

Retail Equity Research

Vinati Organics Ltd.

Specialty chemicals

BSE CODE : 524200

NSE CODE: VINATIORGA

BLOOMBERG CODE: VO:IN

SENSEX : 72,762

ACCUMULATE

12 Months Investment Period

Rating as per Small Cap

CMP Rs. 1,571

TARGET Rs. 1,844

RETURN 17% 

(Closing: 13-03-24)

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

ATBS destocking hurts earnings...recovery seen in FY25. 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).

- In 9MFY24, revenue dipped by 15% YoY, due to ATBS destocking and fall in realization.
- EBITDA margins fell by 354bps YoY to 24.5% on account of a weak sales mix. Consequently, net profit declined by 32% YoY.
- Destocking in ATBs has largely eased, and growth is expected to pick up in FY25. Further, contributions from new products, such as IB derivatives and antioxidants, will support revenue growth.
- We reduce our EPS estimates by 48% & 41% for FY24E & 25E, respectively, to account for earning miss in 9MFY24.
- However, we maintain positive on VOL in the long term given strong market share in ATBs, ramp-up in new products, strong cash flows, a healthy balance sheet, and return ratios.
- We value VOL at a P/E of 34x as we roll forward on FY26E, however, given revision in earning estimates, we downgrade VOL to Accumulate, with a revised target price of Rs. 1,844.

ATBS destocking hurts growth...FY25 will see recovery.

In 9MFY24, revenue declined by 15% YoY, due to weak demand and destocking in ATBS. Additionally, lower input prices affected overall realization, hampering revenue growth. A strong recovery in ATBS is expected in FY25 as destocking eases. Capacity expansion in ATBS is ongoing and should be operational by Q3FY25, with ramp-up taking some more time due to gradual utilization pick-up. The IBB segment showed stable demand, the momentum to continue due to an improved Ibuprofen outlook. Butyl phenol, too, witnessed stable growth. Investments in Veeral Organics Ltd. for products like MEHQ, Guaiacol, 4-methoxyacetophenone, isoamylene derivatives, and anisole are set for commissioning in H2FY25E. We lowered revenue growth estimates for FY24E and FY25E by 35% and 30% due to weak 9MFY24 growth, especially in ATBs (50% of the portfolio). Nonetheless, the long-term outlook remains strong, supported by new products, synergies, and market share in the existing portfolio. We expect revenue to grow at an 18.4% CAGR over FY24E–FY26E.

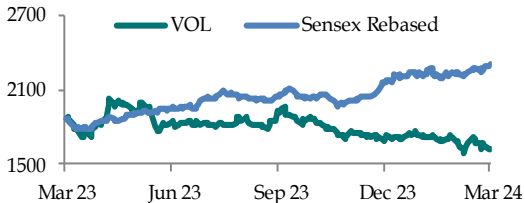
EBITDA margin to improve..

9MFY24 EBITDA margin dropped by 354bps YoY to 24.5%. EBITDA declined by 26% YoY due to a weaker product mix, resulting in a 32% YoY decrease in Net profit to Rs.233cr. Looking ahead to FY25, ATB’s growth is expected to recover, leading to a margin normalization of 27%. Given the subdued growth in 9MFY24, we are revising down our EBITDA margin estimates by 380 bps for FY24E and 350 bps for FY25E. Consequently, our EPS estimates were reduced by 47% & 41%, respectively, for FY24E & FY25E. Despite these challenges, we anticipate PAT growth at a 22% CAGR over FY24E–26E.

Valuations

We maintain a positive stance on VOL given its focus on the introduction of new products by leveraging growth opportunities in its existing portfolio, a strong balance sheet, and a healthy RoE & RoCE of above 24% (avg. last 5years). We value VOL at a P/E of 34x on FY26E, and given the downgrade in earnings due to moderation in ATBs business, we downgrade our rating to Accumulate, with a revised target price of Rs.1,844.

Company Data			
Market Cap (cr)	Rs.16,145		
Enterprise Value (cr)	Rs.15,950		
Outstanding Shares (cr)	10.3		
Free Float	26%		
Dividend Yield	0.45%		
52 week high	Rs.2,030		
52 week low	Rs.1,565		
6m average volume (cr)	0.01		
Beta	1.0		
Face value	Rs.1		
Shareholding (%)	Q1FY24	Q2FY24	Q3FY24
Promoters	74.1	74.1	74.1
FII's	4.5	4.6	4.7
MFs/Institutions	8.1	8.2	7.6
Public	13.0	12.8	13.3
Others	0.3	0.3	0.3
Total	100.0	100.0	100.0
Price Performance	3 Month	6 Month	1 Year
Absolute Return	-6.5%	-17.1%	-13.6%
Absolute Sensex	6.6%	11.2%	23.0%
Relative Return*	-13.0%	-28.3%	-36.6%
over or under performance to benchmark index*			



