Meghmani Organics Ltd.

Caustic Play is the game

Company Update

October 12, 2018

NALANDA RESEARCH

STRONG BUY *

Downside Scenario	Current Price	Price Target	Upside Scenario
	73	110	
		50.8%▲	

October 12, 2018

Meghmani Organics Ltd.

Caustic soda capacity expansion to drive the earnings growth

We initiate coverage on **Meghmani Organics(MOL) Ltd** with a buy rating and target price of INR 110, implying ~50.8% upside potential from current levels. Our view stems from the fact that the company has a diversified business model, robust product portfolio, strong clientele base and wide distribution network. The company is embarking on mega expansion plans at a capex of INR 640 crore to expand its basic chemicals business and set up dedicated production facility for chloromethane which will drive the trajectory of earnings going ahead. Hence, we expect EPS CAGR of 16.8% from FY18-21E.

Expansion of caustic soda capacity to drive the earnings going ahead

- Domestic consumption of caustic soda and chlorine is expected to post 5-8% growth over the medium term. With healthy performance in recent years and expectations of an increase in demand by key consuming sectors, the industry is likely to witness some capacity additions.
- Demand growth from aluminum and textiles could be robust over the medium term, while segments like soaps and detergents, organic and inorganic chemicals may report moderate and steady growth in caustic soda consumption.
- Thus, to capitalize on the opportunity MOL has planned to increase the caustic soda capacity by 63% from 1,66,600 MTPA to 2,71,600 MTPA.
- The project is set to operationalize by June 2019. We expect the plant to generate revenue of approx. INR 300-350 crore at peak utilization levels of 85-90%.

Installing dedicated Chloromethane plant to sustain growth momentum

- The company is setting up chloromethane plant of 40,000 MTPA at a capex of INR 140 crore. The plant is set to operationalize by December 2018.
- At peak utilization the chloromethane plant can generate revenues of INR 120-130 crore.
- The chloromethane plant will produce MDC, Chloroform & Carbon tetrachloride(CTC). The end user are pharma and agro-chemical industries.
- The expansion will be margin accretive at company level due to higher EBITDA margins in the basic chemicals business. EBITDA margin of chloromethane will be around 20%-22%.

Strategically diversifying into high margin products

- The company is looking to diversify itself into high margin pigments business which is eventually used in paints & plastics to improve the realizations. Also, ramp up of beta blue plant will provide significant operating leverage and visibility.
- In Agrochemicals business, the company is planning B2B/B2C to be around 75%/25% by FY20E. We believe this will improve the margins by around 4-5%.
- The company is also looking to expand its distributor reach thereby, improving its presence in global markets which will improve the margins going ahead.

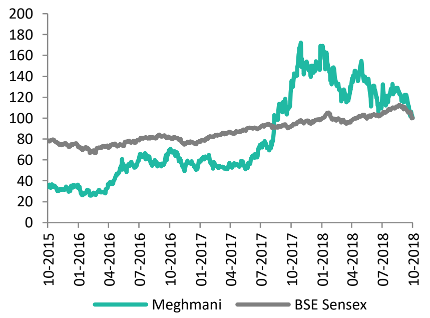
Strong capex to generate sufficient cash flow

- The company is planning to incur a capex of INR 640 crore in its subsidary MFL over the next 2 years to strategically expand its basic chemicals business.
- The INR 640 crore capex plan provides a solid revenue growth visibility over coming years. The company believes the subsidary Meghmani Finechem Ltd. (MFL) will be the growth driver going ahead.
- We expect INR 640 crore capex to generate asset turn of 0.8x and thereby, report INR 500-550 crore of incremental revenues by FY21E.

Stock Details	
Industry	Speciality chemicals
Sensex	34474
Nifty	10348
Bloomberg Code	MEGH:IN
Eq. Cap. (INR Crores)	25.4
Face Value (INR.)	1
52-w H/L	129/69
Market Cap (INR Crores)	1854.2

Valuation Data	FY18	FY19E	FY20E
P/E (x)	12.5	8.8	8.1
P/B (x)	2.5	1.7	1.4
EV/EBITDA(x)	5.5	3.8	3.5

Meghmani Organics Ltd Vs SENSEX



Shareholding Pattern (in %)	Jun'18	Mar'18	Jun'17
Promoters	47.73	47.69	50.12
FIIs	11.55	10.46	9.99
DIIs	0.56	0.62	0.88
Retail	40.16	41.23	39.02
Total	**100.0**	**100.0**	**100.0**

17%	19%	17%
Total Revenue CAGR FY18 -21E	Total EBITDA CAGR FY18 -21E	Total PAT CAGR FY18 -21E

** Read last page for disclaimer & rating rationale*

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Valuation

We expect the company to notch re-rating in its valuations on the back of:

- Expansion of caustic soda capacity 1,05,000 MTPA by FY20E to lead increased volume offtake.
- Focussing on high margin products to improve the margins going ahead.
- Strong demand from key end user industries like Agro-chemicals & pharma to drive growth momentum.
- Expansion of captive power plant to 96 MW from 60 MW to keep a control on power cost going ahead.

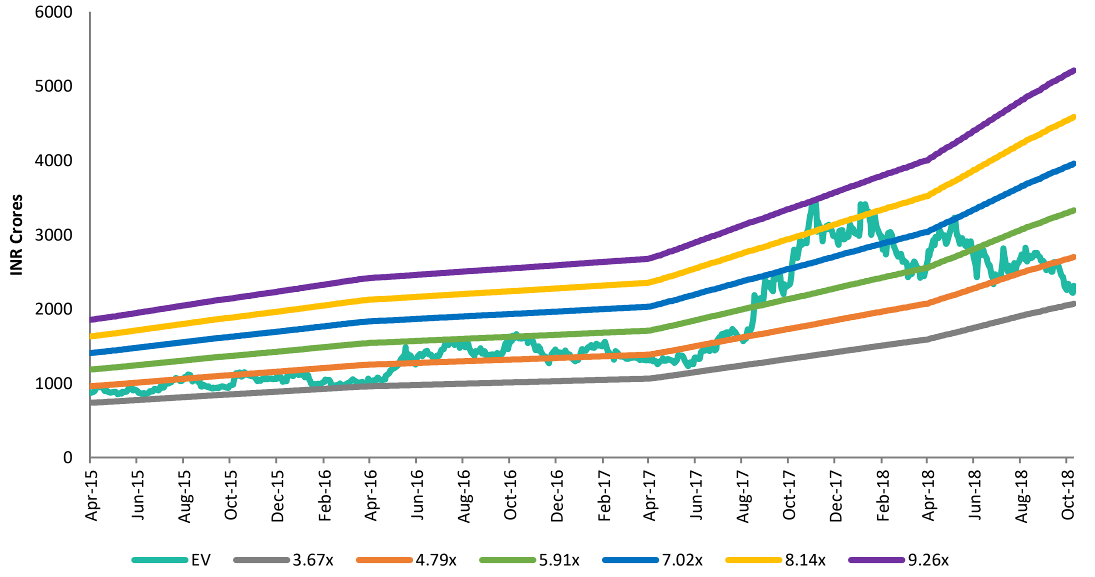
Meghmani Organics (MOL) Ltd is vertically integrated in the manufacturing of pigments, agrochemicals & basic chemicals. We believe strong demand of caustic soda will lead to strong revenue generation and we expect the company to capture the imports market in India. At CMP of INR 73 the stock is trading at 3.5x FY20E EBITDA and 8.1x FY20E EPS of INR 9.0. We value using average of DCF & EV/EBITDA and arrive at a target price of INR 110 per share, thereby, representing a potential upside of 50.8% from current valuations.

