Meghmani Organics Limited
Q3 and 9M FY22 Earnings Conference Call
February 02, 2022

Moderator: Good afternoon, ladies and gentlemen. I'm Peter, moderator for this conference. Welcome to the Q3 and 9M FY22 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 that this conference is being recorded. I would now like to hand over the floor over to Mr. Hiral Keniya. Thank you and over do you sir.

Hiral Keniya: Everyone, I welcome you all to the Earnings Call of Meghmani Organics Limited for Q3 and 9MFY22. 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 you to remind that the rema rks today might include forward-looking statements and actual results may differ materially from those contemplated forward-looking statements. Any statement we make on this call today is based on our assumptions as on date. And, we have no obligation to update the statements, as a result of new information or future events. I would now like to invite Mr. Ankit Patel, CEO, Meghmani Organics Limited to make his opening remarks. Over to you Sir.

Ankit Patel: Thank you Hiral. Good afternoon, everyone. And very warm welcome to the Q3 and 9MFY22 Earnings Call of Meghmani Organics Limited. Before highlighting the quarterly numbers. I hope all of you and your family members are safe and healthy in this third wave of COVID-19.

First, let me give you the quick overview for our Q3 numbers. Amid st the challenging business scenario, Meghmani Organics top line surged by nearly 44% YoY to Rs.640 crore. It was mainly aided by the higher volume and better realization in agrochemicals and the pigments business. The EBITDA for the quarter stood at nearly Rs.77 crore with the margin of 12.1%. The profit after tax for the quarter surged by 22% YoY to Rs.68 crore with a margin of 10.6%. Highlighting 9MFY22 performance, our business registered the robust growth of nearly 44% YoY to Rs.1,680 crore thanks to the better realization and the higher volume from the agrochemical and the pigments business. EBITDA during the period stood at Rs.242 crore with a margin of 14.4%. The profit after tax registered a strong growth of nearly 34% at Rs. 201 crore owing to an exponential rise in the other income and the decline in the finance cost. The PAT margin stood at 12% during 9MFY22.

On the balance sheet front, Meghmani Organics cash and cash equivalent stood at Rs.43 crore as on 31st December 2021. The Company continues to maintain its low cost debt stance resulting in a comfortable debt equity ratio of 0.36:1. Meghmani Organics return ratios like ROCE and ROE on annualized basis remain robust at 16.3% and 21.4%, respectively. On the CAPEX front, the agrochemicals ongoing CAPEX of Rs.310 crore is progressing as per the plan. The commencement for the commercial production is expected to begin from the second quarter of FY23. It will additionally contribute nearly Rs.600 crore revenue on top line on the full year of operation basis.

During the third quarter of FY22 Meghmani Organics acquired Kilburn Chemicals Limited for Rs.132 crore, thereby, fast tracking its foray into titanium dioxide. The mentioned acquisition was funded from the company's internal accruals. The plant is located at the Dahej industrial area in Gujarat and its existing titanium dioxide capacity is at 16,500 tonnes per annum. The company is planning to double its capacity to 33,000 tonnes and will incur the total CAPEX of Rs.600 crore including the acquisition cost of Rs.132 crore, which will be funded by an appropriate mix of internal accruals and debt.

The CAPEX for the commercialization of the existing capacity in phase one will be Rs.275 crores, which will include the acquisition cost. We expect to commercialize the first phase by Q3 FY23. The second phase for doubling the capacity, the Company will incur the CAPEX of nearly Rs.325 crore and it is expected to commence the production in the Q3 FY24. The aforesaid plant is expected to generate revenue of nearly Rs.700 to 750 crore on the full year of operation basis.

Meghmani Organics titanium dioxide project adds diversification from the company's existing phthalocyanine based pigment. And additionally, it strengthens Meghmani Organics overall margin profile and higher return ratios in the upcoming financial years. Meghmani Organics clocked a top line of nearly Rs.1,623 crore in FY21 and it plans to double its revenue by FY24 fueled by the CAPEX plans. Additionally, we have been consistently raising our dividend payouts for the past few years. Despite allocating significant capital towards CAPEX and needing substantial financial resources to support our growth plan. Meghmani Organics remains committed towards rewards its stakeholders with a sound and sustainable dividend distribution policy.

India's chemical industry is at an inflection point, thanks to the multinational companies opting for China plus one strategy. Meghmani Organics is well placed to tap these growth opportunities by being committed to maximize its return on investment and create value for our esteemed stakeholders. With this, we would be happy to take any questions that you may have. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Manan Shah with Moneybee Securities. Please go ahead.

Manan Shah: Initially, when we announced our foray into titanium dioxide, we had announced a CAPEX of over Rs.400 crores for this 33,000 metric tonnes capacity. Now, we are revising that number upwards to Rs.600 crores. So, if you can just help us understand what has led to this escalation, I thought that since we got this Kilburn plant from NCLT, you would have got it at a below cost value and you indicated that we'll be spending additionally CAPEX for this plant as well. So, if you can just help me understand what has led to this escalation?

Ankit Patel: Sure Manan. Thank you for your question. When we acquired the asset in the third quarter and now our team has already taken over the plant and have started evaluating it technically, the plant machinery, bottlenecks, etc. We came to know what were the lagging points in the plant to start the existing capacity of 16,500 tonnes and in the next phase of another 16,500 tonnes, totaling to 33,000 tonnes. We making some changes in the existing utilities which adds up to incur a major cost at the same time. We are also adding the capacity to upgrade the grade from anatase. There are two grades anatase and rutile grade, so we are changing the grade. So, for this two purpose, the CAPEX will be high. Additionally, we need to make the incremental CAPEX to handle the byproduct which is a sizable volume of CAPEX. So, all that keeping in mind the CAPEX has increased, at the same time you already know that the currently the steel, cement all of them are at a very high price. So, compared to the earlier days, the CAPEX cost goes relatively high.

