Oriental Aromatics

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05th August, 2022

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 27.07.2022, intimating about the conference call with the Institutional Investors/Analysts on Tuesday, August 02, 2022 at 01.30 p.m. to discuss the Financial Performance of the Company for the Quarter ended June 30, 2022, 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 KAUR GILL
Digitally signed by KIRANPREET KAUR GILL
Date: 2022.08.05 11:58:18 +05'30'

Kiranpreet Gill
Company Secretary & Compliance Officer

Oriental Aromatics Limited
Q1 FY23 Earnings Conference Call
August 02, 2022

Moderator: Ladies and gentlemen, good day and welcome to the Oriental Aromatics Limited Q1 FY23 Earnings Conference Call. 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 over the conference to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you Mr. Sonpal.

Anuj Sonpal: Thank you. Good afternoon, everyone and a very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the investor relations of Oriental Aromatics Limited. On behalf of the company, I'd like to thank you all for participating in the company's earnings call for the first quarter of financial year 2023. Before we begin, let me mention a short cautionary statement. Some of the statements made in today's earnings call maybe 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 belief as well as assumptions made by an 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, 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 firstly have with us Mr. Dharmil Bodani – Chairman and Managing Director, Mr. Shyamal Bodani – Executive Director, Mr. Parag Satoskar – Chief Executive Officer, and Mr. Girish Khandelwal – Chief Financial Officer. Without any further delay, I request Dharmil Bodani to start with his opening remarks. Thank you and over to you, sir.

Dharmil Bodani: Thank you so much Anuj. Good afternoon, everybody. It is our pleasure to welcome you to the quarter one earnings conference call of Oriental Aromatics Limited. I hope every one of you all are safe and healthy. During the quarter, the company witnessed a healthy demand across all product, aroma chemicals, camphor, fragrances and flavors. I am glad to inform you all that the production and sales volume for the quarter has improved by 5% and 2% respectively on a quarter-on-quarter basis. Margin and profitability pressures continue due to significant increases across all input costs, mainly due to impact of geopolitical issues, supply chain disruptions from China. This however, is showing signs of stabilization and in some cases have started a downward correction as well. The CAPEX plans had been slowed down in a bid to buffer the impact of severe cost escalations from input prices. Now, that the commodity prices are showing signs of reduction and stabilization, we will be forging ahead with our CAPEX plans. Now, I request Mr. Girish Khandelwal our CFO to give the financial highlights. Thank you.

Girish Khandelwal: Thank you Dharmil. On a consolidated basis in Q1 FY23, the operating income for the quarter was Rs.234 crore, which was an increase of approximately 1.7% on a year-on-year basis, and a increase of 15% on a quarter-on-quarter basis. Operating EBITDA reported was Rs.17 crore, which was a decrease of about 52% on a year-on-year basis, and a decrease of 25% on a quarter-on-quarter basis. Operating EBITDA margin stood at 7.06%, which was a decrease of 796 basis points on a year-on-year basis, and a decrease of 383 basis points on a quarter-on-quarter basis. Net profit after tax reported was about Rs.8 crore, which was a decrease of about 63% on a year-on-year basis, and a decrease of 20% on a quarter-on-quarter basis. While PAT margins were 3.6%, which was a decrease of 628 basis points on a year-on-year basis, and a decrease of 157 basis points on a quarter-on-quarter basis. Thank you, with this we can now open the floor to the questions and answer session.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Pujan Shah from Congruence Advisors. Please go ahead.

Pujan Shah: My two questions would be on the margin side, actually we have been trajectory a margin from let's say EBITDA of 15%, 16% odd and currently we are at 8% margin and has this inflation cost it will simulate and currently. So are we seeing this EBITDA margin has been bottoming out or we can say the impact margin has been bottoming out currently and we will see a good traction from –6:01?

Dharmil Bodani: Good question, I think Parag you could take it and address the EBITDA.

Parag Satoskar: Sure. Pujan, good afternoon. As we all know that right now, we are trying to probably come out of two shocks, which were the supply chain shock, and also the input cost shocks, we are in it, but we are showing some signs of correction over there. And, we are kind of trying to face another shock which is where we are seeing that, because of the overall environment globally of trying to kind of curb inflation, we are seeing a new shock which is being created, which is where we are seeing that the demand for a lot of materials are kind of flattening out. So, we find ourselves in extremely uncertain situations where we've been exposed to multiple things, but not so many things at one time. So, our EBITDA expectations of or guidance's of 15% to 17% are long term guidance's, which are sustainable, and which we are confident in achieving in a stable state scenario over a long term period. If you look at the current scenario, and how the business is being panned out, if you're looking at the current financial year, we probably would look at a guidance of anywhere between 7% to 10%. And as I said that, although the situation is challenging, we are very confident about our business, our product line and the demand from our customers. And so if there is any improvement that is possible, by our internal actions or external, we will take those actions and we will try to work on these EBITDA margins. But based on our current situation, for the guidance for this year, we look at between 7% to 10%.

