Retail Equity Research (South India Focus)

Vinati organics Ltd

Specialty chemicals

Reduce

BSE CODE : 524200	NSE CODE: VINATIORGA
BLOOMBERG CODE: VO:IN	SENSEX : 40,286

12M Investment Period | Rating as per Mid Cap

CMP Rs1,945 TARGET Rs1,816 RETURN -7% ⬇
(Closing: 14-11-19)

KEY CHANGES: *TARGET* ⬇ *RATING* ⬇ *EARNINGS* ⬇

Top-line growth moderates...margin expands

Vinati Organics Ltd (VOL) enjoys global leadership in two specialty chemicals, with market share of 70% in IBB (isobutyl benzene) and 80% in ATBS (2-Acrylamindo 2-Methylpropane Sulfonic Acid).

- **Q2FY20 Revenue de-grew by 3% YoY, but PAT grew by 69% YoY led by higher operating profit and corporate tax cut.**
- **EBITDA margins improved by 310bps YoY to 40.7% due to softer RM price and higher contribution from ATBS.**
- **We continue to maintain our positive outlook on the VOL given capacity expansion in ATBS and launch of Butyl phenols, which is expected to drive growth for 2-3 years.**
- **However in the near term revenue growth is likely to be impacted by lower off-take from IBB segment and slowdown in ATBS business.**
- **Despite this, higher contribution of ATBS business in the sale mix and lower cost will cushion the profitability.**
- **We expect earnings to grow by 17% CAGR over FY19-21E.**
- **Given lower than expected revenue growth and premium valuation, we value VOL at 24x (26x earlier) on FY21E and downgrade to "Reduce" from "Accumulate" rating with a target price of Rs1,816.**

Revenue growth modest...

Revenue de-grew by 3% YoY in Q2FY20 led by lower offtake in IBB and slowdown in ATBS in ATBS business. ATBS continues to be significant contributor to the sales mix forming 60% of the sales mix during the quarter. Revenue growth from IBB was impacted by lower volume offtake from IBB on account of issues with one of VOL's key client and decline in realization. In the near term offtake from IBB is expected to be soft. Given lower than expected volume growth, we lower our revenue estimates by 15% & 19% respectively, for FY20E & FY21E. We expect VOL's revenue to grow by 12% CAGR over FY19- FY21E .

PAT to grow by healthy 17% CAGR over FY19-21E...

Gross margins improved by 470bps YoY to 59.9% led by factors like benign raw materials prices, better product mix, scale benefits and improved pricing power in ATBS due to exit of one of VOL competitor. EBITDA grew by modest by 5% YoY, while EBITDA margins improved by 310bps YoY to 40.7%. But PAT grew by 28% YoY on account corporate tax cuts. Going forward, we expect higher contribution from superior margin ATBs in sales mix will drive EBITDA growth and profitability. Given slowdown in revenue estimates due to slowdown in ATBS and lower off-take, our EPS estimates stands reduced by 3.0% for FY21E. We expect PAT to grow by 17% CAGR over FY19-21E.

Valuations

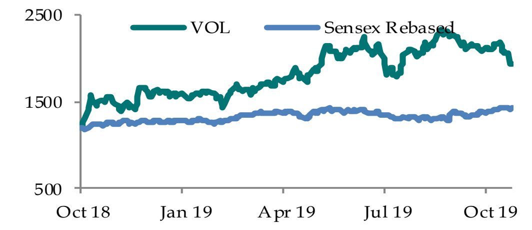
We continue to maintain a positive outlook on VOL, given of new products, CAPEX initiated for introduction of new products and leveraging growth opportunities in existing product portfolio. But, given the impact on revenue growth and premium valuation we value VOL at 24x (26x earlier) on FY21E and downgrade to "Reduce" from "Accumulate" rating with a target price of Rs1,816.

Company Data	
Market Cap (cr)	Rs.10,035
Enterprise Value (cr)	Rs. 10,049
Outstanding Shares (cr)	5.1
Free Float	26%
Dividend Yield	0.4%
52 week high	Rs. 2,511
52 week low	Rs. 1,377
6m average volume (cr)	0.01
Beta	0.7
Face value	Rs. 2

