



OMKAR SPECIALITY CHEMICALS LIMITED

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CIN : L24110MH2005PLC151589

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Date: August 22, 2016

To,

Corporate Services Department BSE LIMITED P.J. Towers, 1 st 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
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Ref.: Transcript of Conference Call – Reg. 30

Dear Sir / Madam,

In furtherance of our letter dated August 11, 2016, Ref.: No.: OSCL/SE/2016-17/77, we are enclosing Transcript of Q1 FY17 Earnings Conference Call held on Wednesday, August 17, 2016, at 04.00 p.m. to discuss Quarterly Financial Performance of the Company.

This is for your record and reference.

Thanking You,

Yours truly,
For OMKAR SPECIALITY CHEMICALS LIMITED

PRAVIN S.HERLEKAR
CHAIRMAN & MANAGING DIRECTOR
(DIN: 00525610)





OMKAR SPECIALITY CHEMICALS LTD

Omkar Speciality Chemicals Limited
August 17, 2016



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“Omkar Speciality Chemicals Limited Q1 FY2017 Earnings Conference Call”

August 17, 2016



OMKAR SPECIALITY CHEMICALS LTD



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



Moderator: Ladies and gentlemen, good day and welcome to the Omkar Speciality Chemicals Limited Q1 FY2017 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 for an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pravin Agrawal - CFO for Omkar Speciality Chemicals. Thank you and over to you sir.

Pravin Agrawal: Thank you, good afternoon friends. I have with me Mr. Pravin Herlekar - Chairman and Managing Director of our company and our Investor Relation Team, Bridge Investor Relations. Mr. Omkar Herlekar, our whole time Director who was also supposed to join us, but since he is travelling due to an urgent assignment, he will not be able to join with us. On behalf of Omkar Speciality Chemicals, we would like to welcome you all for Q1 FY2017 earnings conference call to discuss the unaudited financial results for first quarter FY2017. We have uploaded the presentation on our website and hope you have all received it.

We will begin the quarterly financial performance. Revenue from operation stood at 113 crores in Q1 FY2017 as against Rs. 90 crores in corresponding period last year, witnessed a year-on-year growth at 25%. Export contributed to 10% to our Q1 revenues. Breaking down the revenues as per our business segment, the API segment, the fastest growing segment that contributed 35% to the total revenue in the quarter. The intermediate segment contributed 27% to the total revenues in the quarter. There was a shift in the product mix under which some of the products from the intermediate segments were transferred to the iodine derivative segments. The iodine derivative segment contributed 33% of the total revenues in the quarter. As for resolving agents and others, it contributed 1% of the total revenues in the quarter and the selenium derivatives contributed 3% to the total revenues in the quarter.

The EBITDA stood at Rs. 23 crores in Q1 FY2017 as against Rs. 17 crores in the corresponding quarter last year, which is a 35% year-on-year growth. The EBITDA margin increased by over 150 basis points to 21% over the corresponding previous period. The PAT for the quarter stood at Rs. 11 crores as against Rs. 8 crores in Q1 FY16, an increase of 34% year-on-year.

In recent developments, as you are aware we have announced the scheme of merger, demerger of our businesses. I would like to share that we are moving ahead with the process smoothly. The scheme was sent to SEBI. After we got its approval, we have sent the scheme to the High Court and the process is underway. Just to reiterate, through this exercise we are consolidating the speciality chemical operations of Omkar which includes selenium derivatives, iodine derivatives, organic and inorganic intermediates and resolving agents into a single entity that will retain the current name of the company. At the same time, we will be demerging the Vet API business, which currently falls under the name of LASA Laboratory Private Limited



which will be demerged to LASA Super Generics Limited. The new entity will be listed on both the stock exchanges.

The reason for this demerger is that the OSCL business and the Vet API business are totally divergent, so also the growth potential, the risk rewards, the regulatory and capital needs are very different and totally independent of each other. We are demerging the Vet API business with the main intention of growing each business to its true potential and its unique operational efficiencies. We expect to complete this process by Q4.

During the quarter, our credit rating for bank facilities for both long term and short term facilities has been upgraded. This gives additional comfort to the lenders, thereby leading to ease of sourcing of funds at lower cost. We also are focussed on de-pledging our share. We had a detailed conference call explaining this. The transcript of which is available on the BSE and NSE stock exchanges. The promoter holding as on date stands at 58%. As stated in the previous concall, we continue our focus on higher operating efficiencies, increased productivity, innovation and process excellence to steer the company into next level of performance excellence. This quarter's numbers are reflection of the same. Thank you so much. We can now take the questions.

Moderator: Thank you very much Sir. Ladies and gentleman, we will now begin with the question and answer session. The first question is from the line of Dimple Kotak from SKS Capital. Please proceed.

