OMKAR
Always the leaders

OMKAR SPECIALITY CHEMICALS LIMITED

Regd. & Corporate Office : B-34, M.I.D.C., Badlapur (East), Thane - 421 503, Maharashtra, India
Tel. : +91 (0251) 2697340, 2690651, Fax : +91 (0251) 2697347, 2691572
Email : info@omkarchemicals.com Web. : www.omkarchemicals.com CIN : L24110MH2005PLC151589

Ref. No.: OSCL/SE/2016-17/73 **Date: August 01, 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 July 15, 2016, Ref.: No.: OSCL/SE/2016-17/55, we are enclosing Transcript of Conference Call held on July 19, 2016 to discuss the stake sale and de-pledging exercise by the Company.

This is for your record and reference.

Thanking You,

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

Omkar Speciality Chemicals Limited ★ Badlapur

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

“Omkar Speciality Chemicals Limited Conference Call”

July 19, 2016

Management: **Mr. Pravin S. Herlekar – Chairman, Managing Director and Promoter, Omkar Speciality Chemicals Ltd.**

Mr. Pravin Agrawal – Chief Financial Officer, Omkar Speciality Chemicals Ltd.

Moderator: Good morning, Ladies and Gentlemen. Welcome to Omkar Speciality Chemicals Limited Conference Call to discuss the recent sale of shares by the promoters and the de-pledging exercise. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pravin S. Herlekar – CMD of the Company. Thank you and over to you, sir.

Pravin S. Herlekar: Thank you, and good morning, friends. I have with me Mr. Pravin Agrawal – CFO of our Company and our Investors Relations Team Bridge Investor Relations. On behalf of Omkar Speciality Chemicals, we would like to welcome you all on this conference to discuss the recent issues regarding the recent sale of shares by the promoter group.

So friends, let's come directly to the point that is purpose of this con-call. During the last say two to three weeks there has been a lot of debate going on in the investor community about various issues related to the Company, particularly sales of promoter holdings. I would like to address all these issues very transparently. But before I start, I would briefly go through the past history of the Company with a special mention about our operations during the past three years.

The Company has been in existence for over 30 years by now, first as a Proprietary Firm, then a Private Limited Company and now as a Listed Company. Right since its inception the Company has focused on niche specialty chemicals and has been a pioneer in most of the products it manufacturers. All the products have been developed in the Company's own R&D and the Company also has its own IPR department. Three years ago our aggregate capacity were 1,700 metric tons per annum which were almost fully utilized on the basis of three shifts operations. On account of our association with a wide range of customers who are of great repute, we keep receiving indents for development of coming new molecules required by them. We had a basket full of all such products ready with us for commercialization and we were handicapped with the capacities to manufacture the same. In view of the same we had embarked on the capacity expansion, or rather I would say we were compelled to do the expansion because of pressures form of our customers. We also did some acquisitions which did helped us in getting additions to our capacity very quickly as against the Greenfield projects which we all know normally takes a long time.

But all this involved a CAPEX, we had spent around Rs.180 crores for the CAPEX during the past three years. There was another dimension to this need for CAPEX. Almost say 75% of our business happens with pharma companies which are in turn governed by regulatory bodies like US FDA etc. For a regular supplier like us we need to comply with the regulatory requirements for our facilities like clean rooms with spare handling units, dedicated material handling systems, compliance with local FDA, etc. Support of such facilities enables us to attract better pricing on our products for these customers which help us in improving our margins as well. The CAPEX done by us, we had two dimensions, one was the need for additional capacities for launching new molecules. Secondly, scale up of the existing product itself not only for new molecules but for scale up of existing molecules, there were many products which we were making on some ton levels, say 4 tons - 5 tons which had global market so we needed to expand on that. Secondly, compliance with regulatory requirements to improve our margins. And another most important thing that we have been doing lot of backward integrations, so apart from the end product we go about three or four steps backward to make the intermediates in-house, which again helps us in adding value addition for the products.

So in addition to the need of CAPEX, we had one more issue with us of a serious nature, it was our working capital extended cycle on account of delayed receivables and high inventories. We first decided to take up the working capital issue and the cycle came down from almost more than 200 days to 110 days, which is now in a very reasonably controlled level. Capacities were increased from 1,700 metric tons to 4,600 metric tons which was a reasonable augmentation which has helped us in catering to the customers launching new products and also expanding on our existing product sales.

Our Unit number fivewhich was pending for environment consent, that also got cleared and it is again expected to commission very shortly.

Now the capital work in process, after doing Rs.180 crores of CAPEX we still have about Rs.140 crores of CWIP which is getting closed in this year, so all these capacities have already started operating, except our Unit #5 all the plants have started. We have totally nine plants as on the date and eight plants are already functional and during this year itself they will achieve operational level of around 80% to 85%.

Now with this, our debt on account of CAPEX has gone down and of course with the enhanced production and sales our working capital level also went up. So this we had been discussing with our bankers for long-term term loans, etc., but then unfortunately with PSUs it takes a long time and we were not in a position to hold on to the capacity expansion on account of the market demands, so we had borrowed against pledge of shares.

