Oriental Aromatics

Ref: OAL/BSE/NSE/66/2021-22

03rd November, 2021

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 21.10.2021, intimating about the conference call with the Institutional Investors/Analysts on Wednesday, October 27, 2021 at 01.00 p.m to discuss the Financial performance of the Company for the quarter and half year ended September 30, 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: 2021.11.03 11:54:24 +05'30'

Kiranpreet Gill
Company Secretary & Compliance Officer

Oriental Aromatics Limited
Earnings Conference Call
October 27, 2021

Moderator: Ladies and gentlemen, Good Day and welcome to the Oriental Aromatics Limited Q2 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 now 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 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 second quarter of financial year 2022.

Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today's earnings conference call maybe 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 belief as well as assumptions made by and information currently available to management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's earnings 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.

Now without any further delay I request Mr. Dharmil Bodani to give his opening remarks. Thank you and over to you, Dharmil..

Dharmil Bodani: Thank you Anuj. Good afternoon everybody. It is our pleasure to welcome you to the Quarter 2 Earnings Conference Call of Oriental Aromatics Limited. I hope everyone of you are safe and healthy during these difficult times.

Talking about the performance during the quarter. As you can see from the financials, the Company witnessed flattish demand across all product categories on a quarter-on-quarter basis and subsequently the sales volumes and revenues were flat against Q1 FY-2022.

Additionally, there were substantial disruptions in raw material availability due to the ongoing continual crisis, which also resulted insignificant increases in price for some of the major raw materials. And due to certain contractual obligations, the Company was not able to pass on the raw material price increase during the quarter, which impacted the margin profile and profitability.

Now I request Mr. Girish Khandelwal – our CFO to give the financial and operational highlights after which we would be happy to answer any questions you may have. Thank you. Over to you Girish.

Girish Khandelwal: Thank you Dharmil. Good afternoon everyone.

On a consolidated basis in Q2 FY22, the operating income for the quarter was Rs. 230.5 crore, which was an increase of approximately 25.4% on a year-on-year basis and 0.3% on a quarter-on-quarter.

Operating EBITDA reported was Rs. 19.8 , which was a decrease of about 59.6% on a year-on-year basis and 42.6% on a quarter-on-quarter basis. Operating EBITDA margins stood at 8.59%, net profit after tax reported Rs. 12.1 crores, which was a decrease of about 63.6% on a year-on-year basis and decrease of 46.7% on a quarter-on-quarter basis while PAT margins was 5.25%.

On a consolidated basis in H1 FY22 the operating income for the quarter was rupees Rs. 460 crore, which was an increase of approximately 54.9% on a year-on-year basis. Operating EBITDA reported was Rs. 54.2 crore, which was a decrease of about 20.1% on a year-on-year basis. Operating EBITDA margins stood at 11.78%. Net profit after tax was Rs. 34.9 crore, which was a decrease of about 19.2% on a year-on-year basis while PAT margins stood 7.59%.

Thank you with this. We can now open the floor to the question-and-answer session.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rohit Nagraj from Emkay Global. Please go ahead.

Rohit Nagraj: Thanks for the opportunity. The first question is on the raw material side. So we have seen a significant inflation on a QoQ basis. So what are the steps that we have taken to alleviate this and how has been the pricing environment and any understanding of how the pricing environment will behave for the next, maybe couple of quarters?

Parag Satoskar: So in terms of the pricing environment, are you talking about the raw materials or are you talking about the finished good?

Rohit Nagraj: Raw material.

Parag Satoskar: So, so primarily I think like Dharmil is mentioned in his initial opening remarks that this has been a very unprecedented quarter where a combination of the supply chain or the shipping line issues along with that minor fear which was caused by China and the electricity issues created a situation globally where most of the raw materials suppliers actually hold back the materials and hence there has been increase in a) the basic raw material prices across the board in respective of the category and there has also been an impact because of the substantial increase in the freight costs and the availability of containers. And since, there has been distances the material has been present with the suppliers, but they could not ship it because of non-availability of containers. So I think if you add all these things these combination of these factors have resulted in the last 60 to 75 days, creating a very uncertain environment about raw material pricing. As a Company we are always extremely micro in terms of managing these challenges. So you know, we have taken multiple steps in terms of mitigating this problem of identifying new raw material source, identifying dedicated shipping lines who can work with us on a regular basis. So, some of these factors are going to ensure that the challenges that cropped up suddenly in the last quarter would somehow even out, but it's currently a wait and watch situation.

