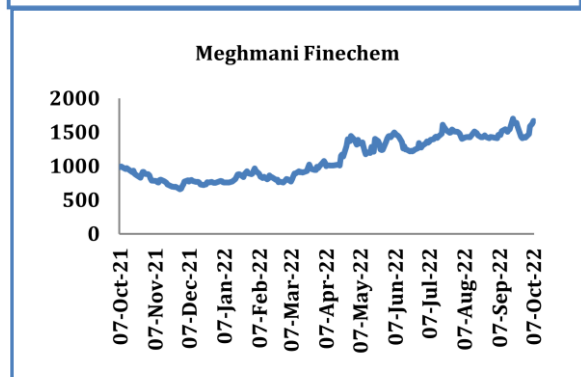


October 10, 2022

MEGHMANI FINECHEM LTD	
Industry	Chemicals
No. of Shares (Crore)	4.16
Face value (Rs.)	10.00
Mkt. Cap (Rs. Crore)	6772.26
Price (10/10/2022)	1629.90
Book Value (Rs)	200.66
P/BV	8.12
BSE Code	543332
NSE Code	MFL
Bloomberg	MEGHFL IN
Reuters	-
Avg. Weekly Volume (NSE)	2,27,673
52 W H/L (Rs)	1736.60 / 651.05
Shareholding Pattern	%
Indian Promoters	71.11
Institutions	1.62
Non- Institutions	27.27
Total	100.00
(As on June 30, 2022)	
Recommendation	
BUY	



Company Background

Meghmani Finechem (MFL) is one of the world's leading players in manufacturing of Chlor-Alkali (74% of revenue) and its Derivatives (26% of revenue) with backward and forward integration facilities. Its state of the art manufacturing plant located at GIDC-Gujarat is spread across 60 hectares. It holds the distinction of being India's 4th largest manufacturer of Caustic Soda, Chlorine and Hydrogen and a leading manufacturer of Caustic Potash, Chloromethanes and Hydrogen Peroxide. It also is the first to set up an Epichlorohydrin plant and largest capacity plant of CPVC resin, in India.

Investment Rationale

- MFL is a well-established brand in the Indian chemical market for the last 12 years with a PAN India distribution network alongwith a large customer base within a radius of 100 Kms from its site of operations.
- A close connectivity to ports and raw material availability enables MFL to keep its logistics and transportation cost low thereby sustaining EBIDTA margins.
- Commissioning of the Epichlorohydrin (ECH) Plant of 50,000 TPA capacity is expected to be beneficial for MFL. Previously ECH was a 100% imported product and MFL's entry through the Atmanirbhar Bharat and Make In India initiatives is expected to reduce the dependence of ECH consumers on imports thereby helping the country save on its foreign exchange reserves.
- MFL is also expanding its product base to include specialty chemical products like Chlorinated Polyvinyl Chloride (CPVC) and Chlorotoluene in its value chain, which are a key raw material for multiple end user industries and where 90%-95% of the demand is met through imports at present.
- MFL's products find a diversified application base spread across more than 15 industries which are growing at a significant pace. More ever, the revenue is distributed evenly amongst its customer base thus eliminating the concentration risk.
- MFL is having both backward and forward integration facilities at its fully automated plant thus enabling it to focus on low cost efficient operations to produce more value added products from time to time. The backward integration allows it to effectively manage its raw material costs, reduce dependence on third parties for raw material and improve the quality of its products, while the forward integrations coupled with its captive power plant enabled it to become a highly efficient and low cost manufacturing unit thereby giving it a cost advantage over its competitors.
- MFL reported excellent set of numbers in Q1FY23 where its top line grew by 84% YoY to Rs 533 Cr and PAT by 192% to Rs 108 Cr.
- MFL has recently commissioned an additional capacity of 1,06,000 TPA of caustic soda along with a Captive Power Plant of 36 MW, thus taking its total caustic soda capacity to 4,00,000 TPA and power capacity to 132 MW.

