



BODHI CAPITAL

An Initiative of ABC | INVESTMENTS 



VINATI ORGANICS

Current Price:Rs. 1016

Market Capitalisation: Rs. 10,447 Crores

Analyst Take: Hold

Date: 21st February 2020



Value Proposition Of Vinati

B2B business in Niche Products with global dominance in market share, Protected by high entry barriers, patented technology, and superior business model.

Expansion in product line with Butyl phenols and IBAP expected to drive revenue growth for next 2-3 yrs, along with the Para-aminol project on the pipeline.

Strong fundamentals and balance sheet with best in class return ratios and earnings trajectory.



Evaluating Moats

	Score	Key Features
1 Operating Margins	6.5/10	<ul style="list-style-type: none">• Consistently high OPM Margins across key products.• Value chains in major products create cost efficiencies.• Formula based pricing helps prevent margin erosion.
2 Market Dominance	7/10	<ul style="list-style-type: none">• Largest manufacturer of IBB and ATBS in the world (65%).• Monopolistic position in products like IB within India.
3 Entry Barriers	7.5/10	<ul style="list-style-type: none">• Patented technology and limited issue of licensing.• Long Term Contracts with customers.• Hard to replicate business model.
4 Business Model	8/10	<ul style="list-style-type: none">• Backward and forward Integration in core products.• Low-cost of production



Porter's 5 Forces Analysis



Industry Outlook

CAGR Growth

The ATBS market is at \$ 1.4 billion (approx.) in FY 20 . The demand for ATBS is projected to grow at a CAGR of over 12% between 2019-2025 (approx.-\$5 billion). The global market for ibuprofen is valued at 6.5 bn US\$ in 2020 is expected to reach 8.4 bn US\$ by the end of 2028, growing at a CAGR of 2.4%.

Consumer Demand

ATBS: Dow Chemicals, BASF, Nalco Chemicals, SNF Chemicals, etc.
IBB: Xinhua Pharmaceuticals, IOLCP, Granules Biocause, Strides Shasun, BASF, the SI Group, Xinhua-Perrigo Pharmaceuticals, Hisoar, etc.

Growth Drivers

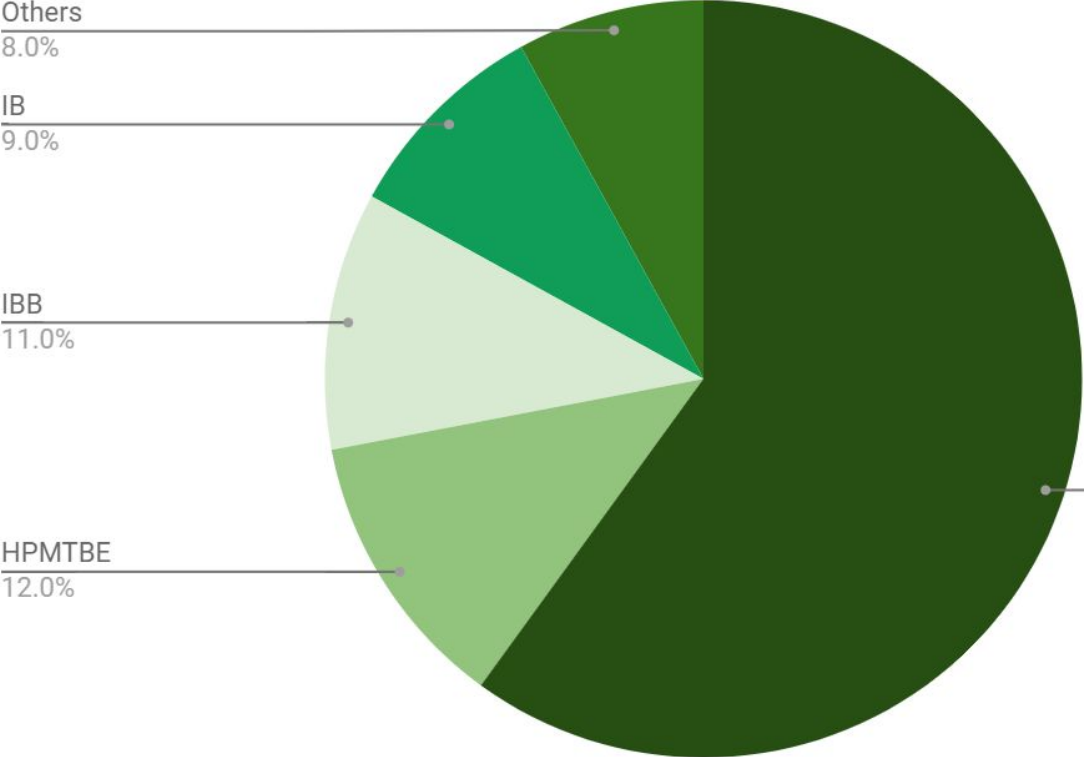
Market Leader - Import substitute for current market demand of 25,000 tonnes p.a for Butylphenol in India.
Expansion of ibuprofen capacities by BASF and the SI group to boost demand for IBB in the near future.
Brownfield expansion of ATBS plant underway to increase production capacity to match surplus market demand.



