

Vinati Organics

Accumulate



- Vinati Organics Q4FY20 sales were below our estimates to Rs 2.45bn (D.est: Rs 2.75bn), sales de-grew by 17.3% YoY and were up 2.9% sequentially.
- The de-growth in sales YoY is largely attributed to de-growth in ATBS and IBB volumes. Gross margins improved by 442bps YoY and 509bps QoQ on account of benign RM costs.
- EBITDA/PAT degrew by 15.1/9.6% YoY to Rs 1.0bn/Rs 746mn respectively. Employee costs were up 21.9% YoY to Rs159 mn, a higher other income up by 57.8% YoY to Rs 162mn and a lower tax rate of 31% against 33% in 4 shielded PAT to Rs 746mn.

Vinati Organics has commissioned Butyl Phenols plant and is expected to derive ~Rs 1.0-2.0bn sales in FY21E. Butyl Phenols, inherently have a lower operating margin than VO's current blended margin. We have thus factored in EBITDA margins of 37.5/36.2% in FY21/FY22E. We expect ATBS volume growth to be subdued (assumed 2.0% volume growth) on account of lower demand in enhanced oil recovery applications and slowdown due to COVID-19 pandemic. We also have noted that the incremental ATBS capacity of 14,000 TPA is likely to get commissioned at the end of FY21E or at the beginning of FY22E. We are expecting IBB sales to pick up starting FY21E as volume off-take to a key customer is approaching normalcy.

Outlook and Valuation

Vinati Organics has an impeccable product selection history and is a market leader in most of the products it manufactures (ATBS: Global market share - 65%, IBB: Global market share - 65% and IB: Domestic market share - 70%). Vinati Organics has the best in class operational efficiencies which help them in deriving superior margins (40.2% EBITDAM in FY20) and subsequently return ratios (ROE/RoCE: 28.6/26.8% in FY20). We continue to remain positive on Vinati Organics earnings trajectory given commissioning of the new ATBS and Butyl Phenols capacity. We have upgraded our estimates for FY21/22E due to an anticipation of higher sales volumes from IBB and Butyl Phenols, we have upgraded our EPS by 9.3/3.0% to Rs 34.2/39.5 respectively. We continue to be positive on the stock, however due to prevailing rich valuations we maintain accumulate rating with a target price of Rs 1,066/share.

Q4FY20 Result (Rs Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	2,453	2,966	(17.3)	2,385	2.9
Total Expense	1,437	1,768	(18.8)	1,555	(7.6)
EBITDA	1,017	1,198	(15.1)	830	22.5
Depreciation	97	68	42.4	93	4.5
EBIT	920	1,130	(18.6)	737	24.8
Other Income	162	103	57.8	154	5.3
Interest	3	2	12.0	3	2.7
EBT	1,079	1,230	(12.3)	889	21.5
Tax	333	405	(17.8)	220	51.1
RPAT	746	825	(9.6)	668	11.7
APAT	746	825	(9.6)	668	11.7
			(bps)		(bps)
Gross Margin (%)	59.7	55.2	442	54.6	509
EBITDA Margin (%)	41.4	40.4	106	34.8	664
NPM (%)	30.4	27.8	260	28.0	240
Tax Rate (%)	30.8	32.9	(206)	24.8	605
EBIT Margin (%)	37.5	38.1	(60)	30.9	658

CMP	Rs 992
Target / Upside	Rs 1,066 / 7%
BSE Sensex	33,479
NSE Nifty	9,881

Scrip Details

Equity / FV	Rs 103mn / Rs 2
Market Cap	Rs 102bn
	USD 1bn
52-week High/Low	Rs 2,393/Rs 651
Avg. Volume (no)	113,285
NSE Symbol	VINATIORGA
Bloomberg Code	VO IN

Shareholding Pattern Mar'20(%)

Promoters	74.1
MF/Banks/FIs	6.1
FII	5.1
Public / Others	14.8

Valuation (x)

	FY20A	FY21E	FY22E
P/E	30.5	29.0	25.1
EV/EBITDA	23.9	21.3	18.2
ROE (%)	28.6	25.2	24.7
RoACE (%)	26.9	24.0	23.7

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	10,289	12,274	14,633
EBITDA	4,139	4,609	5,298
PAT	3,338	3,514	4,058
EPS (Rs.)	32.5	34.2	39.5

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Exhibit 1: Actual vs DART Estimates (Rs mn) – Q4FY20

