

Vinati Organics

BUY

Gliding its way forward

We maintain BUY on Vinati Organics (VO) after beat on our estimates. Our target is Rs 2,034sh (25x Mar-21E standalone EPS).

HIGHLIGHTS OF THE QUARTER

- The company reported another strong quarter with sales jump of 39.5%YoY to Rs 2.96bn driven by volume growth 20%+ in ATBS. Sales in IBB that were impacted by the closure of the BASF plant in 3QFY19 resumed taking volumes and is expected to normalise in ensuing quarters.
- ATBS plant capacity augmentation from 26ktpa to 40ktpa will be completed by the end of 2QFY20 with a capex of Rs 1.1bn. We expect volume growth at ~20% CAGR over FY20-22E based on growth in global demand coupled with a shortage in supply.
- Butylated phenol plant will be commissioned in 1QFY20. We expect gradual ramp-up in production over FY20-21E and expect it to contribute ~Rs. 1.3bn to the topline by FY21 and Rs 4bn at peak utilisation (expected in FY23E).
- Since the utilisation of the Butylated phenol plant will be lower in 2HFY20 and FY21, the operating leverage

will be lower. As a result, EBITDA margins from these products will be lower compared to that of others. As contribution from these products in revenue increases, blended EBITDA margin will decline so we expect EBITDA margin to reduce to 35% in FY20/21E from 40.4% in 4QFY19.

- **Near-term outlook:** ATBS is expected to contribute significantly to earnings. Butyl phenols start contributing to revenue from 2QFY20

STANCE

Strong traction in ATBS will continue owing to robust demand and shortage of global capacity. VO is expanding its ATBS capacity by ~46% to reap the benefit of the situation.

Besides, the company will add Butylated Phenols to its product basket. This too, will drive volume growth in FY20/21. VO has been commanding a premium in valuations due to an impeccable history of product selection, best in class return ratios (ROE and RoIC for FY20/21E will be 27.9/26.5 and 26.1/28.6%).

Therefore, we value Vinati Organics at 25x Mar'21 EPS with a target price of Rs 2,034/share.

Financial Summary (Standalone)

Year Ending March (Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY18	FY19P	FY20E	FY21E
Net Sales	2,966	2,126	39.5	3,031	(2.1)	7,434	11,081	14,325	17,580
EBITDA	1,198	650	84.4	1,064	12.5	2,109	4,036	5,020	6,165
APAT	825	519	59.0	707	16.8	1,439	2,825	3,388	4,181
Diluted AEPS (Rs)	16.1	10.1	59.6	13.8	16.8	28.0	55.0	65.9	81.4
P/E (x)						62.1	31.6	26.4	21.4
EV / EBITDA (x)						41.8	21.9	17.4	13.8
RoE (%)						19.5	30.6	27.9	26.5

Source: Company, HDFC sec Inst Research

INDUSTRY CHEMICALS

CMP (as on 13 May 2019) Rs 1,743

Target Price Rs 2,034

Nifty 11,148

Sensex 37,091

KEY STOCK DATA

Bloomberg VO IN

No. of Shares (mn) 51

MCap (Rs bn) / (\$ mn) 90/1,272

6m avg traded value (Rs mn) 54

STOCK PERFORMANCE (%)

52 Week high / low Rs 1,935/909

3M 6M 12M

Absolute (%) 7.6 15.5 88.5

Relative (%) 4.7 10.0 84.1

SHAREHOLDING PATTERN (%)

Dec-18 Mar-19

Promoters 74.01 74.01

FIs & Local MFs 6.96 6.56

FPIs 3.50 3.63

Public & Others 15.53 15.80

Pledged Shares 0.00 0.00

Source : BSE

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Product wise revenue mix for FY19 was- ATBS: 55%, IBB: 18%, IB: 12%, Others-15%.

