Chemistry of success at work

ANNUAL REPORT 2011-2012

MEGHMANI ORGANICS LIMITED

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CORPORATE INFORMATION

BOARD OF DIRECTORS	Jayanti M Patel Ashish N Soparkar Natwarlal M Patel Ramesh M Patel Anand I Patel Balkrishna T Thakkar Chinubhai R Shah Jayaraman Vishwanathan Kantibhai H. Patel Akthar Hassen G Shaik
AUDIT COMMITTEE	Balkrishna T Thakkar Chinubhai R Shah Jayaraman Vishwanathan
NOMINATING COMMITTEE	Chinubhai R Shah Balkrishna T Thakkar Jayanti M Patel
REMUNERATION COMMITTEE	Chinubhai R Shah Balkrishna T Thakkar Natwarlal M Patel
THE SHAREHOLDERS' / INVESTORS' GRIEVANCE, SHARE ALLOTMENT AND SHARE TRANSFER COMMITTEE	Chinubhai R Shah Balkrishna T Thakkar Ashish N Soparkar
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CORPORATE INFORMATION

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SINGAPORE SECRETARIAL AGENT	Tricor Evatthouse Corporate Services 80 Robinson Road #02–00 Singapore 068898 Telephone No. (65) 6236 3510 Fax No. (65) 6236 4399 E–mail : helpdesk@meghmani.com
REGISTERED OFFICE	Plot No. 184, Phase II, G.I.D.C. Vatva, Ahmedabad –382 445 Telephone No. 91–79–25831210 Fax No. 91–79–25833403 E–mail : helpdesk@meghmani.com
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CORPORATE INFORMATION

PLANT LOCATION

1. Pigment Green Division	Plot No. 184, Phase II, G.I.D.C. Vatva, Ahmedabad –382 445 Telephone No. 91–79–25831210 Fax No. 91–79–25833403 E–mail : helpdesk@meghmani.com
2. Pigment Blue Division	Plot No. 21,21/1, G.I.D.C. Panoli, District :– Bharuch Telephone No. 91–2646–276352 Fax No. 91–2646–276374 E–mail : helpdesk@meghmani.com
3. Agro Division – I	Plot No. 402,403,404 & 452, Village :– Chharodi, Taluka :– Sanand, District :– Ahmedabad Telephone No. 91–2717–273251 Fax No. 91–2717–273254 E–mail : helpdesk@meghmani.com
4. Agro Division – II	5001/B, G.I.D.C. Ankleshwar, District :– Bharuch Telephone No. 91–2646–222971 Fax No. 91–2646–222965 E–mail : helpdesk@meghmani.com
5. Agro Division – III	Plot No. Ch–1+2/A GIDC Dahej , Taluka :– Vagra District :– Dahej Telephone No. 91–2641–256677 /88 E–mail : helpdesk@meghmani.com
6. Agro Division – IV	Plot No. 22/2, G.I.D.C. Panoli, District :– Bharuch Telephone No. 91–2646– 276577 E–mail : helpdesk@meghmani.com

CORPORATE INFORMATION

PRINCIPAL BANKERS	State Bank of India CAG Branch, 58, Shreemali Society, Navrangpura, Ahmedabad 380 009
	HDFC Bank Limited Mithakhali, Ahmedabad 380 009
	ICICI Bank Limited JMC House, Opp. Parimal Garden, Ambawadi, Ahmedabad 380 009
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AUDITORS	M/s Patel & Khandwala 204, Akik, Opp. Lions Hall, Mithakhali, Ahmedabad 380 009

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CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Meghmani Organics Limited, I am pleased to present our Annual Report for the financial year ended 31 March, 2012 (“FY2012”). The last 12 months have been rather challenging as the Group, along with many other businesses worldwide, faced an increasingly uncertain global economy brought on by the Eurozone crisis. Operationally, despite Meghmani's strong position as one of India's fastest growing chemicals manufacturing company, we continued to experience pricing pressures from escalating costs of raw materials and utilities as a result of high crude oil prices.

In spite of this somber backdrop, I am happy to report that Meghmani has kept its head well above water and recorded a Consolidated profit after tax of Rs35.2 million in FY2012. This was achieved on the back of a 2% increase in revenue to Rs10.5 billion. During the year, Meghmani recorded a Consolidated Gross Profit of Rs 1.7 billion, a 13.7% improvement over FY2011, and despite high raw material costs, our Gross Profit margin improved from 14.7% to 16.4%.

At the bottom–line, our Net Profit was trimmed by higher finance costs arising from the investment in our Caustic Chlorine plant at Dahej via our 57%–owned subsidiary, Meghmani Finechem Limited (“MFL”), and a substantial increase in its income tax due to the deferred tax liability.