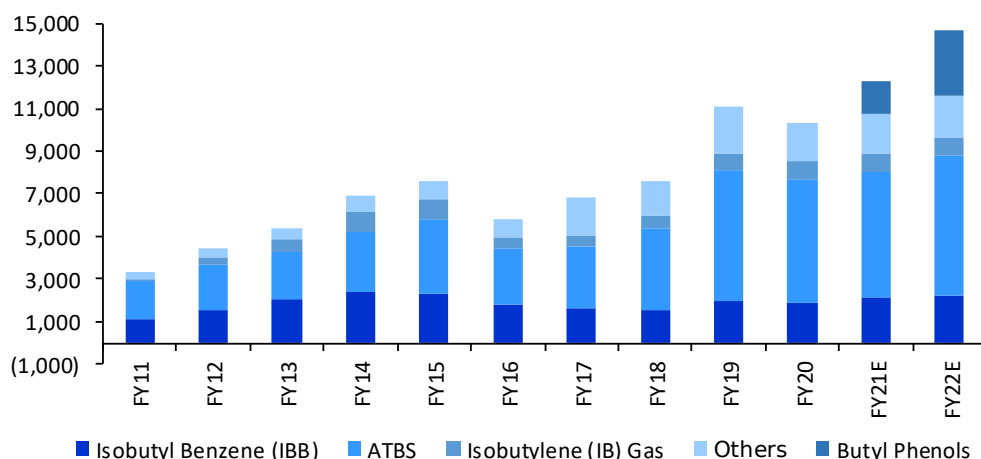
Particulars	Actual	Estimated	Variance (%)	Comments
Revenue	2,453	2,750	(10.8)	Lower than expected sales of ATBS
EBITDA	1,017	1,035	(1.8)	
EBITDA Margin(%)	41.4	37.6	380 bps	
PAT	746	786	(5.0)	

Source: DART, Company

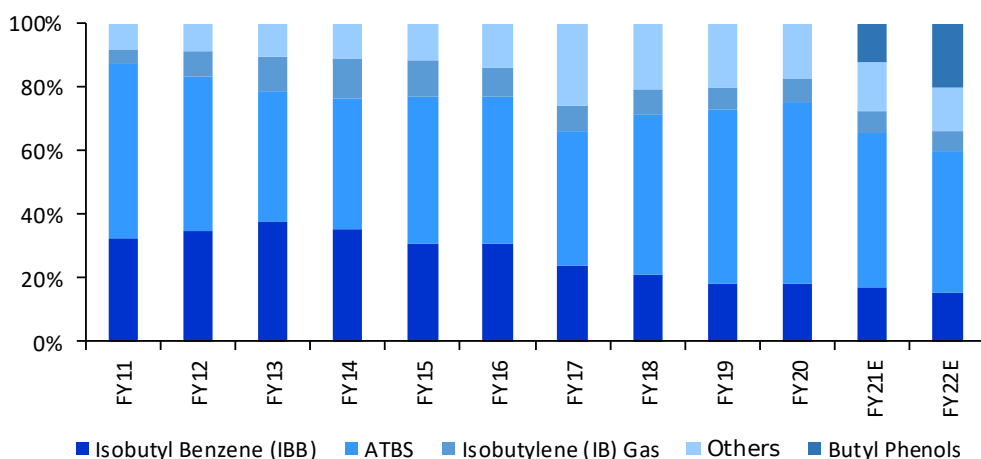
Exhibit 2: Change in Estimates

Particulars (Rs Mn)	FY21E			FY22E			Comments
	New	Previous	Change(%)	New	Previous	Change(%)	
Revenue	12,274	12,670	(3.1)	14,633	15,341	(4.6)	-
EBITDA	4,609	4,221	9.2	5,298	5,166	2.6	Higher than expected sales volumes of IBB & Butyl Phenols
EBITDA Margin(%)	37.5	33.3	424 bps	36.2	33.7	253 bps	
PAT	3,514	3,215	9.3	4,058	3,939	3	
EPS(Rs)	34.2	31.3	9.3	39.5	38.3	3	

Source: DART, Company

Exhibit 3: Segmental Revenue (Rs mn)


