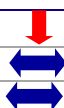


# Vinati Organics

## Estimate changes

TP change

Rating change



Bloomberg	VO IN
Equity Shares (m)	103
M.Cap.(INRb)/(USDb)	180.8 / 2.2
52-Week Range (INR)	2195 / 1693
1, 6, 12 Rel. Per (%)	-3/-16/-22
12M Avg Val (INR M)	100

## Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	20.8	18.7	25.0
EBITDA	6.0	4.8	6.9
PAT	4.6	3.6	5.3
EPS (INR)	44.6	35.5	51.2
EPS Gr. (%)	32.1	-20.3	44.3
BV/Sh.(INR)	215.9	245.8	289.0

## Ratios

Net D:E	-0.0	-0.0	-0.1
RoE (%)	22.6	15.4	19.2
RoCE (%)	21.5	14.1	17.2
Payout (%)	15.7	15.7	15.7

## Valuations

P/E (x)	39.5	49.5	34.3
P/BV (x)	8.1	7.2	6.1
EV/EBITDA (x)	30.3	37.2	25.8
Div. Yield (%)	0.4	0.3	0.5
FCF Yield (%)	2.9	0.4	2.0

## Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	74.1	74.1	74.1
DII	8.2	8.1	8.0
FII	4.6	4.5	4.8
Others	13.1	13.4	13.2

FII Includes depository receipts

**CMP: INR1,759**
**TP: INR2,050 (+17%)**
**Buy**

## Destocking weighs on earnings; long-term guidance intact

- Vinati Organics (VO)'s 2QFY24 revenue came in line with our estimate due to a lower off-take of ATBS as destocking continues in the product segment. Management highlighted that volumes declined with the per-kg margin remaining intact. Gross margin expanded 170bp YoY to 46.7%, while EBITDAM was down 150bp YoY at 24.7%. EBITDA was at INR1.1b (a marginal miss).
- Management expects a muted performance in ATBS in FY24 (to be partially offset by revenue from AOs), with major destocking being seen industry-wide, especially in the Oil & Gas sector (contributing 15% to VO's revenue). Destocking is expected to continue until Dec'23, and management expects that there would be normal off-take for ATBS after that.
- Management announced that the expansion of ATBS capacity by 50% (of its existing capacity of 40ktpa) would now be completed by Jun'24 instead of end-FY24 due to the short-term headwinds being seen from the end-user industries. However, it is confident of the 10-year outlook of the product with customers committing to volume off-take in the long term.
- VO has started commercial supply of Antioxidants (AOs), but demand remains tepid as of now, and the plant is running at 30-40% utilization. The contribution from AOs is likely to partially offset the weakness in the ATBS segment in FY24. Management expects a revenue contribution of ~INR1b in FY24 on a consolidated basis from 3QFY24. The full benefit is to be seen in FY25, with estimated revenue of INR4b at 40-50% utilization levels.
- Due to the underperformance in 1HFY24, we cut our revenue/ EBITDA/PAT estimates by 10%/14%/16% for FY24 while keeping our estimates broadly unchanged for FY25. The stock is trading at ~34x FY25E EPS of INR51.2 and ~26x FY25E EV/EBITDA. We value the company at 40x FY25E EPS to arrive at our TP of INR2,050. **We reiterate our BUY rating on the stock.**

## Marginal miss led by higher-than-expected RM costs/employee expenses

- VO's 2QFY24 revenue stood at INR4.5b (down 21% YoY).
- EBITDA for the quarter was at INR1.1b (est. of INR1.2b, down 25% YoY). Gross margin was at 46.7% (up 170bp YoY). EBITDAM came in at 24.7% (down 150bp YoY).
- PAT stood at INR842m (est. of INR906m, down 27% YoY).
- For 1HFY24**, revenue stood at INR8.8b (down 18% YoY), EBITDA was at INR2.2b (down 21% YoY), while PAT stood at INR1.7b (down 23% YoY)
  - EBITDAM was at 25% (down 100bp YoY)
  - VO's 1HFY24 EBITDA was at 39% of our full-year estimate.

