Oriental Aromatics

Ref: OAL/BSE/NSE/119/2022-23

20th February, 2023

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 February 10, 2023, intimating about the conference call with the Institutional Investors/Analysts on Tuesday, February 14, 2023 at 3.00 p.m. to discuss the Financial Performance of the Company for the quarter and nine months ended December 31, 2022, 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: 2023.02.20 16:36:21 +05'30'

Kiranpreet Gill
Company Secretary & Compliance Officer

Oriental Aromatics Limited
Earnings Conference Call
February 14, 2023

Moderator: Ladies and gentlemen, Good day and welcome to the Oriental Aromatics Limited Q3 FY23 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, Sir.

Anuj Sonpal: Thank you. Good morning everyone and a very 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 call for the third quarter and 9 months ended of financial year 2023. Before we begin, let me mention a short cautionary statement. Some of the statements made in today's Earnings Call may be forward looking in nature. Such forward-looking statements are subject to 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 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 call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

Let me now introduce you to the management participating with us in today's earnings call I will hand 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. Without any further delay, I request Mr. Dharmil Bodani to start with his opening remarks.

Dharmil Bodani: Thank you Anuj. Good afternoon everybody. It is our pleasure to welcome you all to the earnings conference call to discuss the results of the quarter and 9 months ended 31st December, 2022. Thank you for joining us today. I now would request Mr. Parag Satoskar our Chief Executive Officer to give the operational highlights and Mr. Girish Khandelwal our Chief Financial Officer to give the financial highlights for the quarter and 9 months ended 31st December, 2022. Thank you. Over to you, Parag.

Parag Satoskar: Good afternoon ladies and gentlemen. During the quarter that has gone by we are glad to inform you that the trend of reducing input cost which began in the mid of Q2 2022-23 has not reversed, prices of almost all inputs continue to stay stable and the raw material availability has improved across the board. Obviously, this has helped our fragrance and flavor division the most and we have taken full advantage of the situation. We have not only acquired new customers across geographies during this quarter in our fragrance division, but have also increased our business with our existing customers. We are glad to inform you that the demand in the fragrance and flavor space locally and in the geographies that we operate stays strong.

We have also achieved an important milestone in the specialty aroma ingredients divisions during this quarter. The single product plant that was commissioned by us in November 2021 in Baroda has now completed one year of operations and we are glad to inform you that we have achieved close to 70% of the planned production from this plant in the calendar year 2022 and 80% of this production has successfully been commercially sold to our customers globally. We are pretty confident that the valuation of the plant is complete and now we want to look at expanding capacities and increasing volumes. Production and sales volumes for the quarter improved by 18% and 7% respectively on a year-to-year basis. We have witnessed a healthy demand in our fragrance and flavor as well as the camphor division where the sales volumes growth has been 10% and 22% respectively on a year-on-year basis.

However, in the specialty ingredients division there has been a reduction in sales volume on a year-on-year basis. The camphor and the turpentine chemical in terms of pricing continues to stay under pressure. This is due to the fact that although there has been reduction in the input cost of the key raw material, but this positive impact gets neutralized by the impact of the weakening of the Indian rupee because this raw material is imported. The weakening of the Chinese currency has also given an opportunity to our Chinese competitors to be aggressive in pricing of camphor and turpentine chemicals globally.

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Honestly there should have been an increase in the prices of camphor and turpentine chemicals in the local market as well as exports, but the competitive pressures has ensured that we have been unable to pass on this price hike to the customers this has created some time. However we are working on derisking our camphor sales by exploring newer markets in our pharma segment and newer value added products. We have been successful, we are also glad to inform you that we have been successful in selling all the additional quantities of terpineol that have been produced in our Bareilly plant after the Brownfield expansion that was completed in 2021.

