



“Meghmani Organics Limited Q3 FY ‘18 Earnings Conference Call”

February 12, 2018



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LIMITED
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MODERATOR: MR. NITESH KUMAR – FOUR-S SERVICES

Moderator: Ladies and Gentlemen, Good Day and Welcome to Meghmani Organics Limited Q3 FY '18 Earnings Conference Call hosted by Four-S Services. 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 an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nitesh Kumar from Four-S Services. Thank you and over to you, Sir.

Nitesh Kumar: Good Evening everyone. On behalf of Four-S Services, we welcome all participants to the Q3 FY '18 conference call of Meghmani Organics Limited. Today, on the conference call, we have Mr. Ankit Patel – CEO, Meghmani Organics Limited, and Mr. Kaushal A. Soparkar – MD, Meghmani Finechem Limited, a subsidiary of Meghmani Organics. I would now hand over the call to Ankit for his opening remarks.

Ankit Patel: Good Evening everyone and very warm welcome to the Q3 FY '18 Earnings Conference Call of Meghmani Organics Limited. At the outset, I would like to take this opportunity to introduce our new CFO – Mr. Gurjant Singh Chahal. Mr. Chahal is a Chartered Accountant with over 25 years of experience and has completed IFRS from the Institute of Chartered Accountant of England and Wales. Prior to joining us, he was CFO of Gujarat Industries Power Company Limited. He is available to you for further details as discussion.

It has been another strong quarter for Meghmani in which we delivered strong net sales growth accompanied by doubling our profit. The momentum remains strong as we see increased share of higher margin products, higher capacity utilization, and lower finance cost. The budget 2018 has also been encouraging for us as it focused on addressing post-harvest relief for and bargaining power to farmers and improving farm incomes. Various measures like minimum support price 1.5 times of input cost for Kharif crop, Rs. 13000 Crores towards crop insurance scheme, Rs. 2600 crores allocation towards irrigation reforms, enhanced allocation of rural institutional credit to Rs. 11 lakh crores and 35% higher food subsidiary to FCI, etc. are expected to increase farm income and provide a boost to demand for our products.

Coming to the financials:

Consolidated net sales for the quarter grew by 41% to Rs. 443 crores compared to Rs. 315 crores in Q3 FY '17 on the back of strong performance in exports as well as in domestic market. Exports saw 45% growth while the domestic market increased by 35%. EBITDA for the period increased 93% to Rs. 117.2 crores from Rs. 60.6 crores in Q3 FY '17 resulting in 723 basis points expansion in EBITDA margin, which is at 26.5%. Interest outflow has declined 22% to nearly Rs. 10 crores compared to Rs. 12.8 crores in Q3 FY '17 on account of reduced debt and lower interest cost. PAT more than doubled to Rs 43.5 crores from Rs. 20 crores in Q3 FY '17

taking PAT margin to 9.8% up from 6.3% in Q3 FY '17. Our consolidated net sale for the nine-month has increased by 25% to reach Rs. 1311.6 crores on the back of 32% growth in exports and 17% growth in the domestic market. EBITDA for the period increased 45% to Rs. 311.2 crores taking EBITDA margin to 23.7% up by Rs. 329 basis points. PAT grew by 89% to reach Rs. 121 crores taking PAT margin to 9.2% up by Rs. 315 basis points.

Looking at each segment's performance in detail:

Our pigments business delivered net sales growth of 33% in quarter to Rs. 148.8 crores from Rs 111.5 crores. This was driven by robust growth of 52% in exports while net sales in the domestic market were down. Sales volume were up by 23% at 4030 metric tons from 3273 metric tons with higher blended realization. EBITDA increased 6% to Rs.20.6 crores in the quarter and EBITDA margin was down at 14%. Utilization levels were increased to 75% compared to 70% in Q3 FY '17. Net sales for nine months FY '18 grew by 18% to reach at Rs. 432 crores driven by robust growth of 39% in export whereas the net sales in the domestic market were down. Sales volumes were up 20% at 12,167 metric tons while blended realizations were marginally down. EBITDA was slightly higher at Rs. 63 crores in the period and EBITDA margin was at 15%. Utilization level have increased to 78% compared to 62% in 9M FY'17.

