

Retail Equity Research (South India Focus)

Vinati organics Ltd

Specialty chemicals

BSE CODE : 524200

NSE CODE: VINATIORGA

BLOOMBERG CODE: VO:IN

SENSEX : 51,329

Buy

12M Investment Period

Rating as per Mid Cap

CMP Rs1,254 TARGET Rs1,539 RETURN 23% ↑

(Closing: 09-02-21)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↔

ATBS demand weak...earnings revival in FY22

Vinati Organics Ltd (VOL) enjoys global leadership in two specialty chemicals, with market share of 70% in IBB (isobutyl benzene) and 80% in ATBS (2-Acrylamindo 2-Methylpropane Sulfonic Acid).

- Q3FY21 revenue declined by 6% YoY on account of lower contribution from ATBS business, as oil & Gas sector was subdued.
- EBIDTA margins fell by 250bps YoY to 32.3% due to lower contribution from high margin ATBS is the sales mix and higher cost.
- Going ahead, revenue & profitability to see upward trajectory in FY22 led by contribution from new product Butyl phenols, improved off-take from IBB & gradual revival in ATBS.
- Niche product portfolio, new value added products and improving outlook of domestic specialty chemical sector is positive.
- We remain constructive on VOL in the long term given strong cash flows, debt free balance sheet, superior margin profile and ROCE & ROE of above 24% & 24% (5yr avg.).
- We value VOL at a P/E of 32x on FY23E, given strong earnings outlook we upgrade to BUY from Accumulate with a target price of Rs1,539.

Revenue growth to declines...

Revenue de-grew by 6% YoY in Q3FY21 due to lower off-take from ATBS. Revenue growth from ATBS was impacted by decline in oil prices and overall realization on account of pass through of lower commodity prices. ATBS contributes 57% (FY20) of overall sales, while ATBS applications includes Oil & Gas, water treatment, paints & coating, textiles, adhesives. The revenue contribution from ATBS Oil & gas segment is around ~20%. However, Oil & Gas prices are on a upward trajectory in recent times. Considering this we expect revenue from ATBS to improve going ahead starting from FY22. The IBB volumes continued to steady on account of improved off-take due to current pandemic. All other products namely IB, HPMTBE, customized products saw stable demand. The new product Butyl phenols has started to gain momentum. We expect Butyl phenols contribution to overall revenue to improve going ahead starting from FY22E. Company has announced amalgamation of Veeral Additives (VAPL) post statutory approvals, which is expected contribute Rs.500cr to topline at full capacity. VAPL is into the business of manufacturing Antioxidants. Acquisition is forward integration as its new product Bhtyl Phenol is RM for manufacture of Antioxidants. We factor revenue to grow by 34% CAGR over FY21E- FY23E.

Profitability growth to pick-up in FY22E.

EBITDA margin declined by 250bps YoY to 32.3% due to weakness in ATBS segment and higher employee cost. Consequently, profitability declined by 4% YoY to Rs.64cr. Going forward, we expect profitability to improve led by revival in ATBS demand. We expect PAT to grow by 36% CAGR over FY21E-22E led by revival in ATBS, IBB & and Butyl phenols contributing towards overall top-line.

Valuations

We continue to maintain a positive outlook on VOL, given its investment in new capacities for introduction of new products, leveraging growth opportunities in existing product portfolio, strong balance sheet and healthy RoE & ROCE of 24% & 24% (avg. last 5years). The integration of VAPL is likely to add more synergies to its existing portfolio. We value VOL at P/E of 32x on FY23E and upgrade to BUY from Accumulate with a target price of Rs.1,539.

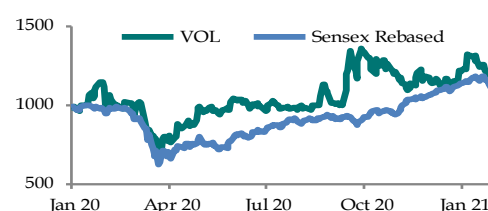
Company Data

Market Cap (cr)	Rs.12.886
Enterprise Value (cr)	Rs.12,881
Outstanding Shares (cr)	10.3
Free Float	26%
Dividend Yield	0.44%
52 week high	Rs.1,418
52 week low	Rs.651
6m average volume (cr)	0.01
Beta	1.2
Face value	Rs.1

