



BSE Code	: 532865
Time Duration	: 1 year
CMP	: ₹62.25 (as on 23 January, 2020)
Target Price	: ₹81

## Meghmani Organics Ltd.

# Make Your Portfolio Green with Meghmani Organics

Our Tiny Treasure for the month of January 2020 is Meghmani Organics Limited. The company mainly operates through three segments, namely Pigment, Agro chemical and basic chemical i.e. ChlorAlkali & Derivatives. The revenue mix for the period-H1FY20 included Pigment – 28 per cent, Agro chemical – 44 per cent and Chlor-Alkali & Derivatives – 28 per cent. During the same period, exports contributed 55 per cent towards the total revenue while, remaining 45 per cent came from the domestic business. It operates seven facilities in Gujarat, including three major facilities for Pigments, Agro Chemicals and Chlor-Alkali & Derivatives in Dahej, the chemicals zone of Gujarat. Over the years, it has built an extensive pan-India and global footprint with a presence in more than 75 countries and a portfolio of over 400 clients.

### Agro Chemical – Growth driver segment

The Company enjoys competitive advantage via a presence in the entire value chain having 268 export registrations, 238 registrations in pipeline, 348 Central Insecticides Board (CIB) registrations and 35 registered trademarks. It has a strong global client base with exports accounting for 74 per cent of its Agro Chemical sales. It exports technical as well as formulation products to Africa, Brazil, Latam, US and European countries. Its major products include 2,4-D, Cypermethrin, Bifenthrin, Permethrin, Chlorpyrifos and Profenophos.

In FY19, the revenue from this segment grew by 23 per cent YoY driven by a robust growth of 36 per cent in exports. Utilisation level for FY19 stood at 66 per cent. Due to its backward integration facilities, its dependence on imports has reduced, leading to an improvement in margins from 12.7 per cent in FY15 to 22.7 per cent in FY19. It is planning to double the capacity of 2,4-D by adding 10,800 MTPA with capex of Rs 127 crore and it is expected to be operational by Q1FY21. With the Agrochemical's current capacity as well as the first phase of expansion, the company is targeting to achieve a revenue of approximately Rs 1,300 to 1,400 crore from this segment from FY21.

### Pigment segment

Meghmani Organics is amongst the top three global pigment manufacturers of Phthalocyanine-based pigments. It has verti-

cally integrated facilities manufacturing CPC Blue and end products — Pigment Green and Pigment Blue. These pigment products are used in multiple applications, including paints, plastics and printing inks. The pigment business enjoys a strong global presence with exports accounting for 82 per cent of net sales. India and China are the upcoming outperforming centres of the global organic pigments market. In India, the sale of pigment has grown at CAGR of 13-14 per cent, mainly driven by exports and strict regulatory compliance.

India is a leader in Phthalocyanine blue and green pigments. Meghmani Organics is one of the largest producers for Copper Phthalocyanine pigment and going forward, the company is looking to diversify by adding new pigments and focus on increasing its domestic presence. With the current capacity of pigments, the segment has a capability to generate revenue of Rs 650-700 crore from FY21.

### Basic chemicals – extensive expansion plans

Caustic Soda (NaOH), Chlorine & Soda Ash, which are collectively known as Chlor Alkali chemicals have application across industries like soap and detergent industry, paper and pulp, textiles, water treatment, plastic industry, industrial solvents, alumina, pharmaceuticals etc. Indian Chlor-Alkali industry is estimated to grow at a CAGR of 6.5 per cent during 2017-2022.

Under this segment, it has planned capex of Rs 640 crore involving three projects. The first is the CMS project of 40,000 MTPA, which will produce MDC, Chloroform and Carbon Tetra Chloride. It got commissioned in July 2019. The second project includes the expanding capacity of Caustic Soda plant to 2,71,600 MTPA and increase the Captive Power Plant capacity to 96MW from 60MW and is expected to get operational by Q4FY20. The third project is to set up a Hydrogen Peroxide capacity of 60,000 MTPA, which will also be commissioned by Q4FY20. The company expects that with the current capacity as well as the kind of expansion going on, it can reach at the full year utilisation of nearly Rs 1,400 crore.

The CMS plant is expected to generate revenue of Rs 80 crore as it got commissioned in July 2019. By FY21, revenue of Rs 160 crore is expected from this plant and Rs 150-160 crore from the hydrogen peroxide plant at full year utilization. The basic chem-

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DSJ Pvt. Ltd. : C - 105, Trade Center, North Main Road, Near Axis Bank, Opp. Lane no. 6, Koregaon Park, Pune - 411001 | For Customer Service : 020-49072626 OR service@dsji.in

Registered Office Address: 419-A, 4th Floor, Arun Chambers, Tardeo, Next to AC Market, Mumbai - 400034

CIN No. : CIN-U22120MH2003PTC139276 SEBI Research Analyst - INH000006396

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icals' segment is a major margin driver for the company and the expansion would further be a margin accretive to the company. Its EBITDA margin has jumped from 31.3 per cent in FY15 to 43.9 per cent in FY19.

