

February 14, 2019

Meghmani Organics Ltd.

Q3FY19 Result Update

Pigment business remained a lackluster led by demand impact in key segments, despite the fact Meghmani remains an outperformer

Owing to sudden volatility in the prices of crude the pigment market in India is facing slowdown forcing small manufacturers to shut down the capacity. Despite the fact, Meghmani pigment business managed to operate on higher utilization levels at 81% in Q3FY19 as compared to 77% in Q3FY18. Also, the realization recorded growth of 15% y-o-y to INR 428 per kg which is commendable on the fact that company is adamant to sacrifice on the margins front. The sales volumes recorded de-growth of 8.7% to 3730 TPA which we believe is strategic due to weak demand sentiment and might look to sell 1-2 quarters later at appropriate selling prices. However, inspite of weak demand in the pigment business the company has been able to improve their margins and operating profits in Q3FY19 and this could be on the back of experienced track record, strong export presence in more than 80 countries and widespread product basket.

Agrochemical business posted better than expected number's in Q3FY19

Agrochemical business reported growth of 32.7% y-o-y & 5.9% q-o-q to INR 205 crore in Q2FY19. This growth in revenues was on the back of improved product mix on technical pesticide side which commands a higher realization as compared to formulations. The average realization recorded growth of 32.7% y-o-y to INR 494 per kg in Q3FY19. Margins improved by 300 bps to 21.3% in Q3FY19 on the back of easing of raw material sourcing from China and improved demand sentiment in Indian markets.

Chloromethane (CMS) business rescheduled to commence operations from April 2019

THE CMS business was expected to commence from December 2018. However, due to non-availability of some heavy machineries led to postponement to April 2019. The company is planning to set up 40,000 MTPA in CMS business and we expect the business to operate at near optimum utilization by FY21E, thereby generating revenues of INR 150-160 crore on capex of INR 140 crore. This is a high margin business which will command ~22-23% in margins.

Valuations

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 the CMP of INR 50 the stock is trading at 5.9x FY21E EPS and 2.8x FY21E EBITDA. We value the stock on average of P/E & EV/EBITDA methodology and arrive at target price of INR 75 per share, thereby, representing a potential upside of 49.1% from current valuations. We believe the stock has factored the negatives and can be added in a staggered manner for long term investment horizon of 1-2 years.

(INR Crores)	FY16	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	1332	1420	1803	2035	2345	2597
Growth%		6.6%	27.0%	12.8%	15.3%	10.7%
EBITDA	261	289	431	519	583	635
Growth%		10.7%	49.3%	20.3%	12.4%	8.9%
PAT	83	88	171	187	191	215
Growth%		6.4%	95.2%	8.9%	2.3%	12.9%
EPS (INR)	3.2	3.5	6.7	7.3	7.5	8.5
P/E (x)	8.0	10.7	12.5	c	6.7	5.9
P/B (x)	1.0	1.3	2.5	1.2	1.0	0.9
EV/EBITDA(x)	4.4	4.4	5.5	3.2	3.2	2.8

Source: Company, NSPL Research

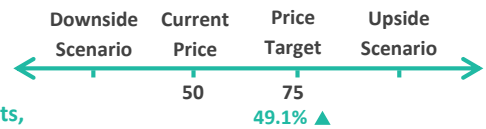
* Read last page for disclaimer & rating rationale

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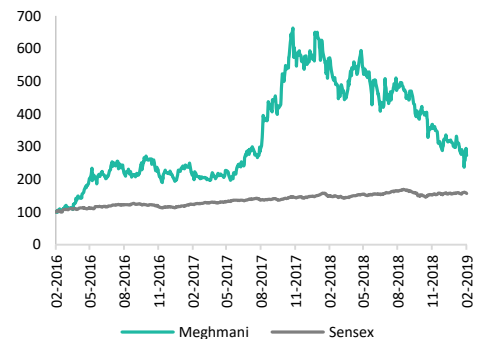
STRONG BUY*



