

- Vinati Organics Ltd (VOL) is all set for its next leg of growth on the back of recently commissioned capacities of a few products (the company also has capacities that are in the process of getting commissioned). These include key existing products like ATBS and new products like Butyl Phenols (BPs) and Antioxidants (AOs).
- Due to VOL’s excellent all-round growth, we expect its (a) business to get more diversified, which would reduce erstwhile product concentration risks, and (b) business model to be highly integrated as BPs and AOs are Isobutylene derivatives.
- We expect VOL’s revenue/EBITDA/PAT to grow 31%/28%/28% over FY21E-24E. Thus, we recommend a ‘BUY’ rating on the stock with a TP of INR1,873/share.

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**CMP INR: 1,547**  
**Rating: BUY**  
**Target Price INR: 1,873**  
**Upside: 21%**

**Multiple new capacities coming on stream**

Commissioning and ramping up of capacities of several products (ATBS, BPs, AOs, IB derivatives) over the next 3-4 years should help VOL clock 31% CAGR in top line. Also, VOL’s capacity in BPs, which has a revenue potential of INR200cr, has come on stream (another INR200cr of products from this capacity will be captively consumed for manufacturing AOs). Additionally, at optimum utilisation, three AOs should contribute INR500cr and IB derivatives (which includes four specialty chemicals as well as capacity expansion of PTBBA) another INR300cr to overall revenue.

**Business model to get diversified and increasingly integrated**

VOL previously saw sizeable contribution from two key products – IBB and ATBS. **As several products are now coming on stream and gaining scale, product concentration risks should now reduce for VOL.** Additionally, VOL’s focus on an integrated business model is reflected through its product development strategies. Its new products are downstream derivatives of Isobutylene (IB) – a product manufactured by the company. Further, manufacturing process for AOs will be doubly backward integrated (IB to BP to AO), **which would be an enabler of efficiencies in production and cost leadership for these products.**

**VOL is readying itself for a growth run; recommend ‘BUY’**

With multiple growth levers in place, we expect VOL’s revenue/EBITDA/PAT to grow 31%/28%/28% over FY21-24E. While margins may moderate due to the decreasing share of high-margin ATBS products in its product mix, we expect it to remain best-in-class in the industry. We remain positive on VOL and recommend BUY with a TP of INR1,873/share, resulting in an upside of 21%. **We expect further upside in the stock price from potential earnings upgrades that could emerge if (a) the company commercializes Para Amino Phenol (PAP) production, (b) off-take of IBB increases owing to a key customer augmenting its Ibuprofen capacity, and (c) new product introductions.**

Bloomberg:	VO IN
52-week range (INR):	1,528 / 750
Share in issue (cr):	10
M cap (INR cr):	14,491
Promoter Holding (%)	74.0

	FY20	FY21E	FY22E	FY23E	FY24E
Revenues (INR cr)	1,029	966	1,504	1,903	2,169
EBITDA (INR cr)	414	362	538	658	767
EBITDA Margin (%)	40.2	37.5	35.7	34.6	35.4
Net Profit (INR cr)	334	270	400	487	572
Net Profit Margin (%)	32.4	28.0	26.6	25.6	26.4
EPS (INR)	32.5	26.3	38.6	46.9	55.1
EPS Growth (%)	18.2	(19.0)	46.6	21.7	17.4
P/E (x)	47.6	58.8	40.1	33.0	28.1
EV/EBITDA (x)	38.3	43.8	29.6	23.6	19.8
RoACE (%)	30.6	20.8	26.9	26.8	26.6
RoAE (%)	28.6	18.7	23.4	22.9	22.4

Date: April 9, 2021

### I. Multiple new capacities available for ramp-up

VOL is readying itself for the next leg of growth with plans to ramp up several capexes over the next 3-4 years. **VOL is a cost leader in its respective product categories owing to (a) strong backward integration, (b) rigorous focus on quality and purity levels of its products, and (c) leadership position in respective niches.** Thus, **we expect VOL to deliver 31%/28%/28% growth in revenue/EBITDA/PAT over FY21E-24E.** We have outlined growth prospects for VOL's products in the below exhibit.

