

Vinati Organics (VO)

Chemicals | Company Update

SELL

CMP: Rs1,467 | Target Price (TP): Rs1,300 | Downside: 12%

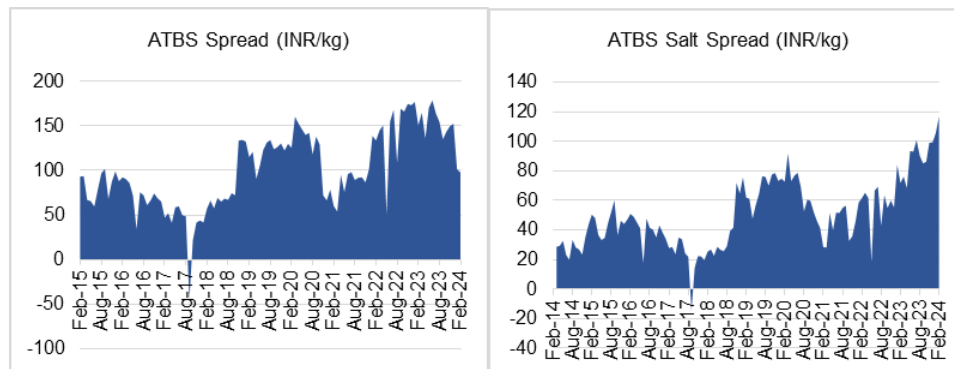
April 01, 2024

ATBS spread contraction a key monitorable

Key Points

- Our research suggests that ATBS spread has contracted further from Jan'24 (after hitting a 10-yr high in Jun'23) and poses a risk to the overall margin assumptions as ATBS (~30% of the revenue) is the highest margin product for VO.
- While we are building in ~20% ATBS volume growth in FY25 & FY26 each (factoring in 50% capacity expansion by the end of FY25), spread contraction could have 5-7% impact on ATBS gross margin, as per our calculations.
- Newly commissioned projects present a promising case for earnings acceleration; however, demand recovery and competitive intensity in AOs, MEHQ, Anisole, etc. remain the key. Incremental ROCE could be lower, in our view. Maintain Sell with a revised TP of Rs1,300 after rolling forward valuation to FY26E earnings (25x PE vs 30x PE earlier).

Update on ATBS spread: VO's ATBS spread hit a 10-yr high in June'23, post which the correction began on account of demand concerns and likely capacity addition and new competition. Till Dec'23, the spread contracted by ~15% from the peak, but dropped further from Jan'24 (~50% lower than Dec'23 level). However, ATBS salt's spread remained strong. At the current spread, overall gross margin could be lower by ~2% and poses a downside risk to our as well as consensus earnings.



Source: Nirmal Bang Institutional Equities Research

Commissioning delayed amid tough environment: Quite a few of the projects such as ATBS expansion, products in VOL (MEHQ, Guaiacol, 4MAP, Isoaniline derivatives and Anisole with total capex of Rs4.8bn) have continuously been delayed due to the current challenging market conditions. The management indicated that 50% additional ATBS capacity and all products in VOL (except MEHQ & Guaiacol) will come on board by Dec'24. Peak revenue potential from all products in VOL is ~Rs5bn with ROIC of 15-20% (lower than the underlying company average), per management. In AOs, while long term demand prospects and import substitution theme is very much at play, near-term growth expectations have been lowered from the earlier estimates.

Est Change	No change
TP Change	Downward
Rating Change	No change

Company Data and Valuation Summary

Reuters	VNTI.BO
Bloomberg	VO IN Equity
Market Cap (Rsbn / US\$bn)	152.3 / 1.8
52 Wk H / L (Rs)	2,034 / 1,463
ADTV-3M (mn) (Rs / US\$)	84.3 / 1.0
Stock performance (%) 1M/6M/1yr	(10.7) / (20.4) / (18.7)
Nifty 50 performance (%) 1M/6M/1yr	1.5 / 3.7 / 27.9

Shareholding	1QFY24	2QFY24	3QFY24
Promoters	74.1	74.1	74.1
DII's	8.1	8.2	7.6
FII's	4.5	4.6	4.7
Others	13.4	13.1	13.7
Pro pledge	0.7	0.7	0.7