SEGMENTAL ANALYSIS



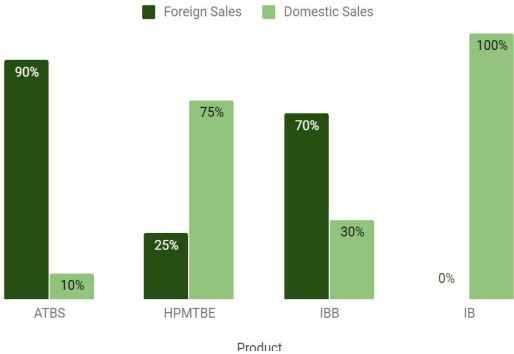
REVENUE MIX

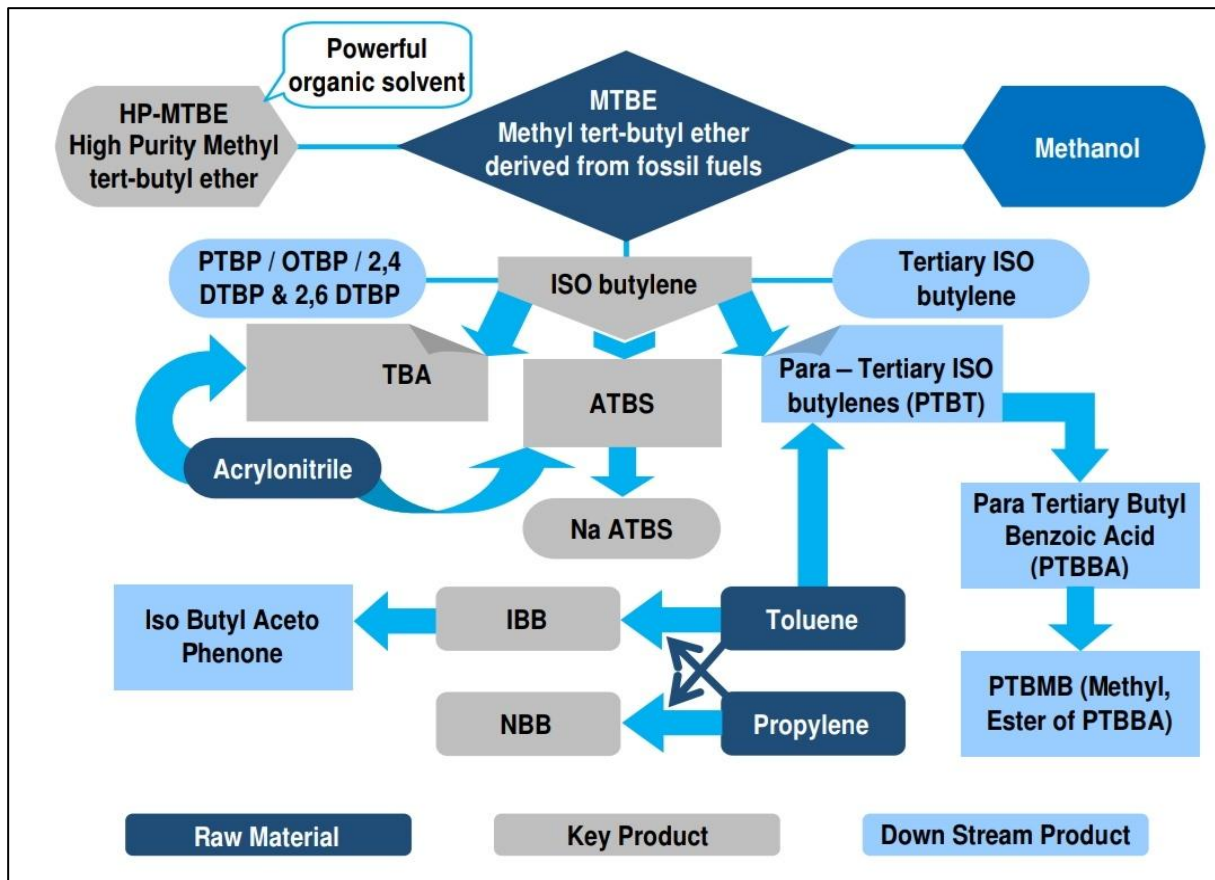


Its main revenue is generated from monomer ATBS and aromatic IBB. It has 65% market cap of ATBS and IBB globally. 73% of total revenue of Vinati Organics is from exports and 27% from domestic sales.

