Valiant Organics Limited

May 24, 2023

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

SCRIP CODE - 540145

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

Sub: Transcript of Earnings Call.
Ref: Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

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 Monday, May 22, 2023, on Audited Financial Results of the Company for Q4 FY 23.

Kindly take the same on your record.

Thanking you,

Yours faithfully,
For VALIANT ORGANICS LIMITED
AVANI DIPAKKUMAR LAKHANI
Digitally signed by AVANI DIPAKKUMAR LAKHANI
Date: 2023.05.24 14:46:20 +05'30'
Avani D. Lakhani
Company Secretary & Compliance Officer
ICSI M. NO: A47118

Regd. Office:109, Udyog Kshetra, 1st Floor, Mulund Goregaon Link Rd, Mulund West, Mumbai 400080, India.
+91 22 6797 6683 • info@valiantorganics.com• www.valiantorganics.com
CIN NO.: L24230MH2005PLC151348

"Valiant Organics Limited

Q4 FY '23 Earnings Conference Call"

May 22, 2023

MANAGEMENT: **MR. ARVIND CHHEDA – MANAGING DIRECTOR – VALIANT ORGANICS LIMITED**
MR. MAHEK CHHEDA – CHIEF FINANCIAL OFFICER AND EXECUTIVE DIRECTOR – VALIANT ORGANICS LIMITED
MR. MIHIR SHAH – SENIOR FINANCE MANAGER - VALIANT ORGANICS LIMITED

MODERATOR: **MS. DEEPIKA MURARKA – CHOICE EQUITY BROKING PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Valiant Organics Limited Q4 FY '23 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand this conference over to Ms. Deepika Murarka from Choice Equity Broking. Thank you, and over to you, ma'am.

Deepika Murarka: Thank you, Nirav. Good morning, everyone. On behalf of Choice Equity Broking, welcome to the Q4 and FY '23 post results earnings conference call of Valiant Organics Limited. I also take this opportunity to welcome the senior management team. On today's call, we have with us Mr. Arvind Chheda, Managing Director; Mr. Mahek Chheda, ED, and CFO; and Mr. Mihir Shah, Senior Finance Manager. This conference call may contain certain forward-looking statements about the company, which are based on beliefs, opinions, and expectations of the company as of the date of this call. These statements are not a guarantee of future performance and involve risks and uncertainties that are difficult to predict.

I will now invite Mr. Arvind Chheda for the opening remarks to be followed by question-and-answer session. Over to you, sir.

Arvind Chheda: Good morning, everyone. It's a pleasure to welcome you all at our earnings conference call for the fourth quarter of the financial year 2023. Let me firstly thank [Choice Institutional Equities] for hosting this conference call and also the participants for joining us today. Our CFO, Mahek Chheda, will take you through the financial highlights for the quarter. Thank you. Over to you, Mahek.

Mahek Chheda: Thank you, and good morning, everyone, and welcome to the earnings -- 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 fourth quarter of the financial year ended 2023 first followed by the performance of the annual financial year ending 2023.

For the fourth quarter, the revenues from operations declined by 22% on a Y-o-Y basis but grew by around 8.5% on quarter-to-quarter to around INR271 crores. The EBITDA was reported at INR52 crores, which declined by around 8% Y-o-Y and grew by around 37% on a Q-o-Q basis. Our EBITDA margin for the quarter was 19.27%, which was a significant increase from the same period in the previous year and the past quarter. The net profit reported was around INR44 crores, which declined by about 8% on a Y-o-Y basis, while it increased significantly by 30% over the previous quarter.

Our PAT margins for the quarter were 12.53%. For the financial year ending 2023, the revenue from operations stood at around INR1,052 crores, which declined by around 9% on a Y-o-Y basis with EBITDA of INR164 crores, which was down by about 20% on Y-o-Y and EBITDA margins was reported at 15.62%. The net profit stood at about INR 103 crores and PAT margins were 9.75%. On the operational front, Q4-FY23 witnessed a significant improvement in terms of revenue and margins due to an improvement in orders from the Sarigam unit, which was in recovery mode after the fire incident.

There was also some improvement in demand witnessed in dyes and pigments compared to the previous quarter. However, the overall demand is still subdued compared to last year. Margins improved significantly from the previous quarter due to improved operational efficiencies and better input price scenarios. Lastly, the PAP production has been around 400 metric tons per month in quarter 4 and is expected to scale up in the coming quarters.

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

Moderator: The first question is from the line of Pranay Jain from Deal Wealth Securities. Please go ahead.

Pranay Jain: A couple of broad questions. One, as per our revenue breakup basis, the end user industry, what is the outlook that you can provide for the dyes business, agrochemicals, pharmaceuticals as well as specialty, a little bit on the quantitative side besides the qualitative comments?

Mihir Shah: Well, quantitatively, it would be really tough. So this is Mihir, the Senior Finance Manager. In terms of the end-user industries, we look at -- we believe agro is doing fine. Pharmaceuticals is currently one main product, which is PAP, and we expect that to grow in this year as our production increases. So that is based on the volume growth we are expecting. So this year, PAP has done somewhere around INR 200 crores.

