

Retail Equity Research Vinati organics Ltd

Specialty chemicals

BSE CODE : 524200

NSE CODE: VINATIORGA

BLOOMBERG CODE: VO:IN

SENSEX : 58,075

BUY

12 Months Investment Period

Rating as per Mid Cap

CMP Rs. 1,725 TARGET Rs. 2,148 RETURN 25% ↑

(Closing: 21-03-23)

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↑

Profitability momentum continues...

Vinati Organics Ltd (VOL) enjoys global leadership in two specialty chemicals, with a market share of 70% in IBB (isobutyl benzene) and 80% in ATBS (2-Acrylamindo 2-Methylpropane Sulfonic Acid).

- Revenue grew by 38% YoY in Q3FY23, exceeding our expectations, driven by its key products ATBs and healthy growth across other segments. 9MFY23 PAT was up by 40% YoY.
- EBITDA grew by 77% YoY, while margins expanded by 700bps YoY to 32.2% led by superior revenue growth & better product mix. Consequently, PAT grew by 51% YoY.
- Revenue growth momentum is expected to continue, given strong demand for its key products, capacity expansion and higher contribution from new products.
- Synergies owing to backward & forward integration, strong cash flows, healthy balance sheet and ROCE & ROE of above 24% (5yr avg.), instills confidence.
- We value VOL at a P/E of 30x as we roll forward to FY25E. Given strong earnings outlook, we maintain a BUY rating on VOL, with a target price of Rs. 2,148.

Revenue growth momentum continues...

Q3FY23 revenue grew by 38% YoY, led by a strong contribution from the ATBS business, and healthy demand across products. ATBS witnessed strong growth led by higher realization and healthy volume. The IBB segment continues to witness a revival led, by traction from its key customers and we expect this growth momentum to continue given the improved outlook for Ibuprofen. Overall demand across products has seen healthy growth. Going ahead, ATBS will continue to be benefitted by current high crude oil prices. VOL is expanding its ATBS capacity from 40KTPA to 60KTPA. Integration of Veeral Additives (VAPL) is likely to contribute Rs.700cr to topline at full capacity. Additionally, Veeral Organics' production of five niche specialty chemicals will also contribute to topline growth. Overall, long term growth outlook has significantly improved, led by introduction of new products, product synergies through backward & forward integration. We expect revenue to grow at a 32% CAGR over FY22- FY24E.

EBITDA improves...

Q3FY23 gross margin improved by 270bps YoY to 51.6%. EBITDA grew by 77% YoY, EBITDA margin expanded by 700bps bps YoY to 32.2% on account of higher revenue growth and better product mix. PAT grew by 51% YoY to Rs.125cr. We upgrade our EBITDA margin estimates by 90bps for FY23E, given margin expansion in Q3FY23, while maintaining our EBITDA margin estimates for FY24E at 29.3%. We expect PAT to grow at a 24% CAGR over FY23E-25E.

Valuations

We maintain a positive stance on VOL given its focus on introduction of new products by leveraging growth opportunities in existing portfolio, strong balance sheet and healthy RoE & ROCE of above 24% (avg. last 5years). We value VOL at P/E of 30x as we roll forward to FY25E, and given strong earnings outlook and healthy margin profile, we maintain Buy rating with target price of Rs.2,148.

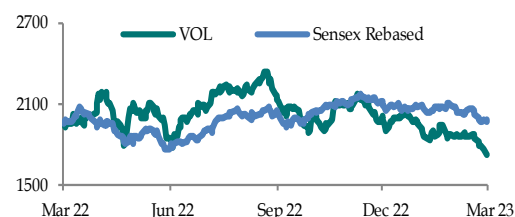
Company Data

Market Cap (cr)	Rs.17,735
Enterprise Value (cr)	Rs.17,685
Outstanding Shares (cr)	10.3
Free Float	26%
Dividend Yield	0.38%
52 week high	Rs.2,373
52 week low	Rs.1,694
6m average volume (cr)	0.01
Beta	0.72
Face value	Rs.1

