

May 25, 2011

BUY

PRICE ₹ 74

TARGET ₹ 110

Specialty Chemical

EARLIER RECO

BUY

Price	₹ 74
Target	₹ 110
Date	January 29, 2011

SHARE HOLDING (%)

Promoters	74.9
FIs/ Banks/MF	0.1
Non Promoters	2.0
Public & Others	23.0

STOCK DATA

Reuters Code	VNTI.BO
Bloomberg Code	VO IN

BSE Code	524200
NSE Symbol	VINATIORGA

Market Capitalization*	₹ 3,653.6 mn US\$ 80.82 mn
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Shares Outstanding*	49.4 mn
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52 Weeks (H/L)	₹ 97/61
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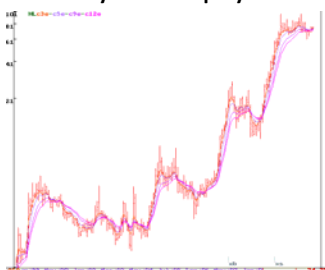
Avg. Daily Volume (6m)	16,832 Shares
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Price Performance (%)

1M	3M	6M
-	8	(5)

200 Days EMA: ₹ 73

*On fully diluted equity shares



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Vinati Organics Ltd (VOL) posted decent set of numbers for quarter and year ended March 31, 2011. The Topline growth for the year was in line with our estimates however the Bottomline growth exceeded our expectations. We attended the conference call held by the Management of the Company to discuss Q4FY11 financial performance and outlook. Key takeaways of the results and Concall are:-

Q4FY11 Result Highlights

- During Q4FY11, the Net Sales grew by 40.9% y-o-y to ₹ 878.3 mn as against ₹ 623.4 mn in Q4FY10. The growth was due to the increased contribution from the ATBS segment.
- The EBIDTA for the quarter grew by 45.0% y-o-y to ₹ 221.2 mn while the EBIDTA margin improved by 70 bps to 25.2% against 24.5% in Q4FY10. The higher margin ATBS segment improved the EBIDTA margins for the quarter.
- The Interest cost increased by 63.6% y-o-y to ₹ 11.1 mn and the Depreciation costs increased by 15.2% y-o-y to ₹ 14.6 mn.
- The PAT (adjusted for exceptional items) for the quarter was ₹ 166.6 mn against ₹ 108.8 mn in Q4FY10. The PAT margins improved by 150 bps y-o-y to 19.0% as against 17.5% during Q4 FY10.
- Adjusted EPS for Q4FY11 stood at ₹ 3.4 as against ₹ 2.4 achieved during Q4FY10.

FY11 Result Highlights

- During FY11, the Net Sales grew by 36.5% y-o-y to ₹ 3,168.9 mn.
- The EBIDTA increased by 24.8% y-o-y to ₹ 714.9 mn. The EBIDTA margin declined by 210 bps y-o-y to 22.6%.
- The Interest cost was up by 14.9% y-o-y to ₹ 38.6 mn and the Depreciation costs increased by 30.3% y-o-y to ₹ 64.3 mn.
- The PAT (adjusted for exceptional items) for the full year increased 36.0% y-o-y to ₹ 506.7 mn. The PAT margin for the full year was at 16.0%.
- Adjusted EPS for FY11 stood at ₹ 10.5 as against ₹ 8.1 achieved during FY10.

OUTLOOK & VALUATION

VOL is engaged in manufacturing specialty organic chemicals. The company is the world's largest manufacturer of Isobutyl Benzene (IBB) and second largest manufacturer of 2-Acrylamido 2-Methylpropane Sulfonic Acid (ATBS). Other high value products include Normal Butylbenzene (NBB), Hexenes, N-Tertiary Butyl Acrylamide (TBA) and Aromatic Solvents.

