

Strong revenue growth, margins impacted

We maintain BUY rating and TP of Rs2,100 with no revisions in our FY22/FY23 estimates as we expect revenue and margins to improve in subsequent quarters. Valiant's revenue growth is in line with our expectations as the company posted revenue growth of 65.5% YoY and 4.3% QoQ. Gross and EBITDA margins witnessed contraction due to non-favorable raw material prices coupled with the loss of production days at the Jhagadia plant. Going forward, we expect the same to normalise considering company's ability to pass through price fluctuation with a quarters' lag. With ramp-up in enhanced capacities, expected stabilisation of PAP manufacturing unit and higher operational efficiencies, we continue to remain positive on Valiant Organics' long term prospects.

- Robust sales growth on the back of capex:** Valiant reported strong revenue growth of 65.5% YoY (4.3% QoQ) to Rs2,441mn. We believe that increase in revenue is attributable to incremental contribution on the back of enhanced capacities despite a virtual lockdown for majority of the quarter. This robust revenue growth further builds our conviction on the execution capabilities of Valiant as it had significantly invested in capex during FY19-21. As the lockdown is partially lifted in majority states, and end-user industries are witnessing an uptick in demand, we expect ramp-up across its product portfolio to drive revenue growth as Valiant stabilizes operations of a few of its products.
- Commodity price inflation and loss of production days at Jhagadia unit impact margins:** Gross/EBITDA margins witnessed contraction of 913bps/457bps QoQ (1611bps/1132bps YoY) to 34.5%/20.4% in Q1FY22 due to adverse impact of commodity price inflation leading to higher raw material prices of basic input products such as phenol and PAP (para amino phenol) coupled with non-operational days at Jhagadia plant owing to increased number of Covid-19 cases. Going forward, we expect the margins to improve led by higher utilization of newer capacities, higher efficiencies and rationalisation of raw material prices as we believe Valiant should be able to pass on the price fluctuation and that the margin pressure was temporary.
- PAP colour issue resolved, next step consistent production:** The company has managed to resolve its colour issue, a big step in the direction of successful commercialization of PAP. Post this, the company is working on consistent production of large batches of the purest grade PAP and expects the same to operationalize in next few months.
- Valuation and rating:** We value Valiant at 18x Jun'23 EV/EBITDA to arrive at TP of Rs2,100 and maintain BUY rating. Considering the healthy revenue growth (despite contraction in margins), we maintain our rating along with no change in FY22E/ FY23E estimates as we expect revenue and margins to improve in subsequent quarters due to higher utilization of new products and rationalisation of RMAT prices. Key risks: stabilization of PAP production, commodity price inflation.

Consolidated (Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Net Sales (Incl. op inc)	2,441	1,475	65.5	2,340	4.3
Raw Material (net)	1,600	729	119.5	1,320	21.2
Employee Cost	80	57	41.3	103	-22.0
Other expenses	264	222	19.0	334	-20.9
EBITDA	497	467	6.4	584	-14.8
EBITDA margin	20.4%	31.7%	(1132.6)bps	24.9%	(457.2)bps
Depreciation	67	50	34.7	58	16.4
Finance Costs	19	9	110.3	14	38.5
Other Income	16	17	-5.3	15	3.3
Exceptional Item	-	-	NA	-	NA
PBT	427	425	0.4	528	-19.1
Tax	141	129	9.1	181	-22.3
Minority Interest	19.8	49.4	-60.0	70.6	-72.0
Adj. PAT	266	247	7.9	276	-3.5

Source: Company, MNCL Research

Target Price	2,100	Key Data	
CMP	1,340	Bloomberg Code	VORG IN
Upside	57%	Curr Shares O/S (mn)	27.2
Price Performance (%)		Diluted Shares O/S(mn)	28.0
		Mkt Cap (Rsbn/USDmn)	37.2/501.7
		52 Wk H / L (Rs)	1991/1080
		1M	6M
		1Yr	5 Year H / L (Rs)
VORG IN	(4.5%)	3.5%	20.5%
NIFTY	4.0%	8.9%	47.3%
		Daily Vol. (3M Avg.)	69765.8