I believe our stable performance amidst FY2012's tough business environment is attributable to our core competencies which we have honed to a fine edge after 26 years in the pigments and agrochemicals industries. A deep understanding of these two industries, an astute business strategy that is at the same time adaptable and responsive to market changes; a backward integrated manufacturing business model that helps streamline costs and supply sources; a highly committed team of management and staff; and strong customer support. These, and the underlying healthy fundamentals of the Pigments and Agrochemicals industries, have enabled Meghmani to close FY2012 on a positive note.

I would like to warmly thank our shareholders for their confidence and support for Meghmani over the years, particularly during this difficult time. As a gesture of the Group's appreciation, I am pleased to propose a final dividend of Rs. 0.10 per share in FY2012, which represents a dividend payout ratio of 71%.

Stable Growth in FY2012

Review by Product Segments

Division/Highlights	Revenue (Rs’million)			Gross Profit (Rs’million)			Gross Profit Margin (%)		
	FY12	FY11	Chg (%)	FY12	FY11	Chg (%)	FY12	FY11	Chg(%pts)
Pigment	2,656.7	3,148.9	(15.6)	587.4	632.1	(7.1)	22.1	20.1	2.0
Agrochemical	3,973.7	4,372.7	(9.1)	515.3	607.0	(15.4)	13.0	13.9	(0.9)
Power	7.9	60.9	(87.0)	(4.3)	61.8	(106.9)	NM	NM	NM
Caustic Chlorine	2,339.4	1,571.6	48.9	546.3	118.3	361.8	23.4	7.5	15.9
Trading/Subsidiary	1,472.4	1,092.8	34.7	66.4	83.5	(20.5)	4.4	7.6	(3.2)
Total	10,450.1	10,246.7	2.0	1,711.2	1,504.7	13.7	16.4	14.7	1.7

(Source : Consolidated IFRS Statements)

In FY2012, our Agrochemicals division accounted for 38% of the Group's overall revenue, Pigments division 26%, Caustic Chlorine 22%, and trading of intermediates, Agrochemical technical and intermediate products and subsidiary 14%.

Sales generated by our Agrochemical division fell 9.1% to Rs4.0 billion during the year. Growth in this division tapered off mainly due to the imposition of an international embargo on Iran, one of the Group's main export markets; low off–take from Argentina, re–registration requirements in several Latin American countries; and generally slower demand from our existing customers. In FY2012, our Agrochemical division recorded a Gross Profit of Rs515.3 million, 15.4% lower than the previous year. This was largely because of lower production of Chlorpyriphos (CPP) and Cypermethrin as well as higher raw materials prices of CPP and Permethrin. As a result, Gross Profit margin in FY2012 slipped to 13.0% from 13.9% in FY2011. The relocation of our Agro-1 Division also Contributed to decrease in Gross Profit.

Our Pigments division experienced a decline in FY2012 with revenue down 15.6% to Rs2.7 billion. This was mainly due to lower quantity sale of key products, CPC Blue and Beta Blue, which are used in end products by inks, paint, and plastic manufacturers. Even though Gross Profit for this segment decreased 7.1% to Rs587.4 million, the Group managed to pull up its margin to 22.1% from 20.1% due to better price realisation.

CHAIRMAN'S STATEMENT

The lower revenue generated by our Agrochemical and Pigment divisions were offset by a surge in the sale of Caustic Chlorine which surged 48.9% to Rs2.3 billion due to higher capacity utilisation while gross profit increased 361.8% to Rs546.3 million due to increase in ECU. prices. The Group's Gross Profit margin for this product also improved substantially to 23.4% in FY2012, from 7.5% previously. In addition, revenue generated by our Trading / Subsidiary segment also increased 34.7% to Rs1.5 billion due to largely higher trading activity of Agrochemical products during the year. For this segment, our Gross Profit and margin slipped 20.5% to Rs66.4 million and 4.5% respectively.

Review by Geographic Segments

40% of Meghmani's total revenue in FY2012 came from India (Domestic) and 60% was derived from export markets, of which North America accounted for 16% (Rs1.7 billion), Asia 15% (Rs1.6 billion), South America 13% (Rs1.4 billion), Europe 12% (Rs1.2 billion), Africa 3% (Rs270.0 million) and Australia 1% (Rs124.8 million).

During the year, our export revenue grew a modest 3.8% to Rs6.3 billion underpinned by increased sales in the Agrochemical, Trading / Subsidiary segments. Of this, contribution from our Agrochemical division rose 1.9% to Rs2.8 billion from an increase in quantity sales of Acephate – Technical while sale of Caustic Chlorine and from Trading / Subsidiary activities grew 87.9% and 35.2% to Rs52.6 million and Rs1.4 billion respectively. Conversely, export sales from our Pigment division decreased by 9.6% to Rs2.0 billion.

