



# Vinati Organics Limited

STOCK INFO.	BLOOMBERG
BSE Sensex:25591	VO.IN
S&P CNX:7786	REUTERS CODE VNTI.NS

23 December 2015

Buy

Initiating Coverage

INR450

	(INR CRORES)		
Y/E MARCH	FY16E	FY17E	FY18E
Revenue	615	762	877
EBITDA	188	236	284
EBITDA Margin	30.5%	30.9%	32.4%
NP (Adj.)	107	138	171
EPS (Adj.)	20.7	26.7	33.1
EPS Growth	-8%	29%	24%
Core ROE (%)	27%	24%	25%
Core ROCE (%)	30%	32%	35%
P/E (x)	21.8	16.9	13.6
P/BV (x)	4.5	3.7	3.1

## KEY FINANCIALS

Diluted Shares (cr)	5.2
Market Cap. (Rs cr)	2,320
Market Cap. (US\$ m)	350
Past 3 yrs Sales Growth (%)	18%
Past 3 yrs NP Growth (%)	30%

## STOCK DATA

52-W High/Low Range (INR)	668/370
Major Shareholders (as of 22nd December 2015)	
Promoter	72.3
Institutions	8.0
Non institution & Others	19.7
Average Daily Turnover(6 months)	
Volume	26,609
Value (Rs cr)	1.2
1/6/12 Month Rel. Performance (%)	11/-13/5
1/6/12 Month Abs. Performance (%)	11/-19/-1

**Maximum Buy Price :INR485**

**We recommend to BUY Vinati Organics (VOL) for a target of INR 595 (18x FY18E EPS) .**

**Market leader in its segments:** VOL generates ~88% of revenue from top 3 products i.e. IBB, ATBS and IB (Isobutylene) with 68% coming from exports. Globally, VOL commands ~65% market share in IBB and ~45% market share in ATBS and exports majority of products to the US (~40%), Europe (~40%) and other Asian markets (~20). It has completed backward integration into manufacturing of IB, which is the raw material for ATBS. VOL is the largest player in IB with a 70% market share and deals only in the domestic market.

**FY16 to be a year of consolidation:** While the company focuses on maintaining leadership position in each of its products, new product launches are expected to contribute to total revenue from 2HFY17. Reduction in prices of crude oil will lead to almost no demand for EOR (Enhanced Oil Recovery) chemicals. EOR constitutes ~ 15% of ATBS revenue, which will lead to volume decrease in FY16 for VOL. We believe demand scenario to turn favorable from FY17E onwards on the back of new product launches and expectation of higher demand from user industries with favorable business dynamics.

**Future plans to drive growth and lower input costs:** VOL is planning to invest INR 150cr by FY17. A co-gen power plant at its Lote facility for INR50cr is expected to lower electricity costs by upto INR 8cr per year. Debottlenecking of existing capacities and new capacities for IB based derivatives could contribute ~INR 200cr (25% of revenues in FY15) once they reach full utilization. In the medium term, ATBS is likely to drive growth with enough scope to increase utilization levels.

**Good track record & cash flows:** VOL's revenues and profits have grown at a CAGR of 24% and 22% over FY 11-15 respectively. The return ratios (ROE, ROCE) of the company have remained above 30% over FY 11-15, despite a drop in leverage to 0.2x in FY15 from around 1x in FY13. The company's margins also have remained in low to mid 20s (26.5% in FY15). VOL is looking to fund its current expansion worth INR150 Cr through internal accruals.

**Valuations & View:** As a diversified specialty chemicals company, VOL is a play on three key emerging trends: (1) Rising demand for specialty chemicals in India (15% CAGR FY15-FY20E), (2) Migration of global chemical manufacturing from China to India (Asia to have 70% production share by 2030), (3) established product positioning & lowest cost producer. We value VOL at 18x FY 18E EPS of INR 33.1 with a target price of INR 595, which is an upside of 32% from CMP.

## INVESTMENT CONCERNS

**High reliance on two products:** Overtime the company has moved from manufacturing a single product (IBB) to ATBS and IBB, which together account for more than 75% of revenues. While both the products have historically contributed to robust growth, it might be difficult to maintain the growth momentum with the existing products. Addition of more products will not only mitigate product concentration risk but client concentration risk as well (currently around 60% of the revenues come from top 10 clients).

