

ATBS, butyl phenols to sustain growth momentum...

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

Q1FY23 Results: Numbers were above our estimates on the revenue front, driven by strong performance from both ATBS & Butyl phenols.

- Reported revenue growth of 31% YoY to ₹ 506.3 crore, led by strong performance from ATBS & Butyl phenol segments
- Gross margins rose 90 bps YoY to ~45.5% while EBITDA margin contracted 40 bps YoY to 25.8%
- EBITDA was up 29% YoY to ₹ 130.9 crore
- PAT increased 25% YoY to ₹ 101.2 crore

What should investors do? The stock appreciated at 29.7% CAGR in the last three years.

- We change our rating from BUY to **HOLD** as the strong outlook for ATBS and newer products has already been factored into the current price

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 increasingly strong performance visibility
- BUY with a target price of ₹ 1645



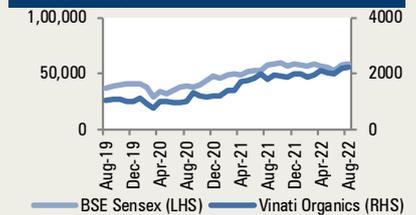
Particulars

Particular	Amount
Market cap (₹ Crore)	23,000
FY22 Total Debt (₹ Crore)	18
FY22 Cash & Inv (₹ Crore)	4
EV (₹ Crore)	23,014
52 Week H/L	2324/1674
Equity Capital (₹ Crore)	10.3
Face Value (₹)	1

Shareholding pattern

in %	Sept-21	Dec-21	Mar-22	Jun-22
Promoter	74.1	74.1	74.1	74.1
DII	6.9	7.5	7.9	8.1
FII	4.5	4.5	4.6	4.7
Others	14.6	13.9	13.5	13.2

Price Chart



Recent event & key risks

- Capacity augmentation announcement in ATBS
- Key Risk:** (i) Lower oil prices could affect ATBS segment revenue growth, (ii) Better than expected traction from new products

Research Analyst

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Dhavan Shah
dhavan.shah@icicisecurities.com

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	2,409.0	22.1%
EBITDA	423.4	413.9	352.5	434.1	14.9%	529.1	698.6	26.9%
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%	412.2	529.3	23.6%
Adj. EPS (₹)	27.5	32.5	26.2	33.7		40.1	51.5	
EV/EBITDA	45.6x	46.2x	54.5x	44.7x		37.0x	28.3x	
P/E	68.7x	58.1x	72.1x	56.0x		47.1x	36.7x	
ROE (%)	26.9	26.1	17.4	19.0		19.1	20.5	
ROCE (%)	40.4	33.3	21.7	24.3		23.2	23.9	

Source: Company, ICICI Direct Research

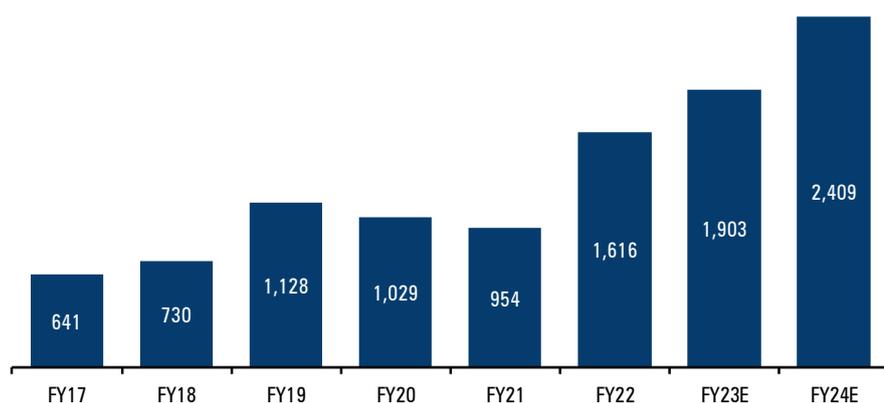
Key takeaways of recent quarter & conference call highlight

