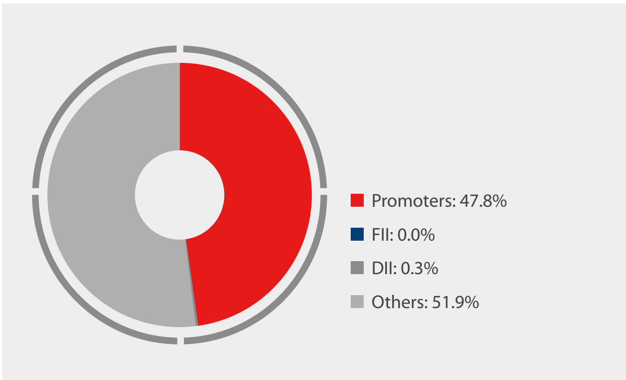
Valiant Organics Ltd.

CMP.: Rs 2,906 • Rating: BUY • Target: Rs 3,350

Company Information	
BSE Code	540145
NSE Code	NA
Bloomberg Code	VORG IN
ISIN	INE565V01010
Market Cap (Rs. Cr)	3530
Outstanding shares (Cr)	1.2
52-wk Hi/Lo (Rs.)	3142.7 / 884.1
Avg. daily volume (1yr. on NSE)	8,090
Face Value (Rs.)	10.0
Book Value	304.0

Share holding pattern as on June 2020 (%)



Company Overview

Valiant Organics Ltd. (VOL) is engaged in the business of Manufacturing of chemicals for Agro Intermediate and Pharma. Company is the market leader for Chloro Phenols in India & amongst the Leading manufacturer of Para Nitro Aniline (PNA). Over the years, company has developed an extensive domain expertise in multiple process chemistries including Chlorination, Ammonolysis, Acetylation, Hydrogenation, Sulphonation and Methoxylation. Its products have been used in various industries such

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as Agrochemicals account 40% of its topline followed by dyes & pigments 20%, Specialty chemicals 30% and Pharmaceuticals 10%. Chloro phenols account 62% of revenue while PNA contributes rest 38%. Company derives 85% revenue from domestic market and 15% from export market.

Investment Rationale

Benefiting from industry dynamics

China's competitive position in the global markets has been diminishing in the past few years on account of stringent environmental and safety norms imposed and led to the shutdown of several chemical plants. With a significant increase in compliance costs, many chemical plant operations have become unviable. India, with its low-cost advantage, is emerging as an alternative manufacturing and supply chain hub for major global economies. Being among India's leading specialty chemical manufacturers, Valiant Organics is well positioned to capitalise on these emerging business opportunities by significantly leveraging the operations, expanding capacities and extensive domain knowledge. The management remain confident of growing the market share in the domestic and international markets by virtue of strong and niche product portfolio, enhanced capacities and R&D capabilities. The company is well positioned to take advantage of the growing opportunities in specialty chemicals, as India's specialty chemicals market sets itself on the growth path for the coming years, and with a rising need for specialty chemicals in the end-use domestic markets.

Capacity expansion to aid growth

VOL started expansion of its manufacturing capacities at Sarigam and Jhagadia in FY 2018-19. Despite all the macro challenges, it continued expanding and augmenting its manufacturing capabilities and completed the expansion of Chloro Phenols capacity at the Sarigam plant. It achieved a capacity expansion of 18,000 MT per annum during the year. The expansion has enhanced the Company's capability of adding high margin downstream products by using new raw materials. The company is also working on new projects at Jhagadia. The Company has a landbank in Sayakha (68,000 sq.m.) and Dahej (12,000 sq.m.) for further expansion. A capex of Rs 100 crore has been allocated for the expansion projects at Jhagadia in FY21 and it is expected to commence other capacity expansion projects in FY 2021-22. 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.

Integrated operations are margin accretive

Company has taken both backward and forward integration projects through strategic expansions. 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. This will also assist in maintaining product quality and better delivery timelines and optimize profits margins in future. 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. As part of forward integration, VOL is leveraging its extensive domain experience and integrated manufacturing operations. It has increased the production capacity at Tarapur and Vapi plants in order to increase the share of value-added intermediates and import substitutes, which will enlarge the product value chain and will have significant cost benefit on end products. Company has also completed debottlenecking in Tarapur and Vapi plants in order to improve its operational efficiency and productivity. In order to bring more automation and better safety systems, company has implemented Distribution Control System (DCS) at Tarapur and Vapi plants. 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.

Strong financial performance

The financial performance of the company appears to be quite

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attractive. In last 5 years company has maintain RoCE of more than 40% with last year RoCE of 43.5% while RoE of the company is also strong at 45.3% in FY20. Chlorophenol business remains a high ROCE business for VOL. Post the acquisition of Abhilasha and Amariyot along with the new capex lined up it is expected that the company is capable to generate more that 30% ROCE in the business. VOL is successfully generating more than Rs. 100 cr cash from operation for last 2 years and capable enough to fund its inorganic growth & organic capital expansion without much increase in Debt. Net Debt/ Equity remains comfortable at 0.3x in FY20 and expected to remain at comfortable level going forward. The capacity expansion will enhance the company's capability of adding high margin downstream products by using new raw materials which is expected to improve the company's financial performance along with the return ratios.

Key Risks

- Any disruption in supply chain in raw material pricing and sourcing.
- Delay in capex implementation or plant synchronization.
- Exposed to the constant risk of currency and commodity cycles.

Valuation

VOL is part of the Aarti group of companies and is a market leader for Chloro Phenols in India & amongst the Leading manufacturer of Para Nitro Aniline (PNA). Acquisition of Abhilasha Tex-Chem and Amarjyot Chemical has provided VOL with a wide range of product basket and diverse chemistries thus catering to industries like agro, pharma, dye intermediates, pigments. The acquisitions led to 5x & 7.6x jump in revenues & profitability respectively between FY18 & FY19. VOL has strong list of clients in the likes of BASF, Lanxess, Bayer Crop Science, Coromandel, Gujarat Insecticides Ltd etc. The company is fully integrated and has an import substitution led story embedded for products like Para Anisidine (PA) and Ortho Amino Phenol (OAP) while for another product, Para Amino Phenol (PAP), MoCF/DoP has been identified as one of the key sourcing materials and covered under production linked incentive scheme (PLI). Led by higher demand, the company is expanding in key high margin products which would augment its revenue & profitability ahead. The company has strong set of financials with high margin profile and high return ratios. Despite, such superior growth backed by capex and acquisitions, VOL's debt-equity ratio is comfortable at 0.31x for FY20. Hence, we recommend our investors to BUY the scrip for a target of Rs. 3350 from 12 months investment perspective. Currently, the scrip is valued at P/E multiple of 18.8x on FY22E EPS.

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Valiant Organics 3Yr. Price Chart

Particulars (in Rs Cr)	FY19	FY20	FY21E	FY22E
Net Sales	692.3	674.9	762.7	877.1
Growth (%)	473.8	-2.5	13.0	15.0
EBITDA	180.2	179.3	205.9	241.2
EBITDA Margin (%)	26.0	26.6	27.0	27.5
Net profit	133.2	140.5	160.2	188.6
Net Profit Margin (%)	19.2	20.8	21.0	21.5
EPS (Rs)	227.2	114.0	131.8	155.2

Consensus Estimate: Ashika Research

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