Recommendation

MFL now manufactures some niche products which till date were 100% imported. Timely commissioning of new projects has led to a double digit volume growth coupled with price hikes. The new product launches would see MFL increasing the topline from Q3FY23 onwards. At the CMP of 1630, the stock trades at 15x its FY24E EPS. Hence, we recommend a buy with a target price of Rs 1990 in the next 9-12 months' time period, thus implying a rise of 22% from the current levels.

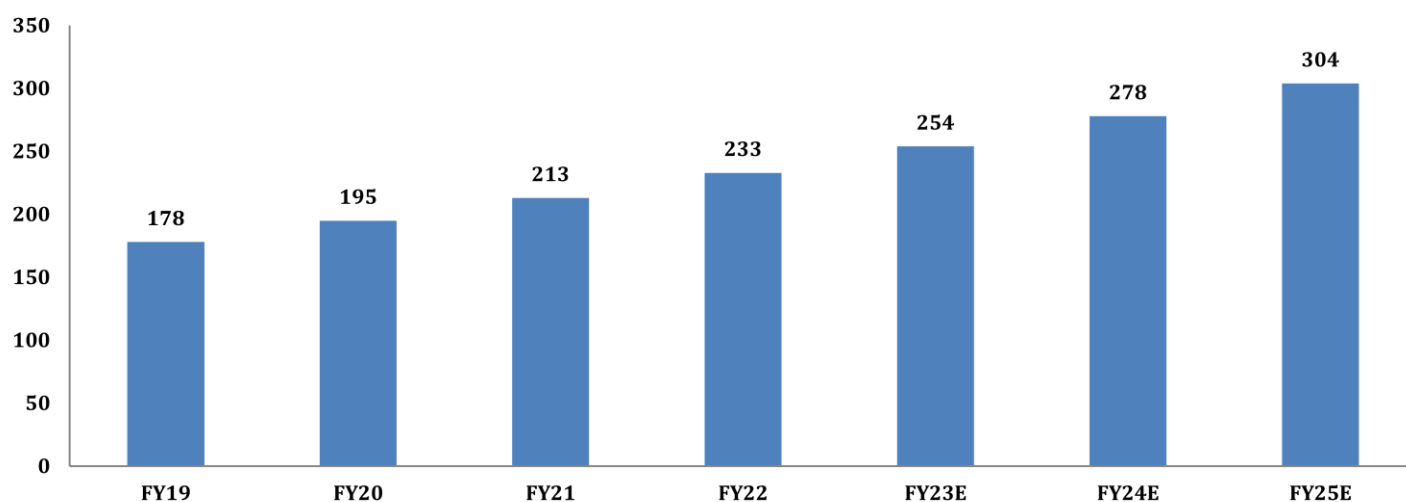
Particulars (In Rs. Crs)	Q1FY23	Q1FY22	Var%	FY22	FY21	Var%
Net Sales	532.85	290.35	83.52	1550.94	828.60	87.18
Operating Profit	189.49	92.66	104.51	509.49	261.33	94.96
Consolidated Net Profit	107.79	36.96	191.68	252.79	100.84	150.68
PBIDTM%	35.56	31.91	11.44	33.12	31.80	4.15
PATM%	20.23	12.73	58.93	16.30	12.17	33.94
Equity	41.55	41.55	-	41.55	41.55	-
EPS (Rs.)	25.94	8.89	191.79	60.84	24.27	150.68

*Source: Company, Ace Equity, AUM Research

Overview of the Indian Chemicals Industry

- India's chemical industry covers more than 80,000 commercial products spread across bulk chemicals, specialty chemicals, agrochemicals, petrochemicals, polymers and fertilisers.
- The size of the industry stood at around US\$ 178 billion in 2019 and is expected to reach US\$ 304 billion by 2025 registering a CAGR of 9.3%.
- India is the fourth-largest producer of agrochemicals after the United States, Japan and China and holds 16% market share in production of dyestuffs and dye intermediates and a 15% share in the colorants industry etc.
- The country's chemicals industry is de-licensed, except for few hazardous chemicals.
- India holds a strong position in exports and imports of chemicals at a global level and ranks 14th in exports and 8th in imports at global level (excluding pharmaceuticals).
- Specialty chemicals constitute 22% of the total chemicals and petrochemicals market in India.