Our Agrochemicals net sales for the quarter showed robust growth up 54% to reach at Rs. 151.4 crores from Rs. 98.6 crores in Q3 FY '17. This was driven by a robust growth of 64% in exports and 32% in domestic market. Sales volume witnessed 18% growth to reach at 4246 metric tons coupled with significantly higher realization on account of increased sales of higher margin products. EBITDA increased 4.6 times to reach at Rs. 28.2 crores from Rs. 5.1 crores on account of higher realizations of products taking EBITDA margin to 19% from 5% in Q3 FY '17. Utilization level marginally increased to 58% . Net sales for nine months FY '18 grew by 33% to reach at Rs. 497.3 crores driven by robust growth of 39% in exports and 23% in domestic market. Sales volumes were up 11% at 14,161 metric ton coupled with strong growth in blended realization. EBITDA for the period grew by 153% at Rs 90.5 crores in the period and EBITDA margin was at 18%. Utilization level increased to 71%. Our Basic Chemicals net sales grew by 55% year-on-year to Rs. 151.4 crores from Rs. 97.5 crores driven by strong growth in sales volume and higher realization. EBITDA was up 94% year-on-year to reach at Rs. 68.4 crores from Rs. 35.3 crores. EBITDA margin was up at 45%, utilization level was up at 85% from 79% in Q3 FY '17. Our caustic potash plant utilization has increased to 70% from 47% in Q3 FY'17.

Net sales for nine months FY '18 grew by 36% to reach Rs. 397.8 crores. EBITDA for the period grew by 46% to Rs. 161.7 crores in the period and EBITDA margin was at 41%. Utilization level has increased to 88%. Caustic potash plant utilization increased to 64% compared to 33% in 9M FY'17.

The first part of our Rs. 640 crores capex in Basic Chemicals which is in the chloromethane plant of 40,000 metric tons per annum is progressing as per plan. We expect to commission it around December 2018. We are optimistic about Q4 FY '18 and expect to over perform on our stated guidance to the market in terms of net sales growth as well as margins. All our businesses are on strong growth path with positive outlook for both domestic and exports sales, so with this I come to the end of my comments.

I would like to thank everyone for joining our conference call and we would be happy to take any questions that you may have at this stage. Thank you.

- Moderator:** Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. We will take the first question from the line of Dhiresh Pathak from Goldman Sachs. Please go ahead.
- Dhiresh Pathak:** Sir, what was last quarter's ECU and what is the current ECU?
- Ankit Patel:** You want to know what is the ECU closed at December '17?
- Dhiresh Pathak:** Sir, what was the average for the December quarter and what is the spot ECU?
- Ankit Patel:** Average ECU for quarter was 38,000, and for this quarter, it is going around 40,000 for the January.
- Dhiresh Pathak:** What is the spot like today or yesterday's?
- Ankit Patel:** Same price.
- Dhiresh Pathak:** But there was some correction somebody has highlighted, even in China some prices are corrected and that you have not seen in Indian market?
- Ankit Patel:** No.
- Dhiresh Pathak:** What is the outlook, how do you see it?
- Ankit Patel:** We believe that this quarter will have ECU approximately around 40,000 to 41,000, it will remain what I am saying right now.
- Dhiresh Pathak:** Not just for the quarter, I am saying like what visibility do you have for next few quarters or?
- Ankit Patel:** For the few quarters?