**Exhibit 1: Key products that will drive VOL's growth over FY21-24E**

Product	Existing capacity (in MT)	New capacity (in MT)	Estimated Revenue Potential of new capacity (INR cr)	Estimated FY21-24E Sales CAGR (%)	Comments
ATBS	26,000	40,000	~280	26%	<ul style="list-style-type: none"> <li>Largest player in the ATBS market with 65% market share</li> <li>Demand from oil and gas sector improving</li> <li>VOL produces a high purity product which should see strong demand</li> </ul>
Butyl Phenols	NA	39,000	~200	28%	<ul style="list-style-type: none"> <li>VOL is manufacturing four butyl phenols (BPs)</li> <li>BPs were previously fully imported in India, and hence, VOL's capacity will largely substitute imports</li> <li>Additionally, two products will be used for captive consumption for forward integration purposes to manufacture antioxidants</li> <li>BPs are used in diverse end-user industries like fragrances, fuel additives, polymers, resins, antioxidants</li> </ul>
Antioxidants*	NA	24,000	~500	Strong	<ul style="list-style-type: none"> <li>Post the amalgamation of Veeral Additives Pvt Ltd, VOL will be the only fully integrated domestic manufacturer in antioxidants.</li> <li>This facility will be doubly backward integrated and would be highly beneficial in terms of cost leadership</li> <li>Apart from catering to the domestic market, AOs will also be exported</li> </ul>
IB derivatives*	NA		~300	Strong	<ul style="list-style-type: none"> <li>VOL is undertaking capex in four specialty chemicals (which include OSBP, ODBP and TBOC) as well as capacity expansion of PTBBA</li> <li>These chemicals see diversified usage in agrochemicals, dyes and plastic additives</li> </ul>
<b>Total</b>			<b>~1,280</b>	<b>31%</b>	

Note: Growth rate calculation for antioxidants and IB derivatives over FY21-24E is not meaningful as capacities will be operational in H2FY22.  
Source: Company, Edelweiss Wealth Research

Additionally, we expect two option values to be embedded in VOL's business over the next few years (not built into our estimates):

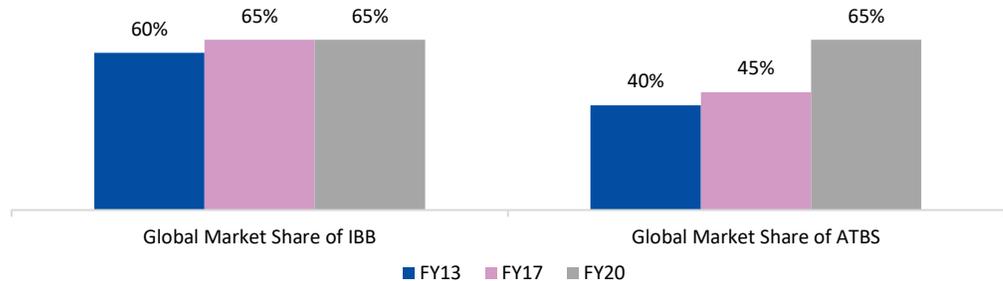
**(a) Para-Amino Phenol (PAP – an intermediate for paracetamol)** – The company has applied for the PLI (production-linked incentive) scheme and is evaluating its feasibility. If undertaken, this project could generate an incremental revenue of **INR500-600cr.**

**(b) Isobutyl Benzene (IBB)** – While demand for IBB remains strong and has grown over the last few quarters, VOL may see higher volume off-take when a key customer's plant comes online (timelines are not clear at this point). Anticipating this, VOL has already augmented its capacity.

**II. Sizeable contribution from new products to reduce product concentration**

Previously, one of the key concerns of investors was the product concentration risk in VOL’s business model. As at FY20, VOL’s market share stood at a sizeable 65% each in Isobutyl Benzene (IBB) and 2-Acrylamido 2- Methylpropane Sulfonic Acid (ATBS) due to its cost leadership strategy and strong customer relationships (Refer Exhibit 2).

**Exhibit 2: VOL has consistently gained market share in key products**

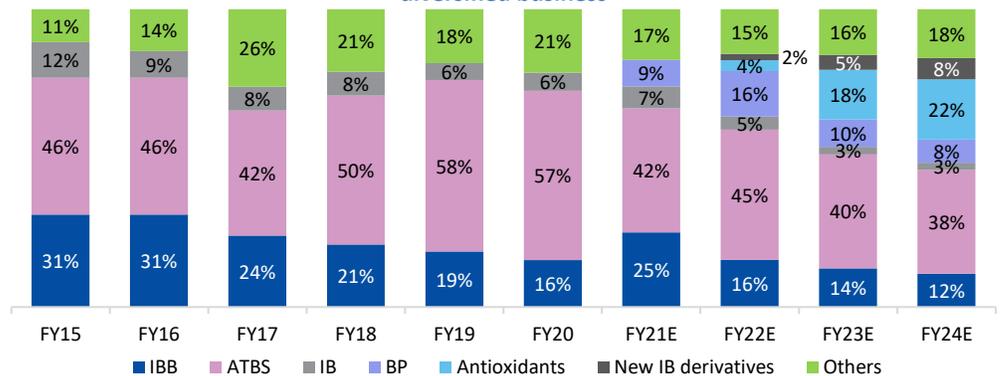


Source: Company, Edelweiss Wealth Research

Understandably, these two products contribute significantly to VOL’s total revenue. Over FY19-FY20, contribution of IBB/ATBS to VOL’s top line stood at ~15-20%/~57-58%, respectively. However, with the new set of capexes, this would change.

