Oriental Aromatics

Ref: OAL/BSE/NSE/90/2021-22

28th January, 2022

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

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

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

With reference to our letter dated 19.01.2022, intimating about the conference call with the Institutional Investors/Analysts on Monday, January 24, 2022 at 02.00 p.m to discuss the Financial performance of the Company for the quarter and nine months ended December 31, 2021, please find attached herewith transcript of the aforesaid conference call.

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

Kindly take the information on your record.

Thanking you,
Yours Faithfully
**For Oriental Aromatics Limited**

KIRANPREET KAUR GILL
Digitally signed by KIRANPREET KAUR GILL
Date: 2022.01.28 12:20:24 +05'30'

**Kiranpreet Gill**
**Company Secretary & Compliance Officer**

# Oriental Aromatics Limited
# Q3 FY22 Earnings Conference Call
**24 January 2022**

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**Moderator:** Ladies and gentlemen, good day, and welcome to the Oriental Aromatics Limited Q3 FY22 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 would now like to hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, Mr. Sonpal.

**Anuj Sonpal:** Thank you. Good afternoon, everyone. And a very warm welcome to you all. Wish you everybody Happy New Year and I hope everybody is well. My name is Anuj Sonpal from Valorem Advisors. We represent the investor relations of Oriental Aromatics Limited. On behalf of the company, I would like to thank you all for participating in the company's earnings con call for the third quarter of financial year 2022.

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

The purpose of today's earnings con 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 on today's earnings call and give it over to them for opening remarks.

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

**Dharmil Bodani:** Thank you so much, Anuj. Good afternoon, everybody. It is my pleasure to welcome you to the Quarter Three Earnings Conference Call of Oriental Aromatics Limited. Firstly, I would like to wish every one of you a Happy New Year, and I hope all of you were keeping safe and healthy.

Now talking about the performance during the quarter, we witnessed strong demand across all product categories, resulting in a better top line growth compared to the same period last year.

Even though the volumes were slightly lower in the quarter due to a plant shutdown taken at our Bareilly site for 20 days, the production numbers and sales numbers at all plants crossed pre-COVID levels for nine month period of financial year 2022. The margins and profitability continued to be under pressure due to significant increases across all input costs. However, these are showing signs of stabilization and in some cases it started showing a downward correction as well.

The company has successfully passed on these price increases to most customers. The average rate per kg of product sold has also increased as compared to pre-COVID levels. This quarter also marked the successful commissioning of our dedicated specialty aroma ingredients plant at Vadodara. And the validation of this plant is continuing as scheduled. The commercial batches from this validation process are being successfully sold to customers and the quality has also been accepted globally.

The company has also successfully completed the capacity expansion project in the Bareilly plant increasing capacity of one of the products by almost 70% through process reengineering. Validation process for this expansion will continue in quarter four and topline contribution of this expansion will happen in FY23. Now I request Mr. Girish Khandelwal, our CFO to give the financial highlights.

**Girish Khandelwal:** On a consolidated basis in Q3 FY22, the operating income for the quarter was Rs. 206 crores which was an increase of approximately 7.9% on a year-on-year basis. Operating EBITDA reported was Rs. 16.2 crores, which decreased by about 70% on a year-on-year basis. Operating EBITDA margin stood at 7.87%.

Net Profit after Tax reported was Rs. 8 crores which was a decrease of about 78% on a year-on-year basis, PAT margins reported at 3.89%. On a consolidated basis for the nine months ending FY22, the operating income for the quarter was Rs. 665 crores which was an increase of approximately 36.5% on a year-on-year basis.

Operating EBITDA reported was Rs. 70.4 crores, which was a decrease of about 42% on a year-on-year basis. Operating EBITDA margins stood at 10.57%. Net Profit After Tax reported was Rs. 43 crores, which was a net decrease of about 46% on a year-on-year basis, while PAT margins were reported at 6.4%.

Thank you. With this, we can now open the floor to questions and answer session.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question answer session. The first question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

**Dhwanil Desai:** So three questions. The first one is, Dharmil, we have been talking about different segments in all three segments in previous calls. And I know that you may not want to discuss specific numbers with respected to each segment on margin side. But at least can you give us some sense in terms of packing order on the gross margin across all three segments, which is the highest and which is the lowest?

**Dharmil Bodani:** So I will just let Parag answer this question. And I will add on if there is need.

**Parag Satoskar:** Sure. So, Dhwanil, like Dharmil has mentioned in his opening remarks, that the demand for all the product categories that we operate out of remains strong, and we had margin pressures, because of the input costs going up, and that had an impact on the margins. And that was primarily the impact however, I can gladly say that most of the price increases have now been successfully passed on through the customers and in the coming quarters, we hope that we will have better gross margins.

And like we always have been saying in our investor calls that assuming that there is a stable pricing scenario, we still continue with our deliberation that our long term earnings are targeted between the 15% to 17% EBITDA margin levels.

**Dhwanil Desai:** Yeah, that I get Parag. My question was more on a steady state basis between camphor, FNS and aroma chemical. Where is the higher gross margin and where is the lower gross margin? If you can elaborate on that?

**Dharmil Bodani:** You can mention the fluctuations in the camphor pricing, Parag.

**Parag Satoskar:** Correct. So primarily, if you probably are looking at a sectorial, we have always maintained that all the three sectors that we operate out of, we have more or less similar margin expectations. Having said that, the camphor prices, especially in the offseason are a little on the subdued side. And because of which, the margins are a little compromised on the camphor side in this quarter. However, going forward we probably would be, because we are also kind of achieving the pass through, we should be getting better margin realizations.