Rohit Nagraj: The second question is in terms of our utilization. So, I then understand that we are currently are painting for utilization. So can you just give us a timeline of the ongoing CAPEXes, and when will they be commissioned? Just to understand how FY23 and FY24 will pan out in terms of growth for the Company.

Parag Satoskar: So, primarily as we have been mentioning in our earlier investor call the single product project in Baroda was supposed to be commissioned in the second week of October. but we will start. So it's already in the pre-commissioning stage and we will start commercial production from 1st of November. So, that's completely operational with an investment of 20 crores and a 1.7x returns on it. It will start contributing because we also have a marketing plan for the product that we are going to make there. I think the second Greenfield project is the multi-product hydrogenation facilities which is again coming up in Baroda and the facility, the work is going on as per the schedule. However, we are seeing a slight delay because of the, a) extremely high costs of all the inputs like steel like electronic components so we have given a guidance of H1 2022. I think it is our endeavor to complete it within that guidance say by June, 2022, and that is an investment of between Rs. 120 crores to 140 crores, depending on which final list of products will make it in those, in those plants and that will give us a kind of a top line of say around 1.7x over a period of one and a half to two years. And the third CAPEX is the Greenfield project that Mahad where like you had mentioned in the earlier call, the environmental clearance application has already been done. I think on that front as well things are going as per plan. And we will commission the prerequisite plan in Mahad in the due course which we will communicate to you. So if you look at these three investments, the Mahad investment is between 200 crores to 250 crores. the hydrogenation investment is between 150 to 140 crores. And the green free single product plant is 20 crores. So Girish can add up and we multiply it with a 1.7x number that is the top line that we hope to achieve in the next one….

Rohit Nagraj: So, so just a follow up on Mahad. So when will we have the first phase commission and probably the CAPEX for that.

Parag Satoskar: So I told you the CAPEX figure, the CAPEX figure is between 200 crores to 250 crores we have kept a very ambitious target for ourselves to really complete it in a calendar year, 2022 or Q4 2022, 2023. Having said that, I think we'll have probably a more clear understanding about the timelines when we get our environmental clearance in hand. So that is how we are working.

Moderator: Thank you. The next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.

Ritesh Poladia: Sir this quarter we have all sequentially flat volume even in Q1 it was sequentially flat volume. But if you see the FMCG industry has a different volume growth so what would be the challenge for the sales volume growth also YOY there is a 25% growth so if you can bifurcate in volume and realization growth in YoY basis.

Parag Satoskar: So, Ritesh to answer your question. I think the YoY growth is what is very, very interesting and exciting for us because that kind of justifies our overall strategy that our new product introduction strategy, our new product acceptance strategy with the customer seems to be going in place. If you look at YoY we had close to 20% of volume growth which for us is very, very important because we, we value it's something which are related to a lot of external factors, but the volume growth is a very, very critical element for us. And as we move on and as we as we have this Greenfield single product plant coming in, which is a high value product and, and low volume, I'm sure this will just keep adding to the volume as well as the, the value growth. So also, I mean talking about purely FMCG, if you look at Oriental and if you look at the group wise breakup, I think only the F&M space has a direct linkage to the FMCG space. I think the other two are, are linked, but indirectly. So I'm sure that as the FMCG demand in India and globally picks up, we will be part of that growth strategy. And when we have the capacities to really sell to our customers and on the fragrance and flavor side, we are trying our best to really get as much new members, new customers, a new market because that plant is still not running at a hundred percent. So when we have the opportunities, we will grow in that segment.

Ritesh Poladia: Sir with these three CAPEX plans can you expect 15% volume growth for next two years every year. With Baroda will start in a month hydrogenation next year then Mahad maybe after a couple of. So can we have a 15% volume growth over the next three, four years?

Parag Satoskar: Ritesh that's the plan when we are investing, I mean, that's the whole strategy that when we are investing close to say 400 crores in in new plants, he always say this, that our internal guidance is it will contribute to 1.78x in terms of the top line. When I say top line, it indirectly also mean that there's going to be a volume growth.

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

Ankit: We normally have taken that our contracts are usually for on short term basis three to six months. So given this in the opening remarks you had stated that we had faced issues in passing on the raw material cost increase in this quarter. Can we expect some price increases with our customers in Q3 or Q3 also looks to be a difficult quarter in terms of margins.