Group revenue from the Domestic market shrank 0.6% to Rs4.1 billion in FY2012 as sales across most product segments fell – Pigment division by 30.4% to Rs632 million from lower CPC Blue and Beta Blue sales and Agrochemical division by 28.2% to Rs1.1 billion from lower quantity sales of CPP 472 MT. The environment restriction and relocation of Agro Division - I, Chharodi were main contributors. The declines were offset by a surge in domestic sale of Caustic Chlorine and trading of Agrochemical products, which increased by 48.2% and 25.5% to Rs2.3 billion and Rs61.5 million respectively.

Future Outlook and Business Strategies

With FY2012 behind us, the Group is working tirelessly to deliver another set of successful results for FY2013. Even as the global markets for Agrochemical and Pigment products have shown signs of improvement, we remain alert and watchful of trends that could lead to pricing pressures in the coming year such as rising raw materials prices and volatility of the Rupee against US Dollar.

To stay competitive, we plan to uphold our track record for quality products, our high levels of technical competence and after sales service, as well as keep a tight rein on our expenses. In addition, our integrated capabilities in both our Agrochemical and Pigment divisions holds us in good stead as it helps us control costs as well as reduce supply chain disruptions.

Agrochemical Industry – Improving

Meghmani believes that its outlook in the Agrochemical industry is improving, lead by sustained demand for food grains, bio–fuels and the Indian government's drive to develop the agriculture. Thanks to the country's consistent monsoon seasons, an abundant supply making pesticides more affordable for domestic farmers as well as a growing export market, India's crop protection chemical market is currently ranked No. 3 globally in terms of market performance with a compounded annual growth rate of 10%. Looking ahead, the global pesticides market is expected to grow at an average annual rate of 2.2% until 2014, underpinned by favourable market factors.

On the export front, India's improved export competency in terms of product quality and supply track record provides an avenue of growth for the Group. In addition, the low per capita consumption of pesticides in India relative to other developed countries and ongoing product awareness campaigns targeted at domestic farmers by chemicals manufacturers also presents the Group with opportunities to grow domestically.

Meghmani is well positioned to capitalize on these opportunities. We now have our own expanded sales force in over 15 states to help us drive domestic sales, the major states include Andhra Pradesh, Maharashtra, Madhya Pradesh, Rajasthan and Gujarat.

Our Dahej Plant has commenced the production of one of the world's most widely used herbicides, 2.4–D, and this plant is also backward integrated to manufacture its intermediates, MCAA and TCAC. With the shift in product mix in India towards herbicides, we expect 2.4–D and its intermediates to be an important growth driver for our Agrochemicals division in the coming years. The Group is also in the midst of relocating our Agrochemical operations of Agro Division - I, Chharodi Plant to Agro Division Plant II at Ankleshwar and III at Dahej. The relocation is expected to be completed by the end of current financial year. During this period, we expect our production to be affected until we attain full production capacity. On the bright side, our formulation plant at GIDC Panoli has steadily ramped up its production and is operating at peak capacity.

CHAIRMAN'S STATEMENT

Also, we plan to further backward integrate Meghmani's manufacturing capabilities in the future as it allows the Group to effectively manage our raw materials costs and ensures a constant supply of these raw materials of a consistent quality. This strategy will allow the Group to stabilize our production by cutting down our reliance on third party suppliers in the face of volatile raw materials supply chain.

Our efforts in R&D over the years have lead to an increase in the number of Agrochemical products we have developed and submitted for registration. To–date, we have received 85 export registrations, made applications for another 587 in different parts of the world and hold 173 registrations with the Central Insecticides Board (CIB), Faridabad. We will continue to focus on increasing our product registrations in the years to come given its importance in expanding our market share. These registrations would also give the Group access to sizable tenders floated by humanitarian agencies under the United Nations such as the World Health Organisation (WHO) and Food & Agriculture Organisation (FAO). In line with this, we have stepped up the development of our intellectual property (IP) rights such as product trademarks, and corporate logo and name, which we believe are of vital importance to our brand building and marketing efforts. We currently have 25 registered trademarks.

Pigment Industry – Looking Brighter

In 2009, the global pigment and dye market had an estimated value of US$13.9 billion, of which organic pigments accounted for around US$9.1 billion. The market is forecast to grow at a CAGR of 3.9% to US$16.9 billion by 2013. Due to its ability to provide intense and bright colours, demand growth for pigments has been overshadowing that of dye, its fellow substitute, in recent years. In volume terms, demand for pigments is expected to grow 3.5% annually to 2.3 million tonnes by 2013.

