



“Omkar Specialty Chemicals Limited Earnings Conference Call”

May 20, 2014



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Moderator: Ladies and gentlemen good day and welcome to the Q4FY14 Earnings Conference Call of Omkar Specialty 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 and Compliance Officer. Thank you and over to you sir.

Nirav Momaya: Good afternoon everybody. This is Nirav Momaya from Omkar Specialty Chemicals Limited. We have Mr. Pravin Herlekar – Chairman & Managing Director of the company along with us and Mr. Siddharth Sinkar – Director of the company. I would like to give it to Siddharth sir to take it ahead on the conference. Thank you.

Siddharth Sinkar: Good afternoon everyone. I welcome everyone on this con-call to discuss the results of the annual performance of this company as well as quarter 4 performance. In the beginning, I will just go through the annual performance of the company on a consol basis.

On a consolidated basis – the company achieved a turnover of about 240 crores in this current financial year. The corresponding sales for the last year was 211 crores. This increase in the turnover has been mainly contributed by our API unit which is Lasa Laboratories Private Limited which is a 100% subsidiary of Omkar Specialty Chemicals Limited. We have achieved a turnover of about 34 crores in the current financial year and the turnover of this company was hardly 11 crores in the immediately preceding year. Then on a standalone basis, Omkar achieved a turnover of about 209 crores. Lasa achieved 34 crores. Our another 100% subsidiary Urdhwa achieved 21 crores. On a consol basis, the company achieved 240 crores.

On a standalone basis – Last year's performance of Omkar was about 201 crores vis-à-vis this year the company has achieved 209 crores. One factor which has contributed to the non-significant growth in the turnover for Omkar Specialty Chemicals Limited is that majority of our turnover comprises of sale of Iodine derivatives and prices of Iodine have dropped in significantly during the present financial year. Last year, the prices of Iodine was about \$70 a kg. Now in the current year the average price was around \$40 a kg. Due to this, the turnover of the company has not yet increased, even though the company has been able to achieve a sizable increase in the quantities sold in this segment.

To explain in details – The company in terms of sale of Iodine derivatives, the total sales achieved by the company during this financial year was 250 metric tonnes. The same was less than 200 metric tonnes in the last year. Actually this has not resulted in the top-line and that is mainly because of fall in the Iodine prices; however, still the company was able to show a



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marginal increase in spite of this fall in the Iodine prices and our turnover has increased marginally from 201 crores to 209 crores.

Again going to figures on a consol basis – our EBITDA margin for the current financial year or EBITDA in absolute numbers on consol basis stood at 43 crores whereas our EBITDA for the last financial year was 40 crores. The total depreciation that is noncash expense in the current year is 12 crores which was 6.68 crores in the last year. This is mainly on the account that our 100% subsidiary Urdhwa Chemicals which began with the production in the last quarter of the last financial year. There was depreciation only for one quarter in the last year whereas this year we have provided for the full depreciation. Then on finance charges front, the finance charges for the last year was 7.52 crores. This has gone from 7 crores to 14 crores in the current year. This is mainly on account of the fact that the company during the whole year has used funded INR only because last year we were using FCNR (B) loans in working capital, short-term loans. The interest was as low as 4% to 6% whereas average cost of funds during this year because we have not used those funds about 11%. This is mainly because the dollar has appreciated significantly and hence the company has not gone to use those funds.

On a profitability front – the company achieved total profit before tax of 19.70 crores on a tax expense of about 6.17 crores. Our PAT amount to 13.56 crores. On exports front, the total export achieved by the company during this financial year was 62.12 crores vis-à-vis 59.76 crores in the last financial year. Then discussing the compound wise sales, Iodine derivatives constituted the majority of our sales and 51% of the total sales was achieved through sale of Iodine Derivatives, other intermediates contributed 21%, 14% of our total turnover amounted was contributed by APIs, 9% by Selenium Derivatives, and 4% by Resolving Agents.

Going to the gross margins – this year our gross margin stood at about 22%. Our EBITDA ratio on a consol basis stood at 19.52%. Our EPS was about Rs. 7.44 per share.

Discussing the borrowings of the company – The total borrowings on a consolidated basis as of 31st March 2014 amounted to 191.28 crores. Out of which, 65 crores is the long-term borrowing and 126 crores is the short-term borrowing, they are working capital loans.

On fixed asset fronts – the total assets of the company on a consol basis as of 31st March amounted to 187 crores. Out of which, we have a CWIP of 96.58 crores. So this CWIP mainly represented by the large unit, unit no. 5 which we may be starting in this financial year and the expansion which we are conducting at our wholly-owned subsidiary Lasa for API products. So I think I have gone through the financial performance of the company for this financial year. Now if any questions are there, we would like to go for the same.



