

Oriental Aromatics

Ref: OAL/BSE/NSE/132/2023-24

16th February, 2024

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

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

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

With reference to our letter dated 6th February, 2024, intimating about the conference call with the Institutional Investors/Analysts on Tuesday, 13th February, 2024 at 01.00 p.m. to discuss the Financial Performance of the Company for the quarter & nine months ended 31st December, 2023, please find attached herewith transcript of the aforesaid conference call.

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

Kindly take the information on your record.

Thanking you,
Yours Faithfully

For Oriental Aromatics Limited

Kiranpreet Gill
Company Secretary & Compliance Officer

Oriental Aromatics Ltd.

Registered Office: 133, Jehangir Building, 2nd Floor, M.G. Road, Fort, Mumbai 400 001, India.

T +91-22-66556000 / 43214000 **F** +91-22-66556099 **E** oa@orientalaromatics.com **CIN** L17299MH1972PLC285731

www.orientalaromatics.com

Oriental Aromatics Limited
Earnings Conference Call
February 13, 2024

Moderator: Ladies and gentlemen, Good day and welcome to Oriental Aromatics Limited Q3 and 9 Months FY24 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. I now hand the conference over to Ms. Purvangi Jain from Valorem Advisors. Thank you and over to you, ma’am.

Purvangi Jain: Good afternoon everyone and a warm welcome to you all. My name is Purvangi Jain from Valorem Advisors. We represent Investor Relations of Oriental Aromatics Limited. On behalf of the company, I'd like to thank you all for participating in the company's earnings call for the third quarter and 9 months ended of the financial year 2024.

Before we begin, let me mention a short cautionary statement. Some of the statements made in today's earnings call may be forward-looking in nature, such forward-looking statements are subject to risk and uncertainties, which could cause actual results to differ from those anticipated. Such statements are based on management's beliefs as well as assumptions made by and information currently available to the management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions.

The purpose of today's earnings call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review. Now let me introduce you to the management participating with us in today's earnings call and hand it over to them for their opening remarks.

We have with us Mr. Dharmil Bodani – Chairman and Managing Director, Mr. Shyamal Bodani – Executive Director, Mr. Girish Khandelwal – Chief Financial Officer, Mr. Parag Satoskar – Chief Executive Officer and Ms. Kiranpreet Gill – Company Secretary. Without any further delay, I request Mr. Dharmil Bodani to start with his opening remarks. Thank you and over to you, sir.

Dharmil Bodani:

Thank you, Purvangi. Good afternoon everybody. It is a pleasure to welcome you all to the earnings conference call to discuss the results of the third quarter and 9 months ended of financial year 2024.

Let me brief you on the operational highlights after which our CFO will brief you on the financial highlights.

Firstly, I'm glad to inform you that Oriental Aromatics received the prestigious Global Supplier Excellence Award from Procter and Gamble for the year 2023. We are amongst the 80 companies who have been selected for this award out of approximately 60,000 external business partners globally for Procter and Gamble.

Moving on to the operational highlights in the quarter that went by:

Production volumes in the group have shown a double-digit growth across all the divisions due to a healthy demand pickup in the specialty aroma Ingredients division, however demand in flavors and fragrance and camphor division was lower than the previous quarter due to offseason trends.

On the CAPEX front:

Our Brownfield project in Baroda will get commissioned by the end of fourth quarter of this financial year. And the Greenfield project in Mahad is on track and will be completed by the end of the fourth quarter of this year.

Now I request Mr. Girish Khandelwal – our CFO to give the “Financial Highlights”. Thank you.

Girish Khandelwal:

Thank you very much Dharmil and welcome everyone to this Earnings Conference Call.

Let me first take you through our consolidated performance for the third quarter followed by the year-to-date performance:

The operating revenue for the quarter was Rs. 197 crores which decreased by approximately 1% on a year-on-year basis and 13% on a quarter-on-quarter basis.