Financial Snapshot

Particulars (INR Crores)	FY16	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	1332	1420	1803	2323	2552	2862
Growth		*7%*	*27%*	*29%*	*10%*	*12%*
EBITDA	261	289	431	563	633	722
Growth		*11%*	*49%*	*31%*	*12%*	*14%*
PAT	111	116	238	294	317	379
Growth		*4%*	*105%*	*24%*	*8%*	*20%*
EBITDA Margin(%)	19.6%	20.3%	23.9%	24.2%	24.8%	25.2%
PAT Margin(%)	8.4%	8.2%	13.2%	12.7%	12.4%	13.3%
EPS	3.2	3.5	6.7	8.3	9.0	10.7
P/E	8.0	10.7	12.5	8.8	8.1	6.8

Source: NSPL Research

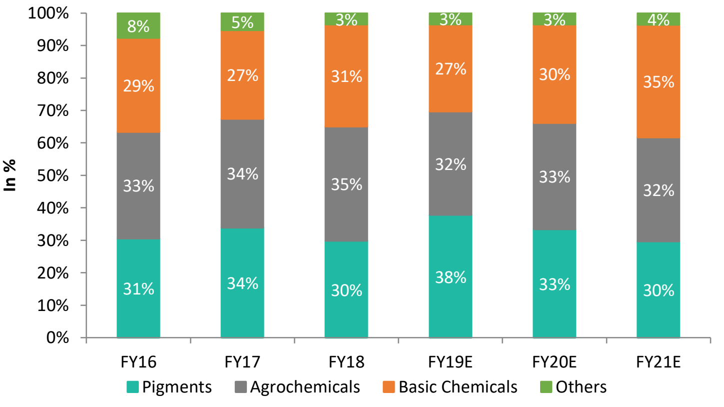
EV/EBITDA Band chart



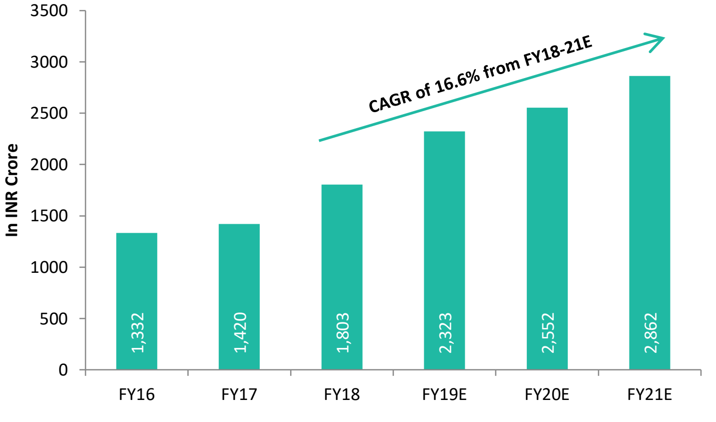
Source: NSPL Research

Investment Rationale

Segmental breakup of revenue



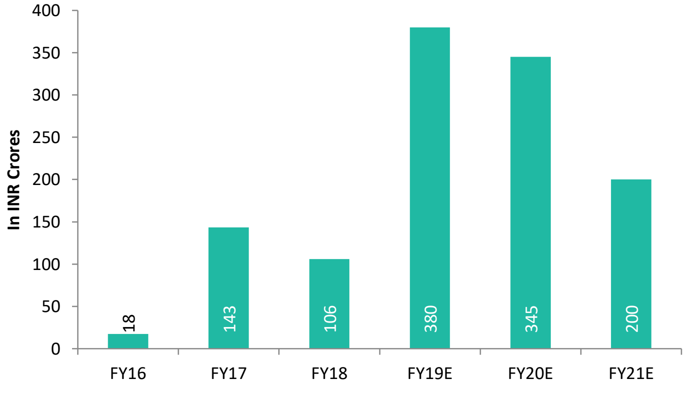
Strong revenue growth expected going ahead



Revenue trajectory to be robust going ahead

- Historically from FY16-18, the pigments segment revenue contribution is in the range of 30-31%. Going ahead, we expect the business to grow at a CAGR of 15.8% from FY18-21E and to contribute around 30% by FY21E. The growth from the pigments business will be on the back of improved realizations by focussing on high margin pigments.
- The agrochemicals segment revenue contribution is in the range of 33-35%. Going ahead, we expect the business to grow at a CAGR of 12.3% from FY18-21E and to contribute around 34% by FY21E. Agrochemicals business to see strong growth on the back of improvement in utilization, focussing on B2C, expanding distributor reach and increasing registrations in the pipeline.
- The basic chemicals segment revenue contribution is in the range of 30-31%. Going ahead, we expect the business to grow at a CAGR of 19.3% from FY18-21E and to contribute around 35% by FY21E. Expansion of caustic soda capacity, Setting up dedicated production facility for chloromethane and installing hydrogen peroxide for captive use of hydrogen will drive the growth in basic chemicals.
- Improved demand from end user industries like pharma, agro, paints and coatings, detergents etc. will drive the growth momentum.
- We expect overall revenues to grow at a CAGR of 16.6% to INR 2862 crore from FY18-21E.

Mega capex plan to boost sales growth



Source: NSPL Research

- The overall capex outlay for the next 2 years is approx. INR 640 crore excluding the maintenance capex.
- **The capex of INR 640 crore is divided into:**
  (A) INR 300 crore for caustic soda expansion
  (B) INR 140 crore for chloromethane
  (C) INR 100 crore for hydrogen peroxide
  (D) INR 100 crore for power plant
- The company plans to expand the capacity of caustic soda from 1,66,600 MTPA in FY18 to 2,71,600 MTPA by FY20E to capture the strong demand of caustic soda and improve its visibility in the domestic markets.
- The company also plans to set up dedicated production block for chloromethane plant at a capacity of 40,000 MTPA. This is expected to be operationalize by December 2018.
- Hydrogen peroxide is used for captive consumption and increase in power plant capacity to support the caustic soda expansion.

Huge capex plans provides strong footing of future growth potential

Project	Planned Expansion	Commissioning	Status	Comments
Caustic Soda	1,05,000 MTPA	Q2FY20	Ongoing	To capture strong demand of caustic soda in the domestic market
Chloromethane	40,000 MTPA	Q4FY19	Ongoing	To produce MDC, Chloroform & Carbon Tetrachloride(CTC) for which India is a net importer
Hydrogen Peroxide	30,000 MTPA	Q2FY20	Ongoing	Captive consumption of Hydrogen

Source: NSPL Research

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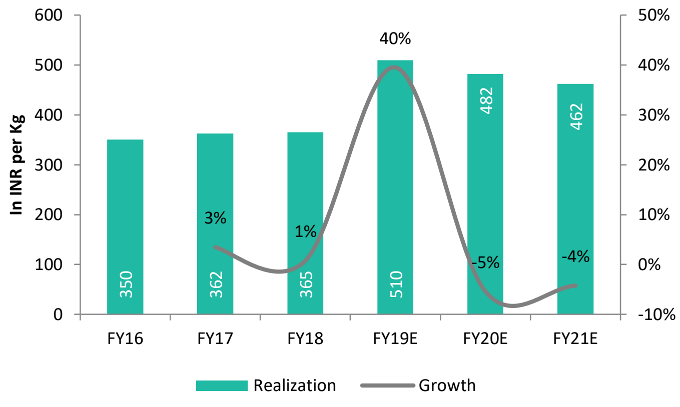
Pigments business to gain on the back of improved realizations

