

INDUSTRY	CHEMICALS		
CMP (as on 06 Aug 18)	Rs 1,173		
Target Price	Rs 1,170		
Nifty	11,387		
Sensex	37,692		
KEY STOCK DATA			
Bloomberg	VO IN		
No. of Shares (mn)	51		
MCap (Rs bn) / (\$ mn)	60/876		
6m avg traded value (Rs mn)			
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 1,188/756		
	3M	6M	12M
Absolute (%)	30.7	43.5	11.5
Relative (%)	22.7	33.3	(5.1)
SHAREHOLDING PATTERN (%)			
Promoters	74.01		
FIs & Local MFs	6.45		
FPIs	3.53		
Public & Others	16.01		
<i>Source : BSE</i>			

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Off to a flying start in FY19!

Vinati Organics (VO) is off to a spectacular start in FY19, VO has reported Sales/EBITDA/PAT growth of 43.6/82.8/106.6% YoY to Rs 2.64/0.92/0.64bn. PAT, adjusting for forex gain of Rs 90mn in the other income is at Rs 583 mn.

Higher than expected sales growth is attributed to a strong traction witnessed in ATBS (post Lubrizols exit from ATBS business) coupled with sales from high margin customized products. VO is expected to de-bottleneck ATBS capacity and will add 4,000 TPA to take the total capacity of ATBS to 30,000 TPA. We are expecting a 16% volume growth in ATBS for FY19E.

- Vinati Organics is expected to benefit from exit of Lubrizol in the ATBS market. Also, addition of Butylated Phenols to VO's product kitty will entail an addition of Rs 2.0bn to its topline by FY21E. Butylated phenols are expected to start contributing to revenues from 1QFY20. As per the management, Para Amino Phenol

Financial Summary

(Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)	FY18	FY19E	FY20E	FY21E
Net Sales	2,647	1,844	43.6	2,126	24.5	7,434	9,551	11,506	13,646
EBITDA	917	502	82.8	650	41.2	2,109	2,792	3,450	4,102
APAT	643	311	106.6	519	23.8	1,439	1,882	2,298	2,711
Diluted EPS (Rs)	12.5	6.0	106.6	10.1	23.8	28.0	36.6	44.7	52.8
P/E (x)						60.6	43.3	42.2	32.3
EV / EBITDA (x)						34.5	27.8	28.2	21.2
RoE (%)						20.5	22.9	19.5	21.2

Source: Company, HDFC sec Inst Research

(PAP) project is yet to be finalized and is still under the pilot mode. Execution of PAP project is a key overhang.

- We expect 2QFY19 to be a softer quarter for VO due to BASF's maintenance shut down in its Ibuprofen plant, which is expected to impact sales volumes of IBB (~21% of FY18 topline). Considering a stellar set of 1QFY19 numbers, we are revising our FY19/FY20/FY21 earnings upwards by 8.1/7.5/7.1% respectively. Due to the persistent rally in the stock (up 20%) post results, we downgrade to Neutral from Buy, with no change in P/E multiple and a revised TP of Rs 1,170.

Key highlights

- Gross margins have come in at 50.5% (up by 390 bps YoY and down 50 bps QoQ), this is due to mix tilting towards ATBS and customized products.
- Other income has jumped by 202.4% YoY to Rs 121 mn (which includes a forex gain impact of Rs 90mn), while interest costs have gone down by 78.9% YoY to Rs 2mn and depreciation has remained flat YoY.

Gross margins have improved despite an inflationary crude oil pricing scenario; this is most likely due to higher sales from ATBS.

EBITDA margins too have improved by 750 bps YoY and 410 bps QoQ to 34.7% in 1Q'19.

Quarterly Financials Snapshot

(Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
Net Sales	2,647	1,844	43.6	2,126	24.5
Material Expenses	1,310	984	33.1	1,043	25.6
Employee Expenses	137	122	12.1	119	14.5
Other Expenses	283	236	20.0	314	(9.9)
EBITDA	917	502	82.8	650	41.2
Depreciation	67	67	0.3	43	55.3
EBIT	850	435	95.6	606	40.2
Other Income & EO Items	121	40	202.4	78	56.0
Interest	1.8	9	(78.9)	6	(67.5)
PBT	969	466	108.0	678	42.9
Tax	327	155	110.6	159	105.4
RPAT	643	311	106.6	519	23.8
EO Items (Adj For Tax)	-	-	-	-	-
APAT	643	311	106.6	519	23.8
AEPS (Rs/sh)	12.5	6.0	106.6	10.1	23.8