Lower crude oil prices has resulted in reduction in RM cost sequentially

As per the management, Para Amino Phenol (PAP) project is yet to be finalized and still remains back ended

Quarterly Financials Snapshot

(Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY19	FY18	YoY (%)
Net Sales	2,966	2,126	39.5	3,031	(2.1)	11,081	7,434	49.1
Material Expenses	1,328	1,043	27.3	1,479	(10.2)	5,251	3,776	39.1
Employee Expenses	130	119	9.1	140	(7.3)	542	490	10.6
Other Expenses	310	314	(1.3)	347	(10.5)	1,252	1,059	18.3
EBITDA	1,198	650	84.4	1,064	12.5	4,036	2,109	91.4
Depreciation	68	43	56.8	69	(1.5)	274	234	17.2
EBIT	1,130	606	86.4	995	13.5	3,762	1,876	100.6
Other Income & EO Items	103	78	32.5	73	41.1	500	170	193.5
Interest	2.3	6	(58.8)	3	(18.6)	9	12	(22.0)
PBT	1,230	678	81.4	1,065	15.5	4,252	2,034	109.1
Tax	405	159	154.6	358	13.0	1,428	595	140.0
RPAT	825	519	59.0	707	16.8	2,825	1,439	96.3
EO Items (Adj For Tax)	-	-	-	-	-	-	-	-
APAT	825	519	59.0	707	16.8	2,825	1,439	96.3
AEPS (Rs/sh)	16.1	10.1	59.6	13.8	16.8	55.0	28.0	96.3

Source: Company, HDFC sec Inst Research

Margin Analysis

	4QFY19	4QFY18	YoY(bps)	3QFY19	QoQ (bps)	FY19	FY18	YoY (bps)
Raw Material Expenses % Net Sales	44.8	49.0	(428)	48.8	(404)	47.4	50.8	(341)
Employee Expenses % Net Sales	4.4	5.6	(122)	4.6	(25)	4.9	6.6	(170)
Other Expenses % Net Sales	10.5	14.8	(433)	11.4	(98)	11.3	14.2	(294)
EBITDA Margin (%)	40.4	30.6	983	35.1	526	36.4	28.4	805
Tax Rate (%)	32.9	23.4	946	33.6	(74)	33.6	29.3	432
APAT Margin (%)	27.8	24.4	341	23.3	450	25.5	19.4	614

Source: Company, HDFC sec Inst Research

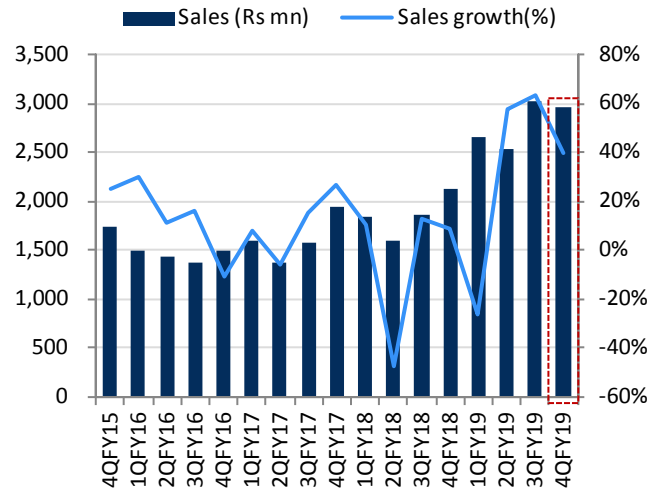
We expect sales growth of 29.3/22.7% in FY20E/FY21E respectively

