

Meghmani Organics

Price band: Rs 17–19

SUBSCRIBE
Sudeep Anand

(91-22) 6612 4670

sudeep.anand@religare.in

Bhawana Verma

(91-22) 6612 4713

bhawana.verma@religare.in

IPO fact sheet

Particulars	
Issue opens on	04 June 2007
Issue closes on	07 June 2007
Price band	Rs 17 – 19
Face value	Re 1
Issue size	Rs 1.0bn
Pre-issue equity	Rs 200.6mn
Post-issue equity	Rs 254.3mn – 260.6mn

Issue details

Investors	No of shares (mn)
Fresh Issue	53.7 - 60.0
Employees	-
Net issue to Public	53.7 - 60.0
QIB portion	32.2 - 36.0
HNI	5.4 - 6.0
Retail portion	16.1 - 18.0

Shareholding pattern

(%)	Pre-issue	Post-issue
Promoters	61.8	47.6 - 48.8
Pre-IPO investor	-	-
Others	38.2	29.4 - 30.1
Employees	-	-
Public	-	21.1 - 23.0

Flying colours

Bright prospects led by strong global presence and new pigment product range

- ❖ Leading pigment and agrochemical product manufacturer with an extensive global presence; Over 70% of revenues derived from exports
- ❖ Four ISO-certified manufacturing facilities in Gujarat, supported by a strong distribution network of over 650 stockists in India and warehouses in six countries
- ❖ Over 90 registered products, catering to a large base of customers in 60 countries across North America, Europe, Central and Latin America, Africa and the Asia Pacific
- ❖ Strong R&D capabilities as evidenced by a pipeline of 415 pending registrations; New range of high performance pigments expected to boost realisations and margins
- ❖ Revenue CAGR of 27.4% recorded over FY04-FY06 to Rs 3.8bn, driven by strong growth across segments; Valuations attractive with P/E multiple of 10.4 – 11.3x on post-issue annualised FY07 EPS; Subscribe

Financial snapshot

(Rs mn)	Sales	PAT	FDEPS (Rs)	P/E (x)	EV/EBITDA	RoE (%)
FY05	3,151.0	310.8	1.5	12.3	22.5	21.3
FY06	3,808.9	383.4	1.9	9.9	12.3	16.3
9mFY07*	4,663.9	427.7	2.1**	8.9**	10.4**	16.0**

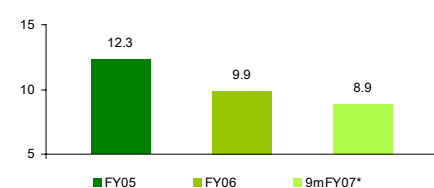
Source: Company, Religare Research *Annualised

**Based on pre-issue equity

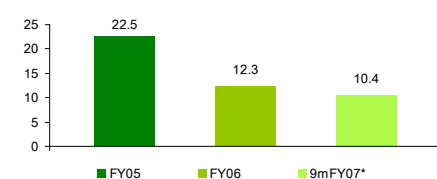
Growth profile

(%)	Sales	EBITDA	PAT	FDEPS
FY05	34.2	(25.8)	4.3	(13.7)
FY06	20.9	83.1	23.4	23.4
9mFY07*	22.4	17.9	11.6	11.6

Source: Religare Research *Annualised

P/E multiple (x)


Source: Religare Research *Annualised

EV/EBITDA multiple (x)


Source: Religare Research *Annualised

Company profile

23% revenue CAGR over FY02-FY06 to Rs 3.8bn

Manufacturer of pigments and agrochemicals

Meghmani Organics (MOL), founded in 1986 as a partnership firm under the name Gujarat Industries, is engaged in the manufacture and sale of pigments and agrochemical products. The company has four ISO 9001-2000-certified manufacturing facilities located in Gujarat, running at a total installed capacity of 15,000tpa. MOL has been profitable since inception and its revenues have grown at a 23% CAGR over FY02-FY06 to Rs 3.8bn. Pigments and agrochemical products contributed 42% and 58% of net revenues respectively in FY06, with exports accounting for over 74% of total revenues.

