



OMKAR

Always the leaders

OMKAR SPECIALITY CHEMICALS LIMITED

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CIN : L24110MH2005PLC151589

Ref. No.: OSCL/SE/2016-17/027

Date: May 29, 2017

To,

Corporate Services Department
BSE LIMITED
P.J. Towers, 1st Floor, Dalal Street,
Mumbai – 400001.
BSE Code: 533317

Corporate Services Department
NATIONAL STOCK EXCHANGE OF INDIA LIMITED
Exchange Plaza, Bandra-Kurla Complex,
Bandra (E), Mumbai – 400051.
NSE Symbol: OMKARCHEM

Ref.: Transcript of Conference Call – Reg. 30.

Dear Sir / Madam,

In furtherance of our letter dated May 19, 2017, Ref.: No.: OSCL/SE/2017-18/020, we are enclosing Transcript of Q4 and H2 FY17 Earnings Conference Call held on Wednesday, May 24, 2017, at 04.00 p.m. to discuss Quarterly and yearly Financial Performance of the Company.

This is for your record and reference.

Thanking You,

Yours truly,

For **OMKAR SPECIALITY CHEMICALS LIMITED**

PRAVIN S.HERLEKAR
CHAIRMAN AND MANAGING DIRECTOR
DIN: 00525610



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“Omkar Specialty Chemicals Limited Q4 FY17 Earnings Conference Call”

May 24, 2017

**MANAGEMENT: MR. PRAVIN S. HERLEKAR - CHAIRMAN AND
MANAGING DIRECTOR, OMKAR SPECIALTY
CHEMICALS LIMITED.
MR. PRAVIN AGRAWAL - CFO, OMKAR SPECIALTY
CHEMICALS LIMITED.
MR. VAMAN ACHARYA - SENIOR FINANCE MANAGER,
OMKAR SPECIALTY CHEMICALS LIMITED.**



Moderator: Ladies and gentlemen, good day and welcome to the Omkar Specialty Chemicals Limited Q4 and FY17 Earnings Conference Call. 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 the conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pravin Agrawal - CFO, Omkar Specialty Chemicals Limited. Thank you, and over to you, sir.

Pravin Agrawal: Thank you. Good afternoon friends. I have with me Mr. Pravin Herlekar - our CMD, Mr. Vaman Acharya - Senior Finance Manager, and our Investor Relations team, Bridge Investor Relations.

On behalf of Omkar Specialty Chemicals, we would like to welcome you all to Q4 and FY17 earning conference call to discuss the audited financial results and operational performance for fourth quarter and full year ended FY17. We have uploaded the media release on the website and on the stock exchanges. Hope you have all had a chance to go through to it. Before we begin with the quarterly performance results followed by full yearly performance, I would like to state that the number for the quarter and the financial year FY17 are not comparable with the corresponding period last year. This is on account of merger of four wholly-owned subsidiary of OSCL and demerger of veterinary API business into Lasa Supergenerics Limited from Omkar Specialty Chemicals Limited.

I would also like to share with you that this quarter we have been extremely selective and prudent in doing business. We have received much higher demand than before. However, since we are focused on being conservative being given the working capital concern, we have consciously grown very modestly. However, we do expect that coming quarters to be brighter. We have added some new products line like chemicals for perfumes and fragrances, food and beverages, nutrients and of course, upcoming innovations in pharma sector. This will drive our growth and profitability significantly in next couple of years.

We are very happy that our consistent performance and focus on new and innovative products has been successful in helping us add more products and grow our business. This performance reflects the strength of the company, both on demand for its products as well as our timely execution capabilities of the team. All our business segments have contributed to this growth. Our better operating efficiencies enabled us to continue with better performance. We will continue to do more hard work that will not only bring us growth, but also increase our profitability.

Performance of Lasa Supergenerics Limited, the financial performance published by OSCL are the figures of standalone OSCL and the same do not have financial figures of Lasa Supergenerics Limited. The financial segments of Lasa Supergenerics Limited are still being audited by their statutory auditors and the management of Lasa will publish the audited financials of Lasa consisting of veterinary API division in due course of time.



Just for the information of the investors, we wish to inform you all that the business of Lasa has grown as per the trend in past. The unaudited provisional figures for year ended 31st March 2017 show a topline, that is sales of around 200 crores, up from around 136 crores during previous financial year and EBITDA works out to around 22%. The detailed financial numbers will be shared with all the investors once the audit of Lasa Supergenerics Limited is completed.