Demand in the specialty aroma ingredients division stays stable. There was an impact on sales in this division in the Q3 quarters as some of our customers mainly in US and Europe have postponed their purchases that were scheduled for Q3 dispatch to beyond December 2022. The impact of this decision by our customers can be clearly seen in our inventory levels at the end of this quarter or this division which were 17% more than the end of the previous quarter. However, we are glad to inform you that off take of this inventorized material has begun from Jan 2023 and we are confident of liquidating the stock inventory.

` We had a scheduled annual shutdown of 8 days in our Baroda site in November 2022 and that impacted production in the Baroda site. Apart from this shutdown all plants across the group are successfully running at full capacity. The RFQ allocation received from our global customers are either in line with the quantities allocated to us in the last semester or more than the last semester. I would now like to move ahead and speak a little bit about the numbers. There has been a reduction in the sales at the group level from 220 crores to 199 crores quarter-to-quarter. This is primarily attributed to customers of the specialty aroma ingredient division asking for deferred shipments of their orders in December 22 and shutdown at the Baroda site.

The sales performance of the camphor and the turpentine chemical division as well as the F&F division has been better than the previous quarter as mentioned earlier. There has also been healthy growth in production volumes across the group. There has been increase in the EBITDA at the group level. The EBITDA margin achieved at the end of this quarter is 7.07% whereas it was 6.6% in the last quarter. Gross margins have improved to 33.8% from 31.7% in the last quarter. Moving on to CAPEX the CAPEX plan for hydrogenation facility in Baroda stay on track and we stick to the guidance that we have given in our earlier calls.

The hydrogenation plant commissioning debt stay on track by end of H1 2023. We are facing moderate delays in certain electrical and instrumentation equipment due to the global shortage of computer chips. If we foresee any moderate delays we will inform you all in the subsequent investor calls. We are also glad to inform you that the plot development activities at the MAHAD side which were mentioned in the last investor call are well under way. We will be making ground for phase 1 of our MAHAD facility on 8th of March which is the day after Holi. We will continue to keep giving updates on the MAHAD side and other CAPEX projects in our subsequent calls. The total debt of the company stands at 229 crores the increase is primarily due to increase in working capital resulting out of inventories and mobilization of debt for CAPEX. With this, I would now like to request Mr. Girish Khandelwal to give the financial highlights. Thank you very much.

Girish Khandelwal: Thank you very much Parag. Good afternoon everyone. I would like to add that as always Parag has taken you through the business performance of the company and as well on the market and regional developments. I would like to focus on financial performance. Let me first take you through our consolidated performance for the quarter. The operating revenue for the quarter was 199 crores which was a decrease of approximately 3% on a year-on-year basis and 10% on a quarter-on-quarter basis. Operating EBITDA reported was 14.1 crore decrease as compared to Rs. 14.6 crore in the previous quarter and 16.2 crore in the corresponding quarter. Operating EBITDA margins stood at 7.07% as compared to 6.61% in the previous quarter.

Net profit after tax reported was Rs. 3.8 crore decrease as compared to Rs. 6.30 crore in the previous quarter and Rs. 8 crore in the corresponding quarter while PAT margins were 1.91% which was a decrease of 94 basis points on a quarter-on-quarter basis. Coming to the 9 months performance on a consolidated basis the operating revenue was 653 crore which was a decrease of approximately 2% on a year-on-year basis. Operating EBITDA reported was Rs. 45 crore decrease as compared to Rs. 70 crore in the corresponding 9-month FY22. Operating EBITDA margin stood at 6.90%, net profit after tax reported was Rs 18.6 crore decrease as compared to 42.8 crore in the corresponding 9 month while PAT margins were 2.85% which was a decrease of 358 basis points on a year-on-year basis.

Now I want to say that the other income includes 59 lakhs related to the FOREX exchange gain as compared to the 1.5 crore in the previous quarter. Finance cost has been increased during the quarter due to the increase in the interest rates as well as the higher borrowing availed during the quarter. The financial cost includes FOREX loss of 83 lakh as against the 75 lakh in the previous quarter. The debt equity ratio stood at 0.36 as compared to the previous quarter which was 0.26. 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. We have our first question from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: On the specialty aroma chemicals front we saw volume decline of 21%, so Parag as you were stating this was primarily because of delay in shipments or there was like some impact on the demand itself?

