

#### Mixed Q4; Growth outlook remains intact

Valiant Organics Ltd (VOL) consolidated results fall short of our expectations on the profitability front. The company posted strong revenue growth of 48.5% YoY and 20.5% QoQ at INR 3,476mn (14.6% above est), owing to higher realisation and volume addition on account of PAP ramp up. Inflationary input cost pressures continue to impact EBITDA margin with a 854bps contraction to a 16.4% level, 81bps lower than our estimate. Prices of key raw materials like Phenol and PNCB (collectively account for 40%) remained high during the quarter. However, management expects a sharp recovery in the margin from Q1 onwards as the prices of most raw materials are now stabilizing, and the company is passing on the price increase to the customers. For FY23, management guided a 20% EBITDA margin and targeted 22-23% in the medium term. Reported PAT came at INR 311mn (+12.7% YoY) compared to our expectation of INR.342mn due to muted operational performance. Management said FY23 Capex would be minimal (~INR600m-700m) and the focus on ongoing Capex execution and cash generation would continue. PAP ramp up is on track with a production of 300+ MT/ Month. For FY22, PAP volume was~1900 MT with a EBITDA margin between 10%-12%. Management believes this margin can improve once the scaling up happens and can achieve 15% at 500 MT/ month; then once they move into continuous process, it can improve further. OAP & Pharma Intermediates projects both are on-track with no significant delays. OAP Phase 1 trial run has been successful, and both OAP and Pharma Intermediates plant expected to commence production from Q2FY23. Together, direct and deemed exports accounted for 14% of revenue in Q4FY22 and 16% in FY22.

#### Valuation and Outlook

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. 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 20.6% revenue CAGR, EBITDA expansion of 29.2% CAGR, and 37.6% growth in earnings over FY22-24E. 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 reiterate our BUY rating with a revised target price of INR 1,382 (earlier INR 1,648), valuing the stock at 18x P/E (in line with 5yr Avg P/E).

#### Stock Rating

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

Sector Outlook **Positive**

#### Stock

CMP (INR)	690
Target Price (INR)	1,382
BSE code	540145
NSE Symbol	VALIANTORG
Bloomberg	VORG IN
Reuters	VALIN.BO

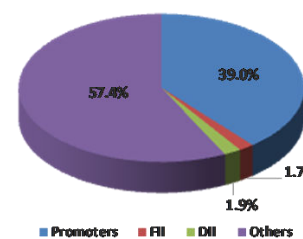
#### Key Data

Nifty	16,661
52WeekH/L(INR)	1,720 / 625
O/s Shares (Mn)	28
Market Cap (INR bn)	19
Face Value (INR)	10

#### Average volume

3 months	1,21,740
6 months	91,500
1 year	82,860

#### Share Holding Pattern (%)



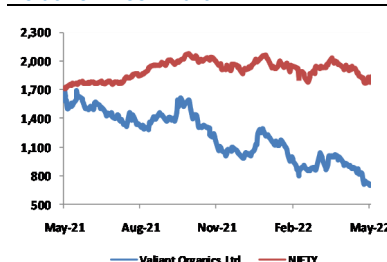
Key Financials					
YE March (INR. Mn)	FY20	FY21	FY22	FY23E	FY24E
Net Sales	6,749	7,548	11,533	13,854	16,769
Growth %	-3%	12%	53%	20%	21%
EBIDTA	1,805	2,054	2,049	2,573	3,419
Growth%	0%	14%	0%	26%	33%
Net Profit	1,239	1,146	1,133	1,538	2,145
Growth %	-7%	-8%	-1%	36%	39%
Diluted EPS	44	41	41	55	77
Growth %	-7%	-8%	-1%	36%	39%

Profitability & Valuation					
	FY20	FY21	FY22	FY23E	FY24E
EBIDTA (%)	26.7%	27.2%	17.8%	18.6%	20.4%
NPM (%)	18.4%	15.2%	9.8%	11.1%	12.8%
RoE (%)	38.3%	25.7%	20.3%	22.5%	25.1%
RoCE (%)	57.9%	33.5%	25.1%	20.2%	22.3%
P/E (x)	15.6	16.8	17.0	12.5	9.0
EV/EBITDA (x)	11.3	10.1	10.8	8.4	6.1
P/BV (x)	5.0	3.8	3.1	2.6	2.0

