Q4 FY20 Earnings Conference Call
July 02, 2020

Moderator: Ladies and gentlemen good day and welcome to the Oriental Aromatics Limited Q4 FY20 Earnings Conference Call. As a reminder all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call please signal an operator by pressing '0' then '*' on your touchtone phone. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you Mr. Sonpal.

Anuj Sonpal: Thank you Deepesh. Good morning everyone and a warm welcome to you all. 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 conference call for the fourth quarter and financial year ended 2020.

Before we begin I would like to mention the 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 all of you. Audiences are cautioned not to place any undue reliance on these forward-looking statements for making any investment decisions. The purpose of today's earnings conference call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

I would now like to introduce you to the management participating with us in today's earnings conference call and give it over to them for opening remarks. We 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.

I now 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 on behalf of Oriental Aromatics, my team that is present here with me. It is my pleasure to welcome all of you to our first ever earnings conference call during absolutely unprecedented times.

As the world is in the middle of a pandemic, we at Oriental Aromatics always say that as an organization this does not build character but it actually reveals character and we are taking all necessary steps in protecting the interests of our customers, our suppliers and most importantly our 1600 member team that is working tirelessly to make sure that all the businesses stay operational during these difficult times.

Let me briefly start since many of you have never heard from me before; briefly start with a quick introduction on Oriental Automatics. Oriental Aromatics was established by my grandfather in 1955 in a kitchen in Love Lane in Byculla and from there we have come a long way to 2020 with three manufacturing plants, an R&D center and a head office. Our revenues in the early 90s when I joined the business were at about 7 to 10 crores to where we are today at close to 760 crores. My brother and I are the third-generation in this business and we continue to be as passionate about the business as our grandfather and father were. As you may be aware that in our journey from 1955 to today we've primarily stayed a front-end Flavor and Fragrance company and when I say flavor and fragrance company— I mean we have been catering primarily to the FMCG industry in India and globally. In 2008 my father had a vision that for us to stay a significant player in this industry we must move into the manufacturing of Aroma Chemicals. In 2008 we acquired a public listed company called Camphor & Allied since this company has been in the manufacturing of Aroma Chemicals and Camphor since 1961, primarily in Terpene Chemistry. We ran since 2008 to about 2017 Oriental Aromatics and Camphor & Allied separately and as we were able to stabilize Camphor & Allied and understood the chemical business more and more and then we decided in 2017 with complete transparency and in good corporate governance to amalgamate Oriental Aromatics into Camphor & Allied and have one listed entity called Oriental Aromatics on both Bombay Stock Exchange and the National Stock Exchange.

We have currently focused our business and will continue to focus on our business in four verticals which is Fragrances, Flavors, Aroma Chemicals and Camphor. Later during this call I will be happy to answer questions that you may have with regards to this. Just to give you all a little bit in what we do in Fragrances, Flavors, Aroma Chemicals and Camphor; for Fragrances and Flavors we are supplying to the FMCG industry across soaps, detergents, fabric softeners, hair care, air care. In the Flavors we were primarily in sweet goods, in Aroma Chemicals we have a manufacturing facility in Baroda which does speciality aroma chemicals where we have three plants operational, one is what we call our Musk plant which makes one of the most important musk ingredients used in the fragrance business called as Astromusk. We also have a sandal alcohol plant which produces various sandal alcohols. We have a multipurpose plant which is a very important plant for us which produces over 150 to 180 different aroma chemicals. These could probably be low volume, high value materials. In Bareilly we have primarily focused on Terpene Chemistry where we produce camphor and all its derivatives. Primarily all the four businesses or the four verticals that we are involved in are directly linked to the FMCG industry. So this is a quick overview on what we do in terms of different products in our verticals. We also as a company believe in R&D and we have already advanced research and development laboratory in Powai which is headed by our Chief of R&D, Anita Satoskar and she focuses on process improvement and on developing new molecules for the fragrance and flavor business.

Just to add to what I said , when I open an organization in a time like this, that does not build character but reveals character and what I meant by that is we are strangely proactive in working with our customers, all suppliers in ensuring that they are taken care of in terms of payments, in terms of whatever other issues and challenges that we have and we are also very clear in the organization that the salaries of none of our employees will be deducted, we are going to honor all our commitments to the team internally because we believe as a company if we are not able to sustain ourselves for the duration of 6-8-12 months till this pandemic is behind us then there is something we are not doing right. So we truly believe in working very closely as ownership with the team. We are very proud of what we have been able to achieve in the last 3 months in this pandemic and how we foresee the balance three quarters going forward.