**Dharmil Bodani:** Correct. So hence, the answer to your question is there really is not a pecking order. It is across the three verticals, this is the gross margins that we as a company focus on. And it is not like the FNF would give us for example, 20%, and camphor would give us 12%. There is no differentiation, we look at the business in totality.

**Parag Satoskar:** And just to add one quick point to Dharmil. Rather than specifically saying, but normally if you have your aroma ingredient prices going up and better realization, there is a little bit pressure on the fragrance side because you are not able to pass it through quickly and the other way around.

**Dhwanil Desai:** And my second question is so, I mean our mix currently is almost equal between all these three segments and our incremental capacity at least in Baroda is coming mostly on aroma chemical side.

So, and we have a new Greenfield CAPEX lined up at Mahad. So, after that CAPEX will I mean, I think we have asked this question before there is some confusion I think in one of the analyst interaction, it was mentioned that the aroma chemical proportion will increase after CAPEX and I think another one it was that the product mix will remain same across all these segments.

So, can you clarify on that how we will you pan out after expansion?

**Dharmil Bodani:** Yes. So post CAPEX depending on where we end up with the actual numbers, we definitely feel that the aroma chemicals which will be broken up into bulk and specialty, along with the camphor business that we will continue to be in as a vertical, we believe in the next two years, we believe that the aroma chemical, specialty and the camphor division would probably be it would probably get to a much larger percentage than the flavor and fragrance.

Today, I am not in a position to tell you that because we have the fragrance and flavor division also growing. So I think we wait to see what the eventual mix is going to be.

**Dhwanil Desai:** And my last question. Updates on both hydrogenation project CAPEX and Greenfield expansion?

**Parag Satoskar:** Sure. So, on the hydrogenation project, like we have been mentioning that the investment is roughly between Rs. 140 crores to Rs. 150 crores. We were targeting commissioning of the plant by June 22 but this Omicron and a little bit of disturbances here although the work is going on at full speed, but we are kind of hoping that we commission the plant by end of Q2 2022-23 or beginning of Q3 2022-23.

So, it should probably be it should be hitting the top line from H1 2023 is what our guestimate is on hydrogenation. On Mahad, we are still awaiting our environmental clearance. However, like we have mentioned in our earlier calls that we have done all our homework in terms of the process reengineering, the utility management, the master planning etcetera.

And so, we still stick to the plan of commissioning the first phase of Mahad in the financial year 2022-23, preferably Q3 or Q4.

**Moderator:** Thank you. The next question is from the line of Manish Poddar from Nippon India. Please go ahead.

**Manish Poddar:** Few questions. First is do you have any inventory which is at higher costs now or you are purchasing largely on support? Just if you could explain it?

**Dharmil Bodani:** Can you repeat the question please, Manish?

**Manish Poddar:** So I am just trying to understand, do you all have any higher cost inventory on books still? Can there be a mark-to-market loss or gain? That is what I am trying to understand incrementally.

**Dharmil Bodani:** Okay. So, Manish, we currently have inventory because the raw material prices the way they are positioned today, they have stabilized but they have stabilized at these higher price points. And that is the reason why we have gone and renegotiated our new orders with our customers at a higher price.

So if you want to summarize it, we have the inventories which are of the higher costs, but they are commensurate to the price increases that we have taken from the customers so we do not foresee a loss there. However, we still are living in uncertain times where you are suddenly seen a spike in the oil prices and then everything goes in a reset mode.

So, we are on a wait and watch strategy. We are micromanaging our inventory management on the raw material side and every raw material is being treated, monitored differently.

**Manish Poddar:** Okay, and what sort of price increases we have taken on the blended level sequentially?

**Dharmil Bodani:** So I think like I said that when you have a basket of close to 200 aroma ingredients and more than a few 1,000 fragrances and flavors, it is really impossible to generalize, but I think wherever we have seen that, we had to get a price increase to be sustainable we have done that. So I would just like to summarize it saying that the pass through has successfully happened across all the divisions.

**Manish Poddar:** Because let us say if sequential revenue declines are roughly 11% and let us even if we have taken, it is a high single digit pricing growth on portfolio level. The volume decline seems sharper. So is there any impact on the demand overall, let us say, just want to get some sense that because generally Q3, Q4 are largely similar run rate numbers? It is better actually. Q3 is better than Q4 in some circumstances, so just wanted to understand that? I think, the pricing performance has been lagging, so just wanted to understand the reason behind that?

**Management:** Sure. So I think you probably will have to look at the current Q3 and Q4 in a different perspective, compared to the last few years, because we actually got into Q4 carrying this enormous baggage of extremely high input costs, which the customers were not ready to renegotiate in the middle and so they were pretty convinced.

**Management:** Which is our Q3…..

**Management:** Yeah, correct. And which is which is, where we have kind of like I said, that we have passed it on to the customers in Q4. So, in terms of demand, I do not see because of the price hikes any drop in demand, if that was the question that you asked for. In terms of transferring the prices, we have done that. We are also monitoring the raw material situations, because the raw materials can go haywire any time and because of external factors, which are beyond our control.

So yeah, we have done all the necessary things that needed to be done to kind of course correct.

