Short note on Meghmani Organics Limited
Market Capitalization:- 2937 Crore / PE 9.8 / Book Value 57.6 / EV 3425 Crores / ROCE 24.2% / ROE 22.7%
Date: - 13/5/2022

About the Company

The Meghmani group was established in 1986 M/s Gujarat Industries, the company was incorporated in 1995 as Meghmani Organics Limited. The business was promoted by Mr Jayanti Patel, Mr Ashish Soparkar, Mr Natwarlal Patel, Mr Ramesh Patel, and Mr Anand Patel. The company manufactures Pigments and Agrochemicals (technical, intermediates, and formulation of Crop Protection Chemicals) through its 6 manufacturing facilities located in Gujarat. The company is amongst the top 3 Phthalocyanine based pigment players in the world and amongst the top 10 producers of pesticides in India. The group manufactures green and blue (Phthalocyanine Green 7, Copper Phthalocyanine Blue (CPC), Alpha Blue, Beta Blue) pigment products, which are used to manufacture printing ink, plastic, paints, textiles, leather, and rubber. It also manufactures a wide variety of commonly used pesticides for crop and non-crop applications. The latter includes insect control in wood preservation and food grain storage.

In fiscal 2019, MOL gave an exit to the external investor – International Finance Corporation (IFC) by buying back IFC's 25% stake in MFL for Rs 221.7 crore. As part of this transaction, MOL infused funds in its fully owned subsidiary - Meghmani Agrochemicals Private Limited (MAPL) which in turn was used to buy IFC's stake. Subsequently, MOL merged MAPL with MFL. As part of the merger transaction, MFL redeemed the non-convertible compulsorily redeemable preference shares (NCRPS) of MAPL amounting to Rs 221.7 crore using its internal cash accruals. MFL also issued optionally convertible redeemable preference shares (OCRPS) of Rs 210.9 crore to MOL. The company plans to double its revenue by 2025.

The company currently holds 140 registrations worldwide and have 400 registrations pending in 70 countries around the world. MOL is in pigment business as almost all industrial sectors need pigments, with printing ink, paints, lacquers and plastics being the growth markets. More and more manufacturers use new colors and visual effects for their packaging and advertising material. In addition, sectors such as cosmetics, paper, textile, building material, ceramics, and glass make great demands on pigments to add more brilliance to their products. The textile industry increasingly substitutes pigments for dyes

Demerger

Meghmani Organics had demerged its agrochemical and pigment divisions into a separate subsidiary, Meghmani Organochem Ltd and transferred other businesses of MOL (chloro-alkali and its derivatives business) to Meghmani Fineche Ltd. Eventually, Meghmani Organochem Ltd was renamed as Meghmani Organics Ltd. As per the composite scheme, shareholders of the Meghmani Organochem received shares in the ratio of 1:1; and shareholders of MFL received 94 shares of ₹10 each for every 1,000 shares (₹1) held in Meghmani Organics.

Meghmani Organics Limited

	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	YOY FY 22	Cagr
Sales											
Agro Chemicals	411	456	482	523	657	790	973	1045	1738	66.32%	19.75%
Pigments	402	432	502	558	595	605	641	578	756	30.80%	8.21%
PBT											
Agro Chemicals	28	40	43	32	85	152	183	215	350	62.79%	37.12%
Pigments	20	26	54	70	76	69	85	86	60	-30.23%	14.72%
Capital Employed											
Agro Chemicals	304	290	297	287	265	348	455	614	789	28.50%	12.66%
Pigments	235	281	300	362	350	344	374	386	505	30.83%	10.03%
Segmented ROCE											
Agro Chemicals	**9.21%**	**13.79%**	**14.48%**	**11.15%**	**32.08%**	**43.68%**	**40.22%**	**35.02%**	**44.36%**		
Pigments	**8.51%**	**9.25%**	**18.00%**	**19.34%**	**21.71%**	**20.06%**	**22.73%**	**22.28%**	**11.88%**		

MOL has grown its sales from 411 Crores in 2014 to 1738 in 2022 at a CAGR growth rate of 19.75%. The pigments segment has had sales growth from 402 crores to 756 crores at around 8%. The company mainly has 2 segments Agro Chemicals and Pigments.

