



“Omkar Speciality Chemicals Limited Q3FY16 Earnings Conference Call”

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MANAGEMENT: **MR. PRAVIN HERLEKAR – CHAIRMAN & MANAGING DIRECTOR**
 OR. OMKAR HERLEKAR – WHOLE TIME DIRECTOR
 MR. PRAVIN AGRAWAL – CHIEF FINANCIAL OFFICER
 MR. HIRAL PATEL – CHIEF OPERATIONAL OFFICER
 STELLAR IR ADVISORS – INVESTOR RELATIONS ADVISOR



Moderator: Ladies and Gentlemen, Good Day and Welcome to the Omkar Speciality Chemicals Limited Q3FY16 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for 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 Dr. Omkar Herlekar -- Whole Time Director. Thank you and over to you, sir.

O r. Omkar Herlekar: Thank You and Good Evening, Friends. I have with me Mr. Pravin Herlekar – Chairman and Managing Director; Mr. Pravin Agrawal -- CFO and Stellar Investor Relations, our advisors for investor relations. Also, we have our Chief Operational Officer Mr. Hiral Patel with me. We would like to welcome you all on behalf of Omkar Speciality Chemicals to the Third Quarter Financial Results Earnings Conference Call. We have uploaded the „Results Presentation“ on our website and hope you have received the „Results Presentation“ for the quarter.

To start with, I will like to apologize for the delay and postponing this conference call. As you have been aware, we have received our environment clearance for our API manufacturing Unit #5 in Chiplun after nearly two years. We have been at this Chiplun facility along with our entire projects team overlooking the setting up of the production facility ASAP. We are committed to start this facility in time and had to postpone the call since I was not in town. I sincerely regret for the inconvenience caused to all. This EC for our API manufacturing facility Unit #5 in Chiplun will help our company to establish itself amongst one of the leading global API manufacturers. The projected capacity for this Unit is 4500 tons and we are looking to start the production from the first quarter of the next financial year. In the first phase, the unit will be manufacturing Vitamin C and Folic Acid. These products have significant growth opportunities and healthy margins.

We are committed towards managing working capital cycle. Net working capital as of December 2015 is 94 days as compared to the 101 days in September 2015 and 143 days as on March 2015. We are confident over our business growth and believe traction in sales to continue with steady improvement in the capacity utilization.

Now, I will hand over the call to Mr. Pravin Agrawal who will share the „Financial Details“ with you. Thanks a lot.

Pravin Agrawal: Hi! Good Evening, Everyone. This is Pravin Agrawal. Thank you, Dr. Omkar. On consolidated basis, the company reported revenue of Rs.108 crores in Q3 for the current financial year ending 31st March 2016, a year-on-year growth comes to around 53% compared to corresponding quarter in the previous year.

Revenue for nine months of financial year 2016 stands at Rs.300 crores, registering a growth of over 50% year-on-year as against Rs.191 crores in the previous year's nine months' period.



Revenue breakup for Third Quarter FY16 is as follows: Iodine Derivatives contributed Rs.25 crores which is 23% of the total revenue. Intermediate segment contributed Rs.40 crores which was 37% of the total revenue. API segment contributed Rs.39 crores which is 36% and Selenium Derivatives and Resolving Agents contributed balance 4%.

Revenue breakup for the Nine Months Financial Year 2016 is as under: Iodine Derivatives contributed Rs.65 crores which is 22% of the total revenue. Intermediates segment contributed Rs.124 crores which was 41% of the revenue. API segment contributed Rs.97 crores of the total revenue which was 32% of the revenue and Selenium Derivatives and Resolving Agents contributed the balance of 5%. Exports contributed 4% of the revenue in Third Quarter FY16 and 16% in nine months' period.

EBITDA was at Rs.18 crores in Q3 of Financial Year 2016 as against Rs.16 crores in Q3 in the previous financial year, a year-on-year growth at 8.8%. For nine months Financial Year 2016 EBITDA grew by nearly 39% year-on-year to Rs.53 crores. EBITDA margin was impacted during the quarter due to higher raw material cost on account of increase in inventory cost contributed with lower sales realization particularly in the Iodine segment.

We also witnessed FOREX impact on raw material prices which was earlier mitigated by higher exports as a process of natural hedging.

Our company reported net profit at Rs.9 crores in Q3, year-on-year growth of 26% as compared to corresponding previous period. Net profit is at Rs.27 crores in the nine months period-ended December 31st which grew significantly by 41% year-on-year basis.

We would now like to welcome questions from you all. Thank you so much.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Siddharth Bhattacharya from Suyash Advisors. Please go ahead.

