Meghmani Organics Limited
Q3 FY19 Results Conference Call
February 13th, 2019

Moderator: Good evening, ladies and gentlemen. I am Stanford, the moderator for this conference call. Welcome to Q3 FY19 Earnings Conference Call of Meghmani Organics Limited organized by Dickenson IR. At this moment all participant lines are in listen-only mode later we will conduct a question and answer session at that time if you have a question, please press "*" and "1" on your touchtone telephone keypad. Please note that this conference is being recorded. We have with us on the call today Mr. Ankit Patel – CEO, Meghmani Organics Limited, Mr. Kaushal Soparkar – MD, Meghmani Finechem Limited, Mr. Darshan Patel – COO, Pigment Business, Mr. Gurjant Singh Chahal – CFO of Meghmani Organics Limited. I would now like to hand the conference over to Mr. Ankit Patel. Thank you and over to you sir.

Ankit Patel: Thank you, Stanford. Good evening everyone and a very warm welcome to Q3FY19 earning call of Meghmani Organics Limited. We are pleased to announce that the company has reported a strong performance in terms of revenue and profitability in Q3. Talking briefly about our Q3 results. Consolidated revenue of the quarter grew by 23% to Rs.552 crores on the back of strong performance in export as well as domestic market, export sales increased by 26% while the domestic market sale increased by 16%. EBITDA for the quarter increased by 24% to Rs.145 crores from Rs.173 crores in Q3 FY18. With a slight improvement in the margin about 23 basis points. Interest expense for the quarter declined by 24% mainly on the account of mark to market gain on short term foreign currency borrowing. PAT for the quarter increased by 26.8% to Rs.79 crores and PAT after minority interest increased by 52.4% to Rs.66 crores.

Looking at our segment performance, our Pigment business delivered revenue growth of 5% to Rs.160 crores this was mainly on account of better realization. Sales volume for the quarter stood at 3,730 metric ton, EBITDA increased by 7% to Rs.22 crores with a margin of 13.8%. Utilization level for the quarter stood at 81% compared to 77% in Q3 FY18.

Agrochemical business delivered revenue growth of 32.6% to Rs.205 crores this was mainly driven by strong performance in the export market. Export sale for the quarter increased by 55% to Rs.161 crores, it has contributed 82% of the sales compared to 69% of the sales in Q3 FY18. EBITDA for the quarter increased by 55% to Rs.44 crores and EBITDA margin improved by 300 basis points to 21.3%. This was mainly on account of better product mix and higher realization. Utilization for the quarter stood at 67% compared to 58% in Q3 FY18. Basic

Chemical revenue grew by 27% to Rs.193 crores. This was on account of volume growth as well as higher realization. Sales volume for the quarter increased by 12% to 42,554 metric ton. Utilization for the quarter stood at 93% compared to 83% in Q3 FY18. Higher utilization leads to better economies of scale which further leads improvement in operating margin. EBITDA for the quarter grew by 33% to Rs.91 crores with a margin of 47%. Going forward we believe that all our businesses Pigments, Agrochemicals, and Basic Chemicals are on a strong growth path with increasing demand in domestic and on the export front this along with higher utilization and increase the share of value-added product withdrawing profitable growth as we move ahead. 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 the question and answer session. Anyone who wishes to ask a question may press * and 1 on their telephone keypads and wait for your turn to ask the questions. If you would like to withdraw your request you may do so by press * then 2. Participants are requested to use handsets while asking a question. Also as a reminder, in order to ensure that the management is able to address questions from all participants in this conference call please limit your questions to two per participant if you have any further questions you may come back for a follow-up. The first question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Sir just wanted to get a sense on our Agrochemical business, we have seen a slight decline in volumes and despite that our top line has grown quite a bit but our margins improved significantly, is it on account of high realization? What is the reason for the increase in realization and improvement in margins?

Ankit Patel: As you know, in Agrochemical business, we make intermediates, technical and formulation, In this quarter our formulation sale is not that big, it has gone down in fact. Normally formulation volume is higher than the technical volume because it gets diluted so because of that volume has gone down but overall technical volume has gone up. And the reason why the technical has increased and not formulation because particularly looking at the market condition there is a better realization in technical compared to formulation so keeping realization and sales in mind, we have sold more of a technical than the formulation.

Ankit Gupta: And how is the trend of the technical prices we have been hearing that in January, February prices have come up a bit,What your view on that?

Ankit Patel: The prices are relatively stable now. The products which we make have not seen any downward trend in price so far and we feel that even in coming quarters also it will be in this range only. We do not see any fall in the selling price.

Ankit Gupta: Can you disclose which will be your key product for these three areas and technical we addressed.

Ankit Patel: Yes, so as you know we are more of technical oriented company we have got insecticide range which is mainly focusing on the pyrethroid range which is Cypermethrin, Permethrin and bifenthrin. In herbicide range which is Phenoxy Herbicide, we have a major volume called 2,4D base herbicide. So, in pyrethroid range products there are about four or five producers in India where India has got upper hand compared to China. We do not see any challenge or competition for this range of product from China. And 2,4D which is a Phenoxy Herbicide China is equally strong as India but with our kind of the backward integration gives us upper edge compared to China and that is helping us.

Ankit Gupta: Sir, on intermediate sourcing, there are a lot of companies which have been telling us that there are issues in terms of procuring raw material intermediate from suppliers or manufacturing technical. So, if you can throw some light on how much backward integrated we are in this product? and how is the supply distribution for key raw materials and intermediate?

Ankit Patel: Sure. You are absolutely correct the companies which are not fully backward integrated they need to be dependent on China or some other manufacturer for the intermediate sourcing. In the case of Meghmani for the majority of our product where we have a focus and volume, we are fully backward integrated. So we are not dependent on any other company or not even on China. So that gives us the upper edge over other companies.

