"Meghmani Organics Limited Q4 FY-18 Earnings Conference Call"

May 28, 2018

MANAGEMENT:	**MR. ANKIT PATEL – CEO, MEGHMANI ORGANICS LIMITED** **MR. DARSHAN PATEL – COO (PIGMENTS), MEGHMANI ORGANICS LIMITED** **MR. KAUSHAL A. SOPARKAR – MD, MEGHMANI FINECHEM LIMITED** **MR. GURJANT SINGH CHAHAL – CFO, MEGHMANI ORGANICS LIMITED**
ANALYST:	**MR. NITESH KUMAR – FOUR-S SERVICES**

Moderator: Ladies and gentlemen, good day and welcome to the Meghmani Organics Limited Q4 FY18 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 '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nitesh Kumar from Four-S Services. Thank you and over to you sir.

Nitesh Kumar: Good evening everyone. On behalf of Four-S Services, I welcome all participants to the Q4 and FY18 conference call of Meghmani Organics Limited. Today on the conference call, we have Mr. Ankit Patel, CEO, Meghmani Organics Limited; Mr. Darshan Patel, COO (Pigments); Mr. Soparkar, MD, Meghmani Finechem Limited and Mr. Gurjant Singh Chahal, CFO, Meghmani Organics Limited. We will now have Ankit give his opening remarks. Over to you, Ankit.

Ankit Patel: Thank you, Nitesh. Good evening, everyone and very warm welcome to the Meghmani Quarter 4 FY18 investor call. FY18 has been another successful chapter in Meghmani's growth story in which we delivered strong revenue growth and doubled our profit, reporting highest ever PAT margin of 9.7%. During the year, we achieved increased utilization across all the segments, increased contribution of value-added products and effectively lowered the finance cost by 22% on account of Rs. 75 crores reduced debt. We also expanded our global footprint and now export to more than 75 countries and providing service to over 400 marquee clients.

Coming to our financial performance for the year, our consolidated net sales for the year FY18 grew by 27% to reach Rs. 1,775 crores as compared to Rs. 1,396 crores last year on the back of strong performance in export as well as in domestic market. Exports saw 29% growth while domestic market increased by 25%. EBITDA for the period increased 49% to Rs. 431 crores resulting in 360 basis points expansion in EBITDA margin to 24.3% driven by better realization and improved market conditions.. PAT for the year almost doubled to reach Rs. 171 crores as compared to Rs. 87 crores last year with PAT margin reaching 9.7%. The consolidated revenue for Q4 FY18 grew by 35% to Rs. 344 crores in Q4 2017 to reach Rs. 463 crores driven by strong growth of 53% in domestic market though domestic market contributed 51% to revenue.

EBITDA for the period increased 63% year-on-year to Rs. 120 crores while EBITDA margin expanded 450 basis points to reach 25.9% and PAT increased 112% year-on-year to Rs. 50.2 crores with PAT margin of 10.8% as compared to 6.9% in Q4 FY17. Interest outflow declined 12% to Rs. 9.2 crores compared to Rs. 10.5 crores in Q4 FY17 on account of reduced debt.

Looking at each segment's performance in detail, the Pigment net sales for the year was up by 12% to reach Rs. 574 crores driven by robust growth of 29% in exports, contributing to 79% of Pigments FY18 revenue whereas net sales in domestic market was down. Volumes grew by 11% at 16,090 metric tonnes while blended realization remained flat. EBITDA was slightly down at Rs. 84.7 crores for the year as higher input costs could not be passed on to the customers fully. Still, the EBITDA margins stood at healthy 15%. Utilization levels have increased to 81% as compared to 65% last year driven by 29% growth in production. Our Pigments business remained flat for the quarter. Export revenue was up by 6% and contributed to 81% of Q4 FY18 Pigments revenues. EBITDA was down at Rs. 21.7 crores for the quarter and EBITDA margins stood at 15%. Utilization level has increased to 91% compared to 74% in Q4 FY17 while production grew by 26%.

Net sales for the year in Agrochemicals grew by 33% to reach at Rs. 627 crores driven by strong growth of 43% in exports and 15% in domestic market. Export contribution up at 67% from 62% in FY17 while domestic contributed at 33%. Volumes were up by 11% at 17,342 metric tonnes coupled with strong growth of 19% in blended realization. EBITDA grew by 114% driven by positive market conditions and better price realization to reach at 98.1 crore. EBITDA margin also increased reaching 16% as compared to 10% last year. Utilization level up from 60% to 68% while production grew by 14%. Our Agrochemicals net sales for the quarter registered strong growth of 32% to reach at Rs. 129 crores driven by robust growth of 54% in export which contributed 79% to revenue. Volume witnessed 12% growth to reach at 3,181 metric tonnes while realization was up by 18%. EBITDA was down at Rs. 7.6 crores and EBITDA margins stood at 6%. Utilization level has increased to 57% from 53% last year and production was higher by 9%.

Our basic chemical sales for the year grew by 52% to reach at Rs. 597.1 crores on the back of strong growth in both domestic and exports market. Volumes were up 14% year-on-year while realizations were up 34% for FY18. EBITDA for the period grew by 78% to Rs. 255 crores and EBITDA margins were up to 43% on account of better price realization and positive market conditions. Utilization level has increased to 86% from 77% last year and production grew by 12%. For the quarter, our basic chemical registered robust growth of 102% in revenues to reach Rs. 199 crores driven by 116% growth in domestic market. Volume sales were up by 15% reaching 41,144 metric tonnes and realization were up by 76%. EBITDA up three times to reach at Rs. 93.6 crores with margin at 47% as compared to 32% in Q4 FY17. Utilization improved to 90% in Q4 FY18 with 21% growth in production.

