

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

Q4FY22 Results: Numbers were above our estimates across all parameters, driven by strong performance from both ATBS & Butyl phenols.

- Reported revenue growth of 74% YoY to ₹ 486.1 crore, led by strong performance from ATBS & Butyl phenol segments
- Gross margins contracted 1310 bps YoY (down 287bps QoQ) to ~46.1% while EBITDA margin declined 680 bps YoY (up 341bps QoQ) to 28.6%
- EBITDA was up 40% YoY to ₹ 138.8 crore
- PAT increased 43% YoY to ₹ 101.1 crore

What should investors do? The stock appreciated at 19% 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 45x P/E FY24E EPS to arrive at a revised target price of ₹ 2320/share (earlier ₹ 2320/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



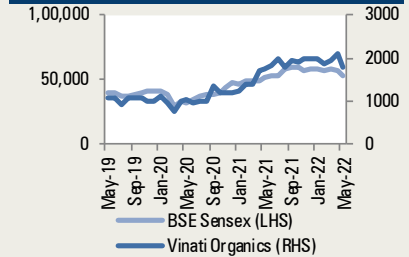
Particulars

Particular	Amount
Market cap (₹ Crore)	19,856
FY22 Total Debt (₹ Crore)	18
FY22 Cash & Inv (₹ Crore)	4
EV (₹ Crore)	19,870
52 Week H/L	2290/1674
Equity Capital (₹ Crore)	10.3
Face Value (₹)	1

Shareholding pattern

in %	Jun-21	Sept-21	Dec-21	Mar-22
Promoter	74.1	74.1	74.1	74.1
DII	6.8	6.9	7.5	7.9
FII	4.4	4.5	4.5	4.6
Others	14.7	14.6	13.9	13.5

Price Chart



Recent event & key risks

- Strong growth across all segments led performance
- Key Risk:** (i) Lower oil prices to affect ATBS segment revenue growth, (ii) Delay in commercialisation of newer project to curtail growth

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Revenue	1,127.9	1,028.9	954.3	1,615.5	20.3%	1,903.2	2,372.8	21.2%
EBITDA	423.4	413.9	352.5	434.1	14.9%	529.1	688.1	25.9%
EBITDA Margins (%)	37.5%	40.2%	36.9%	26.9%		27.8%	29.0%	
Adj. PAT	282.5	333.8	269.3	346.6	19.8%	404.5	530.6	23.7%
Adj. EPS (₹)	27.5	32.5	26.2	33.7		39.4	51.6	
EV/EBITDA	46.7x	47.3x	55.8x	45.8x		37.7x	28.8x	
P/E	70.3x	59.5x	73.7x	57.3x		49.1x	37.4x	
ROE (%)	26.9	26.1	17.4	19.0		18.8	20.6	
ROCE (%)	40.4	33.3	21.7	24.3		23.6	26.7	