**Manish Poddar:** So if I get it from the two questions, demand is fairly steady, you have taken the pricing inflation for the inventory plus the cost inflation, which you have witnessed. Is that is how you would summarize it?

**Management:** Absolutely.

**Manish Poddar:** Just one last one then. Let us say in terms of the cost structure, given the two units let us say Bareilly and the Baroda thing coming into play in Q4, this quarterly run rate of Rs. 50 crores to Rs. 55 crores cost, which you have would that be the steady state number which one should consider going ahead?

**Dharmil Bodani:** Girish, can you explain what exactly is this cost number?

**Manish Poddar:** I am just trying to add these three numbers, manufacturing cost, staff cost and other expenses. Those are generally Rs. 52 crores this quarter and Rs. 50 crores last quarter. So I am just trying to understand other than the cost of goods sold….

**Girish Khandelwal:** It is going to be in the same range.

**Dharmil Bodani:** Yes, so answer is it will be in the same range.

**Moderator:** Thank you. The next question is from the line of Rahul Jayantilal Jain from Credence Wealth. Please go ahead.

**Rahul Jain:** Sir, just to get a sense, you mentioned in the presentation and also in your opening remarks, with Bareilly plant being shut down for 20 days. So typically, what could have been the impact of this in terms of say revenue? Have this plant shutdown not being taken?

**Dharmil Bodani:** Correct. So Parag and Girish, when you answer this also explain the consequences of this shutdown in terms of long term that it will not happen in maybe the coming financial year?

**Parag Satoskar:** Sure absolutely. So, primarily, Girish, correct me if I am wrong, but the impact of the additional inventories that we would have got, since most of our plants are running at max capacity in

Bareilly the incremental top line would have been around between Rs. 27 crores to Rs. 30 crores.

**Girish Khandelwal:** Right.

**Parag Satoskar:** Okay. So that is point number one. Point number two like Dharmil said, this shutdown was a very strategic shutdown, because we wanted to kind of update our boiler systems in Bareilly, which kind of prevented us doing a major CAPEX there and enhancing the life of our boiler.

So it is kind of something which is not going to be more repetitive and it was taken once in a while otherwise, normally, our shutdowns are anywhere between five to seven days.

**Rahul Jain:** So this will help you in saving some costs going ahead?

**Parag Satoskar:** Absolutely, because my boiler systems are now producing steam at a much more efficient rate than what they were doing in the past.

**Rahul Jain:** Secondly, with regards to Bareilly expansion, if you could share some details about which product we expand it, and correct me if I am wrong, Bareilly majorly would be camphor unit?

**Parag Satoskar:** So, Bareilly is primarily driven by the terpene chemicals, so, Bareilly has camphor as one of the product blocks, and along with that you have a wide range of other terpene chemicals as well.

So, this particular expansion that we have successfully completed in this quarter is a process reengineering expansion and a brownfield project where, without getting into the micro, there is one product group where we have now implemented a 70% expansion.

And this product group, especially in the context of floor cleaners and disinfectant is a very significant product group. So, we are very confident that once this is passed onto the top line, we will be in a position to achieve an incremental revenue of at least Rs. 35 crores every year because of this expansion.

**Rahul Jain:** And the CAPEX would be around Rs. 15 crores, Rs. 20 crores for this?

**Parag Satoskar:** No, because it was process reengineering and it was brown, the CAPEX was I mean, it was, I think, between Rs. 4 crores to Rs. 5 crores.

**Rahul Jain:** So that is it?

**Parag Satoskar:** Yes.

**Rahul Jain:** So, Rs. 4 crores to Rs. 5 crores will result in additional topline of about Rs. 35 crores?

**Parag Satoskar:** Correct. But that is not our normal run rate for the amount that we do CAPEX because that is normally between 1.5 to 1.7.

**Rahul Jain:** And lastly sir, with regards to margin, so apart from the initial remarks and the previous participant's questions, do we get to understand that most of this commodity price inflation, raw material inflation have been passed through and the entire pass through has been done. So hopefully going ahead, say the next quarter onwards or maybe another quarter, should we revert back to stable margins, as what we have been always talking about? Are we done through with all the price increases, and all those acceptance has been done by December is what I need to understand?

**Parag Satoskar:** Correct. So, I think Rahul, I think it is a very important question. And I think, during some stage of the call, we would have probably addressed this question. Like I reiterated in my earlier answer, that we have always maintained 15% to 17% EBITDA margins based on a stable pricing scenario, and our long term earnings strategy.

So that is the reason why, if you remember our earlier call, one of the earlier investor calls, where our EBITDA margins had touched 24. On that call Dharmil had very specifically mentioned that 24% is not sustainable. And hence, when we are seeing these kinds of EBITDA margins for a quarter, we are very confident that with our R&D pipeline, and with our commitment in terms of being sustainable on all fronts of business, this 8% to 9% also is not sustainable.

So we will eventually when we reach a stage of stable pricing, come to the EBITDA margins of between 15% to 17%. I mean, last time, Girish, correct me if I am wrong, we had such levels seen in 2012, because we have seen them. Yeah. 2012 is when we had seen such levels coming down, which again were primarily driven by raw material prices going up substantially.

And they lasted for two to three quarters, after which we again came back to our normal run rate. So I think in the chemical industry, especially the last one year, has been very unprecedented across all inputs. And so we need to be a little patient and I am sure we will achieve those numbers going forward.