Scheme of arrangements, the much waited scheme of arrangement comprising of merger of four wholly-owned subsidiaries of OSCL with itself and then demerger of veterinary API division has finally been completed. We had received the order dated 13th April 2017 from NCLT and the same became effective from 2nd May 2017 on filing of the same with RoC by respective companies. The company has successfully completed its demerger process. With this there will be two different entities, Omkar Specialty Chemicals Limited, which will remain listed and Lasa Supergenerics Limited which will get listed at a later date. At the same time, we are moving smoothly with the procedure post our demerger process. We are waiting for final approval from SEBI and stock exchanges for fixing the record date. We will keep our investors updated on any development in this regard. We are also in the process of completing the procedures for listing the shares of Lasa Supergenerics Limited. The same is expected to be get listed before end of June 2017.

Exceptional items in financial statements. As can be observed from financial statements of the company, we have debited around Rs. 63 crore as exceptional items. We wish to inform you all that this is one-time exceptional items hit taken by the company. This is mainly due to difference in the fair value of the assets and the book value of the assets of veterinary API division transferred by OSCL to Lasa Supergenerics Limited. On de-pledging of promoters share, pledge on promoter share has come down from 38.28% of the total paid-up capital as of 30th September to 8.55% as of today.

Changes in net worth. Net worth of the company decreased from 181.44 crore to 82.76 crore. This is basically on account of exceptional items, that is difference in book value and fair value of fixed assets located at Unit V and Unit VI being transferred to Lasa Supergenerics Limited, as per composite scheme of arrangement duly approved by NCLT, Mumbai Bench and goodwill and capital reserve on account of difference in assets and liabilities transferred to Lasa Supergenerics Limited.

One more thing I would like to mention, the sales figures for FY16-17 and FY15-16 are the gross sales, that is inclusive of excise duty. This change is as per the format published by National Stock Exchange, NSE.

Now I come to the financial performance, Q4 FY17 performance. Revenue from operations stood at 91.6 crore in Q4 FY17. The EBITDA for quarter stood at Rs. 18.9 crore and EBITDA margin stood at 20.7%. EBIT for the quarter stood at 17.9 crore and EBIT margin stood at 19.6%. Financial year FY '17 performance, revenue from operations stood at 345 crores in FY '17,



EBITDA stood at 57.4 crore in FY '17 and our EBITDA margin for FY '17 stood at 16.6%. EBIT for FY '17 stood at Rs. 49.2 crore and EBIT margin at 14.3%.

In recent development, we have witnessed strong growth momentum throughout the year. And this quarter is also the reflection of the same. All our business segments have contributed to this growth. We continue to focus on achieving higher operating efficiencies and optimizing productivity. This has also enabled us to gain greater control on our operations, thereby, improving our working capital cycle days.

As I stated earlier, we continue to focus on higher operating efficiencies, increased productivity, innovation and process excellence to steer the company into the next level of performance excellence. The annual numbers are reflections of the same and I thank the entire team of Omkar Specialty Chemicals Limited for their untiring effort in achieving this. We will continue to work hard and will not only bring us growth, but also increase our profit margins. Also, you our shareholders whose support and faith in the company has given us great strength, thank you so much.

We can now take questions. Thank you.

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 Sudhir Bheda of Right Time Consultancy. Please go ahead.

Sudhir Bheda: Pravinji, congratulations on good set of numbers and particularly on margin side it has improved very substantially I think. I have couple of questions sir. One, now how is the working capital stress, which was I think you witnessed in the last entire year, there was a stress on working capital because of the bank not giving the sanctions? So what's the position now?

Pravin S. Herlekar: As far as working capital is concerned, we have been targeting constant improvements in that on all the fronts. As you must have observed quarter-on-quarter, we have been reducing the number of days of working cycle in terms of receivables and then trying to get more credit from our suppliers and then the inventories and all that. And we have been successful in achieving it. As of now, year-ended 31st March, we have now working capital days of 85 as against 129 in the last year, 31st March '16. So, that's I believe substantial reduction in the number of...

Sudhir Bheda: And currently, any stress on the working capital can hinder our growth, is likely now growth will be smooth?

Pravin S. Herlekar: See growth as it is, is smooth, but then we have become more selective in deciding the customers and then trying to improve upon the receivable days etc. So we are controlling this cycle from our side itself. So anyway, we will be able to manage with the experience gained by our team in this regard. We are now confident that we should be able to proceed very smoothly on this.



