



Valiant Organics Limited

August 16, 2023

To,
Listing/Compliance Department
BSE Limited
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,

Please find enclosed herewith the transcript of Earnings Call held on Friday, August 11, 2023, on Audited Financial Results of the Company for Q1 FY-24.

Kindly take the same on your record.

Thanking you,

Yours faithfully,

For VALIANT ORGANICS LIMITED

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

Encl: as above



Valiant Organics Limited

Valiant Organics Ltd **Q1 FY24 Earnings Conference Call**

Event Date / Time : 11/08/2023, 12:00 Hrs.
Event Duration : 53 mins 43 secs

CORPORATE PARTICIPANTS:

Mr. Tushar

Ventura Securities Limited

Mr. Arvind Chheda

Managing Director

Mr. Mahek Chheda

Chief Financial Officer

Mr. Mihir Shah

Senior Finance Manager

Q&A PARTICIPANTS:

- | | |
|------------------------------|------------------------|
| 1. Sainath Sridhar | : Individual Investor |
| 2. Saumil Shah | : Paras Investments |
| 3. Manal Madlani | : Kamayakya Wealth |
| 4. Saurabh Khandelwal | : Individual investor |
| 5. Gunit Singh | : Counter Finance |
| 6. Dishant Jain | : Quasar Capital |
| 7. Shikhar Mundra | : Vivog Commercial Ltd |
| 8. Jiten Parmar | : Aurum Capital |
| 9. Parthiv Shah | : TSBCL |
| 10. Sankeet | : Kotak Securities |

Moderator

Ladies and gentlemen, good day and welcome to the Valiant Organics Limited Q1 FY24 Earnings Conference Call hosted by Ventura Securities Limited. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during the conference call, please signal an operator by pressing * and then 0 on your touch-tone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Tushar from Ventura Securities Limited. Thank you and over to you Tushar.

Tushar

Thank you. Good day, ladies and gentlemen. On behalf of Ventura Securities Limited, I welcome you all to Valiant Organics Limited Q1 FY24 earnings conference call. The company is represented by Mr. Arvind Chheda, Managing Director of the company, Mr. Mahek Chheda, Chief Financial Officer of the company, and Mr. Mihir Shah, Senior Finance Manager of the company. I would now like to hand over the call to Mr. Arvind Chheda for opening remarks. Thank you and over to you, sir.

Arvind Chheda

Thank you, Tushar. Good afternoon, everyone. It is a pleasure to welcome you all at our earnings conference call for the first quarter of financial year 2024. Let me firstly thank Ventura Securities for hosting this conference call and the participants for joining us today. Let me start by briefing you on the industry landscape first. The industry is currently going through an extremely volatile and challenging phase, as you all must have noticed from the Q1 results of the other chemicals also. This has been characterized by declining prices and heightened competition especially from China accelerated economy opening. Global demand has been disrupted due to the economic slowdown in Europe and US, leading to reduced exports. While domestic demand remains very silent.

The surge in dumping by Chinese export has fallen COVID relative measures using has intensified competition and impacted the Indian manufacturers performance. Across products we are witnessing significant demand disruptions result in price deterioration and inventory losses. Unfortunately, our company was not immune to this phenomenon as well. Our CFO, Mr. Mahek Chheda will take you through the financial and operational highlights of the quarter. Thank you. Over to you, Mahek.

Mahek Chheda

Thank you and good afternoon, everyone, and welcome to this earnings call. I hope you have had a chance to study our financials and earnings presentation which we have uploaded on our website and exchanges. So, the first quarter of financial year 2024, the revenue from operations declined by around 24% YoY to around INR 202 crores. The EBITDA was reported at INR 24 crores, which was declined by around 25%

YoY. EBITDA margins for the quarter were 11.84%. The net profit reported was around INR 15 crore which declined by about 12% YoY. While our PAT margins for the quarter were 7.38%. On the operational front, the market conditions for quarter one financial 2024 were quite challenging as already explained due to China's reopening, continued inventory destocking and geopolitical complexities.

As we observed a continued sluggishness in the sales of dyes and pigments, another slowdown emerged in the demand for agrochemicals further affecting our performance. On a standalone basis margin squeezed from the previous quarter. However, gross margins on YoY basis from 30.30% in quarter one financial 2023 to 35.49% in quarter one financial 2024. While EBITDA and PAT margins remained range around quarter one financial 2023 levels at 11.47% and 5.87%, respectively. Lastly, we recently commercialized the renewable plant for captive consumption of 2.2-megawatt wind power alongside renew power and the benefits will be seen from quarter two financial-

Moderator

I'm sorry to interrupt you, sir. Hello?

Mahek Chheda

Yes.

Moderator

Your voice is breaking, sir.

