



“Meghmani Organics Limited Q1 FY18 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to Meghmani Organics Limited Q1 FY2018 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Nisha Kakran from Four-S Services. Thank you and over to you, Madam!

Nisha Kakran: Thank you. Good morning everyone. On behalf of Four-S Services I welcome all the participants for the Q1 FY18 Conference Call of Meghmani Organics Limited. Today on the Conference Call, we have Mr. Darshan Patel, COO Pigments, Mr. Kaushal Soparkar, MD, Meghmani Finechem Limited, Subsidiary of Meghmani Organics and Mr. Raj Kumar Mehta, CFO – Meghmani Organics Limited. I would like to thank the management for giving us the opportunity to organize this call. I would now handover the call to Kaushal to take you through the opening remarks.

Kaushal Soparkar: Thank you Nisha. Good morning everyone and a very warm welcome to the Q1 FY18 Earning Conference Call of Meghmani Organics Limited. I will begin the call with the performance highlights, outline our growth outlook and then open the floor for questions.

We are pleased to start the year on a high note with a strong growth in revenue and profitability, driven by strong performance across the businesses i.e. pigments, agrochemicals and basic chemicals. We achieved high utilization across the segments and increased contribution of value-added products along with the lower interest on account of reduced debt in the quarter. Our capex of Rs 5.4 billion around basic chemicals will help to fuel the future growth as we sweat our existing capacities.

This monsoon has been normal in most parts of the country, barring the southern states although the past ten days have seen relatively weak rainfall. However, according to the Indian Meteorological Department, monsoon rainfall is likely to remain normal in the remaining two months of the season i.e. August and September, setting the stage for a good Kharif harvest and strong rural demand.

Food grain output in the ongoing 2017-18 Kharif season is likely to surpass last year record of 138 million tonnes due to higher acreage and good monsoon for the second straight year, which bodes very well for our agrochemicals business. GST implementation could have a small impact for a few months in our domestic market, but overall it is net positive for the industry.

Coming to the financials, consolidated revenue for the quarter grew by 17% to reach Rs 4,150 million compared to Rs 3,546 million in Q1 FY17 on the back of strong export market performance, which was up by 26% whereas domestic revenue grew by 8%.

EBITDA for the period increased 22% to Rs 912 million from Rs 749 million resulting in expansion of 87 bps in EBITDA margin, which is at 22%. Interest outflow has declined 26% to Rs 107 million compared to Rs 144 million in Q1 FY17 on account of reduced debt. PAT grew by 75% to reach Rs 329 million from Rs 188 million in Q1 FY17 taking PAT margin to 7.9%.

Looking at each segments performance in details. Our pigment business delivered revenue growth of 10% in the quarter to Rs 1,404 million from Rs 1,273 million. This was driven by robust performance in export market where revenue grew by 25%, which contributes a 71% to revenue while domestic market contributing 29%, had stable revenue.

Volumes were up by 8% at 4,099 metric tonnes from 3,809 metric tonnes, coupled with marginally higher blended realization. EBITDA declined 7% year-on-year to Rs 223 million in the quarter due to change in product mix and lower margin on some products. EBITDA margin is at 16%. Utilisation levels have increased to 79% compared to 59% in Q1 FY17 while production grew by 34% year-on-year.

Our agrochemical revenue for the quarter grew strongly, up 17% to reach Rs 1,547 million from Rs 1,317 million in Q1 FY17 driven by robust growth of 33% in export market while domestic market revenue was down contributing 33% to revenue. Volumes witnessed 5% growth to reach 4,453 metric tonnes coupled with significantly higher realisations. EBITDA increased by 219% to reach Rs 246 million from Rs 77 million on account of higher realization on products and sale of higher margin products taking EBITDA margin to 16% from 6% in Q1 FY17. Utilization level has increased to 77% from 75%, whereas production was up 3% year-on-year.

Our basic chemicals revenue grew 25% year-on-year to Rs 1,194 million from Rs 956 million driven by strong growth in dispatch/sales. However, realizations were stable. EBITDA was up 4% year-on-year on higher base to reach Rs 446 million from Rs 420 million (exceptionally well Q1 FY17). EBITDA margin at 37% was above the longer-term range. Utilisation level was up at 88% from 72% in Q1 FY17 and production increased by 24% year-on-year during the quarter. Our caustic potash plant is ramping up as per the plan.

Going forward, we believe that all our businesses i.e. pigments, agrochemicals and basic chemicals are on a strong growth path with increased demand in domestic and export front. This along with higher utilization and increased share of value-added product will drive the profitable growth as we move ahead in fiscal year 2018.

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

- Moderator:** Thank you very much Sir. Ladies and gentleman we will now begin the question and answer session. The first question is from the line of Dixit Mittal from Subhkam Ventures. Please go ahead.
- Dixit Mittal:** My question is on agrochemicals segment, as we have witnessed a big margin expansion in this quarter so do you see the sale of higher margin products continuing for next quarters as well or will it be going back to our earlier margins in the segment?
- Raj Kumar Mehta:** Agrochemicals revenue increased 17% year to year, which is due to higher sale prices coupled with the increased volumes so this trend is expected to continue because as you see the monsoon is good, and demand in export front is also good, we expect the higher demand for our products. So second and third quarter we expect that the trend will be continuing.
- Dixit Mittal:** Sir actually if I see past quarter-on-quarter base there is a huge variation in the segment like in some quarter you have managed to sell higher margin products and in some quarter you had only commodity products. My question is like will this product mix change in favor of higher margin, will continue for next quarters as well or may be some lower margin product will also come in going forward?
- Raj Kumar Mehta:** Overall there is full basket of products to cater as per the demand, our thrust will be to have the high value-added product, but at the same time as per the requirement there will be mix of few low value-added items as well as the high value. It will be the total basket of products, but we expect in few products which we could not sell earlier and now the demand for that is higher and we expect this will continue. We will also be adding the few value-added items in the agro segment.
- Dixit Mittal:** Okay so that means this margins are sustainable going forward as well?
- Raj Kumar Mehta:** It is sustainable for coming quarter as per our estimate
- Dixit Mittal:** Okay and secondly in basic chemicals also we have seen sharp quarter on quarter jump in margin so is it because of lower losses on chlorine or like caustic potash benefit has also come in during this quarter?
- Kaushal Soparkar:** See quarter-to-quarter, the chlorine prices have improved compared to previous year that has helped to some extent and also the better utilization of the capacity as compared to last year Q1.
- Dixit Mittal:** Okay Sir what is outlook in the segment, are the caustic chlorine prices sustaining at higher levels or again going back?
- Kaushal Soparkar:** See what we foresee in the next coming two quarters that we will maintain this pricing level that is what we can foresee right now.