## Valuation and view

- Veeral Organics Pvt. Ltd. (a wholly owned subsidiary of Vinati Organics) is set to commence production of MEHQ, Guaiacol, Anisole, and Iso Amylene. The capacity for MEHQ and Guaiacol is expected to be 3ktpa, with the anisole capacity to be 5ktpa; the same for Iso Amylene is expected to be 30ktpa. This should propel VO into the next leg of its growth story.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

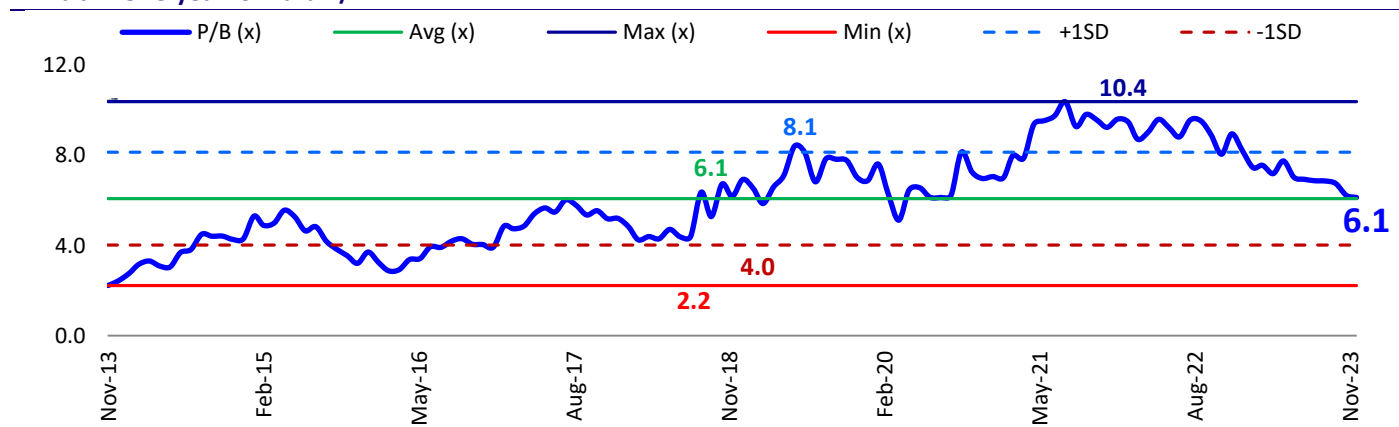
 Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

- Veeral Additives (VAL) has commenced the commercial supply of AOs. VO has received in principle approval for its amalgamation with VAL from the NCLT, and management expects the revenue to reflect in VO from next quarter onwards on a consolidated basis. VO is set to become the largest and the only double-integrated manufacturer of AOs in India.
- Barring the short-term pain in terms of destocking, we continue to believe that this is one stock in the sector that will continue to do well. The stock is trading at ~34x FY25E EPS of INR51.2 and ~26x FY25E EV/EBITDA. It had a fixed asset turnover of 2.4x as of FY23. We value the company at 40x FY25E EPS to arrive at our TP of INR2,050. **We reiterate our BUY rating on the stock.**