Shareholding (%)	Q1FY21	Q2FY21	Q3FY21
Promoters	74.1	74.1	74.1
FII's	5.1	3.9	3.7
MFs/Institutions	6.2	6.6	6.6
Public	12.0	12.6	12.7
Others	2.7	2.8	2.9
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	9.5%	26.9%	18.2%
Absolute Sensex	20.8%	33.1%	23.0%
Relative Return*	-11.3%	-6.1%	-4.8%

over or under performance to benchmark index*



Standalone (cr)	FY21E	FY22E	FY23E
Sales	935	1,274	1,676
Growth (%)	(9.1)	36.2	31.5
EBITDA	332	482	648
EBITDA Margin(%)	35.5	37.8	38.7
PAT Adjusted	265	364	494
Growth (%)	(20.5)	37.1	35.8
Adjusted EPS	25.8	35.4	48.1
Growth (%)	(20.5)	37.1	35.8
P/E	48.5	35.4	26.1
P/B	8.6	7.3	5.9
EV/EBITDA	38.8	26.7	19.8
ROE (%)	19.5	23.2	26.1
D/E	0.0	0.0	0.0

Anil R
Research Analyst

Quarterly Financials

Profit & Loss

	Q3FY21	Q3FY20	YoY Growth %	9MFY21	9MFY20	YoY Growth %
Sales	223	238	<i>(6.3)</i>	674	774	<i>(12.9)</i>
EBITDA	72	83	<i>(13.81)</i>	253	303	<i>(16.4)</i>
EBITDA margins	32.3	34.8	<i>(250bps)</i>	37.6	39.1	<i>(160bps)</i>
Depreciation	11	9	16.0	32	23	37.2
EBIT	61	74	<i>(16.8)</i>	221	380	<i>(20.9)</i>
Interest	-	-	-	-	1	-
Other Income	9	15	<i>(39.7)</i>	19	38	<i>(49.3)</i>
Exceptional Items	-	-	-	-	-	-
PBT	71	89	<i>(20.5)</i>	240	317	<i>(24.1)</i>
Tax	6	22	<i>(70.7)</i>	42	58	<i>(27.2)</i>
Share of profit from Associate	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-
Reported PAT	64	67	<i>(4.0)</i>	198	259	<i>(23.4)</i>
Adjustments	-	-	-	-	-	-
Adjusted PAT	64	67	<i>(4.0)</i>	198	259	<i>(23.4)</i>
No. of Shares	10.3	10.3	-	10.3	10.3	-
EPS (Rs)	6.2	6.5	<i>(4.0)</i>	25.2	19.3	<i>(23.4)</i>

Change in Estimates

Year / Rs.cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	935	1,262	935	1,274	-	0.9
EBITDA	332	486	332	482	<i>(0.9)</i>	<i>(0.2)</i>
Margins (%)	35.5	38.5	35.5	37.8	-	<i>(70bps)</i>
Adj. PAT	246	367	265	364	7.9	<i>(0.8)</i>
EPS	23.9	35.7	25.8	35.4	7.9	<i>(0.8)</i>

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Sales	1128	1029	935	1,274	1,676
% change	51.7	(8.8)	(9.1)	36.2	31.5
EBITDA	423	414	332	482	648
% change	100.7	(2.2)	(19.8)	45.0	34.7
Depreciation	27	33	43	52	58
EBIT	396	381	289	429	591
Interest	1	1	0.3	0.3	0.3
Other Income	30	45	35	50	60
PBT	425	425	324	479	650
% change	109.1	(0.1)	(23.8)	48.0	35.8
Tax	143	91	58	115	156
Tax Rate (%)	33.6	21.4	18.0	24.0	24.0
Reported PAT	282	334	265	364	494
Adj.*	-	-	-	-	-
Adj. PAT	282	334	265	364	494
% change	96.3	18.2	(20.5)	37.1	35.8
No. of shares (cr)	10.3	10.3	10.3	10.3	10.3
Adj EPS (Rs)	27.5	32.5	25.8	35.4	48.1
% change	97.1	18.2	(20.5)	37.1	35.8
DPS (Rs)	2.6	10.6	10.2	10.2	10.2
CEPS (Rs)	30.1	35.7	30.0	40.5	53.7

CASH FLOW

Y.E March (Rs Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Net inc. + Depn.	310	367	308	416	552
Non-cash adj.	4	(31)	(35)	(50)	(60)
Changes in W.C	(114)	81	19	(147)	(171)
C.F. Operation	200	416	293	219	321
Capital exp.	(45)	(309)	(109)	(90)	(80)
Change in inv.	(205)	105	(100)	(80)	(160)
Other invest.CF	7	7	35	50	60
C.F - Investment	(243)	(197)	(174)	(120)	(180)
Issue of equity	-	-	-	-	-
Issue/repay debt	(12)	(3)	1	0	0
Dividends paid	(28)	(105)	(105)	(105)	(105)
Other finance.CF	(1)	(1)	(0)	(0)	(0)
C.F - Finance	(40)	(109)	(104)	(105)	(105)
Chg. in cash	(0)	9	15	(5)	36
Closing cash	0	9	24	19	55