- Dixit Mittal:** Okay Sir lastly can you give the contribution of potash in revenues as well as profitability?
- Kaushal Soparkar:** what do you want to know about caustic potash actually?
- Dixit Mittal:** Revenues and profitability in this quarter?
- Kaushal Soparkar:** Revenue for the quarter was around Rs 17.5 Crores.
- Dixit Mittal:** Sir profit, EBIT level?
- Kaushal Soparkar:** Profit was around 20% at PBIT level.
- Dixit Mittal:** What is the utilization currently of this plant?
- Kaushal Soparkar:** Currently the plant is operating at 60% utilisation.
- Dixit Mittal:** Thanks a lot.
- Moderator:** Thank you. We take the next question from the line of Pawan Kumar from Unifi Capital. Please go ahead.
- Pawan Kumar:** Sir I wanted to understand why our agri performance has been so much better? So is it some kind of formulations, which we were working with or some kind of new products that have gone into the market right now because one year back if I am right we were talking about a new product launch in Brazil. Has something of that sort materialized, which is actually reflecting in higher agro chemicals margin.
- Deval Soparkar:** The thing is that in the last couple of quarters we have been telling that last year the monsoon was average for India and there was a channel inventory movement. We kept on telling the investor community also that if the monsoon is good this year, there will be a good set of number for agrochemical business, which precisely happened because monsoon is good. Number one, channel inventory moved last year and this year there is a fresh offtake and supply. Second thing is that in the last conference call we mentioned that one of the higher margin products which we could not sell in last two quarters because of the mergers of two companies now that product is back in the basket again so that also has helped us add into the margin. Third thing is the seasonality, these two quarters are essentially for agrochemical business and that is why you will see a strong set of number for these 2 quarters like this quarter and the second quarter.
- Pawan Kumar:** So there is no element of any new products contributing, basically it is the existing inventory which has moved right?
- Deval Soparkar:** That was the last year so whatever happened this year is fresh sale.

- Pawan Kumar:** I just wanted to understand on your CMS Project so we are talking about manufacturing of chloroform right so what is the kind of capacity that will come along with the CMS project rather where chloroform is also expected to come in. Because I think India is a net importer in this particular chemical so what is the potential we are seeing from this project?
- Kaushal Soparkar:** CMS project will have three products coming out, MDC, chloroform and CTC and we believe that topline would be around Rs 125 Crores at the highest utilization of the plant.
- Pawan Kumar:** Realizations, would it be priced significantly lower than the imports so as to attract new customers?
- Kaushal Soparkar:** See import prices do fluctuate because the pricing is driven by the methanol, which is the basic raw material and the chlorine. Globally, India has lowest chlorine price number one and market segment, which we cater will be agro and pharma where we are already selling caustic potash so we will be offering the basket to the customer that will help us in customer acquisition.
- Pawan Kumar:** So chloroform and carbon tetrachloride would be by-product of this whole process of CMS?
- Kaushal Soparkar:** No it is a co-product actually the way caustic and chlorine comes together when you make chloromethane that is why is called CMS so you have MDC, chloroform and CTC, all three come out together in certain fixed ratio.
- Pawan Kumar:** Until now in India what would be the projects that would already be there in the particular field?
- Kaushal Soparkar:** There are already four companies in this field and we will be the fifth.
- Pawan Kumar:** Thanks Kaushal.
- Moderator:** Thank you. We take the next question from the line of Bajrang Bafna from Sunidhi Securities. Please go ahead.
- Bajrang Bafna:** Sir because of this Doklam standoff, there are some news that the raw material which India is importing from China, there is some port issues which are happening and it is getting difficult for the India companies to run their operations smoothly. So what is the experience for us and are we importing some amount of raw material from China and how that trade is happening now and will that be having some sort of impact on our operations or not?
- Kaushal Soparkar:** So far we have not seen any problem for getting any imported raw material from China. We are not seeing any issue from our importer side.
- Bajrang Bafna:** Sir could you just tell us what all, we import from China broadly in the value terms and may be one or two items which are predominant in our raw material at least?

- Kaushal Soparkar:** Our sourcing strategy is widely divided between India, China and other parts of the world because we are not getting 100% from China and in many cases we have backward integrated also. So it is not that we are depending 100% on China for all our raw material consumption so that percentage is not that significant that can hamper our production. So our sourcing strategy is very well established that way.
- Bajrang Bafna:** One or two items that you can mention which you are predominantly importing from China currently?
- Kaushal Soparkar:** We do import certain intermediates from China for agro, which are codify so we cannot disclose, but again the China is not the only source.
- Bajrang Bafna:** One more thing that was recently announced in July end by the DIPM that whatever intermediates that are getting manufactured in India and registered in India now cannot be imported from China and fresh registrations henceforth will be happening and need to be manufactured in India. So how that entire guideline will change the face of this agrochemical industry going forward some broad strategy or the guideline that you can provide will be helping us to understand, the direction of the sector going forward.
- Deval Soparkar:** We believe that this make in India moment, which is initiated by Prime Minister as far as the agrochemical industry is concerned will benefit the company in the long run because right now the association as you know PMFAI, Pesticides Manufacturers & Formulators Association of India is wholeheartedly supporting this movement of government. Because it is a right way to look at it that our own capacity is not yet filled in and we import but at the same time there are players whose entire business model, is dependent on importing the technicals from China then formulate it and distribute it in the Indian market. Those people have to also come on board. This has come too drastic on couple of large players in the agro space and so there is mix review about it and government has not given any strong stand on it, but they have initiated the data gathering process and will be making adequate presentation to the government, we will keep you updated if there is any positive change because our Managing Director, Mr. Natwarlal Patel is also the Executive Director of PMFAI, and we personally believe that this will definitely help technical manufacturers, going forward.
- Bajrang Bafna:** One more thing in this similar guidelines of the paper, which was released recently by DIPM, they talked about due to this movement we might see some sort of exuberance in terms of pricing for agrochemicals, which government does not want that farmers should be impacted by this movement and they have talked about some sort of price restrictions also if required so how these both things will go together? Are you seeing some sort of movement on that side also that some sort of pricing controls will eventually come in if the prices move irrationally so what is thought process on that? We have seen in the pharma, similar thing has happened so can that be extended to agrochemicals if some sort of erratic price movement happens?

- Deval Soparkar:** I do not think so. As of now we have not heard and once the policy get decided then, if it is three point positive, one point could be negative also, but we believe that if our capacity is getting filled up and we are getting a chance to manufacture couple of product, which some companies may have discontinued due to on the unreasonable practices from China, if that is getting revived then my overheads get better spread to work on. You would also like to see that at prices even going lower; you can still make probably the same kind of margin. But till those kinds of notifications come in firm, we cannot comment on that.
- Bajrang Bafna:** Thank you Madam.
- Moderator:** Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.
- Shashank Kanodia:** Sir just wanted to understand out of the existing capacity so how will the revenue stream move next two years FY18 and FY19. So what is the maximum revenue that we can clock and the margin profile? You are almost operating roughly at 65%-70% utilization levels?
- Raj Kumar Mehta:** Correct. This year we expect the topline of around Rs 1,600 Crore as compared to Rs 1,400 Crore for last year and in FY19 and FY20 after adding basic chemicals new products and also increased capacity in Caustic soda, it will be around Rs 1,800 and Rs 2,000 in next two years.
- Shashank Kanodia:** Okay so like your presentation mentioned the existing capacity could sweat you to Rs 2,000 of revenue so is it still possible to clock Rs 2,000 from the existing facilities?
- Deval Soparkar:** It is possible because if you check the capex figures the year or two years before we have invested in capex but the capacity utilization can be stretched up to 80% on the current plans that we have number one. These revenues numbers have to be taken as tentative because that 60% of our revenue is export and that will also play a role if dollar rupee goes either side, but we believe that dollar stabilizing at Rs 64-65, these numbers are achievable.
- Shashank Kanodia:** Certainly Madam on the agrochemical front a lot many Indian companies as well as global agrochemical players have been guiding some muted demand and pricing outlook so how was we able to grow our exports at the same time and take a price hikes?
- Deval Soparkar:** Sir as I said barring last two quarters if you check all the figures of the company, agrochemical was doing good. It is only that the last year because one of our big customer merged with another entity and you know how the product portfolio rationalization happens in merged entity, in that we could not get orders, which we were expecting also. Our customer had communicated to us well in advance, but even though it was communicated there are no firefighting measure that can happens in agro it is not easy to cater to or create a new customer overnight so we had to take that pain for two quarters, but we have kept on giving the guidance that our margin should stabilize between 16% and 17% in a long term view for agrochemical business.