Having said this I would also like to state that besides the four verticals that I mentioned, we are also extremely conscious as a company on giving back to the community and in our CSR efforts we run a school called Gateway School of Mumbai which is in Chembur and caters to over a 100 children with learning disabilities. This school is founded by my wife Indira Bodani and she with her team of over 70 people run this effort and it’s something which is close to our entire organization and thus we always hope that our CSR activities will keep growing in the area of aiding children with special needs, not only in the metropolitan cities of India but also at some point we hope to take this into rural India.

Having said that I would like to keep my opening remarks to as short as possible so that we can take many questions from all of you and hope at the end of it not only some of you who have invested in Oriental Aromatics but the ones who are not, will also find interest in our company and may be consider looking at us as a investment opportunity. So with this I would like to conclude my opening remarks and we will address all questions as I said and I will hand it over to Girish Khandelwal, our CFO who can then brief you all on what’s been happening with us on the results front and then we will be open to questions and answers. Thank you very much and I look forward to interacting with you all today.

Girish Khandelwal: Thank you Dharmil. Good afternoon all. On a standalone basis in the Q4 2020, the operating revenue for the quarter was Rs. 170 crores which was a decrease of approximately 16% on a year-on-year basis. Operating EBITDA recorded was Rs. 36 crores which increased by about 15% on a year-on-year basis. Operating EBITDA margin stood at 21.27% which increased by 570 basis points year-on-year. Net profit after tax reported was Rs. 24 crores while PAT margins were 14.26%.

Now coming to the annual performance in financial year 2020 of our company on consolidated basis; the operating revenue in financial year '20 was Rs. 760 crores which was a marginal increase on a year-on-year basis. Operating EBITDA reported was Rs. 126 crores which grew 10% on a year-on-year basis, operating EBITDA margins stood at 16.63% which has increased by 139 basis points year-on-year. Net profit after tax reported was Rs. 86 crores witnessing a growth of 51% year-on-year and PAT margin stood at 11.34% which grew by 377 basis points against corresponding last year.

During the financial year the company witnessed better demand for specialty Aroma Chemicals which resulted in the higher volume and value sales as compared to the last year. Despite reduction in the raw material prices the company was able to hold on the selling prices which improve the margins.

Now on the balance sheet front for the year ended 31st March, 2020, the company witnessed strong cash flow generation. Our cash flow from operations stood at Rs. 181 crores owing to improvement in the working capital cycle and better sales realizations. This enabled the company to reduce its net debt by Rs. 135 crores to Rs. 51 crores. We reduced our debt considerably even after the payment of dividend of Rs. 14 crores and a CAPEX of 10 crores. Our debt to equity ratio as on 31st March, 2020 improved to 0.11 from 0.47 last financial year. Our ROE as on 31st March, 2020 stood at 18.57% which is higher by 3.91% against last financial year end.

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

Moderator: Thank you very much. We will now begin the question and answer session. First question comes from the line of Rahul Jain from Credence Wealth.

Rahul Jain: I have couple of questions since this is the first concall by the company. In last few years typically the way our top line has grown, which segment has led to this top line growth and if you could breakup in terms of volume and a price increase and the product mix change? If you could share details on the segments price increase, volume increase and the product mix that could be quite helpful for last 2-3 years. Second question, currently in FY20, what was the capacity utilization in each of our segments which is Camphor, Aroma Chemicals and F&F segment and how do we look at in terms of going ahead? Gross margins in our business have been typically in the range of around 35%. But in last two quarters what I have observed is it has moved up to almost 39% and in the current quarter they were 43%. Of course you have mentioned in the presentation that we had a raw material price in our favor and at the same time the product prices were not taken down. But what could be then the sustainable margins in our business going ahead on the company basis? So you have mentioned 100 crores of CAPEX which you have planned for FY-20, if you could share some more details on what amount will go into various segments, what kind of additional capacities are being built up, what is the effects of this CAPEX?

Dharmil Bodani: Rahul thank you very much but if you could just specifically ask the questions because of limitations because with this we would take too long to go into it.

Rahul Jain: This was my last question.