Source: ACE Equity, Bloomberg, MNCL Research

Shareholding pattern (%)

	Jun-21	Mar-21	Dec-20	Sept-20
Promoter	41.7	42.7	42.8	42.4
FII	1.8	1.8	1.8	2.1
DII	1.9	2.7	2.8	3.3
Others	54.6	52.8	52.6	52.2

Source: BSE

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: MNCL Research

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Y/E Mar (Rsmn)	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: MNCL Research Estimates, *non-comparable due to acquisition

Management call update

- Production outlook:** On the production front, capacity utilizations at Sarigram (chlorination), Vapi (ammonolysis) and Tarapur (ammonolysis) plant were around 75%, while utilization at Jhagadia plant consisting of hydrogenation products including Ortho Anisidine, Ortho Nitro Anisole and Para Anisidine was ~55-60% as there was loss of operational days due to increased Covid-19 cases in and around the area coupled with issues in one equipment (boiler). Valiant is also facing technical issues in the production of Para Anisidine (PA) which is expected to stabilize in Q2FY22.
- Demand Outlook:** Demand of products such as Ortho Anisidine faced some pressure as the dyes industry was sluggish in Q1FY22, impacted by the pandemic. With easing of lockdown restrictions, one can witness signs of revival and we expect demand to normalise. Demand on the agrochemicals, pharmaceutical and specialty chemicals front remained robust, leading to healthy revenue growth.
- High raw material prices:** Valiant's performance was negatively impacted by commodity inflation as prices of phenol and para amino phenol during the quarter were on the rise. As mentioned in our earlier report as well, Valiant's positioning in the value chain enables the company to pass on price fluctuations with a quarters' lag, thus we believe margins would return to near-normal Q2FY22 onwards. The company can also get some respite in terms EBIDTA impact as management expects some incremental contribution from the new pharma intermediates segment in H2FY22, which would help cushion impact of RMAT on EBIDTA.
- PAP Update:** The management highlighted that the colour issues faced by the company in terms of PAP production has been rectified and currently the company is working towards consistent manufacturing of the high grade PAP and expects large batch commissioning of the product towards end of Q2FY22/beginning of Q3FY22.
- Focus remains on stabilization of PAP and ramp-up of new products:** During the quarter, the company did manage to make some progress on the PAP front and the management has highlighted that the company remains focused on stabilization of processes of newer products to boost revenue growth.

Exhibit 1: Phenol prices on the rise (in Rs, excludes taxes)

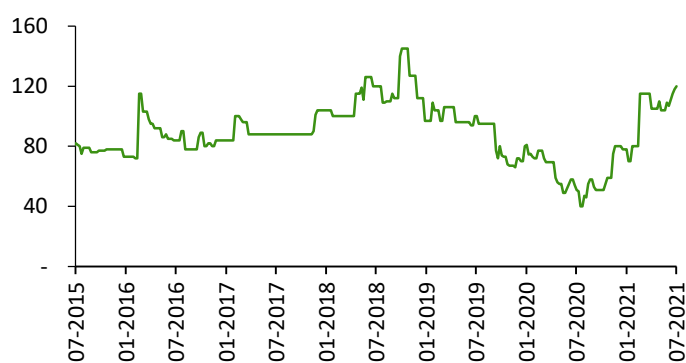
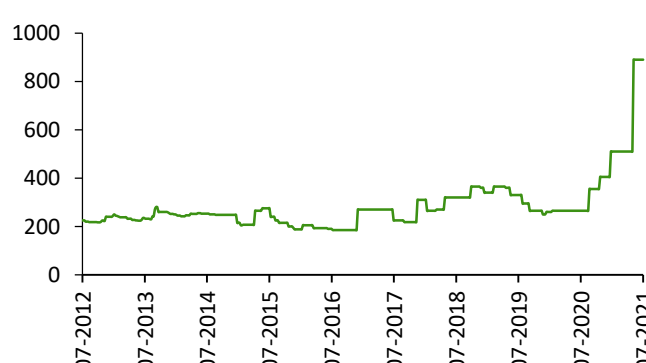


