



## “Meghmani Organics Limited Q2FY18 Earnings Conference Call”

**November 10, 2017**



**MANAGEMENT:** **MR. ANKIT PATEL -- CHIEF EXECUTIVE OFFICER,  
MEGHMANI ORGANICS LIMITED  
MR. DARSHAN PATEL -- CHIEF OPERATING OFFICER  
(PIGMENTS), MEGHMANI ORGANICS LIMITED  
MR. KAUSHAL SOPARKAR -- MANAGING DIRECTOR,  
MEGHMANI FINECHEM LIMITED  
MR. RAJ KUMAR MEHTA -- CHIEF FINANCIAL  
OFFICER, MEGHMANI ORGANICS LIMITED**

**MODERATOR:** **MS. NISHA KAKRAN -- FOUR S-SERVICES**

**Moderator:** Good Day, Ladies and Gentlemen, and Welcome to the Meghmani Organics Limited Q2 FY18 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 this 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, ma’am!

**Nisha Kakran:** Thank you. Good Evening, Everyone. On behalf of Four S-Services, we welcome all the participants to the Q2FY18 Conference Call of Meghmani Organics Limited.

Today on the Conference Call, we have Mr. Ankit Patel -- CEO, Meghmani Organics Limited; Mr. Darshan Patel -- COO (Pigments); Mr. Kaushal Soparkar -- MD, Meghmani Finechem Limited which is a subsidiary of Meghmani Organics; and Mr. Raj Kumar Mehta -- CFO, Meghmani Organics Limited.

I would now hand over the call to Ankit to take you through the financial highlights. Ankit, over to you!

**Ankit Patel:** Thank You Nisha. Good Evening Everyone and a very warm welcome to Q2FY18 Earnings Conference Call of Meghmani Organics. I will begin the call with the brief discussion about performance highlights, outline our growth outlook and then open the floor for questions.

We are happy to report robust performance during the quarter and the first-half of the year. All our businesses have delivered strong net sales growth with higher or stable profitability. Our return on capital employed as on September’17 has increased to 19.4%, up from 16.6% of March’17.

The first part of our Rs. 540 crores CAPEX in basic chemicals which is in the chloromethane plant of 40,000 tonnes per annum is progressing as per the plan and we expect to commission it around September, 2018.

The country is headed for a good rabi season despite below normal monsoon range. Thanks to a surge of rainfall in the last week of September which should make up for all the minuses ascribed to the kharif season.

Coming to the financials, consolidated net sales for the quarter 2 FY18 grew by 19% to Rs. 453.6 crores compared to Rs.382.1crores in Q2FY17 on the back of strong export market performance which was up by 25% followed by domestic market which grew by 13%.

EBITDA for the Q2 FY 18 increased 29% to Rs. 102.8 crores from Rs. 79.5 crores of Q2FY17 resulting in expansion of 186 bps in the EBITDA margin which is at 22.7%. Interest outflow in Q2 FY18 has declined by 24% to Rs.10.1crores compared to Rs. 13.3 crores in Q2FY17 on account of reduced debt. Profit after tax (net of minority interest) grew by 78% to reach Rs.44.8 crores from Rs.25.2crores in Q2FY17 taking PAT margin to 9.9% from 6.6% in Q2FY17.

Our consolidated net sales for H1 FY18 grew by 18% to reach Rs. 868.5crores on the back of strong export market performance which was up 26% and domestic market which grew by 10%. EBITDA for the period increased 26% to Rs. 194.0 crores, taking EBITDA margin to 22.3%, up 138 bps. Profit after tax grew by 76% to reach at Rs.77.6 crores, taking PAT margin to 8.9%, up 296 bps.

Looking at each segment's performance in detail.

Our Pigment business delivered net sales growth of 11% in the quarter to Rs.142.7 crores from Rs.128.1 crores, this was driven by robust growth of 39% in exports. Net sales in domestic market were down due to increased focus on higher margin exports. Volumes were up 32% at 4,039 metric tonne from 3,064 metric tonne while blended realizations were down. EBITDA increased 13% to Rs. 20.2 crores in the quarter led by higher net sales. EBITDA margin is stable at 14%. Utilization level has increased to 84% compared to 56% in Q2FY17 while production grew by 50%.

Net sales for H1FY18, grew by 11% to reach Rs.283.2 crores driven by again robust growth of 32% in exports whereas, net sales in domestic markets was down. Volumes were up 18% to 8,137 metric tonne while blended realization was down. EBITDA was steady at Rs. 42.4 crores in the period. EBITDA margin is at 15% and utilization level has increased to 82% while production grew by 42%.

Our agrochemicals net sales for the quarter showed robust growth, up 33% to reach Rs. 191.2 crores from Rs. 144.1 crores in Q2FY17, driven by robust growth of 26% in exports and 42% in domestic market. Volume witnessed 10% growth to reach at 5,463 metric tonnes coupled with significantly higher realization on account of increased sales of higher margin products. EBITDA increased 64% to reach Rs.37.7 crores from Rs.23.0 crores on account of higher realization on products, taking EBITDA margin to 20% from 16%. Utilization level increased to 78% from 55% while production was up 43%.

