Vinati Organics Ltd.	
No. of shares (m)	102.78
Mkt cap (Rs crs/$m)	18388/2504.9
Current price (Rs/$)	1789/24.4
Price target (Rs/$)	1639/22.3
52 W H/L (Rs.)	2130/976
Book Value (Rs/$)	152/2.1
Beta	0.6
Daily volume NSE (avg. monthly)	90220
P/BV (FY22e/23e)	10.4/8.6
EV/EBITDA (FY22e/23e)	35.4/29.3
P/E (FY22e/23e)	52.7/43.7
EPS growth (FY21/22e/23e)	-19.3/29.7/20.6
OPM (FY21/22e/23e)	37.0/36.0/35.7
ROE (FY21/22e/23e)	19.5/21.5/21.6
ROCE (FY21/22e/23e)	19.6/21.5/21.6
Net D/E ratio (FY21/22e/23e)	-0.1/-0.2/-0.3
BSE Code	524200
NSE Code	VINATIORGA
Bloomberg	VO IN
Reuters	VNTI.BO

Shareholding pattern	%
Promoters	74.1
MFs / Banks / FIIs/FIs	6.8
Foreign Portfolio Investors	4.4
Govt. Holding	0.0
Public & Others	14.7
Total	**100.0**

As on June 30, 2021

Recommendation

HOLD

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Quarterly Highlights

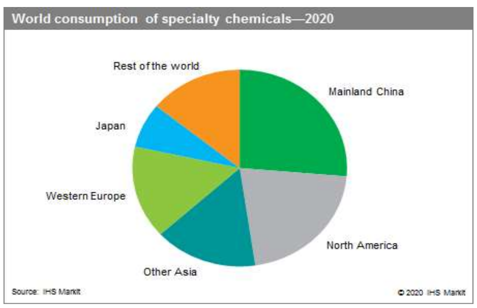
- Driven by an uptick in end-user industries and a strong traction from ATBS segment on account of pent-up demand, VOL's Q1FY22 revenue from operations leapt by an enthusing 38.1% to Rs. 386.37 cr from Rs. 279.77 cr in the previous quarter. However, operating profits did not grow apace with the top-line. Operating profit grew by a mere 2.4% q-o-q to Rs 101.52 cr, yet operating margin declined strikingly to 26.3% from 35.4% in the prior quarter and 42% in the same quarter a year ago. Margin slid across products - presumably due to higher raw material prices (acetonytrile and phenol) and elevated logistics cost.
- VOL has earmarked capex of Rs. 210 cr for additional butyl phenols and IB derivatives, which it expects to be completely capitalized by the end of this year. Vinati Organics operates in niche segments and has a product portfolio that holds a significant market share globally. This enables the company to generate significantly higher margins, but it lead to revenue concentration from few products that has been a key concern of investors. Now with the addition of new capacities of butyl phenol and antioxidants, VOL's product mix is getting increasingly diversified. Moreover, the forward integration of its new products into existing value chain would provide it a key competitive edge. A favorable environment could uplift the overall annual revenues by 41.1% to Rs. 1346.50cr in FY22 and by 20.4% to Rs. 1620.86cr in FY23. EPS should improve by 29.7% this fiscal and by 20.6% in FY23.
- The stock currently trades at 52.7x FY22e EPS of Rs 33.98 and 43.7x FY23e EPS of Rs 40.97. Timely commissioning of antioxidants plant coupled with gradual ramp-up of the expanded capacity of the ATBS and BP plants would act as growth catalysts. Near-term unpredictability of the oil prices, underscores the fragility in growth of ATBS volumes. Earnings recovery in FY22 primarily rests on the premise that both ATBS and butyl phenol would witness higher volumes. Weighing odds, we assign 'hold' rating on the stock with target price of Rs 1639 (previous target Rs 1072) based on 40x FY23e EPS of Rs 40.97 over a period of 9-12 months.

