Initiating Coverage

Valiant Organics I BUY I TP: 2,100

Got the right formula

We initiate coverage on Valiant Organics, a chemicals manufacturer having a modest but niche product portfolio, with a BUY and TP of Rs2,100. Valiant's proven expertise in niche chemistries, agile manufacturing and innovative product selection strategy have helped it stand out in a congested chemicals space. Its remarkably large market shares in small but critical products undergirds its indispensability to clients. Our conviction is further bolstered by its sustainably high margins, superior return ratios and low leverage, and at the same time, relatively undemanding valuations.

- **Strong foothold in existing chemistries:** Valiant's dominance in its existing chemical processes (chlorination, ammonolysis, and hydrogenation) demonstrates its capabilities, thanks to its distinctive way of doing business, technical expertise, and long-term connections. Valiant's already completed capital investment endeavors of ~Rs4.7bn during FY19-21, driven by heightened demand for existing products, opportunity to expand product portfolio, and high utilization of plants, should steer revenue growth of ~21.9% CAGR during FY21-24E. Valiant also stands to gain on demand due to growth in end-user industries, significant changes in global dynamics, and emerging gaps in the supply chain.

- **Commercialized production of Para Amino Phenol (PAP), one of the first in India:** Valiant's indigenous manufacturing of PAP is a testament to its deep understanding of chemistries given PAP's complex production technique. Where others have failed or got considerably delayed, Valiant has built a 12,000 MTPA capacity of PAP, which should, at peak utilization, incrementally contribute Rs3-4bn to revenues.

- **Product selection strategy, integrated model boosts margins:** Valiant's integrated model combined with its product selection strategy helps the company capitalize on niche market opportunities. Its presence across value chain and multipurpose plants creates flexibility on types of products and quantities, effectively allows Valiant to better manage demand cyclicality and unprecedented scenarios while custom synthesis creates dependence of clients on the company. Valiant's forward and backward integrated model drives margin expansion as it attempts to move up the value chain.

- **Valuation & Risks:** We assign EV/EBITDA multiple of 18x on June'23 EBITDA post which we arrive at a target of Rs2,100. Our downside case suggests a potential TP of Rs1,250 driven by delay in PAP process stabilization and high RM prices implying limited downside, on the flip side higher realization of PAP and paracetamol can lead to a possible TP of Rs2,630 (upside case). We believe Valiant's unique product portfolio coupled with integrated supply chain management and healthy financials deserves a higher valuation compared to generic chemical companies and bridging the gap with valuations of specialty companies. We believe that the risk-reward balance at CMP is demonstrably in its favour. Key company-specific risk to the thesis: stabilization of PAP production.

Target Price			2,100
CMP			1,340
Upside			57%
Price Performance (%)			
	1M	**6M**	**1Yr**
VORG IN	*(13.5)*	*(5.9)*	*41.6*
NIFTY	*2.6*	*8.3*	*45.4*

Key Data	
Bloomberg Code	VORG IN
Curr Shares O/S (mn)	27.2
Diluted Shares O/S(mn)	28
Mkt Cap (Rsbn/USDmn)	36.4/489.6
52 Wk H / L (Rs)	1991/941
5 year H/L (Rs)	1991/132
3M Average Vol	72377.3

Source: Bloomberg, ACE Equity, MNCL Research

Shareholding pattern (%)

	Jun-21	Mar-21	Dec-20	Sep-20
Promoter	41.7	42.7	42.8	42.4
FIIs	1.8	1.8	1.8	2.1
DIIs	1.9	2.7	2.8	3.3
Others	54.6	52.8	52.6	52.2

Source: BSE

Why should you read this report?

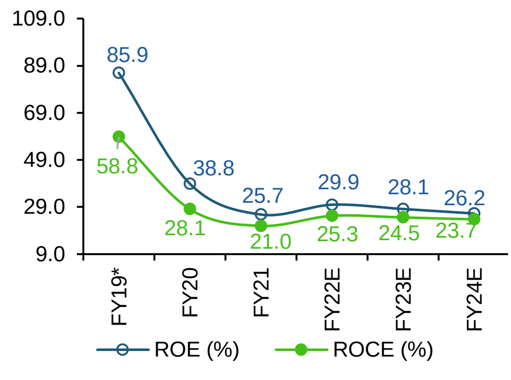
- *Para aminophenol market explained*
- *How new products would contribute to revenues*
- *How it fares against companies in broader chemical space*

Capacity expansion of processes

Process	Capacity before Expansion	Current Capacity
Chlorination	4,800 MT/y	18,000 MT/y
Ammonolysis	13,000 MT/y	16,000 MT/y
Hydrogenation	18,000 MT/y	26,000 MT/y

Source: Company, MNCL Research

Stable return ratios



Source: MNCL Research estimate, *non-comparable due to acquisition

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Y/E Mar (Rs mn) Consolidated	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Adj EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY19*	6,923	*473.8%*	1,798	26.0%	1,332	*715.5%*	54.8	85.9%	59.6%	21.2	7.4
FY20	6,749	*(2.5%)*	1,803	26.7%	1,239	*(7.0)%*	51.0	38.8%	28.7%	25.3	18.1
FY21	7,548	11.8	2,052	27.2%	1,145	(7.6) %	42.2	25.7%	21.0%	31.8	18.6
FY22E	10,752	42.4	2,925	27.2%	1,695	48.0%	62.4	29.9%	25.3%	21.5	12.9
FY23E	12,225	13.7	3,350	27.4%	1,987	17.2%	73.2	28.1%	24.5%	18.3	11.0
FY24E	13,674	11.9	3,774	27.6%	2,278	14.7%	83.9	26.2%	23.7%	16.0	9.4

Source: Company, MNCL Research estimates, *non-comparable due to acquisition

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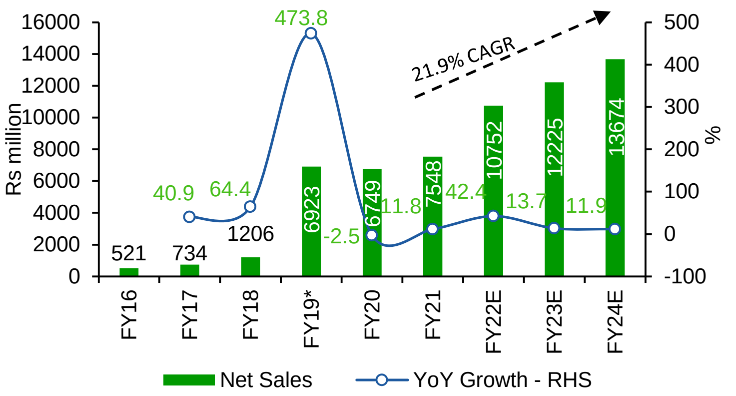
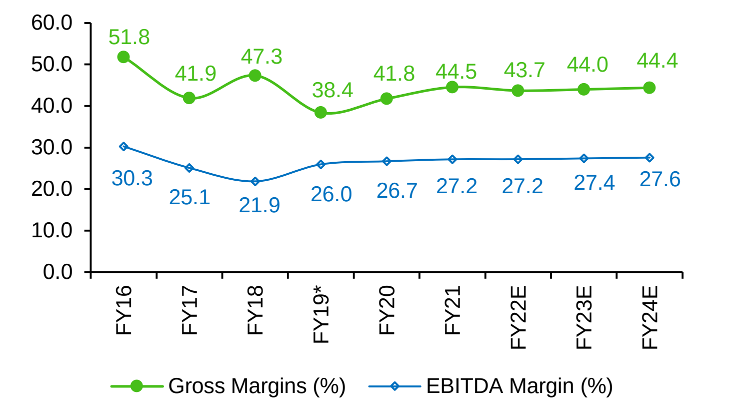
Investment Thesis in Charts (consolidated)

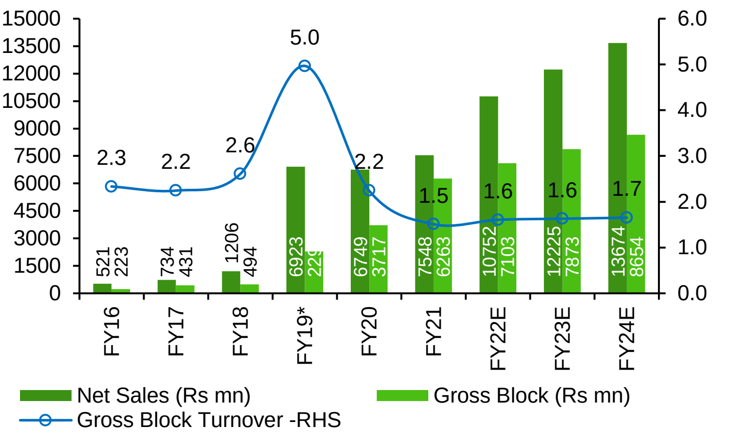
Strong revenue growth visibilty at 21%+ CAGR



Sustainble margins



Gross block turnover above industry average

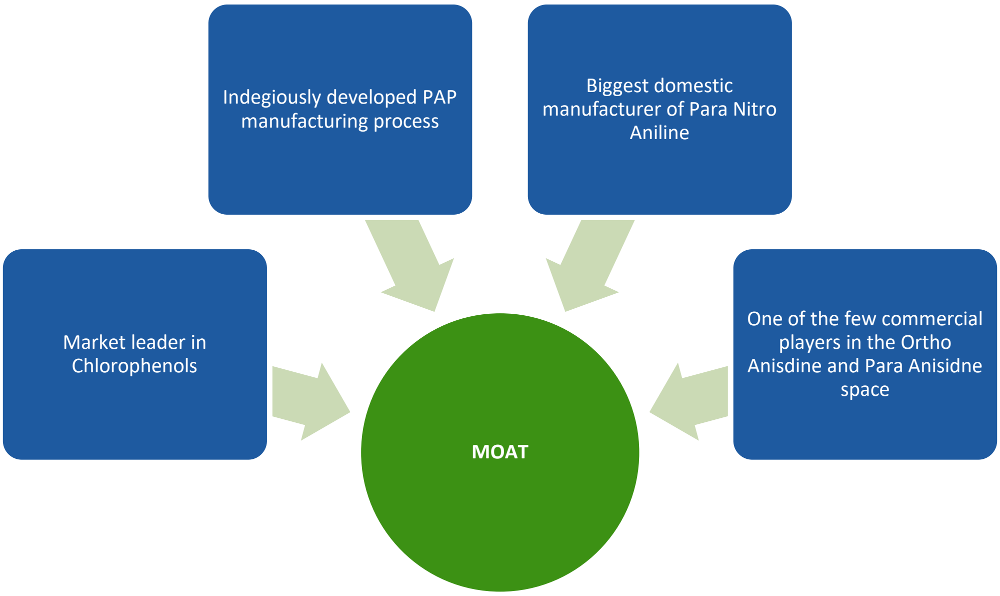


Valiant stands out as compared to its peers

Company	OPM (3Y avg) (%)	D/e (FY21) (x)	ROE* (3Y avg) (%)	FY23PE (x)	FY23E EV/EBITDA (x)
Valiant Organics	**26.6**	**0.37**	**50.2**	**20.5**	**12.2**
Average	**21.8**	**0.3**	**21.4**	**32.5**	**21.1**
Aarti Industries	22.2	0.70	19.5	34.0	20.3
Atul	21.6	0.03	19.7	32.0	21.4
Vinati Organic	38.9	0.01	26.1	41.4	30.2
Navin Flourine	23.5	0.01	21.4	45.5	32.2
Rossari Biotech	16.5	0.00	32.7	42.4	27.3
Tata Chemical	17.0	0.45	22.4	19.1	9.7
Balaji Amines Limited	22.8	0.10	23.4	28.0	18.6
Camlin Fine	12.1	0.70	5.9	17.6	8.7

Source: Company, MNCL Research *non-comparable due to acquisition

Valiant's Moat



Source: MNCL Research

Strong foothold in existing chemistries

Valiant's exceptional growth over the years is attributable to its distinctive **'way of doing business'** by targeting small pockets of opportunity in the chemical space, where market competition is limited and growth prospects exist. Valiant selects chemistries/products in its field of expertise and is committed towards emerging as a market leader in those products. This is reflective in its top chemistries mentioned below:

(i) **Chlorination:** It is the largest chlorophenol products manufacturer in India and has a global market share of ~20%

(ii) **Ammonolysis:** It has the largest domestic PNA manufacturing capacity

(iii) **Hydrogenation:** It's newer products Para Anisidine and Ortho Amino Phenol are import substitution products

The company's strong presence in these chemistries makes it indispensable owing to its long tenure relationship, multi-decadal experience, and high-quality products coupled with an option to tweak products based on customer specifications. Valiant also invested in capacity expansion in these chemistries with the intent to cater to heightened demand of products, undertaking a capex of ~Rs4.7bn during FY19-21 leading to a ~2.5x increase in gross block during the same period. We believe that some of this expansion can be witnessed in the increased contribution in FY21, while the rest should be seen in the coming years. Valiant's current focus is on stabilization of processes and ramping-up utilization levels of newer products in tandem with demand uptick owing to the easing of pandemic led slowdown.

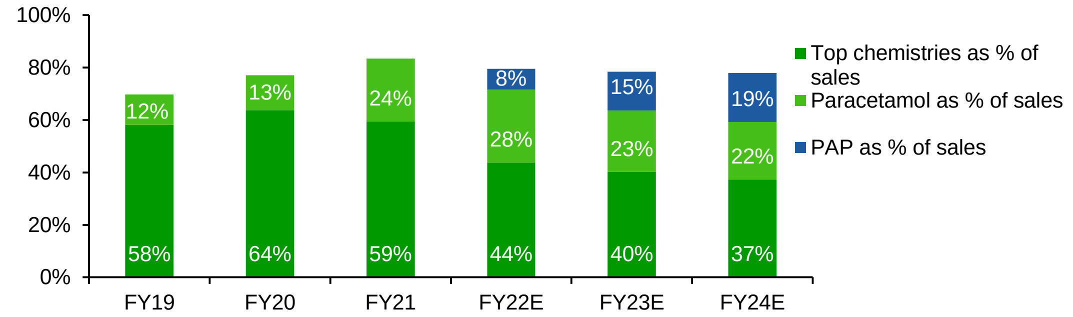
Four of its five manufacturing facilities are zero discharge units. Valiant's plants are strategically located, port side, to enable cost savings

Exhibit 1: Manufacturing facility and capacity expansion of top chemistries

Process (MT/ y)	Manufacturing facility	Capacity before expansion	Capacity after expansion
Chlorination	Sarigram	4,800	18,000
Ammonolysis	Vapi and Tarapur	13,000	16,000
Hydrogenation	Jagadia (Unit 1)	18,000	26,000
Hydrogenation (PAP)	Jagadia (Unit 2)	0	12,000
Acetylation and others	Ahmedabad	1,500-2,000	1,500-2,000
Total		**~38,000**	**~74,000**

Source: Company, MNCL Research Estimates

Exhibit 2: Contribution from top chemistries is expected to decline led by enhanced contribution from newer products



Source: Company, MNCL Research

Exhibit 3: Valiant's major chemistries and product portfolio

Chlorination	Ammonolysis	Acetylation	Hydrogenation	Sulphonation	Methoxylation
•Para Chloro Phenol •Ortho Chloro Phenol •2,4 Di Chloro phenol •2,6 Di Chloro Phenol •2,4,6 Tri Chloro Phenol	•Para Nitro Aniline •Ortho Chloro Para Nitro Aniline	•6 Acetyl OAPSA •OA Acetanilide •PA Acetanilide	•Ortho Anisidine •Para Anisidine •Meta Chloro Aniline •Ortho Amino Phenol (OAP) •Para Amino Phenol •4-Fluoro-N-isopropylaniline (F.I. Aniline) •Para Fluoro Aniline (PFA**)**	•Ortho Toluidine 5 Sulfonic Acid (OTS) •4 B Acid •2 B Acid •Ortho Nitro Aniline Para Sulphonic Acid (ONA-PSA)	•Ortho Nitro Anisole •Para Nitro Anisole

Source: Company, MNCL Research

Chlorination is defined as any reaction wherein chlorine is introduced into a molecule for desired result

i) Chlorination/ Chlorophenol: Market leader

Valiant is a **market leader** in chlorophenol products in India (the only listed player) and has a 20%+ global market share owing to its two-decade experience in chlorophenol, long-term relationships with global giants, high-quality products, and efficient supply chain management. Historically, chlorophenol products have been prominent contributors to the top-line of Valiant (as for around two decades the company would only manufacture chlorophenol products) and have contributed significantly to the astronomical growth of Valiant as contribution grew to ~Rs2,140mn in FY21 from Rs498mn in FY16 at a CAGR of 33.8%.

Valiant supplies these products to MNCs which have stringent quality checks. Once the product quality is approved, global players would stick to existing supply partners as finding a new supply partner is a cumbersome process

The company enhanced the capacity of chlorophenol products to 18,000MT/y from 4,800MT/y in a phased manner in a span of less than 2 years during FY18-20, with a capex of ~Rs800mn. We believe, at peak capacity utilization, chlorophenol products should contribute ~Rs2.5bn to revenues. This capex was undertaken considering Valiant's positioning in the chlorophenol market, high-margin opportunity, change in the global dynamics, and the fact that plants were operating at 99.76% utilization levels in FY16.

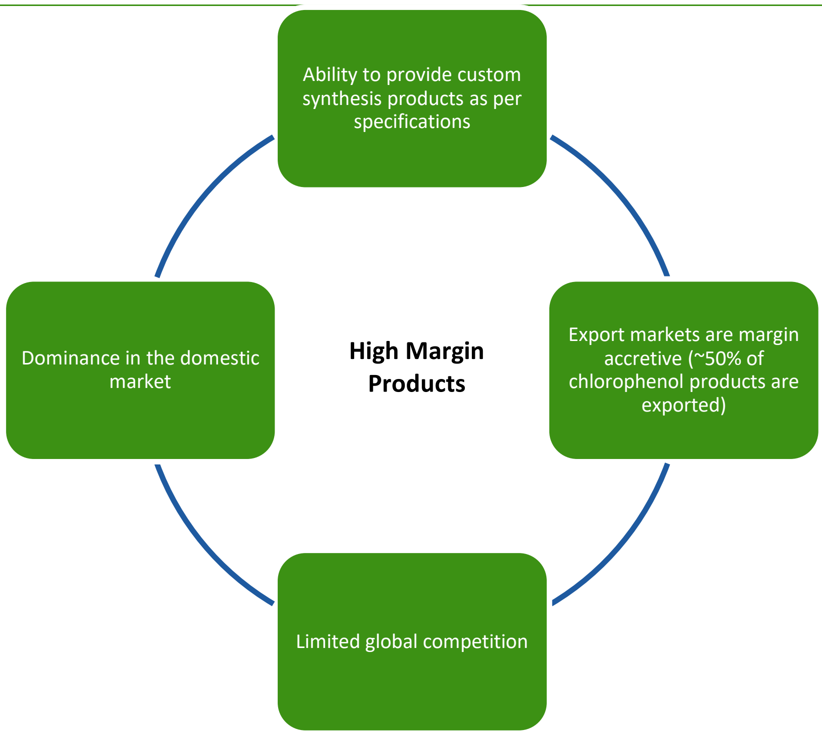
Current capacity utilization is around 75% and going forward the company should explore newer markets for further ramping up capacity utilization or explore other derivatives of chlorophenol/ other products under chlorination chemistry thereby increasing utilization levels at the Sarigram plant. The initial plan of the company was to manufacture 2, 4 D (herbicide), however the same is on the back-burner owing to a change in government policy.

