



Powered by the Sharekhan 3R Research Philosophy

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 Jul 08, 2022

Medium Risk

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

Source: Morningstar

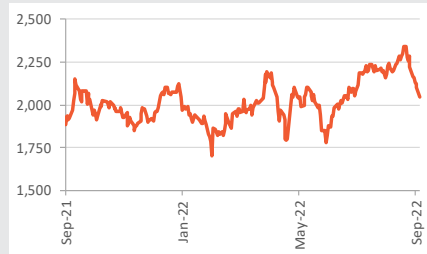
Company details

Market cap:	Rs. 21,016 cr
52-week high/low:	Rs. 2,373 / 1,675
NSE volume: (No of shares)	0.7 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	-7.5	9.5	4.7	8.5
Relative to Sensex	-4.7	2.0	5.1	13.3

Sharekhan Research, Bloomberg

Vinati Organics Ltd

On the cusp of a strong earnings growth cycle

Speciality Chemicals

Sharekhan code: **VINATIORGA**

Reco/View: **Buy**



Upgrade



Maintain



Downgrade

CMP: **Rs. 2,045**

Price Target: **Rs. 2,500**

Summary

- Vinati Organics' capex plan of ~Rs. 300 crore to augment ATBS capacity by 50% to 60 ktpa (expected by December 2023) and Rs. 280 crore for entry into new products (MEHQ & Guaiacol and Iso Amylene; expected by Sep-23) and company's track-record of being the top player (as in the case of ATBS/IBB) in its products gives us confidence on longevity to sustained high revenue/earnings growth.
- Veeral Additives Private Ltd's (VAPL) merger (expected to get completed by end-FY23) with Vinati would provide synergies in terms of forward integration of Butyl Phenol to antioxidants, which would help tap huge antioxidant market opportunity of Rs. 10,000 crore. Merger of VAL is key catalyst.
- Strong balance would support capex for capacity expansion and R&D pipeline of 10-12 products would aid product development. We introduce our FY25 earnings estimate and expect 32% PAT CAGR over FY22-25E along with strong RoE/RoCE of 25%/33%.
- The recent 14% correction in the stock's price from 52-week high provides good entry for the investors considering sustained long term high double-digit earnings growth potential. We maintain a Buy on Vinati Organics with an unchanged PT of Rs. 2,500. Stock is trading at 31.5x its FY2024E EPS and 26.4x its FY2025E EPS.

Vinati Organics' capex plan to expand ATBS capacity, investment strategy to foray into niche products (MEHQ, Guaiacol and Iso Amylene) and proposed merger of VAPL (benefit of forward integration in antioxidants) with Vinati improves visibility on sustained high earnings growth (expect a 32% PAT CAGR over FY22-25E). A 14% fall in the stock price from 52-week high provides good entry for the investors considering sustained long-term high double-digit earnings growth potential. We maintain a Buy rating on Vinati with an unchanged PT of Rs. 2,500.

- Capex to drive next leg of growth:** Vinati had recently announced plans to expand its ATBS capacity by 50% to 60,000 tpa with an estimated capital outlay of Rs. 300 crore (which would be funded through internal accruals). The expanded capacity is expected to be commissioned by December 2023 (i.e., Q3FY24). Vinati is largest producer of ATBS globally and its capacities are fully utilised and further expansion indicates strong demand outlook from end-user industries like upstream oil & gas and water treatment. Additionally, Vinati announced to invest Rs. 280 crore (under Veeral Organics Private Limited) for entry into niche products (expected to be commissioned by Q2FY24) like MEHQ & Guaiacol (combined capacity of 2000 MT) and Iso Amylene with capacity 30000 MT. These products are used in polymerization of inhibitors, flavours, fragrances, pharmaceuticals, and pesticides. Capacity expansion for existing products and entry into new products bodes well for earnings growth beyond FY24 for Vinati.
- VAPL merger – to provide synergies and tap huge AO market opportunity:** Amalgamation of Veeral Additives Private Limited (VAPL) is expected by end-FY2023 and is in the right direction, as it provides entry into antioxidants (AO – forward integration for Butyl Phenol) with incremental revenue opportunity of Rs. 300 crore and higher margin on antioxidants. After the amalgamation, Vinati will be the largest producer (only company with both backward and forward integrated producer) of AO in India with huge market opportunity of Rs. 10,000 crore.
- Strong balance sheet to support expansion & R&D; confident of sustained high earnings growth:** A strong, debt-free balance sheet and strong FCF generation (consistently generated FCF of Rs. 107-170 crore since FY2019 except for FY22) would support capex to augment capacities and development of new niche products (R&D pipeline of 10-12 new products with unique chemistries). We have introduced our FY25 earnings estimates and expect a strong 32% PAT CAGR over FY22-25E.