Exhibit 2: Paracetamol prices continue to remain high



Source: Chemical weekly, MNCL Research

Valuation – Enhanced capacities to drive next leg of growth; Maintain BUY with a TP of Rs2,100

Valuation using EV/EBITDA multiple

Historically, Valiant has traded at a premium to its commodity peers (and at a discount to specialty peers) owing to its high operating margins, niche product portfolio, healthy financials and best in industry return ratios. Revenue inflow from enhanced capacity and new products to strengthen its revenue growth visibility for the next couple of years coupled with its plans to re-invest cash flow generated to further fuel growth opportunities for the company.

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. 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. This along with strong revenue growth visibility and successful PAP manufacturing will drive the next leg of re-rating for the stock. We maintain our FY22/FY23/FY24 estimates.

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.

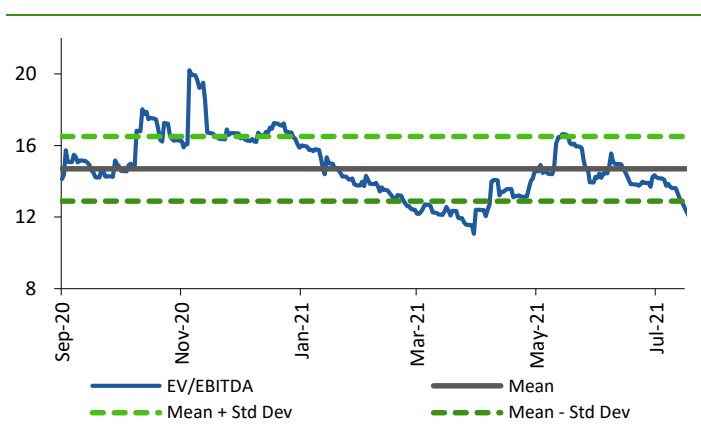
Exhibit 3: EV/EBITDA and PE Ratio Valuation

EV/EBITDA Valuation	Jun'23E
EBITDA (Rs mn)	3,165
Ascribed EV/EBITDA (x)	18
EV (Rs mn)	56,976
Add: Net Cash (Rs mn)	98
Fair value mkt cap (Rs mn)	57,074
No. of shares (mn)	27.2
Target Price/share (Rs)	2100

P/E Valuation	Jun'23E
EPS (Rs)	75.9
P/E (x)	27
Fair Value/share (Rs)	2,050

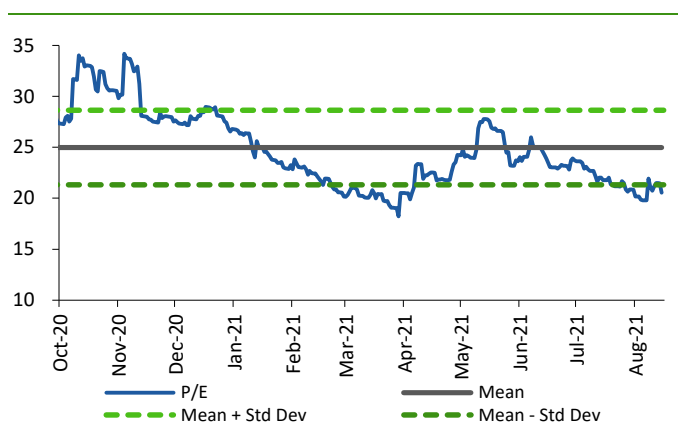
Source: MNCL Research Estimates, *adjusted for minority interest