Figures in Rs crs	FY20	FY21	FY22e	FY23e
Income from operations	1028.87	954.26	1346.50	1620.86
Other Income	44.99	25.84	29.47	41.41
EBITDA (other income included)	459.87	379.10	513.96	620.70
PAT after EO	333.82	269.32	349.27	421.12
EPS (Rs)	32.48	26.20	33.98	40.97
EPS growth (%)	18.2	-19.3	29.7	20.6

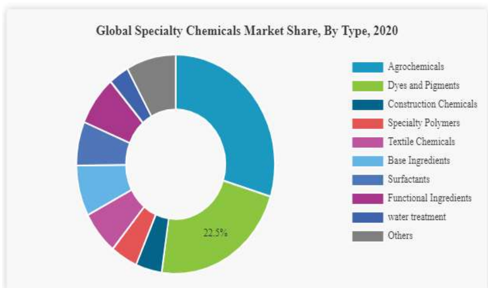
Outlook & Recommendation

Specialty Chemicals Industry Outlook

According to Fortune Business Insights, global specialty chemicals market was valued at $627.7 billion in 2020 exhibiting a decline of 2.8% due to the outbreak of the pandemic. The temporary suspension of industrial activities and halt in mobility led to inventory shortages, while decline in crude oil prices /had put additional pressures on the sector. China is the leading producer of specialty chemicals, largely aided by easy availability of raw materials, cheap labor and capital, and sizable end-use market. However, the COVID-19 outbreak exposed structural flaws in the global supply chain. Given the overdependence on China, global players are looking to diversify their supply chains to alternate sourcing.



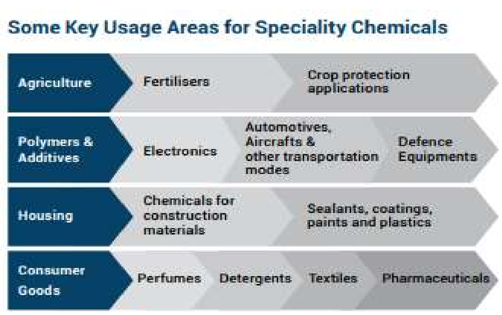
Source: HIS Markit



Source: Fortune Business Insights

Fortune Business Insights pegs the specialty chemicals market to stand at $882.6 billion in 2028 growing at a CAGR of 4.7% during forecast period. Much of the vibrancy in this growth would largely be driven by growing demand in end-user industries such as pharmacy, FMCG, agro-chemicals, personal care and food segments & improved export demand. Especially, increase in adoption of agrochemicals on account of growing population base combined with rising food demand would be fuelling the growth in the market. The Asia Pacific region is expected to dominate the market during the forecast period largely attributable to the huge production base concentrated in India and China.

By some industry reports, the Indian specialty chemical industry is expected to grow to $64 billion by 2025 aided by increased capex towards R&D spending to scale up capacities, liberalized trade, and lower economic barriers. India is the fastest growing specialty chemicals market in the world accounting for more than 50% of domestic chemical exports. Be it global de-risking of supply chains or rising trend of industrialization and expanding manufacturing sector, Indian specialty chemical companies have gained a substantial clout in global market.



Source: CRISIL

Due to stricter environmental norms, tighter financing, and consolidation, there has been a decisive shift in the structure of China's chemical industry propelling western countries to adopt 'China Plus One' business strategy. This coupled with stringent policies in regulatory norms, slow economic growth and rising cost of labor across globe has also improved the sales volume of domestic specialty chemical manufacturers.

Further the Government of India has also pivoted its focus on import substitution and growing domestic demand. Active support under the Make in India programme and production linked incentive (PLI) scheme, along with allowance of 100% FDI under the automatic route in the chemical sector, except for hazardous chemicals, has boosted domestic and overseas investments in greenfield and brownfield projects.

Financials & Valuations

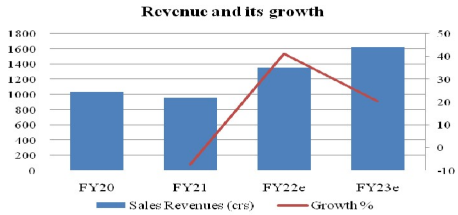
On account of subdued demand from the oil and gas sector, the off-take from Vinati's marquee product ATBS took a hit leading to an overall revenue decline of 7.3% y-o-y in FY21to Rs. 954.26cr (vs Rs. 1028.87cr in FY20). IBB, on the other hand, recorded its highest-ever sales in the last fiscal on account of improved off-take due to pandemic. However, with oil prices rebounding after a period of lukewarm demand, its order flows from the ATBS segment started improving. Q4FY21 revenues improved by 25% to Rs279.77 cr (q-o-q).