Ankit Gupta: Okay. And sir last question on the customer side, when this China issue happening almost 2-3 years now have we entered into long term supply agreements with any of our customers if yes how much will that be contributing our Agrochemical technical sales overall.

Ankit Patel: As Meghmani we already have one or two customers with whom we have been working for many years and we have a long-term relationship and agreement. After China factors, in about 1.5 to 2 year time a lot of companies are looking at Indian partner. As an Indian technical manufacturer, we are in touch with few companies as well for the new product or increase sourcing from our company and from the Indian market. So, in future, if anything is there then we will definitely announce for the interest of the investors.

Ankit Gupta: In Agrochemical business, we have 18-20% EBITDA margin but how our gross margins in the Agrochemical business?

Ankit Patel: Gross margin is good as well because you have seen that in Q3 FY18, our EBITDA margin was in the range of about 18% which has increased to 21% in this quarter and overall for nine months also we are in the range of more than 20% for Agrochemical. We hope it will be maintained. Gross margin is approximately in the range of about 40-42%.

Moderator: Thank you. The next question is from the line of Debanjana Chatterjee from HDFC Securities. Please go ahead.

Debanjana Chatterjee: Just wanted to know the net and gross debt level on both consolidated and standalone level.

Gurjant Singh Chahal: As far as debt is concerned on a consolidated basis, we have long term debt of Rs.400 crores as on 31st December and on standalone basis in MOL it is Rs. 259 crores.

Debanjana Chatterjee: I have noticed one more thing here, your other expenses have shot up in your standalone basis by 25% Y-o-Y, so any particular reason for that.

Gurjant Singh Chahal: Due to rupee appreciation from Rs.72 in Sept end to Rs.69 at December end, there is a mark-to-mark loss of around Rs.10 crores, so as per accounting standards, instead of showing other income as a negative, it has been added into other expenses. On the other side, correspondingly MTM gains on the foreign currency borrowings which is Rs.5 crores to that extent our interest cost is lower. Interest cost is Rs.7 crores as compared to Rs.16 crores last quarter. In the last quarter, there was a MTM loss of Rs. 4 crores and there is a gain in this quarter of Rs.5 crores. It has compensated in finance cost.

Debanjana Chatterjee: Okay. So that has been shown in your interest expense.

Gurjant Singh Chahal: Yes.

Debanjana Chatterjee: One more thing, in your segmental breakup Pigment, Agrochemical, Basic and others, what is this other dealing in?

Ankit Patel: Others unallocated is from the trading, there is a small other income which is unallocated portion from the corporate side. And on the console basis, others is partly foreign subsidiaries.

Moderator: Thank you. The next question is from the line of Jigar Shah from Negen Capital. Please go ahead.

Jigar Shah: I have only one question, in the worst case in your basic chemical business for FY20 and for FY21 what could be the worst-case margin?

Kaushal Soparkar: Jigar, it is too difficult to forecast that far fetched but usually by thumb rule we believe that the EBITDA should remain in the range of 32 to 35%.

Jigar Shah: Okay, there is no danger that EBITDA margin would fall to 15% or like that if something bad happens somewhere in the world.

Kaushal Soparkar: No, these are high CAPEX oriented business where sales to investment ratio is on the lower side and normally the EBITDA margin remains in the range of about 30 to 35% but because of the good cycle of the business since last about two years we are getting more than 40% margin.

Moderator: Thank you. The next question is from the line of Saurin Parekh of JMP Capital. Please go ahead.

Saurin Parekh: Just two questions, one is can you tell ECU for the third quarter for Basic Chemical.

Kaushal Soparkar: ECU is Rs.41,500 per ton for the third quarter.

Saurin Parekh: Okay. And also you can throw some light on the sustainability of the Basic chemical margin and also if you can talk something about the Pigment whether we have been able to pass on the raw material cost because in Pigment there has been some slowdown in the margin.

Kaushal Soparkar: As far as the ECU is concerned, from the beginning of the financial year, we have mentioned that it should remain in the range of Rs.40,000 per ton. We believe that it will also remain in the same range for the remaining quarter.

Moderator: Thank you. The next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj: Sir, can you just give us the current status of Chloromethane project I believe it was supposed to be commissioned by the end of Q3 or beginning for Q4 and where are we currently?

Kaushal Soparkar: Chloromethane project should commission by end of March or the beginning of the first week of April. There is a minor delay that has happened during the commissioning activity that is the reason instead of January it has been pushed back to the end of March.

Rohit Nagraj: Okay. So, the full effect would be felt only in FY21 next year we will be having probably for three-quarters proportionate volumes and revenues from the quarter side. It will take three months to stabilize the project.

Kaushal Soparkar: Yes, so once it settles down in the first quarter then remaining nine months' we should able to get the full capacity utilization.

Rohit Nagraj: Right. And sir on the chlorine prices front we have seen that the chlorine prices have been pretty strong over the last one and a half years what is your sense in terms of the downstream demand for chlorine and how do we expect the prices to behave because it was predominantly from the chlorine derivatives perspective that the demand was pretty strong.

Kaushal Soparkar: In Chloro-Alkali units when somebody comes with the newer capacity, there will always be some surplus capacity in the market and the consumption industry is a batch processing industry. So they take some time to match up with that utilization. and that is what happened two years back there was some surplus in the Chlorine and that is the reason the Chlorine prices were negative but throughout this year the demand and supply gap is minimal and that is the reason Chlorine has a strong demand and we also foresee that strength will remain to continue in the next financial year also.