**Regulatory concerns:** Since around two thirds of the company 's revenues come from exports, any kind of adverse developments on product quality, duties could impact business prospects.

**New product launches may not take off:** While VOL tends to stick to what it knows best, the long term growth of the business will depend on its ability to launch newer products to drive growth. VOL has been successful in its past endeavors to launch new products, the same cannot be guaranteed for future products. It's not just the inclusion of new products but also the profitability, which will determine future business prospects.

### Company background:

Vinati Organics Ltd was established in 1989 by Vinod Saraf, in order to manufacture specialty chemicals. It is the largest manufacturer of Iso Butylbenzene (IBB) and ATBS with global market share in excess of 60-65% and ~45% respectively. IBB is the key raw material required to manufacture ibuprofen, an anti-inflammatory analgesic bulk drug. ATBS on the other hand is a highly versatile molecule and has diverse applications. The company has two plants at Lote and Mahad where it manufactures all the products. VOL has presence in more than 22 countries, with exports contributing to more than 65% of the top-line in FY15. US, Europe and Asia are the key export markets for the company.

### Quarterly performance

INRCr	2QFY15	1QFY16	2QFY16	YoY	QoQ
Total Income	196	155	149	-24%	-4%
Expenditure	148	110	111	-25%	0%
EBITDA	49	44	38	-21%	-14%
Other Income	2	1	2		
Interest	4	2	2	-40%	-10%
Depreciation	4	5	5	4%	1%
E/O Gain	0	9	14		
PBT	43	47	47	11%	0%
Tax	14	16	16		
Adj. PAT	28	31	31	9%	0%
EBITDA (%)	25.2%	29.6%	26.7%		
Tax rate (%)	33%	34%	34%		

VOL's revenues declined in 2QFY16 due to the base effect of high crude prices, given the company passes on any change in price to customers. Company's operating profit declined by 21% YoY as fixed costs moved up as proportion to sales. Operating margins expanded by 1.5% YoY to 26.7% due to reduction in raw material cost.

Net profits came in higher by 9% YoY aided by a one-time income of INR 14cr on account of reversal of export duties of earlier years. Excluding the same, profit before tax would have declined by 22% YoY for the quarter.

## Vinati Organics Limited Financials &amp; Valuation

INCOME STATEMENT (Consolidated)						RATIOS (Consolidated)					
(INRCR)											
Y/E MARCH	FY14	FY15	FY16E	FY17E	FY18E	Y/E MARCH	FY14	FY15	FY16E	FY17E	FY18E
<b>Net sales</b>	<b>687</b>	<b>759</b>	<b>615</b>	<b>762</b>	<b>877</b>	Adj. EPS	17.5	22.4	20.7	26.7	33.1
Growth	27%	10%	-19%	24%	15%	Growth (%)	25%	29%	-8%	29%	24%
Other Income	18	22	20	21	22	Cash EPS	20.6	25.9	24.3	31.1	38.2
<b>Total Income</b>	<b>705</b>	<b>781</b>	<b>635</b>	<b>783</b>	<b>899</b>	Book Value	62.8	84.1	99.9	120.6	146.6
Material cost	419	457	320	396	452	DPS	3.0	3.5	4.2	5.0	6.0
Staff Costs	27	32	35	39	41	Payout (Incl. Div. Tax)	20%	18%	24%	22%	21%
Other Expenses	97	92	92	112	123	<b>Valuation</b>					
<b>Total Expenditure</b>	<b>543</b>	<b>580</b>	<b>447</b>	<b>547</b>	<b>615</b>	P/E	-	-	21.8	16.9	13.6
<b>EBITDA</b>	<b>162</b>	<b>201</b>	<b>188</b>	<b>236</b>	<b>284</b>	Cash P/E	-	-	18.5	14.5	11.8
% of net Sales	23.6%	26.5%	30.5%	30.9%	32.4%	Price/Book Value	-	-	4.5	3.7	3.1
Depreciation/Amortization	15	18	19	23	27	EV/EBITDA	-	-	12.2	9.6	7.6
Finance Charges	18	10	9	7	2	EV/Sales	-	-	3.7	3.0	2.5
<b>PBT</b>	<b>129</b>	<b>174</b>	<b>160</b>	<b>206</b>	<b>256</b>	Div. Yld	3.7%	4.4%	0.9%	1.1%	1.3%
Tax	42	58	53	69	85	<b>Return Ratios</b>					
<b>Adj. PAT</b>	<b>86</b>	<b>116</b>	<b>107</b>	<b>138</b>	<b>171</b>	RoE	31%	31%	27%	24%	25%
Growth	25%	34%	-8%	29%	24%	RoCE	31%	38%	30%	32%	35%
<b>PAT Margin</b>	<b>12%</b>	<b>15%</b>	<b>17%</b>	<b>18%</b>	<b>19%</b>	<b>Leverage</b>					
						Debt/Equity (x)	0.4	0.1	0.1	0.1	-

