Valiant Organics Limited

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Earnings Conference Call
February 09, 2022

Moderator: Ladies and gentlemen, Good day and welcome to the Valiant Organics Limited Q3 and 9 M FY22 Earnings Conference Call. As a reminder, all participant 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. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, Sir.

Anuj Sonpal: Thank you. Good morning everyone and very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the investor relations of Valiant Organics Limited. On behalf of the company, I would like to thank you all for participating in the company's earnings conference call for the third quarter of financial year 2022.

Before we begin as mandatory, I would like to mention a short cautionary statement. Some of the statements made in today's earnings concall maybe forward looking in nature. Such forward looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management's belief as well as assumptions made by and information currently available to management. Audiences are cautioned not to place any undue reliance on these forward looking statements in making any investment decisions. The purpose of today's earnings conference call is purely to educe and bring awareness about the company's fundamental business and financial quarter under review. Let me now introduce you to the management participating with us in today's earnings call and hand it over to them for opening remarks. Firstly we have with us Mr. Arvind K Chheda – Managing Director, Mr. Mahek Manoj Chheda – Executive Director and Chief Financial Officer and Mr. Mihir Shah – Senior Finance Manager. Now without any further delay I request Mr. Arvind K Chheda to give his opening remarks. Thank you and over to you, Sir.

Arvind K Chheda: Thank you Anuj ji and good morning to everyone. It is a pleasure to welcome you all to our earnings conference call for the third quarter and 9 months ended for the financial year 2022. Let me thank all the participants joining us today and I hope everyone is keeping safe and well. Even that this week our first ever earning concall in the interest of some participants who are new in the company let me start by giving a brief overview of the company after which Mr. Mahek Manoj Chheda will brief you on the financials and operation highlights of

the quarter under review. Valiant Organics Limited is a specialty chemicals manufacturing in India with a legacy of more than three decades. The company is a part of Aarti group which have other prominent companies like Aarti Industries and Aarti Drugs. We have an outstanding board comprising of highly qualified individuals along with an express management team. Our group chairman Shri Chandrakant V. Gogri is a stalwart in the Indian chemical industry and the founder of much sought after Aarti Group of companies. Our promoters have combined experience of more than 100 years in industry. Valiant Organics is into a manufacturing and making of specialty chemicals with fine downstream application across various sectors such as agro chemicals, pharmaceuticals, dyes, pigment industry and veterinary drugs manufacturing. The company works across various chemical processes like Chlorination , Hydrogenation, Ammonolysis with , Acetylation amongst others. Some of the key chemical manufactured by the company includes ortho anisidine, para anisidine, para amino phenol, ortho amino phenol, ortho nitro anisole and para nitro anisole, para nitro anisole, para chloro phenol, ortho chloro phenol, 2, 4 Di chloro phenol etcetera. We have 6 integrated manufacturing facilities across Gujarat and Maharashtra. We have strong 90 year relationship with our clients in both domestic and international markets thanks to high quality goods, innovative production capabilities and invention driven value added products. In addition to Pan India presence the company also exposed to countries in Asia, Europe and USA. With that, I would now like to hand over the call to Mr. Mahek Manoj Chheda to brief you on the financials and operational highlights for the quarter and 9 months under review. Thank you. Over to you, Mahek.

Mahek Manoj Chheda: Thank you and good morning everyone and I welcome to this earning call. I hope you have 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 financial performance of the company on the consolidated basis for third quarter of financial year 21-22. The revenue from the operations grew by about 5.6% on QoQ basis and around 39.6% on YoY basis to around Rs. 288 crores. The EBITDA was reported at Rs. 50.2 crores which grew up around 6.1% on QonQ and degrew by 2.9% on YoY basis. Our EBITDA margin for the quarter was 17.41%. The net profit reported was around 32.2 crores which grew by 7.3% on QonQ and decreased by 6.7% YoY. Our PAT margins for the quarter was 11.17%. For the 9 months ended the revenue from operations stood at around 805.6 crores which grew by around 54.7% YoY with EBITDA growing by around 0.6% YoY to Rs. 147.8 crores. We manage to achieve an EBITDA margin of 18.35%. The net profit stood at Rs. 90.8 crores degrowing by 5.8 on YoY and PAT margins for 9 months financial year 22 stood at 11.27%. The sales growth on a year-on-year basis was driven by healthy demand environment and contribution from new products addition like PAP and para anisidine which have started contributing to the top line in this year. The PAP plant is still under ramp up stage and will gradually increase contribution