As we continue to deliver growing profits and with comfortable leverage position, our board has recommended a dividend of 40% to reward our shareholders for their support. This is subject to shareholders approval at AGM. Going forward, we expect all our businesses to maintain the strong and profitable growth in both domestic and export market. The economic boost to farmers in the recent budget and another good monsoon predicted for this year would act as a strong tailwind for the domestic industry in 2018.

So with this, I come to end of my opening comments. And I would now like to open the floor for questions. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: So any updates on your CAPEX especially the CMS project. I believe the commissioning was in March 18. Has that happened and the other CAPEX, all the three projects, if you can just tell us what the progress is?

Ankit Patel: Sir commissioning of CMS is planned in early part of Q3 and the project work is in full swing right now and the total CAPEX has been planned approximately 140 crores for CMS project. And other project which we already announced that is hydrogen peroxide and caustic soda expansion. Both the projects will come online in Q1 of next financial year.

Agastya Dave: But the CMS project is already on line?

Ankit Patel: No, the commissioning will happen in the Q3 of this financial year.

Agastya Dave: And in your last annual report, you had mentioned that the channel inventory in agrochemicals was very high. What is the status now compared to last year?

Ankit Patel: Thank you, Mr. Dave. That was related to the brand business in the Indian market. Now as we are seeing the situation is getting very tight nowadays as far as the chemical industry is concerned in China and imports are getting restricted by the government through Make in India. So now the channel inventory in the domestic market has gone down and with the strong expected monsoon, we feel that there will be a very good demand in the Indian market and what we are focusing on the domestic market we will be able to achieve that growth.

Agastya Dave: Final question. On the basic chemical side, for a very long time, for at least 3-4 years I have been tracking you, you have maintained that the sustainable margins are in the 30s. Now, we have reported for the entire year actually close to 43% if I am not mistaken and the prices have shot up. I am pretty sure sooner or later prices will come down. What is your outlook on that side?

Ankit Patel: Last year was an exceptional year not only in India but globally for the chlor-alkali industry, but we still maintain that for this year the EBITDA margin should be between 35%-40%.

Agastya Dave: At the EBITDA level?

Ankit Patel: At the EBITDA level, yes.

Agastya Dave: Any guidance on revenue growth in basic chemicals?

Ankit Patel: We anticipate this year should be around 20% growth.

Agastya Dave: This is value or volume?

Ankit Patel: No, volume will remain the same. Obviously, the additional production of CMS will be added up, but because of the better realization, we anticipate the growth of 20%.

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

Surya Patra: So first one just in the previous question that you mentioned, for the CMS project you said first phase of that will be commissioned in the first quarter. So just wanted to check whether this is in the two phases that is coming up?

Ankit Patel: No, CMS project has only one phase. There is no two phases there and the project is going to be commissioned in the first half of Q3, early part of Q3.

Surya Patra: And sir relating to the same, so now subsequently with the CMS project where a portion of the chlorine that is generated currently will be utilized and subsequently still we will be have some chlorine to handle and further when the expansion of caustic soda will happen, so again we will generate more chlorine. So ultimately whether the kind of a dent what we are getting because of the chlorine handling currently. So again, whether the similar kind of situation will remain even after the CMS project with the expansion of caustic soda happening in the following year?

Ankit Patel: I will be happy to tell you that especially at least up till now in this financial year, Chlorine prices are in the positive direction. So, whether dent will be there or not, it is very difficult to say right now, but overall, we are seeing positive demand in the chlorine consumption industry.

Surya Patra: And may I know sir last year it was around near about Rs. 35-40 crores in that range, there was a kind of dent because of the chlorine. This financial year whether you have earned money or there were some charges that you borne because of the chlorine?

Ankit Patel: No, throughout the year, practically yes, we had to pay to lift the chlorine, so charges were there. But from March onwards, we are seeing positive. Even in Q1 of this financial year, you will see the positive in chlorine pricing.

Surya Patra: Is it possible to share the numbers for last year in the sense FY18, what was the charge that you have?

Ankit Patel: Was roughly 40-42 crores.

Surya Patra: So that means that amount remained almost same compared to that of the previous year?

Ankit Patel: Yes, because it recovered eventually in the Q4 that is the reason.

Surya Patra: On the deal that you have signed, IFC. After the deal, what is the current gross block that you are having and if you can share the split of that in terms of the working capital and the term loan that would be better sir?

Ankit Patel: Mr. Surya, you mean to say as a company as a whole? You want to understand the financial position, what is the short-term and long-term position?

Surya Patra: Yes. If you can tell briefly how have you funded the payment to the IFC?

Ankit Patel: For the IFC transaction, we have already published that Rs. 221 crores have been paid to IFC and 4.17x return to IFC and this has been funded mainly from the internal accruals and a portion from the short-term debt because we were having healthy cash position this year. So partly it has been used that way.

Surya Patra: What is the current short-term and long-term debt position at this moment after the deal?