- Shashank Kanodia:** Right so that is achievable in FY18 and FY19 right now that you have the visibility? Lastly on the capex front so like we are doing good amount of capex of Rs 540 odd Crores so in that Dichloromethane plant so what is the EBTIDA margin that we will realize there?
- Kaushal Soparkar:** Rs 540 Crores we are not doing only in the chloromethane.
- Shashank Kanodia:** Rs 140 Crore in chloromethane?
- Kaushal Soparkar:** Chloromethane we already announced two quarters back. This is for the additional capacity of the caustic and hydrogen peroxide. Coming back to your question about EBITDA margin of Chloromethane, we anticipate it to be around 20%-22%.
- Shashank Kanodia:** Sir similar case for hydroperoxide and caustic soda?
- Kaushal Soparkar:** Caustic soda will be in the same range what we have right now around 30% to 33% and hydrogen peroxide would be around EBITDA margin in range of 20-25%.
- Shashank Kanodia:** Given the main growth is coming from this subsidiary, any plans of reverse merging this subsidiary in the standalone business giving the IFC an exit by increasing the promoter stake?
- Deval Soparkar:** As of now we do not want MFL to be merged with MOL, that is not what we are thinking right now because MFL has its own set of growth plan, MOL has its own set of growth plan. IFC will get an exit eventually, we have initiated the dialogue, but we have not yet concluded it and because their loan is getting over and their 10-year period is also getting over so let us see how it goes. They have also shown confidence with the company so we do not know whether we will give them an exit, they will take an exit or stay with us we right now do not know.
- Shashank Kanoria:** Okay is it also kind of taken, into factor that some dividend in the form of cash dividend will flow back to the standalone business if the company's earning so much good profitability?
- Deval Soparkar:** We are also a large shareholder of MOL so we will love that this happens, but having said that on a secured business side yes we would like that some sort of the return movement happen and we believe that now MFL is cash surplus company, so it will be possible.
- Shashank Kanoria:** Okay this Rs 540-odd Crores expansion, how will we fund this?
- Kaushal Soparkar:** With Debt and equity and we have not formalized the plan yet because our caustic technology is not finalized and for the hydrogen peroxide it should be finalized in coming quarters once that is done, then we will come up with the exact financial plan of investment.
- Shashank Kanoria:** Okay but that will be largely on the MFL books so nothing on the standalone business?
- Deval Soparkar:** Nothing on the standalone, but it will show in consolidated debt numbers.

- Shashank Kanoria:** Thank you so much and all the very best.
- Moderator:** Thank you. The next question is from the line of Abhishek Maheshwari from Wallfort Financial Services. Please go ahead.
- Abhishek Maheshwari:** My question was also regarding IFC's 25% stake only and another question was regarding SGX delisting so when is the SGX liquidity expected to come to Indian Stock Exchanges now?
- Deval Soparkar:** Abhishek, we have not yet formally started the delisting process. We have the board approval in place let see how it goes.
- Abhishek Maheshwari:** Thank you.
- Moderator:** Thank you. The next question is from the line of Naushad Chaudhary from Systematix Shares. Please go ahead.
- Naushad Chaudhary:** The questions I have is on the pigment business. First of all I just wanted to understand in the presentation it was mentioned that due to some product mix change, there was a dip in the margin of pigment business so can you explain a bit more on it. What are the low margin products here and what is the difference in the margin between CPC crude, Alpha and Beta Blue?
- Darshan Patel:** Actually as you can see that we have increased our plant utilization as compared to last quarter, so we have captured the new market in export as well as in domestic segment. So to capture that market we have to reduce our prices that is why we have written that it is a low margin product.
- Naushad Chaudhary:** So it is actually not a low margin product but just for the promotion, for entering in the market we have lowered the prices right?
- Darshan Patel:** Correct as you can see that we have jumped by 25% in export market so to capture that additional market and to maintain the competition we have to reduce some of our margin, so we have to reduce our prices as compared to the regular prices.
- Naushad Chaudhary:** This is you talking about across the product basket or any specific?
- Darshan Patel:** Across the product basket.
- Naushad Chaudhary:** What can we expect on the longer-term sustainable margin in the pigment business?
- Darshan Patel:** ~16%-18%.
- Naushad Chaudhary:** Okay and what would be the utilization right now in the pigment business?
- Darshan Patel:** 79%.

- Naushad Chaudhary:** What could be optimal utilization in this business?
- Darshan Patel:** On higher side 82% to 83%.
- Naushad Chaudhary:** Is it the max we can achieve? Okay and on affluent side Sir suppose if we produce one tonne of CPC crude how much kg of sludge this one tonne generates in pigment business and how much wastewater do we generate for producing one tonne?
- Darshan Patel:** Actually we are not generating any sludge or wastage from the CPC. We have our own technology, we have installed multi effect and RO technology and we have invested a lot for that machinery, so 90% water we are recycling from the CPC.
- Naushad Chaudhary:** Okay and what would be the content of COD in the wastewater of these pigments?
- Darshan Patel:** It depends on the products.
- Naushad Chaudhary:** Okay so if we are talking about the CPC crude?
- Darshan Patel:** CPC crude we are not discharging. As I say that we are recycling 90% of the water.
- Naushad Chaudhary:** So I just want to understand the COD content in that?
- Darshan Patel:** You can take that 350-400 level average including all the products basket.
- Naushad Chaudhary:** After treating this water, the content is around 350 or 400 or before treating the water?
- Darshan Patel:** After treating.
- Naushad Chaudhary:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Uttam Shrimal from Fortune Financials. Please go ahead.
- Uttam Shrimal:** Just like to know our capacity utilization in pigments have been between 79%-80%, 88% in basic chemical and agrochemical is around 77% so what would be the peak capacity utilization in agrochemical?
- Kaushal Soparkar:** Maximum 80% to 82% on agrochemical business.
- Uttam Shrimal:** 82% okay and Sir can you please elaborate on your debt reduction plan?
- Raj Kumar Mehta:** This year we will pay-down our debt of around Rs.91 Crores, at the subsidiary as well as the consolidated level. Apart from that due to the efficient working capital management we will be

able to lower the utilization of our working capital also. So the total combo of around Rs.91 Crores in terms of term loan as well as the reduction in the working capital utilization on existing loans.

Uttam Shrimal: For this Rs.540 Crores capex that you are planning, for that you will take new loan again?

Kaushal Soparkar: Yes.

Uttam Shrimal: Sir one thing more, you mentioned in CMS project your turnover would be around Rs.125 Crores this would be for this year or for the next year?

Kaushal Soparkar: No, plant will be commissioned in Q2 of next year so definitely it will come in next year nothing in this year.

Uttam Shrimal: Okay it will be coming in next year so it will be incremental revenue?

Kaushal Soparkar: Yes.

Uttam Shrimal: That is from my side. Thanks.

Moderator: Thank you. We take the next question from the line of Jayesh Gandhi from Harshad Gandhi Securities. Please go ahead.

Jayesh Gandhi: My question is regarding our hedging policy since, 55% of our revenue comes from export? I mean what is our hedging policy?

