"Meghmani Organics Limited Q4 FY2017 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to Meghmani Organics Limited Q4 FY17 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Nisha Kakran from Four-S Services. Thank you and over to you, ma'am.

Nisha Kakran: Good evening everyone. On behalf of Four-S Services I welcome all the participants for the Q4 and FY17 Conference Call of Meghmani Organics Limited. Today on the Conference Call we have Mr. Ankit Patel – Head-Agrochemicals, Mr. Darshan Patel – Head of Pigments and Mr. Kaushal Soparkar – MD, Meghmani Finechem Limited, which is a subsidiary of Meghmani Organics. Mr. Raj Kumar Mehta – Meghmani CFO and Mr. Sanjay Jain – Senior GM.

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

Kaushal Soparkar: Good evening everyone and a very warm welcome to the Q4 and FY17 Earning conference call of Meghmani Organics Limited. I will begin the call with a brief discussion about the performance highlights, outline the growth outlook and then open the floor for questions.

We are pleased to report another year of steady profitable growth, which witnessed growth in revenue of 7% and an EBITDA growth of 11%. We were able to maintain EBITDA margins at 20.6% despite the setback due to the fire in July 2016. We reduced debt and are able to increase return on capital employed. This year also saw us embark on our capex plan involving Rs.5.4 billion of investment over next two to three years which will be a major growth driver going ahead. This involves three projects first our CMS Project of 40,000 metric tonne per annum which will result in captive consumption of chlorine which is a coproduct of our caustic production which we are currently having negative realization on. So this project will help us achieve better realization in our caustic segment. The final product of this project is MDC whose users are pharma and agrochemical companies and India, is the net importer of the same and other products are chloroform and CTC which is known as carbon tetra chloride. This is expected to be commissioned by March 2018 and add Rs.120 Crores of revenue in full year of operation. Our second project involves 50% capacity expansion of our caustic plant to 2,40,000 metric tonne per annum using zero gap membrane cell technology and increase our captive power plant capacity to 90 megawatt from 60 megawatt. Our third project is to setup hydrogen peroxide project of 25,000 metric tonne per annum. This will be used in pharma and agrochemicals. Caustic expansion and hydrogen peroxide project will involve Rs.4 billion investment and are expected to commission by June 2019 and add revenue of Rs.3 billion in full year of operation. Our Beta Blue plant, which had got fire during the year, has already fully ramped up. We are positive that now with the fire incident totally behind us, we will be able to increase share of our value-added product in FY18 as we had earlier planned. FY17 was the progressive year for the agrochemical industry. We saw a healthy monsoon after two years of drought. According to the recent IMD estimates this year India is likely to receive higher monsoon rainfall than previously forecasted i.e. 96% of the 50-year average of 89 centimeter. The pre-monsoon rainfall has been normal or excessive in the south and north east during March 1st to May 10, 2017 such a normal monsoon helps farmer reap good crops and will help drive our growth.

Recently our board of directors has approved the proposal to delist the company from Singapore Exchange and we will keep you posted on further development.

Coming to the financials, consolidated revenue of FY17 grew by 7% on back of strong domestic performance, which was up 11% whereas export revenue grew by 3%. EBITDA for the period increased 11% to Rs.2,888 million resulting in increase of 77 bps in EBITDA margin, which is 20.6%. PAT grew by 6% to reach Rs.878 million taking PAT margin to 6.3%. Exceptional loss for the period was at Rs.38 million, due to the loss on account of the Beta Blue plant fire.

The consolidated revenue for the Q4FY17 grew by 3% to reach Rs.3,476 million compared to Rs.3,379 million in Q4 FY16. Exports revenue grew by 11% whereas domestic revenue declined by 6%. EBITDA for the quarter increased 4% to reach Rs.738 million from Rs.711 million in Q4 FY16 and EBITDA margin was at 21.2% compared to 21.0% in Q4 FY16. PAT for the period is at Rs.238 million and PAT margin is at 6.8%.

Our long-term debt for FY17 has declined to Rs.1,217 million from Rs.2,168 million in FY16. We have been reducing debt in line with our earlier guidelines. I would like to highlight the debt equity has further been reduced to 0.6x from 0.9x in FY17. Our working capital days have declined from 86 days in FY16 to 74 days in FY17.

Looking at each segment's performance in detail. I am happy to share that pigments business delivered strong growth in FY17, revenue for the year up by 10% to Rs.5,143 million. This was driven by robust performance in both domestic markets up by 29% contributing 32% to revenue and exports up by 12% contributing 68% to revenue. Volumes were up by 7% to 14,462 metric tonnes coupled with higher realization. EBITDA for the period was up 44% to Rs.871 million due to higher production, high realization, and lower fuel cost and lower other expenses taking EBITDA margin to 17%.Utilization levels have increased from 63% in FY16 to 66% in FY17.

Revenue for the Q4FY17 grew 16% to reach Rs.1,474 million driven by robust growth in exports up by 40% while domestic revenue was impacted. Volume increased by 9% to reach 4,315 metric tonne with higher blended realization. EBITDA increased 80% to Rs.258 million on account of better capacity utilization, higher realization, lower fuel cost and lower other expenses. EBITDA margin was 17% and utilization levels were up at 76% while Volume up 14% year-on-year.

