OMKAR
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OMKAR SPECIALITY CHEMICALS LIMITED

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Ref. No.: OSCL/SE/2016-17/21 **Date: June 04, 2016**

To,

Corporate Services Department **BSE LIMITED** P.J. Towers, 1st Floor, Dalal Street, Mumbai – 400001. BSE Code: 533317	Corporate Services Department **NATIONAL STOCK EXCHANGE OF INDIA LIMITED** Exchange Plaza, Bandra-Kurla Complex, Bandra (E), Mumbai – 400051. NSE Symbol: OMKARCHEM

Ref.: Transcript of Conference Call – Reg. 30

Dear Sir / Madam,

In furtherance of our letter dated May 23, 2016, Ref.: No.: OSCL/SE/2016-17/18, we are enclosing Transcript of Concall held on May 25, 2016 for Audited Financial Results of the Company for the quarter and year ended March 31, 2016.

This is for your record and reference.

Thanking You,

Yours truly,
For **OMKAR SPECIALITY CHEMICALS LIMITED**

SUNNY PAGARE
COMPANY SECRETARY & COMPLIANCE OFFICER
M. NO.: A27431

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"Omkar Speciality Chemicals Ltd. Q4 & FY-16 Results Conference Call"

May 25, 2016

MANAGEMENT:	**MR. PRAVIN HERLEKAR – CHAIRMAN AND MANAGING DIRECTOR, OMKAR SPECIALITY CHEMICALS LIMITED** **MR. OMKAR HERLEKAR – WHOLE TIME DIRECTOR, OMKAR SPECIALITY CHEMICALS LIMITED** **MR. PRAVIN AGRAWAL – CFO, OMKAR SPECIALITY CHEMICALS LIMITED**

Moderator: Good day Ladies and gentlemen and welcome to the Omkar Speciality Chemicals Limited Q4 and full year FY16 Results 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 this conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Omkar Herlekar. Thank you and over to you sir.

Omkar Herlekar: Welcome and good afternoon friends. I have with me Mr. Pravin Herlekar – Chairman and Managing Director, Mr. Pravin Agrawal – CFO and on behalf of Omkar Speciality Chemicals We would like to welcome you all. We have uploaded the presentation on the website and I hope you all received it. We will start with quarterly financial performance; revenues from operations to that Rs. 113 crores in Q4 as against Rs. 74 crores in the corresponding period last year. A year on year growth of 53% export contributed to 9% of our Q4 revenues. Breaking down the revenues as per our business segments, API segment is the fastest growing segment that contributed to 29% of the total revenues in this quarter. Intermediates segment is another rapidly growing segment 32% – Iodine derivatives segments contributed to 25% of the total revenues in this quarter. Resolving agents - it contributed to 2% of the total revenues of the quarter and Selenium Derivatives contributed to 12% of the total revenues in this quarter. EBITDA stood at Rs. 28 crores in Q4 FY16 as against Rs. 14 crores in the corresponding quarter last year, which is 98% year on year growth and a growth of 59% quarter on quarter. EBITDA margins increased by over 500 basis points to 25% over the corresponding previous periods. PAT for the quarter stood at Rs. 4 crores against Rs. 5 crores in the Q4 FY15, a decline of 20% year on year mainly on account of higher tax outgo. In the fourth quarter of FY15, we had a tax write back of Rs. 2 crores and in the fourth quarter of this year we had a tax outgo of Rs. 12 crores. Hence in my opinion, PBT would be the more appropriate number to be looked at for a comparative performance, this stood at Rs. 17 crores in Q4 FY16 against Rs. 3 crores in Q4 FY15 and Rs. 12 crores in Q3 FY16 on account of better EBITDA performance. This is an increase of nearly 400% year on year basis and 40% growth sequentially in the PBT.

Moving to the full year financial performance. Revenue from operations was at Rs. 413 crores for the full year FY16 as against Rs. 265 crores in the full year FY15 which is yearly 56% growth. Exports contributed to 14% of the revenues in the full year. Breakup of the revenues as per the business segments; API segment is the fastest growing segment that contributed to 31% of the total revenues. The Intermediates segment is another rapidly growing segment that contributed to 39% of the total revenues for the year. Iodine Derivatives segment contributed to 23% of the total revenue for the year. As for Resolving Agents, it has just contributed 2% of the total revenue for the year and Selenium Derivatives has contributed 5% of the total revenue for the year. The full year EBITDA stood at Rs. 81 crores as against Rs. 52 crores, growth of 55% over the last year. The EBITDA margin remained flat that is 19.6% as compared to 19.7% for the last year on account of higher raw material prices, PAT stood at Rs. 31 crores for the full year FY16 as against Rs. 24 crores in the corresponding year, the year on year growth of 29%.

Going to the balance sheet highlights, net worth stood at Rs. 195.5 crores as against Rs. 169 crores as on March 31st 2015. The total debt stood at Rs. 208 crores as against Rs. 225 crores in March 2015. Working capital cycle has decreased to 116 days from 145 days. We are working with greater efforts on ways to bring the higher efficiencies in our systems and processes. At the same time, we are putting in greater control to cut any inefficiency in the system. Current Debtors stand at 115 days with inventory days being 88 and creditors being 87 days. Our ROCE has increased from 18% to 25% in FY15.

We are talking about the recent development - As you are aware that in April this year we have announced the scheme of merger-demerger of our business. I would like to share that we are moving ahead with this process smoothly. The scheme was sent to SEBI and its approval is due anytime soon. Just to reiterate through this exercise we are consolidating the speciality chemicals operations of Omkar, which includes Selenium derivatives, iodine derivatives, organic and inorganic intermediates, resolving agents in to a single entity that will retain the current name of the company. At the same time we will be demerging the vet business which currently falls under the name of LASA Super Generics. The new entity will be listed both the stock exchanges – BSE & NSE. The reason for the demerger is that OSCL business and the Vet API are totally divergent so also the growth potential, the risk rewards, regulatory and capital needs and many other things are totally different and independent of each other. We are demerging the vet API business with the main intention of growing each business to its true potential and achieving operational efficiencies.

