

Current	Previous
<b>CMP : Rs.25</b>	<b>CMP : Rs.15</b>
<b>Reco : BUY</b>	<b>Reco : BUY</b>
<b>Target : Rs.34</b>	<b>Target : Rs.34</b>

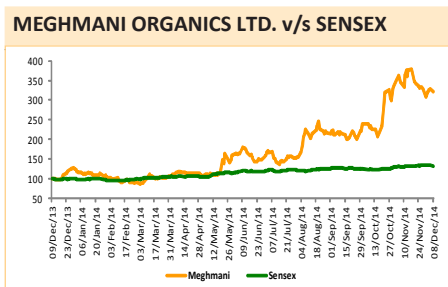
STOCK INFO	
BSE	532865
NSE	MEGH
Bloomberg	MEGH IN
Reuters	MEGH.BO
Sector	Agro Chemical
Index	S&P BSE Small Cap
Equity Capital (Rs mn)	254
Face Value (Rs)	1
Mkt Cap (Rs mn)	6,103
52w H/L (Rs)	31/7
Avg Daily Vol (BSE+NSE)	818,279

SHAREHOLDING PATTERN	%
(as on Sep. 2014)	
Institutions	0.7
Others, Incl Public	48.7
Promoters	50.6

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
MEGHMANI	-11	50	222
SENSEX	1	6	32

Source: Capitaline, IndiaNivesh Research



Source: Capitaline, IndiaNivesh Research

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*Meghmani Organics Ltd (MOL) is one amongst the top-100 global generic agrochemicals player and also one of the largest blue pigment producers in the world. After many years of dismal performance MOL is on the verge of turnaround. Following are the key triggers, which could lead to significant business turn-around: (1) margin expansion on back of stabilization of recently commenced facilities, (2) higher profitability and lack of incremental capex could lead to debt repayment, (3) permissions from State Pollution Control Board, positions MOL to operate at peak capacity, (4) various safety & quality certifications could also bring CRAMS opportunity in agrochemical segment. MOL is currently trading at forward EV/EBITDA multiple of 5.6x FY15E and 4.6x FY16E. With revival in business cycle, we have assigned 5.6x EV/EBITDA multiple (25% discount to global peers) and arrive at target price of Rs.34/share. Given the 33.3% upside, we continue to maintain BUY on the stock. (The stock already yielded ~100% return since our first recommendation date 6<sup>th</sup> Aug. 2014).*

### Investment Rational

- **Agrochemicals, key revenue & margin driver:** Given the strong products portfolio and increased focus on domestic market, MOL's agrochemical business is ready for higher top-line and bottom-line growth. We forecast agrochemical segment revenue CAGR of 22% over FY14-16E.
- **Strong player in pigment industry:** On back of huge overseas client base, improving domestic and global demand and vertically integrated manufacturing facilities, pigment segment is poised for higher revenue and profitability. Additionally, stringent client requirements (i.e. Shade, Thickness, and Reaction) bring lot of sticky revenue base. We forecast pigment segment revenue CAGR of 8% over FY14-16E.
- **Basic Chemical plant had stabilized:** Post the stabilization of power plant, the segment is positioned to deliver 18.9% revenue CAGR over FY14-16E. On back of significant use of Caustic Chlorine in everyday lives and given their wide ranging applications in major end consumer markets, demand for basic chemicals is steadily on the rise.
- **External environmental issues to tame down:** Post the deployment of pollution control equipment the permissions are in place from state level Pollution Control Board to operate most of its plant at full capacity. As result, we expect MOL's combined utilization level to inch-up to 78% in FY15E (v/s 72% in FY14A).
- **Capex cycle coming to an end:** All investments either in Agro Division or Pigments division are complete and all new facilities were commissioned. We do not expect growth capex from here-on, except for debottlenecking in some cases. Further, the board's decision of not doing any growth capex for next two years strengthens our view.
- **High Free Cash Flow (FCF) Generation:** The improvement in utilization level, uptick in profit margin and stability in key raw material prices could lead to high free-cash-flow generation. We expect FCF CAGR of 106% over FY14A-16E as against -32% CAGR over FY11A-13A.
- **Debt burden to reduce going-forward:** Given the reduction in capital spending cycle, MOL is poised for high FCF generation, which would help in reducing long-term debt. The management intends to repay Rs.2,880 mn over next 3Yrs (2015E-17E).

### Risk & Concern

- **Expose to Monsoon Fluctuation**
- **Surge in Raw Material Prices**

### Valuations

At CMP of Rs.25, the stock is trading at EV/EBITDA multiple of 5.6x FY15E and 4.6x FY16E estimates. The current valuations are significantly below 7.5x global peer average. On back of various available triggers, we have assigned 5.6x EV/EBITDA multiple (25% discount to global peers) to arrive at FY16E based price target of Rs.34/share. Given the sizeable upside, we continue to maintain BUY on the stock.

Y/e March (Rs Mn)	Net Sales	EBITDA	Adj. PAT	Equity Capital	EPS (Rs)	EV/EBITDA (x)
FY14A	11,783	1,959	229	254	0.9	6.9x
FY15E	14,020	2,328	537	254	2.1	5.6x
FY16E	15,441	2,655	768	254	3.0	4.6x

Source: Company, IndiaNivesh Research

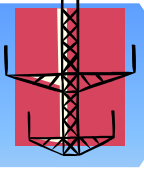
# Meghmani Organics Ltd

a CLASSIC TURNAROUND STORY

## Then

## Now

**UTILIZATION DOWN TO 41-45% IN PIGMENTS + AGRO (FY12-14)**



#SEGMENT UPTICK

#EXTERNAL ISSUES

#CAPITAL EXPENDITURE

#FREE CASH FLOW GENERATION

#DEBT

**UTILIZATION UPTICK IN ALL KEY SEGMENTS**



**POLLUTION CONTROL NORMS LED TO FACTORY SHUTDOWN: COST Rs.1,600 MN**



**PRODUCTION IS NOW ON IN DAHEJ PLANT**




**Rs.3.4BN CAPEX ADDED IN LAST 6YRS**



**Rs.1.6BN CAPEX PLANNED IN NEXT 3 YRS**

**-Rs.989 MN IN LAST 3 YRS** -3.0% OF SALES IN 3YRS



**Rs.2.7 BN IN NEXT 3 YRS** 6.0% OF SALES IN 3YRS



**Rs.5.2BN DEBT ADDED IN LAST 7 YRS**



**Rs.2.9BN TO BE PAID DOWN IN NEXT 3 YRS**

**PAID**

Source: IndiaNivesh Research

## Investment Rationale

### # Key Segment Uptick

#### I. Agrochemicals, key revenue & margin driver

- The agrochemical segment underperformance in past was due to the following: (1) shutdown of Chharodi (Gujarat) plant on account of continuous pollution control boards intervention, (2) lower plant utilization level for 3-4 years due to re-location of plant from Chharodi to Dahej, (3) severe impact on margin due to high toll manufacturing (sub-contracting), and (4) instability in newly started 2, 4 D plant at Dahej.
- However, now all the odds have turned in favour of Meghmani, given that above highlighted issues are completely resolved. Additionally, on back of strong global presence with subsidiaries in USA, Belgium, Mexico, Indonesia and China and warehouses in Germany, Turkey, Russia, and Uruguay, we expect agrochemical segment to report higher revenue and margins going-ahead.
- The company has strong technical and distribution capabilities which is likely to fuel the growth on a sustainable basis. Technical capabilities of MOL are visible through its own registrations of 22 agrochemicals products and 109 registration with Co-partners. Additionally, it has 222 CIB registrations (technical & formulations) and 27 registered trademarks which strengthens its product portfolio. Its strong distribution network of 4,000 dealers reaching 3 lakh villages in India through 60 full-time sales staff (likely to reach 100 sales staff over medium-term), enables wide reach of diversified product range.
- In domestic business (25% of total revenue), nearly 90% of revenue is contributed by 80 clients (formulators) and remaining 10% through selling of their own branded products. However, post the induction of Mr. Chander Kumar Sabharwal on board; we expect branded product revenue to increase from hereon. Mr. Sabharwal comes with wide experience in agrochemical industry (See Table Below).