Pujan Shah: 7% to 10% of EBITDA, right?

Parag Satoskar: Yes.

Pujan Shah: Okay. And my next question would be on the debt side, we have taken debt of like 45 crore long term debt. And like, currently you have said this we have stopped this CAPEX due to inflation in the raw material costs. So how much money would get deployed now, like stabilizing in the cost and what can be the deployment of the CAPEX requirement by us from now?

Dharmil Bodani: No, I said, you can go ahead Parag in terms of suggesting the point of it being stopped. So

Pujan Shah: I suggested to pause actually.

Parag Satoskar: Correct. So, as a general philosophy, as a company, we stay extremely committed to keeping debt control as one of our key business points when we handle business on a day to day basis. So, that's our general philosophy, that doesn't change at all under any circumstances. We become five times more careful when we actually take debt otherwise we love to stay debt free. Based on the question of pausing, it was an intentional decision to really kind of just wait for a while reassess the whole situation, because we were seeing a very unrealistic situation where there was an unrelenting and non-sustainable price increases occur across all input cost which are related to projects So, that was kind of impacting our overall success matrix for the CAPEX, and that is the reason why we kind of took a little bit of a pause and now that we are seeing that the prices of steel, et cetera are started correcting, now that we are seeing that the freight costs have started correcting. We have again gone into active mode and we have again started all our projects related activities in full swing, this primarily was an internal decision to ensure that all our investments adhere strictly to our internal ROI norms that we have set. Point number two, in terms of what is going to be the impact of that, we are looking at a very moderate impact of anywhere between say three to five months delay in the timelines that we have set for all our current projects across Baroda, Bareilly and Mahad.

Pujan Shah: Okay, sir got it. My third question would be, as we have seen that the demand would been muted for camphor due to festive season was not actively being there we have seen due to COVID and pandemic situation. Now, the situation has been opening up, are we seeing the demand and due to destocking or the supplier has been in the stocking mode and we are being flat on the demand in this festival season?

Parag Satoskar: On the demand side, we have seen that the whole world has had a muted celebrations for the past two years, and every festival has been welcomed with open arms by the consumers. So, we are seeing that demand for camphor is probably strong and will stay strong in the festive season. What is probably the challenge part is the realization, and the competitive landscape which is becoming a little more complex on the camphor side.

Moderator: Thank you. The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: My first question is, Parag as you mentioned that this year we are guiding for 7% to 10% EBITDA margin. The question is that, we have a very diverse product basket across product groups. And generally what we have seen is that, when you have a diverse product basket, things balance out and the impact on margin is less volatile. But in our case, even after few month of CAPEX looks like we have not been able to pass on the entire RM price increase and logistic cost increase. So, can you dwell upon this to any specific products which are contributing to this margin squeeze or product concentration within our product portfolio that is leading to this, some color on why such a sharp drop in EBITDA margin on a sustained period, if you can elaborate?

Parag Satoskar: Sure. So, firstly, Dhwanil I would like to say that as a broad philosophy, Oriental Aromatics always believes in under committing and over delivering so that's the broad philosophy point number one. Point number two if we look at the industry that we cater to, which is the fragrance.

Moderator: Mr. Desai, do you have any further questions?

Dhwanil Desai: Yes, so one more I have is, so in the last call, we were thinking that we will capitalize around 180, 190 crore of new capital assets this year. So, what kind of asset turns that we are looking at, we have guided for 1.5 to 1.7 times, and what is the timeline for reaching those kind of revenue from the capitalized assets. In the next two, three years are we planning to reach that number?

Dharmil Bodani: As explained in the previous calls, the CAPEX is now again restarting, the layout of that CAPEX is going to be the requirements of funds as we need them, the numbers still the same. And we're looking at a three to five month delay in commissioning phase wise across Bareilly, Baroda and Mahad, so I believe that. I'll just answer this question the second one Parag and then you can go back to the first one. So, I would say in the next financial year, you would see at least the Baroda, Bareilly numbers coming in. And shortly after that, you would see the

Mahad numbers coming in. So it's basically we are looking at an 18 to 24 month process to arrive at those numbers.

Dhwanil Desai: Baroda we commercialize early FY24, is that?

Dharmil Bodani: FY23, Parag what are the timelines. The question is the timelines on the CAPEX, commissioning of the various plants and you have that.

Parag Satoskar: Yes. So, Dhwanil I'll probably answer your first question and then move to the second one, if that's okay. So, I was just kind of saying that from a demand perspective, we all have to be extremely mindful, at least we are that in our business, the consumption of the finished product which is the fragrance or the soap, or the shampoo has not diminished. Neither did it increase in 2020 and 2021, when we were seeing a tremendous demand. So, all this demand in 2020, 2021 was kind of fueled by the industry overstocking itself, because of the challenges that everybody was facing in the supply chain. Another very interesting development that has happened in the last 30, 45 days, is we are seeing a lot of the China lockdown materials that were stuck now reaching the stock points globally. And kind of again creating a situation of overstocking. So, Dhwanil to answer your question, the demand is going to be there, the demand is going to be sustainable, the usage of our ingredients or our fragrances continues to stay strong. And as the world kind of gets into a more sustainable consumption pattern, we are going to probably again, reach a situation where we will be in a position to have a more kind of stable stage scenario, and then achieve our EBITDA margin, so that is what our understanding of the business is, and we are kind of monitoring it on a day to day basis.