Net sales for H1FY18 grew by 25% to reach at Rs.345.9 crores driven by robust growth of 29% in exports and 20% in domestic market. Volumes were up 8% at 9,915 metric tonne coupled with strong growth in blended realization. EBITDA for the period grew by 103% at

Rs.62.3 crores in the period. EBITDA margin is at 18% now. Utilization level have increased to 78% while production grew by 20%.

Our basic chemicals net sales grew 27% yoy to Rs.127.1 crores from Rs. 100.0 crores driven by a strong growth in dispatches and higher realization. EBITDA was up 48% yoy to reach at Rs.48.7crores from Rs.32.9 crores. EBITDA margin was at 38% and utilization level was marginally up at 84%. Our caustic potash plant is ramping-up as per plan.

Going forward we believe growth momentum across all our businesses: pigment, agrochemicals and basic chemicals will continue with increasing demand on both the domestic and export front. We look forward to the second-half of the year with optimism and expect to end the year with similar growth and margins.

So with this, I come to the end of my comments. I would like to thank everyone 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, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We have the first question from the line of Uttam Shrimal from Fortune Financial. Please go ahead.

**Uttam Shrimal:** Sir, my question is related to your agrochemicals division. Last year this division was doing around 10% or 12% kind of margin, this time you have clocked in some 20% margin in agrochemical division.

**Ankit Patel:** Yes.

**Uttam Shrimal:** So I just want to know, whether it will be maintained throughout the year?

**Ankit Patel:** Let me give you brief idea about the last year. Last year the global market was not doing so good, certain markets the demand was very low, and the supply was very high. Because of higher supply and less demand, margins globally were under a lot of pressure for the product which we cater. Fortunately, now the global market has started doing well, some of the markets where we cater the demand has started picking-up. At the same time, China is facing a lot of pollution related issues and because of that the supply is also under constraint. Looking at both the reasons, keep in the mind margins have increased and what I feel that if demand is there in the coming days then there will not be any issue to maintain such kind of margins. So we expect to have about 17%- 18% margin in coming days for the agrochemicals division.

**Uttam Shrimal:** Okay. And sir, my second question is in all three division your capacity utilization is around 80%.

- Ankit Patel:** That is correct.
- Uttam Shrimal:** Okay. So sir, in future how do you plan to ramp-up in this?
- Ankit Patel:** For the basic chemicals division we already have announced our capacity expansion plan four - five months earlier only, for other divisions, we are working on the expansion plan as well and once the finalization takes place we will be announcing some other projects.
- Uttam Shrimal:** Okay. And sir, last one, what would be our debt repayment schedule with regard to that, if you can give some light on that?
- Raj Kumar Mehta:** Yes by end of this year we will be repaying around Rs. 90 crores.
- Uttam Shrimal:** Rs. 90 crores?
- Raj Kumar Mehta:** So our debt will reduce by that, but at the same time for our expansion of CMS, we will be availing the loan also. Even after availing loan for expansion, our Debt/Equity ratio will be sub 1, which shows healthy financial position.
- Moderator:** Thank you. Next question is from the line of Jayesh Parekh from JMP Capital. Please go ahead.
- Jayesh Parekh:** This excellent set of number of course is due to the capability of management, production, quality, improvement and all. But one thing, you will agree with me that in H1 globally the chemical prices have shot up whether that is basic chemical or agrochemical there is a sharp increase in price including caustic related product. And that has helped you in substantial reduction in raw material percentage which has gone down from 58% to 53% mainly because of increase in prices of the finished goods. My question is, if this kind of price are sustainable, number one? Number two, what happens if China re-enter the supply chain?
- Ankit Patel:** You are absolutely correct that in H1 this year the raw material prices have gone up and fortunately due to vigilantes of ours we are able to pass on this kind of increase in raw material with the higher margin in our final product. So far we have been able to increase our margin with a rise in the raw material price. Now in coming days, this is continuous mode because of the China factor. So we will try to maintain the similar margin. Now, we do not know up to what level the market will absorb this kind of pricing. But as you mentioned about China's situation whether it will come to the normal level or not, now from supply point of view companies which will have a proper environment related infrastructure, proper affluent treatment facility, those companies will only able to run their plant at proper capacity. They will also have to treat that affluent and to have a proper system, which will have a cost to that. So because of both these factors they also need to increase their price. So this will give

advantage to the Indian manufacturing industry, now we will be able to compete with the Chinese companies. Earlier they were not running their plant properly and they were bypassing such kind of things because of which they were able to supply the products at lower price. But in future we feel that this will not happen. So overall, for Indian chemical industry this is a good news.

**Jayesh Parekh:** Okay. And you feel that this higher price of finished goods is sustainable for at least next four quarters from now?