- Sudhir Bheda:** And second question on total debt, total debt has gone up. Of course, promoters have infused money by selling the shares, but that money was used for repayment of loans. But here if we see the balance sheet, total loan has gone up by around 25 crore to 30 crore.
- Pravin S. Herlekar:** Yes. See, the total loan as of 31st March '16 was 185 crores, whereas now it stands at 218 crores. Now out of this 218 crores, 60 crores is the unsecured interest-free loan from the promoters. So that brings it down to 158 crores. So our external borrowing has gone down from 185 crores to 158 crores, that means there is a reduction of 27 crores.
- Sudhir Bheda:** But overall loan has gone up?
- Pravin S. Herlekar:** Overall loan has gone up. Now, in this, again, if we go into further details, we can observe that the overall loan has gone into short-term as well as long-term. And in that, short term loan in fact has reduced because of our efficient management of working capital, our short-term loan has come down from 101 crore to 82 crores, okay. And the long-term loan has gone up by some extent and that is mainly because of whatever CAPEX we have incurred.
- Sudhir Bheda:** Any plan to reduce that long-term loan?
- Pravin S. Herlekar:** Yes, every quarter we have been reducing, our installments are going for the repayment. So it will definitely get reduced to the tune of about at least 10 crores to 15 crores minimum.
- Sudhir Bheda:** And what growth rate do you expect in current year?
- Pravin S. Herlekar:** We are modestly targeting about 15% to 17%.
- Sudhir Bheda:** And margin will be maintained?
- Pravin S. Herlekar:** Margins will of course be maintained.
- Sudhir Bheda:** Great. That's great. There is a substantial improvement in the margin?
- Pravin S. Herlekar:** Yes, that is because as Mr. Pravin Agrawal said, we have become more choosy on the product selection and customer selection. Our focus will remain on that.
- Moderator:** Thank you. We'll take the next question from the line of Prit Nagersheth from Wealth Advisors. Please go ahead.
- Prit Nagersheth:** So, congratulations, I think, on great numbers and accelerating the demerger scheme through. I think some questions that are still standing from my end. One was, what do you see the impact of GST going forward on the result?
- Pravin S. Herlekar:** Yes. We don't foresee much of an impact on GST coming in. Basically, it would be an ease of operation for the industry in general because the inter state transactions. For a company like us,



we have lot many interstate transactions like we have sales into south particularly Hyderabad, Bangalore, Chennai, then we have sales in the north side. So whenever inter-state sales are coming up, we have to pay CST and then on CST, there is no drawback available or no credit available for our purchase versus sales. So GST will enable us to do that. So it will definitely benefit the company. And since the GST is coming up, supposed to be introduced from 1st of July, we have already started training our people. We have conducted lot many seminars in-house for in-plant training for the executives within the organization. And people have already geared up for taking it up.

Prit Nagersheth: In terms of percentage of tax being charged, will there be any difference from what it used to be to what it will now be?

Pravin S. Herlekar: Yes. Mr. Agrawal will answer this.

Pravin Agrawal: Sir, there will be hardly any impact on the cost front, the reason being excise of 12.5% and VAT of around 6% that was being charged and that had a cascading effect whereas now most of our products will be falling at 18%, so it will be more or less the same.

Prit Nagersheth: One more question is on, you expect to sell any more shares of yours for de-pledging and what is the status on that?

Pravin S. Herlekar: No, I think we have completed our sale proceeds and we will stand by that.

Prit Nagersheth: So, you were planning to get some loan from banks after the demerger comes through.

Pravin S. Herlekar: Yes, because the banks were waiting for the audited figures and that this demerger issue to be settled and all that. So now it will be easier for us to go for that.

Prit Nagersheth: So you do not anticipate any more selling and de-pledging as well?

Pravin S. Herlekar: No, sir.

Prit Nagersheth: Even after the demerger record date has been, no more de-pledging would be done?

Pravin S. Herlekar: De-pledging will happen, there is no problem. De-pledging can happen. Sale of shares will not happen.

Moderator: Thank you. Our next question is from the line of from Jayesh Gandhi from Harshad Gandhi Securities. Please go ahead.

Jayesh Gandhi: Sir, if I see your balance sheet, your reserves from March '16 to March '17 have substantially come down. Can you please explain that?



