MOTILAL OSWAL
FINANCIAL SERVICES

3 February 2025
3QFY25 Result Update | Sector: Chemicals

# Vinati Organics

| | |
|---|---|
| Estimate changes | ↓ |
| TP change | ⟷ |
| Rating change | ⟷ |

| | |
|---|---|
| Bloomberg | VO IN |
| Equity Shares (m) | 104 |
| M.Cap.(INRb)/(USDb) | 181.1 / 2.1 |
| 52-Week Range (INR) | 2331 / 1462 |
| 1, 6, 12 Rel. Per (%) | 1/-16/-5 |
| 12M Avg Val (INR M) | 161 |

**Financials & Valuations (INR b)**

| Y/E March | FY25E | FY26E | FY27E |
|---|---|---|---|
| Sales | 22.0 | 27.8 | 32.3 |
| EBITDA | 5.7 | 7.4 | 8.8 |
| PAT | 4.0 | 5.2 | 6.3 |
| EPS (INR) | 38.9 | 50.3 | 60.3 |
| EPS Gr. (%) | 24.6 | 29.3 | 20.0 |
| BV/Sh.(INR) | 267.9 | 306.9 | 353.6 |
| **Ratios** | | | |
| Net D:E | 0.1 | 0.1 | 0.0 |
| RoE (%) | 15.4 | 17.5 | 18.3 |
| RoCE (%) | 13.7 | 15.1 | 16.6 |
| Payout (%) | 22.4 | 22.4 | 22.4 |
| **Valuations** | | | |
| P/E (x) | 45.0 | 34.8 | 29.0 |
| P/BV (x) | 6.5 | 5.7 | 4.9 |
| EV/EBITDA (x) | 32.2 | 24.9 | 20.7 |
| Div. Yield (%) | 0.5 | 0.6 | 0.8 |
| FCF Yield (%) | -0.8 | 1.4 | 2.2 |

**Shareholding pattern (%)**

| As On | Dec-24 | Sep-24 | Dec-23 |
|---|---|---|---|
| Promoter | 74.3 | 74.3 | 74.1 |
| DII | 7.6 | 7.3 | 7.6 |
| FII | 5.3 | 5.5 | 4.7 |
| Others | 12.8 | 13.0 | 13.7 |

FII Includes depository receipts

**CMP: INR1,749 TP: INR2,600 (+49%) Buy**

## Operational performance in-line; guidance intact

- Vinati Organics (VO)'s 3QFY25 revenue came in a tad above our estimate at INR5.2b. Gross margin expanded 180bp YoY to 49%, while EBITDAM was up 180bp YoY at 27.4%. EBITDA increased 24% YoY to INR1.4b and PAT grew 24% to INR956m (our est. INR1b). Management earlier indicated that 2H of the year generally is better than 1H.
- The new ATBS line, with a capex of INR3b, is expected to be ready by Mar/Apr'25. Veeral Organics' INR5b capex, spread over two years, has already seen the launch of Monomer Inhibitor and a pharma intermediate. The company is adding three more products: a skincare intermediate, Tertiary Amyl Alcohol, and BHA (for the food industry).
- AO revenue stood at ~INR1b in 1HFY25 and management earlier guided that it can achieve the revenue target of ~INR2b in FY25. Chinese competition persists, but the government is addressing it by imposing anti-dumping duties on affected products. AO, which contributes ~10% of Vinati Organics' revenue, is among the products facing direct competition from China.
- Management has guided for a revenue CAGR of ~20% in the next three years, driven by new as well as existing products (at existing prices based on volume growth). We expect a CAGR of 19%/23%/25% in revenue/EBITDA/PAT during FY24-27, with EBITDAM likely to gradually be at 27% by FY27. This would be driven by ATBS (rev CAGR of 27% over FY24-27) and AOs (56%).
- We have cut our revenue/EBITDA/PAT estimates by 7%/5%/8% for FY25 while keeping them broadly unchanged for FY26-27. The stock is trading at ~35x FY26E EPS of INR50.3 and ~25x FY26E EV/EBITDA. We continue to believe that VO's long-term growth outlook is healthy. We value VO at 45x Dec'26E EPS to arrive at our TP of INR2,600. **We reiterate our BUY rating on the stock.**

