

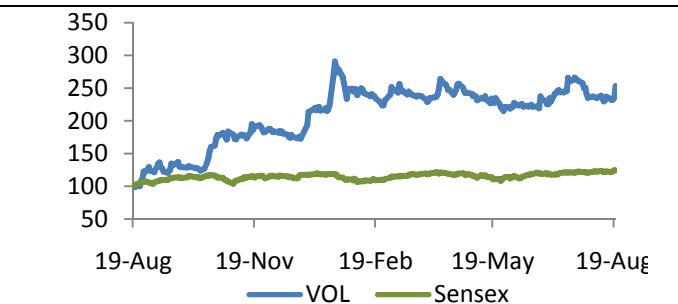
Q1 FY11 Result Update
Vinati Organics Ltd

Recommendation	BUY
CMP (23 Aug 2010)	Rs. 79
Sector	Pharmaceuticals

Stock Details

BSE Code	524200
NSE Code	VINATIORGA
Bloomberg Code	VO IN
Market Cap (Rs. cr)	345
Free Float (%)	25
52- wk HI/Lo	98/31
Avg. volume BSE (Quarterly)	19805
Face Value	2
Dividend	35%
Shares o/s (Cr)	4.9

Relative Performance	1Mth	3Mth	1Yr
VOL	-4.8%	11.3%	153.2%
Sensex	2.9%	11.4%	24.3%


Shareholding Pattern as of 30/06/2010

Promoters Holding	74.88
Institutional (Incl. FII)	0.04
Corporate Bodies	2.34
Public & others	22.74

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Robust growth in sales: Vinati Organics Limited (VOL) reported sales of Rs 70 cr, as compared to sales of Rs 50.8 cr in Q1FY10, registering robust growth of 37.6% yoy. ATBS demand drove growth and we expect it to remain strong in future also.

Profitability declined: VOL reported EBITDA of Rs 13.5 cr, a growth of 11.8% yoy. However, EBITDA margins declined from 22.6% in Q1FY10 to 18.9% in Q1FY11. The company had one-time aberrations during the quarter with respect to their Lote plant, which mainly manufacture ATBS. As the company has quarterly contracts in ATBS the pass on of increased raw materials got delayed by one quarter hence the margins got impact. We believe going forward; this would correct taking the company margins to their normal levels of 22-23%.

Key highlights of the quarter

- The company started its IB plant during the quarter. However as the operations commenced at the end of the quarter the impact of margins could not be captured during the quarter.
- The company increased the capex plans from Rs 50 cr fro FY11 to Rs 120 cr, which would mainly be utilize to expand the capacity of ATBS from 10,000 MT currently, to 18,000 MT and for setting up of 6 MW power generation plant for captive usage. Funding of Capex would be through a combination of internal accruals, debt and equity.

Valuation & Recommendations

At the current price of Rs. 79, VOL is trading at a PE of 8.6x FY11 & 6.3x FY12 earnings. The valuations look attractive at current levels given revenue visibility on back of robust demand outlook and profitability improvement. Based on our estimated EPS of Rs 12.5 for FY12E and a target PE multiple of 8x we arrive at a target price of Rs. 100 per share indicating a potential upside of 26.4%. We have not included any upside from other potential product launches like PAP, Acrylamide etc, which presents an upside potential over our estimates. Consequently, We reiterate our BUY rating on the stock with a long-term view.

Year	Net Sales (Rs Cr)	Growth %	EBITDA (Rs Cr)	EBIDTA (Margins%)	PAT (Rs Cr)	PAT (Margins %)	Adj EPS (Rs)	P/E (x)	P/BV (x)
FY09	190.5	30.2	33.1	17.4	25.1	13.2	5.1	15.5	1.2
FY10	231.8	21.7	52.7	22.7	40.0	17.3	8.1	9.7	0.8
FY11e	313.1	35.1	72.0	23.0	45.1	14.4	9.1	8.6	0.6
FY12e	417.3	33.3	102.2	24.5	61.6	14.8	12.5	6.3	0.4

Key highlights

- In lieu of increasing demand and promising future aspects, VOL has increased its planned capital expenditure for FY11. Now the company intends to spend Rs 120 cr for the year to fund following expansion plans:
 - ATBs: The Company has planned to increase the capacity of ATBs from 10,100 MT to 18,000 MT, which would be operational by May FY12. Post expansion VOL would be the largest manufacturer of ATBs in the world.
 - Co-gen: Vinati Organics would build a 6 MW power generation facility at its Lote plant for its captive use. This would turn into savings of Rs 8 cr per annum for the company. It is expected to be operational by Oct-Nov FY12.
 - TBA: VOL is expanding its capacity of Tertiary Butyl Acrylamide (TBA) manufacturing from 300 MT to 1,000 MT.
 - New products: The company is launching two new products namely - Diacetone Acrylamide (DAAM) & Tertiary Octyl Acrylamide (TOA) with capacity of 1,000 MT and 300 MT respectively. The facility is expected to be operational by FY11 end.