Standalone (cr)	FY24E	FY25E	FY26E
Sales	1,882	2,315	2,864
Growth (%)	(9.7)	23.0	23.7
EBITDA	465	611	767
EBITDA Margin(%)	24.7	26.4	26.8
PAT Adjusted	340	437	542
Growth (%)	(25.7)	28.3	24.0
Adjusted EPS	33.1	42.5	52.7
Growth (%)	(25.7)	28.3	24.0
P/E	47.4	37.0	29.8
P/B	6.2	5.4	4.7
EV/EBITDA	34.7	26.5	21.0
ROE (%)	14.4	16.3	17.5
D/E	0.0	0.0	0.0

Anil R

Research Analyst

Quarterly Financials

Profit & Loss

Rs.cr	Q3FY24	Q3FY23	YoY Growth (%)	Q2FY24	QoQ Growth (%)	9MFY24	9MFY23	YoY Growth (%)
Sales	448	509	-11.9	463	-3.2	1,342	1,581	-15.1
EBITDA	115	164	-30.0	105	9.4	328	443	-25.9
EBITDA margin	25.6	32.2	-659bps	22.6	296bps	24.5	28.0	-354bps
Depreciation	19	13	48.2	17	11.7	50	39	28.1
EBIT	95	151	-36.7	87	9.0	279	404	-31.1
Interest	1	0	6486.7	1	14.8	2	0	343.1
Other Income	9	17	-47.5	11	-16.5	35	55	-37.4
Exceptional Items	-	-	-	-	-	-	-	-
PBT	103	168	-38.4	97	6.2	311	459	-32.2
Tax	26	42	-37.8	25	6.0	79	117	-32.6
Share of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	77	125	-38.6	72	6.2	233	343	-32.1
Adjustments	-	-	-	-	-	-	-	-
Adjusted PAT	77	125	-38.6	72	6.2	233	343	-32.1
No. of Shares	10.3	10.3		10.3		10.3	10.3	
EPS (Rs)	7.5	12.2	-38.6	7.1	6.2	22.6	33.3	-32.1

Change in Estimates

	Old estimates		New estimates		Change (%)	
Year / Rs.cr	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	2,886	3,294	1,882	2,315	(34.8)	(29.7)
EBITDA	846	972	465	611	(45.0)	(37.1)
Margins (%)	29.3	29.5	24.7	26.4	(460bps)	(310bps)
Adj. PAT	650	736	340	437	(47.6)	(40.7)
EPS	63.2	71.6	33.1	42.5	(47.6)	(40.7)

Standalone Financials

PROFIT & LOSS

Y.E March (Rs cr)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	954	1,616	2,085	1,882	2,315	2,864
% change	-7.3	69.3	29.0	-9.7	23.0	23.7
EBITDA	353	434	595	465	611	767
% change	(14.8)	23.1	37.2	(21.9)	31.5	25.6
Depreciation	43	45	52	64	83	101
EBIT	310	389	543	401	529	667
Interest	0	0	1	3	4	4
Other Income	26	61	72	49	50	50
PBT	335	449	615	448	575	713
% change	-21	34	37	-27	28	24
Tax	66	103	157	107	138	171
Tax Rate (%)	19.7%	22.8%	25.6%	24.0%	24.0%	24.0%
Reported PAT	269	347	458	340	437	542
Adj.*	0	0	0	0	0	0
Adj. PAT	269	347	458	340	437	542
% change	(19.3)	28.7	32.1	(25.7)	28.3	24.0
No. of shares (cr)	10	10	10	10	10	10
Adj EPS (Rs)	26.2	33.7	44.6	33.1	42.5	52.7
% change	-19.3	28.7	32.1	-25.7	28.3	24.0
DPS (Rs)	0.5	6.0	6.5	6.5	6.5	6.5
CEPS (Rs)	30.4	38.2	49.6	39.3	50.5	62.5

