

Meghmani Organics Limited
Q1 FY20 Earnings Conference Call
August 13, 2019

Moderator: Good evening, ladies and gentlemen. I am Zaid, the moderator for this conference call. Welcome to the Q1 FY20 earnings conference call of Meghmani Organics Limited organized by Dickenson IR. As a reminder, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. We have with us today from the management Mr. Ankit Patel - CEO, Meghmani Organics Limited, Mr. Kaushal Soparkar – Managing Director, Meghmani Finechem Limited, Mr. Gurjant Singh Chahal – CFO from Meghmani Organics Limited and Mr. Bharat Mody - Investor Relations Advisor, Meghmani Organics Limited. I would now like to introduce Mr. Ankit Patel for the opening remarks. Over to you, sir!

Ankit Patel: Thank you very much. Good evening, everyone and a very warm welcome to the Q1 FY20 earnings call of Meghmani Organics Limited. I would like to start with the disclaimer first. Certain statement contained in this concall maybe statements of the company beliefs, plan and expectation about the future and other forward-looking statements that are based on management's current expectation or belief as well as number of assumption about the company's operation and factors beyond the company's control or third party sources and involved known and unknown risks and uncertainties that could cause actual result to differ materially from those contemplated by the relevant forward-looking statements. Forward looking statement contained in this concall regarding past trend or activities should not be taken as a representation that such trends or activities will continue in the future. There is no obligation to update or revise any forward-looking statements, whether as a result or new information, future events or otherwise. You should not place undue reliance on forward-looking statement, which speak only as of date of this concall.

We are pleased to announce that the company has reported a strong performance in terms of both revenue and EBITDA during the quarter. First, let me give you the quick overview on our Q1 results. I am pleased to inform you that our consolidated revenue for the Q1 grew by 29% Y-o-Y to Rs. 616 crores. This resulted on the back of strong performance in both of our export as well as domestic market. Our export sales grew by 57% Y-o-Y, while our domestic sales grew by 9% Y-o-Y. Our EBITDA for the quarter witnessed a growth of 9% Y-o-Y to reach Rs. 135 crores. EBITDA margin for the Q1 FY20 stood at 21.9% vis-à-vis 26% during the corresponding quarter of the last year. Our interest expense for the quarter decline by 45% to

Rs. 7 crores due to repayment of high cost term loan and change in debt mix for short term borrowing. Our profit after tax for the quarter grew by marginally 1% Y-o-Y, producing Rs. 78 crores. Our PAT after minority interest declined by 11% Y-o-Y to Rs. 57 crores.

Looking at our segment performance, our Pigment business delivered a revenue growth of 10% Y-o-Y at Rs. 159 crores despite a decline in realization. Our sales volume for the quarter grew by 14% Y-o-Y to 4,117 metric tonnes, while our EBITDA stood at Rs. 19 crores with a margin of 11.9%. Our agrochemicals business delivered revenue growth of 82% to Rs. 293 crores mainly driven by strong performance in the export markets. In fact, our export sales for the quarter surged by 111% to reach at Rs. 223 crores, contributing to 78% of our agrochemical sales as compared to 67% in Q1 FY19. EBITDA for the quarter increased by 37% to Rs. 47 crores, while our EBITDA margin stood at 16%. Our basic chemical revenue grew moderately by 2% to reach at Rs. 174 crores. In this segment our sales volume for the quarter stood at 40,884 metric tonnes as compared to 37,870 metric tonnes during Q1 FY19. Our utilization for the quarter stood at 91% in Q1 FY20. Our EBITDA for the quarter also grew modestly by 3% to Rs. 77 crores with a healthy margin of 44%. Additionally, I am pleased to let you know that our CMS project, Chloromethane project of 40,000 metric tonnes commenced its commercial operation in July 2019 and we will produce Methylene Dichloride, Chloroform and Carbon Tetra Chloride. Going forward we believe that all our businesses, Pigment, Agrochemical and Basic chemical are each on a sound growth path, responding well to the increasing demand for our products both domestically and on export front. As a result, we are charting a profitable growth trajectory coupled with smarter capacity utilization, balanced with an increase in the share of value-added products within our overall portfolio.

With this, we would be happy to take any question that you may have. Thank you.

Moderator: Thank you very much, Sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Thomas Sekhar, an individual investor. Please go ahead.

