Vinati Organics

CMP: INR1,816 TP: INR2,150 (+18%) Buy

Estimate changes	
TP change	
Rating change	

Bloomberg	VO IN
Equity Shares (m)	103
M.Cap.(INRb)/(USDb)	186.7 / 2.3
52-Week Range (INR)	2373 / 1693
1, 6, 12 Rel. Per (%)	1/-11/-27
12M Avg Val (INR M)	108

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	20.8	21.6	26.0
EBITDA	6.0	5.9	7.3
PAT	4.6	4.5	5.5
EPS (INR)	44.6	44.2	53.7
EPS Gr. (%)	32.1	-0.9	21.7
BV/Sh.(INR)	215.9	253.1	298.4
Ratios			
Net D:E	-0.0	-0.0	-0.1
RoE (%)	22.6	18.8	19.5
RoCE (%)	21.5	17.3	17.5
Payout (%)	15.7	15.7	15.7
Valuations			
P/E (x)	40.8	41.1	33.8
P/BV (x)	8.4	7.2	6.1
EV/EBITDA (x)	31.4	31.8	25.4
Div. Yield (%)	0.4	0.4	0.5
FCF Yield (%)	2.8	0.5	2.3

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	74.1	74.1	74.1
DII	8.1	7.9	8.1
FII	4.5	4.8	4.7
Others	13.4	13.3	13.2

FII Includes depository receipts

Inventory destocking leads to a miss in performance

- VO's revenue came in 9% below our estimate in 1QFY23 because of lower offtake of ATBS. About 90% of revenue decline was due to a drop in volumes and 10% was due to realization. Gross margin declined 270bp QoQ to 47.6%, while EBITDAM was down 500bp QoQ at 25.3%. Demand for IBB was good in 1Q and the management expects it to remain steady for the rest of FY24.
- However, the management expects a muted performance in ATBS in FY24, with major destocking being seen industry-wide, especially in the Oil & Gas sector. Demand is expected to recover in 2HFY24. However, the management has started commercial supply of Antioxidants (AOs), but demand remains tepid as of now and the plant is running at 25% utilization. The contribution from AOs is expected to partially offset the weakness in the ATBS segment in FY24. The merger with VAPL is expected to be completed by Dec'23.
- The expansion of ATBS capacity by 50% (from 40ktpa to 60ktpa) has been delayed and the commissioning is expected by end-FY24. The management also guides that the commissioning of products in VOL (MEHQ, Guaiacol, Anisole and Iso Amylene) would happen by Mar'24. Total capacity of Anisole is 5ktpa and putting together MEHQ and Guaiacol, it is 3ktpa. The management is looking to capture 25-30% of the market share.
- The sales mix for 1Q stood at: ATBS (40%), IBB (20%), Butyl Phenol and other IB derivatives (17%), and the rest was others. Given the underperformance in 1QFY24, we cut our revenue/EBITDA/EPS estimates by 6%/6%/5% for FY24 and by 13%/14%/14% for FY25, with EBITDAM at 27.2%/27.9% for FY24/FY25. **We forecast a revenue CAGR of ~17% over FY23-25, translating into an EBITDA/EPS CAGR of 19%/17% over the same period**.
- The stock is trading at 33.8x FY25E EPS and 25.4x FY25E EV/EBITDA, with expected return ratios of 17-19%. It had a fixed asset turnover of 2.4x as of FY23. We value the company at 40x FY25E EPS to arrive at a TP of INR2,150. **We reiterate our BUY rating on the stock.**

Miss on both EBITDA and PAT, margins contract sequentially

- Revenue stood at INR4.3b (down 15% YoY/14% QoQ).
- EBITDA stood at INR1.1b (est. of INR1.3b, down 17% YoY/28% QoQ).
  - EBITDA margin came in at 25.3% (vs. 30.3% in 4QFY23 and 25.8% in 1QFY23).
  - Gross margin stood at 47.6% (up 200bp YoY, down 270bp QoQ).
- PAT stood at INR832m (est. of INR988m, down 18% YoY/28% QoQ).

Valuation and view

- Veeral Organics Pvt. Ltd. (wholly owned subsidiary of Vinati Organics) is set to commence production of MEHQ, Guaiacol, Anisole and Iso Amylene by end-FY24, which should propel VO into the next leg of its growth story.

