



India

HOLD (previously ADD)

Consensus ratings*: Buy 1 Hold 0 Sell 0

Current price:	Rs885
Target price:	Rs892
Previous target:	Rs2,151
Up/downside:	0.8%
InCred Research / Consensus:	0.8%

Reuters:	
Bloomberg:	MEGHFL IN
Market cap:	US\$445m
	Rs36,778m
Average daily turnover:	US\$1.1m
	Rs91.5m
Current shares o/s:	41.6m
Free float:	28.6%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(3.8)	(4.7)	(38.2)
Relative (%)	(1.9)	(8.2)	(43.9)

Major shareholders	% held
Promoter & Promoter Group	71.4
Dimensional Fund Advisors LP	0.5
BlackRock Inc	0.1

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Meghmani Finechem Ltd

Epichlorohydrin hiccup; downgrade to HOLD

- Meghmani Finechem (MFL) is a producer of epichlorohydrin, caustic soda, chlorinated polyvinyl chloride, potassium hydroxide and hydrogen peroxide.
- The global slowdown is leading to a fall in spreads over raw material for all its products. Consequently, EBITDA is likely to fall at a 7% CAGR over FY23-26F.
- We value MFL at 15x one-year forward EPS to arrive at our 12-month target price of Rs892. Downgrade our rating on the stock to HOLD from ADD earlier.

MFL to face margin pressure from epichlorohydrin

Meghmani Finechem (MFL) operates as a chloralkali producer, holding a significant presence in the production of epichlorohydrin (ECH) and chlorinated poly vinyl chloride (CPVC). Given the inherent commodity nature of its products, the business is prone to cyclical earnings. ECH spreads over glycerin are currently declining and approaching the historical average. Our estimate indicates that ECH demand in 2023F is likely to align with the 2019 level. The market is facing a substantial oversupply situation, with capacity utilization of approximately 70%. Notably, ECH serves as a primary component for epoxy resin, but epoxy resin is also facing diminishing demand on a global scale. The global epoxy resin market touched 3.6mt in 2022, and considering the global economic slowdown, a decline is anticipated in 2023F.

CPVC demand growth may have peaked in India

The Indian government levied a significant anti-dumping duty (ADD) on imports of CPVC from China and Korea. The ADD on CPVC resin and compound imports from China's Shandong Gaoxin Chemical Co Ltd ranged from US\$2,087/t to US\$2,853/t, and a similar duty was imposed on Korean CPVC producers. Simultaneously, the Indian government introduced the 'Har Ghar Jal Yojna' and 'Jal Jeevan Mission' initiatives, aiming to provide tap water access to all rural households in India by 2024F. However, the project is in the last phase of implementation (as tap water has already reached more than 65% of the households) and hence, we feel the demand for CPVC pipes and other pipes will trend downwards.

We value the stock at 15x FY25F EPS to arrive at a lower TP of Rs892

We forecast a revenue CAGR of 2% over FY23-26F while the profit is expected to decline at a 9% CAGR over the same period. With the capex tapering off, the balance sheet is expected to deleverage. Although the stock's trading history is limited, it has historically traded at around 17.5x one-year forward EPS. However, as earnings are declining, there is likely to be a derating of the stock. Therefore, we value the stock at 15x one-year forward EPS, resulting in a downgrade of our recommendation to HOLD (from ADD), with a 12-month target price of Rs892. Upside/downside risks: Recovery in caustic soda and ECH prices will lead to EPS upgrade. Although we believe the prices will not fall much from the current levels, any further correction in ECH prices will lead to EPS reduction.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	15,509	21,884	19,990	21,590	23,190
Operating EBITDA (Rsm)	5,095	6,889	4,506	5,164	5,620
Net Profit (Rsm)	2,528	3,533	1,835	2,312	2,630
Core EPS (Rs)	60.8	85.0	44.2	55.7	63.3
Core EPS Growth	149.6%	39.8%	(48.1%)	26.0%	13.7%
FD Core P/E (x)	14.55	10.41	20.05	15.91	13.99
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	9.11	6.59	10.24	8.50	7.34
P/FCFE (x)	50.77	27.01	26.59	37.03	11.00
Net Gearing	132.8%	80.5%	49.4%	29.6%	12.0%
P/BV (x)	5.07	3.44	2.51	2.17	1.88
ROE	42.2%	39.4%	15.8%	16.9%	16.3%
% Change In Core EPS Estimates			(0.59%)		
InCred Research/Consensus EPS (x)					