over the next few quarters. In the month of December 21 the Ahmadabad plant underwent a maintenance shutdown which accounted for a drop in volumes in the other chemistry segment. The EBITDA margin were flattish on a quarter-on-quarter comparison, but show a decline on a year-on-year basis primarily driven by rising input cost and freight prices. On the CAPEX front, we are at the final stage of our new project that is OAP and pharma intermediates which we aim to commercialize in Quarter 1 of 23. With this, we can now open the floor for question and answer session. Thank you.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: First on the PAP side we have commissioned this in the Q4 now we are in a Q3 quarter since we have commissioned, what is the utilization rate in the PAP we are looking at and we had some technical issues I understand on the PAP side on what is the situation there have we completely resolved it or we are in the process to resolve it and when should we expect this utilization to go up significantly now that we have a 12,000 metric ton of capacity and India is close to 25,000 metric ton annually. We have a very big addressable market in India for a trial and from the competition perspective who in the domestic are putting more PAP and what is the pricing scenario in PAP these are the few initial question?

Management: Just to start off with your first question on the utilization so there are two ways where we can consider this one is with some batch and continuous process so if I take batch into the consideration then we are at about 25% to 30% utilization however we still have to make our amendments or process enhancement to make some batch to continuous in that case we will take some time for the ramping up part. So, it is very difficult to say at what utilization stage it is at because we are still in the process. Having said that the issue is almost resolved we have ramped up if you save our numbers as well starting April to now we move from 10 to 20 tons per month to almost 200 tons to 250 tons per month currently. So that is the ramp up that we have achieved in last 9 months. This quarter will probably be around the same, but starting next year we will see some additions and a good ramp up coming out of PAP. We will also initiate simultaneously movement from batch to continuous process so that will take another round of trial and error. So, depending on what the outcomes happens with that it will move from say 500 tons, 600 tons to about 1,000 is in the form of continuous. So, the continuous trial runs are successful then we will be able to scale up to about 1,000 tons in the future in about 15 months to 20 months and coming to so that is the ramp up. As far as pricing is concerned let Mahek speak on the pricing build.

Mahek Manoj Chheda: The pricing initially were on a very higher trend as we could because of COVID reason, but now everything has been stabilizing even for the RM prices and even the Paracetamol prices

have seen a quite a bit drop. So when it comes to the RM the PAP prices are also seen a good enough drop in that front.

Sanjesh Jain: What is the current prices because the export data show that the prices for KG went up to Rs. 585 per kg were is it today as we speak?

Mihir Shah: As we speak we will be in the 625 to 650 range if you take what the market dynamics are at present.

Sanjesh Jain: Can you speak of the competition and the PLI also a little bit how do you see that as an opportunity?

Mihir Shah: Sorry can you repeat speak about what?

Sanjesh Jain: What is on the competition who are the major PAP producer in India and are they on a batch manufacturing, are they on a continuous manufacturing that is number one. Number two I think there is a lot of talk on the PLI schemes where are we in terms of availing this benefit for the PAP?

Mihir Shah: So let me start off so couple of companies came up with the CAPEX for PAP production some of them include Sadhna Meghmani, Panoli. These are a few companies that have initiated as far as the CAPEX is concerned. There are no other major players apart from the as far as our knowledge stays there are no other players who are really giving PAP in the market. There is one company, but they utilize it captively, but other than that we do not know of any major players currently in the market who is producing PAP domestically and providing. We are expecting even for the PLI scheme we had applied and the others also had applied so we did not pass through because of the size of the plant that we were putting as compared to others. Having said that I think we are in the front runner as far as development of PAP is concerned and so currently even with the technical issues we are still there in the market place and our product is available which as such no other competitors are there alongside.

Sanjesh Jain: Sorry to stick on that, but what was this technical issue if you can elaborate I understand that color is an important thing in this you need a whitish kind of an output on the PAP side, where are we on the technical side and do you think the continuous once we shift to the continuous manufacturing we will have an advantage versus other domestic players in terms of manufacturing efficiencies?

Mihir Shah: Speaking about the color issue we have rectified that we were earlier getting a pinkish color now we get the white color that is expected and we are almost there now with the ramping up we are seeing that we are getting a stabilized product also. So the color issue is resolved,

but another is getting the wet to try so that is where another technical aspects comes in. So, we have resolved that also so earlier our products was wet now we provide dry as well with the color issue resolved. So as far as batch is concerned yes they probably is resolved when we move to the continuous part that is where we have to do the trail win again and we have to see the stability of the product color remains. Along with that we have also provided our samples to our customers they also need to do their quality checks and all of this process takes a bit time so that stability of the product and whatever feedback we get from the customers we will move from batch to loop reaction say for the next three, four, five months we will get the stability data back from all the customers feedback and once we move to loop yes our production ramp up will be quick and definitely it will be an competitive edge over the other players, but even with the batch reaction we still have the competitive edge because there are no other major players in the market.

