

**Meghmani Organics Limited**  
**Q1 FY19 Earnings Conference Call**  
**August 10, 2018**

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**Moderator:** Good evening, Ladies & gentlemen. I am Stanford, moderator for this conference call. Welcome to the Q1 FY19 Earnings Conference Call of Meghmani Organics Limited, organized by Dickenson Seagull IR. At this moment, all participant lines are in the listen-only mode. Later we will conduct a question-and-answer session. At that time if you have a question you may please press '\*' then '1' on your telephone keypad. Please note that this conference is being recorded.

Today we have with us on the call Mr. Kaushal Soparkar – MD, Meghmani Finechem Limited; Mr. Darshan Patel – COO, Pigments business; Mr. G.S. Chahal – CFO, Meghmani Organics Limited. I now hand the conference over to Mr. Kaushal Soparkar. Thank you and over to you, sir.

**Kaushal Soparkar:** Thank you very much. Good evening, everyone. Warm welcome to MOL's Q1 FY19 Investor Call. I will begin the call with the performance highlights, outlining our growth outlook and then open the floor for questions.

We are pleased to start the year on a high note with a strong growth in revenue and profitability. Our CAPEX of Rs. 6.4 billion on basic chemicals will help to fuel the future growth as we sweat our existing capacities.

Coming to financials, consolidated revenue for quarter grew by 13% year-on-year to reach Rs. 4,765 million, compared to Rs. 4,212 million in Q1 FY18 on the back of higher revenue from basic chemicals.

With revenue mix increasing towards the high margin basic chemical business, EBITDA increased by 36% year-on-year to Rs. 1,240 million in Q1 FY19 and EBITDA margin for the quarter stood at 26%, up by 437 basis points.

Company has reported highest ever PAT of Rs. 771 million, up by 78%. And PAT margin for the quarter stood at 16.2%, increased by 589 basis point. Company has delivered the highest ever attributable PAT of Rs. 637 million, 94% higher than the corresponding period last year.

Looking at each segment, our pigments business has reported revenue of Rs. 1,439 million and EBITDA of Rs. 191 million with EBITDA margin of 13.2%. Capacity utilization for the pigment business in Q1 FY19 stood at 75%.

Our agrochemical business has reported revenue of Rs. 1,607 million, remained flat and EBITDA of Rs. 341 million, increased by 39% year-on-year. EBITDA margin for the quarter stood at 21.2%, up by 610 basis point on account of higher realization of products and sale of high margin products. Capacity utilization of Q1 FY19 stood at 57.3% compared to 77.7% in Q1 FY18. Utilization has declined in the current quarter due to repair and maintenance at our one of the plants and higher sales of Technicals instead of formulation due to better price realization.

On basic chemical business, company has reported revenue of Rs. 1,710 million in Q1 FY19 compared to Rs. 1,194 million in Q1 FY18, increased by 43% year-on-year. EBITDA for the quarter increased by 67% to Rs. 746 million from Rs. 446 million in Q1 FY18. EBITDA margin increased by 620 basis point to 43.6% and capacity utilization for the quarter stood at 86.4%. Our CMS project is ramping up, as per the plan it would be operational by December 2018.

Going forward, we believe that all of our business, pigments, agrochemicals and basic chemicals are on strong growth path with increased demand in domestic and export front. Along with higher utilization and positive market conditions will drive the profitable growth as we move ahead in fiscal year 2019.

So, with this, I would be happy to take any questions that you may have.

**Moderator:** Thank you very much, sir. Ladies & gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Nitin Dharmawat from Oran Capital Please go ahead.

**Nitin Dharmawat:** I have a couple of questions, first is, there was a transport strike recently, so just wanted to know the impact of this strike on our upcoming quarterly results with respect to basic chemical business? And my second question, what is the plan to repay the debt, as we are planning for new CAPEX so what are your plans for repaying the existing debt? And third question, what is the plan to increase the dividend payout? Because currently, our dividend payout is very low.

**Kaushal Soparkar:** As far as the transport strike is concerned and at that same time we had plant shutdown at our basic chemical plant. So, nothing is affected. Second, for the debt, regarding the future CAPEX, MFL is currently a debt free company, we are planning to borrow further but once the financial closure happens we will let you know. For dividend policy, we will talk to the higher management and if there is any change it will reflect anyway in the next financial year, not in this financial year.

**Nitin Dharmawat:** You said MFL is a debt free company, what is the consolidated debt, I am talking about the consolidated one and not the standalone.

