MEGHMANI

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Moderator: Good Afternoon, Ladies and Gentlemen. I'm Rutuja, Moderator for this conference. Welcome to the Q1FY22 Earnings Conference call of Meghmani Organics Limited organized by Dickenson World. At this moment, all participants are in listen-only mode. Later, we will conduct a question-and-answer session. At that time, if you have a question please press * and 1 on your telephone keypad. Please note this conference is being recorded. I would now like to hand the floor over to Mr. Hiral Keniya. Thank you and over to you, Sir.

Thank you, Rituja. Good afternoon everyone. I welcome you all to the earnings call of Meghmani Organics Limited for Q1 FY22. Today, we have with us the management represented by Mr. Ankit Patel, Chief Executive Officer; Mr. Gurjant Singh Chahal, Chief Financial Officer; and Mr. Bharat Modi, Investor Relations Advisor. Before we get started, I would like to remind you that the remarks today might include forward-looking statements and actual results may differ materially from those contemplated by forward-looking statements. Any statements we make on this call today based on our assumptions9 Tm ... 38 39 Tm

On the balance sheet side, Meghmani Organics cash and liquid investments stood at around Rs. 105 crores as on June 30, 2021. The Company continues to maintain its low debt stance resulting in a comfortable debt to equity ratio of nearly 0.22 as on June 30, 2021. Meghmani Organics return ratios like ROCE and ROE remains robust at 19.6% and 22.7%, respectively as on June 30, 2021.

Looking at our segment performance, our agrochemicals business delivered revenue growth of nearly 74% and reached at nearly Rs. 321 crore mainly driven by the strong performance in the exports market. Our export sales for the quarter surged by 86% and reached at Rs. 258 crore, contributing to 81% of our agrochemical sales and 19% by the domestic sales. EBITDA for the quarter increased by 67% YoY and reached at Rs. 70 crore while our EBITDA margin stood at 21.9% in this quarter. Our agrochemicals division's capacity utilization stood at nearly 75% in the Q1 FY22 vis-à-vis 54% in the Q1 last financial year. I am delighted to share with you that our recently enhanced 2-4, D acid capacities are currently functioning at over 70%.

Our pigment business delivered revenue growth of nearly 60% YoY at Rs. 175 crores, thanks to improvement in the realization during the Q1 of FY22. Our sales volume for the quarter grew by 46% to nearly 4,000 tons while our EBITDA stood at Rs. 26.4 crore with a margin of 15.1%. In the pigment division, export contributed nearly 86% of the top line and the balance is by the domestic sales. Our utilization stood at 83% in the Q1 FY22 compared to 57% in Q1 of last financial year.

During FY21, we have achieved a top line of nearly 1,623 crore and we aim to double our revenue by FY24 fueled by our CAPEX plan. The agrochemicals ongoing CAPEX of nearly Rs. 310 crore is progressing as per plan. It is expected to be completed by Q2 of FY 23. It will additionally contribute revenue of nearly Rs. 600 crore on the full year operation basis. In the case of pigment, we are exploring opportunity to enter into new variants of the pigments beyond the phthalocyanines pigment, blue and green. A concrete development towards the same would be shared with you all at the appropriate time. Additionally, we have been consistently raising our dividend payouts for the past few years. Despite substantial capital expenditure commitment and needing substantial financial resources to support our growth plans, we are committed to a sound and sustainable dividend distribution policy of maintaining around 17% to 20% of our PAT as dividend payout to our shareholders. India's chemical industry is at the inflection point. Meghmani organics looks forward to tap these growth opportunities by being committed to maximize its return on investment. We are committed to create value for our esteem stakeholders. With this, we would be happy to take any questions that you may have. Thank you.

Thank you very much. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from the line of Nikhil Lakhotia from Equinordic Systems. Please go ahead.

Firstly, congratulations on a good set of numbers. I just wanted to know a couple of things, one is if you could tell if in terms of raw material cost pressures, are you facing any in terms of margin pressures from the raw material side and about your CAPEX plan as well as everything on track?

