

Vinati Organics

Estimate changes

TP change

Rating change



Bloomberg	VO IN
Equity Shares (m)	103
M.Cap.(INRb)/(USDb)	194.5 / 2.4
52-Week Range (INR)	2373 / 1675
1, 6, 12 Rel. Per (%)	-5/-17/-6
12M Avg Val (INR M)	126

Financials & Valuations (INR b)

Y/E March	FY23E	FY24E	FY25E
Sales	21.8	27.7	36.9
EBITDA	6.2	8.0	10.8
PAT	4.8	6.1	8.2
EPS (INR)	46.5	58.9	80.0
EPS Gr. (%)	38	27	36
BV/Sh.(INR)	215	263	328

Ratios

Net D:E	0.1	0.1	0.1
RoE (%)	23.7	24.6	27.1
RoCE (%)	21.8	22.1	24.5
Payout (%)	19.3	19.3	19.3

Valuations

P/E (x)	40.7	32.1	23.6
P/BV (x)	8.8	7.2	5.8
EV/EBITDA (x)	31.6	24.6	18.1
Div. Yield (%)	0.5	0.6	0.8
FCF Yield (%)	0.6	1.0	2.1

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	74.1	74.1	74.1
DII	7.9	8.0	7.5
FII	4.8	4.8	4.5
Others	13.2	13.2	13.9

FII Includes depository receipts

CMP: INR1,892

TP: INR2,615 (+38%)

Buy

Guidance remains intact as demand continues to be strong

- Vinati Organics (VO) reported lower-than-estimated revenue (11% below our estimate) in 3QFY23 led by lower year-end demand for ATBS. However, gross margin jumped to 51.6% (up 660bp QoQ) with EBITDAM at 32.2% (up 600bp QoQ). Management has guided that demand for ATBS and other flagship products to remain robust.
- **Management is focusing on its already announced capacity expansion plan to 60ktpa from 40ktpa (commissioning not before Dec'23E);** Ibuprofen demand also remains strong (IBB is a critical input). VO has been gaining domestic market share in Butyl Phenols (BP) that currently stands at 60-65% and it expects 50% of the same to be used to manufacture AOs in FY24.
- **Management has guided for a topline of ~INR22b in FY23 (in line with our estimate already) and 20% YoY growth for FY24E, led by the ramp-up in Antioxidants.** VO's EBITDAM guidance stands at 28-30%. The sales mix for 3QFY23 stood at: ATBS (47%), IBB (17%), Butyl Phenol (16%), Customized products (6%), IB & HPMTBE (10%), and the rest was Others.
- We expect EBITDAM at 28.4%/28.8%/29.4% for FY23/24E/25E, respectively. This would be driven by captive power plant, a decline in raw material costs and freight rates as well as commissioning of higher margin downstream products. **We forecast a 32% revenue CAGR over FY23-25, translating into an EBITDA/EPS CAGR of 36%/33% over the same period, respectively.**
- A gradual ramp-up in expanded capacity over the next two years will drive growth for VO. **We value the stock at 35x Dec'24E EPS to arrive at our TP of INR2,615. We reiterate our BUY rating on the stock.**

Marginal beat on EBITDA with PAT in line; margins improve notably

- VO's revenue was below our estimate at INR5.1b (+38% YoY) in 3QFY23.
- However, EBITDA was at INR1.6b (est. of INR1.55b; +77% YoY).
- **EBITDA margin stood at 32.2% (v/s 26.2% in 2QFY23).**
- Gross margin was at 51.6% (+270bp YoY), led by lower RM cost.
- PAT came in at INR1.3b (est. of INR1.2b, +51% YoY) – **translating into an EPS of INR12.2 (v/s INR11.3 in 2QFY23).**
- **For 9MFY23,** revenue was up 40% YoY at INR15.8b with EBITDA at INR4.4b (+50% YoY). PAT came in at INR3.4b (+40% YoY).
- EBITDAM stood at 28% (v/s 26.1% in 9MFY22).