Mahek Chheda

Lastly, we recently commercialized a renewable plant for captive consumption of 2.2-megawatt wind power alongside renew power and the benefits will be seen from quarter two financial year 2024 onwards. With this, we can now open the floor for question-and-answer session.

Q&A

Moderator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. Ladies and gentlemen, if you have any question, please press * and 1 on your telephone keypad. First question comes from Sainath Sridhar, an Individual Investor. Please go ahead.

Sainath Sridhar

Hi. Good afternoon, sir. This is Sainath here. Just wanted to understand that, if this demand slowdown going to extend throughout the year or do you see any growth and improvement in margins going forward?

Mihir Shah

Hi Sainath, thank you for your question. Yes, so this particular year seems to be a difficult one, even the current scenario seems to be a little bleak it says. We are expecting some turnaround to show up towards the Q3 and Q4 in the textiles as depending on how we've spoken to our clients, but it is very early on right now to really predict how it's going to move but more or less, we are expecting the year to be difficult. Margins, however, will probably be around the same as well. Raw material prices have bottomed out, in fact, some of them have started seeing a bit of an uptick. So, we can see that it has bottomed out, however price corrections are still ongoing, and it's happening pretty quickly as well. So, we are yet to see where the prices of the finished goods end up being, so that will really determine the margin.

Sainath Sridhar

All right. So, it will remain, at 12% level remains the same throughout? So, the entire year, how does the revenue look, is there a degrowth expected?

Mihir Shah

Yes, to be on the conservative side, we are expecting around 5-10% of degrowth in this year. But like I said, it's still the markets are so volatile, very difficult to predict correctly, but we do see some bit of degrowth coming in for this year.

Sainath Sridhar

Okay, thank you, sir.

Moderator

Thank you. Next question comes from Saumil Shah from Paras Investments. Please go ahead.

Saumil Shah

Hi, sir. Good morning. What was revenue guidance for this current financial year in terms of numbers?

Mihir Shah

We are looking at somewhere around INR 800-850 crores on a standalone basis.

Saumil Shah

Okay. Before, I think, if I remember correctly in the previous call just two-three months back you were guided for INR 1,200 crores revenue guidance.

Mihir Shah

Correct. So, we had to revise our guidance given the quarter that went and the still volatility remains there, so basis that we have to revise our guidance for this year.

Saumil Shah

But then in just one quarter it became so difficult?

Mihir Shah

Yes, the prices-

Saumil Shah

From INR 1,200 crores you're guiding INR 850 crores.

Mihir Shah

So, earlier on in Q4, we were expecting only textile to be poor while some improvement coming in in the textile towards the second half of the year. But Agro slowdown also came in, and China is also dumping their excess products, so prices are crashing significantly even on PAP front and other product. Across products the prices have rectified very fast, more than expected. So, in a quarter and the current quarter also that we see does look slow, so if a whole half year goes by then we do have to really issue a fresh guidance from that perspective.

Saumil Shah

Because I mean last con call was in the month of May, so you already had one-and-a-half months-

Mihir Shah

We had a good April. Month of May was a little tough, but we didn't think that it would really last for that long. Agro kind of slowed down. So, Agro did pretty well in April. Agro continued in May and it slowed pretty quickly in June, July as well.

Saumil Shah

Okay. So along with the decline in revenue, even the EBITDA margins will go down. So, we were targeting somewhere around 20% EBITDA margin. So now, what are we targeting for this fiscal?

Mihir Shah

I think it will be somewhere around 12 to 15 only, it won't really be somewhere around 20.

Saumil Shah

Okay. And so, looking at the demand scenario, so are we now going ahead with the CapEx plans or how should we look at the CapEx thing going forward?

Mihir Shah

So, we are revisiting our CapEx plans, but more or less we will be going forward. We don't see a big issue. We may slow down a little bit, so there could be some spillover from what the CapEx we had assumed for this year may go into say Q1 next year. But as per the plan, we are not really changing or reconsidering any plan, we may just push it for a quarter or so.

Saumil Shah

Okay. So, there is competition side, or, I mean, demand side pressure as well as the competition or it's only the competition which is hurting us?

Mihir Shah

Demand. Demand side pressure. So, overall demand itself has reduced significantly.

Saumil Shah

Okay. That's it from my side.

Mihir Shah

Thank you.

Moderator

Thank you. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. Next question comes from Manal Madlani from Kamayakya Wealth. Please go ahead.

Manal Madlani

Hello. Hi, so we wanted to just check what is the current capacity utilization for all the chemistries?

Mihir Shah

Current capacity on a company level is around 50%. Other all chemistries are contributing almost around that.

Manal Madlani

Fair enough. And basically, the Pharma Intermediates, which we have launched and with the OAP that is coming in, how much are they supposed to contribute in FY24?