Manan Shah: Okay. Just a small follow up on that, if we had not acquired this Kilburn plant and if we were to put Greenfield capacity for this 33,000 tonnes then what would have been the CAPEX?

Ankit Patel: It would be a little higher than that, it would be I would say a couple of Rs.100 crore higher than that.

Manan Shah: And you mentioned that we are changing the grade from rutile to anatase or the other way round.

Ankit Patel: Anatase to rutile.

Manan Shah: Anatase to rutile, so does this result in a higher realization or anything, because the revenue expectation is still the same from this plant?

Ankit Patel: Apart from the realization, the market is majority for the rutile grade, anatase market is very small. So, when we are expanding the capacity, we need to keep that in mind that we have enough market available.

Manan Shah: Okay. And before I get back into the queue, just one last question from my side. So, Kilburn already had a plant in the South which is sold off to Vivi Titanium and then they set up this plant in Dahej, then we already knew the chemistry. They were not able to successfully start this plant. Now, for us this being a new chemistry, what can be the execution risk for Meghmani for this titanium dioxide plant. Thank you.

Ankit Patel: Thank you. In fact, that also surprises us that if they were having the experience in the South and they were just making a replication of another plant, but still they made a lot of mistakes in the plant and that is causing a major problem. At the same time, the utility area they have made certain mistakes, which is not very viable now. So, to improve the profitability and to make it more viable, we are making certain changes in the utility area which is going to cause a major investment. So, all those factors keeping in mind the CAPEX amount is a little higher. And regarding the experience of ours into this pigment titanium dioxide, chemistry point of view it is not very difficult, it is more from the operation point of view difficult. Where we have an expertise of handling voluminous pigments and other chemicals in our existing business. So, we are very confident that we should be able to run the plant and make it operational as soon as possible. So as per our plans, we hope that we should be able to make it operational the first phase of capacity in the Q3FY23.

Moderator: Thank you. The next question is from Ayush Mittal with Mittal Analytics. Please go ahead.

Ayush Mittal: Sir if we look at your Agrochem segment, we are seeing that the company has been doing very well for last few years. This time also the growth has been pretty good. Can you share as to what is happening on this strength and something about the capabilities, why we have been able to deliver such kind of good numbers and growth and what are the expectations going forward, how will we maintain this going forward the aspiration that you have shared of Rs. 2,000 crores?

Ankit Patel: Thank you, Ayush. If you remember that the company to grow significantly into agro chemicals as well as in the pigment division. We started doing the CAPEX cycle in agrochemicals from the last financial year. We expanded the capacity of one of our key products 2,4-D, and this is the first year of full year of operation that has resulted very well. In the first year, we were expecting that we would not be able to run our plant at the full capacity or we will not be able to sell the product very well in the market with such a high volume. But thanks to the regulatory department, we did the registration into various markets for this product. And that clicked very well with our CAPEX plan. So, by the time we were starting the new higher capacity, we were having various registration into different markets, like US, Brazil, Argentina, Australia, many more other markets. And so, we were able to cater to more customer base and this year. Our 2,4-D plant has run very well as far as the capacity is concerned, utilization is concerned. Apart from the 2,4-D other product basket mix also did very well in our pilot wide range of products. And that is driving the growth for us as well. In the coming year for the future, we are doing one more CAPEX of Rs.310 crore which we are planning to commission in the second quarter of next financial year that will help to further grow in the agrochemical division over there we are bringing in couple of new products. So, far from the investor point of view, we have not announced for which product we are bringing in. When we will be commissioning the plant at that time, we'll be making the announcement because we want to keep it a little confidential from the market point of view. And those are relatively new products, which will drive the growth of the agro division significantly in the coming years as well.

Ayush Mittal: Okay. In this particular quarter, we are seeing that most of the agrochemical companies have done very well is there some seasonality effect in this or this kind of performance that we have done in this quarter should be largely sustainable going forward. Also, despite a significant growth in operation and the realization growth what is the reason for that?

Ankit Patel: Ayush, the thing is across all the chemical sectors, basic chemical, basic commodities prices have gone up drastically, owing to the demand, crude oil, supply chain issues, various issues keeping that in mind and across the industry people were able to pass on the price increase to a certain extent. So, there is a price increase which is driving the major growth for all the companies into agrochemical division. But the kind of the price increase whichever was there, nobody was able to pass on it completely in the market. So, you can see that across the industry there is a dip in the margin compared to previous quarters and years. So, that is the major reason but we see that in the coming quarters and next year, things should be normalized where people will be able to pass it on with the better price realization. At the same time, the raw material should also start softening a little bit. So, the margin should improve in the coming quarters and it will help to grow the agrochemical division.

Ayush Mittal: Okay. Sir coming to the pigment division that has been a big drag for us for some time now. While when we see the smaller companies, we see that they have been able to maintain the margins. So, what is happening in this segment and how do you think that we'll be able to come back to the margins we used to do earlier?

Ankit Patel: Particularly in the case of the pigment division, the key raw material like, Phthalic anhydride, Cuprous Chloride, which is based on copper, urea, etc. the price of the raw materials have increased. If we just take the example of urea, which is the industrial grade urea, last year it used to be about Rs.20, this year it has reached Rs.75. So, it is significantly higher price increase and nobody is able to pass on this kind of price increase in the market. Second thing what has happened, there are certain unorganized player which use the agriculture urea which is available at a much cheaper rate, which is not ethical and legal, but we being the sizeable player and we have a commitment for society. So, we have an ethical practice of doing the business where we use the industrial grade urea which is of very high cost. So, that is one of the factors which is driving us different from the other small players and that is mainly driving the competition and the price pressure. Second thing, we are coming out of the COVID-19 and everyone was very aggressive to gain back the market share. So, there was a pressure from the sales side and there was a pressure from the raw material side in our market at reasonable level. So, that was the strategy decided at the management that we will not lose our market share no matter what it is, because the margin can be recovered in the coming quarters and we are very hopeful that in the coming quarters the margin will be recovered very well. At the same time, the export incentive which was there from the government side NEIS, that has gone completely government has come up with a new export incentive which is a road tax, but it is not applicable to the SEZ unit or on export on the advanced license basis. So, there is again a significant impact which is approximately 1.5% in terms of the margin.