Dharmil Bodani: And if you could just briefly ask us what exactly you would like to know because this is just far too much information and not question coming through.

Rahul Jain: So basically in the last 2-3 years—if you can't share typically segment wise or product wise—I am not looking at particular product wise but in general what has been the price increase and the volume increase in last couple of years?

Dharmil Bodani: I will do my best to answer everything that you have asked and try and summarize it. In terms of the current growth that you are saying in terms of where we are in the various verticals, we have seen growth in all our four segments because which is Fragrances, Flavors, Specialty Aroma Chemicals and in the Camphor side of the business. Our volumes currently in terms of the capacity utilization, we are close to 100% of capacity utilization but that does not mean that we are not making changes within our plants where we feel we can quickly add additional reactors to increase capacities for products. So for me to get into giving you an idea into the growth of each segment, which product, why etc, that really is a very-very microanalysis. But for you to look at it from our standpoint is link it to FMCG. So as I explained to you in my opening remarks everything we do is linked to FMCG, if FMCG grows we in turn grow if we are involved in those various segments. So year-to-date whatever that you are saying in terms of growth is because of yes, complete capacity utilization across the four verticals , prices of raw materials in some cases being in our favor where we have not seen the price corrections happen that quickly because of the devaluation of the Indian rupee. In terms of the future where you asked us how do we see our margins, we expect our EBIDTA margins to be in between 15% and 17% and as we grow we feel that this would be the margin expectation that we internally also have across all four verticals. Have I answered you so far before I get to the CAPEX side of it?

Rahul Jain: Yes sir that is quite helpful.

Dharmil Bodani: Now in terms of CAPEX, this is a very-very interesting question and of course a guidance call, it is subject to change. But what I can tell you that even in this pandemic we continue to move ahead with CAPEX. In 2021 we are going ahead with close to 60 to 70 crores of CAPEX on existing plants therefore I will give you a quick explanation. At the multipurpose plant that we run in Baroda, we feel that there are certain reactors that we need to add to increase capacity of individual ingredients that we supply to the Flavor and Fragrance industry. So the 2021 CAPEX that will be happening at Baroda for expansion of the existing plant capacities by making reactor changes and other minor changes to make sure that we are able to meet the demand. Now having said that I don't know if you followed us for a while but in

December, 2019 Oriental Aromatics has formed a special purpose vehicle which is called Oriental Aromatics & Sons Limited where the government has given tax benefits in the event of companies making future CAPEX. So I would like to tell you that the company has a robust plan in place over the next 1000 days. The reason I mentioned 1000 days is we don't run our business quarter-to-quarter, we look at running business for a long-term making it sustainable and CAPEX for us is divided into a couple of things, one is expansion of existing products that we make, new technologies that we have developed in R&D which we will bring to fruition within the next 1000 days and also in terms of additional products that we may want to add and have business continuity and de-risking. For us business continuity, de-risking and sustainability play a very important role. So if all goes well we are in current negotiations with the MIDCM, in talks with the Maharashtra Government for allotment of land in some chemical zone in Maharashtra and we hope in the near future to conclude the acquisition of this land and we have a projected initial CAPEX under this SPV of close to 150 to 200 crores which will lead to over a 3 year period, a growth of 300 to 350 crores to our topline. We will share details as we go along. Rahul anything else you would like me to add to that?

Rahul Jain: Just need to understand one more point on this CAPEX, so today we stand at a gross block of about 200 crores and we are today talking about 70 plus around 150-170 so I think total CAPEX is somewhere around 220 to 250 crores of CAPEX which you're planning from today in the next 1000 days?

Dharmil Bodani: That's right.

Rahul Jain: So if you could tell if it is due to some new product which is coming out through our R&D or is it because the demand…

Dharmil Bodani: I answered that question that for us business continuity, de-risking and sustainability are very important mantras within the organization, so the CAPEX will be divided into existing products, into new products and into product process improvement of our current products.

Moderator: Next question is from Rukun Tarachandani from Kotak Asset Management.

Rukun Tarachandani: In terms of the four segments that you mentioned, can you give a ballpark or a broad breakup between the four, just to understand if there is very excess reliance on anyone of them or is it broadly evenly spread between the four?