Growth strategy and opportunities for Omkar Speciality in future - Going forward our focus will be on higher operational efficiencies, increased productivity, innovation and process excellence has started to the results as you can see in the fourth quarter. Going forward we plan to bring business growth through a lease model of contract manufacturing in our Speciality Chemicals business. This will not only take care of the higher capacity requirement but also make us more efficient. With the new capacities in place, the Vet API business combined with the plans to add new products this year and re-enter into new markets, we are confident that this business will demonstrate a double digit growth over the next 2 to 3 years. Thank you so much, we can now take the questions.

Moderator: Thank you very much Sir. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Abhijeet Avrekar who is an individual investor, please go ahead.

Abhijeet Avrekar: My question is; as we will be using contract manufacturing in the future and as still be using the current capacity for the LASA in Veterinary business, so why cannot we ahead and directly use the LASA's product in current capacity and produce there and directly go for contract manufacturing for the remaining Iodine and Selenium and other products?

Omkar Herlekar: You mean to say in LASA we should do the Intermediates?

Abhijeet Avrekar No, what I mean to say the current capacity is there, so directly why cannot we go for contract manufacturing facility within next 2 to 3 months or 4 months like for Omkar?

Omkar Herlekar: No, LASA's facility is purely a FDA approved facility where we have to produce only those products which are mentioned in the list of FDI. We cannot produce anything else other than what is being mentioned over there from regulatory point of view. So that is the reason why we cannot produce Intermediates and even though the capacity is fungible, technically the capacity is fungible but from the regulatory point of view we cannot use LASA facility for making.

Abhijeet Avrekar What I mean to say, why cannot we go for contract manufacturing for Omkar's products?

Omkar Herlekar: Yes that is what we are doing. We are definitely going for contract manufacturing for Omkar products; we have also identified lot of contract manufacturers. For Omkar products we will be doing contract manufacturing only, wherever we find deficit in the capacity we will not do more CAPEX because there are lot of units where manufacturing can be done at a much optimized cost. So there we will be doing a contract manufacturing wherever capacity falls short.

Abhijeet Avrekar So how much time will it take to identify the manufacturing and move out the production facility to the?

Omkar Herlekar: It has been already identified; in fact, the manufacturing has also started. That will be evident in the coming quarter of FY17.

Moderator: Thank you. The next question is from the line of S Ranganathan from LKP Securities, please go ahead.

S Ranganathan: I have 2 questions; the first being now that you have planned the merger scheme, is there going to be any change in the promoter holding as a result of this scheme of merger and whether there is going to be any increase in the equity capital of the listed company due to this? That is first and the second is I believe every existing shareholder would also get shares of the Vet entity which is the LASA which also is going to be listed separately on the Stock Exchange. So is there any record date for these 2 events?

Omkar Herlekar: See usually any Merger-Demerger operation takes around 8 to 10 months that is one and currently the status is that we have filed with SEBI, we are expecting the approval from SEBI very shortly, so once the approval from SEBI comes we will file it to the court and then it will take around 4 to 5 months for the entire demerger process to happen. Number 2 your question was what would be the kind of equity.

S Ranganathan: Yes any change in the equity capital of the listed entity or any change in the promoter holding?

Omkar Herlekar: Perfect, first of all the promoter holding would not change. Right now it is holding 68% of the company's stake, post demerger also, the promoters of Omkar Speciality Chemicals will stand to hold the same thing and the Omkar Speciality Chemicals and LASA promoters will be the same but LASA will issue 10% stake to Omkar Speciality Chemicals for the demerger, you know Omkar Speciality has in the past infused a lot of capital for the growth of LASA, 10% of the stake will be rewarded to Omkar Speciality Chemicals and in LASA the capital base will increase by the amount of 10%. And each shareholder will get 1:1 share; that is one share of Omkar he will be rewarded one share of LASA.

S Ranganathan: My other question is whether there is any plan to forward integrate from API and Intermediates in the formulation segment?

Omkar Herlekar: We have already started the exercise, we have already started third party manufacturing of formulations and this kind of business model will be enhanced and will come into picture very soon. I may say that in FY17 definitely you will hear about it.

S Ranganathan: My last question is basically today our listed entity Omkar is having a market cap of about Rs. 350 crores, now we have a net worth of about Rs. 200 crores and our debt is also Rs. 200 crores. So roughly we are 1:1, now what are the plans to prune down the debt and the existing debt itself what is the average cost of borrowing and do we have any concrete plans to prune down the debt levels and when can we expect to be free cash positive?

Omkar Herlekar: See the debt is continuously into a servicing mode, last year if you go to see the debt was Rs. 230+ crores, this year if you go to see the debt has reduced by around Rs. 30 crores to Rs. 35 crores approximately. So we are every year paying off the debt through internal accruals only. Now as the company will grow along with its products, more high value products and more EBITDA yielding products will come into the sum, automatically debt payment will go on. So if you go to see, a company hypothetically debt free is not possible, I do not think but as of to be on a very reasonably debt level I think so next 2 to 3 years we will be very comfortable. The ratio which you currently see a little stressed, we do not foresee this in our own interest and in the interest of the investors we do not think that this position will remain for a long time. See when it is into a CAPEX mode when you want to grow, debt is bound to happen, definitely how to pay back the debt and how to bring it to the optimum level will be decided by the product mix which we are very confident, within next 2 years you will see the dramatic change in it.

S Ranganathan: No see my question is not towards becoming a debt free entity because this is not the idea at all. We are the growing company, we are in the investment phase so since we have been so successful in bringing down the net working capital from 200 days in 2014 days to about 115 days now, is there any clear road map to bring down the debt equity, can you throw some number at what we aim to achieve by next financial year?

Management: We envisage somewhere between 0.9 and 1.0.

S Ranganathan: So you would be comfortable in that kind of a range?