**G.S. Chahal:** If you see as on March 18 the total consolidated debt was Rs. 385 crores. MOL debt at that time was around Rs. 310 crores, consisting of term loan Rs. 267 crores. MOL will remain at

these levels only. As Kaushal has said, for this CAPEX of Rs. 650 crores we are evaluating options and when this financial closure happens we will let you know.

**Nitin Dharmawat:** That I understand, what I wanted to know that are you going to increase that debt because we are having new CAPEX coming up or you are planning to gradually remove the debt from the book? And if so, what is the timeline that you are looking for, along with the CAPEX?

**G.S. Chahal:** Because of this capex of Rs. 650 crores there will be increase in debt for which financial closure will happen in the coming quarters. CMS project is going to be commissioned by December end and we have already spent Rs. 175 crores from the internal accruals. Balance Capex is coming on stream by June 19 and part drawl of debt will be there by March 2019.

**Moderator:** Thank you. We have the next question from the line of Jiten Parmar from Aurum Capita. Please go ahead.

**Jiten Parmar:** Just a follow-up question. My question is, this Rs. 650 crores CAPEX and there will be increase in debt, so what is the plan to repay the debt, what is the time for that?

**G.S. Chahal:** We are discussing with the bankers. Whether it is a five year or seven year that is the range we are talking about so that, we have the best competitive interest rates.

**Jiten Parmar:** What I want to know is some of the CAPEX will be through internal accruals, is that right, can I presume that?

**G.S. Chahal:** Yes, as I have stated, because 175 we have already spent by June through internal accruals only. so far in MFL we have not drawn any debt.

**Jiten Parmar:** What will be the total peak debt on a consolidated basis?

**G.S. Chahal:** On a consolidated basis, 300crs I am talking about MOL. MFL financial closure will happen in coming quarters.

**Jiten Parmar:** No, I am saying maximum how much will it go to when all this CAPEX is done.

**G.S. Chahal:** Rs. 300crs plus Rs. 400crs, so maximum can go up to Rs. 700 crores.

**Moderator:** Thank you. Our next question is from the line of Sunil Kothari from Unique Investments. Please go ahead.

**Sunil Kothari:** Sir, if you can elaborate on all the three division, as we have already given first quarter numbers. How you see these three divisions trend over the next three quarters, what is your gut feel on the ground situation, what type of demand pickup you see, price trend, anything whatever you can say on division wise for another six to nine months?

**Kaushal Soparkar:** Sir, as a promoter I will be very happy, and I will try to deliver the same set of numbers in coming quarters. But looking at the demand, India has a strong demand. Pricing of finished goods may vary, depends on what is the crude pricing because most of the raw materials have direct or indirect links with the crude price. Otherwise even for our export business we have a very good order book. So overall, we are confident that we will have a similar set of numbers in coming quarters.

**Sunil Kothari:** Sir, we have a little lower dispatch and sales of pigment segment, how you see this trend, margin has also fallen, so what is the outlook for pigment division? Because both other divisions are doing well, so about this if you can explain something.

**Darshan patel:** In the pigment division the raw material prices increased by approximately 20% so because of that we have reduced our plant capacity as well as the dispatch quantity. But coming quarters we have booked with good number of orders.

**Sunil Kothari:** So, you are expecting better utilization going ahead?

**Kaushal Soparkar:** Yes. And sometimes it is not possible to transfer higher pricing to customer over night, so there is a lag. In some cases, it is one week, in some cases it is three weeks, and sometimes it is two months also, because pigment has a good 80% exposure in the export market. So it takes some time. But you will see those effect coming in the following quarters.

**Sunil Kothari:** In agrochemical also sales is little bit lower year-on-year, but revenue and margins seem to be very high. So, mainly product profile or product combination is changing, or year-on-year prices are very high compared to previous year in this agrochemical segment?

**Kaushal Soparkar:** Largely attribute to better realization and whatever the price hike was there in raw material we are able to pass it to the customer.

**Sunil Kothari:** And sir my last question, what is the current price trend or situation at caustic soda and chlorine?

**Kaushal Soparkar:** Currently our ECU is around Rs. 37,000.

**Sunil Kothari:** And chlorine is positive contribution or negative?

**Kaushal Soparkar:** Chlorine is positive since last six months and going forward I feel that throughout the year it will remain positive, that is what our anticipation is.

