



“Meghmani Organics Limited Q1 FY'17 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Meghmani Organics First Conference Call. As a remainder, all participant lines will be in the listen-only mode. 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 “*” and then “0” on your touchtone phone. I now hand the conference over to Ms. Nisha Kakran. Thank you and over to you.

Nisha Kakran: Thank You, Good Evening Everyone. On behalf of Four-S Services I welcome all the participants to the very first conference call of Meghmani Organics. Today on the conference call we have Mr. Ashish Soparkar -- Managing Director and Ms. Deval Soparkar -- Head of Corporate Communications, Meghmani Organics.

I would now hand over the call to Deval. Over to you.

Deval Soparkar: Thank you, Nisha.

Ashish N. Soparkar: Thank you, Nisha. Good Evening to all.

Deval Soparkar: Good evening everyone and a very-very warm welcome to the maiden Earnings Conference Call of Meghmani Organics. I will begin the call with a brief introduction of our company, talk about Q1FY'17 performance, outline our growth strategy and then open the call for the questions. Meghmani Organics is a well-diversified chemical conglomerate with an extensive domestic as well as strong global presence across 75 countries.

Operating in key high potential segments i.e. pigments, agrochemicals and basic chemicals we have today emerged as an industry leader in all areas of operations, working with over 400 clients. We are one of the largest phthalocyanine-based pigment manufacturers with a global market share of around 7% by volume. A leading vertically integrated agrochemical player and have in place fourth-largest caustic chlorine capacity in India. Five years ago we embarked on an aggressive growth plan that involved investing around Rs. 5.6 billion to build capacities, to diversify into higher value added products across segments, enter new geographies as well as undertake backward integration. It is thanks to this bold plan that we are now well on target to achieve Rs. 20 billion in revenue in the next three years from Rs. 13.6 billion in FY'16. Our richer product mix is translating into improving margin profile.

In FY'16 itself our ROCE improved to 17.4% from 10.4% in FY'15. In agrochemicals we are focused on building our branded products targeting Rs 2.5 billion branded sales by FY'19. So towards this we have put in place a competent team, established a strong pan India presence with around 2,370 stockiest, agents, distributors and dealers.

In pigments we are focusing on the high-margin paint and plastic markets, whereas in basic chemicals we have added a new caustic potash facility at Dahej with an investment of Rs. 650 million that has a revenue potential of Rs. 1,250 million. We are pleased to share that our strategic investments along with our increased focus on the domestic market had already begin to yield results leading to stellar performance in the current quarter.

Before I move on to the numbers I would like to say that all our figures have to be restated as per IndAS compliance. So people who are following us on quarter-on-quarter basis may find discrepancies in the numbers. If there is any specific question on the numbers and if you want to know more in detail, we will be happy to answer any query during the question-and-answer session as well as you can take it offline also.

Now to move on to the numbers. Consolidated revenue for the quarter increased 17% to reach Rs. 3,605 million from Rs. 3,091 million in Q1FY'16 driven by strong growth in domestic market.

Domestic revenue increased 25% taking the contribution up at 50% compared to 46% in Q1 FY'16, while exports were up 10%. EBITDA for the quarter increased 67% to Rs. 749 million compare to Rs. 448 million in Q1 FY'16 on account of better operational performance and reduction in raw material prices.

EBITDA margin reached 21.1%, 636 basis points higher than 14.8% in Q1 FY'16. PAT for the period grew 3.75x to reach Rs. 188 million compared to Rs. 50 million in Q1 FY'16, a sharp raise led by strong operational performance and lower financial charges with reduced debt.

Looking at each segments performance in detail, I will start with pigments first. Pigments posted revenue growth of 7% to reach Rs. 1,273 million up from Rs. 1,192 million in Q1 FY'16 driven by 48% growth in the domestic market. Domestic now contributes 34% up from 25% Q1FY'16. Volumes increased by 13% to reach 3,809 MT from 3,372 MT in Q1FY'16. Profitability increased substantially on account of lower input cost and decrease in other expenses.

EBITDA increased 297% to Rs. 239 million from Rs. 60 million in Q1 FY'16. EBITDA margin also increased significantly to 19% in this quarter from 5% in Q1 FY'16.