EBITDA margins are likely to be in the range of 35% in coming years

We expect ROE/RoIC to be at 26.5/28.6% in FY21E

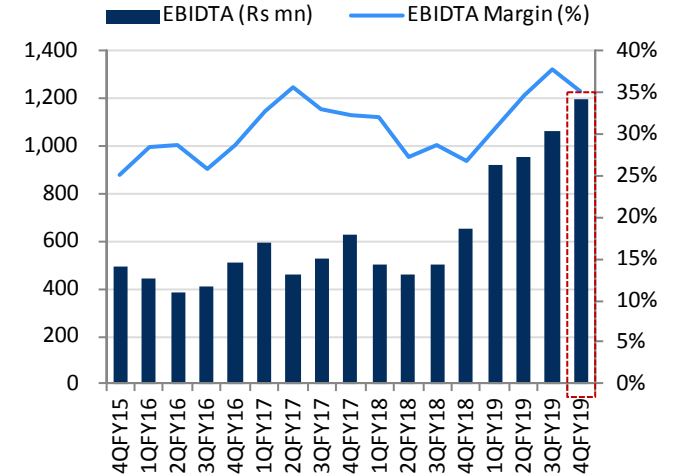
Quarterly Performance

Sales and Sales Growth



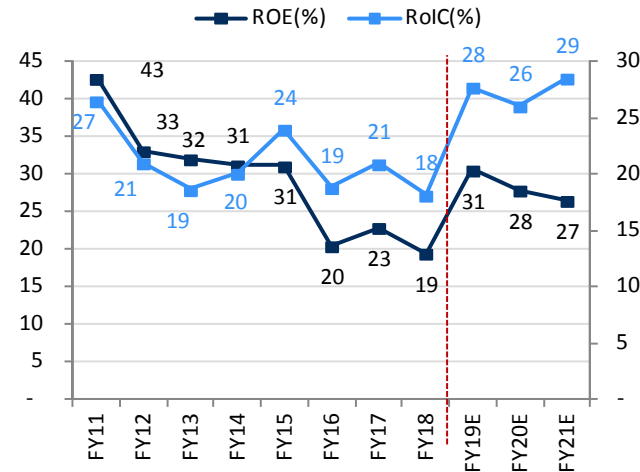
Source: Company, HDFC sec Inst Research

EBITDA and EBITDA Margin



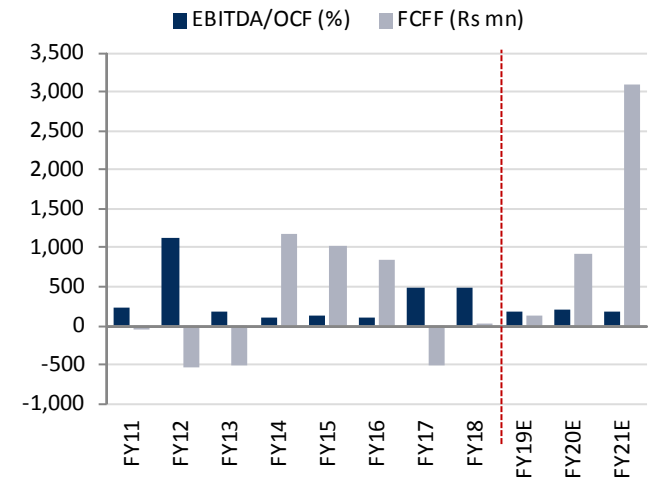
Source: Company, HDFC sec Inst Research

Return Ratios



Source: Company, HDFC sec Inst Research

EBITDA/OCF vs FCFF



Source: Company, HDFC sec Inst Research

Assumptions

Iso Butyl Benzene	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Installed Capacity(MT)	16,000	16,000	16,000	16,000	16,000	16,000	25,000	25,000	25,000
Unit sold	13,493	13,898	14,315	14,744	14,744	14,302	15,017	16,068	17,354
YoY %	3.0%	3.0%	3.0%	3.0%	0.0%	-3.0%	5.0%	7.0%	8.0%
Utilisation	84.3%	86.9%	89.5%	92.2%	92.2%	89.4%	60.1%	64.3%	69.4%
Realisation per unit (Rs/kg)	152	175	162	121	111	111	133	133	133
YoY %	29.2%	15.1%	-7.1%	-25.5%	-8.5%	0.1%	20.0%	0.0%	0.0%
Total sales value (Rs In mn)	2,047	2,426	2,322	1,782	1,630	1,582	1,994	2,133	2,304
YoY %	33.1%	18.5%	-4.3%	-23.3%	-8.5%	-3.0%	26.0%	7.0%	8.0%