We are expecting the next year to be somewhere around INR 250 crores, INR 300 crores. So the pharmaceutical side, that would be a quantitative estimate. Whereas agrochemicals are mainly coming from the Sarigam unit, which was in a slowdown in the previous quarter because of the incident, but we are back to normal over there.

So that -- which agro for now if Sarigam unit has been maybe around 60% operational, we are expecting that for the year, it will be close to 80%, 85% operational capacity utilization. So you'll see some growth coming out of there as well. In terms of dyes and pigments, it's more to do with industry. It's not specific to us. All the players who are in the dyes and pigment intermediates are facing this trouble.

We expect there -- we saw some bit of turnaround from Q3 to Q4, but -- for our products, however, it is still quite subdued. This quarter also remains a bit subdued, but we're hoping that the second half will improve. And so as a percentage share, if you go to see then pharmaceutical share will increase, the agro share will increase and correspondingly the dyes and pigments, which right now is at 41%, will probably come down by a couple of points.

Pranay Jain: Okay. So basis the ongoing projects such as OAP and improving utilization of PAT and scaling up of other units that we have, it appears that second half is going to have a significant part of your growth while first half is going to be pretty gradual. So the basis is, what is the commentary that you're seeing across the industry for dyes and pigments as well as agrochemical, I mean, especially for your clients, what is the kind of conversations that you're having with them?

Mihir Shah: So see, the dyes and pigments from where I say that the second half seems to be better, that is on the basis of what is coming from the clients. Mahek can probably put in more light on that. But as far as agro is concerned, the reduction was due to our side of the incident and then getting back, there was an inventory hold up at the customers' end in the previous 2 quarters, which now we've regained. So agro for us is smooth. We do not see any disturbance there. It will flow as normal as it was at the start of last year. In dyes and pigments, Mahek, if you have any inputs, otherwise, this is what I have heard from the customers and the client interactions.

Mahek Chheda: Yes. No, no, what you said is right. So the customers are hoping that from the second half of the year, there will be better...

Pranay Jain: Okay. So what is the contribution that we are penciling in from OAP this year and next?

Mihir Shah: So OAP, we are still taking our time to come up. We are -- our trial runs have been successful. However, we are not getting the desired product achievement or yield that we want. So we are pushing it until and unless we get that. So right now, I wouldn't be able to comment on OAP. I think probably towards the end of quarter 2 would be a better time to answer on the OAP bit.

Pranay Jain: Okay. And last question before I get back in the queue. Broadly, what are we aiming for this year on the top line and the EBITDA margin front?

Mihir Shah: So top line, we are hoping will be somewhere around INR 1,200 crores, that is what we are expecting with a margin. So if you see our quarter -- last Q4 margins, we have come up from 13% to 20% EBITDA margin. So we are hoping that such a margin continues. However, on the conservative side, I wouldn't say that we are hoping for our standardized margins, which were somewhere around 22% to 25%. I would suggest or I would hope that it at least remains around the 20% range.

Pranay Jain: I'm wishing you all the best.

Moderator: The next question is from the line of Rohit Sinha from Sunidhi Securities. Please go ahead.

Rohit Sinha: Yes. Congratulations on a good set of numbers. So a couple of questions from my side. One is, obviously, our Sarigam plant is back on track, I think. So still for this quarter, the volumes were slightly lower. So possibly, I'm just assuming that by Q1 will be back to that earlier run rate of that chlorination segment. Secondly, in the hydrogenation segment in this quarter, there was a significant volume decline from -- on Q-on-Q basis. So just wanted some clarity there?

Mihir Shah: Sorry, I'm not able to clearly understand what you're saying. Maybe put your mic a little far away.

Rohit Sinha: Yes. Is it okay now?

Mihir Shah: Better. Yes, please go ahead.

Rohit Sinha: Yes. So my question was just on the hydrogenation segment that volume in this quarter was down on a Q-on-Q basis. So is there any specific thing or there's a decline in PAP volume as well? And I mean, I just wanted to understand as we are talking about improvement in PAP volumes, and then what respect this hydrogenation volume down on a Q-on-Q basis? And thirdly, looking at the realization for some of the segments, it looks slightly lower also. So just wanted to understand that the improvement in margin we have seen in this quarter, it is from where it is actually coming from, if you can help us to understand?

Mihir Shah: Sure. So let me just -- since your voice was a little unclear, I'm just saying -- repeating your question. You want to understand whether growth is coming from in this quarter because your price realizations seem to be coming down and also the PAP production seems to be a flat line. So your question is where is the growth coming from? Am I correct?

Rohit Sinha: Yes, to some extent. And in this chlorination segment as we are back on track with this Sarigam plant. So can we expect from Q1, the run rate would be similar to what it was earlier?

Mihir Shah: Okay. Yes. So to answer your second question first, yes, we do expect almost a full recovery from the Sarigam unit for the quarter and coming beyond. But however, prices have corrected themselves across all our products. So volumes will return, but the prices that were last year, it may not be at similar levels now, but the correction is not drastic in terms of -- in the chlorination products.

Coming to your second question -- first question, which was the PAP. PAP prices have been corrected. Hydrogenation overall volumes have gone down. But please understand it's a big basket of products where there are agro, pharmaceutical and dyes and pigments, all products in that one basket of hydrogenation.