Agrochemicals, our largest segment witnessed high growth of 43% on back of good monsoon in several parts of the country reflecting in progress of Kharif crop sowing. According to Ministry of Agriculture, Kharif sowing so far has surpassed last year by more than 6%. Agrochemicals revenue reach Rs. 1,317 million from Rs. 922 million in Q1FY'16 driven by strong growth in domestic as well as exports market, which grew by 76% and 26% respectively. Contribution from domestic market is at 41% compared to 33% in Q1 FY'16. Volumes grew by robust 50%

to 4,235MT compared to 2,817MT fully offsetting the decrease in blended realization on account of change in product mix.

EBITDA declines 26% to Rs. 77 million from Rs. 104 million in Q1 FY'16 mainly due to increase in input cost and pressure on prices. EBITDA margin reduce to 6% in the quarter from 11% in Q1 FY'16. Utilization level has increased to 75% in Q1 FY'17 compared to 71% in Q1 FY'16, even as overall production capacity increased by 32% to 27,180MT from 20,520MT in Q1 FY'16, it is still a challenging business but we are confident that our right strategy and focus will sail it through.

Talking about basic chemicals division – revenues from our basic chemicals grew by 3% to reach Rs. 956 million from Rs. 924 million driven by higher ECU realization that were up 11% with favorable demand supply scenario in caustic soda and higher realization of caustic potash. Our new caustic potash plant commenced production in the quarter. As the new plant share infrastructure with our caustic soda facility, caustic soda volumes and utilization were impacted temporarily due to synchronization process of the new plant.

EBITDA for this segment increase 47% to reach Rs. 428 million compared to Rs. 291 million in Q1FY'16 led by higher ECU realization and lower input prices. EBITDA margin expanded to 45% in the quarter from 31% in Q1 FY'16.

Going forward we feel all our businesses are poised for strong growth. In agrochemicals increasing reach and favorable monsoon will drive domestic growth whereas increasing registration will drive export market growth.

In pigment our focus on the domestic market remains high which along with higher contribution from value added products will drive the pigment growth.

In basic chemicals our recently commenced caustic potash plant will drive the segments growth. We are very optimistic that Meghmani with its strong well diversified and unmatched infrastructure will deliver increasing returns while moving towards our goal of Rs 20 billion revenue target.

So, with this, I come to the end of my comments. I would like to thank everyone for joining our conference call and we would be happy to take any questions that you may have at this stage. Thank you.

Moderator: Thank you very much. We will now begin the Question-and-Answer Session.

Ashish N. Soparkar: Yes, good afternoon Ashish Soparkar here.

- Moderator:** We have our first question from the line of Amar Maurya from India Nivesh Securities. Please go ahead.
- Amar Maurya:** So, first question is primary on agrochemicals business, despite such a stellar growth in numbers the margin has decelerated, any specific reason for that?
- Ashish N. Soparkar:** The reason is that initially we were not sure about the monsoon and the prices that were prevailing were low so, as you remember this April, May, June, sale is pre monsoons sale so we thought if monsoon gets delayed or may be is bad let us try to sell a little more aggressively so, we sold a little more aggressively. Now the margins, I believe in the next few quarters will be better.
- Amar Maurya:** Okay. So basically, we had given discounts.
- Ashish N. Soparkar:** Yes. As you know there was no off take and there was a lot of carry forward stock of the last year but still we wanted to get rid of our stock and there was no monsoon till 30th June. So, we disposed of some of our stock at lower prices.
- Amar Maurya:** Okay. And secondly sir, wanted to understand that what was the caustic potash contribution during the quarter?
- Ashish N. Soparkar:** We could have started the plant in January or February but during that time caustic lye was doing exceedingly well so, what we did was we deferred till 1st of April. We started synchronizing both the plant from 1st April and around 22nd of April we put both the plants together. Initially there was some setting up time for caustic potash, as quality and output was not to the international standard which we were aiming. So April, May, June, we had weaker sale but now everything is under control and in next quarter we should have a good sale. So sales can be around Rs. 25 crores to Rs. 30 crores every quarter with Rs. 3 crores to Rs. 4 crores profit reflecting from it.
- Deval Soparkar:** Amar just to explain, this would be when the plant gets fully stabilized and all approval from customers come in play. The reason for that is that unlike caustic chlorine which is more like a commodity chemicals, Caustic Potash is a specialty chemicals and it goes to agrochemicals and pharmaceutical companies which have stringent and little longer approval and testing time. Whenever we do samples and we send our products for testing in Hyderabad or in Ahmedabad and other companies, we need some time because they also have to approve in their own system so, I think by Diwali we believe that most of the approvals should come in place then we would be in a full fledge operating mode for our caustic potash plant. So, we are giving one year to stabilize for this project and we believe that this year would be more of an introductory year for our project, this is a specialty chemical like agro and pigments where testing time is also a little longer but customer then become more loyal to us.

