



Valiant Organics Limited

February 08, 2023

To,
Listing/Compliance Department
BSE LTD
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai- 400 001.

Scrip Code-540145

Sub: Transcript of Earnings Call

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of Earnings Call held on Thursday, February 02, 2023 on Audited Financial Results of the Company for the quarter and nine months ended December 31, 2022.

Kindly take the same on your record and acknowledge.

Thanking You,

Yours faithfully,
FOR VALIANT ORGANICS LIMITED

Avani D. Lakhani
Company Secretary
ICSI M.NO: A47118

To,
Listing/Compliance Department
**National Stock Exchange of
India Limited**
"Exchange Plaza", Plot No.C/1,
G Block Bandra-Kurla Complex,
Bandra (E), Mumbai- 400 051.
Symbol- VALIANTORG



“Valiant Organics Ltd. Q3 FY23 Results Conference Call”

February 2, 2023



MANAGEMENT: **MR. ARVIND CHHEDA - MANAGING DIRECTOR**
MR. MAHEK CHHEDA - CHIEF FINANCIAL OFFICER & EXECUTIVE DIRECTOR
MR. MIHIR SHAH - SENIOR FINANCE MANAGER

MODERATOR: **MR. ROHIT SINHA - SUNIDHI SECURITIES & FINANCE LTD.**

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY '23 Earnings Conference Call of Valiant Organics Limited, hosted by Sunidhi Securities and Finance Limited.

As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rohit Sinha from Sunidhi Securities and Finance Limited. Thank you. And over to you, Mr. Sinha.

Rohit Sinha: Thank you. Good afternoon, everyone. Thank you for joining us on the Q3 and 9-months earnings call of Valiant Organics. I would like to thank the management for giving us this opportunity. From the management, today we have with us Mr. Arvind Chheda – Managing Director; Mr. Mahek Chheda – Chief Financial Officer and Executive Director; and Mr. Mihir Shah – Senior Finance Manager.

I now hand over the call to the management. Thank you, and over to you, sir.

Arvind Chheda: Thank you, Rohit. Good afternoon, everyone. It is a pleasure to welcome you all at our Earning Conference Call for the Third Quarter of the Financial Year 2023.

Let me firstly thank Sunidhi Securities for hosting this Conference Call and all the participants for joining us today. Our CFO, Mr. Mahek Chheda will take you through the financials and operational highlights of the quarter. Thank you.

Mahek Chheda: Thank you, and good afternoon, everyone, and welcome to this earnings call. I hope you had a chance to study our financials and earnings presentation, which we have uploaded on our website and exchanges.

Let me start by briefing you on the Company's Financial Performance on a consolidated basis for the third quarter and 9-months ended of financial year 2023.

The revenues from operations declined by around 13% on a Y-o-Y basis to around Rs. 250 crores, primarily due to low demand from dyes and pigments and intermediates. The EBITDA was reported at Rs. 38 crores, which declined by around 24% Y-o-Y. Our EBITDA margin for the quarter was 15.3%.

The net profit reported was around Rs. 26 crore, which declined by almost 19% on a Y-o-Y basis and increased by 2% over the previous quarter. This increase includes profit from the sale of land to subsidiary Company for future expansion. Our PAT margin for the quarter was 10.42%.

For the 9-months ended, the revenue from operations stood at around Rs. 780 crore, which was a decline by around 3% on a Y-o-Y basis with EBITDA of Rs. 112 crore, which was down by

about 24% and EBITDA margins were reported 14.35%. The net profit stood at about Rs. 69 crores, and PAT margins were 8.79%.

On other operational highlights in Quarter 3 Financial year '23:

Our PAP monthly average was more than 400 metric ton and is expected to reach 500 metric ton per month capacity in the coming quarter. And we also received approval for our Pharma Intermediaries project in January 2023, and the plant is now operational.

With this, we can now open the floor for a question-and-answer session. Thank you.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. The first question is from the line of Parthiv from TS Builders Pvt. Ltd. Please go ahead.

Parthiv: Sir, as I understand, previously, you had mentioned that in your PAP production as per the batch process at 400 to 500 ton per month your optimum capacity, and only if you all were successful in the continuous process, you all can ramp it up to 1,000. Now I don't see any commentary or anything in the presentation talking about the continuous process. So, have you held up me plants for the continuous process? And if so, now going ahead, PAP has such huge demand. Are we planning to increase further capacity in PAP or through the manual batch process only or like we are still trying with the continuous process?

Mihir Shah: Yes, so we are also trying out continuous. And at the same time, we are also seeing how we can make it semi-continuous. So, that particular process is, the trial runs are going on for that. Even if we don't make it to 100% fully continuous process, we will probably be close at somewhere around semi-continuous process. Worst case scenario, we will also continue as batch process only, but we will be able to still manufacture and reach around 800 to 1,000 metric tons per month. Even whichever method we decide, we will still be able to achieve that.

Parthiv: So, as I sir, understand correct, even if you all were to go only with the batch process you're your existing capacity and assuming that you are not going to spend any further CAPEX, you can debottleneck and ramp it up to 800 tons per month. Is my understanding correct?

Mihir Shah: Yes, there won't be much additional CAPEX that will go into it. We have already incorporated CAPEX in our planning. Even if we move from continuous to semi-continuous, it will happen in the same method, in the same CAPEX. Not much will have an impact on the CAPEX side.

