

# Vinati Organics

Estimate changes	↔
TP change	↑
Rating change	↔

**CMP: INR2,236**

**TP: INR2,680 (+20%)**

**Buy**

Bloomberg	VO IN
Equity Shares (m)	103
M.Cap.(INRb)/(USDb)	229.8 / 2.9
52-Week Range (INR)	2323 / 1675
1, 6, 12 Rel. Per (%)	3/14/6
12M Avg Val (INR M)	144

## Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	16.2	20.4	25.8
EBITDA	4.3	6.0	7.9
PAT	3.5	4.6	6.1
EPS (INR)	33.7	44.8	59.6
EPS Gr. (%)	29	33	33
BV/Sh.(INR)	178	214	262

## Ratios

Net D:E	0.0	0.0	0.0
RoE (%)	20.6	22.9	25.0
RoCE (%)	19.5	21.5	23.2
Payout (%)	19.3	19.3	19.3

## Valuations

P/E (x)	66.1	49.7	37.4
P/BV (x)	12.5	10.4	8.5
EV/EBITDA (x)	52.8	38.6	29.2
Div. Yield (%)	0.3	0.4	0.5
FCF Yield (%)	(0.2)	0.6	1.0

## Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	74.1	74.1	74.1
DII	8.1	7.9	6.8
FII	4.7	4.6	4.4
Others	13.2	13.5	14.7

FII Includes depository receipts

## Growth prospects remain strong due to multiple tailwinds

- VO reported 6% lower-than-estimated revenue in 1QFY23. However, gross margin was in line with our estimate at 45.5% (-50bp QoQ). EBITDA missed our estimate, with EBITDAM at 25.8% (-270bp QoQ). The company was, however, able to maintain its EBITDA/kg margin during the quarter.
- ATBS demand has crossed pre-COVID levels and the management has already announced capacity expansion to 60ktpa from 40ktpa (expected to be commissioned in 2HFY24)**, while Ibuprofen demand has also picked up. These, in turn, led to strong demand for IBB, which is expected to remain strong going forward as well.
- VO has guided for sales growth of 25-30% YoY in FY23E and FY24E, led by commissioning of an antioxidant plant, and foray into niche chemicals through Veeral Organics (MEHQ, Guaiacol and Iso Amylene).** The sales mix for 1QFY23 stood at 44% for ATBS, IBB (13%), Butyl Phenol and other derivatives (21%), Customized products (8%), IB and HPMTBE (9%) and the rest was Others.
- We expect margin to be better going forward with EBITDAM at 29%/31% for FY23/24E. This would be driven by captive power plant, decline in raw material costs and freight rates as well as commissioning of higher margin downstream products. **We forecast revenue CAGR of ~26% over FY22-24, translating into an EBITDA/EPS CAGR of 35%/33% over the same period, respectively.**
- The stock has outperformed the Nifty-50 index by 15% over the last six months.** A gradual ramp-up in expanded capacity over the next three years will drive growth for VO. **We value the stock at 45x FY24E EPS to arrive at our TP of INR2,680. We maintain our BUY rating.**

## Miss on EBITDA and PAT led by higher raw material costs

- Revenue grew 31% YoY and 4% QoQ to INR5.1b (6% lower than our estimate).
- EBITDA grew 29% YoY, but declined 6% QoQ to INR1.3b (13% below our estimate).
- Gross margin stood at 45.5% (est. 45%) in 1QFY23.**
- EBITDA margin stood at 25.8% in 1QFY23 v/s 28.6% in 4QFY22.
- PAT grew 25% YoY (flat QoQ) to INR1b (11% lower than our estimate), translating into an EPS of INR9.8.
- EBITDA/PAT miss was led by higher raw material costs due to elevated crude oil prices.

## Valuation and view

- The demand outlook for the ATBS segment remains positive going forward after a temporary blip in FY22. Veeral Organics Pvt. Ltd. (wholly owned subsidiary of Vinati Organics) is also set to commence production of MEHQ, Guaiacol and Iso Amylene in 1HFY24E, which should propel VO into the next-level of its growth story.
- Veeral Additives will commence production of AOs from Butyl Phenol, thus resulting in forward integration. Post amalgamation, VO would become the largest and only doubly integrated manufacturer of AOs in India. The latter is right now imported into the country and the domestic market is seeing huge demand for PP, LLDPE, etc. (which is expected to grow at 8% YoY).