In the Agro division company mainly produces organophosphate, insecticide, neonicotinoid insecticide and pyrethroid insecticide and newly added capacity for 2,4D phenoxy herbicides.

In the pigment division company the Company specializes in the manufacture of Green and Blue pigment products that span multiple applications such as printing inks, plastics, paints, textiles, leather and rubber. Its pigment customers comprise mainly MNCs who are leading players in their respective industries. The area for focus / growth is white pigment Titanium Di Oxide. The company has acquired a sick unit from NCLT of Kilburn Chemicals Limited which had an non operative capacity of 165000 tons per annum. Meghmani Group plans to re start the capacity and slowly double it to 33000 tpa in due course.

(INR Crores/10 Millions)			MEGHMANI ORGANICS LTD(MERGED)								Dec-20
Narration	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Last 4 Quarters
Year Numbers	1	2	3	4	5	6	7	8	9	10	
Sales	1,045	1,062	1,058	1,178	1,294	1,332	1,420	1,800	2,088	2,191	2,232
Sales YoY%		1.64%	-0.35%	11.32%	9.83%	2.93%	6.56%	26.77%	16.02%	4.95%	1.85%
coped from screener	1.07%	12.98%	11.67%	11.44%	12.43%	0.70%	0.67%	0.91%	0.68%	0.43%	
Gross Profit	1,033.91	924.36	934.96	1,043.53	1,133.34	1,322.85	1,410.08	1,783.23	2,073.66	2,181.76	512
GP Margin	38%	33%	39%	32%	45%	42%	53%	49%	40%	50%	23%
Operating Profit	149	159	186	196	219	269	288	434	548	436	512
		6.44%	17.04%	5.36%	12.19%	22.74%	7.05%	50.67%	26.21%	-20.56%	17.56%
Operating Profit Margin (OPM%)	14%	15%	18%	17%	17%	20%	20%	24%	26%	20%	23%
Other Income	7.78	12.19	12.05	5.92	(10.09)	16.96	9.08	25.97	13.55	54.65	41.92
EBIT	88	96	123	121	135	210	207	366	465	402	442
EBIT Margin%	8.43%	9.05%	11.58%	10.29%	10.40%	15.73%	14.56%	20.31%	22.25%	18.33%	19.81%
EBIT YoY %		9.06%	27.48%	-1.06%	10.99%	55.67%	-1.37%	76.90%	27.07%	-13.55%	10.09%
Interest	54	74	64	68	75	63	51	40	56	42.57	61
Depreciation	69	75	75	80	75	77	91	95	97	89	112
Profit before tax (PBT)	34	23	58	54	60	146	156	326	409	359.04	381.18
PBT Margin(PBT%)	3.26%	2.13%	5.50%	4.55%	4.63%	10.99%	10.97%	18.10%	19.57%	16.39%	17.08%
Tax	4.32	19.11	29.93	18.19	13.99	35.12	39.56	87.79	113.19	70.02	105.37
Tax%	13%	84%	51%	34%	23%	24%	25%	27%	28%	20%	28%
Net profit after tax (PAT)	38.00	3.48	17.22	22.80	43.89	82.50	87.70	171.32	251.27	240.15	241
PAT YoY%		-90.84%	394.83%	32.40%	92.50%	87.97%	6.30%	95.35%	46.67%	-4.43%	0.34%
Net Profit Margin (NPM%)	4%	0%	2%	2%	3%	6%	6%	10%	12%	11%	11%
Total Debt (D)	715	763	717	754	644	578	461	386	716	790	790