Parthiv: And sir, what success are we having in the continuous process? Because if I recollect previously, the talk was that by Quarter 4 onwards, you all were kind of confident that, you know, we should be in a position to talk about the success of the continuous process and next year onwards, you know, it will be fully ramped up. So, where are we? Because this is a long trending thing and with technical expertise from Aarti Group, the markets and you all are very surprised that why Valiant not being able to pull this up?

Mihir Shah: No, I understand that. So, we've maintained our comment that for FY '23 we are going to remain in stock in the batch process itself. And even if the continuous starts, it will start in phase wise for FY '24. So, even if we don't move to 100% continuous, even if we move to semi-continuous, we are still positive on how that will pan out in the coming quarters. So, for FY '23, we will continue to remain in batch. And that has been our statement since last two, three quarters.

Parthiv: Sir, want to understand regarding your press release on Valiant Laboratories Limited and its IPO. Can I get some idea what products fall under Valiant Laboratories Limited? What is like the current top line margins over there? And if I recollect, you had Bharat Chemicals as a subsidiary. And now you have this Valiant Laboratories. So, how are these things connected, if you could help me comment on those?

Mihir Shah: So, Bharat Chemicals name changed to Valiant Laboratories. So, it's not two different companies. It's one Company. And secondly, unfortunately, I will not be able to divulge any information regarding IPO or the product expansion. It is quite competitive in nature. So, sorry for that. But at this moment, I won't be able to share any further detail.

Parthiv: So, if I can understand, sir, how does Valiant Laboratories IPO add value to Valiant Organics Limited? And whatever value we are talking of, how much of that content will be I am interested to know that.

Mihir Shah: That is all under discussion. It is, we have just taken the Board approval, but all the discussions are still happening. So, at this point, commenting would be quite premature.

Parthiv: Sir, one last question. Your Sarigam I think problem seems to be now over. And I think probably in this quarter also, there will be some hit based on the past commentary. Going now into this quarter and also for next year, looking at the current raw material prices and Chlorophenol, what is your sense as to what can we expect in terms of your revenue guidance for FY '24, which also include this PAP ramp-up, along with what sort of margin band you are looking to be more comfortable?

Sir, my last question is regarding your current view on the margins, looking at the current raw material scenario, and in Chlorophenol, and also I would love to hear some sort of guidance numbers for FY '24 in terms of what revenue you are targeting? And what sort of margin band you would be comfortable with, assuming that you are also ramping up your PAP?

Mihir Shah: So, on the Chlorophenol side, yes, the prices of RM, they are stabilized. And we are looking at coming back on track with Chlorophenols in this quarter and the coming quarters. So, for FY '24, it will be as it was running earlier.

As for under some kind of guidance, for this year, we are looking at it to be flattish, somewhere around 900 crores to 950 crores only because of, you know, the textile, dyes intermediates being low and even Sarigam getting still ramped up. So, we are looking at flattish growth for this year.

For FY '24, we are expecting somewhere around 20%, 25% growth coming in from PAP ramping up as well as Pharma intermediates, etc.

Parthiv: Sir, the margin band, can you say it will be somewhere around between 20% to 22%? Or should it be higher?

Mihir Shah: It will be somewhere around 18% to 20% on a conservative side.

Moderator: The next question is from the line of Jayesh Mestry from Asit C. Mehta Investment Intermediates. Please go ahead.

Jayesh Mestry: So, I do have couple of questions related to debt, your quarterly numbers, which is consolidated and future growth prospect. So, the first question was, what is the plan for debt reduction in your Company? And if you move one step ahead, then any plan for becoming debt-free Company? If yes, then what's your target for this?

Mihir Shah: So, our current debt situation is 113 crores of term loans, and we are not looking at taking further loans, any loans right now, at least not in the near future. Debt-free probably won't happen because we have a repayment schedule lined up until FY '26. But our aim is to continue repaying and reduce our debt on that. If any future big CAPEX come in, then we will again look at some bit of term loan. But as of now, our cash flow is once PAP starts, we will have a decent amount of accruals as well.

Jayesh Mestry: So, I was just going through your consolidated numbers, so I have seen some kind of muted financial performance both in margins as well as profitability from last couple of quarters. So, in same time, we have seen a sharp disruption in the market cap also. So, I think what's your take on these related to boost the confidence of long-term shareholders?

Mihir Shah: So, I think, I will not look at any market question, because it's something that I cannot really control. But as far as shareholder interest is concerned, we are also dividend paying. We are looking at future growth. So, once that comes in, we will also increase our dividend payouts accordingly. And currently, we are at a phase where we are ramping up all our projects where we have put in a lot of money. Once those stabilize, so once PAP stabilizes, Pharma Intermediate stabilizes, all of that stabilized, then the returns will be seen very clearly. And at that time, I am sure shareholders will be happy at that point.

Jayesh Mestry: So, as keeping in mind. India's stability chemical market size and growth in momentum, so this segment is growing fast in our country and is further expected to reach around, I mean, I think around 60 billion to 70 billion. Please make me correct If I am wrong, 1 billion by 2025 so as for the sources So, what are your views in terms of growth prospects and other expansion opportunities in your Company coming two to three years down the line?