- Amar Maurya:** Okay. So what I am trying to understand here is that basically when we say that we are going to run the plant, and we are going to be in that pilot mode where we are giving a lot of products for the testing or for the approval, so is that in this period of time we will also report some losses in this particular segment?
- Ashish N. Soparkar:** No, the losses are not possible.
- Ashish N. Soparkar:** Yes, the only thing is that in quarter one there was hardly any contribution from the caustic potash as Deval said, so quarter two may be at breakeven level but from quarter three onwards we are quite confident that we will get a positive bottom-line from this segment.
- Amar Maurya:** Okay. And the run rate of Rs. 30 crores which you had mentioned so, if I understood correctly you are saying this Rs. 30 crores run rate and Rs. 3 crores kind of profit should be actually coming from the financial year 2018, right?
- Ashish N. Soparkar:** I think so.
- Amar Maurya:** Okay. So second question is in pigment business, the margins has actually improved. Is it that the approvals from all clients are in the place for this new particular plant and now we should see this kind of margins getting sustained over a period of time?
- Ashish N. Soparkar:** Margins should be reasonable like this in the coming period and we are actually expecting more approvals but the oil has gone up a little, crude oil has moved from \$27 to as you can see around \$45 so, the raw material prices have also gone up a little but we believe that margins will be similar to this within 2% -3% plus minus.
- Amar Maurya:** Okay. So basically the 10% to 12% is the right estimate for this kind of business?
- Ashish N. Soparkar:** For us, in pigment it is better than 10% to 12%.
- Amar Maurya:** Okay. Because in this particular quarter we had closed to around 16% so, I am just trying to make it whether this kind of margin is sustainable?
- Ashish N. Soparkar:** It may be 13% to 18% in the coming quarter it appears like that.
- Amar Maurya:** So sir, depending on the oil?
- Ashish N. Soparkar:** Depending upon the current position of oil.
- Amar Maurya:** Okay. And sir, what was the closing debt in this particular quarter?
- Ashish N. Soparkar:** This is Rs. 281 crores.

- Amar Maurya:** So we paid off how much in this particular year?
- Ashish N. Soparkar:** This year we paid up Rs. 31.93 crores.
- Amar Maurya:** And we are likely to pay another Rs. 60 crores in this particular year?
- Ashish N. Soparkar:** Exactly, we are likely to pay another Rs. 60 crores. We can pay some of them right now also but they are not due, so as and when they get due we are likely to pay off.
- Amar Maurya:** And we do not have any plans to increase at least long-term debt, right?
- Ashish N. Soparkar:** As of now nil.
- Deval Soparkar:** Amar we have also stated that we are out of CAPEX cycle so, for another one and half years I do not see any additional long-term debt coming into the balance sheet and at the same time we will do about Rs. 90 crores of debt repayment this year and following year and this has been also put up in our Annual Report, the debt repayment schedule.
- Moderator:** Thank you. We have the next question from the line of Pavan Kumar from Unifi Capital. Please go ahead.
- Pavan Kumar:** Sir, my questions were basically on the sustainability of margins. In the sense, I assume there would have been some impact of the Chinese moving some of their plants from the cities. So, how much of margins do you expect to sustain especially on the pigments side and also on the basic chemical side what is the sustainable margin, right now it is at around 45% but what would be the real sustainable margin?
- Deval Soparkar:** See, Pavan that is a fantastic question. On Meghmani operation, China factor has no impact, we sell our product to China. Let me explain to you by segment like in pigment we are into phthalocyanine pigment and India is very strong in the same. As I mentioned during my opening remarks that we are the global leader in phthalocyanine, we export our products to China. China movement has impact on business of dyes and dyes intermediates and other related chemicals, we are into pigments and pigments and dyes are different that is one thing. So whatever margins that you see for all the three segments are sustainable and has no effect of China number one. Second thing is in agrochemicals also if you look at in global side, herbicides and fungicides China is very strong because of raw material availability whereas in India insecticide is very strong because of market demand and also the technological competence of Indian companies. Meghmani has in agrochemicals, insecticide as a major portfolio. So we export our insecticides also to China. Third segment when it comes to basic chemicals, the chlorine cannot be exported or imported so it is purely a domestic play, our basic chemical division. We believe so there is no China impact in that even though at point you assume that there could be dump of caustic but there is a safeguard duty and Anti-Dumping Duty and that makes it almost impossible to import