Operating EBITDA reported was Rs. 14.1 crore which increased by 28% as compared to Rs. 11 crores in the previous quarter and Rs. 14.1 crore in the corresponding quarter. Operating EBITDA margins stood at 7.14% as compared to 4.85% in the previous quarter. Net profit after tax reported was Rs. 2.6 crore which marginally increased by 8% on a quarter-on-quarter basis and decreased by 32% on a year-on-year basis. PAT margins were at 1.32% which was a decrease of 26 basis points on a quarter-on-quarter basis.

We have incurred one-time expenses of Rs. 2.51 crore during the quarter being interest charged pertaining to the GST demand for financial year 2017-18 and 2018-19. This expense was incurred due to the Customs Department not recovering the GST at the time of imports due to certain challenges on their portal. Hence, after reassessment of our bill of entries we have paid the GST amount along with interest. This impacted the PAT margins to the extent of 1%.

Coming to the 9 months performance:

On a consolidated basis the operating revenue was Rs. 620 crore which was a decrease of approximately 5% on a year-on-year basis. Operating EBITDA reported was Rs. 26 crore which decreased as compared to Rs. 45 crore in the corresponding 9 months FY23. Operating EBITDA margins stood at 4.19%.

The net debt-to-equity ratio stood at 0.3x as compared to the previous quarter which was 0.33x. With this, we can now open the floor for the question-and-answer session. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of the Deepan Shankar from Trustline PMS. Please go ahead.

Deepan Shankar: So, firstly, wanted to understand that our production volume has grown in double digits, but still our sales has dropped by 13% realization drop has been higher than our prices drop. So, any specific reason or which segment has seen more such realization drop?

Parag Satoskar: So, Deepan to answer your question Dharmil has already covered in his opening remarks that there has been a soften demand in the camphor and the terpene chemical space as well as in the fragrance space which is an annual off-season demand drop which we normally see every year and that's the reason why I think we see a drop in sales to certain quarters.

I mean to be very specific I will have to go back and check whether the drop in the RM prices is more significant than the drop in the FG sales. That is something which I don't have the numbers, but we can get back to you.

Deepan Shankar: So, in respect to specialty chemicals pricing, particularly realization of our products, so are we seeing improvement in the foreseeable future since our prices have been falling. So, when do we see the recovery in the realization of specialty chemical product pricing?

Parag Satoskar: So, Deepan we are in fact very encouraged by the fact that we are seeing a recovery in terms of demand first. So, the whole impact of destocking as well as people kind of keeping less inventories I think we are seeing a slow kind of recovery from that phase and people are buying more and as they are buying more we are also seeing in some cases improvement in

the realizations. I think we probably are between one or two quarters away from reaching a steady state of demand and supply when it comes to specialty aroma ingredients.

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

Dhwanil Desai: So, my first question is I think as we had mentioned in the last call the volume recovery is evident. So, if I look at your margins our gross margins have improved substantially despite realization being muted. So, with this gross margins even just for the one-time charges I think we are currently at 8.5% kind of EBITDA margin and earlier we were saying that our normalized margin on a steady state basis will be 15% to 17%. So, how do we see path from here to reaching that 15% to 17%?

Dharmil Bodani: We have revised the forecast 10% to 12% in one or two of our previous calls and I think we expect to see that probably like Parag mentioned as things stabilize in the near future.

Dhwanil Desai: I think I was there on the call, but I understood that 10% to 12% was more during the phase where this kind of a turmoil was happening in the market, but in the medium term are we still looking at 10% to 12% or we aspire to go to (+15%) kind of a margin?

Dharmil Bodani: So, in the medium term I think the turmoil continues and I think we will stay with 10% to 12% and I don't want to go that much ahead, let's see how we foresee the next 2 to 3 quarters.

Management: I think just to add to what Dharmil said, I mean in terms of the new product offerings, in terms of the acceptance of the new products, I think all these are steps in the positive direction and it is better to stay with the guidance that we have given of 10% to 12% and see how the market evolves going forward.