Dharmil Bodani: I could give you a broad breakup; our Flavor and Fragrances is approximately 30%, Camphor being close to about 35% which is 65% and 35% is our Specialty Aroma Chemicals and our bulk chemicals that we manufacture in Baroda which is the Astromusk and the Sandal Alcohol. I wanted to also answer Rahul's question if he's still listening that yes we will be doing these calls regularly going forward. Rukun, anything else?

Rukun Tarachandani: In your clients what would be the revenues from top 5 or top 10 clients, is it very significant or how diversified is your client base?

Dharmil Bodani: I am sorry at this point I wouldn't be able to go into the micro of which clients we have, what revenues and how we divide. But let me just tell you broadly that our business is very-very broad-based. We currently export to over 65 countries. We have a customer base of over 2000, so there is no reliance on a particular customer that will affect our business.

Rukun Tarachandani: One final question on the working capital, we have seen a good amount of working capital reduction in the last quarter. How much of this is simply because last fortnight there would have been very limited sales and how much of this reduced working capital is more of a permanent nature for the business?

Dharmil Bodani: I think it's a presumption when you say limited sales. What do you mean by limited sales?

Rukun Tarachandani: We had a lockdown, probably you had lower sales while you did continue collections in terms of receivable so that might have led to a lower working capital.

Dharmil Bodani: I think working capital reduction is largely because of ploughing profit back into the business and I would like to reiterate here that as a management and as a family that we run this company and this is all we do, we have no other diversifications in any other businesses. So all the profit earned are ploughed back. We are extremely passionate and are 100% committed to the four verticals i.e. the Fragrances, Flavors, Aroma Chemicals and Camphor. So I again don't understand what limitations you refer to but it's okay and I will answer by saying that the working capital and the reduction in debt is largely due to reduced cost of inventory and ploughing all our profit back into our business.

Rukun Tarachandani: I was referring specifically in terms of the receivable days and the inventory reduction that you mentioned so the receivable days, should one consider that in terms of number of days of receivables and inventory days in the future will be the same as that in the last quarter?

Girish Khandelwal: Receivable days and inventory days will be almost in the range of our last quarter only. There will not be any change because we are getting the collections from our customers continuously. There is no disruption.

Dharmil Bodani: And Rukun once again I will be happy to take other questions from you through our IR, you can always contact them. I don't mean to cut you off and thank you for your questions. We hope to interact with you again in the future.

Moderator: Next question comes from the line of Dhavan Shah from ICICI Securities.

Dhavan Shah: I just have a few questions; firstly about the CAPEX which you have highlighted about 100 crores odd. So out of that 60-70 crores can go for the Musk bases fragrances, so where will be the rest CAPEX and what kind of capacity addition will be there in the Musk based fragrances?

Dharmil Bodani: I have never said that we will make the CAPEX in the Musk based aroma chemicals, so I don't know where you got that from. What I said is that we are breaking CAPEX into two parts; one is what we will do in 2021 in the middle of this pandemic which will be close to 60 crores. This CAPEX will primarily be used for process improvement changes that we want to make to our existing plants so we can improve capacity and most of this CAPEX will go into that—and I want to make it very clear—hydrogenation and into expansion of capacities in our current multipurpose plant in Baroda. So that is one part of the CAPEX that I refer to. Now the other CAPEX that I refer to is the long-term CAPEX that we will do over a 1000 days. This CAPEX will be over and above this 60 crores that we are doing which will be close to 150 to 200 crores. This would be part of our business continuity, de-risking and sustainability plans of existing products and new products that we would add which would lead to a additional topline revenue growth of close to 300 to 350 crores over a period of 3 years. I don't have a crystal ball where I can tell you 'look Dhavan this is going to happen in 6 months or this is going to happen in 8 months'. What I can assure you and give you guidance is that we have every intention to do this.

Dhavan Shah: The MPP, which is the multipurpose plant is for Musk based fragrances or is there anything else also?

Dharmil Bodani: For the Musk materials that we make we have a dedicated plant in Baroda which produces close to 3500 tonnes of a Musk called Astromusk which is used in fragrances globally so it's an independent continuous plant. So that is Plant A in your mind for Baroda. We have a Plant B which is the Sandal Alcohol plant which makes different sandal molecules which are again used in the fragrance industry and then we have a Plant C which is our multipurpose Specialty Aroma Chemical Plant. This is a plug in play plant where we produce between 150 to 180 materials which are used in the fragrance and flavor industry and these are in most cases high value, low volume and then there are couple of fillers that we produce in the multipurpose plant which are high volume and low value. So for you to understand look at our Baroda plant is Plant A, B and C. So the 60 crores CAPEX that I speak about is in Plant C. The new CAPEX I speak about is going to be in a new location in Maharashtra and it is going to be happening over the next 1000 days for which we have formed the SPV called Oriental Aromatics & Sons.