BALANCE SHEET

Y.E March (Rs cr)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	2	1	2	64	4	70
Accounts Receivable	277	458	470	480	571	667
Inventories	122	176	191	219	243	307
Other Cur. Assets	233	436	526	531	571	675
Investments	289	98	256	316	316	316
Gross Fixed Assets	900	1,060	1,121	1,421	1,821	2,121
Net Fixed Assets	756	872	881	1,118	1,435	1,634
CWIP	55	47	221	100	100	100
Intangible Assets	1	1	1	1	1	1
Def. Tax (Net)	(78)	(90)	(102)	(102)	(102)	(102)
Other Assets	(0)	(0)	(0)	(0)	(0)	(0)
Total Assets	1,656	2,000	2,445	2,726	3,138	3,667
Current Liabilities	101	143	214	192	233	287
Provisions	5	5	5	5	6	7
Debt Funds	7	23	7	37	37	37
Other Liabilities	-	-	-	-	-	-
Equity Capital	10	10	10	10	10	10
Reserves & Surplus	1,533	1,818	2,209	2,482	2,851	3,326
Shareholder's Fund	1,543	1,828	2,219	2,492	2,862	3,336
Total Liabilities	1,656	2,000	2,445	2,726	3,138	3,667
BVPS	156	185	225	252	290	338

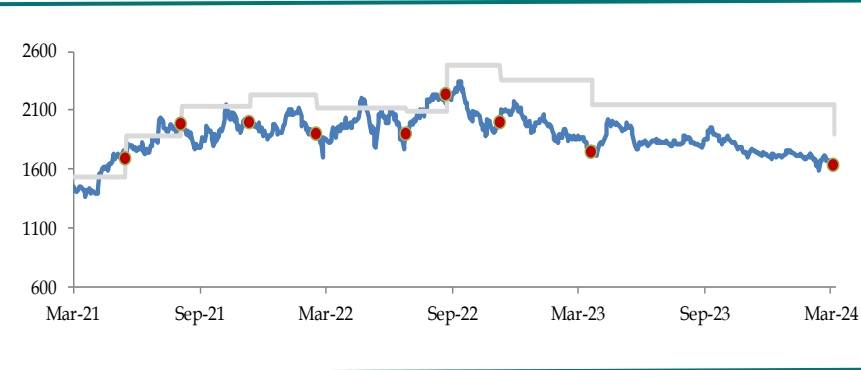
CASH FLOW

Y.E March (Rs cr)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Net inc. + Depn.	312	392	510	404	519	642
Non-cash adj.	(4)	(36)	4	(46)	(46)	(46)
Changes in W.C	(87)	(226)	63	(67)	(112)	(209)
C.F. Operation	219	127	578	291	361	388
Capital exp.	(49)	(162)	(61)	(179)	(400)	(300)
Change in inv.	(20)	31	(219)	(60)	-	-
Other invest.CF	(129)	(116)	(72)	49	50	50
C.F - Investment	(198)	(256)	(372)	(190)	(350)	(250)
Issue of equity	-	-	-	-	-	-
Issue/repay debt	3	16	(18)	30	(0)	(0)
Dividends paid	(6)	(62)	(67)	(67)	(67)	(67)
Other finance.CF	(0)	(0)	(1)	(3)	(4)	(4)
C.F - Finance	(3)	(46)	(86)	(40)	(71)	(71)
Chg. in cash	(7)	(1)	1	62	(60)	66
Closing cash	2	1	2	64	4	70

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Profitab & Return						
EBITDA margin (%)	36.9	26.9	28.6	24.7	26.4	26.8
EBIT margin (%)	32.4	24.1	26.1	21.3	22.8	23.3
Net profit mgn.(%)	28.2	21.5	22.0	18.1	18.9	18.9
ROE (%)	19.1	20.6	22.6	14.4	16.3	17.5
ROCE (%)	19.0	20.4	22.5	14.4	16.2	17.4
W.C & Liquidity						
Receivables (days)	91.6	83.1	81.2	92.0	82.8	78.9
Inventory (days)	101.3	63.2	61.8	74.8	69.5	67.2
Payables (days)	87.1	51.7	60.2	74.1	63.8	63.5
Current ratio (x)	6.0	7.2	5.4	6.6	5.8	5.8
Quick ratio (x)	2.8	3.2	2.2	2.8	2.5	2.6
Turnover & Leverage						
Gross asset T.O (x)	1.1	1.6	1.9	1.5	1.4	1.5
Total asset T.O (x)	0.6	0.9	0.9	0.7	0.8	0.8
Int. covge. ratio (x)	1461.1	1502.1	866.5	159.3	130.2	150.6
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0	0.0
Valuation						
EV/Sales (x)	16.6	10.0	7.7	8.6	7.0	5.6
EV/EBITDA (x)	45.0	37.1	26.8	34.7	26.5	21.0
P/E (x)	59.9	46.6	35.3	47.4	37.0	29.8
P/BV (x)	10.1	8.5	7.0	6.2	5.4	4.7

Recommendation summary (Last 3 years)



Dates	Rating	Target
01-March-18	Accumulate	471
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
14-March-24	Accumulate	1,844

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.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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