MOTILAL OSWAL FINANCIAL SERVICES

22 May 2023

4QFY23 Results Update | Sector: Specialty Chemicals

Vinati Organics

Estimate changes	↓
TP change	↓
Rating change	↔

Bloomberg	VO IN
Equity Shares (m)	103
M.Cap.(INRb)/(USDb)	184.5 / 2.2
52-Week Range (INR)	2373 / 1693
1, 6, 12 Rel. Per (%)	-14/-13/-27
12M Avg Val (INR M)	112

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	20.8	23.8	31.9
EBITDA	6.0	6.3	8.7
PAT	4.6	4.8	6.6
EPS (INR)	44.6	46.6	64.1
EPS Gr. (%)	32.1	4.5	37.8
BV/Sh.(INR)	215.9	255.1	309.2
Ratios			
Net D:E	-0.0	0.0	-0.0
RoE (%)	22.6	19.8	22.7
RoCE (%)	21.5	18.1	20.4
Payout (%)	15.7	15.7	15.7
Valuations			
P/E (x)	40.3	38.5	28.0
P/BV (x)	8.3	7.0	5.8
EV/EBITDA (x)	31.0	29.4	21.1
Div. Yield (%)	0.4	0.4	0.6
FCF Yield (%)	2.8	0.4	2.4

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	74.1	74.1	74.1
DII	7.9	7.9	7.9
FII	4.8	4.8	4.6
Others	13.3	13.2	13.5

FII Includes depository receipts

CMP: INR1,795 TP: INR2,245 (+25%) Buy

Short-term headwinds to play spoil sport

- VO reported lower-than-estimated revenues (6% below our estimates) in 4QFY23 because of inventory built-up at customers' end. This is further expected to continue in FY24 as well. Gross margin declined to 50.3% (down 140bp QoQ), with EBITDAM at 30.3% (down 190bp QoQ). The management has guided that demand for IBB is good and expected to remain robust going forward.
- That being said, the management expects to have a muted FY24 with ATBS demand likely to bounce back not before end-FY24. However, the management has started commercial supply of Antioxidants (AOs), which should start contributing to revenues in 1QFY24. Contribution from AOs would further partially offset the weakness in the ATBS segment in FY24. The merger with VAPL is expected to be completed by Jun'23.
- Expansion of ATBS capacity by 50% (from 40ktpa to 60ktpa) has been delayed and commissioning is now expected by end-FY24, keeping in mind the demand pressure that could be seen throughout the year in FY24. The management also guided that commissioning of products in VOL (MEHQ, Guaiacol and Iso Amylene) has also been delayed to end-FY24 (from 1HFY24 earlier).
- The sales mix for 4QFY23 stood at: ATBS (44%), IBB (19%), Butyl Phenol and other IB derivatives (16%), Customized products (7%), IB & HPMTBE (9%), and the rest were others. We cut our revenue/ EBITDA/ PAT estimates by 12%/ 19%/18% for FY24 and by 12%/ 18%/ 17% with EBITDAM at 26.5%/ 27.3% for FY24/25. **We forecast revenue CAGR of ~25% over FY23-25, translating into an EBITDA/EPS CAGR of 26%/24% over the same period**.
- The stock is trading at 28x FY25E EPS and 21x FY25E EV/EBITDA, with return ratios of 20-23%. It had a fixed asset turnover of 2.4x as of FY23. We value the company at 35x FY25E EPS to arrive at our TP of INR2,245. **We reiterate our BUY rating on the stock.**

Miss largely led by higher 'other operating expenses'

- VO's revenue stood at INR5b in 4QFY23 (up 4% YoY, down 1% QoQ), lower than consensus est. by 5%.
- EBITDA stood at INR1.5b (est. of INR1.8b, up 10% YoY, down 7% QoQ), lower than consensus est. by 7%
  - EBITDA margin came in at 30.3% (v/s 32.2% in 3QFY23 and 28.6% in 4QFY22).
  - Gross margin stood at 50.3% (up 420bp QoQ, down 140bp YoY) in 4QFY23.
- PAT stood at INR1.2b (est. of INR1.4b, up 14% YoY, down 8% QoQ), lower than consensus est. by 10%.