Ankit Patel: After the deal, around Rs. 270 crores is our long-term and around Rs. 230 crores is the short-term debt.

Moderator: Thank you. The next question is from the line of Pawan Kumar, an individual investor. Please go ahead.

Pawan Kumar: First, I would like to congratulate for the fantastic numbers in terms of Q-o-Q and Y-o-Y. My question is since we are seeing upcoming projects, one is the commissioning of CMS project which in Q3 will be active I think as you said and the other one is hydrogen peroxide and caustic soda project which are coming in Q1 2019-20 I believe. My question is how much revenue do you see coming from these two major projects in terms of numbers will be adding?

Ankit Patel: Based on the current pricing and all, all three projects put together will add roughly topline of 550 crores to 600 crores.

Pawan Kumar: And the other question is since I am seeing pretty much the debt level is under control and company is generating lot of revenue and profits, so do you have any buyback plans of the shares in future, just for the sake of knowledge.

Ankit Patel: We have not decided so far, but because we are continuously growing with the organic growth, putting up new projects, so as of now we have not decided to do any kind of buyback.

Pawan Kumar: And one other small question only. Apart from the projects which we have discussed, do you have any other CAPEX plan in pipeline 2018-19 or 19-20?

Ankit Patel: Yes, the projects what we have announced is mainly from the basic chemical division while other two division which is agrochemical division and the pigment division, we are working on some new projects and there will be CAPEX involved which will be announcing with the proper project in coming days' time. But we feel that the CAPEX will start probably at the Q4 of this financial year or Q1 of the next financial year.

Pawan Kumar: And how much CAPEX we expect to be used there?

Ankit Patel: Depending on the project size, we feel that it would be in the agrochemical division. It can be anywhere between Rs. 100 to 150 crores in the first phase and for the pigment, we are still working on it, so we do not have the number right now.

Moderator: Thank you. The next question is from the line of Mononita Mitra from Stewart & Mackertich. Please go ahead.

Mononitra Mitra: I have two questions. I would like to know about the volume growth in each of your segments, the pigments, agrochemical and basic chemical segment and the guidance for the next 2-3 years?

Ankit Patel: As far as all the three segments volume growth is concerned, as we have already mentioned in the pigment division there is approximately volume growth of 11%. In agrochemical also, there is a volume growth of about 11% whereas in basic chemical division, there is a volume growth of about 14% and looking at the future in mind as far as the basic chemical is concerned, the project what we are putting up now that will help us to have a volume growth as well as topline growth and in agrochemical division, we have reached the capacity utilization of about 68% this year and there is a still room for the utilization of the existing plant. So our target is to utilize the plant to the nearly 85% level and with that, we will be able to grow further. At the same time in the agrochemical division, we are planning to grow into our brand business where not much CAPEX is required. With the small CAPEX, we can do much faster expansion because it is a formulation business. And in the pigment division, we have reached sizable level as far as the capacity utilization is concerned. We have reached up to 80% level and we feel that there is still small scope available. By doing some small debottleneck changes, we can further expand to nearly 5-10 %. After that, we will not be expanding in pigment division for the same product range. Then, we will be entering into some different kind of product range or some new project.

Mononitra Mitra: So, the market share for pigments is 8% now. So, if you get into some other segments in pigments, then what will be the market share in the next 2-3 years?

Ankit Patel: For pigment, we are mainly into copper phthalocyanine which is pigment blue and pigment green. For that, we are having about 8%-9% market share globally. So, by any chance if we enter into other pigment, then it will be a different market I would say. It is considered as a different pigment basket. So that we need to evaluate. From that, we need to start at a scratch label I would say, but we have a market with the existing customer base. So, we can grow very fast because we have a ready network available with us.

Mononitra Mitra: And as far as the agrochemical is concerned, you are vertically integrated. So, you also produce technical along with formulations, so in the next few years you are trying to concentrate on the formulations business. So, since you also produce technical, so due to the rising raw material prices in China, so the impact must be less in your case. So, is it true?

Ankit Patel: That is correct. We are totally vertically integrated. We have our own intermediates. We have our own technical. We are doing formulations. So, we have got very strong base available with us. So, with the current China market situation, we feel that with our strong manufacturing base, we would be able to grow much faster in this kind of situation and we are getting lot of opportunities as far as market is concerned and yes, definitely our favor would be more to grow into the formulation business because that is more of a value addition business. So at the end, whether it is a domestic market or export market, our focus is always on the formulation business.

Mononitra Mitra: What was the impact of rising raw material prices? So even vertically integrated, but whole of the raw materials, you manufacturing yourself or is it that some part of it you import from outside?

Ankit Patel: It is very difficult to, still in India we do not have many of the raw material available with us. So, we have to be dependent on certain raw material point of view on Chinese market or any other market.

Mononitra Mitra: What percentage you import?

Ankit Patel: That is still not very big as a company as a Meghmani, it is a very minor percentage with us. So that is not going to impact us a lot as far as the input from Chinese market is concerned.

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

Jayesh Parekh: My only small clarification I need Q4 agrochemical segment EBIT is compared to Q3 and compared to same quarter last year seems to be on a lower side. Can you clarify on this?

Ankit Patel: Yes, sure, Jayesh bhai. Jayesh bhai as you know that nowadays accounting policies are getting very strict and as an agrochemical division, normally long-term payments are there. So sometimes when we are expanding in the domestic business, there is a long payment terms getting involved and we need to make some provisions in our numbers. So, part of that is because of the provision in terms of the bad debt.

