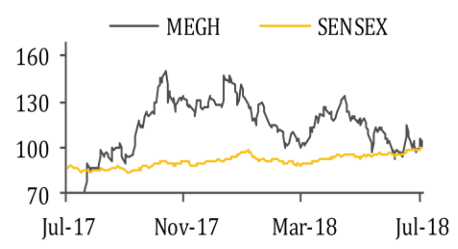
Rating:	**BUY**
Ticker:	MEGH
CMP:	Rs. 88
Target:	Rs. 116
Upside:	32%

Key Stock Data	
Sector	Speciality Chemicals
No. of shares	25.43 Crs
FV (Rs)	1
MCAP (Rs)	2,318 Crs
MCAP ($)	36 Crs

Key Financials (Rs. in Crs)

Y/E March	FY18 A	FY19 E	FY20 E
Revenue	1873	2341	3044
EBITDA	462	632	852
PAT	238	351	457
EPS /sh.	6.74	13.81	17.95
BV /sh.	34	44	57
P/BV (x)	2.5	1.97	1.50
PE (x)	12.75	6.23	4.79
ROE (%)	27%	32%	31%

Shareholding Pattern	
Promoters	50.29%
FIIs	3.49%
DIIs	0.54%
Others	45.68%



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Meghmani Organics Ltd. – MEGH

4QFY18 Result Update

The Company reported stupendous set of 4QFY18 numbers on all the counts both on a yearly as well as on a quarterly basis. The topline of the company grew by 27% Y-o-Y and 7% Q-o-Q to Rs. 485 Crs in 4QFY18 as against Rs. 382 Crs in 4QFY17. EBITDA for the quarter grew by whopping 85% Y-o-Y and 13% Q-o-Q to Rs. 134 Crs in 4QFY18 as against Rs.72 Crs in 4QFY17 and Rs. 119 Crs in 3QFY18. PAT for the quarter grew by robust 169% Y-o-Y and 23% Q-o-Q to Rs. 77 Crs in 4QFY18 against Rs.29 Crs in 4QFY17 and Rs. 62 Crs in 3QFY18. EBITDA Margin increased by good 1343 bps Y-o-Y and 186 bps Q-o-Q to 19.58% in 2QFY18 as against 6.15 in 2QFY17 and 17.72% in 1QFY18. PAT Margin increased by 1119 bps Y-o-Y and 80 bps Q-o-Q to 14.39% in 2QFY18 as against 3.20% in 2QFY17.

Segment Results

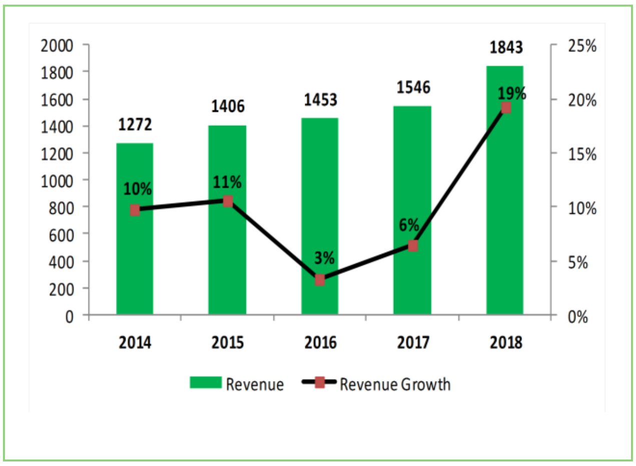
The company's largest contributor segment in FY18 was Pigments which contributed 36% of the total revenue now slipped to 30% of the total revenue. The second largest segment which contributed 35% of the total revenue now contributes 405 of the total revenue. The largest segment contributor grew by 31% Y-o-Y to Rs. 199 Crs in 4QFY18 as against Rs. 152 Crs in 4QFY17.