**Ankit Patel:** For the agrochemical we were not doing good for last two years, the prices compared to the previous years went down to very much low level. I would say this year it has come to the reasonable level. I would not say that they have increased drastically. Looking at this situation I feel these numbers and these prices are sustainable.

**Jayesh Parekh:** Okay. And the last is that there is an increase in crude oil price and it is expected that crude might go up a little more, couple of our raw materials are crude base. So, do you think that this will have some impact on our margins going forward?

**Ankit Patel:** You are absolutely correct. Currently the market is very much uncertain. Every day there is a rise in the different kind of raw materials, solvents which are dependent on crude oil. But we keep our vigilance and we try to track the market in such a way that we inform our customer that the prices are going up continuously and we are not entering into any long-term prices contracts because of this situation only. So that whenever there is an increase in the input cost within a short period, we tried to pass it on to our customers.

**Moderator:** Thank you. We move to the next question from the line of Naushad Chaudhary from Systematix. Please go ahead.

**Naushad Chaudhary:** On the pigment business side, sir, we have seen the volume dispatch growth of around 32% parallally there is 15% decline in the realizations. So help us understand that part. And second thing our utilization in this pigment have gone up from 54% to 84% and despite this higher utilization our margins remain same at around 14%. I am referring to slide number 6 of the Presentation. Sir, help us understand that part also.

**Darshan Patel:** Yes, you are correct that we have increased our plant utilization. But on the other side, to capture the market in domestic as well as in the export, in some of our commodity product we need to reduce our margins to capture the new customers enabling us to increase our market share. That is why you can see that value wise it has declined.

**Naushad Chaudhary:** Okay. But the higher realization has not reflected in the margin, is that because of the price reduction we have taken?

- Darshan Patel:** Because of the higher plant utilization, we can absorb the other overheads like the utility cost which was increased due to increase in coal prices.
- Naushad Chaudhary:** Okay. And can you share your CPC crude and the finish pigment mix?
- Darshan Patel:** Mainly we are focusing on the finished pigments side and as compared to last H1 we have increased our finished pigment sales by 45% in terms of quantity and in terms of value we have increased by 35%.
- Moderator:** Thank you. The next question is from the line of Mehul Seth from Phillip Capital. Please go ahead.
- Mehul Seth:** My question is related to pigment segment only. Although you have indicated that your product mix has changed in pigment segment. So going ahead this kind of product mix will remain there or you will focus on more profitable products on a pigment side?
- Darshan Patel:** We have both markets. On the other side, we have got the approvals from our customer on the higher value product which will reflect from quarter three and quarter four of current year.
- Mehul Seth:** Okay. So going ahead what kind of margin you are expecting in pigment segment like in H1 you have done something like 15%, so going ahead this high realization product will improve your margin?
- Darshan Patel:** It will remain same, between 15% and 18% as the raw material pricing is increasing drastically and we have to find out how much customer can absorb this level. So as of now, I can say it will remain same, 15% to 18%.
- Mehul Seth:** And second on agrochemicals side, how are you seeing global agrochemical market is growing like you are seeing a demand coming back and all, but how do you see a scenario from India side in terms of competition, means there are multiple player who must be targeting this opportunity. So what is your position in this?
- Ankit Patel:** The thing is global market for the agrochemical is increasing at a very good rate of about 5% to 6% which is a good growth. In India if you talk about the technical manufacturers then there are hardly 25 technical manufacturing companies. So competition point of view in this 25 to 30 companies, not all the companies are having a big product basket range and they are not even backward integrated. When you look at Meghmani we are very much backward integrated and we got big product basket range with a huge capacity. So compared to other Indian companies, we have got good advantage and we can cater to the global customer with this in a better way compared to other Indian companies.

- Mehul Seth:** Okay. Sir, one more question on your chloromethane project, you are doing CAPEX of something like Rs 1.4 billion in it. So what is the current status right now, means where exactly that project has reached? Means how much you have spent out of this Rs. 140 crores?
- Kaushal Soparkar:** See, project cost is actually Rs.140 crores and out of that we have spent around Rs.30 crores. Project is under early stage of construction, we believe that plant will commission somewhere around September, October of next year.
- Mehul Seth:** Okay. And sir, one more question on hydrogen peroxide and your caustic soda expansion. So where this project has reached, is it still on table or you have started spending on it?
- Kaushal Soparkar:** No, we have not spent any money on that. We are about to finalize the technology in this month thereafter engineering work will start on the project.
- Mehul Seth:** And sir, one clarification you are saying this chloromethane plant will get ready by September of 2018?
- Kaushal Soparkar:** Yes.
- Moderator:** Thank you. The next question is from the line of Siddhartha Grover from Equirus PMS.
- Siddhartha Grover:** So sir, my questions are regarding caustic soda. So, what was average realization for us during this quarter?
- Kaushal Soparkar:** See, average realization this quarter we have achieved 38% from the EBITDA point of view, are you asking from the ECU point of view?
- Siddhartha Grover:** From the ECU point of view.
- Kaushal Soparkar:** ECU was approximately Rs 32,000 in this quarter.
- Siddhartha Grover:** Okay. So sir, what is causing the prices to be so high?
- Kaushal Soparkar:** See, there are a lot of global things that have happened, like post Hurricane Harvey in U.S. many plants were affected and in Europe by end of this year they have to close down the mercury cell operation of chlor-alkali plant. So because of that 10% to 12% of entire Europe capacity will go off the production and that has created a lot of imbalance in the demand and supply plus alumina sector globally is doing very well that has pushed high realization of the caustic soda.