Meghmani group has an established market position in its principal business segments: pigments and agrochemicals. It is the largest producer of copper phthalocyanine (CPC) blue and is among the top 3 pigment blue players globally. The group is among the largest manufacturer of pesticides in India having presence across the value chain in both technical and formulations. The group has more than 30 brands of various pesticides formulations in India. MOL has also now announced capex for setting up a plant for manufacturing TiO2 which is a white pigment primarily used in paints and coatings industry. With the upcoming / commissioning of the multi-purpose plant (MPP), Agro Chemicals division products portfolio will improve further. There is a large demand supply gap in India due to limited number of players. The company has integrated backwards into manufacturing CPC blue, resulting in considerable savings. In its agrochemicals business, the group has facilities for manufacturing cypermethric acid chloride, meta phenoxy benzaldehyde and meta phenoxy benzyl alcohol, which are key intermediates in crop-protection products, thus reducing reliance on import. Once the MPP plant is commissioned, the company will also have capability to manufacture more technical's.

The company (Presplit including Meghmani Finechem and Meghmani Organics) has been able to compound its topline at 8.5% cagr till 2020. The operating margins of the business were from 15 – 17% till 2015 which improves to 20% in 2017-18 with further improvement to 26% in 2019.

The company has large working capital requirements (pressure on working capital management as the group has to provide credit of 3-4 months to overseas clients, resulting in large receivables) as its key businesses are seasonal. A large proportion of agrochemical sales in the domestic market and pigment sales in the overseas market are made in the second and fourth quarters.

Agrochemicals: - The Company produces commonly used pesticides for crop and non-crop applications (**organophosphate** {10% of Agro Revenue}**, insecticide, neonicotinoid** {less than 5% of Agro Revenue}**insecticide and pyrethroid insecticide and 2,4D phenoxy herbicides** {20% of Agro Revenue} {Capacity of 2,4D 22000 tons per annum with utilization 75%} {Pricing 3$ - 4$}**.** Max focus is on the Pyrethroid insecticide as its much safer than other insecticides, {2/3 of agrochemical revenue is from Pyrethroid insecticide}) such as public health, insect control in wood preservation and food grain storage. The production processes of the Company's Agro businesses are vertically integrated. They also manufacture Pesticides Intermediates which are used in the

manufacture of Pesticides Formulations. Such vertical integration allows them to effectively manage their raw materials costs and assures a constant supply of such raw materials at a consistent quality and consequently, has reduced our reliance on third party suppliers for such raw materials. Besides international Agrochemical producers, there are competitors in India having similar products as our Company. We compete against our competitors on our quality, technical competence, distribution channels, logistics facilities, after sales service and customer relationships. Q2 has been always season for Agro division. Agrochemicals is a regulated business, so it is not just the manufacturing and selling of the product at the same time the need for registration of this various product into different markets is also required, the good thing about the registration is that the company is already with the registration process. They are doing it parallelly for all the products which we are going to manufacture. The Company's Agrochemical manufacturing facilities are situated at Plot No. 402,403,404,452 & 455, Village Chharodi, Taluka Sanand District: - Ahmedabad and at Plot No. 5001/B, GIDC Ankleshwar.

The enhanced 2-4, D acid capacity utilization levels.

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%.

(Source: Q1Fy21-22 Concall)

Pigments: - Asia has the highest rate on a quantity basis followed by Europe and North America. Demand and production of pigments are continually shifting from the USA, Western Europe and Japan to the emerging markets of Asia, especially China and India. This is mainly because of lower wages. Within emerging countries, especially India and China, themselves, domestic demand for consumer products containing pigments is growing. While a few large suppliers of pigments dominate the relatively saturated markets of industrialized countries, Asian markets remain fragmented. The company is backward integrated in CPC Blue.

The companies segment the Agrochemicals division and the Pigments division were not hampered during the lock downs imposition as their products came in the essential category. The recently added capacities in the 2,4 D (herbicide) product line helped them improve their topline by 45% but their operating margins cooled off by 570 bps as they were not able to fully pass on the increasing cost pressures of logistics and also the steep rise in raw material costs in the pigment division. India import more than 200,000 tons of Titanium dioxide approximately.

