

Newer businesses to drive growth ahead...

About the stock: Vinati Organics is a leading manufacturer of specialty chemical and organic intermediaries with global market leadership in its two key products- 2-Acrylamido 2 Methylpropane Sulphonic Acid (ATBS) and Isobutyl Benzene (IBB). Starting with IBB and subsequent forays into IB, ATBS, Butyl phenols, the company is now moving towards antioxidants.

- The company has two manufacturing facilities at Mahad and Lote
- In terms of revenue contribution, ATBS constitutes ~40-50% of overall revenue followed by IBB of 20-30% while the rest is from other segments such as IB, Butyl phenols and derivatives

Q3FY22 Results: Numbers were below our estimates across all parameters, impacted by lower-than-expected performance from both ATBS & IBB.

- Reported revenue growth of 65% YoY to ₹ 369 crore, led by decent performance from ATBS segment
- Gross margins fell 600 bps YoY to ~48.9% while EBITDA margin contracted 720 bps YoY to 25.1%, due to higher other operating cost (up 106% YoY)
- EBITDA was up 29% YoY to ₹ 92.8 crore
- PAT increased 30% YoY to ₹ 83.2 crore

What should investors do? The stock appreciated at 40% CAGR in last three years.

- We retain **BUY** rating on the back of better growth outlook from ATBS and newer products such as Butyl phenols and antioxidant

Target Price and Valuation: We value Vinati Organics at 42x P/E FY23E EPS to arrive at a revised target price of ₹ 2320/share (earlier ₹ 2270/share).

Key triggers for future price performance:

- Upcoming butyl phenol capex to aid revenue growth further
- Vertical integration into antioxidant expands revenue visibility
- Strong demand from ATBS likely to support group operating margins

Alternate Stock Idea: Apart from Vinati Organics, in our chemical coverage we also like Neogen Chemical.

- Trigger for Neogen Chemical's future revenue growth would be increasing CRAMS opportunity
- BUY with a target price of ₹ 2160



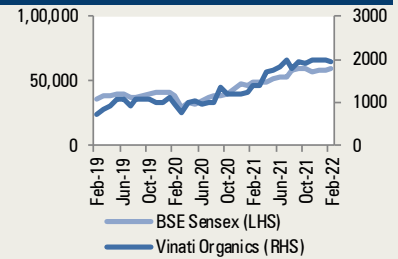
Particulars

Particular	Amount
Market cap (₹ Crore)	20,022
FY21 Total Debt (₹ Crore)	2
FY21 Cash & Inv (₹ Crore)	188
EV (₹ Crore)	19,836
52 Week H/L	2184/1189
Equity Capital (₹ Crore)	10.3
Face Value (₹)	1

Shareholding pattern

in %	Mar-21	Jun-21	Sept-21	Dec-21
Promoter	74.1	74.1	74.1	74.1
DII	7.3	6.8	6.9	7.5
FII	3.5	4.4	4.5	4.5
Others	15.2	14.7	14.6	13.9

Price Chart



Recent event & key risks

- Working on the newer molecules to expand business portfolio
- Key Risk:** (i) Lower oil prices to affect ATBS segment revenue growth, (ii) Delay in commercialisation of newer project to curtail growth

Research Analyst

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Dhavan Shah
dhavan.shah@icicisecurities.com

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Net Revenue	1,127.9	1,028.9	954.3	8.6%	1,514.9	1,903.2	2,372.8	35.5%
EBITDA	423.4	413.9	352.5	11.2%	404.5	567.1	735.6	27.8%
EBITDA Margins (%)	37.5%	40.2%	36.9%		26.7%	29.8%	31.0%	
Adj. PAT	282.5	333.8	269.3	15.4%	323.6	429.6	567.5	28.2%
Adj. EPS (₹)	27.5	32.5	26.2		31.5	41.8	55.2	
EV/EBITDA	47.1x	47.7x	56.3x		49.4x	35.2x	26.9x	
P/E	70.9x	60.0x	74.3x		61.9x	46.6x	35.3x	
ROE (%)	26.9	26.1	17.4		18.0	20.0	21.8	
ROCE (%)	40.4	33.3	21.7		23.3	26.0	28.3	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlight

Q3FY22 Results: Slower growth from IBB & ATBS impact performance

- **Performance from key segments remained subdued:** The management indicated that lower inventories carry forward by few players under ATBS segment in last quarter has led poor volume growth from ATBS. However, the same witnessed a decent performance YoY largely on the back of healthy realisation growth. This has lifted overall performance for the quarter, which was up 65% YoY to ₹ 369 crore. The revenue share from ATBS remains 50% for the quarter. Due to higher IBB inventories on the ground, the performance for the segment remained subdued. This impacted the performance
- **Lower gross margins, higher power cost impact OPM:** There has been rise in the coal cost, which dented operational performance. OPM contracted 720 bps YoY to 25.1%

Q3FY22 Earnings Conference Call highlights

ATBS:

- Since few end industry players hold less inventory of ATBS during Q3, the volume growth for the segment was impacted. However, there is a trend of strong ATBS demand in Q4, which is likely to persist ahead
- The revenue contribution from ATBS remained at ~50% for the quarter

IBB:

- Higher inventory at the customer level impacted offtake of IBB during the quarter. Expect IBB demand to normalise from next year
- The revenue share from IBB remained at ~8% for this quarter

Butyl phenols:

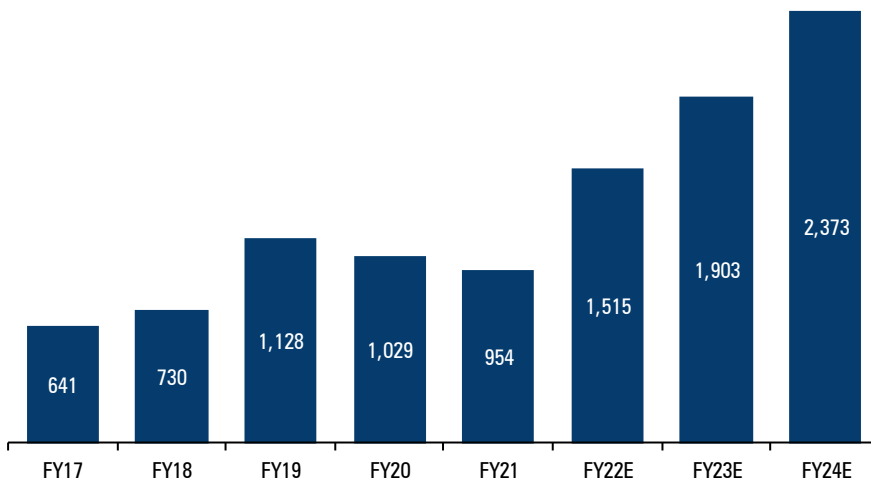
- Expect to generate revenue of ~₹ 180 crore. 9MFY22 revenue for the same remains at around ₹ 120 crore
- The company plans to increase butyl phenol capacity by 15,000 tonnes. The capex is earmarked of ₹ 100 crore, which is expected to be commissioned by December 2021. Majority of these butyl phenols will be backward integrated for anti-oxidants

Other updates:

- NCLT approval pending for Veeral Additives acquisition, which is likely to come in the next eight to 12 months
- Anti-oxidant capex at Veeral Additives has been completed. The company has added one more anti-oxidant in the portfolio named L 135, which has concentration towards lube additives. The potential revenue from all four AOs can be more than ₹ 700 crore. The industry size for all these four AOs is estimated to be ₹ 10,000 crore. The company is targeting to achieve 10% market share initially
- The company is undergoing a capex in Veeral Organics for five products, which has usage across pharma, perfumery, monomer additive and solvent for catalysts. The capex is earmarked of ₹ 250 crore with expected asset turn of 1x. The capex would be commissioned by March 2023
- Vinati has also been spending ₹ 65 crore for butyl phenol capex, which has usage across agrochemical. Along with that, it has been setting up a power plant with a capex of ₹ 33 crore. Part of capex is completed and remaining would be done in the coming year
- FY22 capex would be around ₹ 300 crore, while the same for next fiscal would be around ₹ 350 crore
- Maintained revenue guidance of ₹ 3000 crore by FY25E

