Stock Update

Company Update

MIRAE ASSET Sharekhan

Vinati Organics Ltd

Strong outlook ahead; upgrade to Buy

Speciality Chemcials	Sharekhan code: VINATIORGA
Reco/View: Buy ↑	CMP: Rs. 1,599 · Price Target: Rs. 2,000 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Company details

Market cap:	Rs. 16,580 cr
52-week high/low:	Rs. 2,331 / 1,463
NSE volume: (No of shares)	0.5 lakh
BSE code:	524200
NSE code:	VINATIORGA
Free float: (No of shares)	2.7 cr

Shareholding (%)

Promoters	74
FII	5
DII	8
Others	13

Price chart

Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	1.5	-7.9	-18.0	-2.0
Relative to Sensex	-0.4	-4.8	-7.4	-7.5

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- We upgrade Vinati Organics to a 'Buy' rating from 'Hold' previously considering the expected momentum in ATBS sales.
- The company's revenue/PAT are expected to clock a 19.8%/21.3% CAGR over FY24-27.
- We assign a multiple of 35x on its FY27 EPS and arrive at a TP of Rs. 2,000, The stock is trading at 33.5x/27.9x its FY26/27 EPS.
- The management expects a 20% revenue growth for the next three years led mainly by ATBS and Antioxidants (AOs), with long term sustainable blended EBITDA margin of 26%-27% (including other income).

Vinati Organics is expanding its ATBS capacity to 60,000 MT by Q1FY26, driven by strong demand and a favorable outlook for the US oil & gas sector. Vinati is also diversifying into niche specialty chemicals through a Rs. 500 crore investment in VOPL, aiming for high-margin growth. There is some competition in Antioxidants (AOs) currently but with the strong outlook for ATBS, Vinati projects a 20%+ revenue and profit CAGR till FY27, backed by strong product positioning and a debt-free balance sheet.

- **ATBS expansion:** The company is expanding its ATBS capacity, with a new production line expected to be operational by Q1FY26, increasing its total capacity from approximately 40,000 MT to 60,000 MT. The company is seeing strong demand for ATBS with the upcoming 20,000 MT capacity already oversold. The outlook for ATBS has improved with the election of the new president in the US and it's focus on the oil & gas sector. ATBS is used for Enhanced Oil Recovery (EOR). The company doesn't expect any significant impact from the US tariffs. It has also recently incorporated a subsidiary in the US, primarily for warehousing and better distribution.
- **Other products:** In Antioxidants, the company is facing strong competition from Chinese players currently. It has requested the government for an ADD (anti-dumping duty), which would make its own products competitive. The company is investing Rs. 500 crore in its subsidiary, Veeral Organics Private Limited (VOPL) to broaden its product portfolio. It has planned to establish production plants for niche products like MEHQ (Methylhydroquinone), Guaiacol, Anisole, and Isoamylene derivatives. These downstream and specialty products cater to industries such as personal care and fragrances, aligning with the company's goal to diversify into high-margin, niche markets. Some of these facilities will be commissioned by H1FY26.
- **Strong growth and financial profile:** We expect a revenue/PAT CAGR of 20%/21% over FY24-27 for the company, inline with management guidance. The company operates in niche segments and has an exceptional product basket that holds a significant market share globally (ATBS and IBB). Hence, the company is able to generate significantly higher margins. This coupled with a debt-free balance sheet helps Vinati Organics generate superior return ratios. The company is expected to report a RoE/RoCE of 17%/22% in FY27.

Our Call

Valuation – Upgrade to Buy with a revised PT of Rs. 2,000: Vinati Organics continues to leverage its leadership in products like Isobutyl Benzene (IBB) and ATBS to strengthen its export markets. It is witnessing good traction in ATBS sales with the upcoming 20,000 MT capacity already oversold. It is a significant 50% expansion over its current 40,000 MT capacity. The management has reiterated its 20% revenue growth guidance for the next three years and EBITDA margins of 26-27%. Hence, we upgrade the stock to 'Buy' considering the improved growth outlook. We assign a 35x valuation multiple on its FY27 EPS and arrive at a target price of Rs. 2,000.