Valuation and view

- The demand outlook for the ATBS segment remains quite strong going forward for the remainder of FY23 as well as FY24. Veeral Organics Pvt. Ltd. (a wholly owned subsidiary of VO) is also set to commence production of MEHQ, Guaiacol, and Iso Amylene in 1HFY24, which should propel VO into the next leg of its growth story.

- Veeral Additives has commenced production of AOs and samples are being sent to customers for approvals. The amalgamation has been approved by the NCLT and management expects the same to complete within the next two months. Post-amalgamation, VO would become the largest and the only doubly-integrated manufacturer of AOs in India.
- The stock is trading at 32x FY24E EPS and 25x FY24E EV/EBITDA, with return ratios of 25-27%. It had a fixed asset turnover of 2x as of FY22. We value the company at 35x Dec'24E EPS to arrive at our TP of INR2,615. **We reiterate our BUY rating on the stock.**

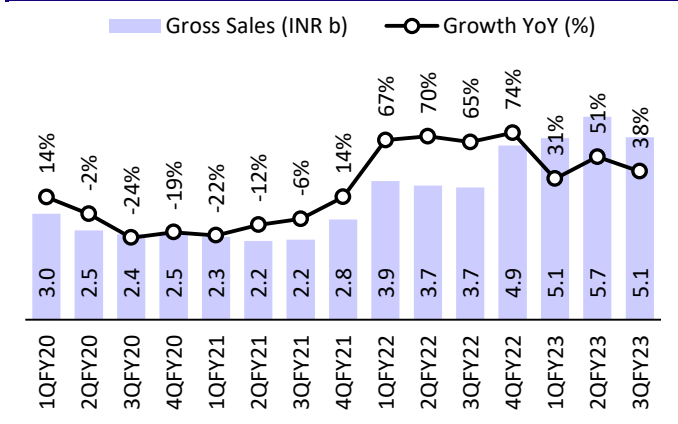
Standalone - Quarterly Earnings Model

(INR m)

Y/E March	FY22				FY23				FY22	FY23E	FY23	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Gross Sales	3,864	3,741	3,690	4,861	5,063	5,663	5,087	5,976	16,155	21,789	5,722	-11
YoY Change (%)	66.8	70.5	65.1	73.7	31.0	51.4	37.9	23.0	69.3	34.9	55.1	
Gross Margin (%)	44.6%	47.6%	48.9%	46.1%	45.5%	45.0%	51.6%	50.9%	46.7%	48.3%	45.5%	6.1
EBITDA	1,015	1,010	928	1,388	1,309	1,485	1,638	1,767	4,341	6,198	1,550	6
Margin (%)	26.3	27.0	25.1	28.6	25.8	26.2	32.2	29.6	26.9	28.4	27.1	5.1
Depreciation	110	113	115	117	128	130	130	132	455	521	138	
Interest	0	0	0	2	5	0	0	0	3	5	6	
Other Income	176	136	146	151	187	200	168	175	609	730	218	
PBT before EO expense	1,081	1,033	959	1,420	1,363	1,554	1,675	1,810	4,493	6,402	1,624	3
PBT	1,081	1,033	959	1,420	1,363	1,554	1,675	1,810	4,493	6,402	1,624	3
Tax	272	220	126	409	351	394	421	456	1,026	1,622	408	
Rate (%)	25.1	21.3	13.2	28.8	25.7	25.3	25.1	25.2	22.8	25.3	25.2	
Reported PAT	809	814	833	1,011	1,012	1,160	1,254	1,354	3,466	4,780	1,215	3
YoY Change (%)	11.9	31.1	29.8	42.7	25.0	42.6	50.6	34.0	28.7	37.9	46.0	
Margin (%)	20.9	21.7	22.6	20.8	20.0	20.5	24.7	22.7	21.5	21.9	21.2	3.4