Mihir Shah: Definitely, there are lot of tailwinds. There is a China plus 1 tailwind. There is overall just growth expected out of Indian chemical sector, as well as specialty sector. So, definitely, lot of positive growth prospect for that. And with the industry, even Valiant Organics also have those tailwinds to support us. So, it is positive. I would not be much worried about couple of years later. What right now is the situation is where we need to kind of return back to, you know, it's on the downside, which we need to come up. But on a larger perspective, definitely, there is good prospect for the industry overall, specialty, agro. So, are in agro and dyes segment. So, that also is good and Pharma also has a lot of opportunities that will be seen in coming half a decade or a decade.

Moderator: The next question is from the line of Bhavik Shah from Arihant Capital. Please go ahead.

Bhavik shah: Two, three questions from my end. One is on the PAP side. Just wanted to understand about the PAP product, and how do you foresee the contribution of PAP to total revenue in next two to three years in percentage terms?

Mihir Shah: So, since you asked for some background on PAP, PAP is a raw material that goes into Paracetamol. So, we started, we are currently at around 400 plus metric tons production, and we aim to close the year at least around 500 metric tons a month. And going forward for the next year, we are hoping to increase that phase wise to reach the optimum capacity, which will be somewhere around 800, 850, 900 tons capacity production is what we are trying to achieve.

On the contribution that comes out of PAP for this year is, sorry, for FY '24, once it ramps up, it will be somewhere around 20% to 22% of our total revenue. And at full capacity, it may be somewhere around 30% of our full revenue.

Bhavik shah: Any competition do you see from a domestic market segment?

Mihir Shah: Yes, so there is competition from domestic market as well as imports. But most of our product goes to a subsidiary Company in manufacturing Paracetamol. So, we don't likely need to worry too much on the market uptake. But yes, even if our subsidiary takes about 85%, 90%, the 10% is what we have to sell in the market which would not be that difficult a task.

Bhavik shah: And on the Valiant Laboratories side, can you update that when the RFP would be filed?

Mihir Shah: No, I really cannot speak anything on behalf of Valiant Laboratories.

Bhavik shah: And from an investor perspective, if you look at the ROC, ROE number, they have been decreasing year-on-year. So, how do you, you know, gain investors' confidence on Valiant for a long-term perspective?

Mihir Shah: So, the returns have decreased on a couple of factors. One is that the market demand itself is down. So, for this year, it was lower on dyes and pigment side. We also had a fire incident in

our Chlorophenol. So, that also have had an impact on our revenue and also profitability. So, because of that this year, I would say FY '23 is not a year to be taken as a base. We definitely expect to return to our earlier ROE, ROA. And it will take a year or so. Once everything stabilizes, once our new projects come in, you will see the returns also improving in the next one or two years.

Moderator: The next question is from the line of Hardik Gori from Alpha Plus Capital. Please go ahead.

Hardik Gori: I had two questions. Our hydrogenation volumes fell by 8% sequentially. So, can you share the reason for the same?

Mihir Shah: One of our key products go into dyes and intermediates in hydrogenation. So, that industry demand is very low right now. So, that is why the sales on that volume decreased. PAP also makes a part of the hydrogenation. That also had some bit of impact in one of the months. But overall, that is the only reason. It is dyes and pigments, which is the main reason why the volumes fell.

Hardik Gori: And what kind of feedbacks are we getting from customers regarding the order flow? Just trying to understand, is it better from the previous quarter or not?

Mihir Shah: This is with respect to which chemistry you are talking about?

Hardik Gori: Overall, I am saying.

Mihir Shah: So, overall, so in terms of chlorination products, you will see the improvement in the current quarter. In terms of Ammonolysis products or the products that go into dyes and intermediate, that will take probably a quarter or two to improve the situation. Much of it is dependent on Europe situation also.

Moderator: Thank you. The next question is from the line of Mustafa Haveliwala, an Individual Investor.

Mustafa Haveliwala: I think the management has done a decent job over the past few years, especially on the top line front. We have a good top line growth on CAGR basis. What I see is what we are really struggling with is the EBITDA level or margin level since the start of fiscal 2022. I have heard like in one of the interviews with CNBC that a stable margin should be somewhere in the range of 21 to 25. When I look at your 9-month revenue contribution or even the latest quarter, it seems like 75% to 80% of the share comes from chemistries like hydrogenation, Ammonolysis, and others. And when I look at the industry, sir, it is majorly dyes and pigments. I just want to understand the demand outlook in the end-user industry.

Dyes and pigment is a broad term, may I know which specific end users our customers come from, whether it is textile, paints and coatings, plastic, paper, leather, etc., whether it is a demand

headwind, a supply-demand mismatch where customers may have excess supply and they are like destocking inventory or are we at worst losing market share? That is the first.

And a question tied to that would be, even though we say we are a chemical Company with a diversified industry base, don't you think a majority of the share I reckon two-third is dye pigments? And I understand that your Chlorination volumes are subdued because of that Sarigam incident. And the ultimate question would be, what steps management is taking to derisk the product mix? That's all.

Mihir Shah:

So, coming to your dyes and we provide dyes and intermediates. So, from what we understand, a majority of that goes into the textile. And if you check the product mix, it is for Ammonolysis we have 2 plants of Ammonolysis where we are focused on that product itself. But our overall product mix is, it's in a transition right now. So, hydrogenation is currently high because chlorination was impacted. Chlorination will also come up. But hydrogenation will stay on the top because of the PAP because of the sheer volume of PAP that we have invested in. So, due to that inclination toward one chemistry seems higher, but that one chemistry goes into several end industries. It goes into dyes pigment. It goes into Pharma also. So, two main and some bit in specialty overall as a specialty block. So, that is one thing.