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Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan Padmanabhan: See despite of strong sales growth in the fourth quarter and probably strong volume growth for the full year, there are two things. Number one, the sales growth is not reflecting on the actual sales side, the realization side as well as the gross margins have taken a big hit. You did mention a bit about Iodine, but if you can actually tell us what is exactly causing this kind of a drop in terms of prices globally. What do we see, do we see some kind of a recovery in the near term and basically how do we see the prospects in terms of utilization of assets because we are increasing our capacities and at what point of time, do we see the assets getting utilized on optimum level to drive the operating leverage. Thank you.

Pravin Herlekar: I am Pravin Herlekar here, CMD. I would like to address this question. First of all, this drop in the Iodine price, I would like to explain that last year we had a consumption level of Iodine to the tune of 200 metric tonnes whereas in this particular year, we have almost consumed 250 metric tonnes. So quantity wise, there is no drop. In fact the tonnage has increased, but the prices have dropped by almost 40% from a level of about \$78 a kg to \$40 a kg. Now this drop was expected because earlier the Iodine prices were in the range of about \$30. This is about 3-year-old story and they were quite stable in that level, but then there was Tsunami and earthquake in Japan and the Japanese supplies got affected. So the Chilean manufacturers took advantage of this fact and then they jack up the prices from \$30 and then it went to 40, 60 and 70 and that crossed even \$70 also, but then now the supplies of Iodine has been improving since Japanese supplies have also started and there is a pressure on the producers liquidate the stocks. So the prices started coming down gradually and from 70 level, it came to 40 level and we expect that it might come down by another about \$4 to \$5 at the most, but it will get stabilized at that level because now it is not going down as past at it was happening during the year earlier. So it should stabilize at about couple of dollars less than what it is today. So henceforth, we do not see any further decline and there will be a stability, but as far as tonnage is concerned, we have already produced more tonnage and if supposing that would have been done at the same price of 70, we would have passed the gross turnover of 300 crores in this year and that was our target actually, 320 was our target, but then we could have crossed 300 very easily if the prices had been at the same level, but then the rate dropped, so we came down. The second part was capacity utilization right? Now as far as the capacities are concerned, all our plants are operating at near about 85% capacity and there is no idling of capacity in any of our units. The only fact was this year we wanted to start one of our units in Chiplun during Q3 which got delayed by about a quarter and we could start it up towards the end of Q4 and that probably has laid us to some shortfall in the capacity, otherwise it would have added somewhere about 25-30 crores of top-line in the last year which now has started and even that unit is also operating at about 85% level as of now and additional capacities are



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coming up in this year. Most of our CAPEX is already done and whatever CAPEX has been done, those capacities are getting ready during this entire year progressively. Something will start in this quarter, some other capacity will start by second quarter, some other capacity will get ready by Q3. So progressively the new capacities are getting added without much of a CAPEX being done. So this year we should be able to get still better performance out of those capacities. Is it clear?

Sudarshan Padmanabhan: Yes definitely and how much is the internal capacities that are going to add in terms of how much would it add in terms of capacities for you percentage?

Pravin Herlekar: It is again our capacities are getting added you are asking?

Sudarshan Padmanabhan: Yes, how much would be the incremental capacity in proportion to your existing capacity?

Pravin Herlekar: You are right. Our existing capacities stand at 4,500 metric tonnes, but then when I say capacity, it is the volume at the capacity of the reactors in each unit. It is aggregate volume of all the reactors put together. So that does not mean that it will tally with the tonnage of production. I think I can explain it to you in one-on-one meeting, but then it is difficult to explain in general, but the capacity is volume actually and tonnage of production will be different. So 4,500 is the volume at the capacity as of now and additional 4,500 is getting added progressively in this year quarter-on-quarter.

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

Abhijit Akella: Actually just on the previous question, you had mentioned about the drop in the realizations, but I could not exactly follow reason for the drop in gross margins. So I am not sure exactly if you alluded to that, but if you could just talk a little bit about what is causing the margin pressure that we have seen last year?

Pravin Herlekar: Gross margins, of course there has been a drop in the gross margins and as Mr. Siddharth had explained in the earlier opening dialogue, mainly our other costs, operating costs like employee cost has gone up, depreciation has gone up, interest factor has gone up, finance cost has gone up, and he has already explained the reasons for that. So all these things have now contributed to the drop in margins.

Abhijit Akella: So as far as the raw material....

Pravin Herlekar: I will explain how, what has happened, why this thing costs are gone up.

Abhijit Akella: Sure. That will be helpful sir, yes please.



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Pravin Herlekar: Now on the finance cost, we used to work on foreign currency loan, FCNR (B) from Bank of Baroda. Now during last year as everybody is aware, there was lot of volatility in dollar and dollar was going up and then the finance cost and even my hedging cost in particular was going up. So we decide, we took a call to not to work on foreign currency loans, but to work on INR only and the foreign currency loan is to be available to us at about 6% whereas now INR cost is something like 11% on an average. So that has increased our finance cost number one. Number two, our employee cost has gone up that is because we have lot of projects coming up, some capacities are getting launched. So we have recruited people for various operations at different levels so that has increased our employee cost and third thing is depreciation which has gone up that is because our major facility in the subsidiary Urdhwa Chemicals that was launched in the previous year and only depreciation for one quarter was accounted for, but during the last year the major depreciation has come into effect and that has also contributed to the additional expense. So these are the three things which have given a rate to the margins.