Source: Company, BP Equities Research

#### Relative Price Chart



#### Research Analyst

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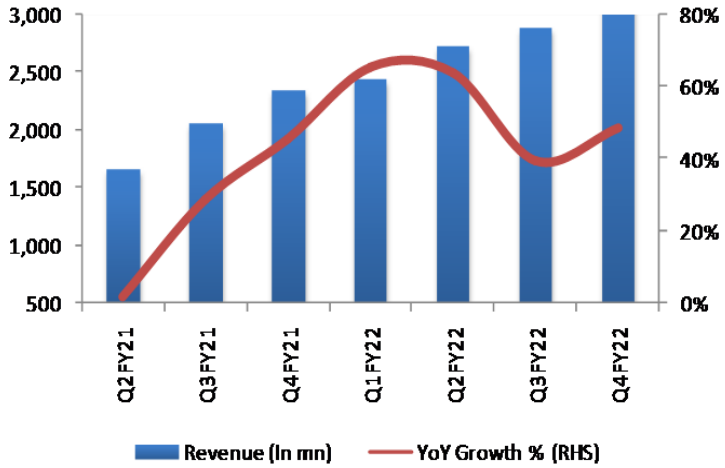
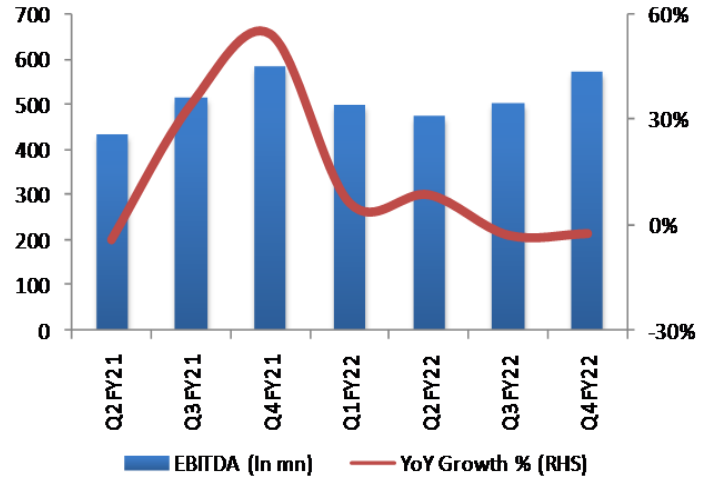
## Variance Analysis

