BP WEALTH

Initiating Coverage Report

Valiant Organic Ltd

Quantum Leap Forward

BP Wealth stoxbox

Institutional Research

January 2022

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Valiant Organics Ltd.

Buy

BP WEALTH

Chemical | Initiating Coverage 28th January 2022

Company Background

Starting as a single product manufacturing company in 1984, Valiant has established itself as a leading producer of Chlorination, Ammonolysis, Acetylation, Hydrogenation, and Methoxylation based specialty products in India. It manufactures a wide portfolio of products used as intermediates in several end-user industries and several value-added products. The company derives 88% of its revenue from the domestic market and 12% from exports. End-use Industries wise 40% revenue derived from Agro-Chemical, 30% from Speciality Chemical, 20% from Dye and Pigment, and the rest 10% from the Pharmaceuticals. The top 5 products contribute 77%, and the top 5 customers contribute 35% of the total operating revenue. VOL has strong list of clients such as BASF, Lanxess, Bayer Crop Science, Coromandel, Gujarat Insecticides Ltd etc.

Investment Rationale

Strategic expansions coupled with new products introduction to drive growth

VOL has growing at a very fast pace in the last ten-years using both organic as well as inorganic methods i.e. by expanding the manufacturing capacity of its plants as well as acquiring other companies. Over the last three years (FY19-21) VOL has incurred capex of ~INR 4.4bn and the enhanced capacities to continue its strong revenue growth momentum for next 2-3 year. In light of the growing demand, VOL increased Chlorophenol capacity (by 3.75x) to 18,000 MT per annum by completing the expansion at the Sarigam plant (in FY20). They also added Ortho Nitro Anisole and Para Nitro Anisole to their portfolio. VOL has increased the capacities of our hydrogenation products from the earlier 18,000 MTPA to 26,000 MTPA. Further, the company is increased the Ammonolysis capacity at Tarapur and Vapi plants from ~13,000 MT per annum to 16,000 MTPA. The company commences operations of Para Amino Phenol (PAP) by completing Phase1 in Q4 FY21. However, due to technical difficulties in achieving the desired specification, the large production was delayed, which is expected to ramp up from Q3 FY22. The Ortho Amino Phenol (OAP) manufacturing is expected to commence in Q4FY22 with a significant ramp-up in FY23. Both of these products (PAP and OAP) are import substitute opportunities. Further, in order to benefit from surging and high growth API segment, company is expanding its API business which will increase the pharma revenue share in coming years. The Company plans to incur ~INR 1.25bn as Capex during FY 2021-22 (INR 0.6bn for Pharma Intermediaries project, INR 0.3bn towards PAP process enhancements and INR 0.35bn towards other units' P&M and maintenance). Going forward, the Company continue to utilize ~INR 1.20bn – 1.50bn as growth capex every year.

Integrated operations provides stability in margin

VOL has carried both backward and forward integration projects focussing on high value products, thereby, driving efficiency. The backward integration at the Jhagadia plant helped the Company manufacture its raw materials in-house, leading to significant cost savings and superior profit margins. The company is moving up and down the value chain in Hydrogenation and PAP-Paracetamol business to insulate itself from volatility in pricing and climbing the ladder in speciality product segment to improve the product mix. As per the government policy for Make in India, the Company is planning to apply for environmental clearance for drug Intermediates / API as import substitutes. It is also aiming to go for both organic and inorganic growth. VOL is leveraging its extensive domain experience and integrated manufacturing operations as part of forward integration. VOL is also working towards reducing plants' energy requirement per unit of output and achieved moderate cost savings by converting high-pressure steam from manufacturing processes to power the plants. All these strategies are helping the company in maintaining consistency in product quality and optimizing the resources while lowering the production costs and maintaining healthy margins. The company's FY21 EBITDA margin stood at 27.2%, majorly fuelled by higher realization of paracetamol. However, higher raw material prices and inability to pass through has impacted H1FY22 margin performance (Console EBITDA margin in H1FY22: 18.8%), mainly due to sharp run-up in the key raw materials prices like Phenol and PNCB (collectively account 40%). Although, management expects a sharp recovery in the margin Q3 onwards as the prices of most raw materials are now stabilizing, and the company is passing on price increase to the customers. For FY22, management guided a 22% EBITDA margin which means 25% EBITDA margin in H2FY22. Going ahead, The Company is targeting to achieve sustainable EBITDA margins in the range of 22-25%.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook **Positive**

Stock

CMP (Rs)	1,124
Target Price (Rs)	1,782
BSE code	540145
NSE Symbol	VALIANTORG
Bloomberg	VORG IN
Reuters	VALN.BO

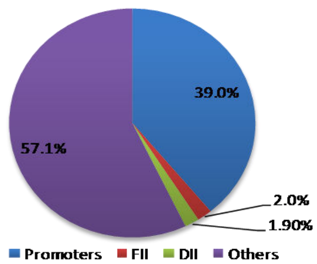
Key Data

Nifty	17.110
52 Week H/L (Inr)	1,845/975
O/s Shares (Mn)	28
Market Cap (Bn)	31
Face Value (Inr)	10

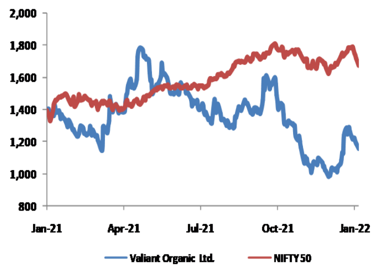
Average volume

3 months	61,270
6 months	77,510
1 year	67,390

Share Holding Pattern (%)



Relative Price Chart



Research Analyst
Nikhil Shetty
nikhilshetty@bpwealth.com
022-61596408

PAP: limited availability to support faster absorption

VOL is the only company in India to commercially manufacture PAP (key intermediate used to manufacture Paracetamol). The company has installed a capacity of 12,000 TPA (Capex incurred of INR2.2bn). A significant part of the capacity approx. 7,000 TPA would be used by its step-down subsidiary Bharat Chemical(Paracetamol manufacturer) and would sell the rest to the market. On a operational front, due to technical difficulties in achieving the desired specification, the actual production was delayed. However, The management highlighted that they had corrected the technical issues faced by PAP production. Currently, working towards consistent manufacturing of PAP with small batches and expects large batch commissioning of the product from Q4FY22. Since March 2020, PAP prices have increased from INR 207/kg to INR 598/kg (5 years Avg INR 259/ Kg). Management expects PAP prices to decline going forward as other domestic manufacturers' commence their production. We expect PAP production of 4000-4500MT in FY22, on the back of better ramp up in H2FY22 due to commencement of large batch production. With faster absorption of PAP capacity, we expect by FY24e its contribution to overall sales to reach 26%..