- **For FY23**, revenue was up 29% YoY to INR20.8b with EBITDA at INR6b (up 37% YoY). PAT came in at INR4.6b (up 32% YoY).
  - EBITDAM stood at 28.6% (up 170bp YoY).
- **The Board has declared a final dividend of INR7.**

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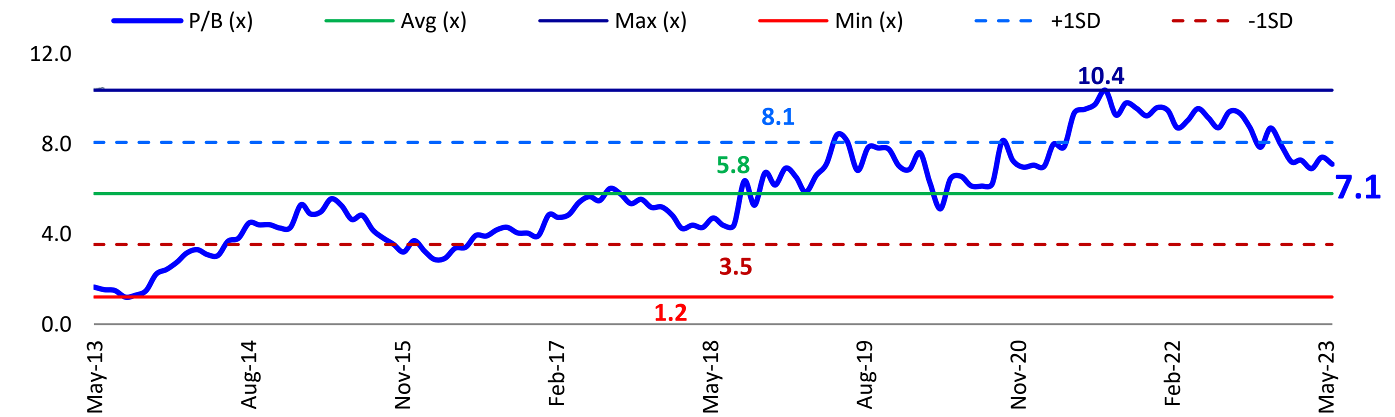
Valuation and view

- Veeral Organics Pvt. Ltd. (wholly owned subsidiary of Vinati Organics) is set to commence production of MEHQ, Guaiacol, and Iso Amylene by end-FY24, which should propel VO into the next leg of its growth story.
- Veeral Additives has commenced the commercial supply of AOs and should contribute to revenues from 1QFY24. The management expects to complete the amalgamation by Jun'23. Post the amalgamation, VO would become the largest and the only doubly integrated manufacturer of AOs in India.
- The stock is trading at 28x FY25E EPS and 21x FY25E EV/EBITDA, with return ratios of 20-23%. It had a fixed asset turnover of 2.4x as of FY23. We value the company at 35x FY25E EPS to arrive at our TP of INR2,245. **We reiterate our BUY rating on the stock.**

