

Robust revenue growth, margins play spoilt sport

We maintain a BUY rating with a revised TP of Rs1,975 (earlier Rs2,100); revision is largely on account of increase in RMAT costs, which has led to downgrade in earnings for FY22E/FY23E. The company posted impressive revenue growth of 64% YoY and 12% QoQ driven by improved realisation rates and increasing utilisation of enhanced capacities; we believe that this strong revenue growth should sustain. However, high RMAT and freight costs impacted EBITDA significantly - which came below our estimates. Given the current global scenario around input costs of chemicals, we have decreased our FY22E/FY23E EBITDA estimates by 15.5/13.4% and consequently PAT estimates by 13.4/10.0% respectively. We believe the company should be able to pass through the impact with lag and considering ramp-up of enhanced capacities and expected stabilisation of PAP manufacturing unit, we continue to remain positive on Valiant Organics' long term prospects.

- Revenue growth continues to impress:** Valiant reported strong revenue growth of 63.9% YoY (11.9% QoQ) to Rs2,732mn which is in line with our expectations. We believe that this impressive revenue growth is attributable to the incremental contribution from enhanced capacities and higher realisation buoyed by disruptions faced by Chinese peers mainly in the Chlorophenols segment. The company showcased its strong execution capabilities, even though a good part of the incurred capex is yet to show steel. We further believe, with the stabilization of PAP and Para Anisidine in Q3FY22, revenue growth is expected to sustain in the coming quarters.
- Commodity price inflation continues to play spoilt sport:** Gross/EBITDA margins witnessed a contraction of 210bps/304bps QoQ (1380bps/1093bps YoY) to 32.4%/17.3% in Q2FY22 due to adverse impact of soaring RMAT prices. Prices of basic input products such as phenol and PAP (para amino phenol) remained high during the quarter (almost doubled from that of 2020), however as the company should be able to pass through the price increase with a lag, we believe the margin pressure is short to medium term.
- PAP colour issue resolved, next step consistent production:** The company is currently producing PAP in small quantities (~100MT/m) and is working towards continuous PAP production as the same would result in reduction in overheads. Going forward, the management highlighted that they should be able to scale up manufacturing to ~300MT/m, with focus on moving to continuous manufacturing.
- Valuation and rating:** We roll over to Sept' 23 EBITDA and maintain our target multiple of 18x EV/EBITDA to arrive at TP of Rs1,975. Considering the steep contraction on the margin front, we have revised our FY22/ FY23 estimates and decreased EBITDA and earnings to account for higher RMAT prices. However, we believe margins should improve in subsequent quarters with cooling-down of RMAT prices and pass through of price increase. Key risks to thesis: Delay in ramp-up in PAP production, commodity price inflation, and an uptick in Chinese production.

Consolidated (Rs mn)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)
Net Sales (Incl. op inc)	2,732	1,667	63.9	2,441	11.9
Raw Material (net)	1,848	898	105.8	1,600	15.5
Employee Cost	84	66	26.6	80	4.6
Other expenses	327	232	41.0	258	23.8
EBITDA	473	471	0.5	503	-4.8
EBITDA margin	17.3%	28.3%	(1093.1)bps	20.6%	(303.9)bps
Depreciation	68	52	32.0	67	1.2
Finance Costs	16	14	11.9	19	-16.3
Other Income	17	23	-25.3	9	6.6
Exceptional Item	-	-	NA	-	NA
PBT	406	428	-5.1	427	-4.8
Tax	107	105	1.7	141	-24.2
Minority Interest	43.8	15.9	175.7	19.8	121.7
Adj. PAT	256	307	-16.7	266	-4.0

Source: Company, MNCL Research

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%	21.2%	31.0	18.1
FY22E	10,646	41.0%	2,470	23.2%	1,468	28.2%	54.1	26.1%	20.9%	24.2	15.0
FY23E	12,187	14.5%	2,937	24.1%	1,789	21.9%	65.9	25.7%	20.8%	19.8	12.3
FY24E	13,651	12.0%	3,413	25.0%	2,093	17.0%	77.1	24.6%	21.1%	16.9	10.3