Dimple Kotak: My first question is regarding why has the promoter holding declined by almost 9.5% in the quarter?

Pravin Herleker: Well, we have made the necessary announcements that promoters have sold part of their stake for de-pledging of shares, the money which has been received is being utilized for de-pledge and this is with a view to bring down the overall cost of financing, whatever money we had borrowed against pledge of shares was at much higher costing. We have now reduced that costing and that money which is received has been utilised for de-pledging and thereby reducing the cost of the debt in the books.

Dimple Kotak: Okay, but sir, your debt has increased from 207 crores in FY16 to 237 crores for the first quarter?

Pravin Herleker: Yes, now the part of it is by way of loan from the promoters itself. Loan in the books of the company has gone up, but then that has come from the promoters.

Dimple Kotak: Okay sir and sir going ahead, do we see further decline in the share percentage holding?

Pravin Herleker: No, now the holding stands at 58%, was earlier at 67%, though it stands at 58% and it will remain at that level. Now there is no more plan of selling of promoter stake. I would like to

add for your information that when this company got listed, the promoter holding was 58% only and then progressively we had done some creeping acquisitions as well as warrants and then taken up the stake to 67%. So now for cost of funds we have resorted to reducing our stake and brought it down to 58% again.

- Dimple Kotak:** And this will be stable at least for this year we can expect at 58%?
- Pravin Herleker:** Certainly.
- Dimple Kotak:** Okay and sir your debt has increased from 207 to 237 crores. Sir, can you give me the cash figure for the first quarter?
- Pravin Herleker:** Cash?
- Dimple Kotak:** The cash on books as on Q1 FY2017?
- Pravin Herleker:** Books okay, FY2017. Actually there is no balance sheet which is prepared for quarter results.
- Dimple Kotak:** Yes, sir. Sir since you have shared the debt numbers if you can share the cash figure?
- Pravin Herleker:** It is 12 crores.
- Dimple Kotak:** Sir your interest cost, is it going to increase because the debt has increased from 207 to 237 crores?
- Pravin Herleker:** The interest cost has reduced now because high cost debt is getting replaced.
- Dimple Kotak:** Yes. Sir, going ahead we expect the same run rate for interest?
- Pravin Herleker:** It will come down further because we will be resorting to different types of products in the debt like say, we will go for more of non-fund based loans which are available at very soft rate of interest and there will be some other products like buyer's credit and packing credit against our exports will be utilising will bring down the cost further.
- Dimple Kotak:** Sir, what is the kind of debt-to-equity ratio you are seeing for the end of FY17?
- Pravin Agrawal:** It will remain the same, it will be around 1, less than 1 only. Currently, we are at 0.92 and it will remain at that level.
- Dimple Kotak:** Okay sir. Sir for the tax rate for this quarter I believe that the tax rate is lower at 25%, so going ahead what is the tax rate which we would actually take into account?
- Pravin Agrawal:** See, we have a government approved, DSIR approved R&D lab with us and we have been doing continuously spending a lot of amount on the research and development of the new

products. Over a period of time when we do the spending's on the research and development, we get the advantage on the tax brackets. Tax rates which we have projected is after considering all the spending's which we did on the research and development and going forward the rate of tax will remain at around 25%.

Dimple Kotak: Okay sir and sir if you can throw some light going ahead like exports have decreased from FY16 from 14% to 10%. So what is the outlook for the whole company in terms of growth and guidance and in terms of export also?

Pravin Herlekar: See, normally in Q1 the exports are on lower side because you must be aware that particularly during the month of August the Europeans are on holiday. Similarly, the historical trends have been that exports pick up from Q2 onwards and they go on increasing up to, again there is a decline somewhere in the month of December also and then from Jan onwards, it picks up. So there is some cyclic pattern in that. Now we are sizably booked on the exports for our Q2 and exports will be stepping up. On an average, we are targeting about 25% to 30% of our total revenues towards exports.

Dimple Kotak: And Sir what would be your guidance in terms of margins and growth for FY17?

Pravin Herlekar: We have been maintaining our track record of growth for so many years based on the projections and then the markets as well as the new products what we have developed, it can look for comfortably around 12% to 15% as growth. We may be able to do better, but I think, it is better to limit ourselves to 12% to 15% on a conservative side.

Dimple Kotak: And sir if I can chip in the last question that in terms of your new product launches, when will these products become commercial and will start adding to your profit?

Pravin Herlekar: Yes, it has already started madam. We have done lot of R&D during last year, as you know most of our products go for pharma. They need some regulatory approvals at our customer end also. It normally takes time, customers also to get their approvals from FDI and other regulatory bodies. It is a time game but then we have already received the approvals and sales have also started. Now they will gradually step up.

Dimple Kotak: Sir how many products in the pipeline for approvals?

Pravin Herlekar: No, we have already received approval for at least 5 to 6 products. There are as many as another 5 - 6 products.