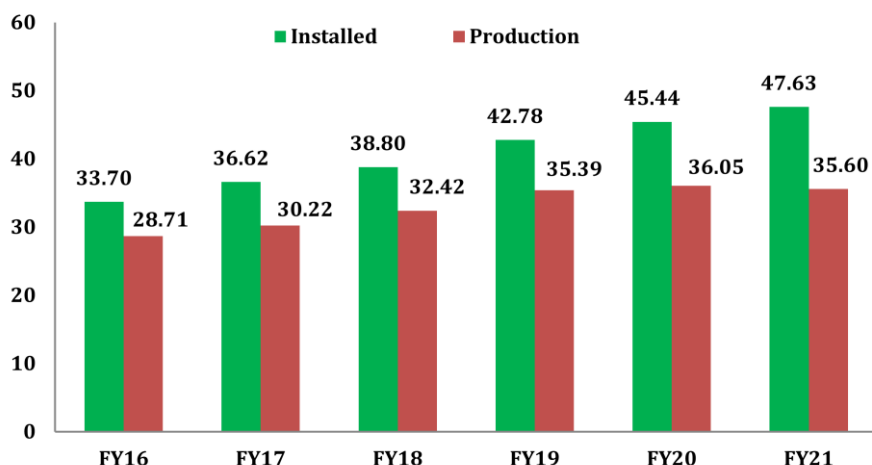
Indian Chemical Industry Market Size In US\$Bn



*Source: IBEF, AUM Research

Caustic Soda (NaOH)

India's Installed Capacity & Production In Lakh MTPA



*Source: Company, AUM Research

- Installed capacity at the end of FY21 was 47.63 Lakh MTPA while production during the same period stood at 35.60 Lakh MTPA with a capacity utilization of around 75%.
- Demand for Caustic Soda is expected to increase to 48 Lakh MTPA by FY2025 @CAGR 8%.
- Caustic Soda finds use as a cleansing agent, in the manufacturing of washing soda, preparation of soda lime and in the extraction of aluminum by purifying bauxite etc.
- **Meghmani Finechem is the country's 4th largest producer.**

Caustic Potash (KOH)

- In comparison to the traditionally used caustic soda, caustic potash exhibits higher solubility in water and maintains the pH levels effectively.
- Caustic Potash finds applications in the food and beverage industry as a stabilizer, thickening agent, and pH regulator. It is a versatile cleaning agent and is used in the production of liquid soaps, shampoos, and hairsprays.
- KOH-based fertilizers are also being widely utilized in the agricultural sector due to their quality to enhance productivity and improve crop yield.
- Demand for Caustic Potash pipes is fueled by its higher usage in agriculture for water supply, drainage, and irrigation, owing to its enhanced properties such as corrosion-resistant, hardness, etc.
- They are increasingly being used in injection molding for plastic production and are being given preference in automotive, packaging, agriculture, and other industries.
- India's current capacity is around 83 KTPA and demand is around 91 KTPA. Demand is expected to grow @CAGR of 8%.
- ***Meghmani Finechem is the country's 3rd largest producer.***

Chloromethanes (CMS)

- China, United States, Western Europe and Japan are the leading consumers of chloromethane where about 85% of the world's consumption takes place.
- In terms of consumptions, India comes after these countries.
- The Asia Pacific region has now become the leading regional market with the majority of the demand driven by China and India due to rapid infrastructure development and increasing disposable income.
- They are mainly used in the pharmaceutical, refrigerant, solar panels, production of adhesives, sealants etc.
- India's requirement is 517 KTPA whereas the capacity stands at 351 KTPA. Demand is expected to grow @CAGR of 12%.
- ***Meghmani Fincechem is the country's 5th largest producer.***

Hydrogen Peroxide (H₂O₂)

- Used in paper & pulp, textiles, effluent treatment, chemicals, etc.
- India's requirement is 328 KTPA whereas capacity is 384 KTPA. Demand is expected to grow @CAGR 10%.
- ***Meghmani Fincechem in the country's 3rd largest producer.***