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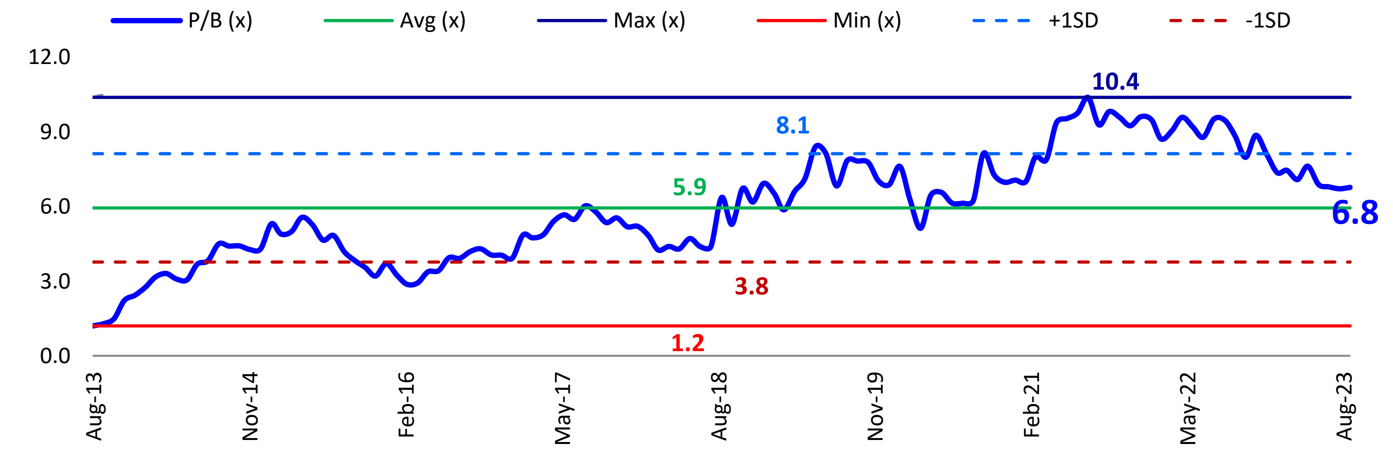
- Veeral Additives has commenced the commercial supply of AOs. The management expects to complete the amalgamation by Dec'23. Post the amalgamation, VO would become the largest and the only double-integrated manufacturer of AOs in India.
- The stock is trading at 33.8x FY25E EPS and 25.4x FY25E EV/EBITDA, with expected return ratios of 17-19%. It had a fixed asset turnover of 2.4x as of FY23. We value the company at 40x FY25E EPS to arrive at our TP of INR2,150. **We reiterate our BUY rating on the stock.**

Standalone - Quarterly Earning (INR m)

Y/E March	FY23				FY24				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Gross Sales	**5,063**	**5,663**	**5,087**	**5,034**	**4,310**	**4,962**	**5,808**	**6,496**	**20,847**	**21,577**	**4,722**	**-9**
YoY Change (%)	*31.0*	*51.4*	*37.9*	*3.6*	*-14.9*	*-12.4*	*14.2*	*29.0*	*29.0*	*3.5*	*-6.7*	
Gross Margin (%)	*45.5%*	*45.0%*	*51.6%*	*50.3%*	*47.6%*	*47.9%*	*49.1%*	*50.7%*	*48.0%*	*49.0%*	*49.8%*	*-2.2*
EBITDA	**1,309**	**1,485**	**1,638**	**1,523**	**1,090**	**1,293**	**1,605**	**1,882**	**5,954**	**5,870**	**1,274**	**-14**
Margin (%)	*25.8*	*26.2*	*32.2*	*30.3*	*25.3*	*26.1*	*27.6*	*29.0*	*28.6*	*27.2*	*27.0*	*-1.7*
Depreciation	128	130	130	130	132	131	135	133	519	531	135	
Interest	5	0	0	1	3	2	2	1	6	7	1	
Other Income	187	200	168	170	153	179	189	213	724	734	183	
PBT before EO expense	**1,363**	**1,554**	**1,675**	**1,561**	**1,109**	**1,338**	**1,658**	**1,960**	**6,153**	**6,065**	**1,321**	**-16**
PBT	**1,363**	**1,554**	**1,675**	**1,561**	**1,109**	**1,338**	**1,658**	**1,960**	**6,153**	**6,065**	**1,321**	**-16**
Tax	351	394	421	407	276	336	418	496	1,573	1,527	333	
Rate (%)	*25.7*	*25.3*	*25.1*	*26.1*	*24.9*	*25.1*	*25.2*	*25.3*	*25.6*	*25.2*	*25.2*	
Reported PAT	**1,012**	**1,160**	**1,254**	**1,154**	**832**	**1,002**	**1,240**	**1,464**	**4,580**	**4,539**	**988**	**-16**
YoY Change (%)	*25.0*	*42.6*	*50.6*	*14.1*	*-17.7*	*-13.6*	*-1.1*	*26.9*	*32.1*	*-0.9*	*-2.4*	
Margin (%)	*20.0*	*20.5*	*24.7*	*22.9*	*19.3*	*20.2*	*21.3*	*22.5*	*22.0*	*21.0*	*20.9*	*-1.6*