*All odds had turned in the favour and segment is positioned to perform from here on...*

*Induction of experienced professional in top management imply focus on growth*

**Table: Mr. Sabharwal's experience in agrochemical industry**

Name	Date of Appointment	Designation
Crop Health Products Ltd	21-May-74	MD
Crop Health Chemicals Pvt Ltd	26-Feb-86	MD
Petch Agri Biotech Private Ltd	18-Feb-08	Director
Caliber Farm Solutions Pvt Ltd	19-Jun-10	Director
Optima Farm Solutions Ltd	03-Aug-10	Director
Meghmani Organics Ltd	02-Aug-13	Additional Director

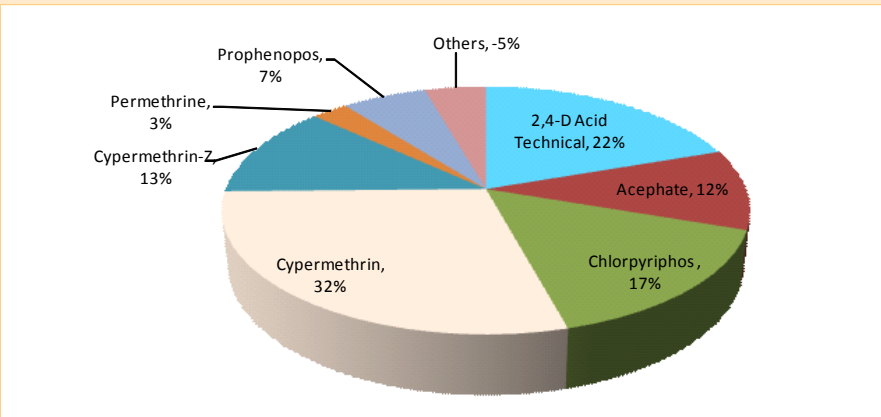
Source: IndiaNivesh Research

*Plant utilization level has increased significantly in H1FY15*

- In 1HFY15, the company reported revenue and PBT growth of 20.1%/108% Y/Y to Rs.2,530 mn/Rs.213 mn, respectively. PBT margin expanded 360 bps Y/Y to 8.4% (v/s 4.9% in 1HFY14). The key margin tailwind was plant utilization factor, which is expected to reach ~57% in FY15E from 46% in FY14. Plant utilization improved on back of higher utilisation in synthetic pyrethroid group, capacity utilisation of M-Phenoxy Benzaldehyde (MPB) and sustained utilisation of 2,4D plant.
- The agrochemical segment contributed ~35% to MOL's consolidated revenue and ~26% to consolidated EBITDA in FY14. We forecast agro-segment revenue growth of 22.4%/21.6% Y/Y in FY15E/FY16E and likely to contribute 33%/23% in FY16 of consolidated revenue and EBITDA, respectively.

### Key Segment Details

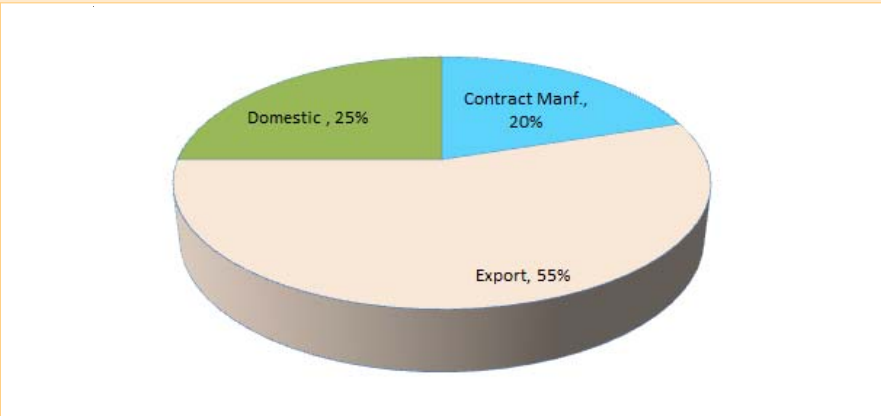
**FY14: Product Mix (calculated on the bases of quantity)**



Source: Company, IndiaNivesh Research

Currently holding 2 registrations in US (Acephate, Permethrine). Expect 1 registration (Delta Methrine) in Europe by CY16 & 1 registration (Herbicides) in Brazil by CY17

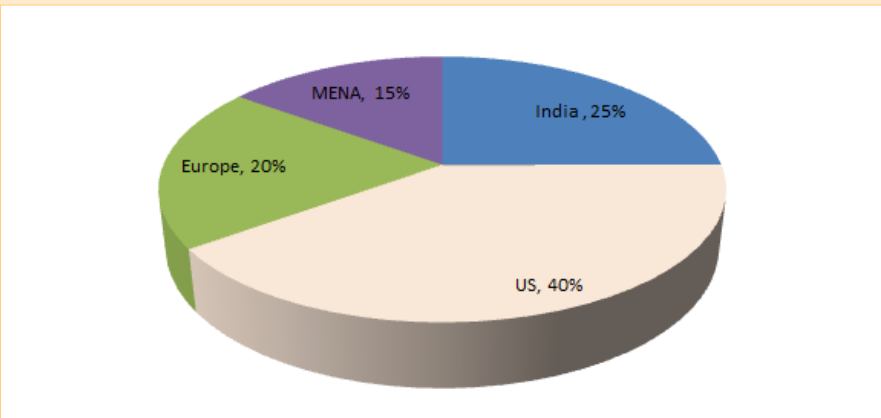
**FY14: Revenue Mix (Value-wise)**



Source: Company, IndiaNivesh Research

The company has contract manufacturing agreement with FMC Corp. for Cypermethrin-Z

**FY14: Geographic Mix (Value-wise)**



Source: Company, IndiaNivesh Research

Cypermethrin-Z and Acephate are the product registered in US geography.....

From FY11-13 the company's utilization level suffered significantly due to Chharodi issue, which impacted the production of key products like Acephate, Cypermethrin, Permethrin, MPB and CMAC.

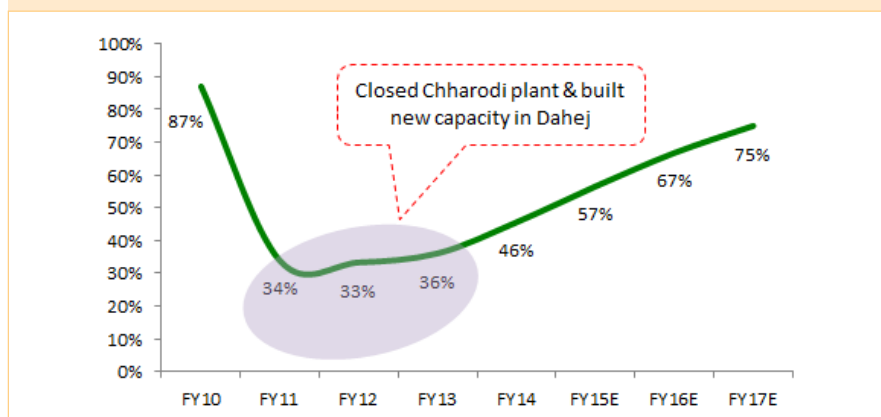
Sizeable market share, long term client relationship & increasing demand in domestic market increases revenue visibility

Diversified client base; not overly dependant on paint & printing ink

Vertically integrated manufacturing facility

Production stabilized in newly commissioned Dahej plant; ramp-up to yield results in future

### Plant Utilization Level (Agrochemical division)



Source: Company, IndiaNivesh Research

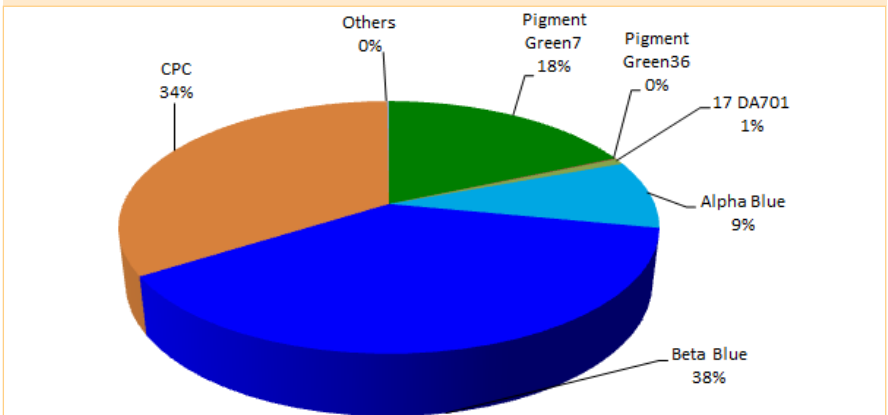
- Conclusion:** The Company's strong product portfolio, wide distribution network, new product launch, and large operating capacity (26,376 MT) could fuel growth on a sustainable basis. On back of strong technical and operational capacity, MOL is well placed to reach revenue mark of Rs.10.0 bn (v/s Rs.3.9 bn in FY14) in long-term at ~85% utilization level. We expect agrochemical business to grow at 22% revenue CAGR over FY14-16E.

## II. One amongst the leading player in pigment industry...

- MOL holds leading position in phthalocyanine pigments (both green & blue) with 6-7% of global market share in terms of quantity. The global market size of organic pigments is ~\$4.5bn and growing at ~3% annually. On back of lesser competition from Chinese players demand for Indian made phthalocyanine pigment is increasing globally.
- In FY14, MOL's total installed capacity stood at 30,540 MT/Annually, including both green (10% of total capacity) and blue (90% of total capacity) pigments. Given the company's established industry position and global presence (250 clients across 75 countries) MOL remains the major beneficiary of changing industry dynamics. Additionally, entry barriers like high degree of customization (shade, strength, reaction, etc) and rigorous time and expenditure in obtaining approvals from MNC results in sticky revenue base.
- Vertically integrated manufacturing facilities (Panoli & Dahej) also bring lot of flexibility and efficiency to overall operation. As a result, MOL is not only involved in selling of finished pigments (Pigment Green 7, Pigment Green 36, Alpha Blue, and Beta Blue) but also sells various backend products (E.g. CPC Blue).
- Globally printing ink and coatings accounts for ~90% of pigments consumption (30-35% share of phthalocyanine pigments). MOL's revenue mix comprises of ~50% contribution from printing ink, 25% from plastic, 15% from paint, and 10% from textiles. In FY14, export contributed nearly 78% of the total revenue and remaining is driven by domestic business. Pigment industry in India is likely to grow by 10-12% Y/Y.
- In 1HFY15, the company reported revenue growth of 16% Y/Y to Rs.2,210 mn. However, PBT margin contracted 10% points to 5.0% (v/s 15% in 1HFY14) over the same period. The key reason for margin headwinds was low utilization at recently commenced Dahej facility. The uptick in utilization from 38% (in FY14) in Dahej facility could improve the overall utilization to 59% in FY15E (v/s 45% in FY14).
- The pigment segment contributed ~28% to consolidated revenue and 17% to consolidated EBITDA in FY14. We forecast segment revenue CAGR of 8.0% in FY14-16E and likely to contribute 27%/17.6% to FY16 consolidated revenue and EBITDA, respectively.

