

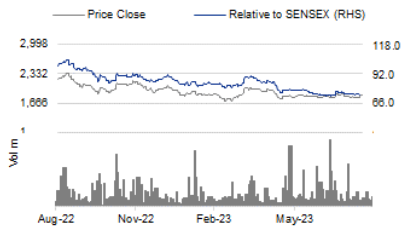
India

**ADD** (previously HOLD)

Consensus ratings\*: Buy 5 Hold 4 Sell 6

Current price:	Rs1,847
Target price: ▲	Rs2,111
Previous target:	Rs1,798
Up/downside:	14.3%
InCred Research / Consensus:	12.9%
Reuters:	VNTI.NS
Bloomberg:	VO IN
Market cap:	US\$2,294m Rs189,787m
Average daily turnover:	US\$1.2m Rs99.0m
Current shares o/s:	102.8m
Free float:	25.9%

\*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.8	1.5	(16.1)
Relative (%)	3.1	(2.3)	(23.3)

Major shareholders	% held
Promoter & Promoter Group	74.1
Mirae Asset	4.2
Canara Robeco Asset Management Co	2.0

Analyst(s)



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# Vinati Organics

## Solid products; growth to resume in FY25F

- Vinati Organics (VOL) has one of the best earnings growth outlooks, aided by a likely rise in ATBS margin and capacity expansion-driven volume growth.
- IBB poses some risk, but it's not as important as ATBS for Vinati Organics. IBB's margin may fall as toluene prices are likely to rise.
- We value Vinati Organics at 41x its one-year forward FY25F EPS to arrive at a higher target price of Rs2,111. Upgrade our rating on the stock to ADD.

### Capacity expansion to drive higher ATBS market share

Vinati Organics or VOL holds a prominent position in the ATBS (2-acrylamido 2 methylpropane sulfonic acid), HP-MTBE (high purity - methyl tertiary butyl ether), IBB (isobutyl benzene), and IB (isobutylene) segments. Also, the expansion of its ATBS production capacity is progressing well, aiming to increase capacity from 40,000 to 60,000 mtpa. The expansion project is likely to be completed by FY24F. VOL is already the world leader in ATBS, it has a 65%+ market share. Moreover, the recovery in crude oil prices may lift ATBS sales as well as prices. However, please note that ATBS is manufactured from acrylonitrile which, in turn, is manufactured from propylene. So, most likely, acrylonitrile prices will also rise but it's likely to be more than compensated for by the rise in ATBS prices.

### Recovery in crude oil prices poses a risk to isobutyl benzene

Isobutyl benzene or IBB is the second-highest chemical in the company's product portfolio. The production of IBB relies on toluene, whose pricing is influenced by benzene as toluene is derived from benzene. Benzene prices depend on crude oil prices. Therefore, the recovery in crude oil prices poses a challenge for IBB because of its application in manufacturing low-margin generics like ibuprofen. Despite this, VOL has a competitive advantage in the IBB market as competitors have withdrawn from this business, minimizing the margin impact.

### Upgrade to ADD rating with a higher target price of Rs2,111

Given the fact that VOL's ATBS margin and volume will improve, we believe this will lead to a growth in earnings. We expect the gross margin to hover around 50% and we have determined the stock's value at 41x one-year forward FY25F EPS, leading to a higher target price of Rs2,111 (from Rs1,798 earlier). We upgraded our rating on the stock to ADD (HOLD earlier). Downside risk: A sudden surge in acrylonitrile prices and a decline in crude oil prices could lead to lower demand and a cut in our earnings estimates.

### Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	16,155	20,847	21,186	23,304	25,635
Operating EBITDA (Rsm)	4,341	5,954	5,426	6,945	7,686
Net Profit (Rsm)	3,466	4,580	3,960	5,042	5,543
Core EPS (Rs)	33.7	44.6	38.5	49.1	53.9
Core EPS Growth	28.7%	32.1%	(13.5%)	27.3%	9.9%
FD Core P/E (x)	54.75	41.44	47.92	37.64	34.24
DPS (Rs)	7.7	10.2	8.8	11.2	12.3
Dividend Yield	0.42%	0.55%	0.48%	0.61%	0.67%
EV/EBITDA (x)	43.75	31.54	34.23	26.52	23.71
P/FCFE (x)	(168.92)	98.91	62.27	70.36	58.12
Net Gearing	0.8%	(9.1%)	(16.0%)	(19.1%)	(22.7%)
P/BV (x)	10.38	8.55	7.52	6.52	5.68
ROE	20.6%	22.6%	16.7%	18.5%	17.7%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Solid products; growth to resume in FY25F

