"Meghmani Organics Limited Q3 FY17 Earnings Conference Call"

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MODERATOR: **MS. NISHA KAKRAN – FOUR-S SERVICES PRIVATE LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to Meghmani Organics Q3 FY17 Earnings Conference Call hosted by Four-S Services. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case 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, ma'am.

Nisha Kakran: Good evening everyone. On behalf of Four-S Services I welcome all the participants for the Q3 FY17 Conference Call of Meghmani Organics Limited. Today on the Conference Call we have Ms. Deval Soparkar – Head of Corporate Communication; Mr. Upen Shah – CFO, Meghmani Organics and Mr. Ankit Patel – Head-Agrochemicals.

I would like to thank the management for giving us the opportunity to organize this call. I would now handover the call to Deval.

Deval Soparkar: Good evening everyone and a very warm welcome to the Quarter 3 FY17 Earning conference call of Meghmani Organics. I will begin the call with a brief discussion about quarter 3 highlights, outline our growth outlook and then open the floor for questions.

We are pleased to report that going by the first three quarters FY17 looked set to be another good year for us. Our nine months' growth remains on track with strong 8% year-on-year growth in revenues and EBITDA expanding above 20%. This is despite a mixed third quarter in which we saw stable revenue and subdued margins on account of a steady export but marginally down domestic markets, pricing pressure from realization and increased input cost. However, we are pleased to report that the quarter has seen our export registrations cross the 500 milestones and as a result we see agro export on a sound growth path going forward.

This is an important achievement as it would not only revitalize our agro export sales but also improve our margins going forward. As mentioned in my last conference call we gain about $1 to $2 per kg for a registered product. Today we have 536 export registrations and we are well placed to monetize the same through our wide global networks of 400+ customers across 75 countries. The transient impacts of demonetization has already been absorbed by the company and the economy and with a good monsoon behind us we should also see revived domestic demand.

From Meghmani's perspective the fourth quarter will also be better as our new higher value added product, which is caustic potash is expected to be better utilized in Q4 FY17 and the Beta Blue plant that had got damaged by fire is also coming back online. With increased export registrations, focus on branded formulation and higher value added product we expect to end the year on a stronger note.

The budget 2017-18 has provided a big fillip for the Indian Agri sector. The budget has pitched for some reforms in agriculture and increased fund for insurance and irrigation schemes along with various other measures to boost farm income and to double it in the next five years. For the flagship crop insurance scheme Pradhan Mantri Fasal Bima Yojana the budget increased the allocation from Rs. 5,500 crores in 2016-17 budget to Rs. 9,000 crores in 2017-18. The target next year is to bring 40% of crops area under insurance and take it to 50% next year.

To improve access to irrigation the budget provided an additional Rs. 20,000 crores for the long-term irrigation fund under NABARD. All these schemes will address working capital requirements of farmers and should thereby support growth in agrochemical sales. Our Honorable Prime Minister's "Make In India" campaign is also pushing Indian pesticides manufacturers to tent up against overseas competition.

Coming to the financials, consolidated revenue for the quarter was stable at Rs. 3,153 million compared to Rs. 3,168 million in quarter 3 last year, Export revenue were stable whereas domestic revenue declined marginally. EBITDA for the quarter declined 20% to Rs. 606 million from Rs. 754 million in last year quarter 3. EBITDA margin was at 19.2% compared to 23.8% in quarter 3 FY16. PAT for the period is at Rs. 200 million, PAT margin stands at 6.3%.

Consolidated revenue for nine months FY17 grew by 8% on the back of strong domestic performance which was up 17%, whereas exports revenue remained stable. EBITDA for the period increased 13% to Rs. 2,150 million resulting in an expansion of 99 bps in EBITDA margins which is at 20.4%. PAT grew by 11% to reach Rs. 640 million taking PAT margin to 6.1%.

Looking at each segment's performance in detail. Pigments' revenue declined 5% to reach Rs. 1,115 million from Rs. 1,179 million in Q3 FY16, impacted mainly by subdued domestic markets and reduced intersegment sales. This was partially offset by strong export growth of 9%, Export contribution was at 73%. Volume declined by 2% to 3,273 metric tons. EBITDA declined 23% to Rs. 195 million from Rs. 254 million in Q3 FY16 on account of increased raw material cost which gets passed on to customers with one quarter's lag. EBITDA margin was at 17% and utilization levels were up to 70% from 65% last year. Pigments' revenue for nine months grew by 7% to Rs. 3,669 million with volumes up 6%. EBITDA for the period is up 33% to Rs. 614 million taking EBITDA margin up to 17%.

Agrochemicals' revenue witnessed growth of 4% to reach Rs. 986 million compared to Rs. 951 million in Q3 last year. Domestic revenue was up 28% contributing 36% to revenue. Volumes witnessed robust growth of 26% to reach 3,592 metric tons from 2,856 metric tons, offsetting the decrease in blended realization on account of changed product mix to match the demand.