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

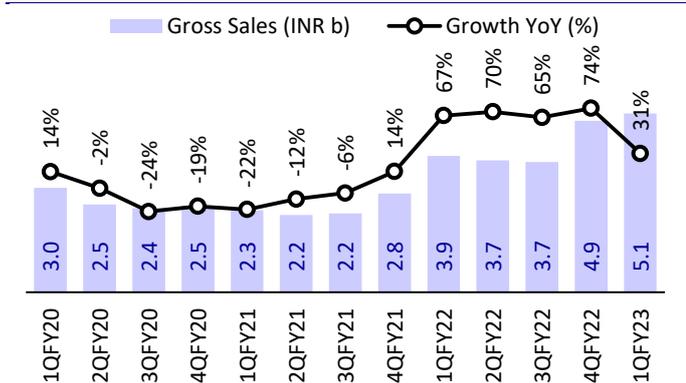
■ The stock is trading at 37x FY24E EPS and 29x FY24E EV/EBITDA, with return ratios of 23-25%. It has a fixed asset turnover of 2x as of FY22, which is likely to improve to 2.2x by FY24E. We value the company at 45x FY24E EPS to arrive at our TP of INR2,680. **We maintain our Buy rating.**

**Standalone - Quarterly Earnings Model**

(INR m)

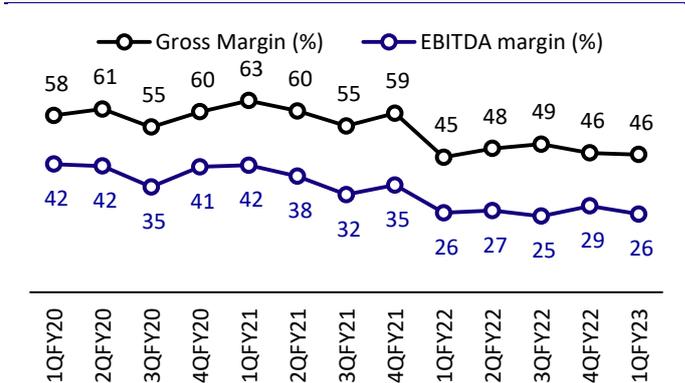
Y/E March	FY22				FY23				FY22	FY23E	FY23 1QE	Var (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
<b>Gross Sales</b>	<b>3,864</b>	<b>3,741</b>	<b>3,690</b>	<b>4,861</b>	<b>5,063</b>	<b>5,198</b>	<b>5,096</b>	<b>5,027</b>	<b>16,155</b>	<b>20,384</b>	<b>5,402</b>	<b>-6%</b>
YoY Change (%)	66.8	70.5	65.1	73.7	31.0	38.9	38.1	3.4	69.3	26.2	39.8	
<b>Gross Margin (%)</b>	<b>44.6%</b>	<b>47.6%</b>	<b>48.9%</b>	<b>46.1%</b>	<b>45.5%</b>	<b>46.0%</b>	<b>48.1%</b>	<b>48.5%</b>	<b>46.7%</b>	<b>47.0%</b>	<b>45.0%</b>	<b>0.5%</b>
<b>EBITDA</b>	<b>1,015</b>	<b>1,010</b>	<b>928</b>	<b>1,388</b>	<b>1,309</b>	<b>1,526</b>	<b>1,529</b>	<b>1,596</b>	<b>4,341</b>	<b>5,960</b>	<b>1,503</b>	<b>-13%</b>
Margin (%)	26.3	27.0	25.1	28.6	25.8	29.4	30.0	31.7	26.9	29.2	27.8	-2.0
Depreciation	110	113	115	117	128	131	138	154	455	550	126	
Interest	0	0	0	2	5	5	6	4	3	20	7	
Other Income	176	136	146	151	187	192	183	207	609	769	154	
<b>PBT before EO expense</b>	<b>1,081</b>	<b>1,033</b>	<b>959</b>	<b>1,420</b>	<b>1,363</b>	<b>1,582</b>	<b>1,569</b>	<b>1,646</b>	<b>4,493</b>	<b>6,159</b>	<b>1,524</b>	<b>-11%</b>
<b>PBT</b>	<b>1,081</b>	<b>1,033</b>	<b>959</b>	<b>1,420</b>	<b>1,363</b>	<b>1,582</b>	<b>1,569</b>	<b>1,646</b>	<b>4,493</b>	<b>6,159</b>	<b>1,524</b>	<b>-11%</b>
Tax	272	220	126	409	351	399	395	405	1,026	1,550	385	
Rate (%)	25.1	21.3	13.2	28.8	25.7	25.2	25.2	24.6	22.8	25.2	25.2	
<b>Reported PAT</b>	<b>809</b>	<b>814</b>	<b>833</b>	<b>1,011</b>	<b>1,012</b>	<b>1,183</b>	<b>1,173</b>	<b>1,241</b>	<b>3,466</b>	<b>4,609</b>	<b>1,139</b>	<b>-11%</b>
YoY Change (%)	11.9	31.1	29.8	42.7	25.0	45.4	40.9	22.7	28.7	33.0	40.7	
Margin (%)	20.9	21.7	22.6	20.8	20.0	22.8	23.0	24.7	21.5	22.6	21.1	-1.1