Shareholding (%)	Q1FY23	Q2FY23	Q3FY23
Promoters	74.1	74.1	74.1
FII's	4.7	4.8	4.8
MFs/Institutions	8.1	8.0	7.9
Public	10.7	10.7	10.8
Others	2.4	2.4	2.4
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	-13.1%	-18.8%	-12.1%
Absolute Sensex	-4.9%	-1.8%	1.4%
Relative Return*	-8.2%	-17.0%	-13.5%

over or under performance to benchmark index*



Standalone (cr)	FY23E	FY24E	FY25E
Sales	2,148	2,886	3,294
Growth (%)	33.0	34.3	14.1
EBITDA	608	846	972
EBITDA Margin(%)	28.3	29.3	29.5
PAT Adjusted	476	650	736
Growth (%)	37.2	36.6	13.3
Adjusted EPS	46.3	63.2	71.6
Growth (%)	37.2	36.6	13.3
P/E	37.3	27.3	0.0
P/B	7.4	5.8	4.6
EV/EBITDA	29.1	20.9	18.0
ROE (%)	23.1	24.8	22.2
D/E	0.0	0.0	0.0

Anil R
Research Analyst

Quarterly Financials

Profit & Loss

Rs. (cr)	Q3FY23	Q3FY22	YoY Growth (%)	9MFY23	9MFY22	YoY Growth (%)
Sales	509	369	38.0	1,581	1,129	40.0
EBITDA	164	93	76.5	443	295	50.1
EBITDA margins	32.2	25.1	700bps	28.0	26.1	190bps
Depreciation	13	12	13.3	39	34	15.1
EBIT	151	81	85.5	404	262	54.6
Interest	-	-	-	-	-	-
Other Income	17	15	14.7	55	46	21.0
Exceptional Items	-	-	-	-	-	-
PBT	168	96	74.7	459	307	49.4
Tax	42	13	233.5	117	62	88.8
Share of profit from Associate	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-
Reported PAT	125	83	50.6	343	246	39.5
Adjustments	-	-	-	-	-	-
Adjusted PAT	125	83	50.6	343	246	39.5
No. of Shares	10.3	10.3	-	10.3	10.3	-
EPS (Rs)	12.2	8.1	50.6	33.3	23.9	39.5

Change in Estimates

Year / Rs.cr	Old estimates		New estimates		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	2,080	2,803	2,148	2,886	4.0	9.9
EBITDA	582	832	608	846	(2.9)	1.5
Margins (%)	28.0	29.7	28.3	29.3	(30bps)	(40bps)
Adj. PAT	456	638	476	650	(0.3)	2.6
EPS	44.3	62.1	46.3	63.2	(0.3)	2.6

Standalone Financials

PROFIT & LOSS

Y.E March (Rs cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales	954	1,616	2,148	2,886	3,294
% change	-7.3	69.3	33.0	34.3	14.1
EBITDA	353	434	608	846	972
% change	(14.8)	23.1	40.1	39.1	14.9
Depreciation	43	45	54	70	83
EBIT	310	389	554	775	889
Interest	0	0	1	1	1
Other Income	26	61	73	80	80
PBT	335	449	626	855	968
% change	-21	34	39	37	13
Tax	66	103	150	205	232
Tax Rate (%)	19.7%	22.8%	24.0%	24.0%	24.0%
Reported PAT	269	347	476	650	736
Adj.*	0	0	0	0	0
Adj. PAT	269	347	476	650	736
% change	(19.3)	28.7	37.2	36.6	13.3
No. of shares (cr)	10	10	10	10	10
Adj EPS (Rs)	26.2	33.7	46.3	63.2	71.6
% change	-19.3	28.7	37.2	36.6	13.3
DPS (Rs)	0.5	0.5	0.5	0.5	0.5
CEPS (Rs)	30.4	38.2	51.6	70.0	79.7

BALANCE SHEET

Y.E March (Rs cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash	2	1	28	24	137
Accounts Receivable	277	458	577	775	948
Inventories	122	176	231	308	399
Other Cur. Assets	233	436	471	633	767
Investments	289	98	98	123	168
Gross Fixed Assets	900	1,060	1,410	1,710	1,980
Net Fixed Assets	756	872	1,168	1,397	1,584
CWIP	55	47	30	50	50
Intangible Assets	1	1	1	1	1
Def. Tax (Net)	(78)	(90)	(90)	(90)	(90)
Other Assets	(0)	(0)	0	0	0
Total Assets	1,656	2,000	2,513	3,221	3,964
Current Liabilities	101	143	185	247	258
Provisions	5	5	7	9	11
Debt Funds	7	23	23	23	23
Other Liabilities	-	-	-	-	-
Equity Capital	10	10	10	10	10
Reserves & Surplus	1,533	1,818	2,288	2,932	3,662
Shareholder's Fund	1,543	1,828	2,298	2,942	3,673
Total Liabilities	1,656	2,000	2,513	3,221	3,964
BVPS	156	185	233	298	372