Sanjesh Jain: Just sticking to the topic any thought process why we started with the batch and not directly went into continuous flow manufacturing?

Mihir Shah: So we did our trial runs we were the issue that we got the technical issue, the color issue that we were getting and we make from wet to dry was becoming a bit of a challenge in terms of **loop** so we immediately move to batch and now simultaneously what is happening on experiments are happening and just getting into the loop part so that is why and there was a instability of the product in the loop which we are trying to resolve.

Moderator: Thank you. The next question is from the line of Srishti Jain, Monarch Networth Capital. Please go ahead.

Srishti Jain: So I have one question on pharma intermediates so we are expecting that to commercialize in Q1 so you know we are putting up a small capacity what kind of asset turns are we anticipating and going ahead do we see any further CAPEX into the segment?

Mihir Shah: Yes so this particular pharma intermediate plant is like a pilot plant we are trying this arrangement whether it is feasible going in future so yes it is a small plant currently, but it all go well and our returns are good on this project then definitely there are opportunities to go beyond like we do have land parcel almost about 100,000 square meters in Sykha, near Dahej. So, there are ways where we can expand, but we are still contemplating whether to expand into pharma intermediates or any other product lines. We will wait and watch how these project turn out today.

Srishti Jain: So what kind of revenues are we expecting from this the 20 metric ton plants that we put up?

Mihir Shah: On this we are around 45 crore to 50 crore turnover is what we are expecting initially just a multipurpose plant with multiple products so depending on what campaigns we get or what products we get the margin of each product will vary. So exactly pinpoint as to what would be the turnover, but it will be somewhere around 45 to 50 range.

Srishti Jain: Sir and the realization part Ammonolysis has increased significantly, do we think that sustainable likewise chloro phenol volume growth has also been significant what were the key driver and have we gained market share in chloro phenol?

Mihir Shah: In terms of chloro phenol we had capacity installed capacity which we could get into so let me see my FY21 numbers we were at around 12, 13 tons per annum production, but we have the capacity of 18,000 tons. So, we kind of definitely up into utilization of that part also. Having said that this is very market driven this is nearly based on market demand supply. So, there are certain months where we get good demand from our clients at that point we have gone into a 1,500, 1,600 tons a month, but other than that there is no so this is a volume growth as far as chloro phenols are concerned. Having said that there are other trial products in the development which we are looking at, but it is in the development stage so I would hold down to commenting on that right now, but once that also comes in we will have some new products coming in that. As far as PNA is concerned we ramped up our volume at Wapi so that is where the returns are coming from. So, Ammonolysis is concerned that is where it is coming from.

Srishti Jain: Sir the realization is also significantly increase do we think that sustainable?

Mihir Shah: The realization is up the prices are up my raw material price is up so my product selling price is up. So that is why it is the realization that the number is up, but once the prices input cost also stabilize the selling prices also stabilize.

Moderator: Thank you. We will move on to the next question that is from the line of Aditya Khetan from Stewart Capital. Please go ahead.

Aditya Khetan: Sir first on slide 11 it is mentioned that the Ahmadabad plant has done a maintenance shutdown first if you can tell what was the maintenance CAPEX here and what products you make in this plant and second how much is the volume loss regarding to this maintenance shutdown?

Mihir Shah: So as far as volume loss is concerned I do not have the data ready we cannot help the data through at a later stage, but the maintenance shutdown is because we are expanding over there. So, currently the capacities are at about 140 tons, 150 tons per month after the

expansion we assume to be somewhere around 200 tons a month kind of capacity, but that is where we are going. As far as CAPEX is concerned I think it is in the tune also I do not have the number ready, but is somewhere in the range of 10 crores to 12 crores.

Aditya Khetan: Sir second question is on the margin front like in this quarter we have stood at 17% only earlier we had guided 22% margins for the full fiscal FY22 and in H1 we have had did around 18%, so by default at least 25% should have changed in this quarter, but again you are seeing a 17% margins, so my question to you is just a simple thing are we really able to pass on the raw material cost because what we had witnessed at the phenol prices in this quarter were quite stable. So what was the reason we were not able to pass on in this quarter also?

