



“Omkar Speciality Chemicals Limited Q1 FY15 Earnings Conference Call”

August 21, 2014



**MANAGEMENT: MR. PRAVIN S. HERLEKAR – CHAIRMAN & MANAGING
DIRECTOR
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MR. SIDDHARTH SINKAR – DIRECTOR**



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Moderator

Ladies and gentlemen good day and welcome to the Q1 FY15 Earnings Conference call of Omkar Speciality Chemicals Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nirav Momaya – Head – Company Secretary & Compliance Officer, Omkar Speciality Limited. Thank you and over to you, Mr. Momaya.

Nirav Momaya

Thank you. Good afternoon ladies and gentlemen. This is Nirav Momaya, Company Secretary & Compliance Officer of Omkar Speciality Chemicals Limited. I would like to welcome all the participants to Q1 FY15 financial results earnings call today with the management. I would like to just share with participants from management side which is we have Mr. Pravin S. Herlekar – Chairman & Managing Director of the company and Mr. Siddharth Sinkar – Director of the company to share their views with us. I would like to request Pravin Herlekar sir to share his views on the operations during the first quarter.

Pravin Herlekar

Thank you Nirav and good afternoon everybody and welcome to this conference. I would briefly go through the results. First of all let me say that results for Q1 have been more or less flat or in line with our earlier operational in FY14 this was mainly because no new additional facility was operative during the Q1. Of course we did start our Unit #6 but then it was busy in the trial runs and teething troubles so now that facility has become operative and we have started getting results from that in this quarter. So the sales have been more or less flat.

Another thing is iodine which happens to be our major raw material and iodine derivatives which constitute about almost 50% of our overall business. Iodine prices continue to decline and they have fallen down during Q1 from a level of about \$37, \$38 to \$35 which is a drop of about 5% to 6%. So because of that again the topline got a hit to some extent. Secondly, as compared to Q4 FY14 where the cross sales that of the order of about Rs. 74 crores the total sales this quarter have come to Rs. 53.51 crores. Here we have to understand that in Q4 out of total sales of Rs. 74 crores the trading business that is most of the selling of iodine because of the fall in prices was amounting to roughly Rs. 29 crores and the manufacturing sale was around Rs. 44.9 crores.

Whereas in Q1 the trading has substantially gone down and out of Rs. 53.5 crores the trading is only about Rs. 4.6 crores. So the manufacturing sale stands at about Rs. 48.8 crores. Which means that in the manufacturing sales the actual growth is to tune of about 8.7%.

Another reason is because of the lower sales is in fact some goods were exported and the sales had already been accepted but then as per the statutory compliance for the audit we cannot book the sales unless the shipping bill is generated. So those which has not be booked in Q1. So overall the figure stands at Rs. 53.51 crores. Maharashtra overall sales figure we could have crossed may be another Rs. 4 crores to Rs. 5 crores but for the iodine price drop and then the



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exports sales not been booked. Another important observation what we would see is EBITDA margins have appeared to have gone down and this is mainly on account of entering in our corporate expenses mainly in sales and marketing expenses as well as logistics expenses. This is on account of our continuous efforts for boosting our exports wherein we have lot of opportunities and potential.

Logistics wise what has happened is in a sense we needed to develop new customers as early as possible. We have sent the consignments by air instead of by fleet which otherwise would have taken more than a month for the customer to receive at their end. But by air they have received it faster and then we have got the approvals and the results have started coming. So because of this the expense had gone down. Similarly our marketing team has been touring abroad for meeting customers etcetera because export has to be our major target now. Last year we had 30% of our total sales whereas now we are targeting close to 40%, 45% and we are really getting excellent response from all the global customers.

So export has become our focus but then it has increased from the more expenses but these expenses will be we look at it as an investment and it has started paying result. We are getting the benefits out of it.

Secondly, as regards to our projects status our Unit #6 which is Chiplun has already started operating and we are already advanced from new products which generating sizeable revenues from this quarter onwards. Unit #5 is in the pipeline and we hope to complete it in another couple of months. Our other projects at LASA which is our API facility is supposed to be getting ready for the JMP. It is a FDI approve unit and we are upgrading it to the JMP levels so this should be very biased November. So Unit #5 and Lasa both of them will be getting ready within about a quarter or quarter-and-half. And towards end of this financial we should be getting contributions from these unit also.

Now as regards to the financial analysis I will had it over to Mr. Siddharth who will elaborate on the finances. Thank you.

Siddharth Sinkar

Thank you Pravin sir. Good afternoon everybody. Let me first glance through the financial results for the first quarter. During the first quarter our company reported a consolidate turnover of Rs. 63.51 crores as compared to Rs. 57.51 crores in the first quarter of previous financial year. Other income in this quarter of previous financial year. The company was Rs. 22.34 lakhs on expense side the cost of material consumed amounted to Rs. 34.67 crores which is about 65% of the total sales. This is in line with fast 7-8 quarter wherein the company has been able to maintain this material consumption cost between 65% to 68% of the total turnover.