### Key Segment Details

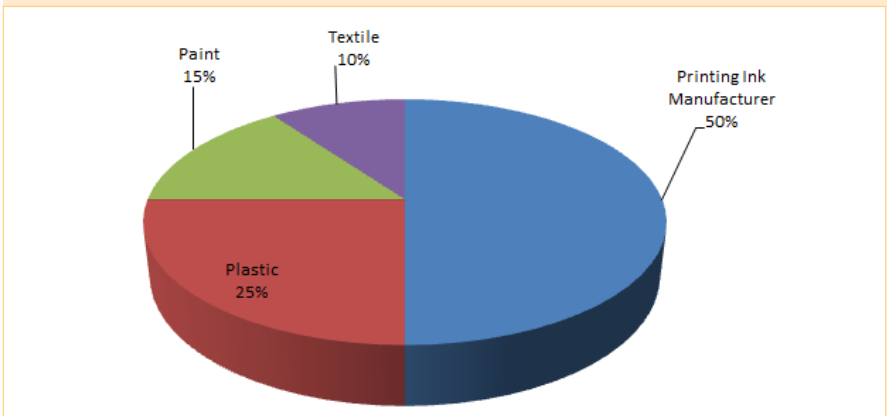
#### FY14: Product Mix (calculated on the bases of quantity)



The company's largest revenue contributor is Beta Blue (38%) followed by CPC (27%), Pigment Green7 (23%), and Alpha Blue (11%)

Source: Company, IndiaNivesh Research

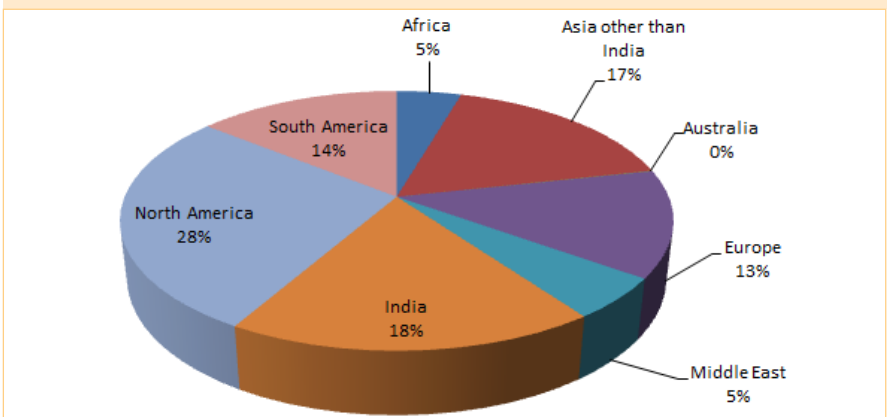
#### FY14: Industry-wise Revenue Mix



Unlike industry, MOL's revenue from Printing Ink and Paint is only 65% (v/s 90% for industry)

Source: Company, IndiaNivesh Research

#### FY14: Geography-wise Revenue Mix



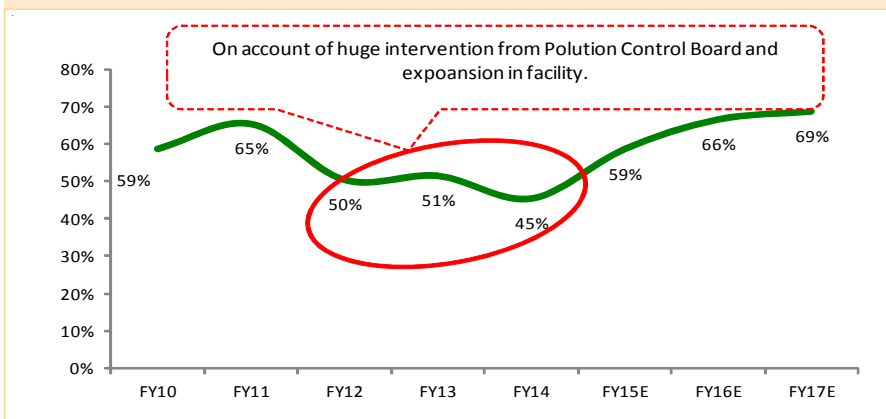
North America, South America, Europe and Asia other than India comprises 72% of the total revenue

Source: Company, IndiaNivesh Research



Pigment plant's utilization level suffered significantly due to Commencement of Dahej Plant and huge intervention from pollution control board. Now all the required pollution control equipment is in place; hence expect improvement in utilization level

### Pigment Plant Utilization Level



Source: Company, IndiaNivesh Research

- Conclusion:** On back of high quality product portfolio, increasing focus on sale of finished Pigments, huge overseas client base, increase demand for pigments in India, and vertically integrated manufacturing facilities, we expect pigment business to post higher revenue and profitability over long-term. Considering the criticality in product and stringent criteria the client stickiness is largely assured.

### III. MFL's (Basic Chemical) plant has stabilized...

Expansion through debt & time taken to stabilize captive power plant dragged the overall profitability of MFL

Related diversification to KOH will help in utilizing resources better

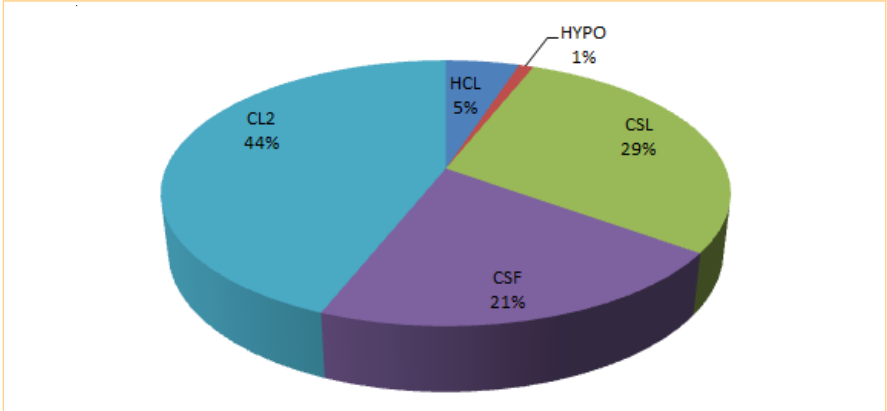
Robust demand outlook and huge application of basic chemical in the consumer staple industry increases revenue visibility

- Meghmani Finechem Ltd (MFL) is a 57% subsidiary of MOL. This subsidiary is involved in production of Caustic Soda Lye/Flakes, Liquid Chlorine and Hydrogen Gas by using latest membrane cell technology. MFL has total Caustic Soda capacity of 158,000 Ton per Annum (TPA) and Liquid Chlorine capacity of 140,000 TPA along with 60 MW of Power Plant. The facility in the second largest Caustic Soda Flakes capacity in India.
- MFL commenced commercial production of basic chemical from 1st July, 2009. The company invested Rs.6,500 mn comprising Rs.4,380 mn by way of debt and balance Rs.2,120 mn by equity. In Jan-2010, MFL also enhanced Caustic-Chlorine plant capacity from 340 TPD to 476 TPD. Post the expansion total plant capacity increased from 1,19,000 TPA to 1,58,000 TPA. The company had also increased Captive power plant capacity from 40 MW to 60 MW in Jul-2014.
- Profitability took a significant hit for initial 3-4 years on account of power plant utilization issues, which led to increase in production cost; as a result despite rise in revenue profitability took a significant hit. However, now power plant has stabilised and sustenance of current revenues and increase in profitability could lead to repayment of debt.
- In order to increase the operating efficiency, MFL is expanding its product mix to Caustic Potash (KOH) in same basic chemical plant at Dahej. MFL has received all the necessary approvals. The estimated cost of project would be ~Rs.650 mn, 100% funded through internal accruals. Expansion will lead to higher optimisation of resources to caustic chlorine plant. KOH facility will have competitive advantage as it will be only second plant of its kind in the country. In FY17, MFL management expect ~Rs1,300 mn revenue and PBT of Rs.170 mn from KOH facility.
- Caustic-Chlorine is used in the number of industries such as pigments, plastics, petroleum and natural gas extraction, manufacturing of organic chemicals, industrial solvents, water treatment chemicals and pharmaceuticals. Caustic Potash is largely used in Soap, Detergent, Fertilizer, Chemical, Dyes, Pharmaceuticals, and Photography industries.
- In 1HFY15, the company reported revenue and EBITDA growth of 34.5%/37.9% Y/Y, respectively. We expect overall utilization level to improve to 86% in FY15E (v/s 85.3% in FY14).

- Basic chemical segment contributed 22%/62% to the consolidated revenue and EBITDA in FY14. We forecast revenue CAGR of 18.9% in FY14-16E and expect this segment to contribute 24%/47% to consolidated revenue/EBITDA in FY16. In our view, the selling price of per unit production [electro chemical unit (ECU)] from basic chemical plant to remain in the range of Rs.26,500/tons to Rs.27,000/tons over the forecast period.