Parag Satoskar: So primarily you know like I said, that the moment we realized that there is a situation we have immediately course corrected and wherever we had the opportunities of really increasing the prices and going to the market at the newer prices, we have done that. I think I in order to ensure that because of contracts is something which we signed for a six-month period, if there is a challenge in terms of those contracts we have the ability to really talk to the buyer and course correct and recover those losses in our future contracts. So we are going to use that as a secondary tool when we are going to renegotiate the contract for H12022. And, if you look at broadly speaking if you look at a large part of our portfolio, like for example, Camphor that is something that is completely non-contacted except for a few institutional businesses. So there we have the opportunity to kind of course correct whichever way possible and where the market has accepted. So we are taking all possible steps to ensure that realization wherever achievable will be achieved so that we get the benefits in Q3. Wherever we are forced to kind of maintain the prices to ensure that our reputation in the long term remains a very, very safe and intact with the customer, we are going to go ahead and sit down with them. And when we renegotiate the contract for H12022 we are going to kind of renegotiate them at a higher price to recover these losses. And I think customers are more than happy.

Dharmil Bodani: And also I'd like to add to what Parag said I would like to also add besides the Camphor I think we are taking flavor vertical is not largely on the contractual arrangements with our customers. So we are hoping also in the third quarter, that we will be able to continue to try and work with our customers with regards to not only trying to increase prices, because I think the customers are also very reasonable they do understand what is going on in the FMCG space, or they are currently many of our customers working with us on cost optimized versions of the taking series of flavors that we sell where we are being given the opportunity to make the necessary modifications if the final FMCG product is not able to bear the cost increase of the flavors and fragrances that we supply. So we believe Q3 we'll see some improvement in the fragrance and flavor vertical also in terms of EBITDA margins.

Ankit: The second question was on the Mahad CAPEX, the target for starting at least the phase one in December 22 and even March 23 looks to be too ambitious because we are yet to get the EC approval as well so can you share some timeline, or some views on why you guys are so ambitious in terms of completing this project and setting a timeline of let us say one year or 15 months, it looks too ambitious to me.

Parag Satoskar: So when you say we are what was your comment on the ECR? I'd like to understand that again?

Ankit: No, I thought EC approval is yet to receive for the project, so that might also take some time or it can come tomorrow we don't know about it. Normally EC approvals take some time and even if we get approval in this quarter it will just give us one year to complete the max, that 15 months to complete the process.

Dharmil Bodani: The EC permissions, we have made all the necessity submissions to the necessary authorities, and I believe that our internal target to break ground in Mahad on the 15th of January. Just after Makar Sankrat. We are hopeful we will meet that date. And in Q3, if we are to get the EC approval, we will definitely announce it on the necessary platforms. Having said that the reason Parag has said we are ambitious because even in Mahad, it's not necessarily going to be straight multi-purpose plan, or it's not going to be plants that that we are going to have to wait two years to build. So that's going to also be a product wise phase out. So, we are hoping that if all goes well and we do get our 15 January breaking ground date we will commission our first plant next Diwali in Mahad. Because we've already taken care of the technology, the ordering of the treatments all the background work has already been done so the fabrication, etc., everything is on as we speak.

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

Dhwanil Desai: Hi Oriental Team good afternoon. So two questions first is with respect to the gross margin. And when I say gross margin, I'm looking at our Company gross margin for the last 5, 6, 7 years barring few quarters we have been in the range of 62% to 65% as a raw material. And now we have putting up hydrogenation plant which I agree with the high margin thing and we are putting low volume, high value products. So going forward, how should we look at our gross margin from two, three years down the line perspective if you can throw some light on that

Parag Satoskar: So primarily like you have rightly said that most of our expansions are expansions which are coming in the range of specialty aroma ingredient, where we feel that there is available market space outside the inventor for us to sell the materials so I think we probably have a well thought out marketing strategy on most of the products that we have. We have always been mentioning and speaking to that point that we will target an EBITDA margin of between 15% to 17% for all our current projects, as well as future products. When you say very specifically about hydrogenation one correction is that it's not necessarily all products that we will make in that particular plant we will be extremely profitable, but it will be a nice basket, which we will be offering to our customers as well as to our internal fragrance division, which will help us add value across our groups. So I would probably not ponder a lot into what is going to happen. two to three years. I can only tell you what is the general philosophy when we build or when we expand or when we build a facility when we build a new facility we always target that eventually this particular facility after validation and stabilization should give us a sustainable 15% to 17% EBITDA margins and add value to my internal fragrances division.