Jayesh Parekh: Otherwise, everything, very excellent year and once again congratulations to entire team.

Gurjant Singh Chahal: Mr. Jayesh, one more point to add to this. As per Ind-AS accounting in case of our exports on CIF basis, whatever dispatches are done , those sales have to be recognized once it is accepted by and acknowledged by the customer. To that extent, actually sales adjustment provision is done at the quarter end. So, it is relatively high in both cases even in pigment also in the month of March whatever dispatches you do, does not reflect into the sales.

Jayesh Parekh: So, it will have positive impact on Q1 current financial year?

Gurjant Singh Chahal: That is correct.

Moderator: Thank you. The next question is from the line of A. M. Lodha from Sanmati Consultant. Please go ahead.

A. M. Lodha: There are 2-3 queries which I would like to clarify. Number one is that margin, agrochemical margin quarter-on-quarter was down from 10% to 6% is mentioned in your slide also. Similarly, pigment margin has also down from 17% to 15%. So, the things which accounting norms, the newly accounting standard norms, the reason of that only or anything else reason might be there? In both division your margins are down in this quarter, quarter-on-quarter, only savings your basic chemical I would say due by the margins have gone from 32% to 47%?

Ankit Patel: That is correct. As I mentioned for the agrochemical division I have already given the reason. And as far as the pigment division is concerned sir, yes there is an increase in the input cost which is our major raw material cost for the pigment division is phthalic anhydride, copper, sulfuric acid, urea, so these are some of the major raw materials for the pigment division and majority of the raw materials you must be knowing that there is increase, sudden increase in the copper price, phthalic anhydride prices and sulfuric acid price. So, these factors the prices have increased suddenly very fast and we were not able to immediately pass on the same price increase to all our customers. But we feel that in the year, this year in the first quarter, second quarter onwards we will be able to pass on this cost increase to our customers. So, whatever decline in the margin we should be able to manage in the coming financial year for agrochemical division as well as for the pigment division.

A. M. Lodha: How basic chemical is a game changer? Because you have recorded is 47% margin.

Ankit Patel: Yes.

A. M. Lodha: And it was a 32% quarter-on-quarter?

Ankit Patel: Yes.

A. M. Lodha: So, second question is regarding Meghmani Finechem holding. You have paid Rs. 221 crores to IFC for acquiring the Meghmani Finechem holdings through one of your subsidiary, am I right, sir?

Ankit Patel: Yes.

A. M. Lodha: Existing how much holding is there in Meghmani organic, sir? How much holding of Meghmani Finechem**,** Meghmani is holding?

Ankit Patel: We have acquired IFC stake through our subsidiary.

A. M. Lodha: That is different but existing holding is how much, sir?

Ankit Patel: So, the total is 77%, it is 76.7%.

A. M. Lodha: Approximately 77% rest 23 is being head by family members individually or their companies?

Ankit Patel: Yes.

A. M. Lodha: Remaining 23% holding is with the management also?

Ankit Patel: By promoters.

A. M. Lodha: Promoters also?

Ankit Patel: Yes.

Moderator: Thank you. The next question is from the line of Pranav Muchhala from Reliance General Insurance. Please go ahead.

Pranav Muchhala: Sir, I had a question particularly in basic chemicals we have seen the EBITDA margin expanding to 47% this quarter. Sir, how sustainable is this?

Ankit Patel: This is, I mean last quarter was unique and globally the demand was very high that is the reason we have achieved this higher EBITDA number. But we do not foresee that it will remain last throughout this financial year. So, our prediction is that it will remain between 35% to 40%.

Pranav Muchhala: And sir, in case of the money which has been paid to IFC, could you sir give out the breakup of how much was it by internal accruals and how much was via debt funding?

Ankit Patel: If you see on the standalone basis around Rs. 171 crores is EBITDA which we have generated in standalone. And this is mainly accrual there is no much CAPEX has come up as far as standalone MOL is concerned. So, it is mainly from the internal accruals. So, there is no specific term loan or etc. has been taken for IFCs yet.

Pranav Muchhala: And sir, in case of pigments can we assume that going forward 15% would be there? It will be difficult to achieve anything more than that or we think that price hikes would be possible?

Ankit Patel: In fact, Mr. Pranav, 15% we feel that last year in the pigment division this is pretty low number because with the increase in the raw material prices it should have increased the margin and everything. But it was very difficult last year but this year it has started with the positive note. Now, the market is moving into a positive direction and we feel that we will be able to pass on this cost increase to our customer. So, for the whole year we hope that it should increase from 15% and it should be anywhere between 15% to 17% it should be there. We hope to increase as much as possible.

Pranav Muchhala: Sir, one last question. Sir, what would be the impact of if any phosphoric prices particularly in the Agrochem EBITDA margins? Is there any contribution from those?

Ankit Patel: Phosphorous is a very basic raw material which is available plenty in China and there are lot of raw materials or intermediates based out of phosphorous. So yes, there is an increase into certain intermediates and raw material prices which are coming out of China. But as of now in our agrochemical division we can pass on the same to the customer. Same factor China because availability from Chinese market is very much limited. So, there is a, I would say demand is there and supply is limited. So, with the increase in cost we are able to pass on the same cost increase to our customer because of the situation.