Mihir Shah

See, OAP, we're still facing some, we want to improve our quality beyond what we are getting right now. So, that when we are going to commercialize is still deciding. So, OAP and even if it does contribute, it will be somewhere in the range of INR 30-35 crores on a full year basis.

Manal Madlani

Understood. So, is OAP, are we facing similar sort of things that we initially faced with PAP? And what is the current status of PAP? I believe we were supposed to reach a hybrid model, right? It's not a full continuous, but are still getting good enough volumes out of it.

Mihir Shah

OAP, yes, similar kinds of problems, so we are trying to resolve that as well. On PAP side, we did see a slowdown in the volume this quarter. That is mainly because the subsidiary also took expansion shutdown in June, so to that extent, we were impacted. Our quality, in fact, further improved on PAP side on a test

basis, so we are seeing a ramp up to again, streamline in quarter two and beyond. So currently, if I see the numbers, then it's somewhere around 300 tons per month, which is little less than what it was in Q4, but that's because of the shutdown in the subsidiary company, but from Q2 onwards, we are targeting to again cross 400-500 and eventually by the end of the year 600 kind of a capacity per month.

Manal Madlani

Understood. And are you seeing some sort of demand improvement?

Mihir Shah

For PAP?

Manal Madlani

No. For overall, all chemistries.

Mihir Shah

No, in fact, demand is significantly impacted. So, even Q2 seems to be on a low demand side itself. We are expecting Q3 to improve a little on the dyes side, but we are yet to understand how Agro is going to move.

Manal Madlani

Understood. I think I just had that much questions. All the best for the upcoming financial year.

Mihir Shah

Thank you.

Moderator

Thank you. Next question comes from Saurabh Khandelwal, an Individual Investor. Please go ahead.

Saurabh Khandelwal

Good morning and thank you for giving me this opportunity. I've been seeing your performance from last three and four years and our business is just struggling, and I don't see any sales progress. And more on that the promoters hitting know attraction from DII's or FIIs, and all over I would see the negative side. So,

what is the message you'd like to give it to your investors as an individual, that where should we look at? I don't see this as a promoter, you are doing anything for retail investors and helping us out and being confident on this company and for the future. So, how do you see that and what do you guide us?

Mihir Shah

Sure. So firstly, yes, I do understand the last two years have been on a difficult side for the company, but what needs to be appreciated that we did a significant CapEx, we expanded into lots of products. There, in any chemical company, there are teething issues, there are problems that come in when you scale it up from laboratory to higher. And there are challenges with each chemistry, there are challenges of its own. So, when we do the commercializing of a project, when come into the light, it takes a bit of time. Along with that, so, these are just technical, internal things that we have to do it. But at the same time, you have to also understand COVID came, then the Ukraine-Russia issue came, fuel prices came overall, so all those issues hampered the demand.

So, it all kind of coincided together and along with that the Sarigam blast that we had, which also impacted our sales in chlorophenol. So, a lot of things happen simultaneously in last two years and that is why you see that kind of issue or the struggling phase of it, but once market dynamics improve, all of this should turn around pretty well.

Saurabh Khandelwal

But it's not a small period, which we awaited, right? It's been three years, I would say 2020, October, if I'm correctly watching this. And now we are almost at the July, and every quarter we hope it that the sales and performance for the improvement, but every time we get a disappointment. I'm not pretty sure about your Valiant Laboratories IPOs. Every time something is being committed to us and things are not getting fulfilled. Just think of as the investor that even we invested from the year 2020, the share price has dropped from INR 2,000 to now INR 380-400. What kind of a message is which we are giving it to the investor? Even promoters are not confident that either they come up and see that the buyback or something to boost the confidence on the investor side, so that would really mean us and give us the confidence to be continued as an investor for longer term in this company. So, please guide us on this.

Mihir Shah

Yes. So, I understand what you're saying. We cannot really comment on share prices or the market. But what I can comment on is, how the company is progressing and what we are doing for the company and for its growth. But if you see, it's not just us who are suffering. Last one, one-and-a-half year, it's all the companies in chemical sector, if you look closely, you will know everybody is down, not just this group company, all of them are down 30%, 40%, 50%. So, it's really, it's the market. It's the market dynamics that are really playing right now, and it's not really an internal issue that is the issue. Yes, I agree if you're

talking about PAP and this delayed coming up of that which is and we've resolved that issue, so that is also now behind us. But if the market dynamics are such, there's nothing that any one company or any one person can really do anything. We cannot continue like-

Saurabh Khandelwal

The last thing about the Valiant Laboratories IPO, any comment on that?

Mihir Shah

It's still in process. We are awaiting approvals, that is what I can say because it's a different management, different thing. I cannot really comment on laboratories. But from what I can, it is still moving progressing further.