Abhijit Akella: Right, got it sir and also just looking at the raw material cost itself as a percentage of the revenue that also seems to have gone up slightly by a couple of 2%-2.5% points year-over-year.

Pravin Herlekar: I think Siddharth will explain this.

Siddharth Sinkar: This total cost of material consumed which as you rightly said that it has gone up by 2%-2.5% because ultimately what is our turnover, turnover is the mix of various products and whatever turnover is achieved of those products, so depending on that this material consumption costs vary. So since we have a basket of about 100 odd products, so the cost of material consumed varies from few of the products as high as may be 75% or 80% whereas some products it is as low as 45% to 50% as well. So on an average, our endeavor is to achieve material consumption ratio between 65% and 70%. So in this particular financial year, we have achieved 67%. It will always vary, it will never stick at 65%. I think our always aim is to sell those products which have got higher margins, but then depending on the market situation we have to go away and then whatever has been achieved, those products whatever gets sold during this particular financial year.

Abhijit Akella: So just with regard to the outlook for the next year, now how would you expect the, I guess the product mix to shift going forward and also what your expectations would be in terms of the ramp up in revenues and possibly in terms of the better absorption of interest cost and depreciation and all that?

Pravin Herlekar: Now as far as the current year is concerned, we are much better equipped compared to last year because some new capacities are getting launched and they will be commissioned, may be progressively in each quarter that is point number one. Point number two is we have already developed number of new products which have been already test marketed and we are just



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awaiting its capacities to get started. So that will contribute to additional revenues coming in that is secondly and thirdly, the most important thing is we are now expanding our geographical territories for exports. Earlier we used to export mainly to European countries and now the territories are getting expanded to US, Latin America, Asian countries, Australia, New Zealand, and South Africa. So these are other openings which we have already tapped. We have already started marketing and we are penetrating into these markets and we are getting really overwhelming response. Lastly, our API segment has also grown and we will be expanding on those API products which again are premium products for us. So they will help us in building up margins and of course will contribute to the top-line. So in overall, we expect that this year we should be growing 35%-40% that is the number on that we estimate.

Abhijit Akella: Just one last question before I go back. Just any comments on the impact of the recent strength in the rupee, whether in terms of the foreign currency borrowings that we have left. Do we still have any foreign currency borrowings left?

Pravin Herlekar: We have ECBs for our Chiplun plant as well as for the parent company, Omkar Specialty.

Siddharth Sinkar: About 37 crores from Bank of Baroda in Omkar and 18.5 crores from Citi Bank for Urdhwa.

Pravin Herlekar: So close to about 55 crores is our exposure to ECBs and most of it is was we got it at dollar level of about 54 and now dollar had appreciated and today again it has started coming down. So of course we expect that it will help us in limiting our liabilities.

Moderator: Thank you. The next question is from the line of Sayan Das from Crisil. Please go ahead.

Sayan Das: Sir just couple of questions. First of all on an annual basis, what was the sales in the pharmaceutical division as well as the specialty chemical division if you could give me the breakup?

Pravin Herlekar: I can give you the percentage. API is 34 crores.

Siddharth Sinkar: API is 14% of the total turnover.

Pravin Herlekar: Out of our total 240 crores of top-line, API is 14% and intermediates is 35% and Iodine derivatives 51%.

Sayan Das: Sir my second question is on the debtors. So your debtors seem to have increased slightly on this quarter on a YoY basis. So is there pressure on the collection that you have seen in the domestic market?



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- Pravin Herlekar:** There is no pressure as such, but the trend what exists in the domestic market that continues as it is and that is the reason why we are focusing more on the exports now because exports, the payment realizations are much faster. Most of the time it is within 30 days, sometimes it is advance payment and that focusing more on exports. Generally we are trying to bring down the debtor level.
- Sayan Das:** Sir lastly what is the approximate CAPEX investment that you are going to make in FY15?
- Pravin Herlekar:** FY15 may be about 15 to 20 crores.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to the speakers for their closing comments.
- Pravin Herlekar:** Thank you very much for joining us on this conference. I will hand it over to Nirav for the concluding remarks.
- Nirav Momaya:** Thank you very much sir. On behalf of OSCL team, I would like to thank all the participants for joining in the con-call and hope we have given you all the satisfactory replies to the question and anybody still has any queries, then they can write it to us on the e-mail id we have given that is cs@omkarchemicals.com and we will try our best to revert to them at the earliest possible. Thank you very much ladies and gentlemen.
- Moderator:** Thank you very much members of the management. Ladies and gentlemen on behalf of Chorus Call that concludes this conference. Thank you for joining us and you may now disconnect your lines.