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

In the interest of timeliness, this document is not edited

Target Price	1,975	Key Data	
CMP	1,306	Bloomberg Code	VORG IN
Upside	51%	Curr Shares O/S (mn)	27.2
Price Performance (%)		Diluted Shares O/S(mn)	28.0
		Mkt Cap (Rsbn/USDmn)	35.5/473.6
		52 Wk H / L (Rs)	1991/1121
		1M	6M
		1Yr	
VORG IN (6.3%) (12.3%) (21.4%)		5 Year H / L (Rs)	1991/155
NIFTY 0.8% 20.8% 51.8%		Daily Vol. (3M Avg.)	94286

Source: ACE Equity, Bloomberg, MNCL Research

Shareholding pattern (%)

	Sep-21	Jun-21	Mar-21	Dec-20
Promoter	40.6	41.7	42.7	42.8
FIIIs	1.9	1.8	1.8	1.8
DIIIs	2.0	1.9	2.7	2.8
Others	55.5	54.6	52.8	52.6

Source: BSE

Capacity expansion of products

Process	Capacity before Expansion	Current Capacity
PAP	0 MT/m	1,000 MT/m
Para Anisidine	0 MT/m	150 MT/m
Ortho Anisidine	250-300 MT/m	400-500 MT/m
Ortho Amino Phenol	0 MT/m	80 MT/m

Source: MNCL Research

Earnings Revision

Particulars	FY22E			FY23E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	10,646	10,752	(1.0)	12,187	12,225	(0.3)
EBITDA	2,470	2,925	(15.5)	2,937	3,350	(12.3)
PAT	1,468	1,695	(13.4)	1,789	1,987	(10.0)

Source: MNCL Research Estimates

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Double whammy for China, sets input chemical costs soaring

Power shortages due to limited coal supply and stringent environmental norms in China have disrupted the global chemical supply chain causing prices of basic chemicals to skyrocket. CY2021 witnessed soaring prices of most basic input chemicals, dampening EBITDA margins of most chemical manufacturers. Passing the entire price increase in one-go is proving to be a challenge as increased logistics cost added one more layer of complexity. We believe that most companies should be able to pass on this price increase depending on their respective niche, however with a lag. This poses as a short to medium-term challenge for the whole industry. There is a silver lining to the story as continued disruptions in China are further boosting the China +1 strategy, helping the Indian chemical industry in their long-term ambition.

Valiant's margins were also impacted due to high commodity prices of major raw materials namely PAP, phenol and PNCB. Exhibit 2 showcases that PAP's import prices have been ~2x in 2021 as compared to 2020, even as few manufacturing units of PAP have commenced operations in India. Prices of paracetamol did witness some correction in Q2FY22 owing to demand stabilisation led by decreasing Covid-19 cases, limiting the ability to pass on price increase thereby adding pressure on margins. Import volume is almost flattish, as newly added PAP facilities are still in the stabilisation zone.

Exhibit 1: Paracetamol prices on the rise again post correction in Q2FY22 (Rs.)

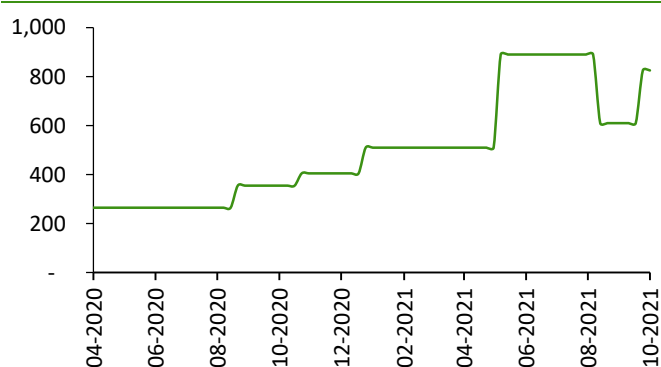
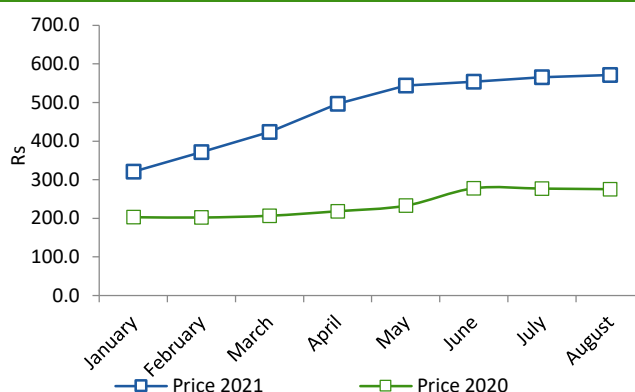
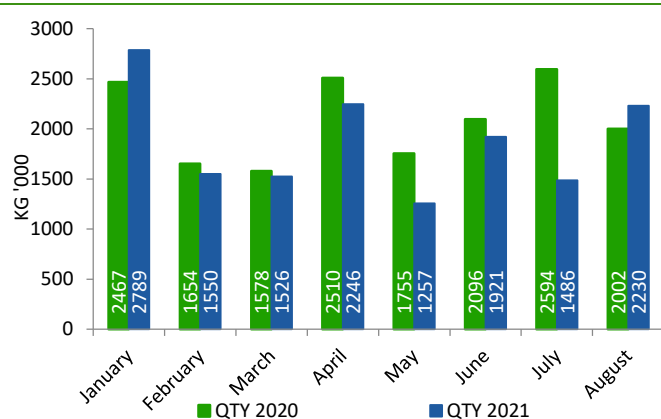