Omkar Herlekar: See the profit number will be automatically flared up know; see this year you need not compare with this year but if you go to see the next year we are posting growth and it is a very robustic business model, so growth is self-evident. So definitely the debt will come down, see this year we have paid off nearly Rs. 35 crores of debt, you know proportionate pay off will go on and on one hand profits will also go on increasing so that ratio will be pretty much balanced by the end of this year I think.

S Ranganathan: And the last question is; what is the kind of guidance you can give on the tax rate for this year, what is the kind of tax rate we can work with for 16/17?

Omkar Herlekar: We feel that we will be able to achieve a tax rate of around 22% because we have a government qualified R&D which is qualified under DSIR scheme where we are able to avail 150% tax benefit over the CAPEX incurred on R&D. So see this company is going on merit, we are having nearly 19 patents now and we are having nearly 47 people full time working in our R&D who are developing new products, new processes, new catalyst and all. So you know we are investing in R&D and that is giving us a wonderful payback and as well as we are able to get a benefit of that also, government has given that much of provision to us.

Moderator: Thank you. The next question is from the line of Rajeev Singhi who is an Individual investor, please go ahead.

Rajeev Kedia: My question, we have been growing at a very high rate right in the past couple of quarters and even FY16 the growth has been 55-56% on the topline and also in the past you have guided for a higher growth rate even going forward in the excess of 30% or 35% or north of that. So, what is the kind of growth rate in the topline and bottom line which we can look for FY17 as well as FY18 for next couple of years going forward? And I was bit surprised with your yesterday's comment on growth of topline of 10-15% on your interview on one of the channels, so just wanted some color on that?

Omkar Herlekar: See basically we have been growing from the last 3 years, you must have seen our past track record also, how are we growing, we are posting exponential growth. Now we are sitting on bunch of CAPEX as you must be knowing we have done lot of CAPEX in Chiplun and Mahad and many places to increase the number of products, to increase the volumetric capacity and the rated capacity also, now what do we need to do is to bring proper products in, nurture them in proper market, get entry into the regulatory market and then make the facility all the regulatory compliant like TGA, USFDA and all of this different regulatory authorities this authorities need to qualify the capacity also. So we are thinking that FY17 we will keep as a consolidation year to get the grasp and the grab of all the regulatory approvals to put all the products in the proper sump and to nurture the products to the optimum levels, so that we can bring the EBITDA also into control, we can push some better EBITDA also, so from that point of view we have thought that this FY17 we will definitely under promise and over deliver that goes without saying but yes we will perform, on a conservative basis we feel that we should perform to a level of around 10-15% and we maintain that and I feel that getting much profit rather than using profit and consolidation is more important. So, I hope so you understand my answer.

Rajeev Kedia: And what kind of growth beyond FY17 for next couple of years in terms of..?

Omkar Herlekar: Sir as company this company has to grow, there are many ways to grow, not only the routine products but there are many of the things like acquisitions and many more things in the mind but first let us focus on the organic growth then automatically the subsequent growth will come up, it will be self-explanatory. As on date whatever we have promised we have delivered, so you can go by that guidance only.

Rajeev Kedia: And Omkar can you shed some light on the new plant for which you got recently, few months back NOC approval, so has that started production?

Omkar Herlekar: The plant has already got the environment consent, in fact environment committee has given us some guidelines to do some modifications in the effluent treatment and hazardous waste treatment of the plant, so for which there was minor CAPEX which was needed to be done. We are already in the phase of doing it and we hope so by the end of second quarter or beginning of the 3rd quarter we will be able to commence the commercial production over there, until then some vet trials, and some trial production will be going on. And that will not affect the numbers because our existing products are also having some much of good order book that in absence of that also we will be able to perform very robustly.

Rajeev Kedia: And in terms of operating margin also in the past you guided for an expansion in the operating margin over a period of years to 25-27% for FY16 we have done for the entire year as 19.6 whereas for the Q4 it is pretty healthy in terms of, it is roughly around 24%, so what can we look forward for the entire FY17 as a whole in terms of operating margin?

Omkar Herlekar: See it will be almost in the same range, it will be, see operating margins will depend upon how much efficiently you are able to consume your own facility, occupy your own facility that is number 1; number 2, it also depends on the product mix. So, as far as the product mix is concerned we are having fairly pretty much idea of what kind of products we will be doing this year. That only depends on the volumes of the products, how much you will be making and occupancy of the facility, so we feel that nearly 19-20% only be the operating margin you can expect for FY17 also.

Rajeev Kedia: Last question can you throw some light on the order book, how much is it and how much of it is export oriented and how much is for domestic and API and non API?

Omkar Herlekar: See, we do not only have order book, our business is driven by order book as well as future forecast from the innovator companies also. The current order book which you are having for the immediate quarter ahead is around Rs. 60-65 crores.

Rajeev Kedia: So, your order tenure is for immediate quarter, one two or quarter or generally they are generally longer term in nature?

Omkar Herlekar: In many times there is a order book of one year also, from many companies like Merck, Novartis and all we have a order book of one year also but usually other people who are not into the MNC kind of a business they usually prefer to buy it on quarter on quarter basis because many times, the prices are subject to fluctuations, so they also do not want to take the risk of that price fluctuation, so they try to safeguard their requirement and they give us future illustrations of how much they will be buying, so it is like one quarter of order book and rest of the year of illustrations, verbal illustrations.

Moderator: Thank you. Next question is from the line of Siddharth Bhatacharya from Suyash Advisors. Please go ahead.

Siddharth Bhatacharya: I have a few questions, firstly I just wanted to understand that where are the API revenues as of now coming from, I see a big bump up in the API revenue number from Rs. 57 crores to Rs. 128 crores?

Omkar Herlekar: API revenues are coming from LASA.

Siddharth Bhatacharya: So, the new facility is also under the LASA.

Omkar Herlekar: It is under LASA but it has not started yet that facility has not started giving out revenues.

Siddharth Bhatacharya: So, there is enough capacity for the existing plant at LASA. In terms of what is the capacity utilization at the current facility at LASA, if you could?