Standalone - Quarterly Earnings Model **(INR m)**

Y/E March	FY22				FY23				FY22	FY23	FY23	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Gross Sales	**3,864**	**3,741**	**3,690**	**4,861**	**5,063**	**5,663**	**5,087**	**5,034**	**16,155**	**20,847**	**5,349**	**-6%**
YoY Change (%)	66.8	70.5	65.1	73.7	31.0	51.4	37.9	3.6	69.3	29.0	10.0	
Gross Margin (%)	44.6%	47.6%	48.9%	46.1%	45.5%	45.0%	51.6%	50.3%	46.7%	48.0%	52.0%	-1.7%
EBITDA	**1,015**	**1,010**	**928**	**1,388**	**1,309**	**1,485**	**1,638**	**1,523**	**4,341**	**5,954**	**1,828**	**-17%**
Margin (%)	26.3	27.0	25.1	28.6	25.8	26.2	32.2	30.3	26.9	28.6	34.2	-3.9
Depreciation	110	113	115	117	128	130	130	130	455	519	132	
Interest	0	0	0	2	5	0	0	1	3	6	0	
Other Income	176	136	146	151	187	200	168	170	609	724	154	
PBT before EO expense	**1,081**	**1,033**	**959**	**1,420**	**1,363**	**1,554**	**1,675**	**1,561**	**4,493**	**6,153**	**1,850**	**-16%**
PBT	**1,081**	**1,033**	**959**	**1,420**	**1,363**	**1,554**	**1,675**	**1,561**	**4,493**	**6,153**	**1,850**	**-16%**
Tax	272	220	126	409	351	394	421	407	1,026	1,573	466	
Rate (%)	25.1	21.3	13.2	28.8	25.7	25.3	25.1	26.1	22.8	25.6	25.2	
Reported PAT	**809**	**814**	**833**	**1,011**	**1,012**	**1,160**	**1,254**	**1,154**	**3,466**	**4,580**	**1,384**	**-17%**
YoY Change (%)	11.9	31.1	29.8	42.7	25.0	42.6	50.6	14.1	28.7	32.1	36.9	
Margin (%)	20.9	21.7	22.6	20.8	20.0	20.5	24.7	22.9	21.5	22.0	25.9	-3.0

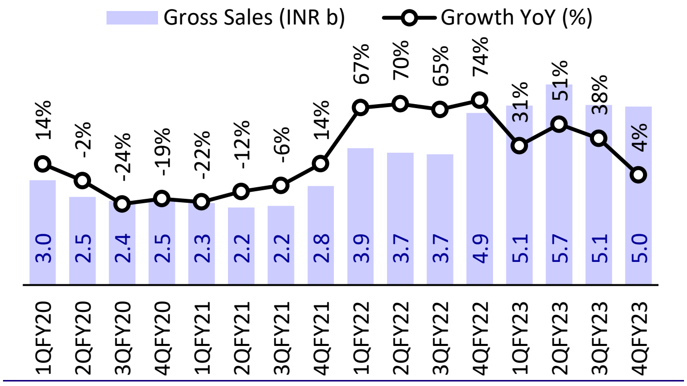
Exhibit 1: One-year forward P/B trades at 7.1x, 22% premium to its long-term average



Source: Company, MOSL

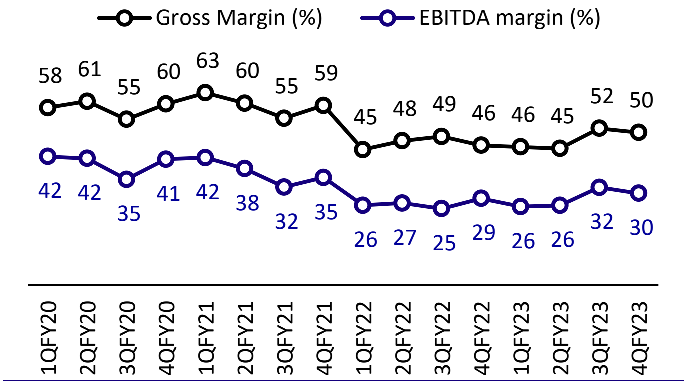
4QFY23 in charts

Exhibit 2: Sales grew 4% YoY (down 1% QoQ)