Market Data	
Industry	Speciality chemicals
Sensex	36034
Nifty	10793
Bloomberg Code	MEGH:IN
Eq. Cap. (INR Crores)	25.43
Face Value (INR)	1
52-w H/L	114/42
Market Cap (INR Crores)	1310

Valuation Data	FY19E	FY20E	FY21E
P/E (x)	6.8	6.7	5.9
P/B (x)	1.2	1.0	0.9
EV/EBITDA (x)	3.2	3.2	2.8

Meghmani Organics Ltd Vs SENSEX



Shareholding Pattern (in %)

	Dec'18	Sept'18	Dec'17
Promoters	50.68	50.31	50.48
FIIIs	2.47	3.05	5.04
DIIIs	0.22	0.56	0.80
Retail	46.63	46.08	43.68
Total	100.0	100.0	100.0



Q3FY19 Result Analysis

(INR Crores)	Q3FY19	Q2FY19	Q3FY18	Y-o-Y	Q-o-Q
Revenue (Net of excise duty)	552.3	501.4	450.4	22.6%	10.2%
COGS	276.2	251.8	230.4	19.9%	9.7%
Employee Expenses	33.1	37.2	20.9	58.5%	-11.0%
Other Expenses	98.1	95.7	82.0	19.6%	2.5%
Total Expenses	407.4	384.6	333.2	22.3%	5.9%
EBITDA	145.0	116.8	117.2	23.7%	24.1%
Depreciation	24.5	24.5	24.4	0.4%	0.2%
Other Income	4.1	17.1	1.5	165.2%	-76.3%
EBIT	124.5	109.4	94.3	32.0%	13.8%
Finance Cost	7.6	16.8	9.9	-23.7%	-55.1%
PBT	116.9	92.6	84.4	38.5%	26.3%
Taxes	37.5	30.9	21.8	72.3%	21.7%
Net Profit	79.4	61.8	62.6	26.8%	28.6%
EPS in INR	2.6	2.2	1.7	52.6%	20.8%

Source: NSPL Research

- The company's net sales grew 22.6% y-o-y and 10.2% q-o-q to INR 552.3 crore in Q3FY19.
- EBITDA grew by 23.7% y-o-y and 24.1% q-o-q to INR 145 crore in Q3FY19. EBITDA margins stood at 26.2% in Q3FY19 as against 26.0% in Q3FY18 and 23.3% in Q2FY19.
- Employee expense grew by 58.5% y-o-y and de-grew by 11.0% q-o-q to INR 33.1 crore.
- Other expenses grew by 19.6% y-o-y & 2.5% q-o-q to INR 98.1.
- Finance cost de-grew by 23.7% y-o-y & 55.1% q-o-q to INR 7.6 crore.
- PBT grew by 38.5% y-o-y & 26.3% q-o-q to INR 116.9 crore.
- Reported PAT grew by 26.8% y-o-y and 28.6% q-o-q to INR 79.4 crore in Q3FY19. PAT margins stood at 14.4% in Q3FY19 as compared to 13.9% in Q3FY18 and 12.3% in Q2FY19.

Revenue & EBIT Breakup

(INR Crores)	Q3FY19	Q2FY19	Q3FY18	Y-o-Y	Q-o-Q
Revenue breakup					
Pigment	160	155	152	4.8%	3.4%
Agro-chemicals	205	194	155	32.7%	5.9%
Basic Chemicals	193	153	152	26.9%	25.5%
Others	23	26	15	49.7%	-11.1%
Total Revenue	580	528	474	22.4%	10.0%
EBIT Breakup					
Pigment	12	23	15	-16.9%	-47.7%
Agro-chemicals	33	45	21	60.2%	-25.4%
Basic Chemicals	80	44	56	43.1%	79.6%
Others	0	0	2	-87.8%	24.0%
Total EBIT	125	112	93	34.1%	11.5%