Global chlorophenol market undergoing some changes, positive for Valiant

Global demand for chlorophenol is around 60,000MT/y and is expected to grow in high-single digits annually. Post recent capex, Valiant's capacity of chlorophenol products is 1,500 MT/m vs. top Chinese competitors' capacities of around 800-1,200MT/m, enabling the company to be cost-competitive due to economies of scale coupled with the ability to provide differentiated products based on customer demands. China's competitiveness in the chlorophenol market has lost its shine as ~2 of the 5 companies had to shut plants and move to Mongolia wherein production is curtailed for some months due to weather conditions, enabling greater reliance on Valiant for year-round supply.

Why are chlorophenol products margin accretive for Valiant? Chlorophenol derives high EBITDA margins in the 30%+ range for the company driven by (i) Dominance in the domestic market, (ii) Ability to provide custom synthesized products as per customer specifications, (iii) Export markets are margin accretive (~50% of chlorophenol products are exported), and (iv) Limited global competition.

Exhibit 4: Drivers for the high margin of chlorophenol products



Source: Companyy, MNCL Research

Valiant delivers custom synthesized products for clients relying on its 20+ years of chlorophenol derivatives manufacturing experience, deep understanding of the chemistry, and in-house expertise. This enables Valiant to build strong connections with supply partners, wherein customers are willing to pay a premium for their custom requirement, making chlorophenol derivatives high-margin products for the company.

Valiant's top chlorination/ chlorophenol products

In chlorine chemistry, Valiant's top products are Mono Chlorophenols (Para Chloro Phenol and Ortho Chloro Phenol) and Di-Chloro Phenols (2, 4 Di Chloro Phenol).

Exhibit 5: Top chlorination/ chlorophenol products by Valiant

Product	End use industry	Properties/Application
Para Chloro Phenol	Agro Chemicals, Cosmetics, Veterinary and Pharmaceuticals	Starting material for germicides, used as intermediate in pharma owing to its anti-fungal and disinfectant properties
Ortho Chloro Phenol	Agro Chemicals	Used as disinfectant, intermediate to bactericide and germicide
2,4 Di Chloro Phenol	Agro Chemicals, Veterinary	Possess antiseptic properties, intermediate for seed disinfectants and weed killer

Source: Company, MNCL Research Estimates

•Agrochemical: Used as intermediates in fungicides, herbicides, and pesticides such as Triadimenol and 2, 4 D
•Dyes: Used as intermediate for dyes such as Quinizarin
•Pharmaceutical: Used as an intermediate for drugs such as Climbazole, Difenoconazole, and Profoxydim; also used as an local antibacterial agent in root canal therapy

Para Chloro Phenol (PCP): PCP is one of the top products of Valiant with a revenue contribution of ~15% in FY21. Revenue contribution from PCP has witnessed a downward trend (refer exhibit 6) in tandem with the diversification strategy adopted by the company where it expanded to different chemistries.

PCP's antifungal, antiseptic, antibacterial properties help find application in agrochemicals, dyes, pharmaceuticals, cosmetics, veterinary drugs, and as wood preservers.

Ortho Chloro Phenol (OCP): OCP is another major product for Valiant, however over the years, OCP's contribution to revenue has reduced to single digits (in the range of 5-10%). OCP's antiseptic and disinfectant properties help OCP find application in agrochemicals (used in the manufacturing of insecticide, fungicide, and herbicide such as 2, 4 D, Nitrofen and Nemacide). It also finds application in the manufacturing of miticides, polyester films, and is used as an intermediate for the production of antihelminthic drugs, etc.

Exhibit 6: % contribution from PCP declining owing to increased contribution from newer chemistries

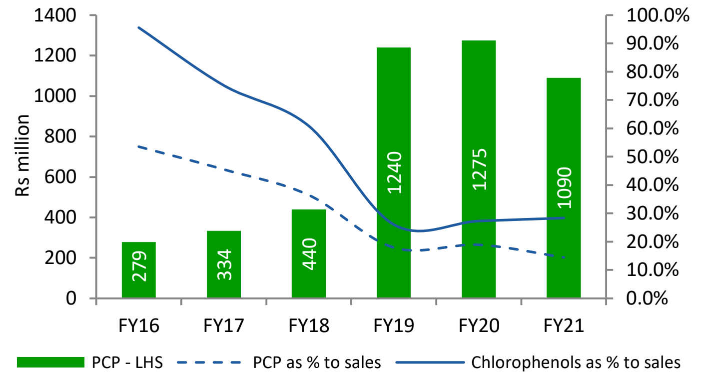
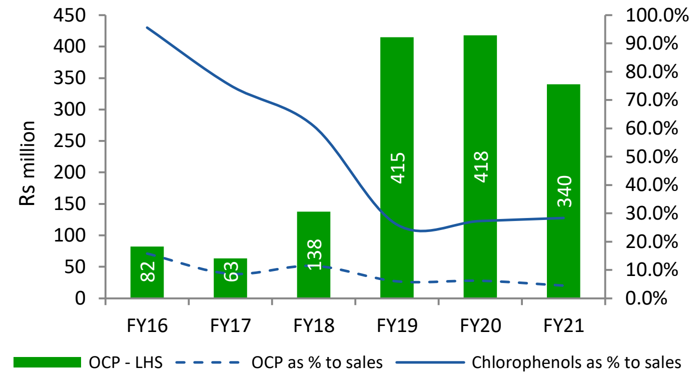


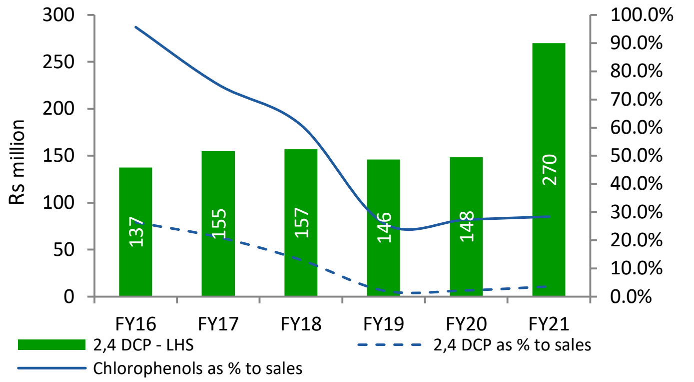
Exhibit 7: % contribution from OCP declining owing to increased contribution from newer chemistries



Source: Company, MNCL Research

2, 4 Di Chloro Phenol (2, 4 DCP): 2, 4 DCP, is a member of Di Chloro Phenols (there are six isomers in Di Chloro Phenols) and finds application as a precursor to 2, 4-Dichlorophenoxyacetic acid (an active ingredient for herbicide), which is widely used as a weed killer on cereal crops and pastures among others. Moreover, 2, 4 DCP commonly finds application as an intermediary in miticides, insecticides, polyester films, and the pharmaceutical industry.

Exhibit 8: 2, 4 DCP revenue trend



Source: Company, Department of chemicals and petro-chemicals, MNCL Research

Exhibit 9: 2, 4 Dichlorophenoxyacetic (N+1 for chlorophenol products) production trend - India

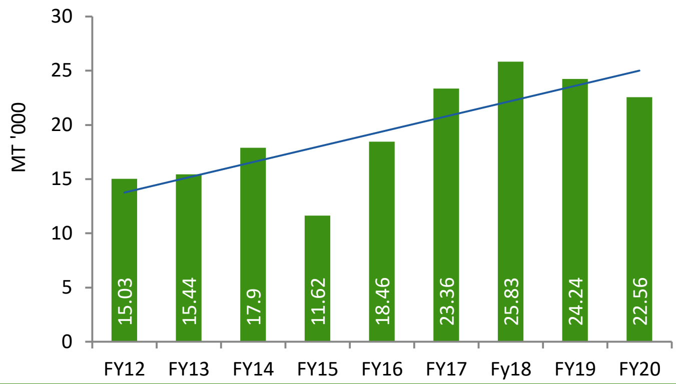
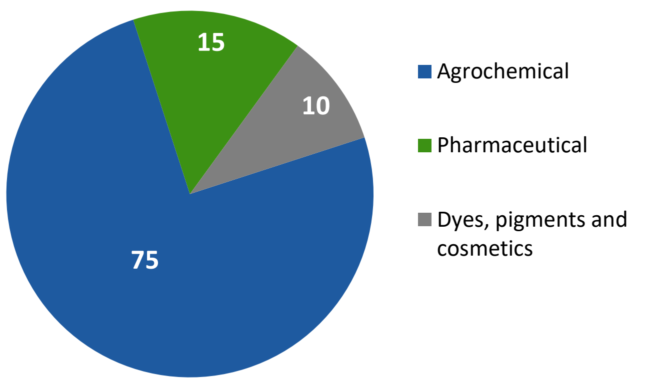


Exhibit 10: End user contribution from chlorophenol Products (%)



Source: Company, MNCL Research

Agrochemical industry growth to drive chlorophenol demand

Notably, 40-45% of Valiant's products are utilized in the agrochemicals industry and about 75% of chlorophenol products find extensive use in the agrochem industry as intermediates in herbicides, fungicides, and pesticides among others. Growth in agrochem industry (global and Indian) should lead to increased demand for company's intermediate products. Indian agrochem industry is expected to grow at 8% CAGR to reach USD3.7bn by FY22E and USD4.7bn by FY25E driven by the sharp anticipated uptick in kharif season led by normal rainfall and increase in total acreage leading to higher demand of agrochemicals. Increasing awareness about the use of crop protection, low-cost production, and availability of large-scale generics will further aid growth. Supply chain constraints have had some impact on prices of intermediates, however, the impact is not material. Government initiatives such as doubling farm income and providing subsidies on basic agrochem will further propel growth. However, for sustainable growth of the industry, a combined strategy revolving around judicious use of pesticides, increased R&D, development of new molecules, and policy support from the government is essential.

Exhibit 11: Global active ingredients market to grow at 6.4% CAGR (agrochem)

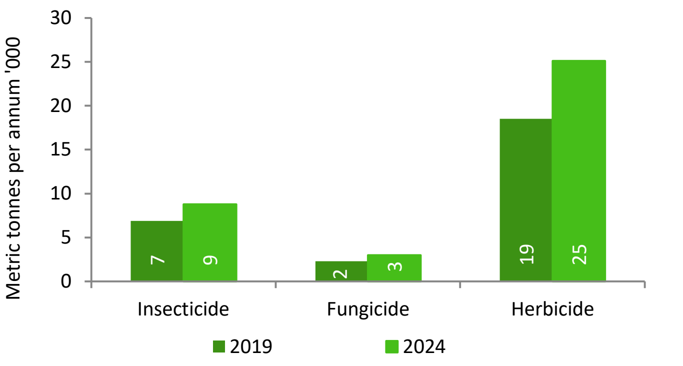
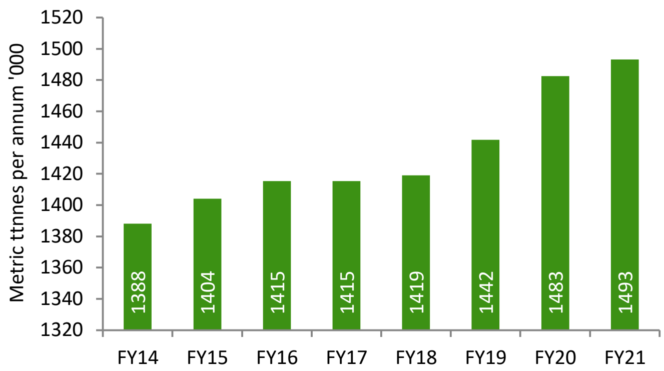


Exhibit 12: Production capacity of Indian agrochem industry is increasing



Source: India Pesticide RHP, IBEF, MNCL Research

Exhibit 13: Indian crop protection chemicals market to grow at 6.3% CAGR, led by higher growth from exports...

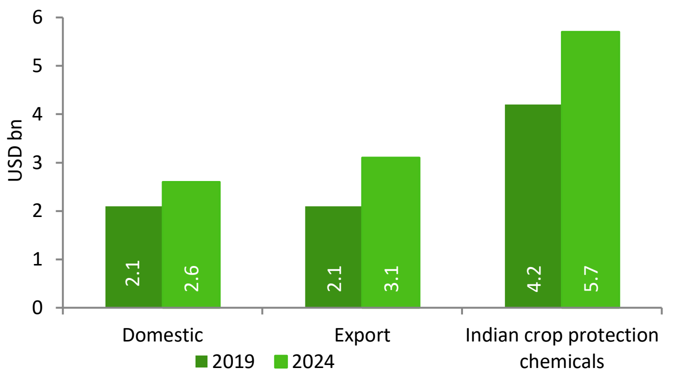
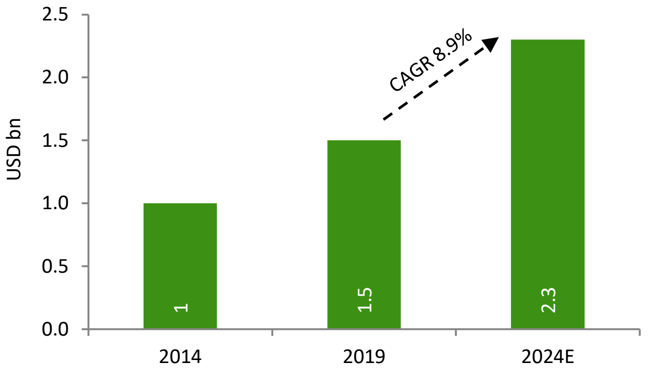


Exhibit 14: ...thereby resulting in higher anticipated growth of agrochem intermediates in India



Source: Industry data, IBEF, MNCL Research

ii) Ammonolysis: Dominant position for Valiant

Ammonolysis is an important chemistry for Valiant as its products form ~20%+ of revenues (FY21). Valiant acquired ammonolysis capacities from its 2 acquisitions (Abhilasha Tex-chem and Amarjyot Chemicals in 2017 and 2019 respectively) and further increased capacities to 16,000MT/y from 13,000MT/y in FY21, making it one of the largest domestic players in Para Nitro Aniline (PNA) and Ortho Chloro Para Nitro Aniline (OCPNA). We believe at peak capacity utilization they should contribute ~Rs1,800mn to revenues. These acquisitions coupled with enhanced capacity helped the company become a dominant player in this commodity space led by economies of scale, low threat of substitution as high domestic competition and negligible product differentiation makes entry of newer players less viable (low margins and high capex cost) providing opportunity to existing players to continue expanding their customer reach.

Valiant derives two main products from ammonolysis i.e. PNA and OCPNA from its two ammonolysis facilities viz. Tarapur and Vapi; the Tarapur facility of the company is a dedicated PNA manufacturing facility having capacity of 800-900MT/m, whereas Vapi facility undertakes manufacturing of PNA and OCPNA, along with other products. The company also undertakes annual conversion projects/ contract works for manufacturing of ammonolysis process products.

Indian PNA and OCPNA market and impact of anti-dumping duty: The domestic PNA and OCPNA market is considerably huge on the demand front and is catered by numerous players with little to no product differentiation. In 2011, India levied anti-dumping duty on PNA imported from China, significantly benefitting Indian PNA manufacturers, along with the likes of Valiant. Duty imposed ranges from USD Nil-256.48/MT and would be up for review on October 03, 2022. The imposition of ADD has resulted in a considerable decline in PNA imports (refer exhibit 18). This import reduction led to higher offtake from Indian players as the levy of ADD made it difficult for Chinese PNA players to compete in India.

Further, PNA and OCPNA find extensive usages in dye and pigments industry mainly (such as p-phenylenediamine, which is expected to grow at CAGR of 2.9% during FY19-24, refer exhibit 19) while other applications include those in pharma and pesticides.

Exhibit 15: Top Ammonolysis products

Product	Facility	End use industry	Properties/Application
PNA	Tarapur, Vapi	Dyes	Intermediate for dyestuff and pigments
OCPNA	Vapi	Dyes, Pigments, Pharmaceutical	Intermediate for various end-user industries

Source: Company, MNCL Research Estimates

Exhibit 16: Realisations of PNA is increasing as can be seen from India's export trend

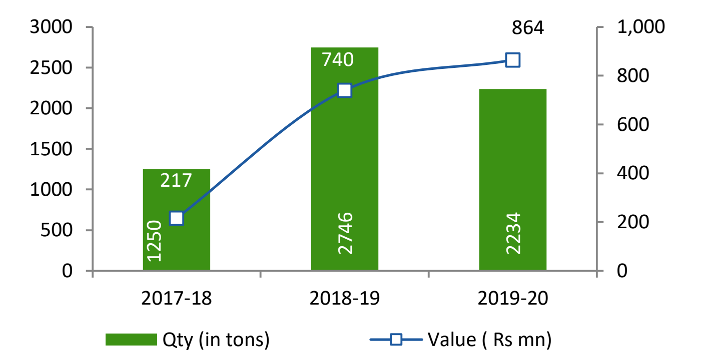
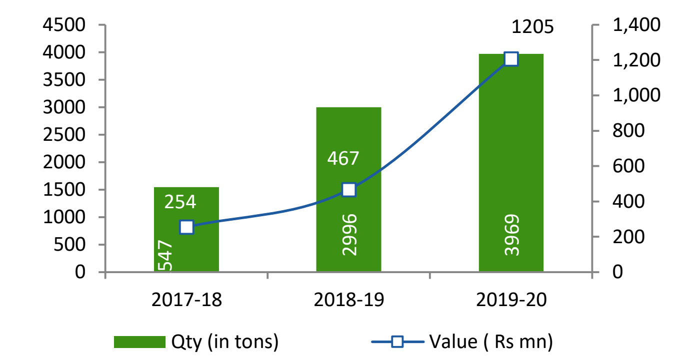
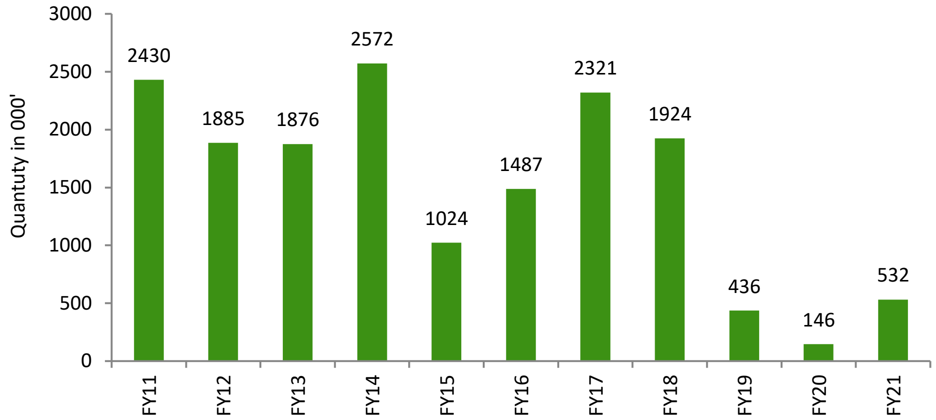


Exhibit 17: OCPNA - India's export volumes and realisation increasing



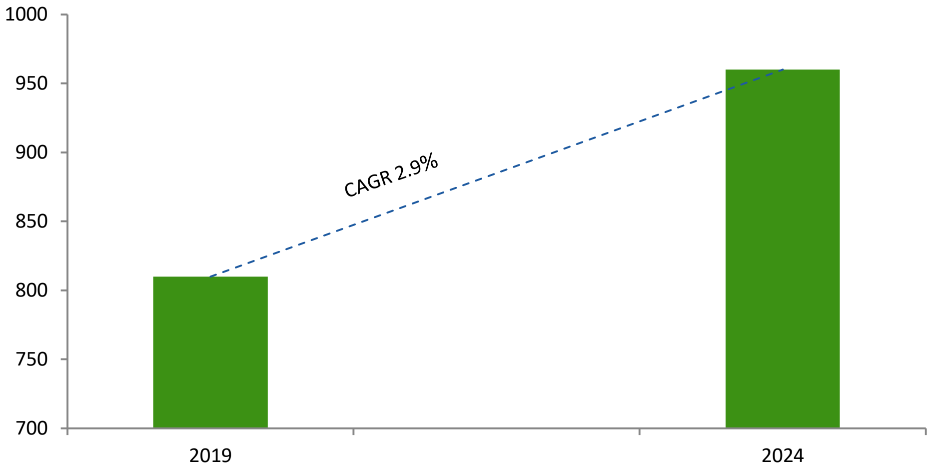
Source: Chemical weekly, MNCL Research

Exhibit 18: Decreasing import of PNA post levy of ADD



Source: Department of Commerce, MNCL Research

Exhibit 19: Expected growth in p-phenylenediamine to propel growth in PNA (USD mn)



Source: Fiormarkets, MNCL Research

iii) Hydrogenation and Methoxylation: To fuel future growth

In FY21, within the hydrogenation process, Valiant forayed into the production of two new products i.e. (i) Para Anisidine (PA) and (ii) Ortho Amino Phenol (OAP), and enhanced capacities of two existing products viz. (i) Ortho Anisidine (OA) and (ii) Ortho Nitro Anisole (ONA). These capacities commenced operations in FY22 and we believe these should significantly contribute to revenue growth and margin expansion (as these are value-added products) of the company with incremental revenues of ~Rs1,400mn at peak utilization.

