

Vinati Organics

Lacks expansion triggers

Our SELL recommendation on Vinati Organics with a TP of INR 825 is driven by demand slowdown for the high margin 2-Acrylamido 2-Methylpropane Sulphonic Acid (ATBS) that contributes ~60% to its revenue. In the absence of new product pipeline, we believe current valuations are high at 31.0x FY22 PER.

- **View on the result:** 4Q EBITDA/PAT were 24/17% above estimates owing to higher than anticipated gross margins (59.7% vs. estimated 55.4%).
- **EBITDA:** 4Q EBITDA stood at INR 1,017mn, -18.7/+22.5% YoY/QoQ. Higher realization for ATBS and gross margins (as RMC declined) drove the QoQ jump in EBITDA. The company took a price hike in ATBS in 4Q following the increase in RMC in 3Q (fluctuations in RMC are passed on with a 3-month lag). For FY20, VO clocked EBITDA of INR 4,139mn (-3.3% YoY).
- **ATBS:** The product contributed 58% to the Q4 top-line (57% in FY20) and the plant is currently operating almost at its full capacity of 26ktpa. The brown field expansion of 14ktpa has been pushed back to 2QFY21 (earlier: 4QFY20). This is owing to its slowing demand by the Oil and gas industry, which forms 25-30% of the global ATBS demand.
- **Butyl Phenols:** The Butyl Phenol plant (capacity 35ktpa) was commissioned in Sep-19. However, in 2HFY20, the plant was running at low capacity utilisation and contributed marginally to the top-line given its low demand. We expect slower than estimated ramp-up in production as the plant needs further modifications and demand remains muted owing to the pandemic. It is expected to contribute ~INR 1bn to the topline in FY21E.
- **Iso Butyl Benzene (IBB):** Revenue contribution remained muted at ~15% in 4Q. However, traction is expected to pick up in FY21 as the company has acquired new customers and BASF has resumed production of Ibuprofen. We expect healthy volume growth in FY21.
- **Outlook on EBITDA margins:** Margins from Butyl Phenols will be ~15% vs. blended margins of 40.2% in FY20. As contribution from these products in revenue increases over FY21/22, blended EBITDA margin will decline. We expect EBITDAM to reduce to 38.6/38.1% in FY21/22.
- **View on the balance sheet:** VO's cash and equivalents jumped 2.8x YoY to INR 2,811mn and total borrowings reduced by 85% YoY to INR 6mn taking its net cash position to INR 2,805mn from INR 963mn in FY19. In the absence of any significant capital outlay in the near future, these levels are dragging the company's RoE and RoCE down.
- **Change in estimates:** We tweak our FY21/22E EPS estimates by -2.3/-2.7% to INR 29.5/32.1 to incorporate the company's performance in 4QFY20.

Financial Summary

Year Ending	4Q	3Q	YoY	4Q	QoQ	FY19	FY20P	FY21E	FY22
March (INR mn)	FY20	FY20	(%)	FY19	(%)				
Revenues	2,453	2,385	2.9	3,019	(18.7)	11,081	10,289	10,078	11,474
EBITDA	1,017	830	22.5	1,251	(18.7)	4,036	4,139	3,893	4,373
APAT	746	668	11.7	825	(9.6)	2,825	3,338	3,036	3,303
AEPS (Rs)	7.3	6.5	11.7	8.0	(9.6)	27.5	32.5	29.5	32.1
P/E (x)						36.3	30.7	33.8	31.0
EV/EBITDA (x)						25.2	24.1	25.5	22.4
RoE (%)						30.6	28.6	22.4	21.6

Source: Company, HSIE Research

SELL

CMP (as on 15 Jun 2020)	INR 997
Target Price	INR 825
NIFTY	9,814

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 825	INR 825
EPS %	FY21E 2.3	FY22E 2.7

KEY STOCK DATA

Bloomberg code	VO IN
No. of Shares (mn)	103
MCap (INR bn) / (\$ mn)	102/1,345
6m avg traded value (INR mn)	110
52 Week high / low	INR 1,256/651

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	18.3	1.7	(0.7)
Relative (%)	20.9	20.7	15.1

SHAREHOLDING PATTERN (%)