S Bhattacharya: I have a couple of questions. I just wanted to understand, you said EBITDA was impacted due to the higher raw material cost during the quarter. So what are our key raw material components and...?

O r. Omkar Herlekar: As regards to our raw materials, Iodine is our main raw material from the Iodine segment and the cost impacted because Iodine in the last quarter had slid down from \$27 to \$23, that is around \$4 Iodine came down in the price on absolute terms. So whatever Iodine was booked at the ending of Q2 we used in Q3, we had a hit of around \$4 over there. Because of that on percentage terms it was coming to around 8% to 10% of hit we got in Iodine pricing. Simultaneously, the ending of Q2, the value of dollar was around Rs.65, which steeply went up to Rs.69 today as you know. Because of that it was a mix and blend of all the reasons the EBITDA level suffered or else this would have never happened, it is very unlikely to happen unless otherwise the dollar is fluctuating or any key raw material is getting slid down. As you



know we are defocusing on the Iodine segment even though Iodine segment is growing on its own to a very good extent, but our focus area is Intermediates basically which is giving us very good EBITDA levels over there as well as APIs also, which is giving us very good EBITDA level. But since Iodine is there in our basket last quarter we suffered because of the Iodine prices coming down.

S Bhattacharya: So basically for the API and Intermediates segment, there would be minimal amount of Iodine that is used, right, so as we...?

Mr. Omkar Herlekar: There is almost no Iodine used for that.

S Bhattacharya: Sir, looking at the FOREX volatility now, what is the kind of policy that we have in place for hedging or have we thought about ...?

Mr. Omkar Herlekar: Basically we get all naturally hedged or else otherwise we are net exporters, so otherwise also we get naturally hedged. But you must be knowing that Europe is always closed during the November-December period because of the Christmas and all. This trend is followed since last several years. Usually if you find our sales for the last several years also, November and December exports sale is very less as compared to the domestic sales because of the closure and all. Because of that November-December always has a toll on exports and this was catalyzed by the hike in the dollar price. That was very unlikely but every year it does not happen, this year it happened because of the same reasons, the export also came down the dollar also went up. That was the mix and match reasons because of which the EBITDA suffered.

S Bhattacharya: So what was the quantum of hit that we took?

Pravin Agrawal: The quantum impact was around 3-3.5% on the total inventory cost.

S Bhattacharya: If you could quantify the numbers?

Mr. Omkar Herlekar: On an absolute term if you see our blended EBITDA it is to the extent of 19% and if you go to see the EBITDA this Q3 it is just 17%. So EBITDA came down by 2% on a blended basis. The dollar has only gone 5% up. The impact of dollar on the currency is 5%, yet our EBITDA is less by only 2%. So it is not really a big alarming thing as such which we feel which will be recovered in the subsequent quarters. Basically, the business model and the product model is such that all the products are in the range of 18-19% EBITDA. It is not a matter of concern or worry because the economy has behaved in that way.

S Bhattacharya: My next question is I just wanted to understand that now that the Chiplun plant is on stream. What is the kind of scale up that we can see especially in the first phase from Vitamin C and Folic Acid?



Mr. Omkar Herlekar: We will be starting this unit somewhere in the first quarter of FY17 and then the scale up will be happening gradually, the 100% utilization would not be seen immediately because in the first quarter we may utilize approximately around 10% to 15% of the capacity because they require a thing called as plant warm-up; the plant should get acclimatized to the products, people should get acclimatized to the situations and how the plant is working and also the first quarter you should not expect any magic figures, second quarter onwards it will start showing positive signs of the sales as well as the plant will be pampered very nicely accordingly. You can expect some good results from the second quarter of FY17.

S Bhattacharya: In terms of demand, have we sort of spoken to customers how will business progress in this particular?

Mr. Omkar Herlekar: Basically we go into only those products which are demand-driven. So if there is a demand/supply gap we first identify whether the product is having demand/supply gap or not. If we see that there is a demand/supply gap then only we put our efforts into development of the product and proceed ahead accordingly. Vitamin C is such a big market, practically vitamin C is used by all the pharmaceutical multivitamin players, by all the foods and beverages, tin beverages, there are many, it is having a vast market. Apart from that Vitamin C also finds its application as a preservative in many of the foods. Vitamin C market is very big. Sky is the beginning I will say to sell Vitamin C. Only thing is that we should be a proper costing level which I am confident that we are best in the costing as far as the raw material cost. The gross profit levels are pretty fairly great. We are envisaging EBITDA of again around 18% to 19% in this based on the pilot plant trials which we have done for this product and we have done the test marketing also for this product. We are fairly confident for running of the show for Vitamin C and Folic Acid.