Despite the economic crisis caused by the nationwide lockdowns, VOL ensured business continuity and was able to retain it status of market leader in both ATBS and IBB with a share of 65% in each segment. Last year, the commissioning of butyl phenols plant with 4 new products contributed meaningfully to the overall sales and helped the company tide through the global slowdown. However, in Q1FY22 phenol prices have gone up affecting margins. Since the demand was soft in April and May due to the second wave, butyl phenol sales would take a hit in the current fiscal. Nevertheless, we feel that since the domestic requirement for butyl phenols is not as significant as global demand, VOL, being a single player, will largely be successful in substituting the imports by steadily ramping up the capacity.

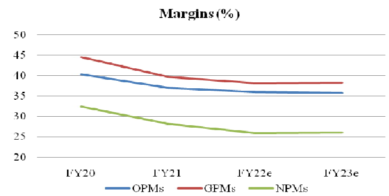
Further the top-line would be galvanized by the amalgamation of Veeral Additives Private Limited into VOL that falls well in-line with the company's growth strategy. The subsidiary with a capacity 24,000 mt, will manufacture antioxidants that is currently witnessing a surge in demand, but is mostly imported. Moreover, this would add to forward integration as the antioxidants use butyl phenols as key raw materials, assuring synergies in operating facilities and strengthening their economic moat. Since half of the butyl phenol capacity would be used as captive for antioxidants, margins would be positively affected. The management expects that once the antioxidants segment stabilizes it could form ~25% of the overall sales mix.

Earlier Vinati has received the required environmental clearance for setting up a 30,000 mt para amino phenol (PAP) capacity, which is a raw material for paracetamol. However, this pilot project is delayed and management has indicated that commercializing the PAP production is not prioritized for the coming few years. Moreover, due to recent floods, Vinati's plant in Mahad has been shutdown and is expected to impact IBB production. Such factors could likely be a near-term overhang for the company.

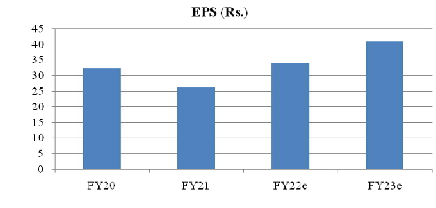
Vinati Organics is largely an export oriented company as around 70% of its overall revenue is contributed by exports. But with new set of products coming to stream, share of domestic revenues could increase sizably. VOL could be a more balanced player in terms of geographical mix- as butyl phenol is largely expected to substitute imports, while antioxidants would cater to both domestic and foreign markets. This would also likely aid the company in managing their forex exposures.