### EBITDA in line; PAT miss due to lower-than-expected other income

- Revenue was at INR5.2b (est. of INR5.6b, +16% YoY). EBITDA came in at INR1.4b (est. of INR1.4b, +24% YoY). Gross margin was at 49% (+180bp YoY), with **EBITDAM at 27.4% (+180bp YoY).** PAT came in at INR956m (est. of INR1b, +24% YoY).
- The board has approved the incorporation/establishment of a wholly owned subsidiary of VO in the US to expand its business operations offshores.
  - The subsidiary will primarily handle the manufacturing and sale of VO's products, and in future, this entity will help to explore other opportunities in the US market.
- **In 9MFY25**, revenue stood at INR16b (+19% YoY), EBITDA came in at INR4b (+26% YoY), and PAT was at INR2.9b (+31% YoY). EBITDAM was at 25.1% (+140bp YoY).

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## Valuation and view

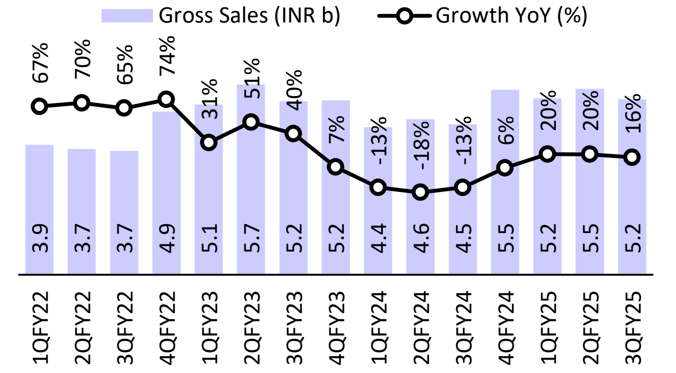
- VOPL has commissioned a plant for MEHQ and Guaiacol with other products (Anisole, 4-MAP, Iso Amylene, etc.), which will come online in 4QFY25. VO has 3ktpa capacity (combined) for MEHQ and Guaiacol, 5ktpa for Anisole, 30ktpa Iso Amylene, and 1ktpa for 4-MAP. These products will be the key growth drivers for VO going forward.
- The supply of AOs started in FY24, which generated a revenue of INR1.3b during that year. The amalgamation of VO with VAPL has already been approved by the NCLT. VO is now the largest and the only double-integrated manufacturer of AOs in India. Our long-term view remains positive for the segment, although there is a threat of Chinese supplies.
- The stock is trading at ~35x FY26E EPS of INR50.3 and ~25x FY26E EV/EBITDA. It had a fixed asset turnover of 1.5x as of FY24. We continue to believe that VO's long-term growth outlook is healthy. We value VO at 45x Dec'26E EPS to arrive at our TP of INR2,600. **We reiterate our BUY rating on the stock.**