S Bhattacharya: In terms of our existing customers in the Intermediates and API segments, what is the kind of demand that we are seeing now?

Mr. Omkar Herlekar: As you must be knowing, this Intermediates are derived out of the suggestions by the customers only, so big customers like Glaxo, Gilead Life and Abbott Laboratories and all these people who are the innovator companies, these people suggest the Intermediates for their Phase-III clinical trial products and as soon as their products grow, automatically our products start growing. So that way we have tied up with companies like Abbott, Gilead Life, Johnson & Johnson and BASF. We are in tie up with all these companies and their orders come in very frequently. We have a tentative order book for a year that how much they are going to pick-up. That gives us the confidence to speak out that how much business we are going to do in the Intermediates. On API side basically all these are Super Generic APIs. There is a difference between Generics and Super Generics, please understand. Super Generics are costly products, like products which are above Rs.1500-2000/Kg yet moving in huge quantities like several 100 tons and all. Generics are those products which are very old and very commodity-driven but Super Generics are different products. We are into Super Generics like Albendazole, Fenbendazole and mainly other products like Halphenol and there are 11-12 products which



we are making in APIs. These are basically all demand-driven products. We again stand by this we only do products which are differently done. We do not do “me too” kind of a game show. Some of the peers are doing it by Process-A we are deploying Process-B and this Process-B is basically catalytically driven process for which we have patents. We are extremely confident in our entire chemistry model. So that is all.

S Bhattacharya: If you could help me with the order book or the tentative order book that you have currently in the Intermediates segment, what...?

Mr. Omkar Herlekar: There is no term like order book. We have a quarterly forecast given by the customers. Orders go on flowing subsequently. Once the forecast is given there is no default over the forecast because these are all good MNCs and these are working with other people also in a similar fashion. Usually, we have a quarterly forecast. That is the guidance we have for every quarter that how much they are going to buy from us. Usually, the guidance is equal to whatever top line we are doing. You may see around 10 to 15% variance here and there. That is it.

S Bhattacharya: What is our conversion cycle in terms of the manufacturing time required?

Mr. Omkar Herlekar: Different products demand different conversion times, the worst conversion time is around 15 days, the best conversion time is one day. These are different products. For some of the products which are very easy to make even we can make it in 24-hours, for some products which are very difficult like Fenbendazole it is around 17 days to make. If you ask what is the blended time for the conversion, if you take the weighted average it may come to around one week.

Moderator: Thank you. The next question is from the line of Abhijit Avalekar who is an individual investor. Please go ahead.

Abhijit Avalekar: I just want to know the new activities that have happened in patents. Are there any?

Mr. Omkar Herlekar: The patent department is a very dynamic department. If you ask me what are the new patents filed, I would like to answer that in the last six months we have not filed any patent as such because you cannot go on filing unlimited patents as long as there is some reason to file it, we can file a patent if at all we have got some really new idea or else idea which can be copied very easily, if you ask me in the last six months there is no filing of patents, but if you ask me what is the status of the existing filed patents, then there is FER, the First Examination Report is published for three of our patents and these three patents are under the scrutiny by the patent officer, the patent general they call, so it is under scrutiny, our advocate has already gone for the hearing and they have convinced the First Examination Report and we are expecting the grant of the patent any time.

Abhijit Avalekar: Regarding European DMF, are those old or new one?

Mr. Omkar Herlekar: Whatever DMFs are filed those are all old DMFs.



- Moderator:** Thank you. The next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities. Please go ahead.
- Jayesh Gandhi:** Can you give me EBITDA margin separately for Iodine Intermediates products API and Selenium?
- Mr. Omkar Herlekar:** This is for Q3, I will be talking in percentages only, 21.5% will be APIs, Intermediates will be 14.7% out of the total top line, Iodine Derivatives will be 9.7%, Resolving Agents will be 17%, Selenium Derivatives will be 16% and the approximate all the blended is coming to around 17%.
- Jayesh Gandhi:** If you can share margin which you will propose in that Vitamin C which you are going to sell now?
- Mr. Omkar Herlekar:** As I just mentioned a few minutes back, it will be around 18 to 20% only.
- Jayesh Gandhi:** What is the working capital cycle in number of days now?
- Mr. Omkar Herlekar:** It is 94.
- Jayesh Gandhi:** Our planning was to bring it down to 75-days in...?
- Mr. Omkar Herlekar:** It was never our aspiration, we have always given a guidance of 90 days which will be coming in our next quarter. If you go to see the entire industry segment, if you compare any Speciality Chemicals or API with peers, the best peers which are available in the market you will see that ours is the best.
- Jayesh Gandhi:** I was referring to your „Analyst Meet“ somewhere in August wherein you had said that probably your working capital cycle will come down drastically because of the availability of Iodine?
- Mr. Omkar Herlekar:** When we conducted the „Analyst Meet“ in the month of August, my working capital cycle was 141 days and from 141 days we have come down to 95 days which is on absolute terms it is a phenomenal decrease in the number of days. Hereafter, if you go to see the practicality of the business because many of the raw materials are import-dependent, many of the raw materials need to be piled up. Logically, it is not possible to bring it down to 90-days but yet we will try, there are ways and means, nothing is impossible as such, we will try our level best because it is in the interest of my own company, bringing down the working capital days will give me benefit over the debt also. So we are planning very much aggressively to bring it down and cripple it down. Let us see, I hope so may be in the results of Q4 you may find a good number over there.
- Jayesh Gandhi:** Foreign suppliers as you said probably setting up warehouse in Nhava Sheva and Mumbai itself. Are we getting it from there or still we are importing from?