Pranav Muchhala: So sir, on a full year basis is it safe to assume double digit margins in Agrochem?

Ankit Patel: Definitely, yes.

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

Bhavesh Jain: Sir, it is possible to share the EBITDA margins on the CMS and this hydrogen peroxide? On steady state basis what kind of EBITDA margins we can make in these 2 projects?

Ankit Patel: Its current pricing we feel that EBITDA margin should be in the range of 20% to 22%.

Bhavesh Jain: And sir, what will be the CAPEX outflow flow for this FY19 considering all these 3 major projects are there?

Ankit Patel: Total CAPEX, we have planned is 650 crores.

Bhavesh Jain: So, everything will be this year only, FY19?

Ankit Patel: No, some will happen in this year and remaining will happen in the following financial year.

Bhavesh Jain: And sir, if I heard rightly you said in Agrochem we are planning 85% capacity utilization for FY19?

Ankit Patel: See, this pigment and agrochemical typically is a batch operation plant. These are not a continuous plant. So, typically when you reach 80% or 85% that is a very good achievement. So, in any batch mode operation industry 85% is the target number. So, this year we have reached up to 68% and our target is to reach at 85% in this financial year only. Now, let us see where we reach.

Bhavesh Jain: Sir, if I consider that then the volume growth will be 33% for FY19?

Ankit Patel: Yes.

Bhavesh Jain: So, what will drive that? Whether we are expanding our distribution network, or we are this branded formulation that will drive the growth? What will drive this 33% volume growth?

Ankit Patel: See that is on the continuous basis to reach up to 85%. So, it may not be, we may not be able to achieve in just one year time. But that is what the overall targets and as far as sales point of view is concerned one factor is, one of the major factor is China which is going to remain we feel that the Chinese situation is going to remain very tight for next couple of years at least for next 2 to 3 years' time. That is one of the factor, at the same time we are getting our products approval registration in different markets which will also help to increase our production.

Bhavesh Jain: And sir, final question what will be our maintenance CAPEX every year?

Ankit Patel: Maintenance CAPEX to the tune of about 30 crores, not much. It is a routine maintenance CAPEX.

Bhavesh Jain: Across all 3 divisions?

Ankit Patel: Mainly agro and pigment. As far as basic chemical division is concerned our maintenance is approximately about 20 crores-25 crores.

Moderator: Thank you. The next question is a follow up from the line of A. M. Lodha from Sanmati Consultant. Please go ahead.

A. M. Lodha: Anki bhai, first it's very vital and important question from the point of view of your minority shareholders. Ankit bahi, I looked at your figures of the last 3 years. In 2016 the company, I am talking about standalone because dividend is being paid out of the standalone profits only.

Ankit Patel: Yes.

A. M. Lodha: Dividend is being distributed out of the standalone profits only. Therefore, I have just complied the last 3 years figures. In FY16 the company made EBITDA of 131 crores in FY17 the company made EBITDA for 140 crores and this year the company made EBITDA of 200 crores.

Ankit Patel: Yes.

A. M. Lodha: Whereas dividend paid to shareholders, so was 30% in 2016 and 40% in 2017 and proposed 40% in 2018 also. So, thus your EBITDA has increased from Rs. 100 plus to 200 crores. Dividend has not increased in the same direction, number one. Number two, Ankit bhai just I was wondering major expansion of Rs. 641 million is being done in Meghmani Finechem Ltd. That major expansion at the cost of the Meghmani Organics Limited because the Meghmani Organics is holding more than 55% of the capital. Further you have added 25% from IFCI by virtue of acquiring the 25% in Agrochemicals Finechem in Meghmani Agrochemical, one of your subsidiaries of Meghmani Organics Limited. So, major expansion is being done in that company at the cost of the funds available, loans taken and generated by the company Meghmani Organics Limited. Ankit bhai my idea is to request all of young generation as well you can request to the board because earlier the IFC was holding 25% equity. So, it was not possible, may not have been possible to merge the Meghmani Finechem into the Meghmani Organics Limited. Now, Meghmani Organics is holding 77% and the rest of the holding hold by the promoters in individual capacity or company's personal capacity. So, total holding of the Meghmani Finechem is with us now. So, I think to achieve your vision target of Rs. 1,000 crores in each division total 3,000 crores vision of the company that is only possible if you merge that company into Meghmani Organics Limited that will serve you two purpose Ankit bhai. One, management will be able to increase the holding in Meghmani Organics Limited. Number two, that there will be Meghmani Finechem being **a** subsidiary that will be accounts of that, that will be merger into the Meghmani Organics Limited that is why you need not to prepare subsidiary in the other one. Number three is, so far, we minority shareholders are concerned. So, in my view minority shareholder interest value unlock can be there if you merge that company into the Meghmani Organics Limited. This is our request and because you all are the young and working under the able guidance of Jayanti bhai. So, this is my request to point out the Jayanti bhai to all of you get this management can consider at an appropriate time when they think its proper and appropriate. This is my humble submission and dividend, I am not very happy with the dividend distributed by the company at least you are earning Rs. 400 crores in a year, sir and you are distributing only Rs. 10 crores in a year on Rs. 25 crores capital 40% dividend it is miserable and its penny**,** sir.