Thomas Sekhar: The question that I have is that one of the plant which produces our Cypermethrin was affected by a fire accident? When it is going to be commissioned?

Ankit Patel: Thomas, we hope to commission the plant which got damaged by fire probably in the third quarter of this year.

Thomas Sekhar: Can you please tell me, what is the effect of fire on the loss of production? What percentage of Agrochemicals segment constitute the Cypermethrin?

Ankit Patel: Thomas, as we disclosed in detail that we have three manufacturing plants as far as the Agrochemical division is concerned. Two for technical and one for formulation and in each technical plant, we have got about four manufacturing blocks and the incident took place in

one of the plants at one of the manufacturing blocks. So, as far as the business is concerned, there was not much of effect except for a slight effect in the first quarter. But we hope that we will be able to recover in the coming quarters.

Thomas Sekhar: So, can we conclude, sir that there will not be any effect from the fire accident from next quarter?

Ankit Patel: From the revenue point of view, we feel that there will not be much of impact.

Thomas Sekhar: Coming to my second question. What is the present ECU price for Caustic and Chlorine prices?

Kaushal Soparkar: The Q1 ECU was around 39,000.

Thomas Sekhar: I mean, now at present?

Kaushal Soparkar: At present, it is around 35,000.

Thomas Sekhar: How about the Chlorine prices? Are they positive or negative?

Kaushal Soparkar: It is flat.

Moderator: Thank you very much. Next question is from the line of Kishan Shah from Isha Securities. Please go ahead.

Kishan Shah: I had this question that our exports have increased to 57% of total revenue from 48% same quarter last year. So, which region contributed to the increase in the exports and what is your further outlook for the same?

Ankit Patel: Kishan, typically our Pigment business revenue model is that almost three-fourth of the revenue comes from the export market and one-fourth of the revenue comes from the domestic market. Similarly, in the case of Agrochemical also, almost 65% to 70% of revenue comes from the export and the balance from the domestic market. But owing to slow domestic market due to delayed monsoon, we took the advantage of the situation and exported more quantity. So, overall Agro as well as Pigment almost 80% revenue come of both the divisions comes from the export market. So that contributed to the overall export revenues.

Kishan Shah: So, related to this question, in quarter 1 what was the domestic scenario? I mean, did you face any slowdown? One is mainly because of the delayed rains, any other reason?

Ankit Patel: We have grown into domestic market as well again in Agro and Pigment. Whereas, Basic chemical is 100% domestic. So, we have grown into domestic market but if you compare the

growth, the export growth was much more than the domestic growth. That is why looking at the overall number the percentage has increased in terms of exports.

Kishan Shah: And Sir, our utilization has fallen in Agrochemical and Pigments. So, I think Agrochemical it is understood that might be Cypermethrin affect but what is the reason for Pigment?

Ankit Patel: Pigment, if you can see there is a growth in terms of the topline 10% in revenue and 14% in terms of the quantity. But this was a strategic decision to take a shutdown for few days to improvise the technology and upgrade the plant. We had prudently planned this very well in advance, so we kept the inventory with us and that is why you can see there is no revenue loss.

Kishan Shah: So, any more annual shutdown in any other plant, any other division?

Ankit Patel: Basic chemicals shutdown that is planned at the later part of the year but not at this juncture. But normally, as per the statutory requirement, we need to take once in a year for the boiler inspection whenever such kind of things comes, we take the shutdown. Otherwise, there is no other plant shutdown.

Kishan Shah: And Sir one question from the annual report. Our revenue from traded goods had increased by 68%, while manufactured goods revenue increased only by 10%. So, what was the reason exactly and what would it be like in FY20, I mean this financial year?

Ankit Patel: That was mainly because of the incident which happened in the Agrochemical, we were having the orders on hand and we need to fulfill the orders to support our customer base and that was just onetime situation. This will be recovered in the coming quarters.

Moderator: Thank you very much. The next question is from the line of Apurva S from DCM Shriram. Please go ahead.

Apurva S: I just want to know, what was the ECU for the current quarter? And as the market of downstream is on downward trend how you foresee Chlorine and Caustic prices in coming quarters?

Kaushal Soparkar: During the Q1, our ECU was around 39,000 and currently, it is around 35,000. So, it has gone slightly down as compared to Q1, but we feel that market will bounce back and if we can or come back to the original one.

Apurva S: So, would you expect that downstream and your ECU would recover at the end of the year and you can expect the same trend of Q1 FY20?