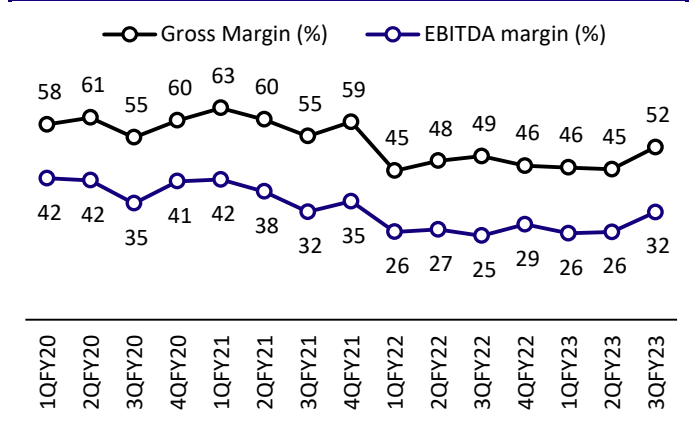
Story in charts – 3QFY23

Exhibit 1: Sales grew 38% YoY (down 10% QoQ)



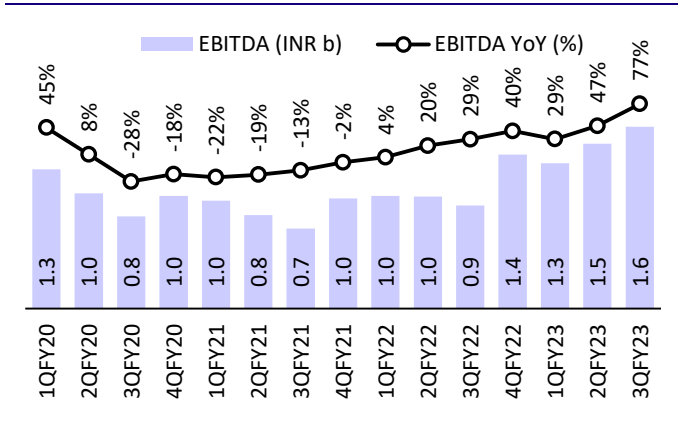
Source: Company, MOFSL

Exhibit 2: GM improved 660bp, while EBITDAM expanded 600bp QoQ



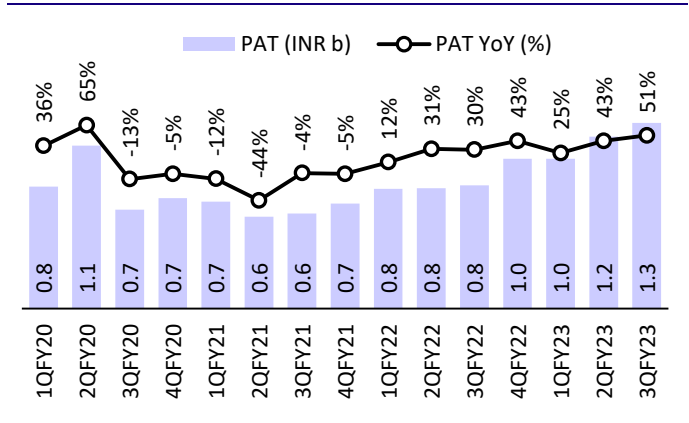
Source: Company, MOFSL

Exhibit 3: EBITDA grew 77% YoY (EBITDAM at 32.2%)



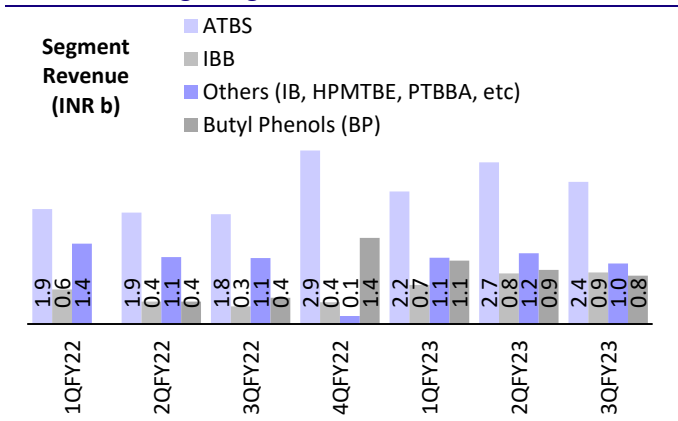
Source: Company, MOFSL

Exhibit 4: PAT was up 51% YoY (margin at 24.5%)