EBITDA declined 63% to Rs. 51 million from Rs. 136 million in last year Q3, mainly due to lower realization on account of pricing pressure. EBITDA margin was down to 5% and utilization levels were up at 57%, but this was on 32% higher capacity. Agrochemicals' revenue for nine months increased 15% to reach Rs. 3,744 million with volumes up 36% while realizations were down. EBITDA declined 26% to Rs. 358 million and EBITDA margin was at 10%.

Revenue for basic chemicals business were down 4% to reach Rs. 975 million from Rs. 1,011 million in Q3 last year. Our caustic potash plant is ramping up and is expected to stabilize by Q2 next year. Caustic soda volumes and utilization were impacted on account of temporary shutdown in the production plants of certain customers. EBITDA was down 13% to reach Rs. 353 million compared to Rs. 404 million in Q3 last year. EBITDA margin reached 36%, above the guided range of 30% to 35%. Basic chemicals nine months FY17 revenue were marginally up by 1% at Rs. 2,931 million. EBITDA for the period is up 11% at Rs. 1,111 million resulting in significant increase in EBITDA margin to 38%.

Going forward we are optimistic about Q4 being a stronger quarter with increased domestic demand, increasing exports due to higher number of registrations and optimization of the basic chemicals plant. We also expect profitability in the coming quarter to improve as raw material cost increases gets passed on to the customer. So with this I come to the end of my comments. I would like to thank everyone for joining our conference call and we would be happy to take any questions that you may have at this stage. As Nisha mentioned I have my CFO, Mr. Upen Shah with me as well as Mr. Ankit Patel because lot of people have specific questions on agrochemicals and he would be happy to answer each one of your questions in detail. Thank you so much.

Moderator: Thank you very much. We have the first question from the line of Veena Patel from I-Wealth Management. Please go ahead.

Veena Patel: Well, I will just frame up my questions as per the segments. So beginning first of all with the pigment. You just mentioned in your opening commentary that there was a higher inter segment composition also in the pigments. So what was the reason behind it?

Deval Soparkar: What is this?

Veena Patel: The difference between the production quantity and the sales quantity in the pigment division? You just mentioned about the intersegment like captive consumption?

Upen Shah: Your query is not clear to us, Veena.

Veena Patel: Sir, in the presentation in the pigments segment, you have given us the production quantity and even the sales quantity. Yes, so there is a difference between both the quantities?

Upen Shah: There is difference?

Veena Patel: Between both the quantities.

Upen Shah: Agreed one of these products, another is spend they both need not different connotations so whatever is produced may not be sold.

Veena Patel: Just to correct my understanding that the CPC crude blue is a raw material which gets consumed for production of the Alpha and the Beta blue?

Deval Soparkar: It also gets sold outside.

Veena Patel: Okay, so have we started seeing the improvement in the pigment prices now?

Deval Soparkar: See there was no pricing pressure on pigment it was only the input cost that has gone up which we have told in the past also that in one quarter lag we typically transfer it to the customer. Second thing which is peculiar to note is that we got fire in Q2, so whatever orders which was there as backlog and even though if there is an increment in the prices, we cannot pass on that price rise to the customer because we have to honor the order that were received during that quarter at a price.

Veena Patel: Because in the previous quarter the realization was around Rs. 418 per kg, which just come down to around Rs. 340 in this particular quarter?

Upen Shah: See on a nine months' basis the pigment prices clearly has reduced marginally by Rs. 10, from Rs. 351 to Rs. 341.

Veena Patel: Okay, so further possibility for the improvement in the prices once you start like passing on the rise in the raw material prices?

Upen Shah: It depends on the product mix or what the customer or client wants I have to manufacture accordingly.

Veena Patel: Okay moving to the agrochemical division.

Deval Soparkar: If I look at a macro view of the pigment division we believe that what was there in last year's Q3 the 23% margin, at that time also we have given a very honest guidelines to our investor that the pigment margin is sustainable at anywhere between 16% and 18%, which is a more normalized margin. You may get up from 18% but 16% to 18% is what we always give target for that particular division.

Veena Patel: In fact, you have been maintaining within those levels only.

Deval Soparkar: Because we know the history right the company is tracking their progress quarter-on-quarter basis only in last seven, eight quarters. But the history supports that since 1985 the margins have not gone like drastically to 25%, 30%. It has always been between 16% and 18%, averaging it out.

Veena Patel: Deval, I have been asking about the realizations. Are there going to be further improvements because we would be gradually starting to pass on the raw material price hikes to customers. So realization should improve and that was my understanding?

Deval Soparkar: It looks like.

Veena Patel: Yes, and that is what I am just trying to confirm from your side. Now coming to the agrochemicals division there was a significant dip in the operating profit margins. So what was the reason, is it higher selling or distribution expenses in the form of the discounts?

Ankit Patel: Yes, the main reason is that the realization was very much under pressure because the prices were very low compared to previous year. So because of that reason the EBITDA margin has gone down drastically in agrochemicals. The second reason for the decrease in EBITDA margin is that the product mix has changed little bit compared to previous year. In previous year, we were having the product mix for the export market which was having much higher margin compared to this year's product mix. Because you know that it is a weather oriented market and in certain countries wherever there is an inventory in channel or weather is not good, that time the product mix changes. So the same thing has happened this year but now we have started getting the orders in the fourth quarter for the high margin products which we were having last year. So hopefully the fourth quarter and the coming year will be better.

