



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 Oct 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. 21,346 cr
52-week high/low:	Rs. 2,373/1,675
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
DII	5
FII	8
Others	13

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.1	-5.3	8.7	3.6
Relative to Sensex	-4.1	-9.0	-3.6	2.4

Sharekhan Research, Bloomberg

Summary

- Q2FY23 performance was mixed with 7.5% beat in revenue at Rs. 566 crore (up 51.4% y-o-y) led by strong growth from ATBS/IBB segments while OPM of 26.2% (down 234 bps y-o-y) missed our estimate by 304 bps as gross margins remained under pressure. In-line PAT of Rs. 116 crore (up 43% y-o-y) as slight miss in operating profit was offset by higher-than-expected other income.
- Veeral Additives Pvt Ltd's (VAPL's) antioxidant plant is expected to see some delayed ramp-up in near term due to slowdown but management expects demand picking-up in FY24. In addition, VAPL's merger approval is pending from the NCLT and expected to get completed by March'23. Do not see any impact from production cuts by BASF Europe as it supplies to BASF in North America and has diversified customer base.
- Strong demand for key existing products, ATBS capacity expansion 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) gives us confidence on longevity to sustained high revenue/earnings growth. Management had earlier guided for 25% revenue growth and EBITDA margins of 28-30% in FY23 and has been guiding to almost double revenues to Rs. 3,000 crores by FY25.
- The recent 12% fall in Vinati's stock's price from 52-week high provides a good entry point for 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 32x its FY2024E EPS and 26.8x its FY2025E EPS.

Q2FY23 results were a mixed bag with a 7.5% beat in revenues but a sharp miss of 304 bps in OPM. Consolidated revenues at Rs. 566 crore were 7.5% above our estimate of Rs. 527 crore (up 51.4% y-o-y) led by strong performance in ATBS and IBB. OPM at 26.2% (down 234 bps y-o-y; up 37 q-o-q) was 304 bps below our estimate of 29.3% primarily due to lower-than-expected gross margin of 45% (down 408 bps y-o-y; down 52 bps q-o-q probably due high-cost raw material inventory) and higher-than-expected other expenses primarily led by a sharp increase in power and fuel costs. Although margin as percentage of revenue declined but EBITDA/kg improved on both y-o-y/q-o-q reflecting a favourable product mix and improved pricing. Resultantly, operating profit of Rs. 148 crore (up 39% y-o-y; up 13.4% q-o-q) was 3.6% below our estimate of Rs. 154 crore. Reported PAT of Rs. 116 crore (up 42.6% y-o-y; up 14.6% q-o-q) was in line with our estimate as miss on operating profit was offset by higher-than-expected other income.

Key positives

- Sharply higher-than-expected revenue growth of 51% y-o-y led growth in ATBS/IBB..

Key negatives

- Miss in OPM by 304 bps to 26.2% due to lower gross margin and high energy costs.

Revision in estimates – We have largely maintain our FY23/FY24/FY25 earnings estimates.

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, capacity expansion/new products launches and massive export opportunity in the specialty chemical sector would drive sustained long-term high double-digit earnings growth. We thus expect a 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 32x its FY2024E EPS and 26.8x 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	FY22	FY23E	FY24E	FY25E
Revenue	1,616	2,101	2,850	3,375
OPM (%)	26.9	30.4	31.0	31.3
Adjusted PAT	347	482	668	797
y-o-y growth (%)	28.7	39.2	38.4	19.4
Adjusted EPS (Rs.)	33.7	46.9	65.0	77.6
P/E (x)	61.6	44.2	32.0	26.8
P/BV (x)	11.7	9.6	7.6	6.1
EV/EBITDA (x)	49.2	32.7	23.2	19.0
RoCE (%)	25.2	30.2	34.0	32.6
RoE (%)	20.6	23.8	26.6	25.2

