

## Transcript

### Conference Call of Omkar Speciality Limited

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*Presentation Session*

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**Moderator:** Good evening ladies and gentlemen, I am Moumita, moderator for this conference. Welcome to Omkar Speciality Chemicals Limited's 2QFY14 conference call hosted by BOB Capital Markets Limited. We have with us today Mr. Pravin Herlekar, CMD, Mr. Siddharth Sinkar, non ED, and Mr. Nirav Momaya, Company Secretary with Dr. Kshitij C. Prasad from BOB Capital Markets Limited. At this moment, all participant lines are in listen-only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press \* and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor to Dr. Kshitij C. Prasad from BOB Capital Markets Limited. Please go ahead sir.

**Kshitij C. Prasad:** Thank you Moumita. Hello everyone and welcome to second quarter FY15 earnings call of Omkar Speciality Chemicals Limited. I am Dr. Kshitij C. Prasad, Head of Research, BOB Capital Markets Limited. We have with us Mr. Pravin Herlekar, Chairman and Managing Director, Mr. Siddharth Sinkar, Non Executive Director, and Mr. Nirav Momaya, Company Secretary. We will start the earnings call with some remarks on the performance of the company for the recently concluded quarter followed by the outlook for the year ending 31st March 2015. Subsequently we will open up the call for questions. I would now like to pass it on to Mr. Nirav Momaya, Company Secretary, Omkar Speciality Chemicals Limited. Over to you sir.

**Nirav Momaya:** Thank you very much sir. This is Nirav Momaya. I would like to welcome all the participants on behalf of Omkar Speciality Chemicals Limited to this quarter 2 financial year 2014-'15 earnings call hosted by BOB Capital Markets. I would like to hand it over to Siddharth Sinkar sir for briefing us on the financial details about this quarter. Over to Siddharth sir.

**Siddharth Sinkar:** Good afternoon everybody, myself Siddharth Sinkar, I will go through the financial results for the quarter 2 of financial year 2014-'15. On a consolidated basis the company reported turnover of 66.78 crores in the second quarter of the current financial year vis-à-vis 53 crores in the first quarter of the current financial year. So there has been a jump of about (not clear) in the top line of the company in the second quarter. On expenses front, total expenses on a consol basis was 58.43 crores, which left the company with a profit before tax of 8.74 crores. After reducing tax exemption of about 2.34 crores, PAT reported by the company was 6.40 crores. On a half-yearly basis, the total turnover reported by the company in the first half year is about 120 crores, total expenses reported by the company in the first half year is 107 crores, which leaves the company with a profit before tax of about 13.89 crores. After reducing tax exemption of 2.52 crores, total PAT reported by the company in the first half-yearly

was 11.37 crores. I would like to explain the details of things as to why there has been a reduction in the depreciation in the second quarter vis-à-vis second quarter of last financial year and even on a half-yearly basis. This we have already explained in all our previous meetings, but I would like to add again that in this particular financial year, there has been a change in the method of depreciation because of the revised Company's Act 2013, which has been mandatorily applicable for current financial year because of which depreciation has been reworked and due to this there has been a decline in the depreciation chart as compared to the similar chart in the previous year's similar quarter. So, this we have already reported as a form of note in the results published before the stock exchanges. To the tune of 3 crores there has been lesser depreciation because this has been reworked as per new requirements. So, apart from that, the results were already discussed. Now, I will hand it over to Mr. Pravin Herlekar for his remarks, our Chairman and Managing Director.

**Pravin Herlekar:** Thank you Siddharth. Friends, I would first like to give you some updates on the business, there are some of the points, which I would like to share with you. First thing is, as you all know this is a company which is backed up with a very strong R&D and we have already applied for almost 14 numbers of patents through inland process also. Out of which I am very happy to inform you that 2 patents have been granted to the company, very recently, in the last month, and some further more are in the pipeline and are expected in coming months. Now, these patents what we have already received, will give us an upper edge on production of these items because there will be some entry barrier for competition in those products. Secondly, the company's API facility has got certification from European FDA for qualifying one of its APIs, which has very good potential in the European market. So now the business is open for regulatory customers as well. So far this product was being supplied to non-regulatory market, but now even the regulatory customers will be buying from us and we will enjoy a premium on this product. Number 3, our exports have been growing as I have been maintaining in my earlier con calls and now compared to last year the exports have almost doubled and the trend will continue. Secondly, our API business is also growing rapidly; in fact, the number of products, which have been added and number of new territories, which we have started supplying have almost doubled the business. This year, particularly one month, during the month of September, we had taken a shut down in the plant for maintenance, renovation, and upgrading of the facility, and that is why we could not do further better in this business, but then even inspite of this shutdown we have increased our sales in this particular segment. The margins also are looking up. This is because of some integrations in the process, which we have started following, like, some of the raw materials, which so far we were outsourcing from outside, now those we have started manufacturing within our facility, so that has started backward integration and this is going to give a good support to the bottom line for the company and the margins should improve going forward. Lastly I would like to make announcement about this QIP, for which we have already declared in our outcome of the board meeting, QIP we are targeting, which is a way to raise further resources, firstly for reduction in our high cost heads, which can bring down the cost of finance substantially and would add to our profitability. Then it will also provide for our increasing working capital requirement and then the marginal CAPEX, which we will be doing in the next year. So, that's about QIP. We have already just initiated the work with respect of QIP, particularly we are now seeking approval from the shareholders, etc., but then there is no timeline decided as such, we will just do the homework and then be ready for the placement whenever, at the appropriate time. So, that's all about it. I can throw this forum open for question and answers please.