Sources: Vinati Organics Ltd., CD Equisearch

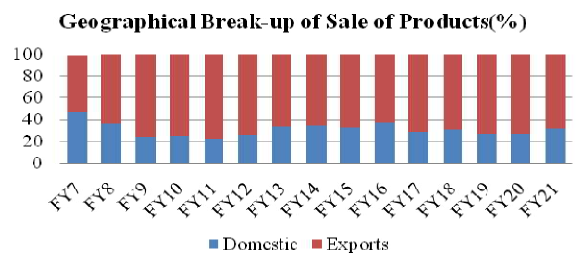


Sources: Vinati Organics Ltd., CD Equisearch

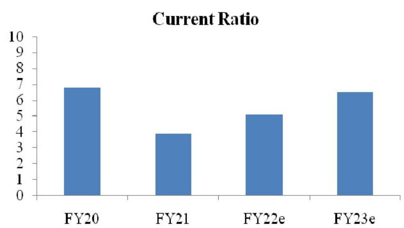


Sources: Vinati Organics Ltd., CD Equisearch

The stock currently trades at 52.7x FY22e EPS of Rs 33.98 and 43.7x FY23e EPS of Rs 40.97. A debt-free balance sheet and a market leading position give the company an upper hand to capitalize on the seemingly massive opportunity in import substitution (for butyl phenol and antioxidants) given the sudden shift in supply dynamics. Moreover, VOL's dual advantage of global capacity concentration and integrated business model imparts no small competitive edge. Significant portion of revenues will come from new products over the next couple of years. ROCE is expected to increase this fiscal (21.5%) on account of impressive growth and moderate to 21.6% next fiscal. Yet the current valuation leaves little scope for appreciation. So we assign 'hold' rating on the stock with target price of Rs. 1639 (previous target Rs 1072) based on 40x FY23e EPS of Rs 40.97. For more information, refer to our September report.



Sources: Vinati Organics Ltd., CD Equisearch



Sources: Vinati Organics Ltd., CD Equisearch

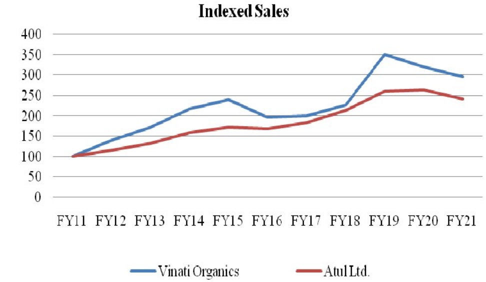
Cross Sectional Analysis

Company	Equity*	CMP	MCAP*	Sales*	Profit*	OPM (%)	NPM (%)	Int Cov	ROE (%)	Mcap/Sales	P/BV	P/E
Vinati Organics	10	1789	18388	1109	278	32.2	25.0	380.6	19.1	16.6	11.8	66.2
Atul Ltd	30	8985	26583	4151	703	24.0	16.8	107.5	19.3	6.4	6.6	37.8

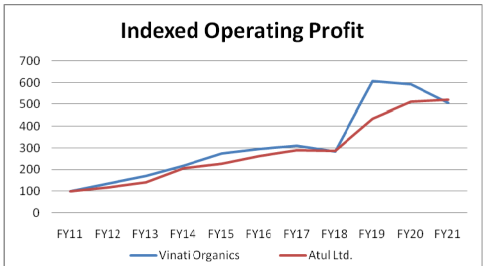
*figures in crores; calculations on ttm basis; based on consolidated statements

Helped by base effect, Atul's revenue from operations grew 63.5% to Rs 1080.20cr (y-o-y), though demand disruptions due to second wave of the pandemic - as was apparent in Atul's Performance and other chemical segments- resulted in a 3.2% drop in q-o-q sales. Performance and other chemicals business accounted for most of the surge in sales as it grew by 79.2% on a y-o-y basis, while life science chemicals increased by 30.1%. Though operating profit leapt by 48.8% to Rs 236.11 crs in Q1, yet operating margin declined barely unstrikingly to 21.9% from 24% and 22.8% in Q4.

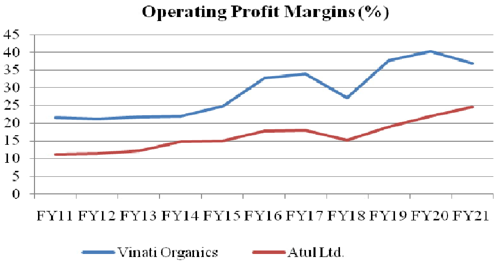
However, Atul’s capital deployment has been planned across business as it has considered an investment of around Rs. 700 cr in its wholly owned subsidiary, Atul Products Ltd, besides Rs. 725 cr already in pipeline for its standalone entity. Hence, timely commissioning of its pipeline projects coupled with gradual scaling of operations in Atul Biosciences could set Atul for its next leg of growth.