Pigments: Focus on green and blue pigments

The company specialises in green and blue pigments which have numerous applications such as printing inks, plastics, rubber, paints, textiles, leather and paper. MOL has two pigment-based manufacturing facilities at Vatva and Panoli in Gujarat. The company derived almost 85% of total pigment revenues from exports in FY06.

Agrochemical products: Three categories of pesticides

The company manufactures pesticides under three categories, namely intermediates, technical-grade and formulations. These products are used in various crop and non-crop applications such as public health, veterinary purposes, and termite and insect control. MOL manufactures its agrochemical products through two manufacturing facilities situated in Chharodi and Ankleshwar, Gujarat. Exports constituted almost 66% of the company's total agrochemical revenues in FY06.

Objects of the issue

MOL plans to utilise the IPO proceeds to supplement its organic and inorganic growth, as follows:

- ❖ Set up of a new high-performance pigment plant at GIDC Industrial Estate, Vatva at an estimated investment of Rs 145.2mn
- ❖ Set up of a new technical-grade pesticides/formulation plant at Panoli at an estimated investment of Rs 114.2mn
- ❖ Establishment of a 3MW captive power plant at Chharodi (Rs 144.1mn), via subsidiary company, Meghmani Energy
- ❖ Financing inorganic growth opportunities, diversification opportunities and general corporate purposes
- ❖ Financing working capital needs

Industry analysis

Pigments – Outsourcing of production on the rise

The global market for organic pigments is estimated at US\$ 5.5bn, where the major demand is from the printing ink, paint and paper industries. Global demand for organic pigment is expected to grow at 4.9% YoY in FY08. Increasingly, companies in the US, Europe and Japan are moving their production base to low-cost countries like India and China. At the same time, India's ability to produce high-quality products is encouraging outsourcing by developed countries.

Increased outsourcing of pigment production to India and China

India and China are the world's biggest producers of generic agrochemical products

Agrochemicals – India and China dominate the world market

The global agrochemical market was estimated at US\$ 30.7bn in FY04, with India constituting US\$ 650mn of the market. India and China are currently the largest producers and exporters of generic agrochemical products, though India has a competitive advantage by virtue of its superior product quality. Moreover, several countries do not have the required agrochemical manufacturing technology, which implies a huge scope for exports. Furthermore, pesticide consumption in India is still very low at 0.6kg/hectare as compared to 17kg/hectare in Taiwan and 12kg/hectare in Japan, reflecting the growth potential.

Consumption of pesticides

Country	Consumption (kg/hectare)
Taiwan	17.0
Japan	12.0
Korea	6.6
Europe	3.0
USA	3.0
India	0.6

Source: 11th Five Year Plan, Pesticide Sub Group Reco

Over 90 product registrations catering to 350+ customers

Investment rationale

Extensive product range catering to a diversified customer base

MOL has a combined tally of 90 product registrations in its pigment and agrochemical businesses. In pigments, the company manufactures products like CPC blue crude, blue 15 and green 7, which are sold to different user industries including textiles, plastics, inks, paints and paper. In the agrochemical business, the company caters to the demand of leading global pesticide manufacturers. MOL has a strong base of over 350 customers, spread across North America, Europe, Central and Latin America, Africa and the Asia Pacific.

Higher contribution from existing customers – a key positive

The company derives over 80% of its revenues from existing customers, reflecting its robust client relationships and its commitment to quality and timeliness. MOL has a long list of reputed customers who have been associated with it for several years, including Flint Group, Paramount Colors, Micro Flo Co, Valent USA, FMC Agricultural Products and Sudarshan Chemicals.