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

| Y/E March | FY24 | | | | FY25 | | | | FY24 | FY25E | FY25 | Var. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4QE | | | 3QE | (%) |
| **Gross Sales** | 4,387 | 4,629 | 4,480 | 5,503 | 5,247 | 5,533 | 5,217 | 6,020 | 19,000 | 22,017 | 5,576 | -6% |
| *YoY Change (%)* | -13.3 | -18.3 | -13.3 | 6.0 | 19.6 | 19.5 | 16.4 | 9.4 | -8.3 | 15.9 | 24.5 | |
| *Gross Margin (%)* | 47.6% | 45.8% | 47.2% | 46.6% | 44.9% | 45.8% | 49.0% | 49.1% | 46.8% | 47.3% | 48.3% | 0.7% |
| **EBITDA** | 1,004 | 1,048 | 1,147 | 1,502 | 1,251 | 1,340 | 1,428 | 1,690 | 4,701 | 5,709 | 1,430 | 0% |
| *Margin (%)* | 22.9 | 22.6 | 25.6 | 27.3 | 23.8 | 24.2 | 27.4 | 28.1 | 24.7 | 25.9 | 25.6 | 1.7 |
| Depreciation | 167 | 173 | 193 | 194 | 196 | 205 | 205 | 225 | 728 | 830 | 213 | |
| Interest | 9 | 9 | 10 | 9 | 4 | 1 | 1 | 4 | 36 | 10 | 2 | |
| Other Income | 98 | 106 | 88 | 96 | 93 | 222 | 67 | 81 | 388 | 462 | 164 | |
| **PBT before EO expense** | 925 | 972 | 1,032 | 1,396 | 1,144 | 1,357 | 1,289 | 1,543 | 4,325 | 5,331 | 1,378 | -7% |
| **PBT** | 925 | 972 | 1,032 | 1,396 | 1,144 | 1,357 | 1,289 | 1,543 | 4,325 | 5,331 | 1,378 | -7% |
| Tax | 231 | 247 | 262 | 351 | 284 | 295 | 333 | 389 | 1,091 | 1,301 | 347 | |
| *Rate (%)* | 25.0 | 25.4 | 25.4 | 25.1 | 24.8 | 21.8 | 25.8 | 25.2 | 25.2 | 24.4 | 25.2 | |
| **Reported PAT** | 694 | 725 | 770 | 1,045 | 860 | 1,061 | 956 | 1,154 | 3,234 | 4,031 | 1,031 | -7% |
| **Adj PAT** | 694 | 725 | 770 | 1,045 | 860 | 1,061 | 956 | 1,154 | 3,234 | 4,031 | 1,031 | -7% |
| *YoY Change (%)* | -31.4 | -37.5 | -28.0 | -0.2 | 23.9 | 46.4 | 24.1 | 10.4 | -22.8 | 24.6 | 33.9 | |
| *Margin (%)* | 15.8 | 15.7 | 17.2 | 19.0 | 16.4 | 19.2 | 18.3 | 19.2 | 17.0 | 18.3 | 18.5 | -0.2 |