**Key Segment Details**

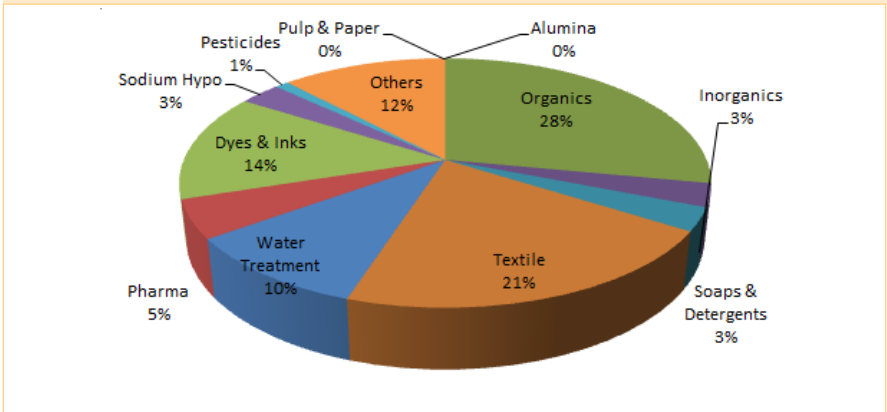
**FY14: MFL Product Mix (calculated on the bases of quantity)**



Source: Company, IndiaNivesh Research

Every 100 MT of Caustic Soda Lye yields 90 MT/2 MT of Liquid Chlorine and Hydrogen Gas respectively.

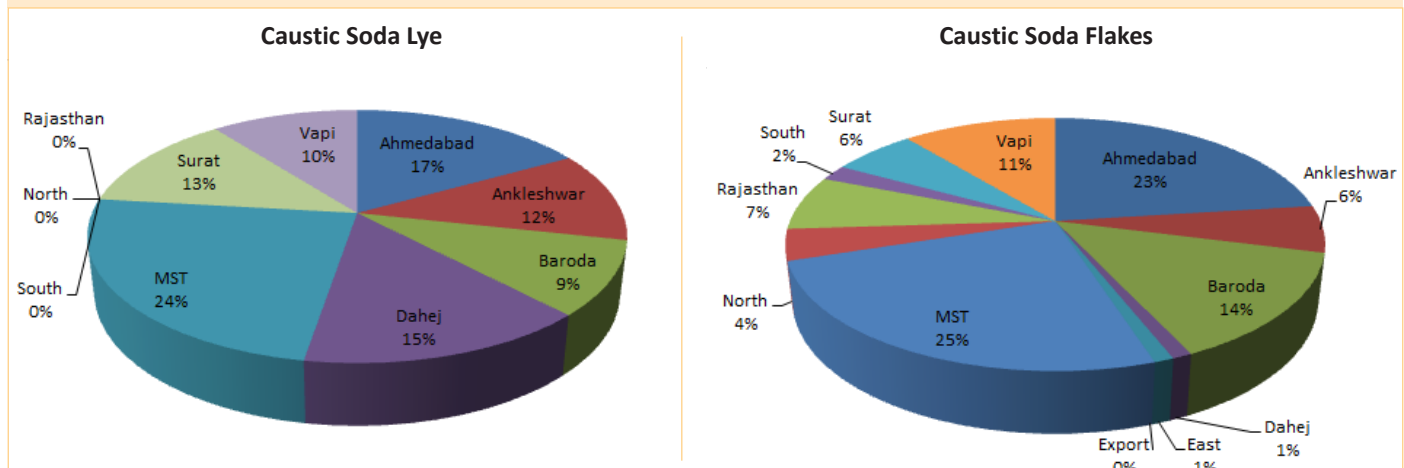
**FY14: MFL Caustic Soda Lye Revenue Mix (Industry-wise)**



Source: Company, IndiaNivesh Research

Caustic Soda is used in various industries

**FY14: MFL Geographic Mix**

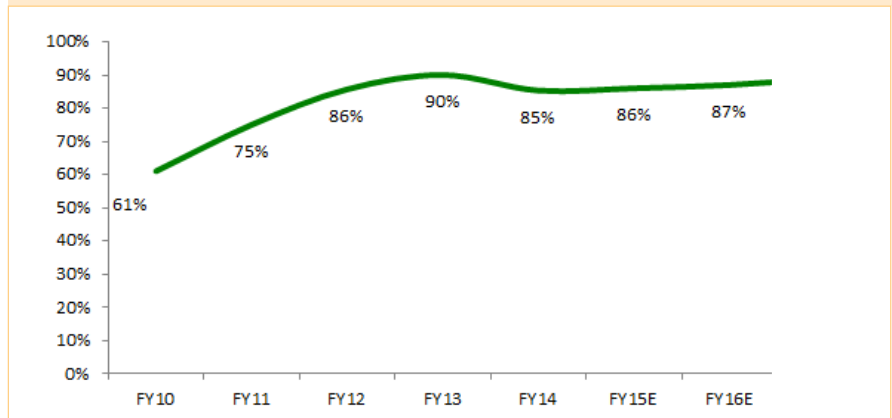


Source: Company, IndiaNivesh Research



The company's utilization level to increase further from here-on

**Plant Utilization Level (Basic Chemical)**



Source: Company, IndiaNivesh Research

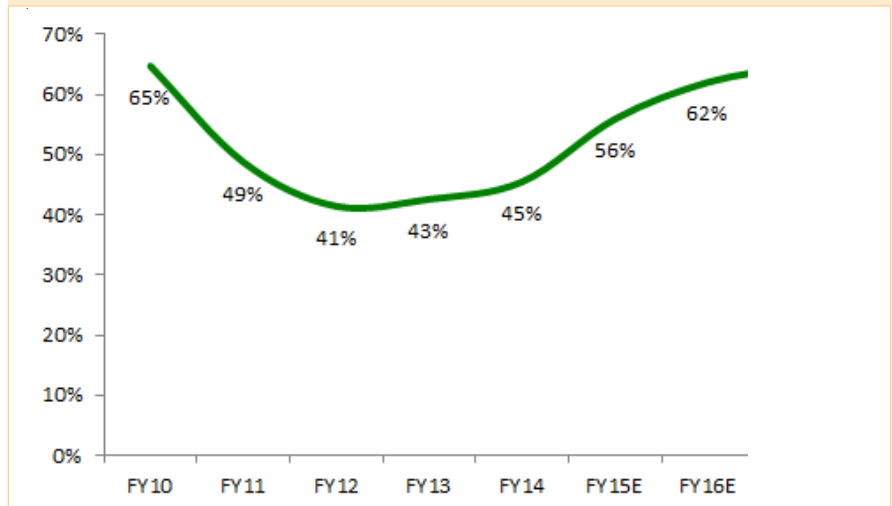
- **Conclusion:** Caustic and chlorine are an inseparable part of everyday lives and given their wide ranging applications in major end consumer markets, demand for these two basic chemicals is steadily on the rise. With rising population and increasing use of caustic chlorine we expect the demand to move northward.

**# External interference to lessen**

- On account of various Pollution Control Board interference, the company was unable to expand its utilization level. As result MOL's combined utilization level (Pigments + Agrochemicals) went down to 45% in FY14 (v/s 65% in FY10).

All legal approvals are in place to operate the plant at full capacity

**Plant Utilization Trend (Pigment + Agrochemical)**

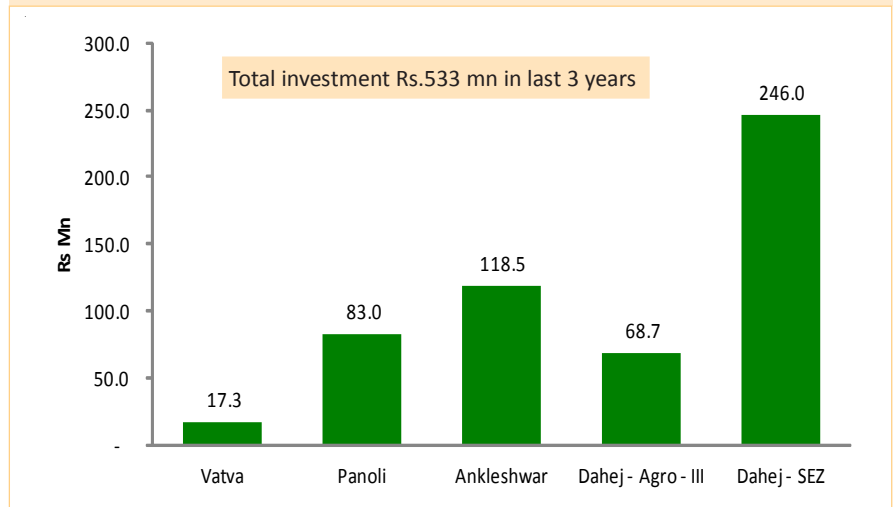


Source: Company, IndiaNivesh Research

Huge investment in pollution control equipments likely to yield returns in future

- In order to address this issue, the company invested in pollution control equipment and facility over last three years (See Chart Below). Given the permissions are now in place from Pollution Control Board, MOL is well positioned to exploit its capacity to peak level for most of the plants. Additionally, ISO 14000/9000 and OSHAs 18000 certified plants could attract contract manufacturing (CRAMS) business from MNCs going-ahead.