Ankit Patel: Thank you Mr. Lodha. I will consider you request and we will discuss internally into management about the companies' structure and the dividend policy. Thank you very much. I will pass on your message and will discuss internally.

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

Rohit Nagraj: I have couple of questions. One is regarding the CAPEX you just mentioned that the total CAPEX for our 2 years is Rs. 650 crores. Out of which I suppose Rs. 140 crores on the CMS will be capitalized in FY19 itself. Is there any additional capitalization which will happen beyond this?

Ankit Patel: No. There will be only one project capitalization. That will be Rs. 140 crores CMS project capitalization in this financial year.

Rohit Nagraj: And plus, there will be some maintenance CAPEX of around 30 odd crores that you have mentioned, right?

Ankit Patel: Yes, that would be a small routine maintenance would be there.

Rohit Nagraj: And sir, in terms of volume growth you had already mentioned that in all the 3 segments you had volume growth of 11% to 14%. Can we foresee similar kind of volume growth in FY19 for the pigment divisions?

Ankit Patel: For the agrochemical division, yes definitely there will be a volume growth in FY18-2019. For the basic chemical division because of the expansion into a CMS project and better capacity utilization of caustic potash project there will be a volume growth but there will not be much volume growth from the existing caustic chlorine plant. And as far as the pigment business is concerned we have reached up to 80% level. So, there will be a minor growth in terms of volume. We are doing some small changes into plant to have a better volume growth. But we feel, the major growth would be coming from the better realization point of view only in terms of sales into pigment division.

Rohit Nagraj: Sir, one last question if I can squeeze in. You said we will be putting up chloromethane capacity of 40,000 tones. So, how much of chlorine of the total amount which is produced from the caustic division? Would it be utilized for the chloromethane?

Ankit Patel: See, we are producing roughly 380 tonnes of chlorine per day. Out of that 140 tonnes of chlorine will be consume in CMS.

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

Surya Patra: Sir, what is the differential realization for the caustic soda in the export market and the domestic market for you, sir? And your outlook even the revenue mix in terms of export and domestic what will that be for FY19?

Ankit Patel: See, whatever we have exported it is that the same realization of what we have get a domestic market or probably more than that. We are not assured anything at a lesser than the domestic markets, so yes.

Surya Patra: Any meaningful difference sir in both the realization?

Ankit Patel: No.

Surya Patra: So, is there any need to export caustic soda?

Ankit Patel: No. See, we are driven by the realization. See, if you are fetching **a** better realization then and only then we export. Otherwise, India is a very strong domestic market and in the domestic market is buying at a current price level.

Surya Patra: So, there is no specific plan except that okay what is the means of rising export revenue in the caustic soda operation, right? And regards the pigment, sir since we have almost utilizing optimally the plants, so you have indicated that there is a plan of de-bottlenecking and all that. But do you have any plan of adding any new product area or any value-added products to the pigment segment going ahead or in near future?

Ankit Patel: Yes, Mr. Surya. As a company, we have already identified the project and working on it. But as far as announcement is concerned we are waiting for the environment clearance. Once we will have an environment clearance we will be announcing the project for the pigment division. But there will not be further capacity expansion in the same product range because we feel that for the same product range we have got about 8% to 9% global market share and that is more than sufficient. So, we would be doing in some other product range.

Surya Patra: So, these are like downstream product to some extent?

Ankit Patel: We will be announcing in coming days.

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

Saurin Parekh: Most of my questions have been answered but I would just like to ask one question which is on the CMS project which is due to be commissioned in mid of quarter 3 FY19. So, I mean initially what would be the capacity utilization, sir?

Ankit Patel: Initial it will start in the quarter 3 it will have a very lesser capacity utilization. But we believe from the quarter 4 we will be achieving capacity of between 60% to 70%.

Saurin Parekh: And, also on the hydrogen peroxide and caustic soda projects, I believe that maybe we would commission or at least begin the projects in quarter 4 FY19 or quarter 1 FY20. So, what would be the gestation period for these projects just to confirm?

Ankit Patel: No, they will be commissioned in the quarter 1 of next financial year. So, what would you like to know?

Saurin Parekh: I would just like to know that how long would it take for the production to start, what is the gestation period for the project, installation period?

Ankit Patel: See, we do not foresee any problem in caustic plant because this is the expansion and we are already in the industry for last 10 years. But usually caustic may take 7 to 15 days while hydrogen peroxide may take month to achieve the full-fledged capacity.

Moderator: Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Sir, just roughly doing some math and if I exclude the caustic potash volume ramp up and then it may look at your basic chemicals business. You are saying that volume growth will be tepid and yet if I heard you right, revenue growth will be 20% and you are still guiding for those old historical EBITDA numbers. So, something is not gelling here. I guess my question is that if I just look at the EBIT numbers, the absolute numbers, will they be same next year, I mean at least same is that the worse-case scenario we are looking at?

Ankit Patel: No, see usually the EBITDA number we believe that should be between 30% to 35%. Still we believe that it will be on the higher side in this financial year because the realization is better. But why it is not matching maybe as per your expectation because the coal which is the major raw material and the potassium chloride, KCL which is the raw material for KOH, the prices has gone up significantly up. So, that will dent to some extent our margin but as the realization is better we are able to absorb it.