**Moderator:** Thank you. Our next question is from the line of Surya Patra from PhillipCapital. Please go ahead.

**Surya Patra:** A couple of questions. So, in the presentation you have mentioned about near about Rs. 1,000 crores kind of a segmental revenue guidance. What time line that we are giving this?

**G.S. Chahal:** Internal targets we are now expecting to achieve by 2021, Rs. 1,000 crores by each segment. This is the internal guidelines which we are trying to achieve.

**Surya Patra:** But with the expansion of caustic soda, I think on the basic chemical front you might achieve that in FY20 itself.

**Kaushal Soparkar:** Not FY20 because our hydrogen peroxide and caustic soda plant will be commissioned sometime end of Q1 of next financial year. So, we will not have a full year utilization of that. But yes, in subsequent year I am sure we will cross our 1000 crore.

**Surya Patra:** On the segmental side pigment business you just mentioned that the raw materials prices have gone up like 20% and the pass through is yet to happen so that is why the implication will be seen in the subsequent quarter, but with this the kind of margin profile what we are currently witnessing? or what kind of margin profile one should really see for the pigment business? Is there a competition from China or it is just a cost pressure?

**Darshan Patel** Phthalocyanine business particularly in blue and green India is much stronger than China. Blue and green basically depends on the commodity like copper, aluminum and Phthalic. As the raw material prices has gone up 20% suddenly and the in pigment business we have to change the finished goods prices quarterly and so there is impact on margins. The finished goods prices have been increased so that effect will be in quarter two and quarter three.

**Surya Patra:** So this is on the raw material prices front this is the kind of trend at least in the next couple of quarter that will remain and that is how the margin impact will be seen for the pigment business.

**G.S. Chahal:** To pass on the raw material price increase to the customers, there is a lag of one quarter and on annualized basis we see margins remaining between 15% to 17% average it out.

**Surya Patra:** But last year the margin was less than 15%, so was there any specific reason for the full year?

**G.S. Chahal:** Last year also pigment it was 14.75% around 15% so that is a range we are looking for 15% to 17%.

**Surya Patra:** On agro business, the margin expansion obviously possibly due to backward integration. Integrated business model is helping to get better margins or is there any one off in the margin number any benefit that you have witness because of that?

**G.S. Chahal:** If you see agro per say is seasonal in nature. Maximum sales happens in the quarter one where placement happens and quarter two when there is consumption. So, these two quarters remain strong.

**Surya Patra:** So, whatever the business that we have lost because of the plant shutdown, is there any scope for recovering that in the subsequent period?

**Kaushal Soparkar:** Yeah, we will recover. See such plant shutdown happen in all the companies and customer are well informed, so it is not that due to plant shutdown we have any miss order we are not able to fulfill our customer needs. We always take adequate steps required at a customer level.

**Surya Patra:** And on the caustic soda side the ECU realization for the quarter that you have mentioned about Rs. 37,000. Is it possible to share that how much was in the fourth quarter and how much was in the corresponding previous quarter both?

**Kaushal Soparkar:** In the previous quarter it was around range of Rs. 45,000. In Q1FY18 it was around Rs. 30,000.

**Surya Patra:** Any outlook sir you can provide on the pricing front because on the caustic soda prices we are seeing some softening and whereas in the chlorine demand front there is an increasing demand and hence improved prices and going ahead we will also use our chlorine for chloromethane plant. So, can you give some sense what is the realization that one can really project for the subsequent quarters?

**Kaushal Soparkar:** I feel that ECU should remain in this range of 37,000 or 38,000 of subsequent quarters once our chloromethane will start into operation we will be captively consuming chlorine and that will give a top line as well as bottom line value addition and secondly as no plant is coming up in coming two or three quarters this chlorine which going into the market will be withdrawn so definitely chlorine pricing may go further up at this point. So, it would remain intact or may improve further.

**Surya Patra:** And are we on track to commission the chloromethane plant by December?

**Kaushal Soparkar:** Yes.

**Surya Patra:** And within what time that we should see a kind of decent utilization for chloromethane?

**Kaushal Soparkar:** Within what time?

**Surya Patra:** What is the likelihood of getting beyond 50% utilization level in next 12month period after commissioning?

**Kaushal Soparkar:** After commissioning usually it takes three months to stabilize because chloromethane have output of three products MDC, Chloroform and CTC so we must achieve the right product mix

and the balancing of those ratios which usually takes three month and once we establish that we do not see any problem to ramp up that utilization to 60%, 70%, 80%.