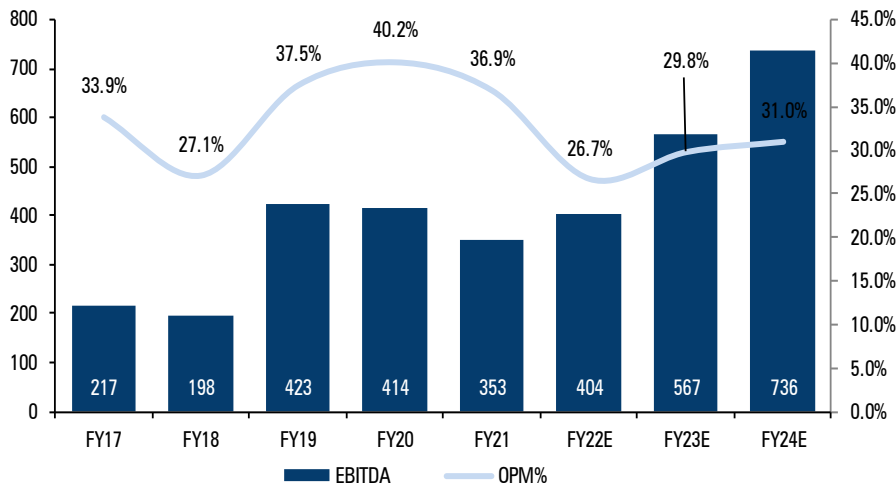
Financial story in charts....

Exhibit 1: Better growth visibility from ongoing capex to aid topline (₹ crore)



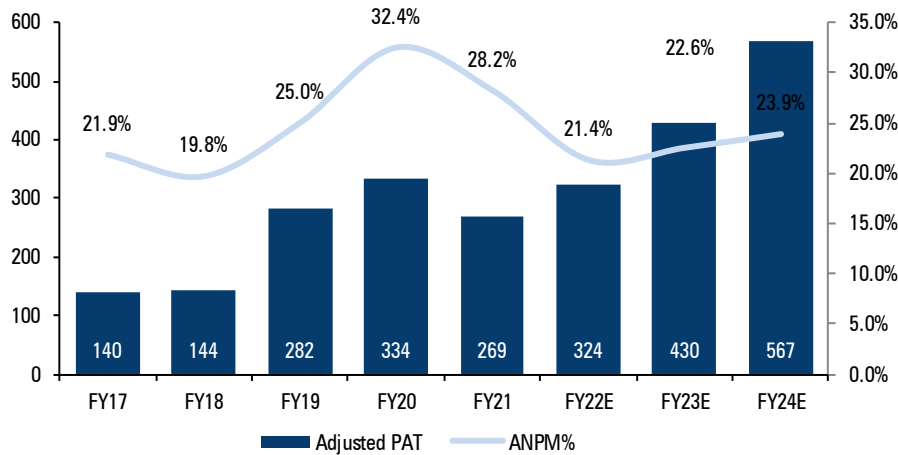
Source: Company, ICICI Direct Research

Exhibit 2: EBITDA (₹ crore) and OPM (%) trend



Source: Company, ICICI Direct Research

Exhibit 3: PAT growth trend (₹ crore)



Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement							₹ crore
Year end March	FY19	FY20	FY21	FY22E	FY23E	FY24E	
Total Operating Income	1,127.9	1,028.9	954.3	1,514.9	1,903.2	2,372.8	
Growth (%)	54.6	-8.8	-7.3	58.7	25.6	24.7	
Raw Material Expenses	525.1	428.7	387.7	790.8	970.6	1,186.4	
Employee Cost	54.2	64.3	72.6	84.8	95.2	118.6	
Other Expenses	125.2	122.0	141.4	234.8	270.2	332.2	
Total Operating Expenditure	704.5	615.0	601.7	1,110.4	1,336.0	1,637.2	
EBITDA	423.4	413.9	352.5	404.5	567.1	735.6	
Growth (%)	114.3	-2.2	-14.8	14.7	40.2	29.7	
Other Income	30.2	45.0	25.8	61.6	63.5	76.7	
Depreciation	27.4	33.2	42.9	45.8	72.8	75.3	
Net Interest Exp.	0.9	1.1	0.2	0.0	0.0	0.0	
Other exceptional items	0.0	0.0	0.0	0.0	0.0	0.0	
PBT	425.2	424.7	335.2	420.3	557.9	737.0	
Total Tax	142.8	90.8	65.9	96.7	128.3	169.5	
PAT	282.5	333.8	269.3	323.6	429.6	567.5	
Adjusted PAT	282.5	333.8	269.3	323.6	429.6	567.5	
Growth (%)	95.9	18.2	-19.3	20.2	32.7	32.1	
Adjusted EPS (₹)	27.5	32.5	26.2	31.5	41.8	55.2	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement							₹ crore
Year end March	FY19	FY20	FY21	FY22E	FY23E	FY24E	
PBT & Extraordinary	425.2	424.7	335.2	420.3	557.9	737.0	
Add: Depreciation	27.4	33.2	42.9	45.8	72.8	75.3	
After other adjustments							
(Inc) / Dec in Working Capital	-113.8	81.1	-87.4	-311.5	-147.8	-178.8	
Taxes	-126.2	-100.5	-60.7	-96.7	-128.3	-169.5	
Others	-12.3	-22.5	-11.0	0.0	0.0	0.0	
CF from operating activities	200.4	415.9	219.0	57.9	354.5	464.0	
Purchase of Fixed Assets	-206.1	-137.9	-83.3	-229.2	-265.0	-50.0	
Others	-36.7	-59.5	-115.0	238.7	0.0	-270.0	
CF from investing activities	-242.7	-197.5	-198.3	9.5	-265.0	-320.0	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	0.0	0.0	1.7	-2.0	0.0	0.0	
Dividend paid & dividend tax	-27.8	-104.6	-5.5	-64.7	-85.9	-113.5	
Others	-12.5	-4.4	0.8	0.0	0.0	0.0	
CF from financing activities	-40.3	-109.1	-3.1	-66.7	-85.9	-113.5	
Net cash flow	-82.6	109.4	17.6	0.7	3.6	30.5	
Opening cash	5.2	3.8	53.7	6.9	7.5	11.1	
Closing cash	3.8	53.7	6.9	7.5	11.1	41.6	

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet							₹ crore
Year end March	FY19	FY20	FY21	FY22E	FY23E	FY24E	
Liabilities							
Equity Capital	10.3	10.3	10.3	10.3	10.3	10.3	
Reserves & Surplus	1,041.0	1,269.1	1,533.1	1,792.0	2,135.7	2,589.7	
Total Shareholders Funds	1,051.3	1,279.4	1,543.4	1,802.3	2,145.9	2,599.9	
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	
Long Term Borrowings	0.0	0.0	0.0	0.0	0.0	0.0	
Net Deferred Tax liability	84.6	70.5	77.9	77.9	77.9	77.9	
Other long term liabilities	2.9	4.1	6.0	9.6	12.0	15.0	
Long term provisions	0.0	0.0	0.0	0.0	0.0	0.0	
Current Liabilities and Provisions							
Short term borrowings	3.7	0.4	2.0	0.0	0.0	0.0	
Trade Payables	53.1	55.7	66.6	103.8	130.4	162.5	
Other Current Liabilities	28.8	28.6	33.1	52.5	66.0	82.3	
Short Term Provisions	3.2	4.4	4.7	7.5	9.4	11.7	
Total Current Liabilities	88.8	89.0	106.4	163.8	205.7	256.5	
Total Liabilities	1,227.6	1,443.0	1,733.8	2,053.6	2,441.6	2,949.4	
Assets							
Net Block	474.5	750.8	756.8	896.0	1,188.3	1,163.0	
Capital Work in Progress	191.2	31.0	55.8	100.0	0.0	0.0	
Intangible assets under devl.	0.0	0.0	0.0	0.0	0.0	0.0	
Goodwill on Consolidation	0.0	0.0	0.0	0.0	0.0	0.0	
Non-current investments	0.0	0.0	107.8	30.0	30.0	120.0	
Deferred tax assets	0.0	0.0	0.0	0.0	0.0	0.0	
Long term loans and advances	3.2	3.1	133.1	250.0	250.0	250.0	
Other Non Current Assets	27.7	15.6	25.2	40.0	50.2	62.6	
Current Assets, Loans & Advances							
Current Investments	96.5	227.4	180.9	20.0	20.0	200.0	
Inventories	92.4	93.2	121.9	207.5	260.7	325.0	
Sundry Debtors	244.0	201.8	277.2	394.3	495.3	617.6	
Cash and Bank	3.8	53.7	6.9	7.5	11.1	41.6	
Loans and Advances	0.1	0.3	0.1	0.1	0.1	0.1	
Other Current assets	94.4	66.2	68.1	108.2	135.9	169.4	
Current Assets	531.1	642.6	655.1	737.5	923.1	1,353.7	
Total Assets	1,227.6	1,443.0	1,733.8	2,053.6	2,441.6	2,949.4	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios						
Year end March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Per share data (₹)						
Adj. EPS	27.5	32.5	26.2	31.5	41.8	55.2
Adj. Cash EPS	30.1	35.7	30.4	35.9	48.9	62.5
BV	102.3	124.5	150.2	175.4	208.8	253.0
DPS	7.0	5.5	6.0	6.3	8.4	11.0
Operating Ratios (%)						
Gross Margin (%)	53.4	58.3	59.4	47.8	49.0	50.0
EBITDA Margin (%)	37.5	40.2	36.9	26.7	29.8	31.0
PAT Margin (%)	25.0	32.4	28.2	21.4	22.6	23.9
Debtor Days	80	73	106	95	95	95
Inventory Days	30	34	47	50	50	50
Creditor Days	18	20	25	25	25	25
Cash Conversion Cycle	93	86	127	120	120	120
Return Ratios (%)						
Return on Assets (%)	23.0	23.1	15.5	15.8	17.6	19.2
RoCE (%)	40.4	33.3	21.7	23.3	26.0	28.3
RoE (%)	26.9	26.1	17.4	18.0	20.0	21.8
Solvency						
Total Debt / Equity	0.0	0.0	0.0	0.0	0.0	0.0
Interest Coverage	453.4	390.6	1,583.1	NM	NM	NM
Current Ratio	6.0	7.2	6.2	4.5	4.5	5.3
Quick Ratio	4.9	6.2	5.0	3.2	3.2	4.0
Valuation Ratios (x)						
EV/EBITDA	47.1	47.7	56.3	49.4	35.2	26.9
P/E	70.9	60.0	74.3	61.9	46.6	35.3
P/B	19.0	15.7	13.0	11.1	9.3	7.7
EV/Sales	17.7	19.2	20.8	13.2	10.5	8.3