**New ATBS capacity is coming on stream and therefore it should remain a sizeable contributor to VOL’s revenue. However, we expect its contribution to decline to ~38-40% of VOL’s revenue in FY23-24E.** The oil and gas (O&G) sector contributes 25-30% of VOL’s ATBS sales. Cyclicity in ATBS demand from the O&G sector emanates from crude oil price fluctuations – during periods of low crude oil prices, demand for ATBS turns tepid. As VOL’s product portfolio diversifies, sensitivity of overall business performance to such fluctuations should reduce. **Additionally, contribution of IBB is expected at ~12-15% during FY23/FY24 in a base case scenario. The new products – Butyl Phenols (BPs) and Antioxidants (AOs) – are expected to together contribute ~28-30% of the revenue during FY23/FY24** (Refer Exhibit 3).

**Exhibit 3: With new products coming on stream, VOL will become a diversified business**



Source: Company, Edelweiss Wealth Research

**VOL’s product mix will get increasingly diversified as new products like BPs and AOs are expected to contribute 28-30% of the revenue in FY23/FY24.**

### III. Butyl Phenols and Antioxidants to see further scale-up opportunities

We believe that BPs and AOs can provide further growth opportunities once the current capacities get consumed. Like VOL's earlier key products (ATBS and IBB), BPs and AOs have the following advantages from volume scale-up perspective (as we have seen previously, management has always focused on scaling up successful products like IBB and ATBS, at times pre-empting a demand expansion):

**(a) BPs/AOs have sizeable global demand and VOL's current capacities are much smaller in comparison**

Global market size of BPs and AOs is huge when compared to Indian markets. Additionally, both these markets are growing in nature. As outlined in Exhibit 4, BPs global market size stands at 4,00,000MT as opposed to domestic market size of ~25,000MT. The scenario is similar for AOs as well.

While the market for BPs has sizeable other players (like the SI Group), we believe VOL would succeed in capturing market share at a global level in the future due to the combination of two factors – **growing market** and **technology focused process development** (a key execution strategy that VOL has demonstrated for its earlier successful products).

**Exhibit 4: VOL's capacities are small compared to global capacities**

Product	VOL's capacity (in MT)	Domestic demand (in MT)	Global demand (in MT)	Estimated demand growth p.a.
Butyl Phenols	39,000	24,000-25,000	4,00,000	10-12%
Antioxidants	24,000	10,000	3,00,000	5-8%

Source: Company, Edelweiss Wealth Research

**(b) VOL could further introduce new products in BPs/AOs**

BPs/AOs are classes of chemicals. VOL can potentially manufacture other types of BPs/AOs that are currently under discussion (Refer Exhibit 5).

**Exhibit 5: VOL can introduce other BPs/AOs going forward**

Products	Current products	Future products/opportunities
Butyl Phenols	OTBP, PTBP, 2,4-DTBP, 2,6-DTBP	Management is undertaking capex in products like OSBP (o-sec-Butylphenol), DSBP (Di-sec-Butylphenol) and TBOC (t-butyl-o-cresol).
Antioxidants	AO-1010, AO-1076, AO-168	There are other phenolic and phosphatic AOs like 1098, 1315, 1330, 3114, PEPQ, etc.

Source: Company, Edelweiss Wealth Research

For example, the SI Group manufactures several butylated phenols like 2,4-DTBP, 2,6-DTBP, 6-BOC, OSBP, DSBP, DNBP as well as several phenolics and phosphatic antioxidants.

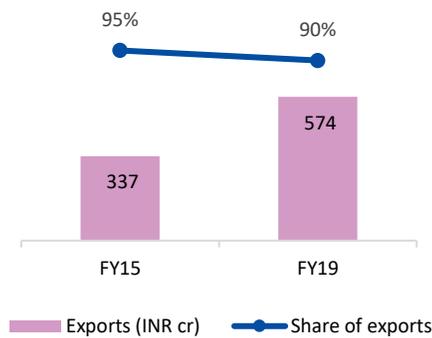
*Being products with sizeable global markets, BPs and AOs can see scale up opportunities in future.*

*VOL is also undertaking capex in other BPs and can potentially manufacture other products in the AO basket*

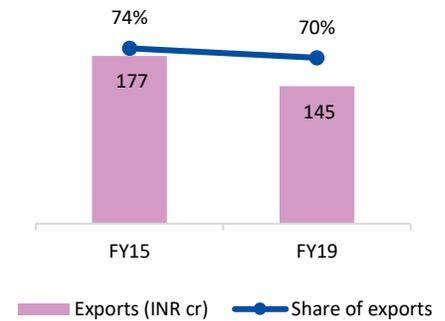
#### IV. VOL will be a more balanced player in terms of geographical mix

VOL is largely an export-oriented company, with exports contributing ~74% of its revenues (as highlighted in Exhibit 8). A large proportion of VOL's key products are exported; for instance, in FY19, ~90% of ATBS and ~70% of IBB were exported (Refer Exhibit 6 and 7). While VOL's ATBS export revenues have grown significantly over FY15-19, overseas contribution from IBB was lower in FY19. We believe this was largely reversed in FY21 as demand for IBB was high.

