Chemistry of success at work

ANNUAL REPORT 2016-2017

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 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 101, 247 Park, L. B. S. Marg, Vikhroli (West), Mumbai - 400083. Tel: +91 22 4918 6270 Fax: +91 22 4918 6060

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, B/h Safal Profitaire, Corporate Road, Prahaladnagar, Ahmedabad 380 015 Telephone No. 91-79-2970 9600/ 7176 1000 Fax No. 91-79-2970 9605 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 Division - Green	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 Division - Blue	Plot No. 21,21/1, G.I.D.C. Panoli, District :- Bharuch Telephone No. 91-9879606337, 38, 39 E-mail : helpdesk@meghmani.com
3. Pigment Division - Blue	Plot No. Z-31, Z-32, Dahej SEZ Limited, - Dahej Taluka :- Vagra, District :- Bharuch Telephone No. 91-7567144279 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 E-mail : helpdesk@meghmani.com
5. Agro Division – II	5001/B, G.I.D.C. Ankleshwar, District :- Bharuch Telephone No. 91-2646-222971 E-mail : helpdesk@meghmani.com
6. Agro Division – III	Plot No - Ch-1+2/A GIDC Dahej, Taluka – Vagra District :- Bharuch - 392130 Telephone No. 91-2641-291017 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 Chartered Accountants 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,

This was a year of continued progress for Meghmani Organics. On one hand, we took the next leap forward in our vision of becoming a global chemicals conglomerate with the start of a ₹ **5.4-bn round of expansion to be completed over the next 2-3 years.** This is the next strategic stepping stone to expand our Chemicals business post the ₹ 6.5-bn invested over the last five years. On the other hand, we delivered **steady profitable growth of** 7% revenue growth and EBITDA margins of 21%. That too in the face of challenges like the high channel inventory in the Indian Agrochemicals Market, a lackluster exports market, the fire at our Beta Blue plant and slow ramp-up in the Caustic Potash facility.

However, with all challenges now behind us, FY18 looks to be more promising. **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 **Pigments,** with the Beta Blue plant fire incident behind us, we will be able to increase the share of higher-value-added products in FY18 as earlier planned. 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.

We are confident that the above developments, along with Meghmani's **strong leadership across businesses, wide presence in international markets and increased focus on the fast-growing domestic market will help deliver robust performance in Fy18.**

Our global market share in Pthalocyanine Pigments was up at 8%, we are a leading player in Agrochemicals and the fourth-largest Caustic Chlorine 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. Our Exports registrations have increased to 227 in FY17 from 183 in FY16. 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 forward, India's large population base with low per-capita consumption of chemicals and relatively strong GDP growth outlook (GDP expected to grow at 7.2% in 2018, according to IMF Outlook), as the transient impact of demonetisation withers off will sustain healthy domestic growth in the sector.

₹ 5.4-bn capex underway for strong future growth

The project will be a major growth-driver, going forward. It involves 3 projects. **The first Project** is the Company's CMS project of 40,000 MTPA which will result in captive consumption of 41,000 MTPA of Chlorine (Co-product of the Company's Caustic Soda production), which currently has negative realisation. So, this project will help the Company to achieve better realisation in the Caustic segment. The end products of this project is MDC (which mainly used by Pharma and Agro Chemical Industries and India is currently a net importer of the same), Chloroform and Carbon Tetra Chloride(CTC). This is expected to be commissioned by March 2018 and add ₹1.4 bn of revenue in the full year of operations. **The Company's second Project** involves 50% capacity expansion of the Caustic Soda Plant to 2,40,000 MTPA using the zero gap membrane cell technology and increase the Company's Captive Power Plant capacity to 90MW from 60 MW now. **The Company's third Project** is to set up a Hydrogen Peroxide (50%) project of 25,000 MTPA. which also used in Pharma and Agro Chemical Industries. The expansion of the Caustic Chlorine facility, along with Power Plant and Hydrogen Peroxide projects will involve investments to the tune of ₹ 4 bn. These are expected to be commissioned by June 2019 and add ₹ 3 bn in revenue in the full year of operations.