**Exhibit 1: Sales grew 31% YoY (+4% QoQ)**



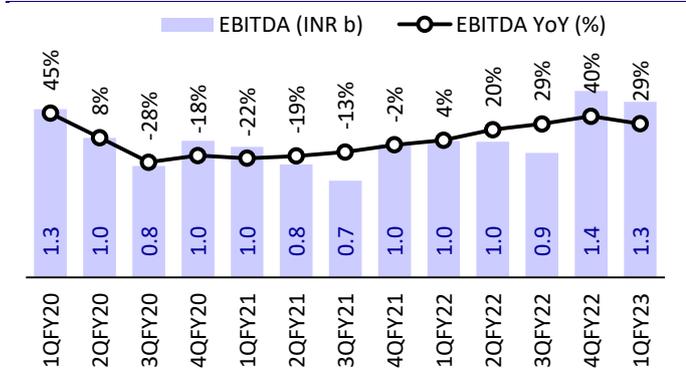
Source: Company, MOFSL

**Exhibit 2: Gross margin declined 50bp, while EBITDA margin contracted 270bp QoQ**



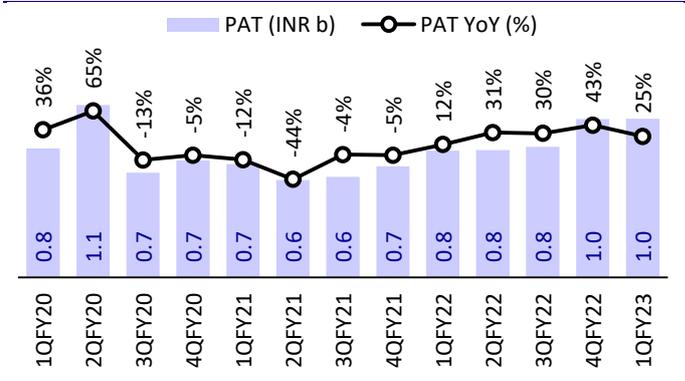
Source: Company, MOFSL

**Exhibit 3: EBITDA grew 29% YoY (EBITDAM at 25.8%)**



Source: Company, MOFSL

**Exhibit 4: PAT up 25% YoY (margin at 20%)**



Source: Company, MOFSL

Story in charts

Exhibit 5: Expect 26% revenue CAGR over FY22-24

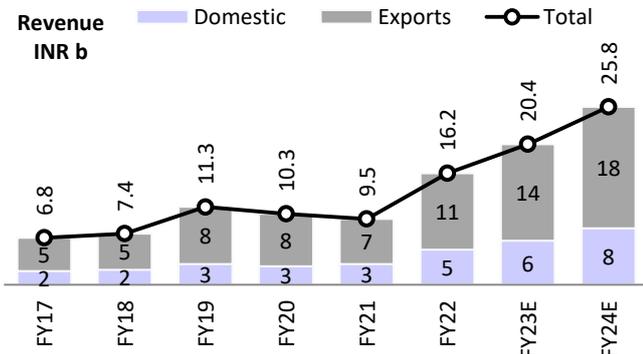


Exhibit 6: Exports likely to remain high

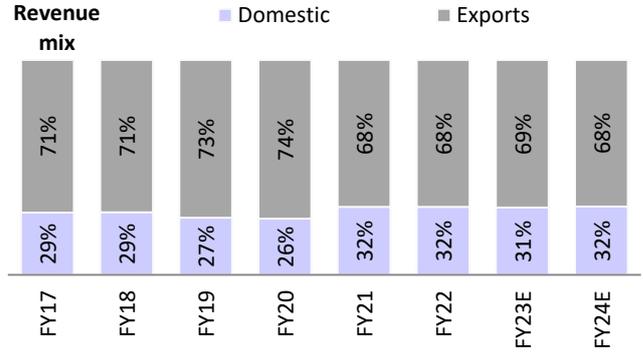


Exhibit 7: EBITDAM to improve as new projects start...

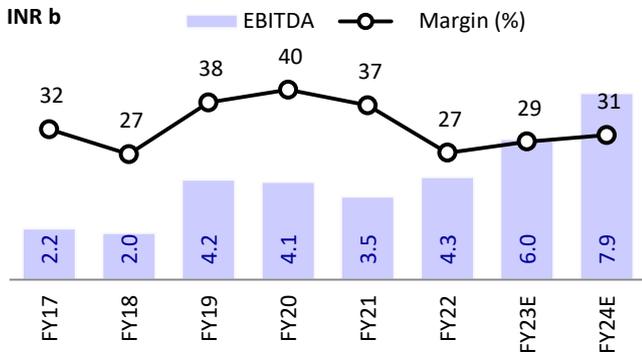


Exhibit 8: ...with product excellence to improve PAT margin

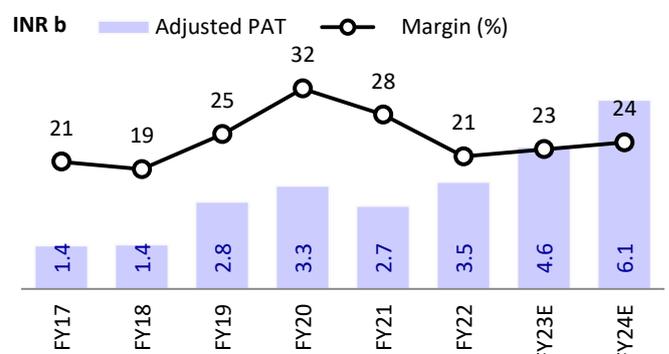


Exhibit 9: One-year forward P/E trades at 43.7x...