Omkar Herlekar: See, if you go to see the new facility which has not started yet, if you consider that facility and then see the percentage of utilization, then the current utilization is around 35% but if you discount that facility and just consider whatever facilities are on as on the day, just the capacity utilization is around 65-70%.

Siddharth Bhatacharya: Sir my second question is when we talk about 10-15% growth, this growth we are talking for both the entities post the demerger or only for what will be Omkar Speciality?

Omkar Herlekar: It is definitely for both the companies.

Siddharth Bhatacharya: Thirdly, I wanted to understand on the margins front, at the start of the year we were made to understand that APIs and intermediates per say has got higher margin profile compared to your legacy products, so I see that the contribution from both these segments has gone up significantly, in fact close to Rs. 150 crores of revenues is coming from both intermediates and APIs.

Omkar Herlekar: No, it is more, see the intermediates have given Rs. 160 crores and APIs have given Rs. 130 crores.

Siddharth Bhatacharya: Okay, sorry I meant Rs. 285 crores out of Rs. 400 crores is coming out of these two segments alone. So, I just wanted to understand why has not our EBITDA margins changed during the year and why has the gross profit margin declined also? So, if you could help me understand the reasons for the same.

Omkar Herlekar: See, the decline in the gross profit margins is only because of the product mix basically and the decline in the gross profit margins is also because of the higher rate of raw materials. So the gross profit will purely depend on the raw material cost and since you must have seen that the petroleum products have also gone up in the recent past, so all our products are being driven by petro chemicals, so few percent here and there in gross profit is definitely understandable, so that is one of the reason.

Siddharth Bhatacharya: Okay and so is it that the margin profiles of APIs and intermediates has changed vis-à-vis where we were at the start of the year?

Omkar Herlekar: It is almost the same, see I am having here the gross profit one second, see last year on absolute terms our gross profit was Rs. 97 crores, this year it is Rs. 123 crores, so there is a 27% change in the gross profit.

Siddharth Bhatacharya: Agreed sir, but in terms of percentages of revenue?

Omkar Herlekar: Last year it was 36% this year it is 30%. So, this is very much evident that because of the increase, see gross profit will only come down when the prices of raw materials are hiked up or else the prices of finished goods are lower. So, you will also have to see the volume of the sale which has done this year as well as vis-à-vis last year. See if tomorrow if I want to sell more, I will have to go to those territories where there is a demand at a little lower price. So if I decide be steady on the revenues, I can maintain my gross profits but if I want to increase my revenues exponentially, you have to see this also that revenues have increased exponentially. Last year it was Rs. 275 crores and this year it is Rs. 413 crores.

Siddharth Bhatacharya: Correct, so you mean to say that..

Omkar Herlekar: I will have to enter into certain continents like Vietnam, Pakistan and Egypt, so where there is a price pressure of selling. Okay so then this will bring difference in the gross profits sir, this is quite evident.

Siddharth Bhatacharya: So, you are saying you have sort of put a foot in the door on the new geographies and as the years progress you will put in volumes and get higher margins over here?

Omkar Herlekar: Since my manufacturing volumes are increasing, the volumetric capacity utilization is increasing; the EBITDA is also increasing, so inspite of my lower GP that is from 37% to 30%, I am able to maintain my EBITDA at 19% because of the occupancy of the facilities.

Siddharth Bhatacharya: Sir my next question is you have just mentioned about the formulation part, the segment taking off, in fact you said that some part of formulation revenues has also started coming in, so just wanted to understand which division this will be clubbed under?

Omkar Herlekar: Currently we will be consolidating it under LASA, when it reaches to sizeable volume of around day Rs. 50-55 crores, we will mark it as a separate division in LASA. A separate division, it will not be a subsidiary.

Siddharth Bhatacharya: So, these are vet formulations typically?

Omkar Herlekar: Whatever will be doing will be only veterinary, nothing else than veterinary.

Siddharth Bhatacharya: Sir a couple of book keeping questions, I just wanted to understand the increase in loans and advances that has happened on a year on year basis, I see from being at Rs. 4 crores of loans and advances in FY15 this has gone upto Rs. 31 crores, so just wanted to understand what is the nature of this increase.

Pravin Herlekar: Most of these loans and advances are for the subsidiaries. Our fully owned subsidiaries where we have done CAPEX and there are working capital requirements, the loans and advances are only internal.

Siddharth Bhatacharya: Okay, so was there sort of assistance given to other subsidiaries apart from LASA?

Pravin Herlekar: Other subsidiaries meaning; we have 4 subsidiaries, subsidiaries also have some internal requirements, so the parent company always supports them on this.

Siddharth Bhatacharya: Another book keeping question if I may ask what is the current maturity of debt on your books as of end of year?

Pravin Herlekar: The debts are long term nature and then they are mostly of 5 year tenure. One of the debts that is one of our subsidiaries Urdhwa which was extended to us as a ECB for Rs. 21 crores which is almost on the verge of getting closed maybe just a couple of installments by Q2 or Q3 it will be getting closed, then the constant repayment. The other ECB which we have from Bank of Baroda the repayment has started last year and it will continue for next 4 years.

Siddharth Bhatacharya: So, what is the quantum as of end of the year if you could help me with the current maturity of the long term debt, last year it was Rs. 22.7 crores, so what is it this year?

Pravin Agrawal: Sir we will be able to post you this number…

Pravin Herlekar: Can you just send us a mail, we will..

Siddharth Bhatacharya: Sure I will do that. Sir final question on the demerger that we are planning to do, if you could sort of help us understand how would the debt apportionment be done between Omkar Specialty and LASA, you have Rs. 400 crores of total long term and short term debt, so how will this be apportioned, have we come up with a formula as of yet or this is still work in progress.

Pravin Herlekar: On this we have already submitted the scheme to the exchange and in public domain, so in that incase if you have any queries, you can come back to us on this.