On the new product front, Valiant added 100-150 MT/m capacity of PA (largely imported in India) with revenue potential upwards of Rs600mn and we expect incremental revenues to flow in from FY22 while capex incurred for PA is Rs200-250mn. It also installed 1,000 MT/y capacities of OAP with a capex of Rs150mn and we believe peak revenue potential of OAP is ~Rs300mn. Valiant is in the midst of stabilization of enhanced capacities of PAP, post which we expect commercialization of OAP to commence in Q2FY22. The company expects superior margins as compared to PAP, as OAP is an import substitution and a value added product.

Valiant also increased the capacity of Ortho Anisidine (forward integrated product) to 400-500 MT/m from around 250-300 MT/m with capex of Rs200-250mn, and we believe at peak utilization OA should contribute ~Rs1,200mn to revenues. Over the years, the company has also increased capacities of Ortho Nitro Anisole (ONA) to 600 MT/m from 200 MT/m, which is a raw material for OA, a dye intermediate. ONA should majorly be captively consumed by Valiant for the manufacturing of OA.

Exhibit 20: Capacity expansion and revenue expectation

Product	Capacity prior to expansion (MT/m)	Capacity post expansion (MT/m)	Expected revenue (Rs mn)	Capex (Rs mn)
Para Anisidine	0	100-150	600+	200-250
Ortho Anisidine	250-300	400-500	1200	200-250
Ortho Nitro Anisole	200	600	RM for OA	NA
Ortho Amino Phenol	0	80	300	150

Source: Company, MNCL Research Estimates

In the first few months of FY22, capacity utilization of OA and PA was ~50% due to disruptions caused by the pandemic and slowdown in the dyes market, however, slight pick-up is being witnessed with the lifting of pandemic led restrictions leading us to believe that capacity utilization will increase in the next few months. During FY20, Valiant expanded the capacity of hydrogenation process to 26,000MT/y from 18,000MT/y (including capacities of OA, PA, and OAP, excluding PAP) and has added new products in the hydrogenation basket. The company also undertakes annual formula-based conversion contracts (5-8% of revenues) and hydrogenation processes contribute a significant portion to these conversion products. As a good portion of the hydrogenation capacity is utilized for job-work, Valiant could consider utilizing the same for the production of marketable products.

Exhibit 21: Top hydrogenation products

Product	End use industry	Properties/Application
Para Anisidine	Dyes, Pigments, Pharmaceutical	Reagent
Ortho Anisidine	Dyes, Pigments	Dye stuff and dye intermediate
Ortho Nitro Anisole	Dyes, Pigments	Raw material for OA

Source: Company, MNCL Research Estimates

iv) Acetylation and other chemistries

Apart from the three processes listed above, Valiant also has expertise in the processes of Acetylation, Sulphonation, and other related processes. Products derived from these chemistries only form a small part of revenue as the total contribution to revenues is around 7-10%. This includes products such as 6 Acetyl OAPSA - forward integration product of Ortho Amino Phenol, ONA-PNA - forward integration product of Ortho Nitro Aniline, and others. These chemistries form a small part of the product portfolio and most of these products are marketable end-products.

Indian dyes market to grow at 11% CAGR, driving demand of ammonolysis and hydrogenation products

The Indian dyes and pigment market accounts for almost 20% of the total global market, while India's dye production accounts for ~16% of total world production, which has been on an uptrend (refer exhibit 25). However, FY21 was a tough year for dye and dye intermediates owing to disruptions caused by the pandemic. Dye exports declined by 12% in value and 4% in volume, whereas dye intermediates declined by 23.8% and 18.9% in value and volume respectively. Major countries to which India exports dye and dye intermediate were impacted by the pandemic, resulting in a downtrend in the dye market. The industry also faced pressure due to the increased cost of raw materials in FY21, which led to decreased competitive advantage of Indian players. However, FY22 brought some respite to the market and the industry is expected to grow going forward. The dyes market is expected to grow led by shutdown in China owing to environmental concerns, increased availability of feedstock, technology upgrades, and a nurturing ecosystem in India. Growth in end-user industries such as textile, industrial paints, and printing will further drive the growth of dyes and pigments market with easing of restrictions and return of normalcy of business.

Valiant's products such as Para Nitro Aniline and Ortho Anisidine, find extensive usage in dye intermediates such as Fast Red B base, Vinyl Sulfone, DASA which are a part of azo, reactive organic and inorganics dyes, etc.

Exhibit 22: Dye value chain

- Sulphur
- Chlorine
- Soda Ash
- Caustic Soda

- Para Nitro Aniline
- Sulphuric Acid
- Acetanilide

- Vinyl Sulphone Ester
- Ortho Anisidine Vinyl Sulphon
- 4:4 DiaminoSulphanilide

- Reactive Dyes
- Acid Dyes
- DirectDyes

- Textile
- Leather
- Paper
- Agrochem/Pharma/ Detergents

Source: Industry data, MNCL Research

Exhibit 23: Reactive and disperse dyes production trend

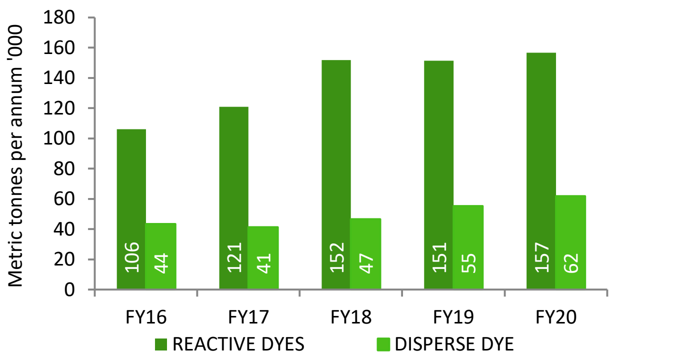


Exhibit 24: Azo dye production witnessing downtrend

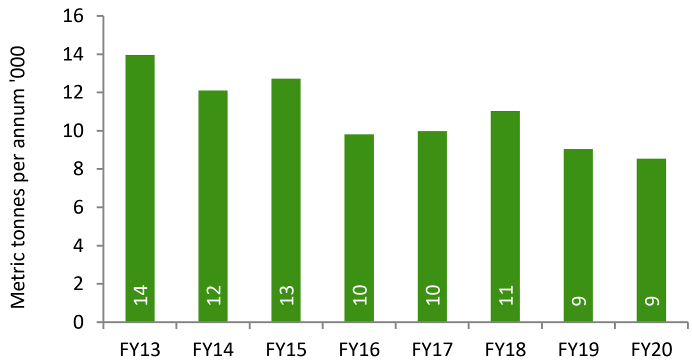


Exhibit 25: Production volume of dyes and pigments in India on the rise

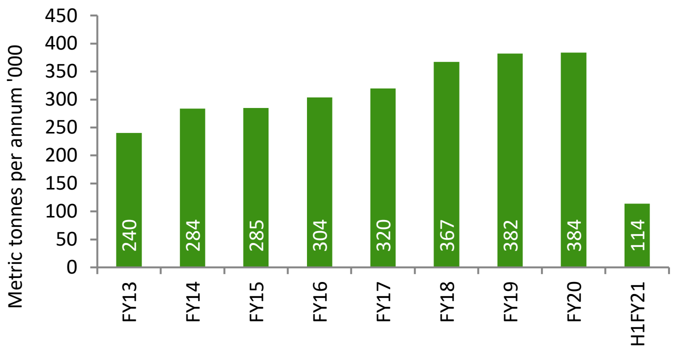
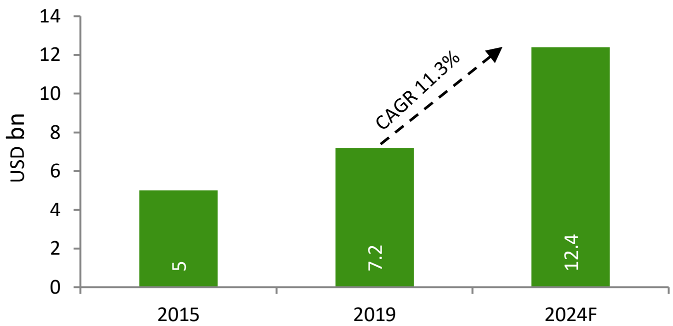


Exhibit 26: High growth expected in Indian dyes and pigments market



Source: Department of chemicals and petro-chemicals, statista, MNCL Research

Para Amino Phenol: On the cusp of new beginnings

Valiant is one of the first Indian companies to commercially manufacture Para Amino Phenol (entirely imported till FY21), though in small batches. The company built capacities of 12,000MTPA with a capex of ~Rs2.25bn, which we believe should result in an incremental revenue contribution of Rs3-4bn at peak utilization. Developing PAP indigenously necessitates extensive R&D owing to the intricate manufacturing process and the company's near success (resolving color issue) reflects its superior understanding of chemistries. Currently, the company is working on stabilization of the process and we expect around 20-30% capacity utilization in FY22, with ramp-up in the next few years. On the margins front, we believe the company's PAP margins (in ~20% range) should be slightly higher vis-à-vis industry standards as it benefits from the proximity of hydrogen-producing facilities, procuring the same via pipeline as compared to costlier alternatives such as cylinders.

Bharat Chemical is a step-down subsidiary of Valiant through Dhanvallabh Ventures LLP. In FY21, Bharat increased its paracetamol manufacturing capacity from 550MT/m to 750MT/m

A significant part of Valiant's PAP capacity (around 9,000MTPA) should be utilized by Bharat Chemicals (step-down subsidiary) for captive production (Bharat Chemicals has an installed paracetamol capacity of 9,000MT/y). Till FY21, Bharat was dependent on imports for its PAP requirements, however as Valiant's production stabilizes, Bharat should cut down on import and procure PAP from Valiant.

Lack of commercial PAP suppliers in India led to high imports

PAP is a key starting material for the production of paracetamol

India's PAP demand based on current investments and expansion in the paracetamol market is estimated to be around 80,350 MT/y while import demand is around 30,000MT/y. Till FY21, there were no domestic commercial suppliers of PAP and the demand for PAP was majorly met through imports from countries such as China (99.8%) and Cambodia (0.2%). Disruptions in the supply chain of PAP were seen as the largest Chinese PAP facility (Anhui Bayi Chemical Industry) had to relocate due to environmental concern leading to a sharp surge in prices of PAP and reduced availability of the raw material, directly impacting the production of paracetamol. This made many Indian paracetamol API manufacturers cognizant of the importance to source PAP from alternate sources, as, at peak, paracetamol prices surged by 225%. This supply constraint places new PAP manufacturers such as Valiant in a sweet spot as many Indian paracetamol manufactures are on the lookout for new supply partners.

1 ton of paracetamol requires about 0.8-1 ton of PAP. For our calculation, we have conservatively considered 0.8 tons of PAP for 1 ton of paracetamol

Exhibit 27: Indian paracetamol market

Company	Paracetamol capacity	Expected PAP requirement
Farmson Pharmaceuticals Gujarat Pvt. Ltd.	36,500	29,200
Granules India/Triton Labs	22,000	17,600
Meghmani LLP	14,400	11,520
Sri Krishna Pharmaceuticals	12,000	9,600
Para Products	4800	3,840
Others	NA	1,390
Bharat Chemicals	**9,000**	**7,200**
Total	**98,700**	**80,350**

Source: Chemical weekly, MNCL Research Estimates

Exhibit 28: PAP facilities in India

Company	Current/ Upcoming PAP capacity	Consumption type expectation
Farmson Pharmaceuticals Gujarat Pvt. Ltd.	27,500	Captive
Meghmani LLP	13,500	Partly Captive
Sadhana Nitro Chem	36,000	To be sold
Panoli Intermediates	36,000	To be sold
Valiant Organics	**12,000**	**Partly Captive**
Total	**1,25,000**	

Source: Industry data, PIB, MNCL Research Estimates

Within India, players such as Valiant Organics, Sadhana Nitro Chem, and Meghmani LLP have lined up capex for PAP manufacturing facilities with capacities of 12,000 MTPA, 36,000 MTPA, and 13,500 MTPA, respectively. Most of these facilities are expected to be operational in FY22, with ramp-up in the next few years. Farmson is expected to utilize its PAP capacity for captive consumption, while Panoli Intermediates is expected to cater to domestic as well as export demand. Peak utilization at all capacities will result in surplus supply of PAP, however, we believe, as about 9,000 MT/y of Valiant's PAP should be captive consumed by Bharat Chemicals, Valiant would resort to the open market for only a fourth of its total capacity. Given that the export market for PAP is huge, Indian players may seek to set a foothold in the export market (currently dominated by China), however, we do believe prices should rationalize owing to excess supply.

Why is India dependent on imports for its PAP requirements?

Manufacturing of PAP is inherently tough and highly technical as even after multiple attempts, Indian manufacturers have been unable to successfully commercialize the technique resulting in high imports of PAP. We will need to keep a close watch on successful commercialisation of high-quality PAP in large quantities (being an essential barometer) as many facilities are expected to operationalise in FY22.

Para aminophenol can be manufactured by 2 broad processes (i) reduction of PNP to PAP and (ii) from nitrobenzene.

i) Reduction of PNP to PAP

- from PNCB: This is a 3 step process involving nitration of chlorobenzene to PNCB which is then converted to PNP and finally reduced to PAP
- from phenol: This is a 2 step process which is more dominant in China involving nitration of phenol to PNP then reducing the same to PAP

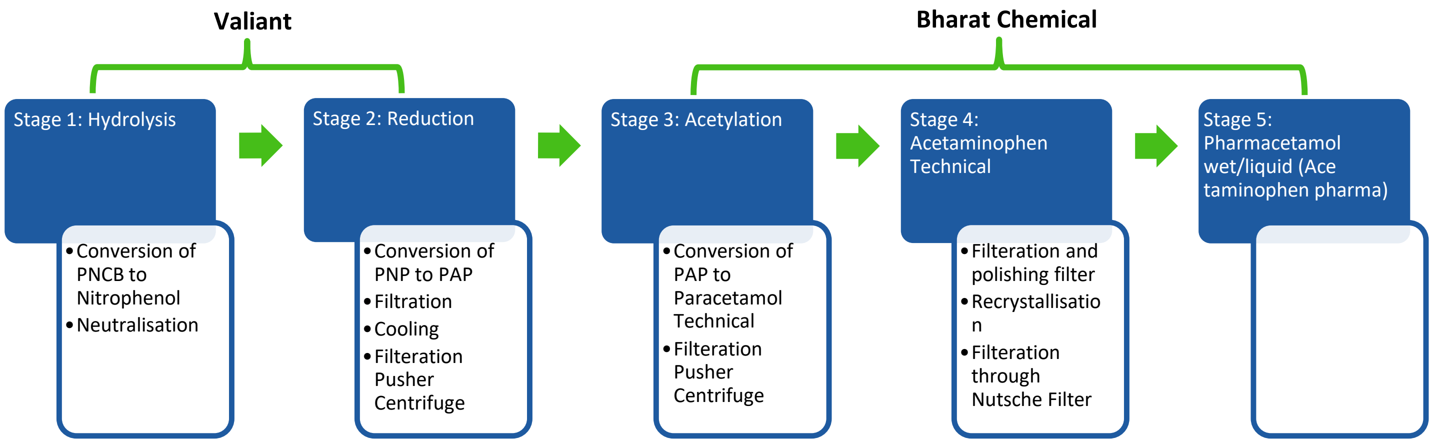
ii) **Through Nitrobenzene**

- This process involves hydrogenation of nitrobenzene in a single step to PAP using noble metals at catalyst. It is a shorter process

The nitrobenzene process is more environmentally friendly as reduction of PNP results in the production of sludge which poses effluent problems. However, the nitrobenzene process is difficult to execute as Indian players have tried to manufacture PAP for several years and finally given up owing to the intricate technology involved.

Valiant decided to manufacture PAP through the PNCB route (rather than the nitrobenzene technique) as it could rely on its group company i.e. Aarti Industries for uninterrupted supply of PNCB in addition to its expertise and prior experience in the hydrogenation chemistry. Valiant is currently producing PAP in small quantities, however the success indicator will be production of large quantities of its purest grade. If the company does manage to successfully produce the same (without any colour or other issue) it could lead to re-rating of the company.

Exhibit 29: Process flow of paracetamol manufacturing



Source: Industry data, MNCL Research

In the above illustrated paracetamol manufacturing process, Valiant is engaged in the first two stages, up until manufacturing of PAP. Post manufacturing of PAP, through the process of acetylation of PAP and acetic anhydride, paracetamol technical is obtained, which is then filtered and recrystallized to the end product Acetaminophen (Paracetamol) pharma. These stages are carried out by Bharat Chemicals. Valiant's involvement is currently limited to stage 2, however the company could expand its current PAP manufacturing facility and add other steps to manufacture paracetamol in-house.

Global PAP Market: The global PAP market is anticipated to grow at a CAGR of 3.4% to USD477.9mn in 2024 from USD405.1mn in 2019. Further, 80% of PAP manufactured is utilized in the production of paracetamol, while the remaining 20% is used in rubber antioxidants, other chemicals, oil additives and other products.