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

(Source: Q1Fy21-22 Concall)

The re-affirmation factors in the healthy business and financial risk profile of MOL which is expected to sustain over the medium term. As most of the company's products were in the essential category, its operations were not hampered by the second wave of the pandemic. Both the agrochemical and pigments division witnessed healthy capacity utilization levels which coupled with contribution from the recently added capacities in the 2,4 D (herbicide) product line resulted in the company recording revenues of Rs. 1,046 crore during the first half of fiscal 2022; a year on year growth of ~45%. Operating margins for the first half of this fiscal however declined to ~16% compared to 21.7% recorded during the corresponding period previous fiscal owing to sharp increase in raw material prices and logistics costs which could not be fully passed on to the customers especially in the pigments division. CRISIL Ratings expect the revenue growth momentum to continue into the second half of this fiscal resulting in healthy double digit growth for the full year while maintaining operating margins at 16-18%.

Revenue growth momentum is expected to sustain over the medium term as well driven by commissioning of a multi-purpose plant (MPP) in fiscal 2023 and a new product line for Titanium Di-Oxide (TiO2) in the pigments division by fiscal 2024. Estimated cost for these projects stands at around Rs. 700 crore (~Rs. 310 crore for MPP project and ~Rs. 400 crore for TiO2 project) expected to be funded in debt equity ratio of 1:1. Work on the MPP plant has already started and is expected to be commissioned by first quarter of fiscal 2023. This plant with a revenue potential of around Rs 600 crore per annum would help the agrochemical division cross revenues of

Rs. 2,000 crore over the next 2.5-3 years. The expansion announced for the TiO2 plant is likely to be commissioned by fiscal 2024 and will also add significant scale to the pigments division. Operating margins are expected to remain healthy in the range of 16-18% over the medium term driven by higher operating leverage and integrated nature of operations. Strong realizations and stable input prices had resulted in operating margin reaching historical highs of over 19% in fiscal 2021. Fresh loans availed for the expansion projects are expected to have 1-2 years of principal moratorium. Company has a strong track record of successfully commissioning large expansion projects earlier, commercialization and ramp up of the new capacities.

(Source: Dec 2021 Credit Rating)

Agro Chemicals Division = 64% of revenue (management guidance for 2000 Crore revenue by 2024)

Source for management guidance: Q2Concall FY 21-22

The demand for agrochemicals is driven by agricultural production, which depends on monsoon. A substantial area under cultivation in India is still not well irrigated, and depends on the monsoon to meet water requirement. Surplus or inadequate rainfall could affect the Meghmani group's domestic revenue and profitability. The agrochemicals industry is regulated by specific and separate registration processes in different countries. Changes in the export and import policy of these countries will affect Indian agrochemical exporting business. Ban on any key molecules is a key risk. The MPP plant has a revenue potential of Rs 600 Crores which is an net fixed asset turns of 2 times. In the agrochemical division, the company plans to bring some new products as well as the intermediates of the same because of their policy is always to be the backward integrated company in order to reduce their dependence on others for their raw materials. Current the products which they are making are already backward integrated. So for the current product this backward integration it will not help. For the future products which the management plans to bring in which would have a long-term growth plan. In order to have a sustainable growth plan, it is always better to have the backward integration,(low dependence on China, 65% of revenue is not dependent on China, yes for certain raw material we are dependent on China) otherwise the customer they do not see the business (Meghmani group) as a reliable and regular sustainable supplier. As per the management there might not be much appreciation in the EBITDA margin, but a crude estimate in the agrochemical industry average EBITDA margin varies from 16% to 19%. MOL has better margins than the industry. 85% of Agro division revenue has backward integration.

Pigment Division: - 36% of revenues (management guidance for 1000 Crore revenue by 2024)

Source for management guidance: Q2Concall FY 21-22

With the acquisition of Kilburn Chemicals Limited (KCL) under NCLT for a consideration of ~Rs 132 crore. KCL was referred to NCLT by its lenders post default on bank debt and was under debt resolution. With this acquisition, MOL will have access to readymade plant for manufacturing Titanium Dioxide (TiO2) for which MOL had already outlined a capex plan of ~Rs 400 crore. This acquisition will be a part of the overall planned capex and total spend is not expected to exceed Rs 400 crore and hence is not expected to impact MOLs financial risk profile. KCL currently has a TiO2 manufacturing capacity of 16500 tonne per annum (tons per annum) at Dahej which is not operational. The company plans to first operationalize this plant and subsequently ramp up capacity to 33000 tons per annum by fiscal 2024. Average margins for the pigment typically the EBITDA margin varies in the range of 13% to 15%. Key raw material are phthalic anhydride, urea, cuprous chloride, aluminium chlorides. copper sulfate. Pigment is not a regulated business (phthalocyanine pigment, azo pigment).

