Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Vinati Organics Ltd

Good Q1; capex bode well for growth

Speciality Chemcials	Sharekhan code: VINATIORGA

Reco/View: Buy	↔	CMP: Rs. 2,236	Price Target: Rs. 2,500	↑

↑ 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 28.98

Updated July 08, 2022

Medium Risk

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

Source: Morningstar

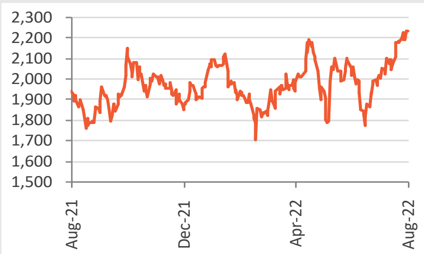
Company details

Market cap:	Rs. 22,981 cr
52-week high/low:	Rs. 2,323/1,675
NSE volume: (No of shares)	0.6 lakh
BSE code:	524200
NSE code:	VINATIORGA
Free float: (No of shares)	2.7 cr

Shareholding (%)

Promoters	74
FII	5
DII	8
Others	13

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	11.3	15.1	16.2	15.0
Relative to Sensex	3.2	7.1	15.6	6.8

Sharekhan Research, Bloomberg

Summary

- Q1FY23 revenue/operating profit of Rs. 506 crore/Rs. 131 crore; up 31%/29% y-o-y reflects strong pricing environment for ATBS/IBB and ramp-up of butyl phenol capacities. PAT at Rs. 101 crore, rose 25% y-o-y and was 3% above estimate on higher revenues and other income, but this was partially offset by lower margins.
- OPM of 25.8% (down 270 bps q-o-q) was 32 bps below our estimate due to elevated energy cost and weaker revenue mix due to ramp-up of low-margin butyl phenol and a recovery in IBB segment. Overall, ATBS demand/margin remains robust and the plant is operating at 100% utilisation.
- Management has guided for 25% revenue growth and EBITDA margin of 28-30% in FY23 and has been guiding to almost double revenues to Rs. 3,000 crore by FY25 led by a ramp-up of new products (Butyl Phenol, anti-oxidants and five specialty intermediates). The company plans to expand ATBS/butyl phenol capacity by 50%/42% to 60 kt/50 kt at a capex of Rs. 300 crore/Rs. 100 crore.
- We maintain a Buy on Vinati Organics with a revised PT of Rs. 2,500 given our expectations of strong 39% PAT CAGR over FY22-24E, dominant market share in ATBS/IBB, entry into newer products and improvement in RoE/RoCE to 27%/34%.

Vinati Organics Limited's (Vinati Organics') Q1FY23 results were good with slight beat of 3%/2% in revenue/operating profit at Rs. 506 crore/Rs. 131 crore, up 31%/29% y-o-y reflecting strong demand/margin for ATBS (despite a high base) given elevated crude oil prices, a recovery in IBB price and ramp-up of butyl phenol capacities. OPM at 25.8% (down 270 bps q-o-q) came slightly below estimate of 26.2% due to high other operating costs (up 53% y-o-y; up 18% q-o-q) on elevated energy cost and weaker revenue mix due to ramp-up of low margin butyl phenol and recovery in IBB demand. Reported PAT of Rs. 101 crore (up 25% y-o-y; flat q-o-q) was 3% above our estimates, led by better-than-expected revenue growth and higher other income.

Key positives

- Revenue growth was higher than expected at 31% y-o-y. .

Key negatives

- Miss in OPM by 32 bps to 25.8% due to lower gross margin on weaker revenue mix and high energy costs.

Revision in estimates – We have largely maintain our FY23 earnings estimate and have increased our FY24 earnings estimate to factor higher ATBS volume/realisations and further ramp-up at butyl phenol capacity.

Our Call

Valuation – Maintain Buy on Vinati Organics with a revised PT of Rs. 2,500: Vinati Organics' dominant global market share in ATBS/IBB segments, a 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 margins and ramp-up of butyl phenol capacity would drive strong 39% PAT CAGR over FY2022-FY2024E along with solid RoE of 26.6%. 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. 2,500. Stock is trading at 47.6x its FY2023E EPS and 34.4x its FY2024E EPS.

Key Risks

- Lower demand due to economic slowdown and a delay in 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	2,850
OPM (%)	36.9	26.9	30.4	31.0
Adjusted PAT	269	347	482	668
y-o-y growth (%)	(19.3)	28.7	39.2	38.4
Adjusted EPS (Rs.)	26.2	33.7	46.9	65.0
P/E (x)	85.3	66.3	47.6	34.4
P/BV (x)	14.9	12.6	10.3	8.2
EV/EBITDA (x)	64.7	53.0	35.3	25.1
RoCE (%)	22.5	25.2	30.2	34.0
RoE (%)	19.1	20.6	23.8	26.6

Source: Company; Sharekhan estimates

Good Q1 led by better-than-expected revenue growth

Q1FY23 results were good with slight beat of 3%/2% in revenue/operating profit at Rs. 506 crore/Rs. 131 crore, up 31%/29% y-o-y reflecting strong demand/margin for ATBS (despite a high base) given elevated crude oil prices, a recovery in IBB price and ramp-up of butyl phenol capacities. OPM at 25.8% (down 270 bps q-o-q) came slightly below estimate of 26.2% due to high other operating costs (up 53% y-o-y; up 18% q-o-q) on elevated energy cost and weaker revenue mix due to ramp-up low margin butyl phenol and recovery in IBB. Reported PAT of Rs. 101 crore (up 25% y-o-y; flat q-o-q) was 3% above our estimates, led by better-than-expected revenue growth and higher other income.