Financial performance to improve further

VOL's capacity expansion in line with rising demand in end-user industries provides strong revenue visibility. During FY16-21, VOL has clocked revenue growth CAGR of 70.7% with an average asset turnover of 2.1x. We expect similar asset turnover on incremental CAPEX, which translates into an additional INR 8-9bn to revenues at peak utilization over the next 3-4 years. We expect VOL to deliver a 25.7% revenue CAGR over FY21-24e driven by the benefit of capex, new products' launch, and expanding geographical reach. Over the last 5 years, the company has maintained average RoCE of more than 40% with the average RoE of the company being strong at 40.8% in FY21. Chlorophenol business (23% of revenue) remains a high ROCE business for VOL. Post the acquisition of two Aarti group companies (Abhilasha and Amariyot) and the new capex lined up, we expect VOL to generate an average ROCE of 31.4% over FY22e-24e. Historically, the company has touched ~30% operating margins and this is attributed to its unique product selection strategy, backward integration approach and focus on high-value products, thereby driving efficiency. We expect VOL to post-healthy 23.2% EBITDA CAGR over FY21-24E led by the backward integration approach, commercialization of new products adopted in Hydrogenation and PAP-Paracetamol chemistry; we believe the company can able to maintain EBITDA margins in the range of 22-25% in the long term. The Cash conversion cycle is expected to remain stable at 35- 40 days over FY22-24. Despite the continued Capex, the company's debt-to-equity ratio would fall to 0.1x in FY24e, against 0.37x in FY21. Similarly, Net debt/ EBITDA ratio is expected to improve from 0.8x in FY21 to –0.1x by FY24E.

Why we like this stock & valuation methodology

VOL commands a leadership position in the domestic Chloro Phenols market and is the key producer of Para Nitro Aniline (PNA) in India. The company is fully integrated and has an import substitution opportunity persisting for products like Para Anisidine (PA) and Ortho Amino Phenol (OAP), while Para Amino Phenol (PAP), currently has limited availability domestically and is mainly imported. Over the last five years, The Company has maintained a superior EBITDA margin profile (+25%). However, the sharp increase in the input costs combined with a delay in the passing-through price increase to the customers led to a 660bps contraction (vs 5 yr Avg) EBITDA margin in the H1FY22. Although management expects a sharp recovery in the margin Q3 onwards as the prices of most raw materials are now stabilizing, the company is passing on the price increase to the customers. Going ahead, The Company is targeting to achieve sustainable EBITDA margins in the range of 22-25%. Considering the integrated business model, superior financial performance, healthy balance sheet with improving return ratios, we are optimistic about the company's long-term growth prospects. We foresee 25.7% revenue CAGR, EBITDA expansion of 23.2% CAGR, and 29.5% growth in earnings over FY21-24E. At the CMP (INR 1,124), the stock trades at 12.6x FY24e EPS and 8.1x EV/EBITDA. We believe the stock to witness gradual re-rating on the back of a faster absorption of recently commissioned capacities coupled with a healthy product pipeline. We initiate coverage on the stock & recommend a 'BUY' rating with a target price of INR 1,782 per share, valuing the company at 20x FY24e earnings.

Key Financials						
YE March (Inr. mn)	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**	**FY24E**
Revenue	**6,923**	**6,749**	**7,548**	**10,537**	**12,628**	**14,998**
Revenue Growth (Y-oY)	*473.8%*	*(2.5%)*	*11.8%*	*39.6%*	*19.9%*	*18.8%*
EBITDA	**1,802**	**1,805**	**2,054**	**2,355**	**3,031**	**3,838**
EBITDA Growth (Y-o-Y)	*582.3%*	*0.2%*	*13.8%*	*14.7%*	*28.7%*	*26.6%*
Net Profit	**1,332**	**1,239**	**1,146**	**1,418**	**1,905**	**2,489**
Net Profit Growth (Y-o-Y)	*715.4%*	*(7.0%)*	*(7.6%)*	*23.8%*	*34.3%*	*30.7%*
Diluted EPS	**47.7**	**44.3**	**41.0**	**50.8**	**68.2**	**89.1**
Diluted EPS Growth (Y-o-Y)	*715.4%*	*-7.0%*	*-7.6%*	*23.8%*	*34.3%*	*30.7%*
No of Diluted shares (mn)	**27.9**	**27.9**	**27.9**	**27.9**	**27.9**	**27.9**
Key Ratios						
EBITDA (%)	**26.0%**	**26.7%**	**27.2%**	**22.3%**	**24.0%**	**25.6%**
NPM (%)	19.2%	18.4%	15.2%	13.5%	15.1%	16.6%
RoE (%)	**76.1%**	**38.3%**	**25.7%**	**25.3%**	**27.5%**	**28.8%**
RoCE (%)	60.4%	57.9%	33.5%	29.2%	30.4%	34.4%
Tax Rate %	**27.3%**	**25.1%**	**29.2%**	**25.2%**	**25.2%**	**25.2%**
Book Value Per share (Rs.)	93	139	180	221	275	344
Valuation Ratios						
P/E (x)	**23.6x**	**25.3x**	**27.4x**	**22.1x**	**16.5x**	**12.6x**
EV/EBITDA	17.8x	18.0x	16.0x	13.9x	10.6x	8.1x
P/BV (x)	**12.1x**	**8.1x**	**6.2x**	**5.1x**	**4.1x**	**3.3x**
Market Cap. / Sales (x)	4.5x	4.7x	4.2x	3.0x	2.5x	2.1x
Net Debt / EBITDA	**0.4x**	**0.6x**	**0.8x**	**0.6x**	**0.3x**	**-0.1x**
Debt to Equity	0.3x	0.3x	0.4x	0.3x	0.2x	0.1x

Source: Ace Equity, BP Equities Research

Investment Rationale

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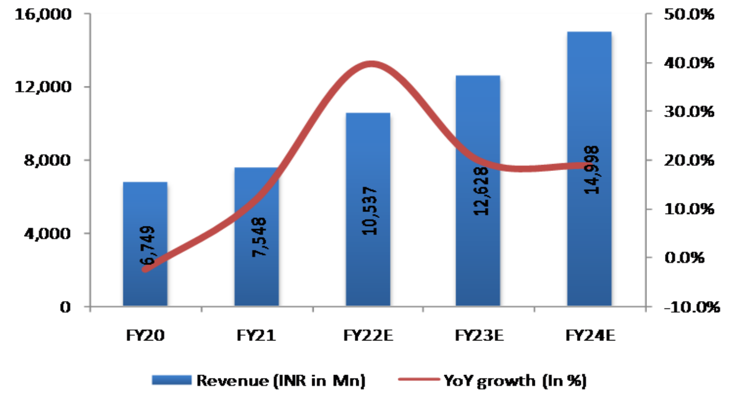
Chemistry wise Capacity and Revenue details

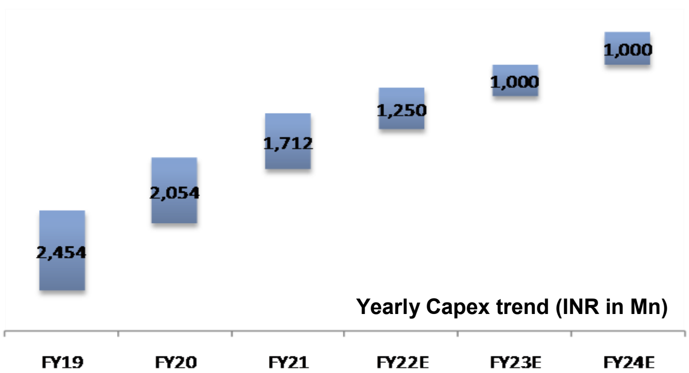
Process (MT/ y)	Manufacturing facility	Current Capacity	Key Products	Revenue Share in FY21
Chlorination	Sarigram	18,000	PCP, OCP, 2,4 DCP, 2,6 DCP	23%
Ammonolysis	Vapi and Tarapur	13,200	PNA, OCPNA	21%
Hydrogenation & Methoxylation	Jagadia (Unit 1)	27,000	ONA/OA, PNA/PA, IPPCA, Conversion Products	10%
Hydrogenation	Jagadia (Unit 2)	12,000	PAP, Pharma Intermediates	Commissioned in Q4FY21
Acetylation, Sulphonation & Orhers	Ahmadabad	3,000	6 ACETYL OAPSA, OA/PA ACETANILIDE, OT5SA	17%

