

Vinati Organics

BUY

Good buying opportunity

We upgrade VO to BUY despite muted performance in 2QFY20. VO will generate RoE of 30.5/27.1/24.8% and RoIC of 29.6/30.7/33.1% in FY20/21/22E. Valuations are contextually low at 22.8/19.4x FY21/22E PER. Our TP of Rs 2,331/share is based on a 25x Sep-21E EPS.

HIGHLIGHTS OF THE QUARTER

- Sales in Q2 fell 3.1% YoY to Rs 2.45bn. EBITDA stood at Rs 0.99bn, up 4.8% YoY. Currently, the ATBS plant is operating almost at its full capacity of 26ktpa. The brown field expansion of 14ktpa in ATBS has been pushed forward by two months to Dec-19 owing to a minor delay in engineering work.
- Having captured Lubrizol's market share in entirety, VO now holds >60% of the global ATBS market. The expanded capacity of ATBS enable it keep volume growth intact. We expect further volume growth of >10% for the company in ATBS that will result in 100% utilization of expanded capacity in 3.5 years.
- The Butyl Phenol plant (capacity 35ktpa) has started operating from Sep-19. The samples from the plant have been sent to customers for approval. Commercial production is expected to start in 4Q and we expect its

gradual ramp-up 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. IBB sales volume remained low in Q2. BASF, a major customer, is struggling with the production of Ibuprofen. With a handful of customers in the global market, VO is unable to push volumes. Hence, we expect subdued volume growth in FY20.

- EBITDA margins from Butyl Phenol products will be ~15% compared to the blended margins of 41.1% in 1HFY20. As contribution from these products in revenue increases over FY20/21, blended EBITDA margin will decline. We expect EBITDAM to reduce to 36.4/35.8% in FY21/22E from the current levels.

- Key monitorable:** Ramp up in ATBS and Butyl phenols.

STANCE

VO has corrected 17% from its peak (Sep-19) and is trading at 22.8/19.4x FY21/22E PER. We believe it should command premium valuations owing to (1) Its impeccable product selection (2) High market share globally (3) Best in class return ratios and earnings trajectory.

Financial Summary (Standalone)

Year Ending March (Rs mn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	FY19	FY20E	FY21E	FY22E
Net Sales	2,451	2,528	(3.1)	2,907	(15.7)	11,081	12,898	15,879	18,916
EBITDA	999	952	4.8	1,202	(16.9)	4,036	4,968	5,773	6,775
APAT	889	650	36.6	824	7.9	2,825	3,765	4,404	5,179
Diluted EPS (Rs)	17.3	12.7	36.6	16.0	7.9	55.0	73.3	85.7	100.8
P/E (x)						35.6	26.7	22.8	19.4
EV / EBITDA (x)						24.7	19.7	16.5	13.5
RoE (%)						30.6	30.5	27.1	24.8

Source: Company, HDFC sec Inst Research

INDUSTRY	CHEMICALS
CMP (as on 13 Nov 19)	Rs 1,950
Target Price	Rs 2,331
Nifty	11,840
Sensex	40,116

KEY STOCK DATA

Bloomberg	VO IN
No. of Shares (mn)	51
MCap (Rs bn) / (\$ mn)	100/1,392
6m avg traded value (Rs mn)	75

STOCK PERFORMANCE (%)

52 Week high / low	Rs 2,511/1,375
	3M 6M 12M
Absolute (%)	(6.5) 11.9 29.2
Relative (%)	(13.2) 4.8 14.0

SHAREHOLDING PATTERN (%)

	Jun-19	Sep-19
Promoters	74.01	74.01
FIs & Local MFs	6.20	6.39
FPIs	4.11	4.77
Public & Others	15.68	14.83
Pledged Shares	0.00	0.00

Source : BSE

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Revenue mix was ATBS-60%, IBB-11%, IB-9%, HP-MTBE:12% and others: 8%