	Mar-20	Dec-19
Promoters	74.05	74.01
FIs & Local MFs	6.06	5.97
FPIs	5.13	5.09
Public & Others	14.76	14.93
Pledged Shares	0.0	0.0

Source : BSE

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Takeaways from our interaction with the management:

- **Product pipeline:** The company is keen to explore opportunities in the IsoButylene (IB) derivatives space. However, there is no concrete expansion plan yet.
- **Tax rate guidance:** 25% for FY21 although the calculated rate for FY20 stood at 21.4% given utilisation of deferred tax benefits.
- **Traction in 1QFY21:** The company's plants are currently running at near full capacity except for Butyl Phenols, which is undergoing maintenance but remains operational.
- **Delay in Brown field expansion of ATBS:** The capacity expansion to 40kTPA has been pushed to 2QFY21 given (1) Sluggish demand from the Oil and Gas industry amidst low realization for crude, (2) Low availability of contract labour.

DCF based valuation: Our TP is INR 825 based on Sep-21E free cash flows (WACC 10%, Terminal growth 3.0%).

Quarterly Financial Snapshot

INR mn	4QFY20	3QFY20	QoQ (%)	4QFY19	YoY (%)	FY20	FY19	YoY (%)
Net Sales	2,453	2,385	(2.8)	3,019	(18.7)	10,196	11,225	(9.2)
Raw Material Expenses	990	1,083	9.5	1,328	(25.5)	4,287	5,251	(18.4)
Employee Expenses	159	171	7.9	130	21.9	643	542	18.6
Other Expenses	288	300	4.1	310	(7.2)	1,220	1,247	(2.2)
EBITDA	1,017	830	(18.4)	1,251	(18.7)	4,047	4,185	(3.3)
Depreciation	97	93	(4.3)	68	42.4	332	274	21.1
EBIT	920	737	(19.9)	1,183	(22.2)	3,715	3,911	(5.0)
Other Income	162	154	(5.0)	50	227.1	542	351	54.7
Interest Cost	3	3	(2.6)	2	12.0	11	9	15.7
PBT	1,079	889	(17.7)	1,230	(12.3)	4,247	4,252	(0.1)
Tax	333	220	(33.8)	405	(17.8)	908	1,428	(36.4)
RPAT	746	668	(10.5)	825	(9.6)	3,338	2,825	18.2
EO Items (Adj For Tax)	-	-	NA	-	NA	212	-	NA
APAT	746	668	(10.5)	825	(9.6)	3,127	2,825	10.7
AEPS	7.3	6.5	(10.5)	8.0	(9.6)	30.4	27.5	10.7

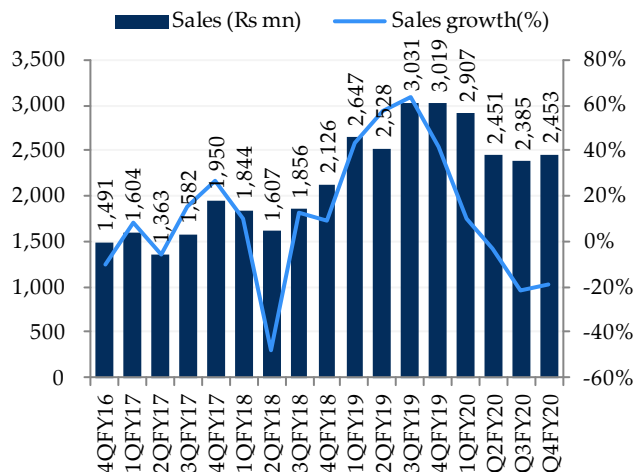
Source: Company, HSIE Research

Margin Analysis

	4Q FY20	3Q FY20	QoQ (bps)	4Q FY19	YoY (bps)	FY20	FY19	YoY (bps)
Raw Material Expenses % Net Sales	40.3	45.4	(509)	44.0	(363)	42.0	46.8	(473)
Employee Expenses % Net Sales	6.5	7.2	(71)	4.3	216	6.3	4.8	148
Other Expenses % Net Sales	11.7	12.6	(84)	10.3	147	12.0	11.1	85
EBITDA Margin (%)	41.4	34.8	664	41.4	1	39.7	37.3	241
Tax Rate (%)	30.8	24.8	605	32.9	(206)	26.4	33.6	(719)
APAT Margin (%)	30.4	28.0	240	27.3	309	30.7	25.2	550