Key Risks

- Continued pressure in Antioxidants from Chinese players
- Delay in the completion of expansion projects.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenue	2,085	1,900	2,258	2,779	3,269
OPM (%)	28.6	24.7	25.1	25.4	25.5
Adjusted PAT	458	322	391	491	588
y-o-y growth (%)	32.1	(29.7)	21.5	25.5	19.7
Adjusted EPS (Rs.)	44.6	31.4	38.1	47.8	57.2
P/E (x)	35.9	50.9	42.0	33.5	27.9
P/BV (x)	7.4	6.7	6.0	5.2	4.5
EV/EBITDA (x)	27.3	33.3	27.3	21.6	17.9
RoCE (%)	28.9	17.8	19.3	21.4	22.3
RoE (%)	22.6	13.8	15.0	16.6	17.2

Source: Company; Mirae Asset Sharekhan estimates

Outlook and Valuation

■ Sector View - Structural drivers to propel sustained growth for specialty chemicals sector

We remain bullish on the medium to long-term growth prospects of the specialty chemicals sector, given a massive revenue opportunity from the perspective of import substitution, a potential increase in exports given the China Plus One strategy by global customers, and favourable government policies (such as tax incentives and production-linked incentive scheme). In our view, conducive government policies, product innovation, a massive export opportunity and low input prices would help the sector witness a sustained high double-digit earnings growth trajectory in the next 2-3 years.

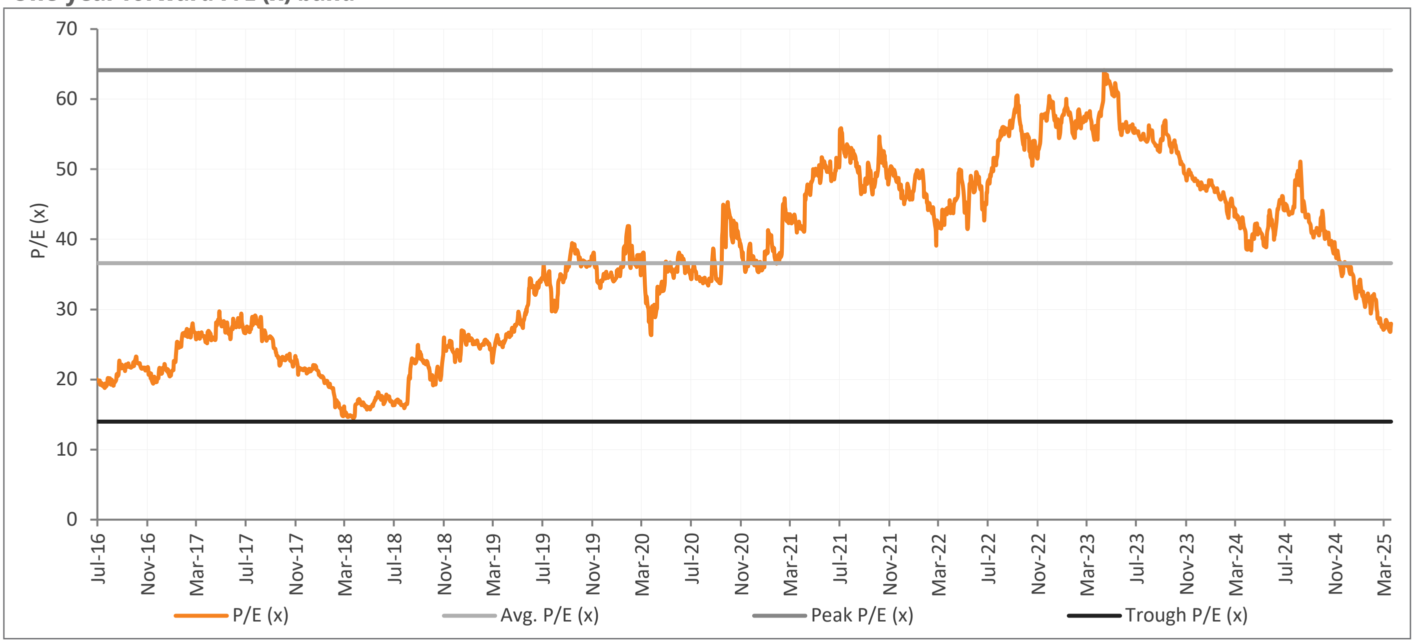
■ Company Outlook – Niche business with significant market share key products, strong traction in ATBS:

Vinati Organics operates in niche segments and has an exceptional product basket that holds a significant market share globally (ATBS and IBB). Hence, the company is able to generate significantly higher margins. This coupled with a debt-free balance sheet helps Vinati Organics generate superior return ratios. The election of the new government in US and its focus on the oil & gas sector bodes well for ATBS demand. Company is expanding ATBS capacity by 20,000 MT, over the 40,000 MT existing capacity and is seeing strong demand with the new capacity already oversold. We expect a strong 20%/21% CAGR of revenue/PAT over FY24-27.

■ Valuation – Upgrade to Buy with a revised PT of Rs. 2,000

Vinati Organics continues to leverage its leadership in products like Isobutyl Benzene (IBB) and ATBS to strengthen its export markets. It is witnessing good traction in ATBS sales with the upcoming 20,000 MT capacity already oversold. It is a significant 50% expansion over its current 40,000 MT capacity. The management has reiterated its 20% revenue growth guidance for the next three years and EBITDA margins of 26-27%. Hence, we upgrade the stock to 'Buy' considering the improved growth outlook. We assign a 35x valuation multiple on its FY27 EPS and arrive at a target price of Rs. 2,000.

One-year forward P/E (x) band



Source: Company; Mirae Asset Sharekhan Research

About company

Incorporated in 1989, Vinati Organics is one of India's leading manufacturers and exporters of specialty organic intermediaries, monomers, and polymers. Vinati Organics is the world's largest manufacturer and seller of Isobutyl Benzene (IBB) and 2-Acrylamido 2-Methylpropane Sulfonic Acid (ATBS) having a significant market share in both the product categories. Vinati Organics is an export-oriented company, as more than 50% of its overall revenue are derived from export markets.

Investment theme

Vinati Organics operates in niche segments and have an exceptional product basket with a significant market share in its products globally. Hence, the company can generate significantly higher margin profile. This coupled with a lean balance sheet helps Vinati Organics to generate superior return ratios. Vinati Organics is expected to see increased volumes in ATBS (2-Acrylamido 2 Methylpropane Sulfonic Acid) due to capacity expansion and good demand. The election of the new government in US and its focus on the oil & gas sector bodes well for ATBS demand. Also, the management is investing Rs. 500 crore to establish production plants for niche products like MEHQ (Methylhydroquinone), Guaiacol, Anisole, and Isoamylene derivatives, revenues from which will start in H1FY26.

Key Risks

- Continued pressure in Antioxidants from Chinese players
- Delay in the completion of expansion projects.

Additional Data

Key management personnel

Name	Designation
Vinod Saraf	Chairman
Vinati Saraf Mutreja	Managing Director and CEO
N. K. Goyal	Chief Financial Officer
Milind A. Wagh	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Canara Robeco Asset Management Co	2.91
2	Mirae Asset Financial Group	1.23
3	INVESTOR EDUCATION & PROTECTN FD	1.08
4	Vanguard Group Inc/The	1.04
5	Goldman Sachs Group Inc/The	0.89
6	Aditya Birla Sun Life Asset Manage	0.76
7	ICICI Prudential Life Insurance Co	0.67
8	Capital Group Cos Inc/The	0.52
9	Blackrock Inc	0.50
10	VIRAL ALKALIS LIMITED	0.44

Source: Bloomberg

Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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