**Surya Patra:** Whether it is a contracted supply, or it is a spot market production?

**Kaushal Soparkar:** More or less is a spot market.

**Surya Patra:** Is there enough market demand for those products because when it come to the spot market the price scenario might come down?

**Kaushal Soparkar:** There is enough market because India is still net importer of MDC and chloroform. CTC will be consumed by MOL in our agro division It will go in a same supply chain where we are selling caustic potash and caustic soda.

**Surya Patra:** Just one question on the agro utilization front which has come down, so during the peak season it is less than 60% utilization so going ahead for the full year what is the kind of utilization that we are targeting then here?

**G.S. Chahal:** Agro utilization if you see last year it was around 77% full year but we will be able to achieve around that number and on margin front also last year it was 16% so anywhere between `16% to 19% is a reasonable number to assume.

**Surya Patra:** Is it fair to believe since the utilization that in the later part of the year that you are seeing almost nearer to 70% levels so there would be sequential improvement on the agro side?

**G.S. Chahal:** Yes.

**Moderator:** The next question is from the line of Pawan Kumar from Individual Investor. Please go ahead.

**Pawan Kumar:** My question is since we have a target of Rs. 1000 crore revenue in each division by 2021 and I can see the expansion plans of basic chemicals there are couple of projects going on. So, I would like to know the expansion plans of agro chemicals and pigment divisions regarding the same target?

**Kaushal Soparkar:** For both the division we have CAPEX plan, but we are just waiting for environment clearance until we do not receive environment clearance we cannot start work, but once we have it in the place we will announce our plan and products that we have planned for the expansions.

**Pawan Kumar:** So, would you be able to say some timelines for that just for the sake of our knowledge?

**Kaushal Soparkar:** For environment clearance committee does not meet every day, they have very tedious procedure and every company faces the same problem. We are trying our best to get at least

by year end environment clearance. Whatever is to be done before the environment clearance we are ready with that preparation as soon as we receive we will go forward.

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

**Rohit Nagraj:** Couple of book keeping questions, our other income has increased significantly during the quarter any specific reason for the same?

**G.S. Chahal:** This is mainly because of FOREX gain.

**Rohit Nagraj:** So, is it possible for you to quantify?

**G.S. Chahal:** Yes, it is around 13 crores which is almost 50-50 in both segments pigment and agro.

**Rohit Nagraj:** Another book keeping questions the tax rate on sequential basis has gone up so before tax rate about 28% and this quarter it has gone up so any specific reason?

**G.S. Chahal:** You are saying with deferred tax otherwise our current tax rate remains anywhere between 25% to 27%,

**Rohit Nagraj:** So, in terms of CAPEX as I understand during the last quarter concall for chloromethane project the CAPEX is Rs. 140 crore and out of that how much have we spent till now?

**G.S. Chahal:** Put together on this entire 650 crores so we have spent 175 crores as of now.

**Rohit Nagraj:** So that includes the basic chemicals projects.

**Kaushal Soparkar:** The expansion of caustic soda plant , captive power plant and also for the hydrogen peroxide.

**Rohit Nagraj:** So, by December these 140 crores for the CMS projects will be capitalized so it that right to assume?

**Kaushal Soparkar:** Yeah as of now by December.

**Moderator:** The next question is from the line of Jiten Parmar from Aurum Capital. Please go ahead.

**Jiten Parmar:** I have couple of questions one is the EBITDA margin on basic chemical is 42% I just want to know going further is it sustainable or we will see it going down, second is the agro plant shutdown I mean I just want to understand why it was done in Q1 and maybe could have been done a bit earlier or because Q1 is probably the best time, maybe if you can throw some color on that and third is the breakup of revenue now you are saying that by FY20-21 you want Rs. 1000 crore is the target for each of them, but the breakup of the CAPEX is mainly towards basic chemicals so how is that going to happen, I mean will there be CAPEX in other divisions also.



**Kaushal Soparkar:** As far as the realization I mean the EBITDA margin of basic chemical is concerned we feel that ideally within the range of 30% to 35% and we feel that we will achieve that number in coming quarters we are confident of that. What was your next question I forgot.

**Jiten Parmar:** The agro plant shutdown in Q1 I just feel that timing wise it is the best quarter I am just wondering if this is the best time to do the shutdown in that?

**Kaushal Soparkar:** Yes, you are right the results are fantastic, so it is a valid question, but as a batch process and old site also sometime we have to go for such kind of steps to make sure that remaining year runs nicely and for changes on some of the technology front we have to take that shutdown in Q1 especially in ETP.