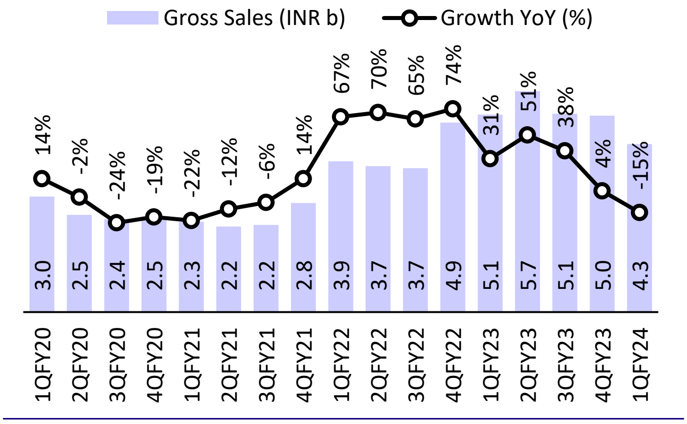
Exhibit 1: One-year forward P/B trades at 6.8x, 15% premium to its long-term average



Source: Company, MOSL

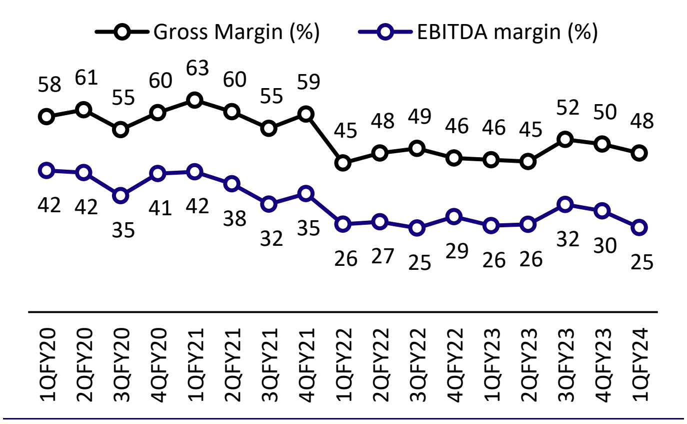
1QFY24 in charts

Exhibit 2: Sales declined 15% YoY



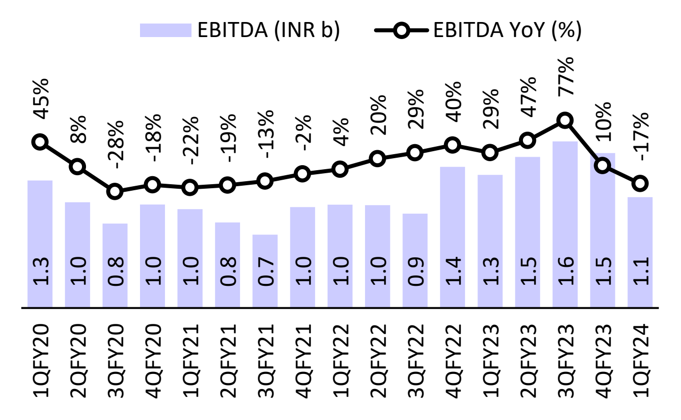
Source: Company, MOFSL

Exhibit 3: GM and EBITDAM both declined QoQ



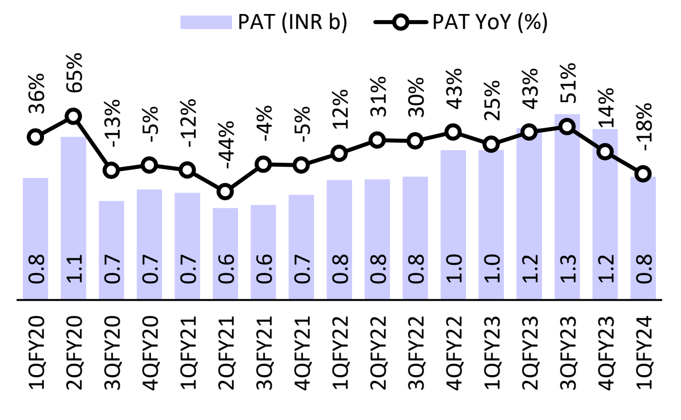
Source: Company, MOFSL

Exhibit 4: EBITDA declined 17% YoY (EBITDAM at 25.3%)



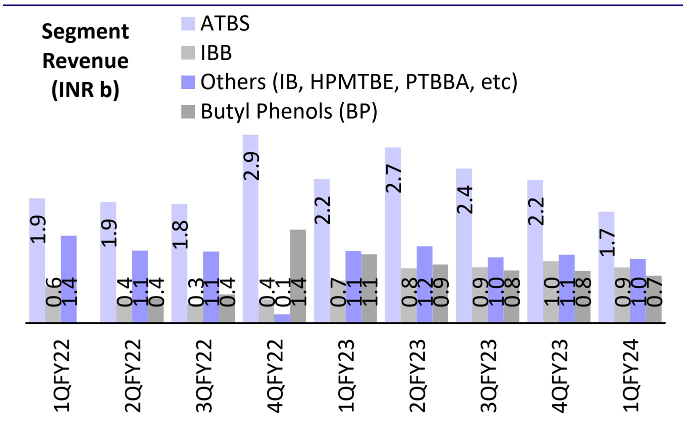
Source: Company, MOFSL

Exhibit 5: PAT down 18% YoY (margin at 19.3%)



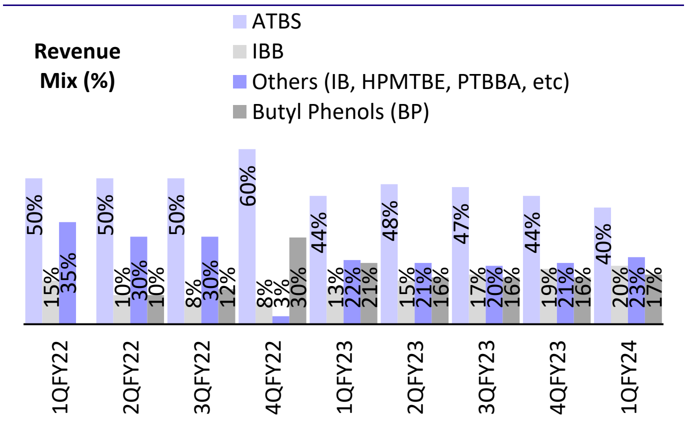
Source: Company, MOFSL

Exhibit 6: Revenue declined across segments YoY with…



Source: Company, MOFSL

Exhibit 7: …ATBS and BP contribution declining as well YoY



Source: Company, MOFSL

Highlights from the management commentary

- 2HFY23 saw high offtake from customers, particularly from MNCs, which resulted in high sales, which would normalize in 1HFY24.
  - Major de-stocking is seen industry-wide, majorly from the oil & gas sector.
    - 15% of revenue contribution from O&G sector for VO
    - 5-10-year outlook from the segment remains strong
  - ATBS demand is likely to normalize in 2HFY24 (to start from Oct'23 onwards)
  - Prices have not fluctuated too much and the decline has been more on the volumes front.
- Demand for IBB is expected to remain steady in FY24.
  - Continue to see good demand in 1QFY24 as well
  - One of the Indian competitors exited the business.
- Butyl Phenol (BP) is also expected to do well in FY24.
  - BP + AOs revenues to be INR9-9.5b.
    - External sales of BP are ~INR3b and AOs is ~INR6b.
  - EBITDAM ~15-20%
  - Customized product portfolio is also expected to record revenue of INR1.5-1.8b in FY24.
- Decline in sales was 90% because of volumes while 10% due to realizations.
- Revenue contribution at 20% IBB, 40% ATBS, 17% BP and the rest others.
- 80-90% would be repeat customers for the company.
- Sales to be ~INR20b for FY24 with ~20-25% YoY growth in FY25
  - 2QFY24 performance would be similar to 1QFY24.