## Standalone - Quarterly Earnings Model

Y/E March	FY23				FY24				(INR m)			
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	FY23	FY24E	FY24E	Var. (%)
Gross Sales	5,063	5,663	5,087	5,034	4,310	4,481	4,738	5,199	20,847	18,728	4,515	-1%
YoY Change (%)	31.0	51.4	37.9	3.6	-14.9	-20.9	-6.9	3.3	29.0	-10.2	-20.3	
Gross Margin (%)	45.5%	45.0%	51.6%	50.3%	47.6%	46.7%	46.8%	46.9%	48.0%	47.0%	47.9%	-1.2%
EBITDA	1,309	1,485	1,638	1,523	1,090	1,108	1,214	1,429	5,954	4,841	1,176	-6%
Margin (%)	25.8	26.2	32.2	30.3	25.3	24.7	25.6	27.5	28.6	25.9	26.0	-1.3
Depreciation	128	130	130	130	132	137	143	153	519	565	133	
Interest	5	0	0	1	3	3	2	2	6	9	2	
Other Income	187	200	168	170	153	162	137	156	724	609	169	
PBT before EO expense	1,363	1,554	1,675	1,561	1,109	1,130	1,206	1,431	6,153	4,876	1,210	-7%
PBT	1,363	1,554	1,675	1,561	1,109	1,130	1,206	1,431	6,153	4,876	1,210	-7%
Tax	351	394	421	407	276	289	304	359	1,573	1,227	305	
Rate (%)	25.7	25.3	25.1	26.1	24.9	25.5	25.2	25.1	25.6	25.2	25.2	
Reported PAT	1,012	1,160	1,254	1,154	832	842	902	1,073	4,580	3,649	906	-7%
YoY Change (%)	25.0	42.6	50.6	14.1	-17.7	-27.4	-28.1	-7.0	32.1	-20.3	-21.9	
Margin (%)	20.0	20.5	24.7	22.9	19.3	18.8	19.0	20.6	22.0	19.5	20.1	-1.3