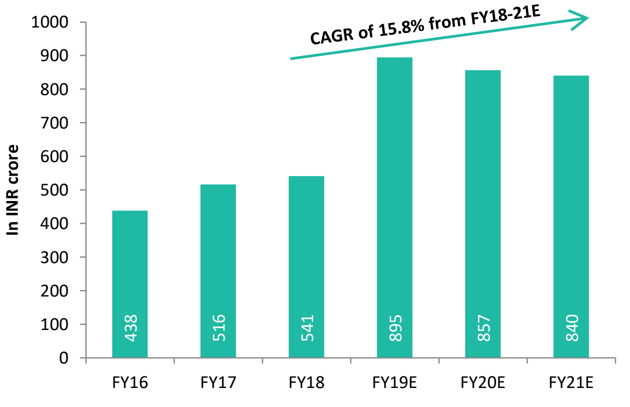
Realization to improve on the back of rise in crude prices



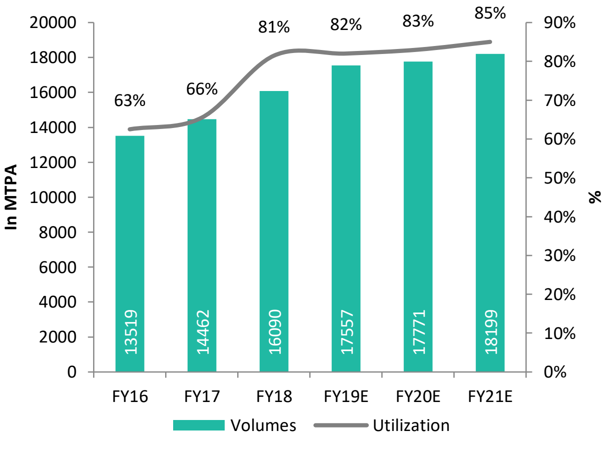
- In FY18, realization were around INR 365 per kg. We believe finished product prices to rise on the back of rise in crude prices.
- Also, exports/domestic breakup in the pigment business is around 78%/22%, hence rupee depreciation will help the realizations at higher levels, thereby, benefitting the top-line.
- Pigment realizations are solely denominated by the Indian market, china market has no involvement in the price determination. Hence, we expect the prices to remain firm if the demand from the end user persists going ahead.
- Margins from the pigment business has seen a dip from FY16-18 from 16.2% to 14.4% respectively. Going ahead, with improvement in realizations backed by strong demand we expect the margins to improve by 260 bps to 17% by FY21E.

- As on FY18, the company has an installed capacity of 31,890 MTPA in the pigments business and utilization stood around 81%. Management guided the optimum utilization to be around 85%.

Pigments revenue growth to be robust going ahead



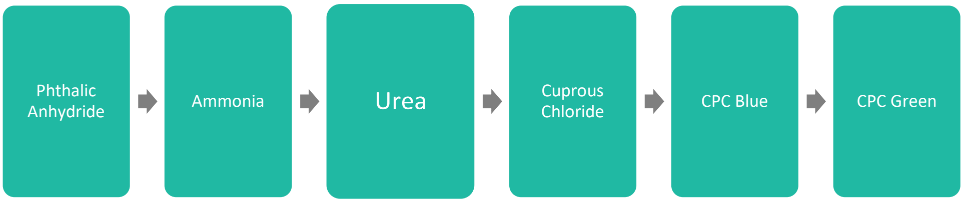
Utilization to hover around 85% by FY21E



Source: NSPL Research

- We believe pigment prices to increase going ahead on the back of recent surge in crude prices which will lead to increase in revenues. The company is not entering into long term price contracts because of the unexpected price movement of crude oil. Hence, whenever there is increase in input cost within a short period, the company can pass it to their customers.
- We do not anticipate volume growth to be much higher and should be in the range of only 2-3% BY FY21E, since already the plant is running at near optimum levels and de-bottlenecking to not add much sense to the volumes further.
- Therefore, we expect the company pigment revenue to grow at a CAGR of 15.8% from FY18-21E.

Pigment value Chain



Source: NSPL Research

- CPC blue is the raw material required to produce pigment blue & pigment green.
- The company gets 70-80% of orders from the regular customer, hence the company is insulated to any major disruptions in demand, if it happens, in near future.
- The company's major customer's in the pigment business are MNC's like Sun-DIC, Flint Group, Akzo-Nobel, DuPont etc.

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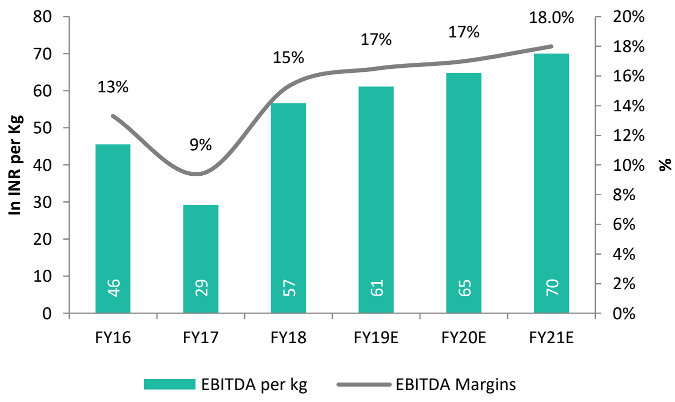
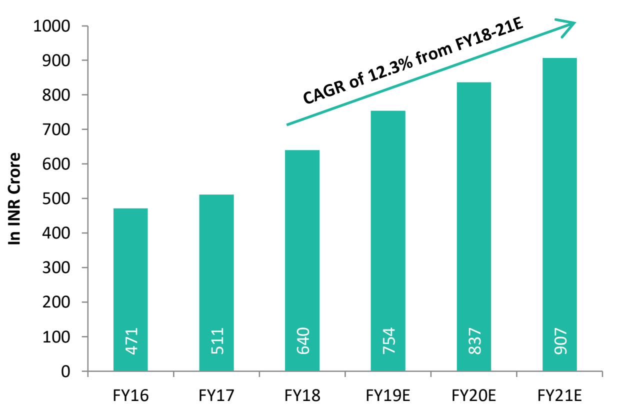
Strengthening distributor network & widening presence in export market will be the growth driver in agrochemicals business

Agrochemicals margins to improve going ahead

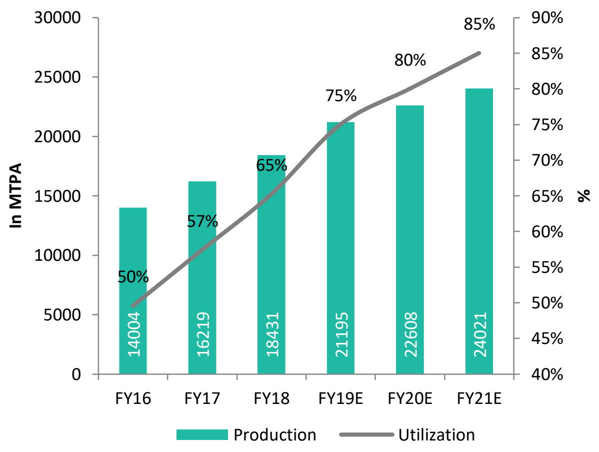


- The company has improved the margins in the agrochemicals business from 13% in FY16 to 15% in FY18. We expect margins to improve further by 270 bps to 18% by FY21E on the back of increasing product pipeline, widening distributor reach, increasing export presence etc.
- EBITDA per kg stood at INR 57 per kg in FY18. We expect EBITDA per kg to be around INR 70 per kg by FY21E on the back of improvement in utilization and strong demand from key molecules.
- The agrochemical business is highly dependent on monsoon, food grain output etc. In FY18, kharif season is likely to surpass last year record of 138 million tonnes due to higher acreage and good monsoon for the second straight year, which bodes very well for the agrochemicals business.
- As on FY18, the company has an installed capacity of 28,260 MTPA in the agrochemicals business and utilization stood at ~ 65%. We expect utilization to be around 85% by FY21E, thereby reporting volume growth of 9-10% by FY21E.

