

Estimate change	↓
TP change	↔
Rating change	↔

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Bloomberg	VO IN
Equity Shares (m)	103
M.Cap.(INRb)/(USDb)	197.9 / 2.7
52-Week Range (INR)	2130 / 963
1, 6, 12 Rel. Per (%)	-6/52/56
12M Avg Val (INR M)	247

Financials & Valuations (INR bn)

Y/E March	FY21	FY22E	FY23E
Sales	9.5	15.7	19.9
EBITDA	3.5	4.5	6.2
PAT	2.7	3.5	4.6
EPS (INR)	26.2	33.6	44.7
EPS Gr. (%)	(19)	28	33
BV/Sh.(INR)	150	177	213

Ratios

Net D:E	(0.0)	(0.1)	(0.2)
RoE (%)	19.1	20.6	22.9
RoCE (%)	18.1	19.6	22.1
Payout (%)	22.9	20.0	20.0

Valuations

P/E (x)	73.5	57.3	43.1
P/BV (x)	12.8	10.9	9.0
EV/EBITDA (x)	56.1	43.2	31.5
Div. Yield (%)	0.3	0.3	0.5
FCF Yield (%)	0.9	1.4	1.7

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	74.1	74.1	74.1
DII	6.8	7.3	6.2
FII	4.4	3.5	5.1
Others	14.7	15.2	14.7

FII Includes depository receipts

CMP: INR1,926 **TP: INR2,220 (+15%)** **Buy**

Gross margin guidance revised down; revenue potential intact

- Vinati Organics (VO) reported mixed results, with revenue above our estimate (+20%), while EBITDA came in below our estimate (-8%). The gross margin shrank to 45% – the lowest since 3QFY15. The resultant EBITDA margin stood at 26.3% (v/s our est. of 34.3% and 35.4% in 4QFY21).
- Higher freight costs (by INR100m), along with an increase in Phenol and Acrylonitrile prices, impacted margins. Freight costs were the highest for the US and Europe – they are likely to remain at similar levels for the next few quarters as well. VO is in talks with customers to share the cost increase.
- **On these lines, the management has revised down its gross margin guidance to 45–50%, with EBITDA margin normalization at 32–33% going forward (unchanged).** Higher efficiencies, led by a ramp-up, would lower operating costs and aid EBITDA margins.
- **Factoring in the same, we lower our FY22E/FY23E/FY24E EBITDA and EPS by 15%/11%/5%, with the EBITDA margin at 29%/31%/32% (from 36%/35%/34%).** We build in margin improvement hereafter as (a) the pressure of commodity price inflation fades over next 2–3 quarters and (b) Veeral Additives comes on-stream (expected in 4QFY22) – which would consume 50% of Butyl Phenol internally.
- That said, gradual ramp-up in expanded capacity over the next three years would drive huge growth for VO, with further development on the product molecules currently under R&D. With new products such as AO and Butyl Phenol resulting in higher import substitution, **we forecast a revenue CAGR of ~38% over FY21–24E (unchanged), translating to an EBITDA and EPS CAGR of 31–32% over this period.** Valuing the stock at 43x Sep'23E EPS, we arrive at TP of INR2,220. Maintain Buy.

Lowest gross margin in five years

- Revenue was higher than estimated at INR3.9b (+67% YoY).
- EBITDA came in at INR1b (+4% YoY), with PAT at INR0.8b (+12% YoY).
- Other income includes INR24m in interest income accrued on the loan advance to Veeral Additives. Post the amalgamation, interest income on the loan would be eliminated and 1QFY22 numbers will be restated accordingly.

1QFY22 segmental snapshot and FY22 guidance

- **ATBS** recorded the highest ever sales in 1QFY22 (up 20–25% YoY); pent-up demand from the Oil & Gas sector would continue this year.
- **Butyl Phenol** sales are expected at INR1.6–2b in FY22 (~INR400m done in the quarter). Current margins for Butyl Phenol are at their lowest (as phenol prices have risen, while product prices are still down – keeping margins low).
- **IBB** saw subdued demand in 1QFY22 and is expected to report single-digit overall growth in FY22 as well.
- **Isobutylene** and other product demand remains strong (revenue mix in 1QFY22 – ATBS: ~50%, IBB: ~15%, and others: ~35%).