Dhwanil Desai: I think one of our peers they recently got into JV with our MNC. So I'm sure such opportunity maybe are available to us also. So how do we think about those things? Are we open to that or we don't want to go into Jamie Moore, the only one to operate on our own. Can you share your broad thoughts around the same.

Parag Satoskar: I think from our side I think Oriental Aromatics has a very clear philosophy that we are amongst probably very few completely nonaligned manufacturers or specialty aroma ingredients company who are able to offer such a wide range of materials in a very sustainable way of an excellent quality to all the customers. So I think we wish to stay non-aligned as much as possible because that gives me market access to the whole world rather than really aligning me with one set of customers or one set of suppliers. So that is something which is very dear to us and which we continue and we wish to say that way.

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

Manish Poddar: Just one clarity. Can you explain what is really impacted the gross margin let us say if you could probably break contraction, which you've seen sequentially that's across the two, three larger heads.

Parag Satoskar: So, I think the primary driver Manish for the impact on gross margins is the raw material cost. If you look at that raw material costs, which also includes the freight cost as a very critical element of the cost. And plus, we had certain minor extra costs this quarter because we had our annual routine maintenance shutdown in the Baroda facility so we had certain repairs and maintenance costs which also got added to the numbers and there is also an increase in the electricity, in spite of, in spite of having 10 days shutdown my electricity bill for Baroda is more than what it was in the last quarter. The biggest impact has been the raw material. I think and we decided to bite the bullet there because we have to ensure business continuity for our customers. It has been primarily across all heads driven by the raw material impact, plus coal pricing, less electricity splicing, plus the OPEX, which we incur because of the routine maintenance shutdown.

Manish Poddar: So roughly two-thirds of your inflation would have been raw material. Is that a fair understanding?

Parag Satoskar: True.

Manish Poddar: So, the second part then let's say this quarter what would have been our pricing and let us volume growth?

Management: Volume stays the same as compared to the previous partner.

Manish Poddar: Okay. So, so let's say if our sequential sales have been flat, so would it be a fair understanding that in the coming quarter, whatever inflation you've seen in the raw material, which would have passed with the lag given that you are at a fairly high utilization levels next quarter sales growth should be a function of what pricing go to take in that quarter. Is that a fair understanding?

Parag Satoskar: Broadly I think it's a fair understanding that what you're saying is that we are going to have a growth in terms of the top line, which probably is going to be achieved by the increase in the finished goods prices that we are able to get from our customers. Is that what you're saying?

Manish Poddar: Right. Assuming volumes remains at similar level.

Parag Satoskar: I think we'll have a new plant and we also have a lot of continuous process reengineering projects, which are happening where we have certain capacity expansion in our Bareilly site coming in November or December, but all those will impact the volume growth only in Q4 and no in Q3.

Manish Poddar: Okay. And one last one. So probably, could you give us an idea how raw material prices now behaving let us say come October and of November compared to let us say what the quarter average.

Parag Satoskar: The raw material prices are still high. I think the current negativity that was caused in the middle because of the Chinese electricity issue, and then China going on a holiday, I think those have kind of subsided a little bit after they came back from the holiday and they said that the quotas have increased and things are slowly becoming normal, but it will have a lag of between three to four months for all those positivity to really come into the pricing.

Manish Poddar: let say you had index say like 150. Q2 FY22 what is that number now in Q2 FY 22. And what is the exact number at October end?

Management: And Manish very difficult because I have such a diverse range of, but my basket is so complex that it's 3000 materials on the FNF side. It has more than 500 materials So for me, it's like right now, my purchasing teams are working overtime to ensure two possibilities. were to ensure two objectives. One is to ensure that we get the materials in time so that my plants have a production going on. Point number one, because we have orders to fulfil**.** The second is this material that comes in, comes at the lowest cost possible You know, so I don't have, honestly speaking, you know, we are monitoring, and we are seeing that everything slowly is kind of in control, but there are still a lot of uncertainties which are lying around, you know, because of what's happening, going to happen with oil demand. So I don't have an exact number of what is that index.