Sources: Companies, CD Equisearch



Sources: Companies, CD Equisearch



Sources: Companies, CD Equisearch

Financials

Consolidated Quarterly Results

Figures in Rs crs

	Q1FY22	Q1FY21	% chg.	FY21	FY20	% chg.
Income From Operations	**386.37**	**231.57**	**66.8**	**954.26**	**1028.87**	**-7.3**
Other Income	17.58	8.60	104.4	25.84	44.99	-42.6
Total Income	**403.95**	**240.17**	**68.2**	**980.10**	**1073.86**	**-8.7**
Total Expenditure	284.85	134.39	112.0	601.00	613.99	-2.1
EBITDA (other income included)	**119.10**	**105.78**	**12.6**	**379.10**	**459.87**	**-17.6**
Interest	0.01	0.04	-70.9	0.95	2.04	-53.4
Depreciation	11.01	10.65	3.4	42.91	33.16	29.4
PBT	**108.08**	**95.09**	**13.7**	**335.24**	**424.67**	**-21.1**
Tax	27.16	22.79	19.2	65.92	90.85	-27.4
PAT	**80.92**	**72.30**	**11.9**	**269.32**	**333.82**	**-19.3**
EO	-	-	-	-	-	-
Adjusted Net Profit	**80.92**	**72.30**	**11.9**	**269.32**	**333.82**	**-19.3**
EPS(Rs)	7.87	7.03	11.9	26.20	32.48	-19.3

Consolidated Income Statement

Figures in Rs crs

	FY20	FY21	FY22e	FY23e
Income From Operations	**1028.87**	**954.26**	**1346.50**	**1620.86**
Growth (%)	-8.8	-7.3	41.1	20.4
Other Income	44.99	25.84	29.47	41.41
Total Income	**1073.86**	**980.10**	**1375.97**	**1662.28**
Total Expenditure	613.99	601.00	862.00	1041.58
EBITDA (other income included)	**459.87**	**379.10**	**513.96**	**620.70**
Interest	2.04	0.95	0.85	0.93
Depreciation	33.16	42.91	47.43	58.28
PBT	**424.67**	**335.24**	**465.69**	**561.49**
Tax	90.85	65.92	116.42	140.37
PAT	**333.82**	**269.32**	**349.27**	**421.12**
EO	-	-	-	-
Adjusted Net Profit	**333.82**	**269.32**	**349.27**	**421.12**
EPS (Rs)	32.48	26.20	33.98	40.97

Consolidated Balance Sheet

Figures in Rs crs

	FY20	FY21	FY22e	FY23e
Sources of Funds				
Share Capital	10.28	10.28	10.28	10.28
Reserves	1269.13	1533.13	1820.73	2180.18
Total Shareholders' Funds	**1279.41**	**1543.41**	**1831.01**	**2190.45**
Long Term Debt	-	-	-	-
Total Liabilities	**1279.41**	**1543.41**	**1831.01**	**2190.45**
Application of Funds				
Gross Block	856.49	905.29	1252.73	1339.66
Less: Accumulated Depreciation	105.73	148.45	195.88	254.16
Net Block	**750.76**	**756.83**	**1056.85**	**1085.50**
Capital Work in Progress	30.97	55.80	61.38	58.31
Investments	227.39	288.66	335.62	548.85
Current Assets, Loans & Advances				
Inventory	93.17	121.94	146.33	175.59
Trade receivables	201.78	277.20	318.78	366.60
Cash and Bank	53.70	6.85	21.03	60.92
Short term loans (inc. OCA)	66.52	68.21	69.36	82.33
Total CA	**415.17**	**474.21**	**555.50**	**685.45**
Current Liabilities	84.57	101.75	107.36	121.73
Provisions-Short term	4.44	4.70	5.74	6.32
Total Current Liabilities	**89.01**	**106.45**	**113.10**	**128.05**
Net Current Assets	326.16	367.76	442.40	557.40
Net Deferred Tax Liability	-70.48	-77.93	-88.56	-87.95
Net long term assets (net of liabilities)	14.60	152.28	23.31	28.34
Total Assets	**1279.41**	**1543.41**	**1831.01**	**2190.45**