Source: Company BP Equities Research

Revenue expected to grow at 25.7% CAGR over FY21-24e



Continues Capex to support growth engine



Source: Company BP Equities Research

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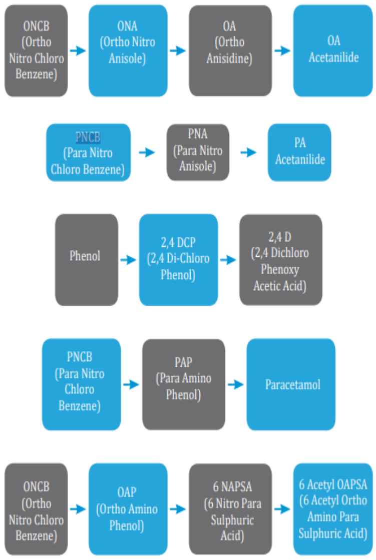
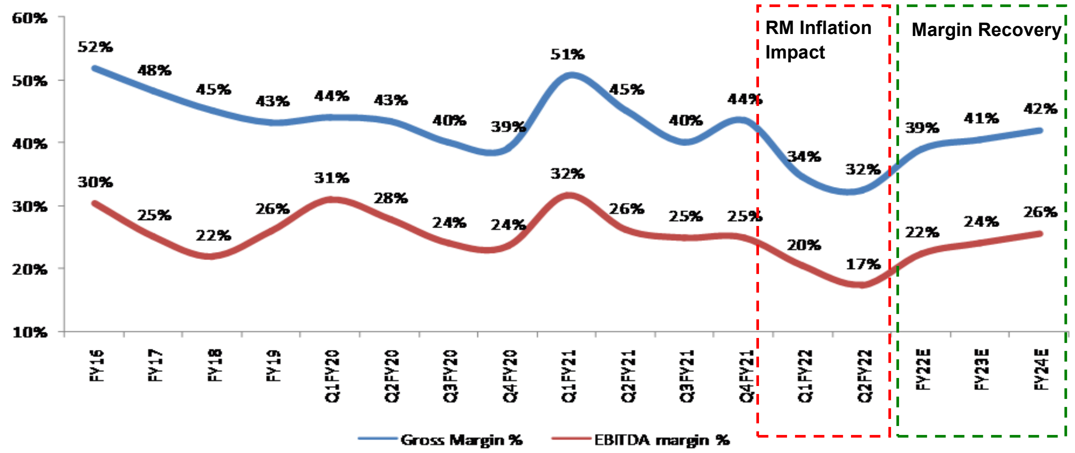
Highly Integrated Operations: Product Value Chain



Source: Company

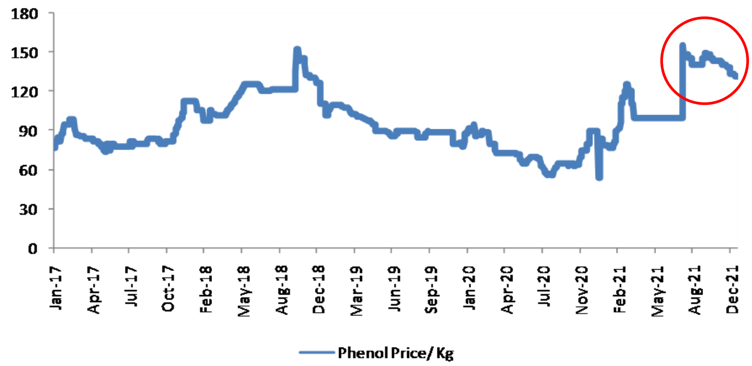
Quarterly Gross and EBITDA margin trend

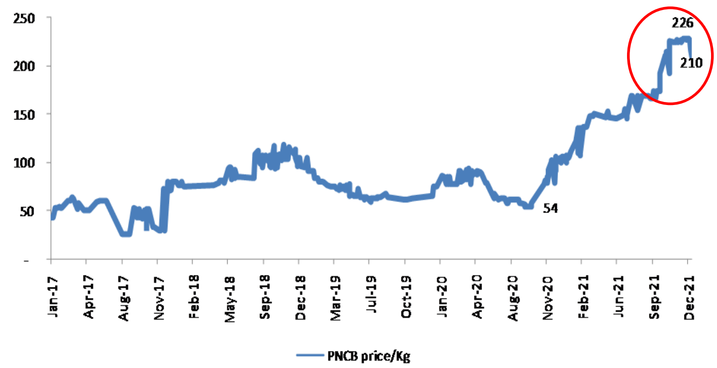


Higher raw material prices and inability to pass through has impacted H1FY22 margin performance (Console EBITDA margin in H1FY22: 18.8%), mainly due to sharp runup in the key raw materials prices like Phenol and PNCB (collectively account 40%).

Source: Company, BP Equities Research

Phenol and PNCB prices are now showing some softness which is positive for the company





Source: Industry, BP Equities Research

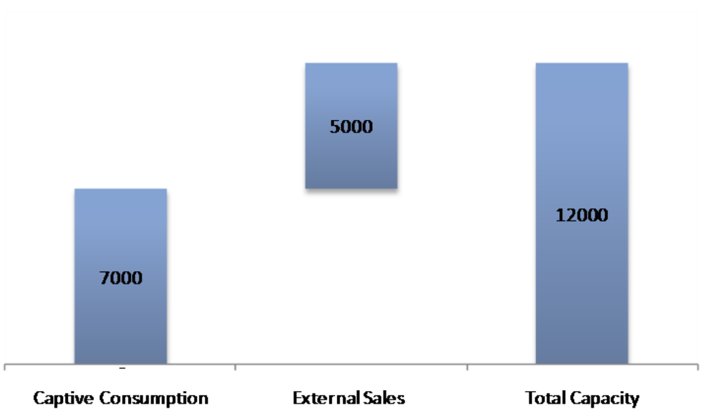
PAP: limited availability to support faster absorption

VOL is the only company in India to commercially manufacture PAP (key intermediate used to manufacture Paracetamol). The company has installed a capacity of 12,000 TPA (Capex incurred of INR2.2bn). A significant part of the capacity approx. 7,000 TPA would be used by its step-down subsidiary Bharat Chemical(Paracetamol manufacturer) and would sell the rest to the market. On a operational front, due to technical difficulties in achieving the desired specification, the actual production was delayed. However, The management highlighted that they had corrected the technical issues faced by PAP production. Currently, working towards consistent manufacturing of PAP with small batches and expects large batch commissioning of the product from Q4FY22. Since March 2020, PAP prices have increased from INR 207/kg to INR 598/kg (5 years Avg INR 259/ Kg). Management expects PAP prices to decline going forward as other domestic manufacturers' commence their production. We expect PAP production of 4000-4500MT in FY22, on the back of better ramp up in H2FY22 due to commencement of large batch production. With faster absorption of PAP capacity, we expect by FY24e its contribution to overall sales to reach 26%..