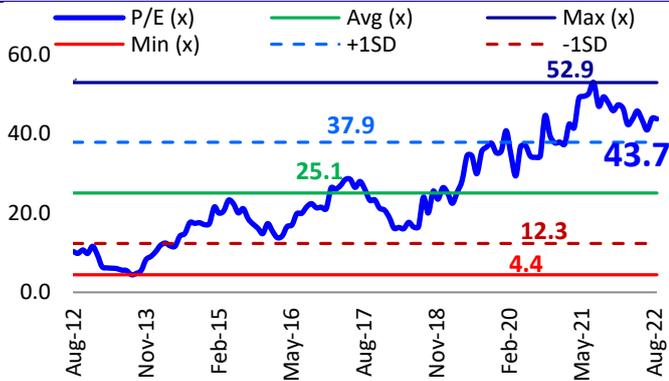


Exhibit 10: ...with return ratios improving to 23-25%

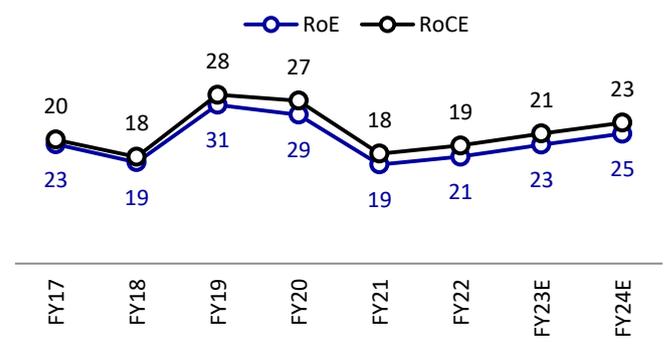


Exhibit 11: Capex for the next two years is INR5.5b

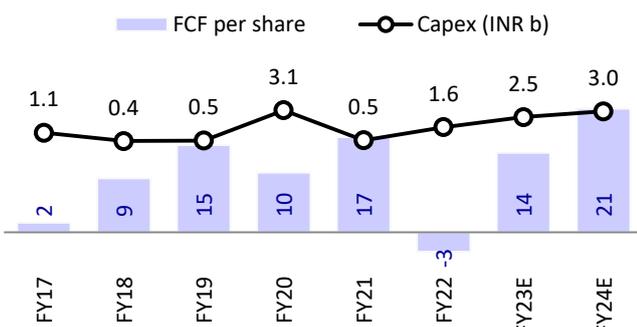
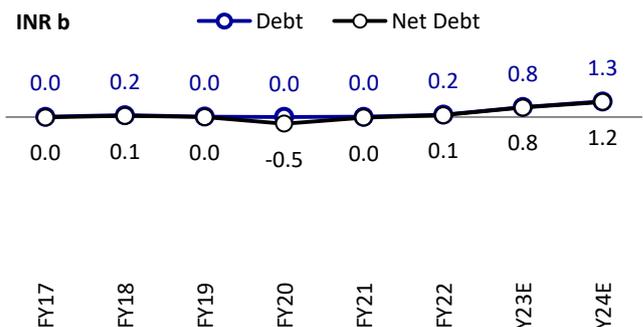


Exhibit 12: Debt profile of VO



Source: Company, MOFSL

Source: Company, MOFSL

## Financials and valuations

### Standalone- Income Statement

	(INR m)							
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Total Income from Operations</b>	<b>6,813</b>	<b>7,422</b>	<b>11,279</b>	<b>10,289</b>	<b>9,543</b>	<b>16,155</b>	<b>20,384</b>	<b>25,789</b>
Change (%)	8.0	8.9	52.0	-8.8	-7.3	69.3	26.2	26.5
Gross Margin (%)	55.9	49.1	53.4	58.3	59.4	46.7	47.0	47.0
<b>EBITDA</b>	<b>2,170</b>	<b>1,973</b>	<b>4,234</b>	<b>4,139</b>	<b>3,525</b>	<b>4,341</b>	<b>5,960</b>	<b>7,904</b>
Margin (%)	31.8	26.6	37.5	40.2	36.9	26.9	29.2	30.6
Depreciation	216	234	274	332	429	455	550	677