Source: Company, ICICI Direct Research

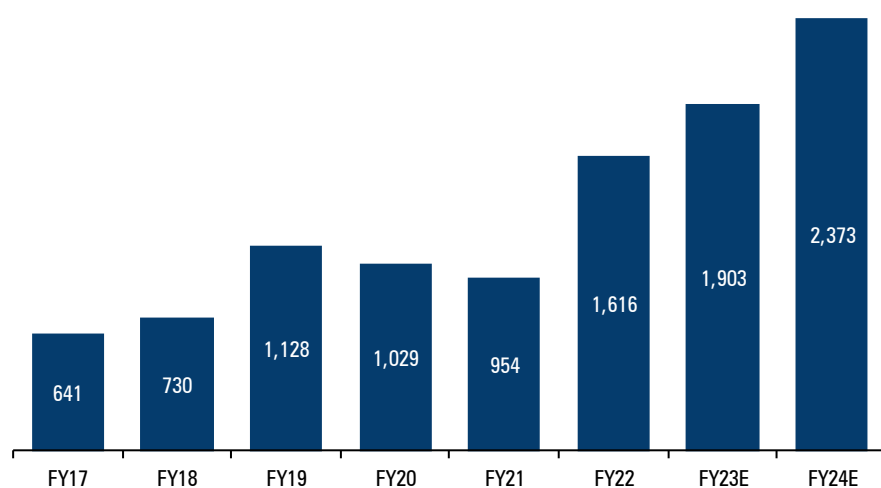
Key takeaways of recent quarter

Q4FY22 Results: Strong growth across all segments led performance

- Performance from key segments remained strong:** Since key RMA prices are ruling at higher levels, passing on input inflation led to better realisation growth for key segments. Apart from this, better volume growth owing to gaining market share in the segment such as butyl phenols along with higher demand of ATBS supported growth for the segment. Moreover, a revival in demand for IBB also drove growth, to some extent, for the quarter. ATBS revenue growth was higher by ~25-30% YoY while the same from IBB increased around 30% YoY. This led overall revenue growth of 74% YoY to ₹ 486.1 crore
- Lower gross margins, higher power cost impact OPM:** There has been a rise in coal cost, which dented the operational performance. OPM contracted 680 bps YoY to 28.6%

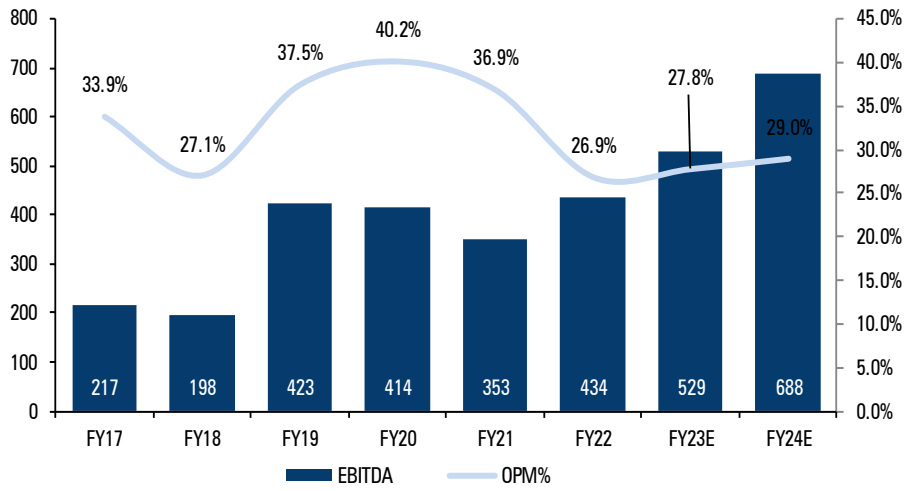
Financial story in charts....