Going forward also, we are looking at keeping our product mix in such a way that end industry usage is diversified. If you look in chemistry point of view, yes, you will find weightage on hydrogenation higher followed by chlorination and Ammonolysis. But on an end user, it is quite diversified in the current situation as well.

Mustafa Haveliwala:

Just a follow-up on that would be, I think, the revenue share is, I understand where you are coming from when you talk about on the chemistry point of view, but I still think mat on the end user industry, we are quite more focused on the dyes and pigment. I see that the other volume, the other chemistry volumes are still 6%, followed by ammonolysis which constitutes like one-third of your overall share, and this comes from dyes and pigment specifically. A good part of your hydrogenation is also going to dyes and pigments. So, when it comes to the end user industry outlook, we are tied to the demand of the textile industry specifically, if I am not wrong in saying that.

Mihir Shah:

So, if you look at the numbers this year, yes, what you are inferring or concluding is correct. Because it is just that this year because of chlorination that overall dyes and pigments look larger. But if you look at FY '22, it was almost equal. Hydrogenation, chlorination and ammonolysis, all were at around 30% on a revenue basis.

For last couple of quarters, last three quarters, Ammonolysis have remained stable. So, that is why it looks as if the focus is there, or focus is on dyes and pigments. But overall, PAP, in fact, would be our largest product, which is in Pharma and not dyes and intermediate. Chlorophenol as a product line itself is entirely agro.

So, once those come in, you should ideally look at FY '22 numbers and probably look at FY '23. FY '24 when that happens. FY '23, the current year is more of an exceptional.

Mustafa Haveliwala: So, just from a future outlook perspective, considering your product mix and dynamics in which the CAPEX that you have invested into, how do you see the outlook of the revenues would be in terms of end user industry going two, two years ahead down the line? And on the same thing, what would be the margins, the EBITDA level margins the Company would try to aim, not at the short term, but on a medium to long-term basis based on your business model?

Mihir Shah: Sure. So, on an end user and on a very rough basis and not considering any new product --

Mustafa Haveliwala: Medium to long-term.

Mihir Shah: Yes, in the long term, but no new products. I mean, so we continuously keep looking at newer products to add, and that could change our industry mix. But given that no new products will come, then probably in long-term pharma, which is PAP maybe somewhere around 25% to 30% total. Then overall, dyes and pigments maybe somewhere around 20%, 25% again and Chlorination would be another approximately 25%, 30%. So, that is, which is agro basically. So, your agro, dyes and pharma will take up the most part of it. And then there will be the other side of it.

Mustafa Haveliwala: And the EBITDA margin, the long term, medium-to-long-term basis.

Mihir Shah: EBITDA margin, so given the volatility, it is very difficult to put a number, but somewhere between 20%, 22% on the long term should be conservative enough for us to achieve.

Mustafa Haveliwala: That would be considering that the Chlorination side of the business is giving a one-third share to the --

Mihir Shah: Yes.

Mustafa Haveliwala: And the Chlorination is a more lucrative business than the other process and chemistries, right?

Mihir Shah: It is overall. So, Chlorination, yes, because there is an export factor to it. So, it definitely overall on profitability because of exports it helps, but other products are also there which are EBITDA margin accretive, and a few of them could be margin dilutive also. But overall, 20%, 22% can be achieved.

Moderator: Thank you. The next question is from the line of Tarun, an individual investor. Please go ahead.

Tarun: My first question would be related to your Sarigam plant. So, what is the status in terms of current situation from the fire incident? Is it operating at optimal capacity now? Or if not, then what is the timeline by which we really want to take it up to the previous capacity level?

Mihir Shah: So, we had to ramp it up in a phased way. So, last quarter was at around 58%, 60%. But going forward, we will reach the optimum capacity in this quarter, 80%. 85% capacity utilization.

Tarun: So, fair to conclude that Q1 next year onwards, it would be at the status quo utilization?

Mihir Shah: Correct.

Tarun: Thank you for clarifying that. Another question and this is more to do with, say, a time frame of the past two to three years onwards. See, what I have noticed is that across all three lines of chemistry that you have predominantly operating into, the volumes have gone up, the realization has gone up, but the operating margin and subsequently, the EBITDA margin has gone down at a consolidated level. So, what really can explain this anomaly?

Mihir Shah: So, yes, prices have gone up. So, correspondingly, raw material prices have also gone up. So, that is the reason why you are not seeing a direct impact on margins. In fact, raw material prices increased faster. And also, we have quarterly contracts. So, it takes time for us to pass on the cost.

So, if you take last one year, if the raw material prices continue to keep rising, then we do have a lag in passing on that cost. So, our margin for that period looks diminished. But once the raw material prices stabilize, then in a quarter or so, we pass it on. And then the margins will come back to what we were working on previously, or somewhere around that.

Tarun: I understand that margin lag in terms of typically a quarter or two is the timeframe by which you are able to pass on.

Mihir Shah: Correct.