Dhwanil Desai: Second question is on the camphor side. So, are we seeing buying, being an off season, are we seeing any kind of a lesser intensity on the competition side is more supply getting absorbed if you can give some color on that side?

Parag Satoskar: So, primarily Mr. Desai Q3 and beginning of Q4 every year for the camphor space is always an off season when we get out of the festival zone every year. So, I think in terms of the demand we are probably seeing that same level of softening.

We have in our earlier calls mentioned that the competitive landscape in camphor has substantially changed and the newer players might have different ways of kind of approaching the market and that's the reason why we see pressures on pricing even at these low volumes.

Dhwanil Desai: So, that we will continue to see that is what we should believe that?

Parag Satoskar: At least in the foreseeable future with these new capacities in place, we will see pressure on the camphor and the terpene chemical continuing, but the demand should improve as we go into the festive season.

Dhwanil Desai: And last question is on CAPEX. So, I think we said that the Baroda Brownfield will get commercialized in Q4 and by Q4 FY24 we will also commercialize the new Greenfield one. So, the new Greenfield one was to come in phases means how much capacity we are putting up and when can we start seeing commercial revenue from both these facilities?

Parag Satoskar: So, to begin with the Baroda facility I mean we have now started hooking up all the reactors and all the equipment to our instrumentation system. So, we are well on track to begin water trials mid of March and start commercial production and in the Mahad facility as well we are seeing the same kind of action. We have always maintained that we have between say 200 days to 300 days where we have the samples which go to the customers and get approved. Because of our past experience we feel that and these products which we have already manufactured in the past we feel that time could be reduced, but we can say that we are between 2 to 3 quarters away from substantial commercial add-ons to our top line and bottom line because of the new products coming into the picture.

Dhwanil Desai: And how much CAPEX we have put in the first phase in Mahad?

Girish Khandelwal: 120 crores approx.

Moderator: Thank you. The next question is from the line of Kaustav Bubna from BMSPL Capital. Please go ahead.

Kaustav Bubna: So, firstly I'll frame it in this way. So, FY21 the company had posted, and the company operating margins peaked above 20% levels. So, I just wanted to understand was this because of some one-off post COVID situation supply demand dynamics in the camphor market? So, could you explain that and then also would like to understand what are your steady state realistic margins we can expect from each vertical namely camphor aroma chemicals and flavor and fragrances?

Management: So, firstly when the margins that you talked about appeared I have clearly stated that these are not sustainable, and they were one off and that was due to demand supply on the camphor and various other chemical finished goods that we used to supply.

On the second part of the question, we've already given a revised forward a steady state of 10 to 12 and we don't have the answer to this split between each divisions, but it will average out to between 10 to 12 is what our guidance is.

Kaustav Bubna: But it's fair to assume that the main lever that got to 20% was camphor, right?

Management: At that point not only camphor. I think it was camphor and demand on other chemicals both bulk and specialty.

Kaustav Bubna: So, currently where do you see this camphor market going I mean in terms of coming back to realistic like steady state pricing, at least how do you see this market maturing over the next 1 year, 2 years or is there anything you can share on the supply demand dynamics on that since it's a big part of your business?

Management: So, primarily I think camphor if you ask me is an extremely mature market point number one. We don't see the national camphor market or the international camphor market able to absorb so much of capacity that has been infused in this space. So, we will have to and that's the reason why the pressure continues. It also has a raw material angle to it where the alpha-pinene prices continue to be very unstable and they have started moving up again.

So, I think if you look at a combination of these two factors I do not have a kind of a magic ball where I can predict what's going to happen one or two years down the line, but I think it's fair to say that there is not so much of room to absorb so much capacity. So, there is no understanding to why this capacity has come up and I think we will have to take it case by case and develop a strategy around pricing as well as sales for camphor going forward.

Kaustav Bubna: Where is this capacity come from?

Management: That's out in the public domain so we would not like to refer to our competitors on this phone calls.

