"Meghmani Organics Limited Q2 FY19 Results Conference Call"

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MODERATOR: **MR. PRATIK MATKAR – DOLAT CAPITAL**

Moderator: Good day, Ladies and Gentlemen and welcome to the Meghmani Organics Limited Q2 FY19 Results Conference Call hosted by Dolat Capital. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*" then"0" on your touchtone phone. Please also note that this conference is being recorded. I would now hand the conference over to Mr. Pratik Matkar. Thank you and over to you, sir.

Management: Good evening to everyone. On behalf of Dolat Capital, I welcome you all to the Q2 FY19 Earning call of Meghmani Organics Limited.

From the management side, we have Mr. Ankit Patel – CEO of Meghmani Organics, Mr. Gurjant Singh Chahal – CFO of Meghmani Organics, Mr. Darshan Patel – COO of Meghmani Organics and Mr. Kaushal Soparkar – MD of Meghmani Finechem.

With this, I would like to hand over the call to the management team of Meghmani Organics for their opening remarks for Q2 FY19 Earnings.

Ankit Patel: Good evening everyone and a very warm welcome to Meghmani Organics Limited Q2 FY19 Investor Call. We now come to the performance of Q2 and first half of the financial year 2019 of Meghmani Organics Limited:

We are pleased to announce that Meghmani Organics Limited has reported strong performance in terms of revenue and profitability. The company has reported revenue of Rs. 501 crores and Rs. 977 crores in Q2& H1 of financial year 2019 respectively which is higher by 9% YoY and 11% YoY respectively. With an improvement in operational efficiency and better realization EBITDA increased by 14% YoY and 24% YoY during the two-time period to Rs. 116.8 crores and Rs. 240.8 crores. EBITDA margin in Q2 & H1 of financial year 2019 stood at 23.3% and 24.6% respectively.

The company has reported a PAT of Rs. 61.8 crores and Rs.138.8 crores which is higher by 12% and 41% in Q2 & H1 FY 19 respectively. PAT margin stood at 12.3% and 14.2% showing an increase of 30 basis points and 300 basis points during Q2 & H1 FY19 respectively. The company's attributable PAT increased by 53% to Rs. 118 crores in H1 FY19 compared to corresponding period of the previous financial year.

In Pigments.

The company was operating at an optimum level of capacity utilization at 86% during Q2 FY19. Revenue for the quarter and half year stood at Rs. 154.7 crores and Rs. 298.6 crores respectively. Due to an increase in raw material price, the EBITDA margin marginally declined to 13.7% and 13.5% during Q2&H1 FY19 respectively. However, raw material price is expected to be stabilized in coming quarter and we will pursue customer price increase to cover increase in price of raw material.

The Agrochemical business has reported a revenue of Rs.193.9 crores and Rs. 354.6 crores and EBITDA of Rs. 42.7 crores and Rs. 76.8 crores in Q2&H1 FY19 respectively. The EBITDA margin for the quarter and half year stood at 22% and 21.7% displaying an increase of 270 basis points YoY and 410 basis point YoY respectively. This was on account of better realization and product mix and higher sale in export market. Capacity utilization for the quarter stood at 64% due to higher sale of technical.

In Basic Chemical business, the company reported a revenue of Rs. 153 crores and Rs. 324 crores respectively. EBITDA for the quarter and half year increased by 18% YoY and 41% YoY to Rs. 57.3 crores and Rs. 131.8 crores respectively. EBITDA margin for the quarter declined by 100 basis point to 37.3% YoY. This was because of planned shutdown of plant and provision for managerial remuneration. ECU prices are forming up due to continuous increase in demand and we are expecting a strong growth in coming quarters. Capacity utilization for the quarter and half year stood at 73% and 80% respectively. Our chloromethane project is ramping up as planned and it would be operational by end of December 2018.

Going forward we believe that all our business Pigment, Agrochemicals and Basic Chemicals are on strong growth path with increased demand in the domestic as well as on the export front. This along with higher utilization and increased share of value-added product will drive profitable growth as we move ahead during the current financial year of 2018-2019.

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

Moderator: Our first question is from Nitin Dharmawat of Aurum Capital. Please go ahead.