Our agrochemicals revenue for the year increased 11% to reach Rs.4,730 million driven by robust growth of 34% in domestic market and the stable exports. Domestic contribution was up at 38% and volumes witnessed robust growth of 27%. However realization declined due to the change in product mix to match demand in the market. EBITDA declined 13% due to lower realizations on account of change in product mix to reach Rs.458 million. EBITDA margin for the period was at 10% while utilization level for the year was at 60%.

Revenue for the Q4FY17 was marginally lower on account of lower exports mostly offset by domestic market growth. Volumes declined marginally coupled with stable realizations. EBITDA increased 126% on account of increase in demand for higher margin products as guided in previous call and lower other expense to reach Rs.100 million taking EBITDA margin to 10% and utilization level was at 53%.

Our basic chemicals performance during the year has been in line with expectation. EBITDA margin was at 36% above the long-term range of 30% to 35% as consistently guided by the management. Revenue for the segment was marginally down at Rs.3,953 million on an account of lower volumes due to synchronization process, which took place during the year. We also upgraded our caustic plant to zero gap technology in FY17. Blended realization for the segment was stable; EBITDA of the year was down 6% to reach Rs.1,432 million on account of lower utilization and higher fuel cost. Capacity utilization level for the year was at 77%. Revenue for the Q4FY17 was down 4% to reach Rs.1,022 million on account of lower realization, however volumes were up by 8% at 35,824 metric tonne. EBITDA is down 39% to reach Rs.321 million on higher base of Q4FY16 as we earlier also said the Q4FY16 was an exceptionally high quarter. Year-on-year lower realization, lower utilization and higher fuel cost also contribute to decline. Utilization for the quarter is at 79%. Our caustic potash plant is ramping up quickly and we have received the flanker as Ms Deval Soparkar mentioned in the last call, which will help us to achieve higher utilization level quickly.

Going forward in agrochemical we expect the domestic market to pickup driven by a better monsoon given that channel inventory usually clears after two years of drought. Further pollution issues in China wherein many plants are closing down are expected to result in lower imports from China while the make in India initiative by government will boost growth. Export markets are already reviving. We are witnessing increasing demand for our higher value products, which will result in higher realization and better margins. The impact is already visible in Q4FY17.

So to summarize, FY18 looks to be more progressing with all segments expected to progress. Agrochemicals with better industry demand, pigment with increasing share of higher value-added product and basic chemical with increased utilization of caustic potash. So with this, I come to end of my comments I would like to thank everyone for joining our conference call and would be happy to take any questions that you may have at this stage.

Moderator: Thank you very much. We have the first question from the line of Praveen Sharma, who is an individual investor. Please go ahead.

Praveen Sharma: I have one question in the agrochemical division it seems the EBITDA margins are pretty low towards 10% and we have significant capital employed in that division. I assume that return on capital employed for that specific division would be very low. So what are the steps we are taking up to increase the profitability and improve the ROCE in that division because 10% kind of margins in that division will be a drag in the overall performance of the company while two divisions performing well, the third division is dragging down the overall performance. So can you put up light in terms of what are our aspirations and what is our plan for the agrochemical division going forward in FY18 and in future?

Ankit Patel: Thank you Mr. Praveen Sharma for your question. As you mentioned that we have employed quite a good amount of capital investment in agrochemical division. Particularly last year was a bit difficult year because the input cost was quite high and the price realizations were under lot of pressure because certain global market were not doing so good like Brazil. This year the market has already started picking up there is a pretty good demand coming from various markets globally. On the other hand, China is facing lot of problem as far as the environment point is concerned so the material going out of China is getting costlier day-by-day so that is helping us to getting better realization and as Meghmani, only after investing in plant we have invested in the registration portion in various countries like USA, African countries, Latin American countries and we have started getting the registration for our major product called 2, 4-D in Latin American Market as well as we have expanded our registration base with some customers in USA. We have started getting the orders at better realization price from those markets. Looking at that we expect the FY18 and FY19 the EBITDA margin to be at least in the range of 15%.

Praveen Sharma: Okay great and the second question is on the caustic potash side since we have the new plant coming up what is the revenue we expect to come in FY18 because when it was announced it was said that we expect Rs. 125 Crores of annual turnover from caustic potash plant so where are we in terms of that.

Kaushal Soparkar: Our plant is now running fully operational and we are looking at, at this year we should have a topline around Rs. 80 to 85 Crores from the caustic potash.

Praveen Sharma: And do we see it ramping up in future in FY19 because the potential as mentioned earlier FY16 when the investment was announced was around Rs 125 Crores of annual revenue so where is the gap like the prices have come down or the demand of the product is not there or where is the disconnect.

Kaushal Soparkar: No the demand is strongly there in India, when the project had made a public announcement at the time the KCL price was much higher in the global market that is the reason and we thought the topline should be at this number but since commissioning of our plant the KCL prices has dropped significantly and that is why topline has come down, but whatever margins we are anticipated that we will be able to achieve this year.

Praveen Sharma: My last question is on this claim of the fire insurance, I understand that Rs. 12 Crores have already been received and Rs. 20 Crores claim is pending. So is there a specific reason why this Rs. 20 Crores pending means it is not received or it was rejected and we have filed again to appellate. Why Rs. 20 Crores did not come up along with Rs. 12 Crores, is there any specific reason.

Sanjay Jain: We already received Rs. 12 Crores out of the claim of Rs.30 to Rs.35 Crores. The pending amount is on the final stage at the surveyor level. The surveyor has already submitted the report to the insurance company. Documents are being submitted to the Insurance Company as and when demanded. We expect balance amount by end of this year.