Source: NSPL Research

- The pigment business revenue grew by 4.8% y-o-y and 3.4% q-o-q to INR 160 crore. EBIT margins witnessed contraction of 200 bps y-o-y & 740 bps q-o-q to 7.6%. EBIT de-grew by 16.9% y-o-y & 47.7% q-o-q to INR 12 crore in Q3FY19.
- The agrochemicals business revenue grew by 32.7% y-o-y and 5.9% q-o-q to INR 205 crore. EBIT margins expanded by 280 bps y-o-y & contracted by 680 bps q-o-q to 16.2%. EBIT grew by 60.2% y-o-y & de-grew by 25.4% q-o-q to INR 33 crore in Q3FY19.
- The basic chemicals business revenue grew by 26.9% y-o-y and 25.5% q-o-q to INR 193 crore. EBIT margins witnessed sharp expansion of 470 bps y-o-y & 1250 bps q-o-q to 41.4%. EBIT grew by 43.1% y-o-y & 79.6% q-o-q to INR 80 crore in Q3FY19.



Conference Call Highlights:

- On the agrochemical business, management guided better product mix in favor of technical pesticide which led to improvement in realization. In Q3FY19, the company sold more technical pesticide as compared to formulations. Technical pesticide prices have cooled off from the highs and currently in a stable range .
- The company is in talks with new customers abroad for new product range in technical grade which will better the visibility, reach and profitability of the company.
- Rupee appreciation led to INR 10 crore loss in other expenses and M2M gain of INR 5 crore in interest cost due to foreign currency loans.
- Long term sustainable EBITDA margin in basic chemical business is around 30-35%.
- Caustic soda capacity will be completed by Q2FY20 along with hydrogen peroxide and power plant expansion. Management expects incremental revenue of INR 300 crore from the expanded caustic soda capacity.
- Demand from the pigment business is impacted especially on the back of slowdown in printing inks segment. Slowdown in demand led to fall in selling prices below the cost of production and increasing raw material prices squeezed the margin's of manufacturers. Management guided that the company was not able to pass on the increase in raw material cost from last 3-4 months.
- Most raw material like PAN and cuprous chloride prices have witnessed 10-15% growth which if sustains in the long term can impact the margins of the company. In pigments, management expects FY20E to be much better in terms of demand and sustainability of margins.
- The company has been able to maintain the debt cost less than 8% owing to exposure in foreign currency loans.
- Recent plans of demerging Meghmani Agrochemicals(MAPCL) and Meghmani Finechem (MFL) are on track and management is expecting NCLT announcement any soon.
- There is a confusion on the street that the management of Meghmani Organics is increasing their stake in MFL and keeping MOL stake constant at 57%. This has been well clarified by the management that the overall equity base of 7.08 crore shares of MFL is coming down which is leading to increase in promoter holding.