Veena Patel: Okay so we will be in a position to get back to the like double digit numbers?

Ankit Patel: Yes, we would be able to go towards double digit.

Veena Patel: Okay and now one last question on the agrochemicals division. Post this IND-AS, India Accounting Standards so the reporting pattern has changed so because of that now which should be our better quarters because previously we had Q2 and Q4 to be the better quarters?

Upen Shah: See the accounting standard does not affect the quarterly presentation. Only thing what happened that seasonality continues to remain the way it was earlier. So pre-monsoon period should be good which will continue to be even in the existing accounting standards.

Veena Patel: Okay have the realization from the caustic soda showing a kind of decline because lot many new capacities have come on stream in that region?

Upen Shah: Let me just tell you the quarterly YoY realizations have fallen from Rs. 332 to Rs. 274 per kg. So you can understand the intensity of the margins and the pressure. That is the prime reason that Agri has performed this results.

Veena Patel: Sir, I have just been asking about like going ahead are you going to see further dip in the realizations for your caustic soda.

Deval Soparkar: In caustic soda, we believe that right now the caustic price per se is firming up well. It is chlorine prices, which is getting impacted. And if you trace back couple of other conference calls and speak with the company we have been maintaining that when MOL becomes little debt free and company can take up a new project, we will consider doing chlorine derivative projects in future so that this kind of dip can be taken care of.

Veena Patel: Okay and still we have not like started with the potash sales?

Deval Soparkar: Caustic potash sales have started.

Upen Shah: Our average utilization is 45% in this quarter. It has improved from 24% or 25% and Q4 would also be better in this regard.

Veena Patel: Sir, how much was the contribution in the first nine months for potash?

Deval Soparkar: The topline was about Rs. 26 crores for caustic potash. Out of that about half came from Q3 only. So about Rs. 13 crores we realized in last three months. We also believe as we said that it will be a gradual ramp up but by Q2 next year we believe that it will be completely settled.

Veena Patel: Okay typically how much will be the margins in this segment potash?

Deval Soparkar: About 25% EBITDA Margin.

Moderator: Thank you. We have the next question from the line of Nisarg Vakharia from Lucky Investment Managers. Please go ahead.

Nisarg Vakharia: First, I wanted to discuss the agrochemical business. This 14% EBITDA margin is a one off or 5% EBITDA margin is a one off?

Ankit Patel: Typically, this sector delivered 16% to 18%, max 20% EBITDA margin. So 14% is only one off, we do not expect this to be continued.

Nisarg Vakharia: So more than 5% EBITDA margin this year?

Ankit Patel: Yes, the thing is let me explain you. Typically Indian season for the insecticides is almost over in the third quarter and because the first season is over and the second season starts which is the Rabi season. And as you know that this year because of the demonetization it was a bit sluggish because the purchasing was not there much, so that is one of the reason as well. As I already mentioned that there was lot of pressure on the pricing in the exports which brought down our margin drastically. We have been able to do good volumes and we have been able to maintain the topline but the bottom-line, EBITDA margin has gone down drastically.

Nisarg Vakharia: The products that we manufacture are of such a high commoditized nature that the volatility of margins can be so much drastic?

Ankit Patel: See, as we know that agrochemical is mainly produced by Indian companies as well as Chinese companies. So we have to be competitive against China as well. And there was lot of pressure from China side in terms of pricing, they were having huge inventory and the market was not that good globally. The demand was sluggish for certain molecules so because of the inventory and high production, the margins were under pressure.

Nisarg Vakharia: Who would be comparable to you in the agrochemical business in India because I have not seen this sort of margin drop in any other agrochemical players, this drastic I am mentioning?

Ankit Patel: We are into many agro technical products. So we cannot be compared with just one company. Certain products are compared with some company or certain products are compared with other company. So as Meghmani ideally, we cannot be compared with just one company. But you can say some products are common with Atul, some products are common with Excel Industries, some products are common with Gharda Chemicals something like that.

Nisarg Vakharia: What is the margin that you expect in this business in the next quarter and for the next year as a whole? I mean you would have a sense of the pricing now, so next quarter also the pricing is completely under pressure?

Ankit Patel: No, now in the fourth quarter we have seen drastic improvement because Chinese companies are facing lot of pollution problem and they are not able to produce to the much capacity. And that is why the production in China is under a lot of pressure and the prices have started moving up globally for many products. And we have seen this good price realization in the fourth quarter. So we hope that we will have a double-digit margin in the fourth quarter.

Nisarg Vakharia: Coming to your pigments business. This year you are seeing a steady state 16% to 18% EBITDA margin business is that how we should model it for our understanding?

Deval Soparkar: Yes please.

Nisarg Vakharia: Okay so this 22% which you did last year was because of many confluence of lot of positive things going in your way?

Deval Soparkar: See there was a sudden jump because if you look at quarter before that we were just stabilizing the Dahej plant. So the whole capacity and the capacity utilization going up push that because the base was very low. So anything you do would look better. Then from that good denomination if you have to do even better than that, so that is why we say 16% to 18% is a reasonable margin.