products from China. So, there is no competition from China and also the momentary shift that is happening at China does not have any effect on us. When you talk about sustainability of margin, we believe longer-term, this is of course one of the quarter we believe that pigments would have about 18% EBITDA margin. In agrochemicals we are aiming at 20% though it right now look very challenging you would also say but we believe that 20% in agrochemicals could be achievable on a sustainable basis probably a year down the line when we have our formulation business in place. In basic chemicals you would believe that we are doing about 45% plus but on a long-term target, we believe that 32% to 35% is a sustainable margin for our basic chemicals division.

- Pavan Kumar:** Okay. And presently, our caustic potash plant has got operational?
- Deval Soparkar:** In April we officially started the production then as you see it is a chemical plant so synchronization and all takes some time so, this quarter went by and we had not reported any significant sale of those caustic potash plant.
- Pavan Kumar:** Okay. But what will be the margin around say in caustic potash around 25% can we assume that?
- Deval Soparkar:** About 20%-25%.
- Pavan Kumar:** Okay. You said, major revenues will start flowing from FY'18 right?
- Deval Soparkar:** Yes.
- Pavan Kumar:** Okay, fine. And just one last thing I wanted to check, what is the capacity utilization in pigments right now and over the next two years what is expected growth rate that you are expecting?
- Deval Soparkar:** So in the pigments we have mentioned in the presentation, do you have copy of the presentation?
- Pavan Kumar:** I do not have it yet.
- Deval Soparkar:** Okay. We are doing about 60% capacity utilization of our plant and the presentation is by the way there on our website IR section, it has all the necessary data for the production and utilization number. We believe that pigments plant can go up to 80% to 85% in two years' time. So, we expect to touch about 65% to 67% this year and another 7% to 8% addition next year kind of and then take this to about 80%-85% in coming two to three years.
- Pavan Kumar:** Okay. And if I am permitted I wanted to ask one more question regarding agrochemicals business, we are guiding quite strong, not guiding rather we are foreseeing may be a very strong margin increase from the current level. So, the formulation business whatever we are talking

about when is it expected to start kicking in and is the margin so significantly higher that our agrochemical margin will be significantly pushed up.

Deval Soparkar:

See two - three things we are targeting for our agro business, one is that last year we did about Rs. 60 crores of formulation business, this year we believe that we should cross about Rs. 110 crores - Rs. 120 crores kind of formulation sale, coming from formulation business. I do not see any significant difference as of now in terms of margins coming from formulation or technical because when you are setting up a formulation business and ramping up not only your product portfolio but also the reach to various distributors and states there is also some cost that gets factored in, I believe that this is all for one and one time and long-term kind of strategy. We believe that we have good quality product and that it has as good acceptance ratio between the dealers and distributor that we are working with, currently about 2,300 dealers and distributor. We believe that pan India presence with our formulation business and about Rs. 260 crores coming in another two to three years we will have significant presence and that combine with a registration at export markets in a lucrative market like Latin American or certain registration, we are eyeing in the U.S. market, both the strategic initiatives combine together should push our EBITDA to around 20%.

Moderator:

Thank you. We have the next question from the line of Veena Patel from iWealth Management. Please go ahead.

Veena Patel:

Deval, I just wanted to have the break up between the capacities that have been reported on the basic chemicals business so, like the same quarter last year we had a capacity of around 1,56,000MT which has increased to around 1.87 lakh MT, so this increase is because of the caustic potash capacity addition?

Deval Soparkar:

Yes, it is because of caustic potash capacity addition. Also Veena, as you know that caustic plant work on the membrane cell and then every four to five years we have to change the membrane but whenever you change it so, that also pushes the capacity up. I would like to give you an example that if your plant is going to be around 480 MT a day of producing caustic in the first year when we change membrane capacity then the next year automatically the same infrastructure doing nothing and everything right, your capacity will come down to about 475 MT, that means in the four or five years **when** it starts consuming highest power and the capacity also goes down to around 440MT kind, we have to change it at that time. So we have changed that, and hence combination of these two things that is changing the membrane as well as addition of caustic potash facility has led to this increase.