Thank you for your question. Definitely, compared to last year, due to COVID the crude went down as well as the demand was less and because of that majority of the raw materials prices were very low, but in last six to eight months' time, globally the situation has improved a lot and raw material prices based on the crude or not based on the crude, they have started going up drastically. At the same time, the logistic cost has also increased a lot globally, that is also impacting the raw material input cost. We are trying to pass on the same to our customer, but normally there is a lag of nearly one quarter, but you can see that despite there is an increase in the raw material cost, we are trying to maintain the EBITDA margin at a reasonable level. Now, regarding the CAPEX plan, yes in the agrochemical division, the Rs. 310 crore multipurpose plant which we are building in Dahej, that is going as per our plan and we expect to complete the same in the second quarter of the next financial year, so we will have nearly half the year of operation in the next financial year from the same plant and we will have the full operation in the subsequent year.

Thank you. The next question is from the line of Parth Kotak from Alpha Plus Capital. Please go ahead.

Thanks for the brief introduction that you have given and hopefully everyone from your team is keeping safe in such uncertain times, so I think I am talking to you after quite a long time, so your previous target I remember you would have given Rs. 1,000 crores per revenue stream when we were not a demerged entity and by and large I think we are very close to achieving in a lot of segments and I think you have given in your presentation that your FY24 targets would be Rs. 2,000 crores in agrochem and Rs. 1,000 crores for pigments, so I would also like to ask, are you aiming for any other products, are you planning to launch new products in any of the segments?

Thank you for your question. First of all, yes, we are safe and healthy, everyone at Meghmani, all of our staff members are safe in the current situation and regarding the growth plan in both the division, as we have mentioned by FY24, we aim to double our revenue for the agrochemicals from Rs. 1,000 crore to Rs. 2,000 crore and in the pigment from nearly Rs. 650 crore to Rs. 1,000 crores, so for that yes we will be bringing in the new products in both the divisions because currently there is a lot of focus going on for the new chemistry. In the agrochemical division, we are doing the CAPEX of Rs. 310 crore under which we are bringing in some of the new products as well as the intermediates of the same because our policy is always to be the backward integrated company. We do not like to be dependent on some other country or some other supplier, so Rs. 310-crore expansion project will have some of the new products. We will be announcing the name of the products when we will be commissioning the plant. From the business point of view, we would like to keep it a little bit confidential for the time being but at the right time, we will be revealing the name of the products, which we are going to produce. In the pigment division also, the plan for the CAPEX is going on and we will be announcing at the right time I think in the next two months' time probably. It is going to be completely different pigment apart from pigment green and pigment blue.

A follow up question on that front would be then, so as you have mentioned backward integration, so should we look at margin expansion from your end and what is your target in terms of margin that you are looking at?

For the current products which we are making, we are already backward integrated, so for the current product it will not help, but from the future products which we are going to bring in to have the long-term growth plan and to have a sustainable growth plan, it is always better to have the backward integration, otherwise, your customer they do not see Meghmani as a reliable and regular sustainable supplier, so it is always our strategy and the strength that we always go for the backward integration, so there may not be much appreciation in the EBITDA margin, but we have mentioned that typically in the agrochemical industry average EBITDA margin varies from 16% to 19%. We would always like to be above the industry average. Same for the pigment typically the EBITDA margin varies in the range of 13% to 15% and we would like to be above the industry average in the same division also.

Thank you. The next question is from the line of Amrita Maloo from Dhunseri Investments Limited. Please go ahead.

Sir, wanted to know that this time monsoon has been delayed, that is what we are hearing, so like first quarter we did fantastic, our second quarter came in so the momentum is similar, I think vis-à-vis last year it should be very good?

Compared to last year it should be good, but definitely you are correct that this year monsoon in India is a bit erratic, in certain parts it has been excess, in certain parts like Gujarat it is very much less and excess rain also does not help and less rain also does not help, it has to be optimum rain, but this year is going to be a challenging year, but as you know in the case of Meghmani, we have more focus of export so we will not be much impacted by the domestic season though we are growing in the domestic market as well, we see there will not be much impact.