**Exhibit 6: ATBS' export revenue increased sizeably over FY15-19**



**Exhibit 7: VOL's IBB revenue has seen higher contribution from domestic market**

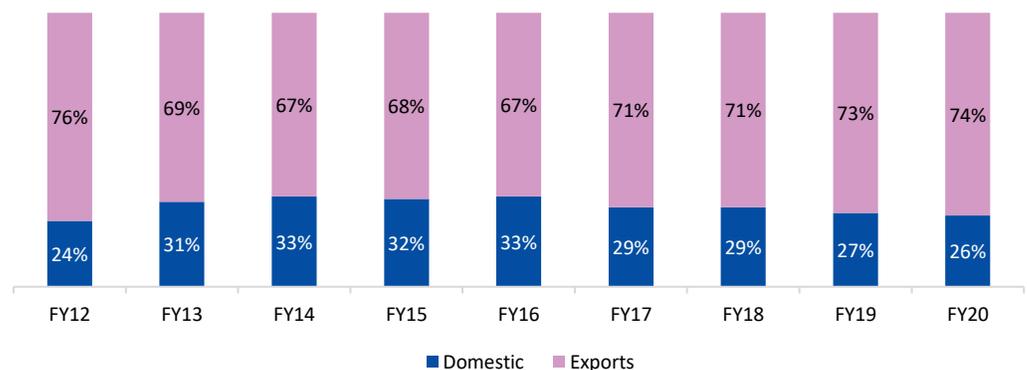


Source: Company, Edelweiss Wealth Research

VOL's key customers are multi-national chemical manufacturers like BASF (one of the key customers of IBB and a leading player in the Ibuprofen market globally), Dow Chemicals, Shasun, etc.

With new set of products increasingly contributing to sales, we expect VOL's share of domestic revenues to increase sizeably. We expect BP products to be mostly substitutes for imports while antioxidants should see a mix of exports and domestic sales. ***This could potentially benefit VOL in terms of managing foreign exchange risks.***

**Exhibit 8: VOL's business model is highly export oriented - revenue mix (%)**



Source: Company, Edelweiss Wealth Research

### V. VOL’s focus on Isobutylene chain to be a key competitive advantage

VOL’s product portfolio is largely dependent on forward integration of Isobutylene (IB). Being the largest manufacturer of IB in India (domestic market share at 70%), VOL has significantly embarked on forward integration of its products.

Incidentally, **this gives VOL a distinct advantage of having a steady supply of IB for its products, a benefit that competitors wanting to manufacture these products will not have.** For example, companies that earlier tried to manufacture BPs in India faced challenges related to supply of IB, and hence, lacked scale. This has resulted in India currently not having any other capacity of BPs.

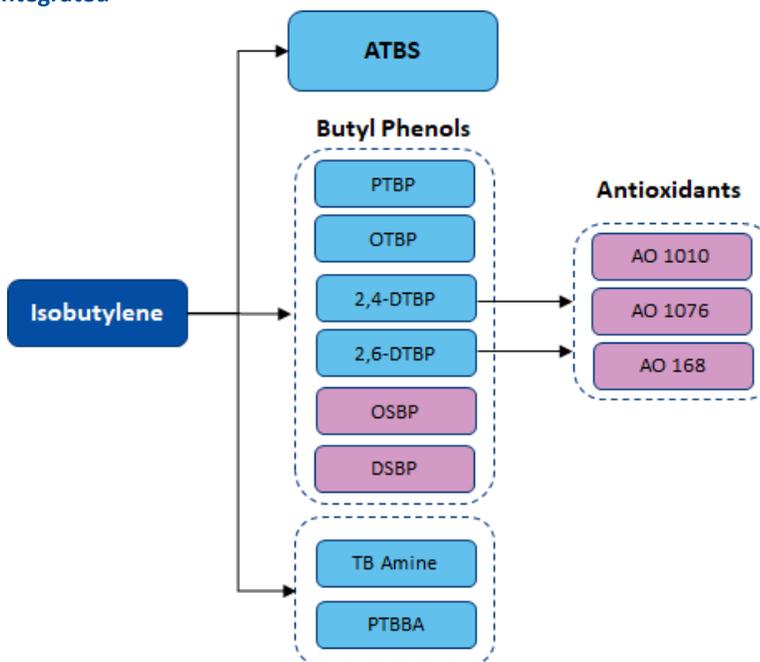
Thus, due to the unavailability of BP – particularly 2,4-DTBP and 2,6-DTBP, which are used in manufacturing phenolic and phosphatic AOs – there are very small-scale capacities of AOs in India (Refer Exhibit 9).