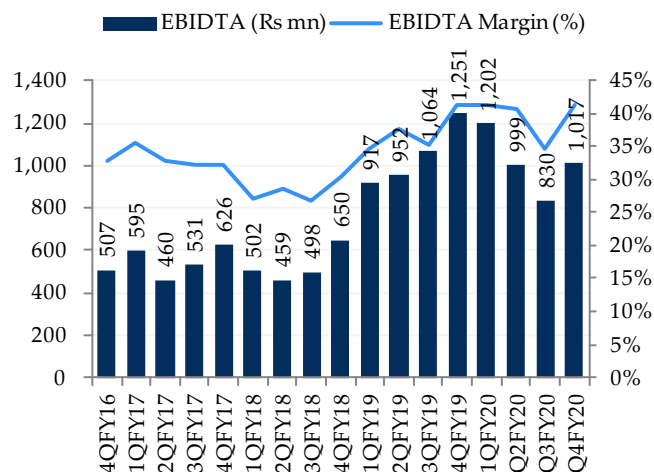
Source: Company, HSIE Research

Quarterly Sales and Sales Growth



Source: Company, HSIE Research

Quarterly EBITDA and EBITDA Margin



Source: Company, HSIE Research

Change in estimates

INR mn	FY21E			FY22E		
	Old	New	% Ch	Old	New	% Ch
Revenues	10,423	10,078	(3.3)	12,430	11,474	(7.7)
EBITDA	4,052	3,893	(3.9)	4,400	4,373	(0.6)
APAT	3,108	3,036	(2.3)	3,393	3,303	(2.7)
AEPS (INR/sh)	30	30	(2.3)	33	32	(2.7)

Source: Company, HSIE Research

Peer Set Comparison

Company	Mcap (INR bn)	CMP (INR/sh)	Reco	TP	EPS (INR/sh)			P/E (x)			P/BV (x)			RoE (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Vinati Organics	102.47	997	SELL	825	32.5	29.5	32.1	30.7	33.8	31.0	8.0	7.2	6.3	28.6	22.4	21.6
Navin Fluorine	77.07	1562	ADD	1,628	36.0	45.5	62.6	43.4	34.3	24.9	6.5	5.7	4.9	15.7	17.6	21.2
Galaxy Surfactants	46.65	1,316	BUY	1,889	53.6	44.0	85.9	24.6	29.9	15.3	4.5	4.0	3.3	19.9	14.1	23.5
Alkyl Amines	42.60	2087	BUY	2,300	80.6	73.0	104.1	25.9	28.6	20.0	8.7	7.1	5.6	38.5	27.3	31.2
Balaji Amines	13.09	404	BUY	555	47.2	33.2	42.7	8.6	12.2	9.5	1.8	1.6	1.4	20.9	13.0	14.5

Source: Company, HSIE Research

Financials

Income Statement

YE Mar (INR mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Revenues	6,408	7,297	11,081	10,289	10,078	11,474
<i>Growth (%)</i>	6.9	13.9	51.9	(7.2)	(2.0)	13.8
Material Expenses	3,005	3,776	5,251	4,287	4,466	5,203
Employee Expenses	419	490	542	643	688	736
Other Expenses	814	1,059	1,252	1,220	1,031	1,163
EBITDA	2,170	1,973	4,036	4,139	3,893	4,373
<i>EBITDA Margin (%)</i>	33.9	27.0	36.4	40.2	38.6	38.1
<i>EBITDA Growth (%)</i>	23.7	(9.1)	104.6	2.6	(5.9)	12.3
Depreciation	216	234	274	332	346	525
EBIT	1,953	1,739	3,762	3,808	3,547	3,848
Other Income (Incl. EO Items)	125	307	500	450	504	564
Interest	19	12	9	11	4	8
PBT	2,060	2,034	4,252	4,247	4,047	4,404
Exceptional Items						
PBT After Exceptional Items	2,060	2,034	4,252	4,247	4,047	4,404
Tax (Incl Deferred)	657	595	1,428	908	1,012	1,101
RPAT	1,403	1,439	2,825	3,338	3,036	3,303
APAT	1,403	1,439	2,825	3,338	3,036	3,303
<i>APAT Growth (%)</i>	40.1	2.6	96.3	18.2	(9.1)	8.8
Adjusted EPS (Rs)	13.6	14.0	27.5	32.5	29.5	32.1
<i>AEPS Growth (%)</i>	40.1	2.6	96.3	18.2	(9.1)	8.8