Moderator: Next question comes from the line of Ankit Gupta from Dambo Capital.

Ankit Gupta: We have seen this industry for 2-3 years now and the company in particular. We do understand that this industry both Aroma Chemicals and Flavors and Fragrances has high entry barriers and it is difficult to get entry into new products and customers. Historically if we look at it both F&F and Aroma Chemicals for us has grown in single-digit. However in FY19 we saw a substantial jump in our revenues from 500 crores to 750 crores. So if you can briefly tell us what led to this almost 50% jump in our revenues during FY19? How do you see the growth panning out for us over the next 2-3 years?

Dharmil Bodani: The growth that you saw was driven by volume. A growth by price, growth by additions of our multipurpose plant which went into operation and the growth that you will see over the next 1000 days we expect it to be close to—Parag if you can help me out here—it would be close to about 15% in terms of value and in terms of volume it's too early to say but we arrived at the 15% growth over the next 3 years based on the new CAPEX that we are going to do it is already in process in terms of actively trying to acquire additional land in Maharashtra.

Ankit Gupta: Prior to the merger, did we faced some challenges on the raw material front especially in the Pinene chemistry. So if you can tell us how much are we deriving from this chemistry and have we de-risked in terms of raw material for this particular chemistry?

Dharmil Bodani: Which chemistry are you referring to because currently we do—I don't even know Parag can help me—how many Chemistries Parag are we doing within Oriental Aromatics today?

Parag Satoskar: If you add up all the chemistries that we handle it can be close to 21 different chemistries or he probably is referring to the Pinene Chemistry.

Dharmil Bodani: So Ankit that's a good question with what's going on today in the world and specially with various and again I repeat various FMCG companies moving towards China plus one strategy or plus two strategy, we at Oriental Aromatics have de-risked our business from China close 2-3 years ago where today in all import which are close to about 60% I would say the Chinese component of imports in all our products that we manufacture including the high Alpha Pinene usage that we have in the company is less than 6%. So we have de-risked our raw material vertical as far as the natural material which is Alpha Pinene is concerned since it comes from Gum Turpentine Oil globally. When we acquired in 2008 we were 90% dependent on China for this material, today we are about 5% to 6% in our entire purchase which also has grown because of increased volumes in the Baroda Sandal Alcohol plant B which I referred to and this plant also has Alpha Pinene usage and it is not China dependent at all. So we have de-risked the entire Pinene from China. We have also on the petrochemical side where we make the Musk which is a petrochemical-based raw material feed-stock, we have completely de-risked that between different countries and we are not dependent on China for that. I know I'm going too much into the China plus one strategy but I think currently even in our plant C at Baroda which is the multipurpose plant, we have very negligible risk on a particular geography for raw materials and to be honest with you, from all our customers also who are then in turn supplying to other FMCG companies, today geographical risk tweaking is very-very important. So whatever material we use, when it exceeds an X volume in our organization we immediately moved to de-risk it geographically and which is why we will soon have a new plant in place somewhere in Maharashtra as part of the de-risking strategy even in terms of what we make. So today customers are becoming very demanding in terms of having multiple locations to manufacture the molecules that we do. And since our range of molecules that we make now from when we acquired Camphor & Allied in 2008 were maybe 15, today we are close to 200 materials. So our focus going forward is going to be de-risking, sustainability, business continuity and to increase generic aroma chemicals. We respect patents in our industry so we are going to stay away from patented molecules but we are going to focus and continue to become a significant player in the generic aroma chemical space. We to have the ability to produce over 200 materials in a palette of close to 5000 materials or more which are used in the Flavors and Fragrance business to have the ability to produce such a large number of these materials internally gives us in the Flavor and Fragrance vertical a tremendous edge in terms of cost and what we can actually put in our creative flavors and fragrances.

Ankit Gupta: It's been almost 2 years since both the companies were merged which is Oriental and Camphor, so if you can briefly tell us how have the synergies being played out in the merged entity and how much of that has been reflected in our operating profitability margins over the past 2 years?