Exhibit 30: Paracetamol export market (India)

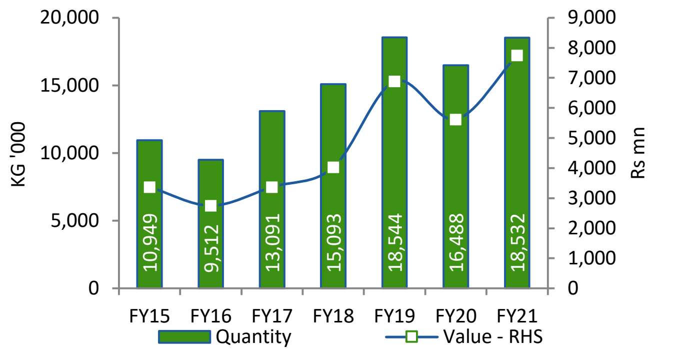
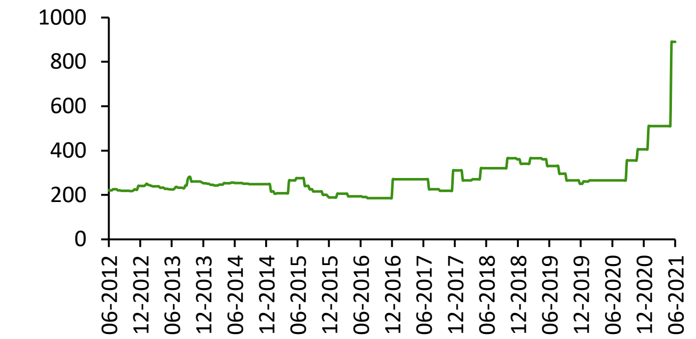


Exhibit 31: Paracetamol prices on a decade high (Rs)



Source: Department of Commerce, Chemical Weekly, MNCL Research

Exhibit 32: PAP imported by India till FY21

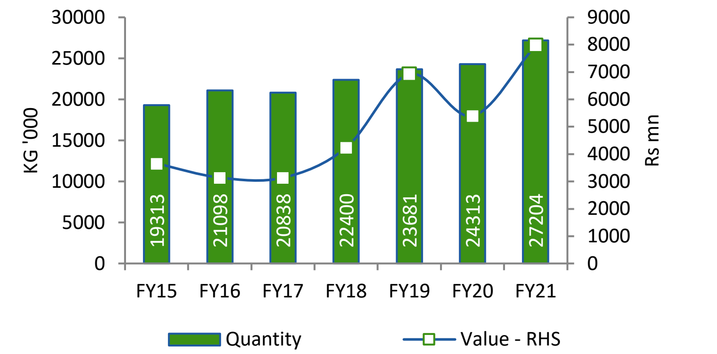
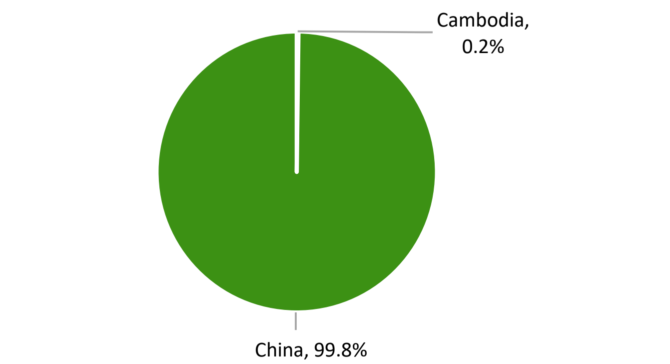


Exhibit 33: India's PAP import dominated by China



Source: Department of Commerce, Chemical Weekly MNCL Research

Exhibit 34: Snippet from Granules' earnings call

Okay. And the Indian players like Sadhana Nitro and another (inaudible) group company, Valiant Organic which are coming up. So are we in talks with them for supplying PAP to us?

Krishna Prasad Chigurupati *Granules India Limited - Chairman & MD*

Yes, yes. This is a priority thing. We are on top of it. And again, we have short-term plans, medium-term and long-term plans for the whole thing.

Source: Granules, MNCL Research

Choosing the pharma way: Next leg of growth?

These projects can be undertaken at the 68,000 sq. metres land bank at Sayakha and/or 12,000 sq. metres land bank at Dahej

- Pharma intermediates: In FY22, Valiant envisages a ~Rs600mn capex, wherein it is building capacities for pharma intermediates which it should supply to domestic players including group companies. Pharmaceutical manufacturing in India has been witnessing an uptick and pharma companies have resolved to increasing capacities of end products, in line with the need for a better healthcare system. Valiant is investing in new capacities with the aim to provide N-1/ N-2 to final product manufacturers. Taking reference from its product selection strategy, we believe a significant portion of these intermediates should be linked to end products of group companies, however, the list of products has not been finalized as yet. In our view, this would be a new avenue for the company to drive business growth.

Owing to the lack of product list and guidance there on, we have conservatively tried to estimate that at an asset turnover of 1.5x, these pharma intermediates could positively contribute around Rs900mn to revenues at peak utilization levels.

- As mentioned earlier, the company could also look at extending its PAP manufacturing unit to a paracetamol manufacturing unit, given that Valiant does have a small acetylation unit in Ahmedabad and is familiar with the chemistry. The company may contemplate merging Bharat Chemicals to Valiant, however as Bharat Chemicals is a partnership firm, all partners need to be on board with the idea and it seemingly appears to be a lengthy procedure.

Growth in pharma: Indian pharmaceutical market is expected to grow by 3x to USD130bn in FY30 from USD42bn in FY21 driven by increased prevalence of chronic diseases, rising domestic spending (to grow by 8-11% during FY19-23), need for self-sufficiency, availability of skilled workforce and tailwinds witnessed by the industry owing to a renewed focus on healthcare. Branded drugs worth around USD139bn in sales would lose exclusivity leading to increased opportunity for generic and CRAMS players to expand. India is the world's largest generic medicines provider (20% of generic export-volume), thus losing patents will provide buoyancy to generic players.

India has the largest number of USFDA compliant pharma plants (more than 262 including Active Pharmaceutical Ingredients - APIs) outside of the USA

Paradoxically, India is one of the top importers of bulk drugs, importing 60-70% of its APIs (active pharmaceutical ingredients) from China. The occurrence of the pandemic led to supply chain disruptions and an increase in the price of key APIs, highlighting the necessity for 'Atmanirbhar Bharat'. Government initiatives have been aplenty with the implementation of PLI schemes and development of mega drug parks, etc. Pharma players are in the midst of capacity expansion anticipating buoyancy and greater order inflows, necessitating the requirement for intermediate supplies. We believe Valiant would try to ride this wave, leading to an increased share on the pharma side.
Initiatives by GOI: The Indian government launched Rs99.4bn production linked incentive scheme to promote domestic manufacturing of intermediates, thus decreasing import dependence; Rs30bn of the scheme is allocated to setting up of three bulk drug facilities

Exhibit 35: Indian pharmaceutical market to triple

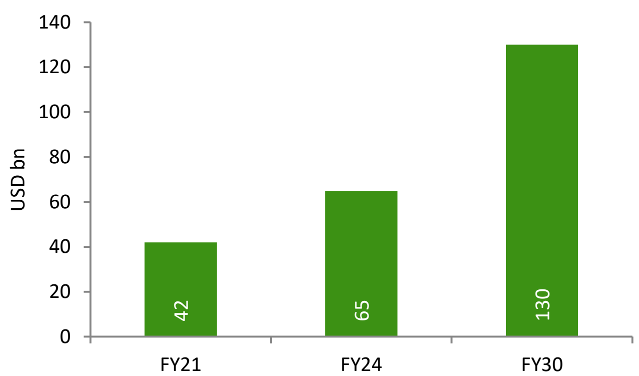
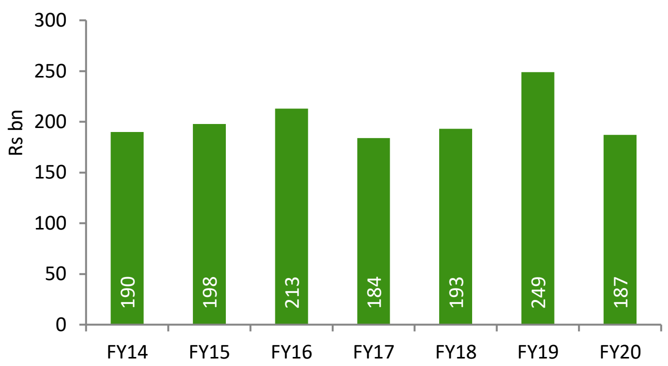


Exhibit 36: API imports by India during FY14-20



Source: IBEF, Statista, MNCL Research

Exhibit 37: Indian pharma intermediates expected to grow in double digits

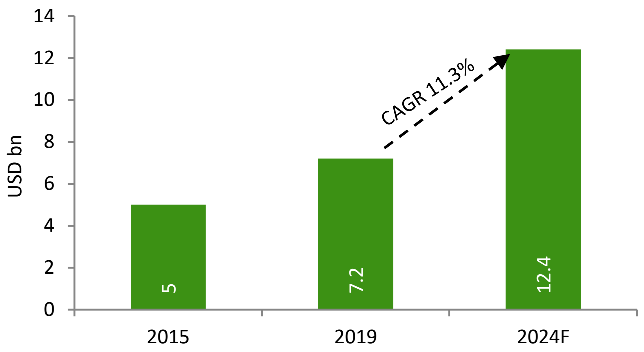
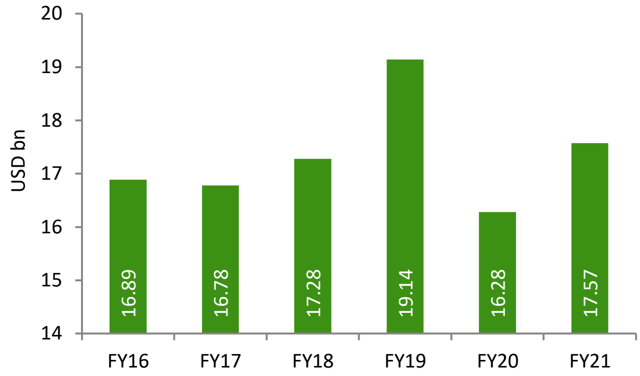


Exhibit 38: Drugs & pharmaceuticals exports from India during FY16-21



Source: Industry data, IBEF, MNCL Research

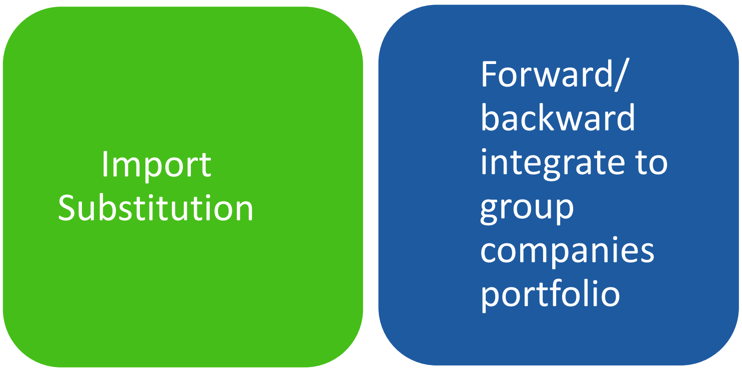
"I personally think that the PLI scheme should lead us to self-sufficiency in API (active pharmaceutical ingredient), but it should lead us for a big boost in innovative drug development." - NITI Aayog CEO Amitabh Kant

Product selection strategy, integrated model boosts margins

Valiant's high operating margins over the years can be accredited to its distinct product selection strategy wherein newer products complement existing products and are a part of the value chain, driving efficiency. The company looks for backward or forward integration to its product portfolio or that of group companies to ensure stability of supply for the group. This integrated architecture of Valiant enables the company to effectively manage supply chain constraints and reduce dependence on outside sources thereby driving margins and increasing the competitiveness of Valiant.

Another strategy equipped by Valiant is that of import substitution wherein it deliberately scouts products that are primarily imported in India and are well within technical expertise of the company (e.g. Para amino phenol).

Exhibit 39: Product selection adopted by the company



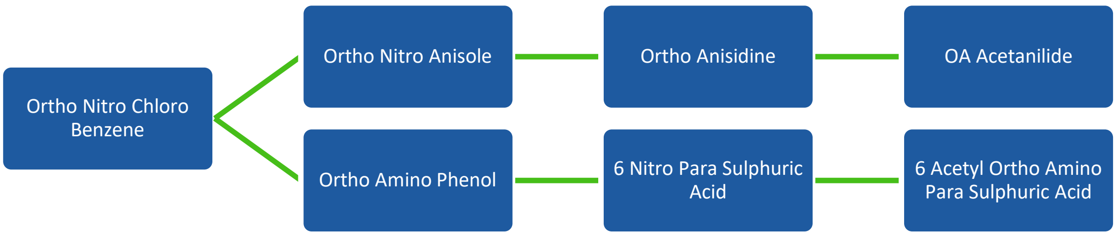
Source: MNCL Research

Integrated business model: Valiant, with the intention to move up the value chain and broaden its product portfolio, has been looking at forward and backward integration in its existing product lines. We have taken one value chain to demonstrate the company's approach to expand its product range and move up the value chain.

The Ortho Anisidine Value Chain: Valiant, while acquiring Amarjyot Chemical, inherited some capacities of Ortho Anisidine. Traditionally, Amarjyot would procure Ortho Nitro Anisole (ONA), N-1 for Ortho Anisidine, from outside sources. This gave an opportunity for Valiant to backward integrate to in-house production of ONA through the ONCB (ONCB could be procured from Aarti Industries). As a result, Valiant added ONA capacities of about 600 MT/m in a phased manner, which should be captively consumed by the company for production of Ortho Anisidine. Additionally, it also further expanded its Ortho Anisidine capacities to about 400-500 MT/m.

From the same raw material (ONCB), it has vertically integrated installing capabilities of Ortho Amino Phenol, which is scheduled to commercialize in Q2FY22.

Exhibit 40: Illustration of integrated value chain through ONCB

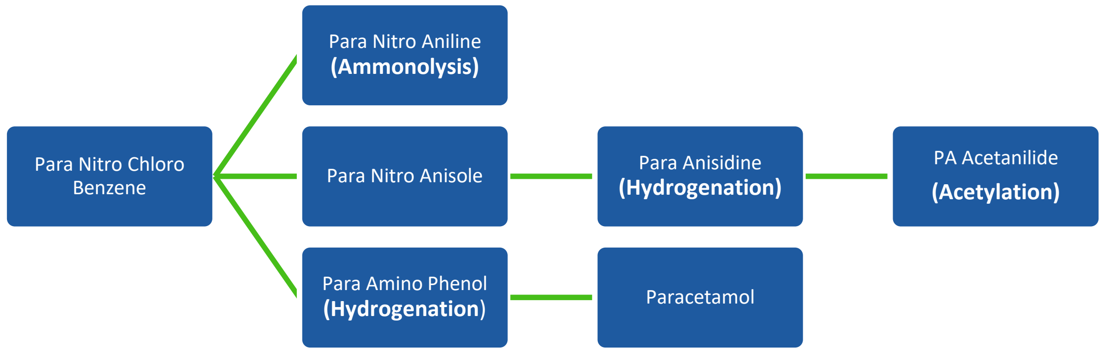


Source: Company, MNCL Research

Similarly, in FY21, Valiant added capacities of ~1,800 MT/y of Para Anisidine and ~3,000 MT/y of Para Nitro Anisole, which is a raw material for Para Anisidine. This value chain is derived from the already procured raw material PNCB (currently procured from Aarti Industries) and expansion in this chain was undertaken as Para Anisidine is largely imported in India, presenting an import substitution opportunity. Para Anisidine is also a precursor to PA Acetanilide, which currently only forms a small part of revenue for the company.

The company has ready availability of PNCB, with regards to the same being manufactured by Group Company, ensuring stability of supply for a commodity with low supply and more demand. Through one RM (PNCB), the company has expanded to three value chains (i) Para Nitro Aniline (process: ammonolysis, end user industry: dyes), (ii) Para Anisidine (process: hydrogenation, end user industry: predominantly dyes), and (iii) Para Amino Phenol (Process: hydrogenation, end user industry: pharmaceutical).

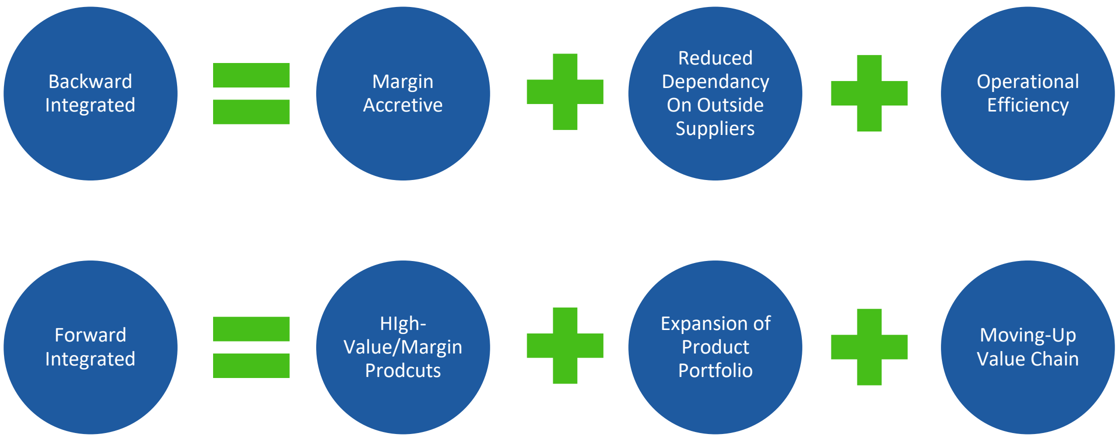
Exhibit 41: Illustration of integrated value chain through PNCB



Source: Company, MNCL Research

This integrated model reduces dependency on outside suppliers and ensures timely delivery of key RM providing the company with competitive advantage and stability, driving high operational margins.

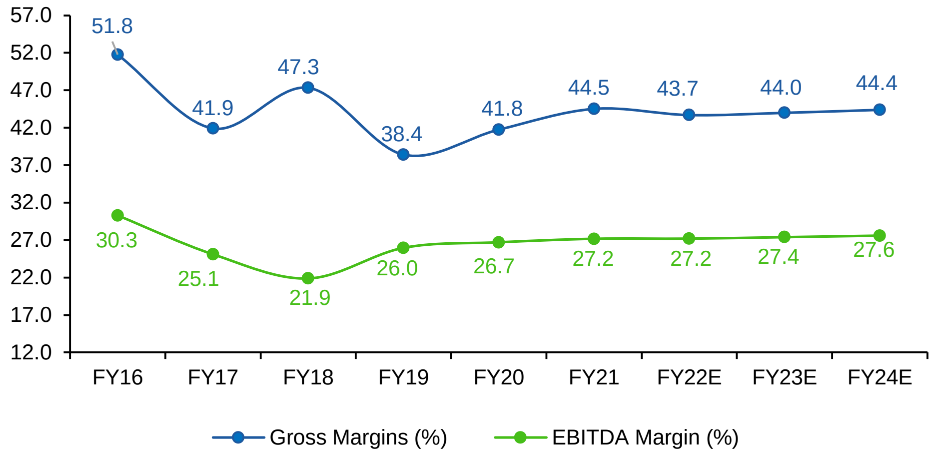
Exhibit 42: Benefits of backward and forward integration



Source: MNCL Research

Unique product portfolio with presence in niche chemistries, integrated business model (forward integration endeavor has led to movement up the value chain with margin lucrative products while backward integration drives efficiency), presence in concentrated markets, and Valiant's ability to deliver custom synthesized products is well demonstrated in its 26%+ EBITDA margins. FY21 margins were pre-dominantly buoyed by higher realization of paracetamol, however, we believe the company will be able to keep margins sustainable at these high levels owing to operational leverage on the back of increased capacities, commercialization of value-added products, and higher efficiency due to backward integration.

Exhibit 43: Integration and operating leverage to drive high margins



Source: MNCL Research

The company's pricing power can also be seen as even though gross margins have undergone some fluctuations, the company has been able to maintain EBITDA margins. Valiant's multipurpose plants also help the company maintain high margin levels as it provides the company with the liberty to tweak manufacturing capacities considering demand scenario.

Multipurpose plants

Valiant's efficient supply chain ensures ready availability of raw materials and uninterrupted production at all times

The company's multipurpose plants lessen dependence on a single stream of products/ processes and provide flexibility to boost the manufacturing capability of in-demand products when market conditions change. This helps to insulate the company from demand cyclicality of some products with minimum changes in processes. Presence through the value chain coupled with multipurpose plants offers flexibility as it allows Valiant to generate sales from the in-demand products as opposed to less-demand products in that value chain. For example, Valiant can sell ONA in the market if the demand for Ortho Anisidine is sluggish owing to a broader application of the raw material. The same holds true for all products across chlorophenol in the chlorination chemistry as the company can increase production of Para Chloro Phenol owing to tailwinds in the cosmetic industry as opposed to sluggishness in demand for 2, 4 DCP.

Multi-purpose plants with agile manufacturing capabilities enable customization of products based on customer specifications. This custom synthesis helps the company build strong and long-lasting relations with clients, as once the client approves the product and quality, the customer would resist scouting for newer supply partners owing to the tedious process of product approval. Valiant's facilities are equipped to cater to small and large consignments, thus being a reliant partner to its customers for their various demands.