Nisarg Vakharia: Sorry I did not understand that, Deval. You said that you were stabilizing the Dahej plant which is why your EBITDA margin was 22%?

Deval Soparkar: No, year before that. So if you look at Q3, 23% was last year Q3, a year before that for Q3 2015 the margin itself was very low. So whatever you do would look better.

Nisarg Vakharia: No, that is okay, I am just trying to understand whether this is?

Deval Soparkar: It is on a standalone basis also last year because the new capacity came in and the margins were also good, so last year Q3 was a good quarter for us. We believe why 16% to 18% is there because it is a normal thing. Of course, we expect to do better but we believe that 16% to 18% is a reasonable guideline to be given.

Nisarg Vakharia: And what explains the revenues, did you felt any impact of this demonetization, even with pigment segment because there is a worry?

Deval Soparkar: Not in pigment because 80% pigment gets exported.

Nisarg Vakharia: Okay so then what explains the softness in your pigments revenue YoY?

Deval Soparkar: See the prices were little low because even though the import prices have gone up, we could not pass on that price rise to the customers. On account of the fire that I mentioned in the previous question, so we had a backlog because that plant did not work for good one month. So we had a backlog of orders which we had to honor at the price we have earlier expected on.

So even though urea and phthalic prices moved up and we could not pass on the price rise though the customers also understand but morally also we cannot ask for it because the fire impacted us.

Nisarg Vakharia: Right, so from Quarter 4 onwards the revenue should again look at 15% to 20% margin that you would generally guide for?

Deval Soparkar: We want to maintain the guidance of 16% to 18%.

Nisarg Vakharia: Okay so you will maintain that guidance and hopefully do slightly better or at least sustain the 17% EBITDA margin?

Deval Soparkar: Yes, sir.

Moderator: Thank you. We have the next question from the line of Surya Patra from Phillip Capital. Please go ahead.

Surya Patra: Wanted to check what is the utilization for the bulk chemicals that you have mentioned for potash as well as caustic soda business and by when do we expect the full utilization of these two plants? And I think since this is the biggest revenue contributor to our overall business so after the peak utilization what is our growth run that we are having?

Deval Soparkar: Yes, utilization is there in the presentation and it is not big revenue contributor, this is the biggest EBITDA contributor business.

Surya Patra: Of course, yes.

Deval Soparkar: Revenue comes from all the three divisions equally. So yes, it has improved the bottom line but topline is one-third mostly.

Upen Shah: From Q2 the utilization is 31% in Q3 it has increased to 47%.

Surya Patra: Okay. So like in FY18 it will become?

Deval Soparkar: Caustic potash is up from 31% to 47%.

Upen Shah: And for caustic soda it is 87% in Q2 to 79% in Q3.

Surya Patra: So in this segment what will really drive growth beyond FY18 that is what my question is? As you mentioned in the opening remark, I think you said adding few derivative product of the chlorination. So what is the product area that we are thinking or what all initiatives we are taking, which will drive growth for the bulk chemical business?

Deval Soparkar: See Surya, if you look at our peers, their margins are still lower than our subdued margin for this quarter. So if you compare with our peers their margins are around 32%, it is the highest. But if you average it out for the industry they would be in a range of 30%. To say if you take GACL or Reliance so we do not get separate balance sheets as GACL, Reliance or Indian Rayon doesn't publish standalone caustic chlorine division results so difficult to comment on industry or peer margins. But if you look at it I am pretty sure that they will not be more than 32%. We are still at 36%. Only thing when you compare with Q3 and next quarter would be even more challenging when you compare us with close to 50% for Q4 last year was almost 49%, at that time also we said that it is not possible to achieve those kind of margins.

We believe that 32% to 35% is what the industry will average it out to be. This is 36% which is manageable. This is still a better margin for us. This quarter couple of things which has happened which was little peculiar is that we had a chlorine negative pricing to the tune of almost Rs. 5 which was not the case since 2009. So Coal went up by 20%, for last three years we have not seen such an upward movement in the coal price, so these two are the macro factor. Third, if we talk about micro factor we have done the zero gap technology enhancement. So we have changed the membrane which is every four to five year process in the company. So the life of membrane goes down and actually goes to zero and we have to change the membrane. So that project we have undertaken and that has impacted the absolute working days of Q3 because this business is on a daily basis we calculate, right because of the continuous plans. Second thing also which is particular to our company was that three days our power plant was shut due to some technical difficulty which was back on track in from the fourth day but three days production also get impacted. So if you see there is a lesser of production also. This little bit of higher input cost but we still believe that the numbers are still better than the guidance of 30% to 35% and forget the company's guidance, still better than the industry which is operating at 30% to 32%.

Surya Patra: Okay, now if you can just give some long-term growth visibility for this business?

Deval Soparkar: Yes, as I said we are still in the process of finalizing couple of projects. But I promised my investors also at the same time that till company achieves a comfortable debt level we will not do any further CAPEX. So we are in process of evaluating projects as and when we firm up something, as and when Board approves those projects and as and when we receive the environment clearance on those projects we will definitely announce it to the shareholders. But needless to say it will be in Chlorine derivatives lines which will takeaway these kinds of seasonality in the chlorine business that we see.