The Company had total debt of around Rs.240 crores level on a consol basis and the management has taken up this task of reduction in debt, because as of now the business model of the Company is such that we have very wide product base, almost more than 100 products we are manufacturing. We have again a very-very wide customer base, total including domestic plus global we must be having almost about more than (+800) customers. So the business model of the Company is very much diversified in terms of products as well as the customer base. The only issue which we are facing was the overall debt, including working capital cycle. Now working capital cycle, as you know, we have already brought under control, so next target was the debt because our EBITDA levels, as you must have observed from our quarterly financials, we have been able to post strong EBITDA of around 17% to 19% and this is very sustainable business. So post EBITDA the profits are eaten away by the finance cost, so that is our next target. So we wanted to bring down the finance cost so that the overall margin's PAT can increase which will lead to better EPS and then of course it will result into benefits for the investors. So that is basically the rationale behind this sale.

Now we did try to infuse equity into the Company, couple of years ago we tried for QIP but the markets were not supportive at that time. Then we did discuss about some private equity and other things, but then again the things were not very much favorable to us at that time. So ultimately the target is to bring down the cost in the Company. So though it affects the promoters themselves, we did decide to sacrifice on our funds and liquidate part of our equity to raise funds to reduce the debts in the Company. So that is the rationale and reason for selling the shares.

Regarding holding, promoters were holding 58% stake post our IPO which was increased by creeping acquisitions and warrants to 67%. And today after sale of the shares we have again come back to 58%. So promoters still hold the majority stake and there is no worry that the promoters will rule the control on the Company, number one. Number two, promoters are absolutely committed and devoted to the business and the business model in turn is again very strong and going forward the Company expects to continue its track as it has been posting year-on-year or maybe even quarter-on-quarter which will be evident to everybody very shortly.

So with that, I throw open this forum for question-and-answers. Look forward to listening from you. Thank you.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. Our next question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan Padmanabhan: Couple of things from my side. First, I mean you had mentioned that this year your utilization would be about 85%, so which means I would reckon that in a couple of years you would again have to go through the CAPEX mode?

Pravin S. Herlekar: Yes. Please continue, then I will answer.

Sudarshan Padmanabhan: And the second thing from my side is, I mean now that we have repaid some debt through stake sale, if I am looking at your company probably two years, three years down the line, what would be your absolute debt and what is your comfort zone in terms of debt equity?

Pravin S. Herlekar: So on your first question about the utilization, as I said our capacities initially were 1,700 metric tons which has now come to 4,600 metric tons. Then, our unit number five which is at Chiplun has additional capacity of 4,500 metric tons. So what you mentioned that maybe again in a year's time we will require additional CAPEX to be done which is not going to be the case because the unit number five has to start production now and that entire capacity of 4,500 metric tons will be open for us in places, so that we will utilize over the next three to four years. So next four years at least we don't anticipate any major CAPEX, CAPEX will be required for just debottlenecking and may be some maintenance CAPEX, but that will be of very marginal nature. So the major CAPEX is already done by the Company and we do not expect any major CAPEX to come.

Secondly, we have also launched different type of model now for outsourcing, i.e. some of the products we are getting return on outsourcing for which we do not need any CAPEX, we have to pay some job working charges whenever we require some additional capacities. So ROC will also improve because we will not be doing any major investments in that, it will be only the raw materials which we will have to buy. So that is first part.

Second question was, can you please repeat it?

Sudarshan Padmanabhan: Sir, over the next two to three years…

Pravin S. Herlekar: Yes, the debt level, right?

Sudarshan Padmanabhan: Yes, absolute and debt equity.

Pravin S. Herlekar: See, as far as the total debt, we already have started repayment of our term debts, like whatever ECBs we had from Bank of Baroda and Citibank, Citibank we had some Rs.21 crores of ECB which is almost paid I would say, it is only Rs.4 crores which is outstanding and which is getting cleared by December. Likewise, all our other term loans are getting totally cleared within next five years, next four years I would say. So going forward, out of the internal accruals and whatever profits we will be generating, the loans will be serviced quite easily and the Company hopes to become debt free, at least on the part of term loans will be maybe in the next 4 to 4.5 years time.

Sudarshan Padmanabhan: And as of now we have Rs.250 crores, right?

Pravin S. Herlekar: It has already come down, it is around Rs.210 crores.

Sudarshan Padmanabhan: And second, I mean out of this Rs.180 crores that they had spent in terms of capacity augmentation, what is typical asset turn that we would be doing? I mean we had also earlier talked about cost cutting and cost cutting efficiencies that would come in, if you can embark a little bit on that and say how much of it is already being done and how much of efficiency we can further get?