- Pravin Agrawal:** Yes, the reserves as I mentioned in my opening speech itself, the reserve has gone down mainly because of whatever the hit has been there due to difference in the book value and the fair market value of the assets, which has been transferred to Lasa Supergenerics Limited. So whatever the difference of that was there, plus whatever the difference in the value of the current assets were there. That has been taken a hit in the net worth of the company.
- Jayesh Gandhi:** If I calculate that, say, apparently the reserves are less by 100 crores and the write-off which we have taken is 62 crores, and that is also reflecting in the profit and loss account. So from year-on-year also if we calculate, it is just 20 crores, so how about balance 80 crores.
- Pravin Agrawal:** See, that another balance amount is on account of the difference between the other assets and liabilities which have been transferred like my debtors, my loans and there were some goodwill.
- Jayesh Gandhi:** We have taken a further write-off of 80 crores, you mean to say that?
- Pravin Agrawal:** It is just a difference between the fixed assets from the book value and fair value of the fixed asset transferred to Lasa Supergenerics and other difference that is considered in capital reserve is difference between the investments in shares of Lasa Laboratory and Urdhwa and other loans and liabilities, that was transferred to Lasa as per the scheme of the demerger is considered for capital reserves. That resulted in the changes in the net worth.
- Jayesh Gandhi:** So, what I understand is while we have transferred other assets to Lasa, 80 crores is the amount which we had to further take -- I mean further take a right off on the books. Is it that what you want to say?
- Pravin S. Herlekar:** No, it's only balance amount because the 63 crore is part of that only. See the total networth had gone down from 181 crore to 82 crores. So that is total impact of that is being there. 63 crores is part of that.
- Jayesh Gandhi:** I will take it offline because I am not able to get that calculation correct.
- Pravin S. Herlekar:** Sir, you can send the query to us, we will explain you in detail and we can discuss it through email to you.
- Jayesh Gandhi:** And sir, another thing is in entire FY '17 what was the net sales, which Lasa did and operating profit if you can?
- Pravin Agrawal:** Sir, as I mentioned, the figures which we have published from Omkar are the sales from Omkar Speciality Chemical only. The Lasa sales is around 200 crores, which will be get published separately and they have a EBITDA of around 22%. However, these are the provisional unaudited figures. The audited figures will be published by Lasa separately in due course of time.
- Jayesh Gandhi:** And that will comprise of the balance sheet also of Lasa?

- Pravin Agrawal:** Yes, everything. You will receive two balance sheets one from Omkar, one from Lasa.
- Jayesh Gandhi:** So this balance sheet is only of Omkar, it has nothing to do with Lasa?
- Pravin Agrawal:** Yes. Only Omkar, post de-merger.
- Moderator:** Thank you. The next question is from the line of Parag Pai from Maverick Equity Investment. Please go ahead.
- Parag Pai:** I think very encouraged by the performance and whatever the developments have been in the last few months, so congratulations on that. My question was basically, if I see in the shareholding pattern there has been an investment, I guess, if I'm getting it right from Goldman Sachs, Singapore. So if you can just comment on that? And the second question was, when would be the final record date mentioned to conclude this de-merger?
- Pravin S. Herlekar:** See, as Mr. Agarwal mentioned, this procedure with exchanges and SEBI is on and we have fully complied with their requirements and we are expecting advice from the exchange regards the record date in just a few days now, maybe just four or five days or within coming week we will be able to make an announcement on the record date. So that's very much immediate. Then secondly, I didn't get your question on the shareholding pattern correctly.
- Parag Pai:** Yes. Well, basically if I check the shareholding pattern, I saw that there was a change in the pattern, in the sense, Goldman Sachs, Singapore I think have taken some stake in the company. So if you could just comment on that from your side.
- Pravin S. Herlekar:** Yes, they had taken a stake in the company and that is through the market only. We have not made any placement to them, it's from the secondary market they have acquired.
- Parag Pai:** And my final question is regarding the situation, I think we had covered this even on the last call, as to the situation as far as the Chinese market is concerned, so I mean there has been an environmental ban and because of which a lot of chemical companies in India have benefited. So what is the scenario on that front right now and going forward?
- Pravin S. Herlekar:** Well, the status continues because many Chinese companies are still facing lot of problems and particularly in the specialty chemicals, where there are regulatory matters which are very important. Chinese companies have been facing these issues, because most of the developed countries including MNCs and all that, as of now they prefer to buy from Indian market rather than sourcing it from China, so that status continues as it is.
- Moderator:** Thank you. The next question is from the line of Sudhir Bheda from Right Time Consultancy. Please go ahead.