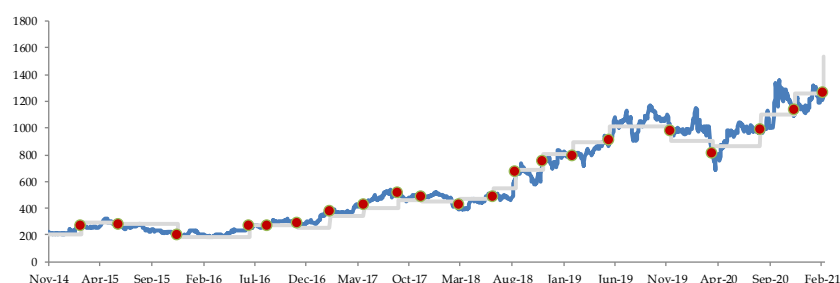
BALANCE SHEET

Y.E March (Rs Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash	0.04	9	24	19	55
Accounts Receivable	244	202	195	279	367
Inventories	92	93	76	139	188
Other Cur. Assets	129	130	131	178	234
Investments	96	227	327	407	567
Gross Fixed Assets	542	851	941	1,031	1,111
Net Fixed Assets	472	749	796	834	856
CWIP	191	31	50	50	50
Intangible Assets	3	2	2	2	2
Def. Tax (Net)	(85)	(70)	(70)	(70)	(70)
Other Assets	-	-	-	-	-
Total Assets	1,143	1,372	1,530	1,838	2,249
Current Liabilities	82	84	80	124	146
Provisions	3	4	4	6	8
Debt Funds	7	4	5	5	5
Other Liabilities	-	-	-	-	-
Equity Capital	10	10	10	10	10
Reserves & Surplus	1,041	1,269	1,430	1,689	2,079
Shareholder's Fund	1,051	1,279	1,430	1,700	2,089
Total Liabilities	1,143	1,372	1,530	1,838	2,249
BVPS	106	130	146	172	212

RATIOS

Y.E March	FY19A	FY20A	FY21E	FY22E	FY23E
Profitab & Return					
EBITDA margin (%)	37.5	40.2	35.5	37.8	38.7
EBIT margin (%)	35.1	37.0	30.9	33.7	35.2
Net profit mgn.(%)	25.0	32.4	28.4	28.6	29.5
ROE (%)	30.6	28.6	19.5	23.2	26.1
ROCE (%)	30.1	28.6	19.5	23.1	26.0
W.C & Liquidity					
Receivables (days)	68.1	79.1	77.4	67.9	70.4
Inventory (days)	60.7	79.0	75.8	67.9	78.4
Payables (days)	54.4	70.7	73.8	65.3	65.3
Current ratio (x)	5.5	4.9	5.0	4.6	5.5
Quick ratio (x)	3.0	2.5	2.7	2.3	2.9
Turnover & Leverage					
Gross asset T.O (x)	2.2	1.5	1.0	1.3	1.6
Total asset T.O (x)	1.1	0.8	0.6	0.8	0.8
Int. covge. ratio (x)	419.5	348.6	997.0	-	-
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	11.4	12.5	13.8	10.1	7.7
EV/EBITDA (x)	30.4	31.1	38.8	26.7	19.8
P/E (x)	45.6	38.6	48.5	35.4	26.1
P/BV (x)	11.8	9.7	8.6	7.3	5.9

Recommendation summary



Dates	Rating	Target
28-May-15	Hold	283
17-November-15	Reduce	180
15-June-16	Hold	272
10-August-16	Hold	276
05-November-16	Reduce	252
09-February-17	Reduce	343
22-May-17	Reduce	397
29-August-17	Reduce	459
09-November-17	Reduce	452
01-March-18	Accumulate	471
07-June-18	Buy	553
13-August-18	Hold	692
2-November-18	Hold	803
31-January-19	Accumulate	892
16-May-19	Accumulate	1009
14-November-19	Reduce	908
16-March-20	Hold	868
05-August-20	Accumulate	1,101
17-November-20	Accumulate	1,256
10-February-21	Buy	1,539

Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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