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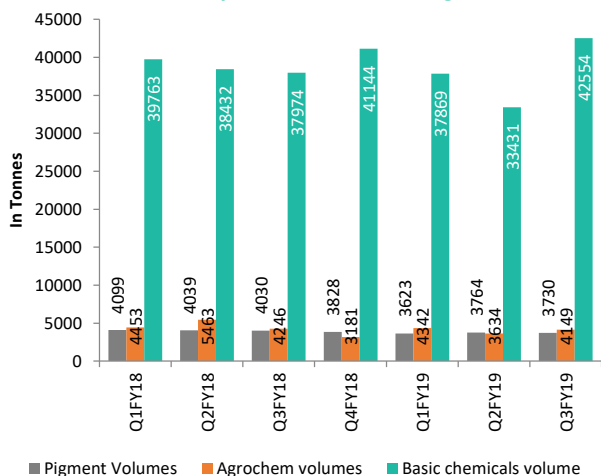
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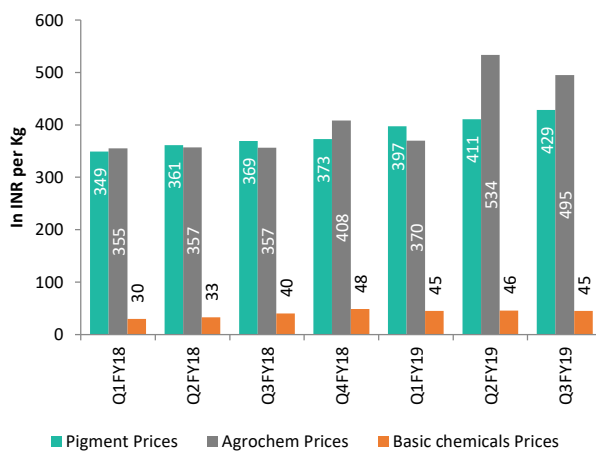
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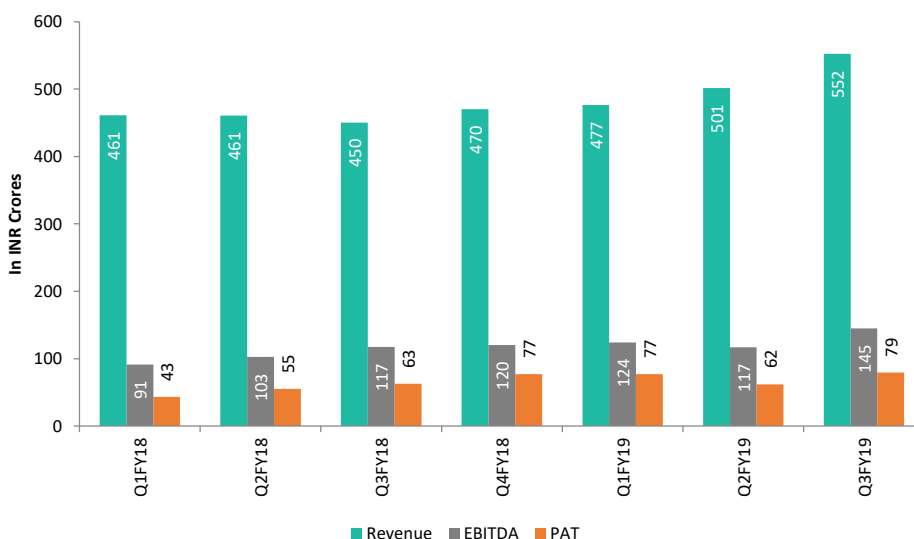
Quarterly volume of various segments



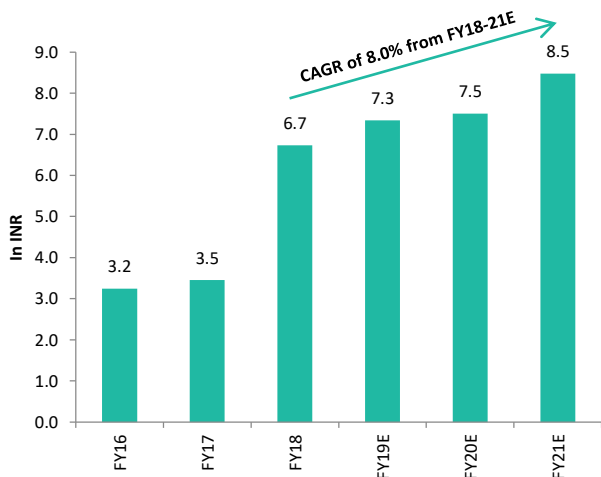
Quarterly average realization of various segments



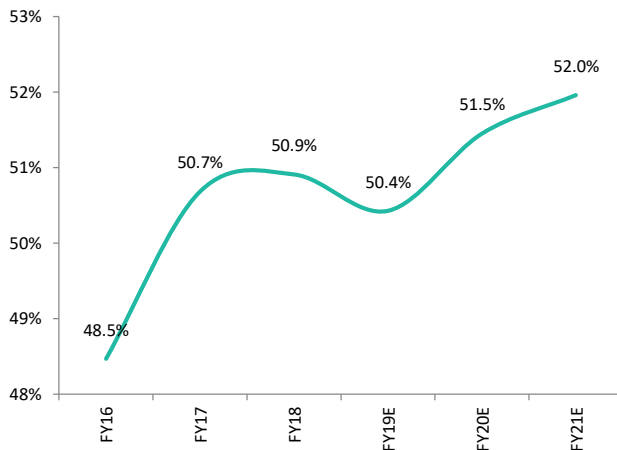
Highest ever quarterly revenue seen in Q3FY19