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



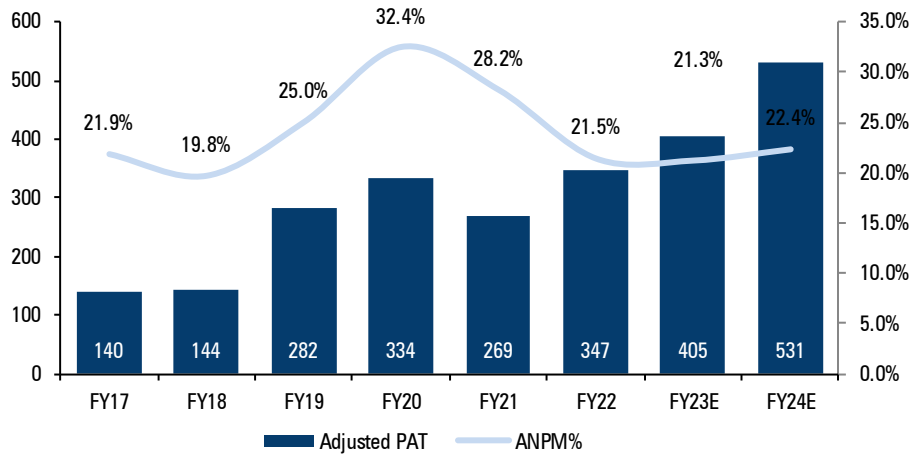
Source: Company, ICICI Direct Research

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	FY22	FY23E	FY24E	
Total Operating Income	1,127.9	1,028.9	954.3	1,615.5	1,903.2	2,372.8	
Growth (%)	54.6	-8.8	-7.3	69.3	17.8	24.7	
Raw Material Expenses	525.1	428.7	387.7	860.7	1,008.7	1,233.9	
Employee Cost	54.2	64.3	72.6	84.0	95.2	118.6	
Other Expenses	125.2	122.0	141.4	236.7	270.2	332.2	
Total Operating Expenditure	704.5	615.0	601.7	1,181.4	1,374.1	1,684.7	
EBITDA	423.4	413.9	352.5	434.1	529.1	688.1	
Growth (%)	114.3	-2.2	-14.8	23.1	21.9	30.1	
Other Income	30.2	45.0	25.8	60.9	64.9	75.0	
Depreciation	27.4	33.2	42.9	45.5	66.9	74.4	
Net Interest Exp.	0.9	1.1	0.2	0.3	2.8	1.0	
Other exceptional items	0.0	0.0	0.0	0.0	0.0	0.0	
PBT	425.2	424.7	335.2	449.2	524.3	687.7	
Total Tax	142.8	90.8	65.9	102.6	119.8	157.1	
PAT	282.5	333.8	269.3	346.6	404.5	530.6	
Adjusted PAT	282.5	333.8	269.3	346.6	404.5	530.6	
Growth (%)	95.9	18.2	-19.3	28.7	16.7	31.2	
Adjusted EPS (₹)	27.5	32.5	26.2	33.7	39.4	51.6	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement							₹ crore
Year end March	FY19	FY20	FY21	FY22	FY23E	FY24E	
PBT & Extraordinary	425.2	424.7	335.2	449.2	524.3	687.7	
Add: Depreciation	27.4	33.2	42.9	45.5	66.9	74.4	
After other adjustments							
(Inc) / Dec in Working Capital	-113.8	81.1	-87.4	-225.6	-182.7	-188.2	
Taxes	-126.2	-100.5	-60.7	-108.1	-119.8	-157.1	
Others	-12.3	-22.5	-11.0	-34.2	2.8	1.0	
CF from operating activities	200.4	415.9	219.0	126.8	291.6	417.8	
Purchase of Fixed Assets	-206.1	-137.9	-83.3	-173.9	-265.0	-150.0	
Others	-36.7	-59.5	-115.0	-81.4	0.1	-26.5	
CF from investing activities	-242.7	-197.5	-198.3	-255.4	-264.9	-176.5	
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	16.4	61.6	-80.0	
Dividend paid & dividend tax	-27.8	-104.6	-5.5	-61.8	-80.9	-106.1	
Others	-12.5	-4.4	0.8	-1.1	-2.8	-1.0	
CF from financing activities	-40.3	-109.1	-3.1	-46.5	-22.1	-187.1	
Net cash flow	-82.6	109.4	17.6	-175.2	4.6	54.2	
Opening cash	5.2	3.8	53.7	6.9	4.3	8.9	
Closing cash	3.8	53.7	6.9	4.3	8.9	63.1	