Ayush Mittal: Okay. And how do we then plan to come back on our normal profitability in the segment going forward?

Ankit Patel: So, now everyone in the market is able to pass on the price increase slowly, gradually. So, that is happening. So, we hope that in the coming quarters, the margin profile should come back to the normal level, which is in the range of about 12% to 14% for the pigment division.

Moderator: Thank you. The next question is from Pratik Singhania with SageOne Investments. Please go ahead.

Pratik Singhania: Sir, my first question is with respect to the ilmenite sourcing. So, basically, we are competing in titanium dioxide with China and China of their total requirement, they source 70% raw material locally and 30% they import. So, as far as we are concerned from which countries are we planning to import and how do we mitigate this currency risk and raw material driving risk?

Ankit Patel: Thank you Pratik. As far as the ilmenite is concerned which is the key raw material for titanium dioxide, India do have a capacity and available ilmenite but the Indian Railroad Corporations they don't have the enough capacity for mining, which they are doubling it right now and from the next year onwards they are going to supply the increased capacity to the local player. Apart from that, there is a lot of input coming from various countries like Japan, Mozambique, African countries, Madagascar various countries, so easily import is available, our plant, the Kilburn plant is at Dahej where Dahej has got the port to handle the bulk cargo. So, logistic point of view it will be a very good position we will be having as far as ilmenite sourcing is concerned. So, that is not going to be a concern. And regarding the competition with the China, as you have seen that in the presentation we have made clear that the Indian market size is nearly 250,000 tonnes out of that almost 80% of the titanium dioxide is being imported. So, first target under Atmanirbhar Bharat, Make in India policy to supply in the domestic market, where there is already a 10% duty on the product. So, we will not have that much competition from China for the Indian market, even for the export market, we would be able to compete with China.

Pratik Singhania: Sir, China have a capacity of around 4.5 to 4.6 million tonnes doing a utilization level of almost 70%- 80%. So, with that scale in size and as compared to that we are planning 33,000 tonnes. So, how do we compete with that scale in size because similarly in azo pigment also India is not able to set up as the capacity as they are in China.

Ankit Patel: Pratik, Azo the story is little different why we are not able to compete with China, the reason is there are not many players which are backward integrated the intermediate for the Azo pigments are mainly available from China. Now that is a different case. In the case of titanium dioxide, the key raw material is a naturally occurring ilmenite, the cost for the ilmenite is the same for the China or for the India. So, over there from the raw material point of view, there is a parity. Second thing, the major cost in the manufacturing costs the utility cost is the major. Now, the utility cost, the steam, power everything we can compare with China. So, there is no issue and we have made the viability point of view, the capacity which we are coming with 33,000 tonne is a viable capacity to run the plant. And looking all this factor in mind we hope that we should be able to generate good amount of profitability and the project is much more viable.

Pratik Singhania: Okay. Sir, last question. Sir, in terms of India, the mining of ilmenite as per regulation is can be done only by PSU right?

Ankit Patel: Yes, that is what I mentioned Indian Railroad Corporation.

Pratik Singhania: Right. So, there are three other Indian companies also which manufactures titanium dioxide. And they are also planning to expand those capacities further. So, will this additional ilmenite that will be mined will it be sufficient to suffice the requirement of your as well as the other capacities of these three guys coming up?

Ankit Patel: We are just not dependent on the Indian Railroad Corporation. In fact, we have already started discussion with the various importers and global players who supply ilmenite. So, as far as the availability of ilmenite is concerned there is no issue.

Moderator: Thank you. The next question is from Rahul Veera with Abakkus. Please go ahead.

Rahul Veera: So, just wanted to understand how was the January or this quarter in terms of pricing for the raw material scenario for the pigment segment itself?

Ankit Patel: Rahul, for the fourth quarter, we are seeing the better price realization for the particularly in the case of pigment division. So, as I mentioned that this quarter was, I would say the lowest in the history of make Meghmani, we have never seen this kind of profitability. And we are very hopeful that in the coming quarter, we should be able to go back to the normal numbers.

Rahul Veera: And given the CAPEX or in the outflow in FY22 by margin what will be the debt versus the gross block, and whether that would have included the outlook on this Kilburn just trying to understand how the debt and gross block will pan out in FY22, FY23 and FY24 Sir.

Gurjant Singh Chahal: As far as debt is concerned, we have Rs.300 crore of long term debt in standalone. And with the titanium dioxide coming in at the consolidated level, so our maximum debt should not be more than Rs.550 crores. The debt to equity ratio will not exceed 0.5:1.

Rahul Veera: Okay. So, Sir currently from the standpoint of currently long term debt versus the arrangement that we have with Meghmani Finechem that is relatively lower. But for this particular project, we'll have to take close to Rs.400 crores of debt over the next few years is that what calculations say?

Gurjant Singh Chahal: In totality, we can say, but we will take going back into two phases actually, so initially, we are planning a Rs.200 to Rs.250 crore of term loan in KCL, which will be available in the range of between 7% to 8%. Comparatively, we have a low interest as far as our debts are concerned overall I'm saying about it. They have a natural hedge as well, to a certain extent.

Rahul Veera: Right, fair point. Since our first phase will be starting in Q3 FY23. I believe the average pricing for the project indicates at $3 or around Rs.200. So, what kind of tonnage can sales commission is expecting FY23 in the two quarters?

Ankit Patel: So, if we consider the FY23 we will be starting the plant in the Q3, we'll have one full quarter. So, typically it should generate about Rs.75 to 100 crore of revenue in the last quarter. So, with both the capacity phase one and phase two, we will have a capacity of 33,000 tonnes and looking at the price we feel that it should generate about Rs.700 to 750 crore revenue on a full year of operation basis.