Kaustav Bubna: And on the next question is on your CAPEX if you some time ago you had mentioned that your total CAPEX strategy amount for the next 3 to 5 years was between 350 to 400 crores. So, I wanted to understand I understand you're also mentioned previous calls that it is delayed a bit, you've toned it down a bit too, but I wanted to understand was this 350 to 400 crores pertaining only to these two to Mahad and Baroda or do you have some other plans too?

Dharmil Bodani: No pertaining to Mahad and Baroda we have revised it. We have actually gone ahead with 120 crores of that 350 and we will wait to see how things progress over the next few quarters and inform all our shareholders on what our plans next are.

Kaustav Bubna: And just last question could you explain a bit I mean I understand this what hydrogenation is there on if there on public portals I understand that, but I'm saying could you explain from your angle from your company angle exactly what you are doing in this hydrogenation facility?

Parag Satoskar: So, hydrogenation is a key named reaction using which there are a lot of aroma ingredients that are manufactured in the specialty space as well as in the super specialty space. So, I think we have built a sizable multi product hydrogenation facility which has the ability to pre as well as post process the hydrogenated products and that's our plan going forward to really launch a basket of product based on this chemistry from this plant.

Kaustav Bubna: Is this higher margin to your current aroma chemicals business or it's around the same?

Parag Satoskar: I think it is a generic specialty aroma ingredients. So, when we launch it we definitely will have a kind of a competitive landscape to kind of compete with and I think based on our current understanding of the chemistry and the costing of the materials, we are pretty sure that we will be able to compete and create our own space.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investments. Please go ahead.

Pritesh Chheda: Sir, my first question is in your peak cycle what was the spread in camphor that is your FY21 or 22 whichever year you want to take as reference and in this 9 months what is the spread on camphor?

My second question is in your 9-month revenue if you could just help us know the camphor as a percentage of your revenue or basically aroma chemical and fragrance chemicals as a percentage of revenue and did camphor contribute anything to the EBITDA these are my question?

Management: So, starting from the first question the bottom question yes of course it contributes to the EBITDA. FY21 numbers and comparison to 9 months I think this data we can refer back to I don't think any of us would have this on the tip of our fingers. What was your second part of your question.

Pritesh Chheda: What is the portion of revenue 9 months from the chemicals business which is you refer as aroma ingredient?

Dharmil Bodani: Yes. So, we've always mentioned that both in terms of value we still continue to maintain that we have split our business equally 33-33-33 across all those verticals, the three verticals that we operate in.

So, as value goes down in camphor we have seen selling price corrections even in the aroma chemical space both in bulk and Speciality.

Pritesh Chheda: So, this one-third of your revenue which is camphor has some EBITDA which goes in the number. It's not that there's one third camphor because of the lower spreads is now EBITDA 0 or loss making?

Dharmil Bodani: No, aromatics will save us from EBITDA zero kind of situation.

Pritesh Chheda: Sorry.

Dharmil Bodani: No, we will not get into that kind of business if it makes a loss. So, the answer to your question is that there is contribution camphor to the EBITDA.

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

Raj: I wanted to know the capacity utilization across division for the quarter or 9 months whichever you can give?

Management: So, I think barring the planned and the organized shutdowns I think all the plants continue to run at full capacity at least for this quarter in the previous quarter because of lack of demand we had taken some shutdowns which were kind of planned a little later a little early to ensure that we kind of liquidated the inventories, but now I think in the quarter that has gone by and in the coming quarters we plan to run our plants at full capacity all the three divisions.

Raj: So, what are the capacities of our CAPEX at Mahad and Baroda and also how it will be used like aroma is raw material for flavor and fragrances so how much of it will use captively?

Management: So, if you look at Mahad is single product plant and if you look at the new CAPEX that's coming in Baroda that's a multi-product plant. So, the capacities will be defined to begin within sync with what is the demand in the market and based on that we can scale it up to as much as we want point number one.

We would not be very keen to kind of share the capacities right now at this stage and to answer your question on the aroma going into our internal fragrance compounding we can see that there is a sizable amount of materials that we produce internally which are used by our fragrance compounding.