YE March (INR. Mn)	Q4 FY22	Q3 FY22	Q-o-Q change %	Q4 FY21	Y-o-Y change %
Net Sales	3,476	2,884	20.5%	2,340	48.5%
Other Operating Income	0	0		0	
<b>Total Revenue</b>	<b>3,476</b>	<b>2,884</b>	<b>20.5%</b>	<b>2,340</b>	<b>48.5%</b>
Less:					
Raw Material Cost	2,406	1,918	25.4%	1,320	82.2%
Operating & Manufacturing Expenses	392	365	7.4%	334	17.5%
Employee Cost	109	99	10.0%	103	5.4%
<b>Total Expenditure</b>	<b>2,906</b>	<b>2,382</b>	<b>22.0%</b>	<b>1,757</b>	<b>65.4%</b>
<b>EBIDTA</b>	<b>570</b>	<b>502</b>	<b>13.6%</b>	<b>584</b>	<b>(2.4%)</b>
Less: Depreciation	84	77	9.5%	58	45.0%
<b>EBIT</b>	<b>486</b>	<b>425</b>	<b>14.3%</b>	<b>526</b>	<b>(7.6%)</b>
Less: Interest	17.2	13.2	30.0%	13.5	27.4%
Add: Other income	23	25		15	
<b>Profit before tax</b>	<b>491</b>	<b>437</b>	<b>12.3%</b>	<b>528</b>	<b>(6.9%)</b>
<b>Adjusted Profit before Tax</b>	<b>491</b>	<b>437</b>	<b>12.3%</b>	<b>528</b>	<b>(6.9%)</b>
Less: Total Tax	121	115	4.9%	181	(33.4%)
<b>Profit After Tax</b>	<b>371</b>	<b>322</b>	<b>15.0%</b>	<b>347</b>	<b>7.0%</b>
Share of profit /(loss) of JVs	0	0		0	
Minority Interest	-60	-23		-71	
<b>Adjusted Profit After Tax</b>	<b>311</b>	<b>299</b>	<b>3.9%</b>	<b>276</b>	<b>12.7%</b>
<b>Diluted EPS (Rs.)</b>	<b>13.7</b>	<b>11.9</b>	<b>15.0%</b>	<b>12.8</b>	<b>7.0%</b>
<b>Adjusted Diluted EPS</b>	<b>11.5</b>	<b>11.0</b>	<b>3.9%</b>	<b>10.2</b>	<b>12.7%</b>
Diluted No of Share (mn)	27.2	27.2		27.2	
<b>Margin Analysis %</b>			<b>Change in bps</b>		<b>Change in bps</b>
Gross Margin %	30.8%	33.5%	-269	43.6%	-1,280
EBIDTA Margin %	16.4%	17.4%	-101	24.9%	-854
EBIT Margin %	14.0%	14.7%	-76	22.5%	-849
NPM %	10.7%	11.2%	-51	14.8%	-414
Effective Tax Rate %	24.5%	26.3%	-173	34.3%	-976

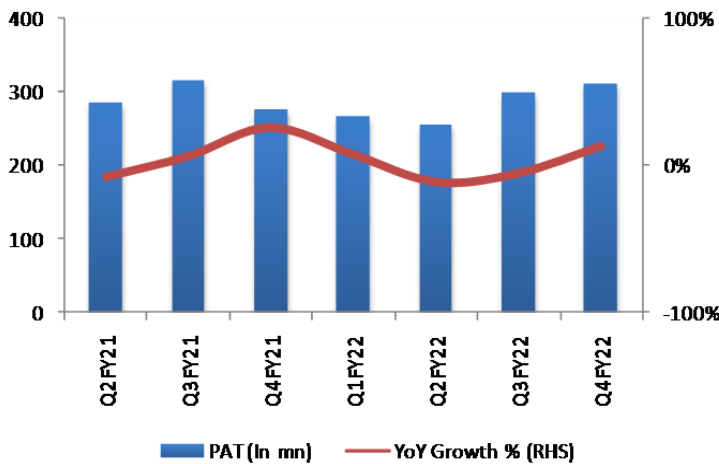
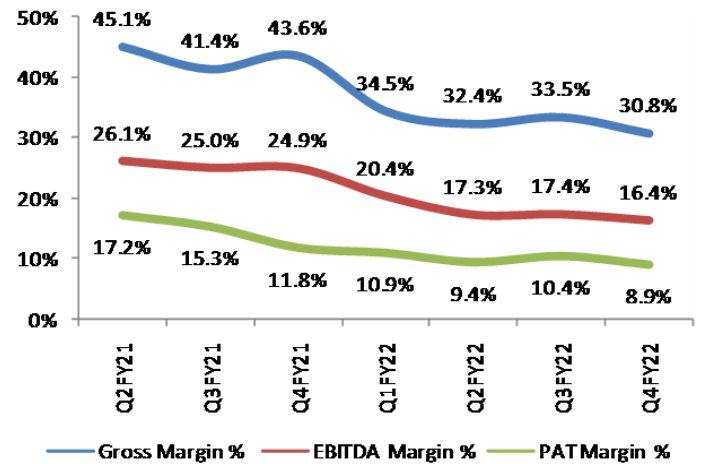
Source: Company, BP Equities Research

Revenue came above our estimate owing to higher realisation and volume addition on account of PAP ramp up