Dimple Kotak: Are in the pipeline.

Pravin Herlekar: It is always the case. Our R&D is continuously launching new products and some products are in the approval stage, some products are in the pipeline, products are still in the developmental stage. In fact, our R&D works for may be 3 or 4 years down the line starting from today.



- Dimple Kotak:** And sir R&D cost as a percentage, your sales would be around?
- Pravin Herlekar:** It is around may be above 1.5 to 2%.
- Dimple Kotak:** Okay Sir. Thank you so much sir, best of luck for the future.
- Pravin Herlekar:** Thank you.
- Moderator:** Thank you. The next question is from the line of Nalin Shah from NVS Brokerage. Please proceed.
- Nalin Shah:** Yes, good afternoon and congratulations for a good set of results sir. Can you throw some light that I find that cost of material consumed on a Y-o-Y basis, if I see Q1-to-Q1 then it is from 33%, it appears to have increased to 63% unless I am somewhere wrong?
- Pravin Herlekar:** It is marginally deviating.
- Nalin Shah:** No, if you see June 2015, your total income from operations is 90 crores and our cost of material consumed below that is 2903?
- Pravin Herlekar:** It was 68% only.
- Nalin Shah:** 68%, you are taking into account that purchase of stock in trade?
- Pravin Herlekar:** Cost of material consumed, be precise I have got the exact figure, June it was 68.81%.
- Nalin Shah:** For the previous year Q1?
- Pravin Herlekar:** In Q1 it is 68.47%. So in fact it has marginally decreased from 68.81% to 68.47%.
- Nalin Shah:** So you are putting as far as cost of material consumed, you are saying that 29 plus 38?
- Pravin Herlekar:** It is more or less same but then quarter-on-quarter, there will be slight variation depending on the product mix what we manufacture.
- Nalin Shah:** Secondly, what is the kind of total debt including term debt as well as working capital debt as on at the end of the first quarter?
- Pravin Agrawal:** See it is Rs. 237 crores console basis, term loans are around Rs. 115 crores and the long term debt is Rs. 122 crores.
- Pravin Herlekar:** It is Rs. 237 crores; Rs. 27 crores are from Directors only.



- Nalin Shah:** I see okay, so outside debt is about 210 crores. And sir I understand that more or less our CAPEX program is over, like current full year and Q1 what is the kind of CAPEX we will have in this thing on our budget?
- Pravin Herlekar:** As you rightly said, our major CAPEX is already over. We do not anticipate any major CAPEX coming in. For some maintenance CAPEX, may be some CAPEX relating to debottlenecking of the plant. So we do not envisage major amount spending in CAPEX but it could be somewhere in the range of say in the year around Rs. 5-5.5 crores or something like that.
- Nalin Shah:** Full year Rs. 5– 5.5 crores only?
- Pravin Herlekar:** Yes.
- Nalin Shah:** So I think it is quite modest.
- Pravin Herlekar:** Yes, in fact whatever CAPEX we have done for those capacities, the capacities have also started becoming operational. The operation in unit number 6 has already started, the Unit #1 where we have expanded.
- Nalin Shah:** Sir you just said that your guidance is about 12% to 15% growth, normally we find from the newspaper reports and talking to many other specialty chemical companies that everybody is expecting I think very good growth in specialty chemical as an entire sector is performing exceedingly well, if we see lot of companies like Meghmani, Atul and other companies which are in the field of specialty chemicals. So since you already have huge capacities already built up and still if you are saying 12% to 15% growth, so are you putting it up little more conservatively or do you think that our segment where we are operational the sort of growth is a little comparatively modest and not very aggressive?
- Pravin Herlekar:** Sir I will say that we are very humble and 12% to 15% will be the growth rate but we are confident that we will beat that. In fact, you must have observed that during last year FY2015-2016 had posted very good number.
- Nalin Shah:** Absolutely, that is why I was asking why only 12% to 15% you are projecting?
- Pravin Herlekar:** We do not want to make any tall claims on this. We have to perform and then...
- Nalin Shah:** And sir last question is that what is our rating from the either external agency or from the bank whichever the way it is?
- Pravin Herlekar:** We had external rating of double B plus to triple B now.
- Nalin Shah:** Okay, so it will get upgraded now?



Pravin Herlekar: Yes, it is already upgraded.

Nalin Shah: So I must congratulate Pravinji. Thank you very much for the excellent performance.

Moderator: Thank you. The next question is from the line of Charan Bhaskar from JP Morgan. Please proceed.

Charan Bhaskar: I have 3 questions. The first one is regarding your current capacity; could you give me your capacity figures right now that is operational?

Pravin Herlekar: Yes I can very well give you the capacities. We have to go unit wise, we have as you know we have almost about 7-8 units.