Exhibit 9: AO manufacturers in India

Company	Product	Capacities (in MT)
HPL Additives	AO 1010, AO 168	8,000
Songwon Specialties India	AO PEPQ	1,000

Source: Veeral Additives, Edelweiss Wealth Research

Exhibit 10: VOL has consistently forward integrated the IB chain; in case of AOs, VOL is doubly backward integrated



Source: Company, Edelweiss Wealth Research

**VI. ATBS, BPs and AOs to drive growth in FY21-24E; further upside from IBB, PAP**

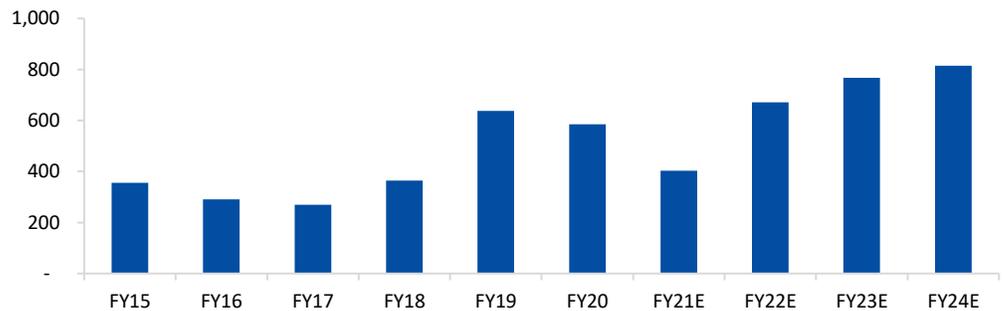
**ATBS to deliver 26% CAGR over FY21-24E**

ATBS is a specialty monomer and is used as a co-monomer in several polymerization processes. Apart from the O&G sector where ATBS is used in Enhanced Oil Recovery (EOR), it finds application in dye-pickup for synthetic fibres, water treatment, construction chemicals, hydrogels for medical applications, personal care products, emulsion coatings, adhesives, and rheology modifiers.

VOL is a leading manufacturer for ATBS (65% market share) globally. Besides the normal grades, VOL also manufactures a high purity grade, which has application in the O&G sector (contributes 25-30% of ATBS sales). FY21 was tepid for VOL in terms of ATBS sales due to the Covid-19 led lockdown and lower demand from the O&G sector (demand from other segments was stable), which resulted in capacity utilization of ~60% during Apr-Nov'20.

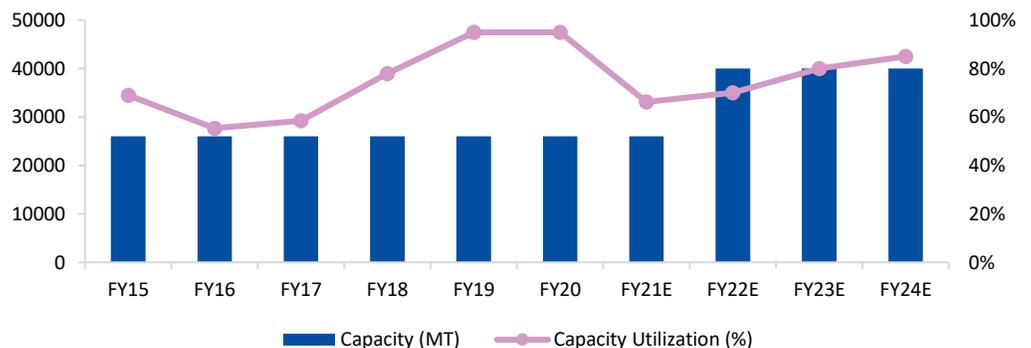
According to VOL's management commentary, demand has recovered with the upward revival in crude oil prices since Dec'20 and its capacity is fully booked till May'20. **With expanded capacity coming on stream in early-FY22, we believe VOL will be well positioned to capture this renewed demand.**

**Exhibit 11: Expect ATBS to deliver 26% sales CAGR over FY21-24E (INR cr)**



Source: Company, Edelweiss Wealth Research

**Exhibit 12: VOL will have sizeable headroom to capture incremental demand for ATBS as augmented capacity comes on stream**