- Dhiresh Pathak:** Yes, based on incremental supplies that would be coming either in India or global?
- Ankit Patel:** There is no incremental supply coming in India. In fact, there is no capacity coming up in India immediately.
- Dhiresh Pathak:** The China issue has gone down, so anything that is happening because it would be a globally traded commodity as my current understanding goes?
- Ankit Patel:** It is globally traded commodity, but each region has a different ECU and different equation, so honestly the China market is not hampering to Indian market, in fact China's caustic soda hardly comes to Indian market.
- Dhiresh Pathak:** What is the chlorine net realization now, factory gate realization?
- Ankit Patel:** It is at Rs. 0 right now.
- Dhiresh Pathak:** What was it for the December quarter, average?
- Ankit Patel:** Average was minus Rs. 1.5, but it has corrected and come up to 0 level now.
- Dhiresh Pathak:** Sir, like the Agrochem, I do not know if I have the numbers correct, so this quarter utilization is 58% versus the September quarter where it was I think close to 80%, so this is seasonal in Agrochem that December quarter utilizations are lower or is there anything different?
- Ankit Patel:** That is correct, as you know Agrochemical segment is more of a seasonal and typically in the third quarter normally it is on the little bit on lower side and because of that only if you compare the revenue of Q2 this year and Q3 this year than revenue also will be little lower, this is typically cycle of Agrochem.
- Moderator:** Thank you. We will take the next question from the line of Viraj Parekh from KR Choksey. Please go ahead.
- Viraj Parekh:** I would just like to touch upon a few things, starting with Sir, I would like to know your outlook maybe you can just give some brief comments segment wise, going forward with respect to all our segments considering the kind of growth that we have already witnessed seeing this quarter and the sustainability with respect to the same going forward?
- Ankit Patel:** We are into three business verticals say Pigments, Agrochemicals and Basic Chemicals. As far as the pigment and Agrochemical businesses are concerned, there the growth is there already which has been seen quarter on quarter since last three to four quarters. You can see the growth in top line and we feel that it will remain for the coming few quarters as well. As far as the bottom line

is concerned, it is more from the market point of view which as of now, we have been able to get better realization and our margins have gone up for Agrochemical whereas in pigment it has gone slightly on lower side because of certain raw material situations and other point of view. Otherwise, we feel that from the top line and bottom line point of view, this growth will remain intact, and in Basic Chemical division, we feel that the growth what we have shown as of now for the next couple of quarter also we feel that similar kind of growth will be there.

Viraj Parekh: Sir, secondly with respect to the pending insurance claim of Rs. 18 crores, I think 12 crores is something which we have already received this year, so any idea when we shall be receiving the same with respect to?

Ankit Patel: We are already discussing with the insurance company and we expect to receive the balance claim before March end in this quarter.

Viraj Parekh: Sir, my last question is on the finance cost, so definitely we are seeing a reducing trend with respect to the finance cost, Sir, any comments on becoming totally debt free and having zero finance cost in the near future?

Ankit Patel: We are growth-oriented company and we believe in taking debt and growing further and you can see the kind of EBITDA company generates which is to the tune of 400 crores plus, so though we will be taking the debt, but at the same time company will be generating good amount of cash as well, so we feel that we will be at very reasonable level as far as the debt equity ratio is concerned.

Moderator: Thank you. We will take the next question from the line of Pawan Kumar, an Individual Investor. Please go ahead.

Pawan Kumar: The question I would like to ask is what is the current debt level of the company and by which period the company is going to be debt free if there is any such plan or if they are going to have new debt for new increment in the plants or capacity, please throw some light on that, first part? The other part is I would like to know what is the revenue outlook for coming three to five years of the company and what CAGR we are looking at to get the growth at, so coming three to five years?

Ankit Patel: On this first part as far as debt is concerned, as compared to last year, December '16 we were having debt of 471 crores against that this December quarter ended, we are at 442 crores, there is a reduction of Rs.21 crore which happened due to repayment of the loan. Further is, we are maintaining our debt equity ratio low and that is less than one. The second point on the debt only if you see our debt cost is also reducing significantly.