Exhibit 2: Avg monthly PAP import price in 2021 is significantly higher vs 2020



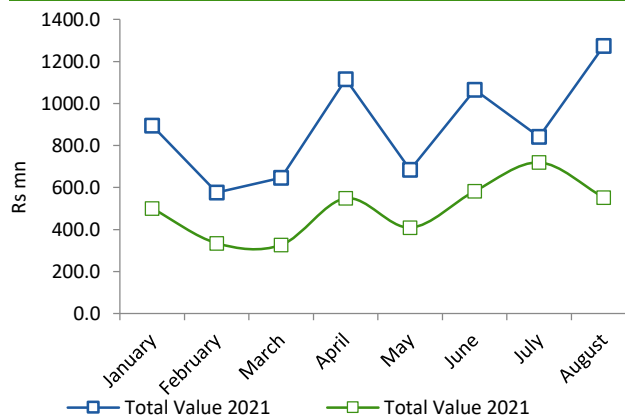
Source: Chemical weekly, MNCL Research

Exhibit 3: India continues to import PAP as production still stabilising within the country



Source: Chemical weekly, Ministry of Commerce, MNCL Research

Exhibit 4: Monthly import value of PAP (2021 vs 2020)



Apart from PAP price fluctuation, Valiant’s gross margins were deeply impacted by the surge in prices of key raw materials namely Phenol and PNCB, which have almost doubled over the last few quarters, significantly impacting margins. Phenol and PNCB together form ~40% of total raw material cost. The company believes they should be able to pass through these prices, however with a lag. Going forward, we believe the company should witness some respite on the margin front as some amount of pass-through transpires and prices start rationalising.

Exhibit 5: Phenol prices have almost doubled in last 1 year (Rs.)

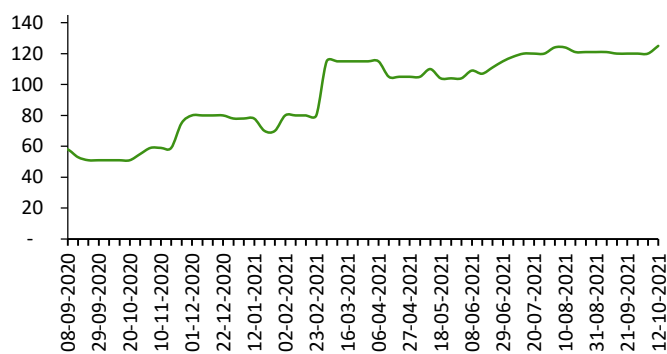
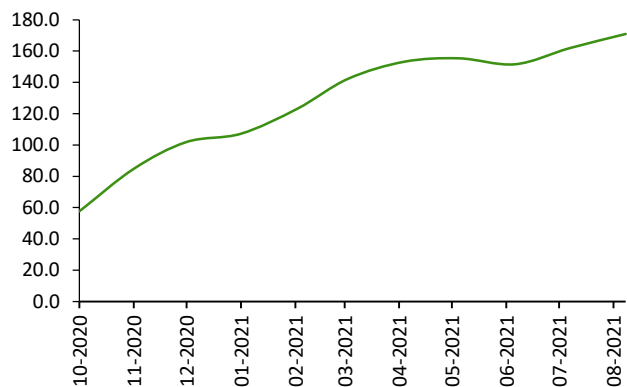


Exhibit 6: Import price of PNCB price is rising and is ~2.5x of that in last October (Rs)