Pravin S. Herlekar: See, as a turnover we expect that it should go to about three, if not more. So for Rs.180 crores it should be at least, close to Rs.400 crores of top-line it should achieve. And then as far as the cost cutting is concerned, we have as I said lot of backward integrations, so whatever products we are making, say even in APIs, veterinary APIs what we are producing, we don't depend on the key starting material which might be imported from China or others might be importing. But we do manufacture the same in our own facilities, not only in the ultimate stage but even earlier two, three stages also. So we start from basic scrap material which are normally petrochemicals available commonly in the market. So there is no dependence on any key supplier on the procurement side. So that also adds on to the value and cost automatically comes down.

Secondly, our processes are devised in such a manner this is all R&D backed up and we have lot of techniques to reduce the costing by way of specialized catalyst and some process parameters which can reduce the cost.

Sudarshan Padmanabhan: Sir, one final thing from my side. Sir we have earlier talked about this LASA lab that is animal manufacturing API, we have very big component of our overall schemes of things. Can you throw some light on how much we are achieving today and what is the prospects of this business, both in terms of scale and profitability?

Pravin S. Herlekar: Rather than me making some forward-looking statements, let's go by the history. We started with LASA by acquisition, this was a very small acquisition at Rs.6 crores as the asset value of the company and company was having a top-line of Rs.1 crores only. So after acquisition we added one or two products in the company and then expanded base. We did Rs.10 crores in the same company in the same year. Following year from Rs.10 crores we took the business to Rs.30 crores level and subsequent year we took it to Rs.70 crores and March 2016 we have concluded at Rs.130 crores level. So that is the scaling up we have done in LASA purely on the basis of our customer relations, our technologies and the product base plus the backward integration. And it is a very sound business model for LASA with lot of integrations and consistent business with proper margins, excellent margins I would say. So going forward, I cannot make a bold statement that we will be doubling the turnover like what we have done in the last years but then reasonably about 15% to 20% growth can be expected from this company.

Sudarshan Padmanabhan: And in terms of profitability, now we have seen some benefits coming because of the scale, now what is the kind of margins that we are doing right now and scope for expansion in LASA?

Pravin S. Herlekar: See, I will just explain to you with the help of only example. There is a product called Albendazole which we were manufacturing in LASA, this is anthelmintic, they were being drug for cattle. We were manufacturing only couple of tons in LASA because capacity was restricted and then we could see the market but there was no scope for us, we were handicap. So with some additions we have gone to about 5 tons to 7 tons, subsequently we went to almost 10 tons to 15 tons. And today with additional capacities coming up, we are manufacturing somewhere around 30 tons to 35 tons of this product. So there is a global demand and we have lot of opportunities and potential to expand. So this is just one example for one product, likewise there are many products which have scalability. Only thing what was hindering was the capacity. So now since we are in a very comfortable situation with respect to capacity, we will be able to address all this.

Moderator: Thank you. We have the next question from the line of Parag Pai, an individual investor. Please go ahead.

Parag Pai: My question was, why the management decided to raise the money to pay out debt via stake sale and why not through internal accruals? So basically I would like to know what was the cash flow at the end of the year and what is the cash flow position expected going forward.

Pravin S. Herlekar: Well, as I explained management did explore other possibilities like inducting equity by way of QIP or private equity and then ultimately we decided to infuse funds by way of sale of shares. Now as you rightly said, the margins or the profitability, internal accruals, they are all getting generated and then they are used in the Company for the various issues like CAPEX plus working capital requirements, etc. But then we need to reduce the debt, overall debt, and in fact these accruals are fruitfully utilized for reducing the term debts, as I said we have already started repaying the regular debts on the Company and maybe in the next 3.5 to 4 years most of the term loans will be retired. So internal accruals are getting utilized in different manner, one was term loan requirement plus as sales are growing margins for the working capital required that is being fruitfully used.

Parag Pai: And one last question is, basically if you could just update what is the total proceeds from the sale of these shares and how much debt was retired subsequently?

Pravin S. Herlekar: See, we have sold something like 18 lakh shares in the last month or so and we have received close to about Rs.28 crores out of which we have already retired pledged shares of about Rs.10 crores, the rest of the money is parked with our banks and in due course additional pledge will also be used. We have also used some bank loans also to bring in liquidity in the Company and some pledge additionally will get released in another 10 to 15 days.

Moderator: Thank you. Our next question is from the line of Siddharth Oberoi, an individual investor. Please go ahead.

Siddharth Oberoi: So actually I wanted to know, so the total pledged shares right now are 78.76 lakhs, right?

Pravin S. Herlekar: That is right. Our initial level was 93 lakhs.

Siddharth Oberoi: So what is the cover on this right now?

Pravin S. Herlekar: Cover is about 2.5 times.

Siddharth Oberoi: So at this price it is about Rs.120 crores in terms of value and which is 2.5 which means something about Rs.15 crores that has been…

Pravin S. Herlekar: Total loan outstanding against pledge is Rs.35 crores as of now.

Siddharth Oberoi: Well, then why sell your stake, why not just pay it through internal accruals and you are getting good receivables.

Pravin S. Herlekar: See, actually I just mentioned and clarified about it, internal accruals are being used for long-term debt requirements and then additional working capital which are getting generated with the increase in sales. And since the Company has already finished the CAPEX and the capacity has now started operations, our sales are growing and naturally we will be requiring at least the margin money for working capital which is almost about 25% of the sales.