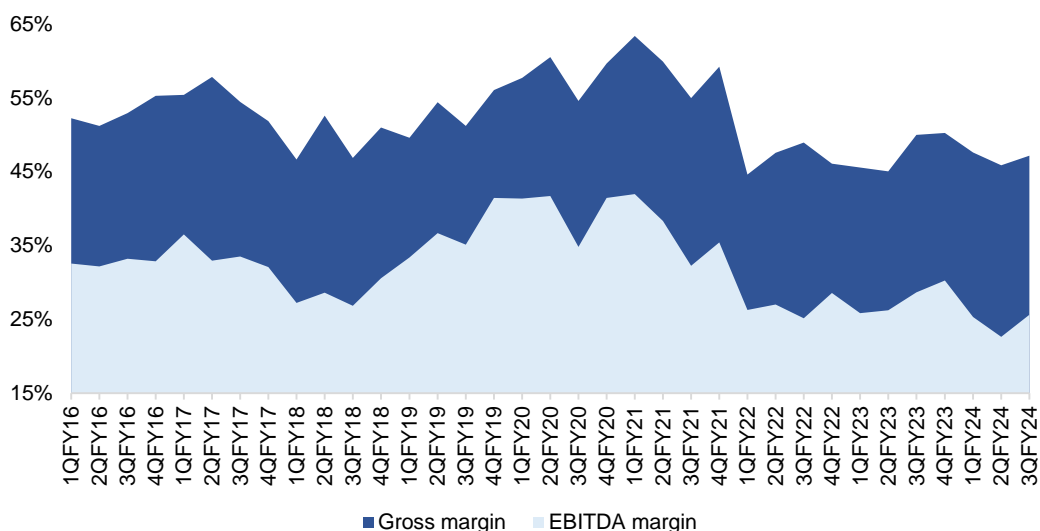
Financial and Valuation Summary

Particulars (Rsmn)	FY23	FY24E	FY25E	FY26E
Net Sales	20,847	18,135	24,157	31,484
Growth YoY	29.0%	-13.0%	33.2%	30.3%
Gross margin	48.0%	46.5%	47.0%	47.0%
EBITDA	5,954	4,497	6,184	8,091
EBITDA margin	28.6%	24.8%	25.6%	25.7%
Adj PAT	4,580	3,217	4,811	5,364
Growth YoY	32.1%	-29.8%	49.5%	11.5%
Adj EPS	44.6	31.3	46.8	52.2
RoCE (pre-tax)	26.7%	16.9%	20.6%	23.9%
RoCE	19.9%	12.6%	15.4%	17.9%
RoE	23.1%	14.7%	19.4%	18.7%
P/E	32.9	46.9	31.3	28.1
EV/EBITDA	25.3	33.1	24.1	18.6
P/BV	6.8	6.4	5.6	4.9

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

*AO stands for Antioxidants

Please refer to the disclaimer towards the end of the document.

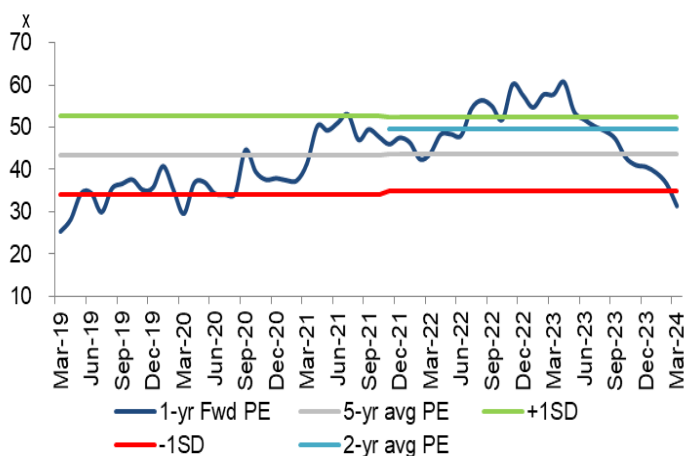
Exhibit 1: Standalone gross margin & EBITDA margin quarterly trend