The funding of the above capex would be through combination of internal accruals, debt and equity.

- To have the benefit of integration the company has backward integrated and commenced production of Isobutylene (IB) during the quarter with an installed capacity of 12,000 MT. With the commencement of this plant, VOL has become the largest manufacturer of IB in India. The company plans to sell IB in domestic markets also besides using it for captive.
- VOL reported EBITDA of Rs 13.5 cr, which grew 14.5% yoy but declined by 11.5% qoq. Although, EBITDA margins declined by 370 bps yoy and by 510 bps qoq. In Q1FY11, one of its big order got delayed hence the margins got impacted which is expected to normalize in Q2FY11. Also, it had better margins in Q4FY10 on back of decline in raw materials which were not sustainable.

Revision in Estimates

- On back of increased capex plans we are changing our estimates. VOL has earlier plans of increasing ATBs capacity to 12,000 MT in FY11 which is now shifted to FY12 with increased capacity of 18,000 MT. This affects the FY11 sales and hence PAT.

Particular	FY 2011			FY 2012		
	Previous	Revised	Variation	Previous	Revised	Variation
Net Sales	342.8	313.1	-8.7%	409.8	417.3	1.8%
PAT	49.5	45.1	-8.9%	59.3	61.6	3.9%

Valuation & Recommendation

At the current price of Rs. 79, VOL is trading at a PE of 8.6x FY11 & 6.3x FY12 earnings. The valuations look attractive at current levels given revenue visibility on back of robust demand outlook and profitability improvement. Based on our estimated EPS of Rs 12.5 for FY12E and a target PE multiple of 8x we arrive at a target price of Rs. 100 per share indicating a potential upside of 26.4%. We have not included any upside from other potential product launches like PAP, Acrylamide etc, which presents an upside potential over our estimates. Consequently, We reiterate our BUY rating on the stock with a long-term view.

Particulars (Rs Cr)	Q1FY11	Q1FY10	yoy	Q4FY10	qoq
Total Revenues	71.6	52.2	37.1	63.5	12.8
Cost of materials	43.8	30.1	45.5	35.3	24.1
Employees Cost	3.4	2.7	25.6	2.7	23.7
Admin and other exps	10.9	7.6	42.8	10.2	7.3
EBITDA	13.5	11.8	14.5	15.3	(11.5)
<i>margins</i>	<i>18.9</i>	<i>22.6</i>		<i>24.0</i>	
Other income	0.0	0.0		0.0	
Operating profit	13.5	11.8	14.5	15.3	(11.5)
Interest	0.7	1.0	(26.9)	0.7	2.8
Depreciation	1.4	1.1	23.8	1.3	10.2
PBT	11.4	9.7	17.5	13.3	(14.3)
Tax	2.3	3.4	(33.8)	2.4	(6.1)
<i>Tax rate</i>	<i>19.9</i>	<i>35.3</i>		<i>18.2</i>	
EO items	0.6	(1.3)	(147.2)	(0.7)	(182.8)
PAT reported	8.5	7.6	12.3	11.6	(26.8)
Equity Capital	9.9	9.9		9.9	
FV	2.0	2.0		2.0	
EPS	1.7	1.5	12.3	2.4	(26.8)

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Financial Statements

Income Statement				
Particulars (Rs cr)	FY09	FY10	FY11E	FY12E
Net Sales	190.5	231.8	313.1	417.3
Cost of materials	134.5	153.9	205.0	267.1
Employees Cost	8.8	11.5	15.7	20.9
Admin and other exps	14.1	13.7	20.3	27.1
EBITDA	33.1	52.7	72.0	102.2
<i>margins %</i>	<i>17.4</i>	<i>22.7</i>	<i>23.0</i>	<i>24.5</i>
Depreciation	3.3	5.0	7.3	10.1
Interest	3.3	4.4	6.1	7.8
Other Income	5.3	8.4	3.1	6.3
Profit Before Tax	31.9	51.8	61.8	90.6
Taxes	6.8	11.8	16.7	29.0
Profit After Tax	25.1	40.0	45.1	61.6
Extra Ordinary Items	0.0	0.0	0.0	0.0
Adjusted PAT	25.1	40.0	45.1	61.6
<i>margins %</i>	<i>13.2</i>	<i>17.3</i>	<i>14.4</i>	<i>14.8</i>
Adj Earnings Per Share	5.1	8.1	9.1	12.5

