

Q2FY12 Result Update

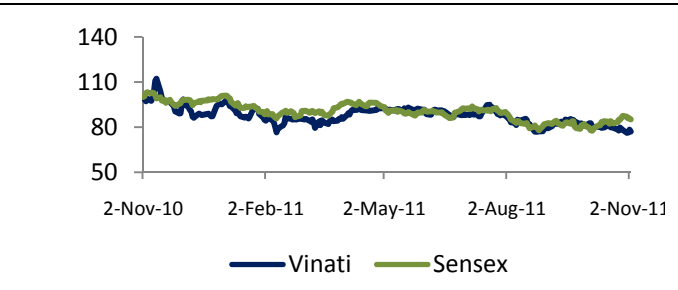
Vinati Organics Ltd

Recommendation	HOLD
CMP (2 Nov 2011)	Rs. 63
Target Price	Rs. 79
Sector	Specialty Chemicals

Stock Details

BSE Code	524200
NSE Code	VINATIORGA
Bloomberg Code	VO IN
Market Cap (Rs. cr)	311
Free Float (%)	25.0
52- wk HI/Lo	97/61
Avg. volume BSE (Quarterly)	5,105
Face Value	2.0
Dividend (FY11)	65%
Shares o/s (Cr)	4.9

Relative Performance	1Mth	3Mth	1Yr
VOL	-6.7%	-11.1%	-22.9%
Sensex	7.3%	-4.3%	-14.9%



Shareholding Pattern (%) 31/09/2011

Promoters Holding	74.99
Institutional (Incl. FII)	0.04
Corporate Bodies	1.62
Public & others	23.35

Runjhun Jain Nagraj - Sr Research Analyst
(+91 22 3926-8177)
runjhun.jain@nirmalbang.com

Vinati Organics posted mixed results

Impressive sales growth: Vinati Organics Limited (VOL) reported sales of Rs 101.8 cr, as compared to Rs 74.1 cr in Q2FY11, registering a growth of 37.4% yoy. Higher demand of legacy product IBB supplemented the strong sales growth.

Disappointing Margins: Due to higher raw material costs and rupee depreciation, the company has felt the pinch of declining margins. EBITDA margins have declined by 110bps qoq and 340 bps yoy at 17.8%. This is due to change in sales mix. IBB (14-15%) has less than margins than ATBS (20%). Due to higher component of IBB sales during the quarter EBITDA margins have skewed. However, management is anticipating improvement in margins as ATBS component is expected to increase in coming quarters.

Key highlights of the quarter

- After a long time, the company has seen up-tick in the demand of its legacy product IBB. IBB volume sales was 43.5% higher on yoy basis at 3300 mt. Management has said that this is due to consolidation happening in the industry due to which small units have been shut down. Management is optimistic of sustenance of high demand.
- Company has planned three new products - DIB, DEA and HPMTBE. These are expansion with integration which means these products either are line extensions of existing products or would use the same raw materials. Therefore, capex requirements for these products are also at minimal level at around Rs 50 cr. These products are expected to be operational by FY13 however; we have not yet included the sales from these products in our projections considering the small size of the products and uncertain demand scenario.

Valuation & Recommendations

At the current price of Rs. 63, VOL is trading at a PE of 7.1x FY12E & 4.8x FY13E earnings. As all the expansion is coming on stream in FY13, we believe the stock should be valued on FY13E basis. Based on our estimated EPS of Rs 13.0 for FY13E and a target PE multiple of 6x we arrive at a target price of Rs. 79 per share, potential upside of 25%.

Year	Net Sales (Rs Cr)	Growth (%)	EBITDA (Rs Cr)	EBIDTA (%)	PAT (Rs Cr)	PAT (%)	Adj EPS (Rs)	P/E (x)	P/BV (x)
FY10	231.8	21.7	52.7	22.7	40.0	17.3	8.1	7.8	0.6
FY11	316.7	36.7	63.8	20.1	52.0	16.4	10.5	6.0	0.4
FY12E	395.5	24.9	69.2	17.5	44.0	11.1	8.9	7.1	0.4
FY13E	525.0	32.7	102.4	19.5	64.9	12.4	13.1	4.8	0.3

Expansion Plans

- All the additional and new facilities like ATBs, DAAM, TBA are expected to be operational by March FY12. The benefit of which would be visible in FY13
- The company is undergoing the trials of the PAP and results would be known by Dec'11

Result Analysis

- During the quarter the company has reported exceptional item of Rs 3.1 cr on account of MTM loss on foreign currency denominated loans.
- During Q2FY12 the company has witnessed increase in the cost of raw materials partially due to rupee depreciation.
- PAT was lower because of higher tax and due to above forex loss

Particulars (Rs Cr)	Q2FY12	Q2FY11	yoy	Q1FY12	qoq
Total Revenues	101.8	74.1	37.4	91.4	11.3
Cost of materials	63.9	39.0	64.0	54.9	16.4
Employees Cost	4.5	3.6	24.6	4.4	1.5
Admin & other exps	15.2	15.8	(3.4)	14.8	2.9
EBITDA	18.1	15.7	15.3	17.3	4.9
<i>margins</i>	<i>17.8%</i>	<i>21.2%</i>		<i>18.9%</i>	
Depreciation	1.7	1.8		1.7	
EBIT	16.4	14.0	17.5	15.6	5.1
Interest	1.1	0.7	61.1	1.1	(0.7)
Other Income	0.0	0.0		0.0	
PBT	15.3	13.3	15.3	14.5	5.6
Tax	3.6	2.9	24.3	4.7	(22.7)
<i>Tax rate</i>	<i>23.5%</i>	<i>21.8%</i>		<i>32.1%</i>	
EO items	3.1	(1.8)		0.0	
PAT reported	8.6	12.1	(29.0)	9.9	(12.5)
Equity Capital	9.9	9.9		9.9	
FV	2.0	2.0		2.0	
EPS	1.7	2.5	(29.0)	2.0	(12.5)