Source: Company, Nirmal Bang Institutional Equities Research

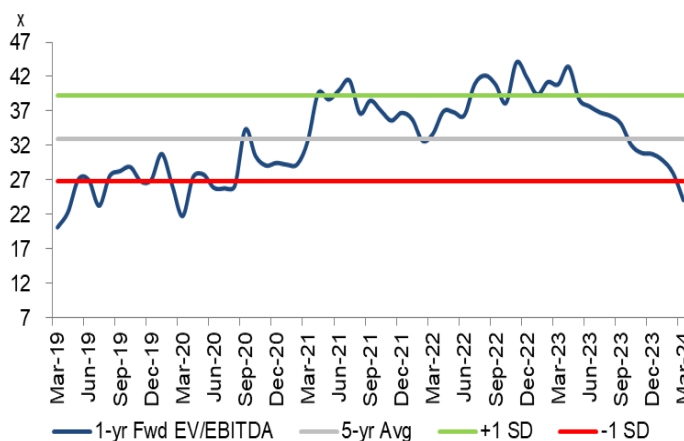
Exhibit 2: Change in earnings estimates

Standalone (Rsmn)	Old Estimates			New estimates			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	18,135	24,157	31,484	18,135	24,157	31,484	0%	0%	0%
EBITDA	4,497	6,184	8,091	4,497	6,184	8,091	0%	0%	0%
EBITDA %	24.8%	25.6%	25.7%	24.8%	25.6%	25.7%	-	-	-
APAT	3,217	4,811	5,364	3,217	4,811	5,364	0%	0%	0%

Source: Nirmal Bang Institutional Equities Research

Exhibit 3: 1-year forward PE


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: 1-year forward EV/EBITDA


Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 5: Income statement

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	16,155	20,847	18,135	24,157	31,484
Growth YoY%	69.3	29.0	-13.0	33.2	30.3
COGS	8,606	10,835	9,702	12,803	16,687
Gross margin %	46.7	48.0	46.5	47.0	47.0
Staff costs	840	932	1,088	1,449	1,889
Other expenses	2,367	3,126	2,847	3,720	4,817
EBITDA	4,342	5,954	4,497	6,184	8,091
Growth YoY%	23.2	37.1	-24.5	37.5	30.8
EBITDA margin %	26.9	28.6	24.8	25.6	25.7
Depreciation	455	519	631	964	1,139
EBIT	3,887	5,435	3,866	5,220	6,953
Interest	3	6	30	30	30
Other income	610	724	463	1,238	246
PBT (bei)	4,494	6,153	4,299	6,429	7,169
PBT	4,494	6,153	4,299	6,429	7,169
ETR	22.9	25.6	25.2	25.2	25.2
PAT	3,467	4,580	3,217	4,811	5,364
Adj PAT	3,467	4,580	3,217	4,811	5,364
Growth YoY%	28.7	32.1	-29.8	49.5	11.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Balance sheet

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	103	103	103	103	103
Reserves	18,177	22,080	23,465	26,989	30,910
Net worth	18,280	22,183	23,568	27,092	31,013
Long term debt	-	-	-	-	-
Short term debt	184	2	2	2	2
Total debt	184	2	2	2	2
Other non-current liabilities	945	1,089	1,525	1,830	1,830
Total Equity & Liabilities	19,409	23,274	25,095	28,924	32,845
Gross block	10,670	11,277	16,777	21,777	23,777
Accumulated depreciation	1,938	2,457	3,088	4,052	5,191
Net Block	8,732	8,820	13,689	17,725	18,586
CWIP	515	2,347	-	-	-
Intangible and others	-	-	-	-	-
Other non-current assets	2,956	4,032	3,830	3,830	4,213
Investments	935	334	1	1	1
Trade receivables	4,584	4,696	4,968	6,288	8,195
Inventories	1,762	1,909	2,484	2,978	3,882
C&CE	44	2,056	1,651	328	860
Other current assets	1,370	1,278	1,022	818	736
Total current assets	7,760	9,939	10,127	10,413	13,673
Trade payables	1,146	1,181	1,028	1,369	1,784
Other current liabilities	343	1,015	1,523	1,675	1,843
Total current liabilities	1,489	2,197	2,551	3,044	3,627
Total Assets	19,409	23,274	25,095	28,924	32,845

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Cash flow

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	4,492	6,153	4,299	6,429	7,169
Depreciation	455	519	631	964	1,139
Interest	3	6	30	30	30
Other adjustments	-344	-215	-463	-1,238	-246
Change in Working capital	-2,256	622	-238	-1,115	-2,146
Tax paid	-1,081	-1,310	-1,082	-1,618	-1,804
Operating cash flow	1,268	5,775	3,178	3,451	4,141
Capex	-1,620	-608	-3,153	-5,000	-2,000
Free cash flow	-352	5,167	24	-1,549	2,141
Other investing activities	-934	-3,066	1,801	1,238	-137
Investing cash flow	-2,554	-3,674	-1,352	-3,762	-2,137
Issuance of share capital	-	-	-	-	-
Movement of Debt	164	-182	-	-	-
Dividend paid (incl DDT)	-618	-670	-1,832	-1,287	-1,443
Other financing activities	-11	-7	406	275	-30
Financing cash flow	-465	-860	-1,426	-1,012	-1,473
Net change in cash flow	-1,751	1,241	399	-1,323	531
Opening C&CE	1,762	11	1,252	1,651	328
Closing C&CE	11	1,252	1,651	328	860