  

BALANCE SHEET (Consolidated)						CASH FLOW (Consolidated)					
(INRCR)						(INRCR)					
Y/E MARCH	FY14	FY15	FY16E	FY17E	FY18E	Y/E MARCH	FY14	FY15	FY16E	FY17E	FY18E
Equity Share Capital	10	10	10	10	10	<b>PBT</b>	<b>129</b>	<b>174</b>	<b>160</b>	<b>206</b>	<b>256</b>
Reserves	300	424	505	612	746	Depreciation	15	18	19	23	27
<b>Networth</b>	<b>310</b>	<b>434</b>	<b>515</b>	<b>622</b>	<b>756</b>	Interest	18	10	9	7	2
Debt	122	39	65	35	0	(Inc)/Dec in WC	19	(23)	(8)	(28)	(21)
Net deferred tax	33	39	39	39	39	Others	(50)	(65)	(8)	(75)	(93)
<b>SOURCES OF FUNDS</b>	<b>465</b>	<b>512</b>	<b>619</b>	<b>696</b>	<b>796</b>	<b>CF from Operations</b>	<b>131</b>	<b>113</b>	<b>172</b>	<b>132</b>	<b>169</b>
Net Block	304	327	328	366	430	(Inc)/Dec in Fixed assets	(29)	(42)	(60)	(90)	(20)
CWIP	10	20	60	90	19	Others	20	(11)	0	0	0
<b>Investments</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>CF from Investing act.</b>	<b>(9)</b>	<b>(53)</b>	<b>(60)</b>	<b>(90)</b>	<b>(20)</b>
<b>Current Assets</b>	<b>228</b>	<b>238</b>	<b>300</b>	<b>324</b>	<b>442</b>	Equity issuance/ Share buy back	0	0	0	0	0
Inventories	47	54	59	73	84	Inc/(Dec) in debt	(79)	(52)	(10)	(30)	(35)
Sundry Debtors	115	129	118	146	168	Dividend paid	(15)	(18)	(22)	(26)	(31)
Cash and Bank Balances	43	27	99	80	165	Less: Interest paid	(18)	(10)	(9)	(7)	(2)
Loans and Advances	23	25	25	25	25	Others	(2)	6	1	2	3
Other Current Assets	0	3	0	0	0	<b>CF from Financing act.</b>	<b>(113)</b>	<b>(75)</b>	<b>(40)</b>	<b>(61)</b>	<b>(65)</b>
Current Liabilities & Provisions	87	87	72	86	98	Inc/(Dec) in cash	9	(16)	72	(19)	84
<b>Net current assets</b>	<b>141</b>	<b>151</b>	<b>228</b>	<b>238</b>	<b>344</b>	Add: Beginning balance	34	43	27	99	80
Other LT assets	7	11	0	0	0	<b>Closing Balance</b>	<b>43</b>	<b>27</b>	<b>99</b>	<b>80</b>	<b>165</b>
Misc expenses	0	0	0	0	0						
<b>Application of Funds</b>	<b>465</b>	<b>512</b>	<b>619</b>	<b>696</b>	<b>796</b>						

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1. Analyst ownership of the stocks mentioned above	No
2. Served as an officer, director or employee	No

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