415 registrations pending in 56 countries

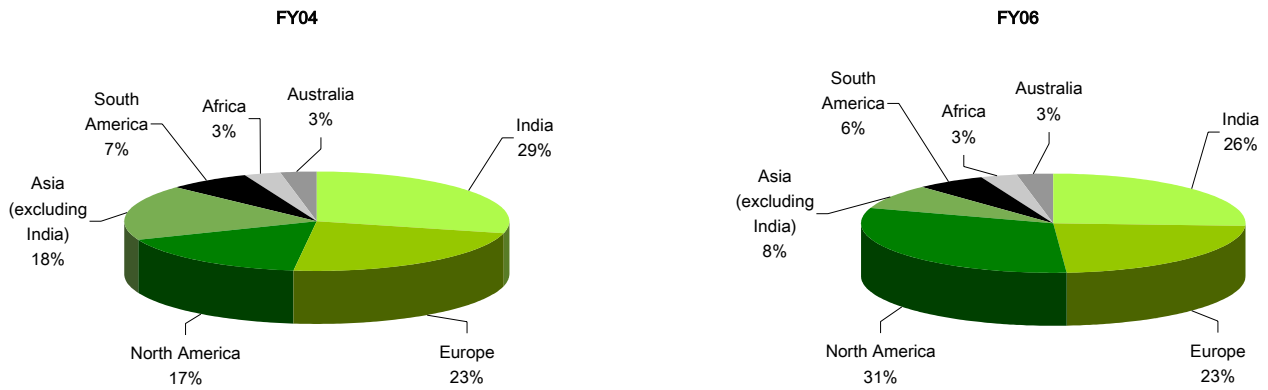
Increased thrust on R&D to expand product portfolio

MOL invested Rs 16mn towards R&D in FY06 and close to Rs 15mn in 9mFY07. The company's R&D focus has enabled it to improve product quality and develop a new range of offerings that cater to the international markets. MOL has 415 registrations pending in 56 countries including Australia, Brazil, China and Mexico. Through its R&D processes, the company has added a range of 'High Performance Pigments' (HPP) which have higher realisations and margins. The strong pipeline of registrations is likely to expand MOL's customer base, going forward.

Increasing international presence

MOL has continuously expanded into new geographies and successfully built a wide international footprint. It currently derives over 70% of its revenues from exports to nearly 60 countries. MOL's focus on quality products and on relationship management has helped it to grow rapidly overseas. Moreover, active participation in international trade shows and exhibitions such as China Coats & Asia Pacific Coating, European Coating shows, and the International Crop Science Conference has enabled MOL to promote its products in a bigger way and rapidly acquire customers. The company's total revenues from exports has increased to 74% in FY06 from 71% in FY04.

Geographical distribution of revenues



Source: Company

Extensive distribution network reduces time to market

Widespread global distribution network

MOL has an extensive distribution network comprising over 650 stockists, agents and dealers in India as well as overseas distributors. The company also has warehouse arrangements in close proximity to customers, both in the domestic (Gujarat, Rajasthan, Andhra Pradesh, Chandigarh, Maharashtra and Punjab) and overseas markets (Belgium, Uruguay, Columbia, China, Russia and the UK). This enables MOL to shorten the time taken to market its products.

Product registration is a lengthy, expensive process

Listing on Singapore stock exchange

In August 2004, the company made a public issue of 100.4mn SDS on the Singapore Stock Exchange (SGX). Each SDS represents one half of one equity share of face value Re 1. The issue comprised 69.4mn new shares and 31mn shares by existing investors at a price of \$0.28/SDS. After listing, MOL has been awarded the 'Most Transparent Company' for two consecutive years.

Key concerns

Time or cost overruns in product registration

The agrochemical industry is well regulated and products are required to go through a rigorous registration process. The cost of registration and the timeline to product approval varies from country to country. In the US and certain Latin American countries, new registrations cost in excess of US\$ 1mn and may take 2-3 years for approval. In India, the cost of product registration is almost Rs 2.5mn and primary data filing could take around three years. MOL has 415 registrations pending in 56 countries. Any delays or cost overruns could affect the company's growth plans and hamper performance.

Fluctuations in foreign exchange rate

The company generates over 70% of its revenues through exports and is hence highly vulnerable to adverse foreign exchange movements.