Source: Company; Sharekhan estimates

Mixed Q2 performance, Revenue beat but miss in OPM

Q2FY23 results were a mixed bag with a 7.5% beat in revenues but a sharp miss of 304 bps in OPM. Consolidated revenues at Rs. 566 crore were 7.5% above our estimate of Rs. 527 crore (up 51.4% y-o-y) led by strong performance in ATBS and IBB. OPM at 26.2% (down 234 bps y-o-y; up 37 q-o-q) was 304 bps below our estimate of 29.3% primarily due to lower-than-expected gross margin of 45% (down 408 bps y-o-y; down 52 bps q-o-q probability due high-cost raw material inventory) and higher-than-expected other expenses primarily led by a sharp increase in power and fuel costs. Although margin as percentage of revenue decline but EBITDA/kg improved on both y-o-y/q-o-q reflecting a favourable product mix and improved pricing. Resultantly, operating profit of Rs. 148 crore (up 39% y-o-y; up 13.4% q-o-q) was 3.6% below our estimate of Rs. 154 crore. Reported PAT of Rs. 116 crore (up 42.6% y-o-y; up 14.6% q-o-q) was in line with our estimate as miss on operating profit was offset by higher-than-expected other income.

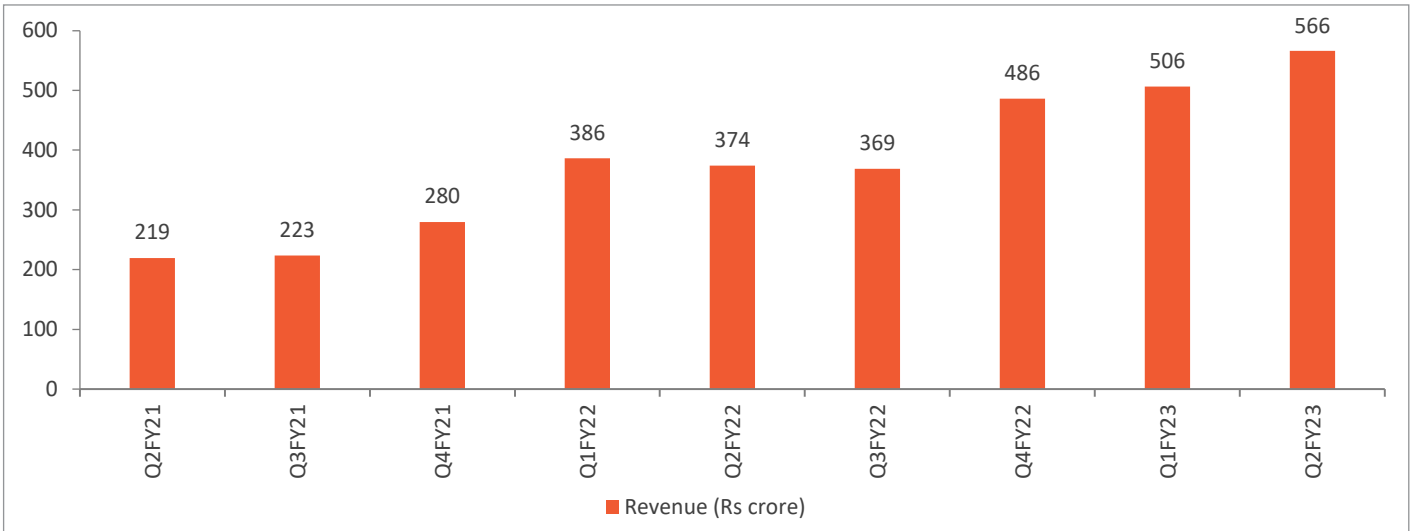
Capacity expansion to drive growth

The company has recently announced to expand its ATBS capacity from 40000 MT to 60000 MT given strong demand outlook for ATBS. The expansion would require capex of Rs300 crore which would be funded through internal accruals and expected to get commissioned by December 2023. Additionally, Rs280 crore capex (including products like MEHQ & Guaiacol capacity of 2000 MT and Iso Amylene with capacity 30000 MT) for Veeral Organics Private Limited has been commissioned and is ramp-up stage. These projects would drive earnings growth beyond FY24 for Vinati Organics.