<b>EBIT</b>	<b>1,953</b>	<b>1,739</b>	<b>3,960</b>	<b>3,808</b>	<b>3,096</b>	<b>3,886</b>	<b>5,409</b>	<b>7,227</b>
Int. and Finance Charges	19	12	9	11	2	3	20	20
Other Income	125	307	302	450	259	610	769	973
<b>PBT bef. EO Exp.</b>	<b>2,060</b>	<b>2,034</b>	<b>4,252</b>	<b>4,247</b>	<b>3,353</b>	<b>4,493</b>	<b>6,159</b>	<b>8,180</b>
<b>PBT after EO Exp.</b>	<b>2,060</b>	<b>2,034</b>	<b>4,252</b>	<b>4,247</b>	<b>3,353</b>	<b>4,493</b>	<b>6,159</b>	<b>8,180</b>
Total Tax	657	595	1,428	908	659	1,026	1,550	2,059
Tax Rate (%)	31.9	29.3	33.6	21.4	19.7	22.8	25.2	25.2
<b>Reported PAT</b>	<b>1,403</b>	<b>1,439</b>	<b>2,825</b>	<b>3,338</b>	<b>2,693</b>	<b>3,467</b>	<b>4,609</b>	<b>6,121</b>
<b>Adjusted PAT</b>	<b>1,403</b>	<b>1,439</b>	<b>2,825</b>	<b>3,338</b>	<b>2,693</b>	<b>3,467</b>	<b>4,609</b>	<b>6,121</b>
Change (%)	6.6	2.6	96.3	18.2	-19.3	28.7	32.9	32.8
Margin (%)	20.6	19.4	25.0	32.4	28.2	21.5	22.6	23.7