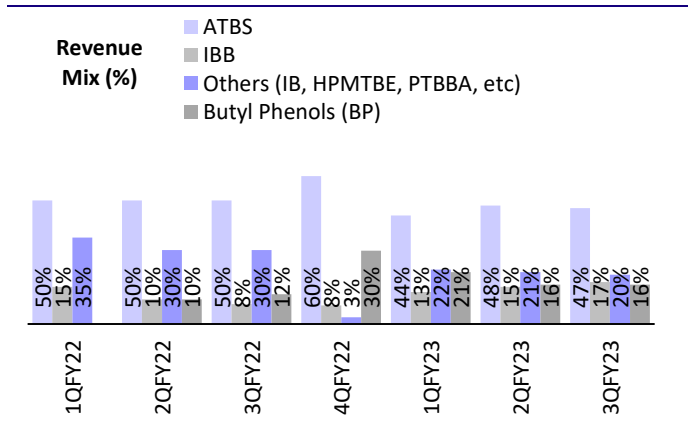
Source: Company, MOFSL

Exhibit 5: Strong YoY growth across ATBS, IBB and BP



Source: Company, MOFSL

Exhibit 6: ATBS contribution in overall mix stable in 3Q



Source: Company, MOFSL

Story in charts

Exhibit 7: Expect 32% revenue CAGR over FY23-25

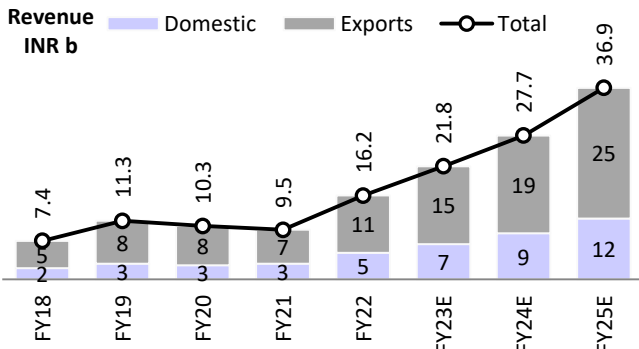


Exhibit 8: Exports likely to remain high

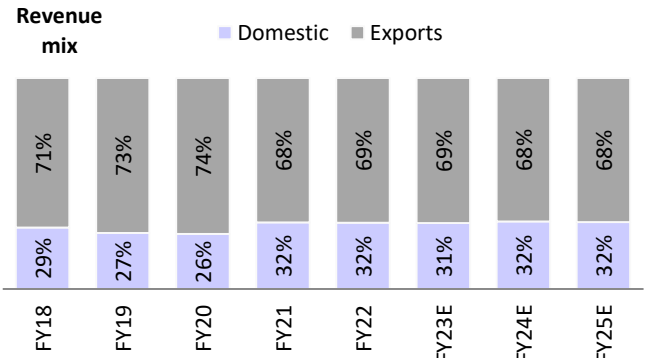


Exhibit 9: EBITDAM to improve as new projects start...