Source: Company, HDFC sec Inst Research

Margin Analysis

Margin Analysis (% of Net Sales)	1QFY19	1QFY18	YoY (bps)	4QFY18	QoQ (bps)
Raw Material Expenses % Net Sales	49.5	53.4	(389)	49.0	44
Employee Expenses % Net Sales	5.2	6.6	(145)	5.6	(45)
Other Expenses % Net Sales	10.7	12.8	(210)	14.8	(408)
EBITDA Margin (%)	34.7	27.2	744	30.6	410
Tax Rate (%)	33.7	33.3	43	23.4	1,025

Source: Company, HDFC sec Inst Research

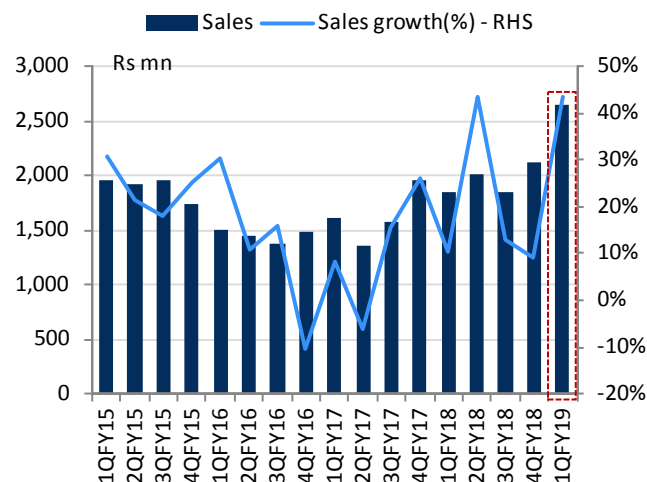
We expect sales growth of 28.5/20.5/18.6% in FY19E/FY20E/FY21E respectively.

EBITDA margins are likely to be in the range of 29-31% going ahead.

We expect ROE/RoIC to be at 21.2/30.8% in FY20E.