Agastya Dave: But my question was slightly different, I get this point. My question was that if I just look at EBITDA absolute numbers will we see a decline that because if this goes up by 20% margins fall from mid-40% to early 30s, my guess is that there would be a substantial like the EBITDA numbers degrow next year.

Ankit Patel: In terms of percentage you are talking or in terms of absolute value you are talking?

Agastya Dave: No, absolute numbers.

Ankit Patel: In terms of absolute number, yes there will be a growth in EBITDA because at the same time there will be a growth in terms of volume as well because of the new CMS project and better capacity utilization for the KOH, caustic potash.

Agastya Dave: CMS should be minor, right because it would be barely one quarter.

Ankit Patel: It will be mainly into third and fourth quarter. But yes, that will definitely help because even in today's CMS situation the prices are much better and though we are expecting 35% to 40% margin even the quarter 1 is very much on positive side. So, this is very much cyclic in the sales. So, you cannot predict the price, nobody expected the margin will go up to 47%. But yes, as a company we will always try to have a better price realization.

Gurjant Singh Chahal: It is very difficult to nail down the exact number. That is why we give in percentage.

Agastya Dave: Yes, I am finding it difficult to really analyze that is why I am asking. And a final question from my side on the agrochemical side can you tell me formulation versus technical. How is the capacity balance, utilizations are low at 68% today, but are you, do you have some excess technical capacity which you can sell or is it properly balanced or you do not want to do it on principle because you want to, as you are saying you are backward-integrated, but the focus is on formulations? Thank you.

Ankit Patel: That is correct. As far as the capacity for the agrochemical division is concerned for the formulation it is very easy to do the capacity expansion because it is a relatively easy area. The major area is for the technical and the intermediate area. We still have some gap available for the growth into technical and intermediate area. Intermediate we consume 100% by ourselves for the technical production. So, there is still scope for the expansion into technical area and formulation it is very easy to expand the capacity.

Agastya Dave: Sir, this 68% utilization is on basically on technical side?

Ankit Patel: It is on both technical and formulation. So, if you want to know on the technical area then I would say it is in the range of about 65% to 67% and I think more or less same, both area is more or less same.

Moderator: Thank you. The next question is from the line of Manoj Jacob, an individual investor. Please go ahead.

Manoj Jacob: Sir, the non-controlling interest for this quarter was 26.78 crores. Does this include the FCI share also?

Ankit Patel: Yes.

Manoj Jacob: It includes?

Ankit Patel: It includes because it is on as on 31st March 2018 and IFC exit is on 26th April.

Manoj Jacob: So, the question is very simple. Sir, from next year we will not have this non-controlling interest?

Ankit Patel: IFC will not be there now.

Manoj Jacob: So, it would be all attributed to the total comprehensive income to the owners of the company. Am I right?

Ankit Patel: As per accounting treatment, number may change.

Moderator: Thank you. The next question is from the line of Divyesh Vakharia, an individual investor. Please go ahead.

Divyesh Vakharia: Sir, the employee cost from Q3 it was 20.86 crores on a consolidated basis which has gone up to 40.70 crores. So, can you just explain why the employee cost has doubled from the last Q3?

Ankit Patel: See, one of the factor as we are expanding into the agrochemical branding business, this business needs lot of manpower. It is all about team, supply chain, marketing, sales team. So, which gives you result after 2 years or 3 years' time. So, we need to have the infrastructure in the beginning. So, we created this very strong team. One of the factor is that and the second is when we are putting up such a big CAPEX for all this CAPEX we put up a team from the very beginning. We try to create the operational team, project team at the same time, these are all automated plants, so we need to be ready with our marketing and sales team as well. So, all this increase in the numbers these are resulting into increase into the employee cost.

Gurjant Singh Chahal: And one more point to add on this is because we have to make actuarial valuation on the retrial benefits of the employees, leave encashment etc. that is slightly higher in this year.

Divyesh Vakharia: To that actuarial valuation is generally in the fourth quarter, am I right on that?

Gurjant Singh Chahal: The year-end.

Moderator: Thank you. The next question is a follow up from the line of Mononita Mitra from Stewart & Mackertich. Please go ahead.

Mononita Mitra: I would like to know about the blended realization in each of the segments at this year and what will be in the next 2 years?

Ankit Patel: You mean to say average EBITDA margin for each division?

Mononita Mitra: Yes, each division.

Ankit Patel: For the pigment division, we had an EBITDA margin for the whole year approximately 15%. For the agrochemicals we had an EBITDA margin of about 16% and for the Basic Chemical division we had an EBITDA margin of 43%, year as a whole.

Mononita Mitra: What is the prevailing price for the chlor-alkali, if you consider all the products together like the CMS, the hydrogen peroxide and the chlor-alkali's everything? And what will be the price after one or two years? Because the prices are going down, now the prices have increased because of the China factors. So, it is going to decrease, so how much it will go down?

Ankit Patel: I will tell you, under chlor-alkali we consider only caustic and chlorine, rest are the chlorine derivatives and that is the separate industry altogether, alright. And chlor-alkali we believe the price would be in the range of 35,000 to 40,000 this year. It is very difficult to forecast being a cyclic industry what is beyond the quarter, actually. But this year on an average we can believe it will in the range of this one. As far as chloromethane is concerned the pricing are driven by the prices of methanol and our plant is going to be commissioned somewhere in Q3. So, it is very difficult to guess what will be the pricing of methanol at that time because indirectly it is linked with the crude pricing which how much it has fluctuated in last one month only.