Praveen Sharma: Okay. Thank you.

Moderator: Thank you. We have the next question from the line of Bhavesh Jain from Envision Capital. Please go ahead.

Bhavesh Jain: Congrats Sir for good set of numbers. Sire we have said by FY19 we will be reaching around Rs. 20 billion revenue, so are we on track to achieve that because that implies 20% CAGR for next two years.

Kaushal Soparkar: Yes whatever we have expected for FY19 for Rs. 20 billion revenue, we are on track for the growth and in all the three divisions we expect that those divisions will do well and will achieve the number.

Bhavesh Jain: What will drive this growth because pigments I guess our utilization is around 66%, agrochem as you said we will be growing by 10%-15% and basic chemicals I guess we are already utilizing to the peak so what will drive this Rs. 6 billion incremental revenue, which segment will drive this growth?

Kaushal Soparkar: Actually we said agro chemical will grow by about 20% to 22%, pigment where our plant utilization is about 66% we expect to take it to the 75% and with the higher realization and higher margin products, which we already got the approval from our various customers globally now because the approval of the samples take about one year to two years’ time depending on the customer. So we have started getting the approval from our various customers.

Bhavesh Jain: And sir what this how much higher this realization will be for this value-added products in pigments.

Darshan Patel: 50 cents to 60 cents as compared to regular grade.

Bhavesh Jain: And Sir for FY17 despite our gross profit margins have come down our other expenses as a percentage of sales have also come down, so what other expenses in FY16 was there any one-off.

Sanjay Jain: If you look at the numbers in FY16, other expenses comprises of certain bad debts and mark-to-market sort of things so it is mark-to-market that has drastically come down and the major one is also our power and fuel cost of utility. If you compare three of them then we find the other expenses has reduced compared to FY16 in FY17.

Raj Kumar Mehta: Major is the reduction in the bad debts which we have provided in last year but this year the bad debts are not in line with the last year, so we have already provided bad debts. Also loss on derivatives this year is less, negligible so we have already got the better profit on that account. Also we have conducted energy audits for our power and fuel that is why we are able to conserve our energy. We have installed the balancing equipment for conserving our energy that is why we are able to get the better of our energy cost and it will be a continuing process for us.

Bhavesh Jain: Thanks a lot and all the best.

Moderator: Thank you. We have the next question from the line of Naushad Chaudhary from Systematix. Please go ahead.

Naushad Chaudhary: I have two, three questions on the pigment business. You just said the growth drivers for the pigment is because of the contribution of high margin or high value product. Sir if you can throw more light on this and talk more of these products what are these products?

Darshan Patel: These are the regular products but the market for that product is different. Realization of that product is on higher side supposing in segment the end user is higher so for that we get the better realization in our regular grade pigment.

Naushad Chaudhary: So you are talking in terms of the enduser industry right?

Darshan Patel: Right.

Naushad Chaudhary: So which end user industries are driving the growth Sir?

Darshan Patel: Mainly ink industry and plastic industry.

Naushad Chaudhary: And if you can share the breakups how much we get from the ink industry and how much from plastic?

Darshan Patel: Majorly plastic industry growth ratio is 20% to 25% per annum domestic as well as the export.

Naushad Chaudhary: And the revenue share between these two industries.

Darshan Patel: In plastic industry our revenue share is 15%.

Naushad Chaudhary: And how this was few years back.

Darshan Patel: It was 3%.

Naushad Chaudhary: Okay and second thing, Sir as per the presentation what I see our current utilization in pigment business is around 76% as of Q4 FY17.

Darshan Patel: Yes.

Naushad Chaudhary: So is there any Capex plan for this division as well?

Kaushal Soparkar: Currently there is no any Capex plan for this division.

Naushad Chaudhary: What is your outlook on this business Sir?

Sanjay Jain: I think the growth will come at about 15% to 20% from this segment, the drivers are one is the optimization of the capacity utilization as you look at the last year in FY17 this is 66% so another we are going to reach 75% and as Darshan has told you another factor would be higher value-added product so these are the major drivers, also management is focusing on domestic market.

Darshan Patel: And as compared to the last year in domestic market we have increased our share by 29% so right now many multinational company increasing their production facility in domestic market in India.

Naushad Chaudhary: So 29% in CPC domestic market share we have.

Darshan Patel: CPC as well as finished in market share, which we have, increased from as compared to last year.

Naushad Chaudhary: How big the market is in India?

Darshan Patel: In India right now market is approximately 25,000 to 35,000 metric tonne I am talking about only finished market, not CPC crude market.

Naushad Chaudhary: Alpha and beta pigment right.

Darshan Patel: Right alpha, beta and green pigment.

Naushad Chaudhary: Thank you sir.

Moderator: Thank you. We have the next question from the line of Jigar Jani from Edelweiss. Please go ahead.

Jigar Jani: Thanks for taking my question. Can you throw some light on what would be our utilization level for the agrochemical business in FY18? And the second question would be we have seen you have also highlighted in your PPT that the product mix has changed towards more lower value-added products I guess which has pushed down pricing in that division so what is the outlook on that?

Ankit Patel: Thank you Mr. Jani. We expect the capacity utilization of the plant, which was for the year approximately 60% for our production unit. We expect because of the demand for this year has started in a positive way, we expect to take it to 75% level and regarding the lower realization we were doing one special contract manufacturing for one of the companies but due to last year global market being not that good we were not having much order from that company. This year it has started in a positive note and you are seeing the quarter four result has given a better realization compared to the previous Q4 result and we expect in FY18 it will continue in the same way and we are expecting EBITDA to reach up to 15% for the FY18.