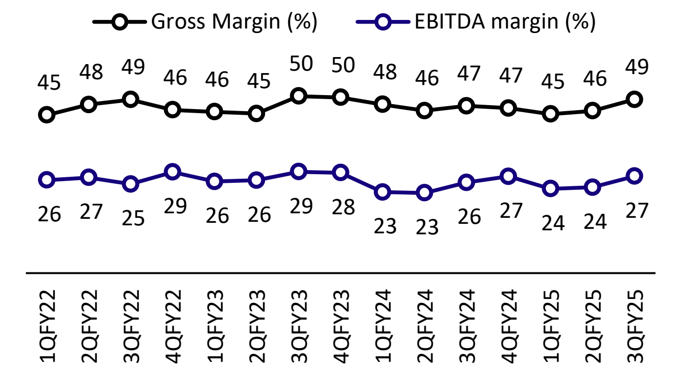
## 3QFY25 in charts

**Exhibit 1: Sales increased 16% YoY**



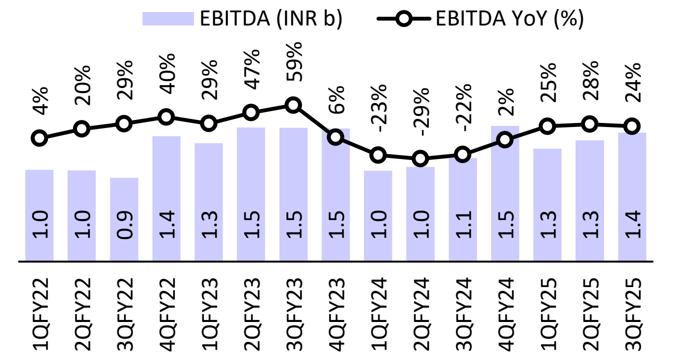

Source: Company, MOFSL

**Exhibit 2: Margins expanded YoY and QoQ**



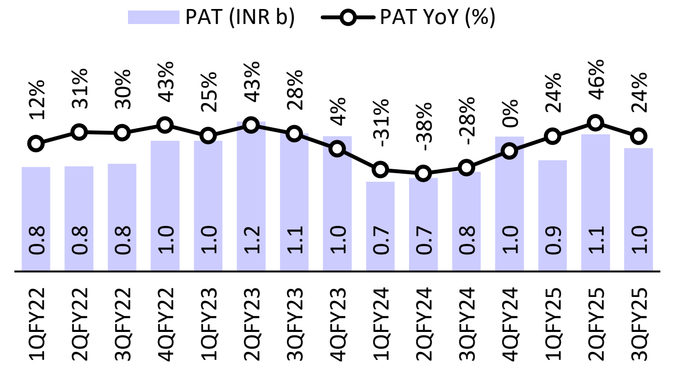

Source: Company, MOFSL

**Exhibit 3: EBITDA increased 24% YoY (EBITDAM at 27.4%)**




Source: Company, MOFSL

**Exhibit 4: PAT increased 24% YoY (margin at 18.3%)**




Source: Company, MOFSL