Deval Soparkar: We only hedge 40% of our export otherwise we import about 12% of total raw materials from different countries. We have a natural hedge up to that level and as a policy we only do plain vanilla, we do not involve ourselves in any of the complex hedging structure.

Jayesh Gandhi: Okay, can you throw a little more light in terms of amount what is the import that we are naturally hedged?

Deval Soparkar: I said about 12% of total raw material.

Jayesh Gandhi: That will come to what amount on revenue?

Deval Soparkar: Whatever is the export because that depends on what are the orders on hand.

Jayesh Gandhi: For example if you are Rs.1500 Crores out of that, Rs.800 Crores is export so what amount is the import?

- Deval Soparkar:** Out of Rs.1500 Crores turnover, if Rs.800 Crores is the export then approx 10% of Rs.800 Crores is the import number.
- Jayesh Gandhi:** Another question is on how best we are environmentally complied? I mean what we have done recently in last three to four years that there cannot be any environmental related shutdown on our plant.
- Kaushal Soparkar:** We have invested a lot and it was covered in our past conference call also, to make sure that we are complied 100% as per the government regulations. Each side has different norms, because we are spread out in various Gujarat Industrial Development Corporation our plants at various GIDC, which have different norms which we are already complying.
- Jayesh Gandhi:** Since we must be having lot of European clients also so do we also have to be REACH compliant?
- Kaushal Soparkar:** Yes.
- Jayesh Gandhi:** Are we?
- Deval Soparkar:** Yes, of course.
- Jayesh Gandhi:** My last question is can you just tell me what the current price of Benzene and toluene is?
- Kaushal Soparkar:** We do not use that.
- Jayesh Gandhi:** Do not we use Benzene Sir?
- Kaushal Soparkar:** We use Benzene derivatives but not Benzene as such as a raw material directly.
- Jayesh Gandhi:** Okay. I just wanted to understand the fluctuation vis-à-vis last year-on-year? Is there any substantial fluctuation in this price?
- Kaushal Soparkar:** No it is a stable.
- Jayesh Gandhi:** That is all from my side Sir.
- Moderator:** Thank you. The next question is from the line of Umesh Patel from TCG Asset Management. Please go ahead.
- Umesh Patel:** Sir few questions related to industry. How the industry is panning out as a Central Pollution Board is again putting stringent norms, what I understand is 30% of plants does not have affluent treatment plant to dispose the wastage. I think they also got notice to shut down, so I wanted to know your view on it?

- Kaushal Soparkar:** See, actually the bad news for those 30% who are not complying it and it is good for companies like us who are complying with all the rules and regulation and also it helps us in our capacity utilization and all.
- Darshan Patel:** As we state that we have invested lot money for the ETP plant, so in each plant we are converting maximum into the by-product.
- Umesh Patel:** Sir wanted to know you mentioned you already have ETP plant so as of now what proportion of your total capacity including this three segments is taken care by that ETP?
- Kaushal Soparkar:** Each and every plant, we have invested but it depends on the product, suppose for example, in pigment division we have invested in multi effect and RO plant so from that we are converting into the by-product like ammonium sulphate and copper sulphate so same with the agro and same with the basic chemical.
- Umesh Patel:** Right, so I just wanted to know your view because I am not sure I just heard that 30% plant already got the notice, So is it true, is there any publications or it is just a talk?
- Kaushal Soparkar:** Each state has different rules on environment side. Each body is reacting differently. Within each state there are different industrial development corporation, they have a different rules and regulations so it is very difficult to track what is happening in which part of India. As far as we are concerned we are established in Gujarat and we are following the norms, which Gujarat Pollution Control Board has established here.
- Umesh Patel:** This 30% plants also has a similar kind of business that you are running as of now?
- Deval Soparkar:** When you mention 30% plants where that number has come from, which industrial state are you referring to, are these plants located in Gujarat?
- Umesh Patel:** No across India I heard
- Deval Soparkar:** Because probably they are in land lock position and cannot have the affluent or a deep sea piping kind of a solution especially as of now if you talk about industries that are based in Gujarat. Also as Kaushal Soparkar said different industrial estate have different norms and different industrial estate adopt to the Gujarat Pollution Control Board norms also differently. But certain industry bodies like the Dahej Industrial Association they never had central affluent treatment plant, but the corporate body along with government came forward in a public kind of a partnership model with the government they established affluent treatment plants. So every industry every region and every state in India follow a different rule. So if you can share more lights on that 30% Plants thing, we will be more than happy to get the information for you from our sources.
- Umesh Patel:** I will get back to you off-line.

- Deval Soparkar:** You are welcome.
- Umesh Patel:** Second question was related to pigment industry how it is growing and who is your closest competitors, Is there any threat from China in terms of imports and all?
- Darshan Patel:** As in the pigment industry, we do not have any threat from China since China market is different and Indian manufacturer is different so we do not have any threat from China side in pigment.
- Umesh Patel:** Okay. So in pigment blue particularly who is your closer competitor?
- Darshan Patel:** You can say that Asahi Songwan, Sudarshan Chemicals.
- Deval Soparkar:** But you would be happy to know that Meghmani is the largest Phthalocyanine manufacturer in the world, so that way we always get little better in terms of positioning or the customer profile.
- Umesh Patel:** Right. And as of now our market share globally is 7% to 8% right?
- Darshan Patel:** 7% to 8% correct.
- Umesh Patel:** Thank you.
- Moderator:** Thank you. The next question is from the line of Jigar Jani from Edelweiss. Please go ahead.
- Jigar Jani:** I had three questions one is you have seen utilization ramp up in the pigment business in this quarter but sales have not gone up so is that preparation for some order that is pending or you have seen visibility on that? I am talking about volumes so dispatches this quarter are 4000 metric tonnes the production is around 6000 tonnes.
- Darshan Patel:** Correct but out of that CPC products is 2,500MT and from the CPC we are converting into the Beta Alpha and Green so we are not getting 100% sales from the CPC because we have to convert more into the finished pigment.
- Jigar Jani:** Because the same ratio in terms of production to sales is not seen in Q1 FY2017 so that was my basic question on that?
- Darshan Patel:** Yes, that is what I told, we have increased our plant utilization but we have converted more into the finished pigment so as you can compare from the last quarter we have a sales from the CPC side.
- Jigar Jani:** Okay so can you share how much you sold as CPC and how much as finished pigments as blue and green in terms of tonnage?
- Darshan Patel:** Total 1,200 MT CPC and rest of the finished pigment, you can say that Green, Beta and Alpha.

- Jigar Jani:** That 2,800 MT right, approximately?
- Darshan Patel:** Correct.
- Jigar Jani:** Sir we are almost reaching peak utilizations in agrochemicals and pigments obviously we are doing that even in our caustic soda segment but how do we intent to reach that Rs 2000 Crore of figure from existing asset is it like changing product mix is the main game plan here?
- Darshan Patel:** Yes, mainly by change in product mix.
- Jigar Jani:** In agrochemicals what is our current mix in terms of sales can you split it by intermediates, technicals and formulations?
- Darshan Patel:** In terms of percentage?
- Jigar Jani:** Yes.
- Deval Soparkar:** Usually this figure ranges from quarter-on-quarter because this quarter you will see more of formulations this being an India season but then overall during the year, we believe that about 20% will come from the branded formulation and rest will be technical and intermediates. Because branded formulation if you talk about it is only our brand, we do bulk formulation also but that we club in a B2B business. So this brand business, last year it had been about Rs 60 Crore this year we believe it would be about Rs 90 to 100 Crore and rest will be technical and intermediates.
- Jigar Jani:** Okay, Just one last question so overall, Rs 2000 Crores or Rs 1900 Crores that you are saying by FY2019 I believe is that including CMS?
- Kaushal Soparkar:** Around Rs 1,800 Crores -1,900 Crores in FY19.
- Jigar Jani:** That is all my questions. Thanks for taking my questions.
- Moderator:** Thank you. The next question is from Amit Rane of Sunidhi Securities. Please go ahead.
- Amit Rane:** My question is on other expenditure, it has gone up by 37% Y-O-Y and 32% on Q-O-Q basis so any reason for the same, any one off in that number of Rs 93 Crores?
- Darshan Patel:** Mainly it has increased because of the insurance premium and transportation cost/ exports CHS charges.
- Raj Kumar Mehta:** Because as compared to last quarter exports CHS charges have also correspondingly increased and also because of the fire, insurance premium has increased for this year.