ATBS
60.0%

FOREIGN VS DOMESTIC SALES





Source: Anand Rathi Research

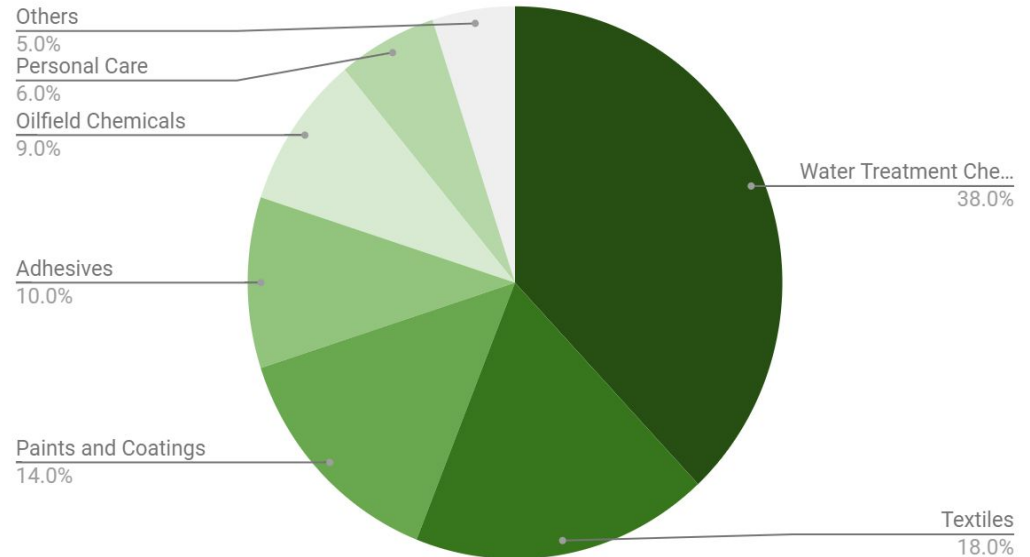


ATBS

- The Revenue from ATBS grew 69% in FY19 due to exit of its competitor *Lubrizol*. Vinati Organics was able to capture its total market share which increased their market share from 40% to 65%.
- Have an exclusive patent from National Chemical Laboratories (NCL) Pune for ATBS.
- Is the only company in India to backward integrate ATBS by producing the key raw material- Isobutylene (IB).

OTHER MANUFACTURERS		
USA	Japan	Others
Spectrum Chemical Manufacturing Corp	Toagosei	Acar Chemicals (Turkey)
Thermo Fisher Scientific, Inc.		Vizag Chemicals (India)
		All Plus Chemicals (China)

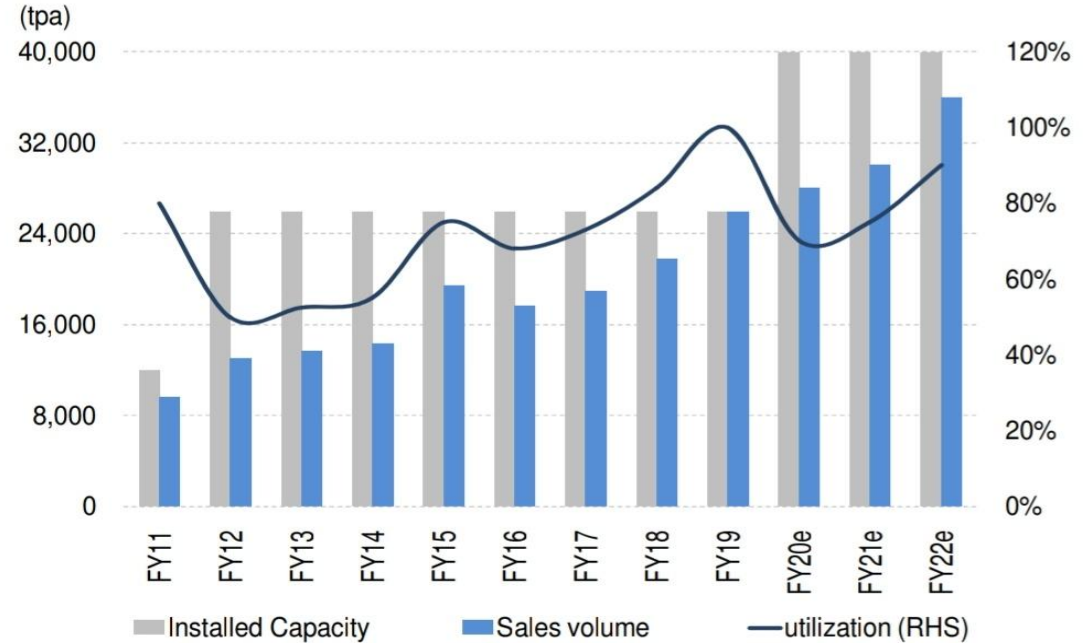
END USER INDUSTRY (ATBS)



- Due to the increase in demand the company has also reached its the maximum utilization of its current capacity and is expanding its capacity from 26,000 tonnes to 40,000 tonnes (Capex: 1bn rupees). The plant is expected to be operational by Q4FY20.
- According to the company, ATBS is chiefly sold to MNCs globally, key being Dow Chemicals, BASF, Nalco Chemicals, SNF Chemicals, etc.