Saurabh Khandelwal

Okay. Anything which you can give us some guidance which can boost the confidence of the investor or do we have to wait for the cycle to turn around? Because the cycle is been three years, so do you still see the one more year to turn around the cycle or something else can boost the confidence of the DIIs or FIIs or something, where they can invest on this for a longer period?

Mihir Shah

So, just keep the market dynamics out of the prospective and you will see that the CapEx that has gone in has to give us the return. Right? We have not ramped up our PAP fully, our OAP has not started, our Pharma Intermediate Project just got commercialized, so that is also setting in, so all this will kind of boost. We've also introduced a new molecule in our chlorination. So, not really a large like as a PAP Project, but it's a newer molecule, which will have on your end usage, which will diversify for the product portfolio.

Saurabh Khandelwal

Because by this time, I think PAP we should have been ramped up by 900 metric per tons per month. But now we're, as you said-

Mihir Shah

No, that guidance was anyway towards-- it's for the year. So, by the end of the year, we are targeting to reach that production capacity, but the markets also should support. If the market has, demand itself has gone down now, what will I do with them.

Saurabh Khandelwal

Okay. So, we will not see any further dilution from the promoter side or any comment on that?

Mihir Shah

No, I cannot comment. We have multiple promoters in the group. So, I don't know who individually is doing that. So, I do not have the control on that. But having said that, I will repeat what I have repeated all through my con calls that, there is good enough potential in the company and the promoters also backed that fully. So, if anybody is selling you should really check the quantity, it may not even be that impacting.

Saurabh Khandelwal

Okay. Thank you and best of luck for the future.

Mihir Shah

Thank you.

Moderator

Thank you. Next question comes from Gunit Singh from Counter Finance. Please go ahead.

Gunit Singh

Hello, I'm audible.

Mihir Shah

Yes, you are.

Gunit Singh

Yes. So, most of my questions have been asked. But in the last con call, you gave a guidance of INR 1200 crore. Was that on a standalone or on a consolidated basis?

Mihir Shah

Standalone.

Gunit Singh

And we have revised down to-

Mihir Shah

It was standalone. And now we are revising that guidance given the current market scenario.

Gunit Singh

Okay. That has been revised down to INR 800-850 crore?

Mihir Shah

Correct.

Gunit Singh

And EBITDA margins have been revised down from 20% to 12%?

Mihir Shah

Correct. So, very difficult to predict at this point, probably towards the end of next quarter or so we'll know where it is going because it will all depend on how price corrections are happening. On the raw material side, we do not see much volatility. It's just the top line that we are seeing the volatility right now.

Gunit Singh

Okay. So, we are expecting slowdown in dyes and pigments and Agro chem.

Mihir Shah

Correct.

Gunit Singh

What about Pharma? I mean, you stated that Pharma is expected to grow this year. So, what's the outlook for that? And you gave a guidance for PAP of around INR 300 crore in FY24. So, I mean, how does that look?

Mihir Shah

So, Pharma, overall, yes, we are seeing that there won't be much of an issue, but price corrections have come in, PAP prices have corrected significantly. So, that will have an impact on the margins as well. However, the raw material of the PAP has stabilized, but the top line is moving down fast. So, we did expect at the start of the year is now revised again. We are seeing somewhere around INR 170-180 crores coming in from PAP to the maximum side probably INR 200 crore, not beyond that. So, that will also, you'll have to relook at that again. And the Pharma Intermediates, it's still at the starting phase. So, we are yet to know how much it will come in. But on a full year basis, it should have accounted for somewhere around INR 60-65 crores. So, this quarter, it was negligible. So, to that extent, it will come down.

Gunit Singh

All right, that's all from my side. Thank you.

Mihir Shah

Thank you.

Moderator

Thank you. Next question comes from the Dishant Jain from Quasar Capital. Please go ahead.

Dishant Jain

Thank you for the opportunity. I just wanted to clarify one thing. There is an exceptional item in this quarter. Can you just clarify?

Mihir Shah

It was a sale of a piece of land parcel that we had in Dahej, that it is what we sold.

Dishant Jain

Land parcel, at where?

Mihir Shah

Sorry?

Dishant Jain

Land parcel at which place?

Mihir Shah

Land, it was a land that we sold. So, it was first with us, but we decided to not expand anything over there, so we sold it off.

Dishant Jain

Okay.

Mihir Shah

It was a small piece of land. So, nothing big would have really come in over there.

Dishant Jain

Okay. Thank you.

Moderator

Thank you. Next question comes from Shikhar Mundra from Vivog Commercial Limited. Please go ahead.

Shikhar Mundra

Yes, I wanted to understand. So, there's a 30% degrowth in revenue. So, how much is due to degrowth in volume and how much is due to degrowth in price?

Mihir Shah

So, around on a company level degrowth in volume is around 14-15% and somewhere around 10% is price.