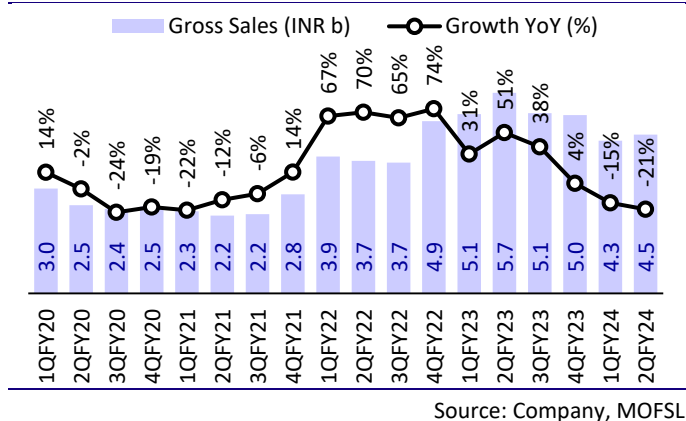
## Exhibit 1: One-year forward P/B



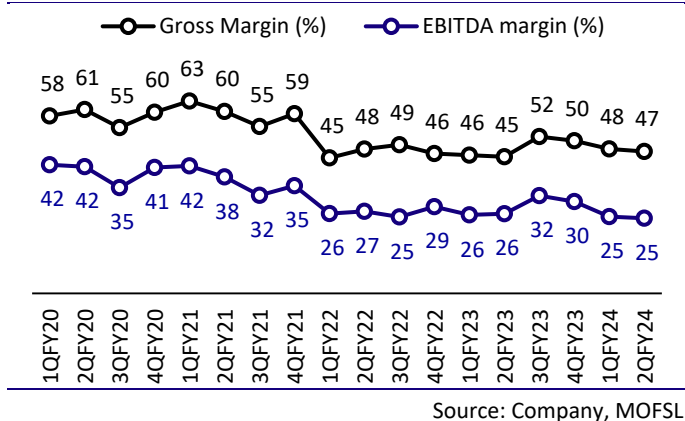
Source: Company, MOSL

## 2QFY24 in charts

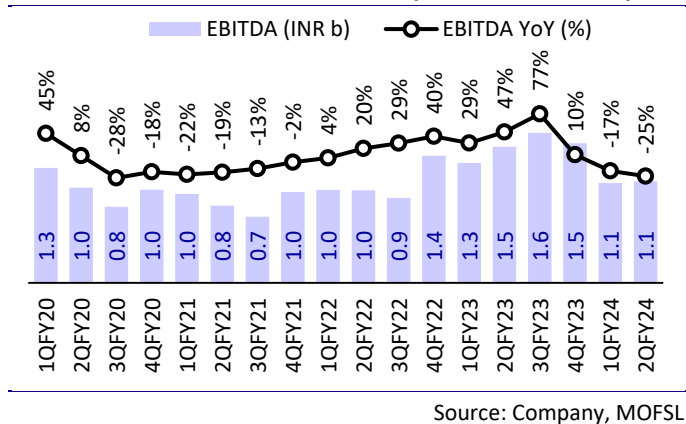
**Exhibit 2: Sales declined 21% YoY**



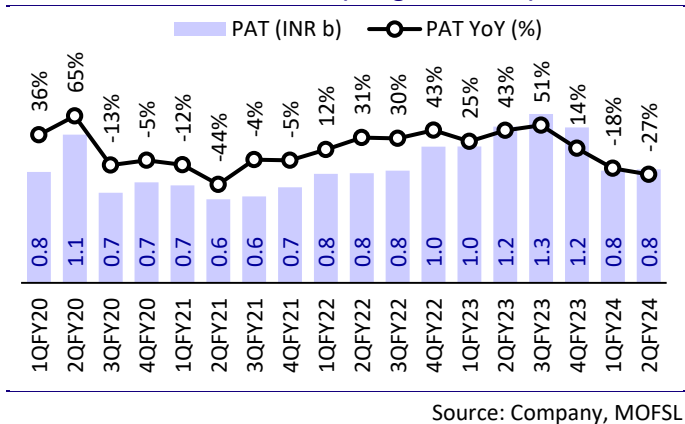
**Exhibit 3: GM and EBITDAM both declined YoY**



**Exhibit 4: EBITDA declined 25% YoY (EBITDAM at 24.7%)**

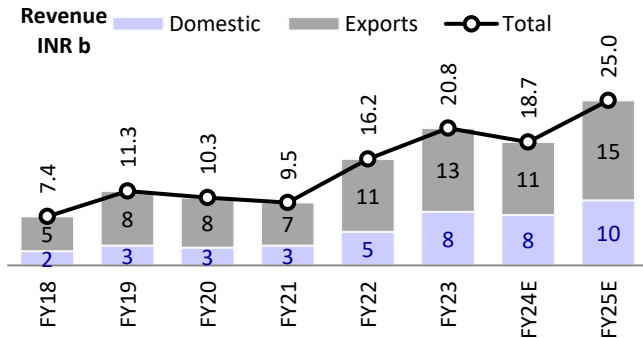


**Exhibit 5: PAT down 27% YoY (margin at 18.8%)**

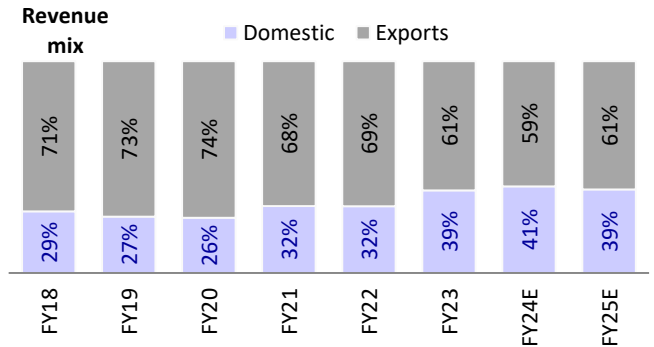


## Story in charts

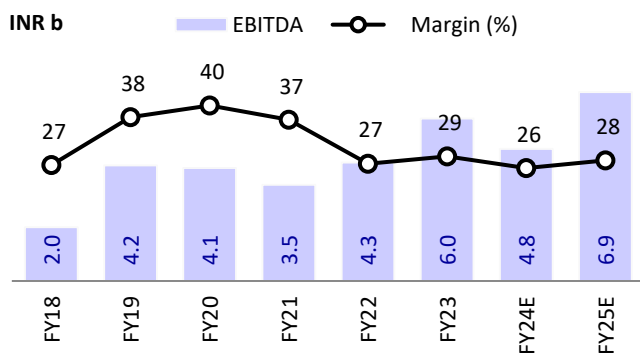
**Exhibit 6: Expect 10% revenue CAGR over FY23-25**