Valuation and view – maintain Buy

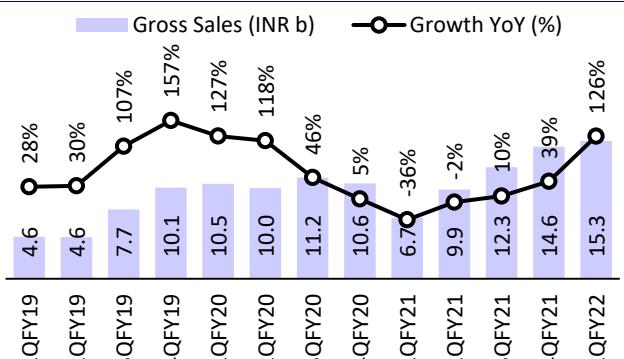
- The company is in the process of amalgamating VAL with VO, which would produce AOs from Butyl Phenol, thus resulting in further forward integration. VO would become the largest and only doubly integrated manufacturer of AOs. AOs are right now imported into the country, and the domestic market is seeing huge demand for PP, LLDPE, etc. (which would grow at 8% YoY). **Management expects AOs to contribute ~25% to total sales 2–3 years down the line.**
- Capex over the next three years is projected at ~INR3b. Despite the stated capex, we expect FCF generation of ~INR10.5b over FY22–24E.
- While the massive floods in Mahad have impacted operations (the plant is expected to be closed for 22–25 days), VO has sufficient stock available.
- The stock is trading at 43x FY23E EPS and 31x FY23E EV/EBITDA, **with attractive return ratios of 24–25% (+600bps v/s FY21). It has a fixed asset turnover of 1.3x, which is likely to double over the next three years.** Maintain Buy.

Standalone - Quarterly Earnings Model

Y/E March	(INR m)											
	FY21				FY22				FY21	FY22E	FY22	Var(%)
	1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE				
Gross Sales	2,316	2,194	2,235	2,798	3,864	3,941	4,020	3,831	9,543	15,655	3,217	20%
YoY Change (%)	-21.7	-11.9	-6.3	14.0	66.8	79.6	79.9	36.9	-7.3	64.1	38.9	
Gross Margins (%)	63%	60%	55%	59%	45%	47%	48%	49%	59%	47%	56%	
EBITDA	972	841	721	991	1,015	1,162	1,232	1,131	3,525	4,540	1,102	-8%
Margins (%)	42.0	38.3	32.3	35.4	26.3	29.5	30.6	29.5	36.9	29.0	34.3	
Depreciation	106	108	108	107	110	113	117	125	429	466	111	0%
Interest	0	0	0	1	0	1	1	1	2	2	1	-76%
Other Income	86	14	93	66	176	141	113	119	258	548	86	104%
PBT before EO expense	951	747	706	948	1,081	1,189	1,227	1,124	3,352	4,620	1,077	0%
PBT	951	747	706	948	1,081	1,189	1,227	1,124	3,352	4,620	1,077	0%
Tax	228	127	65	240	272	299	309	283	659	1,163	271	0%
Rate (%)	24.0	17.0	9.2	25.3	25.1	25.2	25.2	25.2	19.7	25.2	25.2	
Reported PAT	723	620	641	709	809	889	918	841	2,693	3,457	806	0%
YoY Change (%)	-12.2	-43.6	-4.0	-5.1	11.9	43.4	43.2	18.6	-19.3	28.4	11.5	
Margins (%)	31.2	28.3	28.7	25.3	20.9	22.6	22.8	21.9	28.2	22.1	25.1	