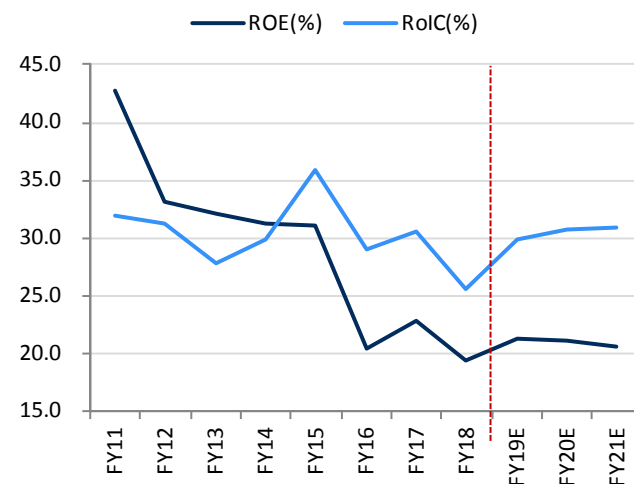
Quarterly Performance

Sales and Sales Growth



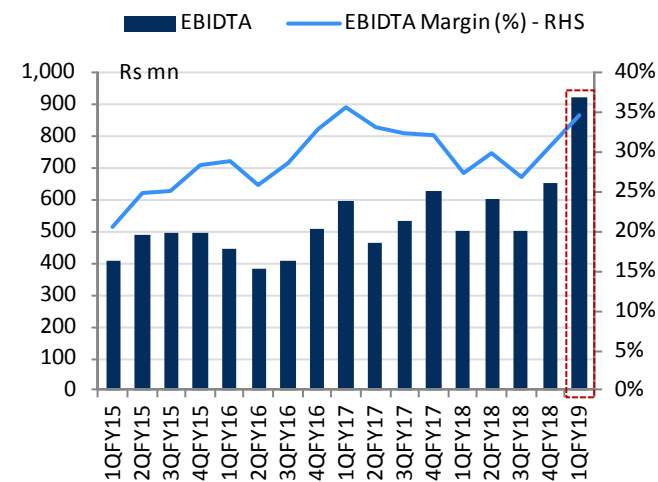
Source: Company, HDFC sec Inst Research

Return Ratios



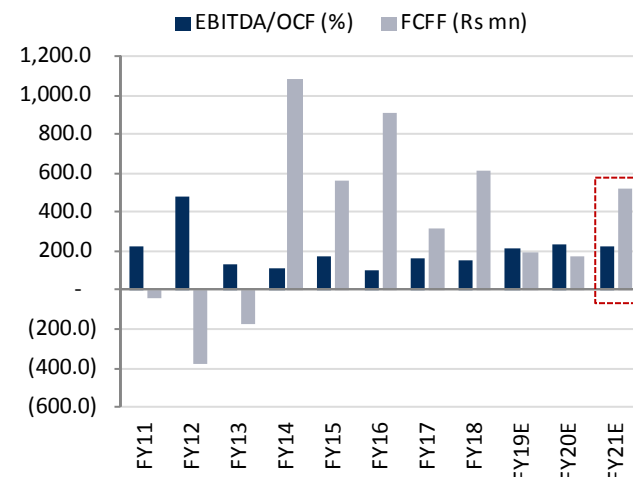
Source: Company, HDFC sec Inst Research

EBITDA and EBITDA Margin



Source: Company, HDFC sec Inst Research

EBITDA/OCF vs FCFF



Source: Company, HDFC sec Inst Research

We expect ATBS volume growth of 16% in FY19 due to Lubrizols exit from ATBS market.

We expect higher share of customized products in the mix hereon.

We expect IBB sales volumes to be impacted due to BASF's shutdown of Ibuprofen facility.

Assumptions

Iso Butyl Benzene	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Installed Capacity(MT)	16,000	16,000	16,000	16,000	16,000	16,000	25,000	25,000	25,000
Unit sold	13,493	13,898	14,315	14,744	14,744	14,302	16,876	19,070	21,549
YoY %	3.0%	3.0%	3.0%	3.0%	0.0%	-3.0%	18.0%	13.0%	13.0%
Utilisation	84.3%	86.9%	89.5%	92.2%	92.2%	89.4%	67.5%	76.3%	86.2%
Realisation per unit (Rs/kg)	152	175	162	121	111	111	127	127	127
YoY %	29.2%	15.1%	-7.1%	-25.5%	-8.5%	0.1%	14.5%	0.0%	0.0%
Total sales value (Rs In mn)	2,047	2,426	2,322	1,782	1,630	1,582	2,138	2,416	2,730
YoY %	33.1%	18.5%	-4.3%	-23.3%	-8.5%	-3.0%	35.1%	13.0%	13.0%

ATBS	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Installed Capacity(MT)	26,000	26,000	26,000	26,000	26,000	26,000	30,000	30,000	30,000
Unit sold	13,625	14,300	19,475	17,626	19,036	21,701	25,174	27,691	29,906
YoY %	9.0%	5.0%	36.2%	-9.5%	8.0%	14.0%	16.0%	10.0%	8.0%
Utilisation	52.4%	55.0%	74.9%	67.8%	73.2%	83.5%	83.9%	92.3%	99.7%
Realisation per unit (Rs/kg)	163	197	180	152	150	174	183	192	202
YoY %	-4.3%	20.7%	-8.9%	-15.4%	-1.0%	15.8%	5.0%	5.0%	5.0%
Total sales value (Rs In mn)	2,226	2,820	3,499	2,678	2,864	3,780	4,604	5,318	6,031
YoY %	4.3%	26.7%	24.1%	-23.5%	6.9%	32.0%	21.8%	15.5%	13.4%

Isobutylene	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Installed Capacity(MT)	12,000	12,000	12,000	12,000	15,000	15,000	15,000	15,000	15,000
Total Unit sold/Production	8,400	9,600	12,000	11,525	12,990	14,944	15,444	16,288	17,055
YoY %	7.7%	14.3%	25.0%	-4.0%	12.7%	15.0%	3.3%	5.5%	4.7%
Utilisation	70.0%	80.0%	100.0%	96.0%	86.6%	99.6%	103.0%	108.6%	113.7%
Realisation per unit (Rs/kg)	114.3	154.8	126.7	72.5	74.0	74.7	80.0	80.0	80.0
YoY %	50.1%	35.5%	-18.2%	-42.7%	2.0%	1.0%	7.0%	0.0%	0.0%
Total sale value (Rs In mn)	560	867	887	508	544	604	659	673	686
YoY %	61.7%	54.8%	2.3%	-42.7%	7.1%	11.1%	9.1%	2.0%	2.0%