Rohit Nagraj: Right, sir and if I can squeeze one last question what's the profitability of Meghmani Organics for Basic Chemical business during the quarter and for the first nine months.

Ankit Patel: Profitability in terms of absolute number?

Rohit Nagraj: Yes, if you could share that number.

Ankit Patel: So, on nine months basis the profitability EBITDA margin.

Rohit Nagraj: Sorry sir Meghmani Finechem, my apologies Meghmani Finechem.

Ankit Patel: That is what I already announced so you want to know about Meghmani Finechem for nine months.

Rohit Nagraj: Yes, sir.

Ankit Patel: In terms of absolute value, it is around Rs.216 crores, sorry that is profit before exception item, the PBT is around Rs.183 crores.

Rohit Nagraj: Okay, PBT is Rs.183 crores.

Ankit Patel: Yes.

Rohit Nagraj: And tax rate would be about 30% so approximately Rs.120 crores of profit.

Ankit Patel: We fall under MAT at this moment. That will be approximate.

Rohit Nagraj: So, the tax rate would be around 20% plus.

Ankit Patel: 22%.

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

Kishan Shah: I just wanted to know what kind of delay you faced in the CMS project.

Kaushal Soparkar: We received some machinery a little bit delayed which was imported. Due to that, some synchronization activity has got delayed that is the primary reason for the delay of this project.

Kishan Shah: Okay. And sir what kind of incremental revenue do you see from this project once it is commissioned in FY20?

Kaushal Soparkar: Looking at the current pricing trend we believe that it should be in the range of Rs.150 to Rs.160 crores.

Kishan Shah: Okay, sir what is the current price right now?

Kaushal Soparkar: Chloromethane have three products MDC, chloroform, and carbon tetrachloride and it is varying between Rs.40 to Rs.60, and it depends on the methanol and chlorine pricing and the market scenario.

Kishan Shah: Okay. New potash capacity which is expected to come that is I think 60 tons per day, so by when would that be commissioned?

Kaushal Soparkar: That was commissioned way back in April 2016.

Kishan Shah: Sorry not Potash, I am sorry , this caustic soda plant, capacity is expected to increase to 2,71,600.

Kaushal Soparkar: Yes, so the additional caustic capacity will come online somewhere around the second quarter of the next financial year.

Kishan Shah: Okay. And the revenues that we expect from that, incremental revenues.

Kaushal Soparkar: It will be approximately Rs.300 crores at a current price level.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir just wanted to understand have you shared any kind of guidance for next year in terms of revenue growth in margins.

Ankit Patel: So far, we have not shared with anybody. We will be sharing in full year result concall. But budget for the next year is under preparation.

Moderator: Thank you. The next question is from the line of Debanjana Chatterjee from HDFC Securities. Please go ahead.

Debanjana Chatterjee: Just one more follow up question, there was a fire broke out in your Dahej plant, so has that come on stream again or is there any further detail or what is the development over there?

Ankit Patel: I think fire broke out way back in 2017.

Debanjana Chatterjee: Okay, so what was the top line contribution from that plant.

Ankit Patel: It was immediately started within three months. So there was no loss from the revenue so it started within three months itself. So, it is running well, and there is no issue. It was a Pigment plant.

Debanjana Chatterjee: So can you give any revenue contribution from that plant.

Darshan Patel: Roughly around Rs.190 crores for the full year.

Moderator: Thank you. The next question is from the line of Mehul Shah from Sambhavana Securities. Please go ahead.

Mehul Shah: Sir just wanted to know you have a Rs.6.4 billion CAPEX right? How is that progressing?

Kaushal Soparkar: We have planned for four projects first is the Chloromethane which is going to be commissioned by end of this financial year or beginning of the first week of April. The remaining two are Hydrogen Peroxide and Caustic Soda expansion and we are also putting our own coal-based captive power plant with additional 36 megawatts and all three will come in line somewhere in the quarter two of next financial year.

Mehul Shah: And incremental revenue from this project sir, if you can put some highlights?

Kaushal Soparkar: At current price, additional revenue would be around Rs.600 to Rs.700 crores.

Mehul Shah: Okay. And I have one more question related to our NCLT application, it is at what stage if you can throw some light.

Ankit Patel: We are still awaiting the final order.

Mehul Shah: But everything is prepared from our side we are just waiting from the NCLT side response.

Ankit Patel: Yes, that is correct.

Moderator: Thank you. The next question is from the line of Rahul Marathe from Akash Ganga Investment. Please go ahead.

Rahul Marathe: In the old structure Meghmani Organics owns around 82% in Meghmani Finechem that is my understanding is it right?

Ankit Patel: No.

Gurjant Singh Chahal: In the current consolidation it is 77%, and post it is going to be 57%.

Rahul Marathe: So around 20% fall would be considered in this PBT going forward.

Gurjant Singh Chahal: Not in this PBT, it is from the next year onwards. After order is approved by NCLT then only financial will be from the prospective basis and not retrospective.

Rahul Marathe: Yes, from the subsequent year onwards and that 8% will also be then compensating fall of 8% preference shares that we are having.

Gurjant Singh Chahal: No, actually there will be two kinds of payment one Rs.221 crores which will be paid immediately after NCLT order along with 8% dividend. And we are expecting that in one month time it should be finalized and before March we should get that payment. Second is the Rs.211 crores which is additional payment with 8% dividend and these are the OCRPS which will be redeemed over a period till then 8% dividend will be paid by MFL to MOL.

Rahul Marathe: On Rs.211 crores.

Gurjant Singh Chahal: Yes.

Moderator: Thank you. The next question is from the line of Rohit Nagraj of Sunidhi Securities. Please go ahead.