- Siddhartha Grover:** Okay. And sir, basically is there any capacity in the industry itself coming up in the next year may be?
- Kaushal Soparkar:** I am sorry.
- Siddhartha Grover:** Sir, your capacity is coming up by June 2019, if I am not wrong of caustic soda.
- Kaushal Soparkar:** Yes.
- Siddhartha Grover:** What about the industry, sir in general?
- Kaushal Soparkar:** So far we are not aware if anyone is coming up with additional capacity.
- Siddhartha Grover:** Okay. Sir, can caustic soda be imported?
- Kaushal Soparkar:** Yes. India is importing already.
- Siddhartha Grover:** So, sir, basically what are the realizations for those international players when they import in India?
- Kaushal Soparkar:** It is at par with the Indian pricing, not much gap.
- Siddhartha Grover:** And sir, these prices basically are sustainable for next one year or two years? Or are they expected to increase further?
- Kaushal Soparkar:** No, that is too far fetch. Right now, we feel that this price is sustainable for this quarter and may be some extent to the next quarter.
- Moderator:** Thank you. The next question is from the line of Ravi Nagda, who is an Individual Investor. Please go ahead.
- Ravi Nagda:** Sir, what is the capacity utilization of caustic potash plant.
- Kaushal Soparkar:** Caustic potash plant is now operating at approximately 75% of the capacity.
- Ravi Nagda:** And sir, you have a chloromethane plant what EBITDA will it generate, sir?
- Kaushal Soparkar:** EBITDA margin will be approximately 20% to 22%.
- Moderator:** Thank you. Next question is from the line of Pratik Bohra, who is an Individual Investor. Please go ahead.

- Pratik Bohra:** Sir, our EBITDA margin across three segments is at highest level, beside raw material prices have also started to increase. So accordingly, how do we see our EBITDA margins playing out for FY18 and FY19?
- Ankit Patel:** See, as we mentioned that so far we have been able to pass on the price increase of raw material to our customer and still the raw material prices of different level is increasing because of the crude price going up and China factors. So looking at all this factors we always pass on the cost increase to our customer and we do not take any long-term contracts. So we do not face any problem. So we feel that for FY18 these margins are sustainable. But for FY19, it is too early to discuss about the margins because we are also dependent on the Chinese market and crude petro factor, so that we will come to know only in the next quarter what is going to be impacting FY19.
- Pratik Bohra:** Okay. So, we can safely conclude that PAT margins can sustain at 9% levels for at least this year?
- Ankit Patel:** Yes, we hope so.
- Pratik Bohra:** Okay. And sir, one more question on the revenue side, so for FY19 we will add what around Rs.125 crores revenue from the upcoming projects for the full year FY19?
- Ankit Patel:** When we run our chloromethane plant at full capacity for the full year that will generate Rs. 125 crores of revenue. But as we mentioned chloromethane plant is going to commission anywhere in the month of September or October of next year. So we will not have the full year, we will have only half year. And initially there will be some teething trouble. So we will not have in FY19, Rs. 125 crores of revenue. But in FY20, we are hopeful that we will have Rs. 125 crores of revenue.
- Pratik Bohra:** Okay. So basically then our FY19 revenue will be in the ball park range of Rs. 1,800 to Rs. 1,900 somewhere?
- Ankit Patel:** See, if you just add the chloromethane then yes, but other divisions like pigment and agrochemical will also grow 15% to 20%. So we expect that the revenue for FY19 should be about Rs.2,000 crores.
- Moderator:** Thank you. Next question is from the line of Abhilasha Satale from Crest Capital. Please go ahead.
- Abhilasha Satale:** Sir, I just wanted to know that your CAPEX of around Rs. 540 crores, how is it financed? How will it be spread over three years and what will be the additional revenues generation from

each project at the different stage, say for this chloromethane how much like we are expecting in the first year?

**Kaushal Soparkar:** See, for chloromethane the CAPEX will be Rs. 140 crores and the project will come onstream somewhere around September and October of next year. As we just mentioned that next year we will at the beginning of the plant will not have the Rs.125 crores top-line which we are anticipating from the full year of operation. So that will come in FY20 other than that chlor-alkali project and the hydrogen peroxide will commission two years from now, so may be by September 2019 those two projects will come online and that will add additional Rs. 300 crores top-line into Meghmani Finechem Limited, for that we are having internal accrual as well as we will take some debt in the due course.