Jigar Jani: And regarding your caustic potash plant. Will it hit full utilization in FY18? So FY18 will be the full year when we will see the gain.

Kaushal Soparkar: Yes, we are very hopeful that this year we will have almost full utilization of that plant.

Sanjay Jain: Already it has been running at 75% to 80% as of now.

Jigar Jani: Okay Sir. I missed the initial part of your commentary of your investments of Rs. 540 Crores into different products you split it into Rs. 400 Crores and Rs. 140 Crores. Can you just repeat that what was for what?

Kaushal Soparkar: We are going for a chloromethane plant that will be commissioned by end of this financial year and Rs. 400 Crores we are going for a capacity expansion in caustic power plant with this 30 megawatt of additional captive power plant.

Jigar Jani: And that Rs. 400 Crores includes the hydrogen peroxide capex as well?

Kaushal Soparkar: Yes that also includes hydrogen peroxide.

Jigar Jani: I will come back in the queue in case I have another question. Thank you.

Moderator: Thank you. We have the next question from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.

Dikshit Mittal: Sir my question is on pigment margins, so if I compare Q4 margins versus Q3, the margins have actually come down like in spite of a big improvement in topline, we have not seen much improvement in the reported EBIT. So what is the reason for that?

Darshan Patel: In Q4 in January month the prices of the raw material were very high but for the finished pigment, we will get the price realization starting from the March that is the main reason because the raw material prices hiked by 10% to 12% starting from Q4.

Dikshit Mittal: So can you name the raw material sir like which has shot up by 10%?

Darshan Patel: Major raw material for the CPC crude and the solvents.

Dikshit Mittal: Which one Sir?

Darshan Patel: Phthalic anhydride.

Dikshit Mittal: So from first quarter onwards we will be back to around 14% EBIT margin that we reported in Q3.

Darshan Patel: Yes.

Dikshit Mittal: And sir secondly on a full year basis we have shown around 400 bps margin improvement in the segment so is this sustainable or is it like because of like Chinese disturbance and they may come down like as and when Chinese production comes up.

Darshan Patel: It is steady.

Dikshit Mittal: So 14% EBIT is the sustainable for the next one to two years in pigments.

Darshan Patel: That is right.

Dikshit Mittal: And sir can you tell the potash revenue in Q4?

Sanjay Jain: It is around Rs. 25Cr.

Dikshit Mittal: So it is already at full utilization in Q4?

Kaushal Soparkar: Yes.

Dikshit Mittal: And sir what is the chlorine margin currently? What was the average in Q4 and how is it panning out currently.

Kaushal Soparkar: Chlorine margin?

Dikshit Mittal: Chlorine, yes it is negative so how much we lost in Q4 and what is the trend right now in first quarter?

Kaushal Soparkar: Chlorine is negative throughout last year and so far also it is negative but caustic prices are very good in Q1 as of now that is covering up and helping us maintaining a healthy EBITDA.

Dikshit Mittal: So can you tell the extent how much is negative in chlorine?

Kaushal Soparkar: For the year?

Dikshit Mittal: Yes for Q4.

Sanjay Jain: Actually our Q4 number is not there but for the year as a whole the negative realization from chlorine is about Rs. 40 Crores. So Rs. 40 Crores we have lost because of negative realization.

Dikshit Mittal: So sir as and when this chloromethane project comes in, so can we see the Rs. 40 Crores swing in the profitability from next year onwards or will it be more or less Sir?

Kaushal Soparkar: See we will consume chlorine, post chloromethane but we are not going to consume 100% chlorine captively but yes that will increase our topline and some positive affect will also come to bottom-line but we will be able to give exact analysis once we commission the project.

Dikshit Mittal: So like normally what is the margin in that product chloromethane. You have given the topline that you expect in the project but on the margin front like can you give based on current data what is the expected EBITDA can be accounted.

Kaushal Soparkar: The margin is around 20% to 25% but again we need to see how the market develop next year, major raw material is also methanol, what are the pricing of methanol. So those things will come into picture when we start the plant and start consuming it and we will be able to give exact picture in next year Q1 i.e. a year from now we will have a better idea but story looks more positive as of now.

Dikshit Mittal: And sir last question like you mentioned that currently caustic prices are very strong so this is in spite of recent rupee appreciation or like in rupee terms prices are strong or how is it?

Kaushal Soparkar: Actually caustic is a domestic-driven product. Technically it has no relation with the rupee pricing whether it is 64 or 65 or 55 because we sell only in the domestic market. There is no export market we have.

Dikshit Mittal: So you mean to say the Q1 is the slightly better in terms of margins in this basic chemical segment as compared to Q4.

Kaushal Soparkar: Yes all the three segments will be positive compared to Q4FY17 in the Q1FY18.

Dikshit Mittal: Okay sir. Thank you.

Moderator: Thank you. We have the next question from the line of Subhankar Ojha from SKS Capital & Research. Please go ahead.

Subhankar Ojha: Sir I have one related to the balance sheet so we had earlier guided debt reduction of Rs.100 Crores per year which we have done in FY17 but now with this capex of Rs. 540 Crores, so how is the balance sheet going to look like?