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet							₹ crore
Year end March	FY19	FY20	FY21	FY22	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	1,817.7	2,141.4	2,565.9	
Total Shareholders Funds	1,051.3	1,279.4	1,543.4	1,828.0	2,151.6	2,576.1	
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	80.0	0.0	
Net Deferred Tax liability	84.6	70.5	77.9	90.0	90.0	90.0	
Other long term liabilities	2.9	4.1	6.0	4.5	5.3	6.6	
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	18.4	0.0	0.0	
Trade Payables	53.1	55.7	66.6	114.6	130.4	162.5	
Other Current Liabilities	28.8	28.6	33.1	28.9	34.1	42.5	
Short Term Provisions	3.2	4.4	4.7	5.4	6.3	7.9	
Total Current Liabilities	88.8	89.0	106.4	167.3	170.7	212.9	
Total Liabilities	1,227.6	1,443.0	1,733.8	2,089.8	2,497.7	2,885.6	
Assets							
Net Block	474.5	750.8	756.8	873.2	1,122.7	1,198.3	
Capital Work in Progress	191.2	31.0	55.8	51.5	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	93.5	93.5	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	254.4	254.4	254.4	
Other Non Current Assets	27.7	15.6	25.2	41.2	48.5	60.5	
Current Assets, Loans & Advances							
Current Investments	96.5	227.4	180.9	0.1	0.0	0.0	
Inventories	92.4	93.2	121.9	176.2	260.7	292.5	
Sundry Debtors	244.0	201.8	277.2	458.4	547.5	695.6	
Cash and Bank	3.8	53.7	6.9	4.3	8.9	63.1	
Loans and Advances	0.1	0.3	0.1	0.3	0.3	0.3	
Other Current assets	94.4	66.2	68.1	136.8	161.1	200.9	
Current Assets	531.1	642.6	655.1	776.0	978.5	1,252.3	
Total Assets	1,227.6	1,443.0	1,733.8	2,089.8	2,497.7	2,885.6	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios						
Year end March	FY19	FY20	FY21	FY22	FY23E	FY24E
Per share data (₹)						
Adj. EPS	27.5	32.5	26.2	33.7	39.4	51.6
Adj. Cash EPS	30.1	35.7	30.4	38.1	45.9	58.9
BV	102.3	124.5	150.2	177.9	209.3	250.6
DPS	7.0	5.5	6.0	6.5	7.9	10.3
Operating Ratios (%)						
Gross Margin (%)	53.4	58.3	59.4	46.7	47.0	48.0
EBITDA Margin (%)	37.5	40.2	36.9	26.9	27.8	29.0
PAT Margin (%)	25.0	32.4	28.2	21.5	21.3	22.4
Debtor Days	80	73	106	104	105	107
Inventory Days	30	34	47	40	50	45
Creditor Days	18	20	25	26	25	25
Cash Conversion Cycle	93	86	127	117	130	127
Return Ratios (%)						
Return on Assets (%)	23.0	23.1	15.5	16.6	16.2	18.4
RoCE (%)	40.4	33.3	21.7	24.3	23.6	26.7
RoE (%)	26.9	26.1	17.4	19.0	18.8	20.6
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	1,737.6	188.3	688.7
Current Ratio	6.0	7.2	6.2	4.6	5.7	5.9
Quick Ratio	4.9	6.2	5.0	3.6	4.2	4.5
Valuation Ratios (x)						
EV/EBITDA	46.7	47.3	55.8	45.8	37.7	28.8
P/E	70.3	59.5	73.7	57.3	49.1	37.4
P/B	18.9	15.5	12.9	10.9	9.2	7.7
EV/Sales	17.5	19.0	20.6	12.3	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
SRF	2250	2,755	Buy	66,924	40.3	63.5	69.2	55.9	35.4	32.5	32.5	22.0	20.1	18.7	23.8	22.7	17.5	22.1	20.3
PI Industries	2848	3,375	Buy	44,358	48.6	55.4	70.1	58.6	51.4	40.7	39.3	34.4	27.6	17.2	17.2	18.8	13.8	13.8	15.0
Aarti Industries	888	1,175	Buy	35,154	14.5	37.1	35.1	61.2	23.9	25.3	39.6	19.3	18.8	10.7	17.7	16.0	15.0	22.8	18.0
Tata Chemical	960	1,155	Buy	24,463	10.1	47.5	63.6	95.4	20.2	15.1	18.9	12.5	9.2	1.8	6.6	8.3	4.1	6.6	8.4
Vinati Organics	1932	2,320	Buy	19,856	26.2	33.7	39.4	73.7	57.3	49.1	55.8	45.8	37.7	21.7	24.3	23.6	17.4	19.0	18.8
Sumitomo Chemical	429	520	Buy	21,254	6.9	8.7	10.3	62.0	49.1	41.7	41.8	33.4	28.0	29.8	30.0	28.5	22.4	22.6	21.4
Navin Fluorine	3722	4,040	Hold	18,443	45.0	52.3	67.4	82.6	71.2	55.2	57.5	51.7	36.9	21.0	17.8	19.4	13.6	14.0	15.8
Rallis India	235	235	Reduce	4,937	11.4	8.4	8.9	20.6	27.8	26.5	14.5	17.4	17.3	18.0	12.7	11.6	13.9	9.7	9.5
Sudarshan chemical	523	695	Buy	3,723	20.4	19.7	25.7	25.7	26.6	20.4	15.7	15.9	12.7	19.0	16.1	18.2	15.2	13.6	16.2
Neogen Chemicals	1549	2,160	Buy	4,142	13.4	16.5	33.5	115.4	93.8	46.3	63.3	47.4	30.6	15.1	11.2	16.9	17.1	9.3	16.0
Astec Lifesciences	1875	2,215	Buy	3,675	33.2	45.1	54.8	56.5	41.6	34.2	34.6	25.6	21.6	18.9	19.3	17.7	21.0	22.3	21.3

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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