- Amit Rane:** Okay, so what was that incremental number from insurance and transportation?
- Darshan Patel:** Rs 5 Crores.
- Amit Rane:** Sir can you update us on progress of capex on ground like how much work is done for the CMS project? What stage we are at as of now?
- Kaushal Soparkar:** We are at a construction level and we have already frozen the basic engineering now we are going at the detail engineering level and some machineries which are long term and take like six to nine months, for those orders have been placed.
- Amit Rane:** Thank you.
- Moderator:** Thank you. Our next question is from the line of AM Lodha from Max Mutual Capital. Please go ahead.
- AM Lodha:** Sir I have two three questions; one question relating to pigment. I wanted to know the status of the insurance claim, how much we have received and how much is pending to receive?
- Kaushal Soparkar:** So far we have received Rs 12 Crores.
- Deval Soparkar:** Sir the thing is that we have lodged a total claim of about Rs 28 Crores, if you check the footnote of the results that is announced, we have clearly mentioned that we have lodged a claim of about Rs 28 Crores out of that we have received Rs 12 Crores, we expect to receive another Rs 8 to 10 Crores in near future and the rest will be loss of profit claimed which we will be lodging anytime soon.
- Am Lodha:** My next question is related to basic chemicals where your capacity utilization has gone from 72% to 88% while margins have fallen from 45% to 35% in the quarter. Any specific reason for margin fall as much as 7% to 8%, in spite of increased capacity utilization?
- Kaushal Soparkar:** Compared to last year the coal prices have gone significantly up that is the reason the cost of manufacturing has gone up and EBITDA margin has gone down.
- Deval Soparkar:** Also if you check we have always told our investors that last two three quarters where the coal prices were low this is unheard profit for MFL, we have always maintained the guideline of 30% to 35% EBITDA range.
- AM Lodha:** What I understand from industry sources there was negative realization in chlorine a few months back so, can you put some light on presently prevailing caustic soda prices and chlorine realization?

- Kaushal Soparkar:** The chlorine pricing is currently not negative and caustic prices is around Rs.33 to Rs.34 ex-works.
- AM Lodha:** Another question is relating to agrochemical, I see that 2015 you were having the margins of 13% again in 2017 margins had come down to 10% in spite of increase in the distribution network as well as the new registration, the company got in last two years. Why the margins in agrochemicals are falling over year to year in last three years it has fallen from 13% to 10% can you put some light on it?
- Deval Soparkar:** Sir Agrochemicals is a seasonal business. It depends a lot on monsoon because probably if you exclude this year and if we talk about last two years, the last two years was kind of a first time that we encountered continued two bad years for agrochemicals. One of the reason is that how Indian monsoon typically happens is one bad year and one is average, which we believe this year is, probably gone year is the very good year. But in last decade or so, we have never faced two consecutive bad years for agrochemicals. Because our model if you look at it for entire MOL, MFL it is a very de-risked model because we have three businesses. If we particularly talk about agrochemical business also, we have a very reasonably strong domestic presence as well as the export presence where we export to about 70 countries. Even though we have this much of derisking, export market was also challenge at that time because Latin America was doing bad, Europe also had not so good season, Asian countries also got very erratic rains and flooding like situations in certain countries. I think overall probably everything was going against the agrochemical derisking model fundamentals for the company. But despite not so good years we maintained decent close to double-digit margins. We believe that 15%-16% this year and going forward 16%-18% margins are sustainable for this business.
- AM Lodha:** In FY2018 and FY2019 if monsoon is good can we expect to go back to the old margins of 13%-14%?
- Deval Soparkar:** Highly likely Sir.
- AM Lodha:** Okay another thing this question is to Mr. R.K. Mehta, I just wanted the total debt in standalone as well as consolidated?
- Raj Kumar Mehta:** As on this quarter?
- AM Lodha:** No as on year end, you can give standalone and the consolidated debt.
- Raj Kumar Mehta:** Standalone as on June 30, 2017 we have working capital utilization of Rs 210 Crores and on long term debt side it is Rs 95 Crores. At the end of FY18, it will be around Rs 287 Crores on standalone basis and Rs 340 Crores on consolidated basis based on existing loans
- AM Lodha:** In Meghmani Fine Chemical it is Rs 95 Crore?

- Raj Kumar Mehta:** No I am talking about the annual, standalone Rs 210 Crores in working capital and in term loan it is Rs 95 Crores as on June 30, 2017 and in Meghmani Fine Chemical working capital is around Rs 14 Crores we have utilized but now we have a surplus cash so you can say it will be nil limit utilization in Fine Chemicals but at the same time term loan is around Rs 43 Crores and Rs 91 Crores we will be paying back in current year out of existing loans.
- AM Lodha:** Overall you will be paying Rs 91 Crores?
- Raj Kumar Mehta:** Apart from that our utilization on working capital side will be lower. Because of that our interest rates cost will also be reduced to that extent.
- AM Lodha:** One last question Sir this GST, which came into the operations so do we had some destocking like situation in the month of June? Did you have any situations in any divisions of our company, destocking or loss offtake due to implementation of the GST?
- Kaushal Soparkar:** We did not face any problem.
- AM Lodha:** Everything was normal?
- Kaushal Soparkar:** Yes, absolutely.
- AM Lodha:** Thank you very much.
- Moderator:** Thank you. We will be taking a next question from the line of Jayesh Parekh from JMT Capital. Please go ahead.
- Jayesh Parekh:** From all discussions so far on concall it appears a very positive future outlook for next three years may be about Rs 2000 Crores revenue on top side. If you observe Q1 our cash generation is almost about Rs 65 Crores (PAT plus depreciation) since our outlook is very positive in terms of margins and topline can we maintain these kind of cash generation for Q2, Q3, Q4. If answer is yes, then can we say that the company, cash flow wise is moving in a very positive direction to generate about Rs 90 to 100 Crores kind of cash for next three years?
- Deval Soparkar:** Very detailed analysis Jayesh Bhai that is very true. In fact there will be a positive cash flow and we believe that any new project that comes in we can very well do it through internal cash accruals also. However, as a management we may take a call should we distribute that as part of dividend and do the project through debt because debt gets repaid. So we will take a call once the project starts stabilizing and since you bring a very valid point and there are questions about Rs 540 Crores of MFL investment. I would also like to pinpoint that Rs 540 Crore is a phase wise investment for MFL we will be paying every year Rs 60 to 80 Crores in MFL and raising more or less a same sort of a fresh debt. But one thing would be debt that we are paying off is of higher interest cost because it was earlier negotiated which is at about 10%-11%. The new debt that is coming in the company as of now is in a range between 8% and 8.5% kind of a thing, second

thing is that last year because of chlorine negative if we assume that even if there is zero rupees for chlorine the company would have saved Rs 42 Crores. So if we go by that number even if we do Rs 540 Crores expansion at one year it is justifiable. However, we also look at the promises that we have given to the investors and we believe that if we do the phase wise manner one project getting stabilized then the other project gets kick started, we believe that once Rs 540 Crore expansion in MFL is over the entire area of Meghmani FinChem Limited will be fully occupied, utilized and then it will become like a huge chemical conglomerate with the byproduct and the co-products flowing in and that will be also generating EBITDA if I do not sound too optimistic in the range of Rs 300 Crore plus.