Sanjay Jain: Actually as the company is committed to reduction in debt so last year we have paid around Rs. 120 Crores as a repayment. This year again in FY18 the repayment will be around about Rs. 91 Crores and along with this expansions we are also planning to go for the new-term borrowing so that will be funded from that and we have already manage our cash flow according to that.

Subhankar Ojha: So out of this Rs. 540 Crores so how much is our share, how much are we going to borrow in terms of terms of loan?

Sanjay Jain: Around Rs. 400 Crores we are planning to borrow from the financial institutions and bank.

Subhankar Ojha: So which means on a net basis FY18 end our borrowing is going to go up by another Rs. 300 Crores right Rs. 400 – 91 so roughly about Rs. 300 Crores of Debt.

Sanjay Jain: It is the project of Rs. 400 Crores which is announced that will be going to commission in mid of FY19-20.

Subhankar Ojha: In the next two years probably

Darshan Patel: It will be in span out two and a half years.

Darshan Patel: So if you look at the March'18 balance sheet there may be a new borrowing around about Rs 100-110 Crores and nothing more than that. So Rs. 91 Crores of repayment and Rs. 110 Crores of new loan. There will be a marginal increase of Rs. 19 Crores only.

Subhankar Ojha: And similar thing is going to happen in FY19 also.

Kaushal Soparkar: Sorry can you repeat the question?

Subhankar Ojha: No I am saying for this year your repayment is Rs. 91 and Rs. 110 Crores of incremental borrowing you are saying so marginal increase on a net-net basis right?

Kaushal Soparkar: And that will help us support additional topline of Rs. 100 Crore from the next financial year, with additional/incremental EBITDA margin.

Subhankar Ojha: Understood Sir. Thank you so much.

Moderator: Thank you. We have the next question from the line of Mehul Sheth from PhillipCapital. Please go ahead.

Mehul Sheth: Thanks for the opportunity. Sir my first question is related to the capex part. Can you breakdown on your Rs. 4 billion capex between hydrogen peroxide and caustic soda part?

Kaushal Soparkar: Hydrogen peroxide?

Mehul Sheth: And caustic soda. So this Rs.4 billion will be how much for the hydrogen peroxide and how much will be for the caustic soda?

Kaushal Soparkar: Rs. 100 Crores for the hydrogen peroxide and Rs. 300 Crores for caustic soda plant with power plant.

Mehul Sheth: And also Sir, you are expecting your potash business to have a growth something like 60% in FY18 means right now it is at around Rs. 51 Crores, you have guided something like Rs. 80 to 85 Crores so exactly you are seeing the demand is picking up a lot means, what will be the demand scenario you are seeing in the market?

Kaushal Soparkar: Demand was already there last year also and still is already there. Last year we faced some quality problem and some issue in commissioning of our project and when you have the caustic potash plant, this is the specialized product used by largely agro and pharma industry.

Mehul Sheth: And also sir on caustic soda side your FY17 EBITDA margin is something like 31% right now so what will be your expectation for FY18 and FY19. This margin can be in what range?

Kaushal Soparkar: 35%.

Mehul Sheth: And same for agrochemical? Right now it is 10% and for pigment around 17%. Sir can you guide for all the segments like what will be your margins for agrochems as well as for pigment.

Ankit Patel: This year was about 10%. We expect to go up to 15% in FY18.

Mehul Sheth: And for pigment you are right now at 17%.

Darshan Patel: This year was about 17%, we expect it to be 18% to 19%.

Mehul Sheth: This Rs. 140 Crores in your chloromethane plant that you are targeting in the first year of operation so this is at what utilization level?

Kaushal Soparkar: The topline of around Rs. 100 to 110 Crore that is what we are assuming right now, but for the next year

Mehul Sheth: Yes for FY19 I mean Sir what utilization level you are expecting in this?

Kaushal Soparkar: Assuming around full utilization

Mehul Sheth: And Sir what will be your overall outlook on a company's margin means what will be the overall blended margin range for the company?

Kaushal Soparkar: Basic Chemicals is at 32% already, Pigments we are expecting 17% to go to 18% to 19% whereas in agro has 10% EBITDA. We expect a robust growth in agrochemical and we expect to reach it up to 15% so overall we expect more than 20% maybe around 21%, 22%.

Mehul Sheth: Okay Sir. Thank you. That is it from my side.

Moderator: Thank you. We have the next question from the line of Pratik Chaudhary as an Individual Investor. Please go ahead.

Pratik Chaudhary: Hi good afternoon sir. Sir on the pigment side in terms of our total sales for FY17 could you give us the breakup of CPC blue and other value-added pigments.

Darshan Patel: Can you hold the line for a minute?

Pratik Chaudhary: Yes. So basically CPC, blue, green and other value added which are the beta and Alpha.

Darshan Patel: In totality for domestic market we sold products for Rs. 1,560 mn and in export market we did exports for Rs. 3,267 mn including Green, Beta and Alpha with the CPC.

Pratik Chaudhary: This is the overall?

Darshan Patel: Yes overall.

Pratik Chaudhary: I mean the exports and domestics?

Darshan Patel: That is correct.

Pratik Chaudhary: Could you repeat the number for green?

Darshan Patel: CPC 5,323 metric tonnes and value added products including of green of 9,139 metric tonnes. Total volume of 14,462 metric tonnes in FY17.

Pratik Chaudhary: So did we purchase CPC from outside as well?

Darshan Patel: No.

Pratik Chaudhary: And this for CPC total which you gave the number 5,323 metric tonnes, this is the CPC separately sold to our customer?