Dhwanil Desai: Okay. So, specific product or product group which is contributing to the margin pressure or it is across the board?

Parag Satoskar: See, it is probably driven by the input cost, if you look at the margin pressure that we are currently experiencing, it is driven by the input costs. So, input cost have gone up across the board, if you look at power it has gone, if you look at freight it has gone, if you look at the petrol based raw materials that has gone, everything else which is left out has gone just like that. So, we are seeing across the board and as you rightly said that the diverse product portfolio in fact gives us a much better chance of recovery because if we see certain raw material groups kind of falling in place in terms of the raw material pricing and we having a very stable pricing for our finished goods, we will be able to kind of re achieve or regain that EBITDA faster.

Dharmil Bodani: The second question was related to the CAPEX layout.

Parag Satoskar: Correct. So, if we look at our Baroda side, the Greenfield projects or the multiproduct hydrogenation facility project, we feel that it should be kind of completed, commissioned and validated by end of H1 2023. So, it's calendar not financial, calendar H1, so, we are looking at the June 2023 commissioning, validating of all these products and the impact of this extra production on sales would probably be seen on the spot procurement side in H2 2023 calendars and on the RFQ side more on the H1 2024 calendar, this is about the Baroda site. On the Mahad site, we all knew that there were delays in terms of the environmental clearance. However, we have received that and we have quickly now moved ahead in the areas like plot development, et cetera, et cetera. And those are absolutely taken on war footing. But unfortunately, because of the rain, the basic layouting of the plot might probably have to wait for a month or so, but we are not wasting our time there we are kind of trying to do our process reengineering, et cetera, et cetera completed. So, when we have developed the plot we will be in a position to kind of quickly start our construction of the plants and the utility plant. So again there we are looking at a timeline of H1, end of H1 calendar 2023 for commissioning our first plant and moving forward and on the Bareilly side where we are doing the Brownfield project. Like I said, last quarter we have completed the propanol expansion. We are also doing some small expansions in the other product mix on the terpene chemicals, which probably should be done before say end of before October 2022. And we should start getting those numbers added to our top line in 2023 calendar.

Dhwanil Desai: Just one follow up, 1.5 and 1.7 remains as it is?

Parag Satoskar: Yes.

Dharmil Bodani: He had asked this question on our assets 1.5, 1.7?

Parag Satoskar: Yes, it will.

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

Aakash Javeri: Some of my questions have already been answered. One of them was, is your plant US FDA approved for camphor?

Parag Satoskar: Yes.

Aakash Javeri: Okay. So, do we see any risk to our camphor business due to competitors or being backward integrated?

Parag Satoskar: This whole motion of being backward integrated probably, is something which needs to be debated a lot further than probably an investor call. Because, the advantage that we have in terms of having well established global supply chains for our raw materials developed over the past 65 years plus having a well function, well-oiled camphor plant, the product out of which has been accepted by our customer for the past 50 years, more than compensates or some advantage that you might have in terms of the so called concept of backward integration, which itself can be challenged.

Dharmil Bodani: Correct. And I would like to add here, is that the delta currently between the CST based raw materials and alpha pining or the beta pining is there it exists, but it does not really put Oriental Aromatics in a situation where competition will have a advantage in terms of selling price or in terms of realization. And having said that, I believe that a company like ours, who does have a need for alpha pining, beta pining and all of other products that are routed through CSD, it's a matter of time that, we would be in a position to confirm our expansion plans in Mahad, which at this point, I would like to inform you that it will contain CST as part of the product mix.

Aakash Javeri: So thank you so much. Just another question was, do you see your clients trying to diversify away from China, or I'm trying to get a sense of where exactly are our competitors **–26:27**, apart from India?

Dharmil Bodani: So, Aakash to answer your question, the China plus one, China plus two strategy has been in place for a while now we've moved on beyond that and now in fact our clients are kind of exploring not only the country of preference for buying raw materials, but also the size of the supply chain, we have situations where we have competitors who make the same products. And, we compete with them when we supply those materials to them, or supply those materials in the global markets, but in their operations in India or Singapore, they buy from us because of the condensed supply chain, which gives them guarantee of business continuity. So, the whole concept of China alternatives has been in play and now the customers have gone beyond that and looking at even more innovative procurement strategies.

Moderator: Thank you. The next question is from the line of Rajesh Jain from NB Investments. Please go ahead.