Parag Satoskar: So, can you just repeat the first part because you were little unclear you said that…

Ankit Gupta: I was asking about the reason for decline in specialty aroma ingredients by 21% in this quarter?

Parag Satoskar: So, primarily like I had mentioned in the opening remarks that there have been a few customers especially in Europe and America who for the obvious reasons of the calendar year close decide to differ their shipment. So, they have not cancelled the orders so there is no reduction in demand. They just kind of pushed over the shipment rates which were scheduled for December to Jan and Feb and that is the reasons why we had a reduction in the sales for this quarter. Having said that those shipments have now started moving and assuming that there might be a little bit of slowdown we can see that the offtake is now regularizing in Jan and Feb and hopefully we will recover in terms of the numbers.

Ankit Gupta: And overall how is the industry doing on specialty aroma ingredient across the chemical industries we are seeing there has been a huge inventory built up in the system which is leading to lower demand across chemicals, so how is the situation in our industries especially aroma ingredients and camphor?

Parag Satoskar: So, I think 2022 was a very unique year where because of multiple triggers the buying community went into a buying spree and which resulted in over-inventorization. However, I think since our end user industry is the fragrance industry which applies to the FMCG space and as primarily a lot of these specialty ingredients go in functional, I do not see destruction in demand. I probably see that once this over-inventorization phenomena gets cleaned up we will again get back to the routine shipment and a routine CAGR growth which in the last two years was surprisingly very high.

Ankit Gupta: So, when do you expect this over inventorization which has been hampering the industry's growth to get over?

Parag Satoskar: According to our estimates we feel that the next one or two quarters max should be when this whole phenomena kind of starts assuming that there are no more external shocks coming from anyway. We feel that we should get into a very routine growth and cycle in the plants. Having said that the RFQ that we got in terms of quantities for H1 2023 did not show any significant drop in quantities, which itself signifies that our customers are pretty that demand will be valuing.

Ankit Gupta: So, you are talking about H1 FY24 next year?

Parag Satoskar: No, instead of H1 FY23.

Moderator: Thank you. The next question is from the line of Rajat Sethia from Ithought PMS. Please go ahead.

Rajat Sethia: Sir my question is if we look at the history of our company over the last 10 years specifically we have never faced such tough times when it comes to our operating margin numbers that we are reporting and over the last 10 years I think the early part of the last 10 years we were more dependent on camphor than the specialty chemical that we are doing right now aroma chemicals. So, despite being dependent on camphor we were able to report good numbers, so what exactly is different this time, what is really happening and why is specialty chemicals like aroma and F&F behaving like commodity?

Parag Satoskar: I mean to answer your question in fact like you said that camphor has been a relatively stable although not an extraordinary profit making product, but it has always been relatively stable product in terms of demand, in terms of pricing and in terms of profitability and like I have mentioned in my opening remarks I think that is the area that probably is getting heat the most this time because of the competitive pressures operating out of India as well as globally. So, if you look at the aroma ingredient or the fragrance side of the business you are seeing a healthy demand in sales, you are seeing a decent increase in profitability as the raw material prices are coming down, but camphor for us is the one which is kind of graving in terms of group level EBITDA performance and that is the reason why we are attempting to move to bigger markets and value added products.

Rajat Sethia: So this time around camphor volatility is very high you are saying?

Parag Satoskar: The realization in terms of pricing for camphor and turpentine chemicals is the challenge which has not been the challenge all these years. It never was an extraordinary profit-making process, it is on a decently profit making and that is now being challenged.

Rajat Sethia: Any particular reason why that is happening whatever the phenomena is price that happens?