Shareholding (%)	Q4FY19	Q1FY20	Q2FY20
Promoters	74.0	74.0	74.0
FII's	3.6	4.1	4.8
MFs/Institutions	6.6	6.2	6.4
Public	12.3	12.3	11.9
Others	3.5	3.4	2.9
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	-7.5%	3.9%	29.1%
Absolute Sensex	7.9%	2.4%	14.6%
Relative Return*	-15.4%	1.5%	14.5%

over or under performance to benchmark index*



Consolidated (cr)	FY19A	FY20E	FY21E
Sales	1,128	1,201	1,411
Growth (%)	*51.7*	*6.4*	*17.5*
EBITDA	423	454	511
EBITDA Margin(%)	*37.5*	*37.8*	*36.2*
PAT Adjusted	282	347	389
Growth (%)	*96.3*	*22.8*	*12.1*
Adjusted EPS	55.0	67.5	75.7
Growth (%)	*96.3*	*22.8*	*12.1*
P/E	35.4	28.8	25.7
P/B	9.6	7.3	5.8
EV/EBITDA	23.7	22.0	19.5
ROE (%)	30.6	28.6	25.1
D/E	0.0	0.0	0.0

Anil R
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

	Q2FY20	Q2FY19	YoY Growth %	H1FY20	H1FY19	YoY Growth %
Sales	**245**	**253**	*(3.1)*	**536**	**518**	*3.5*
EBITDA	**100**	**95**	*4.8*	**220**	**187**	*17.7*
EBITDA margins	**40.7**	**37.7**	*+310bps*	**41.1**	**36.1**	*+490bps*
Depreciation	7	7	-	14	14	-
EBIT	**93**	**88**	*4.9*	**206**	**173**	*18.8*
Interest	-	-	-	1	0	-
Other Income	11	11	*4.5*	23	23	-
Exceptional Items	-	-	-		-	-
PBT	**104**	**99**	*4.8*	**228**	**196**	*16.4*
Tax	(6)	34	-	36	66	*(46.5)*
Share of profit from Associate	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-
Reported PAT	**110**	**65**	*69.2*	**192**	**129**	*48.9*
Adjustments	-	-	-	-	-	-
Adjusted PAT	**110**	**65**	*69.2*	**192**	**129**	*48.9*
No. of Shares	**5.1**	**5.1**	-	**5.1**	**5.1**	-
EPS (Rs)	**21.4**	**12.6**	*69.2*	**37.4**	**25.1**	*48.9*

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs cr	**FY20E**	**FY21E**	**FY20E**	**FY21E**	**FY20E**	**FY21E**
Revenue	1,418	1,751	1,201	1,411	*(15.3)*	*(19.4)*
EBITDA	491	606	454	511	*(7.5)*	*(16.0)*
Margins (%)	34.6	34.6	37.8	36.2	*+320bps*	*+160bps*
Adj. PAT	330	400	347	389	*5.0*	*(3.1)*
EPS	64.0	77.6	67.5	75.7	*5.0*	*(3.1)*

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Sales	**641**	**743**	**1,108**	**1,201**	**1,411**
% change	*1.6*	*16.0*	*49.1*	*6.4*	*17.5*
EBITDA	**217**	**211**	**423**	**454**	**511**
% change	*4.9*	*(2.8)*	*100.7*	*7.2*	*12.6*
Depreciation	22	23	27	32	40
EBIT	195	188	396	422	471
Interest	2	1	1	1	1
Other Income	12	17	30	45	53
PBT	**206**	**203**	**425**	**466**	**523**
% change	*10.4*	*(1.3)*	*109.1*	*9.6*	*12.1*
Tax	66	59	143	119	134
Tax Rate (%)	*31.9*	*29.3*	*33.6*	*25.6*	*25.6*
Reported PAT	**139**	**144**	**282**	**347**	**389**
Adj.*	1	-	-	-	-
Adj. PAT	**140**	**144**	**282**	**347**	**389**
% change	*6.6*	*2.6*	*96.3*	*22.8*	*12.1*
No. of shares (cr)	5.2	5.1	5.1	5.1	5.1
Adj EPS (Rs)	**27.2**	**27.9**	**55.0**	**67.5**	**75.7**
% change	*6.6*	*2.6*	*96.3*	*22.8*	*12.1*
DPS (Rs)	0.7	0.6	5.2	5.2	5.2
CEPS (Rs)	31.4	32.5	60.3	73.6	83.4

BALANCE SHEET

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	0.3	0.1	0.04	38	56
Accounts Receivable	141	177	244	257	302
Inventories	65	82	92	102	122
Other Cur. Assets	78	97	129	138	163
Investments	62	132	96	206	316
Gross Fixed Assets	484	497	542	801	1,001
Net Fixed Assets	463	453	472	700	860
CWIP	7	35	191	80	80
Intangible Assets	5	4	3	2	2
Def. Tax (Net)	(70)	(81)	(85)	(85)	(85)
Other Assets	-	-	-	-	-
Total Assets	**752**	**899**	**1,143**	**1,438**	**1,816**
Current Liabilities	43	75	74	59	74
Provisions	3	3	3	4	4
Debt Funds	26	25	14	5	5
Other Liabilities	-	-	-	-	-
Equity Capital	10	10	10	10	10
Reserves & Surplus	670	786	1,041	1,361	1,723
Shareholder's Fund	680	797	1,051	1,371	1,733
Total Liabilities	**752**	**899**	**1,143**	**1,438**	**1,816**
BVPS	**132**	**154**	**204**	**266**	**336**