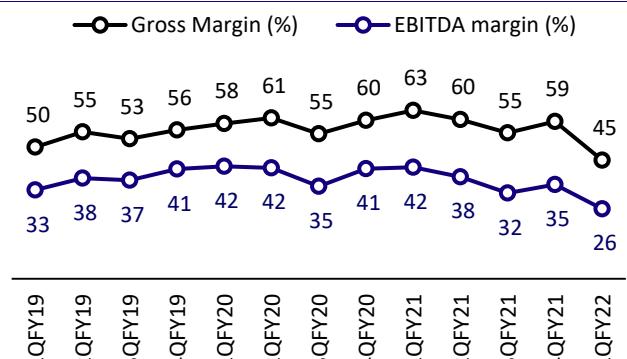
E: MOFSL Estimates

Exhibit 1: Sales +38% QoQ, driven by strong demand in ATBS segment



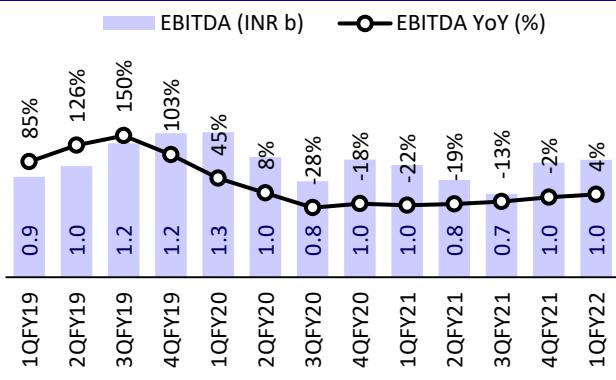
Source: Company, MOFSL

Exhibit 2: Gross/EBITDA margin contracts to multi-year lows (on higher freight and raw material prices)



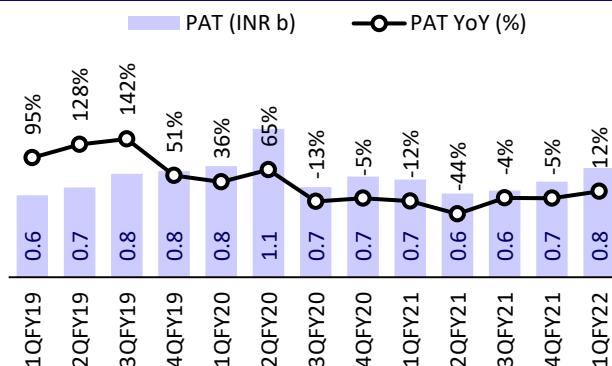
Source: Company, MOFSL

Exhibit 3: EBITDA up 2% QoQ (margin at 26.3%)



Source: Company, MOFSL

Exhibit 4: PAT up 14% QoQ (margin at 20.9%)



Source: Company, MOFSL

Concall highlights

- Higher freight costs (by INR100m during the quarter), along with an increase in Phenol and Acrylonitrile prices, impacted margins. Freight costs were the highest for the US and Europe – they are likely to remain at similar levels for next few quarters as well. Since freight costs are high, company is in talks to share the cost with its customers. Acrylonitrile prices declined 25–30% over June–July from the peak of Feb'21.

Segmental snapshot for 1QFY22 and guidance for FY22

- ATBS recorded the highest ever sales (up 20–25% YoY) in 1QFY22; realization was also higher, led by an increase in raw material costs. ATBS' contribution to overall sales was still 50% in 1QFY22.
- Utilization stood at 70–75% of the ATBS nameplate capacity in 1QFY22; it is likely to see pent-up demand from O&G this year. 10–15% YoY growth is expected over the next 2–3 years, reaching 100% utilization of 40ktpa.
- Butyl Phenol sales are expected at INR1.6–2b in FY22 (INR400m in 1QFY22).
- Current margins for Butyl Phenol are at their lowest (as phenol prices have risen, while product prices are still down – keeping margins low).
- IBB saw subdued demand in 1QFY22 and is expected to report single-digit overall growth in FY22 as well.
- The IBB unit is running at 70% utilization, presenting enough room for a ramp-up over the next 2–3 years.
- Isobutylene and other product demand remains strong.