Source: Company, HDFC sec Inst Research

Change in estimates

	FY19 Old	FY19 New	YoY Gr (%)	FY20 Old	FY20 New	YoY Gr (%)
Net Sales	9,151	9,551	4.4	11,056	11,506	4.1
EBIDTA	2,592	2,792	7.7	3,222	3,450	7.1
APAT	1,740	1,882	8.1	2,137	2,298	7.5

Source: HDFC sec Inst Research

Peer Set Comparison

Particulars	Mcap (Rs bn)	CMP (Rs/sh)	Rating	TP	EPS (Rs)			P/E (x)			EV/EBITDA (x)			RoE %		
					FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18E	FY19E	FY20E
Alkyl Amines	13.0	638	BUY	940	31.5	36.7	41.2	20.6	17.4	15.5	12.9	10.7	9.5	23.7	23.0	21.8
Balaji Amines	18.5	570	BUY	748	34.7	38.6	43.2	16.4	14.8	13.2	10.7	8.8	7.7	23.2	19.5	18.2
Navin Fluorine International	34.1	691	BUY	915	26.3	33.4	40.4	26.3	20.7	17.1	14.8	13.9	11.6	14.3	15.8	17.0
Vinati Organics	60.0	1,173	NEU	1,170	28.0	36.6	44.7	42.2	32.3	26.4	28.2	21.2	17.1	19.5	21.2	21.2

Source: HDFC sec Inst Research

Income Statement

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Revenues	6,408	7,434	9,151	11,056	13,146
Growth (%)	6.9	16.0	23.1	20.8	18.9
Material Expenses	3,005	3,776	4,647	5,627	6,716
Employee Expenses	419	490	549	614	688
Other Expenses	814	1,059	1,365	1,592	1,893
EBITDA	2,170	2,109	2,592	3,222	3,849
EBITDA Margin (%)	33.9	28.4	28.3	29.1	29.3
EBITDA Growth (%)	23.7	(2.8)	22.9	24.3	19.5
Depreciation	216	234	302	385	468
EBIT	1,953	1,876	2,290	2,837	3,382
Other Income (Incl. EO Items)	125	170	180	190	200
Interest	19	12	10	6	2
PBT	2,060	2,034	2,460	3,021	3,579
Exceptional Items					
PBT After Exceptional Items	2,060	2,034	2,460	3,021	3,579
Tax (Incl Deferred)	657	595	720	884	1,047
RPAT	1,403	1,439	1,740	2,137	2,532
APAT	1,403	1,439	1,740	2,137	2,532
APAT Growth (%)	40.1	2.6	21.0	22.8	18.5
Adjusted EPS (Rs)	27.3	28.0	33.9	41.6	49.3
AEPS Growth (%)	40.1	2.6	21.0	22.8	18.5

Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital - Equity	103	103	103	103	103
Reserves	6,697	7,864	9,535	11,542	13,882
Total Shareholders' Funds	6,800	7,967	9,638	11,645	13,985
Minority Interest	-	-	-	-	-
Long Term Debt	148	3	3	-	-
Short Term Debt	23	152	102	52	2
Total Debt	171	155	105	52	2
Long-Term Provisions & Others	730	837	737	637	337
TOTAL SOURCES OF FUNDS	7,700	8,959	10,480	12,334	14,325
APPLICATION OF FUNDS					
Net Block	4,676	4,568	5,541	5,955	6,288
CWIP	74	349	174	674	1,174
LT Loans & Advances	191	253	253	253	253
Other Assets	-	-	-	-	-
Total Non-current Assets	4,941	5,171	5,968	6,883	7,715
Inventories	651	822	1,033	1,373	1,599
Debtors	1,405	1,771	1,830	2,352	2,921
Other Current Assets	536	650	824	1,050	1,249
Cash & Equivalents	666	1,370	1,597	1,638	1,952
Short Term Loans & Advances	12	15	18	22	26
Total Current Assets	3,270	4,629	5,301	6,435	7,748
Creditors	327	634	596	783	930
Other Current Liabilities & Provns	183	206	193	200	208
Total Current Liabilities	511	841	789	984	1,138
Net Current Assets	2,760	3,788	4,512	5,452	6,610
TOTAL APPLICATION OF FUNDS	7,700	8,959	10,480	12,334	14,325