Agrochemicals revenue to post growth trajectory



Utilization to hover around 85% by FY21E



Source: NSPL Research

- In FY18, the company has 567 registrations, 333 registrations in pipeline, 35 registered trademarks. The major agrochemical products are 2,4-D, Cypermethrin, Permethrin, Chlorpyrifos and Profenophos. Also, the company has well-recognized formulation brands like Megastar, Megacyper, Megaban, Synergy, Courage etc.
- The company could not sell higher margin products in last two quarters because of the merger of Meghmani Agrochemicals Ltd with MFL and now these high margin products are back in the basket again so this will augur well for the margins going ahead. Hence, we expect the margins to improve by 270 bps to 18% by FY21E from 15.3% in FY18.
- Therefore, we expect the company agrochemical revenue to grow at a CAGR of 12.3% from FY18-21E.

Agrochemicals value chain

Source: NSPL Research

- The above figure indicates that the company is vertically integrated in the agrochemicals value chain and, hence, the company reported margin improvement of 200 bps from 13% to 15% from FY16-18 respectively.
- The company exports 65-70% of revenue from agrochemicals. Hence, rupee depreciation will augur well going ahead. At current levels of rupee averaging around 70 is a positive sign for the company exports.

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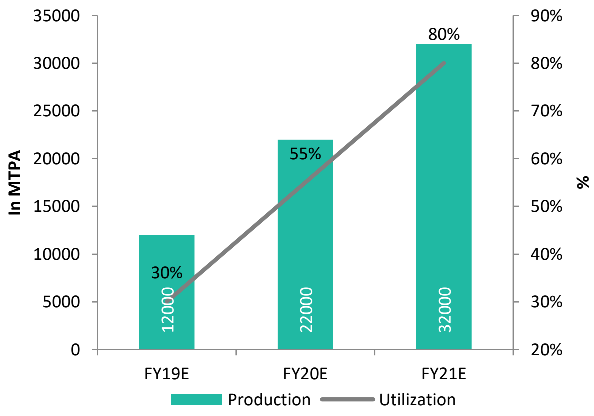
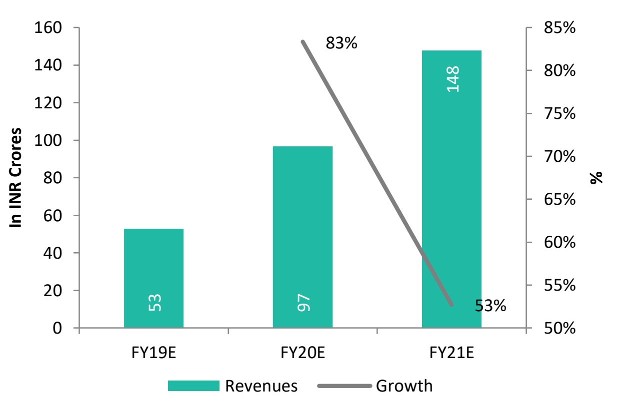
Chloromethane(CMS) plant is a high margin business; add significant value to the company

- The company is in the process of installing dedicated production block for chloromethane plant at a capacity of 40,000 MTPA by December 2018 at a capex of INR 140 crore.
- The chloromethane plant will produce MDC, Chloroform & Carbon Tetrachloride(CTC) for which India is a net importer.
- We expect at peak utilization the plant will generate revenue of INR 175-180 crore.
- Also, management guided EBITDA margins from the chloromethane plant would be around 20-22%. We expect the EBITDA per kg to be around INR 9.7 per kg in FY19E.
- Realizations of chloromethane are around INR 44-45 per kg and expect it to be same till FY20E.
- The end user of chloromethane are pharmaceutical & agrochemical industries which constitute majority of the demand. Pharma cycle being bottomed out and US market revival in terms of pricing will drive the pharma market and near normal monsoon with record food-grains output in FY18 to drive the agrochemical market.

Utilization to remain strong



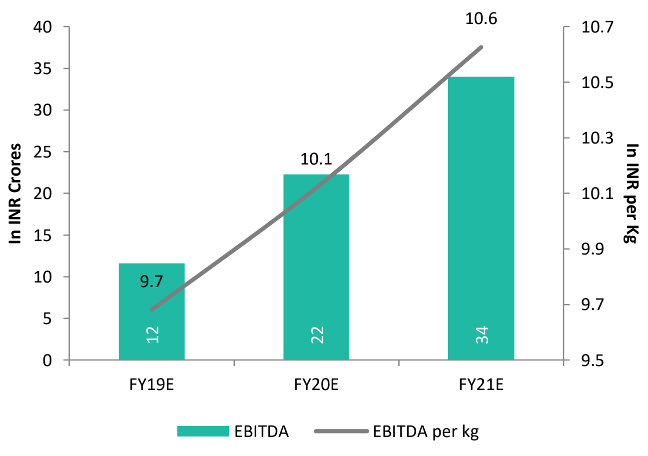
Revenue growth to be strong going ahead



Source: NSPL Research

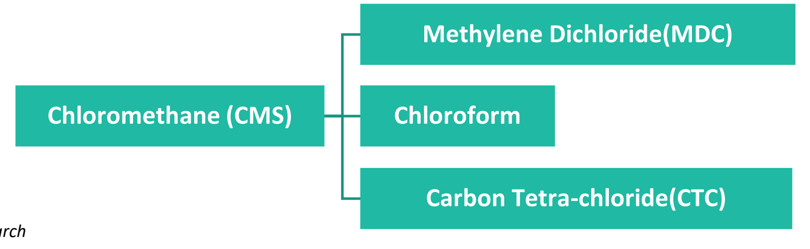
- Chloromethane is manufactured using two raw materials namely methanol and chlorine. Chlorine constitutes major portion of the raw materials. The company produces caustic-chlorine and hydrogen at Dahej plant so chlorine is available through pipeline. Hence, chlorine is reasonably available to the company to set up a chloromethane plant.
- The CMS plant will also enable Meghmani Finechem(MFL) to meet demand for raw material of refrigerant gases.

EBITDA to see an upward trajectory backed by strong demand



- The basic advantage to set up CMS plant at the Dahej is availability of ready infrastructure and usage of 41000 MTPA of chlorine. This will help MFL in reducing the cost of production of CMS plant and improving the profitability of the company
- EBITDA to remain strong on the back of strong demand from key end user industries. Hence, we expect the margins to improve by 100 bps to 23% by FY21E.
- We expect the EBITDA per kg to be around INR 10.6 per kg by FY21E from INR 9.7 per kg in FY18 on the back of improving margins and operating leverage.
- We expect EBITDA to be around INR 34 crore by FY21E.

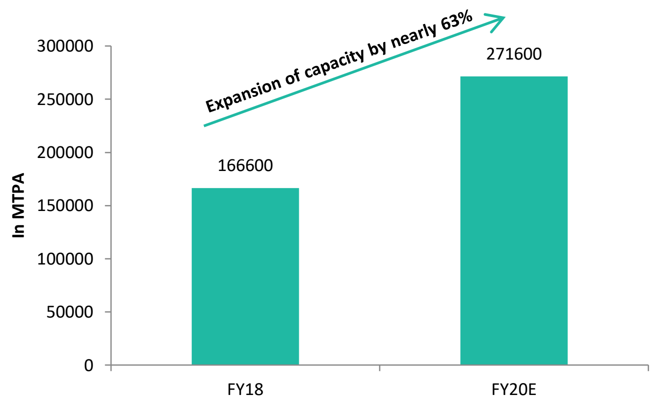
Chloromethane value chain



Source: NSPL Research

Expansion in caustic soda capacity to be the prime growth driver in the earnings going ahead