- **VAL**
  - Commercial production and supply has started
  - INR1.5b revenue in FY24, with INR3b in FY25
  - Currently running at 25% of capacity utilization because of lower demand for AOs right now
  - Both local and exports market being looked at. Opportunity size is of INR100b.

- **VOL**
  - Capex of INR2.6b MEHQ, Guaiacol and Iso Amylene and Anisole
    - Anisole capacity would be 5ktpa and MEHQ and Guaiacol put together would be 3ktpa
    - Targets to capture 25-30% of the market share
  - Commissioned by Mar'24

- **Other capex updates**
  - ATBS expansion by end of FY24
    - Customers have committed for long-term offtake, hence capex has not been shelved
  - Additional solar plant of 11MW by Sep'23
  - Working on other products as well in VAL and VOL baskets, which are in the R&D pipeline right now

Story in charts

Exhibit 8: Expect 17% revenue CAGR over FY23-25

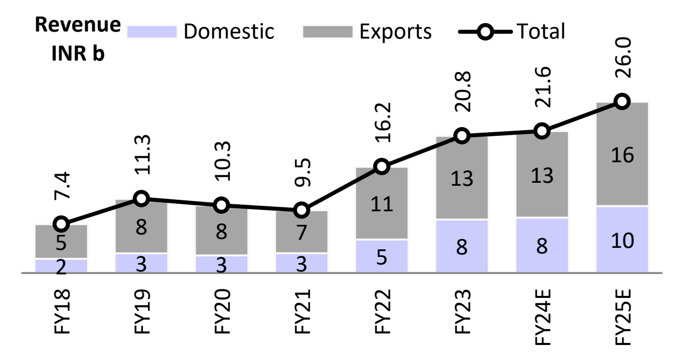


Exhibit 9: Exports likely to remain high

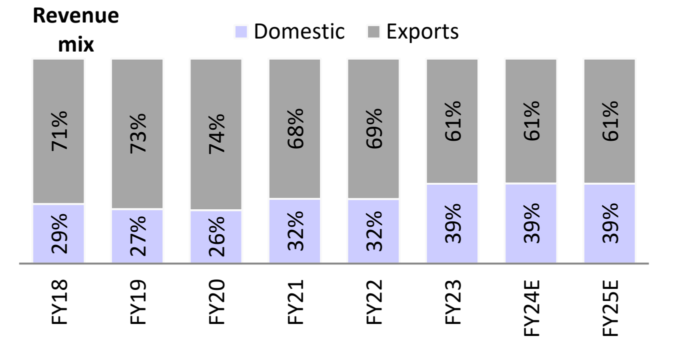


Exhibit 10: EBITDAM to remain subdued over FY24-25…

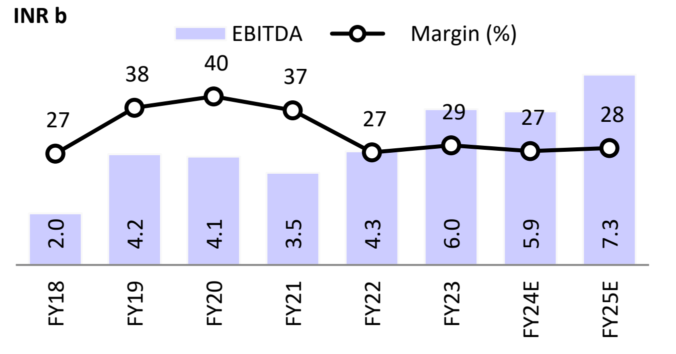


Exhibit 11: …with pressure on PAT margin also to sustain

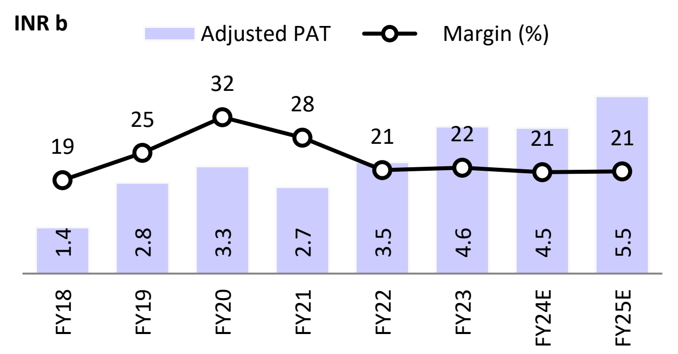


Exhibit 12: One-year forward P/E trades at 35.2x…

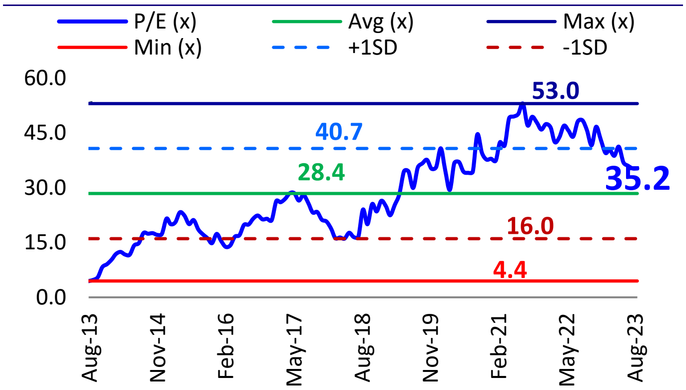


Exhibit 13: …with return ratios at 17-19%

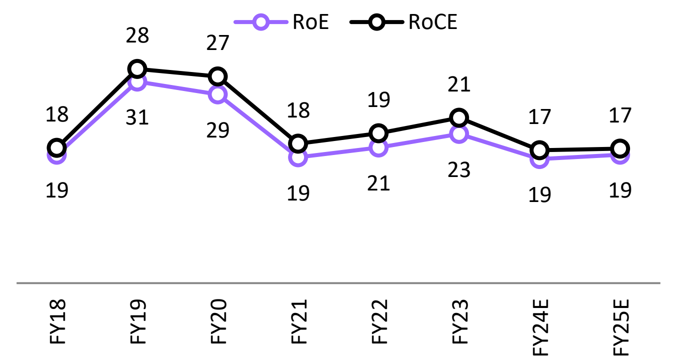
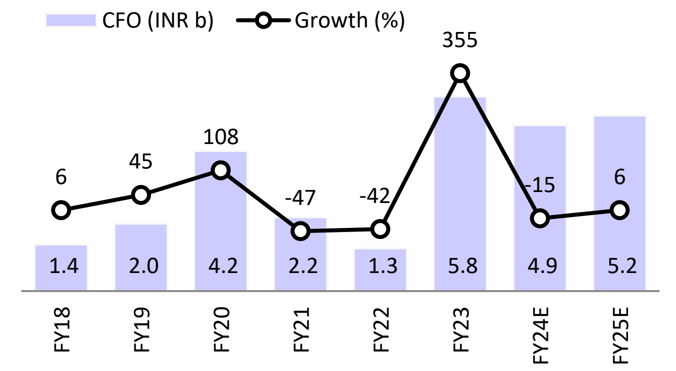
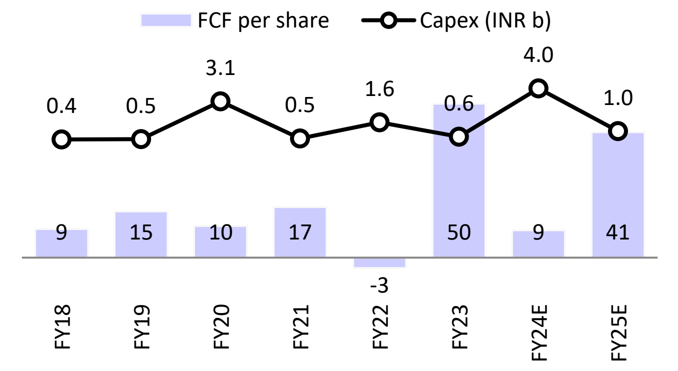