**Rahul Jain:** And lastly, with regards to the CAPEX getting over in next two years and Dharmil did mentioned and you also mentioned, aroma chemicals and specialty and camphor put together will be higher proportion than FNS. You are talking about stable margins of 15% to 17% given the business as we speak today, in terms of the divisions today or the segment wise revenues coming in today.

But going forward say after two years, when the expansions are done, based on the product profile, based on the product classification, is there a possibility of incremental margin because of better product mix coming into play? Is that a fair assumption?

**Girish Khandelwal:** Right, so I will take this question, Parag. So I think we would like to stay with the same guidance. We are not revising it at this point. And the 15% to 17% that we keep referring to is also based on the new plants and the new products. It is a continuous process of the additions also.

**Moderator:** Thank you. The next question is from the line of Ankit from Bamboo Capital. Please go ahead.

**Ankit:** On the Mahad CAPEX front, we have yet not received the EC approvals. So are we speaking to the **(Inaudible 26:06)** starting by end of December of this year? Or do you think there might be some delay of a month or two?

**Management:** Parag, you just answered it.

**Parag Satoskar:** Sure. So I have just kind of answered it a while back that although we see but we are doing our homework at the backend in terms of process engineering and everything else. So we stick to the same timelines and we will probably evaluate it going forward.

**Ankit:** Sure. So, currently in terms of CAPEX the single unit plant as Baroda is done, the hydrogenation plant is expected to commence the operations max by Q3 of next year and Mahad at least phase 1 since that maximum by Q4 of next year. Is that the right assumption?

**Parag Satoskar:** Correct.

**Ankit:** Okay, and apart from that any other CAPEX which is lined up?

**Parag Satoskar:** So, like I said that nothing that is currently on the cards and we continuously looking at what is happening around and looking for opportunities.

**Ankit:** And Baroda, post this hydrogenation plant also, if I remember in last call, you stated that we still have sufficient land available for future expansions as well?

**Parag Satoskar:** Absolutely.

**Ankit:** Okay. And one question on the margin side. On the gross margin front we have seen that in Q2 our gross margins have improved compared to Q1 of this year, and Q3 our margins have improved compared to Q2 of this year? So I think the margins on the EBITDA side has been largely because of the shutdown at the Bareilly plant for 20 days?

**Parag Satoskar:** I think it is a fair assessment. But there are a lot of other I mean, it is not just the primary reason. I mean, it is one of the reasons but there you also still had the impact of the high cost inputs, inventories, which we had, and we were not able to kind of pass through all those price increases to the customers in Q3.

However, so yes, it is one of the reasons, but not probably the only reason.

**Ankit:** Okay, so let us say, in next quarter or maximum by Q1 of next year, should we expect that our gross margin should be back to origin or long term as at along gross margins of around 36%, 37%? Is that the right assumption?

If there are no major changes in raw material prices or shipping costs?

**Parag Satoskar:** I think it is fair to say that we are doing all the things right to really achieve those numbers. But like I keep reiterating that too many external factors, which keep hitting the whole strategy. So we have to keep. We will have to wait and watch. But yeah, if everything goes like I said, if there is a stable pricing regime going forward in the next two quarters, and a stable RM availability situation, and no further hiccups in terms of costs, we should be good.

**Moderator:** Thank you. The next question is from the line of Rajat from IThought Finance. Please go ahead.

**Rajat:** So sir, are you just saying that our favorable or normalized gross margins are at 36%, 37%?

**Dharmil Bodani:** Rajat, can you repeat the question, please?

**Rajat:** Are we saying that our normalized or sustainable gross margins are at 36% to 37%?

**Dharmil Bodani:** Girish, can you answer this question?

**Girish Khandelwal:** Yes, so actually saying our long term target to achieve the 15% EBITDA the margins should be in the range of 36%. So this is only our target.

**Rajat:** And this margin profile will not change despite the new CAPEX coming in, right? Or, you expect this the same?

**Girish Khandelwal:** No, it would not. Our guidance stays the same.

**Parag Satoskar:** Yeah. And, just to probably add on to what Dharmil said. Rajat, all these expansions are going to come in waves or phases. So it is not going to be that we are going to be out of products for a long period of time, then suddenly the tap opens for all the products.

And that is why we want to have phase wise inclusion of products like we have just commissioned one plant then these other. So that will give us the opportunity to really stabilize one product which starts contributing to the top line, bottom line. And we move to the next one.

**Rajat:** And in terms of the CAPEX, I think we have a plan of overall Rs. 200 crores in the Mahad and maybe around Rs. 170 crores or Rs. 180 crores in the existing including **(Inaudible 31:10)**. So, how much of that has already been spent?

**Dharmil Bodani:** Girish?

**Girish Khandelwal:** Sorry, can you repeat your question?

**Rajat:** How much of the CAPEX have you already done in the last? See as per the September balance sheet?

**Dharmil Bodani:** How much have you drawn is the question, Girish. How much have you drawn in terms of CAPEX for the new expansion?

**Girish Khandelwal:** So, we have drawn down the Rs. 30 crores term loan for the new expansion in Baroda. But for Mahad, we have not yet taken any debt.

**Dharmil Bodani:** So, we will as soon as the permission comes or we find that we are ready in the next or probably in this quarter with ordering the plant and machinery. So we are expecting to start the drawdown for Mahad in this quarter. And the other expansion as he mentioned, there has been part internal accrual, correct, Girish?