**Jiten Parmar:** The last one was the CAPEX breakdown I mean so I see major of the CAPEX being in the basic chemical section so how would the other divisions also go 2000 crore revenue target which you are saying, or will there be further CAPEX in those divisions?

**Kaushal Soparkar:** Yes, as I mentioned we are waiting for environment clearance once we have that CAPEX is already been planned and see how the clearance we will move forward with the plant and we announced subsequently.

**Jiten Parmar:** So, will that be in addition to that 650 crore you have planned or that is part of that.

**Kaushal Soparkar:** No that will be addition.

**Moderator:** The next question is from the line of Montanita Mitra from Stewart and Mackertich. Please go ahead.

**Montanita Mitra:** I would like to ask in FY18 the consolidated short-term debt of the company has gone down from 249 crores to 81 crore so what will be the short term debt going forward?

**G.S. Chahal:** That is right because due to cost reductions we have now replaced our high cost short term debt by long-term debt so corresponding there is increase long-term debt.

**Montanita Mitra:** So those numbers will be reflecting in the long-term instead of short term?

**G.S. Chahal:** Yes.

**Montanita Mitra:** Another question is like previously the CAPEX plan was for 540 crore and that was increased to 640 so this project for hydrogen peroxide and caustic soda now it has been allocated 500 crores of CAPEX instead of 400 crore that was allocated previously. So, for 400 crore of CAPEX company said that it was expecting around 300 crores of sales by FY21, since this CAPEX is increased by 100 crore so how much additional revenue can this add?

**Kaushal Soparkar:** See whatever CAPEX we announced at that time that was largely towards the caustic plant and the hydrogen peroxide the power plant thing was not finalize so this CAPEX is going to power plant. And once you finalize the technology and the capacity you know some modification do come so that is minor variation happened, otherwise revenue figure whatever we have given there is no change in that in fact in today's market scenario prices of all the finished goods like prices of hydrogen peroxide, chloromethane and caustic soda is improved drastically. So, we are confident that whatever numbers we have given in terms of projections those are pretty much achievable number.

**Montanita Mitra:** Another thing is as compared to Q4 FY18 the margin of basic chemicals has come down like it was 48% and it has come down to 43% so the high margin was because of the increase in caustic soda prices I guess, so is the caustic soda prices coming down and at what level it will remain going forward I would like to know?

**Kaushal Soparkar:** Q4 was historically on one of the best year in caustic soda industry have seen in many, many years so that is not a right benchmark to take it for subsequent quarters and yes prices has bit softened but still our EBITDA is on the higher side and if we feel that in coming quarter we will achieve same set of numbers.

**Montanita Mitra:** Another question that I have is the most of the agro chemical companies show rise in volumes this quarter so why do your agro chemical volume YOY it has gone down?

**G.S. Chahal:** You are talking about quarter.

**Montanita Mitra:** Yes this quarter it was around 160 crore agro chemical revenue so it has gone down by 7% year over year so why has this gone down is this because of the volume numbers has gone down?

**G.S. Chahal:** Yes.

**Montanita Mitra:** The prices are the same only the volume numbers have gone down?

**G.S. Chahal:** If you see as compared to volumes the price has significantly moved up which has geared up actually.

**Moderator:** The next question is from the line of Nitin Dharmawat form Aurum Capital. Please go ahead.

**Nitin Dharmawat:** My follow up question is regarding there was a news about the scrap of anti-dumping duties on SABIC caustic soda, so just wanted to understand your view on that?

**Kaushal Soparkar:** I am sorry can you repeat your voice is not clear.

**Nitin Dharmawat:** My question was about India has scrapped the anti-dumping duties on SABIC caustic soda that is due to some of the basic industries consuming caustic soda so just wanted to take your view on that how will it impact us?

**Kaushal Soparkar:** Honestly, I do not see any negative impact coming because anti-dumping has been removed from SABIC caustic soda. Anti-dumping duties are on most of the countries because India is importing caustic but industry has not affect largely because of that.

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

**Rohit Nagraj:** Sir on the chloromethane projects this CAPEX of about 140 crore what kind of revenues are we looking at?

**Kaushal Soparkar:** As on today pricing we feel that at 80% utilization our top line would be around 170 to 180 crore.

**Rohit Nagraj:** Another question obviously is that you said we can utilize the capacity to 60%, 70% in FY19 based on your stabilization of the plant so is it safe to assume that in FY21 we will be able to utilize the capacity 100% because as you indicated that the demand for these products is high and these are currently being imported?