Source: Ministry of Commerce, MNCL Research

Management call update

- **Legacy Chlorophenol products boost revenue growth:**
 - Increased capacity utilizations of Chlorophenol products at the Sarigram plant (+90%) buoyed revenue growth for the company as direct Chinese peers were marred by multiple disruptions and Valiant capitalised on the same by increasing market share. *Global demand for chlorophenol products is around 60,000MT/y and is expected to grow in high-single digits annually and demand is catered by 5-6 major players (most from China, Valiant being the largest Indian player).*
 - Ammonolysis utilization was ~85% for the quarter of the 16000Mt/y enhanced capacity driven by a revival of the dye market.
 - Hydrogenation's utilisation improved from lows of Q1FY22, as contribution from Ortho Anisidine and Para Anisidine increased. Going forward, we believe the improvement in utilisation levels of PA should further aid growth in hydrogenation.
- **EBITDA margin Commodity price inflation continues to play spoilt sport:** Gross/EBIDTA margins witnessed contraction of 210bps/304bps QoQ (1380bps/1093bps YoY) to 32.4%/17.3% in Q2FY22 due to adverse impact of soaring RMA prices. Prices of basic input products such as phenol and PAP (as discussed above) almost doubled from that of 2020. The margins also witnessed some pressure due to under-utilisation of the hydrogenation products. We believe with expected ramp-up in utilisation levels and pass through of price rises, the margin pressure should start easing out barring unprecedented events.
- **PAP Update:** The management highlighted that the colour issues faced by the company in terms of PAP production have been resolved and the company is focused on ramping-up production of PAP. We believe for FY22, the company should be manufacture ~1800-2200MT for FY22 (with possibility of positive surprise) as ramp up is expected every month in H2FY22. Currently, the company is working in batches and the focus will to ramp-up manufacturing and then move to continuous manufacturing process from the current batch manufacturing process.
- **Future growth outlook:**
 - The company's topline has been growing QoQ as well as YoY, with contribution from incremental capacities flowing in. This growth is without significant contribution of the march awaited Para Amino Phenol, Para Anisidine, and OAP. With stabilisation and increased utilisation of these new products, revenue growth is expected to sustain in the coming few quarters.
 - In FY22, the company is expected to incur ~Rs500-600mn capex for products in the pharma intermediates space and expects some contribution to flow Q4FY22 onwards, however, we believe significant contribution should be seen in FY23.

Valuation - Maintain BUY with a revised TP of Rs1,975; estimates revised due to margin pressure, topline growth to sustain

Valuation using EV/EBITDA multiple

We have valued Valiant at a premium to its commodity peers (and at a discount to specialty peers) driven by its niche product portfolio (its offering includes a mixture of specialty and commodity products), healthy financials and best in industry return ratios. Historically too, the company has traded at a premium to commodity and discount to specialty players. The operating margins of the company have been in the +25%, however, the same contracted steeply in H1FY22 owing to skyrocketing input costs coupled with the fact that passing through price increase became a challenge.

We assign an EV/EBITDA multiple of 18x (premium to other commodity chemical companies, however at a discount to specialty chemical players) on Sept'23 EBITDA (rolling over from Jun'23) of Rs2,956mn post which we arrive at a target of Rs1,975 (earlier TP of Rs2,100), an upside of 51% from current levels. We cut our FY22/FY23 estimates, majorly down-ward revising EBITDA margins to account for volatility in RMAT prices. Valiant's integrated business model, differentiated product portfolio, low leverage coupled with strong liquidity position merits a first-class valuation which is reflective of the superior financial performance of the company. This along with strong 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 and successful PAP manufacturing will drive the next leg of re-rating for the stock.

Going forward, we estimate a 21.8% 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 18.5% (adjusted for high RMAT costs) during FY21-24E, while PAT CAGR of 22.3%, driven by strong operating leverage and slightly higher interest cost offset by lower tax outlay.