Rahul Veera: Right, but that will be FY25 right?

Ankit Patel: Yes. FY25 will be the full year and FY24 will have close to Rs.400 crore plus revenue and FY25 will have a Rs.700 crore plus revenue.

Rahul Veera: So, then our estimated revenues from pigment within 1000 crores so if you consider FY24 like 200 crores from this plus base segment business is close to 750 crores off net so it will 1215 by FY24 pigment business itself?

Ankit Patel: Yes, we have informed to the investors that by FY24, we should be crossing Rs.1,000 crore topline for the pigment with the Kilburn's CAPEX. And in the agrochemical division, we should be able to cross Rs.2,000 crore top line. . Our topline in FY21 was nearly at Rs.1600 crore and we will be doubling the revenue by FY24.

Bharat Mody: And to add to that part, this quarter we had the highest sales in the agrochemicals. So, agrochemical has been panning, in terms of the top line, it has been panning very well. Sustainability also is assured about that part.

Moderator: Thank you. The next question is from Subrata Sarkar with Mount Infra Finance. Please go ahead.

Subrata Sarkar: No, actually most of my question has been answered. Please throw some more light on the margin profile. By when it would be normalized ?

Ankit Patel: Subrata, the pigment division industry average margin varies between 12% to 14%. We hope that in the next one or two quarters, we should be in that range. For the pigment division, the average EBITDA margin varies in the range of 16% to 18%. We are already in that range in the agrochemical division, and so there is no issue. So both the division put together, we should be able to maintain relatively good EBITDA margin in the coming one or two quarters. At the same time, the Kilburn which is a subsidiary company will generate on an average EBITDA of nearly 25%.

Subrata Sarkar: Perfect Sir. And just a ballpark, just as a bookkeeping question. Any progress on the loan which we have given to Meghmani Finechem, any progress on that?

Ankit Patel: Yes, so in the past also, we have been informing to the investors that the Meghmani Finechem is also having its own high CAPEX cycle. So, they are already doing a lot of CAPEX in the epichlorohydrin, CPVC, Chlor Polyvinyl. So, it will not happen immediately in near future. But we'll have a discussion in the management and we'll make a proper roadmap to reverse it in the coming years.

Moderator: Thank you. The next question is from the line of Ankit with Bamboo Capital. Please go ahead.

Ankit: Ankit, if you can tell us, all the technical companies focused on exports are seeing good traction from US, Europe and South American markets, especially Brazil. So what is happening is there something which is changing the inventory restocking and which is leading to higher demand and how do you see this demand sustaining over the next two to three quarters?

Ankit Patel: Sure. So Ankit, what has happened in last one or two years relatively, the season has remained very well as far as the cropping pattern is concerned in various markets and that has driven the good demand in the agro chemicals. Secondly, in the last two years there has been a lot of disruption as far as the supply chain is concerned. So, everyone is planning the inventory in such a way that they want to keep a little bit extra rather than losing on the sales. So, that has been driving a good growth in the various market. And at the same time, the demand is very good in the US, Brazil, Argentina, various markets, the cropping price what they are getting for soya bean, corn, cotton, everything is very good. So, that is also helping the farmers to use more of an agro chemicals. And certain key products like if we talk from China, in last two years, the prices have increased drastically, there has been a lot of disruption in terms of the supply from China so people are giving more opportunity to Indian suppliers rather than buying it from China. So, all these factors are helping the agrochemical industry per se from India to grow much faster.

Ankit: Sure. And how do you see this demand sustaining over the near to medium term?

Ankit Patel: So, even today if we analyze the channel inventory, which is a key area for the growth, even today, the channel inventory is not very high, because of the good demand whatever they were buying, they are able to sell it in the market consumption is happening very well at the down the line level. So, we see the demand will remain good in the coming quarters as well.

Ankit: Sure. And the second question was on the margin front, we are seeing significant pressure on margins front pigments, as well as this quarter agro Chem has also been impacted, has seen margin pressure. So how do you see the margins panning out over the next two quarters?

Ankit Patel: Yes, so as I mentioned pigment division, yes definitely the margins are under huge pressure in the last quarter. But we are seeing better realization in coming days. And already in this month also we are seeing there is a good price increase and the margins are coming back slowly gradually. So, for the pigment division, we feel that in next one or two quarte rs margin should improve. Agrochemicals, last year margins were exceptionally high because during the COVID-19 time, the raw materials prices were too low and the demand was good. So, the margin of all the companies were very high, but what has happened in this financial year, the raw material prices have increased drastically. So, it has normalized the margin in the agrochemical division. So, we are having nearly 17% to 18% margin as average industry EBITDA margin, and yes, but in coming quarter we'll try to improve a little bit in the margin for the agrochemical division as well.

Ankit: Okay. So on a long term sustainable basis 17% to 18% are the margins that you are targeting on agrochemicals and 14% to 15% on pigment side?

Ankit Patel: About 12% to 14% for the pigment and about 17% to 18% for the agrochemical.

Moderator: Thank you. The next question is from Dr. Amit Vora with the Homeopathic Clinic. Please go ahead.

Amit Vora: So, I have a question on any foreseeable risk about this titanium dioxide project. What are the risk factors that we see which can hamper the project or in any ways, in terms of sales or the raw material or anything, if you can?

Ankit Patel: As far as the raw material is concerned there is no concern. So far as the sales are concerned again, there is a very good demand. So, we need to make sure that the production we get in time with the better quality. So, that is the three key areas and we are very hopeful that we should be able to achieve the timeline for getting the production out with the quality.

Amit Vora: Okay. And also there was one request that afflict safety and disposal of this waste is a really important thing, I hope the company is taking care of its employees and the rest of the things?