Rajesh Jain: I have two questions. One is if you see in last financial year, in the Q1 and Q2, we have done 230 crores of quarterly sales. And in Q3 and Q4 it's around 205 and 203 crores of sales. So in the Q1 of last year call, it was mentioned that all our clients at that time was running at full utilization. So now in Q3, Q4, the sales were down quarterly. So what I want to know is, if this drop in sales was due to the dropping demand, or was it due to the decrease in the raw material prices or what is the reason for that?

Dharmil Bodani: So, Rajesh thanks for the question. It was beyond going extremely micro, but it was primarily a combination of certain shutdowns that we had taken in the month of September, where we were going to kind of hook up our single product plant in Baroda that had a little bit of the impact on the production and which had an impact on the overall top line. And you also looked at, there was also a little bit of client overturn which happens on the fragrance side, where we were looking at new client acquisition and letting go certain clients where we felt the business was not very, very profitable for us over the long period of time. And so, we probably would have seen not a very substantial but a little bit of a drop in terms of the top line and Q4 historically is a little bit of an offseason quarter primarily because of no festival then so you have the camphor sales, which gets carried over.

Rajesh Jain: Just a follow up on this, the reason for asking that question was, the reason for drop in our margins is it due to the drop in demand or is it due to an increase in raw material prices and we are not able to pass it on completely to the customers?

Dharmil Bodani: Correct. So, Rajesh to answer your question, the production quantities probably would not be driven by our inability to pass on the price increase, because the production quantities are depending on our production plans and our capacities at the plant. So, I can very safely say and Girish can correct, that if you look at our overall yearly production last year, compared to the year before that, we had a probably a 10% increase in terms of the volume of production. So, if you look at our ability to kind of extract production from our plants, we are there. Like I said, that there might have been certain aberrations which would have been caused because of, so there was lag in demand, neither was there a problem in the plant, but these are fully kind of in the routine of running the plants incidents that happened, which kind of need to be mitigated. Otherwise, if you look at a broad picture year-on-year, we have shown an increase in the production.

Rajesh Jain: Okay. So it is basically because of this increase in input prices, since raw material prices are **– 31:33** logistics that we are unable to pass it on to the customer is that is the main reason for the drop in margins. Is that a fair assessment?

Dharmil Bodani: Yes.

Rajesh Jain: Sir, my second question is regarding the new CAPEX, so enough has been said about the amount being spent, asset turnover and now you have given the revised the schedule. My question to you is, assuming that all the projects would be ready, based on the timeline you have given, how much time does it take to run at full capacity based on the current scenario of demand?

Dharmil Bodani: So, Rajesh to answer your question I would go back to again, a general philosophy that we have in Oriental, which is that whenever we launch a product we use the first three to six months, because it's a generic specialty aroma ingredient, to really gain customer acceptance for all these products. And it is our stated objective to focus on acquiring anywhere between 33% to 50% of the available market share within the first 1000 days of the plant being commissioned. So this is our philosophy, so when you look at this philosophy our objective is to kind of take the plan to optimum or to 75% to 80% of the capacity within these 1000 days and then still have some capacity left for the CAGR growth that will happen in that particular product based on our understanding of that product.

Rajesh Jain: So based on this, so if I take it as the end of FY24, as the commissioning by which all your plans would have been commissioned, so three years from that would be a fair assessment to take them running at full capacity utilization.

Dharmil Bodani: It will probably be a little less than that if we look at our past track record, but you can take three years as an outer number for us to really reach in the worst possible scenario.

Moderator: Thank you. The next question is from the line of Viraj Mehta from Equirus PMS. Please go ahead.

Viraj Mehta: My questions have been answered. Thank you.

Moderator: Thank you. The next question is from the line of Rohit from Progressive Share Brokers Private Limited. Please go ahead.

Rohit: Sir, I have two quick questions before I fall back in the queue. The first one is related to follow up probably on the US FDA approved camphor. So some of these pain management companies which are in large space, they have been growing aggressively. So would you like to take us through the current scenario with US FDA approved camphor versus the pain management industry and our contribution towards that?

Dharmil Bodani: So, Rohit first of all thank you very much for your wishes. The whole team is very, very excited to really be part of this celebration. To answer your question, Oriental historically has probably been one of the first companies to really play an active role in the pain management space in India as well as globally. So, we remain committed to that, that space in many cases has a lot of entry barriers in in terms of drug master file, et cetera, et cetera, which need to be taken care of. And we at Oriental Aromatics can safely say that we've been there and done that. So, that kind of gives us a better positioning of the product globally point number one, better acceptability of the product globally point number two, with our existing players, where we are seeing a consistent and a sustainable growth happening and like you rightly said that when we are seeing the competitive landscape in India change in camphor, we are exploring all options that are available on the table to really try to address and be part of not only the pain management space, but other areas which are opening up which right now, I do not have the liberty to share with but which are opening up where we will see our future growth coming. So, camphor for us is a product which yes, definitely plays a very key role in the religious and the puja space, but also as a very dynamic and ever expanding role in the global industry apart from pain management.