Parag Satoskar: I have mentioned in my opening remarks that it is primarily because of the competitive pressure A. B I think even the Chinese competitors who were there in the turpentine chemicals space because of the devaluation of their currency and we are having local feedstock for the raw materials are able to compete harder than and that is the reason we are not able to pass on the price hike that should have been there in the camphor and the turpentine chemicals.

Moderator: Thank you. We have a question from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Parag when do you see the whole thing normalizing on the EBITDA front we coming back to our mid-teens kind of EBITDA margin the guidance that we have been giving that we will be able to achieve on the long-term basis, so when do we expect that it will coming back to our normalized margins?

Parag Satoskar: So, like I said that probably assuming that we do not have any further shocks which are external in terms of raw material shocks or demand shocks. We should probably see EBITDA margins improving on the fragrance and the specialty aroma ingredient space. I think the camphor and the turpentine chemical peace will need probably slightly longer in terms of the time to play out to really get back to the previous EBITDA margin. We have a calibrated response and the fragrance and yes in specialty aroma ingredient should stabilize much faster than the camphor and the turpentine chemicals.

Ankit Gupta: So, can we expect somewhere at least in the second half of FY24 things getting back to normalcy?

Parag Satoskar: So, like I said that the next one or two quarters should be good for the remaining two divisions. I think for the camphor and the turpentine chemicals will need a little longer, but if we are looking at H2 FY24 I think we should have reached some level of stability in terms of the EBITDA margin, how much that would be in place of today's EBITDA we will need to just wait and watch. It would still be driven by some competitive pressure, but we are already taking a lot of steps to de-risk the whole sales strategy on camphor and turpentine chemicals.

Ankit Gupta: And on the camphor side we have seen one of the large players in the aroma chemical space commencing their supply for the camphor, so is it because of their competitive pressure also we are seeing some pressure on the prices?

Parag Satoskar: I am not very sure if in case of any new player is creating that kind of a pressure. If you look at probably the current quarter in normally off season if you look at the local camphor sales Jan to March there is no festivals. I do not think there is a significant impact because of a new player coming in and the market has its own ways of reacting. I think more significant impact is the inability of the current players to increase the camphor price when there is an opportunity to increase because the price of the formulated product has not increase. So, there is no reason why we should not increase the price.

Ankit Gupta: But you think some more competitive pressure can come with the big player getting entry into camphor now?

Parag Satoskar: So, I think there are much larger players who are well entranced in the camphor space for a long, long period of time. So, I question the whole concept of a big player and a small player, all players are welcome, but I doubt the size and complexity of an individual.

Moderator: Thank you. We have a next question from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: So, the first question is regarding this camphor part and sorry to harp on this, but slightly wanted to understand more on this, so any interventions that we think we can do to kind of do better in this situation or is it that we are at the mercy of this commodity market and we will have to wait till this entire thing revise?

Parag Satoskar: So, Dhwanil we have to look at the whole camphor and the turpentine chemicals space as a block and like I have mentioned earlier to Ankit we are already taking substantial number of steps to de-risk our old strategy and that involves the whole block of the turpentine chemicals along with camphor because Oriental is very uniquely place where we have the whole basket of the turpentine chemicals and so we are exploring newer markets, we are exploring newer value added products and all that is just a matter of time when we will get and achieve success. Apart from that the second piece of the strategy is like we mentioned in our last investor call of our strategy of entering into the CST space because that will give us de-risking on the raw material front and access to gum turpentine from both the non-CST as well as the CST. So, we are taking multiple steps and to de-risk our strategy on the sale side and to derisk our strategy on the raw material procurement side, needless to say that we have a very active CPR program which is process reengineering where we are continuously exploring ways of improving in the current process. If you put all these three together I think although we are facing challenges today, but we will be in a position to probably in the coming quarters find one solution after the other.