Exhibit 7: EV/EBITDA and PE Ratio Valuation

EV/EBITDA Valuation	Sept'23E
EBITDA (Rs mn)	2,956
Ascribed EV/EBITDA (x)	18
EV (Rs mn)	53,201
Add: Net Cash (Rs mn)	423
Fair value mkt cap (Rs mn)	53,624
No. of shares (mn)	27.2
Target Price/share (Rs)	1,975

P/E Valuation	Sept'23E
EPS (Rs)	71.5
P/E (x)	27
Fair Value/share (Rs)	1,930

Source: MNCL Research Estimates, *adjusted for minority interest

Quarterly Financials and Key Performance Indicators

Exhibit 8: Quarterly Financials

Y/E March (Rs mn)	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22
Net Sales	1,606	1,606	1,475	1,667	2,066	2,340	2,441	2,732
Raw Materials	962	978	732	898	1,237	1,320	1,600	1,848
Employee Costs	58	55	57	66	68	103	80	84
Other Expenditure	201	196	204	232	246	334	258	327
EBITDA	385	378	466	471	515	584	503	473
Depreciation	40	46	50	52	53	58	67	68
EBIT	345	332	417	419	462	526	436	405
Interest	4	5	9	14	14	14	19	16
Other Income	15	17	0	23	22	15	9	17
PBT	356	344	425	428	470	528	427	406
Tax	85	85	129	105	125	181	141	107
Effective Tax rate (%)	23.9	24.7	30.5	24.5	26.6	34.3	33.0	26.3
Reported PAT	271	259	247	307	316	276	266	256
Y-o-Y Growth (%)								
Revenue	NA	NA	(22.3)	1.7	28.6	45.7	65.5	63.9
EBITDA	NA	NA	(17.7)	3.7	33.8	54.4	7.7	0.5
PAT	NA	NA	(33.8)	(1.7)	6.7	26.3	7.9	(16.7)
Q-o-Q Growth (%)								
Revenue	(2.0)	0.0	(8.2)	13.0	23.9	13.3	4.3	11.9
EBITDA	(15.3)	(1.7)	23.3	1.0	9.3	13.3	(13.7)	(6.0)
PAT	(5.2)	(26.2)	13.0	24.4	2.9	(12.6)	(3.5)	(4.0)
Margin (%)								
EBITDA	24.0	23.5	32.7	28.3	24.9	24.9	20.6	17.3
EBIT	21.5	20.7	29.3	25.2	22.4	22.5	17.9	14.8
PAT	18.4	13.6	16.7	18.4	15.3	11.8	10.9	9.4

Source: Company, MNCL Research

Financials (Consolidated)

Exhibit 9: 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	10,646	12,187	13,651
% growth	(11.8)	40.9	64.4	473.8	(2.5)	11.8	41.0	14.5	11.9
Raw Materials	251	426	635	4,264	3,931	4,187	6,462	7,227	7,986
% of sales	48.2	58.1	52.7	61.6	58.2	55.5	60.7	59.3	58.5
Personnel	23	33	48	185	228	294	373	427	491
% 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	1,341	1,597	1,761
% of sales	17.1	12.4	21.5	9.8	11.7	13.5	12.6	13.1	12.9
EBITDA	158	184	264	1,798	1,803	2,052	2,470	2,937	3,413
EBITDA Margin (%)	30.3	25.1	21.9	26.0	26.7	27.2	23.2	24.1	25.0
Depreciation	9	17	22	136	158	212	287	337	372
EBIT	149	167	242	1,662	1,645	1,839	2,182	2,600	3,041
Interest Expenses	5	3	5	37	23	50	83	98	90
PBT From Operations	144	165	237	1,625	1,622	1,789	2,099	2,502	2,951
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	2,165	2,574	3,030
Tax-Total	55	63	89	500	423	540	545	649	764
Effective Tax Rate (%)	35%	35%	35%	29%	25%	29%	25%	25%	25%
PAT	103	117	163	1,213	1,262	1,309	1,619	1,925	2,266
Minority Interest	-	-	-	-	23	164	151	137	173
Extraord. items -Adj.	-	-	-	120	-	-	-	-	-
Reported PAT	103	117	163	1,332	1,239	1,145	1,498	1,789	2,093

