

Chemistry of success at work

ANNUAL REPORT 2015-2016



MEGHMANI ORGANICS LIMITED

CONTENTS

CORPORATE INFORMATION	002
CHAIRMAN'S STATEMENT	006
DIRECTORS' REPORT	008
SECRETARIAL AUDIT REPORT	027
MANAGEMENT DISCUSSION AND ANALYSIS	030
CORPORATE GOVERNANCE	040
INDEPENDENT AUDITOR'S REPORT (STANDALONE)	062
STANDALONE BALANCE SHEET	068
STANDALONE STATEMENT OF PROFIT & LOSS	069
STANDALONE CASH FLOW STATEMENT	070
STANDALONE STATEMENT ON SIGNIFICANT ACCOUNTING POLICIES	072
STANDALONE NOTES TO THE FINANCIAL STATEMENT	077
INDEPENDENT AUDITOR'S REPORT (CONSOLIDATED)	106
CONSOLIDATED BALANCE SHEET	109
CONSOLIDATED STATEMENT OF PROFIT AND LOSS	110
CONSOLIDATED CASH FLOW STATEMENT	111
STATEMENT ON SIGNIFICANT ACCOUNTING POLICIES TO CONSOLIDATED ACCOUNTS	113
NOTES TO CONSOLIDATED FINANCIAL STATEMENT	115
STATEMENT PURSUANT TO SECTION 129(3) OF THE COMPANIES ACT, 2013	146
NOTICE OF ANNUAL GENERAL MEETING	147
PROXY FORM AND ATTENDANCE SLIP	156

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
Chander Kumar Sabharwal
Ms. Urvashi Shah

AUDIT COMMITTEE

Balkrishna T Thakkar
Chinubhai R Shah
Jayaraman Vishwanathan

NOMINATION COMMITTEE

Chinubhai R Shah
Balkrishna T Thakkar
Kantibhai H Patel

REMUNERATION COMMITTEE

Chinubhai R Shah
Balkrishna T Thakkar
Kantibhai H Patel

THE SHAREHOLDERS' / INVESTORS' GRIEVANCE, SHARE ALLOTMENT AND SHARE TRANSFER COMMITTEE

Chinubhai R Shah
Balkrishna T Thakkar
Ashish N Soparkar

CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

Chinubhai R Shah
Balkrishna T Thakkar
Ashish N Soparkar
Jayanti M Patel
Natwarlal M Patel

COMPANY SECRETARY

Kamlesh Dinkerray Mehta

REGISTRAR & SHARE TRANSFER AGENT- INDIA

Link Intime India Private Limited
C-13, Pannalal Silk Mills Compound
LBS Road, Bhandup (West),
Mumbai 400 078, India.
Tel: +91 22 2596 0320
Fax: +91 22 2596 0329

CORPORATE INFORMATION**INVESTOR SERVICES E - MAIL ID**

helpdesk@meghmani.com

**SINGAPORE DEPOSITORY SHARES ("SDSs")
REGISTRAR AND SDSs OFFICE**

Tricor Barbinder Share Registration Services
80 Robinson Road, #02-00
Singapore 068898
Telephone No. (65) 6236 3552
Fax No. (65) 6236 3405
E-mail : helpdesk@meghmani.com

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

CORPORATE OFFICE

Meghmani House,
Shreenivas Society,
Off. Vikas Gruh Road
Paldi, Ahmedabad 380 007
Telephone No. 91-79-26640 668/669
Fax No. 91-79-26640670
E-mail : helpdesk@meghmani.com

**MUMBAI OFFICE
PRESENT OFFICE;-**

A1& B1, Ground Floor,
Kalamandir Co.Op.Housing Society,
Chitrakar Ketakar Marg, Near Sathye College,
Ville Parle [East], Mumbai - 4000 057
Telephone No. 91 22 2612 2640