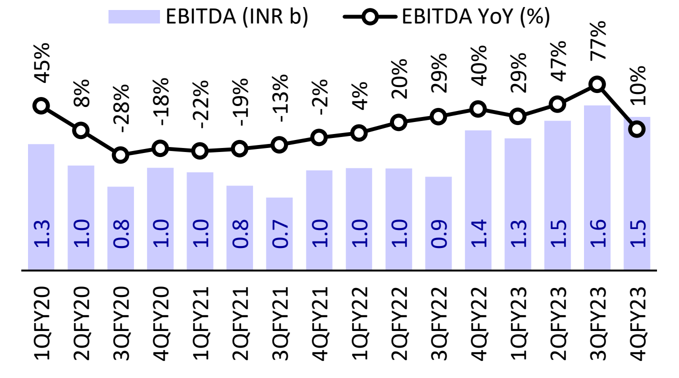
Source: Company, MOFSL

Exhibit 3: GM and EBITDAM both declined QoQ



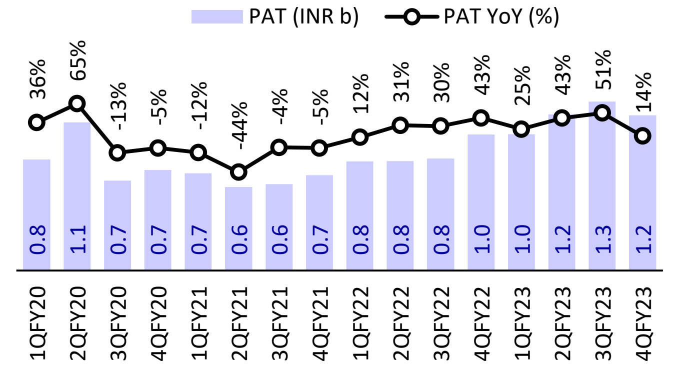
Source: Company, MOFSL

Exhibit 4: EBITDA grew 10% YoY (EBITDAM at 30.3%)



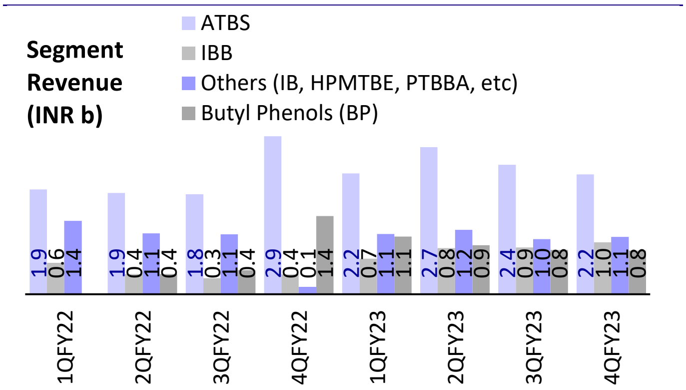
Source: Company, MOFSL

Exhibit 5: PAT up 14% YoY (margin at 22.9%)



