

Vinati Organics

NEUTRAL

Growth stabilises

Post an underwhelming performance in 1QFY20, we cut our EPS estimates for FY20/21E and arrive at a TP of Rs 1,986/share based on a 25x Jun-21E EPS. We maintain **NEUTRAL**.

HIGHLIGHTS OF THE QUARTER

- The turnover grew a moderate rate of 9.8% YoY to Rs 2.91bn. The EBITDA stood at Rs 1.20bn, which was below our expectation of Rs 1.33bn. Currently, the ATBS plant is operating at full capacity of 26ktpa. The brown field expansion of 14ktpa in ATBS has been pushed forward by a month to Oct-19 owing to a minor delay in engineering work.
- Having captured Lubrizol's market share in entirety, VO now holds 65% of the global ATBS market. Thus, we expect further volume growth for the company in ATBS will be in-line with industrial growth of ~10% YoY.
- IBB sales volume remained flattish in Q1. BASF, a major customer, is struggling with the production of Ibuprofen. With a handful of customers in the global IBB market, VO is unable to push its IBB volumes. This compels us to expect subdued volume growth in FY20.
- The commissioning of Butyl phenol plant has been postponed to 3QFY20 from 1QFY20. We expect gradual

ramp-up in production over FY20-22E. It should contribute ~Rs. 1.2bn to the topline by FY21E. The business would largely be driven by domestic sales (60-70% of installed capacity), while the export market would take 2-3 years to pick-up.

- EBITDA margins from Butyl Phenol products will be ~15% compared to the blended margins of 41.3% in 1QFY20. As contribution from these products in revenue increases over FY20/21, blended EBITDA margin will decline. We expect EBITDAM to reduce to 38.5/36.4% in FY20/21E from the current levels.
- **Near-term outlook:** The volume traction in ATBS and Butyl phenols.

STANCE

VO has been commanding a premium in valuations due to an impeccable history of product selection and best in class return ratios (ROE and RoIC for FY20/21E will be 27.6/25.1 and 26.3/27.2%). However, we expect ATBS volume growth to taper and blended margins to correct with increase in the share of low-margin Butyl phenols. With the PAP project back to laboratory testing and no other products in the pipeline, we maintain NEU on VO.

Financial Summary (Standalone)

YE March (Rs mn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)	FY19	FY20E	FY21E	FY22E
Net Sales	2,907	2,647	9.8	2,966	(2.0)	11,081	12,898	15,879	18,916
EBITDA	1,202	917	31.0	1,198	0.3	4,036	4,968	5,773	6,775
APAT	824	643	28.2	825	(0.2)	2,825	3,344	3,911	4,599
Diluted EPS (Rs)	16.0	12.5	28.7	16.1	(0.2)	55.0	65.1	76.1	89.5
P/E (x)						33.2	28.1	24.0	20.4
EV / EBITDA (x)						23.0	18.4	15.5	12.8
RoE (%)						30.6	27.6	25.1	23.4

Source: Company, HDFC sec Inst Research

INDUSTRY	CHEMICALS
CMP (as on 31 Jul 19)	Rs 1,820
Target Price	Rs 1,986

Nifty	11,118
Sensex	37,481

KEY STOCK DATA

Bloomberg	VO IN
No. of Shares (mn)	51
MCap (Rs bn) / (\$ mn)	94/1,360
6m avg traded value (Rs mn)	68

STOCK PERFORMANCE (%)

52 Week high / low	Rs 2,280/948		
	3M	6M	12M
Absolute (%)	1.0	15.3	88.5
Relative (%)	5.0	11.9	88.8

SHAREHOLDING PATTERN (%)

	Mar-19	Jun-19
Promoters	74.01	74.01
FIs & Local MFs	6.56	6.20
FPIs	3.63	4.11
Public & Others	15.80	15.68
Pledged Shares	0.00	0.00