**PERMANENT OFFICE;-
(BUILDING UNDER RECONSTRUCTION)**

Flat No. 22/23,
Vellard View Co.op. Housing Society,
Tardeo Road, Mumbai

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. Pigment Blue Division | Plot No. Z-31, Z-32,
Dahej SEZ Limited, - Dahej
Taluka :- Vagra, District :- Bharuch
Telephone No. 91-2646-276352
Fax No. 91-2646-276374
E-mail : helpdesk@meghmani.com |
| 4. 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 |
| 5. 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 |
| 6. Agro Division - III | Plot No - Ch-1+2/A
GIDC Dahej, Taluka - Vagra
District : - Bharuch -392130
Telephone No. 91-2641-256677 /88
E-mail : helpdesk@meghmani.com |
| 7. 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

Standard Chartered Bank,
Ground Floor, Abhijeet II,
Mithakhali Six Roads,
Ahmedabad - 380 006

AUDITOR

M/s Khandwala & Khandwala
2nd Floor, "HRISHIKESH",
Vasantbaug Society,
Opposite Water Tank,
Gulbai Tekra,
Ahmedabad - 380006

JOINT - AUDITOR

KPMG
Safal Profitaire, B4,
Third Floor, Corporate Road,
Opp. Auda Garden,
Prahladnagar,
Ahmedabad - 380 015

★ ★ ★

CHAIRMAN'S STATEMENT

Dear Shareholders,

We are pleased to report that we delivered successfully on a wide range of strategic objectives in Financial Year 2016. During the year, Meghmani Organics Limited, saw significant improvement in capacity utilization, product diversification, margin expansion and cash flow. Our comprehensive range of higher-value products saw robust growth which, coupled with increase in operational efficiency and reduced leverage, led to substantial increase in profitability. Post the well-planned ₹ 5.57 bn expansion undertaken over the last five years across all our three businesses, i.e. Pigments, Agrochemicals and Basic Chemicals, we are well positioned to further expand in both the global and domestic markets.

We continue to strengthen our position of leadership across businesses. Our global market share in Phthalocyanine Pigments was up at 15%, we are a leading player in Agrochemicals and the fourth-largest Caustic Chlorine flakes player in India in the Basic Chemicals segment.

At present, we export to 75 countries and are servicing 400+ marquee clients. During the year, we continued to expand our global footprint. Simultaneously, we increased our focus on the fast-growing domestic market. 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 ahead, India's large population base with low per-capita consumption of chemicals and relatively strong GDP growth outlook (expected to grow at 7.5% in 2016 and 2017), according to IMF Outlook Apr-2016 will sustain healthy domestic growth in the sector.

Significant increase in Profitability, led by better operational performance and reduced financial leverage

Consolidated revenue reached ₹13,370 mn, 5% higher than ₹ 12,678 mn in FY15, driven by growth of 13% in Basic Chemicals and 10% in Pigments. We delivered record high volumes across all three business segments, i.e. Pigments, Agrochemicals and Basic Chemicals, which grew by 19%, 21% and 4%, respectively. Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) for the year increased 41% to ₹ 2,869 mn resulting in an EBITDA margin of 21.5%, 544 bps higher than the 16% of FY15, on account of better operational performance (higher utilization) and reduction in raw materials prices. Profit After Tax (PAT) for the year stood at ₹ 826 mn, compared to ₹ 439 mn in FY15. This sharp rise is thanks to improved performance and lower financial charges with reduced debt. Overall debt decreased by ₹ 633 mn due to repayment of long-term debt leading to the Debt - Equity (D/E) ratio falling to 0.9 in FY16 from 1.2 in FY15.

Segmental Performance:

Pigments report strong growth in revenue and profitability

Our Pigments business posted revenue growth of 10% to reach ₹ 4,667 mn, up from ₹ 4,244 mn in FY15, driven by 19% growth in volumes. However, realization in the segment was down due to benefits of reduction in raw material prices and operational efficiencies being passed on to long-term clients. EBITDA margin increased significantly to 16% in FY16 from 10% in FY15. Utilization level increased to 63% in FY16 from 51% in FY15.