Jayesh Parekh: I really appreciate the way younger generation in Meghmani is taking over and giving fantastic results. All the best to you.

Kaushal Soparkar: Thank you.

Moderator: Thank you. Our next question is from the line of Kavita Thomas from First Global Stock Broking. Please go ahead.

Kavita Thomas: Sir most of my questions have been answered but just lastly on this caustic potash. Sir in this quarter we have generated revenues of around Rs 20 Crores and overall the outlook was around Rs 125 Crore plus for the entire year so are we on track to achieve those numbers that we had guided for in the past?

Kaushal Soparkar: See in the past when we had given this Rs 125 Crore projection the KCL price which is the major raw material was on the higher side now the prices have soften so Rs 125 Crores may not be achievable number because the finished good prices have also come down subsequently. Second thing is that the caustic potash plant our customers are mainly agrochemical and pharmaceutical company and where in pharma company when they change any raw material from any supplier they go through very thorough validation process which takes from three months to nine months depending on their molecules and same for the agrochemicals. So at one side the potash plant runs continuously but the approval takes lot of time so we are getting approvals from various companies in phased manner. so we believe that by Q4 we will be able to achieve the capacity of 80% to 85%.

Kavita Thomas: Okay and this EBIT margin of around 20% could be maintained?

Kaushal Soparkar: Yes.

Kavita Thomas: Okay and next on this agro chemicals as Deval had mentioned the last two quarters were not that good but again from this quarter onwards the margins and overall numbers have improved for this segment. So as you had mentioned also the fact that second quarter is good for agrochemical are we likely to even atleast maintain these kind of margins for the next one quarter and what is

the outlook for the subsequent quarters, third and the fourth overall considering that monsoon will be normal for the year?

- Deval Soparkar:** I personally believe that this margin for agrochemical is sustainable for this year.
- Kavita Thomas:** Okay. So the margins that we have achieved in this quarter you feel could be maintained throughout the year?
- Kaushal Soparkar:** Yes.
- Deval Soparkar:** If there is any change we will definitely update the investors.
- Kavita Thomas:** Okay and just lastly on the debt part, we would be repaying around Rs 90 Crores of debt this year and the working capital utilizations also will be lower and plus over and above is this Rs. 540 capex that we plan. So overall how do we see the debt levels panning out by the end of the year and what kind of interest rates are we expecting?
- Raj Kumar Mehta:** When we put up the CMS project this year we will be raising a loan of around Rs 100 Crores and at the same time, we will be repaying around Rs 91 Crores – 92 Crores also our utilization of working capital will be less.
- Kavita Thomas:** Okay and even the interest rates would be quite low?
- Raj Kumar Mehta:** Yes we are negotiating at a very competitive level and as compared to last year, interest rate has softened it is around 8% to 8.5% as compared to 9% earlier.
- Kavita Thomas:** Okay and Sir lastly on the tax rates, what are the tax rates expected for the entire year?
- Raj Kumar Mehta:** We expect it to be around 28% to 30% for this year.
- Kavita Thomas:** Just one last question to squeeze in, the EBITDA margins have been quite strong this quarter because of agro doing well and pigment segments been almost stable?
- Raj Kumar Mehta:** Basic Chemicals has maintained EBITDA in range of 35% - 37%.
- Kavita Thomas:** Right, so overall EBITDA margin levels for the year how do we foresee it, is there a scope for expansion or atleast maintaining it at the levels what it was in FY2017?
- Raj Kumar Mehta:** We expect 22%.
- Kavita Thomas:** EBITDA margin?
- Raj Kumar Mehta:** Overall on consolidated level.

- Kavita Thomas:** Thank you so much Sir.
- Moderator:** Thank you. Our next question is from the line of Runjhun Jain from Nirmal Bang Securities. Please go ahead.
- Runjhun Jain:** Almost all the questions have been answered just one last question you have said the caustic potash, the sales potential has been reduced because the prices have come down so Sir what is the current sales potential we can expect from this plant and by when we can achieve by next year or in next two years?
- Kaushal Soparkar:** We anticipate that at the 85% to 95% capitalization we can clock turnover of Rs 100 Crores.
- Runjhun Jain:** And that we can expect by next year Sir?
- Kaushal Soparkar:** Yes.
- Runjhun Jain:** Thank you and best of luck.
- Moderator:** Thank you. Our next question is from the line of Naushad Chaudhary from Systematix Shares. Please go ahead.
- Naushad Chaudhary:** Thanks for the opportunity again. Few very quick questions, on the pigment business just wanted to understand the conversion ratio if you convert your CPC crude into pigment so for one ton of crude how much pigment can be generated?
- Darshan Patel:** It depend on the product, we have a various grade in blue and in the green also so it depends in which grade we are converting to.
- Naushad Chaudhary:** So let us talk about the blue pigment if I am converting into the beta 15.3 or 15.4, so how much crude would be required for one tonne?
- Darshan Patel:** That is what I am telling even in 15.3 we have different grades like we have a six to seven grade and conversion ratio is depending on the which grade we are manufacturing and same with the 15.4 we have four grades so exactly even I cannot give you the answer.
- Naushad Chaudhary:** Any range of percentage if you would?
- Darshan Patel:** See, start from 1 to 1.2, 1.15 it depends.
- Naushad Chaudhary:** Okay but it would be more or less more than one percent right?
- Darshan Patel:** Depends.

- Naushad Chaudhary:** And typically how much time it takes to acquire a new client in the pigment business Sir?
- Darshan Patel:** Pigment business mainly two months to three months time required.
- Deval Soparkar:** But also depends on the application because there are certain clients, let me give an example like some marine paint client takes a little longer time because the testing period is very long, paint client takes longer time, but ink clients can take a little lesser time than paint clients so the industry and the application in that particular industry also determines the time.
- Naushad Chaudhary:** Thank you. The last one on the affluent side Sir you have mentioned that you have done lot of capex on the affluent so if you can specifically mention that in the pigment business how much we have spent so far in last four five years. How much money we have spent on the pigment affluent and what is the capacity which we have right now?
- Darshan Patel:** Rs 25 Crores to 30 Crores we have invested for three different plants for the pigment.
- Naushad Chaudhary:** Okay and what would be the combined ETP capacity?
- Darshan Patel:** It is not related with the combined it depends on the plant, on the products and sizes.
- Naushad Chaudhary:** Thank you.
- Moderator:** Thank you. Next question is from the line of Sunil Kothari from Unique Investments. Please go ahead.
- Sunil Kothari:** Sir just wanted to understand strategy of this pigment division. We have increased our utilization from 59% to 79% and the optimum capacity utilization can be 80% - 83% and we have realized per tonne also but this policy has reduced our absolute EBITDA. So I am just not able to understand why our increasing utilization production and trying to supply better value product with better realization resulting in lower margin?
- Darshan Patel:** To capture the new customer, it is one time investment to enter into the customer we have to give them certain benefits that is why we have to reduce our margin. You can say that reduce our pricing but from the third quarter we can get the regular prices from those customer which we newly got.
- Sunil Kothari:** Okay so that will increase your margin because we do not have now further capacity to produce more so revenue will remain more or less similar whatever price increase we get that will be added to margin but this pigment division has now reached that optimum capacity utilization right?
- Darshan Patel:** But that way we will improve our EBITDA margin.