Entry in TiO2 to be an import substitute for Indian Business

Meghmani Organics has strengthened its value-added proposition of its pigments division, which is entry into white pigment titanium dioxide. The Company's foray into titanium dioxide is in line with our vision of creating sustainable growth in the pigment division beyond phthalocyanine pigment blue and green. If we talk of India titanium dioxide production, it is around 80,000 tons per annum and the demand in India is currently about 250,000 tons and it is growing at more than 4% CAGR. India import more than 80% of this titanium dioxide.

Meghmani Organics will set India's largest titanium dioxide at the hedge with the production capacity of 33,000 tons per annum. The Company will incur a total CAPEX of nearly 400 crore. For this said project they have

acquired Kilburn for 132 Crores (Kilburn was in NCLT and its 16500 tpa plant was in operational). This 400 crore capex will add 700 crores to topline of the pigment segment on a full year basis. The key raw materials for Titanium Di Oxide is ilmenite ore and sulfuric acid (easily available in Gujarat. These plants are power intensive and Gujarat is a power surplus state). There is no anti-dumping duty as of now, but the duty for the titanium dioxide is around 11% and if we talk about the application, the major application is into paints coatings, which is about 60% market, plastic polymer about 25% market and balance is with the other segments and it is growing at more than 4% CAGR. Commercial production for this unit to start by Q1 of FY24 with 50% capacity utilization in 1st year which would be ramped up to 80-85% in 2nd and 3rd year. No other companies are expanding their capacities for TiO2 so not much of competition coming up. Meghmani has a security agreement with the technology partner for exclusivity. The market for TiO2 the white pigment is greater than various colour like blue, green, red, orange, yellow, or about seven types of pigment different colours combined. Adani is coming up into Titanium Slack, the management assumes they might go for Titanium Di Oxide.

> Yeah. The technologies of supplier with whom we have signed the contract is there is a security agreement and there is a agreement for about few years where we can have a security as far as competition point of view. Now regarding the PSU companies taking exit, I

(Source: Q3 FY21-22 Concall)

Two of the raw materials are copper and aluminium based which is we know that metals are very high, and which has increased the input costs at the same time the industrial grade urea which used to be in the range of about Rs. 20 to Rs. 25 today it has crossed Rs.60 which is a significant increase in the cost. Management guidance is for 17-18% blended ebidta margins for pigment segment.

Source: Q2Concall FY 21-22
A good source to track the prices of these raw materials is Tijori Finance

Low Switching Cost for TiO2 Pigments

> For any pigment quality plays a very important role. So, definitely the sample approval and everything the vendor selection from the customer size is always a proper. There is a system they follow, but it is not that they stick to the only one supplier if they find the right quality product from different suppliers and then definitely they will give priority and as I mentioned that you know in this time when the logistics supply chain is a very disturbance oriented thing there is a 11% duty also and if the product is readily available in the Indian market, that Indian companies will first give the priority to the Indian suppliers. That is what we believe if we supply the right quality product with the right pricing.

(Source: Q3 FY21-22 Concall)

Other business making TiO2 are

1) Kerala Minerals,
2) Travancore Titanium Products
3) VV Titanium Private Limited public sector unit government.