Manish Poddar: Just one last one, if I can, your permission just wanted to understand in in terms of inquiry during such time have inquires increased, given that I understand that you don't have capacity, but have inquiries increase materially in the interim when you are seeing such sort of inflation, so I think this

Management: I'll take this on the F&F side, and then you can talk on the chemical side. Yes, on F&F side we are absolutely seeing an extremely robust, projects flowing in from across all our customers, especially in the Middle East we have expanded our reach in the Middle East, which normally was between two to four countries to now close to 14. We also cover parts of Africa. And, you know, with the inflation and with the price increases that are, you know, are happening across the board, in the flavor and fragrance vertical from competition. We are seeing a lot of opportunities there for us to get into projects where we wouldn't normally not had an opportunity to. So I have, I have for the first time after the COVID situation coming. Seeing a very robust and healthy in flow of projects across the board across categories. And I believe starting April 20, 22, even a lot of the local FMCG companies where we've had a lot of approved fragrances during the COVID time waiting to be launched will finally see the light of day. So on the flavor and fragrance side, to answer your question. Yes, the inquiries are definitely increasing. The opportunities are also definitely increasing, and this is extremely encouraging for us going forward and Parag on the chemicals. I leave it to you

Parag Satoskar: Yeah, I think Manish it's the same, you know, I think more and more as we get to hear, the get to your one bad news after the second from China, I think the whole world realizes, especially on the F&F side where the buyer has to source 3000 different materials, they need a reliable, sustainable partner. And so the inquiries are tremendous. We just have to kind of calibrate them, build capacities and slowly and steadily take one on board so that we can satisfy them or sustainable.

Moderator: The next question is from the Chirag Mehta from Equirus Securities. Please go ahead.

Chirag Mehta: Hello, sir., most of my questions have been answered, my question, just asking the question in terms of new product introduction. in last four calls, you'll give him some flavor or some color on the new products that are seeing the light of the day. if I were to think about your company in terms of innovative Index and say that what we be a number of percentage of revenue, which would have come from products that you have launched Serviced in last three years, can you give a ballpark number of that of those products?

Parag Satoskar: So, you know, I can probably, I don't have the exact numbers with me. I mean, although I have it, but, you know, rather than sharing the exact, the, the, the interesting part is if you look at, if you look at a quarter to quarter over last year and this year, you know, the 20% volume growth that we have seen, I think probably half of it, if not more has come from all the new products which have been commercially launched and sold either from the multi-product plants or from the other plants that we have built in Baroda or the additional projects that we have done in Bareilly**.** So I think our, our, our new product introduction pipeline, our new product promotion pipeline, and I think our new product acceptance strategy with the customer all seems to be bang on, in place. And we continue working on it every day. And, and you know, if, if you look at every single customer that we have in the ingredient side of the business, I think if they were buying X products from us two years back today, they are buying at least 10 to 12 in terms of numbers, new products. And this in terms of volumes, in some cases is, is either a hundred percent growth in terms of value. Sometimes it's a hundred percent growth, but those are anomaly, but I can very safely say that between 30 to 40%. Girish correct me if I'm wrong, but these are, these are the kinds of broadly numbers, which are now being delivered by the new products. And this one last thing, sorry, and also on the I'm sure also on the on the fragrance piece, I think this whole new product development strategy is helping the fragrance division to incorporate these in-house products and really create value fragrances which will, which will eventually lead to the increase in that business.

Chirag Mehta: so much that, just one last question for you and Dharmil both when I look at historically last two to four years, even before the merger of our company into uh, into the existing company you bought our gross margins, were in the range of 40% plus, or minus 2%-3%. Obviously this quarter on the last quarter probably may be an anomaly. If I look at three years down all the three new projects that you are talking about and they being commissioned, do you think this 14% sustainably can move up 2, 3, 4, 5% higher than what it is today in terms of gross margin? And so implying that your new products are the higher gross margins or they're roughly in the same range. So you want to take this.

Parag Satoskar: Probably answered this question in the past. You know, what, what I would say is that, you know, the philosophy behind creating or developing a new product is, is two-pronged. A) It should minimum treat our internal benchmark of creating a 15 to 17% EBITDA margin after the final commercialization and global scale manufacturing of that product. That's the first element of the philosophy. The second element of the philosophy is that it should have a good amount of available market outside of the inventor for us to be able to sell it globally. So, you know when we make these products, these products are a combination of some products where we will have higher margins There will be some products which will be fillers, but together it will ensure that we look at these margins. And if given a chance, I would definitely like to increase it. Absolutely. But, but, but you know, this is what we kind of stay focused on in terms of when we decide to create a product and launch them.