ATBS	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Installed Capacity(MT)	26,000	26,000	26,000	26,000	26,000	26,000	26,000	40,000	40,000
Unit sold	13,625	14,300	19,475	17,626	19,036	21,701	26,042	31,250	37,500
YoY %	9.0%	5.0%	36.2%	-9.5%	8.0%	14.0%	20.0%	20.0%	20.0%
Utilisation	52.4%	55.0%	74.9%	67.8%	73.2%	83.5%	100.2%	78.1%	93.7%
Realisation per unit (Rs/kg)	163	197	180	152	150	174	258	278	301
YoY %	-4.3%	20.7%	-8.9%	-15.4%	-1.0%	15.8%	48.0%	8.0%	8.0%
Total sales value (Rs In mn)	2,226	2,820	3,499	2,678	2,864	3,780	6,714	8,701	11,276
YoY %	4.3%	26.7%	24.1%	-23.5%	6.9%	32.0%	77.6%	29.6%	29.6%

Isobutylene	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Installed Capacity(MT)	12,000	12,000	12,000	12,000	15,000	15,000	15,000	15,000	15,000
Total Unit sold/Production	8,400	9,600	12,000	11,525	12,990	14,944	15,116	16,603	18,372
YoY %	7.7%	14.3%	25.0%	-4.0%	12.7%	15.0%	1.2%	9.8%	10.7%
Utilisation	70.0%	80.0%	100.0%	96.0%	86.6%	99.6%	100.8%	110.7%	122.5%
Realisation per unit (Rs/kg)	114.3	154.8	126.7	72.5	74.0	74.7	109.1	109.1	109.1
YoY %	50.1%	35.5%	-18.2%	-42.7%	2.0%	1.0%	46.0%	0.0%	0.0%
Total sale value (Rs In mn)	560	867	887	508	544	604	882	891	900
YoY %	61.7%	54.8%	2.3%	-42.7%	7.1%	11.1%	46.0%	1.0%	1.0%

Source: Company, HDFC sec Inst Research

We expect ATBS volume growth to be at 20%pa on the back of capacity addition and supply shortage globally

The customized products which are export oriented are expected to contribute ~Rs 850mn in FY20E

Change in estimates

	FY20 Old	FY20 New	YoY(%)	FY21 Old	FY21 New	YoY (%)
Net Sales	13,789	14,325	3.9	17,620	17,580	(0.2)
EBIDTA	4,711	5,020	6.6	6,018	6,165	2.5
APAT	3,156	3,388	7.4	3,992	4,181	4.7
EPS	61	66	7.4	78	81	4.7

Source: HDFC sec Inst Research

Peer Set Comparison

COMPANY	Mcap (Rsbn)	CMP (Rs)	RECO	TP (Rs)	EPS (Rs/sh)			P/E (x)			P/B (x)			ROE (%)		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Alkyl Amines	1.65	810	BUY	1,359	43.7	50.4	61.8	18.5	16.1	13.1	4.5	3.7	3.1	27.0	25.5	25.8
Balaji Amines	13.80	426	BUY	805	38.8	44.5	47.4	11.0	9.6	9.0	2.2	1.8	1.5	19.7	18.7	16.8
Navin Fluorine International Ltd	33.31	675	BUY	812	30.2	35.5	40.6	22.4	19.0	16.6	3.1	2.8	2.5	14.5	15.5	15.9
Vinati Organics	89.37	1,743	BUY	2,034	55.0	65.9	81.4	31.6	26.4	21.4	8.5	6.5	5.0	30.6	27.9	26.5

Source: HDFC sec Inst Research

Income Statement (Standalone)

(Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net Revenues	6,408	7,434	11,081	14,325	17,580
Growth (%)	6.9	16.0	49.1	29.3	22.7
Material Expenses	3,005	3,776	5,251	7,010	8,720
Employee Expenses	419	490	542	585	632
Other Expenses	814	1,059	1,252	1,710	2,063
EBITDA	2,170	2,109	4,036	5,020	6,165
EBITDA Margin (%)	33.9	28.4	36.4	35.0	35.1
EBITDA Growth (%)	23.7	(2.8)	91.4	24.4	22.8
Depreciation	216	234	274	468	481
EBIT	1,953	1,876	3,762	4,553	5,684
Other Income (Incl. EO Items)	125	170	500	559	627
Interest	19	12	9	12	17
PBT	2,060	2,034	4,252	5,100	6,294
Exceptional Items	-	-	-	-	-
PBT After Exceptional Items	2,060	2,034	4,252	5,100	6,294
Tax (Incl Deferred)	657	595	1,428	1,712	2,113
RPAT	1,403	1,439	2,825	3,388	4,181
APAT	1,403	1,439	2,825	3,388	4,181
APAT Growth (%)	40.1	2.6	96.3	19.9	23.4
Adjusted EPS (Rs)	27.3	28.0	55.0	65.9	81.4
AEPS Growth (%)	40.1	2.6	96.3	19.9	23.4

Source: Company, HDFC sec Inst Research

Balance Sheet (Standalone)

(Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital - Equity	103	103	103	103	103
Reserves	6,697	7,864	10,410	13,668	17,657
Total Shareholders' Funds	6,800	7,967	10,513	13,771	17,760
Long Term Debt	148	3	-	-	-
Short Term Debt	23	152	37	57	75
Total Debt	171	155	37	57	75
Long-Term Provisions & Others	730	837	875	775	475
TOTAL SOURCES OF FUNDS	7,700	8,959	11,425	14,602	18,309
APPLICATION OF FUNDS					
Net Block	4,676	4,568	4,745	7,578	7,346
CWIP	74	349	1,912	250	250
LT Loans & Advances	191	253	308	308	308
Other Assets	-	-	-	-	-
Total Non-current Assets	4,941	5,171	6,965	8,136	7,904
Inventories	651	822	924	1,209	1,530
Debtors	1,405	1,771	2,440	3,183	3,907
Other Current Assets	536	650	943	1,196	1,468
Cash & Equivalents	666	1,370	1,003	1,832	4,634
Short Term Loans & Advances	12	15	2	29	35
Total Current Assets	3,270	4,629	5,311	7,449	11,574
Creditors	327	634	531	769	943
Other Current Liabilities & Provisions	183	206	320	213	226
Total Current Liabilities	511	841	851	982	1,169
Net Current Assets	2,760	3,788	4,460	6,467	10,405
TOTAL APPLICATION OF FUNDS	7,700	8,959	11,425	14,602	18,309

Source: Company, HDFC sec Inst Research

Cash Flow Statement (Standalone)

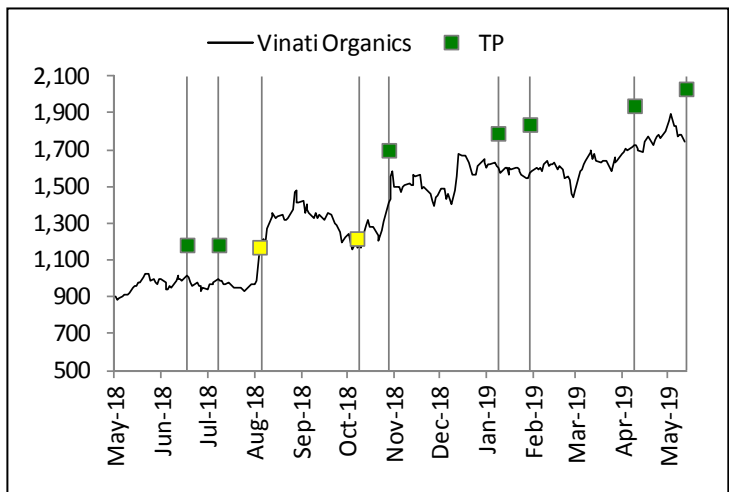
(Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
Reported PBT	2,060	2,034	4,252	5,100	6,294
Non-operating & EO Items	10	240	279	130	192
Interest Expenses	19	12	9	12	17
Depreciation	216	234	274	468	481
Working Capital Change	(1,171)	(1,021)	(685)	(1,178)	(1,136)
Tax Paid	(657)	(595)	(1,428)	(1,712)	(2,113)
OPERATING CASH FLOW(a)	456	423	2,144	2,559	3,351
Capex	(962)	(401)	(2,013)	(1,638)	(250)
Free Cash Flow (FCF)	(506)	22	131	921	3,101
Investments	-	-	-	-	-
Others	(29)	(62)	(55)	-	-
INVESTING CASH FLOW (b)	(991)	(463)	(2,068)	(1,638)	(250)
Debt Issuance/(Repaid)	(315)	(16)	(118)	20	18
Interest Expenses	(19)	(12)	(9)	(12)	(17)
FCFE	(1,295)	(429)	(2,141)	(1,630)	(249)
Share Capital Issuance	-	(0)	-	-	-
Dividend	(35)	(32)	-	-	-
Others	213	108	38	(100)	(300)
FINANCING CASH FLOW (c)	(156)	48	(90)	(92)	(299)
NET CASH FLOW (a+b+c)	(690)	7	(14)	829	2,802
EO Items, Others	-	-	-	-	-
Closing Cash & Equivalents	45	52	38	867	3,669