Agrochemicals business delivers growth in challenging market, led by increased volumes and utilization

Our Agrochemicals business reported revenue increase of 2%, to reach ₹ 4,477 mn from ₹ 4,380 mn in FY15 on account of 21% growth in volumes. Volume growth fully offset the decrease in realization, on account of change in product mix. EBITDA margin increased to 14% during the year from 13% in FY15. Utilization level increased to 68% in FY16 from 60% in FY15, even as overall production capacity increased to 20,520 MT in FY16 from 19,200 MT in FY15.

Basic Chemicals continue on growth trajectory

Revenue from our Basic Chemicals business grew 13% to reach ₹ 3,987 mn from ₹ 3,518 mn, driven by both volume increase (4% YoY) and Electro Chemical Unit (ECU) realizations, which increased due to a favorable demand scenario. EBITDA margin expanded to 38% in FY16 from 31% in FY15. Overall production capacity increased to 1,66,600 MT in FY16 from 1,54,100 MT in FY15, resulting in a slight fall in utilization.

Industry Outlook

The global Pigments market is expected to reach \$32 bn by 2023, expanding at a CAGR of 3.8%. Paints & Coatings is the largest end-user segment of the Pigments market. While Asia Pacific dominates the global Pigments market with 40% market share, China dominated the Pigments market within Asia Pacific. The Indian colorant industry has transformed from being import dependent to one driven by exports. Developed countries are now focusing on sourcing colorants from cost effective Asian markets, owing to stringent environmental laws in the West.

CHAIRMAN'S STATEMENT

The global Agrochemicals market is projected to reach \$250.5 bn by 2020, growing at a CAGR of 3.2%. Asia-Pacific dominates the global market with a share of around 37%. The Indian crop protection market is expected to grow at a CAGR of 12% to reach ₹ 470 bn by FY19. The domestic market, which is predominantly monsoon-dependent, will grow at 8%. Insecticides (largest segment) enjoys a market share of 60%, while for herbicides (the fastest growing segment) it is 16%.

The Government of India is striving to usher in a 2nd Green Revolution in the country. This would require adopting a holistic approach to farming, including taking up better irrigation methods to reduce dependency on monsoon, integrated pest management techniques, educating the farmers, and using technology wherever possible.

The global market size of Chlor-Alkali is estimated to reach \$103 bn by 2021, from \$79 bn in 2016, growing at a CAGR of 5.4%. Asia-Pacific is the largest market for Chlor-Alkali products. The region is projected to register the highest growth rate, in both value and volume terms. China is the largest Chlor-Alkali market globally accounting for the highest demand. According to Indian Chemical Industry XIIth Five Year Plan, the size of the Indian Chlor-Alkali sector is 7 mn tonnes, i.e. 4% of the world market of 170 mn tonnes.

Business Strategies:**Meghmani Organics: A de-risked business model to continue delivering profitable growth**

Meghmani has a de-risked business model and we continue to make efforts to mitigate the challenges that the industry faces. While our diversified businesses mitigate segment related risks, our strong global presence across various geographies reduces location-specific risks.

We have invested ₹ 5.57 bn in last 5 years to enter new products as well as integrate backwards. With major investments already undertaken, we do not anticipate any major capex for the next two years. The current capacity can ramp up revenue to ₹ 20 bn by FY19. We are very focused on deleveraging our balance sheet and plan to reduce debt by ₹ 906 mn in FY17 and ₹ 914 mn in FY18.

In the Agrochemicals business, we plan to increase revenue from branded products to ₹ 2.5 bn by FY19. To drive this planned growth, we have hired a team of professionals with significant experience. We have also established a strong pan-India presence with 2370 stockists, agents, distributors, and dealers, compared to 1,000 across 17 states in FY15 and plan to increase this to 3500 by FY18. In Exports, we will continue to invest in new registrations in regulated markets, such as the US, Brazil and European Union. We have planned to obtain Good Laboratory Practices (GLP) Certificate, which will significantly reduce the time needed for securing new registrations. We plan to further increase the capacity utilization from current levels of 68%.