Chart: Pollution Control Investment



Source: Company, IndiaNivesh Research

Board decided no growth capex for next 2 years

## # Capex cycle coming to an end

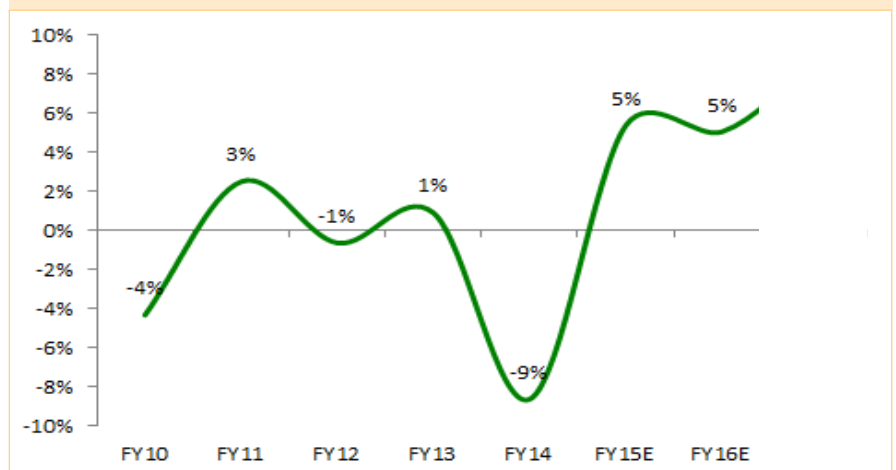
- All investments either in Agro Division or Pigments division are complete and all new facilities were commissioned during FY13-14. As a result, we do not expect heavy capital investments going-ahead, except debottlenecking capex for existing operations in some cases. MOL's board decision of restraining growth capex for next two years also strengthens our view.
- In last four years, MOL invested Rs. 4,757 mn in creating additional capacities and debottlenecking existing capacities. Going ahead, we expect capex in the range of Rs.400-800 mn (v/s Rs.1000-1200 mn previous) per year. In FY15E and FY16E, we forecast capex of Rs.800 mn and Rs.455 mn, respectively.

Free Cash Flow generation likely to improve from hereon

## # High Free Cash Flow (FCF) Generation

- On back of stability in raw material prices and commencement of all new plants, we expect improvement in utilization level and uptick in profit margin going-ahead. As a result, the company FCF/Sales is likely to turn positive during the current financial year (See Chart Below).

Chart: FCF/Sales Trend (%)



Source: Company, IndiaNivesh Research

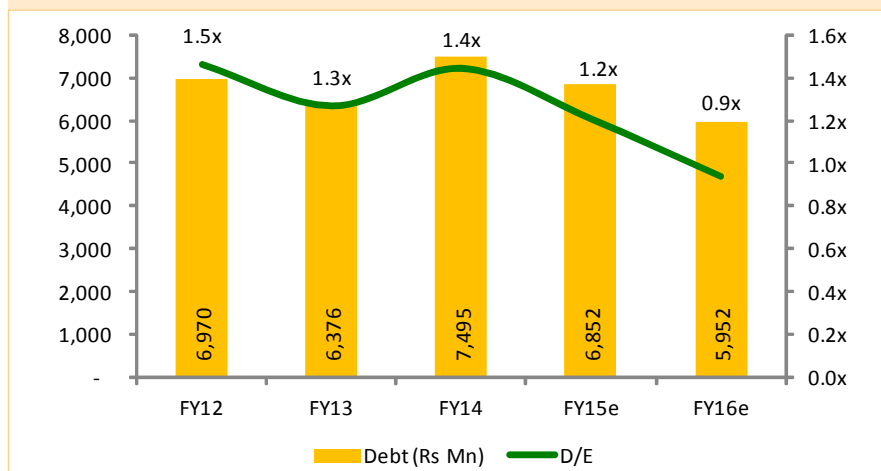
- In last four years, MOL consolidated FCF/Sales were very weak in the range of -9% to 3% over last four years. The key reason was high capex and lower utilization level.
- Since majority of the growth capex (related to pollution control equipment) is behind, we expect company to generate higher free cash flow from hereon. On back of higher free cash, stable operating margin and shrinking working capital, **RoCE/RoE should improve by 620bps/770bps to 15.4%/12.1% in FY15E/FY16E, respectively. This could also act as a catalyst for valuation re-rating.**

### # Debt burden to reduce going-forward

Management intends to reduce debt by ~Rs.2,880 mn in 3 years

- On account of consistent capital spending over last six years, the company's gross debt increased from ~Rs.1,466 mn in FY08 to ~Rs.7,500 mn in FY14. Given the improved business environment and end on capex cycle, we expect reduction in long-term debt going forward.
- **On a consolidated level the company's total debt stood at ~Rs.7,500 mn (Rs.3,723 mn – short-term & Rs.3,773 mn – long-term) in FY14. The management intends to repay ~Rs.500-700 mn each in FY15E and FY16E. On the same lines, the company has already paid ~Rs.500 mn of long-term debt in Oct-2014.**
- In our discussion with the management, they hinted a debt reduction plan for next 3 years. According to this plan the management intends to reduce long term debt by ~Rs.2,880 mn in 3 years. We believe large part of cash flow generated henceforth from the business will be utilized to repay the debt as the company does not require too much money for capex. Hence, it is possible to see MOL in debt repayment mode for next 2 years.

Debt burden to reduce going-forward



Source: Company, IndiaNivesh Research

## Financial Highlights

### Forecast revenues CAGR of 14.5% over FY14-16E

We expect acceleration in historical revenue growth momentum and thereby build CAGR of 14.5% over FY14-16E. The company reported a 5.3% CAGR over FY12-14 (0.3% revenue de-growth in FY13 due to plant related issues). We estimate revenues of Rs.14,020 mn (+19.0% y/y) & Rs.15,441 mn (+10.1% y/y) for FY15E and FY16E, respectively.

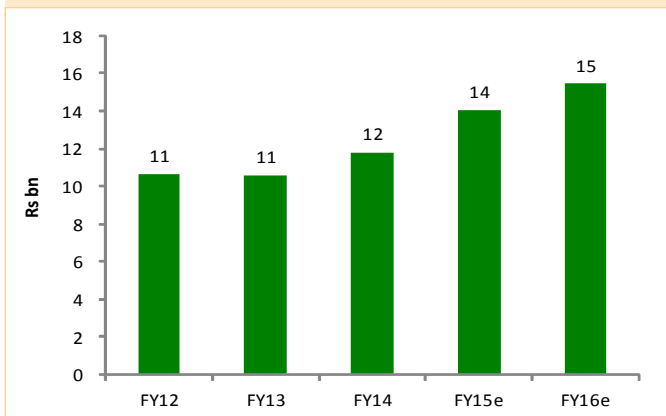
### Expect an EBITDA CAGR of 16.4% over FY14-16E

We expect margin expansion through following:

- Revenue acceleration, increasing presence in domestic market, stable raw material price remains the margin levers.
- Uptake in plant utilization level.

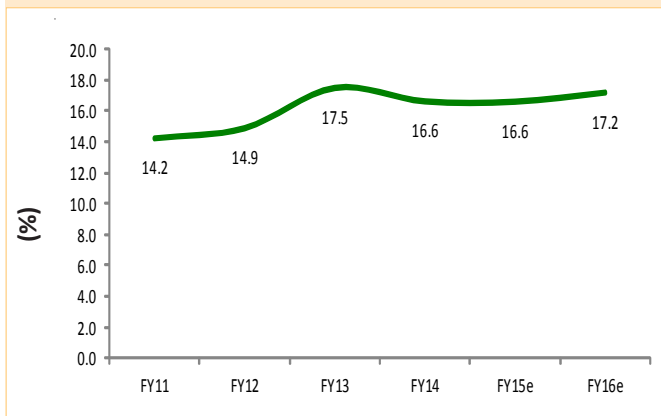
We build an EBITDA margin of 16.6% & 17.2% in FY15E/FY16E, respectively, and forecast EBITDA CAGR of 16.4% over FY14-FY16E.

Revenue Trend



Source: Company, IndiaNivesh Research

EBITDA margin Trend



Source: Company, IndiaNivesh Research

### Expect Net Profit CAGR of 85.7% despite lower other income

We expect earnings CAGR of ~85.7% over FY14-16E, partially offset by lower other income assumption. We estimate MOL to report EPS of Rs 2.1 and Rs 3.1 in FY15E and FY16E, respectively.

Y E March (Rs mn)	FY12	FY13	FY14e	FY15e	FY16e
Net sales	10,622	10,585	11,783	14,020	15,441
Y/Y Ch %	1.6	-0.4	11.3	19.0	10.1
EBITDA	1,582	1,852	1,959	2,328	2,655
Y/Y Ch %	6.3	17.1	5.8	18.8	14.1
Adj. PAT (APAT)	35	172	229	537	768
Y/Y Ch %	(90.8)	392.3	32.9	134.5	43.0
Adj. EPS (Rs)	0.1	0.7	0.9	2.1	3.0
FCF	-67	96	-1,018	569	1,035
% of Rev	(0.6)	0.8	(7.3)	3.7	6.7
ROE %	0.7	3.4	4.4	9.5	12.1
ROCE %	7.1	9.7	9.1	12.8	15.4

Source: Company, IndiaNivesh Research

## 1HFY15 Result Highlights

In 1HFY15, MOL reported revenue and EBITDA growth along with significant growth on bottom-line. Top line grew by 19.5% Y/Y to Rs.6,953 mn led by Pigment, Agrochemicals, Basic Chemicals, and Others (See Table Below). EBITDA went up 10.9% Y/Y to Rs.1,062 mn on account of higher revenue growth, partially offset by rise in material cost. As a result, EBITDA margin contracted 118bps y/y to 15.3% in Q1FY15. During the half year, MOL reported net profit of Rs.329 mn (v/s Rs.48 mn in 1HFY14).