Nitin Dharmawat: Expenses have gone up substantially, can you please elaborate what is the reason for that and what will be the percentage going forward for these expenses? What is the impact of the crude?

G S Chahal: Are you talking about any particular expense or in general?

Nitin Dharmawat: In general, and there were some expenses towards the salary, they have gone up substantially. can you please elaborate?

G S Chahal: As per permissible limit under companies act managerial remuneration, earlier we were providing in the Q4 and from this year onwards we are making provision on quarterly basis, however we have not provided in Q1. So, from Q2 onwards after discussion with the auditors provision is being provided on quarterly basis. So, in Quarter 2 impact for Q1 & Q2 provision has come. From annualized basis there will be normal increase.

Ankit Patel: And the second thing regarding the crude, compared to last year the crude prices have gone up and it has been quite volatile and it is directly or indirectly impacting majority of our raw materials and particularly in the Pigment segment there is a sudden increase in the raw material prices and which we are not able to pass on immediately to our customer. However, we feel that it should stabilize in this quarter, and we should be able to pass on at the end of this quarter or from Quarter 4. So, in future the margin will improve in Pigment segment as well.

Nitin Dharmawat: The second question is about the merger that you are doing for two entities, so what is the current holding of MOL i.e. before the merger and what will be the holding after the merger?

G S Chahal: This scheme is between the two subsidiaries of MOL. IFC exit has been given through wholly owned subsidiary to the IFC, which was with us since 2008 and after 10 years they have now exited subsidiary was created and now that transaction is over. To streamline the structure, we are merging these two subsidiaries whereas the shareholding of MOL is concerned it will be same as it was on 31st March 18 so there will not be any change. It would remain at same level.

Nitin Dharmawat: It should increase, because when you are merging an entity for which MOL is paying certain consideration, will it not lead to increase in the shareholding of MOL? why is that not happening? In that case the holding of someone else is increasing. what is the consideration they are paying?

G S Chahal: As far as consideration is concerned, as per the share purchase agreement with IFC MOL was having obligation to give exit and that was the reason, exit to IFC has been given through wholly owned subsidiary of MOL.

Nitin Dharmawat: You have paid based on the obligation that is correct and there were certain warrant issuance which was done to the promoter, but the amount is paid by MOL then why the corresponding increase is not there in the shareholding of MOL?

G S Chahal: If you see the financial currently shareholding considered is 77% in the consolidation.

Nitin Dharmavt: Is it 77% or 57% sir?

G S Chahal: No, it is 77%.

Nitin Dharmawat: As per my understanding it remains same as 57% which was before merger of these two entities?

G S Chahal: No, that is subject to the NCLT approval. As of now, it is 77% in the consolidated number.

Nitin Dharmawat: I am not talking about as of now, I am talking about post NCLT approval?

G S Chahal: Post merger, it will be 57.16%.

Nitin Dharmawat: Yes sir, so why is it going to get reduced when there is no other consideration amount which is coming to the company as a way of consideration? Why MOL stake is reducing post-merger.

G S Chahal: The consideration amount which was paid by MOL to its subsidiary MACPL. It will come back to MOL in the form of non-convertible RPS after NCLT order.

Nitin Dharmawat: Sir, that is the same entity, which is held by MOL and there is no difference in that. There is no third party who is paying but their shareholding is increasing isn't it?

G S Chahal: Post merger whatever the holding in MFL of MACPL will get cancelled. Overall equity of MFL will get reduced to that extent and hence MOL will remain at the same level.

Nitin Dharmawat: I believe, it should increase because ultimately they are paying the amount and there is no third party who is paying amount then why their shareholding is increasing?

G S Chahal: That amount will come back once NCLT order is there.

Nitin Dharmawat: Who is paying that? It is the same subsidiary which is held by MOL who is paying, it is the same thing. It is not the promoter who is paying that amount then why promoter's stake is increasing?

G S Chahal: From the structure perspective only and as far as MOL is concerned there is not going to be any change.

Nitin Dharmawat: It has to be changed, it has to increase.