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	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	1HFY20	1HFY19	YoY (%)
Net Sales	2,451	2,528	(3.1)	2,907	(15.7)	5,358	5,176	3.5
Raw Material Expenses	983	1,135	(13.3)	1,230	(20.1)	2,214	2,444	(9.4)
Employee Expenses	160	135	18.9	153	4.9	313	271	15.2
Other Expenses	309	307	0.6	323	(4.4)	631	590	7.0
EBITDA	999	952	4.8	1,202	(16.9)	2,200	1,870	17.7
Depreciation	72	69	4.2	70	2.9	142	136	3.8
EBIT	927	883	4.9	1,132	(18.1)	2,059	1,733	18.8
Other Income	112	107	4.5	114	(2.0)	226	228	(0.9)
Interest Cost	2.8	2	11.8	3	(9.1)	5.8	4	35.4
PBT	1,036	988	4.8	1,243	(16.7)	2,279	1,957	16.4
Tax	(64)	338	(119.0)	419	(115.3)	355	664	(46.5)
RPAT	1,100	650	69.2	824	33.6	1,924	1,293	48.8
EO Items (Adj For Tax)	212	-	NA	-	NA	212	-	NA
APAT	889	650	36.6	824	7.9	1,712	1,293	32.4
AEPS	17.3	12.7	36.6	16.0	7.9	33.3	25.1	32.7

Source: Company, HDFC sec Inst Research

Margin Analysis

	2QFY20	2QFY19	YoY (bps)	1QFY20	QoQ (bps)	1HFY20	1HFY19	YoY (bps)
Raw Material Expenses % Net Sales	40.1	44.9	(474)	42.3	(219)	41.3	47.2	(591)
Employee Expenses % Net Sales	6.5	5.3	121	5.2	128	5.8	5.2	59
Other Expenses % Net Sales	12.6	12.1	46	11.1	149	11.8	11.4	38
EBITDA Margin (%)	40.7	37.7	308	41.3	(59)	41.1	36.1	494
Adjusted Tax Rate (%)	14.2	34.2	(1,996)	33.7	(1,952)	24.9	33.9	(907)
APAT Margin (%)	36.3	25.7	1,054	28.3	793	32.0	25.0	698

Source: Company, HDFC sec Inst Research

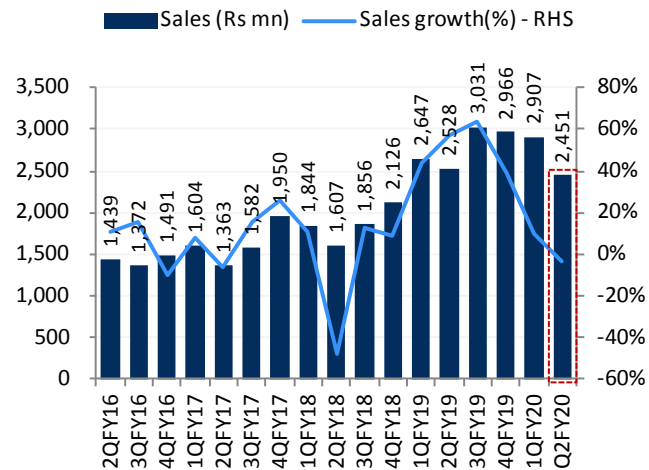
We expect sales growth of 16.4/23.1% in FY20E/FY21E respectively

