

Meghmani Organics Ltd

BSE: 532865 | Sector: Pigments-Agro Chemicals

23 November 2016

vScore : 60 | Rating: **Buy**
 CMP : Rs. 37.75 | Target Price: Rs. 85

BUSINESS BACKGROUND

Meghmani Organics Limited is an India-based manufacturer of pigment and pesticide products. The Company's segments include Pigments, Agro Chemicals, Basic Chemicals and Others. The Pigments segment manufactures and distributes Phthalocynine Green 7, Copper Phthalocynine Blue, Alpha Blue and Beta Blue. The Agro Chemicals segment manufactures and distributes technical, intermediates and formulations of insecticides. The Basic Chemicals segment includes basic chemicals, which undergo processing in various stages before being converted into downstream Chemicals that are used by the agriculture sector and also by consumers. The Others segment includes trading activity. The Company produces pesticides for crop and non-crop applications, such as for public health, insect control in wood preservation and food grain storage. The Company's brands include Megastar, Megacyper, Megaban, Synergy and Courage. The Company's basic chemicals portfolio includes caustic soda, chlorine and hydrogen.

INVESTMENT HIGHLIGHTS

Q1FY17 results: It recorded sales of INR 360 Cr, compared to INR 309 Cr in Q1FY16, EBITDA of INR 80 Cr compared to 54 Cr in Q1FY16. EBITDA margins improved to 22% compared to 18% last year. Net profit of INR 27 Cr compared to 8.5 Cr in Q1FY16. Adj. EPS: INR 0.74/share compared to INR 0.20/share last year same quarter. (All figures are on consolidated basis.)

Segment Highlights:

Meghmani Organics operates in pigments, Agro-chemicals and chemicals segment. For Q1FY17, pigments segment recorded revenue of 127 Cr, Agro-chemicals recorded revenue of 131 Cr and Chemicals segment recorded revenue of 95 Cr on a consolidated basis.

KEY DATA

FACE VALUE	Rs	1
DIVID YIELD %		0.74
52 WK HI/LOW		18/49
NSE CODE		MEGH
MARKET CAP		Rs. 1138 Cr

SHAREHOLDING PATTERN

PROMOTERS	-	58.66%
BANKS, MFs & DIIs	-	0.06%
FIIs	-	5.6 %
Others	-	35.68%

KEY FUNDAMENTALS

Year Ending	FY16A	FY17E	FY18E
Rev Gr%	5	16	18
Net Profit Gr%	88	45	27
Roe %	13	16	17
RoCE %	22	24	26
EPS (Rs)	3.3	4.7	6
P/E (x)	13	9	7

Consistent steady business growth over the last few years, recent margin expansion is positive:

The business of Meghmani Organics Ltd have grown steadily over the last 4-5 years. In the year 2011, it recorded sales of INR 1,045 Cr which has increased to INR 1,355 Cr in FY 2016. However the net profit of the company have grown in that period from INR 30 Cr to INR 113 Cr.

The EBITDA margin earlier was 14% for FY14 and FY15. But in FY16, due to cost control and improved capacity utilization and overall efficiency, the company has improved it to levels of 19%. Going ahead also the company has no significant capex and any other investment plans and hence they are looking at further improving the margins gradually over the period of time.

Strong demand in Agro-chemicals and margin improvement in chemicals and pigments is positive for future earnings growth:

The company is witnessing good demand in domestic market for its agro chemicals products and pigments. Overall domestic business has grown by 25% in recent Q1FY17 for the company compared to 10% growth in exports. Going ahead strong demand from domestic segment is expected for the rest of the year.

Lower input and raw material costs are helping company to significantly improve the EBITDA margins of the company. There is a significant improvement in pigments and chemicals segment EBITDA margins over the period now and due to continued lower raw and input prices and improved capacity utilization, the company is expected to gradually improve its EBITDA margins going ahead.

Both these factors of strong domestic demand and then margin improvement in 2 segments will lead to the significant improvement in earnings of the company.

Future strategies of the company:

The company is focusing on Efficiency improvement, Sales growth by focusing on domestic improved demand. The company is also focusing on untapped export markets for improving its sales of pigments. In Agro-chemicals segment , the company is looking at increasing the branded revenue and improving its distribution network.

Further the company plans to reduce overall debt by another INR 150-200 Cr in next 2 years. The continued efforts of improving capacity utilization and process optimization are still on and will continue to do that. As a result of reducing interest cost and improving EBITDA margins, the company is expected to do well in bottom line expansion over the period now.

Business Outlook and Valuation :

At the moment at current price of 44 the stock is trading at TTM P/E of 13. Going ahead we expect revenue growth of 16-18% for FY17 and FY18. Hence our expectations for revenue for FY17 and; FY18 are INR 1,572 Cr and INR 1,856 Cr respectively.

We expect company to maintain EBITDA margin around 20% for next two years. Going ahead we expect PAT margins of 7-8% for next two years. Our PAT expectations for FY17 and FY18 are INR 160 Cr, INR 204 Cr respectively. Our EPS expectations for FY17 and 18 are INR 4.7, INR 6 respectively.

We believe Meghmani Organics at PE of 12 is attractively valued considering its future earnings growth. For FY 17 EPS expectations of 4.7, we expect target price of 85 with a stop loss at 30.

FINANCIALS:

For the Year Ended March (INR)	FY15A	FY16A	FY17E	FY18E
Net Sales (Cr)	1,294	1,355	1,572	1,856
EBIDTA (Cr)	190	265	323	374
EBIDTA %	15	19.5	20.5	20.2
Profit Before Tax (Cr)	60	150	213	272
Interest (Cr)	74	63	56	50
Depreciation (Cr)	74	76	79	81
Tax (Cr)	14	37	53	68
Profit After Tax (Cr)	46	113	160	204
PAT%	3.3	6	7.6	8.2
Diluted EPS (INR)	1.7	3.3	4.7	6
Shareholder's Funds (Cr)	551	642	753	897
Borrowings (Cr)	510	485	450	420
Gross Block (Cr)	1303	1,329	1,369	1,411

Key Risks and Concerns:

- ✗ Any down turn in the pigments or Agro-chemicals demand can impact company's financials adversely.
- ✗ Competitors can create pressure on the margins which can ultimately affect the financials of the company.
- ✗ Exports demand slowdown can create growth problems for the company.
- ✗ Any adverse policies introduced by government in terms of taxes and other majors can affect the overall sector and hence a company.

vScore: Value Score is our proprietary company rating system based on last 5 years of historical data and value investing philosophy at its core. v360 combined with Macroeconomic indicators, projections, fundamental and technical trigger makes it a 360 degree view.

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Source: Niveza Research Desk