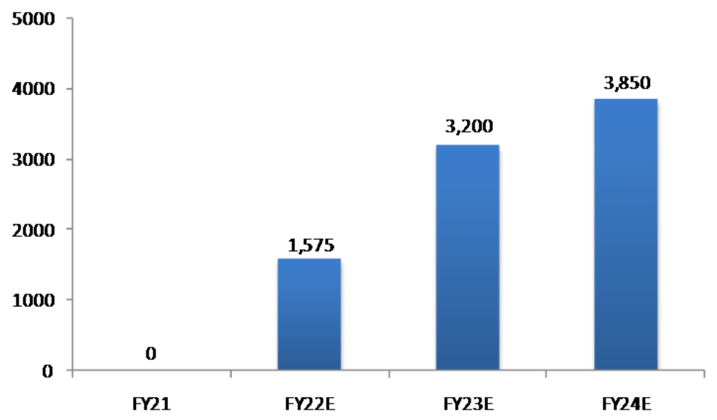
Bharat Chemical has enhanced its paracetamol manufacturing capacity from 6,600MTPA to 9,000MTPA with an expandable approval of 13,500MTPA..

With an Input /Output ratio of 0.8 (PAP to Paracetamol), at peak production of Paracetamol capacity, the PAP requirement for Bharat Chemical can be 10,800TPA.

VOL's PAP capacity distribution

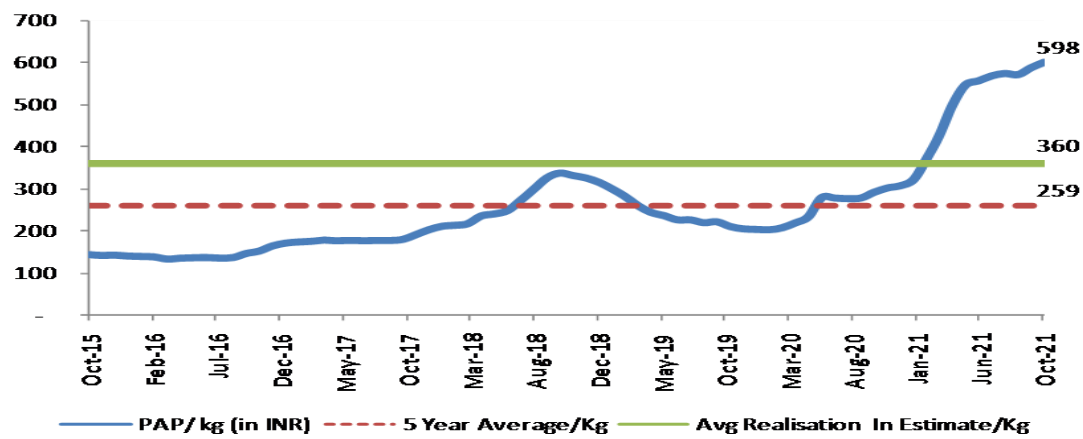


PAP: Revenue contribution to be significant by FY24



Source: Company, BP Equities Research

PAP's imported price has been doubled in 2021 as compared to 2020



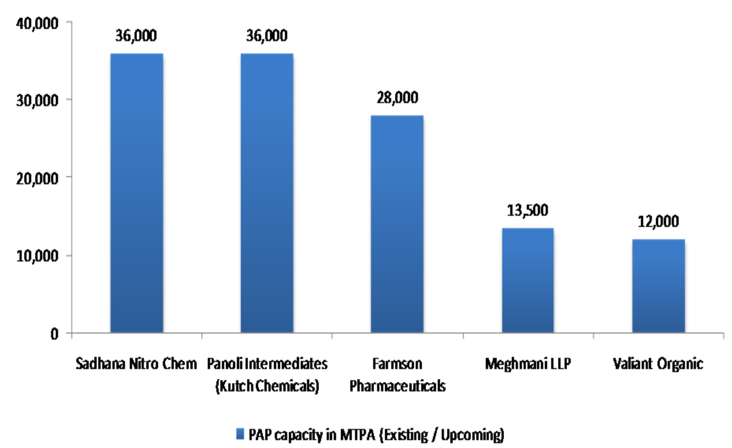
Source: Industry, BP Equities Research

Para-Aminophenol (PAP) Market Overview

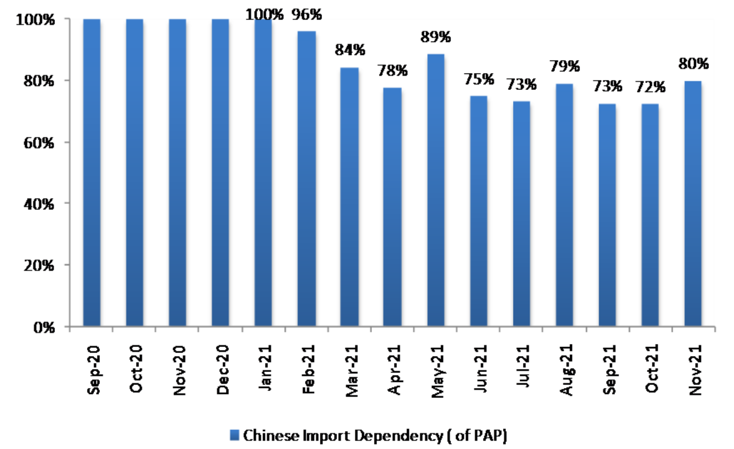
Para-aminophenol (PAP) is classified into different categories based on its purity. The most commonly available qualities are 98% pure, 99% pure and 99.5% pure. Based on the purity, its cost also varies. Based on its quality and physical state, the price range of para-aminophenol purchased through retailers in India varies from INR 400/kg to INR 1000/kg. As per the industry reports, globally around 90% of para-aminophenol is used to synthesise Paracetamol, whereas 5% each of it is used for preparing rubber antioxidants and dyes. According to a report by Marketwatch, The global PAP market is valued at $443 mn in 2020 is expected to reach $553mn by the end of 2026, growing at a CAGR of 3.2% during 2021-2026. Currently, China is the largest producer of PAP, having a expected manufacturing capacity of nearly 1,10,000 tonnes per annum (TPA). Globally the major producers of PAP are Taixing Yangzi (35,000 TPA), Liaoning Shixing (40,000 TPA), Anuhi Bayi Chemical (60,000 TPA) etc. India is one of the major consumers of PAP. In India, the demand for PAP is nearly 40,000 TPA, and most of it (around 28,000 to 30,000 TPA) is met through imports from China. In 2020, due to the COVID-19 pandemic, the supply of p-aminophenol and other essential Key Starting Materials (KSMs) and Active Pharmaceutical Ingredients (APIs) from China saw a sudden surge in the prices. If we specifically consider p-aminophenol, its price increased by almost 100% compared to the previous year. While during the last year, the price of PAP imported from China was around INR 301/kg compared to the current price of INR 598/kg. Moreover, the constant face-off between India and China at the border added fuel to the fire. The outburst in the prices due to the pandemic and the ongoing friction with China led the Indian Government to introduce a PLI scheme to reduce our dependence on China and promote the manufacturing of these Key Starting Materials (KSMs) and Active Pharmaceutical Ingredients (APIs) in our country itself. Para-Aminophenol, the main ingredient required for the production of Paracetamol, also comes under the list of KSMs and hence is eligible for the PLI scheme. If all the planned investments fructify, India's PAP capacity could rise substantially, which therefore can meet a significant portion of domestic demand.

Global demand for PAP (including captive consumption) is estimated at about 1,50,000 with about 1,40,000 accounted for by Paracetamol and about 5,000 each for making rubber antioxidants and dyes.