- Pawan Kumar:** Do we have a plan to become the company debt free in near future or do we plan that we keep on having more loans and keep on increasing the capacity of the company production wise and revenue wise, how we are looking at it?
- Ankit Patel:** We believe that with current top line numbers right now what the debt we are having and what kind of EBITDA we are having, we believe this is a reasonable level and for any new project coming, we will be taking the debt and will try to maintain the debt equity ratio at reasonable level so that our financial number remains intact.
- Pawan Kumar:** Other part was revenue outlook and CAGR growth outlook for coming three to five years?
- Ankit Patel:** As far as the revenue outlook is concerned, we need to do more projects for the growth point of view where in for the Basic Chemical division we have already announced the three projects which will be generating good amount of revenue in coming next few years' time. In the Agrochemical division also, we will be announcing some projects very soon once we will have environmental clearances in place from the growth point of view, we expect to grow the company with about 20% growth rate year-on-year for the next three to five years.
- Pawan Kumar:** Any revenue targets if you can give like I heard in an interview last time from Mr. Ashish Soparkar, I believe that in five years they were looking for 3000 crores revenue, can you throw some light on those numbers?
- Ankit Patel:** You are correct as a company internally we have decided that each division has to cross Rs 1000 crore revenue in next three years, so that is what internally target we have fixed and the company is working on the same to achieve that target. Hopefully, we will be crossing approximately Rs 1800 crores revenue this year and in next three years, we will be crossing Rs 3000 crores revenue.
- Pawan Kumar:** Do you see any challenges in terms of like China production of something which we are into or any other kind of challenges do you see in coming three to five years?
- Ankit Patel:** As far as the chemical industry is concerned, there are two major countries one is China and second is India, whereas China is facing tremendous problem as of now and we feel that this problem will not be resolved very soon. It will take some time to come back for them and if at all they come back with a proper production and all, the cost of the production will be very high because of their environment cost, manpower cost, everything is going high. Their currency is also appreciating, so keeping all these factors in mind we feel that Indian chemical industry will be very competitive and the growth which we are thinking right now, we are taking all the factors into consideration and we feel that there should not be any problem to achieve this kind of growth.

- Moderator:** Thank you. We will take the next question from the line of Mehul Sheth from PhillipCapital. Please go ahead.
- Mehul Sheth:** Sir, first question related to your caustic soda business, the company is able to maintain a margin for nine months around 41%, so what is the outlook on this margin front may be say FY '19 and '20?
- Ankit Patel:** We would like to maintain between 30% to 35% for the coming financial year and this quarter our margin will be in line of 41% to 42%.
- Mehul Sheth:** You are expecting the realization to come down in coming quarters?
- Ankit Patel:** Basic Chemical is a cyclical industry, I am just anticipating the prices may come down, but as far as quarter is concerned, I am very optimistic, we will have EBITDA margin of 41% to 42% and for the coming quarters, we can always talk in month of May when the annual sales will come out.
- Mehul Sheth:** This was basically from one aluminum company which has indicated that the global caustic pricing has peaked up and now import prices are coming down for them for the caustic soda, so are you getting any sense on that front, your pricing scenario on caustic soda side?
- Ankit Patel:** Prices are compared to previous quarter, even in this quarter from January prices are quite firm and we see a strong sale in terms of price and realization in this quarter at least. Global scenario is also very optimistic.
- Mehul Sheth:** Sir, question related to your new chloromethane plant, so it is now again delayed to December 2018 from June 2018 that you have indicated in previous quarters, so any specific reason?
- Ankit Patel:** There is some mechanical commissioning activity getting delayed, that is the reason we are saying it will be commissioned by December '18.
- Mehul Sheth:** We can see a Q1 of FY '20 will be the first commercialization year for this particular plant?
- Ankit Patel:** Commercialization will happen sometime by Q4 of next financial year and then some in the following financial year because we will be just operating for one quarter in next year.
- Mehul Sheth:** Sir, can you provide a kind of environmental clearance status for your other projects like hydrogen peroxide, your caustic soda expansion plan, as well as on your power plant?
- Ankit Patel:** We have already obtained that.

- Mehul Sheth:** You had some spending on this particular project like in previous quarter you have mentioned you have spent something like Rs 300 million kind of an amount on chloromethane plant, so what is the current spending status right now?
- Ankit Patel:** Currently, whatever we have mentioned, it is not much because we have just finalized the technology of hydrogen peroxide and caustic soda and signed an agreement for power plant and all, so major spending will come in following quarters from next financial year onwards.
- Mehul Sheth:** Sir, last question on your potash business side, can you give the sales number for this quarter?
- Ankit Patel:** This quarter total we had top line of Rs 23 crores for caustic potash.
- Mehul Sheth:** It seems like a sequential decline from Rs 27 crores in previous quarter to Rs 23 crores now and also there is a decline in utilization level as well?
- Ankit Patel:** In fact, utilization levels have gone up compared to quarter to quarter, I mean are you confusing with caustic potash and caustic soda.
- Mehul Sheth:** No, I am asking for your potash business really, so previous quarter you had mentioned?
- Ankit Patel:** Up to December we have done caustic potash of Rs 56 crores, after that Rs 23 crores has been achieved in Q3 and we are seeing the pickup and the sales.
- Moderator:** Thank you. We will take the next question from the line of Sourabh K. from India Nivesh. Please go ahead.
- Sourabh K.:** Sir, you mentioned that you will be announcing some project in Agrochemical, so will you bring backward integration to manufacture from basic raw material?
- Ankit Patel:** It is too early to discuss, we would be announcing the project once we will have the environment clearance, before that normally we do not announce the project but I can tell you that the expansion will be for some of the existing product where we see the growth coming at the global level as well as we will be adding some new products and wherever we will be adding the new products, we would try to be backward integrated so that we can be more competitive.
- Sourabh K.:** Sir, how do you see current raw material prices and supply situation from China?
- Ankit Patel:** From China, whatever the raw materials and chemicals are coming from China, right now it is the prices are going up drastically and at the same level we try to pass on the price to our customer wherever it is possible, so you can see that with the increase in the raw material price at