CPVC (Chlorinated Polyvinyl Chloride) Resins

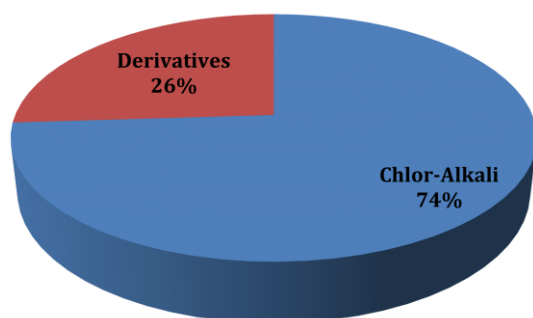
- Key raw material for heat resistant pipes.
- Growing demand of CPVC in India for Pipe and Fittings in Chemical processing and Irrigation.
- At present about 95% of demand is met through imports whereas demand is around 140 KTPA.
- Anti-dumping duty has been imposed on imports from China and Korea thereby creating opportunities for the domestic players.
- Demand is expected to grow @CAGR of 13%.
- ***Meghmani Finechem is now having the largest capacity in India.***

Epichlorohydrin (ECH)

- It is an intermediate chemical used in the production of epoxy resins, synthetic glycerin, epichlorohydrin elastomers, specialty water treatment chemicals, wet strength resins for paper production, and surfactants.
- Increasing demand for automotive and consumer electronics has in turn raised the demand for Epichlorohydrin in India.
- Annual demand is around 80 KTPA and is expected to grow @CAGR of 15%.
- Till now, 100% was met through imports. ***Meghmani Finechem becomes the country's first company to indigenously produce ECH.***
- With the recent initiatives of the government, especially with 'Atmanirbhar Bharat', 'Make in India' etc. the government has provided a huge uptick for several industries including automotive, green energy, pharmaceuticals, paint, construction, speciality chemicals, electronics etc. The impetus and boost provided by these PLI schemes will lead to an increase in the number of projects and an increase in the demand for ECH, a common denominator for these industries.