### A niche organic compound manufacturer ➤

A niche organic compound manufacturer, Vinati Organics or VOL has been able to synthesis ATBS and since then has made good progress with its two key speciality chemicals – ATBS and IBB (with 65%+ market share globally).

**Figure 1: Overview of Vinati Organics**

Product	VOL's position	Usage	Relevance
Isobutyl benzene (IBB)	Largest manufacturer in the world, with the largest market share.	Pharmaceutical industry.	It is the primary raw material for Ibuprofen. This is a widely used painkiller across the US, Europe, and Asia.
2-acrylamido 2 methylpropane sulfonic acid (ATBS)	Largest manufacturer in the world and the only manufacturer in India.	Water-treatment chemicals, emulsions for paint and paper coatings, adhesives, textile auxiliaries and acrylic fibre, detergents and cleaners, oil field, mining chemicals and construction chemicals.	It acts as an important ingredient to manufacture polymers for enhanced oil recovery (EOR). It makes acrylic fibres receptive to dyes.
Isobutylene (IB)	Largest manufacturer in India	Agro-based chemicals, food additives and antioxidants.	It is used as an intermediate.
High purity-methyl tertiary butyl ether (HPMTBE)	Largest manufacturer in India.	Pharmaceuticals and organometallic compounds.	It is used as a specialty solvent.
N-tertiary butyl acrylamide (TBA)	Only manufacturer in India.	Thickeners, personal care, water treatment and metal working fluid.	It increases the viscosity of coatings and solutions.
N-tertiary octyl acrylamide (TOA)	Only manufacturer in India.	Personal care, adhesives and enhanced oil recovery.	It is an important ingredient in personal care products like hair gels and creams.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

### ATBS realization depends on the price of acrylonitrile - the principal input material ➤

Apart from other inputs, the production of 1kg of ATBS requires approximately 0.45kg of acrylonitrile.

### However, we expect ATBS demand to be stable ➤

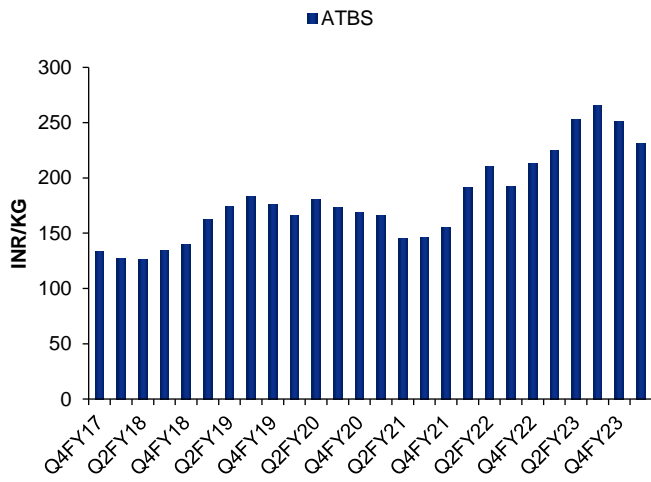
Although the demand for ATBS witnessed a rise in the second-half of FY23, leading to increased sales, this surge in demand is believed to have levelled off in the initial half of FY24. The above is showing in the earnings as well and that's why we forecast no PAT growth in FY24F. However, as the inventory is falling, crude oil prices are rising again, which will lead to increased demand for ATBS and hence, a rise in its prices.

### ATBS is a versatile chemical with multiple usages ➤

ATBS is a versatile substance that possesses thermal stability, a hydrolytic nature, hydrophilicity, polarity, and reactivity ratio. It can easily be co-polymerized with acrylonitrile, acrylic acid, acrylic esters, and acrylamides, as it is highly polymerizable.