Indian chemical industry: Transitioning to value added products

India's chemical industry is 6th in terms of global sales and 4th largest in Asia, with more than 80,000 chemicals manufactured, contributing 2.5% to global chemical sales. The Indian chemical industry is expected to grow at CAGR of 9.3% during FY19-25E driven by growth in specialty chemicals, increased demand of petrochemicals, growth in end-user industries such as agrochemicals, pharmaceutical, and dyes & pigments, with an expected investment inflow of Rs8tn till 2025. The whole sector is moving from basic chemicals (which accounts for ~57% domestically) towards value-added products. Disruption in the chemical supply chain led by the pandemic and environmental hazards in China has further bolstered India's growth ambition. The Chinese government issued various environment-friendly norms resulting in increased operational costs for Chinese manufacturing companies making them less competitive in the export market.

Exhibit 43: Indian chemical industry is expected to grow at CAGR 9.3% during FY19-25E

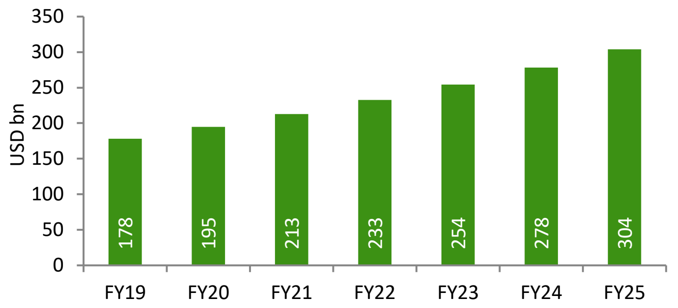
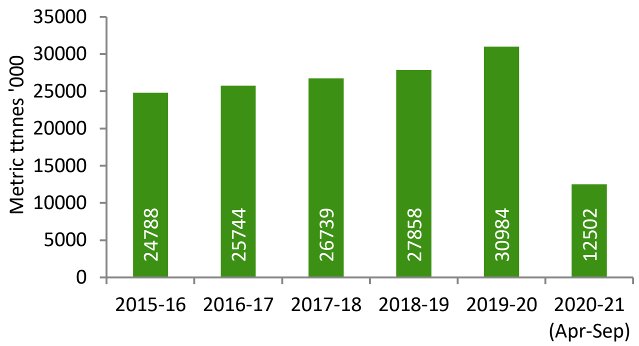


Exhibit 44: Production of basic major chemicals and petrochemicals over the years



Source: Department of chemicals and petro-chemicals, IBEF, MNCL Research

Exhibit 45: Indian specialty chemical market to grow at 10.8% CAGR

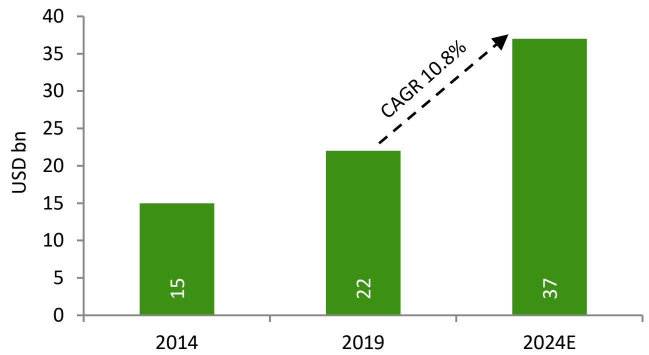
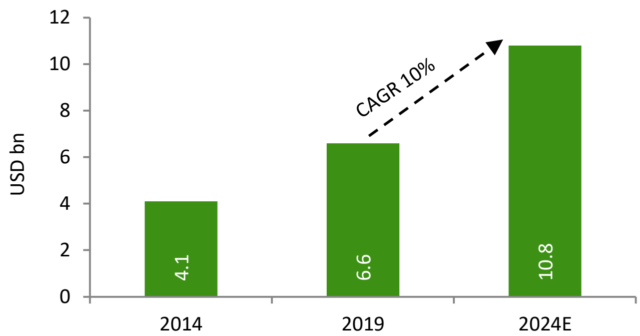


Exhibit 46: Thereby leading to increased demand of specialty intermediates



Source: IBEF, Laxmi Organic RHP, MNCL Research

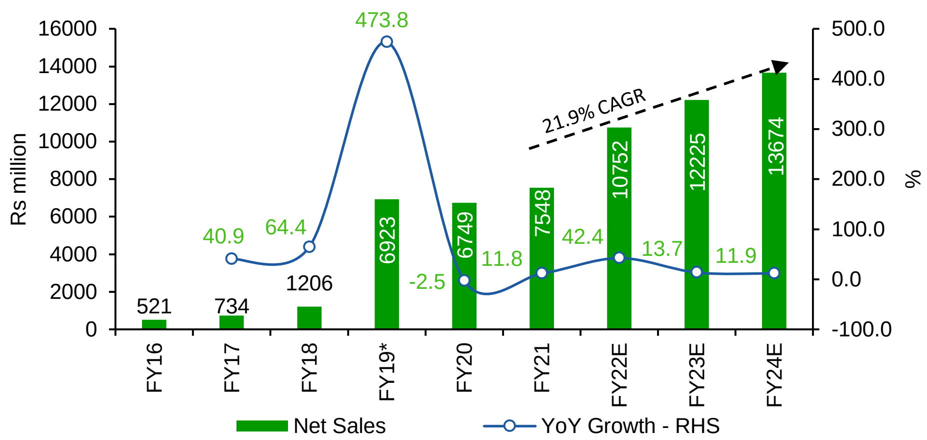
These macro level disruptions have provided opportunity to various Indian chemical manufacturers across value chain. The above mentioned disruptions coupled with GOI's need for self-sufficiency has worked in favor of players such as Valiant, whose product selection strategy includes import substitution.

Financial Analysis - Stability to sneak in

Revenue growth to be driven by new products

Valiant Organics is one of the fastest-growing companies in the Nifty 500 universe (5-year CAGR), with revenue growth of CAGR of 70.7% (on consolidated basis) in the last five years led by new chemistries and enhanced capacities. In FY21, revenues grew by 11.8%, mainly on account of higher realization of paracetamol in its step-down subsidiary, Bharat Chemicals, resulting in expansion in EBITDA margins by 50bps to 27.2%, while PAT de-grew by 7.5% led by deferred tax expense. On standalone basis, FY21 was flat, however considering the pandemic and uncertainties around the same, it was a decent performance by the company as it witnessed gross margin expansion. There was a significant increase in other expenses owing to higher labor cost on the back of capex and stabilization process, negatively impacting EBITDA margins by 170bps to 27.4% and profit after tax declined by 7.5%. Going forward, on consolidated basis, we estimate 21.9% revenue growth over FY21-24E, led by new products, increased utilization of enhanced capacities in 2 out of the 3 major chemistries as well as contribution from PAP, and expected buoyancy in chemical industry as a whole driven by pick up in domestic market.

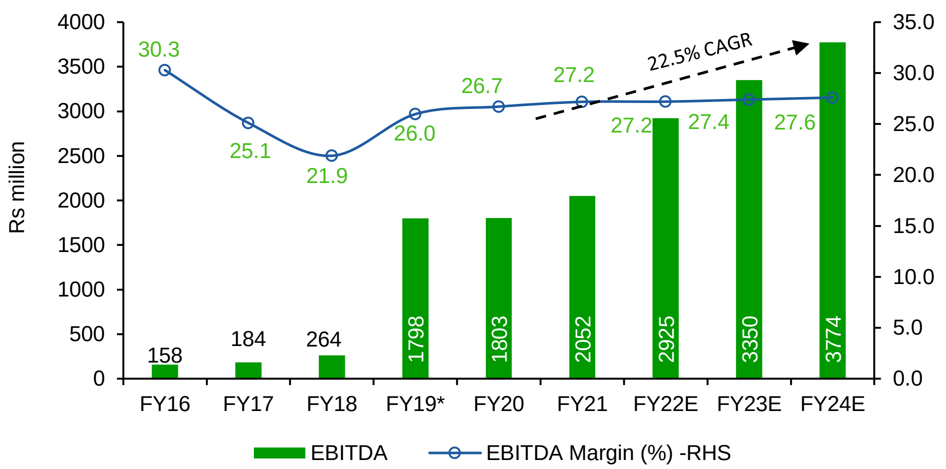
Exhibit 47: Revenue growth (Rs mn)



Source: Company, MNCL Estimates

Economies of scale to drive margin expansion: We expect EBITDA to expand led by (i) backward integration and (ii) economies of scale. We do expect some pressure on gross margins due to surge in raw material prices in Q1FY22, however, we believe the company can pass this through with some lag, partially offsetting the same. We expect Valiant to report 22.5% EBITDA CAGR over FY21-24E, with margins sustainable in the 27%+ range. Realization of some products has been on the higher side owing to disruptions caused by the pandemic, but we have been conservative and referred to mid-cycle pricing, thus leaving room for upside potential in case elevated prices sustain for long, especially in the PAP and paracetamol front.

Exhibit 48: Strong margin expansion (Rs mn)

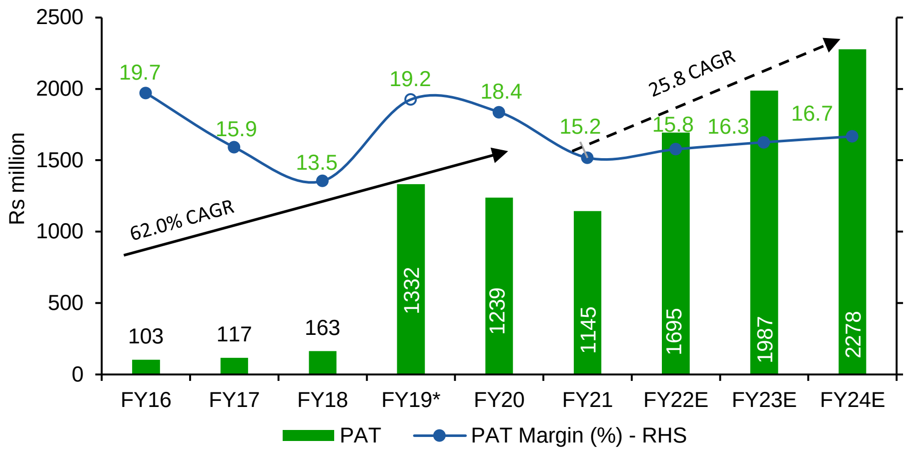


Source: Company, MNCL Estimates

PAT to grow in-line with EBITDA

PAT has grown significantly over FY16-21 at 62.0% CAGR, however, we expect the same to moderate over FY21-24E to 25.8% with PAT margins in the range of ~16% driven by strong operating leverage and benefits from the new tax scheme.

Exhibit 49: PAT to grow in-line with EBITDA (Rs mn)



Source: MNCL Estimates

Raw material scenario

Raw material price fluctuation plays an important role as prices of commodity chemicals have been oscillating during the last few quarters. Valiant does have the power to pass through these pricing fluctuations, however, there is a one-quarter lag as the company enters into quarterly contracts with RM suppliers. To hedge against the same, the company does manage its inventory efficiently to insulate from sudden surges in commodity prices.

Valiant's major RMs include phenol, chlorine, PNCB and ONCB.

Phenol

Traditionally, phenol would account for a large portion of cost incurred peaking to ~43% of revenues in FY16. However, since FY16, phenol consumption has witnessed a drop in terms of percentage to revenues as a result of (i) the company's strategy to expand to other chemistries, (ii) reduction in the value of phenol imported by Valiant, and (iii) price correction due to increased supply. Valiant would import a significant volume of phenol as there were very few players in the domestic market.

Phenol in India: Companies such as Deepak Phenolics, Haldia Petrochemicals, and GAIL are in the midst or have completed planned addition of phenol capacities in India, which are in addition to those of Hindustan Organics Chemicals and SI group. Deepak Phenolics has already added a capacity of 200,000MTPA and its plants are running at a capacity utilization of around 115%. These capacity enhancements provided local procurers such as Valiant a domestic source for phenol requirements and resulted in reduced imports for the company and India in general. Post addition of a few of these facilities, we can see the downtrend in imports (refer exhibit 50). India has also imposed anti-dumping duty on import of phenol from EU and Singapore from March 2016 effective till October 31, 2021.

Exhibit 50: Reduced import of phenol over the years- India

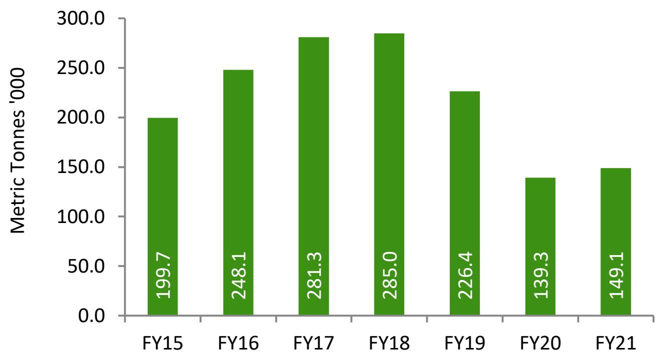
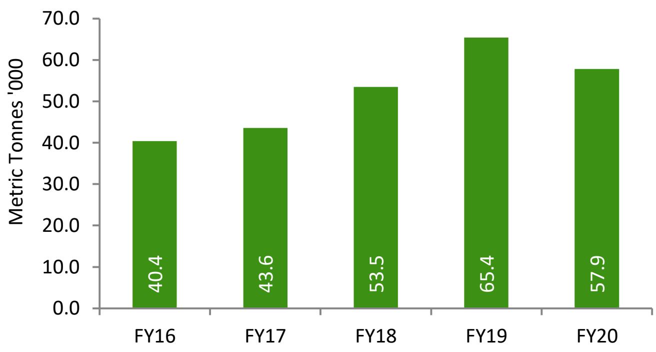


Exhibit 51: Increased production of phenol in India



Source: Department of commerce, Department of chemicals and petro-chemicals, MNCL Research

Exhibit 52: Phenol prices on the rise (in Rs, excludes taxes)

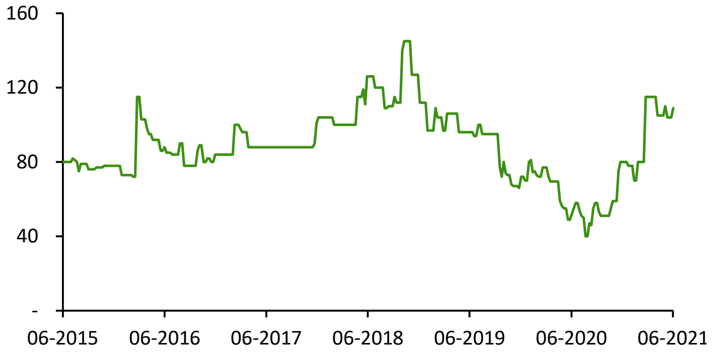
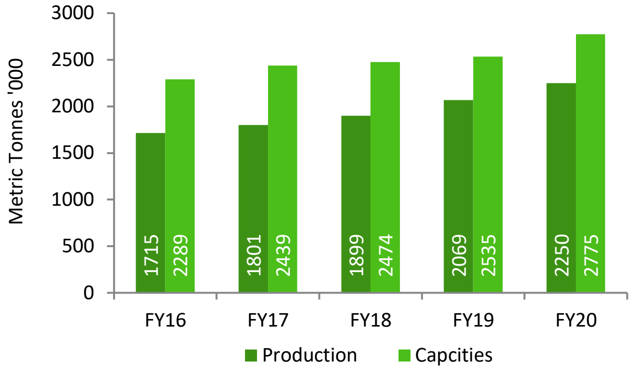


Exhibit 53: Chlorine production and capacities



Source: Chemical weekly, Department of chemicals and petro-chemicals, MNCL Research

Chlorine

Chlorine is obtained alongside caustic soda in Chlro-alkali plants (Caustic soda and Chlorine are produced as the co-products in the electrolysis of sodium chloride solution). As chlorine is a by-product, it is easily available in India at relatively low/ negative prices owing to chlorine's toxicity content. Chlorine and its derivatives have varied applications in construction, automobile, packaging, electrical/electronic, and healthcare. Major producers of chlorine are Grasim, Meghmani, and GACL. The pandemic had negatively impacted chlorine availability, with producers shutting plants or operating at lower capacities, however with easing of restrictions the same is expected to rise. Fluctuation in the price of chlorine has minimum impact on margins of Valiant as it is a low-value product.

PNCB

Valiant procures PNCB (mainly from Aarti Industries) as raw material for its end products including Para Nitro Aniline and Para Amino Phenol, which find application in many end-user industries such as dyes & pigments, pharmaceutical, and agrochem among others. The demand of PNCB is higher than the production capacities resulting in supply gap and volatile pricing, however, having a stable source for PNCB (Aarti Industries) provides a cushion to Valiant in terms of stability in supply.

ONCB

Valiant will procure ONCB (mainly from Aarti Industries) as raw material for its end products like Ortho Anisidine, as it has fully backward integrated to in-house production of Ortho Nitro Anisole.

Exhibit 54: PNCB production vs. consumption trend

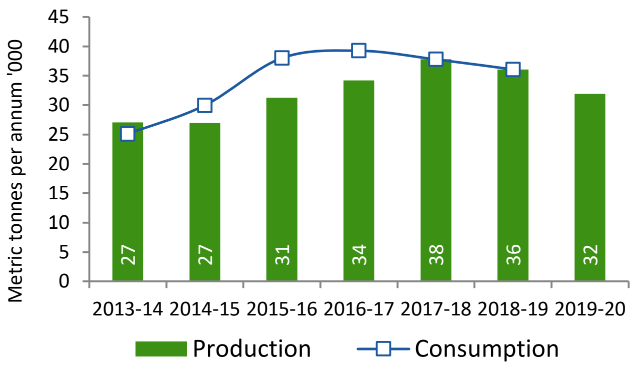
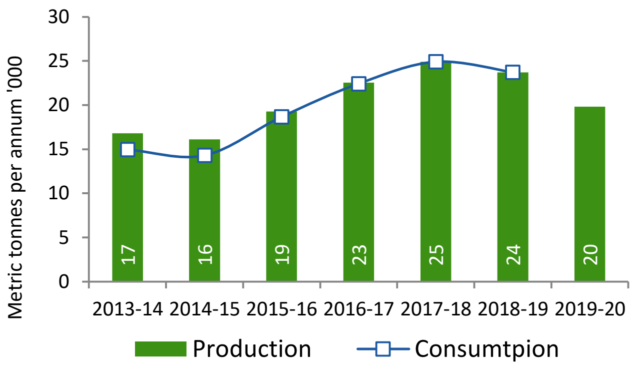


Exhibit 55: ONCB production vs. consumption trend

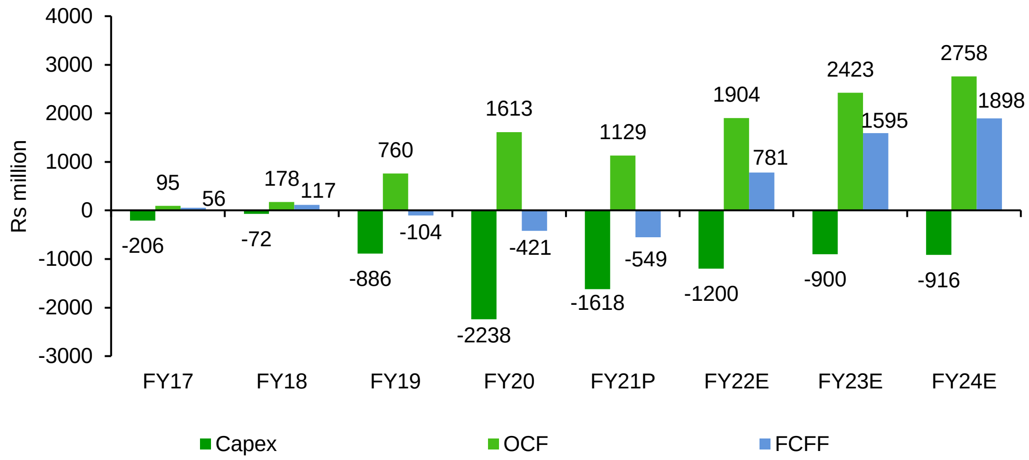


Source: Department of Commerce, MNCL Research

Strong OCF generation and FCF to improve

Valiant has been investing in business growth opportunities as it undertook capacity enhancements during FY19-21, which impacted free cash flow generation over the last few years. However, its operating cash flows demonstrate strong revenue generation by core operations, positively reflecting on the company. Notably, OCF in FY21 was impacted by higher inventories and receivable days owing to pandemic-led disruptions, however going forward, we believe that increased revenue generation from the last round of capex should drive cash generation and positively impact OCF and FCF. This robust cash generation would also help the company to reduce debt on books and provide for future capex requirements. Further, in line with management guidance, we expect the company to continue to invest for future growth prospects via capex (~Rs3bn over the next 3 years). However, we expect strong cash generation going forward as we believe Valiant should be FCF positive in FY22 and generate FCF of around Rs4bn over FY21-24E.