On employees cost front the total cost incurred was about Rs. 3.30 crores. Other expenses incurred during the quarter was about Rs. 6.81 crores and there has been increase in the other expenses but this matter has already been discussed in brief by our CMD. So this left company

with EBITDA of about Rs. 8.71 crores. After EBITDA then there is a depreciation expense of about Rs. 1.16 crores on this depreciation front I would like to add some information for the listeners. From this particular financial year Companies Act 2013 is applicable so earlier we were following the depreciation as per the risk described in the relevant schedule of the Companies Act 1956 but now we have to change this depreciation method as per the new schedule which is schedule number 2 of Companies Act 2013.

So there has been so we had to do a lot of reworking of depreciation and because of this there has been a substantial reduction in depreciation. These figures have been checked in detail by our auditors so the depreciation has reduced that is mainly on account of the fact that the new act ask every company to estimate useful life of each and every asset and then we have to depreciate that asset over the useful life. Since the depreciation which was already provided on those assets till 31st March 2014 as per the rates described in the earlier Act were on a higher side. So this has resulted in deprecation charts getting lower to the substantial levels. We have already reported in as a foot note to our press release that there has been an effect of about Rs. 1.47 crores because to that extent depreciation has been charged less. Had we been following earlier depreciation as per Companies Act 1956 this figure would have been more than Rs. 1.47 crores.

Then going to the finance charge; the finance expenses incurred by the company was about Rs. 2.63 crores as compared to Rs. 3.13 crores in the first quarter of last financial year. There has been a reduction in the finance cost but then actually if you go by the figures but actually there has been no reduction because in the first quarter of last financial year there has been a significant appreciation of US Dollars and we have our certain facilities especially working capital facilities where in the form of FCNRB loans. So there was a hit of about Rs. 70 lakhs in the first quarter of last financial year which is not there in the current year because first of all we have very less amount of exposure in foreign currency and even the dollar has been stable. There has been no significant appreciation of dollar compared to Rupee. So there has been a finance expense of Rs. 2.63 crores which are actually in line with the last year's first quarter. If you exclude the Rs. 73 lakh of charge on account of increase in dollars.

So this leaves us with profit before tax on a consolidated basis about Rs. 5.14 crores in the first quarter of current financial year. Again on a tax front there has been a reduction in the tax expenses as compared to last year tax expenses. This is mainly on account of the fact that there has been reversal of deferred tax liability and because of which the tax expense which have been reported another Rs. 17.75 lakhs so which gives us with the company with a profit after tax of Rs. 4.96 crores on a consolidated basis.

So I will just touch upon performance on the export front. During the first quarter of current financial year total exposure reported by the company are about Rs. 12.47 crores as compared to Rs. 8.04 crores in the first quarter of last financial year. Then I will also brief on the compound wise sales wherein iodine derivatives contributed about 42.04% of our total turnover followed by



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API about 29.64% followed by Selenium derivatives of about 8.77% and other intermediates of about 8.54%. And there has been a sale of resolving agents to the tune of 4.85% and other chemicals sale was about 6.15%. On a standalone front the company Omkar Speciality Chemicals reported turnover of about Rs. 36.39 crores. Lasa Laboratories reported a topline of about Rs. 15.86 crores. There has been substantial increase in the API business which has been done by Lasa Laboratories. So Lasa Laboratories has been extremely well in the first quarter because last year Lasa Laboratories sale on the annual basis was about Rs. 33 crores wherein in the first quarter only Lasa have been able to achieve turnover of about Rs. 15.86 crores. Of course in achieving this one we need to mention one thing that Lasa has not yet increased its CAPEX or increased its capacity but it has been using capacities of main parent company Omkar as well as Urja Chemicals and it is such that the reduction in the parent company is nothing but the case of Lasa. So on a consolidated basis our Omkar Company has been able to maintain or just slightly improvise on a sale of manufactured products.

So I think I have gone through the figures in depth. Now I will just throw this dais for any questions if any.

Moderator

Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Sayan Das Sharma from CRISIL. Please go ahead.

Sayan Das Sharma

Sir, I think most of the questions are answered by your commentary. So sir, just a couple of incremental questions. First of all sir, what is the status of the regulatory approval both for your products as well as your customer's products that uses your AP?

Pravin Herlekar

Well, as far as the regulatory approvals are concerned there are two things. One is certain DMFs which need to be filed. So we are already filed about 8 DMFs and they need be approved as such but we have to submit it. And we have started generating business out of that. Secondly, our Lasa Laboratory where we have facility which is a FDA facility it is getting upgraded now with now we have a target of WHO JMP status for that company and as I said earlier it should be ready by November. So after that it is ready we will have opportunity to increase our sales to regulatory market also.

Sayan Das Sharma

Sir, how do you see the top line and the margin for the full year FY15?