So Unit #1, our existing capacity is 600 metric tonnes which is getting upgraded by additional 300 metric tonnes very shortly. Then Unit #2, we have got 1,025 metric tonnes capacity which is not getting enhanced it will stand at 1,025. Then Unit #3, we have 75 metric tonnes capacity which will again remain at 75 metric tonnes. Unit #5, we have a capacity of 4,500 metric tonnes which is yet to be operational which we expect to commission during this current financial year. Then Unit #6, we have about 300 metric tonnes capacity which is getting further added additionally 450 metric tonnes which will make it 750 metric tonnes and part of it has already started. So in this year itself this 750 metric tonnes will become operational. Then was subsidiaries Rishichem Research, we have this pilot plant facility, so there is no particular capacity, there is no commercial products happening here but it is buffer between our R&D and commercial production plants. In LASA laboratory which is the major subsidiary we have got 600 metric tonnes an additional 100 metric tonnes is coming up making it total 700 metric tonnes and Urdhwa Chemical Company which is again our major facility for manufacturing intermediates required for LASA Laboratories that is the Veterinary API. We have a total capacity of 2,800 metric tonnes which will stand at 2,800 metric tonnes, so that I think sums up our total capacities. So as of today our existing capacity is 5,400 metric tonnes which is already operational and then additional 5,350 metric tonnes will be coming up during current year, which will make it up to 10,750 metric tonnes. That's sums up the capacity.

Charan Bhaskar: This is very helpful. Could you give us the capacity utilization for this quarter?

Pravin Herlekar: Yes, capacity utilizations for these quarters, I have the figures unit wise.

Unit #1, we have 85.98%, Unit #2 was 88.51%, Unit #3 it was 77.33% then Unit #6 it was 12.38% because it had recently started and LASA laboratories we had 72.23% and Urdhwa Chemical Company, it is 84.90%. So, on an average all the capacities have working at about 85% to 88%, very optimal for any chemical company to work.

Charan Bhaskar: Okay thank you for this. The second question is regarding your guidance, in the previous concall that we have, you had mentioned that this year would be a year of stabilization then



that you would have between 10%-15% growth but the next year which is FY18 would be a bumper year for you guys. Are you still on line to meet that guidance?

Pravin Herlekar: We are definitely on line for this and this is in view of the capacities which are coming in place and then the products which are already developed by us which have already got approvals and the commercials have started, so we are all set for taking the company to a new level in this year as well as in coming year.

Charan Bhaskar: Okay great, could you also elaborate a bit on your deleveraging, on your reduction in debt? When do you anticipate you to be debt free, would it be 2019-2020?

Pravin Herlekar: It is like this that the company has already started repayment of its term debts. Quarter-on-quarter we have been paying close to about 5 crores, so close to about 20 crores we are able to repay per year as far as our long term debts are concerned and considering the debt on hand I think if we go at this rate only, say 20 crores a year, it will take about say 4 or 5 year for becoming a totally debt free but as we can expect that since the revenues are growing, the PAT is also growing there will be more cash flows coming in so we will be in a position to pre-close the debts may be a year in advance as well.

Charan Bhaskar: Understood, my final question is about the Unit #5 which is the Chiplun facility that received an approval. Do you already have customer contracts for the facility or?

Pravin Herlekar: Well, we have multiple customers for which we have been manufacturing our various products and the products are ready with us and since all our facilities not only Unit #5 but even other facilities are fungible. There multiple products which can be manufactured over there. So it is not that the particular facility will be dedicated to any customer or any particular product. Depending on the market requirements and the demands we can make any product in any of our facilities except for LASA Laboratories which is the regulatory facilities where we make only APIs, veterinary APIs. All other facilities are totally fungible.

Charan Bhaskar: My final question is regarding the LASA facility; do we have FDA visiting any time soon?

Pravin Herlekar: We are already under FDA. It is not USFDA by the way. It is a local FDA, we require and which we have, it is a WHO GMP facility.

Moderator: Thank you. Our next question is from the line of Abhijeet Awekar who is an Individual Investor. Please proceed.

Abhijeet Awekar: Can you please tell us how many scientists or chemists are working in your R&D center and also the total employee headcount?



Pravin Herlekar: Our total employee headcount is close to about 850 across all units put together and our R&D team comprises of about 25 people working round the clock in all three shifts and all our plants are working in three shifts.

Abhijeet Awekar: Okay, next thing we were expecting some approvals from New Zealand and Australia I guess, so, have you got or you will be getting that soon?

Pravin Herlekar: Yes, we are awaiting that.

Moderator: Thank you. Our next question is from the line of Girish Deshpande who is an Individual Investor. Please proceed.

Girish Deshpande: Many congratulations for good set of results, my question is regarding even exports, couple of years ago even articulated that you plan to improve the exports, that is one of the focus areas and I would to like know what steps have been taken to increase the exports, because the exports are not going up the numbers are around 10%-12% kind of thing?