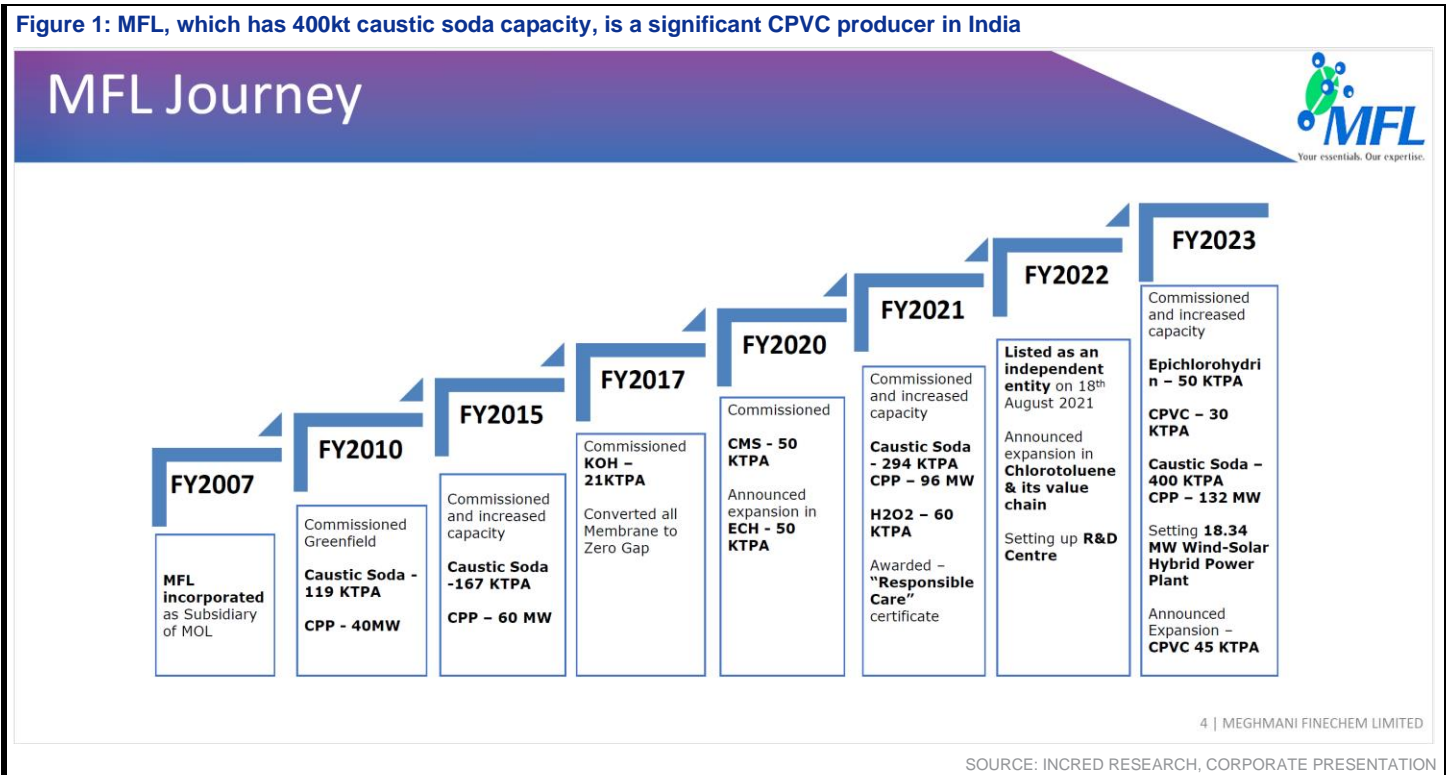
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Epichlorohydrin hiccup; downgrade to HOLD

Meghmani Finechem (MFL) is a chloralkali producer, with a significant presence in epichlorohydrin (ECH) and chlorinated poly vinyl chloride (CPVC). The company's products are commodity in nature and therefore, cyclicality in earnings is very much inherent in its business. MFL is expanding its CPVC capacity by 150% to 75kt (from 30kt currently).