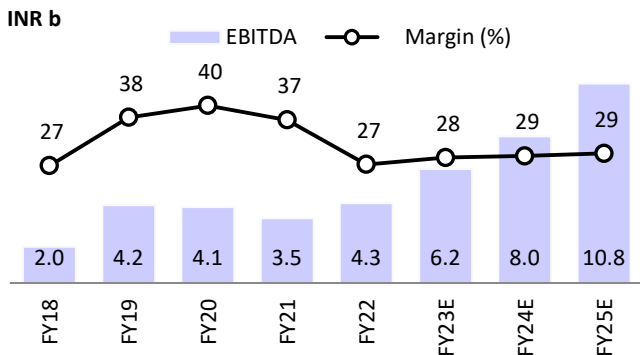


Exhibit 10: ...with product excellence to expand PAT margin

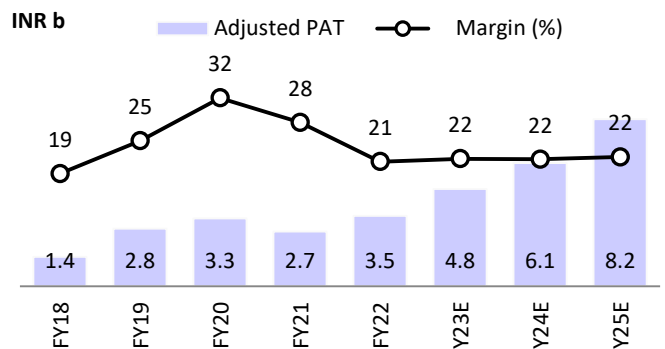


Exhibit 11: One-year forward P/E trades at 31.8x...

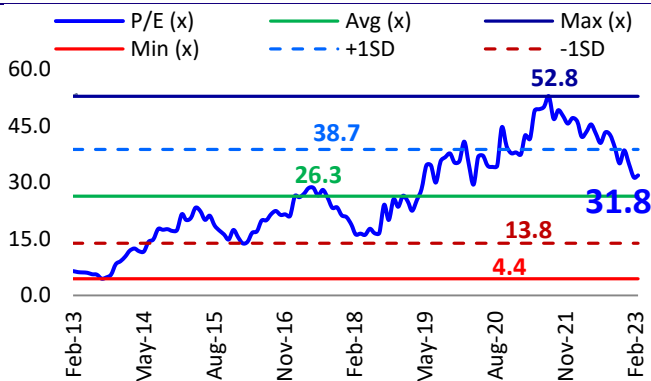


Exhibit 12: ...with return ratios improving to 25-27%

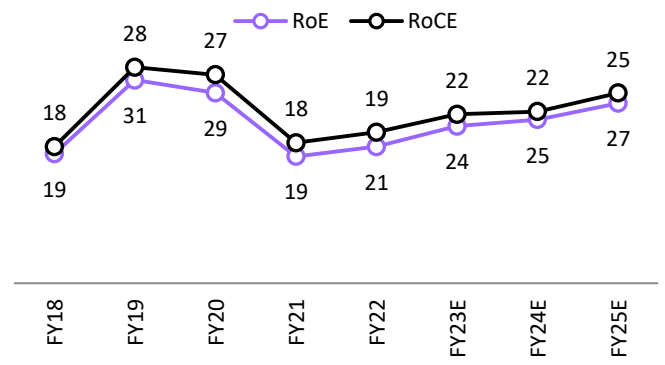


Exhibit 13: Strong operating cash flow at INR14.7b

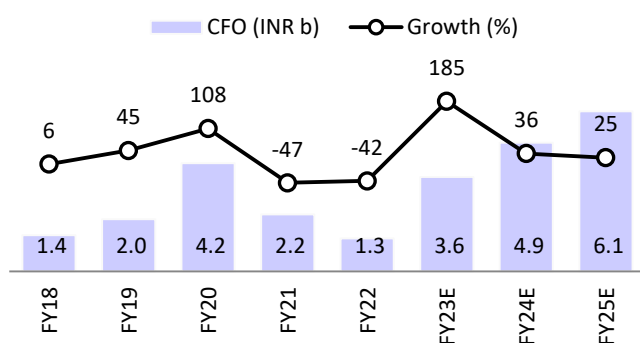
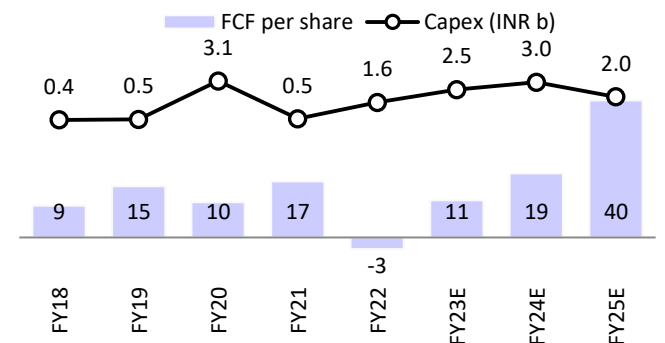