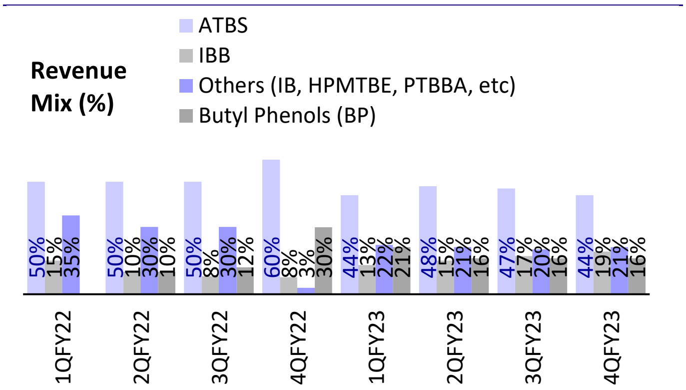
Source: Company, MOFSL

Exhibit 6: Strong growth in IBB, IB, and other products



Source: Company, MOFSL

Exhibit 7: ATBS contribution declined to 44% in 4QFY23



Source: Company, MOFSL

Story in charts

Exhibit 8: Expect 25% revenue CAGR over FY23-25

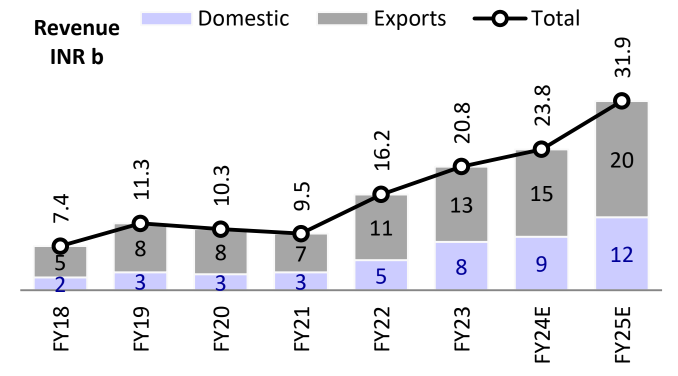


Exhibit 9: Exports likely to remain high

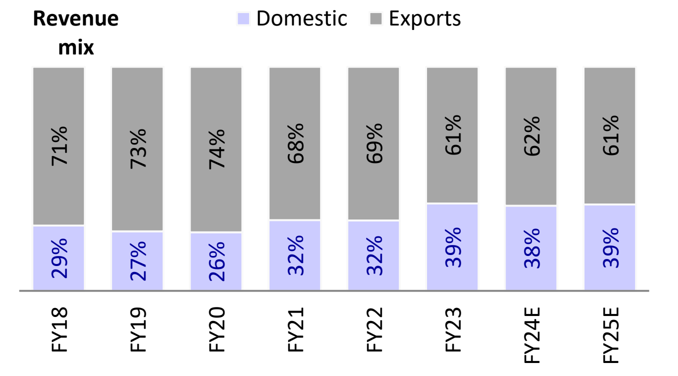