Company Overview

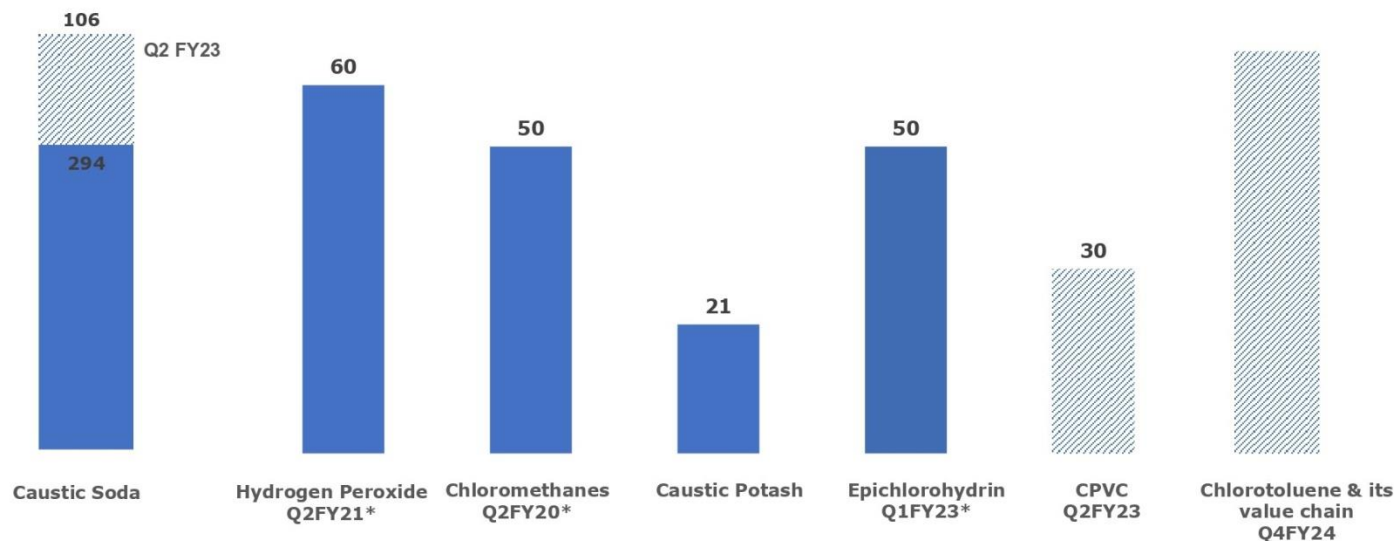
Revenue Break Up



*Source: Company, AUM Research

- Meghmani Finechem Ltd (MFL) was incorporated as a subsidiary of Meghmani Organics Ltd (MOL) in 2007 and was subsequently demerged and listed as an independent entity in August 2021.
- The Chlor-Alkali business's total capacity grew from 188,000 TPA in 2015 to 315,000 TPA at the end of March 2022 while the Derivatives capacity stood at 110,000 TPA at the end of March 2022.
- The manufacturing operations are located in Dahej, Gujarat and are equipped with core manufacturing plants, water reserve, water treatment facility, technical competence centre for quality testing and a captive power plant.
- MFL manufactures a range of products from Caustic Soda, Chlorine, Hydrogen, Caustic Potash, Chloromethanes and Hydrogen Peroxide which find use in downstream sectors like pharmaceuticals, chemicals, agrochemicals, refineries, textile, alumina, paper and pulp, soaps and detergents, among others.

Manufacturing Plant Capacity ('000 TPA)



 Expected Commissioning , * Commissioning date

*Source: Company, AUM Research

- Through all the capacity expansions and post commissioning of them, MFL is aiming to achieve a top line of Rs 5,000 Cr by FY27.
- In order to achieve this, MFL is in the process of scaling up capacities in its existing products as well as adding new products to its value chain which previously were fully imported.
- Being a well-established brand in the Indian chemical market for the last 12 years, it presently caters to 15 different industries with the revenue being equally split out amongst the customer base.
- MFL is focusing on low cost operations with backward and forward integration at its fully automated complex along with continuous addition of value added products to its product line.
- MFL has got a PAN India reach through a wide network of distributors.

Rationale For Investment

New Capacity additions to aid volume growth

MFL has recently commissioned an additional 1,06,000 TPA capacity of Caustic Soda along with Captive Power plant of 36 MW at Dahej. With this its Caustic Soda capacity stands at 4,00,000 TPA and Captive Power plant of 132 MW. MFL is aiming to increase its topline from Rs 1,551 Cr at the end of FY22 to Rs 5,000 Cr in the next 5 years' time period as it sets its targets on stronger revenues from newer segments of CPVC resins, epichlorohydrin (ECH) and chlorotoluene.

A diversified loyal customer base with its products basket suitable for multiple applications

Customers of MFL belong to various industries requiring products with a variety of applications. MFL has built and nurtured this relationship over a period of time through supplying of quality products along with an effective customer management built on a foundation of trust and commitment. This trust has witnessed MFL to get repeat orders from most of its customers. No domestic company offers the exact product portfolio of MFL even though various companies manufacture products that are similar to its products and therefore pose competition to it. MFL is effectively competing against the like of DCM Shriram Limited, Gujarat Alkalies and Chemicals Limited, National Peroxide Limited, Grasim Industries Limited, etc who are already established players by nurturing its deep customer relationship and establishing itself as a manufacturer of quality Chlor-Alkali and its Derivatives products.

Manufacturing of some niche products to reduce the country's import dependency

- MFL has started manufacturing **Epichlorohydrin (ECH)** which is an intermediate chemical used in the production of epoxy resins, synthetic glycerin, epichlorohydrin elastomers, specialty water treatment chemicals, wet strength resins for paper production, and surfactants. It becomes the first company in India to produce sustainable bio based ECH which till date was 100% imported.
- MFL is having the largest capacity of **CPVC (Chlorinated Polyvinyl Chloride) Resins** which is a key raw material for manufacturing of heat resistant pipes which till now was 95% imported. Anti-dumping duty has also been imposed for CPVC products imported from China and Korea thus creating an enormous opportunity for MFL.
- MFL is undertaking a capex of Rs 180 Cr for setting up a **Chlorotoluene** plant as a forward integration to its chlor-alkali facility. The expected date of commissioning is Q4FY24. Chlorotoluene is an intermediate for manufacturing of pharmaceutical and agrochemical active ingredients. Post commissioning, MFL will be the first company to manufacture this product under the initiative of "Make In India" and "Aatmanirbhar Bharat".