Financial performance

Higher sales volume driving growth

The company's net sales have recorded a CAGR of 27.4% over FY04-FY06 to Rs 3.8bn, driven primarily by strong demand for its agrochemical and pigment products and higher pigment realisations. MOL's agrochemical business posted a 43.2% revenue CAGR over FY04-FY06, led by higher sales volume in technical-grade pesticides and small pack formulations. The strong volume growth also helped to partially offset the decline in average pesticide prices. During FY04-FY06, the company's pigment business grew at a 12.5% CAGR, aided by a 22% rise in price realisations and 13% improvement in sales volume.

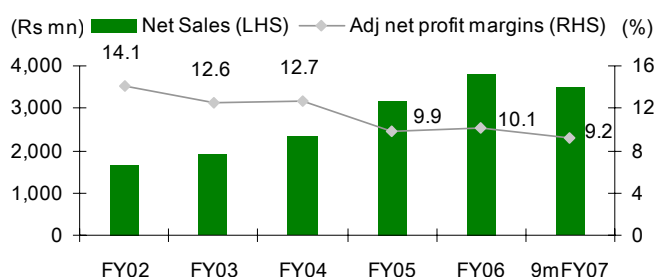
Pigments to dominate future topline growth

Going forward, we expect the company's pigment division to dominate topline growth, considering the proposed set-up of a 600tpa high performance pigment (HPP) plant in Vatva. In addition, the company is taking initiatives to enter into red and yellow pigments, which will further boost topline growth.

PAT grew at a 13.5% CAGR

MOL recorded a 13.5% CAGR in adjusted net profit from FY04-FY06, which was lower than revenue growth primarily due to higher raw material prices and interest expenses. During FY07, the company expects a net profit of Rs 404mn, which is a growth of 5.4% YoY. We believe growth will ramp up substantially in future considering that margins are expected to improve (HPP is a higher-margin product) and the upcoming new plants are 100% export oriented units (EOU), which will keep overall tax expenses in check.

Revenue and margin trend



Source: Company, Religare Research

Valuation

IPO price band represents P/E of 10.4 – 11.3x on FY07

The company's annualised EPS for 9mFY07 on post-issue equity works out to Rs 1.6-1.7 at the IPO price band of Rs 17-19. This translates into a P/E multiple of 10.4 – 11.3x on annualised FY07 EPS. The valuation appears attractive considering the industry average P/E of 12.7x for chemicals and 31.2x for pesticides/agrochemicals. We feel that the company is advantageously positioned vis-à-vis peers given its strong growth prospects, global presence and large product pipeline.

Peer group comparison

Peer group	EPS (Rs)*	P/E
Nagarjuna Agrichemicals	14.3	10.3
United Phosphorous	5.7	49.5
P I industries	12.6	13.3
Rallis India	42.0	8.6

Source: Company

* Based on FY07 earnings

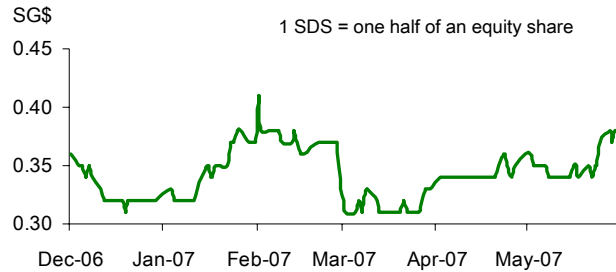
Pigments to lead future growth as MOL expands into new product lines

Valuations attractive with P/E of 10.4 – 11.3x on post-issue annualised EPS for FY07

Trading at attractive levels on Singapore exchange

Apart from compelling valuations as compared to peers, the stock has been trading at an average price of Rs 18.1 on the Singapore stock exchange over the past six months (at the current exchange rate). Therefore, the specified price band of Rs 17-19 looks attractive.

Singapore Depository Shares (SDS)



New HPP and pesticide projects to enhance position; Subscribe

New projects will add value; Subscribe

We expect MOL's new HPP project and the proposed set up of a technical-grade pesticide plant to strengthen the company's competitive position and boost growth. Furthermore, tax benefits on the upcoming units together with the planned captive power plant will bolster the company's financials. We thus recommend that investors Subscribe to the IPO.