the same time we have tried to maintain the raw material compared to our sales at the same ratio level.

Sourabh K.: Is it like raw material availability is there because in some of the peers mentioned that there is some shortage of raw material because of the China supply side situation?

Ankit Patel: For the dyes it is totally a different business. We are into pigments and Agrochemicals. For the pigments, we are kind of totally backward integrated. Whatever raw material we are buying, those are kind of very basic raw material and it is easily available in the Indian market. As far as the Agrochemical is concerned, for majority of our product where we have a volume, those products are also we are having a backward integration, so we are not very much impacted by the supply situation from China. Only few products where we do not have a very big volume, those raw materials are only purchased from Chinese markets and so far we have been able to manage it, no issues.

Moderator: Thank you. We will take the next question from the line of Ronak Shetty, an Individual Investor. Please go ahead.

Ronak Shetty: Actually, I wanted to ask two questions, one regarding what are your CAPEX segment wise as such as in Basic Chemicals, pigment, Agrochemicals, are you planning any CAPEX because already other than the chloromethane and hydrogen peroxide?

Ankit Patel: For the Basic Chemical division, we have already announced the project which is a chloromethane, hydrogen peroxide, and the expansion of the caustic soda plant, which is going to take place in next two to three years' time. For other two divisions, we are working on some project and we will be announcing the CAPEX for those divisions in the coming quarters.

Ronak Shetty: Actually, in Basic Chemicals are you all planning for something other than the chloromethane and hydrogen peroxide also?

Ankit Patel: Right now, we are planning for chloromethane, hydrogen peroxide, and expansion of caustic soda plant, that is all.

Ronak Shetty: In case of Agrochemicals, There is a bigger market and in the past con calls companies in the segment have mentioned that lot of Agrochemical companies are going for massive expansion, some are listed also, so are you also having some expansion plans and any figure that you all can mention in case of the CAPEX?

Ankit Patel: Yes, Mr. Ronak as I mentioned earlier we have already decided for the agrochemical project, but we will be announcing the project in coming quarters. Once we will get the environment clearance then only we will be announcing the project.

- Ronak Shetty:** Will it be backward integrated products or is it need to large stage sort of?
- Ankit Patel:** Wherever we have volumes, as Meghmani, our mentality and psychology is we try to be the backward integrated, and the project which are not having the volume over there only we try to depend on the intermediate from other markets, but majority of our product we try to be the backward integrated.
- Ronak Shetty:** Sir, new project will be new product backward integration or is it the existing or something like that?
- Ankit Patel:** As I mentioned earlier for the new project, we will be expanding the capacity for few of the existing products where we see that the global growth is still coming, and we will be announcing the new projects as well with the new product and we try to be the backward integrated in those products as well.
- Ronak Shetty:** Is this also in your existing plant or you have acquired new plants, Gujarat only you are planning or?
- Ankit Patel:** This will be all Greenfield projects and as far as the land is concerned in Dahej Industrial Area where we have a strong presence, we have got huge land bank available, so any new project will be coming will be in those land in Dahej Industrial Area.
- Ronak Shetty:** Agrochemicals, can you give some idea about what will be your margins after Q3, do you think is it going to sustain. Any merger and acquisition thought?
- Ankit Patel:** As far as the margin is concerned, last year was very bad year because global situation for the Agrochemical was not so good, many markets were not doing good, so because of that the margins were compromised, but we feel as far as the Agrochemical is concerned about 17% to 20% margin can be achieved, it can be a sustainable margin and as far as acquisition for the inorganic growth is concerned, we are always open for that and we look for the opportunities in the market.
- Moderator:** Thank you. We take the next question from the line of Satyasevak Pandey, an Individual Investor. Please go ahead.
- Satyasevak Pandey:** Sir, I have two questions, one is I wanted to know is there any plan for dividend declaration?
- Ankit Patel:** We already have a dividend declaration policy. If you see we have been declaring the dividend in the range of 13% to 14% range, so this year is also good, so it is too early to discuss about dividend, we will be announcing in the last quarter, but yes, there will be dividend.