Rohit: My second question is related to the innovations done, green chemistry and green technologies which we've been talking about, and then there's one part of the reengineering of the existing molecules, if you can just help us understand what exactly do we do in case of re-engineering the older molecules are part of the high value, low volume kind of products. And second part to that is, are all the plants zero liquid discharge, the ones that will be coming in future as well?

Dharmil Bodani: So, the whole world has given this green chemistry or green engineering a very pivotal space and Oriental believes in that strategy right from the start, just to give you a perspective, our Bareilly plants water consumption in the past was 1000 kilo liters a day. And, we did a project there, and we kind of brought it down from 1000 kilo liters to 185 kilo liters a day. That's a reduction of 90%. So, it's all very, very simple things and this is what we call as the chemical process reengineering part of our business, so for example if you're using a catalyst system A, which we've been using for the past 25 years, and there are new catalyst systems that have come. So, how do you kind of homologate or incorporate those new catalyst systems. How do you look at atom efficiency, how do you look at each carbon that is there in your molecule being coming from the petrol route or coming from the carbon route, and how can you convert the petro route carbon into the sustainable carbon. So, these are all very exciting, very interesting discussions that are happening at the innovation table, all of them are guided by the creative team on the fragrance side as to the birthplace of these ideas, and then taken up by our ingredients R&D team to really explore and see how we can kind of make them see the light of the day. So, we are kind of phasing this program into three aspects or three elements. One is something where we are seeing some immediate effects, I've given you examples. The other is where we see our studies which we are doing today, making us a more sustainable player in the very near future. And then we are creating a master list of raw materials which today are coming from the non-sustainable route. I'm coming on the ZLD part. So all plants, our Baroda site today has the ability to discharge 121KLD into the common effluent treatment plant. So that will stay because that has deep sea discharge. But apart from that all our plants here in Baroda, or in Mahad, Mahad will be full zero liquid discharge from day one. Baroda will have a zero liquid discharge philosophy beyond that 121 KL and we are also actively working in Bareilly to make it zero liquid discharge, which is our objective in the next 500 days.

Rohit: Are we are we looking at flow chemistry processes to be imbibed in the upcoming times?

Dharmil Bodani: Can you please repeat what chemistry?

Rohit: Flow chemistry, when you speak about catalysts. So, there could be an addition where the entire instead of the batch processes, we have a continuous flow of the molecules or processes for chemistry, are we looking at that?

Dharmil Bodani: So, the answer is yes and no, the answer is wherever we have reached a critical mass, where we feel that moving from a batch stroke campaign processing to a continuous process will help us get benefits in terms of yields or costs and performance and sustainability. We are exploring that and we have done that in the last four to five years, there are a lot of batch processes, once they reach certain critical mass have been converted into continuous. But, if you look at the specialty ingredients space, a lot of the products here are kind of at volumes where it is really not sustainable to convert a batch process into a continuous process.

Moderator: Thank you. The next question is from the line of Rajat Sethia from Idot Financial Advisor. Please go ahead.

Rajat Sethia: Sir what was the volume growth in this quarter?

Dharmil Bodani: Girish has mentioned it, it was 5% in production and 2% in sale.

Rajat Sethia: Okay. And what's the revenue guidance for the current year and how much of that would be volume growth?

Dharmil Bodani: Volume growth, we are expecting 5% overall, 4% to 5%. So, like I said that we probably have a continuous steady stream of products which we have launched last year, which we'll see more customers accepting it. So, we probably are looking at a revenue guidance of anywhere between 5% to 7% and volume growth like I said, between 5% to 10%.

Rajat Sethia: Okay. So just one thing, if you look at our year-on--year growth which is flat almost 2%. And we are saying we grew our volumes was 5% in this quarter right?

Dharmil Bodani: Yes.

Rajat Sethia: So, it means pricing has come down, because total revenue growth is 2%, volumes is 5%. pricing has come down while we are saying raw material prices are going up?

Dharmil Bodani: So, it's a very interesting question. We all have to be mindful that when for a lot of the other verticals, we have been pretty successful or partially successful in passing on the price hikes to the consumer, camphor is one area which is a matter of concern where we are seeing a continuous reduction in the pricing. But, that reduction in the pricing also is not extremely worrisome, because camphor again is one of the product areas where the key raw material price also is kind of stable, or is coming down a little bit. And so, that is the reason why we are seeing that part of the business where we are seeing, which is very, very competitive, where we are seeing a reduction in the pricing.

Rajat Sethia: Okay. And you have given yearly guidance so this year you're given guidance of 7% to 10% EBITDA margins. So, question is, you already have, do you think that you may revise it upwards towards the end of the year or you already have visibility that revise it upwards or downwards towards the end of the year or you already have visibility that this is what the margins are going to be?