Quarterly Performance									
(Rs Mn)	Q1FY15	Q2FY15	Q/Q Ch %	Q1FY14	Q2FY14	Y/Y Ch %	1HFY15	1HFY14	Y/Y Ch %
Net Sales	3,078	3,767	22.4%	2,516	3,208	17.4%	6,845	5,724	19.6%
Other Operating Income	50	59	19.0%	44	52	13.5%	108	96	12.7%
<b>Total Income</b>	<b>3,127</b>	<b>3,826</b>	<b>22.4%</b>	<b>2,560</b>	<b>3,260</b>	<b>17.4%</b>	<b>6,953</b>	<b>5,820</b>	<b>19.5%</b>
Raw Material Consumed	1,757	2,061	17.3%	1,370	1,728	19.3%	3,819	3,097	23.3%
Stock Adjustment	113	225	99.3%	102	348	-35.2%	338	450	-24.9%
Purchase of Finished Goods	-20	72	-466.7%	108	-107	-166.9%	52	2	2995.2%
Employee Expenses	167	188	12.1%	132	142	31.9%	355	274	29.5%
Other Expenses	610	718	17.7%	432	608	18.1%	1,328	1,040	27.7%
<b>Total Expenditure</b>	<b>2,628</b>	<b>3,264</b>	<b>24.2%</b>	<b>2,144</b>	<b>2,719</b>	<b>20.0%</b>	<b>5,892</b>	<b>4,863</b>	<b>21.2%</b>
<b>EBITDA</b>	<b>499</b>	<b>563</b>	<b>12.8%</b>	<b>416</b>	<b>541</b>	<b>4.0%</b>	<b>1,062</b>	<b>957</b>	<b>10.9%</b>
Interest	177	197	11.2%	152	158	24.9%	375	310	20.9%
Other Income	18	9	-49.7%	13	6	47.5%	27	19	42.3%
Depreciation	202	156	-22.8%	196	193	-19.4%	358	389	-8.1%
<b>PBT</b>	<b>138</b>	<b>219</b>	<b>59.0%</b>	<b>81</b>	<b>196</b>	<b>11.5%</b>	<b>357</b>	<b>278</b>	<b>28.5%</b>
Tax	-2	43	-2273.7%	115	95	-54.6%	41	210	-80.3%
<b>Net Profit</b>	<b>140</b>	<b>176</b>	<b>25.7%</b>	<b>-33</b>	<b>101</b>	<b>73.9%</b>	<b>315</b>	<b>68</b>	<b>365.1%</b>
Extra-ordinary Items	-	-	NM	-	-	NM	-	-	NM
Minority Interest	62	-75	-222.2%	3	17	-543.5%	-14	20	-169.5%
<b>Reported Net Profit</b>	<b>78</b>	<b>251</b>	<b>221.9%</b>	<b>-36</b>	<b>84</b>	<b>198.9%</b>	<b>329</b>	<b>48</b>	<b>584.1%</b>
EPS	<b>0.3</b>	<b>1.0</b>	221.9%	-0.1	0.3	198.9%	<b>1.3</b>	<b>0.2</b>	584.1%
O/shares	<b>254</b>	<b>254</b>	0.0%	<b>254</b>	<b>254</b>	0.0%	<b>254</b>	<b>254</b>	0.0%
	<b>Margin %</b>	<b>BPS</b>		<b>Margin %</b>	<b>BPS</b>		<b>Margin %</b>	<b>BPS</b>	
EBITDA Margin (%)	16.0%	14.7%	-124	16.2%	16.6%	-190	15.3%	16.4%	-118
PAT Margin (%)	2.5%	6.6%	407	-1.4%	2.6%	398	4.7%	0.8%	391

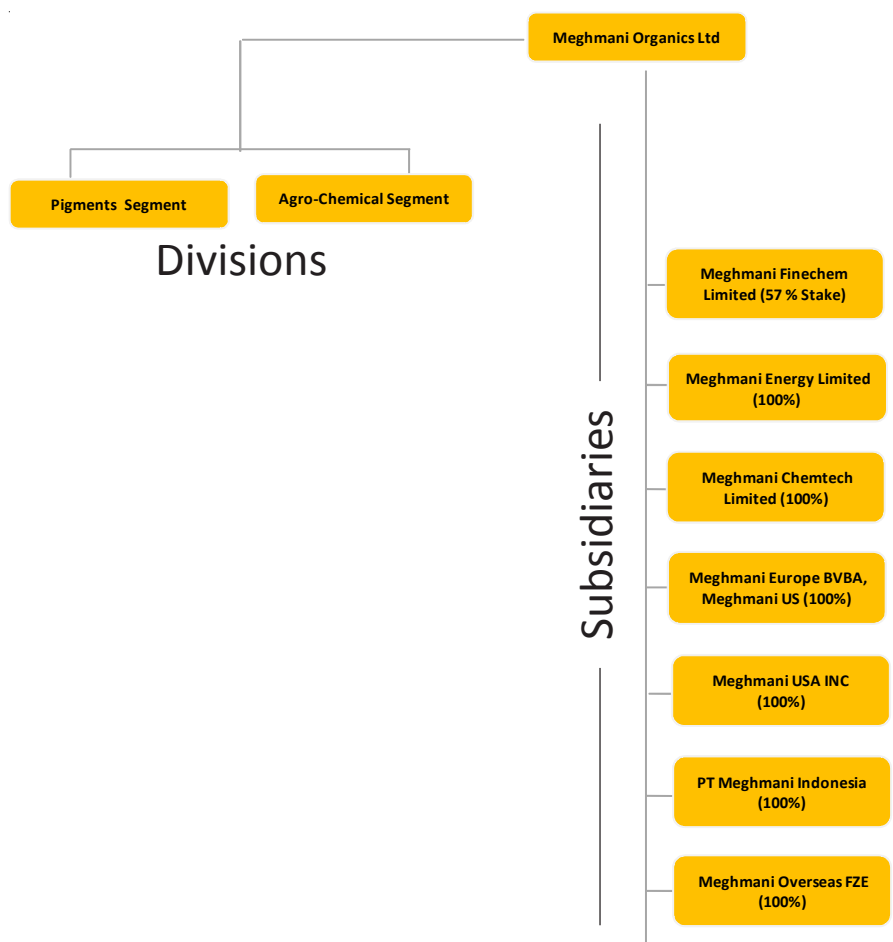
Segment Performance										
(Rs Mn)	As % of Rev	Q1FY15	Q2FY15	Q/Q Ch %	Q1FY14	Q2FY14	Y/Y Ch %	1HFY15	1HFY14	Y/Y Ch %
Pigment	36%	1,119	1,091	-2.4%	890	1,008	8.2%	2,210	1,898	16.4%
Agrochemicals	32%	1,002	1,528	52.4%	938	1,168	30.7%	2,530	2,106	20.1%
Basic Chemicals	27%	855	1,002	17.2%	651	681	47.0%	1,857	1,333	39.3%
Other/Unallocated	11%	342	447	30.9%	245	592	-24.6%	788	837	-5.8%
Less: Intersegment	6%	190	241	26.7%	163	191	16.8%	431	354	21.9%
<b>Total</b>	<b>100%</b>	<b>3,127</b>	<b>3,826</b>	<b>22.4%</b>	<b>2,560</b>	<b>3,260</b>	<b>17.4%</b>	<b>6,953</b>	<b>5,820</b>	<b>19.5%</b>
EBIT (Rs mn)	As % of EBIT	Q1FY15	Q2FY15	Q/Q Ch %	Q1FY14	Q2FY14	Y/Y Ch %	1HFY15	1HFY14	Y/Y Ch %
Pigment	16%	47	72	51.7%	152	138	-48.0%	119	290	-59.0%
Agrochemicals	28%	85	129	51.4%	48	55	133.6%	213	103	108.2%
Basic Chemicals	63%	191	209	9.4%	141	165	26.7%	400	306	30.8%
Other/Unallocated	-7%	-20	-23	16.6%	-8	8	-397.4%	-43	-0	NM
<b>Total</b>	<b>100%</b>	<b>303</b>	<b>386</b>	<b>27.3%</b>	<b>332</b>	<b>366</b>	<b>5.6%</b>	<b>689</b>	<b>698</b>	<b>-1.3%</b>

Source: Company, IndiaNivesh Research

## Business Snapshot

### Company description: Strong Player in Chemical Industry

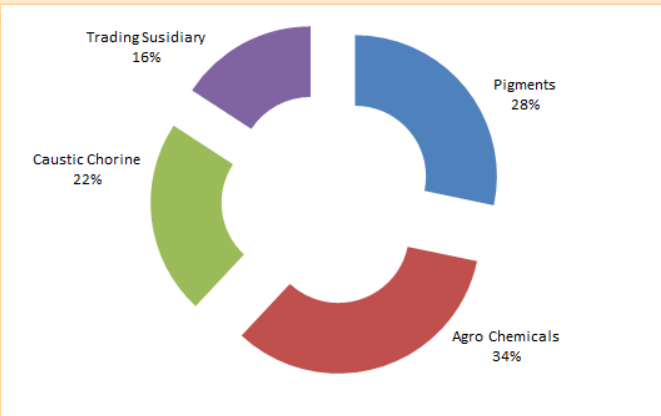
MOL operates in pigments, agro chemicals and basic chemicals business. The pigment division is engaged in manufacturing and distributing Phthalocynine Green 7, Copper Phthalocynine Blue (CPC), Alpha Blue and Beta Blue. The agrochemicals division is engaged in the manufacturing and distributing Technical, Intermediates and Formulations of Insecticides. The Basic Chemicals division produces downstream Chemicals, which are used by the Agriculture sector, industry and also directly by the consumers. MOL was founded 28 years ago it has seven manufacturing plants, which includes three pigment plant, three agrochemicals, and one Caustic Chlorine plant all located in Gujarat. Its subsidiaries include Meghmani Energy Limited, Meghmani Finechem Limited, Meghmani Chemtech Limited, Meghmani Europe BVBA, Meghmani USA INC, PT Meghmani Indonesia and Meghmani Overseas FZE.