Source: Company, HDFC sec Inst Research

Key Ratios (Standalone)

	FY17	FY18	FY19P	FY20E	FY21
PROFITABILITY (%)					
GPM	53.1	49.2	52.6	51.1	50.4
EBITDA Margin	33.9	28.4	36.4	35.0	35.1
APAT Margin	21.9	19.4	25.5	23.7	23.8
RoE	22.9	19.5	30.6	27.9	26.5
RoIC (or Core RoCE)	20.9	18.1	27.8	26.1	28.6
RoCE	20.0	17.4	27.8	26.1	25.5
EFFICIENCY					
Tax Rate (%)	31.9	29.3	33.6	33.6	33.6
Fixed Asset Turnover (x)	1.5	1.5	2.2	2.1	2.0
Inventory (days)	38	43	36	35	35
Debtors (days)	83	93	96	91	89
Other Current Assets (days)	32	34	37	34	34
Payables (days)	19	33	21	22	22
Other Current Liab & Provisions (days)	11	11	13	6	5
Cash Conversion Cycle (days)	123	127	136	132	131
Debt/EBITDA (x)	0.1	0.1	0.0	0.0	0.0
Net D/E (x)	(0.1)	(0.2)	(0.1)	(0.1)	(0.3)
Interest Coverage (x)	104.9	154.9	398.5	379.3	336.9
PER SHARE DATA (Rs)					
EPS	27.3	28.0	55.0	65.9	81.4
CEPS	31.5	32.5	60.3	75.0	90.7
Dividend	0.5	4.5	5.0	6.0	7.0
Book Value	132.3	155.0	204.6	268.0	345.6
VALUATION					
P/E (x)	63.7	62.1	31.6	26.4	21.4
P/BV (x)	13.1	11.2	8.5	6.5	5.0
EV/EBITDA (x)	41.0	41.8	21.9	17.4	13.8
EV/Revenues (x)	13.9	11.9	8.0	6.1	4.8
OCF/EV (%)	0.5	0.5	2.4	2.9	4.0
FCF/EV (%)	(1.1)	(0.5)	(2.3)	(1.9)	(0.3)
FCFE/Mkt Cap (%)	(1.4)	(0.5)	(2.4)	(1.8)	(0.3)
Dividend Yield (%)	0.0	0.3	0.3	0.3	0.4

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
18-Jun-18	1,020	BUY	1,185
9-Jul-18	978	BUY	1,185
7-Aug-18	1,173	NEU	1,170
9-Oct-18	1,198	NEU	1,218
29-Oct-18	1,408	BUY	1,700
9-Jan-19	1,615	BUY	1,792
30-Jan-19	1,575	BUY	1,840
9-Apr-19	1,720	BUY	1,942
13-May-19	1,743	BUY	2,034

Rating Definitions

- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12-month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12-month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12-month period

INSTITUTIONAL RESEARCH

Disclosure:

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