EPS growth to remain robust going ahead



Gross margins to improve going ahead



Source: Company, NSPL Research

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Profit & Loss (INR Crores)	FY16	FY17	FY18	FY19E	FY20E	FY21E
Net sales	1332	1420	1803	2035	2345	2597
COGS	707	794	910	1001	1154	1282
Employee Expenses	58	65	100	121	141	159
Other Expenses	306	272	362	395	467	520
EBITDA	261	289	431	519	583	635
D&A	77	91	95	127	149	157
Other income	25	12	30	42	43	40
EBIT	210	210	367	433	476	518
Interest Expense	63	51	40	63	81	71
PBT	146	160	327	370	396	447
Tax	35	40	88	111	131	147
PAT	111	116	238	259	265	299
Non-Controlling Interest	29	28	66.6	73	74	84
PAT attributable to owners	83	88	171	187	191	215
EPS in INR	3.2	3.5	6.7	7.3	7.5	8.5

Balance Sheet (INR Crores)	FY16	FY17	FY18	FY19E	FY20E	FY21E
Share Capital	25	25	25	25	25	25
Reserves & Surplus	606	693	845	1019	1196	1394
Shareholder's Funds	631	718	871	1044	1222	1420
Non-Controlling Interest	126	155	221	250	305	364
Long term borrowings	217	122	218	418	618	518
Other financial liabilities	1	0	0	0	0	0
Provisions	4	4	5	6	7	8
Deferred tax liabilities(Net)	27	34	51	57	66	73
Total Non-current liabilities	248	160	274	481	691	599
Short term borrowings	268	250	81	104	116	129
Trade payables	178	163	195	189	222	270
Other financial liabilities	125	120	151	243	344	312
Other current liabilities	16	14	10	19	19	20
Short-term provisions	0	0	0	0	0	0
Current Tax Liabilities(Net)	0	6	14	8	13	15
Total Current liabilities	588	552	452	564	715	746
Total Equity and Liabilities	1594	1585	1818	2339	2932	3128

Fixed Assets	723	769	779	1032	1228	1271
Capital work in progress	85	10	75	42	29	13
Other intangible assets	12	9	16	16	17	19
Intangible assets under develop	7	9	29	32	37	41
Non current Investments	1	1	1	1	1	1
Other financial assets	14	10	11	13	15	17
Deferred tax assets	0	5	8	5	8	9
Income Tax assets	0	18	11	13	20	22
Other non current assets	5	13	52	28	41	52
Total Non-current Assets	848	845	979	1183	1395	1443
Current Investments	0	29	71	71	71	71
Inventories	313	242	268	363	459	525
Trade receivables	327	331	375	518	768	869
Cash and cash equivalents	11	10	10	72	85	51
Short term loans & advances	0	0	0	0	0	0
Other financial assets	20	58	33	37	42	47
Other current assets	59	71	83	95	112	121
Current Tax Assets(Net)	17	0	0	0	0	0
Total Current Assets	746	740	839	1156	1537	1684
Total Assets	1594	1585	1818	2339	2932	3128

Source: NSPL Research

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Cash Flow (INR Crores)	FY16	FY17	FY18	FY19E	FY20E	FY21E
PBT	146	156	326	370	396	447
Operating profit before working capital changes	286	305	459	560	626	675
Cash generated from operations	235	292	462	421	383	504
Less income tax paid	-34	-34	-57	-111	-131	-147
Cash Flow from Operating	201	259	405	310	253	357
(Incr)/ Decr in Gross PP&E	-95	-71	-246	-390	-358	-214
Cash Flow from Investing	-73	-96	-275	-390	-358	-214
(Decr)/Incr in Debt	-60	-112	-75	223	212	-88
Finance costs	-65	-51	-41	-63	-81	-71
Dividend Paid	-8	0	-10	-11	-11	-15
Cash Flow from Financing	-134	-164	-128	147	118	-176
Incr/(Decr) in Balance Sheet Cash	-6	-1	2	68	12	-34
Cash at the Start of the Year	7	3	2	4	72	85
Cash at the End of the Year	11	10	10	72	85	51