- Sudhir Bheda:** Sir, your loan now is standing in the books of company and I think you are not charging interest on that, that's very good news for shareholders, but any plan to increase your holding in this company.
- Pravin S. Herlekar:** Yes, we are definitely committed to increase our holding. Now in what manner and how it has to be structured etc., that is being discussed in our board and we will be definitely coming up with some announcement shortly. But we are committed to increase our stake.
- Sudhir Bheda:** And when do you expect this working capital sanction from the bank, sir?
- Pravin S. Herlekar:** Well, we are definitely expecting this to happen now because the demerger is already over, but then we are really not bothered about it as of now, because we have been able to manage it very successfully internally itself.
- Sudhir Bheda:** Okay. So there is no stress as far as this liquidity is concerned?
- Pravin S. Herlekar:** Yes.
- Moderator:** Thank you. Our next question is from the line of Prateek Ingavale of Edelweiss. Please go ahead.
- Prateek Ingavale:** I have a question on FY '16 and FY '17, so compared to FY '16, FY '17 there is increased sales of iodine and selenium derivatives. But the raw materials of both the products were reduced. So like if I have to give some figure, so the sales of iodine compounds increased from 88 crore in FY '15 to 118 crore in FY '16, but the consumption of raw material decreased from 82 crore to 4 crores and similarly with the selenium product also. So for both the products the sales got increased tremendously but the raw material consumption is reduced. So can you please explain that?
- Pravin S. Herlekar:** When you are talking about raw materials, you mean iodine itself or selenium by itself right?
- Prateek Ingavale:** Yes. So, iodine and selenium metal powder which is mentioned in ..
- Pravin S. Herlekar:** Yes. So I'll have to go into little bit details on this. See iodine as well as selenium, they are the basic raw materials for some of the derivatives what we are producing. What we produce they are advanced intermediates or high-end products based on iodine and selenium. Now, most of these derivatives belonging to iodine category, for example, we are focused on the advanced intermediates, whereas there are many commodity products based on iodine, like to name a few items like sodium iodide, potassium iodide, methyl Iodide etc. They are of a commodity nature and pricing wise or margins wise also they are not all that lucrative. But then what happens when we are manufacturing advanced intermediates, which is maybe about seven or eight step product, we have to manufacture sodium iodide for example in-house, and then go further about seven, eight step forward to make the final intermediate. So in view of the capacities what we have and as I've been mentioning that we are focused on high margin derivatives and niche products, so we would rather prefer to not manufacture the commodity products and instead we can source it



outside which are freely available and then go further seven, eight step forward to make the final end product, which is more beneficial to us. So maybe that you are not able to see actual purchase of iodine per sale, but then we will have purchase of say sodium iodide or potassium iodide or some commodity derivative, which we outsourced, and then gone ahead with the manufacture of the high end product. The same thing applies to selenium also and that's the reason probably what question you have asked, I think it should have an answer to this.

Prateek Ingavale: Yes. So basically, you are saying that instead of buying the raw materials, you are sourcing the next level of commodities?

Pravin S. Herlekar: One step intermediaries. So which doesn't cost us much, but then it saves us botheration of blocking our capacity for making that and we can fruitfully use it for some better purpose, that's it.

Prateek Ingavale: Okay. So is it categorized under intermediate category in the report?

Pravin S. Herlekar: Yes, what we make is intermediates only. We are focused on the high-end advanced intermediates.

Prateek Ingavale: Okay, so is it categorized under intermediate category in the report? Because I can see that the..

Pravin S. Herlekar: It will be maybe intermediate or advanced intermediate, so something like that.

Prateek Ingavale: Okay, because the intermediate has increased from 61 crore to 100 crore, so I guess that is the one which you are referring to.

Pravin S. Herlekar: Right, yes.

Prateek Ingavale: Okay, fine. And my next question is about the fair value of the assets. So the fair value of the assets, because we are doing the restructuring, so we have done the fair value of assets now. So, but I mean in hindsight if we already know that the fair of the assets is not, there's a difference between the fair value of assets, then why we cannot do the restructuring earlier, I mean the calculation of assets earlier, why to wait for that restructuring of the company and then do the fair value transaction?

Pravin Agrawal: See, as far as the fair value of the assets is concerned, we go by the accounting standards, whatever the fair value of the assets was there in those years that has been done. And the demerger of a unit is happening and we are creating a different unit altogether, there are different perceptions the management of the new company can take about the fair value of the assets which they are acquiring. So on that basis, whatever the value which they have determined that this will be the fair value of those assets, that has been taken into consideration and according to that whatever the write-off or whatever the exceptional item hit which OSCL management has taken is on that basis. Because unless we go for sale of something, we will not know the exact value of that items is there.