Q1FY23 Results: Strong growth across all segments led performance

- **Performance from key segments remain strong:** Since key RMA prices were at higher levels, passing on input inflation led 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 up around 25-30% YoY while the same from IBB increased around 30% YoY. This led to overall revenue growth of 31% YoY to ₹ 506.3 crore
- **Lower gross margins, higher power cost impact OPM:** There was a rise in coal cost, which dented the operational performance. OPM contracted 40 bps YoY to 25.8%

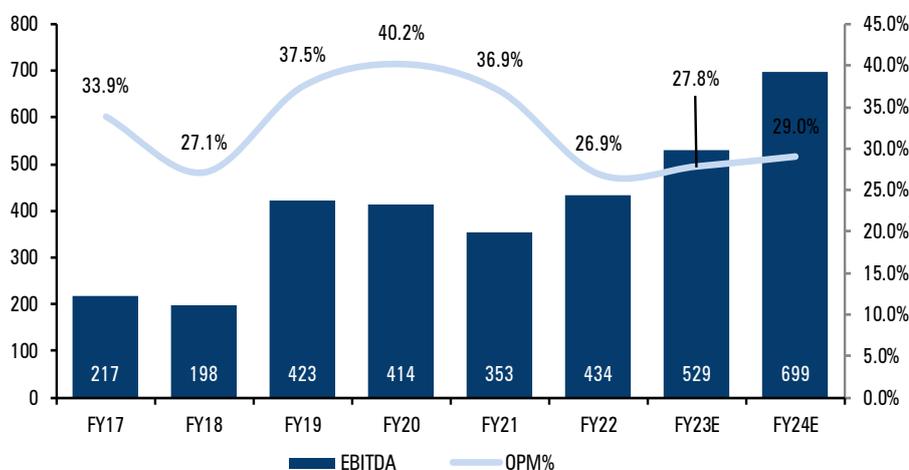
Financial story in charts....