During FY11, VOL's performance was inline with our estimates on topline front but better than expected on bottomline front as the company availed MAT credit during FY11 which led to lower tax outgo. During FY12 and FY13, VOL would not be availing any MAT credit and would be paying full tax. Going forward, we expect FY12E and FY13E Revenues to grow by 19.7% and 35.4% respectively driven by higher ATBS capacity and higher contribution from newer products. APAT growth for FY12E is expected to be flat due to higher tax outgo whereas FY13E APAT is expected to grow by 43.0% owing to higher ATBS capacity and favorable sales mix towards high margin segments. At the current market price of ₹ 74, VOL is available at 4.9x its FY13E EPS of ₹15.1. It is currently trading at 0.7x its FY13E Sales. We maintain our BUY rating on the stock at current levels for target price of ₹ 110 (7.3x FY13E EPS).

KEY FINANCIALS

Y/E Mar.	Revenue (₹ mn)	APAT (₹ mn)	AEPS (₹)	AEPS (% Ch.)	P/E (x)	ROCE (%)	ROE (%)	P/Sales (x)
FY10	2,317.6	400.4	8.1	59.3	9.1	32.9	40.4	1.6
FY11	3,168.9	519.7	10.5	29.8	7.0	28.0	35.3	1.2
FY12E	3,792.8	520.0	10.5	0.1	7.0	28.1	27.3	1.0
FY13E	5,134.7	743.5	15.1	43.0	4.9	31.9	28.9	0.7

Conference Call Update

- **The Segmentwise contribution to the Topline**

During 2010, IBB segment was the highest contributor to the topline, followed by ATBS and Na-ATBS segments. In 2011, the contribution from the IBB segment was reduced to 32.1% and Sales of high margin ATBS segment increased.

Product	Segmentwise Breakup (In Mn)			
	2010	(%)	2011	(%)
IBB	1,207	50.6	1,018	32.1
ATBS	573	24.0	1,104	34.9
Na-ATBS	407	17.1	652	20.6
Others	198	8.3	393	12.4
Total	2,384	100	3,167	100

Going forward, the ATBS segment is expected to contribute 60% to the topline. As the IBB product growth is steady, the company wants to decrease its dependency from this segment and concentrate towards high-growth high-margin products. The Realization from the various products was almost similar to the previous quarter as ATBS US\$3/kg, IBB US\$2/kg and Other US\$10/kg.

- **Manufacturing Facilities and Capacity Utilization**

Since 2009, the IBB plant capacity has been constant at 14,000 TPA and running at 100% utilization level. The addition in the ATBS plant has been quite significant. From 5,000 TPA in FY09, the capacity has been increased to 12,000 TPA in FY11 and will further ramp up to 18,000 TPA by the end of FY12. In FY11, the company set up new facility for manufacturing IB which is the key raw material for ATBS. Out of the total 12,000 TPA capacity of IB, half will be used for captive consumption and rest will be sold in the open market.

Capacity (TPA)	2009	2010	2011	2012E
ATBS	5,000	10,000	12,000	18,000
IBB	14,000	14,000	14,000	14,000
IB	-	-	12,000	12,000
TBA	-	-	500	1,000
DAAM	-	-	-	1,000

- **The Pending Projects**

The approval for the Power plant is still pending. The trials for the PAP project are expected to start from December 2011. Any significant result is expected only in early FY13.

- **Capex Plans**

The company has planned Capex of around ₹ 800 mn during FY12 for ATBS capacity expansion and development of newer products.

QUARTERLY STATEMENT

₹.mn

Y/E March	Q4FY10	Q3FY11	Q4FY11
Total Income	638.1	879.5	916.2
Total Expenditure	485.6	676.9	695.0
PBIDT	152.5	202.6	221.2
% Margin	24.5	23.5	25.2
Interest	6.8	13.3	11.1
Depreciation	12.7	18.5	14.6
Other Income	0.0	0.0	0.0
PBT	133.0	170.8	195.4
% Margin	21.3	19.8	22.3
Tax	24.2	28.4	14.8
Rate %	18.2	16.6	14.7
Adjusted PAT	108.8	142.4	166.6
Extraordinary items	(7.5)	(0.9)	(0.6)
Reported PAT	116.3	143.4	167.2