Siddharth Oberoi: So total right now amount on these pledged shares is Rs.38 crores?

Pravin S. Herlekar: Rs.35 crores.

Siddharth Oberoi: So how much more are you going to sell to release the pledge?

Pravin S. Herlekar: I believe we will not be selling anything actually. As of today our stake is 58%.

Siddharth Oberoi: 58% and we are not selling anything further?

Pravin S. Herlekar: No, sir.

Siddharth Oberoi: Then how would you repay this pledge?

Pravin S. Herlekar: Well, we have other sources, personal sources, so we will be keeping out of it. And company anyway will be generating some accruals, so as long as the debt level has come down.

Siddharth Oberoi: Yes, whatever accruals you are generating that will be required for working capital, that is what you said.

Pravin S. Herlekar: Yes, but there will be small surplus available.

Siddharth Oberoi: So what is the timeline for releasing this pledge?

Pravin S. Herlekar: I think it should happen in next about three to four months, the remaining pledge.

Siddharth Oberoi: The remaining in three to four months through your personal resources?

Pravin S. Herlekar: Personal plus whatever debt is there in the Company, Company will be generating some accruals, so out of that it will be repaid.

Siddharth Oberoi: So there is no such concrete plan where you say that maybe in four months this is how we are going to release it, it is just that from some personal source which you may not be able to disclose right now?

Pravin S. Herlekar: Well, we do have a concrete plan…

Siddharth Oberoi: That is the purpose of the conference call, so…

Pravin S. Herlekar: We have concrete plan for retirement of this Rs.35 crores which is outstanding, out of this I think Rs.21 crores is already with us which I have not replaced so far. As I said, we have received Rs/.28 crores out of the sales proceed, out of which the debt paid is Rs.10 crores. So remaining amount is still parked with us, so that will go for de-pledging the shares. So that will leave us with maybe around Rs.10 crores to Rs.12 crores which will…

Siddharth Oberoi: Which you can easily repay.

Pravin S. Herlekar: Yes, which will be anyway generated.

Siddharth Oberoi: So one thing is clear that you are not selling any more stake, right?

Pravin S. Herlekar: We are not.

Siddharth Oberoi: And now, so hypothetically what happens is that stock falls to let's say 125, is there a top-up needed.

Pravin S. Herlekar: Well, no, it sounds like maybe some top up is needed, for that we do have some stock. We have free shares also, it is not that everything is pledged.

Siddharth Oberoi: I did not get you, you have what?

Pravin S. Herlekar: We have free shares also, it is not that everything is pledged.

Siddharth Oberoi: Yes, but you will not sell so that is not an option?

Pravin S. Herlekar: No, supposing if there is a price fall I may have to make it good by transferring additional shares to the NBFC from whom I have pledged, that is a margin call. From what I understand, you are talking about the margin call?

Siddharth Oberoi: Yes, exactly. So I am saying if it goes to 125 you will have to pledge more shares.

Pravin S. Herlekar: I have free shares which can be pledged, if required.

Siddharth Oberoi: But then isn't it like a spiral, if it falls you pledge more, how will you de-pledge those then?

Pravin S. Herlekar: Well, as I said, out of this Rs.35 crores another almost Rs.20 crores - Rs.21 crores will be paid in very-very short time, maybe next 10 to 15 days.

Siddharth Oberoi: Through internal accruals?

Pravin S. Herlekar: No, as I said, again I am repeating, I have some money received from the sale of proceeds which is parked with me.

Siddharth Oberoi: Oh, you have not used fully?

Pravin S. Herlekar: I have not used for repaying which I will be using it now.

Siddharth Oberoi: But according to the filing that you have given to the stock exchange 58% is what you hold right now.

Pravin S. Herlekar: We are holding today, that is right.

Siddharth Oberoi: So this is what you have told that you have sold and this is how much you have, the filing that you gave to exchange a few days back.

Pravin S. Herlekar: Again I am repeating, I have sold close to 18 lakh shares and I have received an amount about close to Rs.28 crores. So I have repaid almost Rs.10 crores and remaining Rs.18 crores is still parked with me which is being used for de-pledging. So this will happen over a period of next 10 to 12 days. Am I clear?

Siddharth Oberoi: Yes. where is the additional, so the free shares will be pledged but there is no timeline or there is no clear roadmap as to how that will be de-pledged again. So basically the whole issue now depends on the stock price staying afloat, is that correct?

Pravin S. Herlekar: That is always the case whenever you are doing pledging, it is always the case. So one reason why we are in the process of de-pledging is to take care of this sentiment. Apart from inducing funds and reducing our debt level another important reason is to take care of this sentiments that whenever people see that promoter shares are pledged normally it is a worrying factor. The purpose behind this de-pledging is one of this.

Moderator: Thank you. Our next question is from the line of Ravikumar Prabhakaran, an individual investor. Please go ahead.

Ravikumar Prabhakaran: Kindly accept my appreciation for growing both top-line and bottom-line over the past 10 years at 20% rate.