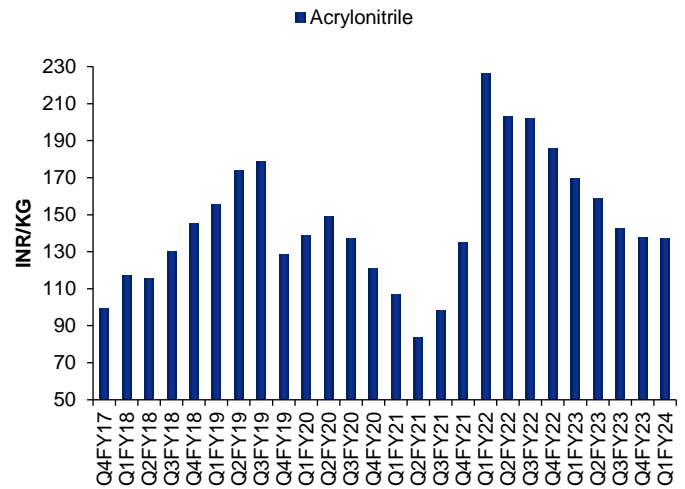
- ATBS is available in different forms such as powder (kg paper sack or drum), pellets (kg drum) and in aqueous solution (kg can).
- We expect the global demand for ATBS to rise because of its application in textiles, medical, personal care, water treatment, coatings, and chemical industries.
- The most important primary application of ATBS is in the enhanced oil recovery industry, where ATBS is used in its highest purity grade.
- The powder/granular segment accounts for a major share of the total acrylamide tertiary butyl sulfonic acid (ATBS) market. In our view, the segment will expand at a rapid pace soon due to the expansion of water treatment and enhanced oil industries where ATBS is used extensively.

Figure 2: ATBS's prices are largely stable



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Acrylonitrile prices have fallen from their peak in 1QFY22, which is a good signal for ATBS



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**IBB is the second leading product of VOL ➤**

IBB (isobutyl benzene) is used to manufacture ibuprofen, an analgesic, anti-inflammatory drug. Commercial isobutyl benzene has a broad range of impurities depending on the purity of propylene used to react with toluene to form isobutyl benzene, the starting material of ibuprofen. Hence, there can be multiple suppliers of IBB. However, getting a steady supply of the required purity may not be possible.

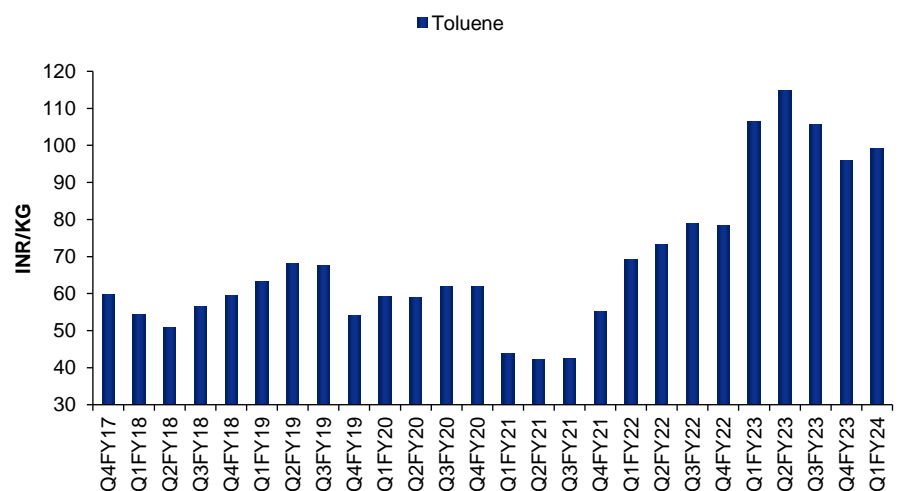
**IBB is mostly used by ibuprofen API manufacturers ➤**

Active pharmaceutical ingredient or API manufacturers and ibuprofen product producers use IBB. In the recent past, the API has been scarce, leading to a price rise by as high as 30%. Ibuprofen is a generic drug and hence, has thin margins; therefore, the steep hike made the drug unviable, forcing many end-producers to stop buying the API. Such an event poses a risk as well as an opportunity for VOL, in our view.