Company wise PAP capacities in India

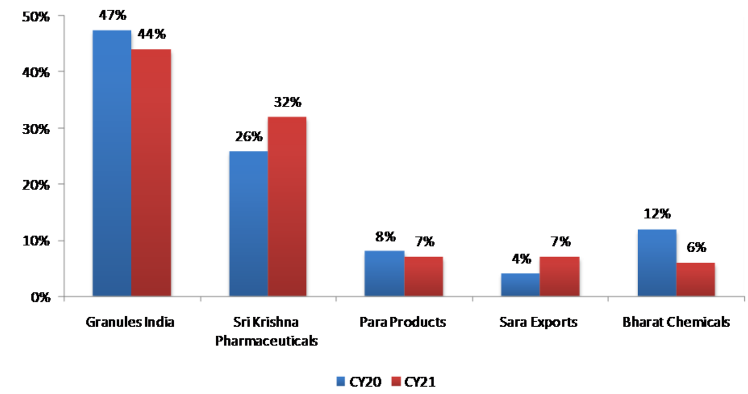


Chinese Import Dependency reducing due to tight supply and domestic availability

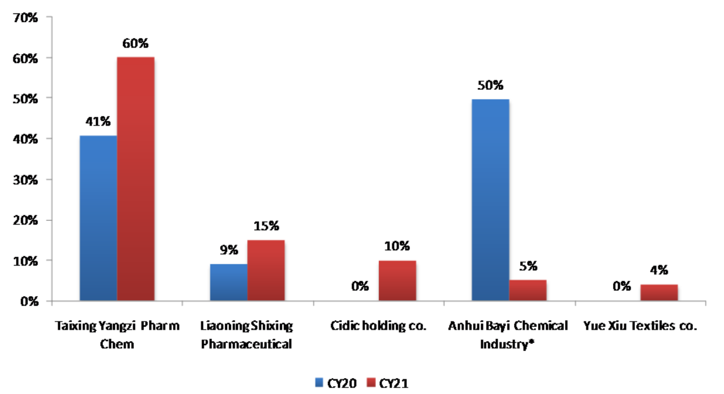


Source: Industry, BP Equities Research

Granules India and Sri Krishna Pharma accounts ~76% of PAP import



Chinese Players wise PAP Export Share



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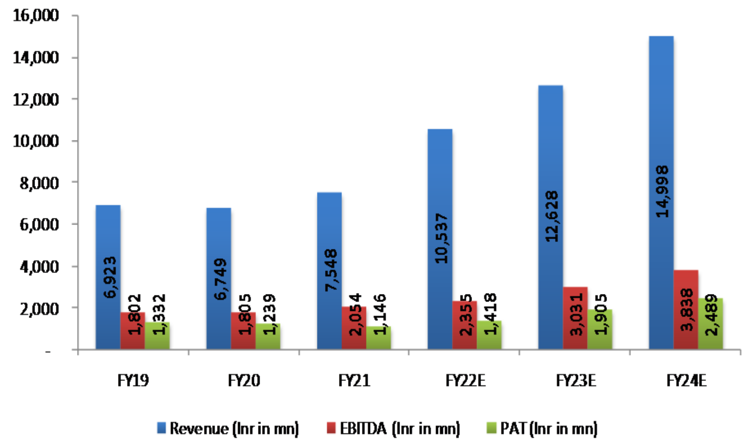
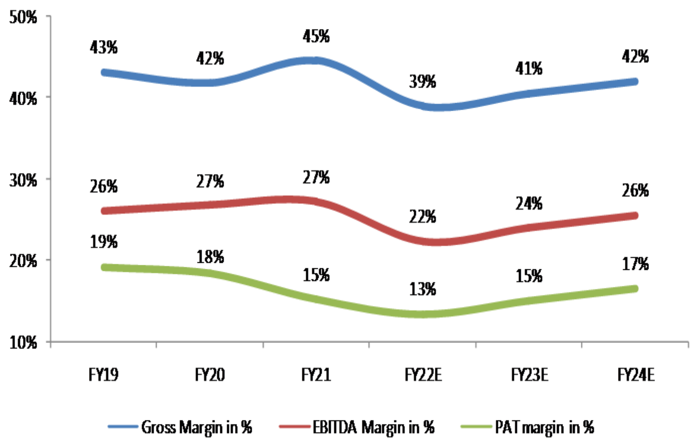
Operation performance to grow at better pace