PRODUCT	Expected CAGR
ATBS	0.15
Na ATBS	0.18

Fig 15 – ATBS capacity utilisation



Source: Company , Anand Rathi Research

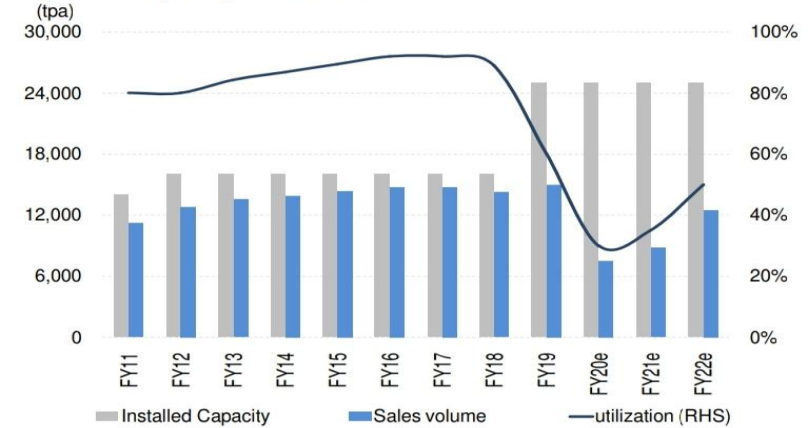


IBB

- IBB is mainly used in the manufacture of the drug ibuprofen, it makes for 25% of the cost of raw materials for the same. It is additionally used in perfumery.
- The drug needs 99.5% IBB purity, Vinati offers the same at 99.7% purity.
- Current capacity is 25,000 tpa allowing the company a 65% market share in the global market.
- Slower current growth expected in this segment due to lower off-take from key customers.
- However, business is predicted to pick up in FY20Q4 due to increase of manufacturing capacity of BASF (client) and SI group.

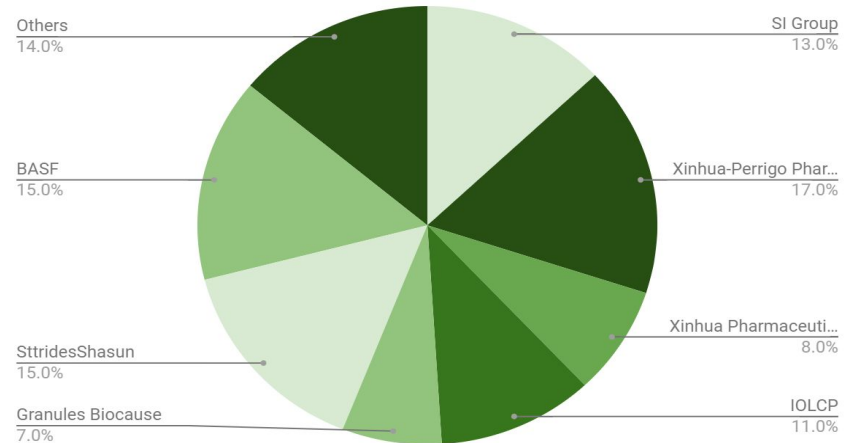
**IOLCP also synthesises its own IBB and supplies the raw material to other manufacturers making it a dominant competitor as opposed to a potential client in the segment.*

Fig 24 – Capacity utilisation



Source: Company, Anand Rathi Research

IBUPROFEN MANUFACTURERS



IB

- Is the raw material for ATBS, the company backward integrated its production process in 2010 and is the *only* indian company to do so.
- Bought the patented technology from Saipem SpA, in 2010.
- Currently has the manufacturing capacity of 12,000 tpa.
- Besides using this to manufacture their own products they also sell their surplus to agrochemical and antioxidants.

OTHER USES OF IB

Alkylation with butane to produce isooctane (a fuel additive)

To produce methacrolein and cypermethrin used in agro-industries and polymerisation of isobutylene to produce butyl rubber (polyisobutylene)

Antioxidants such as butylated hydroxyl toluene (BHT), butylated hydroxyl anisole (BHA), 4-methoxyphenol (MEHQ) are produced by Friedel-Crafts alkylation of phenol using isobutylene.

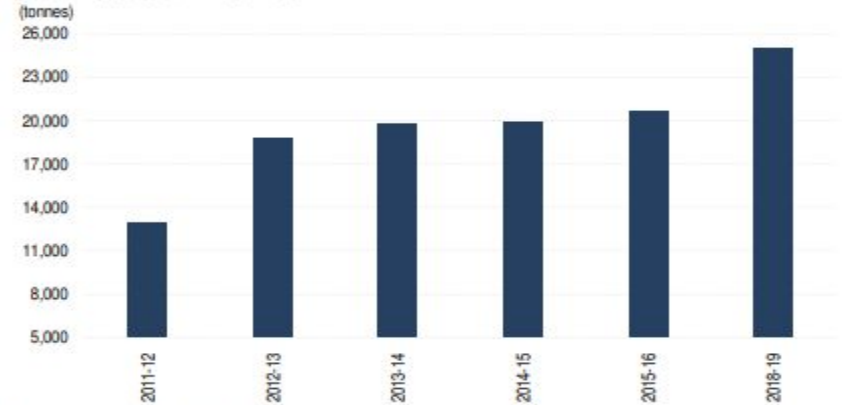
Used in perfumes and fragrances



Butyl Phenols

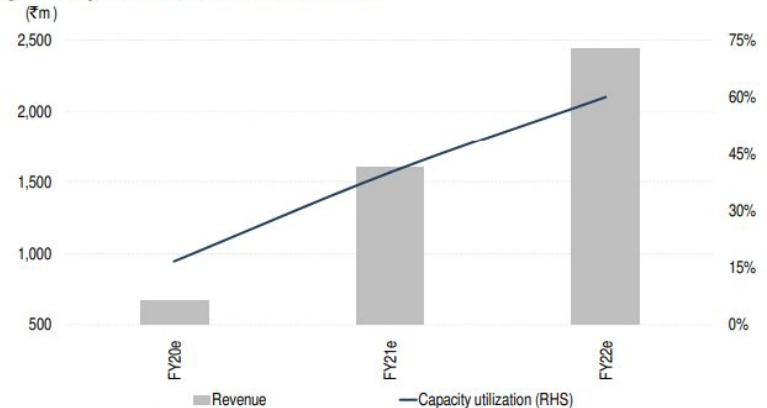
- Butyl phenols are mainly used as intermediaries in the following industries-
 - Perfumery (35-40%)
 - Inks & resins (15 – 20%)
 - Plastic additives (15%)
 - Lubricants (15% – 20%)
- BP demand in India (~25,000 tpa) is for three types- PTBP, OTBP, 2,4 – DTBP & 2,6 – DTBP, completely met by imports from Korea, Taiwan, Singapore, Russia and Switzerland.
- Vinati's Butyl phenol plant of ~39,000 tpa, was commissioned in Q2FY20 expected to achieve ~20% utilisation and scale up to 60% by FY22. Revenue from BP is expected to clock ~ 2500 mn in FY 21.