Financials

Profit and Loss statement

(Rs mn)	FY05	FY06	9mFY07*
Revenues	3,151.0	3,808.9	4,663.9
Growth (%)	34.2	20.9	22.4
EBITDA	287.3	526.1	620.3
Growth (%)	(25.8)	83.1	17.9
Depreciation	111.9	114.8	133.9
EBIT	175.4	411.3	486.4
Growth (%)	(40.1)	134.5	18.3
Interest	45.2	79.2	112.3
Other income	280.4	138.0	100.5
EBT	410.5	470.1	474.6
Growth (%)	10.2	14.5	1.0
Tax	99.8	86.7	46.9
Effective tax rate	24.3	18.5	9.9
Adj net income	310.8	383.4	427.7
Growth (%)	4.3	23.4	11.6
Shares outstanding (mn)	200.6	200.6	200.6
FDEPS (Rs)	1.5	1.9	2.1
DPS (Rs)	0.2	0.3	0.3
CEPS (Rs)	2.1	2.5	2.8

Source: Company, Religare Research *Annualised

Cashflow statement

(Rs mn)	FY05	FY06	9mFY07
Net income	310.8	383.4	320.8
Depreciation	111.9	114.8	100.5
Other adjustments	39.1	71.7	42.9
Changes in WC	(317.1)	(635.1)	(777.4)
Operating cash flow	144.7	(65.2)	(313.3)
Capital expenditure	(197.4)	(316.5)	(169.3)
Investments	(0.4)	(0.9)	(0.4)
Other investing inc/(exp)	3.0	(4.5)	1.0
Investing cash flow	(194.7)	(321.9)	(168.6)
Free cash flow	(50.1)	(387.1)	(481.8)
Issue of equity	34.7	0.0	0.0
Issue/repay debt	(221.6)	530.8	654.0
Dividends paid	(39.8)	(60.2)	(70.2)
Others	208.2	(87.1)	(94.1)
Financing cash flow	(18.5)	383.5	489.7
Beg. cash & cash eq	119.6	53.9	50.3
Chg in cash & cash eq	(68.6)	(3.6)	7.9
Closing cash & cash eq	51.0	50.3	58.2

Source: Company, Religare Research

Recommendation history

Date	Event	Target (Rs)	Reco
04-June-07	IPO Note	NA	Subscribe

Source: Religare Research

Balance sheet

(Rs mn)	FY05	FY06	9mFY07
Cash and cash eq	51.0	50.3	58.2
Accounts receivable	1,427.4	1,731.6	2,303.6
Inventories	524.0	773.5	950.5
Others current assets	643.7	789.0	528.5
Current assets	2,646.1	3,344.3	3,840.8
LT investments	5.2	6.1	6.5
Net fixed assets	1,035.6	1,235.3	1,302.5
CWIP	-	-	-
Total assets	3,686.9	4,585.7	5,149.8
Payables	885.9	936.5	530.4
Others	-	-	-
Current liabilities	885.9	936.5	530.4
LT debt	498.8	1,029.6	1,683.6
Other liabilities	102.0	113.3	108.6
Equity capital	200.6	200.6	200.6
Reserves	1,999.5	2,305.7	2,626.5
Net Worth	2,200.2	2,506.4	2,827.1
Total liabilities	3,686.9	4,585.7	5,149.8
BVPS (Rs)	11.0	12.5	14.1

Source: Company, Religare Research

Financial ratios

(Rs mn)	FY05	FY06	9mFY07*
EBITDA margin (%)	9.1	13.8	13.3
EBIT margin (%)	5.6	10.8	10.4
Net profit margin (%)	9.9	10.1	9.2
EPS growth (%)	(13.7)	23.4	11.6
Receivables (days)	165.3	165.9	180.3
Inventory (days)	60.7	74.1	74.4
Payables (days)	102.6	89.7	41.5
Current ratio (x)	3.0	3.6	7.2
Interest coverage (x)	3.9	5.2	4.3
Debt/equity ratio (x)	0.2	0.4	0.6
ROE (%)	21.3	16.3	16.0
ROCE (%)	8.6	5.6	10.2
ROAE (%)	11.8	9.3	8.8
EV/Sales (x)	2.0	1.7	1.4
EV/EBITDA (x)	22.5	12.3	10.4
P/E (x)	12.3	9.9	8.9
P/BV (x)	1.7	1.5	1.0
P/CEPS (x)	9.0	7.7	6.8