Setting up a full-fledged R&D facility to drive the company's product selection and process improvements

MFL is setting up a R&D facility at Changodar, Ahmedabad for a cost of about Rs 25 Cr. Thus facility shall be used for creating further molecules for Chlorotoluene and other new molecules which shall see the company further strengthen its position in the Specialty Chemicals segment post FY2024. At the end of FY19, only 10% of the co-products produced were consumed in house which has now gone up to 60% at the end of FY22.

Taking advantage of China plus one strategy

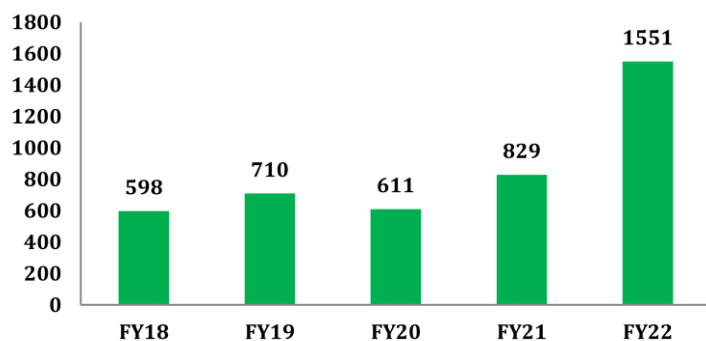
Post the Covid-19 pandemic, chemical customers who once upon a time were solely dependent on China for their supplies have started to focus on other countries like India to protect their supply chains. The country's chemicals sector is 1/10th of the size of China, where even a small shift from China can generate disproportionate growth for it. MFL, already having its presence made by manufacturing of some niche products like **ECH, CPVC and Chlorotoluene** in India is expected to capitalize on the same.

Outperforming the growth of India's economy and its chemicals sector

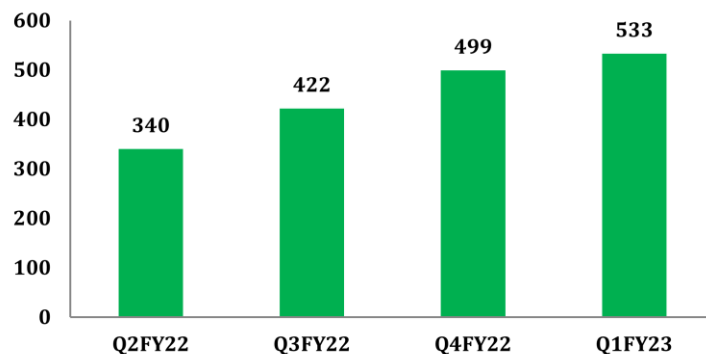
MFL reported its highest top-line of Rs 1,551 Cr in FY22, a growth of 87% over the previous financial year. ROCE improved from 16% in FY21 to 29% in FY22. The increase was a result of a maturing of the earlier capital expenditures undertaken in the Hydrogen Peroxide and Caustic Soda projects that were commissioned in FY21, leading to a 20% sales volume growth. MFL also generated Rs 338 Cr in internal accruals which were reinvested effectively in capacity growth, working capital needs and repayment of debt, creating the foundation for the next round of growth. Post, the commissioning of the new projects in FY23, the management is confident of reporting a top line growth of 40%-50% in FY23 keeping in mind its long term target of achieving a sales turnover of Rs 5,000 Cr by the end of FY27. The new products manufactured are already getting a good response from not only the domestic customers, but foreign as well.