Ankit Patel: Yes. So, for overall as the chemical industry, it is very important to run your plant from the environment, health and safety point of view and from whosoever will have a better system in the EHS only those companies will grow. So, as a management and as a company, we give topmost priority for the environment, health and safety. We have been continuously upgrading it. And so in the coming days that will help us in growing much better at the same time we are going for the responsible care certification. Responsible Care is one of the top most certifications as far as EHS sustainability is concerned. So, we hope to get the mentioned certificate by the end of next financial year. So, our team is working on that it's a severe exercise.

Amit Vora: That's really good, we wish you all the best. And my last question, any plan to get into contract research and manufacturing?

Ankit Patel: Amit, we have been doing certain contract manufacturing but we don't disclose it much because we have some confidentiality with our customer base, we have certain business for contract manufacturing and yes, the kind of the CAPEX what we are doing, those are a multipurpose plant. So in future also we are very hopeful we'll be getting certain opportunity in contract manufacturing.

Amit Vora: Okay. But we could not disclose any numbers or any numbers regarding sales in contract manufacturing or key name of the companies?

Ankit Patel: That depends on the contract with the company, if they allow us then, yes, we can do it; if they want to keep it confidential then we also would like to keep it confidential because of our relationship with the customers.

Amit Vora: Okay. Lastly, any guidance, can you just give us guidance for the full year in terms of sales ?

Ankit Patel: For this financial year?

Amit Vora: Yes, for this financial year and if possible for next year, you have already given by FY24.

Ankit Patel: So, as you have seen that so far for the nine months, our top line has grown by nearly +40% and that will be more or less as a full year of operation basis, we should be growing at +40%

in this financial year and by FY24 as we have informed that we should be crossing Rs.3,000 crore top line. So, our next year's growth should be also again +20%.

Moderator: Thank you. The next question is from the line of Krishna Agarwal. Please go ahead.

Krishna Agarwal: My question is, in the annual report FY21, it was mentioned that 25% of revenue comes from contract manufacturing in the agro chem sector so, can you share us what's the current revenue share of FY21 of the current quarter?

Ankit Patel: Krishna, as we have already grown drastically into various of our other products into agro chemical. So, the percentage of the contract manufacturing has gone down from 25% to nearly 20%.

Krishna Agarwal: Okay. Also can you please share the revenue share of branded products in agro chem sector only?

Ankit Patel: For us the branded sales business is a very small it is nearly Rs.100 crore on the full year of operation basis, it is not very significant. For us export is a major business, but we are also growing in the branded business. We are coming up with certain new products in the next financial year, which will be first of its kind being manufactured in India, because currently it is being imported by the multinational companies. So, we'll be making the announcement once we will get the registration certificate in next one or two months.

Krishna Agarwal: Yes, my question is that, in the recent annual report, you mentioned that we have three process patent. So, what is the expiry date of such process patent and any other details regarding this?

Ankit Patel: Normally, the patent is for the 20 years and whenever we do any improvement in our existing products, we apply for those patents in order to discourage others from copying it.

Moderator: Thank you. The next question is from the line of Hardik Jain with Whitestone Financial. Please go ahead.

Hardik Jain: Most of my questions are answered, just two small questions. You have mentioned in your remarks that we won't be getting the road tax benefit as we are in SEZ units, am I right?

Ankit Patel: Hardik, we are getting road tax benefit but in the case of any SEZ withdraws till last year, companies were getting benefit on any kind of export, be it from SEZ or under advanced licenses. Now, in the case of road tax, the companies can get the benefit if it is not from the SEZ and not from the advance license. So, for the pigment division, our export is sizably from the SEZ. At the same time in the agrochemical division, our reasonable businesses is from SEZ, the advance license point of view. So that is creating a major problem in better realization for the road tax.

Hardik Jain: Okay. And what is the benefit that, what is the percentage benefit that people get if they are not from SEZ or advance license?

Ankit Patel: It is 0.8% road tax on export in invoice value.

Hardik Jain: Okay. And one more question sir, we have other income of almost Rs. 26 - 27 crore versus Rs.3-4 crores last year same quarter. So, what will be the major portion in that?

Ankit Patel: One of the areas last, under the scheme of arrangement where Meghmani Organics and Meghmani Finechem were getting demerge, at that time there was a onetime stamp duty expense which we incurred in the fourth quarter of last financial year. So, we made a provision in the last year, fourth quarter but actually the amount was not that much. So, that got reversed into other income by nearly Rs.14 crore in this quarter. So, that is one thing and apart from that, there is an exchange rate gain also in the other income.

Gurjant Singh Chahal: Just to add what Ankit has said, this Rs.25 crores was a provision made as per the scheme. So, there is as per the scheme maximum cap for stamp duty was Rs.25 crore, but when you pay the actual that is based on the assessment done by the valuer. So, when this final transaction has happened in quarter two, so at that time these are assessment done by the stamp duty authority and the actual rate came around Rs.11 crore. So, there was a Rs.14 crore of reversal in this quarter.

Hardik Jain: And the remaining Rs.10 - 12 crores would be largely exchange gains?

Gurjant Singh Chahal: Yes.

Hardik Jain: So, you also mentioned in your remarks that you are looking to reward the stakeholders. So, do you have any dividend policy?

Ankit Patel: So, we have pretty standard dividend policy though we have been doing a lot of CAPEX and based on that policy, there is been a consistent growth in the dividend payout and that will continue.

Moderator: Thank you. The next question is from Ayush Mittal with Mittal Analytics. Please go ahead.

Ayush Mittal: Ankit, I would like to understand few things. If we see our numbers, almost 70% of our profits will be coming from agro chemical division for next couple of years till this new project comes up. So, in this area when I look at the peers, our product portfolio have a lot of overlap with other leading peers, can you and many of them, others are doing a lot of CAPEX can you share as to what are we doing to maintain our leadership in these products. In some of the products like 2,4-D we have a major market share in India. So, can you share as to what are we doing to improve ourselves in our products or maintain that leadership or how to grow further and protect our margin and profitability going forward ?