Veena Patel:

Okay. So then how much would be the new capacity for caustic soda as of now?

Deval Soparkar:

1,66,600 MT

- Veena Patel:** Okay. And out of that how much we would have utilized in this particular quarter because the volume data that is being provided it is having the mix of even caustic potash also.
- Deval Soparkar:** The caustic potash is a negligible production, there is no production on it.
- Veena Patel:** Okay, there is no production, okay.
- Deval Soparkar:** But you could see the utilization level coming down, because for one full month that is in month of April, the plant was shut because we were doing synchronization. See this plant runs on DPS system and that is a brain of the plant and we were synchronizing caustic potash system along with caustic chlorine facility. So in that we have to take shut down.
- Veena Patel:** Okay, I got your point. So in the coming quarter, we would start seeing the utilizations ramping up for the caustic potash?
- Deval Soparkar:** As I said, caustic potash will start picking up in volume by quarter three and we believe we typically are giving one year because it is a chemical plant right so a lot of things you only come to know when you run at the full scale.
- Veena Patel:** Okay. So at least in this financial year we can expect around 50% capacity utilization for potash?
- Deval Soparkar:** Yes, 50% is safe to assume.
- Veena Patel:** Okay. And typically what kind of EBITDA margins we have in this segment?
- Deval Soparkar:** As I mentioned to the previous caller about 20%-25% is what we are targeting for this year.
- Veena Patel:** And whatever margin uptick we have seen around 25% at the basic chemicals so, is it sustainable or we got some kind of benefit because in the prior quarter also we did an EBITDA margin of around 50%.
- Deval Soparkar:** No, see we believe that and what I have been telling to all the investors also that long-term it is 30% to 35%, which we believe is a sustainable margin.
- Veena Patel:** Okay. So we got a benefit of the improvement in the realizations basically?
- Deval Soparkar:** See right now ECU pricing is up, and I think that is why everyone has better numbers to show on the basic chemicals division. 30% to 35% is what we believe is a sustainable margin. See, when I say that people believe that it is not possible because last quarter we reported 49%, this quarter we reported 45% you know it is safe to assume 30% to 35%.

- Veena Patel:** Okay. And finally Deval on this outbreak of fire what has been the development, has the plant started operations?
- Deval Soparkar:** We announced it yesterday the first update on the fire.
- Veena Patel:** Okay. So it has the information for the loss that is there on the finished goods part and the plant and machinery but by when we would be expecting the plant to be back?
- Deval Soparkar:** We also stated that the other plant that is alpha and CPC blue have already started production and also started deliveries from the plant.
- Veena Patel:** Okay. So there will be no major impact on the revenues because of the fire?
- Deval Soparkar:** We also stated that the other Beta plant from Dahej site last year, because we have two type right, did about Rs. 49 crores of revenue. Right now the investigation is in place after which we would be allowed to go inside the plant and start operating and mending the thing. We right now do not know the exact damage and how next week we will be able to start but we believe that the other two facilities Vatva and Panoli because we have other pigment site they should be able to maintain the top-line for the company. I am only saying top-line as of now because right now I do not know the other **sector**. But our customers will not be disappointed at this moment.
- Moderator:** Thank you. We have the next question from the line of Manish Jain from Sage One Investment Advisors. Please go ahead.
- Manish Jain:** I just wanted to know in terms of asset turnover on Rs. 560 crores like we will be hitting Rs. 2,000 crores but that also has existing figure so, roughly what can be the asset turn at the peak level from this CAPEX which we made?
- Deval Soparkar:** This Rs. 560 crores, straight away did not go to all the plants there were a couple of things which were there to support the infrastructure so, about Rs. 100 crores was spent to upgrade our environment systems.
- Manish Jain:** Or, I can take it offline later on Deval whatever is more convenient.
- Deval Soparkar:** Sure. Will share the details offline.
- Manish Jain:** My second question was on as you mentioned you are unlikely to have much of CAPEX but maintenance CAPEX for current financial year and next financial will be how much?
- Deval Soparkar:** We said that about Rs. 30 crores for all three businesses put together.