**Girish Khandelwal:** Yes.

**Dharmil Bodani:** And part we will take in the term loan of Rs. 30 crores?

**Girish Khandelwal:** Right.

**Dharmil Bodani:** So do you have the internal accrual number approximate that we have been?

**Girish Khandelwal:** Yes, approximately we have incurred Rs. 48 crores to Rs. 50 crores till now. And out of that we have taken Rs. 30 crores from that.

**Dharmil Bodani:** Right. So total we have what? What was the total number you mentioned, Rs. 48 crores?

**Girish Khandelwal:** Rs. 48 crores approx.

**Dharmil Bodani:** So about Rs. 18 crores we have invested from internal accruals?

**Girish Khandelwal:** Yes.

**Rajat:** So around Rs. 30 crores we have already added. How much CAPEX are we going to spend in the next three, four quarters?

**Dharmil Bodani:** So I think, based on the numbers that we have given, if we have done about Rs. 48 crores, which is Rs. 18 crores through internal and Rs. 30 crores through the term loan, I think Girish, we should be at a number of what?

**Parag Satoskar:** In next three, four quarters you are asking, right?

**Dharmil Bodani:** Yes, next three, four.

**Parag Satoskar:** So next three, four quarters our CAPEX we would incur around Rs. 150 crores to Rs. 200 crores.

**Dharmil Bodani:** Correct. Because that is when the activity in Mahad will start.

**Rajat:** And then how much time does it take to ramp up the new CAPEX?

**Dharmil Bodani:** It would go plant wise because we will be focusing the first round of CAPEX on our specialty aroma chemicals vertical. So, like Parag has mentioned, it would be phase wise. So we would see the first plant commissioning in quarter 3 latest quarter 4 of 2023. Correct, Parag?

**Parag Satoskar:** Correct. Yes. So, I mean, Rajat, like you said that the ramping up time since we are into the generic specialty aroma ingredient space. And thanks to our fragrance division, we probably are aware of the market. I think we probably would not be looking at a substantial ramp up time in terms of most of the products that we want to launch.

**Rajat:** You mean to say you can ramp up pretty fast?

**Dharmil Bodani:** Yeah, absolutely. And I think the good example of that is the new plant, the new **(Inaudible 34:20)** specialty chemical plant, which I mentioned in my opening speech that we have commissioned. Not only is the validation of the batches going on, but those validated batches have been approved by customers globally.

And we have already started shipping in and I think, the month one of the commissioning of the plant.

**Moderator:** Thank you. The next question is from the line of Bob from Falcon Investment. Please go ahead.

**Bob:** What percentage of your chemicals do you sell on the spot market?

**Parag Satoskar:** Okay, so if you look at probably, camphor is one of the product. I think that is for the Pooja and for the religious purpose, whatever is sold in India is mostly on spot or on a 15 day price kind of a situation.

And apart from that, for the rest of the product, we probably are looking at, a 70:30 or 75:25 break up between, 75% being the one which is kind of on the RFQs or on contracts and the remaining 25% to 30% is on spot.

**Girish Khandelwal:** Correct. So Parag is referred to the bulk aroma chemicals in the specialty ingredients. For the flavor and fragrance side, we always manufacture made to order. So there is no spot selling whatsoever on the fragrance side and the flavor side.

**Bob:** Right. So, that would give you more leeway to match the prices with your input costs over the course of the year, they used to be on a contract basis?

**Girish Khandelwal:** Yes and no. But I need to understand the question more, are you talking about which verticals?

**Bob:** Alright, let me just elaborate. So what I am saying is because we have seen a lot of volatility in your margins. There is extreme volatility, and also given the fact that you are undergoing all those CAPEX. There needs to be some certainty as to the margin. Otherwise how are you going to come up with the return investment on your projects?

**Girish Khandelwal:** Correct. That is why we have maintained the 36% gross margin guideline, because like you have very correctly said there will be a product acquisition cost. So we are basing the specialty chemical prices today that prevail in the market. Based on what we would come up with our new capacity for the same molecule, which is an off patented generic molecule. We have taken the pricing structure at 36% to basically see those gross margins, whether we are competitive or not, and then decide whether we want to go into that molecule and build the plant.

So, all the expansions that we are looking at, we are going to stay in that ballpark region. Although I will add that there will be a product acquisition cost. So when we do come into the market with this genetic material, there may be a very large price differentiation between the inventor and us or between the inventor and maybe another manufacturer and us to get the product accepted faster by our customers. And I think then in time it will start stabilizing.

But those product acquisition costs will not be lower than 36% gross margin for us to be able to achieve the 15% to 17% EBITDA guidelines.

**Bob:** Right. And your customers are already, you already have contracts for these chemicals?

**Girish Khandelwal:** Yes, so the way it works is, the aroma ingredients and the specialty, the bulk and the specialty are used by the flavor and fragrance industry globally. So the process is that say we finish our pilot and commercial. So at commercial, we would pick two anchor customers that we would start working with to get the samples approved that come through pilot. As they come through pilot, we give them three, four or five different batches.

So they have the pilot standardization samples with them. And once we get to plant it moves much faster, because they have already had experience with what is going on pilot. So the validation process of maybe two batches coming out of the commercial plant makes us get into the eventual commercialization of the product much faster and the anchor customers that we select normally take up, a fairly sizable percentage of the monthly production.