Continued growth momentum with maintained profitability

Consolidated revenue delivered YoY growth of 7% in FY17 on the back of growth in the domestic market, which grew by 11% in the year. Pigments and Agrochemicals delivered good growth, despite challenges, such as subdued exports, fire incident and pricing pressure in Agrochemicals due to channel inventory following 2 years of drought. Revenue from Basic Chemicals was stable on account of lower utilisation due to synchronisation of the Caustic Potash Plant.

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EBITDA for the period increased 11% to ₹ 2,888 mn on the back of improved operational performance, higher production and increased share of value-added products. This resulted in expansion of 77 bps in EBITDA margin to 20.6%. PAT grew by 6% to ₹ 878 mn on the back of improved financial leverage due to debt reduction, taking the PAT margin to 6.3%. Exceptional Loss of ₹ 38 mn is related to Loss due to fire at Beta Blue Plant. Our long-term debt is down by ₹1,171 mn this year and we plan to pay off a further ₹ 910 mn in FY18. This, along with better performance, has resulted in an improved interest coverage ratio of 3.9X compared to 2.9X in FY16. The Debt Equity ratio was further reduced to 0.6X in FY17 from 0.9X in FY16.

In view of our Group's performance in FY17, I am pleased to propose a dividend of ₹ 0.40 per share fo ₹ 1 each.

Segmental Performance:

Pigments continue with profitable growth momentum

Our Pigments business delivered steady growth with higher profitability in the year despite the fire at the Beta Blue plant during the year. Revenue grew by 10% in the year to reach ₹ 5,143 mn, driven by robust performance in both domestic and export markets, which grew at 29% and 12%, respectively. Volumes increased by 7% at 14,462 MT, driven by higher production and higher realisation. EBITDA margin increased to 17% from 13% in FY16 due to higher production, higher realisation, lower fuel cost and lower other expenses. Utilisation levels increased to 66% in FY17 from 63% in FY16.

Agrochemicals business delivers double-digit revenue growth, led by strong volumes

Our Agrochemicals business reported higher revenue on the back of robust volume growth in the domestic market, but lower realisations impacted the segment's profitability transiently. However, the year ended on a better note with all setbacks firmly behind us. Revenue for the year increased by 11% to ₹ 4,730 mn in FY17, from ₹ 4,262 mn in FY16 driven by a robust growth of 34% in the domestic markets coupled with stable exports. Volumes witnessed robust growth of 27%. However, realisations declined due to change in product mix to match demand in the market. EBITDA margin for the period was down at 10% in the year compared to 12% in FY16, on account of lower realisation and lower utilisation. Utilisation level was at 60% as production capacity increased to 27,180 MTPA in FY17 from 20,520 MTPA in FY16 via debottlenecking.

Basic Chemicals continue to deliver profitability in line with long-term range

Our Basic Chemicals segment reported good performance with margins in the range of the long-term average of 30-35%. During the year, the synchronisation of the Caustic Potash plant led to lower production, which is directly connected to revenue. Revenue for the year was therefore, marginally down at ₹ 3,953 mn. The Company also upgraded its Caustic plant to the zero gap technology in FY17. Blended realisation for the segment was stable. EBITDA margin was at 36%, above the guided range of 30-35%, but lower than the previous year on account of lower utilisation and higher fuel cost. Utilisation level declined to 77% on account of Caustic Potash plant synchronisation and increased capacity to 1,87,600 MTPA from 1,66,600 MTPA on account of commencement of the Caustic Potash facility.

Industry Outlook

All the 3 segments of the Chemical industry we operate in, i.e., Pigments, Agrochemicals and Basic Chemicals, are growing well on both the Domestic and Export fronts.

The size of the global Pigments market in 2016 was $24 bn and is expected to rise to $32 bn by 2023, growing at a CAGR of 3.8%. Asia Pacific (APAC) is expected to make up the lion's share of the global geographical market with approximately 47% share in 2023.The global organic pigments market is expected to grow at a CAGR of more than 3% between 2017 and 2021. In terms of geography, APAC is the largest and most dominating region in the global market. The highly fragmented Indian colorant industry, valued at $6.8 bn, exports nearly 75% of its production. Exports have grown in double-digits over the last few years.