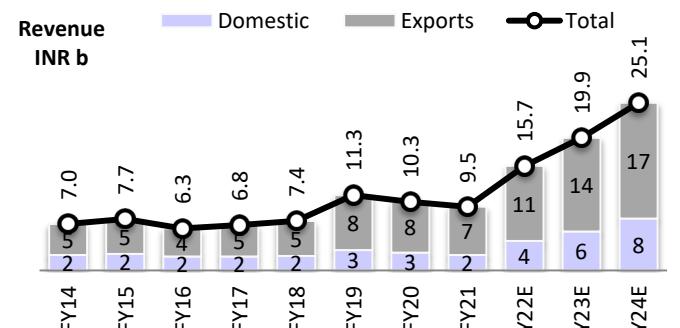
Others highlights

- Massive floods in Mahad on 22nd/23rd July have impacted operations, due to which the plant is expected to be closed for 22–25 days. That said, the company has sufficient stock available to cater to client demand.
- Veeral Additives – The merger scheme has been submitted. Approvals from SEBI and NCLT are awaited. The merger would get approved by Jan'22, by which time the plant would also be up and running. AO would contribute ~25% to total sales 2–3 years down the line.
- Para Amino Phenol (PAP, an intermediate for Paracetamol): The pilot plant did not give the required results; therefore, it is on hold for now.
- The R&D focus remains on new projects.

Financial story in charts

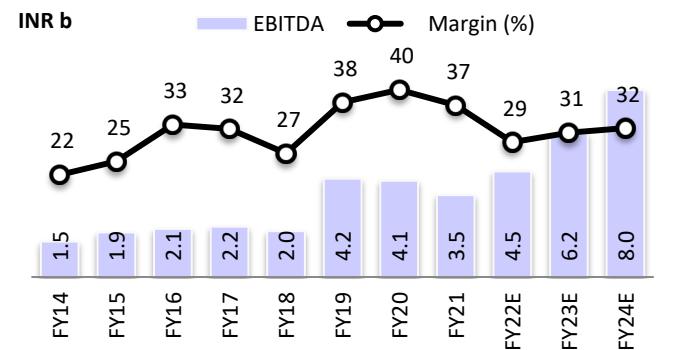
Recent/Ongoing expansions to fuel growth; product excellence to continue

Exhibit 1: Revenue CAGR of 38% over FY21–24E



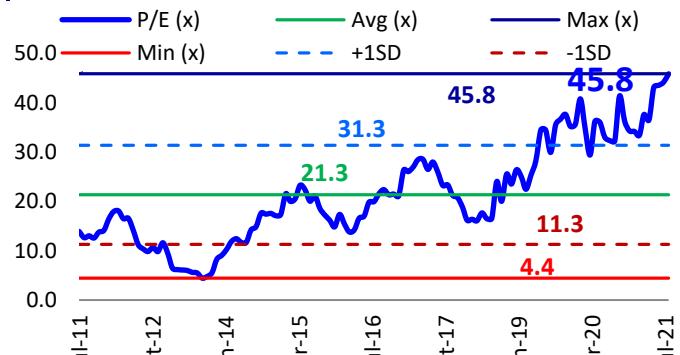
Source: Company, MOFSL

Exhibit 3: Expect EBITDA and PAT margins to normalize...



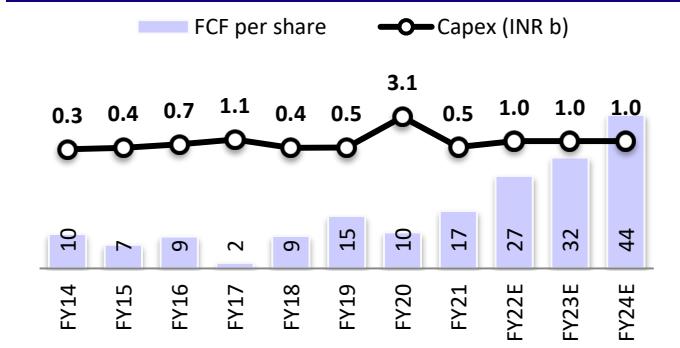
Source: Company, MOFSL

Exhibit 5: One-year forward PE trades at 45.8x...



