

Oriental Aromatics

Ref: OAL/BSE/NSE/100/2023-24

16th November, 2023

To
The Manager
Department of Corporate Services,
BSE Limited,
Phiroz Jeejeebhoy Towers
Dalal Street, Mumbai- 400 001
Scrip ID : OAL
Scrip Code: 500078

To
The Manager
Listing Department,
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex
Bandra (East), Mumbai - 400 051
Symbol: OAL
Series : EQ

Sub: Transcript of conference call with the Institutional Investors/Analysts

With reference to our letter dated 03.11.2023, intimating about the conference call with the Institutional Investors/Analysts on Friday, 10th November, 2023 at 01.00 p.m. to discuss the Financial Performance of the Company for the quarter & half year ended 30th September, 2023, please find attached herewith transcript of the aforesaid conference call.

Further, the copy of the same is also uploaded on Company's website i.e. www.orientalaromatics.com

Kindly take the information on your record.

Thanking you,
Yours Faithfully

For Oriental Aromatics Limited

Kiranpreet Gill
Company Secretary & Compliance Officer

Oriental Aromatics Ltd.

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Oriental Aromatics Limited
Q2 FY24 Earnings Conference Call
November 10, 2023

Moderator: Ladies and gentlemen, good day and welcome to the Oriental Aromatics Limited Q2 FY24 Earnings Conference Call.

As a reminder, all participant lines will be in the listen only mode. And it will be. For you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing '*' then '0' on your touch tone phone.

I now hand the conference over to Mr. Amit Thakkar from Valorem Advisors. Thank you and over to you, Sir.

Amit Thakkar: Thank you. Good afternoon, everyone and a very warm welcome to you all. My name is Amit Thakkar from Valorem Advisors.

On behalf of the company. I'd like to thank you all for participating in the company's earnings call for the 2nd Quarter and the 1st Quarter of the Financial Year 2024.

Before we begin, let me mention a short cautionary statement. Some of the statements made in today's earnings 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 belief as well as assumptions made by information currently available to management. Audiences are cautioned not to place any undue reliance on these forward-looking statements and to make any investment decisions. The purpose of today's earnings call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

Now, let me introduce you to the management participating with us in today's Earnings Call and hand it over to them for opening remarks. We have with us, Mr. Dharmil Bodani -- Chairman and Managing Director, Mr. Shyamal Bodani, Executive Director, Mr. Girish Khandelwal -- Chief Financial Officer; Mr. Parag Satoskar -- Chief Executive Officer and Ms. Kiranpreet Gill -- Company Secretary.

Without any further delay, I request Mr. Dharmil Bodani to start with his opening remarks. Thank you. And over to you, sir.

Dharmil Bodani: Thank you so much, Amit. Good afternoon, everybody. It is a pleasure to welcome you to the Quarter 2 Earnings Conference Call of Oriental Aromatics Limited.

Wishing you firstly and all your families a very Happy Diwali.

The quarter that has gone by has shown some very interesting opportunities for us in our Fragrance and Flavor division. Where we continue to win new business from existing customers and acquire new customers in all markets that we operate in. However, the Camphor Terpene Chemicals Division, as well as the Specialty Aroma Ingredients businesses, are still experiencing severe pressure on both pricing and demand. We have received our volume indications for the First Half of 2024 from our customers and the volumes received in the RFQs are much better across the board than H2-2023 numbers. Although the pressure on pricing does continue.

However, we would like to mention that in all the global RFQs that we are participating in, we are participating not only with a larger number of products, but we are also participating with larger volumes and bidding for an improvement from our last RFQ which in our opinion is extremely signal.

The Baroda facility had a significant slowdown in production this quarter. This was due to planned slowdown in production done at the start of the quarter and a planned annual boiler maintain and shut down that was taken in the month of August. This led to a double-digit drop in production at this site in the quarter. However, we are glad to inform you that this reduction in production has not resulted in a drop in sales. This actually helped us achieve the objective of optimizing the inventory at the site. The Bareilly plant production was at full capacity and in line with last. And the sales from the site showed a healthy double-digit growth. However, profitability still remains a massive challenge due to pressure on pricing for all products in the Camphor and Specialty Chemical space. This part of the business will continue to stay under pressure for the next few quarters is what we believe. The CAPEX plans though, downsized by a bit to ensure sustained profitability across all sides, continue to stay on track. The hydrogenation facility at Baroda has been optimized and will be commissioned in Q4 2023-2024. The Mahad investment stays on track on both timelines and budget.