Fig 30– Imports of BP to India



Source: Company, Anand Rathi Research

Fig 33– Expected revenue and utilisation



Source: Company, Anand Rathi Research

Para-Amino Phenols

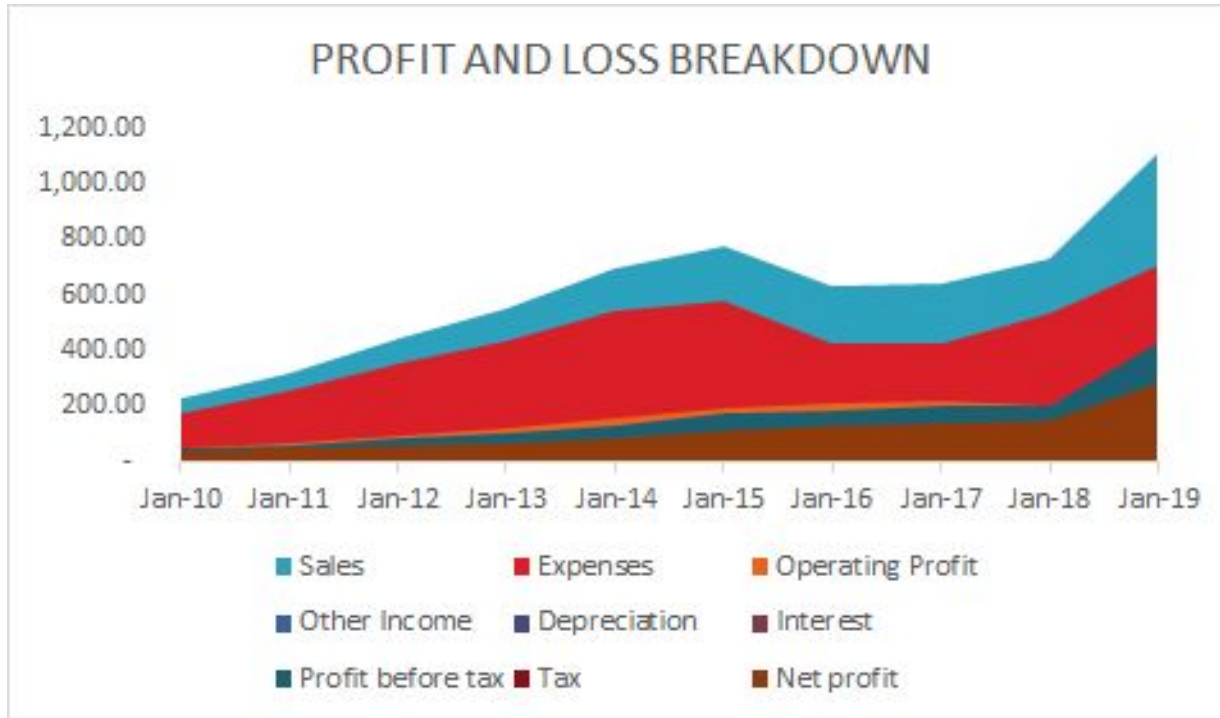
- India is the second major user of p-aminophenol, after China. Demand for PAP in India is ~38,500 tpa based on paracetamol capacity. However, PAP and paracetamol capacities are not fully utilised.
- Paracetamol has annual sales of roughly \$6 Billion worldwide. China (59%) and India (~25%), together making up ~84% of global production of Paracetamol for which PAP is the key ingredient.
- Vinati has been in the process of launching PAP into its product line since FY18. According to management. If the plant is successfully commissioned and starts commercial production, it would contribute 7bn to revenue.
- India currently imports nearly 21,000 tpa of PAP, all from China. In 2018, Vinati developed a single step process to produce PAP in India in a cost efficient and clean way which has not yet been commercialised.



