

MEGHMANI ORGANICS LIMITED

Ratings

Instruments	Amount (Rs. crore)	Ratings ¹	Remarks
Non-Convertible Debenture Issue	100	CARE A (Single A)	Reaffirmed
Commercial Paper Issue#	50	CARE A1 (A One)	Reaffirmed
Total Instruments	150		

carved out of sanctioned fund based working capital limits

Rating Rationale

The ratings continue to draw strength from Meghmani Organics Ltd's (MOL) experienced management team, its established and diversified presence in the agrochemical and pigment industry, integrated production facilities, strong marketing and distribution network and comfortable capital structure.

The ratings are, however, constrained by the gradual moderation in MOL's financial risk profile due to decline in its profitability, working capital intensive nature of operations arising out of the seasonality of its business, risk associated with the fluctuations in raw material prices and foreign exchange rates and stricter pollution control norms affecting the utilization of installed capacities.

Timely completion and stabilization of ongoing project of pigment division (PD), improvement in capacity utilisation of 2,4-D herbicide manufacturing facilities, timely relocation of the Agro-chemical Division's (ACD) manufacturing facilities, timely compliance with pollution control norms and overall improvement in its financial risk profile on a consolidated level are the key rating sensitivities.

Background

Established in 1995, MOL is engaged in manufacturing and marketing of a range of Pigments and Agro Chemicals, with a strong focus on the global markets. MOL has six manufacturing plants in and around Ahmedabad and Bharuch in India and a strong domestic and export marketing network to support its global as well as India focused initiatives.

Credit Risk Assessment

Experienced Promoters and established presence in industry

MOL is promoted by first generation technocrat entrepreneurs and established itself as one of the leading manufacturer of Agro chemicals and Pigments in India. Key promoters, Mr Jayanti Patel, Mr Ashish Soparkar and Mr Natwarlal Patel have education background in Chemistry and have gained almost 3 decades of experience in Dyes & Pigment industry and about 2 decades of experience in Agro chemical business. MOL has research based manufacturing facilities backed by strong technical team and international presence spread over more than 50 countries.

Diversified and well integrated business operations in Agro chemical & Pigment products

MOL has an established market position in its principal business segments viz. Agro-chemicals and Pigments. MOL holds leadership position in both these business segments. MOL's healthy revenue diversity is apparent from equitable spread of its revenue across both business segments and across end use industries.

Agro Chemical Division (ACD)

MOL is one of the leading producers for a wide variety of commonly used pesticides for both crop and non-crop applications. MOL has extended its presence throughout the value chain right from the intermediates up to the formulations by way of backward integration which leads to significant cost advantage. ACD products are regulated products and require prior registration with the relevant governing authorities in each country before they are allowed to be sold. MOL currently holds 85 export registrations and has made applications for another 587 products in different parts of the world and holds 173 registrations

¹ Complete definition of the ratings assigned are available at www.careratings.com and in other CARE publications

with the Central Insecticides Board (CIB) of India. Also, MOL has started production of one of the most widely used herbicide 2, 4-D, which is a complementary set of product and has expanded the product basket of the ACD. In ACD, apart from direct customers in small packing formulation business, MOL services over 90 corporate customers globally which includes leading manufacturers in North America, Europe, Latin America and Asia Pacific. Major global customers include MNCs like BASF, Nortox, Microflo, FMC, Arysta Life Sciences etc.

Pigment Division (PD)

MOL has specialized itself in manufacturing Blue and Green pigments including High Performance Pigments (HPP) and upstream intermediate CPC Blue Crude which is the raw material used in green Pigment and blue Pigment manufacturing. The products of PD are used in multiple applications like printing inks, paints, plastics, rubbers, textiles, leather and paper. MOL is regarded as one of the largest producers of CPC Blue crude and one of the leading producers of green and blue pigments in the world. As on March 31, 2012, aggregate capacity of PD stood at 25080 MTPA. MOL exports pigments to over 100 customers across the globe covering North America, Europe, Central and Latin America, and Asia Pacific.

Subdued industry scenario coupled with other factors affecting financial performance

MOL's Financial performance in FY12 (refers to the period April 1 to March 31) was affected due to few reasons including stringent pollution control norms resulting in to disruption in operations of Agro-chemical unit at Chharodi, imposition of international embargo on Iran which is one of the major export markets for MOL, re-registration requirements in several Latin American countries and subdued demand from existing customers due to weak industry scenario for Agro-chemical products, Bullish trend in the metal market pushed up copper and aluminium prices leading to increase in raw material prices for PD. All these taken together have resulted in to reduction in profitability in FY12 and H1FY13. However, MOL's overall gearing has remained moderately comfortable at 0.60 times as on March 31, 2012, at a standalone level due to no significant debt-funded capex during the year.

Exposure to raw material price fluctuations and exchange rate volatility

Most of the raw materials of MOL are derivatives of crude and as such their prices vary with the fluctuations in international crude oil prices. During FY12, there had been sharp increase in crude prices which resulted in to higher raw material prices which affected the profitability of MOL. Also, bullish trend in metal market continues to push up copper prices which are again key raw materials for pigment products. MOL has been making continuous efforts to pass on the higher raw material cost to its customers. However, the adverse demand scenario prevents MOL to go for immediate price rise of its products.