Pravin Herlekar

Well, at this moment I can say that since Unit #6 has already started it is just started generated revenues now. Unit #5 will also start in may be a quarter and our Lasa Laboratory will be getting upgraded that will also will be operative by last quarter of the year. So with all these but then these new facilities will not be available for the entire year FY15. So in all probability we expect a topline growth of about 20% to 25%.



- Sayan Das Sharma** And sir, with the changes in Companies Act that was described so depreciation is expected to be in similar lines like it was Rs. 1.2 crores this quarter so should we expect a total deprecation of to the tune of Rs. 5.5 crores may be?
- Pravin Herlekar** Yes certainly.
- Sayan Das Sharma** And sir, what is the debt on books currently as of Q1 FY15 if you could share?
- Pravin Herlekar** Total debt is Rs. 195 crores on a consol basis.
- Moderator** Thank you. The next question is from the line of Meeta Shetty from HDFC Securities. Please go ahead.
- Meeta Shetty** Sir, couple of things actually. You mentioned that the iodine prices were lower. So what is the outlook there because it is a very big revenue contributor to us. So what is the outlook there going ahead?
- Pravin Herlekar** Right so as I have been explaining in my several meetings and con calls iodine price which used to be at around a level of \$30 to \$35 about three years back had gone up to almost \$70, \$75 this was mainly on account of the Japanese supply which got hit after the tsunami and earthquake in Japan. And the prices had gone up to \$70, \$75. But then the Japanese companies have resumed last year and the prices have been falling from \$75 to almost \$40 by end of March and then from \$40 it had come down to about \$37, \$38. So now it has reached to a stage where it is almost rock bottom and nobody expects that the price will go down further below \$35 a kg. This is because our excavation cost of iodine it is a mine product and then excavation cost have also gone up; power cost has gone up and excavating and purifying iodine requires lot of water and this deposits of iodine are mostly in Chile. The major deposits are in Chile and they are in the desert area of Chile; Atacama region and there is absolute scarcity of water. So most of the producers have laid down pipelines from the western pacific and they bringing water from the sea and using it so all these has increased the cost of purification of iodine. So now we do not expect that the price will go down further. It will stabilize at the current level.
- Meeta Shetty** And sir, your growth outlook of 20% to 25% in FY15 that factors about a price of \$35?
- Pravin Herlekar** Yes.
- Meeta Shetty** And what is the growth scenario on the iodine front?
- Pravin Herlekar** See iodine we have been going or we have been adding new products in iodine. So our business will grow on the iodine front but at the same time our non-iodine derivatives are also growing. We have developed many products which are non-iodine based and they are getting loans. Some of them are already been launched and some are getting launched. So we are growing on that



front. We are also growing on the API front because as Siddharth explained sometime back our sales from Lasa Laboratories have clearly increased substantially. So we expect a growth coming in from that. So it is not that we will keep growing on iodine alone but as a matter of strategy we will grow on parallel sectors in different segments.

Meeta Shetty So then when you say that EPI was around 29%, 30% of our revenues and now with these new facilities coming along in the compliance from GMP getting in the couple of months. So where do you see this API in the pie say by FY15 or FY16 just a broad number?

Pravin Herlekar Like last financial year FY14 we had a API business of about Rs. 32 crores and current financial year we expect to take it to Rs. 70 crores minimum if not more.

Meeta Shetty Right, so we already had a Rs. 15 crores run rate on a quarterly basis?

Pravin Herlekar Yes.

Meeta Shetty And sir, you mentioned that you have 8 DMF filings but the DMF data shared by the FDA shows that we have only one Selenium Sulfide which has been filed sometime in 2012?

Pravin Herlekar That you must have seen in Omkar Speciality Chemicals. These units are filed in Lasa Laboratories because that is the API division.

Meeta Shetty So henceforth also the filings will be done from Lasa or will there be a mix of because they have not filed anything in Omkar since 2012?

Pravin Herlekar No, in Omkar the only unit we have in parent company that is for manufacture of Selenium Sulfide which reference to be an antidandruff agent is more than the shampoo. So but since it comes under cosmetics we have to take a licenses and we have filed it. In fact filing of DMF has helped us in expanding on the export business which will happen during the last year but then in Lasa we will continue to add many more APIs and we will be filing DMF for that.

Meeta Shetty And sir, just lastly on the tax rates do you mentioned that there was some deferred adjustments which has lead to a lower tax rate. But what is the outlook on the tax rate if I have to see say for the full year FY15 and?

Siddharth Sinkar No, full year they will not be like this. On a fully year it will be approximately between 22-25% only.

Moderator Thank you. As there are no further questions from the participants, I now hand the conference over to the management for their closing comments.



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Nirav Momaya

Thank you. I would like to thank all the participants for participating in this conference call and if anybody still has any queries then they can write it to me at my email ID which is cs@omkarchemicals.com. If any person has any queries please drop us an email we will try to resolve your queries at the earliest possible. Thank you very much for joining this conference and thanks a lot. Good bye.

Moderator

Thank you. Ladies and gentlemen, on behalf of Omkar Speciality Chemicals Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.