In Pigments, we plan to increase contribution from value-added products, such as Beta Blue 15:4 and 15:2. We are also in preliminary talks with certain international players to supply specialized Pigment products on long-term basis and are eyeing untapped markets, such as Japan. Post capacity expansion, we have increased our focus on the domestic Pigments market too.

In Basic Chemicals, the new Caustic Potash facility at Dahej, of 60 TPD capacity, commenced production in April 2016. This plant, which was set up at an investment of ₹ 650 mn, has revenue potential of ₹ 1,250 mn and 30% EBITDA Margin. In FY16, we also changed the Membrane of the existing Caustic Soda Plant, which resulted in its capacity increasing to 500 TPD from 400 TPD. These will drive high-margin growth in the Basic Chemicals segment.

Overall, we are very optimistic that Meghmani, with its Chemicals DNA, diversified portfolio, unmatched infrastructure and improved market conditions, i.e. expected recovery in the global agro market, anticipated favorable monsoon in India and higher growth of the Chemicals sector driven by government support, will continue delivering profitable growth, leading to higher returns for our stakeholders.

Acknowledgements:

On behalf of the Board, I would like to thank the management and staff of Meghmani, who have worked hard for the growth and future of the Company. I am also grateful to my fellow directors for their continued guidance, advice and foresight that helped steer the Group's business through the increasingly competitive industry landscape. I extend my heartfelt gratitude to our customers for their continued faith in our products and our business partners for their support to our business. Finally, I thank our shareholders for the trust and confidence they have placed in us. With your belief in us, we are confident of keeping up the growth momentum and report even better results in the years to come.

Thank you and best wishes.

Jayanti Patel
Executive Chairman

DIRECTORS' REPORT

To,
The Members,
Meghmani Organics Limited

Your Directors have pleasure in presenting Twenty Second Annual Report and Audited Statement of Accounts of the Company for the Financial Year ended on 31st March, 2016.

FINANCIAL RESULTS

(₹ in Crore)

PARTICULARS	YEAR ENDED ON 31 st MARCH, 2016	YEAR ENDED ON 31 st MARCH, 2015
Net Revenue from Operations	980.73	948.18
Other Income	3.09	18.59
Total Revenue	983.82	966.77
Profit before Finance Cost and Depreciation	140.66	118.43
Finance Cost	40.84	47.66
Depreciation	36.19	35.02
Profit Before Extra Ordinary Item & Tax	63.63	35.75
Extra Ordinary Item/Exceptional item	8.11	3.51
Profit Before Tax	55.52	32.24
Payment and Provision of Current Tax	12.90	1.80
Deferred Tax Expenses/(Income)	2.13	3.33
(Excess) / Short provision of tax for earlier year	0.39	0.90
Profit After Tax	40.10	26.22
Profit Available for Appropriation	40.10	26.22
Transfer to Debenture Redemption Reserve	1.33	4.17
Transfer to General Reserve	2.75	2.75
Interim Dividend	7.63	10.17
Interim Dividend Tax	1.55	0.00
Balance Carried forward	26.84	9.13

DIVIDEND:-

During the year, the Board of Directors had declared and paid an Interim Dividend @ 0.30 paise per share on 25,43,14,211 (including 3,74,33,450 Equity Shares represented by Singapore Depository Shares (SDSs)) Equity Shares of ₹ 1/- each fully paid up for the Financial Year 2015-2016. The Interim Dividend entailed an out flow of ₹ 7.63 Crores (excluding Dividend Distribution Tax). The Interim Dividend was tax free in the hands of shareholders.