Source: Company, IndiaNivesh Research

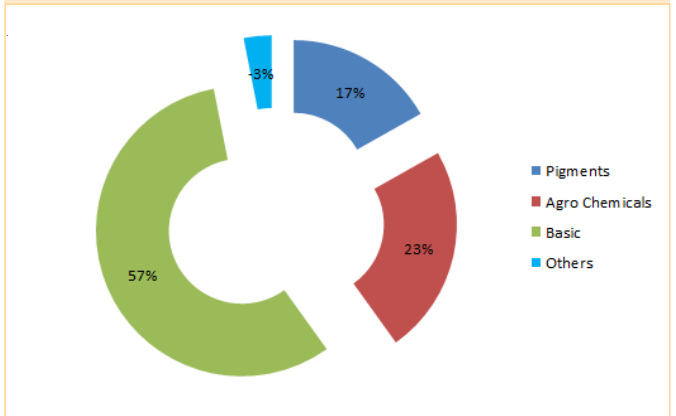


**FY14 - Business Offerings**



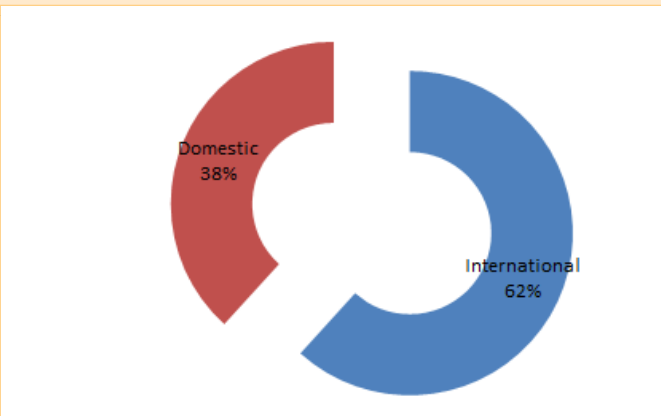
Source: Company, IndiaNivesh Research

**FY14 - EBIT Mix**

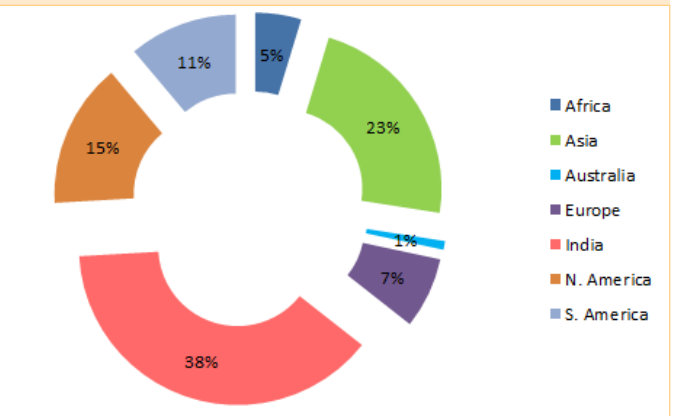


Source: Company, IndiaNivesh Research

**FY14 - Geographic Mix**

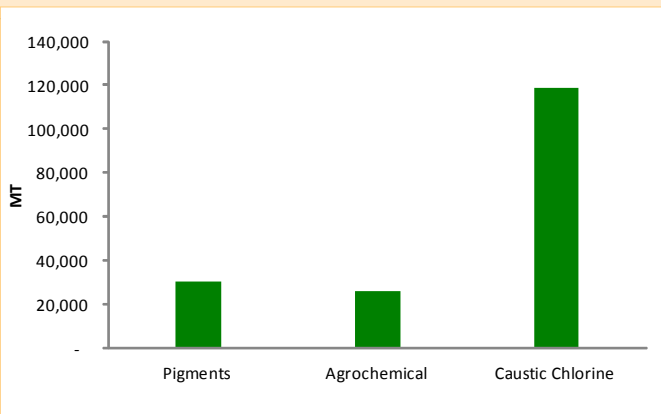


Source: Company, IndiaNivesh Research



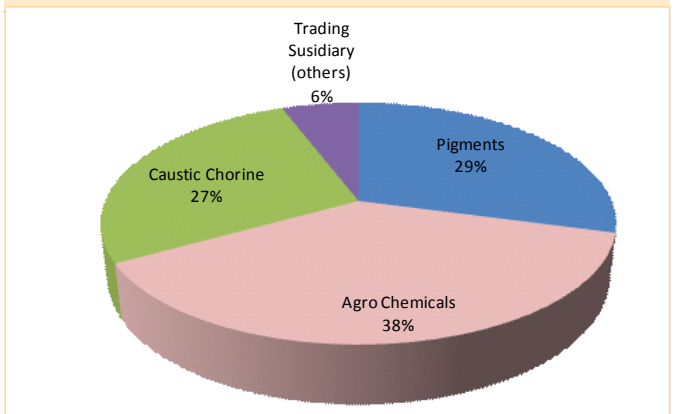
Source: Company, IndiaNivesh Research

**FY14 - Design Capacity (MT)**



Source: Company, IndiaNivesh Research

**FY14 - Capital Employed (as % of total)**



Source: Company, IndiaNivesh Research

## Valuation

At CMP of Rs.25, the stock is trading at EV/EBITDA multiple of 5.6x FY15E and 4.6x FY16E 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 5.6x EV/EBITDA multiple (25% discount to global peers) to arrive at FY16E based price target of Rs.34/share. Given the huge upside, we maintain BUY on the stock.

## Peer Valuation

Co. Name	Mcap (Rs Mn)	Sales (Rs Mn) FY16E	EBITDA (Rs Mn) FY16E	PAT (Rs Mn) FY16E	EBITDA % Margin	PAT % Margin	EPS Rs	D/E x	ROCE FY16E	P/E FY16E	EV/EBITDA FY16E
Meghmani	6,411	15,441	2,655	768	17.2%	5.0%	3.0	0.9x	15.4%	8.3x	4.6x
Asahi Songwon	1,712	3,932	503	224	12.8%	5.7%	18.2	0.4x	8.0%	7.6x	4.2x
Gujarat Alkalies	13,622	22,116	4,480	2,212	20.3%	10.0%	31.4	0.1x	20.5%	5.9x	2.7x
Insenticides	10,639	12,756	1,476	845	11.6%	6.6%	66.6	0.5x	23.0%	12.6x	9.4x
Astec Life	1,969	2,694	566	189	21.0%	7.0%	10.2	0.5x	28.9%	10.4x	4.7x
Sabero	8,989	12,000	1,560	792	13.0%	6.6%	32.8	1.7x	25.0%	5.8x	7.8x

Source: Bloomberg; IndiaNivesh Research

## Risk & Concerns

- Exposed to Monsoon Fluctuation:** Being present in Agro chemical business, MOL is exposed to fluctuations of monsoon. Any erratic monsoon might have impact on the sales and profitability of Agrochemicals segment.
- Surge in Raw Material Prices:** The surge in prices of key inputs used for pigments, agrochemical and basic chemical could lead to pressure on margin in near-term despite growth in top-line. In current situation, we expect pigment and agrochemical segment could see some cost advantage due to falling crude oil prices. In case of MOL, raw material for phthalocyanine pigment production is the direct derivatives of the crude. Additionally, the company could experience some benefit accruing in Agrochemical business. However, the actual benefit accruing at the EBITDA level is difficult to ascertain on account of lack of clarity towards client pass through from current fall in crude prices.