Our Call

Valuation – Maintain Buy on Vinati Organics with an unchanged PT of Rs. 2,500: Vinati Organics' dominant global market share in ATBS/IBB segments, niche product portfolio and massive export opportunity in the specialty chemical sector would drive sustained long-term high double-digit earnings growth. Likely higher ATBS margin and ramp-up of Butyl Phenol would drive strong 32% PAT CAGR over FY2022-FY2025E along with solid RoE/RoCE of 25%/33%. Potential merger of Veeral Additives (VAPL) with Vinati remains a key catalyst for the stock in FY23. Hence, we maintain Buy on Vinati Organics with an unchanged PT of Rs. 2,500. The stock trades at 31.5x its FY2024E EPS and 26.4x its FY2025E EPS.

Key Risks

- Lower demand due to economic slowdown and delay in the 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)

Particulars	Rs cr				
	FY21	FY22	FY23E	FY24E	FY25E
Revenue	954	1,616	2,101	2,850	3,375
OPM (%)	36.9	26.9	30.4	31.0	31.3
Adjusted PAT	269	347	482	668	797
y-o-y growth (%)	(19.3)	28.7	39.2	38.4	19.4
Adjusted EPS (Rs.)	26.2	33.7	46.9	65.0	77.6
P/E (x)	78.0	60.6	43.6	31.5	26.4
P/BV (x)	13.6	11.5	9.4	7.5	6.0
EV/EBITDA (x)	59.1	48.4	32.2	22.9	18.7
RoCE (%)	22.5	25.2	30.2	34.0	32.6
RoE (%)	19.1	20.6	23.8	26.6	25.2

Source: Company; Sharekhan estimates

Capex of Rs. 580 crore to expand ATBS capacity and new products - to drive next leg of growth for Vinati

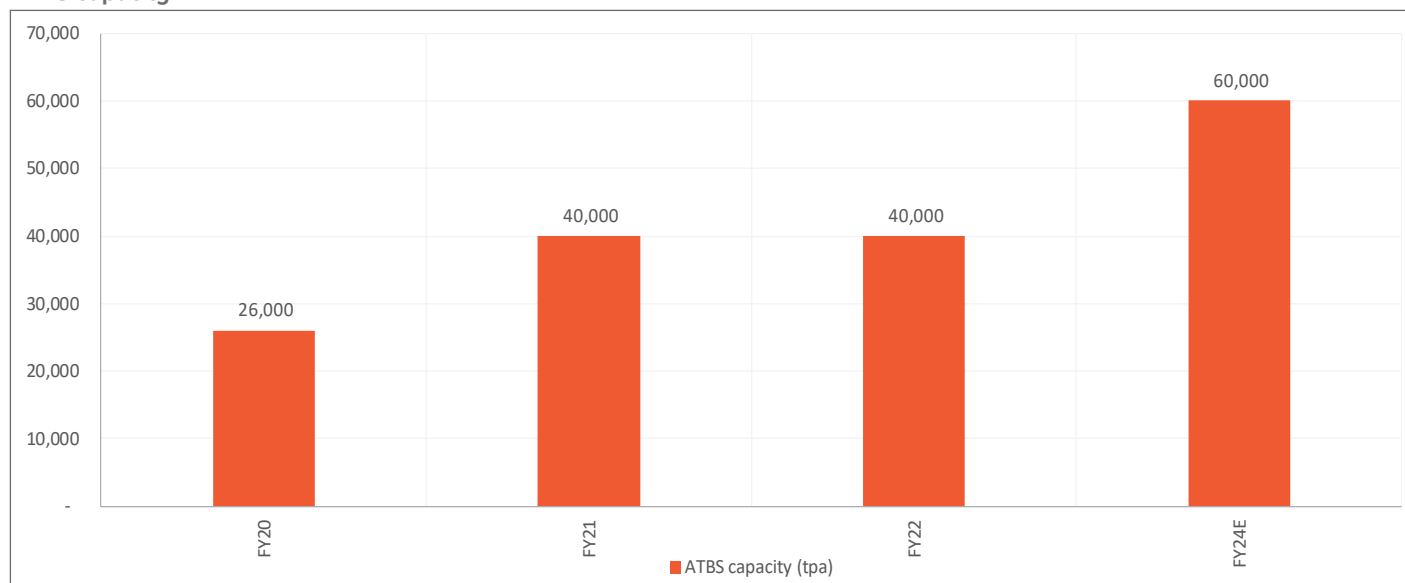
Vinati had recently (in June 2022) announced a capex of Rs. 300 crores to increase its ATBS capacity by 50% (from 40ktpa to 60ktpa) to target the high demand from the oil & gas sector. The entire capex will be funded by internal accruals and the project is expected to be commissioned by December 2023. Additionally, Vinati announced an investment of Rs. 280 crore (under Veeral Organics Limited) for entry into niche products (expected to be commissioned by Q2FY24) like MEHQ & Guaiacol (combined capacity of 2000 MT) and Iso Amylene with capacity 30000 MT). These products are used in polymerization of inhibitors, flavours, fragrances, pharmaceuticals, and pesticides. Capacity expansion for existing products and entry into new products bodes well for earnings growth beyond FY24 for Vinati.

