Oriental Aromatics Limited
Earnings Conference Call

October 21, 2020

Moderator: Ladies and gentlemen. good day and welcome to the Q2 FY21 Earnings Conference Call of Oriental Aromatics Limited. As a reminder, all participant 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 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. Anuj Sonpal from Valorem Advisors. Thank you and over to you, sir.

Anuj Sonpal: Thank you operator. Good afternoon everyone and welcome to the second quarter and half year-ended financial year 2021 earnings conference call of Oriental Aromatics Limited. My name is Anuj Sonpal from Valorem Advisors. We represent the investor relations of Oriental Aromatics Limited. On behalf of the company, I would like to thank you all for participating in the company's earnings call.

Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today's earnings conference call may be forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management's beliefs as well as assumptions made by and information currently available to management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's earnings conference call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

Now, I would now like to introduce you to the management participating with us in today's earnings conference call. We have with us Mr. Dharmil Bodani – Chairman and Managing Director, Mr. Shyamal Bodani – Executive Director, Mr. Parag Satoskar – Chief Executive Officer, Mr. Girish Khandelwal – Chief Financial Officer and Ms. Kiranpreet Gill – Company Secretary.

Without much delay, I request Mr. Dharmil Bodani to give his opening remarks. Thank you and over to you, sir.

Dharmil Bodani: Thank you so much Anuj. Good afternoon everybody. I hope everyone is safe and well. It is our pleasure to welcome you to the Q2 and H1 FY21 Earnings Conference Call of Oriental Aromatics Limited. I am pleased to inform you that during the quarter, with gradual lifting of the lockdown the company has witnessed a healthy demand across all categories.

Our sales volume for the quarter has grown by 49% on a quarter to quarter basis while they remain flat on a year to year basis. Improvement in sales realization along with stabilized raw material prices improved the profit margins as well. Lastly, we have also received the allotment letter for the lands that we have applied for from the MIDC in Mahad for our upcoming Greenfields Capex. I now request Mr. Girish Khandelwal, our CFO to give you the financial highlights for the quarter and half-year ended. Over to you Girish.

Girish Khandelwal: Thank you Dharmil, good afternoon all.

On a consolidated basis in Q2 FY21, the revenues from operations for the quarter was Rs. 184 crore which was an increase of approximately 62% on quarter on quarter basis and decrease by 10% on year on year basis. EBITDA reported was Rs. 49 crore which was the substantial increase on a quarter on quarter basis and 78% increase on year on year basis. EBITDA margins stood at 26.66% as against 16.24% in Q1 of FY21 and 13.4% a year ago. Net profit after tax reported was Rs. 33 crore which was a substantial increase on a quarter on quarter basis and 24% increase on a year on year basis. While PAT margins were 18.06%, which was an increase of 932 basis points on a quarter on quarter basis and 498 basis points on a year on year basis. Now talking about the half yearly performance in FY21 on a consolidated basis, the operating revenue for the half year was Rs. 297 crore which was a decrease of approximately 29% on a year on year basis, however I would like to specifically highlight that our EBITDA reported was Rs. 68 crore which was an increase of about 7% on a year on year basis. Operating EBITDA margins stood at 22.82% as against 15.18% a year ago. Net profit after tax reported was Rs. 43 crore which was a decrease of about 3% on a year on year basis. While PAT margins were 14.54% which was an increase of the 380 basis points on a year on year basis. Lastly, as on 30th September, 2020 cash from operations stood at INR 35 crore owing to improvement in the working capital cycle and better sales realization which enabled the company to reduce its net debt further by Rs. 36 crore to Rs. 17 crore. The cash profit stood at Rs. 38 crore, an increase of 20.38% on a year on year basis and our debt equity ratio as on 30th September, 2020 improved to 0.03 from 0.11 as on 31st march, 2020. Thank you, with this we can now open the floor to the questions and answers session. Over to you, Anuj.

Moderator: Thank you very much. We will now begin the question and answer session, anyone who wishes to ask a question may press '*' and '1' on their touchtone telephone. The first question is from the line of Rahul Jain from Credence Wealth, please go ahead.

Rahul Jain: Thanks for the opportunity and congratulations to the team at Oriental Aromatics for a wonderful performance. Sir, our gross margins has seen a sharp improvement to the tune of almost 50% from around 40% in June ’20 and more so if I look at your last year’s numbers or last seven, eight quarters we have been generally around 35%, 36% gross margins. You have mentioned in your opening remarks as well as the presentation with regards to improvement in sales realization and flat raw material prices. So my question is, if you could just share some more details about how the sharp increase has come, is it due to some product mix change seen and how sustainable are these gross margins? And when I say gross margins, it will be just sales price minus raw material costs.

Dharmil Bodani: Thank you so much Rahul for your question. To answer your first question, I think the contributing factors have been various; like raw material prices and the demand has been robust in the last quarter leading to a higher sales realization. In terms of sustainability, we would like to stay with what we have always mentioned that, you know we will aim at the guidance of the 15% to 17% EBITDA. Going forward, I believe the raw material prices are going to see ups and downs and similarly sales prices will also see ups and downs.