**VOL uses toluene as a raw material for IBB ➤**

Toluene is used as a raw material for IBB, and it is made from benzene, which is the basic raw material for many aromatic compounds.

Figure 4: Toluene's price is determined by benzene to some extent as toluene is manufactured from benzene, a derivative of crude oil



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**We value Vinati Organics at 41x one-year forward FY25F EPS to arrive at higher target price of Rs2,111 ➤**

**Figure 5: VOL trades near its 41x one-year forward FY25F EPS**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

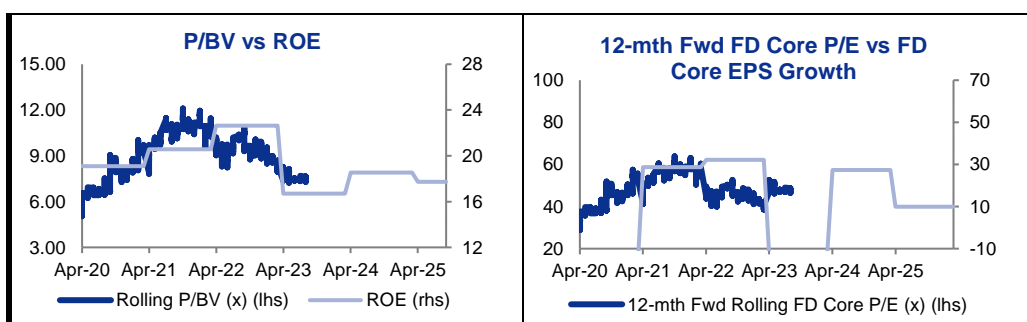
**Figure 6: We value the stock at 41x FY25F EPS to arrive at higher target price of Rs2,111**

**Target Price Methodology**

FY25F EPS	Rs/share	49.1
FY26F EPS	Rs/share	53.9
Sep 2025F EPS		51.5
P/E multiple	x	41.0
<b>Target price</b>	<b>Rs/share</b>	<b>2,111</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>16,155</b>	<b>20,847</b>	<b>21,186</b>	<b>23,304</b>	<b>25,635</b>
<b>Gross Profit</b>	<b>16,155</b>	<b>20,847</b>	<b>21,186</b>	<b>23,304</b>	<b>25,635</b>
<b>Operating EBITDA</b>	<b>4,341</b>	<b>5,954</b>	<b>5,426</b>	<b>6,945</b>	<b>7,686</b>
Depreciation And Amortisation	(455)	(519)	(600)	(715)	(837)
<b>Operating EBIT</b>	<b>3,886</b>	<b>5,435</b>	<b>4,826</b>	<b>6,230</b>	<b>6,849</b>
Financial Income/(Expense)	(3)	(6)			
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	609	724	495	544	599
<b>Profit Before Tax (pre-EI)</b>	<b>4,492</b>	<b>6,153</b>	<b>5,320</b>	<b>6,774</b>	<b>7,448</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>4,492</b>	<b>6,153</b>	<b>5,320</b>	<b>6,774</b>	<b>7,448</b>
Taxation	(1,026)	(1,573)	(1,360)	(1,732)	(1,904)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>3,466</b>	<b>4,580</b>	<b>3,960</b>	<b>5,042</b>	<b>5,543</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>3,466</b>	<b>4,580</b>	<b>3,960</b>	<b>5,042</b>	<b>5,543</b>
Recurring Net Profit	3,466	4,580	3,960	5,042	5,543
<b>Fully Diluted Recurring Net Profit</b>	<b>3,466</b>	<b>4,580</b>	<b>3,960</b>	<b>5,042</b>	<b>5,543</b>