Tarun: To be more precise about my question, see, I can take an example of your hydrogenation business. What I do see is that your realization needs to be around 107 for FY '21. It's moved up to 153 for '22. And for 9-months of this year, it is 247. Okay? So, subsequently, the realization has improved very well. But correspondingly, it is not really going down into your EBITDA margin, etc. So, on one hand, the volume is going up. The realization is going up. So, in that context, is it to infer that possibly, you know, the pass on in terms of the price increase, proportionately, we are not in a position to pass on? To some extent, we may be passing on, but not entirely.

Mihir Shah: No, so there are two things to look at it. One is the sharp increase in the volumes in hydrogenation is because last year there was a negligible PAP. And that is a new product which has significantly increased in volume here. So, you don't have a past product to really compare it with. So, when once PAP comes into the picture, the overall average also changes, which was not the case in the previous years. So, that is one way to look at it.

Second is, yes, the lag is another reason why not, like you said, the total cost cannot be passed, is not being passed. So, it is not being passed with a lag. But once you reach, once that stabilizes, we pass it on almost entirely to the customer. So, it won't be correct to really do the analysis for last year versus this year, especially for hydrogenation, because there was a new product that was introduced.

Tarun: PAP still would be a small part of the overall contribution, not that significant to attribute and pull down the EBITDA entirely, right?

Mihir Shah: No, no, it can, because it was increasing phase-wise, but your fixed cost remains there, right, the new plant, and entirely a new plant. So, that fixed cost comes in. So, on a total, on a Company level, definitely, it does have an impact. And you will see the positive impact once, you know, the year closes also, and if you look at, if you see in the future also, the quarters, you will see the positive impact coming out of PAP.

Tarun: Last question, and I can come back on the queue. Very connected to the previous discussion that we were having. On the RM price side, what is the situation there? And are we in a very firm view that considering the prevailing RM price, we would be able to achieve an EBITDA margin of say 17%, 18% that we alluded during the last Con call?

Mihir Shah: Given the current situation, we are confident that RMs have stabilized and our margins will return. But on an annual basis, you have to take it with a pinch of salt because there will be that these three quarters that will pull the overall average down. So, even though the margins may be good enough for Q4, but on an annualized, on a FY '23 level, Q1, Q3 will pull us down on a total average. So, that may not close at the 18% to 20% on a full year basis. But for the year after, we are confident that it should.

Moderator: Thank you. The next question is from the line of Vineet Jain, an individual investor. Please go ahead.

Vineet Jain: I wanted to get a sense of the strategy for new project selection, and if you have any threshold return rates or return on equity parameters before, we decide to get into new projects?

Mihir Shah: So, we look at a couple of ways at it, just not the threshold percentage that we look at. One is, we look at the overall synergy within the group. That is one thing. We look at import substitution. So, if there is an opportunity to do that, then we look at that as well. And like I said, the synergies within the group as well. So, these are the two key points that we look at. And then, yes, we do have a threshold. We look at least a 15% to 18% return kind of for any project. But it's not just the threshold that we look at. It's an overall decision making within the group.

Vineet Jain: And sometime back like you mentioned in the call that we will expect to get back to the ROE and ROA levels of the past, but then you also mentioned that the long-term margins are likely to stabilize in the 22% range, which will be, you know, about a fourth less than the peak margins

that we were at close to 30 odd percent. So, just wanted to understand whether we are looking at a potential 30% plus ROE in the long term? Or is that profile likely to change?

Mihir Shah: Well, it is, when you say long term, yes, in the future, in two, three years down the line, we are definitely looking to improve our ROE. But right now, we are at much lower than what we used to be in the past. So, we are more focused on getting to at least somewhere around, you know, 20 odd percent. And then once that is achieved, we'll focus more on improving further.

Moderator: Thank you. The next follow-up question is from the line of Jayesh Mestry from Asit C. Mehta Investment Intermediates. Please go ahead.

Jayesh Mestry: So, what are your short to medium-term view on upcoming production generating revenues, and from profit front also for coming one to two years down the line?

Mihir Shah: So, coming one to two years down the line, so, one is stabilizing PAP. So, we need to ramp up and reach our optimum capacity. So, one focuses on that, which will bring in volume as well as revenue increase.

Second is, we have Pharma Intermediates project, which started in January. So, that will increase in phased manner. So, it will probably take a quarter or so to stabilize. Then OAPs and other product that we have been trying to do trial runs and achieve success. So, that is also going on, which we are hoping that we should be able to, you know, have something in a quarter or two.

So, these are the three ongoing projects itself that we are focusing on. So, in the short-term, that is what will bring in the growth for the Company. However, going forward, there are a few discussions ongoing right now on new product developments, some bit of expansion in chlorination. So, all of that will also come in, but that will be in the longer term, maybe two years later or so.

Jayesh Mestry: So, my final question is like as you already know that this sector is highly capital intensive, right? So, with a long payback period. And so, in yesterday's budget also, they have Nirmala Sitharaman, she has mentioned that regarding to encourage the large capacity expansion in particular project and capital subsidies for investment. So, what are your views on these in the upcoming budget front and for the Company's future prospect?

Mihir Shah: So, yes, you are right. There is definitely, the industry is capital incentive. So, there are subsidies, and there are ways that we try to, you know, get our benefits out of that. A four to five years of payback period seems very in line with what she is saying. So, that is true.