Rahul Jain: Sir, any specific product mix changes have happened in last six months or so, hereby certain products are contributing higher to our sales?

Dharmil Bodani: You see product mix change has not occurred but the Camphor and the Fragrance and Flavour division continues to be very strong.

Rahul Jain: Sure, updates on the Baroda plant capex, these have planning around, Rs. 60 crore, Rs. 70 crore of capex at Baroda plant. So where have we reached with regards to that and when do we expect to commence?

Dharmil Bodani: So Rahul, the Baroda expansion continues to be on track. We expect to make by March close to about Rs. 60 crore of investment in the Baroda project. After our last call we have made some changes in the product mix in Baroda which will require an additional Rs. 60 crore capex which we expect to complete by Q3 or Q4 of FY 21-22 taking the total now up to about a Rs. 120 crore or Rs. 125 crore in Baroda.

Rahul Jain: Oh, that is wonderful. So you are saying instead of Rs. 60 crore now we are earning Rs. 120 crore or Rs. 130 crore at Baroda plant itself.

Dharmil Bodani: Correct, and that is largely due to the product mix changes that we have made in the Specialty Chemicals area.

Rahul Jain: And what kind of asset turn we will have on this entire capex?

Girish Khandelwal: Yes around, we are expecting is 1.7, 1.8 times asset turn.

Rahul Jain: Sure, and lastly sir, congratulations we have got the allotment letter for the new land at Mahad for our Greenfield capex.

Dharmil Bodani: Yes.

Rahul Jain: So some more details on this Greenfield capex as with regards to the amount being Rs. 150 crore, Rs. 200 is what you have been mentioning in the last two con calls and also the timelines for the same including the environmental approval.

Dharmil Bodani: So the investment amount remains the same, we expect to break ground very shortly. The product mix for Mahad is being finalized and I am hopeful that the team will start construction on that plant by the end of third quarter and simultaneously apply for environmental clearances, although the entire Mahad expansion will be based on **rather** these, so we are expecting the environmental clearances to not be such a big issue.

Rahul Jain: Just a last small question on the accounting side; our inventories are almost at around Rs. 200 crore as on September ending which was around Rs. 160 crore at March end, anything specific over there, is this due to some raw material build up, product built up, or ..

Dharmil Bodani: No, I think it is just being a little cautious as we are expecting certain areas of the business to see raw material prices go up so we have taken a few long positions on materials.

Moderator: Thank you. The next question is from the line of Rohit Nagaraj from Sunidhi Securities, please go ahead.

Rohit Nagaraj: Sir, if you could just throw a little more light on how the deodorants and fine fragrance segment is currently doing and just overall about our business segments as to whether we have reached the pre-Covid levels right now or probably we are a quarter away from that?

Dharmil Bodani: So, thank you for your question. You know, it is difficult for me to really give you any kind of futuristic guidance but let me start by addressing the deodorants and the fine fragrance segment which you have particularly asked about. I mean this continues to be on the pressure globally, unless and until air travel resumes to normalcy, duty frees pickup in sales, people actually start resuming more than what we have in and address as a normal lifestyle today, I think the deodorants and the fine fragrance markets will continue to be under a lot of pressure, especially in the Middle East or the far East and of course I think very clearly in Europe and in America also. So this is one segment that continues to stay a concern for the industry by large. What was your second question, Rohit?

Rohit Nagaraj: Yes, and any other segmental highlights you would like to talk about, especially with respect to what has changed in the last three months, from the first quarter con call and whether the situation has normalized as far as Covid is concerned?

Dharmil Bodani: Yes, so I think you know in terms of volumes we are definitely back at pre-Covid levels, I think there may have been some panic buying done in these last two quarters but we are not seeing the effect to that great an extent going into third quarter. In terms of normalization, except for a few segments like deodorants, fine fragrances, we are not seeing any reduction in demand and with the festival season coming, with Navaratri and Diwali and Christmas, we expect sales of joss sticks and Camphor and candles and Fragrance products like that to be normal.

Rohit Nagaraj: Thanks, now sir second question is, in terms of the revenue impact which was there in Q1, so we have aggregated that probably about Rs. 55-60 crore your revenues were impacted in Q1 because of the lockdown. So in this quarter, have you witnessed that entire shift from Q1 which was supposed to come?

Dharmil Bodani: I think Rohit, if you see the numbers, our top line; Girish correct me if I am wrong here, continues to be flat or a little lower. So, like I have explained in my past calls, once you lose physical production in a lockdown where you know your plant has lost the ability to produce and if you have just that much capacity to pull out product every month, to capture upon a product a production loss in a chemical plant is not possible. So the plants, all I can say are currently is running to a 100% capacity and we are hopeful that this continues over the next to coming quarters.