Margin Profile for Pigment Segment

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(Source: Q1 FY22-23 Concall)

Domestic Revenue Contribution: - 25%
International Revenue Contribution: - 75% (Export is to 70 countries)

Expansion

Planned capex of around Rs 700 crore between fiscals 2022 and 2024
MPP plant Rs 310 crore (Agro Division) at Dahej Gujarat. Commencement by Q2 Fy 23
TiO2 of Rs 400 crore (Pigments Division. Titanium dioxide, Kilburn Plant commission first phase by Dec 22)

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

Source: - Q2Fy21-22 Concall

In fact, for the pigment division, as the pigment is not a regulated business. The second thing is the product which we are looking at it, it is going to be the import substitute there is already a huge market in India and the third thing is we have all other technical clearance. The only thing is we are working on the technological related matter. So, things will be much faster even in the case of pigment division, so we are very confident for the pigment division numbers as well.

Source: - Q3Fy21-22 Concall

Raw Materials:-

It is available both domestically as well as imported and it is easily available. Currently also the players which are the manufacturing in India, they are relying on both import as well as domestic. So, availability of the raw material is not an issue.

The basic raw materials for making of titanium di oxide.

Source: - Q2Fy21-22 Concall

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

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.

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

Source: - Q2Fy21-22 Concall

Rahul, let me explain to you for both the divisions agro and pigment, we have a sizeable export business. In the export business normally, we have pending orders for nearly two months on average and we do not go back on our contracts and on our commitments. At the same time, the raw material supply sudden increase in the raw material pricing, majority of the raw material pricing that has been a challenging time for the industry as a whole and we are very hopeful and now everyone in the world understands that this is the global situation nobody is spared from this situation. The prices have started increasing which is a positive sign and we hope that in the coming quarters our margin should improve.

Source: - Q3Fy21-22 Concall

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.

(Deepak Nitrate has the largest Phenol Plant in India and Logistics issues have hurt margins in the past)

Source: - Q2Fy21-22 Concall

On our various CAPEX front, I'm pleased to inform you that the on ground execution work is on track as per plan. We expect commercial production to come on stream by Q2 FY23 for our Agrochemicals division expansion plan project. This will additionally contribute significantly to the top line of our company going forward. During Q3FY22 Meghmani Organics fast track its foray into the new product category of Titanium dioxide by acquiring Kilburn Chemicals Limited. This acquisition was funded through company's internal approval deploying Rs. 132 crore. We are doing CAPEX of Rs. 275 crore for commercializing the capacity in the first wave. This includes the acquisition cost of Rs. 132 crore. There will be Rs. 325 crore CAPEX for further capacity expansion in phase two. The Phase One capacity is expected to be commercialized in the Q3FY23 while the phase two is expected to be commissioned by Q3 FY24. This plant is expected to contribute around Rs. 700 to 750 crore to Meghmani Organics top line on a full financial year basis.

Source: - Q1Fy22-23 Concall

RESOURCES

Ilmenite and rutile along with other heavy minerals are important constituents of beach sand deposits found right from Saurashtra coast (Gujarat) in the west to Digha coast, West Bengal in the east. These minerals are concentrated in five well-defined zones:

Business Margins Today

If we just go by quarter-to-quarter then it would be difficult because what has happened that the Russia, Ukraine situation at the same time the China again COVID wave situation all these came in the end of Q4 March was a peak for the war kind of situation where the commodity prices have started going up be it crude, coal, natural gas . So, the impact of this all the raw material and everything has started coming up in the Q1. So, it is going to be difficult to have or to maintain that kind of margin in the Q1, but yes as a year as a whole we will try to regain because we are very hopeful that this kind of situation may not last long. So, on an average it should be better, but if you look at immediately Q1 may be difficult.

Source: - Q1Fy22-23 Concall

Agrochemicals Division already expanded capacity by 13500 tons out of which 10800 is for 2,4-D unit and balance is for pyrethroid unit

Organophosphate

We have not just Chlorpyrifos in our basket. Chlorpyrifos is a very small in our basket we have Profenofos, Chlorpyrifos and some other small Organophosphate products in our baskets and Chlorpyrifos you rightly mentioned that it is having pressure in certain markets, but still it is widely used product in India in many more other market like US, Brazil, Argentina varies in the market. So, it is not going to be banned very soon and but at the same time as a Meghmani we are not expanding further into Organophosphate segment. It is being 10% as of now and the moment we will be heading other products this percentage as a file will go down slowly, gradually. We are not going to expand into Organophosphate in a big way.