So there were a couple of dyes and pigments products, which were down because of which the overall hydrogenation as a volume seems to be lower, but PAP contributed to a certain extent. But, of course, it did not bring it above the previous quarters and that is because of the overall dyes part.

Coming to the growth in this quarter, it is mainly the volume growth coming out of Sarigam. Sarigam recovery was a key driver to this. From the previous quarter to this quarter, dyes and pigments, some bit of improvement was seen at the Tarapur plant. So there was some volume growth there as well. But in terms of price realizations, all have been lower than the previous quarter.

Rohit Sinha: Okay. So this margin expansion is the outcome of fixed cost recovery from this Sarigam plant or is there any other factors also which have contributed to this?

Mihir Shah: Sarigam plant, yes, mainly that, but we've also streamlined our operations to a certain extent of the PAP plant also even though there was a price correction and volume has remained stable from the previous quarter, we have managed to bring some operational efficiencies because of which our variable costs have been -- sorry, fixed costs have been able to absorb there. So these 2 units have done -- have brought in the margin accretion to the overall basket.

Rohit Sinha: Yes. So can we expect this margin for FY '24 as well?

Mihir Shah: We are hoping to. Yes, we are hoping to be in that 18% to 20% margin for the year coming in -- for the year FY '24.

Rohit Sinha: Okay. And one last question just on that PAP continuous processing. So how we are placed there and what we are expecting?

Mihir Shah: So like I said last time, I think last earnings call also, we are continuing with batch process. We may make it a semi-continuous process maybe. But for now, the full continuous process has -- we are not going ahead with that. But having said that, we are bringing in some changes in the technicalities or in terms of process engineering. But we are in line for the full absorption or the full production by end of this year.

Moderator: Next question is from the line of Kaushik Mohan from Ashika Stock Broking. Please go ahead.

Kaushik Mohan: Sir, great set of numbers, congratulations for that. My question is on PAP. So currently, what is your volumes in the PAP and what EBITDA margins and what is the current price that PAP is currently trading at?

Mihir Shah: So while -- so we do not generally give product-wise breakup. But in terms of PAP, I can share some bit of clarification. We are -- the current prices in the market are somewhere around INR500 -- INR450 to INR500 in the range of that. And volumes are as per the presentation, the most part of it. So we have done around 400 tons per month as an average in the last quarter. We are hoping to cross -- we are hoping to touch around 500 tons per month in this quarter and then gradually go on to 600 tons per month and 700 tons per month by the end of the year.

Kaushik Mohan: Got it, sir. And sir, are you expecting any price increase on PAP prices? And what was the percentage we import from China?

Mihir Shah: No. So as far as pricing is concerned, the PAP prices are correcting themselves. So we are not expecting them to increase. We are hoping that it remains stable, but there may be some further correction of around 10% or so, not -- won't go further down. That is our expectation. As far as imports from China is concerned, if -- I don't have enough knowledge on that. Mahek, if you could share on that?

Mahek Chheda: So the imports are continuing only from China currently as there is always a shortage of material in the market from the Indian suppliers. Coming to the prices, the prices are correcting themselves drastically. So now as Mihir mentioned, it's around between INR450 to INR500, now it's somewhere around between INR400 to INR450. So we are seeing a correction in the prices.

Moderator: Next question is from the line of Srishti Jain from Monarch AIF. Please go ahead.

Srishti Jain: Sir, the China reopening, which segment do we feel there is a major challenge now that China is coming back, maybe price-wise, or volume-wise?

Mihir Shah: Mahek, I'll let you answer this to be better.

Mahek Chheda: Yes. So China coming back, yes, the prices are going to correct itself 100%, but the demand is something which is very key right now because some of the sectors are not picking up as we were expecting it to pick up and the second half of the year for dyes and pigments is something that the customers are telling us that you do well. So the question is right now, like is the demand should sustain itself?

Srishti Jain: Sure, sir. But like on the chlorophenol part, we don't expect a significant impact of China reopening, right? Is that the correct understanding?

Mahek Chheda: No, no, no -- yes, yes.

Srishti Jain: Okay, sir. Sir, and on the PAP front, when do we expect to move towards continuous manufacturing?

Mihir Shah: So like I said, we are not looking at a full continuous process. Now we've changed that to a batch process. Right now, we are going forward with batch and expanding with batch. However -- so there are -- it's a 2-step process. So a part of it is continuous, a part of it is batch. So we are calling it as semi-continuous now. But for all practical purposes, it's not a continuous but a batch process. So we are moving forward as a batch only and not full continuous.

Srishti Jain: Understood, sir. So with a semi-continuous process, what can be the peak volumes that we will be able to do in PAP?

Mihir Shah: So we are still aiming to get the 1,000-ton capacity per month. Of course, with the 80% or 85% utilization -- optimum utilization, so you can assume somewhere around 800 metric tons a month.

Srishti Jain: Understood. Sir, any comments on the competition in India with respect to PAP, how are they faring?