Rohit Nagaraj: Okay and just one small clarification about Mahad, so how much price or money we are going to pay for the land and after getting the environmental clearances, what would be the start of probably pace on operations, how much time will it take? Thank you.

Dharmil Bodani: I did not understand your first big question. You are asking me how much we have paid for the land in Mahad?

Rohit Nagaraj: Right sir.

Dharmil Bodani: Girish what is the number?

Girish Khandelwal: Dharmil, currently we have paid the earnest money as per the letter and we are in the process of registration, so the final amount I will be able to confirm in the later only.

Dharmil Bodani: Okay, so Rohit that answers your first part. And your second part is environmental clearances in a chemical business are simultaneous with the construction. So, the first two plants that we proposed to build at Mahad, Parag again you will have to give me the timelines, you are looking at what; Q1 of 2022, what is the timeline?

Parag Satoskar: So in terms of kind of compartmentalizing the work, you know we probably would be ready with a master plan by the end of this year as to what goes in there and like Dharmil said that we will be simultaneously working on ECs and the engineering designing aspects of the plant, so we are I think anywhere between 400 to 450 days from the first plant being commissioned there and since it is a chemical complex, we are going to probably have a multipronged strategy where we will have some plants coming up earlier and some plants coming up phase wise, one after the other.

Moderator: Thank you. The next question is from the line of Rajesh **Inor** from ITI Limited, please go ahead.

Rajesh Inor: I had questions on two lines; one is as in said among the product split, the deodorants and that side has been soft whereas the Camphor products that is where the real strength has been for last two quarters. So just wanted some more qualitative color on, why exactly has it happened? I mean what are the driving factors for the strength and going forward how sustainable because like you said the volume would be strong because we are entering into a festive season which may run for another two months, so what are the expectation, more on the qualitative side, if you can elaborate?

Dharmil Bodani: I think in terms of sustainability, I have already mentioned that we will stay with the guidance up to 15% to 17% EBITDA that we have stated. In terms of demand with the festive season coming, we believe that all the products that we are producing currently is getting sold and will continue to get sold. So, we are at a 100% capacity across all the plants in terms of production and in terms of sales.

Rajesh Inor: Sir, what has been the driver in the recent quarters for this strength, any specific factors or events which happened or you know?

Dharmil Bodani: I think it is largely demand and supply. I think the demand for camphor, fragrances and flavors has been robust for Oriental Aromatics and that really is the only reason where we have seen a better price realization on our products.

Rajesh Inor: So which are the industries we are recently going, on deodorants and that you know personal fragrances that you are saying is soft, so which are the other segments which are seen are…?

Dharmil Bodani: So I think Air care which is joss sticks, candles, air fresheners, you know that has been robust, air fresheners especially because most of us are still sitting at home. The joss sticks market has been doing fairly well with the Ganpati season just gone by and the Navaratri and the Diwali seasons coming up, so demand in that area has been fine. Camphor continues to be robust because the prayersseems to be increased in difficult times like this and it is definitely you know a very healing product from all aspects whether it is religious or whether you want to just burn it at home, so it has been a very healthy demand. In terms of internationally, we believe in the Far East there has been a very fair demand on fabric softeners, liquid detergents; these continues to show signs of growth and lastly, I think the soaps and detergents business even in India in the last two quarters seems to have been okay at least in terms of where we supply our fragrance.

Rajesh Inor: Okay, that helps a lot sir. On the second part, in fact part of that, on current question also that how much is the imports which are happening in our kind of products?

Dharmil Bodani: I would not have these numbers off my head but we continue to see a smaller import of Chinese Camphor coming into India because we are able to bridge the supply-demand graph. In terms of the finished products, I am not in a position to comment because we do not really track that. We do not track how many soaps or detergents or fabric softeners, etc. are coming into the country.

Rajesh Inor: Okay and sir the second question is on the projects in which we currently have and also planning to set up, now if I look at it, I think our current gross graph more than double in the next two to three years. Now want to understand, what are those things in the business environment that gives us confidence to take up an expansion of this scale. I mean are we looking at targeting either smaller players or maybe some import demand or is that the end product market itself is growing so strong that you think by the time these plants come up there will be loading up demand.

Dharmil Bodani: So Rajesh to address this firstly, Oriental Aromatics is a research and development oriented company. We strongly believe in investing a lot of our resources into R&D and I think the Specialty Aroma Chemicals space that we are looking at where we are making most of our investments in, these are going to be not necessarily just increase in volume and hence we are getting into it but I think we are going to see a large geographical shift in the China plus 1, 2, 3, 4 that we keep talking about and we find that a lot of our global F&F customers are also looking at us where we are able to provide solutions for them out of China and bring some of the materials that they would buy from there into India and helping them split their geographical risks. So it is not only a market driven demand, crude driven investment, it is also a replacement investment where we believe that lot of the molecules that we are going to produce desperately need another player in the market.

