

Vinati Organics

At an inflexion point

Our SELL recommendation on Vinati Organics with a discounted cash flow based target price of INR 820 (WACC 10%, terminal growth 3%) is driven by (1) demand slowdown for the high margin 2-Acrylamido 2-Methylpropane Sulphonic Acid (ATBS) that contributed ~60% to its revenue mix in FY20, (2) shift in revenue mix towards lower margin Iso Butyl Benzene (IBB), which formed ~32% of the mix in 1Q versus 16% in FY20, (3) slow ramp-up in the recently-commissioned Butyl Phenol product line. In the absence of new product pipeline, we believe current valuations are high at 30.5x Mar-22E EPS. 1Q EBITDA/PAT were 41/125% above estimates owing to better-than-anticipated traction in IBB and lower than the built-in tax rate.

- **Financial performance:** 1Q EBITDA stood at INR 972mn, -19/-4% YoY/QoQ, led by higher sales volume for IBB. Despite sluggish demand for ATBS in the quarter, EBITDA margin expanded to 42.0% (41.3/41.4/40.2% in 1QFY20/4QFY20/FY20), driven by a customised order.
- **ATBS:** The product contributed 40% to the Q1 topline (59% in Q4FY20). The brownfield expansion of 14ktpa has been pushed further to 2HFY21 (earlier: 1HFY21) as current demand for the product can be met by VO's existing capacity of 26ktpa. The demand slowdown for ATBS is owing to its reduced demand by the oil and gas industry that forms 25-30% of its global demand.
- **Iso Butyl Benzene (IBB):** Revenue contribution spiked to ~32% in 1Q. The product should witness good offtake in FY21 as the company has acquired new customers and BASF (a key customer) has resumed production of Ibuprofen, whose production requires IBB as an intermediate.
- **Takeaways from our call with the management:** The Butyl Phenol plant (capacity 35ktpa) that was commissioned in Sep-19 continues to run at low capacity utilisation in 1HFY21, given its muted demand amidst the pandemic. It was expected to contribute ~INR 1bn to the topline in FY21E, which now seems unlikely. Demand for ATBS should continue to remain muted in FY21. IBB should drive volume growth in the fiscal year.
- **Change in estimates:** We cut our FY21/22E EPS estimates by -4/-2% to INR 28.9/32.1 to factor-in a sales mix shift towards lower margin IBB from (high margin) ATBS; EBITDA margin estimate cut by 28/71bps to 39.6/37.4%.

Financial summary

YE March (INR mn)	1Q FY21	4Q FY20	QoQ (%)	1Q FY20	YoY (%)	FY19	FY20P	FY21E	FY22E
Revenues	2,316	2,453	(5.6)	2,907	(20.4)	11,081	10,289	9,600	11,473
EBITDA	972	1,017	(4.4)	1,202	(19.1)	4,036	4,139	3,800	4,291
APAT	723	746	(3.1)	824	(12.2)	2,825	3,338	2,965	3,298
AEPS (INR/sh)	7.0	7.3	(3.1)	8.0	(12.2)	27.5	32.5	28.9	32.1
P/E (x)						36.1	30.5	34.4	30.9
EV/EBITDA (x)						25.0	24.0	25.9	22.8
RoE (%)						30.6	28.6	22.0	21.7

Source: Company, HSIE Research

Change in estimates

	FY21E			FY22E		
	Old	New	% Ch	Old	New	% Ch
EBITDA (INR mn)	3,961	3,800	(4.1)	4,373	4,291	(1.9)
AEPS (INR/sh)	30.0	28.9	(3.9)	32.7	32.1	(1.8)

Source: Company, HSIE Research

SELL

CMP (as on 03 Aug 2020)	INR 992
Target Price	INR 820
NIFTY	10,892

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 825	INR 820
EPS %	FY21E -3.9%	FY22E -1.8%

KEY STOCK DATA

Bloomberg code	VO IN
No. of Shares (mn)	103
MCap (Rs bn) / (\$ mn)	102/1,356
6m avg traded value (Rs mn)	106
52 Week high / low	Rs 1,256/651

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	0.7	1.8	10.1
Relative (%)	(8.8)	9.2	10.6

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	74.05	74.06
FIs & Local MFs	6.06	11.25
FPIs	5.13	5.08
Public & Others	14.76	14.69
Pledged Shares	0.00	0.00

Source : BSE

Nilesh Ghuge

nilesh.ghuge@hdfcsec.com
+91-22-6171-7342

Harshad Katkar

harshad.katkar@hdfcsec.com
+91-22-6171-7319

Divya Singhal

divya.singhal@hdfcsec.com
+91-22-6171-7348

Rutvi Chokshi

rutvi.chokshi@hdfcsec.com
+91-22-6171-7356

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities**Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com