Cash Flow Statement				
Particulars (Rs cr)	FY09	FY10	FY11E	FY12E
Profit Before Tax	31.9	51.8	61.8	90.6
Interest	3.3	4.4	6.1	7.8
Depreciation	3.3	5.0	7.3	10.1
Operating Income	(5.3)	(8.4)	(3.1)	(6.3)
Extra-Ordinary Income	0.0	0.0	0.0	0.0
Op Prfit Bef WC Chg	33.1	52.7	72.0	102.2
Changes in WC	(2.6)	(19.5)	(4.1)	(12.9)
Tax (Including FBT)	(6.2)	(8.9)	(16.7)	(29.0)
Cash Flow from Op	24.3	24.3	51.3	60.4
Chgs in Fixed Assets	(39.6)	(34.8)	(90.0)	(30.0)
Other Income	5.3	8.4	3.1	6.3
Cash Flow fr Investing	(34.3)	(26.3)	(86.9)	(23.7)
Change in Equity Cap	0.0	0.0	0.0	0.0
Change in Borrowings	16.7	12.2	53.0	(2.0)
Dividends Paid	(2.9)	(5.8)	(5.3)	(7.2)
Interest Paid	(3.3)	(4.4)	(6.1)	(7.8)
Others	(0.0)	(0.1)	0.0	(0.0)
Cash Flow fr Financing	10.5	1.9	41.7	(17.1)
Net Cash Flow	0.5	(0.1)	6.1	19.6
Opening Cash Balance	1.4	1.9	1.8	7.8
Closing Cash Balance	1.9	1.8	7.8	27.4

Balance Sheet				
Particulars (Rs cr)	FY09	FY10	FY11E	FY12E
Sources of Funds				
Equity Share Capital	9.9	9.9	9.9	9.9
Reserves & Surplus	55.0	89.3	129.1	183.5
Shareholder's Funds	64.9	99.2	139.0	193.4
Total Debt	51.0	63.1	116.1	114.1
Net Deferred Tax	5.9	8.7	8.7	8.7
Capital Employed	121.7	171.0	263.9	316.3
Application of Funds				
Gross Fixed Assets	71.1	110.9	180.3	221.9
Less: Depreciation	26.4	31.3	38.6	48.7
Net Fixed Assets	44.7	79.6	141.7	173.2
Capitall WIP	43.4	38.4	59.0	47.4
Current Assets	49.3	67.1	86.1	125.1
Inventories	12.1	18.9	18.2	23.0
Sundry Debtors	27.9	35.9	44.3	58.0
Cash & Bank Balances	1.9	1.8	7.8	27.4
Loans and Advances	7.5	10.6	15.7	16.7
Current Liabilities	15.7	14.1	22.9	29.5
Current Liabilities	11.7	9.8	17.7	22.3
Provisions	4.0	4.3	5.3	7.2
Net Current Assets	33.6	53.0	63.1	95.6
Capital Deployed	121.7	171.0	263.9	316.3

Ratio Analysis				
Profitability Ratios	FY09	FY10	FY11E	FY12E
EBITDA Margins	17.4	22.7	23.0	24.5
Adj PAT Margins	13.2	17.3	14.4	14.8
RoCE	51.5	53.0	41.6	40.3
RoNW	24.6	27.4	20.7	21.2
Growth Ratios				
Sales	30.2	21.7	35.1	33.3
EBITDA	30.8	59.1	36.6	42.0
Adj PAT	65.3	59.3	12.7	36.6
Valuation Ratios				
PE	15.5	9.7	8.6	6.3
P/BV	1.2	0.8	0.6	0.4
EV/EBITDA	13.3	8.6	6.9	4.7
Mcap/Sales	2.0	1.7	1.2	0.9
Per Share Data				
BV	13.1	20.1	28.2	39.2
EPS	5.1	8.1	9.1	12.5
CEPS	5.8	9.1	10.6	14.5
DPS	0.5	1.0	0.9	1.2

NOTE

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