In FY12 MOL's exports comprise nearly 77% of its total sales (including Agro chemicals and Pigments). Out of its total export, company has practice to hedge around 30% of its receivables through simple forward contracts whereas around 20% exports have natural hedge in the form of import of raw materials and servicing of External Commercial Borrowings (ECB) with balance 50% exposed to exchange rate volatility. Accordingly, revenue stream of MOL is exposed to any significant exchange rate movements.

Working-capital intensive nature of operations

MOL has presence across the major part of value chain in both ACD and PD along-with presence across wide varieties of products in both divisions. Furthermore, MOL's products are of commoditised nature and seasonal (Demand is high in crop sowing seasons). Hence, company has to hold variety of products as inventory which results into high inventory holding period. However, exports partially offset MOL's dependence on seasonal domestic agro-chemical market. MOL has major concentration on ACD products where global competitors offer extended credit period on their products. Hence, MOL also has to provide credit period ranging from 120 days to 240 days which results into high debtor days. Due to such intrinsic nature of business, MOL's working capital requirement continues to remain high. However, it may be noted that though debtors' days remained high, bad debt write off was almost negligible in last five years.

Significant capacity additions putting pressure on capital structure

Recently completed project –MOL has started production of one of the most widely used herbicide – 2, 4-D (installed capacity 9600 MTPA) at its Dahej site which is backward integrated to manufacture the intermediates like MCAA (Mono Chloro Acetic Acid- installed capacity 12000 MTPA) and TCAC (Tri Chloro Acetyl Chloride-installed capacity 2400 MTPA). The project was executed at a total cost of around Rs.92 crore funded through ECB of Rs.51 crore and balance by way of internal accruals. The repayment of ECB has commenced from Q.E. August 2011 which has been fully hedged by way of forwards and interest rate swap. However, there has been subdued capacity utilization from the recently installed capacity putting pressure on the existing revenue stream of MOL for debt servicing.

Relocation of one of the production facilities in ACD – MOL's Agro-chemical plant at Chharodi was facing environment issues due to vicinity of Auto Industry. Accordingly, MOL had decided to relocate the plant to Ankleshwar/Dahej where better facility for affluent treatment is available. Part of its production facility was shifted to Ankleshwar and balance relocation was expected to be completed by September 2012, which has been delayed due to delay in receipt of environment clearance. Now entire relocation of the plant is expected to be completed by end of FY13. Until completion of entire relocation of plant, production is expected to be affected.

Ongoing project in PD - Meghmani Chemtech Limited (MCL), a 97% Subsidiary of MOL is now merged with MOL. MCL was setting up a manufacturing facility to produce Pigment products viz. CPC Blue Crude - 500 MT, Beta Blue - 250 MT and Alpha Blue - 100 MT per month. The estimated cost of the project is Rs.60 crore to be entirely funded through internal accruals. The Project was envisaged to be commissioned by April 2012 which has been delayed due to delay in receipt of environment clearance. The project is now envisaged to be completed by end of FY13.

Envisaged projects - MOL has purchased two industrial plots at GIDC Industrial – Ankleshwar. The Company has acquired the Plots to set up Agrochemical Formulation Plant. However, the projects have not yet been crystallised. Furthermore, MOL was allotted land of 100,000 sq mt at GIDC Dahej by Gujarat Industrial Development Corporation (GIDC). The Company is still evaluating the options to set up new products of Pigment or derivatives of Basic Chemicals. However, the projects have not yet been crystallised.

Prospects

MOL's prospects would be largely driven by its ability to improve profitability, manage working capital cycle, attainment of better capacity utilisation of 2, 4-D herbicide, improvement in performance of agro-chemical division and improvement in global demand. Also, adherence to the set pollution standards would be critical for overall growth of the company. Furthermore, effect of financial structure of the Chlorinated PVC project to be taken up in Joint Venture would remain to be seen.

Financial Performance

(Rs. crore)

Y.E. / As on March 31, (Standalone)	2010 A	2011 A	2012 A
Working Results			
Net Sales	731.17	783.24	822.47
Income from Op.	765.67	808.45	830.02
PBILDT	115.19	94.42	82.58
Interest	13.36	21.83	26.31
Depreciation	17.02	20.35	28.08
PBT	83.73	60.04	30.47
PAT (After def Tax)	61.58	47.18	16.58
Gross Cash Accruals	77.71	68.89	52.55
Financial Position			
Equity Share capital	25.43	25.43	25.43
Net Worth	505.24	538.51	540.35
Total Capital Employed	758.20	870.74	874.98
Key Ratios			
Growth (%)			
Growth in Total Operating income	-3.70	5.59	2.67
Growth in PAT (after Def. Tax)	21.87	-23.38	-64.85
Profitability (%)			
PBILDT / Total OI	15.04	11.68	9.95
APAT / Total OI	8.04	5.84	2.00
ROCE	13.78	9.74	6.29
RONW	12.77	9.04	3.07

Y.E. / As on March 31, (Standalone)	2010	2011	2012
	A	A	A
Solvency(times)			
Debt Equity Ratio	0.12	0.28	0.27
Overall Gearing (Incl. Acceptances)	0.49	0.60	0.60
Interest coverage	8.62	5.03	3.19
Term Debt/GCA (years)	0.81	2.45	2.74
Liquidity (times)			
Current ratio	1.69	1.85	1.67
Quick ratio	1.34	1.48	1.28
Turnover (days)			
Av. Collection (days)	142	138	131
Av. Inventory (days)	66	69	67
Av. Creditors (days)	47	52	52
Op. cycle (days)	161	155	146

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