Rajesh Inor: Okay understood and sir on that question you know one of the advantages is the China offer is ready availability of Pine as well because that is the country which grow that at a very large scale. On a competitive base, what are those factors which a player like us would need to think about, you know you want to compete China and on the cost front as well as on all the other parameters?

Dharmil Bodani: Right, so Rajesh firstly it is, you know no more true that China is the only country in the world that produces pinene based materials, pinene based materials are now available through multiple sources across the world and I think if you were to go back to some of our previous comments, Oriental Aromatics dependency on Chinese pinene is in single digits. The new expansions, now that I have answered to you on the pinene based raw materials supply situation, I think on the expansion that we are doing in the Aroma chemicals specialty space, it is not pinene driven, you know it is Petro-driven, it is, a Pinene is not the source for the expansion that we proposed to do in the Aroma chemicals which are specialty, which are high value, low volume materials. Yes, there is a possibility that some part of this expansion would be pinene based materials which I am making very clear, so that there is no impression that pinene is not going to be a part of our future expansions but that pinene today is available from multiple countries and there is really no dependency at all on China.

Rajesh Inor: Thanks a lot, sir that helps a lot. If I can, you know allowed to take one more question. Just wanted to understand, globally F&F industry has seen a lot of structural shifts, are the sort of consumer companies which are into this space; are they under pressure which is driving this kind strategies like how to cut cost or how on a longer term sustainable basis have some sort of reliable sourcing which is an again, the other side of what Crips into that China plus 1 story.

Dharmil Bodani: Right, so I cannot answer for the FMCG companies because I do not know what their strategies are but in terms of the global F&F companies, I think today the world is welcoming suppliers from outside China, be it India, Vietnam, Malaysia, Indonesia wherever and I believe that cost cutting is not the only driver. Actually, I do not think that cost cutting is the driver; I think sustainability and splitting of geographical risk of various materials that are being consumed by the flavor and fragrance industry are more of a specific concern today.

Moderator: Thank you. Ladies and gentlemen, in order to ensure that the management is able to address questions from all participants in the conference, please limit your questions to two per participant. Should you have a follow-up question, we would request you to rejoin in the queue. The next question is from the line of Dhwanil Desai from Turtle Capital, please go ahead.

Dhwanil Desai: Hi Dharmil, thanks for the opportunity. So two questions, both on Aroma chemicals. The first one is you know since we are R&D driven company and Aroma Chemical typically requires a very large bouquet of products, if you can help us understand how this entire process works in terms of right from the conceptualizing or starting to work on a molecule, let us say you start with hundred and then it boils down to how many and how many gets commercialized every year, I need you know benchmark numbers on that you can help us understand that entire process of product development.

Dharmil Bodani: Sure, and the second question?

Dhwanil Desai: Sir second question is also, I have been coming to your AGM since two, three years and I understand that you are a very conservative company and we are taking up a very large expansion on the tune of Rs 250 crore, Rs. 300 crore, so I am sure that when we take such a large expansion decision, are there any soft commitments from the customers which are in place before we go ahead or is it more of our understanding and analysis of demand supply of different molecules that goes into taking this decision? How do you think about it, how does that thought process works?

Dharmil Bodani: All right, thank you so much, Dhwanil. So I will answer your first question, the process. I am going to try and keep this as brief as possible because the process is very complicated but I will try and give you a macro view of how it works. So Dhwanil you have to understand that first Oriental Aromatics is a flavor and fragrance company. We have a very deep understanding of Aroma chemicals because we have been using Aroma chemicals since 1955. We understand how these work in fragrances, we understand which fragrances need which kind of Aroma chemicals, we are also currently very actively through our market in cell intelligence and through our internal R&D capabilities, studying hundreds of products amongst which are available in the Indian market and globally. So, we know exactly what kind of materials are being used, we know what kind of materials are being used in different applications. We also know what materials are going to go of patents and we also know where our capabilities and strengths lie in terms of R&D. As a company, we will continue to focus on the musks, the sandals, the ambers, the rose, a family molecules and there are close to 5000 to 6000 molecules in our business and it is dependent on each individual company to choose the battles of which molecules they want to fight in the available market space and when I mean available market space is, there is the inventor of the molecule in all likelihood has an internal consumption for that material and then they sell out a percentage, large or small I cannot comment on to the flavor and fragrance industry. So, we pick and choose our battles on a couple of things, one is the available market, one is the number of players there are in that molecule. And the last thing is, selecting a mix where there is high value, low volume and a few mid value, slightly higher volume in the specialty chemical space. So, to be honest, there is enough room for a company like Oriental Aromatics to choose over a hundred molecules like you correctly said and say that you know we turn our initial R&D and we feel that 25% of these molecules is something we want to pursue and go ahead with commercializing. So, this is just to give you, you know the process begins with the flavor and fragrance team. The flavor and fragrance team works with Aroma chemicals R&D to tell them their selection and what they see as the growth molecules of the future and what they see as the molecules which are currently available but only from one or two suppliers. Once that is done, it goes to R&D, R&D does a complete detailed study, presents it to management and then we make a decision on how many molecules we are going to get active there. And if you recall, I have mentioned we are launching three molecules in this year and I think in 2021 we would see a role out of close to 15 to 20 new molecules. So, our R&D pipeline is very robust and we are hoping that with the expansion plans in Mahad and in Baroda we are able to successfully built the plants and the capacities that we need to fulfill the demand. In terms of being a conservative company, yes you are absolutely right. We are a conservative company and we do take calculated risks and we do not believe in working necessarily on soft commitments. I believe and team that we work with believes that if we have a product which is well-researched at the right price and meets the specifications and we are competitive, there is no reason why we cannot grab our market share for that product which is available in the available market of the product. So, we are very confident of the path that we have chosen in terms of the product mix, how we see our expansion and this investment over a period of thousand days and we are very hopeful that we will walk the talk in time to come.