Source: DART, Company

Exhibit 4: Segmental Revenue Mix %


Source: DART, Company

Assumptions

Exhibit 5: Iso Butyl Benzene

Particulars	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Installed Capacity (MT)	16,000	16,000	16,000	16,000	16,000	16,000	25,000	25,000	25,000	25,000
Unit sold (MT)	13,493	13,898	14,315	14,744	14,744	14,302	15,500	13,950	15,624	16,405
YoY %	3.0	3.0	3.0	3.0	0.0	(3.0)	8.4	-10.0	12.0	5.0
Utilisation %	84.3	86.9	89.5	92.2	92.2	89.4	62.0	55.8%	62.5%	65.6%
Realisation per unit (Rs /kg)	152	175	162	121	111	111	129	135	135	135
YoY %	29.2	15.1	(7.1)	(25.5)	(8.5)	0.1	16.3	5.0	0.0	0.0
Total sales value (Rs In mn)	2,047	2,426	2,322	1,782	1,630	1,582	1,995	1,885	2,112	2,217
YoY %	33.1	18.5	(4.3)	(23.3)	(8.5)	(3.0)	26.1	-5.5	12.0	5.0

Source: Company, DART

Exhibit 6: Isobutylene

Particulars	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Installed Capacity (MT)	12,000	12,000	12,000	12,000	15,000	30,000	30,000	30,000	30,000	30,000
Unit sold (MT)	8,400	9,600	12,000	11,525	12,490	14,476	17,186	18,117	28,661	29,961
YoY %	7.7	14.3	25.0	(4.0)	8.4	15.9	18.7	5.4	58.2	4.5
Utilisation %	70.0	80.0	100.0	96.0	83.3	48.3	57.3	60.4	95.5	99.9
Realisation per unit (Rs/kg)	114.3	154.8	126.7	72.5	74.0	77.9	89.8	89.8	89.8	89.8
YoY %	50.1	35.5	(18.2)	(42.7)	2.0	1.0	15.3	0.0	0.0	0.0
Total sale value (Rs mn)	560	867	887	508	544	601	776	815	847	881
YoY %	61.7	54.8	2.3	(42.7)	7.1	10.5	29.1	5.0	4.0	4.0

Source: Company, DART

Exhibit 7: ATBS

Particulars	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Installed Capacity (MT)	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	40,000
Unit sold (MT)	13,625	14,300	19,475	17,626	19,036	25,033	34,170	33,486	34,156	37,572
YoY %	9.0	5.0	36.2	(9.5)	8.0	31.5	36.5	-2.0	2.0	10.0
Utilisation %	52.4	55.0	74.9	67.8	73.2	96.3	131.4	128.8	131.4	93.9
Realisation per unit (Rs/kg)	163	197	180	152	150	151	178	174	174	174
YoY %	(4.3)	20.7	(8.9)	(15.4)	(1.0)	0.5	49.0	-2.5	0.0	0.0
Total sales value (Rs mn)	2,226	2,820	3,499	2,678	2,864	3,784	6,095	5,824	5,940	6,534
YoY %	4.3	26.7	24.1	(23.5)	6.9	32.2	61.1	-4.4	2.0	10.0

Source: Company, DART

Exhibit 8: Butyl Phenol

Butyl Phenols	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E
Total sale value (Rs mn)	0	0	0	0	0	0	0	0	1,500	3,000

Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	11,081	10,289	12,274	14,633
Total Expense	7,045	6,149	7,665	9,335
COGS	5,251	4,287	5,391	6,735
Employees Cost	542	643	720	777
Other expenses	1,252	1,220	1,554	1,822
EBIDTA	4,036	4,139	4,609	5,298
Depreciation	274	332	400	442
EBIT	3,762	3,808	4,209	4,856
Interest	9	11	5	3
Other Income	500	450	492	570
Exc. / E.O. items	0	0	0	0
EBT	4,252	4,247	4,696	5,423
Tax	1,428	908	1,182	1,365
RPAT	2,825	3,338	3,514	4,058
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	2,825	3,338	3,514	4,058

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	103	103	103	103
Minority Interest	0	0	0	0
Reserves & Surplus	10,410	12,691	14,972	17,673
Net Worth	10,513	12,794	15,074	17,776
Total Debt	37	3	3	3
Net Deferred Tax Liability	846	705	705	705
Total Capital Employed	11,395	13,502	15,783	18,484

