

Key products to maintain pace of growth...

About the stock: Vinati Organics is a leading manufacturer of specialty chemical and organic intermediaries with global market leadership in its two key products- two- Acrylamido two Methylpropane Sulphonic Acid (ATBS) and Isobutyl Benzene (IBB). Starting with IBB and subsequent forays into IB, ATBS, Butyl phenols, the company is now moving towards antioxidants.

- The company has two manufacturing facilities at Mahad and Lote
- In terms of revenue contribution, ATBS constitutes ~40-50% of overall revenue followed by IBB of 20-30% while the rest is from other segments such as IB, Butyl phenols and derivatives

Q3FY23 Results: Numbers were marginally below our estimates on the revenue front while it was above our estimates on the EBITDA and PAT front, driven by softening in raw material prices.

- Reported revenue growth of 37.9% YoY to ₹ 508.7 crore, led by demand pickup in Iso Butyl Benzene (IBB) and stable demand from ATBS and Isobutylene (IB)
- Gross margins increased 270 bps YoY and 662 QoQ to 51.6% while EBITDA margin grew 705 bps YoY and 598 bps to 32.2%. Absolute EBITDA was up 77% YoY to ₹ 163.8 crore
- PAT increased 51% YoY to ₹ 125.4 crore

What should investors do? The stock appreciated at 22.4% CAGR in last three years.

- We change our rating from BUY to **HOLD** as the strong outlook for ATBS and newer products has already been factored into current price

Target Price and Valuation: We value Vinati Organics at 35x P/E FY25E EPS to arrive at a revised target price of ₹ 2055/share (earlier ₹ 2320/share).

Key triggers for future price performance:

- Upcoming commissioning of expansion of ATBS plant and commissioning of MEHQ, Guaiacol and Iso Amylene plant to aid revenue growth further
- Strong demand from ATBS from end user industry likely to support group operating margins
- Softening of raw material prices to increase gross profit margins

Alternate Stock Idea: Besides Vinati Organics, in our chemical coverage we also like SRF.

- Trigger for SRF's future revenue growth would be increasing specialty chemical business
- BUY with a target price of ₹ 2550



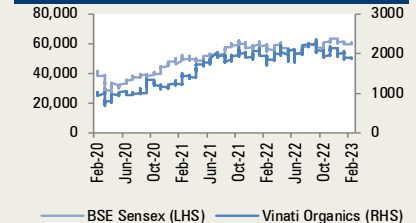
Particulars

Particular	Amount
Market cap (₹ Crore)	19,405
FY22 Total Debt (₹ Crore)	18
FY22 Cash & Inv (₹ Crore)	4
EV (₹ Crore)	19,419
52 Week H/L	2377/1674
Equity Capital (₹ Crore)	10.3
Face Value (₹)	1

Shareholding pattern

in %	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	74.1	74.1	74.1	74.1
DII	7.9	8.1	8.0	7.9
FII	4.6	4.7	4.8	4.8
Others	13.5	13.2	13.2	13.3

Price Chart



Recent event & key risks

- Additional investment of 5.84 crores into wholly owned subsidiary Veeral Organics Pvt. Ltd.
- Key Risk:** (i) Lower oil prices could affect ATBS segment revenue growth, (ii) Better than expected traction from new products

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-24E)
Net Revenue	1,127.9	1,028.9	954.3	1,615.5	20.3%	1,841.2	2,206.1	2,662.1	18.1%
EBITDA	423.4	413.9	352.5	434.1	14.9%	548.7	650.8	796.0	22.4%
EBITDA Margins (%)	37.5%	40.2%	36.9%	26.9%		29.8%	29.5%	29.9%	
Adj.PAT	282.5	333.8	269.3	346.6	19.8%	427.4	493.0	603.1	20.3%
Adj. EPS (₹)	27.5	32.5	26.2	33.7		41.6	48.0	58.7	
EV/EBITDA	45.6x	46.2x	54.5x	44.7x		35.6x	30.3x	24.3x	
P/E	68.7x	58.1x	72.1x	56.0x		45.4x	39.4x	32.2x	
ROE (%)	26.9	26.1	17.4	19.0		19.7	19.2	19.8	
ROCE (%)	40.4	33.3	21.7	24.3		23.9	22.4	24.6	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlight

Q3FY23 Results: Decent growth across all segments lead performance

- Performance from key segments remain strong:** Since key RMAAT prices began to decline, the company's gross margins has begun to exceed ~52%. Apart from this, better volume growth owing to gaining market share in the segment such as butyl phenols along with higher demand of high grade ATBS supported growth for the segment. Moreover, revival in demand of IBB also drove growth, to some extent, for the quarter. It is anticipated that the company has not seen any slowdown in demand from international markets during the quarter. Further the company is hedged with raw material prices and expect to maintain EBITDA margin of 28-30% in FY24.
- Higher gross margins, helped to drive EBITDA margins:** Softening of logistics and power fuel cost helped the company to report highest ever EBITDA margins compared to previous six quarters