Capacity expansion to drive growth

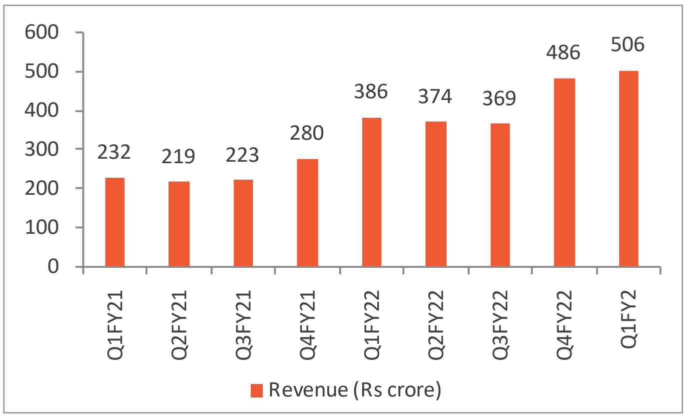
The company has recently announced an expansion of its ATBS capacity from 40,000 MT to 60,000 MT given strong demand outlook for ATBS. The expansion would require capex of Rs. 300 crore which would be funded through internal accruals and expected to get commissioned by December 2023. Additionally, Rs. 280 crore capex (including products like MEHQ & Guaiacol capacity of 2,000 MT and Iso Amylene with a capacity of 30,000 MT) for Veeral Organics Private Limited is under progress and would be commissioned by September 2023. These projects would drive earnings growth beyond FY24 for Vinati Organics.

Results (consolidated) Rs cr

Particulars	Q1FY23	Q1FY22	YoY(%)	Q4FY22	QoQ (%)
Revenue	**506.3**	**386.4**	**31.0**	**486.1**	**4.2**
Total expenditure	375.4	284.9	31.8	347.3	8.1
Operating profit	**130.9**	**101.5**	**28.9**	**138.8**	**(5.7)**
Other Income	18.7	17.6	6.3	15.1	23.6
Depreciation	12.8	50.0	(74.3)	11.7	9.7
Interest cost	0.5	11.0	(95.8)	0.2	101.8
PBT	136.3	108.1	26.1	142.0	(4.0)
Tax	35.1	27.2	29.2	40.9	(14.2)
Reported PAT	**101.2**	**80.9**	**25.0**	**101.1**	**0.1**
EPS (Rs.)	9.8	7.9	25.0	9.8	0.1
Margin (%)			**BPS**		**BPS**
OPM	25.8	26.3	(43)	28.6	(270)
NPM	20.0	20.9	(96)	20.8	(81)
Tax rate	25.7	25.1	62	28.8	(305)