Capex plan to expand existing capacities and enter new products

Existing product capex	Total capex (Rs. Cr.)	Revenue potential (Rs. Cr.)	Commissioning timeline	Comments
ATBS	300	NA	Dec 2023	Increase in ATBS Capacity by 50% (from 40ktpa to 60ktpa)
Butyl Phenol	100	NA	H2FY23	Increase in Butylated Phenols capacity from 35ktpa to 50 ktpa. Incremental capacity will largely be used for antioxidants.
New product capex				
Antioxidants	300	700	H1FY23	Rs. 250 Cr. Already completed by end of FY21.
MEHQ & Guaiacol	280	NA	Sep 2023	New combined capacity pf 2ktpa
Iso Amylene				New capacity of 30ktpa

Source: Company; Sharekhan Research

ATBS capacity



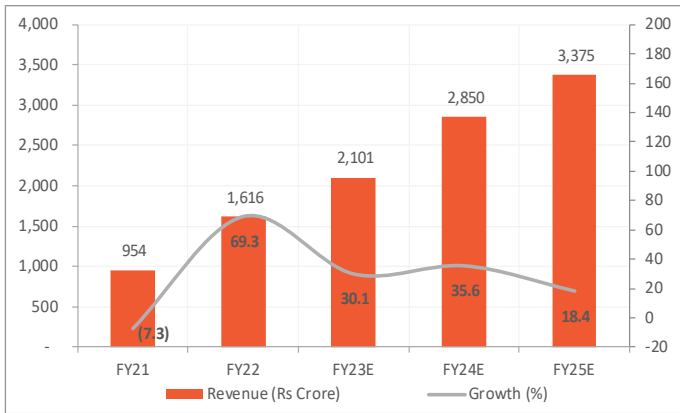
Source: Company, Sharekhan Research

Amalgamation of VAPL provides forward integration; Incremental revenue potential of Rs. 300 crore

Vinati Organics' board had approved a scheme of amalgamation of VAPL into Vinati Organics. VAPL manufactures three types of antioxidants (AO 1010, AO 1076, AO 168) with primary application in the polymer industry. There is demand potential of 10,000 mt in India; and global demand is estimated at ~3,00,000 mt. VAPL has capacity of 24,000 mt and the amalgamation of VAPL provides forward integration for Vinati Organics. The acquisition will add new revenue stream of specialty chemicals with strong demand, given rising consumption of various plastics such as LDPE, LLDPE, and PP. After the acquisition, Vinati Organics will be the largest and the only integrated manufacturer of these antioxidants in India. The amalgamation is expected to get completed by end-FY2023 and VAPL provides incremental revenue potential of Rs. 300 crore at peak level.