Exhibit 56: Consistent OCF generation with improvement expected in FCF

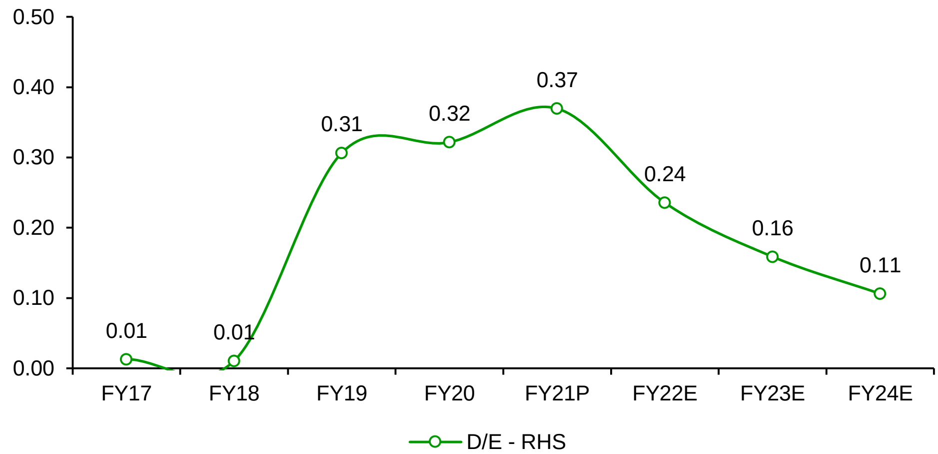


Source: Company, MNCL Estimates

Debt Position

We believe, Valiant's debt level has peaked and should be on a downward trend going forward as the company is expected to witness increased FCF generation coupled with the management's intention to not take any debt in the near future. The company was a debt-free company till FY18, however for the above-mentioned capacity expansion, it took debt on books. Debt to equity stood at 0.37x in FY21, which is still at lower levels considering the immense capex undertaken by Valiant. We believe the company will depend on internal accruals for future growth plans.

Exhibit 57: Debt to equity to improve going forward



Source: Company, MNCL Estimates

DuPont Analysis

By isolating the components of ROE under the DuPont Analysis, we get a clearer picture of why Valiant's ROE has been consistently high. The net profit margin and asset turnover have been the key contributors behind the high ROE; in FY21, ROE was impacted due to a decline in asset turnover as company incurred high capex however, going forward, we believe a slight increase in asset turnover and stable profit margin should drive ROE expansion.

Exhibit 58: Capacity expansion of top chemistries

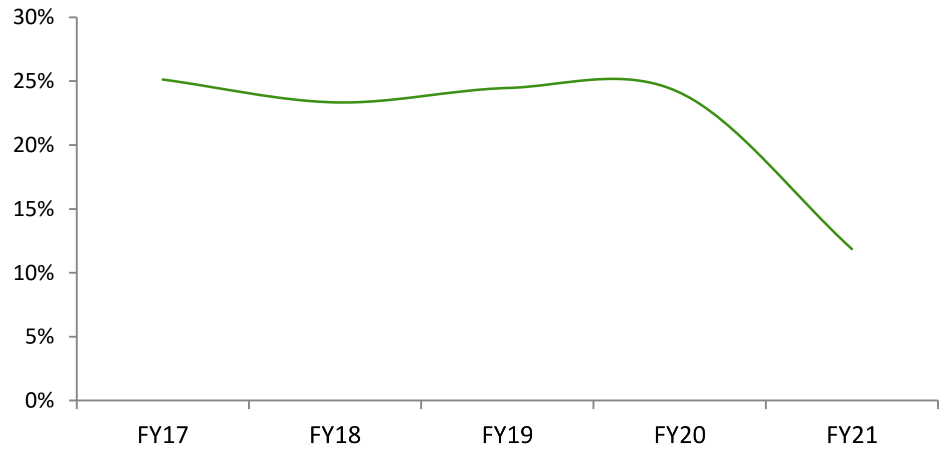
Constituents	FY17	FY18	FY19$	FY20	FY21	FY22E	FY23E	FY24E
Net Profit Margin (%)	15.9	13.5	19.2	18.4	15.2	15.8	16.3	16.7
Total Asset Turnover (x)	1.34	1.47	2.54	1.21	0.98	1.11	1.06	1.02
Leverage (x)*	1.56	1.54	1.71	1.73	1.74	1.72	1.64	1.54
ROE (%)	**33.3**	**30.7**	**83.7**	**38.3**	**25.7**	**29.9**	**28.1**	**26.2**

Source: Company, MNCL Research Estimates,*Total Assets/Shareholder's Equity, $merger with Amarjyot Chemicals

Rewarding shareholders

The company believes in rewarding shareholders timely as can be seen by the consistent dividend declaration policy. The company also issued bonus share in December 2020, thereby increasing liquidity and encouraging retail participation. Further, the company has a robust dividend payout policy, which we believe should continue going forward.

Exhibit 59: Dividend pay-out ratio



Source: Company

Sensitivity Analysis

Exhibit 60: Financials

FY24E	% change	Impact on EBITDA	Impact on EPS
PAP realization	10	1.5	1.9
Paracetamol realization	10	2.4	1.9

Source: Company, MNCL Research Estimates

Valiant's diverse product portfolio limits the impact of PAP and paracetamol price fluctuations. As paracetamol has a higher share in revenues, impact of the same is slightly higher on the EBIDTA front albeit the same is reduced on earning owing to the outflow of minority interest. Generally, PAP and paracetamol prices fluctuate in tandem, at least directionally.

Peer valuation: Understanding where Valiant stands in the chemical space

In the below table we have compared Valiant to diverse players who have a presence in the chemical industry since the company doesn't really have a peer. While most of the companies are leaders in their respective areas and not an apple to apple comparison, there are a few things we would like to emphasize. Valiant stands out in most of the parameters, however, its valuation does not reflect its superior performance. The table clearly demonstrates Valiant has high return ratios (ROE, ROCE, and ROIC have been in the range of 20%), low leverage, and best in class asset turnover (in line with those of specialty players), thus commanding a valuation of specialty players even though all of its products may not be a part of the specialty gamut. Moreover, 26%+ EBIDTA margins portray that the company has niche products in a concentrated market.

Exhibit 61: Peer group comparison

Company	OPM (3Y avg) (%)	D/e (FY21) (x)	ROE (3Y avg) (%)	ROIC (3Y avg) (%)	OCF/ EBITDA (3Y avg)	Asset Turnover (FY21) (x)	FY22PE	FY23PE	FY22E EV/EBITDA (x)	FY23E EV/EBITDA (x)
Valiant Organics*	**26.6**	**0.37**	**50.2**	**36.5**	**0.6**	**1.0**	**21.5**	**18.3**	**12.9**	**11.0**
Average	**21.8**	**0.3**	**21.4**	**15.5**	**0.7**	**0.8**	**42.8**	**32.5**	**27.3**	**21.1**
Aarti Inds	22.2	0.70	19.5	12.3	0.8	0.6	44.7	34.0	25.4	20.3
Atul	21.6	0.03	19.7	17.3	0.8	0.8	36.8	32.0	24.5	21.4
Vinati Organic	38.9	0.01	26.1	22.1	0.7	0.6	53.9	41.4	39.2	30.2
Navin Flourine	23.5	0.01	21.4	17.9	0.6	0.6	68.0	45.5	48.5	32.2
Rossari Biotech	16.5	0.00	32.7	28.6	0.6	1.4	55.9	42.4	36.1	27.3
Tata Chemical	17.0	0.45	22.4	3.9	1.0	0.4	25.0	19.1	11.5	9.7
Balaji Amines Limited	22.8	0.10	23.4	17.0	0.4	1.1	32.8	28.0	21.5	18.6
Camlin Fine	12.1	0.70	5.9	4.8	0.3	0.9	25.6	17.6	11.6	8.7

Source: Bloomberg, Ace Equity, *MNCL Estimates and FY19 numbers were inflated due to acquisition

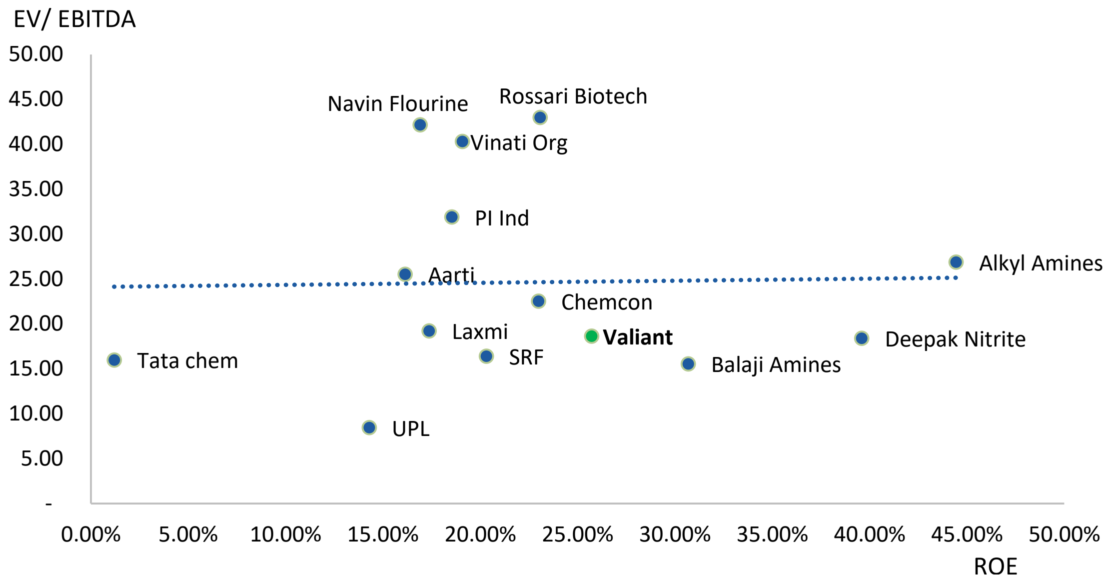
Exhibit 62: Ranking as compared to peers in reference to the above chart

Company	OPM	D/e	ROE	ROIC	OCF/EBITDA	Asset Turnover
Valiant Organics (3Y avg)	2	6	1	1	7	2
Valiant Organics* (2Y avg)	2	6	2	2	5	2

Source: *2 year average as FY19 numbers were inflated due to acquisition, MNCL Estimates, Bloomberg, Ace Equity

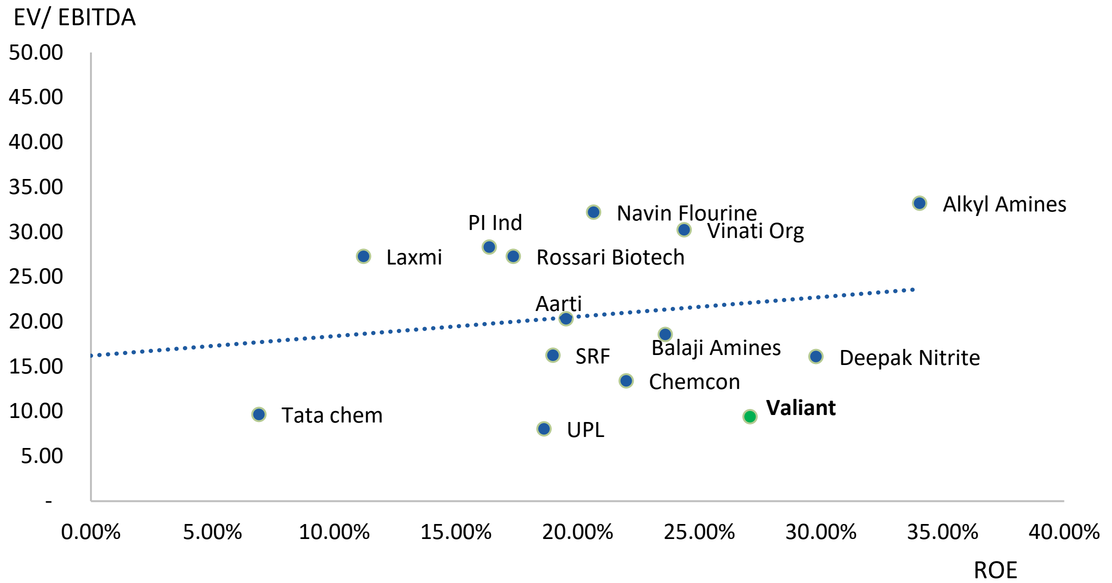
As visible, Valiant outperforms its near-peers across the board in terms of financial parameters. Valiant is in the top tier of firms in the chemical space when it comes to ROE, ROCE, and operating margins with best-in-class asset turns. The company has some leverage on its books (low leverage considering the scale of capacity enhancement undertaken), however, we believe that Valiant will be debt-free in a couple of years as we expect improvement in cash generation going forward. This further builds our conviction that Valiant deserves a higher valuation multiple as compared to diverse/commodity players and a slight discount to specialty peers due to its operational efficiency, higher return ratios, strong visibility on earnings growth, and concentrated product profile.

Exhibit 63: Scatter plot of ROE vs. EV/EBITDA (FY21)



Source: MNCL Estimates

Exhibit 64: Scatter plot of ROE vs. EV/EBITDA (FY23), showcasing that Valiant is cheaper as compared to peers



Source: MNCL Estimates

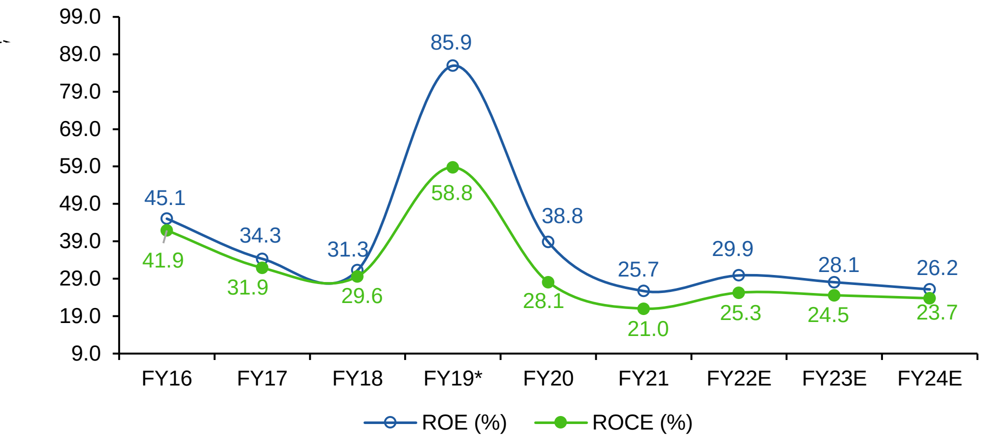
- Specialty peers command higher valuations over commodity/ diverse peers
- Two major reasons for valuation expansion during FY21-23E are
  - Superior ROE
  - Niche/ specialty in product portfolio
- Pure commodity players such as Deepak Nitrite, have witnessed expansion in valuations owing to operational expertise, bridging the gap between specialty players
- It can be seen from these charts that ROE expansion leads to valuation expansion and we expect Valiant to follow the suit. Valiant's movement up the value chain (niche products) and commercialization of PAP have not been factored in the current valuations and we believe, there is a re-rating on the cards for the company, warranting a higher valuation.

High return ratios + High EBITDA margins = Premium multiple

Over the years, Valiant's return ratios (ROE and ROCE) have witnessed some erratic moments owing to two acquisitions, however, we believe the same have stabilized and we anticipate them to be in the 20%+ range, in line with top-performing peers in the chemical space. The return ratios are expected to inch up with an increase in share of newer value-added products coupled with revenue growth on the back of capex, thus demanding a better valuation in the medium term.

Exhibit 65: Healthy expansion in ROCE

Distortion in FY19 was created due to merger

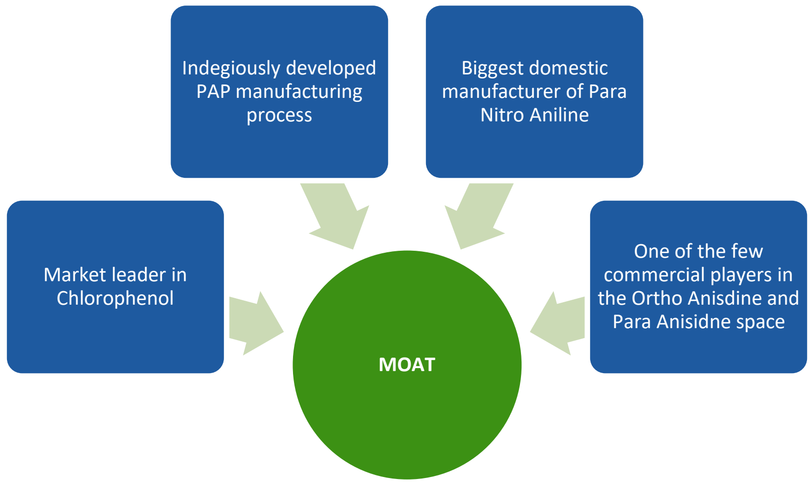


Source: Company, MNCL Estimates

Valiant is a market leader in three chemistries (chlorination, ammonolysis, and hydrogenation) with a niche in each one of them. Its product selection strategy of import substitution and integration with group companies differentiates the company from its peers. This ability to find small pockets of opportunity with limited competition drives business growth for the company keeping margins intact. Valiant's EBITDA margins in the 27%+ range indicate that the company has some niche (in terms of import substitution, only manufacturer of few products, largest player in certain categories, etc.), commanding these higher margins (even though the majority of its products are not specialty products), thereby positively impacting return ratios.

Valiant's customer-centric approach and deep understanding of chemistries help the company create specialized products based on directives by customers, creating a dependence on Valiant, thus making customers sticky owing to the tedious process of product approval. This enables the company to enjoy a certain amount of pricing power, especially in the chlorophenol products category.

Exhibit 66: Valiant's Moat



Source: Company, MNCL Research

Going forward, we estimate a 21.9% CAGR revenue, over FY21-24E, driven by increased utilization of expanded capacities, launches of new products (PAP, PA,OA, and OAP), and increased demand from end-user industries. We expect EBITDA to post CAGR of 22.5% during FY21-24E, while PAT CAGR of 25.8%, driven by strong operating leverage and slightly higher interest cost offset by lower tax outlay.

Hence, we assign an EV/EBITDA multiple of 18x (premium to other commodity chemical companies, however at a discount to specialty chemical players) on June'23 EBITDA (adjusted for minority interest) of Rs3,165mn post which we arrive at a target of Rs2,100, an upside of 57% from current levels. Currently, Valiant is trading at a 18.5x EV/EBIDTA multiple, however considering buoyancy in the market, we would like to adopt a conservative approach. We believe, Valiant's integrated business model, differentiated product portfolio, low leverage coupled with strong liquidity position merits a first-class valuation and is reflective of the superior financial performance of the company.