Dhwanil Desai: Great Dharmil, it was very helpful, thanks a lot.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital, please go ahead.

Deepak Poddar: Thank you very much sir for the opportunity. Just wanted to understand, now that you are talking about the Baroda expansion as well as the Mahad Greenfield capex, so over next to three years how do you see our revenue tractions like, currently we are at about Rs. 800 crore kind of a turnover, so how do you see that traction for the next two, three years. So, any comment on that would be helpful.

Dharmil Bodani: Yes, sure. Thank you, Deepak, for your question. Girish, Parag can you take this because this would be a little more micro.

Parag Satoskar: So primarily we are looking at, so for most of the investments that we are doing in terms of capex, Greenfield and Brownfield, we are looking at a 1.7x in terms of sales. So, if you are looking at an investment of Rs. 200 crore, we are looking at sales of close to between Rs. 350 crore and Rs. 370 crore coming out of that investment and inflow.

Deepak Poddar: So, what is the total capex for Baroda as well as Mahad?

Parag Satoskar: There is a planned capex for like Dharmil has already said, for Mahad is between Rs. 150 crore to Rs. 200 crore and for Baroda we currently are in the process of final stages of our Brownfield project where we have done an investment of between Rs. 12 crore to Rs. 13 crore and the second Greenfield project which is our hydrogenation plant, there because of new product addition and our product mix change that capex goes up to around Rs. 110 crore.

Dharmil Bodani: Yes, so total Deepak would be a Rs. 125 crore in Baroda and about a Rs. 150 crore to Rs. 200 crore in Mahad. So, we are looking at about close to you know maybe Rs. 325 crore investment over a period of thousand days to maybe thirteen hundred days. So, 1.7x is what we are looking at an additional revenue.

Deepak Poddar: So, it is Rs. 500 crore in all.

Dharmil Bodani: Correct.

Deepak Poddar: So that is going to realize over next three years, would that be a ..?

Dharmil Bodani: I mean it would not be fair for me to give you such an accurate number and say that yes it will happen in three years but yes, between four hundred and fifty days from today to thousand, twelve hundred days, yes; this is our internal goal.

Moderator: Thank you. The next question is from the line of Kunal Mahindra from Vallum Capital, please go ahead.

Kunal Mahindra: Thank you for the opportunity, sir I have a single question. If I were to summarize the performance of this quarter, you have so as far as I remember from the analyst meet which you had I think a few months back, so we have three main revenue arms; one is the legacy Aroma chemicals business, second is this specialty chemicals business in Aroma where we are trying to introduce a new set of products based on the latest molecules which we have selected and the third is the Camphor based business which we have. So just if you could summarize the performance this quarter where is the bulk of the delta coming from, on which of these three businesses both in terms of revenues and margins?

Dharmil Bodani: It would come from Camphor, from the fragrance position and from a group of specialty chemicals where we have been able to do well in this quarter, that is gone by.

Kunal Mahindra: Okay and on the Camphor side, have you benefited from price increases or is the increase in the margins largely driven by the operating leverage which we had, I am sure, I can see the gross margins improving so I am sure there would have been some pricing benefit which you would have received this quarter because of a short supply of lot of these products.

Dharmil Bodani: Right, so Kunal I think it is a double vammy, I think we got onto the right side of the raw materials and we also got on to the right side of the selling price.

Kunal Mahindra: Understood, and any outlook on these specialty Aroma products which we are doing, could you highlight the break up of revenue between these three segments? Could you highlight the breakup of revenue between the Aroma chemicals and the Camphor based products for this quarter and for the half year?

Dharmil Bodani: I think it stays in line with what we have said earlier, I mean there could be a percentage up or down because certain in terms of fragrances and in terms of Camphor we have had a better sales realization, so it stays in line of what we said in past. You know, it is almost equally divided across the four verticals that we have.

Moderator: Thank you. The next question is from the line of Aman Vij from Astute Investment Management, please go ahead.