Mr. Omkar Herlekar: Definitely, we are getting it from Nhava Sheva only. That is the reason why my working capital cycle has come down. That is one of the reasons. The second reason is that our recovery period has become drastically improved. Earlier, we used to get long recovery days, but now most of the products which are non-commoditized products, you may say specialized products, we are taking advance payments and we are not extending any credits to even good companies, the known companies, I do not like to take the names of anybody, but even the good names and the good brands also we are asking for at least 30 days LCs or committed payment cycle. That is the reason why we are able to bring down our working capital and of course people are adhering to this that even though we are asking for it because of our pricing also. Since we have specialized processes automatically our cost on raw material is low than that of the peers and because of that we are able to pass on the better pricing to the customers. So that is the reason why we are getting the orders also.

Jayesh Gandhi: One question on your debt level. Is there any CAPEX that you are planning in next 2-years now?

Mr. Omkar Herlekar: Not really, we would not be planning big CAPEX, debottlenecking CAPEX and whatever CAPEX is required to capitalize the capital work-in progress that much of CAPEX is only required, but that is somewhere around Rs.10 to 12 crores only, so that would not be a very huge CAPEX as such. Our existing CAPEX which is done will be taking care of our entire growth rate which we are posting right now. For the next two years at least we would not require major CAPEX unless otherwise there is an acquisition or something which is unforeseen or else which is really remunerative to the current company's this thing, there only the CAPEX might come, but in routine course CAPEX is not there.

Jayesh Gandhi: Can you throw light on your debt currently long-term and short-term?

Mr. Omkar Herlekar: It is Rs.205 crores on consolidated basis; long term is Rs.70 crores and Rs.134 crores is short term.

Jayesh Gandhi: I was looking at your finance cost which is annually something like Rs.15 or Rs.16 crores. Can you explain this in context of your long term debt and short term debt, I am not able to understand, it is less on interest cost I guess?

Mr. Omkar Herlekar: There is something missing, I do not think it is only Rs.15 crores, it is more.

Pravin Agrawal: Part of the working capital interest which is being used for capital WIP that is being capitalized. That is the reason it is proportionately less over here.

Jayesh Gandhi: Can you tell me that after this plant is ready, I do not think there will be anything which will be capitalized now, so what can be the interest cost then in that case from April 2016 onwards?

Pravin Agrawal: It will be around 12% average.



Jayesh Gandhi: Sir, your current pledge share status if you can share?

Mr. Omkar Herlekar: 23% of the total shares that have been pledged as of January 2016.

Moderator: Thank you. The next question is from the line of Kushal Rugani from IIFL. Please go ahead.

Kushal Rugani: My question was pertaining to as you previously mentioned about FOREX impact and all. So given the FOREX fluctuations prevail, what kind of FOREX impact we will see in the coming quarters – would it continue going forward?

Mr. Omkar Herlekar: FOREX impact would not be continuing because of our exports which came down because of the shut down of Europe in November and December happened, the orders we are usually naturally hedged. Since we are net exporters we can say in this way we are always covered for our dollar risk because we are net exporters.

Kushal Rugani: Q3 remains exceptionally quarter...?