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

**Raj Mehta:** My questions have been answered.

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

**Dhwanil Desai:** So, two questions. So, I think if I look at our revenue run rate, if we take out this plant shut down, we are kind of close to Rs. 230 crores to Rs. 240 crores of quarterly run rate and we have this Rs. 40 crores additional revenue from the new specialty chemical. And then we are doing debottlenecking.

**Girish Khandelwal:** No, the Rs. 40 crores revenue from the new specialty chemical is not for one quarter.

**Dhwanil Desai:** Understood. I am saying for the entire year or for the entire capacity, not year. And then, we have this debottleneck capacity, and then we have the second half of the next year, again hydrogenation capacity coming through. So, is it safe to assume that, we can do ballpark Rs. 1,100 crores, Rs. 1,150 Crores kind of a revenue next year? Is that a faith assumption to make?

**Parag Satoskar:** So, like I think you have got the quarterly run rate, right in terms of the of the top line, with our current product portfolio, assuming the pricing and like Dharmil had said that if we complete, say, if we do an investment of between Rs. 150 crores to Rs. 200 crores by end of this year, with a ramp up needed of say six to eight months, we should be looking at the numbers that you just said as a targeted number.

**Girish Khandelwal:** At 1.7x, correct?

**Parag Satoskar:** Yeah. But 1.7x at full capacity. Right now, we probably I mean, if you are talking of end of next financial, we probably might not be in that full capacity zone. So I am looking at what your numbers are, are doable.

**Dhwanil Desai:** And second question, Dharmil is on FNF side. So I think typically what we have observed is that FNF industry and players generally grow in line with FMCG volume growth, right. So 5%, 7%, 8% high single digit or the double digits. So, do we aspire to grow higher than that? And if so I think you mentioned strong traction in Middle Eastern markets on export side in last call. So how do you see that segment growth standing out in next two, three years, given the inquiry pipeline that we have?

**Girish Khandelwal:** Okay, so I will try and address this. I think, to answer your question is the FNF side, the growth that we are seeing is coming from markets like the Middle East and the Far East. The India FMCG sector currently continues to be under pressure.

And we will see low single digits, probably in the in the FNF for our Indian subcontinent business, but I think the Middle East and the Far East will play a significant role in the growth of that vertical. Yes, we aspire for more than what the industry is growing at. But we would be happy if we are in the industry ballpark percentage.

**Moderator:** Thank you. The next question is from the line of Rohit Nagraj from Emkay Global. Please go ahead.

**Rohit Nagraj:** My first question is in terms of demand. So, we have seen that the input cost pressure has been there, we have also taken the price hikes. So Dharmil sir, if you could just give us a sense about whether there has been an impact on the demand of any of the segments that we cater to maybe on a domestic business or from the International Business?

**Dharmil Bodani:** Parag, do you want to take this?

**Parag Satoskar:** Yeah. So Rohit, like we have reiterated. I think demand across the segment looks pretty strong. Primarily because, if you look at the penetration of the FMCG sector, except the fine fragrances business, the rest of the big businesses, and the requirement for them across the board is increasing globally. Point number one. Point number two, the China Plus One strategy is still stays very, very strongly in place.

Point number three, there are relatively less capacity additions happening in the aroma ingredients space, and we are amongst the companies who are working on multiple chemistries and multiple products. So I think the interest levels and the actual numbers on the ground stay very, very strong when it comes to the aroma ingredients verticals.

When it comes to camphor, I keep reiterating and I keep hearing this from my team, that people burn camphor in good times and they burn it more during the bad times. So although the competitive landscape might alter a little bit, but we are pretty bullish about the demand. There might be some pressure on pricing, but we are pretty bullish on the demand on the camphor side. And on the fragrance and flavor side, I think Dharmil has already answered the question.

**Rohit Nagraj:** The second question is on the volume front. So we have seen about 37% YoY growth rate during the first nine months. How much of this would have been contributed through volume increase, and probably the rest would be through price increases?

**Parag Satoskar:** So I think it is a combination of both. I mean, when Dharmil said in his introduction remark that, the average rate per kg has gone beyond the pre-COVID levels. I think oriental now is getting into a very interesting phase where we continue to stay focus on the bulk commodity aroma ingredients, but are also now slowly making breakthrough in these mid value and high value generic specialty aroma ingredient space.

And so, I probably would not have the exact numbers with me now, but I probably can share it with Anuj later and you can take it from him. But, I think, this growth in terms of the top line or the volume is primarily driven by a combination of both and the medium and the high cost specialty.

**Moderator:** Thank you. The next question is on the line of Amar Mourya from AlfAccurate Advisors. Please go ahead.

**Amar Mourya:** So first thing, I have couple of questions. Number one is, in terms of the camphor business, which was largely shut down, so broad impact would be around Rs. 30 crores, right?

**Dharmil Bodani:** Correct.

**Amar Mourya:** Secondly, when you say the recovery of the margin, and you already took a price hike, so should we see that recovery in the gross margin should happen from fourth quarter?

**Dharmil Bodani:** I mean, we aspire to do that. And that is the reason why we are kind of working on it. And like I said that assuming that all the other factors remain stable, then the advantage of the price hike and the kind of stabilization of the input costs at these higher levels or some of them show coming down should give us the desired results in Q4.