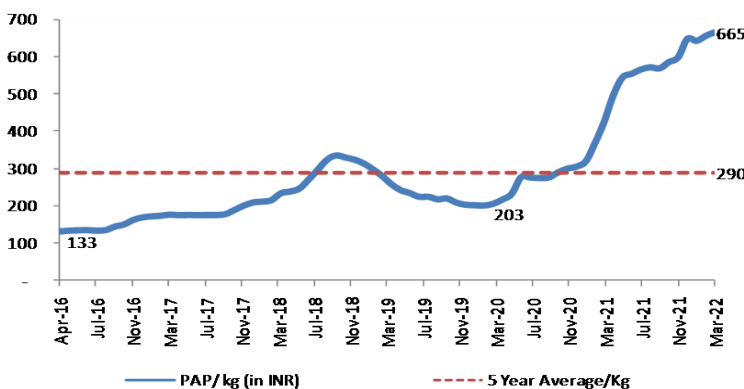
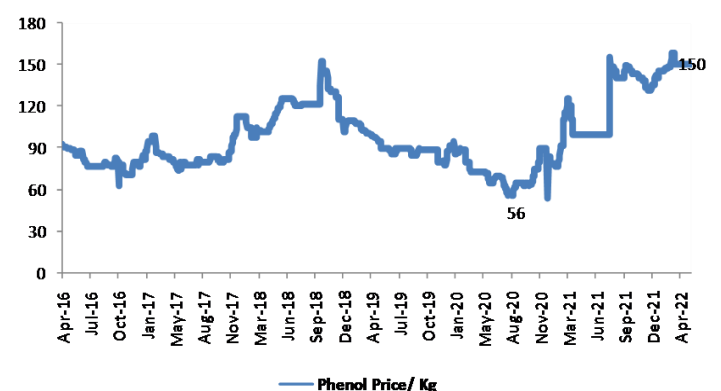
EBIDTA margin declined by 854bps YoY to 16.4% (est.17.2%) from 24.9% in Q4FY21 due to a 1,280bps fall in the gross margin on account of Inflationary input cost pressures

**Revenue growth trend**

**EBITDA declined by 2.4% YoY**


Source: Company, BP Equities Research

**PAT improved by 12.7% (YoY)**

**Gross /EBITDA / PAT Margin Trend**


Source: Company, BP Equities Research

**PAP prices continuing its up move**

**Some softness is seen in Phenol prices; however it is still at elevated levels**


Source: BP Equities Research



## Profit &amp; Loss A/c

YE March (INR. Mn)	FY20	FY21	FY22	FY23E	FY24E
<b>Revenue</b>	<b>6,749</b>	<b>7,548</b>	<b>11,533</b>	<b>13,854</b>	<b>16,769</b>
Growth %	-2.5%	11.8%	52.8%	20.1%	21.0%
<b>Total Revenue</b>	<b>6,749</b>	<b>7,548</b>	<b>11,533</b>	<b>13,854</b>	<b>16,769</b>
<b>Less:</b>					
Raw Material Consumed	3,931	4,187	7,754	9,222	10,883
Employee Cost	228	294	372	427	491
Other Expenses	785	1,014	1,358	1,632	1,975
<b>Total Operating Expenditure</b>	<b>4,944</b>	<b>5,494</b>	<b>9,484</b>	<b>11,281</b>	<b>13,350</b>
<b>EBITDA</b>	<b>1,805</b>	<b>2,054</b>	<b>2,049</b>	<b>2,573</b>	<b>3,419</b>
Growth %	0.2%	13.8%	-0.2%	25.6%	32.9%
Less: Depreciation	158	212	296	331	365
<b>EBIT</b>	<b>1,648</b>	<b>1,841</b>	<b>1,752</b>	<b>2,242</b>	<b>3,054</b>
Growth %	-1.1%	11.8%	-4.8%	28.0%	36.2%
Interest Paid	26	52	65	65	65
Non-operating Income	63	59	74	74	74
Extraordinary Income	0	0	0	0	0
<b>Profit Before tax</b>	<b>1,685</b>	<b>1,849</b>	<b>1,762</b>	<b>2,252</b>	<b>3,064</b>
Tax	423	540	483	567	772
<b>Net Profit</b>	<b>1,239</b>	<b>1,146</b>	<b>1,133</b>	<b>1,538</b>	<b>2,145</b>
<b>Adjusted Profit</b>	<b>1,239</b>	<b>1,146</b>	<b>1,133</b>	<b>1,538</b>	<b>2,145</b>
<b>Reported Diluted EPS</b>	<b>44.3</b>	<b>41.0</b>	<b>40.5</b>	<b>55.0</b>	<b>76.8</b>
Growth %	-7.0%	-7.6%	-1.1%	35.8%	39.5%
<b>Adjusted Diluted EPS</b>	<b>44.3</b>	<b>41.0</b>	<b>40.5</b>	<b>55.0</b>	<b>76.8</b>
Growth %	2.2%	-7.6%	-1.1%	35.8%	39.5%

