

| Current | Previous |
|-----------------------|-----------------------|
| CMP : Rs.18 | |
| Reco : BUY | Reco : BUY |
| Target : Rs.34 | Target : Rs.34 |

STOCK INFO

| | |
|-------------------------|---------------|
| BSE | 532865 |
| NSE | MEGH |
| Bloomberg | MEGH IN |
| Reuters | MEGH.BO |
| Sector | Agro Chemical |
| Equity Capital (Rs mn) | 254 |
| Face Value (Rs) | 1 |
| Mkt Cap (Rs mn) | 3,789 |
| 52w H/L (Rs) | 31/8 |
| Avg Daily Vol (BSE+NSE) | 1,078,408 |

SHAREHOLDING PATTERN

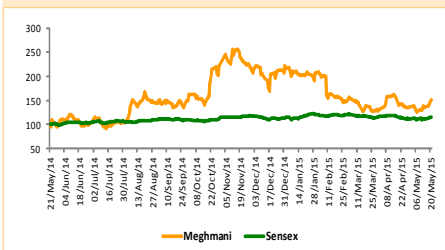
| | % |
|--------------------------|------|
| <i>(as on Mar. 2015)</i> | |
| Institutions | 1.2 |
| Others, Incl Public | 48.5 |
| Promoters | 50.3 |

Source: BSE

| STOCK PERFORMANCE (%) | 1m | 3m | 12m |
|-----------------------|----|----|-----|
| MEGHMANI ORGANICS | 7 | -3 | 51 |
| SENSEX | 0 | -3 | 14 |

Source: Capitaline, IndiaNivesh Research

MEGHMANI ORGANICS v/s SENSEX



Source: Capitaline, IndiaNivesh Research

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| (Rs Mn) | Q4FY15 | Q3FY15 | Q4FY14 | Q/Q % | Y/Y % | INSPL Est | Var % |
|---------|--------|--------|--------|---------|--------|-----------|--------|
| Sales | 2,950 | 3,039 | 3,032 | -2.9% | -2.7% | 3,064 | -3.7% |
| EBITDA | 557 | 413 | 517 | 34.8% | 7.7% | 444 | 25.4% |
| PAT | 156 | -45 | 36 | NM | 334.3% | 132 | 18.1% |
| EPS | 0.61 | -0.18 | 0.14 | -446.5% | 334.3% | 0.7 | -12.4% |

Source: Company Filings; IndiaNivesh Research

- MOL's Q4FY15 result was largely above our estimates, except revenue performance which was slightly below our expectation. Revenue went down 2.7% Y/Y to Rs.2,950 mn (v/s INSPL Est. Rs.3,064 mn). The revenue de-growth was on account of Agrochemicals (-8.0% Y/Y), Pigment (-4.3% Y/Y) and Others (-23.8% Y/Y) segments. This was partially offset by 6.2% Y/Y increase in Basic Chemicals segment.

| Segment Margin (%) | Q4FY14 | Q3FY15 | Q4FY15 | Q/Q % | Y/Y % | FY15 | FY14 | Y/Y % |
|--------------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|-------------|
| Revenue | | | | | | | | |
| Pigment | 1,098 | 1,058 | 1,050 | -0.8% | -4.3% | 4,319 | 4,015 | 7.5% |
| Agrochemicals | 1,044 | 1,068 | 961 | -10.1% | -8.0% | 4,559 | 4,107 | 11.0% |
| Basic Chemicals | 824 | 786 | 876 | 11.4% | 6.2% | 3,518 | 2,830 | 24.3% |
| Other/Unallocated | 359 | 343 | 274 | -20.1% | -23.8% | 1,405 | 1,672 | -15.9% |
| Less: Intersegment | 294 | 217 | 211 | -2.8% | -28.1% | 860 | 841 | 2.2% |
| Total | 3,032 | 3,039 | 2,950 | -2.9% | -2.7% | 12,942 | 11,783 | 9.8% |

Source: Company Filings; IndiaNivesh Research

- During the quarter, EBITDA went up 7.7% Y/Y to Rs.557 mn (v/s INSPL est: Rs.444 mn) on account of revival in Basic Chemicals electro chemical unit (ECU). As a result, EBITDA margin expanded 183 bps Y/Y to 18.9% (v/s INSPL est. 14.5%). The company reported PBT margin of 11.1% in Q4FY15 relative to 5.9% in Q4FY14 (See Table Below).