Source: Company, ICICI Direct Research

Exhibit 8: ICICI Direct coverage universe (Chemicals)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
PI Industries	2428	3,340	Buy	36,836	48.6	53.8	66.8	56.4	50.9	41.0	39.1	34.5	28.6	17.2	17.2	18.3	13.8	13.4	14.5
Aarti Industries	982	1,120	Buy	35,591	14.5	18.8	32.0	66.5	51.3	30.1	38.3	29.0	19.2	10.7	11.0	16.1	15.0	12.8	18.3
Tata Chemical	919	1,035	Buy	23,419	10.1	39.9	49.3	88.5	22.3	18.0	16.9	11.2	8.9	4.1	6.6	7.7	1.8	6.8	7.9
Vinati Organics	1948	2,320	Buy	20,022	26.2	31.5	41.8	74.3	61.9	46.6	56.3	49.4	35.2	21.7	23.3	26.0	17.4	18.0	20.0
Sumitomo Chemical	376	505	Buy	18,793	6.9	8.5	10.1	54.6	44.4	37.4	37.7	30.6	25.3	29.8	29.3	28.1	22.4	22.1	21.2
Navin Fluorine	4230	4,520	Hold	20,939	45.0	53.6	76.8	93.9	78.9	55.1	65.7	55.7	37.1	21.0	19.2	23.6	13.6	14.4	17.7
Rallis India	277	305	Hold	5,388	11.4	9.7	13.8	24.3	28.7	20.1	15.9	18.5	12.8	18.0	13.9	18.2	13.9	10.9	13.9
Sudarshan chemical	579	695	Buy	4,011	20.4	19.7	25.7	28.4	29.4	22.6	15.7	15.9	12.7	19.0	16.1	18.2	15.2	13.6	16.2
Neogen Chemicals	1659	2,160	Buy	4,137	13.4	16.5	33.5	123.6	100.5	49.6	63.3	47.4	30.6	15.1	11.2	16.9	17.1	9.3	16.0
Astec Lifesciences	1730	2,120	Buy	3,389	33.2	43.1	55.0	52.1	40.2	31.5	32.0	23.9	19.3	18.9	21.6	22.4	21.0	21.6	21.9

Source: Bloomberg, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

I/We, Siddhant Khandekar, Inter CA, Dhavan Shah, MS (Finance), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.