Applications of Funds

Net Block	4,745	7,508	7,417	7,675
CWIP	1,912	310	700	500
Investments	0	0	0	0
Current Assets, Loans & Advances	5,619	6,612	8,714	11,505
Inventories	924	932	1,159	1,448
Receivables	2,440	2,018	2,779	3,313
Cash and Bank Balances	38	537	1,526	3,347
Loans and Advances	2	26	26	26
Other Current Assets	1,251	826	950	1,097
Less: Current Liabilities & Provisions	880	927	1,049	1,196
Payables	531	557	678	826
Other Current Liabilities	349	371	371	371
sub total				
Net Current Assets	4,738	5,685	7,666	10,309
Total Assets	11,395	13,502	15,783	18,484

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	52.6	58.3	56.1	54.0
EBIDTA Margin	36.4	40.2	37.6	36.2
EBIT Margin	34.0	37.0	34.3	33.2
Tax rate	33.6	21.4	25.2	25.2
Net Profit Margin	25.5	32.4	28.6	27.7
(B) As Percentage of Net Sales (%)				
COGS	47.4	41.7	43.9	46.0
Employee	4.9	6.2	5.9	5.3
Other	11.3	11.9	12.7	12.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	398.5	348.6	841.7	1618.7
Inventory days	30	33	34	36
Debtors days	80	72	83	83
Average Cost of Debt	10.0	54.2	144.3	86.6
Payable days	17	20	20	21
Working Capital days	156	202	228	257
FA T/O	2.3	1.4	1.7	1.9
(D) Measures of Investment				
AEPS (Rs)	27.5	32.5	34.2	39.5
CEPS (Rs)	30.1	35.7	38.1	43.8
DPS (Rs)	7.0	9.0	10.0	11.0
Dividend Payout (%)	25.5	27.7	29.3	27.9
BVPS (Rs)	102.3	124.5	146.7	172.9
RoANW (%)	30.6	28.6	25.2	24.7
RoACE (%)	27.9	26.9	24.0	23.7
RoAIC (%)	37.2	31.3	30.9	33.0
(E) Valuation Ratios				
CMP (Rs)	992	992	992	992
P/E	36.1	30.5	29.0	25.1
Mcap (Rs Mn)	101,929	101,929	101,929	101,929
MCap/ Sales	9.2	9.9	8.3	7.0
EV	100,963	99,121	98,132	96,311
EV/Sales	9.1	9.6	8.0	6.6
EV/EBITDA	25.0	23.9	21.3	18.2
P/BV	9.7	8.0	6.8	5.7
Dividend Yield (%)	0.7	0.9	1.0	1.1
(F) Growth Rate (%)				
Revenue	51.9	(7.2)	19.3	19.2
EBITDA	104.6	2.6	11.3	15.0
EBIT	116.4	1.2	10.5	15.4
PBT	109.1	(0.1)	10.6	15.5
APAT	96.3	18.2	5.3	15.5
EPS	96.3	18.2	5.3	15.5

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	2,050	4,402	2,927	3,681
CFI	(2,013)	(1,492)	(700)	(500)
CFF	(403)	(1,101)	(1,238)	(1,360)
FCFF	36	2,909	2,227	3,181
Opening Cash	1,316	949	2,757	3,746
Closing Cash	949	2,757	3,746	5,568

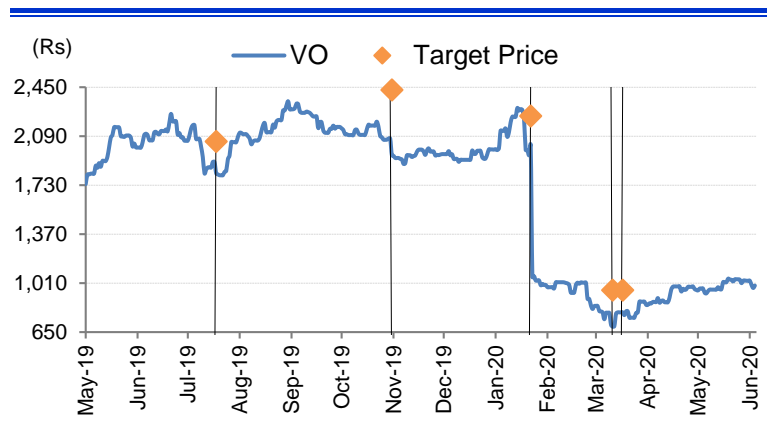
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jul-19	Accumulate	2,052	1,817
Nov-19	Buy	2,430	1,950
Feb-20	Accumulate	2,238	2,025
Mar-20	Buy	958	690
Mar-20	Buy	958	796

*Price as on recommendation date

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Corporate Identity Number: U65990DD1993PTC009797

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