Dhwanil Desai: Second question is Parag on the CAPEX, the odd CAPEX I think two parts to it one is that I think we have indicated that even post expansion both the expansion Brownfield and Greenfield proportion of aroma F&F blend and camphor will remain almost the same and if it is today, but do you see any need to relook at it and focus more on the F&F blend and specialty aroma chemicals in the medium term perspective given the nature of the business that is one and second is any timeline that you can give from which the commercial sales from our hydrogenation plant will start?

Parag Satoskar: So, I think to answer your first part of the question after the hydrogenation facility comes through and after the phase 1 of MAHAD becomes functional I think probably and also the benefits of all these internal materials going to the fragrance and flavor division. We are of the opinion that in the medium term we will probably see a shift happening towards a specialty ingredient business and the fragrance and flavor space automatically because we are putting a lot of resources in these two divisions primarily in the specialty aroma ingredients division which indirectly acts as a very competitive strategy, the advantage to the F&F. So, we already have auctioned the plan where the future would probably be a little more tilted towards specialty ingredients and the F&F division.

Management: And Parag just to add to that if they can listen I think that all the CAPEX is non camphor based. So, the CAPEX that we are doing you can elaborate maybe a little bit on that, that will eventually add in terms and in revenue in terms of non-camphor-based products. So, eventually at the end of 24, 25 I think that the ratios would substantially change not in favor of larger piece or an equal piece of the camphor and turpentine.

Moderator: Thank you. We have a next question from the line Rajat Sethia from Ithought PMS. Please go ahead.

Rajat Sethia: Just to clarify what is the total CAPEX outlay for our Baroda hydrogenation plant and the MAHAD Greenfield projects?

Girish Khandelwal: So, for hydrogenation our total outlay would be including all roads and everything would be 150 crore and for MAHAD actually we are in the process of finalizing the project report and the detailed engineering. So, after that only we can give, but yes in the first phase it would be we are expecting somewhere around 80 excluding the land development and land acquisition cost.

Rajat Sethia: And overall it will be historically did we mention somewhere 200 to 240 crores, is that the total?

Parag Satoskar: Historically, we have been looking at 250 cap for doing all these projects plus the installation of the boiler system in Gujarat in Baroda for enhanced production.

Rajat Sethia: 250 crore for like MAHAD and Baroda or just MAHAD?

Parag Satoskar: No, MAHAD and Baroda and the extra utilities that we will be needed for Baroda.

Rajat Sethia: And how much of the total CAPEX is left now whatever is left to be done now in the next few quarters what is left?

Parag Satoskar: So, I think in terms of Baroda we probably would be investing close to around 80 crores, 85 crores for finishing the hydrogenation project and when it comes to MAHAD I think right now we are in plot development stage and probably it would not be completely accurate to give you a kind of a number, but budgeted like Girish said it should be between 70 crores to 80 crores that we will try to employ in MAHAD.

Rajat Sethia: And this will be for the first phase correct?

Parag Satoskar: Yes.

Rajat Sethia: Of this 150 crores hydrogenation how much is done?

Girish Khandelwal: Parag said around 60 crore is done so 80-85 crore is remaining.

Moderator: Thank you. We have a next question from the line of Nikhil from Perpetual Investments. Please go ahead.

Nikhil: My first question is, is it possible to know what is the volume growth versus pre COVID individually for aroma chemicals and camphor division and flavor and fragrances?

Parag Satoskar: So, I think broadly I do not have the exact numbers so you probably you three can reach out to Anuj and we will be more than happy to share the numbers with you, but when we checked last and we did this analysis probably in the month of April and we had already crossed pre COVID levels of production in 2022, 2023 if I am not mistaken. So, we are already crossed the pre COVID levels in terms of production and sales.

Girish Khandelwal: And Parag I want to add here that in the 9 months corresponding period we have increased the production volume by 18%.

Nikhil: Year-on-year right he is asking pre COVID?

Girish Khandelwal: Yeah.