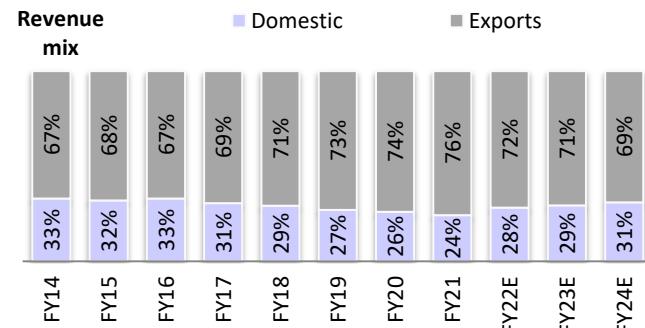
Source: Company, MOFSL

Exhibit 7: Capex for next three years is INR3b...



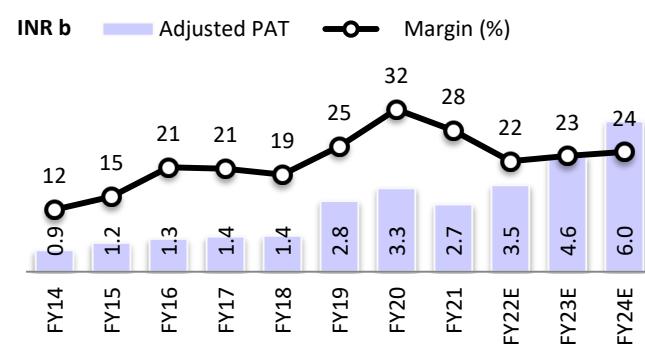
Source: Company, MOFSL

Exhibit 2: AOs to normalize export share



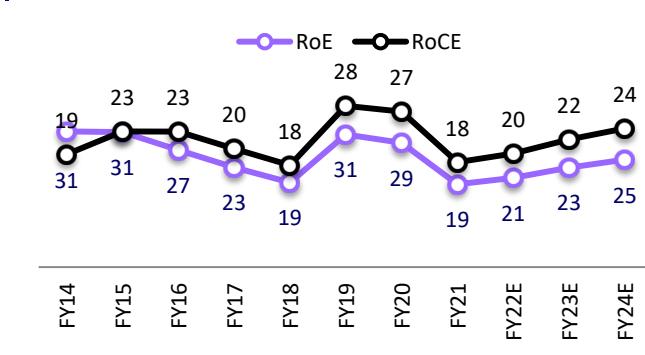
Source: Company, MOFSL

Exhibit 4: ...as share of Butyl Phenol in total mix increases



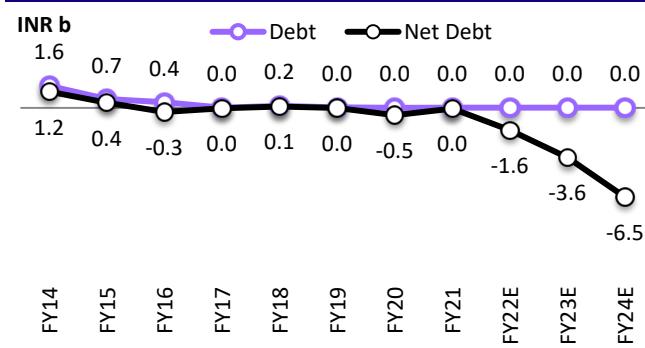
Source: Company, MOFSL

Exhibit 6: ...with return ratios improving to 24–25%



Source: Company, MOFSL

Exhibit 8: ...which would be funded by internal accruals



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement									
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	(INR m) FY24E
Total Income from Operations	6,309	6,813	7,422	11,279	10,289	9,543	15,655	19,876	25,118
Change (%)	-18.2	8.0	8.9	52.0	-8.8	-7.3	64.1	27.0	26.4
Gross Margins (%)	53.0	55.9	49.1	53.4	58.3	59.4	47.2	46.7	45.2
EBITDA	2,068	2,170	1,973	4,234	4,139	3,525	4,540	6,162	8,038
Margin (%)	32.8	31.8	26.6	37.5	40.2	36.9	29.0	31.0	32.0
Depreciation	185	216	234	274	332	429	466	514	563
EBIT	1,883	1,953	1,739	3,960	3,808	3,096	4,074	5,647	7,475
Int. and Finance Charges	79	19	12	9	11	2	2	2	2
Other Income	62	125	307	302	450	259	548	497	565
PBT bef. EO Exp.	1,866	2,060	2,034	4,252	4,247	3,353	4,620	6,142	8,038
PBT after EO Exp.	1,866	2,060	2,034	4,252	4,247	3,353	4,620	6,142	8,038
Total Tax	550	657	595	1,428	908	659	1,163	1,546	2,023
Tax Rate (%)	29.5	31.9	29.3	33.6	21.4	19.7	25.2	25.2	25.2
Reported PAT	1,316	1,403	1,439	2,825	3,338	2,693	3,457	4,596	6,015
Adjusted PAT	1,316	1,403	1,439	2,825	3,338	2,693	3,457	4,596	6,015
Change (%)	13.6	6.6	2.6	96.3	18.2	-19.3	28.4	32.9	30.9
