

Current	Previous
<b>CMP : Rs.15</b>	
<b>Reco : BUY</b>	<b>Reco : BUY</b>
<b>Target : Rs.34</b>	<b>Target : Rs.34</b>

**STOCK INFO**

Index	S&P BSE SMALL CAP
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)	818,279

**SHAREHOLDING PATTERN**

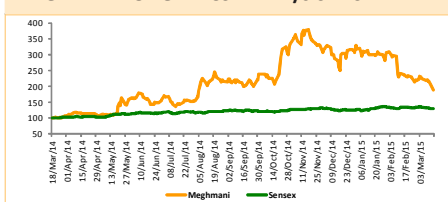
	%
(as on Dec. 2014)	
Institutions	1.2
Others, Incl Public	48.5
Promoters	50.3

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
MEGHMANI ORGANICS	-18	-37	89
SENSEX	0	2	30

Source: Capitaline, IndiaNivesh Research

**MEGHMANI ORGANICS LTD. v/s SENSEX**



Source: Capitaline, IndiaNivesh Research

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- We recommended BUY on Meghmani Organics Ltd (MOL) at Rs.15/share on August 6<sup>th</sup> 2014. The stock already yielded 105% return and touched 52 week high price of Rs.31/share on November 11<sup>th</sup> 2014.
- During Q3FY15, the company reported 3.7% Y/Y revenue growth with ~290 bps Y/Y contraction in EBITDA (to 13.6%) margin and net loss of Rs. 45 mn (v/s net profit of Rs.179 mn in Q3FY14). However, the company demonstrated strong performance in 1HFY15 (v/s 1HFY14) on back of improved performance in Agrochemical and Pigment business and stability in Basic Chemical segment. The disappointment during Q3FY15 was due to dip in Caustic-Chlorine (Basic Chemical) price, given the significant crash in the crude prices.

Quarterly Performance (Rs Mn)									
Consolidated	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q/Q %	Y/Y %
Total Income	2,560	3,260	2,931	3,032	3,127	3,827	3,039	-20.6%	3.7%
EBITDA	416	328	485	-477	460	563	413	-26.6%	-14.8%
Reported Net Profit	-31	-96	179	-808	159	251	-45	-117.9%	-125.2%
EPS	-0.1	-0.4	0.7	-3.2	0.6	1.0	-0.2	-117.9%	-125.2%
O/shares	254	254	254	254	254	254	254	0.0%	0.0%
<b>Margin %</b>									
EBITDA Margin (%)	16.2%	10.1%	16.5%	-15.7%	14.7%	14.7%	13.6%		
PAT Margin (%)	-1.2%	-2.9%	6.1%	-26.7%	5.1%	6.6%	-1.5%		

Source: Company Filings; IndiaNivesh Research

- Basic chemical is high margin and highest contributor to the overall profitability (See Table Below). However, due to sudden fall in Caustic-Chlorine ECU (to Rs.23,000/tons from Rs.27,000/tons) the segments profitability took a hit during the quarter. However, the prices recovered from lower level during the midst of Q4FY15. Hence, we expect material impact to flow in segment profitability during the quarter. Further, one-off deferred tax liability impact is not likely to repeat during Q4FY15. As a result, we expect all-round turnaround in performance both at the top-line and bottom-line level in Q4FY15E.

Segment Margin (%)	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15	As % of Rev	
								Q3FY15	Q3FY14
Pigment	17.1%	13.7%	5.7%	-13.1%	4.2%	6.6%	6.7%	30.2%	21.9%
Agrochemicals	5.1%	4.7%	8.6%	9.5%	8.5%	8.4%	9.8%	44.7%	31.0%
Basic Chemicals	21.6%	24.2%	19.9%	30.5%	22.3%	20.9%	8.9%	29.8%	50.8%
Other/Unallocated	-3.3%	1.3%	-2.1%	-7.6%	-5.8%	-5.2%	-3.2%	-4.7%	-3.8%
<b>Total</b>	<b>13.0%</b>	<b>11.2%</b>	<b>9.0%</b>	<b>5.9%</b>	<b>9.7%</b>	<b>10.1%</b>	<b>7.7%</b>		

Source: Company Filings; IndiaNivesh Research

**Valuations**

At CMP of Rs.15, the stock is trading at EV/EBITDA multiple of 5.0x FY15E, 4.0x FY16E, and 3.2x 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.

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HOLD. We expect this stock to deliver -15% to +15% returns over the next 12 months.

SELL. We expect this stock to deliver <-15% returns over the next 12 months.

Our target prices are on a 12-month horizon basis.

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One year Price history of the daily closing price of the securities covered in this note is available at [www.nseindia.com](http://www.nseindia.com) and [www.economicstimes.indiatimes.com/markets/stocks/stock-quotes](http://www.economicstimes.indiatimes.com/markets/stocks/stock-quotes). (Choose name of company in the list browse companies and select 1 year in icon YTD in the price chart)



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