Aman Vij: Good afternoon Dharmil, I have two questions. My first question is around, so in the last two, three AGMs, you have been talking more and more about multipurpose plant and how this is the way forward for Oriental. So if my understanding is correct, I was saying we have one multipurpose plant which we have scaled in the last two, three years and I think we are putting up one more like Parag sir told about a hydrogenation plant, so in the next three, four years about that thousand days, what do you think will be like, how many multipurpose plants we will be setting up or do you think this is the way forward for a not only in the next thousand days but beyond that? This is the first question, second question is you had in the initial part of the call, you had mentioned and in the last few calls also that high-end fragrance and fragrance business which is the deodorant business, is struggling a little bit. Could you talk about what was the rough contribution of that specific segment last year and what is it this year, just to understand how much down we are still? So, these are the two questions.

Dharmil Bodani: Okay, so I will address the first one. The multipurpose plant route that we have taken and are putting high value, low volume Aroma chemicals through that plant which we term as generic Aroma specialty chemicals, what we have also found that certain chemicals that we thought we wanted to run through the MPP, now requires separate dedicated plants. So, for example, we have just recently realized that we have a high value Aqua smelling raw material which we first thought we will run in the multipurpose plant and you know we would be able to meet the demand. We have quickly realized that, that particular material takes up far too much capacity of the multipurpose plant and it would be better to build a separate dedicated plant to provide the quantities that are in demand from us by the industry. So the multipurpose plant route will continue to stay a very important route for us across all our locations wherever we expand and the two locations where we currently are expanding, our Baroda and Mahad but what we will see is there as the multipurpose plants give out materials to us and we are able to not meet the demand, we will have to build separate dedicated smaller plants to handle the quantities that are required and free up the multipurpose plant for other materials that are in the pipeline of R&D. So even when it comes to hydrogenation, you know I think we will be one company that will be doing hydrogenations and Parag you can help me here once again at various pressures because we have various materials that we would be making. So, I think it would be quite a unique hydrogenation plant as far as the industry is concerned. Parag if you can just emphasize and lift it on that?

Parag Satoskar: Sure, so I think since we all know that Aroma ingredients is like a ala carte menu and it has a wide range of Aroma chemicals, so you know the goal has been to really use the multipurpose plant and handle as many chemistries as possible and so today the R&D and the operations team work on probably twenty eight different chemistries. And then to now boiled down hydrogenation, again I think we are using the same concept when it comes to hydrogenation where we are using a combination of different pressures, different temperatures, different heating media to give us that ability or the opportunity to produce a wide range of Aroma ingredients in a say, sustainable as well as in a bulk way so that is the idea behind the hydrogenation. And Dharmil one small correction that we also in the process of doing some expansions at our Bareilly site. So yes, I mean there we are working on expanding capacity on few of our Turpin chemicals where we feel that post-Covid especially in this sanitization-driven environment, there are some material that we make there which might have a very good opportunity for growth. So, we are expanding capacity and we are also putting up an additional boiler system to make it more sustainable, more efficient from a utility stand point.

Dharmil Bodani: Great, and Aman Vij, to answer the second part of your question on you know what is the effect of deodorant and fine fragrances last year's quarters versus this year's quarters, I am really sorry I do not have those numbers with me and it is too micro for me to answer at this point but if you like, as a follow-up you can check with our IR Mr. Anuj Sonpal in the future.

Aman Vij: Sure sir, maybe you can just talk about the de growth, well I do not need the exact number but it will be like 10%, 20% de-growth versus last year or the de-growth in that segment is like, maybe 50% or more.

Dharmil Bodani: So, I think the first quarter was more or less non-existent for that category. So, if you look at year to year, we are already looking at being 25% down, why is because the first quarter was all the lines that were producing deodorants were producing alcohol-based sanitizers and I would say year to year, maybe a 25% reduction for the deodorant and fine fragrance space. It could go even more depending on how quickly the air travel and duty frees and tourism and the hospitality industry clicks and it is all linked, so to come up with that number, to be honest with you is very difficult for us.

Aman Vij: Sure, whatever you have said helps a lot, thank you.

Moderator: Thank you. The next question is from the line of Amar Mourya from AlFAccurate Advisors, please go ahead.

Amar Mourya: Sir thanks a lot for the opportunity. My first question is, in your current quarter number the overall other operating expenditures had gone up, so any specific reasons for that? It is gone up by almost around 17%?

Dharmil Bodani: Girish, can you please take that?

Girish Khandelwal: Yes, Dharmil. So, you are comparing with the last quarter?

Amar Mourya: No, I am comparing with the last year same quarter, so September '19 versus September '20. And even if I see the last quarter also then also the number is significantly high.

Girish Khandelwal: In which head you are talking actually?

Amar Mourya: So Rs. 33.82 crore, kind of number.

Girish Khandelwal: No actually I am not getting you because if you see our all the operational costs, I mean manufacturing heads or ..

Amar Mourya: What I am doing, a total cost minus your RM cost minus your employee cost, basically the number which remains, that is the number which is around Rs. 33.82 crore.