Mihir Shah: So the scenario remains more or less similar, not much has changed in the previous quarter. There are a couple of small players. There is a new entrant of a big player also. But like -- but as of now in the market, there is enough demand, whatever we are producing, we are able to sell. So that is not a problem. And also, we have a subsidiary that takes up most of our PAP. So our concern is mainly towards the left-over portion of our production. So maybe just 15% to 20% of the production that we are selling in the open market. Otherwise, most of our product is taken by Valiant Laboratory.

Moderator: Next question is from the line of Pavan Kumar from RatnaTraya Capital Partners. Please go ahead.

Pavan Kumar: Sir, first thing on the hydrogenation side, the volumes have increased, but at the same time, even the realization seems to have gone up. So is it the product mix or what exactly is causing this particular divergence? And from the hydrogenation side, should we expect any kind of recovery on the realization side? How do we look at that?

Mihir Shah: So on the chlorination side, yes, the recovery is coming not because of the product mix or anything new. It was a slowdown, which happened because of the fire incident that we had in quarter 2 and then the inventory build-up of the customers. So our recovery was a bit slower. Now Sarigam, the chlorination unit is back to normalcy, so hence you see the positive movement from Q3 to Q4. And the current quarter also, you will see some better growth in chlorination because the plant is coming back to normalcy.

As far as hydrogenation is concerned, there are 2 main aspects that are affected. One is the PAP volume and the second is the dyes and pigments industry because many of our hydrogenation products are again for dyes and pigment intermediates. So once the recovery in textile is seen, you will see some positive movement in the hydrogenation segment. However, PAP grows anyway, there will be some addition to the volume as we move on.

Pavan Kumar: Sir, but why have the realizations actually gone up on the hydrogenation side? That was my question.

Mihir Shah: Yes. So it -- so it's a basket of at least 20, 25 products. So on an overall level, when we see most of the products, realizations have come down. Just a couple of them, which have gone up. And because of that, you see this particular price realization where you see the price has increased, but more or less, the majority of the products, the realizations have gone down.

Pavan Kumar: Okay. And on the chlorination side in terms of normalization, should we expect volumes in north of, let's say, 4,200, which we are doing last year?

Mihir Shah: Yes, we would be more or less similar to what we've done last year.

Pavan Kumar: Okay. And on the PAP side, sir, is it now given that our peak capacity would be around 800 metric ton per month. Is it?

Mihir Shah: Capacity would be 1,000 metric tons, but we would work at 80%, 85% optimum capacity utilization. So you have to put that factor. We can't operate at 100% capacity.

Pavan Kumar: Okay. And can you just give us an idea of what might be the realization drop overall in the portfolio going forward this year?

Mihir Shah: Going forward, very difficult to predict, sir, because a lot of -- so many different products going into different industries, which moves, what is different. So the major correction happened in dyes and pigment products, there is a correction happening in PAP, but not so much in chlorination. So very difficult to say -- give a number for that.

Pavan Kumar: Okay. And one last question I would like to squeeze in. So when we are taking orders from the customers, is it like we try to make a fixed gross margin per kg or EBITDA margin per kg or how do we operate, because when the realizations have dropped actually, the margins have gone up?

Mihir Shah: So one of the factors here is that our contracts are quarterly. So there is a lag when this happens. So when the contracts are being negotiated, we actually put it as a -- through pass-through costs or most of our costs are a pass-through to the clients. But if anything happens in that quarter and the raw material prices -- yes, so -- so I was saying that, yes, so because of that lag in realization, we also -- so a year ago, 1.5 years ago, we were facing the other side where our contracts were at a lower price and the raw material prices went up, so our margins were getting squeezed and now the opposite is happening.

Pavan Kumar: Is there any part of inventory gains this quarter, sir?

Mihir Shah: Sorry, could you repeat?

Pavan Kumar: Is there any part of inventory gains because of the raw material -- I mean, this particular quarter?

Mihir Shah: There is some bit of inventory gain because of the build-up, but not so much. I wouldn't say it was significant on the inventory side.

Moderator: Next question is from the line of Jainam Ghelani from Svan Investments. Please go ahead.

Jainam Ghelani: Sir, I just wanted to know what is the capex plan for FY '24 and FY '25?

Mihir Shah: So we go year-by-year. For this year, we would be somewhere around INR 100 crores again. We maintain that standard of some INR 100 crores, INR 110 crores of capex we add in each year for the growth. Nothing major, nothing as big as PAP that we did or Pharma Intermediates that we did. So everything will be more of brownfields, we're looking at adding some new products in the chlorination segment. We're also contemplating some bit of product addition in the ammonolysis segment, but nothing major. However, overall INR 100 crores assumption should be okay.

Jainam Ghelani: Okay, sir. And sir, what can be the revenue expected from the Pharma Intermediates plant and the OAP plant in the next 2 years?

Mihir Shah: So in terms of PAP, once it's at full capacity, we are hoping it to be somewhere upward of INR 300 crores. For next year, we are still in the scaling-up business -- in the scaling up phase. So somewhere less than INR 300 crores. So between INR 250 crores to INR300 crores for this year and INR300 crores plus for the year after. OAP, I'm not in a position to comment right now because we are still trying to achieve what we desire. So once that comes in, at that point, what is the market and what the price point is, we'll be able to give you better information only around that time as we commercialize it.