Exhibit 4: 1-year forward EV/EBITDA chart



Source: Bloomberg, MNCL Research

Exhibit 5: 1-year forward P/E chart



Source: Bloomberg, MNCL Research

Quarterly Financials and Key Performance Indicators

Exhibit 6: Quarterly Financials

Y/E March (Rs mn)	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22
Net Sales	1,639	1,606	1,606	1,475	1,667	2,066	2,340	2,441
Raw Materials	928	962	978	732	898	1,237	1,320	1,600
Employee Costs	61	58	55	57	66	68	103	80
Other Expenditure	196	201	196	204	232	246	334	264
EBITDA	454	385	378	466	471	515	584	497
Depreciation	35	40	46	50	52	53	58	67
EBIT	419	345	332	417	419	462	526	430
Interest	6	4	5	9	14	14	14	19
Other Income	19	15	17	0	23	22	15	16
PBT	433	356	344	425	428	470	528	427
Tax	124	85	85	129	105	125	181	141
Effective Tax rate (%)	28.8	23.9	24.7	30.5	24.5	26.6	34.3	33.0
Reported PAT	308	271	259	247	307	316	276	266
Y-o-Y Growth (%)								
Revenue	NA	NA	NA	(22.3)	1.7	28.6	45.7	65.5
EBITDA	NA	NA	NA	(17.7)	3.7	33.8	54.4	6.4
PAT	NA	NA	NA	(33.8)	(1.7)	6.7	26.3	7.9
Q-o-Q Growth (%)								
Revenue	13.7	(2.0)	0.0	(8.2)	13.0	23.9	13.3	4.3
EBITDA	(22.4)	(15.3)	(1.7)	23.3	1.0	9.3	13.3	(14.8)
PAT	(16.3)	(5.2)	(26.2)	13.0	24.4	2.9	(12.6)	(3.5)
Margin (%)								
EBITDA	27.7	24.0	23.5	32.7	28.3	24.9	24.9	20.4
EBIT	25.6	21.5	20.7	29.3	25.2	22.4	22.5	17.6
PAT	19.1	18.4	13.6	16.7	18.4	15.3	11.8	10.9

Source: Company, MNCL Research

Financials (Consolidated)

Exhibit 7: Income Statement

Y/E March (Rs mn)	FY16	FY17	FY18	FY19	FY20	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 8: Key Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	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	14.4	18.6	36.8	21.2	25.3	31.8	21.5	18.3	16.0
P/BV	6.5	4.8	10.1	5.0	8.1	7.2	5.8	4.6	3.8
EV/EBITDA	9.3	11.5	22.1	7.4	18.1	18.6	12.9	11.0	9.4
EV/Sales	2.8	2.9	4.8	1.9	4.8	5.1	3.5	3.0	2.6

Source: Company, MNCL Research Estimates

Exhibit 9: Balance Sheet

Y/E March (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
SOURCES OF FUNDS									
Capital	36	36	59	59	121	272	272	272	272
Reserves & Surplus	191	416	533	2,535	3,754	4,751	6,039	7,564	9,300
Shareholders' Funds	228	452	592	2,594	3,876	5,023	6,310	7,836	9,571
Minority Interest	-	-	-	116	131	63	288	503	729
Total Loan Funds	10	6	6	826	1,381	1,991	1,731	1,451	1,073
Deferred Tax Liabilities-Net	15	32	37	129	149	203	288	503	729
Total Liabilities	252	490	635	3,665	5,537	7,280	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	24	238	345	602	737	840
Provisions	120	44	65	50	37	62	100	117	135
Net Current Assets	107	182	257	1,389	1,254	1,660	2,002	2,897	3,927
Total Assets	252	512	635	3,665	5,537	7,280	8,532	9,993	11,576

Exhibit 10: Cash Flow

Y/E March (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Operating profit before WC changes	168	196	273	1834	1,808	2,084	2,925	3,350	3,774
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: Company, MNCL Research Estimates

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Exhibit 2: Valiant Organic's Price Chart



Source: Bloomberg

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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