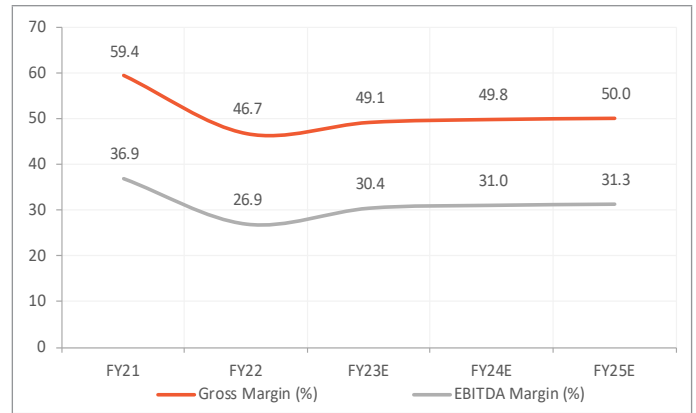
Financials in charts

Revenue growth to clock 28% CAGR over FY22E-FY25E



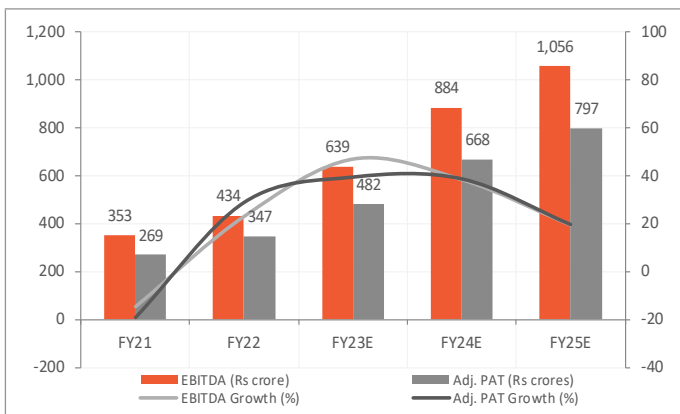
Source: Company, Sharekhan Research

Operates at a significantly higher margin profile



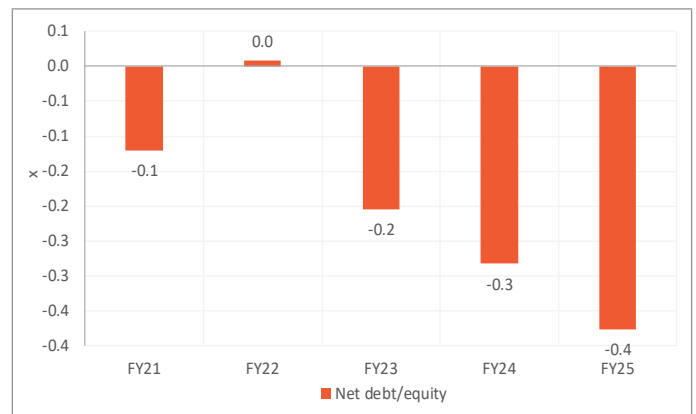
Source: Company, Sharekhan Research

EBITDA/PAT CAGR of 34%/32% over FY22-FY25E



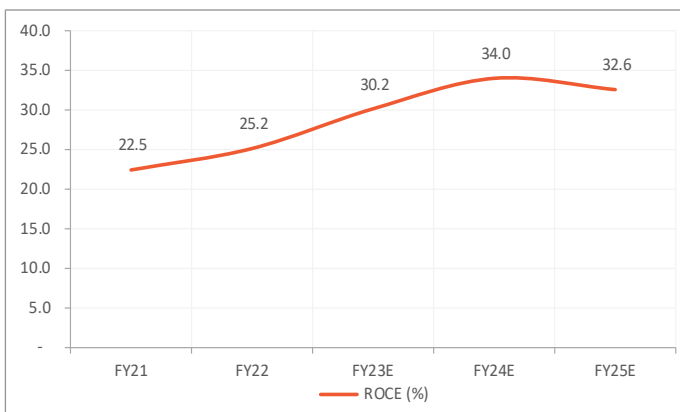
Source: Company, Sharekhan Research

Debt-free company; balance sheet to get strong further



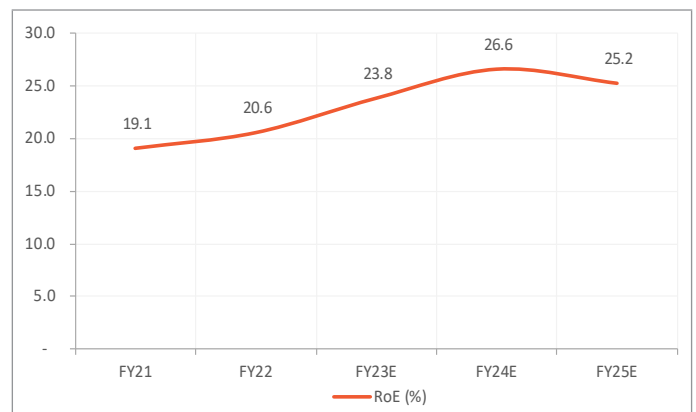
Source: Company, Sharekhan Research

RoCE trend



Source: Company, Sharekhan Research

RoE trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Structural drivers to propel sustained growth for specialty chemicals sector

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 the 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.