Robust Financials

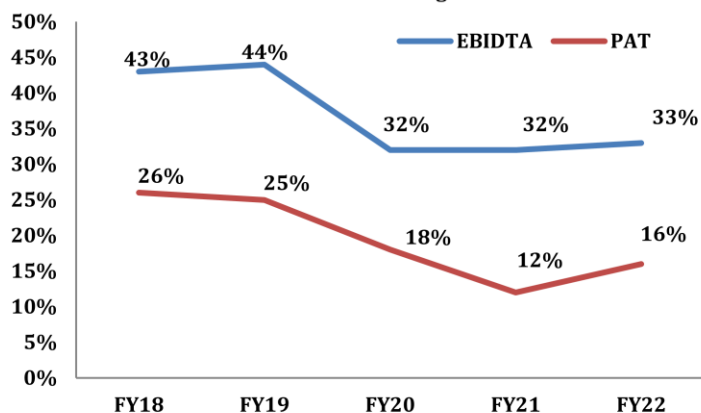
Sales In INR Cr



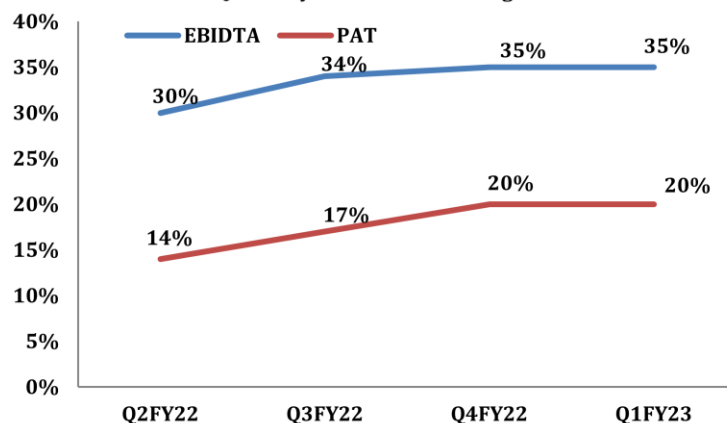
Quarterly Sales In INR Cr



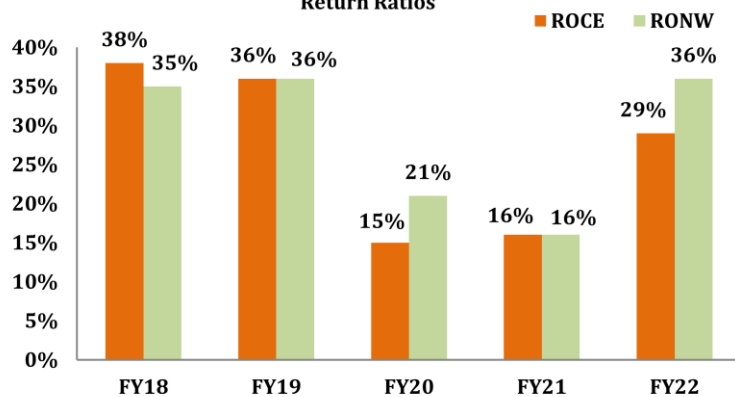
EBIDTA & PAT Margins



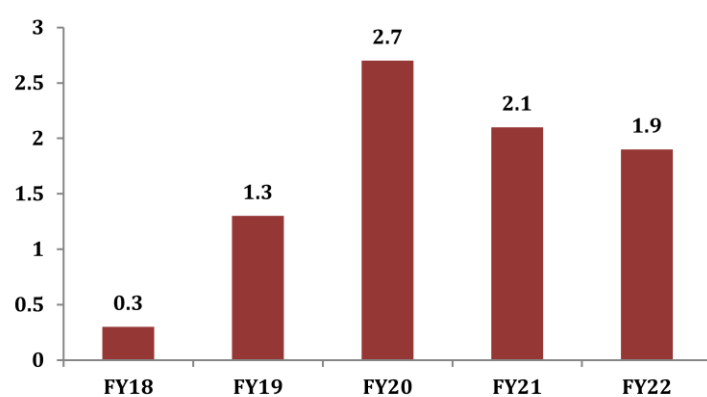
Quarterly EBIDTA & PAT Margins



Return Ratios



Debt/Ebitda



*Source: Company, Ace Equity, AUM Research

Financials

Quarterly Results (Value in Rs. Crs)						
Particulars	Q1FY23	Q1FY22	Var%	FY22	FY21	Var%
Net Sales & Other Operating Income	532.85	290.35	83.52	1550.94	828.60	87.18%
Total Expenditure	345.39	197.86	74.56	1041.45	567.27	83.59%
PBIDT (Excl OI)	187.46	92.48	102.70	509.49	261.33	94.96%
Other Income	2.03	0.17	1073.41	8.34	7.47	11.65%
Operating Profit	189.49	92.66	104.51	517.83	268.80	92.65%
Interest	11.12	12.38	-10.13	48.50	34.40	40.99%
PBDT	178.37	80.28	122.19	469.33	234.40	100.23%
Depreciation	22.04	21.30	3.48	85.91	73.54	16.82%
Tax	48.54	22.03	120.37	130.64	60.02	117.66%
Net Profit	107.79	36.96	191.68	252.79	100.84	150.68%
Equity	41.55	41.55	-	41.55	41.55	-
EPS (Rs.)	25.94	8.89	191.79	60.84	24.27	150.68%

Source: Company, ACE Equity, AUM Research

Income Statement (Value in Rs. Crs)			
Particulars	FY22	FY21	FY20
Net sales	1550.94	828.60	610.51
Total Expenditure	1041.45	567.27	416.38
Operating Profit (Excl OI)	509.49	261.33	194.13
Other Income	8.34	7.47	8.55
Operating Profit	517.83	268.80	202.67
Interest	48.50	34.40	17.38
PBDT	469.33	234.40	185.29
Depreciation	85.91	73.54	44.30
Profit Before Tax	383.42	160.86	140.99
Provision for Tax	130.64	60.02	29.00
Net Profit	252.79	100.84	112.00
EPS (Rs.)	60.84	24.27	26.95

*Source: Company, Ace Equity, AUM Research