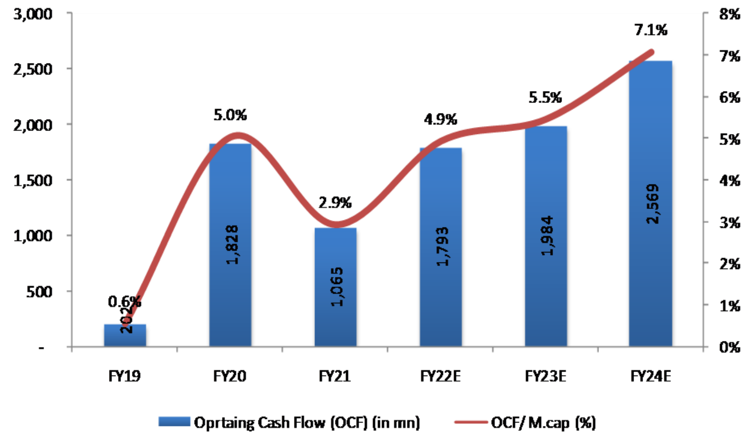


Overall Margins to witness healthy recovery

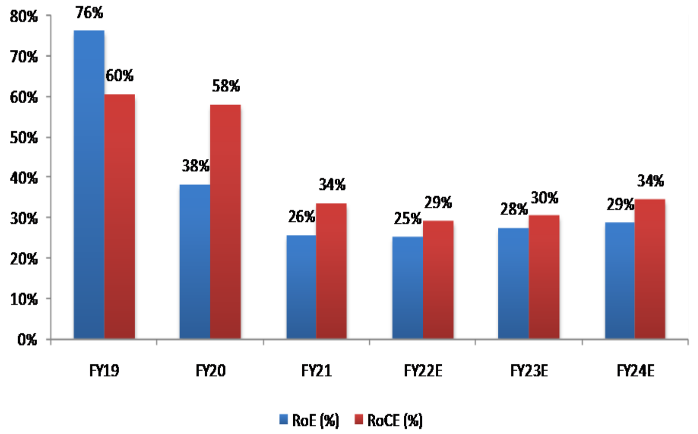


Source: Company, BP Equity Research

Cash flow generation remain strong



Superior RoE/ RoCE profile

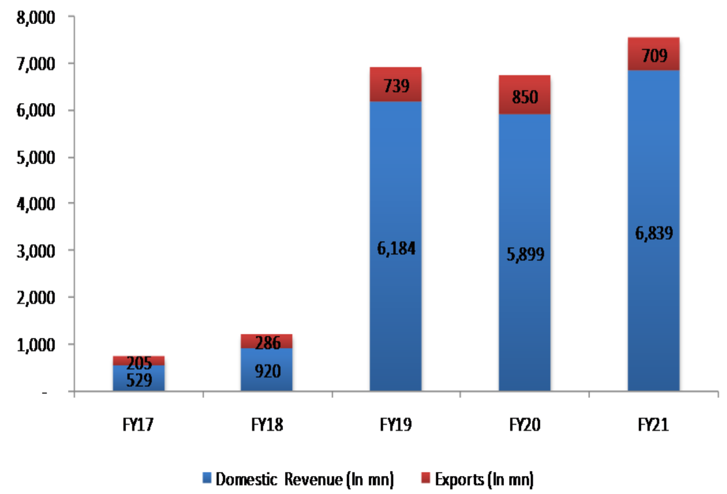


Source: Company, Bloomberg, BP Equity Research

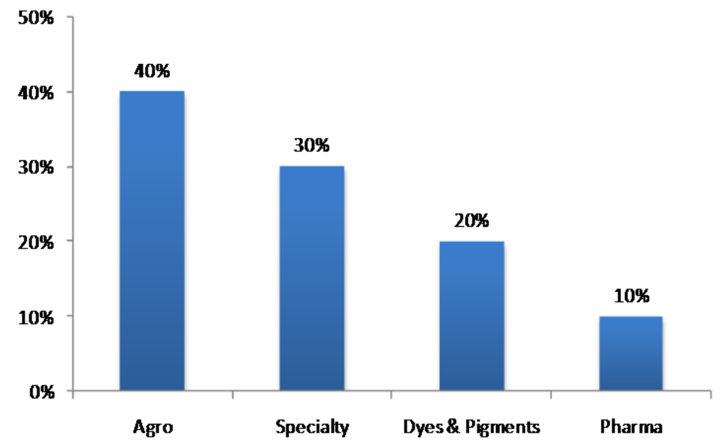
Company Background

Starting as a single product manufacturing company in 1984, Valiant has established itself as a leading producer of Chlorination, Ammonolysis, Acetylation, Hydrogenation, and Methoxylation based specialty products in India. It manufactures a wide portfolio of products used as intermediates in several end-user industries and several value-added products. The company derives 88% of its revenue from the domestic market and 12% from exports. End-use Industries wise 40% revenue derived from Agro-Chemical, 30% from Speciality Chemical, 20% from Dye and Pigment, and the rest 10% from the Pharmaceuticals. The top 5 products contribute 77%, and the top 5 customers contribute 35% of the total operating revenue. VOL has strong list of clients such as BASF, Lanxess, Bayer Crop Science, Coromandel, Gujarat Insecticides Ltd etc.

Domestic & Export revenue breakup

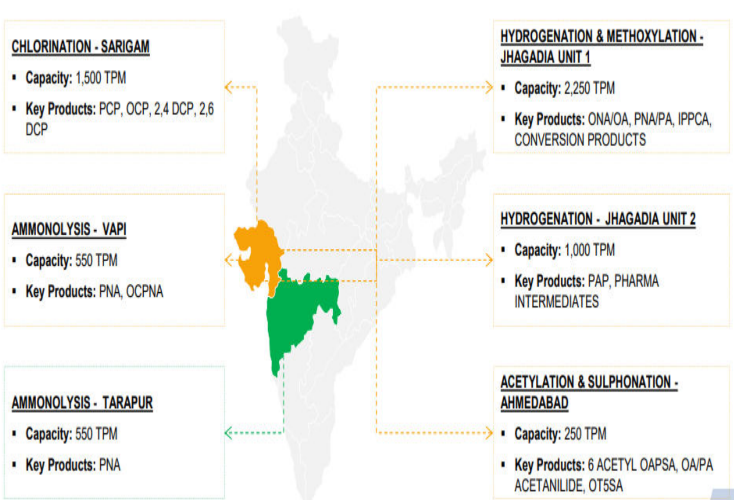


End Use Industries wise revenue breakup



Source: Company, BP Equities Research

Manufacturing Facilities



Recent additions & On-going projects

Product	Installed Capacity (TPM)	Project Status	Remarks
Recent Additions			
Ortho Nitro Anisole (ONA)	600	Completed in Q4 FY'20	• Backward integrated for existing product Ortho Anisidine
Para Nitro Anisole (PNA)	200	Completed in Q4 FY'20	• Captive use towards manufacture of Para Anisidine
Para Anisidine (PA)	150	Completed in Q4 FY'20	• Currently mostly being imported in India • Valiant will be one of the major producers in India
On-Going Projects			
Para Amino Phenol (PAP)	1,000	Completed Phase1 in Q4 FY'21	• Currently, limited availability domestically and mostly imported • Due to technical difficulties in achieving the desired specification, the actual production delayed • Expected ramp up of production expected from Q3 FY'22
Ortho Amino Phenol (OAP)	100	Expected completion in Q4 FY'22	• Currently, entirely imported in India • Part of the production will be utilised as forward integration for one of company's existing products
Pharma Intermediates	20	Expected completion in Q4 FY'22	• Multi-purpose plant for forward integration within Group Company • Will manufacture N-1, N-2 raw materials for API products

Source: Company, BP Equities Research

Key Milestones

1984	Inception with single product - Meta Chloro Aniline
1997	Production of Chloro phenols with 50 TPM
2005	Converted from Partnership to Private Limited Company
2014	Increased capacity to 400 TPM for Chloro Phenols
2015	Converted into Limited Company
2016	Listed on SME platform of BSE and Addition of Ammonolysis through merger of Abhilasha Tex Chem
2017	Addition of Ammonolysis, Hydrogenation & Acetylation through merger of Amarjyot Chemicals
2018	Received Environmental Consent to enhance Chloro Phenol capacity to 1800 TPM and Installed 1st state-of-the-art automation system at Sarigam
2020	Listed on BSE Main Board, Completed backward integration of ONA/OA and Addition of PNA/PA to product portfolio
2021	Listed on NSE in Jul-21, Completed of Phase 1 of PAP plant and Commenced work towards multi-purpose Pharma Intermediaries plant

Source: Company, BP Equities Research

Board of Directors

Name	Designation	Details
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.
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.

Source: Company

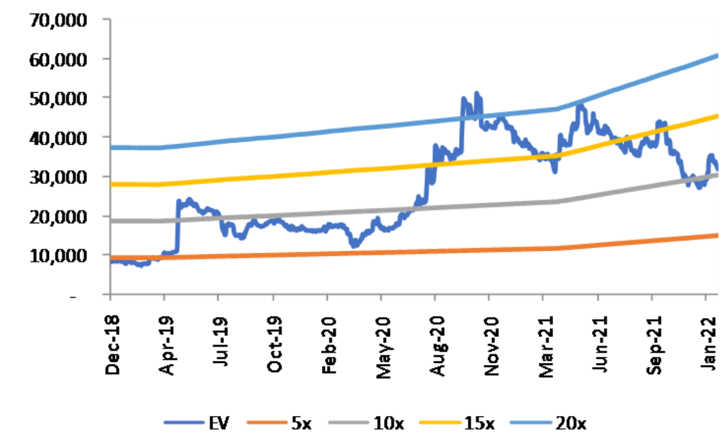
⇒ Peer group comparison

Companies	Market Cap (INR in bn)	P/E (x)				EV/EBITDA (x)				P/Sales (x)			
		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Valiant Organics	31	27	22	**16**	**13**	16	14	**11**	**8**	4	3	**2**	**2**
Peers													
Vinati Organics Ltd.	204	69	63	45	37	40	47	34	28	16	15	11	9
Aarti Industries Ltd.	352	55	53	37	30	26	30	23	19	7	6	5	4
Navin Fluorine	185	76	72	48	38	42	52	34	27	14	14	10	8
Alkyl Amines	170	55	64	48	40	27	45	34	28	12	12	10	8
Balaji Amines Ltd.	100	30	35	28	23	16	23	19	15	6	6	5	4
Transpek Industry Ltd.	11	46	20	13	9	24	12	8	6	3	2	2	1
Fine Organics	114	78	65	47	37	34	44	32	26	8	8	6	5
Galaxy Surfactants	111	39	43	33	29	20	28	22	20	4	3	3	3
Atul Ltd	279	41	43	34	29	22	29	23	21	6	6	5	5
Average				**37**	**30**			**25**	**21**			**6**	**5**