**Abhilasha Satale:** And how is this CAPEX like divided over three years? This year we have already spent Rs.30 crores, so how much will spend be in the second-half and FY19 and FY20, how our CAPEX would go?

**Kaushal Soparkar:** See, some of this finance will also be utilized for the upcoming project because as we are doing pretty well in chlor-alkali, so we are not in rush to take additional finance for the new project. So probably in the quarter three or quarter four we will have a better picture of additional requirement of the debt.

**Ankit Patel:** But just to give you the idea, this Rs. 540 crores expansion will be divided in next three years. So it will be at some point there will be a little pick otherwise it will be equally divided.

**Moderator:** Thank you. The next question is from the line of Somnath Paul, who is an Individual Investor. Please go ahead.

**Somnath Paul:** Sir, it has been heard that we are expanding our 2, 4-D in the agrochem section from 1000 tonnes to 2,000 tonnes . Could you please help us understand, if this is right? And if yes, when should it come on-stream?

**Ankit Patel:** See, 2, 4-D expansion officially we have not announced so far. But globally the demand for 2, 4-D has increased a lot and now our plant is running at quite good capacity. So we are working on it and we will be announcing the project very soon. So far we have not started any expansion of 2, 4-D.

**Somnath Paul:** All right. And also about the R&D lab which we were supposed to commission, I get a understanding that it is already commissioned, so what are the kind of benefits we have started accruing from that particular lab?

- Ankit Patel:** We are already having the R&D lab since many years and that lab is DSIR - Department of Science and Industrial Research approved. So that is already there since many years.
- Somnath Paul:** Okay. And sir, the last question a couple of years back management had come on interview and they had mentioned that there is about 2.7 million square feet of prime land located near our Chharodi plant, so any particular plans to monetize that now that the rates are on upward trend?
- Ankit Patel:** See, the Chharodi land is as it is. We have R&D facility at the Chharodi which was our old agrochemical plant and when we shifted our agrochemical plant from that location to Dahej, after that we are just running our R&D facility because that is a non-chemical zone and we are a chemical company. So, so far we do not have any non-chemical project on hand. So we cannot do any chemical project over there.
- Somnath Paul:** No, I mean the understanding was on the lines that either we plan to monetize it now that the rates are on upward trend or otherwise?
- Ankit Patel:** For the time being we have not decided to monetize this. We are keeping the land as it is.
- Moderator:** Thank you. We move to the next question from the line of Naushad Chaudhary from Systematix. Please go ahead.
- Naushad Chaudhary:** Again on the pigment business, sir as we have reached around 80% - 85% utilization, is there any CAPEX plan for this division, sir?
- Darshan Patel:** Yes, we have two-three projects for the pigment in pipeline but once we finalize and once we get the approval from the board of directors, we will announce the project name as well as the product name.
- Naushad Chaudhary:** So would it be similar product range or you are planning to get into some different pigments?
- Darshan Patel:** The similar as well as the different segment. The project is under feasibility and in finance analysis also.
- Naushad Chaudhary:** Any rough number how much CAPEX we can plan for this division?
- Darshan Patel:** Right now we have not calculated because the report is under feasibility checking. So we do not get any proper number right now. I would say, it is too early to discuss about the projects for the agrochemicals as well as for the pigment. Once, we announce the project, we will come up with the detailed financial numbers about investment as well as the revenue point of view, so some of the projects are under evaluation and we hopefully will be announcing very soon.

- Naushad Chaudhary:** Okay. And the last one sir, about this growth of 32% so what was the major driver for this growth and do you see this kind of growth would continue in this pigment business?
- Darshan Patel:** Yes, it will remain present and the drivers for this are mainly higher capacity utilization and new customer addition in the export segment.
- Naushad Chaudhary:** So this was largely from international market?
- Darshan Patel:** It is international as well as domestic both the sides but the volume is higher in the export market.
- Naushad Chaudhary:** What was the mix domestic and export?
- Darshan Patel:** 75:25 ratio.
- Moderator:** Thank you. The next question is from the line of Ravi Kishore, who is an Individual Investor. Please go ahead.
- Ravi Kishore:** I have a question that, 52% of the revenue comes from exports. So what is the hedging policy like how do we hedge it because of currency fluctuations?
- Ankit Patel:** It is very pertinent to hedge the currency. So we have a very standard policy for hedging of the dollar. Whatever we have a net open exposure, we book nearly 50% of it and we keep nearly 50% open.
- Raj Kumar Mehta:** We are reviewing regularly.
- Ankit Patel:** And we do not do it for a very long period, once we sell the product and once we have the idea that we are going to realize let us say in the month of January, February, March, based on that only we book forward contract to mitigate the forex risk. So we keep 50% open and 50% hedged.
- Ravi Kishore:** I have one more question regarding the debt equity like we were having debt-equity of 1.6x and now it is 0.6x. So like do you have a standard policy like management is trying to bring it down or at what level we are comfortable in?
- Ankit Patel:** See, we are growth oriented company. At a consolidated level, we generate more than Rs. 300 crores of EBITDA. This is very significant number and to have a continued growth, we need to take debt. But with the current balance sheet and current financial numbers, we are very comfortable taking any new project debt.