- Prateek Ingavale:** Okay. And the management in the Lasa Supergenerics is from the Omkar Speciality right. So, basically they were the same management. So basically if you're selling to a new person then they will do the calculation again, but then I'm not able to understand that, how the same management when they move to a next company they re-estimate the value of the assets?
- Pravin Agrawal:** Well, I would put it this way. See when this value has been arrived in the books, we have no capital work in progress which was there in the books. Now, when we are commissioning the plant, that time only this CWIP will be converted into the fixed asset. Now while calculating the CWIP, we have lot of expenses which get debited to CWIP, which includes the capital cost of the equipment, plus whatever preliminary and pre-operative expenses, which include the salaries, wages of their employees, the finance cost which has been incurred on that and all put together we arrive at the book value, and which ultimately gets capitalized. But when this asset is actually being transferred to a company, we have taken a call that it should be done at the fair value, and so that it should be not a burden to the upcoming company. And that's the reason why we have taken this decision.
- Prateek Ingavale:** So basically it is reporting losses for the parent company that is Omkar Limited but for Lasa it will help to the fixed asset and all those ratio will be very high, because they will have assets at lower cost, but all the sales and everything will be high. So basically, for Lasa it will show better valuation and for OSCL that is per Omkar Limited, it will not have good valuation. So it's like bad for parent company, but good for the new company.
- Pravin Agrawal:** I would not say it is bad for the parent company because parent company already has asset at the fair value, and that justifies the working of the parent company.
- Moderator:** Thank you. Our next question is from the line of Girish Deshpande, an individual investor. Please go ahead.
- Girish Deshpande:** Hello, sir. I have couple of questions. My first question is what is the contribution of exports for the last fiscal and what kind of export contribution we see in the new system?
- Pravin Herlekar:** Yes, first of all, I would like to say that our exports have grown, okay. Exports have grown from last fiscal to current fiscal. Last fiscal that is FY15-16, we had total exports for 51 crores, whereas this year it is 64 crores and going forward, it will continue to increase.
- Girish Deshpande:** My next question is what is the contribution of higher margin intermediates in the last fiscal and what kind of new estimates you can make for the coming fiscal?
- Pravin Herlekar:** I think around 65% to 70% business is coming from high margin derivatives, and that is the reason why probably our EBITDA has also marginally improved and we will continue to maintain this trend now.

- Girish Deshpande:** So, you see that over the period of time you get out of the very low margin commoditized iodine derivatives?
- Pravin Herlekar:** Yes, that is the target. That is what in my earlier answer I mentioned, that we are instead of buying the basic material like iodine, we are sourcing one step derivative, which is again cheaply and easily available.
- Moderator:** Thank you. We'll take the next question from the line of Punit Mittal from Global Core Capital. Please go ahead.
- Punit Mittal:** I have just two questions. One is regarding if I look at the FY16 consol revenues, which is about 413 crores and you had mentioned I think in your last year conference call that the API division contributed about 31%, which is about 128 crores. And this year when you have published your standalone numbers for FY16, which excludes Lasa, the revenues are about 319 crores, which mean the API division must have done about 94 crore and I think today you mentioned that last year Lasa did about 136 odd crores. So I'm just trying to understand the discrepancy and where does the discrepancy come from?
- Pravin Agrawal:** I think we mentioned that the API division has achieved 200 crores.
- Punit Mittal:** I mean, I am talking about FY16.
- Pravin Agrawal:** FY16, it was 136 crores.
- Punit Mittal:** Yes. So FY16 if it is 136 crore and I think last year your consolidated number was 413 crores and this year in your standalone number you have said it's 319 crores as the Omkar OSCL contribution.
- Pravin Agrawal:** Last year OSCL contribution was 300 crores, inclusive of excise this year it is 345 crores.
- Punit Mittal:** No, I'm talking about last year FY16.
- Pravin Agrawal:** Last year it was 300 crores exclusive of excise.
- Punit Mittal:** Yes. So, and then your consol was 413 but you said API is 136 crore, so the difference is just 113 crore.
- Pravin Agrawal:** Sir, in last year, there would be some because that 300 crore was a standalone figure which had some figures of sales to the subsidiary companies also. So if we knock off those things, then that 413 crore whatever the total we have been referring that will match, because when we are consolidating the financials, we have to exclude the numbers which are dealt with within the companies.



Punit Mittal: Understood. Great, thank you. The other question is, I remember you mentioned in one of your conference calls that you are trying to migrate more into contract manufacturing rather than in-house production and which will help to bring down the working capital as well as grow the business without incurring any CAPEX. So what's the progress on that. And is there a margin differential when you do in-house versus contract manufacturing?