## Story in charts

**Exhibit 5: Expect 19% revenue CAGR over FY24-27**

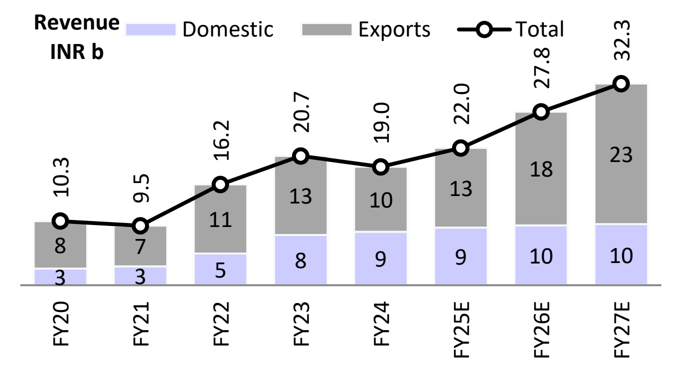



**Exhibit 6: Exports likely to dominate going forward as well**

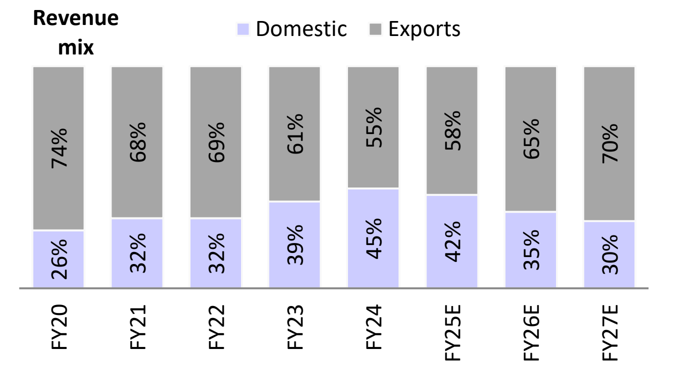



**Exhibit 7: EBITDAM to gradually improve during FY25-27…**

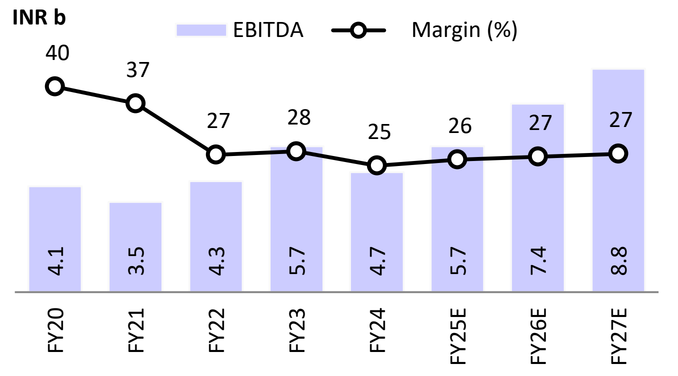



**Exhibit 8: …with PAT also improving**

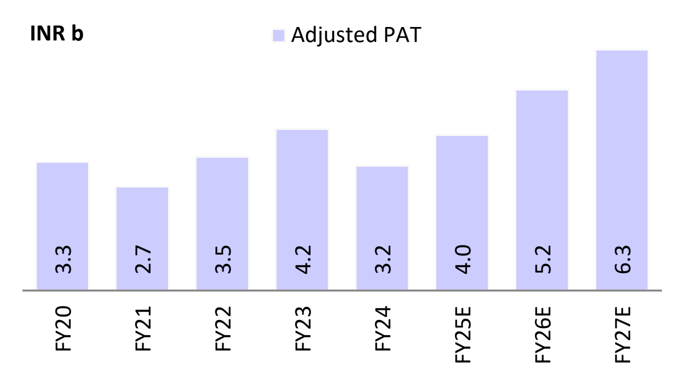



**Exhibit 9: Capex of INR9.5b expected during FY25-27**

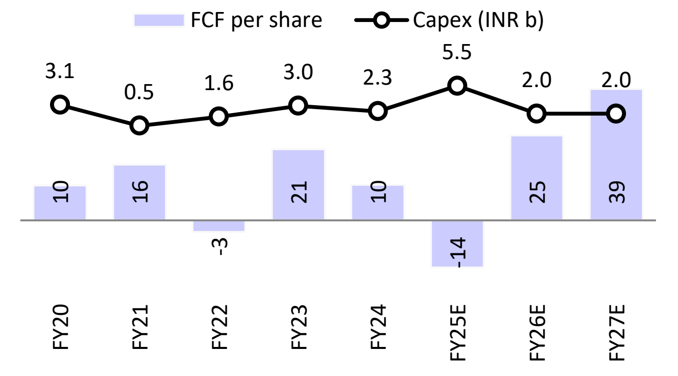
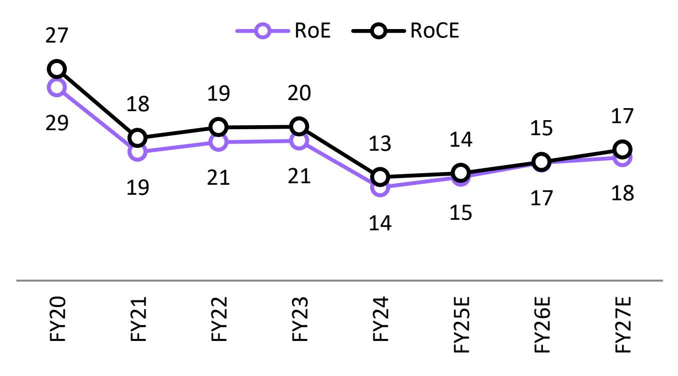