Margin (%)	20.9	20.6	19.4	25.0	32.4	28.2	22.1	23.1	23.9

Standalone - Balance Sheet									
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	(INR m) FY24E
Equity Share Capital	103	103	103	103	103	103	103	103	103
Total Reserves	5,305	6,697	7,864	10,410	12,691	15,331	18,097	21,774	26,586
Net Worth	5,408	6,800	7,967	10,513	12,794	15,434	18,200	21,877	26,689
Total Loans	421	23	152	37	3	20	20	20	20
Deferred Tax Liabilities	492	696	809	846	705	779	779	779	779
Capital Employed	6,321	7,519	8,927	11,395	13,502	16,234	19,000	22,676	27,488
Gross Block	4,851	4,892	5,023	5,473	8,551	9,045	10,045	11,045	12,045
Less: Accum. Deprn.	1,032	216	454	728	1,060	1,489	1,954	2,469	3,032
Net Fixed Assets	3,819	4,676	4,569	4,745	7,491	7,557	8,091	8,577	9,013
Capital WIP	248	74	349	1,912	310	547	547	547	547
Total Investments	27	618	1,317	965	2,274	2,887	4,303	4,303	4,303
Curr. Assets, Loans&Adv.	2,775	2,843	3,565	4,654	4,355	6,345	7,469	11,041	15,888
Inventory	447	651	822	924	932	1,219	1,418	1,800	2,275
Account Receivables	1,148	1,405	1,771	2,440	2,018	2,772	3,070	3,898	4,926
Cash and Bank Balance	721	48	52	38	537	68	1,660	3,665	6,567
Cash and liquid investments	35	621	1,318	491	1,585	1,762	1,660	3,665	6,567
Bank Balance	733	45	52	38	0	0	0	0	0
Loans and Advances	458	740	919	1,252	869	2,285	1,322	1,678	2,121
Curr. Liability & Prov.	549	693	872	881	927	1,102	1,411	1,792	2,264
Account Payables	223	327	635	531	557	664	847	1,075	1,359
Other Current Liabilities	209	338	174	211	213	391	325	412	521
Provisions	117	27	64	139	157	47	240	304	384
Net Current Assets	2,226	2,151	2,693	3,774	3,428	5,243	6,058	9,250	13,624
Appl. of Funds	6,321	7,519	8,927	11,395	13,502	16,234	19,000	22,676	27,488