### Standalone - Balance Sheet

	(INR m)							
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	103	103	103	103	103	103	103	103
Total Reserves	6,697	7,864	10,410	12,691	15,331	18,179	21,899	26,841
<b>Net Worth</b>	<b>6,800</b>	<b>7,967</b>	<b>10,513</b>	<b>12,794</b>	<b>15,434</b>	<b>18,281</b>	<b>22,002</b>	<b>26,943</b>
Total Loans	23	152	37	3	20	189	800	1,250
Deferred Tax Liabilities	696	809	846	705	779	900	900	900
<b>Capital Employed</b>	<b>7,519</b>	<b>8,927</b>	<b>11,395</b>	<b>13,502</b>	<b>16,234</b>	<b>19,370</b>	<b>23,702</b>	<b>29,094</b>
Gross Block	4,892	5,023	5,473	8,551	9,045	10,675	13,175	16,175
Less: Accum. Deprn.	216	454	728	1,060	1,489	1,944	2,494	3,171
<b>Net Fixed Assets</b>	<b>4,676</b>	<b>4,569</b>	<b>4,745</b>	<b>7,491</b>	<b>7,557</b>	<b>8,732</b>	<b>10,682</b>	<b>13,005</b>
Capital WIP	74	349	1,912	310	547	473	473	473
<b>Total Investments</b>	<b>618</b>	<b>1,317</b>	<b>965</b>	<b>2,274</b>	<b>2,887</b>	<b>979</b>	<b>979</b>	<b>979</b>
<b>Curr. Assets, Loans, and Adv.</b>	<b>2,843</b>	<b>3,565</b>	<b>4,654</b>	<b>4,355</b>	<b>6,345</b>	<b>10,714</b>	<b>13,496</b>	<b>17,075</b>
Inventory	651	822	924	932	1,219	1,762	2,223	2,812
Account Receivables	1,405	1,771	2,440	2,018	2,772	4,584	5,784	7,317
Cash and Bank Balance	48	52	38	537	68	43	31	40
Cash and liquid investments	621	1,318	492	1,586	1,762	11	31	40
Bank Balance	45	52	38	0	52	33	0	0
Loans and Advances	740	919	1,252	869	2,285	4,326	5,458	6,906
<b>Curr. Liability and Prov.</b>	<b>693</b>	<b>872</b>	<b>881</b>	<b>927</b>	<b>1,102</b>	<b>1,527</b>	<b>1,927</b>	<b>2,438</b>
Account Payables	327	635	531	557	664	1,146	1,446	1,829
Other Current Liabilities	338	174	211	213	391	328	413	523
Provisions	27	64	139	157	47	54	68	86
<b>Net Current Assets</b>	<b>2,151</b>	<b>2,693</b>	<b>3,774</b>	<b>3,428</b>	<b>5,243</b>	<b>9,187</b>	<b>11,569</b>	<b>14,637</b>
<b>Appl. of Funds</b>	<b>7,519</b>	<b>8,927</b>	<b>11,395</b>	<b>13,502</b>	<b>16,234</b>	<b>19,371</b>	<b>23,702</b>	<b>29,094</b>