Pravin S. Herlekar: Thank you so much.

Ravikumar Prabhakaran: The only issue is with the debt and the pledge, just my question is addressed on that and it has about three parts. The first part is, is the entire pledge is for taking the loan for the company or for other purpose?

Pravin S. Herlekar: Sir, let me tell you very honestly and transparently, whatever pledge is taken that is entirely for the Company, and I stand by that.

Ravikumar Prabhakaran: The second part goes like this, see if that is the case, the moment you sell the shares the loan is only shifted from the bank to the promoters, sir the debt level does not fall actually. So can you just elaborate on that?

Pravin S. Herlekar: Yes. It is a very good question. See, the debt level is shifted from the NBFCs which is at a higher cost, it is around 18% to 19%. And when I sell the stake and then infuse funds into the Company, in this funds there will be unsecured loan, first of all, from the promotes to the Company which will be at a cost of about 12% to 12.5% only.

Ravikumar Prabhakaran: Okay, I appreciate the promoters' effort.

Pravin S. Herlekar: So this is the fact.

Ravikumar Prabhakaran: And the third part is related to that, that is you are confident that the internal accruals and cash flow will be strong so that the promoters' debt also will be brought down soon, are you confident about that, sir?

Pravin S. Herlekar: That is right. See, as you rightly said the money has been raised by the promoters to pledge but now the pledge is getting taken care of and the promotes are infusing their own funds into the Company which itself speaks for that that promoters are confident in the progress of the Company because their money is parked in the Company.

Moderator: Thank you. Our next question is from the line of Rushit Parekh from Capital Market. Please go ahead.

Rushit Parekh: Most of the questions have been answered, just a couple of clarifications. This Rs.75 crores loan entirely is from NBFCs, right?

Pravin S. Herlekar: Yes, it is from NBFC.

Rushit Parekh: And currently it is at around 18%?

Pravin S. Herlekar: It is at about 18% - 19%.

Rushit Parekh: And as you mentioned that it will be repaid in the next four to five months' time frame?

Pravin S. Herlekar: Yes, it is.

Rushit Parekh: So if I understand it correctly, your entire shares which have been pledged will become unpledged?

Pravin S. Herlekar: It will.

Rushit Parekh: So after four to five months there will be no pledging left from the promoter side, correct?

Pravin S. Herlekar: Yes, absolutely right.

Rushit Parekh: And just to understand this, if I consider this loan given by the promoters to the Company's unsecured loans, then removing this in the next three to four months or four to five months, what will be the loan outstanding in the books of the accounts of the Company, long-term loans?

Pravin S. Herlekar: See, total long-term loan excluding the promoter loan which is unsecured from the secured lenders will be around Rs.200 crores.

Rushit Parekh: After removing this Rs.35 crores?

Pravin S. Herlekar: Yes, after removing this Rs.35 crores it will be, I am not counting the loans which are getting inducted from the promoters. So loans from other secured lenders like our bankers, that will be a total of Rs.200 crores.

Rushit Parekh: And that will be at what rate of interest, sir?

Pravin S. Herlekar: That is at about 12.5% to 13%.

Rushit Parekh: Just last thing to add, sir. My only request to you, next time please, the press release that is being shared by the Company actually gave us more confusion rather than clarity, the call actually provided us lot of clarity. My only request is, next time please make sure that the press releases help us to get more clarity and more transparency.

Pravin S. Herlekar: I appreciate and your suggestion is well noted.

Moderator: Thank you. Our next question is from the line of Vikas Jain from Reliance Securities. Please go ahead.

Vikas Jain: In your pledge actually there is no clarification what you mentioned, there were 96 lakh shares pledged initially out of which you sold some 17.25 lakh shares.

Pravin S. Herlekar: That is right.

Vikas Jain: You released some 16.65 lakh shares?

Pravin S. Herlekar: Yes.

Vikas Jain: So the balance remains somewhere around, so now the promoter holding comes down to 58%, right from 67% stake in the Company?

Pravin S. Herlekar: Yes.

Vikas Jain: So now the balance shares have been still pledged, so what is that percentage for your total promoter holding being pledged?

Pravin S. Herlekar: I think it is around 65% of the promoter holdings. Of the total holding it would be around 35%.

Vikas Jain: And you have even mentioned about the de-merger plans I think in the last quarter result update, so that if de-merger how much time would it take?

Pravin S. Herlekar: Well, we have detailed scheme, it was submitted to exchanges and SEBI, SEBI has given the approval for the same. Now we have submitted our proposal to the High Court Mumbai. So the procedure is yet to start with High Court but in all probability since this is a wholly owned subsidiary we don't anticipate major issues coming up. So it may take about six months' time. So somewhere around December or January we should be able to complete this process.

Vikas Jain: So by December or January the demerger should happen, so the Shareholders of Omkar would receive the shares of LASA Lab?

Pravin S. Herlekar: LASA, yes equal shares.

Vikas Jain: And probably by March or April the LASA Labs should get listed?

Pravin S. Herlekar: It will be before March we expect.