**Amar Mourya:** And sir, your hydrogenation plant will come in Q4, right of this year?

**Dharmil Bodani:** Correct. No, Q4 of 2022-23. Not this year. So not now, it is almost 9 to 12 months.

**Amar Mourya:** Okay. And now currently, our new CAPEXes would be what that Greenfield that single plant come and then brownfield expansion, which you did in November 20 and now the Rs. 6 crores of additional debottlenecking, which we did at the camphor plant, right?

**Dharmil Bodani:** Correct.

**Amar Mourya:** So broadly, how much of the CAPEX is already on the block?

**Dharmil Bodani:** We just mentioned that, Parag

**Parag Satoskar:** Yes.

**Amar Mourya:** Actually sir, in between my line got disconnected.

**Dharmil Bodani:** So Rs. 48 crores, Rs. 18 crores is from internal accruals, Rs. 30 crores we have drawn down and we are expecting to utilize about Rs. 150 crores. Rs. 170 crores, was that the number, Girish?

**Girish Khandelwal:** Yes.

**Dharmil Bodani:** In this financial year. And that would be largely in Mahad.

**Girish Khandelwal:** Yes, and this is like 2022-23.

**Dharmil Bodani:** Yes, it is not like we will draw down everything tomorrow.

**Management:** So 2022-23 we will cross Rs. 200 crores CAPEX, right.

**Moderator:** Thank you. The next question is from the line of Rajat from iThought Finance. Please go ahead.

**Rajat:** One question about your different segments. Now in one segment, when we are catering to different FMS companies globally, they are our clients in the other segments are competing there through our FMS segment.

So there is some sort of conflict of interest if your clients in the aroma chemical side broadly look at it like that. So, how do we manage that?

**Dharmil Bodani:** Parag, do you want to take this?

**Parag Satoskar:** Yes. So I think historically globally as well as in India, the fragrance and flavor industry has been a very unique industry, where the fragrance and flavor compounding companies can compete with each other with a particular client, but when it comes to their aroma ingredients, they would probably end up buying the aroma ingredients from each other.

So, when we become active in the aroma ingredients, I do not think it is an experiment that we are trying for the first time. I think it is something which has been an inherent part of the FNF industry, because which say 2,000 line items of ingredients, it is virtually impossible for one company to backward integrate.

**Dharmil Bodani:** Sure, and we compete in several products with the FNF companies, even on the ingredients side, and on the fragrance and flavor side. And that has not ever been an issue when it comes to us selling to their flavor and fragrance division our ingredients. And we buy also so we make a mask in our Baroda plant, which competes with one of our largest FNF customers.

So they buy from us and then they do not buy the mask from as they compete on the mask with us. And then they buy several other materials where, they do not have any competitive conflict. So it is not any more a factor in this industry. If that is what you are asking me.

**Parag Satoskar:** It is in fact, sorry, just one more line to what Dharmil said. In fact, it is an advantage because unlike a typical linear chemical manufacturer offering an aroma ingredient, these global FNF companies will want to work with a company who has a fragrance background because they understand because they feel that we understand the all active nuance of the ingredient which is very important.

**Dharmil Bodani:** And we have not seen this accretion since we have got into the aroma chemical business, we have never seen this to be an issue.

**Rajat:** And you are saying this is a practice across I mean everybody in the industry is comfortable with this practice, right?

**Dharmil Bodani:** Correct, absolutely. And they do it even on a global scale where the top four, five buy from each other and compete with each other. And that is the nature of the beast, we have over 4,000 ingredients that we use on the flavor and fragrance side. So nobody can make them all.

**Moderator:** Thank you. The next question is from the line of Aman Vij from Astute Investment. Please go ahead.

**Aman Vij:** First just a suggestion. So we had this 20 day lockdown. So normally company informs the investor in between or someplace before the results itself so that the market is much more spread. This was different from the normal shutdown of five to seven days. So, maybe as a practice, we can also start doing this kind of disclosure?

**Dharmil Bodani:** Sure. We will make a note of that please.

**Aman Vij:** Yes, and now on to the question. So, first question, when Girish sir was also talking about that, we have a very healthy mix of short and long term contracts more towards long term contracts. So we had some pricing issue in Q2 also. So we were expecting that by Q3 some of the prize pass on should have happened. But it has taken like more than two quarters.

So if you can explain that, is it because of some of the long term contracts may be it is very difficult to pass on or it takes time to pass on? So what is the reason of lagging for two, three quarters versus say in the next quarter itself? One quarter we understand things can happen. So if you can explain that?

**Dharmil Bodani:** Parag?

**Parag Satoskar:** Yeah, sure. So I think Aman, the input costs going up were definitely factored like I said in our contracts, which we did for H2 2021 but there was a substantial jump in the input costs in Q3, which were not anticipated and which suddenly came out of the blue when these China electricity crisis hit and in the month of September when for the China day, things were shutting down and nobody was knowing when the factories are going to open up.

So, there were like I said that these two, three quarters have been extremely unprecedented, where every time we have micromanaged and course corrected, there have been certain external factors which have been way beyond our control, which have had an impact. So in that situation, we have ensured two things that we ensured that our relationship with the customer stays intact.

And we have kind of conformed to all the contracts which we had with the customers and that has really helped us build that rapport with the customer that when we went with a genuine price increase again, I mean, they have kind of welcomed it. But to answer your question, there have been factors which have been impacting not only us, I think these have been impacting overall the whole chemical industry.