Jainam Ghelani: Okay. And what about the Pharma Intermediates plant, sir?

Mihir Shah: Pharma Intermediates, that will -- so we are expecting to have somewhere around INR65 crores to INR70 crores of top line. But that will continuously change because it's a multiproduct plant. And it can build -- it can have somewhere around 12 to 15 different products with all of them being in a different price range. So that will keep going up and down. But on an average, INR70 crores top line could be assumed.

Moderator: Next question is from the line of Saumil Shah from Paras Investments. Please go ahead.

Saumil Shah: Yes. My question is in terms of our capex, which we did for last, say, 3 years, 4 years. So what would be the peak revenue potential from the capex which we did?

Mihir Shah: So...

Saumil Shah: Assuming we are not doing further capex.

Mihir Shah: Sorry, your second part was missed.

Saumil Shah: Assuming we are not doing any further capex.

Mihir Shah: Correct. So with the existing capex that has already gone in, we -- like I said, with PAP, we are hoping to be somewhere around INR 300 crores plus at its peak. OAP, I'm unfortunately not able to provide an answer at this point. Pharma could be at around INR70 crores at peak on a full-year basis. And then everything else is -- at Ahmedabad where we are again doing some redevelopment that could add another INR 10 crores, INR 15 crores. So it would be somewhere around INR 60 crores, INR 70 crores, INR 80 crores of Ahmedabad as well, while the others will remain constant.

Saumil Shah: Okay. Okay. And we did a capex of, say, around INR 400 crores in the last 3 years -- 3 years to 4 years?

Mihir Shah: Yes.

Saumil Shah: Okay. Okay. And just a reassurance, you did mention that the revenue guidance for this current financial year for a stand-alone basis would be, say, INR 1,200 crores to the previous participant.

Mihir Shah: Yes, correct. Yes, INR 1,200 crores on a stand-alone basis for this year.

Saumil Shah: So we are assuming, say, 30% to 35% growth for this current financial year?

Mihir Shah: Yes.

Saumil Shah: Okay, okay. And so since we have already passed almost -- I mean, we are into the end of May. So how is the current quarter shaping up in terms of demand and overall business look?

Mihir Shah: Mahek, if you would take this one?

Mahek Chheda: Okay. Sorry, can you repeat the question, please?

Mihir Shah: He is saying...

Saumil Shah: Since we are already into the end of May...

Mihir Shah: Yes, go ahead. Saumil, you can go ahead.

Saumil Shah: Yes, since we're already into the end of May, so how is the business shaping up in terms of demand and overall outlook?

Mahek Chheda: Yes. So like I mentioned earlier also, right, the demand for some sectors are not doing well, but for like agro, it's constrained, it is stable. So it's on track, but there are some sectors which are not doing well at currently. So we are hoping those become better over time and we get some additional revenues from there also.

Saumil Shah: Okay. But the demand is shaped -- I mean better than the Q4 demand, which we were seeing?

Mahek Chheda: Yes.

Saumil Shah: Okay. And any plans for the debt reduction of present financial year?

Mihir Shah: Yes. So debt will -- the repayment -- as per the repayment schedule, about close to INR40 crores, INR45 crores will get repaid in this financial year. We do not have any immediate plans of raising more debt -- raising any more term loan. So yes, overall debt, you will see it come down.

Saumil Shah: Okay. So the current capex would be from the internal approach, not for...

Mihir Shah: Yes, that's the plan for now. If and when we -- if we feel the need to raise more debt, then we will look at that option.

Moderator: Next question is from the line of Pavan Kumar from RatnaTraya Capital. Please go ahead,

Pavan Kumar: Sir, what was the revenues from PAP this year?

Mihir Shah: Sorry, what was the...

Pavan Kumar: What was the revenue contribution from PAP this year?

Mihir Shah: This year was somewhere around INR 200 crores, INR 200 crores to INR 210 crores.

Pavan Kumar: And we are saying that this number will go to INR 250 crores to INR 300 crores this year, is it?

Mihir Shah: Correct.

Pavan Kumar: Okay. And what is the -- what is the volume growth we are expecting, sir, in the sense, is it 50% or what is the range?

Mihir Shah: So we'll be scaling up month by month. So I cannot give an exact volume growth, but what we are hoping is that this -- by this quarter's end, we touch the 500 tons per month mark and then touch the 600 tons per month mark the quarter after that and then eventually reach the 700 tons per month, 750 tons per month mark by the end of this year. So we are hoping to move that way. But how and when that will actually happen is I can probably give a better idea as the year progresses.

Pavan Kumar: Okay. And on the dyes and intermediate part, I understand that the industry has been weak since the last 3 years or 4 years. So what do you think is the structural issue there? Is it -- I mean, I understand the demand is down, but it is pretty odd that it has been down for such a long period, right?

Mihir Shah: I don't think, I would say that it was down for 3 years to 4 years because we did see a good year last year in terms of our products, at least dyes and pigments intermediates, which went into textile, but for our products, it wasn't a bad year, the previous year, but this year was low. And the main contribution -- contributing factor here is the demand from Europe because of the geopolitical issues there.