Mononita Mitra: And what about the prices for pigments and the agrochemicals?

Ankit Patel: I would be able to give you the idea from the margin point of view. From division point of view we predict that for the pigment division we should have an EBITDA margin of about 15% to 17% this year. And for the agrochemical about 16% to 18% EBITDA margin in this year.

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

Rohit Nagraj: As I understand for the chloromethane, we are net importer, India as a country. So, is it safe to assume that in FY20 we would be able to utilize the capacity to the extent of the 75% to 85%?

Ankit Patel: Yes.

Rohit Nagraj: And sir, similarly for caustic also once the capacity is commissioned in June of FY 20 and fully operational in FY21 and that the demand supply is favorable. Is it possible for us to clock utilization levels to the tune of may be 60%-70% for the caustic division?

Ankit Patel: Yes, definitely.

Moderator: Thank you. The next question is from the line of Kiran Darperetti, an individual investor. Please go ahead.

Kiran Darperetti: So, my question is for FY18-2019 how much debt repayment has the management is trying to pay considering the projects involved for FY18-2019 for CMS?

Gurjant Singh Chahal: 2018-2019 actually if you see, as per plan, our caustic soda will be coming on stream in Q1 FY20. And only CMS plant will be coming in FY19, and we expect capex spend in the next year should be in the range of around 200 crores to 250 crores.

Kiran Darperetti: No, my question is on the debt repayment, sir?

Gurjant Singh Chahal: Debt repayment as far as our MFL is concerned, we are net cash surplus as on 31st March it will be debt free by 31st December.

Kiran Darperetti: So, all the existing debt will be repaid for 2018-2019, other than the new debt that you have.

Ankit Patel: Yes.

Kiran Darperetti: So, my question is the old debt I mean other than the new CAPEX which still have to be repaid?

Ankit Patel: No, our debt position as on 31st March'17, 461 crores was outstanding. Now, it is 356 crores as on 31st March 2018 on a consol level.

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

Mehul Sheth: So, just 2 questions. One related to other income part. So sir, this quarter you have reported quite higher number in other incomes side. So, any reason for that?

Gurjant Singh Chahal: Other income is mainly from the FOREX gain and loss.

Mehul Sheth: Sir, can you quantify that part?

Gurjant Singh Chahal: In this quarter if you see there is 13.8 crores other income.

Mehul Sheth: For FY18, right?

Gurjant Singh Chahal: Yes. In quarter 13.8 Crores and for full year at console basis it is 30.3 crores.

Mehul Sheth: And one more question related to you regarding tax rate. This quarter you have reported something like 23%. So, what will be your guidance for next couple of years?

Gurjant Singh Chahal: Our effective tax rate will be in the range of 25% to 27%.

Moderator: Thank you. Next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: It is very difficult in your company to gauge the extent of operating leverage. Because you always talk about revenue growth and we talk directly about EBITDA margins, we do not really talk about the efficiencies for example in agrochemicals. From 50%-odd to 85% we are talking about or in terms of capacity utilization. So, how much do you need to add to your fixed cost over the next few years in your existing plants and your existing setup. Sir, I am not talking about 650 crores CAPEX that you will be undertaking but your existing setup what is the rate at which the fixed cost goes up and what is the quantum of fixed cost?

Ankit Patel: See, typically fixed cost normally it is a manpower cost and other operation and maintenance cost. It goes up by 10% to 12% normally. So, I would say in the coming year also the fixed cost will be going up by about 10% to 12%.

Agastya Dave: So, this is just a general inflation, right?

Ankit Patel: Yes, you can consider that.

Agastya Dave: But not increasing let us say, capacity as such, like you are not adding more people, you are just paying the existing people more.

Ankit Patel: That is mainly the point but as far as agrochemical brand business is concerned, yes we increase number of manpower because that is the business where you need lot of manpower to increase your brand business to have a strong supply chain network and which gives you return after 2 to 3 years' time.

Agastya Dave: In your agrochemical business, if I remember correctly I could be slightly off here. There was some custom synthesis angle also, right. Are you into that are you, is there any development there?

Ankit Patel: See, that is the kind of a contract manufacturing you mean to say?

Agastya Dave: Yes, CRAMS kind of a thing, yes.

Ankit Patel: CRAMS kind of a thing, there are some companies which are just focusing on the CRAMS business. We as a company, yes, we also keep our eyes open. We also keep on discussing with different companies for the contract manufacturing possibility. As of now we are already doing one contract manufacturing for one of the multi-national company. And because of the current China factor now all the multi-national companies and other companies are looking at the Indian market for the second supplier point of view. And I hope not only for the Meghmani ,for the whole chemical industry in India there will be lot of opportunities coming in coming days' time. We are also getting opportunities and we are evaluating it based on the possibilities working with them.

Agastya Dave: See, I met you guys for the first time 2 years back and there was an angle there that custom manufacturing and custom synthesis really, I mean there was one molecule you guys were working on, there were like some indications that something will happen that side, but nothing really has materialized. You have done fantastically well in the remaining business. I am just wondering if there is any pick up on that side.

Ankit Patel: Yes, as I mentioned we have already started progress there.

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

Ankit Patel: Thank you very much for participating into conference of the Meghmani Organics Limited financial numbers. Thank you for all your support. Thanks.

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