Surya Patra: Okay and regarding agrochemical business we have said something like that because of the continuing Chinese issues, so the demand for agrochemicals in the export market and that too for the matured product as itself has improved and there is a forming of the prices also. But from the realization level for the quarter it is not visible why, because sequentially we have been continuously seeing a kind of a declining realization for the agrochemical products?

Ankit Patel: Yes, if you compare the quarter 3 last year with this year as I mentioned that the product mix was different. What we were producing and supplying in the last year was having much higher margins compared to this year's product mix. But now as I mentioned this year again we have started getting the orders in the fourth quarter and hopefully it will be better in fourth quarter as well as in the coming year.

Surya Patra: Okay and you have also indicated that the rise in the raw material prices could not be passed on fully this quarter which normally happens in a quarter lag basis. So whether that is the case for all the agrochemical as well as pigment both segments and how is it?

Deval Soparkar: It happens in pigment only because in agrochemicals we have not seen much of an input price pressure it is only at the final product that we have seen the pressure. For this quarter, raw material shot up in pigment so you would be tracking urea and phthalic pricing. And I think you would agree with me on this.

Surya Patra: Okay and just one last question. Sequentially what I am observing is the other expenses portion has increased meaningfully. So what was the reason whether there is a kind of a spike in the power cost or what is the key cost element that is enhancing the other expenses portion meaningfully?

Upen Shah: See let me answer this. The manufacturing input cost like stores and power and fuel increased by Rs 400 lakhs and secondly there is a mark to market loss which we have booked which is about Rs 300 lakhs on derivatives, it is a merely book entry. So if you compare to QOQ the increase is about Rs. 8 crores out of which Rs. 4 crores is the input cost like stores and spares and power as you know, Power and fuel being the highest and Rs 300 lakhs is lost on derivative which is on a mark to market which will impact the book entry.

Surya Patra: Okay and what is the derivative practices that we follow and this derivative mark to market loss that we have on how much the derivative position that we have lost this?

Upen Shah: See the company have around 60% to 70% is in exports. So the company hedges around 30% of its topline.

Surya Patra: That is the policy?

Upen Shah: That is the policy. And 70% is kept open. But this is the flexible policy based on the how and what happens. If you have seen the post demonetization trend rupee weakened drastically. So that is at that point of time 30:70 may not be strictly adhered to so these are main losses which we have.

Surya Patra: So that means that Rs. 72 crores kind of other expenses this is not a base-case kind of scenario, it is just got inflated by the external one off cases?

Upen Shah: Correct. The company also has exposures of ECB, exports commercial borrowings in one of the subsidiaries. So those derivatives reflects a loss of Rs. 400 lakhs.

Surya Patra: Okay can you just tell me, what is total hedge positions that we are currently having?

Upen Shah: I said so around 30% of the exports are hedged.

Surya Patra: Okay in dollar terms or in euro terms?

Upen Shah: In dollar terms.

Surya Patra: In dollar terms how much is value wise what is the kind of a position?

Upen Shah: Around $30 million is the exports every month.

Moderator: Thank you. We have the next question from the line of Vijay Karpe from Dalmia Securities. Please go ahead.

Vijay Karpe: The R&D spends which you do are at 0.1% of the sales. So any particular reason for the same, they seem to be on the lower side for a specialty chemical company like ours?

Ankit Patel: Yes, I would say agrochemical is the main area where we do the R&D, whatever expenditure is done is mainly on the agrochemical R&D. And as we know that R&D from the basic level is not done by any company in India or in China, it is done by mainly multinational companies and then once the product gets off patented then companies do little bit R&D and based on that we go for the commercialization.

So yes, you are absolutely correct that the R&D is not that much on the higher side. But we have a plan to have a higher R&D expenditure in coming days because now government is also promoting Make In India projects and they are promoting more companies to do the manufacture in India rather than just importing the product or formulating the products. So now the policies are also getting changed from the government side which will help companies like us to manufacture the product. So we will go for the new molecules R&D and then once we will develop the product we will go for the commercialization. So in future yes, the R&D will increase.

Vijay Karpe: Alright, and any particular reason for pushing the synchronization on the caustic potash plant to Q2 FY18 from Q3 FY17?

Deval Soparkar: No, the only reason is that when we actually started the plant we realized that one technical reactor that we have installed is not fit for it. So it cannot take our capacity on a higher level than 52%. So we had to change one of the reactors, one of the equipment needs to be changed. We have placed an order and we are expecting the delivery in first week of May.

Vijay Karpe: Okay, so we will have to wait for three more quarters then?

Deval Soparkar: Yes, of course you know chemical plant you will always have some kind of issues like that and we realized this because when we could not run beyond a point we found out that this is the issue and this needs to be addressed. So we already placed an order, the equipment is arriving in May first week.

Vijay Karpe: Alright. Any updates on the sample testing of caustic potash?

Deval Soparkar: So far there is not much rejection. There were some issues earlier for the color but now the sample has been largely accepted by the customers that we were targeting.