Kaushal Soparkar: That is what we feel, it should come back.

Moderator: Thank you. Next question is from Riju Dalui from Quantum Securities. Please go ahead.

Riju Dalui: Sir, my question is on the Caustic Soda prices, so the Caustic Soda prices right now is Rs. 35 per kg as you mentioned. So, what was the reason that the prices have gone down to Rs. 35 from Rs. 42, six months ago?

Kaushal Soparkar: See, firstly, six months ago, there was no import coming to India. Now, some import has come in some of the eastern coast side of India. Secondly, some of our customers have taken that statutory shutdowns. So, that is the reason there was little bit of gap in demand and supply. So, that is the reason some of the quantities were not going into the market. But now looking at good monsoon, we feel that everybody's plants will run at a higher utilization and demand supply we will come to the interring levels.

Riju Dalui: But sir, you were telling that you are expecting that prices should go to around Rs. 42 - Rs. 40.

Kaushal Soparkar: No. The price of Rs. 42 existed some 6-8 months ago, being an exceptional month.

Riju Dalui: So, what is your expectation currently for the complete FY20?

Kaushal Soparkar: We feel that it should in the range of Rs. 37 odd throughout the year.

Riju Dalui: So, Rs. 37/kg.

Kaushal Soparkar: It will average out throughout the year.

Riju Dalui: So, currently your realization is Rs. 39 per kg, I think.

Kaushal Soparkar: In Q1, yes it was 39,000.

Riju Dalui: Yes, so in Q1 you had 39,000, so how much EBITDA margin you did in Q1 only from Caustic Soda?

Kaushal Soparkar: Caustic Soda we did EBITDA margin of 40%.

Riju Dalui: 40%, so that means we can expect 300 bps or 400 bps kind of decline in our margin?

Kaushal Soparkar: No, because at the same time we have just commissioned Chloromethane project. Also our new Caustic Soda capacity will also come in Q3 along with Hydrogen Peroxide. So, that will also support us in maintaining our EBITDA in terms of value.

Riju Dalui: And Sir one more thing is that how was your Chlorine realization for the quarter?

Kaushal Soparkar: Chlorine realization is at between 0 to Re. 1 right now.

Riju Dalui: And Sir, for what reasons the Chlorine realization for the entire industry has either been negative for the quarter or flat to negative for the quarter?

Kaushal Soparkar No, for us it was positive and again it is required to the demand and supply gap which was not there much. So, our quarter was not negative. Chlorine realization experienced minor dip during this month as some of the Chlorine customer have taken statutory shutdown or the maintenance shutdown which usually happens during the quarter 2. So, now once they come back to the cycle, again the Chlorine prices will improve.

Riju Dalui: And Sir, in the Caustic Soda demand, domestic demand if I look at the end using let us take textile and then the Aluminum industry. So, currently the Aluminum industry is not doing well due to sector slowdown. So, the situation might be the same for another 1 to 2 quarter(s) that slowdown may continue. So, what is your expectation from these angles because you are coming up with new capacities? So, how you will manage to achieve this kind of realization growth?

Kaushal Soparkar See, most of the Alumina sector, Caustic Soda consumption happens from the Eastern side of India. While, we are on the Western side of India and if you look at Petrochemical or Chemical sector of entire India, nearly 40% chemical produce comes from the Western side which is close to 40% to 45% and here natural growth is happening every year. And most of our downstream customers have done that expansion in previous years or they are expanding further. So, we feel that eventually, our new Caustic Soda capacity will be absorbed.

Riju Dalui: But Sir, the overall domestic demand right now would be around 36 lakh metric tonne. we are importing 13% our total demand and that import right now has gone up to 16%-17%, Also, domestically lots of companies are coming with new capacities. So, would you not think that the prices will not be able to sustain at the current level?

Kaushal Soparkar The current capacity of Caustic is close to 45 lakh metric tonne and 90% import is happening on the Eastern side that is where the Alumina consumption is there, and the balance comes from the Western side. Because Western side is self-sufficient to cater to the Indian domestic industry and if it required Western side can also export to Middle East and Africa.

Moderator: Thank you. Next question is from Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj: Sir, my question pertains to Chloromethane project. Now that we have commissioned the project. What is kind of revenue potential that we foresee this year and what are the margins that we expect for this year?