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

Kushal Rughani: Sir, my question was regarding this tax deferred tax outlay, can you throw some light on that.

Omkar Herlekar: Yes, definitely, just a second, Mr. Pravin Herlekar will answer your question.

Pravin Herlekar: Deferred tax liability is mainly on account of the difference in depreciation calculation based on company law as per Companies Act versus IT Act. There are different rates of depreciation provided in different laws and it is mandatory on us to provide the deferred tax liability though it is not actually payable but it is a book entry and we have to post it in our financials, so that is the fact.

Kushal Rughani: So, this is due to like you are going for demerger that is the key reason.

Pravin Herlekar: No, this has nothing to do with demerger. It is only on account of say like in Companies Act 2013, the provision is that the depreciation has to be worked on based on the useful life of the equipment whereas there are some specified rates defined in IT Act. So we are allowed to take benefit of the IT Act as far as our tax calculations are concerned and then arriving at the PBT and PAT, right. But then Companies Act provides a lower depreciation and IT Act can provide a higher depreciation so there is always a difference between the two and the difference is accounted for by way of this deferred tax liability in the books. It’s only a book entry that is all I would say.

Kushal Rughani: Okay, so this book entry may get reversed also?

Omkar Herlekar: Yes it can, like it can be a deferred asset, like a deferred liability it can be a deferred asset. Frankly, I am not a Chartered Accountant, so I may not be able to elaborate more on this but then this is the fact behind that.

Kushal Rughani: Right and my next question is can you throw some color on your products which are under development or which are going to be launched in the next 6 to 12 months.

Omkar Herlekar: See even in the last con-call, we had just told that you know, Vitamin C and Folic Acid will be the two products which we are immediately envisaging to launch in our new unit that is unit #5, okay, so these are the two products in the cage which we immediately want to take it upon the commercial production, so this year at least in FY17, only these two products will be taken up, we don't have any immediate thoughts of coming up with any new products as such other than these two products. Because our existing products are so much demand driven and they have so much of demand than our further order book can be easily catered with the existing products also, so we are pretty much confident. As far as on the intermediate front, we have some of the products which Mr. Herlekar will let you know.

Pravin Herlekar: See we have already developed and worked on many products for the innovator companies, particularly the MNCs and we have worked for last almost more than 2 years and these are mostly for the upcoming drugs, new molecules, new drugs, so which had gone through all the trials and other rigmaroles as far as the regulatory authorities are concerned like shelf life studies, stability studies as well as the other controls are coming under FDA and so after a couple of years we have got the approvals and the commercials have started and they have already placed orders very recently and this business is also going to add to our profile, so on the API side as well as on the Speciality Chemical side both ways we will be doing better this year.

Kushal Rughani: And as the iodine is one of our segment so what is the status on iodine prices if you can say something?

Pravin Herlekar: Yes, iodine was considered as a very sensitive raw material in the recent past. The price had gone up about 3 years back and then it came down last year but now the price has almost stabilized at around $23 to $24 and we don't expect that any major change will happen in this product because this is a natural product available from Chile and Japan but only on account of some calamity in Japan about 4 years back it had disturbed the market but now it is on track and the supplies are very smooth.

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

Jayesh Gandhi: This is just a confirmation question that your LASA Lab throwing any sales currently?

Omkar Herlekar: Sales, of course, it has to do sales, LASA is a API manufacturing facility so we are doing sales.

Jayesh Gandhi: Correct, so the deferred tax differences which we have said for LASA that is also only for the depreciation.

Omkar Herlekar: No it is in the consolidated. Deferred tax liability is the consolidated facility not in LASA. One second you can talk to Mr. Agrawal, he is our CFO, he will be able to answer to answer it more efficiently.

Pravin Agrawal: Sir this deferred tax liability was there in the LASA as well as in Omkar i.e. in both the companies. In last year the deferred tax liability was not provided although we had claimed the depreciation difference in the benefit while calculating the income tax and filing the return, so that amount for LASA as well as for OSCL put together has been considered and accounted for in the current financial year.

Jayesh Gandhi: So that amount is not going to increase in the near future right, it is only going to reverse.

Pravin Agrawal: It is going to be reversed. This is one-time adjustment for the entries which entries were not passed in the previous years.

Jayesh Gandhi: Exactly, that is what I wanted to hear. The question to Mr. Omkar, you said that your gross margins have come down from 36% to 30% this year. Do you have any internal calculations what you want to maintain for next 3 to 4 years in terms of gross margins?

Omkar Herlekar: No gross margin is not in our hand. EBITDA is in our hand, how to increase, see the more we sale, we will be able to occupy our facility more and this was resulting to higher EBITDA but gross margins will typically depend on the price of petroleum, price of the power like electricity, coal and all, so it will depend on that, so it is not in our hand. Yet, if you go to see by past experience, the raw material cost amount to around 65% to 70% of the total revenue that is the gross profit comes to around 30% to 35%.

Jayesh Gandhi: Okay, so you mean to say that you will try to maintain the EBITDA margin which is currently in the range of 19 to 19.5%.

Omkar Herlekar: EBITDA margins can be maintained by optimum utilization of the capacity, gross profit is purely depending on the raw material so raw material prices are not in our control no.

Jayesh Gandhi: Yes and sir currently are we in talks with any departments or any USFDA approvals?

Omkar Herlekar: We are not in talks for any department for any USFDA kind of think because US is not the market for our products. Our products mainly go into the cattle-rearing countries like Australia, New Zealand and Brazil and all, so we are in talks with Australian Drug Authority which is called as TGA and we are expecting their approvals in the FY17, so that is only the new market which will be envisaging.

Moderator: The next question is from the line of Girish Deshpandey, who is an investor. Please go ahead.

Girish Deshpandey: I have couple of questions. The first question what is the percentage of pledged shares by promoters.

Pravin Herlekar: Yes, the percentage of pledged shares is about 70% and recently there was an increase in the pledge, this is mainly to address the immediate requirement of some additional working capital on account of sudden inflow of orders and this is only purely of a temporary nature and the pledge should be released within a month's time.