Source : BSE

Nilesh Ghuge

nilesh.ghuge@hdfcsec.com
+91-22-6171-7342

Divya Singhal

divya.singhal@hdfcsec.com
+91-22-6639-3038

Revenue mix was ATBS-54%, IBB-17%, IB-8%, HP-MTBE: 3% and others: 18%

Lower crude oil prices have resulted in reduction in RM prices 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	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)
Net Sales	2,907	2,647	9.8	2,966	(2.0)
Raw Material Expenses	1,230	1,310	(6.1)	1,328	(7.3)
Employee Expenses	153	137	11.7	130	17.2
Other Expenses	323	283	13.8	310	3.9
EBITDA	1,202	917	31.0	1,198	0.3
Depreciation	70	67	3.5	68	2.5
EBIT	1,132	850	33.2	1,130	0.2
Other Income	114	121	(5.6)	103	11.2
Interest Cost	3.0	2	67.7	2	32.0
PBT	1,243	969	28.3	1,230	1.1
Tax	419	327	28.4	405	3.6
RPAT	824	643	28.2	825	(0.2)
APAT	824	643	28.2	825	(0.2)
AEPS	16.0	12.5	28.7	16.1	(0.2)

Source: Company, HDFC sec Inst Research

Margin Analysis

	1QFY20	1QFY19	YoY (bps)	4QFY19	QoQ (bps)
Raw Material Expenses % Net Sales	42.3	49.5	(716)	44.8	(244)
Employee Expenses % Net Sales	5.2	5.2	9	4.4	86
Other Expenses % Net Sales	11.1	10.7	39	10.5	63
EBITDA Margin (%)	41.3	34.7	668	40.4	95
Tax Rate (%)	33.7	33.7	5	32.9	84
APAT Margin (%)	28.3	24.3	406	27.8	50

Source: Company, HDFC sec Inst Research

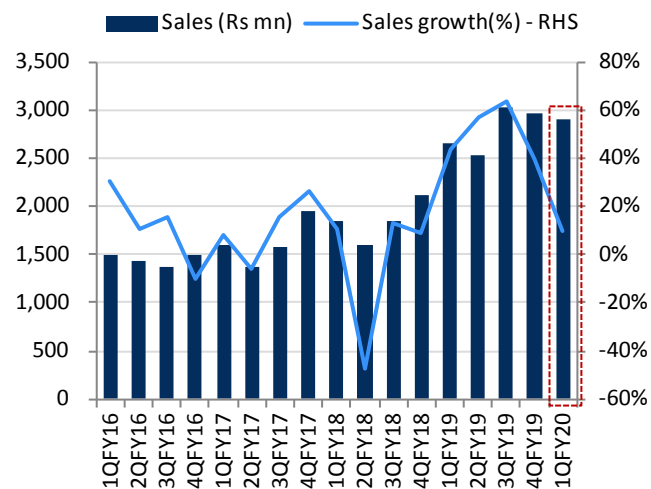
We expect sales growth of 16.4/23.1% in FY20E/FY21E respectively as against our earlier targeted growth of 29.3/22.7%