How much sales are from within India?

Approximately about 17% to 20% of our current agrochemical revenue comes from the Indian market.

What are the other markets?

In the export, it is quite fragmented. We export to more than 70 countries globally in different continents, so it is very well diversified. We are not just dependent on one continent or one country.

Fair enough, and when do you think that we will be debt free?

As you know, we are growing very fast and we will keep on expanding even after the kind of CAPEX what we are doing, but in our guidelines we have mentioned that with our current growth which we are projecting, we will try to maintain the debt to equity ratio in the range of nearly 0.5.

Thank you. The next question is from the line of Dhwanil Shah from I-Wealth Management Private Limited. Please go ahead.

Sir, Good Afternoon and thank you for the opportunity, couple of questions, first was on we have been reading that the freight cost internationally have been going up and there are a lot of container issues, so as we have 85%-90% exports, so for us how are we seeing it and going ahead in terms of margins, if you can just help us understand how much impact it will be having on us?

Definitely yes, as every one knows globally the freight is being erratic since the last three-four months and it is not expected to be normal in the next six to eight months' time for sure, and that is impacting the global trade drastically. There has been a lot of issues of shipping line getting blocked in China because of the COVID and everything, but we are in day-to-day touch with all of our customers and everyone is aware that the situation which is going on is not just from India or from one customer, but it is the global situation. So everyone is understanding now and supporting each other, so for the time being there may be little impact on the margins, but in the long run, I think that effect will be taken care of.

Just to understand in terms of how much the cost have gone up, so maybe say four-five months before what was the cost and what is the cost now and vis-à-vis in terms of margin ballpark range, what kind of dip you are seeing because of that?

The logistic cost used to be in the range of about 3% to 3.5% normally, it has reached nearly 5% now for us.

So, 1%-1.5% is this margin impact we have?

Correct, in absolute value, we try to pass on to the customer, but when it comes to the percentage, yes, there will be little impact.

Due to this, are we seeing any delays happening in terms of our overall fields, which we planned say for the quarter because of the non-availability of the container or there is availability?

The situation started tightening since last nearly four-five months, so we knew that it is not going to improve very soon and for us export is substantial. Our logistic team is relatively strong and we keep track and we book the containers in advance so that our trade business does not get impacted much.

Sir, my last question was on the other income, which we have seen in the last two quarters. There has been this OCRPS which was issued to us that we are because of new accounting system, we are putting a fair value into the P&L, so what is this going ahead, how will we be impacted because of this, I did not understand the Rs. 9-10 crores which have come due to that?

In other income, there are majorly two items, one is mark-to-market Forex currency gain, so in this quarter roughly Rs. 12 crore and around Rs. 9.75 crore is the OCRPS fair value impact. So as you are aware that there is the scheme of arrangement, which has been approved by NCLT on 3rd May, so in that case that OCRPS has been converted into RPS, into redeemable preference shares, so which comes as a debt category, so that amount is freezed now at Rs. 210.91 Crore, so whatever is the value as on March 31, 2021, which was roughly 202 crore so that difference has been accounted as a book gain, so there will not be any real gain as of now on that and no tax applicable, but this is a book entry which has come as a gain and it has restated at the real value of the RPS.

In our balance sheet we will be showing this under the other current asset, Rs. 210 crores?

Other non-current assets.

We would be getting anything in this say interest or dividend?

We are accruing on that actually because it is RPS now and on a quarterly basis, we are accruing 8% on that.

Will it be diluted in future, it is convertible into equity, so it will be preference only?

No, it is now redeemable preference share, it is not a convertible.

So, it will not be converted into equity?

No.

It will be RPS only?

Yes.

Thank you. The next question is from the line of Viral Shah from Enam Holdings. Please go ahead.

Thank you for the opportunity, in the opening comments you said that raw material prices are seeing increases, so can you highlight which raw materials are seeing price increases and what is the extent of price increases that you would have seen in the last three to four months?