Ankit Patel: Yes. Ayush, as far as our current product portfolio is concerned, let's say if one of the key products is 2,4-D. So, our capacity is at par with Atul and after we did the CAPEX in the last financial year, so, we have already expanded and doubled the capacity last year only and now we are at par with Atul. So, you can say Atul and Meghmani are at the same capacity level from India. And globally also we are a leading player in this product now. So, we already have a good market share. So, in the coming years, also looking at the market expansion and our registration base expansion we look into expanding the capacity, but because we did just last year only expansion, So, immediately there is no plan to expand in the 2,4-D further. At the same time, we are doing the CAPEX of nearly Rs.310 crore into multipurpose plant with the multi-product over there, we are bringing a couple of new products, some backward integration for the intermediate. So, that will help in maintaining our market share as well as the growth plan for the agrochemical division in the coming years.

Ayush Mittal: Okay. So, what will be the contribution of the top three or five products in the agro chemical division for us in the agro chemical turnover?

Ankit Patel: So, the top five products will be almost +80% revenue.

Ayush Mittal: Okay. And the top three?

Ankit Patel: The top three would be about 60%.

Ayush Mittal: Okay. And there will be our selling product like 2,4-D to regular customers to maybe other agrochemical companies in foreign countries and we are doing also selling them in our own registration. What is the difference in our pricing or margin picture that comes in and how much of our business is under our own registration as of now?

Ankit Patel: As of now, when we talk for the registration, it is in the export market typically is always with the customer. We don't have our own registration in all the markets. Otherwise, we need to create a company over there to hold the registration and then for the better realization we need to sell in the brand in those countries. So again, there will be a lot of challenges. So as of now, our majority of the business, even in export is more of a B2B business. And we will stick to that because we don't want to divert ourselves by going into our own branding sale into various markets, because that is not our core competency. If we 'll do that, then our focus will be diverted.

Moderator: Thank you. The next question is from Shikhar Mundra, with Vivo Commercial. Please go ahead.

Shikhar Mundra: I just wanted to understand, so how much is Pyrethroid in our agrochemical revenue?

Ankit Patel: I would say Pyrethroid would be almost 50% in terms of the revenue.

Shikhar Mundra: And how is pyrophoric as a market doing? Is it a decreasing market or is it a growing market, how is the outlook for the Pyrethroid market?

Ankit Patel: So, Shikhar as you might be knowing a little bit into technicality because you are asking for the Pyrethroid so, let me give you a brief idea, in the insecticides organophosphates are relatively more toxic, and those are getting banned like chlorpyrifos, profenofos, acephate, monocrotophos, these products are getting banned into various markets because those are the relatively toxic product. Then the second grid comes in neonicotinoid insecticide which is imidacloprid, thiamethoxam, acetamiprid, etc. These products are also getting banned because these are also a little toxic. Whereas when we talk of Pyrethroid definitely we don't say it's not a toxic product because it is killing insect it is toxic, but relatively less toxic and stable products and these products are growing in various markets and we don't see any issue as far as the product growth is concerned.

Shikhar Mundra: Okay. And for Pyrethroid who will be our major competitors from India?

Ankit Patel: Again in Pyrethroid, there are various products, so people say we are in the business of Pyrethroid, but they don't have the full basket they might have one or two or three products whereas in Meghmani we have a pretty big basket and we can say we are in top three but just to give you the number who are the competitors then buyer UPL, Hemani, Heranba, you can say a couple of them are our competitors.

Shikhar Mundra: Alright. And can we get the names of your top products for the Pyrethroid?

Ankit Patel: In Pyrethroid, we have Cypermethrin, Permethrin, Bifenthrin, Lambda Hylothrine these are some of the key Pyrethroid products.

Moderator: Thank you. The next question is from Ayush Agarwal with Mittal Analytics. Please go ahead.

Ayush Agarwal: And my question is that, you mentioned top three, four products and around five products have 80% of the product revenue on agro chem. What would be the names of these five products?

Ankit Patel: So, as I mentioned, the key products that we have is a 2,4-D, Cypermethrin, Permethrin, Bifenthrin, Lambda Hylothrine, these are the key products in our basket which drives our growth and provides the major revenue.

Ayush Agarwal: Right. And in how many of these products would we have backward integration?

Ankit Patel: I would say majority of them, we are backward integrated. And in the case of one or two products, we are in the process of backward integration as of now. So maybe by the next financial year, we should be fully backward integrated for these five products.

Ayush Agarwal: Alright, that's good to know. And the last question is that, a follow up on previous participants question, what is the difference when we sell under our own registration in different markets versus when we sell to our customers in these markets, like for example 2,4-D when we say that we are getting our own registration , how is it different from selling to our own customers if you can explain that a bit?

Ankit Patel: Okay, Ayush the thing is, the differentiation is the moment you say your own registration, in that case, you are spending in Europe, US, Brazil, you need to do a lot of spending in doing the registration, you need to protect the registration for that the cost goes probably sometimes into couple of $100,000, which is very, very costly affair. And you need to hold your own registration, you need to have your own company in those markets, to hold your registration. When we talk, we have a registration with the customer and at that time, the data for the product which are technical data, Five batch, facecam toxicity data, these are our own data under the name of Meghmani, we support the customer with this data and in turn the customer does the registration. So, what happens, the registration is owned by customer, but in that the manufacturer, the supplier source is Meghmani. So he can buy only from Meghmani in that case. So that is what the difference is.

Ayush Agarwal: That was really helpful and that's good to know as well. So, it's good to assume that, in such a case we would be making somewhat higher margins than selling normal 2,4-D?

Ankit Patel: See, if we sell our own 2,4-D with our own registration definitely you will have a better margin, but for that you need to do the registration in various markets, you need to hold the company, sell the product in the branding, you need to have the supply chain team. So those will also incur a lot of costs.