Mihir Shah: So I will answer in two parts one is yes we did believe that the prices will stabilize so when last quarter we were at the viewpoint that the Q3 prices will stabilize and we will achieve a higher margins. However, it continued to fluctuate although less, but it was fluctuating in the current quarter also. So, that is why we our margins continue to squeeze although that is what we had anticipated. Having said that we once these margins are stabilized we will be able to pass on. So our contracts are mostly quarter-on-quarter basis. So every 3 month basis we will pass on, but what happens is if the prices continue to increase then whatever we are bringing the contract does not really help us in the best way because the prices still went up in that quarter even after the renewal of the contract. So that is where the margins that we have continued to squeeze Q4 we believe prices has stabilized so we will see some better, but only to an extent which with the contract that are renewing in the early part of the quarter, that contract that renewed towards the end of the quarter in that case unfortunately we will have to continue working on the prices that were booked in Q3 so that is the margin squeeze problem that is still there and this is something which is not in our or anyone hands it is all market driven.

Aditya Khetan: Sir just one thing if you look the phenol price trend for the last 3 months it is almost flattish or it is slightly down by 5%, 6% now suppose if you had made the contract at the higher prices of the finished products so now with the declining or even the consolidating raw material prices your spread should have increased for this quarter, but that is not witnessed in the number?

Mihir Shah: In case of phenol the raw material price the phenol prices has stabilized, but the freight costs are high continue to remain high and it will continue to remain high for next two, three months as well. So that is why you do not see that immediate benefit that we are getting in the margins, but you are only in terms of chloro phenol is what you are talking about, but our other input raw material also increase our PNCG which goes into our PNA which goes into PA ,PAP all of that are impacted by PNCB and then we have ONCB which prices were high. So, the other raw material continue to remain even though phenol had stabilized.

Aditya Khetan: Sir just one last question on the pharma intermediate if you look at the replacement cost of this plant it is around 2,500 per kilo and if I check the realization it is around Rs. 2,000 a kilo, so just want to know this Rs. 2,000 a kilo pharma intermediate realization, so is this the high value intermediate and if we are selling this to Aarti suppose we sell this to third party I believe we can make good margins over here?

Mihir Shah: So the whole purpose of setting up this plant was to provide to us be it was a part of the backward integration for them and our forward integration for us. So that is where the arrangement is and apart from that to understand the calculation you did, but it only adds straight forward as that because it is a multipurpose product so there will be product where the realization will be higher and there maybe some which could be lower. So that will entirely depend on what products we are manufacturing on month-on-month basis in that plant. Also the purpose of this plant was it is a N minus 1 N minus 2 API intermediate to provide to Aarti so that is the arrangement and we will continue doing that. If at all goes well yes we can explore of selling to third party, but not at this plant it maybe at an expansion or going forward projection if we had thought to do it in this particular segment.

Aditya Khetan: Just a follow up to this only if suppose you sell it to a third party so can we expect margin post around 25% to 30% suppose it is relate to a third party and not to Aarti?

Mihir Shah: So at this point I will not be able to answer because it is still under development I am not very sure of how things turn out, but this plant I can one thing that this pilot plant is customized for Aarti. So I am not sure if other customers also gain that benefit because it is very customized for the product.

Moderator: Thank you. The next question is from the line of Archit Joshi from Dolat Capital. Please go ahead.

Archit Joshi: So my first question is with respect to the customer profile that we may have for that the PAP product I believe we have some interest in Bharat Chemicals who is also a manufacture of paracetamol and at the onset we also had some plans of merging the company with respect to Indian trust of forward integration, so would the customer profile also be aligned to Bharat Chemicals which is at the sales of PAP since you are an existing manufacture of Paracetamol?

Mihir Shah: So we produce the PAP and give to Bharat and Bharat products paracetamol. So, Valiant Organics will not product paracetamol.

Archit Joshi: Basically that is what I am trying to understand are we also looking at increasing our stake there so that we are able to fully integrate ourselves from PAP to paracetamol at the backdrop of the fact that we are currently selling PAP to Bharat chemicals?

Mihir Shah: We are currently selling our maturity onwards 90% to Bharat and whatever is the balance we also outsell in the open market, but if you see it is already a subsidiary company so it is we are at a growth company forward integrated already because Valiant laboratories of Bharat is part of the group company. So we are forward integrated so we make the PAP the paracetamol the relationship is very clear.

Archit Joshi: I think we had some vague plans with respect to getting to 2 4 D as well since you all be manufacturing certain intermediates which go into 2, 4 D as herbicides anything on that?