## Consolidated Financials

### Income Statement

Y E March (Rs m)	FY12	FY13	FY14	FY15e	FY16e
Net sales	10,622	10,585	11,783	14,020	15,441
Y/Y Ch %	1.6	-0.4	11.3	19.0	10.1
COGS	7,059	6,642	7,495	8,917	9,759
SG&A	1,982	2,091	2,329	2,776	3,026
<b>EBITDA</b>	<b>1,582</b>	<b>1,852</b>	<b>1,959</b>	<b>2,328</b>	<b>2,655</b>
Y/Y Ch %	6.3	17.1	5.8	18.8	14.1
EBITDA Margin %	14.9	17.5	16.6	16.6	17.2
Interest	735	643	676	618	537
Depreciation	747	751	802	721	768
<b>EBIT</b>	<b>100</b>	<b>458</b>	<b>480</b>	<b>989</b>	<b>1,351</b>
EBIT Margin %	0.9	4.3	4.1	7.1	8.7
Other Income (Inc Forex)	126	133	61	23	23
Extra Ordinary Exps/(Income)	-	9	5	-	-
<b>PBT</b>	<b>226</b>	<b>582</b>	<b>537</b>	<b>1,012</b>	<b>1,374</b>
Tax	191	299	181	338	459
Effective tax rate %	84.4	51.4	33.7	33.4	33.4
<b>Reported PAT</b>	<b>35</b>	<b>283</b>	<b>356</b>	<b>674</b>	<b>915</b>
Y/Y Ch %	-88.1	699.7	25.7	89.5	35.7
Minority & Exceptional	0	111	127	137	147
<b>Adj. PAT (APAT)</b>	<b>35</b>	<b>172</b>	<b>229</b>	<b>537</b>	<b>768</b>
RPAT Margin %	0.3	1.6	1.9	3.8	5.0
Y/Y Ch %	-90.8	392.3	32.9	134.5	43.0

Source: Company filings; IndiaNivesh Research

### Cash Flow

Y E March (Rs m)	FY12	FY13	FY14	FY15e	FY16e
Operating Profit	835	1,101	1,156	1,607	1,888
Depreciation	747	751	802	721	768
Interest Exp	-735	-643	-676	-618	-537
Changes in Working Capital	394	526	-1,098	-26	-192
<b>Cash Flow After Chang in WCapital</b>	<b>1,241</b>	<b>1,735</b>	<b>185</b>	<b>1,684</b>	<b>1,926</b>
Tax	-191	-299	-181	-338	-459
Others	126	133	61	23	23
<b>Cash flow from operations</b>	<b>1,176</b>	<b>1,569</b>	<b>65</b>	<b>1,369</b>	<b>1,490</b>
Capital expenditure (net)	-1,244	-1,473	-1,083	-800	-455
<b>Free Cash Flow</b>	<b>-67</b>	<b>96</b>	<b>-1,018</b>	<b>569</b>	<b>1,035</b>
Other income	0	0	0	0	0
Investments	0	0	0	0	0
<b>Cash flow from investments</b>	<b>-1,244</b>	<b>-1,473</b>	<b>-1,083</b>	<b>-800</b>	<b>-455</b>
Long-Term Debt (Decrease) Increase	375	-594	1,120	-643	-900
Dividend paid (incl tax)	-25	-29	-30	-53	-102
Share Issue / Repurchase & Others	-225	236	-39	0	0
<b>Cash flow from Financing</b>	<b>125</b>	<b>-387</b>	<b>1,052</b>	<b>-696</b>	<b>-1,002</b>
<b>Net change in cash</b>	<b>57</b>	<b>-292</b>	<b>34</b>	<b>-128</b>	<b>34</b>
<b>Cash at the beginning of the year</b>	<b>573</b>	<b>630</b>	<b>339</b>	<b>373</b>	<b>245</b>
<b>Cash at the end of the year</b>	<b>631</b>	<b>339</b>	<b>373</b>	<b>245</b>	<b>279</b>

Source: Company filings; IndiaNivesh Research

### Balance Sheet

Y E March (Rs m)	FY12	FY13	FY14	FY15e	FY16e
Share Capital	254	254	254	254	254
Reserves & Surplus	4,505	4,766	4,927	5,410	6,076
<b>Net Worth</b>	<b>4,760</b>	<b>5,020</b>	<b>5,181</b>	<b>5,665</b>	<b>6,331</b>
Minority	568	797	924	1061	1208
Long-term + ST loans	6970	6376	7495	6852	5952
Others	411	310	431	431	431
<b>Total Liabilities</b>	<b>12,709</b>	<b>12,502</b>	<b>14,031</b>	<b>14,008</b>	<b>13,921</b>
Gross Block	10,216	11,382	12,395	13,195	13,650
Less Depreciation	2,940	3,638	4,382	5,088	5,840
<b>Net Block</b>	<b>7,277</b>	<b>7,744</b>	<b>8,013</b>	<b>8,107</b>	<b>7,809</b>
Intangible	137	137	141	126	111
Investments	396	651	658	658	658
Defered tax (net)	-7	-202	-370	-370	-370
<b>Current Assets</b>	<b>7,039</b>	<b>6,871</b>	<b>7,823</b>	<b>8,122</b>	<b>8,742</b>
Sundry Debtors	3,326	3,393	3,523	4,148	4,527
Cash & Bank Balance	630	339	373	245	279
Loans & advances	1,360	1,327	1,431	1,696	1,699
Inventories	1,722	1,811	2,496	2,032	2,238
<b>Current Liabilities</b>	<b>1,118</b>	<b>1,462</b>	<b>1,736</b>	<b>2,074</b>	<b>2,411</b>
Provisions	1,016	1,235	498	561	618
<b>Net Current Assets</b>	<b>4,906</b>	<b>4,173</b>	<b>5,589</b>	<b>5,487</b>	<b>5,713</b>
<b>Total assets</b>	<b>12,709</b>	<b>12,502</b>	<b>14,031</b>	<b>14,008</b>	<b>13,921</b>

Source: Company filings; IndiaNivesh Research

### Key Ratios

Y E March	FY12	FY13	FY14	FY15e	FY16e
Adj. EPS (Rs)	0.1	0.7	0.9	2.1	3.0
Cash EPS (Rs)	3.1	3.6	4.1	4.9	6.0
DPS (Rs)	0.1	0.1	0.1	0.2	0.4
BVPS	18.7	19.7	20.4	22.3	24.9
ROCE %	7.1	9.7	9.1	12.8	15.4
ROE %	0.7	3.4	4.4	9.5	12.1
ROIC %	0.1	1.1	1.4	3.5	4.8
EBITDA Margin %	14.9	17.5	16.6	16.6	17.2
PER (x)	187.3x	38.1x	28.0x	11.9x	8.3x
P/BV (x)	1.3x	1.3x	1.2x	1.1x	1.0x
P/CEPS (x)	8.2x	6.9x	6.2x	5.1x	4.2x
EV/EBITDA (x)	8.1x	6.7x	6.9x	5.6x	4.6x
Dividend Yield %	0.4	0.4	0.4	0.8	1.6
m cap/sales (x)	0.6x	0.6x	0.5x	0.5x	0.4x
net debt/equity (x)	1.3x	1.2x	1.4x	1.2x	0.9x
net debt/ebitda (x)	4.0x	3.3x	3.6x	2.8x	2.1x
Debtors (Days)	113	117	108	108	108
Creditors (Days)	38	51	53	54	54
Inventory (Days)	59	62	77	53	53
Cash Conversion Cycle (Days)	134	128	132	107	107

Source: Company filings; IndiaNivesh Research

**Disclosure:**

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1.	Details of business activity of IndiaNivesh Securities Private Limited (INSPL)	INSPL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F & O and CDS segments. INSPL is also a Depository Participant and registered with both Depository viz. CDSL and NSDL. Further, INSPL is a Registered Portfolio Manager and is registered with SEBI.
2.	Details of Disciplinary History of INSPL	No disciplinary action is / was running / initiated against INSPL
3.	Details of Associates of INSPL	<ol style="list-style-type: none"> <li>1. IndiaNivesh Limited</li> <li>2. Siddhi Multi-Trade Private Limited</li> <li>3. IndiaNivesh Commodities Private Limited</li> <li>4. IndiaNivesh Insurance Brokers Private Limited</li> <li>5. IndiaNivesh Investment Advisors Private Limited</li> <li>6. IndiaNivesh Fund Managers Private Limited</li> <li>7. Sneh Shares &amp; Securities Private Limited</li> <li>8. IndiaNivesh Financial Advisors Private Limited</li> <li>9. Balashri Commercial Limited</li> <li>10. IndiaNivesh Capitals Limited</li> </ol>
4.	Research analyst or INSPL or its relatives'/associates' shareholding in the company.	Yes
5.	Research analyst or INSPL or its relatives'/associates' actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document.	No
6.	Research analyst or INSPL or its relatives'/associates' any other material conflict of interest at the time of publication of the document	No
7.	Has research analyst or INSPL or its associates received any compensation from the subject company in the past 12 months	No
8.	Has research analyst or INSPL or its associates managed or co-managed public offering of securities for the subject company in the past 12 months	No
9.	Has research analyst or INSPL or its associates received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months	No
10.	Has research analyst or INSPL or its associates received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months	No
11.	Has research analyst or INSPL or its associates received any compensation or other benefits from the subject company or third party in connection with the document.	No
12.	Has research analyst served as an officer, director or employee of the subject company	No
13.	Has research analyst or INSPL engaged in market making activity for the subject company	No
14.	Other disclosures	No

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**Definitions of ratings**

BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

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.

**Other definitions**

NR = Not Rated. The investment rating and target price, if any, have been arrived at due to certain circumstances not in control of INSPL

CS = Coverage Suspended. INSPL has suspended coverage of this company.

UR= Under Review. The investment review happens when any developments have already occurred or likely to occur in target company & INSPL analyst is waiting for some more information to draw conclusion on rating/target.

NA = Not Available or Not Applicable. The information is not available for display or is not applicable.

NM = Not Meaningful. The information is not meaningful and is therefore excluded.

Research Analyst has not served as an officer, director or employee of Subject Company

One year Price history of the daily closing price of the securities covered in this note is available at [nseindia.com](http://nseindia.com) and [economictimes.indiatimes.com/markets/stocks/stock-quotes](http://economictimes.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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