Capacity expansion of caustic soda

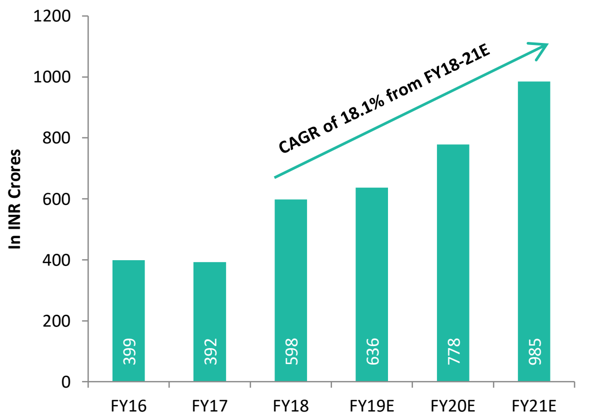


Source: NSPL Research

- The company is planning expansion in caustic soda capacity by 1,05,000 MTPA taking the caustic soda capacity to 2,71,600 MTPA from 1,66,600 MTPA excluding caustic potash capacity.
- We believe this expansion to provide significant operating leverage and coupled with strong demand will lift the margins going ahead.
- The capacity of 1,87,600 MTPA is divided into 2 parts:
  (A) Caustic chlorine capacity of 1,66,600 MTPA.
  (B) Caustic potash capacity of 21,000 MTPA.
- Caustic soda is used in multiple user industries like soap & detergents, pulp & paper, textiles processing, organic & inorganic chloro solvents etc.
- The company is the 4th largest (by capacity) caustic-chlorine producer in India and strategically located in close proximity to the port (importing coal) and customers leading to lower logistics costs.

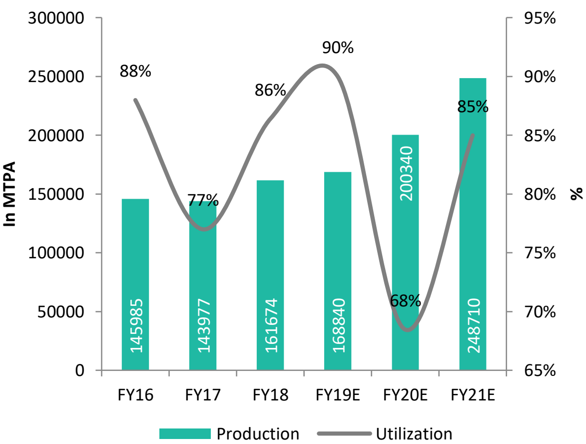
- In FY18, utilization stood around 86%. We expect post expansion the utilization to hover around 85% by FY21E. Thereby, we expect the volume growth to be around 15-16% by FY21E. We believe at peak utilization the caustic soda plant to generate incremental revenues of INR 300-350 crore per annum.
- The realizations of caustic soda are in the range of INR 38-39 per kg. Going ahead, we expect the demand supply to remain tight and, thereby, realizations to remain at the same levels or might even increase going ahead.

Caustic soda revenues to see sharp uptick post FY20E



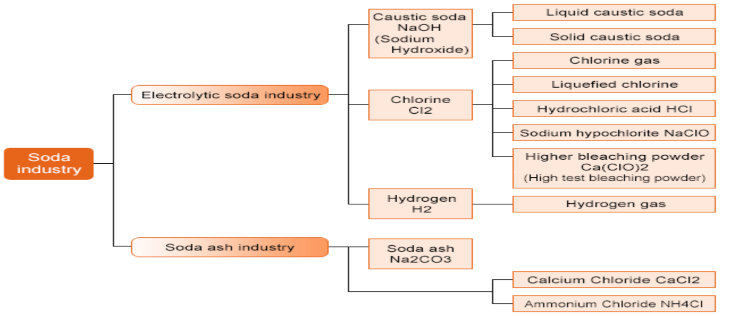
Source: NSPL Research

Volume growth to be robust going ahead



- Strong demand from key end user industries will help the capacity to operate at optimum utilization, thereby, reporting strong growth in revenues.
- The company is also planning to set up hydrogen peroxide plant of 30,000 MTPA which is to be operational by June 2019. This will be used as captive consumption to generate hydrogen and post this expansion company will be self sufficient to meet the hydrogen as an input to its existing facility.
- Caustic soda margins are in the range of 30-33% and hydrogen peroxide margins are in the range of 20-25%.
- We believe the company to report CAGR of 18.1% from FY18-21E for caustic soda segment.

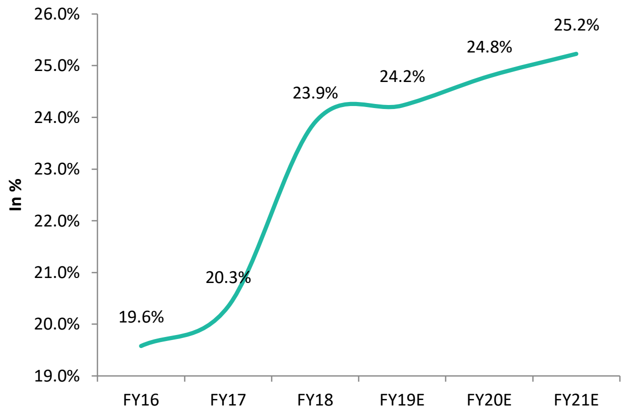
Caustic Soda Industry Snapshot



Source: Japan Soda Industry Association, NSPL Research

EBITDA margins to improve going ahead

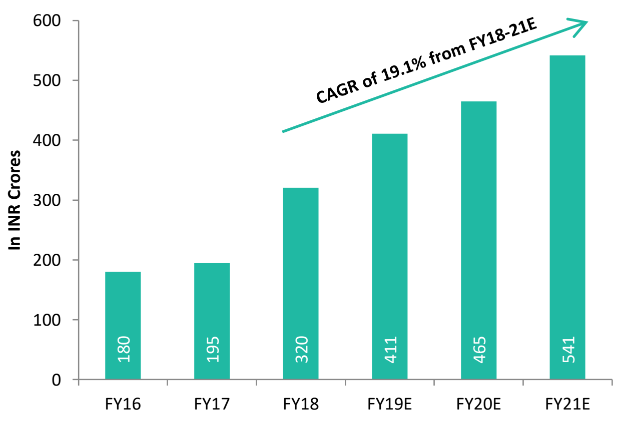
Margin trajectory to remain strong



- The company has consistently improved the EBITDA margins from 19.6% in FY16 to 23.9% in FY18. This was on the back of strong control on cost front and subsequently passing on price hike of inherent materials to the end consumer with a lag effect.
- We believe upcoming mega expansion of INR 640 crore of expanding the caustic soda capacity, setting up dedicated production for chloromethane plant & hydrogen peroxide unit for captive consumption will lead to expansion of EBITDA margins.
- Also, steady or falling crude oil prices will help in maintaining the margins of the company in the long run. However, current prices of crude oil at $83 per barrel might impact the margins temporary, however, company can subsequently increase the prices of finished products and protect themselves.
- We expect EBITDA margins to be around 25.2% by FY21E.

Cash profit generation to help in capex funding

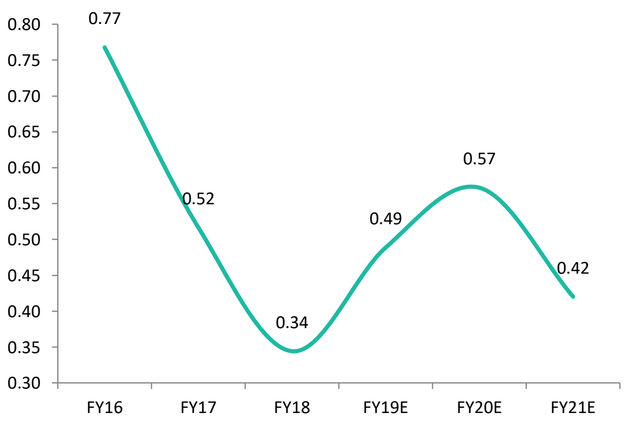
Strong cash PAT generation augur well



- In FY18, the company generated cash profit of INR 320 crore on the back of strong realization of caustic soda and pigment prices hovering at above average levels.
- The company is planning to fund the expansion partly through internal accruals and strong cash PAT generation to support well going ahead.
- The cash profit margins stood at 18.4% in FY18 and we expect the company to report cash profit margin of 19.5% by FY21E.
- We expect the cash profit to grow at a CAGR of 19.1% from FY18-21E.