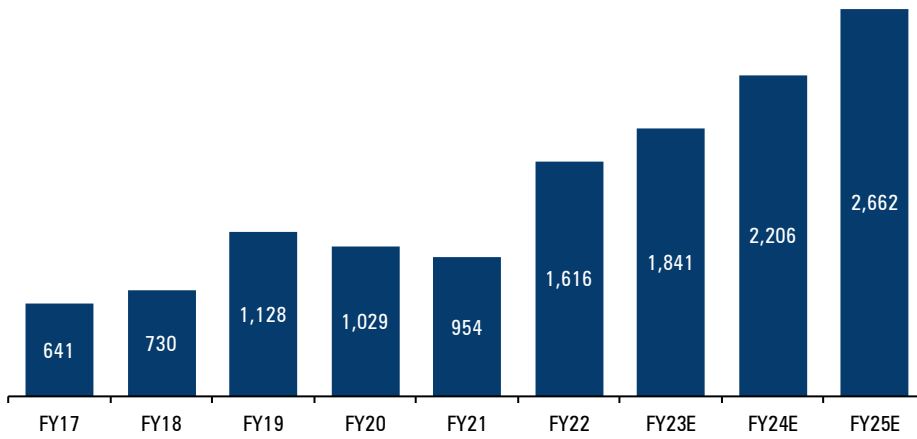
Vinati - ESG Disclosure Score*

Score	FY20	FY21	FY22
Environmental	2.4	2.4	2.4
Social	19.1	19.9	19.9
Governance	78.6	78.6	78.6
Overall ESG Score	33.42	33.68	33.68

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

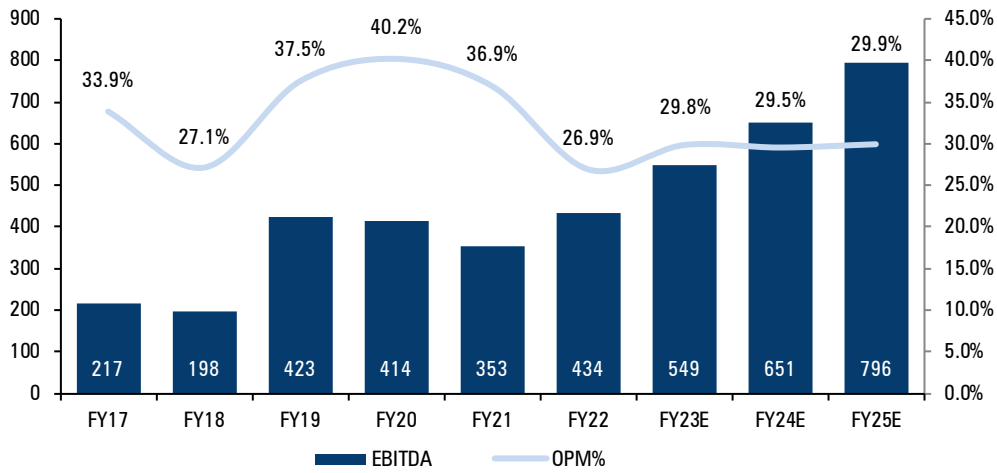
Financial story in charts....

Exhibit 1: Better growth visibility from ongoing capex to aid topline (₹ crore)



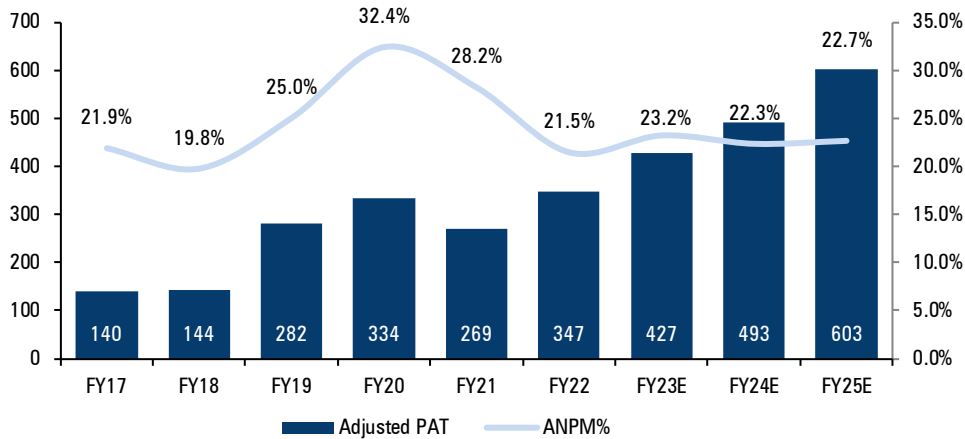
Source: Company, ICICI Direct Research

Exhibit 2: EBITDA (₹ crore) and OPM (%) trend



Source: Company, ICICI Direct Research

Exhibit 3: PAT growth trend (₹ crore)



Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement					
₹ crore					
Year end March	FY21	FY22	FY23E	FY24E	FY25E
Total Operating Income	954.3	1,615.5	1,841.2	2,206.1	2,662.1
Growth (%)	-7.3	69.3	14.0	19.8	20.7
Raw Material Expenses	387.7	860.7	939.0	1,103.0	1,331.0
Employee Cost	72.6	84.0	92.1	110.3	135.8
Other Expenses	141.4	236.7	261.4	341.9	399.3
Total Operating Expenditure	601.7	1,181.4	1,292.5	1,555.3	1,866.1
EBITDA	352.5	434.1	548.7	650.8	796.0
Growth (%)	-14.8	23.1	26.4	18.6	22.3
Other Income	25.8	60.9	68.5	86.0	105.0
Depreciation	42.9	45.5	51.4	71.4	89.9
Net Interest Exp.	0.2	0.3	7.0	21.0	22.8
Other exceptional items	0.0	0.0	0.0	0.0	0.0
PBT	335.2	449.2	558.8	644.4	788.4
Total Tax	65.9	102.6	131.3	151.4	185.3
PAT	269.3	346.6	427.4	493.0	603.1
Adjusted PAT	269.3	346.6	427.4	493.0	603.1
Growth (%)	-19.3	28.7	23.3	15.3	22.3
Adjusted EPS (₹)	26.2	33.7	41.6	48.0	58.7

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					
₹ crore					
Year end March	FY21	FY22	FY23E	FY24E	FY25E
PBT & Extraordinary	335.2	449.2	558.8	644.4	788.4
Add: Depreciation	42.9	45.5	51.4	71.4	89.9
After other adjustments					
(Inc) / Dec in Working Capital	-87.4	-225.6	-155.2	-143.3	-198.0
Taxes	-60.7	-108.1	-131.3	-151.4	-185.3
Others	-11.0	-34.2	7.0	21.0	22.8
CF from operating activities	219.0	126.8	330.6	442.1	517.7
Purchase of Fixed Assets	-83.3	-173.9	-365.0	-480.0	-200.0
Others	-115.0	-81.4	0.1	-26.5	0.0
CF from investing activities	-198.3	-255.4	-364.9	-506.5	-200.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	1.7	16.4	181.6	200.0	-150.0
Dividend paid & dividend tax	-5.5	-61.8	-85.5	-98.6	-120.6
Others	0.8	-1.1	-7.0	-21.0	-22.8
CF from financing activities	-3.1	-46.5	89.1	80.4	-293.4
Net cash flow	17.6	-175.2	54.9	16.0	24.4
Opening cash	53.7	6.9	4.3	59.1	75.1
Closing cash	6.9	4.3	59.1	75.1	99.5

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet					
₹ crore					
Year end March	FY21	FY22	FY23E	FY24E	FY25E
Liabilities					
Equity Capital	10.3	10.3	10.3	10.3	10.3
Reserves & Surplus	1,533.1	1,817.7	2,159.7	2,554.1	3,036.6
Total Shareholders Funds	1,543.4	1,828.0	2,170.0	2,564.4	3,046.8
Minority Interest	0.0	0.0	0.0	0.0	0.0
Long Term Borrowings	0.0	0.0	200.0	400.0	250.0
Net Deferred Tax liability	77.9	90.0	90.0	90.0	90.0
Other long term liabilities	6.0	4.5	5.1	6.1	7.3
Long term provisions	0.0	0.0	0.0	0.0	0.0
Current Liabilities and Provisions					
Short term borrowings	2.0	18.4	0.0	0.0	0.0
Trade Payables	66.6	114.6	126.1	151.1	182.3
Other Current Liabilities	33.1	28.9	33.0	39.5	47.7
Short Term Provisions	4.7	5.4	6.1	7.3	8.8
Total Current Liabilities	106.4	167.3	165.2	197.9	238.8
Total Liabilities	1,733.8	2,089.8	2,630.3	3,258.4	3,633.0
Assets					
Net Block	756.8	873.2	1,088.2	1,646.8	1,757.0
Capital Work in Progress	55.8	51.5	150.0	0.0	0.0
Intangible assets under devl.	0.0	0.0	0.0	0.0	0.0
Goodwill on Consolidation	0.0	0.0	0.0	0.0	0.0
Non-current investments	107.8	93.5	93.5	120.0	120.0
Deferred tax assets	0.0	0.0	0.0	0.0	0.0
Long term loans and advances	133.1	254.4	254.4	254.4	254.4
Other Non Current Assets	25.2	41.2	46.9	56.2	67.9
Current Assets, Loans & Advances					
Current Investments	180.9	0.1	0.0	0.0	0.0
Inventories	121.9	176.2	252.2	272.0	328.2
Sundry Debtors	277.2	458.4	529.7	646.7	780.4
Cash and Bank	6.9	4.3	59.1	75.1	99.5
Loans and Advances	0.1	0.3	0.3	0.3	0.3
Other Current assets	68.1	136.8	155.9	186.7	225.4
Current Assets	655.1	776.0	997.2	1,180.9	1,433.7
Total Assets	1,733.8	2,089.8	2,630.3	3,258.4	3,633.0