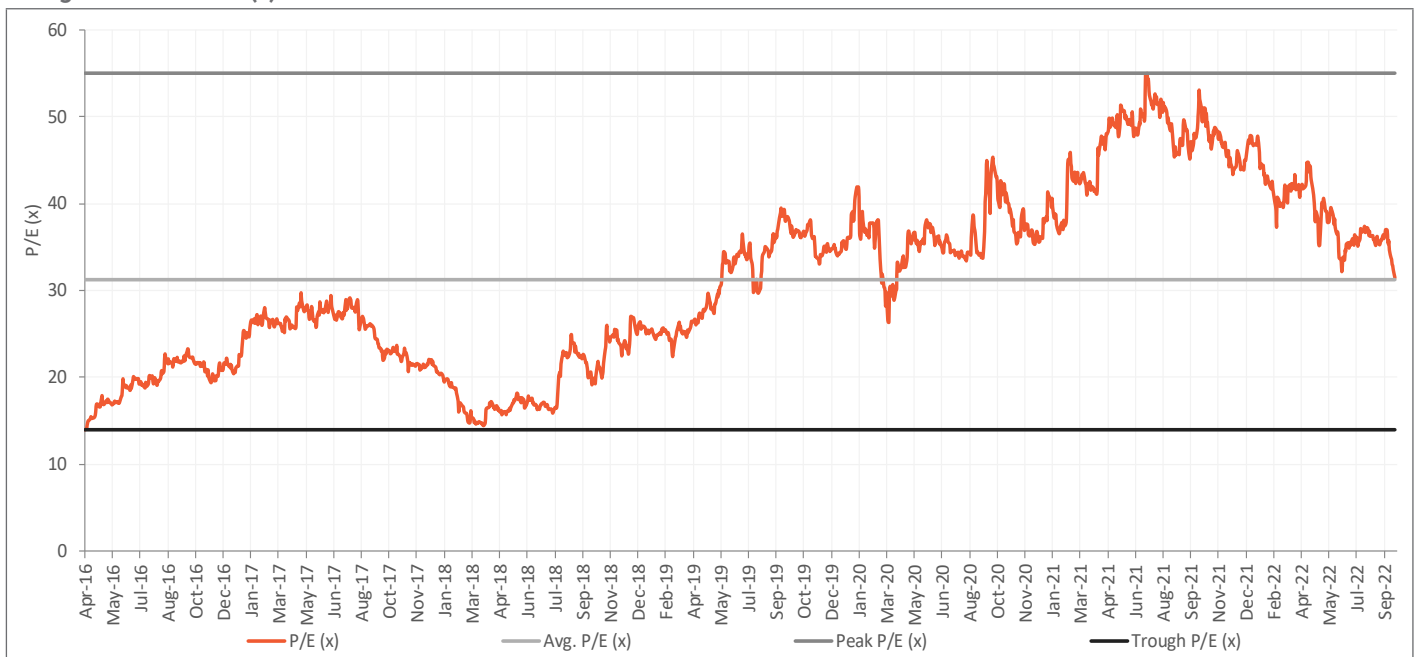
■ Company Outlook – Niche business with significant market share, improvement in ATBS demand bodes well for earnings recovery

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 and ramp-up of butyl phenol would lead to a 32% PAT CAGR over FY2022-FY2025E.

■ Valuation – We maintain Buy on Vinati Organics with an unchanged PT of Rs. 2,500

Vinati Organics' dominant global market share in ATBS/IBB segments, niche product portfolio and massive export opportunity in the specialty chemical sector would drive sustained long-term high double-digit earnings growth. Likely higher ATBS margin and ramp-up of Butyl Phenol would drive strong 32% PAT CAGR over FY2022-FY2025E along with solid RoE/RoCE of 25%/33%. Potential merger of Veeral Additives (VAPL) with Vinati remains a key catalyst for the stock in FY23. Hence, we maintain Buy on Vinati Organics with an unchanged PT of Rs. 2,500. The stock trades at 31.5x its FY2024E EPS and 26.4x its FY2025E EPS.

One-year forward P/E (x) band



Source: Company, 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: Company Website

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)

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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 deteriorating 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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