Source: Company, HDFC sec Inst Research

Cash Flow

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Reported PBT	2,060	2,034	2,460	3,021	3,579
Non-operating & EO Items	(75)	(109)	(180)	(190)	(200)
Interest Expenses	19	11	10	6	2
Depreciation	216	254	302	385	468
Working Capital Change	(380)	(316)	(498)	(898)	(844)
Tax Paid	(535)	(491)	(820)	(984)	(1,347)
OPERATING CASH FLOW (a)	1,304	1,383	1,275	1,340	1,659
Capex	(990)	(766)	(1,099)	(1,300)	(1,300)
Free Cash Flow (FCF)	314	617	176	40	359
Investments	(9)	378	-	-	-
Non-operating Income	731	-	180	190	200
INVESTING CASH FLOW (b)	(268)	(388)	(919)	(1,110)	(1,100)
Debt Issuance/(Repaid)	(396)	-	(50)	(53)	(50)
Interest Expenses	(16)	(11)	(10)	(6)	(2)
FCFE	(1,402)	(777)	(1,159)	(1,359)	(1,352)
Share Capital Issuance	-	(240.0)	0	0	0
Dividend	(35)	(32)	(308)	(370)	(432)
Others	(15)	245	240	240	240
FINANCING CASH FLOW (c)	(451)	(37)	(129)	(189)	(244)
NET CASH FLOW (a+b+c)	586	958	227	41	314
EO Items, Others	-	-	52	-	-
Closing Cash & Equivalents	621	1,318	1,597	1,638	1,952

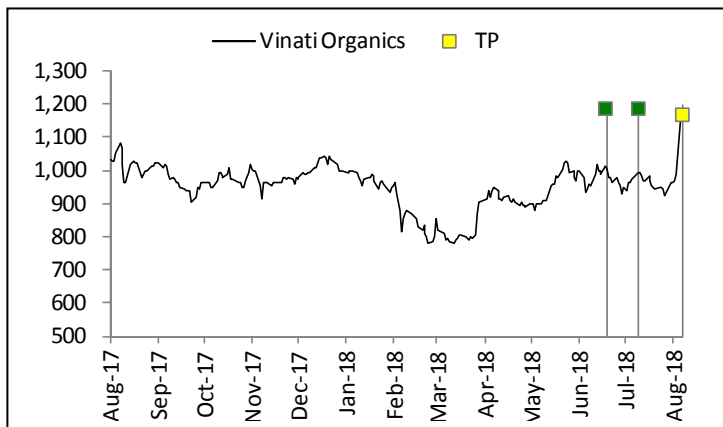
Source: Company, HDFC sec Inst Research

Key Ratios

	FY17	FY18	FY19E	FY20E	FY21
PROFITABILITY (%)					
GPM	46.9	50.8	50.8	50.9	51.1
EBITDA Margin	33.9	28.4	28.3	29.1	29.3
APAT Margin	21.9	19.4	19.0	19.3	19.3
RoE	22.9	19.5	19.8	20.1	19.8
RoIC (or Core RoCE)	30.6	25.6	27.7	28.9	29.2
RoCE	20.1	17.4	18.0	18.8	19.0
EFFICIENCY					
Tax Rate (%)	31.9	29.3	29.3	29.3	29.3
Fixed Asset Turnover (x)	1.5	1.5	1.5	1.4	1.5
Inventory (days)	38	43	45	50	48
Debtors (days)	83	93	81	85	88
Other Current Assets (days)	32	34	36	38	38
Payables (days)	19	33	26	28	28
Other Current Liab & Provns (days)	11	11	8	7	6
Cash Conversion Cycle (days)	123	127	128	137	140
Debt/EBITDA (x)	0.1	0.1	0.0	0.0	0.0
Net D/E (x)	(0.1)	(0.2)	(0.2)	(0.1)	(0.2)
Interest Coverage (x)	104.9	154.9	225.5	462.5	1,599.3
PER SHARE DATA (Rs)					
EPS	27.3	28.0	33.9	41.6	49.3
CEPS	31.5	32.5	39.7	49.1	58.4
Dividend	0.5	4.5	5.0	6.0	7.0
Book Value	132.3	155.0	187.5	226.6	272.1
VALUATION					
P/E (x)	43.3	42.2	34.9	28.4	24.0
P/BV (x)	8.9	7.6	6.3	5.2	4.3
EV/EBITDA (x)	27.8	28.2	22.9	18.4	15.3
FCFE/Mkt Cap (%)	(2.3)	(1.3)	(1.9)	(2.2)	(2.2)
Dividend Yield (%)	0.0	0.4	0.4	0.5	0.6

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
18-Jun-18	1,020	BUY	1,185
9-Jul-18	978	BUY	1,185
7-Aug-18	1,173	NEU	1,170

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:

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