Debt to equity to remain in control

D/E to be around 0.6x by FY21E



- The company's total debt excluding current maturities stood at INR 300 crore in FY18. The D/E has fallen from 0.77x in FY16 peak to 0.34x in FY18. We expect debt/equity to hover around 0.4x from FY19E-21E.
- The company plans to incur an capex of INR 650 crore out of which INR 400-500 crore will be from debt and remaining through internal accruals.
- We expect the total debt of the company to be around INR700-750 crore by FY20E.
- Going ahead we expect that the company will take additional debt which will increase the D/E to 0.57x by FY20E, post capex completion D/E to be ~ 0.42x by FY21E.

Source: NSPL Research

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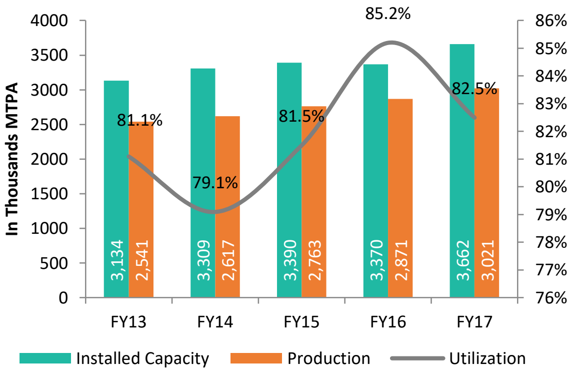
Industry

Caustic soda industry dynamics indicate strong growth in domestic market by curbing imports

Caustic soda industry dynamics



Source: NSPL Research

- Chlor-alkali industry manufactures caustic soda, hydrogen and soda ash. While these are the main inorganic chemicals there are many other products coming within the realm of this industry either as by products and derivatives of chlorine. These chemicals include sodium hypochlorite and calcium hypochlorite, hydrochloric acid and many other chemicals.
- A major product from this industry is Polyvinyl Chloride(PVC) which has multiple applications.
- Caustic soda realizations are affected by international demand and supply dynamics. Recently in the last 2 quarters, strong demand coupled with increased volume offtake has led to sudden spike in prices of caustic soda. We expect industry prices to stabilize around INR 40-45 per kg going ahead.

- The present global capacity of caustic soda is estimated at 94 million MTPA while India's capacity is only 3.66 million MTPA i.e market share of mere 3.9%. China has a capacity of 38.7 million tonnes i.e. almost 40-41% of the world's capacity.
- According to Alkali Manufacturers Association, Indian industry is facing challenges due to high power costs, cheaper imports and higher taxes. However, imports in FY17 have seen a dip of 18%, thereby, getting a boost to the domestic industry. The decline in imports was on the back of government imposing anti-dumping duty.
- Production over the last 5 years has been growing consistently by 4-5% on the back of strong demand from end user industries.

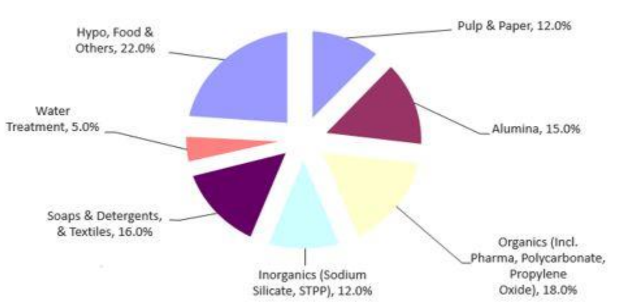
Production & Consumption dynamics of caustic soda from FY13-17

In Thousand MT	FY13	FY14	FY15	FY16	FY17
Opening Stock	23	44	22	28	29
Production	2540	2618	2761	2871	3023
Growth		***3%***	***5%***	***4%***	***5%***
Imports	363	397	508	568	466
Growth		**9%**	**28%**	**12%**	**-18%**
Domestic Availability	2927	3042	3291	3467	3518
Domestic Consumption	2814	2952	3231	3358	3413
Consumption to Availability	**96%**	**97%**	**98%**	**97%**	**97%**
Closing Stock	44	22	28	29	23

Source: Pressreader.com NSPL Research

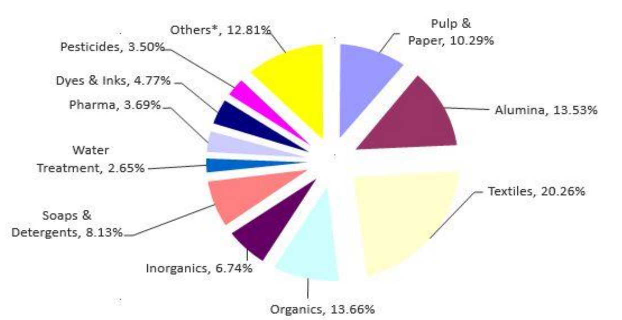
- The demand for caustic soda and many chlorinated products is expected to go up on the back of increased usage in the end user industries. We believe if the issues of high power cost and efficient chlorine availability is resolved then chlor-alkali industry would see much better than anticipated growth going ahead. According to industry sources, power cost constitutes 60% of caustic-chlor production.
- Government is also taking steps to curb imports by increasing the custom duties on imports of caustic soda, soda ash and PVC from 7.5% to 10.0% so as to make imports competitive from countries such as Middle East and SE Asia.
- We believe Indian industry is on a sound footing to overcome the challenges faced by caustic-chlor players and we believe as demand picks up globally, prices in the international market to remain firm.