There are various raw materials, which has been increased a lot. If I give the example from our basket, phenol is one of the key raw materials for us, the prices have gone up drastically globally. It has reached nearly Rs. 115 now, which used to be below Rs. 100. Same way monochloro acetic acid is also one of the key raw materials because acetic acid prices have gone up drastically globally and that has driven the price of monochloroacetic acid has gone up. Acrylonitrile, which is related to crude and no one makes in India, currently, it is 100% imported, so the price of acrylonitirile has drastically increased. In the pigment division, cuprous chloride is a key raw material and cuprous chloride is based on copper metal. As you know, the copper prices have increased substantially globally and that is driving the key raw material price up. We also have industrial urea as one of the raw material and price of the industrial urea has also increased a lot, so there are many more such raw materials which has increased, and time to time we always try to pass it on to our customers, but normally it takes time, there is a gap of nearly one quarter, so let us hope that we try to maintain our margin on the overall basis.

Sir, how much price increase would you have already taken, how much more would we remaining to take?

Depending on the products, because it depends on the demand supply also because the raw material which we use has got various use, so in the other industry because of the demand the prices remain going up, but in our industry whether there is a demand or whether there is less demand, the raw material price will keep on increasing, so we need to see the trend. There has to be the demand at the same time in our product range also. If there is a demand definitely we will be able to pass on to our customer, but if there is less demand there will be pressure on us to absorb the raw material price increase, so as of now till today we are able to pass it on to our customers, but we do not know how if it goes further up, it will be very difficult to pass it on to the customers.

Just one question on the pigment division, I think earlier we were targeting to have some revenues of Rs. 1,200 crores by FY24 which seems to be scaled down to Rs. 1,000 crores, so any particular reason. Is it that the current demand situation is not conducive or is there some change in plans, could you just throw some highlight on that?

Definitely in the pigment division, we were planning to there is a bit delay in the project where we are working on it. It is a different project, different pigment, and I think in the next two months' time, we will be making the announcement and because of the delay we have reduced from Rs. 1,200 crore to Rs. 1,000 crore.

Thank you. The next question is from the line of Shravan Kumar, an Individual Investor. Please go ahead.

Sir, congratulations on a good set of numbers, so I have been a long term investor in this Meghmani, just wanted to know what are various steps you been take in future to be minority shareholder friendly?

Thank you very much, to be minority shareholder friendly as we have mentioned in our presentation, there are various points like dividend. Initially, there was a demand from the investor that we need to increase our dividend payout, so now we have mentioned that as we are growing, our profit is also increasing, at the same time we are doing a lot of CAPEX. Despite all these things going on, we will try to maintain the dividend payout in the range of about 17% to 20% of our PAT, so that is one of the key factors.

Before you were guiding that Meghmani Finechem is a commodity business and that is why you want to keep it separate, so after this demerger the market seems to be giving more valuation to this Meghmani Finechem and giving less valuation to this Meghmani Organics, so why is it so?

In the market, perceptions change with time. The fact still does not change, the question here is that Meghmani Finechem has a majority, revenue coming from caustic chlorine which is again a commodity, of course we have been diversifying into as a gross plant into other derivatives, which has a higher EBITDA margin, so the market is trying to really see those kinds of a thing, this is what we feel that okay market is in a current run up of trying to appreciate that part. Whereas, if you really see in compare with our business, we have a more stable business and our balance sheet is much stronger. If you see our resource, the accumulative resource as well and the amount of a debt that we are having as a component to fund is also has been very well within the limits. We have an advantage of a natural hedge where we have local debt available, so even for an expansion, even if we raise the debt, that would be costing us not more than about 2.5% to 3%, so these are all the plus points that we can say about it, but eventually it is a market which always would like to have their own perception, what to value and what time and what not to value and value for other time. So we feel that okay we are well placed, our balance sheet is strong enough, our growth plans are on track, so in a time to come, we will definitely cover it up.

Sir apart from this near term two years CAPEX plan what are our long term five year plan, any ambitious project we want to go into?

Definitely yes, so far from the investors' points of view we have made the growth plans up to FY 24. At the same time, the management is also working on a further future growth plan. At the right appropriate time, we will be making the announcement.