Dharmil Bodani: I mean that number is there for you to see in terms of how we have performed over the last 2 or 3 years. In terms of synergies I have just explained to you that having the ability to produce of the 3000 ingredients that we use internally to produce our Flavors and Fragrances. To have the ability to produce 200 of them, some of which are high-volume, low-value and some of which are very high-value and low-volume and have our perfumers and flavorists use this internally in our own palette has helped in terms of improving the quality of our own creations when we submit to our customers in the FMCG space.

Moderator: Next we have Viraj Mehta from Equirus PMS.

Viraj Mehta: We booked around 10 crores of loss last year for closure of one of the business. Can you provide some clarity on what that loss was and is it like a non-repeatable event?

Dharmil Bodani: Absolutely I can provide clarity, yes first to answer your question; it is a non-repeatable event and it is a loss that we booked over a period of an investment that we made in Indonesia for 10 years. So it's a decade-old loss and about $100,000-$150,000 or less a year and we had a manufacturing plant in Indonesia which we closed and moved back to operating the Indonesian market primarily for our Flavors and Fragrances through a sales and marketing office. So it is a one-time loss that has been booked, it will not repeat and it's a accumulated loss over 10 years.

Viraj Mehta: This year FY20 our tax rate was 16%, what will be our tax rate going forward?

Girish Khandelwal: Tax rate going forward is 25.17% which is the same in the FY20.

Viraj Mehta: Normal tax rate?

Girish Khandelwal: Normal tax rate, correct and in the SPV which we have formed Oriental Aromatics & Sons there we will try to get this 15%.

Viraj Mehta: And this is where the new CAPEX is happening?

Dharmil Bodani: New CAPEX is planned, correct.

Moderator: Next we have Harish from Quest Investment.

Harish: My question is regarding the subsidiary; out of CAPEX that we are doing which is 150 crores in over 2 year-3 years, what will be the debt component into that?

Girish Khandelwal: Around 80% would be the debt.

Harish: And coming back to the business what is the export percentage roughly?

Parag Satoskar: 30% of our sales are exports.

Harish: Any ballpark figure for the top 5 or top 10 customers contributing to your revenue percentage-wise, ballpark figure?

Dharmil Bodani: We are not run as a company which is so overtly dependent on top 10 or top 5. We are like I explained to the gentlemen from Kotak, we have a large customer base of over 2000 customers. It's fairly evenly spread; it's not an 80-20 rule where 80% of our business comes from 20% of our customers. There was a time in Oriental Aromatics where that was true but today that isn't true, it's a very broad-based, customer based and it's not dependent or not overtly risked to one single or two single or five customers. So those days for Oriental Aromatics are way behind us.

Moderator: Next we have Dipen from TrustLine PMS.

Dipen: We have been tracking Camphor and Oriental for quite long time now. So in 2015 we remember this we acquired Arofine Group of Company for 17 or 18 crores kind of investment. So how has been the growth from that company and what is the contribution currently they are doing?

Dharmil Bodani: Fantastic Dipen, this is a very-very good question. So let me explain to you very briefly our acquisition on Arofine. Arofine was primarily acquired for the techno-commercial team that ran it which was of the Satoskars that is both Parag and Anita who are husband and wife. Today Parag Satoskar is our CEO and Anita Satoskar is the Head of our R&D Operations on the Specialty Generic Aroma Chemicals business. So the acquisition that we made of this company was primarily to bring in new talent and to bring in a couple of their existing products that they had which we wanted to scale up. We have been extremely successful in scaling up two or three of the products for which we acquired the company and under the leadership of both Parag and Anita in the multipurpose plant which I refer to as Plant C at our Baroda; we have been able to grow the two or three chemicals for which we acquired this company three times and we have been able to add close to 150 different Aroma Chemicals. So the entire multipurpose plant and our entire strategy to go into Generic Aroma Chemicals which are high-value and low-volume currently in the organization is being spearheaded by my brother, I and Parag and Anita and for us the Arofine acquisition has been a game changer in terms of how we have repositioned ourselves in the industry and it's not because of the business of Arofine but it's because of the talent that we acquired from Arofine and the ability to scale up the materials that Arofine was producing and the new materials that we could add. So in my opinion the two acquisitions that we have made, one is of Camphor & Allied and Arofine Chemicals both have worked wonderfully in favor of Oriental Aromatics and the future growth of our company.