Global end market uses of caustic soda



Source: IHS Markit Conference, NSPL Research

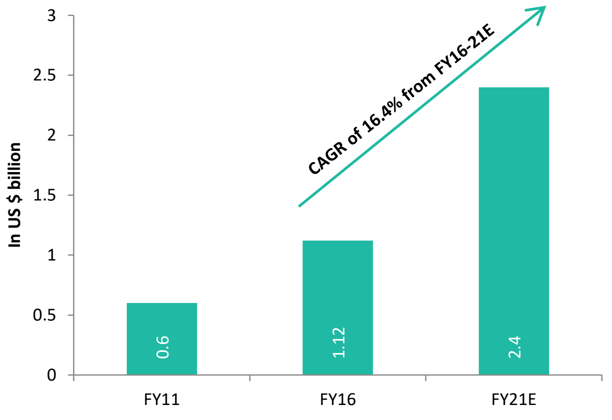
Indian end market uses of caustic soda



Source: IHS Markit Conference, NSPL Research

Strong demand from key end user industries to boost Indian pigments demand

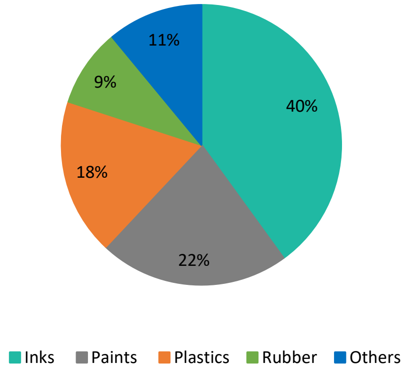
Domestic CPC pigments industry size



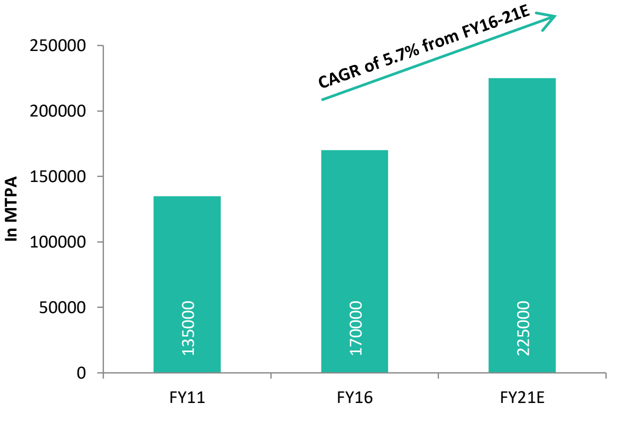
Source: NSPL Research

- Indian pigments industry contributes around 7-8% of global pigments market comprising of ~ US$ 14.5bn and clocked a CAGR of 13.4% during FY09-16. We expect the pigments industry to grow at double digit of 14.5% over FY16-21E on the back of: (A) strong growth in key end-user industries like paints & coating and plastic, inks etc (B) Shift to high-value specialty pigments having high margins to gain demand in near future.
- Phthalocyanine (CPC) pigments are comparatively less and more expensive than Azo pigments. China dominates the Azo pigment market and India has emerged as a hub for CPC pigments. CPC is produced by reacting Phthalic acid derivative with copper salt and nitrogen sourced compound (Urea, Ammonium molybdate) in high-boiling solvents such as Nitrotoluene, Trichlorobenzene or Alkyl benzenes.
- High Performance Pigments (HPP) are characterized by superior properties as compared to toxic Azo pigments. These include high resistance to heat and light, high fastness and longer life. Specialty pigment prices are much higher and are primarily used in automobile coating and high-grade paints/plastics/inks/cosmetics.
- India dominates the CPC pigments market with 80% global market share and the remaining 20% is with China.
- Indian domestic market prices are independent of China and generally command a premium over China.
- Margins in the domestic market are in the range of 15-16% and pigment prices are in the range of INR 330-360 per kg.

CPC pigments end user breakup



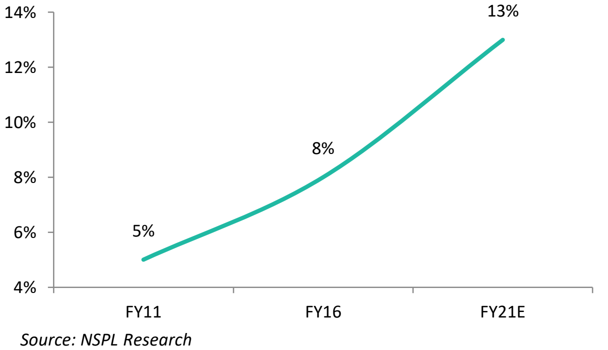
Global CPC pigments production



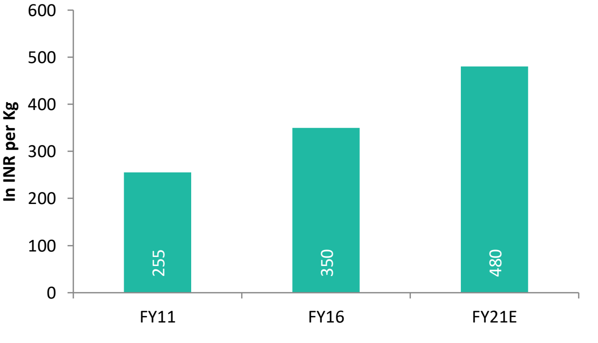
Source: NSPL Research

- The pigments end users are generally the inks, paints, plastics, rubbers etc. Inks & Plastics constitute over 60% of the pigments demand.
- The domestic CPC industry has almost doubled to US$ 1.12 billion in FY16 and we further expect it to grow at a CAGR of 16.4% from FY16-21E.
- The end user industries like the paints & coating are expected to grow at a CAGR of 15-16% from FY16-21E which will drive the pigments demand growth going ahead.

Market share of Indian pigments industry



Average realization of pigment players



Source: NSPL Research

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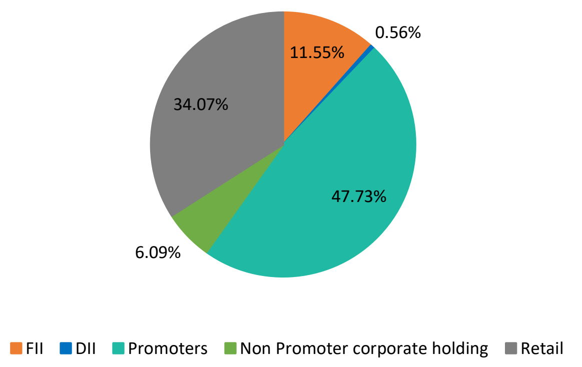
Management Team

Name	Designation
Jayanti M Patel	Executive Chairman
Natwarlal M Patel	Managing Director
Anand I Patel	Executive Director
Chander Kumar Sabharwal	Independent Director
A L Radhakrishnan	Director
Bhaskar Rao	Independent Director
Ashish N Soparkar	Managing Director

Source: NSPL Research

Shareholding Pattern

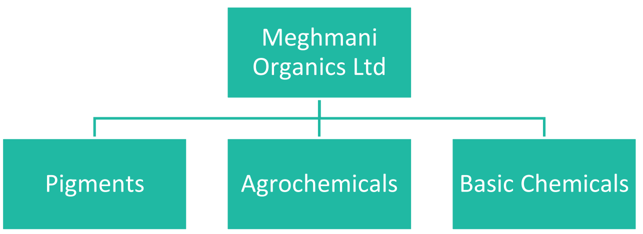


Source: NSPL Research

About the Company

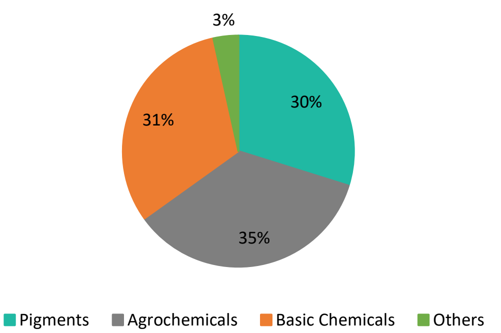
- Incorporated in 1986, Meghmani Organics Ltd is in the speciality chemicals business having diversified business model.
- The company is mainly engaged in the manufacture of pigments and agrochemicals. Its subsidary Meghmani Finechem(MFL) produces basic chemicals like caustic potash, caustic soda etc.
- The company is among the top 3 players in the world in Blue pigment and has global market share of 13% in terms of volumes. The pigments division manufactures CPC, Alpha blue, Beta blue etc.
- The agrochemicals division manufactures pesticides for basic crop protection. It is present in the entire value chain of agrochemicals which includes Intermediates, Technical grade and formulations.
- The basic chemical division manufactures caustic potash and caustic soda and have an installed capacity of 1,87,600 MTPA.