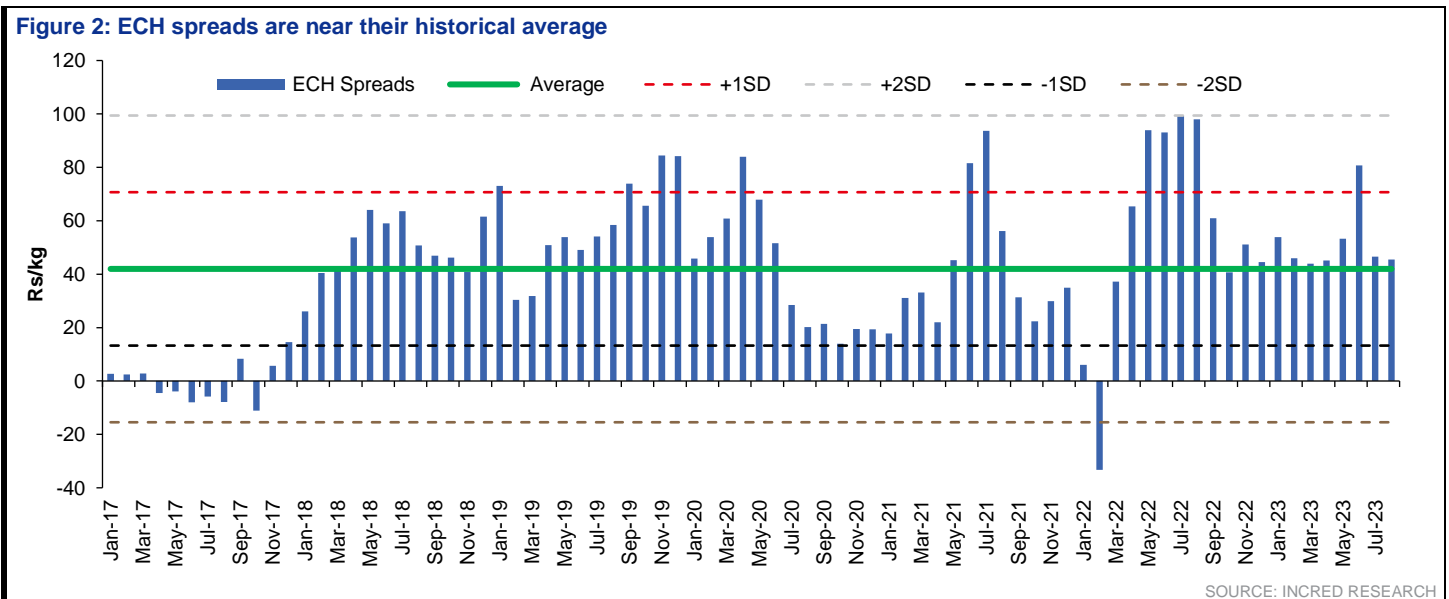
MFL products are facing a cyclical downturn

Figure 1: MFL, which has 400kt caustic soda capacity, is a significant CPVC producer in India



Epichlorohydrin (ECH) spreads over glycerin are falling and are near their historical average

Figure 2: ECH spreads are near their historical average



ECH is primarily used to make epoxy resins ➤

The most important usage of ECH is in manufacturing epoxy resin. It is used along with bisphenol-A to make epoxy resins. Here are some of the specific uses of epichlorohydrin:

1. **Production of epoxy resins:** Epichlorohydrin is used to make epoxy resins, which are used in a wide variety of applications, including protective coatings, adhesives, composites, electrical and electronic components, building materials, marine applications, and medical devices.
2. **Manufacture of synthetic glycerine:** Epichlorohydrin is used to make synthetic glycerin, which is a sugar alcohol that is used in a variety of products, including cosmetics, pharmaceuticals, and food.
3. **Textiles:** Epichlorohydrin is used to modify the carboxyl groups of wool, making it more resistant to moths.
4. **Paper:** Epichlorohydrin is used to make wet-strength resins for paper production. These resins help to make paper more resistant to water and tearing.
5. **Inks and dyes:** Epichlorohydrin is used as a solvent for inks and dyes. It also helps to improve the adhesion of inks and dyes to surfaces.
6. **Surfactants:** Epichlorohydrin is used to make surfactants, which are substances that lower the surface tension of water. Surfactants are used in a variety of products, including detergents, cosmetics, and food.
7. **Plasticizers:** Epichlorohydrin is used to make plasticizers, which are substances that make plastics more flexible. Plasticizers are used in a variety of products, including toys, food packaging, and medical devices.
8. **Pharmaceuticals:** Epichlorohydrin is used to make a variety of pharmaceuticals, including antibiotics and anti-cancer drugs.
9. **Adhesives:** Epichlorohydrin is used to make a variety of adhesives, including those used in construction, automotive, and packaging applications.
10. **Insect fumigant:** Epichlorohydrin is used as an insect fumigant to kill insects in homes, businesses, and other buildings.

Epoxy resin demand is falling across the globe ➤

Global epoxy resin market stood at 3.6mt in 2022 and given the global slowdown, it is likely to decline in 2023F. While we don't have the exact numbers on the demand, the closure of plants indicates the same.

1. In Mar 2023, Olin Corporation announced that it would be shutting down its Cumene plant at Terneuzen in the Netherlands, as well as solid epoxy production at its facilities in Gumi, South Korea, and Guarujá, Brazil.
2. In Jun 2023, Hexion Inc. announced that it would be closing its epoxy resin plant in Baytown, Texas. This closure is expected to affect around 100 employees. Hexion cited the same factors as Olin for the closure, namely weak demand and oversupply.