Darshan Patel: Correct to the other customer

Pratik Chaudhary: And the other was utilized for producing green, beta and alpha.

Darshan Patel: Correct.

Pratik Chaudhary: I cannot do the calculations right away but what percentage of our total CPC production currently would be going out as value added and how much would we be consuming as internal consumption in CPC?

Darshan Patel: The captive consumption is around 50% to 55%.

Pratik Chaudhary: So if we talk about the industry who would be our major competitors in India?

Darshan Patel: You mean in CPC or in totality?

Pratik Chaudhary: No in totality in the pigment space.

Darshan Patel: In totality there are majorly two-three players one is the Sudarshan and the second one is the Mazda and Asahi Songwon.

Pratik Chaudhary: No if we only talk about blue, because I guess green is very small for us.

Darshan Patel: We are the second largest in the green also.

Pratik Chaudhary: So if you only talk about blue?

Darshan Patel: No in totality Sudarshan has whole basket, blue, green, red, yellow everything Mazda mainly into blue pigments, Asahi Songwon is also mainly into blue pigment.

Pratik Chaudhary: And Sudarshan also has blue you are saying.

Darshan Patel: Correct but they do not have a CPC crude. They are in to finished pigment only.

Pratik Chaudhary: So they buy CPC from someone else?

Darshan Patel: Whereas we have the Backward integration.

Pratik Chaudhary: And sir in terms of our CPC we might be doing separate sales of CPC to customers like Sun and Sun-DIC and others so in terms of our Beta and Alpha Blue sales do we also sell these to the pigment manufacturers or do we sell the finished pigments to the finished clients in the enduser industry?

Darshan Patel: CPC we do mainly in domestic market we do not do too much in export market for the CPC sales but in finished pigment in totality including green and blue, our export percentage sales is 68% and rest we are selling in domestic market and we have a direct customer as well as we have a distributor network in 70 countries also. We have an 8% global market share in the exports mainly.

Pratik Chaudhary: No I am trying to understand it from this aspect that Sun-DIC they are pigment manufacturers themselves am I correct on this understanding?

Darshan Patel: They are into pigment manufacturing but they use that captive usage only. They are not into the market.

Pratik Chaudhary: No if I put it in other way do we compete with Sun-DIC and companies like them in our Beta and Alpha portfolio?

Darshan Patel: Sorry can you repeat the question?

Pratik Chaudhary: In our Beta blue and Alpha blue product, do we compete with the companies like Sun and DIC and Clariant?

Darshan Patel: In terms of quality yes we do compete with them.

Darshan Patel: But Clariant, DIC-Sun they are not into the market, they are manufacturing blue pigment but they use for their captive consumption, for their ink manufacturing, not for the selling.

Moderator: Thank you Mr. Chaudhary we request you to join the question queue for any follow-ups. We have the next question from the line of Naushad Chaudhary from Systematix. Please go ahead.

Naushad Chaudhary: Thanks for the opportunity again. Just a follow-up question, a data point, Sir just if you can share the average realization number of CPC and finished products and also the blue and green.

Darshan Patel: In average range for this pigment green for last year was Rs.425.

Naushad Chaudhary: For green?

Darshan Patel: And it is down by Rs.18 from the last year.

Naushad Chaudhary: Sir actually your voice is cracking if you can repeat the number again?

Darshan Patel: For the pigment green 7 last year average prices was Rs.425, the Alpha average price was Rs.434, beta for regular product average price was Rs.360.

Naushad Chaudhary: So regular you say the plain Vanilla beta 15.34.

Darshan Patel: For the higher value-added product the average price was Rs.385.

Naushad Chaudhary: For 15.4?

Darshan Patel: For .3 and .4 both.

Naushad Chaudhary: And CPC crude.

Darshan Patel: Crude price was average price was Rs.260 to Rs.262.

Naushad Chaudhary: Okay Thank you sir.

Moderator: Thank you. We have the next question from the line of Vivek Kumar from GeeCee Investments. Please go ahead.

Vivek Kumar: Thank you so much for the opportunity. Sir did I hear it right that you are targeting 20% growth for FY18 and as well as FY19?

Kaushal Soparkar: As a company as a whole?

Vivek Kumar: That is right.

Kaushal Soparkar: We are expecting good growth coming from the agrochemical market and basic chemical market mainly. In agrochemical as I mentioned that we are going to increase our plant utilization because we have got few new registrations with our customers now after long approval process and long waiting period, which we will be able to convert into business this year and that will help us to achieve higher plant utilization. We will increase our revenue in agrochemical maybe by 20% to 25%, basic chemical also as we mentioned that we are going to have full utilization in our caustic Soda plant that will help us in increasing the revenue. Other than that this year we are very confident that caustic potash plant will run at the higher capacity so that will not only contribute the topline but contribute to the bottom-line.

Vivek Kumar: Okay. So what you are saying is that the current utilization which was roughly around 73%, 74% can eventually go up to like what 85% this year that is what you are saying?

Kaushal Soparkar: Yes.

Vivek Kumar: So you are fairly confident that 20% growth will not be a very difficult task for you this year?

Kaushal Soparkar: This year the lower utilization of the plant was there because we were changing the membrane of our electrolyzer which generally all the chlor-alkali plant changes every four to five years and then we took a mandatory shutdown for the synchronization of caustic potash plant and the caustic soda plant. That is the reason we had a little bit of lower utilization but those events are not going to occur this year. That is the reason also we are very confident our utilization will be around 85% as a whole year.