Rohit Nagraj: Sir could you throw some more light on the Pigments business, how are the raw materials prices are moving? I guess the phthalic anhydride prices have been soft and what is the scenario over the next couple of quarters and the average prices of the three Pigments, i.e. Green, CPC, and Beta Blue during the quarter.

Darshan Patel: Average price of the CPC is around Rs.245 to Rs.250. Beta Blue is Rs.335 to Rs.340 and green is around Rs.425 to Rs.430. The raw material prices compared to the last year in phthalic anhydride increased by 15%. Cupreous increased by 15% and Urea is increased by 24%.

Rohit Nagraj: Alright and how are those prices?

Darshan Patel: For the next quarter the forecast will the remain same, there would not be much increase.

Rohit Nagraj: So sequentially the Pigment prices have slightly come down because I think last quarter the green prices are about Ra.450, CPC was about Rs.280 and Beta was about Rs.350 to Rs.400.

Darshan Patel: Yes, because the third quarter is on decline mode as compared to the quarter two due to export.

Rohit Nagraj: Okay. And these exports are predominantly in which geography is it because of China or any other specific country?

Darshan Patel: Actually, we do not find any competition with China. It is purely Indian dominated business and as far as the export is concerned, we export to approximately 80 countries, so it is widespread to a different continent. We are not dependent on one segment or one area. And yes you are correct there has been increase in the raw material price but due to the market condition there is not much demand coming from the different market and because of that there is this pressure on the selling price so there is a two way pressure one side there is increase in the raw material price as well as there is a decrease in the selling price. And in some of the countries like Turkey, Argentina, and Iran, there have been currency-related issues as well, Because of heavy depreciation in their local currency; the demand is not taking up well. Which we feel that in the coming quarters there will be an increase in the demand and we will be able to pass on the price increase to our customer so there will be improvement in the margin in coming quarters and we hope that the current EBITDA margin is in the range of about 14%, which we hope that it should improve to about 16%.

Rohit Nagraj: Okay. And sir one clarification on the basic chemicals project you said that total revenue potential is Rs.600 crores and of that caustic soda is Rs.300 crores is it a right interpretation?

Ankit Patel: That is correct.

Rohit Nagraj: So hydrogen peroxide will be the rest Rs.300 crores.

Ankit Patel: Chloromethane Rs.150 crores, Hydrogen Peroxide is also Rs.150 crores.

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

Kishan Shah: So sir you said that in Agrochemicals the margins were better because of better realization and good exports and a product mix. So, I just like to confirm that our sales in the quarter was 4,149 metric ton.

Ankit Patel: Yes.

Kishan Shah: And our revenue is Rs.205.3 crores.

Ankit Patel: That is correct.

Kishan Shah: So, if I calculate like quarter-on-quarter our realization has actually gone down by 7% am I right?

Ankit Patel: No, if you compare last year's Q3 the sales was 4,246 tons and the revenue generated out of that was approximately Rs.155 crores, with the slight decrease by about 100 tons compared to Q3 FY18. But there is an increase in sales by 50 crores to 205 crores so if you take per ton or per kilo realization then it has increased a lot.

Kishan Shah: I got your point. But I am comparing actually quarter two FY19 versus quarter three.

Ankit Patel: Okay, if you compare quarter two FY19 then yes, there is slight decrease in realization but in some of the raw materials there was a price increase which we were not able to pass on immediately to our customer and we will be able to pass on that in coming quarters.

Kishan Shah: Okay, so sir if you can just tell me like how many price increases have you taken in the nine-month period till now? Or maybe if you could just tell a percentage increase in price by 18% or something like that?

Ankit Patel: It would be difficult to give you the answer because it depends on product to product but overall if we consider then yes it has been increased by more than 25% to 30%.

Kishan Shah: Sir are you looking to increase the prices any further?

Ankit Patel: Looking at the current market situation we feel that it won't be possible to increase the price further, but we will be able to maintain this price range and we would like to improve our margin by reducing our input cost and by optimizing our operational cost. Our target is to maintain this kind of EBITDA or further increase our EBITDA by doing this kind of activity.

Kishan Shah: What is your effective tax rate that we should be considering for FY19 and FY20?

Gurjant Singh Chahal: In the range of 27% to 30%.

Kishan Shah: And as there are nine-month interest cost was around Rs.38 crores so is there any scope for this to go down any further or could you give guidance for FY20 like how much would it be?

Gurjant Singh Chahal: We are trying to maintain our interest cost low by various means. By way of debt mix, we take in foreign currency as we are an export-oriented company we are able to maintain our interest cost below 8% despite increase in MCLR. You can see that there has been a drastic increase in MCLR by all the banks in the last six months' time. But still we have been able to maintain our finance cost below 8% by taking debt into foreign currencies and we feel that even in the future for FY19-20 also we will be able to maintain it.

Moderator: Thank you. The next question is from the line of Ravinder Vats an Individual Inventor. Please go ahead.

Ravinder Vats Sir my question is related to the financial statement, actually according to IndAS 33 our accounting for diluted EPS should be done, so if we talk about things after merger then the 20% decline in holding because of that the net controlling interest and the change in NCI, so for that did you consider it under diluted EPS or not the 20% decline, if it's possible then IndAS 33 is telling you to present it in the financial statement so have you done it accordingly or you have calculated according to EPS AS20, my question was related to diluted EPS and my second question, is there any plan of the company for subsidiary in which a demerger can happen and can we see some listing possibility in future, I am asking related to Meghmani Finechem.

Ankit Patel: To answer your second question, as of now we are in CAPEX mode and we are going to start some of our new projects in coming years' time so we do not have an immediate plan for the demerger. Our first plan is to stabilize this CAPEX and run our plant at good capacity. We have been getting a different kind of proposals from different people, but I think this is not the right time to do it. But in the future we will look at the possibility. For your first question, I have Mr. Chahal who will answer to you.