G S Chahal: The amount which has been paid by MOL was as per the obligation of share repurchase agreement. So, MACPL has issued 8% RPS on which 8% dividend will be paid. As far as MOL is concerned, there will not be any financial impact. Apart from this , post merger MFL will issue OCRPS worth Rs 211 Cr which will carry coupon rate of 8%.

Nitin Dharmawat: And shares are getting cancelled then the corresponding increment for the shares for MOL has to be there and MOL is not getting any consideration from third party, while the third party is getting benefitted it looks like additional issuance of shares that is my query?

G S Chahal: On this we have already filed our response at the NSE site. So, all clarification we have provided on the question how much amount is coming back to the MOL and at what rate it is there. So, you can go through in case if you have any further query you can call me we can explain, and we can discuss in detail.

Moderator: Our next question is from Pawan Kumar of Invesco. Please go ahead.

Pawan Kumar: What is the current debt level?

G S Chahal: In the Meghmani Finechem we are going through CAPEX. As on 30th September our debt position is Rs. 637 crores at consolidated level because we have taken some debt in MFL towards expansion projects.

Pawan Kumar: I was going through the rating agency CRISIL website there it is mentioned that debt level is Rs. 707 crores and the plan of Rs. 1000 to Rs. 1200 crores from 2019 to 2021. Can you throw some light on that? are we going to have further capex after this Rs. 637 or Rs. 700 crores?

G S Chahal: Rs. 707 is the total facility which was availed that is the gross number. So, over a period that debt has been repaid. So, actual debt it is much lower.

Ankit Patel: And second thing on the CAPEX part, as of now CRISIL rating is A plus and because our numbers are very good we were pursuing them that to upgrade our ratings from A plus to AA minus and based on that they thoroughly reviewed our performance as well as they discussed with the management and the company's professional about the growth plant in next three to four years' time, what kind of projects we are going to bring, how much revenue it will generate, what will be the debt for those projects. For Basic Chemical division we have already announced the projects, capex and the debt. For other two divisions we have identified the projects and as we have discussed earlier that till the time, we get environment clearance we cannot disclose the project. So, once we will have the environment clearance, we will be disclosing the project thoroughly with the amount of debt we will be taking. So, on consol basis if we consider next three to four years' time on a group level there will be maximum debt of nearly 1000 crores which will be paid on gradual basis.

Moderator: The next question is from Mehul Sheth from PhillipCapital. Please go ahead.

Mehul Sheth: For this quarter what is your ECU realization?

G S Chahal: For Quarter 2?

Mehul Sheth: Yes, for Quarter 2?

Kaushal Soparkar: It was around Rs 40,000.

Mehul Sheth: You have taken a plant shutdown in caustic soda, so what was the reason for that? and after shutdown have you get that optimal utilization level?

Kaushal Soparkar: Every caustic plant globally need to take shut down for a power plant and that is a statutory requirement. So, that is the reason we must take a shutdown which we do every year as per the government regulation. And secondly, we need to hook up certain machinery as we will be commissioning Chloromethane plant by end of this quarter or early next quarter. So, both things were combined, now that is already over and plant is running as per the full capacity.

Mehul Sheth: Other income was quite high during this quarter, so any FOREX gain portion is there?

G SChahal: Yes, this is mainly FOREX gain.

Mehul Sheth: So, can you quantify the number?

Ankit Patel: It is approximately Rs. 30 crores which was last year approximately Rs. 12 crores.

Mehul Sheth: After this scheme of arrangement for MOL, how much percentage are you paying as a minority?

Ankit Patel: Can you repeat your question?

Mehul Sheth: After the MOL restructuring, what percentage of your PAT is going out as a minority interest?

G S Chahal: MOL will be at 57% and balance will be minority.

Mehul Sheth: So, holding has not changed.

Moderator: The next question is from Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj: In second quarter we have seen that Pigment business production was higher, but the sales has been low, so any specific reason beyond may be the price increase, which has impacted the sales?

Ankit Patel: It is mainly because of the global market demand is on decreasing side and the second reason is the raw material price has almost increased by 25% to 30%. So, that is why we were not able to get the actual gain from the customer side. So, there was a rising pressure in the Pigment division. As you can see the EBITDA margin is under pressure in Pigment division. So, it is always better to do the good production, and we were able to run our plant at good capacity, but ultimately that resulted into more inventory.