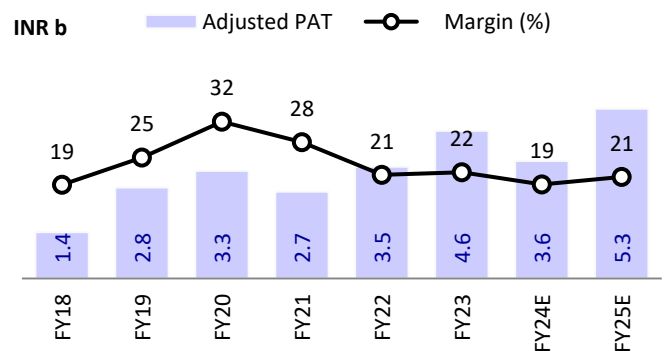
**Exhibit 7: Exports likely to decline from FY22 levels**



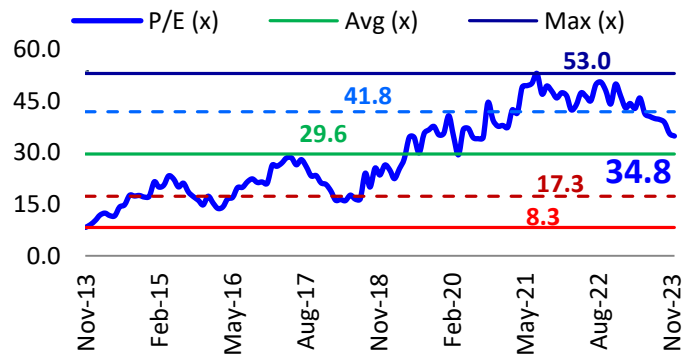
**Exhibit 8: EBITDAM to remain subdued over FY24-25...**



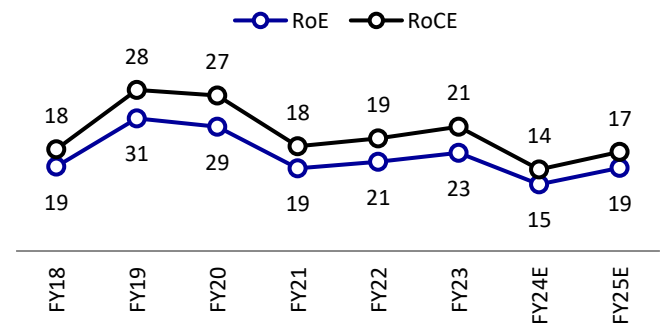
**Exhibit 9: ...with pressure on PAT margin also to sustain**