Shikhar Mundra

Right.

Mihir Shah

But that's the entire product basket.

Shikhar Mundra

And so, which chemistry is like most affected due to the China dumping and which chemistry products is fairly insulated from China?

Mihir Shah

So, fairly insulated would probably be none, and affect are chlorination, chlorophenols got affected, dyes has also got affected and PAP is the major part of it.

Shikhar Mundra

Right. And these three contribute how much to our revenues?

Mihir Shah

These three would contribute somewhere around 50-odd percent.

Shikhar Mundra

Right. And when you say-- 50-odd percent, okay. And when you say affected, so like in terms of volume and price, like on average what has been the price drop across these chemistries of chlorophenol, dyes, PAP?

Mihir Shah

So, around almost a price correction of 25-30% across. Be it PAP, be it chlorophenols, or dyes. I unfortunately will not be able to give you individually, but you can assume it as 20% drop.

Shikhar Mundra

And what about the volume drop you'd say across these three chemistries?

Mihir Shah

Volume drop is somewhere around because our capacity, we have running at 50% capacity and here we would I think around we can assume 30% type capacity.

Shikhar Mundra

Volume drop. Okay. Right. So, 30% volume drop across these chemistries, okay. And which are the chemistry which are least affected from China I would say less affected?

Mihir Shah

No, they're some way or the other affected with the China dumping. So, be it either on raw material level or at a finished goods, but if you want to say least then probably chlorophenols.

Shikhar Mundra

Okay. And so, what was that like the capacity utilization before we undertook this huge CapEx of INR 450-500 crores? Because I'm trying to understand, like I mean, what was the rationale when taking such a huge CapEx when the demand is so uncertain?

Mihir Shah

The CapEx came in over a period of four or five years.

Shikhar Mundra

Right.

Mihir Shah

So, it was one after the other. Prior to that Valiant Organics was just a chlorination company, then we got amalgamated, we got merged with two other companies we got in hydrogenation and ammonolysis. So, chlorophenol also moved from 400 tons to 1500 tons a month kind of capacity first, then we expanded our ammonolysis capacity from 9000 to 16,000. Then we took up PAP, which is a new unit itself, so there was zero capacity utilization. There was a new Greenfield Project. Then that came in, along with that backward integration of OA, PA came in. OAP is still ongoing. And then eventually Pharma Intermediate. So, it happened in phases. It's not really something that we took up started all together, but they were different products, different chemistry.

So, while we were doing that the demand scenario is down since a year or a year-and-a-half, it's a cycle it will come back. But what we did not expect is the euro crisis or the COVID which kind of shifted a lot of dynamics.

Shikhar Mundra

Alright. And so, when was the last time we experienced such a bad cycle in like chlorophenols and the products we used to do like four or five years earlier like chlorophenol and, or even in PAP?

Mihir Shah

So, in chlorophenol, I think Valiant saw this in 92. But overall, at our company-- because we also faced some issues during the overall market recession that started from 2006-2008, that time there was some bit of an issue, but something of this sought at this magnitude is first time, because there is a lot of factors came in together. Every time there was one reason why the issue was there. This time at least two-three reasons why the whole slowdown has come in.

Shikhar Mundra

Right. So, there is no way we can predict like, how long will this dumping go on? It can be two years, three years also, like there's no way we can predict it. Or, like, how is China able to exactly dump this? Are the direct companies making losses or are they just selling at breakeven, so what is exactly happening?

Mihir Shah

So, with China, I think they're facing their internal degrowth and because of that there is some bit of excess production at their end, which they are now trying to mitigate by selling at a lower price. So, one thing I've heard that they even sell at RMC, raw material at the cost margin, almost take out. So, that is happening, but I think that is more of inventory destocking. Once that happens, everybody is going to kind of manage or rationalize, utilization, capacity utilization to a more optimum level. Even if it's a downward move.

Shikhar Mundra

That's good to hear. And one final question. So, from my understanding, I understand that there's a lot of public shareholdings, which is actually a promoter shareholding. I mean, so why is not really getting reclassified?

Mihir Shah

I think, so reclassification needs different-- so, to be very honest, even I don't have the answer to that. But reclassification is something that we've not looked at, but point taken, I probably get-

Shikhar Mundra

Yes, because it's something very important. I mean, just to boost up the investor confidence in such times. So, I mean, that's my feedback.

Mihir Shah

Point taken, yes.

Shikhar Mundra

Alright. Thank you.

Mihir Shah

Thank you.

Moderator

Thank you. Next question comes from Jiten Parmar from Aurum Capital. Please go ahead.

Jiten Parmar

Yes. Good afternoon. My question is basically on the debt, what will be our peak debt once all the expansion and CapEx is done?

Mihir Shah

Peak debt?