Rohit Nagraj: Is it possible that the same inventory will have higher margin going ahead in Quarter 3 and Quarter 4 once we probably change our pricing?

Ankit Patel: That is always a target to increase the price and increase our margin level, but sometimes with the raw material price increasing so fast that we cannot increase the price at same level to customer because the market is relatively stagnant in the Pigment division, but we hope that if the market further improves in Quarter 3 and Quarter 4 in that case we will definitely be able to pass on this price increase of raw material to our customers which will result into better EBITDA margin.

Rohit Nagraj: Sir, similar question for Argo chemical business I mean our production has declined as well as our sales, so any specific reason for this and is it possible for us recoup these loss sales in Q3 and Q4?

Ankit Patel: Yes. Regarding the Agrochemical division there is two kind of product. One is technical and the other is a formulation product. So, in the current market situation when the demand of the technical and the price realization in technical was much better than formulation. So, looking at that kind of situation we were focusing more on the technical sale where the volume is not as high as formulation. So, because of that purpose the formulation production has gone down, but the main core technical production is intact there is not much impact in that and the sale of the technical is also intact. So, mainly we have diverted our formulation sale to the technical sale looking at the better realization in the pricing with the current market scenario. So, that has resulted into better EBITDA margin and better profitability in Agro division.

Rohit Nagraj: Same question for Basic Chemical, what is the reason again on a sequential decline in terms of both production as well as our dispatches given that we had a shutdown?

Kaushal Soparkar: That was primary reason that we had to take a statutory shutdown and the hook up for our Chloromethane plant, that’s the reason the production was down. There was no other major reason.

Rohit Nagraj: So, this will be recouped in Q3 and Q4?

Kaushal Soparkar: This was the plant shutdown and if you look at all our past-results also of Basic Chemical. As I see the shutdown was always taken annually because that is a statutory requirement and during that time our production suffer little bit and that is part of all Chloro alkali plants.

Moderator: The next question is from Arjun Gupta from Prudent Equity. Please go ahead.

Arjun Gupta: My question is about the CMS project. So, when is it going to hit on the EBITDA I mean when is they are going to contribute to EBITDA?

Kaushal Soparkar: When the plant is going to start you mean to say?

Arjun Gupta: Yes sir.

Kaushal Soparkar: It will start end of this quarter or beginning of next quarter.

Arjun Gupta: And it would ramp up slowly?

Kaushal Soparkar: Usually, it takes between two to three months. So, we believe that beginning on next financial year we should be able to ramp up the production.

Arjun Gupta: So, my next question is about the caustic soda and chlorine prices, sir can you throw some light on the price trend?

Kaushal Soparkar: ECU is around 40,000 and currently the chlorine prices are positive.

Arjun Gupta: So, what did you say about the caustic soda price?

Kaushal Soparkar: ECU is at 40,000 and the chlorine prices which was negative most of the last financial year that is positive in this financial year.

Arjun Gupta: Sir, one more follow-up question ,with so many companies coming up with caustic soda plants, one year down the line do you feel there is a going to be a glut situation? I mean is it the demand would be able to cope up with the supply?

Kaushal Soparkar: Which additional plants are you referring?

Arjun Gupta: Like other companies are coming up with caustic soda plants?

Ankit Patel: Mr. Gupta, the caustic chlorine industry is sensitive to the location So, if anybody announce in let say South India then that does not affect the market of Gujarat where we are located.

Kaushal Soparkar: And more than that this is cyclic industry, but demand is very strong in India and additionally the company may have announced, but we need to see that do they have environment clearance to start the construction or when are they planning to commission those dates are very important and as far as we know we are the only one at this moment who is going to commission the plant next year. There is no other capacity going for commercial production.

Moderator: The next question is from Archit Joshi of HDFC Securities. Please go ahead.

Archit Joshi: Would it be possible to separately share the prices of CPC Green and Blue and can you compare it year-on-year?

Darshan Patel: CPC prices are around net 280 level: Green prices is around 440 level and beta prices depend on the quality as well as on the application side. So, it is varies from 325 to 390 level.

Archit Joshi: And have we seen prices fall in this quarter or they have been stable year-on-year?