Nikhil: So, now like you said for the camphor divisions you have plans to look at other markets and other segments like Pharma, so is the margin profile better in Pharma versus the normalized industrial supply?

Parag Satoskar: Yes.

Nikhil: In terms of validation and how long does this take?

Parag Satoskar: So, I think we are fortunate that we are already validated in a lot of Drug Master Files, for a lot of camphor consumers in Europe as well as in Central America and some very key clients in the United States that something which is already been done. Now, if they want to make a change in their supplier profile in the Drug Master Files they need to do some additional steps which do not take as much as a time as it needs for validation, incorporation in the Drug Master Files.

Moderator: Thank you. We have a next question from the line Ritesh from Girik Capital. Please go ahead.

Ritesh: Just one question ideally there was a consistent margin guidance of 15%, 17%, so by when that can be achieved?

Girish Khandelwal: We have revised this in the last call.

Parag Satoskar: So, we had A revised the guidance and if I am not mistaken the guidance was revised between 8% to 10% in the last call which we can reconfirm and revert back to you, but we had revised that guidance to lower levels because of the uncertainty that is currently pertaining in the market.

Ritesh: So, for short term the guidance would be 10% for at least for few quarters?

Parag Satoskar: Yes.

Moderator: Thank you. We have the next question from the line of Saket Saurabh an Individual Investor. Please go ahead.

Saket Saurabh: So, first question is say our last quarter also there was around delay in shipment because some of the clients requested so have they further same clients who have requested for further delay or new set of clients were also requesting us to delay those shipment so this was from same issue in Q2 as well it will get repeated in Q3 as well?

Parag Satoskar: If you look at what has happened in the world I mean the world across the world has over inventorized since we have a basket of products that we offer to the customers. It probably happens that customer A has certain contracts which is done with us and he has that material lying with him. So, he delays it and then after a few days this customer view is buying different products. So, it is not the same customers, it is not the repeat offenders, it is newer set of customers who are kind of telling us to delay shipments for newer products and in some cases there are the customers who kind of now have moved to a level where looking at the recessionary trend they are looking at cash flows and they are looking at keeping the inventory. So, they are delaying the shipment. Having said that like I mentioned in the opening remarks we do not see any demand destruction happening because we see a similar situation happening in our fragrance division as well, in Q1 and Q2 we had customers who place the orders and says give us after a few days and now they have started picking up again. Now I do not see any demand destruction that has happened many of the fragrance customers are our specialty ingredients customers.

Saket Saurabh: You have talked about for the upcoming next year the plan you are getting the volumes payment intact, but if I go through say in recent guidance they have lower guidance of growth for the next year, so are the quarters coming at say much lower price realization, so if any colour on that like volumes stay in intact, but are the prices also coming down from that standpoint?

Parag Satoskar: So, as you get into a more steady state of business where our input costs have also come down like I have mentioned in my opening remarks. I mean there will be an expectation of a price reduction. So, I think we are well prepared to ensure whatever is the right price at the right time for the customer and for us we are able to do that. So, the prices have come down because you are reaching a steady state and because the customers are aware that the raw material input cost have come down so they are asking for a better.

Moderator: Thank you. We have a question from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: One question I think from the last time remained unanswered when do you expect a commercial sales to start from hydrogenation and then I have couple of more questions?

Parag Satoskar: So, we intend to commission the plant by end of H1 2023 which is June 2023 assuming that we do not have some delays because this is the fully automated plant. So, we are facing some issues in terms of deliverables of the instrumentation part, but otherwise and we are going to use H2 2023 for sampling validation and for the RFQ customers our target is for H1 2024 we will start filling up the RFQs and hopefully get some volume allocation for these products in H1 2024 calendar.

Dhwanil Desai: And second question is I do understand you guys had given a guidance of 8% to 10%, my understand was that was for FY23 and beyond that you did not have any visibility, but now I think what you are saying the aroma chemicals and flavor part is getting better, so I understand going back to 15%, 17% will not happen in a quarter, but will there a gradual improvement do you see or you think that also is still far away?