Exhibit 67: Valuation

EV/EBITDA Valuation	June'23
EBITDA* (Rs mn)	3165
Ascribed EV/EBITDA (x)	18
EV (Rs mn)	56,976
Add: Net Debt* (Rs mn)	98
Fair value mkt cap (Rs mn)	57,074
No. of shares (mn)	27.2
Target Price /share (Rs)	**2100**

Source: MNCL Research Estimates, *adjusted for minority interest

Exhibit 68: Industry Analysis

Company	Type	FY23E EV/EBITDA Consensus	FY23E PE Consensus
Deepak Nitrite Ltd	Commodity Chemicals	16.1	24.2
Tata Chemicals Ltd	Commodity Chemicals	9.7	19.1
Balaji Amines Ltd	Commodity Chemicals	18.6	28.0
SRF Ltd	Fluorochemicals, specialty, technical textiles and packaging films	16.2	26.8
UPL Ltd	Diversified Chemicals	8.0	13.3
Atul Ltd	Diversified Chemicals	21.4	32.0
PI Industries	Diversified Chemicals	28.3	40.7
Aarti Industries Ltd	Specialty Chemicals (benzene based intermediates) and APIs	20.3	34.0
Vinati Organics Ltd	Organic intermediates, monomers and polymers	30.2	41.4
Navin Fluorine International Ltd	Fluorine chemistry	32.2	45.5
Laxmi Organic Industries Ltd	Specialty Chemicals	27.3	49.4
Alkyl Amines Chemicals Ltd	Specialty Chemicals	33.2	47.6
Rossari Biotech Ltd	Specialty Chemicals	27.3	42.4
Valiant*		**18**	**27**

Source: Bloomberg, *MNCL Research Estimates

To strengthen our conviction we took companies from across chemical space and bifurcated them on the basis of their end products (commodity/ specialty/ diverse). Commodity chemical companies (based on niche) are valued in the sub-20x EV/EBITDA range, while Specialty chemical companies are valued in the 25x+ range owing to their specialized expertise in niche products. Return ratios of specialty companies are higher as compared to those of commodity companies, however, companies such as Deepak Nitrite have bridged the gap owing to exceptional operational efficiency, demanding higher multiples. Valiant, a mixture of specialty and commodity products, has some products which are commoditized in nature while some are niche, demanding a premium multiple to those of pure-play commodity, which is reflective of its operational efficiency and superior financial performance.

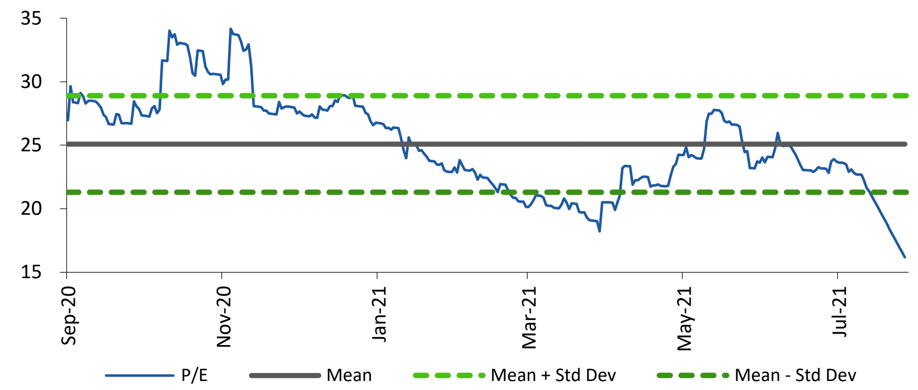
Exhibit 69: Alternate Valuation

P/E Valuation	June'23
EPS (Rs)	75.9
P/E (x)	27
Target Price /share (Rs)	**2,050**

Source: MNCL Research Estimates

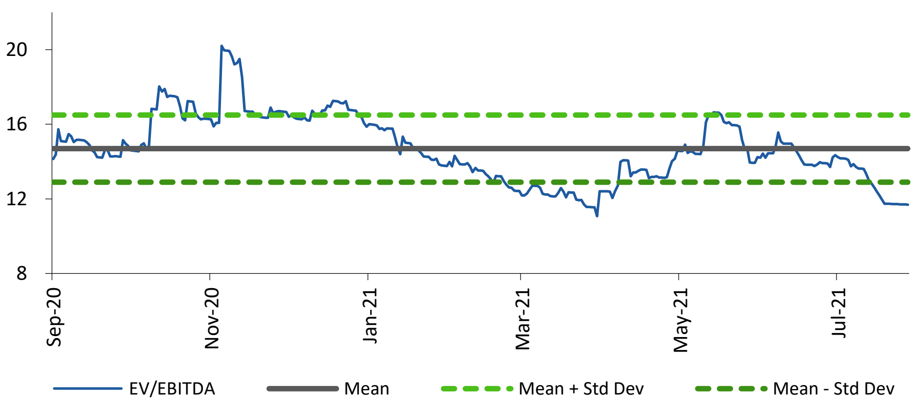
Alternatively we also use PE multiple to value Valiant. Since listing on the main board, the company has historically traded averaging at 31x, peaking at 42x, however that is a short period in a high market. It is currently trading at 30x. The company has been trading on high valuations given its astronomical rise in revenues, healthy margin profile, robust business model and uptick witnessed by the industry. We value Valiant at 27x its June'23 earnings of Rs75.9, arriving at a price of Rs2,050.

Exhibit 70: Valuation chart – 1 year forward PE



Source: Company, MNCL Research estimates

Exhibit 71: Valuation chart – 1 year forward EV/EBITDA



Source: Company, MNCL Research estimates

Scenario – Upside vs. Downside Case and a case without PAP

Upside Case: Under this scenario we assume increased capacity utilization with revival of demand in major end-user industries coupled with higher realization of PAP and Paracetamol products, driven by the supply constraint, leading to high business growth.

Downside Case: While we do believe the downside risk for the company remains relatively low, we would like to present a scenario where the company's PAP stabilization process gets extended owing to the intricate nature of manufacturing resulting in a delay in production coupled with pressure on raw material prices impacting margins and sluggish pick-up in end-user industries.

Without PAP Case: While even though the company has commercialized the manufacturing of PAP in small batches, till large quantities of the purest grade are not manufactured, one cannot rule out the possibility of PAP production not materializing. Thus, we have taken a scenario to understand, what happens in case PAP production does not materialize, even though the risk of the same is low. One can see that inherently the existing business also holds high upside potential on the back of enhanced capacities.

Exhibit 72: Upside vs. Downside vs. Without PAP Case

Scenario Analysis	Upside Case		Downside Case		Without PAP Case	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Total Revenue	10873.5	13215.4	8282.1	9670.3	9907.0	10425.4
YoY		21.5%		16.8%		5.2%
EBITDA	2957.6	3621.0	2194.8	2582.0	2694.7	2856.6
YoY		22.4%		17.6%		6.0%
OPM	27.2%	27.4%	26.5%	26.7%	27.2	27.4
YoY		*20 bps*		*20 bps*		*20 bps*
PAT	1695.6	2152.1	1174.6	1426.3	1373.4	1618.2
YoY		26.9%		21.4%		17.8%
EPS	62.4	79.3	43.3	52.5	50.6	59.6
YoY		26.9%		21.4%		17.8%
June'23 EBITDA (adjusted)		3,397		2,417		2619
EV/EBITDA multiple		21		14		17
Fair Value market cap		71,428		33,935		44,629
Price (Rs)		2630		1250		1650

Source: MNCL Research

From the above, it is clear that the down side risk for the company remains capped given the nature of the business.

Key risks to our thesis

Pressure on raw materials prices: Company's major raw materials are phenol and chlorine, and fluctuations in prices of feedstock would have some amount of impact on Valiant's margin profile. Although Valiant passes on the increase/ decrease in raw material costs to customers with some lag, significant fluctuations in raw material prices could impact the company's financials.

Realization of end products: Valiant, is susceptible to market cycle of pricing in its commodity products, is the beneficiary of price fluctuations of end products, and has less control over the same, hence, depending upon the movement, it could be beneficial or detrimental for the company.

Concentration risk: Valiant, owing to its complex promoter structure and inter-linkage to group companies, may be exposed to concentration risk.

PAP stabilization: As the manufacturing process is fairly technical and requires expertise, any delays in the stabilization process, could have some impact on business growth.

Corporate Governance

We believe that sound corporate governance is necessary for enhancing the trust of shareholders and other stakeholders. We have undertaken a detailed corporate governance study covering broad aspects such as the composition of the board of directors, independent directors, compensation paid to the promoter directors and independent directors, details of auditors, related party transactions, and CSR expenditure.

MNCL Research's AQCG Score

We analyse the company's accounting quality and corporate governance based on MNCL's proprietary AQCG score, which accounts for 15 different attributes in the accounting and corporate governance domain for at least 5 years and back-tested on BSE 500 companies.

Quadrant 1: >=72%
Quadrant 2: 65% - 71.9%
Quadrant 3: 60% - 64.9%
Quadrant 4: <60%

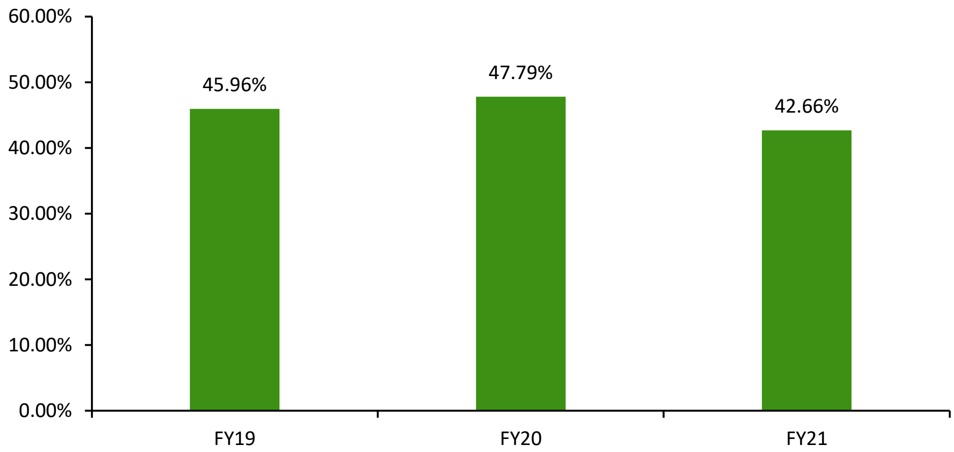
AQCG Score: 65.7% and 2nd quadrant

Interpretation of the score: A score of 65.7% signifies that Valiant's financial reporting and governance policies are widely in compliance with accepted regulations. The company misses the first quartile score due to high CWIP/Gross Block, Capex/EBITDA, and Capex as % to OCF, as the company is aggressively expanding via Capex, venturing into new age products, and hence, growing at a faster pace. We believe these aspects should improve with increased revenue contribution and thus not raise any concern.

Promoters and promoter group shareholding analysis

The company was founded in 1984 by four families, the Gogri family (Chairman), the Chedda family (Managing Director), the Gala family (Ex. Chairman), and the Savla family as a partnership firm. The company was listed on the SME board of BSE in 2016 and was promoted to the mainboard in September 2020. The promoter's stake has undergone some changes over the years due to two acquisitions and changes in the interest of four families, however, we believe, a multi-family promoters group ensures greater control over management as all parties having skin in the game decreases the probability of any undercut to minority shareholders interest.

Exhibit 73: Promoter holdings in the last 3 years



Source: Company, MNCL Research

Independent directors – Representation analysis

Valiant has consistently maintained the share of independent directors at more than 30% for the last three years. These independent directors are a part of the two merged companies, however, we do not see this as a red flag as the company inherited some technical abilities from these companies and this imparts greater credibility to the company and ensures well-rounded decision making in the interests of stakeholders. The presence of a woman on board further confirms to the regulations laid in Company's Act 2013. The details of the board composition are as follows:

Exhibit 74: Board Composition

Particulars	FY18	FY19	FY20
Total Strength	**10**	**12**	**11**
Promoter Executive Director	5	6	6
Non-Executive Directors	2	2	1
Independent Directors	3	4	4
% Share of Promoters	**25%**	**25%**	**33%**
% Share of Executive Directors	**38%**	**38%**	**33%**
% Share of Women Director	**10%**	**8%**	**9%**
% Share of Independent Directors	**30%**	**33%**	**36%**

Source: Company, MNCL Research

Executive director and promoter compensation analysis

The total executive director compensation has not exceeded the permissible limit set by Companies Act. The MD's compensation has not breached the permissible limits. We don't see a red flag in the director's compensation. Details of the compensation are shown in the following table:

Exhibit 75: Executive Director Compensation

Designation (compensation in Rs mn)	FY18	FY19	FY20
Managing Director	5.7	11.6	12.7
- % share of PAT	3.5%	0.9%	1.02%
-Whole Time Director	7.1	21.0	7.7
- % share of PAT	4.4%	1.6%	0.6%
- Ceiling for executive Directors as per act (Rs mn)	16.3	133.2	123.9
- Total executive director compensation	**12.9**	**32.6**	**20.4**
- Salary earned as a % of ceiling	**36%**	**15.8%**	**6.2%**
- % share of PAT	**7.9%**	**2.5%**	**1.6%**

Source: Company, MNCL Research

Independent directors –Compensation analysis

The independent directors were collectively paid Rs75,900 in FY20 equivalent to 0.01% of PAT. There were total of five board meetings that happened during the year and as per the company law, sitting fees paid to Valiant's independent directors are well within this permissible limit.

Related party transaction analysis

We believe that these transactions form part of usual operations and do not raise any red flags. The details are as follows:

Exhibit 76: Related party transactions

Particulars (Rsmn)	FY18	FY19	FY20
Purchases	-	11.0	14.49
Sales	-	44.8	37.52
Remuneration	13.0	14.1	16.65
Investment	-	-	-
Commission	-	18.5	9.0
Outstanding	0.2	71.9	17.7
Guarantees given on behalf for Subsidiaries	-	-	-
Total	**13.2**	**160.3**	**95.4**

Source: Company, MNCL Research

Auditor compensation analysis

Valiant has appointed Gokhale & Sathe as statutory auditors in FY18 for a period of 5 years. The auditor compensation is well within the prescribed limits. The details are as follows:

Exhibit 77: Auditors

Auditor Name	Type	Auditor Since	Auditor Fees – FY20 (Rsmn)	As % to PAT
Gokhale & Sathe	Statutory	FY18	1.1	0.1

Source: Company, MNCL Research

CSR activity analysis

Company has undertaken projects in the area of education, healthcare, woman empowerment, environmental sustainability, etc. Following are the details:

Exhibit 78: CSR activity spend

Year	Prescribed Expenditure (Rs mn)	Total Spend (Rs mn)	Total spend as % of prescribed limit
FY20	14.3	16.6	116%
FY19	3.9	9.8	251%
FY18	3.0	4.0	133%

Source: Company, MNCL Research

Company Background

Valiant Organics began its journey as a partnership firm under the name of Valiant Chemical Corporation in 1984 with a single product. In 2005, it was converted into a private company and then into a public company in 2016. This 35+ year journey has been undertaken mainly by the Chedda and Gala families under the guidance of the Gogri Family. Since then, the company has gradually scaled up to manufacture more than 20 products, diversifying into ~6 chemistries, and found its niche in the chemical industry in India. The company's ability to cater to specific needs of clients such as BASF, Coromandel, and Bayer Crop Science has resulted in long-term relationships with these MNCs.

The company manufactures a wide range of products finding applications in industries such as agrochemical, pharmaceutical, specialty chemical, and dyes and pigments. The company constantly tries to identify new/ innovative products to drive business growth. The company also exports its products to various countries such as Europe, USA, and other Asian countries, and plans to increase its export portfolio by identifying new regions.

Exhibit 79: Revenue split FY21

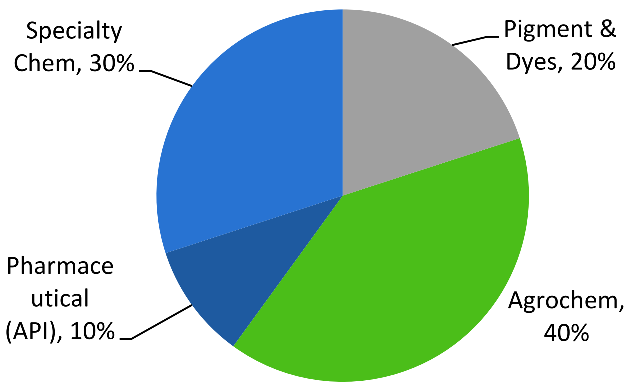
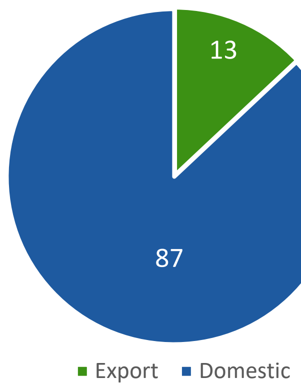
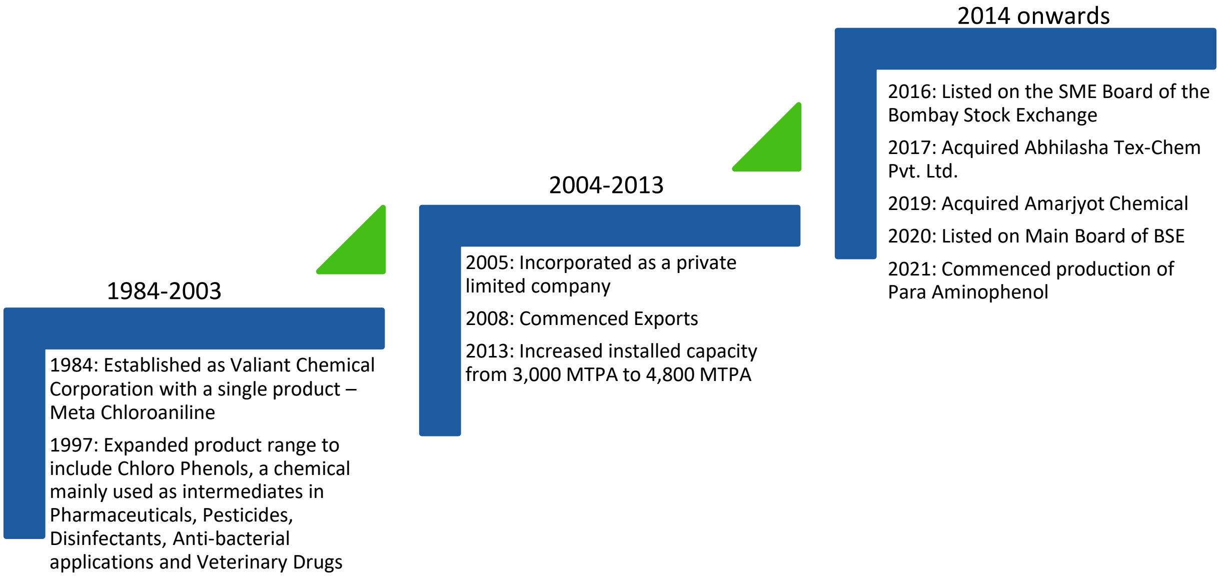


Exhibit 80: Export split FY21 (%)



Source: Company, MNCLResearch

Exhibit 81: Time line



Source: Company, MNCL Research

Exhibit 82: Subsidiaries of Valiant

(Rs mn)	Ownership
Valiant Speciality Chemical Limited	100.00%
Dhanvallabh Ventures LLP	73.15%
Bharat Chemicals (Through Dhanvallabh Ventures LLP)	68.5%

Source: Company, MNCL Research

Exhibit 83: Clientele

Source: Company, MNCL Research

Acquisitions explained

Valiant, having expertise in a single chemistry (chlorination), realized the importance to diversify in order to stay competitive and add growth avenues, decided to be on the lookout for acquisitions of companies wherein synergies could be made. During the last 5 years, it made two acquisitions and added other chemistries into the mix in order to expand

(1) Abhilasha Tex-Chem

(2) Amarjyot Chemicals

Abhilasha Tex-Chem Ltd (ACTL): On 1st July, 2016 (appointment date), Valiant Organics Limited approved the scheme of amalgamation of merging Abhilasha Tex-Chem Ltd into Valiant Organics Ltd (Valiant was then listed on the BSE SME platform). ATCL is in the business of specialty chemicals such as Para Nitro Aniline and also undertakes conversion services.