Results (consolidated)					Rs cr	
Particulars	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	
Revenue	566.3	374.1	51.4	506.3	11.8	
Total expenditure	417.8	267.3	56.3	375.4	11.3	
Operating profit	148.5	106.8	39.0	130.9	13.4	
Other Income	20.0	13.6	47.4	18.7	6.8	
Depreciation	13.0	55.7	(76.6)	12.8	1.7	
Interest Cost	0.0	11.3	(99.9)	0.5	(97.7)	
PBT	155.4	103.3	50.4	136.3	14.0	
Tax	39.4	22.0	79.3	35.1	12.2	
Reported PAT	116.0	81.3	42.6	101.2	14.6	
EPS (Rs)	11.3	7.9	42.6	9.8	14.6	
Margin (%)			BPS		BPS	
OPM	26.2	28.6	(234)	25.8	37	
NPM	20.5	21.7	(126)	20.0	50	
Tax rate	25.3	21.3	408	25.7	(41)	

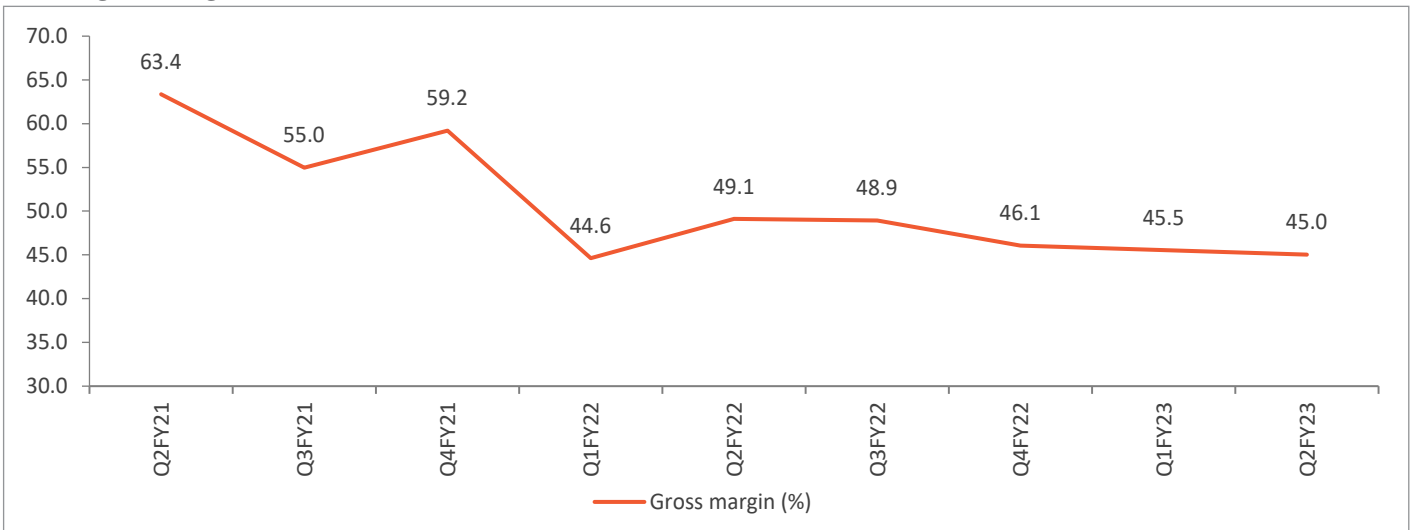
Source: Company, Sharekhan Research

Strong Q2FY23 revenues



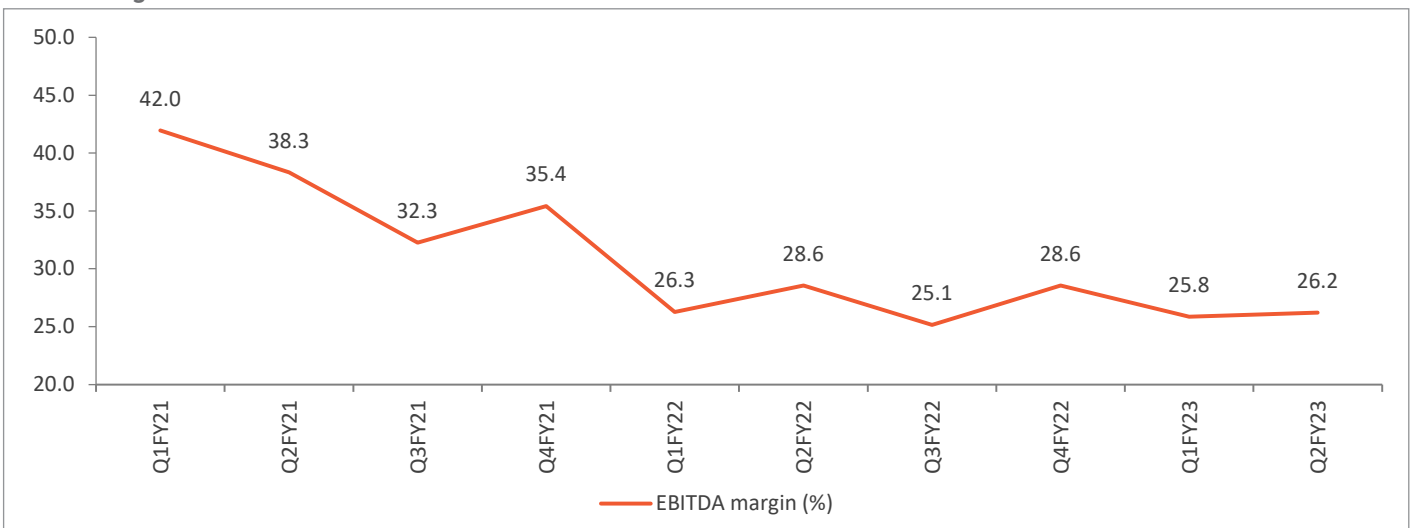
Source: Company; Sharekhan Research

Q2FY23 gross margin missed estimate



Source: Company; Sharekhan Research

EBITDA margin missed estimate



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.