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)									
EPS	12.8	13.6	14.0	27.5	32.5	26.2	33.6	44.7	58.5
EPS Growth (%)	13.6	6.6	2.6	96.3	18.2	-19.3	28.4	32.9	30.9
Cash EPS	14.6	15.7	16.3	30.1	35.7	30.4	38.2	49.7	64.0
BV/Share	52.6	66.2	77.5	102.3	124.5	150.2	177.1	212.8	259.7
DPS	2.0	0.3	0.3	2.3	5.5	6.0	6.7	8.9	11.7
Payout (%)	18.9	2.2	2.2	9.9	31.6	22.9	20.0	20.0	20.0
Valuation (x)									
P/E	150.5	141.1	137.6	70.1	59.3	73.5	57.3	43.1	32.9
Cash P/E	131.9	122.3	118.4	63.9	53.9	63.4	50.5	38.7	30.1
P/BV	36.6	29.1	24.8	18.8	15.5	12.8	10.9	9.0	7.4
EV/Sales	31.3	29.1	26.7	17.6	19.2	20.7	12.5	9.8	7.6
EV/EBITDA	95.6	91.2	100.4	46.8	47.7	56.1	43.2	31.5	23.8
Dividend Yield (%)	0.1	0.0	0.0	0.1	0.3	0.3	0.3	0.5	0.6
FCF per share	9.2	1.6	9.4	15.1	10.4	16.5	26.6	31.9	44.3
Return Ratios (%)									
RoE	27.0	23.0	19.5	30.6	28.6	19.1	20.6	22.9	24.8
RoCE	23.4	20.5	17.6	27.9	26.9	18.1	19.6	22.1	24.0
RoIC	26.0	22.0	17.6	33.5	31.7	21.5	24.2	31.7	37.0
Working Capital Ratios									
Fixed Asset Turnover (x)	1.8	1.6	1.6	2.4	1.7	1.3	2.0	2.4	2.9
Asset Turnover (x)	1.0	0.9	0.8	1.0	0.8	0.6	0.8	0.9	0.9
Inventory (Days)	26	35	40	30	33	47	33	33	33
Debtor (Days)	66	75	87	79	72	106	72	72	72
Creditor (Days)	13	18	31	17	20	25	20	20	20
Leverage Ratio (x)									
Current Ratio	5.1	4.1	4.1	5.3	4.7	5.8	5.3	6.2	7.0
Net Debt/Equity	-0.1	0.0	0.0	0.0	0.0	0.0	-0.1	-0.2	-0.2

Standalone - Cash Flow Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
(INR m)									
OP/(Loss) before Tax	1,866	2,060	2,034	4,252	4,247	3,353	4,620	6,142	8,038
Depreciation	185	216	254	274	332	429	466	514	563
Direct Taxes Paid	-447	-535	-491	-1,262	-1,005	-607	-1,163	-1,546	-2,023
(Inc)/Dec in WC	73	-380	-316	-1,138	811	-874	-187	-829	-1,030
CF from Operations	1,674	1,304	1,384	2,003	4,159	2,190	3,738	4,283	5,550
(Inc)/Dec in FA	-732	-1,136	-422	-450	-3,094	-490	-1,000	-1,000	-1,000
Free Cash Flow	942	168	962	1,553	1,065	1,700	2,738	3,283	4,550
Change in Investments	0	695	1	-442	-674	127	0	0	0
Others	10	173	33	-1,534	1,793	-1,619	-453	-356	-443
CF from Investments	-722	-268	-388	-2,427	-1,975	-1,982	-1,453	-1,356	-1,443
Inc/(Dec) in Debt	-231	-396	0	0	0	0	0	0	0
Interest Paid	-33	-16	-11	-9	-11	-2	-2	-2	-2
Dividend Paid	-217	-35	-32	-278	-1,046	-55	-691	-919	-1,203
CF from Fin. Activity	-503	-451	-298	-403	-1,090	-31	-2,387	-921	-1,205
Inc/Dec of Cash	450	585	697	-826	1,094	176	-102	2,005	2,902
Opening Balance	271	35	621	1,318	492	1,586	1,762	1,660	3,665
Closing Balance	721	621	1,318	491	1,585	1,762	1,660	3,665	6,567

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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