**Exhibit 10: Return ratios at 17-18% in FY27E**



## Financials and valuations

**Standalone- Income Statement** (INR m)

| Y/E March | FY20 | FY21 | FY22 | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|---|---|---|
| **Total Income from Operations** | **10,289** | **9,543** | **16,155** | **20,727** | **19,000** | **22,017** | **27,829** | **32,341** |
| *Change (%)* | *-8.8* | *-7.3* | *69.3* | *28.3* | *-8.3* | *15.9* | *26.4* | *16.2* |
| *Gross Margin (%)* | *58.3* | *59.4* | *46.7* | *48.2* | *46.8* | *47.3* | *48.0* | *48.5* |
| **EBITDA** | **4,139** | **3,525** | **4,341** | **5,712** | **4,701** | **5,709** | **7,375** | **8,752** |
| *Margin (%)* | *40.2* | *36.9* | *26.9* | *27.6* | *24.7* | *25.9* | *26.5* | *27.1* |
| Depreciation | 332 | 429 | 455 | 590 | 728 | 830 | 899 | 927 |
| **EBIT** | **3,808** | **3,096** | **3,886** | **5,122** | **3,973** | **4,879** | **6,476** | **7,825** |
| Int. and Finance Charges | 11 | 2 | 3 | 14 | 36 | 10 | 15 | 21 |
| Other Income | 450 | 259 | 610 | 524 | 388 | 462 | 501 | 550 |
| **PBT bef. EO Exp.** | **4,247** | **3,353** | **4,493** | **5,632** | **4,325** | **5,331** | **6,962** | **8,354** |
| **PBT after EO Exp.** | **4,247** | **3,353** | **4,493** | **5,632** | **4,325** | **5,331** | **6,962** | **8,354** |
| Total Tax | 908 | 659 | 1,026 | 1,440 | 1,091 | 1,301 | 1,752 | 2,103 |
| *Tax Rate (%)* | *21.4* | *19.7* | *22.8* | *25.6* | *25.2* | *24.4* | *25.2* | *25.2* |
| **Reported PAT** | **3,338** | **2,693** | **3,467** | **4,192** | **3,234** | **4,031** | **5,210** | **6,251** |
| **Adjusted PAT** | **3,338** | **2,693** | **3,467** | **4,192** | **3,234** | **4,031** | **5,210** | **6,251** |
| *Change (%)* | *18.2* | *-19.3* | *28.7* | *20.9* | *-22.8* | *24.6* | *29.3* | *20.0* |
| *Margin (%)* | *32.4* | *28.2* | *21.5* | *20.2* | *17.0* | *18.3* | *18.7* | *19.3* |

**Standalone - Balance Sheet** (INR m)

| Y/E March | FY20 | FY21 | FY22 | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|---|---|---|
| Equity Share Capital | 103 | 103 | 103 | 103 | 104 | 104 | 104 | 104 |
| Total Reserves | 12,691 | 15,331 | 18,179 | 22,032 | 24,540 | 27,666 | 31,707 | 36,555 |
| **Net Worth** | **12,794** | **15,434** | **18,281** | **22,135** | **24,644** | **27,770** | **31,811** | **36,659** |
| Total Loans | 3 | 20 | 189 | 352 | 46 | 4,000 | 3,000 | 1,200 |
| Deferred Tax Liabilities | 705 | 779 | 900 | 1,099 | 1,335 | 1,335 | 1,335 | 1,335 |
| **Capital Employed** | **13,502** | **16,234** | **19,370** | **23,586** | **26,025** | **33,105** | **36,146** | **39,194** |
| Gross Block | 8,551 | 9,045 | 10,675 | 14,122 | 16,558 | 22,058 | 24,058 | 26,058 |
| Less: Accum. Deprn. | 1,060 | 1,489 | 1,944 | 2,534 | 3,262 | 4,092 | 4,991 | 5,918 |
| **Net Fixed Assets** | **7,491** | **7,557** | **8,732** | **11,588** | **13,296** | **17,966** | **19,067** | **20,139** |
| Capital WIP | 310 | 547 | 473 | 2,290 | 2,461 | 2,461 | 2,461 | 2,461 |
| **Total Investments** | **2,274** | **2,887** | **979** | **2,555** | **2,373** | **2,373** | **2,373** | **2,373** |
| **Curr. Assets, Loans, and Adv.** | **4,355** | **6,345** | **10,714** | **9,404** | **10,137** | **12,902** | **15,528** | **18,036** |
| Inventory | 932 | 1,219 | 1,762 | 2,330 | 1,984 | 2,299 | 2,906 | 3,378 |
| Account Receivables | 2,018 | 2,772 | 4,584 | 4,638 | 5,296 | 6,137 | 7,757 | 9,015 |
| Cash and Bank Balance | 537 | 68 | 43 | 97 | 127 | 1,303 | 867 | 998 |
| Cash and liquid investments | 1,586 | 1,762 | 13 | 1,219 | 3 | 1,179 | 742 | 873 |
| Bank Balance | 0 | 52 | 33 | 73 | 124 | 124 | 124 | 124 |
| Loans and Advances | 869 | 2,285 | 4,326 | 2,338 | 2,729 | 3,162 | 3,997 | 4,645 |
| **Curr. Liability and Prov.** | **927** | **1,102** | **1,527** | **2,250** | **2,242** | **2,598** | **3,283** | **3,816** |
| Account Payables | 557 | 664 | 1,146 | 1,214 | 1,007 | 1,166 | 1,474 | 1,713 |
| Other Current Liabilities | 213 | 391 | 328 | 976 | 1,158 | 1,341 | 1,695 | 1,970 |
| Provisions | 157 | 47 | 54 | 60 | 77 | 90 | 114 | 132 |
| **Net Current Assets** | **3,428** | **5,243** | **9,187** | **7,154** | **7,895** | **10,305** | **12,245** | **14,220** |
| **Appl. of Funds** | **13,502** | **16,234** | **19,371** | **23,587** | **26,026** | **33,105** | **36,146** | **39,194** |