EBITDA margins are likely to be in the range of 37% in the coming years

We expect ROE/RoIC to be at 25.1/27.2% in FY21E

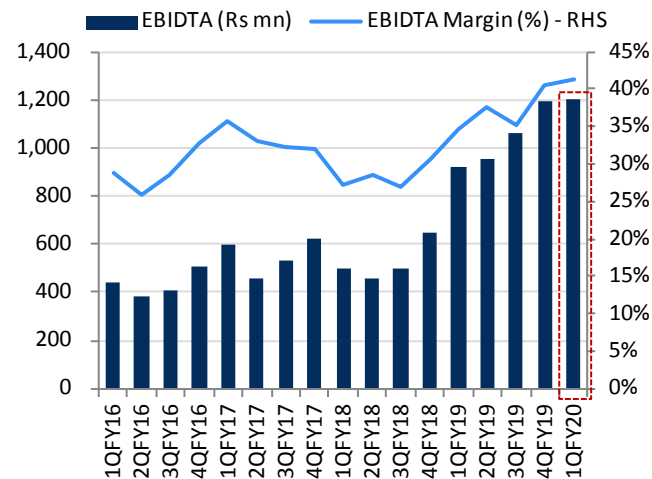
Quarterly Performance

Sales and Sales Growth



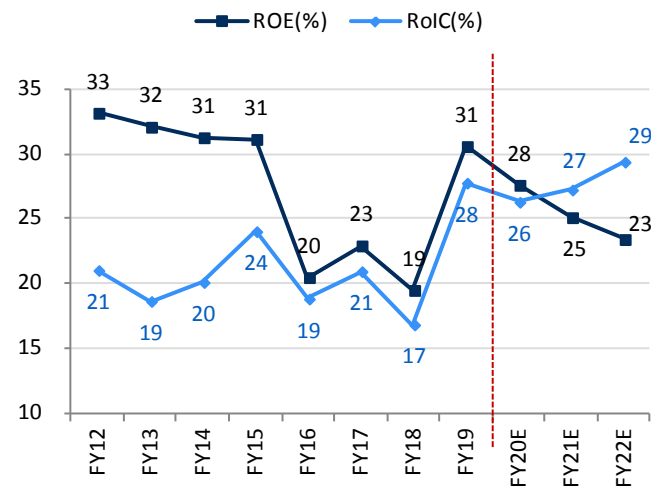
Source: Company, HDFC sec Inst Research

EBITDA and EBITDA Margin



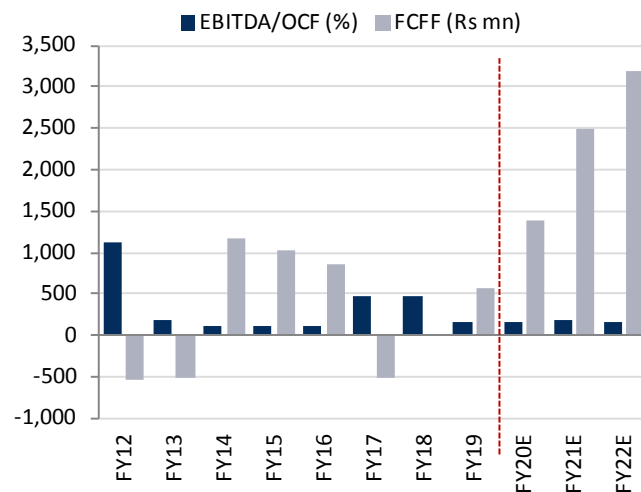
Source: Company, HDFC sec Inst Research

Return Ratios



Source: Company, HDFC sec Inst Research

EBITDA/OCF vs FCFF



Source: Company, HDFC sec Inst Research

Assumptions

Iso Butyl Benzene	FY17	FY18	FY19	FY20E	FY21E	FY22E
Installed Capacity(MT)	16,000	16,000	25,000	25,000	25,000	25,000
Unit sold	14,744	14,302	15,017	15,768	16,398	17,054
YoY %	0.0%	-3.0%	5.0%	5.0%	4.0%	4.0%
Utilisation	92.2%	89.4%	60.1%	63.1%	65.6%	68.2%
Realisation per unit (Rs/kg)	111	111	133	95	97	107
YoY %	-8.5%	0.1%	20.0%	0.0%	2.0%	10.0%
Total sales value (Rs In mn)	1,630	1,582	1,994	1,498	1,589	1,818
YoY %	-8.5%	-3.0%	26.0%	-24.9%	6.1%	14.4%

ATBS	FY17	FY18	FY19	FY20E	FY21E	FY22E
Installed Capacity(MT)	26,000	26,000	26,000	40,000	40,000	40,000
Unit sold	19,036	21,701	26,042	30,078	34,139	38,235
YoY %	8.0%	14.0%	20.0%	15.5%	13.5%	12.0%
Utilisation	73.2%	83.5%	100.2%	75.2%	85.3%	95.6%
Realisation per unit (Rs/kg)	150	174	258	263	284	307
YoY %	-1.0%	15.8%	48.0%	2.0%	8.0%	8.0%
Total sales value (Rs In mn)	2,864	3,780	6,714	7,909	9,695	11,727
YoY %	6.9%	32.0%	77.6%	17.8%	22.6%	21.0%

Isobutylene	FY17	FY18	FY19	FY20E	FY21E	FY22E
Installed Capacity(MT)	15,000	15,000	15,000	15,000	15,000	15,000
Total Unit sold/Production	12,990	14,944	15,116	16,287	17,465	18,654
YoY %	12.7%	15.0%	1.2%	7.7%	7.2%	6.8%
Utilisation	86.6%	99.6%	100.8%	108.6%	116.4%	124.4%
Realisation per unit (Rs/kg)	74.0	74.7	109.1	109.1	114.6	122.6
YoY %	2.0%	1.0%	46.0%	0.0%	5.0%	7.0%
Total sale value (Rs In mn)	544	604	882	891	945	1021
YoY %	7.1%	11.1%	46.0%	1.0%	6.1%	8.1%

Source: Company, HDFC sec Inst Research

We expect ATBS volume growth to be at 13.5% 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	14,325	12,898	(10.0)	17,580	15,879	(9.7)
EBIDTA	5,020	4,968	(1.0)	6,165	5,773	(6.4)
APAT	3,388	3,344	(1.3)	4,181	3,911	(6.5)
EPS	66	65	(1.3)	81	76	(6.5)