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



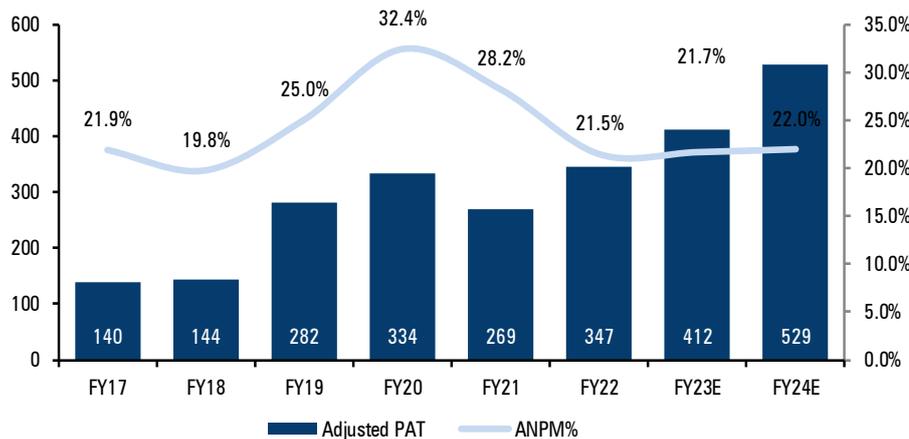
Source: Company, ICICI Direct Research

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	FY21	FY22	FY23E	FY24E	
Total Operating Income	954.3	1,615.5	1,903.2	2,409.0	
Growth (%)	-7.3	69.3	17.8	26.6	
Raw Material Expenses	387.7	860.7	1,008.7	1,252.7	
Employee Cost	72.6	84.0	95.2	120.5	
Other Expenses	141.4	236.7	270.2	337.3	
Total Operating Expenditure	601.7	1,181.4	1,374.1	1,710.4	
EBITDA	352.5	434.1	529.1	698.6	
Growth (%)	-14.8	23.1	21.9	32.0	
Other Income	25.8	60.9	68.2	85.6	
Depreciation	42.9	45.5	51.4	71.4	
Net Interest Exp.	0.2	0.3	7.0	21.0	
Other exceptional items	0.0	0.0	0.0	0.0	
PBT	335.2	449.2	538.9	691.9	
Total Tax	65.9	102.6	126.6	162.6	
PAT	269.3	346.6	412.2	529.3	
Adjusted PAT	269.3	346.6	412.2	529.3	
Growth (%)	-19.3	28.7	18.9	28.4	
Adjusted EPS (₹)	26.2	33.7	40.1	51.5	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					₹ crore
Year end March	FY21	FY22	FY23E	FY24E	
PBT & Extraordinary	335.2	449.2	538.9	691.9	
Add: Depreciation	42.9	45.5	51.4	71.4	
After other adjustments					
(Inc) / Dec in Working Capital	-87.4	-225.6	-182.7	-204.0	
Taxes	-60.7	-108.1	-126.6	-162.6	
Others	-11.0	-34.2	7.0	21.0	
CF from operating activities	219.0	126.8	288.0	417.7	
Purchase of Fixed Assets	-83.3	-173.9	-365.0	-480.0	
Others	-115.0	-81.4	0.1	-26.5	
CF from investing activities	-198.3	-255.4	-364.9	-506.5	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	1.7	16.4	181.6	200.0	
Dividend paid & dividend tax	-5.5	-61.8	-82.4	-105.9	
Others	0.8	-1.1	-7.0	-21.0	
CF from financing activities	-3.1	-46.5	92.2	73.1	
Net cash flow	17.6	-175.2	15.3	-15.6	
Opening cash	53.7	6.9	4.3	19.6	
Closing cash	6.9	4.3	19.6	3.9	

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet					₹ crore
Year end March	FY21	FY22	FY23E	FY24E	
Liabilities					
Equity Capital	10.3	10.3	10.3	10.3	
Reserves & Surplus	1,533.1	1,817.7	2,147.5	2,571.0	
Total Shareholders Funds	1,543.4	1,828.0	2,157.8	2,581.2	
Minority Interest	0.0	0.0	0.0	0.0	
Long Term Borrowings	0.0	0.0	200.0	400.0	
Net Deferred Tax liability	77.9	90.0	90.0	90.0	
Other long term liabilities	6.0	4.5	5.3	6.7	
Long term provisions	0.0	0.0	0.0	0.0	
Current Liabilities and Provisions					
Short term borrowings	2.0	18.4	0.0	0.0	
Trade Payables	66.6	114.6	130.4	165.0	
Other Current Liabilities	33.1	28.9	34.1	43.1	
Short Term Provisions	4.7	5.4	6.3	8.0	
Total Current Liabilities	106.4	167.3	170.7	216.1	
Total Liabilities	1,733.8	2,089.8	2,623.8	3,294.0	
Assets					
Net Block	756.8	873.2	1,088.2	1,646.8	
Capital Work in Progress	55.8	51.5	150.0	0.0	
Intangible assets under devl.	0.0	0.0	0.0	0.0	
Goodwill on Consolidation	0.0	0.0	0.0	0.0	
Non-current investments	107.8	93.5	93.5	120.0	
Deferred tax assets	0.0	0.0	0.0	0.0	
Long term loans and advances	133.1	254.4	254.4	254.4	
Other Non Current Assets	25.2	41.2	48.5	61.4	
Current Assets, Loans & Advances					
Current Investments	180.9	0.1	0.0	0.0	
Inventories	121.9	176.2	260.7	297.0	
Sundry Debtors	277.2	458.4	547.5	706.2	
Cash and Bank	6.9	4.3	19.6	3.9	
Loans and Advances	0.1	0.3	0.3	0.3	
Other Current assets	68.1	136.8	161.1	203.9	
Current Assets	655.1	776.0	989.2	1,211.3	
Total Assets	1,733.8	2,089.8	2,623.8	3,294.0	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
Year end March	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Adj. EPS	26.2	33.7	40.1	51.5
Adj. Cash EPS	30.4	38.1	45.1	58.4
BV	150.2	177.9	209.9	251.1
DPS	6.0	6.5	8.0	10.3
Operating Ratios (%)				
Gross Margin (%)	59.4	46.7	47.0	48.0
EBITDA Margin (%)	36.9	26.9	27.8	29.0
PAT Margin (%)	28.2	21.5	21.7	22.0
Debtor Days	106	104	105	107
Inventory Days	47	40	50	45
Creditor Days	25	26	25	25
Cash Conversion Cycle	127	117	130	127
Return Ratios (%)				
Return on Assets (%)	15.5	16.6	15.7	16.1
RoCE (%)	21.7	24.3	23.2	23.9
RoE (%)	17.4	19.0	19.1	20.5
Solvency				
Total Debt / Equity	0.0	0.0	0.1	0.2
Interest Coverage	1,583.1	1,737.6	78.0	33.9
Current Ratio	6.2	4.6	5.8	5.6
Quick Ratio	5.0	3.6	4.3	4.2
Valuation Ratios (x)				
EV/EBITDA	54.5	44.7	37.0	28.3
P/E	72.1	56.0	47.1	36.7
P/B	12.6	10.6	9.0	7.5
EV/Sales	20.1	12.0	10.3	8.2