Vikas Jain: Because I believe that before the demerger really happens you will have to really de-pledge all the shares because the NBFCs would not really accept the shares which are being de-merged, right?

Pravin S. Herlekar: Well, we have checked up this issue with our merchant bankers and advisors, I mean this pledge issue does not come in the way of this demerger in any case because each shareholder of Omkar, the parent company, will be getting one share for LASA and that will come to, if you are a shareholder it will come to your DP**,** demat account.

Vikas Jain: It is true that it will come to my DP.

Pravin S. Herlekar: And similarly, supposing I have a DP in Axis Bank I will get equivalent shares in my demat account, that has nothing to do with pledged shares.

Vikas Jain: That is true sir, but you will get equivalent amount of LASA shares, but then LASA shares value will be zero, right, from day one when it gets de-merged and by the time it gets listed it will take 1, 1.5 month. So if I am borrowing, I have borrowed something, as you said you have borrowed Rs.35 crores from the biggest NBFCs and the entire gets de-merged on a particular date of 27th of December say the Omkar Chemicals shares value would be say about Rs.40 - Rs.45 whatever we get in split ratio depending upon I assume we have a equal ratio of Rs.70. So this Rs.70, your loan amount value to the shares would drastically jump down by 50% and we don't believe any NBFC would keep your books open to the tune of Rs.70 because LASA will take time to get listed and to get its value of shares.

Pravin S. Herlekar: That is the reason what I mentioned that in the next three to four months before this demerger happens we will be taking care of all these pledges. So as of the demerger time there will not be any pledge shares.

Vikas Jain: Yes, that is what my question is because…..

Pravin S. Herlekar: No, I got the rationale behind your question. I think it is very important and we are planning that way only.

Vikas Jain: So 65% of your holding is being pledge and to the tune you have received only Rs.35 crores, right?

Pravin S. Herlekar: Yes, Rs.35 crores is outstanding.

Moderator: Thank you. Our next question is from the line of Aniket Thite, an individual investor. Please go ahead.

Aniket Thite: Actually, the important question that I had has been answered because that was related to fund infusion, I was asking whether it will lead to equity dilution. However, you have clarified that if promoters would lend to the Company as unsecured loans at a much lower interest rate of 12% to 13% instead of the existing 18% to 19%, so the benefits will accrue to the Company, so that is a commendable thing in the sense that the promoters are doing. Then it is just a suggestion in the sense that whatever, and an accolade that you are on the right track for a comparatively small size company you are making all the right noises, everything is in place, you are in fact getting out in the open when there is a chaos in whatever the investor community which I really appreciate because I have come across companies when everything is going good they are the first to come on the TV channel and say we are going 30% and when there is certain panic among the investors they just stay put, they are on behind the scenes. And I really appreciate that before your quarterly returns you have come out in the open and discussed this issue and not waited to club this with the quarterly results con-call. So I must thank you for it as an investor.

Pravin S. Herlekar: I really appreciate your views, and I would like to add on something on this. You have a very valid point what you have raised, see what happens, see we are in a lookout for raising equity for taking care of our debts. Supposing we were successful in raising say Rs.100 crores or say Rs.50 crores of equity, what would happen, I would have to additionally allot those many shares to the player who will be coming in, there is a dilution for everybody including promoters there is a dilution for the general investors also. Your EPS comes down which affects the overall investor community. Now in this case what is happening is overall total number of shares in the Company is the same, we have taken care of the debt by sacrificing on the promoter side, our holding has come down by say 8-9% but the investors at large are not affected.

Aniket Thite: That is very true and I thank you for that.

Pravin S. Herlekar: I hope everybody is with me on this issue. This is the rationale behind all this.

Moderator: Thank you. Our next question is from the line of Kushal Rughanni from HDFC Securities. Please go ahead.

Kushal Rughanni: Most of the questions have been answered actually, and specially thanks for hosting this conference call. I just had one or two questions still. We are going like for demerger process and all, so can you just bifurcate me as on FY16 what was debt on Omkar Speciality and what is debt on LASA Laboratories, if you can just say this.

Pravin S. Herlekar: Omkar Speciality, our financials are already on the site.

Kushal Rughanni: But I want bifurcation.

Pravin S. Herlekar: I will come to that. See, our loan on Omkar Speciality, is close to 180 crores, LASA is about Rs.40 crores and Urdhwa was about Rs.12 crores. So this is the bifurcation. Out of this the levels have come down because there is a repayment of loans which has happened in the first quarter also. So now I think overall debt stands at about Rs.211 crores.

Kushal Rughanni: And as you say, the cost of debt will be around 12%, right?

Pravin S. Herlekar: Yes.

Kushal Rughanni: After paying of this high…

Pravin S. Herlekar: See, this is an important question. Cost of debt from the bank borrowing is about 12% to 12.5%, plus now we are targeting lot of new products for the finances like our exports are growing so we will be enjoying more of a packing credit which will add about 2% - 2.5%, that will bring down the cost. Then we will be going for more of non-fund based facilities instead of fund based facilities, like LC, etc., which will be available at again about 1.5% to 2%, plus we will be enjoying buyers' credit, etc., which are again at around 2% to 2.5%. So we are targeting overall average finance cost of somewhere around 8% which will be help us in bringing down the overall cost.