Gurjant Singh Chahal: Yes, Mr. Ravinder we have not given any impact because it is subject to NCLT approvals. So once NCLT approval is in place then only we will give effect to that.

Ravinder Vats: Sir can it happen in future that in Finechem if we increase the debt then is there any possibility that existing shareholders can contribute by right issue and by that the debt-equity could be manageable. Are there any such possibilities from the management end?

Ankit Patel: Thank you for your suggestion, Mr. Ravinder, I think we will discuss internally we will take some advice and we will review whatever the best option in the interest of the company.

Moderator: Thank you. The next question is from the line of Satish Jayakumar from Satish Investments. Please go ahead.

Satish Jayakumar: Sir I am a retail investor, why the dividend yields is very low like last year it was 6% going forward how it will be?

Ankit Patel: We came to know from our investors that dividend payout is a bit on the lower side. So I think we will discuss internally and for Q4 result we will be announcing that, and it would be in that kind of range.

Satish Jayakumar: Okay. So, because of ongoing capacity expansions, you are not able to pay high dividends?

Ankit Patel: That is one of the reasons but we will still pay good dividends so don't worry.

Moderator: Thank you. The next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj: Just a couple of questions on the financial front, you said consolidated debt right now is Rs.400 crores and during the last concall I think the number was 637 crores, have you repaid almost 237 crores of debt?

Gurjant Singh Chahal: No, Rohit we have mentioned the long-term debt only and Rs.200 crores is our working capital.

Rohit Nagraj: Okay, so the total debt would be close to about Rs.600 crores.

Gurjant Singh Chahal: It is in the same as in the last quarter. it is Rs.625 crores.

Rohit Nagraj: Sir, what is the CAPEX that we have incurred untill nine months?

Ankit Patel: For the new projects?

Rohit Nagraj: The entire CAPEX, maintenance CAPEX and for the new project.

Ankit Patel: For the 640 crores CAPEX, we have already made payment of Rs.350 crores, remaining will be done in the next three to four months in the staggered manner as and when it is getting due.

Rohit Nagraj: And normal maintenance CAPEX?

Ankit Patel: Maintenance is ongoing, about Rs.30 to Rs.35 crores is the normal CAPEX what we do in the routine process.

Rohit Nagraj: That is a yearly number correct?

Ankit Patel: Yes, that is a yearly number.

Rohit Nagraj: And just one update on the CAPEX on the Pigment and Agrochemical, this is subject to the EC so we are expected to receive some kind of feedback probably this quarter or next quarter for EC, right?

Ankit Patel: You are correct we will be able to give some good news about environment clearance for the Agrochemical division and Pigment division in the next quarter concall, we are at last stage of getting environment clearance and at the same time we have already started our internal work so for the Agrochemical project also we will be announcing in the next quarter concall.

Moderator: Thank you. The next question is from the line of Ambuj Chaudhary an Individual Investor. Please go ahead.

Ambuj Chaudhary: What is the main reason behind the slowdown in the Pigment segment sector like the demand growth is not that much slowing down due to the few counties like Argentina and Turkey so what would be the main reason?.

Ankit Patel: One reason is currency, the second reason is the consumption of Pigment is on decline mode due to the printing market is on decline mode because of the technology. See Mr. Chaudhary from the application point of view Pigment goes into three segments. The major segment is printing ink, second is masterbatch for the plastic and third is for the paint. Globally you have seen that the digital media is taking the lead and the printing media is getting staggered or slowly going down because of that we see that there is bit pressure on the Pigment market but at the same time the master batch and coating industry is on growing side, with that we will be able to match the demand. In future that will be good for the Pigment division.

Ambuj Chaudhary: How much time will take for this slowdown to get covered up.

Ankit Patel: Minimum one quarter. So, we hope that FY19-20 business will better.

Moderator: The line for the current participant has dropped. We take the next question from the line of Suresh Agarwal an Individual Investor. Please go ahead.

Suresh Agarwal: Your employee cost has increased from Rs.20.9 crores to Rs.33.1 crores in this quarter and in the nine months' ending mostly from Rs.59 crores to Rs.92 crores, what is the reason behind this?

Ankit Patel: One of the reason is we are in the growing mode for the different projects, so we need to recruit new people so that is one of the reason and the second reason we used to do the managerial remuneration in the last quarter for the whole year so which as per the board advice we have done on a quarterly basis.

Suresh Agarwal: Can you give some light on this like in your presentation you have shown your experience leadership team and then well qualified the second generation of management is this because of this management you are increasing, that is why the employee cost is increasing?

Ankit Patel: No, the second generation was there way back. Everybody in the second generation has joined 8 to 15 years' back in time. Overall different period cycle so it is not that because the second generation has joined. The cost has gone up it is purely based on the numbers and the rules, regulations which we follow normally we used to do the managerial remuneration on the last quarter for the whole year but as per the advice of the board, it has been decided that to divide it over a different quarter. So, there is no immediate effect on one quarter, so we are doing it on a quarter-on-quarter basis.

Suresh Agarwal: Okay. sir second question is like when you are going to increase your shareholding in Meghmani Finechem you are going to issue some kind of preferential allotment to promoters, isn't it?

Gurjant Singh Chahal: No. This is to the MOL, not to the promoters, there are two types of preference shares. One is non-convertible 8% preference share worth Rs.221 crores which will be redeemed immediately after NCLT order and will be paid with the 8% dividend. Second is Rs.211 crores which will be OCRPS optional convertible preference share which will be redeemed over a period and till that time it will attract 8% dividend which will be paid to MOL, not to the promoters.