So, in terms of Company directly how it is affecting, we have already got into the CAPEX, and we have already expanded here. So, it's on an immediate front, there is nothing that we are going to be, you know, this is not a big, large CAPEX like PAP that is going to come in for in near future. But in probably two, three years down the line, we may do that, and that will help us in

other subsidies or whatever. I think the budgets, and everything will change by then. So, I don't have a very input on this, but on the Company's end, what I can say is that in another year or so we will have better Insight on our expansion plans.

Moderator: Thank you. The next question is from the line of Jatin Damania from Kotak Securities. Please go ahead.

Jatin Damania: Just wanted to understand on the margin front, I mean, as you said at the long run, we will be doing a 22% odd margin, but on the current level of raw materials, have we seen any pressure on the realization across our product baskets?

Mihir Shah: So, yes. So, it's not directly a margin, the price realizations have also come down. Along with that, our volumes have also come down because of the financial. So, it's basically double impact, which is being seen, and which why the margins look diminished. But it should improve in this quarter from at least on our chlorination side of it. And going forward, once our dyes intermediate, so two of our plants are dependent on dyes. So, once that demand picks up, we will see some kind of mitigation on our margins as well because right now they are not running at optimum capacity. So, the margins kind of get squeezed on the fixed cost side of it.

Jatin Damania: Sir, appreciate that point of view, but in your previous remarks, you categorically said that dyes and pigments will take another couple of quarters to come back with a strong demand. So, is it fair to assume that at least for another six to nine months as a Company as a whole will be somewhere into a lower teens in terms of the margin because of the hit out in the overall fixed cost?

Mihir Shah: Yes. So, that will basically what we were referring to is, it will take a couple of quarters to further dyes and pigments products to come up, that demand to come up. So, yes, that will have a strain on our margins to that extent. But on an immediate basis, chlorination will help. So, it will be an improvement from previous quarters for next quarter or two, but the actual full improvement will be seen once dyes and pigments, so once Europe situation improves and their production levels increases, then it has an effect on our uptake also.

Jatin Damania: Sir, chlorination, if I am not wrong, in 'FY22 accounted for almost 29% of the revenue?

Mihir Shah: Correct.

Jatin Damania: So, given the dyes and pigments which are not doing good, and you are saying that chlorination will help to drive the overall margins in the coming quarters, so can the 29% contribution too can go up to 35%, 40%? Or can you help us in understanding the margin across your core product like Ammonolysis, chlorination, and hydrogenation separately to understand the business model more clearly?



- Mihir Shah:** So, FY '22, yes, chlorination was at 29%, 30% on our revenue contribution, but PAP is increasing, right? So, there is a product in hydrogenation that is increasing quite aggressively. So, that will eat up the portion of chlorination and Ammonolysis together. So, hydrogenation, overall, you will see the revenue contribution going up for hydrogenation. And chlorination also, you will see going up, because it was subdued in this year. So, if you compare it with this year, it will go up. If you compare it with FY '22, then it will be lower than that.
- Jatin Damania:** Last question. Sir, just continue to follow-up earlier question, so can you elaborate more on the margin profile for all three products, chlorination, hydrogenation and ammonolysis?
- Mihir Shah:** No, because of competitive information, I really cannot share the margins.
- Moderator:** Thank you. The next question is from the line of Anupam Aggarwal from Lucky Investment Managers. Please go ahead.
- Anupam Aggarwal:** My question was on the Pharma Intermediates. What CAPEX did we commit to this project? And since we started in January, what is the asset turns we can do at peak potential of peak utilization level?
- Mihir Shah:** So, total pharma project, don't quote me, I mean, I have to get into it, but somewhere around 80 crores, 85 crores that must have got done. And on an asset turns, it will likely be lower currently, because it's more of a pilot plant where we are experimenting if this product or if this way of operations works out for Valiant. And if that does, then we have more scope to expand into that. So, on an immediate basis, the asset turns maybe somewhere a little less than 1x. But it's with the potential to grow further.
- Anupam Aggarwal:** So, once we scale this plant up, which is probably a year out from here, or once we are able to, you know, move from pilot to lab scale or commercial scale, is 70%, 80% utilization fair enough to assume?
- Mihir Shah:** Yes. It's fair to assume.
- Anupam Aggarwal:** So, does asset turn look like 1.5x, 2x in that case?
- Mihir Shah:** Asset turn you are talking about?
- Anupam Aggarwal:** Yes.
- Mihir Shah:** No. So, as I said, it is a smaller plant right now. And we have put in this CAPEX at a pilot level. So, as of now the products are still being identified. So, the turnover can change. So, it's a campaign-based plant where on a monthly basis products will change. The multi-product plant also. So, to assume a fixed revenue would be difficult.

But we are looking at an asset turnover to be at least as close to 1x that we can, because it is still a very initial stage to comment. We are still setting up products. And like I said, it will change on month-on-month basis. So, the top line will also change on month-on-month basis.

Anupam Aggarwal: Understood. Any ballpark direction you can give us as to what therapies we are working on in these intermediates?

Mihir Shah: Sorry. On what?

Anupam Aggarwal: Any therapies that the therapy indication that you can help us understand which products are working on?

Mihir Shah: No, no. In fact, those products are quite classified. It's we are doing it for R.T. Pharma Labs, and the products are quiet, it's confidential for us as well.

Anupam Aggarwal: On the PAP side, what is the route that we take for making PAP? Is it the phenol or PNCB route?