Source: Company, BP Equities Research

## Cash Flows Statement

YE March (INR. Mn)	FY20	FY21	FY22	FY23E	FY24E
<b>PAT</b>	<b>1,239</b>	<b>1,146</b>	<b>1,133</b>	<b>1,538</b>	<b>2,145</b>
(Less)/Add: Extraordinary Income/Expense	0	0	0	0	0
Less: Non Operating Income	(63)	(59)	(74)	(74)	(74)
Add: Depreciation	158	212	296	331	365
Add: Interest Paid	26	52	65	65	65
Tax Adjustment	0	0	0	0	0
<b>Operating Profit before Working Capital Changes</b>	<b>1,360</b>	<b>1,351</b>	<b>1,420</b>	<b>1,859</b>	<b>2,501</b>
(Inc)/Dec in Current Assets	4	(331)	(1,609)	(715)	(897)
Inc/(Dec) in Current Liabilities	433	319	(150)	613	434
Changes in Inventory	30	(273)	(415)	(229)	(287)
<b>Net Cash Generated From Operations</b>	<b>1,828</b>	<b>1,065</b>	<b>(754)</b>	<b>1,529</b>	<b>1,751</b>
<b>Cash Flow from Investing Activities</b>					
(Inc)/Dec in Fixed Assets	(1,418)	(2,544)	(625)	(800)	(800)
(Inc)/Dec in Capital Work In Progress	(636)	832	(657)	0	0
(Inc)/Dec in Investment (Strategic)	(88)	63	74	(16)	(20)
(Inc)/Dec in Investment (Others)	(163)	158	(9)	0	0
Add: Non Operating Income	63	59	74	74	74
(Inc)/Dec in Intangible Assets	0	0	0	0	0
<b>Net Cash Flow from/(used in) Investing Activities</b>	<b>(2,241)</b>	<b>(1,432)</b>	<b>(1,144)</b>	<b>(741)</b>	<b>(745)</b>
<b>Cash Flow from Financing Activities</b>					
Inc/(Dec) in Total Loans	475	669	1,840	0	0
Inc/(Dec) in Reserves & Surplus	535	1	71	0	0
Inc/(Dec) in Equity	15	68	291	0	0
Dividend Paid	(489)	(136)	(95)	(136)	(136)
Less: Interest Paid	(26)	(52)	(65)	(65)	(65)
Adjustments	(7)	(1)	0	0	0
Exceptional Item	0	0	0	0	0
<b>Net Cash Flow from Financing Activities</b>	<b>504</b>	<b>550</b>	<b>2,041</b>	<b>(201)</b>	<b>(201)</b>
<b>Net Inc/Dec in cash equivalents</b>	<b>90</b>	<b>183</b>	<b>144</b>	<b>587</b>	<b>805</b>
<b>Opening Balance</b>	<b>36</b>	<b>127</b>	<b>310</b>	<b>454</b>	<b>1,041</b>
<b>Closing Balance Cash and Cash Equivalents</b>	<b>127</b>	<b>310</b>	<b>454</b>	<b>1,041</b>	<b>1,846</b>