Darshan Patel: Actually, it is a steady as compared to last quarter, but on the other side raw material price has gone up by 20% to 25% so we did not get any price increase in Quarter 2 and Quarter 1.

Archit Joshi: When we say raw material prices have gone up by 20% - 25% does that mean CPC prices have gone up by the similar extent or since we are already backward integrated to certain extent?

Darshan Patel: It is not like that, the raw material has gone up by 20% - 25%, and increased day by day. We cannot increase our finished Pigment price as well as CPC price day by day with the customer. So, almost it will take one quarter to increase the price and realizes the actual raw material increase.

Ankit Patel: Main increase is into Phthalic Anhydride which is one of the key raw material and that is clearly linked to the crude oil prices as well as the Ortho-xylene price. So, that is one of the key raw material which has increased drastically and apart from that the metal commodities like copper and aluminum prices have also increased. So, that has impacted a lot. So all put together overall there is increase of about 20% to 22% raw material price and it is difficult to pass on in B2B product and looking at the market condition it was difficult to pass on the price increase to the customer, but hopefully we should be able to do it in coming days, by end of this quarter or beginning of the next quarter.

Moderator: The next question is from Saurav Poddar of Lucky Investment. Please go ahead.

Saurav Poddar: I just had a question regarding the debt I think during the Q1 concall you had mentioned the consolidated debt as of March 18 was around 385 crores. MOL that time was around 310 crores consisting of term loan about 267 crores and we are planning a 650 crores CAPEX and you said 175 crores from internal accrual is already spent, so I just wanted to understand, when you said Rs. 1000 crores in one of the earlier question, are we borrowing entire of Rs. 650 crores now? Because 175 already spent towards Rs. 650 crores because you are saying debt will now increase to around Rs. 1000 crores for the company, so can you give some clarification on the whole debt part of it?

G S Chahal: No, we have not said debt will increase to Rs. 1000 crores. It is a CAPEX which was 1000 crores if you are referring to CRISIL report. So, they are talking about 1000 to 1200 crores CAPEX and that is over a period. So, Basic Chemical it is coming in this year and part of this will get spill over to the next year. Agrochemical and Pigment coming to the next year. So, it will be spread over in the next two to three years.

Saurav Poddar: So, that is what is going to Rs. 1000 crores.

Ankit Patel: No Debt we are talking about only Rs. 700 crores to Rs. 750 crores the maximum. There is no debt of Rs. 1000 crores as of now, but Mr.Gurjant Singh Chahal can give you what is the current status of the debt that can be informed.

G S Chahal: That was put together Rs. 637 crores as on 30^{th} September.

Saurav Poddar: I was just going the annual report for 17-18. It is not a sizeable loan, but a 4 crores loan was given to PT Meghmani Organics Indonesia and it was classified as doubtful and it was provided for, so can you give some clarification on that?

G S Chahal: That was a subsidiary created in Indonesia and what was their investment, it has been impaired over a period and no more exist as a subsidiary.

Moderator: The next question is from Vipul Shah of Ripple Wave Equities. Please go ahead.

Vipul Shah: I would say there is an extreme confusion over which whole loan taken to give an exit to IFC. I believe 100% subsidiary of Meghmani Organics gave an exit to IFC. So, we were under the impression that this stake of IFC was now coming to Meghmani Organics which is also reflected in the lower minority interest number this quarter, so what I understand from an earlier question in this call is that the stake of Meghmani Organics will revert back to 57% which was the case before IFC, is my understanding correct?

G S Chahal: That is right.

Vipul Shah: So, then what happens to the money which Meghmani Organics raised and gave an exit to IFC?

G S Chahal: The money will come back once NCLT order is approved.

Vipul Shah: So, then why was this not disclosed, that it is not a stake purchase, but a loan given to the subsidiary where the equity upside will not come to Meghmani Organics, so why did Meghmani Organics take a loan?

G S Chahal: As per the IFC share purchase agreement in year 2008 it was obligation on the part of MOL to give the exit.