Mihir Shah: We earlier had the plans to get into 2, 4 D, but with the band we immediately change their plan so 2, 4 D went on hold and we started to so it is the same unit of PAP and pharma intermediates. So, whatever it is it that we had started working on the capacity utilized that CAPEX towards our other two projects. So, 2, 4 D it is on hold if at all things get clearer we may consider getting into it, but no current or existing was going on that.

Archit Joshi: Sir one last on the same issue that we are talking with respect to sales that are happening to certain group company as you mentioned in the previous comment also we are selling quite a bit of PNA to Aarti I believe that it was a decent quantum of our total sales back when I spoke to the CFO it was about 12% to 13% of total sales that was being sold to Aarti Industry, so is that product being sold how is it ramps up and second is throw some light on some of the concentration in the total with respect to group company?

Mihir Shah: So let me just clarify we are talking about what is the Aarti concentration in terms of overall purchase and sales that is what you are asking. So, Aarti there is a good give and take relation both ways and everything happens at arm length. Aarti on a FY21 number would be about 25% to 30% of our sales and our purchase would be somewhere around 20%, 30% also in terms of raw materials because we have source PNCB ONCB as our key raw materials from Aarti. So I probably missed the first part of your question if you could repeat.

Archit Joshi: So the 25%, 30% of the concentration that we are in a sales to Aarti in that is there only CAN or is there any other products that we are selling to Aarti?

Mihir Shah: So there are conversion products as well so we PNA is there and the job post so these are the two main products that we sell to Aarti.

Moderator: Thank you. The next question is from the line of Naushad Chaudhary from Aditya Birla. Please go ahead.

Naushad Chaudhary: For clarification firstly on this PAP project for converting it from batch to continue with how much capital we will be needing and will it be over and above the proposed CAPEX of if I remember it correctly around Rs. 200 crore, Rs. 220 crore?

Mihir Shah: So that 220 crores is a part of so it is moving from batch to continuous also. So about 20 crores, 25 crores of that would be for the conversion of batch to continue.

Naushad Chaudhary: So far we would have capitalized only Rs. 200 crore and remaining will be used for converting it?

Mihir Shah: Correct.

Naushad Chaudhary: Can you help me understand the economics of this though you would have talked it about earlier, but if you can reshare it in terms of expected revenue and margin and timeline for the ramp up of this project?

Mihir Shah: So in terms of PAP ramp up we are currently at 15% to 20% capacity say by early next year we will ramp it up to around 45%, 50% and in the meanwhile we will also try to do a trial runs of batch to continue it. So once that comes in then we can gradually move to 100% so putting a timeline is this is a wait at this point in time because it all depends on the trial runs from further continuous process.

Moderator: Thank you. We will move on to the next question that is from the line of Manish Jain from Money Life Advisor Services. Please go ahead.

Manish Jain: Firstly from a longer term perspective what is the growth plan for the company and how do you plan to achieve it?

Mihir Shah: So further growth plan like I earlier mentioned we have land parcel available where we can do a Greenfield project. However, no direct identification of product has happened yet because we are currently this year has gone into three projects that were coming up so we are currently focused on that the management is also focused on that. Once we stabilize these products then we will move towards expanding based on the returns we get from these projects and if there are certain products so like I mentioned earlier in our chloro phenol also there are a couple of products under development. So, similarly some of them are under the drawing room point, but at this point in time will be difficult to give a very specific answer.

Manish Jain: Secondly you had earlier given a guidance of achieving Rs. 1,100 crore in standalone revenue given the foreign pricing environment what revenue target do you expect to achieve by FY23 and also what will be the operating margins?

Mihir Shah: For the current year we are looking at 850 plus revenues. Going forward we believe we will be in a 30%, 40% growth for the next year and maybe stabilized growth for the year later. Given the current scenario our margins are squeezed because the input prices is being stabilized then we definitely believe that we would come back to our earlier range which was 22% to 25% EBITDA margin which is a stabilized stable state margins for us, but if the prices continue to fluctuate or god forbid if COVID continues to remain in that case it will be very difficult to say that what our margins could be, but in a normal state a 22% to 25% margin EBITDA margin levels are achievable.

Moderator: Thank you. The next question is from the line of Pranay Jain from Deal View Family Office. Please go ahead.

Pranay Jain: Just wanted to get clarify on the build picture with significant CAPEX for a last two years coming to completion and some issues which were there earlier have not been resolved other in the work leaving aside the unforeseen un fluctuating can we expect 30% kind of compounded growth on top line for the next couple of years is that what you are saying our business steadies and there is more visibility in operations. So as knowing consolidated revenue ending close to about 1,000 crore this year, can we look forward to maybe 1,700 kind of crores by next three years?