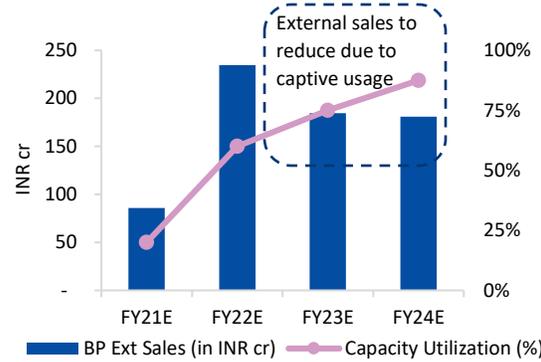


Source: Company, Edelweiss Wealth Research

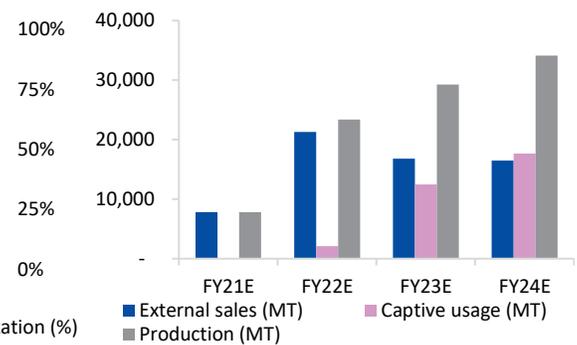
**Expect capacity of BPs to ramp up over next three years**

The company is expected to steadily ramp up capacity of BPs over the next three years. BPs are largely a substitute for imports. However, as 2,4-DTBP and 2,6-DTBP will be mainly used for captive consumption, external sales of BPs will be capped at ~INR200cr p.a. during FY23-24E for the current capacity. **Management is seeing good traction in the domestic market and the company has also exported a couple of BPs.**

**Exhibit 13: BPs are expected to be ramped up steadily**



**Exhibit 14: Revenue to normalize from captive consumption**



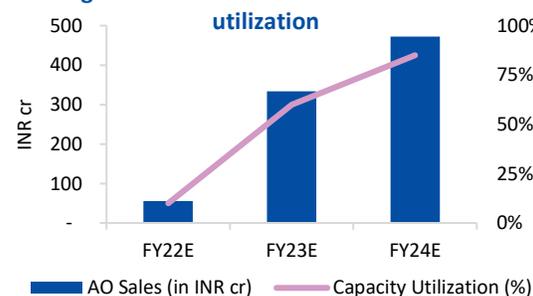
Source: Company, Edelweiss Wealth Research

**AOs to have revenue potential of INR500cr, new IB derivatives to add INR300cr**

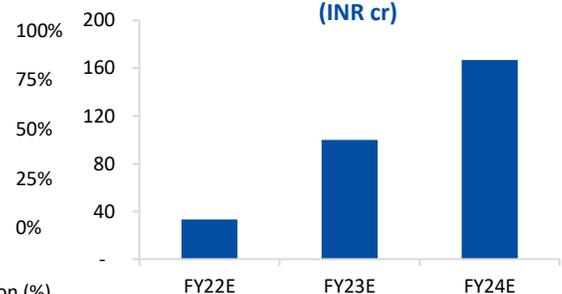
Post the amalgamation with Veeral Additives and completion of capex (expected in Oct'21), management expects optimal utilization to be achieved in two years. Given that these products are largely imported in India, we expect local sourcing to shift to a supplier of VOL's repute. **Veeral Additives has a tie-up with the Netherlands-headquartered company Caldic B.V. for supply of AOs. According to VOL's management, Veeral Additives' products have already been approved by customers.**

The new capex of INR210cr for BPs and IB derivatives is expected to contribute INR300cr to VOL's top line. As these are smaller-sized products, management expects faster ramp-up in these products (in a year from the date of commissioning in H2FY22).