Your Directors have considered it financially prudent in the long-term interests of the Company to reinvest the profits into the business of the Company to build a strong reserve base and grow the business of the Company. No final dividend has therefore been recommended for the year ended March 31, 2016. The interim Dividend paid is to be considered as final dividend.

In terms of Section 125 of the Companies Act, 2013, unclaimed dividend relating to the Financial Year 2008-09 is due for transfer on 10.08.2016 to the Investor Education and Protection Fund (IEPF) established by the Central Government.

SHARE CAPITAL:-

The Paid up Equity Share Capital as on March 31, 2016 is ₹ 25.43 Crores. During the year under review, the Company has not issued shares with differential voting rights nor granted Employee Stock Options or Sweat Equity Shares.

DIRECTORS' REPORT**OPERATING RESULTS:-**

The Sales of the Company has increased by ₹ 40.03 Crores (4.34 %) i.e. from ₹ 921.88 Crores in FY 2015 to ₹ 961.91 Crores in FY 2016.

1) DOMESTIC SALES:-

The Domestic Sales increased by ₹ 44.72 Crores (21.18%) i.e. from ₹ 211.10 Crores in FY 2015 to ₹ 255.82 Crores in FY 2016.

The Domestic Sales of Pigment Division increased by ₹ 39.13 Crores (51.56%) i.e. from ₹ 75.91 Crores in FY 2015 to ₹ 115.04 Crores in FY 2016.

The Domestic Sales of Agro Division increased by ₹ 11.20 Crores (8.72%) i.e. from ₹ 128.37 Crores in FY 2015 to ₹ 139.57 Crores in FY 2016.

2) EXPORT SALES :-

The Export Sales decreased by ₹ 4.69 Crores (0.66%) i.e. from ₹ 710.78 Crores in FY 2015 to ₹ 706.09 Crores in FY 2016.

The Export Sales of Pigment Division increased by ₹ 3.10 Crores (0.89%) i.e. from ₹ 348.52 Crores in FY 2015 to ₹ 351.62 Crores in FY 2016.

The Export Sales of Agro Division decreased by ₹ 1.52 Crores (0.49%) i.e. from ₹ 309.60 Crores in FY 2015 to ₹ 308.08 Crores in FY 2016.

3) OTHER INCOME :-

Other income decreased by ₹ 15.50 Crores mainly due to decrease in dividend income of ₹ 14.56 Crores received during last year from its Subsidiary Company.

4) PROFITABILITY :-

Profit before Tax increased by ₹ 23.28 Crores (i.e. by 72.19%) while Profit after Tax increased by ₹ 13.88 Crores (i.e. by 52.96%). The main reasons for increase in Profitability are:-

1. Sales increased by ₹ 40.03 Crores.
2. Finance Cost reduced by ₹ 6.82 Crores.
3. Raw Material Cost of certain materials reduced.
4. Increase in quantity sales of pigment division.

INSURANCE:-

The Company's plant, property, equipments and stocks are adequately insured under the Industrial All Risk Policy. The Company has insurance coverage for Product Liability, Public Liability, Marine Coverage and Commercial General Liability (CGL). The Company has Directors' and Officers' Liability (D & O) Policy to provide coverage against the liabilities arising on them.

FINANCE:-**1) REDEMPTION OF DEBENTURE**

During the year, Non Convertible Debentures (NCD) Series II (INE974H07028) of ₹ 50 Crores were redeemed on 12.10.2015. With this repayment, the Company has repaid Non Convertible Debentures (NCD) Series I and Series II aggregating ₹ 100 Crores.

2) RENEWAL OF WORKING CAPITAL FACILITY:-

The consortium bank has renewed Fund based and Non Fund based Working Capital Credit facilities up to ₹ 475 Crores. To avail the enhancement, execution of Security documents are in process.

The Company has replaced term loan of ₹ 61.75 Crores of Yes Bank Limited and ₹ 45 Crores of ICICI Bank Limited with low interest rate Rupee Term Loan of ₹ 106.75 Crores from State Bank of India.