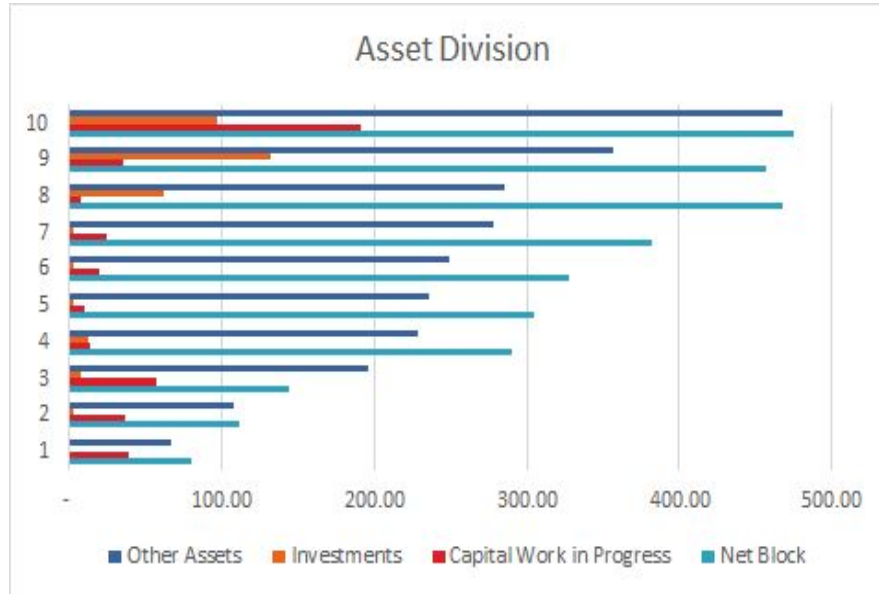
FINANCIAL STATEMENTS ANALYSIS



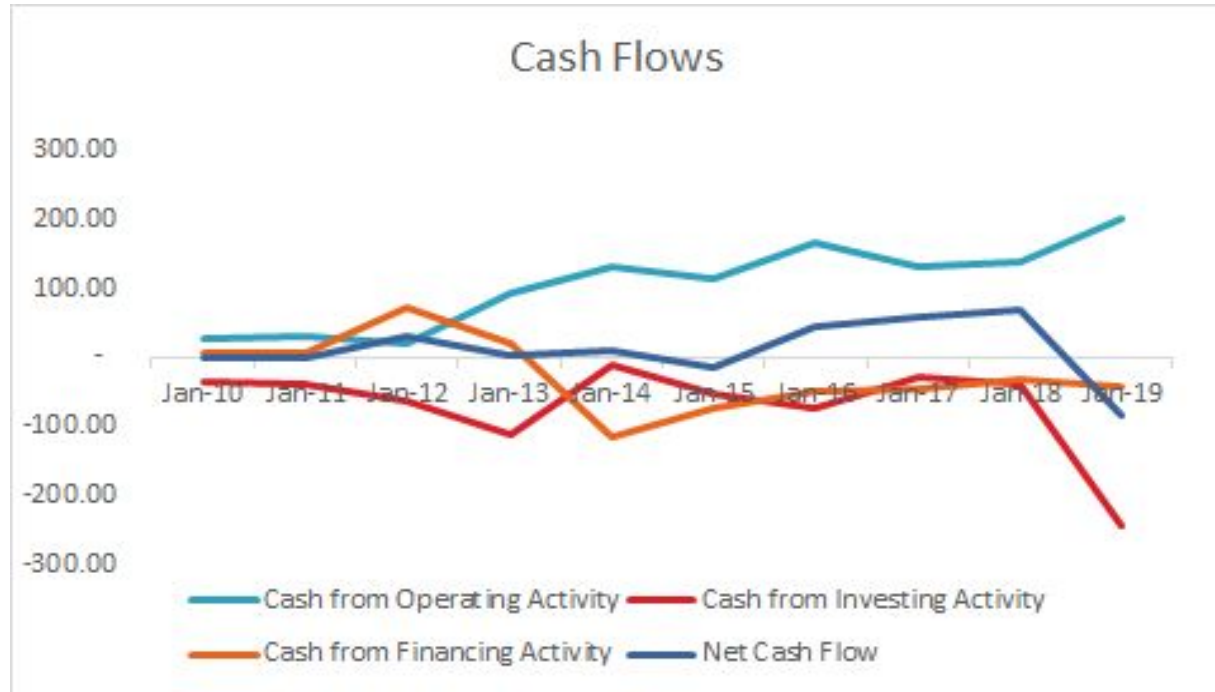
PROFIT AND LOSS ANALYSIS



BALANCE SHEET ANALYSIS



CASH FLOW ANALYSIS

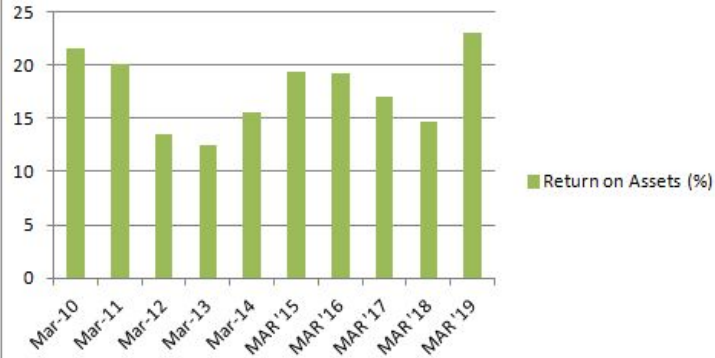


RATIO ANALYSIS



EFFICIENCY RATIOS

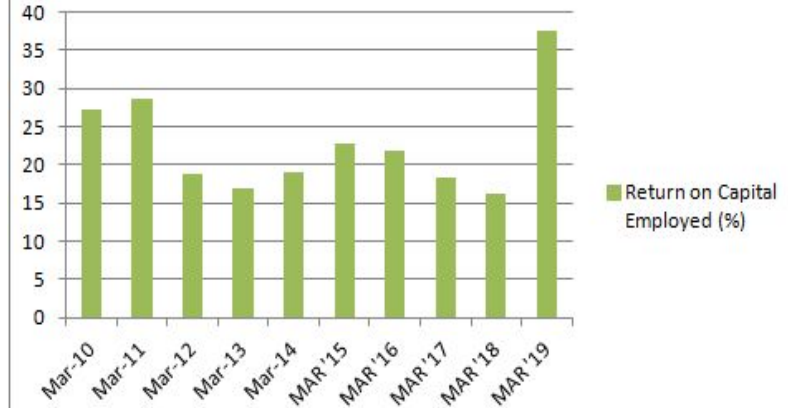
Return on Assets (%)