But demand is low and hence -- although we are not directly exporting, our clients are dependent on the European market. So from that perspective, Europe was the key reason why the demand was low. But with Europe also now better than what it used to be in terms of their condition, I think the demand will open up towards the second half of the year.

Pavan Kumar: But I thought Europe -- European market was more agri-specific. Is it more of textiles?

Mihir Shah: No, no. It could be agri-based overall, but as far as our products and our customers are concerned; they are relying on Europe as a market. So I'm not commenting on an overall textile or overall dyes market, I'm commenting on our product-specific exposure that we have to Europe.

Moderator: Next follow-up question is from the line of Rohit Sinha from Sunidhi Securities. Please go ahead.

Rohit Sinha: Thank you for the follow-up, sir. One thing on this ammonolysis side as volumes is significantly there on Y-on-Y also as -- and quarter-on-quarter also. So are we seeing some kind of recovery in the textile side, or I believe this ammonolysis is largely catering to the textile industry? So just wanted your thoughts that the recovery in volume is pertaining to which industry recovery?

Mihir Shah: So recovery is with respect to one of our units having -- so our -- Q3, the demand was low, significantly low. So we had a build-up of our finished goods, however, Q4, we were able to sell that and hence, the jump. So basically, the Q3 demand, which was significantly low was seen as an improvement in Q4, at the start of Q4 sales in January. So January demand was a little up as compared to Feb and March in terms of ammonolysis.

So maybe just the movement in that 1 month, which is giving that spike. But if you see on an absolute basis is not a very significant number. But having said that, it is -- so we have only 2 products in ammonolysis, PNA and OCPNA. The PNA product is what is giving this positive movement.

Moderator: Next question is from the line of Ankit Gupta from Bamboo Capital Partners. Please go ahead,

Ankit Gupta: Yes. Can you throw some light on the new products which are being developed and expected to be commercialized in FY '24 and FY '25?

Mihir Shah: So new -- in terms of new, one is OAP, which we've already been trying to commercialize, but we are having some issues. So that is one product that will -- we are hoping that become successful and we are able to commercialize. Second is, there are a few chlorination products, 2, 3 chlorination products, which we are looking to get into. But at this point, I would not be able to disclose it. But probably a quarter later once it's online or once we have some more clarity, I can share further details. But right now, unfortunately, I will not be able to share.

Ankit Gupta: Sure. And the INR100 crores, INR110 crores of capex that you are planning to do in FY '24 and maybe FY '25 as well, what kind of asset terms can we generate from it?

Mihir Shah: So these are not specific to a particular project. There are a lot of -- most of it is some redevelopment, some of them is maintenance capex. So I cannot put a number as such on an asset turnover because it's not specific to one particular project.

Ankit Gupta: Okay. But will this lead to an increase in our capacity for a particular product or these are mainly maintenance and refurbishment?

Mihir Shah: This is mainly -- a big chunk of it is maintenance, ETP, improvising or debottlenecking of existing products and a partial portion is towards brownfield expansion.

Ankit Gupta: Okay. But this debottlenecking and brownfield expansion will lead to some existing capacities being added?

Mihir Shah: Correct. It should lead, but I don't have that clarity yet.

Ankit Gupta: Sure, sir. So then this OAP stabilizes, and PAP also reaches a stable capacity utilization along with the other capacity that we have, what kind of revenue can we generate from our existing facility in, let's say, 2 years, 3 years?

Mihir Shah: I think with no further capex plans, we can still be in the range of INR 1,300 crores to INR 1,500 crores -- INR1,300 crores to INR1,400 crores. So that is its peak revenue generation from the existing. Once we grow these bits, probably another addition -- another like a INR 50 crores, INR60 crores addition. So we are hoping that at least by end of 2 years, we should be in that INR1,450 crores, INR1,500 crores range.

Ankit Gupta: Sure. Sure. And what products will you be supplying to Aarti. Pharma Lab and Pharma Intermediate, when are they expected to be supplied? And are they patented products, or these are generic APIs only?

Mihir Shah: So Aarti. Pharma Labs, we've already started. So we commercialized our plant in February. So we've already started selling to Aarti Pharma Labs. These are specific to them to their requirements. So they are patented. I mean, just using the word patented to say that they're specific to Aarti Pharma Labs. But having said that, there is no such structure that we have to only cater to Aarti Pharma Labs, if we can produce different molecules, we can sell outside as well.

Ankit Gupta: But this particular intermediate you're supplying...

Mihir Shah: Yes, that has to be to Aarti. Pharma Labs.

Ankit Gupta: And that is for a patented product that they will be making?

Mihir Shah: That I don't know. We just get the code name.

Ankit Gupta: Sure, sure, sure.

Mihir Shah: Yes.

Ankit Gupta: And -- yes. This -- the chlorination capex that you plan to do that you have told in your previous answer to the previous question. So normally, what we understand is chlorination is a relatively higher-margin segment. So like can we expect that the margins -- like what are the normal margins in the chlorination segment, given the prices would have also declined there, and the new products that we plan to launch on the chlorination side, what can be the margins that we can generate from it?

Mihir Shah: So we unfortunately don't get into the margins of the segment due to proprietary information. We don't give out that. But you can study some past movement last 4 years, 5 years, and you will be able to better judge the actual margins that we've achieved in chlorination.