- Raj Kumar Mehta:** The debt equity ratio will be within 1. It will be less than 1, which is comparable to our peers in the market even better.
- Ravi Kishore:** Yes. And one more last question, sir, from my end. Can you please throw some light on customer concentration like say for example, a customer who holds 10% of our revenue.
- Ankit Patel:** As a company, as you mentioned, we do 52% of export, balance is the domestic. In domestic majority of the revenue comes from the basic chemicals division. So basic chemical is quite scattered and when you talk about exports, we export to more than 75 countries to more than 450 customers. So I would say, we are quite scattered but yes, with some of the big customers we have got about 10% to 15% of revenue share but I would say that is not very risky it is quite scattered.
- Ravi Kishore:** We are going for a capacity expansion, so is this in discussion with the client's and customers or did we forecast the demand and then we are going for a capacity expansion?
- Ankit Patel:** You are talking about basic chemical or the agro or pigment division?
- Ravi Kishore:** Yes, basic chemicals.
- Ankit Patel:** Basic chemicals, we have already announced the expansion because now we are running our plant at very much capacity. And we are in the chemical zone in Dahej area where majority of the customers are available, and the new chemical industries are also coming in the same industrial area. We are looking at all the scenario, we feel that there is a robust growth coming in the same area and if we expand, we will be able to that industrial area only. So we are going to expand in basic chemical division.
- Kaushal Soparkar:** Secondly, the caustic soda is a basic building block for any chemical industry, demand will always be there.
- Moderator:** Thank you. The next question is from the line of Minaz Vora from ValueQuest. Please go ahead.
- Minaz Vora:** My question is on the caustic soda side. Sir, as we know that negative thing in the caustic industry is the negative realization of chlorine. But as you mentioned that aluminium is seeing a good traction for which chlorine is used. Are you seeing any positive impact in the chlorine prices?
- Kaushal Soparkar:** The chlorine prices have improved. But alumina sectors consume a lot of caustic not chlorine.
- Minaz Vora:** Right. Okay, so chlorine realization does not see any impact because of rise in aluminium?

- Kaushal Soparkar:** The chlorine price is still negative, but it has improved compared to previous quarter. But caustic prices are doing really well. So that has helped us to maintain this profitability.
- Minaz Vora:** So what are the factors that have led to the improvement in chlorine prices?
- Kaushal Soparkar:** See, the chlorine usage has gone up. The industries which consume chlorine their capacities were running at a good level that has helped to strengthen the chlorine pricing basically.
- Minaz Vora:** Which specific industries are you talking about?
- Kaushal Soparkar:** Globally chlorine is consumed in vinyl chain approximately 45% to 50% while in India it is only 10%. In India chlorine consumption is made across all the small to mid-sized industries and all have done pretty well in last quarter.
- Minaz Vora:** Okay. So you are seeing some improvement in the realizations but it is still negative?
- Kaushal Soparkar:** Yes, it is still negative but compared to quarter-to-quarter it has improved significantly and also the caustic prices have done really well. So that has helped to absorb the negative price of chlorine.
- Minaz Vora:** Okay, all right. And one more question is, is the entire output of chlorine offloaded, it comes out in a ratio? 1:1.08. how much of the produced chlorine, are we able to offload or do we dispose it at even more negative number?
- Kaushal Soparkar:** No. See, for one caustic you get 0.866 chlorine that is a fixed ratio and it is a continuous plant. So to maintain the operation level at 85% we have to offload chlorine in the market which we are able to do it. Our ECU on quarter-to-quarter basis has gone up so our EBITDA margin also.
- Minaz Vora:** If you could give the number for chlorine realization currently per kg?
- Kaushal Soparkar:** In the last quarter it was around negative Rs. 2 approximately per kg.
- Minaz Vora:** Okay. And how much was it in the last quarter?
- Kaushal Soparkar:** In the Q1?
- Minaz Vora:** Yes.
- Kaushal Soparkar:** It was almost Rs. (-6) to Rs. (-7).