RETURN ON EQUITY

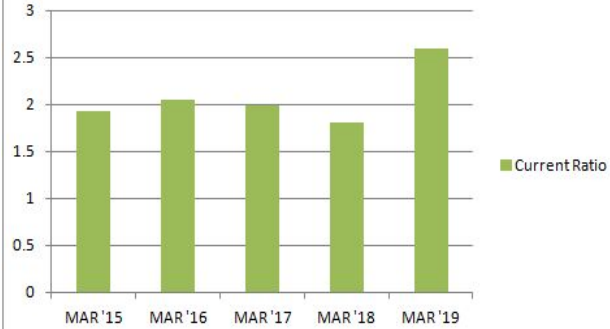


Return on Capital Employed (%)

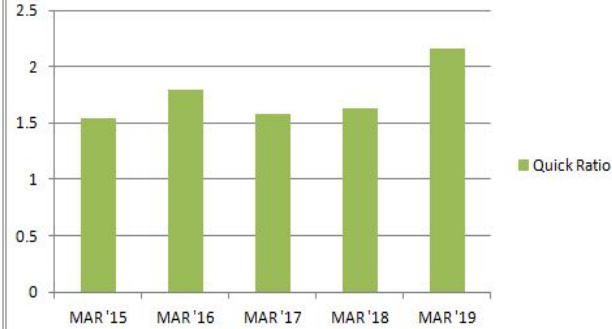


SOLVENCY RATIOS

Current Ratio

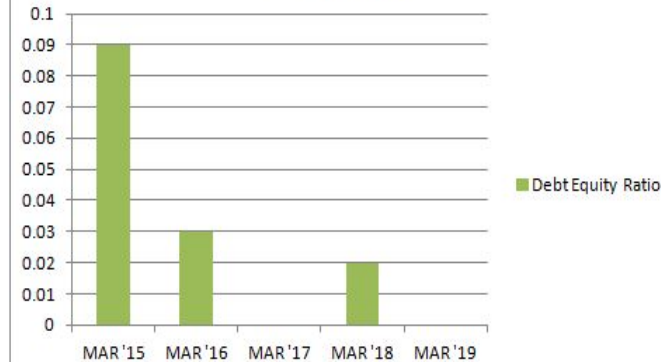


Quick Ratio

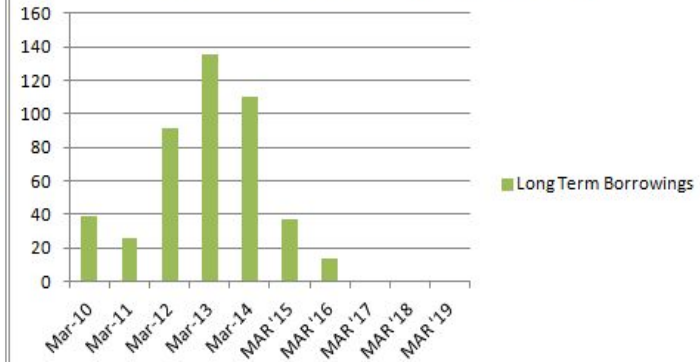


LEVERAGE

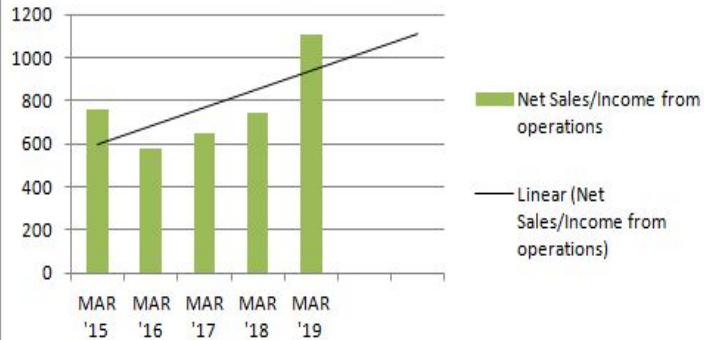
Debt Equity Ratio



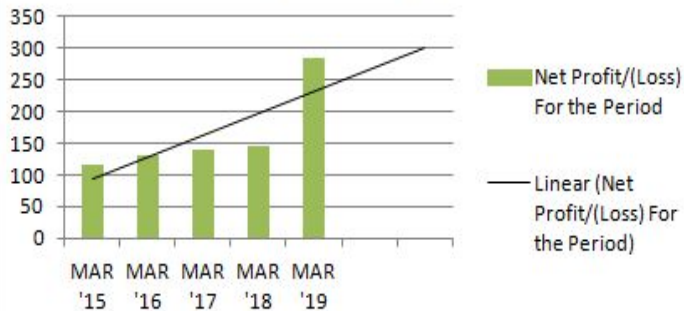
Long Term Borrowings (In Rs. Cr)