Suresh Agarwal: No, what I mean to say, since promoters shareholding in Meghmani Finechem is going to increase to the extent of 20-23%, so because of this increase, management also gives some money to Meghmani Finechem isn't it?

Gurjant Singh Chahal: No, let me explain on the scheme, It is merger of the two subsidiaries, Meghmani Agrochemical and Meghmani Finechem. MACPL where this IFC stake has been taken over was given by MOL for Rs.221 crores and Agrochemical has issued NCRP for the same. Once this is merged, NCRPS will get canceled and fresh NCRPS will be issued by MFL which will be redeemed in 7 to 10 days after NCLT order and by merger of two subsidiaries, equity capital in the MFL will go down from 75 crores to 41 crores. There is no increase in the number of shares held by promoters, but overall equity is going down so that is why there is an increase in promoters shareholding.

Suresh Agarwal: Because of the total extinguishes of this shareholding by IFC the promoter shareholding is going to increase.

Gurjant Singh Chahal: Yes, you can say that actually.

Suresh Agarwal: Second is, please if you can give some light like how promoter family like the related persons were engaging managerial work of the company in different levels? What is the salary of and commission of the management team?

Gurjant Singh Chahal: No, this is as per the company's act under section 198. That is the managerial remuneration up to maximum 10% you can provide for.

Suresh Agarwal: So we can get this information from the annual report isn't it?

Gurjant Singh Chahal: Yes, it's very much there.

Moderator: Thank you. The next question is from the line of Parth Saldi an Individual Investor. Please go ahead.

Parth Saldi: Sir current ECU including price.

Ankit Patel: Current ECU is around Rs.41,000.

Parth Saldi: And what about chlorine.

Ankit Patel: Chlorine pricing is approximately in the range of Rs.3 to Rs.5 depends on the customer and the distance from our plant.

Moderator: Thank you. The next question is from the line of Rohit Gupta an Individual Investor. Please go ahead.

Rohit Gupta: Sir I am still not clear about this shareholding structure in MFL, what I understand from the recent answer that you gave to an earlier participant is that the IFC shares are basically getting extinguished so then the shareholding for even MOL should increase in a proportionate manner just like the shareholding of promoters. I understand that the number of shares is going to decrease and the number of shares for both the promoters and MOL should remain constant but in terms of the percentage even the shareholding of MOL should increase if the IFC shares are being extinguished.

Gurjant Singh Chahal: As explained earlier also, when in 2008 Meghmani Finechem was established at that time board had decided that being a cyclical and commodity business, MOL exposure in MFL will remain 57% and after that stake of IFC (25%) balance was taken by promoters. Now that same stand is being maintained as of now and when this IFC exit has been given through wholly over subsidiary by paying Rs.221 crores which you are saying that it should increase that money is coming back. So that it is not going to increase from 57% to 77% whereas 25% stake is purchased through a wholly owned subsidiary, which is getting cancelled and Rs.221 crores will get back to MOL immediately after NCLT order. Apart from that, additional consideration of Rs.211 crores will be paid to MOL.

Rohit Gupta: What is the amount that will be paid to IFC For 25% stake?

Gurjant Singh Chahal: Rs.221 crores and this will come back immediately after NCLT order. Effectively, there is no money paid by MOL.

Rohit Gupta: Okay. And over and above that, there will be another Rs.211 crores of OCPRS that you were saying is additional consideration that we are getting?

Gurjant Singh Chahal: Yes, that is additional consideration will be paid by MFL to MOL to remain its stake at 57%, i.e Rs.211 crores.

Rohit Gupta: Okay. And when will this Rs.211crores additional that you are mentioning redeemed in terms of what is the maturity of this preference share?

Gurjant Singh Chahal: These will be redeemed over a period as the cash flow will permit in MFL. These will redeemed in around 4 to 5 years period. Till that time 8% dividend Rs 16 crores will be paid by MFL to MOL as a dividend.

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

Kishan Shah: Sir In FY18, in the Pigment segment sales volume were 16,000 metric ton and in the nine months' period we have done 11,120 approximately. So, if we have to attain the same levels. We will have to upsell 4900 metric ton more in quarter four so is this possible I mean what is the situation right now will we be able to sell so much of quantity?

Ankit Patel: As per the current situation we will be able to achieve last year's numbers.

Kishan Shah: Okay, so you mean to say we will be able to sell around 4900 metric ton in quarter four.

Ankit Patel: Correct, nearly.

Kishan Shah: Sir actually it is the same situation for Agro and Basic, we have to sell around 4,500 to 5,000 metric ton respectively to achieve the same FY 18 level so is that situation same for all the segments?

Ankit Patel: In the case of Agrochemical as I explained earlier the capacity utilization of the tonnage production and the sale is blend of technical and formulation both together. Here what has happened in Agrochemical looking at the market condition the technical sales is more compared to the formulation sales so as a company we have realized better sales revenue as well as better profitability in technical rather than in formulation. So, we may not be able to achieve the same kind of volume for the formulation but for the technical, there will be a growth. So, which is the main product where the efficiency of the plant is measured. So, for the technical plant, we will be able to sell more product compared to the formulation in the case of Agrochemicals. In the case of Basic Chemical if you see that in nine months' time the volume is slightly less. So, I think we will be able to recover in the fourth quarter.

Gurjant Singh Chahal: Last year throughout the entire financial year the sales was 600 crores approximately. Currently 9 months we have already done the sales of 527 crores. So, at this rate we will be able to cross it and so even if you look at volume is partially lower throughout the year. But if you look at this particular quarter, we have done far better than the previous quarter also as well as Q3 of the previous financial year. So we do not see any problem in that direction.