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*Question and Answer Session*

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**Moderator:** Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press \* and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request you may do so by pressing \* and 1 again. Sir, we have our first question from Partha C. from Harshika Stock, please go ahead.

**Partha C.:** Hello, sir. Congratulations on good set of numbers. Sir, my question is, what is the outlook for the future iodine price, the trend?

**Pravin Herlekar:** Iodine prices have been declining during the last year and then by March '14, the price had come down to \$40 and it has further declined from \$40 to almost about \$32, \$33 as of now. Now we don't see much of a decline, maybe couple of dollars it might go down, but then it has to stabilize because it has almost reached the bottom level of costing for producing iodine, so there is not much of a scope for the pricing to go below \$30 now.

**Partha C.:** Okay and sir, one more thing regarding which you said that the raw material costs have gone down, but I couldn't get the reasons, so could you just give me once more, sir?

**Pravin Herlekar:** Raw material cost, we have been particularly referring to iodine cost only because the iodine price at the beginning of FY14 that is March'13 it was at \$80 per Kg and then the price had started declining and from \$80 it came to \$40 by March'14 and from \$40 as of now it is around \$32.

**Partha C.:** Okay, sure and sir, what about your overall capacity utilization and the capacity utilization unit 6 in Chiplun?

**Pravin Herlekar:** Yeah, see capacity utilization, our units are operating at an average utilization of over 80% to 85% levels. Our unit 6 in Chiplun has already started operations in the last quarter and that has started generating revenues for us. In fact that is the reason why our sales have gone up during this quarter and they are expected to grow like this only. Our unit 5 in Chiplun is almost ready and we are awaiting consent from the environmental department which also should happen in a couple of months' time. So after that even unit 6 will start operating.

**Partha C.:** Okay sir and one more thing sir, can you just give me the breakup of the domestic and the exports for this quarter?

**Pravin Herlekar:** Domestic sales and exports?

**Partha C.:** Yes, sir.

**Pravin Herlekar:** Okay, domestic sales were 70% and exports were 30%.

**Partha C.:** Okay, thank you very much, sir, that's it from me.

**Moderator:** Thank you, sir. Ladies and gentlemen, if you have any questions please press \* and 1 on your telephone keypad.

**Kshitij C. Prasad:** Sir, this is a question from Kshitij from BOB Capital Markets.

**Pravin Herlekar:** Yes, please.

**Kshitij C. Prasad:** Sir, just wanted to have a sense on the expansion which you are doing and the expansions, is it that you will be able to complete it by March 2015 and going forward say in the next what exactly, you can see the EBITDA margin about 18%, going forward and with no other expansion, what margins you are looking at given the pricing as far as the iodine is concerned?

**Pravin Herlekar:** First of all about the expansions, we have two expansions currently going on, one is our unit 5 in Chiplun which is, as far as the project is concerned we are almost ready, maybe you can say 90% of it is ready and then we are awaiting some consent from the environmental department. Now because of elections in the states and then other issues this has been postponed and maybe we are expecting this to come through by January or so, so by that time this project should be started. Second expansion is going on in our API facility in our wholly owned subsidiary Lasa Laboratory, where the existing capacity of 100 metric tons per annum is getting enhanced to 600 metric tons, for which we have already completed scheduled works, that is the building and the equipments erection and the since it is a FDI facility, we have to have clean rooms and other requirements as per FDI directives, so that work is in progress. Maybe by next quarter, before March it should be ready. That is about the expansions. Then about the margins what you want to know, I have already answered it in my earlier, speech. What is expected is since the capacity is getting enhanced there will be more revenues coming in, so our cost particularly employee cost etc., which had increased during the last year and current year will get averaged out and proportionately our bottom line should increase. Secondly, because of the integrations which are happening, like some of the raw materials we are producing in-house, the cost of production will further go down, that will add to the margins. So we are quite confident of maintaining, not only maintaining, but improving on the EBITDA which is currently at about 18% to 19%, it should go up to about 20% and further up, in another couple of years it could go to about 21%, 22%.

**Kshitij C. Prasad:** Thank you, sir.

**Moderator:** Thank you, sir. Ladies and gentlemen, if you have any questions please press \* and 1 on your telephone keypad. Ladies and gentlemen, if you have any questions please press \* and 1 on your telephone keypad. There are no further questions. Now I hand over the floor to Dr. Kshitij C. Prasad from BOB Capital Markets Limited for closing comments, please go ahead, sir.

**Kshitij C. Prasad:** Thanks everyone for your insightful questions. I particularly thank Mr. Pravin Herlekar, CMD, Omkar Speciality Chemicals, Mr. Siddharth Sinkar, Non-Executive Director and Mr. Nirav Momaya, Company Secretary for participating in the second quarter FY15 conference call. We look forward to talking to you again, sir. Have a good evening.

**Pravin Herlekar:** Thank you, doctor, bye-bye.

**Moderator:** Thank you, sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's Conference Call Service. You may disconnect your lines now, thank you and have a good evening everyone.

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**Note:**

- 1. This document has been edited to improve readability.
- 2. Blanks in this transcript represent inaudible or incomprehensible words.