The global epoxy resin capacity utilization in 2022 was estimated to be around 70%. This means that only 70% of the existing epoxy resin production capacity is being used. The remaining 30% of the capacity is either idle or operating below full capacity.

Consequently, oversupplied ECH is also facing demand headwinds ➤

Figure 3: We estimate that ECH demand in 2023F is more likely to be near the 2019 level; the market is hugely oversupplied, with capacity utilization of around 70%

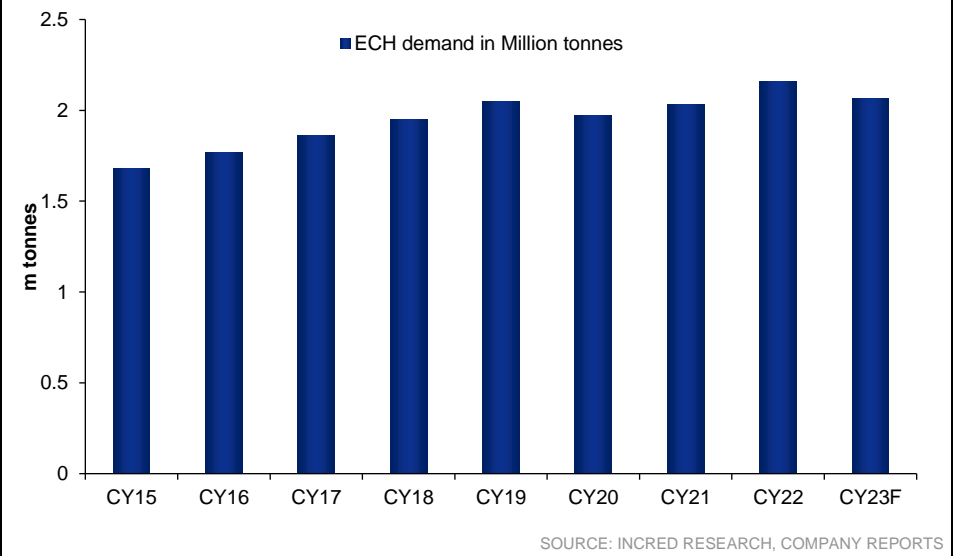
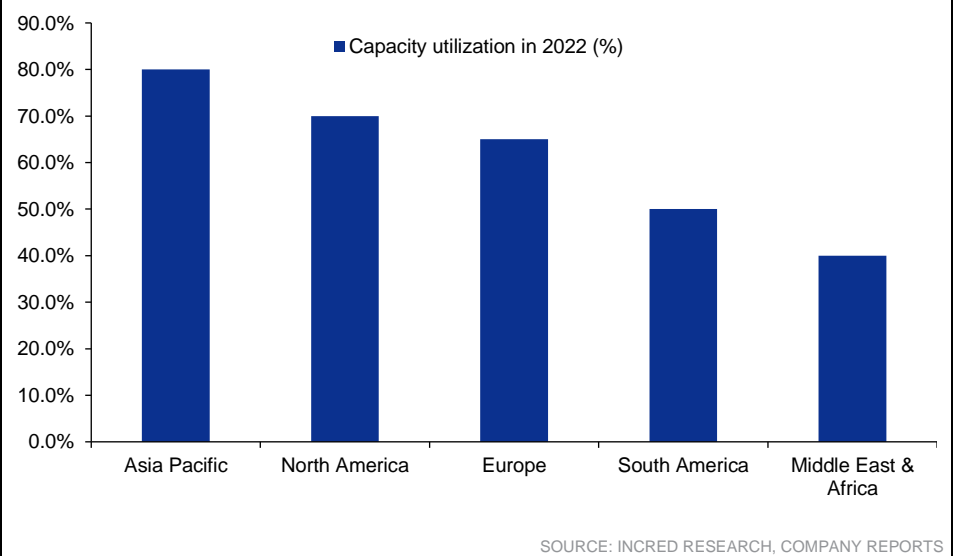


Figure 4: Global ECH capacity utilization is likely to remain below 75% in 2023F; in 2022 it was ~75%