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
Vinati Organics	93.79	1,825	NEU	1,986	55.0	65.1	76.1	33.2	28.1	24.0	8.9	6.8	5.4	30.6	27.6	25.1
Navin Fluorine International Ltd	29.51	598	BUY	821	30.2	35.5	39.9	19.8	16.9	15.0	2.9	2.6	2.3	14.5	15.5	15.6
Alkyl Amines	14.41	706	BUY	1,309	41.1	45.5	59.5	17.2	15.5	11.9	3.9	3.3	2.7	25.3	23.2	25.2
Balaji Amines	7.55	233	BUY	452	35.4	30.6	34.5	6.6	7.6	6.7	1.3	1.1	1.0	19.4	14.6	14.4

Source: HDFC sec Inst Research

Income Statement (Standalone)

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	7,297	11,081	12,898	15,879	18,916
Growth (%)	13.9	51.9	16.4	23.1	19.1
Material Expenses	3,776	5,251	5,960	7,849	9,542
Employee Expenses	490	542	585	632	683
Other Expenses	1,059	1,252	1,385	1,625	1,917
EBITDA	1,973	4,036	4,968	5,773	6,775
EBITDA Margin (%)	27.0	36.4	38.5	36.4	35.8
EBITDA Growth (%)	(9.1)	104.6	23.1	16.2	17.4
Depreciation	234	274	482	496	533
EBIT	1,739	3,762	4,485	5,277	6,242
Other Income (Incl. EO Items)	307	500	559	627	702
Interest	12	9	12	16	20
PBT	2,034	4,252	5,033	5,888	6,924
Exceptional Items					
PBT After Exceptional Items	2,034	4,252	5,033	5,888	6,924
Tax (Incl Deferred)	595	1,428	1,690	1,976	2,324
RPAT	1,439	2,825	3,344	3,911	4,599
APAT	1,439	2,825	3,344	3,911	4,599
APAT Growth (%)	2.6	96.3	18.4	17.0	17.6

Source: Company, HDFC sec Inst Research

Balance Sheet (Standalone)

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
SOURCES OF FUNDS					
Share Capital - Equity	103	103	103	103	103
Reserves	7,864	10,410	13,623	17,342	21,750
Total Shareholders' Funds	7,967	10,513	13,726	17,445	21,852
Long Term Debt	3	3	-	-	-
Short Term Debt	152	37	57	75	93
Total Debt	155	39	57	75	93
Long-Term Provisions & Others	837	872	772	472	172
TOTAL SOURCES OF FUNDS	8,959	11,425	14,555	17,992	22,118
APPLICATION OF FUNDS					
Net Block	4,568	4,745	7,563	7,316	7,449
CWIP	349	1,912	250	665	718
LT Loans & Advances	253	308	308	308	308
Total Non-current Assets	5,171	6,965	8,121	8,290	8,475
Inventories	822	924	1,028	1,377	1,674
Debtors	1,771	2,440	2,866	3,529	4,204
Other Current Assets	650	943	1,077	1,326	1,580
Cash & Equivalents	1,370	1,003	2,300	4,493	7,382
Short Term Loans & Advances	15	2	26	32	38
Total Current Assets	4,629	5,311	7,297	10,757	14,877
Creditors	634	531	655	835	1,003
Other Current Liabilities & Provns	206	320	207	219	231
Total Current Liabilities	841	851	863	1,054	1,234
Net Current Assets	3,788	4,460	6,434	9,703	13,643
TOTAL APPLICATION OF FUNDS	8,959	11,425	14,555	17,992	22,118

Source: Company, HDFC sec Inst Research

Cash Flow Statement (Standalone)