CASH FLOW

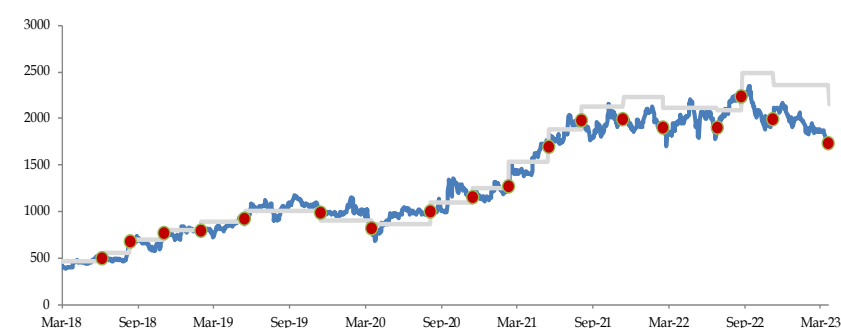
Y.E March (Rs cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Net inc. + Depn.	312	392	530	720	819
Non-cash adj.	(4)	(36)	(72)	(79)	(79)
Changes in W.C	(87)	(226)	(165)	(373)	(385)
C.F. Operation	219	127	293	268	354
Capital exp.	(49)	(162)	(333)	(320)	(270)
Change in inv.	(20)	31	-	(25)	(45)
Other invest.CF	(129)	(116)	73	80	80
C.F - Investment	(198)	(256)	(260)	(265)	(235)
Issue of equity	-	-	-	-	-
Issue/repay debt	3	16	-	-	-
Dividends paid	(6)	(62)	(6)	(6)	(6)
Other finance.CF	(0)	(0)	(1)	(1)	(1)
C.F - Finance	(3)	(46)	(6)	(6)	(6)
Chg. in cash	(7)	(1)	27	(4)	113
Closing cash	2	1	28	24	137

RATIOS

Y.E March	FY21A	FY22A	FY23E	FY24E	FY25E
Profitab & Return					
EBITDA margin (%)	36.9	26.9	28.3	29.3	29.5
EBIT margin (%)	32.4	24.1	25.8	26.9	27.0
Net profit mgn.(%)	28.2	21.5	22.1	22.5	22.3
ROE (%)	19.1	20.6	23.1	24.8	22.2
ROCE (%)	19.0	20.4	22.8	24.6	22.1
W.C & Liquidity					
Receivables (days)	91.6	83.1	87.9	85.5	95.4
Inventory (days)	101.3	63.2	66.1	65.6	75.4
Payables (days)	87.1	51.7	53.3	52.5	53.8
Current ratio (x)	6.0	7.2	6.8	6.8	8.4
Quick ratio (x)	2.8	3.2	3.3	3.2	4.2
Turnover & Leverage					
Gross asset T.O (x)	1.1	1.6	1.7	1.8	1.8
Total asset T.O (x)	0.6	0.9	1.0	1.0	0.9
Int. covge. ratio (x)	1461.1	1502.1	968.7	1211.5	1296.1
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	18.3	10.9	8.2	6.1	5.3
EV/EBITDA (x)	49.5	40.7	29.1	20.9	18.0
P/E (x)	65.8	51.2	37.3	27.3	24.1
P/BV (x)	11.0	9.3	7.4	5.8	4.6



Recommendation summary (Last 3 years)



Dates	Rating	Target
01-March-18	Accumulate	471
07-June-18	Buy	553
13-August-18	Hold	692
2-November-18	Hold	803
31-January-19	Accumulate	892
16-May-19	Accumulate	1009
14-November-19	Reduce	908
16-March-20	Hold	868
05-August-20	Accumulate	1,101
17-November-20	Accumulate	1,256
10-February-21	Buy	1,539
17-May-21	Accumulate	1,879
04-August-21	Hold	2,131
12-November-21	Accumulate	2,228
16-February-22	Accumulate	2,117
27-June-22	Buy	2,154
25-August-22	Accumulate	2,484
09-November-22	Buy	2,360
22-March-23	Buy	2,148

Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral : The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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