Source: - Q1Fy22-23 Concall

Bullet Points

- Capacity of 2,4D (Herbicides) has been doubled to 21600 TPA. With this your company is the largest producer of 2,4D in India
- New multipurpose plant with backward integration at Dahej with capex of ` 31000 Lakhs is progressing as per plan and is expected to be commissioned in Q1 FY 2023
- 6 multifunctional ISO 9001 and 14001 certified production facilities with a wide range of products and backward integration of key raw materials, located in Gujarat
- 3 Pigment manufacturing facilities at Vatva, Panoli and Dahej SEZ in the state of Gujarat

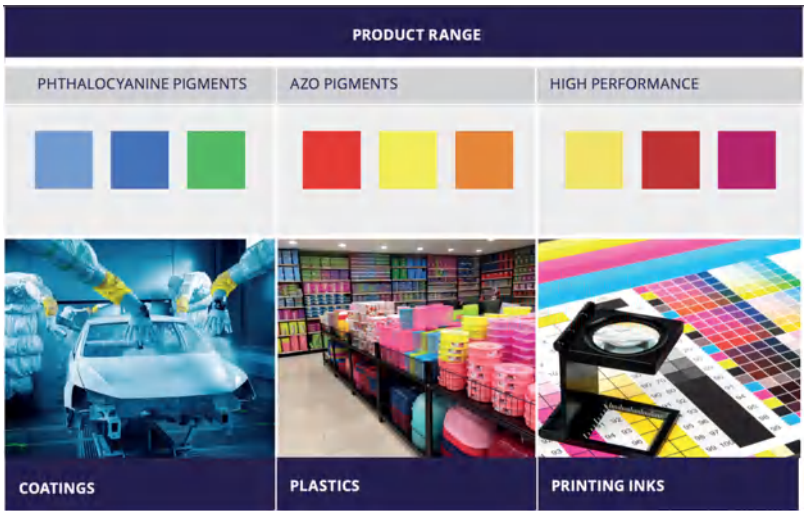
Agrochemicals Space

INSECTICIDES		
Product Name	Tech Purity Min in %	Formulation Type
Cypermethrin	93-95	EC
Chlorpyriphos	96-98	EC/GR
Alpha Cypermethrin	97	EC / SC / WP
Permethrin	94	EC / SC
Bifenthrin	97	EC/SC
Lambda-Cyhalothrin	95	EC / WP
Deltamethrin	98	EC / SC
Profenophos	93-94	EC
Acetamiprid	95	SP
Emamectin Benzoate	95	SG
Fipronil	95	EC/SC

INTERMEDIATES	
Product Name	Tech Purity Min in %
Cypermethric Acid Chloride	98.5
Meta Phenoxy Benzaldehyde	99.0
Meta Phenoxy Benzyl Alcohol	98.5
Monochloroacetic Acid	99.0
High Trans Cypermethric Acid Chloride	98.50
High Cis Cypermethric Acid Chloride	98.5

UP COMING PRODUCTS	
Product Name	Tech Purity Min in %
Flonicamid	95
Spiromesifen	95
Ethiprole	92-95
Pymetrozine	98
Pyriproxyfen	96
Beta Cyfluthrin	95
Cyfluthrin	95

Pigments



Management: - Jayant Patel, Ashish Soparkar, Natwarlal Patel, Ramesh Patel, Anand Patel each brings in more than 35-45 years of work experience. The business also has the second-generation management namely Ankit Patel, Darshan Patel, Karna Patel. The operations of the business are present in over 75 countries and a portfolio of over 400 marquee clients. Meghmani's enjoys a competitive advantage via its presence in the entire value chain (less dependent on raw material) in the highly regulated Agrochemicals industry. The Company has a strong portfolio of 310 export registrations, 370 CIB registrations in FY21. Meghmani's diverse global client base accounts 79% of its Agro Chemical export sales. The Company exports Technical as well as Formulation (bulk and branded) products to Africa, Brazil, LATAM, US and European countries. Major products include 2,4D, Cypermethrin, Bifenthrin, Permethrin, Chlorpyrifos and Pronephros. The company is amongst the top 3 pigment manufacturers of Phthalocyanine-based Pigments with 14% global market share. The Company has vertically integrated facilities manufacturing CPC Blue (an upstream product sold to other Pigments manufacturers) and end products — Pigment Green and Pigment Blue. These Pigments products are used in multiple applications, including paints, plastics and printing inks