- Satyasevak Pandey:** Second one is since you just now mentioned about the import from China, so I wanted to know how do you manage the currency fluctuation, how do you hedge the currency fluctuation thing?
- Ankit Patel:** As far as the currency hedging is concerned for the imports, we have a huge export at the same time, so whatever imports is being done it gets nullified by the export so we are not worried with that and as far as the export Forex is concerned, we have a very stable policy out of our net exposure of the Forex, we cover certain percentage of it.
- Moderator:** Thank you. We will take the next question from the line of Umesh Patel from TCG Asset Management. Please go ahead.
- Umesh Patel:** Sir, few things wanted to know about the raw material prices as well as the margins that you have reported, I mean this was what I understand is one of the best quarter since past 20 previous quarters in terms of margins and as well as growth, but the way the crude oil prices are moving and the raw material phthalicnitrite, benzene-based products, so just wanted to know your sense going forward whether we will be able to sustain margins at current level or there would be some downside that we will see going ahead?
- Ankit Patel:** Yes, Mr. Umesh, the thing is as far as the raw materials are concerned because of the crude situation and as well as because of the global situation from China and other markets, the raw material prices are going up, at the same time we are keeping track on all the ups and downs and we try to pass on the same to our end-user customers and wherever it is possible, we are trying to transfer the same increase by getting better realization. At some point of time it is not possible which has happened in this quarter for the pigment division where you have seen that there is a slightly reduction as far as the margin is concerned, so we do not enter into long-term contracts with our customers so that whenever there is an increase in the raw material price at least by the next quarter, we can able to pass on the price.
- Umesh Patel:** You mean to say that there is always be one quarter lag impact, right?
- Ankit Patel:** We try to reduce it as much as we can, but if the situation is very tight then we can at least pass on in the next quarter if not in the same quarter.
- Umesh Patel:** Right, so with current capacity what I understand is most of the capacity utilization is something around you know for pigments is something around 75%, Agrochemical utilization rate is 80% to 85%, and your Basic Chemical business is also having something around that range than with current capacity what would be the revenue potential and as you mentioned that three year plan to achieve 3000 crore revenue, then how will you achieve that, I am not considering your current capacity expansion of that two plants?

- Ankit Patel:** As mentioned earlier all the segments are lined up to utilize the plant in a better fashion at least achieve the utilization to the 85% level. At the same time, we are coming up with the new project and for Basic Chemical division, we have already announced the project which will help to increase our top line. For the Agrochemical, we have already finalized the project, but we are waiting for the environment clearance. Once we will have the environment clearance, we will be announcing the project, that will help to achieve the further growth and same applies to pigment division.
- Umesh Patel:** Sir, you mentioned about the environmental clearance decision that is pending, so how much time generally it will take and what would be the capacity that we are planning to put?
- Ankit Patel:** As far as the environmental clearance is concerned, normally it takes about one year to 15 months' time. We have already applied for it and very soon we will be getting those clearances and as far as the capacity is concerned, normally for the environment clearance all the companies come up with a huge, they apply all the kind of products with higher capacity, but that does not mean that whatever environment clearance we have got will be coming with that kind of project. The announcement for the project will be made separately. It has nothing to do with what we have applied for environment clearance.
- Umesh Patel:** According to you even if the crude oil prices and raw material will inch up to certain level say from 10% to 15% from current level, we will be able to sustain our EBITDA margin at around 20% or 22%, right, for the next year as well?
- Ankit Patel:** Yes, we hope to maintain EBITDA margin on consol level to the tune of 20% to 22%.
- Umesh Patel:** With the net running of 20% growth for the next three years, right?
- Ankit Patel:** Yes.
- Moderator:** Thank you. We will take the next question from the line of Mehul Sheth from PhillipCapital. Please go ahead.
- Mehul Sheth:** Sir, I just wanted to have your outlook on this pigment segment, sales as well as margin front?
- Ankit Patel:** As far as pigment business is concerned, there is a growth in top line but there is a reduction in the bottom line. One of the major reason if you look at the numbers, the other income which is the other income is the provision of the currency exchange fluctuation notional as well as actual and because of that on standalone basis, there is drop of about 7.5 crores from the other income point of view.