- Moderator:** Thank you. The next question is from the line of Ravindra Shetty, who is an Individual Investor. Please go ahead.
- Ravindra Shetty:** Good to know till now we have maintained good CAGR in both bottom-lines as well as top-lines. So my question is what is your forecast for another two years - three years going ahead?
- Ankit Patel:** See, for two - three years it is very difficult to talk about. But for this year we are very much hopeful that we will be able to maintain this kind of EBITDA margin and typically if we talk about all the three segments, basic chemical division generates EBITDA margin of nearly 32% to 35% that is the standard EBITDA margin. In agrochemical we expect to generate in coming days EBITDA margin of nearly 17% to 18%. And in pigment division also we expect to generate EBITDA margin of about 16% - 17%. So overall, put together at a consolidated level, we feel that we should be able to maintain minimum EBITDA margin of 20%. We will try to have a better EBITDA margin, but we feel that at least 20% EBITDA we should be able to maintain in coming years.
- Moderator:** Thank you. Next question is from the line of Anubhav Sahu from MC Research. Please go ahead.
- Anubhav Sahu:** Sir, recently we got some news from China that there is a further cut down in capacity, is it impacting our industry as far as pigment is concerned and how do you see the closer cycle of pigment dyes industry so to say in China, if the most of that part is already done as per you
- Ankit Patel:** I am sorry, just to understand your question, you want to understand what the situation of pigment industry in China is?
- Anubhav Sahu:** Exactly.
- Darshan Patel:** Actually in our business, the China market is totally different and Indian market is totally different particularly I am talking about Phthalocyanine side, quality is totally different. So we do not find any competition from China.
- Anubhav Sahu:** So all the three set of pigments in which our company is, any kind of supply issue will not see impacting much of the pricing side?
- Darshan Patel:** Actually in our industry Indian supplier is stronger than Chinese supplier for the set of pigment which MOL is in.
- Anubhav Sahu:** And sir export to China all three set of pigments?
- Darshan Patel:** Yes, we do.



- Anubhav Sahu:** Okay. And sir, the kind of huge change in the capacity utilization. So I think its substantial part is coming from export. So where do you see major traction coming from which geographic area?
- Darshan Patel:** So globally we are having 8% to 10% market in pigments, so it is not about particularly from one continent, we have grown in each continent.
- Anubhav Sahu:** Last question regarding the contracts, you said now-a-days you are going for a shorter cycle of contract. So earlier it use to be kind of annual thing and now it is quarterly is it right assumption, now?
- Darshan Patel:** Generally, in export market we do quarterly basis pricing, not annually.
- Anubhav Sahu:** Okay. But the period has further reduced because of the pricing fluctuation?
- Darshan Patel:** That is correct because now we also inform to our customers that there are a lot of uncertainties from the raw material point of view. So they also understand the global situation, we try to reduce this from three months to one and half month kind of contract and while taking the orders we always mention that if any abrupt change in the raw material price or any utility related issues then we will have to pass on to you. And they also understand this that if any abrupt change is there in raw material price then they absorb it, so which is good sign.
- Anubhav Sahu:** Yes, sir regarding the supply side curtailment I mean the issue which was emerging because of Harvey Hurricane thing, there is also bit supply curtailment because of that. So in this quarter it has already normalized, or is it still some way to go?
- Kaushal Soparkar:** See, one issue is Hurricane Harvey as well as at the same time the prices of crude oil is going up. We are dependent on the crude oil. So down the line, chain of all the chemical prices is also increasing. So keeping all these factors in mind we always try to inform our customers that the prices are going up. At the same time, we also tried to control our raw material supply where we keep the eye on the supplies and we try to enter into contract and try to secure our supply so that we can cater to our final customer.
- Moderator:** Thank you. The next question is from the line of Sunil Kothari from Unique Investments Consultancy. Please go ahead.
- Sunil Kothari:** Sir, my question is regarding our raw materials, how secured we are in terms of sourcing? Are we dependent on China or what is the trend in raw material prices? You rightly said in so many answers that prices are so volatile that you cannot assure about anything to your customer or your investor also. So in this type of volatile situation how we are thinking and what is your

understanding about future change is this structural change or cyclical change how we will be proceeding it?

**Ankit Patel:**

You are absolutely correct that now-a-days situation is very much uncertain from the raw material point of view. For majority of our products wherever we have a volume we are very much backward integrated. So from intermediate point of view the companies which make the product from the intermediate level they need to be dependent on some other suppliers, be it China or be it India. We are very much backward-integrated for majority of our product so that is not the case. So only the basic chemicals which we need to buy which, looking at the global scenario, is volatile. But we keep the track of it and as I mentioned, we are not entering into any long-term contract for our final product so whatever price is there for the raw material we are able to pass on within a short period within one month to our customer at the same time from the supply point of view because we are into this business of pigments, agrochemicals since many years we have built the relationship with the suppliers and our payment cycle is very good. So we have a very good relationship for majority of our raw material with our suppliers. So we do not face any supplier related issues.

**Sunil Kothari:**

And sir, you see this situation to dramatically change, or you feel there is a very limited scope now for any major reduction in prices of finished product because now you are increasing your exports substantially both the segments are doing really well – pigment and agrochemical. So global market also now absorbing our additional volume and we are seeing growth from international market. So you feel there is now change in the supplied global market from some country like China not able to provide or they are not at a price they are selling.