Vijay Karpe: Okay and my last question pertains to the resignation of Mr. Upen Shah. Any particular reason because he had just joined us in October of 2016?

Upen Shah: Yes, see I don't not belong to Mumbai but I have spent much of my professional career in Mumbai. I wanted to be here in Ahmedabad where in my 40s and 50s I have spent around 10 to 12 years. But somehow due to some personal reason my family is not able to join me. So this is only on account of social and personal reasons that I have to put in my papers.

Moderator: Thank you. We have the next question from the line of Shubankar Oza from SKS Capital. Please go ahead.

Shubankar Oza: What was the cash flow from operations during nine month and how much debt have we repaid in nine month?

Upen Shah: See for this quarter we have repaid around Rs. 29 crores and in nine months we have repaid. Total of about Rs. 82 crores. The max in this quarter we will make payment of around Rs. 8 crores to Rs. 9 crores. So total repayment would be Rs. 90 crores in this FY and next three years will be about Rs. 76 crores and thereafter about Rs. 26 crores.

Shubankar Oza: So this is as per our expectations basically?

Upen Shah: Yes.

Shubankar Oza: And what is the gross debt?

Deval Soparkar: This is as per the schedule and as per expectation.

Upen Shah: As per expectation and guideline what we have given earlier.

Deval Soparkar: So sir, each loan has been agreed on a different term. So wherever possible we make prepayment. So like in last quarter in October from MSL we paid Rs. 8.58 crore to ICICI as a prepayment without any charges. So whenever we could achieve that we have overdone and paid but we do not want to pay prepayment charges.

Shubankar Oza: And what is the net debt figure after the end of December quarter?

Upen Shah: After December quarter net debt including working capital is about Rs. 460 crores and this is about the total debt out of which long term debt will be about Rs. 230 crores. That is net debt.

Shubankar Oza: And so coming to this basic chemical business, the guidance remain same 30% to 35% for the FY18 or is there a change that you would like to see there?

Deval Soparkar: No, I would like to maintain the same 30% to 35%.

Shubankar Oza: For the basic chemical business?

Deval Soparkar: Yes because which is anyway higher than the peer group. And I would like to maintain and we are pretty positive also that we should be able to do between 30% and 35%.

Moderator: We have the next question from the line of Rajesh Kothari from Alpha Accurate Advisors.

Rajesh Kothari: Hi, just wanted to know on this agrochemical business what should be the full year margin one should assume for the next year?

Ankit Patel: We will have a double-digit margin. I would not be able to tell you the exact what would the margin become in the next years. But we are expecting that it should be about 14% to 15%.

Rajesh Kothari: So basically this quarter is one off, because all the reasons what you are giving actually I am not able to still get convincing answer that why your margin in this quarter is down. Is it one off are there any one-off expenditure, what is going wrong?

Ankit Patel: The main reason I have told you but you are correct.

Rajesh Kothari: China pollution issue is not in this quarter, China pollution is happening from last two years. If you look at any chemical company all chemical companies are reporting the life time high margins in the third quarter, number one. Number two, you are talking about a global agrochemical, I look at global agrochemical results everybody has reported very good results. Whether it is an Indian company or whether it is the exporters. If you talk about the inventory any Indian company we look at, there are no such inventory issue. So is there any one off or why are we getting bullish again, then you are saying January everything has changed. So I do not understand how it can change so suddenly?

Ankit Patel: Rajeshji, I would not be able to tell you very much openly on this but I can only tell you the product mix which we are having in the third quarter was having lot of pressure on the pricing. Now the product mix which we are having in the fourth quarter are having much better pricing realization. So I cannot tell you openly all the names of the product which we produce for certain company because of that reason product mix was having very much low margins. And we wanted to have our market share to the tune, so our volume growth is there which you can see from the numbers. We have achieved very high volume growth but because of lot of pricing pressures we have not been able to contribute in the EBITDA margin.

Rajesh Kothari: Between domestic and exports where margins are higher in agrochemical space?

Ankit Patel: It depends on the season.

Rajesh Kothari: I am talking about third quarter?

Ankit Patel: In the domestic, brand business is having relatively higher margin than the exports and even in the export if you are selling in the brand then it will have a higher margin.

Rajesh Kothari: I am talking about third quarter?

Ankit Patel: Third quarter was not much from the domestic market, it was mainly from the export market and that was not having very high margin.

Rajesh Kothari: So exports were lower margins in third quarter compared to domestic so within the reported number the export margins are very low?

Ankit Patel: That is correct.

Rajesh Kothari: Okay so when you say you are changing the product mix, can you just tell us in terms of a strategy in terms of product mix? When you say you have a very low margin product and that low margin product is facing the price competition or target market share you wanted to achieve which I understand. So how the things are going to change suddenly in three months that your product mix will become superior?

Ankit Patel: We are having certain specialized products which we produce for some customers and those customers place the order whenever they have a requirement in the countries wherever they are selling. And those customers are having inventory at their end so they did not buy in last quarter actually in last two quarters, Quarter 2 and Quarter 3. So now their inventory has gone down and they have started placing orders in the fourth quarter. And so we believe that we will have a better margin in Quarter 4 and coming year.