EBITDA margins are likely to be in the range of 37% over FY20-22

We expect ROE/RoIC to be at 27.1/30.7% in FY21E and 24.8/33.1% in FY22E

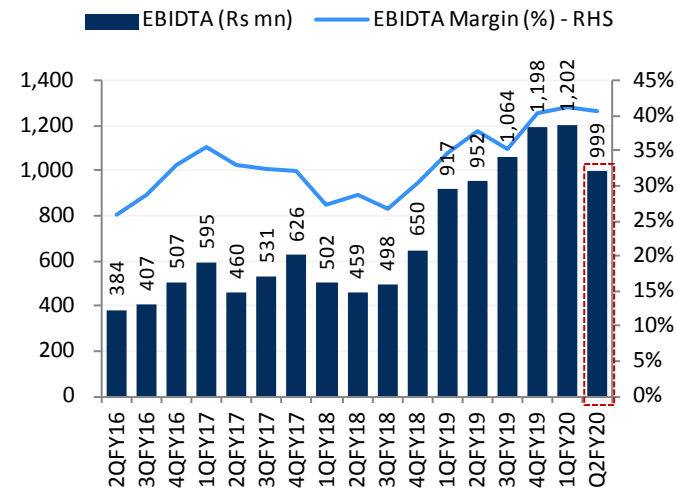
Quarterly Performance

Sales and Sales Growth



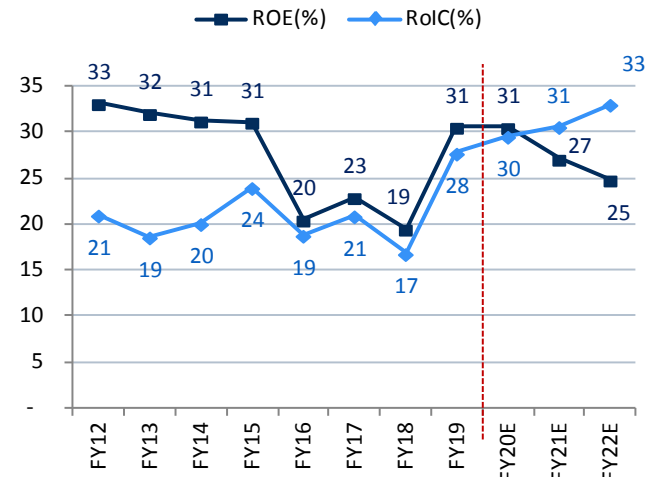
Source: Company, HDFC sec Inst Research

EBITDA and EBITDA Margin



Source: Company, HDFC sec Inst Research

Return Ratios



Source: Company, HDFC sec Inst Research

We expect ATBS volume growth to be at 13.5% on the back of capacity addition and supply shortage globally

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%	-3%	5%	5%	4%	4%
Utilisation	92%	89%	60%	63%	66%	68%
Realisation per unit (Rs/kg)	110.6	110.6	132.8	95.0	96.9	106.6
YoY %	-9%	0%	20%	0%	2%	10%
Total sales value (Rs In mn)	1,630	1,582	1,994	1,498	1,589	1,818
YoY %	-9%	-3%	26%	-25%	6%	14%

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%	14%	20%	16%	14%	12%
Utilisation	73%	83%	100%	75%	85%	96%
Realisation per unit (Rs/kg)	150	174	258	263	284	307
YoY %	-1%	16%	48%	2%	8%	8%
Total sales value (Rs In mn)	2,864	3,780	6,714	7,909	9,695	11,727
YoY %	7%	32%	78%	18%	23%	21%

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 %	13%	15%	1%	8%	7%	7%
Utilisation	87%	100%	101%	109%	116%	124%
Realisation per unit (Rs/kg)	74.0	75	109	109	115	123
YoY %	2%	1%	46%	0%	5%	7%
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

Change in estimates

	FY20 Old	FY20 New	YoY (%)	FY21 Old	FY21 New	YoY (%)	FY22 Old	FY22 New	YoY (%)
Net Sales	12,898	12,898	-	15,879	15,879	-	18,916	18,916	-
EBIDTA	4,968	4,968	-	5,773	5,773	-	6,775	6,775	-
APAT	3,765	3,765	-	4,404	4,404	-	5,179	5,179	-
EPS	73	73	-	86	86	-	101	101	-

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	100.47	1,950	BUY	2,237	55.0	73.3	85.7	35.6	26.7	22.8	9.6	7.1	5.5	30.6	30.5	27.1
Galaxy Surfactants	56.01	1,580	BUY	1,834	53.9	66.9	77.6	29.3	23.6	20.4	6.4	5.2	4.3	23.9	24.3	23.1
Navin Fluorine International Ltd	44.06	893	BUY	870	30.2	36.0	41.3	29.6	24.8	21.6	4.1	3.7	3.3	14.5	15.7	16.1
Alkyl Amines	20.66	1,012	BUY	1,770	41.1	64.0	74.7	24.6	15.8	13.6	5.7	4.5	3.6	25.3	31.5	29.2
Balaji Amines	11.50	355	BUY	488	35.4	34.4	37.2	10.0	10.3	9.5	1.9	1.7	1.4	19.4	16.1	15.1