Girish Deshpandey: Okay, sir my subsequent question on the same line basically, how prepared we are if there is any credit squeeze or credit crunch due to global situation or domestic situation, so have you thought about this from the risk perspective?

Omkar Herlekar: Yes, we have been constantly working on management of our working capital as it is evident from the working capital cycle which is gradually coming under control in terms of number of days from 214 to 116, there was a reduction last year, again current year there is a reduction. We have already brought the receivables under control, we have brought our inventories under control, so we have been managing the working capital cycle trying to work it out very-very efficiently and the same exercise is the ongoing exercise. It will continue, so we will be able to manage any issues even in fact when you talk about the credits squeeze and debts on the banks, etc., for working capital, we would like to share that for the last couple of years we have not gone for any enhancement in working capital from our vendors. We have been working by managing our own cycle properly so that we don't go on increasing our debt.

Girish Deshpandey: Okay, so what I understand sir is we will always have working capital line from the banks or some sources available.

Omkar Herlekar: Yes, even as of today we will stand to qualify for any additional limits. See we have reasonably good asset block as collateral for the bank and we can very well qualify but as far as possible our policy is to restrain on that. To work with the minimum facilities.

Girish Deshpandey: Okay, sir my next question regarding the vet API. Now we are growing rapidly and we see a good growth opportunity down the line and I understand that we have near monopoly in couple of molecules also and we also have our plans to increase the number of products or molecule. What is one big risk you see in your plans to take a look at 4 to 5 year plan, what is the one big risk you see which may hamper your plans to grow this business and what would be that risk.

Omkar Herlekar: See the risk involved in pharmaceutical manufacturing basically the regulatory risks, is one of the very important risk because you must have seen very of late because of regulatory noncompliance its many of the good rated companies they are all facing problems, so regulatory risk is one of the biggest risk in any pharmaceutical manufacturing company. The second risk is the norms and regulations which any government agency might put up with respect to pollution because now-a-days the pollution criteria is becoming stricter and stricter. So that is one of the you may not say the risk, if you are complying then definitely it is not counted as a risk but yet if you go to see what the kind of extraordinary risk may be envisaged then the regulatory risk and the compliance of other things like pollution and environment and all, these are the only risks. We don't foresee any risk from the customer front or from supply front or anything like that.

Girish Deshpandey: Alright and sir for vet API stable condition what kind of return on invested capital you foresee?

Omkar Herlekar: Currently this year you must have seen our return on capital employed is around 26% of ROCE we have posted.

Girish Deshpandey: Sir, I am talking about LASA Super Generic down the line?

Omkar Herlekar: Down the line it will be around 25% to 30% will be the ROCE.

Moderator: Sir, next question is from the line of Shivaram from CRISIL. Please go ahead.

Shivaram: Thank you for the opportunity sir. Sir, I have a couple of questions, sir firstly on the margins, If I compare between Q3 and Q4 FY16, largely the gain has been due to the fall in raw material cost as the percentage sales but this period is also seen drop in revenue shares from higher margin API and intermediate segment, so can you highlight as to which of the raw material cost have actually fallen down in your overall mix.

Omkar Herlekar: See, there are many cost may be have fallen down in Q4, even you may see the higher petrochemical derivatives. The iodine prices have come down drastically. It has come down to around $20 right now to be more precise and then the higher petrochemicals like nitrochlorobenzenes, nitrochloro-aniline, phenols and all, which are also our basic raw materials for API's have come down in the last quarter, last quarter means the immediate quarter of which the result which was posted, so that has brought the difference in the number as compared to the previous quarter.

Shivaram: Sir like you mentioned the $22 was the price in Q4 iodine sir what would be an average number for Q3 sir for iodine?

Omkar Herlekar: It was around $25.

Shivaram: Sir, secondly I just wanted to understand on the debtors, sir there are 130 crores debtors on our book side now, sir can you highlight as to what part of it is more than 6 months pending?

Omkar Herlekar: For ageing of debtors I will have to come back to you, off hand I don't have this thing. You can put it on the email, the detail ageing report of the debtors I can give it to you.

Shivaram: Okay, fine sir, sir just lastly before I go sir one question on the export, sir what you have seen consistently is that exports are being coming down so if you compare FY15 to FY16, it has come around from 25% to 12%, sir is this because of any headwinds we are facing in any specific markets or is it a conscious strategy to focus?

Pravin Herlekar: See, well as that iodine derivatives is one of our major segments and iodine pricing was erratic during last couple of years and on the export front also the pricing was very difficult to take a call on the costing, etc., so we have temporarily withdrawn from this, okay, but now since iodine prices have stabilized and the business is as regular on a consistent mode, so we have again stepped up our exports, this year it will be stepped up export in gross terms, absolute terms will also grow as a percentage also they will grow. Secondly, as I have just discussed sometime back, we have also developed some new molecules for some innovator companies which have been launched for which we work for last couple of years, we got the approvals and now the commercial business has started so that is also going to add to the exports, so this year we are quite hopeful that our export performance will be much better.

Shivaram: Okay sir, sir 20% as the percent of sales would it be a right figure for FY17?

Pravin Herlekar: I think it should be better than that much better than that.

Moderator: The next question is from the line of Akshay Gandhi who is an individual investor. Please go ahead.

Akshay Gandhi: If I recall it correctly, the incremental pledge which we have done recently I understand we have done it in the favor of SMC and as in response to one of the earlier queries that incremental pledge has been because of working capital.

Omkar Herlekar: Immediate requirement of working capital because of sudden inflow of major orders.

Akshay Gandhi: So have we drawn funding from SMC.

Omkar Herlekar: Yes, we have drawn. I think we have already met the disclosures on the exchanges.

Akshay Gandhi: Yes but that I think would be a high rate funding, at what cost if I may ask?

Omkar Herlekar: I think it is around 16%.

Akshay Gandhi: So then why are we not approaching banks probably where we can because as you mentioned that we have good fixed asset base also so why are you not approaching banks that probably we can get it at 11% or 12%.