Thank you. The next question is from the line of Urmi Jain from Sequent Investment. Please go ahead.

Thank you so much for the opportunity Sir, my first question is can you please highlight the new pigment market size?

At this juncture, it would be difficult to make some announcement for the new pigment, but I can only say the current pigment where we are, the CAPEX is a little less and because of the low CAPEX, there is competition from the unorganized players and that remains very difficult for the regulated players like us. So, now the pigment which we are looking into that is going to be a little high-end technology-oriented pigment. It is going to be the import substitute, there is a lot of import happening for this product, so we will be focusing on the domestic market for this pigment and I think in next two months' time, we will be making the proper announcement with a detailed project report.

Sir, would you be taking more debt for this project?

Yes, it may require little debt but as we have mentioned, our current debt to equity ratio is nearly in the range of 0.22 and with the growth plans in place, we will always try to maintain the debt to equity below 0.5.

Thank you. The next question is from the line of Rashmi Shah from Akash Ganga Investments Private Limited. Please go ahead.

Could you just mention the export figures for Q1 FY22 and the corresponding quarter for both the segments, pigment and agrochemical?

For the agrochemical export in the Q1 was nearly Rs. 258 crore and for the pigment it was in the range of nearly Rs. 150 crore.

Sir, the percentage mentioned in the presentation is the growth percentage, right?

Yes, we have also mentioned the amount, export percentage we have mentioned.

Thank you. The next question is from the line of Deep Singh, an Individual investor. Please go ahead.

I have a straight question for you, you have got very good growth prospects and you have revenue of Rs. 2,000 crore and Rs. 1,000 crore in agrochem and pigments, but unfortunately, I have been tracking you know for the last three-four years, no domestic institutional investor or FIIs holding in your company and every time the issue comes up is related to corporate governance. Now yours is the second generation into it, so how do you think this will get addressed because the real what the stock demands in the market will never come, so could you just elaborate on this?

Thank you very much Sir, yes you are correct, I think in the past we were not very much focused on the IR activity. We started putting focus since last nearly two-three years, and from the corporate governance point of view, we made an announcement with our Chairman during the investor open meeting at Mumbai .We are sure that in the future we will ensure that the minority stakeholders interests will always be given the top priority and there will be good corporate governance. There will not be any issue, no matter what kind of mistakes we have made in the past, that was the Chairman's statement and we will remain the growth oriented company in all of our divisions. We are taking almost all the care from the future perspective and we hope that the market and investors should show some interest in our growth in the future and our stock price should be in the good range like other companies in the coming days' time.

Thank you. The next question is from the line of Ankit Kapoor, an Individual Investor. Please go ahead.

Sir, first of all, congratulations for the fantastic results. I have two questions, one is related to the pigment division, I would like to ask that what future plans do we have, like are we going for inorganic growth in pigment division or are we looking for very organic growth like some kind of capacity expansion?

We are keeping the options open. It can be organic growth, it can be inorganic growth and from the pigment division as I mentioned that at the right time, we will be making the announcement for the growth, I am sorry at this juncture I will not be able to give you more details.

My second question is that from the point of view of the individual retail investor, for past three months the company shares were not traded on the exchange, so the kind of bull run we have witnessed in the market like each and every company share were touching at fifty-two weeks high, so do not you think we deserve a special dividend other than that annual dividend we deserve a special dividend for the individual investor?

I think your suggestion we will take it to the Board, but as you know that at the same time, we are doing a lot of CAPEX. We are in the growth plan, so but we will take your advice and we will take it to the Board.

Thank you Sir. There are no further questions, now I hand over the floor to Mr. Ankit Patel for closing comments.

Thank you everyone for joining us on the con call. The Company is on a strong growth trajectory coupled with a healthy balance sheet position. Meghmani Organics management is confident to create a sustainable value for all the stakeholders and I wish you all a great evening. We can now conclude the call. Thank you very much, stay safe, stay healthy.

Thank you. On behalf of Meghmani Organics Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.