## Financials and valuations

### Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Basic (INR)</b>								
EPS	13.6	14.0	27.5	32.5	26.2	33.7	44.8	59.6
EPS Growth (%)	6.6	2.6	96.3	18.2	-19.3	28.7	32.9	32.8
Cash EPS	15.7	16.3	30.1	35.7	30.4	38.2	50.2	66.1
BV/Share	66.2	77.5	102.3	124.5	150.2	177.9	214.1	262.1
DPS	0.3	0.3	2.3	5.5	6.0	6.5	8.6	11.5
Payout (%)	2.2	2.2	9.9	31.6	22.9	19.3	19.3	19.3
<b>Valuation (x)</b>								
P/E	163.4	159.3	81.1	68.7	85.1	66.1	49.7	37.4
Cash P/E	141.6	137.0	74.0	62.5	73.4	58.4	44.4	33.7
P/BV	33.7	28.8	21.8	17.9	14.9	12.5	10.4	8.5
EV/Sales	33.6	30.9	20.3	22.2	24.0	14.2	11.3	8.9
EV/EBITDA	105.6	116.2	54.1	55.2	65.0	52.8	38.6	29.2
Dividend Yield (%)	0.0	0.0	0.1	0.2	0.3	0.3	0.4	0.5
FCF per share	1.6	9.4	15.1	10.4	16.5	-3.4	13.8	21.5
<b>Return Ratios (%)</b>								
RoE	23.0	19.5	30.6	28.6	19.1	20.6	22.9	25.0
RoCE	20.5	17.6	27.9	26.9	18.1	19.5	21.5	23.2
RoIC	22.0	17.6	33.5	31.7	21.5	19.6	20.2	21.7
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	1.6	1.6	2.4	1.7	1.3	2.0	2.1	2.2
Asset Turnover (x)	0.9	0.8	1.0	0.8	0.6	0.8	0.9	0.9
Inventory (Days)	35	40	30	33	47	40	40	40
Debtor (Days)	75	87	79	72	106	104	104	104
Creditor (Days)	18	31	17	20	25	26	26	26
<b>Leverage Ratio (x)</b>								
Current Ratio	4.1	4.1	5.3	4.7	5.8	7.0	7.0	7.0
Net Debt/Equity ratio	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

### Standalone - Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	2,060	2,034	4,252	4,247	3,353	4,493	6,159	8,180
Depreciation	216	254	274	332	429	455	550	677
Direct Taxes Paid	-535	-491	-1,262	-1,005	-607	-1,081	-1,550	-2,059
(Inc.)/Dec. in WC	-380	-316	-1,138	811	-874	-2,257	-1,261	-1,612
<b>CF from Operations</b>	<b>1,304</b>	<b>1,384</b>	<b>2,003</b>	<b>4,159</b>	<b>2,190</b>	<b>1,271</b>	<b>3,917</b>	<b>5,206</b>
(Inc.)/Dec. in FA	-1,136	-422	-450	-3,094	-490	-1,618	-2,500	-3,000
<b>Free Cash Flow</b>	<b>168</b>	<b>962</b>	<b>1,553</b>	<b>1,065</b>	<b>1,700</b>	<b>-347</b>	<b>1,417</b>	<b>2,206</b>
Change in Investments	695	1	-442	-674	127	267	0	0
Others	173	33	-1,534	1,793	-1,619	-1,206	-1,132	-1,447
<b>CF from Investments</b>	<b>-268</b>	<b>-388</b>	<b>-2,427</b>	<b>-1,975</b>	<b>-1,982</b>	<b>-2,558</b>	<b>-3,632</b>	<b>-4,447</b>
Issue of Shares	0	-240	0	0	0	0	0	0
Inc./(Dec.) in Debt	-396	0	0	0	17	164	611	450
Interest Paid	-16	-11	-9	-11	-2	-3	-20	-20
Dividend Paid	-35	-32	-278	-1,046	-55	-618	-888	-1,180
<b>CF from Fin. Activity</b>	<b>-451</b>	<b>-298</b>	<b>-403</b>	<b>-1,090</b>	<b>-31</b>	<b>-464</b>	<b>-297</b>	<b>-749</b>
<b>Inc./Dec. in Cash</b>	<b>585</b>	<b>697</b>	<b>-826</b>	<b>1,094</b>	<b>176</b>	<b>-1,751</b>	<b>-12</b>	<b>9</b>
Opening Balance	35	621	1,318	492	1,586	1,762	43	31
<b>Closing Balance</b>	<b>621</b>	<b>1,318</b>	<b>491</b>	<b>1,585</b>	<b>1,762</b>	<b>10</b>	<b>31</b>	<b>40</b>

## NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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