

Vinati Organics

IBB clocks in the highest-ever volumes!

Our SELL recommendation on Vinati Organics with a discounted cash flow-based target price of INR 1,015 (WACC 10%, terminal growth 3.5%) is driven by (1) demand slowdown for the high-margin 2-Acrylamido 2-Methylpropane Sulphonic Acid (ATBS) that contributed ~60% to its revenue mix in FY20, (2) shift in revenue mix towards lower-margin Iso Butyl Benzene (IBB), which formed ~25% of the mix in 3Q versus 16% in FY20, and (3) slow ramp-up in the recently-commissioned Butyl Phenol product line. In the absence of a new product pipeline, we believe current valuations are high at ~33x FY23E EPS. 3Q EBITDA/PAT were 27/12% below estimates owing to a 10% decline in revenue, higher-than-expected opex, higher-than-anticipated depreciation, offset by higher-than-anticipated other income and lower-than-anticipated tax outgo.

- **Financial performance:** 3Q EBITDA stood at INR 721mn, -13/-14% YoY/QoQ, owing to sluggish demand for ATBS and IBB in the quarter. EBITDA margin dropped to 32.3% (34.8/38.3/40.2% in 3QFY20/2QFY21/FY20).
- **Capex:** The Capex plan of INR 1.5bn for manufacturing four new speciality chemicals, expanding the capacity of PTBBA plant, and the outlay of INR 0.6bn for new products and expansion are all on track. First revenues would accrue from 2HFY22 onwards. Expected revenue from the total Capex is ~INR 3bn at full capacity by FY25.
- **ATBS:** Weakness in demand for ATBS continues in 3Q despite increased crude oil prices. The demand slowdown for ATBS is due to its reduced demand by the oil and gas industry that forms 25-30% of its global demand. It contributed 38% to the 3Q topline (35% in 2QFY21). The brownfield expansion of 14ktpa shall be completed by FY21 end, although the current demand for the product remains to be subdued and can be met through the existing capacity of 26ktpa.
- **Iso Butyl Benzene (IBB):** Revenue contribution came at ~25% in 3Q. The product witnessed a good offtake and recorded the highest sales volumes in a quarter in 3Q. IBB capacity runs at a full capacity currently.
- **Butyl Phenol:** The Butyl Phenol plant continued to run at a low capacity, given its muted demand in 3Q, although it is now showing traction.
- **Change in estimates:** We cut our FY21 EPS estimate by 8.2% to INR 26.0 per share to factor in the overall performance in 9MFY21.

Financial summary

YE March (INR mn)	3Q FY21	2Q FY21	QoQ (%)	3Q FY20	YoY (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenues	2,235	2,194	1.8	2,385	(6.3)	11,279	10,289	9,041	11,416	12,950
EBITDA	721	841	(14.3)	830	(13.1)	4,234	4,139	3,382	4,347	4,818
APAT	641	620	3.4	668	(4.0)	2,825	3,338	2,668	3,401	3,731
AEPS (INR/sh)	6.2	6.0	3.4	6.5	(4.0)	27.5	32.5	26.0	33.1	36.3
P/E (x)						44.1	37.3	46.6	36.6	33.4
EV/EBITDA (x)						29.2	29.4	35.8	27.5	24.4
RoE (%)						30.6	28.6	19.4	20.9	19.3

Source: Company, HSIE Research

Change in estimates

	FY21E			FY22E			FY23E		
	Old	New	Ch%	Old	New	Ch%	Old	New	Ch%
EBITDA(INR mn)	3,720	3,382	(9.1)	4,485	4,347	(3.1)	4,976	4,818	(3.2)
AEPS(INR/sh)	28.3	26.0	(8.2)	33.2	33.1	(0.4)	36.5	36.3	(0.6)

Source: Company, HSIE Research

SELL

CMP (as on 3 Feb 2021)	INR 1,209
Target Price	INR 1,015
NIFTY	14,790

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 1,020	INR 1,015
EPS %	FY21E	FY22E
	-8.2%	0.0%

KEY STOCK DATA

Bloomberg code	VO IN
No. of Shares (mn)	103
MCap (Rs bn) / (\$ mn)	124/1,702
6m avg traded value (Rs mn)	230
52 Week high / low	Rs 1,419/651

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	4.4	21.7	24.0
Relative (%)	(20.5)	(14.3)	(2.1)

SHAREHOLDING PATTERN (%)

	Sept-20	Dec-20
Promoters	74.06	74.06
FIs & Local MFs	6.58	6.65
FPIs	3.93	3.66
Public & Others	15.43	15.63
Pledged Shares	0.00	0.00

Source : BSE

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Disclosure:

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