- Moderator:** Thank you. We have the next question from the line of Mehul Seth from Phillip Capital. Please go ahead.
- Mehul Seth:** So my first question is related to debt position I miss this number, how much you have repaid and what is your total debt position?
- Deval Soparkar:** We have Rs. 281 crores of debt outstanding as of now.
- Mehul Seth:** How much you have repaid during this quarter?
- Deval Soparkar:** We paid Rs. 31 crores so far, we will pay Rs. 90 crores this year total, if you get access of our Annual Report which is also there on our website we have also given three years' debt repayment schedule.
- Mehul Seth:** Okay, thank you. But from pigment side despite 13% volume growth, the sales has grown only by 7% so, what is the pricing scenario in this pigments segment?
- Deval Soparkar:** No, see most of the raw materials are crude derivative so, the raw material prices have come down and that has reflected on the finished goods pricing, but margins have been maintained or improved.
- Mehul Seth:** And just kind of 15%-16% EBIT margin is sustainable for FY'17?
- Deval Soparkar:** Yes, we believe 16% to 18% is sustainable margin for pigment business.
- Mehul Seth:** Okay. So one small question on approval on permit in U.S. market, so have you started supplying this product in U.S.?
- Deval Soparkar:** We are supplying, but we have applied for Permethrin registration that we have for non-agricultural application and we have applied for a wider usage of that registration. So, that is for agri application because as you know agri market is much-much bigger than the non-agricultural application. So non-agricultural application is basically mosquito eradication and other things but agricultural application is much wider so, we have applied for that but yes in non-agri application we have already started supplying.
- Mehul Seth:** Okay. And what is your outlook on your agro export market, because overall global companies has cut down revenue estimate by almost 10% so, what is your outlook on export market for agrochemicals?
- Deval Soparkar:** We believe that export market is going to be challenging year this time also but as I mentioned that the right ways of registration is helping us, last year also we had registrations in Brazil which is under our own name and that has helped us to maintain the margin and not to be overly

dependent on export market now we are equally focusing on domestic formulation business. So we believe that these two strategy will balance any challenges that may come for agro business.

Mehul Seth: Okay. And can I have your number of distributor for agrochemical in India?

Deval Soparkar: About 2,370 distributors that we have and we are present in 17 states, as of now we are not present at pan India so, our first goal is to have pan India presence in coming two years.

Moderator: Thank you. We have the next question from the line of Pavan Kumar from Unifi Capital. Please go ahead.

Pavan Kumar: I just wanted to understand pigments last year the margins were around just 6% whereas this year it is around 19% so, what it is that has changed. I understand the raw material prices might have helped but what are the other changes that have happened and why we think it is sustainable?

Deval Soparkar: See, pigment business there are three things that has happened – one is that volume increase, from around 53% capacity of our Dahej plant we push the capacity to (+60%) so that has helped. Second thing is that as you know pigment is largely for us is more an export business and we changed the way we do logistics for that business and that has significantly reduced the other expenses part of the business. So, earlier we were sending all our containers by truck now we are using rail transportation and that has significantly improved the margins. I believe that it is a sustainable because we are not going to go back to the traditional method anymore. Third thing is that, from the Dahej plant we are catering to more sophisticated market that is paints and plastics so these are our targeted customer base and there is a slight price difference than the ink customer that you have. I am not saying volume cannot be so significant because paint and plastics in the world over, pigments produce of about 60% goes to paint market but having said that paint and plastic profile gives us good margin. Also one thing that we changed is that all our small gas based power plant that we had, we changed them to thermal power plant and that has also brought in operational cost reduction.

Pavan Kumar: You said gas based to thermal you changed that, right?

Deval Soparkar: Yes, all the utilities, so that has also helped and forth and most important actually it is not three reasons, fourth and most important reason is that we made our site a truly zero discharge site for that whatever wastage that was coming out we have either tried to recycle it, sell it. This has also helped us, so that Rs. 100 crores in pollution treatment plant that we have installed has not only ensure that our plants run at a good capacity and continuously but also we have done something which probably nobody has done in fact we are now recovering proper from the waste because ours are copper phthalocyanine pigments. So, we actually charge copper, copper is our main raw material and we were paying heavy because the TDS count goes up because there is a copper

metal component and whenever you are treating waste we were paying 3x than the normal waste to treat that water that was coming out. But now we are treating it and getting copper out of it and that is helping, that is not only generating revenue but also is bringing down our per kg environment treatment cost. So, these are something fundamentals changes that we have done and that is why I am saying that it is nothing one-off the quarter and they are sustainable margins.