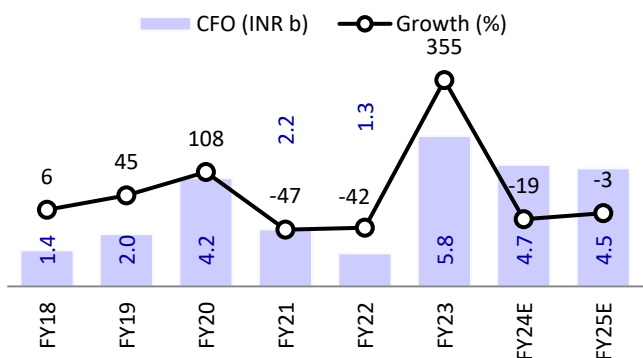
**Exhibit 10: One-year forward P/E**



**Exhibit 11: Return ratios at 17-19% in FY25E**

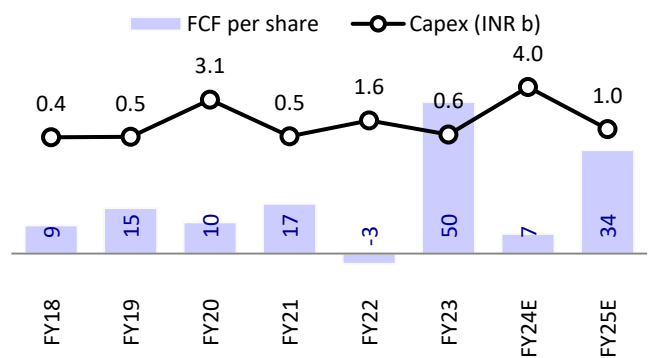


**Exhibit 12: Strong operating cash flow at INR9.2b...**



Source: Company, MOFSL

**Exhibit 13: ...with capex for FY24-25 at INR5b**



Source: Company, MOFSL

## Financials and valuations

### Standalone- Income Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Total Income from Operations</b>	<b>7,422</b>	<b>11,279</b>	<b>10,289</b>	<b>9,543</b>	<b>16,155</b>	<b>20,847</b>	<b>18,728</b>	<b>25,050</b>
Change (%)	8.9	52.0	-8.8	-7.3	69.3	29.0	-10.2	33.8
Gross Margin (%)	49.1	53.4	58.3	59.4	46.7	48.0	47.0	50.0
<b>EBITDA</b>	<b>1,973</b>	<b>4,234</b>	<b>4,139</b>	<b>3,525</b>	<b>4,341</b>	<b>5,954</b>	<b>4,841</b>	<b>6,924</b>
Margin (%)	26.6	37.5	40.2	36.9	26.9	28.6	25.9	27.6
Depreciation	234	274	332	429	455	519	565	592
<b>EBIT</b>	<b>1,739</b>	<b>3,960</b>	<b>3,808</b>	<b>3,096</b>	<b>3,886</b>	<b>5,435</b>	<b>4,277</b>	<b>6,333</b>
Int. and Finance Charges	12	9	11	2	3	6	9	11
Other Income	307	302	450	259	610	724	609	716
<b>PBT bef. EO Exp.</b>	<b>2,034</b>	<b>4,252</b>	<b>4,247</b>	<b>3,353</b>	<b>4,493</b>	<b>6,153</b>	<b>4,876</b>	<b>7,038</b>
<b>PBT after EO Exp.</b>	<b>2,034</b>	<b>4,252</b>	<b>4,247</b>	<b>3,353</b>	<b>4,493</b>	<b>6,153</b>	<b>4,876</b>	<b>7,038</b>
Total Tax	595	1,428	908	659	1,026	1,573	1,227	1,771
Tax Rate (%)	29.3	33.6	21.4	19.7	22.8	25.6	25.2	25.2
<b>Reported PAT</b>	<b>1,439</b>	<b>2,825</b>	<b>3,338</b>	<b>2,693</b>	<b>3,467</b>	<b>4,580</b>	<b>3,649</b>	<b>5,267</b>
<b>Adjusted PAT</b>	<b>1,439</b>	<b>2,825</b>	<b>3,338</b>	<b>2,693</b>	<b>3,467</b>	<b>4,580</b>	<b>3,649</b>	<b>5,267</b>
Change (%)	2.6	96.3	18.2	-19.3	28.7	32.1	-20.3	44.3
Margin (%)	19.4	25.0	32.4	28.2	21.5	22.0	19.5	21.0