Omkar Herlekar: Yes, you are absolutely right and it is logical that we should get if from bank but then as you are aware in PSU banks to get the proposal sanctioned, it takes nothing less than 4 to 5 months, that is the only handicap. So this is only a temporary requirement and then I have to deliver the products to the customers and then this is only a temporary phase as I mentioned and I will be definitely talking to the bank for whatever enhancements we require on such working capital and this will be set aside.

Akshay Gandhi: Yes, but sir just a thought why cannot we have the OD facility kind of thing from some bank?

Omkar Herlekar: We already have OD facility with Bank of Baroda. I think our manufacturing setup cannot simply work without any OD facility.

Akshay Gandhi: Yes, then why don't we exploit that facility which probably would be at a very competitive rate?

Omkar Herlekar: No exactly, see whatever OD facility we have that is normally utilized, so if supposing there is a certain requirement of working capital then you have to meet through some other means and that is only purely as a temporary measure.

Akshay Gandhi: Sir, next question on the balance sheet the receivables have shot up this time from 77 odd crores to 130 crores so what is our view on this? Is this because of sharp jump in sales that the sales have been accounted but the cash is yet to hit our books and by when do we see receivables coming down because I think the cash flows in then probably this will help in releasing the pledge also?

Pravin Agrawal: Yes that is the main reason because in Q4, there is a sudden sales orders were there in the February and March and since the realization did not happen which will be coming in month of May and during that interim period we wanted some additional working capitals, that is the reason the promoters were to go for a pledge of shares. The moment this sales realization will come and the bank money will come, the pledge of shares will automatically get reduced and that is the reason that our debtors outstanding have gone up as of March.

Akshay Gandhi: Okay, possible to give any estimate like in next quarter or probably Q1 of FY17 or Q2 of FY17, what pledge number do you have in mind Q1 from where we are standing currently? How much pledge can be released?

Pravin Herlekar: I think it can be released whatever we have recently pledged that will certainly be released in very immediate future.

Akshay Gandhi: Great sir.

Moderator: Next question is from the line of Mayank Sharma, who is an individual investor.

Mayank Sharma: I just have one question. I have seen you working since you got listed and my only question was your profit and loss account is to die for but there is a lack of financial discipline on the balance sheet in terms of any company. The sense I get after looking at the balance sheet and comparing it with the profit and loss account is that the profit and loss account is driving the balance sheet. Normally in prudent companies it is the other way around, it is the balance sheet which drives the profit and loss account, so for example, something which you recently did which was you took loans at 16% for just for completing an order because I know there is a huge demand supply mismatch in the market. But when you look at your balance sheet, if you just focus on making your balance sheet leaner you will not have trouble taking loans from the banks? One of the major complains of bank would be the size of the balance sheet or the receivables or the debt. may be the company can be working towards slightly more leaner balance sheet.

Omkar Herlekar: Yes boss, shall I tell you one thing, basically if you are posting exponential growth and exponential CAPEX for complimenting the growth, balance sheet is bound to get disturbed and this is a temporary phenomenon, you cannot help that. See either we have to decide on whether to grow or not and if you want to grow then all this are the part and parcel of the growth and definitely this kind of turbulent balance sheet you are seeing in the current prevailing year but going ahead once this business model stabilizes, once we get all the permissions, the consents when the debtors and creditors are smoothly flowing, when the new customers are in, all the registrations are done, definitely this kind of erratic balance sheet won't be seen and I am really helpless for this current moment as you really said balance sheet is driving the profit and loss account, you are right. right now the situation is such that we are into a growth mode and we feel that this all as the part and parcel of growth.

Pravin Herlekar: Just I will just like to add that yes what you say is right to some extent but then if you go through our balance sheet, our particular ratios are very well in the desired level like debt equity ratio, current ratio, everything is in the respectable level, so that needs to be appreciated.

Mayank Sharma: See I understand to a large extent the fact that you were actually sitting on very low capacity utilization. The blended capacity utilization where the company may be 45% to 50% as of today on the ground considering that with 15 to 20 crore extra investment. Your blended capacity utilization for all practical purposes is less than 50%, so I understand that when I look at the financials you are actually operating it just about 50% capacity utilization, so you are trying to cover your fixed cost by scaling as fast as you can, my only request is that in this process, they should be slightly more fiscal discipline because this is a very treacherous phase for any company which is growing fast. I just want a view on this because I looked at your business, the way you scaled up your business is phenomenal actually, the opportunity which comes to you and the way you are taking advantage of it, is again commendable.

Pravin Herlekar: We are aware about the issues which you have just highlighted and then we are taking actions on each issue independently and in a defined manner like for example, the working capital was one of the major issue, the company was facing couple of years ago and that time also we had said that we will bring it under control and definitely we will do it and we have done it. Okay, it has already come in proper control. Similarly, we were in CAPEX mode for the last couple of years, so lot of money was flowing into CAPEX, in capacity building and then this CAPEX was happening not in dark but then it was driven by the customers' requirements. We had clear visibility of products which are flowing in and demand for the forecast for those products and we were driven by that, so whatever CAPEX we have done that is now fruitfully it is put to use and expect for one facility what was waiting for environmental consent but even now that hindrance has also been cleared, so going forward I think you should be able to see more respectable balance sheet in coming year quarter-on-quarter, which I can definitely assure you.

Mayank Sharma: Sir what is your outstanding blended total order book.

Pravin Herlekar: I think this question was just discussed sometime back, it is normally we are booked for couple of months at least and then see many of the customers they may not give us written orders okay but then we have visibility about their requirements for products for the year. So a typical customer we know that based on their manufacturing requirements we know that there may be consuming x amount of material from our side, so that visibility is always there though there may not be actually written down order in black and white.

Mayank Sharma: So, the fact that you will be one of the few people supplying particular grade of chemical, the fact that we can actually predict your order book more than two months but two months is what you safely estimate?