Source: Company, HSIE Research

Balance Sheet

YE Mar (INR mn)	FY17	FY18	FY19	FY20P	FY21E	FY22E
SOURCES OF FUNDS						
Share Capital - Equity	103	103	103	103	103	103
Reserves	6,697	7,864	10,410	12,691	14,185	16,186
Total Shareholders' Funds	6,800	7,967	10,513	12,794	14,288	16,289
Long Term Debt	148	3	3	2	2	2
Short Term Debt	23	152	37	3	21	39
Total Debt	171	155	39	6	24	42
Long-Term Provisions & Others	730	837	872	743	602	489
TOTAL SOURCES OF FUNDS	7,700	8,959	11,425	13,543	14,914	16,820
APPLICATION OF FUNDS						
Net Block	4,676	4,568	4,745	7,508	7,471	7,611
CWIP	74	349	1,912	310	665	718
LT Loans & Advances	191	253	308	187	187	187
Total Non-current Assets	4,941	5,171	6,965	8,004	8,323	8,516
Inventories	651	822	924	932	960	1,119
Debtors	1,405	1,771	2,440	2,018	2,183	2,485
Other Current Assets	536	650	943	640	858	977
Cash & Equivalents	666	1,370	1,003	2,811	3,312	4,530
Short Term Loans & Advances	12	15	2	26	21	23
Total Current Assets	3,270	4,629	5,311	6,426	7,334	9,134
Creditors	327	634	531	557	547	628
Other Current Liabilities & Provns	183	206	320	330	196	202
Total Current Liabilities	511	841	851	887	743	830
Net Current Assets	2,760	3,788	4,460	5,539	6,591	8,304
TOTAL APPLICATION OF FUNDS	7,700	8,959	11,425	13,543	14,914	16,820

Source: Company, HSIE Research

Cash Flow

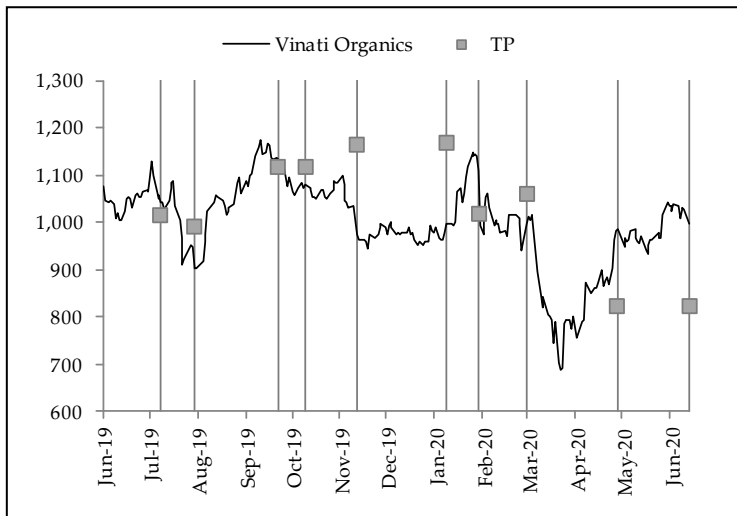
YE Mar (INR mn)	FY17	FY18	FY19	FY20P	FY21E	FY22E
Reported PBT	2,060	2,034	4,252	4,247	4,047	4,404
Non-operating & EO Items	10	240	(155)	(228)	1,542	1,302
Interest Expenses	19	12	9	11	4	8
Depreciation	216	234	274	332	346	525
Working Capital Change	(1,171)	(1,021)	(685)	(580)	(551)	(496)
Tax Paid	(657)	(595)	(1,428)	(908)	(1,012)	(1,101)
OPERATING CASH FLOW (a)	456	423	2,578	3,328	1,293	2,038
Capex	(962)	(401)	(2,013)	(1,492)	(665)	(718)
Free Cash Flow (FCF)	(506)	22	564	1,836	628	1,320
Others	(29)	(62)	(55)	121	-	-
INVESTING CASH FLOW (b)	(991)	(463)	(2,068)	(1,371)	(665)	(718)
Debt Issuance/(Repaid)	(315)	(16)	(115)	(33)	18	18
Interest Expenses	(19)	(12)	(9)	(11)	(4)	(8)
FCFE	(839)	(6)	439	1,792	643	1,330
Dividend	(35)	(32)	(434)	(1,285)	-	-
Others	213	108	35	(129)	(141)	(113)
FINANCING CASH FLOW (c)	(156)	48	(523)	(1,458)	(127)	(103)
NET CASH FLOW (a+b+c)	(690)	7	(14)	499	502	1,217
Closing Cash & Equivalents	45	52	38	537	1,039	2,256