Pravin Herlekar: We have good connections with many top MNCs and they are also innovator companies so whatever new drugs they have in the pipeline for launching. They have already shared their requirements with us, this is not today but about couple of years ago we have developed these products and many of these products have been approved. We have already launched the commercials for these products and that business is picking up. It will pick up in coming quarters as I said we have no new molecules in that intermediate categories which are going forward different applications like anti-diabetic, anti-cholesterols, anti-HIV and also for some diagnostic applications. So these products are niche products good set of margins and we also have some patents to our credit for these products and we will definitely enjoy much better margins on this product for time to come and already this has been initiated and you can expect good set of numbers from exports coming in, in following quarters.

Girish Deshpande: Yes, there is an add to the question, I remember you were saying in one of the calls in exports, your receivable plans are better than domestic customers? What are the plans to increase the exports especially in Omkar Chemicals there we have working capital challenges?

Pravin Herlekar: Fortunately for us this exports we are doing they are with excellent companies and payment terms are also quite favourable. Plus, whenever we export and we avail packing credit from the bank the cost of finance is also very attractive. It is very soft and then in focussing on exports is our motto now because it is desirable from the point of view of getting a natural hedge against our imports as well as reducing the cost of finance. So company and the management have taken all the efforts to step up our exports and the numbers will stick for themselves for the coming quarters.

Girish Deshpande: Okay, sir my next question is what are the trade receivables as of Q1?



- Pravin Agrawal:** 106 crores.
- Girish Deshpande:** So it is reduced from 130 crores?
- Pravin Herlekar:** Yes, it has come down from 130 crores. I will just add something on this. In terms of number of days, it stands at 84 days which was for FY15-16 it was 115 days. On the head count also it has come down.
- Girish Deshpande:** Yes, my last question is you have mentioned that there is a product mix change from intermediate to Iodine derivatives. So just trying to understand what is the significance of that and how it will help the business going forward?
- Pravin Herlekar:** No, there is no change in product mix as such it is only the categorisation has been changed internally. Some products which were included as intermediates we have taken it out from the intermediate segment and added it to Iodine derivatives segment, because they are basically Iodine derivatives. But then they are niche iodine derivatives there is specialised iodine derivatives, so earlier we were categorising it as speciality intermediates but now we are again push them back into Iodine derivatives. So there is no business plan change or nothing of that type it is only the category which we have changed internally. That's all.
- Moderator:** Thank you very much. The next question is from the line of Siddharth Bhattacharya from Suyash Advisors. Please proceed.
- Siddharth Bhattacharya:** I have 3 questions that I need some clarification on. First thing is about this reclassification of products, which the previous participants just asked. I just want to understand are there any more iodine derivatives under the intermediate segment that will be reclassified let say in the future?
- Pravin Herlekar:** No there will be not being any reclassification but then Iodine derivatives is our ongoing segment. It is a historical for many years now and we keep on adding new Iodine derivatives every year. Iodine is a very vital element which is consumed in pharma and it has various application for different therapies so many innovator companies have been working on new drugs they require intermediates based on the Iodine so therefore we are known for our strength in manufacturing Iodine derivatives. So whenever any new company even the MNC thinks of new requirement in Iodine derivative the first mail will come to us and then we explore that in our R&D and then give them the feedback whether we can do it or not. So that is how Iodine derivatives we have been growing year on year. Though we have additions in our non-Iodine business also regularly so as a percentage of the total business, Iodine business may not increase but then the number of derivatives will keep on increasing.
- Siddharth Bhattacharya:** Okay and would the margin profile also change now that if I am correct, the intermediates are slightly higher margin?



Pravin Herlekar: You are right. Intermediates or depending on the type of products gross margins, by gross margins I mean selling price minus the raw material cost that varies from somewhere between 45% to may be 100% or even more. Then the rest of the commodity type of products will have gross margins of around 25% to 30%. So when are talking about this speciality iodine derivatives they fall in the first category which much higher margins.

Siddharth Bhattacharya: Got that, sir I also wanted to sort of understand how to understand your EBITDA margins because compared to Q4 where EBITDA margin was at a much higher number of around 26%. We are down to 21%, it is still good margin but just wanted to understand how to look at this margin variability?

Pravin Herlekar: Again this EBITDA margin, for a quarter will depend on the product mix which we make manufacture during that particular quarter, so occasionally this may jump to may be about 23%, 24% or something like that but on an average we have been maintaining somewhere between 18% to 20% and we will continue to maintain around 20%, (+/-1%) or (+/-2%) and it will be the normal trend for historically as well as for time to come.

Siddharth Bhattacharya: Okay got that. Finally, Sir I also wanted to understand about any order book driven business that we have and going ahead once LASA becomes operational?