### Standalone - Balance Sheet

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	103	103	103	103	103	103	103	103
Total Reserves	7,864	10,410	12,691	15,331	18,179	22,085	25,161	29,600
<b>Net Worth</b>	<b>7,967</b>	<b>10,513</b>	<b>12,794</b>	<b>15,434</b>	<b>18,281</b>	<b>22,188</b>	<b>25,264</b>	<b>29,703</b>
Total Loans	152	37	3	20	189	69	2,300	2,200
Deferred Tax Liabilities	809	846	705	779	900	1,021	1,021	1,021
<b>Capital Employed</b>	<b>8,927</b>	<b>11,395</b>	<b>13,502</b>	<b>16,234</b>	<b>19,370</b>	<b>23,278</b>	<b>28,584</b>	<b>32,924</b>
Gross Block	5,023	5,473	8,551	9,045	10,675	11,283	15,283	16,283
Less: Accum. Deprn.	454	728	1,060	1,489	1,944	2,463	3,027	3,619
<b>Net Fixed Assets</b>	<b>4,569</b>	<b>4,745</b>	<b>7,491</b>	<b>7,557</b>	<b>8,732</b>	<b>8,820</b>	<b>12,255</b>	<b>12,663</b>
Capital WIP	349	1,912	310	547	473	2,212	2,212	2,212
<b>Total Investments</b>	<b>1,317</b>	<b>965</b>	<b>2,274</b>	<b>2,887</b>	<b>979</b>	<b>2,555</b>	<b>2,555</b>	<b>2,555</b>
<b>Curr. Assets, Loans, and Adv.</b>	<b>3,565</b>	<b>4,654</b>	<b>4,355</b>	<b>6,345</b>	<b>10,714</b>	<b>11,884</b>	<b>13,533</b>	<b>18,129</b>
Inventory	822	924	932	1,219	1,762	1,909	1,715	2,294
Account Receivables	1,771	2,440	2,018	2,772	4,584	4,696	4,219	5,643
Cash and Bank Balance	52	38	537	68	43	83	2,931	3,948
Cash and liquid investments	1,318	492	1,586	1,762	11	1,219	2,931	3,948
Bank Balance	52	38	0	52	33	59	0	0
Loans and Advances	919	1,252	869	2,285	4,326	5,196	4,668	6,244
<b>Curr. Liability and Prov.</b>	<b>872</b>	<b>881</b>	<b>927</b>	<b>1,102</b>	<b>1,527</b>	<b>2,194</b>	<b>1,971</b>	<b>2,636</b>
Account Payables	635	531	557	664	1,146	1,179	1,059	1,417
Other Current Liabilities	174	211	213	391	328	964	866	1,158
Provisions	64	139	157	47	54	51	45	61
<b>Net Current Assets</b>	<b>2,693</b>	<b>3,774</b>	<b>3,428</b>	<b>5,243</b>	<b>9,187</b>	<b>9,690</b>	<b>11,562</b>	<b>15,493</b>
<b>Appl. of Funds</b>	<b>8,927</b>	<b>11,395</b>	<b>13,502</b>	<b>16,234</b>	<b>19,371</b>	<b>23,277</b>	<b>28,584</b>	<b>32,924</b>

## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Basic (INR)</b>								
EPS	14.0	27.5	32.5	26.2	33.7	44.6	35.5	51.2
EPS Growth (%)	2.6	96.3	18.2	-19.3	28.7	32.1	-20.3	44.3
Cash EPS	16.3	30.1	35.7	30.4	38.2	49.6	41.0	57.0
BV/Share	77.5	102.3	124.5	150.2	177.9	215.9	245.8	289.0
DPS	0.3	2.3	5.5	6.0	6.5	7.0	5.6	8.0
Payout (%)	2.2	9.9	31.6	22.9	19.3	15.7	15.7	15.7
<b>Valuation (x)</b>								
P/E	125.6	64.0	54.1	67.1	52.1	39.5	49.5	34.3
Cash P/E	108.0	58.3	49.2	57.9	46.1	35.4	42.9	30.8
P/BV	22.7	17.2	14.1	11.7	9.9	8.1	7.2	6.1
EV/Sales	24.4	16.0	17.5	18.9	11.2	8.7	9.6	7.1
EV/EBITDA	91.7	42.7	43.5	51.2	41.7	30.3	37.2	25.8
Dividend Yield (%)	0.0	0.1	0.3	0.3	0.4	0.4	0.3	0.5
FCF per share	9.4	15.1	10.4	16.5	-3.4	50.3	6.5	34.4
<b>Return Ratios (%)</b>								
RoE	19.5	30.6	28.6	19.1	20.6	22.6	15.4	19.2
RoCE	17.6	27.9	26.9	18.1	19.5	21.5	14.1	17.2
RoIC	17.6	33.5	31.7	21.5	19.6	22.3	16.3	21.0
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	1.6	2.4	1.7	1.3	2.0	2.4	1.8	2.0
Asset Turnover (x)	0.8	1.0	0.8	0.6	0.8	0.9	0.7	0.8
Inventory (Days)	40	30	33	47	40	33	33	33
Debtor (Days)	87	79	72	106	104	82	82	82
Creditor (Days)	31	17	20	25	26	21	21	21
<b>Leverage Ratio (x)</b>								
Current Ratio	4.1	5.3	4.7	5.8	7.0	5.4	6.9	6.9
Net Debt/Equity ratio	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1

### Standalone - Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	2,034	4,252	4,247	3,353	4,493	6,153	4,876	7,038
Depreciation	254	274	332	429	455	519	565	592
Direct Taxes Paid	-491	-1,262	-1,005	-607	-1,081	-1,310	-1,227	-1,771
(Inc.)/Dec. in WC	-316	-1,138	811	-874	-2,257	626	448	-1,338
<b>CF from Operations</b>	<b>1,384</b>	<b>2,003</b>	<b>4,159</b>	<b>2,190</b>	<b>1,271</b>	<b>5,780</b>	<b>4,671</b>	<b>4,532</b>
(Inc.)/Dec. in FA	-422	-450	-3,094	-490	-1,618	-607	-4,000	-1,000
<b>Free Cash Flow</b>	<b>962</b>	<b>1,553</b>	<b>1,065</b>	<b>1,700</b>	<b>-347</b>	<b>5,172</b>	<b>671</b>	<b>3,532</b>
Change in Investments	1	-442	-674	127	267	-350	0	0
Others	33	-1,534	1,793	-1,619	-1,206	-2,758	528	-1,576
<b>CF from Investments</b>	<b>-388</b>	<b>-2,427</b>	<b>-1,975</b>	<b>-1,982</b>	<b>-2,558</b>	<b>-3,715</b>	<b>-3,472</b>	<b>-2,576</b>
Issue of Shares	-240	0	0	0	0	0	0	0
Inc./(Dec.) in Debt	0	0	0	17	164	-182	2,231	-100
Interest Paid	-11	-9	-11	-2	-3	-6	-9	-11
Dividend Paid	-32	-278	-1,046	-55	-618	-670	-573	-827
<b>CF from Fin. Activity</b>	<b>-298</b>	<b>-403</b>	<b>-1,090</b>	<b>-31</b>	<b>-464</b>	<b>-856</b>	<b>1,648</b>	<b>-938</b>
<b>Inc./Dec. in Cash</b>	<b>697</b>	<b>-826</b>	<b>1,094</b>	<b>176</b>	<b>-1,751</b>	<b>1,209</b>	<b>2,848</b>	<b>1,018</b>
Opening Balance	621	1,318	492	1,586	1,762	11	83	2,930
<b>Closing Balance</b>	<b>1,318</b>	<b>491</b>	<b>1,585</b>	<b>1,762</b>	<b>10</b>	<b>1,219</b>	<b>2,930</b>	<b>3,948</b>

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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

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