Kushal Rughanni: That we should assume for FY17 or going forward?

Pravin S. Herlekar: We can assume for second half of FY17.

Kushal Rughanni: So H1 cost will be higher and then you will proceed for this?

Pravin S. Herlekar: Yes, we have already initiated dialogues with our bankers and they are very positive.

Moderator: Thank you. Our next question is from the line of Girish Deshpande, an individual investor. Please go ahead.

Girish Deshpande: Just one question, as a company when will you reach a stage when working capital for Omkar Chemicals which has need for large working capital, when will we reach a stage where Omkar Speciality chemical business can take care of its working capital needs with internal accruals without any loans?

Pravin S. Herlekar: I think this stage we have already reached, we have already brought down our working capital cycle by way of reducing our receivable days and overall charging out the raw materials. So they are already leads where the Company is able to manage the working capital requirements, plus whatever internal accruals are happening they are supporting the growing business.

Girish Deshpande: So no more short-term debt for the working capital needs?

Pravin S. Herlekar: No, because that is the reason why now at this stage we are prepared to retire our high cost debt.

Moderator: Thank you. Our next question is from the line of Akshay Barjate from Rubicon Capital. Please go ahead.

Akshay Barjate: I actually just had one question, as of 31st March, 2016, what is the outstanding unsecured loans from promoters to the Company?

Pravin S. Herlekar: As of 31st March, it is around Rs.3 crores as of 31st March.

Akshay Barjate: That is the outstanding amount as of 31st March, and what is amount…

Pravin S. Herlekar: From promoters, as of today it must be around Rs.21 crores.

Akshay Barjate: Rs. 21 crores as of today?

Pravin S. Herlekar: Yes, Rs.21 crores, because most of the sale we have done in June and first week of July and that money has been inducted into the Company.

Moderator: Thank you. Our next question is from the line of Jayesh Gandhi from Harshal Gandhi Securities. Please go ahead.

Jayesh Gandhi: Sir, my question is that if I am looking at your pledged shares in that last entire year, it has been above 50% of the promoters holding. So while we were requiring this much amount, could have we not gone to short-term funding from banks or maybe term loan from banks?

Pravin S. Herlekar: Yes, you are absolutely right and we have tried that exercise. But our major bankers are PSU banks and it takes a very-very long time, something more than six months at times to go through the entire procedure. So we did exercise that option but when we saw that the process is taking a lot of time and we had lot of compulsions on the capacities because we cannot leave it halfway through because that would lead to more troubles for the Company. And secondly, since last year also you must have seen our sales had grown and working capital pressure was also there. So we decided to bump in more funds by pledge of shares.

Jayesh Gandhi: And sir my second question, or maybe kind of a suggestion is that in future while we are thinking of paying off our term debts, I first think of paying off our completely, I mean releasing all our pledge shares and then not going again into that direction any more in future?

Pravin S. Herlekar: We have already taken that call and no more pledge will happen in the Company, I mean that I have said right in the beginning. In fact, whatever pledge is there in next three to four months it will be removed this is the first thing**.** And then the term loans with the banks are already under repayment, quarterly installments are getting paid and in next four years' time all the long-term debts will be taken care of. Again as I said, we are not going in for individual CAPEX, our capacities which are there existing as of now plus the new plant which will get started shortly, that is more than sufficient for us to take care of all our capacity requirements for next four to five years.

Moderator: Thank you. Our next question is from the line of Devansh Wajani from Vajani Securities. Please go ahead.

Devansh Wajani: I had two questions, sir. One question is, you mentioned that the asset turnover ratio will be around three times and so you will have roughly around Rs.400 crores of turnover from that, Rs.180 crores has been your CAPEX and roughly around Rs.400 crores turnover will be from that particular capacity. So again you will require more capital or working capital for that particular turnover also, so…

Pravin S. Herlekar: As sales grow working capital requirement will always grow, normally it should be around 30% of the sales turnover. So if we are talking about say Rs.400 crores, it will be somewhere around Rs.100 crores to Rs.110 crores which will be required for working capital. Now out of this 30% this will be Company's contribution plus the bank's. So out of this Rs.100 crores maybe about Rs.25 crores will be required as the margin from the Company for the working capital requirement, enhanced working capital requirement and that will anyway come from the accruals.

Devansh Wajani: So the debt level by and large will, I mean you will go on reducing it but it will still be maintained at a particular level just because of the working capital requirement?

Pravin S. Herlekar: You are absolutely right. See, as I said term loans will get retired progressively and after four years' period there will be no debt as far as long-term loan is concerned. But working capital requirement continue as long as the company continues. But then as I was explaining sometime back, the working capital side also we are trying to reduce the cost by way of opting for packing credits and then some more of non-fund based limits which are at very-very low cost. So overall cost of the working capital will also be brought down and it is under process.