Kishan Shah: Okay. And sir just a general outlook for each segment in FY20 like what kind of demand are you expecting or are you seeing already and the overall scenario of the market.

Ankit Patel: We hope that for FY20 the market condition will be good for all the three division. We will be able to generate a good amount of revenue with 20% growth and we will be able to maintain the margin in a similar range. So even FY20 will be better but budget numbers are under preparation, which we will be announcing with segment wise target for the next financial year in the next concall.

Moderator: Thank you. The next question is from the line of Jayant Kumar Sancheti an Individual Investor. Please go ahead.

Jayant Kumar Sancheti: Just wanted to know sir the markets have been punishing our stock after this complex merger was announced last quarter, did you have any board of directors meeting to take back this merger scheme wherein MFL the shareholding of Meghmani Organics will reduce from 77% to 57%.

Ankit Patel: From the very beginning Basic chemical is a very much cyclic business we have seen bad days also in the past so from the very beginning there was a mandate that we should not have a significant share in basic chemical division rather than we should have a more share in specialized business with this Pigment and Agrochemical. So it was decided that we should not increase our share much in this segment. Second thing there was no discussion in the board meeting regarding going back or so but as far as the share price has been hit we would be representing to investors properly that what has happened what is the scheme and I think very soon we will have a proper investors conference where we will announcing properly about the scheme, our future plan and how do we want to take it further. So that we can gain the confidence back from the investors.

Kaushal Soparkar: And moreover it was very well discussed within the board and after taking approval of all board members we have decided to go ahead so they were taken into full confidence.

Jayant Kumar Sancheti: I understand sir but this was decided in 2008 that the shareholding of Meghmani Organics in Meghmani Finchem will not increase above 57% but after 10 years don't you think that the shareholders must be asked whether they would like to keep their holding at 77%, since even in the current quarter our profits would have decreased by around 12 to 13 crores if the scheme of arrangement would have been applicable today.

Ankit Patel: We have not had a discussion in that line but for the betterment of the investors as I discussed earlier once the CAPEX will be stabilized then we will discuss with various financial advisors. So we will have a proper plan what to do next so that even the investors get the benefit of it.

Jayant Kumar Sancheti: How much is the CAPEX expected in Meghmani Finechem how much in the next two years?

Ankit Patel: We have already announced two years back that we are going for a CAPEX of Rs.640 crores and that will be fully completed in the next two quarters subsequently. Once that is in streamline then we may announce further CAPEX.

Moderator: Thank you. The next question is from the line of Pravin Sharma an Individual Investor. Please go ahead.

Pravin Sharma: Sir as far as this Pigment is concerned the sluggishness is more due to the seasonal nature or it's structural nature because when you say it's due to printing which constitutes around 40% to 50% of the pigment utilization or consumption then how do you think that this will come back to original level within a quarter don't you think this is structural in nature and I am not able to gauge it, can you elaborate more on that.

Ankit Patel: Printing is a part of one segment in the industry, the printing media is on decline mode but on the other side you can see that the packing industry is on the increasing mode. So we found that the printing is on a decline, but the consumption pattern will be increasing in the packaging side.

Pravin Sharma: Okay. So overall on a blended average basis you assume that whatever the capacity expansion which we are planning it is going to yield us good amount of asset to turnover ratio means it should not happen that we invest and subsequently we realize that the kind of returns we were expecting from this segment and our investment has return on capital employed is up to the expectations. That level of can you throw some light on that.

Ankit Patel: The thing is first of all, we are not planning any CAPEX for the same range of product what we are making right now in the Pigment division that is very clear. Whatever capacity we have we feel that it does not make any sense to expand in the same kind of product range. And the second thing is which is growing at a low level at about 2%, 2.5% so yes there is not significant growth coming in this segment. There is a challenge. So, we are working on some new Pigments and for that, in the past, as we have already discussed that we are waiting for the environment clearance once we will have the environment clearance we will be announcing the projects.

Moderator: Thank you. The next question is from the line of Suresh Agarwal an Individual Investor. Please go ahead.

Suresh Agarwal: Sir please can you tell me what was the promoter's stake in MFL before this IFC exit.

Gurjant Singh Chahal: It was 23%

Suresh Agarwal: And after this IFC exit how much.

Gurjant Singh Chahal: As we mentioned that as the number of shares of promoter remains same, there is a cross holding in the subsidiary the stake has been purchased by Meghmani Agrochemical Private Limited and those shares will get canceled and overall equity will come down from 75 to 41 crores. So here holding pattern will change MOL will remain at 57%.

Suresh Agarwal: And promoter holding?

Gurjant Singh Chahal: 43%.

Suresh Agarwal: So how much promoter is contributing for this additional 20% increase in shareholding, if they are contributing anything or just Meghmani Finechem is paying Rs.221 crores plus Rs.211 crores and promoter without a contribution of anything they are getting their shareholding increased by 20%.

Gurjant Singh Chahal: It is not a question of contribution. If you have understood the scheme, MOL has funded Meghmani Agrochemical Private Limited by Rs.221 crores. to take the IFC stake, and that stake has been purchased by MACPL. After the NCLT order, this Rs.221 crores is coming back to MOL with 8% dividend. Effectively MOL has not paid anything for that, this money will come back with 8% dividend. Rational of the scheme was to create the liquidity in MOL if you see the balance sheet of March 18 debt position was 312 crores and again, we paid this 221 crores and additional CAPEX plan is around 350 to 400 crores. On the standalone balance sheet, it becomes around 900 crores. To create liquidity and fund expansion in MOL this was the scheme that money should come back to MOL. So, these two subsidiaries are being merged. The stake of Meghmani Agrochemical in MFL will get canceled. And the fresh NCRPS will get issued immediately after NCLT order within 7 to 10 days these will get redeemed. So, money will flow back to MOL. So, effectively it is money paid for IFC exit will come back. Apart from that to answer the second question that to retain that 57% there is an additional OCRPS of Rs.211 crores being paid by MFL.