Jiten Parmar

Yes.

Mihir Shah

So right now, on a term loan, we're at some around INR 90 crores and on a short term also, we're somewhere around INR 91 crores INR 92 crores. So, total about a little less than around INR 190-195 crores is our total debt. And as of now, we are not considering taking any significant debt, but we'll have to revisit this in probably a couple of months again to know how the markets are moved, depending on that how we plan on our CapEx cash flow. But as of now, this is our peak.

Jiten Parmar

Yes, okay. And so, what is the plan for retiring this debt of around INR 400 crores?

Mihir Shah

The plan is, so our loans are five years paid back quarterly, so that is in process. So, we will pay back almost INR 40-45 crores of term loan in this year, which we are comfortable to repay. There is no issue there. And the following year will be in fact a little lower than INR 40-45 crores. So, that is not an issue. But by FY26 our existing term loans become zero.

Jiten Parmar

Okay. And my question is on-- I understand that times have been difficult, we are not in a very good cycle right now. But my question is more on the execution side, specifically what has happened with the PAP and seems to be happening now with the OAP also. Is there a manpower challenge and what are we doing to mitigate that? Because we have talked a lot on PAP that it will go to continuous process and somehow it didn't happen in the time period. So, how are we mitigating that? Because apart from the industry specific challenges, we've also added challenges which are internal to our company. So, how are we mitigating that, what steps we are taking to do that?

Mihir Shah

See, firstly, the first change that we did was from a full continuous, we brought it down to a semi-continuous. So, that is one we eventually took a call that since we are getting our product quality that we desire in a batch process, let's just move with that. Along with that there are no manpower issue as such. It is fairly okay. We are basically we have not reached our optimum output in PAP, which is why we are facing the issue, but once we crossed the 500-600 tons per month barrier, then it should kind of mitigate by itself.

Jiten Parmar

Okay. So, I mean, have we made any changes there to basically get that process in place? That is what my question is.

Mihir Shah

Yes, changes have been made, technical changes, process changes have been made. I won't be able to get more into that, because I'm not the right person. But changes were made, they have been identified, it has been also successful at a test run level. So, those will get implemented in a couple of months, so that should not be an issue. So, we don't see a challenge on PAP ramp up as of now.

Jiten Parmar

Okay. And what about OAP?

Mihir Shah

OAP, is a similar thing. We are just waiting for the quality. So, there are some impurities in that which we are trying to eliminate and that is the only hurdle that we are facing. But once we get that, that will also move on swiftly.

Jiten Parmar

So, any timeline for that please?

Mihir Shah

At this point, unfortunately, I will not be able to give you a timeline because these are experimental level and then we have to take it at commercial level, then you have to see how it goes. So, unfortunately, no timeline on OAP. For PAP, by the end of this year we'll be able to get, we will be streamlined.

Jiten Parmar

Okay, thank you. That's all from my side.

Moderator

Thank you. Next question comes from Parthiv Shah from TSBCL. Please go ahead.

Parthiv Shah

Thank you for taking my question. I was going through your Annual Report 2019-20, over which you had written that, we also have a land bank of 68,000 square meters at Sayakha and Dahej, Gujarat, to further develop new products. So, this was for like a long-term expansion plan. Now, I want to understand one, this Sayakha land out of the 68,000 square meter was what quantum and where was it sold to? Is it sold to some group company for their expansion plans or is it been sold to some third-party, if you could clarify on that please?

Mihir Shah

Yes. So, the land site was sold to the subsidiary company for their expansion. So, it is a part of the group on a consolidated level a group expansion. So that got sold. And this other land parcel that we sold is basically in, we're also considering buying in Ataali, which we have to buy. So, we had to sell off that and then we bought the Ataali land in order to expand our chlorination side and also, logistically it made more sense.

Parthiv Shah

So, this entire land of 68,000 square meter was sold or only part the Sayakha part, and Dahej part is still with Valiant?

Mihir Shah

No, that full Sayakha land is sold.

Parthiv Shah

So, what sort of expansion in the subsidiary company had to made which Valiant couldn't make? So, it's been quite the benefit is being given to some subsidiary company where the promoters have higher stake, it looks like that. So, could you throw some light on that?

Mihir Shah

So, I will not be able to disclose what expansion they are doing. But it is definitely nothing of that sort because promoter holding in Valiant is also almost similar. But having said that, their expansion made more sense given the location of it and the identification of products that was there. It meant more sense for Valiant Laboratories to get into it rather than Valiant Organics to get because we are more focused on hydrogenation, chlorination, ammonolysis, getting into a new chemistries would not-- it's not really a great point.

Parthiv Shah

Okay. And any sort of capital gains tax that you have to pay on this land?

Mihir Shah

Sorry?

Parthiv Shah

Any sort of capital gains tax that you have to pay on his land sale?