Business Model Breakup

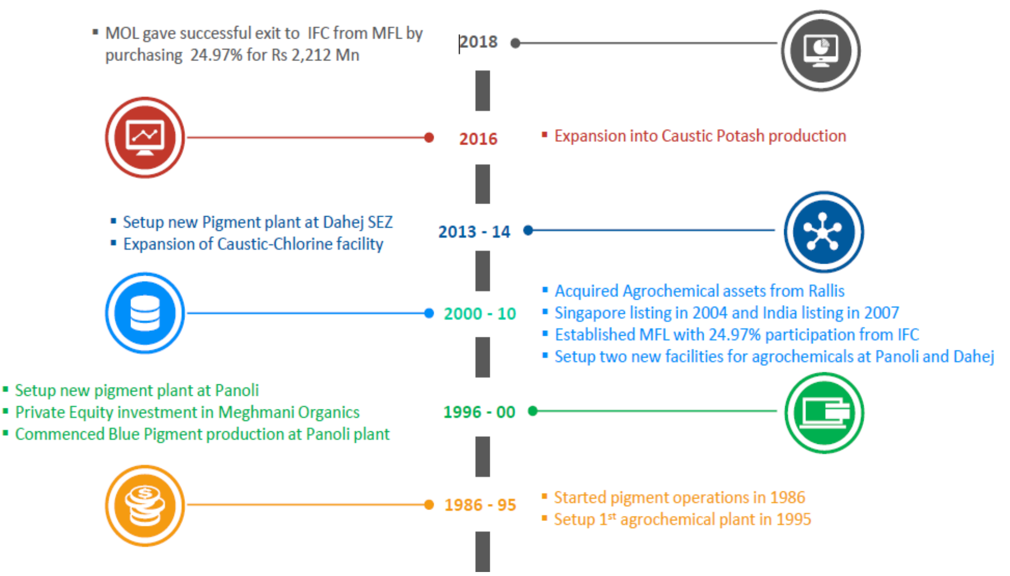


Source: NSPL Research

Revenue Breakup FY18



Key Milestones of Meghmani Organics



Source: Company Investor Presentation, NSPL Research

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Profit & Loss (INR Crores)	FY16	FY17	FY18	FY19E	FY20E	FY21E
Net sales	**1332**	**1420**	**1803**	**2323**	**2552**	**2862**
COGS	707	794	910	1170	1285	1416
Employee Expenses	58	65	100	129	141	158
Other Expenses	306	272	362	462	493	566
EBITDA	**261**	**289**	**431**	**563**	**633**	**722**
D&A	77	91	95	130	161	180
Other income	25	12	30	39	43	48
EBIT	**210**	**210**	**367**	**472**	**515**	**591**
Interest Expense	63	51	40	70	81	71
PBT	**146**	**160**	**327**	**403**	**434**	**519**
Tax	35	40	88	109	117	140
PAT	**111**	**116**	**238**	**294**	**317**	**379**
Non-Controlling Interest	29	28	66.6	82	89	106
PAT attributable to owners	**83**	**88**	**171**	**212**	**228**	**273**
EPS in INR	**3.2**	**3.5**	**6.7**	**8.3**	**9.0**	**10.7**

Balance Sheet (INR Crores)	FY16	FY17	FY18	FY19E	FY20E	FY21E
Share Capital	25	25	25	25	25	25
Reserves & Surplus	606	693	845	1044	1259	1514
Shareholder's Funds	**631**	**718**	**871**	**1069**	**1284**	**1540**
Non-Controlling Interest	126	155	221	285	332	401
Long term borrowings	217	122	218	418	618	518
Other financial liabilities	1	0	0	0	0	0
Provisions	4	4	5	7	7	8
Deferred tax liabilities(Net)	27	34	51	65	72	80
Total Non-current liabilities	**248**	**160**	**274**	**490**	**697**	**607**
Short term borrowings	268	250	81	104	116	129
Trade payables	178	163	195	254	274	269
Other financial liabilities	125	120	151	251	350	320
Other current liabilities	16	14	10	22	21	22
Short-term provisions	0	0	0	0	0	0
Current Tax Liabilities(Net)	0	6	14	10	14	16
Total Current liabilities	**588**	**552**	**452**	**640**	**776**	**757**
Total Equity and Liabilities	**1594**	**1585**	**1818**	**2485**	**3089**	**3304**
Fixed Assets	723	769	779	1030	1213	1234
Capital work in progress	85	10	75	67	32	3
Other intangible assets	12	9	16	16	17	19
Intangible assets under develop	7	9	29	37	41	46
Non current Investments	1	1	1	1	1	1
Other financial assets	14	10	11	15	16	19
Deferred tax assets	0	5	8	6	9	10
Income Tax assets	0	18	11	15	21	24
Other non current assets	5	13	52	32	44	57
Total Non-current Assets	**848**	**845**	**979**	**1219**	**1394**	**1411**
Current Investments	0	29	71	71	71	71
Inventories	313	242	268	405	475	573
Trade receivables	327	331	375	491	698	871
Cash and cash equivalents	11	10	10	147	283	192
Short term loans & advances	0	0	0	0	0	0
Other financial assets	20	58	33	42	46	52
Other current assets	59	71	83	109	121	134
Current Tax Assets(Net)	17	0	0	0	0	0
Total Current Assets	**746**	**740**	**839**	**1266**	**1694**	**1893**
Total Assets	**1594**	**1585**	**1818**	**2485**	**3089**	**3304**

Source: NSPL Research

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Cash Flow (INR Crores)	FY16	FY17	FY18	FY19E	FY20E	FY21E
PBT	146	156	326	403	434	519
Operating profit before working capital changes	286	305	459	602	676	770
Operating profit after working capital changes	235	292	462	505	492	440
Less income tax paid	-34	-34	-57	-109	-117	-140
Cash Flow from Operating	**201**	**259**	**405**	**397**	**375**	**300**
(Incr)/ Decr in Gross PP&E	-95	-71	-246	-394	-357	-215
Cash Flow from Investing	**-73**	**-96**	**-275**	**-394**	**-357**	**-215**
(Decr)/Incr in Debt	-60	-112	-75	223	212	-88
Finance costs	-65	-51	-41	-70	-81	-71
Dividend Paid	-68	-112	-86	212	201	-102
Cash Flow from Financing	**-134**	**-164**	**-128**	**140**	**118**	**-176**
Incr/(Decr) in Balance Sheet Cash	-6	-1	2	143	136	-91
Cash at the Start of the Year	7	3	2	4	147	283
Cash at the End of the Year	**2**	**2**	**4**	**147**	**283**	**192**

RATIOS	FY16	FY17	FY18	FY19E	FY20E	FY21E
Profitability						
Return on Capital (%)	19%	19%	31%	30%	25%	27%
Return on Equity (%)	18%	16%	27%	27%	25%	25%
Margin Trend						
EBITDA Margin (%)	19.6%	20.3%	23.9%	24.2%	24.8%	25.2%
PBT Margin (%)	11.0%	11.2%	18.1%	17.3%	17.0%	18.1%
Net profit Margin (%)	8.4%	8.2%	13.2%	12.7%	12.4%	13.3%
Gross Margin (%)	46.9%	44.1%	49.5%	49.6%	49.7%	50.5%
Solvency						
Debt / Equity	0.8	0.5	0.3	0.5	0.6	0.4
Debt / Assets	0.3	0.2	0.2	0.2	0.2	0.2
Interest Coverage	3.3	4.1	9.2	6.8	6.4	8.3
Valuation Ratios						
P/E	8.0	10.7	12.5	8.8	8.1	6.8
P/B	1.0	1.3	2.5	1.7	1.4	1.2
EV/EBITDA	4.4	4.4	5.5	3.8	3.5	3.1

Source: NSPL Research

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Meghmani Organics Ltd				Rating Legend	
Date	**CMP (INR)**	**Target Price (INR)**	**Recommendation**	**Strong Buy**	**More than 15%**
October 12, 2018	73	110	Strong Buy	**Buy**	**5% - 15%**
				Hold	**0 – 5%**
				Reduce	**-5% - 0**
				Sell	**Less than -5%**

Following table contains the disclosure of interest in order to adhere to utmost transparency in the matter;

Disclosure of Interest Statement	
Details of Nalanda Securities Pvt. Limited (NSPL)	• NSPL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F & O and CDS segments. Further, NSPL is a Registered Portfolio Manager and is registered with SEBI • **SEBI Registration Number: INH000004617**
Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
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Has research analyst or NSPL or its associates received any compensation or other benefits from the subject company or third party in connection with the document.	NO
Has research analyst served as an officer, director or employee of the subject company	NO
Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other disclosures	NO

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