Mihir Shah: PNCB.

Anupam Aggarwal: This is for the batch processing. And once we move to semi-continuous or continuous route remains the same?

Mihir Shah: It remains the same, yes.

Anupam Aggarwal: What is the pricing currently for PAPs?

Mihir Shah: Close somewhere around Rs.500 a Kg.

Anupam Aggarwal: 500 a Kg. And what is the current import situation, if you can help us understand that?

Mihir Shah: Price wise it will be similar, but quantity or volume information I don't have at that point.

Anupam Aggarwal: So, price wise is largely similar around what we are looking at.

Mihir Shah: Yes. Price would be, I mean, we have to be similar, because we have to be competitive.

Moderator: Thank you. The next question is from the line of Rajesh Jain from NB Investments. Please go ahead.

Rajesh Jain: Sir, earlier you had mentioned that when PAP plant is run on batch process, so it will not be able to reach 1,000 metric ton level, but now you have said by turning it even to semi-continuous, it can reach that level. So, my first question is, any, based on the current scenario, can you give us an indication when that can be achieved? And second, since we can reach 1,000 metric ton, will the EBITDA margin will be similar, had it been run on continuous operation also?

Mihir Shah: So, on the timeline, cannot really give a very clear picture, because we are still trying from continuous, we are also checking the semi-continuous process. So, it is difficult to give the timeline, but we are hoping that by the end of next year, we will try to reach the optimum capacity.

And when I say 1,000 metric tons of capacity, you have to take the factor of utilization also in there. So, it's not that we will be producing 1,000 metric tons a month. You have to take an 80%, 85% capacity utilization, which is more like an optimum level. So, we are hoping to reach by Q4 next year, be it in a semi-continuous or batch process.

And as far as the margins are concerned, it will have some impact. But we are doing those technical changes, and we will put in some kind of CAPEX, like I earlier said, that won't be much. But we will be adding some CAPEX to convert it into semi-continuous, which will not be significant. But once that is done, as long as we reach the metric ton, or we reach the volume expectation, the margins will more or less be similar to the continuous process.

Rajesh Jain: Now the way you are saying, it makes it very clear that it will not be a continuous operation now. Is that understanding is correct?

Mihir Shah: Yes. Now we are trying to move to semi-continuous because it's been quite long that we have tried the full continuous. So, now we are looking at a semi-continuous process.

Rajesh Jain: So, what you said is, when you run semi-continuous at optimum, maybe 80% to 85% capacity utilization you can reach, at that time the margins would be what you could have achieved with the continuous operation?

Mihir Shah: Correct. So, what I am trying to say is that we are trying to achieve the volume. So, whether continuous or semi-continuous, we are trying to achieve the optimum level of volume. So, once that is achieved, it will not have a significant impact on the margin as such, only a little bit on the operational side running for, you know, instead of continuous, it will run in batch. So, there might be some implication, but it will not have a significant implication as long as we reach the capacity that we are looking for.

Rajesh Jain: Sir, regarding OAP, what are the issues why it is getting delayed? And how many more months it will take to commission that plant?

Mihir Shah: OAP, we are facing some stabilization issue. So, that is, we are trying to resolve that. Unfortunately, it's been quite some time that we are trying to resolve it. Earlier, we were going via one route. Now we are experimenting via other route if that can be done. So, it's quite work in progress right now. So, very difficult to say by when we will commercially start. But we are getting some success in the other technical changes that have been done at the plant level. Whatever they have done, we have been seeing some success in the trial run, but it has not reached a phase where we can commercially operate. But to give a timeline would be, you can

take it with a pinch of salt, we are looking at closing at least this year, and from next quarter, we can have, next as in Q1 next year, we can have some commercialization on the OAP side also.

Rajesh Jain: Sir, you had given to someone's question that in a long-term scenario, you can achieve 20% to 22% operating margins down maybe two to three years down the line.

Mihir Shah: Correct.

Rajesh Jain: So, I wanted to know what would be the revenue generation, you know, when you run all these plants at optimum plant, you know, optimum capacity utilization, what is the revenue generation we can take at the prevailing prices?

Mihir Shah: So, given the current situation, like I said, if we are not adding any newer products into the base, if ammonolysis continues as FY '22, if chlorination also continues as it did in FY '22, we are looking at the addition of, basically, revenue addition coming out of mainly out of PAP and some bit of OAP in Pharma. So, overall, we can be somewhere around 1,300 crores, 1,400 crores 2, 2.5 years down the line, 2 to 3 years down the line.

Moderator: Thank you. The next question is from the line of Ankur Shah from Quasar Capital. Please go ahead.

Ankur Shah: Can you highlight the gross debt levels? And can you split it into working capital and long-term debt as of 31st December?

Mihir Shah: Around 113 crores term loan and about 112 crores of short term.

Ankur Shah: And in the chlorination plant, we expect this 4,000 plus volume from this quarter onwards?

Mihir Shah: Not this quarter, but from Q1 we can.

Ankur Shah: Oh, still this quarter we won't revert back to normal?

Mihir Shah: Yes. So, it's again, so the customers are returning, and we are getting orders. So, Q4 will be better, but it will not be the 4,000-ton kind of return. That return will be seen from Q1.