Kaushal Soparkar Chloromethane project has successfully commission and we feel that this year it can give us a topline close to Rs. 80 to 85 crores with the EBITDA margin in the range of 20% to 25%.

Rohit Nagraj: And can you just provide an update on the Basic Chemicals project and our Agrochemical expansion plan? How are the projects are going on and are they on schedule based on our earlier expectations?

Kaushal Soparkar So on the Basic Chemicals project front, the expansion of the Caustic plant with the captive power plant and Hydrogen Peroxide. Earlier, we thought that it should commission by end of September but due to the delay of some of the machineries coupled with heavy monsoon in the Bharuch district, we feel that commissioning activities might get delayed and we feel that in the plants are expected to commence from quarter 3.

Rohit Nagraj: And the Agrochemical expansion which we had announced last month that is on schedule and will happen based on schedule which we had planned earlier, right?

Ankit Patel: That is correct. Agrochemical's first phase expansion has already started and as of now, it is **on** schedule and we hope to start it in the next financial year.

Rohit Nagraj: Maybe in the second half of next FY21?

Ankit Patel: Probably in the second quarter of FY21.

Rohit Nagraj: So mostly for all the expansions that are coming by FY20 would be in a year when the entire effect of these expansion will start coming in, is it a right assumption?

Ankit Patel: Rohit, particularly in the case of Basic Chemical division all the expansion, i.e. three projects namely the Chloromethane project, Hydrogen Peroxide project and the expansion of the Caustic Chlorine project will happen in FY20 itself. Chloromethane has been already commercialized, and the Hydrogen Peroxide and expansion of Caustic Chlorine plant will happen during Q3FY20. And Agrochemical expansion will get commercialized in Q2FY21.

Moderator: Thank you. Next question is from the line of Abhishek Agarwal from Gem Quest Capital. Please go ahead.

Abhishek Agarwal: Sir, my question is more of its general situation that we have seen in China and how do you feel the China situation with respect to supply chain disruptions and can there be any benefit or disadvantage to us?

Ankit Patel: Abhishek, China is going under pressure since last 1.5-year. But, apart from the Chinese situation right now, the more worry is for trade war between US and China as it is difficult to understand the Chinese government's policy and how they are going to support their own domestic industry. So far it has been settled, the supply is a bit moderate. But, if we look at the global situation now, the whole world looks at the second source of supply for securing their supply chain model. When it comes to the chemical for the second source of supply, India is amongst the main country. So, I think looking at the future of the chemical industry,

we see that coming 5 to 10 years' time is going to be a good period for the chemical industry on an overall basis.

Abhishek Agarwal: Sir and one more question. Is this also the reason that our export competitively has increased in this quarter?

Ankit Patel: I would not say that just because the China factor because Meghmani Organics has been more of an export-oriented company since inception and so depending on the situation, if the trend is more of export than we would like to take the advantage of it. Otherwise, minimum two-third of our revenue for the Agrochemical division as well as from the Pigment division comes from the export market.

Moderator: Thank you. Next question is from the line of Ruchir Shah from Cloud Nine. Please go ahead.

Ruchir Shah: I have two questions. One is on registration. So, can you please share the new registrations trend during this quarter for Agrochemical business and my second question is on exports. So, we can see that the export sales for Agrochemicals have increase significantly. So, which region has contributed for this growth?

Ankit Patel: So, as far as the registration is concerned, agrochemical is a regulated business. So, registration is the ongoing process, be it for the domestic market as well as for the exports market. So yes, there has been some increase in our regular products where we got some registration in domestic as well as in the export. And if we talk about the revenue model which has shown more growth, then particularly in the America's region, North America as well as Central and South America regions has shown more of a growth.

Moderator: Thank you. Next question is a follow-up from the line of Kishan Shah from Isha Securities. Please go ahead.

Kishan Shah: What is the market situation for Basic Chemicals at present? The realizations for the segment have gone down marginally and if you see at our segmental performance, the proportion of sales from Basic chemicals is fallen from roughly 35% to 28%. So, what is your outlook for the whole year and give a color on the current situation.

Ankit Patel: See currently, the market is slightly on the lower side, as such instances occur do due to the cyclical-nature of the Chlor-alkali industry. There is a cyclical curve you see throughout the year. So, it is not something to worry about it, but we feel that eventually the market will bounce back and we should be able to achieve a higher realization. As I mentioned earlier also during the call, that some of our customers have taken the statutory shutdowns or planned shutdown and that is the reason for a gap in demand supply. But now those things will be streamlined. So, we strongly feel that again the prices will bounce back. But if you look

at on the quarter-to-quarter basis between previous year and this year our capacity utilization is on the higher side. So, overall, we have done quite well that is what I would say.