**Kaushal Soparkar:** See 100% utilization will never be possible in any chemical plant we feel 85% utilization is very good number. Yes, it will come in FY21 for sure.

**Moderator:** The next question is from the line of Ashit Panjwani an Individual Investor. Please go ahead.

**Ashit Panjwani:** I have question on the agro and pigment business, both the business has reported nearly around flat revenues so moving forward we expect the revenues to be flat for both the segments are we likely to see upside?

**G.S. Chahal:** As mentioned earlier in pigment we are seeing now there is a improvement in the pricing so we will see increase. Similar way in agro chemicals we will continue to sustain the current momentum.

**Ashit Panjwani:** And from an EBITDA margin for both the divisions would it be same as what they are in this quarter or are we also likely to see upside there as well?

**G.S. Chahal:** In pigment we will see upside, current quarter is slightly lower and we see annualized basis anywhere between 15% to 17% and agro we have seen 16% last year so we will be seeing 16 to 19% this year.

**Moderator:** Thank you. We will take the next question from the line of Chetan Thakkar, from ASK investments. Please go ahead.

**Chetan Thakkar:** Just wanted to understand in agro chemical side, we have seen sharp increase in operating profit. What is driving that? Is it because of price increase?

**Kaushal Soparkar:** Mainly because of price increase.

**Chetan Thakkar:** Not because of we are producing the value-added products? So, we are able to pass on the price increase to customers.

**Kaushal Soparkar:** Yes, and there is good demand and due to china's issue people like to have one source from India. That is helping us.

**Chetan Thakkar:** So, are these short term or long-term contract we are getting?

**Kaushal Soparkar:** Depends on company to company, some companies go for quarterly contracts and some for 6 months and some on spot basis. When china situation got worse, contracts are setting up on a spot basis, because people need to plan immediately as Chinese situation happens overnight. But now people have realized that they need reliable source and continuous supply, India is the best option.

**Chetan Thakkar:** In terms of volume, we can deliver similar volume as FY18 or higher?

**Kaushal Soparkar:** Volume may go up, we have not added new capacity further. And yes, operational rate was lower in Q1 due to plant shut down and upgradation. But in subsequent quarter, if we do higher capacity utilization definitely our volume will go up. And minor increase in capacity will be from debottlenecking.

**Moderator:** Thank you. We will take the next question from the line of Manoj Mathew, an individual investor. Please go ahead.

**Manoj Mathew:** You are talking about the china issue, do our company follows the stringent pollution norms?

**Kaushal Soparkar:** Whatever the norms laid down by the government we are following those norms. It is mandatory for all companies.

**Moderator:** Thank you. We will take the next question from the line of Rohit Nagraj, from Sunidhi securities. Please go ahead.

**Rohit Nagraj:** Could you please tell us, what is the cost of long-term and short-term debt?

**G.S.Chahal:** As of now there is no debt in MFL and in MOL long term debt cost is between 8 – 8.5% and we being net exporter are using the foreign currency credit for short term. On an average basis our debt cost is lower than 8%.

**Rohit Nagraj:** For new project, I believe funding would be 60:40 debt/equity, are we opting for foreign currency debt?

**G.S.Chahal:** Various options are being explored and we are talking with the bankers so whatever is the best possible mechanism at lowest rates we will do the financial disclosure.

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

**Pawan Kumar:** My question is a bit of generic in nature. So, can you guide us on who are our competitors in Pigments, Agrochemicals and Basic Chemicals and where Meghmani stands on that competition part in India say number 1, 2, 3 in terms of production and revenue?

**Darshan Patel:** For the Pigments, our competitor is Sudarshan Chemicals, Asahi Songwong, Akshar Chemicals and Mazda Colors. As compared to our competitors, globally we have 14% market share.

**Pawan Kumar:** My point is regarding competition we are facing in India and where do we stand? Are we 1, 2, 3 in terms of production and revenue?

**Darshan Patel:** In terms of production we are #3 at the world level.

**Kaushal Soparkar:** In Pigments, we are number 1 in India and we are the only one who has got three manufacturing sites dedicated for the Pigments. In Agrochemicals, there are many companies and each company has a very different model like our company has got technical also, formulations of the brand also, many companies are just focusing on brand, some of the companies are focusing only on technical and registration, some are only in formulations business. It is very difficult to have a right peer comparison here. There are companies like Bharat Rasayan, Dhanuka Agritech, UPL, those are the leaders, it is difficult to derive apple-to-apple comparison here.

