

VINATI ORGANICS LTD.

Vinati Organics Ltd. Was established in 1989 and it is a specialty chemical manufacturing company. The company started operations in its first plant in Mahad in 1992, with focus on Isobutyl Benzene (IBB), and then in 2002, it started production in its second plant in LoteParshuram, producing 2-acrylamido-2-methylpropane Sulphonic acid. Company focused on the research led conversion of generic raw materials into value-added niche specialty chemicals.

Products of Company include Isobutyl Benzene (IBB), 2-acrylamido-2-methylpropane Sulphonic acid (ATBS), Isobutylene (IB), N-Tertiary Butyl Acrylamide (TBA), N-Tertiary Octyl Acrylamide (TOA) and Di Acetone Acrylamide (DAAM).

Major revenue generation products are Isobutyl Benzene (IBB), 2-acrylamido-2-methylpropane Sulphonic acid (ATBS). From which 2-acrylamido-2-methylpropane Sulphonic acid - several applications in oil-field recovery, water treatment, acrylic fibre manufacturing, adhesives, personal care products, medical hydrogel, mining industry, coatings and as dispersing and flocculating agents.

Isobutyl Benzene (IBB) -several applications in basic raw material for manufacturing Ibuprofen, an Anti-inflammatory analgesic bulk drug, Perfume industry.

Isobutylene (IB)- several applications in Agro based chemicals, food additives, anti-oxidants.

Share Holding Pattern		Basic Data	
Promoters	75.00%	BSE Code	524200
FII	1.59%	NSE Code	VINATIORGA
DII	0.89%	Industry	Specialty Chemicals
Others	22.52%	CMP (Rs.)	200
<p align="center">Price Performance compare to SENSEX</p>		Face Value (Rs.)	2.00
		TTM EPS (Rs.)	14.02
		TTM PE (x)	14.27
		Industry PE (x)	15.22
		Beta	0.50
		P/BV (x)	3.57
		Market Cap (Rs. Crore)	988
		EV (Rs. Crore)	1135.65
		Latest No. of Shares (In Crore)	4.94
		Latest Book Value (Rs.)	56.01
Latest Dividend (Rs.)	2.50		
Latest Dividend Yield (%)	1.25%		

Key Financial Information (Rs. Cr)					
	2009	2010	2011	2012	2013
Net Sales	190.5	232.1	322.65	447.46	552.92
Total Income	195.82	240.55	329	450.29	556.68
Total Expenditure	156.54	179.41	252.95	352.5	432.61
PBIDT	39.28	61.14	76.05	97.8	124.07
PAT	25.13	40.04	51.97	54.81	68.66
EPS (Rs. per share)	25.45	8.11	10.53	11.1	13.91
ROE (%)	46.72%	48.80%	42.79%	33.14%	32.06%
ROCE (%)	37.37%	40.41%	36.36%	31.28%	27.23%

EV/EBITDA (x)	3.06	6.8	5.6	5.63	5.75
Total Debt/Equity (x)	0.79	0.64	0.54	0.92	0.98
Interest Cover (x)	8.7	12.73	9.78	9.89	9.89
P/BV (x)	1.1	3.57	2.44	2.19	2.12
Book Value(Rs)	13.15	20.09	29.1	37.88	48.86
PE (x)	2.83	8.85	6.75	7.49	7.43
% Change of Net Sales to Previous Year	30.19%	21.84%	39.01%	38.68%	23.57%
% Change of PBIDT to Previous Year	33.79%	55.65%	24.39%	28.60%	26.86%
% Change of PAT to Previous Year	65.33%	-59.33%	29.80%	5.46%	25.27%
Margin Ratios					
PBIDTM (%)	19.27	25.62	22.66	20.60	20.75
EBITM (%)	17.68	23.56	20.75	19.12	19.09
Pre Tax Margin (%)	15.64	21.71	18.63	17.19	17.16
PATM (%)	12.33	16.78	15.49	11.54	11.48