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Key ratios

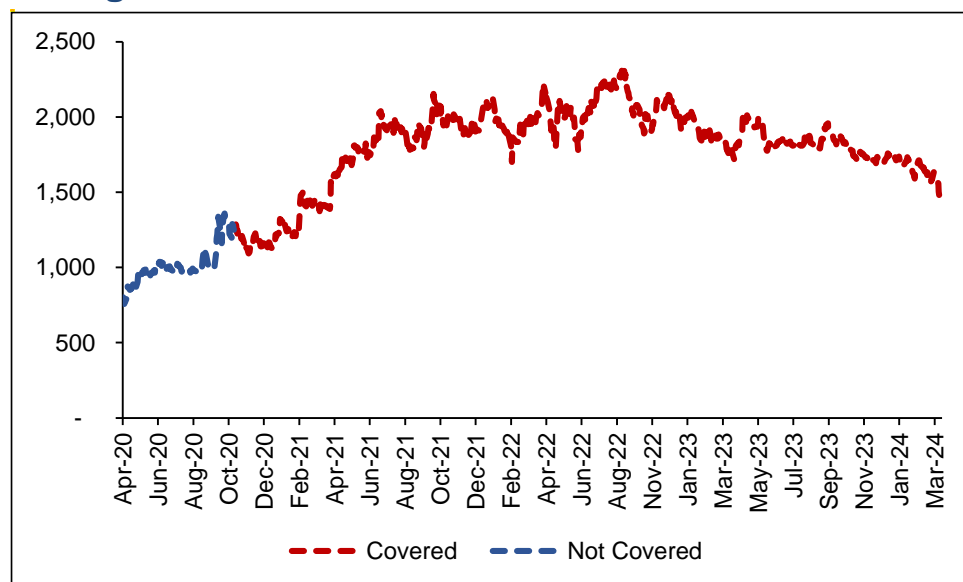
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Per share (Rs)					
Adj EPS	33.7	44.6	31.3	46.8	52.2
Book value	177.9	215.8	229.3	263.6	301.7
Valuation (x)					
EV/EBITDA	34.3	25.3	33.1	24.1	18.6
P/E	43.5	32.9	46.9	31.3	28.1
P/BV	8.2	6.8	6.4	5.6	4.9
Return ratios (%)					
RoCE	17.7	19.9	12.6	15.4	17.9
RoCE (pre-tax)	22.9	26.7	16.9	20.6	23.9
RoE	21.0	23.1	14.7	19.4	18.7
Profitability ratios (%)					
Gross margin	46.7	48.0	46.5	47.0	47.0
EBITDA margin	26.9	28.6	24.8	25.6	25.7
PAT margin	20.7	21.2	17.3	18.9	16.9
Liquidity ratios (%)					
Current ratio	4.6	4.5	4.0	3.4	3.8
Quick ratio	3.6	3.7	3.0	2.4	2.7
Solvency ratio (%)					
Debt to Equity ratio	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity ratio	0.0	-0.1	-0.1	-0.0	-0.0
Turnover ratios					
Fixed asset turnover ratio (x)	1.9	2.4	1.3	1.4	1.7
Debtor days	104	82	100	95	95
Inventory days	40	33	50	45	45
Creditor days	26	21	21	21	21
Net Working capital days	117	95	129	119	119

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
16 October 2020	ACCUMULATE	1,253	1,250
6 November 2020	ACCUMULATE	1,174	1,250
7 January 2021	ACCUMULATE	1,323	1,400
3 February 2021	ACCUMULATE	1,227	1,400
17 May 2021	ACCUMULATE	1,673	1,700
02 August 2021	ACCUMULATE	1,979	1,900
23 September 2021	ACCUMULATE	1,882	1,900
11 November 2021	ACCUMULATE	1,978	1,900
1 February 2022	ACCUMULATE	1,984	2,100
16 May 2022	ACCUMULATE	1,796	1,900
8 August 2022	ACCUMULATE	2,228	2,400
19 September 2022	ACCUMULATE	2,222	2,300
8 November 2022	BUY	1,984	2,300
6 February 2023	BUY	1,870	2,300
22 March 2023	BUY	1,723	2,300
20 May 2023	ACCUMULATE	1,889	1,800
16 August 2023	SELL	1,820	1,600
09 November 2023	SELL	1,760	1,600
12 February 2024	SELL	1,615	1,500
1 April 2024	SELL	1,467	1,300

Rating Chart



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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