Ayush Agarwal: And right now, in the setup that you just mentioned that the registrations are owned by a customer, but Meghmani becomes the sole supplier. So, in such a setup, we need better margins just than selling 2,4-D in the regular channel that we sell right now?

Ankit Patel: So that is what the standard format is of selling the product or you can have your own registration and sell the product with a better margin.

Moderator: Thank you. The next question is from Dr. Amit Vora with the Homeopathic Clinic. Please go ahead.

Amit Vora: This is regarding creating shareholder value, Sir as we all know that the stock price is available at a reasonable price to earnings. So, are we planning to have any buybacks with this is the best time and price to buy our company shares that will create a lot of shareholder value for the longer term by reducing the equity? Do you have any such plan?

Ankit Patel: Thank you, Amit for your suggestion, we will consider your request we'll discuss in the management, but at the same time, we are doing a lot of CAPEX. So, I don't know if it is possible at this moment or not, but we'll discuss internally.

Amit Vora: Okay. And going forward, any plans since the pigment division is also multiplying and the sales are planning to go around to Rs.1,200 crores by FY24 So, are you planning to demerge that also any idea for that, do you anything such in mind?

Ankit Patel: Amit, as of now, our focus will be to grow Kilburn Chemical to stabilize the product in that segment, which will take nearly two years plus time. At the same time, we are doing a lot of CAPEX in agrochemicals. So, as a management, we don't want to divert our focus into some other non-core activity. So, it will not happen for the next two to three years. But once both the division becomes sizable then at that time, we may think of splitting it again.

Amit Vora: Okay. And the last question is, after this titanium dioxide, if we reach 33,000 metric tonne, then is it scalable also further, in next five years or what are your plans for the next five years in pigment and agrochemicals both?

Ankit Patel: It can be scalable to very high level, the demand is huge. And there is a tremendous growth just to give you an example, in India the majority of the titanium dioxide is being used in the paints market, the number one player is Asian Paint. Now, the big corporate like JSW and Birla Family, Aditya Birla Group both of them are entering heavily by investing heavily into paints business. So, they have seen, there is a good growth opportunity as far as the Indian paint market is concerned. So, you can imagine that even this kind of corporate they are investing almost Birla family is investing almost Rs.5000 crore on the paint division.

Amit Vora: But the company has that infrastructure to grow it further, that is what I want to?

Ankit Patel: There is a huge growth opportunity in coming days' time also.

Amit Vora: Do we have the infrastructure to grow further beyond 33,000?

Ankit Patel: For the Kilburn Chemicals' plant, if I just give you the idea, it is having a land bank of 3,15,000 square meters. So, that's a huge land bank for further expansion.

Amit Vora: Okay, and even in agrochemicals, you're seeing such planning something new also further?

Ankit Patel: Yes, in the agrochemicals, we have a good land bank available with all the basic infrastructure and the regulatory approval. And over there, we are doing the CAPEX of Rs.310 crore, probably we are thinking of making one more announcement in the next quarter for phase two of expansion in the agrochemical division.

Amit Vora: Apart from Rs.310 crore?

Ankit Patel: Correct.

Moderator: Thank you. The next question is from the line of Bhagwan Chodhary with Sunidhi Securities. Please go ahead.

Bhagwan Chodhary: Just one question, we are seeing that our exports earlier used to be 80%, now we are adding almost +90%. So, just some commentary on that part, that the growth is majorly coming from the export markets or how are we doing in the domestic market in agro agrochemical side?

Ankit Patel: Bhagwan, the growth is more coming from the export market. At the same time, the projects which we are coming up with, let's say the titanium dioxide, will be the majority for the domestic market. And CAPEX what we are doing in the agrochemical division will also give a sizable focus in the domestic market. So, I would not say that the export will come down and the domestic will grow both will be growing, but almost around 70% to 75% export will always remain.

Bhagwan Chodhary: Got it. In the current quarter, what is happening there, in the domestic side, are we getting the pricing or the pricing is mainly coming from the export side?

Ankit Patel: Yes, we always look at the better realization. Currently, we are getting better utilization in the export market. At the same time, we also need to look at the seasonal demand into various markets. So, wherever there is a demand, wherever there is a better margin, we keep track well in advance one or two quarter.

Bhagwan Chodhary: Okay. And secondly, the capacity you have already mentioned for 2,4-D is mainly the exports or how much of that would be domestic?

Ankit Patel: 2,4-D is a sizable product as far as the domestic market is concerned, but as far as our capacity is concerned, it is more of an export market definitely and I would say almost 80% or 85% will always be for the export with the kind of the capacity what we have.

Bhagwan Chodhary: Got it and again on this pricing part, if we look at the nine months, what would be growth out of this 40% we have grown would be from the pricing part and the volume part if we do have something?

Ankit Patel: Yes, for the nine months as we have grown in terms of 44% so, if I give you the idea of volume, agrochemical volume has grown by nearly 40% and the pigment volume has grown by nearly 18%. So, there has been a significant growth as far as the volume is concerned and there is a price increase growth also in both the division.

Bhagwan Chodhary: Got it. Just a final question for the CFO, there is negative interest. So, can you please elaborate on that part?

Gurjant Singh Chahal: Bhagwan, our borrowing in MOL being majority having turnover in exports, so we borrow in foreign currency, so due to fluctuations in currency, and that is the impact, which is coming into the gains. For example, Euro has gone down to Rs.84 level and where we took at Rs.89, so there is a Rs.5 per Euro impact, so there is a gain coming into the foreign currency revaluation of the borrowing. So, there is Rs.6 crore of gain which has come in this quarter. So, our finance cost if you see on the absolute number it is Rs.2.53 to 3 crore per quarter.

Bhagwan Chodhary: Got it. Chahal ji, my understanding is that we have all the foreign currency loans. But, in the recent comments you mentioned that for by additional Rs.550 crore kind of the debt which is going to be we are going to raise it from the domestic market with a 7% - 8% kind of rate. So, any reason for that shit into the domestic market?