- Mehul Sheth:** Sir, on margin front although you are able to maintain a margin in range of around 15% for your pigment business, so going ahead like what is your outlook on Q4 or for FY '19?
- Ankit Patel:** For the pigment division for the next quarter also, we hope that will be able to get 15% EBITDA margin to the next level and for the FY '19, we feel that we will be able to achieve about 16% to 17% EBITDA margin for pigment and about 17% to 18% margin for the Agrochemical division.
- Mehul Sheth:** Sir, one number we want, can you give your gross debt number right now?
- Ankit Patel:** Gross debt number as on December 31st is 442 crores.
- Mehul Sheth:** And your cash position?
- Ankit Patel:** Cash position is 9.1 crores.
- Mehul Sheth:** Sir, one bookkeeping question, your tax rate has increased from almost like a 24% to 25% level in nine months in the range of around 29% to 30%, so what is your outlook, what is your guidance on tax front?
- Ankit Patel:** Actually, we have capitalized our windmills where we will be getting accelerated depreciation and apart from there is a tax-free revenue from our SEZ, certain percentage of that revenue is also tax-free, so overall our tax rate should be in the range of 26% to 29% effective rate.
- Moderator:** Thank you. We will take the next question from the line of Arun Kedia, an Individual Investor. Please go ahead.
- Arun Kedia:** Sir, a few days back management of Gujarat Alkalies had come on TV and they had said that there is a severe shortage of water in Gujarat, is our company also facing any such problems or do we foresee any such problem in the near future?
- Ankit Patel:** There is a water crisis in Gujarat, what you have heard is right, but Government of Gujarat has taken some initiatives to make sure the industries run without any problem or water crisis, so let us hope that we should not face any problem in near future.
- Arun Kedia:** The other thing is in pigments you had already operating at about 80% to 85% capacity, which is near to the working full capacity, am I right?
- Ankit Patel:** That is correct.
- Arun Kedia:** Are we also planning to expand our pigment division?

- Ankit Patel:** Sir, as far as the same product line is concerned, we are the largest producer for the copper phthalocyanines pigment and we are having about 9% market share globally, so we feel that for the same product range there will not be further increase because we are already market leader in this range, so whatever project will be coming in pigment division will be either some new kind of pigment, new color pigment or it will be other kind of project.
- Arun Kedia:** Are there any such plans?
- Ankit Patel:** Yes, we are working on some projects and once we will announce the project, you will have a better idea about it.
- Moderator:** Thank you. We will take the next question from the line of Jayanth Kumar, an Individual Investor. Please go ahead.
- Jayanth Kumar:** The company has achieved highest comprehensive income of 62 crores, but a large part of it has been attributed to the non-controlling interest, can you throw some light on the non-controlling interest, and also Meghmani Finechem is it a 100% subsidiary of our company, and do you have any plans to separately list it in the near future?
- Ankit Patel:** As you mentioned, we have got two companies, Meghmani Organics Limited is the main company and Meghmani Finechem where the Basic Chemical division is there that is a subsidiary company of Meghmani Organics Limited where Meghmani Organics Limited is holding 57% shares and 25% is owned by IFC, so because of that reason there is this profit differentiation is there and as of now there is no plan to list Meghmani Finechem which is the subsidiary company of Meghmani Organics Limited.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Ankit Patel for closing comments.
- Ankit Patel:** Thank you very much, with this we end our conference call and thank you for your support.
- Moderator:** Thank you. Ladies and Gentlemen, on behalf of Four-S Services, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.