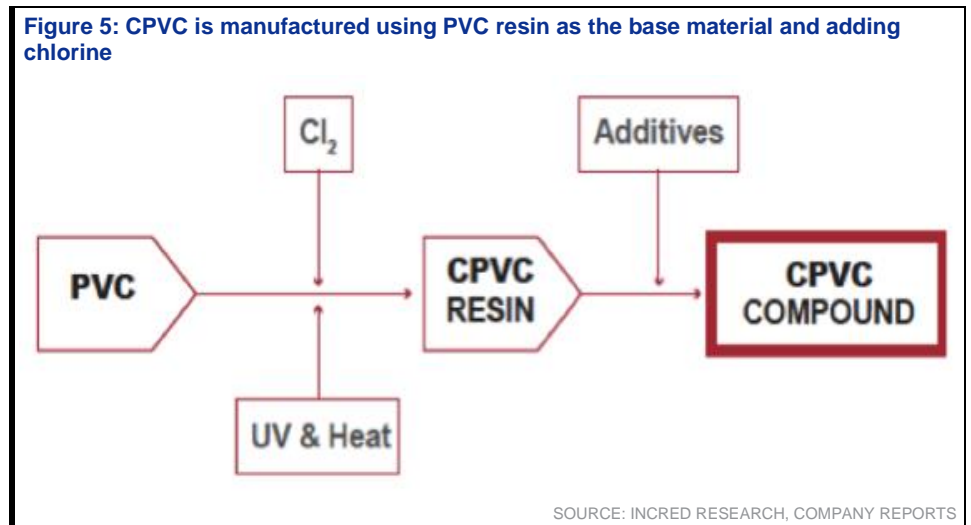
CPVC doesn't require a big technological edge – it's a simple production process ➤

The production process of CPVC (chlorinated polyvinyl chloride) resin can be divided into the following steps:

- Preparation of raw materials:** The raw materials for CPVC resin are polyvinyl chloride (PVC) resin and chlorine. The PVC resin is typically obtained by polymerizing vinyl chloride monomer. The chlorine is typically obtained from the electrolysis of brine.
- Chlorination of PVC resin:** The PVC resin is chlorinated in a water slurry or fluidized bed reactor. The chlorination reaction is initiated by ultraviolet light. The degree of chlorination is typically controlled to be around 67%.
- Compounding:** The chlorinated PVC resin is compounded with other ingredients, such as stabilizers, pigments, and fillers. The compounding process is used to improve the properties of the CPVC resin, such as its heat resistance, toughness, and colour.

4. **Extrusion:** The compounded CPVC resin is extruded into the desired shape, such as pipe, sheet, or profile. The extrusion process is used to create a continuous, uniform product.
5. **Post-processing:** The extruded CPVC product may undergo post-processing steps, such as annealing or cooling, to improve its properties.

Figure 5: CPVC is manufactured using PVC resin as the base material and adding chlorine



CPVC had twin tailwinds - rising pipe demand and imposition of anti-dumping duty (ADD) on imports ➤

The Indian government, vide its notification issued in Mar 2020, imposed high ADD on imports of CPVC from China and Korea. According to the notification, the ADD levied on CPVC resin and compound imports from China's Shandong Gaoxin Chemical Co Ltd was US\$2,087/t and US\$2,717/t, respectively. The price differential duty on several other Chinese producers stood in the range of US\$2,024/t and US\$2,853/t. A similar duty was imposed on Korean CPVC producers as well.

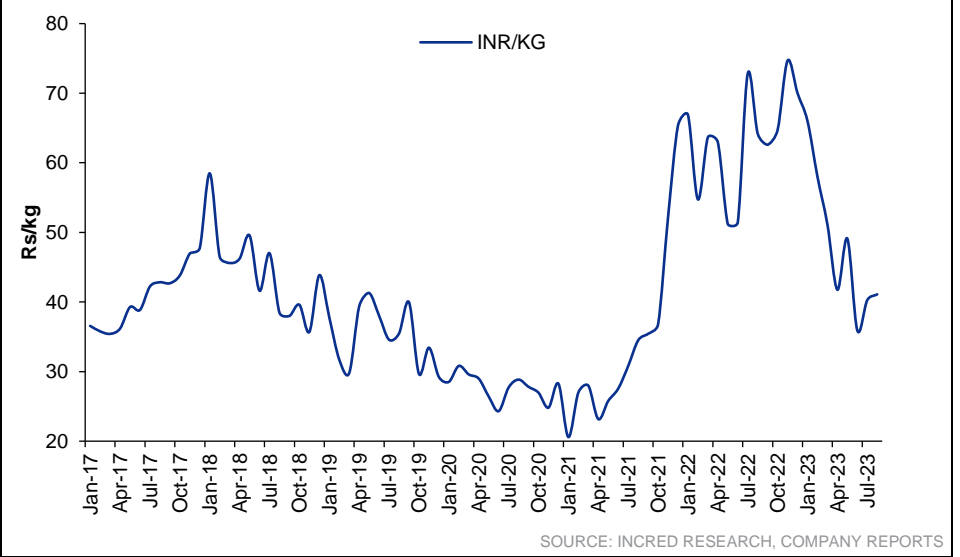
The Indian government has launched 'Har Ghar Jal Yojna' and 'Jal Jeevan Mission', schemes with the goal of providing tap water to all rural homes in India. The Jal Jeevan Mission (JJM) scheme, which aims to provide tap water connections to all rural families by 2024F, is one of the most important measures that the government has taken. The need for plumbing pipes and fittings will increase as a result of the expansion in demand for clean water in all residential and commercial complexes. As a result, PVC pipes and fittings are in high demand to facilitate water flow.