Consideration: 365 shares of Valiant each at face value of Rs10 were issued for every 100 shares in ATCL of face value Rs100 and resulted in an increase of 22,24,029 shares of Valiant. Prior to the merger, ATCL existing share capital was 6,09,323 equity shares of Rs100 each.

ACTL had an installed capacity of 5,700MTPA of PNA, thus adding a new product to Valiant's then-existing portfolio. Furthermore, it had surplus capacity, which was lent out on lease by the company.

Portfolio acquired from ACTL:

Plants: Tarapur

Processes: Ammonolysis

Products: Para Nitro Aniline with 5700 MT/y capacity

Public shareholding increased post-merger in percentage terms (increased about 5%). Post-merger, promoters of ATCL except Gogri family is considered as public.

Exhibit 84: Shareholding pattern

Particulars	No. of shares	Promoter Shareholding
Pre-Amalgamation	36,40,320	52.00%
Post-Amalgamation	58,64,349	47.26%

Source: Company, MNCL Research

Exhibit 85: Financials

Particulars (Rs mn)	FY13	FY14	FY15	FY16
Revenues	316.2	333.6	393.8	361.5
Ebitda	21.4	18.7	77.5	101.6
Ebidta margin (%)	6.8	5.6	19.7	28.1
PAT	3.8	0.9	41.9	43.4
Net worth	58.9	59.8	95.8	89

Source: Company, MNCL Research

Amarjyot Chemical: Valiant Organics Limited acquired Amarjyot Chemical Limited by way of all share acquisition (NCLT approved merger). Pursuant to the merger, equity shareholders of Amarjyot were issued 72 equity shares of face value Rs10 and 21 Optionally Convertible Preference Shares (OCPS) of face value Rs10 for every 100 shares of Amarjyot chemicals of face value Rs10. The preference shareholders of Amarjyot received Redeemable Preference Share of Valiant Organics of face value Rs100 for 1 Redeemable Preference Share of Amarjyot of face value Rs100

Portfolio acquired from Amarjyot Chemical:
Plants: Vapi, Jhagadia and Ahmedabad
Processes: Ammonolysis, Hydrogenation, Sulphonation, Acetylation reactions
Products:
Dye Intermediates: Para Nitro Aniline, Ortho Chloro Para Nitro Aniline, 6 Acetyl OAPSA, and OT5SA, among others
Intermediates for Pigments: 2B Acid, 4B Acid and others (ONAPSA)
Agro Intermediates: IPPCA, Meta Chloro Aniline, FI Aniline, and others

This acquisition transformed Valiant into a diversified chemical manufacturer from a 2 chemistry player, increasing its product offering with value-added products and a slew of chemistries. Increased product portfolio resulted in a wider range of end user applications, eliminating concentration risk and increasing competitiveness through economies of scale.

Exhibit 86: Shareholding pattern

Particulars	No. of shares	Promoter Shareholding
Pre-Amalgamation	58,64,350	49.09%
Post-Amalgamation	1,21,49,219	50.91%

Source: Company, MNCL Research

Exhibit 87: Financials

Particulars (Rs mn)	FY14	FY15	FY16	FY17
Revenues	684.8	994.7	1551.9	1739.8
Ebitda	89.8	130.9	239.8	291.3
Ebidta margin (%)	13.1	13.2	15.5	16.7
PAT	52.2	94.8	145.6	131.0
Net worth	305.4	513.4	520.8	671.2

Source: Company, MNCL Research

Exhibit 88: Key Management Personnel

Name	Designation	Profile
Mr. Chandrakant V. Gogri	Chairman Emeritus	He is a stalwart in the Indian chemical industry and possesses expertise in the areas of projects, operations, process development, and local & international marketing. His keen business acumen and over five decades of experience have helped the Aarti Group scale to new heights of success and we envisage the same path for Valiant.
Mr. Velji K. Gogri	Chairman, Independent Director	He has been associated with the company since 2017 and is a Chemical Engineer from IIT Mumbai, with more than 3 decades of experience in the chemical industry. He has established several bulk drugs, intermediate and fine chemicals manufacturing units. He was also on the Board of "Tarapur Environment Protection Society" from the year 2004 to 2009and was associated with Industrial Safety Committee of Tarapur Industry Manufacturing Association.
Mr. Arvind K. Chheda	Promoter, Managing Director	He has been associated with the company since 1990. He holds a Government Diploma in Basic Accounts. He has been an instrumental force in building and taking the corporate structure to where it is. He took the post of MD in April 2019, prior or which he was working as the CFO of Valiant Organics.
Mr. Mahesh M. Savadia	Whole time Director	He is a BSC graduate and has vast experience of over 50 years in chemical industry.
Mr. Mahek M. Chheda	CFO and Whole time Director	He has been associated with the company since 2017 and is a BSC Business graduate from a college affiliated with University of London and has good experience in the area of marketing and business development.
Mr.Vishnu J. Sawant	Whole time Director	He holds a Bachelor's degree in science from Sivaji University, Kohlapur, Maharashtra, and has nearly 3 decades of experience of working with chemical manufacturing companies. Prior to this, he worked for 3 different chemical labs and manufacturing companies.
Mr. Dinesh S. Shah	Whole time Director	He has a vast experience of 40 years in manufacturing of dyestuff and their intermediates. Also, he has experience in sales and marketing in export as well as domestic market.
Mr. Bijal D. Modi	Whole time Director	He is a Chemical Engineer from Mumbai University. He is managing the Jagadia plant since its inception. His vast experience includes projects, operations, process development, and local and international marketing in the chemical industry.
Mr. Dattatray S Galpalli	Non-executive Director	He has a B. Sc. Tech (Dyes and Intermediates) from UDCT (now ICT) and has a rich experience of working 35 years in various chemical industries producing specialty chemicals and intermediates for agrochemicals, pharmaceuticals, pigments and dyes. He has also worked with over 100 unit processes and unit operations involving large continuous & batch plants.
Mr. Mulesh M. Savla	Independent Director	He is a practicing Chartered Accountant and a partner in Shah & Savla LLP, Chartered Accountant. He has vast experience of more than 30 years in taxation, accounts and finance, and structuring- restructuring of entities.
Mr. Dhirajlal D. Gala	Independent Director	He has completed his graduation in Commerce from Mumbai University and is also a CA, CS and ICWA. He has vast experience of over 3 decades in related fields and has been associated with many well-known firms in Mumbai.
Mrs. Jeenal K. Savla	Independent Director	She holds a graduate degree in Commerce from Narsee Monjee College of Commerce and Economics, Mumbai, and is also a Chartered Accountant by profession. She has been a member of the Internal Audit Committee of ICAI (WIRC) during the year 2013-14. She has about 10 years of rich experience in finance and possesses expertise in internal audit, risk advisory, and transaction support.

Source: Company, MNCL Research

Quarterly Financials and Key Performance Indicators

Exhibit 89: Quarterly Financials (Consolidated)

Y/E March (Rs mn)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
Net Sales	**1,898**	**1,639**	**1,606**	**1,606**	**1,475**	**1,667**	**2,066**	**2,340**
Raw Materials	1,063	928	962	978	732	898	1,237	1,320
Employee Costs	54	61	58	55	57	66	68	103
Other Expenditure	195	196	201	196	204	232	246	334
EBITDA	**585**	**454**	**385**	**378**	**466**	**471**	**515**	**584**
Depreciation	36	35	40	46	50	52	53	58
EBIT	**220**	**201**	**229**	**256**	**296**	**233**	**195**	**205**
Interest	9	6	4	5	9	14	14	14
Other Income	12	19	15	17	0	23	22	15
PBT	**553**	**433**	**356**	**344**	**425**	**428**	**470**	**528**
Tax	129	124	85	85	122	100	88	164
Effective Tax rate (%)	23.3	28.8	23.9	24.7	30.5	24.5	26.6	34.3
Reported PAT	**474**	**308**	**271**	**259**	**247**	**307**	**316**	**276**
Y-o-Y Growth (%)								
Revenue	NA	NA	NA	Na	(22.3)	1.7	28.6	45.7
EBITDA	NA	NA	NA	NA	(17.7)	3.7	33.8	54.4
PAT	NA	NA	NA	NA	(33.8)	(1.71)	6.7	26.3
Q-o-Q Growth (%)								
Revenue	NA	13.7	(2.0)	0.0	(8.2)	13.0	23.9	13.3
EBITDA	NA	(22.4)	(15.3)	(1.7)	23.3	1.0	9.3	13.3
PAT	NA	(16.3)	(5.2)	(26.2)	13.0	24.4	2.9	(12.6)
Margin (%)								
EBITDA	30.8	27.7	24.0	23.5	32.7	28.3	24.9	24.9
EBIT	28.9	25.6	21.5	20.7	29.3	25.2	22.4	22.5
PAT	19.7	19.1	18.4	13.6	16.7	18.4	15.3	11.8

Source: Company, MNCL Research

Financials (Consolidated)

Exhibit 90: Income Statement

Y/E March (Rs mn)	FY16	FY17	FY18	FY19	FY20E	FY21	FY22E	FY23E	FY24E
Net Sales	**521**	**734**	**1,206**	**6,923**	**6,749**	**7,548**	**10,752**	**12,225**	**13,674**
% growth	(11.8)	40.9	64.4	473.8	(2.5)	11.8	42.4	13.7	11.9
Raw Materials	251	426	635	4,264	3,931	4,187	6,053	6,846	7,603
% of sales	48.2	58.1	52.7	61.6	58.2	55.5	56.3	56.0	55.6
Personnel	23	33	48	185	228	294	376	428	492
% of sales	4.4	4.4	4.0	2.7	3.4	3.9	3.5	3.5	3.6
Other Expenses	89	91	259	677	788	1,016	1,398	1,602	1,805
% of sales	17.1	12.4	21.5	9.8	11.7	13.5	13.0	13.1	13.2
EBITDA	**158**	**184**	**264**	**1,798**	**1,803**	**2,052**	**2,925**	**3,350**	**3,774**
EBITDA Margin (%)	30.3	25.1	21.9	26.0	26.7	27.2	27.2	27.4	27.6
Depreciation	9	17	22	136	158	212	321	382	430
EBIT	**149**	**167**	**242**	**1,662**	**1,645**	**1,839**	**2,604**	**2,968**	**3,345**
Interest Expenses	5	3	5	37	23	50	102	95	76
PBT From Operations	**144**	**165**	**237**	**1,625**	**1,622**	**1,789**	**2,501**	**2,872**	**3,269**
Other Income	14	15	15	87	63	59	65	72	79
Exceptional items	-	-	-	-	-	-	-	-	-
PBT after Exceptional	**157**	**180**	**252**	**1,712**	**1,685**	**1,849**	**2,567**	**2,944**	**3,348**
Tax-Total	55	63	89	500	423	540	647	742	844
Effective Tax Rate (%)	35	35	35	29	25	29	25%	25%	25%
PAT	**103**	**117**	**163**	**1,213**	**1,262**	**1,309**	**1,920**	**2,202**	**2,504**
Minority Interest	-	-	-	-	23	164	225	215	226
Extraord. items -Adj.	-	-	-	120	-	-	-	-	-
Reported PAT	**103**	**117**	**163**	**1,332**	**1,239**	**1,145**	**1,695**	**1,987**	**2,278**

Exhibit 91: Key Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21	FY22E	FY23E	FY24E
Growth ratios (%)									
Net sales	(11.8)	40.9	64.4	473.8	(2.5)	11.8	42.4	13.7	11.9
EBITDA	41.2	16.8	43.3	580.9	0.3	13.8	42.5	14.5	12.7
Adjusted Net Profit	41.1	13.7	40.0	715.5	(7.0)	(7.6)	48.0	17.2	14.7
Margin Ratio (%)									
EBITDA Margin	30.3	25.1	21.9	26.0	26.7	27.2	27.2	27.4	27.6
EBIT Margin	28.5	22.8	20.1	24.0	24.4	24.4	24.2	24.3	24.5
PBT Margins	27.6	22.4	19.7	23.5	24.0	23.7	23.3	23.5	23.9
PAT Margin	19.7	15.9	13.5	19.2	18.4	15.2	15.8	16.3	16.7
Return Ratio (%)									
ROE	45.1	34.3	31.3	85.9	38.8	25.7	29.9	28.1	26.2
ROCE	41.9	31.9	29.6	59.6	28.7	21.4	25.3	24.5	23.7
ROIC	40.2	31.9	35.0	61.3	28.6	21.7	26.1	26.6	27.8
Turnover Ratio days (days)									
Gross Block Turnover Ratio	2.3	2.2	2.6	5.0	2.2	1.5	1.6	1.6	1.7
Inventory Period	17	47	21	25	24	35	31	30	29
Debtors Period	71	88	112	75	72	76	72	71	71
Creditors Period	24	63	76	39	48	52	49	48	48
Cash Conversion Cycle	65	72	58	61	48	59	54	53	52
Solvency Ratio (x)									
Debt-Equity	0.0	0.0	0.0	0.3	0.3	0.4	0.3	0.2	0.1
Net Debt-Equity	0.0	0.0	0.0	0.3	0.3	0.3	0.2	0.0	0.0
Current ratio	3.0	2.0	2.0	1.9	1.3	1.1	1.3	1.6	1.9
Interest coverage ratio	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Debt/EBITDA	0.1	0.0	0.0	0.4	0.7	0.9	0.6	0.4	0.3
Dividend									
Dividend per share	12.4	5.0	6.5	12.0	18.0	5.0	10.0	15.0	20.0
Dividend Payout (%)	70.9	25.1	23.3	24.5	24.1	11.9	24.0	23.2	23.8
Dividend Yield (%)	4.9	1.4	0.2	0.4	0.7	0.3	1.1	1.3	1.5
Per share (Rs)									
Basic EPS (reported)	17.5	19.9	27.9	54.8	51.0	42.2	62.4	73.2	83.9
Book Value	38.8	77.1	100.9	206.5	319.0	185.0	232.4	288.6	352.5
CEPS	19.1	22.8	31.6	120.9	115.0	50.0	74.2	87.2	99.7
Number of Shares (mn)	5.9	5.9	5.9	12.1	12.1	27.2	27.2	27.2	27.2
Valuation									
P/E	18.6	36.8	21.2	56.5	33.4	18.6	21.5	18.3	16.0
P/BV	4.8	10.1	5.0	8.1	7.6	4.8	5.8	4.6	3.8
EV/EBITDA	11.5	22.1	7.4	18.1	19.5	11.5	12.9	11.0	9.4
EV/Sales	2.9	4.8	1.9	4.8	5.3	2.9	3.5	3.0	2.6

Source: MNCL Research Estimates

Exhibit 92: Balance Sheet

Y/E March (Rs mn)	FY16	FY17	FY18	FY19	FY20E	FY21	FY22E	FY23E	FY24E
SOURCES OF FUNDS									
Capital	36	36	59	59	121	272	272	272	272
Reserves & Surplus	191	416	533	2,450	3,754	4,751	6,039	7,564	9,300
Shareholders' Funds	**228**	**452**	**592**	**2,509**	**3,876**	**5,023**	**6,310**	**7,836**	**9,571**
Minority Interest	-	-	-	116	131	63	288	503	729
Total Loan Funds	**10**	**6**	**6**	**769**	**1,247**	**1,857**	**1,731**	**1,451**	**1,073**
Deferred Tax Liabilities-Net	15	32	37	129	149	203	288	503	729
Total Liabilities	**252**	**490**	**635**	**3,523**	**5,403**	**7,146**	**8,532**	**9,993**	**11,576**
APPLICATION OF FUNDS									
Gross Block	223	431	494	2,293	3,717	6,263	7,103	7,873	8,651
Accumulated Depreciation	99	166	188	796	953	1,166	1,486	1,868	2,298
Net Block	**124**	**264**	**306**	**1,497**	**2,764**	**5,097**	**5,616**	**6,004**	**6,353**
CWIP	2	-	9	656	1,291	459	819	949	1,083
Net Fixed Assets	**126**	**264**	**315**	**2,153**	**4,055**	**5,556**	**6,435**	**6,953**	**7,436**
Investments	20	66	62	123	229	63	95	143	214
Inventories	25	94	71	479	449	722	913	1,005	1,086
Sundry debtors	102	177	369	1,414	1,326	1,568	2,121	2,378	2,660
Cash	11	50	116	36	127	310	457	1,218	2,135
Loans & Advances	124	33	29	277	68	65	100	141	180
Other assets	-	-	-	-	438	475	557	617	639
Total Current Asset	**262**	**354**	**584**	**2,207**	**2,407**	**3,139**	**4,148**	**5,359**	**6,700**
Trade Payables	34	126	250	743	879	1,072	1,443	1,608	1,798
Current Liabilities	2	3	12	81	372	479	602	737	840
Provisions	120	44	65	50	37	62	100	117	135
Net Current Assets	**107**	**182**	**257**	**1,332**	**1,120**	**1,526**	**2,002**	**2,897**	**3,927**
Total Assets	**252**	**512**	**635**	**3,608**	**5,403**	**7,146**	**8,532**	**9,993**	**11,576**

Exhibit 93: Cash Flow

Y/E March (Rs mn)	FY16	FY17	FY18	FY19	FY20E	FY21	FY22E	FY23E	FY24E
Operating profit before WC changes	**168**	**196**	**273**	**1834**	**1,808**	**2,084**	**2925**	**3350**	**3774**
Net change in working capital	69	481	313	(542)	228	612	1,116	513	554
Cash flow from operating activities (a)	**178**	**95**	**178**	**760**	**1,613**	**1,129**	**1,904**	**2,423**	**2,758**
Capital Expenditure	18	40	64	890	2,050	1,713	1,200	900	912
FCF	163	56	117	(104)	(421)	(549)	781	1,595	1,902
Cash flow from investing activities (b)	**(15)**	**(37)**	**(62)**	**(882)**	**(1,836)**	**(1,564)**	**(987)**	**(825)**	**(845)**
Cash flow from financing activities (c)	**(160)**	**(42)**	**(50)**	**10**	**272**	**486**	**(770)**	**(837)**	**(996)**
Net change in cash (a+b+c)	**3**	**16**	**65**	**(112)**	**48**	**52**	**147**	**761**	**917**

Source: MNCL Research Estimates

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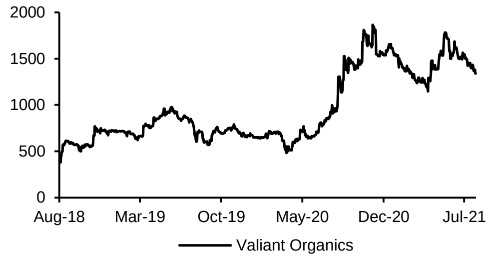
Valiant Organics



Source: Bloomberg, MNCL Research

Analyst holding in stock: **NO**

Key to MNCL Investment Rankings

Buy: Upside by>15%, Accumulate: Upside by 5%to 15%, Hold: Downside/Upside by -5% to +5%, Reduce: Downside by 5% to 15%, Sell: Downside by>15%

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