Key Ratios

	FY17	FY18	FY19	FY20P	FY21E	FY22E
PROFITABILITY (%)						
GPM	53.1	48.3	52.6	58.3	55.7	54.7
EBITDA Margin	33.9	27.0	36.4	40.2	38.6	38.1
APAT Margin	21.9	19.7	25.5	32.4	30.1	28.8
RoE	22.9	19.5	30.6	28.6	22.4	21.6
RoIC (or Core RoCE)	20.9	16.8	27.8	28.3	23.8	24.2
RoCE	20.0	17.4	27.8	26.8	21.4	20.9
EFFICIENCY						
Tax Rate (%)	31.9	29.3	33.6	21.4	25.0	25.0
Fixed Asset Turnover (x)	1.5	1.5	2.1	1.5	1.2	1.2
Inventory (days)	38	44	37	32	34	38
Debtors (days)	83	94	97	69	78	84
Other Current Assets (days)	32	35	37	22	31	33
Payables (days)	19	34	21	19	20	21
Other Current Liab & Provns (days)	11	11	13	11	7	7
Cash Conversion Cycle (days)	123	128	137	92	117	127
Debt/EBITDA (x)	0.1	0.1	0.0	0.0	0.0	0.0
Net D/E (x)	(0.1)	(0.2)	(0.1)	(0.2)	(0.2)	(0.3)
Interest Coverage (x)	104.9	143.6	398.5	348.6	990.0	487.0
PER SHARE DATA (Rs)						
EPS	13.6	14.0	27.5	32.5	29.5	32.1
CEPS	15.7	16.3	30.1	35.7	32.9	37.2
Dividend	0.5	4.5	3.5	12.5	12.5	12.5
Book Value	66.2	77.5	102.3	124.5	139.0	158.5
VALUATION						
P/E (x)	73.1	71.2	36.3	30.7	33.8	31.0
P/BV (x)	15.1	12.9	9.7	8.0	7.2	6.3
EV/EBITDA (x)	47.0	51.3	25.2	24.1	25.5	22.4
EV/Revenues (x)	15.9	13.9	9.2	9.7	9.8	8.5
OCF/EV (%)	0.4	0.4	2.5	3.3	1.3	2.1
FCF/EV (%)	(0.9)	(0.4)	(2.0)	(1.5)	(0.7)	(0.7)
FCFE/Mkt Cap (%)	(0.8)	(0.0)	0.4	1.7	0.6	1.3
Dividend Yield (%)	0.1	0.5	0.4	1.3	1.3	1.3

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
9-Jul-19	1,056	NEU	1,017
1-Aug-19	910	NEU	993
22-Sep-19	959	NEU	1,119
11-Oct-19	1,077	NEU	1,119
14-Nov-19	975	BUY	1,166
10-Jan-20	979	BUY	1,170
1-Feb-20	1,112	NEU	1,020
2-Mar-20	940	ADD	1,062
29-Apr-20	962	SELL	825
15-Jun-20	997	SELL	825

From 2nd March 2020, we have moved to new rating system

Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential

Disclosure:

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