Girish Khandelwal: So actually, I think, I do not know whether you have considered the change in inventories or not, so we can discuss these things later on also.

Amar Mourya: Sure, second question is, like sir if I see your historic fixed asset turnover ratio, that used to be around at 2 times, so is it because now we are moving from the multipurpose to the dedicated kind of a format, the fixed asset turnover ratios would be something around 1.7 times?

Dharmil Bodani: Look 1.7 times again is a guidance you know; it is something that we work with. We never know what happens with the product mix eventually and whether the 1.7 will go to 2, you know it is very difficult for us to give an exact figure but if 2 is what we have been going at which you have correctly identified, we are hoping that we would achieve that number but as we are conservative in everything we say, I think 1.7 is what the guidance we would like to give.

Amar Mourya: Correct and sir in this particular quarter specifically, the RMC to sales even on the sequential basis also, it has come down significantly, so is it, I mean you indicated that this is largely because of the Camphor mix, so is that, in this particular quarter the Camphor mix revenue contribution which earlier used to be around 30, 35 kind of a mix, this quarter the Camphor segment contribution would be significantly higher than the other businesses?

Dharmil Bodani: Not significantly higher, but yes, the fragrance and I repeat, it is not only the Camphor; the fragrance and the Camphor has shown an improvement in sales price realization.

Amar Mourya: Okay, so because of these two.

Dharmil Bodani: It is two, it is not only, it is not all about Camphor.

Amar Mourya: I got it, and Camphor I understand but the fragrance price increase looks sustainable at least for the near term?

Dharmil Bodani: Yes, the fragrance side, yes.

Moderator: Thank you. The next question is from the line of Anupam Agarwal from Lucky Investment Managers, please go ahead.

Anupam Agarwal: So, I have a couple of questions, I will ask one at a time. Coming to your capex you mentioned the Rs. 325 crore capex over the next thousand, twelve hundred days. Can you tell us about what sort of debt would be need to have on a book, I mean is it going to be debt funded or completely internal accruals?

Dharmil Bodani: So, Girish, can you expand on this because you can you know, as a Company today we are, what is the free cash flow that we are talking about, Girish?

Girish Khandelwal: So Dharmil, as on quarter we have a free cash flow of around Rs. 35 crore and in future also, we are going to use our internal accruals to reduce the borrowing and invest into the future expansion for the capex. So, whenever we require, we have an arrangement with our bankers and we will borrow whenever it requires.

Dharmil Bodani: Correct, so there would be some internal accruals Anupam and it would be some borrowings.

Anupam Agarwal: Right, so we are not averse to take it that.

Dharmil Bodani: Rs. 325 crore is not happening tomorrow morning, it is going to happen over a thousand day period, so you know, we are well within, our balance sheet definitely supports that kind of an expansion over a period of thousand days.

Anupam Agarwal: Right, basically I just wanted to understand we are not averse of taking that.

Dharmil Bodani: No, we are definitely not averse of taking that, we are conservative but we are not averse.

Anupam Agarwal: So secondly, coming to last year Rs. 760 crore of top line, can you elaborate or give us a percentage of what the top three or top five customers would contribute?

Dharmil Bodani: Anupam, I have answered some of these questions in the past, and if it is okay with you, would you be able to contact Anuj, he will give you a better understanding of this, our IR?

Anupam Agarwal: Fair enough. I will get in touch with him. Thirdly, so just wanted to understand the demand situation with our domestic tier 1 customers. I mean in the past five to six months, have we seen increases in inquiries coming from them or if you could just give some direction sense?

Dharmil Bodani: Right, so I think the first quarter was very quiet in terms of R&D from FMCG companies but I think in the second quarter we have seen a revival of that to almost pre-covid levels and everyone is now planning for the next financial year Q1 launches, so whether it is domestic, whether it is our global customers, we are seeing R&D on the fragrance and flavor front having revived to post-covid levels in the last quarter, so we are very hopeful that going forward many of these fragrances that we are submitting today will see the light of day and we will have winds which will help our fragrance and flavor division.

Moderator: Thank you. The next question is from the line of Swechha Jain from ANS Wealth, please go ahead.

Swechha Jain: Hi sir, thank you for giving me this opportunity. Most of the questions have been answered, so just got few questions. One was, I think in the previous call you had mentioned that our dependence on China in terms of raw material is very less, but we do procure some of it from other countries, so could you let us know, which are the key countries that we procure our raw material from sir?

Dharmil Bodani: So Swechha, I have answered this in the past but I will quickly run through the countries that we and I will not divide it and go too much into the detail but if you want to get more details, please reach out to our IR, Anuj. On the pinene front, we look at Indonesia, we look at Vietnam, we look at Brazil, Madagascar, and several other countries. On the Petro-products we are looking at many countries in Malaysia we buy from, we buy from Europe, we buy from the Americas both South and North. So, it is a very wide geographical split of raw materials and I continue to maintain that China does not play as important a role anymore as it used to, maybe a decade ago in the Pinene front.