Exhibit 10: 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	41.0	14.5	12.0
EBITDA	41.2	16.8	43.3	580.9	0.3	13.8	20.4	18.9	16.2
Adjusted Net Profit	41.1	13.7	40.0	715.5	(7.0)	(7.6)	28.2	21.9	17.0
Margin Ratio (%)									
EBITDA Margin	30.3	25.1	21.9	26.0	26.7	27.2	23.2	24.1	25.0
EBIT Margin	28.5	22.8	20.1	24.0	24.4	24.4	20.5	21.3	22.3
PBT Margins	27.6	22.4	19.7	23.5	24.0	23.7	19.7	20.5	21.6
PAT Margin	19.7	15.9	13.5	19.2	18.4	15.2	13.8	14.7	15.3
Return Ratio (%)									
ROE	45.1	34.3	31.3	85.9	38.8	25.7	26.1	25.7	24.6
ROCE	41.9	31.9	29.6	59.6	28.7	21.4	20.9	20.8	21.1
ROIC	40.2	31.9	35.0	61.3	28.6	21.7	22.0	23.2	25.0
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	0.4	0.3	0.2
Net Debt-Equity	0.0	0.0	0.0	0.3	0.3	0.3	0.2	0.1	0.0
Current ratio	3.0	2.0	2.0	1.9	1.3	1.1	1.2	1.5	1.8
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	0.9	0.7	0.5
Dividend									
Dividend per share	12.4	5.0	6.5	12.0	18.0	5.0	10.0	12.0	15.0
Dividend Payout (%)	70.9	25.1	23.3	24.5	24.1	11.9	18.5	18.2	19.5
Dividend Yield (%)	4.9	1.4	0.2	0.4	0.7	0.3	0.8	0.9	1.1
Per share (Rs)									
Basic EPS (reported)	17.5	19.9	27.9	54.8	51.0	42.2	54.1	65.9	77.1
Book Value	38.8	77.1	100.9	206.5	319.0	185.0	229.0	282.9	345.0
CEPS	19.1	22.8	31.6	120.9	115.0	50.0	64.6	78.3	90.8
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	31.0	24.2	19.8	16.9
P/BV	6.5	4.8	10.1	5.0	8.1	7.1	5.7	4.6	3.8
EV/EBITDA	9.3	11.5	22.1	7.4	18.1	18.1	15.0	12.3	10.3
EV/Sales	2.8	2.9	4.8	1.9	4.8	4.9	3.5	3.0	2.6

Source: Company, MNCL Research Estimates

Exhibit 11: 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	5,947	7,410	9,096
Shareholders' Funds	228	452	592	2,594	3,876	5,023	6,219	7,682	9,368
Minority Interest	-	-	-	116	131	63	214	351	524
Total Loan Funds	10	6	6	826	1,381	1,991	2,307	2,067	1,689
Deferred Tax Liabilities-Net	15	32	37	129	149	203	203	203	203
Total Liabilities	252	490	635	3,665	5,537	7,280	8,943	10,302	11,784
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	1,453	1,790	2,162
Net Block	124	264	306	1,497	2,764	5,097	5,650	6,083	6,489
CWIP	2	-	9	656	1,291	459	819	949	1,083
Net Fixed Assets	126	264	315	2,153	4,055	5,556	6,468	7,032	7,572
Investments	20	66	62	123	229	63	95	143	214
Inventories	25	94	71	479	449	722	904	1,002	1,085
Sundry debtors	102	177	369	1,414	1,326	1,568	2,100	2,371	2,655
Cash	11	50	116	36	127	310	865	1,454	2,193
Loans & Advances	124	33	29	277	68	65	99	140	180
Other assets	-	-	-	-	438	475	552	616	638
Total Current Asset	262	354	584	2,207	2,407	3,139	4,520	5,582	6,751
Trade Payables	34	126	250	743	879	1,072	1,429	1,603	1,795
Current Liabilities	2	3	12	24	238	345	612	735	823
Provisions	120	44	65	50	37	62	99	117	135
Net Current Assets	107	182	257	1,389	1,254	1,660	2,380	3,128	3,998
Total Assets	252	512	635	3,665	5,537	7,280	8,943	10,302	11,784

Exhibit 12: 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	2470	2,937	3,413
Net change in working capital	69	481	313	(542)	228	612	1,072	542	560
Cash flow from operating activities (a)	178	95	178	760	1,613	1,129	1,567	2,094	2,474
Capital Expenditure	18	40	64	890	2,050	1,713	1,200	900	912
FCF	163	56	117	(104)	(421)	(549)	429	1,268	1,630
Cash flow from investing activities (b)	(15)	(37)	(62)	(882)	(1,836)	(1,564)	(1,107)	(840)	(860)
Cash flow from financing activities (c)	(160)	(42)	(50)	10	272	486	95	(664)	(875)
Net change in cash (a+b+c)	3	16	65	(112)	48	52	555	589	739

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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