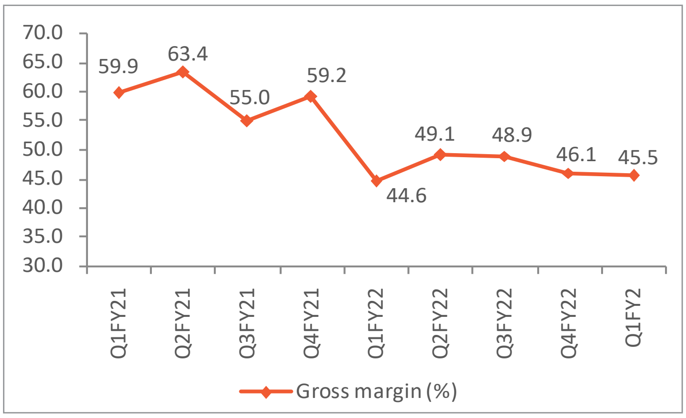
Source: Company, Sharekhan Research

Strong Q1FY23 revenues



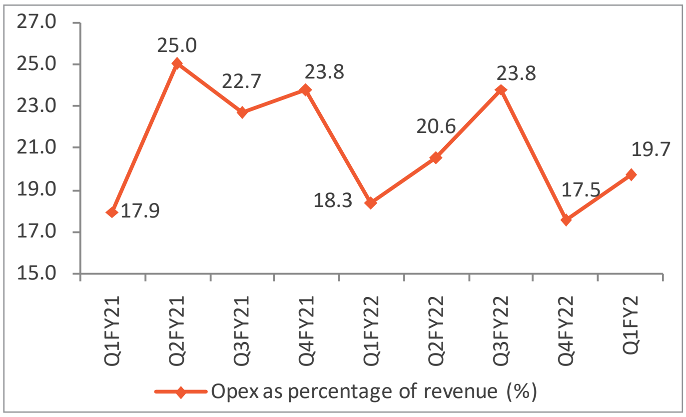
Source: Company, Sharekhan Research

Resilient gross margin in Q1FY23



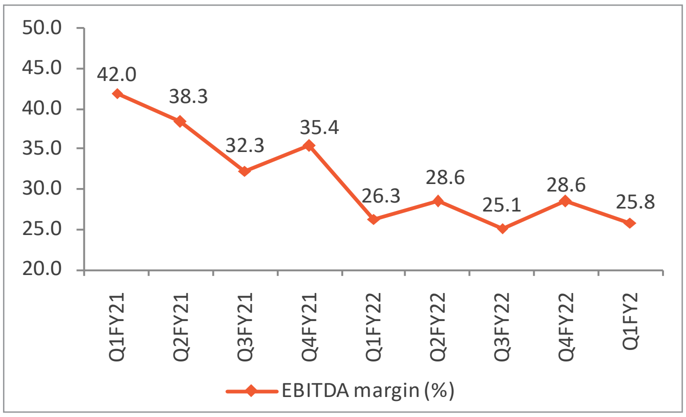
Source: Company, Sharekhan Research

Sharp rise in opex as percentage of revenue in Q1FY23



Source: Company, Sharekhan Research

EBITDA margin miss estimate on higher energy cost



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.

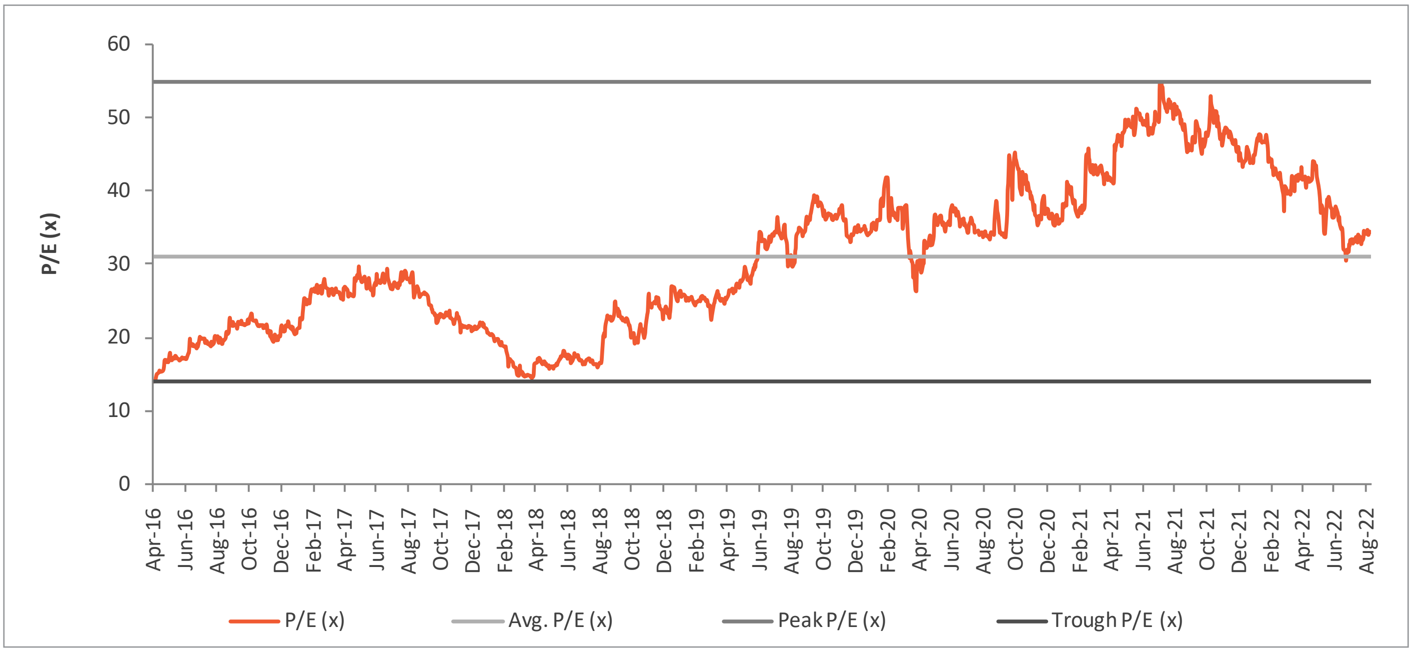
■ Company outlook - Niche business with significant market share, improvement in ATBS demand bodes well for earnings recovery

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 coupled with ramp-up of butyl phenol would lead to a 39% PAT CAGR over FY2022-FY2024E.

■ Valuation - We maintain Buy on Vinati Organics with a revised PT of Rs. 2,500

Vinati Organics' dominant global market share in ATBS/IBB segments, a 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 margins and ramp-up of butyl phenol capacity would drive strong 39% PAT CAGR over FY2022-FY2024E along with solid RoE of 26.6%. 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. 2,500. Stock is trading at 47.6x its FY2023E EPS and 34.4x its FY2024E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

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: Bloomberg

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 (old data)

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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