Dipen: **Under the** Flavor and Fragrance blend business which is the front-end business of Oriental Aromatics Ltd, so what kind of capacity utilization are we running currently and how are we growing that front-end business?

Dharmil Bodani: You have to understand and I will answer this extremely honestly as how we run our business, extremely honestly and ethically. The growth of the Fragrance and Flavor business is yes, dependent on us in a lot of ways because of the number of customers that we are able to cover along with the number of wins that we have when we submit our bids but a lot of our existing Fragrance and Flavor business is tied completely to the zip of the FMCG. We are totally attached to them in all shape, way and form. So if you look at the current COVID19 pandemic situation that we are in and if you look at what your knowledge of the current quarter of the FMCG and what they have been saying in their earning calls is there is growth among soaps, detergents, sanitizers, floor cleaners etc. So company like mine where we are in those categories, we see growth but then again when you see products like deodorants and you see duty-frees across the world closed where there is no fine fragrance sale where the branded fine fragrances are not selling which in turn will affect our Specialty Aroma Chemicals because we supply those Specialty Aroma Chemicals to companies who make Fine Fragrances that you buy from branded names like the Chanels of the world. We need to determine and tell you that the Fragrance and Flavor business will yes grow at 15% a year or a 12% a year. I mean look we are hoping but it's not only dependent on us, it's dependent on FMCG and eventually on consumer behavior and the second part of your question in terms of capacity utilization; we have continued to show volume growth in both the verticals which is Fragrance and Flavor including value growth. We do run our plants in both those verticals at one shift and at one shift we are about 80% to 85% utilized, there is room to take that 200% and move to a second shift if needed. So we are geared up to move to second shift because that really is a compounding business where you take a bunch of ingredients which is in a recipe or a formula and you mix it together and you have the product, it's not a reaction, your input-output ratio is 1:1 whereas in the Chemical side of the business it's reactor dependent, capacity dependent, yield dependent and many other things.

Moderator: Next we have Prasenjit from Ambit Capital.

Prasenjit: I have question regarding Pine-based and Camphor-based products during FY18 and '19 where we had seen significant price increase and those prices are coming down. So do you see any impact on your margins or on your revenues from those prices coming down in the near term?

Dharmil Bodani: So to answer your question I see the raw material prices of the Turpentine and the Alpha Pinene flat, I don't see that going up. I see the prices in the Camphor and derivatives also stable, I don't see them going down drastically from what they were a year ago. I think there is stability largely because of the uncertainty that's going on and with what we are seeing out of China currently. So I don't really see dramatic reduction in prices of the finished product and I see a flat price graph for the Alpha Pinene.

Prasenjit: What is the broad chemistry of your Specialty Chemicals products like it is Pine-base, Musk-based or Petrochem-based?

Dharmil Bodani: I think the 21 Chemistries that Parag mentioned to you that we are involved with. I would say about 80%-85% of them are Petro-based and the balance natural raw materials based which would be Pine, which could be Castor oil, which could be many other materials.

Prasenjit: Going forward maybe over the next 2-3 years term can we expect Specialty will be the major growth driver for the Aroma Chemicals?

Dharmil Bodani: Absolutely we continue to strive to become one of the leading Generic Aroma Chemical manufacturers out of India.

Prasenjit: This will be majorly for export market?

Dharmil Bodani: Export and locally because a lot of the multinational companies that today operate in India also have manufacturing plants in India which they use to export.

Moderator: Next question is from Anuj Sharma from M3 Investment.

Anuj Sharma: My first question is what proportion of our revenues comes from sales to direct FMCG companies and how much comes from the ingredient manufacturers of chemicals?

Dharmil Bodani: It's an extremely micro-question to answer but across verticals again I mean if you look at one of the companies' we deal with Procter & Gamble where we supply the camphor which is our pharma grade camphor for their Vicks globally. That again has an X percentage in our balance sheet and then we have several FMCG companies we deal with. I don't have those numbers off my head and I have explained to you that we have a broad based customer base now but in future you could contact our IR and if there is something the we could elaborate on , we definitely will.

Anuj Sharma: The reason for asking that question was do you think that you intend to become a direct Fragrance manufacturers to the FMCG companies or you always want to maintain a route wherein you supply ingredients as well as supply fragrances. So what is the thought process of the management going forward?