And so, I think we are course correcting as and when we face a factor, otherwise we try our best to get the maximum value out of the contracts.

**Aman Vij:** So Parag sir, correct me if I am wrong. So Q2 whatever price fall had happened, we were able to pass the price rise. So we were able to pass on to Q3, but there were, in additional to Q2 rise, they were further rise in Q3?

**Parag Satoskar:** Absolutely. And those rises were substantially higher than what we had expected and what we had experienced in H1.

**Aman Vij:** Okay, that makes sense. Yes, absolutely. The second question is on the camphor market and the competitive scenario, which you have briefly talked about that there are other players who are also putting in capacities and some are also putting capacities in the pharma side.

So, if you can briefly talk about what is the current market situation in terms of pricing, you are seeing not only in spot, but also in the long term MNC contracts where I think earlier there were very less competition, because most of the other players were in spot market, while we had the unique position of being in long term contracts also.

So if you can talk about the impact of increased capacity by the new players or by competitors on the long term contract side also? Are we seeing increased competition there or some kind of pricing pressures there also? If you can talk about that?

**Parag Satoskar:** Correct. Like Dharmil said, as of now, we do not see any kind of significant impact in terms of pressures. We will have to wait and watch.

**Dharmil Bodani:** Even with competition, we do not see this currently, no.

**Aman Vij:** And Dharmil sir, you are seeing no pressure in both the spot or long term or you are seeing some pressure in spot and no pressure in long term?

**Dharmil Bodani:** Like Parag has always maintained Q4 we have been able to pass on most of the price increases. And we have not had any challenges in doing that, except the challenge continues to lie on the raw material side. So in terms of future capacities, and the products that we manufacture, that we are feeling competition today, the answer is, no.

**Parag Satoskar:** And just to add one quick line. On the camphor side, as of now, we are not seeing any price pressures, either in local or in exports. We will have to wait and watch.

**Dharmil Bodani:** Correct.

**Moderator:** Thank you. The next question is from the line of Ankit from Bamboo Capital. Please go ahead.

**Ankit:** If you can highlight what will be the proportion of bulk aroma chemicals and specialty aroma chemicals? In our aroma chemical space currently? And how do you see this mix change in over the next two, three years with the CAPEX coming on stream on board in brownfield and greenfield side?

**Dharmil Bodani:** Parag, I think this has been covered in the past?

**Parag Satoskar:** Correct.

**Dharmil Bodani:** So if we are running on time, Anuj, I do not know how whether we can request the reference to some of the paperwork or the investor call earlier which gives the answer to this question.

**Anuj Sonpal:** Sure, we can answer it separately later.

**Moderator:** Thank you. The next question is from the line of Aman Vij from Astute Investment. Please go ahead.

**Aman Vij:** So, sir, I was talking about the camphor market size, if you can talk about what is it currently in India and outside India, and how is it doing and what is our latest market share? If you can talk about it?

**Dharmil Bodani:** Most of this has been answered except the market share. So Parag, you can brief if you could?

**Parag Satoskar:** Yes, so I think Dharmil, to be very honest, we have tried to do this experiment many times in the past, but because of a lot of unorganized players, a lot of imports there are too many ifs and buts to really look at what is the size of the market and so we normally focus our energies among, on looking at how we can sell our current capacity and the capacity that is going to come in the future.

**Dharmil Bodani:** Correct. And I think the numbers of the market size etcetera again, Anuj, has been given in the past including the expected growth numbers etcetera if I remember correctly.

**Management:** Yes, but these are again as Parag Ji said there is no.

**Dharmil Bodani:** Yes.

**Parag Satoskar:** So I think Aman for us we more focus on what we can do and probably we are pretty confident about selling our capacity.

**Aman Vij:** Parag, let me refrain it in other way. So what kind of volume growth do we specifically see in this camphor division going forward?

**Parag Satoskar:** So like I said that again you are trying to rephrase it but I will probably give you because there is no standard template as to what we will be the CAGR growth, what have been the volumes in the past and I have never seen a study which has been done to really look at those numbers because there are lot of numbers in between which are very difficult to really compute.

**Dharmil Bodani:** So to answer your question, the current capacity of camphor that we have in Bareilly is completely sold out. The additional capacity which will come in Mahad irrespective of the competitive landscape changing, we are confident that we will be able to sell it.

**Aman Vij:** And sir, when you had talked about it will take like may be roughly 7 to 8 months to fulfill our new capacity. So this is also applicable for camphor?

**Dharmil Bodani:** No, I think it is over a period of time as we have explained in this call. The additional Rs. 150 crores odd that we would be putting into Mahad over the next 12 to 14, 16 months whatever they have mentioned. The product mix where that money is going we are not at this point disclosing for several reasons but in the long term camphor will be part of that. So we would not feel comfortable going in to specific products.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Dharmil Bodani from Oriental Aromatics for closing comments. Over to you, sir.

**Dharmil Bodani:** Thank you so much. Thank you also participating in this earnings 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, we would be happy to be of assistance. We are thankful to all our investors who stood by us and also had the confidence in the company's growth and plans and focus for the future.

And with this, I wish everyone a great evening. Thank you.

**Moderator:** Thank you very much. On behalf of Oriental Aromatics Limited, we conclude today's conference call. Thank you for joining us and you may now disconnect your lines.