Exhibit 14: ...with capex for FY23-25 at INR7.5b



Source: Company, MOFSL

Source: Company, MOFSL

Financials and valuations

Standalone- Income Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Total Income from Operations	7,422	11,279	10,289	9,543	16,155	21,789	27,712	36,912
Change (%)	8.9	52.0	-8.8	-7.3	69.3	34.9	27.2	33.2
Gross Margin (%)	49.1	53.4	58.3	59.4	46.7	48.3	49.0	49.5
EBITDA	1,973	4,234	4,139	3,525	4,341	6,198	7,979	10,845
Margin (%)	26.6	37.5	40.2	36.9	26.9	28.4	28.8	29.4
Depreciation	234	274	332	429	455	521	641	670
EBIT	1,739	3,960	3,808	3,096	3,886	5,677	7,338	10,175
Int. and Finance Charges	12	9	11	2	3	5	5	5
Other Income	307	302	450	259	610	730	762	812
PBT bef. EO Exp.	2,034	4,252	4,247	3,353	4,493	6,402	8,095	10,982
PBT after EO Exp.	2,034	4,252	4,247	3,353	4,493	6,402	8,095	10,982
Total Tax	595	1,428	908	659	1,026	1,622	2,038	2,764
Tax Rate (%)	29.3	33.6	21.4	19.7	22.8	25.3	25.2	25.2
Reported PAT	1,439	2,825	3,338	2,693	3,467	4,780	6,058	8,218
Adjusted PAT	1,439	2,825	3,338	2,693	3,467	4,780	6,058	8,218
Change (%)	2.6	96.3	18.2	-19.3	28.7	37.9	26.7	35.7
Margin (%)	19.4	25.0	32.4	28.2	21.5	21.9	21.9	22.3

Standalone - Balance Sheet

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	103	103	103	103	103	103	103	103
Total Reserves	7,864	10,410	12,691	15,331	18,179	22,038	26,928	33,563
Net Worth	7,967	10,513	12,794	15,434	18,281	22,141	27,031	33,665
Total Loans	152	37	3	20	189	1,500	2,300	2,200
Deferred Tax Liabilities	809	846	705	779	900	900	900	900
Capital Employed	8,927	11,395	13,502	16,234	19,370	24,541	30,231	36,766
Gross Block	5,023	5,473	8,551	9,045	10,675	13,175	16,175	18,175
Less: Accum. Deprn.	454	728	1,060	1,489	1,944	2,465	3,106	3,776
Net Fixed Assets	4,569	4,745	7,491	7,557	8,732	10,711	13,069	14,399
Capital WIP	349	1,912	310	547	473	473	473	473
Total Investments	1,317	965	2,274	2,887	979	979	979	979
Curr. Assets, Loans, and Adv.	3,565	4,654	4,355	6,345	10,714	14,438	18,330	24,403
Inventory	822	924	932	1,219	1,762	2,376	3,022	4,025
Account Receivables	1,771	2,440	2,018	2,772	4,584	6,182	7,863	10,473
Cash and Bank Balance	52	38	537	68	43	45	24	21
Cash and liquid investments	1,318	492	1,586	1,762	11	45	24	21
Bank Balance	52	38	0	52	33	0	0	0
Loans and Advances	919	1,252	869	2,285	4,326	5,835	7,421	9,884
Curr. Liability and Prov.	872	881	927	1,102	1,527	2,060	2,619	3,489
Account Payables	635	531	557	664	1,146	1,545	1,965	2,618
Other Current Liabilities	174	211	213	391	328	442	562	749
Provisions	64	139	157	47	54	72	92	123
Net Current Assets	2,693	3,774	3,428	5,243	9,187	12,379	15,710	20,914
Appl. of Funds	8,927	11,395	13,502	16,234	19,371	24,541	30,231	36,766