Vipul Shah: I understand that you have taken an obligation and then you are honoring your obligation, but if you are honoring your obligation and giving an exit to IFC by buying these stakes at fair value which was agreed with IFC then that stake should rightfully belong to Meghmani Organics. So, what I understand now from the scheme is that once this merger goes through Meghmani Finechem will pay the loan back to Meghmani Organics. So, it is net-net of buyback by Meghmani Finechem.

G S Chahal: You can say so actually because this money will be paid by Meghmani Finechem post approval of the scheme

Vipul Shah: That was not disclosed when this whole transaction came around. It is really disturbing sir it has been very clearly stated that Meghmani is giving an exit to IFC and now it is coming out that it is not an equity it is a loan which we have given so why should Meghmani Organics give a loan?

G S Chahal: No, as per the obligation Meghmani has to give exit to IFC through its wholly owned subsidiary

Vipul Shah: Then that obligation, the equity of IFC should come to Meghmani Organics why that not is the case?

G S Chahal: Under the wholly owned subsidiary where the stake has been taken for Rs. 221 crores for that non-convertible RPS has been issued at the rate of 8% dividend. Post merger, these preference shares will be redeemed alongwith 8% taxfree dividend to MOL.

Vipul Shah: Money has been given by Meghmani Organics it has not been given by anybody else then why this equity should not come to Meghmani Organics?

G S Chahal: That we had already disclosed and informed to all concerned as per statutory requirement.

Vipul Shah: I did not see any notice coming to any shareholders sir I am sorry. Neither it was disclosed on the stock exchange.

G S Chahal: It was on the NSE site

Vipul Shah: Is it on NCLT site or the NSE site?

G S Chahal: NSE site.

Vipul Shah: The money which we have paid which we are now paying interest on the loan so all this it is basically a loan which we have given, so when will this money come back?

G S Chahal: So, that is an equity infusion in wholly owned subsidiary which will come back and till the time it comes back 8% dividend will be received.

Vipul Shah: No, but we are paying interest at the rate of 8%.

G S Chahal: Yes dividend will come at the rate of 8%.

Moderator: Our next question is then from follow up from Rohit Nagraj of Sunidhi Securities. Please go ahead.

Rohit Nagraj: In the first quarter, you had done a CAPEX of about Rs. 175 crores. Are there any additional CAPEX which has happened in Q2?

G S Chahal: Yes, around Rs. 222 crores has been paid so far, that is part of ongoing CAPEX of Rs. 650 crores.

Rohit Nagraj: So, this additional 220?

G S Chahal: No, this is total. We have given LCs and, once material comes that amount will be paid at that time.

Rohit Nagraj: On the EC clearance we had said that probably it will come by Q4 and then the CAPEX on Pigment and Agrochemical will start?

Ankit Patel: That EC clearance has been delayed. As the Agrochemical comes under hazardous chemistry. So, we need to go to the Delhi for the environment clearance which is not available like other chemical product in Gujarat. So, in Delhi it takes more time to get clearance by looking at the environment conditions globally in China and India. It is very difficult to get clearance in the first meeting, they always raise some queries and we need to follow their queries and give the reply to those queries and again make a representation in the board. So, it takes about two to three meetings. So, we hope that by end of this year or beginning of January we should get the environment clearance for Agrochemical division.

Rohit Nagraj: Agrochemical would be predominately technical or will be going further backward integrated for some of the products that we are currently manufacturing?

Ankit Patel: It will be technical as well as the intermediate because for some of the products where we feel that growth is possible we will be expanding our current capacity as well as we feel that some of the new molecules and some of the intermediates which are not available in China because of the environment issues which we identified before two, three years and we developed over a period of time. Now those products we are going to commercialize with the new projects which will help us for the further growth.

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

Saurin Parekh: I just wanted to ask you all that if you can just throw some light on the crude impact for Agrochemical and Basic Chemical.

Ankit Patel: For the Agrochemical for some of the raw materials and for formulations which are solvent based has the crude impact on that, but at the same time we feel that globally the market for the Agrochemical this year was good and there was relatively a good demand in different market. At the same time China was facing lot of environment related issues and we feel that this will continue over a period of quite few years and customers are now diverting and de-risking the supply chain by looking at the Indian suppliers. So, that is a good sign for the Indian Agrochemical company. Because of all these reasons whatever the increase in the raw material for the Agrochemical segment was there, we were able to pass on to the customer. In fact, we were gaining even better than that. So, that has resulted into better profitability in last one or two quarters and hopefully this will be continue for at least next couple of quarters. In Basic Chemicals the crude is not directly relating to the raw material, but the coal which is other raw material for us to generate the power. The price of the coal has increased drastically and at the same time the market is also doing good and the better realization is there. So, we are able to pass on to the customers.