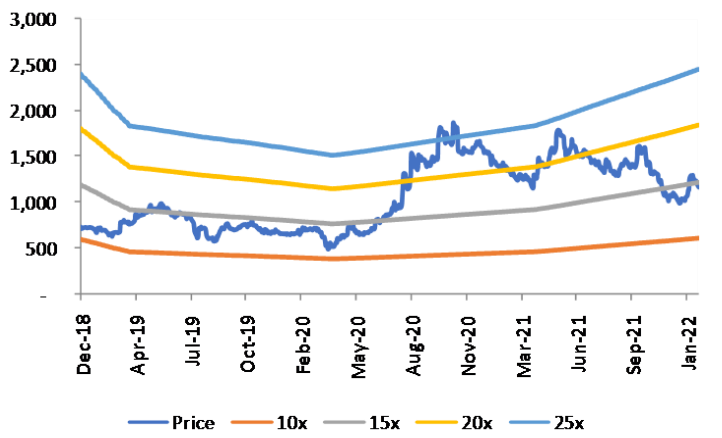
Source: BP Equities Research, Bloomberg estimate

⇒ Band Charts

EV/EBITDA Band



P/E Band



Source: Ace Equity, BP Equities Research

⇒ Key Risks and Concerns:

Exposure to volatile commodity prices

The international market prices of raw materials follow the petrochemicals cycle. The prices of raw material inputs, which are crude oil derivatives are volatile thus impacting profitability. However, order-backed sales and pass on of volatility in raw material prices to customers can continue to support VOL's operating profitability.

Adverse changes in government regulations

The inorganic chemicals business is highly susceptible to government regulations, and any unfavourable changes in policies can strain profitability.

Valuation & Outlook

Valuation	Basis	FY21	FY22E	FY23E	FY24E
EPS		41	51	68	89
Growth in EPS (YoY %)		-8%	24%	34%	31%
Implied PE		27.4	22.1	16.5	12.6
Assigned PE	(20x PE)				20
Target Price					**1,782**
(Implied PEG Ratio considering next 2 years: 0.6)					
CMP					1,124
Upside Potential (%)					**59%**

Source: Company, BP Equities Research

VOL commands a leadership position in the domestic Chloro Phenols market and is the key producer of Para Nitro Aniline (PNA) in India. The company is fully integrated and has an import substitution opportunity persisting for products like Para Anisidine (PA) and Ortho Amino Phenol (OAP), while Para Amino Phenol (PAP), currently has limited availability domestically and is mainly imported. Over the last five years, The Company has maintained a superior EBITDA margin profile (+25%). However, the sharp increase in the input costs combined with a delay in the passing-through price increase to the customers led to a 660bps contraction (vs 5 yr Avg) EBITDA margin in the H1FY22. Although management expects a sharp recovery in the margin Q3 onwards as the prices of most raw materials are now stabilizing, the company is passing on the price increase to the customers. Going ahead, The Company is targeting to achieve sustainable EBITDA margins in the range of 22-25%. Considering the integrated business model, superior financial performance, healthy balance sheet with improving return ratios, we are optimistic about the company's long-term growth prospects. We foresee 25.7% revenue CAGR, EBITDA expansion of 23.2% CAGR, and 29.5% growth in earnings over FY21-24E. At the CMP (INR 1,124), the stock trades at 12.6x FY24e EPS and 8.1x EV/EBITDA. We believe the stock to witness gradual re-rating on the back of a faster absorption of recently commissioned capacities coupled with a healthy product pipeline. We initiate coverage on the stock & recommend a 'BUY' rating with a target price of INR 1,782 per share, valuing the company at 20x FY24e earnings

Profit & Loss A/c (Consolidated)						
YE March (INR. Mn)	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**	**FY24E**
Revenue	**6,923**	**6,749**	**7,548**	**10,537**	**12,628**	**14,998**
Growth %	*473.8%*	*-2.5%*	*11.8%*	*39.6%*	*19.9%*	*18.8%*
Total Revenue	**6,923**	**6,749**	**7,548**	**10,537**	**12,628**	**14,998**
Less:						
Raw Material Consumed	3,935	3,931	4,187	6,429	7,512	8,699
Employee Cost	185	228	294	338	389	447
Other Expenses	1,001	785	1,014	1,415	1,696	2,014
Total Operating Expenditure	**5,121**	**4,944**	**5,494**	**8,182**	**9,597**	**11,161**
EBITDA	**1,802**	**1,805**	**2,054**	**2,355**	**3,031**	**3,838**
Growth %	*582.3%*	*0.2%*	*13.8%*	*14.7%*	*28.7%*	*26.6%*
Less: Depreciation	136	158	212	255	289	323
EBIT	**1,665**	**1,648**	**1,841**	**2,100**	**2,742**	**3,515**
Growth %	*587.7%*	*-1.1%*	*11.8%*	*14.0%*	*30.6%*	*28.2%*
Interest Paid	41	26	52	45	37	28
Non-operating Income	87	63	59	59	59	59
Extraordinary Income	120	0	0	0	0	0
Profit Before tax	**1,832**	**1,685**	**1,849**	**2,114**	**2,765**	**3,546**
Tax	500	423	540	533	697	894
Net Profit	**1,332**	**1,239**	**1,146**	**1,418**	**1,905**	**2,489**
Adjusted Profit	**1,213**	**1,239**	**1,146**	**1,418**	**1,905**	**2,489**
Reported Diluted EPS Rs	**47.7**	**44.3**	**41.0**	**50.8**	**68.2**	**89.1**
Growth %	*715.4%*	*-7.0%*	*-7.6%*	*23.8%*	*34.3%*	*30.7%*
Adjusted Diluted EPS Rs	**43.4**	**44.3**	**41.0**	**50.8**	**68.2**	**89.1**
Growth %	*642.2%*	*2.2%*	*-7.6%*	*23.8%*	*34.3%*	*30.7%*

Source: Ace Equity, BP Equities Research

Common Sized Profit & Loss Account						
YE March (INR. Mn)	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**	**FY24E**
Total Revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Less:						
Raw Material Consumed	56.8%	58.2%	55.5%	61.0%	59.5%	58.0%
Employee Cost	2.7%	3.4%	3.9%	3.2%	3.1%	3.0%
Other Expenses	14.5%	11.6%	13.4%	13.4%	13.4%	13.4%
Total Operating Expenditure	**74.0%**	**73.3%**	**72.8%**	**77.7%**	**76.0%**	**74.4%**
EBITDA	**26.0%**	**26.7%**	**27.2%**	**22.3%**	**24.0%**	**25.6%**
Depreciation	2.0%	2.3%	2.8%	2.4%	2.3%	2.2%
Interest Paid	0.6%	0.4%	0.7%	0.4%	0.3%	0.2%
Non-operating Income	1.3%	0.9%	0.8%	0.6%	0.5%	0.4%
Extraordinary Items	1.7%	0.0%	0.0%	0.0%	0.0%	0.0%
Profit Before Tax	**26.5%**	**25.0%**	**24.5%**	**20.1%**	**21.9%**	**23.6%**
Current tax	7.2%	6.3%	7.2%	5.1%	5.5%	6.0%
Profit After Tax	**19.2%**	**18.4%**	**15.2%**	**13.5%**	**15.1%**	**16.6%**
Adjusted Profit	**17.5%**	**18.4%**	**15.2%**	**13.5%**	**15.1%**	**16.6%**