Vivek Kumar: Sir I think EBITDA margin something that you just talked about the segment wise as well. Just wanted to check that if we are targeting 20% on topline so we should be looking at EBITDA going little faster than that or we should be working with the same 20% growth even in the EBITDA side as well for the next two years?

Kaushal Soparkar: EBITDA I think as a company as a whole we expect to have an EBITDA Margin of about 21%, 22%.

Vivek Kumar: 21%, 22% for FY18 or for FY19 Sir?

Kaushal Soparkar: FY19 also more or less same.

Vivek Kumar: So I was just roughly working on the numbers, so my estimation was that probably you should still land up doing Rs. 400 Crores of EBITDA for FY19 would that be a fair estimate?

Kaushal Soparkar: Sorry can you repeat the question?

Vivek Kumar: No based on the guidance that you are giving, the number that works out to be about Rs. 420, 400 Crores odd of EBITDA so is that a number that is still in sync in terms of your internal budget?

Kaushal Soparkar: I think in FY19 it will be like that yes approx. Rs. 380-400 crores.

Moderator: Thank you. Mr. Kumar we will request you to join the question queue for any follow up as we have several participants waiting for their turn. We have the next question from the line of Kavita Thomas from First Global. Please go ahead.

Kavita Thomas: Hello Sir. Thank you for taking my question. Sir my question was on the basic chemicals segment. So could you please explain in terms of how these EBIT margins are actually varying quarter-on-quarter if I see I mean in this quarter it has been there as low as 16% and if I see on an annual basis the EBIT margins have come down by around 300 basis points so could you just help us understand in terms of how do we see the margins of this segment going forward and actually how has it been so low in this particular quarter?

Kaushal Soparkar: For quarter-on-quarter last year financial year Q4 was extremely well for the chlor-alkali industry, so that is reason that we had a very high EBITDA margin compared to this Q4 and second thing that if we compare on year-on-year basis overall this year was good for the chlor-alkali industry but this year we have slightly lower utilization of the plant as we mentioned earlier also that we commissioned the caustic potash plant as well as we changed the membranes for electrolyzer which is a common process for all the chlor-alkali plant which they do every four to five years so for that we have to take some shutdown that is why the plant utilization was in a lower side and ECU was slightly on the lower side and as well as the coal prices went up a bit and that is the reason that we have lower EBITDA margin on year-on-year basis.

Kavita Thomas: But even if I see on a sequential basis like if I compare it with the third quarter the EBIT margin in the third quarter was 20% while now in the fourth it has come down to as low as 16%. EBIT margin has never been there for this segment over the last several quarters, other than what we have discussed is there any some one-off events which have happened?

Kaushal Soparkar: See what has happened also during the Q3 DCM Shriram plant has also got commissioned and Nirma has also ramped up their production so in the market there was a more chlorine than the demand requirement and that has yield to the lower realization of the chlorine pricing and that has affected all the chlor-alkali industry in general but this year the demand is picking up for the chlorine consumption and by end of this year we see that EBITDA margin will come back to the normal level.

Kavita Thomas: Okay. Thank you so much sir.

Moderator: Thank you. The next question is form the line of Praveen Sharma who is an Individual Investor. Please go ahead.

Praveen Sharma: Thank you for taking for followup question Sir. Sir just one question what is the outlook on the finance cost, the interest outgo in FY18. Currently it is around Rs 50 Crores in FY17 with the debt repayment what do we expect for FY18?

Raj Kumar Mehta: It was at Rs 50.9 Crores so this year when we are paying the debt to the amount of Rs 91 Crores it will be on the same line we expect and also for the more low interest and demand loan we are taking so we expect it to be further down by another 20% this year also on existing loans.

Praveen Sharma: So it will be down by 20% correct?

Raj Kumar Mehta: Down by 20% Yes on existing loan.

Praveen Sharma: So around Rs. 10 Crores reduction in finance cost.

Raj Kumar Mehta: Yes

Praveen Sharma: Thank you sir.

Moderator: Thank you. We have the next question from the line of Pratik Chaudhary as an Individual Investor. Please go ahead.

Pratik Chaudhary: Sir in the pigments business there are some new contracts and new businesses that you have got, could you elaborate on that?

Darshan Patel: Sorry. Can you repeat your question please?

Pratik Chaudhary: In the pigment business is there some new business or new contracts that you have got?

Darshan Patel: Right now we are not expecting any contract from any customer from the outside but we are more focusing on the domestic market and in the Europe market.

Pratik Chaudhary: And Sir from an industry perspective the competitive intensity. I mean in the last two, three years, there have been a lot of players especially private players who are filing environmental clearances and seeking huge clearances for large capacities, so how do you see the competitive intensity going ahead in this business and how do we differentiate in anyway if at all because it becomes all the more competitive.

Darshan Patel: As Meghmani we do not find any difficulties with the small players because as a supplier we need a lot of documentation. If we want to supply in the export market, then we need the REITs registration and everything that will require more and more time so it is not easy to get the customer like a small player and by facility we are much higher than the small player we are as a Meghmani our quality is as compared with the BSF grade and Clariant grade.

Kaushal Soparkar: Second thing I just want to add to what Darshan had said that once any company approves our product and other formulation which they do not change immediately, so it is a long process which they go through on a various technical grounds that is the reason the approval takes a lot of time and once you are approved then the business remains quite strong with that company.