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
Year end March	FY21	FY22	FY23E	FY24E	FY25E
Per share data (₹)					
Adj. EPS	26.2	33.7	41.6	48.0	58.7
Adj. Cash EPS	30.4	38.1	46.6	54.9	67.4
BV	150.2	177.9	211.1	249.5	296.4
DPS	6.0	6.5	8.3	9.6	11.7
Operating Ratios (%)					
Gross Margin (%)	59.4	46.7	49.0	50.0	50.0
EBITDA Margin (%)	36.9	26.9	29.8	29.5	29.9
PAT Margin (%)	28.2	21.5	23.2	22.3	22.7
Debtor Days	106	104	105	107	107
Inventory Days	47	40	50	45	45
Creditor Days	25	26	25	25	25
Cash Conversion Cycle	127	117	130	127	127
Return Ratios (%)					
Return on Assets (%)	15.5	16.6	16.3	15.1	16.6
RoCE (%)	21.7	24.3	23.9	22.4	24.6
RoE (%)	17.4	19.0	19.7	19.2	19.8
Solvency					
Total Debt / Equity	0.0	0.0	0.1	0.2	0.1
Interest Coverage	1,583.1	1,737.6	80.8	31.7	35.7
Current Ratio	6.2	4.6	6.0	6.0	6.0
Quick Ratio	5.0	3.6	4.5	4.6	4.6
Valuation Ratios (x)					
EV/EBITDA	54.5	44.7	35.6	30.3	24.3
P/E	72.1	56.0	45.4	39.4	32.2
P/B	12.6	10.6	8.9	7.6	6.4
EV/Sales	20.1	12.0	10.6	8.9	7.3

Source: Company, ICICI Direct Research

Exhibit 8: ICICI Direct coverage universe (Chemicals)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
SRF	2182	2,550	Buy	64,894	63.5	58.3	73.6	34.4	37.4	29.7	21.3	22.4	17.9	23.8	18.9	21.0	22.1	17.7	19.0
PI Industries	3620	3,930	Hold	50,572	55.5	67.2	82.4	57.6	47.6	38.8	40.8	34.2	27.8	16.3	17.1	18.2	13.8	14.5	15.2
Tata Chemical	965	1,170	Buy	24,642	93.0	97.3	110.6	10.4	9.9	8.7	6.6	5.5	5.4	11.8	11.3	11.7	11.6	11.0	11.2
Vinati Organics	1888	2,055	Hold	19,405	33.7	41.6	48.0	56.0	45.4	39.4	44.7	35.6	30.3	24.3	23.9	22.4	19.0	19.7	19.2
Sumitomo Chemical	438	525	Buy	21,860	8.5	10.8	12.4	51.6	40.5	35.2	35.7	28.4	24.2	30.2	30.1	28.1	22.0	22.4	20.9
Navin Fluorine	3963	4,450	Hold	19,635	52.3	67.4	89.0	80.3	62.3	47.2	58.4	41.8	30.6	17.8	18.7	19.6	14.0	15.8	17.9
Rallis India	224	223	Hold	4,353	8.4	8.7	11.8	26.5	25.7	18.9	15.2	15.5	11.4	12.7	11.4	14.7	9.7	9.4	11.6
Sudarshan chemical	379	515	Hold	2,621	18.8	19.3	28.5	24.0	23.3	15.8	14.2	12.8	9.6	10.9	11.3	15.4	15.6	14.3	18.3
Neogen Chemicals	1245	1,645	Buy	3,109	17.9	27.2	32.9	79.5	52.2	43.2	41.8	30.2	25.0	12.0	15.0	16.2	10.2	13.6	14.3
Astec Lifesciences	1710	2,215	Buy	3,356	45.1	54.8	69.3	39.7	32.7	25.9	24.6	20.7	16.5	19.3	17.7	19.4	22.3	21.3	21.2

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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