- Sunil Kothari:** Right so there is a scope for improving the margin?
- Darshan Patel:** Correct.
- Sunil Kothari:** So when you withdraw your benefits whatever you have given to the customer will it be acceptable by them because these are the long-term relationship so how it works?
- Darshan Patel:** That is what I told you that to capture the new customer we are giving them the pricing, then we will get the quarter wise order from those customer, it is a win-win situation from both the side.
- Sunil Kothari:** So but how will you be able to charge them higher in second or third quarter?
- Darshan Patel:** It depends on the product quality. Once the customer start to use our grade or any competitor grade then it is difficult to change the product line because in some products if they have to change their supplier means they have to change their own formulation also so it is very difficult to change the formulation and get the approval from the customer side. So once the customer will start then it is very difficult to change.
- Sunil Kothari:** Sir why I am asking again is will it be good relationship after a quarter if once for entering you reduce the price and then you increase the price how it will?
- Darshan Patel:** Yes, because we are getting 70% to 80% of orders from the regular customer whereas we are reducing price to capture the 20% customer so almost our business comes from the regular customer side.
- Sunil Kothari:** Any investments are we making in pigment division to increase capacity because we are almost reaching optimum capacity?
- Darshan Patel:** Right now we are thinking on two to three more products but we are checking the feasibility and once we are done with that then we will announce about the product and the capacity.
- Sunil Kothari:** Thank you very much Sir.
- Moderator:** Thank you. Our next question is from the line of Shaurin Parekh from JMP Capital. Please go ahead.
- Shaurin Parekh:** Actually most of the questions are answered but I would just like to ask you one simple question on the Rs 140 Crore expansion, the project will be implemented by Q2 of FY2019 right?
- Kaushal Soparkar:** Yes.
- Shaurin Parekh:** Rs 120 Crores of revenue at 100% capacity utilization we can expect in FY20?

- Kaushal Soparkar:** Yes.
- Shaurin Parekh:** Okay and just similarly for the Rs 400 Crores expansion on hydrogen peroxide and caustic soda expansion the implementation target currently would be by when Sir?
- Kaushal Soparkar:** The project activities will kick off probably post Diwali so you can say Q3 some time and thereafter we will finalize technology supplier and then we will go for a basic engineering and then detail engineering part for that.
- Shaurin Parekh:** Okay so probably Q3 of FY2019 would be right now currently we can look at the date right now?
- Kaushal Soparkar:** I am sorry.
- Shaurin Parekh:** So we can look at Q3 FY19 for the implementation?
- Kaushal Soparkar:** Implementation you mean to the start of the project?
- Shaurin Parekh:** Yes, I mean the commissioning of the product.
- Kaushal Soparkar:** Once we formally announce the technology supplier and all from that we consider zero date and from that it will take minimum 24 months.
- Shaurin Parekh:** That is all Sir and all the best for your future quarters.
- Moderator:** Thank you. The next question is from Jayesh Gandhi from Harshad Gandhi Securities. Please go ahead.
- Jayesh Gandhi:** There is only one fear that I have that currently pharma sector is undergoing trouble so what is our exposure to that directly or indirectly?
- Kaushal Soparkar:** Very minimal.
- Jayesh Gandhi:** Should I assume it below 5%?
- Kaushal Soparkar:** Very minimal I mean, you can take below 5%.
- Jayesh Gandhi:** Thank you, that is all from me.
- Moderator:** Thank you. The next question is from the line of Pratik Bora an individual investor. Please go ahead.
- Pratik Bora:** Sir my question is do we plan to reverse merge the unlisted subsidiary Meghmani Finechem into the listed parent or do we plan to list it separately in the future?

- Deval Soparkar:** We have not yet decided anything on that as of now.
- Pratik Bora:** So what is your rationale for having this corporate structure like wherein listed company holds 57% stake in unlisted, which have significant business and in addition promoters also hold direct stake in this unlisted company so what was the genesis which led to this structure?
- Deval Soparkar:** You have to go back to the history of 2008 when the idea of having the caustic chlorine plant was initiated, at that time the project was about Rs 650 Crore and the Indian bankers were not ready to finance the project completely so we had to have International Finance Corporation which is the World Bank's arm to give us equity as well as the loan after that the Indian banks came in. But World Bank never wanted the overall exposure of the agro and pigment business so we put that whole business in the subsidiary they also wanted promoter to show the confidence in the business so we also put in our own money and took the equity so that is how the whole structure came into place. Also at that time MOL had its own expansion plan as well so we decided that MOL cannot go beyond certain numbers in terms of investment and that is why 57:25 was decided by the world bank, 57% came through MOL and 18% which was a fall back to give confidence to IFC as well as to fill in the shortfall promoter took that 18% equity in the company. They all came at the same price and premium at that time also.
- Pratik Bora:** As of now the situation stands that there is a huge capex of around Rs 5.4 billion, planned in this subsidiary where the listed company holds 57% while IFC and promoters directly hold remaining 43% so the benefit would not accrue much to the listed company in the current structure and the other advantages of listing the subsidiary separately would be that this true value of the growth in the unlisted subsidiary will not get reflected and there will also be no tax cascading, passing on benefits into listed company and promoters and IFC, value would also enhance the exact would be few Crores in an efficient manner so that was the reason for checking with you Sir do you have any plans to align this structure now because now the situation has changed, 2008 situation was different and that was the need, but as of now do we plan to monetize this?
- Deval Soparkar:** Not as of now. So there is no thought right now. We are not discussing about it so I cannot give guidelines on that subject. But it is a good suggestion we have been internally or rather lot of people have been giving us this idea to discuss internally but I think we have not yet geared up to discuss this or take it forward.
- Pratik Bora:** But you are open, you are atleast open to this thought I mean you are not completely in disagreement as of now?
- Deval Soparkar:** No I think we are open, a lot of well wishers do give us these ideas and we are open but we have not yet given any thought.
- Pratik Bora:** Thanks a lot.