Swechha Jain: Sir my second question is just a follow-up like, you gave a guidance of 15% to 17% of EBITDA margins but in this quarter our EBITDA margins have been higher in the range of 26% to 27%. So, can we assume that this quarter was like a one-off kind of a quarter because of, you know could be the demand was specific after as the lockdown ended, it was kind of a pent-up demand or because of the festive season, anything specific like why we have this huge delta in margins?

Parag Satoskar: So Swechha, I think like you have rightly mentioned, what we saw in this quarter was a combination of many factors, we were like Dharmil has said earlier, we were on the right side of the raw materials, I think since our plants probably started the earliest even in the lockdown. You know, we also were on the right side of the, on the availability of the finished product when the market wanted it, because of the lockdown lot of the Camphor which is on the shelf had kind of gone away and people were looking at material when the un-lockdown started. So combination of all these factors have led to the performance that we have given in Q2, I mean whether it is sustainable, how far it is sustainable, I am sure we are going to try our best to keep it as sustainable as possible but in the long term or medium long term we are looking at the 15% to 17% EBITDA.

Swechha Jain: So, can we expect higher margins for at least next two, three quarters and then you think it is going to taper down to 15%, 17% or do you think its normal levels are going to be 15%, 17% and this was like a one-off quarter?

Parag Satoskar: So if you look at the major contributors like Dharmil has mentioned earlier, it was Camphor and the fragrance division, both of them to an extent are cyclical in nature as well driven by the festival season in India, so you know as we go to the quarters going ahead, we will probably have some resistance in terms of a) as a demand, b) we are already seeing early indications of the raw material prices going up and hence we are kind of trying to have a little longer position there which have been resulted in the higher inventories. So, we normally are not into the game of speculation, we will always try our best to get the best possible deal on the RM as well as on the finished goods side but we will have to wait and watch because there is so much of uncertainty in every aspect of business is challenging.

Swechha Jain: Right and just one last follow up question. Sir you were explaining about the multipurpose plant, just want to understand, now when we are moving to a multipurpose plant, what kind of efficiency or a cost saving, you know are we looking at we will be, you know that the older plants that we have still gives some number or some percentage, like how do we look at the multipurpose plant or the expansions that we are increasing our cost efficiency, does it really help us in that?

Parag Satoskar: So I think it is not an apple to apple comparison, a dedicated or a bulk commodity, a single product plant versus a multipurpose plant in terms of every aspect of its operation and production is different because you know multipurpose plant you would normally go for campaigns, in single product plants your objective is to really go for continuous processes so that we can get as much efficiency as possible whereas in the multipurpose plant we are looking more at variety, you know at probably a little sacrificed for efficiency, you know just to give you a perspective, you might have a reactor in which you might carry three campaigns, you might have a stirrer, it would give you optimum efficiency for all the three products but in a single product plant you will design the stirrer so that it gives you the best efficiency for that single product. So, you know these two are probably not an apple to apple comparisons, they have their own advantages and own challenges which probably our teams are always looking to manage. I hope I have answered your question.

Moderator: Thank you so much. The next question is from the line of Crest Wealth PMS, please go ahead.

Crest Wealth PMS: Hi, this is Viral from Crest Wealth PMS. My question was since you are already at 100% utilization, what is the volume growth headroom we have for the next few quarters, when the Baroda plant.

Dharmil Bodani: I am sorry, I have not understood your question.

Crest Wealth PMS: What kind of volume growth can you achieve for the next few quarters because I think you are already at 100% utilization; can our volumes go further from where we are in Q2?

Dharmil Bodani: Unless we do not have new capacity, it will not grow.

Crest Wealth PMS: And the Baroda capacity comes up at one go after 450 days or it comes up in two weeks?

Dharmil Bodani: It will come up in one go.

Parag Satoskar: So just a brief clarification, I think we have a Brownfield project where the capacity expansion will probably come on line by as early as next month and that would probably eventually give us added numbers of between Rs. 15 crore to Rs. 18 crore in the whole of next year but the rest of the capacities like Dharmil rightly said, even in Baroda are going to be staggered and are going to take at least three hundred to three hundred and fifty days to come on line.

Crest Wealth PMS: Secondly, I think the Mahad capex, we have done it in one of the subsidiaries, so is it to take advantage of tax exemption or there are any other plans there?

Girish Khandelwal: Actually, we did form the subsidiaries for the tax benefits as government has announced for 15% to it.

Moderator: Thank you. Ladies and Gentlemen, due to the time constraints that was the last question. I now hand the conference to Mr Dharmil Bodani from Oriental Aromatics Limited for closing comments.

Dharmil Bodani: Thank you all for participating in this earnings call, I hope we have been able to answer your questions satisfactorily. If you have any further questions or would like to know more about the company, please reach out to our Investor Relations Manager at Valorem Advisors. Once again, I thank you all and please be safe.

Moderator: Thank you. On behalf of Oriental Aromatics Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.