Mihir Shah

Last year we have paid but I'll have to get back to you on the capital gains bit.

Parthiv Shah

Okay. Now, that the scenario is bleak, so I would like to understand in detail what sort of cost cutting measures you've taken at all levels, which also includes employee cost, and also would like to understand why the interest cost have shot up QoQ and YoY? Thank you.

Mihir Shah

So, coming first to interest cost, the interest rates itself has been on the rise since last one-and-a-half, two years, so that is one impact. Second, as we commercialize the Pharma Intermediate Project also. So, the interest that used to be in for the Pharma Intermediate plant was also now capitalized, so it had now hit the P&L. So, that sudden jump is seen.

Parthiv Shah

Okay. And can you give me detailed explanation of all sorts of cost cutting measures that you've taken, which companies tend to take in such a scenario? And will we expect any sort of employee cost coming down QoQ next quarter?

Mihir Shah

No. So, we don't really see employee costs coming down. We have rationalized our contract to workers at a plant level, we've revisited our expenses on how we spend, how we give overtime to labor, or what are the wages. So, we have relooked upon that, and we have rationalized to that extent. But at a full

company level, we don't see any employee costs going down. The power costs have gone up, so we've also invested in renewable captive plant, so that should see some, give some benefit about INR 2.5-3 crores on a per annum basis, it will benefit us. So that is another point that we've done. Third is, we are introducing DCS systems across plant that will automate, it will bring in more efficiencies. So, that processes process improvements we're doing, but other than that nothing on our side as such right now that I can share.

Parthiv Shah

One more thing I would like to talk and discuss. The biggest problem with Valiant Organics is that it seems that there are too many owners and too many heads managing the company. And you also mentioned that you cannot give a dope upon who will sell his or her stake and there are so many heads, it's getting very complicated. Why don't the management at the top-level think of professionalizing the company more and having more like a professionally run companies like you're seeing in many other chemical peers, where there are not so many heads taking care of different plants. And it seems like that is gross miscommunication. See, I'll be very frank with you. Even a thing like this land, you have mentioned in your Annual Report that this is used for future expansion in Valiant, and then all of a sudden you land up selling and it goes to a subsidiary company.

Imagine what sort of message does it throw to the investors, investors would feel that maybe the benefit is given to some other company which is not public, though it's a subsidiary and hardly benefits Valiant, that is one thing. Second thing, always giving, guiding different-different things, different-different targets. And I understand the current scenario is bad, so there's no justification for the scenario. But when things were good, we always missed on our targets, missed on the impurities, and I saw a lot of other competitors in the same PAP field using PNCB route, and we always had an upper end PNCB because he had sourcing from RP Industry.

We were somehow totally failed to ramp up when things were good, in fact, probably good, I mean, a debt free company by now, at that juncture, we've been able to produce proper volume or proper quality. So, I mean, I hope the top management feels that there needs to be more professionalism in the company and not have so many heads. It runs like a Lala ji ki dukan to be very honest and probably that's also another reason why our valuations have been massively-massively eroded and derated.

Mihir Shah

Thanks for that. You asked many questions, I'll answer as many as I now recollect. One is, on the land sale, see we've sold. When we bought the land, it was at a good price, we bought it, we did think, we will have plans for it. But we were facing troubles with the PAP, OAP, so we did not focus on any Greenfield expansion to a newer land. While having said that expansion at the subsidiary level is also an expansion at our level as well, right? The benefit will be seen at Valiant also, so you cannot completely say that,

we've sold it off and we are not thinking about it at all. Any expansion, any benefit a subsidiary we'll also have a 45% benefit of that coming in 45%, 50%, so that is one thing. Secondly, we sold and we bought another land at Ataali which is, like I said, can operate more, logistically makes more sense, it has a direct pipeline to our chlorination plants, but direct connection, which helps the expansion plan there.

So, it's one sold and one bought, honestly, that is one thing. Second, yes, you're right, the company is, there are multiple heads. So, there are plant heads who are running the company at a silos level. But it's not that the management is not aware or management is not really quick, as far as making it more professional is concerned, point taken, management has not been against it at all. It is just that the focus is more on really bringing the existing CapEx to good operational level, and then other things can be taken care of, eventually. What I remember now, if I've missed any questions, you can ask again.

Parthiv Shah

I appreciate your detailed answer. And I just would really appreciate if this can be taken up at this juncture when things are slow. So that whenever hopefully the next good cycle comes, we at least see decent rerating because trust me, it's not only about the current scenario, it's also about the impression in the market as to how our company is run. So, if that could be changed and be more professionalized, a better message would go and hopefully that would coincide with better run whatever we're expecting after few quarters.