Kishan Shah: And this bounce, are you expected in this immediate quarter or it will take another quarter, maybe quarter 3 by the end of quarter 3 or something like that?

Ankit Patel: We have already started seeing some positive improvement in the market. However, it is difficult to gauge it right now because there are lot of public holidays back to back in this month. August month is full of holidays. But we feel that some improvement, positive situation has already occurred, we feel that September should be a good month and in the subsequent months too, the demand will remain intact.

Kishan Shah: On the expansion side, could you guide us on what kind of Pigment expansion are we planning to do and what would be the funding mix of the Rs. 127 crores CAPEX that we are doing for Agrochemicals division?

Gurjant Singh Chahal: As far as funding is concerned, so most probably we are meeting it from our internal accruals only. So, we may not require debt for Rs. 127 crores.

Moderator: Next question is a follow up from the line of Apurva S from DCM Shriram. Please go ahead.

Apurva S: What is your capacity utilization for this Q1 for Chlor-alkali plant?

Ankit Patel: Yes, 91%.

Apurva S: 91%, which is without any statutory shutdown or any breakdown?

Ankit Patel: we had taken no statutory shutdown or breakdown during the quarter.

Apurva S: And after the expansion in Q3 which is expected which is little a bit delayed as informed, then what would be your capacity in terms of metric tonne production?

Ankit Patel: So, our current capacity is 476 tonnes per day and with addition of 300 tonnes, it will be 776 tonnes per day of Caustic capacity.

Moderator: Thank you. The next question is from Kishan Shah from Isha Securities. Please go ahead.

Kishan Shah: I had a question the Pigment expansion and the funding mix for Rs. 127 crores CAPEX for Agrochemical.

Gurjant Singh Chahal: On funding, Rs. 127 crores capex will be largely met from the internal accruals. And as far as the Pigment expansion is concerned; we are very much hopeful to announce the project in

coming few quarters time. We have been doing the detailing for that and apart from the existing range of the colors, we will be expanding in the other range of colors.

Kishan Shah: And on the financial side what is the long term and the short-term debt currently on our books?

Gurjant Singh Chahal: As of 30th June long term debt is around Rs. 540 crores, whereas the short-term debt is around Rs. 225 crores. Additionally, Liquid fund constitutes around Rs. 135 crores.

Kishan Shah: And cash on book?

Gurjant Singh Chahal: Yes, it includes.

Kishan Shah: And Sir, apart from the expansion with our current existing installed capacity, if we are fully operational what is the revenue potential for the same, totally or maybe segment wise if you could give.

Ankit Patel: Kishan, as far as the Basic chemical is concerned, with the current capacity as well as the kind of the expansion is going on, we hope that we can reach at the full year utilization of nearly Rs. 1,400 crores and with the Agrochemical's current capacity as well as the first phase of expansion which has already been announced, we feel that with that we can reach up to approximately Rs. 1,300 to 1,400 crores.

Kishan Shah: And Pigments?

Ankit Patel: With the current capacity for the Pigments, we can garner Rs. 650 crores to 700 crores.

Kishan Shah: And Sir, I would just like to confirm, you said Rs. 80 crores from the CMS plant this year and Rs. 160 crores in FY21, am I correct?

Ankit Patel: Yes, for CMS, right?

Kishan Shah: Yes, CMS. And Hydrogen Peroxide Rs. 400 crores, right, post expansion?

Ankit Patel: No. Hydrogen Peroxide would be in the range of Rs. 150 crores to 160 crores.

Ankit Patel: Full year of utilization.

Gurjant Singh Chahal: For full year's utilization. We are considering asset turnover ratio of one into one so around Rs. 650 crores which is being spent on capex, it should add that much revenue.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Ankit Patel for closing remarks. Over to you, Sir!

Ankit Patel: So, thank you very much participating in the concall of Q1 FY20 of Meghmani Organics Limited, bye-bye.

Moderator: Thank you very much, Sir. Ladies and gentlemen, on behalf of Meghmani Organics Limited that concludes today conference call. Thank you all for joining us and you may now disconnect your lines.