### Financial Performance

Meghmani Organics' consolidated revenue for the quarter Q2FY20 came in at Rs 532.41 crore as against Rs 501.4 crore in the corresponding quarter last year, registering 6.2 per cent YoY increase. EBITDA for the quarter fell by 5.6 per cent YoY to Rs 110.26 crore, as against Rs 116.77 crore in the corresponding quarter last year, with a corresponding margin contraction of 258 bps. EBITDA margin for the quarter stood at 20.7 per cent. PAT for the quarter came in at Rs 97.49 crore as against Rs 61.76 crore in the corresponding quarter last year, with a YoY increase of 57.9 per cent. Looking at the H1FY20 numbers, the revenue jumped by 17 per cent to Rs 1,148.61 crore while, EBITDA rose by 2 per cent to Rs 245.36 crore. Further, the company reported a net profit of Rs 175.3 crore, up by 26 per cent YoY.

By the end of September 2019, the company's debt-equity ratio stood at 0.55x. The major capex planned by the company, would be funded through a mix of internal accrual and debt. The company is in a comfortable position to pay off the debt led by healthy margin and positive cash generation. The company has been paying consistent dividend to its shareholders with a healthy dividend payout of 18.3 per cent.

### Valuation

The company is trading at TTM P/E of 5.8x with TTM EPS of Rs 10.77. In FY19, it delivered ROE and ROCE of 31.5 per cent and 32 per cent, respectively. The extensive expansion plans are set to boost the company's top-line and profitability from FY21 onwards. The revenue and margins have been on a rising trend over the last two to three years. Its product mix is healthy and the balance sheet is getting stronger over the years. Considering a healthy financial performance and attractive valuation, we see a potential upside of 30 per cent, with a target price of Rs 81 for a period of one year.

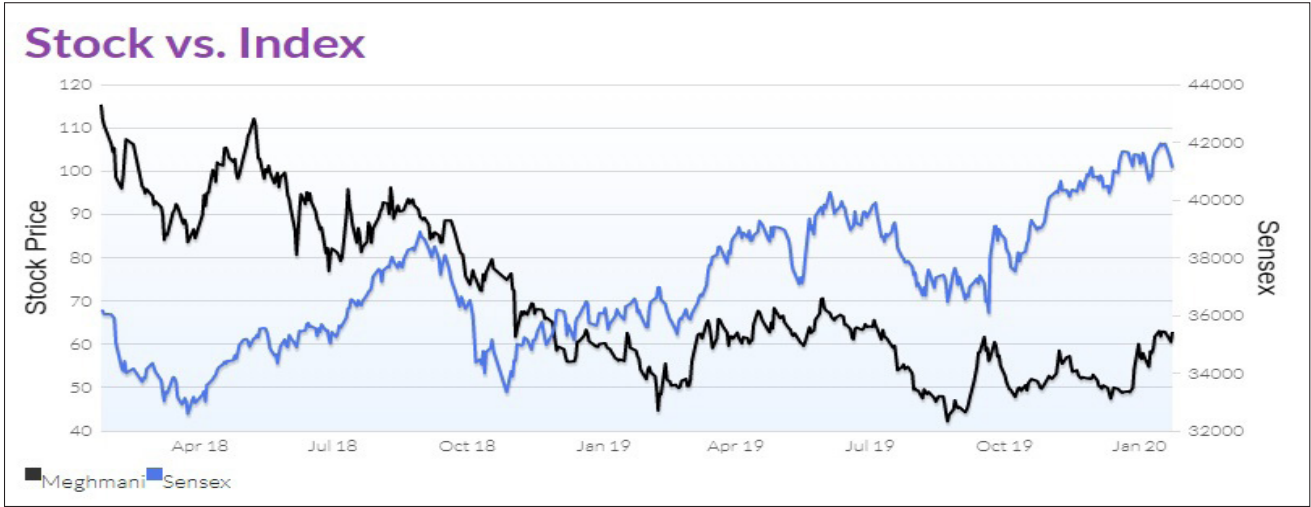
### Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201903	201803	201703	201603	201503
Net Sales	2087.96	1803.32	1419.59	1332.17	1294.21
Total Income	2125.35	1833.65	1432.01	1357.64	1313.91
Total Expenditure	1543.48	1372.17	1130.82	1071.37	1104.38
PBIDT	581.87	461.48	301.18	286.27	209.53
PAT	295.37	237.93	116.21	111.28	45.98
Dividend %	100.00	40.00	40.00	30.00	40.00
Adj. EPS(Rs)	9.88	6.74	3.45	3.24	1.73

### Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201909	201906	Q on Q Var%	201809	Y on Y Var%
Net Sales	532.41	616.20	-13.60	501.40	6.18
Total Expenditure	422.15	481.10	-12.25	384.62	9.76
PBIDT (Excl OI)	110.26	135.10	-18.38	116.79	-5.59
PAT	97.49	77.81	25.30	61.76	57.86
PBIDTM% (Excl OI)	20.71	21.92	-5.52	23.29	-11.08
PBIDTM%	24.07	22.54	6.79	26.71	-9.88
PATM%	18.31	12.63	44.97	12.32	48.62
Adj. EPS(Rs)	3.32	2.24	48.21	2.16	53.70

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