So, I think I hope this is-- because this has been something that in the investor meets also we've been discussing a lot, when there are so many different-different heads, then the investors also feel nervous as to how the capital allocation policy will be taken care of. So, last three years, probably, I would say that, despite building fixed assets, investors have not benefited anything out of it. So, I hope this is taken as a feedback and I think we improve going ahead.

Mihir Shah

Correct. Point definitely taken and accepted. But it is just an unfortunate timing that the CapEx also came online with global crisis, you cannot remove the global crisis out of our conversation, because everything is really dependent on demand and supply, right. So, I cannot put that aside, and then have a comment. If the markets are down globally, and if all our chemistries are suffering, because of that, of course, the returns on those investments are going to suffer. And last two years, three years, it has been like that, starting with COVID, every year there is a new issue that comes up and disrupts everything. And it's not just us, it's all chemical companies, which you've got, I'm sure you're tracking most of them. So, you should have realized that it is not just Valiant Organic.

Parthiv Shah

Fair point. I appreciate the problem that we are facing currently, which is on the board, overall industry, but hopefully, with our processes, and this is probably a golden opportunity for us to ensure that all our plants, all our new CapEx is on steam so that when the good times come, we don't still complain about the quality issues or production ramped up issues, that's only my feedback. Thank you very much for answering my questions. And I really appreciate in a tough scenario you came with a con call, which a lot of other managements have avoided, so I appreciate your bravery.

Mihir Shah

Thank you.

Moderator

Thank you. We have a follow up question from Saurabh Khandelwal, an Individual Investor. Please go ahead.

Saurabh Khandelwal

The one thing which I would like to ask is as a layman, what parameter I should be tracking at that to find out that this downtrend cycle is over? Meaning, the China dumping is over or going towards smoothing our sales and all that. So, any tracking way to find out as layman?

Mihir Shah

See as a layman I think you can track the overall textile industry improving because the textile improves our dyes products improve, so that is one chemistry which is linked to textile. The second is Agro, if Agro is improving both the local and export European, Japanese, both the Agro markets improve then we will see an improvement in our Agro also. And for Pharma, you can relate more closely check the paracetamol market.

Saurabh Khandelwal

Okay. Thank you.

Mihir Shah

Thank you.

Moderator

Thank you. Ladies and gentlemen, if you have any question, please press * and 1 on your telephone keypad. I repeat, ladies and gentlemen, if you have any question, please press * and 1 on your telephone keypad. Next question comes from Sanket from Kotak Securities. Please go ahead.

Sanket

Just one thing. Valiant Laboratory is definitely a subsidiary of Valiant Chemical, Valiant Organic?

Mihir Shah

Yes, it's a subsidiary of Valiant Organic.

Sanket

Okay.

Mihir Shah

But it's an indirect subsidiary, it's an indirect subsidiary of Valiant Organic.

Sanket

Anyway it is linked with the company?

Mihir Shah

Yes.

Sanket

And around by what time is the IPO going to come? Because we are planning to properly good investment in that company.

Mihir Shah

Fair enough. But that is something that Valiant Laboratories management has the liberty to answer. I will not be able to comment.

Sanket

Okay. Can you just tell me the timeframe by what timing the IPO will be launched?

Mihir Shah

I will have to recheck with their management, I don't know. They have filed the DRHP, they are waiting for approvals from the respective boards. And once that is done, I think they will again start with their updating of the RHP.

Sanket

Okay. Last question. Are the margins in sales and the operation activity of Valiant Laboratory going to improve ahead in future?

Mihir Shah

With the expansion plans, yes, it will improve. But as far as paracetamol, Valiant Laboratories key chemistry is concerned that will remain stable as it is.

Sanket

The rest of the product in which the company is dealing are the sales and operation-

Mihir Shah

It's a single product company, currently.

Sanket

Okay. But the guidance and all are, future and all are really bright for the company?

Mihir Shah

I cannot see it in that perspective. I cannot comment like that. But yeah, we see the upside and the potential and hence, the expansion and hence the CapEx is going in right for the Greenfield, that's bright.

Sanket

Okay, thanks a lot. And just make sure that investors remain intact with the company.

Mihir Shah

Yes. Thank you.

Moderator

Thank you. Ladies and gentlemen, if you have any questions please press * and 1 on your telephone keypad. I repeat, ladies and gentlemen, if you have any question please press * and 1 on your telephone keypad. There are no further questions. Now, I hand over the floor to Mr. Tushar for closing comments.

Tushar

Thank you. On behalf of Ventura Securities Limited, we would like to thank the management of Valiant Organics and the participants. Good day.

Moderator

Thank you, sir. Ladies and gentlemen, this concludes the conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a good day.

Tushar

Thank you, everyone.

Moderator

Thank you.

-
- Note:**
1. This document has been edited to improve readability
 2. Blanks in this transcript represent inaudible or incomprehensible words.