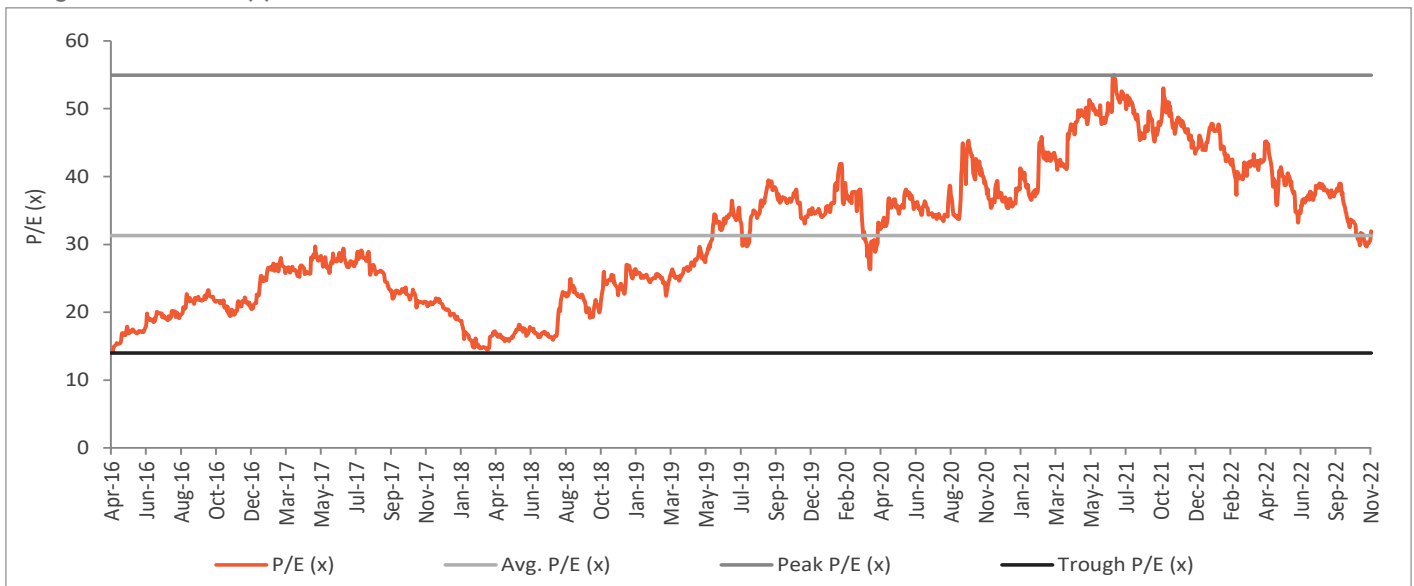
■ Company outlook - Niche business with significant market share, improvement in ATBS demand bodes well for earnings recovery

Vinati Organics operates in niche segments and has an exceptional product basket that holds a significant market share globally. Hence, the company can 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 - 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, capacity expansion/new products launches and massive export opportunity in the specialty chemical sector would drive sustained long-term high double-digit earnings growth. We thus expect a 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 32x its FY2024E EPS and 26.8x its FY2025E 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 can 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)

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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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