- We are revising our numbers due to shift in the expansion plans (from Sept'11 earlier to Mar'12 now) , high cost of materials (partially because of rupee depreciation), increase depreciation (on account of high capex) and due to change in sales mix (higher proportion of IBB)

Rs Cr	New		Old		% Change	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Sales	395.5	525.0	384.6	448.5	2.8%	17.1%
EBITDA	69.2	102.4	90.4	107.6	-23.4%	-4.9%
PAT	44.0	64.9	58.5	70.1	-24.9%	-7.4%

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Financial Table

P&L (Rs. Cr)	FY10A	FY11A	FY12E	FY13E
Net Sales	231.8	316.7	395.5	525.0
% change	21.7%	36.7%	24.9%	32.7%
EBITDA	52.7	63.8	69.2	102.4
EBITDA margin	23%	20%	18%	20%
Depn & Amort	5.0	6.4	8.0	10.9
Operating income	47.8	57.3	61.2	91.5
Interest	4.4	4.7	4.4	6.5
Other Income	8.4	9.9	7.9	10.5
PBT	51.8	62.5	64.6	95.5
Tax	11.8	10.5	20.7	30.5
EO	0.0	0.0	0.0	0.0
PAT	40.0	52.0	44.0	64.9
PAT margin	17.3%	16.4%	11.1%	12.4%
Sh o/s - Diluted	4.9	4.9	4.9	4.9
Adj EPS	8.1	10.5	8.9	13.1
Cash EPS	9.1	11.8	10.5	15.4
Quarterly (Rs. Cr)	Dec.10	Mar.11	June.11	Sept.11
Revenue	88.0	91.6	91.4	101.8
EBITDA	20.3	22.1	17.3	18.1
Dep & Amorz	1.9	1.5	1.7	1.7
Op Income	18.4	20.7	15.6	16.4
Interest	1.3	1.1	1.1	1.1
Other Inc.	0.0	0.0	0.0	0.0
PBT	17.1	19.5	14.5	15.3
Tax	2.8	2.9	4.7	3.6
MI & EO	-0.1	-0.1	0.0	3.1
PAT	14.3	16.7	9.9	8.6
EPS (Rs.)	2.9	3.4	2.0	1.7
Performance Ratio	FY10A	FY11A	FY12E	FY13E
EBITDA margin (%)	22.7%	20.1%	17.5%	19.5%
EBIT margin (%)	20.6%	18.1%	15.5%	17.4%
PAT margin (%)	17.3%	16.4%	11.1%	12.4%
ROE (%)	27.4%	25.8%	16.0%	19.0%
ROCE (%)	53.0%	46.0%	29.0%	33.2%
Valuation Ratio	FY10A	FY11A	FY12E	FY13E
Price Earnings (x)	7.8	6.0	7.1	4.8
Price/BV (x)	0.6	0.4	0.4	0.3
EV / Sales	1.6	1.2	1.1	0.8
EV / EBITDA	7.1	6.1	6.3	4.2

Balance Sheet (Rs Cr)	FY10A	FY11A	FY12E	FY13E
Share Capital	9.9	9.9	9.9	9.9
Reserves & Surplus	89.3	133.8	170.1	227.4
Net Worth	99.2	143.7	179.9	237.3
Net Deferred Tax Liab	8.7	11.7	11.7	11.7
Total Loans	63.1	77.0	127.0	117.0
Total Liabilities	171.0	232.4	318.6	366.0
Net Fixed Assets	79.6	111.2	207.6	235.3
Capital WIP	38.4	36.0	11.6	3.0
Investments	0.0	3.2	3.2	3.2
Inventory	18.9	35.0	45.5	59.1
Debtors & Other CA	46.5	70.5	81.7	108.5
Cash & Bank	1.8	1.9	3.3	-1.0
CL & P	14.1	25.4	34.2	42.0
Net CA	53.0	82.0	96.3	124.5
Total Assets	171.0	232.4	318.6	366.0
Cash Flow (Rs. Cr)	FY10A	FY11A	FY12E	FY13E
Operating Cash Flow				
Net Profit before tax	52.7	63.8	69.2	102.4
Change in WC	-28.8	-12.9	-32.5	0.0
Tax	-8.9	-12.4	-20.7	-30.5
CF from Operation	24.3	22.5	35.6	39.3
Investing Activities				
Capex	-34.8	-35.4	-80.0	-30.0
Oth Inc & Investments	8.4	9.9	7.9	10.5
CF from Investing	-26.3	-25.5	-72.1	-19.5
Financing				
Dividend Paid	-5.8	-7.5	-7.7	-7.6
Share Capital	0.0	0.0	0.0	0.0
Loans & Others	7.7	10.6	45.6	-16.5
CF from Financing	1.9	3.2	37.8	-24.1
Net Chg. in Cash	-0.1	0.2	1.4	-4.3
Cash at beginning	1.9	1.8	1.9	3.3
Cash at end	1.8	1.9	3.3	-1.0
Per Share Data	FY10A	FY11A	FY12E	FY13E
Adj EPS	8.1	10.5	8.9	13.1
BV per share	20.1	29.1	36.4	48.1
Cash per share	0.4	0.4	0.7	-0.2
Dividend per share	1.0	1.3	1.3	1.3

NOTE

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