Now I request Mr. Girish Khandelwal – our CFO, to give you the financial highlights. Over to you Girish.

Girish Khandelwal:

Thank you very much Dharmil. I would like to welcome you all to the conference call. On a consolidated basis in Q2 FY24, the operating income for the quarter was Rs. 227 crores, which increased marginally by approximately 3% on a year-on-year basis and 16% on 1/4 on quarter basis. EBITDA was Rs. 11 crores with EBITDA margins reported at 4.85%. Net profit after tax was Rs. 2.4 crores while pet margins were 1.06% on a consolidated basis for the first half of a by 24. The operating income was. 423 crores, which declined by about 7% on year-on-year basis. And EBITDA was Rs. 12 crores with EBITDA margins reported at 2.84%. We had a loss reported of Rupees 3.6 crores. Lastly, the net debt equity is .33 as on 30th September 23 and cash profit in H1A524 stood at 6.20 crore. With this, we can now open the floor for question-and-answer session. Thank you.

Moderator:

Thank you. The first question is from the line of Guneet Singh from CC IPL. Please go ahead.

Guneet Singh: So, I've been looking at the current condition of prices that you're relating, but you mentioned that the demand for our products has been fairly well. But I mean looking at the condition right now, what do we expect for H2 to be like in terms of, say the margins, I mean have the margins bottomed out or can we expect the margins to go down further and what is the outlook H2 in terms of top line and bottom line looking at the current conditions? And going forward do you see any uptick in prices or any demand or do we see any growth coming in next year because our revenues have been stagnant for the last many years?

Dharmil Bodani: Yeah, product.

Parag Satoskar: Guneet in terms of as Dharmil had mentioned in his opening remarks, the demand as mentioned essentially with our top customers, I think we are seeing that the volume requirements are much better than what we were seeing in H2-2023 calendar so, that's a good sign. In terms of margins and in terms of pricing, I think we still stay in a zone where the world is destocking, yes, that's phenomena is reduced. But at the same time, there's also because of cash flow requirement, a lot of pressure on inventories. So, the customers are buying less. And hence there's too much of products following too many to less customers. And so, the pressure on pricing I think will continue to stay. I think we're doing a lot of things internally to see if we can kind of shore up the margin for the next one or two quarters going forward. In terms of volumes, they look good in terms of pricing, they will challenge. We will have to wait and watch if there are certain opportunities across certain products where we have the ability to get a better pricing. In the meantime, we are doing a lot of work internally to see if we can optimize and. Improve our product.

Moderator: Thank you. The next question is from the line of Nikhil from Perpetual Investment Advisors. Please go ahead.

Nikhil: Can you tell us more about what's happening in the aroma chemicals and camphor space? What is leading to this pressure, whether it is lower demand or higher competitive intensity from domestic or international players?

Parag Satoskar: So, I think. First, talking about Camphor the last 12 months has seen the competitive landscape in India changing a lot with new capacities coming up. And those new capacities are probably not in line with the growth in demand that is expected in the Camphor and the terpene chemicals piece in India. And so, the pressure on pricing, the pressure on profitability will continue in the coming quarters. In terms of aroma ingredients, I think we see two phenomena that are happening. I think the products which are based in the aroma ingredients based on the alpha pinene chemistry continue to have a lot of price pressure because the pinning is available at a lower price. But at the same time, like I mentioned in my previous answer, that the ability of the market to absorb material and keep it as inventories has reduced in the Western World because of the high cost of borrowing and we still have certain residual destocking for critical materials that's happening. So, in the pinning space, we see that the prices continue to stay up to in the products that are based on crude and other non-pining based raw material imports,

we are seeing that the prices have bottomed out, the prices are at their lowest levels that we have seen. For many, many years. But there is a very little scope of further downside, and based on the uncertainty in the market, if the prices of the feedstocks start going up, then we might see a turnaround. I think what is more critical is to have a kind of a steady state of demand where the market is neither over buying nor under buying, so that we can then plan our production, plan our procurement and have a steady state of margin.

Nikhil: Understood. So, on the demand front, you know last 1-1.5 year. Dividing the market into two parts, one is, I think, consumer fragrances and the other one is fine fragrances. I think Fine was struggling since COVID and now it is doing well, probably growing in double-digit while consumer did well in the earlier part of COVID and struggling since then. When do you see the demand situation sort of normalizing where you are?