- Moderator:** Thank you. The next question is from the line of Ravi Malhotra an individual investor. Please go ahead.
- Ravi Malhotra:** My question is actually related to the previous query, so is it not beneficial for the listed company to have a clean corporate structure rather than have it in subsidiaries?
- Deval Soparkar:** As I said earlier also it is a good suggestion. We are also open for it but as I said though we know all the benefits and pluses of it we have not yet given any thought in this direction.
- Ravi Malhotra:** Okay so all this dealing between MOL and Meghmani Finechem this happens through arms length or is it capital interchangeable?
- Deval Soparkar:** No, it is not interchangeable, it is all transaction are at arm's length and we have to certify each and every transaction to IFC World Bank and give them a chartered accountant certification every quarter.
- Ravi Malhotra:** But you know you have to understand where actually as a shareholder I am coming from because what is happening is that all expansion is happening in the subsidiary and the only way a Meghmani Organics can get their cash is through the dividend. There is no other way. It comes in consolidated PAT for accounting purposes but if the capital is not there to be utilized by MOL the listed company, then that gives the corporate governance issue for a shareholder that all the growth, future expansion is coming in a subsidiary in which the listed company has in a way no say in the sense that except that 57% and which is actually promoter and other third party also hold a stake. So I think it would be beneficial if this action actually takes precedence over some other things.
- Deval Soparkar:** Sir I agree with you but as I still say that I am not the only decision maker and we have a board for that and as of now we have not yet decided anything on it. I completely agree with you that the cleaner structure is better but the way it has been structured a decade ago was with a different history and fundamentals now last three years it has shown that the subsidiaries doing good and the people are talking about it. If I go back three years the most not in a literal way, but most questions were also for this subsidiary when we raise Rs 600 Crores debt on the subsidiary level but we could managed to pay it successfully and this is why now it looks good and prominent. We have not decided to discuss about this but we will definitely pass on your message to the concerned management.
- Ravi Malhotra:** Okay all this growth is coming in the MFL, have you planned something for the listed standalone company as well in terms of expansion?
- Darshan Patel:** Yes actually we have planned two three projects for the pigment also and for the agrochemical also but as I said that we have not finalized the product right now because project is under feasibility study.

- Ravi Malhotra:** Okay so let us say by end financial year this year can we expect something on that front?
- Kaushal Soparkar:** Correct.
- Deval Soparkar:** Just to add you also have to understand that the three businesses work independently, no business is being stopped for growth because one business wants to grow. So when MFL has announced their own expansion plan it has not taken money from MOL or because MOL does not have a project we are doing expansion in MFL it is not like that. Three businesses have their independent financial channels.
- Ravi Malhotra:** Right. My actual worry is only on that that all this growth is happening in a subsidiary company where the shareholder of listed company can actually see the consolidated PAT coming on the books but it does not actually get those cash utilized for their own expansion other than what the dividend the subsidiary company pays out?
- Deval Soparkar:** True.
- Ravi Malhotra:** So then we need to take as a shareholder those things into account that all this growth is not happening in the main company only a part of it is in the consolidated for which the cash flows might now even flow in the main company?
- Deval Soparkar:** No I understand your concern and I cannot comment on the structure as of now but if you are talking about the growth of the company MOL any of the project has not been stopped because MFL wants to grow. MOL has identified couple of projects and we are actively evaluating this. We will announce it at a time when it goes through the board approval.
- Ravi Malhotra:** Just one last question, this is on the revenue projection that you are given you said that this year you are expecting Rs 1,600 Crore to Rs 1,700 Crore sale is that correct?
- Kaushal Soparkar:** Yes.
- Ravi Malhotra:** First quarter it was Rs 465 consolidated so this you are talking about the consolidated right, the numbers?
- Raj Kumar Mehta:** Numbers are consolidated, this year projections, we expect Rs 1,600 Crores on consolidated basis.
- Ravi Malhotra:** Okay so then we can then hypothetically assume that let us the average for the next three quarters would be about Rs 400-410 Crores and, we cannot extrapolate the first quarter it is seasonal right?
- Raj Kumar Mehta:** Yes, because the agrochemical revenue was higher it will be sustainable for next quarter but overall if you take the average it will be around Rs 400-415 Crores per quarter.

- Ravi Malhotra:** Thank you so much.
- Moderator:** Thank you. Next question is from the line of Pratik Choudhary an individual investor. Please go ahead.
- Pratik Choudhary:** Could you give some light on, the competitive landscape which has sort of intensified in the pigment space could you give more comments on that?
- Kaushal Soparkar:** Sorry can you come again.
- Pratik Choudhary:** You said that you had to take price reductions in the pigment business to get new customers so and you also just slightly mentioned about that to protect ourselves from the competition or increasing competition. We have had to do this so could you give some light on who are these players where is the increased competition coming from is it from India or is it from other countries if you could throw some light on that?
- Darshan Patel:** It is from both the export as well as the domestic side and as we increase our plant utilization so we are focusing on the specialized grade. So we are trying to capture that specialized market not the routine market and the domestic market is growing so we are more focusing on the domestic market also.
- Pratik Choudhary:** If you could give some specifics on the competition? I want to understand basically what is changing because this period saw almost an appreciation of 5% - 6% as compared to last quarter and despite that we have had to decrease prices you were saying?
- Darshan Patel:** Correct.
- Pratik Choudhary:** So what is really changing is it that a lot of small competitors are coming if you could get some light on that?
- Darshan Patel:** No it is not about the small competition but see if I put the numbers in Europe we have grew around 30% to 40% as compared to the last quarter, same with the domestic market we have increased 100 metric tonne sales as compared to the last quarter in finished pigment. So initially we were focusing on the CPC market for the domestic but now we are focusing more on the finished pigment side, so we are converting more into the finished pigment.
- Pratik Choudhary:** Your margin guidance is around 16% to 18%?
- Darshan Patel:** Correct.
- Pratik Choudhary:** Okay and last year FY17 how much it was?
- Darshan Patel:** It was 17%.

- Pratik Choudhary:** Okay. Thank you.
- Moderator:** Thank you. Our next question is from the line of Sunil Kothari from Unique Investments. Please go ahead.
- Sunil Kothari:** Yes, just one more, Sir broadly what we are saying is we will be doing around Rs 1,900 Crore next year and then Rs 2,200-2,300 Crores. So in this revenue projections, are our objective will be achieved just by adding Rs 140 Crore CMS project or are we counting anything else also?
- Raj Mehta:** Yes, around Rs 1,800 Crores to Rs 1,900 Crores in FY19 with incremental revenue coming from CMS Project.
- Sunil Kothari:** No but MFL just now somebody said, we will be finalizing the project by this year-end?
- Kaushal Soparkar:** Pigment and for the agrochemicals we will be finalizing by this year.
- Sunil Kothari:** Okay so what I am trying to understand is what type of capex other than our subsidiary we will be doing in standalone?
- Kaushal Soparkar:** For the new projects?
- Sunil Kothari:** What I am trying to understand is because what you said is this basic chemical our subsidiary will be implementing project in another 24 months after the decision has been taken right so it is almost away by two and half year so what is your take?
- Kaushal Soparkar:** That is caustic expansion, the chloromethane expansion will come in topline from next year onwards.
- Sunil Kothari:** But that is in our standalone company right?
- Kaushal Soparkar:** In subsidiary, but in the consolidated level it will merge with the numbers.
- Sunil Kothari:** So what I am trying to understand is this Rs 140 Crore Chloromethane project is it enough to make us achieve Rs 2200-2300 Crore in 2019-2020 or further more investment will be required?
- Kaushal Soparkar:** See what we are having right now that we invested a lot in higher capacities in last three to four years if you look at our old presentation, so we are pushing a better utilization we are creating the better product mix and also the expansions around debottlenecking will happen and that will push to the better topline.
- Sunil Kothari:** So no need to have further more than Rs 150 Crores investment at least in the current year and next year?

- Kaushal Soparkar:** Unless or until we finalize any other project we will announce that.
- Sunil Kothari:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen that was the last question I now hand the floor back to Mr. Kaushal Soparkar for closing comments. Over to you Sir!
- Kaushal Soparkar:** Thank you very much everyone for joining the conference call. If you have any questions you can always contact us through email. Thank you very much.
- Moderator:** Thank you very much Sir. Ladies and gentlemen on behalf of Meghmani Organics Limited that concludes this conference thank you for joining us you may now disconnect your lines.