Suresh Agarwal: The reason behind the beating of Meghmani Organics stock price is that promoters are getting an undue advantage and they are increasing their shareholding in Meghmani Finechem without contributing anything so please I will request you from all the investor side you please give a detail clarification just in writing. so that everybody could understand all these things and again look we are sufferer I am investing in our company from last 5 years, I have put thousands of shares like around 15-20,000 shares but I purchased all those shares at the rate of Rs.90-Rs.100 and now share price is doing around 50 to 53 and all the investors are actually alleging that promoters have gained from this transaction and small investors they are suffering from all this. So, I will request from my side please give a detailed clarification in writing on the BSE or NSE site so that we can go through this, we can discuss this and investor confidence will come back.

Ankit Patel: Surely, we are awaiting the final order from NCLT once that is there we will.

Suresh Agarwal: Before final order also what is in your mind what you are going to do, how you are not getting benefited, how you are not taking the advantage of small investors you just clarify that on the BSE and NSE so that we all can go through this and we can decide the promoters are very genuine. Look sir two questions are going on the investors mind, first is you are getting unduly advantage of this IFC exit so you are getting this shareholding increased by 20% without contributing anything first is this, second is this all your family members are part of the board and they are getting high remuneration, and that is why quarter-on-quarter this employee cost is increasing so please I will request you from my side as a small shareholder of your company you are rich people but we are small investors please for the sake of ours and for the sake of the company reputation please give a detailed clarification so that we can all go through this, we can discuss this and again consider the small investor in your company because I know this is a very good company. All your verticals are doing very nice but, questions are on the owners on the promoter please do this sir.

Ankit Patel: Thank you Mr. Agarwal, we will do it.

Moderator: Thank you. The next question is from the line of Ravindra Kumar an Individual Investor. Please go ahead.

Ravindra Kumar: Sir everyone asked you the same question, I want to explain it to all the investors and you also tell your thoughts on this. The investors are facing difficulty in understanding because it is an accounting thing and I am a Chartered Accountant so I would like to tell all the investors who are participating in the call that, the reason behind 25% holding which is getting decreased is because Finechem is buying it back as the number of shares is reducing so 25% shares which are being bought at around 221 crores is given in cash to Meghmani Organics, so the share of Rs.125 Meghmani Finchem is bought back and this buyback is as per Rs.125 like it was for IFC exit so the 25% share which Meghmani Organics sold they got paid for it. And another than this it's favorable for Meghmani Organics and as the number of shares have reduced so promoters holding I being increased because 25% share has been canceled and when Meghmani Finechem exited from IFC that time it was bought at the price of 220 crores so Meghmani Finechem gave Meghmani Organics whereas today the value of the company of caustic soda or chlorine or fine chemicals is less than that, so ultimately Meghmani Organics was in profit that it got a buyback at a higher price and it is getting dividend for the delays happening. So, I don't think that there is an issue, but I think it there could be better options, but I think investors should not worry in this it's a simple 25% buyback done by Meghmani Finechem to Meghmani Organics because it was its shareholder and it sold its share to another one. So, this was the nutshell result what I think and Meghmani Organics has been benefited as they got Rs.125 for its share as the current price of Finechem will be low only. Whereas Meghmani Finechem has good profits but it's a cyclic business and we understand the commitment of the management so in short term the shareholders are thinking that we are at a loss as money is coming from Finechem but it's not like that because in cyclical business profits do vary. And you please tell something about it.

Ankit Patel: Mr. Ravindra thank you for your clarification and I think for the betterment of the investors we will address the concern to everybody, in fact we are planning to have proper investors conference where we can explain to everybody in a long-term view so people can understand properly. That we will do it in near future.

Ravindra Kumar: I have uploaded three videos regarding this on YouTube and if any investors have any doubt I have explained the scheme of the management in those three videos and I would tell the investors to go through that and understand it because at times things get complicated so you have to understand it.

Moderator: Thank you. The next question is from the line of Rohit Gupta an Individual Investor. Please go ahead.

Rohit Gupta: My questions have been answered thanks.

Moderator: Thank you. The next question is from the line of Suresh Agarwal an Individual Investor. Please go ahead.

Suresh Agarwal: Sir whatever this Ravindra the Chartered Accountant was saying that he has uploaded videos on Youtube but he said 25% was bought back and if 25% was buy back then promoter shareholding was previously 23% and Meghmani Organics was 57% then how 20% got increased. He makes videos and uploads them but I don't know his motive and his video is not clear, he has explained in his video that promoter has given a preferential share of around Rs.30.

Ankit Patel: Mr. Suresh for your kind understanding I think what we request you that we can have a separate conference call.

Suresh Agarwal: Yes, exactly that is what I want you to give a separate understanding about it. Ravindra is also an investor and we are also an investor, what Ravindra said it's not clear I saw his videos and every time he said something else. But nothing is clear by that.

Ankit Patel: We respect your view as well as Mr. Ravindra's view but for your better understanding let us have a separate concall.

Suresh Agarwal: Sir before concall please share it in details.

Moderator: Thank you. Ladies and gentlemen as there are no further questions from the participants I would now like to hand the conference over to Mr. Ankit Patel for closing comments.

Ankit Patel: Thank you very much all the investors for participating in concall of Q3 FY19 we look forward to your support. Thank you very much.

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