Pravin Herlekar: LASA is already operational.

Siddharth Bhattacharya: Sorry, I meant once Unit #5 becomes operational, how will the business further look like, compared to our existing business?

Pravin Herlekar: As I mentioned sometime back we target a growth of about 12%-15% in which we are not factored, again I repeat, we are not factored commissioning of Unit # 5 based on our existing capacity alone, if Unit #5 comes up you can expect that the growth will accelerate.

Siddharth Bhattacharya: My question was specific to the if at all any order book driven business. So do we have an order book today as things stands and what is the kind of order book that?

Pravin Herlekar: Order book if we really go by numbers of days or number of months whatever we can, on an average we can say we are booked for at least about a couple of months. Minimum in terms of the actual orders on hands but then we always have a clear visibility about the requirements from our major customers, for say next couple of quarters, right say as of today I know a particular company will be requiring so much of quantity of given products, what quantity they will buying up to December. Though I might not have received the order they normally share with us because it helps us in planning raw materials at our end and earmarking capacities also for that. So normally most of the customers they give us a clear visibility of their requirements for couple of quarters and orders will come as and when they require so normally we have order book of whole couple of months on hand.



- Siddharth Bhattacharya:** Okay so two month's orders on hand and close to 2 quarters of let's say order visibility?
- Pravin Herlekar:** We can definitely say that.
- Siddharth Bhattacharya:** Okay and this will be the same one's Unit #5 also comes?
- Pravin Herlekar:** Yes, some time back again I mentioned Unit #5 will be only addition of capacity and it will not be dedicated to any particular product as such, so it is all fungible so we can utilize that capacity for whatever products we have, even for the existing products we can make use of that capacity.
- Moderator:** Thank you. The next question is from the line of Akshay Barjatey from Rubycon Capital. Please proceed.
- Akshay Barjatey:** I wanted to know on the Vet API business. What are the EBITDA margins and what is the capital employed in this business?
- Pravin Herlekar:** Current EBITDA margins are somewhere around 25%-27%, I have the figures with me. I will just take it out. We can attend your next question in the meantime.
- Akshay Barjatey:** So maybe you can split the debt, so the current debt on books is about Rs. 237 crores?
- Pravin Herlekar:** Out of which LASA Laboratory has a long-term debt of around Rs. 18 crores and short term debt of about Rs. 20 crores, Rs. 38 crores in the actual debt on LASA.
- Akshay Barjatey:** Alright, okay and Unit #5 which is yet to be operational would it be completely dedicated towards LASA Labs already merged with LASA Labs and its demerged and listed or will it continued to be a part of the current entity?
- Pravin Herlekar:** As mentioned by our scheme of merger-demerger which is already on exchanges' site as well as on our site. Unit #5 will be merging with LASA Laboratories.
- Akshay Barjatey:** So what is the debt which you have taken for the CAPEX for this Unit #5?
- Pravin Herlekar:** It is Rs. 35 crores.
- Akshay Barjatey:** Okay that would get added to the current Rs. 38 crores as well as and when the demerger happens.
- Pravin Herlekar:** Yes.
- Akshay Barjatey:** So basically just looking one year down, we are looking at debt of about Rs. 80 odd crores in the newly listed entity at that point in time?



Pravin Herlekar: That is right.

Moderator: Thank you. The next question is from the line of Parag Pai who is an Individual Investor. Please proceed.

Parag Pai: My question was a bit different not related to company operation but basically the international external environment. Through our common knowledge I understand that basically there has been ban by China on the chemical industries were owing to some environmental reasons. Now we have seen that many chemical companies have reported very good numbers and some part of the reason is because of this ban. So I want to know whether our company is also benefiting from this kind of ban and once this ban is gone are we going to see reduced growth?

Pravin Herlekar: Well I would like to elaborate, it is a very good question and it is of interest of many people so I would like to elaborate on this. One thing is that what we are talking about China; it is basically historically we will have to look into the past history how China was manufacturing chemicals. They were literally no limitations or control on the environmental issues in most of the parts in China and things were not very much followed up pertaining to the treatment of liquid effluent but even the gaseous effluent also. But then as the time has passed and in China particularly in pharmaceutical sector which is mostly governed by the regulatory bodies like USFDA and the multinationals who has been buying from China, they have become more aware about this issue particularly with respect to EHS, that is the Environment, Health and Safety Matters are gaining importance everywhere. Fortunately, in India, I think we had a good practice of environmental norms and we had to take practically whosoever was engaged in manufacture of chemicals had to follow certain norms. They were common effluent treatment plants set up at various industrial areas and units were required to set up the facilities in-house also for proper treatment of effluents etc. and most of these requirements were lacking in China earlier but now after the regulatory matters have become stricter, there has been a growing trend to force for green atmosphere, this particular these carbon norms and all that has added fuel in this. So China was also rather forced to withdraw from what was happening or the scenario prevalent in China. So there were many companies stopped buying from them and that is why they had to put some ban or bring in some stricter regulations. Now this has in general helped Indian chemical industries, it is not only we are now talking about Omkar Speciality but in general chemical manufacturers particularly speciality chemical manufactures in India, it has definitely helped because most of the domestic pharma companies have also started looking towards the Indian companies to source their requirements which hitherto were importing from China. So we have been regularly getting enquires from most of the top pharma corporate for development of new molecules which so far they were importing, that is in general going to help the local chemical industry.