Dharmil Bodani: I will take that question. So, the answer to that is yes, we have visibility and therefore we are giving a guidance of 7% to 10%. Whether we would revise this or not, it's too early for us to say because there are way too many uncertainties at the moment, geopolitically we don't know which way prices of raw materials would go because we're seeing a certain category of materials, where the prices have started correcting, certain category of materials where they haven't and we will continue to be the various catalysts that also come out of Russia Ukraine. So, it's very complex situation right now for us to confirm that we would revise this, we'd like to stay for this financial year with this guidance and having said that, we still maintain that the long term guidance over a period of five years still continues to blend 15%, 17% because of the different products that we are going to add in both Baroda and Mahad.

Rajat Sethia: Okay. And what will be the peak debt when we will be done with our CAPEX?

Dharmil Bodani: Pardon, can you repeat your question?

Rajat Sethia: Peak debt when we are done with our CAPEX in next one and a half years or so, what will be the peak debt?

Dharmil Bodani: It takes one and a half year and so we are expecting including term loan is around 250 and 300.

Moderator: Thank you. The next question is from the line of Abhishek Getam from Alpha Invesco. Please go ahead.

Abhishek Getam: I just wanted to understand on the CST side. So after the CST process followed in Mahad phase one or phase two?

Dharmil Bodani: Sorry, I didn't hear the question, did you hear it?

Dharmil Bodani: You are saying the question is about CST, and you're saying that it will be in phase one or phase two?

Abhishek Getam: Yes.

Dharmil Bodani: So, I'll answer that, we'll have to just wait and watch which product mix we can choose, it we'll be there, we are going to go ahead with backward integration. We will announce in probably the next quarter in more detail as to the timeline.

Abhishek Getam: Okay. So just follow up on that is, the CST method developed it internally R&D team internally or there's a technology partner involved in this?

Dharmil Bodani: No, it's completely internal R&D.

Moderator: Thank you. The next question is from the line of Vijay Sarda from VL Finance. Please go ahead.

Vijay Sarda: My question revolves around two things. One, if I look at a bit trajectory going ahead, as you rightly said, we will be looking at 15% kind of margin in next three to five years. But in immediate term, if I look at we have been getting much more pressure on the margins on account of raw material. So, if I just look across, we are not the only one in the space who might be getting penalized on account of raw material, but entire industry. So, what is the sustainable margin where the industry will stabilize or there is a dumping going on from China in this product, so that we are not been able to because, ultimately first we have seen that, because of the inventory, high cost inventory line we were getting susceptible to the margins, because of the raw material inventory. Now, we have seen almost four, five quarters where we have seen the margin depleting and in last, so many quarters we have not seen our margin going below 12%, 15% or we have seen the base debt 35%, 40%. So, that was already obviously one off, but when we can normalize to a normal margin because, from your conservatism, you are also sounding to be very cautious, saying that 10% you will be able to, but on an absolute basis, your business as you have moved also from commodity to specialized product and your journeys continuing in that direction. So, at particular point of time, I should see at least given the quality of product and in terms of me getting to a higher scale in terms of specialization, our margin should interpret higher. So what are the problems that we are currently, are we still sitting on high cost inventories or there is a raw material pressure and industry which were supplying we are not getting any price escalation, because this is the fourth quarter we have seen the margin below 10% almost?

Parag Satoskar: So, Vijay there are too many questions, which probably each is a is a separate question. So, if we are looking at probably a question that is that when are we going to achieve that 15% to 17% or how, I would like to reiterate that we are a very kind of a different player in the industry, where we have a very diverse areas of business that we cater to we are not purely a fragrance and flavor compounding company, we are not purely a fully integrated fragrance and flavor compounding company, neither are we purely a camphor company. So, we have we much diverse portfolio, and our estimates.

Dharmil Bodani: Sorry, Parag and neither are we only a chemical.

Parag Satoskar: Correct. And so our long term EBITDA expectations are based on a stable stage scenario in the areas of businesses that we operate point number one. And point number two, the diversity gives us the ability, I wouldn't probably use the word hedge because it will sound too aggressive, but to kind of counterbalance the opportunities that come. So, that 15% to 17% is based on this philosophy of what's going to happen 1000 days from now, when our full R&D program, or the might of the specialty ingredients division is actually at par with our camphor and chemicals division point number one. So, how does this enable our creative and the fragrance and flavor division to really add value to their customers, point number two. So all these things are currently work in progress. And during that time, if the stable state scenario gets disrupted over an extremely long period of time, it is but obvious that since we are not completely absolved or insulated from the outside world, we are going to have these hiccups and shocks. Are we the only ones who are facing it, probably no. Are we the only ones who are facing it for a sustainable three or four quarters, probably no. Are we mindful of it, definitely yes. Are we watching it, definitely yes. Are we going to work on it, definitely yes. So, it's a combination of all these things, what probably you have to look at is that whether the management is mindful, or are we kind of talking things which doesn't seem to be real.