The demand from JJM is in its last phase ➤

Tap water has already reached almost 70% of Indian households, which means a major portion of the demand for CPVC fittings is behind us. The demand from JJM will still be there, but it will start tapering off in the next few months.

Caustic soda prices are falling as energy (coal) prices have collapsed and the demand is low ➤

Figure 6: Caustic soda prices are depressed



Revenue and earnings

We forecast a revenue CAGR of 2% over FY23-26F and a profit CAGR of -9% CAGR over the same period. The volume CAGR over the same period is likely to be at 3%. However, the fall in individual chemical’s profitability will lead to a profit decline CAGR of 9% over the same period.

Revenue to increase at a 2% CAGR but EBITDA to decline at a 7% CAGR over FY23-26F ➤

Figure 7: Revenue to grow at a 2% CAGR over FY23-26F

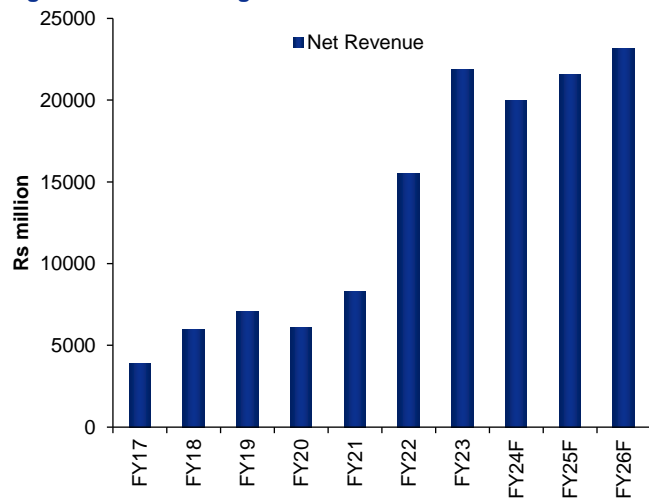
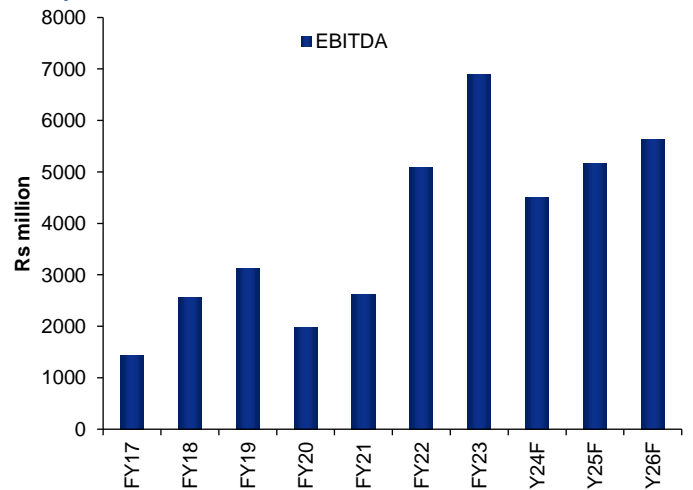
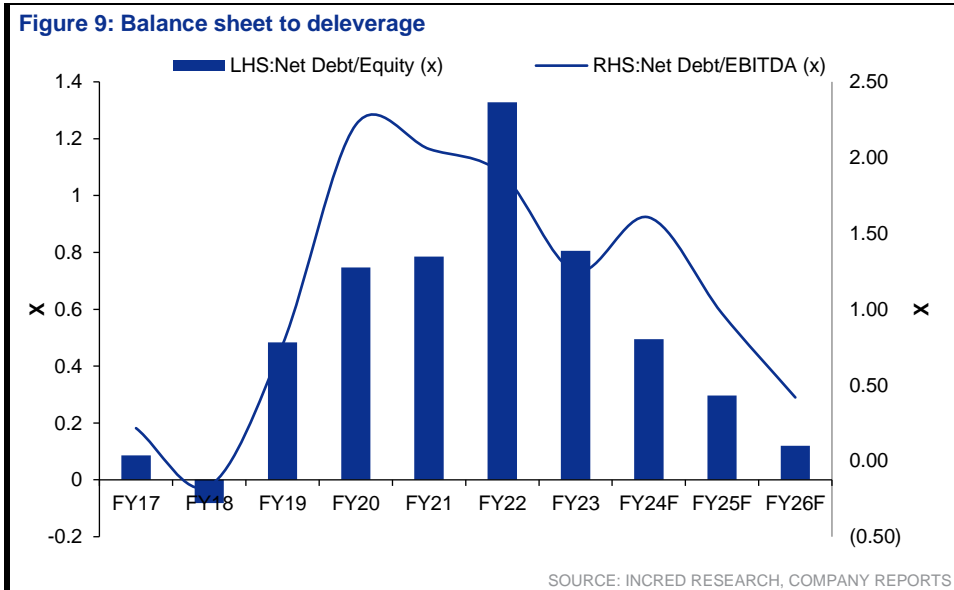


