels for butyl phenol.

Key Risks

- Lower demand due to an economic slowdown and delay in completion of expansion projects might impact revenue growth.
- Adverse raw-material prices and delay in the ability to pass on price hikes adequately and forex fluctuations might affect margins

Additional Data

Key management personnel

Vinod Saraf	Chairman
Vinati Saraf Mutreja	Managing Director and CEO
Viral Saraf Mittal	Director-CSR and Corporate Strategy
Sunil Saraf	Non-Independent Director
N. K. Goyal	Chief Financial Officer
Milind A. Wagh	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Mirae Asset Global Investments Co Ltd	3.94
2	Canara Robeco Asset Management Co Ltd	1.65
3	Invesco Asset Management India Pvt Ltd	1.29
4	Investor Education and Protection Fund	1.20
5	Capital Group Cos Inc	0.84
6	Vanguard Group Inc	0.74
7	Goldman Sachs Group Inc	0.63
8	Blackrock Inc	0.41
9	Dimensional Fund Advisors LP	0.31
10	William Blair & Co LLC	0.27

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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