Exhibit 10: EBITDAM to remain subdued over FY24-25…

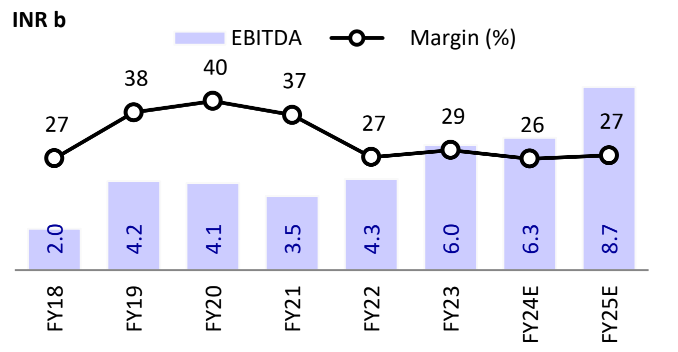


Exhibit 11: …with pressure on PAT margin also to sustain

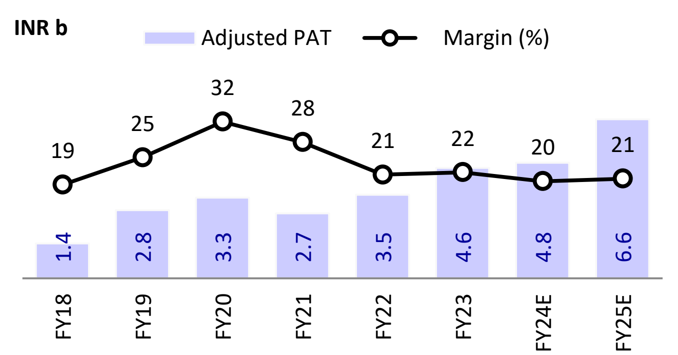


Exhibit 12: One-year forward P/E trades at 32x…

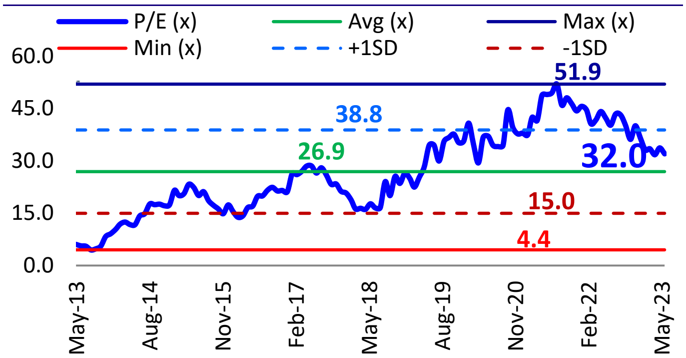


Exhibit 13: …with return ratios improving to 20-23%

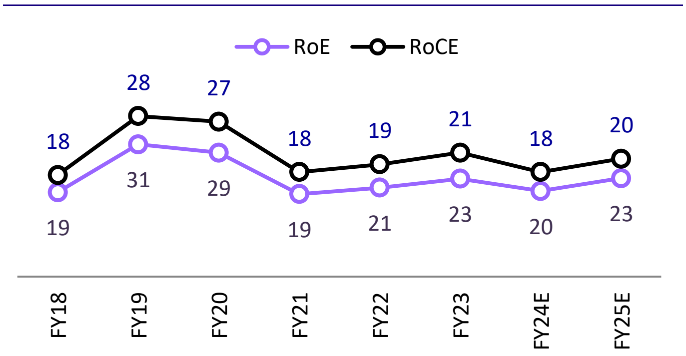
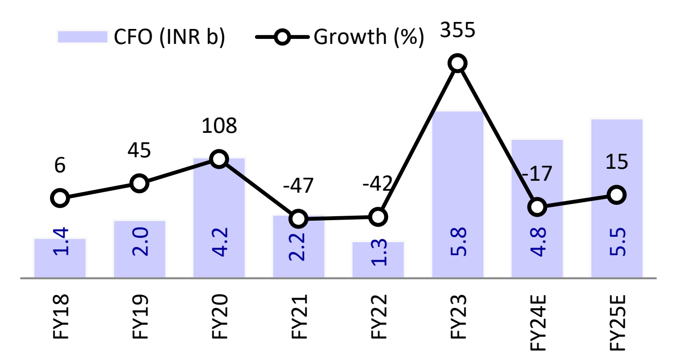
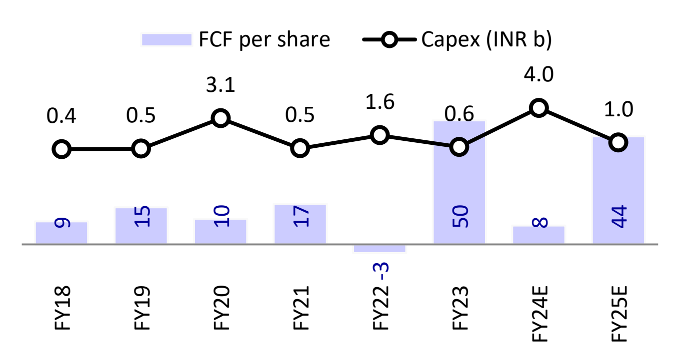