**Pawan Kumar:** Let us take it other way, do we have some edge on these companies or we are operating the other ones?

**Kaushal Soparkar:** Edge in the sense, yes, we are all in three segments, we are in technical, formulations and brand, definitely one segment is down, second segment to compensate, we are into export to over 75+ countries, we have very good domestic network also, brand business is increasing within India now, so that is the edge what we have compared to other manufacturers.

**G.S.Chahal:** Just to add in Agrochemicals, in India, we are among the top-10 manufacturers in India. There are many formulators.

**Pawan Kumar:** In Basic chemicals?

**Kaushal Soparkar:** In Basic Chemicals, Grasim, DCM Shriram, Gujarat Alkali are the peers.

**Pawan Kumar:** Where do we see the China situation going forward in next three years or five years if you can give some insight?

**Kaushal Soparkar:** The China situation, we do not have any ground report, but going forward China will not produce any chemicals which has a lot of pollution issues, small medium enterprise will not sustain over there because of stringent norms of pollution, their overhead costs are also going up. For the small medium scale, Specialty Chemicals, India will be the hub in coming years, that is what we foresee.

**Moderator:** Thank you. We will take the next question from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

**Rohit Nagraj:** Sir, how much of our raw material do we source from China in percentage?

**Kaushal Soparkar:** Roughly 10-15%.

**Rohit Nagraj:** How have we have seen the pricing for the same over the last maybe a couple of quarters, has it increased and what is the expectation based on the Chinese situation?

**Kaushal Soparkar:** Pricing may have gone up because most of the raw materials are crude-linked, it does not matter whether it is produced in India or China, it has direct linkage with crude. We have to buy sometimes many products from China because India may not have those producers or we like to keep two suppliers.

**Rohit Nagraj:** So, have those prices firmed up in the recent past particularly for the intermediates which we are procuring from China?

**Kaushal Soparkar:** Yes, at this moment it is stable.

**Rohit Nagraj:** Incrementally, what is your expectation that the situation is stabilizing and probably the prices will remain at the current levels or remain stable?

**Kaushal Soparkar:** It all depends; if crude falls to 40 tomorrow, then obviously prices will come down. If it goes to 100, there will be a price correction, both ways there will be a price correction, it also depends on rupee-dollar movement.

**Moderator:** Thank you. We will take the next question from the line of Pravin Sharma, private investor. Please go ahead.

**Pravin Sharma:** You mentioned that in basic chemicals, there was a small shutdown. Was it a planned shutdown and does it affect our revenues and profitability in this quarter?

**Kaushal Soparkar:** No, this was a planned shutdown which usually we must take because for maintenance of boiler which all coal fire boilers do take the shutdown.

**Pravin Sharma:** As far as Agrochemicals is concerned, are we planning to get into contract manufacturing, CRAMS kind of business model or we will continue with what we are doing right now?

**Kaushal Soparkar:** We will do additional CAPEX here also and for CRAMS or something else will come up, we will evaluate it, we are open for such opportunity.

**Moderator:** Thank you. We will take the next question from the line of Siva Shankar, an individual investor. Please go ahead.

**Siva Shankar:** I would like to know what is the current capacity utilization of each segment right now for the Basic Chemicals, Agro and Pigments?

**G.S.Chahal:** In case of Pigments, it is around 75%, in Agro it is 57% and in Basic Chemicals it is 86%.

**Siva Shankar:** Regarding whatever boiler planned shutdown maintenance that we have said about the previous quarter that we had to do, is it going to affect this quarter revenue for the agrochemicals or has there been complete?

**Kaushal Soparkar:** No, that was done in Q1. People are asking 'Why the capacity utilization on lower side?' Because of the shutdown.

**Siva Shankar:** So everything is normal in the Agrochemicals division right now?

**Kaushal Soparkar:** Yes, on track.

**Siva Shankar:** Just trying to understand why is the agrochemicals capacity utilization at 57%, generally the Q1, Q2 quarters are the strongest among all the four quarters, it is still go up in the coming days?

**Kaushal Soparkar:** The reason is that we must do some debottlenecking. We wanted to upgrade ETP, some technology improvement changes we wanted to take it. We decided to take it immediately rather than waiting and practically any chemical plant will have some shutdown going on during the year, maintenance is ongoing thing.

**Siva Shankar:** Is the top line again going to get affected this quarter as well because of all the issues that you are mentioning right now for the Agrochemicals division?