Mr. Omkar Herlekar: This was a funny quarter I must say because the dollar unexpectedly went up, you have seen how much it has gone up. That is number one. Number two, Iodine steeply came down, for the last two years iodine was very stable at \$27-28 that was the rate of Iodine and since there are a lot of mining activities going on in Latin America and there are a lot of internal competition in the mine owners over there, so because of that Iodine is coming down steeply, it came down from \$28 to \$23 in this month. These are the only two reasons of the low EBITDA. Since even the Iodine slid down around \$4-5 yet were able to maintain our EBITDA. That is one of the very promising things and one of the very difficult tasks we have achieved and we are very confident about that. In future also if anything of such sort happens then we will be very confident. I told to all our investors in the past also, we are having association with all the suppliers of Iodine since very long time. If there is a dollar fluctuation they cannot do anything, they are helpless. But if there is effect of the pricing then because of the longstanding relations they help us to average out the price of the purchase. That also does not impact us very badly that way.

Kushal Rugani: As you have mentioned like you would be focusing Iodine segment as such, in this year only we will see 20% revenue degrowth. So what kind of revenue forecast we should assume for...?

Mr. Omkar Herlekar: I may talk about the next two years at least you will see something like 20% to 25% will be contribution from Iodine Derivatives to the overall revenues.

Kushal Rugani: Which is actually a very less margin?

Mr. Omkar Herlekar: That is the reason why we are defocusing and we will be focusing more on Intermediates, Resolving Agents is also growing very steeply. These will be the two areas where we will be focusing. Specialty Intermediates are really good products to focus on and as you know even the Veterinary APIs which we are having definitely are very promising products.



- Kushal Rugani:** As you said that plant has got environment clearance, and Q2 onwards that facility will be giving revenues to the company. So what kind of impact we will see in the financials?
- Mr. Omkar Herlekar:** We are giving guidance of around 25% year-on-year growth in Pharma Intermediates as well as APIs, I am talking consolidated of all the segments. Segment wise if you want we can discuss it separately.
- Moderator:** Thank you. The next question is a follow up question from the line of Siddharth Bhattacharya from Suyash Advisors. Please go ahead.
- S Bhattacharya:** A couple of more questions from my side; basically our Intermediates segment do the facilities need to be inspected and approved by FDA and other regulators?
- Mr. Omkar Herlekar:** For the Intermediates segment the facilities are authorized and audited by all the innovator companies like Gilead, Novartis and all these people. All of our facilities are complying all their requirements. That is number one. Number two, for our APIs, yes, our regulatory authorities like local FDA or else WHO or else you might even say TGA or these are the different authorities we are liable to get audited by them and liable to qualify the audit also. So we have to maintain all the documentations very strictly with all the SOPs, all the batch manufacturing records and so on. This is the status of all the regulatory requirements for different agencies as well as different customers.
- S Bhattacharya:** Sir, my second question is that we have been sort of reading a lot of media reports saying that there is some sort of acquisition on the horizon. So if you could sort of help us understand that scenario better, are we looking to acquire any company?
- Mr. Omkar Herlekar:** We are not really looking to acquire anything immediately. Yes, there is something going on in the mind or there is a thought process going on with our internal team, as I told you last time we will be aggressively looking out for acquisition in the Formulations space and that is what we really looking on for. So if we are able to identify such a good kind of acquisition, we may come out, but there is nothing on the table as of now.
- Moderator:** Thank you. The next question is again a follow up question from the line of Abhijit Avalekar who is an individual investor. Please go ahead.
- Abhijit Avalekar:** I want to know about your warehouse project and its progress in Europe?
- Mr. Omkar Herlekar:** Currently, we have not owned any warehouse over there, we were thinking of owning, but then we thought if we can lease out a warehouse and then facilitate it by way of some of the third-party logistics it would be great because owning up a warehouse and establishing a logistics team over there is pretty expensive as you know. That is the reason why we have given the shop to a third-party logistic people who are very swiftly and very efficiently handling our processes and vis-à-vis the cost which we are incurring in this particular thing vis-à-vis what we would have incurred otherwise is significantly lower.



Moderator: Thank you. The next question is a follow up question from the line of Pragya Vishwakarma from Edelweiss. Please go ahead.

P Vishwakarma: I just wanted to know the status of TGA approval like has this been granted or...?

Mr. Omkar Herlekar: TGA approval will take time. Last time also I said and I maintain the same thing. By April or May we may get the TGA approval. TGA approval is in the process. Whatever documentation is required, whatever dossiers need to be filed, whatever samples need to be approved all these things are in process and their final audit we are expecting in the month of April.

Moderator: As there are no further questions, I now hand the conference over to Dr. Omkar Herlekar for closing remarks. Over to you.

Mr. Omkar Herlekar: My Dear Friends, thank you for your participation. Wish you a Great Evening.

Moderator: Thank you very much members of the management. Ladies and Gentlemen, on behalf of Omkar Speciality Chemicals that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.