Devansh Wajani: My second question is regards to capacity, you mentioned your capacity will go up from 1,700 tons to 4,600 metric tons.

Pravin S. Herlekar: Which has already gone up.

Devansh Wajani: So does that include the unit 5 which has not yet commenced?

Pravin S. Herlekar: No, it does not include. Unit 5 is another 4,500 metric ton.

Devansh Wajani: So another 4,500 ton, so total capacity is…

Pravin S. Herlekar: Will be somewhere around 9,000 metric tons.

Devansh Wajani: So we will be going from 1,700 metric tons to 9,000 metric tons, correct?

Pravin S. Herlekar: Correct.

Devansh Wajani: And current capacity utilization was mentioned in the last concall was roughly around 72% to 75%. And corresponding, are you confident about, because I think the environmental that will also come in the next two, three months, that was also mentioned.

Pravin S. Herlekar: The government consent we have got already.

Devansh Wajani: Yes, but the plant will commence operations in three month's time?

Pravin S. Herlekar: Yes, maybe by Q3 it should start.

Devansh Wajani: So are we confident of using this capacity utilization?

Pravin S. Herlekar: Yes, of course, why not. It is a good capacity and this entire 4,500 metric tons will not be put to use immediately, it will happen in phases, maybe in Q3 it will start then Q4 it will go to about say 25% utilization. And FY18 it will go up to 15% and FY19 it may go to about 70%.

Devansh Wajani: Next year you are expecting 50% utilization total capacity?

Pravin S. Herlekar: Yes. And this total capacity will take us through for next four to five years, we are very comfortable with capacities now.

Moderator: Thank you. Our next question is from the line of Akhil Parekh from Nirmal Bang Securities. Please go ahead.

Akhil Parekh: Most of my questions are answered, just one question regarding free cash flows. Company has not been able to generate free cash flow in past few years and given that there is a continuous CAPEX requirement for the business. So when should we expect Company to generate positive free cash flows?

Pravin S. Herlekar: Now as you must have observed from our regular updates from the financials, Company has been maintaining its EBITDA very consistently. The PAT levels are also in the range of around 8% to 9%, so cash flows are getting generated. Only issue during last three years was the CAPEX which was happening, so once we are getting utilized in creation of capacity which was more of a compulsion for us as I explained. But now in that case its over, capacities are ready so the cash flows which are available now will be fruitfully utilized for generating free cash in the Company plus the additional working capital margins which will be required for the growing business. So we have been able to maintain our track record of maintaining our EBITDA plus PAT levels, so that trend will continue.

Akhil Parekh: But any timeline when the Company should be able to generate free cash flows?

Pravin S. Herlekar: In FY17 itself we should be able to do some generation followed by FY18 and then in next four year's time the Company would be more or less debt free in terms of the long-term debts. So even that burden of repayment of term loans will not be there on the Company, so that will only add through the cash flows.

Moderator: Thank you. Our next question is from the line of Pratik Bora, an individual investor. Please go ahead.

Pratik Bora: Sir only one question, why open offer to Amarnath Securities?

Pravin S. Herlekar: Well, it is a different matter not related to Omkar Speciality Chemicals Limited. And Company has by no way invested anything in any of the business like this. Company Omkar Speciality is fully focused on its own business. Amarnath Securities is acquired by Omkar Herlekar, my son, and he is looking for some, exploring some opportunities in that company. So that is an absolutely independent business and the Company has nothing to do with it.

Pratik Bora: But sir, not Company but sir promoter level also, so when we are reducing our stake in the Company which is doing good and both its promoters are also bullish about the Company's prospects, about the long-term prospects and contracts and they are reducing the stake in this company at the same time they are increasing the stake in a broking company. So how these are related?

Pravin S. Herlekar: I think let us not mix up the issues, the proceeds received out of sales of Omkar Speciality are fully brought in back through the Company, nothing is invested outside. It is an independent activity which Omkar is trying to pursue which has nothing to do with its commitment with the company, it continues to be a whole time director into the company and fully committed to Omkar Speciality's business. Like in many cases many of the promoters have divergent businesses and they manage the things independently, there is no mix up of any activity.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the conference over to the management for their closing comments.

Pravin S. Herlekar: Thank you so much for joining us on this conference. I hope that I have clarified most of the concerns. I would only like to say as a concluding remark that Company has come a long way for over 30 years and what has happened during these 30 years is a excellent goodwill which is generated among all our reputed customers who are our real assets for the Company, apart from my fixed assets this is one of the most important asset which I feel is very important for us and which is driving the business. Because we get business from the customers on their own, we don't have to pursue much for the marketing as such, this is number one. We have built a very good team of personnel across all our manufacturing units which is another asset for me. And most importantly, excellent infrastructure has been developed within the Company, particularly during the last three years which is going to help the Company and investor community at large who are supporting us, we value their association with us and based on this customer support the personnel assets and infrastructure which is there in the Company today, we are very confident of taking this Company forward with bigger engine. So thank you so much for joining us.

Moderator: Thank you. 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.