Description	No	Remarks
Years since company established	24	
Years during which revenues declined compare to previous year	NIL	
Years during which company suffered net loss	NIL	
Years during which dividend was skipped	4	In year 1998,1999,2003,2004
Years during which dividend was reduced	1	Year 2010
Years during which net earnings declined compared to previous year	0	

Investment Rationale

- **Growth in Chemical Industry:**The global chemical industry historically concentrated in three regions (North America, Western Europe and Japan). But now, Europe's share of the global production of chemical products declined from 31% to around 27%, while Asia's rose from 13% to 23%.
- Current size of approximately \$108 billion and the Indian chemical industry is of 3%of the global chemical industry and it is estimating \$290 billion till 2017E.(Source: Indiamart news, January, 2013)
- **Wide business area & Product Range:**Products of Company include Isobutyl Benzene (IBB), 2-acrylamido-2-methylpropane Sulphonic acid (ATBS), Isobutylene (IB), N-Tertiary Butyl Acrylamide (TBA), N-Tertiary Octyl Acrylamide (TOA) and Di Acetone Acrylamide (DAAM).
- Company is the world's largest manufacturer of Isobutylbenzene (IBB, market share 60% and 2-Acrylamido 2-methylpropanesulfonic Acid (ATBS, market share 40%). ATBS contributed 41%, IBB contributed 43% and IB contributed 10% to the revenue of company in FY13.

- Only two competitors for the product ATBS, one in US and one in Japan and no manufacturer in India. For, IBB Company is largest manufacturer in world and only one competitor in India that is IOL Chemicals and Pharmaceuticals Ltd.
- Company started manufacturing TBA-similar to ATBS product and already capture 50% of global market share.
- Company has established plant for product DAAM but still manufacturing is not started. Company doing business development activity for DAAM so that can be start manufacturing it.
- Company generated 69% of its revenue from exports in FY13.
- **Clients:** Company has big MNCs as clients, some of are Dow Chemicals, Akzo Nobel, Asian Paints, BASF, NALCO, SNF, Perrigo, Clariant, Chemtall and Shasun Chemicals etc. 30+ customers retained by the Company in the last five years and in FY13 company earned 80% of revenue from clients which are stable and relationship with them of 5 years or more.
- **Threat to entry:** Technology which is using by the company is not easily available or easily replicable. Company has done technical partnerships with global players- Institute Francaisdu Petrole (France), Saipem (Italy) and National player- National Chemical Laboratories (India).
- Company has achieved a high purity standard in ATBS product, a purity tolerance of 0.5% as against a global tolerance level of 3%. IBB product achieved purity standard of 99.7% which is highest in world. Same with other products- IB achieved 99.85% purity and in HP-MTBE product achieved 99.95% purity which are the highest in the world.
- **Integration:** company has implemented integrated model in which products basket has been structured as inter-consumption. So that products either consumed within company for manufacturing products or marketed to customers.
- **Strong Performance:** From 16 years, company has generated positive cash flow from operating activities. Company has recorded CAGR Net Sales and Net Profit of 32.06% and 76.81% respectively in last 10 years. Average 5 years ROE (%) of company is 40.70%.

Risks

- Company have wide product portfolio which gives a strong healthy position but if slowdown in Paint, Oil recovery, water treatment & personal care products then it affect adversely to the profitability of the company.
- European weak growth is affecting demand for ATBS so it shrinking profit margin of company.

Outlook

- Company is largest manufacturer in ATBS, IBB products and seeing 25%-30% growth in both this products, also company doing capex for expansion purpose and estimating Rs.1000 crore revenue after completion of projects. As per expectation, projects will be complete till FY15-FY16, and also company has 2-3 products in pipeline.
- Currently company trading at TTM PE of 14.27x and TTM EPS of Rs.14.02, and it's expected that TTM PE of 16.5x and TTM EPS of Rs.16 so that upside in this stock can be Rs.260-300 so accumulate till Rs.170 for the horizon of 12-15 months.