Ankur Shah: And overall, like you mentioned, you know, there is some weakness in the end markets. So, any outlook you would like to share with respect to, you know, let's say, your conversation with the customers or whatever is going on around in the world, like, some of the computers in China might be coming back and all of that? So, any viewpoints you have to share on this?

Mihir Shah: So, at a very high level, so we are looking, so dyes and intermediates, we are looking at least another quarter or two for it to improve. So, maybe half year will go into that. What we also know is Europe, lot of companies are either running at a very low-capacity utilization or even shut down because of the issues there. So, it will take some time for those markets to improve.

And once they improve, we will improve. So, probably, another six months or so would go in that particular, you know, improving or reaching back to what it used to be. So, that's on one of our markets.

But Agro is doing well. So, that is stable. Not much is moving in either direction. And with Pharma, it's PAP for us. PAP, paracetamol as it moves PAP also. So, given that, in the previous few years, the demand was very high due to COVID, now it will probably stabilize so that not in terms of volume, but in price realization, it will subside. So, these are the few high-level overviews that I can help with.

Ankur Shah:

And last question, if I can. See, like, you know, I have been noticing that in every project, wherever we are trying to commercialize production, we are facing quite a lot of delays, okay. Like OAP you mentioned just now one other participant. PAP like almost two years have passed. So, like, have you done an internal assessment team-wise that, you know, while selecting the product or the outcomes or the manufacturing lines that there is some problem at the planning level or because, you know, sometimes like if I think from an investor point of view, the delay of one year, two years isn't it quite a lot?

Mihir Shah:

So, no, I get your point. So, definitely, we definitely do a technical analysis also, and we definitely do the overall homework ourselves. We can't put in this many crores without doing that. We definitely do it on a laboratory level. They have all been very successful. It is when you commercialize it, or when you scale up the plant, the issues start coming in. And that is what we are trying to resolve.

These are quite tricky products. These are all input substitutes. In fact, OAP, there is no other domestic player also in the country. So, it's not an easy product that we are getting in. So, it does take some time and some effort to do it. We were successful in the laboratory. It is just the question of scaling up and reaching, you know, that desired specifications that we want.

PAP also similar issue that we faced laboratory successful, but when you scale it up, the stabilization was an issue. The color was an issue. But we resolved that. So, the focus earlier was on PAP. Now it's on OAP. So, it will happen. And as far as the Pharma intermediates is concerned, the project was definitely on track in terms of whatever the Company could do. It was a delay because of approvals. Approvals actually took the delay. We were in fact ready in June itself. Six months went by just waiting for the approval to come in. So, that's what the three projects and the delay is about.

Moderator:

Thank you. The next question is from the line of Rohit Sinha from Sunidhi Securities Financial Services. Please go ahead.

Rohit Sinha:

Sir, one thing on this PAP side. As you mentioned that currently, whatever we are producing, almost 10% is what we are selling in the open market, and the rest is going for that Valiant Lab. So, going forward, as you are indicating that we are targeting to 800 plus or 1,000 plus kind of

volume. So, in that case, what kind of supply would be for Valiant Lab? And are we placed enough for new customers? Or how that will be done?

Mihir Shah: So, I didn't say 1,000 plus. We, in fact, 1,000 is the capacity. We will probably run an optimum of 80%, 85% capacity, out of which almost 80% can be taken up by the subsidiary Company. So, it's a balance 20% that we would get into the market.

Rohit Sinha: And that 20%, we have a customer for that?

Mihir Shah: We have. So, we have some customers, and it's an ongoing process. So, it's not like from day one we can have, but we have other customers also even at this present situation. And while we speak, the marketing team is doing their, you know, more customer acquisition.

Rohit Sinha: And secondly, on the pricing front, if you can highlight what the current pricing of PAP and Paracetamol? And how has been the spread for us in this PAP side?

Mihir Shah: So, PAP, PAP is somewhere around 500 and plus minus. And paracetamol would be somewhere around 5, 25, 30.

Rohit Sinha: And this is for you can say, average of Question or it's the current price?

Mihir Shah: No, this is the current market prices that are going on.

Rohit Sinha: And then, what would be the average for this in Q3?

Mihir Shah: I cannot say that for the Company average. That I cannot divulge.

Rohit Sinha: And one last question on this Pharma side as we got the approval and from January onwards, as you are mentioning that we are starting production. So, how much that kind of revenue we should be expecting? And how we should be able to scale up those products?

Mihir Shah: So, like I said, it's a multi-product plant with 8 to 12 products with each of them having a different pricing. So, very difficult to conclude at this point as to what would be the revenue, because it's again campaign based. So, one product can go on for six months straight. One product may come in only once in six months. So, very difficult to say that for a multi-product plant. But we are hoping to, you know, have 50 crores, 60 crores upward of revenue coming in. But that's also at a very, very high level that I am talking about, because now that the plant has started, we are setting up products. So, it will probably quarter or two, and then I can have a better answer on what the top line looks like for this project.

Moderator: Thank you. As that was the last question for today, I would now like to hand the conference over to the management for closing comments. Over to you, sir.



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February 2, 2023

Mihir Shah: Thank you all for participating in this Earnings Call. I hope we were able to answer your questions satisfactorily, and at the same time offer insights into our business. If you have any further questions, or would like to know more about the Company, please reach out to our Investor Relations Manager at Valorem Advisors. Thank you.

Moderator: Thank you, sir. On behalf of Sunidhi Securities and Finance Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.