Mihir Shah: So I would say our conservative and achievable would be around 20%, 25% compounded growth that can be achievable and this is on standalone basis. On a console level I would not be rightly place to answer because Paracetamol is highly fluctuating and we do not know when that is going to really stabilize. It is very well driven by COVID and Chinese market. So, on a standalone basis a 20%, 25% compounded growth rate is achievable.

Pranay Jain: And in terms of EBITDA margins if it is difficult to look two years about next two quarters what is the improvement that we can expect based on present conditions and whatever near term outlook that you have on a blended consolidated basis I am hoping that the worst is definitely behind and we are going to look after from Q4, but of the next two or three quarters if you could give us some integrated range?

Mihir Shah: So Q4 we believe our prices are still not as what we had expected so it could probably be flattish where it is right now in terms of Q4, but going forward we believe that there will be improvement prices need to stabilize. So once they stabilize and our contract renew then our

margins will improve from a 17%, 18% also our PAP will start contributing so that will also have an impact. This year our PAP and PA had a limited contribution, but next few quarters we will start to realize from these products as well.

Moderator: Thank you. We will move on to the next question that is from the line of Subrata Sarkar from Mount Infra Finance. Please go ahead.

Subrata Sarkar: I understand that Paracetamol price is quite volatile so on the console basis if you can guide us at least on the volume terms like next two, three years what kind of growth in volumes we are expecting so that can also give us some pieces considering that price is volatile, but at least what is our volume term target for next two, three years this is number one and sir number two is on the margin side in between what I am trying to know sir historically we have clocked much higher margins, do you feel at some point of time we cannot help or whatever like is there any possibility we return back to that kind of elevated 27%, 28% kind of a margin maybe after one or two years is that possible this two questions?

Mihir Shah: So to answer your first question in terms of volume of Paracetamol we will probably expand currently like around 500 tons per month, but we will look towards getting into slowly, gradually to 750 tons or over a period of few quarters so that is in terms of volume of Paracetamol. In terms of margin like we said earlier we had lesser products we were a smaller company so yes margins were definitely significant higher than what they currently are, but as we expand as new products come in we believe that 2025 is a achievable stable state, but if things go all well then could probably be improve there and once OAP also comes in it is a high margin product that we contribute a little better. So, we continue to say that we may when we come back to that earlier margins, but there is always a potential and opportunity to grow.

Moderator: Thank you. We will move on to the next that is from the line of Rohit Nagraj from Emkay Global. Please go ahead.

Rohit Nagraj: On our sales, that is chlorination, Ammonolysis, hydrogenation and others, how much percentage of products are purely import substitute and what is our strategy in terms of developing the new set of products?

Mihir Shah: In terms of input substitute the PAP is an import substitute then OP will be an input substitute, PA will be an input substitute these three are input substitutes and O&A which we captively consume is also an input substitute and apart from that others are across they are not exactly input substitutes.

Rohit Nagraj: So out of the entire market how much percentage will be input substitute product pascal?

Mihir Shah: It is difficult to answer that question right now I do not have the numbers ready, but OAP is in development, PAP is ramping up, PA is also ramping up. So, giving a current breakup is not within rightly represent the breakup.

Rohit Nagraj: And second question is we have seen over the last maybe 8, 10 quarters from the promoter shareholding there has been continuous selling on a quarterly basis, if you can just give specific reasons for the same?

Mihir Shah: It is a promoter-promoter group. Most of it goes towards donations and some of them are for personal use, rest assured they are not any movement to in a strategic concern. So, there is no strategic intent of any promoter to exist it is just donation and personal use why they sometimes try to include their shares.

Moderator: Thank you. The next question is from the line of Vivek Gautam from GS Investments. Please go ahead.

Vivek Gautam: Just wanted to ascertain know that what are the advantages that accrue to us thanks to being part of the RC group and the technical problem being save in PAP how they are helping us out and second question is about the this China plus one China blue sky policy is it benefitting us in a major way and what is the opportunity size and CAGR expected due to that?

Mihir Shah: To answer your first question the group company definitely it helps us in our operations we give the technical knowledge from them, we get the support with respect to that so even with the PAP issue we get a knowhow, we get the support in order to resolve these issues. So, the relationship amongst the group company is very strong and resilient. Having said that it is also happens at an arm's length so there is no in terms of raw material there is a supply chain stability that we achieve out of getting us raw materials from group companies, but as far as prices are concerned we do not get any additional or any that level of benefit being a group company. The stability how to forecast our operations that is where we achieve the edge being a part of this group.