RATIOS	FY16	FY17	FY18	FY19E	FY20E	FY21E
Profitability						
Return on Capital (%)	19%	19%	31%	28%	24%	25%
Return on Equity (%)	18%	16%	27%	25%	22%	21%
Margin Trend						
EBITDA Margin (%)	19.6%	20.3%	23.9%	25.5%	24.9%	24.4%
PBT Margin (%)	11.0%	11.2%	18.1%	18.2%	16.9%	17.2%
Net profit Margin (%)	8.4%	8.2%	13.2%	12.7%	11.3%	11.5%
Gross Margin (%)	46.9%	44.1%	49.5%	50.8%	50.8%	50.6%
Solvency						
Debt / Equity	0.8	0.5	0.3	0.5	0.6	0.5
Debt / Assets	0.3	0.2	0.2	0.2	0.2	0.2
Interest Coverage	3.3	4.1	9.2	6.9	5.9	7.3
Valuation Ratios						
P/E	8.0	10.7	12.5	6.8	6.7	5.9
P/B	1.0	1.3	2.5	1.2	1.0	0.9
EV/EBITDA	4.4	4.4	5.5	3.2	3.2	2.8

Source: NSPL Research

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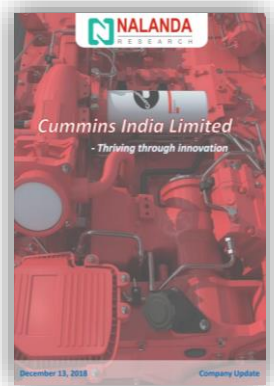
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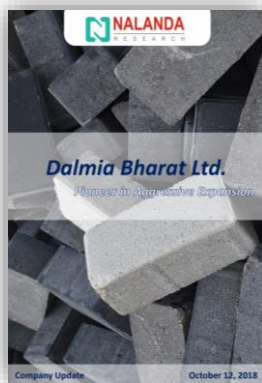
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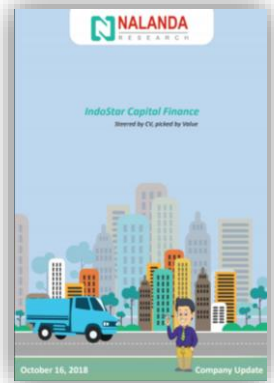
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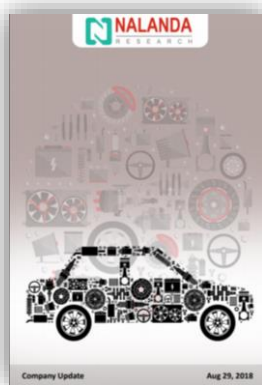
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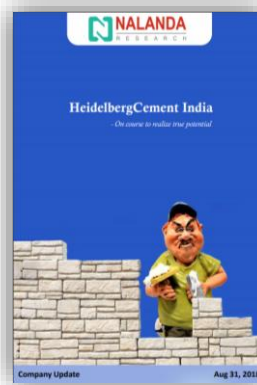
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Meghmani Organics Ltd				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
February 14, 2019	50	75	Strong Buy	Buy	5% - 15%
November 22, 2018	67	110	Strong Buy	Hold	0 - 5%
October 12, 2018	73	110	Strong Buy	Reduce	-5% - 0
				Sell	Less than -5%

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Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
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Research analyst or NSPL or its relatives'/associates' any other material conflict of interest at the time of publication of the document	NO
Has research analyst or NSPL or its associates received any compensation from the subject company in the past 12 months	NO
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Has research analyst or NSPL or its associates received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months	NO
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Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other disclosures	NO

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