Pavan Kumar: Okay. So from Dahej whatever the power plants that we have, how much of our own energy requirements have met internally?

Deval Soparkar: No, I am not talking about Dahej, I am talking about all three pigments plants that we have we have changed the utilities, I am not saying that we are not dependent on board for power but we also have our small utility which we were drawing it through gas-based we stopped it and now we are using thermal over there and that is bringing down. So it is a mix of drawing it from the board as well as we have our own power plant.

Pavan Kumar: I just wanted to understand on the smaller utility where we are drawing power, how much of the power does that small utility supply to us, how many megawatts would it be?

Deval Soparkar: If you can send an email, I will send you all the details of all the three plants. And just to add because you I do not want other people to get confuse is that for basic chemical division which is also situated at Dahej we have 60 megawatts thermal power plant and for that particular plant we are self-sufficient as far as power is concerned, we make our own power for that business.

Pavan Kumar: Okay, fine. And I just wanted to understand so, in our pigment division how does the raw material prices actually influence us, is it like a quarterly contract that we enter into and do some back to back arrangement or we bear the volatility for one month or two months, if there is significant shift?

Deval Soparkar: See, for our major raw material we have a long-term contract, you would appreciate that the suppliers are with us for almost two decades now and we are the biggest customers for them so, they also listen to us and the challenging times are not particularly for Meghmani everyone knows that, second thing is that for other raw material which are not significantly in nature we do spot pricing.

Pavan Kumar: Okay. Spot pricing, okay. And most of it would be domestically procured?

Deval Soparkar: Most of them are domestically procured also, having in this line for almost a two decade we have gained some sense of predictability and confidence that this would be the time where phthalic at a lower, copper will be at a lower price, we try to take advantages of that also.

Moderator: Thank you. We have the next question from the line of Manoj Matthew Jacob, Individual Investor Company. Please go ahead.

- Manoj Matthew Jacob:** Hello, madam I am an Investor. And I just wanted one clarity will the Dahej fire affect the total turnover this year that is question number one? And question number two, you said the total debt as of now is Rs. 281 crores.
- Deval Soparkar:** Yes.
- Manoj Matthew Jacob:** And will the fire affect the turnover?
- Deval Soparkar:** We have just released the update sir, yesterday post market hours saying that fire will not affect the top-line of the company.
- Manoj Matthew Jacob:** And what is the total debt now? Total outstanding debt versus 281?
- Deval Soparkar:** Rs. 281 crores and end of this year it would be Rs. 220 crores.
- Moderator:** Thank you. We have the next question from the line of Kavita Thomas from First Global. Please go ahead.
- Kavita Thomas:** My first quarter is on the pigments space, actually if you see the volumes in this quarter has been up by around 13%. Overall what is your outlook in terms of volumes of this business picking up considering that the volumes in the previous year was much higher at around 19%. So, what is your overall outlook for the pigment space in terms of volume?
- Deval Soparkar:** See, as I mentioned earlier also that the capacity utilization of this business is around 60%, we target to reach up to 65% to 68% this year that will push the volume in that proportion.
- Kavita Thomas:** Okay. And in terms of raw material prices if I see the overall raw material prices as a % of revenues is at around 56% of sales as against the previous three quarters if you see by in large it has been in the range of 50%-53%. So, this increase in raw material prices is because of lower agro realizations or what is it?
- Deval Soparkar:** There is, not in pigment but in agrochemicals we have seen some input pricing going up, even in basic chemicals, coal prices have started moving up which is typically the situation during monsoon, coal prices goes up a bit and that gets reflected in that. But we believe that between 56% to 60% raw material pricing can vary and we offset that thing by increasing the overall efficiency meaning utilization of the plant, so every year if we add about 6% to 7% utilization then the overall spreads is better to play with and that helps.
- Kavita Thomas:** Okay. And sometime back actually we have given our guidance in terms of the top-line growth being in the range of around Rs. 250 crores to Rs. 300 crores so, does that still hold on considering that we have had few problems here and there in terms of one-month shutdown due to the synchronization and fire at Dahej. So does this guidance still hold on?