Vivek Gautam: The second question was about the expected opportunity size and the growth expected by the time to come and what impact is China blue sky policy?

Mihir Shah: So China plus one definitely has benefitted not just us entire country entire chemical industry for India. So, it has definitely benefitted in terms of chloro phenol if you see there are only couple of manufacturers part being in India all the rest being in our China. So, that has helped us get the market share because of their environmental issues plus other countries China plus

one strategy. So we have seen that transition and benefit arising from there. Apart from that just in general market advantage that the entire industry has they are getting the same benefit.

Moderator: Thank you. We will move on to the next question that is from the line of Dhaval Shah from Swan Investment. Please go ahead.

Dhaval Shah: So first question is there is a new product which we were evaluating to add to the basket, how do you call of making it in Aarti Industries versus Valiant Organics given Aarti also has a large bandwidth of chemistry knowledge. So if there comes size of the molecule global size in terms of tonnage that acts as a benchmark to qualify for Aarti or Valiant or in terms the types of reaction or the complexity there about so that is my first question?

Mihir Shah: Firstly how do you get decided is that the product that we are developing is quite smaller in size for the stature of Aarti Industries is not something that they would find it interesting to really get into due to the size of it. So that automatically is a decision maker there and second is we always look into forward backward integration. So, if there are certain opportunities management is evaluating we look into whether Aarti, Valiant or any group companies fits into it and depending on the size and what would be the best the most optimum use that we kind of make my decision.

Dhaval Shah: So when you say the size of the molecule so is there a particular tonnage that 1,000 tons a month or a 2,000 tons a month would come to million ton a month due to Aarti?

Mihir Shah: It is not really carved in stone that way it is really a management level decision that they take on case-to-case basis.

Moderator: Thank you. The next question is from the line of Varun from Sharnya Capital. Please go ahead.

Varun: So can you throw some light on the EBITDA across different chemistries like Ammonolysis, chlorination?

Mihir Shah: So we did not really have to only to the level of revenue we identified certain chemistry wise otherwise our EBITDA is at the company level not really chemistry wise.

Varun: Can you tell us the group level capacity?

Mihir Shah: When I say group level I am talking about Valiant Organics not Aarti Industries our capacity is so we are operating at about 80%, 85% capacity utilization keeping the PAP plant out of the next.

Moderator: Thank you. The next question is from the line of Shashank Value Educator. Please go ahead.

Shashank: So my question is on a PAP side so if you see there is another manufacturing of the PAP from India so they are in a CAPEX of about 36,000 metric ton and we are planning to produce it from the Nitrobenzene group which is a one step reaction and it is the green process without I think much of affluence while above process is from the PNCB route, so can you please elaborate?

Mihir Shah: So yes there are two processes one is from PNCB route the other is from Nitrobenze group. If you seen globally Nitrobenzene has never been successful in a large-scale commercial production. In laboratory level it is successful, but in a commercial level it does not give the good output so that is one thing and they have not really come into the market yet so that is kind of supports the theory that it does not really work at a commercial level. First let me **(Inaudible) 55:32** to decide one is PNCB is something that we can procure from the group. So, PNCB firstly is a difficult raw material to procure the country because Aarti is in that we have the stability and supply chain stability to get the NCB so that is one reason why we look into that. Second is the hydrogenation our plant is located strategically for PAP because hydrogenation comes through pipeline whereas other companies take it on a cylinder or a tank level where the cost are higher there is wastage also. So, those are the two main competitive points that we have for others in terms of PAP going to PNCB route.

Moderator: Thank you. The next question is from the line of Raj Kumar from Green Portfolio. Please go ahead.

Raj Kumar: Sir what was the capacity utilization level for PAP in Q3?

Mihir Shah: PAP plant for Q3 will be at around 20%, 25%.

Raj Kumar: Sir what is the meaning of expected ramp up for PAP I mean what is the meaning here context?

Mihir Shah: So the meaning is that we have to go batch by batch. We were getting a stabilization issue earlier. So, we are slowly ramping up from the 20%, 25% to 40%, 50%. So that is one meaning of ramping up. The second is moving from batch to continuous process. So, currently if we see maximum capacity at a batch level would be paid approximately around 500, 550, but when we move to a continuous process it transforms into a 1,000 cubic capacity so that is the transition of the ramp up that we are talking about. First we will reach the full capacity of batch level and then meanwhile the continuous process will also kick in and then we will ramp up from debt to 1,000 per month.