Rajesh Kothari: But then your revenue went up, if they have not picked up, then the revenue should not have gone up?

Ankit Patel: That is because of the volumes.

Rajesh Kothari: I know so volumes happened, am I right, so it means they have picked up because of the volume but ultimately revenues have grown up because of that?

Deval Soparkar: The revenue is up, because we make 27 types of products. So there are couple of products which are obviously high margin but there are other products also and we need to churn out those products also if we don't receive orders for those products we have multipurpose production facilities also. So if we make those products at least the turnover is achieved and that can take care of other expenses. So we cannot wait and keep the plant idle.

Moderator: Thank you. We have the next question from the line of Rohit Gupta, an individual investor. Please go ahead.

Rohit Gupta: Yes, so how much of your agrochemical revenue is from like technicals or intermediate and how much is from the branded business?

Ankit Patel: Normally we do not sell intermediates, we mainly sell technical and formulations. So if we compare the volume of technical and formulations, so about 55% to 60% is technical and about 40% to 45% is formulation.

Rohit Gupta: Okay and this formulation like you sell it under your own brand or you like contract manufacture for other companies, how is it?

Ankit Patel: That is both, that is sometimes it under our brand and sometimes it is for our customer under their brand.

Rohit Gupta: Okay so where the pricing pressure was essentially? was it in the technical that you manufacture or like it was more in the formulation?

Ankit Patel: See it is mainly in the technical and then it gets followed into formulation because the same technicals are used in the formulation. So if the technical is under pressure then the formulation is also under pressure. But more pressure is into technical.

Rohit Gupta: Okay I was just trying to understand is it possible that some of these branded players they are able to like maintain the pricing final retail prices while whatever you contract manufacture either technical or formulation, there is pricing pressure. So how is that?

Ankit Patel: See once there is a pressure on technicals so people know that the technical prices has gone down. So the negotiation will be there in formulation business as well. So yes, the margin goes down in formulation as well but not to the tune which goes down in technical. So in future we have a strategy to increase more business from the formulation which is obviously having a higher margin than the technical. Whether it is export under our brand or under our customer brand.

Rohit Gupta: What is the contribution of your top maybe four, five products and can you name some of these like?

Ankit Patel: See top five products that we are making are the 2,4-D which is one of the herbicide we are having a very big volume. Then we have a Cypermethrin, Permethrin and Alpha Cypermethrin which is called the pyrethroid range of insecticides. That is also our major revenue generating molecule and then in the oregano phosphates we are having Chlorpyrifos and Profenofos.

Moderator: Thank you. We have the next question from the line of Abhinav Ganeshan from Canara Bank Securities. Please go ahead.

Abhinav Ganeshan: Sir, just wanted to understand can you give some fillip about the next say three years for the specialty chemicals business? See because we believe this is a sunshine sector so do you agree with it or and what would be your broad growth projections for this sector as a whole?

Deval Soparkar: As I said that we are evaluating rather certain projects for the chlorine derivative. So little difficult to pinpoint exactly what would be and which projects we finalize. But probably by quarter one next year we will be announcing something concrete.

Abhinav Ganeshan: One thing, madam I have observed that your exports have dipped by 5% any reason for that if I look at it year-on-year?

Upen Shah: See on YoY the ratio has remained absolutely the same, 54% exports, 46% domestic.

Abhinav Ganeshan; And one more thing that I wanted to understand that you are getting pretty good business from these basic chemicals business. So do you have any plans of expansion on that front with the potash kind of stuff?

Deval Soparkar: I did say right that we are evaluating a couple of chlorine based derivative projects and as I mentioned earlier also that once the board approval takes place and what we have promised the company has promised to the investors that the comfortable debt level is achieved which we are very much comfortable right now also then we would be further expanding in that business.

Abhinav Ganeshan: What is your debt-to-equity right now?

Upen Shah: 0.4.

Abhinav Ganeshan; Okay that is pretty okay.

Moderator: Thank you. We have the next question from the line of Rohit Gupta, as an individual investor. Please go ahead.

Rohit Gupta: So you were telling about some of our key products. So is it like there are pricing pressure in mainly in one or two of your products like 2, 4-D or is it like across products?

Ankit Patel: It is across all the products but yes 2, 4-D was having much more pricing pressures.

Rohit Gupta: Okay so year-on-year like what kind of pricing de-growth did you face in 2, 4-D?

Ankit Patel: See, it is not a continuous pricing pressure. In fact last year 2, 4-D pricing was pretty good but this year the prices were pretty low. Now again the prices have started moving up. See it is basically the channel inventory that plays very important role and the particular weather in different markets plays a very important role. So now the demand has started growing in particularly 2, 4-D globally and because of that the prices have started moving up again. So we will have better margin realization in coming days.

Rohit Gupta: And this pricing pressure in 2, 4-D this was mainly in exports or domestic market?

Ankit Patel: Both the markets.

Rohit Gupta; And just last question like will you be able to share what kind of average price drops you faced in 2,4-D in this quarter?

Ankit Patel: Approximately 20%.

Moderator: Thank you. We have the next question from the line of Veena Patel from I-Wealth Management.