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)								
EPS	14.0	27.5	32.5	26.2	33.7	46.5	58.9	80.0
EPS Growth (%)	2.6	96.3	18.2	-19.3	28.7	37.9	26.7	35.7
Cash EPS	16.3	30.1	35.7	30.4	38.2	51.6	65.2	86.5
BV/Share	77.5	102.3	124.5	150.2	177.9	215.4	263.0	327.5
DPS	0.3	2.3	5.5	6.0	6.5	9.0	11.4	15.4
Payout (%)	2.2	9.9	31.6	22.9	19.3	19.3	19.3	19.3
Valuation (x)								
P/E	135.1	68.8	58.2	72.2	56.1	40.7	32.1	23.6
Cash P/E	116.2	62.7	53.0	62.2	49.6	36.7	29.0	21.9
P/BV	24.4	18.5	15.2	12.6	10.6	8.8	7.2	5.8
EV/Sales	26.2	17.2	18.8	20.4	12.0	9.0	7.1	5.3
EV/EBITDA	98.6	45.9	46.8	55.1	44.8	31.6	24.6	18.1
Dividend Yield (%)	0.0	0.1	0.3	0.3	0.3	0.5	0.6	0.8
FCF per share	9.4	15.1	10.4	16.5	-3.4	11.0	18.8	40.4
Return Ratios (%)								
RoE	19.5	30.6	28.6	19.1	20.6	23.7	24.6	27.1
RoCE	17.6	27.9	26.9	18.1	19.5	21.8	22.1	24.5
RoIC	17.6	33.5	31.7	21.5	19.6	20.7	21.2	23.8
Working Capital Ratios								
Fixed Asset Turnover (x)	1.6	2.4	1.7	1.3	2.0	2.2	2.3	2.7
Asset Turnover (x)	0.8	1.0	0.8	0.6	0.8	0.9	0.9	1.0
Inventory (Days)	40	30	33	47	40	40	40	40
Debtor (Days)	87	79	72	106	104	104	104	104
Creditor (Days)	31	17	20	25	26	26	26	26
Leverage Ratio (x)								
Current Ratio	4.1	5.3	4.7	5.8	7.0	7.0	7.0	7.0
Net Debt/Equity ratio	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1

Standalone - Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	2,034	4,252	4,247	3,353	4,493	6,402	8,095	10,982
Depreciation	254	274	332	429	455	521	641	670
Direct Taxes Paid	-491	-1,262	-1,005	-607	-1,081	-1,622	-2,038	-2,764
(Inc.)/Dec. in WC	-316	-1,138	811	-874	-2,257	-1,680	-1,766	-2,744
CF from Operations	1,384	2,003	4,159	2,190	1,271	3,626	4,937	6,149
(Inc.)/Dec. in FA	-422	-450	-3,094	-490	-1,618	-2,500	-3,000	-2,000
Free Cash Flow	962	1,553	1,065	1,700	-347	1,126	1,937	4,149
Change in Investments	1	-442	-674	127	267	0	0	0
Others	33	-1,534	1,793	-1,619	-1,206	-1,509	-1,586	-2,464
CF from Investments	-388	-2,427	-1,975	-1,982	-2,558	-4,009	-4,586	-4,464
Issue of Shares	-240	0	0	0	0	0	0	0
Inc./Dec. in Debt	0	0	0	17	164	1,311	800	-100
Interest Paid	-11	-9	-11	-2	-3	-5	-5	-5
Dividend Paid	-32	-278	-1,046	-55	-618	-921	-1,167	-1,584
CF from Fin. Activity	-298	-403	-1,090	-31	-464	386	-372	-1,688
Inc./Dec. in Cash	697	-826	1,094	176	-1,751	3	-21	-3
Opening Balance	621	1,318	492	1,586	1,762	43	45	24
Closing Balance	1,318	491	1,585	1,762	10	45	24	21

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 be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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