**Exhibit 15: AOs are expected to generate ~INR500cr revenue at full utilization**



**Exhibit 16: New IB derivatives have a revenue potential of ~INR300cr (INR cr)**

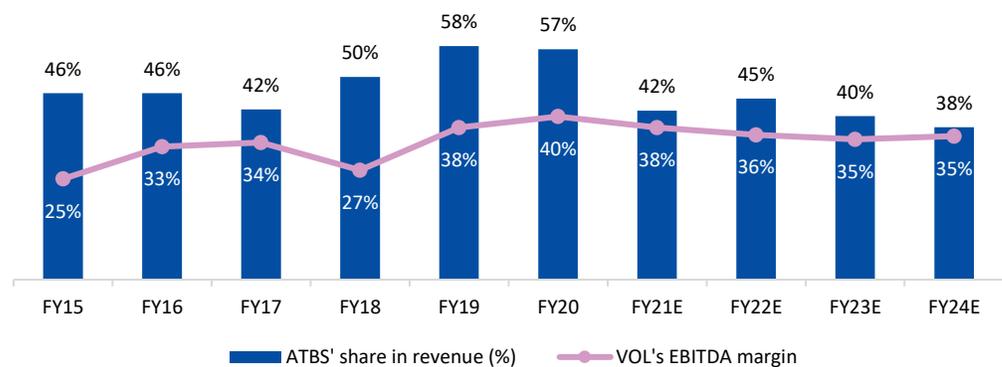


Source: Company, Edelweiss Wealth Research

**VII. Margins to moderate slightly; expect strong growth in revenue/EBITDA/PAT**

Being a highly profitable product, increase in ATBS’ share in VOL’s revenue mix resulted in very high margins for the company. As shown in Exhibit 17, blended margins for VOL stood at 40% in FY20, with margins breaching the 42% mark in the first quarter of FY19, FY20 as well as FY21. During FY19-20, VOL’s revenue mix saw contribution to the extent of 57-58% from ATBS.

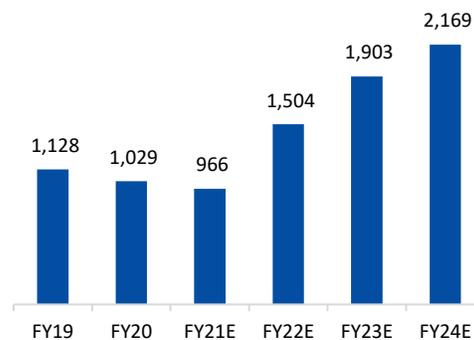
**Exhibit 17: EBITDA margins to moderate as share of high-margin ATBS reduces in the product mix**



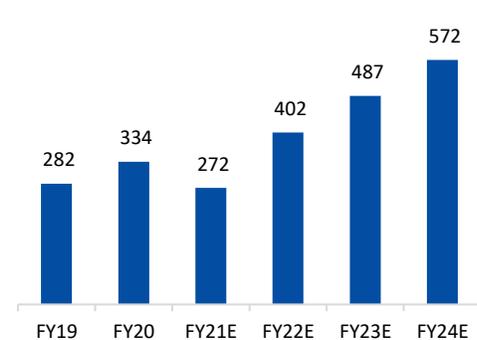
Source: Company, Edelweiss Wealth Research

However, with change in the product mix (VOL’s contribution of ATBS is expected at ~40% in FY24E), we expect margins to normalize at ~35%, in line with management guidance. This, however, will still be best-in-class in the industry. Despite the slight moderation in margins, we expect strong EBITDA/PAT growth of 28%/28% over FY21-24E. We remain positive on VOL and recommend ‘BUY’ with a TP of INR1,873/share, resulting in an upside of 21%.

**Exhibit 18: Expect VOL to deliver 32% revenue CAGR over FY21-24E (INR cr)**



**Exhibit 19: Expect VOL to post 29% PAT CAGR over FY21-24E (INR cr)**



Source: Company, Edelweiss Wealth Research

**Income statement**

Year to March (INR Cr)	FY20	FY21E	FY22E	FY23E	FY24E
Income from operations	1,029	966	1,504	1,903	2,169
Total operating expenses	615	604	966	1,245	1,402
EBITDA	414	362	538	658	767
Depreciation and amortisation	33	46	58	68	70
EBIT	381	316	479	590	697
Interest expenses	1	0	0	0	0
Profit before tax	425	344	509	620	727
Provision for tax	91	74	109	133	156
Core profit	334	270	400	487	572
Extraordinary items	0	0	0	0	0
Profit after tax	334	270	400	487	572
Adjusted net profit	334	270	400	487	572
EPS (INR) basic	32.5	26.3	38.6	46.9	55.1
EPS (INR) fully diluted	32.5	26.3	38.6	46.9	55.1
Dividend per share	5.5	5.3	7.7	9.4	11.0
Dividend payout (%)	16.9	20.0	20.0	20.0	20.0

**Common size metrics- as % of net revenues**

Year to March	FY20	FY21E	FY22E	FY23E	FY24E
Operating expenses	59.8	62.5	64.3	65.4	64.6
Depreciation	3.2	4.8	3.9	3.6	3.2
Interest expenditure	0.1	0.0	0.0	0.0	0.0
EBITDA margins	40.2	37.5	35.7	34.6	35.4
Net profit margins	32.4	28.0	26.6	25.6	26.4

**Growth metrics (%)**

Year to March	FY20	FY21E	FY22E	FY23E	FY24E
Revenues	(8.8)	(6.1)	55.7	26.5	14.0
EBITDA	(2.2)	(12.5)	48.3	22.5	16.6
PBT	(0.1)	(19.0)	48.0	21.7	17.4
Net profit	18.2	(19.0)	48.0	21.7	17.4
EPS	18.2	(19.0)	46.6	21.7	17.4