Parag Pai: Second part of my question is like I mean obviously as you said this is an important development and then are we keeping track or are we having any update on when this sort of can be removed by the Chinese government because that would impact the entire chemical industry in India?



Pravin Herlekar: Well, now when we talk about China, we had to again look into the type of business we are into for what probably you are referring to helped the commodity products which China was predominately dumping into India and other parts of the world and particularly our company is into speciality chemicals which is the different segments and China as it is not very much prominent in this segment. For many reasons, one is this regulatory aspect, second is the environmental aspect and third is the quality aspect because the type of products what we produced they are consumed in the pharmaceutical industries for life saving drugs and the quality of the products is very important not only from the point of view of the percentage of material what we produce like say it has to be 99.5% in any case but even the limits of impurities remaining 0.5% are also as important as the quality and that is probably the thing which China lacks in such type of chemicals. So anyway the speciality chemical industry had nothing to worry about in the past and then in future also it will have nothing to worry about.

Parag Pai: Fine as I understand basically we have sort of indifferent to there is development and we would not be largely affected if at all with whatever the development is?

Pravin Herlekar: The European or Western developed countries are looking more towards India for their supplies of chemicals in general rather than China. We are regularly facing audits from most of the MNCs who come and audit our plants with respect to quality, documentation, production, etc. They also go into this EHS aspect that is Environment, Health and Safety aspect. They see to it that our workers are provided proper equipment for their protection and all that which so far was not so important to anybody but now a days during last couple of years we have found that this EHS aspect has become more important. So unless you are complying with that they will not pass you for the audit and then you will not get orders.

Moderator: Thank you. The next question is from the line of Mohit Bansal from Ajinkya MPL. Please proceed.

Mohit Bansal: I am actually sorry, I joined in late, I missed in the management commentary. My first question was regarding the de-pledging of shares in the last con-call which was a month back on this topic, you mentioned that in the next 15 days you would be reducing the stake, the pledge shares by some percentage sir. Where are we on that because we not seen any disclosure on that?

Pravin Herlekar: Yes, see what is happened is there are certain issues about prepayment of certain loans. So there will be penalties on that, etc. So we have deferred that and till such time, this money has been parked in the banks only and to that extent our utilization of CC limit will be going down. So we will be saving on the interest cost.

Mohit Bansal: So what is the timeline on the de-pledging?

Pravin Herlekar: I think it should happen somewhere partly in September partly in October.



- Mohit Bansal:** So are we maintaining that will go to zero pledge in the next 3-4 months?
- Pravin Herlekar:** We will maintain that, yes. It is a matter of time only, that's all.
- Mohit Bansal:** Because on the last con-call you had mentioned that you will try to reduce it zero.
- Pravin Herlekar:** Before September quarter. We will try to maintain that but it might get extended by a month or so.
- Mohit Bansal:** Alright sir thanks. So are we saying that we will go to 0% in terms of pledge share before the demerger happens?
- Pravin Herlekar:** That is our target.
- Mohit Bansal:** So my next question is that in last Q4 con-call you have mentioned that you would be starting from outsourcing on some products. Have we started that?
- Pravin Herlekar:** We have already started.
- Mohit Bansal:** Okay sir and what is the topline we can expect this year and what are the margins in that?
- Pravin Herlekar:** This will be again speciality products and some APIs for the top line we can expect, maybe this year it will not be very high but may be to the tune of about Rs. 15 to 20 crores and the gross margins will be again in line with our regular products what we are manufacturing somewhere of 40%-50%.
- Mohit Bansal:** So basically we are doing this in both businesses right on the specialty chemical side as well as on the Vet API side, correct sir?
- Pravin Herlekar:** On Vet API side we already have capacities. On speciality chemicals and then for some Human APIs what we are targeting.
- Mohit Bansal:** Okay sir and I understood in the last concall that we were also doing some outsourcing on the LASA side on formulations etc.?
- Pravin Herlekar:** Yes. We are in the process of doing that because that is a forward integration for LASA.
- Mohit Bansal:** Okay we have not started that?
- Pravin Herlekar:** We have not really started but things are getting concluded very shortly?
- Mohit Bansal:** Can we expect business in this year from there?
- Pravin Herlekar:** It should happen in this year.

