



MORNING FARSIGHT

Monday, May 28, 2018

MEGHMANI ORGANICS

CMP:RS 99

TRGT:RS 120

TIME HORIZON: 3 MTHS

Meghmani Organics is looking a good buy after good earnings reported by the company for Q4FY18 and FY18, while valuations continue to remain attractive. For Q4, company's all the divisions have performed well, with Pigment Segment EBIT of Rs 22.7 cr (+55% QoQ, and 10% YoY), Agrochemicals Segment EBIT of Rs 6.6 cr (+39% YoY — Seasonal business) and Basic Chemicals Segment EBIT of Rs 80.8 cr (+45% QoQ, +328% YoY), which has remained key growth driver. This has resulted in Q4FY18 PAT of Rs 76.9 cr against Rs 62.6 cr QoQ and 28.6 cr YoY (+23% QoQ, +168% YoY), leading to an EPS of Rs 1.97 for Q4FY18 alone. FY18 has been very strong year for the company with Income / EBITDA / PAT growth of 21% / 54% / 105% respectively, at Rs 1,873 cr / Rs 462 cr/ Rs 238 cr respectively, that too with EBITDA margin of 24.6%, PAT margin of 12.7% and RoE of 22%, leading to an EPS of Rs 6.74. Stock is trading at an EV/EBITDA of just 5.9x and PE of 14.5x, which are seen attractive. In addition to this, when we take into account the fact that company has around 8% global Pigment market share (capacity of 31,340, among top 3 global pigment players), 4th largest Caustic-Chlorine producer in India (Basic Chemicals capacity 187,600) and strong presence in Agro chemicals (capacity 27,060) with Insecticides and Herbicides (branded products - Megastar, Megacyper, Megaban), valuations appear more attractive. Company is also undertaking capex of Rs 540 cr for setting up a Di-chloro Chloromethane, Hydrogen Peroxide Project and Caustic Soda Expansion. Share ruling at Rs 99 can move to Rs115/120 in the next 2-3 months. Buy

SARDA ENERGY

CMP:RS 379

TRGT:RS 425

TIME HORIZON: 3 MTHS

Sarda Energy, has reported robust earnings for Q4FY18, with Income rising to Rs 392 cr from Rs 355 cr QoQ and Rs 256 cr YoY (+10% QoQ, +53% YoY) and PAT rising to Rs 55 cr from Rs 34 cr QoQ and Rs 17.5 cr YoY (+62% QoQ, +214% YoY), leading to an EPS of Rs 15.30 for Q4FY18 and Rs 52.27 for FY18. Segment wise, Steel Division has seen EBIT rising to Rs 94.6 cr (EBIT margin 37.2%) from Rs 47.2 cr QoQ and Rs 20.9 cr YoY, which has remained key growth driver for the company. We must highlight that steel prices have continued to firm up in April and May, and full impact of price hikes taken In Q4, will all play out in Q1FY19 as well. Sarda Energy is an integrated steel maker, with presence across entire value chain, right from mining iron ore to manufacturing wire rods. Its manufacturing facility at Raipur is backed with high-quality inputs via captive mines and power resources -90 MW thermal and 6 MW hydro power and coal mines (236 mn MT estimated reserve) in Chhattisgarh, iron ore mines in West Bengal and manganese ore mines in Goa and Madhya Pradesh. Company's current capacity stands at 3.6 lakh MTPA of sponge iron, 2.4 lakh MTPA of steel ingots and billets, 1 lakh MTPA construction steel and 1 lakh MTPA manganese based ferro alloys. It exports manganese-based Ferro alloys to over 60 countries such as Japan (50% of exports), Pakistan, Taiwan, UAE, Korea, Iran and UK. Share is trading at a PE of 6.7x on reported consolidated EPS of Rs 56, which is extremely attractive. Share ruling at Rs 379 can move to Rs 425 in in the next 2-3 months

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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.