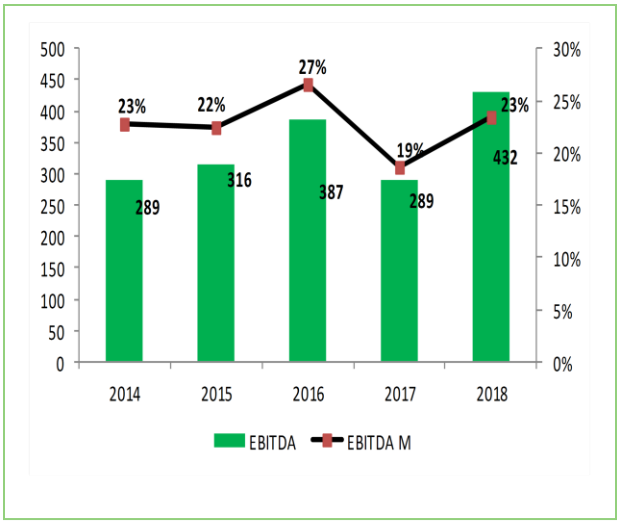
Outlook & Valuations

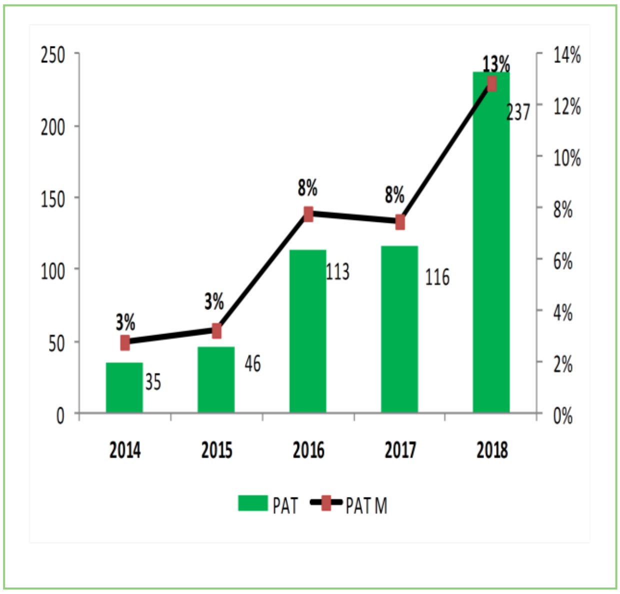
On back of various available triggers like debt reduction, margin expansion, higher plant utilization, and favorable business dynamics the stock is poised for re-rating. With revival in business and the opportunity the sector has we feel, the company is poised for more growth. The stock is currently trading at very attractive valuations of mere 5x PE on an FY20E basis. We would like to allot a PE of 7x on account of good growth on an EPS of Rs. 17.95 per share to arrive at a target price of Rs. 116 per share.

Quarterly Financial Highlight Table (Rs. In Crs)

Particulars	4QFY18	3QFY18	4QFY17	Q/Q	Y/Y	FY2018
Revenue	485	452	382	7%	27%	1873
EBITDA	134	119	72	13%	85%	462
PAT	77	63	29	23%	169%	238
EPS	1.97	1.71	0.93	15%	112%	6.74
EBITDA M	27.58%	26.27%	18.94%	131 bps	864 bps	24.63%
PAT M	15.86%	13.85%	7.49%	201 bps	837 bps	12.70%







Investment Rationale

1. Domestic Revenue growth surge

Domestic business revenues which contributes 51% of the total revenue is up by 53% led by robust growth of 116% in Basic Chemicals while Pigments and Agrochemicals segment were down. Exports revenue grew 20% driven by strong growth of 54% in Agrochemicals revenue, offset by Pigments and Basic chemicals. The company has increased its focus in domestic markets. This was in response to the government's increased thrust on the Indian Chemicals sector as part of its ambitious "Make in India" initiative. India is the third-largest producer of chemicals in Asia and the Sixth-largest by output globally. Going forward, India's large population base with low per-capita consumption of chemicals and relatively strong GDP growth outlook.

2. Strong export presence in Agrochemical segment.

Agrochemical business grew by 32% Y-o-Y to Rs 1,30 Crs in Q4 FY18 on the account of strong growth In the international markets. The company exports 54% of the total segmental revenue. Domestic market was down by 17% and now contributes 21% to revenues. EBITDA margin for the segment stood at 6% in Q4FY18. Agrochemicals Utilization stood at 57% while Production units were up 9% Y-o-Y. In Agrochemicals, the Indian market is expected to have a good year on the back of two good monsoons (i.e. last year's monsoon along with a good monsoon predicted for FY18), following two years of drought, and strong government support.

3. Debt reduction to improve balance sheet

The debt to equity ratio has declined from 1.5x in FY14 to 0.4x in FY18. Overall Debt reduced by Rs 751 mn due to repayments of total debt. As a result Interest coverage ratio improved to 8.4X in FY18 from 3.9x in FY17with better performance and lower debt cost. On account of which the Cash conversion cycle reduced to 54 days in FY18 from 75 days in FY17.

The Revenue mix of domestic: export is 49:51. Meghmani has 400+ marquee clients with presence in more than 75 countries.

The Company is positive about quickly ramping up the plant to optimum utilisation levels.

Despite strong growth drivers, the Indian Agrochemicals industry faces challenges in terms of low awareness levels among farmers.

On back of various available triggers like debt reduction, margin expansion, higher plant utilization, and favorable business dynamics the stock is poised for re-rating

We would like to allot a PE of 7x on account of good growth on an EPS of Rs. 17.95 per share

Company Background

Meghmani Organics is a well-diversified chemical company manufacturing agrochemical, pigments and basic chemical products. The Revenue mix of domestic: export is 49:51. Meghmani has 400+ marquee clients with presence in more than 75 countires. The Company in last 5 years had incurred a capex of Rs 6.5 billion to augment its capacity. The company has a vision of becoming a global chemicals conglomerate with the start of a Rs.5.4-bn round of expansion to be completed over the next 2-3 years. In Agrochemicals, the Indian market is expected to have a good year on the back of two good monsoons i.e. last year's monsoon along with a good monsoon predicted for FY18, following two years of drought, and strong government support. In Basic Chemicals, the technical issues resulting in slow ramp-up of our new Caustic Potash facility at Dahej of 60 TPD capacity have now been sorted out. The Company is positive about quickly ramping up the plant to optimum utilisation levels.

Risk & Concerns

1. Fluctuating and volatile prices of key raw materials, including benzene and toluene, coupled with an increasingly stringent regulatory environment, are critical challenges to the growth of this industry.
2. Despite strong growth drivers, the Indian Agrochemicals industry faces challenges in terms of low awareness levels among farmers about agrochemical products and their usage. Also, rising sale of spurious pesticides and spiked bio-pesticides pose major threats to industry growth

Outlook & Valuations

On back of various available triggers like debt reduction, margin expansion, higher plant utilization, and favorable business dynamics the stock is poised for re-rating. With revival in business and the opportunity the sector has we feel, the company is poised for more growth. The stock is currently trading at very attractive valuations of mere 5x PE on an FY20E basis. We would like to allot a PE of 7x on account of good growth on an EPS of Rs. 17.95 per share to arrive at a target price of Rs. 116 per share.

Analyst Stock Rating	
Ratings	**Expected absolute returns over 12 months**
BUY	>15%
HOLD	10- 15%
REDUCE	<10%

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Indiabulls Ventures Limited is a SEBI Registered Research Analyst having registration number: INH100004906

Disclosure:

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