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>EBITDA</b>	<b>4,341</b>	<b>5,954</b>	<b>5,426</b>	<b>6,945</b>	<b>7,686</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,257)	622	(721)	(560)	(615)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(341)	(215)	964		
Other Operating Cashflow	(1,550)	(1,889)	(2,225)	(2,920)	(3,209)
Net Interest (Paid)/Received	(3)	(6)			
Tax Paid	1,081	1,310	1,360	1,732	1,904
<b>Cashflow From Operations</b>	<b>1,271</b>	<b>5,775</b>	<b>4,804</b>	<b>5,197</b>	<b>5,765</b>
Capex	(1,667)	(607)	(2,500)	(2,500)	(2,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(892)	(3,067)	746		
<b>Cash Flow From Investing</b>	<b>(2,558)</b>	<b>(3,674)</b>	<b>(1,754)</b>	<b>(2,500)</b>	<b>(2,500)</b>
Debt Raised/(repaid)	164	(182)	(2)		
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(618)	(670)	(907)	(1,155)	(1,269)
Preferred Dividends					
Other Financing Cashflow	(10)	(7)			
<b>Cash Flow From Financing</b>	<b>(464)</b>	<b>(860)</b>	<b>(909)</b>	<b>(1,155)</b>	<b>(1,269)</b>
Total Cash Generated	(1,752)	1,241	2,141	1,543	1,996
<b>Free Cashflow To Equity</b>	<b>(1,124)</b>	<b>1,919</b>	<b>3,048</b>	<b>2,697</b>	<b>3,265</b>
<b>Free Cashflow To Firm</b>	<b>(1,285)</b>	<b>2,107</b>	<b>3,050</b>	<b>2,697</b>	<b>3,265</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	44	2,023	4,033	5,575	7,571
Total Debtors	4,584	4,696	4,772	5,249	5,774
Inventories	1,762	1,909	1,941	2,135	2,348
Total Other Current Assets	1,367	1,267	1,279	1,292	1,305
<b>Total Current Assets</b>	<b>7,756</b>	<b>9,895</b>	<b>12,025</b>	<b>14,252</b>	<b>16,999</b>
Fixed Assets	9,205	11,032	12,931	14,716	16,379
Total Investments	978	615			
Intangible Assets					
Total Other Non-Current Assets	2,959	3,930	2,959	2,959	2,959
<b>Total Non-current Assets</b>	<b>13,141</b>	<b>15,577</b>	<b>15,890</b>	<b>17,675</b>	<b>19,338</b>
Short-term Debt	184	2			
Current Portion of Long-Term Debt					
Total Creditors	1,146	1,179	1,199	1,318	1,450
Other Current Liabilities	346	1,014	394	398	402
<b>Total Current Liabilities</b>	<b>1,676</b>	<b>2,196</b>	<b>1,593</b>	<b>1,717</b>	<b>1,853</b>
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	40	67	60	60	60
<b>Total Non-current Liabilities</b>	<b>40</b>	<b>67</b>	<b>60</b>	<b>60</b>	<b>60</b>
Total Provisions	900	1,021	1,021	1,021	1,021
<b>Total Liabilities</b>	<b>2,616</b>	<b>3,284</b>	<b>2,674</b>	<b>2,798</b>	<b>2,934</b>
Shareholders Equity	18,281	22,188	25,241	29,129	33,403
Minority Interests					
<b>Total Equity</b>	<b>18,281</b>	<b>22,188</b>	<b>25,241</b>	<b>29,129</b>	<b>33,403</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	71.3%	29.0%	1.6%	10.0%	10.0%
Operating EBITDA Growth	27.2%	37.2%	(8.9%)	28.0%	10.7%
Operating EBITDA Margin	26.9%	28.6%	25.6%	29.8%	30.0%
Net Cash Per Share (Rs)	(1.36)	19.66	39.24	54.25	73.66
BVPS (Rs)	177.87	215.87	245.58	283.41	324.99
Gross Interest Cover	1,502.11	866.52	26,868.57		
Effective Tax Rate	22.8%	25.6%	25.6%	25.6%	25.6%
Net Dividend Payout Ratio	22.9%	22.9%	22.9%	22.9%	22.9%
Accounts Receivables Days	83.10	81.24	81.56	78.48	78.48
Inventory Days	nm	nm	nm	nm	nm
Accounts Payables Days	nm	nm	nm	nm	nm
ROIC (%)	21.1%	26.3%	21.7%	25.3%	25.4%
ROCE (%)	21.8%	25.5%	19.5%	22.1%	21.2%
Return On Average Assets	18.1%	19.8%	14.8%	16.9%	16.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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been engaged in market making activity for the subject company	NO	NO

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