- Mohit Bansal:** Okay so basically can we expect a topline of say Rs. 30 to 40 crores including both these business sir?
- Pravin Herlekar:** May be Rs. 20 to 25 crores would be a robust estimate.
- Mohit Bansal:** Okay, so roughly that adds about 10% of the topline, so if we look at this 10% and the old business that we have should add another 10%-15% on the topline, so we will be growing by close to 20%-25% instead of 10%-15% which has been targeting?
- Pravin Herlekar:** Whatever things we have planned and which are happening we have still not factored in our projections. So when I say we will be growing at 12%-15% it is a growth based on our existing capacities and existing products, whatever new developments will happen they should add to the overall performance.
- Mohit Bansal:** Okay sir and the margins you are saying we will maintain the same margin even on the outsourcing front which is close to the 20%-25%?
- Pravin Herlekar:** Our EBITDA will also be maintained.
- Moderator:** Thank you. The next question is from the line of Ajith S an Individual Investor. Please proceed.
- Ajith S:** Two questions. One on the debt side, sequentially the debt has gone up in the business, when can we expect the debt to come down? You had indicated but earlier the pace of reduction is not the way you had highlighted and you are delaying the process, be it reducing the pledge as well as the debt in the company?
- Pravin Agrawal:** Some time back as Mr. Herlekar has explained on the similar question that the current debt is totally Rs. 237 crores which includes around 27 crores from the promoters and we are in the process of repaying around Rs. 20 crores every year.
- Ajith S:** Okay but why the debt has gone up from March till now, so where the money has been deployed because the working capitals seems to have reduced?
- Pravin Herlekar:** Debts which appears to have gone up it is because of funding from promoters itself. It is not outside borrowings.
- Ajith S:** Now it does not matter right? Why your overall net debt has gone up from March till June quarter?
- Pravin Agrawal:** This money has been given by these promoters which will be utilised for de-pledging the shares have not yet been de-pledged so those debts will come down.



- Ajith S:** You had indicated that de-pledging would happen in next one week in the previous call?
- Pravin Herlekar:** As I mentioned there are certain issues like prepayment charges of the loan amount so those issues we are in the process of sorting out and even in the last call I had mentioned that the de-pledging will happen by end September and then it is in the process so it will happen in due course.
- Ajith S:** If I look at the cash profit you have still generated around Rs. 30 crores of cash profit in June quarter. So where this cash profit has been deployed? The working capital is down, you had indicated from Mach quarter, so where the debt has been deployed?
- Pravin Herlekar:** We have some reduction in debt in our bank facilities to the tune of about almost Rs. 15 crores.
- Ajith S:** So are you saying that the debt has been borrowed by the company for reducing the pledge of promoters, is that the understanding that we should take?
- Pravin Herlekar:** Partly the debt was in the companies, which has been repaid.
- Ajith S:** But then the overall debt has not gone down right? From March till June?
- Pravin Herlekar:** The overall debt that is outside pledge has been de-pledged.
- Ajith S:** Okay and second on the demergers, that process is still on, no second thoughts of not doing the demerger?
- Pravin Herlekar:** No, it is already in process as scheduled.
- Moderator:** Thank you, the next question if from the line of Ajay Kumar Jindal, who is an Individual Investor. Please proceed.
- Ajay Kumar Jindal:** Away from the numbers, I mean from a perspective of a small investor, there are so many companies in the chemical space. So what makes this company defend from the other companies in terms of the value creation for the small investors?
- Pravin Herlekar:** Well I can only say that right from the inception of this company, the philosophy has been to be pioneer in chemicals and then we have been really pioneers in most of the products what we are manufacturing today, right from day one, that is start-up of this company. We only look for products which nobody else is manufacturing in India or there are certain products where in there are no global players also. We also have patents to our credit for many products almost about 14 products we have patents and this has been the thinking process in the company for many years and we will continue to work on this. We are literally developing at least 5-6 new products every year which are required by the Pharma industry year-on-year and that is the



ongoing exercise for the company so which makes us or differentiates us from rest of the companies.

Ajay Kumar Jindal: How will you rate yourself in terms of ethical management practices capacity of the management?

Pravin Herlekar: Well, it is very difficult for the managers itself to comment on this. It is somebody else who has to rate us on this issue. It will not be appropriate for me to boast for myself.

Moderator: Thank you very much. I would now like to hand the floor over to Mr. Pravin Herlekar, Chairman and Managing Director for closing comments over to you sir.

Pravin Herlekar: Thank you so much for joining us on this forum and I hope to the best of our information we have shared all the details to practically all the answers which have been raised during this forum. I again request you to drop us some mail if you have any further queries and we will try our best to address the same. Thank you so much for joining.

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