Dharmil Bodani: We mentioned we are seeing robust growth in our Fragrance labor division in terms of new product launches, in terms of new wins, in terms of acquiring new customers. So, I think that you know that side of the business seems to be seeing what we saw post in terms of development, in terms of launching of products. So, I believe that vertical is back. I think it's back and it's going to be in a steady state for a while. And the reason I say it's going to be steady state for a while is I believe that we are seeing on the fragrance and flavor side the chemical prices raw material costs for us now are levels that makes it makes it sustainable to give long term pricing, etc., and cover maybe larger stocks of critical materials while the prices are this way and this is with our Fragrance and Flavor division. Now on the aroma chemicals, both bulk and specialty, obviously the reaction is where the prices are currently under pressure. So, our goal as a company now is to focus on profitable products, focus on more markets and in the long term we hope to increase our bulk specialty space and in terms of both volume and value. And we will look at chemical camphor and the product list very differently than we have in the past.

Nikhil: Understood, understood. So, the last question is on the camphor side. As you said a lot of capacities have come in, in the domestic market, which is leading to pressure. How does demand look like? Is it I mean growing year-on-year on the volume side and is it possible to how does the international markets look like?

Dharmil Bodani: As far as we are concerned, we are active in the pharma space, in the international market and that is stable. And on the on the demand side, I'll speak for Oriental Aromatics as far as we are concerned, in spite of the increased capacity and the pressure on the price we still seem to be, as I've said in my opening statement, at full capacity at Bareilly. Our challenge there continues to be only profitability.

Moderator: Thank you. The next question is from the line of Saket Saurabh, who's an individual investor. Please go ahead.

Saket Saurabh: Yeah, hi. Thanks for the opportunity. And at least there's some improvement now from Q1 to Q2. Hopefully the trend will improve. So, the first question would be no, initially a couple of quarters when we have asked what is the typical revenue mix so you had suggested it was one-third across all three divisions. So, does that mix remain the same or has there been much lower contribution from camphor now?

Dharmil Bodani: Firstly, the contribution from camphor is not volume driven because the volumes are intact. There is pressure on the top line and the price. Now, having said that, absolutely the mix currently stays at one-third, one-third, one-third. And I think once all the expansions in Mahad and Baroda come into play, we are expecting the mix to change most definitely and that I will update you all in the future for sure. And I think we will see definitely the Speciality and bulk aroma chemical vertical seeing a larger contribution in our balance.

Saket Saurabh: Now coming to camphor, in camphor, are we gross margin positive or even at GM level we are making a loss right now?

Girish Khandelwal: We are positive.

Saket Saurabh: At EBITDA level, we are making loss in camphor.

Girish Khandelwal: Currently, we are positive.

Saket Saurabh: If I look at the stable state, I think our margin used to be say 14% to 16% when I'm talking about EBITDA. So, now if I look at say these three divisions. So, will it be safe to assume that fine fragrance, which is the one that is doing reasonably well, is now closer to this stable state and maybe the struggle is more in the second and of course Camphor is struggling. So, is that a fair assumption?

Dharmil Bodani: Yes, it's a fair assumption.

Saket Saurabh: So, from that standpoint, we will do everything. That Camphor is still positive because unless it is almost negative on EBITDA front because our EBITDA is around what, 4% right now so, that was the point you know, are we sure that on EBITDA front we are positive right now?

Dharmil Bodani: Yes, we are 100%. So, we are on a positive front on EBITDA. Absolutely.

Saket Saurabh: Thanks for confirming. Now coming to that, you talked about a couple of CAPEXs going live in Q4. So, when we say going live is it like the plant is operational or and the test batches will now start doing or we have got these test batches and all something that you have referred to are out of the window now full commercial orders will start getting dispatched.

Dharmil Bodani: No, I think it's too early for that and it's too premature for me to answer that. I do believe that we will stay with the timelines to get into specifics of water trials, sampling, commercial. I don't have answers for you too.

Saket Saurabh: More from a historical perspective, if I recall from some of the input shared by earlier that it takes around six months for this thing to at least get in some shape getting these trial batches and approvals from client is that a fair assessment.

Dharmil Bodani: Absolutely.

Moderator: Thank you. As we have no further questions, I now hand the conference over to the management for the closing comments.

Dharmil Bodani: Thank you all for participating in this Earnings Conference Call. I hope you've been able to answer all your questions satisfactorily. If you have any further questions or would like to know more about the company, please reach out to our IR Managers at Valorum Advisors. We wish you a very happy. Thank you.

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