Exhibit 14: Strong operating cash flow at INR10.3b



Source: Company, MOFSL

Exhibit 15: …with capex for FY24-25 at INR5b



Source: Company, MOFSL

Financials and valuations

Standalone- Income Statement								(INR m)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Total Income from Operations	**7,422**	**11,279**	**10,289**	**9,543**	**16,155**	**20,847**	**23,779**	**31,927**
Change (%)	8.9	52.0	-8.8	-7.3	69.3	29.0	14.1	34.3
Gross Margin (%)	49.1	53.4	58.3	59.4	46.7	48.0	48.2	48.5
EBITDA	**1,973**	**4,234**	**4,139**	**3,525**	**4,341**	**5,954**	**6,300**	**8,715**
Margin (%)	26.6	37.5	40.2	36.9	26.9	28.6	26.5	27.3
Depreciation	234	274	332	429	455	519	628	631
EBIT	**1,739**	**3,960**	**3,808**	**3,096**	**3,886**	**5,435**	**5,672**	**8,083**
Int. and Finance Charges	12	9	11	2	3	6	5	4
Other Income	307	302	450	259	610	724	728	731
PBT bef. EO Exp.	**2,034**	**4,252**	**4,247**	**3,353**	**4,493**	**6,153**	**6,395**	**8,810**
PBT after EO Exp.	**2,034**	**4,252**	**4,247**	**3,353**	**4,493**	**6,153**	**6,395**	**8,810**
Total Tax	595	1,428	908	659	1,026	1,573	1,610	2,217
Tax Rate (%)	29.3	33.6	21.4	19.7	22.8	25.6	25.2	25.2
Reported PAT	**1,439**	**2,825**	**3,338**	**2,693**	**3,467**	**4,580**	**4,785**	**6,592**
Adjusted PAT	**1,439**	**2,825**	**3,338**	**2,693**	**3,467**	**4,580**	**4,785**	**6,592**
Change (%)	2.6	96.3	18.2	-19.3	28.7	32.1	4.5	37.8
Margin (%)	19.4	25.0	32.4	28.2	21.5	22.0	20.1	20.6

Standalone - Balance Sheet								(INR m)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**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	22,085	26,119	31,676
Net Worth	**7,967**	**10,513**	**12,794**	**15,434**	**18,281**	**22,188**	**26,222**	**31,778**
Total Loans	152	37	3	20	189	69	2,300	2,200
Deferred Tax Liabilities	809	846	705	779	900	1,021	1,021	1,021
Capital Employed	**8,927**	**11,395**	**13,502**	**16,234**	**19,370**	**23,278**	**29,542**	**34,999**
Gross Block	5,023	5,473	8,551	9,045	10,675	11,283	15,283	16,283
Less: Accum. Deprn.	454	728	1,060	1,489	1,944	2,463	3,091	3,723
Net Fixed Assets	**4,569**	**4,745**	**7,491**	**7,557**	**8,732**	**8,820**	**12,191**	**12,560**
Capital WIP	349	1,912	310	547	473	2,212	2,212	2,212
Total Investments	**1,317**	**965**	**2,274**	**2,887**	**979**	**2,555**	**2,555**	**2,555**
Curr. Assets, Loans, and Adv.	**3,565**	**4,654**	**4,355**	**6,345**	**10,714**	**11,884**	**15,086**	**21,032**
Inventory	822	924	932	1,219	1,762	1,909	2,178	2,924
Account Receivables	1,771	2,440	2,018	2,772	4,584	4,696	5,356	7,192
Cash and Bank Balance	52	38	537	68	43	83	1,625	2,958
Cash and liquid investments	1,318	492	1,586	1,762	11	1,219	1,625	2,958
Bank Balance	52	38	0	52	33	59	0	0
Loans and Advances	919	1,252	869	2,285	4,326	5,196	5,927	7,958
Curr. Liability and Prov.	**872**	**881**	**927**	**1,102**	**1,527**	**2,194**	**2,502**	**3,360**
Account Payables	635	531	557	664	1,146	1,179	1,345	1,806
Other Current Liabilities	174	211	213	391	328	964	1,099	1,476
Provisions	64	139	157	47	54	51	58	78
Net Current Assets	**2,693**	**3,774**	**3,428**	**5,243**	**9,187**	**9,690**	**12,584**	**17,672**
Appl. of Funds	**8,927**	**11,395**	**13,502**	**16,234**	**19,371**	**23,277**	**29,542**	**34,999**