# Financials and valuations

| Ratios | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Y/E March** | **FY20** | **FY21** | **FY22** | **FY23** | **FY24** | **FY25E** | **FY26E** | **FY27E** |
| **Basic (INR)** | | | | | | | | |
| **EPS** | **32.2** | **26.0** | **33.4** | **40.4** | **31.2** | **38.9** | **50.3** | **60.3** |
| *EPS Growth (%)* | *18.2* | *-19.3* | *28.7* | *20.9* | *-22.8* | *24.6* | *29.3* | *20.0* |
| Cash EPS | 35.4 | 30.1 | 37.8 | 46.1 | 38.2 | 46.9 | 58.9 | 69.2 |
| BV/Share | 123.4 | 148.9 | 176.3 | 213.5 | 237.7 | 267.9 | 306.9 | 353.6 |
| DPS | 5.5 | 6.0 | 6.5 | 7.0 | 7.0 | 8.7 | 11.3 | 13.5 |
| Payout (%) | 31.6 | 23.1 | 19.4 | 17.3 | 22.4 | 22.4 | 22.4 | 22.4 |
| **Valuation (x)** | | | | | | | | |
| P/E | 54.3 | 67.3 | 52.3 | 43.3 | 56.1 | 45.0 | 34.8 | 29.0 |
| Cash P/E | 49.4 | 58.1 | 46.2 | 37.9 | 45.8 | 37.3 | 29.7 | 25.3 |
| P/BV | 14.2 | 11.7 | 9.9 | 8.2 | 7.4 | 6.5 | 5.7 | 4.9 |
| EV/Sales | 17.6 | 19.0 | 11.2 | 8.8 | 9.5 | 8.4 | 6.6 | 5.6 |
| EV/EBITDA | 43.7 | 51.4 | 41.8 | 31.8 | 38.6 | 32.2 | 24.9 | 20.7 |
| Dividend Yield (%) | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | 0.5 | 0.6 | 0.8 |
| FCF per share | 10.3 | 16.4 | -3.4 | 20.9 | 10.5 | -13.8 | 24.9 | 38.6 |
| **Return Ratios (%)** | | | | | | | | |
| RoE | 28.6 | 19.1 | 20.6 | 20.7 | 13.8 | 15.4 | 17.5 | 18.3 |
| RoCE | 26.9 | 18.1 | 19.5 | 19.6 | 13.1 | 13.7 | 15.1 | 16.6 |
| RoIC | 31.7 | 21.5 | 19.6 | 20.9 | 15.0 | 15.4 | 16.9 | 18.4 |
| **Working Capital Ratios** | | | | | | | | |
| Fixed Asset Turnover (x) | 1.7 | 1.3 | 2.0 | 2.0 | 1.5 | 1.4 | 1.5 | 1.6 |
| Asset Turnover (x) | 0.8 | 0.6 | 0.8 | 0.9 | 0.7 | 0.7 | 0.8 | 0.8 |
| Inventory (Days) | 33 | 47 | 40 | 41 | 38 | 38 | 38 | 38 |
| Debtor (Days) | 72 | 106 | 104 | 82 | 102 | 102 | 102 | 102 |
| Creditor (Days) | 20 | 25 | 26 | 21 | 19 | 19 | 19 | 19 |
| **Leverage Ratio (x)** | | | | | | | | |
| Current Ratio | 4.7 | 5.8 | 7.0 | 4.2 | 4.5 | 5.0 | 4.7 | 4.7 |
| Net Debt/Equity ratio | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 |