Source: Company, BP Equities Research



Balance Sheet					
YE March (INR. mn)	FY19	FY20	FY21	FY22E	FY23E
<b>Liabilities</b>					
Equity Capital	308	308	308	308	308
Reserves & Surplus	5,979	6,033	7,912	10,139	11,991
<b>Equity</b>	<b>6,287</b>	<b>6,341</b>	<b>8,220</b>	<b>10,447</b>	<b>12,299</b>
<b>Net Worth</b>	<b>6,287</b>	<b>6,341</b>	<b>8,220</b>	<b>10,447</b>	<b>12,299</b>
Minority Interest					
Others	822	869	830	830	830
<b>Total Loans</b>	<b>1,346</b>	<b>1,536</b>	<b>1,259</b>	<b>1,259</b>	<b>1,259</b>
<b>Capital Employed</b>	<b>8,455</b>	<b>8,746</b>	<b>10,310</b>	<b>12,536</b>	<b>14,389</b>
<b>Assets</b>					
Gross Block	8,420	9,502	12,145	13,145	14,645
Less: Depreciation	4,528	4,789	5,130	5,499	5,910
<b>Net Block</b>	<b>3,892</b>	<b>4,713</b>	<b>7,016</b>	<b>7,647</b>	<b>8,735</b>
Capital WIP	2,161	2,672	1,319	1,319	1,319
<b>Investments</b>	<b>305</b>	<b>350</b>	<b>314</b>	<b>345</b>	<b>380</b>
Others - A	434	436	220	220	220
<b>Current Assets</b>					
Inventories	1,294	951	1,438	2,351	2,236
Sundry Debtors	1,828	1,433	1,987	3,248	3,090
Cash and Bank Balance	251	358	736	3,467	4,185
Current Investments	698	116	100	100	100
Loans and Advances	184	171	7	12	11
Other Current Assets	84	95	102	102	102
<b>Total Current Assets</b>	<b>4,340</b>	<b>3,124</b>	<b>4,370</b>	<b>9,279</b>	<b>9,723</b>
<b>Less: Current Liabilities &amp; Provisions</b>					
Sundry Creditors	2,300	1,996	2,397	5,334	5,075
Provisions	16	22	10	20	40
Other Current Liabilities	361	532	522	918	873
<b>Total Current Liabilities &amp; Provisions</b>	<b>2,676</b>	<b>2,550</b>	<b>2,928</b>	<b>6,272</b>	<b>5,988</b>
<b>Capital Applied</b>	<b>8,455</b>	<b>8,746</b>	<b>10,310</b>	<b>12,536</b>	<b>14,389</b>

Source: Company, BP Equities Research

Key Ratios					
YE March (INR. mn)	FY20	FY21	FY22	FY23E	FY24E
<b>Key Operating Ratios</b>					
EBITDA Margin (%)	26.7%	27.2%	17.8%	18.6%	20.4%
Tax / PBT (%)	25.1%	29.2%	27.4%	25.2%	25.2%
Net Profit Margin (%)	18.4%	15.2%	9.8%	11.1%	12.8%
RoE (%)	38.3%	25.7%	20.3%	22.5%	25.1%
RoCE (%)	57.9%	33.5%	25.1%	20.2%	22.3%
Current Ratio (x)	1.7x	1.9x	3.6x	3.3x	3.5x
Dividend Payout (%)	39.4%	11.9%	8.4%	8.4%	8.4%
Book Value Per Share (INR.)	138.8	179.9	219.4	269.6	341.5
<b>Financial Leverage Ratios</b>					
Debt/ Equity (x)	0.3x	0.37x	0.6x	0.5x	0.38x
Interest Coverage (x)	70.3x	39.5x	31.6x	39.7x	52.8x
<b>Growth Indicators %</b>					
Growth in Gross Block (%)	84.6%	84.4%	6.5%	8.7%	7.4%
Sales Growth (%)	(2.5%)	11.8%	52.8%	20.1%	21.0%
EBITDA Growth (%)	0.2%	13.8%	(0.2%)	25.6%	32.9%
Net Profit Growth (%)	(7.0%)	(7.6%)	(1.1%)	35.8%	39.5%
Diluted EPS Growth (%)	(7.0%)	(7.6%)	(1.1%)	35.8%	39.5%
<b>Turnover Ratios</b>					
Debtors Days	72	76	102	102	102
Creditors Days	65	71	48	48	48
Inventory Days	24	35	36	36	36

Source: Company, BP Equities Research

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