Looking further ahead, the global pigment market will earn revenues of more than US$45 billion by 2018 according to Ceresana Research, with the Asia Pacific region as a key influencer of market dynamics. Supply and demand for pigments are shifting from USA, Western Europe and Japan to the emerging markets of Asia, especially China and India, where wages are lower and domestic demand for consumer products containing pigments is growing. Even though almost all industrial sectors use pigments, the printing ink, paints, lacquers, and plastics segments have stood out as the key growth drivers behind the demand for pigments.

As one of the largest pigment manufacturers in the world, Meghmani is in a strong position to ride on the global demand growth for pigments. Our new pigment manufacturing facility located at the Dahej Special Economic Zone (SEZ), will effectively enable the Group to increase our production capacity for CPC Blue (Crude), Beta Blue. Due to the scale of our operations, we are able to leverage scale of economies to offer specialized products to our customers at the best possible price.

The Group plans to focus our efforts in further expanding our domestic market as the consumption of paint, plastics and ink is expected to experience double digit growth. In the pipeline, we plan to introduce a range of pigments for the fast growing coatings and plastics industries as part of our mid–term strategy.

The Group has successfully secured a number of new domestic customers during the year. To respond better and faster to these customers, we have employed local staff supported by warehousing facilities at strategic locations across India. This spoke–and–wheel model is something that we may explore further in the future.

Acknowledgements

On behalf of the Board, I want to express my sincere gratitude to the management and staff of Meghmani, whose hard work has made it possible for us to deliver results in FY2012. I also want to express my appreciation to my fellow directors for their guidance, advice and foresight to steer the Group towards greater success.

Special thanks also to our customers and business partners – your loyalty and support has enabled us to achieve our goals as a company.

To our shareholders, thank you for believing in us. We will continue to strive towards stronger growth and to achieve higher returns on your investment in us.

Jayanti Patel

Executive Chairman

DIRECTORS' REPORT

To,
The Members,
Meghmani Organics Limited

Your Directors have pleasure in presenting Eighteenth Annual report and Audited Statement of Accounts of the Company for the Financial Year ended on 31st March, 2012.

FINANCIAL RESULTS (Rs. in Millions)

PARTICULARS	YEAR ENDED ON MARCH 31, 2012	YEAR ENDED ON MARCH 31, 2011
Net Revenue from operations	8,220.83	8,649.18
Other Income	95.12	72.06
Total Revenue	8,315.95	8,721.24
Profit before Finance Cost & Depreciation	824.77	979.21
Finance Cost	259.29	173.23
Depreciation	260.78	203.47
Profit Before Extra Ordinary Item & Tax	**304.70**	**602.51**
Extra Ordinary Item	0	2.50
Profit Before Tax	**304.70**	**600.01**
Payment & Provision of Current Tax	60.00	114.59
Deferred Tax Expenses/(Income)	78.86	13.61
Profit After Tax	**165.84**	**471.81**
Profit Available for Appropriation	165.84	471.81
Transfer to Debenture Redemption Reserve	82.55	0.00
Transfer to General Reserve	5.00	50.00
Proposed Dividend	25.43	101.73
Dividend Tax	4.13	16.50
Balance Carried forward	**48.73**	**303.58**

DIVIDEND:–

In view of challenging year and to keep the Company's initiative to consolidate its growth, your directors recommend. payment of dividend of ` 0.10 (Ten Paise) per share on 254,314,211 Equity Shares of ` 1/– each fully paid up, for your approval. The dividend will entail an out flow of ` 29.56 Mn including dividend distribution tax on fully paid up share capital of Rs. 254,314,211. The proposed dividend is tax free in the hands of shareholders.

OPERATIONS:–

Despite the difficult year, your company could maintain the Sales Turn over largely due to increase in trading sales which increased from Rs. 491.95 Mn in FY 2011 to Rs. 796.92 Mn in FY 2012, while manufacturing sales decreased from Rs. 7,953.79 Mn in FY 2011 to Rs. 7,254.37 Mn in FY 2012.

(1) DOMESTIC SALES:–

The Domestic Sales decreased by Rs. 713.91 Mn (27.92%) i.e. from Rs. 2,556.58 Mn in FY 2011 to Rs. 1,842.67 Mn in FY 2012. mainly due to relocation of its Agro Division–1, Chharodi.

The Domestic Sales of Pigment Division decreased by Rs. 276.87 Mn (30.46%) i.e. from Rs. 909.09 Mn in FY 2011 to Rs. 632.22 Mn in FY 2012. This was mainly due to lower sales of key products CPC Blue and Bela Blue.

The Domestic sales of Agro Division decreased by Rs. 449.54 Mn (28.12%) i.e. from Rs. 1,598.46 Mn in FY 2011 to Rs. 1,148.92 Mn in FY 2012. This was due to lower Production of Cypermethrin and Chlorpyriphos (CPP).