**Ankit Patel:**

That is correct because now a days China is facing tremendous problem as far as the environment is concerned. Even they solve their environment related issues the cost will not come down to the earlier level. Because they have to run their plant with the minimum cost of affluent treatment and all which will add in their costing. So in future whenever they will come back to the normal level which we do not see in near future but let us say after two years' time if they come back with the proper supply then also they will have a huge cost to it. This will help the Indian companies to compete against China. Globally every company or all the customers they have understood the Chinese situation. Earlier they were very much dependent on China, now they have understood they need to divide the risk and they also need to have other suppliers from the Indian market, which is diverting them from China to Indian market. A lot of opportunities are coming for the Indian manufacturers.

**Sunil Kothari:**

And sir, my last question is on pigments. How you see those prices quarter-on-quarter any now deceleration has stabilized or how you see because pigment is a very different segment of our three businesses. Volume we are increasing but realization we are going down. So how you think about pigment segment?

- Darshan Patel:** We will get the benefit from the customer but in pigment it will reflect in next quarter because the quarterly pricing. Suppose this quarter we have already given the price but the increase in the raw material price for this quarter we have to absorb. And we will pass this absorbed level into the next quarter. So it will reflect in the next quarter for selling price.
- Sunil Kothari:** Because for next year sir we are giving two guidance – one is agrochemical and pigment growing at 15% - 20%, so with this much high capacity utilization, I do not think you will be able to generate major volume growth, so that will be what product mix difference or higher prices, what is your thought process?
- Darshan Patel:** See, it will be both. As we mentioned that we are working on some projects. We also realize that we have reached capacity utilization of about 80%. So for the future growth we need to either have a price increase or we need to increase our brand business where we can purchase some of the product from the market and sell in the brand. Or we need to expand our capacity. So we are keeping all these factors in mind and for that, growth purpose of agro and pigment, we will be announcing some projects very soon which will help in the future growth.
- Sunil Kothari:** Right. But sir, for next year you are sure about with existing ability, we can grow 15% - 20% pigment and agrochemical?
- Darshan Patel:** Yes. See, we also do some small-small debottleneck changes in the plant. It also helps in increasing the capacity, so that is ongoing process which will also help in increasing the production capacity and which will help in increasing the sales.
- Moderator:** Thank you. Next question is from the line of Mehul Seth from PhillipCapital. Please go ahead.
- Mehul Seth:** Out of this caustic soda Rs. 127 crores sales can you split between your KOH operation and caustic soda?
- Kaushal Soparkar:** For the quarter or for the half year?
- Mehul Seth:** For the quarter and as well as half year.
- Kaushal Soparkar:** Yes. For the quarter out of Rs. 127 crores the NaOH has done approximately Rs. 100 crores and Rs. 27 crores has gone to KOH.
- Mehul Seth:** Okay. And sir, one question on chloromethane plant in Annual Report you were mentioning like to commission plant by March '18 but now it is almost seems like a six months delays so what will be the reason for that?

- Kaushal Soparkar:** Yes, earlier probably when we announced the project we have mentioned March'18 but because huge CAPEX is involved, and the detail engineering takes a lot of time when we do such kind of project as we have to take care of a lot of things on the engineering and also the safety point of view when we are doing in chemical complex. So that takes a lot of time and that is the reason the project will be commissioned now somewhere September or October of 2018.
- Mehul Seth:** Okay. Sir, say for first five month of operation means in FY19, how much utilization you are expecting to reach and what will be the realization that you are seeing in the market for chloromethane products?
- Kaushal Soparkar:** See for chloromethane the major raw materials are methanol and chlorine, chlorine coming captively but we cannot for say what will the methanol pricing so realization we cannot comment at this moment. It is too early. As far as the capacity utilization is concerned, we believe that it should run, at its peak from day one. However in reality does not happen when you commission any chemical project. Gradually the plan will take pace once the commission goes successfully. But I think, I will be able to give better picture once the plant is commissioned.
- Mehul Seth:** Yes, the question was asked because do you have any specific client that you are targeting which are ready to take chloromethane from you or not, means you have a ready client base or not?
- Kaushal Soparkar:** Yes, we have ready client base for that.
- Mehul Seth:** Okay. And sir, one bookkeeping kind of question, your tax rate has gone up to level of around 30% - 31% so what is your guidance for this FY18 as well as for FY19?
- Raj Kumar Mehta:** Tax rate. Actually, effective current tax for this half year is coming at 29%, also, we expect that we will be getting the tax benefit of the windmills we have purchased. We will get the benefit of income tax out of depreciation and tax free revenues from generation of power. Average rate will be around this 30% and 31%.
- Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the conference over to the management for their closing comments.
- Ankit Patel:** Thank you very much for participating in the conference call of Q2FY18 of Meghmani Organics Limited.



*Meghmani Organics Limited*  
*November 10, 2017*

**Moderator:** Thank you very much, members of the management. Ladies and Gentlemen, on behalf of Meghmani Organics Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.