Moderator: The next question is from Sunil Kothari of Unique Investment. Please go ahead.

Sunil Kothari: Sir, just broad thoughts on this change in the pollution norms at China and during last one or two year the benefits which Indian chemical industry is getting how you see those situations is any positive or negative change, what you feel as a sustainable advantage to you as a Meghmani and Indian chemical industry?

Ankit Patel: In last one and half year time China has face lot of environment related issues. The government and the people in China they have realized that whatever growth they have made in last couple of decades that was by neglecting the environment and they have got the benefit of it from the economic point of view, but the people have paid the cost by health issues. So, the government is very strict nowadays and they have now given a very strict agenda to all the authorities that they have to shut down plants which are not following the environment rules and regulations. So, every company whichever is operating in China they must upgrade their environment facility to appropriate standard which will result in extra CAPEX as well as they have to run those capacities, their facilities which will also result in higher operational cost.

At the same time, the manpower cost is increasing drastically in China. Looking at all these factors, it is not very easy for Chinese Chemical industries to come back at the same level what they used to run. They will come back with the supply in next two to three years' time, but the cost will not be the same what it used to be. So, that is good sign for the Indian chemical industry and at the same time because of last one or two years' time other global companies where were totally depended on Chinese market they have realized that because of this situation now they have de-risk their supply chain models and they are looking at part of their supply from the Indian market which will give direct benefit to the Indian chemical industry.

Sunil Kothari: So, we are prepared for those opportunities.

Ankit Patel: Yes definitely. Now in this time the companies which are having the good land bank, environment clearance, basic infrastructure ready, team ready. They will have an advantage and if any other companies thinking of putting up a plant then first, they need to get the land to create a basic infrastructure, apply for the environment clearance which will take 2.0 - 2.5years' time. So, it will be difficult for any new entrant but for the existing companies it will be much better.

Sunil Kothari: So, one more thing I think little confusion on this stake in MFL, so if you can clarify that before this IFC stake which has been acquired how much was the stake of MOL in MFL and now after this acquisition and merger what will be stake of listed entity in MFL?

G S Chahal: Before IFC exit it was 57.16% and it will remain at the same level.

Sunil Kothari: So, those 25% stake which has been divested by IFC that has gone to some private company?

G S Chahal: By way of merger scheme, this security will get cancelled. MOL stake will remain at the same level.

Sunil Kothari: But the equity which will reduce by just 25% of the MFL?

G S Chahal: For that 8% redeemable preference will be issued.

Sunil Kothari: I understood 57.16% MOL and 42.84% is owned by promoters? So, overall stake will remain similar, but overall equity will be reduced in MFL?

G S Chahal: Yes.

Sunil Kothari: What will be the final debt after these Rs. 640 crores CAPEX completion? what will be the debt by maybe June 19?

G S Chahal: Because after June 19 repayment will also be happening in both the companies and maximum debt level we are anticipating as on March 19 should be anywhere around Rs. 700 to Rs. 725 crores.

Sunil Kothari: Last question is sir the managerial remuneration what we paid is for the two quarter and that is provide in Quarter 1 and Quarter 2 combined in this quarter?

G S Chahal: It is not paid, it is the provision which has being made.

Sunil Kothari: What is the provision amount sir?

G S Chahal: Till last year we were making provision in the last quarter and now we are spreading across quarters.

Sunil Kothari: So, what is the that amount which has been provided in Quarter 2?

G S Chahal: Additional provision will be around 15 crores.

Moderator: Ladies and gentlemen due to time constraints our last question will be from Shiva Shankar, Individual Investor. Please go ahead.

Shiva Shankar: As per the annual report last year I feel that for the managerial remuneration was around Rs. 34.26 crores for 2017-2018 and that has increased from Rs. 4.77 crores in 2016-2017 How much is going to get increased for this year?