Moderator: The next question is from the line of Chitan Modi from Hitong Securities. Please go ahead.

Chitan Modi: So thank you very much for the opportunity, can you name, what are your top two or three raw materials

Parag Satoskar: Across which verticals across

Chitan Modi: all verticals I mean, in the overall basket, which would be your top two or three,

Parag Satoskar: I would say alpha pinene, which is a known fact. And then there are a lot of petrochemical based products.

Management: Chintan big list. So a little confused, but you know yeah, we have, we have complex materials. Like I just want to Isoamylene , propylene oxide, like Dharmil said alpha pinene. I mean, we have commodities like acetic acid, phosphoric acid. So I think because we've make wide range of products in our ingredients division. We have, many raw materials and on the fragrance side, I mean, the list is huge. Yeah. I think the last two materials, which Parag has mentioned, which is as a big phosphoric acid, I think, you know, these are the commodity materials, which is, which is really, you know, seeing a spike in pricing in the last quarter. And we are hopefully things will stabilize

Management: It's not a spike. It's a generic. Nobody has ever seen phosphoric acid at 500.

Chitan Modi: And for making alpha pinene, are you backward integrated or you directly buy alpha pinene from the market?

Moderator: So, you know, we have this we have had this completely de-risk strategy where you know alpha pinene we buy from all the available, sources, which are available in the world. And you know, since we buy it, not from one supplier, although we have you know close to 8,000 tons of requirement annually, but there's not one single supplier who contributes more than 10% of the supply. So, you know, this shows that we have a completely de-risk strategy and this is how we want to play.

Chitan Modi: Sure. And if you don't mind, if you can just quantify how is the price moved in case of GTO and alpha pinene last three or four months?

Management: So I wouldn't get into the exact number, but I think surprisingly contrary to all the other raw materials that have gone up and down, I think we basic prices for alpha pinene and GTO have remained more or less stable, you know, and, and but there has been a substantial increase in freight costs. I mean I used to pay $1,200 per container from China. Now I pay 8 thousand bucks. Got it, got it.

Chitan Modi: And on the revenue side, are your contracts CIF based or it's FOB based

Management: So historically many of them have been CIF based, you know, when we saw this challenge happening in India over the last, in the last six months, you know, we have converted a lot of them to Fob. but what happens is that, you know, even in India, local freight costs of the price, price hikes in diesel. So that's a big challenge again. Right, right. Sure.

Chitan Modi: And just one last thing, if you can tell us what are the average realizations in camphor for right now and how we would have changed and probably how are you expecting it to change in terms of the absolute numbers absolute, or if we can just quantify in terms of percentage growth how its moved,

Management: So again, the camphor pricing has been more or less stable in the last one, quarter. it's because most of it is linked to the alpha pinene pricing and stable so camphor is stayed in a narrow brand band of between 720 to 767.

Moderator: The next is from the line of the Deepan Shankar from Pressline PMs. Please go ahead.

Deepan Shankar: Thanks a lot for the opportunity and good afternoon, everyone. So firstly, we wanted to understand so when, when are we expecting normalcy in EBITDA margin backwards back to 17, 18%.

Management: so our guidance has always been 16 to 17 and parag you can answer the second part of it. Yeah. So you know like I've mentioned earlier in the call that it is our endeavour to kind of go extremely micro during these testing times and see how we can kind of probably extract any savings to, to really achieve those guidance numbers at the transactional level, I would. Definitely tell you that it is work in progress. I would definitely tell you that as a company, it is our top most priority, which is being handled by me and Girish: on an individual basis to ensure that, you know, we have this along with our teams. So yeah, it's an objective. I think we'll probably have a little bit more clarity on this by end of this current quarter, but steps are being taken. We should see that we should see some improvements in Q3 how much that is. I'm not very sure I'll be in a position to quantify it now, because honestly speaking it's all on a day-to-day basis.

Deepan Shankar: And also as economic they're opening up across the world. So are we seeing very strong growth coming back in our, fragrances division?