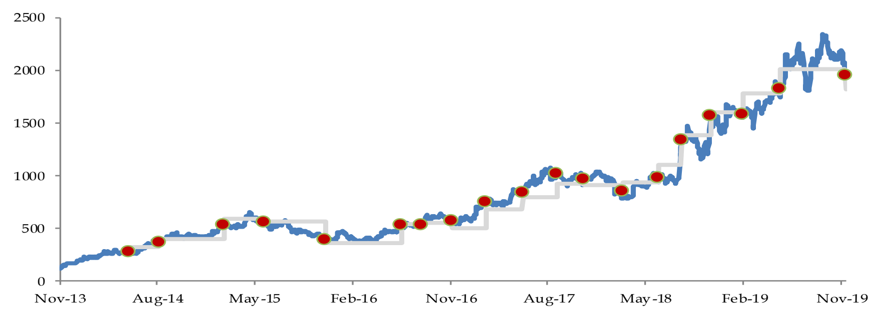
CASH FLOW

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	162	169	310	378	429
Non-cash adj.	7	1	5	(44)	(52)
Changes in W.C	(38)	(32)	(114)	(47)	(73)
C.F. Operation	**130**	**138**	**201**	**287**	**304**
Capital exp.	(114)	(42)	(45)	(148)	(200)
Change in inv.	85	(4)	(205)	(110)	(110)
Other invest.CF	2	7	7	45	53
C.F - Investment	**(27)**	**(39)**	**(243)**	**(213)**	**(257)**
Issue of equity	-	(24)	-	-	-
Issue/repay debt	(40)	(2)	(12)	(9)	-
Dividends paid	(4)	(3)	(28)	(27)	(27)
Other finance.CF	(2)	(1)	(1)	(1)	(1)
C.F - Finance	**(45)**	**(30)**	**(40)**	**(37)**	**(28)**
Chg. in cash	59	70	(131)	37	18
Closing cash	0.3	0.0	1	38	56

RATIOS

Y.E March	FY17A	FY18A	FY19A	FYE20E	FY21E
Profitab & Return					
EBITDA margin (%)	33.9	28.4	37.5	37.8	36.2
EBIT margin (%)	30.5	25.2	35.1	35.2	33.4
Net profit mgn.(%)	21.9	19.4	25.0	28.9	27.6
ROE (%)	22.9	19.5	30.6	28.6	25.1
ROCE (%)	21.7	19.0	30.0	28.5	25.0
W.C & Liquidity					
Receivables (days)	72.7	78.0	68.1	76.1	72.2
Inventory (days)	65.8	71.2	60.7	64.7	60.7
Payables (days)	43.9	56.8	51.8	44.1	35.9
Current ratio (x)	6.3	4.6	6.0	8.6	8.2
Quick ratio (x)	3.3	2.4	3.3	5.0	4.8
Turnover &Leverage					
Gross asset T.O (x)	1.5	1.5	2.2	1.8	1.6
Total asset T.O (x)	0.9	0.9	1.1	0.9	0.9
Int. covge. ratio (x)	104.9	154.9	419.5	402.5	347.1
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	15.7	13.5	8.9	8.3	7.1
EV/EBITDA (x)	46.4	47.7	23.7	22.0	19.5
P/E (x)	71.6	69.5	35.4	28.8	25.7
P/BV (x)	14.9	12.7	9.6	7.3	5.8

Recommendation summary



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
28-May-15	Hold	565
17-November-15	Reduce	359
15-June-16	Hold	543
10-August-16	Hold	551
05-Novomber-16	Reduce	504
09-February -17	Reduce	685
22-May -17	Reduce	793
29-August-17	Reduce	918
09-November-17	Reduce	904
01-March-18	Accumulate	942
07-June- 18	Buy	1,106
13-August-18	Hold	1,384
2-November-18	Hold	1,606
31-January-19	Accumulate	1,783
16-May-19	Accumulate	2,018
14-November-19	Reduce	1816

Investment Criteria

Large Cap Stocks;		
Buy	-	**Upside is above 10%.**
Hold	-	**Upside is between 0% - 10%.**
Reduce	-	**Downside is more than 0%.**
Neutral	-	**Not Applicable**

Mid Cap and Small Cap;		
Buy	-	**Upside is above 15%.**
Accumulate	-	**Upside is between 10% - 15%.**
Hold	-	**Upside is between 0% - 10%.**
Reduce/Sell	-	**Downside is more than 0%.**
Neutral	-	**Not Applicable**

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.
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Neutral- The analyst has no investment opinion on the stock under review

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