| Segment Margin (%) | Q4FY14 | Q3FY15 | Q4FY15 | Q/Q % | Y/Y % | FY15 | FY14 | Y/Y % |
|---|-------------|-------------|--------------|--------------|--------------|--------------|--------------|-------------|
| Segment Profit/(Loss) Before Taxes | | | | | | | | |
| Pigment | -143 | 71 | 65 | -7.8% | -145.6% | 255 | 204 | 24.8% |
| Agrochemicals | 99 | 105 | 82 | -21.7% | -17.2% | 400 | 284 | 41.2% |
| Basic Chemicals | 251 | 70 | 208 | 198.1% | -17.1% | 678 | 691 | -1.9% |
| Other/Unallocated | -27 | -11 | -29 | 160.0% | 4.8% | -83 | -38 | 119.9% |
| Total | 180 | 235 | 327 | 39.5% | 81.9% | 1,251 | 1,142 | 9.6% |
| Margin % | | | | | | | | |
| Pigment | -13.1% | 6.7% | 6.2% | -47 | 1,928 | 5.9% | 5.1% | 82 |
| Agrochemicals | 9.5% | 9.8% | 8.5% | -126 | -95 | 8.8% | 6.9% | 188 |
| Basic Chemicals | 30.5% | 8.9% | 23.8% | 1,491 | -669 | 19.3% | 24.4% | -515 |
| Other/Unallocated | -7.6% | -3.2% | -10.4% | -723 | -284 | -5.9% | -2.2% | -364 |
| Total | 5.9% | 7.7% | 11.1% | 338 | 516 | 9.7% | 9.7% | -2 |

Source: Company Filings; IndiaNivesh Research

- Depreciation during the quarter stood at Rs.198 mn (v/s Rs.198 mn in Q4FY14). The company reported other income of Rs.30 mn (v/s Rs.20 mn in Q4FY14). Interest expenditure during the quarter stood at Rs.161 mn (v/s Rs.236 mn in Q4FY14). Tax outgo was -Rs.1 mn (v/s +Rs.5 mn in Q4FY14) on account of declaration of dividend (Rs.0.40 – by MFL) by MOL subsidiary. During the quarter, the company reported the minority profit of Rs.71mn (v/s Rs.36 mn in Q4FY14). Net profit stood at Rs.156 mn (v/s Rs.36 mn in Q4FY14), which was above our estimate.

- Despite slight miss on revenue, MOL reported above company average EBITDA and PAT on back of better than expected recovery in Basic Chemical segment margin.
- The management announced the interim dividend of Rs.0.40/share from MFL business.

Key Result Highlights

Muted Revenue Performance...

The consolidated revenue de-grew by 2.7% Y/Y to Rs. 2950 mn (v/s Rs.3032 mn). The key reasons was de-growth in Agrochemical (-8.0% Y/Y), Pigments (-4.3% Y/Y) and Others (-23.8% Y/Y) segments, partially offset by 6.2% Y/Y increase in Basic Chemicals segment revenue. Decline in Agro-Chemical segment revenue was due to 15 days of production loss in Dahej-SEZ plant on account of pollution control boards notice. The performance in Pigment segment should pick-up in 2HFY15 once the products are approved by clients from newly commenced Dahej plant. We forecast revenue growth of 9.7%/9.1% Y/Y in FY16E/FY17E.

Revival in Basic Chemical-segment EBIT margin...

On back of strong revival in Basic Chemical plant ECU segment EBIT margin stood at 23.8% (v/s 8.9% in Q3FY15). **This was a positive surprise, we expected only 15% EBIT margin recovery in Q4FY15 (v/s Q3FY15).** Agro-segment EBIT margin contracted 95 bps Y/Y to 8.5% (v/s 9.5% in Q4FY14) on account of plant shut-down. Given the arrival of 'Kharif' season, we see revival in Agro-segment EBIT margin to the historical level going-ahead. However, Pigment segment overall utilization levels may take time to pick-up due to commencement of Dahej facility. During the quarter, Pigment segment EBIT margin stood at 6.2% (v/s -13.1% in Q4FY14). As a result, overall EBIT expanded by 516 bps Y/Y to 11.1% (v/s 5.9% in Q4FY14).

Debt Position Update...

The Company invested heavily in creating capacities in all three key businesses over last three years. The capex program for the same has been funded largely through borrowed funds. The company has now put in place a debt reduction plan whereby it aims to reduce long term debt by Rs.2,880 mn over FY16-17. The debt repayment schedule is as follows: Repayment of Rs.1323 mn in FY16E and Rs.919 mn FY17E. **In FY15, MOL reduced debt by around 6.7% to Rs.487 mn (Rs.6,793 mn in FY15 v/s Rs.7,280 mn in FY14).** The management do not see any new capex announcement from here on, except some debottlenecking capex for existing operations in some cases.