The global Agrochemicals market should cross $266 bn by 2021, up from $213 bn in 2016, growing at a CAGR of 4.5% from 2016 to 2021. The growing global population and limited land are the major growth-drivers for the agrochemicals market. In 2015, APAC accounted for 53% of the revenue share of the agrochemicals market. FY17 was a progressive year for the Indian Agrochemical Industry, which experienced a healthy monsoon after 2 years of drought. Budget 2017-18 gave a big fillip to the Indian Agri sector through pitched reforms in agriculture and increased funds for insurance and irrigation schemes, amongst

CHAIRMAN'S STATEMENT

others. The Indian Agrochemicals industry is expected to grow at 10-12% annually to reach $6.8-7.4 bn by FY19. Approximately half of the demand comes from domestic consumers and the rest from exports.

According to Research and Markets, the global Chlor-Alkali market is projected to grow at a CAGR of between 5.0% and 5.5% from 2016 to 2022. The consistent global demand for alumina, pulp and paper, vinyls and other derivatives provide positive growth opportunities for the Chlor-Alkali market. According to IMF, India's FY18 GDP growth is projected to increase to 7.2%. Basic Chemicals – Chlor-Alkalis and PVC are basic building blocks that find application in products of everyday use, including Aluminium, Paper, Textiles and Plastics.

Future Outlook:

FY18 looks to be a more promising year with all businesses poised to grow

We are positive about a stepped-up performance in FY18 as all our businesses are on a strong growth path:

Pigments is expected to continue with the momentum with its increasing share of value-added products, led by fully ramped-up Beta Blue plant. We are also focusing on the high-margin paints and plastics market by improving the product-mix and developing specialty pigment products for international markets to maintain the growth in exports. Meghmani Organics, being a leader in the Indian pigments market, is well placed to monetise the significant market opportunities in the fast-growing Indian economy.

In Agrochemicals, we expect the domestic market to further grow in FY18, driven by a better monsoon following the channel inventory drying up after 2 years of drought, and lower imports due to reduced production in China on account of pollution issues. The Company has focused its efforts on strengthening its distribution network which was earlier not being pursued very aggressively due to subdued market conditions. The Company's export markets are already reviving and Meghmani Organics is witnessing increasing demand for its higher-value products which will result in higher realisations and better margins.

Our Caustic Potash plant, which is now getting ramped up, coupled with continued strong performance by Caustic Soda, will be the key drivers for profitable growth of the Basic Chemicals segment.

Overall, FY18 looks to be more promising with all segments expected to progress: Agrochemicals with better industry demand, Pigments with increasing share of higher-value-added products and Basic Chemicals with increased utilisation of caustic potash. So Meghmani, with its Chemicals DNA, diversified portfolio, unmatchable infrastructure and improved market conditions, 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 Third Annual Report and Audited Statement of Accounts of the Company for the Financial Year ended on 31st March, 2017.

FINANCIAL RESULTS

(₹ in Lakhs)

PARTICULARS	YEAR ENDED ON 31st MARCH, 2017	YEAR ENDED ON 31st MARCH, 2016
Net Revenue from Operations	102301.00	94029.63
Other Operating Revenue	2318.09	1881.66
Revenue from Operations	**104619.09**	**95911.29**
Other Income	1096.35	2401.31
Total Revenue	**105715.44**	**98312.60**
Profit Before Finance Cost and Depreciation	**14416.78**	**13527.89**
Finance Cost	3641.66	4130.85
Depreciation	3846.98	3618.67
Profit Before Exceptional Item & Tax	**6928.14**	**5778.37**
Exceptional item	381.06	811.44
Profit Before Tax	**6547.08**	**4966.93**
Payment and Provision of Current Tax	2250.00	1290.00
Deferred Tax Expenses/(Income)	95.26	10.52
Excess/short provision of tax for earlier year	50.76	38.88
Profit After Tax	**4151.06**	**3627.53**

DIVIDEND:-

The Board of Directors has recommended payment of dividend at ₹ 0.40 per Equity Share on 254,314,211 Equity Shares of ₹ 1/- each fully paid up for Financial year 2016-17. The dividend will entail an out flow of ₹ 1224.35 Lakhs including dividend distribution tax. The proposed dividend is tax free in the hands of shareholders.

During the year, unclaimed dividend of ₹ 2.66 Lakhs pertaining to Financial year 2008-09 were transferred to the Investor Education & Protection Fund (IEPF) while Unclaimed Dividend relating to the Financial Year 2009-10 is due for transfer on 10.08.2017 to (IEPF) established by the Central Government.