Pravin Herlekar: See we also don't go for very long-term orders because there has always some risk involved in that particularly with respect to the raw material pricing and then other issues like even the government may increase MSEB may increase power tariff, they may increase water tariff, so our all pricing model is cost plus basis, so we also don't encourage getting orders at a fixed price for long-term point of view. It is always easier to work with these customers because we know that they have to buy from us, see we are registered with most of these regulatory customers as they are approved vendors and they just cannot change us, in fact it is one of the entry barriers in our business, for anybody else to come in so we are sure that the customer has to buy from us then why rush for orders. it is obvious that they will be buying from us. So it is better to talk to them month-on-month or couple of months basis. Quantity wise we are sure that they will be buying say x tons from us.

Mayank Sharma: I mean apart from you even I am sure, I know a bit about the industry so I know that you are actually in a very sweet spot and you are doing whatever you possibly can to take advantage of the opportunity.

Pravin Herlekar: Yes, I think it makes sense for us to wait and watch for the pricing movement. Because we are always working on cost plus model.

Mayank Sharma: Sir there is a difference between being too bold and being too aggressive and being prudent, I think you are somewhere in the middle and I think for the time being until you don't scale up, sir at what level of turnover would you be willing to take your foot off the pedal at what let say blended capacity utilization would you be easing back that we are in no longer in growth mode and correcting the balance sheet is more important.

Pravin Herlekar: I think this should happen by end of this financial year.

Moderator: The next question is from the line of Devansh Vajani from Vajani Securities. Please go ahead.

Devansh Vajani: I just wanted a few clarifications, you mentioned that your capacity utilization if you consider as the new plant not coming in it is at the rate of 70% right?

Omkar Herlekar: Right.

Devansh Vajani: And if you consider the new capacity once it comes in your capacity utilization will be only 35%, so when we are done with the capacity expansion for at least a few years now you won't require any CAPEX or anything?

Omkar Herlekar: Yes up till at least for the next 2 years by financial year 2018, we won't require rather to do additional CAPEX to add on capacities.

Devansh Vajani: Yes because this question is in link with the last question also the person who asked because that is very important for repairing your balance sheet and bringing down all the….

Omkar Herlekar: That is the reason we have kept this year as the year of consolidation. In FY17 we are not forcefully growing ourselves just for the heck of growing so we will be conservative over the sales, we will be more like to more majorly optimize our production capacities to the best possible extent occupied them to the best possible extent and basically make the balance sheet more powerful.

Devansh Vajani: Okay, now regards to this demerger, API segment turnover will go to LASA, the rest everything will remain in Omkar?

Omkar Herlekar: Right, perfect.

Devansh Vajani: So the 31% of turnover will go to LASA and the balance 70% turnover will remain in Omkar

Omkar Herlekar: 31% as on FY16 you are saying. In FY17 again this ratio will again this thing…

Devansh Vajani: FY16 only, I don't know FY17.

Omkar Herlekar: For FY17, API segment will be having more growth potential as compared to this thing for the moment at least so appropriately at least the minimum that is considering the last year's figure 31% definitely more than that, will go to LASA and whatever remains will be kept in Omkar.

Devansh Vajani: Okay, now regards to the Chiplun unit, I think there is a delay of around 2 quarters?

Omkar Herlekar: Perfect it is a delay.

Devansh Vajani: It is a delay but that has not affected us.

Omkar Herlekar: Not at all, that will not even affect us because see our current products are also having such a robustic order book that even in the absence of that capacity also we will deliver, secondly, even if the unit starts in second quarter, the whatever output is going to come out of that unit that is the forecasted State output is just 35 to 40 crores for this financial year. So in worst case situation let me assume that the unit does not definitely it won't happen that way but in worst case situation if you say the unit won't start then it would be just a deficit of 35 to 40 crores for this year and yet in the absence of that 35 to 40 crores also we will be delivering 10% to 15% growth. So I may put it this way that if at all that unit start in quarter number 2 that is the second or the third quarter I may wishfully thinking, okay, then the growth will be more than 10% to 15% which we will….

Devansh Vajani: So this 35 to 40 crores is not included in your 10 to 15%?

Omkar Herlekar: I have not counted, see I always like to go very conservatively, so I have not counted anything as such.

Devansh Vajani: Okay and the other you mentioned about the lease model of contract management, so what you will do is you will be taking manufacturing on contracts, that is what my understanding is?

Omkar Herlekar: Perfect, that will be contract, third party outsourcing.

Devansh Vajani: So you will be doing the contract manufacturing right?

Omkar Herlekar: Perfect. English word as typically called as job work.

Devansh Vajani: Okay so that will utilize your capacity, that is the purpose?

Omkar Herlekar: No that will not utilize my capacity, see if I am having more orders with my Speciality Chemical Business, I will get it outsourced from different companies, there are lot of companies who are having surplus capacity to manufacture, who are unoccupied, so there are a lot of people behind us to for job work reasons, so definitely we can get it outsourced from over there. We are currently also outsourcing, it is not that we are not, we have already started that model.

Devansh Vajani: But your capacity is unutilized and you are still outsourcing so that.

Omkar Herlekar: Sir, my capacity is underutilized in LASA sir not in Omkar. In Omkar Speciality Chemicals, my capacity is already utilized to 75% to 80%.

Devansh Vajani: 75% to 80%. Okay sir, so there also you don't see any need for expansion, you will go for contract manufacturer?

Omkar Herlekar: See typically for our Omkar Speciality Chemical business that is the intermediates, iodine derivatives, resolving agents and selenium, for this four verticals, we will be doing whatever additional business will come we will get it done through contract manufacturing.

Moderator: Ladies and gentleman that was the last question. I now hand the conference over the management for their closing comments.

Omkar Herlekar: Yes, thanks a lot for participating, thank you everybody.

Moderator: Thank you very much members of the management. Ladies and gentleman, on behalf of Omkar Speciality Chemicals Limited that concludes this conference call, thank you for joining us and you may now disconnect your lines.