Source: Company, Religare Research *Annualised, Valuation figures based on pre-issue equity

RELIGARE RESEARCH

Fundamental Research

Amitabh Chakraborty, CFA, FRM	President - Equity	amitabh.chakraborty@religare.in
Piyush Parag	Auto, Auto Ancillaries, Shipping	piyush.parag@religare.in
Abhishek Agarwal	Bank, Agri-Commodities	abhishek.a@religare.in
Dinesh Shukla	Bank, Agri-Commodities	dinesh.shukla@religare.in
Ashish Kila	Capital Goods, Engineering, Power	ashish.kila@religare.in
Ronald Siyoni	Capital Goods, Engineering, Power	ronald.siyoni@religare.in
Dalpat Mehta	Cement, Textiles	dalpat.mehta@religare.in
Anurag Purohit	Information Technology, Telecom	anurag.purohit@religare.in
Hitesh Punjabi	Information Technology, Telecom	hitesh.punjabi@religare.in
Ram Patnaik	Media, FMCG	ram.patnaik@religare.in
Reema Deshkar	Media, FMCG	reema.deshkar@religare.in
Suman Memani	Mid-caps, Construction, Realty	suman.memani@religare.in
Sudeep Anand	Oil & Gas, Chemicals	sudeep.anand@religare.in
Bhawana Verma	Oil & Gas, Chemicals	bhawana.verma@religare.in
Alok Dalal	Pharmaceuticals	alok.dalal@religare.in

Derivatives Research

Anil Gupta	anil.g@religare.in
Samir Badami	samir.badami@religare.in
Somendra Agarwal	somendra.agarwal@religare.in

Production

Anisha deSa	anisha.desa@religare.in
R Murali	r.murali@religare.in
Rajesh Mhatre	rajesh.mhatre@religare.in

Administration

Shraddha Hosalkar	shraddha.hosalkar@religare.in
-------------------	-------------------------------

Religare Securities Limited

Mumbai: 3rd Floor, Dheeraj Arma, Anant Kanekar Marg, Bandra (East), Mumbai-400 051. Phone: +91 22 66124600 Fax- 66124781

New Delhi: 19, Nehru Place, New Delhi - 110019, Phone: +91 11 30815100.

Disclaimer: This document has been prepared by Religare Securities Limited (Religare). This is not an offer to buy or sell or the solicitation of an offer to buy or sell any security or to participate in any particular trading strategy or as an official confirmation of any transaction. The views expressed are those of analyst. The information contained herein is from publicly available data or other sources believed to be reliable or developed through analysis. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. Religare accepts no obligation to correct or update the information or opinions in it. Religare may discontinue research coverage of a subject company or change the opinion(s) without notice. The investment discussed or views expressed may not be suitable for all investors and certain investors may not be eligible to purchase or participate in some or all of them. Religare recommends that investors independently evaluate particular investments and strategies. The user assumes the entire risk of any use made of this information. Neither Religare nor any of its affiliates, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. Religare and its affiliates, officers, directors, and employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or act as advisor or lender / borrower to such company (ies) or have other potential conflict or interest with respect to any recommendation and related information and opinions. The recipient should take this into account before interpreting the document. This report is not directed or intended for distribution, publication, availability or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication availability or use would be contrary to law regulation or which would subject Religare and affiliates to any registration or licensing requirements within such jurisdiction, persons in whose possession this document comes, should inform themselves about and observes, any such restrictions. **Copyright in this document vests exclusively with Religare.** This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose, without prior written permission from Religare. We do not guarantee the integrity of any e-mails or attached files and are not responsible for any changes made to them by any other person.