| Standalone - Cash Flow Statement | | | | | | | | (INR m) |
|---|---|---|---|---|---|---|---|---|
| **Y/E March** | **FY20** | **FY21** | **FY22** | **FY23** | **FY24** | **FY25E** | **FY26E** | **FY27E** |
| OP/(Loss) before Tax | 4,247 | 3,353 | 4,493 | 5,632 | 4,325 | 5,331 | 6,962 | 8,354 |
| Depreciation | 332 | 429 | 455 | 590 | 728 | 830 | 899 | 927 |
| Direct Taxes Paid | -1,005 | -607 | -1,081 | -1,310 | -871 | -1,301 | -1,752 | -2,103 |
| (Inc.)/Dec. in WC | 811 | -874 | -2,257 | 244 | -684 | -800 | -1,542 | -1,197 |
| **CF from Operations** | **4,159** | **2,190** | **1,271** | **5,155** | **3,382** | **4,071** | **4,582** | **6,003** |
| (Inc.)/Dec. in FA | -3,094 | -490 | -1,618 | -2,991 | -2,294 | -5,500 | -2,000 | -2,000 |
| **Free Cash Flow** | **1,065** | **1,700** | **-347** | **2,163** | **1,087** | **-1,429** | **2,582** | **4,003** |
| Change in Investments | -674 | 127 | 267 | -366 | -1,277 | 0 | 0 | 0 |
| Others | 1,793 | -1,619 | -1,206 | 22 | 38 | -433 | -835 | -648 |
| **CF from Investments** | **-1,975** | **-1,982** | **-2,558** | **-3,335** | **-3,534** | **-5,933** | **-2,835** | **-2,648** |
| Issue of Shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Inc./(Dec.) in Debt | 0 | 17 | 164 | 4 | -104 | 3,954 | -1,000 | -1,800 |
| Interest Paid | -11 | -2 | -3 | -14 | -36 | -10 | -15 | -21 |
| Dividend Paid | -1,046 | -55 | -618 | -670 | -723 | -904 | -1,169 | -1,403 |
| **CF from Fin. Activity** | **-1,090** | **-31** | **-462** | **-613** | **-1,065** | **3,039** | **-2,184** | **-3,224** |
| **Inc./Dec. in Cash** | **1,094** | **176** | **-1,749** | **1,207** | **-1,216** | **1,176** | **-437** | **131** |
| Opening Balance | 492 | 1,586 | 1,762 | 13 | 1,219 | 3 | 1,179 | 743 |
| **Closing Balance** | **1,585** | **1,762** | **13** | **1,219** | **3** | **1,179** | **743** | **874** |

| 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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