Management: Yes, absolutely. Like I mentioned, you know, we are seeing growth. We're seeing better, better profitable growth. Let me put it that way. And we're seeing a lot of opportunities, a lot of inquiries and largely coming in from the Middle East, far, east Africa and India, I think India is also reviving.

Deepan Shankar: Okay. So that have we crossed the pre COVID levels kind of a sales volume or a still, it is a way behind the, the pre COVID levels volume.

Moderator: No, it's on the sequence. Ideas for volume group is important, but I think it's also the value growth, which is more important because fragrances, that we are looking at the various markets that I just mentioned. Definitely higher value, low volume products we're very hopeful with the, the robust inquiries and the robust R&D, that is going on right now that we will see the impacts of this.

Moderator: The next question is from Chetan Ohri from Progressive Shares. Please go ahead,

Chetan Ohri : one question there's been some sort of a shuffling in terms of the borrowings. So have you seen any arbitrage benefits in terms of the interest costs?

Girish: Actually arbitrage benefit in the sense that yes. And there is a benefit, but actually we have taken the borrowing for the long-term borrowing for our Baroda project. So, we have drawn down 30 crores in H1 and we have reduced our short-term borrowing.

Chetan Ohri: So the average interest cost for us would be how much then going forward. anticipated numbers

Girish: five, five and half percent.

Chetan Ohri : Okay. And so what would be the debt equity ratio that you should be comfortable with going forward?

Girish: Actually, we are doing Capex at large so max we are expecting our debt to equity ratio should not cross 0.4.

Moderator: The next question is from the line of Ashish Goti, an induvial investor, please. Go ahead.

Ashish Goti: Good afternoon, sir. Thanks for the opportunity. I would want to understand we are an expansion at MAHAD, I think my MAHAD has been facing flooding issues, if I'm it is on regular basis on every monsoon. So how are we taking care of that? And apart from that, overall climate conditions change, which climate changes flooding is becoming part of a regular feature, even in Gujarat.

Management: Yeah, it is a very good question. And I can safely tell you that, you know we had not one drop of water logging in our plant in March, in spite of the unfortunate incident that happened in MAHAD because of the overflowing of that river. So I think it's you know we had done this evaluation topographical evaluation and this plot of land that we had acquired sits in a position where it is kind of way above water logging capabilities and this got proved with this year flood you know we also did the study with that same intention that what happens if there's flooding, Yeah, and this was something we really took into consideration also when we acquired this land. So we are fully aware of the issues that, you know, this climate change, the unusual extension of the monsoon, and this is now happening year after year, or it's not an event that's just happened this year. So like Parag said, we were actually very, very happy to see that, you know, we had absolutely no water clogging in, in, in this property And that, that really, you know, has, has been a big relief for us.

Ashish Goti: And we already zero affluent or moving towards it. What, what is that scenario?

Management: So MAHAD will be zero liquid discharge from day one. Baroda and Bareli, as per the provisions of the current PCs and the contents that we have, we have the facility to really discharge, some level of affluent after treatment, man we continue to do that, but we are aggressively pursuing a program which probably in the next 365 days, we ensure that even our Baroda facility and our Bareli facility will be direct.

Ashish Goti: So whatever amount spent are being spent or will be spent on that, how do we and that will add value in in terms of recoveries.

Management: So it will add tremendous amount of value in terms of projecting the importance of a sustainable supplier to a customer. You know, I think the whole world today is talking of green chemistry, green engineering and industry 4.0. So in this, in all these new concepts, which customer value and customers are ready to pay you a premium for that, you know, all these factors that become a very critical element of the piece. I mean, just to give you a perspective, we are now going to install a boiler in one of our plants. We are not going to use coal, but we are going to use rice husk because that is available. It's a waste in that region and we are going to accumulate, collect that waste and use it as a fuel for our boiler. So all these things matter, all these things might be a cost at the beginning, but if you look at the cumulative benefit that it offers to us as a supplier and to our customers who buy from us sustainable green manufacturer, over a period of 25 years, which is the life of the plant. I mean, there's no comparison, between the expense and the benefits point number two and point number three is, I mean, at the end of the day, you and me and our kids have to live in this world. You know, we are making chemicals, we need to do it in a responsible,

Moderator: thank you. We'll take the next question from the line of the Saket Saurabh an individual investor, please.