Parag Satoskar: So, I think aspirationally we would love to really reach that levels of 15%-to-17%-point number one. Point number two as the raw material prices or specialty aroma ingredient prices stabilize there is a natural hedge or there is a natural tendency for the margins to become better on the fragrance and flavor side which is good news because you then get your inputs at a lower cost and steady state in this specialty aroma ingredients space we will ensure that we will come back to those 10%, 12% margins for the specialty and aroma ingredients that are expect at sustainable and consistent volumes. So, if that happens, which we feel is a few quarters away. I do not see why we should be in a position to kind of look at better numbers. Having said that it is still work in progress we do not want to stick our necks out and give guidance which we are not very sure of an attaining.

Moderator: Thank you. We have a next question from the line of Nikhil from Perpetual Investments. Please go ahead.

Nikhil: So like you said your future will be focused on aroma chemicals and flavor and fragrances now you have a few segments within aroma chemical you are bring petrochem, musk and sandalwood derivatives, so where would the focus be going forward and if you can comment on the current situation in this renewable segment and a qualitative assessment or your idea on the margin profiles of these segments and how do we look at the future of flavors and fragrances division?

Parag Satoskar: So, Nikhil to answer your question I think our whole specialty aroma ingredients philosophy is not really based on certain block of raw material capability or neither is it based on certain one or two chemistries. I think we have a very unique model of aroma ingredient strategy where our strategy is based on inputs that we get from our F&F division and that is the reason why we manufacture products across 28 different chemistries and using raw material sources which are completely agnostic to earlier or any of these blocks. So, to answer your question I think our strategy is going to be based on A what do we feel is going to be the demand for the product going forward B our ability to have absolute control on the process is internally so that we are the most efficient converter of these materials and then offer value to our customer by building infrastructure which is world class, safe and completely automated to give them products which are quality and at a sustainable and at the competitive price. So, I think our philosophy is a little different than just probably focusing on these four blocks.

Nikhil: And how do we look at the flavor and fragrances business I mean how to understand this place and how to look at it going forward, can you make it a bit easier for investors I am a bit new to the company so pardon my ignorance?

Parag Satoskar: I think just to probably keep it in the most simplistic language functional perfumer is here to say as long as you are going to take a bath every day, you are going to wash your clothes and you are going to brush your teeth. So, just to put it very simply functional perfumery is here to stay because of the pressures of cost, synthetic aroma ingredients and specialty aroma ingredients are going to be a key element of this functional perfumes. Our endeavor of really kind of not exactly commoditizing, but right pricing the specialty aroma ingredient so that their volumes balloon up because the perfumers believe in adding them at a higher percentage, it is something which we feel is going to be our way forward and so I think the perfumery industry seems to have a very healthy CAGR going forward, going piggyback on the FMCG growth in the FMCG space.

Moderator: Thank you. We have a question from the line of Saket Saurabh an Individual Investor. Please go ahead.

Saket Saurabh: So, regarding camphor so given the current realization in the raw material pressure that we are witnessing, so is it margin positive right now in the current state of affairs?

Parag Satoskar: Yes.

Saket Saurabh: And second question was that GTO versus CST thing that you talked about even our competitor someone was referring to they are saying that they have that flexibility to use both the technology which will give them the flexibility vis-a-vis raw material and help address some of the volatility around that, now I think Parag or Dharmil bhai also mentioned last time around that we are trying to address that aspect also, so is there some CAPEX that you are trying to do to have the flexibility of both technologies in place and if yes then is there a timeline around that?

Parag Satoskar: So, we definitely have a strategy around derisking our raw material procurement strategy on Alpha Pinene that does not mean that our strategy is large. I think there is an extremely limited advantage to probably having that flexibility. Having said that if we have the resources and if have the technology we want to take advantage on the situation that is the only reason why we are doing it. We are exploring all options that are available on the table today to look at a CST strategy and as and when it is ready we will definitely be informing the investor.