Exhibit 14: Strong operating cash flow at INR10.1b…



Source: Company, MOFSL

Exhibit 15: …with capex for FY24-25 at INR5b



Source: Company, MOFSL

Financials and valuations

Standalone- Income Statement								(INR m)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Total Income from Operations	**7,422**	**11,279**	**10,289**	**9,543**	**16,155**	**20,847**	**21,577**	**26,046**
Change (%)	*8.9*	*52.0*	*-8.8*	*-7.3*	*69.3*	*29.0*	*3.5*	*20.7*
Gross Margin (%)	*49.1*	*53.4*	*58.3*	*59.4*	*46.7*	*48.0*	*49.0*	*50.0*
EBITDA	**1,973**	**4,234**	**4,139**	**3,525**	**4,341**	**5,954**	**5,870**	**7,275**
Margin (%)	*26.6*	*37.5*	*40.2*	*36.9*	*26.9*	*28.6*	*27.2*	*27.9*
Depreciation	234	274	332	429	455	519	531	631
EBIT	**1,739**	**3,960**	**3,808**	**3,096**	**3,886**	**5,435**	**5,339**	**6,644**
Int. and Finance Charges	12	9	11	2	3	6	7	7
Other Income	307	302	450	259	610	724	734	745
PBT bef. EO Exp.	**2,034**	**4,252**	**4,247**	**3,353**	**4,493**	**6,153**	**6,065**	**7,382**
PBT after EO Exp.	**2,034**	**4,252**	**4,247**	**3,353**	**4,493**	**6,153**	**6,065**	**7,382**
Total Tax	595	1,428	908	659	1,026	1,573	1,527	1,858
Tax Rate (%)	*29.3*	*33.6*	*21.4*	*19.7*	*22.8*	*25.6*	*25.2*	*25.2*
Reported PAT	**1,439**	**2,825**	**3,338**	**2,693**	**3,467**	**4,580**	**4,539**	**5,524**
Adjusted PAT	**1,439**	**2,825**	**3,338**	**2,693**	**3,467**	**4,580**	**4,539**	**5,524**
Change (%)	*2.6*	*96.3*	*18.2*	*-19.3*	*28.7*	*32.1*	*-0.9*	*21.7*
Margin (%)	*19.4*	*25.0*	*32.4*	*28.2*	*21.5*	*22.0*	*21.0*	*21.2*

Standalone - Balance Sheet								(INR m)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Equity Share Capital	103	103	103	103	103	103	103	103
Total Reserves	7,864	10,410	12,691	15,331	18,179	22,085	25,911	30,567
Net Worth	**7,967**	**10,513**	**12,794**	**15,434**	**18,281**	**22,188**	**26,014**	**30,670**
Total Loans	152	37	3	20	189	69	2,300	2,200
Deferred Tax Liabilities	809	846	705	779	900	1,021	1,021	1,021
Capital Employed	**8,927**	**11,395**	**13,502**	**16,234**	**19,370**	**23,278**	**29,334**	**33,891**
Gross Block	5,023	5,473	8,551	9,045	10,675	11,283	15,283	16,283
Less: Accum. Deprn.	454	728	1,060	1,489	1,944	2,463	2,994	3,626
Net Fixed Assets	**4,569**	**4,745**	**7,491**	**7,557**	**8,732**	**8,820**	**12,289**	**12,657**
Capital WIP	349	1,912	310	547	473	2,212	2,212	2,212
Total Investments	**1,317**	**965**	**2,274**	**2,887**	**979**	**2,555**	**2,555**	**2,555**
Curr. Assets, Loans, and Adv.	**3,565**	**4,654**	**4,355**	**6,345**	**10,714**	**11,884**	**14,549**	**19,207**
Inventory	822	924	932	1,219	1,762	1,909	1,976	2,386
Account Receivables	1,771	2,440	2,018	2,772	4,584	4,696	4,860	5,867
Cash and Bank Balance	52	38	537	68	43	83	2,335	4,462
Cash and liquid investments	1,318	492	1,586	1,762	11	1,219	2,335	4,462
Bank Balance	52	38	0	52	33	59	0	0
Loans and Advances	919	1,252	869	2,285	4,326	5,196	5,378	6,492
Curr. Liability and Prov.	**872**	**881**	**927**	**1,102**	**1,527**	**2,194**	**2,270**	**2,741**
Account Payables	635	531	557	664	1,146	1,179	1,221	1,473
Other Current Liabilities	174	211	213	391	328	964	997	1,204
Provisions	64	139	157	47	54	51	52	63
Net Current Assets	**2,693**	**3,774**	**3,428**	**5,243**	**9,187**	**9,690**	**12,279**	**16,466**
Appl. of Funds	**8,927**	**11,395**	**13,502**	**16,234**	**19,371**	**23,277**	**29,334**	**33,891**