ACCORDING TO A MORGAN STANLEY RESEARCH PAPER PUBLISHED IN DECEMBER 2021, THE CROP SCIENCE MARKET IS ESTIMATED TO GROW AT A 3.0% CAGR FROM 2018 TO 2023. ACCORDING TO MAGNA INFORMATION CENTRE'S REPORT ON GLOBAL CROP PROTECTION CHEMICALS MARKET, THE CROP PROTECTION CHEMICALS MARKET WAS VALUED AT $59,800.0 MILLION IN 2021 AND IS PROJECTED TO REACH $76,979.6 MILLION BY 2030. India is the fourth-largest producer of agrochemicals in the world. The Indian agrochemicals industry was valued at around 42,000 crore in FY2019. The global dyes and pigments market size was valued at USD 32.9 billion in 2020 and is expected to grow at a compound annual growth rate (CAGR) of 5.1% from 2021 to 2028.

Herbicides are weed killer
Insecticides are bug killers
Fungicides are disease killers

Crop protection products such as fungicides, herbicides and insecticides improve agricultural yields, thus helping with the need to produce more food for a growing and increasingly wealthy population. However, as with fertilisers, the EU wants to reduce the use of chemical pesticides. Annual growth for the crop protection market is expected to be ~3%4, and companies that focus on building bio-based products would be at a relative advantage. Price improvement was limited, primarily due to elevated levels of distributor inventory in many markets, as well as oversupply.

Nutshell Summary: - The company is working to increase its topline to 2000 crore in agri division and 1000 crore in pigment division in phase 1. Beyond that they will focus on expanding more for future growth. In the pigment segment TiO2 has large market opportunity and company is expanding its capacity to be a import substitutes for the buyers. For the same they have bought the NCLT sick unit of Kilburn Chemicals having 16500 tpa capacity which they will ramp up to 33000 tpa slowly going ahead. The management ought to maintain ebidta margins above industry levels for agrochemicals and pigment segment. Agrochemicals is a fast-growing segment where

the main focus of the management is on pyrethroid chemistry and reduction of Organophosphate product revenue contribution. For pigment segment their main focus is to ramp up production for TiO2 (Titanium Di Oxide). The company has OCRPS (optional convertible Right Pref Shares) worth 215 (settlement at the time of demerger with Meghmani Finechem which would be realized over next 15 years).

The promoters hold 49.41% stake in the business. The current working capital requirements of the business have gone up mainly due to expansion of the units and increase in cost of raw materials which they are able to pass on with a time lag of 1 month to the customers. Also if these rm prices increase drastically beyond a point they would need to absorb some costs.

Consolidated Figures in Rs. Crores / View Standalone

	Mar 2020	Mar 2021	Mar 2022
Debtor Days	241	92	79
Inventory Days	271	152	161
Days Payable	209	137	144
Cash Conversion Cycle	**302**	**106**	**96**

The business has a good cash flow generation which will keep debt levels in check with their upcoming capex.

Cash Flows

Consolidated Figures in Rs. Crores / View Standalone

	Mar 2020	Mar 2021	Mar 2022
Cash from Operating Activity +	22	333	65
Cash from Investing Activity +	13	-307	-133
Cash from Financing Activity +	-26	-14	58
Net Cash Flow	**8**	**12**	**-10**

The business is currently available at 10 PE and 2 times PB. The opportunity for growth is envisaged by the management for next 1 -2 years with the upcoming capex of multipurpose plant and the TiO2 plant. With the opportunity for growth in TiO2 segment and pyrethroid chemistry the valuation seems fair as taking in focus the cyclical nature of the business.