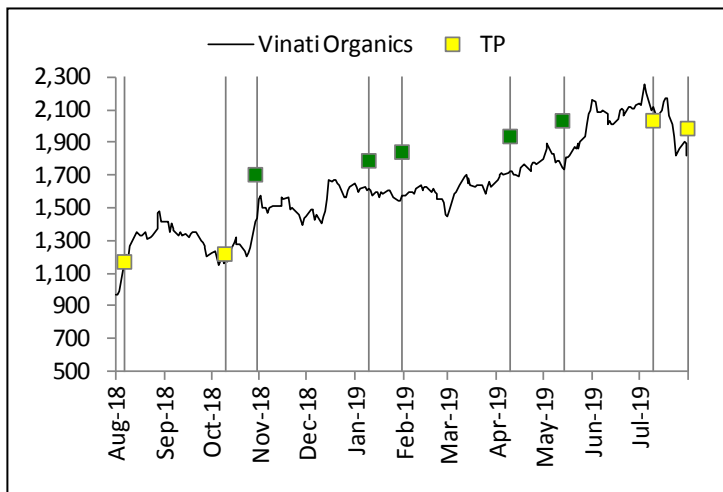
(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	2,034	4,252	5,033	5,888	6,924
Non-operating & EO Items	240	(155)	130	192	192
Interest Expenses	12	9	12	16	20
Depreciation	234	274	482	496	533
Working Capital Change	(1,021)	(685)	(677)	(1,075)	(1,052)
Tax Paid	(595)	(1,428)	(1,690)	(1,976)	(2,324)
OPERATING CASH FLOW (a)	423	2,578	3,030	3,156	3,909
Capex	(401)	(2,013)	(1,638)	(665)	(718)
Free Cash Flow (FCF)	22	564	1,392	2,491	3,191
Others	(62)	(55)	-	-	-
INVESTING CASH FLOW (b)	(463)	(2,068)	(1,638)	(665)	(718)
Debt Issuance/(Repaid)	(16)	(115)	17	18	18
Interest Expenses	(12)	(9)	(12)	(16)	(20)
FCFE	(429)	(2,138)	(1,632)	(663)	(720)
Dividend	(32)	(434)	-	-	-
Others	108	35	(100)	(300)	(300)
FINANCING CASH FLOW (c)	48	(523)	(94)	(298)	(302)
NET CASH FLOW (a+b+c)	7	(14)	1,297	2,193	2,888
Closing Cash & Equivalents	52	38	1,336	3,529	6,417

Source: Company, HDFC sec Inst Research

Key Ratios (Standalone)

	FY18	FY19	FY20E	FY21E	FY22E
PROFITABILITY (%)					
GPM	48.3	52.6	53.8	50.6	49.6
EBITDA Margin	27.0	36.4	38.5	36.4	35.8
APAT Margin	19.7	25.5	25.9	24.6	24.3
RoE	19.5	30.6	27.6	25.1	23.4
RoIC (or Core RoCE)	16.8	27.8	26.3	27.2	29.4
RoCE	17.4	27.8	25.8	24.1	23.0
EFFICIENCY					
Tax Rate (%)	29.3	33.6	33.6	33.6	33.6
Fixed Asset Turnover (x)	1.5	2.1	1.8	1.8	2.0
Inventory (days)	44	37	31	35	35
Debtors (days)	94	97	87	90	88
Other Current Assets (days)	35	37	33	34	33
Payables (days)	34	21	20	21	21
Other Current Liab & Provisions (days)	11	13	6	6	5
Cash Conversion Cycle (days)	128	137	125	131	131
Debt/EBITDA (x)	0.1	0.0	0.0	0.0	0.0
Net D/E (x)	(0.2)	(0.1)	(0.2)	(0.3)	(0.4)
Interest Coverage (x)	143.6	398.5	388.8	334.2	310.4
PER SHARE DATA (Rs)					
EPS	28.0	55.0	65.1	76.1	89.5
CEPS	32.5	60.3	74.4	85.8	99.9
Dividend	4.5	7.0	6.0	7.0	7.0
Book Value	155.0	204.6	267.1	339.5	425.2
VALUATION					
P/E (x)	65.2	33.2	28.1	24.0	20.4
P/BV (x)	11.8	8.9	6.8	5.4	4.3
EV/EBITDA (x)	46.9	23.0	18.4	15.5	12.8
EV/Revenues (x)	12.7	8.4	7.1	5.6	4.6
OCF/EV (%)	0.5	2.8	3.3	3.5	4.5
FCF/EV (%)	(0.4)	(2.2)	(1.8)	(0.7)	(0.8)
FCFE/Mkt Cap (%)	(0.5)	(2.3)	(1.7)	(0.7)	(0.8)
Dividend Yield (%)	0.2	0.4	0.3	0.4	0.4

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
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
9-Jul-19	2,112	NEU	2,034
1-Aug-19	1,820	NEU	1,986

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:

We, **Nilesh Ghuge, MMS & Divya Singhal, CA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

Any holding in stock –No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.