Saket Saurabh: Regarding this the updated guidance that you have shared into 10% so the point is we have still in more around the 7% part, so is it primarily due to say camphor nearly going out of that or do you think that once this shipment delays take care and then I can move the needle to the upper side of the bracket rather than the lower side of the range that we have been witnessing for the last couple of quarters?

Parag Satoskar: So, we have to understand that like I said that camphor has created a drag, but that does not mean that is the only factor. I think we also add an 8 day shutdown in the Baroda side and for one of the other plant in the Baroda side. In fact, the shutdown was 14 days, so if you would have that production coupled with the customers taking all the inventorized materials I am sure the needle would have been at a different point, it would go to a substantially different point if we are also able to successfully implement our camphor strategy on your markets and your products.

Moderator: Thank you. We have a next question from the line of Vijay Karpe from Shriram Life. Please go ahead.

Vijay Karpe: My question pertains to the camphor division so why is this Chinese competition coming now, so is it because of the logistics cost coming down or is it anything else as you mentioned because of the FOREX moments or when is this competition expected to settle down?

Parag Satoskar: Honestly speaking I can probably give you facts and numbers about Oriental Aromatics. I probably will not be in a position to comment on what our competition is doing; you will probably have to ask those questions to them. What I can only say is that the current challenges that we face in the camphor space are not because of any competition or because of the current existing player and any new competition is going to find it even more difficult with the brand new plant, well entrenched players are not in a position to make money.

Vijay Karpe: So, what would have been the capacity utilization for us in Q3 for the camphor division?

Parag Satoskar: So, we have run all the plants at full capacity, we have not throttled any capacity in fact we like to inform you that the Brownfield expansion that we did in our Turpentine plant where we increase the Turpentine production from 1,000 to 1,800 tons. We have been successfully able to sell all the new capacity that has come up in Bharuch.

Moderator: Thank you. We have a next question from the line of Anant Shenoy from AS Capital. Please go ahead.

Anant Shenoy: Sir my first question again about camphor so you mentioned that in the camphor segment we will be looking for achieving the product mix and doing pharma grade camphor, so just wanted to understand one whether we are already doing it how much sales are coming or roughly how much percentage is coming from Pharma grade and second part to that is now why this existing API players or intermediate players will change the course, so like what is incentive for them probably so how difficult it is for them to change the course for them?

Parag Satoskar: To answer your question we have been historically making substantial quantities of pharma grade camphor and Girish correct me if I am wrong, but I think we are probably 20% of our current sales are from pharma camphor plus minus 4%, 5% and to answer your second question I have already probably mentioned during this call that a large part of the regulatory frame has already being done by our regulatory teams for a long time. So, we are already there in the Drug Master Files for a lot of our customers globally and one reason why they should shift is probably this whole movement about de-risking China because a lot of the pharma grade guys used to get their materials from China and so everybody is looking at strategic de-risking which is an opportunity for somebody like us who is being historically doing pharma grade camphor for a long time.

Anant Shenoy: And do we expect that pharma grade percentage will change in the near term like in one year or so, do you expect any significant change in the proportion?

Parag Satoskar: So, like I said Anant without going into very specific information I think we are exploring all options or all avenues available in which pharma probably is one of the many strategies that we are exploring to improve profitability for the camphor and the turpentine chemicals.

Moderator: Thank you. Ladies and gentlemen that was the last call for today. I now hand the conference over to Mr. Dharmil Bodani from Oriental Aromatics Limited for closing comments.

Dharmil Bodani: Thank you so much. Thank you all for participating in this earnings conference call. I hope we have been able to answer your questions satisfactorily. If you have any further questions or would like to know more about the company we would be happy to address the same. We are very thankful to all our investors who continue to stand by us and also have shown confidence in the company's future growth plans and with this I wish everyone a great evening. Thank you.

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.