**FY20 Standalone Figures

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Balance Sheet (Value in Rs. Crs)			
Particulars	FY22	FY21	FY20
EQUITY AND LIABILITIES			
Share Capital	41.55	41.55	41.55
Optionally Converted Redeemable Preference Shares (OCRPS)	0.00	210.92	210.92
Total Reserves	684.42	431.66	331.00
Shareholder's Funds	725.97	684.13	583.47
Secured Loans	768.14	340.47	418.29
Unsecured Loans	0.00	0.00	0.00
Deferred Tax Assets / Liabilities	91.75	30.84	-0.95
Other Long Term Liabilities	2.62	3.06	5.33
Long Term Provisions	2.89	1.63	1.55
Total Non-Current Liabilities	865.41	375.96	424.22
Trade Payables	88.11	73.05	46.79
Other Current Liabilities	354.44	240.33	198.13
Short Term Borrowings	80.14	75.03	19.72
Short Term Provisions	9.60	0.20	0.18
Total Current Liabilities	532.29	388.61	264.82
Total Liabilities	2123.67	1448.70	1272.51
ASSETS			
Gross Block	1474.54	1423.69	688.31
Less: Accumulated Depreciation	406.71	321.38	248.13
Net Block	1067.83	1102.31	440.17
Capital Work in Progress	589.25	125.84	691.16
Long Term Loans & Advances	17.85	35.02	7.46
Other Non-Current Assets	1.79	4.24	1.64
Total Non-Current Assets	1676.72	1267.41	1140.43
Inventories	154.14	53.96	48.40
Sundry Debtors	256.32	118.84	76.45
Cash and Bank	25.09	0.68	0.10
Other Current Assets	3.87	3.16	1.00
Short Term Loans and Advances	7.53	4.65	6.13
Total Current Assets	446.94	181.29	132.08
Net Current Assets (Including Current Investments)	-85.35	-207.32	-132.74
Total Current Assets Excluding Current Investments	446.94	181.29	132.08
Total Assets	2123.67	1448.70	1272.51

*Source: Company, Ace Equity, AUM Research

**FY20 Standalone Figures

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