PROFIT & LOSS STATEMENT

₹.mn

Y/E March	FY10	FY11	FY12E	FY13E
Net Sales	2,317.6	3,168.9	3,792.8	5,134.7
Other Op Income	84.5	83.6	113.8	154.0
Raw Mat. Consumed	1,328.3	1,834.1	2,172.1	2,935.2
Manufacturing Cost	210.5	292.7	347.7	470.7
Staff Cost	114.9	148.7	193.3	251.2
Admin and Selling Exp	136.9	262.1	310.6	420.5
Total Expenditure	1,790.4	2,537.6	3,023.6	4,077.6
PBIDT	611.6	714.9	883.0	1,211.1
Interest	44.2	38.6	40.4	40.4
Depreciation	49.6	64.3	99.7	108.5
PBT incl OI	517.9	612.1	742.9	1,062.2
Tax	117.5	105.4	222.9	318.7
PAT	400.4	506.7	520.0	743.5
Minority Interest	-	-	-	-
APAT	400.4	506.7	520.0	743.5

BALANCE SHEET STATEMENT

₹.mn

As on 31 st March	FY10	FY11	FY12E	FY13E
Share Capital	98.7	98.7	98.7	98.7
Reserves & Surplus	893.1	1,338.2	1,806.3	2,475.4
Net Worth	991.9	1,437.0	1,905.0	2,574.2
Minority Interest	-	-	-	-
Secured Loans	569.9	708.3	708.3	708.3
Unsecured Loans	61.3	61.3	61.3	61.3
Total Loan funds	631.2	769.6	769.6	769.6
Deferred Tax Liability	87.2	117.4	117.4	117.4
Capital Employed	1,710.2	2,323.9	2,792.0	3,461.2
Net Block	796.3	1,088.4	1,788.7	1,880.2
CWIP	383.7	383.7	383.7	383.7
Investments	-	31.6	31.6	31.6
Inventories	188.9	350.1	289.9	647.1
Sundry Debtors	358.7	519.2	478.0	647.1
Cash & Bank Bal	17.9	19.4	12.7	153.9
Loans and Advances	105.8	185.8	105.8	105.8
Current Assets	671.4	1,074.5	886.5	1,554.0
Curr Liab & Prov	141.1	254.3	298.5	388.3
Net Current Assets	530.3	820.2	588.0	1,165.6
Miscellaneous Exp	-	-	-	-
Total Assets	1,710.2	2,323.9	2,792.0	3,461.2

FINANCIAL RATIO STATEMENT

Y/E March	FY10	FY11	FY12E	FY13E
Growth (%)				
Net Sales	21.7	36.7	19.7	35.4
APAT	59.3	29.8	0.1	43.0
EBITDA	55.6	16.9	23.5	37.2
Profitability (%)				
EBITDA Margin	25.5	22.0	22.6	22.9
Adj. PAT Margin	16.7	16.0	13.3	14.1
ROCE	32.9	28.0	28.1	31.9
ROE	40.4	35.3	27.3	28.9
Per Share Data (Rs.)				
Adj. EPS	8.1	10.5	10.5	15.1
Adj. CEPS	9.7	12.4	12.6	17.3
BVPS	20.1	29.1	38.6	52.1
Valuations (X)				
PER	9.1	7.0	7.0	4.9
P/BV	3.7	2.5	1.9	1.4
EV / EBITDA	7.0	6.2	5.0	3.5
EV / Net sales	1.8	1.4	1.2	0.8
Mcap / Net sales	1.6	1.2	1.0	0.7
Turnover Days				
Debtors days	50	51	46	46
Creditors days	35	34	37	37
Gearing Ratio				
Total Debt to Equity	0.6	0.5	0.4	0.3

Source: Company, Sushil Finance Research Estimates

OUTLOOK & VALUATION

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Please Note that our technical calls are totally independent of our fundamental calls.

Additional information with respect to any securities referred to herein will be available upon request.

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