



Farsight

MORNING FARSIGHT

Monday, September 17, 2018

MEGHMANI ORGANICS

CMP:RS 89

TRGT:RS 110

TIME HORIZON: 1 YEAR

Meghmani Organics, having outstanding fundamentals with EBITDA margin of over 24% (risen from 6% in FY14), PAT margin of 14%, RoE of over 23%, FY18 EBITDA growth of 55%, FY18 PAT growth of 104% and D/E having reduced from 1.24x in FY14 to 0.35x in FY18, has seen renewed buying by the informed circles on Friday, is giving a buying opportunity, with strong start to FY19 which is set to get much better, given Rs 650 cr capex in the Basic Chemicals Division, which has high EBITDA margin of 42.7%, against EBITDA margin of 15.3% for Agro Chemicals and EBITDA margin of 14.4% for Pigments division. Company is targeting revenue of more than Rs 3,000 cr in FY21 (Rs 1,000 cr from each segment of Pigments, Agro Chemicals and Basic Chemicals), from current total revenue of Rs 1,800 cr. With completion of capex in Basic Chemicals Divisions, company's EBITDA margin at consolidated level will keep on rising steadily and capex will take earnings of the company to next orbit, as in FY18, this division contributed to 33% of overall revenues but EBITDA contribution was over 58%, given its high margin businesses. The capex will start contributing to revenue from Q3FY19 itself and company has following project completion schedule: Project 1: CMS project of 40,000 MTPA (operational by Dec-18, to produce MDC, Chloroform and Carbon Tetra Chloride, Project 2: Expansion of Caustic Soda capacity to 271,600 MTPA and CPP capacity to 96 MW (operational by Jun-19), Project 3: Hydrogen Peroxide capacity of 30,000 MTPA (operational by June-19). Meghmani Organics is 4th largest Caustic-Chlorine producer in India, and one of the most efficient caustic soda producers (CPP of 60MW). Company has 4 products in Basic Chemicals division viz., Caustic Soda (Used in soap & detergents, pulp & paper, textiles processing, Organic & Inorganic Chloro solvents), Chlorine (Used in PVC manufacturing, aluminium, dyes & dyes intermediates, organic & inorganic chemicals, drinking water disinfection, pharmaceuticals), Soda Ash (Used in glass, soap & detergent and silicate production), Caustic Potash (Used in Soaps, Detergents, Fertilizers Chemicals). Further, company currently having Revenue of Rs 590 cr for Pigments Division, Revenue of Rs 640 cr for Agro chemicals Division and Rs 598 cr for Basic Chemicals division, is targeting Rs 1,000 crores of revenue from each segment For Pigments Division, company is leader in Phthalocyanine blue and green pigments in India and has 14% global market share, with total capacity of 32,940 MTPA and presence in 70 countries. For Q1FY19, company has reported strong performance with Revenue Growth 13% at Rs 477 cr, EBITDA growth 36% at Rs 124 cr, EBITDA Margin 26%, PAT growth 78% at Rs 77 cr and EPS Rs 2.50. Given that company derives about 46% revenue from Exports, it is also set to benefit from rupee depreciation. On an estimated EPS of Rs 10 for FY19 and Rs 13 for FY20, stock is trading at PE of just 8.9x and 6.8x respectively, and we believe stock had 52 week high of Rs 129, has ample room for appreciation, ignoring short term volatility. An investor should always remember that eventually, it is the earnings and only earnings that make or break a stock. Share ruling at Rs 89 can move to Rs 110 in 1 year timeframe.

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POTENTIAL CONFLICT OF INTEREST DISCLOSURE (as on date of report)

Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.