Ankit Gupta: Sure. My last question was on the overall margins. As you were speaking in your call that the decline in realization was not passed on to the customers in this quarter. So let's say, in Q1, if it's passed on, will this lead to decline in our margins?

Mihir Shah: I didn't follow. I didn't follow.

Ankit Gupta: You talked about -- you said that although the price of raw materials have fallen, but there is a lag in the passing of -- passing on the prices of raw materials to our customers. So let's say, in this quarter, Q1, you pass on the decline in raw material prices to our customers, does it mean that our margins are expected to reduce in Q1 and Q2?

Mihir Shah: So logically, yes, once the contracts get renewed, it will be at the newer raw material prices. But we tend -- our margins will not further squeeze because what we are looking at right now is recovery from our already squeezed margins because of different factors, not just the contractual lag factor, but other factors are also there, there was a top line fall, overall efficiencies were down at different plants. So putting all of that together we're expecting our margins to remain stable rather than getting squeezed.

Ankit Gupta: Because if you look at our quarterly numbers in June '21, this is the highest gross margin that we have done since that. I assume...

Mihir Shah: Correct. But that was -- yes, so it was -- this is not the only factor. There were several other factors also like played a role like the fire incident. So because of that, the whole contribution from a unit was disappeared, then along with that, came the dyes market coming down, so a lot of margin squeeze happened there. So the previous quarters were in fact probably the worst for Valiant. But this is now in recovery mode. Even with the correction in the raw material prices passing on, it will still not squeeze to a great extent.

Ankit Gupta: So what kind of margins can we expect for FY '24?

Mihir Shah: We are hoping to be in that 20% range. So 18% to 20% should be a fair assumption.

Ankit Gupta: Sure, sure. Okay. And wish you all the best.

Moderator: Next question is from the line of Ketan Shah from SHCIL Services Limited. Please go ahead.

Ketan Shah: Congratulations for a good set of numbers. I have 2 questions. Yes. One is regarding dividend, why there is no final dividend? And the second thing is, regarding any expansion plan in our subsidiary? Thanks.

Mihir Shah: Sorry, what was the second question?

Ketan Shah: Any expansion in our subsidiary of Valiant Lab?

Mihir Shah: So let me answer the second question first. For the dividend, I would suggest -- I would request Arvind, sir, to probably shed some light. But on your -- on the second question, Valiant Laboratories directly is not expanding -- so the paracetamol business, they're not intending to expand much, but they also have another subsidiary, which is Valiant Advanced Sciences, that is the subsidiary that is looking at expansion into a different product category.

But I cannot give any further detail because that's a different management. I cannot shed more light on that. But they are looking to raise funds to do this greenfield project in the subsidiary's subsidiary.

Ketan Shah: Are they planning to come out with a public issue?

Mihir Shah: Yes. They have given that intimation through, I think in the previous quarter.

Ketan Shah: Okay. And what about the dividend, sir?

Mihir Shah: Dividend, Arvind, sir...

Arvind Chheda: Regarding dividends, I tell you because we are supported for 3 quarters, margins were squeezed. So we are very conservative on the distribution of the profit. So we declared INR1 only. In the future, if things improve, so we can give more also there.

Ketan Shah: Current -- last quarter is also better, working is also good, then why...

Arvind Chheda: But overall, if you see the whole year's performance, it is almost 26% less.

Ketan Shah: Even there is no expansion plan, there is no capex?

Arvind Chheda: No, certainly, we don't have any new capex here, but the loan repayment is going on, plus the profit has also decreased by 26% Y-o-Y if you compare. So we are conservative in distributing the dividend.

Ketan Shah: Company don't have any dividend distribution policy?

Arvind Chheda: See the scenario was not that good this year because of the European situation and our fire incident also. So we cannot take more risk on distribution. When the times are good, we are paying good dividends also and if the things improve, we can give more also.

Ketan Shah: That is okay. You can have some basic principles to distribute a certain amount of the profit to the shareholder also.

Arvind Chheda: Can you repeat the question?

Ketan Shah: You should have basic principle to distribute certain amount of the profit to the shareholder also.

Arvind Chheda: No, that we were always having, but last year was the exception as you know.

Ketan Shah: Yes. But the current year also -- previous year also, last year also, you have just distributed INR1. Rather you should have a policy in future, please.

Moderator: Ketan, sorry to interrupt you. I'll request to join the queue again for a follow-up question. Next follow-up question is from the line of Srishti Jain from Monarch AIF. Please go ahead.

Srishti Jain: I just wanted to understand that this Pharma Intermediates, firstly, the peak revenue that we're expecting of INR65 crores to INR70 crores that we're expecting in FY '24?

Mihir Shah: So that will be in a phased manner. We -- no, that I'm expecting on a full-year basis. So for FY '24, that may be a little less, say, somewhere around INR55 crores or so.

Srishti Jain: Understood. And we've had -- I'm guessing very negligible contribution from this -- from Pharma Intermediates in FY '23?

Mihir Shah: Yes, hardly anything.

Srishti Jain: Understood. And which segment will this be a part of going forward?

Mihir Shah: Hydrogenation.