Pravin S. Herlekar: Yes, this contract manufacturing I would like to correct this terminology, contract manufacturing because normally in chemical industry, particularly in specialty chemical industry, contract manufacturing refers to something else. In the sense, if I'm doing some product for some XYZ company exclusively for them, that is normally termed as a contract manufacturing. When I'm referring to contract manufacturing, it means that it's a job working. See, instead of deploying my facility, I am using somebody else's facility to get some product manufactured and that even continues as of now, we have already got about five different facilities working for us for job working. So that's a convenience at our end because first of all, we don't have to go on investing on CAPEX heavily. So going forward we will be following this model to a greater extent and then there is more defined way of working. We have finalized or entered into arrangements with the norms for production etc. And then there are certain secrecy arrangements executed among the people. And that gives us more comfort in terms of and it also increases the efficiency or monitoring control on the production because we give them a designated quantity of raw material and then we get exactly what is required back from them. So that again brings a better control on the overall system. So we will definitely pursue this in coming time.

Punit Mittal: Great. If I may squeeze just one more. In terms of your working capital cycle, I think you mentioned that you improved it to 85 days for this fiscal, which is quite commendable job. So, I just wanted to if you can throw some light in terms of improving your working capital cycle, what are you doing and how are you achieving this? Because I guess my point being that all your clients are pretty reputed clients. So why would they basically shorten the credit cycle? And in terms of inventory, how are you managing to really bring the inventory days down? Any color on that would be very helpful.

Pravin S. Herlekar: Our major issue is receivables. Okay. Though we have marquee customers, the normal trend among those customers is delayed payment. They talk about payment terms of 60 days to 90 days, but then invariably the payment comes after 90 days to 120 days. So that's the historical phenomenon, which we have been experiencing. So what we have done is that as initially I mentioned that we are focusing more on the specialty products. See, this type of torture we can expect from the customers when we are dealing in commodity intermediates. But then in specialty or niche products where there is a dependence on us, we are more comfortable in terms of bargaining on the credit days that is one thing. So, we are progressively negotiating with all our customers on this ground. Secondly, we have also resorted to extending our payables, that is, whatever raw materials we are procuring, we have gone for extended credits like by giving LCs of 120 days or even 150 days, thereby, increasing our payable cycle. So this has resulted into our lessening the number of days for working capital, leading to a more comfortable situation.



- Moderator:** Thank you. Our next question is from the line of Ritesh H, an Individual Investor. Please go ahead.
- Ritesh H:** I had a couple of quick questions on Lasa. First one thing that, see what is the debt that has been transferred to Lasa? I'm sorry if you've already covered that. I joined the call late.
- Pravin Agrawal:** Around 30 crore debt has been transferred to Lasa.
- Ritesh H:** 30 crores? I'm sorry. Could you come again?
- Pravin Agrawal:** From OSCL, an ECB loan of 30 crore was there, which has been transferred to Lasa apart from their own set of loans which was there in the Lasa's books. Apart from that, 30 crore additional has been transferred.
- Ritesh H:** Okay. So what is the debt that they were carrying on their books?
- Pravin Agrawal:** It was around Rs. 45 crore.
- Ritesh H:** And what is the capacity utilization at Lasa after considering all that newly capacities that have come up?
- Pravin S. Herlekar:** Capacity utilization will be somewhere around 75%.
- Ritesh H:** And sir, you said that the margins have been 22% this year. I think, in one of the previous con-call transcripts I had read roughly around 25% odd, so what would be a normalized margin that we should be expecting from this business going ahead?
- Pravin S. Herlekar:** I think 22% is reasonably good normalized margin for products which are being manufactured in Lasa.
- Moderator:** Thank you. Our next question is from the line of Kunal Shah of Allegiance. Please go ahead.
- Kunal Shah:** If you would have answered this question previously please spare me, because I have just joined the con-call. I just wanted to understand, what is the current shareholding pattern and the pledge that we have, okay. And what is the amount of loan that we have taken against pledge shares, which is yet to be repaid so that we have not been able to de-pledge our shares, the promoters' shares?
- Pravin S. Herlekar:** See, I've got loan against share of 4.5 crores.
- Kunal Shah:** 4.5 crores. Okay, so that is in personal capacity or the money has been used for probably company's net..
- Pravin S. Herlekar:** Loan, we have taken by me in personal capacity, but then it was given to company only.