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	1,268	1,484	1,745
RPAT	1,439	2,825	3,765	4,404	5,179
APAT	1,439	2,825	3,765	4,404	5,179
APAT Growth (%)	2.6	96.3	33.3	17.0	17.6
Adjusted EPS (Rs)	28.0	55.0	73.3	85.7	100.8
AEPS Growth (%)	2.6	96.3	33.3	17.0	17.6

Source: Company, HDFC sec Inst Research

Balance Sheet (Standalone)

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Share Capital - Equity	103	103	103	103	103
Reserves	7,864	10,410	14,044	18,256	23,243
Total Shareholders' Funds	7,967	10,513	14,147	18,359	23,346
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	14,976	18,906	23,611
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	2,722	5,407	8,875
Short Term Loans & Advances	15	2	26	32	38
Total Current Assets	4,629	5,311	7,718	11,671	16,371
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	6,856	10,617	15,136
TOTAL APPLICATION OF FUNDS	8,959	11,425	14,976	18,906	23,611

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)	(1,268)	(1,484)	(1,745)
OPERATING CASH FLOW (a)	423	2,578	3,451	3,649	4,488
Capex	(401)	(2,013)	(1,638)	(665)	(718)
Free Cash Flow (FCF)	22	564	1,813	2,984	3,770
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)	1,719	2,686	3,468
Closing Cash & Equivalents	52	38	1,757	4,443	7,911

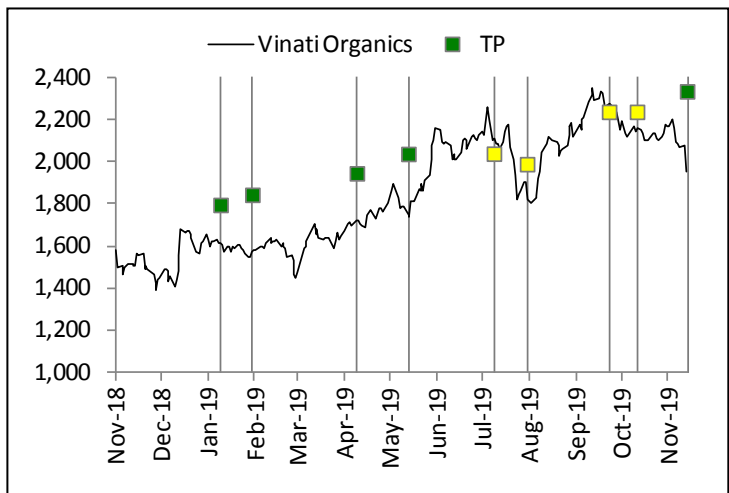
Source: Company, HDFC sec Inst Research

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	29.2	27.7	27.4
RoE	19.5	30.6	30.5	27.1	24.8
RoIC (or Core RoCE)	16.8	27.8	29.6	30.7	33.1
RoCE	17.4	27.8	28.6	26.1	24.4
EFFICIENCY					
Tax Rate (%)	29.3	33.6	25.2	25.2	25.2
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	73.3	85.7	100.8
CEPS	32.5	60.3	82.6	95.3	111.1
Dividend	4.5	7.0	6.0	7.0	7.0
Book Value	155.0	204.6	275.3	357.2	454.3
VALUATION					
P/E (x)	69.8	35.6	26.7	22.8	19.4
P/BV (x)	12.6	9.6	7.1	5.5	4.3
EV/EBITDA (x)	50.3	24.7	19.7	16.5	13.5
EV/Revenues (x)	13.6	9.0	7.6	6.0	4.8
OCF/EV (%)	0.4	2.6	3.5	3.8	4.9
FCF/EV (%)	(0.4)	(2.0)	(1.7)	(0.7)	(0.8)
FCFE/Mkt Cap (%)	(0.4)	(2.1)	(1.6)	(0.7)	(0.7)
Dividend Yield (%)	0.2	0.4	0.3	0.4	0.4

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
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
22-Sep-19	1,918	NEU	2,237
11-Oct-19	2,154	NEU	2,237
14-Nov-19	1,950	BUY	2,331

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

Disclosure:

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