Financials and valuations

Ratios								
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Basic (INR)								
EPS	**14.0**	**27.5**	**32.5**	**26.2**	**33.7**	**44.6**	**44.2**	**53.7**
EPS Growth (%)	**2.6**	**96.3**	**18.2**	**-19.3**	**28.7**	**32.1**	**-0.9**	**21.7**
Cash EPS	16.3	30.1	35.7	30.4	38.2	49.6	49.3	59.9
BV/Share	77.5	102.3	124.5	150.2	177.9	215.9	253.1	298.4
DPS	0.3	2.3	5.5	6.0	6.5	7.0	6.9	8.4
Payout (%)	2.2	9.9	31.6	22.9	19.3	15.7	15.7	15.7
Valuation (x)								
P/E	129.8	66.1	55.9	69.3	53.9	40.8	41.1	33.8
Cash P/E	111.6	60.3	50.9	59.8	47.6	36.6	36.8	30.3
P/BV	23.4	17.8	14.6	12.1	10.2	8.4	7.2	6.1
EV/Sales	25.2	16.6	18.1	19.6	11.6	9.0	8.7	7.1
EV/EBITDA	94.7	44.1	45.0	52.9	43.0	31.4	31.8	25.4
Dividend Yield (%)	0.0	0.1	0.3	0.3	0.4	0.4	0.4	0.5
FCF per share	9.4	15.1	10.4	16.5	-3.4	50.3	9.0	41.0
Return Ratios (%)								
RoE	19.5	30.6	28.6	19.1	20.6	22.6	18.8	19.5
RoCE	17.6	27.9	26.9	18.1	19.5	21.5	17.3	17.5
RoIC	17.6	33.5	31.7	21.5	19.6	22.3	19.6	21.2
Working Capital Ratios								
Fixed Asset Turnover (x)	1.6	2.4	1.7	1.3	2.0	2.4	2.0	2.1
Asset Turnover (x)	0.8	1.0	0.8	0.6	0.8	0.9	0.7	0.8
Inventory (Days)	40	30	33	47	40	33	33	33
Debtor (Days)	87	79	72	106	104	82	82	82
Creditor (Days)	31	17	20	25	26	21	21	21
Leverage Ratio (x)								
Current Ratio	4.1	5.3	4.7	5.8	7.0	5.4	6.4	7.0
Net Debt/Equity ratio	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1

Standalone - Cash Flow Statement								(INR m)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
OP/(Loss) before Tax	2,034	4,252	4,247	3,353	4,493	6,153	6,065	7,382
Depreciation	254	274	332	429	455	519	531	631
Direct Taxes Paid	-491	-1,262	-1,005	-607	-1,081	-1,310	-1,527	-1,858
(Inc.)/Dec. in WC	-316	-1,138	811	-874	-2,257	626	-154	-946
CF from Operations	**1,384**	**2,003**	**4,159**	**2,190**	**1,271**	**5,780**	**4,922**	**5,216**
(Inc.)/Dec. in FA	-422	-450	-3,094	-490	-1,618	-607	-4,000	-1,000
Free Cash Flow	**962**	**1,553**	**1,065**	**1,700**	**-347**	**5,172**	**922**	**4,216**
Change in Investments	1	-442	-674	127	267	-350	0	0
Others	33	-1,534	1,793	-1,619	-1,206	-2,758	-182	-1,114
CF from Investments	**-388**	**-2,427**	**-1,975**	**-1,982**	**-2,558**	**-3,715**	**-4,182**	**-2,114**
Issue of Shares	-240	0	0	0	0	0	0	0
Inc./(Dec.) in Debt	0	0	0	17	164	-182	2,231	-100
Interest Paid	-11	-9	-11	-2	-3	-6	-7	-7
Dividend Paid	-32	-278	-1,046	-55	-618	-670	-713	-868
CF from Fin. Activity	**-298**	**-403**	**-1,090**	**-31**	**-464**	**-856**	**1,511**	**-974**
Inc./Dec. in Cash	**697**	**-826**	**1,094**	**176**	**-1,751**	**1,209**	**2,252**	**2,128**
Opening Balance	621	1,318	492	1,586	1,762	11	83	2,334
Closing Balance	**1,318**	**491**	**1,585**	**1,762**	**10**	**1,219**	**2,334**	**4,462**

N O T E S

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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