Key Financial Ratios

	FY20	FY21	FY22e	FY23e
Growth Ratios(%)				
Revenue	-8.8	-7.3	41.1	20.4
EBITDA	1.1	-17.6	35.6	20.8
Net Profit	18.2	-19.3	29.7	20.6
EPS	18.2	-19.3	29.7	20.6
Margins (%)				
Operating Profit Margin	40.3	37.0	36.0	35.7
Gross profit Margin	44.5	39.6	38.1	38.2
Net Profit Margin	32.4	28.2	25.9	26.0
Return (%)				
ROCE	-	19.6	21.5	21.6
ROE	-	19.5	21.5	21.6
Valuations				
Market Cap/ Sales	7.7	15.1	13.7	11.3
EV/EBITDA	16.7	37.5	35.4	29.3
P/E	23.8	53.4	52.7	43.7
P/BV	6.2	9.7	10.4	8.6
Other Ratios				
Interest Coverage	209.6	354.6	548.5	604.8
Debt Equity	0.0	0.0	0.0	0.0
Net Debt-Equity Ratio	-0.2	-0.1	-0.2	-0.3
Current Ratio	6.8	3.9	5.1	6.5
Turnover Ratios				
Fixed Asset Turnover	-	1.3	1.5	1.5
Total Asset Turnover	-	0.7	0.8	0.8
Inventory Turnover	-	5.6	6.4	6.5
Debtors Turnover	-	4.0	4.5	4.7
Creditor Turnover	-	9.8	12.7	14.0
WC Ratios				
Inventory Days	-	65.3	56.8	56.4
Debtor Days	-	91.6	80.8	77.2
Creditor Days	-	37.1	28.7	26.0
Cash Conversion Cycle	-	119.8	108.9	107.5

Note: Consolidated Financial Data for years prior to FY20 not available.

Cumulative Financial Data

Figures in Rs. crs	FY20-21	FY22-23e
Income from operations	1983	2967
Operating profit	768	1064
EBIT	763	1029
PBT	760	1027
PAT	603	770
Dividends	129	123
OPM (%)	38.7	35.8
NPM (%)	30.4	26.0
Interest coverage	255.6	577.9
Debt-Equity*	0.0	0.0
Dividend payout ratio (%)	21.3	16.0

FY 20-21 implies two year period ending fiscal 21;*as on terminal year

Given the fact that revenues were stressed in cumulative year FY20-21 due to pandemic, it would grow by almost 50% to Rs. 2967cr in the cumulative two years ending FY23. This imperious revenue proliferation is also due to impressive capacity utilizations in ATBS and BP segment, along with addition of new products, mainly antioxidants, to the product line. However, the newly added products probably would not have as high a margin as that present in ATBS and IBB. Hence, the OPM would moderate to 35.8% in the cumulative period FY22-23e (vs. 38.7% in FY20-21). Moreover, negligible debt coupled with increased EBIT would send the interest coverage ratio skyrocketing to 577.9 in FY22-23e from an already impressive 255.6 in the prior two year period.

Financial Summary- US Dollar denominated

million $	FY20	FY21	FY22e	FY23e
Equity capital	1.4	1.4	1.4	1.4
Shareholders' funds	169.0	201.6	241.0	290.0
Total debt	0.0	0.3	0.3	0.3
Net fixed assets (incl. CWIP)	103.7	110.6	152.3	155.8
Investments	30.2	39.3	45.7	74.8
Net current assets	42.6	41.6	51.9	67.5
Total assets	169.0	201.6	241.0	290.0
Revenues	145.2	128.6	183.4	220.8
EBITDA	64.9	51.1	70.0	84.6
EBDT	64.6	51.0	69.9	84.4
PBT	59.9	45.2	63.4	76.5
PAT	47.1	36.3	47.6	57.4
EPS($)	0.46	0.35	0.46	0.56
Book value ($)	1.64	1.96	2.34	2.82

Income statement figures translated at average rates; balance sheet at year end rates; FY22 at current rates (Rs 73.41/$).
All dollar denominated figures are adjusted for extraordinary items.

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Website: www.cdequi.com; Email: research@cdequi.com

buy: >20%	accumulate: >10% to ≤20%	hold: ≥-10% to ≤10%	reduce: ≥-20% to <-10%	sell: <-20%

Exchange Rates Used- Indicative

Rs/$	FY18	FY19	FY20	FY21
Average	64.45	69.89	70.88	74.20
Year end	65.04	69.17	75.39	73.50

All $ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.