**Balance sheet**

As on 31st March (INR Cr)	FY20	FY21E	FY22E	FY23E	FY24E
Equity share capital	10	10	10	10	10
Preference Share Capital	0	0	0	0	0
Reserves & surplus	1,269	1,480	1,920	2,310	2,767
Shareholder's funds	1,279	1,490	1,931	2,320	2,778
Total Debt	0	0	0	0	0
Other Long Term Liabilities	0	0	0	0	0
Deferred Tax Liabilities	70	73	73	73	73
Minority interest	0	0	0	0	0
<b>Sources of funds</b>	<b>1,350</b>	<b>1,564</b>	<b>2,004</b>	<b>2,393</b>	<b>2,851</b>
Gross block	856	958	1,328	1,358	1,388
Depreciation	(106)	(152)	(210)	(279)	(280)
Net block	751	806	1,118	1,079	1,108
Capital work in progress	31	0	0	0	0
Total fixed assets	782	806	1,118	1,079	1,108
Other Non-Current Assets	0	0	0	0	0
Investments	227	413	273	273	273
Inventories	93	114	216	210	240
Sundry debtors	202	207	302	382	436
Cash and equivalents	54	34	143	528	896
Loans and advances	67	81	81	81	81
Other current assets	0	0	0	0	0
Total current assets	415	436	742	1,202	1,652
Sundry creditors and others	70	83	120	152	174
Provisions	19	23	23	23	23
Total CL & provisions	89	105	143	175	196
Net current assets	327	330	599	1,027	1,456
Net Deferred tax	0	0	0	0	0
Misc expenditure	15	14	14	14	14
<b>Uses of funds</b>	<b>1,350</b>	<b>1,564</b>	<b>2,004</b>	<b>2,393</b>	<b>2,851</b>
Book value per share (INR)	124	145	186	224	268

**Cash flow statement**

Year to March	FY20	FY21E	FY22E	FY23E	FY24E
Net profit	334	270	400	487	572
Add: Depreciation	33	46	58	68	70
Add: Misc expenses written off	13	0	0	0	0
Add: Deferred tax	(14)	3	0	0	0
Gross cash flow	366	320	458	556	642
Less: Changes in W. C.	(73)	24	160	42	62
Operating cash flow	439	296	299	513	580
Less: Capex	149	70	160	30	30
Free cash flow	290	225	139	483	550

**Ratios**

<b>Year to March</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
ROAE (%)	29	19	23	23	22
ROACE (%)	31	21	27	27	27
Debtors (days)	72	78	73	73	73
Current ratio	4.7	4.1	5.2	6.9	8.4
Debt/Equity	0.0	0.0	(0.1)	(0.2)	(0.3)
Inventory (days)	33	43	40	40	40
Payable (days)	25	31	29	29	29
Cash conversion cycle (days)	80	90	84	84	84
Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Adjusted debt/Equity	0.0	0.0	(0.1)	(0.2)	(0.3)

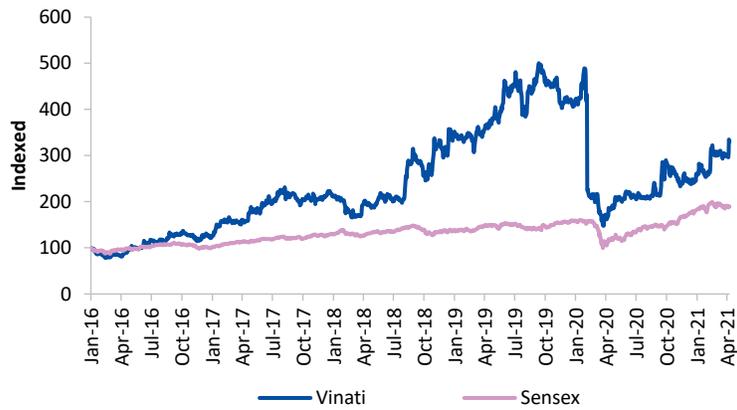
**Valuation parameters**

<b>Year to March</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
Diluted EPS (INR)	32.5	26.3	38.6	46.9	55.1
Y-o-Y growth (%)	18.2	(19.0)	46.6	21.7	17.4
CEPS (INR)	35.7	30.8	44.2	53.5	61.8
Diluted P/E (x)	47.6	58.8	40.1	33.0	28.1
Price/BV(x)	12.4	10.7	8.3	6.9	5.8
EV/Sales (x)	15.4	16.4	10.6	8.2	7.0
EV/EBITDA (x)	38.3	43.8	29.6	23.6	19.8
Basic EPS	32.5	26.3	38.6	46.9	55.1
Basic PE (x)	47.6	58.8	40.1	33.0	28.1

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Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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