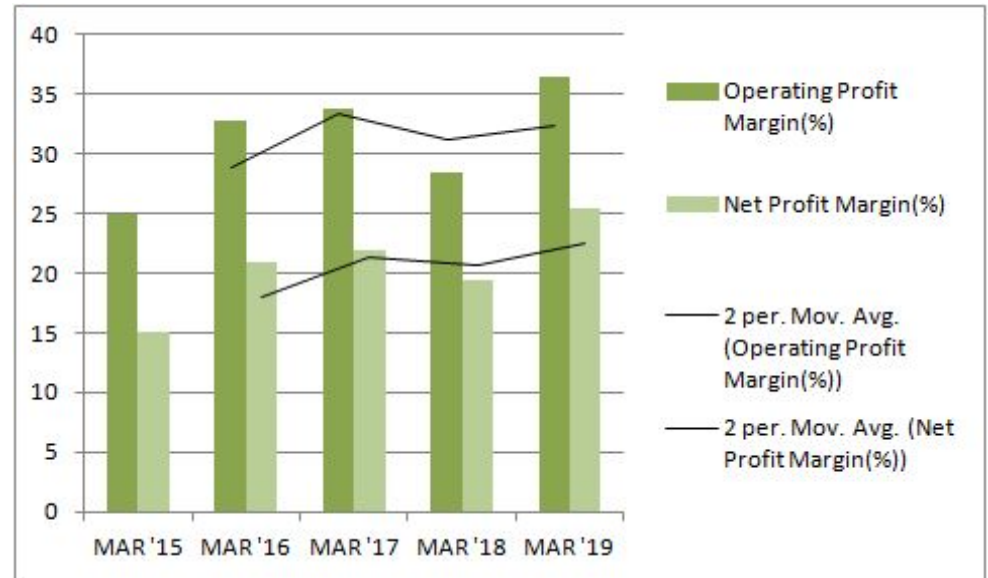
Net Sales/Income from operations (in Rs. Cr)



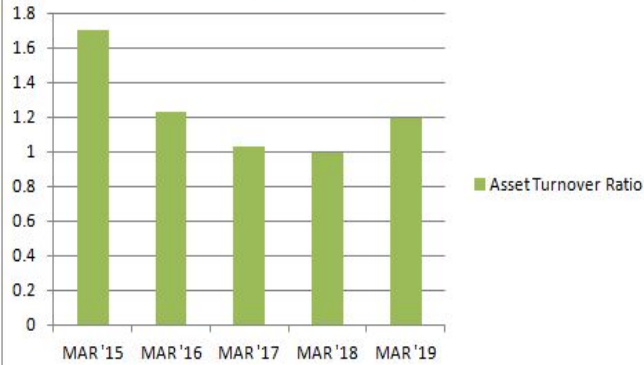
Net Profit/(Loss) For the Period (in Rs. Cr)



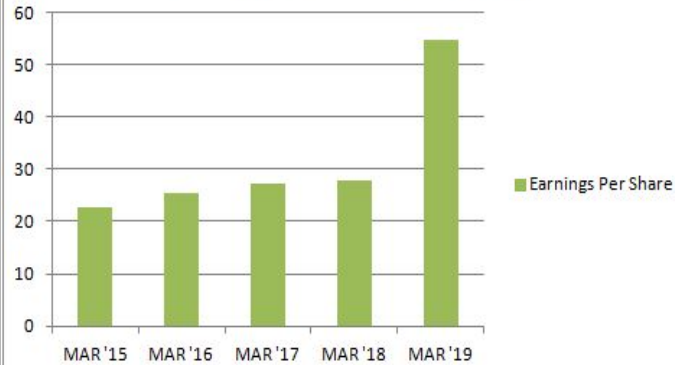
PROFITABILITY RATIOS



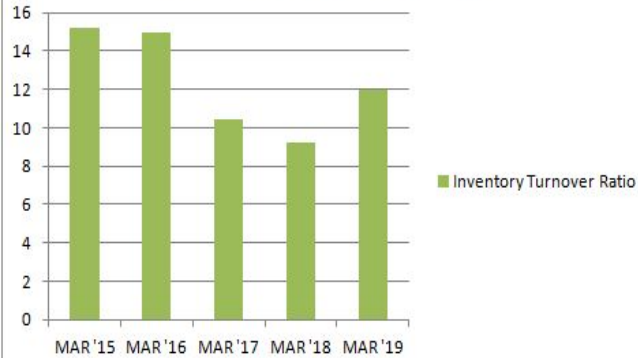
Asset Turnover Ratio



Earnings Per Share (In Rs.)



Inventory Turnover Ratio



Price to Earnings Ratio



Shareholding Pattern

Shareholding Pattern



- Promoters
- General Public
- Banks and Mutual Funds
- Financial Institutions
- Foreign Institutions
- Others

Promoters are mainly Suchir Chemicals Private Ltd and the Saraf family members, which include the CEO of the company, Vinati Saraf Mutreja.

Shareholders in general public is mainly the Mirae Asset tax saver fund, trusts, HUFs, NRIs, etc.