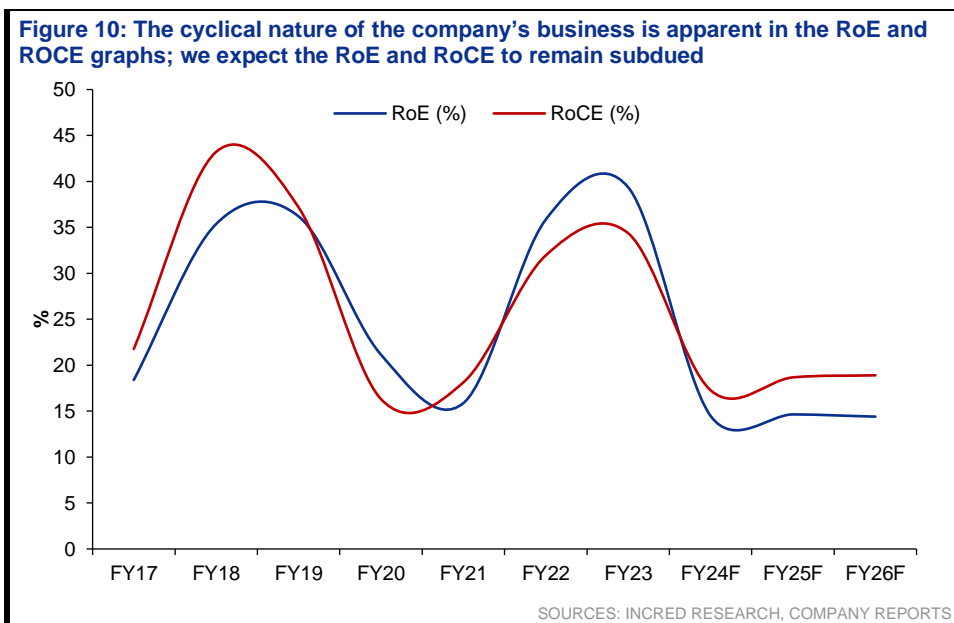
Figure 8: However, EBITDA to decline at a 7% CAGR over the same period



Balance sheet to deleverage as capex will taper off ➤



However, RoE and RoCE to remain subdued ➤



Meghmani Finechem doesn't have much trading history, but it has traded around 17.5x one-year forward EPS ➤

Figure 11: On an average, Meghmani Finechem has traded around 17.5x in its brief trading history



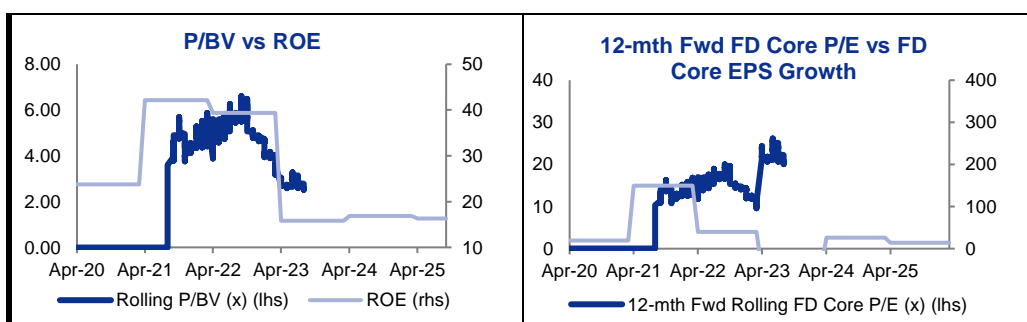
We believe the stock can be derated as earnings decline and hence, we value it at 15x one-year forward EPS ➤

Figure 12: We downgrade our rating on Meghmani Finechem to HOLD, with a 12-month target price of Rs892