Raj Kumar: Sir what would be the revenue contribution at optimum level for PAP?

Mihir Shah: At peak level of 1,000 and so prices are very fluctuating for PAP now it all depends on at what price you consider. So, the turnover can be anywhere between 250 crores to 350 crores, 400 crores it will be market driven at that point in time of the PNCB prices and PAP prices in the market.

Moderator: Thank you. The next question is from the line of Kushal from Investing Hut. Please go ahead.

Kushal: I just wanted to understand our product wise or a chemistry wise capacity utilization for FY21?

Mihir Shah: So we will have to circle back on that since it is our first we are not very sure that we want to really give that information at this point, but we pick your point maybe going forward we may provide that detail, but currently I am not in a position to survive, but at a plant at a company level we are at a 80%, 85% utilization.

Kushal: Second point was on the continuous reduction in promoter stake I understand that Aarti group is involved into many philanthropy activity, but this certainly put some pressure on our share prices and perception regarding the attractiveness of the business, I just wanted to understand when does this continuous selling of shares basically end I mean do we have any goal regarding our activities that after this point in time there will be a certain definitive reduction in promoter stake decreasing or how do we think about this?

Mihir Shah: It is very difficult to really control as to who will do what, but rest assured like I have said earlier it is not a strategic move or it is not an intention of exiting the company the promoter are very well invented in the company at every level. So there is no such intention of reducing promoter stake for anything other than either donation or just for personal use something, but I cannot really comment as to when and how much it will be at that is something that I cannot predict.

Moderator: Thank you. We will move on to the next question that is from the line of Parthav Shah an Individual Investor. Please go ahead.

Parthav Shah: So what is the current blended cost of PAP from China in terms of the same quality that you all produce and alongside also want to understand that for a very futuristic view one assuming that you probably stabilize your continuous process if at all you were to go for further capacity enhancement because I understand there is unlimited demand for Paracetamol and PAP is the word so if you want to go for incremental capacity will it come at relatively lower cost vis-a-vis the current cost of 230 crores that you have spent for the

12,000 metric ton plant, but want to understand your breakeven point also for this plant for the guidance you have given for FY23?

Mihir Shah: So it is a first question is in terms of China the prices are not really very different, but we get the comparative edge in terms of the duty so that is where domestic manufacture of benefit and also freight a duty and freight are the two additional cost that is the advantage we get otherwise at a pricing level of PAP China and India would be at par. Second point is the growth part as far as this particular plant is concerned if you have to although confirm, but I do not think there is room for further enhancement in this particular plant we can always setup a new plant elsewhere if we intent to expand the PAP productions. Having said that if we expand it elsewhere the cost the CAPEX remains the same however the problems that we faced in order to begin and ramp up that is where it could be a short end period to commercialize would be the benefit we would get if we expand elsewhere. At the same plant it can probably go up to around 1,500 or 1,000 by some other process enhancement that would significantly be lower.

Moderator: Thank you. The next question is from the line of Kushal from Investing Hut. Please go ahead.

Kushal: Just wanted some more clarity about the margins that we are getting currently as we all know two, three years back it was above 25% now we are side often mid teens, so just wanted to understand when will these margins come back I understand we have a quarterly reset, but what is the kind of margins we are expecting on a sustainable basis and any expected timeline when we reach those margins?

Mihir Shah: I already answer that question. We expect a stabilized margins to be at around 20%, 25%, but when we will return to that level is difficult to say because it is very market driven, it is all because of the input cost price increase. So, as long as these cost keep increasing even with our quarterly renewals it will still not help because quarter-on-quarter it will continue to increase, our margins continue to remain squeeze, but once we see a full two quarter or three quarter or stabilize pricing we will see the margins return in PAP, but it is all market driven. It is not something that I can edit.

Kushal: So just a follow up on that when raw material prices increases we have a quarter lag in terms of increase of our final outputs for time when the situation turns what happens when raw material price?

Mihir Shah: We get the benefit of that definitely. So, when the prices come down and our contract are at a higher price we continue to reach that benefit until the renewal.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management from Valiant Organics Limited for their closing comments.

Mahek Manoj Chheda: Thank you all for participating in this earnings concall. I hope we were able to answer your questions satisfactorily and at 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 relation manager at Valiant Advisor. Thank you stay safe and stay healthy.

Moderator: Thank you. Ladies and gentlemen on behalf of Valiant Organics Limited that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.