Veena Patel: So again bookkeeping questions. You just have given the numbers for the debt. Now as far as the CAPEX is concerned like how much we would be doing more?

Deval Soparkar: As of now nothing is firmed up. See as I said most likely if everything comes in place and if the board approves the project and we get environment clearance then we would be announcing the project in next year first quarter. But as I we do not announce before the environment clearance, we do not want to announce if the board does not approve. So it looks like that Q1 2018 is a quarter when we will be most likely announcing the new project and expansion.

Veena Patel: Because when I look at your depreciation numbers for Q1 and Q2 they were in the range of Rs. 25 crores and Rs. 24 crores. In the Q3 again I think they have come down to Rs. 19 crores. So in the first quarters did we capitalize the potash plant and there was a spike in the depreciation numbers?

Upen Shah: See in April 2016 we capitalized potash plant. So that's why the depreciation has gone up.

Veena Patel: Okay but will we be in the same range of Rs. 19 crores?

Upen Shah: Whatever is left behind is capitalized.

Ankit Patel: Rs. 19 crores is okay number and the depreciation in quarter 2 particularly is up because we have change the membrane, we have converted the membrane from existing to zero gap technology and we have invested Rs. 20 crores in that.

Veena Patel: Okay got it. And how much will be a routine CAPEX?

Deval Soparkar: The maintenance CAPEX as I said each business gets it about Rs. 10 crores each year.

Veena Patel: Okay because one of the earlier participants even had asked question on the other expenses going up. So in the last con call you had referred to the hike in the coal prices which is a main fuel. So how have the prices moved for the coal in this particular quarter for us?

Deval Soparkar: Coal is up by about 20%.

Ankit Patel: Right now it is 20% up from compared to last year. But the impact was not witnessed in the quarter 3, it is hardly 10% to 12% but in particularly quarter 4 it will be about 20%.

Upen Shah: To be specific on Q2 the pricing were Rs. 3,700 per metric tons. For Q3 it is about Rs. 4,200 per metric tons, coal prices.

Veena Patel: So thereby our margins may further go down in the coming quarters?

Upen Shah: Right, Veena.

Veena Patel: And sir, finally coming on to the other income so has there been any kind of a one-off component?

Upen Shah: There is profits booked on forex. Last year there was lot of volatility in USD-INR. It went up Rs. 4 to Rs. 5 so that is the main reason.

Veena Patel: Okay so we saw the increase in the other income because of the forex?

Upen Shah: Yes, that is correct.

Moderator: Thank you. We have the next question from the line of Mr. Praveen Sharma, an individual investor.

Praveen Sharma: I just wanted to know what is the run rate of the caustic potash unit which we can assume for Q4 and for FY18? I think in Q3 we did Rs. 13 crores so going forward how do we see the picture panning out?

Deval Soparkar: I think the utilization should go to about 60% and revenue should be in the range I think not much difference it will be Rs. 13 crores or Rs. 16 crores.

Praveen Sharma: So how much do we assume for FY18 like in terms of when we change this unit also which was not the correct unit which we got in place in the plant and we are changing it and we will get it delivered in May. So what is the addressable market do we see in FY18?

Deval Soparkar: Around Rs. 70 crores Rs. 75 crores.

Praveen Sharma: Okay for FY18 whole year?

Deval Soparkar: Yes.

Praveen Sharma: And my second question is how much is our own branded business in agrochemicals?

Ankit Patel: It is about Rs. 60 crores.

Praveen Sharma: And if I remember we were targeting something like Rs. 80 crores, correct for next year?

Upen Shah: That is correct.

Praveen Sharma: Do we foresee any further increase in that because I think that is the business which will give us a sustained margin and a sustainable revenue, are we focusing on that or this is more or less, Rs 80 Cr is where we see next year?

Ankit Patel: No, we are very much focusing on the brand business and we have got good planning for the brand business in coming days. As you know the supply chain plays very important role in the branding business which was very much lacking in our company. We have strengthened our supply chain position quite strong in this year which will help us in the coming days, coming quarters. And we have improved our marketing channel and dealer distributor network and we are very much focused as a management for the brand business. And we are having very strong view and planning for the coming year for our agrochemical brand business.

Praveen Sharma: Great to hear that. Last question is on this Beta Blue plant is it completely operational or still we are taking the product from one plant to another before completing the finished product?

Deval Soparkar: No, it is operational now. We are finishing up with our backlog and we believe that by mid-March we should be able to finish up with our backlog also of the orders and everything will be streamlined for the next year. So it went off pretty smoothly after the accident that we had.

Praveen Sharma: Great so basically in FY18 we expect all three cylinders to fire simultaneously with the membrane change and the plant change?

Deval Soparkar: How I wish, one troubled area, one troubled child is always there. But on a positive note I believe sir, that it is a de-risking, right for the company?

Praveen Sharma: Yes.

Moderator: Thank you, Mr. Praveen. That was the last question. I now handover the call to management for closing comments.

Deval Soparkar: I would like to thank everyone for taking out time and if anyone has any further questions, we are there to answer everyone has my coordinates or you can get in touch with Nisha. And have a wonderful evening.

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