- Deval Soparkar:** See, I do not know where you have got this guidance because there are two things if the crude prices remain at this level yes, we should be able to do it; but there is a large play on the raw material pricing and that gets effected in the finished goods pricing. So that is one thing. What I personally try to give is the guidance on the utilization and I believe that on an average the utilization for all the plants would be about 7% to 8% higher. Then I personally give segment wise EBITDA margin because that is how you will get more correct texture of each businesses. We had practically flattish last year versus previous year but there was a tremendous margin improvement because volume has actually increased.
- Kavita Thomas:** Okay. And this Rs 20 billion guidance top-line guidance would be by FY'19 or FY'20?
- Deval Soparkar:** FY'19
- Moderator:** Thank you. We have the next question from the line of Jagdish Kumar, Individual Investor. Please go ahead.
- Jagdish Kumar:** My question is about trade receivables, receivables part in FY'16 it has substantially increased when compared to the last year.
- Deval Soparkar:** Sir two things, one is the business when the business volume increase that happens automatically second thing is that agro season was not up to the mark so, if you go back to the numbers, if you are checking the company quarter-on-quarter basis last year Q1FY'16 for agrochemicals was very good and in anticipation of good monsoon there was good sales but actually monsoon did not take place. So, whatever sale has been done got stuck in the cycle. Also in agrochemicals now we are focusing more on Latin American market because it was giving us good margin compared to far eastern countries if you compare and in that the cycle of reaching the goods is also (+2) months and in that situation the expectation from our customer is to give them a credit period of 180 days. But we have not seen any huge bad debt impact or anything on the company. We believe that the money is there in the system and it would come in its time so whenever you change the market or the shift in the market happens this kind of thing happens but they are secured.
- Jagdish Kumar:** Who are your competitors in pigments?
- Deval Soparkar:** Pigments in a listed phase you can check Asahi Songwon, which is also a Gujarat based company it is a listed company they have to change portfolio other than that there are not many players in the listed space but if you want I can give names of Sudarshan Chemicals though they do not have any exact product profile matching with us also Ramdev, Shreyas Intermediates these are all the companies but they are non-listed companies.
- Jagdish Kumar:** Okay, and what are the entry barriers in your business?

Deval Soparkar: For pigment?

Jagdish Kumar: Yes, pigments and Agrochemicals both entry barriers?

Deval Soparkar: Sir, in pigments there is no written entry barriers like agrochemical but pigments the application that we make I would be happy to take you around at any of our plants where we have made fantastic application laboratory. What we do is that we move closer to the customer and we arrive at a particular shades and color that the customer wants if you analyze your own behavior as a customer you do not read a name of the product but your mind read the color and you pick up the color that you want. My favorite example is that whenever you want to buy a Thumsup or Pepsi, you do not read what you are picking, you would precisely pick up Thumsup cane if you want Thumsup because for you Thumsup blue and Pepsi blue are different in your mind and that is where our expertise as a company comes in and we work closely with a company who make metal deco ink. We also supply to security ink manufacturer in the world this is the largest security ink manufacture in the world. Security ink manufacturer is the specialty ink which is used in making printing ink for currency notes. And we believe that it goes to U.S. treasury department and you know such sensitive area customer will not willing to shift us as well as customer is willing to pay us a bit of premium than the other players for that reason so, we are working on such sophisticated applications also and believe that is the entry barrier because they have taken a long time to approve us. So, you would appreciate that 90% of our pigments business comes through repeat customers that there is some sort of an entry barrier otherwise people would shift and we would have a new customer base vis-à-vis constantly searching for new customer base. And we are very happy to say that we also supply to Indian treasury department for Rs. 500 note and Rs. 5 note.

Moderator: Thank you. As there are no further questions, I now hand the floor back to the management for closing comments.

Deval Soparkar: Thank you all for very detailed question-and-answer session. If anyone has any further question, we would be happy to answer them separately offline through e-mail, please get in touch with us. We are very thankful to all our investors who stood by us in our challenging time and have shown confidence in the company's growth plan and focus. And with this, I wish everyone a great evening and safe travel back home who are joining us from Mumbai and Delhi. Thank you so much.

Moderator: Thank you. On behalf of Meghmani Organics, that concludes this conference. Thank you for joining us and you may now disconnect your lines.