Vijay Sarda: I have been listening to even last quarter. So from the third quarter where the margins were high, you already cautioned that this margin will sustain, but when the margin is getting bad, we are not getting a visible time when it will recover and when it will go to normalcy that is where I'm coming from. So, it has nothing to do with overall company. I just want you to understand how the overall sectorial scenario is there in terms of demand, supply where we have not been able to pass on the price, or when we can see margin is normalizing to a level where we feel the pains are behind, that is where I'm coming to sir.

Parag Satoskar: Correct. And I'm sure that as we move on, and as we see some level of a stable state scenario getting built across the industries that we operate in. I'm sure our future call, if and when we see that situation. We will be more than happy to share with you a lot of more information as we already our endeavor is.

Moderator: Thank you. The next question is from the line of Bobby Jayaraman from Falcon Investment Advisors. Please go ahead.

Bobby Jayaraman: At 7% to 10% EBITDA margin, are you able to realize your return on invested capital target for your new capital expenditure?

Parag Satoskar: Yes, Bobby, to answer your question yes.

Bobby Jayaraman: So, what is it, what is the ROI that we see at this kind of a margin?

Dharmil Bodani: On this kind of a margin, our ROI would be around 10% to 12%. But this margin as we already said that in the long term our goal is to generate the EBITDA of 15% to 17%. So definitely ROI will improve.

Bobby Jayaraman: Right, but if it doesn't, will this CAPEX be viable?

Dharmil Bodani: Mr. Parag you can talk about shocking balance sheet exercise that we do now.

Parag Satoskar: Correct. So, Bobby as an internal exercise as an as an internal sounding board we have done our complete math of what if scenario where if the margin stay at the level that they are or even probably come down by a percentage point EBITDA margins.

Bobby Jayaraman: Which would be the worst case.

Parag Satoskar: Correct. Would we be able to sustain our expenses, the answer is yes. Would we be able to kind of justify working capital, the answer is yes. Would we be able to kind of manage our repayment of debt, the most important question that is internally asked, the answer is yes. So we have done this exercise internally. And as of now, looking at the worst case scenario, we should be in a position to kind of keep the ship afloat in spite of the debt.

Bobby Jayaraman: Right. And what is the stable state that you talk about, what in your mind as a stable state?

Dharmil Bodani: So, when I look at, it's a very interesting question. So, when I look at a stable state, I look at a situation where #A, the general environment of running the business seems to be very normal. #B, the availability of raw materials, most of them you always have probably challenges in one side or the other, but most of them are probably kind of visible, they probably might not be kind of available to everybody, but are visible so you can go ahead and procure them. You have some level of stability in terms of the demand forecasting that your customers share with you on a regular basis so you know what you have to procure and what you have to supply them. These are things which constitute for us at Oriental, a kind of a stable state scenario which we have had for some years and which is completely lacking for the past two years.

Bobby Jayaraman: Looks more like an ideal state actually. Much of this raw material volatility has actually come down pretty much normal. If you look at companies like Galaxy Surfactants cater to the same end users that you do, they don't have the kind of margin pressures you have?

Parag Satoskar: So Bobby, they have a completely different product mix that they cater to the same customers, they are not suppliers of fragrances to my FMCG customers. So if you look at Galaxy Surfactants, and if you ask somebody who kind of uses palm oil today as a raw material source, and if you tell him that the raw materials have come back to normal, they probably would challenge your statement. So, it's not an apple to apple comparison when you're looking at just, you probably would have to look at a fragrance manufacturer who is supplying to the FMCG players and then compare our situation with them.

Bobby Jayaraman: Okay. So what is the specific input cost that is still way out of…can you give two or three step input?

Parag Satoskar: So, Bobby to answer your question if you combine the requirements of our fragrance, flavor terpene chemicals and our aroma ingredients specialty, we have more than 2000 materials. I would say broadly, all the materials across the board, which I had mentioned earlier in this call, were kind of way above our expected price, I am seeing that all of them have kind of stabilized in terms of the price hike that we are seeing. A lot of them depending on the demand supply situation globally have stabilized at that higher price point. And some of them have started showing a gradual decrease in the price but, if you ask me that, have they all reached at the 2019 price points, probably not none of them.

Dharmil Bodani: Bobby just to add here, you can also give him the reference of the information on all these various chemicals which are used in the flavor of fragrance side, there is a specific you can comment later we will give you a link where you will have an idea of what's going on with these raw material prices so you can get a good handle.

Bobby Jayaraman: Are they from China primarily?

Dharmil Bodani: They are from globally, so it's China, Vietnam, it's all over the world. So in the amount of raw materials that we use just in sheer numbers, there isn't a single source country for them. Parag has mentioned 2000 ingredients, I'd like to correct in the fragrance division, we are using over 2000 ingredients, in the fragrance and flavor vertical. So, there are in terms of specifics for you to see, its doesn't make sense, because you need to see and there is information available which we Anuj and we will share it with you.