G S Chahal: This is as per the permissible limit under companies act, there is a maximum cap of 10% and beyond that it cannot be increased and on annualized basis based on the performance there maybe increase of 15% to 20% as compared to last year.

Shiva Shankar: As compared to last year meaning from Rs. 34 crores it can go up to Rs. 50 crores.

G S Chahal: Increase will be around 15% to 20% over previous year.

Shiva Shankar: As per the consolidated financial results balance statement it is shown that the profit is divided between the owners of the company and non-controlling interest. Who are these non-controlling interest, is it the promoters?

G S Chahal: This is in the MFL where 77% which is getting consolidated and the rest is minority. It is mainly promoters.

Shiva Shankar: I am talking about the total comprehensive income that is like 77% belongs to Meghmani Organics and 23% belongs to non-controlling interest can that be said like that?

G S Chahal: Yes, it is as per the MOL shareholding.

Shiva Shankar: So, 77% belongs to Meghmani Organics and 23% belongs to the non-controlling interest is that the fair assumption?

G S Chahal: Yes.

Shiva Shankar: So, what I am trying to understand here is that post-merger between Meghmani Finechem and Meghmani Agrochem this will remain the same or will the non-controlling interest increase?

G S Chahal: This minority stake will increase, MOL will be at the same level of 57%.

Shiva Shankar: So, then the non-controlling interest percentage has increased?

G S Chahal: Yes, will increase.

Shiva Shankar: And the notification that was sent to the Bombay stock exchange it is shown that there will be an amalgamation between Meghmani Finechem and Meghmani Agrochem and that will be done through Meghmani Organics, so what happens to the 25% stake that we have bought for Rs. 220 crores approximately?

G S Chahal: The stake which we have purchased through subsidiary that is an equity infusion in MACPL through which the stake was acquired. So, MOL is getting 8% non-convertible preference share and after NCLT order this money will come back alongwith 8% tax free dividend.

Shiva Shankar: And the 25% will be held by whom that whatever is bought from IFC who holds it?

G S Chahal: By way of merger of two subsidiaries , stake of MFL held by MACPL will get cancelled and accordingly MFL equity to that extent will get reduced.

Shiva Shankar: That will get cancelled, but who paid for that 25% stake from IFC?

G S Chahal: Whatever the amount is paid by MOL through its subsidiary Rs. 221 crores that money post-NCLT order will come back to MOL alongwith 8% dividend.

Shiva Shankar: But the equity stake will not be held by MOL anymore?

G S Chahal: MOL stake will remain there at 57.16%. In addition MOL will get 8% OCRPS of Rs 211Cr

Shiva Shankar: So, it will decrease from 77% to 57% is that what you are trying to tell?

G S Chahal: Yes, it will come at 57% post NCLT that will be at the same level which was as on 31 March.

Shiva Shankar: Okay then the profits for MOL will reduce post-merger?

G S Chahal: Post merger minority shareholding will be 43% and MOL will be 57%.

Shiva Shankar: And the adjustment will be done and the profit of the MOL will get reduced, is it what is going to happen because of this 43% held by the minority? It is not in the interest of the shareholder of the Meghmani Organics that is what I am trying to deduce from all this amalgamation schemes. If the non-controlling interest are getting increased meaning the profit that belongs to the Meghmani Organic is going to get reduced isn't it?

G S Chahal: From today you can say that, otherwise from March 18 it is going to remain same.

Shiva Shankar: So, sir can you please elaborate on that sir what do you mean by that?

G S Chahal: I mean to say post NCLT orders the stake of MOL will remain at 57% and that will come as in the console.

Shiva Shankar: But the non-controlling interest stake will increase?

G S Chahal: Yes, that will be the balancing figure.

Shiva Shankar: Okay whatever non-controlling interest profit will increase post the merger?

G S Chahal: Yes.

Moderator: Thank you very much. Gentlemen due to time constraints I would like to hand the conference back to management for closing comment.

Ankit Patel: I would like to thank all the investors participated during the conference call. Thank you very much.

Moderator: Ladies and gentlemen on behalf of Dolat Capital that concludes this conference call. Thank you for joining us and you may now disconnect your lines.