**Kaushal Soparkar:** No, this is not an issue, this is a part of the business, but we do not see any shutdown in the coming months now.

**Moderator:** Thank you. We will take the next question from the line of Pravin Sharma, a private investor. Please go ahead.

**Pravin Sharma:** One question is on the Agrochemicals. How much is the branded sales for this quarter and what is the target for this year because I think in the previous call it was said that we are investing significant amount of resources in increasing branded sales, so what is the traction there?

**G.S.Chahal:** If you see last year it was around Rs.80 crores, B2C sales which we have achieved and in this quarter around Rs.40 crores we have already achieved.

**Pravin Sharma:** So basically, we are seeing traction in that direction of increasing branded sales?

**G.S.Chahal:** One of the major factors.

**Pravin Sharma:** What is the utilization of caustic potash plant?

**Kaushal Soparkar:** The utilization of that plant is now 87%.

**Pravin Sharma:** How much of the revenue from that and is it yielding the same revenues which we were targeting initially when we put up because somehow the caustic potash does not appear in our expansion plan, so is that business we do not find that lucrative business or how is it panning out and how do we look at it as a chemical going forward in the future?

**Kaushal Soparkar:** Caustic Potash was first set up and commissioned back in 2016, so now we have commissioned, and we like to stabilize that. Now we have got a decent capacity to suffice India and the global market. Once we feel that there is a shortage definitely put additional part of caustic potash. It is already the second largest plant of India.

**Moderator:** Thank you. We will take the next question from the line of Shorin Parekh from JMP Capital. Please go ahead.

**Shorin Parekh:** I just like to ask a follow up question on Agrochemicals. So, you had done Rs.80 crores worth of branded Agrochemicals sales last year versus that in this quarter you have done Rs.40 crores. So, I just wanted to know the roadmap or what kind of growth can we expect this year in Agrochemicals branded sales? I believe that the margins certainly have improved. Is it right to assume that because of the branded percentage going up and what kind of margins do we expect going in future, maybe some idea on that?

**G.S.Chahal:** On the B2C branded sales , as mentioned, Rs.40 crores we have already achieved, we are targeting around Rs.120 crores for this year and then going forward Rs.200 crores is the next level which we are targeting.

**Kaushal Soparkar:** To achieve that, we are increasing our depot as well as our dealer networking.



**Shorin Parekh:** What are the kind of margins that we get from these kinds of branded sales?

**Kaushal Soparkar:** It depends on the formulations content, it depends on the product-to-product level, but it is average 7-8% additional margins we get over technical.

**Moderator:** Thank you. We will take the next question from the line of Srinath Sridhar from ICICI Securities. Please go ahead.

**Srinath Sridhar:** My question is pertaining to the Pigments division. Is there any ballpark number of what is the input/output ratio of phthalic and chloride for your Pigments division as you make 1 ton of Pigments, how much do you need of each raw material?

**Kaushal Soparkar:** It depends on the process. We have 3 different process. Technically, it varies from 0.93% to 0.95%.

**Srinath Sridhar:** 0.93% of Phthalic?

**Kaushal Soparkar:** For 1 Kg, Phthalic is equivalent to received 0.93 Kg of CPC.

**Srinath Sridhar:** C Plus Chloride is something around 0.2 or 0.3, right?

**Kaushal Soparkar:** Yes.

**Srinath Sridhar:** At the raw material cost, would these products cost increase by 20%?

**Kaushal Soparkar:** It was around Rs.7,000 something.

**Srinath Sridhar:** There are basically phthalic producers or commodity players when they are making close to 21, 22% EBITDA margin and you all have value added products and you all are making only 15% margin. So there seems to be some demand/supply mismatch, so is there any new capacity planned?

**Kaushal Soparkar:** Can you specific between Phthalic, CPC and Pigments?

**Srinath Sridhar:** Phthalic being a commodity chemical, those IG Petro and Thirumalai are making 21% EBITDA margin, how is that possible when theirs all commodity and you all are value added?

**Kaushal Soparkar:** Because there are only two players and in Pigments industry there are many players.

**Srinath Sridhar:** Previously, they were not making margins, so that means there is less capacity in India and globally. So is there any plans if you all can backward integrate and manufacture those products yourself?

**Kaushal Soparkar:** It is not possible, because the CAPEX is very high.

**Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Kaushal Soparkar for closing comments.

**Kaushal Soparkar:** Thank you very much for participating in the call.

**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.