Saket Saurabh: I thank for the opportunity. So I have two questions. One, what could be the room that we have just from a volume growth standpoint, because it seems, last couple of quarters volumes have stagnated and we are talking work high utilization. That is one part, second question would be coming to cashflow. So I've been holding as well as tracking this company since camphor allied days this so free cash flows generation remains volatiles or sometimes to be on the negative side. Now, given that we are still not focusing on a long-term contract you talked about this non-alignment approach. Do you think that without those long-term contracts, we will be able to improve up on the cash flows because then we'll have better predictability of inventory or even no receivables payables on that front. So just thoughts on couple of these points

Management: Sure. So I think on the technical side of the cash flows, Girish can answer the question on, in terms of, in terms of,, the advantage of staying on aligned is that if we, as a company, since we are in the business of fragrances and flavors, since 1955, have a decent understanding of the market and also the available market for the products that we manufacture we feel that it is in our interest to really be non-aligned and try to capture value rather than just kind of you know, going after some alignment and then getting some control of the inventory. So in terms of becoming a tool manufacturer at the end of the day, but, but every company has his own. So this is, this is our in terms of absolute cash flows. I think you can, GK do you want to answer that part?

Girish: So the absolute cash flows you are seeing since last two, three years, it is somewhere sometimes it is negative or sometimes it is positive. So I can say now we are putting these additional cash flows for the either in the CapEx side or in the working capital side. And as you know that in the next two years, we are going to do the CapEx of around 350-400 crores. So that additional cash flows we are putting into the CapEx majorly.

Management: So, to answer your first part of the question, I mean, I think it's a good thing that as a company, we have been continuously investing in new plants or product expansions, right? From the 2018 multiproduct plant the expansion of that plant to increase capacity. And now this new plant in and plus some process re-engineering happening in Baroda plants happening in Bareli plant given us additional volumes, all those volumes are taken up. So, you know, I, I think for us volume growth is the key. And that is why, we ensure that and we don't want to put everything in one day. So we build a plant, we validate the plant. Then we move on to the next one. And that is how we kind of are there globally offering new and newer products to the customers?

Moderator: Thank you. We'll take the next question from the line of Pushkar Jain from sequent investment. Please go ahead.

Pushkar Jain: So this is a bit segment specific question what's your demand or what's your look on the camphor segment of what's the margin contraction we have seen and how do you see it in the next few quarter? Thank you.

Management: So, you know, broadly speaking camphor is you know, camphor is a seasonal product. And I think we kind of go to the off season for a few months in the next month or so point number one, point number two, I think we feel that the demand for camphor is stronger than ever. I mean, I don't see any drop in demand. pricing is a function for camphor where it is dependent on alpha pinene prices and B the prices that the other suppliers of camphor feel right. So, you know I think what is under our control is to ensure that we continuously manufacture the max capacity, that we, we try to sell it at the best realization possible that we do. And see, we continuously expand the capacity so that we are able to offer more and more products to the market. And, like I said, with our new facility MAHAD, when it comes up, you know, we probably will be the only one who will have a completely de-risked strategy on camphor. So we have multiple, multiple top points when it comes to camphor and we are addressing each one of them in terms of, in terms of realization. I think it's dependent on alpha pinene pricing, which currently is stable. So I think it should stay stable, the price, unless there is some aberration happening in the next few months.

Pushkar Jain: So in the last we are not seeing any major margin contraction in the camphor segment, that is, is that a fair understanding?

Management: So if you look at Oriental and have a camphor strategy going last few quarters, you know, if some quarters we had that advantage the pricing of camphor in the market was very high, whereas Oriental had that low cost inventory. So, you know, in those quarters we could actually gain more than the other gain. Now that everybody is on more or less a level playing field, I think if there's no contraction, but we will try to get the best possible value that we can get for them.

Moderator: Thank you, ladies and gentlemen, that was the last question. I know, hand the conference over to Mr. Dharmil Bodani from Oriental Aromatics Limited for closing comments. Thank you.

Dharmil Bodani: Thank you all for participating in this earnings call. I hope you've been able to answer your questions satisfactorily. If you have any further questions or would like to know about more about your company, we will be happy to be of assistance. We are sincerely very thankful to all our investors who stood by us and also had confidence in the company's growth plan and focus. And with this, I wish everyone a great evening. Thank you very much.

Moderator: Thank you, ladies and gentlemen, on behalf Oriental Aromatics Limited that concludes this conference. Thank you for joining us. And you may now disconnect your lines.