Valuations

At CMP of Rs.18, the stock is trading at EV/EBITDA multiple of 4.4x FY16E and 3.5x FY17E estimates. In our view, the current valuations are significantly below 7.5x global peer average. On back of various available triggers (1) debt reduction, (2) margin expansion, (3) higher plant utilization, and (4) favourable business dynamics the stock is poised for re-rating. With revival in business cycle, we have assigned 5.7x EV/EBITDA multiple to arrive at FY17E based price target of Rs.34/share. Given the huge upside, we maintain BUY on the stock.

Income Statement

| Y E March (Rs m) | FY13 | FY14 | FY15 | FY16e | FY17e |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| Net sales | 10,585 | 11,783 | 12,942 | 14,202 | 15,490 |
| Y/Y Ch % | -0.4 | 11.3 | 9.8 | 9.7 | 9.1 |
| COGS | 6,642 | 7,495 | 8,366 | 9,025 | 9,599 |
| SG&A | 2,091 | 2,329 | 2,545 | 2,911 | 3,330 |
| EBITDA | 1,852 | 1,959 | 2,031 | 2,265 | 2,561 |
| Y/Y Ch % | 17.1 | 5.8 | 3.7 | 11.5 | 13.1 |
| EBITDA Margin % | 17.5 | 16.6 | 15.7 | 15.9 | 16.5 |
| Interest | 643 | 676 | 746 | 532 | 450 |
| Depreciation | 751 | 802 | 747 | 765 | 792 |
| EBIT | 458 | 480 | 538 | 968 | 1,318 |
| EBIT Margin % | 4.3 | 4.1 | 4.2 | 6.8 | 8.5 |
| Other Income (Inc Forex) | 133 | 61 | 64 | 23 | 23 |
| Extra Ordinary Exps/(Income) | 9 | 5 | 2 | - | - |
| PBT | 582 | 537 | 600 | 991 | 1,341 |
| Tax | 299 | 181 | 140 | 331 | 448 |
| Effective tax rate % | 51.4 | 33.7 | 23.3 | 33.4 | 33.4 |
| Reported PAT | 283 | 356 | 460 | 660 | 893 |
| Y/Y Ch % | 699.7 | 25.7 | 29.4 | 43.5 | 35.3 |
| Minority & Exceptional | 111 | 127 | 21 | 147 | 157 |
| Adj. PAT (APAT) | 172 | 229 | 439 | 513 | 736 |
| RPAT Margin % | 1.6 | 1.9 | 3.4 | 3.6 | 4.8 |
| Y/Y Ch % | 392.3 | 32.9 | 91.7 | 16.9 | 43.4 |

Source: Company filings; IndiaNivesh Research

Balance Sheet

| Y E March (Rs m) | FY13 | FY14 | FY15 | FY16e | FY17e |
|----------------------------|---------------|---------------|---------------|---------------|---------------|
| Share Capital | 254 | 254 | 254 | 254 | 254 |
| Reserves & Surplus | 4,766 | 4,927 | 5,261 | 5,672 | 6,256 |
| Net Worth | 5,020 | 5,181 | 5,515 | 5,927 | 6,510 |
| Minority | 797 | 924 | 943 | 1090 | 1247 |
| Long-term + ST loans | 6376 | 7495 | 6793 | 5893 | 4993 |
| Others | 310 | 431 | 44 | 44 | 44 |
| Total Liabilities | 12,502 | 14,031 | 13,295 | 12,954 | 12,794 |
| Gross Block | 11,382 | 12,395 | 13,171 | 13,626 | 14,026 |
| Less Depreciation | 3,638 | 4,382 | 5,129 | 5,880 | 6,656 |
| Net Block | 7,744 | 8,013 | 8,043 | 7,747 | 7,370 |
| Intangible | 137 | 141 | 0 | -14 | -30 |
| Investments | 651 | 658 | 327 | 327 | 327 |
| Defered tax (net) | -202 | -370 | -472 | -472 | -472 |
| Current Assets | 6,871 | 7,823 | 7,075 | 8,365 | 8,947 |
| Sundry Debtors | 3,393 | 3,523 | 3,167 | 4,085 | 4,456 |
| Cash & Bank Balance | 339 | 373 | 329 | 692 | 578 |
| Loans & advances | 1,327 | 1,431 | 1,421 | 1,559 | 1,700 |
| Inventories | 1,811 | 2,496 | 2,158 | 2,029 | 2,213 |
| Current Liabilities | 1,462 | 1,736 | 1,434 | 2,218 | 2,419 |
| Provisions | 1,235 | 498 | 244 | 781 | 929 |
| Net Current Assets | 4,173 | 5,589 | 5,397 | 5,366 | 5,598 |
| Total assets | 12,502 | 14,031 | 13,295 | 12,954 | 12,794 |