Srishti Jain: Hydrogenation.

Mihir Shah: Because it's in the unit there. So it will be a part of that. We'll categorize it under that hydrogenation.

Srishti Jain: Sure. And another follow-up, so with regards to now PAP being a semi-continuous process, will we actually -- so we were expecting PAP's EBITDA margins to be in the 20%, 22% kind of range. Do we expect now it to be in the lower range or do we expect to maintain this kind of EBITDA level?

Mihir Shah: At the company level, you're talking about, right, 20% to 25%?

Srishti Jain: PAP-specific.

Mihir Shah: No. So we've never commented on the EBITDA range of PAP-specific. On a company level, we are hoping to be around 20%, 22% to 25% range going forward, not this year, but that is what we aim to have as a standardized margin that we want to be in.

Srishti Jain: Understood. And for -- like if you want to take for the next 3 years, the aim would be to get back to the 25% EBITDA margin?

Mihir Shah: Yes. Correct. Higher probably not, because it will be very difficult to actually comment what would happen 3 years down the line with the prices. But given the current scenario, I -- so earlier, we used to have lesser products.

So it was different now, our product basket has increased, our operation scales have increased, so our costs have also increased proportionately. I wouldn't say that we go beyond 25% EBITDA margin as such, unless something new addition we put in, which is significantly EBIT margin accretive. But for now, given the scenario, I think 22% to 25% is a good assumption. I wouldn't go beyond that.

Moderator: Next question is from the line of Parthiv Shah from Tracom Stock Brokers. Please go ahead.

Parthiv Shah: Congratulations first on very decent set of margins. My question is regarding your cash flows. So this year, probably we've generated cash flow from operations of around INR 182 crores. Assuming that next year, you do something like, say, INR 200 crores or even better, you mentioned that INR100 crores will go into capex.

So will the remaining INR 100 crores go to repaying the debt? Because this year, I think we've repaid less in terms of long-term borrowings of INR 35 crores. And I assume the short-term borrowings of INR 50 crores have been repaid, maybe thanks to the softening of the raw material prices. Is my understanding correct?

Mihir Shah: Correct. That is right. So we are repaying a term loan in -- which is in sync with the schedule. So most -- 2 of our term loans started the repayment in this year. So there was a moratorium period. One of the term loan repayments started in September and the other one started only in December. For next year, we will be repaying all our existing term loans, so the repayment for all of them will have a full-year cycle of it. And that comes to around INR 40 crores, INR 45 crores or somewhere around that figure of repayment.

Parthiv Shah: So next year also around INR 45 crores, INR 50 crores, not INR 100 crores?

Mihir Shah: I'm talking about next year's repayment, INR 45 crores being next year's repayment.

Parthiv Shah: Okay. It won't be more than that?

Mihir Shah: No.

Parthiv Shah: Okay. And sir, what are the current prices of PNCB?

Mihir Shah: Current prices, somewhere hovering around INR 100.

Parthiv Shah: Okay. So that is a comfortable zone for you to make reasonable spreads in your PAP?

Mihir Shah: Yes.

Parthiv Shah: Okay. And sir, approximately by when do you expect OAP to stabilize? And as I understand, part of your OAP will also go into further down streaming of products. So if that stabilizes, it will be margin accretive, though a small number in terms of volume and revenue.

Mihir Shah: Yes. So it will be a small number in volume and revenue, but unfortunately, I'm unable to give you how it is going to happen, because if you just recap a little, we've been trying to get this product up and running since a couple of quarters now, but we are facing some trouble. So let's see, right now, I do not have a very strong comment on when it will start, but maybe another quarter end, we'll know better.

Parthiv Shah: Great. And sir, last question is on debottlenecking that you just mentioned. So like currently, Sarigam is doing well for you in chlorination. So if you were to think of debottlenecking that plant, how much amount of capex you put? And what could be the capacity enhancement from there?

Mihir Shah: Arvind, sir, if you want to take this and you'll be better placed.

Arvind Chheda: See, we can increase it by at least 15% in chlorophenol. And secondly, we are starting two new molecules in chlorination. So that is also going to add over there.

Parthiv Shah: Okay. And sir, any development in terms of like I'm hearing that Atul is expanding its chlorophenol capacity. So with that coming into the market, do you see a supply-demand scenario getting disrupted for you all or you feel there will be adequate demand to absorb this capacity as well?

Arvind Chheda: See, there are already five plants in China also. And Atul is already making 2, 4 DCP for many years of their 2, 4 DCP production. So they may come with some monochlorophenol also. So let us see.

Parthiv Shah: Sure.

Arvind Chheda: We can compete with them also. There is no problem.

Moderator: Thank you very much. I now hand the conference over to the management for closing comments.

Mihir Shah: Thank you all for participating in these earnings con call. Let me first make a correction about our opening statement and thank Choice Broking for hosting this con call. We erroneously mentioned the wrong name in the opening. Lastly, I hope you 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 any more about the company, please reach out to our Investor Relations Managers at Valorem Advisors. Thank you.

Moderator: Thank you very much. On behalf of Choice Equity Broking, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.

Arvind Chheda: Thank you, everybody. Thank you.

Mahek Chheda: Thank you.