Source: Ace Equity, BP Equities Research

Cash Flows (Consolidated)

YE March (INR in Mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
PAT	**1,332**	**1,239**	**1,146**	**1,418**	**1,905**	**2,489**
(Less)/Add: Extraordinary Income/Expense	(120)	0	0	0	0	0
Less: Non Operating Income	(87)	(63)	(59)	(59)	(59)	(59)
Add: Depreciation	136	158	212	255	289	323
Add: Interest Paid	41	26	52	45	37	28
Tax Adjustment	0	0	0	0	0	0
Operating Profit before Working Capital Changes	**1,302**	**1,360**	**1,351**	**1,659**	**2,171**	**2,781**
(Inc)/Dec in Current Assets	(1,225)	4	(331)	(773)	(541)	(613)
Inc/(Dec) in Current Liabilities	532	433	319	1,193	555	628
Changes in Inventory	(408)	30	(273)	(286)	(200)	(227)
Net Cash Generated From Operations	**202**	**1,828**	**1,065**	**1,793**	**1,984**	**2,569**
Cash Flow from Investing Activities						
(Inc)/Dec in Fixed Assets	(1,799)	(1,418)	(2,544)	(1,250)	(1,000)	(1,000)
(Inc)/Dec in Capital Work In Progress	(656)	(636)	832	0	0	0
(Inc)/Dec in Investment (Strategic)	(111)	(88)	63	(60)	(42)	(48)
(Inc)/Dec in Investment (Others)	(9)	(163)	158	0	0	0
Add: Non Operating Income	87	63	59	59	59	59
(Inc)/Dec in Intangible Assets	0	0	0	0	0	0
Net Cash Flow from/(used in) Investing Activities	**(2,487)**	**(2,241)**	**(1,432)**	**(1,251)**	**(983)**	**(988)**
Cash Flow from Financing Activities						
Inc/(Dec) in Total Loans	870	475	669	(250)	(300)	(300)
Inc/(Dec) in Reserves & Surplus	911	535	1	0	0	0
Inc/(Dec) in Equity	201	15	68	0	0	0
Dividend Paid	(326)	(489)	(136)	(272)	(407)	(543)
Less: Interest Paid	(41)	(26)	(52)	(45)	(37)	(28)
Adjustments	472	(7)	(1)	0	0	(0)
Exceptional Item	120	0	0	0	0	0
Net Cash Flow from Financing Activities	**2,207**	**504**	**550**	**(567)**	**(744)**	**(871)**
Net Inc/Dec in cash equivalents	**(79)**	**90**	**183**	**(24)**	**258**	**710**
Opening Balance	**116**	**36**	**127**	**310**	**285**	**543**
Closing Balance Cash and Cash Equivalents	**36**	**127**	**310**	**285**	**543**	**1,253**

Source: Ace Equity, BP Equities Research

Balance Sheet (Consolidated)

YE March(INR in mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Liabilities						
Equity Capital	59	144	279	279	279	279
Reserves & Surplus	2,450	3,736	4,747	5,894	7,392	9,338
Equity	**2,594**	**3,879**	**5,027**	**6,173**	**7,671**	**9,617**
Net Worth	**2,594**	**3,879**	**5,027**	**6,173**	**7,671**	**9,617**
Minority Interest	116	131	63	63	63	63
Net Deferred tax liability/(Asset)	155	152	211	211	211	211
Total Loans	**769**	**1,247**	**1,857**	**1,607**	**1,307**	**1,007**
Capital Employed	**3,634**	**5,409**	**7,158**	**8,054**	**9,252**	**10,899**
Assets						
Gross Block	2,293	3,711	6,255	7,505	8,505	9,505
Less: Depreciation	796	947	1,158	1,413	1,702	2,024
Net Block	**1,497**	**2,764**	**5,097**	**6,092**	**6,803**	**7,480**
Capital WIP	656	1,291	459	459	459	459
Long Term Loans & Advances	**127**	**215**	**151**	**211**	**253**	**301**
Other Non Current Assets	18	181	23	23	23	23
Intangible assets under development						
Non- Current Investments	479	449	722	1,007	1,207	1,434
Current Assets	1,414	1,326	1,568	2,189	2,623	3,115
Inventories	36	127	310	285	543	1,253
Sundry Debtors	105	47	40	40	40	40
Cash and Bank Balance	137	287	386	538	645	766
Current Investments	14	4	3	3	3	3
Loans and Advances	**2,185**	**2,240**	**3,028**	**4,063**	**5,062**	**6,612**
Other Current Assets						
Total Current Assets	743	879	1,072	2,056	2,464	2,926
Less: Current Liabilities & Provisions	24	35	53	74	89	106
Sundry Creditors	81	368	475	664	795	945
Provisions	**848**	**1,282**	**1,601**	**2,794**	**3,349**	**3,977**
Other Current Liabilities	**3,634**	**5,409**	**7,158**	**8,054**	**9,252**	**10,899**
Total Current Liabilities & Provisions	**2,785**	**3,130**	**3,452**	**4,348**	**5,047**	**6,148**
Capital Applied	**10,641**	**10,891**	**11,634**	**12,667**	**13,378**	**15,407**

Source: Ace Equity, BP Equities Research

Key Ratios (Consolidated)

YE March (INR in Mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Key Operating Ratios						
EBITDA Margin (%)	26.0%	26.7%	27.2%	22.3%	24.0%	25.6%
Tax / PBT (%)	27.3%	25.1%	29.2%	25.2%	25.2%	25.2%
Net Profit Margin (%)	19.2%	18.4%	15.2%	13.5%	15.1%	16.6%
RoE (%)	76.1%	38.3%	25.7%	25.3%	27.5%	28.8%
RoCE (%)	60.4%	57.9%	33.5%	29.2%	30.4%	34.4%
Current Ratio (x)	2.6x	1.7x	1.9x	1.5x	1.5x	1.7x
Dividend Payout (%)	24.5%	39.4%	11.9%	11.9%	11.9%	11.9%
Book Value Per Share (Rs.)	92.8	138.8	179.9	220.9	274.5	344.2
Financial Leverage Ratios						
Debt/ Equity (x)	0.3x	0.3x	0.37x	0.3x	0.2x	0.10x
Interest Coverage (x)	44.4x	70.3x	39.5x	52.4x	82.9x	136.2x
Growth Indicators %						
Growth in Net Block (%)	388.6%	84.6%	84.4%	19.5%	11.7%	10.0%
Sales Growth (%)	473.8%	(2.5%)	11.8%	39.6%	19.9%	18.8%
EBITDA Growth (%)	582.3%	0.2%	13.8%	14.7%	28.7%	26.6%
Net Profit Growth (%)	715.4%	(7.0%)	(7.6%)	23.8%	34.3%	30.7%
Diluted EPS Growth (%)	715.4%	(7.0%)	(7.6%)	23.8%	34.3%	30.7%
Turnover Ratios						
Debtors Days	75	72	76	76	76	76
Creditors Days	53	65	71	71	71	71
Inventory Days	25	24	35	35	35	35

Source: Ace Equity, BP Equities Research

Research Desk	Tel: +91 22 61596464

Institutional Sales Desk	Tel: +91 22 61596403/04/05

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Analyst (s) holding in the Stock : Nil

Analyst (s) Certification:

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Corporate Office:
4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:
24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001

BP Equities Pvt. Ltd.
CIN No: U67120MH1997PTC107392