Ankit Patel: Bhagwan, we are doing the CAPEX for the titanium dioxide, as we are planning to sell the majority of our products into the domestic market. So, over there, there is no natural hedging when we are selling in the domestic market in rupee terms. So, it makes more sense in taking the rupee loan for the domestic sales, but when there is exports and when there is a natural hedging for the debt. In that case, we go for the foreign currency loan. So, we keep it balanced as whenever there is a business model of exports and domestic based on that we take a call.

Moderator: Thank you. The next question is from line of Rajeev Saigal an Investor. Please go ahead.

Rajeev Saigal: As you explained, other incomes will be consolidated financial of FY22 first nine months of FY22 and the first nine months of FY 21. We have noticed that PAT as a percentage of revenue from operations in FY22 is down to 7.86% in comparison to 12.26% in FY21, can you please throw some light on the reason for such a sharp decline in the margin?

Ankit Patel: Yes, Rajeev, there are two, three reasons. One of the key reasons is, last year was impacted by COVID-19, where the crude price went down drastically, the demand was very less and because of that, the raw material prices were low. We were very bullish on our business last year. So, we had booked the raw material for a pretty long period at a low price which helped in the better profitability FY21. In the current financial year, the demand has improved, crude has come back, logistic prices have increased drastically, and all the basic raw metal prices have increased drastically. So, because of the increase in the raw metal prices, nobody was able to pass on that kind of price increase in the market down the line. And that was one of the key factors. Apart from that, there is a significant increase in the logistic cost which used to be in the range of about 2% to 3%, it has reached nearly 6%. So, that is one of the factors, at the same time in the export, we are getting the export incentive NEIS which government has withdrawn that export incentive, now the new incentive is there, which is a road tax, but it is relatively low. So, that is to the tune of nearly 1.5% impact on margin just because of the export incentive. So, all these factors keeping in mind there is a reduction in the overall margin. But we hope that in the coming quarters, the prices are increasing and the raw material is relatively stable. And now everyone is accepting the price increase, the logistic price increase. So, we hope that in the coming quarters we should be able to improve the profitability.

Moderator: Thank you. The next question is from the line of Hardik Jain with Whitestone Financial. Please go ahead.

Hardik Jain: Sir, Titanium Dioxide will be a new product for us. So, I just wanted to understand once we start commencing the production, what is the process there, will it take some time to get the product approval from the customers, because the customer it is the main raw material for them. Additionally, they will be very careful while shifting the source, so what is your plans about the marketing for this?

Ankit Patel: Hardik, we are there in the pigments business since almost 35 years, and we have a customer base not only domestic, but over 75 countries. And we have already started discussing with our various customer ways that we are coming with the titanium dioxide in next eight to nine months time. So, they have already shown good interest that there is a good demand and the Meghmani is coming with this kind of product range. So, it is nothing but the addition of a product in the existing product basket mix, with our existing customer. So yes, there will be some time for the approval. But compared to other player it will be a little faster and because we are existing pigment player. We hope that once we start the commercial products in the next two to three months' time after that we should start getting the product approval.

Moderator: Thank you. The next question is from the line of Ayush Agarwal with Mittal Analytics. Please go ahead.

Ayush Agarwal: Just a couple of questions on agro chem business. Do we sell to our distributors as well in the export market, do we have any idea on the kind of revenues that we get from the large MNC customers in the export market?

Ankit Patel: Could you please repeat?

Ayush Agarwal: No, I'm trying to understand how much of our revenues come from large MNC customers in the export market?

Bhagwan Chodhary: About 35% to 40%, approximately.

Ayush Agarwal: Okay, so 35% to 40% of our revenue is already coming from MNC. Can you name a few of them, if that's possible?

Ankit Patel: Yes, we have been working extensively with FMC Corporation, Sumitomo, Adama and Nufarm, to name a few.

Ayush Agarwal: That's really good to know, and if we are getting such a high percentage from them, then that's really good. Sir, my next question is on our upcoming Greenfield project in agro chem are we on track to start commercial production from Q2, Q3, what's the update and if you can throw some light on the products that we would manufacture there and our technical capabilities that we're adding there?

Ankit Patel: Yes, Ayush as have already mentioned that our CAPEX plan is in line, we hope to commission in the Q2 of next financial year, and we are coming with a couple of new products, but we would be announcing the name of the product and the time of commencing the production, till the time we have kept everything under coding at the project level and the company. Because these are relatively new products. At the same time, we have already started doing the registration of the same products into various markets. So, we hope that by the time we are commercializing the production we should have at least certain, in certain market few registrations available with us. So that is what our strategy is.

Moderator: Thank you. The next question is from Deepak Kia an Investor. Please go ahead.

Deepak Kia: I just had a question on the financial statements. Could you please elaborate a little bit more on the other expenses, which have some a significant increase like year-on-year. So, if we can break down the current other expenses that will be very helpful.

Ankit Patel: Deepak, other manufacturing expense includes mainly the electricity, steam, utility costs, logistic cost, packing cost, etc. Typically, in this financial year, the utility cost has also increased drastically, we all know that coal which is a major source for the steam and electricity, the coal price has increased drastically. And even today, it is very high and that is driving the major cost for the utility. At the same time the logistic cost has increased and polymer prices are also very high, and metal prices are also very high, which is also increased the packaging cost. And overall, our production capacity has increased if we look at the volume increase for the agrochemical. There is almost 40% growth in sales for the volume in terms of agro chemical and almost 18% volume growth in pigment division. So, there is a manufacturing volume increase also there at the same time, all the factors the cost has increased.

Moderator: Thank you. Owing to time constraints, that was our last question. Now, I would like to hand over the floor to Mr. Ankit Patel for closing comments.

Ankit Patel: I thank you all of you for taking your valuable time and joining us on this concall. The Company is on a strong growth trajectory coupled with a healthy balance sheet position. And we are very confident to create a sustainable value for all our stakeholders. Thank you very much.

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