Darshan Patel: And even from our customer side they need approval from their customer and their market also, so it will take at least one-year time.

Pratik Chaudhary: And on specifically with our competition with the Asahi how do you see that because if I look at their financials and I mean our pigment and their pigment is largely the same and despite they do a lot of CPC sales, they are doing around 18%, 19%, 20% kind of margins.

Darshan Patel: Can you repeat the name of the company?

Pratik Chaudhary: Asahi Songwon.

Darshan Patel: Yes they have a contract manufacturing with the DIC, they are not into the market and they mainly produce for the DIC and Sun chemicals, so 80% of the product goes into one customer only. So they are formula based. Even Sun chemical and DIC are handling raw material as well as the supply situation also.

Pratik Chaudhary: But still like the Sun and DIC are our clients as well, so still how it is surprising that they are in a contract manufacturing business, they are achieving 19%, 20% and the last year was not as good for us, I mean FY16.

Darshan Patel: As compared to the Meghmani the risk level is very high because they are depending only on one customer where as Meghmani we have globally 8% market share.

Pratik Chaudhary: Right and in terms of technology or are we different from Asahi in any way?

Darshan Patel: Yes actually we have same technology as compared to the Asahi also and we have a separate technology differentiated from them also.

Pratik Chaudhary: Okay sir I will get back in the queue.

Moderator: Thank you. We have the next question from the line of Vivek Kumar from GeeCee Investments. Please go ahead.

Vivek Kumar: Sir just wanted to check that the capex plan that you have how much of that going to be like capitalized for this year?

Sanjay Jain: This year the normal addition as far the capex is around about now Rs. 130 Crores in totality.

Vivek Kumar: So Rs.130 Crores capitalized and CWIP going to be right out there?

Sanjay Jain: For the CMS plant the total investment is Rs. 140 Crores and same will be capitalized in this current year.

Vivek Kumar: No issues and for FY19 sir?

Sanjay Jain: In FY19, we will be completing 3 projects namely, Hydrogen Peroxide Project, expansion of caustic soda capacity and additional 30 MW Power Plant.

Vivek Kumar: So what you are saying is that Rs 130 Crores and then Rs 140 Crores is both going to be getting capitalized right in 2018 and 2019.

Kaushal Soparkar: So whatever capex plans we announced it is staggered manner for roughly two to three years. FY18 Rs 140 Crore and FY19 and first half of FY20 of Rs. 400 Crore.

Vivek Kumar: And sir just on the chloromethane project just wanted to check that this Rs. 120 Crores of the sales forecast that you have done is assuming the peak utilization right?

Kaushal Soparkar: Yes you could say that, that is because pricing depends on what are the pricing of methanol also so I will give the price at that time, because largely currently India is almost net importer of MDC. So we assume with X realization our topline should be in a Rs. 120 Crores but at the same time our target is to use chlorine at a better price and improve our bottom-line.

Vivek Kumar: Sir just wanted to check again here is that by what time you are going to be commercializing it around May'18 right?

Kaushal Soparkar: Yes early next year.

Vivek Kumar: So how does the utilization starts improving what is the kind of three years, four years it takes to reach out the 80% utilization, how should one look at into this?

Kaushal Soparkar: First year we should reach at the capacity 60% and from the second year onwards we should be able to go beyond 80% to 85%.

Vivek Kumar: In two, three years only you can reach the peak utilization that is what you are saying, okay. So what you are also saying is that you will be able to do 20%, 25% EBITDA margins right on this?

Kaushal Soparkar: Yes.

Vivek Kumar: So roughly the payback for you then is going to be like four, five years on the chloromethane project.

Kaushal Soparkar: Yes that is correct.

Vivek Kumar: Seven, eight years maybe I do not know. So anything from this new projects would start kicking in the EBITDA and the revenue only post FY19 so something in FY20 right and then FY21 all of it.

Kaushal Soparkar: So we will get some topline and bottom-line impact in FY19 next year and in the following year you will get the full topline, bottom-line for chloromethane and the some topline, bottom-line from the caustic soda and hydrogen peroxide.

Vivek Kumar: Sir my assessment was that in the first year of operation you might be running loss I thought that way so, is not that the way to assume that or it is going to be like first year of operation of the chloromethane itself you are going to be like doing the EBITDA of 10%, 20%

Sanjay Jain: Negative is not there but margin maybe moderate because we are going to run plant at around 60% capacity in the first year expected and of course negatives will be not there.

Vivek Kumar: So it will not eat away the current EBITDA margins for FY19 whatever it is.

Kaushal Soparkar: So second thing is that there will be three products coming out from this MDC, chloroform and CTC, but actually the Meghmani Organic is going to be a captive user for that, might be used in our agrochemical based products and MDC and chloroform goes to agro and pharma companies because we are already selling caustic potash, so our customer base is more or less same so that will also help to strengthen our project faster from the marketing point of view.

Vivek Kumar: Okay sir thank you so much.

Moderator: Thank you. Ladies and gentlemen that was the last question I would now like to hand the conference over to Mr. Kaushal for closing comments. Thank you and over to you sir.

Kaushal Soparkar: Thank you very much for joining our conference call and if you have any questions, you can always e-mail to us. Have a great evening. Thank you.

Moderator: Thank you very much members of the management. Ladies and gentlemen on behalf of Meghmani Organics Limited that concludes this conference. Thank you for joining us you may now disconnect your lines.