Raj: Can you give me the percentage like out of this capacity 50% will be used captively or 20% will be used captively how much percent will be used captively?

Management: This would vary from product to product because the perfumery business consists of hundreds of chemicals that we use and we use all the chemicals that we manufacture. So, we cannot tell you individually, but yeah it could range between 10% to 15% for internal consumption. So, it doesn't mean that Mahad what it will produce in the future we will consume 10% of the capacity maybe that plant we would consume only 2% of the capacity, but then there could be other molecules which we are producing where in some cases we consume 20%, 25% of what we produce. There are also materials that they make for us internally for only I use which sometimes we don't sell. So, if you look at the average of all of that I'm coming at a number between 10% to 15%.

Raj: My last question is for the quarter one third revenue contribution from all the divisions like 33%, 33% from all the divisions or has it changed?

Management: No, it continues at that clip.

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

Nikhil: My first question is on the camphor industry. So, when you mentioned there's a lot of new capacity are you referring to only the domestic market or have imports also increased significantly?

Management: We do not see a lot of imports of camphor per se coming into India there are camphor there was a phase last year when there was a lot of natural camphor which was produced in China which kind of was finding its way to India, but unfortunately it has very limited use in the prayer segment those volumes have reduced substantially, but we are not seeing a lot of imports of camphor into India, but when we globally compete in the pain management space or in certain other markets we see a lot of camphor coming from China.

Management: And I think what Parag also he is asking is we referring to the domestic capacity, yes we are. We don't know if globally capacity has increased, but domestically yes that's the capacity we are referring to.

Nikhil: So, is there any other I mean is there any way where we can further forward integrate to pricing use this sample capacity?

Parag Satoskar: No, I mean, are you saying that forward integration from camphor?

Nikhil: Yes, I mean is there any other use case?

Parag Satoskar: So, I mean like I said that camphor primarily if you look at the global consumption is used in worship is used in pain management and is used in certain medicinal products.

Management: And I don't think Parag his question is there any new use that we foresee the answer is no.

Parag Satoskar: I don't think so.

Nikhil: So, the incremental supply that has come in, I mean, even if the industry continues to grow at whatever pace it grows at this might take far longer than expected for the balance to come back if no one else decides to sort of cut down on their capacity?

Parag Satoskar: That is what we are saying you are in a situation where there is excess capacity over material. There are new domestic competitors. So, we want to see how the next few quarters play out.

So, we don't really have a crystal ball to comment and say what is going to happen to camphor 4 quarters from now. We'll just see how it's going. Right now, we can tell you it contributes to the EBITDA and we are going to be selling it at capacity.

Nikhil: And one last question is so how have the discussions changed with your clients I mean with global vendors last year versus this year now?

Parag Satoskar: So, in terms of the fragrance and flavor vertical even within Oriental Aromatics we are seeing improved contributions within the three verticals we have and that is common sense that that can happen because A the raw material prices have gone up and there haven't been any major corrections on the selling price or it's still been manageable.

So, I think that the fragrance and flavor business currently is in the spotlight, and I think the chemicals and which is both the bulk and the specialties will take its time let's see what happens in a couple of quarters is what we continue to say and our camphor business as far as Oriental Aromatics is concerned is steady, is contributing and we will continue to stay in it irrespective of what the competition comes or goes.

Moderator: Thank you. The next question is from the line of Kaustav Bubna from BMSPL Capital. Please go ahead.

Kaustav Bubna: Wanted to understand could you give some broad sense of what the fixed asset turnover would be for the Mahad CAPEX the Greenfield CAPEX you are doing now approximately what type of revenues could that plant generate?

Management: So, we normally stick to a number of 0.7x. Girish correct me if I am wrong of top line that gets generated at the plant when we commercialize fully.

Management: Yes because it's a Greenfield project so it will be lower it stick to 1 and 1.5 times.

Kaustav Bubna: And just I know we spoken lot about camphor, but just one question on this because I'm really trying to understand where spreads are now versus pre-COVID level, so if I frame it this way our camphor spreads currently lower than pre-COVID levels let's say this spreads that you saw in FY19 or 18?