- Kunal Shah:** As unsecured loan?
- Pravin S. Herlekar:** As unsecured loan, yes.
- Kunal Shah:** So I mean, when do we expect this to get cleared because I guess 4.5 crores, I mean there is a..
- Pravin Agrawal:** I think it should take about couple of months. We should be able to close this because it's not a big amount for us now.
- Kunal Shah:** Exactly. So then why are we delaying it is what I want to understand.
- Pravin S. Herlekar:** Yes, please. So next couple of months, it should be closed.
- Kunal Shah:** Okay. And one more thing, as far as the accounting policies goes for the booking of losses on transfer of assets, right, so I was just hearing the con-call and as per the accounting standard, we have to follow the valuation at the reasonable valuation. So just wanting to understand, I mean why was this activity taken up? The same question but I just could not understand the logic given by the sir. So if you could just elaborate, why did we do it when we are transferring the assets to again a group company and at that point of time we are booking the losses. And just what would be the other assets which would have been then probably, we have not done a fair valuation, when was the last fair valuation of assets been done because then probably but there might be some other assets, which might be there sitting in the books at high cost, which have not been probably revalued reasonably then?
- Pravin S. Herlekar:** See, valuations are being done regularly. I mean, it is required for not only banks but even for insurance also. So valuations are done every year, okay. However, the book entries, we had not taken because there was no need to take a book entry but then in view of the de-merger happening and then a new company or new entity getting separated from Omkar Specialty, the parent company, and that new entity getting listed independently, we have taken this call because this was the appropriate time for us to take the call, rather than taking it anywhere midway. So 31st March, we have taken this call.
- Kunal Shah:** So, basically, to understand, the book value is something which will obviously have the purchase cost, right. So it has to be at the higher value, but basically means depreciation is being charged at a rate which is a lesser than the rate at which it should be applied then to -- just put it in a simple terms?
- Pravin S. Herlekar:** See, it's not only the purchase cost, but then there are other expenses loaded on that, like preliminary, pre-operative expenses to form the CWIP, so all those things are considered and then ultimately, whatever is the fair value we have decided and then transferred the asset.
- Moderator:** Thank you. We'll take the next question from the line of Mohit Bansal of Ajinkya MPL. Please go ahead,

- Mohit Bansal:** I wanted to understand how much of the topline is from pharma companies?
- Pravin S. Herlekar:** I think, we just mentioned about it, 200 crores. Sorry. Your question is for Lasa's topic?
- Mohit Bansal:** No. From Omkar Specialty topline, how much is sold to pharma?
- Pravin S. Herlekar:** It must be around 70%.
- Mohit Bansal:** 70%. So, sir, we are seeing a lot of pressure in terms of price erosion in the pharma space. Is that affecting you sir?
- Pravin S. Herlekar:** Well, as I was just discussing some time back, we are more and more getting focused on to advance and higher end intermediates. There is not much of a pricing pressure. So I don't think we are worried about that in fact.
- Mohit Bansal:** So, in India, sir, are you the only manufacturer of these specialty iodine compounds?
- Pravin S. Herlekar:** In almost 80% of the cases, yes. The type of products what we are making.
- Mohit Bansal:** So, basically we'll be able to maintain our margin irrespective of the pricing pressure on the pharma side?
- Pravin S. Herlekar:** See this is historical phenomenon. I mean for many years consistently, we have been able to maintain it. So I don't see any reason why there should be a change.
- Mohit Bansal:** And you are fairly confident you'll be able to hold your margin?
- Pravin S. Herlekar:** We are very, very fairly confident.
- Mohit Bansal:** Okay. The other question is, sir, you've in your press release mentioned that you are entering into some new products, basically catering to FMCG.
- Pravin S. Herlekar:** Yes.
- Mohit Bansal:** What percentage was it of the topline, sir, last year?
- Pravin S. Herlekar:** Last year it was not much. It must be around 10% to 12%.
- Mohit Bansal:** Okay. And what are we expecting this year?
- Pravin S. Herlekar:** We are expecting to grow it to at least about 25%, maybe double.
- Mohit Bansal:** 25? Okay. And what is the medium-term plan, sir, say three years, five years from now, where will this....



- Pravin S. Herlekar:** I mean it should go to about 40%.
- Mohit Bansal:** Okay. And you're seeing the growth in this division more than the traditional products?
- Pravin S. Herlekar:** Yes. Of course, that is the reason why we are targeting this. And then, there are other aspects also attached to it about payment issues like what we discussed. And we'll have faster cycle, so working capital will get improved. And it will help us in many ways.
- Mohit Bansal:** Okay. And what are the margins, sir, in the products?
- Pravin S. Herlekar:** Margins are again fairly decent. I mean, gross margins will be somewhere around 35% to 40% level.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference back to the management for closing comments. Over to you, sir.
- Pravin S. Herlekar:** Yes. Friends thank you so much for joining us this evening, and we believe that we have been able to address most of the questions and queries raised by you. Nevertheless, if you have any further queries or you need further clarifications or seek further details, you are most welcome to write to us on mail and our Company Secretary's mail. We will be very happy to reply to the same. Thank you so much once again.
- Moderator:** Thank you members of the management. Ladies and gentlemen, on behalf of Omkar Speciality Chemicals Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.