Source: Company filings; IndiaNivesh Research

Cash Flow

| Y E March (Rs m) | FY13 | FY14 | FY15 | FY16e | FY17e |
|--|---------------|---------------|--------------|---------------|---------------|
| Operating Profit | 1,101 | 1,156 | 1,284 | 1,500 | 1,768 |
| Depreciation | 751 | 802 | 747 | 765 | 792 |
| Interest Exp | -643 | -676 | -746 | -532 | -450 |
| Changes in Working Capital | 526 | -1,098 | -139 | 394 | -347 |
| Cash Flow After Chang in WCapital | 1,735 | 185 | 1,146 | 2,127 | 1,764 |
| Tax | -299 | -181 | -140 | -331 | -448 |
| Others | 133 | 61 | 64 | 23 | 23 |
| Cash flow from operations | 1,569 | 65 | 1,070 | 1,819 | 1,339 |
| Capital expenditure (net) | -1,473 | -1,083 | -305 | -455 | -400 |
| Free Cash Flow | 96 | -1,018 | 765 | 1,364 | 939 |
| Other income | 0 | 0 | 0 | 0 | 0 |
| Investments | 0 | 0 | 0 | 0 | 0 |
| Cash flow from investments | -1,473 | -1,083 | -305 | -455 | -400 |
| Long-Term Debt (Decrease) Increase | -594 | 1,120 | -702 | -900 | -900 |
| Dividend paid (incl tax) | -29 | -30 | -203 | -102 | -153 |
| Share Issue / Repurchase & Others | 236 | -39 | 97 | 0 | 0 |
| Cash flow from Financing | -387 | 1,052 | -809 | -1,002 | -1,053 |
| Net change in cash | -292 | 34 | -43 | 362 | -114 |
| Cash at the beginning of the year | 630 | 339 | 373 | 330 | 692 |
| Cash at the end of the year | 339 | 373 | 330 | 692 | 578 |

Source: Company filings; IndiaNivesh Research

Key Ratios

| Y E March | FY13 | FY14 | FY15 | FY16e | FY17e |
|------------------------------|-------|-------|-------|-------|-------|
| Adj. EPS (Rs) | 0.7 | 0.9 | 1.7 | 2.0 | 2.9 |
| Cash EPS (Rs) | 3.6 | 4.1 | 4.7 | 5.0 | 6.0 |
| DPS (Rs) | 0.1 | 0.1 | 0.2 | 0.4 | 0.6 |
| BVPS | 19.7 | 20.4 | 21.7 | 23.3 | 25.6 |
| ROCE % | 9.7 | 9.1 | 10.4 | 12.7 | 15.4 |
| ROE % | 3.4 | 4.4 | 8.0 | 8.7 | 11.3 |
| ROIC % | 1.1 | 1.4 | 1.8 | 3.2 | 4.6 |
| EBITDA Margin % | 17.5 | 16.6 | 15.7 | 15.9 | 16.5 |
| PER (x) | 27.7x | 20.3x | 10.6x | 9.1x | 6.3x |
| P/BV (x) | 0.9x | 0.9x | 0.8x | 0.8x | 0.7x |
| P/CEPS (x) | 5.0x | 4.5x | 3.9x | 3.6x | 3.0x |
| EV/EBITDA (x) | 5.8x | 6.0x | 5.5x | 4.4x | 3.5x |
| Dividend Yield % | 0.6 | 0.5 | 1.1 | 2.2 | 3.3 |
| m cap/sales (x) | 0.4x | 0.4x | 0.4x | 0.3x | 0.3x |
| net debt/equity (x) | 1.2x | 1.4x | 1.2x | 0.9x | 0.7x |
| net debt/ebitda (x) | 3.3x | 3.6x | 3.2x | 2.3x | 1.7x |
| Debtors (Days) | 115 | 108 | 88 | 105 | 105 |
| Creditors (Days) | 50 | 53 | 40 | 57 | 57 |
| Inventory (Days) | 62 | 77 | 61 | 52 | 52 |
| Cash Conversion Cycle (Days) | 128 | 132 | 109 | 100 | 100 |

Source: Company filings; IndiaNivesh Research

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