Financials and valuations

Ratios								
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Basic (INR)								
EPS	**14.0**	**27.5**	**32.5**	**26.2**	**33.7**	**44.6**	**46.6**	**64.1**
EPS Growth (%)	**2.6**	**96.3**	**18.2**	**-19.3**	**28.7**	**32.1**	**4.5**	**37.8**
Cash EPS	16.3	30.1	35.7	30.4	38.2	49.6	52.7	70.3
BV/Share	77.5	102.3	124.5	150.2	177.9	215.9	255.1	309.2
DPS	0.3	2.3	5.5	6.0	6.5	7.0	7.3	10.1
Payout (%)	2.2	9.9	31.6	22.9	19.3	15.7	15.7	15.7
Valuation (x)								
P/E	128.1	65.3	55.2	68.5	53.2	40.3	38.5	28.0
Cash P/E	110.2	59.5	50.2	59.0	47.0	36.2	34.1	25.5
P/BV	23.1	17.5	14.4	11.9	10.1	8.3	7.0	5.8
EV/Sales	24.9	16.3	17.9	19.3	11.4	8.8	7.8	5.8
EV/EBITDA	93.5	43.5	44.4	52.3	42.5	31.0	29.4	21.1
Dividend Yield (%)	0.0	0.1	0.3	0.3	0.4	0.4	0.4	0.6
FCF per share	9.4	15.1	10.4	16.5	-3.4	50.3	7.8	43.8
Return Ratios (%)								
RoE	19.5	30.6	28.6	19.1	20.6	22.6	19.8	22.7
RoCE	17.6	27.9	26.9	18.1	19.5	21.5	18.1	20.4
RoIC	17.6	33.5	31.7	21.5	19.6	22.3	20.4	24.0
Working Capital Ratios								
Fixed Asset Turnover (x)	1.6	2.4	1.7	1.3	2.0	2.4	2.3	2.6
Asset Turnover (x)	0.8	1.0	0.8	0.6	0.8	0.9	0.8	0.9
Inventory (Days)	40	30	33	47	40	33	33	33
Debtor (Days)	87	79	72	106	104	82	82	82
Creditor (Days)	31	17	20	25	26	21	21	21
Leverage Ratio (x)								
Current Ratio	4.1	5.3	4.7	5.8	7.0	5.4	6.0	6.3
Net Debt/Equity ratio	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Standalone - Cash Flow Statement								(INR m)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
OP/(Loss) before Tax	2,034	4,252	4,247	3,353	4,493	6,153	6,395	8,810
Depreciation	254	274	332	429	455	519	628	631
Direct Taxes Paid	-491	-1,262	-1,005	-607	-1,081	-1,310	-1,610	-2,217
(Inc.)/Dec. in WC	-316	-1,138	811	-874	-2,257	626	-620	-1,724
CF from Operations	**1,384**	**2,003**	**4,159**	**2,190**	**1,271**	**5,780**	**4,798**	**5,504**
(Inc.)/Dec. in FA	-422	-450	-3,094	-490	-1,618	-607	-4,000	-1,000
Free Cash Flow	**962**	**1,553**	**1,065**	**1,700**	**-347**	**5,172**	**798**	**4,504**
Change in Investments	1	-442	-674	127	267	-350	0	0
Others	33	-1,534	1,793	-1,619	-1,206	-2,758	-731	-2,031
CF from Investments	**-388**	**-2,427**	**-1,975**	**-1,982**	**-2,558**	**-3,715**	**-4,731**	**-3,031**
Issue of Shares	-240	0	0	0	0	0	0	0
Inc./(Dec.) in Debt	0	0	0	17	164	-182	2,231	-100
Interest Paid	-11	-9	-11	-2	-3	-6	-5	-4
Dividend Paid	-32	-278	-1,046	-55	-618	-670	-752	-1,036
CF from Fin. Activity	**-298**	**-403**	**-1,090**	**-31**	**-464**	**-856**	**1,474**	**-1,140**
Inc./Dec. in Cash	**697**	**-826**	**1,094**	**176**	**-1,751**	**1,209**	**1,542**	**1,333**
Opening Balance	621	1,318	492	1,586	1,762	11	83	1,624
Closing Balance	**1,318**	**491**	**1,585**	**1,762**	**10**	**1,219**	**1,624**	**2,958**

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

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