Dharmil Bodani: I haven't clearly understood your question. We are a Fragrance and Flavor supplier to the FMCG companies that is established in your mind I hope. We are in a bulk commodity and a Specialty Aroma Chemical supplier to the industry and internally we use it. Now if your question is related to us going to become a B2C we have absolutely no plans for that. So if you can explain, I mean I broadly answered but I don't understand your question.

Anuj Sharma: I will try once more, if you intend to have more clients like of P&G or a HUL or do you intend to have more clients like a Givaudan or an IFF and is there a material difference in the economics of these two segments?

Dharmil Bodani: We intend to have as many clients as would like to do business with us including you if you ever get into the manufacturing of FMCG products. So we are not closed to increasing our client base, the more the merrier. In terms of the industry as such we deal with all the Top 10-15 Fragrance and Flavor manufacturers and they will continue to be our clients as long as we are competitive and we supply quality material. As far as the likes of the Levers, the Proctors of the world is concerned; wherever we get an opportunity we will definitely participate and in terms of regional players we look at what we term is family owned and managed businesses in the FMCG place globally. We are constantly working towards increasing our customer base over there.

Moderator: Next question comes from the line of Giriraj Daga from K. M. Visaria.

Giriraj Daga: My first question is related to you mentioning that the capacity utilization is 100%. So for any volume growth we will have to continue doing CAPEX? You mentioned about the 50-70 crores CAPEX and then the 150 to 200 crores CAPEX but in general is there a possibility of debottlenecking where we can still improve our revenue number, volume number basically?

Dharmil Bodani: So the answer is we are making modifications in current plants where we will increase our volume and also what we are seeing Mr. Giriraj is that for all our current product mix we have opportunities coming from different parts of the world, let's take Camphor for example, Thailand which was not traditionally buying camphor from India; today is looking at us as a supplier to them because they also want to de-risk geographical risk. So I think there is an opportunity for our current capacity, sale to get better realization depending on us spreading the material that we sell in India and outside India to more profitable market and I think in terms of answering your question on volume growth; I think the 2021 CAPEX that we are doing which is in the range of 60 crores that will increase and add an additional 75 crores to our topline or I don't want to give such a specific number so I will give you a range, anywhere between 50 to 75 crores and this I am again telling you is all guidance. These are what our plans are, 'Man Proposes God Disposes' but we will keep working towards it.

Giriraj Daga: My second question is if I look at a contribution margin from each of the segment; which segment you believe has higher margin compared to other, which segment has a lower margin among the all three and just a follow-up that if you look at the revenue contribution 3 year down the line when you are done with the entire CAPEX; how would the mix look like? Would it look like 30% of Fragrances and Flavors, 35% in Specialty Chemical and 35% in Camphor? Will it continue to look like that or will it be a different 3 year down the line?

Dharmil Bodani: So this you have to understand, I will do my best to answer crystal ball questions but I don't have a crystal ball with me. I will give you guidance in the best capacity that I can. Will Fragrances go from 30 to 20 or 30 to 40, I don't know. It could stay in the 30-35 range, it could stay in the 20 to 30 range, it would all depend on the successes we will get within, with our FMCG customers that we call upon. The new CAPEX is primarily only in Specialty Aroma Chemicals and bulk Aroma Chemicals. So I definitely feel that the growth on the CAPEX that we are talking about will come from the Chemicals side and if you want me to tell you that we feel that there could be a 60-40 split between Specialty Generic Aroma Chemicals which are off taken, that would be about 60% and 40% of the growth will come from de-risking and business continuity of our existing material.

Giriraj Daga: Contribution margin?

Dharmil Bodani: 15% to 17% EBITDA.

Giriraj Daga: Yeah, you mentioned that but segment-wise if I have to look at like which segment is higher margin?

Dharmil Bodani: Across the board.

Giriraj Daga: Thank you.

Dharmil Bodani: You are welcome. I would like to say thank you and we are very-very tight on time but we assure you that we will make these calls a habit every quarter from now on and in the meantime if you need any more information please reach out to our IR Managers at Valorem Advisors and I have been told by Valorem that we need to meet some of you more often and we will work with Valorem to make sure that we are more interactive with our investor community.

Anuj Sonpal: With that we can conclude the call operator and thank you everyone for participating.

Dharmil Bodani: Thank you very much.

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 all.