Management: Absolutely.

Kaustav Bubna: So, they are way lower than FY19 levels?

Management: I am not saying they are way lower. I am saying yes that they have corrected, but then when two verticals correct the other verticals supports the other two verticals. So, our fragrance and flavor contributions have improved. Our aroma chemicals and the bulk and the specialties are continuing to improve and we will like I said see how camphor continues over

the next few quarters and I'll repeat we will be in the camphor business it will contribute. Let's just see how it progresses.

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

Sanket Saurav: So, a couple of questions on my front. So, I think when I see the QoQ improvement in margin, so say from 4.85 to 7.14, so what exactly which division has really contributed to this margin improvement and it has the camphor margin say vis-a-vis say last quarter has it come down or has it improved so that's my first question?

Parag Satoskar: So, the fragrance and flavor and the specialty chemicals have contributed. The bulk continues to be under pressure and camphor continues to be under pressure, but they stay positive.

Sanket Saurav: And second question maybe to Girish would be how has been our inventory in terms of number of days because we talked about some liquidation I think which has taken place this quarter as well as some liquidation took place last quarter as well. So, if I compare what was the inventory days in this quarter, last quarter and last quarter of last financial year, so I want to compare this with Q2 FY24 as well as Q3 FY23 if you can share these numbers?

Girish Khandelwal: So, inventory days if you see currently it is 829 days and earlier means for previously it was 150-, and 160-days range. So, inventory days have improved.

Sanket Saurav: This 155, 160 was for Q2 FY24?

Girish Khandelwal: Yes Q1 in March.

Sanket Saurav: What was the situation in Q3 FY23?

Girish Khandelwal: Q2 was little bit improve and Q3 has improved subsequently.

Sanket Saurav: So, can you just specifically tell so 120 just for my understanding 125 is for Q3 FY24, is it?

Girish Khandelwal: 135 is the Q3 and earlier it was 155, 160 days.

Sanket Saurav: And my final question would be regarding and sorry I joined 10 minutes late. So, in case you have already answered it, I can always refer to the transcript. So, this was pertaining to the upcoming CAPEX this Baroda one. So, by when do we expect this to start contributing because I think there is a commissioning that you have mentioned this quarter, but I want to understand by when can this scale up or start contributing meaningfully to the top line as well as bottom line?

Management: So, we have in we have said in today's call Sanket that it needs us between 200 to 300 days for any new plant to for us to reach out to the customers, get the approvals and then get it incorporated in the RFQ so that we can start supplying them. Based on our past experience and a much better level of acceptability with our global customers. We will try and it will be our endeavor to really get that time frame down a bit, but I think it is safe to say that we will need 2 quarters to 3 quarters after commissioning the plant before they start meaningfully contributing to the top line and the bottom line.

Sanket Saurav: And would there be say variation say between our Brownfield versus the Greenfield because earlier time we told that a Greenfield would require more stabilization as well as say greater acceptance, but Brownfield one might have those products which already finds acceptance amongst our clients. So, does that really accelerate the uptake by any means?

Management: So, broadly speaking I think Brownfield becomes a bit easier to integrate because you have a lot of infrastructure around the project which helps in commissioning, and which helps in product stabilization much faster.

Having said that I think because we follow the philosophy of kind of doing multiple commercial batches in our multi product plant before we take it even for a single product plant and we are pretty confident that the time frame would remain more or less the same.

Sanket Saurav: And when you are talking about scaling up so what does scaling-up mean is it like 50% utilization 60, 70 is there a number which helps us get a sense of that utilization vis-a-vis scaling so like 3 quarters you told. So, by three quarter what kind of utilization we are looking at across these scaled up lands?

Management: Well, honestly I think we're hoping for 100% utilization.

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

Management: Thank you all for participating in this Earnings Conference Call. I hope we have been able to answer your questions satisfactorily. If you have any further questions or would like to know more about the company, please reach out to our IR Managers at Valorem Advisors.

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