Target price calculation	
FY23F EPS (Rs)	56
FY24F EPS (Rs)	63
Sep 2025F EPS (Rs)	59
P/E (x)	15
One-year forward fair value (Rs)	892

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	15,509	21,884	19,990	21,590	23,190
Gross Profit	7,899	10,736	8,596	9,500	10,204
Operating EBITDA	5,095	6,889	4,506	5,164	5,620
Depreciation And Amortisation	(859)	(1,090)	(1,198)	(1,318)	(1,450)
Operating EBIT	4,236	5,800	3,307	3,846	4,170
Financial Income/(Expense)	(443)	(655)	(876)	(776)	(676)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	41	80	22	22	22
Profit Before Tax (pre-EI)	3,834	5,225	2,453	3,092	3,516
Exceptional Items					
Pre-tax Profit	3,834	5,225	2,453	3,092	3,516
Taxation	(1,306)	(1,692)	(618)	(779)	(886)
Exceptional Income - post-tax					
Profit After Tax	2,528	3,533	1,835	2,312	2,630
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	2,528	3,533	1,835	2,312	2,630
Recurring Net Profit	2,528	3,533	1,835	2,312	2,630
Fully Diluted Recurring Net Profit	2,528	3,533	1,835	2,312	2,630

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	5,095	6,889	4,506	5,164	5,620
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,694)	408	(945)	(333)	(333)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	1	(41)			
Other Operating Cashflow	484	735	898	798	698
Net Interest (Paid)/Received	(443)	(655)	(876)	(776)	(676)
Tax Paid	(604)	(1,075)	(618)	(779)	(886)
Cashflow From Operations	2,838	6,262	2,964	4,074	4,424
Capex	(4,563)	(4,165)	(1,581)	(1,081)	(1,081)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	17	(208)			
Cash Flow From Investing	(4,546)	(4,372)	(1,581)	(1,081)	(1,081)
Debt Raised/(repaid)	2,433	(528)		(2,000)	
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid		(242)			
Preferred Dividends					
Other Financing Cashflow	(480)	(1,228)			
Cash Flow From Financing	1,952	(1,998)		(2,000)	
Total Cash Generated	244	(108)	1,383	993	3,343
Free Cashflow To Equity	724	1,362	1,383	993	3,343
Free Cashflow To Firm	(1,265)	2,544	2,259	3,770	4,019

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	250	151	1,525	1,742	4,409
Total Debtors	2,563	1,663	3,304	3,568	3,833
Inventories	1,541	2,118	1,987	2,146	2,305
Total Other Current Assets	114	262	79	79	79
Total Current Assets	4,469	4,194	6,894	7,535	10,625
Fixed Assets	16,571	19,622	20,004	19,767	19,398
Total Investments	1	206			
Intangible Assets					
Total Other Non-Current Assets	196	300	396	396	396
Total Non-current Assets	16,768	20,128	20,400	20,162	19,793
Short-term Debt	2,212	3,315	3,315	3,315	3,315
Current Portion of Long-Term Debt					
Total Creditors	881	1,102	1,136	1,226	1,317
Other Current Liabilities	2,230	2,060	2,406	2,406	2,406
Total Current Liabilities	5,323	6,476	6,856	6,947	7,038
Total Long-term Debt	7,681	5,446	5,446	3,446	3,446
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	26	13	31	31	31
Total Non-current Liabilities	7,708	5,460	5,477	3,477	3,477
Total Provisions	946	1,695	324	324	324
Total Liabilities	13,977	13,631	12,658	10,749	10,839
Shareholders Equity	7,260	10,692	14,636	16,948	19,578
Minority Interests					
Total Equity	7,260	10,692	14,636	16,948	19,578

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	87.2%	41.1%	(8.7%)	8.0%	7.4%
Operating EBITDA Growth	95.0%	35.2%	(34.6%)	14.6%	8.8%
Operating EBITDA Margin	32.9%	31.5%	22.5%	23.9%	24.2%
Net Cash Per Share (Rs)	(232.07)	(207.23)	(174.16)	(120.80)	(56.62)
BVPS (Rs)	174.71	257.30	352.22	407.87	471.16
Gross Interest Cover	9.57	8.85	3.77	4.96	6.17
Effective Tax Rate	34.1%	32.4%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio					
Accounts Receivables Days	44.15	35.25	45.35	58.09	58.24
Inventory Days	49.89	59.91	65.75	62.38	62.55
Accounts Payables Days	38.64	32.46	35.83	35.65	35.75
ROIC (%)	22.2%	21.9%	11.9%	12.9%	14.0%
ROCE (%)	27.7%	29.6%	14.8%	16.1%	16.5%
Return On Average Assets	15.8%	17.5%	9.6%	10.5%	10.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
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managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

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