Bobby Jayaraman: Right, I understand that, what I don't quite get is, that why are we expecting these prices to return to 2019 levels, there is increased?

Dharmil Bodani: We are not expecting them to return to 19 levels, there is a new normal and that new normal needs to stabilize, we are finding that the new normal is not stabilizing.

Bobby Jayaraman: Right. So the new normal is going to be far higher than you were used to before when you were expecting these 15%, 17% margins right. So, if it stabilizes on higher level, you will have to increase your costs and your prices to your customers, there's no way around it.

Parag Satoskar: Yes Bobby, we have taken your feedback in a very positive way. Like Dharmil rightly said that we are aware of the new normal, like Dharmil rightly said that, that new normal is not stabilizing, we are always mindful of what are the price increases that we have to do, wherever they are due and wherever they can be achieved we do it and wherever we feel that we need to pause, where is the competitive landscape is a little challenging, we kind of are not in a position to pass them on in the first go. But since we are the incumbents and we have a lot of control on the process, and the raw materials, we are one of the lowest cost manufacturers of each of the products that we make. So, we are aware of the new normal, we are mindful of it. The only challenge of achieving the stable stage is probably to really achieve that stable stage in the new normal which we are not seeing and which will eventually come If there are no more shocks.

Moderator: Thank you. The next question is from the line of Saket Saurabh an Individual Investor. Please go ahead.

Saket Saurabh: So, question number one would be, what is the inventory and receivable debt vis-à-vis Q4 and Q1, how have that changed?

Management: It stays in the same level.

Saket Saurabh: Now, second question, when I look at as a long term investor, that one challenge that the company Oriental Aromatics has seen is volatility in the margins. Now, on one hand we say that we have a very diversified portfolio which should ideally be insulating, but is that in itself a problem because we don't have the focus, because one basic tenant that we as a investor would see that if we are becoming more and more specialized, or say moving up the value chain, then the volatility in the margin should come down. So while all the scaling up and CAPEX and say diversified portfolio is fine, but unless and until it is leading to say a more lesser standard division as far as margins are concerned, it does raise some concerns. So, is it like beyond portfolio or beyond CAPEX things that we need to do like say long term contract thing, or maybe more specialization or something and again, you guys are expert, but I'm just thinking more from a long term perspective what else can be done to just mitigate or make this margin volatility band much more narrow than what it currently is?

Parag Satoskar: So, Saket to probably I'll attempt to answer your question, the volatility in the magazines, has probably been driven by #A, the challenges which are more external in terms of the shocks that we have already mentioned. I'm not going to repeat it. When you're talking of focus, focus is a very relative term, because the ultimate industry whom the specialty ingredients division, actually supplies to has more than like Dharmil said 2000 ingredients which they consume. Out of that if you look at my ability where I'm producing not more than say 60 to 70 of them, I am in a zone where I will be able to maintain the focus, because we are not like the pharma industry where if you look at say, the anti-cancer drugs you just have 10 drugs to work in, for us it's that basket which makes Oriental a very, very exciting company to work with. And this has already been acknowledged by our customers globally. What we need to probably reiterate and we emphasize that a lot of these pressures on margins are probably driven by external factors and which are impacting all the divisions and when some level of stable situation comes, even if it comes in two divisions, we are going to see that is the advantage that Oriental offers that, stable stage might start coming even in two divisions. And we will see a rationalization of margins there and we are looking at the long term, the whole CAPEX, et cetera, et cetera is probably in that zone where we will still be making probably not more than 5% to 7% what a perfumers palette is when he sits down to make a fragrance.

Moderator: Thank you. Next question is from the line of Rohit from Progressive Share Brokers Private Limited. Please go ahead.

Rohit: If we look at our word and the new normal, we have to work a lot on the internal cost reduction programs, and the expenses that we have. Coming back to the questions, we are paying some license fees which is for some technical knowhow that is to the tune of 3.5 to 4 crore every year. So, what are these related to and what are these contracts or when are they renewed?

Parag Satoskar: So, the license fees that you're talking about and Girish can correct me if I'm wrong is primarily the license fees that we are giving it to one of our associates in Israel, about – **1:07:34** technology that we had taken from them and that particular agreement is going to be active till 2025, so after that we don't have to keep pay the licenses fees.

Rohit: Okay. So, is it for the bond can we not reverse engineer that contract or the technology?

Parag Satoskar: We are bound by that agreement.

Dharmil Bodani: We are bound over the agreement, so we can't midway modify it.

Moderator: Thank you. Ladies and gentleman, as that was the last question for today. I now hand the conference over to Mr. Dharmil Bodani from Oriental Aromatics Limited for closing comments.

Dharmil Bodani: Thank you all for participating in this earnings con call. I hope we've been able to answer your question satisfactorily. If you have any further questions or would like to know more about the company, we would be happy to be of assistance. We are very thankful to all our investors who have continued to stand by us and also have confidence in the company's growth plan and focus. And with this, I wish everyone a great evening. Thank you.

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.