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		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
SRF	2340	2,735	Buy	69,466	63.5	68.9	82.7	36.1	33.2	27.7	22.4	20.6	17.0	23.8	21.6	22.5	22.1	20.3	20.4
PI Industries	3200	3,710	Buy	48,550	55.5	67.2	82.4	57.6	47.6	38.8	40.8	34.2	27.8	16.3	17.1	18.2	13.8	14.5	15.2
Aarti Industries	712	860	Hold	25,812	21.7	24.4	30.7	32.8	29.2	23.2	22.6	18.9	15.4	12.0	12.6	13.6	13.3	13.2	14.4
Tata Chemical	825	1,155	Buy	21,009	47.5	63.6	73.0	17.4	13.0	11.3	12.4	9.1	6.8	6.6	8.4	9.0	6.6	8.3	8.8
Vinati Organics	2238	2,320	Hold	23,000	33.7	40.1	51.5	56.0	47.1	36.7	44.7	37.0	28.3	24.3	23.2	23.9	19.0	19.1	20.5
Sumitomo Chemical	474	520	Buy	23,679	8.5	10.2	11.5	55.9	46.7	41.1	35.9	30.1	26.0	30.2	28.6	26.7	22.0	21.3	19.9
Navin Fluorine	4200	4,450	Hold	20,812	52.3	67.4	89.0	80.3	62.3	47.2	58.4	41.8	30.6	17.8	18.7	19.6	14.0	15.8	17.9
Rallis India	208	200	Hold	3,987	8.4	8.9	12.4	24.3	23.1	16.6	13.9	14.1	10.1	12.7	11.6	15.3	9.7	9.5	12.1
Sudarshan chemical	455	515	Hold	3,153	18.8	19.3	28.5	24.0	23.3	15.8	14.2	12.8	9.6	10.9	11.3	15.4	15.6	14.3	18.3
Neogen Chemicals	1422	1,645	Buy	3,545	17.9	27.2	32.9	79.5	52.2	43.2	41.8	30.2	25.0	12.0	15.0	16.2	10.2	13.6	14.3
Astec Lifesciences	1791	2,215	Buy	3,509	45.1	54.8	69.3	39.7	32.7	25.9	24.6	20.7	16.5	19.3	17.7	19.4	22.3	21.3	21.2

Source: Bloomberg, ICICI Direct Research

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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**

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